Credit Conditions Survey

II Quarter, 2024

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

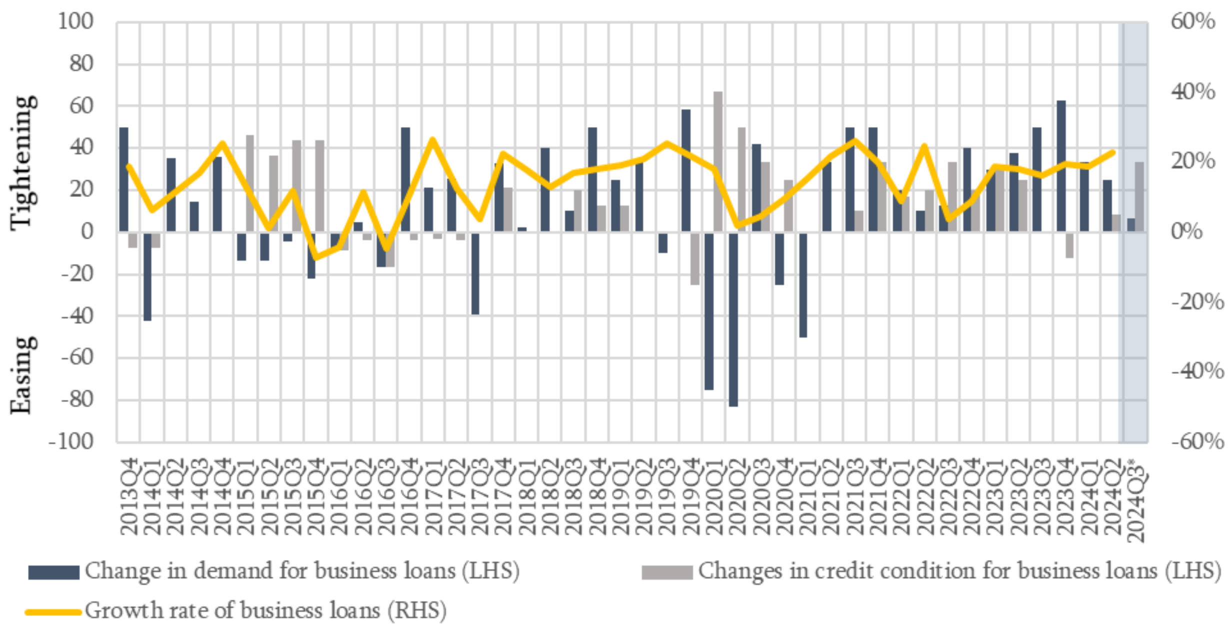
According to the credit conditions survey, in the second quarter of 2024, the demand for business loans increased compared to the previous quarter. Representatives of the banking sector also anticipate a marginal increase in demand for business loans in the next quarter. According to the survey, in the second quarter of 2024, credit conditions for business loans issued in foreign currency have slightly tightened compared to the previous quarter. Representatives of the banking sector expect a modest tightening in credit conditions in the next quarter. Besides, the representatives of the banking sector expect interest rates to decline for loans issued in domestic currency, while expecting an increase in interest rates for foreign currency loans in the next quarter.

According to the credit conditions survey, in the second quarter of 2024, compared to the previous quarter, demand for retail loans increased slightly. In the next quarter, a marginal increase in demand for retail loans is also expected. According to the survey, in the second quarter of 2024, credit conditions for retail loans loosened slightly and the respondents anticipate marginal loosening in the next quarter also. In addition, the respondents to the survey expect a slight increase in interest rates for mortgage 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 2024, the demand for business loans increased compared to the previous quarter. Representatives of the banking sector also anticipate a marginal increase in demand for business loans in the next quarter. According to the data available to the National Bank, in the second quarter of 2024, compared to previous quarter, the annualized growth rate[1] of business loan portfolio increased and equaled to 22.8%. 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 third quarter of 2024 a marginal 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.

