Credit Conditions Survey

I Quarter, 2022

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.

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Summary

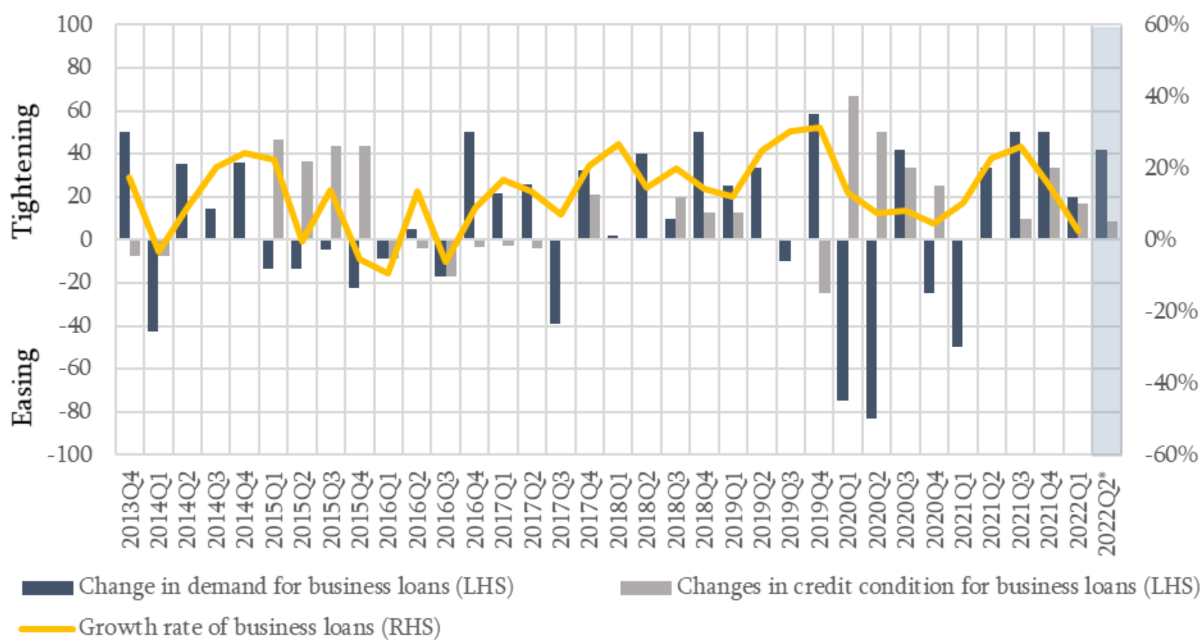
According to the credit conditions survey, in the first quarter of 2022, compared to the previous quarter, the demand for business loans for financing both, the inventories and working capital increased slightly. Representatives of the banking sector expect a slight increase in demand for business loans in the next quarter. In the first quarter of 2022, compared to the previous quarter, interest rate and non-interest rate conditions for business loans increased slightly, which was mainly driven by changes in economic trends and tightening of monetary policy. 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 first quarter of 2022, compared to the previous quarter, the demand for retail loans increased slightly. Representatives of the banking sector expect slight increase in demand for retail loans in the next quarter. According to the survey, non-interest rate conditions for retail loans tightened, largely due to regulatory changes. While increase of interest rate conditions for retail loans was mainly driven by tightening of monetary policy. Representatives of the banking sector, expect a slight tightening of non-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 first quarter of 2022, compared to the previous quarter, the demand for business loans increased slightly. Representatives of the banking sector expect a slight increase in demand for business loans in the second quarter of 2022. According to the data available to the National Bank, in March 2022, compared to December, the annualized growth rate[1] of corporate loans equaled to -8%, while for loans to SMEs amounted to 16%. Overall, the business loan portfolio increased by 2.3%. 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 energy sector. According to representatives of the banking sector, in the first quarter, financing both, the working capital and capital expenditures increased. According to the survey, in the second quarter of 2022 a slight 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.

