Credit Conditions Survey

IV 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 is 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

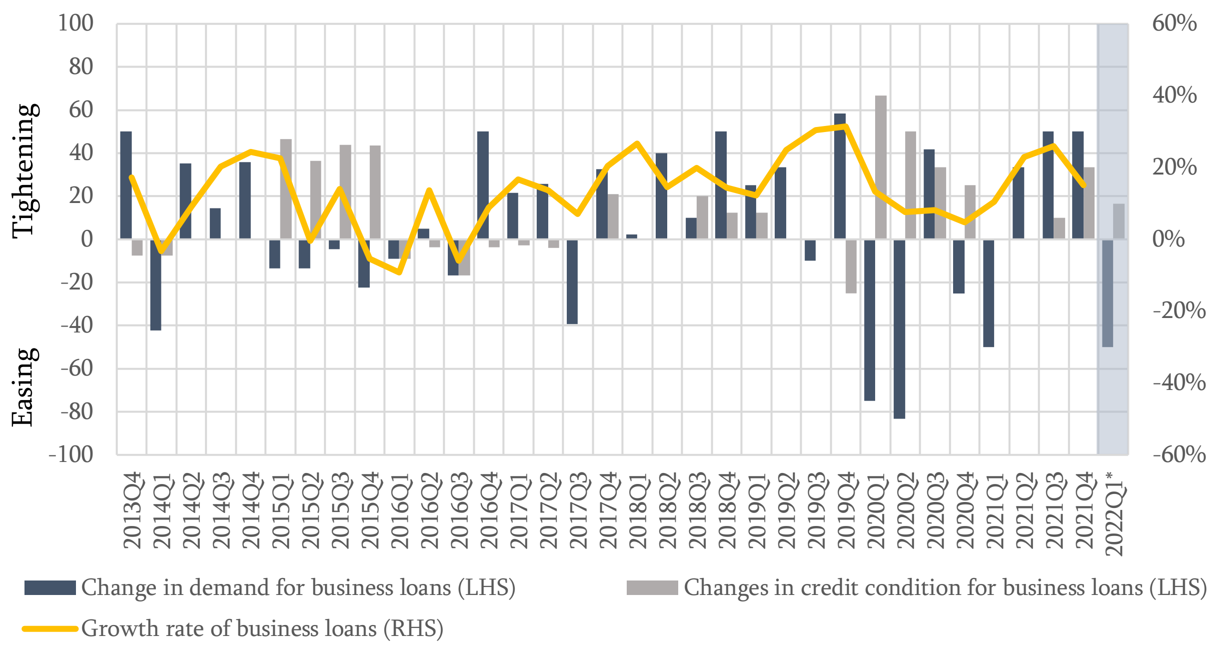
According to the credit conditions survey, in the fourth quarter of 2021, compared to the previous quarter, the demand for business loans for financing both, the inventories and working capital increased. Representatives of the banking sector expect a slight decrease in demand for business loans in the next quarter. In the fourth quarter of 2021, compared to the previous quarter, interest rate and non-interest rate conditions for business loans increased slightly, which was mainly driven by change in the risk appetite, bank's capital and cost of funds. In the next quarter, representatives of the banking sector do not expect significant changes in interest rate and non-interest rate conditions for business loans.

According to the credit conditions survey, in the fourth quarter of 2021, compared to the previous quarter, the demand for retail loans increased slightly. Representatives of the banking sector do not expect significant changes in demand for retail loans in the next quarter. In the first quarter of 2022, representatives of the banking sector expect tightening of non-interest rate conditions for retail loans issued in foreign currency, which will be largely due to regulatory changes. Interest rate conditions for retail loans issued in domestic currency did not change significantly, while for loans issued in foreign currency have eased slightly. Representatives of the banking sector, expect a slight tightening of interest rate conditions for mortgage and consumer loans issued in domestic currency.

