Ministry of Finance of Georgia

Quarterly Economic Outlook

I Quarter, 2021

Brief Summary

- According to preliminary data, economic growth in 2020 equals to -6.2 percent
- Renewed economic growth forecast for Georgia in 2021 equals to 3.5 percent
- Annual inflation in the first quarter equals to 4.5 percent, while core inflation equals to 6.2 percent
- Export annually increased by 5.2 percent
- Import annually decrased by 15.6 percent
- Reduction of revenue from tourism by 87.5 percent
- The refinancing rate has increased to 8.5 percent

Table of Contents

Real Sector

Economic Growth

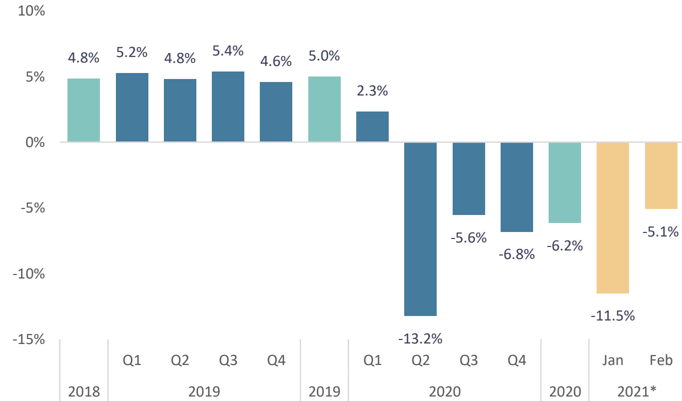
In the fourth quarter of 2020, real GDP fell by 6.8 percent compared to the same period last year. This decrease is due to the decline in economic activity, both within the country and due to the spread of the COVID-19 pandemic in the region. Nominal export decreased by 30.9 percent compared to the corresponding period of the previous year. Amid cuts in foreign tourism revenues, services exports fell by 69 per cent. While imports fell 13.2 percent. Net exports contributed -10 pp to economic growth. Compared to the third quarter, the negative impact of net exports is not properly balanced by other components. The share of consumption in economic growth is 0.6 pp, while the contribution of investment to economic growth is 2.6 pp.

Restricted movement restraint and other measures in the second half of 2020 led to an annual decline in GDP of 6.8 percent in the fourth quarter of 2020. In 2020, real GDP growth was set at -6.2 percent. The negative effects of COVID-19 pandemics began in the first quarter. The number of visits from abroad began to decline in February, and in March, due to the declaration of state of emergency and the closure of borders, revenues from tourism were almost zero. Consequently, the output of the tourism industry, which is related to other sectors, has significantly decreased and has been a large part of the economy in recent years. In 2020, in real terms, there was a significant decline in the sectors of accommodation and food supply (-37.9 percent y/y), transport and warehousing (-22.3 percent y/y), trade (-5.6 percent y/y), construction (In the arts, entertainment and leisure sectors (-18.9 per cent). The crisis has had little impact on the industrial and agricultural sectors. Real growth was observed in agriculture (+3.6 percent y/y), health and social services (+7.9% y/y) and education (+3.1 percent y/y).

The change in net exports by -10.4 pp, made a significant contribution to the economic downturn in 2020. The sharply negative contribution of net exports was partially offset by increased consumption, by 4.7 pp, due to increased fiscal stimulus to mitigate the negative effects of the pandemic.

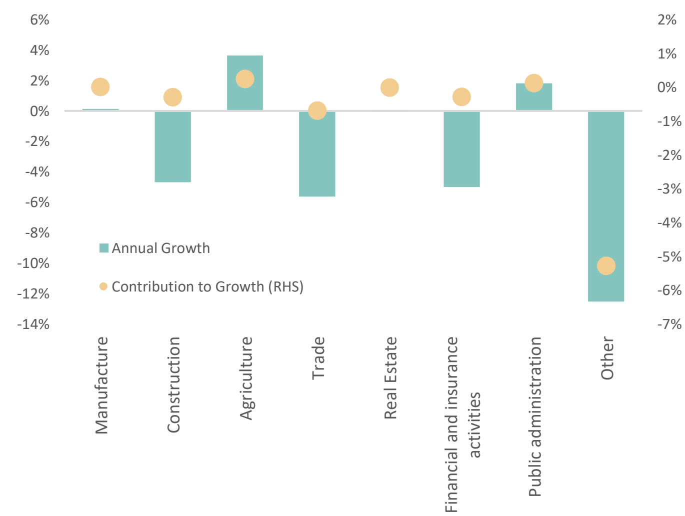
The year 2021 also started with a negative economic growth rate due to foreign travel and social distancing

