

Ministry of Finance of Georgia



Quarterly Economic Outlook

III Quarter, 2020



Brief Summary

- Average economic growth of the third quarter equals to -3.8 percent
- Renewed economic growth forecast for Georgia in 2020 equals to -5 percent
- Annual inflation equals to 4.8 percent, while core inflation equals to 5.2 percent
- Export annually decreased 5 percent
- Import annually decreased by 12.8 percent
- Reduction of revenue from tourism by 96.2 percent
- Reduction of the refinancing rate by 25 basis points to 8 percent





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Real Sector

Economic Growth

In September 2020, annual economic growth was -0.7 percent. The recent decline is due to declining economic activity, both within the country and due to the spread of the COVID-19 pandemic in the region. In September 2020, compared to the same period of the previous year, a decrease was observed in the transport and warehousing, accommodation and catering, arts, entertainment and leisure, construction, professional, scientific and technical activities, information and communication sectors. While growth was observed in the manufacturing, mining, trade and financial sectors. However, it should be noted that the lowest economic decline was recorded in September in the last 2 quarters. Average real growth in the third quarter was -3.8 percent.

In the second quarter of 2020, real GDP growth was -12.3 percent compared to the same period last year. Significant decreases 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. The pandemic had less impact on agriculture (+ 4.7 percent y/y).

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. While 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 second quarter of 2020, -6.4 percent. The contribution of consumption and investment components to growth also decreased to -3.5 and -2.6 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 begin to recover in the fourth quarter of 2020, and economic growth is projected to reach

Figure 1: Economic Growth

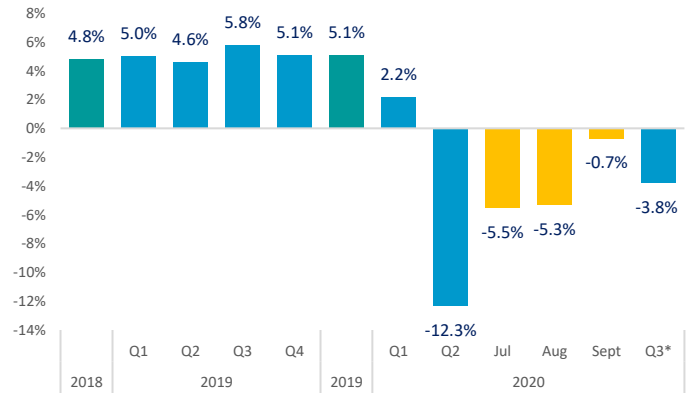


Figure 2: Sectoral Growth, 2020 Q II

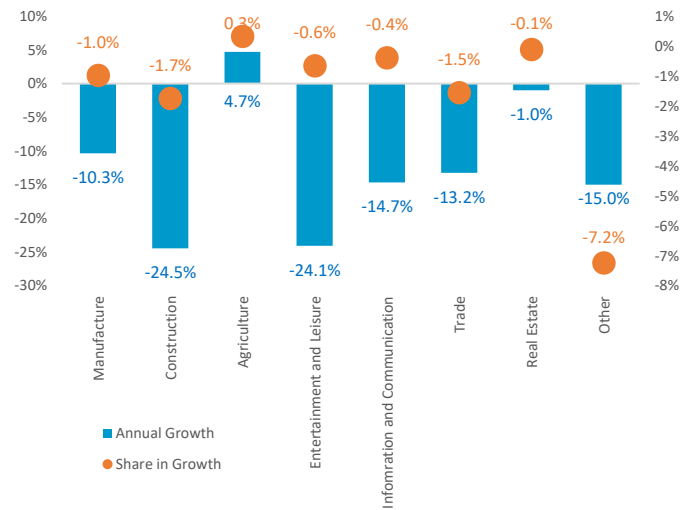


Figure 3: Decomposition of Economic Growth

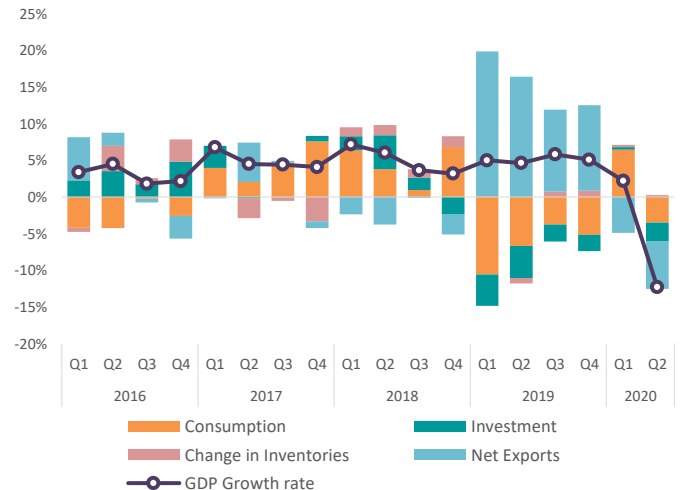
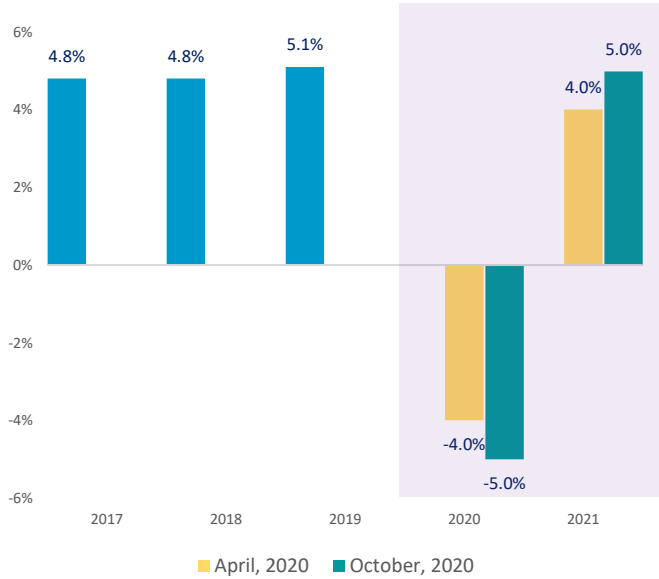


Figure 4: Economic Growth Projection

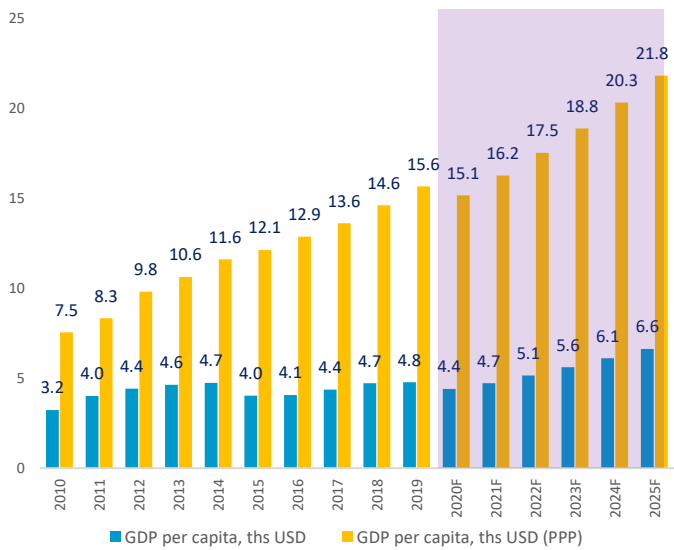


Source: IMF

5 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 updated IMF forecast, 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 9.2 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

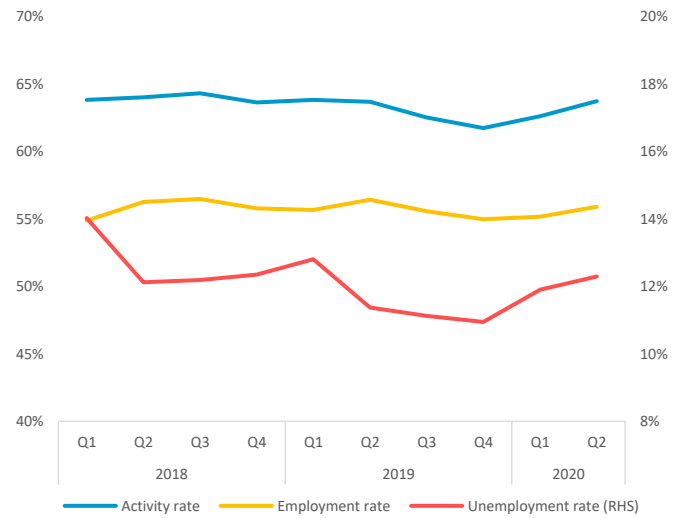


Employment and Unemployment

In the second quarter of 2020, the unemployment rate was 12.3 percent, which is 0.4 pp more than in the previous quarter. Among them, unemployment was 19.7 percent in urban areas (+2.3 percentage points per year) and 4.7 percent in rural areas (-0.3 percentage points per year). 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 (15 years and older). 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.

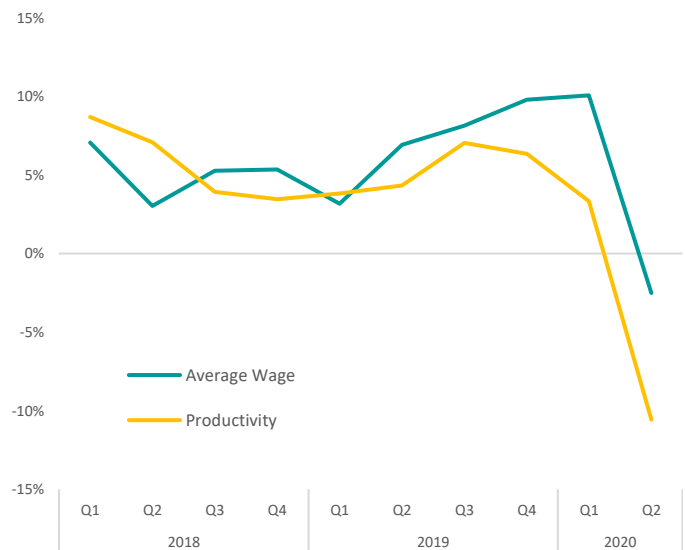
Due to the slowdown in economic growth caused by the COVID-19 epidemic, which stood at -12.3 percent in the second quarter of 2020, the number of employees decreased by 1.9 percent compared to the corresponding quarter of the previous year. The level of employment decreased by 0.5 percentage points compared to the corresponding period of the previous year. As a result, productivity (ratio of real output to number of employees) decreased by 10.6 percent annually. The average nominal wage of employees also decreased by 2.5 percent, which is 1150 GEL as of the second quarter of 2020.

