Central Asia And Caucasus Consumer Lending Booms

Low savings rates and high premiums encourage growth

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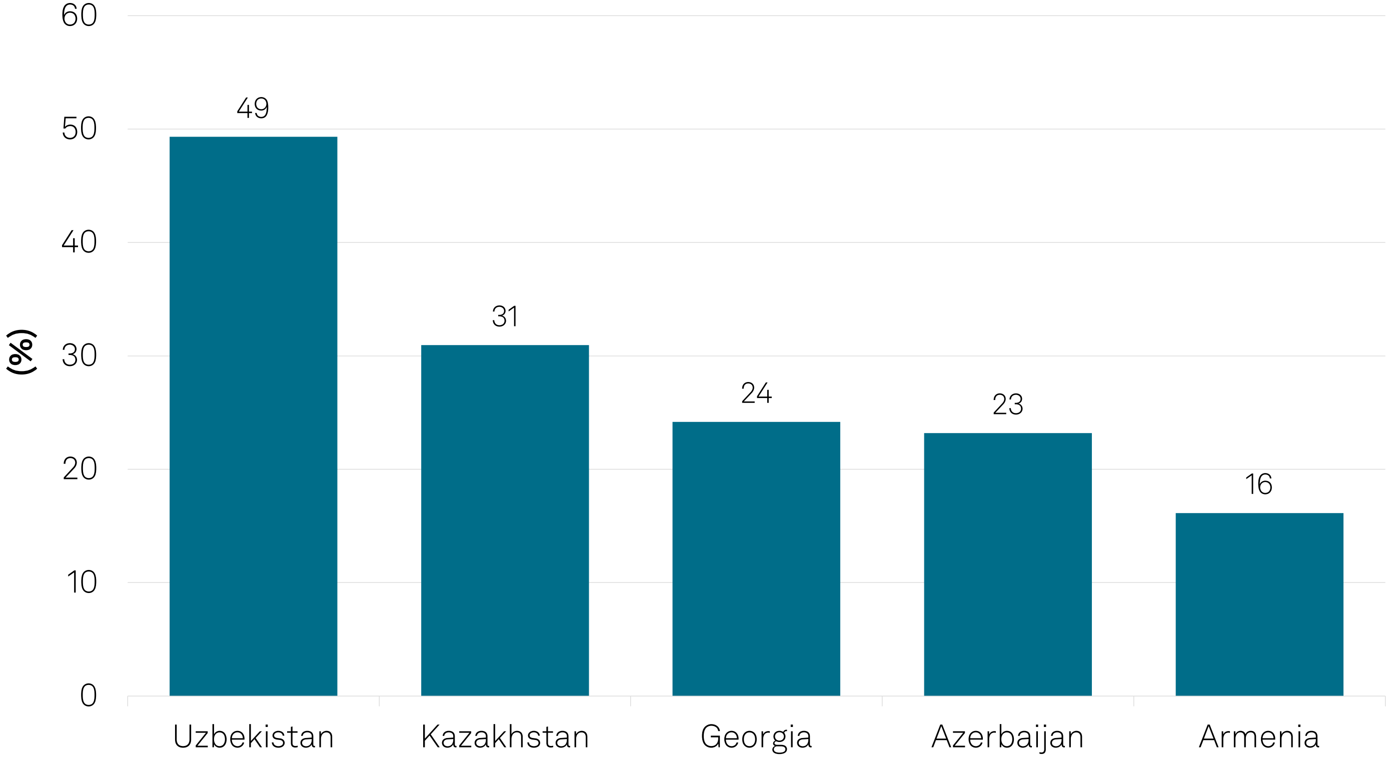
Key Takeaways

- Household sector indebtedness has risen in Southern Caucasus and Central Asia, with pronounced growth (mostly well over 20% per year) in consumer lending over 2022-2024.
- Owing to central banks' efforts, growth slowed in 2024 but will likely remain strong in 2025 and beyond because of premium lending margins for this product and consumers' higher propensity to spend, with a general decline in household savings rates across the region, in some cases into negative territory.
- In our view, growth in uncollateralized retail portfolios does not pose an immediate risk to financial stability, given a generally low debt burden, sound scoring models, and supportive economies.
- Risks are building with negative household saving rates and debt service reaching levels on par with those of some developed countries.
- Risks of an abrupt consumer lending slowdown could impair economic growth for some countries, where credit growth fueled much of the household consumption increase.