Figure 1: Economic Growth



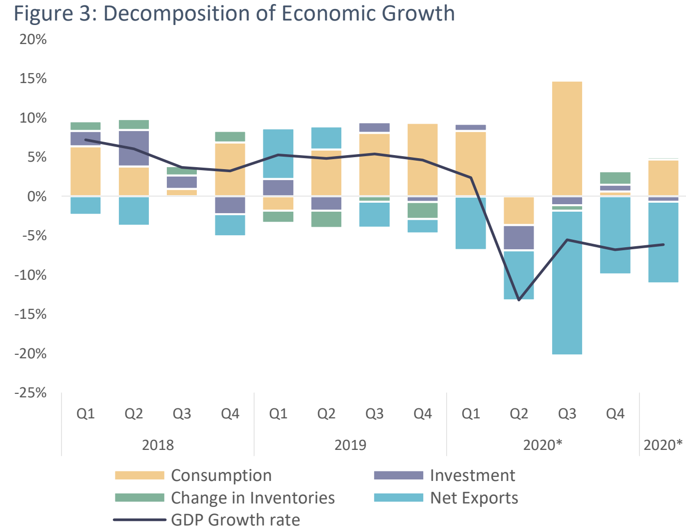
Source: Geostat

Figure 2: Real Sectoral Growth, 2020



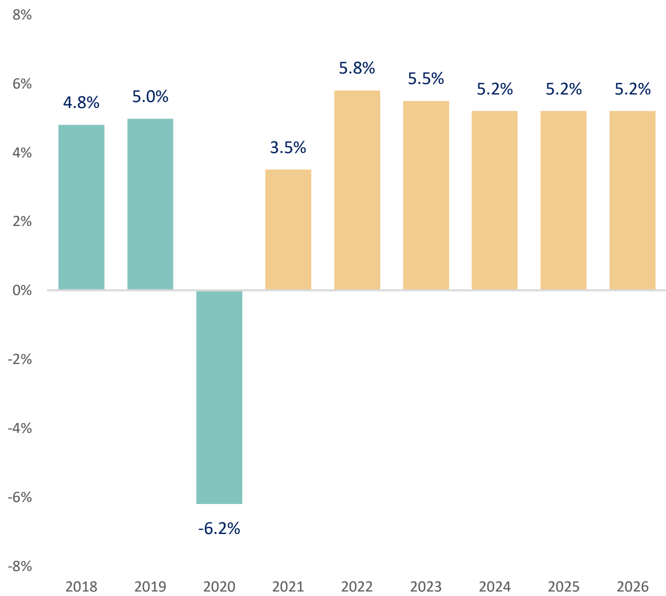
Source: Geostat

Figure 3: Decomposition of Economic Growth



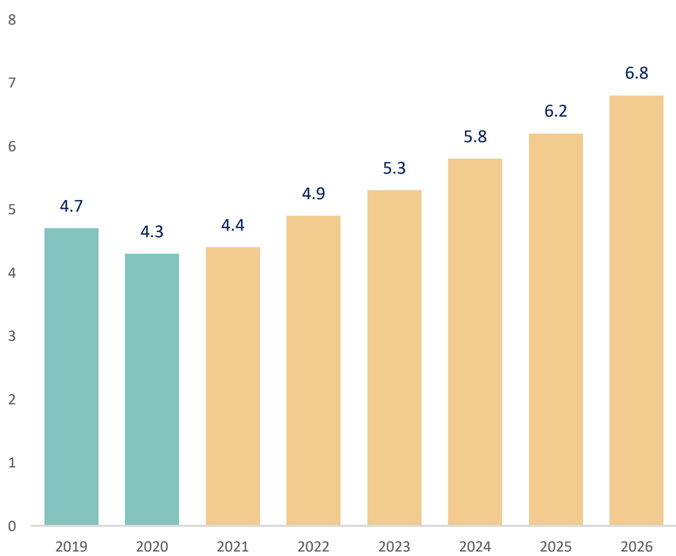
Source: Geostat

Figure 4: Economic Growth Projection



Source: IMF

Figure 5: GDP per capita, ths USD



Source: IMF

measures within the country. According to preliminary estimates, in February 2021, compared to the corresponding period of the previous year, the decline in real GDP was 5.1 percent, while the average in January-February was -8.3 percent. In February 2021, compared to the corresponding period of the previous year, a decrease was observed in the following activities: construction, accommodation, arts, entertainment and recreation, transport and warehousing, real estate activities and manufacturing. Growth was observed in the financial and insurance sectors, trade, water supply, sewerage and waste management.

Growth in 2021 will depend significantly on the mitigation of social distance restrictions and the number of foreign visitors, which in turn will significantly depend on the vaccination process that started in March but is proceeding at a slower pace. According to the joint forecast of the Ministry of Finance of Georgia and the International Monetary Fund, economic growth of 3.5 percent is expected in 2021, which will be ensured by the growth of domestic demand and fiscal stimulus measures considered in the budget.

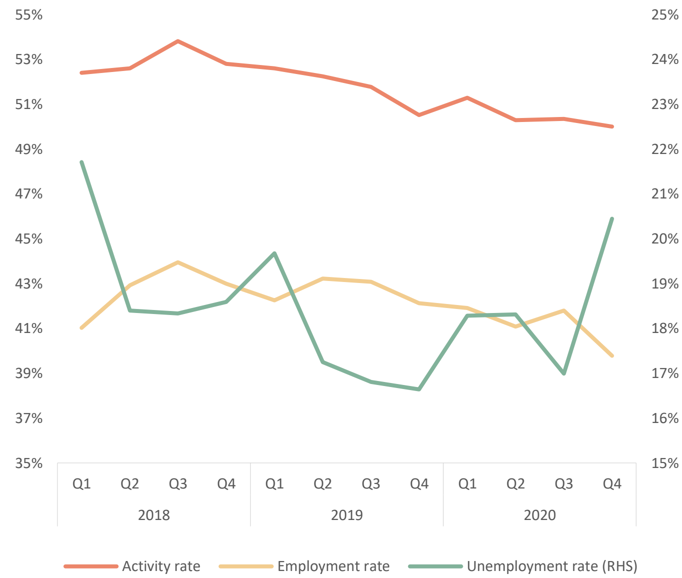
Employment and Unemployment

Unemployment stood at 20.4 percent in the fourth quarter of 2020, up 3.5 percentage points from the previous quarter. Among them, unemployment was 22.2 percent in urban areas (+ 5.6 percentage points per year) and 17.7 percent in rural areas (+1 percentage points per year). The highest unemployment rates are in the 15-24 and 25-34 age groups. In the fourth quarter of 2020, the economically active population accounted for 50 percent of the working age population (15 years and older). In the fourth quarter of 2020, the unemployment rate for the women group was 17.8 percent, while for the men group, the figure was 22.4 percent.

