



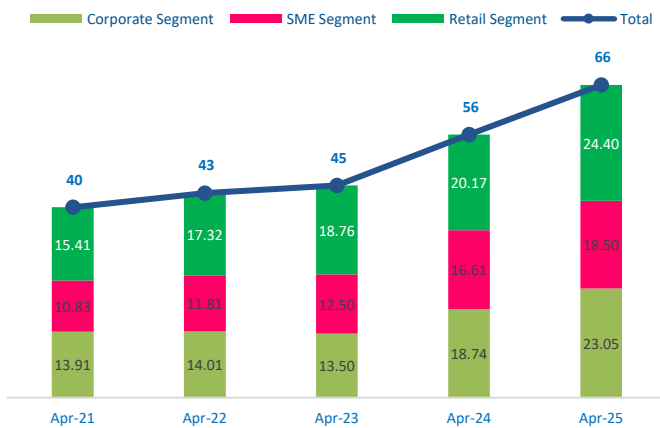
BasisBank Research

Banking Sector Review

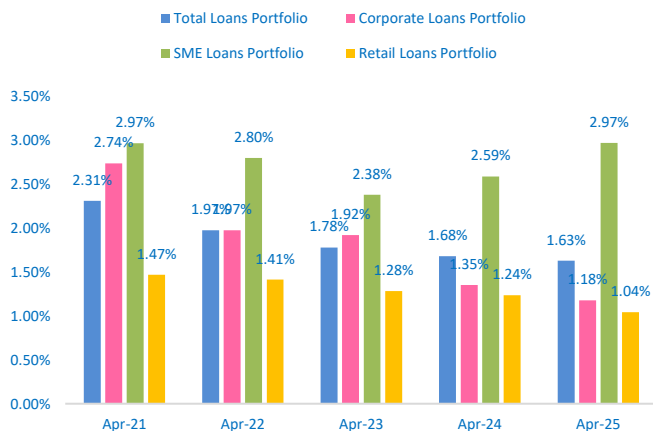
April 2025

June 5, 2025

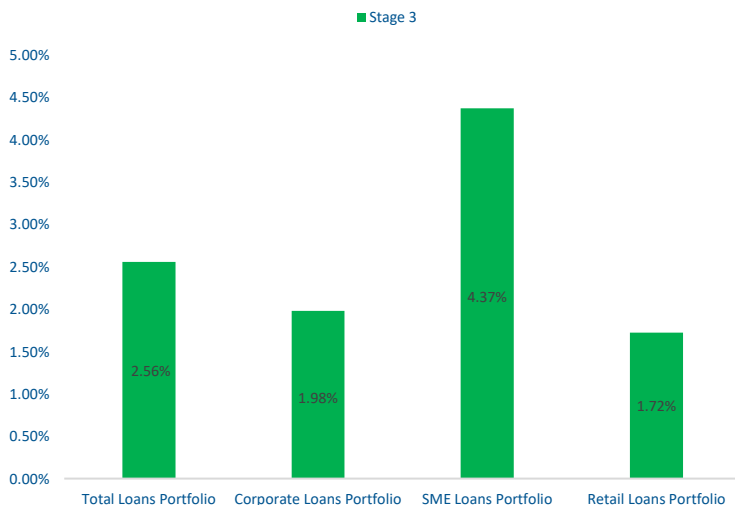
Total Loans Portfolio of the Banking System (billion GEL)



90 and More Overdue Loans Ratio



Quality of Loans Portfolio; April 2025



Financial Sector Overview

Georgian financial sector remains resilient and continues smooth lending to the economy. However, as the 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 environment.

The global economy is facing new challenges, largely driven by shifts in the U.S. tariff policy, which have already significantly impacted global economic relations and have intensified trade policy uncertainty. The International Monetary Fund (IMF) revised its forecast of the growth of the global economy for 2025 and decreased it by 0.5 pp to 2.8%. Meanwhile, the 2026 forecast has been lowered by 0.3 pp to 3%. The IMF now projects the global inflation to decline at a slower pace than anticipated earlier in the year, reaching 4.3% in 2025 and 3.6% in 2026.

