THE GEORGIAN BANKING SYSTEM'S IN POST-CRISIS PERIOD

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Abstract:

The main purpose of our study was the evaluation of Georgian banking system based on the events developed in recent years. The study covered the quality of assets, issued credits, stock and profit gaining ability.

The main attention was paid to the quality of assets of banking system, dynamics of portfolio of total assets and credits. We analyzed three years (2007-2009-2010) and made of their comparative analysis, which is given in the form of diagrams. On the basis of study it was determined that the year of 2009 was very severe for Georgian banks. The main reason of it was consequences of Russian aggression of 2008 and worldwide financial and banking crisis due to which the commercial banks were faced against. the acute problem of credit repayment and liquidity problem was arose as well.

At the end of 2009 and the beginning of 2010 situation, arose in banking system relatively became stable and the banks avoided banking crisis that was reflected on the credit issuance and depositing quantity and amount; however positive trends are still weak and the country still faces significant financial and political risks.

Key words: Georgian Banking System, dynamics of portfolio, financial and political risks.

Further reforms aimed at the stable banking system and the creation of a competitive environment still remains a priority in transition to the market economy in Georgia. For all, the major changes in the financial and monetary-credit system of the country, its still remain sensitive to a number of risks, that affecting the reliability and sustainability of the Georgian banks.

The August 2008 armed conflict has created financial problems, which were further aggravated by the world economic crisis. As a result, the assets of the Georgian banking sector have diminished significantly.

The liquidity crisis in 2009 caused a drastic demand for the physical and legal entities' cash means, which understandingly led to their outflow. The repayment of the loans became a problem, too. The inflation of GEL increased indirect losses, with it all having an adverse affect on the standing of the Georgian banks.

However, in the early 2010, some positive indications were detected in the Georgian banking system. Namely, its assets grew by 5.1% and 10.9% y-o-y 2009, which in monetary terms represented over 8.7 bln GEL .

Understandingly, the ratio of the bank assets, deposits and loans with GDP is going up pro rata the growth of the banking system (see table 1).

Table 1 makes it clear that by the late 2010, the ratio of the bank assets to GDP formed 49.4%, which marked 5% increase y-o-y and 7.7% growth compared to 2007.

Table 1. The Nominal GDP and Bank Conduct Indexes

	Tender	2007	2008	2009	2010
Real sector					
Nominal GDP	Mln. GELL	16993.8	19074.9	17986.0	20791.3
Bank assets/GDP, %		41.7	43.5	44.2	49.4
Bank loans/GDP, %		25,5	27,9	28.0	28.7
Deposists/GDP, %		17.4	14.9	17,1	28.3
Per capita GDP (in current prices), GEL		3866.9	4352.9	4101.3	4686.5

Source: The national Bank of Georgia and own calculations.

(Banks and Finances) The loans-GDP ratio went up significantly: from 25.5% to 28.7%. Compared to 2007, the deposit-GDP ratio went up too: from 17.4% to 28.3%[1].

Table 1 testifies to the potential growth and development of the banking sector and, consequently, its investment opportunities.

Before the developments in August 2008, the Georgian banking system had been growing rapidly partly due to the liberal approach and low level government regulation of the credit etc. risks, which ultimately led to the acquisition of distressed assets by the commercial banks and the lower quality assets and capital.

[1] Note: it should be said that in 2009, the GDP absolute value diminished and in 2010 the GDP growth slackened, which would have boosted the aforesaid ratio.

The crisis affected incomes of both the legal and natural entities, and apart from obstacles in credit issuance resulted in overdue loans. Therefore, most of the banks faced an acute liquidity problem.

Al-Tamimi and Al-Mazrooei (2007) state that they studied the bank risk management in the United Arab Emirates' and foreign banks and detected three most significant risk factors: the foreign currency, credit and operational risks. In their words, the risk management in the United Arab Emirates was fairly efficient. According to their conclusions, there were noteworthy differences in the assessment, analysis, monitoring and risk control performed by the banks in the United Arab Emirates and elsewhere.