Credit conditions and trends for business loans

According to the credit conditions survey, in the fourth quarter of 2021, compared to the previous quarter, the demand for business loans increased. Representatives of the banking sector expect a decline in demand for business loans in the first quarter of 2022. According to the data available to the National Bank, in December 2021, compared to September, the annualized growth rate[1] of corporate loans equaled to 15%, while loans to SMEs increased and amounted to 23%. 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, construction and transport and communications sectors. According to representatives of the banking sector, in the fourth quarter, financing both, the working capital and capital expenditures increased. According to the survey, in the first quarter of 2022 a decline 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.

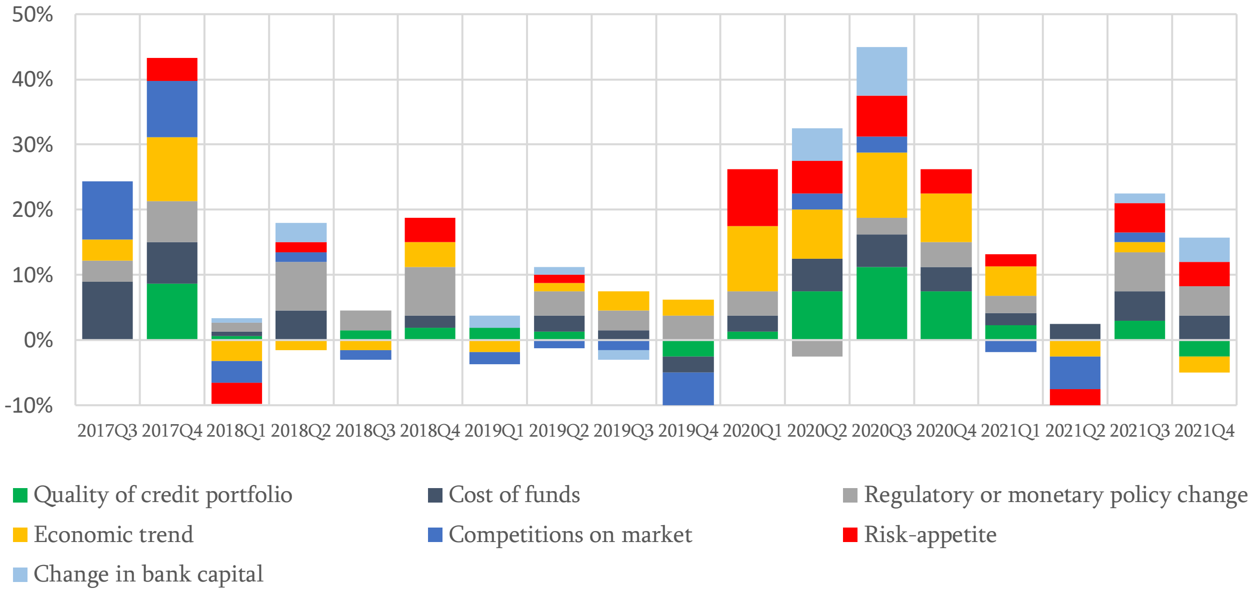
According to the same survey, in the fourth quarter, non-interest rate conditions for business loans tightened slightly. Slight tightening in non-interest conditions was mainly driven by change in the risk appetite, bank's capital and cost of funds (see Figure 2). According to the data available to the National Bank, the remaining maturity of business loans did not change significantly for national and foreign 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. 2022Q1* indicates the expectations over the first quarter of 2022 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 loans[3]

