



საქართველოს ეროვნული ბანკი
National Bank of Georgia

Financial Sector Overview

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Vice-Governor

National Bank of Georgia
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Outline

1. Macroeconomic Overview
2. Banking Sector
3. Regulatory Framework & Updates



1. Macroeconomic Overview

Georgia at a Glance

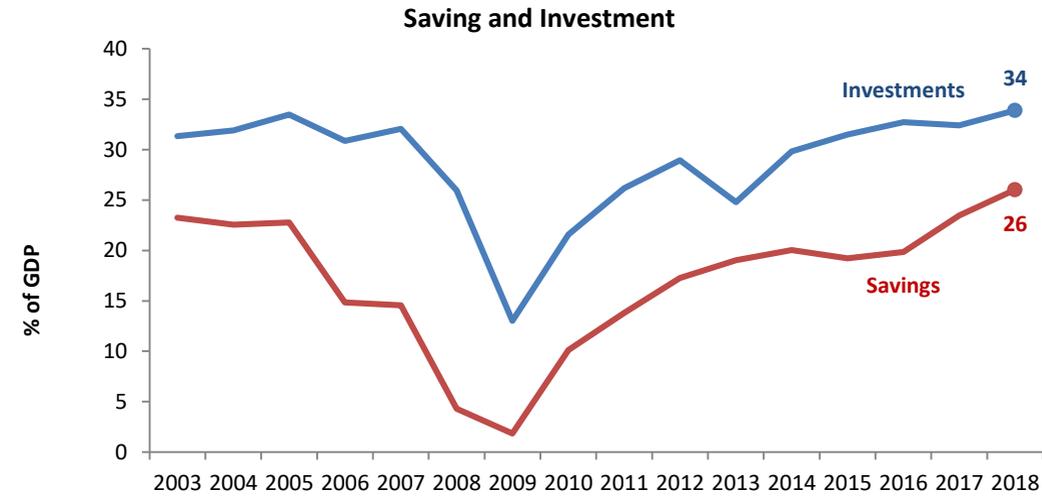
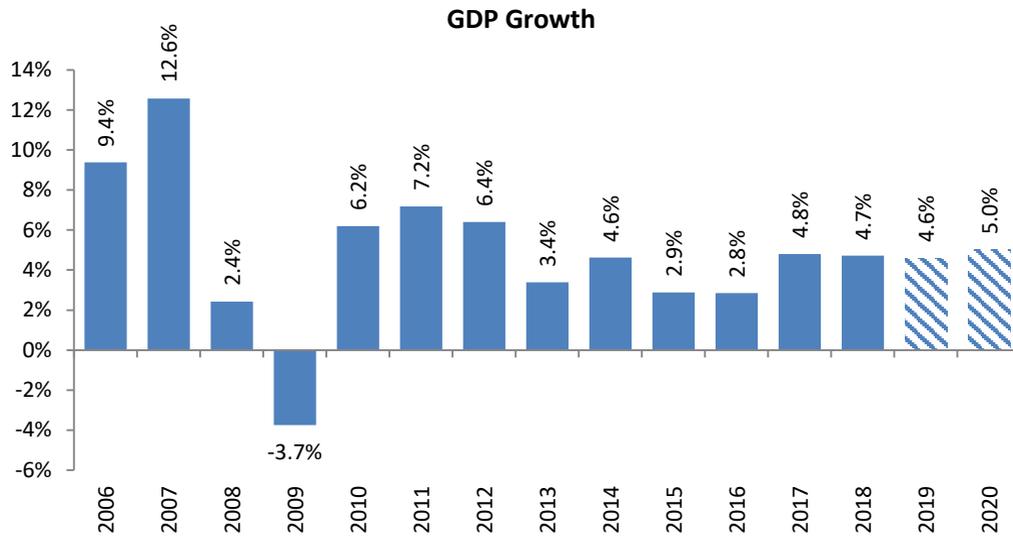
Small open economy

- Area: 69,700 sq km
- Population: 3.7 million (2018)
- GDP 2018: US\$16.2 billion
- GDP per capita 2018 (est.) (PPP): int\$ 11,485
- Average GDP real growth (2007-18): 4.5%
- GDP real growth 2018: 4.7%
- Average inflation rate (2009-18): 3.4%
- External public debt / GDP 2018: 35.5%
- Sovereign ratings:
 - Fitch BB/Stable **Upgraded February 2019**
 - S&P BB-/Positive **Improved April 2019**
 - Moody's Ba2/Stable **Confirmed March 2019**

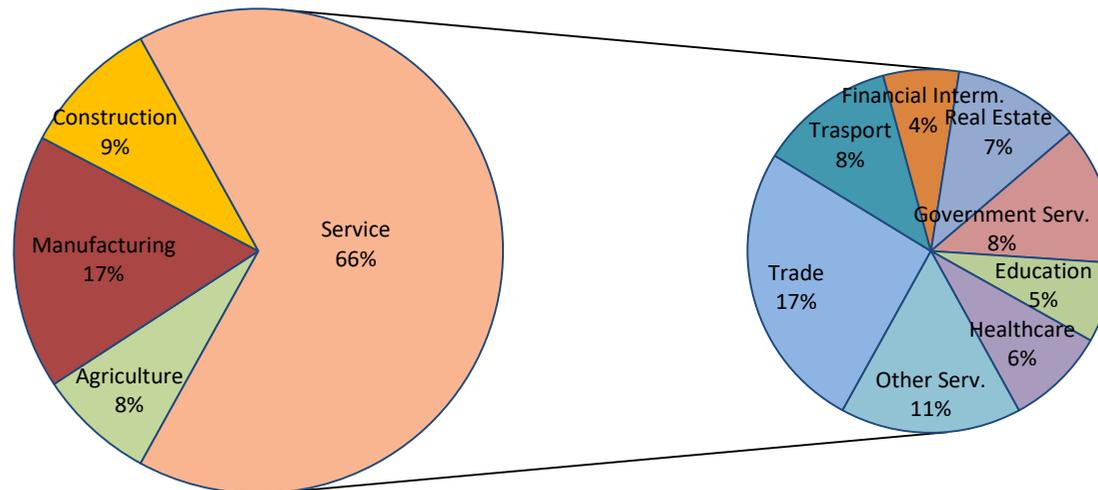


Economic Growth

Diversified economy with stable and robust growth

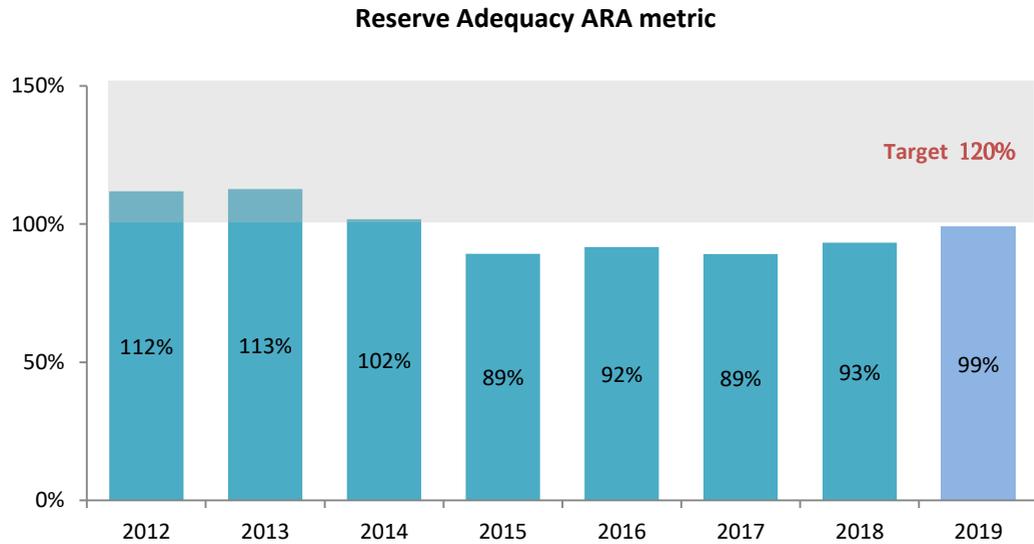
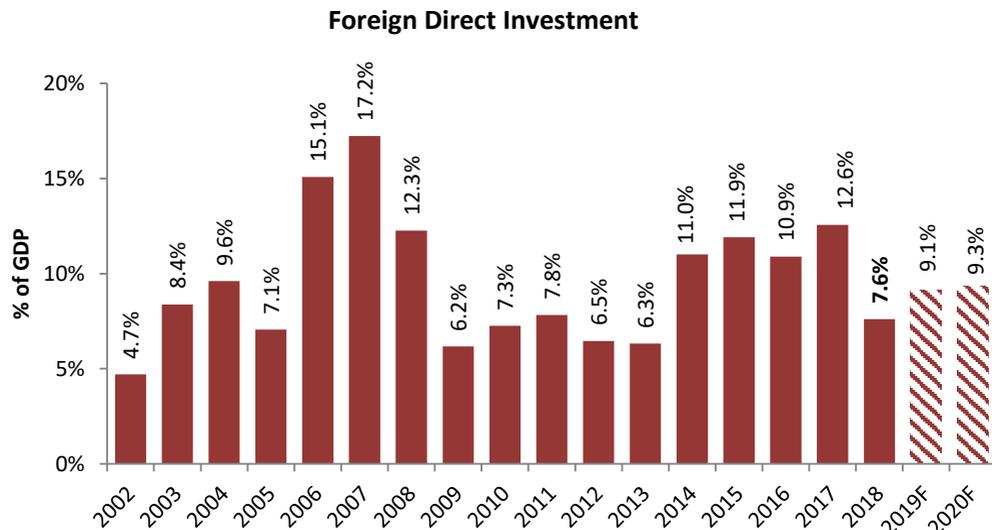
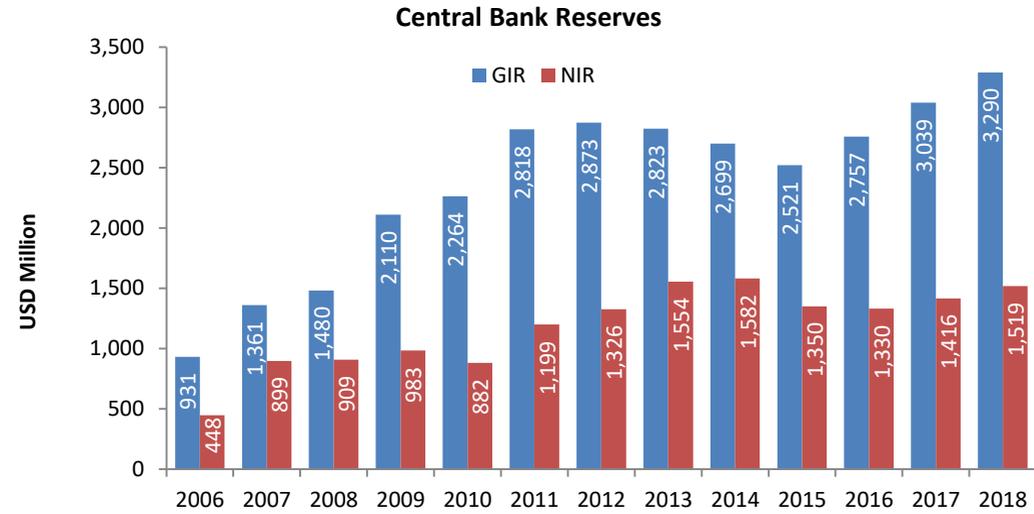
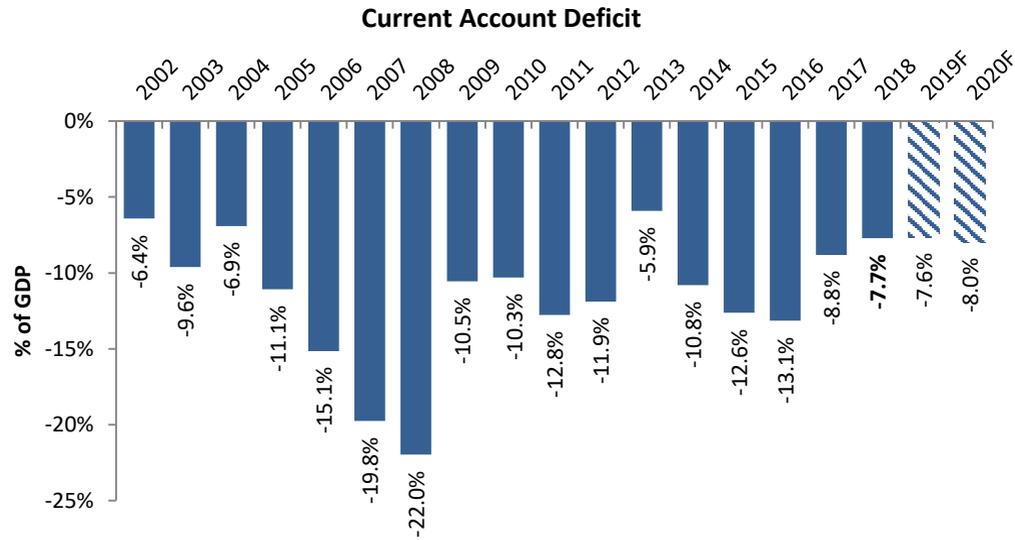