Figure 6: Unemployment rate



Source: Geostat

Figure 7: Productivity and Average Wage of employees (annual change, %)



Source: Geostat

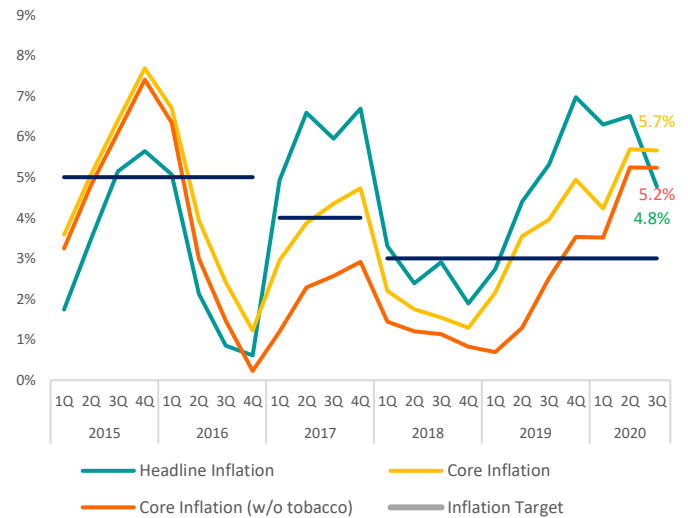
Price Level

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 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 third quarter of 2020, annual inflation was 4.8 percent. This increase is also reflected in the rise in core inflation (excluding tobacco), which stood at 5.2 percent in the third 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.

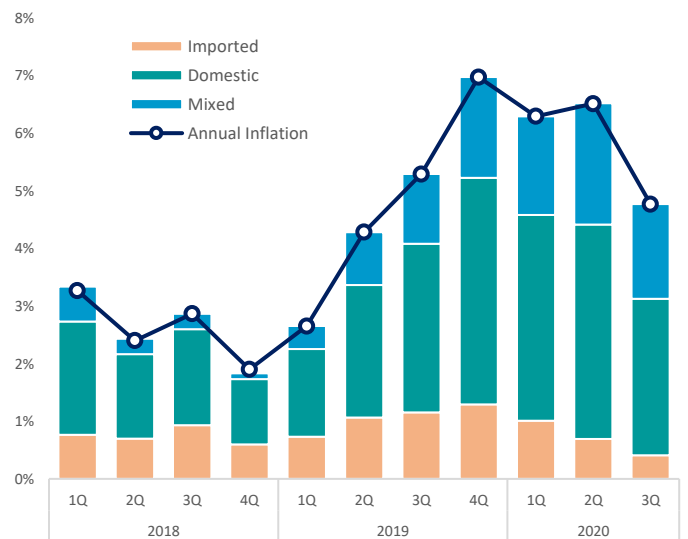
Despite the depreciation of the lari, local inflation exceeds imported inflation. In the third quarter of 2020, local inflation stood at 2.7 percent, while imported inflation stood at 0.4 percent (the lowest in the last 3 years). This dynamics is caused by the increase in food prices and the relatively high weight gain in the consumer basket relative to the grocery group.

Figure 8: Annual Inflation



Source: NBG

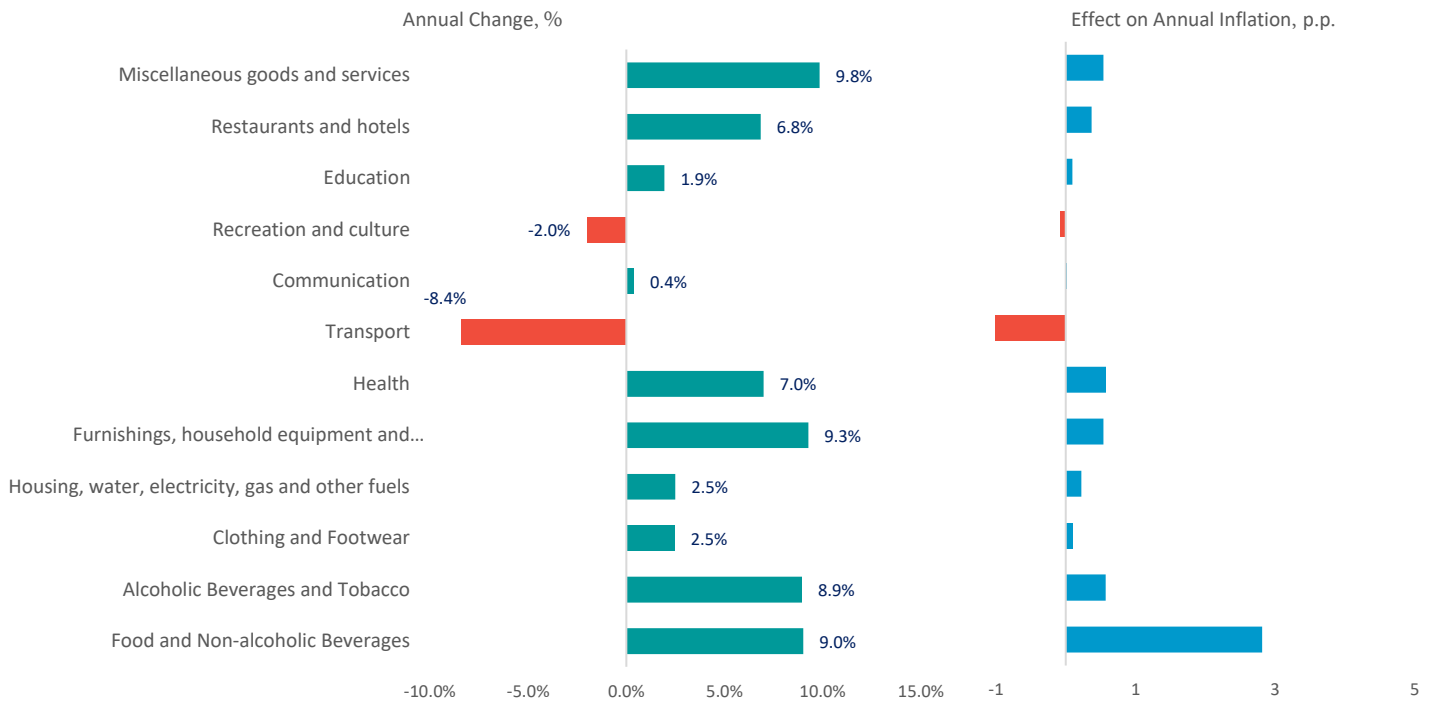
Figure 9: Decomposition of Inflation



Source: NBG, Geostat



Figure 10: Decomposition of Inflation, 2020 Q3

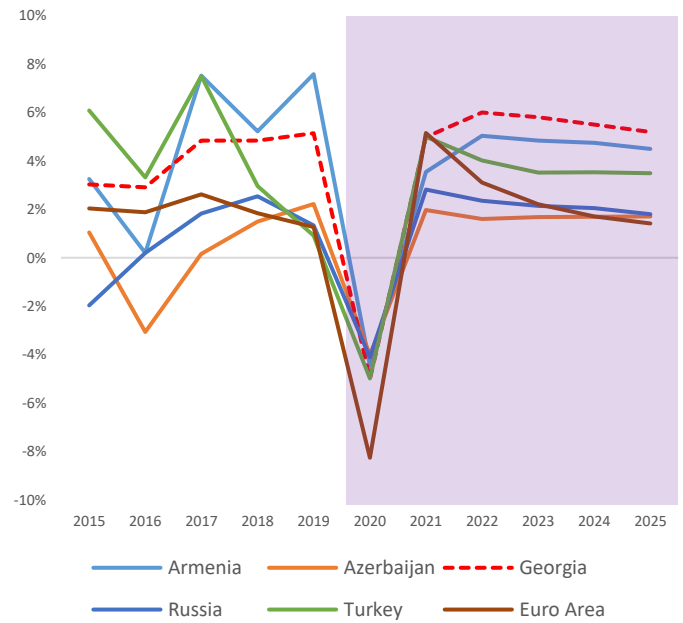


Economic Outlook of the Region

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.

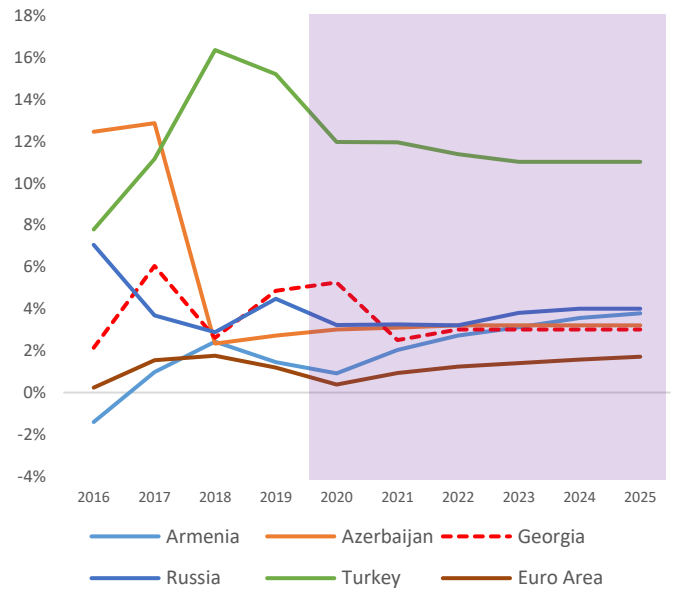
The decline in investment and the deteriorating trade balance remain significant challenges for Turkey recently. Against this background, the state of emergency and the global pandemic have put additional pressure on the Turkish economy. According to the IMF forecast, real economic growth in 2020 in 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

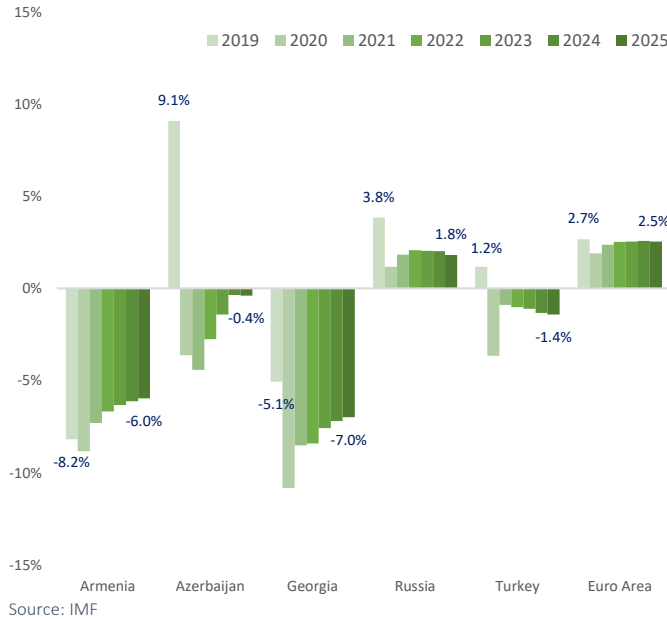


Source: IMF

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.



