

Credit Conditions Survey

IV 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

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Summary

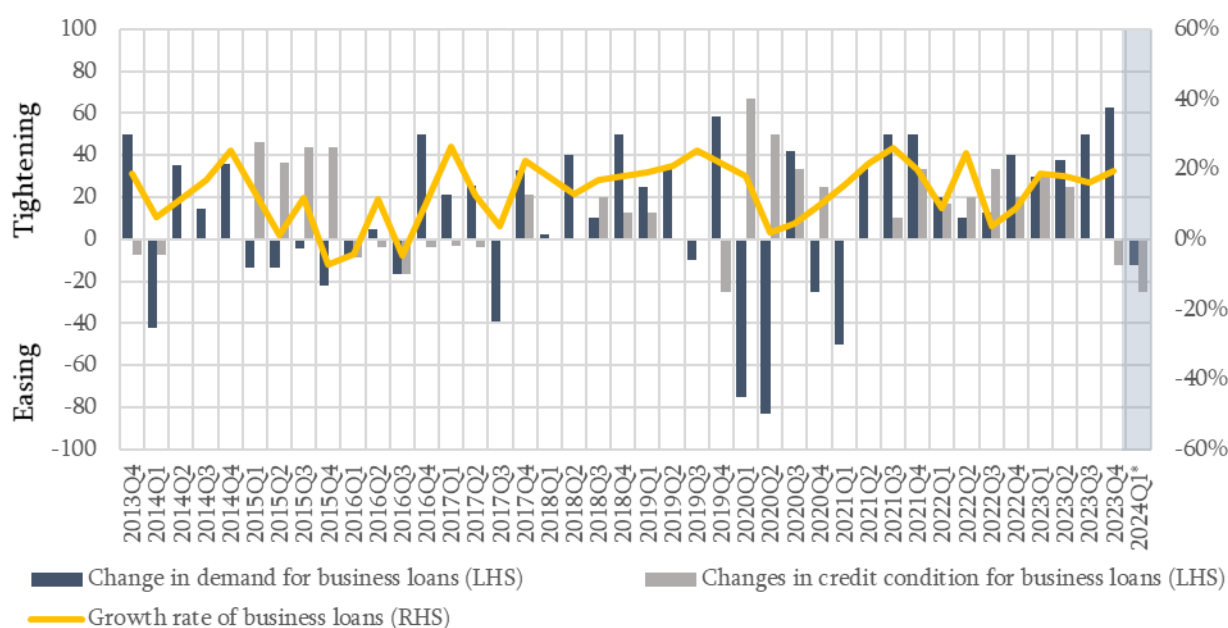
According to the credit conditions survey, in the fourth quarter of 2023, the demand for business loans increased compared to the previous quarter. Representatives of the banking sector expect marginal decrease in demand for business loans in the next quarter. According to the survey, credit conditions for business loans issued in domestic and foreign currency have loosened slightly. In the next quarter, representatives of the banking sector do not expect changes in interest rate conditions for foreign currency loans. However, they expect a slight decline in interest rates for domestic currency loans. The respondents do not anticipate significant changes in non-interest rate conditions in the next quarter.

According to the credit conditions survey, in the fourth quarter of 2023, the demand for retail loans increased slightly compared to the previous quarter. Representatives of the banking sector expect a small increase in demand for retail loans in the next quarter as well. According to the survey, non-interest rate conditions for retail loans did not change significantly. Non-interest rate conditions loosened slightly for consumer loans. Interest rate conditions have loosened slightly for domestic currency loans, while they have tightened slightly for foreign currency loans. Representatives of the banking sector expect a loosening of credit conditions in the next quarter.

