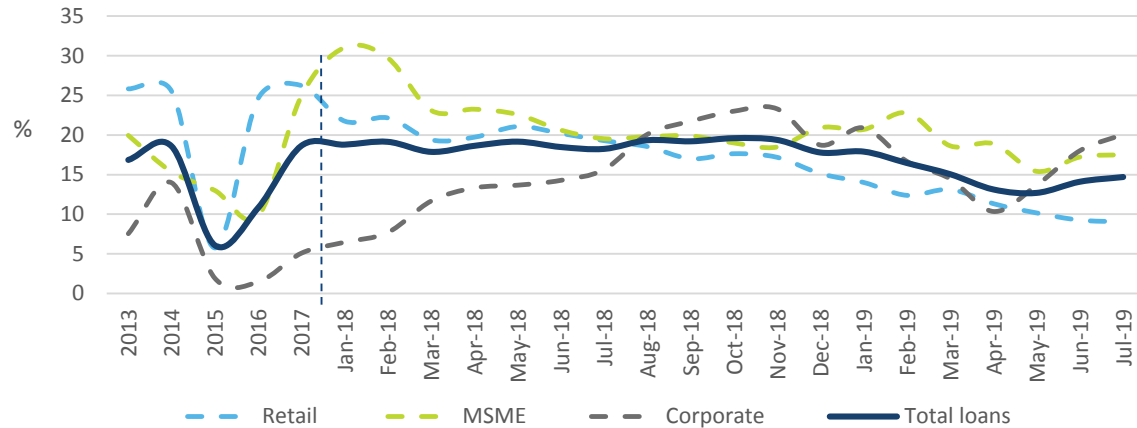


- ❑ Bank credit growth came in at 14.7% YoY in July 2019, somewhat higher compared to the growth in the previous month. GEL loans picked up further to 20.3% YoY while the FX lending growth moderated slightly to 10.0% YoY, excl. the FX effect.
- ❑ In terms of the segments, corporate credit strengthened to 20.1% YoY. On top of that, MSME lending also continues to expand strongly with July growth amounting to the 17.5% YoY. Even when taking into account the one-offs and the reclassification (from retail to MSME and MSME to corporate), the business lending still came somewhat above our expectations (see [slide #2](#) and [slide #3](#)).
- ❑ Retail lending decelerated slightly with the growth at 9.0% YoY in July. Mortgage lending moderated further to 25.2% YoY, while the decline of non-mortgage lending was broadly unchanged from the previous months. At the same time, some slowdown in mortgage lending growth was more evident on a monthly seasonally adjusted growth basis (see [slide #4](#)). This appears to be related to a weaker and more volatile GEL affecting the mortgage decision making (as housing prices are sticky in USD in the short term and the USD/GEL affects sentiments) and also the flattening of the GEL mortgage rates following the steep decline throughout the year ([see slide #6](#)). Furthermore, the GEL lending rates are likely to increase going forward as the GEL liquidity is normalizing; the deposit rates have already went up and the NBS rate hike is expected to address undervalued exchange rate and increasing inflation pressures; and the existing bank margins are already tighter.
- ❑ Despite a weaker GEL, household debt service ratio has started to decline in the first quarter thanks to subdued growth of retail credit, especially in the higher yield non-mortgage segment and due to lower rates on mortgage lending. MFI loan growth dived deeper into the negative territory in Q2 2019 as the regulations affected this segment the most. It's likely that the household debt burden has eased considerably, especially that of the lowest income groups as they represent the primary borrowers from the MFIs.
- ❑ As for the household debt-to-income ratio, adjusted for the FX effect it has been stable since 2018. At the same time, estimated Q2 household credit-to-GDP gap at constant exchange rate has declined, while at current exchange rate, due to a weaker GEL, it remained broadly stable.
- ❑ Going forward, the chances of retail lending slowing has further increased. This may result in relevant regulatory amendments without excessive risk-taking. For example, the restriction on loans up to GEL 200,000 to be issued only in GEL may be amended to allow 50% borrowing in EUR/USD. This also should support the strengthening of undervalued GEL. Also, in our view, such amendments will not have a material impact on improving sovereign rating trend. Likewise, non-mortgage regulations may be modified, especially taking into account that the household consumption remains weak despite the stronger fiscal spending (see [TBC Economic Review: insight #8](#)).

Credit growth supported by the business and GEL lending

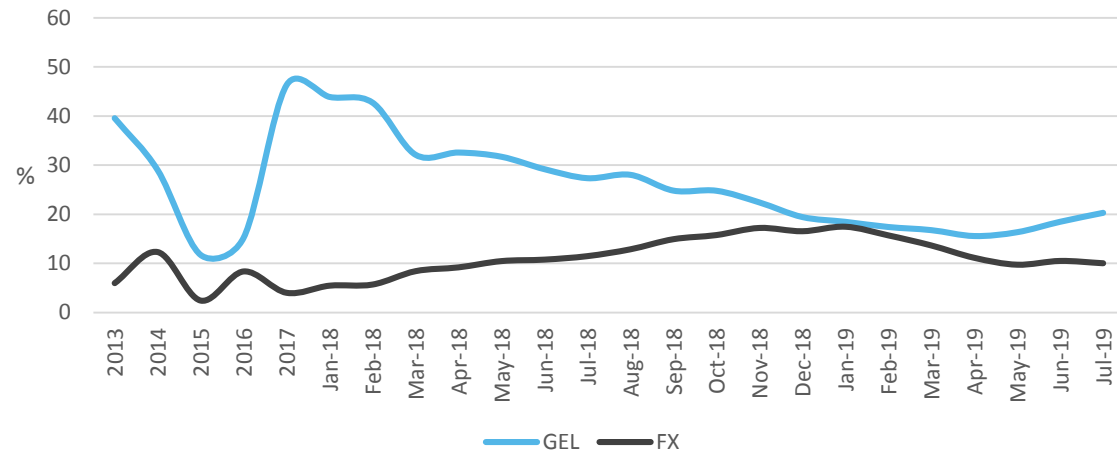
Growth of loans by segments*
(YoY, excl. FX effect**)



*Segments data is adjusted to take into account the re-segmentation impact based on available information.

