Brief Summary

- According to preliminary data, economic growth in 2020 equals to -6.1 percent
- Renewed economic growth forecast for Georgia in 2021 equals to 4.3 percent
- Annual inflation in fourth quarter equals to 3.3 percent, while core inflation equals to 4.9 percent
- Export annually decreased 11.6 percent
- Import annually decreased by 17.2 percent
- Reduction of revenue from tourism by 93.8 percent
- The refinancing rate is unchanged at 8 percent
# Table of Contents

## Real Sector
- Economic Growth
- Employment and Unemployment
- Price Level
- Economic Outlook of the Region

## External Sector
- Current Account Balance
- External Debt
- Foreign Direct Investment
- International Trade
- Tourism
- Remittances
- Dependence on other Countries
- Exchange Rate

## Fiscal Sector
- Budget Performance
- Government Debt

## Monetary Sector
- Private Sector Larization
- Review of Loans
- Review of Deposits
- Monetary Policy Rate
- Interest Rates
Real Sector

Economic Growth

In December 2020, compared to the corresponding period of the previous year, the decrease in real GDP amounted to 7.9 percent, while the average real growth in 2020 was set at -6.1 percent. This decrease is due to the decline in economic activity, both within the country and due to the spread of the COVID-19 pandemic in the region. In December 2020, a decrease compared to the corresponding period of the previous year was observed in the following activities: provision of accommodation, construction, arts, entertainment and leisure, manufacturing, transport and warehousing, wholesale and retail trade; Repair of cars and motorcycles. Growth was observed in the following areas: financial and insurance activities, water supply, sewerage, waste management and clean-up activities, information and communication, mining industry. Average real growth in the fourth quarter was -6.5 percent.

In the third quarter of 2020, real GDP growth was -5.6 percent compared to the same period last year. A significant decline was observed in the entertainment and leisure sector (-32.4 percent y/y). Growth was observed in industry (+2.3 percent y/y) and construction (+2 percent y/y).

At the beginning of 2020, the main driver of GDP growth was consumption, with an annual growth of 9.9 percent, and its contribution to overall growth was 8.3 percent. Although export growth in 2019 significantly outpaced import growth and had a positive impact on economic growth, due to the negative impact caused by the pandemic, the share of net exports contributed negatively to overall growth in the third quarter of 2020, -18.4 percent. At the same time, the contribution of consumption components to growth increased by 14.7 percent. Similar to the second quarter, the third quarter was characterized a negative contribution of investment to overall growth.

Due to the spread of the COVID-19 pandemic in early 2020, economic slowdown is expected amid reduced economic activity in the world and the region. According to the forecasts of the Ministry of Finance of Georgia and the International Monetary Fund, economic growth in 2020 will become negative and will equal -5 percent. The economy will...
begin to recover in the fourth quarter of 2020, and economic growth is projected to reach 4.3 percent in 2021, which will be offset by restrictions on improving the economic growth of trading partner countries. However, any type of forecast in the light of this situation is subject to great uncertainty as to the duration of the existing pandemic. According to the IMF forecast for October 2020, Georgia’s economic growth in 2021-2025 will average 5.5 percent, which is higher than the regional (3.6 percent) and Eurozone (2.7 percent) average during the period.

It is expected that in 2020, considering reduced economic activity in the region, reduced exports, a significant reduction in revenues from tourism and a lack of remittances will widen the current account deficit to 9.7 percent of GDP. At the same time, globally increasing risks will reduce private financial flows and delay investment, which will further reduce the GDP growth rate. Prolonged economic slowdown requires fiscal stimulus and fiscal policy flexibility, and in response to market pressures, exchange rate flexibility must be maintained and reserves must be used, accompanied by proactive measures to maintain financial stability. Authorities have mobilized donor assistance to build external and fiscal buffers to facilitate shock response measures and build confidence to reduce risks.
Employment and Unemployment

In December 2020, the National Bureau of Statistics released employment and unemployment rates based on the new methodology of International Labor Organization’s new. The introduction of a new International Labor Organization standard provided for the retraining of the self-employed and the calculation of additional labor force indicators. Following these changes, historical data was recalculated and the unemployment rate increased while the employment rate decreased.