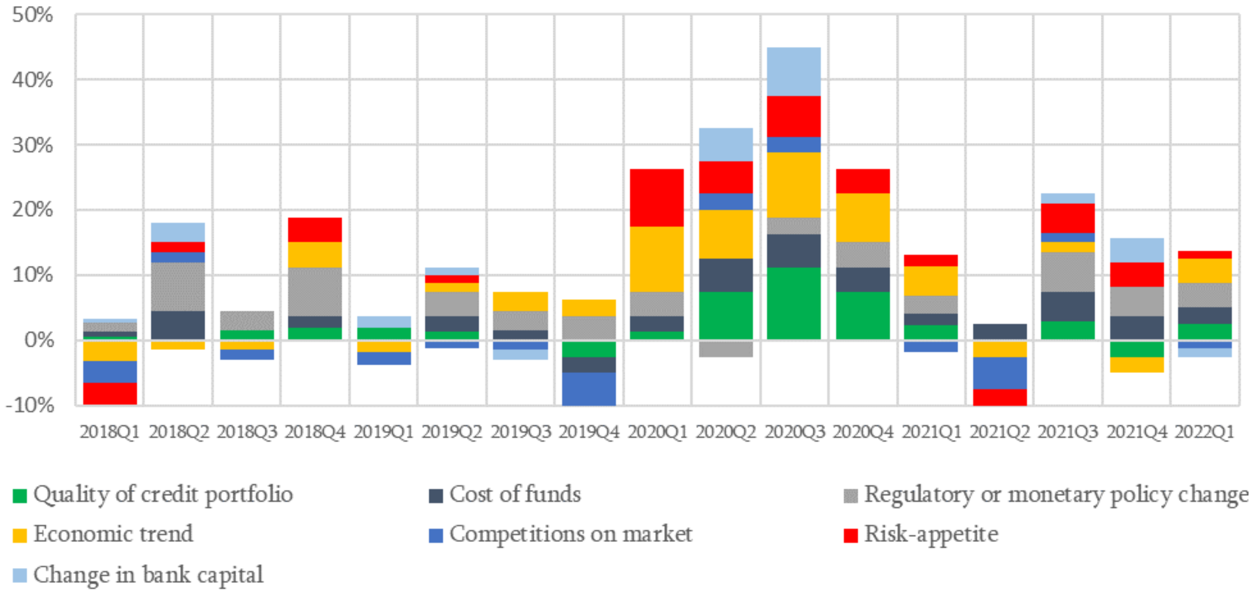
According to the same survey, in the first quarter, non-interest rate conditions for business loans tightened slightly. Slight tightening in non-interest conditions was mainly driven by changes in economic trends (see Figure 2). According to the data available to the National Bank, the remaining maturity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

[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. 2022Q2* indicates the expectations over the second quarter of 2022 of representatives of the banking sector.

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]