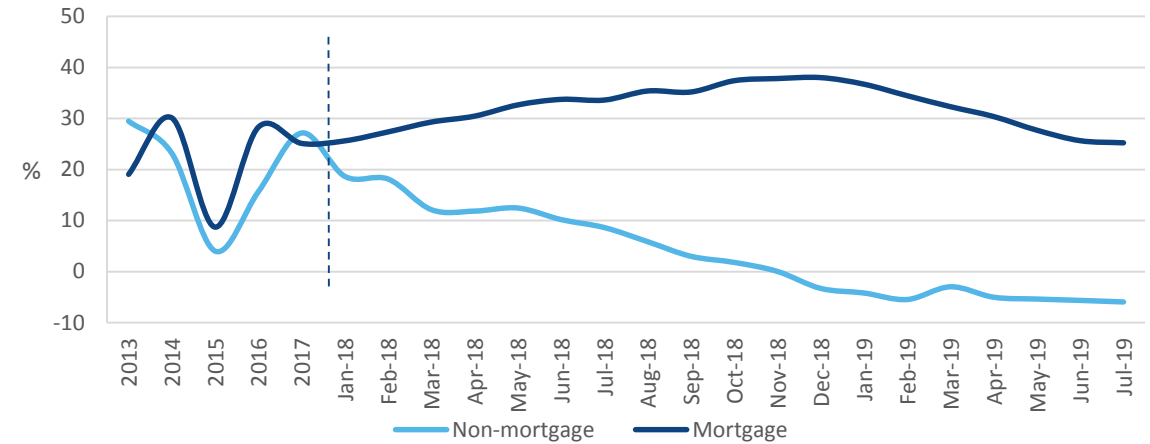
**The FX adjustment also takes into account loans issued in the EUR.

Growth of loans by currencies
(YoY, excl. FX effect)



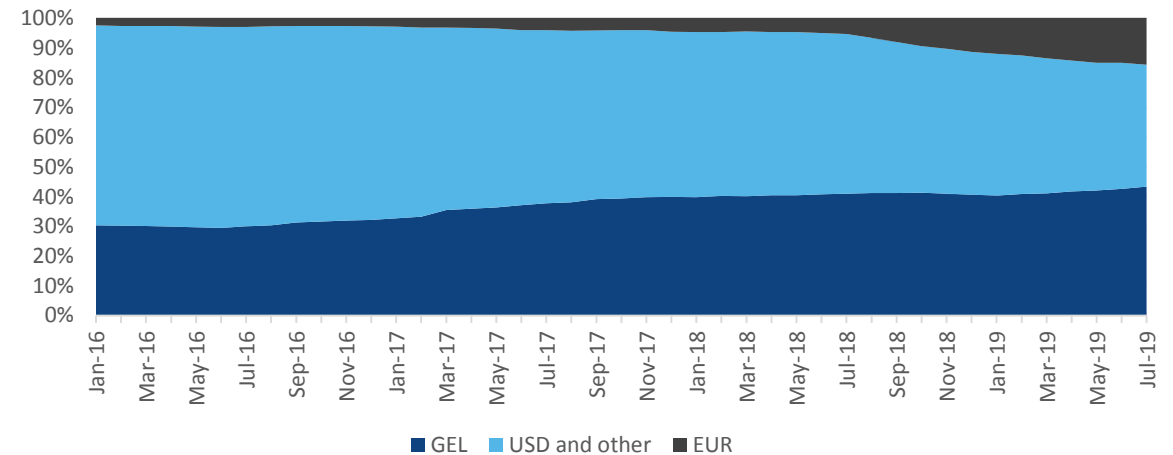
Source: The NBG, TBC Bank Economic Team estimates

Growth of bank retail loans by segments***
(YoY excl. FX effect)



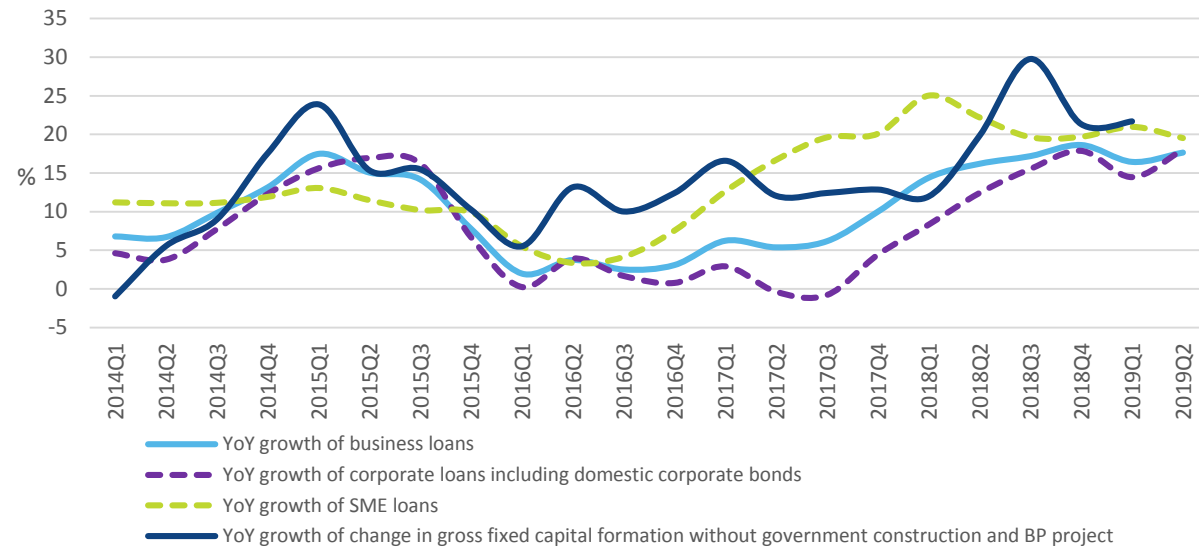
***Non-mortgage portfolio growth rates somewhat differ from the previous publications as MSME and non-mortgage segmentation is relatively better reflected with some micro loans re-segmented in MSME from non-mortgage credit.