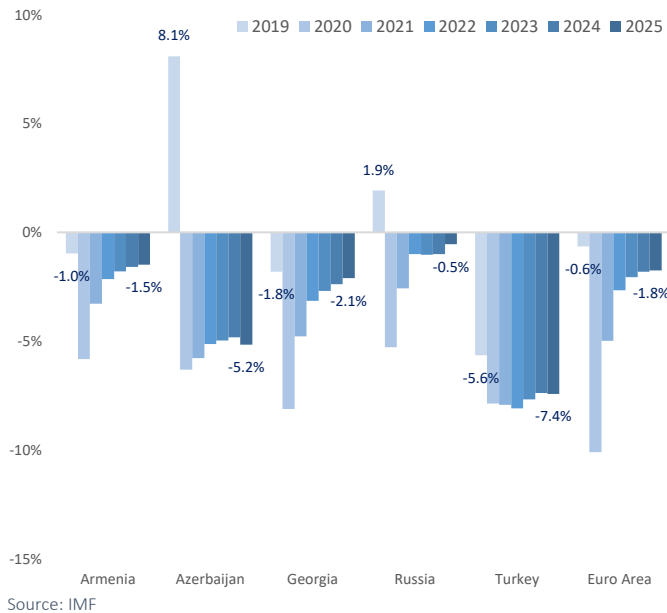
Figure 13: Current Account to GDP, %



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. An important source of risk in the region is the hostilities between Armenia and Azerbaijan, which will cause significant damage to both countries and reduce the credibility of the region by foreign investors.

Figure 14: Budget Balance to GDP, %



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.

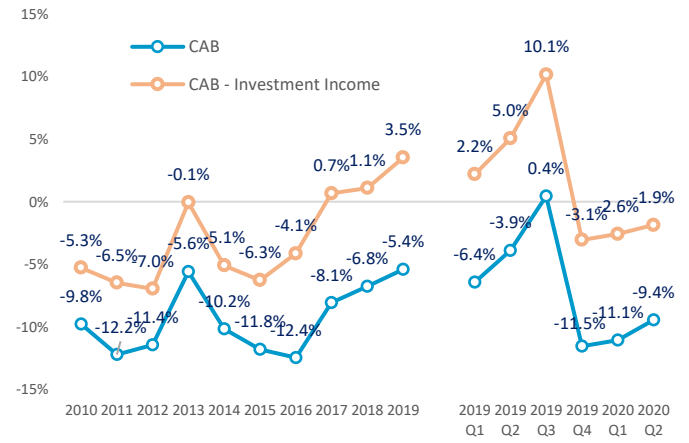
External Sector

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.

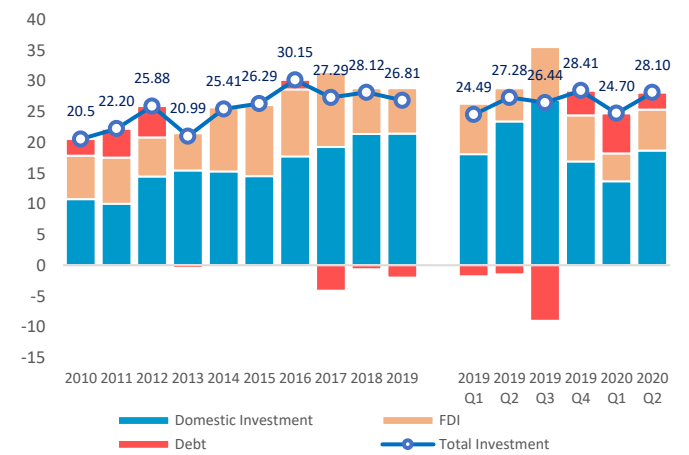
The current account deficit is financed by debt and foreign direct investment. Debt financing means borrowing new debt and, consequently, spending more on debt service. In this regard, it is important that the current account deficit is financed by increasing foreign direct investment. The structure 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, %



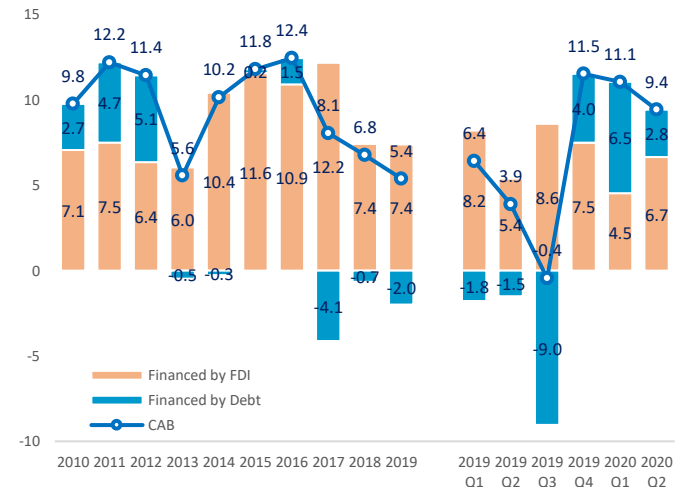
Source: NBG, Geostat

Figure 16: Financing of Investment



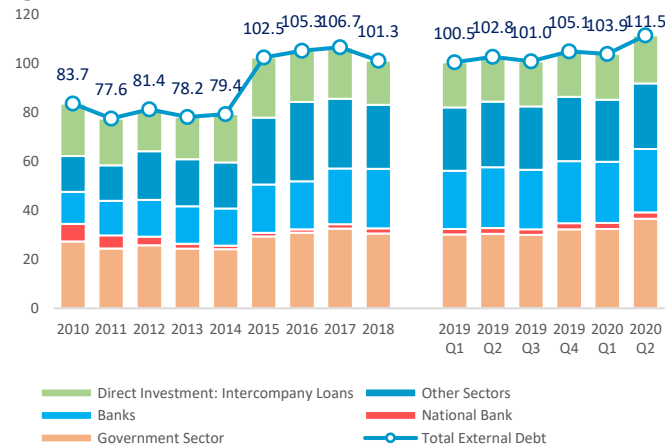
Source: NBG, Geostat

Figure 17: Financing of Current Account



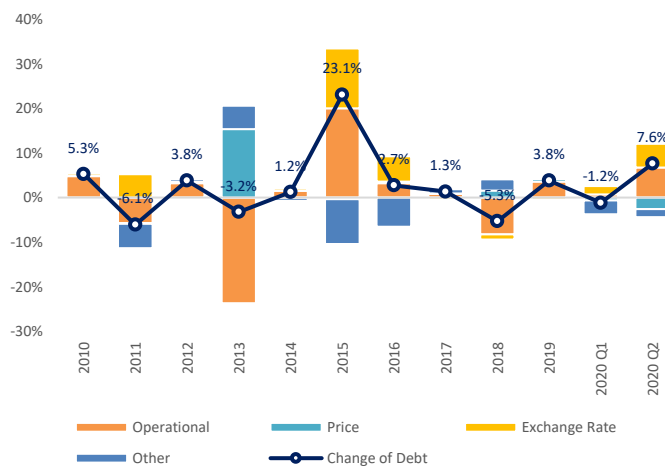
Source: NBG, Geostat

Figure 18: External Debt to GDP, %



Source: NBG, Geostat

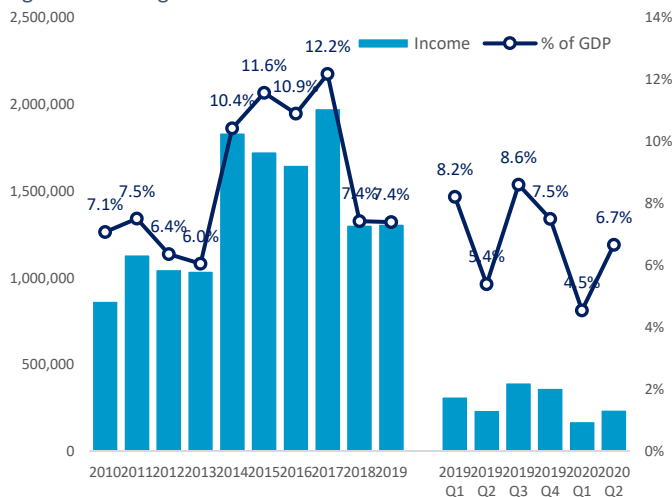
Figure 19: Change of Debt to GDP



Source: NBG, Geostat

Note: The sum of the last 4 quarters is used as a measure of GDP

Figure 20: Foreign Direct Investment



Source: Geostat

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 7.6 percentage points (compared to the previous quarter). The main factors were changes in the exchange rate (+5.3 percentage points) and the operating change (+6.8 percentage points). However, price and other factors contributed to the debt reduction, in particular, the price effect of -2.6 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.

International Trade

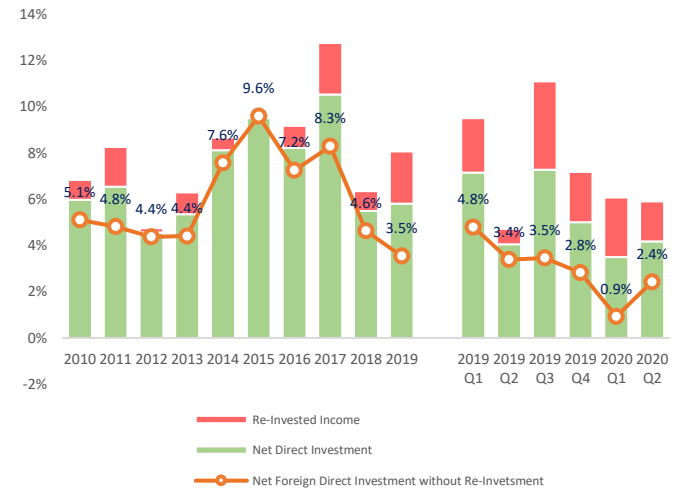
In the first three quarters of 2020, because of epidemic around the world and restrictions imposed by most countries, foreign demand declined. The impact of these factors on Georgia's exports, remittances and income from international travel will be negative due to the uncertainty of the epidemic for some period of time. At the same time, the volume of imports also decreased due to reduced economic activity within the country. In the third quarter of 2020, the annual growth of nominal exports was to -5.0 percent and amounted to 899 million US dollars, while the growth of domestic exports amounted to 14.1 percent, in which the real growth of exports was 11.6 percent. At the same time, annual growth in imports was to -12.8 percent and amounted to 2.103 million US dollars, while real growth amounted to -9.7 percent.