Due to the slowdown in economic growth caused by the COVID-19 epidemic, which stood at -6.8 percent in the fourth quarter of 2020, the number of employees decreased by 6.2 percent compared to the corresponding quarter of the previous year. The level of employment decreased by 2.3 percentage points compared to the corresponding period of the previous year. As a result, productivity (ratio of real output to number of employees) decreased by 0.7 percent annually. At the same time, the average nominal wage of employees decreased by 0.4 percent, which is 1314 GEL as of the fourth quarter of 2020.

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

Figure 7: Indicators of Labor Market



Source: Geostat

Figure 8: Productivity and Average Wage of employees (annual change, %)

Source: Geostat

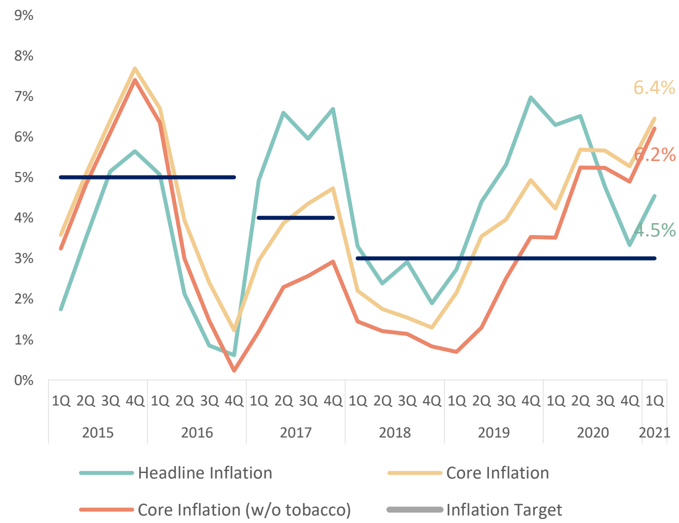
Price Level

During 2020, the dynamics of the inflation rate was under significant pressure from both supply and demand. Restrictions due to the spread of the COVID-19 virus complicate and slow down production, leading 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, pandemic-related social distancing measures and reduced economic activity are reducing both domestic and foreign demand, leading to lower inflation. Consequently, the final change depends on which factor influences will be dominant. Eventually, the effects of increased production costs and the depreciation of the lari exchange rate under the pandemic outweighed that, keeping annual inflation above the target. In the first quarter of 2021, annual inflation stood at 4.5 percent. The increase in annual inflation is significantly due to the significant increase in annual inflation in March (7.2 percent), which in turn increased due to the termination of the subsidy program for specific products. At the same time, since the beginning of the year, there has been a trend of rising prices in the international commodity markets, for some groups of oil products and food. Core inflation (excluding tobacco) was 6.2 percent in the first 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.

On March 17, the National Bank Committee decided to increase the refinancing rate by 0.5 pp, as a measure to decrease the pressure on inflation after the end of subsidies. According to the National Bank, inflation in 2021 will be in the range of 4-4.5 percent on average, and then will gradually approach the target.

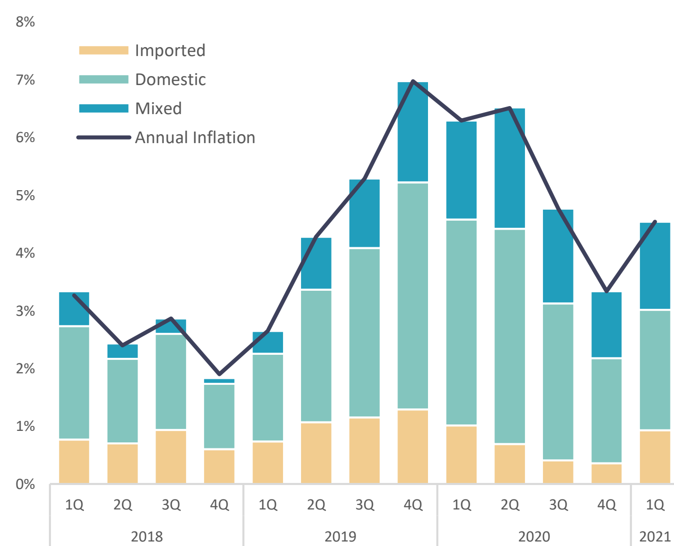
Despite the depreciation of the lari, local inflation exceeds imported inflation. In the first quarter of 2021, local inflation stood at 2.1 percent, while imported inflation stood at 0.9 percent. This dynamics is caused by the increase in food prices and the relatively high weight gain in the consumer basket relative to the grocery group.