In the late 2010, the Georgian Finance Ministry and commercial banks executed a collaboration treaty at the National Bank of Georgia. The treaty aimed at higher accessibility of the bank credits, creation of a favourable business environment and, generally, a boost to the national economy by incentives to decent debtors.

The banks were allowed to leverage the liquidity decree partly by online monitoring of the correspondent account and partly by regulating the daily internal liquidity, which makes it possible to issue the secured loans and service by way of creation a single inter-bank pledge-crediting system.

According to A Crockett - liquidity is not dependent simply on objective, exogenous factors (such as efficient market infrastructure, low transaction costs, large number of buyers and sellers, transparent characteristics of traded assets), but is crucially influenced by endogenous forces, especially by the dynamic reactions of market participants in the face of uncertainty and changes in asset values. In favourable conditions, liquidity is easily available and cheap and can be determined by exogenous factors. But under stress conditions, liquidity becomes very scarce and expensive and it may become even effectively unavailable.

Rapid analysis of the bank system concerns 2010 since 2009 had been largely affected by the political crisis and economic slow-down of the previous year. The time was highlighted by the economic slump and 65mln. GEL loss suffered by the country's banking sector. Therefore, we believe that 2010 gives a relatively accurate picture of the prospects of the banking system and the obstacles, too.

Table 2

Name of the Bank	Assets	Credit Investment	Total Liabilities	Deposits	Deposits of Non-Banking Legal Entities and Natural Persons	Deposits of Legal Entities	Deposits of Natural persons	Share Capital
Bank of Georgia	35,62%	35,45%	35,59%	33,38%	33,88%	38,66%	28,98%	35,74%
TBC Bank	22,19%	23,84%	22,31%	24,25%	24,59%	17,74%	31,63%	21,60%
ProCredit Bank	7,81%	9,07%	8,02%	7,66%	8,26%	4,40%	12,23%	6,76%
Bank Republic	6,62%	7,05%	6,84%	7,50%	8,09%	6,65%	9,58%	5,48%
Liberty Bank	5,56%	3,15%	6,16%	7,94%	7,97%	9,70%	6,21%	2,48%
Cartu Bank	5,14%	7,06%	4,58%	2,32%	1,53%	1,75%	1,31%	8,03%
HSBC Bank	3,81%	1,72%	4,12%	4,17%	4,48%	8,70%	0,15%	2,18%
VTB Bank	3,35%	3,61%	3,34%	3,23%	3,48%	4,17%	2,77%	3,38%
KorStandard Bank	2,89%	2,58%	2,84%	4,06%	3,20%	3,88%	2,51%	3,13%
Privat Bank	2,37%	2,26%	2,43%	2,71%	1,83%	1,61%	2,05%	2,08%
Basis Bank	1,29%	1,03%	1,29%	1,48%	1,60%	1,72%	1,47%	1,32%
BTA Bank	1,00%	0,91%	0,84%	0,38%	0,32%	0,41%	0,23%	1,81%
Constanta Bank	0,89%	1,16%	0,88%	0,05%	0,06%	0,03%	0,08%	0,92%
International Bank of Azerbaijan	0,47%	0,54%	0,45%	0,48%	0,37%	0,21%	0,54%	0,58%
Halyk Bank Georgia	0,35%	0,15%	0,15%	0,16%	0,10%	0,16%	0,04%	1,40%
Ziraat Bank	0,23%	0,02%	0,09%	0,13%	0,14%	0,15%	0,13%	0,97%
Invest Bank	0,15%	0,18%	0,03%	0,05%	0,06%	0,02%	0,09%	0,77%
Progress Bank	0,13%	0,16%	0,03%	0,02%	0,02%	0,03%	0,01%	0,65%
Caucasus Development Bank	0,12%	0,07%	0,01%	0,01%	0,01%	0,01%	0,00%	0,73%
Consolidated	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**

Source: National Bank of Georgia

Table 2 reflects the Georgian commercial banks in terms of *assets*, issued *credits*, *deposits, capital* and the percentage in the system by 1 March 2011. The table shows that over 85% of the non-banking deposits relate to 5 banks, while for 8 banks this index reflects 98% of all the 19 banks. Apparently, relatively minor banks find it difficult to form the deposit basis and/or operate at the market by means of outside resources or own capital. Consequently, their asset growth is restricted.