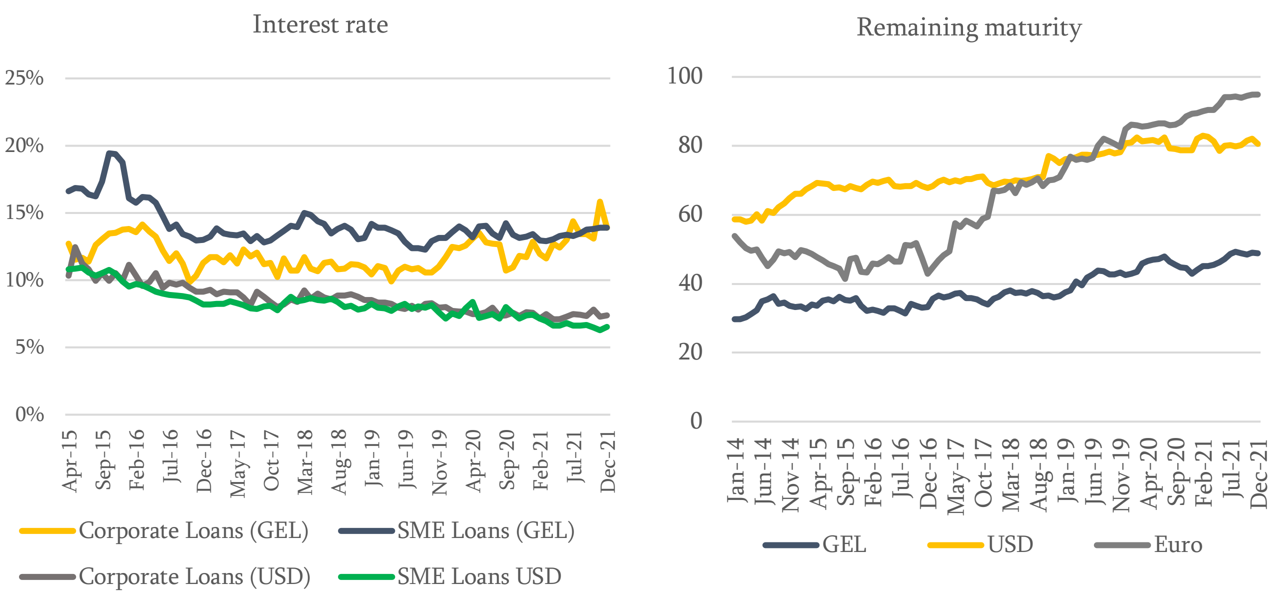


Source: Credit conditions survey

In the fourth quarter of 2021, compared to the previous quarter, interest rates for business loans issued in domestic currency 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 December compared to September, the interest rate on large business loans issued in national currency within the month increased slightly and equaled to 13.9%. As for foreign currency loans, in December compared to September, the interest rate for euro-denominated corporate loans increased by 0.4 pp to 5.7%, while the interest rates on corporate loans issued in USD did not change significantly and stood at 7.4%. For SME loans, the interest rates on national currency loans increased slightly and amounted to 13.9%. While for the SME loans issued in euro and USD, interest rates did not change significantly and stood at 5.2% and 6.5%, 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 loans [4]



