Credit Conditions Survey

II Quarter, 2023

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 include 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 for 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 the 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 value of -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 do not represent the expectations of the representatives of the National Bank of Georgia.

Credit Conditions Survey

Summary

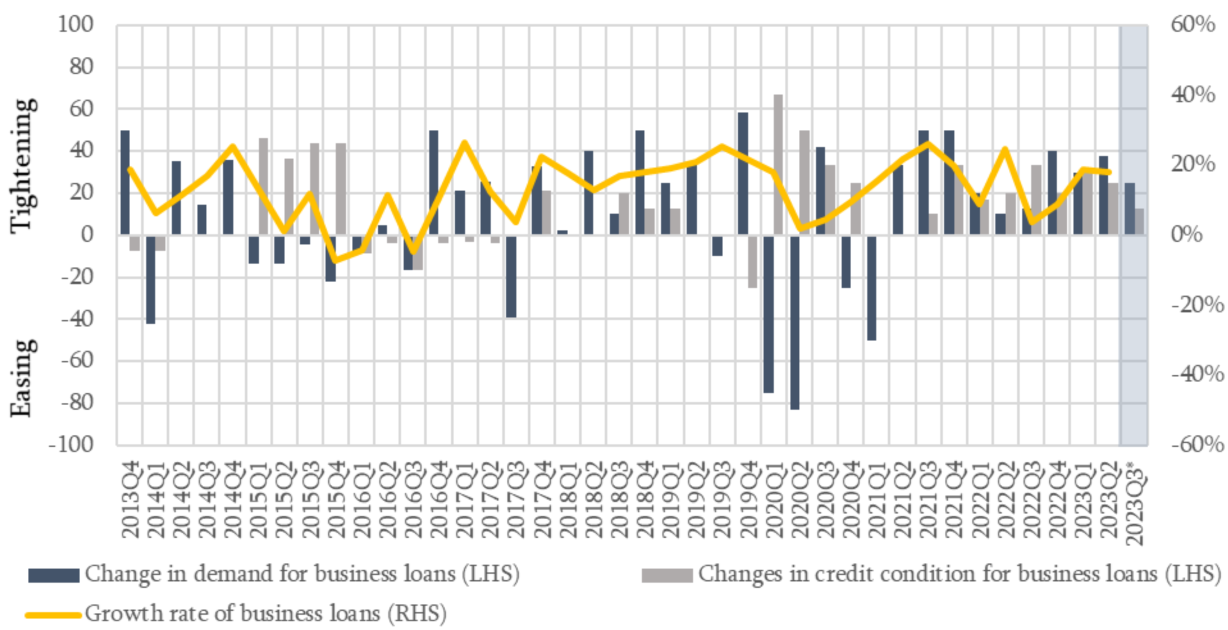
According to the credit conditions survey, in the second quarter of 2023, the demand for business loans increased slightly compared to the previous quarter. Representatives of the banking sector expect marginal increase in demand for business loans in the next quarter. In the same period, interest and non-interest rate conditions for SME loans issued in foreign currency have tightened slightly. Tightening of interest rate conditions was mainly driven by increase in cost of funds. In addition, tightening of monetary policy by Federal Reserve Bank and European Central Bank to some extent contributed to tightening of interest rate conditions. In the next quarter, representatives of the banking sector expect minor tightening of interest rate conditions for foreign currency loans, while non-interest rate conditions are not expected to change.

According to the credit conditions survey, in the second quarter of 2023, compared to the previous quarter, the demand for retail loans increased slightly. Representatives of the banking sector expect small increase in demand for retail loans in the next quarter. According to the survey, non-interest rate conditions for retail loans did not change significantly. Interest rate conditions did not change for domestic currency loans, while tightened slightly for foreign currency loans. Representatives of the banking sector do not expect significant changes in credit conditions in the next quarter.

Credit conditions and trends for business loans

According to the credit conditions survey, in the second quarter of 2023, compared to the previous quarter, the demand for business loans increased. Representatives of the banking sector expect slight increase in demand for business loans in the third quarter of 2023. According to the data available to the National Bank, in the second quarter of 2023, compared to previous quarter, the annualized growth rate[1] of business loan portfolio equaled to 18%. In terms of currencies, the growth of the corporate loan portfolio was mainly driven by foreign currency loans. From sectoral perspective, the growth of business loans was primarily driven by an increase in loans issued to construction, trade and service sectors. According to the survey, in the third quarter of 2023 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.

