BASISBANK
Hualing Group Member

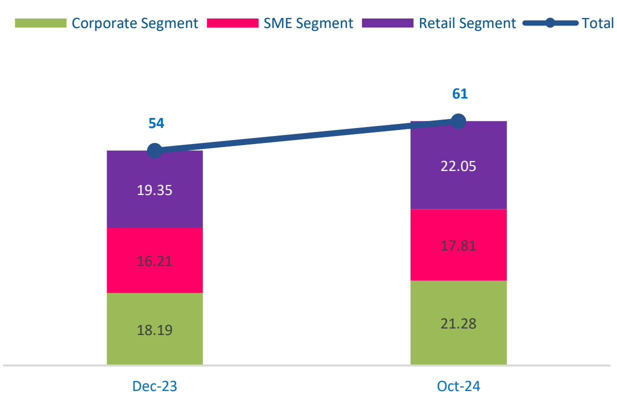
BasisBank Research

Banking Sector Review

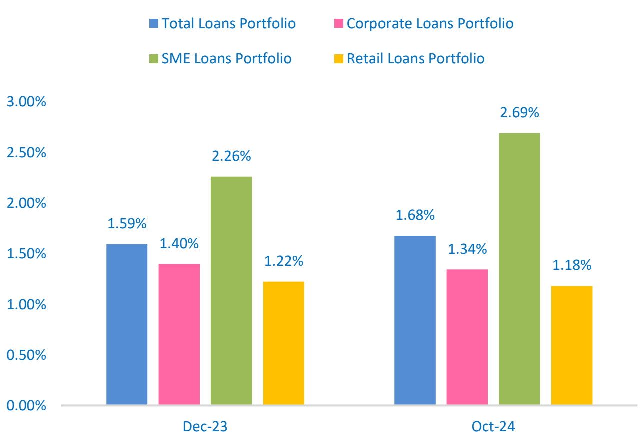
October 2024

December 11, 2024

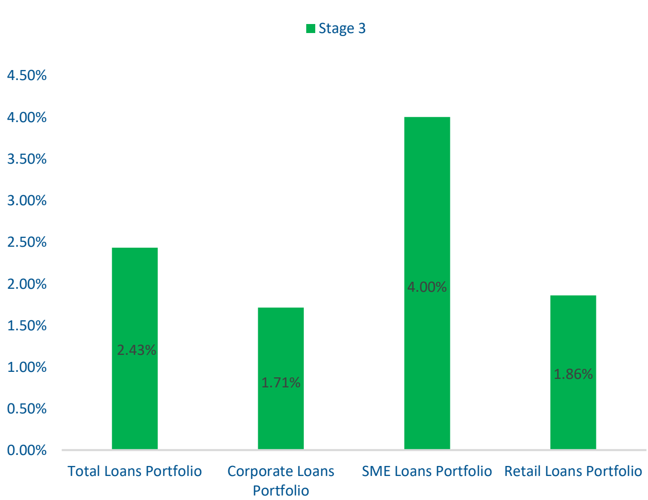
Total Loans Portfolio of the Banking System (Billion GEL)



90 and More Overdue Loans Ratio



Quality of Loans Portfolio; October 2024



Financial Sector Overview

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 fragmentation risks additional disruptions to trade networks. The persistence of inflation could lead to delays in monetary easing.

In September 2024, the FED lowered interest rates by 50 basis points, easing monetary policy for the first time in four years, while in early November 2024, this decision was followed by half percentage point reduction, and the benchmark overnight borrowing rate was lowered by 25 basis points, to a target range of 4.50%-4.75%. At the end of October 2024, the European Central Bank cut its key interest rate for the third time this year. The interest rates on the deposit facility, the main refinancing operations and the marginal lending facility was decreased by 25 basis points to 3.25%, 3.40% and 3.65% respectively.

Georgia continues to maintain a low-inflation environment. In November 2024, annual inflation amounted to 1.3%. The price stability is largely attributed to NBG's effective monetary policy, which involved timely tightening followed by gradual normalization, stabilizing long-term inflation expectations. After gradual decrease of the monetary policy rate, the NBG keeps the rate at 8% in Georgia.

Given the current global geopolitical situation, there are ongoing risks that contribute to the uncertainty surrounding macroeconomic trends. Despite this, the Georgian banking system is stable and ready to withstand possible stress. The sector has solid capital and liquidity buffers. As of October 2024, total capital adequacy ratio amounted to 23.78%, above the minimum requirements. Liquidity buffers were solid throughout the 10 months of 2024 for short-term as well as for long-term purposes. Liquidity coverage ratio (LCR) averaged at 125.8% as of October 2024, well-above the minimum requirement of 100%, which estimates short-term liquidity position of the banking sector. Meanwhile, net stable funding ratio (NSFR) averaged at 123.75% indicating the solid long-term liquidity position of the sector.