Figure 9: Annual Inflation



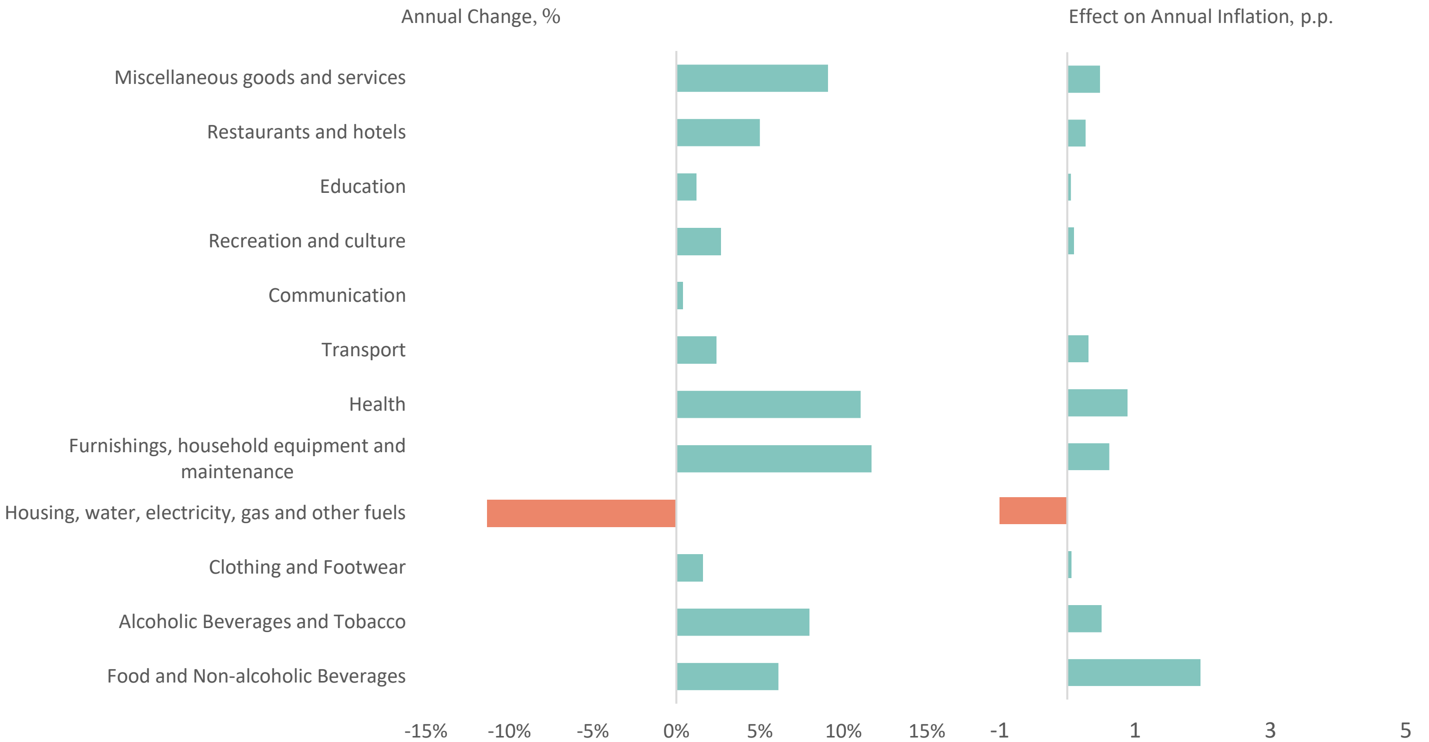
Source: NBG

Figure 10: Decomposition of Inflation



Source: NBG, Geostat

Figure 11: Decomposition of Inflation, 2021 Q1



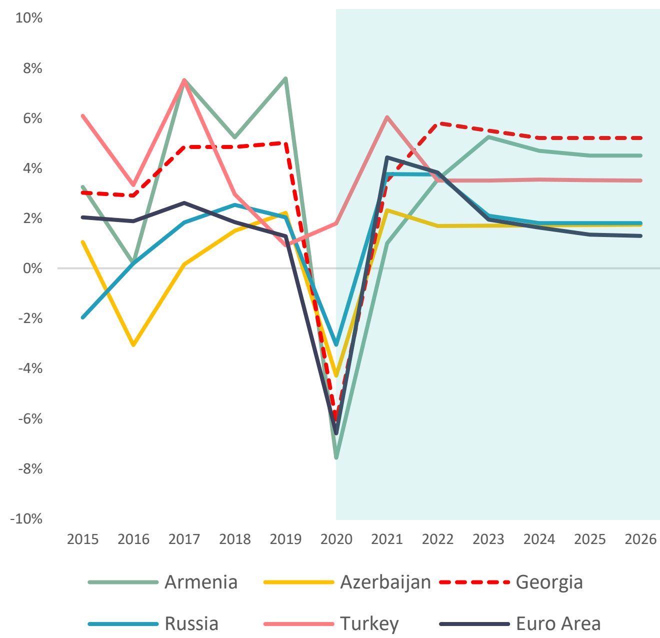
Source: Geostat

Economic Outlook of the Region

The COVID-19 pandemic recession has hampered economic activity in both developed and developing countries. According to the updated forecast by the International Monetary Fund in April 2021, global economic growth in 2020 was -3.3 percent, which is 1.1 percentage points higher than the forecast from October 2020. At the same time, according to the IMF, global economic growth is expected to accelerate in 2021, with a value of 6 percent, which is 0.9 percentage points higher than the October forecast. According to the updated forecast, economic growth for developed countries is -4.7 percent in 2020 and 5.1 percent in 2021. At the same time, the growth in growing and developing countries is expected to achieve -2.2 per cent in 2020 and 6.7 per cent in 2021. According to the IMF's April forecast, the economic growth of the Eurozone will be -6.6 percent in 2020 and 4.4 percent in 2021. This decrease is due to the closure of borders between countries due to the COVID-19 pandemic and restrictions imposed within countries, reduced investment and exports, which is due to reduced demand from trading partners. Production and retail sales of the industrial sector decreased significantly. According to the April forecast, the inflation rate will be 0.3 percent in 2020 and 1.4 percent in 2021.

