

Ministry of Finance of Georgia



Quarterly Economic Outlook

II Quarter, 2020



Brief Summary

- Economic growth of the second quarter equals to -12.3 percent
- Renewed economic growth forecast for Georgia in 2020 equals to -5 percent
- Annual inflation equals to 6.5 percent, while core inflation equals to 5.7 percent
- Xport annually decreased წლიურად 23.7 percent
- Import annually decreased by 26.6 percent
- Reduction of revenue from tourism by 96.7 percent
- Reduction of the refinancing rate by 25 basis points to 8.25 percent





Table of Contents

Real Sector	4
Economic Growth	4
Business Sector	6
Employment and Unemployment	6
Price Level	7
Economic Outlook of the Region	9
External Sector	11
Current Account Balance	11
External Debt	12
Foreign Direct Investment	12
International Trade	13
Tourism	14
Remittances	15
Dependence on other Countries	16
Exchange Rate	17
Fiscal Sector	18
Budget Performance	18
Monetary Sector	21
Private Sector Larization	21
Review of Loans	22
Review of Deposits	22
Monetary Policy Rate	24
Interest Rates	25

Real Sector

Economic Growth

In June 2020, annual economic growth was -7.7 percent. This sharp decline 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 June 2020, compared to the same period of the previous year, a decrease was observed in almost all sectors, except for mining, water supply, sewerage and waste management activities, where there was an upward trend.

In the second quarter of 2020, real GDP growth was -12.3 percent compared to the same period last year. Growth was observed in the agricultural sector (+4.7 percent y/y). Significant declines were observed in construction (-24.5 percent y/y), entertainment and leisure (-24.1 percent y/y), trade (-13.2 percent y/y), information and communication (-14.7 percent y/y) and industry (-10.3 percent in y/y) sectors.

At the beginning of the year, the main driver of GDP growth was consumption, with an annual growth of 8.5 percent, while its contribution to overall growth was 6.4 percent. Although export growth in 2019 significantly exceeded 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 second quarter of 2020, -6.4 percent. Consumption and investment components also decreased, -4.9 percent and -11.7 percent respectively.

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 -4.9 percent and -5 percent, respectively. The economy will start to recover in the fourth quarter of 2020 and is projected to grow by 5 percent in 2021, which will be supported by reducing restrictions and improved economic growth in 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's updated forecast, Georgia's economic growth in 2021-2025 will average 5.5

Figure 1: Economic Growth

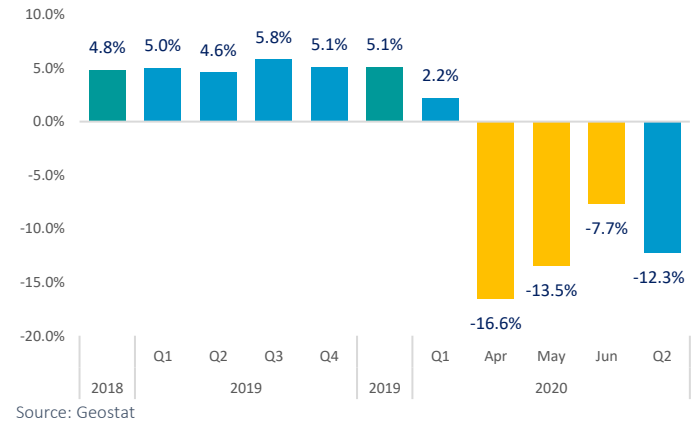


Figure 2: Sectoral Growth, 2020 Q II

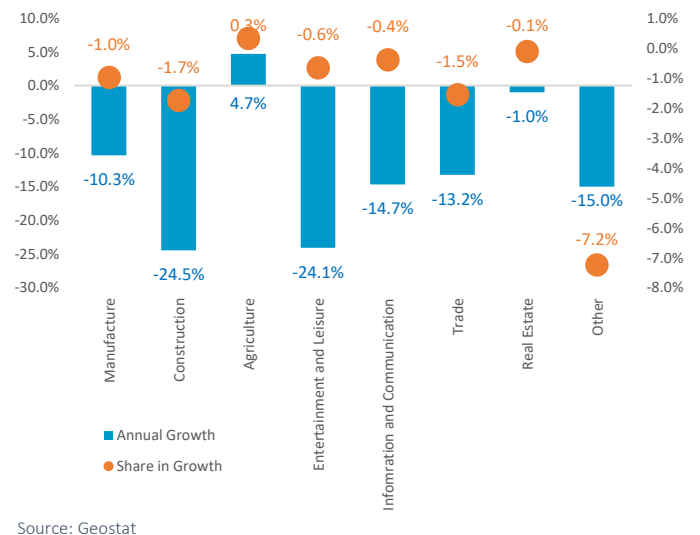


Figure 3: Decomposition of Economic Growth

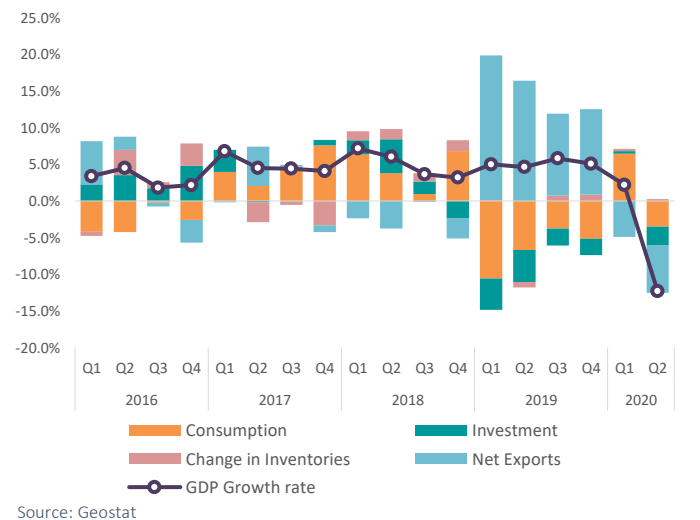
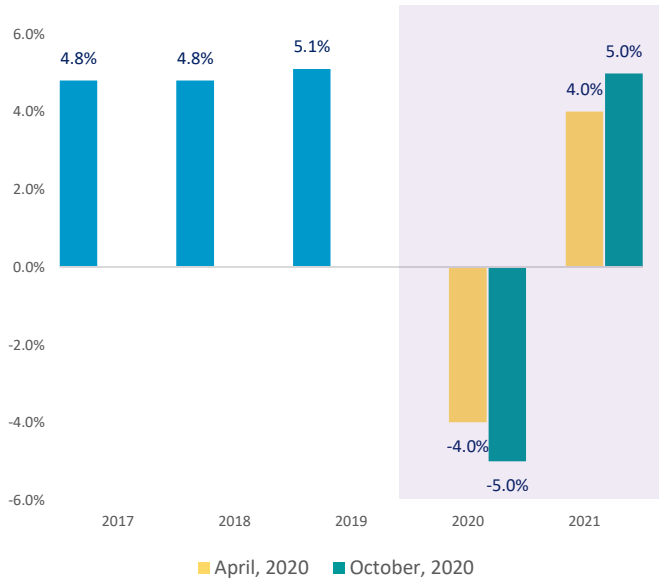




Figure 4: Economic Growth Projection

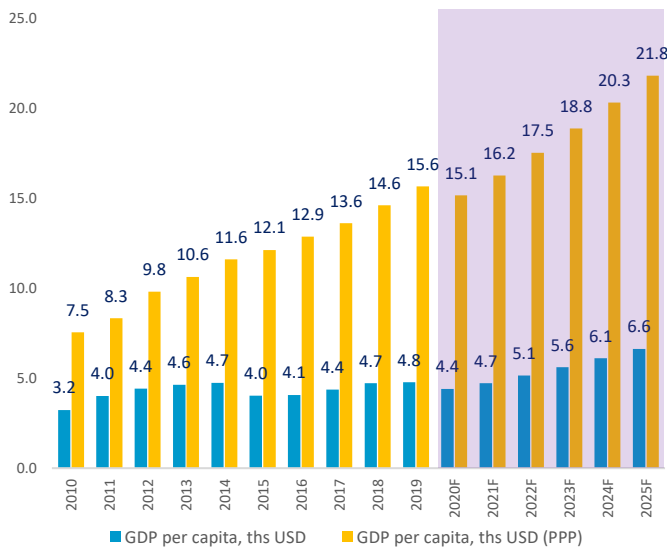


Source: IMF

percent, which exceeds the regional and European average during this 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 9.2 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.

Figure 5: GDP per capita



Source: IMF

Business Sector

In the second quarter of 2020, the turnover of the business sector amounted to 22.3 billion GEL, which is 11.5 percent less compared to the same period last year. The output of the business sector is also characterized by a downward trend. In the second quarter of 2020, its volume was estimated at 9.2 billion GEL, which is 18.3 percent less than in 2019. In the second quarter of 2020, 58.8 percent of total turnover came from large businesses, 17.8 percent from medium-sized businesses, and 23.4 percent from small businesses. In the case of total output: Large businesses account for 43.7 percent of output, medium-sized - 25.7 percent, and small businesses - 30.6 percent. The average number of employees in the second quarter of 2020 was 631.8 thousand people, which is 8.1 percent less than the same period last year. 41.4 percent of the total number of employees come from large businesses, 22.5 percent from medium-sized businesses and 36.1 percent from small businesses.

Employment and Unemployment

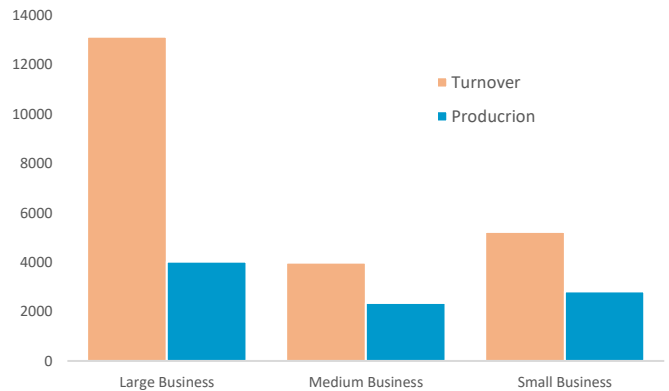
In the second quarter of 2020, the unemployment rate was 12.3 percent, which is 0.9 pp more than in 2019. Among them, unemployment was 19.7 percent in urban areas (+2.3 percentage points y/y) and 4.7 percent in rural areas (-0.3 percentage points y/y). In 2019, the highest unemployment rates are in the 15-24 and 25-34 age groups. In the second quarter of 2020, the economically active population accounted for 63.7 percent of the working age population (population aged 15 and over). The level of employment decreased by 0.5 percentage points compared to the corresponding period of the previous year. In the second quarter of 2020, the unemployment rate for the women group was 11.8 percent, while for the men group, the figure was 12.7 percent.