Regional Overview

Rapid Consumer Credit Growth Prompts Authorities To Act

Nonmortgage retail lending has boomed across the region over 2022-2024

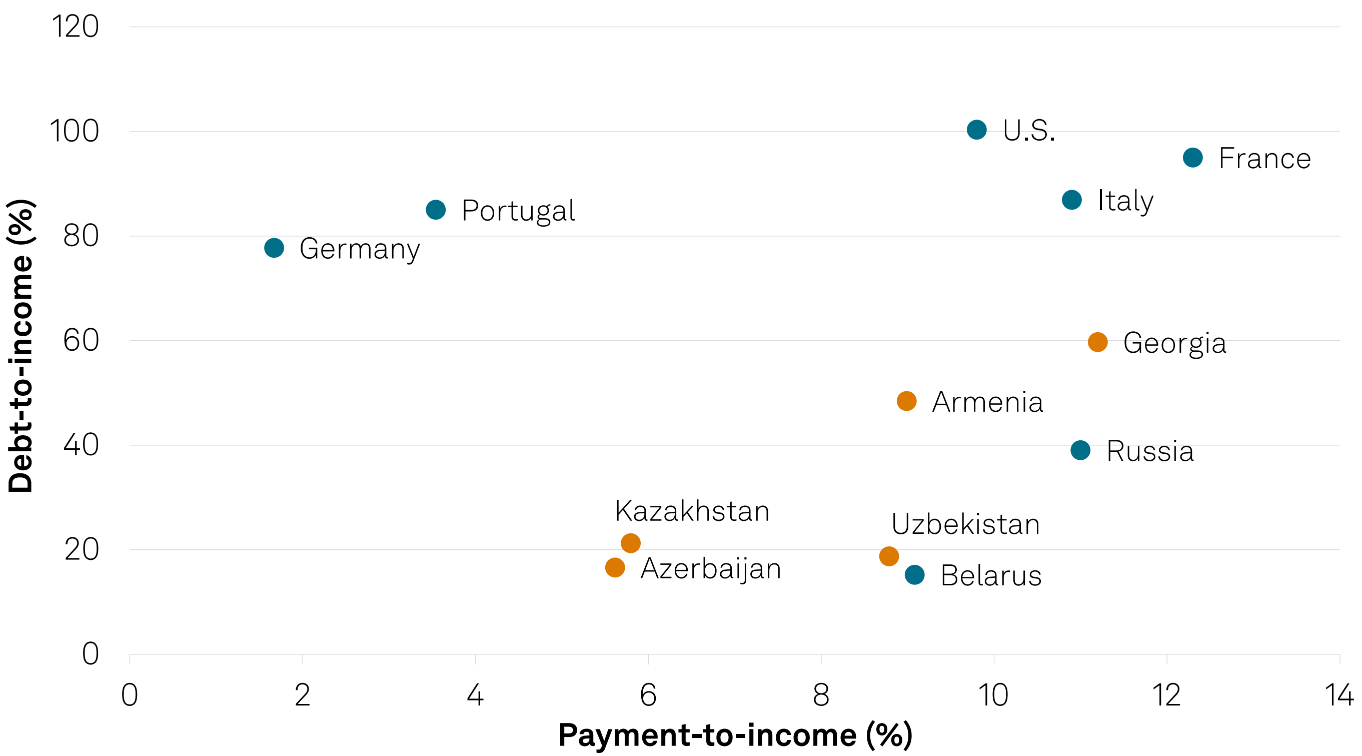


CAGR—Compound annual growth rate. Sources: S&P Global Ratings, Central Bank of Azerbaijan, Central Bank of Armenia, National Bank of Georgia, National Bank of Kazakhstan, Central Bank of Uzbekistan.

- Financial authorities in the region have differing views on the rapid increase in nonmortgage household debt.
- Regulators in Azerbaijan, Kazakhstan, and Uzbekistan took measures to cool retail lending in the past few years, introducing or tightening payment-to-income (PTI) ratios and limiting the maximum tenor of credit.
- Consumer credit is of less concern to regulators in Armenia and Georgia. The Armenian regulator highlights the overheated housing market, not consumer lending, as a major risk, while household indebtedness has declined in Georgia as the country recovers from the pandemic-related recession.

