Credit Conditions Survey

II 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.

Credit Conditions Survey

Summary

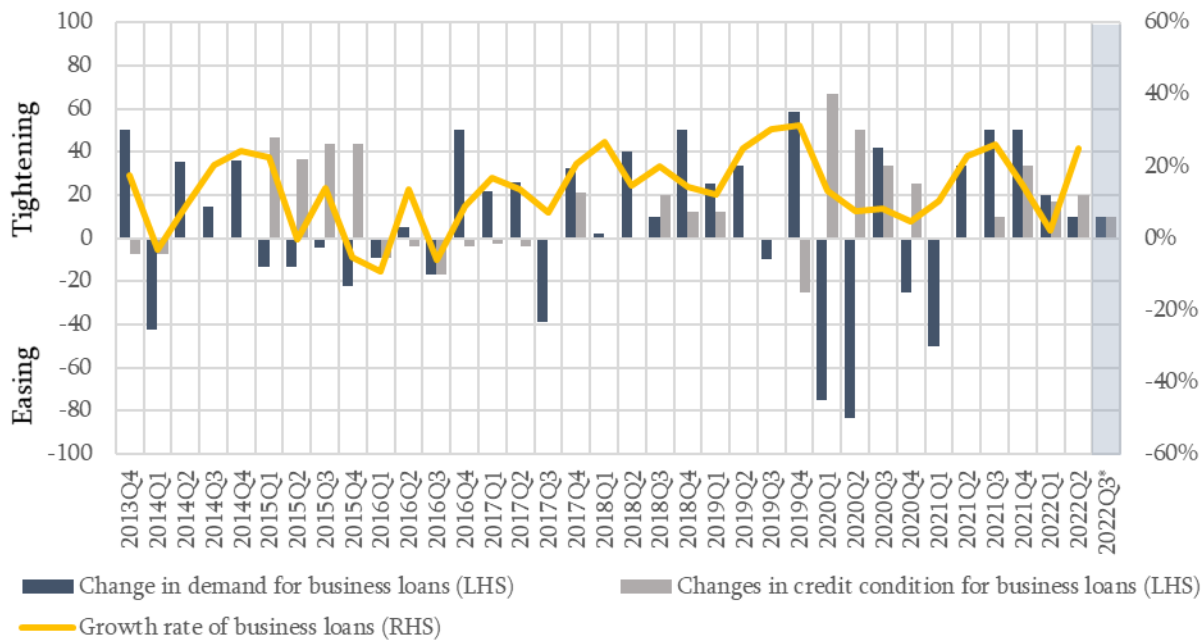
According to the credit conditions survey, in the second quarter of 2022, compared to the previous quarter, the demand for business loans for financing both, the inventories and working capital increased slightly. Representatives of the banking sector expect a slight increase in demand for business loans in the next quarter. In the second quarter of 2022, compared to the previous quarter, interest and non-interest rate conditions for business loans tightened slightly, which was mainly driven by tightening of monetary policy and increase in cost of funds. In the next quarter, representatives of the banking sector expect slight tightening of interest rate conditions for foreign currency business loans.

According to the credit conditions survey, in the second 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, interest rate and non-interest rate conditions for retail loans tightened slightly. Tightening of non interest rate conditions was due to changes in economic trends and regulatory adjustments. 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 interest rate conditions for retail loans issued in foreign currency in the next quarter.

Credit conditions and trends for business loans

According to the credit conditions survey, in the second 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 third quarter of 2022. According to the data available to the National Bank, in June 2022, compared to March, the annualized growth rate[1] of corporate loans increased to 26%, while for loans to SMEs amounted to 16%. Overall, the business loan portfolio increased by 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 construction and manufacturing sectors. According to representatives of the banking sector, in the second quarter, financing both, the working capital and capital expenditures increased. According to the survey, in the third 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.