Figure 5: Business Sector



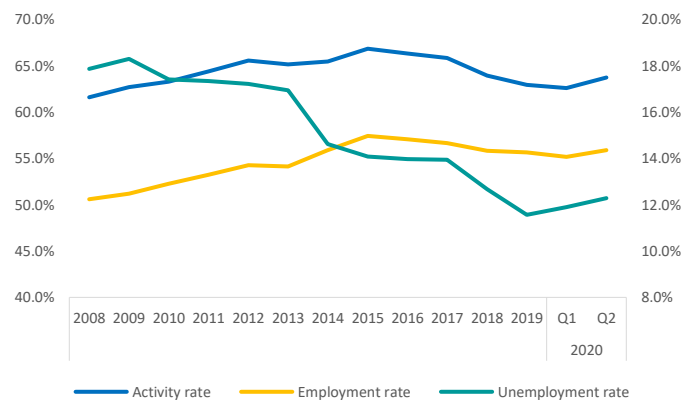
Source: Geostat

Figure 6: Business Sector composition by size, 2020 Q II



Source: Geostat

Figure 7: Labor Market Indicators



Source: Geostat

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 existing 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 second quarter of 2020, annual inflation was 6.5 percent. This increase is also reflected in core core inflation, which stood at 5.7 percent in the second quarter.

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 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.

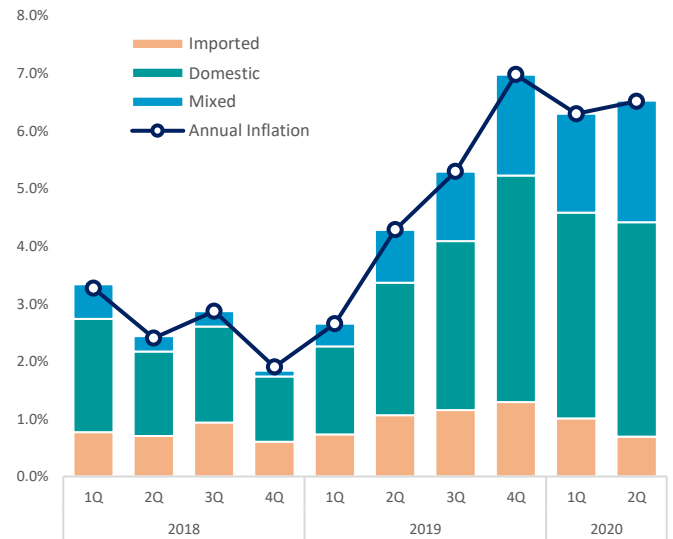
Despite the depreciation of the lari, local inflation exceeds imported inflation. In the second quarter of 2020, domestic inflation stood at 3.7 percent, while imported inflation stood at 0.7 percent. This dynamics is caused by the increase in the price of food and the relatively high weight gain in the consumer basket relative to the food group.

Figure 8: Annual Inflation



Source: NBG

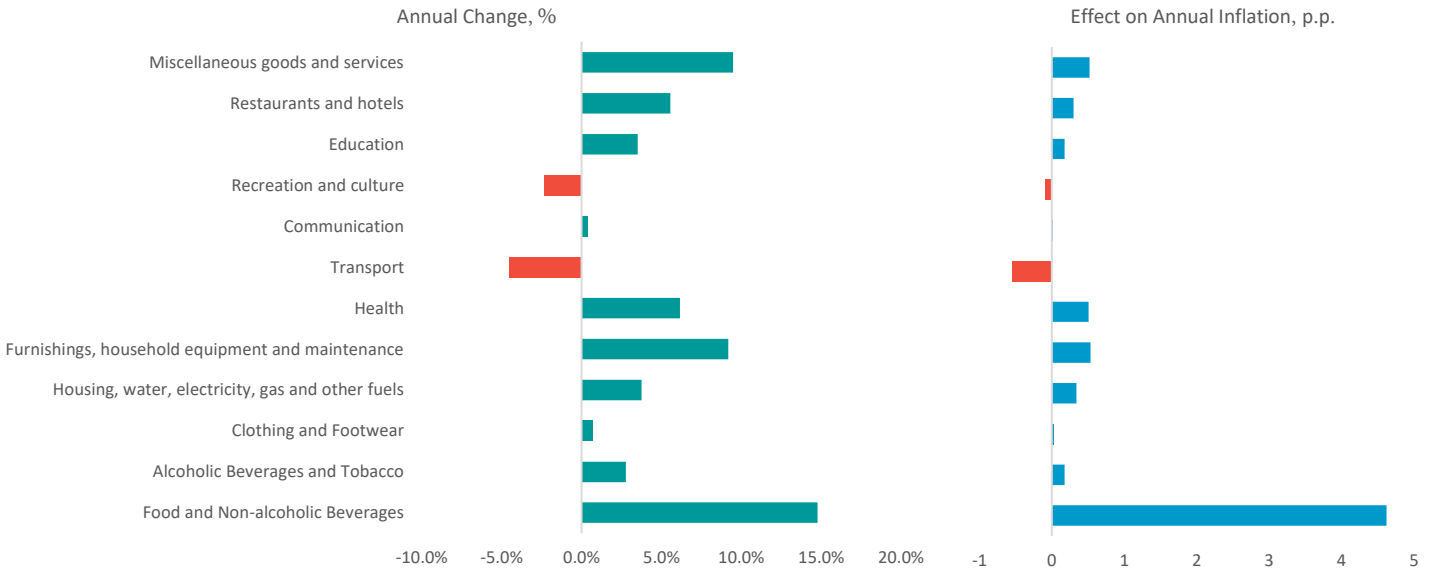
Figure 9: Decomposition of Inflation



Source: NBG, Geostat



Figure 10: Decomposition of Inflation, 2020 Q2



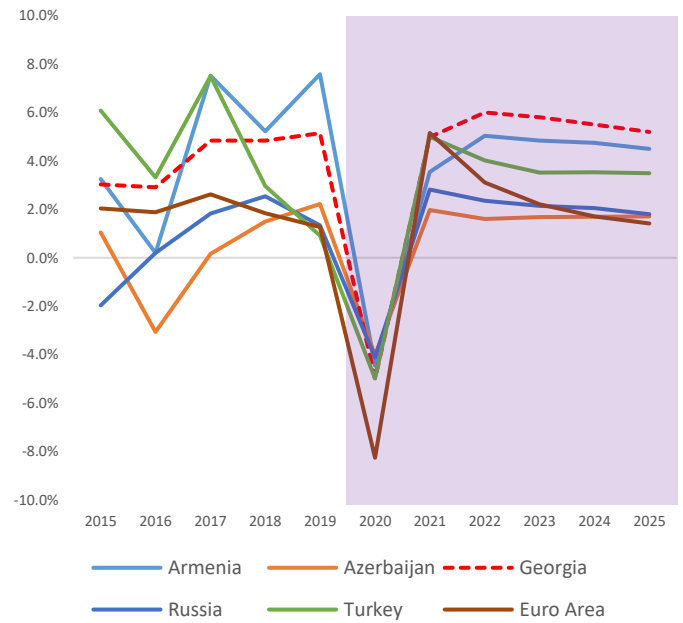
Source: Geostat

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 October, global growth in 2020 will reach -4.4 percent, which is 0.5 percentage points higher than the forecast published in June of the same year. However, at the same time, according to the IMF, global growth is expected in 2021 at 5.2 percent, which is 0.2 percentage points lower than the June forecast. According to the updated forecast, the expected economic growth of developed countries will be -5.8 percent in 2020, and 3.9 percent in 2021. At the same time, the expected economic growth of growing and developing countries in 2020 is equal to -3.3 percent, and in 2021 will reach 6 percent. According to the IMF forecast for October, the forecast for economic growth in the Euro Area is -8.3 percent, and in 2021 - 5.2 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. The inflation rate will be 0.4 percent in 2020 and 0.9 percent in 2021.

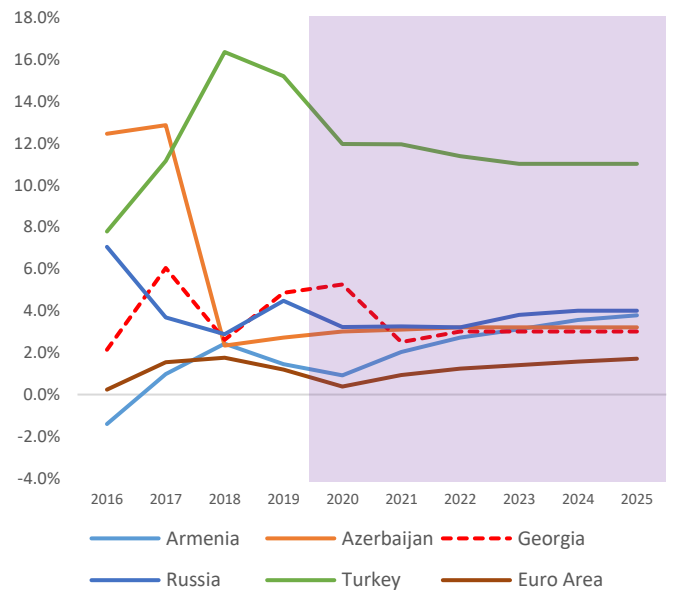
The decline in investment and the deteriorating trade balance remain significant challenges for Turkey recently. Against this background, the state of emergency and the global pandemic have put additional pressure on the Turkish economy. According to the IMF forecast, real economic growth in 2020 in Turkey is set at -5 percent, and in 2021 will be 5 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 -4.1 percent, and in 2021 is expected to grow by 2.8 percent. The inflation

Figure 11: Economic Growth in the Region



Source: IMF

Figure 12: Inflation in the Region

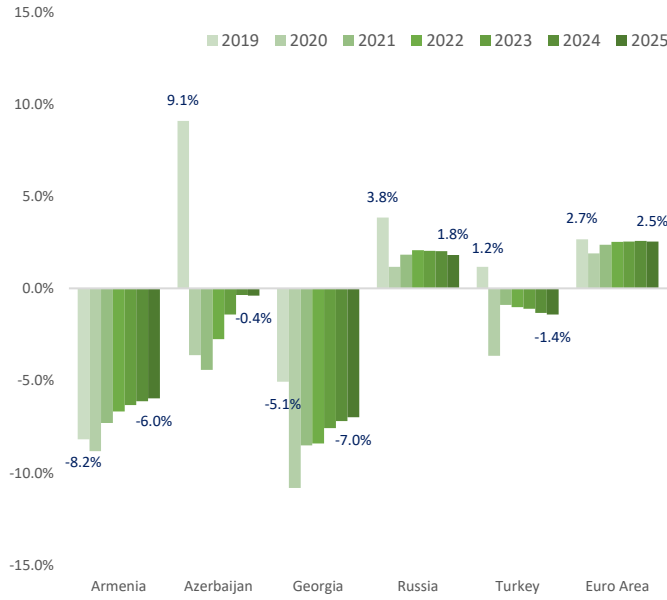


Source: IMF

Source: International Monetary Fund. World Economic Outlook: A Long and Difficult Ascent. Washington, DC, October 2020.
International Monetary Fund. World Economic Outlook Update: A Crisis Like No Other, An Uncertain Recovery. Washington, DC, June 2020.

