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# Comparing Retail Interest Rates on Credit Products in ECA Region and Comparing Credit Quality in Bank vs Non-Bank Sector in Georgia

A cross-country comparative research on credit effective interest rates was conducted by ISET Policy institute (MPRC) for TBC Bank during April 2018 – May 2018.

# Study Methodology

- The countries in the sample were Georgia and a peer group of transition economies from the South Caucasus and the ECA (Europe and Central Asia developing countries) region. The study covered 48 leading banks in 13 countries: Armenia, Azerbaijan, Georgia, Kazakhstan, Russia, Ukraine, Serbia, Romania, Poland, Czech Republic, Croatia, Macedonia and Albania.

- The criteria for bank sample selection: the largest banks by assets were selected for each country. Due to unavailability of information on each credit product under review for each country, the banks on the list were contacted in descending order until at least two observations were collected for each credit product.

- The survey included 5 credit products (in national and foreign currency): fixed rate mortgage credits, floating rate mortgage credits, pledged consumer credits, non-pledged consumer credits and Credit cards.

- According to the methodology of this project, the data was gathered from a combination of four sources: direct contact with the representatives of the selected banks via phone; direct contact with the representatives of the selected banks via online chats; desk research of the official websites of the selected banks and e-mail contact with the representatives of the selected banks.

- The concept of the effective interest rate and the methodology of its calculation are similar for all countries. The financial expenses that should be considered in the calculation of the effective interest rate are as follows:
  - Payments of the principal amount and the accrued interest.
  - Bank service fees and commissions
  - Credit withdrawal charges
  - Mandatory insurance fees
  - Property valuation charges
  - Fees defined by state, such as notary fees, credit bureau fees, pledge registration charges, etc.
  - All other expenses that are mandatory for obtaining the credit product.

  For effective interest rate calculation we used the formula provided by TBC Bank. To calculate countries' average interest rates we took a simple average of the corresponding commercial banks rates.

- In addition to showing the effective interest rates on different products, survey also shows interest rates adjusted for monetary policy rates and term deposit rates. Level of lending rates reflect the cost of funds and it should be taken into account when comparing lending rates across countries. Using both policy rate and term deposit rate is justified especially for countries like Georgia or Serbia Term deposits are a major source of bank funding. Also, this adjustment is particularly relevant for countries like Georgia, Kazakhstan and Armenia, where term deposit rates on local currency are above the policy rate set by respective central banks.
- For the following group of countries: Czech Republic, Poland, Romania, Croatia, Serbia, Georgia, Kazakhstan and Ukraine Annual Weighted Average Interest Rate on Total Time Deposits for Households and NPISH were taken as a proxy of term deposit rates. In case of Macedonia, the similar interest rate was chosen, but without currency clause. The Russian and Armenian term deposit rate was estimated by annual average interest rate on short-term (up to 1 year) and over 1 year deposits respectively. In case of Albania, average interest rate was taken for new deposits and not outstanding ones. For Azerbaijan, annual term deposits was evaluated by general average interest rate on deposits and savings of individuals.