In the second quarter of 2023, compared to the previous quarter, credit conditions for foreign currency business loans tightened slightly, which was caused by an increase in cost of funds. Slight tightening in credit conditions was mainly driven by increase in cost of funds. However, it should be noted that the change in monetary policy had a positive effect on loosening of the lending conditions (see Figure 2). According to the data available to the National Bank, non-interest rate conditions, such as loan limits did

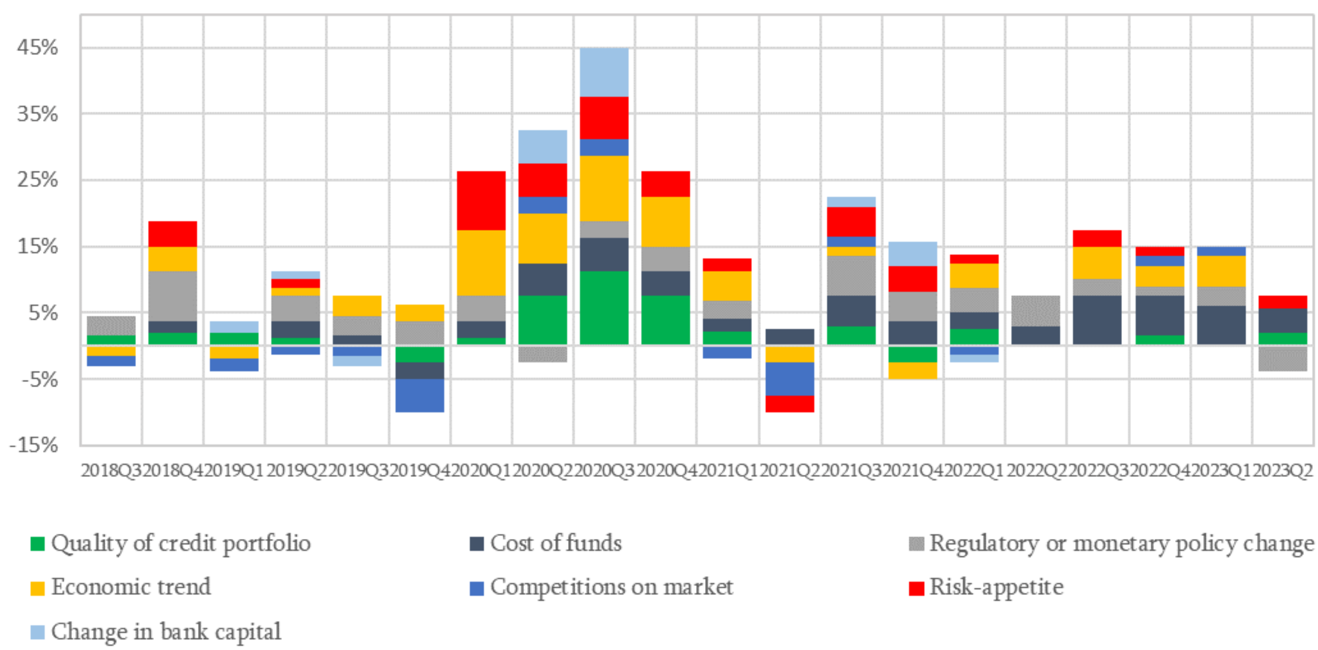
[1] The data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.

[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. 2023Q3* indicates the expectations over the third quarter of 2023 of representatives of the banking sector.

not change, while loan maturity decreased slightly (see Figure 3). Representatives of the banking sector do not expect significant changes in non-interest rate conditions in the next quarter.

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 declined by 0.44 pp and equaled to 14.1%. As for the foreign currency loans, in June, compared to March, the interest rate for corporate loans issued in euro did not change significantly and amounted to 7.4%, while interest rate for USD corporate loans increased slightly to 10.3%. For SME loans, the interest rates on national currency loans declined slightly and amounted to 14.4%. While for the SME loans issued in USD interest rate increased by 0.4 pp and equaled 8.7%. Moreover, for euro-denominated loans interest rate declined by 0.4 pp to 6.7% (see Figure 3). According to survey, interest rates for fixed interest rate loans issued in foreign currency increased slightly. Representatives of the banking sector expect small increase in interest rate conditions for business loans issued in foreign currency in the next quarter.