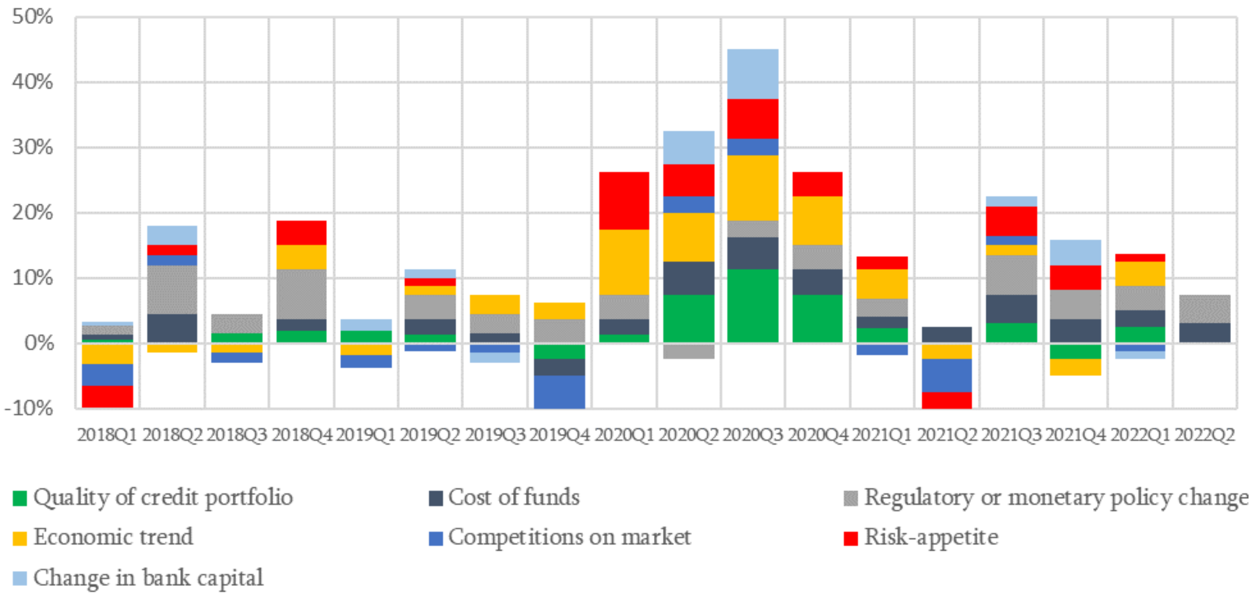
According to the same survey, in the second quarter, credit conditions for business loans tightened slightly. Slight tightening in credit conditions was mainly driven by increase in monetary policy rate and cost of funds (see Figure 2). According to the data available to the National Bank, the remaining maturity of

[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. 2022Q3* indicates the expectations over the third quarter of 2022 of representatives of the banking sector.

business loans increased slightly for national currency loans, while for the foreign currency loans decreased, which indicates a slight tightening of credit conditions (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]