Analysis of the credit portfolio gives a similar picture. Over 83% of credits are related to 5 out of 19 banks, while for 8 banks this index makes up 93% of the common index. Obviously, in the crisis, the said factor heightens the system risks.

By 1 March 2011, in terms of their assets, the Georgian banks looked like as follows:

Table 3. The Georgian Banks in Terms of Their Assets

		Total Assets (in thousands of GEL)
1.	Bank of Georgia	3 802 344
2.	TBC Bank	2 369 407
3.	ProCredit Bank	834 058
4.	Bank Republic	706 428
5.	Liberty Bank	594 070
6.	Cartu Bank	548 304
7.	HSBC Bank	406 565
8.	VTB Bank	357 552
9.	KorStandard Bank	308 059
10.	Privat Bank	253 502
11.	Basis Bank	137 921
12.	BTA Bank	106 247
13.	Constanta Bank	95 008
14.	International Bank of Azerbaijan	50 622
15.	Halyk Bank Georgia	37 390
16.	Ziraat Bank	24 404
17.	Invest Bank	16 345
18.	Progress Bank	14 040
19.	Caucasus Development Bank	13 249
	Total	**10 675 516**

Source: National Bank of Georgia

As the data make it clear, the relatively smaller assets amount to 50 mln GEL, which means that a newly set up bank aiming at the establishment at the market in 2-3 years to serve corporate clients should own the assets worth at least 30-35 mln GEL.

Along with the assets, the banks' credit portfolio expanded, too. By the time the Georgian commercial banks' credit portfolio looked like as shown below (see table 4)

Table 4: Volume of the commercial banks' credit portfolio (in thousands GEL)

1.	Bank of Georgia	_	2 212 529
2.	TBC Bank	_	1 487 625
3.	ProCredit Bank	_	565 892
4.	Bank Republic	_	439 892
5.	Liberty Bank	_	196 781
6.	Cartu Bank	_	440 645
7.	HSBC Bank	_	107 054
8.	VTB Bank	_	225 246
9.	KorStandard Bank	_	160 819
10.	Privat Bank	_	140 730
11.	Basis Bank	_	64 229
12.	BTA Bank	_	56 524
13.	Constanta Bank	_	72 184
14.	International Bank of Azerbaijan	_	33 763
15.	Halyk Bank Georgia	_	9 623
16.	Ziraat Bank	_	1 340
17.	Invest Bank	_	11 003
18.	Progress Bank	_	10 130

Source: National Bank of Georgia, statistical data

In 2010, the banking system's deposit liabilities grew significantly, especially so in the fourth quarter, when it grew by 339.2 mln GEL, i.e. 7.5%, to form 4842.7mln GEL. Compared with last December, the index has gone up by 4.35%.

The index of the deposits denominated in a foreign currency expressed in the national currency grew by 132.7 mln GEL i.e. 4% to form 3482.4 mln GEL. The increase – 90.2 mln GEL is especially remarkable for the foreign currency deposits in the accounts of legal entities. 57% out of all the foreign currency deposits are held by natural persons, while 68.9% of thoses are term deposits.

Table 5: Interest rates for deposits

Interest rates for deposits							
	Interest rates for deposits TOTAL	Among those :					
		In national currency	Among those:	In foreign currency		Among those:	
			Legal entities	Natural persons		Legal entities	Natural persons
December-09	9,4	10,7	10,2	11,0	9,2	9,3	9,1
January -10	8,9	10,9	9,4	11,4	8,6	8,2	8,8
February -10	9,2	10,7	10,0	11,1	9,0	10,3	8,5
March -10	9,0	10,7	10,1	11,0	8,8	7,1	9,3
April-10	8,4	10,1	10,1	10,1	8,1	8,8	8,0
May-10	7,9	10,0	10,8	9,8	7,5	7,6	7,5
June-10	8,2	9,5	8,7	9,8	8,0	9,8	7,6
July-10	7,7	9,2	8,1	9,7	7,4	7,0	7,4
August-10	7,5	9,3	8,0	9,9	7,2	6,7	7,3
September-10	8,0	10,0	10,1	10,0	7,6	7,1	7,7
October-10	7,9	10,3	10,3	10,1	7,3	7,7	7,2
November-10	7,8	9,9	8,5	10,5	7,5	7,6	7,4
December-10	7,9	10,2	8,8	10,7	7,6	7,2	7,8
January-11	8,2	11,0	10,7	11,2	7,6	7,3	7,6
February-11	8,3	11,4	10,5	12,1	7,9	7,0	8,5
March-11	8,8	11,9	11,7	12,2	8,2	7,7	8,4