Debt Levels In The Region Are Low And The Cost Of Debt Service Is High

The household debt service burden is like that in some developed markets

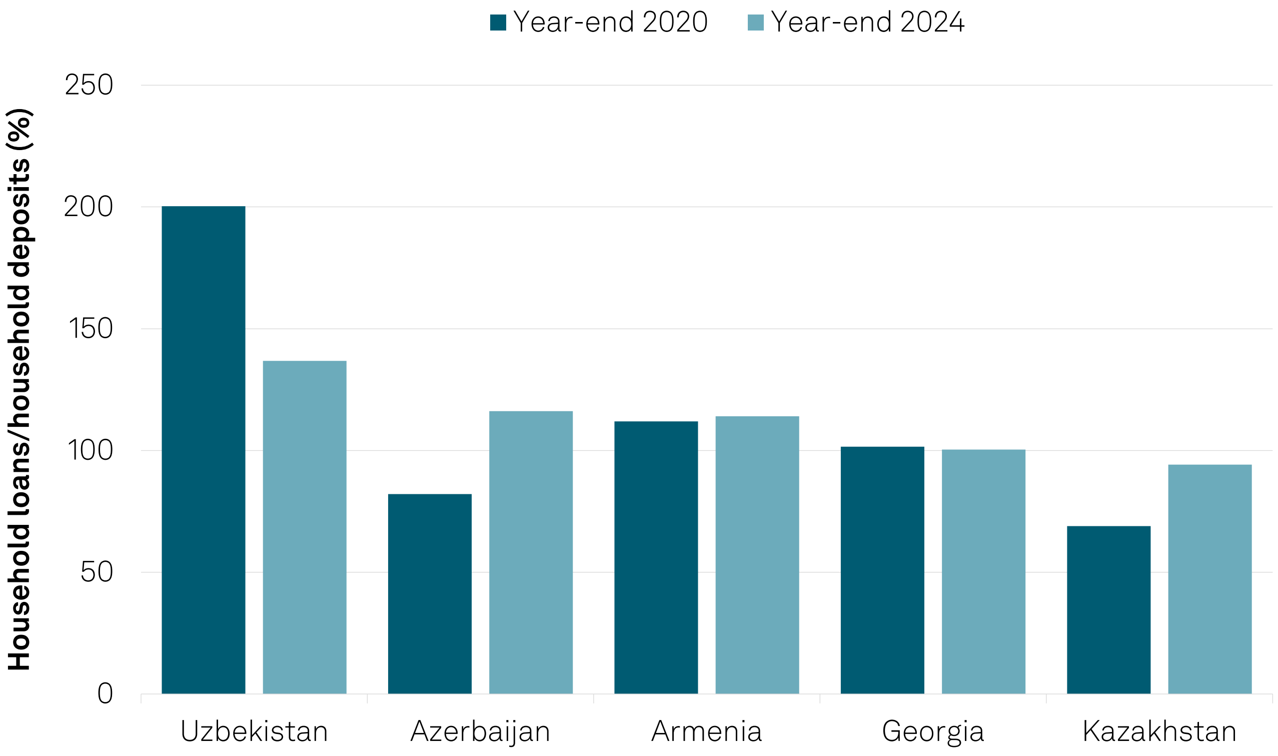


Sources: S&P Global Ratings estimates, IMF, national disclosures.

- Debt as a share of disposable income is low in the region, particularly in Azerbaijan and Kazakhstan.
- The share of consumer loans in total retail debt is high (about 50% on average) and consumer loans in most of the countries are priced above 20%.
- The higher cost of both consumer and mortgage debt than in developed markets and the shorter tenor for mortgages result in a higher cost of debt service and overall burden than in more leveraged developed markets.
- Moreover, the stock of financial and nonfinancial assets is generally higher in developed markets, adding to the financial flexibility of households there.

Households Are Becoming Net Borrowers

Household position vis-à-vis the banking sector

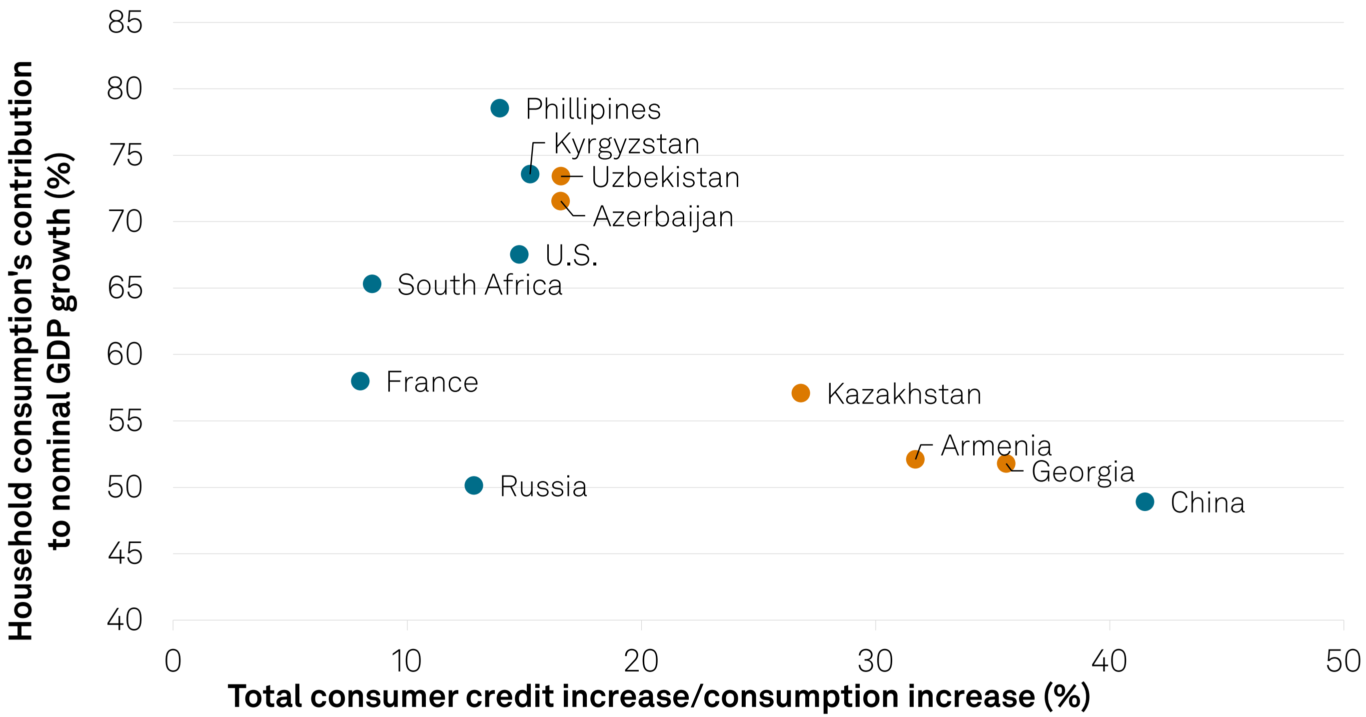


Source: S&P Global Ratings.