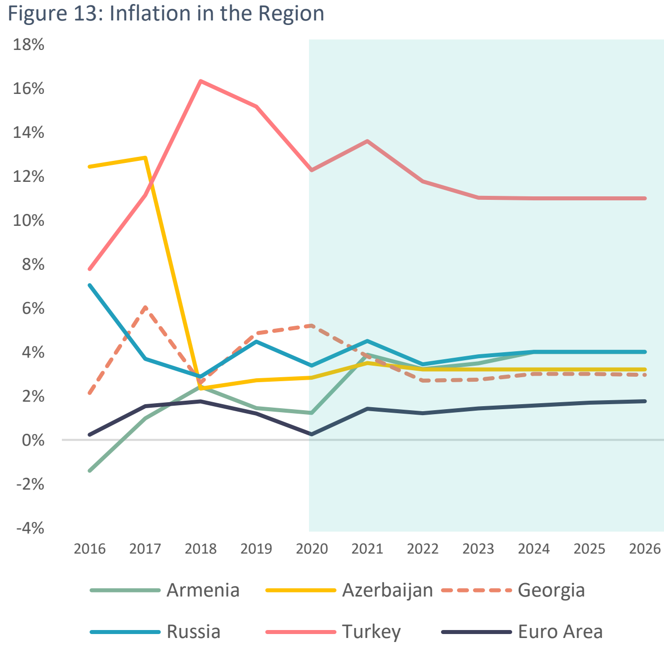
The decline in investment and the deteriorating trade balance remain significant challenges for Turkey recently. At the same time, the state of emergency and the global pandemic have put additional pressure on the Turkish economy. According to the IMF forecast, real economic growth in Turkey in 2020 is projected at 1.8 percent, while in 2021 it will reach 6 percent. The devaluation of the Turkish lira still has a significant impact on inflation. The IMF estimates that in 2020 and 2021, the expected inflation rate will be 12.3 and 13.6 percent, respectively. A significant decrease is observed in the ratio of the current account balance to GDP, compared to 2019, its value decreased by 6 percentage points and amounted to -5.1 percent in 2020, and in 2021 is expected to increase to -3.4 percent. 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

Figure 12: Economic Growth in the Region



Source: IMF

Figure 13: Inflation in the Region



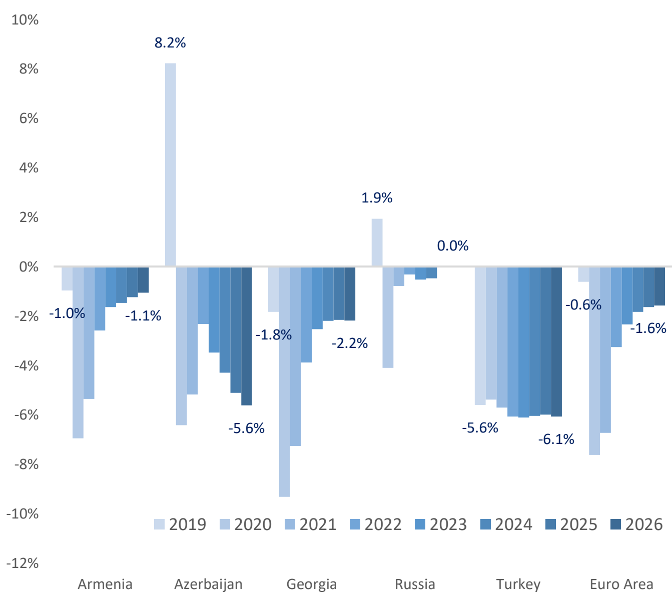
Source: IMF

Source: International Monetary Fund. World Economic Outlook: Managing Divergent Recoveries. Washington, DC, April 2021.
International Monetary Fund. World Economic Outlook Update: Policy Support and Vaccines Expected to Lift Activity. Washington, DC, January 2021

Figure 14: Current Account to GDP, %

Source: IMF

Figure 15: Budget Blance to GDP, %



Source: IMF

demand, significantly reduced exports. According to the IMF, economic growth in Russia in 2020 was set at -3.1 percent, and in 2021 is expected to achieve 3.8 percent. The consolidated budget will be significantly reduced, which according to the IMF will equal -4.1 percent of GDP in 2020, and equal to -0.8 percent in 2021. The ratio of the current account balance to GDP will decrease by 1.6 percentage points compared to 2019 and will reach 2.2 percent in 2020, while in 2021 its expected value is 3.9 percent.

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 -4.3 percent, and in 2021 - 2.3 percent. The ratio of the consolidated budget balance to GDP will be significantly reduced. Compared to 2019, its value has decreased by 14.6 percentage points and will reach -6.3 percent by 2020, while a deficit of 5.2 percentage points is expected by 2021. There is also a significant decrease in the ratio of the current account balance to GDP. According to the IMF estimates in 2020-2021, it will be -0.9 and 1.1 percent, respectively. Due to the severe epidemiological picture, reduced investment and exports, Armenia's economic growth was projected at -7.6 percent in 2020, and 1 percent growth is expected in 2021. Against the background of recently reduced exports and increased imports, the ratio of the current account balance to GDP according to the IMF April forecast is -4.6 percent, while in 2021 it is expected to be equal to -6.7 percent.