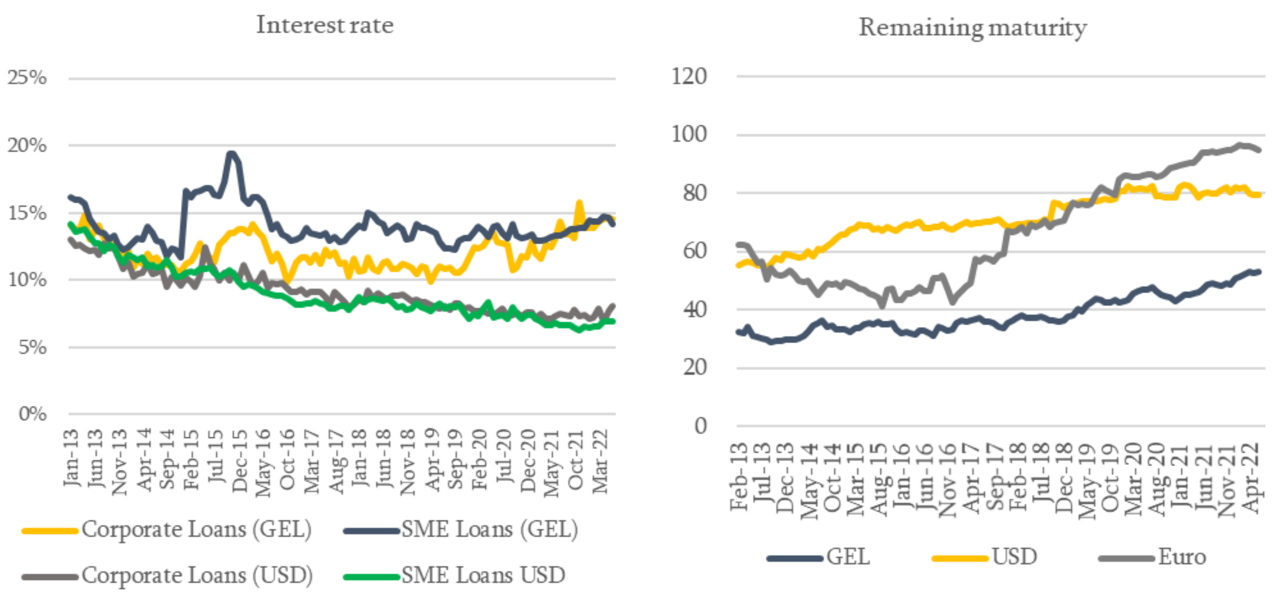


Source: Credit conditions survey

In the second quarter of 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 by National bank of Georgia and by Federal Reserve Bank of United States. 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 14.6%. As for foreign currency loans, in June compared to March, the interest rate for euro-denominated corporate loans increased by 0.5 pp to 6.7%, while the interest rates on corporate loans issued in USD did not change significantly and equaled 8.0%. For SME loans, the interest rates on national currency loans decreased slightly and amounted to 14.2%. While for the SME loans issued in euro and USD, interest rates increased slightly and stood at 5.7% and 7.0%, 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 expect slight increase in interest rate conditions for business loans issued in foreign currency 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]



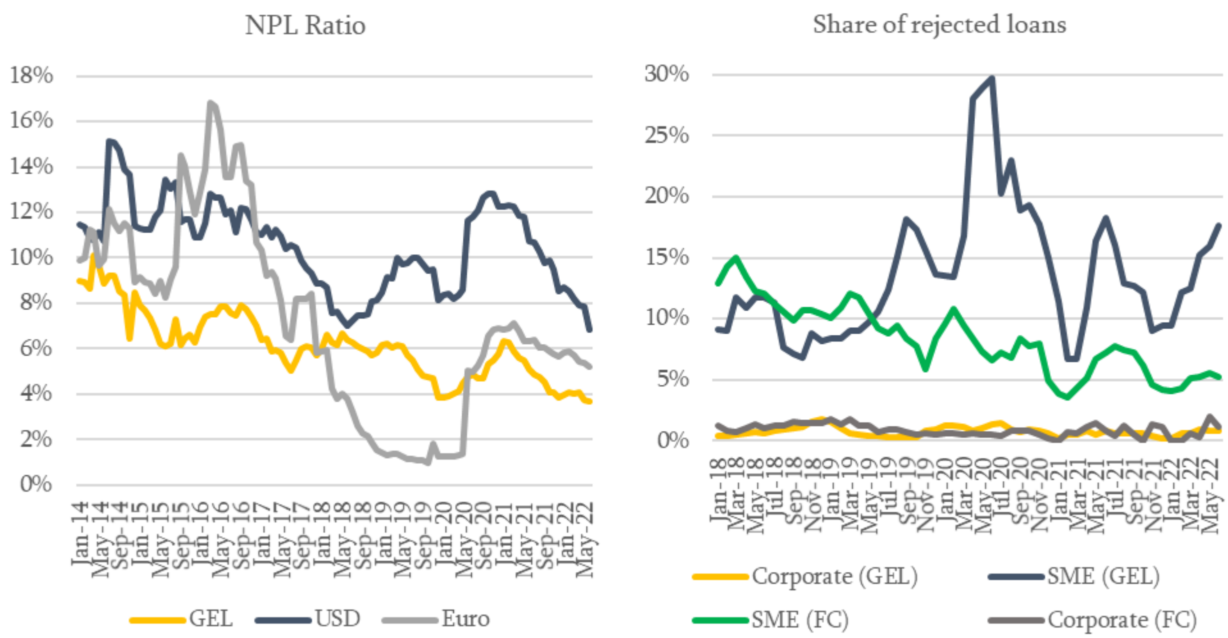
Source: NBG.

