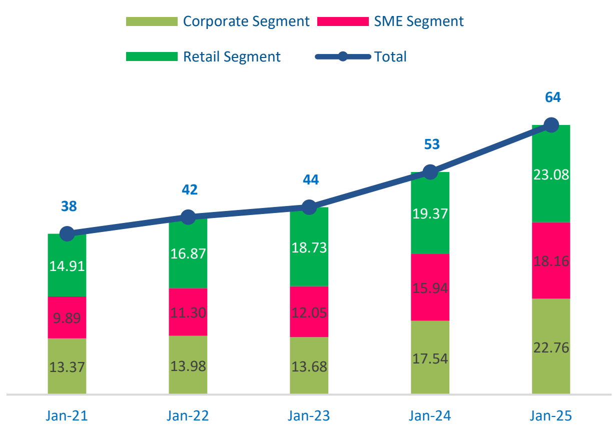
BasisBank Research

Banking Sector Review

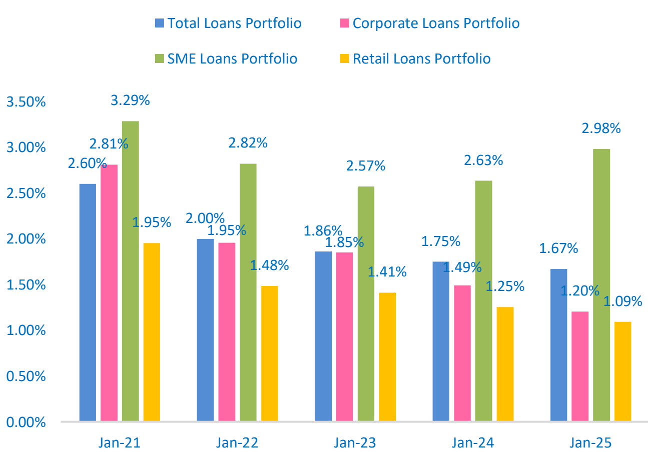
January 2025

March 4, 2025

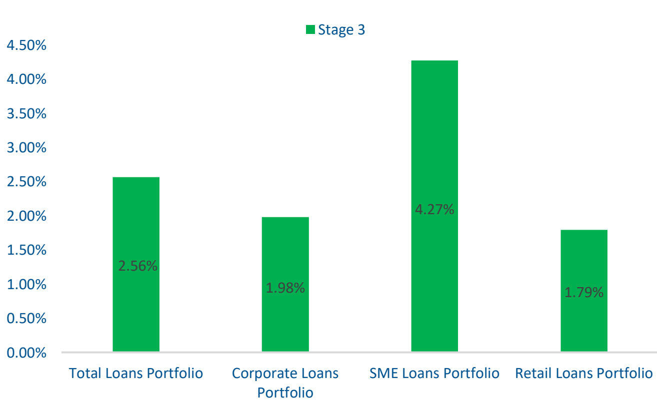
Total Loans Portfolio of the Banking System (billion GEL)



90 and More Overdue Loans Ratio



Quality of Loans Portfolio; January 2025



Financial Sector Overview

Due to the macroprudential and microprudential measures adopted by the National Bank of Georgia (NBG), Georgian financial sector remains resilient and continues smooth lending to the economy. However, stability risks arising from the external sector remain significant.

Georgian economy is characterized by a high level of dollarization and a current account deficit, as well as a significant dependence on international financial inflows. This makes the financial system vulnerable to global economic and financial developments.

Global risks remain tilted to the downside despite the possibility of some upside surprises. Escalating geopolitical tensions could lead to volatile commodity prices, while further trade fragmentations might lead to additional disruptions to trade networks. The persistence of inflation could lead to delays in monetary easing, while a higher-for-longer path for interest rates might dampen global activity.

In Georgia, inflation remains below the target level of 3%. After hitting 13.9% at the beginning of 2022, the inflation gradually decreased and as of January 2025, the annual inflation amounted to 2%. Domestic inflation amounted to 2.3%. Service inflation, which is the main component of domestic inflation, was also at 2.3%. Meanwhile, imported inflation, primarily due to the impact of fuel prices (-0.3 pp), fell by 0.4% y/y. As for the monetary policy, there was a gradual decrease of rate from 11% to 8% since 2022 to date.

In 2024, total credit to GDP increased by 2.71 pp y/y to 68.3%, while deposits to GDP ratio increased by 0.97 pp y/y to 64%. Despite the high growth of credit in Georgia, against the backdrop of strong economic activity, the credit-to-GDP ratio remains below the long-term trend. However, it continues to gradually approach its long-term trend. According to the NBG's assessment, if the existing tendency of credit activity continues and GDP growth starts to normalize, the Credit-to-GDP ratio is expected to approach its long-term trend in the first half of 2025.

