

Credit Conditions Survey

III 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	4
Credit conditions and trends for business loans	5
Credit conditions and trends for retail loans	9
Figure 1. Changes in demand for business loans and credit conditions	5
Figure 2. Factors affecting changes in the credit conditions for business loans	6
Figure 3. Interest rates and remaining maturity for business loans	7
Figure 4. Share of NPL and Rejected loans in business loans	8
Figure 5. Changes in demand for retail loans and credit conditions	9
Figure 6. Factors affecting changes in the credit conditions for retail loans	10
Figure 7. Distribution of payment-to-income (PTI) and loan-to-value (LTV) ratios	10
Figure 8. Interest rates and remaining maturity for retail loans	11
Figure 9. Share of NPL and Rejected loans in retail loans	12

Summary

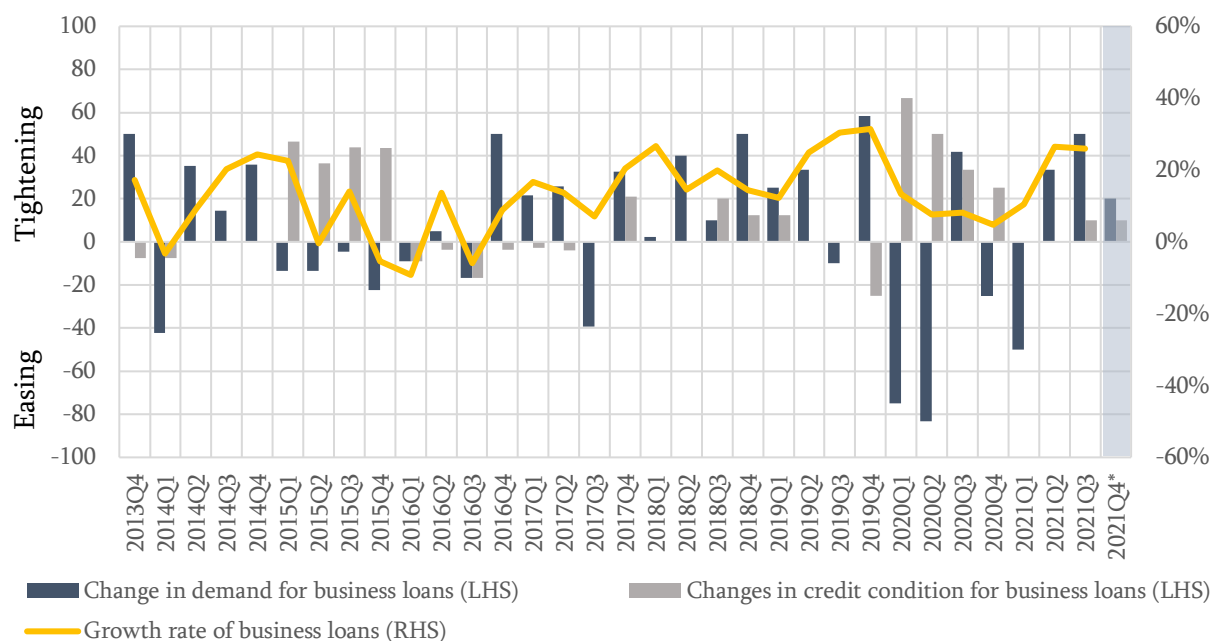
According to the credit conditions survey, in the third quarter of 2021, compared to the previous quarter, the demand for business loans for financing both, the inventories and working capital increased. Representatives of the banking sector expect a slight increase in demand for business loans in the next quarter. In the third quarter, interest and non-interest rate conditions for business loans tightened slightly, which was mainly driven by increase in cost of funds and changes in the risk appetite. In particular, according to the survey, margins for fixed interest rate loans issued in domestic currency increased slightly. In the next quarter, representatives of the banking sector do not expect a significant changes in interest rate and non-interest rate conditions for business loans.