GDP Structure



Current Account and FDI

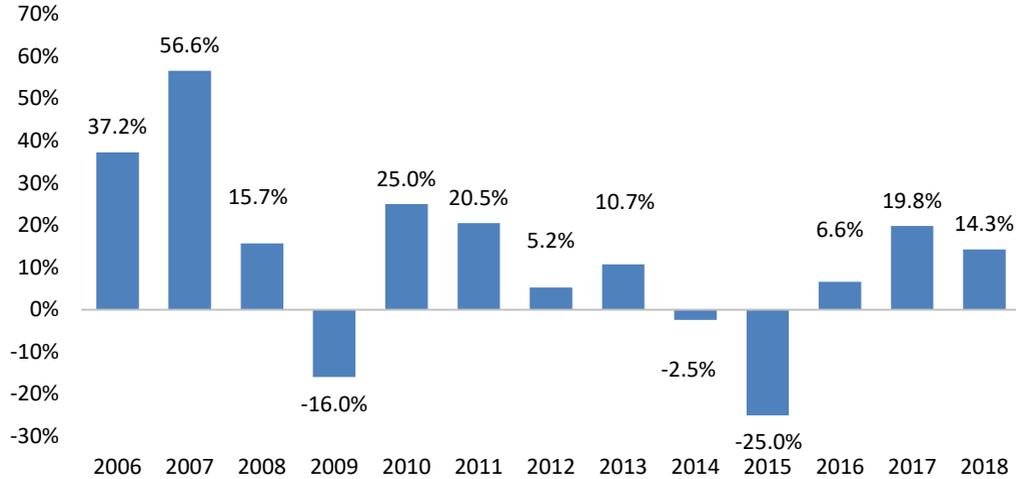
CAD financed by FDI, FX reserves growing