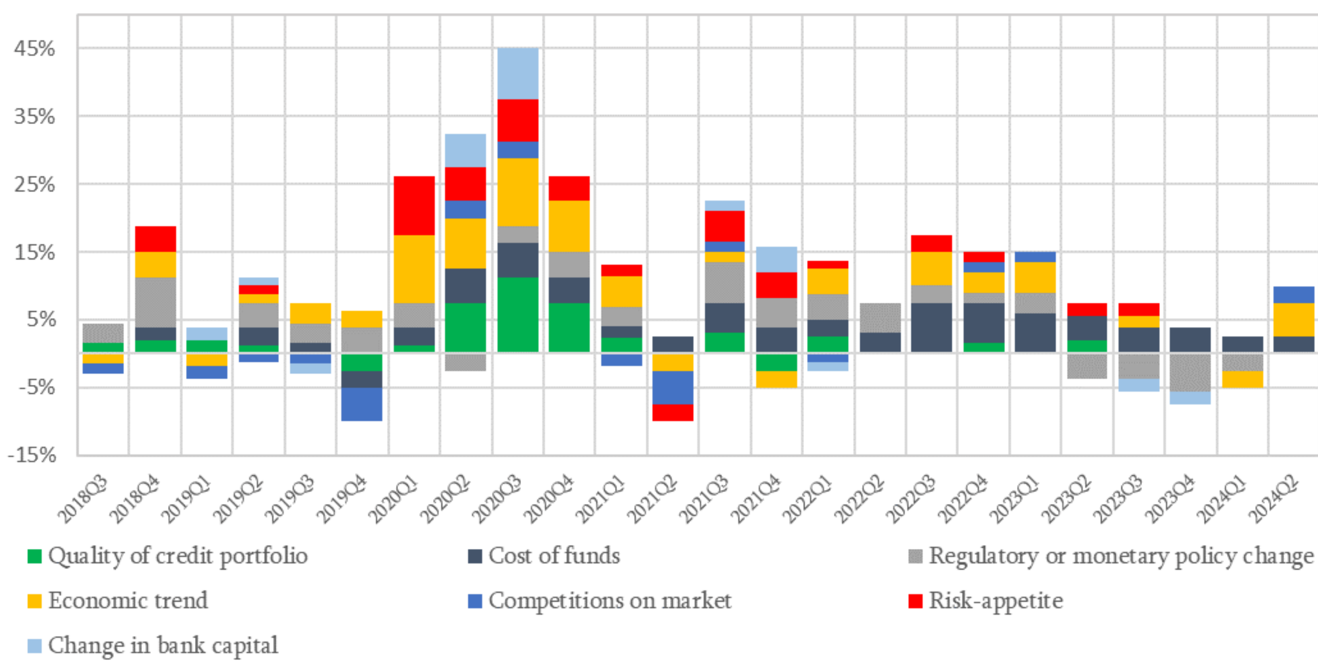
In the second quarter of 2024, credit conditions for business loans issued in foreign currency have slightly tightened compared to the previous quarter. This slight tightening was primarily driven by changes in economic trends (see Figure 2). According to the data available to the National Bank, while the maturity for loans issued in GEL and euro increased slightly, loans issued in USD saw a slight decline in maturity (see Figure 3). Representatives of the banking sector expect a modest tightening in credit conditions.

[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. 2024Q3* indicates the expectations over the third quarter of 2024 of representatives of the banking sector.

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 0.2 pp to 11.6%.[3] As for the foreign currency loans, in June, compared to March, the interest rate for corporate loans issued in euro increased by 0.3 pp to 8.9%, while for loans issued in USD it increased by 0.1 pp to 9.5%. For SME loans, the interest rates on national currency loans declined to 12.5%. For the SME loans issued in euro interest rate increased by 0.3 pp and equaled 7.3%. While, for USD-denominated loans, interest rate increased by 0.4 pp to 8.8% (see Figure 3). According to the survey, interest rates for fixed-rate loans issued in foreign currency did not change, while it declined slightly for loans issued in domestic currency. Representatives of the banking sector expect interest rates to decline for loans issued in domestic currency, while expecting an increase in interest rates for foreign currency loans in the next quarter.