According to the credit conditions survey, in the third quarter of 2021, compared to the previous quarter, the demand for retail loans did not change significantly. Representatives of the banking sector expect an increase in demand for retail loans in the next quarter. In the third quarter of 2021, non-interest rate conditions for mortgage loans have tightened slightly, which according to the respondents, was mainly driven by changes in economic trends and banks' risk appetite. Interest rate conditions for retail loans issued in domestic currency did not change significantly. While interest rate conditions for loans issued in foreign currency have eased slightly. Representatives of the banking sector, expect a slight easing of interest rate conditions, while no significant changes in non-interest rate conditions for retail loans is expected in the next quarter.

Credit conditions and trends for business loans

According to the credit conditions survey, in the third quarter of 2021, compared to the previous quarter, the demand for business loans increased. It is expected that demand for business loans will increase slightly in the next quarter. According to the data available to the National Bank, in September 2021, compared to June, the annualized growth rate¹ of corporate loans increased and amounted to 31%, while loans to SMEs decreased slightly and equaled to 20%. 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 agriculture, trade, transport and communications sectors. According to representatives of the banking sector, in the third quarter, financing both, the working capital and capital expenditures increased. Moreover, in the next quarter, a slight increase in demand for business loans is expected (see Figure 1).

Figure 1. Changes in demand for business loans and credit conditions²



Source: Credit conditions Survey, NBG.

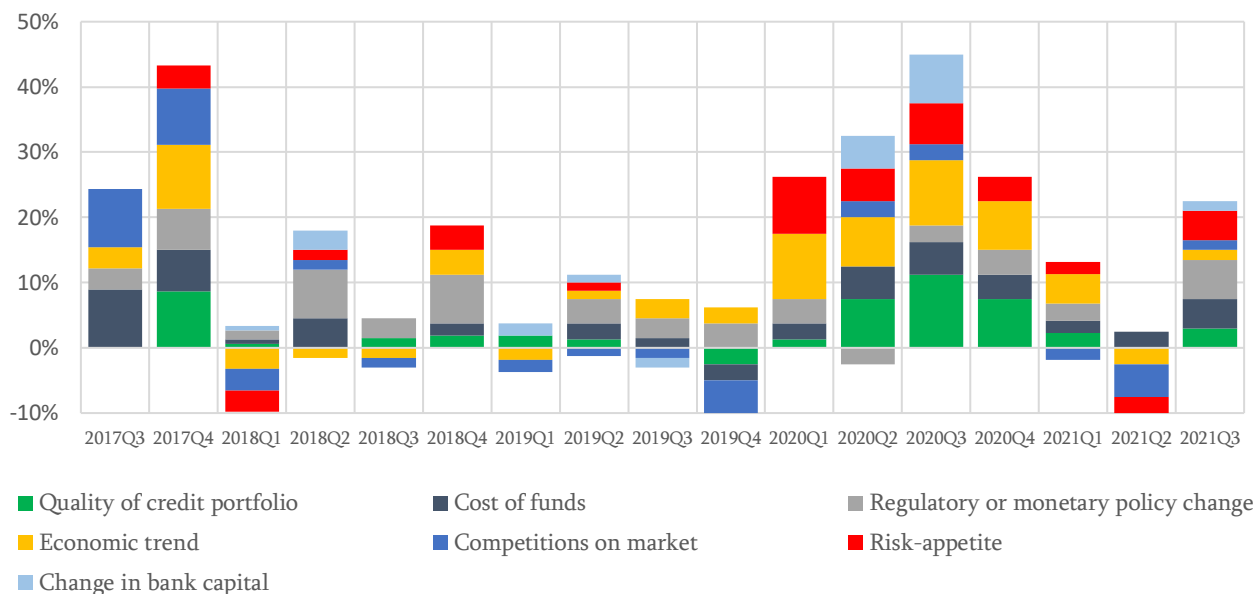
According to the same survey, in the third quarter, non-interest rate conditions for business loans tightened slightly. Slight tightening in non-interest conditions was mainly driven by change in the risk appetite (see Figure 2). According to the data available to the National Bank, the remaining maturity of business loans decreased slightly for foreign currency loans and did not change significantly for national currency loans

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. 2021Q4* indicates the expectations over the fourth quarter of 2021 of representatives of the banking sector.