Loans Portfolio

As of January 2025, the loans portfolio issued by the Georgian banking sector (meaning, w/o interbank financial instruments) increased by 21.1% y/y (+17.6% excluding FX effect), to 63.99 bln GEL. The corporate loans portfolio increased by 29.7% y/y (+23.8% excluding FX effect) to 22.76 bln GEL, the SME loans (including micro segment) portfolio increased by 13.9% y/y (+10.7% excluding FX effect) to 18.16 bln GEL, while the retail loans portfolio increased by 19.2% y/y (+17.5% excluding FX effect) to 23.08 bln GEL. Consumer loans increased by 28.5% y/y (+27.9% excluding FX effect), to 10.85 bln GEL and mortgage loans increased by 12% y/y (+9.4% excluding FX effect), to 12.23 bln GEL.

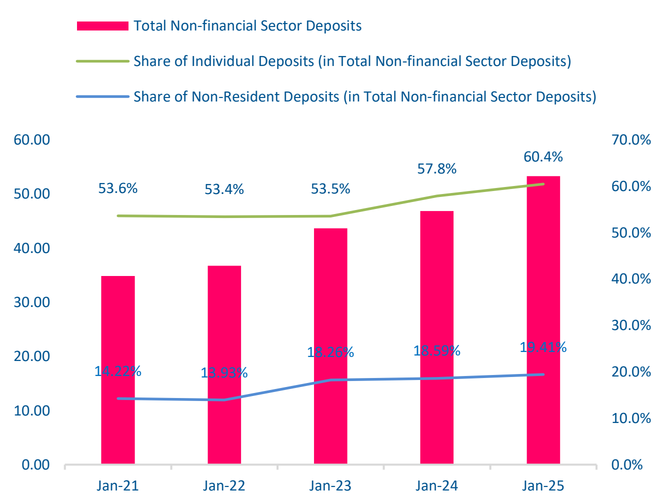
Loans portfolio quality remains robust and shows positive dynamics on annual basis. The share of PAR-90 remains at a low level. The share of PAR-90 in loans portfolio was 1.67% in January 2025 (down by 0.08 pp compared to January 2024).

Deposits Portfolio

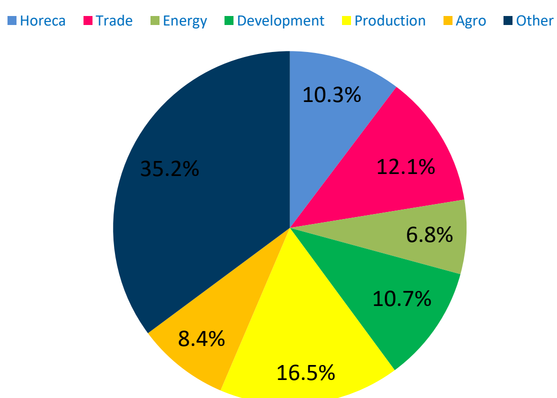
The total non-financial sector deposits (meaning, w/o NBG deposits, commercial bank deposits, nonbank financial institution deposits) increased by 13.7% y/y (+9.4% excluding FX effect) to 53.23 bln GEL in January 2025.

Deposits of individuals increased by 18.8% y/y (+13.5% excluding FX effect) to 32.16 bln GEL, while deposits of legal entities increased by 6.8% y/y (+3.8% excluding FX effect) to 21.07 bln GEL.

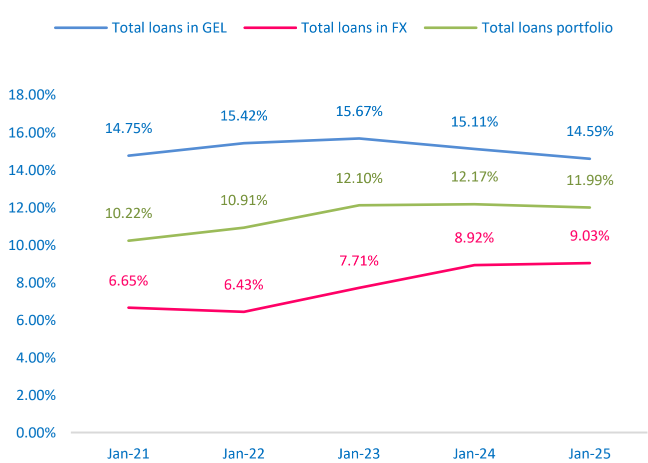
Deposits Statistics (billion GEL)



Sectors (%) in Loans Portfolio; January 2025



Weighted Average Interest Rate (WAIR) on loans



Weighted Average Interest Rates

In January 2025, the Loan Yield of banking sector decreased by 0.1 pp y/y and amounted to 12.19%.