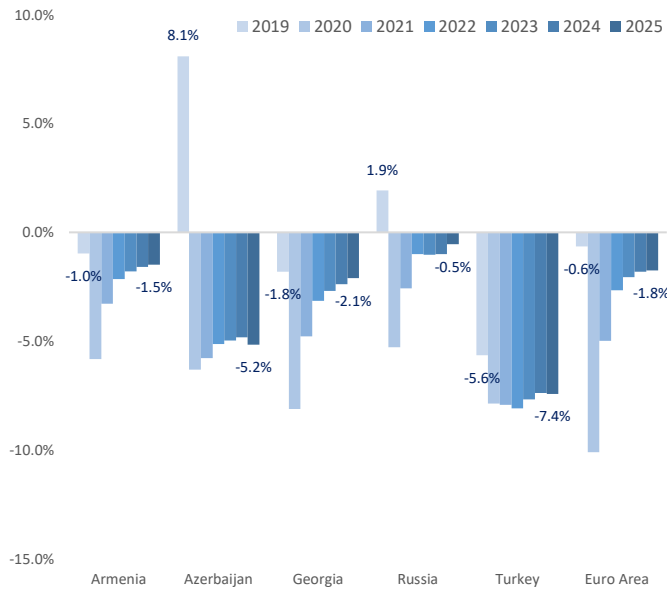


Figure 13: Current Account to GDP, %



Source: IMF

Figure 14: Budget Balance to GDP, %



Source: IMF

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.

Source: International Monetary Fund. World Economic Outlook: A Long and Difficult Ascent. Washington, DC, October 2020.
International Monetary Fund. World Economic Outlook Update: A Crisis Like No Other, An Uncertain Recovery. Washington, DC, June 2020.

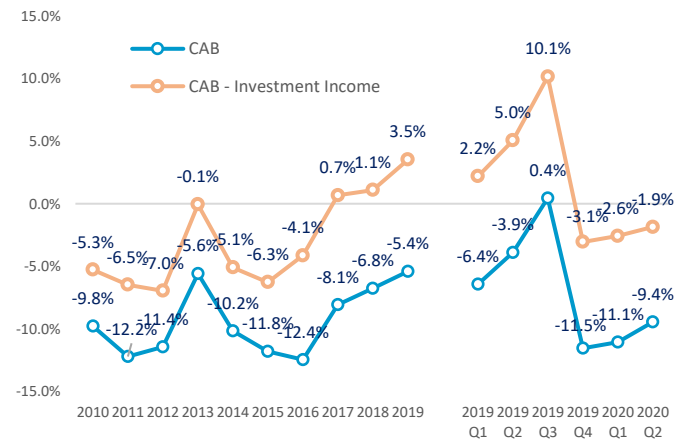
External Sector

Current Account Balance

The current account deficit was 11.1 percent of GDP in the first quarter of 2020, while it was 9.4 percent in the second quarter. Given that, the current account deficit was 5.4 percent in 2019, the trend in the first half 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 exports of services, although the current circumstances have reduced the country's external tourism to almost zero.

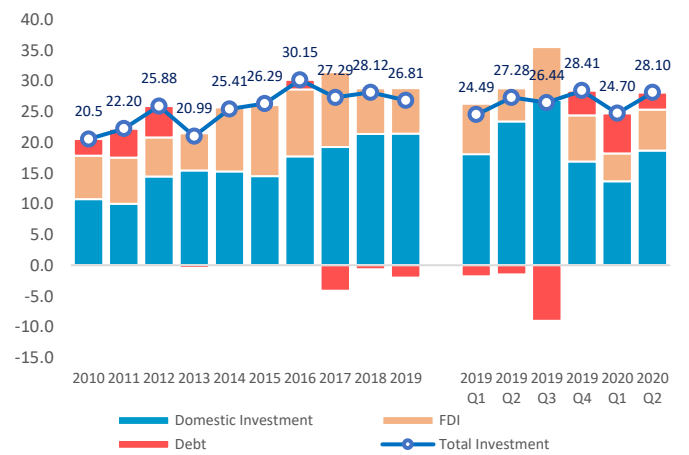
The current account deficit is financed by debt and foreign direct investment. Debt financing means borrowing new debt and, consequently, spending more on debt service. In this regard, it is important that the current account deficit is financed by increasing foreign direct investment. The structure 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. As for the last quarter of 2019 and the first half of 2020, foreign debt contributes quite a lot to financing the deficit.

Figure 15: Current Account to GDP, %



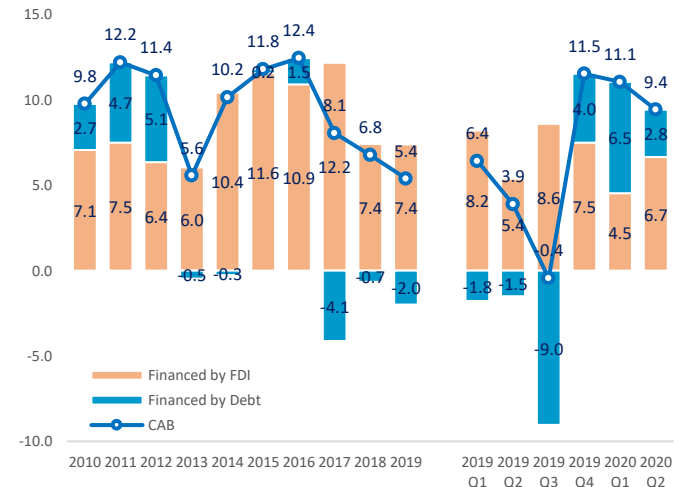
Source: NBG, Geostat

Figure 16: Financing of Investment



Source: NBG, Geostat

Figure 17: Financing of Current Account



Source: NBG, Geostat

Figure 18: External Debt to GDP, %

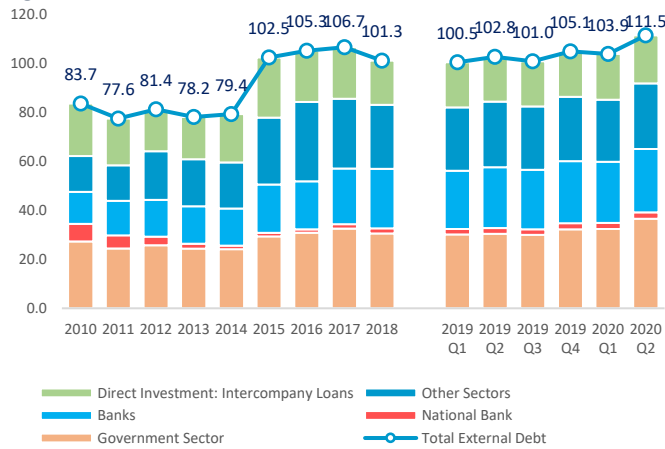


Figure 19: Change of Debt to GDP

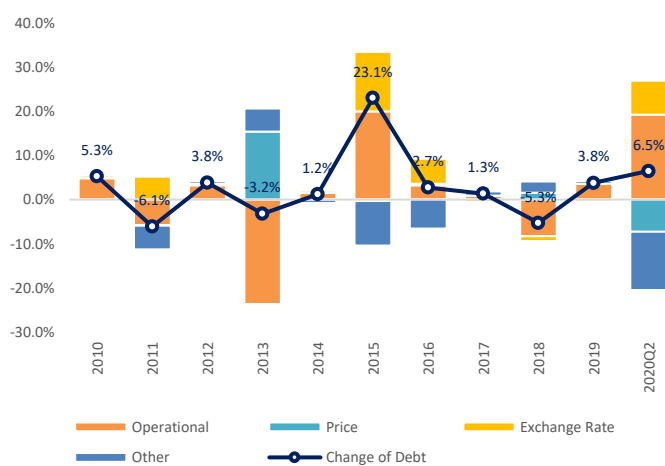
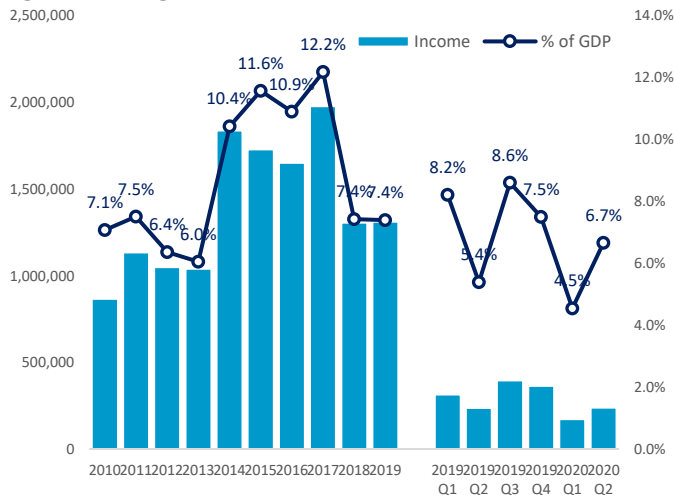


Figure 20: Foreign Direct Investment



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 second quarter of 2020, total external debt increased compared to the previous year and amounted to 111.5 percent of GDP. This increase is mainly due to the increase in government sector debt.

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 6.5 percentage points. The main factors were changes in the exchange rate (+7.7 percentage points) and the operating change (+19.3 percentage points). However, price and other factors contributed to the debt reduction, in particular, the price effect of -7.3 percentage points.