***Note****: The study is subject to review and feedback from ISET-PI policy expert committee.*

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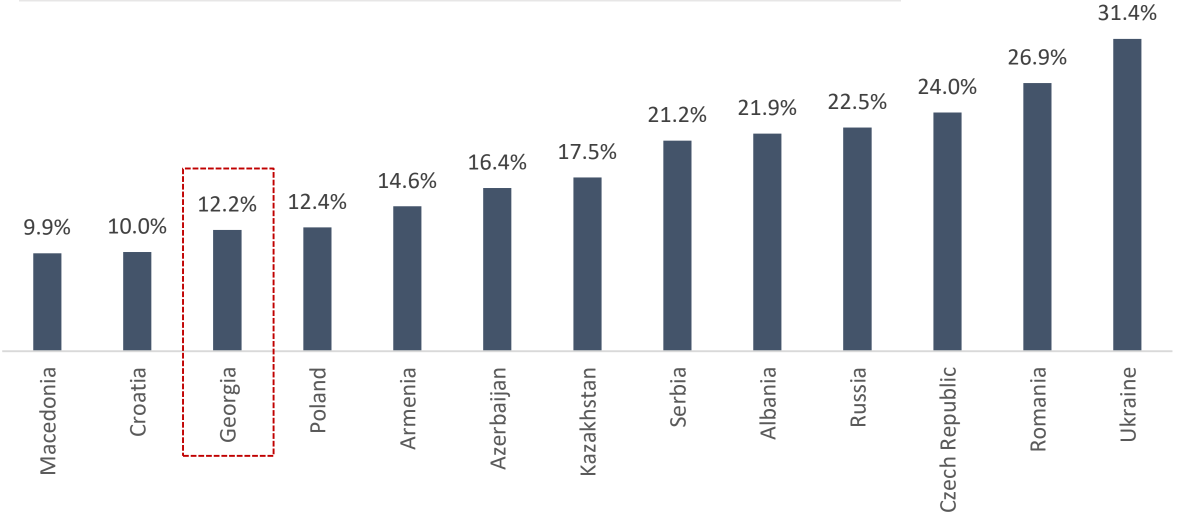
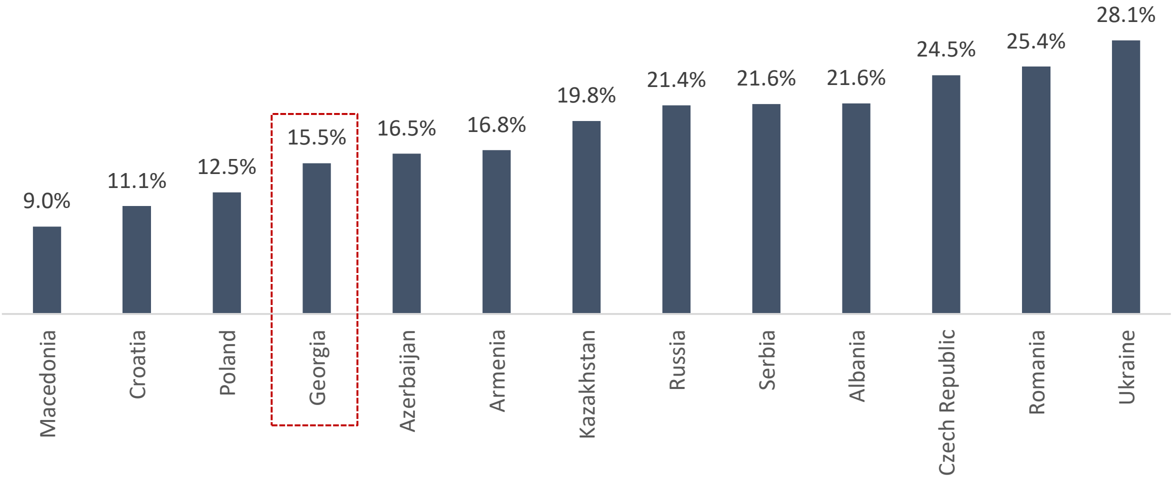
# Analysis of Banking Products: Credit Cards in Local Currency

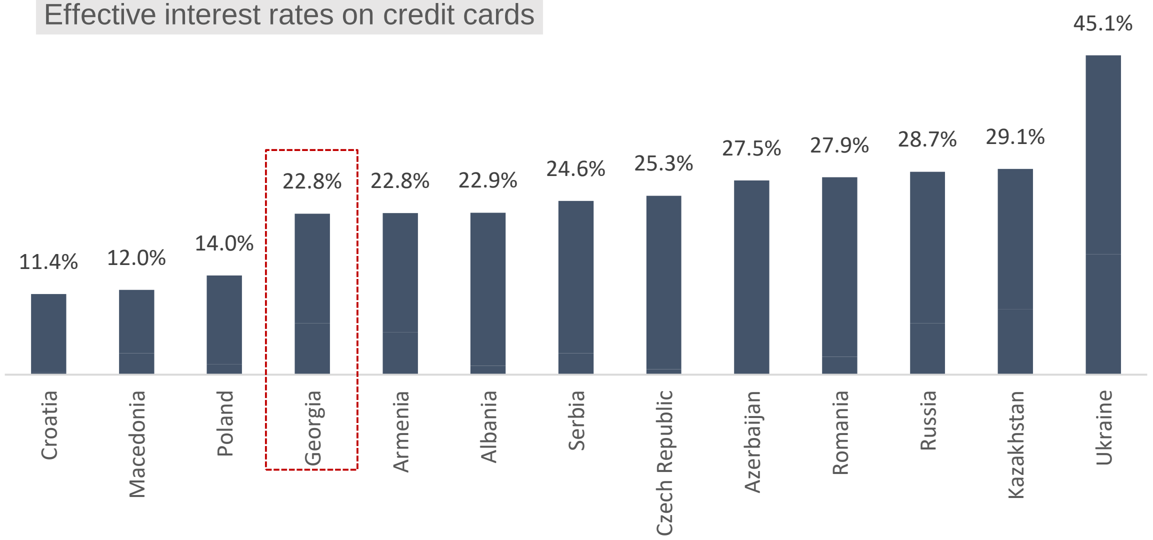
Effective interest rate on credit cards adjusted for term deposit rate




Effective interest rate on credit cards adjusted for policy rate




Effective interest rates on credit cards




## Comments

- As credit cards are used mainly for purchases through POS terminals, we compared only interest rates on trade operations.
- To make interest rates comparable we have selected Visa classic / Master Card Standard credit cards.
- Grace period of the credit cards varies between 24-55 days across countries and banks.
- To make interest rates more comparable across countries, interest rates were adjusted for policy rate and term deposit rate in national currency.

Note: The interest rates are rounded to the first digit.