Source: National Bank of Georgia, statistical data

The trend of smaller interest rates charged to the deposits, which started in June 2010 was replaced by their growth in the early 2011 for the resources both in the national and foreign currencies (See table 5).

Compared to last July interest rates charged to the natural persons' deposits grew by 2.5 % on average and by 0.8% for the ones in a foreign currency. The trend is likely to preserve in 2011 due to the inflation, and, also the NBG decision to gradually increase the reserve requirements for foreign currency resources up to 15%.

In the 4 quarter of 2010 crediting of the economy by the commercial banks grew by 420,9mln GEL and formed 6337.1mln GEL. Since early last year, the credit investments have gone up by 21% from 5.2bln GEL to 6337.1mln GEL

The growth has largely resulted from larger loans borrowed by legal entities (9.4%), with the same index being 5.2% for the natural persons.

Between December 2009 and December 2010, the loans increased by 20,6 %.

Table 6: the Commercial Banks' Credit Portfolio

	Sum	Share
Interbank loans	4 395	0,1%
Loans to commerce and service sectors	1 917 367	30,7%
Loans to energy sector	170 381	2,7%
Loans to agriculture and forestry sector	48 673	0,8%
Loans to developers	418 633	6,7%
Loans to mining and processing sector	400 376	6,4%
Loans to transportation and communication sector	95 896	1,5%
Loans to natural persons	2 441 006	39,1%
Loans to other sectors	743 947	11,9%
Total Loans	6 240 675	100,0%

Source: National Bank of Georgia, statistical data

Loans issued to natural persons and commerce and services formed 70% of the banking system's credit portfolio (see table 6).

Since 2008 loans issued for construction and processing started growing again, with the trend likely to preserve in the mid–term perspective.

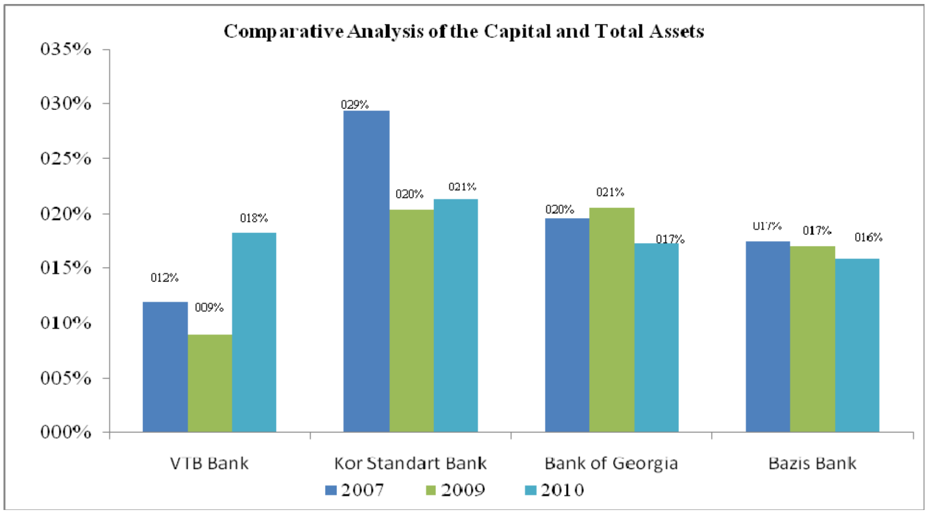
It is noteworthy that by the end of last year, the overdue loans reduced by 28.5mln GEL (14.1%) to form 174.0mln GEL while the percentage of debts in the total loans diminished by 0.68% compared to the previous reporting period to form 2.75%, which marks improved quality loans.