- Most household sectors in the region are net borrowers from the banking sector.
- In Uzbekistan, where traditional forms of wealth storage--housing, gold, and other material assets--dominate over financial assets, especially outside urban areas, this indebtedness is the highest. However, it is falling as the population switches to financial assets.
- In Kazakhstan and Azerbaijan, borrowing is picking up momentum. Azerbaijan moved into a net borrower position in 2023 and Kazakhstan reached loans-to-deposits of about 90% by end-2024.
- Georgia and Armenia are near the 100%-105% loan-to-deposit benchmark as indebtedness has reached saturation points.

Rapid Consumer Lending Has Propped Up Growth

Consumer credit contributed to household consumption growth in Georgia, Armenia, and Kazakhstan from 2022-2024



Source: National statistical offices, S&P Global Ratings' estimates.

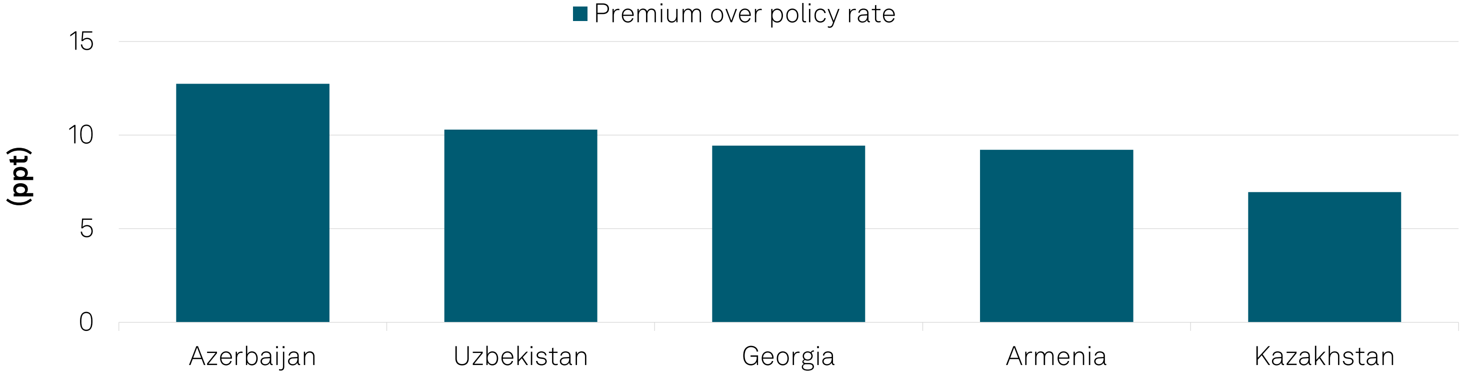
- Much of the post-pandemic recovery in household spending was funded by rapid expansion of retail credit, particularly in Georgia, Armenia, and Kazakhstan, where it represented about 15% or more of nominal increase in GDP.
- This expansion could accentuate the credit cycle impact on GDP as consumer lending typically cools faster in downturns.

Banks And Households Have Incentives To Continue With Retail Lending

- High lending rates (ranging from 700-1,275 basis points over local policy rates) create enticements for banks to keep extending consumer credit, considering benign credit conditions.
- At the same time, the region's population has embraced credit-driven consumption, as seen with a prolonged decline in household savings over the past decade in all countries but Georgia.
- This is particularly pronounced in the countries with lower household debt such as Uzbekistan, Azerbaijan, and Kazakhstan.
- Moreover, development of mobile banking and other remote service channels has dramatically reduced acquisition costs for banks and simplified the process for individuals.

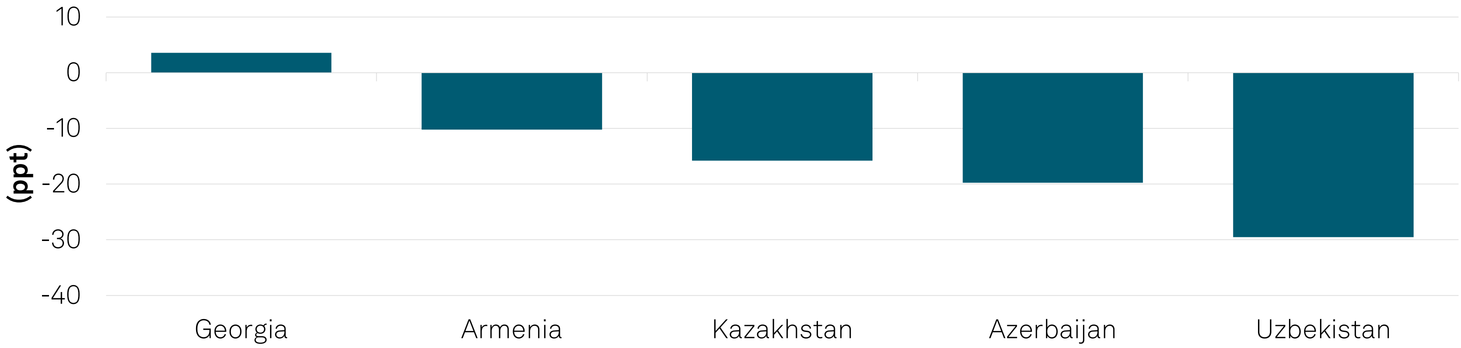
The consumer lending premium over the policy rate stays high

Premium over policy rate



Household savings rates fell in all countries but Georgia over the past decade

Change in household savings rate between 2010-2014 and 2019-2023



ppt--Percentage points. Source: S&P Global Ratings.

