Credit Conditions Survey

III 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

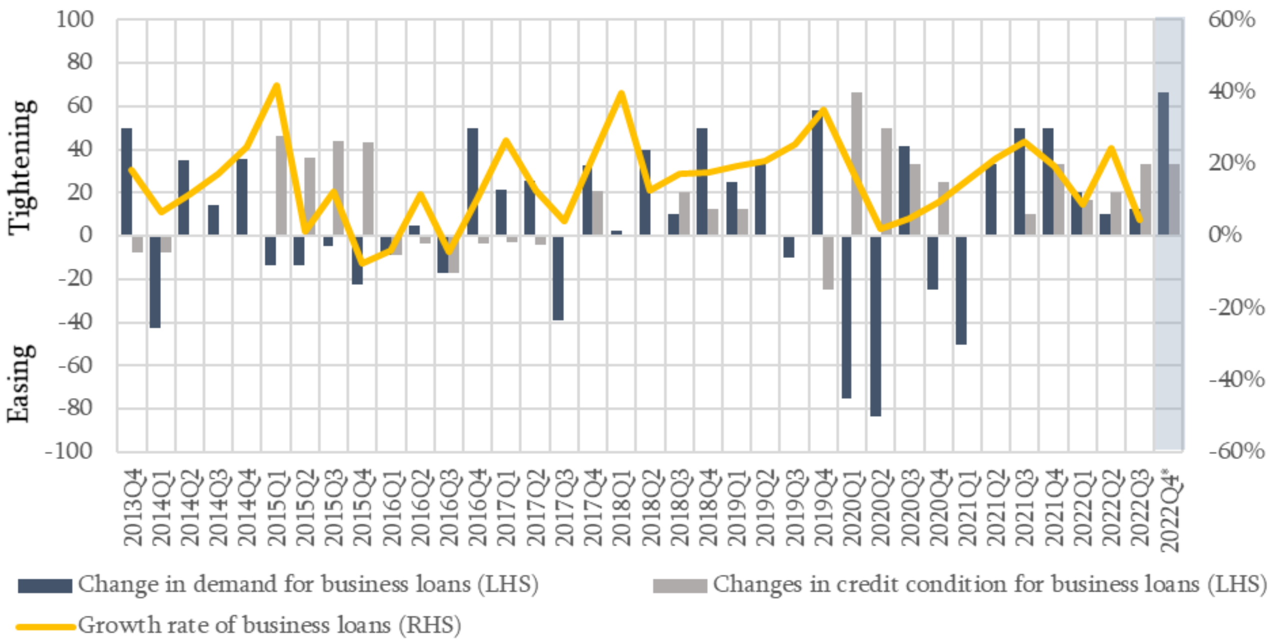
According to the credit conditions survey, in the third quarter of 2022, compared to the previous quarter, the demand for business loans decreased slightly. Representatives of the banking sector expect a slight increase in demand for business loans in the next quarter. According to the same survey, in the third 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 by Federal Reserve Bank and European Central Bank and consequently by the 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, while non-interest rate conditions are not expected to change.

According to the credit conditions survey, in the third quarter of 2022, compared to the previous quarter, the demand for retail loans did not change significantly. 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 slightly. Tightening of non interest rate conditions was due to regulatory adjustments. Representatives of the banking sector do not expect significant changes of non-interest rate condition, while interest rate conditions may tighten slightly.

Credit conditions and trends for business loans

According to the credit conditions survey, in the third quarter of 2022, compared to the previous quarter, the demand for business loans did not change significantly. Representatives of the banking sector expect an increase in demand for business loans in the fourth quarter of 2022. According to the data available to the National Bank, in the third quarter 2022, compared to previous quarter, the annualized growth rate[1] of SMEs amounted to 17%, while corporate loans decreased to -2%, which was mainly due to one-time large loan repayment. Overall, the business loan portfolio increased by 4%. 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 transport and communication and energy sectors. According to the survey, in the fourth quarter of 2022 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.