Figure 2. Factors affecting changes in the credit conditions for business loans[4]

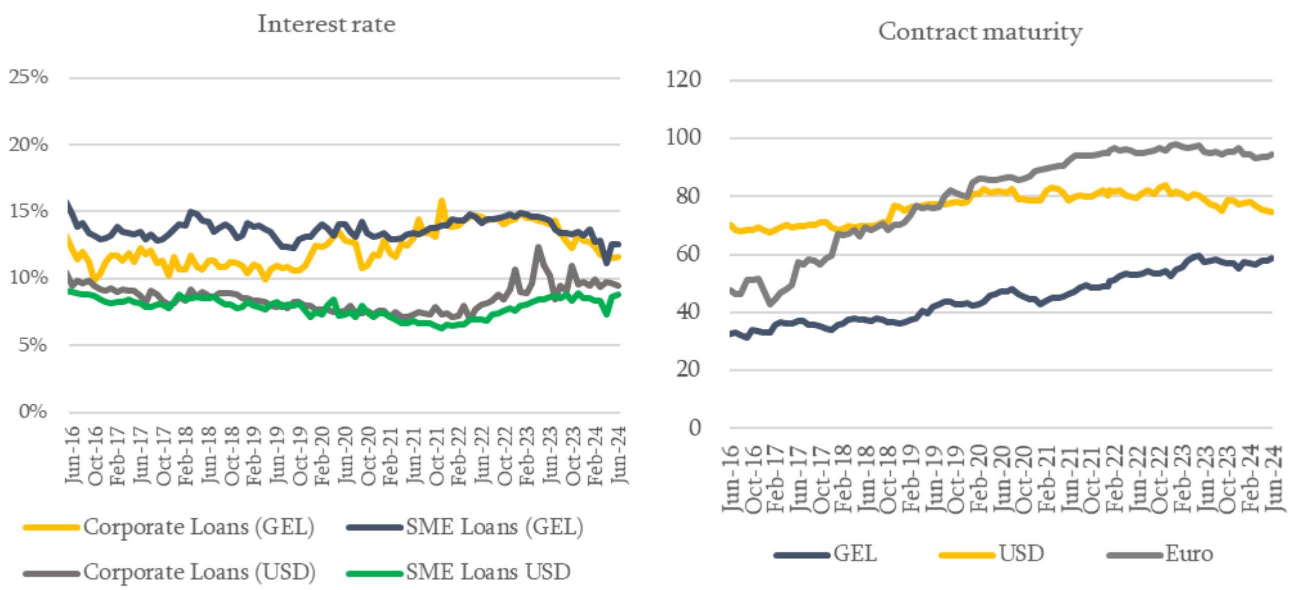


Source: Credit conditions survey

[3] Due to the transition to the new IFRS forms, the data on interest rates have been clarified.

[4] 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 loans[5]



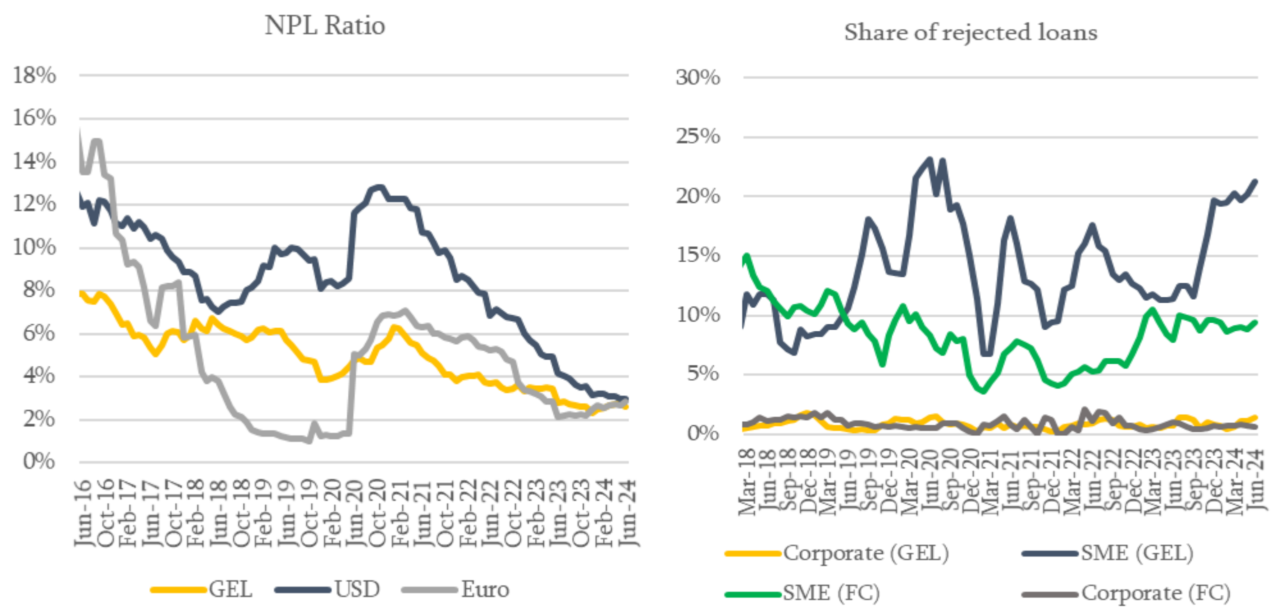
Source: NBG.