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Long-Term Imbalances Are Increasing

Risks to banks' balance sheets seem to be contained

On average, household indebtedness appears to be low. Household debt does not exceed 60% of household disposable income in most countries, with PTI ratios averaging 8%.

Scoring models employed by market leaders are advanced and keep improving. Our discussions with banks suggest that many use advanced machine learning algorithms, with the Gini ratio reaching 0.64-0.66. Banks are also experimenting with alternative data sources, including mobile operators, for these models.

Financial literacy has improved from 2015-2016 levels. Borrowers are more sensitive to interest rates, are aware of the fine print, and are reportedly more responsible. Anecdotal evidence suggests the share of borrowings to fund house improvements, consumer durables, and education has increased.

Social risks are on the rise

More vulnerable groups accumulate debt. In some countries, particularly Kazakhstan and Azerbaijan, the share of loans with higher PTI ratios keeps increasing along with the number of people having multiple consumer loans. Some people are even becoming perpetually indebted.

Scoring models remain relatively untested in downturns. Banks were lenient with borrowers during COVID-19-related lockdowns, and while new models have been extensively back-tested, they have yet to prove stable through downturns.

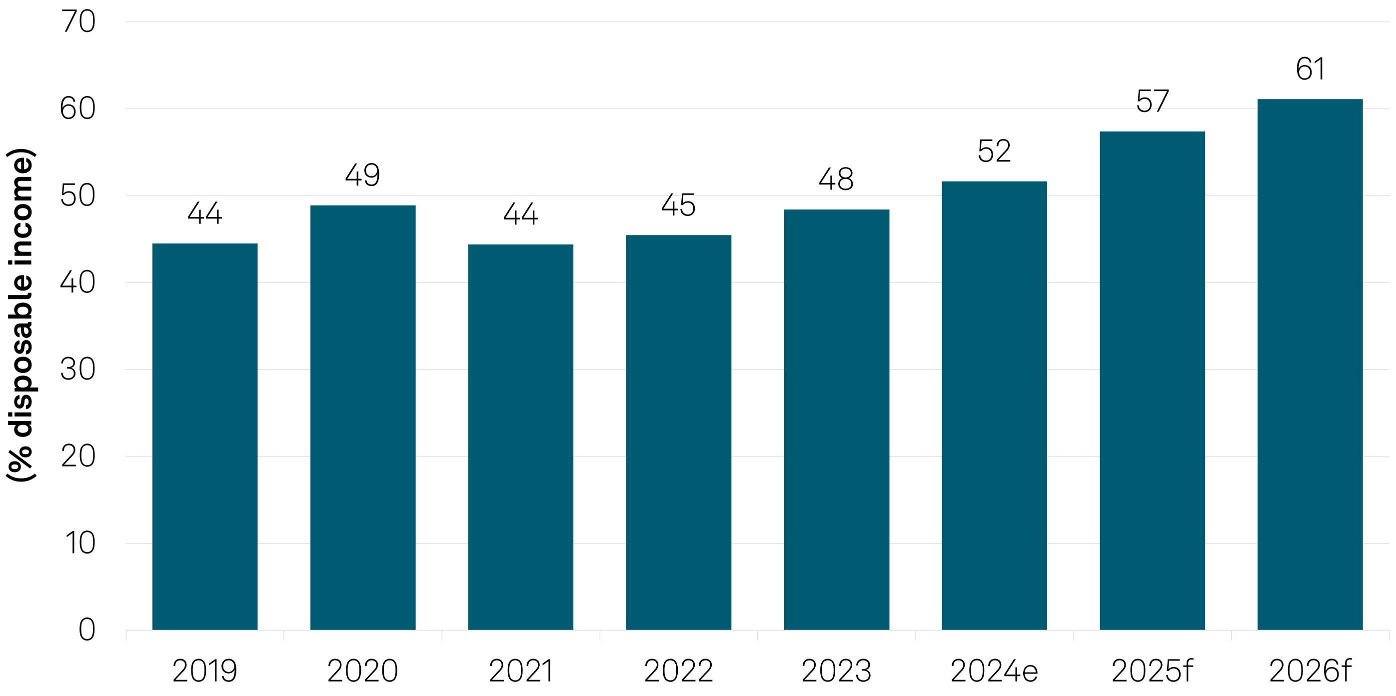
Discretionary consumption remains pronounced. It appears that "status consumption" (that is, people buying high-end goods as social status symbols) has risen in the region. Buy-now-pay-later, frequently associated with spontaneous spending, is becoming increasingly popular in the region as well.

Country Overviews

Armenia: Household Debt Will Reach New Highs

This poses long-term risks in light of negative household savings

Household debt will keep rising



f--Forecast. Source: S&P Global Ratings projections based on Central Bank of Armenia, Armstat data.