Source: International Monetary Fund. World Economic Outlook: Managing Divergent Recoveries. Washington, DC, April 2021.
International Monetary Fund. World Economic Outlook Update: Policy Support and Vaccines Expected to Lift Activity. Washington, DC, January 2021

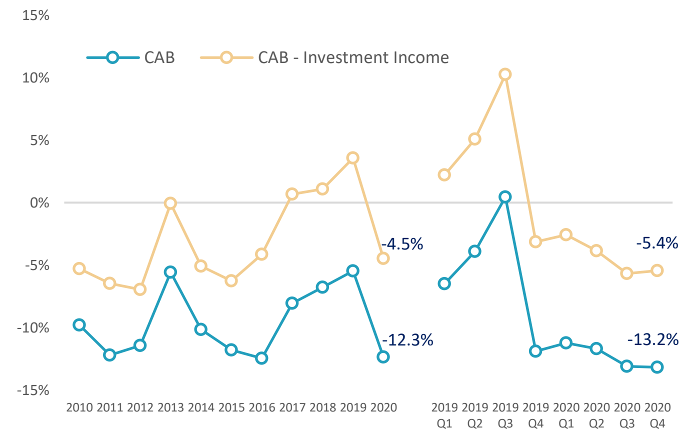
External Sector

Current Account Balance

The current account deficit was 12.3 percent in 2020, which is a significant deterioration after 5.5 percent in 2019. As for the quarters, the current account deficit was 11.2 and 11.7 percent of GDP in the first and second quarter of 2020, respectively. While it has increased to 13.1-13.2 percent to GDP during the second half. It should be noted that the deterioration of the current account is mainly due to the supply-demand imbalance caused by closing borders due to the Corona pandemic. Recently, the increasing demand for imported goods was supported by the growing supply of service exports, although the current circumstances have reduced the country's external tourism to almost zero. After 2008 (Q3 2008), there was the first case in the third quarter of 2020, when income from service outweighed the outcome and contributed negatively to the current account balance (1.2 p.p), which has maintained in the fourth quarter and negative share contributed 1.7 p.p.

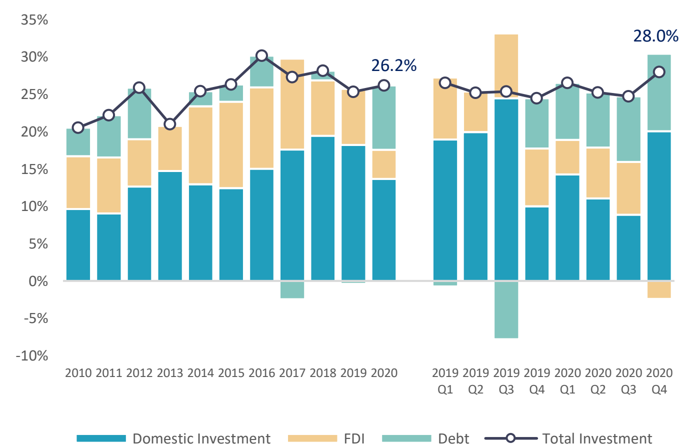
The current account deficit is financed by debt and foreign direct investment. Debt financing means borrowing new debt and, consequently, spending more on debt service. In this regard, it is important that the current account deficit is financed by increasing foreign direct investment. The structure of financing the current account deficit has been improving recently in Georgia. The deficit was entirely financed by foreign direct investment in 2017. There was a current account surplus of 0.4 percent in the third quarter of 2019. After that, foreign debt contributes quite a lot to finance the deficit. Especially noteworthy is 2020 when debt financing contributed a lot to the deficit financing. As for the fourth quarter of 2020, fewer foreign direct investment contributed negatively to the deficit financing, while the decline of these investments was due to transferring of ownership from a non-resident to the resident units in several companies.