Bank Loan portfolio by currencies
(constant July 2019 exchange rate)

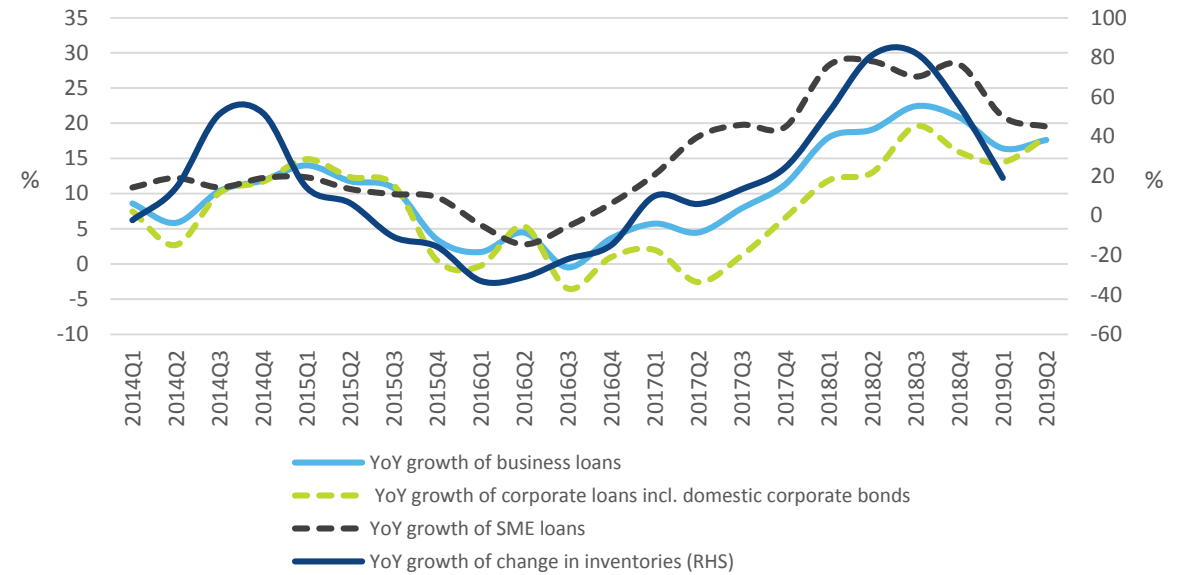


Business credit is expected to normalize after the cyclical pick-up

YoY growth of business lending and gross fixed capital formation

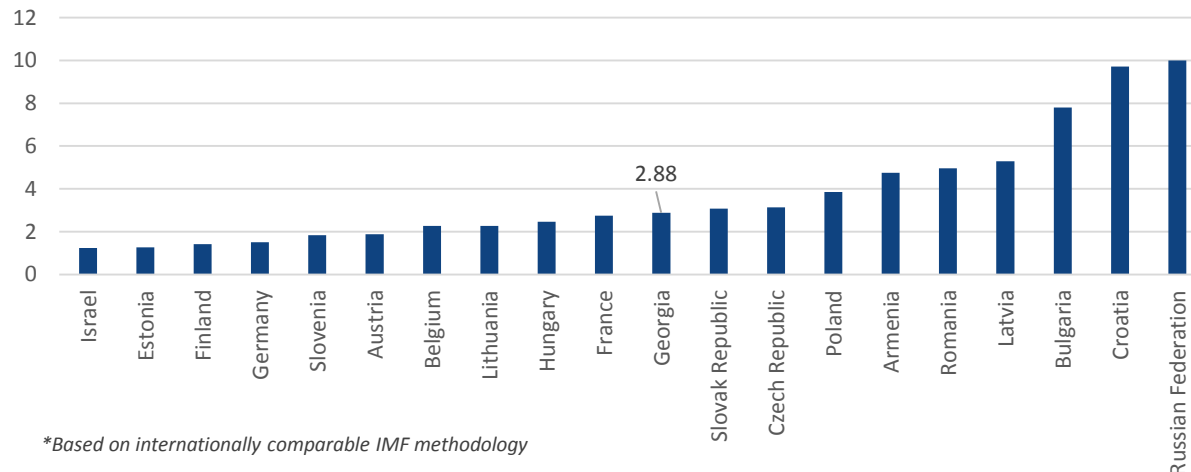


YoY growth of business lending and inventories



NPLs* to Gross loans

(2018 or latest available, Q2 2019 for Georgia)



*Based on internationally comparable IMF methodology

Sources: The NBS, Geostat, IMF FSI, TBC Bank Economic Team estimates

Loan quality indicators by segments**

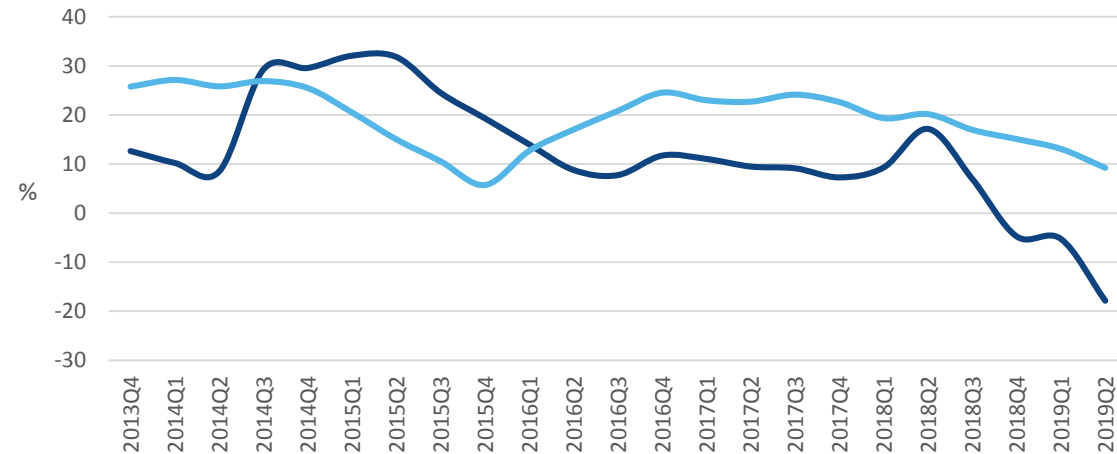
(% of gross loans)