In the third quarter of 2020, the unemployment rate was 17 percent, which is 1.3 pp less than in the previous quarter. Unemployment was 19.2 percent in urban areas (+1.7 percentage points per year) and 13.7 percent in rural areas (-2.1 percentage points per year). The highest unemployment rates are in the 15-24 and 25-34 age groups. In the third quarter of 2020, the economically active population accounted for 50.3 percent of the working age population (15 years and older). In the third quarter of 2020, the unemployment rate for the women group was 14.5 percent, while for the men group, the figure was 18.9 percent.

Due to the slowdown in economic growth caused by the COVID-19 epidemic, which stood at -5.6 percent in the third quarter of 2020, the number of employees decreased by 3.2 percent compared to the corresponding quarter of the previous year. The level of employment decreased by 1.3 percentage points compared to the corresponding period of the previous year. As a result, productivity (ratio of real output to number of employees) decreased by 2.4 percent annually. The average nominal wage of employees also increased by 2.5 percent, which is 1239 GEL as of the third quarter of 2020.
Price Level

In the current period, the dynamics of the inflation rate is under significant pressure from both supply and demand. Restrictions due to the spread of COVID-19 virus complicate and slow down production, which leads to increased costs, which in turn affects the price of the final product. In addition, the depreciation of the GEL increases the costs of firms that have loans in foreign currency, which, together with imported inflation, leads to higher inflation. At the same time, due to pandemic-related social distancing measures and reduced economic activity, both domestic and foreign demand are declining, leading to lower inflation. Consequently, the final change depends on which factor influences will be dominant. At the beginning of 2020, as a result of the tightening monetary policy at the end of 2019, annual inflation decreased from 7 percent (December 2019) to 6.1 percent (March 2020). In the fourth quarter of 2020, annual inflation was 3.3 percent. At the same time, core inflation (excluding tobacco) equals to 4.9 percent in the fourth quarter. The high rate of core inflation relative to headline inflation is due to the depreciation of the nominal effective GEL exchange rate and an increase in firms’ operating costs.

According to the monetary policy report of the National Bank, given the medium-term inflation forecast, which is based on the expectation that supply factors will be neutralized and prices will be reduced by reducing aggregate demand, a gradual reduction of the monetary policy rate is expected to help the economy to recover. According to the International Monetary Fund, nominal depreciation will maintain inflationary pressures throughout 2020, but lower commodity prices, coupled with declining domestic demand, will help keep inflation at 3 percent by the end of 2021.

Despite the depreciation of the lari, local inflation exceeds imported inflation. In the fourth quarter of 2020, local inflation stood at 1.8 percent, while imported inflation stood at 0.4 percent (the lowest in the last 3 years). This dynamics is caused by the increase in food prices and the relatively high weight gain in the consumer basket relative to the grocery group.
Figure 11: Decomposition of Inflation, 2020 Q4

Annual Change, %

-8.0% -6.0% -4.0% -2.0% 0.0% 2.0% 4.0% 6.0% 8.0% 10.0% 12.0%


-1 0 1 2 3 4 5

Source: Geostat
Economic Outlook of the Region

The COVID-19 pandemic recession has hampered economic activity in both developed and developing countries. According to the International Monetary Fund forecast updated in January 2021, global growth in 2020 will reach -3.5 percent, which is 0.9 percentage points higher than the forecast published in October 2020. However, at the same time, according to the IMF, global growth is expected in 2021 at 5.5 percent, which is 0.3 percentage points higher than the October forecast. According to the updated forecast, the expected economic growth of developed countries will be -4.9 percent in 2020, and 4.3 percent in 2021. At the same time, the expected economic growth of growing and developing countries in 2020 is equal to -2.4 percent, and in 2021 will reach 6.3 percent. According to the IMF January forecast, the forecast for economic growth in the Euro Area is -7.2 percent, and in 2021 - 4.2 percent. This decrease is due to the closure of borders between countries due to the COVID-19 pandemic, reduced investment and exports, which is due to reduced demand from trading partners. Production and retail sales of the industrial sector decreased significantly. According to the October forecast, the inflation rate will be 0.4 percent in 2020 and 0.9 percent in 2021.

