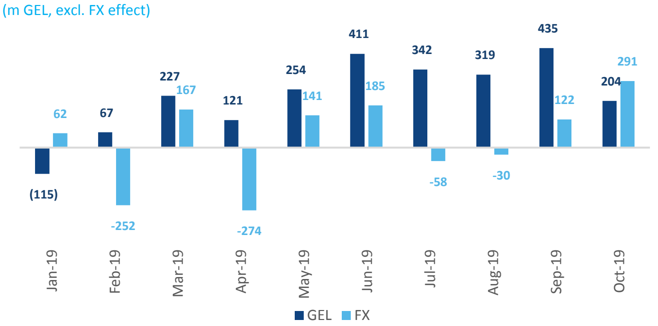
In October, for the first time since January 2019, FX has contributed more to the MoM credit growth. The shift of the credit growth to the foreign currency is the first indication that the market has started to react to the recent monetary policy actions, with a potential positive impact on the GEL exchange rate going forward. Higher interest rates on GEL loans coupled with more favorable lending conditions in FX has likely outweighed depreciation expectation at least to some extent. If depreciation expectations prevail again, we maintain our view expressed in the latest monthly update on more aggressive tightening in GEL and possible further relaxation in FX.

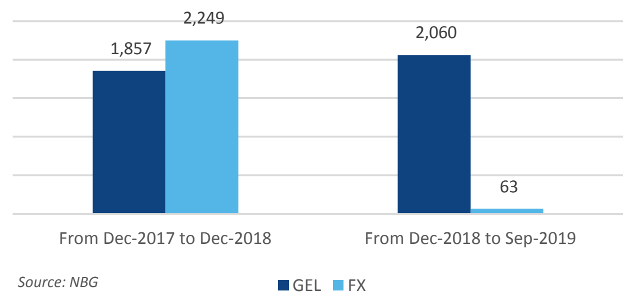
Aside from the currency composition, overall credit dynamics remained broadly similar to the past couple of months, with somewhat weaker annual growth in October. Credit continues to be driven by the business loans, especially corporate segment, with above 20% annual increase, while the retail credit has slowed further. Growth of the retail portfolio stood at 5.8% YoY, compared to the 8.1% YoY in September, mostly reflecting high base effect from the previous year as monthly annualized seasonally adjusted rates remained at around 5%, similar to the past couple of months. However, monthly growth of non-mortgage softened, while mortgage accelerated, in contrast to our expectations.

Monthly growth of loans by currencies, non-seasonally adjusted
(m GEL, excl. FX effect)



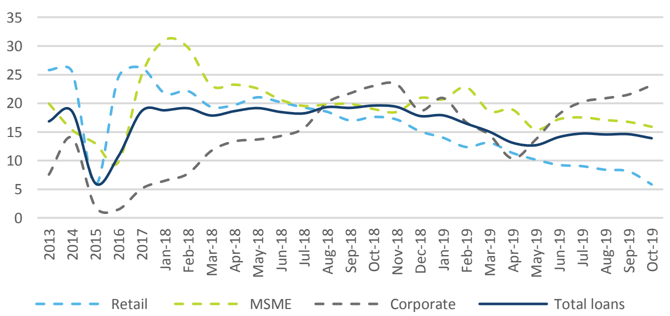
Source: NBG

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



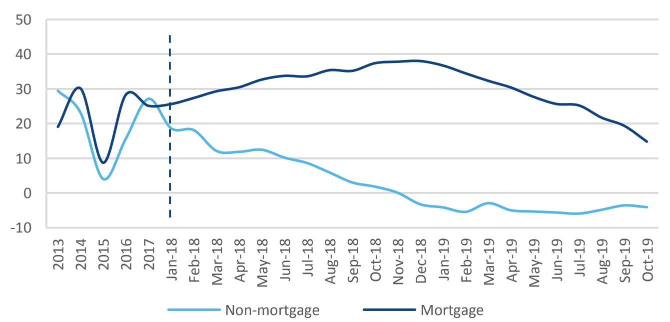
Source: NBG

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



Source: NBG, TBC Research estimates

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



Source: NBG, TBC Research estimates

Seasonally adjusted annualized growth rates* (%)

	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	10m 2019
Retail	4.4	-0.8	4.1	12.2	6.2	5.1	6.5	4.9	5.4	5.1
Retail as sum of mortgage and non-mortgage	3.8	-0.2	4.9	10.0	5.7	3.7	5.7	4.4	5.5	4.6
Mortgage	10.3	7.6	14.4	15.8	14.1	9.4	5.1	4.3	13.1	10.3
GEL	65.3	90.6	167.8	198.4	138.2	157.1	99.2	81.3	59.3	101.7
FX	-1.7	-9.5	-13.3	-17.7	-14.8	-24.6	-22.6	-21.5	-6.2	-13.1
Non-mortgage	-4.4	-10.0	-7.2	2.5	-5.4	-4.0	6.6	4.6	-5.0	-2.9
GEL	-4.4	-8.0	-6.4	8.6	-4.2	2.3	12.1	7.9	-1.8	0.4
FX	-4.9	-20.5	-12.1	-26.0	-11.0	-31.4	-18.7	-11.9	-21.1	-19.0

** 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.*

Source: NBG, TBC Research estimates

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