As of July 2019	Watch	NPLs
Retail Loans	3.1%	4.5%
Business Loans	4.6%	6.7%
Corporate	5.9%	7.4%
SME	3.1%	5.9%
Total Loans	4.0%	5.8%

**Based on the NBS methodology

Household credit growth slowing down along with the lower debt service

Household bank and MFI loan growth
(YoY, FX adjusted, adjusted for Credo bank effect)

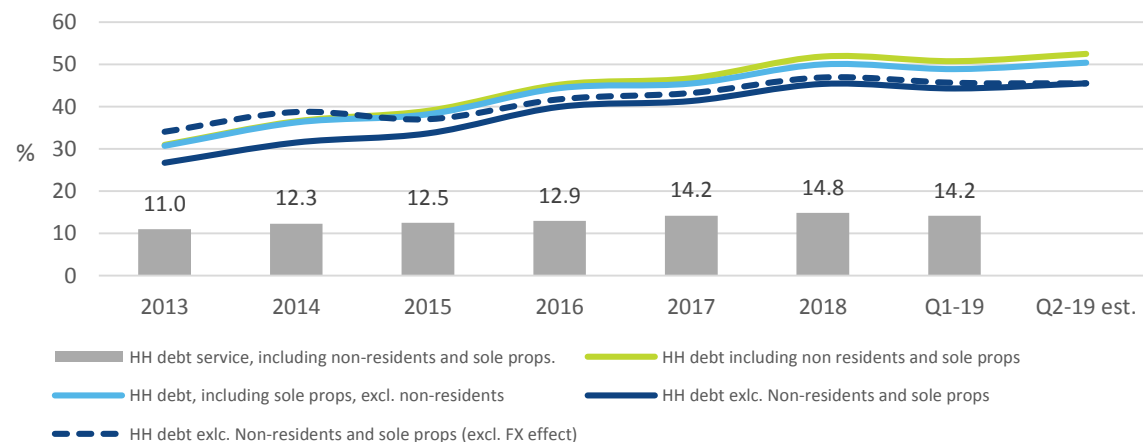


Seasonally adjusted* annualized growth rate of bank retail loan portfolio by segments (%)

	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	7m - 19
Retail	3.6	4.4	-0.8	4.1	12.2	6.2	5.1	4.9
Mortgage	10.0	11.8	9.2	17.4	19.1	15.9	11.2	13.4
GEL	26.0	65.9	91.1	169.3	200.0	139.2	157.8	113.0
FX	5.5	-1.4	-9.2	-12.7	-17.2	-14.4	-24.3	-11.0
Non-mortgage	-5.4	-4.4	-10.0	-7.2	2.5	-5.3	-3.6	-4.9
GEL	-0.3	-4.4	-8.0	-6.4	8.6	-4.2	2.3	-1.9
FX	-28.9	-4.9	-20.5	-12.1	-26.2	-11.0	-31.5	-19.8

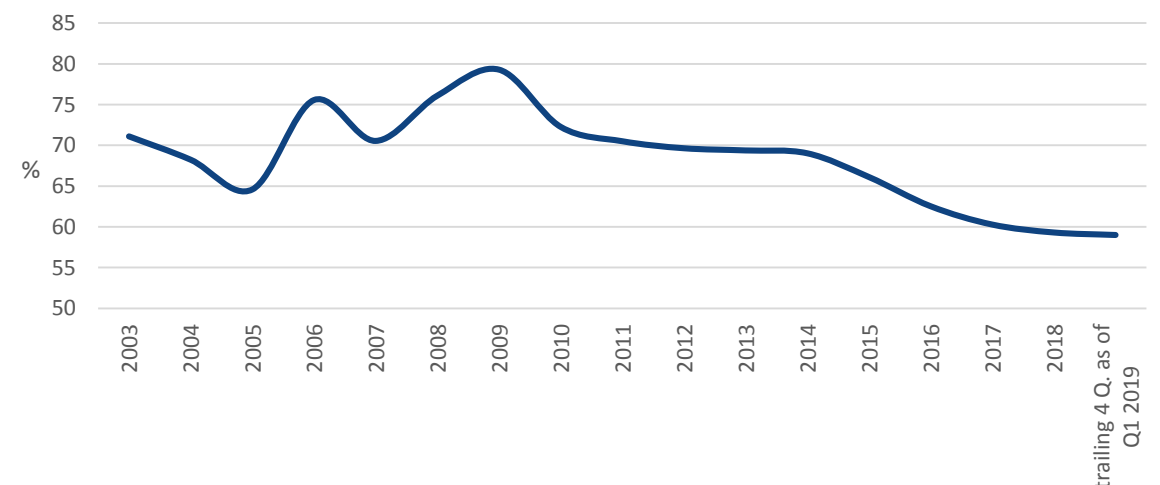
* Seasonal adjustment is carried out by two methods: 1. Using ARIMA x-12 method using e-views software and 2. manual adjustment based on historical data. Both approaches yielded broadly similar results. Figures given in the table represent the average of these two methods.