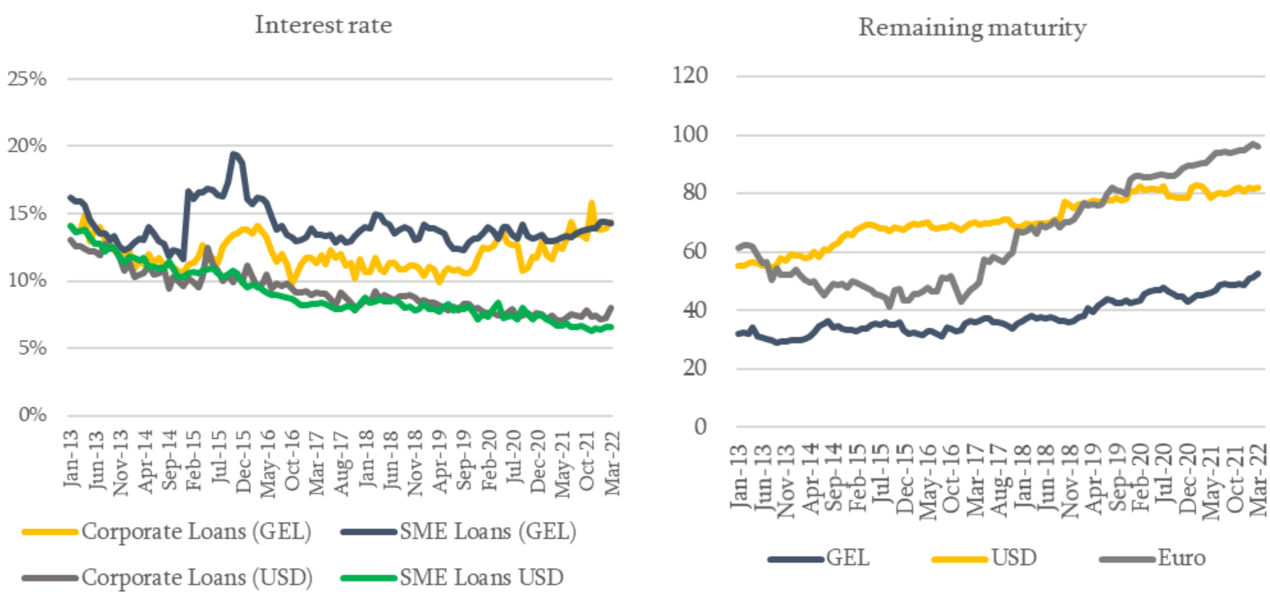


Source: Credit conditions survey

In the first quarter of 2022, 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. In particular, according to the data available to the National Bank, in March compared to December, the interest rate on large business loans issued in national currency within the month increased slightly and equaled to 14.4%. As for foreign currency loans, in March compared to December, the interest rate for euro-denominated corporate loans increased by 0.5 pp to 6.2%, while the interest rates on corporate loans issued in USD increased by 0.7 pp to 8.0%. For SME loans, the interest rates on national currency loans increased slightly and amounted to 14.3%. While for the SME loans issued in euro and USD, interest rates did not change significantly and stood at 5.4% and 6.6%, respectively (see Figure 3). According to the credit conditions survey, interest rate conditions 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]



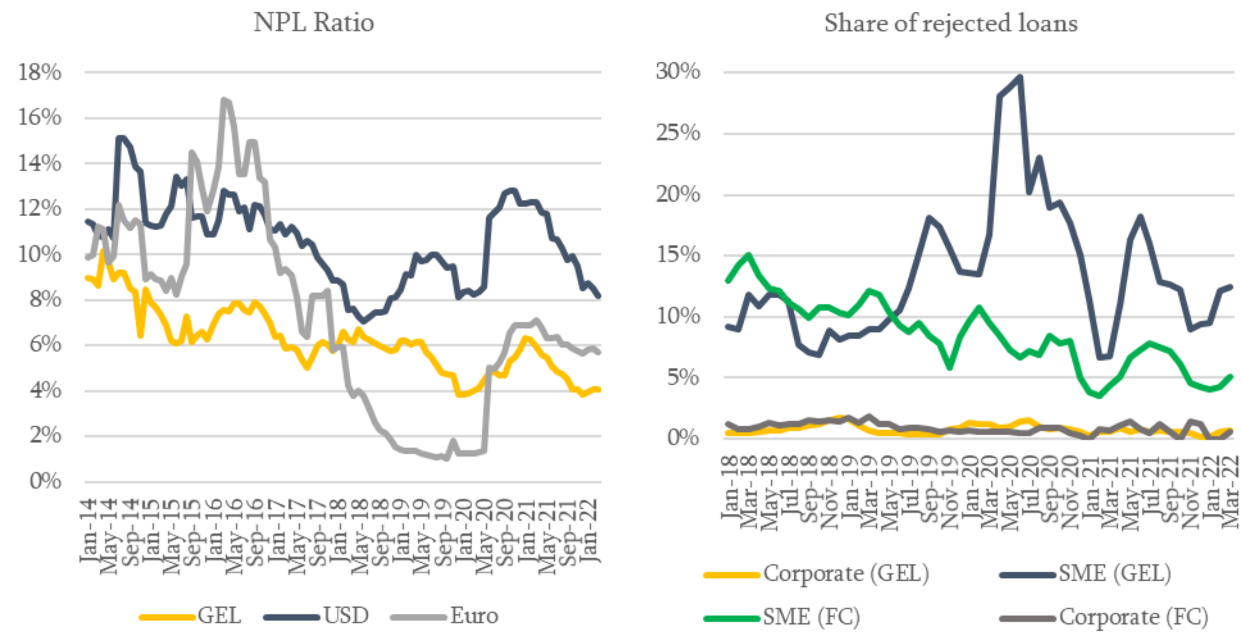
Source: NBG.