The loans portfolio pricing decreased by 0.17 pp y/y to 11.99% in January 2025. In the same period, total wair on the corporate loans portfolio decreased by 0.39 pp y/y to 10.57%, the total wair on the SME (including micro sector) loans portfolio decreased by 0.11 pp y/y to 12.08%, while the total wair on the retail loans portfolio increased by 0.07 pp y/y to 13.33%. The total wair on the mortgage loans increased by 0.1 pp y/y to 10.25%.

The loans portfolio pricing (wair) in the local currency decreased by 0.52 pp y/y to 14.59% in January 2025. In the same period, GEL wair on the corporate loans portfolio decreased by 0.74 pp y/y to 12.51%, the wair on the SME loans portfolio decreased by 0.52 pp y/y to 14.92%, while the wair on the retail loans portfolio decreased by 0.44 pp y/y to 14.93%. The wair on the mortgage loans decreased by 0.49 pp y/y to 11.73%.

The wair of loans portfolio in foreign currency increased by 0.12 pp y/y and amounted to 9.03% as of January 2025. The FX wair on corporate loans decreased by 0.18 pp y/y to 9.64%, while the wair on SME loans increased by 0.08 pp y/y to 8.02% and the wair on the retail loans increased by 0.38 pp y/y to 7.4%. The wair on the mortgage loans increased by 0.47 pp y/y to 7.36%.

From the graph, we see that over the year the wair on loans nominated in GEL is decreased while the wair on loans denominated in FX is increased, meaning taking a loan in the nominal currency is becoming more desirable which should have a positive effect in the direction of decreasing dollarization of loans.

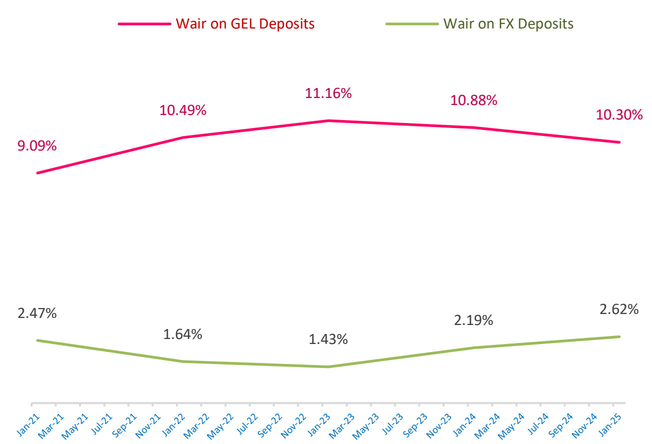
Annual interest rate on total deposits (stocks) denominated in GEL decreased by 0.58 pp y/y and amounted to 10.3% in January 2025, while annual interest rate for total deposits denominated in foreign currency increased by 0.43 pp y/y and amounted to 2.62%. Specifically, in January 2025, an annual interest rate for individual deposits denominated in GEL was 10.06% (-0.73 pp y/y), while the same for individual FX deposits was 2.43% (+0.49 pp y/y). As for the deposits of legal entities, annual interest rate for GEL deposits amounted to 10.44% (-0.49 pp y/y), while the same amounted to 3.02% (+0.22 pp y/y) for FX deposits.

From the graph, we see that the gap between wairs on GEL deposits and FX deposits has a decreasing trend, which means that making deposits in FX is becoming more desirable when the opposite is true about the national currency deposits. If the gap continues to decline significantly for a long time, dollarization of deposits might increase.

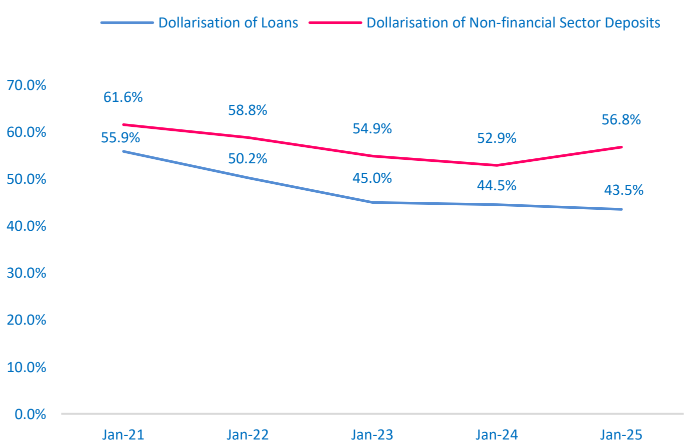
Interest rate spread (the difference between the interest rate charged on loans and the interest rate paid on deposits) for GEL increased by 0.06 pp y/y to 4.29% as of January 2025, while for FX, interest rate spread decreased by 0.32 pp y/y to 6.41%.