As for the monetary aggregates to the GDP, at the end of the Q3 2024, deposits to GDP amounted to 66.3% (+3.3 pp YTD), while loans to GDP amounted to 68.4% (+2.8 pp YTD) and bank assets to GDP amounted to 104.4% (+4.7 pp YTD).

Loans Portfolio

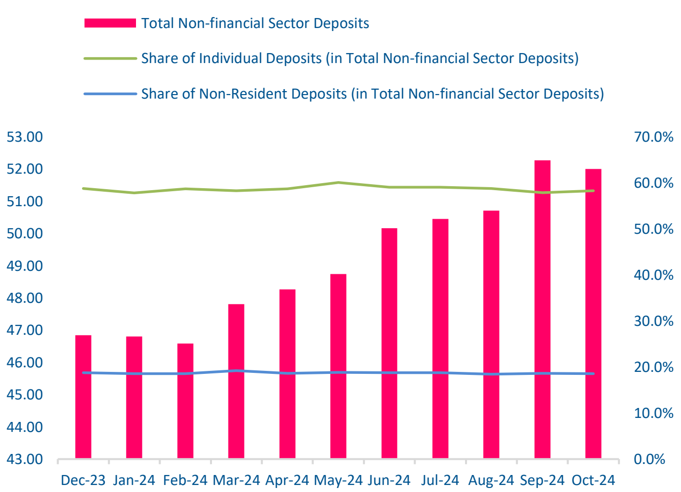
As of October 2024, the loans portfolio issued by the Georgian banking sector (meaning, w/o interbank financial instruments) increased by 13.8% YTD (+12.7% excluding FX effect), to 61.14 bln GEL. The corporate loans portfolio increased by 17% YTD (+15.4% excluding FX effect) to 21.28 bln GEL, the SME loans (including micro segment) portfolio increased by 9.9% YTD (+9% excluding FX effect) to 17.81 bln GEL, while the retail loans portfolio increased by 14% YTD (+13.4% excluding FX effect) to 22 bln GEL. Consumer loans increased by 21.5% YTD (+21.3% excluding FX effect), to 10.15 bln GEL and mortgage loans increased by 8.2% YTD (+7.4% excluding FX effect), to 11.9 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 1.68% in October 2024 (up by 0.08 pp compared to December 2023).

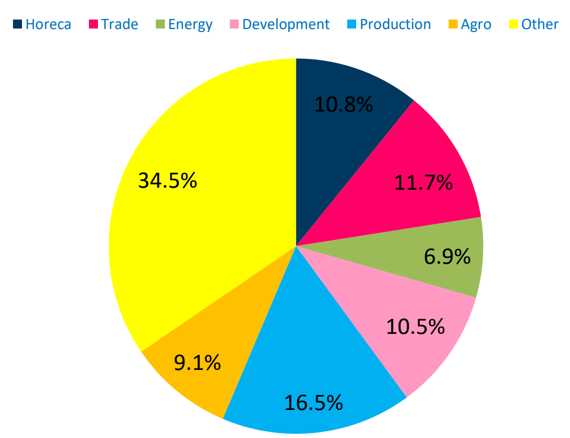
Deposits Portfolio

The total non-financial sector deposits (meaning, w/o NBG deposits, commercial bank deposits, nonbank financial institution deposits) increased by 11% YTD (+9.8% excluding FX effect) to 52 bln GEL in October 2024.

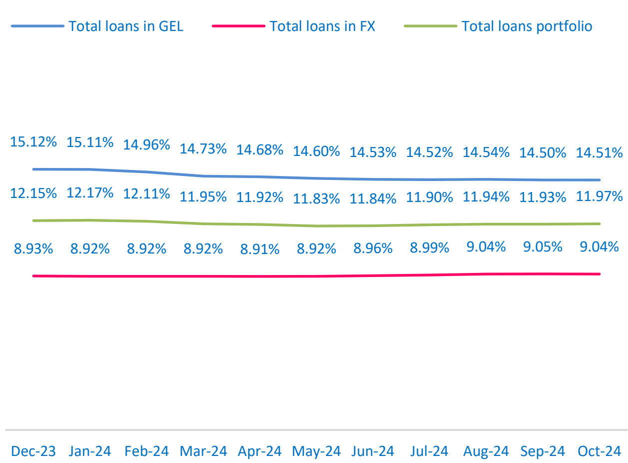
Deposits Statistics (billion GEL)



Sectors (%) in Loans Portfolio; October 2024



Weighted Average Interest Rate (WAIR) on loans



Deposits of individuals increased by 10.2% YTD (+8.7% excluding FX effect) to 30.34 bln GEL, while deposits of legal entities increased by 12.2% YTD (+11.3% excluding FX effect) to 21.67 bln GEL.