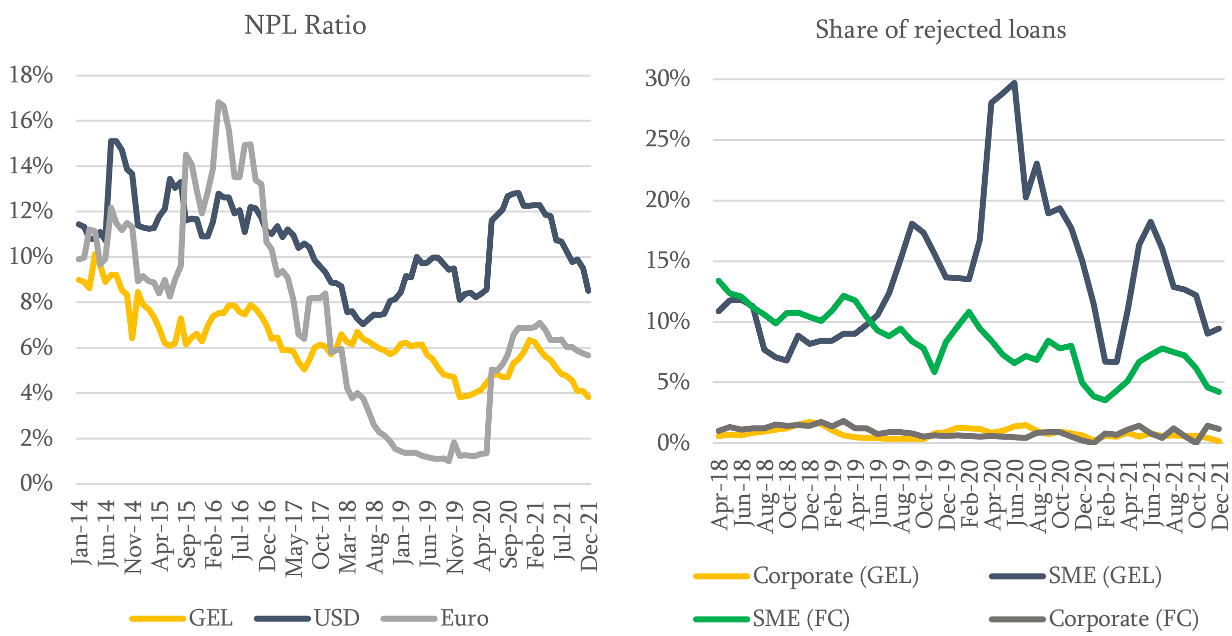
Source: NBG.

In the fourth quarter of 2021, the share of non-performing loans (NPL) in business loans decreased slightly. In the fourth quarter, compared to the previous quarter, the overall share of NPLs in business loans decreased slightly and equaled to 6%, 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 to 4%. The share of NPLs for loans issued in USD decreased by 1 pp and equaled to 9%, while the share of NPLs for euro-denominated business loans did not change significantly and equaled to 6% (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 5% 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 the fourth quarter of 2021, compare to previous quarter and stood at 21%.

In the fourth quarter of 2021, compared to the third quarter, the share of rejected loans in large business loans did not change significantly, while for SME loans decreased. In the fourth quarter, compared to the third quarter, the share of rejected loans in large business loans did not change significantly and equaled to 0.5%. Whereas the share of rejected loans in SME portfolio, decreased for loans issued in domestic and foreign currency, and on average equaled to 9% and 4%, respectively (see Figure 4).