In the third quarter of 2020, imports of investment goods decreased by 21.7 percent (-6.3 p.p), imports of consumption goods – by 15.2 percent (-4.9 p.p), and imports of intermediate goods – by 2.2 percent (-0.8 p.p). In the third quarter of 2020, exports of traditional goods increased by 0.7 percent, while raw materials decreased by 21.7 percent.

In the third quarter of 2020, copper ores and concentrates took the first place in the top ten export products groups with 209.3 million USD (22.1 percent of total exports), in second place – cars with 120.1 million USD (12.7 percent of total exports), and in third place - ferroalloys with 62.7 million US dollars (6.6 percent).

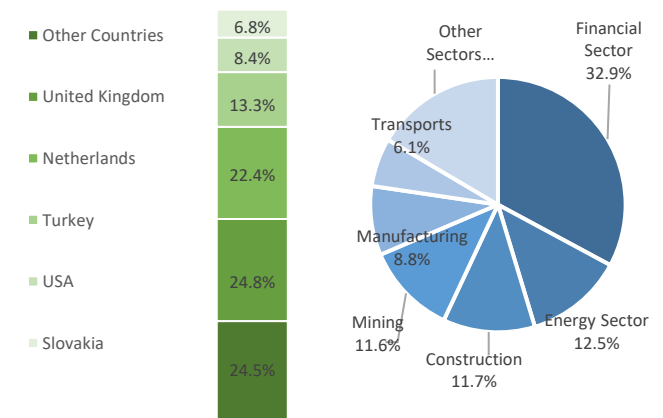
The largest import products group was the car group with 210.8 million US dollars (10.0 percent of total imports), followed by copper ores and concentrates with 181.6 million US dollars (8.6 percent of total exports), and the third place – petroleum and petroleum oils with 135.0 million US dollars (6.4 percent).

Figure 21: FDI



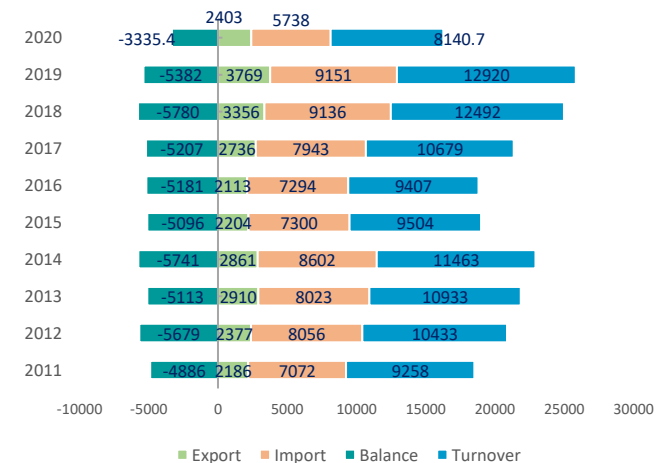
Source: NBG, Geostat

Figure 22: Composition of FDI, 2020 2Q



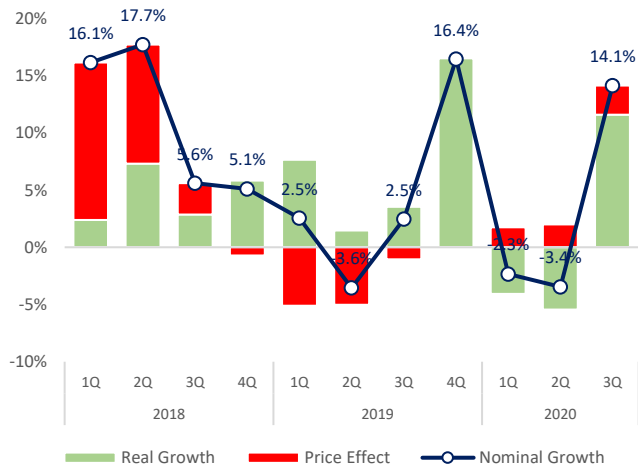
Source: Geostat

Figure 23: International Trade – January-September, 2020



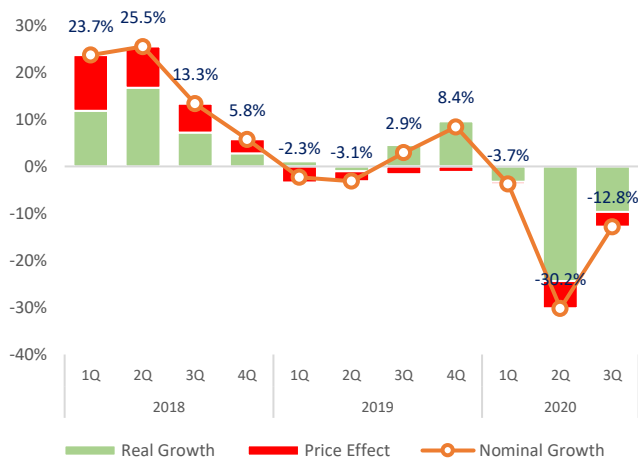
Source: Geostat

Figure 24: Annual Change of Domestic Export



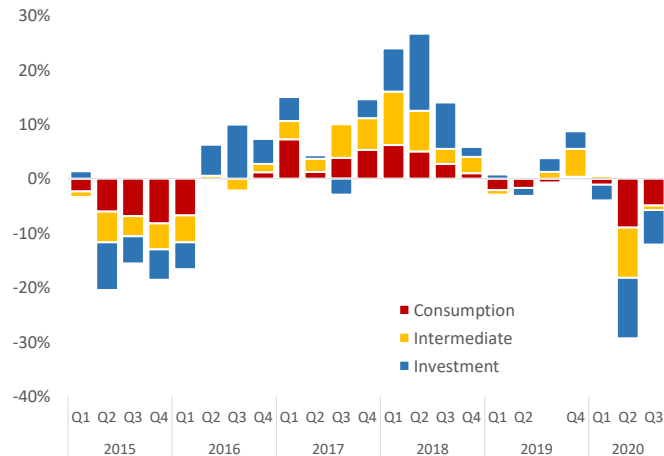
Source: Geostat

Figure 25: Annual Change of Import



Source: Geostat

Figure 26: Decomposition of Change of Import



Source: Geostat

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 cancellation 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 third quarter of 2020. Total visitors amounted to 52 thousand in September 2020, while the same indicator in September of the last year was 839 thousand. Revenue from international tourism decreased by 95.1 percent and amounted to USD 15.7 million. As for the third quarter, revenue from tourism decreased by 96.2 percent annually and amounted to USD 42.5 million, while the number of visitors has decreased by 96.4 and was 148 thousand. It is expected to continue the declining trend of revenue from tourism until the opening borders and resume of touristic travel.



Remittances

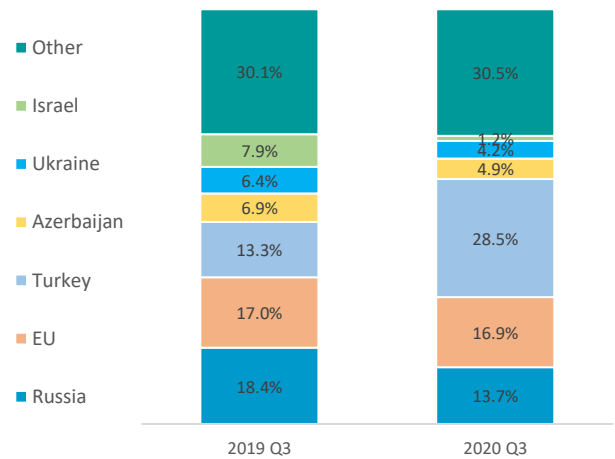
Net money transfers amounted to USD 495.2 million in the third quarter of 2020, which is 26.3 percent higher than in the third quarter of the previous year, while it is more than 48.0 percent compared to the previous quarter. It should be mentioned that growing the growth of remittances in the third quarter, compared to the same period of the previous year, was mainly due to the higher remittances from European countries, Ukraine and the USA. As for the Russia, remittances have not changed significantly (while increased by 11.6 percent compared to the previous quarter). 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. As for the third quarter, the main contributor of growing the remittances was Ukraine, Italy and the USA, while money transfers declined from Kyrgyz Republic. Remittances from Ukraine increased by more than 200 percent during July-September, and only in September It increased by 410 percent (7.4 p.p share in total growth). Money transfers increased by 37 and 47 percent from Italy and the USA, respectively. Hence, share in the total growth was 6.4 and 6.0 percents. As for Kyrgyz Republic, remittances decreased by 75 percent and contributed negatively, -1.3 p.p in the quarterly growth of remittances.