In the first quarter of 2022, the share of non-performing loans (NPL) in business did not change significantly. In the first quarter, compared to the previous quarter, the overall share of NPLs in business loans equaled to 6%. In terms of currencies, it is important to indicate that the share of NPLs in business loans issued in domestic currency slightly increased to 4%. The share of NPLs for loans issued in USD decreased slightly and equaled to 8%, 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, 11% of the corporate loan portfolio and 3% 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 in the first quarter of 2022, compare to previous quarter decreased by 4 pp and stood at 17%.

In the first quarter of 2022, compared to the fourth quarter of 2021, the share of rejected loans in large business loans did not change significantly, while for SME loans increased slightly. In the first quarter, compared to the fourth quarter of 2021, the share of rejected loans in large business loans did not change significantly and equaled to 0.6%. Whereas the share of rejected loans in SME portfolio, increased for loans issued in domestic and foreign currency, and on average equaled to 12% and 5%, 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

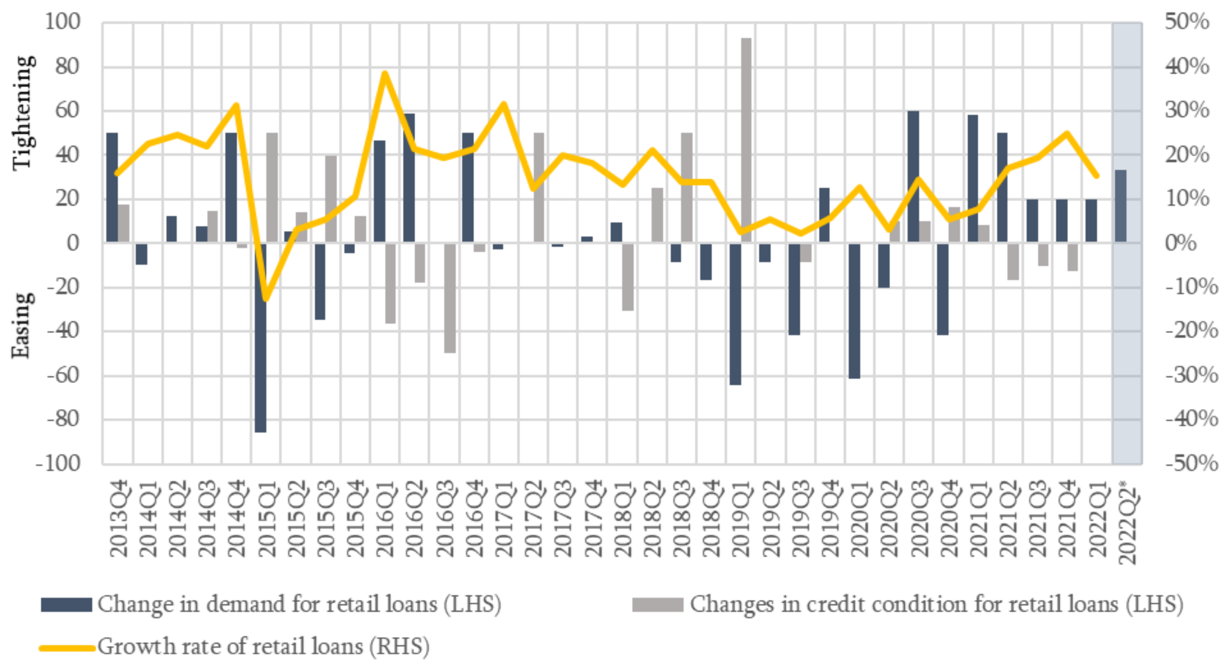


Source: NBG.

Credit conditions and trends for retail loans

According to the credit conditions survey, in the first quarter of 2022, compared to the previous quarter, demand for retail loans increased slightly. In the next quarter, slight increase in demand for retail loans is expected. In particular, according to the data available to National Bank, in March, compared to December, the annualized growth rate[5] of retail loans equaled to 15% (see Figure 5). In terms of currencies, the growth of retail loan portfolio was mainly driven by domestic currency loans. It is important to indicate that in the first quarter foreign currency lending growth decreased to 12%. Representatives of the banking sector expect slight increase in demand for retail loans in the next quarter.