Household debt and debt service (at current exchange rate) to household disposable income



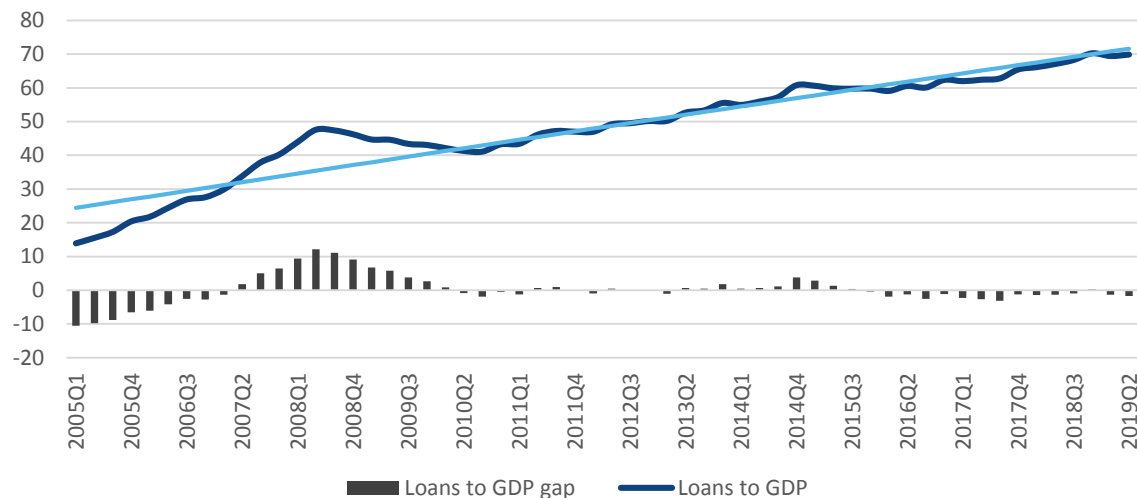
Source: The NBG, Geostat, TBC Bank Economic Team estimates

Household consumption to GDP ratio



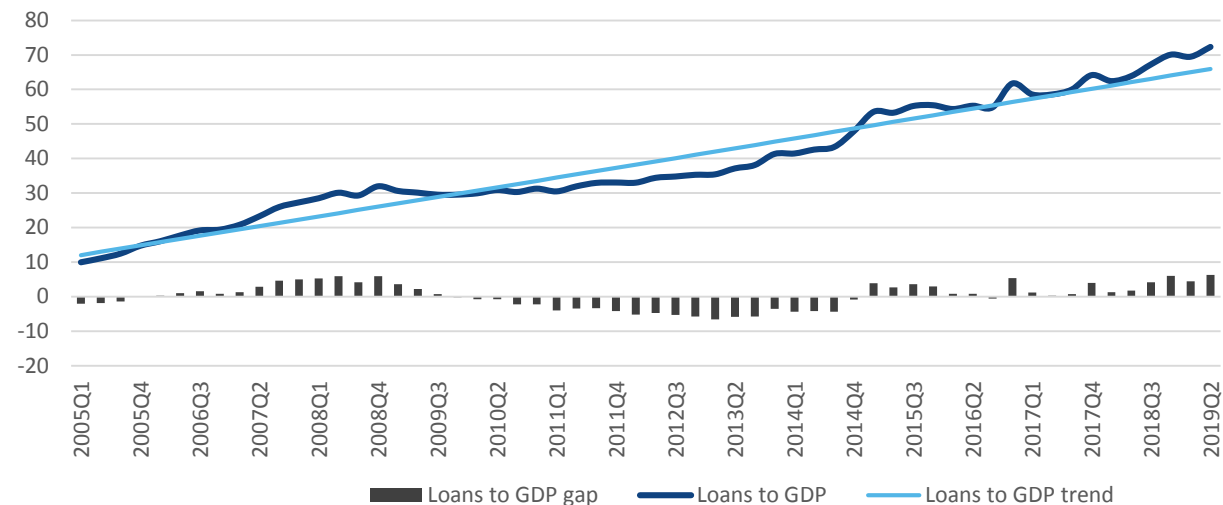
Credit growth below its long term trend at constant exchange rate

Credit to GDP* at constant exchange rate (%)



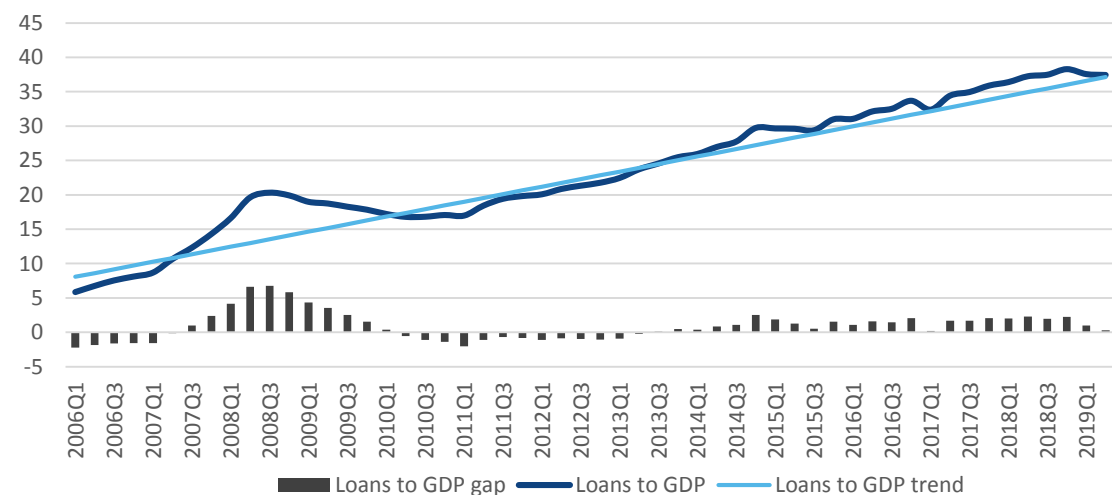
*Includes loans issued by commercial banks, microfinance organizations and domestic corporate bonds

Credit to GDP* at current exchange rate (%)