Figure 27: Income from Tourism



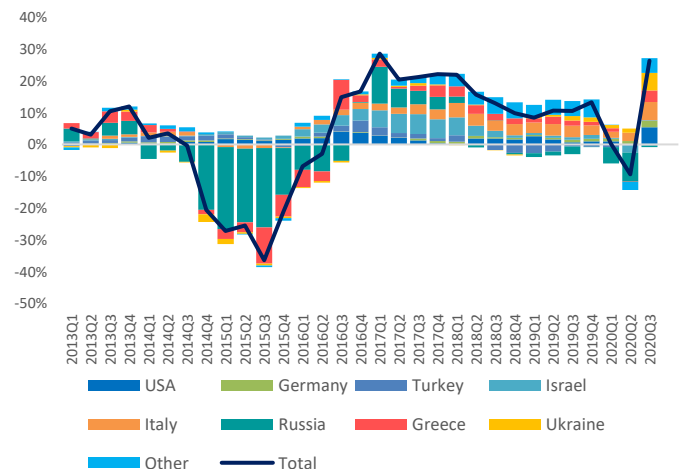
Source: NBG

Figure 28: Income from tourism, mln USD



Source: NBG

Figure 29: Net Remittances



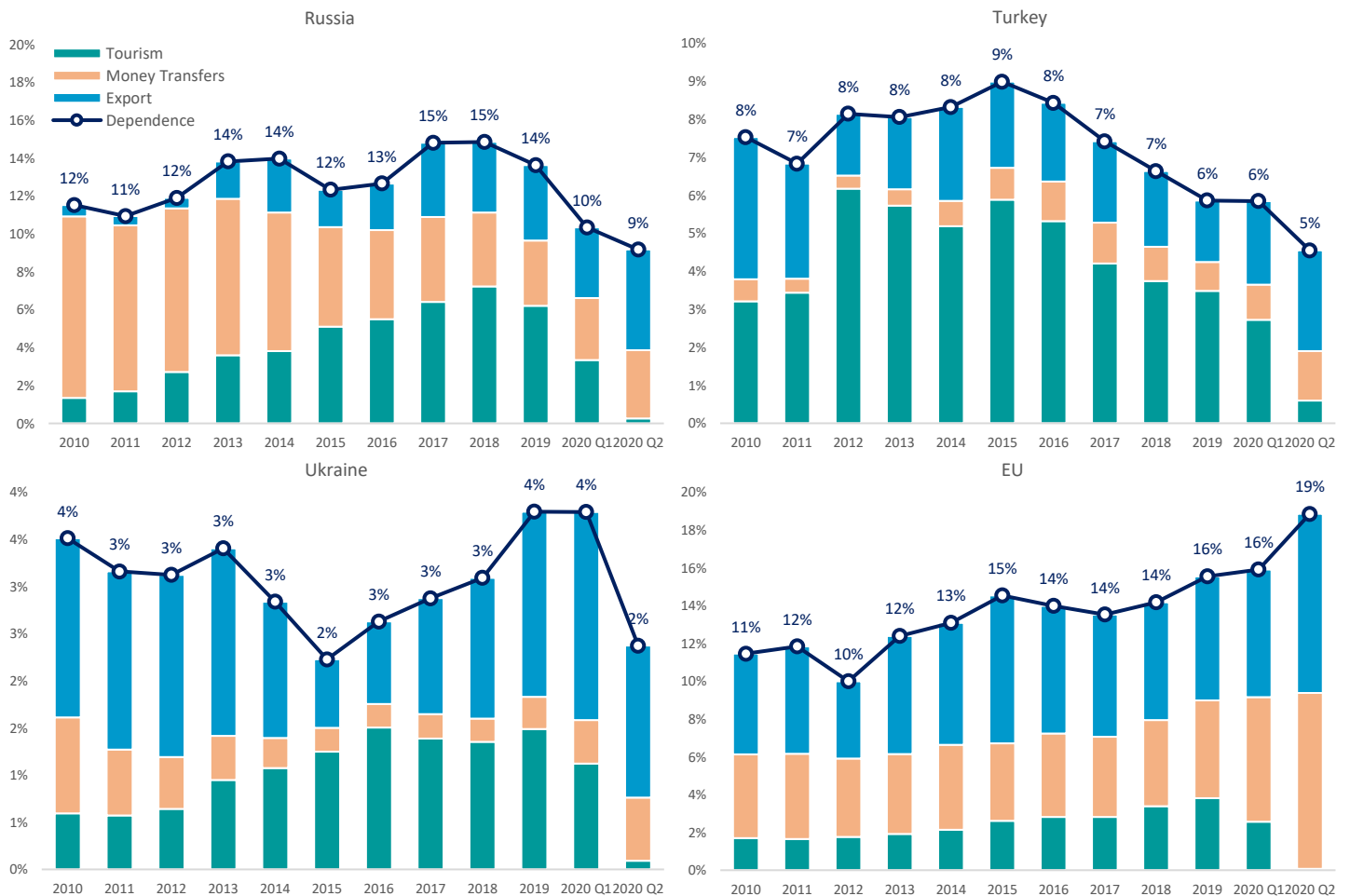
Source: NBG

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.

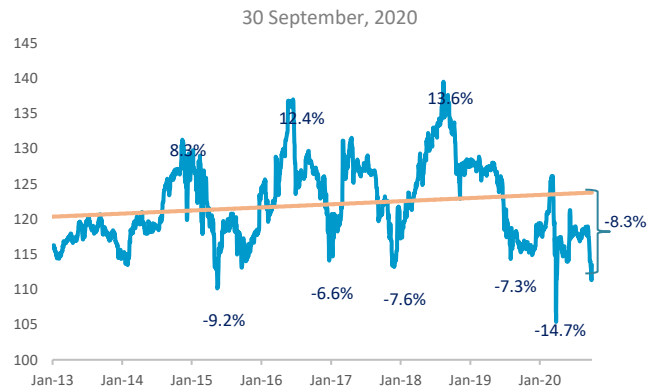
Dependence on the EU has increased, according to the Balance of Payments of the first and second quarters of 2020, while dependence on Russia, Ukraine and Turkey has decreased. Decrease of dependence is coming from the sharp decline of the tourism revenue. Moreover, it should be mentioned the change 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



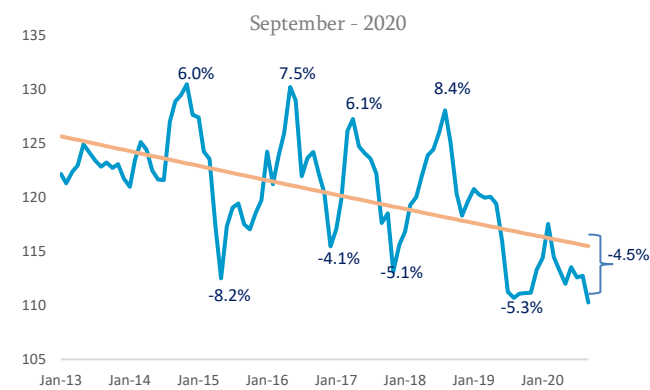
Source: NBG, Geostat

Figure 31: Nominal Effective Exchange Rate



Source: NBG

Figure 32: Real Effective Exchange Rate



Source: NBG

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 third quarter of 2020, Depreciation of Lari amounted to 6.3 percent compared to the same period of the previous year, while is appreciated by 1.1 percent compared to the second quarter of 2020. Georgian Lari exchange rate against Euro depreciated by 11.6 percent compared to the same period of the last year, and by 5 percent compared to the previous quarter. The nominal effective exchange rate started depreciating from the second half of September, and as for September 30, nominal effective exchange rate index was deviated from its medium-term trend by -8.3 percent. As for the exchange rate corrected by the prices, the real effective exchange rate was deviated by -4.5 percent in September.

Table 1: Change of Nominal and Real Effective Exchange Rates

| | September 30, 2020 | Sep 30, 2020 - Jan 1, 2020 | Sep 30, 2020 - Jan 1, 2019 |
|-----------------------|--------------------|----------------------------|----------------------------|
| Euro | 3.8415 | ▼ -16.3% | ▼ -20.4% |
| US Dollar | 3.2878 | ▼ -12.8% | ▼ -18.7% |
| Turkish Lira | 0.4219 | ▲ 14.2% | ▲ 19.8% |
| Russian Ruble | 0.0417 | ▲ 10.5% | ▼ -8.0% |
| NEER | 113.51 | ▼ -4.8% | ▼ -11.2% |
| REER (September 2020) | 110.27 | ▼ -2.6% | ▼ -7.8% |

Source: NBG



Fiscal Sector

Budget Revenue Performance

The consolidated budget tax revenue forecast for January-September 2020 was set at 7,675.8 mln GEL, while 8,069 mln GEL was mobilized during the reporting period, which is 105.1 percent of the forecast.

- 2,395.8 million GEL is mobilized as income tax, which is 98.5 percent of the forecast figure (2,432.1 million GEL).
- 744.3 million GEL is mobilized as profit tax, which is 107.6 percent of the forecast indicator (691.9 million GEL).
- 3,452.3 million GEL was mobilized as VAT, which is 106.1 percent of the forecast (GEL 3,254.3 million).
- 1073.7 million GEL is mobilized as excise, which is 116.5 percent of the forecast indicator (922 million GEL).
- 55.5 million GEL is mobilized in the form of import tax, which is 106.7 percent of the forecast (52 million GEL).
- 265.4 million GEL is mobilized in the form of property tax, which is 90.1 percent of the forecast indicator (294.4 million GEL).
- Other taxes amount to GEL 81.9 million.

The forecast of grants was set at 112.9 million GEL, while 122.7 million GEL was mobilized during the reporting period, which is 108.7 percent of the forecast value.

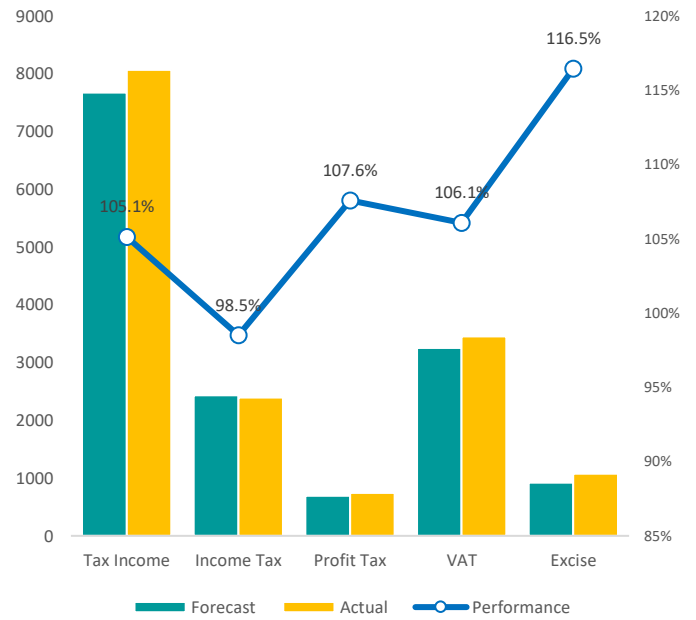
The forecast for other revenues was set at 745.5 million GEL, and 773.8 million GEL was mobilized during the reporting period, which is 103.8 percent of the forecast.

138.4 million GEL was mobilized from the decrease in non-financial assets, which is 118.4 percent of the forecast (116.9 million GEL).

120.2 million GEL was mobilized from the decrease in financial assets, which is 209.8 percent of the forecast (GEL 57.3 million).