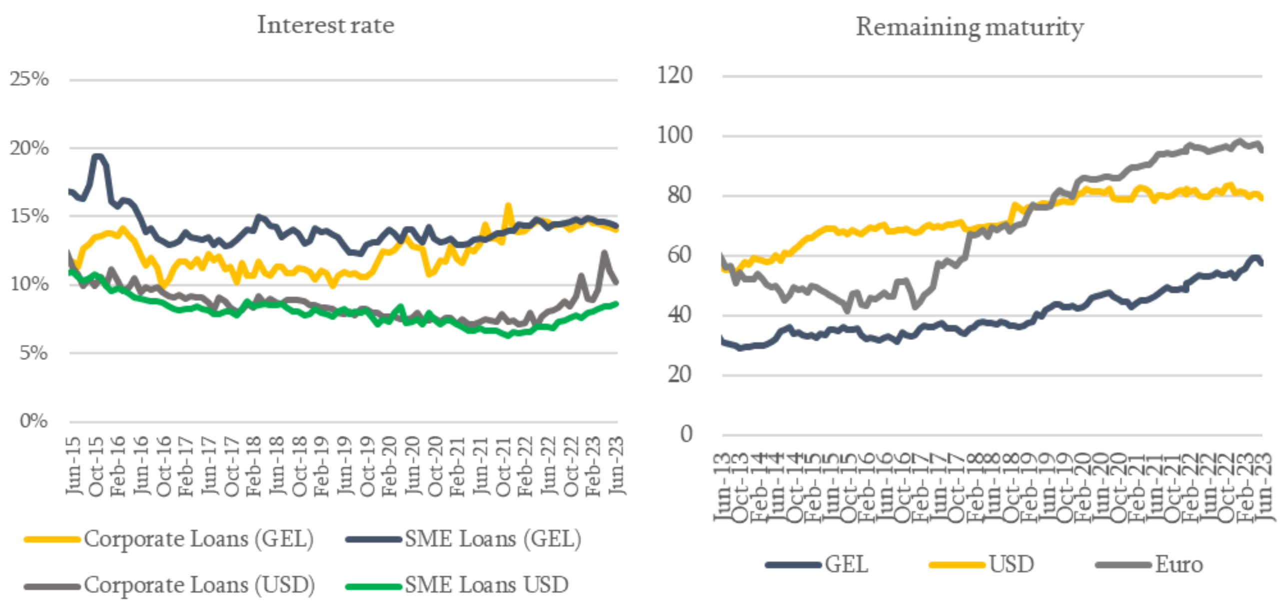
Figure 2. Factors affecting changes in the credit conditions for business loans [3]



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]



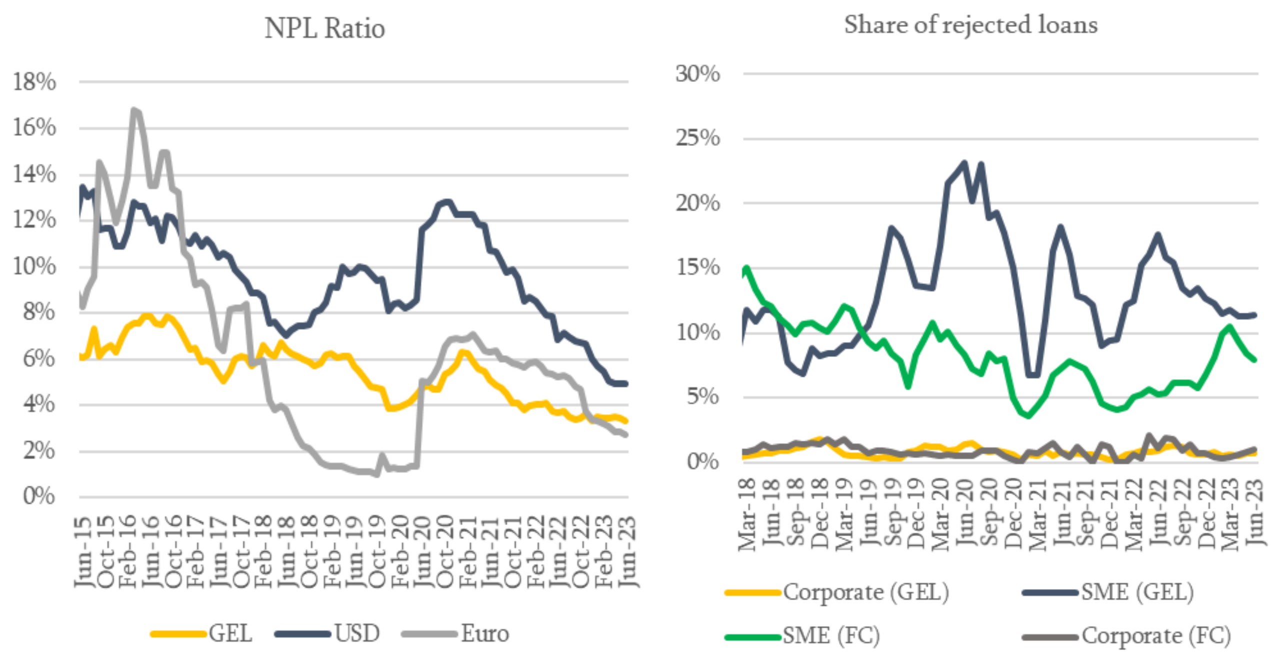
Source: NBG.