The figures below depict comparative analysis of 4 Georgian commercial banks:

- Ratio between the capital and total assets;
- Ratio between the initial capital and the risk-weighted assets
- Ratio between the risk-weighted and total assets
- Net profit - total assets ratio
- Net profit - share capital ratio
- Liquid assets – total assets ratio
- Liquid assets – total deposits ratio

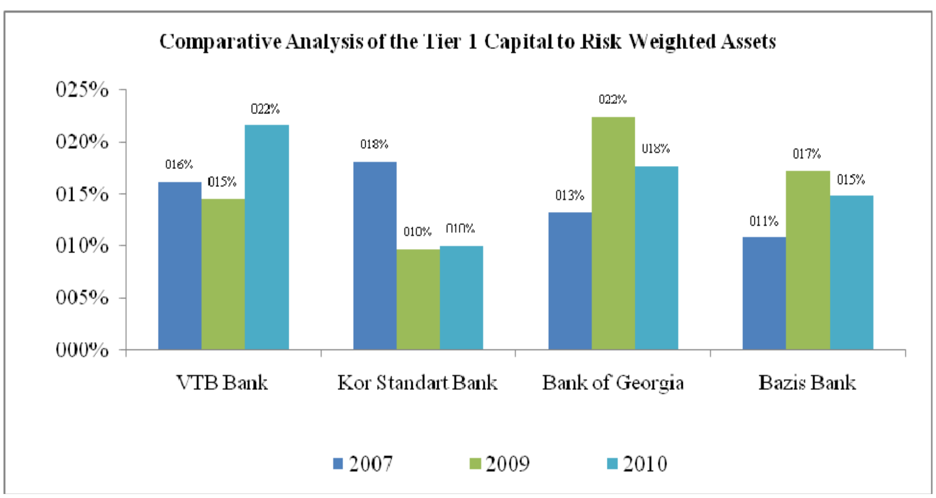
The Georgian banking system's capital adequacy index for three years (2007-2009-2010).

Figure 1



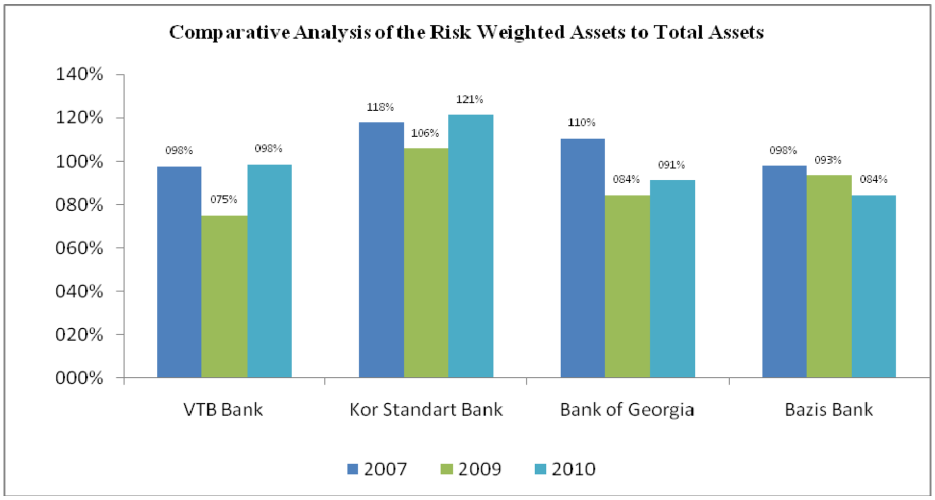
In 2007, the commercial banks formed on average 20%of the total number of banks in Georgia, while in 2009 their share was 17% and 2010 – 18% (see fig. 1). The comparative analysis of the index testifies to a smaller capitalization of the banks resulting from the crunch. As the table above shows, it was only in case of the VTB Bank that the index improved.