In the second quarter of 2022, the share of non-performing loans (NPL) in business decreased somewhat. In the second quarter, compared to the previous quarter, the overall share of NPLs in business loans equaled to 5%. In terms of currencies, it is important to indicate that the share of NPLs in business loans issued in domestic currency did not change significantly and stood at 4%. The share of NPLs for loans issued in USD decreased by 1.3 pp and equaled to 7%, while the share of NPLs for euro-denominated business loans decreased slightly to 5% (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, 8% of the corporate loan portfolio and 1% 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 second quarter of 2022, compare to previous quarter increased by 2.8 pp and stood at 19.9%.

In the second quarter of 2022, compared to previous quarter, the share of rejected loans in large business loans did not change significantly, while for SME loans increased slightly. In the second quarter, compared to the previous quarter, the share of rejected loans in large business loans did not change significantly and equaled to 1.0%. Whereas the share of rejected loans in SME portfolio for loans issued in domestic currency increased and equaled 18%, while for the foreign currency loans did not change significantly and stood at 5% (see Figure 4).

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

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

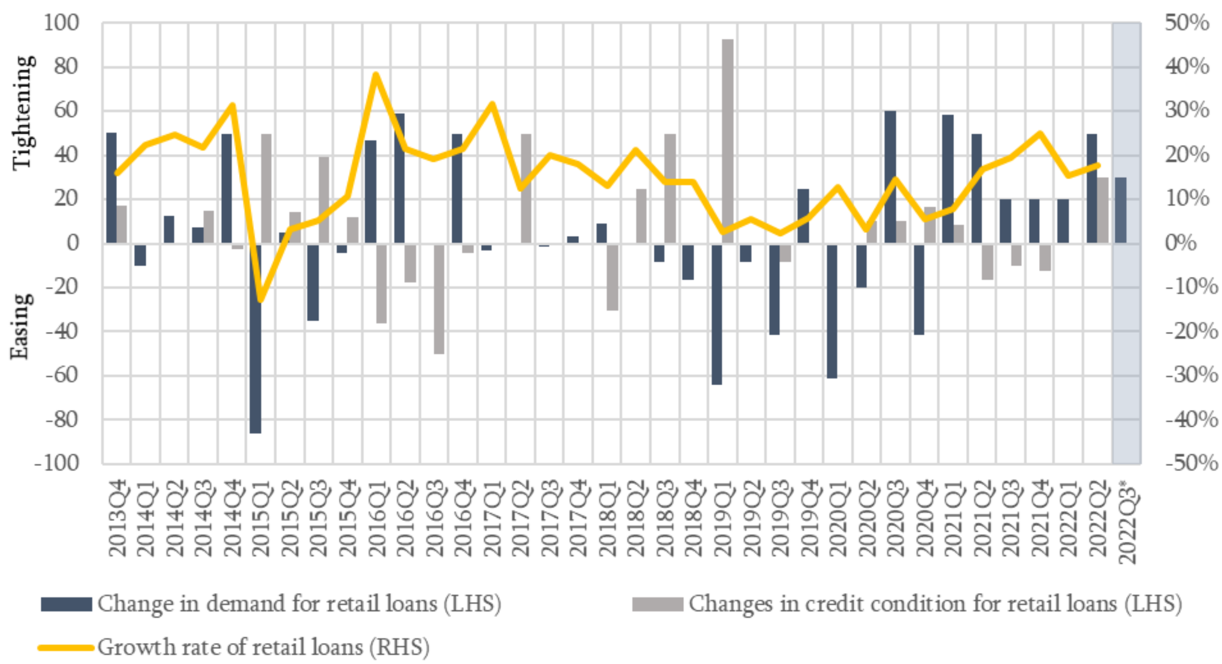


Source: NBG.