In the second quarter of 2023, the share of non-performing loans (NPL) in business loans decreased slightly. In the second quarter, compared to the previous quarter, the overall share of NPLs in business loans declined by 0.2 pp and amounted to 3.7%. In terms of currencies, it is important to indicate that the share of NPLs in business loans issued in national currency did not change significantly and stood at 3%, while the share of NPLs for loans issued in USD and in euro decreased slightly and equaled to 5% and 3%, respectively (see Figure 4). According to the credit conditions survey, representatives of the banking sector expect slight decrease of the share of NPLs in business loans in the next quarter. It is noteworthy that the share of restructured loans in the second quarter of 2023, compared to the previous quarter, decreased by 1.7 pp and reached 15.9%, which indicates the improvement of the quality of business loan portfolio.

In the second quarter of 2023, compared to the previous quarter, the share of rejected loans in SME loans issued in both national and foreign currencies decreased. In the second quarter, compared to the previous quarter, the share of rejected loans in SME loans issued in national currency decreased slightly and equaled 11.4%. While for foreign currency SME loans, the share of rejected loans declined by 2.6 pp to 8%. For corporate portfolio, the share of rejected loans issued in national currency did not change significantly, while, in foreign currency it increased by 0.6 pp and amounted to 1% (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

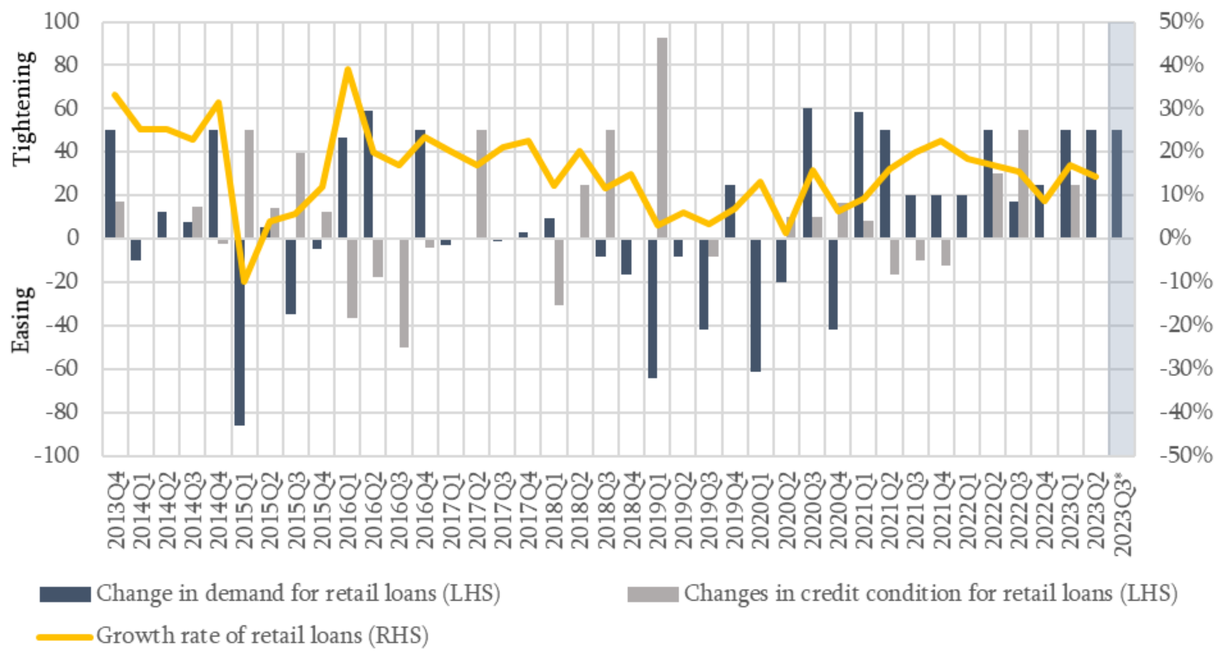


Source: NBG.

Credit conditions and trends for retail loans

According to the credit conditions survey, in the second quarter of 2023, 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 of Georgia, in the second quarter, compared to the previous quarter, the annualized growth rate[5] of retail loans equaled to 14.4% (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 equaled to 6.1%. Representatives of the banking sector expect a slight increase in demand for retail loans in the next quarter.

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

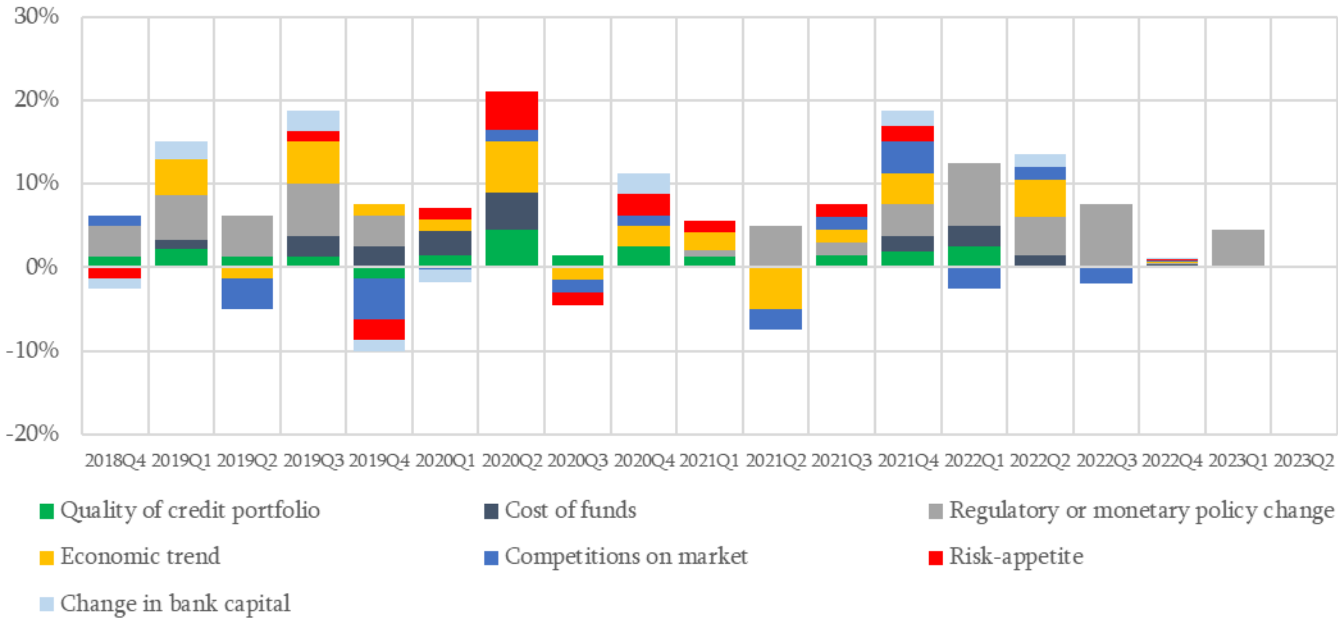


Source: Credit conditions Survey, NBG.

In the second quarter of 2023, non-interest rate conditions for retail loans did not change significantly. According to the data available to the National Bank, in the second quarter of 2023, compared to the previous quarter, loan maturity for mortgage loans denominated in both national and foreign currencies decreased slightly. In addition, the share of loans, for which the payment-to-income (PTI) ratio is above 50%, declined, while the distribution of loan-to-value ratio (LTV) did not change significantly. Overall change in lending conditions was insignificant (see Figures 6-8).