In the second quarter of 2024, compared to the previous quarter, the share of non-performing loans (NPL) in business loans did not change.[6] In the second quarter, compared to the previous quarter, the overall share of NPLs in business loans did not change and amounted to 2.8%. In terms of currencies, the share of NPLs in business loans issued in national currency declined by 0.1 pp and amounted to 2.6%. The share of NPLs for loans issued in USD decreased by 0.1 pp and equaled to 3.0%. For euro-denominated loans NPLs increased by 0.2 pp and amounted to 2.9% (see Figure 4). According to the credit conditions survey, representatives of the banking sector do not expect any change in the share of NPLs in business loans in the next quarter.

In the second quarter of 2024, the share of rejected loans increased slightly. In the second quarter, compared to the previous quarter, the share of rejected loans in SME loans issued in national currency increased marginally and amounted to 21%. While for foreign currency SME loans, it remained near 9%. For corporate portfolio, the share of rejected loans issued in national currency increased by 0.7 pp and amounted to 1.3%, while, in foreign currency it declined to 0.6% (see Figure 4).

[5] Interest rates on SME and large business loan flows issued within a month.
[6] Starting from June 2023, the third-quarter report includes credit quality indicators calculated using the IFRS-9 approach.

Figure 4. Share of NPL[7] and Rejected loans in business loans



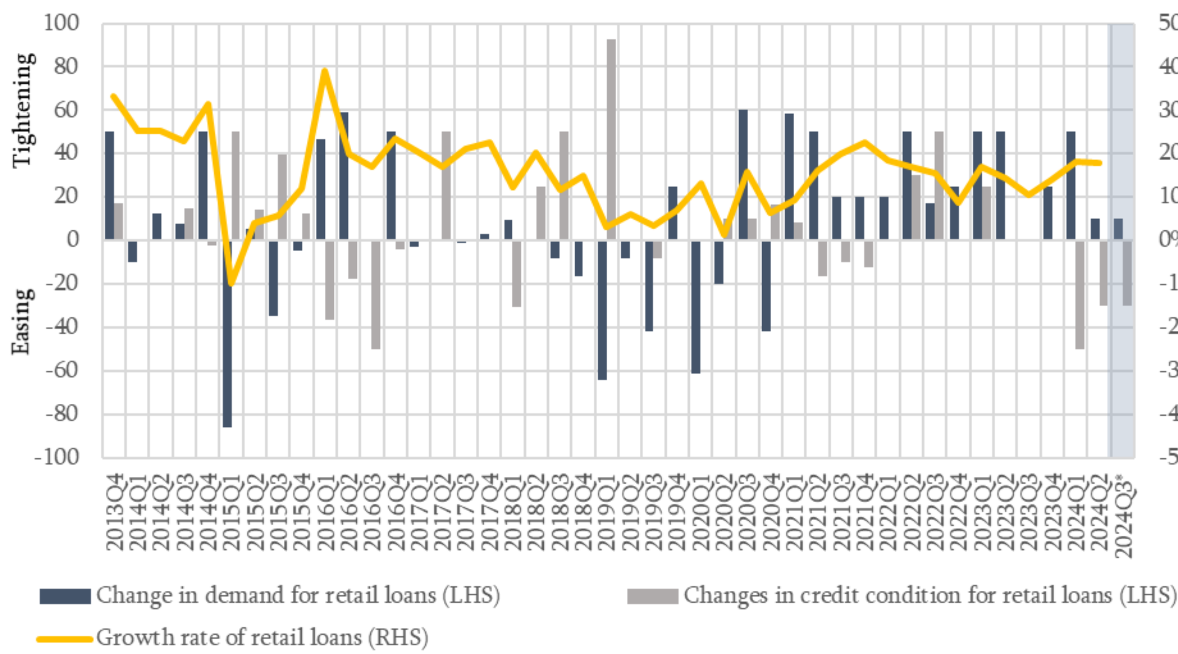
Source: NBG.