(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 loans³

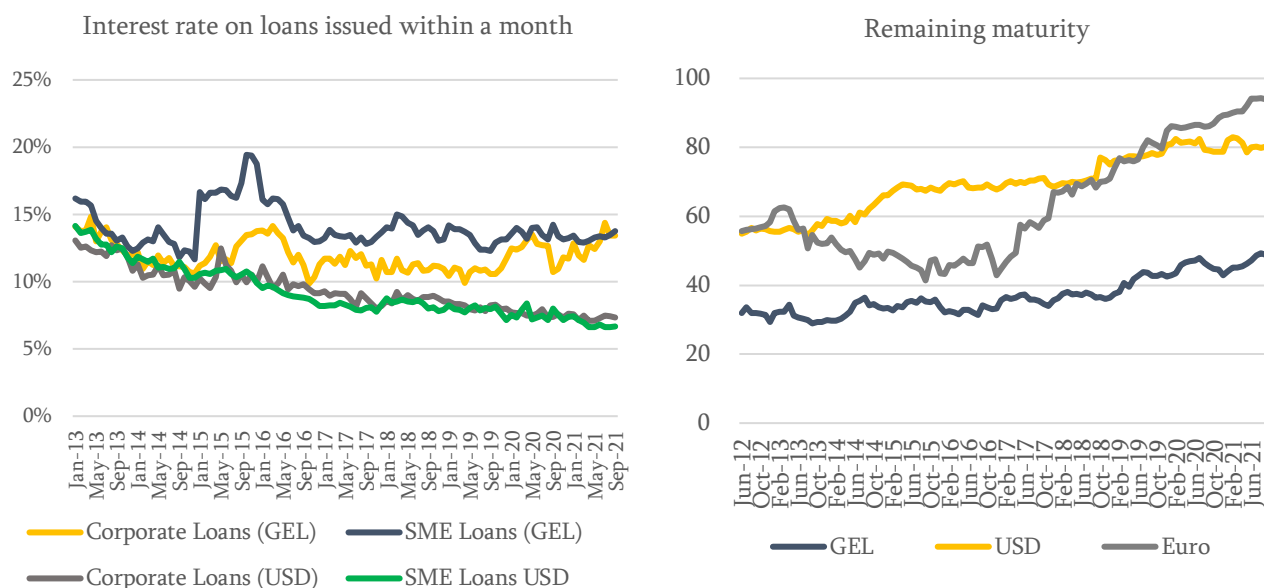


Source: Credit conditions survey

In the third quarter of 2021, compared to the previous quarter, interest rates for business loans issued in domestic increased slightly. Slight increase was mainly driven by tightening of monetary policy and the consequent increase in the cost of funds. In particular, according to the data available to the National Bank, in September compared to June, the interest rate on large business loans issued in national currency within the month increased slightly and equaled to 13.4%. As for foreign currency loans, in September compared to June, the interest rate for euro-denominated corporate loans decreased by 2.3 pp to 5.3%, 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 13.8%. While for the SME loans issued in euro and USD, interest rates did not change significantly and stood at 5.2% and 6.7%, respectively (see Figure 3). According to the credit conditions survey, margins for fixed interest rate loans issued in domestic currency increased slightly. Representatives of the banking sector do not expect significant changes in 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 loans⁴



Source: NBG.