The decline in investment and the deteriorating trade balance remain significant challenges for Turkey recently. Against this background, the state of emergency and the global pandemic have put additional pressure on the Turkish economy. According to the IMF forecast, real economic growth in 2020 in Turkey is set at 1.2 percent, and in 2021 will be 6 percent. The devaluation of the Turkish lira still has a significant impact on inflation. The IMF estimates that in 2020 and 2021, the expected inflation rate is 11.9 percent. The ratio of the current account balance to GDP will decrease from 1.2 percent to -3.7 percent in 2020 compared to 2019, and -0.9 percent is expected in 2021. The year 2020 turned out to be especially difficult for Russia, because along with the coronavirus pandemic, the economic situation was also negatively affected by the decline in international oil prices. The output of the oil and refining sectors decreased, which, together with the deteriorating external demand, significantly reduced exports. According to the IMF, economic growth in Russia in 2020 was set at -3.6 percent,

International Monetary Fund. World Economic Outlook Update: Policy Support and Vaccines Expected to Lift Activity. Washington, DC, January 2021
and in 2021 is expected to grow by 3 percent. The inflation rate in 2020 and 2021 will be 3.2 percent. Due to the reduction in oil prices, the consolidated budget will be significantly reduced, which according to the IMF forecast in 2020 will equal -5.3 percent of GDP, and in 2021 will equal -2.6 percent. The ratio of the current account balance to GDP will decrease from 3.8 percent to 1.2 percent in 2020 compared to 2019, and 1.8 percent is expected in 2021.

The fall in oil prices and the state of emergency caused by the Coronavirus pandemic are also affecting Azerbaijan’s economic performance. According to the IMF, economic growth in Azerbaijan in 2020 will be -4 percent, and in 2021 -2 percent. Annual inflation will reach 3 percent in 2020 and 3.1 percent in 2021. Compared to 2019, the ratio of the consolidated budget to GDP will be significantly reduced, from 8.1 percent to -6.3 percent in 2020, and will equal -5.8 percent in 2021. There is also a significant reduction in the ratio of the current account deficit to GDP, which was 9.1 percent in 2019, while the IMF estimates it will reach -3.6 percent in 2020, and will reach -4.4 percent in 2021. Due to the severe epidemiological picture, reduced investment and exports, Armenia’s economic growth was projected at -4.5 percent in 2020, and growth of 3.5 percent is expected in 2021. Against the background of recently reduced exports and increased imports, the ratio of the current account balance to GDP is projected at -8.8 percent of the IMF in October, while in 2021 -7.3 percent is expected.
External Sector

Current Account Balance

The current account deficit was 11.2 and 11.7 percent of GDP in the first and second quarter of 2020, respectively. While it has increased to 13 percent in the third quarter. Given that, the current account deficit was 5.5 percent in 2019, the trend in the first three quarters of 2020 has a significant deterioration. This is mainly due to the supply-demand imbalance caused by closing borders due to the Corona pandemic. Recently, the increasing demand for imported goods was supported by the growing supply of service exports, although the current circumstances have reduced the country’s external tourism to almost zero. After 2008 (Q3 2008), there was the first case in the third quarter of 2020, when income from service outweighed the outcome and contributed negatively in the current account balance (1.1 p.p.).

The current account deficit is financed by debt and foreign direct investment. Debt financing means borrowing new debt and, consequently, spending more on debt service. In this regard, it is important that the current account deficit is financed by increasing foreign direct investment. The structure of financing current account deficit has been improving recently in Georgia. The deficit was entirely financed by foreign direct investment in 2017. There was a current account surplus of 0.4 percent in the third quarter of 2019. After that, foreign debt contributes quite a lot to financing the deficit.
External Debt

Along with the current account deficit, the additional weakness of the Georgian economy is considered to be external debt which remains a main source of vulnerability. External debt consists of government sector debt, as well as foreign debts of commercial and National Banks and intercompany loans.

At the end of the third quarter of 2020, total external debt increased compared to the previous year and amounted to 120.4 percent of GDP. This increase is mainly due to the increase in government sector debt, which increased mainly in the second and third quarters, due to the measures and attracted financing during the current pandemic.

