

BasisBank Research

Banking Sector Review

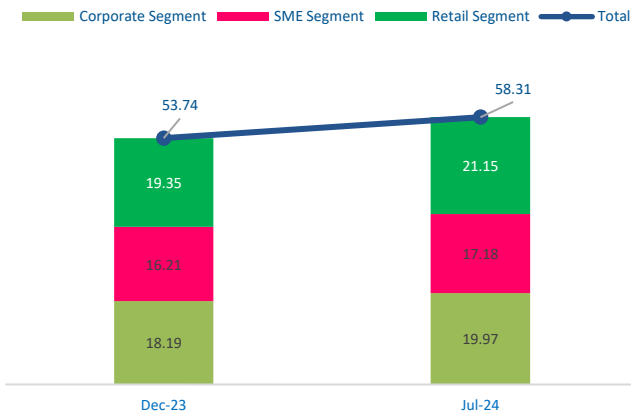
July 2024

August 31, 2024

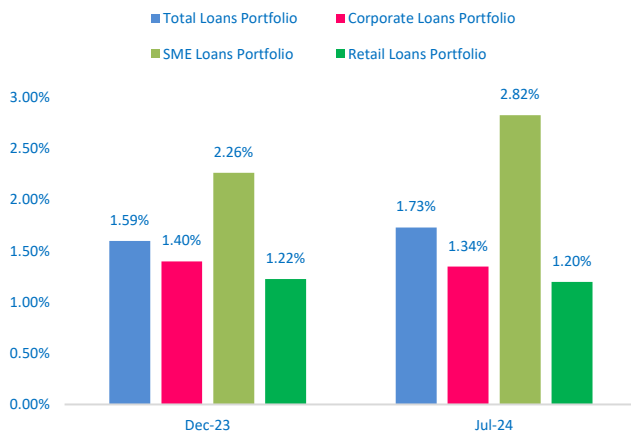
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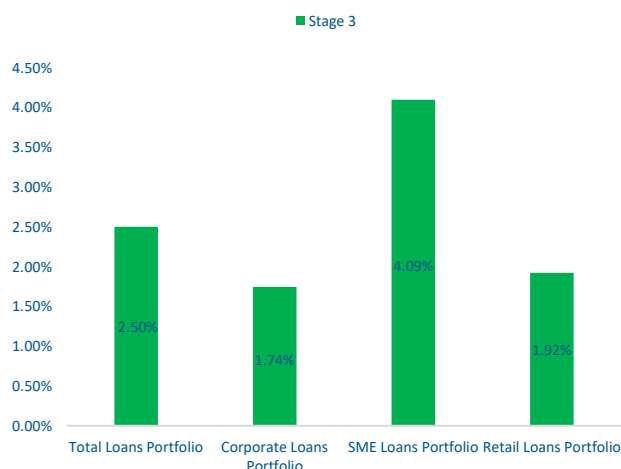
Total Loans Portfolio of the Banking System (Billion GEL)



90 and More Overdue Loans Ratio



Quality of Loans Portfolio; July 2024



Financial Sector Overview

The Georgian Financial Sector remains resilient and is characterised by solid capital buffers against the potential risks posed by the tense geopolitical situation in the region. The banking sector has sufficient resources to continue lending to the economy without difficulties. Despite a significant decline, dollarisation still remains the challenge for the sector.

In the financial sector of Georgia, the share of the banking system is 90%. The banking sector in Georgia is represented by 17 licensed commercial banks, including 15 - foreign-controlled banks. As of July 2024, the total assets of Georgian commercial banks constituted about 86.77 billion GEL (up 8.4% YTD). The banking sector's equity capital amounted to 13.04 billion GEL (+6.6% YTD), which makes up 15% of the commercial banks total assets.

As for the monetary aggregates to the GDP, at the end of the Q2 2024, deposits to GDP amounted to 64.8% (+4 pp YTD), while loans to GDP amounted to 67.8% (+6.3 pp YTD) and bank assets to GDP amounted to 102.6% (+6 pp YTD).

Loans Portfolio

As a response to the high global inflation, central banks were following contractionary monetary policy, which in general gives commercial banks incentives to raise the rate they charge for loans.

The Federal Reserve maintained the federal funds rate at a 23-year high of 5.5% for the eighth consecutive time in July 2024, in line with expectations. There has been some further progress in the USA toward the 2% inflation goal although it remains somewhat elevated. As for the EU monetary policy, the European Central Bank decided to keep the interest rate unchanged keeping it at 4.25% in July 2024 same as in June when it cut it by 0.25% after keeping it at 4.5% since September 2023.