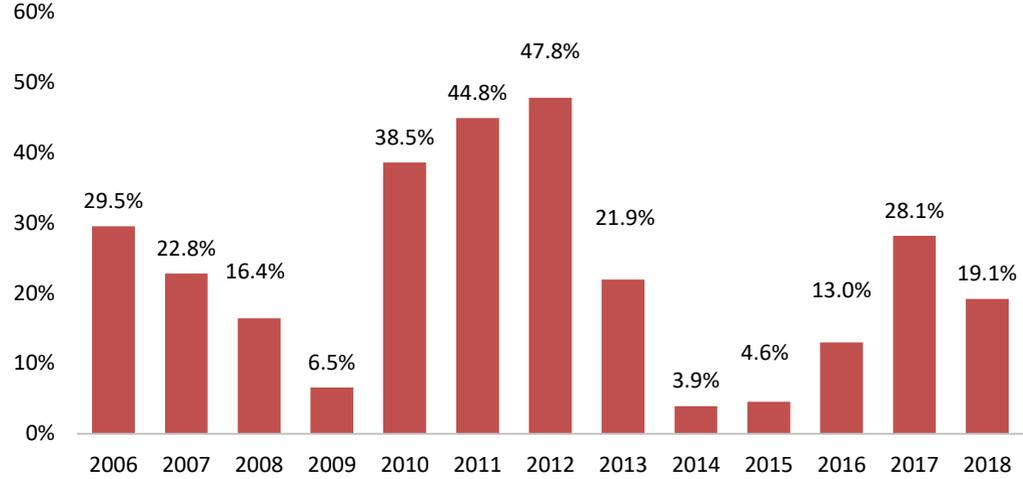
External Inflows

Inflows fueled by remittances from the EU and tourism

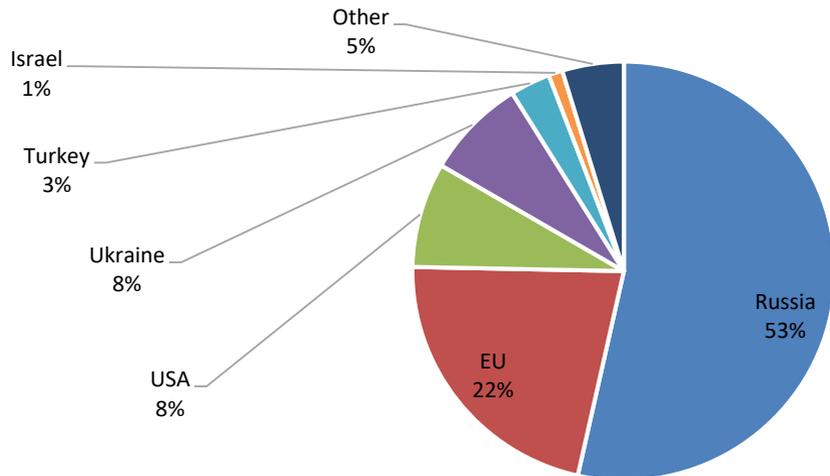
Money transfers annual growth rate



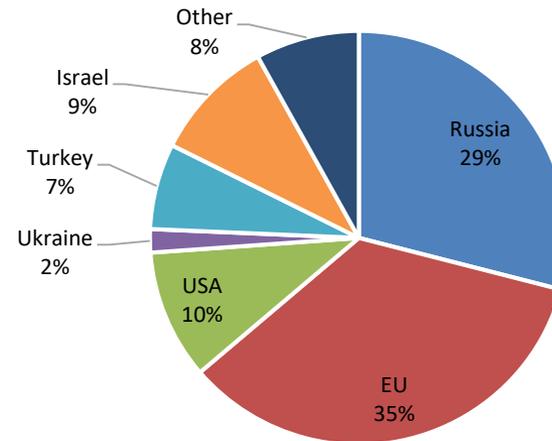
Tourism Revenue Growth Rate



Structure of Money Transfers in 2009

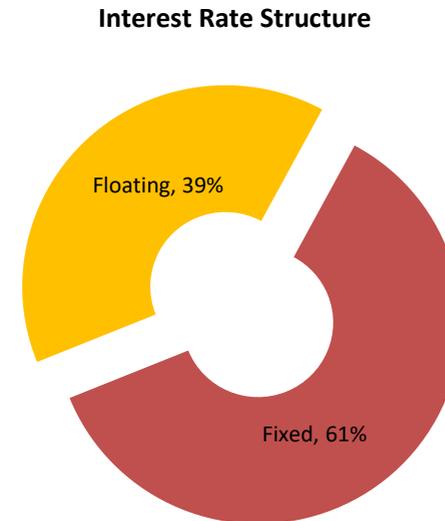
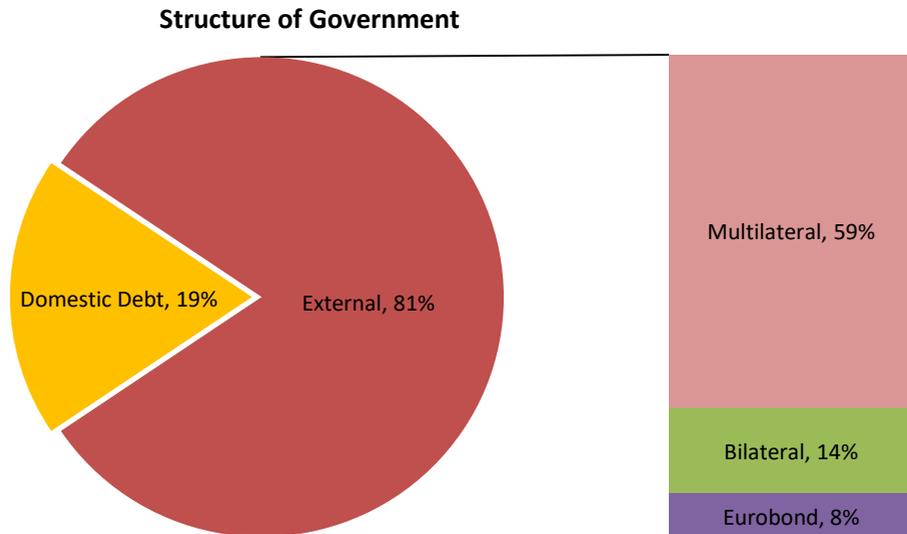
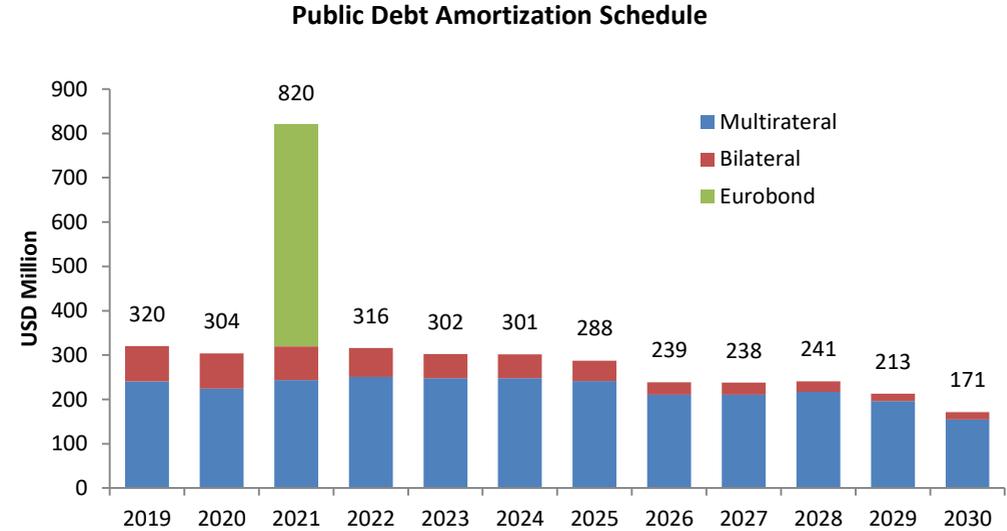
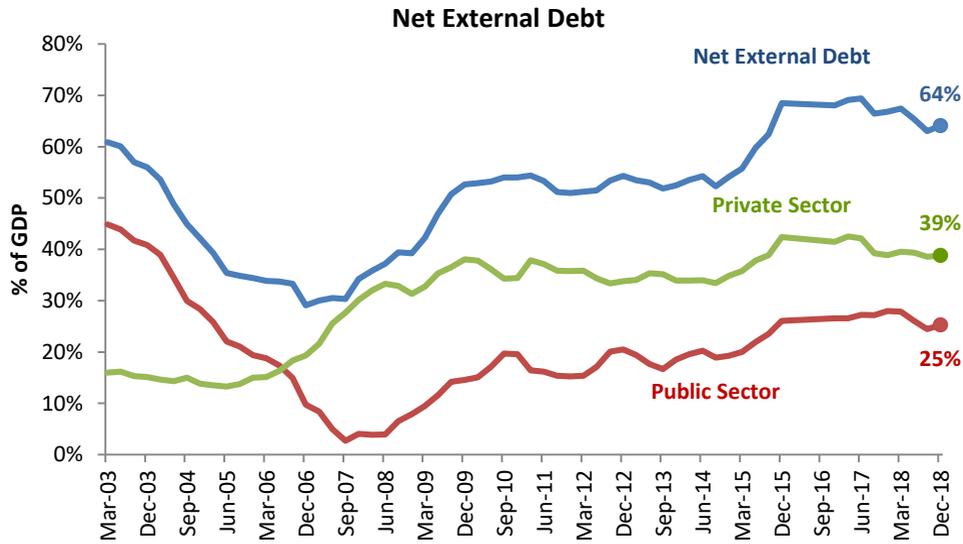


Structure of Money Transfers in 2018



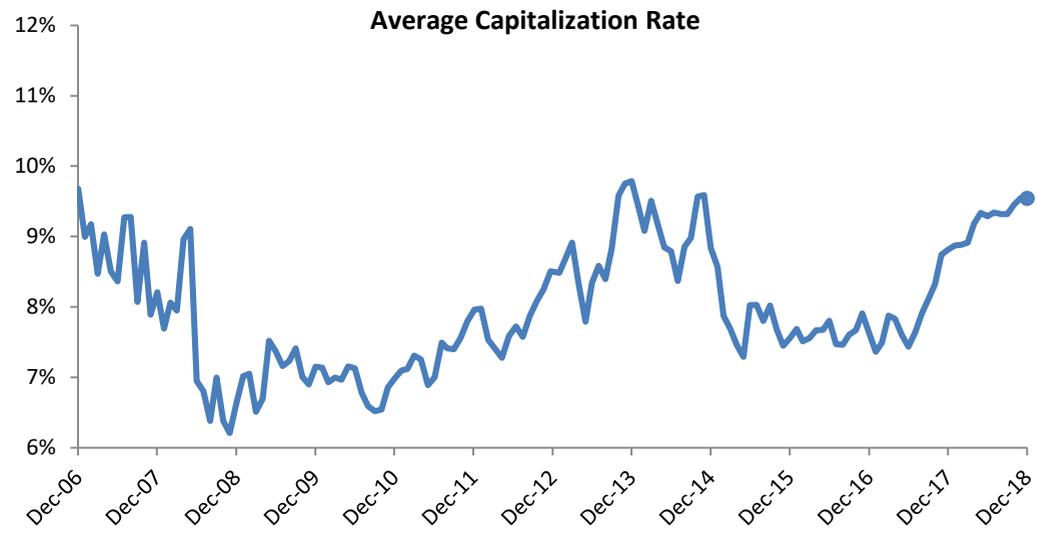
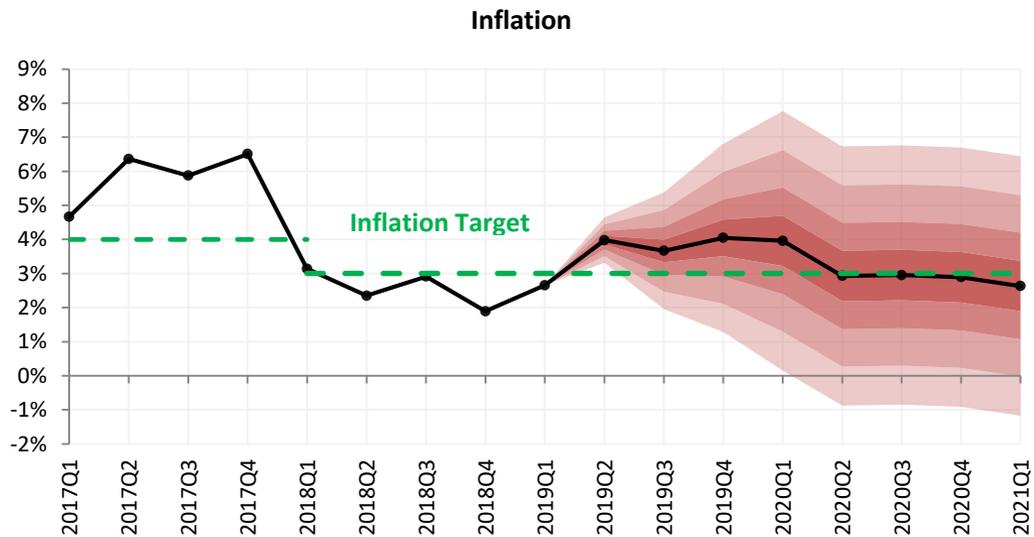
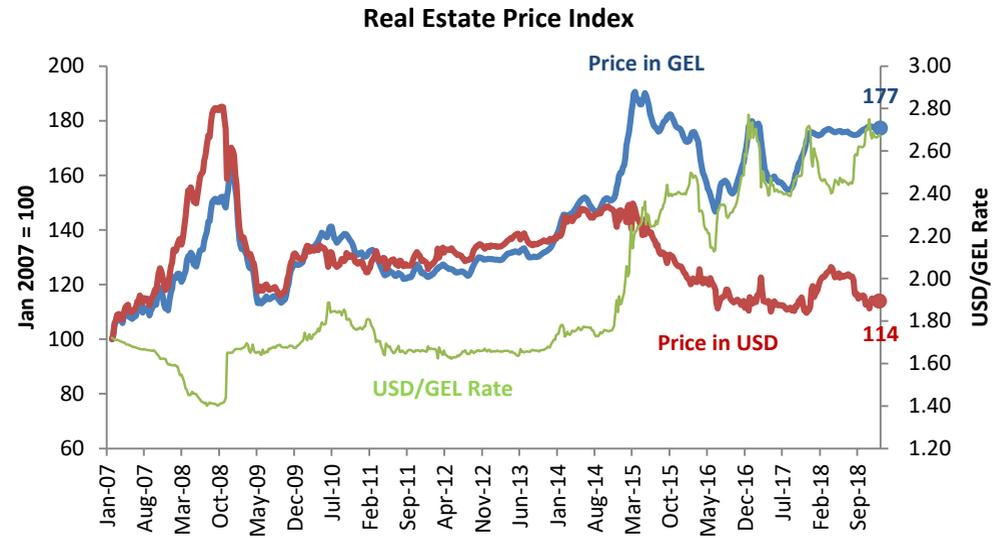
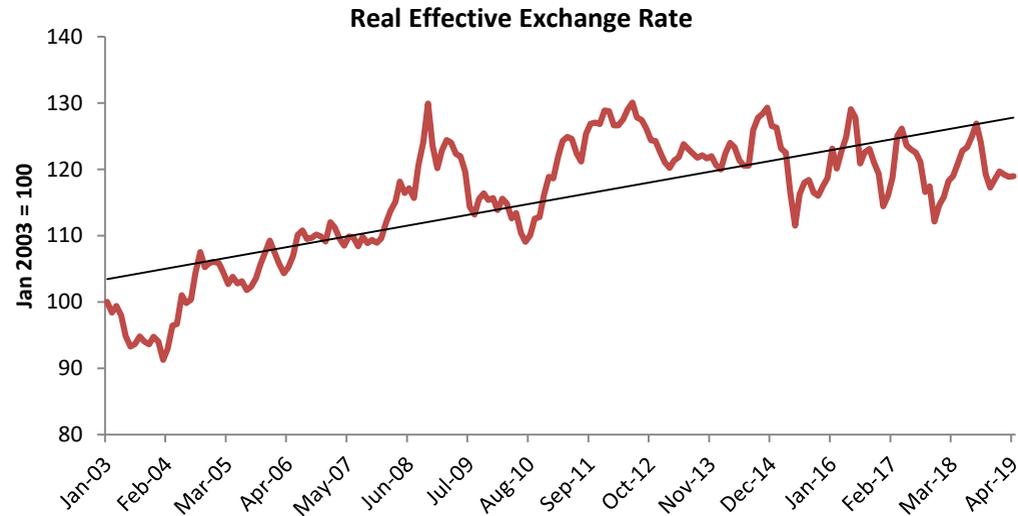
External Debt Structure