In the third quarter of 2022, compare to previous quarter, credit conditions for business loans tightened slightly, which was caused by an increase in the interest rate for business loans issued in foreign currency. Slight tightening in credit conditions was mainly driven by increase in cost of funds and high uncertainty about economic trends (see Figure 2). According to the data available to the National Bank, non-interest

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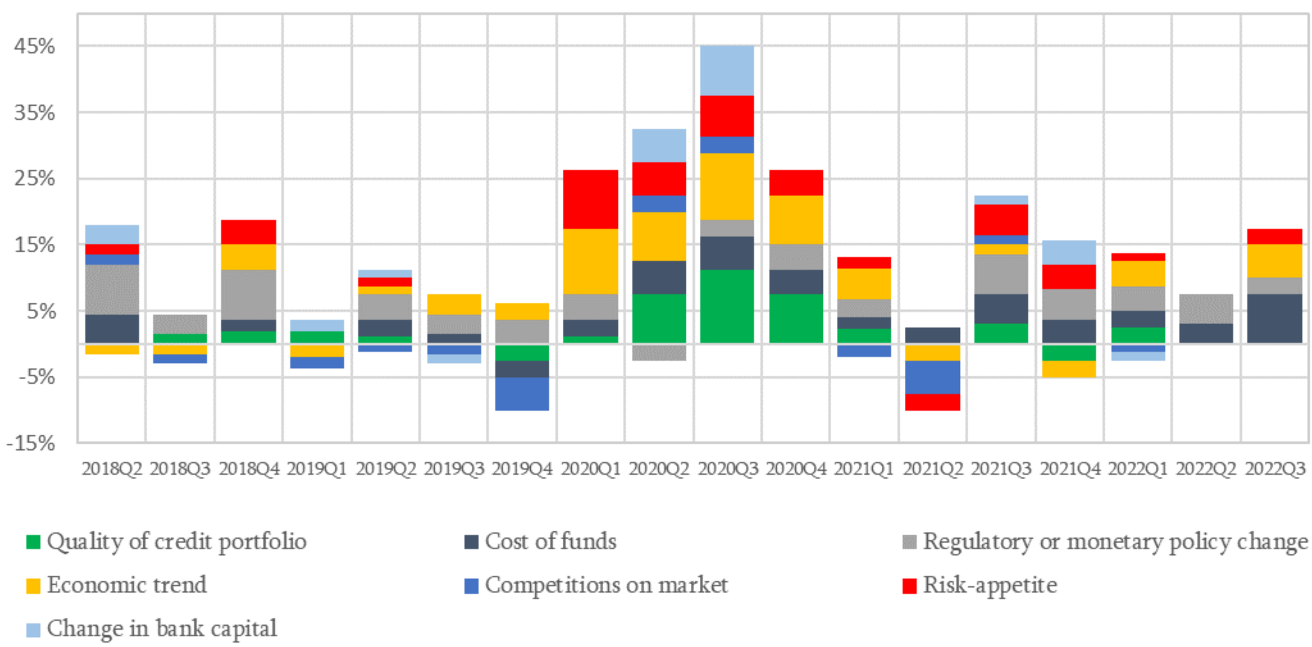
[1] The data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.

[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. 2022Q4* indicates the expectations over the fourth quarter of 2022 of representatives of the banking sector.

rate conditions, such as collateral requirements and loan maturity, did not change significantly (see Figure 3). Representatives of the banking sector do not expect significant changes in non-interest rate conditions in the next quarter. As for interest rate conditions, slight tightening was mainly driven by increases monetary policy rates by Federal Reserve Bank and European Central Bank. In particular, according to the data available to the National Bank, in September, relative to June, the interest rate on large business loans issued in national currency within the month decreased slightly and equaled to 14.4%. As for foreign currency loans, in September compared to June, the interest rate for euro-denominated corporate loans increased by 0.4 pp to 7.1%, while the interest rates on corporate loans issued in USD increased by 0.7 pp and equaled to 8.7%. For SME loans, the interest rates on national currency loans increased slightly and amounted to 14.6%. While for the SME loans issued in euro and USD, interest rates increased slightly and stood at 6.0% and 7.4%, respectively (see Figure 3). According to the credit conditions survey, interest rate conditions tightened for fixed interest rate loans issued in foreign currency as well. Representatives of the banking sector expect slight increase in interest rate conditions for business loans issued in foreign currency in the next quarter.