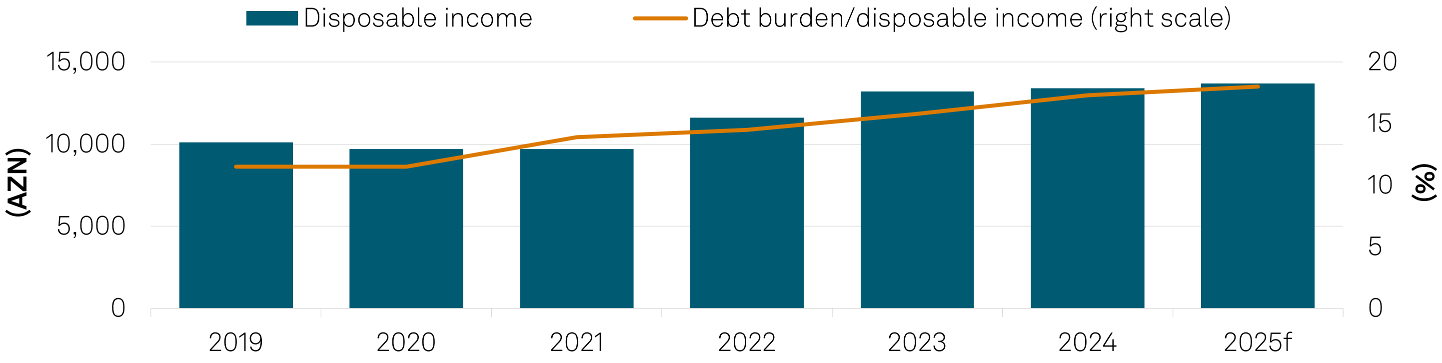
- We expect consumer credit growth to slow to about 20% in 2025 from 28% in 2024, but it will remain the main element of retail credit as mortgage growth will decelerate due to the phase-out of tax credits.
- Saturated demand in urban areas will be partially offset by demand from rural areas as stronger digital offerings reduce acquisition and service costs for banks, making smaller loans feasible.
- Steady economic growth will likely support quality retail portfolios in 2025-2026.
- We think rapid accumulation of household debt--considering persistently negative household sector savings rates (negative 18% in 2022, for instance) and credit-to-GDP projected to overshoot trend levels--could become long-term risks for banks.

Azerbaijan: Household Consumer Debt Is Increasing, Albeit From Low Levels

- Historically, credit growth, including unsecured consumer loans, in Azerbaijan has moved in tandem with oil prices. We expect oil prices will continue to support consumer credit growth in 2025.
- We think the CBRA's measures in 2022--the cap at 70% for PTI, and higher risk weights and required provisions for PTI above 45%--have been effective in reducing credit growth in unsecured consumer lending.
- Although rising, household leverage in Azerbaijan remains the lowest among peers, with household debt to GDP of about 14% and household debt to disposable income of 17% at year-end 2024.
- Consumer loans in foreign currency were less than 0.1% of total loans at end-2024.

In 2023, Azerbaijani households became net borrowers from the banking sector

Household debt as a share of disposable income is increasing



f--Forecast. AZN—Azerbaijan manat. Sources: Central Bank of Azerbaijan.

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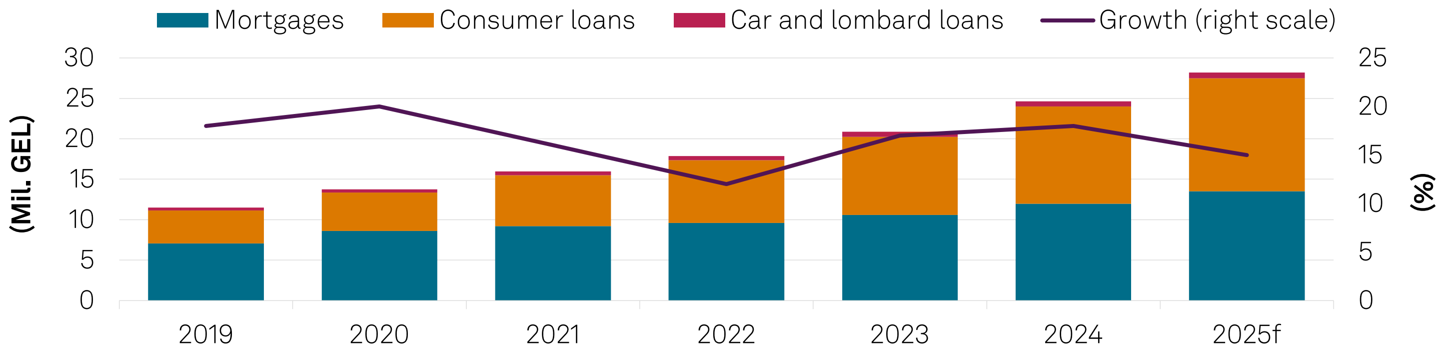
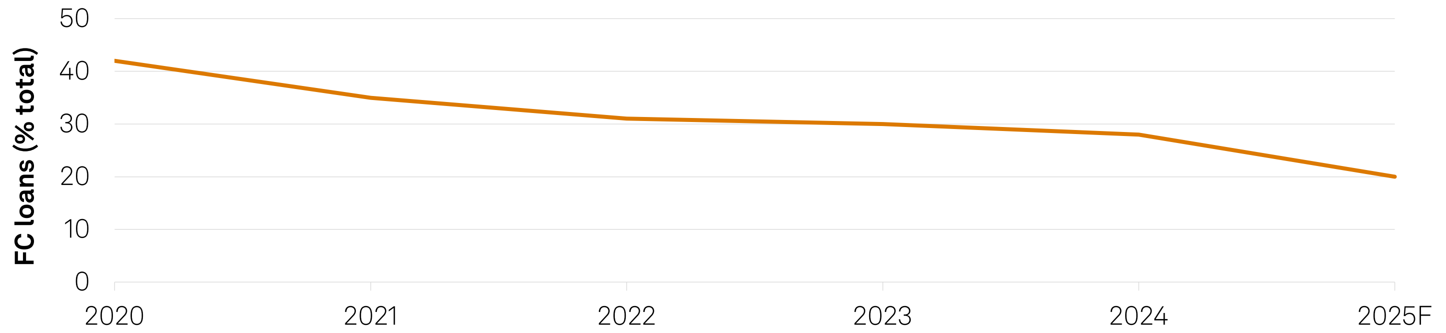
Georgia: The Central Bank's Measures Are Reducing Retail Loan Dollarization