As of January 2025, Cost of Deposits amounted to 4.65% (-0.05 pp y/y). In the same period, Cost of Borrowing amounted to 7.68% (decreased by 1.07 pp y/y) and Cost of Funds amounted to 5.76% (unchanged y/y). In total, the Net Interest Margin decreased by 0.62 pp y/y to 5.88%.

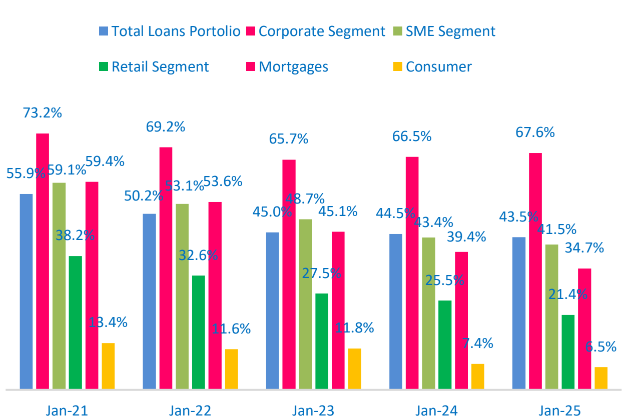
Annual Interest Rate on deposits (Stock)



Dollarization of Loan and Deposit Portfolios



Dollarisation of Loans Portfolio



Dollarization

Dollarization of the financial sector remains a significant challenge for financial stability, with 56.8% of bank deposits (+3.9 pp y/y) and 43.5% of bank loans (-1 pp y/y) still denominated in the USD as of January 2025.

In January 2025, the dollarization of individual deposits increased by 1.7 pp y/y to 66.69%, while the dollarization of legal entity deposits increased by 5.4 pp y/y to 41.63%. In the same period, the dollarization of corporate loans increased by 1.1 pp y/y to 67.6%, while the dollarization of SME loans decreased by 2 pp y/y to 41.5%. As for the dollarization of retail loans, it decreased by 4 pp y/y to 21.4% (consumer loans: -1 pp y/y to 6.5% and mortgage loans -4.7 pp y/y to 34.7%).

The National Bank, in coordination with the industry, considering the macroeconomic environment and risks, continues to implement the long-term de-dollarization plan.

As a response of the increase of deposit dollarization level, which can contribute to the accumulation of excess foreign currency liquidity in the financial system, to prevent excess liquidity from turning into increased dollarization of loans, in November 2024, the NBG increased the upper limit of the reserve ratio on foreign currency liabilities by 5 percentage points. So now the reserve requirement for funds attracted in foreign currency will be not in the range of 10% to 20%, but in the range of 10% to 25%. This change will increase the cost of US dollar resources for banks, which will reduce the interest rate on dollar deposits and increase interest rate on loans denominated in the US dollars. This will have a positive effect on de-dollarization.

Moreover, by decision of the Financial Stability Committee in November 2024, the limit for unhedged foreign currency loans has been increased from 400,000 to 500,000 GEL. The change which came into force on January 1, 2025, will positively affect reducing the dollarization in the retail loans portfolio.

Financial Soundness Indicators

Regulatory capital to risk-weighted assets for the Georgian banking sector amounted to 22.72% as of January 2025, which is 0.05 pp decrease y/y. Moreover, internal capital generation indicators are strong in the Georgian banking sector. As of January 2025, Return on Equity (ROE) was high, 26.71% (+1.92 pp y/y). Meanwhile, Return on Assets (ROA) amounted to 4.65% (+0.53 pp y/y).

Cost to Income ratio of the banking sector increased by 1.32 pp y/y to 44.68% by January 2025.

As for the liquidity, liquid assets to total assets for the Georgian banking system was 19.48% (-1.39 pp y/y). Meanwhile, liquidity coverage ratio amounted to 139.29% (+8.58 pp y/y).

The non-performing loans to total gross loans amounted to 1.57% as of January 2025, which is a 0.03 pp annual decrease, so it is indicating the improvement of the quality of loans portfolio. However, increased cost of credit risk by 0.08pp y/y to 0.6% indicates a higher write-off of impaired loans from the balance sheet.

+995 322 922 922
info@basisbank.ge
www.bb.ge
1 St. Queen Ketevan Ave.,
Tbilisi, Georgia