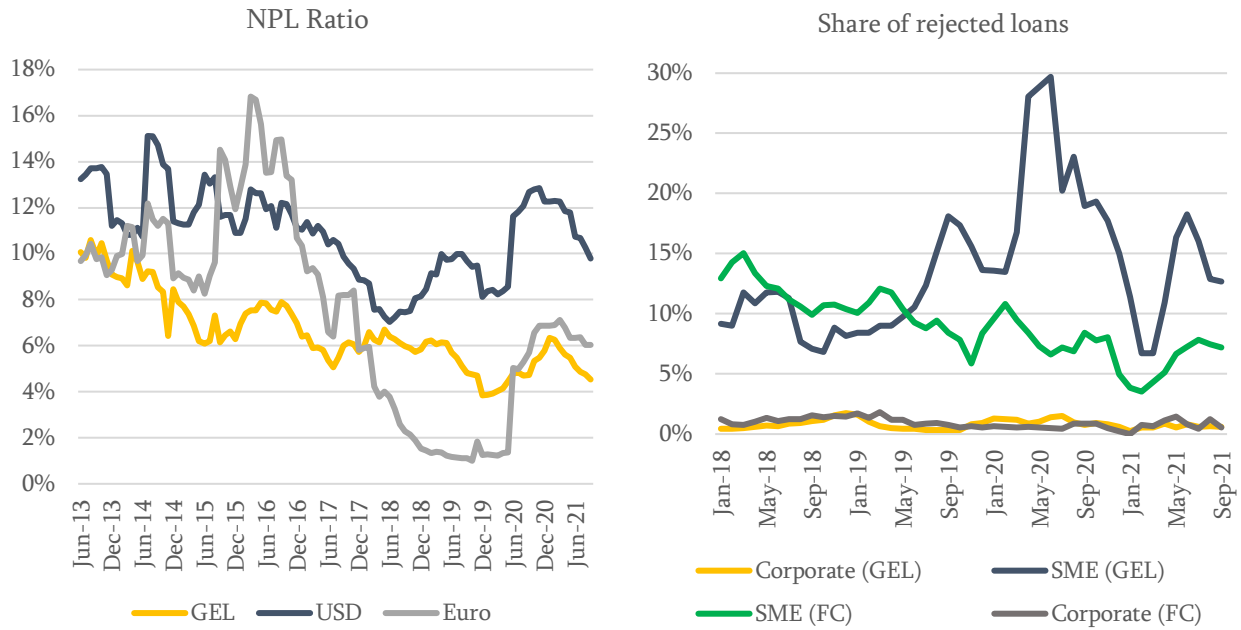
In the third quarter of 2021, the share of non-performing loans (NPL) in business loans decreased slightly. In the third quarter, compared to the previous quarter, the overall share of NPLs in business loans decreased slightly and equaled to 7%, which was caused by portfolio growth and improved financial 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 loans also decreased slightly and equaled to 6%, as well as the share of NPLs in business loans issued in USD decreased by 1 pp and equaled to 10% (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 at this point, according to the data available to National Bank, 12% of the corporate loan portfolio and 7% of the SME loan portfolio benefit from a grace period on loan servicing. Furthermore, it is important to note that the share of restructured loans did not change significantly. In particular, according to the data available to the National Bank, in the third quarter of 2021, compared to the previous quarter, the share of restructured loans in business loans did not change significantly and stood at 21%, while compared to September of 2020, the share of restructured loans in business loans is significantly higher.

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

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

issued in domestic and foreign currency, and on average equaled to 13% and 7%, respectively (see Figure 4).