Credit conditions and trends for retail loans

According to the credit conditions survey, in the second 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 June, compared to March, the annualized growth rate[5] of retail loans equaled to 18% (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 second quarter foreign currency lending growth decreased to 9%. 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]



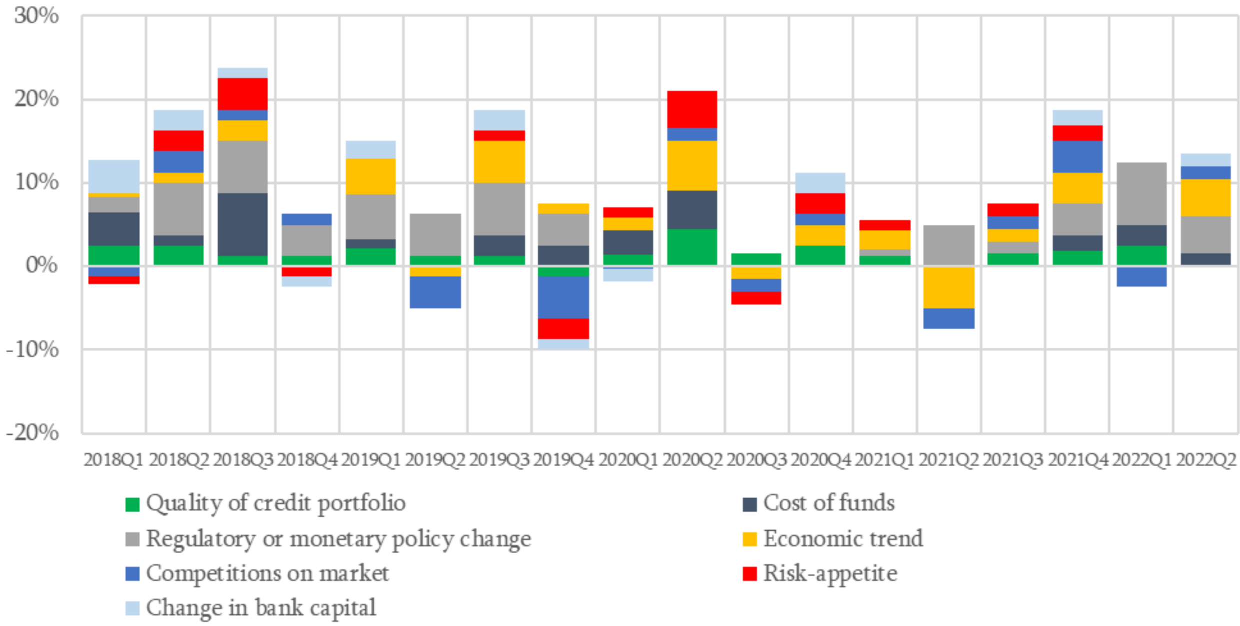
Source: Credit conditions Survey, NBG.

In the second quarter of 2022, non-interest rate conditions for retail loans have tightened. This tightening is largely due to changes in economic trends and regulatory adjustments. In particular, form April 2022, 25% PTI requirement was extended to people with income up to 1500 Gel. Also, commercial banks should take into account 3 percentage point interest rate shock when assessing borrower's creditworthiness. Effective from 1st May, 2022, PTI coefficient, calculated considering this shock, should satisfy existing requirements determined by the responsible lending regulation[7]. According to the data available to the National Bank, in the second quarter of 2022 compare to previous quarter, loan maturity for the loans denominated in national and foreign currency decreased. Additionally, loan-to-value (LTV) ratio