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

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

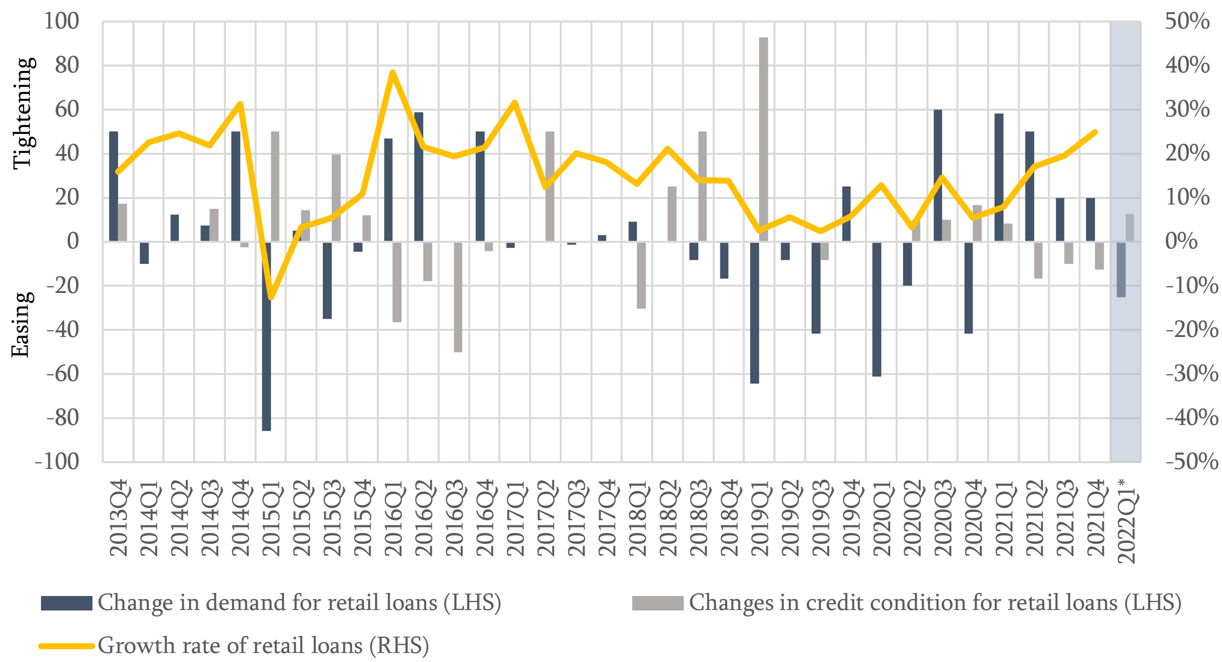


Source: NBG.

Credit conditions and trends for retail loans

According to the credit conditions survey, in the fourth quarter of 2021, compared to the previous quarter, demand for retail loans increased slightly. In the next quarter, significant change in demand for retail loans is not expected. In particular, according to the data available to National Bank, in December, compared to September, the annualized growth rate[5] of retail loans increased slightly and equaled to 25% (see Figure 5). In terms of currencies, the growth of retail loan portfolio was mainly driven by domestic currency loans, but it is important to indicate that in the fourth quarter foreign currency lending increased and amounted to 20%. Representatives of the banking sector do not expect significant changes in demand for retail loans in the next quarter.

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



Source: Credit conditions Survey, NBG.

In the first quarter of 2022, representatives of the banking sector expect tightening of non-interest rate conditions for retail loans issued in foreign currency. This tightening will be largely due to regulatory changes. In particular, from January 2022, in order to reduce dollarization of mortgage portfolio and risks relate to it, the maturity of mortgage loans issued in foreign currency is reduced from 15 to 10 years[7]. As for the past period, according to the data available to the National Bank, in the fourth quarter of 2021 compare to 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)

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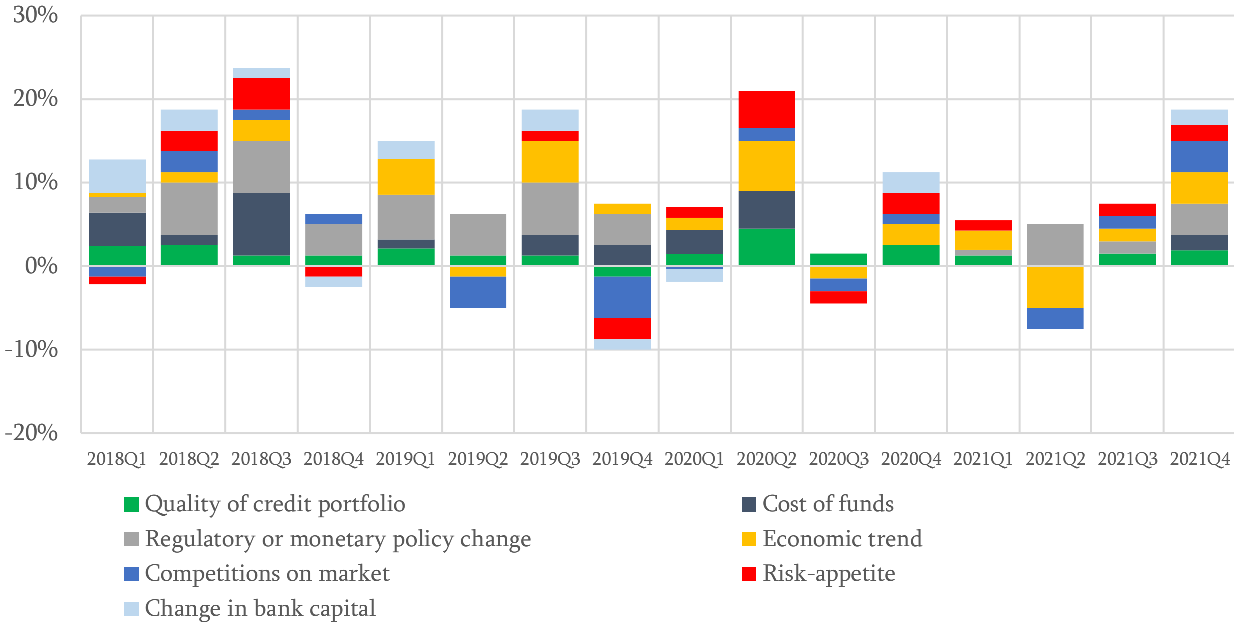
[5] This data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.
[6] See the second note of Figure 1.
[7] https://nbg.gov.ge/en/media/news/the-decision-of-the-financial-stability-committee