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

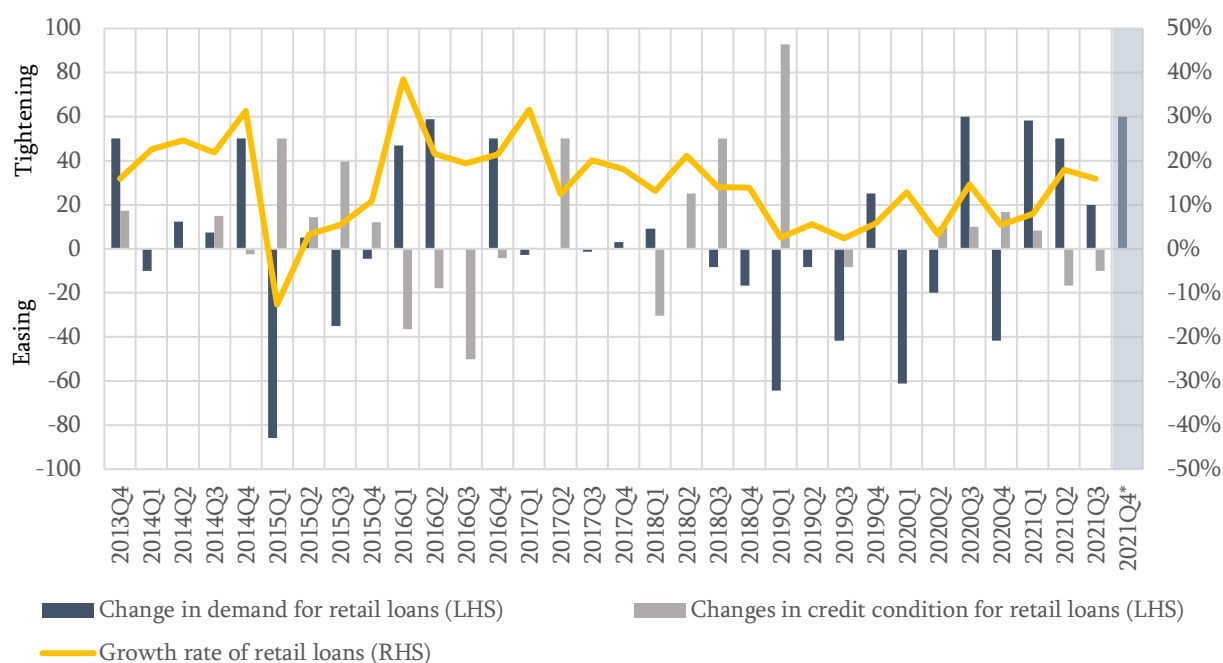


Source: NBG.

Credit conditions and trends for retail loans

According to the credit conditions survey, in the third quarter of 2021, compared to the previous quarter, demand for retail loans did not change significantly. It is expected that the demand will increase in the next quarter. In particular, according to the data available to National Bank, in September, compared to June, the annualized growth rate⁵ of retail loans did not change significantly and equaled to 15.9% (see Figure 5). However, credit activity is significantly higher compared to previous quarters, especially for consumer loans. In terms of currencies, the growth of retail loan portfolio was mainly driven by domestic currency loans, but it is important to indicate that foreign currency lending accelerated in the third quarter. Representatives of the banking sector expect an increase in demand for retail loans in the next quarter.