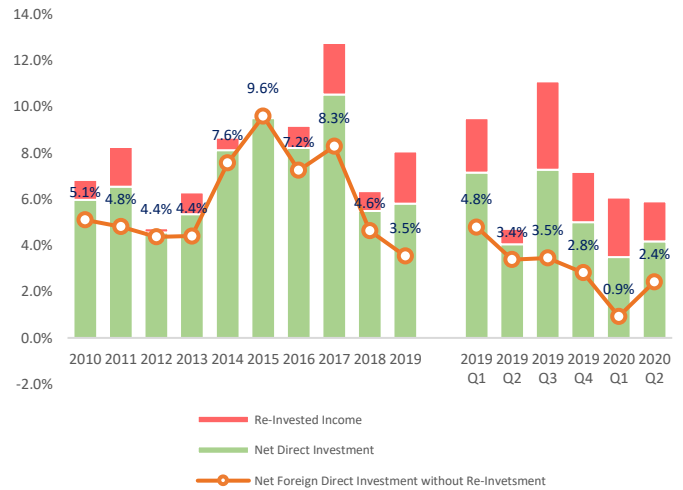
Foreign Direct Investments

In the second quarter of 2020, foreign direct investment in Georgia amounted to 238 million US dollars, which is equal to FDI of the same period of last year. Foreign direct investment in the second quarter of 2020 was mainly mobilized from the United Kingdom (24.8 percent), the Netherlands (22.4 percent), Turkey (13.3 percent), the United States (8.4 percent) and Slovakia (6.8 percent). As for the sectors, 39.2 percent of FDI was allocated in the financial sector, 12.5 percent in energy, 11.7 percent in construction, 11.6 percent in mining and 8.8 percent in manufacturing.

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

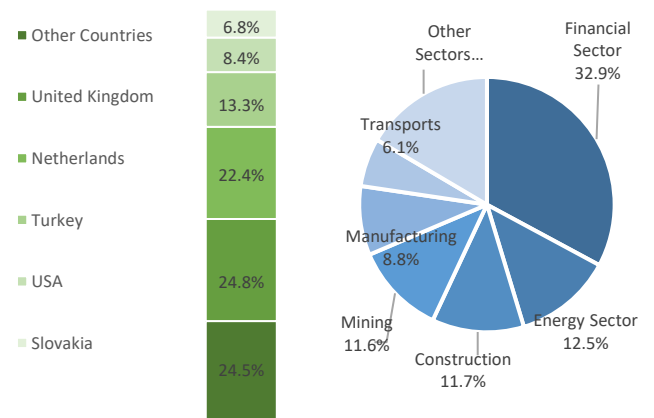
investors and more investors continue doing business in Georgia. Regardless the corona pandemic, there was a higher level of both total investment and reinvestment in the second quarter of 2020 compared to the same period last year. In particular, its volume amounted to 145 million US dollars, which is 63.5 percent more than the same indicator in the second quarter of 2019.

Figure 21: FDI



Source: NBG, Geostat

Figure 22: Composition of FDI, 2020 2Q

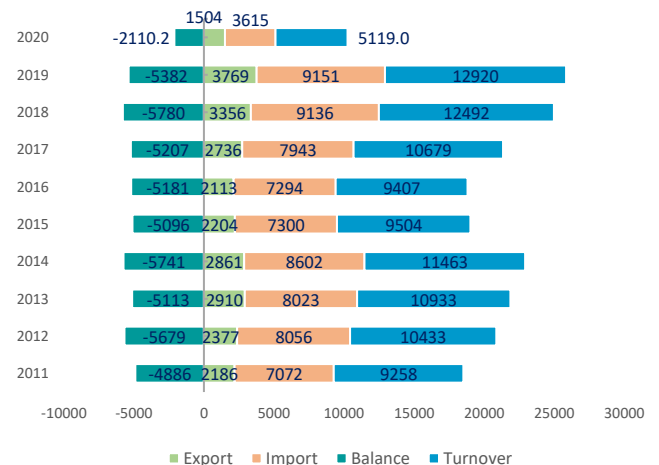


Source: Geostat

International Trade

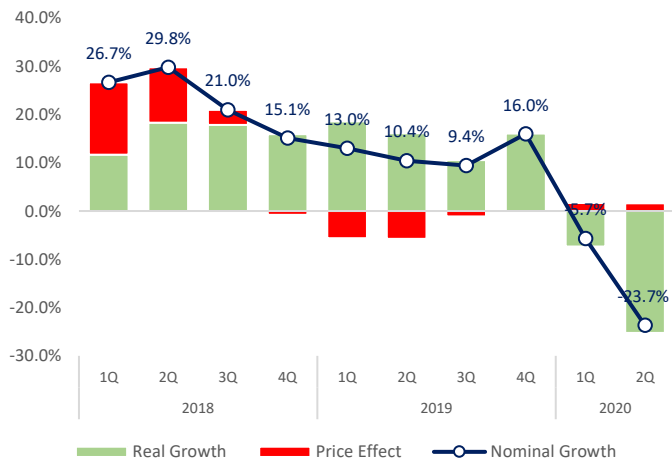
In the first half of 2020, because of epidemic around the world and restrictions imposed by most countries, foreign demand declined. The impact of these factors on Georgia's exports, remittances and income from international travel will be negative due to the uncertainty of the epidemic for some period of time. At the same time, the volume of imports also decreased due to reduced economic activity within the country. In the first and second quarter of 2020, the annual growth of nominal exports was to -23.7 percent and amounted to 724 million US dollars, while the real growth of exports amounted to -25.3 percent. At the same time, annual growth in imports was to -26.6 percent and amounted to 1.614 million US dollars, while real growth amounted to -20.5 percent.

Figure 23: International Trade – January-June, 2020



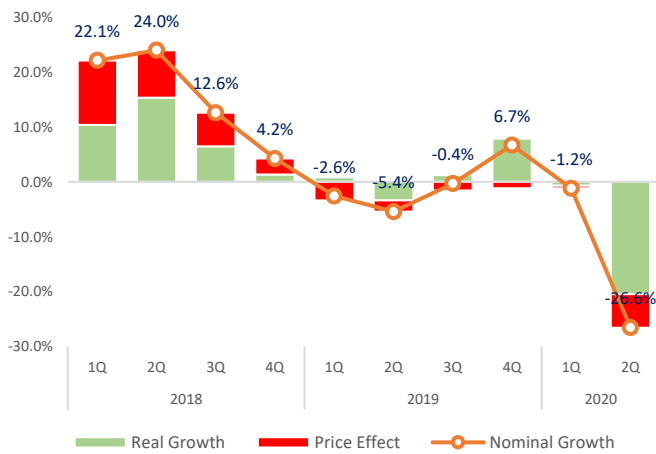
Source: Geostat

Figure 24: Annual Change of Export



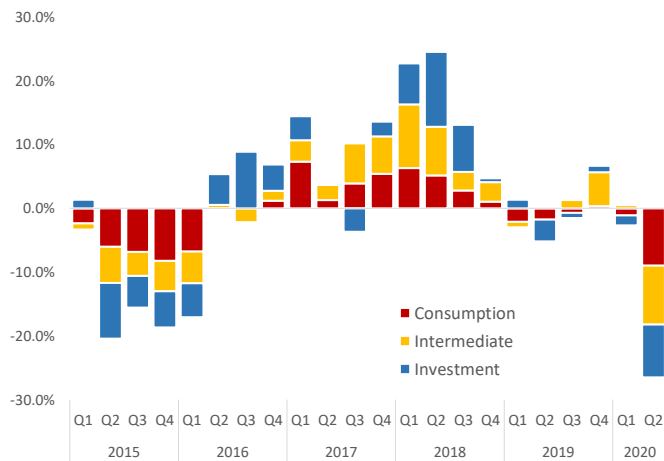
Source: Geostat

Figure 25: Annual Change of Import



Source: Geostat

Figure 26: Decomposition of Change of Import



Source: Geostat

In the second quarter of 2020, imports of investment goods decreased by 30.5 percent, imports of consumption goods – by 24.5 percent, and imports of intermediate goods – by 25.5 percent. It should be noted that the decline in imports of goods is mostly related to the import of intermediate goods. In the second quarter of 2020, exports of traditional goods decreased by 12.4 percent, raw materials - by 42.1 percent, and others - by 14.3 percent.

In the second quarter of 2020, copper ores and concentrates took the first place in the top ten export products groups with 172.3 million USD (23.8 percent of total exports), in second place - ferroalloys with 59.4 million USD (8.2 percent of total exports), and in third place - cars with 50.6 million US dollars (7.0 percent).

The largest import products group was the car group with 153.0 million US dollars (9.5 percent of total imports), followed by copper ores and concentrates with 122.9 million US dollars (7.6 percent of total exports), and the third place - medicines with 86.0 million US dollars (5.3 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.

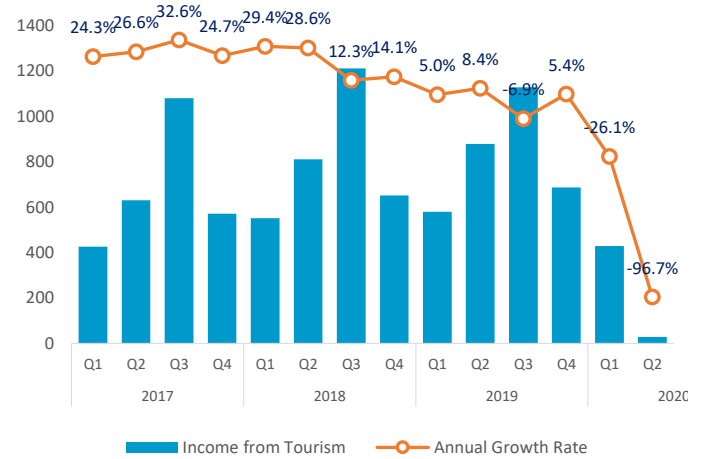
In order to mitigate the spread of COVID-19, there was a closure of the borders and cancelation of international travels in Georgia, in March. Due to this restriction, there was a sharp decrease in international visits. Therefore, the number of visitors, as well as revenue from international tourism, have decreased significantly during the second quarter of 2020. Total visitors amounted to 38 thousand in June 2020, which is 95.8 percent lower than in June of the previous year. Revenue from international tourism decreased by 96.7 percent and amounted to USD 11.2 million. As for the second quarter, revenue from tourism decreased by 96.7 percent

annually and amounted to USD 28.8 million, while the number of visitors has decreased by 95.3 and was 105 thousand. It is expected to continue the declining trend of revenue from tourism until the opening borders and resume of touristic travel.