Cheap long term IFI funding, complemented with access to capital markets



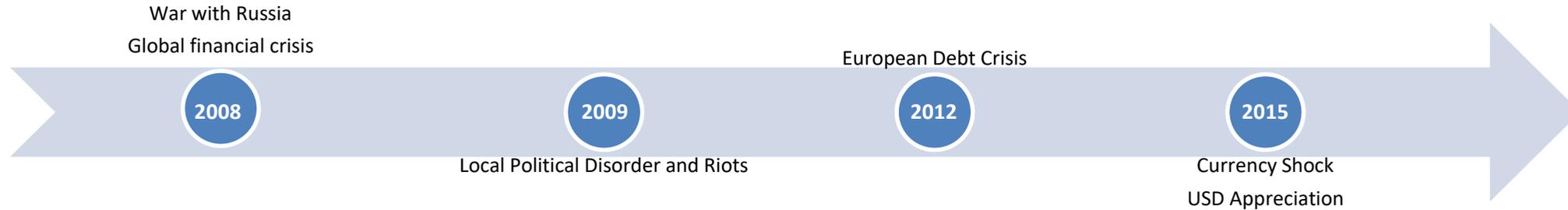
Prices

Currency undervalued, prices stable



Crisis Resilient Macro Environment

Georgia withstood four major crises during past 10 year



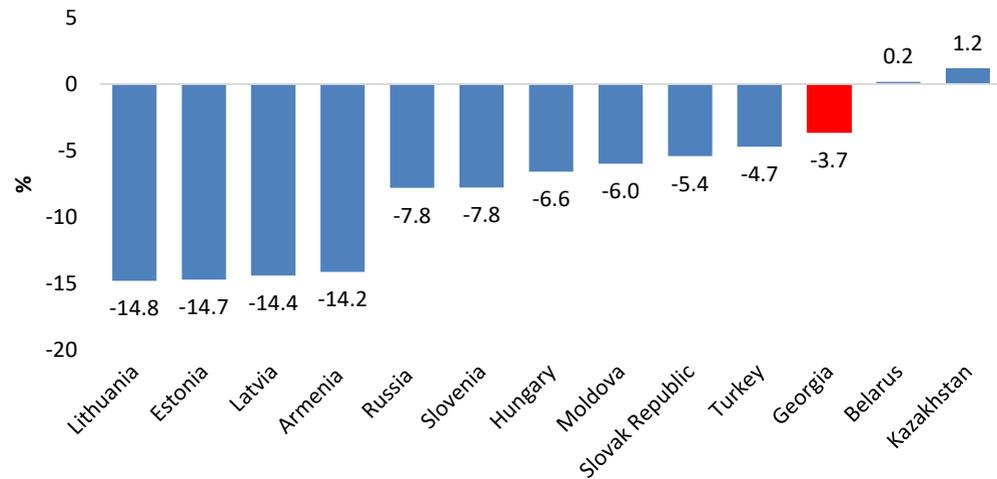
No Bank Failures*

*Due to financial default

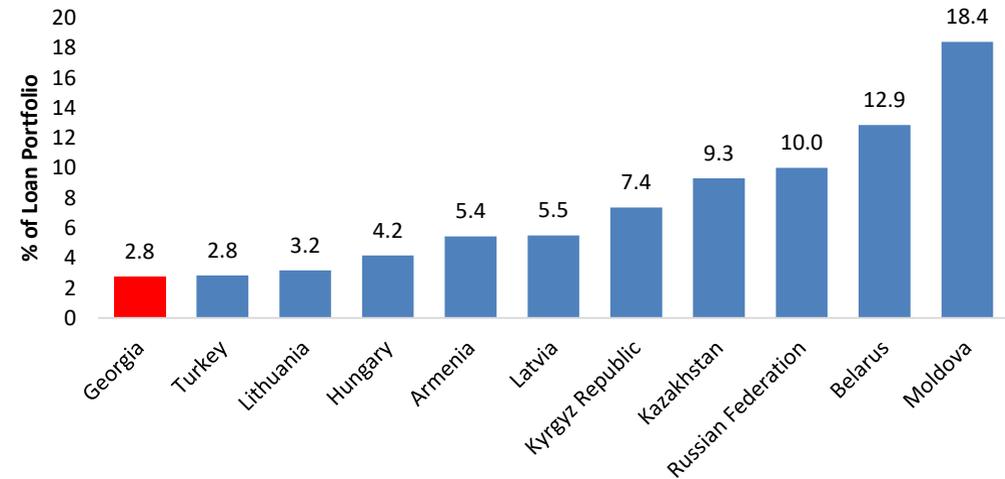
No Public Money

No Deposit Lost

GDP Growth Rate during Global Financial Crisis (2009)



NPL Ratio by Peer Countries (2017)



2. Banking Sector

Banking Sector Overview

Profitable and sound banking sector with strong growth potential

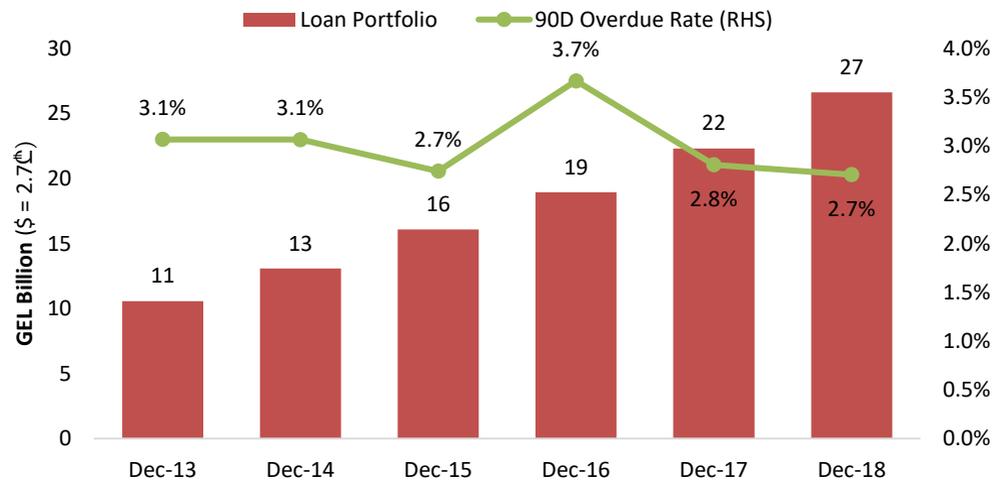
Key Facts

- Profitable (**ROE=17%**) and sound banking sector (**CAR=18%**) with strong growth potential (**Growth=20%**);
- **No state banks.** 14 out of 15 bank owned by foreign shareholders;
- Two largest banks (with 70% market share) listed on LSE (part of **FTSE 250** index), with **P/B ratio of 1.4** vs. 0.9x EMEA Banks;
- Forward-looking and risk-based supervision. Banking regulations largely **Basel III compliant**;
- Supportive legal and business environment: **#12 in Getting Credit** Rank by World Bank Doing Business;
- Highly diversified investors
- Regulator open to new international banks.