Figure 16: Current Account to GDP, %



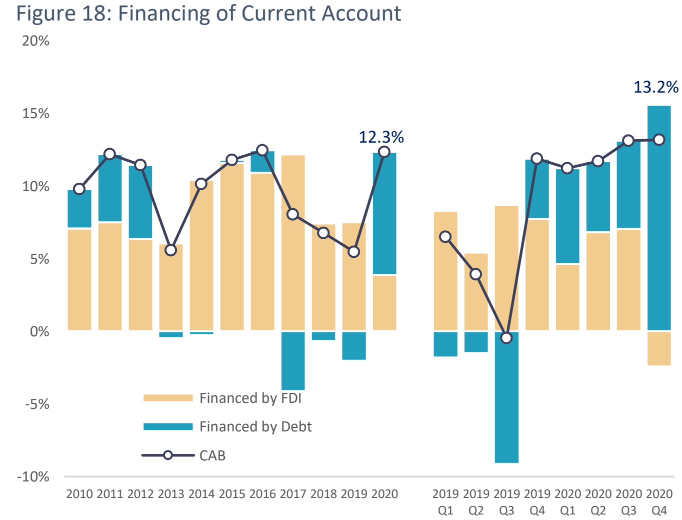
Source: NBG, Geostat

Figure 17: Financing of Investment



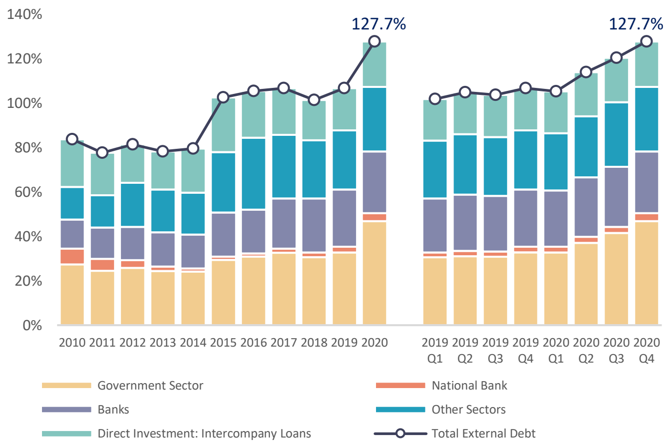
Source: NBG, Geostat

Figure 18: Financing of Current Account



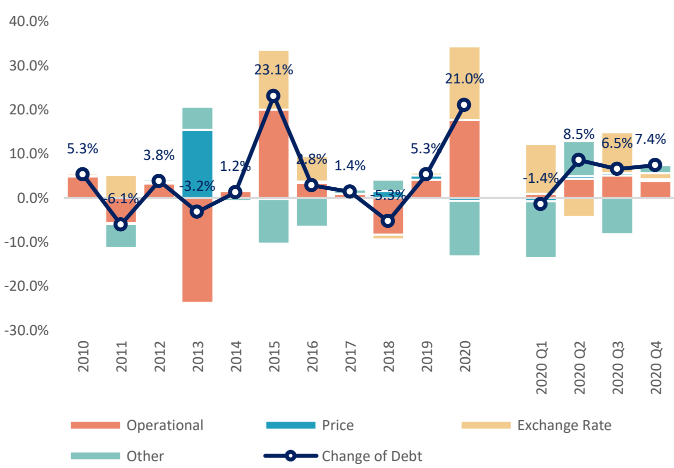
Source: NBG, Geostat

Figure 19: External Debt to GDP, %



Source: NBG, Geostat

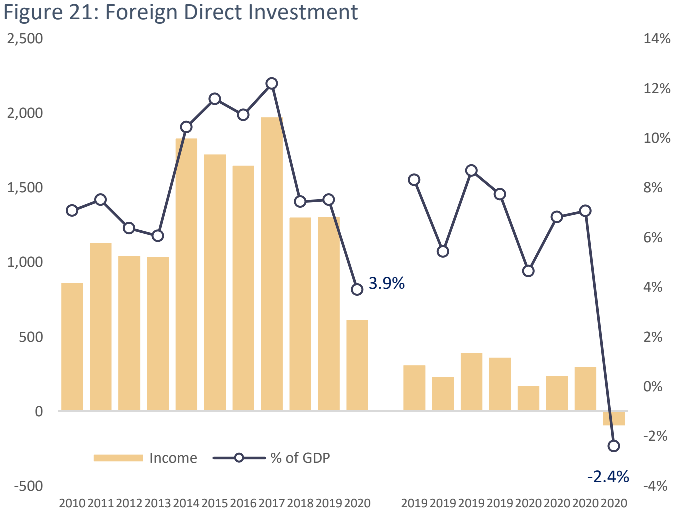
Figure 20: Change of Debt to GDP



Source: NBG, Geostat

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

Figure 21: 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.

The total external debt of Georgia increased during the current pandemic and amounted to 127.7 percent. Debt has increased by 21 p.p compared to the previous year, which is mainly due to the increase in government sector debt, due to the measures and attracted financing during the current pandemic.

The decomposition of the change in external debt is presented in terms of operating or borrowing, as well as in terms of price effect, exchange rate changes and changes in nominal GDP. It should be noted that the largest contribution to the growth of external debt in 2015-2016 was made by the depreciation of the exchange rate, while GDP mainly contributed to the reduction of external debt. As for 2020, the debt-to-GDP ratio has increased by 21.0 percentage points, and the main factors were operating change (+17.6 percentage points) and changes in the exchange rate (+16.7 percentage points). However, other factors contributed to the debt reduction, while the price effect was low. Should be noted that the exchange rate contribution to the growth of debt was significant during the third quarter of 2020.

Foreign Direct Investments

Foreign direct investment in Georgia amounted to 617 million US dollars, which is 52.9 percent less than in the previous year. The reduction is mainly due to transfering of ownership from a non-resident to the resident units in several companies (reduction by USD million 340.5). Hence, foreign direct investments were negative in the fourth quarter of 2020. foreign direct investments during 2020 were mainly mobilized from the United Kingdom (49.9 percent), Netherlands (27.9 percent), Turkey (17.5 percent), USA (15.1 percent) and Malta (4.5 percent). As for the sectors, 64.9 percent of FDI was allocated in the financial sector, 16.5 percent in the mining, 11.6 percent in the real estate, 11.0

percent in the manufacturing and 10.1 percent in the construction sector.

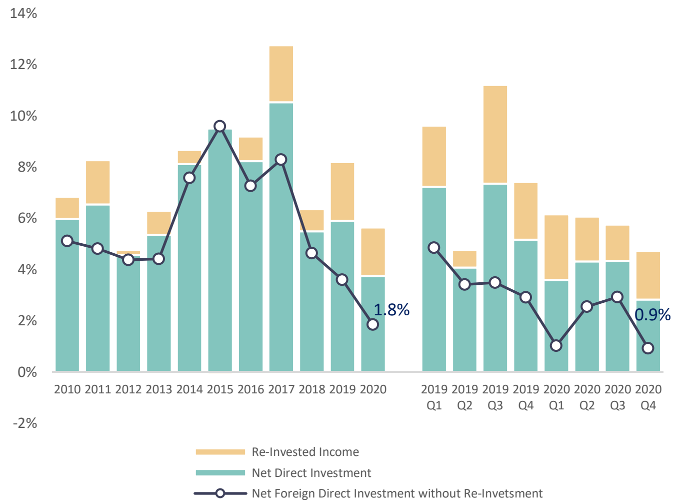
It should be noted that since 2016, there has been a relatively high level of reinvestment in total investment, which shows that the country's economic policy and improved business environment are positively perceived by investors and more investors continue doing business in Georgia. Regardless of the corona pandemic, there was a high level of reinvestment in 2020. In particular, its volume amounted to 301 million US dollars, which is 1.9 percent of GDP (reinvestment for 2019 was observed at 2.3 percent of GDP).