As for Georgia, after hitting 13.9% annual rate at the beginning of 2022, the annual inflation gradually decreased to and amounted to 1% as of August 2024. Despite these positive trends, inflationary risks are still high as the domestic demand is still strong and it can pressure the prices. In Georgia, the decreasing trend of inflation was accompanied by a gradual exit from tight monetary policy from 11% set in March 2022 to still unchanged 8.0% set in late May 2024.

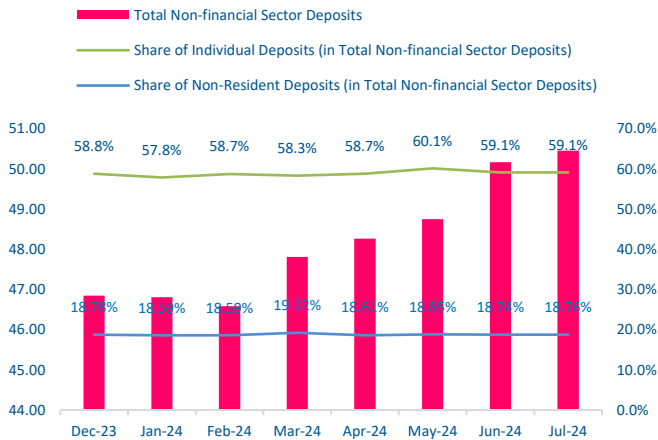
As of July 2024, the loans portfolio issued by the Georgian banking sector (meaning, w/o interbank financial instruments) increased by 8.5% YTD (+7.9% excluding FX effect), to 58.31 bln GEL. The corporate loans portfolio increased by 9.8% YTD (+9% excluding FX effect) to 19.97 bln GEL, the SME loans portfolio increased by 6% YTD (+5.5% excluding FX effect) to 17.18 bln GEL, while the retail loans portfolio increased by 9.3% YTD (+9% excluding FX effect) to 21.15 bln GEL. Consumer loans increased by 15.6% YTD (+15.5% excluding FX effect), to 9.66 bln GEL and mortgage loans increased by 4.6% YTD (+4.1% excluding FX effect), to 11.5 bln GEL.

As of July 2024, the share of 90 and more overdue loans in the total loans portfolio increased by 0.13 pp YTD and amounted to 1.73%. The share of 90 and more overdue loans decreased by 0.05 pp YTD to 1.34% for corporate loans. Meanwhile, the share of 90 and more overdue loans for SME segment amounted to 2.82% (+0.56 pp y/y), and the share of PAR-90 for retail loans portfolio equaled 1.2% (-0.03 pp y/y).

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Banking Sector Review

Deposits Statistics (billion GEL)



Deposits Portfolio

The total non-financial sector deposits (meaning, w/o NBG deposits, commercial bank deposits, nonbank financial institution deposits) increased by 7.7% YTD (+7% excluding FX effect) to 50.45 bln GEL in July 2024.

Deposits of individuals increased by 8.2% YTD (+7.4% excluding FX effect) to 29.8 bln GEL, while deposits of legal entities increased by 6.9% YTD (+6.5% excluding FX effect) to 20.65 bln GEL.

Weighted Average Interest Rates

In July 2024, the Loan Yield increased insignificantly by 0.04 pp YTD and amounted to 12.08%.

The loans portfolio pricing (total wair on credit portfolio without interbank financial instruments) decreased by 0.25 pp YTD to 11.9% in July 2024. In the same period, total wair on the corporate loans portfolio decreased by 0.43 pp YTD to 10.57%, the total wair on the SME loans portfolio decreased by 0.08 pp YTD to 12%, while the total wair on the retail loans portfolio decreased by 0.16 pp YTD to 13.08%. The total wair on the mortgage loans decreased by 0.15 pp YTD to 9.99%.