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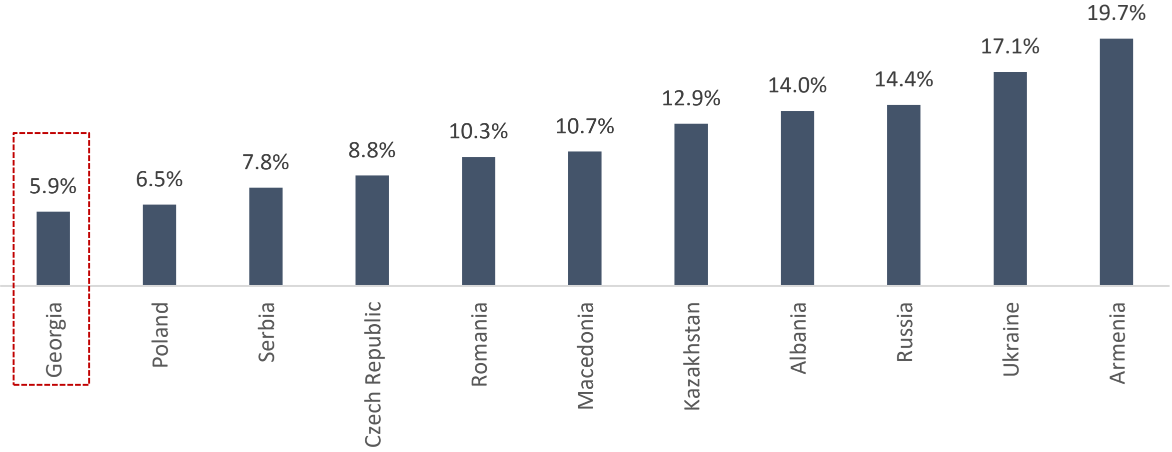
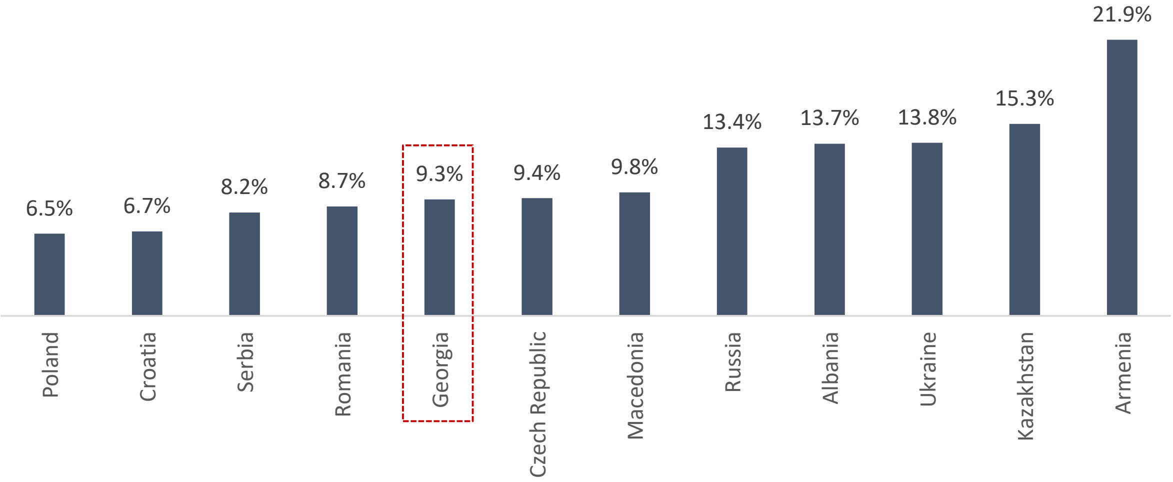
# Analysis of Banking Products: Non Pledged Consumer Credit in Local Currency

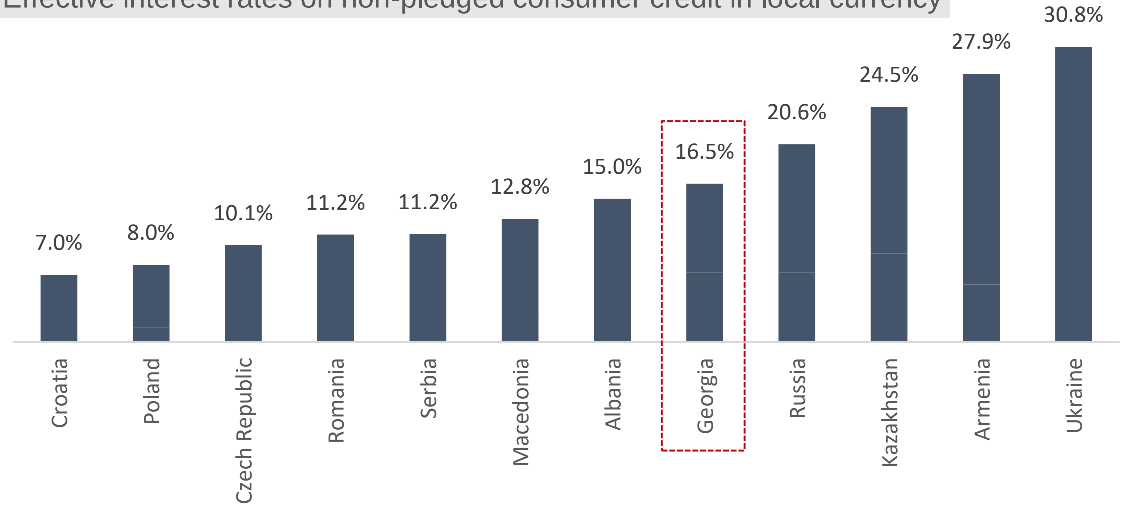
Effective interest rate on non-pledged consumer credit in local currency adjusted for term deposit rate