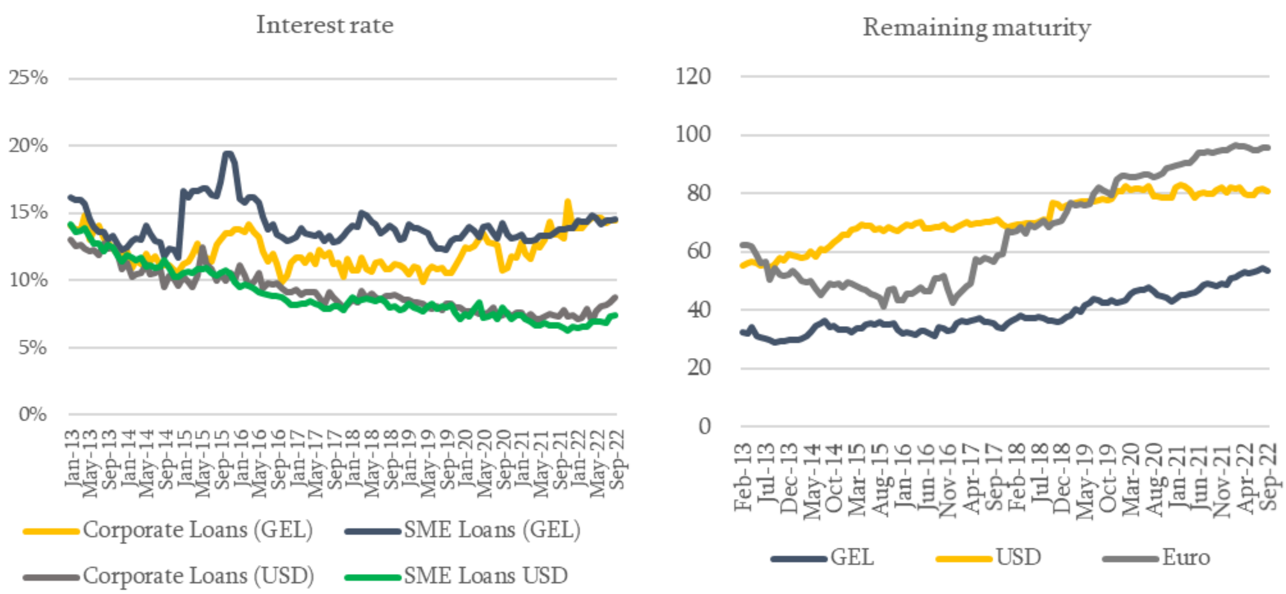
Figure 2. Factors affecting changes in the credit conditions for business loans[3]



Source: Credit conditions survey

[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]



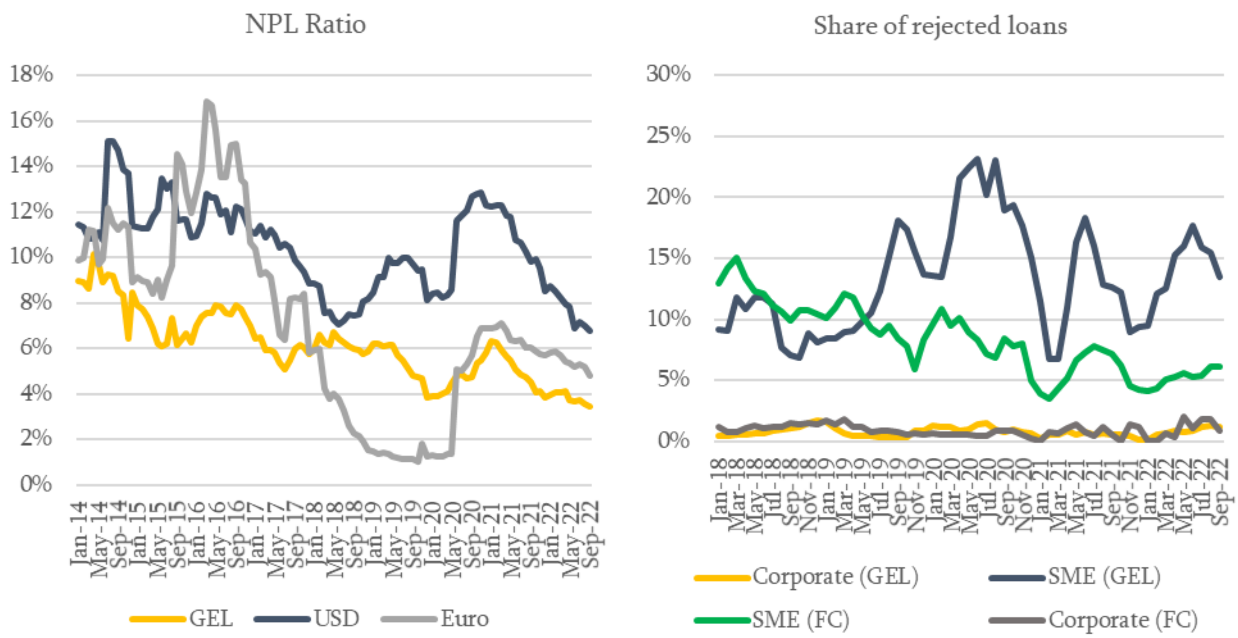
Source: NBG.