[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

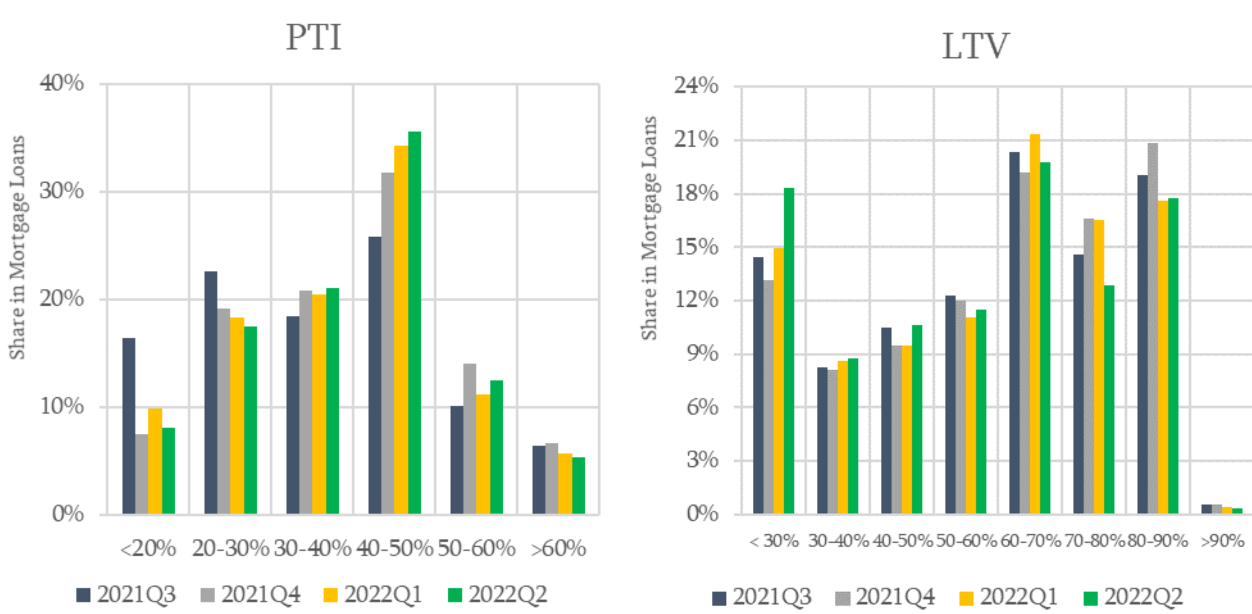
decreased, while payment-to-income (PTI) ratio increased slightly. Overall lending conditions tightened slightly (see Figure 7-8).

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

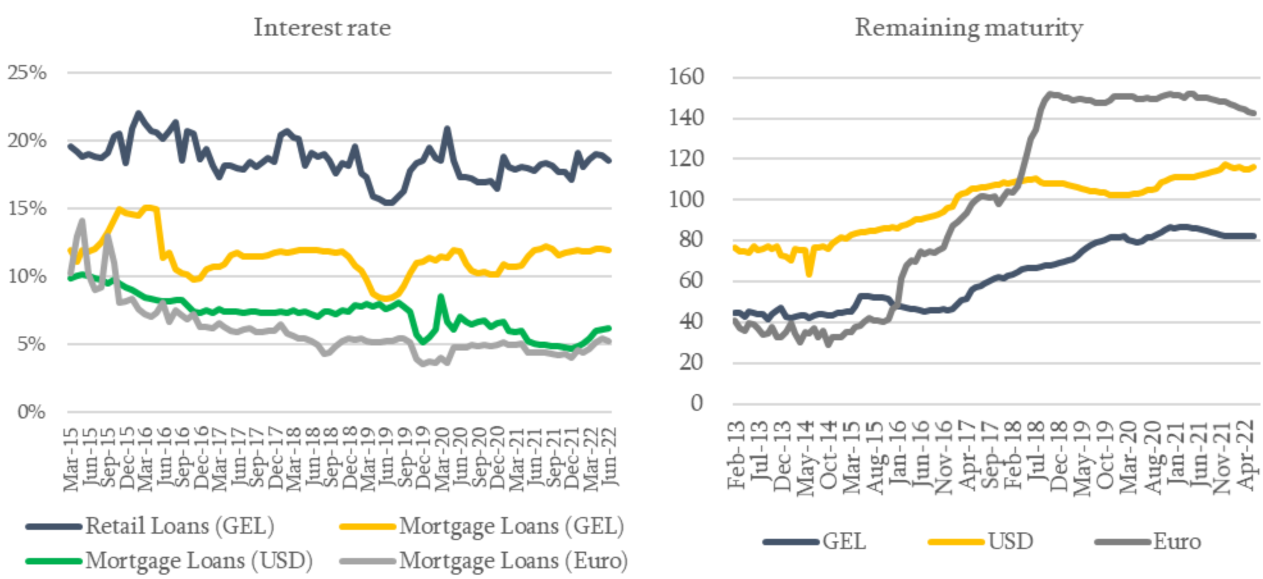


Source: NBG

[8] See notes of Figure 2.