Effective interest rate on non-pledged consumer credit in local currency adjusted for policy Rate




Effective interest rates on non-pledged consumer credit in local currency




## Comments

- In Czech Republic the interest rate is sensitive to the amount of the loan (30,000 CZK). The nominal interest rate was about 4 percentage points lower in case of 100,000 CZK loan.
- To make interest rates more comparable across countries, interest rates were adjusted for policy rate and term deposit rate in national currency.

Note: The interest rates are rounded to the first digit.

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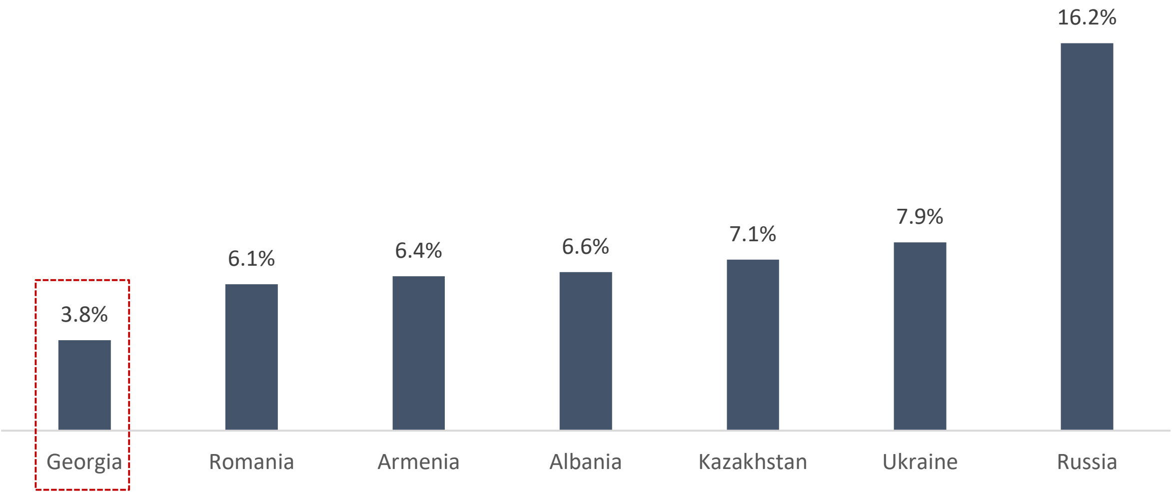
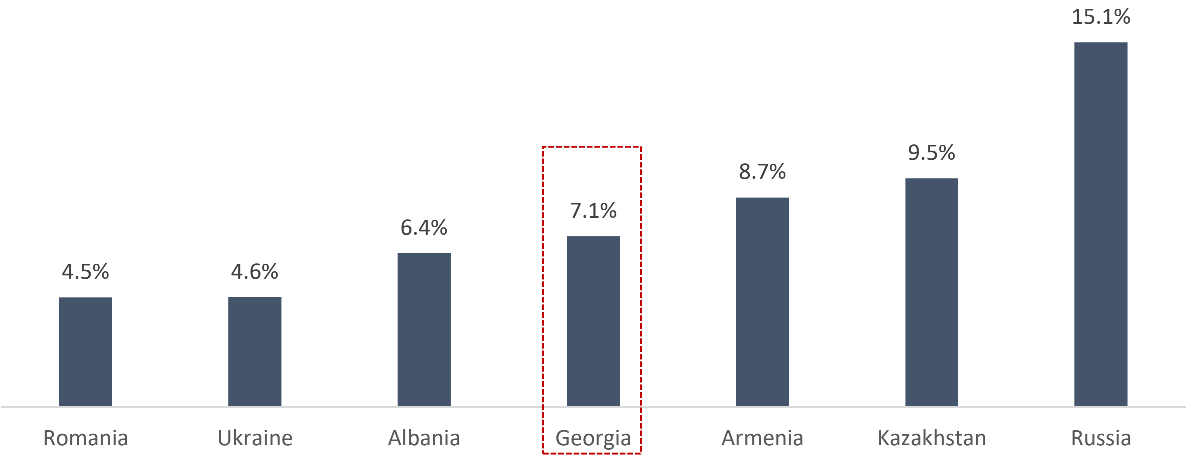
# Analysis of Banking Products: Pledged Consumer Credit in Local Currency