Credit conditions and trends for business loans

According to the credit conditions survey, in the fourth quarter of 2023, the demand for business loans increased compared to the previous quarter. However, representatives of the banking sector expect marginal decline in demand for business loans in the next quarter. According to the data available to the National Bank, in the fourth quarter of 2023, compared to previous quarter, the annualized growth rate¹ of business loan portfolio equaled to 19.4%. The growth of the business loan portfolio was mainly driven by foreign currency loan growth. From sectoral perspective, the growth of business loans was primarily driven by an increase in loans issued to trade and construction. According to the survey, in the first quarter of 2024 a slight decline in demand for business loans is expected (see Figure 1).

Figure 1. Changes in demand for business loans and credit conditions²



Source: Credit conditions Survey, NBG.

In the fourth quarter of 2023, compared to the previous quarter, credit conditions for business loans issued in foreign and domestic currency have loosened slightly. Slight loosening in credit conditions was mainly driven by changes in regulatory policy (see Figure 2). According to the data available to the National Bank, non-interest rate conditions, such as demand for collateral loosened slightly, and loan maturity increased marginally (see Figure 3). Representatives of the banking sector do not expect significant changes in non-interest rate conditions. According to the data available to the National Bank, in December, compared to

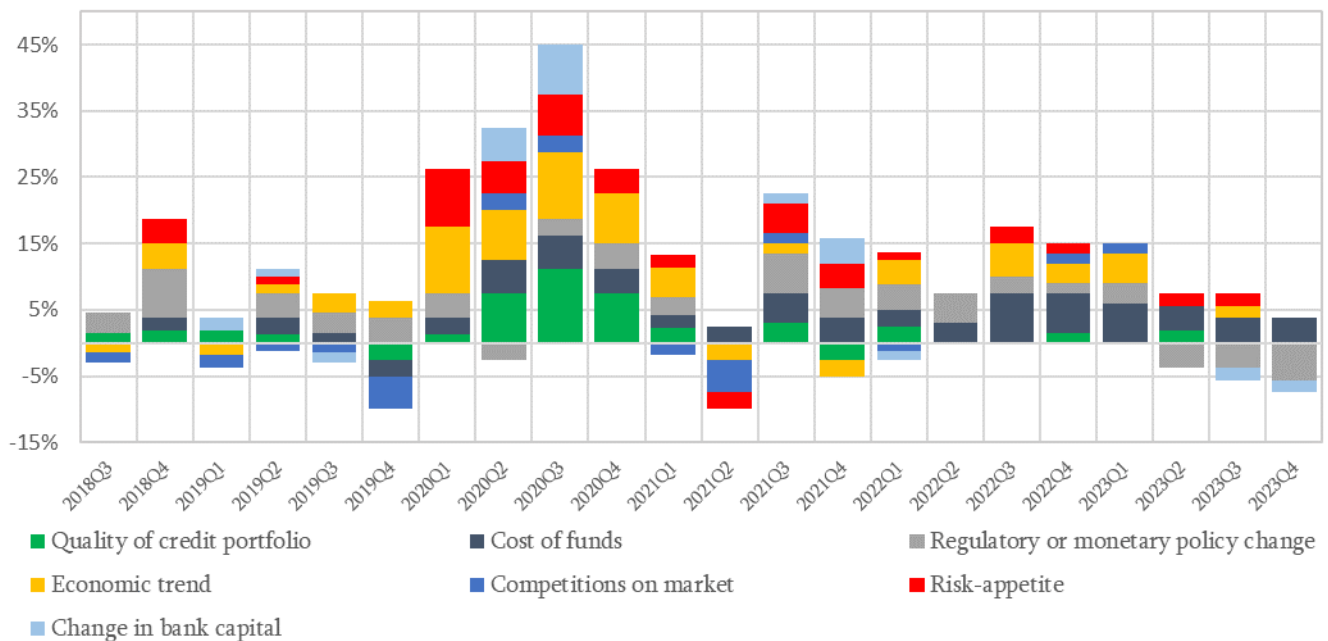
¹ The data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.

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. 2024Q1* indicates the expectations over the first quarter of 2024 of representatives of the banking sector.