The decomposition of the change in external debt is presented in terms of operating or borrowing, as well as in terms of price effect, exchange rate changes and changes in nominal GDP. It should be noted that the largest contribution to the growth of external debt in 2015-2016 was made by the depreciation of the exchange rate, while GDP mainly contributed to the reduction of external debt. As of the second quarter of 2020, the debt-to-GDP ratio has increased by 7.6 percentage points, while in the third quarter – by 6.6 percentage points. The main factors were changes in the exchange rate (+9.2 percentage points) and the operating change (+5.0 percentage points). However, other factors contributed to the debt reduction, while the price effect was less than 1 percentage points, during the third quarter.

Foreign Direct Investments

In the third quarter of 2020, foreign direct investment in Georgia amounted to 303 million US dollars, which is less than in the same period of last year, but is more than the previous two quarters amount. Foreign direct investment in the third quarter of 2020 was mainly mobilized from the United Kingdom (38.9 percent), the Netherlands (26.2 percent), the United States (8.0 percent), Japan (5.2 percent), and Panama (4.8 percent). As for the sectors, 42.4 percent of FDI was allocated in the financial sector, 12.3 percent in energy, 12.1 percent in manufacturing, 10.3 percent in mining and 6.8 percent in real estate.
It should be noted that since 2016, there has been a relatively high level of reinvestment in total investment, which shows that the country’s economic policy and improved business environment are positively perceived by investors and more investors continue doing business in Georgia. Regardless the corona pandemic, there was a high level of both total investment and reinvestment in the third quarter as well as in the second quarter. In particular, its volume amounted to 62 and 61 million US dollars, during the second and third quarters, respectively.

International Trade

During 2020, because of epidemic around the world and restrictions imposed by most countries, foreign demand declined. The impact of these factors on Georgia’s exports, remittances and income from international travel will be negative due to the uncertainty of the epidemic for some period of time. At the same time, the volume of imports also decreased due to reduced economic activity within the country. The annual growth of nominal exports was to -12.0 percent in 2020 and amounted to 3,342 million US dollars, while the growth of domestic exports amounted to 14.1 percent, in which the real growth of exports was 3.5 percent. As for the fourth quarter, nominal export has decreased by 11.6 percent, while domestic export has increased by 5.5 percent with real growth share of 4.2 percent. At the same time, annual growth in imports was -15.9 percent and amounted to 9,517 million US dollars, while for the fourth quarter the growth was -17.2 percent, with real growth amounted to -14.2 percent.

In the fourth quarter of 2020, imports of investment goods decreased by 24.3 percent (-6.5 p.p), imports of consumption intermediate goods – by 14.8 percent (-5.4 p.p), and imports of intermediate goods – by 13.8 percent (-5.1 p.p). In the fourth quarter of 2020, exports of traditional goods decreased by 4.2 percent, while raw materials increased by 11 percent.

In the fourth quarter of 2020, copper ores and concentrates took the first place in the top ten export products groups with 187.8 million USD (20.0 percent of total exports), in second place – cars with 99.9 million USD (10.6 percent of total exports), and in third place - ferroalloys with 67.0 million US dollars (7.1 percent).
The largest import products group was the car group with 159.4 million US dollars (7.1 percent of total imports), followed by petroleum and petroleum oils with 131.9 million US dollars (5.9 percent of total exports), and the third place – copper ores and concentrates with 117.9 million US dollars (5.2 percent).

Tourism

Revenue from tourism increased by 1.4 percent in 2019. The relatively small increase is due to the ban on flights from Russia to Georgia in July. However, at the same time, increased revenue from other countries has managed to mitigate the impact of this negative shock. Moreover, the number of visitors increased by 8.4 percent annually in 2019.

In order to mitigate the spread of COVID-19, there was a closure of the borders and cancelation of international travels in Georgia, in March. Due to this restriction, there was a sharp decrease in international visits. Therefore, the number of visitors, as well as revenue from international tourism, have decreased significantly from the second quarter of 2020. Total visitors amounted to 146 thousand in the fourth quarter of 2020, while the same indicator in the same period of last year was 2,081 thousand and decreased by 93 percent annually. Revenue from tourism decreased by 93.8 percent annually and amounted to USD 42.6 million. It is expected to continue the declining trend of revenue from tourism until the opening borders and resume of touristic travel.
Remittances