[7] 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 second quarter of 2024, compared to the previous quarter, demand for retail loans increased slightly. In the next quarter, a marginal increase in demand for retail loans is also 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[8] of retail loans declined and amounted to 17.9% (see Figure 5). In terms of currencies, the growth of retail loan portfolio was mainly driven by domestic currency loans. 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 [9]



Source: Credit conditions Survey, NBG.

In the second quarter of 2024, credit conditions for retail loans loosened slightly. Based on the results of the survey, a marginal decline in credit conditions was due to changes in regulatory policy and increased competition in the market. According to the data available to the National Bank, in the second quarter of 2024, loan maturity for mortgage loans did not change significantly compared to the previous quarter. Additionally, according to the distribution of loan-to-value ratio (LTV), the share of loans for which LTV is less than 40% increased, compared to the previous quarter. Similar trend was observed in the PTI distribution. However, respondents noted slight loosening in credit conditions (see Figures 6-8) and anticipate marginal loosening in the next quarter also.

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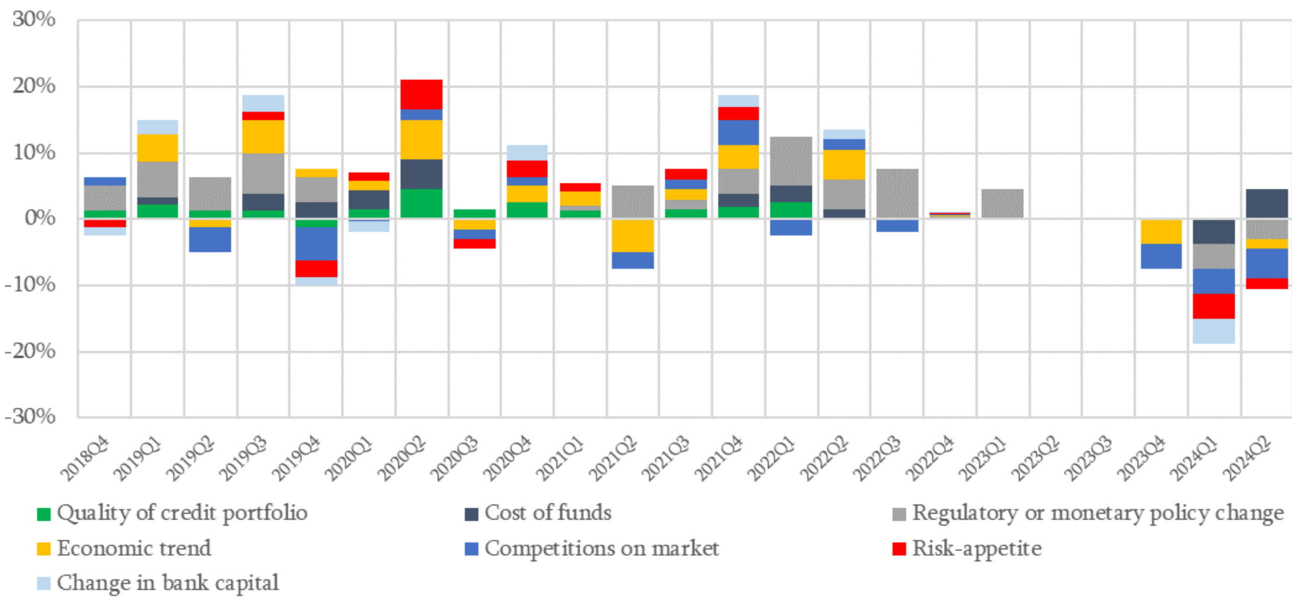
[8] This data reflects the annualized growth of seasonally adjusted loans, excluding the exchange rate effect.