September, the interest rate on large business loans issued in national currency within the month declined by 0.2 pp and equaled to 11.8%.

As for the foreign currency loans, in December, compared to September, the interest rate for corporate loans issued in foreign currency did not change significantly and equals to 8.7% and 8.9%, for Euro and USD corporate loans, respectively. For SME loans, the interest rates on national currency loans declined by 0.3 pp and amounted to 12.3%. For the SME loans issued in euro interest rate increased by 0.4 pp and equaled 7.3%. While, for USD-denominated loans interest rate declined slightly to 8.3% (see Figure 3). According to the survey, interest rates for fixed-rate loans issued in foreign currency increased slightly, while they declined for loans in domestic currency. Representatives of the banking sector do not expect changes in interest rate conditions for business loans issued in foreign currency in the next quarter. However, they expect a slight decline in interest rates for domestic currency loans.

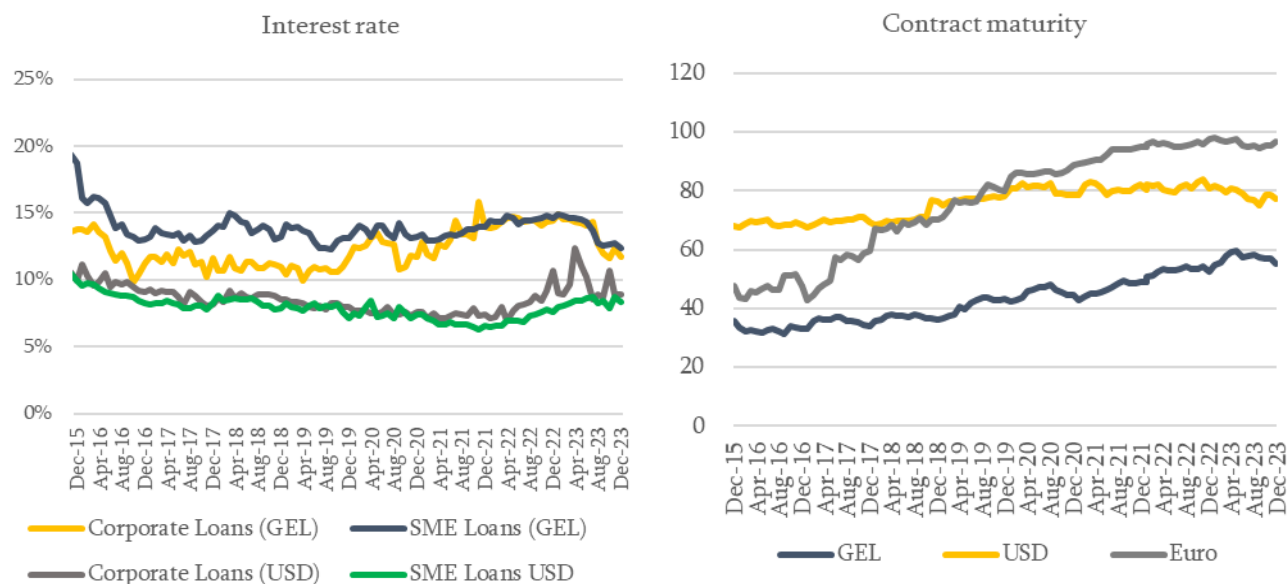
Figure 2. Factors affecting changes in the credit conditions for business loans ³



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 contract maturity for business loans⁴



Source: NBG.