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

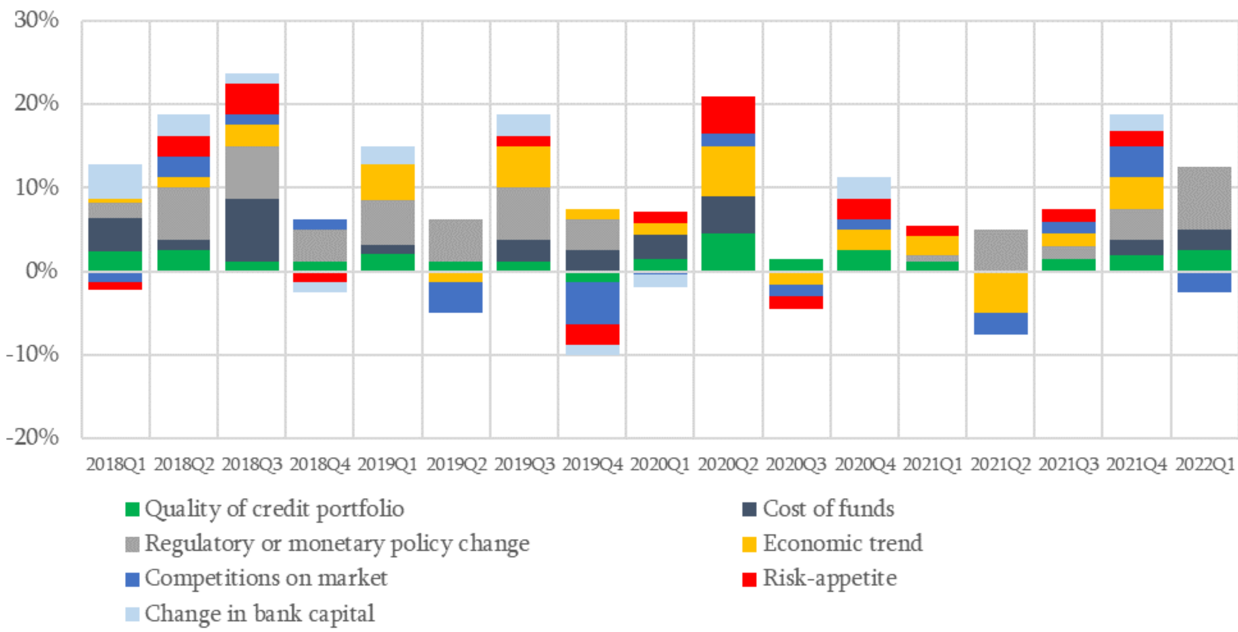


Source: Credit conditions Survey, NBG.

In the first quarter of 2022, non-interest rate conditions for retail loans have tightened. This tightening is 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]. According to the data available to the National Bank, in the first quarter of 2022 compare to previous quarter, loan maturity for the loans denominated in national and foreign currency decreased. Additionally, loan-to-value (LTV) and payment-to-income (PTI) ratios decreased slightly, which indicates slight tightening of lending conditions (see Figure 7-8).