In the third quarter of 2022, 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 equaled to 5%. In terms of currencies, it is important to indicate that the share of NPLs in business loans issued in domestic currency decreased slightly and equaled to 3%, while the share of NPLs for loans issued in USD euro-denominated business loans stood at 7% and 5%, respectively (see Figure 4). According to the credit conditions survey, representatives of the banking sector do not expect significant change 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, 5% of the corporate loan portfolio benefit from a grace period on loan servicing, while same indicator for SME loan portfolio is close to 0%. Furthermore, it is important to note that the share of restructured business loans in the third quarter of 2022, compare to previous quarter, decreased by 1.1 pp and stood at 19.0%.

In the third quarter of 2022, compared to previous quarter, the share of rejected loans in large business loans did not change significantly, while for SME loans decreased slightly. In the third quarter, compared to the previous quarter, the share of rejected loans in large business loans did not change significantly and equaled to 1%. Whereas the share of rejected domestic currency loans in SME portfolio decreased and equaled to 13%, while for foreign currency loans it did not change significantly and stood at 6% (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

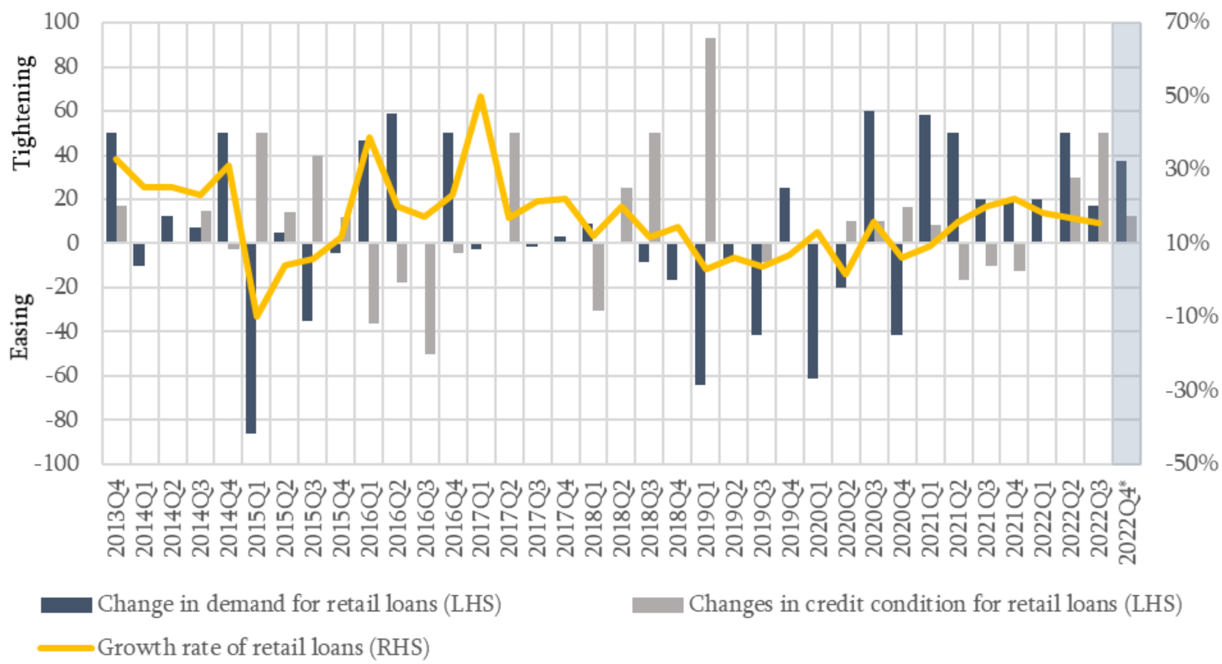


Source: NBG.