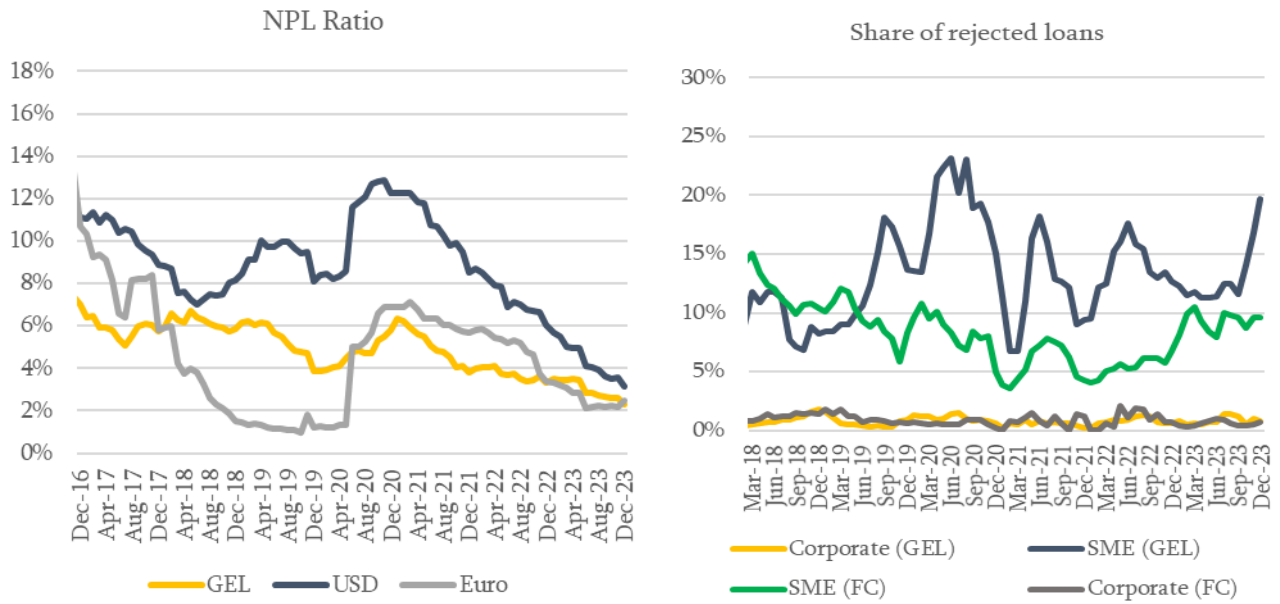
In the fourth quarter of 2023, the share of non-performing loans (NPL) in business loans decreased slightly.⁵ In the fourth quarter, compared to the previous quarter, the overall share of NPLs in business loans declined by 0.2 pp and amounted to 2.7%. In terms of currencies, it is important to indicate that the share of NPLs in business loans issued in national currency declined by 0.4 pp and amounted to 2.3%. The share of NPLs for loans issued in USD decreased by 0.4 pp and equaled to 3.2%. For euro-denominated loans NPLs increased by 0.3 pp and amounted to 2.5% (see Figure 4). According to the credit conditions survey, representatives of the banking sector do not expect to change the share of NPLs in business loans in the next quarter.

In the fourth quarter of 2023, the share of rejected loans in SME loans issued in the national currency increased compared to the previous quarter, while in foreign currency, it remained unchanged. In the fourth quarter, compared to the previous quarter, the share of rejected loans in SME loans issued in national currency increased by 8 pp and amounted to 20%. While for foreign currency SME loans, the share of rejected loans remained unchanged. For corporate portfolio, the share of rejected loans issued in national currency declined by 0.4 pp and amounted to 0.8%, while, in foreign currency it increased by 0.3 pp and amounted to 0.7% (see Figure 4).

⁴ Interest rates on SME and large business loan flows issued within a month.

⁵ Starting from June 2023, the third-quarter report includes credit quality indicators calculated using the IFRS-9 approach.

