

# **Credit Risk in Georgian Banking Industry**

*The importance of the information accuracy for assessing credit risk determinants by  
Georgian commercial banks financing SME and start-ups*

**Salome Verulashvili**

**Tornike Aduashvili**

**Archil Lominadze**

*Master Thesis is submitted to the Business School of Ilia State University in accordance with  
the requirements of granting Master Degree in Business administration*

**Business Administration**

**Academic Supervisor: Nikoloz Kavelashvili, PHD**

**Ilia State University**

**Tbilisi, 2017**

## Statement

We, authors of the following thesis, hereby confirm that this thesis represents our original work and does not contain any previously published papers written by other authors, accepted publications or any copyrighted materials that are not mentioned or quoted in accordance with respective rules.

Salome Verulashvili \_\_\_\_\_

Tornike Aduashvili \_\_\_\_\_

Archil Lominadze \_\_\_\_\_

18.06.2018

## **Acknowledgments**

We would like to express our gratitude to our academic supervisor, Mr. Nikoloz Kavelashvili for his continuous support, professional advice and guidance through the entire research process. We are also thankful to each other for productive collaboration and mutual contribution.

## **Abstract**

The goal of this paper is to analyze general determinants of credit risk for commercial banks in the process of financing SMEs and start-ups in Georgia. The study also aims at identifying relations between the general credit risk determinants and problems faced by commercial banks in the process of assessing characteristics of the mentioned businesses. By analyzing theoretical background related to the general determinants of credit risk, the study identified common types of risk factors relevant to financing SMEs and start-ups in Georgia. We also explored statistical data and information which is essential for evaluating credit risk determinants in the country. The study showed that the most important problem faced by commercial banks in the process of financing the mentioned businesses is asymmetry and scarcity of information regarding Georgian SME and start-up characteristics as well as the lack of the data about SME survival and success rates. The study discovered that there is an immediate necessity of collecting, analyzing and publishing data connected with various determinants of credit risk associated with SME and start-up financing in Georgia. Besides, it was discovered that lack of data and relevant information disproportionally affect SMEs, start-ups and commercial banks as well as economic development of counties.

Key words: credit risk, determinants of the credit risk, SMEs, start-ups, default rate of start-ups and SMEs, commercial banks, information asymmetry.