- Consumer debt in Georgia remained the highest among peers at 20% of GDP at year-end 2024.
- We expect that growth in consumer loans will stay near 15% in 2025.
- Georgia has historically had the highest retail loan dollarization among peers, which has been progressively decreasing. Regulators have addressed this potential risk by increasing the limit on unhedged foreign exchange retail loans to Georgian lari (GEL) 400,000 ($150,000) as of May 2024 while the maximum maturity was capped at 10 years. Since then, new consumer loans in foreign currency has almost stopped. The central bank increased the limit further to GEL500,000 in 2025.

Consumer loans have been growing strongly



Consumer loan dollarization is decreasing but remains higher than peers'



FC--Foreign currency. f--Forecast. GEL--Georgian lari. Sources: National Bank Of Georgia.

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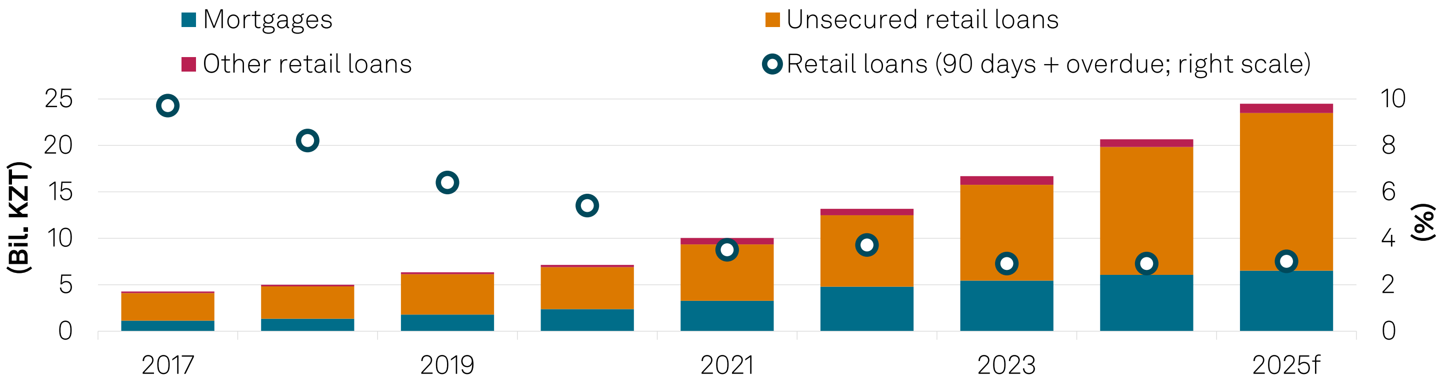
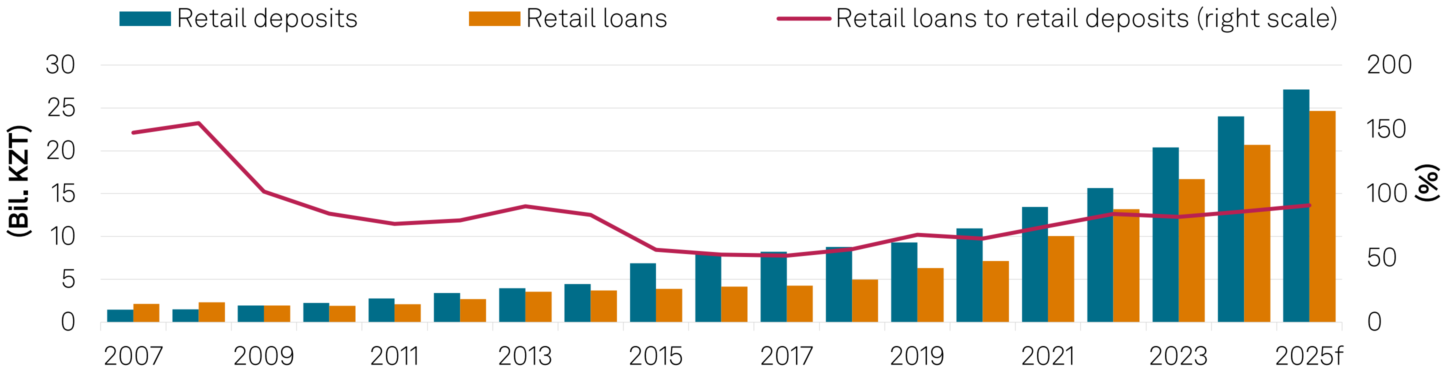
Kazakhstan: Strong Growth In Retail Lending Will Likely Moderate In 2025

- We expect growth in lower-risk retail lending is about to peak, thereby moderating the retail lending credit cycle over 2025.
- Tighter retail lending regulations and an increasing regulatory and political focus are likely to slow consumer credit origination. The expected deceleration of growth in unsecured consumer loans to 20%-24% from 33% in 2024 would benefit banks, as rapidly increasing indebtedness among those with lower incomes could increase banks' credit costs during a downturn.
- The reported share of overdue consumer loans slightly climbed to 3.9% by year-end 2024 from 3.2% at the beginning of the year. We expect it will likely be stable, at about 4% in 2025, because the largest part of the rapidly expanded portfolio has seasoned given shorter tenors.