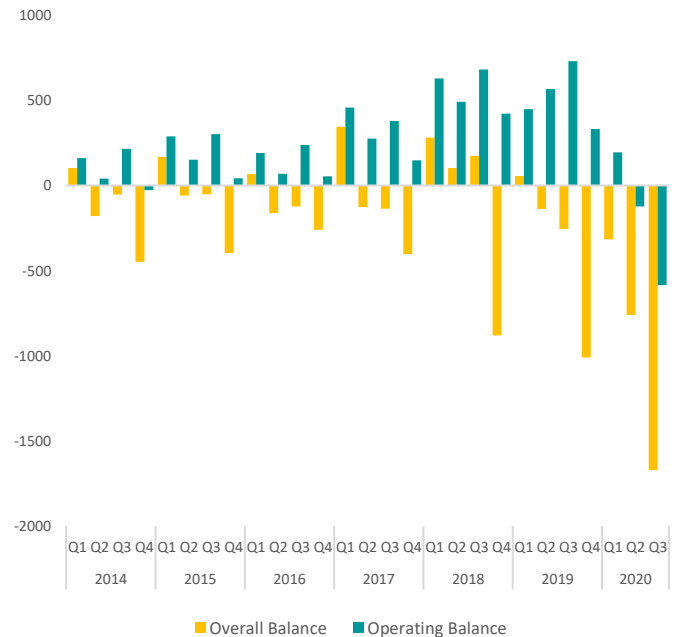
A significant share of budget revenues is accounted for by tax revenues, which in the first 9 months of 2020 amounted to 90 percent. In the first three quarters, the consolidated budget received 8,069 million GEL from taxes, which is 4.8 percent less than the same period last year. Revenue from income tax decreased by 6.4 percent year-on-year to 2,395.7 million GEL. The highest increase is observed in the form of income from profit tax, which increased by 10.4 percent compared to the same period last year and amounted to

Figure 33: Budget Revenue Performance



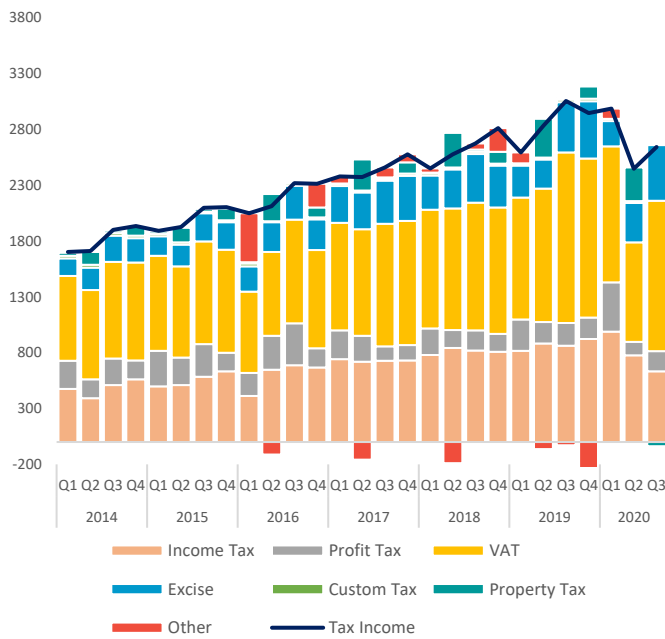
Source: MOF

Figure 34: Budget Balance



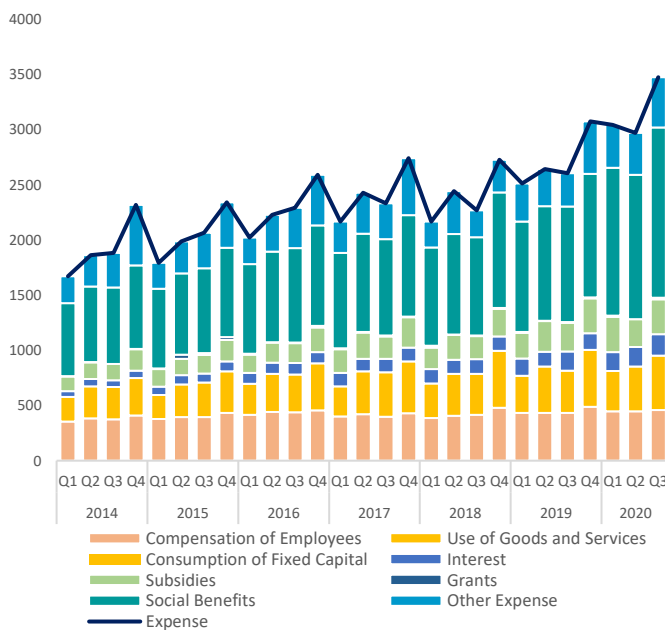
Source: MOF

Figure 35: Tax Income



Source: MOF

Figure 36: Budget Expenses



Source: MOF

744.3 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 9 months of 2020 amounted to 42.8 percent, while the annual growth rate was -9.5 percent. Revenue from property tax decreased by 27.5 percent and amounted to 265.4 million GEL. Revenue from excise tax increased by 8.1 percent compared to the same period last year and amounted to 1,073.8 million GEL, which is 13.3 percent of total tax revenue. There was a decrease in import tax revenue, which accounted for 0.7 percent of tax revenue and decreased by 1.6 percent annually.

In the first 9 months of 2020, compared to the same period of the previous year, expenditures increased by 22.2 percent and amounted to GEL 9,481.1 million. The largest share of budget expenditures is in social security expenditures, which account for 44.2 percent of total expenditures, while the annual growth rate is equal to 36.1 percent. This increase is partly due to the social measures developed in the conditions of the pandemic. Expenditures in the form of subsidies also increased significantly, with an annual growth rate of 15.6 percent to GEL 888.6 million, accounting for 9.4 percent of total expenditures. As for other items of expenditure, compensation of employees (14.3 percent of total costs), use of goods and services (13.3 percent of total costs), interest (5.7 percent of total costs) and other costs (12.9 percent of total costs), in the first 9 months of the year, compared to the previous year increased by 14.3 percent, 13.3 percent, 5.7 percent and 12.9 percent, respectively.

The forecast of the state budget revenues for January-September 2020 was set at 7,157 mln GEL, during the reporting period 7,638.6 mln GEL was mobilized, or 106.7 percent of the forecast.



79.7 million GEL was mobilized from the decrease in non-financial assets, which is 109.3 percent of the forecast (72.9 million GEL). 114.8 million GEL was mobilized from the decrease of financial assets, which is 200.5 percent of the forecast indicator (57.3 million GEL)

Table 2: Performance indicators of the state budget of Georgia for the first 9 months of 2020

| | 9 Month Plan | 9 Month Actual | Performance, % |
|--------------------------------|--------------|----------------|----------------|
| Income | 7,157,012.0 | 7,638,596.4 | 106.7% |
| Expense | 9,415,373.6 | 8,777,611.4 | 93.2% |
| Operating Balance | -2,258,361.6 | -1,139,015.0 | 50.4% |
| Change in Non-financial Assets | 1,461,216.5 | 1,399,434.2 | 95.8% |
| Overall Balance | -3,719,578.0 | -2,538,449.2 | 68.2% |
| Change in Financial Assets | 714,331.2 | 1,708,417.7 | 239.2% |
| Change in Liabilities | 4,433,909.3 | 4,246,866.9 | 95.8% |
| Increase | 5,216,620.7 | 4,960,511.5 | 95.1% |
| Domestic | 1,585,000.0 | 1,590,125.3 | 100.3% |
| External | 3,631,620.7 | 3,370,386.2 | 92.8% |
| Decrease | 782,711.4 | 713,644.6 | 91.2% |
| Domestic | 34,129.1 | 34,129.1 | 100.0% |
| External | 748,582.3 | 679,515.5 | 90.8% |

Source: MOF

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

| | 9 Month Plan | 9 Month Actual | Performance, % |
|-------------|--------------|----------------|----------------|
| Taxes | 6,577,378.7 | 6,973,576.6 | 106.0 |
| Income Tax | 2,246,420.3 | 2,221,629.4 | 98.9 |
| Profit Tax | 691,859.0 | 744,334.9 | 107.6 |
| VAT | 2,635,989.2 | 2,796,388.7 | 106.1 |
| Excise | 922,011.2 | 1,073,755.1 | 116.5 |
| Customs Tax | 52,000.0 | 55,502.0 | 106.7 |
| Other | 29,099.0 | 81,966.5 | 281.7 |

Source: MOF



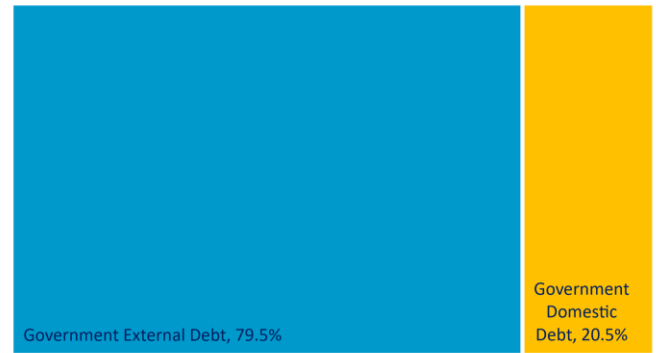
Government Debt

As of September 30, 2020, the stock of public debt of Georgia amounted to GEL 27,948.6 million, including:

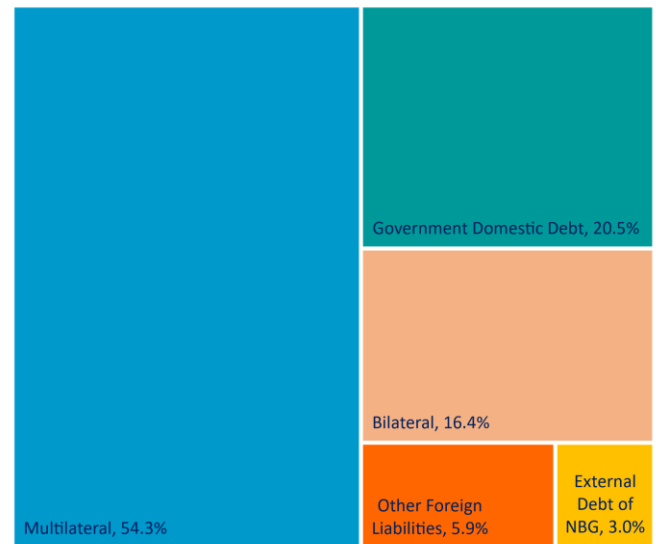
- Government domestic debt stock is GEL 5,717.4 million, including:
 - Annual Renewable Government Bond for the National Bank (“Bond for the NBG”) - GEL 200.8 million;
 - Government bonds with different maturities for open market operations ("Bonds for open market") - 160.0 million GEL;
 - Treasury liabilities of the Ministry of Finance - GEL 807.5 million;
 - Treasury bonds of the Ministry of Finance - GEL 4,549.0 million;
- Government external debt stock is 22,231.3 million GEL.

During the 3rd quarter of 2020, 42 securities auctions were held, treasury securities were issued in the amount of GEL 2,854.3 million, of which 2, 5 and 10-year Treasury bonds issued in the amount of GEL 2,054.3 million are fully so called "Benchmark Bonds". During the same period, GEL 1,404.5 million worth of securities were covered. Composition of securities issued: 6-month treasury bonds -10.2 percent, 12-month treasury bonds - 17.9 percent, 2-year treasury bonds - 22.1 percent, 5-year treasury bonds - 25.2 percent, 10-year treasury bonds - 24.7 percent. During the reporting period, the amount received from the issuance of treasury securities amounted to GEL 2,829.6 million, while the principal amount amounted to GEL 1,239.4 million. As a result of the issuance of treasury bonds and treasury bonds, the growth of domestic liabilities amounted to 1,590.1 million GEL, which is 100.3 percent compared to the planned budget.