Figure 5. Changes in demand for retail loans and credit conditions⁶



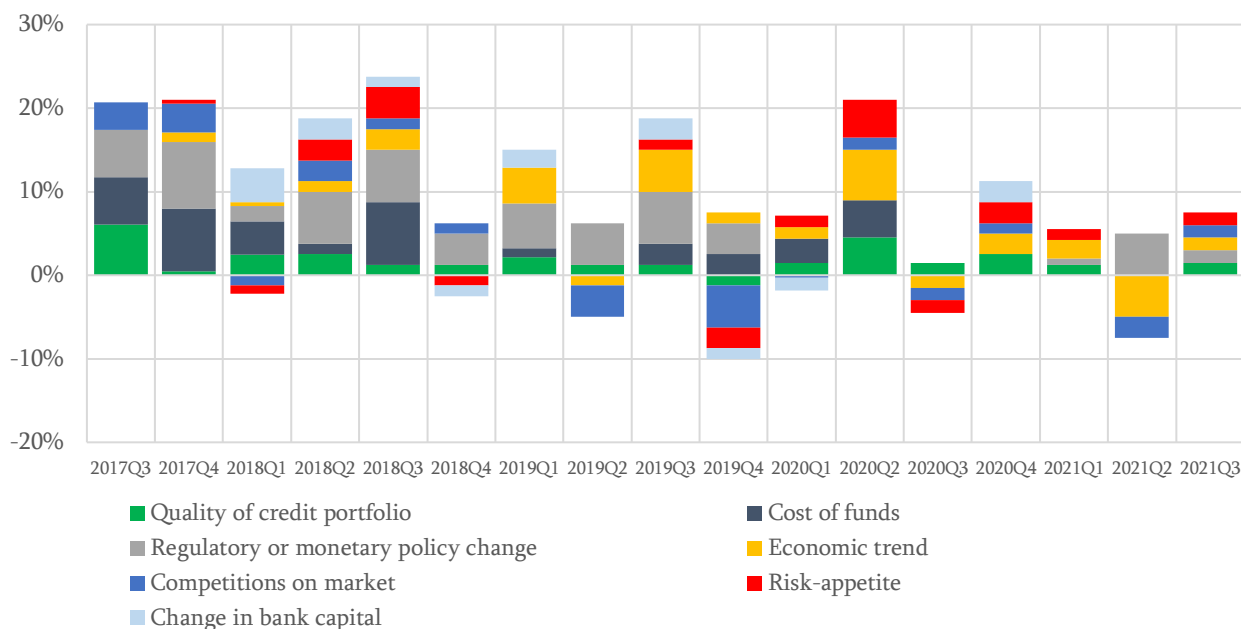
Source: Credit conditions Survey, NBG.

In the third quarter of 2021, overall non-interest rate conditions for retail loans tightened slightly. According to respondents, non-interest rate conditions tightened mainly due to changes in economic trends and banks' risk appetite (see Figure 6). According to the data available to the National Bank, in the third quarter of 2021, compared to the previous quarter, loan maturity for the loans denominated in national currency and euro decreased slightly, while for the loans issued in USD increased slightly. Additionally, loan-to-value (LTV) and payment-to-income (PTI) ratios decreased slightly, which was mainly driven by an increase in loans issued in foreign currency (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.

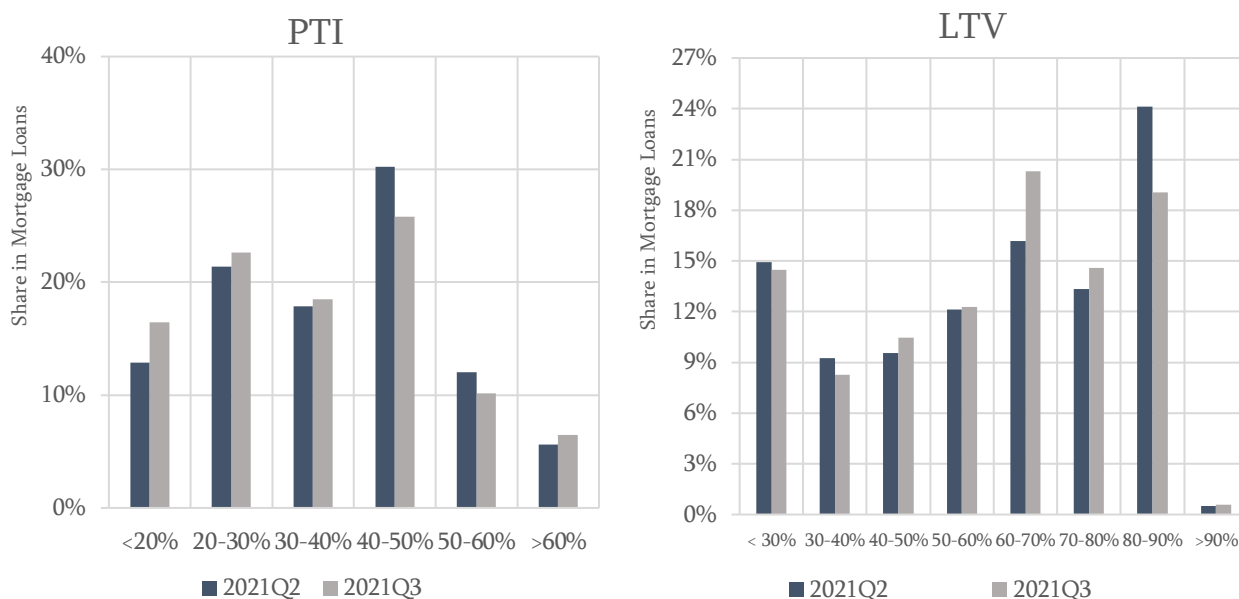
⁶ See the second note of Figure 1.