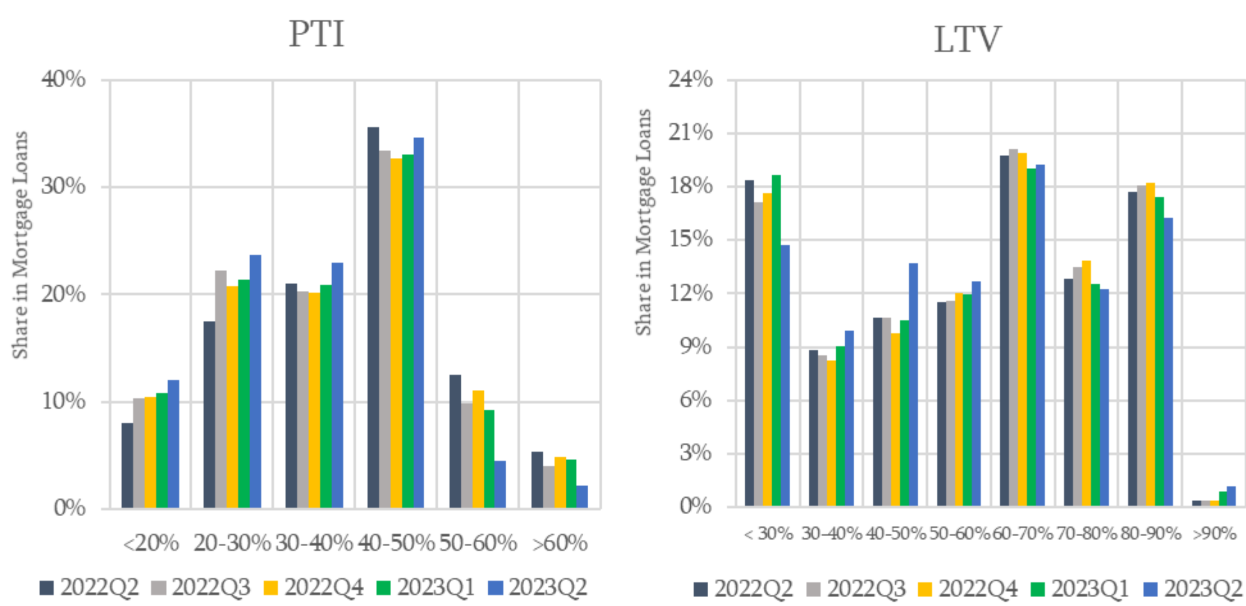
[5] This data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.
[6] For further details please refer to footnote 2.

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



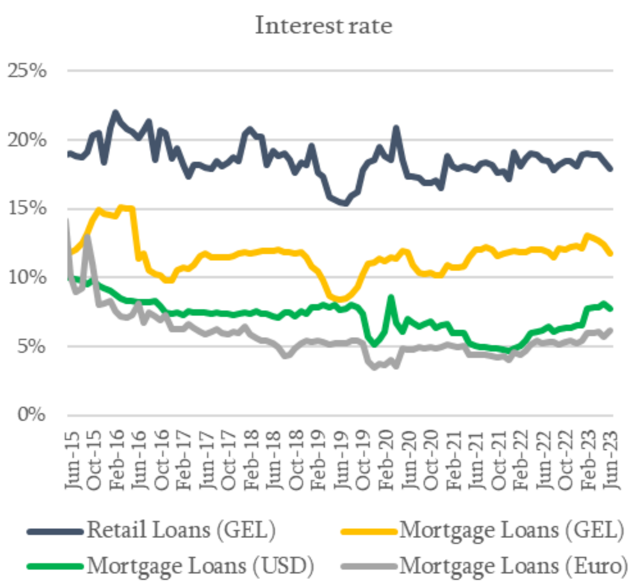
Source: NBG

Interest rates for retail loans declined in domestic currency and increased slightly in foreign currency. In particular, in June, compared to March, interest rates for both consumer and mortgage loans issued in

[7] See notes of Figure 2.

domestic currency decreased by 1 pp and amounted to 17.9% and 11.8%, respectively. Whereas for foreign currency dominated loans, interest rate for mortgage loans issued in USD did not change and equated to 7.8%, while for mortgages issued in euro interest rate increased slightly to 6.2% (see Figure 8). Respondents of the survey do not expect significant changes of interest rate conditions for retail loans issued in domestic and foreign currency.