Interest rates for retail loans issued in domestic and foreign currency increased slightly. In particular, in June relative to March, interest rates for mortgages issued in USD increased by 0.7 pp, to 6.2%, while for mortgages issued in euro increased by 0.6 an equaled to 5.3% (see Figure 8). Increase in interest rate can be largely explained by the tightening of the monetary policy rate by the FED. As for loans issued in domestic currency, interest rates for retail and mortgage loans did not change significantly and equaled to 19% and 12%, respectively. Respondents of the survey, do not expect significant changes of interest rate conditions for loans issued in domestic currency, while for foreign currency loans, slight increase is expected.

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



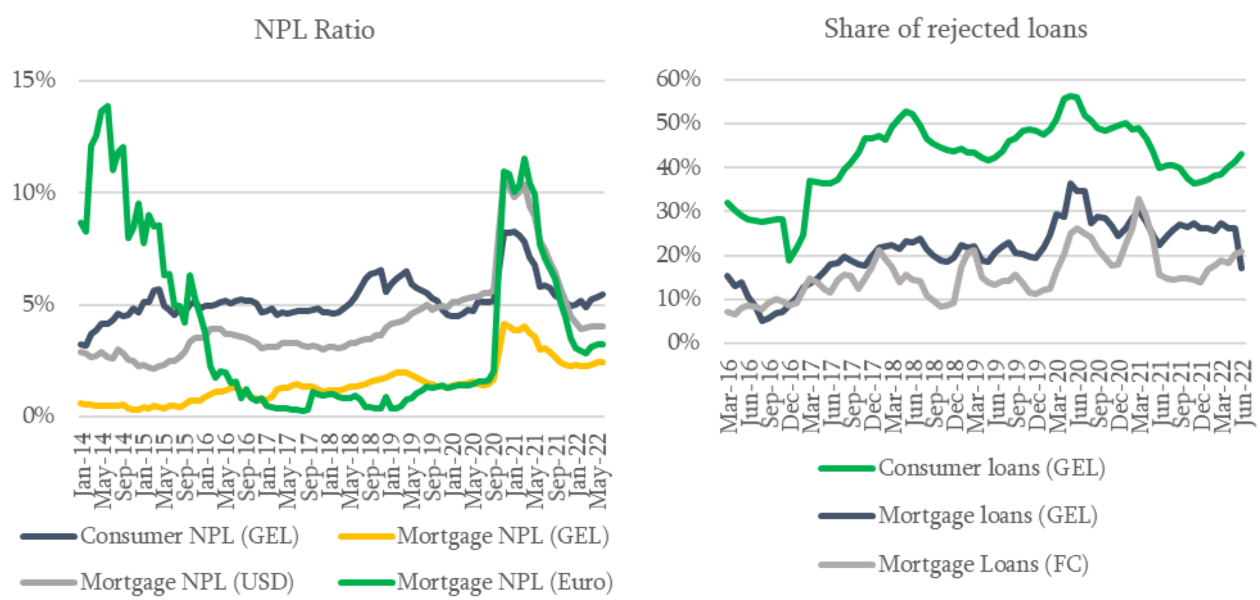
Source: NBG

In the second quarter of 2022, compared to the previous quarter, the share of non-performing loans (NPL) 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, the share of NPLs in foreign currency mortgage loans did not change significantly. In particular, the share of NPLs in euro-denominated mortgage loans equaled 3%, while the share of NPLs in mortgage loans issued in USD equaled 4%. As for mortgages issued in national currency, in the second quarter of 2022, compared to the previous quarter, the share of NPL did not change significantly and equaled 2% (see Figure 9). Representatives of the banking sector do not expect significant changes in the share of NPLs. It is important to note that according to the data available to the National Bank, in the second quarter of 2022, compared to the previous quarter, the share of restructured loans in retail loans decreased by 0.9 pp, to 7.0%, which is 3.2 pp lower compared to the second quarter of 2021. This reduction is largely a result of improvement of the portfolio.

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

In the second quarter of 2022, the share of rejected loans in retail portfolio increased. In particular, in the second quarter of 2022, compared to the previous quarter, the share of rejected loans in consumer loans increased and on average equaled to 43%. As for mortgage loans issued in domestic currency the share of rejected loans decreased to 17%, while for the loans issued in foreign currency increased to 21% (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 30/06/2022.

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