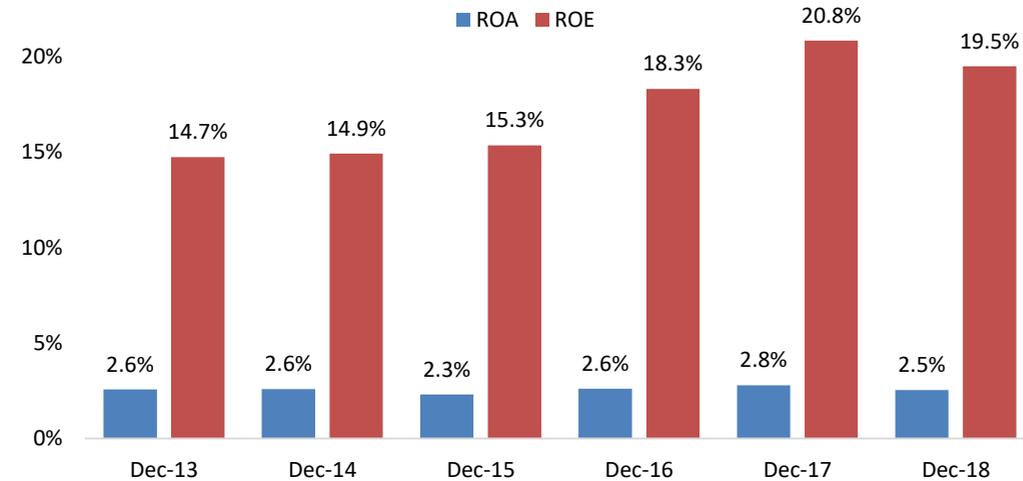
Diversified Shareholder Base



Stable and Sound Growth

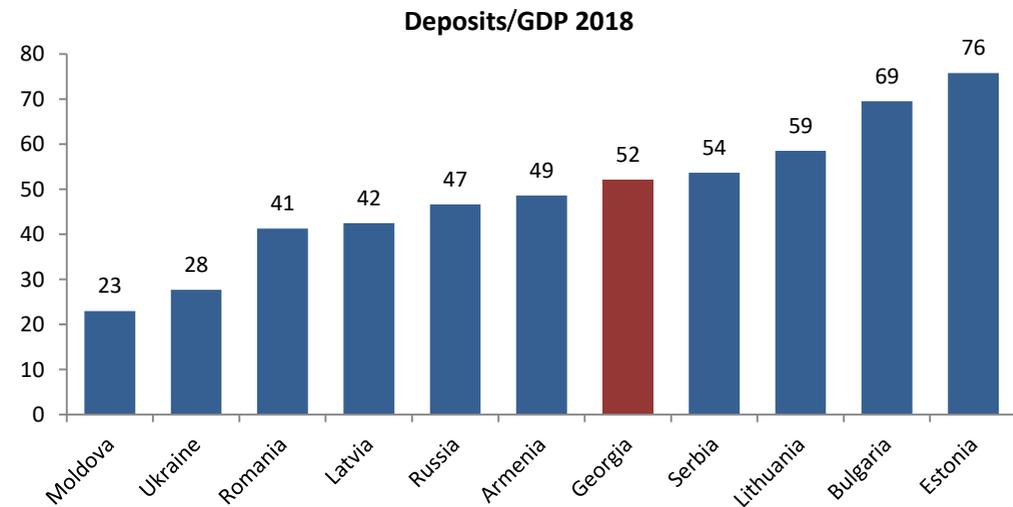
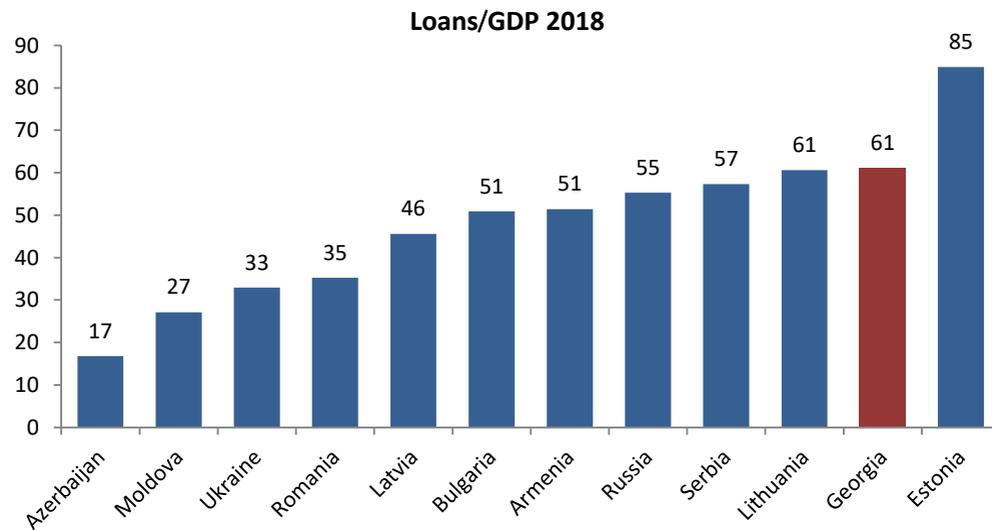
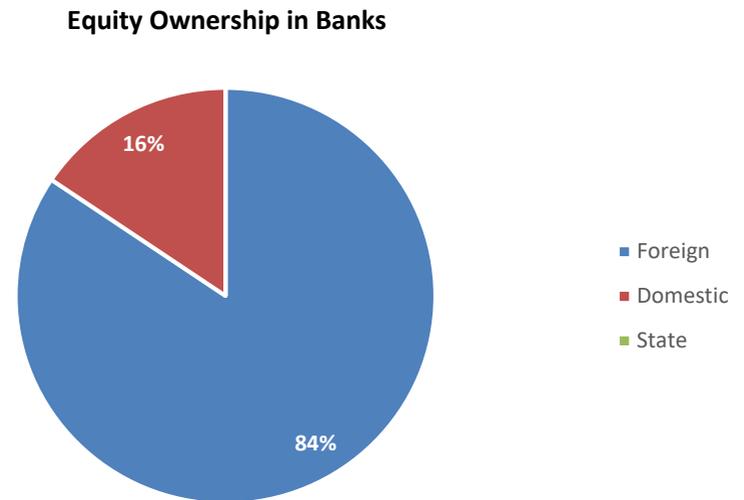
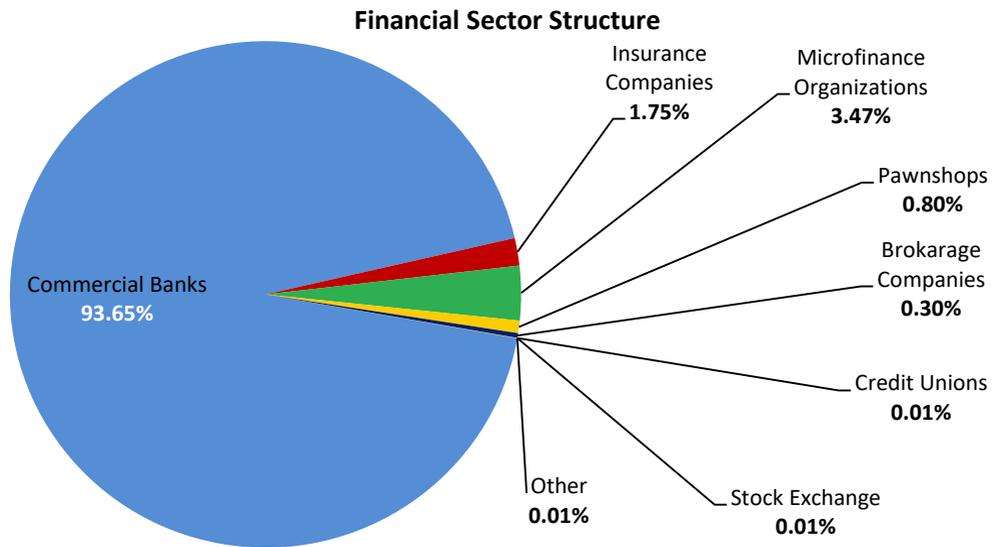