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



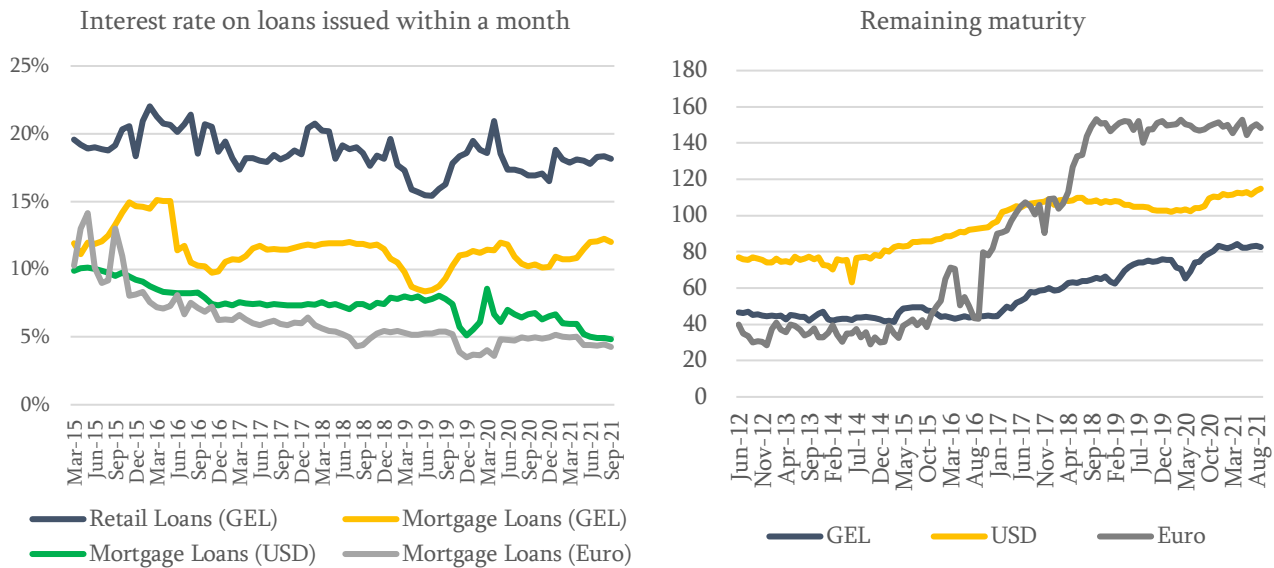
Source: NBG

Interest rates for retail loans issued in domestic currency did not change significantly, while for the loans issued in foreign currency decreased slightly. In particular, in September relative to June, interest rates for

⁷ See notes of Figure 2.

mortgage loans denominated in domestic currency, did not change significantly and equaled to 12%, while for consumer loans interest rates slightly increased and stood at 18.2%. Interest rates for mortgage loans issued in USD decreased by 0.2 pp and equaled to 5.0%, while for the loans issued in euro decreased slightly to 4.3% (see Figure 8). Respondents of the survey, expect slight easing of interest rate conditions for retail loans in the next quarter.