Net money transfers amounted to USD 480.9 million in the fourth quarter of 2020, which is 18.3 percent higher than in the fourth quarter of the previous year, while it is less than 2.9 percent compared to the previous quarter. It should be mentioned that the growth of remittances in the fourth quarter, compared to the same period of the previous year, was mainly due to the higher remittances from European countries, Israel and Ukraine. As for the Russia, remittances have decreased by 3.1 percent. Besides, lower oil prices during the beginning of the year were the additional pressure and hit the countries’ economies which were significantly depended on oil. Such a negative impact was noticeable during the first quarter when there was a sharp depreciation of Russian Ruble, and it was also reflected in the number of remittances from Russia. As for the second quarter, even though oil prices started to increase slightly from the end of April, and Russian Ruble has stabilized, remittances from Russia have declined. As for the fourth quarter, the main contributor of growing the remittances was Israel, Italy and Ukraine, while money transfers declined from Kyrgyz Republic. Remittances have increased by 9.6 percent annually in 2020, where the most share contributed Italy and Ukraine (total 7 p.p), while share of Russia was negative, -4.4 p.p.
Dependence on Other Countries

Georgian economy is diversified in terms of dependence on other countries, based on the shares of exports, tourism, and transfers in the current account credits. It can be concluded that Georgia has a tight relationship with Russia, Turkey, Ukraine, and the European Union.

Dependence on the EU has increased, according to the Balance of Payments of the first three quarters of 2020, while dependence on Russia and Ukraine has increased in the third quarter. Increased dependence from Russia and Ukraine is mainly due to the higher remittances and export, while revenue from tourism has decreased significantly from Russia, which was around 6-7 percent before. There is a declining trend of the share of transfers, while there is an increasing trend of the share of tourism and export, during the last several years. The ban of flights from Russia to Georgia caused the sharp decline of tourists from Russia, during the second half of 2019, which was reflected in the reduction of revenue from tourism from Russia, in the current account. However, this loss was compensated by the growing number of international tourists from other countries. As for 2020, during three quarters, the share of tourism has decreased and is close to zero, while share for remittances has increased. It should be noted that dependence on the EU has increased after the declining share of tourism, which was due to the increasing share of export and remittances. For the third quarter, share of remittances has increased from 5 to 10 percent.
Exchange Rate

USD has appreciated relative to the currencies of developing countries, due to the COVID-19 pandemic and the drop in oil prices internationally. This can also be observed in the downward trend of the weighted index of the currencies of regional countries. However, it should be mentioned that Georgian Lari has also depreciated relative to the currencies of the region, which is caused by the fact, that Tourism has a significant share in the Georgian economy, compared to other countries from the region, and the current pandemic hit the tourism sector mainly.

During the fourth quarter of 2020, Depreciation of Lari amounted to 9.9 percent compared to the same period of the previous year, while is depreciated by 5.1 percent compared to the third quarter of 2020. Georgian Lari exchange rate has depreciated by 12.5 percent against US dollar and by 20.1 percent against Euro relative to January 1, 2020. Lari has appreciated against Russian Ruble and Turkish Lira. The nominal effective exchange rate index has depreciated, and it was deviated from its medium-term trend by -10 percent. As for the exchange rate corrected by the prices, the real effective exchange rate was deviated by -8.2 percent in December.
Fiscal Sector

Budget Revenue Performance

The consolidated budget tax revenue forecast for 2020 was set at 10,510 mln GEL, while 10,964 mln GEL was mobilized during the reporting period, which is 104.3 percent of the forecast.

- 3,326.7 million GEL is mobilized as income tax, which is 102.7 percent of the forecast figure (3,240 million GEL).
- 919.4 million GEL is mobilized as profit tax, which is 109.5 percent of the forecast indicator (840 million GEL).
- 4,837.2 million GEL was mobilized as VAT, which is 104.4 percent of the forecast.
- 1,619.4 million GEL is mobilized as excise, which is 122.2 percent of the forecast indicator (1,325 million GEL).
- 74.4 million GEL is mobilized in the form of import tax, which is 106.2 percent of the forecast (70 million GEL).
- 433.6 million GEL is mobilized in the form of property tax, which is 108.4 percent of the forecast indicator (400 million GEL).

The forecast of grants was set at 613 million GEL, 457.9 million GEL was mobilized during the reporting period, or 74.7 percent of the forecast. The forecast for other revenues was set at GEL 1,040 million, GEL 982.5 million was mobilized during the reporting period, or 94.5 percent of the forecast. 207.9 million GEL was mobilized from the decrease in non-financial assets, which is 138.6 percent of the forecast (150 million). 167.4 million GEL was mobilized from the decrease in financial assets, which is 223.2 percent of the forecast (75 million GEL).