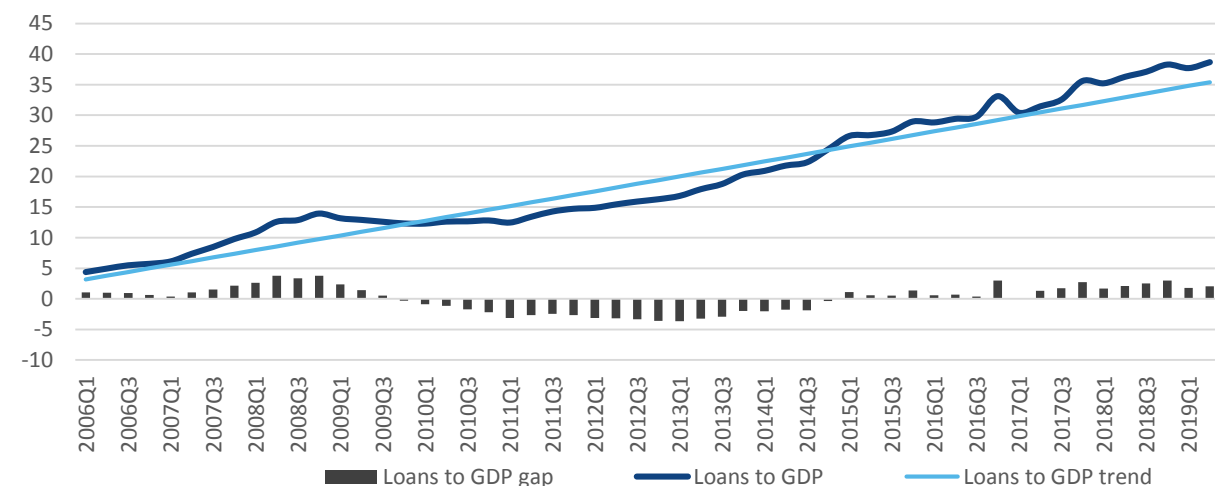
*Includes loans issued by commercial banks, microfinance organizations and domestic corporate bonds

Household credit** to GDP at constant exchange rate (%)



**including MFI, sole proprietors and non-residents

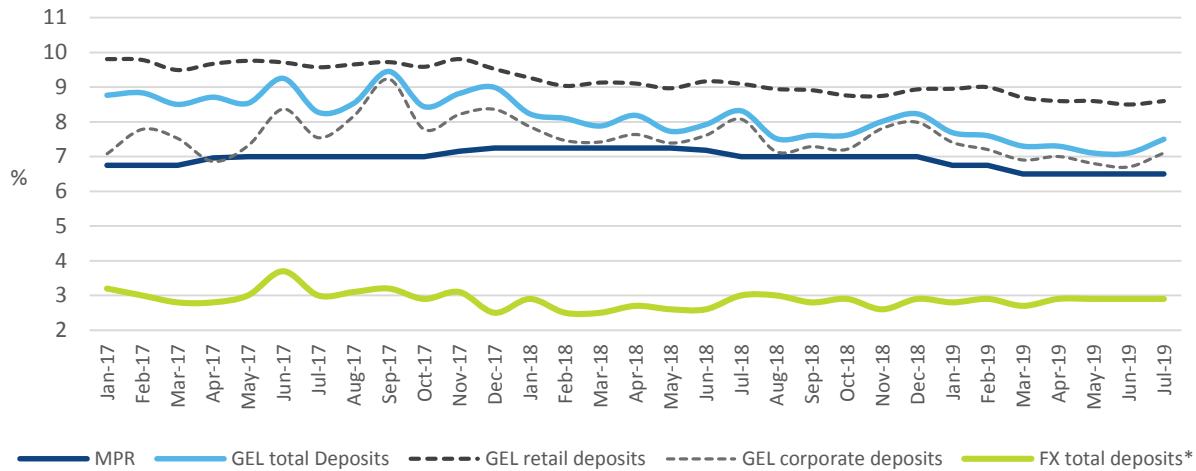
Household credit** to GDP at current exchange rate (%)



**including MFI, sole proprietors and non-residents

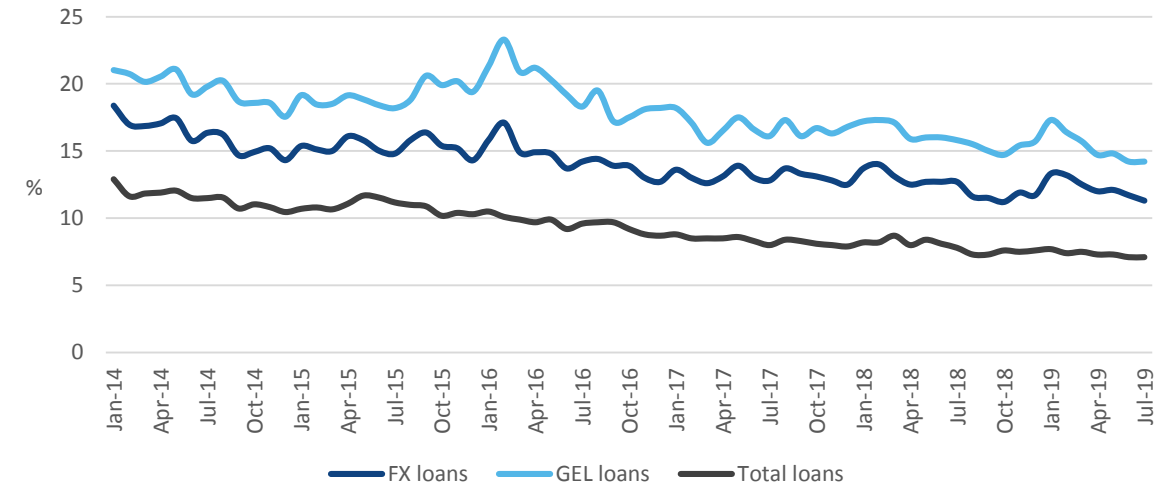
The GEL deposit rates up; NBG to hike the policy rate on Wednesday