Weighted Average Interest Rates

In October 2024, the Loan Yield increased insignificantly by 0.16 pp YTD and amounted to 12.2%.

The loans portfolio pricing decreased by 0.18 pp YTD to 11.97% in October 2024. In the same period, total wair on the corporate loans portfolio decreased by 0.35 pp YTD to 10.65%, the total wair on the SME (including micro sector) loans portfolio decreased by 0.04 pp YTD to 12.04%, while the total wair on the retail loans portfolio decreased by 0.06 pp YTD to 13.17%. The total wair on the mortgage loans decreased by 0.03 pp YTD to 10.11%.

The loans portfolio pricing (wair) in the local currency decreased by 0.61 pp YTD to 14.51% in October 2024. In the same period, GEL wair on the corporate loans portfolio decreased by 0.88 pp YTD to 12.41%, the wair on the SME loans portfolio decreased by 0.64 pp YTD to 14.82%, while the wair on the retail loans portfolio decreased by 0.55 pp YTD to 14.84%. The wair on the mortgage loans decreased by 0.59 pp YTD to 11.7%.

The wair of loans portfolio in foreign currency increased by 0.11 pp YTD and amounted to 9.04% as of October 2024. The wair on corporate loans decreased by 0.08 pp YTD to 9.77%, while the wair on SME loans increased by 0.07 pp YTD to 8.01% and the wair on the retail loans increased by 0.24 pp YTD to 7.24%. The wair on the mortgage loans increased by 0.33 pp YTD to 7.19%.

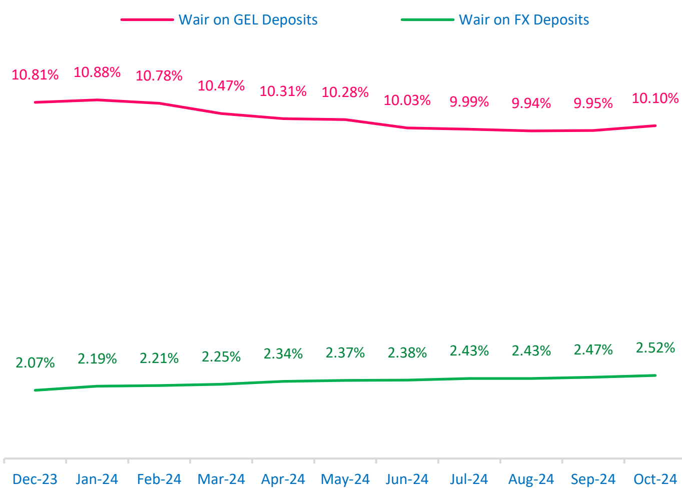
We see that the wair on loans nominated in GEL had a decreasing trend YTD, while the wair on loans denominated in FX had an increasing trend YTD, meaning taking a loan in the nominal currency is becoming more desirable which should have a positive effect in the direction of decreasing dollarization of loans. We see this result on the graph. In the recent months the dollarization of loans had a decreasing tendency.

The same dynamics can be seen about the annual interest rates on deposits, which was decreasing for GEL deposits and increasing for FX deposits. Annual interest rate on total deposits (stocks) denominated in GEL decreased by 0.71 pp YTD and amounted to 10.1% in October 2024, while annual interest rate for total deposits denominated in foreign currency increased by 0.45 pp YTD and amounted to 2.52%.

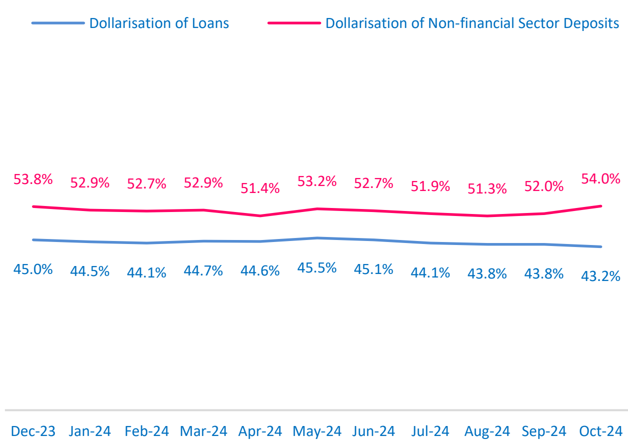
From the graph, we see that the gap between wairs on GEL deposits and FX deposits was declining through the nine months of 2024, which means that making deposits in FX was becoming more desirable when the opposite could be said about the national currency deposits. If the gap continues to decline significantly for a long time, dollarization of deposits might increase. But in October we see that the gap started to decline as the wair on GEL deposits increased m/m by 0.15 pp. Nevertheless, the difference between GEL and FX interest rates is still significant and despite the decreasing interest rate on GEL deposits, the return on national currency deposits is higher than the return on FX deposits and people prefer to make deposits in the national currency. This leads to decreasing overall trend of deposits dollarization which can be seen on the graph, although last month there was an increase in deposit dollarization (+2 pp m/m).