Remittances

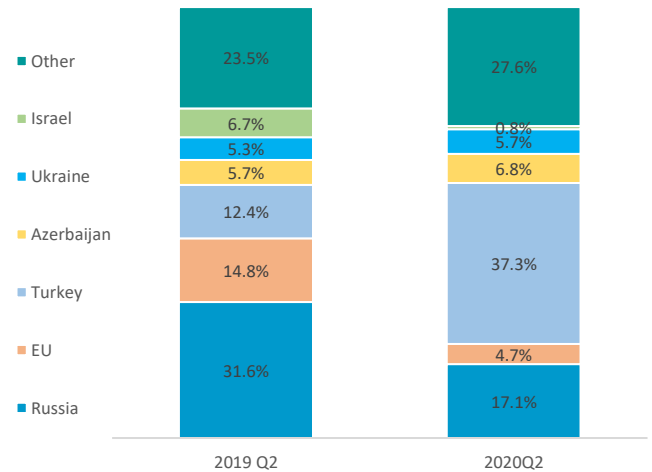
Net money transfers amounted to USD 334.7 million in the second quarter of 2020, which is 9.4 percent lower than in the second quarter of the previous year, while it is more than 2 percent compared to the previous quarter. It should be mentioned that lowering the growth of remittances started during the first quarter has worsened in the second quarter, which was due to the 41.5 percent decline in April. Remittances have declined by 5.6 percent in May, and the higher number was indicated in June with a 16.8 percent increase. The reason for the decline of net money transfers in the second quarter of 2020 is the worsening of the global economic environment due to COVID pandemic, on the one hand. The reason is a lower amount of money transfers from the main contributor countries. 2.2 percent decline out of 9.4 percent was coming due to fewer remittances from Israel (has reduced by 20.4 percent in the second quarter) during the second quarter, which is mainly as a result of 48 percent reducing transfers in April. Besides, lower oil prices 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. Net money transfers from Russia decreased by 65 and 47 percent in April and May, respectively, while it decreased by 8 percent in June. As a result, remittances have decreased by 39.9 percent from Russia during the second quarter, and Russia has contributed negative 9.1 percent in the total net money transfers. It should be noted that remittances from Italy contributed negatively in the first quarter. As for the second quarter, net money transfers decreased by 27.1 percent in April, while it increased in May and June as the total remittances have increased. As a result, remittances from Italy contributed positively to the overall change of money transfers.

Figure 27: Income from Tourism



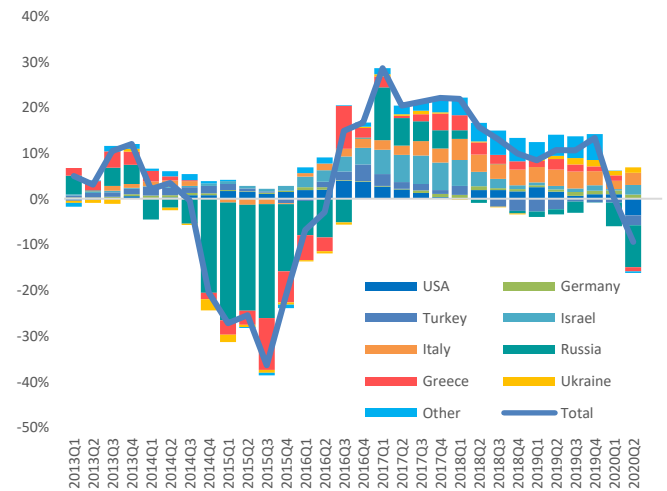
Source: NBG

Figure 28: Income from tourism, mln USD



Source: NBG

Figure 29: Net Remittances



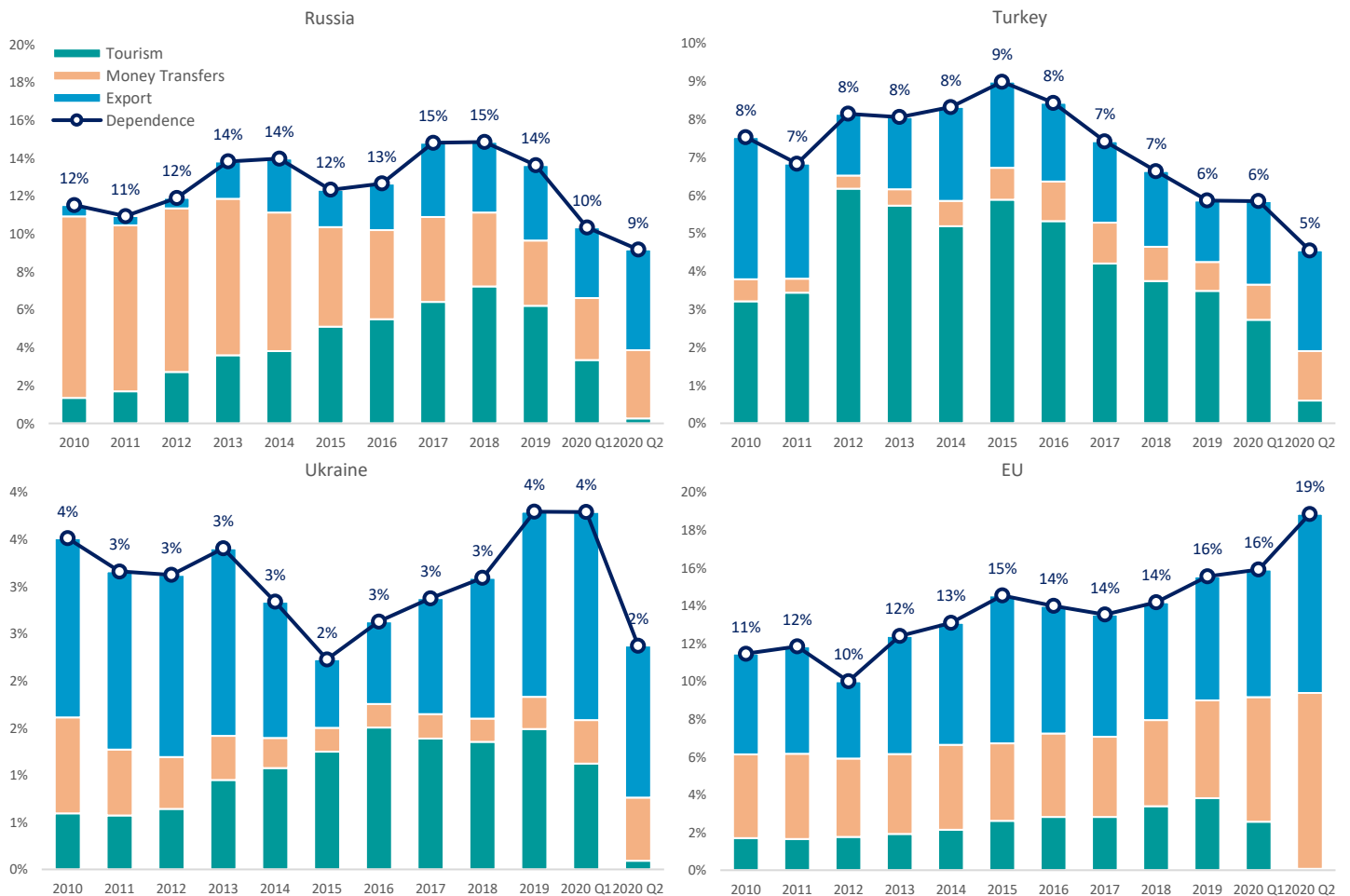
Source: NBG

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 and second quarters of 2020, while dependence on Russia, Ukraine and Turkey has decreased. Decrease of dependence is coming from the sharp decline of the tourism revenue. Moreover, it should be mentioned the change of composition in the dependence on other countries. 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 the first half, the share of tourism has decreased and is close to zero. Share of export has increased slightly during the first two quarters of 2020. 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.

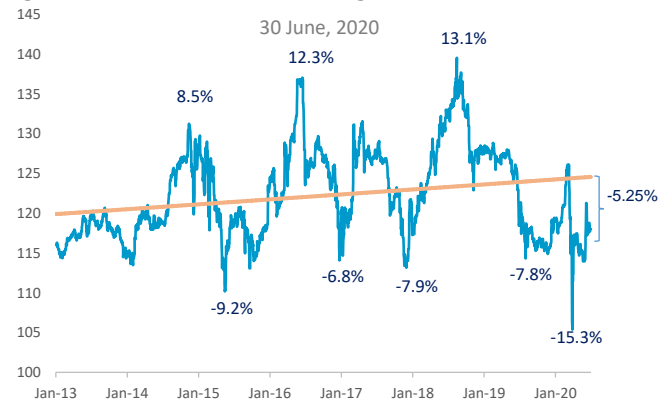
Figure 30: Dependence on Trading Partners



Source: NBG, Geostat

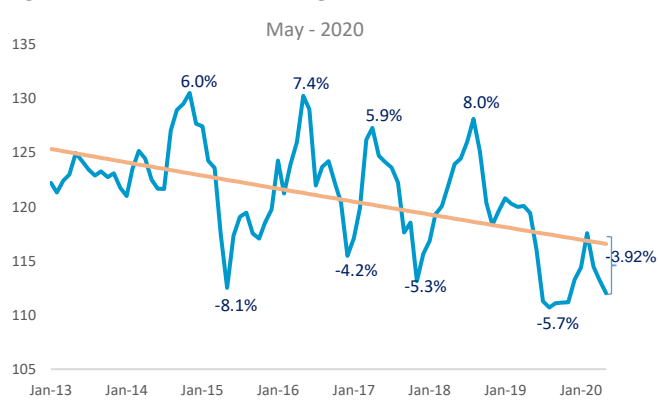


Figure 31: Nominal Effective Exchange Rate



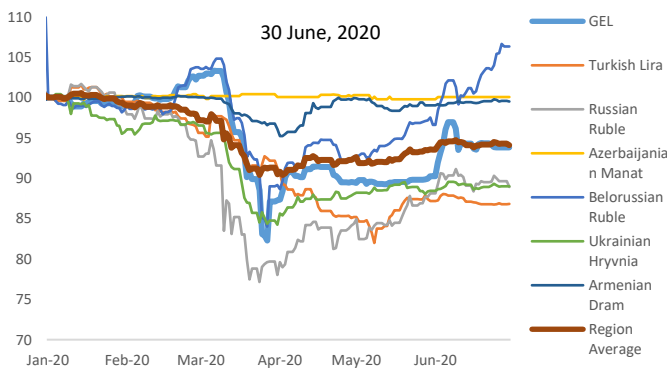
Source: NBG

Figure 32: Real Effective Exchange Rate



Source: NBG

Figure 33: Exchange Rate of Region Currencies to USD (Index, base = 2020 1 January)



Source: NBG

Table 1: Change of Nominal and Real Effective Exchange Rates

	June 30, 2020	June 30, 2020 - Jan 1, 2020	June 30, 2020 - Jan 1, 2019
Euro	3.4466	▼ -6.7%	▼ -11.2%
US Dollar	3.0552	▼ -6.2%	▼ -12.5%
Turkish Lira	0.4457	▲ 8.1%	▲ 13.4%
Russian Ruble	0.0437	▲ 5.5%	▼ -12.2%
NEER	118.02	▼ -1.0%	▼ -7.7%
REER (July, 2020)	112.74	▼ -0.5%	▼ -5.7%

Source: NBG

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 second quarter of 2020, Depreciation of Lari has achieved its maximum for April 1, and after that Lari has appreciated slightly and maintained stability. That day nominal effective exchange rate index deviated from its medium-term trend by maximum, -9.7 percent. The nominal effective exchange rate has then started to go toward the trend, and for June 30, the deviation was declined to -5.25 percent. As for the exchange rate corrected by the prices, the real effective exchange rate was deviated by -3.9 percent in May.