Figure 8. Interest rates and remaining maturity for retail loans

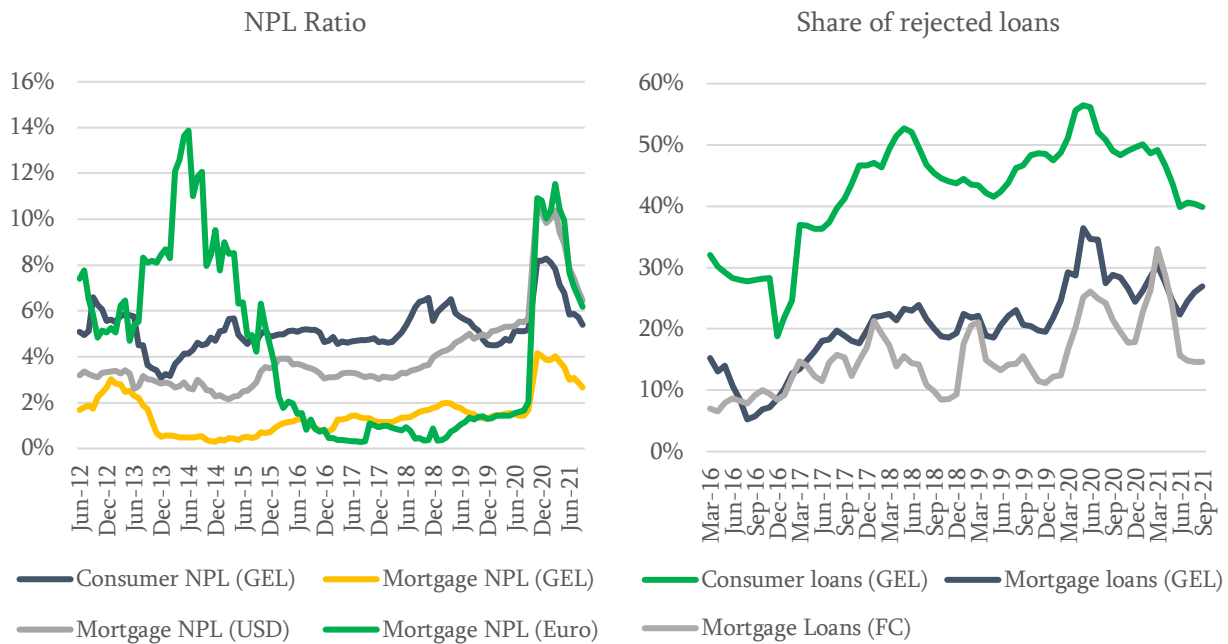


Source: NBG

In the third quarter of 2021, compared to the previous quarter, the share of non-performing loans (NPL) in retail loans decreased. In particular, according to the data available to the National Bank, the share of NPLs in mortgage and consumer loans decreased slightly and equaled to 5% and 6%, accordingly, 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 in foreign currency mortgage loans decreased. In particular, the share of NPLs in euro-denominated mortgage loans decreased by 1.5 pp to 6%, however, compare to third quarter of 2020 increased by 4.2 pp. The share of NPLs in mortgage loans issued in USD decreased by 1.4 pp and equaled 6%. As for mortgages issued in national currency, in the third quarter, compared to the second quarter of 2021, the share of NPL did not change significantly and equaled 3% (see Figure 9). Representatives of the banking sector expect slight decrease in the share of NPLs in mortgages, as well as in consumer loans. At this point, according to the data available to National Bank, 2% of the retail loan portfolio benefits from a grace period on loan servicing. Besides, it is important to note the restructured loans to retail loans did not change significantly. In particular, according to the data available to the National Bank, in the third quarter of 2021, compared to the second quarter, the share of restructured loans in retail loans decreased by 0.6 pp, to 20%, however, it increased by 6.6 pp compared to the third quarter of 2020.

In the third quarter of 2021, the share of rejected loans in retail loans increased slightly, which indicates a slight tightening of credit conditions. In particular, in the third quarter of 2021, compared to the second quarter, the share of rejected loans in mortgage loans issued in domestic currency increased and equaled on average to 27%, while for foreign currency loans decreased slightly to 15%. As for consumer loans, the share of rejected loans decreased slightly and on average equaled 40% (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 31/09/2021.

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