A significant share of budget revenues is tax revenues, which in 2020 amounted to 88.4 percent. The consolidated budget received GEL 10,964 million in taxes, which is 4 percent less than the previous year. Revenue from income tax decreased by 4.5 percent year on year to GEL 3,326.7 million. The highest increase is observed in the form of income from income tax, which increased by 6.1 percent compared to the previous year and amounted to 919.4 million. At the same time, it should be noted that the largest share of tax revenues is occupied by VAT revenues, which in 2020 accounted for 44.1 percent, while the annual growth rate was -7.7 percent. Property tax revenue also decreased by 8.6 percent to GEL 433.7 million. Revenue from excise tax
increased by 7.5 percent compared to the previous year and amounted to 1,619.4 million GEL, which is 14.8 percent of revenue from tax. There was a decrease in import tax revenue, which accounted for 0.7 percent of tax revenue and decreased by 5.9 percent annually.

In 2020, spending increased by 23.7 percent year on year to GEL 13,396.8 million. Social security expenditures account for the largest share of budget expenditures, accounting for 41.6 percent of total expenditures, while the annual growth rate is 32.8 percent. This increase is partly due to the social measures developed in the pandemic. Expenditures in the form of subsidies also increased significantly, with an annual growth rate of 51.6 percent to GEL 1,641.5 million, accounting for 12.3 percent of total expenditures. As for other items of expenditure, wages (13.8 percent of total costs), goods and services (14 percent of total costs), interest (5.7 percent of total costs) and other costs (12.2 percent of total costs) in 2020, compared to the previous year increased by 3.7 percent, 13.4 percent, 25.9 percent and 11.8 percent, respectively.
Governmen Debt

As of December 31, 2020, the stock of public debt of Georgia amounted to GEL 30,875.9 million, including:

- Government domestic debt stock is GEL 6,186.1 million, including:
  - Annual Renewable Government Bond for the National Bank ("Bond for the NBG") - GEL 200.8 million;
  - Government bonds with different maturities for open market operations ("Bonds for open market") - 152.0 million GEL;
  - Treasury liabilities of the Ministry of Finance - GEL 723.4 million;
  - Treasury bonds of the Ministry of Finance - GEL 5,069.1 million;
- Government external debt stock is 24,689.7 million GEL.

Figure 38: Government Debt

Source: MOF
Monetary Sector

Private Sector Larization

The larization of loans has increasing trend and by 1 of January 2021 it reached 44.3 percent. It should be noted that the main determinant of total loan larization is the larization of loans granted to individuals. By 1 of January 2021, the larization of loans of individuals was 49.5 percent, in the same period the larization of loans granted to legal entities amounted 29 percent.

As for the larization of loans according to collateral, there is a growing trend of both mortgage and consumer loans, but the larization of consumer loans significantly exceeds the larization of real estate loans. By 1 of January 2021, the larization of consumer loans was 87.7 percent, while the larization of mortgage loans was 33.6 percent.

We also observe increasing trend of deposit larization but it still remains significantly lower than larizarion of loans. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. As of 1 of January 2021, the total larization of total deposits was 38 percent, the larization of deposits of legal entities in the same period was 52.8 percent, and the larization of deposits of individuals – 24.3 percent.

It should be noted that the singificant increase was observed in the trend of time deposits larization (excluding exchange rate effects), by the 1 January 2021 it reached 39.4 percent, making time deposits main contributor in the larization of the deposits. We observe little decrease in the larization of current accounts for 1 January 2021 it amounted 40.6 percent. At the same time, the larization of deposits before demand was 32.7 percent.
Declining trend was observed in the annual growth of the credit portfolio (net of exchange rate effect) and as of 1 January 2021 overall loans compared to corresponding period of 2020 increased by 10.9 percent. Significant decrease was observed also in the annual growth of loans granted to legal entities and by the 1 of January it amounted 11 percent, during the same period loans to individuals increased by 10.9 percent. Due to above mentioned changes latest dynamic, that loans granted to legal entities was main driver of total loans growth, changed and by the beginning of 2021 loans granted to legal entities, as well as to individuals contribute to the total loans growth equally.