Fiscal Sector

Budget Revenue Performance

The consolidated budget tax revenue forecast for January-June 2020 was set at 5,390 mln GEL, while 5,428 mln GEL was mobilized during the reporting period, which is 100.7% of the forecast.

- 1,762.6 million GEL is mobilized as income tax, which is 100.1% of the forecast figure (1,760.1 million GEL).
- 564.5 million GEL is mobilized as profit tax, which is 97% of the forecast indicator (581.9 million GEL).
- 2,106.5 million GEL was mobilized as VAT, which is 101.6% of the forecast (GEL 2,074.3 million).
- 575.3 million GEL is mobilized as excise, which is 103.3% of the forecast indicator (557 million GEL).
- 37.2 million GEL is mobilized in the form of import tax, which is 103.9% of the forecast (35.8 million GEL).
- 303.6 million GEL is mobilized in the form of property tax, which is 104.2% of the forecast indicator (291.3 million GEL).
- Other taxes amount to GEL 77.9 million.

The forecast of grants was set at 69.8 million GEL, while 74.5 million GEL was mobilized during the reporting period, which is 106.7% of the forecast value.

The forecast for other revenues was set at 541.1 million GEL, and 573 million GEL was mobilized during the reporting period, which is 105.9% of the forecast.

94.4 million GEL was mobilized from the decrease in non-financial assets, which is 103.9% of the forecast (90.9 million GEL).

71.4 million GEL was mobilized from the decrease in financial assets, which is 131.5% of the forecast (GEL 54.3 million).

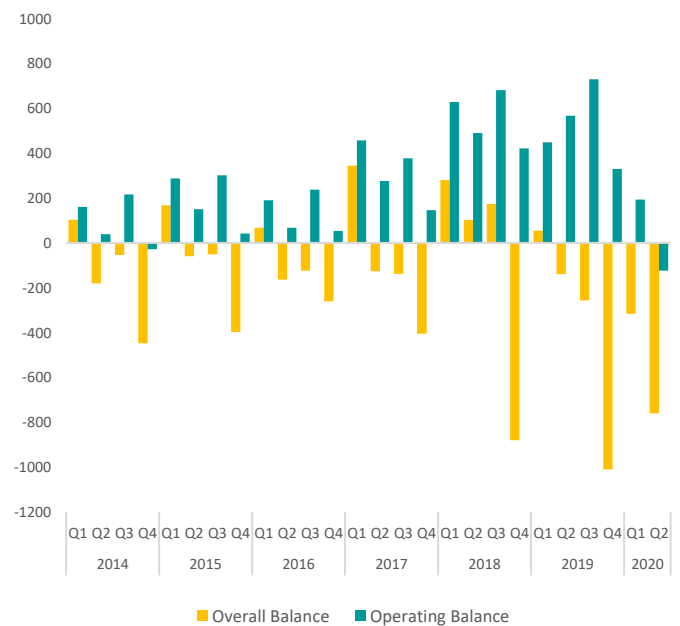
A significant share of budget revenues is accounted for by tax revenues, which in the first half of 2020 amounted to 89.3%. In the first half, the consolidated budget received 5,427.8 million GEL from taxes, which is 0.1% more than the same period last year. Revenue from income tax increased by 3.7% year-on-year to 1,762.6 million GEL. The highest increase is observed in the form of income from profit tax, which increased by 20.1% compared to the same period last

Figure 34: Budget Revenue Performance



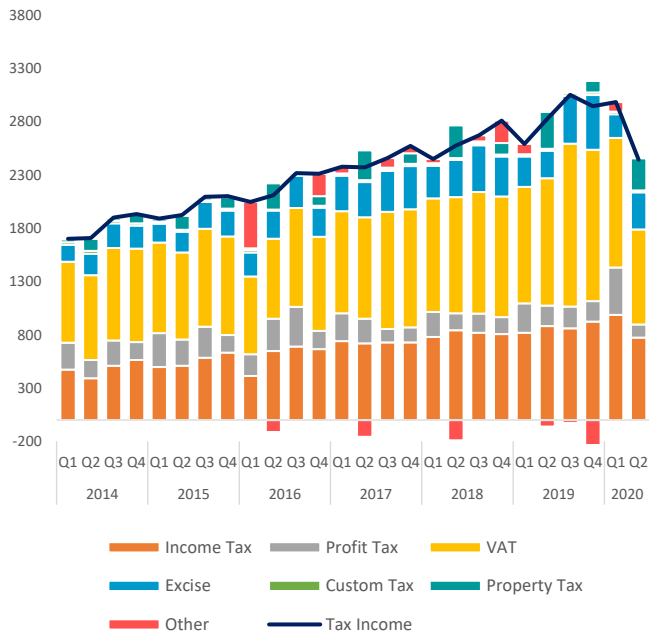
Source: MOF

Figure 35: Budget Balance



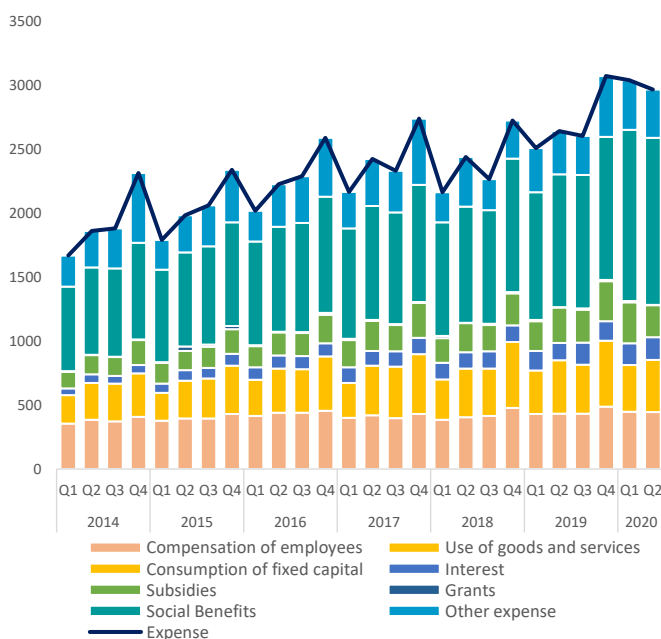
Source: MOF

Figure 36: Tax Income



Source: MOF

Figure 37: Budget Expenses



Source: MOF

year and amounted to 564.5 million GEL. At the same time, it should be noted that the largest share of tax revenue is accounted for by VAT revenue, which in the first half of 2020 amounted to 38.8%, while the annual growth rate was -7.9%. Revenue from property tax decreased by 13.1% and amounted to 303.6 million GEL. Revenue from excise tax also decreased by 5.7% compared to the same period last year and amounted to 575.3 million GEL. There was an increase in import tax revenue, which accounted for 0.7% of tax revenue and increased by 9.1% annually.

In the first half of 2020, compared to the same period last year, expenditures increased by 16.6% and amounted to 6.008 million GEL. Social security expenditures account for the largest share of budget expenditures, accounting for 44.1% of total expenditures, while the annual growth rate is 30.1%. This increase was caused partly by the social measures due to current pandemic. Expenditures in the form of subsidies also increased significantly, with an annual growth rate of 11.8% and amounted to GEL 570.9 million, accounting for 9.5% of total expenditures. As for the other items of expenditure, compensation of employees (14.9 percent of total expenditure), goods and services (12.9% of total expenditure), interest (5.8% of total expenditure) and other expenditures (12.7% of total expenditure), in the first half compared to the same period of the previous year, increased by 3.4%, 2%, 20.6% and 11.9%, respectively.

The forecast of the state budget revenues for January-June 2020 was set at 5,009.2 mln GEL, during the reporting period 5,087.5 mln GEL was mobilized, or 101.6% of the forecast.

Operating balance of the state budget for 2020 (difference between budget revenues and expenditures) in the first two quarters amounted to -378.5 million GEL (820.3 million GEL less compared to the same period of the previous year), while the overall balance (operating balance minus change in non-financial assets) amounted to -1140.5 million GEL (843.3 mln GEL less compared to the same period of the previous year). Consolidated budget revenues decreased by 1.4% year-on-year to 6,078 million GEL, while changes in expenditures and non-financial assets increased by 16.6% and 4.4%, respectively.