In Georgia, inflation remains around the target level of 3%. Against the backdrop of global economic uncertainty, risks affecting inflation in both upward and downward directions have emerged. Recent global developments highlight signs of economic fragmentation, which amplify stagflationary risks. This, in turn, creates risks for increased imported inflation in Georgia. On the other hand, the global weakening of the U.S. dollar index (DXY) has led to an improvement in the lari's position relative to the U.S. dollar. This reduces the debt burden of dollar-denominated loans and, consequently, alleviates inflationary pressures through this channel. Meanwhile, in the context of declining global demand and expectations of increased oil supply, international oil prices are falling. This, along with the lari's stable position against the U.S. dollar, has a disinflationary effect.

In May 2025, the annual inflation amounted to 3.5%. Domestic inflation amounted to 4.9%, while service inflation, which is the main component of domestic inflation, was at 2.2% in the same period. Meanwhile, imported inflation, primarily due to the decrease of fuel prices, amounted to -2% y/y.

As for the monetary policy, the National Bank of Georgia maintains a cautious approach towards the further normalization of the policy rate and keeps the refinancing rate at 8% since May 2024.

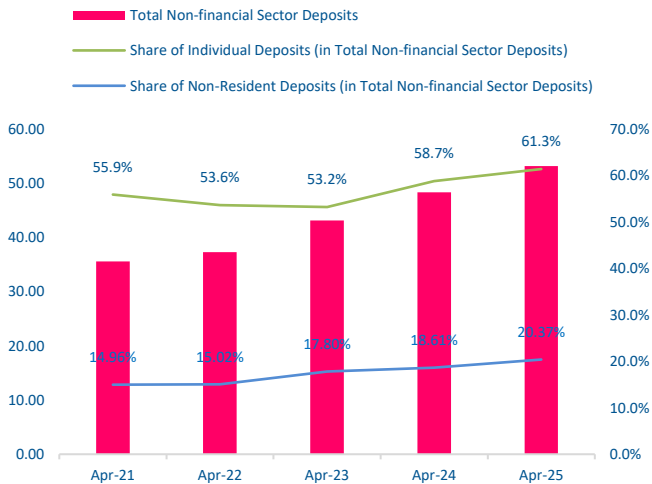
Economic activity in Georgia remains robust together with maintained price stability. In the first four months of 2025, real GDP growth averaged 8.8% y/y. This is largely driven by structural changes in the economy, as reflected in the sustained strong contribution of productive sectors to GDP growth. At the same time, strong domestic demand also plays a key role in supporting high economic growth. This leaves demand-side price pressure as a noteworthy factor to consider.

As of April 2025, total credit to GDP increased by 2.6 pp y/y to 67.5%, while deposits to GDP ratio decreased by 0.8 pp y/y to 61.7%.

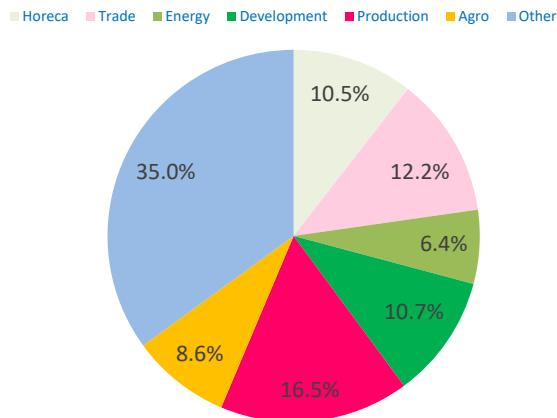
Loans Portfolio

As of April 2025, the loans portfolio issued by the Georgian banking sector (w/o interbank financial instruments) increased by 18.8% y/y (+17.5% excluding FX effect), to 65.95 bln GEL. The corporate loans portfolio increased by 23% y/y (+20.9% excluding FX effect) to 23.05 bln GEL, the SME loans (including micro segment) portfolio increased by 11.4% y/y (+10.3% excluding FX effect) to 18.50 bln GEL, while the retail loans portfolio increased by 21% y/y (+20.4% excluding FX effect) to 24.40 bln GEL. Consumer loans increased by 32.3% y/y (+32.1% excluding FX effect), to 11.95 bln GEL and mortgage loans increased by 11.8% y/y (+10.9% excluding FX effect), to 12.45 bln GEL.