Interest rates on deposits (flows) and the monetary policy rate

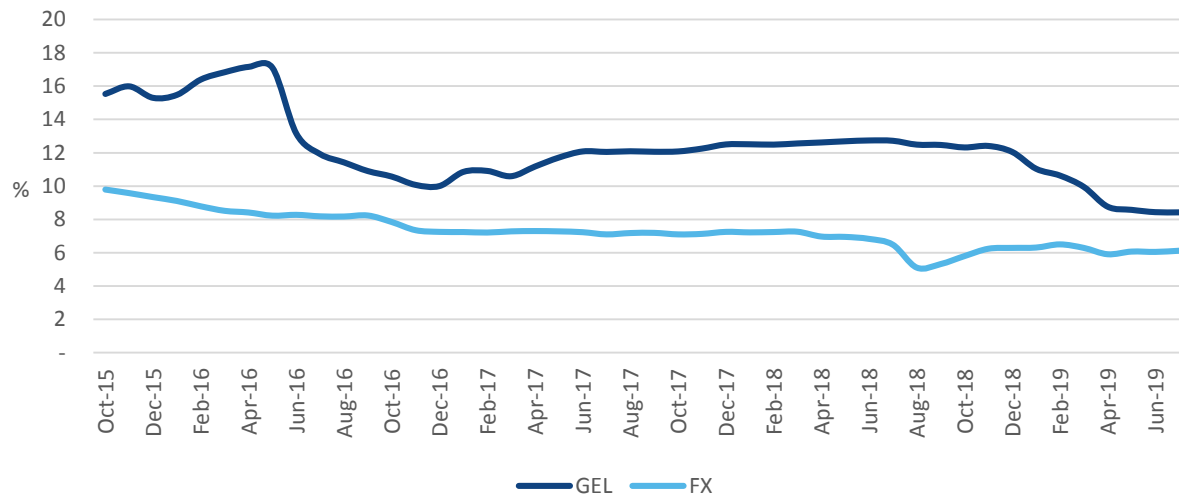


*FX deposit rates reflects mostly the USD. The EUR lending is predominantly based on USD funding and the EUR/USD swaps.

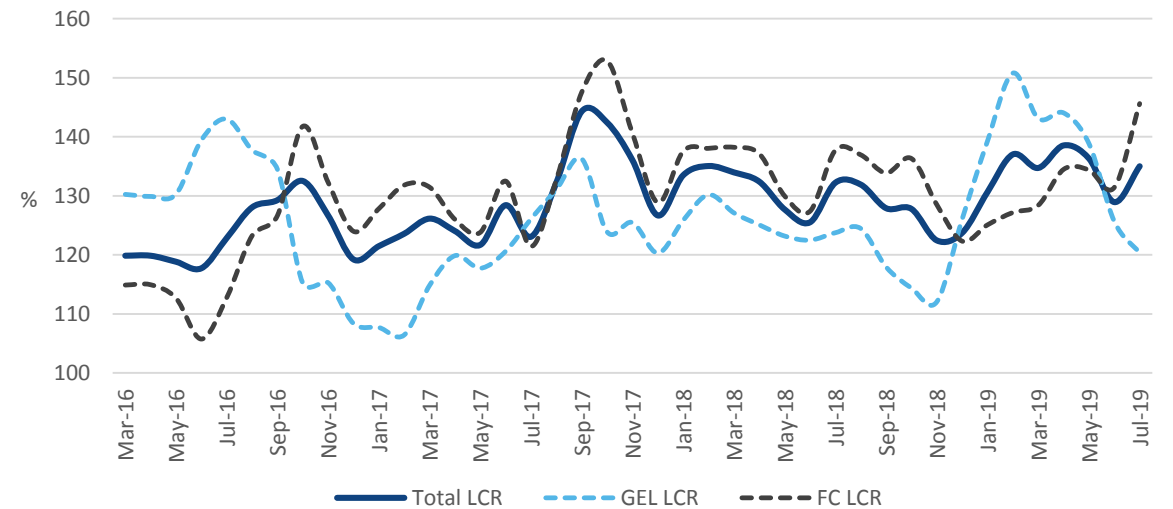
Interest rates on loans (flows)



Interest rates on mortgage loans (flows)