and payment-to-income (PTI) ratios increased slightly, which indicates slight easing of lending conditions (see Figure 7-8).

Figure 6. Factors affecting changes in the credit conditions for retail loans [8]



Source: Credit conditions Survey

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

Source: NBG

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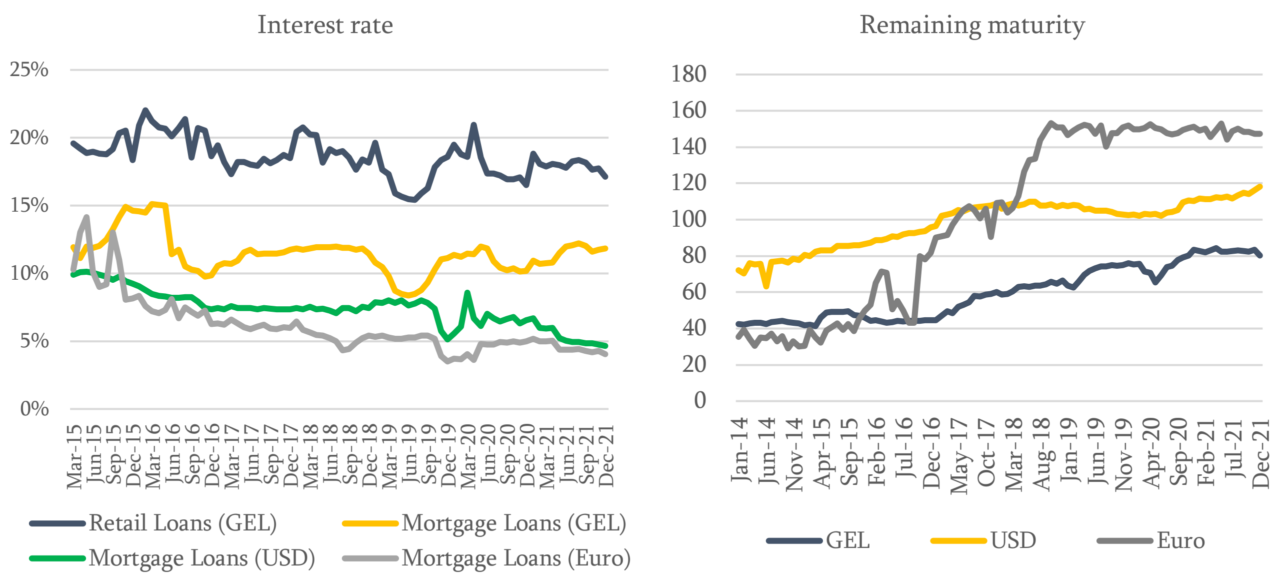
[8] See notes of Figure 2.

