

Georgians Take on the Banks

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Protest mood increases as lenders call in unpaid debts.

Georgians are growing increasingly worried at the prospect of a wave of bank foreclosures on private homes. Protest groups accuse bankers of imposing high interest rates and arbitrary changing mortgage terms.

The banks insist that they have done nothing illegal, and that interest rates reflect the actual levels of risk.

Around 75,000 people are in imminent danger of losing their homes. Nana Kakabadze, head of a group called Former Political Prisoners for Human Rights, was one of the organisers of a recent series of anti-bank protests in Tbilisi. She predicts that they could soon be joined by as many as 600,000 people.

"This is a catastrophe for the country," she said.

A participant in one demonstration on July 11, who asked not to be named, said he fell behind with his mortgage payments when he lost his job after the October 2012 parliamentary election, a period of economic as well as political uncertainty.

"I'm being forced to sell my property and take out new loans. If I didn't do so, my family and I would end up on the street," he said. "No one disputes that people have to pay their debts. But there's an economic crisis - and there's also experience from both east and west of how to deal with it. In that light, the government could restructure people's debts by changing the duration and the amounts due."

According to figures from Georgia's central bank, as of the end of the first quarter, bad loans accounted for 9.5 per cent of the total debt held by the country's banks, up from 7.4 per cent a year earlier.

At the same point in the year, the National Bureau of Enforcement had some 85,000 people on its register of debtors, although it was unclear how many of them owed money to banks.

The banks point out that they are facing a financial squeeze themselves. The national association of banks says total profits across the sector last year were 60 per cent down on 2011.

The association's head Zurab Gvasalia pointed to two factors in the downturn - customers falling behind with interest payments, and the political turbulence around the 2012 election which dissuaded many people from taking big financial decisions.

Responding to the street protests, the Georgian government has come up with television adverts warning viewers they could lose their homes if they cannot pay the mortgage.

Irakli Lekvinadze, who writes for the **BPI** analytical website, said this initiative was important as many people were unaware of the risks associated with borrowing money from the banks.

Annual interest rates on mortgages currently run at between 11 and 15 per cent.

In 2011, the central bank made it a requirement for banks to ensure customers were fully apprised of terms and conditions before granting them loans. This followed a survey that showed customers were unhappy with the way banks could change both the interest rates and duration of mortgages.

Giorgi Tvalavadze, an economist and founder of the online magazine Georgia and Global Politics, said the government needed to go further and change banking legislation, which was too slanted towards the interests of banks.

Tvalavadze said that mortgage providers had a legal right to sell a property at auction when the borrower defaulted, but sale prices were well under the true market value.

"That is a violation of property rights, and does maximum damage to the owner while one-sidedly giving the lender maximum satisfaction. It can be seen as state-enforced social injustice," he said.

Georgian banks have not come out with a full rebuttal of this kind of allegation, confining themselves to saying customers are told of the risks before they get mortgages, while the interest rates reflect the risks that lenders are taking.

Maia Dzirvelishvili, spokesman for TBC, one of Georgia's biggest banks, said, "There will be no immediate fall in interest rates, for many reasons. The most important thing is that a downward trend has begun, and

it will continue. As for informing our customers, our staff do everything to ensure they're as well-informed as they need to be about their credit situation and the risks."

Some protesters have blamed Mikhail Saakashvili, who remains president but who lost most of his executive power when his allies were defeated in the October election, for presiding over a system where banks were able to lend too much money at excessive interest rates.

Saakashvili has denied any responsibility for the crisis, and instead urged bankers to mend their ways.

"Be careful.... Don't create a whole class of starving people," he said. "I warn you to be careful, otherwise there will be a serious anti-bank movement in Georgia. Don't create class hatred merely to earn a small profit. You won't make money by driving people into penury."

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