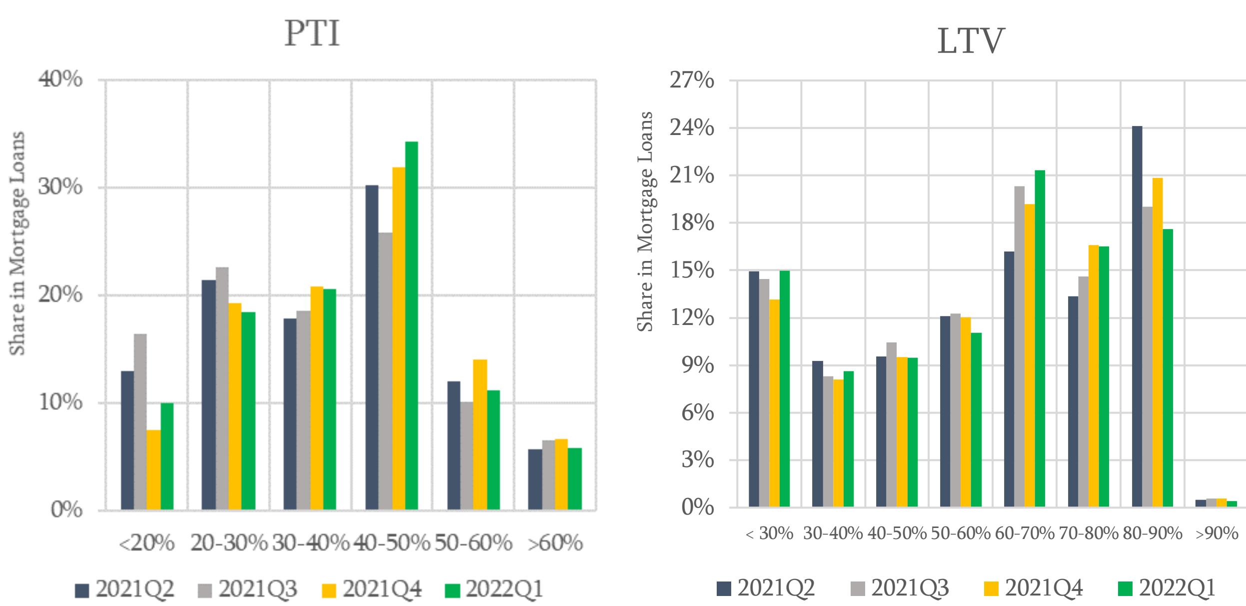
[5] This data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.
[6] See the second note of Figure 1.
[7] https://nbg.gov.ge/en/media/news/the-decision-of-the-financial-stability-committee

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



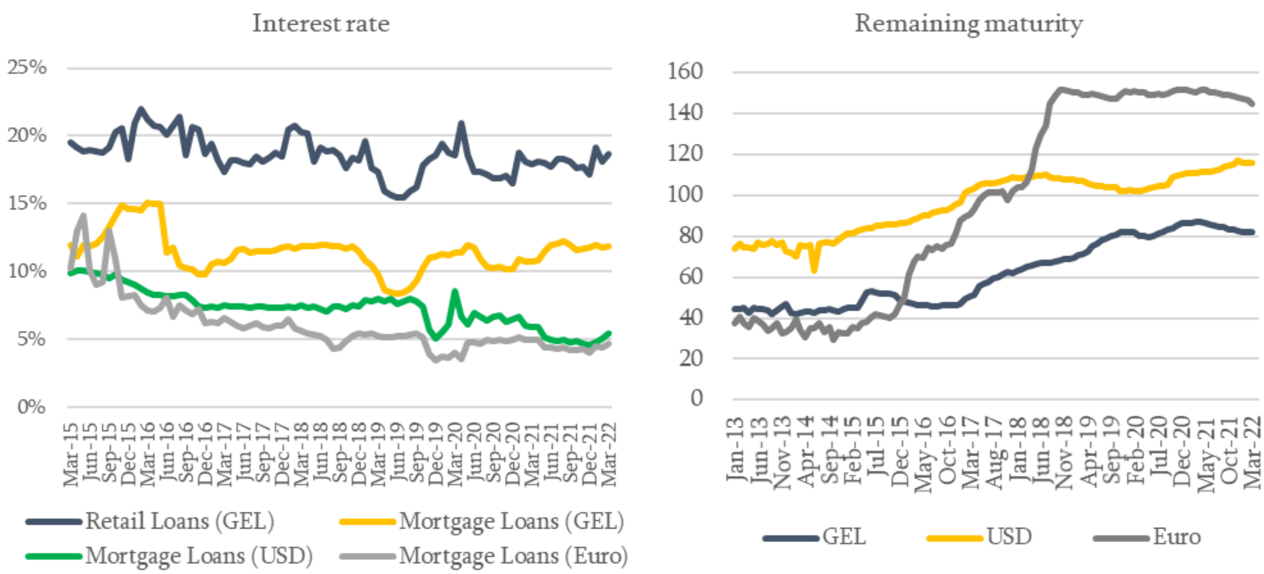
Source: NBG

Interest rates for retail loans issued in domestic and foreign currency increased slightly. In particular, in March relative to December, interest rates for retail loans increased slightly to 19%. As for mortgage loans

[8] See notes of Figure 2.

denominated in domestic currency, interest rate did not change significantly and equaled to 12%. Interest rate for mortgage loans issued in USD increased by 0.8 pp and stood at 5.4%, while for the loans issued in euro increased by 0.7 pp and equaled 4.7% (see Figure 8). Increase in interest rate conditions was mainly due to tightening of monetary policy. Respondents of the survey, do not expect significant changes of interest rate conditions for mortgage and consumer loans in the next quarter.