Figure 2



In 2007, the banks' average index was 15%, while in 2009-2010 it went up to 16% (See figure 2)

Figure 3

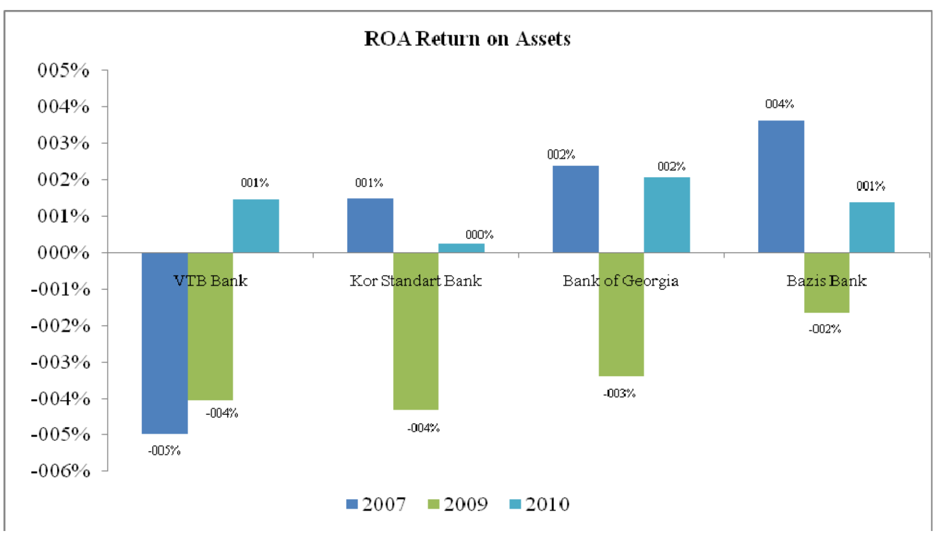


In 2007, the relevant index on average was 106%, while 2009 was marked by 16% reduction to form 90% on average.

In 2010, the average index was 99% (See fig.3)

The figures make it evident that the financial indicator of the four Georgian commercial banks in 2007 was better than in the next two years.

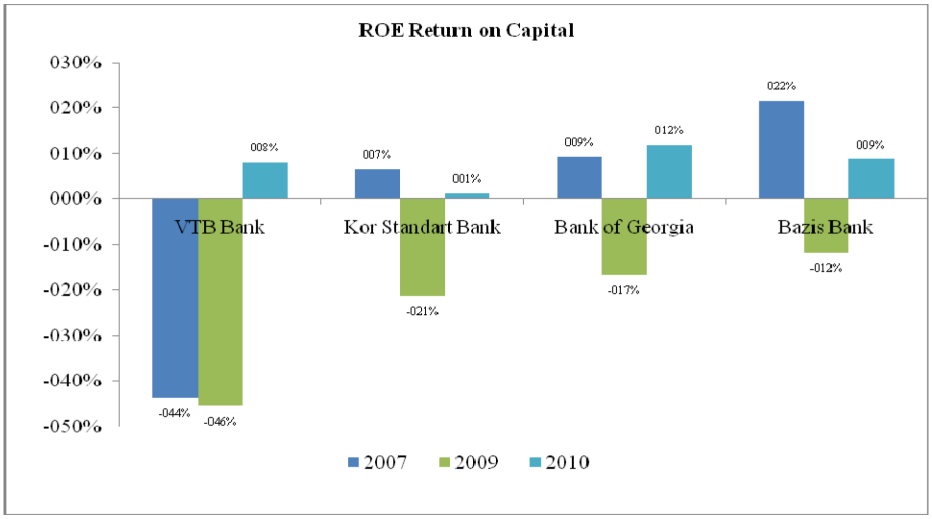
Figure 4



In case of the aforesaid banks, the average ROA for three years formed -1% as against 2007 when the same was 1% and in 2009, the average of -3% which was a clearly a negative indicator.

2010 was marked with relative stability of the Georgian banks with its average indicator of 1%.

Figure 5



In 2009, the average ROE formed -24%, while in 2010 it went up to 7% (See figure 5).

The figures make it clear that 2009 was unfavorable to the banks as shown by the smaller operational profits resulting from the poorer quality assets. It should be said that in the late 2009, the operational profits stopped diminishing, which means that the Georgian banks avoided bankruptcy.

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