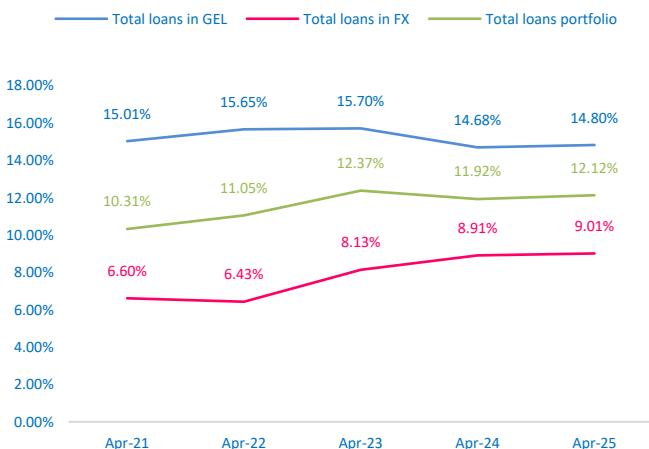
Deposits Statistics (billion GEL)



Sectors (%) in Loans Portfolio; April 2025



Weighted Average Interest Rate (WAIR) on loans



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 1.63% in April 2025 (-0.05 pp y/y).

Deposits Portfolio

The total non-financial sector deposits (w/o NBG deposits, commercial bank deposits, nonbank financial institution deposits) increased by 10.1% y/y (+8.5% excluding FX effect) to 53.12 bln GEL as of April 2025.

Deposits of individuals increased by 14.9% y/y (+13.1% excluding FX effect) to 32.58 bln GEL, while deposits of legal entities increased by 3.1% y/y (+2% excluding FX effect) to 20.54 bln GEL.

Weighted Average Interest Rates

In April 2025, the Loan Yield of banking sector increased by 0.42 pp y/y and amounted to 12.51%.

The loans portfolio pricing increased by 0.20 pp y/y to 12.12% in April 2025. In the same period, total wair on the corporate loans portfolio increased by 0.06 pp y/y to 10.63%, the total wair on the SME (including micro sector) loans portfolio increased by 0.16 pp y/y to 12.19%, while the total wair on the retail loans portfolio increased by 0.40 pp y/y to 13.51%. The total wair on the mortgage loans increased by 0.39 pp y/y to 10.35%.

The loans portfolio pricing (wair) in the local currency increased by 0.12 pp y/y to 14.80% in April 2025. In the same period, GEL wair on the corporate loans portfolio increased by 0.61 pp y/y to 12.95%, the wair on the retail loans portfolio increased by 0.03 pp y/y to 15.08%, while the wair on the SME loans portfolio decreased by 0.08 pp y/y to 15.04%. The wair on the mortgage loans increased by 0.04 pp y/y to 11.85%.

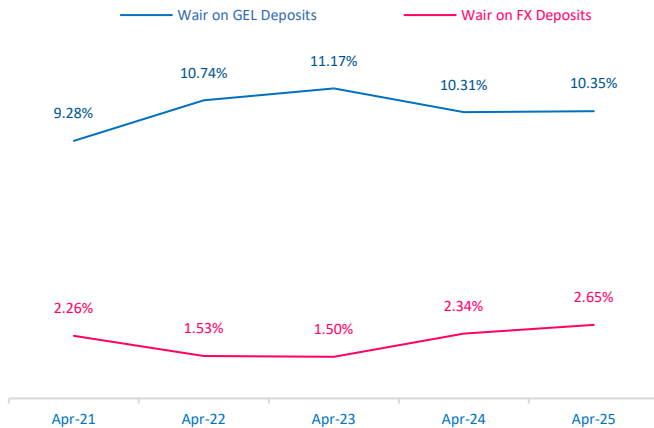
The wair of loans portfolio in foreign currency increased by 0.10 pp y/y and amounted to 9.01% as of April 2025. The FX wair on corporate loans decreased by 0.21 pp y/y to 9.54%, while the wair on SME loans increased by 0.13 pp y/y to 8.04% and the wair on the retail loans increased by 0.4 pp y/y to 7.4%. The wair on the mortgage loans increased by 0.47 pp y/y to 7.37%.

Annual interest rate on total deposits (stocks) denominated in GEL increased by 0.04 pp y/y and amounted to 10.35% in April 2025, while annual interest rate for total deposits denominated in foreign currency increased by 0.31 pp y/y and amounted to 2.65%. Specifically, in April 2025, an annual interest rate for individual deposits denominated in GEL was 10.14% (-0.35 pp y/y), while the same for individual FX deposits was 2.48% (+0.41 pp y/y). As for the deposits of legal entities, annual interest rate for GEL deposits amounted to 10.49% (+0.27 pp y/y), while the same amounted to 3.03% (+0.04 pp y/y) for FX deposits.