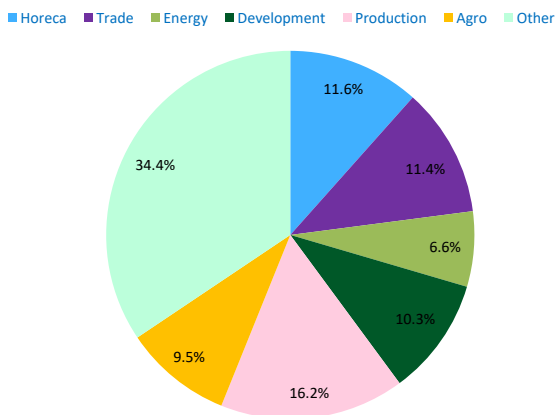
The loans portfolio pricing (wair) in the local currency decreased by 0.6 pp YTD to 14.52% in July 2024. In the same period, GEL wair on the corporate loans portfolio decreased by 1.09 pp YTD to 12.2%, the wair on the SME loans portfolio decreased by 0.53 pp YTD to 14.94%, while the wair on the retail loans portfolio decreased by 0.51 pp YTD to 14.88%. The wair on the mortgage loans decreased by 0.58 pp YTD to 11.7%.

The wair of loans portfolio in foreign currency increased by 0.07 pp YTD and amounted to 8.99% as of July 2024. The wair on corporate loans decreased by 0.05 pp YTD to 9.8%, while the wair on SME loans remained unchanged YTD to 7.94% and the wair on the retail loans increased by 0.11 pp YTD to 7.11%. The wair on the mortgage loans increased by 0.18 pp YTD to 7.04%.

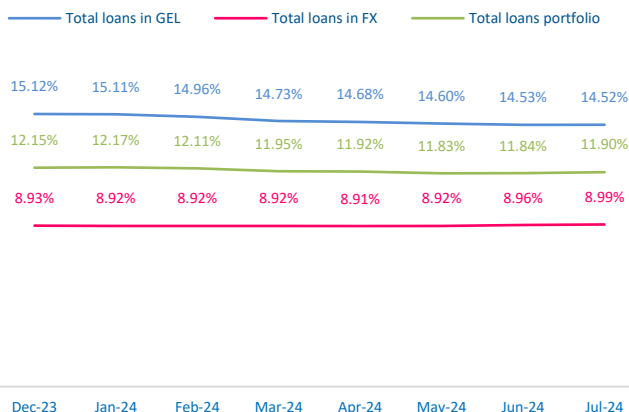
We see that the wair on loans nominated in GEL had a decreasing trend YTD, while the wair on loans denominated in FX had an increasing trend YTD, meaning taking a loan in the nominal currency is more desirable which should have a positive effect in the direction of decreasing dollarization of loans. 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 0.82 pp YTD and amounted to 9.99% in July 2024, while annual interest rate for total deposits denominated in foreign currency increased by 0.36 pp YTD and amounted to 2.43%. From the graph, we see that the gap between wairs on GEL deposits and FX deposits is declining through the seven months of 2024, which means that making deposits in FX is becoming somewhat more desirable than making deposits in the national currency. If the gap continues to decline significantly for a long time, dollarization of deposits might increase. 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 trend of deposits dollarization which can be seen on the graph.

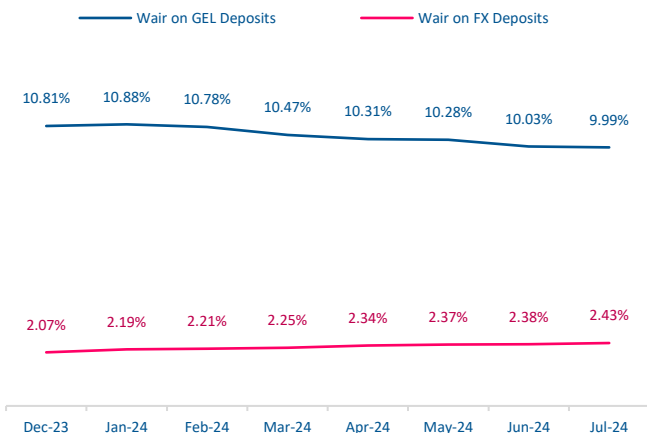
Sectors (%) in Loans Portfolio; July 2024



Weighted Average Interest Rate (WAIR) on loans



Annual Interest Rate on deposits (Stock)