Credit conditions and trends for retail loans

According to the credit conditions survey, in the third quarter of 2022, compared to the previous quarter, demand for retail loans did not change significantly. In the next quarter, slight increase in demand for retail loans is expected. In particular, according to the data available to National Bank, in the third quarter, compared to second, the annualized growth rate[5] of retail loans equaled to 16% (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 third quarter foreign currency lending growth equaled to -0.1%. 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 third quarter of 2022, non-interest rate conditions for retail loans have tightened slightly. This tightening is largely due to changes in economic trends and regulatory adjustments. In particular, from 16th of August maturity of consumer loans decreased from four to three years[7], temporarily. According to the data available to the National Bank, in the third quarter of 2022, compared to the previous quarter, loan maturity for the loans denominated in national and foreign currency decreased. Additionally, loan-to-value (LTV) ratio decreased, while payment-to-income (PTI) ratio did not change significantly. Overall lending conditions tightened slightly (see Figure 7-8).

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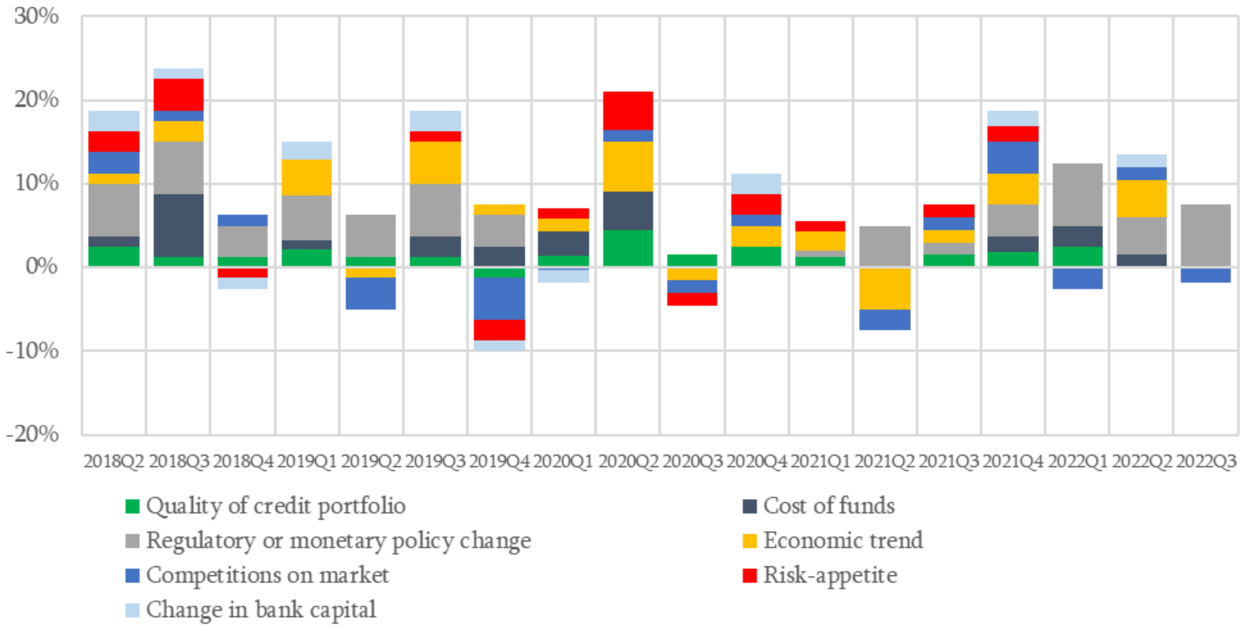
[5] This data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.

[6] See the second note of Figure 1.