It is important to note that there is increasing trend in the growth of loans denominated in local currency and as of 1 of January 2021 compared to corresponding period of 2020 it amounted 18.9 percent. During the same period sharp decrease was observed in the growth dynamic of loans in foreign currency, compared to previous quarter it decreased by 7.7 percentage points (net of exchange rate effect) and at the beginning of 2021 amounted 5.2 percent. This dynamic has positive effect on loans larization, which helps to decrease vulnerability coming from exchange rate fluctuation.

By 31 of December 2020, mortgage loans had increased by 20.3 percent compared to corresponding period of previous year. Moreover mortgage loans that are denominated in national currency increased by 30.3 percent, while foreign currency denominated mortgage loans increased by 15.8 percent.
Review of Deposits

The growth of total deposits on the 1 of January 2021 was 19 percent compared to the corresponding period of 2020. Significant increase was observed in the annual growth of deposits denominated in national currency, causing growth rate to reach 40.1 percent by the 1 of January 2021, while the annual growth of deposits denominated in foreign currency relatively stable and amounted 9 percent in the same period. These dynamics have positive impact on the larization of deposits.

We observe significant increase in the annual growth of deposits of legal entities and by the 1 of January 2021 it reached 29.4 percent, in the same period the annual growth of deposits of individuals amounted 10.9 percent.

As for the growth of deposits by types, the annual growth of current accounts decreased significantly during the last period and amounted 9.2 percent on January 1, 2021. The slowdown in current account growth was offset by significant increases in the growth of time deposit balances, as of January 1, the annual growth of time deposit balances was 32.2 percent and significantly contributed to the growth of total deposits. The annual growth in demand deposits during the same period was 9.7 percent.
Monetary Policy Rate

On October 28, 2020, the Monetary Policy Committee of the National Bank of Georgia decided to keep the refinancing rate at 8 percent. On December 9, 2020, the Committee decided to leave the refinancing rate unchanged. The monetary policy rate is 8.0 percent. According to the National Bank, the downward trend in annual inflation will continue and it will move close to the target level in the first half of 2021. The dynamics of inflation reduction is driven by weak aggregate demand and it is expected that this impact will continue in future periods. The Monetary Policy Committee also took into account factors on the supply side, such as the increase in production costs caused by additional restrictions in the wake of the pandemic. According to the National Bank, the possibility of easing monetary policy is limited due to the still high dollarization of the economy.

Figure 44: Inflation and Monetary Policy Rate

![Graph showing Inflation and Monetary Policy Rate]

Source: NBG

Figure 45: Trade of USD by NBG, mln

![Graph showing Trade of USD by NBG]

Source: NBG
Interest Rates

As of January 2021, the interest rate on foreign currency deposits was 2.6 percent, while on the national currency deposits it amounted 9.2 percent.

As of 1 of January 2021, the weighted average interest rate on deposits of legal entities in national currency was 9.2 percent, and in foreign currency - 2.3 percent. In the same period the average annual interest rate on deposits of individuals was 2.7 percent on deposits in foreign currency and 9.2 percent in national currency.

By 1 of January 2021, the weighted average annual interest rate on short-term consumer loans was 23 percent (26.2 percent in national currency and 6.5 percent in foreign currency).

Weighted average interest rates on long-term consumer loans are largely determined by loans denominated in the national currency. Its value for January 1, 2021 was 17.1 percent. The interest rate on loans denominated in the national currency is 18.4 percent, and the interest rate on loans denominated in foreign currency is 7.9 percent.

At the end of December 2021, the interest rate on mortgage loans issued to legal entities issued was 12.4 percent, and in foreign currency – 7 percent. The interest rate on loans to individuals in national currency was 11.8 percent, and in foreign currency it was 6.3 percent.
Disclaimer

The publication was prepared by the Macroeconomic Analysis and Fiscal Policy Planning Department of the Ministry of Finance of Georgia. The information and opinions contained in this publication represent the views of the authors - the economic team of the Macroeconomic Analysis and Fiscal Policy Planning Department and do not represent the official position of the Ministry of Finance of Georgia. The analytical information provided in the publication serves informational purposes and is obtained from public sources. The forecasts and calculations given in the report should not be taken as a promise, reference or guarantee.