Solid Profitability



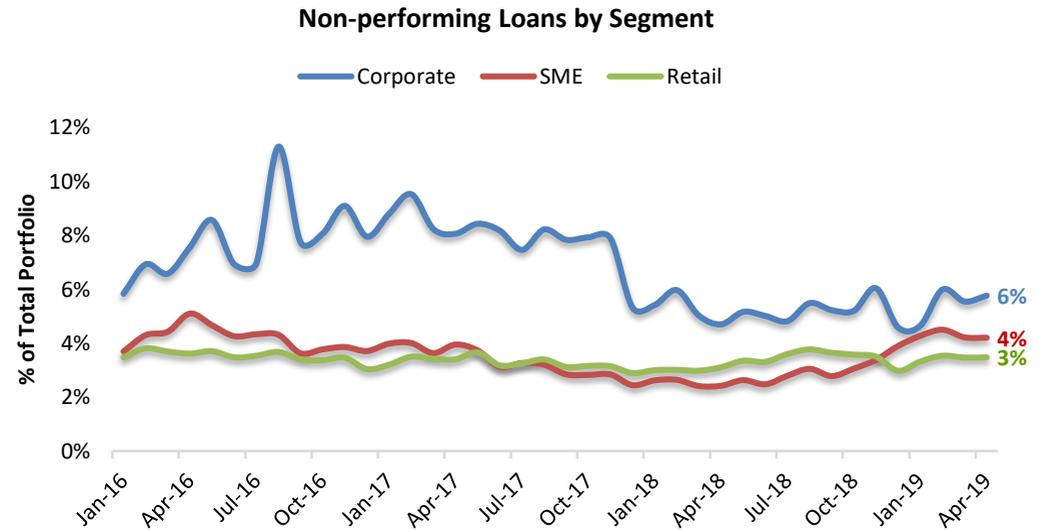
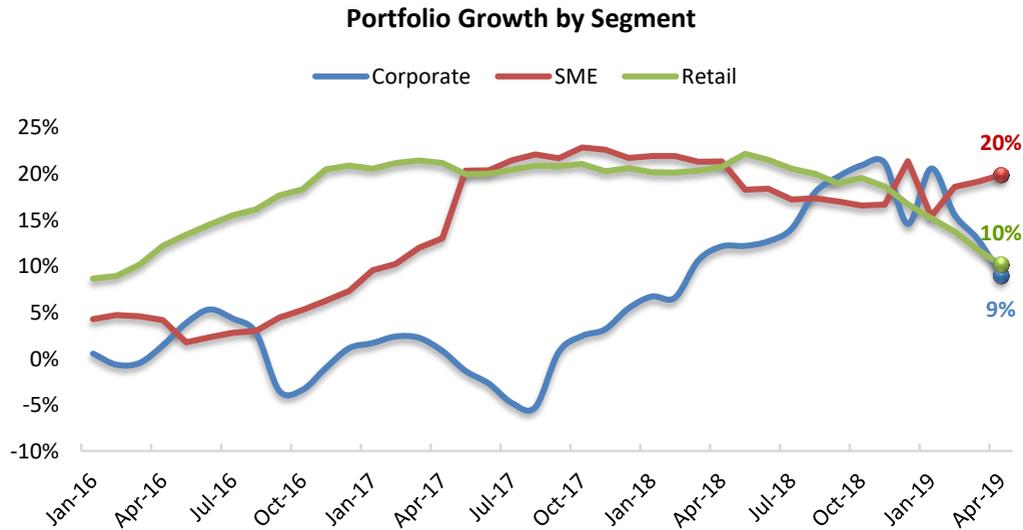
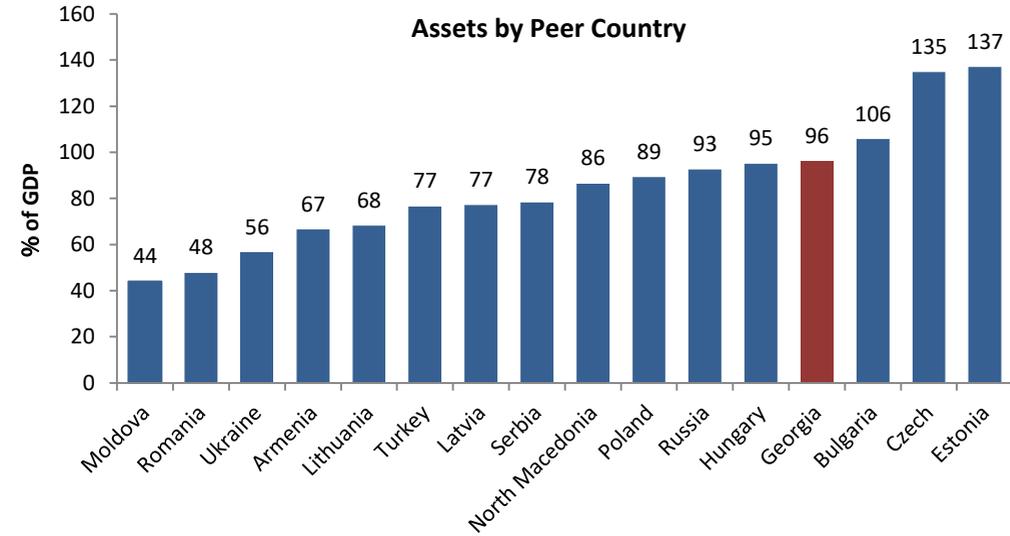
Structure of the Financial Sector

Medium size, dominated by banks, fully private, mostly foreign owned



Asset Performance

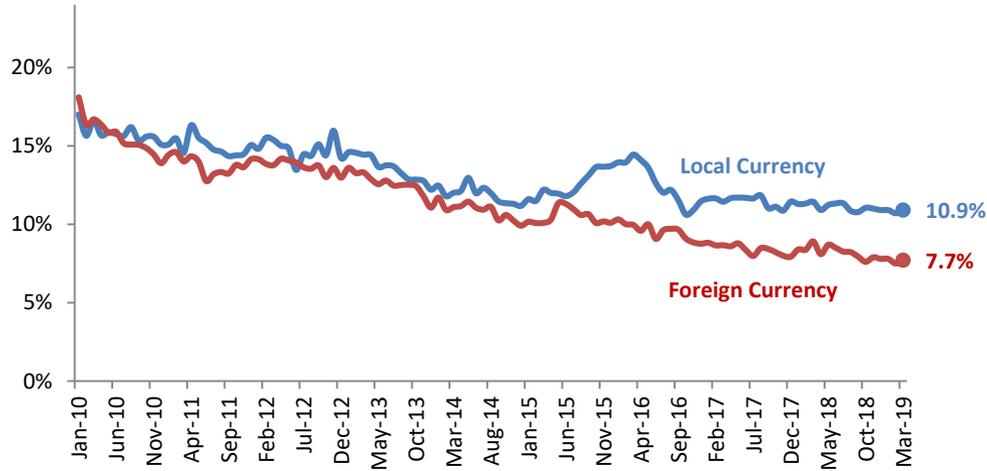
Strong asset growth to stabilize, SME expected to outperform



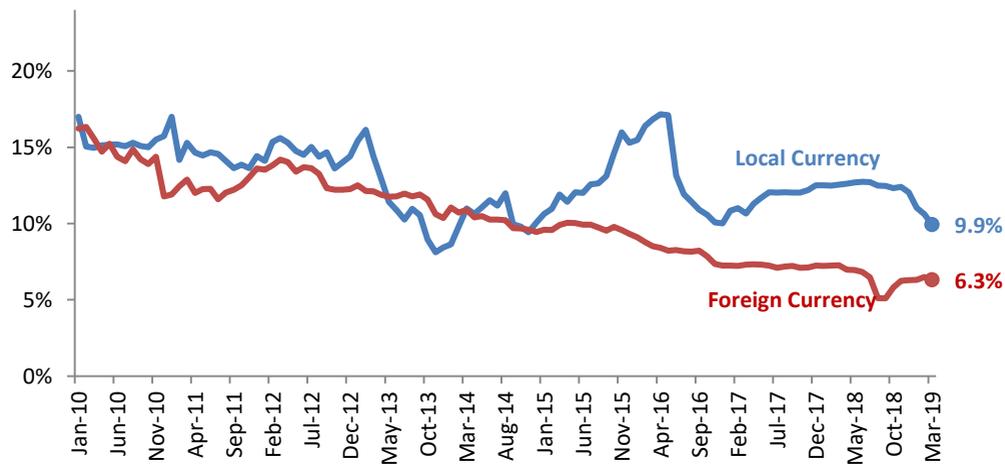
Investment Returns

High yields reflected in strong stock performance

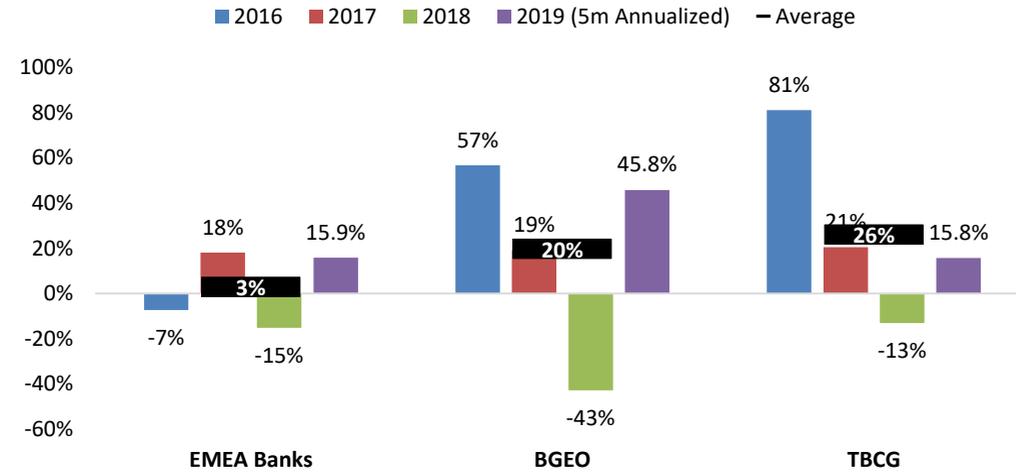
Interest Rates on Loans to Legal Entities