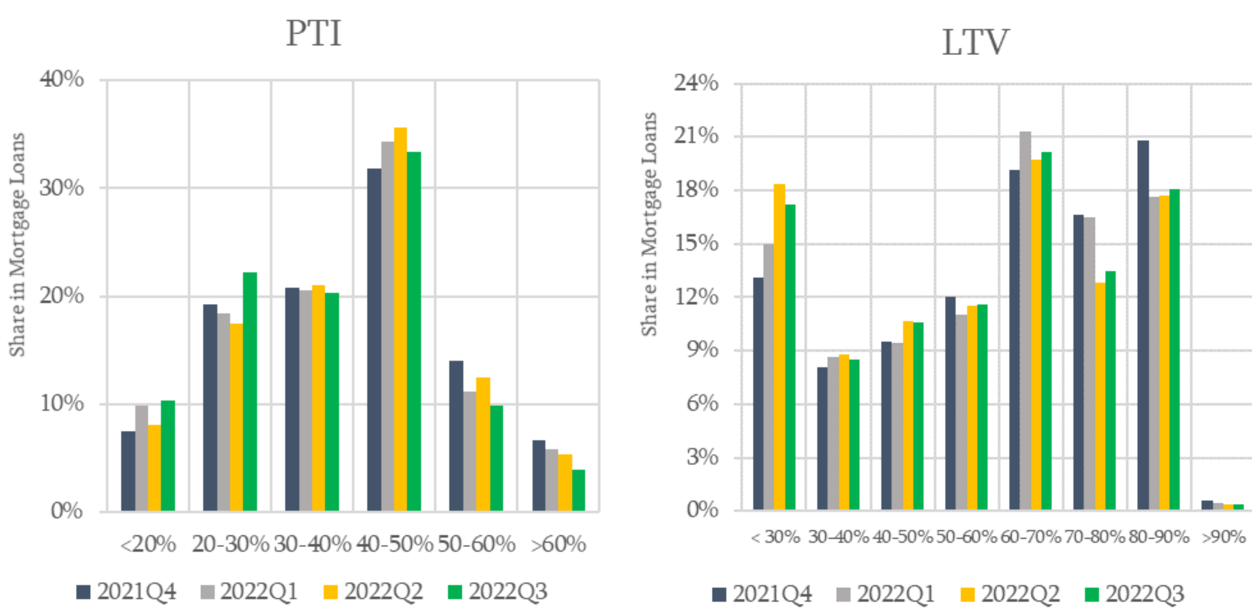
[7] https://nbg.gov.ge

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



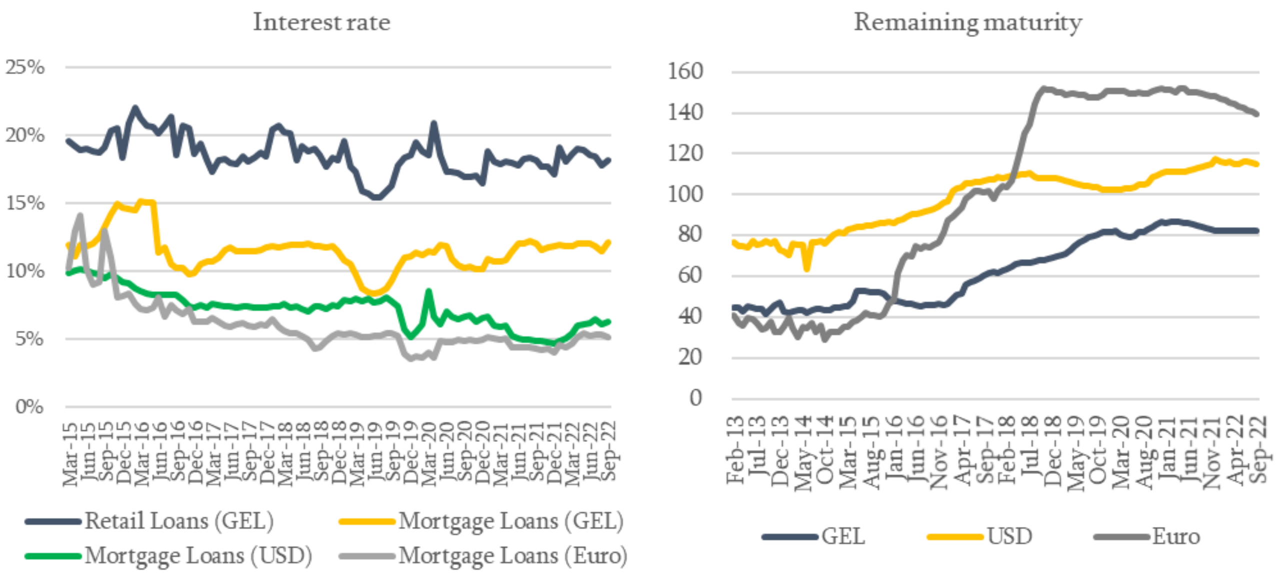
Source: NBG

Interest rates for retail loans issued in domestic and foreign currency increased slightly. In particular, in September relative to June, interest rates for consumer loans issued in domestic currency increased by 0.4

[8] See notes of Figure 2.

pp to 18%, while for mortgage loans did not change significantly and stood at 12%. Whereas for foreign currency dominated loans, interests rates for mortgage loans issued in USD increased by 0.1 pp to 6.3%, while for mortgages issued in euro did not change significantly and stood at 5.2% (see Figure 8). Respondents of the survey, expect slight tightening of interest rate conditions for consumer and mortgage loans, issued in domestic and foreign currency.