In October 2024, an annual interest rate for individual deposits denominated in GEL was 9.97% (-0.72 pp YTD), while the same for individual FX deposits was 2.29% (+0.42 pp YTD). As for the deposits of legal entities, annual interest rate for GEL deposits amounted to 10.17% (-0.71 pp YTD), while the same amounted to 3.02% (+0.41 pp YTD) for FX deposits.

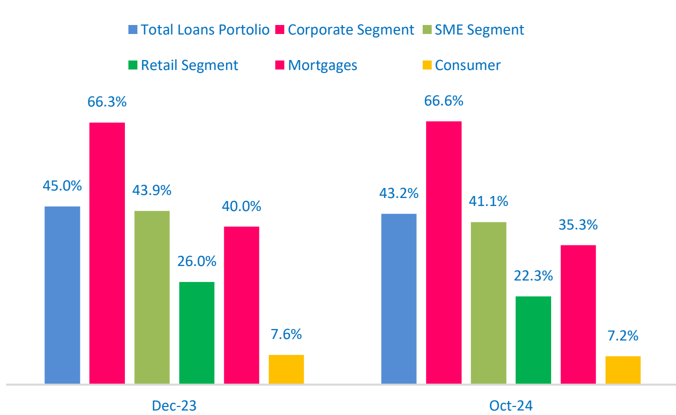
Annual Interest Rate on deposits (Stock)



Dollarization of Loan and Deposit Portfolios



Dollarisation of Loans Portfolio



Interest rate spread (the difference between the interest rate charged on loans and the interest rate paid on deposits) for GEL increased by 0.1 pp YTD to 4.41% as of October 2024, while for FX, interest rate spread decreased by 0.34 pp YTD to 6.52% for October 2024.

As of July 2024, Cost of Deposits amounted to 4.56% (-0.05 pp YTD).

In the same period, Cost of Borrowing amounted to 7.39% (decreased by 0.72 pp YTD) and Cost of Funds amounted to 5.6% (increased insignificantly by 0.03 pp YTD). In total, the Net Interest Margin decreased by 0.17 pp YTD to 6.3%.

Dollarization

Despite the reduction, dollarization of the financial sector remains a significant challenge for financial stability, with 53.95% of bank deposits (+0.11 pp YTD) and 43.21% of bank loans (-1.83 pp YTD) still denominated in the USD as of October 2024. Considering the recent macroprudential measures, it is expected the trend of decreasing dollarization to continue.

As a response of recent 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, 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.

In October 2024, the dollarization of individual deposits increased by 0.3 pp YTD to 65.31%, while the dollarization of legal entity deposits increased by 0.2 pp YTD to 38.05%. In the same period, the dollarization of corporate loans increased by 0.3 pp y/y to 66.6%, while the dollarization of SME loans decreased by 2.8 pp y/y to 41.1%. As for the dollarization of retail loans, it decreased by 3.6 pp y/y to 22.3% (consumer loans: -0.4 pp y/y to 7.2% and mortgage loans -4.7 pp y/y to 35.3%).

Considering the macroeconomic environment and risks and its long-term de-dollarization plan, the NBG increased the limit for unhedged foreign currency loans from 400,000 to 500,000 GEL. The change will come into force on January 1, 2025. This change 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 23.78% as of October 2024, which is 1.45 pp annual improvement. Moreover, internal capital generation indicators are strong in the Georgian banking sector. As of October 2024, Return on Equity (ROE) was still high, 22.95% despite its annual decrease of 4.53 pp. Meanwhile, Return on Assets (ROA) amounted to 3.82% (-0.53 pp y/y).

In recent years, the efficiency of the banking sector improved, which can be seen in the decreasing trend of Cost to Income ratio of the banking system, which reduced to 43.3% by October 2024, down by 1.5 pp on an annual basis.

As for the liquidity, liquid assets to total assets for the Georgian banking system was 17.31% (-5.4 pp y/y) and liquidity coverage ratio was 125.8% (-0.54 pp y/y).

The non-performing loans to total gross loans amounted to 1.53% for the same period, which is a 0.15 pp annual decrease. Moreover, Cost of Credit Risk changed from -1.02% in December 2023 to -0.3% in October 2024, which means that the risk decreased by 0.72 pp, thus the quality of credit portfolio was improved in the first ten months of 2024.

BASISBANK
Hualing Group Member

1, Ketevan Tsamebuli Ave., Tbilisi, Georgia
Tel.: +995 322 922 922
www.basisbank.ge