Table 2: Performance indicators of the state budget of Georgia for the first half of 2020

	6 Month Plan	6 Month Actual	Performance, %
Income	5,009,223.2	5,087,527.4	101.6%
Expense	5,943,662.7	5,465,945.1	92.0%
Operating Balance	-934,439.5	-378,417.7	40.5%
Change in Non-financial Assets	769,686.1	761,952.0	99.0%
Overall Balance	-1,704,125.6	-1,140,369.7	66.9%
Change in Financial Assets	356,896.2	1,167,442.5	327.1%
Change in Liabilities	2,061,021.8	2,307,812.2	112.0%
Increase	2,541,450.9	2,786,268.3	109.6%
Domestic	1,205,000.0	1,204,090.6	99.9%
External	1,336,450.9	1,582,177.7	118.4%
Decrease	480,429.1	478,456.2	99.6%
Domestic	24,129.1	24,129.1	100.0%
External	456,300.0	454,327.1	99.6%

Source: MOF

Table 3: January-June 2020 State Budget Tax Income Performance Indicators

	6 Month Plan	6 Month Actual	Performance, %
Taxes	5,389,639.0	5,427,822.8	100.7
Income Tax	1,760,112.6	1,762,634.0	100.1
Profit Tax	581,859.0	564,548.9	97.0
VAT	2,074,307.5	2,106,551.7	101.6
Excise	557,011.2	575,277.2	103.3
Customs Tax	35,830.1	37,216.2	103.9
Other	380,518.60	381,594.80	100.3

Source: MOF

Monetary Sector

Private Sector Larization

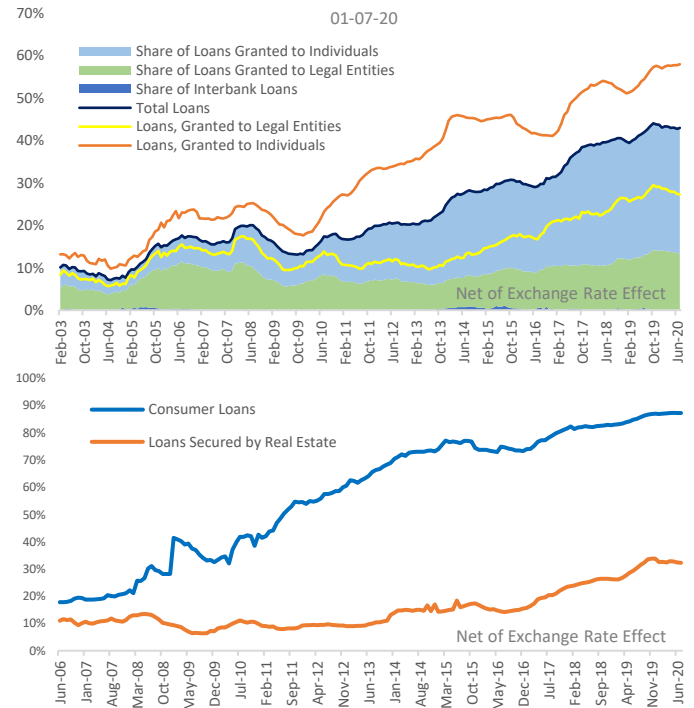
The growing trend of loan larization stabilized at around 41 percent in the half of 2020. It should be noted that the main determinant of total loan larization is the larization of loans to individuals. By 1 of July 2020, the larization of loans to individuals was 57.9 percent, the larization of loans to legal entities was 27.3 percent, and the total larization of loans was 42.9 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 July 2020, the larization of consumer loans was 87.2 percent, while the larization of mortgage loans was 32.2 percent.

No significant change was observed in the trend of deposit larization according to debtors. The larization of deposits is significantly conditioned by the larization of deposits of legal entities. As of 1 of July 2020, the total larization of total deposits was 37.8 percent, the larization of deposits of legal entities in the same period was 51.8 percent, and the larization of deposits of individuals – 25.4 percent.

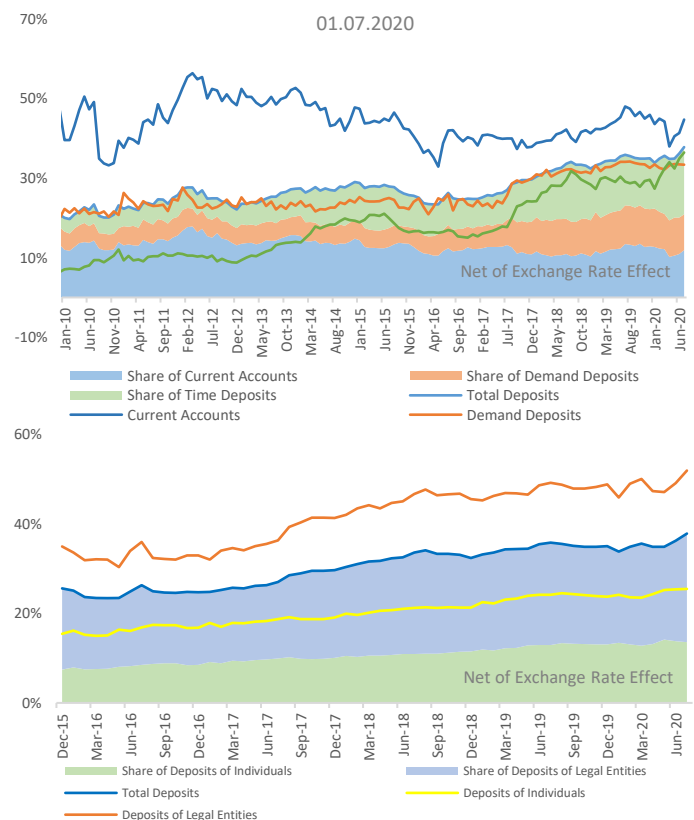
It should be noted that the downward trend in current account larization (excluding exchange rate effects) was observed for the first quarter of 2020, but this decline was offset by the upward trend in the larization of time deposit balances, which ultimately kept the larization of deposits stable. The larization of current accounts for July 2020 was 44.7 percent. At the same time, the larization of deposits before demand is 33.3 percent, and the larization of time deposits – 36.4 percent.

Figure 38: Loan Larization



Source: NBS

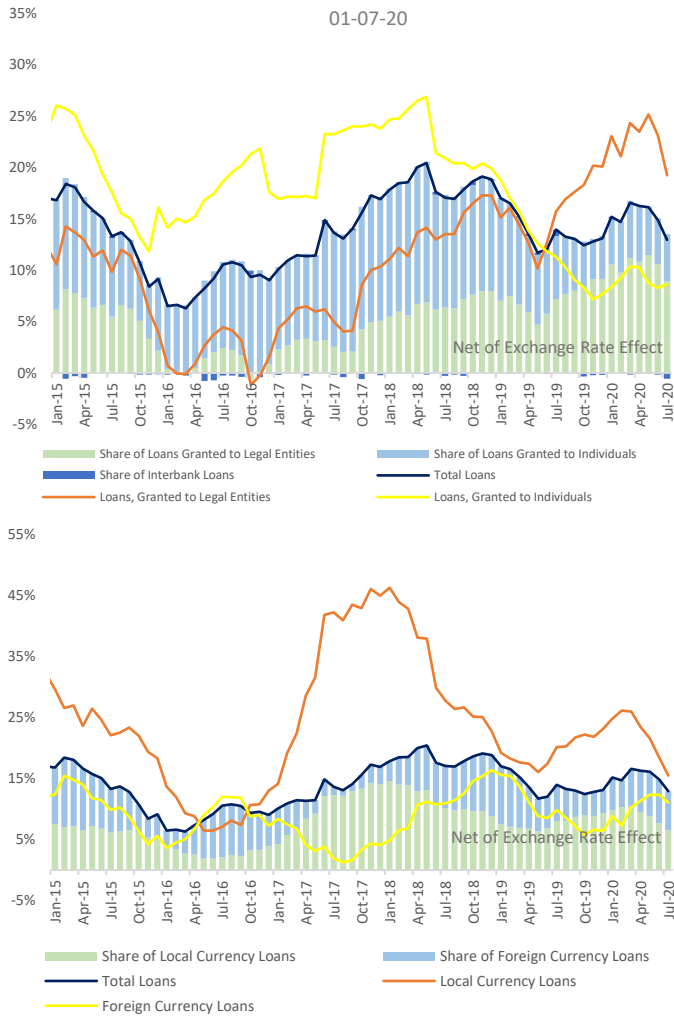
Figure 39: Deposit Larization



Source: NBS

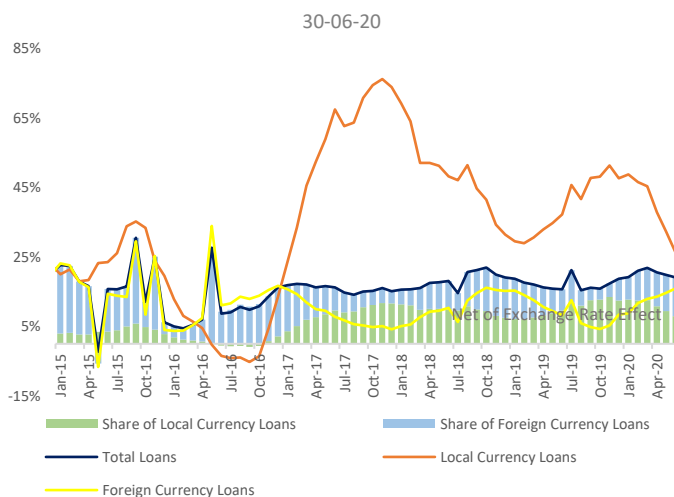


Figure 40: Annual Growth of Loans



Source: NBG

Figure 41: Annual Growth of Loans secured by Real Estate



Source: NBG

Review of Loans

The annual growth of the credit portfolio as of 1 of July 2020 compared to 2019 was 12.9 percent. The annual growth of loans to legal entities decreased by 3.9 percentage points compared to the previous month and amounted to 19.2 percent during the same period, while the annual growth of loans to individuals amounted to 8.6 percent.

As of 1 of July 2020, the growth of loans in national currency amounted to 15.5 percent compared to the same period last year, the annual growth of loans in foreign currency hasn't changed and amounted to 11.1 percent during the same period.

By July 2020, mortgage loans had decreased by 0.8 percentage points compared to the previous month and amounted to 19 percent. At the same time, the growth of mortgage loans denominated in the national currency increased by 26.1 percent, the growth of loans denominated in foreign currency tended to increase and reached 15.9 percent at the end of June.