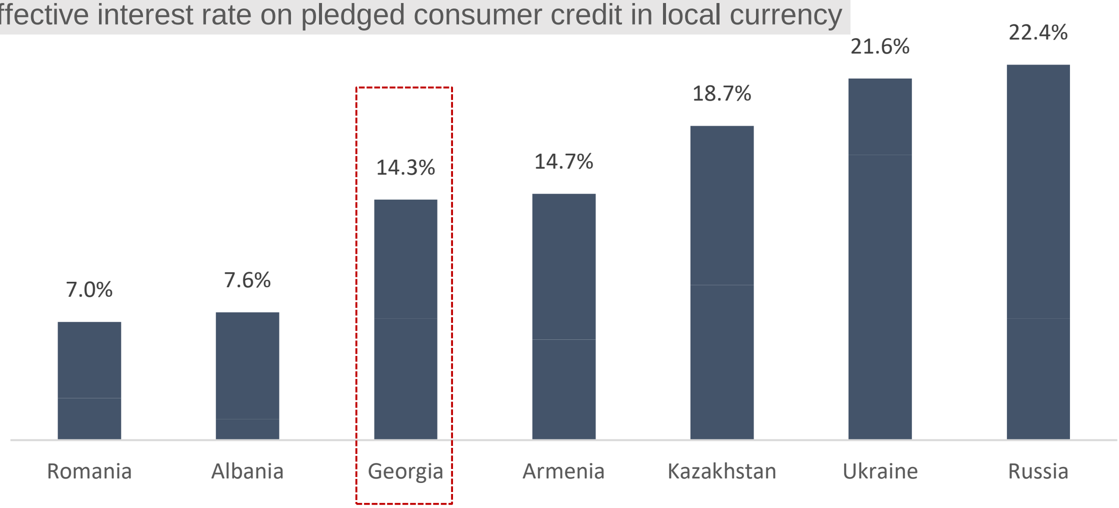
Effective interest rate on pledged consumer credit in local currency adjusted for term deposit rate




Effective interest rates on pledged consumer credit in local currency adjusted for policy rate




Effective interest rate on pledged consumer credit in local currency




## Comments

- We selected pledged consumer credit with property as a collateral to make interest rates comparable across countries.
- Pledged consumer credits are unpopular in Serbia, Poland, Czech Republic, Croatia and Macedonia. In most cases banks request deposits or future paychecks as a collateral.
- To make interest rates more comparable across countries, interest rates were adjusted for policy rate and term deposit rate in national currency.

Note: The interest rates are rounded to the first digit.

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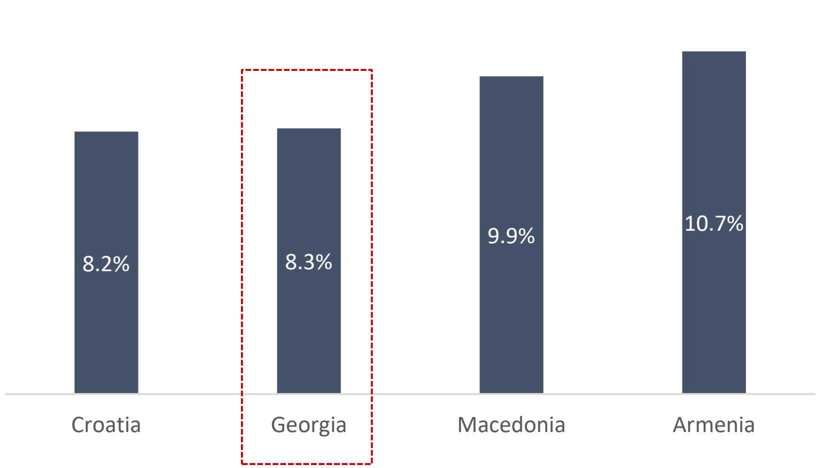
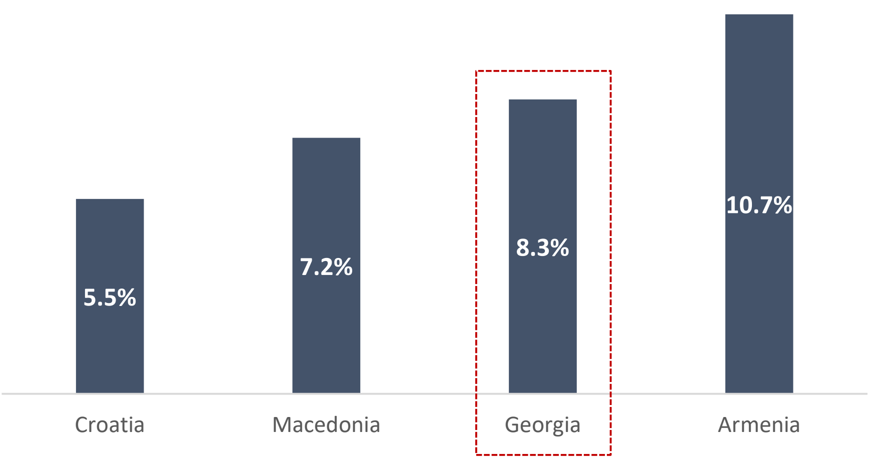
# Analysis of Banking Products: Mortgages in Foreign Currency