Figure 4. Share of NPL⁶ and Rejected loans in business loans



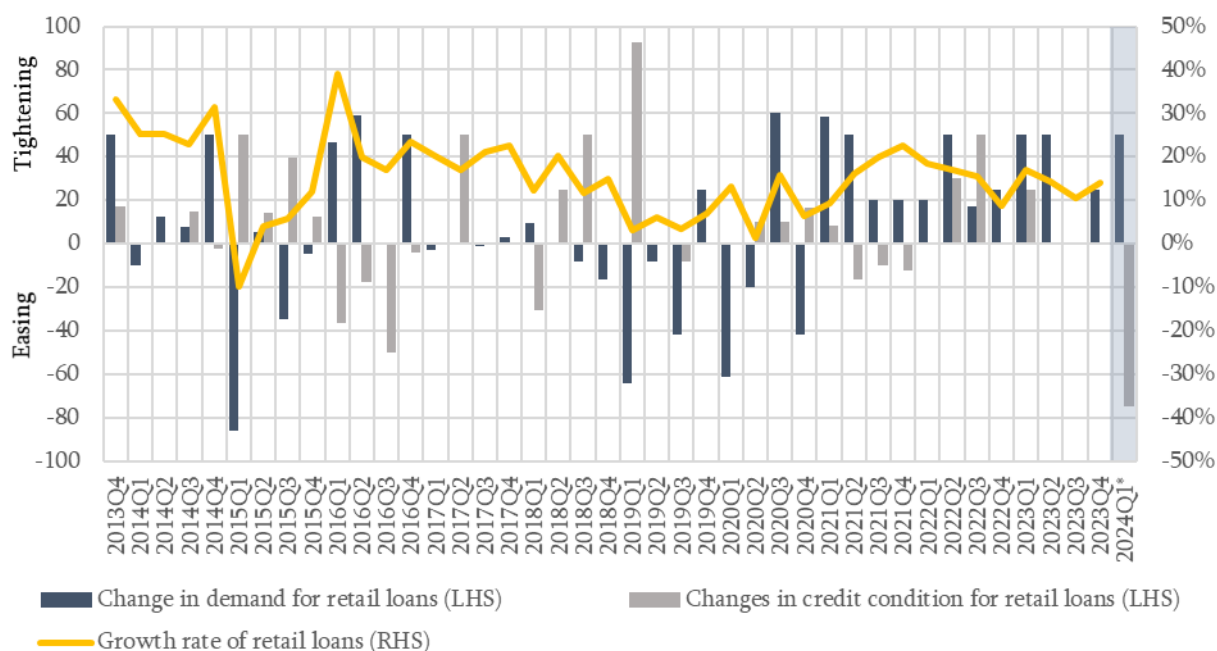
Source: NBG.

⁶ The graph displays NPL ratios calculated according to the NBG's methodology until June 2023, while data from June 2023 onwards reflects calculations based on the IFRS 9 methodology.

Credit conditions and trends for retail loans

According to the credit conditions survey, in the fourth 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 fourth quarter, compared to the previous quarter, the annualized growth rate⁷ of retail loans equaled to 13.9% (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 fourth quarter, annualized foreign currency lending growth equaled to -1%. Representatives of the banking sector expect increase in demand for retail loans in the next quarter.