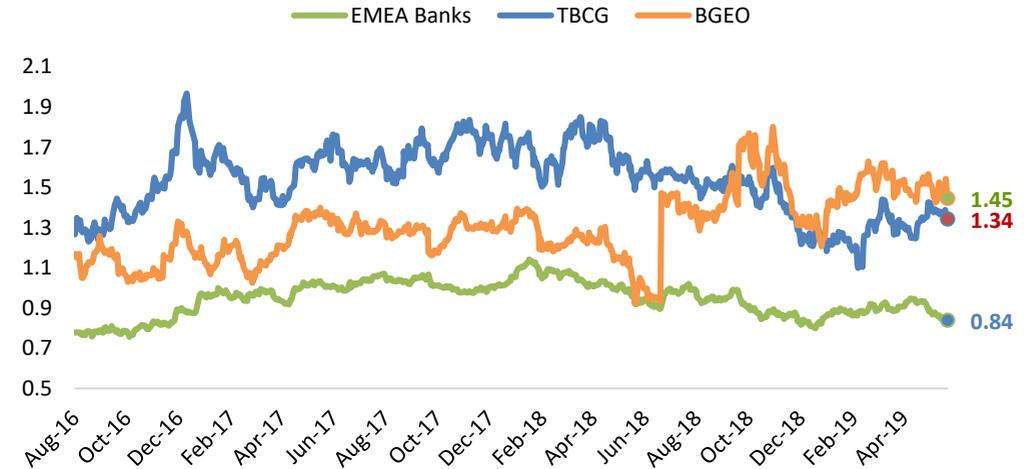
Interest Rates on Mortgages



Annual Stock Returns*



Price to Book*



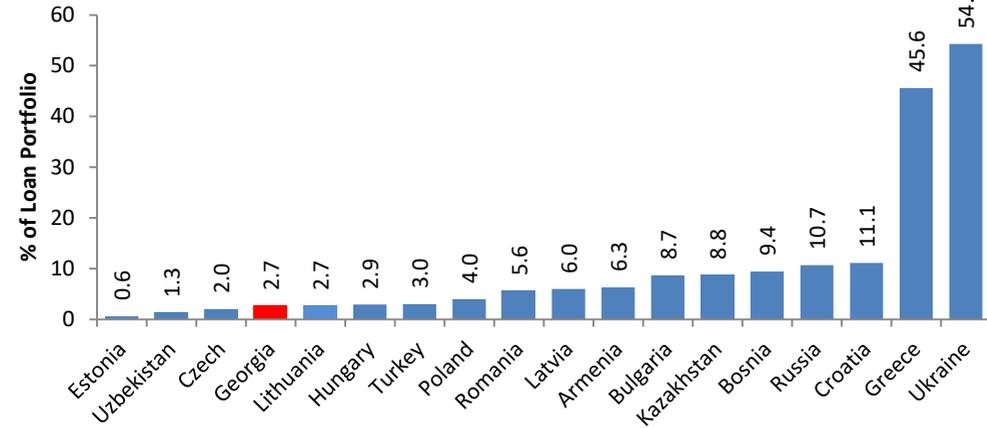
Resilient Banking Sector

Strong asset quality supported by high capital buffers

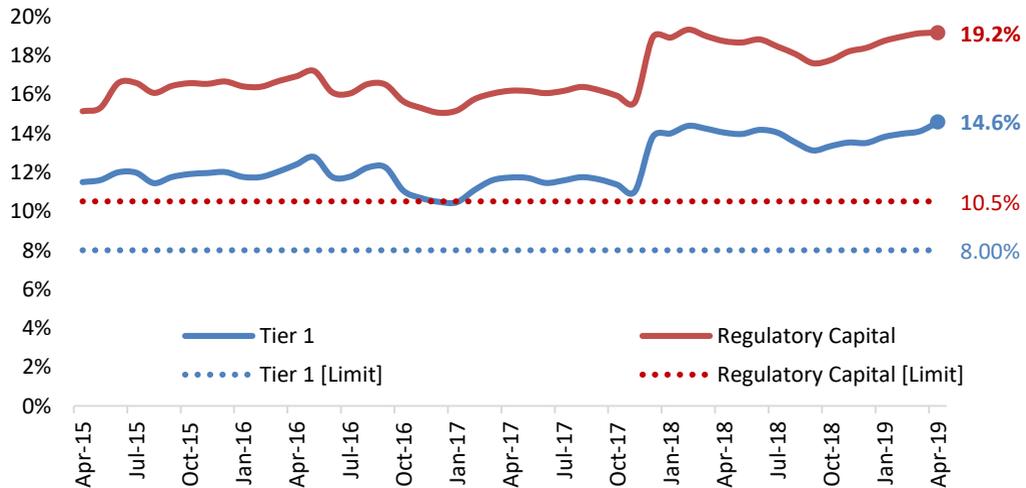
Non-performing Loans



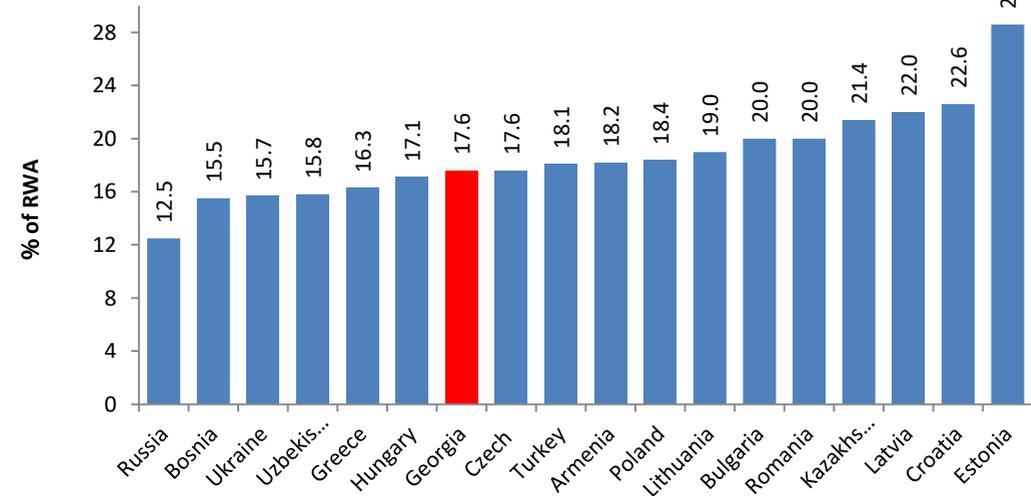
NPLs by Peer Countries (2017)



Capital Adequacy of Georgian Banking Sector



Capital Adequacy by Peer Countries (2017)



Challenges

Despite good progress, challenges remain

Dollarization

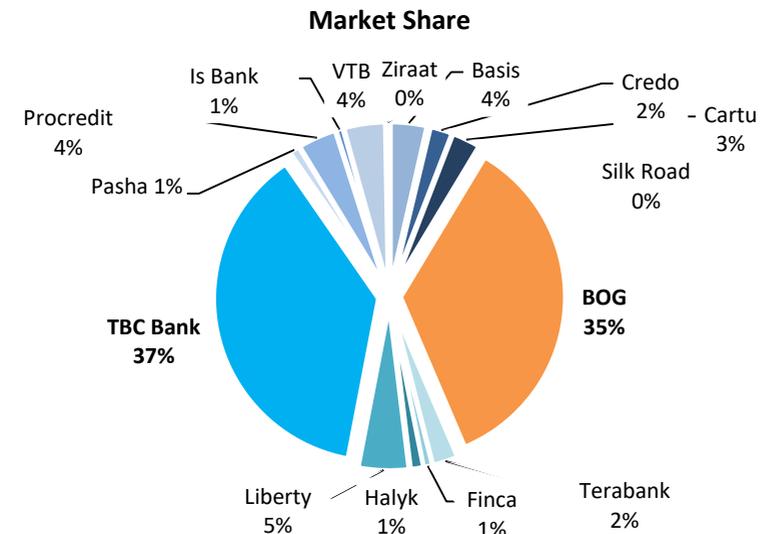
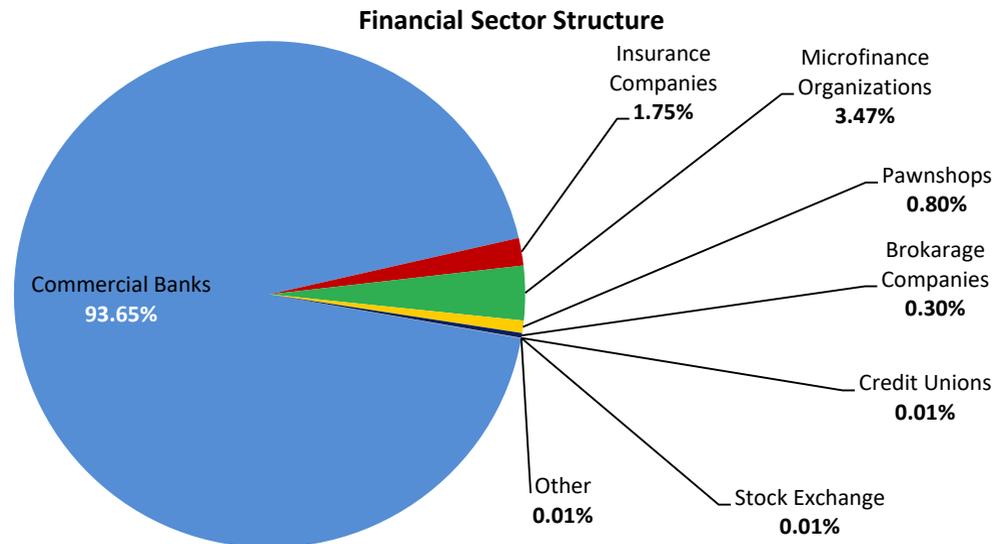
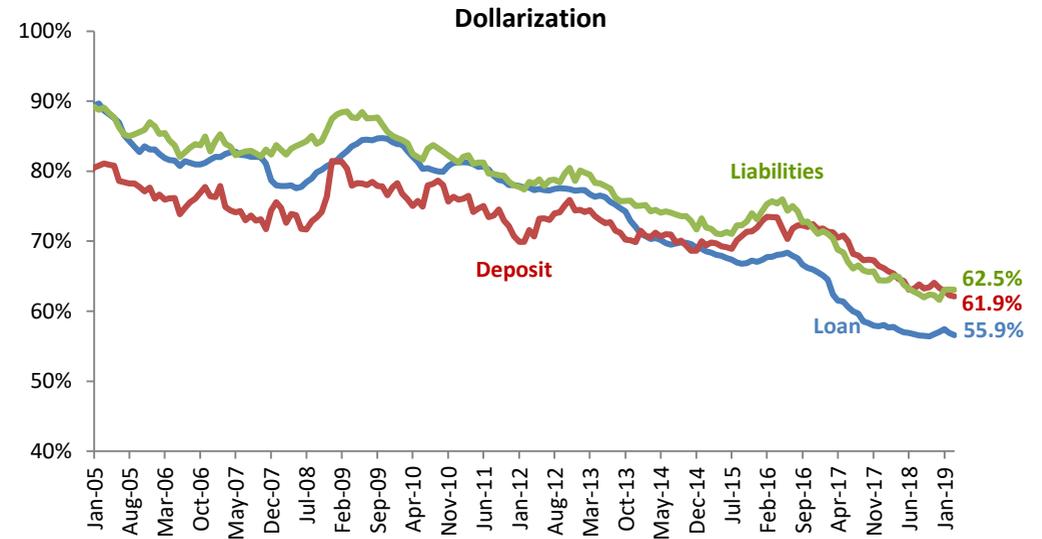
- Dollarization remains in the range of 50-60%
- About 10 percentage point reduction within past 6 years
- Clear strategic priority since 2016