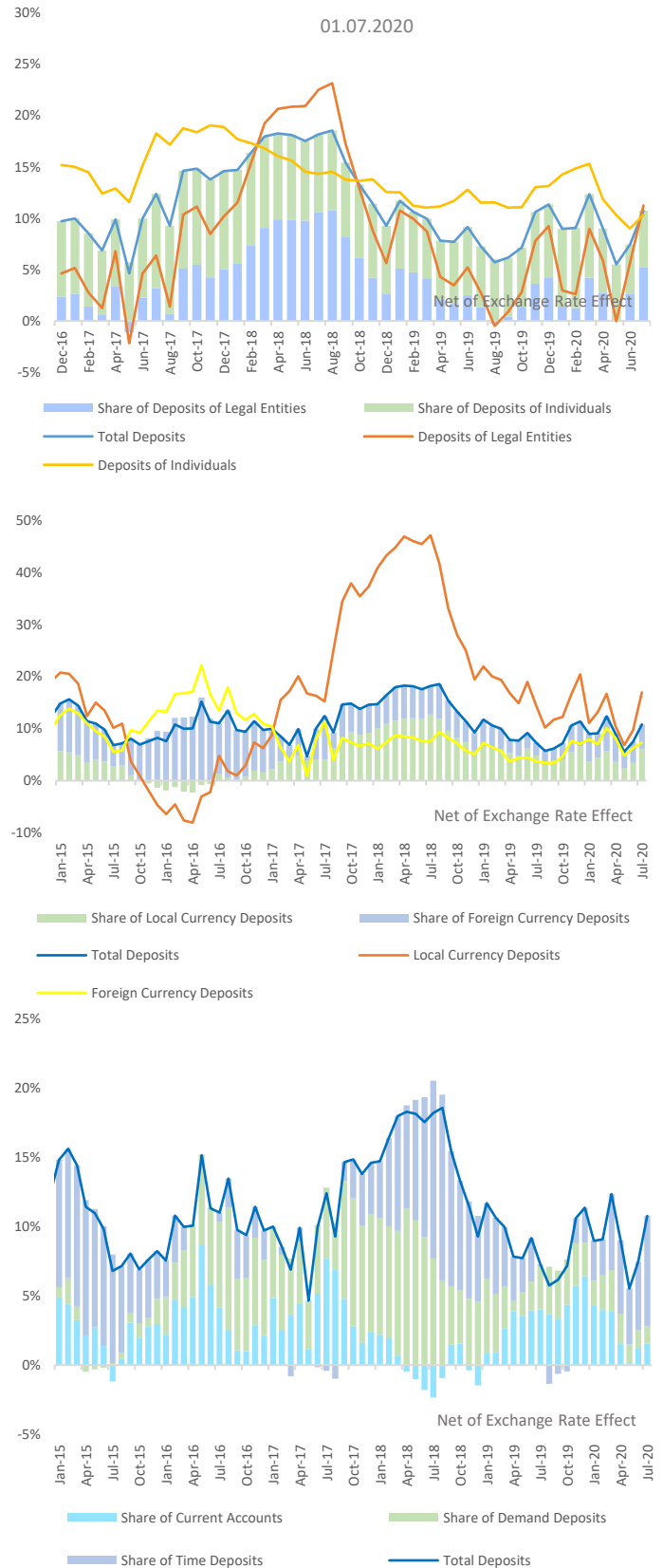
Review of Deposits

No significant change was observed in the growth trend of deposits, the maximum growth was recorded in the first quarter of 2020 as of July 1, and in early April the growth of total deposits was 11 percent compared to the corresponding period of 2019. The annual growth of deposits denominated in national currency increased by 7 percentage points compared to the previous period and amounted to 17 percent, while the annual growth of deposits denominated in foreign currency - by 7 percent.

Recently, the growth of deposits denominated in national currency has fluctuated around a relatively constant trend, and as of July 1, the annual growth was 11 percent, while the growth of deposits denominated in foreign currency was characterized by an upward trend, which was mainly due to 7 percent increase in foreign currency deposits in early July.

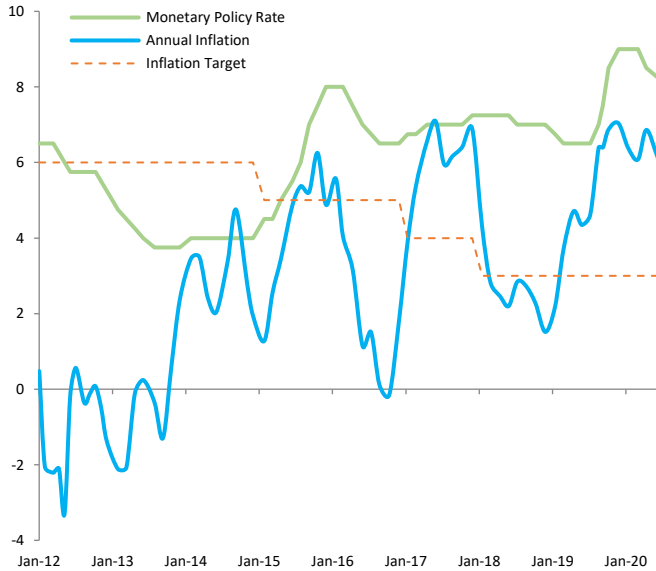
As for the growth of deposits by types, the annual growth of current accounts decreased significantly during the current quarter and amounted to 5.6 percent in early July. The slowdown in the growth rate of current accounts was offset by a significant increase in the growth of time deposit balances, as of July 1, the growth of time deposit balances was 18.2 percent and significantly contributed to the growth of total deposits. Over the same period, demand deposits grew by 4.4 percent.

Figure 42: Annual Growth of Deposits



Source: NBG

Figure 43: Inflation and Monetary Policy Rate

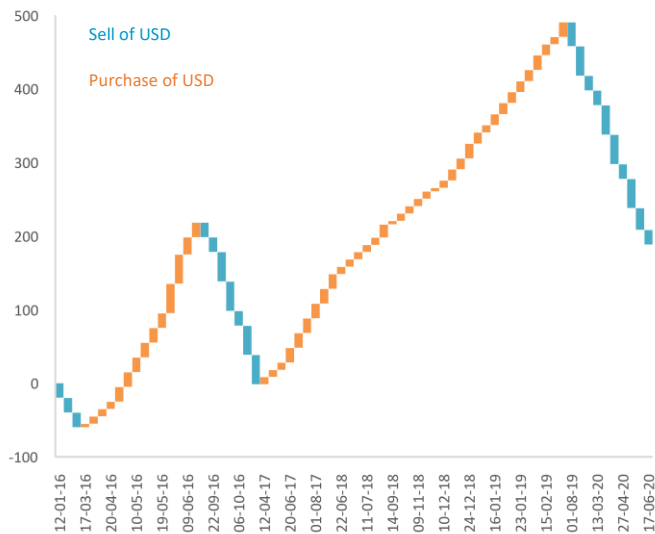


Source: NBG

Monetary Policy Rate

On June 24, 2020, the Monetary Policy Committee of the National Bank of Georgia decided to reduce the refinancing rate by 25 basis points to 8.25 percent. According to the forecast of the National Bank, inflation due to temporary factors will remain high for several months, then gradually decrease and the dispute will reach the target level in the first half of 2021. According to the National Bank, despite the decline, monetary policy remains tight, ensuring a return to the inflation target over the medium term. Factors affecting inflation that put pressure on both growth and decline: Weakened aggregate demand is on the downside of inflation. At the same time, high volatility in the foreign exchange market and the depreciation of the nominal effective GEL exchange rate increase inflation expectations. Ultimately, the importance of inflation depends on these factors, the impact of which will be stronger. If the effect of weakened aggregate demand is exceeded and a downward pressure on inflation is generated, a easing of monetary policy is expected. If the effect of the pressure from depreciation is greater on inflation, further tightening of monetary policy is considered.

Figure 44: Trade of USD by NBG, mln



Source: NBG



Interest Rates

As of July 2020, the interest rate on foreign currency deposits was 2.9 percent, while in the national currency - 9.9 percent.

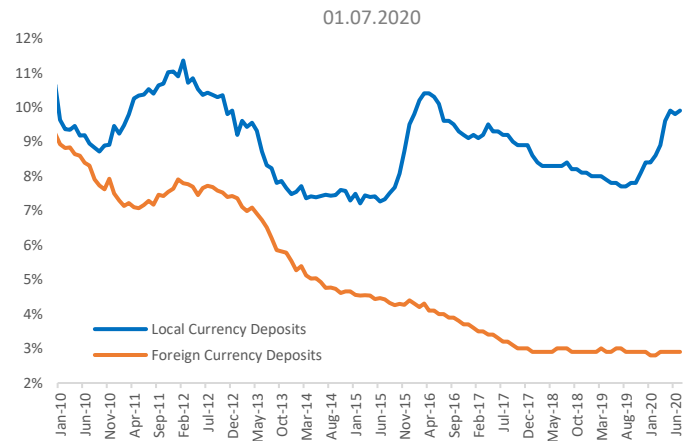
In July 2020, the weighted average interest rate on deposits of legal entities in the national currency was 9.7 percent, and in foreign currency - 2.5 percent. The average annual interest rates on retail deposits were 3 percent for foreign currency deposits and 10.1 percent for national currency deposits.

In June 2020, the weighted average annual interest rate on short-term consumer loans was 19.9 percent (26.7 percent in national currency and 6.4 percent in foreign currency).

The weighted average interest rate on long-term consumer loans is largely determined by loans denominated in the national currency. Its value in July 2020 was 16.7 percent. The interest rate on loans denominated in national currency is 17.9 percent, and on loans denominated in foreign currency - 8.3 percent.

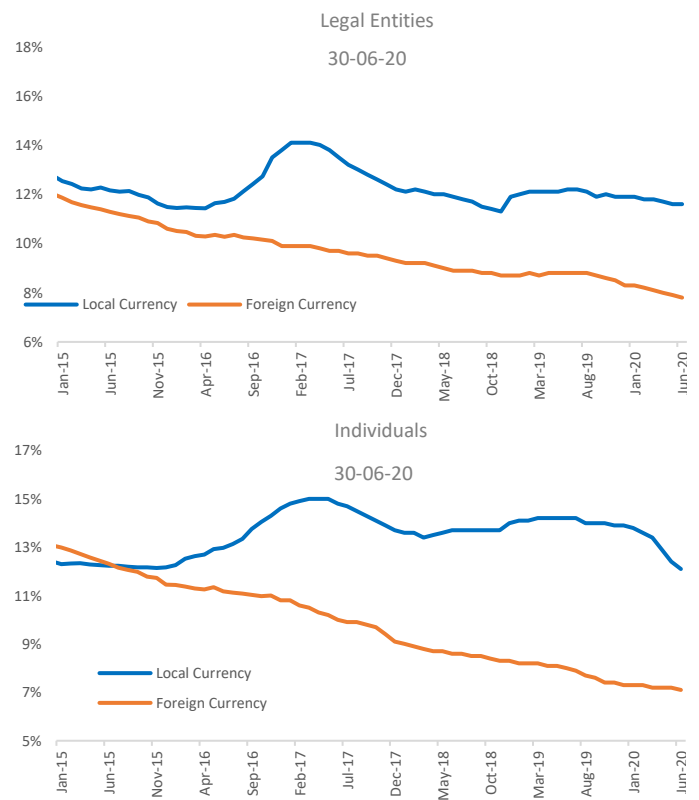
At the end of June 2020, the interest rate on mortgages denominated in legal currencies issued to legal entities was 12.2 percent, and in foreign currency - 6.9 percent. The interest rate on loans to individuals in national currency was 11.9 percent, while in foreign currency - 6.3 percent.

Figure 45: Interest rates on Deposits (stock)



Source: NBG

Figure 46: Interest rates on Loans secured by Real Estate



Source: NBG

Disclaimer

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