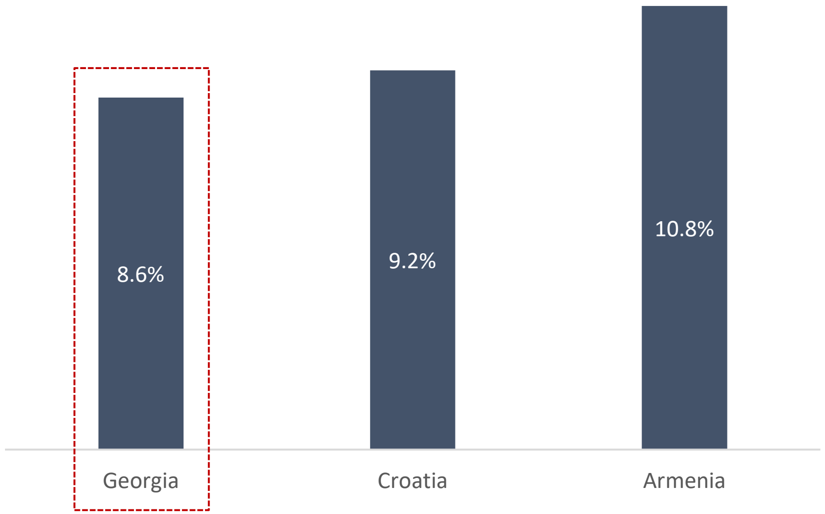
Effective interest rates on floating mortgage credit adjusted for difference between EUR and USD reference rates



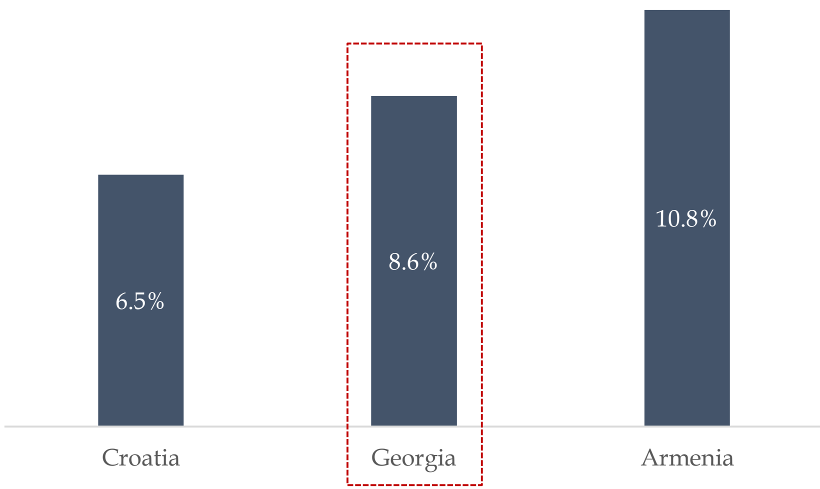

Effective interest rates on floating rate mortgage credit in foreign currency w/o adjusting for EUR and USD rates




Effective Interest rates on fixed mortgage credit adjusted for difference between EUR and USD reference rates




Effective interest rate on fixed rate mortgage credit in foreign currency w/o adjusting for EUR and USD rates




## Comments

- Chart represents sample of countries where FX mortgages at market rates were available.
- In case of Armenia and Georgia, interest rates are given for mortgages in USD, while in Croatia and Macedonia– in EUR.
- To make interest rates more comparable, floating rate mortgages are adjusted taking into account difference between EURIBOR and USD LIBOR and provided separately.
- For simplicity, fixed rate mortgages are adjusted the same way as the floating rate mortgages (E.g. not using the difference in EUR and USD 10Y rates).

Note: The interest rates are rounded to the first digit.