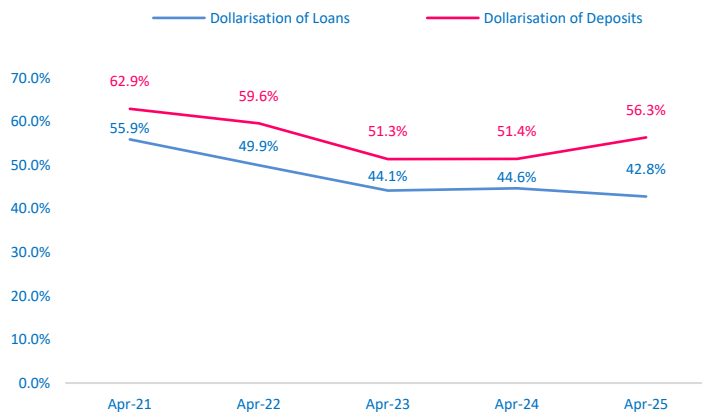
Interest rate spread (the difference between the interest rate charged on loans and the interest rate paid on deposits) for GEL increased by 0.08 pp y/y to 4.45% as of April 2025, while for FX, interest rate spread decreased by 0.21 pp y/y to 6.36%.

As of April 2025, Cost of Deposits amounted to 4.66% (-0.08 pp y/y). In the same period, Cost of Borrowing amounted to 7.39% (-0.34 pp y/y) and Cost of Funds amounted to 5.77% (+0.08 pp y/y). In total, the Net Interest Margin increased by 0.1 pp y/y to 6.32%.

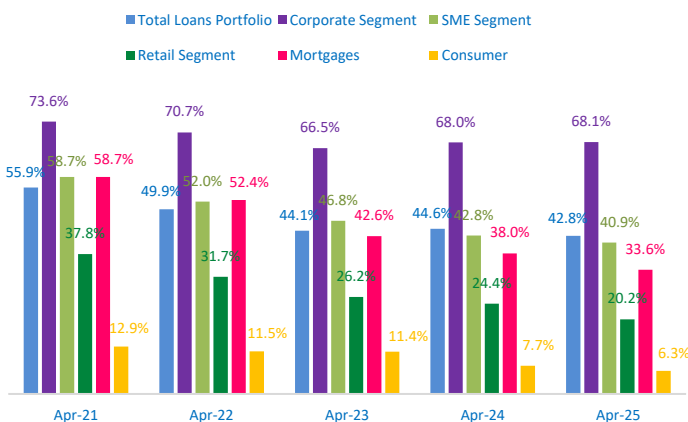
Annual Interest Rate on deposits



Dollarization of Loan and Deposit Portfolios



Dollarisation of Loans Portfolio



Dollarization

Dollarization of the financial sector remains a significant challenge for financial stability, with 56.3% of bank deposits (+4.9 pp y/y) and 42.8% of bank loans (-1.9 pp y/y) still denominated in the USD as of April 2025.

In April 2025, the dollarization of individual deposits increased by 1.8 pp y/y to 65.2%, while the dollarization of legal entity deposits increased by 7.7 pp y/y to 42.2%. In the same period, the dollarization of corporate loans increased by 0.1 pp y/y to 68.1%, while the dollarization of SME loans decreased by 1.9 pp y/y to 40.9%. As for the dollarization of retail loans, it decreased by 4.2 pp y/y to 20.2% (consumer loans: -1.4 pp y/y to 6.3% and mortgage loans: -4.5 pp y/y to 33.6%).

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 22.31% as of April 2025, which is 2.09 pp decrease y/y. Moreover, internal capital generation indicators are strong in the Georgian banking sector. As of April 2025, Return on Equity (ROE) was 21.69% (-2.34 pp y/y). Meanwhile, Return on Assets (ROA) amounted to 3.67% (-0.38 pp y/y).

Cost to Income ratio of the banking sector increased by 1.37 pp y/y to 45.05% by April 2025.

As for the liquidity, liquid assets to total assets for the Georgian banking system was 18.66% (-0.86 pp y/y). Meanwhile, liquidity coverage ratio amounted to 128.45% (-6.35 pp y/y).

The non-performing loans to total gross loans amounted to 1.57% as of April 2025, which is almost unchanged compared to the same period of last year (-0.01 pp y/y), so it is indicating to the almost unchanged, a bit improved quality of loans portfolio. However, increased cost of credit risk by 0.2 pp y/y to 0.87% indicates higher write-offs of impaired loans from the balance sheet.

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