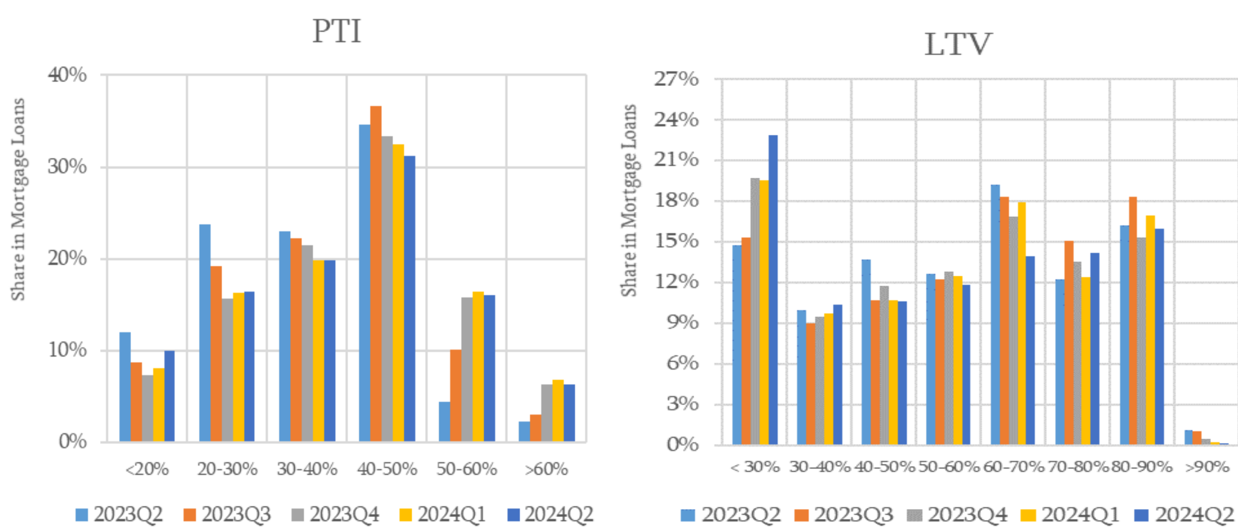
[9] For further details please refer to footnote 2.

Figure 6. Factors affecting changes in the credit conditions for retail loans [10]



Source: Credit conditions Survey

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

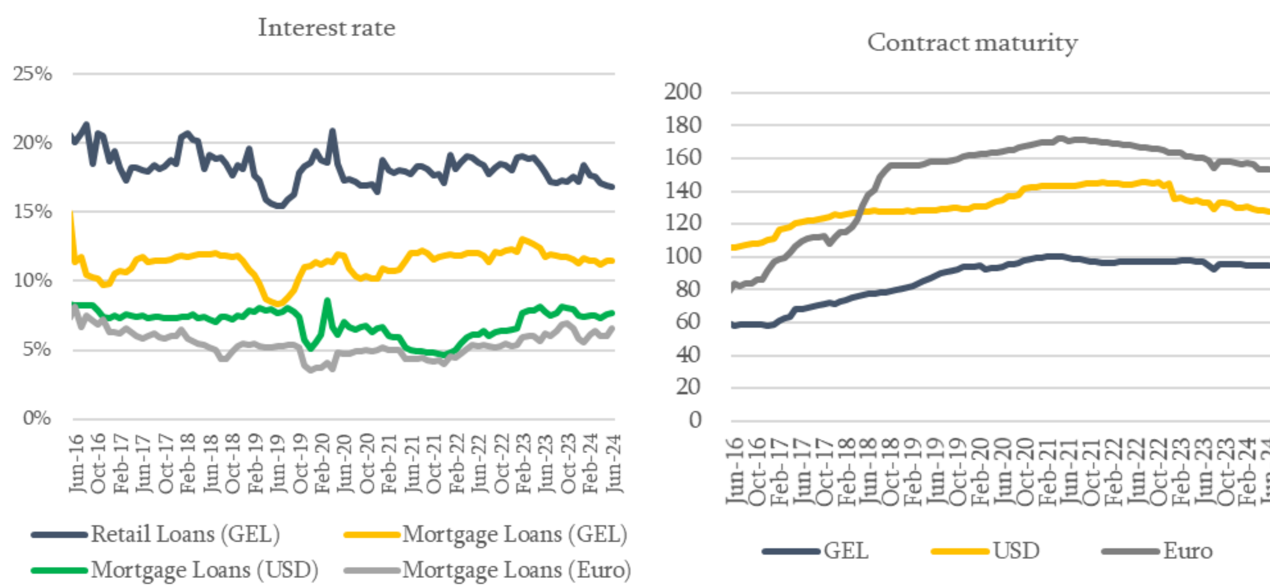


Source: NBG

[10] See notes of Figure 2.