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



Source: NBG

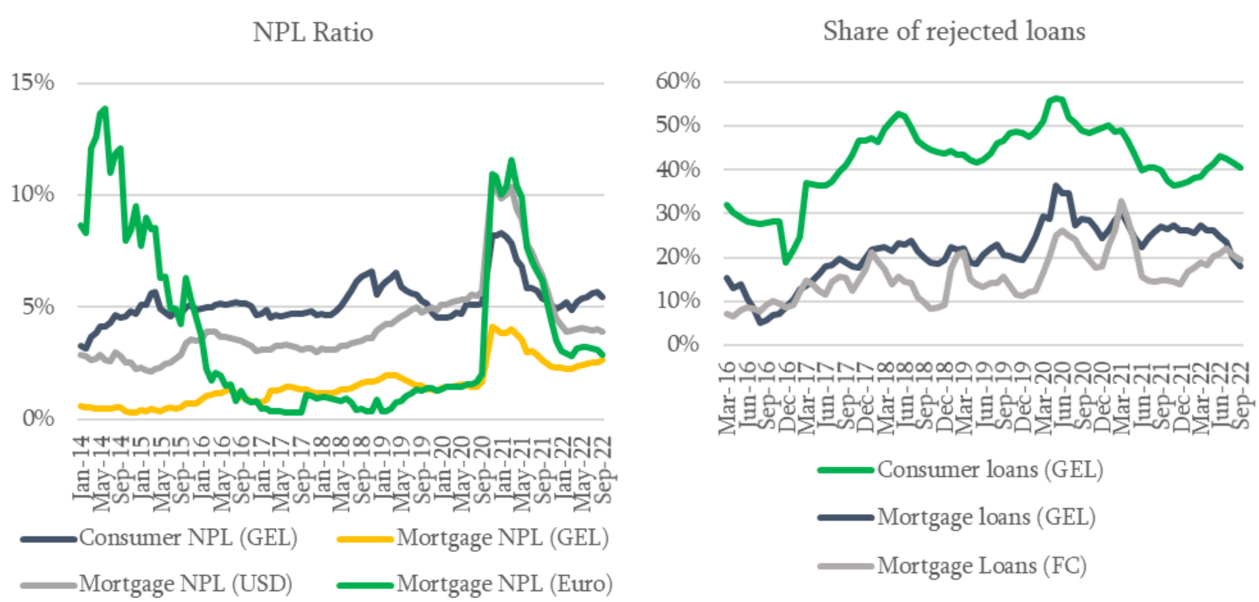
In the third quarter of 2022, compared to the previous quarter, the share of non-performing loans (NPL) did not change significantly. In particular, according to the data available to the National Bank, the share of NPLs in mortgage and consumer loans did not change significantly and equaled to 3% and 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%. Also for mortgages issued in national currency, in the third quarter of 2022, compared to the previous quarter, 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 the fourth quarter. It is important to note that according to the data available to the National Bank, in the third quarter of 2022, compared to the previous quarter, the share of restructured loans in retail loans decreased by 0.6 pp to 6.9%, which is 2.1 pp lower compared to third quarter of 2021. This reduction is largely a result of increase of a portfolio and improvement of economic conditions of households. This indicator, compare to

In the third quarter of 2022, the share of rejected loans in retail portfolio decreased. In particular, in the third quarter of 2022, compared to the previous quarter, the share of rejected loans in consumer loans

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

decreased and on average equaled to 41%. As for mortgage loans issued in domestic currency the share of rejected loans decreased to 18%, while for the loans issued in foreign currency increased to 19% (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 30/09/2022.

Additional questions may be addressed to Elene Ghviniashvili

E-mail: Elene.Gviniashvili@nbg.gov.ge   Telephone: (+995) 595 511 512

საქართველოს ეროვნული ბანკი
National Bank of Georgia

2, Sanapiro Str., Tbilisi 0114, Georgia

(995 32) 2 406 406

info@nbg.ge; www.NBG.ge