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



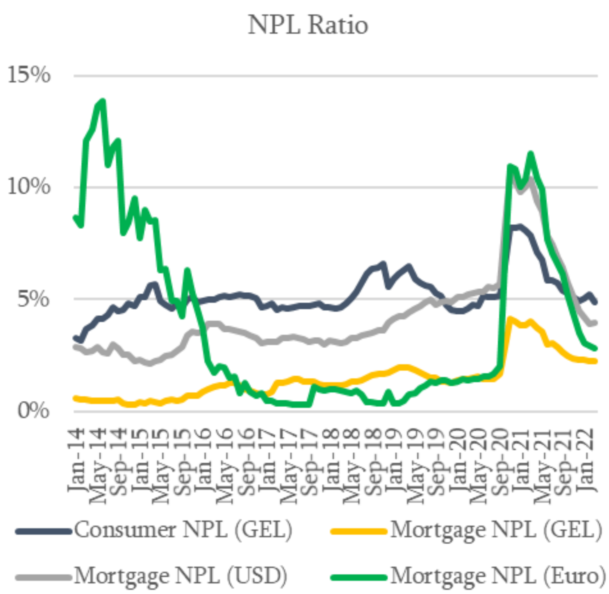
Source: NBG

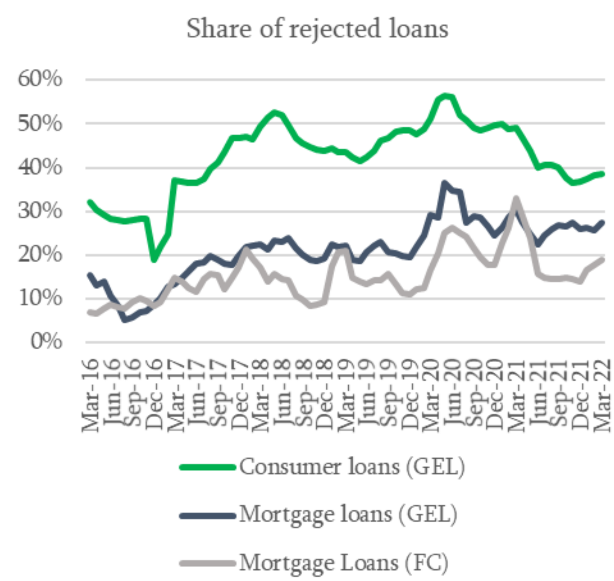
In the first quarter of 2022, compared to the previous quarter, the share of non-performing loans (NPL) in foreign currency mortgage loans decreased, while for overall retail portfolio did not change significantly. In particular, according to the data available to the National Bank, the share of NPLs in mortgage and consumer loans did not change significantly and equaled to 3% and 5%, accordingly. 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 1.0 pp to 3%. The share of NPLs in mortgage loans issued in USD decreased by 1.0 pp and equaled 4%. As for mortgages issued in national currency, in the first quarter of 2022, compared to the fourth quarter of 2021, the share of NPL did not change significantly 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. It is important to note that according to the data available to the National Bank, in the first quarter of 2022, compared to the previous quarter, the share of restructured loans in retail loans decreased by 1.4 pp, to 7.0%, which compared to the first quarter of 2021 is 3.3 pp lower. This reduction is largely a result of portfolio growth and improvement of households' economic conditions.

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

In the first quarter of 2022, the share of rejected loans in retail portfolio increased. In particular, in the first quarter of 2022, compared to the previous quarter, the share of rejected loans in mortgage loans issued in domestic and foreign currency increased and equaled on average to 27% and 19%, accordingly. As for consumer loans, the share of rejected loans increased slightly and on average equaled to 39% (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 31/03/2022.

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