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



Source: NBG

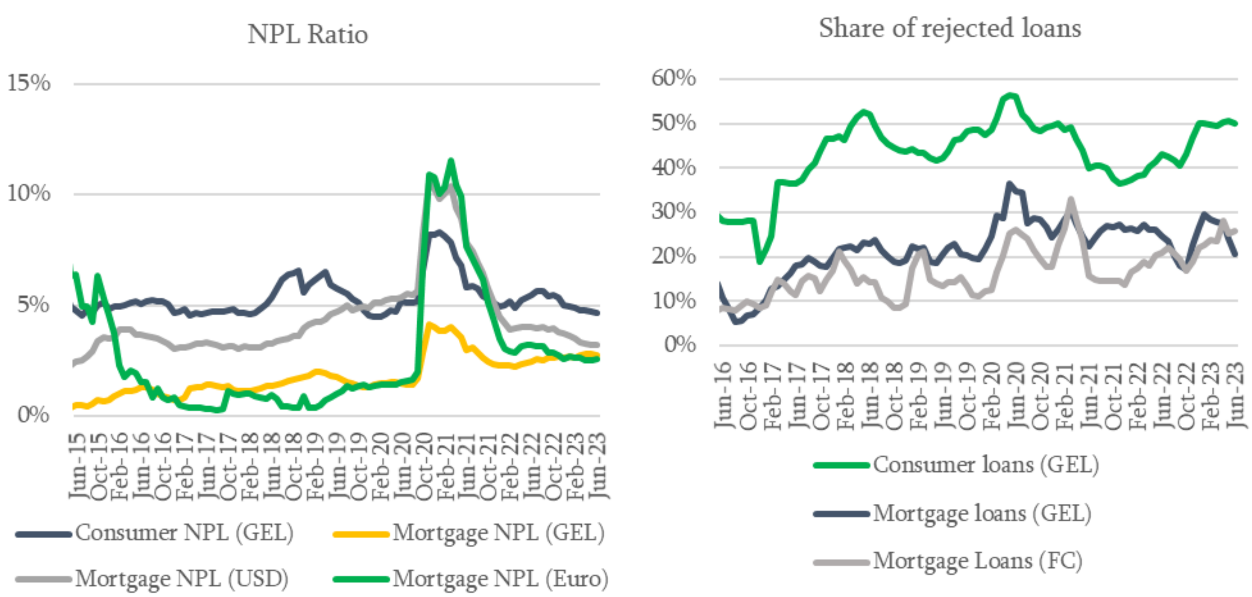
In the second quarter of 2023, compared to the previous quarter, the share of non-performing loans (NPL) did not change significantly. In particular, according to the data available to the National Bank, the share of NPLs in mortgage and consumer loans did not change significantly and equaled 3% and 5%, respectively. In terms of currencies, the share of NPLs in foreign currency mortgage loans remained stable. In particular, the share of NPLs in USD and euro-denominated mortgage loans declined slightly and equaled to 3%, while the share of NPLs in mortgage loans issued in GEL remained at 3% (see Figure 9). Representatives of the banking sector do not expect significant changes in the share of NPLs, in the third quarter of 2023. It is important to note that according to the data available to the National Bank, in the second quarter of 2023, compared to the previous quarter, the share of restructured loans in retail loans decreased by 0.6 pp and equaled 12.9%, which is 3 pp lower compared to the second quarter of 2022. This indicates improvement in quality of retail loan portfolio.

In the second quarter of 2023, the share of rejected loans in mortgage loans issued in national currency decreased. In particular, in the second quarter of 2023, compared to the previous quarter, the share of rejected loans in consumer loans did not change significantly and stood at 50%. Whereas for mortgage

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

loans issued in domestic currency the share of rejected loans decreased to 21%, while for the loans issued in foreign currency, it increased and reached 26% (see Figure 9).

Figure 9. Share of NPLs and Rejected loans in retail loans



Source: NBG

Disclaimer

The report was prepared by the Financial Stability Analysis and Macro-Financial Modeling 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 30/06/2023.

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