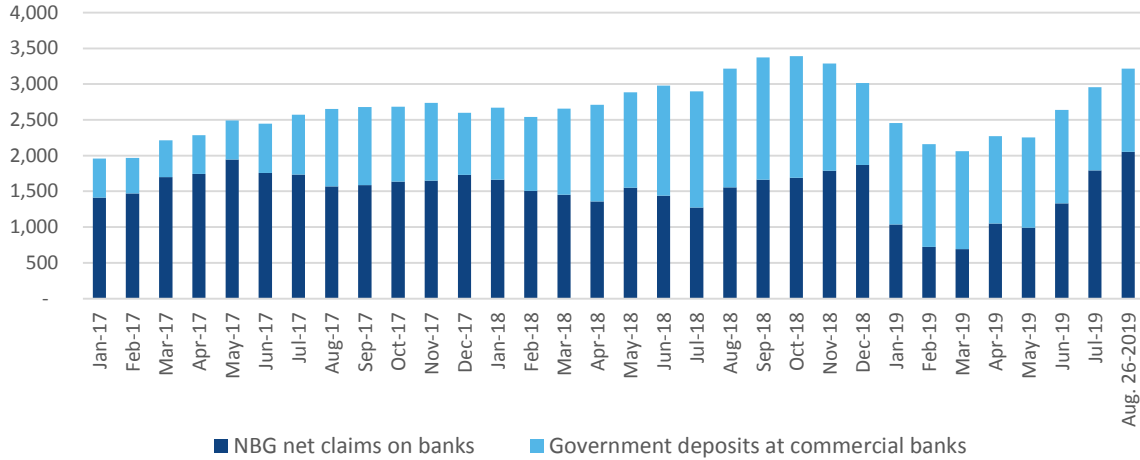


Liquidity coverage ratio

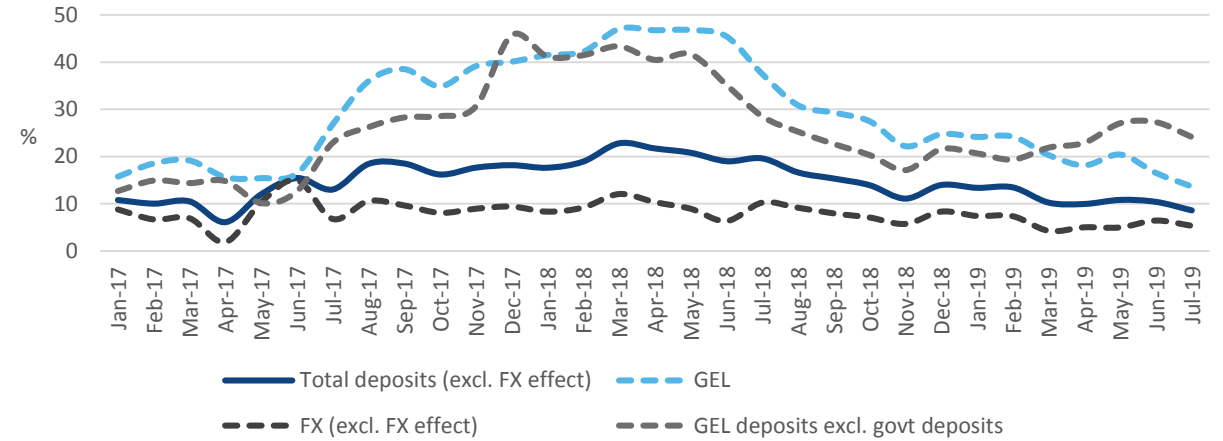


Monetary aggregates' growth to slow as a result of expected tighter stance

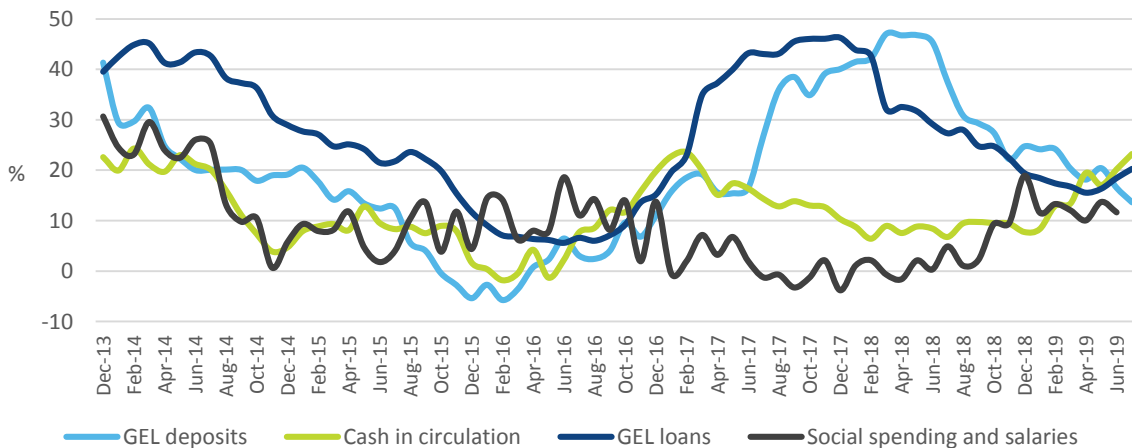
Govt. deposits in banks and financing from the NBG
(1000 GEL)



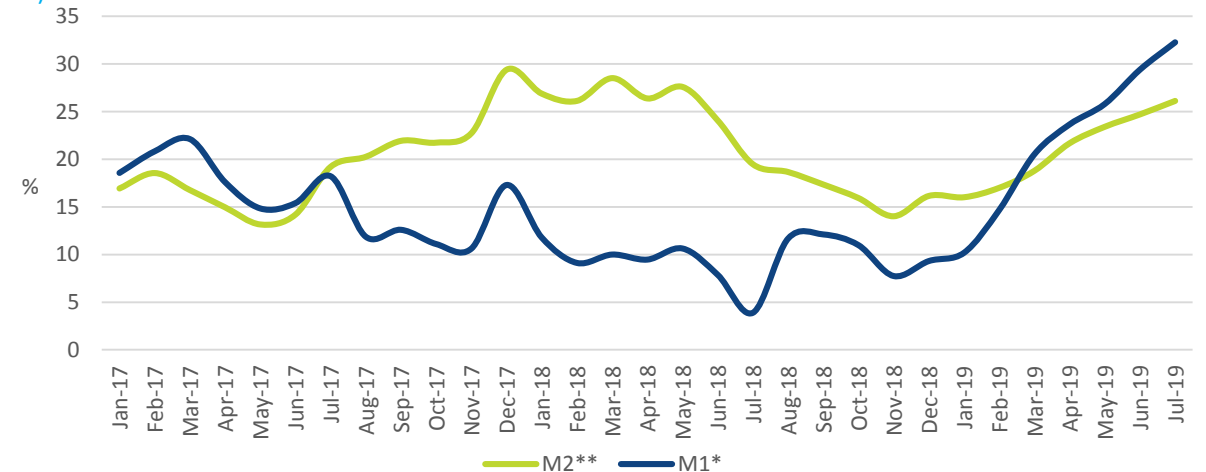
Growth of deposits by currencies
(YoY)



GEL loans, deposits, cash and budget social spending and salaries
(YoY)



Growth of GEL monetary aggregates
(YoY)



Source: The NBG, MOF, TBC Bank Economic Team estimates

*M1 includes currency in circulation, resident demand NC deposits and excludes banking and government sector deposits at commercial banks. ** M2 includes M1 and resident term NC deposits

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