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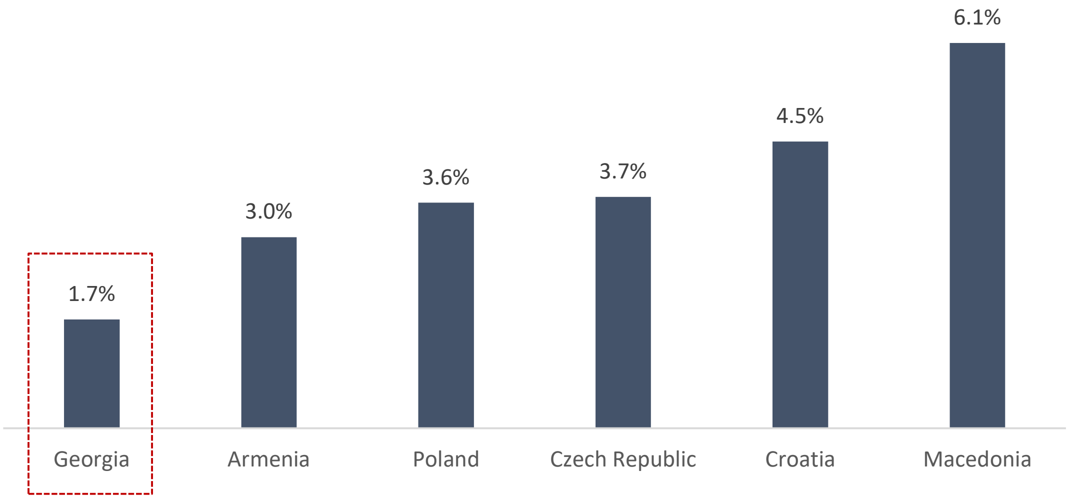
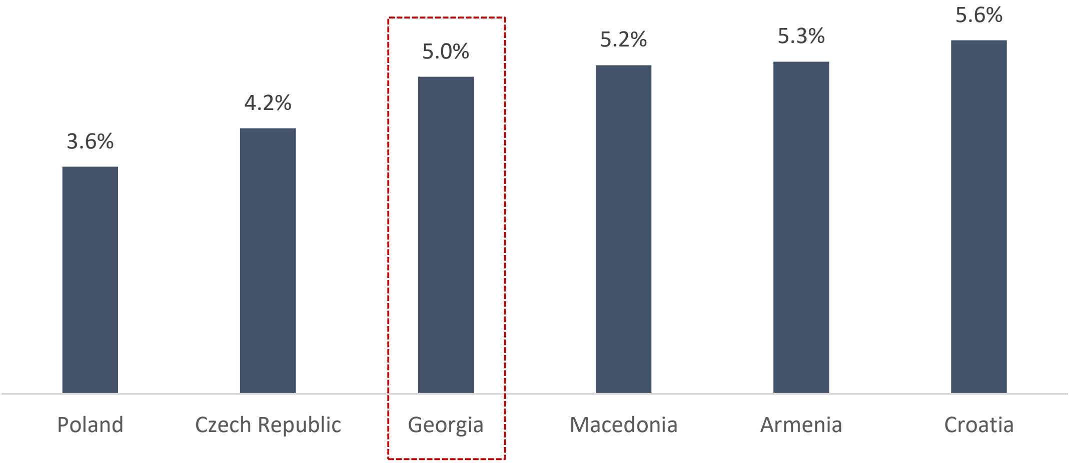
# Analysis of Banking Products: Floating Rate Mortgages in Local Currency

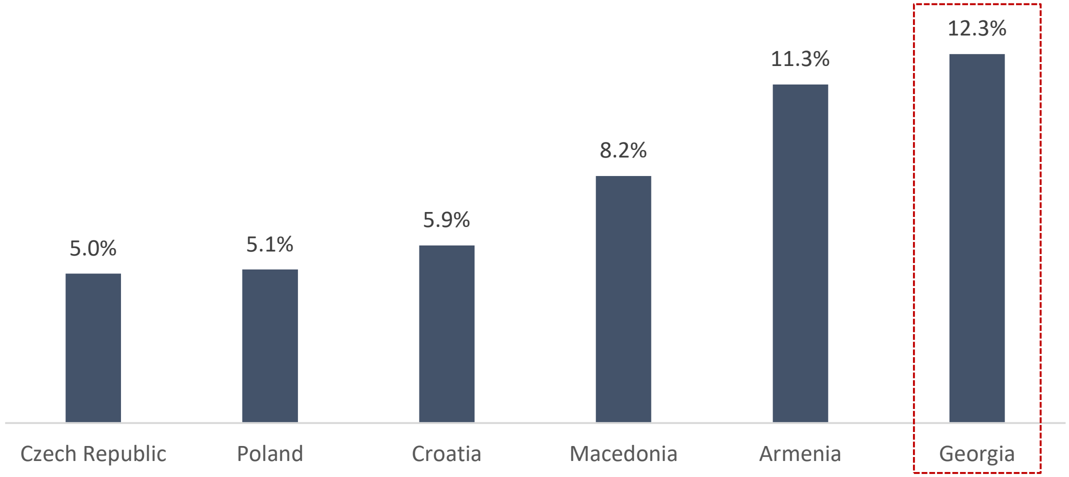
Effective interest rates on floating rate mortgage in local currency adjusted for term deposit rate




Effective interest rates on floating rate mortgage in local currency adjusted for policy rate




Effective interest rates on floating rate mortgage in local currency




## Comments

- In Serbia, Poland, Czech Republic, Romania, Macedonia, Albania banks mortgage credits are provided only at floating rates. There was no data available for Azerbaijan.
- In Serbia, Poland, Czech Republic, Romania, Albania the interest rates are linked to the interbank reference rates, such as Belibor, Wibor, Pribor, Robor, Tribor.
- In Armenia, Georgia, Croatia, Macedonia the rates are linked to the refinancing rate defined by central banks of each respective country.
- Fixed rate mortgage in local currency is not popular in Georgia, for this reason the product is excluded from the analysis.
- To make interest rates more comparable across countries, interest rates were adjusted for policy rate and term deposit rate in national currency.