Credit risk is likely to be stable



Kazakh households are moving to a net liability position



e--Estimate. f--Forecast. KTZ--Kazakhstani tenge. Sources: S&P Global Ratings, National Bank of Kazakhstan.

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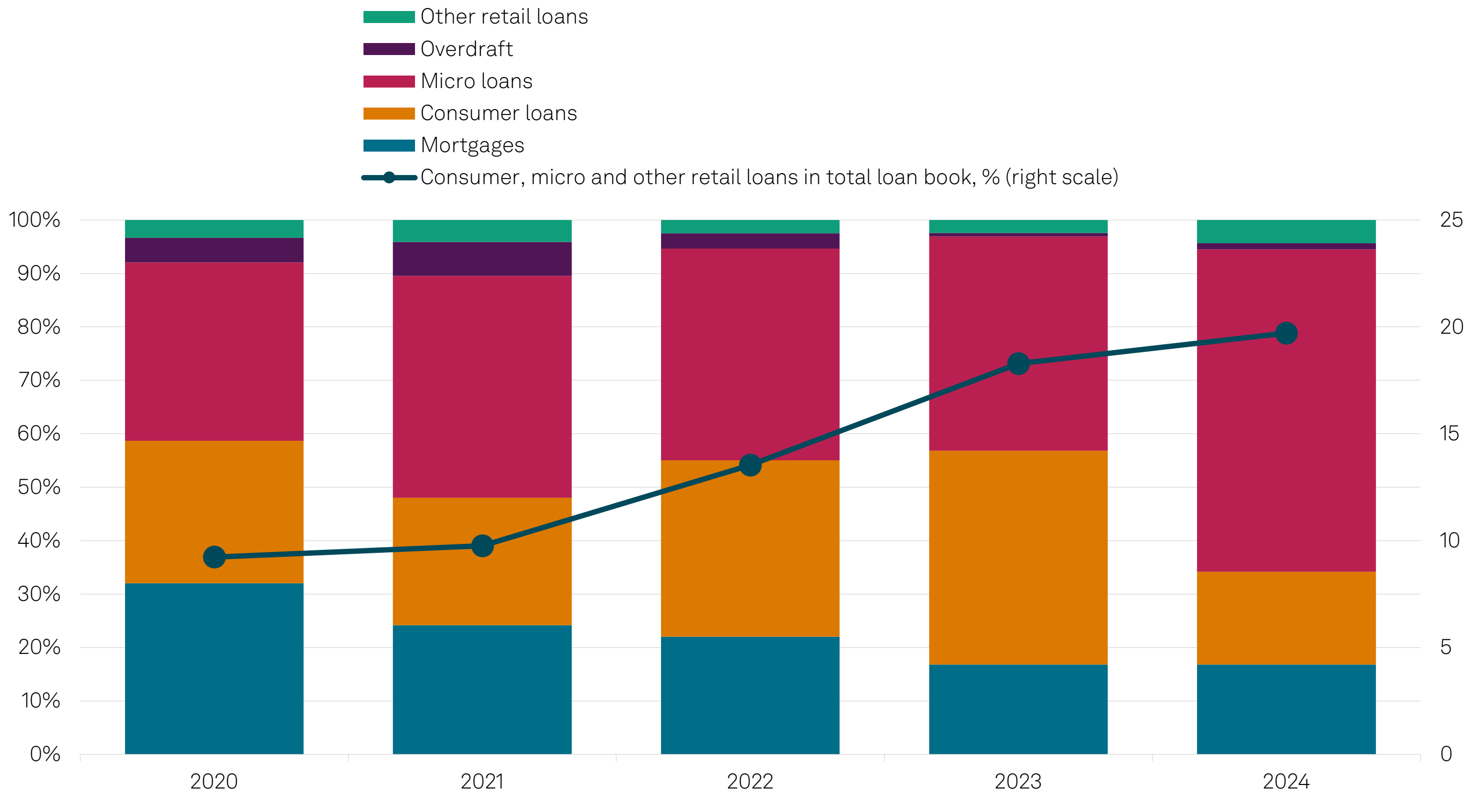
Uzbekistan: Strong Consumption Pushes Household Debt Up

How sustainable consumer lending growth is remains to be seen

The loan portfolio changes after growth in consumer loans and microloans



Source: S&P Global Ratings projections based on Central Bank of Uzbekistan data.

- Banks will continue expanding unsecured consumer and small and midsize enterprise lending to achieve higher margins. Measures from the regulator since 2023 decreased very aggressive retail lending to about 20% in 2024 from about 50% a few years earlier.
- Aggressive growth, tighter competition (including with the emergence of more active foreign players), and the still-evolving risk management culture will eventually test banks' asset quality.
- The sector's challenges over the next two years include low financial inclusion, low household incomes, and rapidly growing demand while the savings rate is low.

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