Figure 37: Government Debt

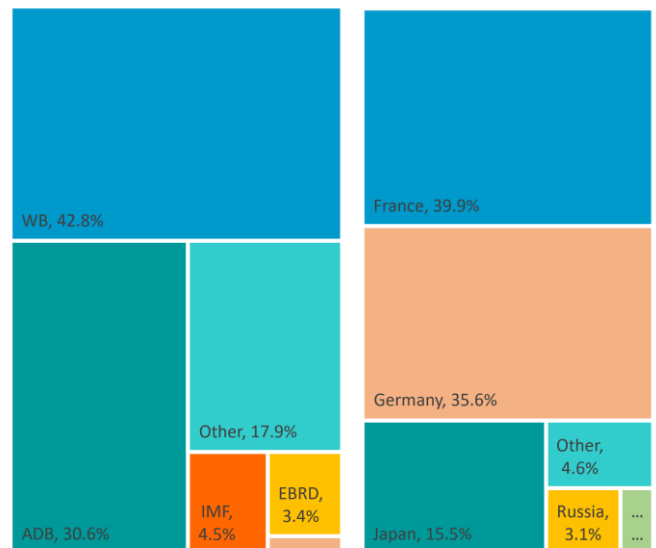


Government External Debt



Multilateral

Bilateral



Source: MOF



Monetary Sector

Private Sector Larization

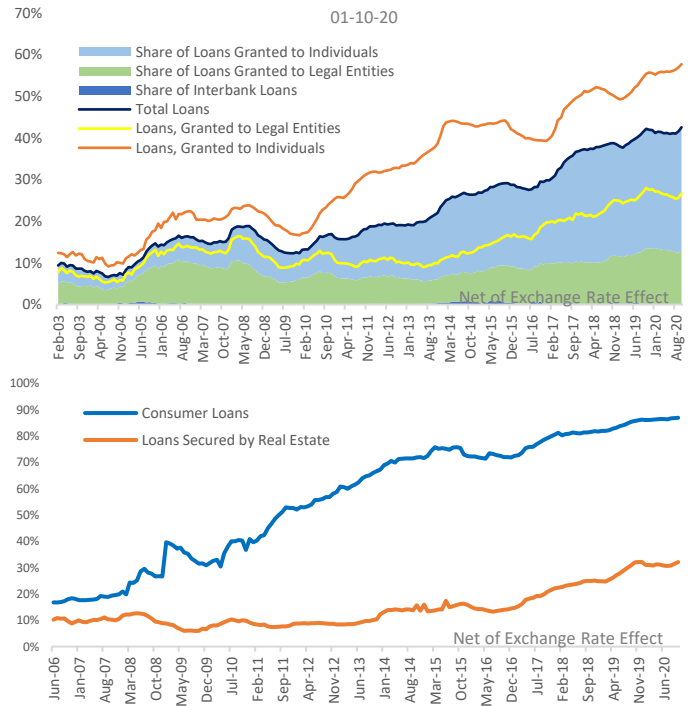
The growing trend of loan larization has stabilized at around 42 percent in the first 9 months of 2020. It should be noted that the main determinant of total loan larization is the larization of loans to individuals. By 1 of October 2020, the larization of loans to individuals was 57.7 percent, the larization of loans to legal entities was 26.3 percent, and the total larization of loans was 42.6 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 October 2020, the larization of consumer loans was 86.9 percent, while the larization of mortgage loans was 32.1 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 October 2020, the total larization of total deposits was 37.8 percent, the larization of deposits of legal entities in the same period was 52.3 percent, and the larization of deposits of individuals – 24.2 percent.

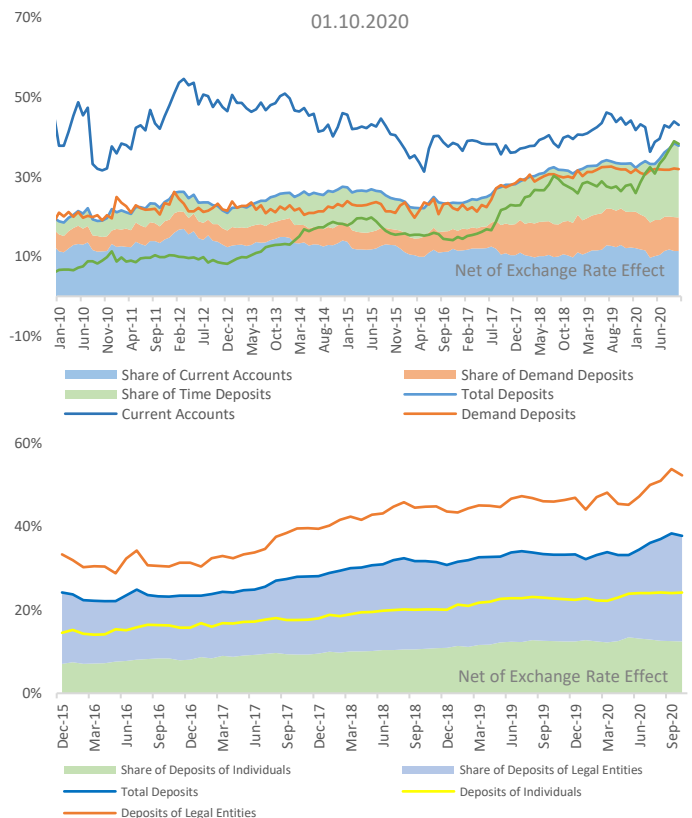
It should be noted that the downward trend in current account larization (excluding exchange rate effects) was observed for the first quarter of 2020, but this decline was offset by the upward trend in the larization of time deposit balances, which ultimately kept the larization of deposits stable. The larization of current accounts for October 2020 was 42.9 percent. At the same time, the larization of deposits before demand is 31.9 percent, and the larization of time deposits – 38.2 percent.

Figure 38: Loan Larization



Source: NBG

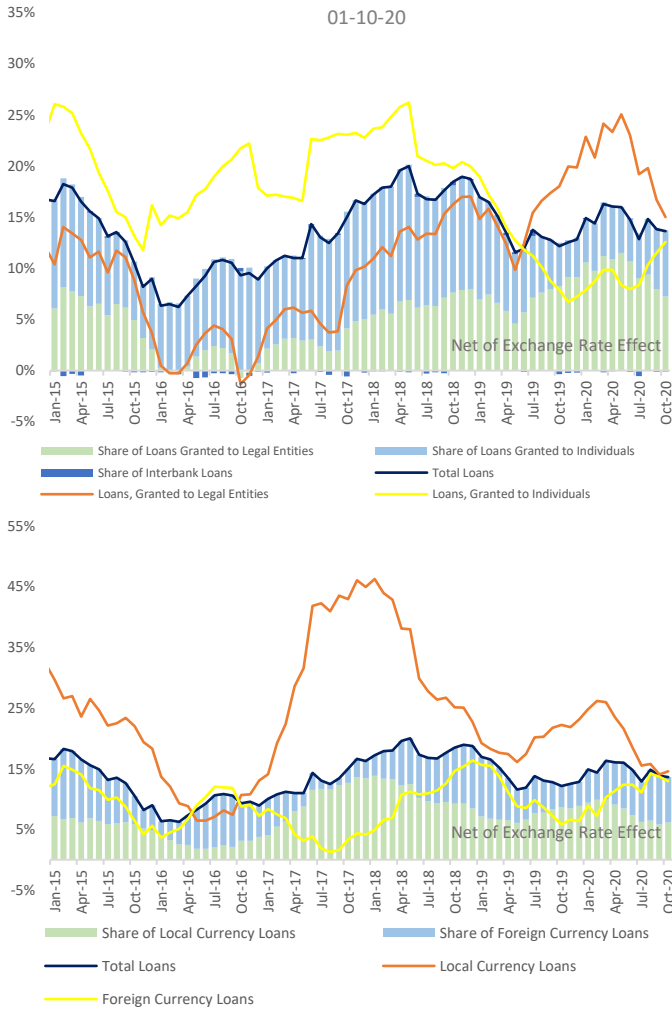
Figure 39: Deposit Larization



Source: NBG



Figure 40: Annual Growth of Loans



Source: NBG

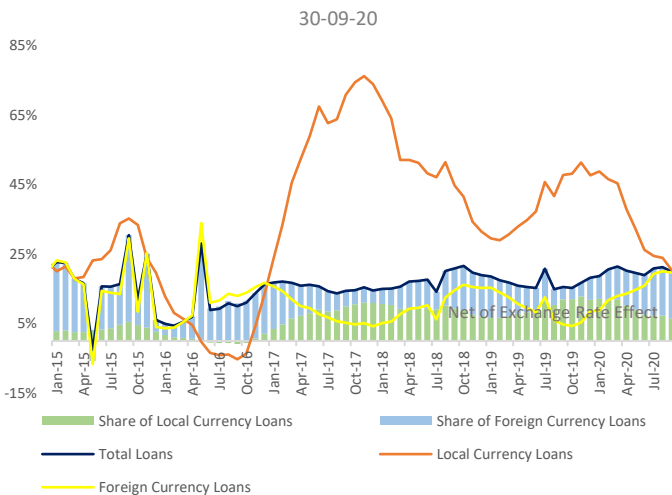
Review of Loans

The annual growth of the credit portfolio as of 1 of October 2020 compared to 2019 was 13.6 percent. The annual growth of loans to legal entities decreased by 1.7 percentage points compared to the previous month and amounted to 15 percent during the same period, while the annual growth of loans to individuals amounted to 12.6 percent.

As of 1 of October 2020, the growth of loans in national currency amounted to 14.5 percent compared to the same period last year, the annual growth of loans in foreign currency hasn't changed and amounted to 13 percent during the same period.

By October 2020, mortgage loans had decreased by 1.3 percentage points compared to the previous month and amounted to 19.9 percent.