Figure 5. Changes in demand for retail loans and credit conditions⁸



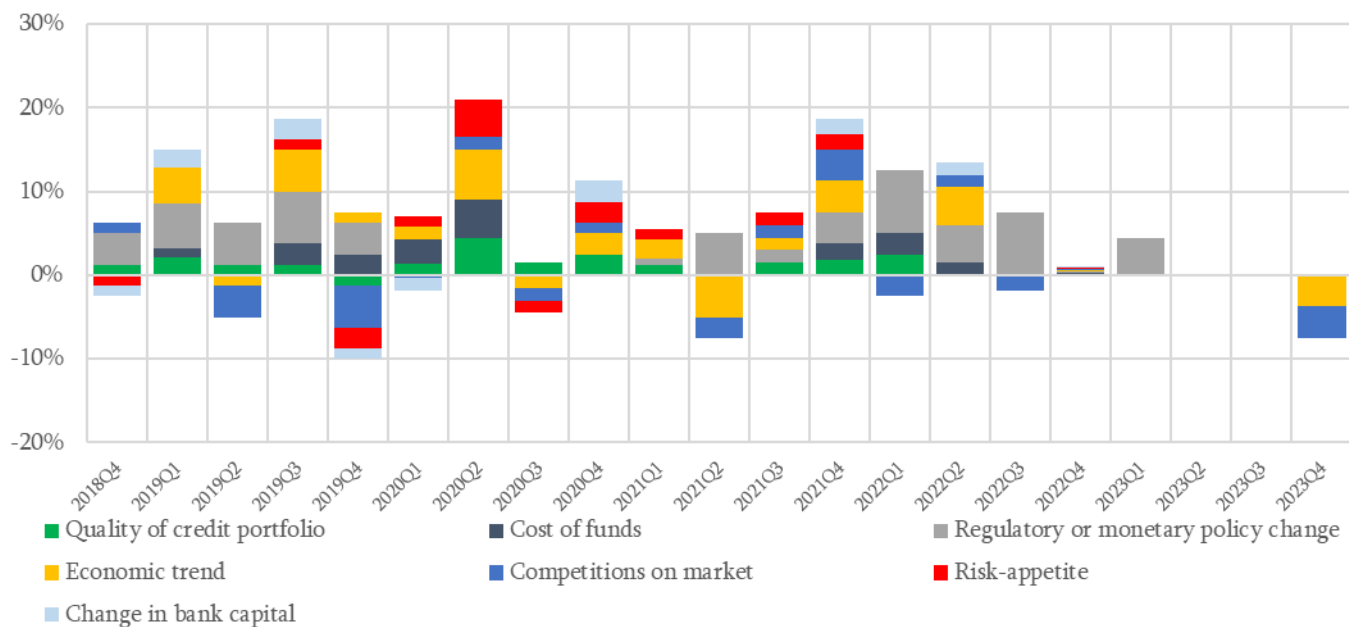
Source: Credit conditions Survey, NBG.

In the fourth quarter of 2023, non-interest rate conditions for retail loans did not change significantly, but they loosened slightly for consumer loans. According to the data available to the National Bank, in the fourth quarter of 2023, compared to the previous quarter, loan maturity for mortgage loans denominated in both national and foreign currencies decreased slightly. For the distribution of loan-to-value ratio (LTV), the share of loans, for which the LTV is above 60% declined. Overall change in lending conditions was insignificant (see Figures 6-8). It should be noted, that in the next quarter, the respondents expect slight loosening in credit conditions.

⁷ This data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.

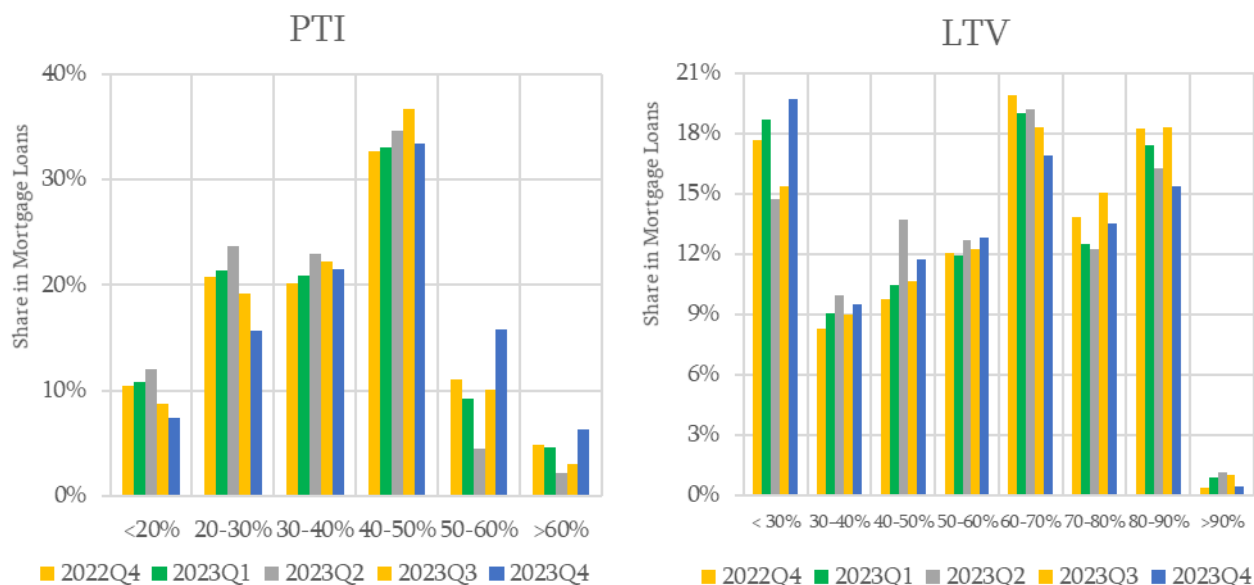
⁸ For further details please refer to footnote 2.