Stock Market

- Stock exchange represents only 0.01% of total financial sector
- There has been some progress on primary listings, but secondary market still struggling
- Structural reforms and Pension Fund expected to fuel stock market development

Concentration

- Two largest banks represent 72% of banking assets
- With underdeveloped capital markets, large companies have limited options for funding
- High concentration has shown no signs of poor competition



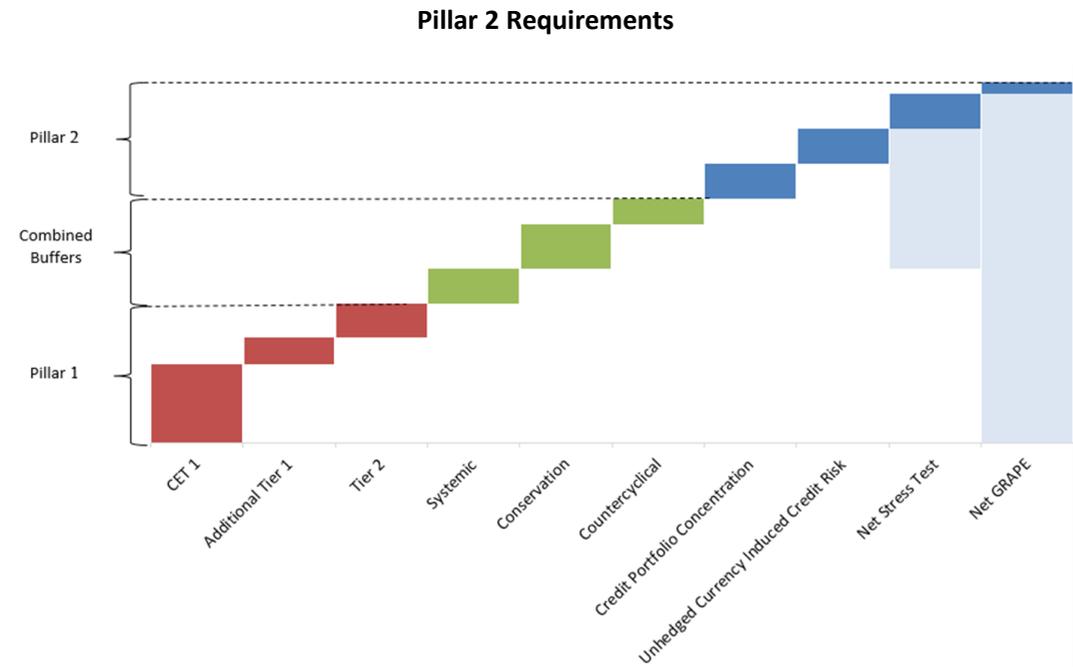
3. Regulatory Framework & Updates



GRAPE – General Risk Assessment Program

Micro-prudential and macro-prudential supervision in one process

Risk Category	Inherent Risk	Mitigants (Boards, Directors, Controls)	Net Risk	Risk Weight
Credit risk	[1-5]	[1-5]	[1-5]	%
Market risk	[1-5]	[1-5]	[1-5]	%
Liquidity risk	[1-5]	[1-5]	[1-5]	%
Operational risk	[1-5]	[1-5]	[1-5]	%
Business model	[1-5]	[1-5]	[1-5]	%
Macro environment	[1-5]	[1-5]	[1-5]	%
Group structure	[1-5]	[1-5]	[1-5]	%
Corporate governance	[1-5]			100%
Total risk	[1-5]			
Resources	(Positive/negative impact)			
Net risk	[1-5]			



According to the 2007 paper of Basel Committee on Banking Supervision (“[Supervisory and bank stress testing: range of practices](#)”):
 “NBG has adopted a supervisory approach, called “GRAPE,” **which integrates microprudential and macroprudential supervision in one process**”

Bank Recovery and Resolution Framework

Fail less, recover more

Preparation and prevention

- Recovery planning by banks;
- Resolution planning by Resolution Authority (NBG);
- Resolvability assessments of commercial banks (by new structural unit of NBG).

Early intervention

- Enhancing powers of NBG to timely intervene or act at an early stage of a bank's or financial system's difficulty.

Resolution

- Clearly established Resolution tools and powers of NBG:
 - Sale of business;
 - Merger;
 - Bail-in;
 - Issuance of new shares;
 - Bridge-Bank.

Crisis preparedness and management

- Financial stability Committee on country level chaired by the MOF;
- MOF resolution financing role (*ex-post resolution fund*);
- New regulatory framework for NBG ELA;

Inspiration:

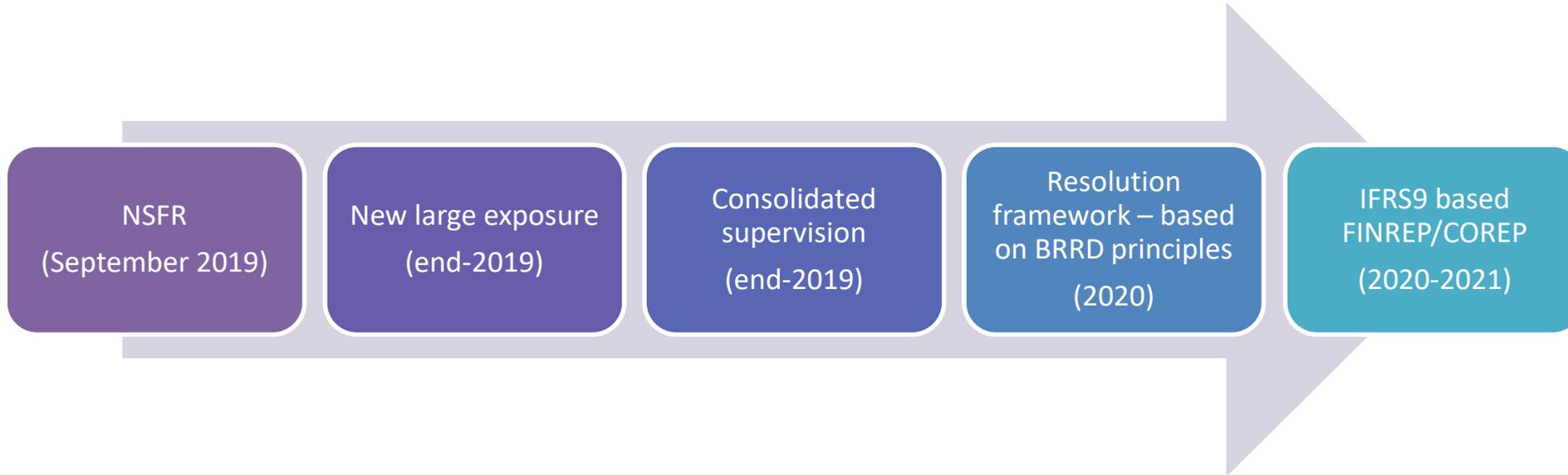


Key differences from EU directive:

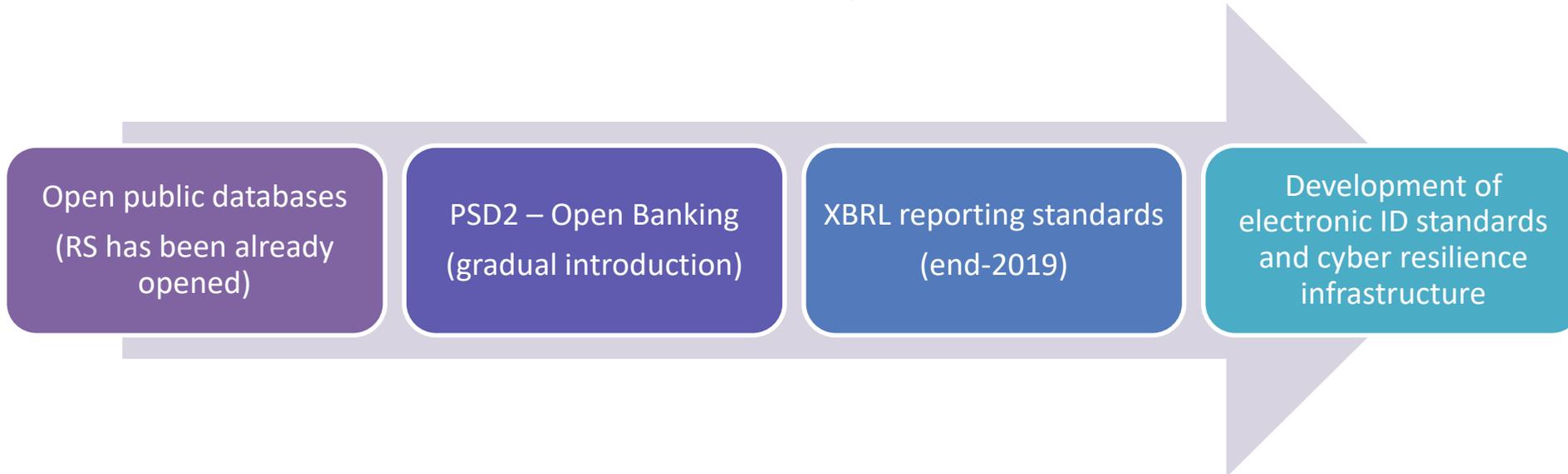
No mandatory bail-in

No ex-ante resolution fund

Projects in Regulatory Pipeline



Fintech Infrastructure Development



Thank You!

Contacts:

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