Figure 41: Annual Growth of Loans secured by Real Estate



Source: NBG

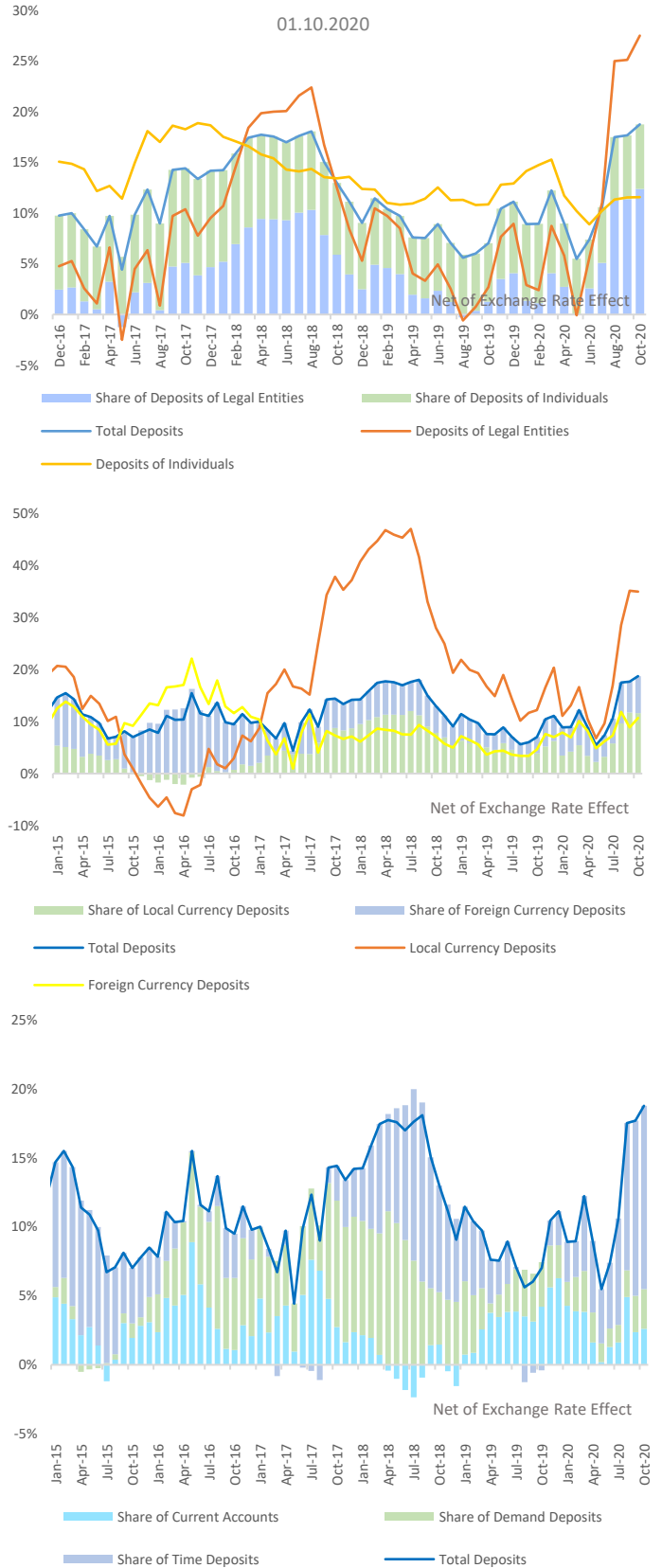
Review of Deposits

The growth of total deposits in October 2020 was 19 percent compared to the corresponding period of 2019, the annual growth of deposits denominated in national currency was 35 percent, and the annual growth of deposits denominated in foreign currency increased by 2 percentage points compared to the previous period and amounted to 11 percent. In October 2020, the annual growth of deposits of individuals amounted to 12 percent, while the annual growth of deposits of legal entities amounted to 28 percent.

Recently, the growth of deposits denominated in national currency has increased significantly in the third quarter and the annual growth was 35 percent as of October 2020, while the growth of deposits denominated in foreign currency has an upward trend, amounting to 11 percent in early October. The main determinant of the growth of deposits was the growth of national currency deposits.

As for the growth of deposits by types, the annual growth of current accounts decreased significantly during the current quarter and amounted to 9 percent in early October. The slowdown in current account growth was offset by significant increases in the growth of time deposit balances. As of October 1, the growth of time deposit balances was 31.5 percent and significantly contributed to the growth of total deposits. The growth in demand deposits during the same period was 10.1 percent.

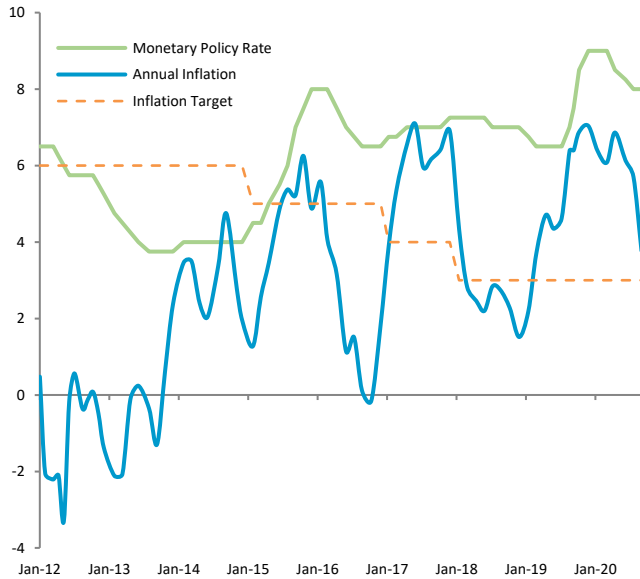
Figure 42: Annual Growth of Deposits



Source: NBG



Figure 43: Inflation and Monetary Policy Rate

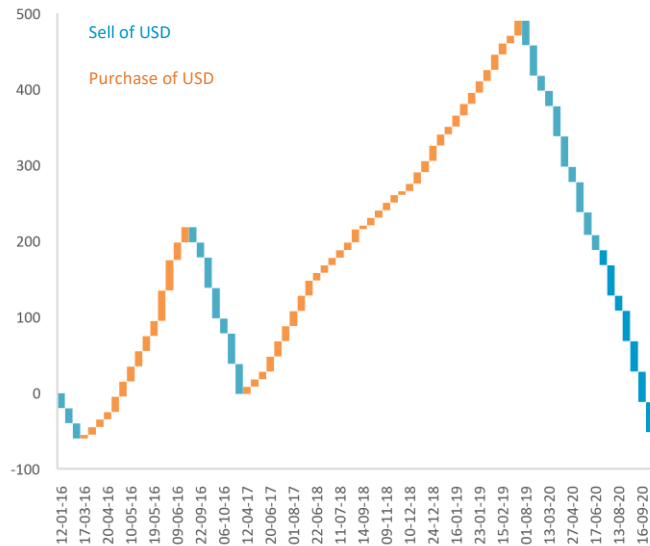


Source: NBG

Monetary Policy Rate

On August 5, 2020, the Monetary Policy Committee of the National Bank of Georgia decided to reduce the refinancing rate by 25 basis points and set it at 8 percent. And on September 16, 2020, the Monetary Policy Committee decided to keep the refinancing rate at 8 percent. According to the National Bank, the downward trend in annual inflation will continue for the rest of the year and will fall below the target level in the first half of 2021. The expected change in inflation is mainly determined by weak - mostly foreign - demand. However, the Committee also took into account the risks in terms of inflation expectations, which are accompanied by increased volatility in foreign exchange markets and long-term maintenance of inflation above the target. According to the National Bank, despite the decline, monetary policy remains tight, ensuring a return to the inflation target over the medium term. The Monetary Policy Committee will gradually move away from tightening policies, and further steps will depend on how quickly inflation expectations are reduced.

Figure 44: Trade of USD by NBG, mln



Source: NBG

Interest Rates

As of October 2020, the interest rate on foreign currency deposits was 2.8 percent, while the national currency was 9.2 percent.

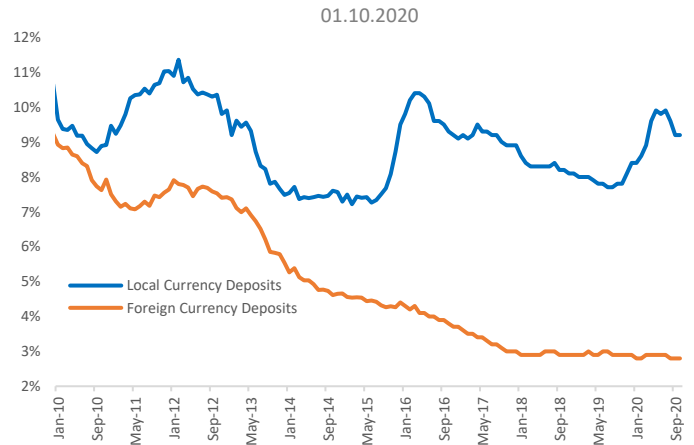
As of October 2020, the weighted average interest rate on deposits in national currency of legal entities was 9.1 percent, and in foreign currency - 2.5 percent. The average annual interest rate on deposits of individuals was 2.9 percent on deposits in foreign currency and 9.4 percent in national currency.

By October 2020, the weighted average annual interest rate on short-term consumer loans was 20 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 October 2020 was 16.9 percent. The interest rate on loans denominated in the national currency is 18.2 percent, and the interest rate on loans denominated in foreign currency is 8.1 percent.

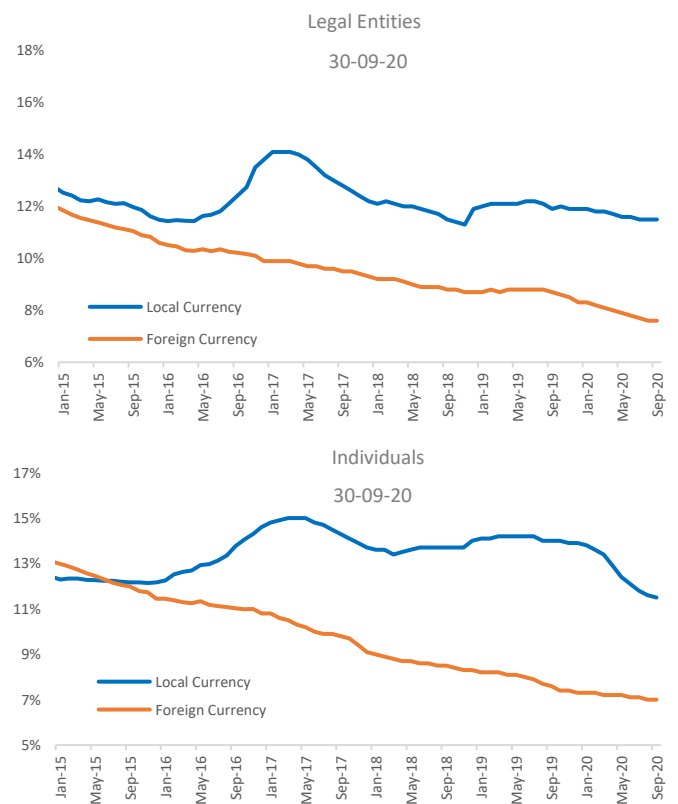
At the end of September 2020, the interest rate on mortgage loans issued to legal entities issued was 12.3 percent, and in foreign currency – 6.9 percent. The interest rate on loans to individuals in national currency was 11.8 percent, and in foreign currency it was 6.3 percent.

Figure 45: Interest rates on Deposits (stock)



Source: NBG

Figure 46: Interest rates on Loans secured by Real Estate



Source: NBG

Disclaimer

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.