Figure 6. Factors affecting changes in the credit conditions for retail loans⁹



Source: Credit conditions Survey

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



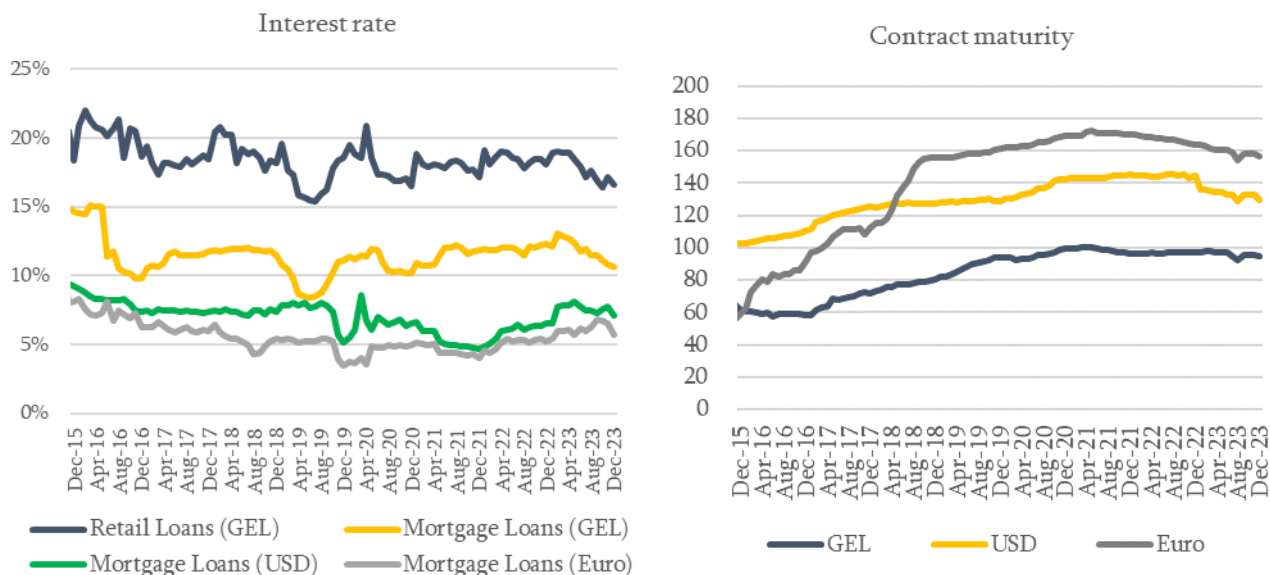
Source: NBG

Interest rates for retail loans declined in domestic currency. In particular, in December, compared to September, interest rates for consumer loans issued in domestic currency decreased by 0.3 pp and amounted to 16.6%. For mortgage loans issued in national currency interest rates declined by 0.8 pp and

⁹ See notes of Figure 2.