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 December relative to September, interest rates for mortgage loans denominated in domestic currency, did not change significantly and equaled to 12%, while for consumer loans interest rates decreased to 17%. Interest rates for mortgage loans issued in USD decreased by 0.2 pp and equaled to 4.7%, while for the loans issued in euro decreased slightly to 4.0% (see Figure 8). Respondents of the survey, expect slight tightening of interest rate conditions for mortgage and consumer loans issued in domestic currency in the next quarter.

Figure 8. Interest rates and remaining maturity for retail loans[9]



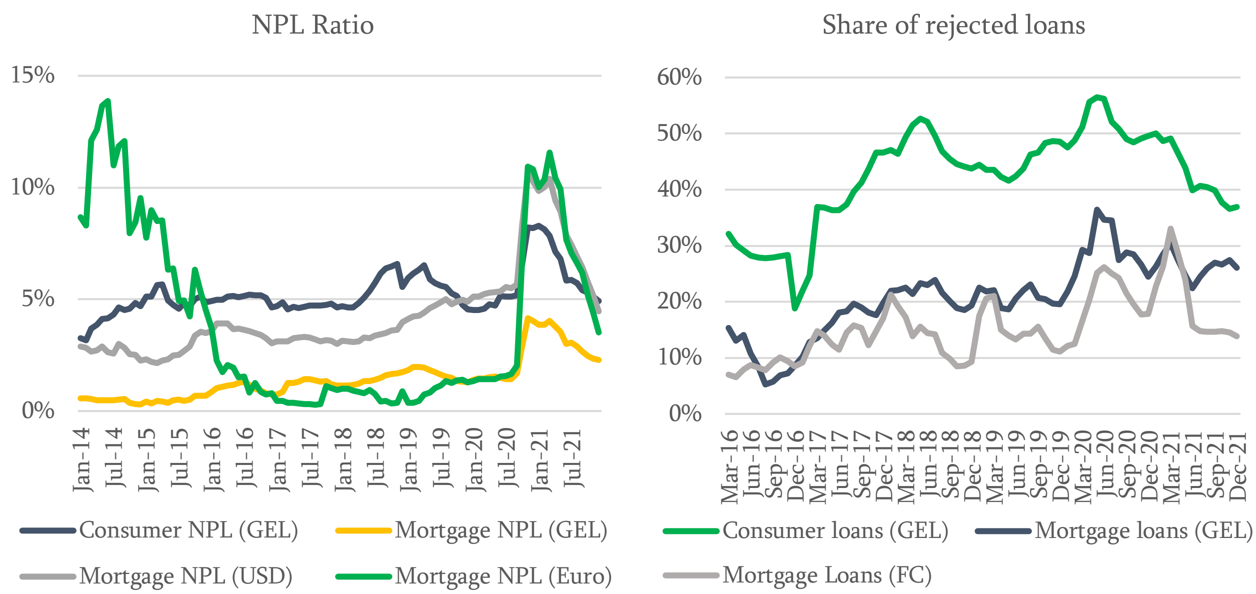
Source: NBG

In the fourth 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 to 3% and 5%, 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 2.7 pp to 4%. The share of NPLs in mortgage loans issued in USD decreased by 2.0 pp and equaled 4%. As for mortgages issued in national currency, in the fourth quarter, compared to the third quarter of 2021, the share of NPL decreased slightly and equaled 2% (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, 3% of the retail loan portfolio benefits from a grace period on loan servicing. Besides, it is important to note that according to the data available to the National Bank, in the fourth quarter of 2021, compared to the third quarter, the share of restructured loans in retail loans decreased by 0.3 pp, to 8.5%, which compared to the fourth quarter of 2020 is 1.7 pp lower.

[9] Interest rate and remaining maturity on retail loan flows issued within a month.

In the fourth quarter of 2021, the share of rejected loans in retail did not change significantly. In particular, in the fourth quarter of 2021, compared to the third quarter, the share of rejected loans in mortgage loans issued in domestic and foreign currency did not change significantly and equaled on average to 26% and 14%, accordingly. As for consumer loans, the share of rejected loans decreased slightly and on average equaled to 37% (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 31/12/2021.

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