Interest rates for retail loans issued in domestic currency declined, while those for loans issued in foreign currency increased slightly.[11] In particular, in June, compared to March, interest rates for consumer loans issued in domestic currency declined to 16.8%. For mortgage loans issued in national currency interest rates remain near 11.5%. Whereas for foreign currency dominated loans, interest rate for mortgage loans issued in USD increased by 0.2 pp and equals to 7.7%, while for mortgages issued in euro interest rate remains near 6.6% (see Figure 8). Respondents to the survey anticipate a slight increase in interest rates for mortgage loans issued in foreign currency in the next quarter.

Figure 8. Interest rates and contract maturity for retail loans[12]



Source: NBG

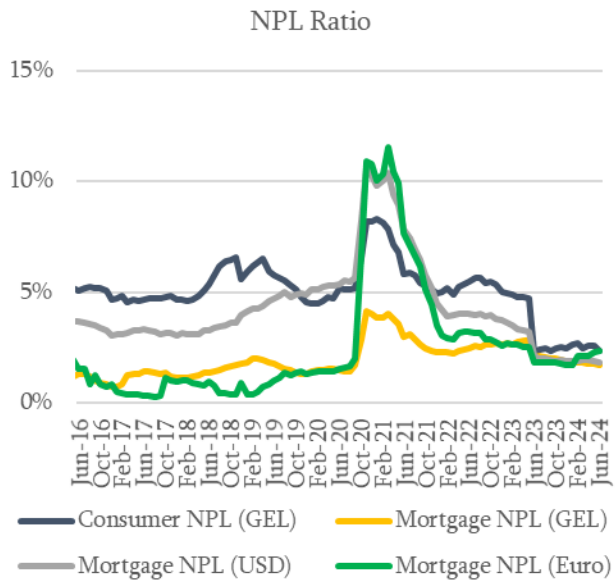
In the second quarter of 2024, compared to the previous quarter, the share of non-performing loans (NPL) declined slightly. In particular, according to the data available to the National Bank, the share of NPLs in mortgage and consumer loans declined moderately to 1.8% and 2.3%, respectively. In terms of currencies, the share of NPLs in euro-denominated mortgage loans increased slightly to 2.4%, while in USD it declined to 1.8%. The share of NPLs in mortgage loans issued in GEL declined to 1.7% (see Figure 9). Representatives of the banking sector expect moderate increase in NPL ratio for consumer loans in the third quarter of 2024.

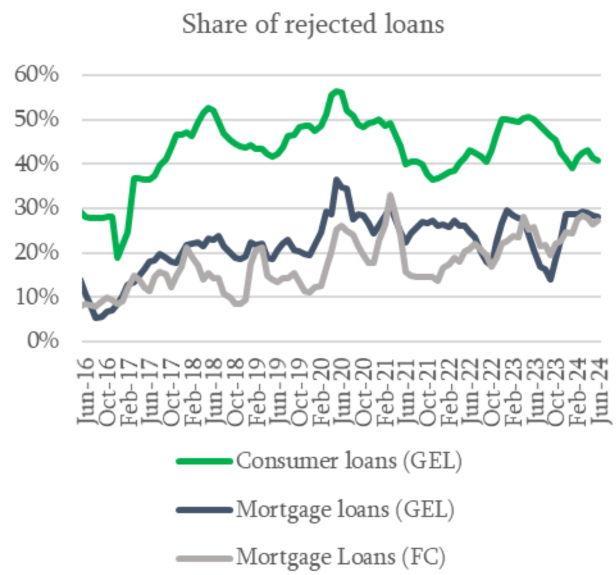
In the second quarter of 2024, the share of rejected loans declined. In the second quarter of 2024, the share of rejected consumer loans issued in domestic currency decreased to 41% compared to the previous quarter. Meanwhile, for mortgage loans issued in domestic and foreign currency, the share of rejected loans declined to 28% and 27%, respectively (See Figure 9).

[11] Due to the transition to the new IFRS forms, the data on interest rates have been clarified.

[12] Interest rates on retail loan flows issued within a month.

Figure 9. Share of NPLs[13] and Rejected loans in retail loans





Source: NBG

[13] 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 29/06/2024.

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