amounted to 10.7%. Whereas for foreign currency dominated loans, interest rate for mortgage loans issued in USD declined by 0.2 pp and equated to 7.2%, while for mortgages issued in euro interest rate declined by 1.1 pp and amounted to 5.7% (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 contract maturity for retail loans¹⁰



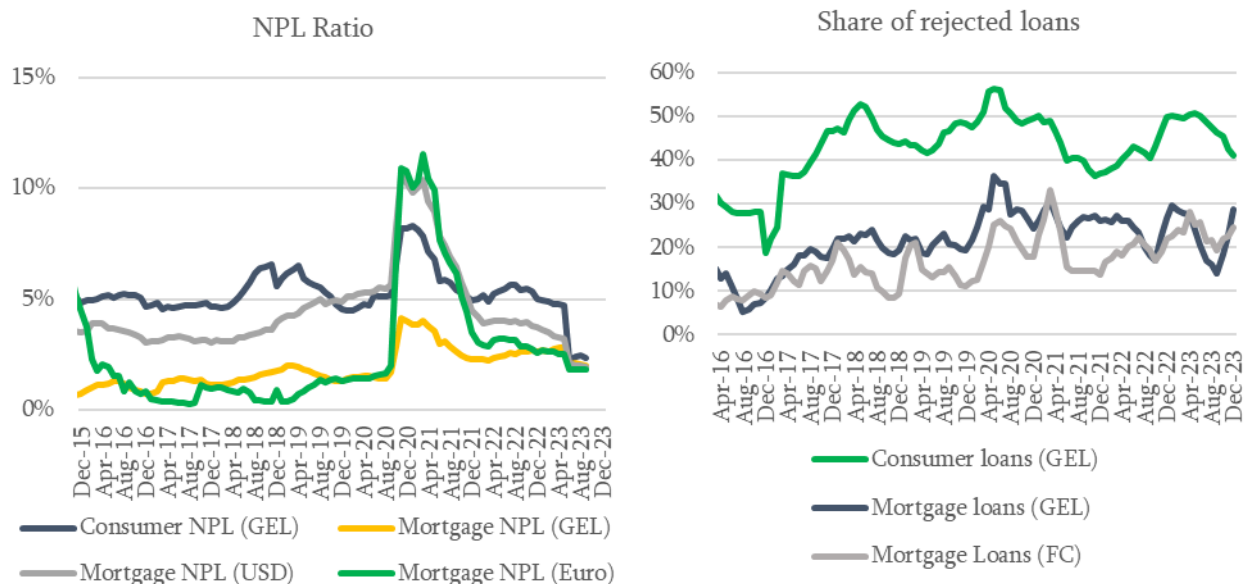
Source: NBG

In the fourth 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 2% and 2.4%, 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 1.9% and 1.7%, respectively. The share of NPLs in mortgage loans issued in GEL declined slightly to 2% (see Figure 9). Representatives of the banking sector do not expect significant changes in the share of NPLs, in the first quarter of 2024. In the fourth quarter of 2023, compared to the previous quarter, the share of restructured loans in retail loans did not change significantly.

In the fourth quarter of 2023, the share of total rejected loans in those issued in the national currency decreased, while it increased in mortgage loans. In particular, in the fourth quarter of 2023, compared to the previous quarter, the share of rejected loans in consumer loans declined to 41%. Whereas for mortgage loans issued in domestic currency the share of rejected loans increased by 15 pp to 29%, while for the loans issued in foreign currency, it increased by 6 pp and amounted to 25% (see Figure 9).

¹⁰ Interest rates on retail loan flows issued within a month.

Figure 9. Share of NPLs¹¹ and Rejected loans in retail loans



Source: NBG

¹¹ The graph displays NPL ratios calculated according to the NBG’s methodology until June 2023, while data from June 2023 onwards reflects calculations based on the IFRS 9 methodology.

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 31/12/2023.

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