Note: the interest rates are rounded to the first digit.

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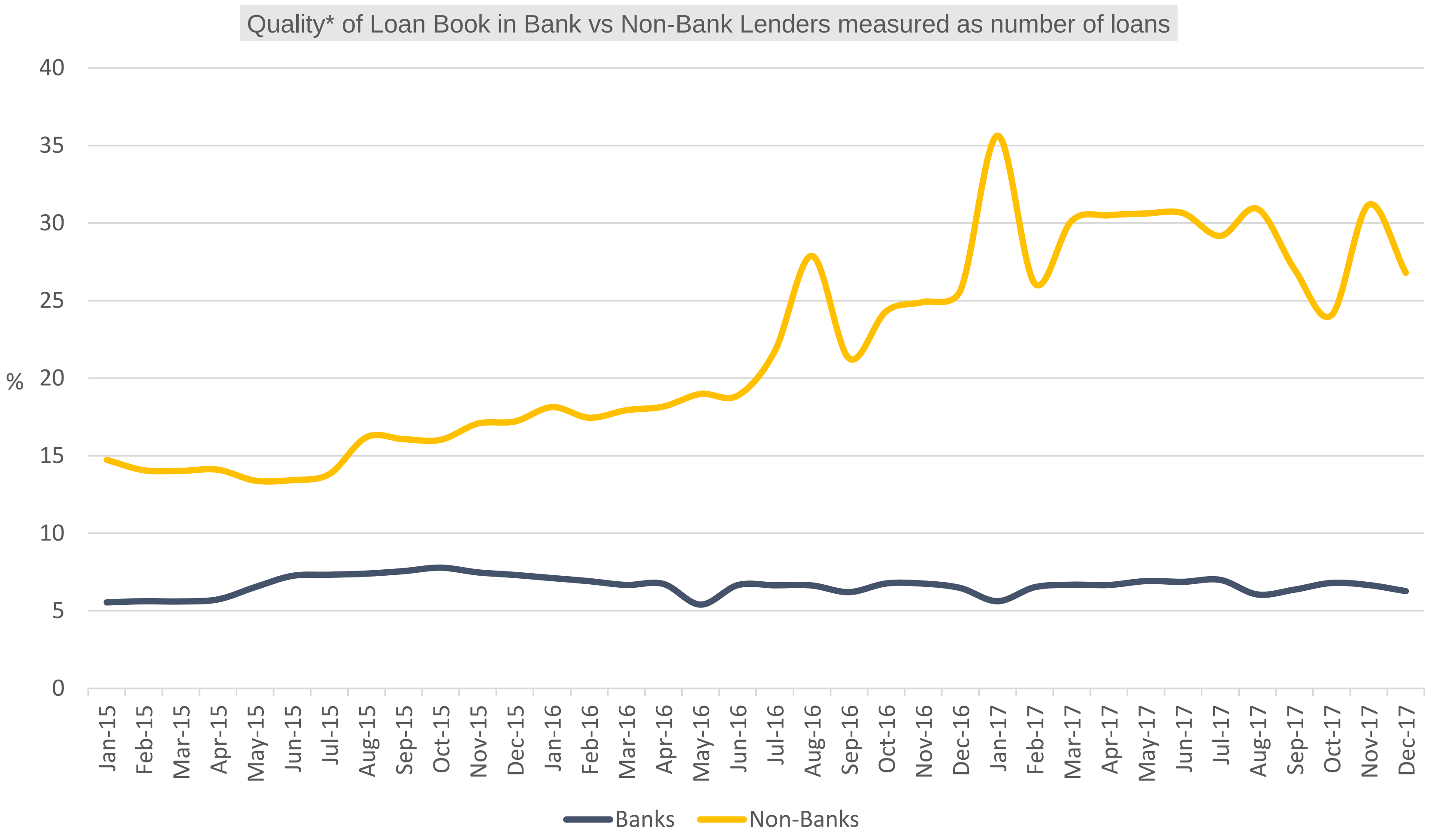
# Credit Quality in Bank vs Non-Bank Sector in Georgia




## Comments

- Quality of loan book have been historically better in banking sector, even measured as number of loans and not the volume of loans.
- Over the past two years, quality of loan book have been worsened significantly in non-banking sector while in banking sector it was stable.

Source: Creditinfo Georgia

*measured as the number of 30 to 360 days past due loans to total number of loans, excluding 360 past due loans

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