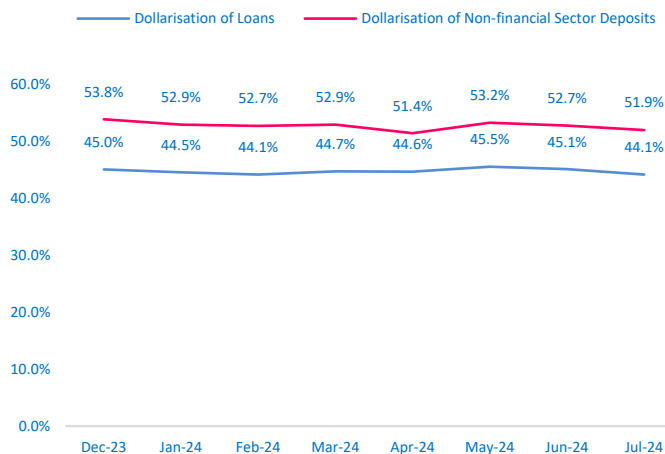
The same tendency is applicable for deposits of individuals and legal entities, meaning, interest rates in GEL are decreasing while interest rates in FX are increasing. In July 2024, annual interest rate for individual deposits denominated in GEL was 10% (-0.69 pp YTD), while the same for individual FX deposits was 2.16% (+0.29 pp YTD). As for the deposits of legal entities, annual interest rate for GEL deposits amounted to 9.98% (-0.9 pp YTD), while the same amounted to 3.08% (+0.47 pp YTD) for FX deposits.

Interest rate spread (the difference between the interest rate charged on loans and the interest rate paid on deposits) for GEL increased by 0.22 pp YTD to 4.53% as of July 2024, while for FX, interest rate spread decreased by 0.3 pp YTD to 6.56% for July 2024.

As of July 2024, Cost of Deposits amounted to 4.61% (unchanged YTD).

In the same period, Cost of Borrowing amounted to 7.36% (decreased by 0.75 pp YTD) and Cost of Funds amounted to 5.66% (increased insignificantly by 0.09 pp YTD). In total, the Net Interest Margin decreased by 0.33% YTD to 6.13%.

Dollarisation of Loan and Deposit Portfolios



Dollarisation

The dollarisation of the loans portfolio (w/o interbank financial instruments) amounted to 44.1% level (-0.9 pp YTD) in July 2024. In the same period, the dollarisation of corporate loans increased by 1.6 pp y/y to 67.9%, while the dollarisation of SME loans decreased by 2.0 pp y/y to 41.9%. As for the dollarisation of retail loans, it decreased by 2.4 pp y/y to 23.6% (consumer loans: +0.1 pp y/y to 7.7% and mortgage loans -3.1 pp y/y to 36.9%).

The dollarisation of non-financial sector deposits (clients deposits to commercial banks, meaning it does not include NBB, commercial banks and nonbank financial institutions deposits,) amounted to 51.9% (-1.9 pp YTD) in the same period. The dollarisation of individual deposits decreased by 1.8 pp YTD to 63.2%, while the dollarisation of legal entity deposits decreased by 2.2 pp YTD to 35.7%.

Financial Soundness Indicators

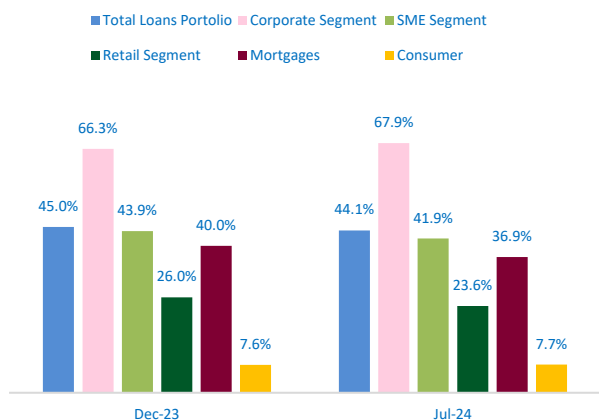
Regulatory capital to risk-weighted assets for the Georgian banking sector amounted to 24.27% as of July 2024, which is quite significant, 1.61 pp annual improvement. It is the result of a stable GEL exchange rate as well as a moderate growth of loan portfolio (8.5% YTD).

Moreover, internal capital generation indicators are strong in the Georgian banking sector. As of July 2024, Return on Equity (ROE) was still high, 24.73% despite its annual decrease of 1.92 pp. Meanwhile, Return on Assets (ROA) amounted to 4.2% (-0.03 pp y/y).

As for the liquidity, liquid assets to total assets for the Georgian banking system was 20.07% (-1.55 pp y/y) and liquidity coverage ratio was 129.04% (+6.93 pp y/y).

The non-performing loans to total gross loans amounted to 1.61% for the same period, which is a 0.04 pp annual decrease. Moreover, Cost of Credit Risk changed from -1.02% in December 2023 to -0.32% in July 2024, which means that the risk decreased by 0.7 pp, thus the quality of credit portfolio was improved in the first seven months of 2024.

Dollarisation of Loans Portfolio





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