International Trade

In 2020, because of the 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 time. At the same time, the volume of imports also decreased due to reduced economic activity within the country. The annual growth of nominal exports was to -12.0 percent in 2020 and amounted to 3,342 million US dollars, while the growth of domestic exports amounted to 3.5 percent. As for the first quarter of 2021, nominal export has increased by 5.2 percent, while domestic export has increased by 13.6 percent, with real growth amounted to 11.8 percent. At the same time, annual growth in imports was negative 15.6 percent and amounted to 8,031 million US dollars, while for the first quarter of 2021 import decreased by 2.4 percent, with a real decline amounted to 6.4 percent.

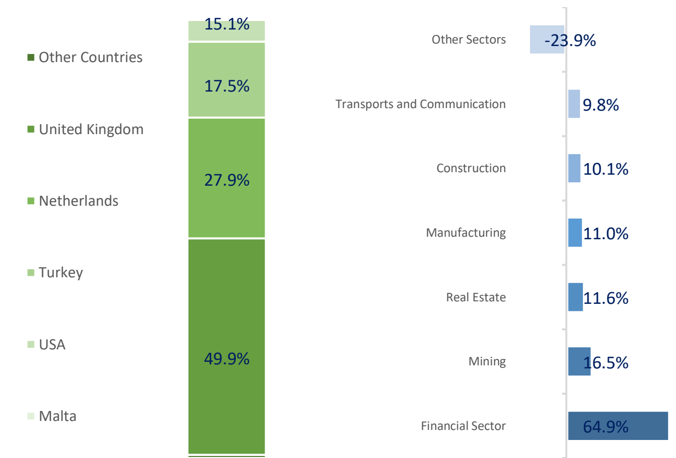
In the first quarter of 2021, imports of consumption decreased by 5.7 percent (-2.0 p.p), imports of intermediate goods – by 0.5 percent (-0.2 p.p), while imports of investment goods decreased by 0.7 percent (-0.2 p.p). During this period, the export of traditional goods increased by 7.8 percent, while raw materials increased by 9.7 percent. In the first quarter of 2021, copper ores and concentrates took first place in the top ten export products groups with 158.8 million USD (19.4 percent of total exports), in second place – cars with 86.6 million USD (10.5 percent of total export), and in third place – ferroalloys with 83.7 million US dollars (10.2 percent).

Figure 22: FDI



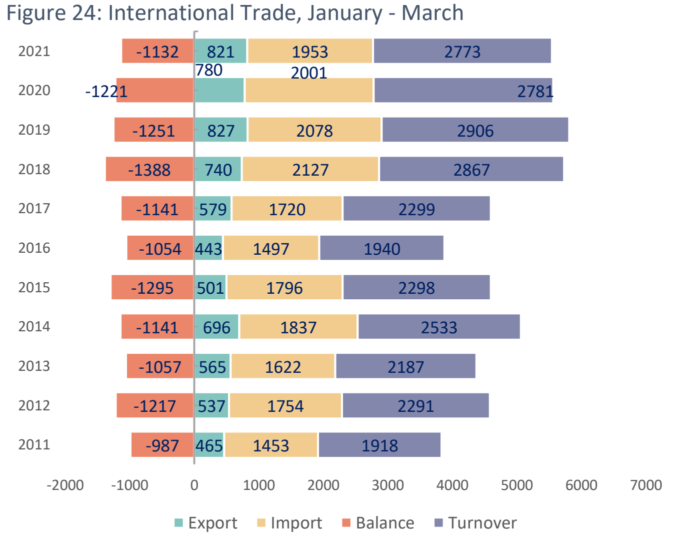
Source: NBG, Geostat

Figure 23: Composition of FDI, 2020



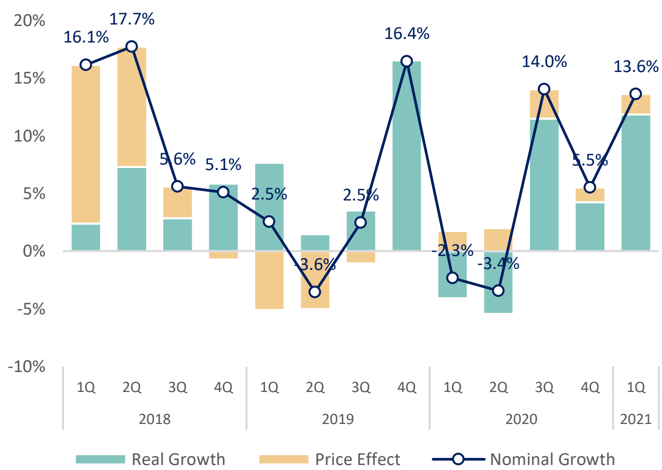
Source: Geostat

Figure 24: International Trade, January - March



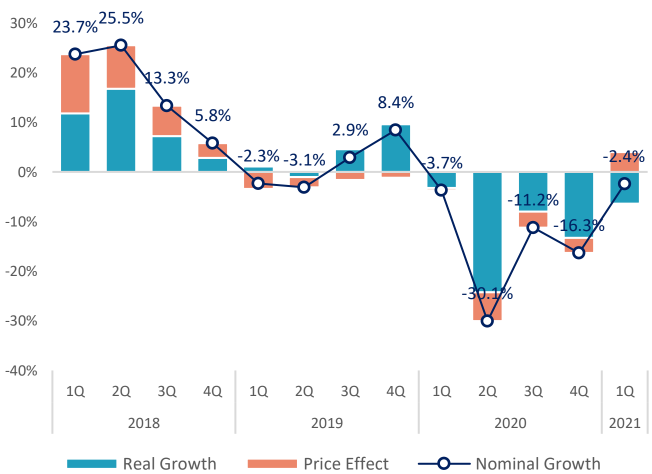
Source: Geostat

Figure 25: Annual Change of Domestic Export



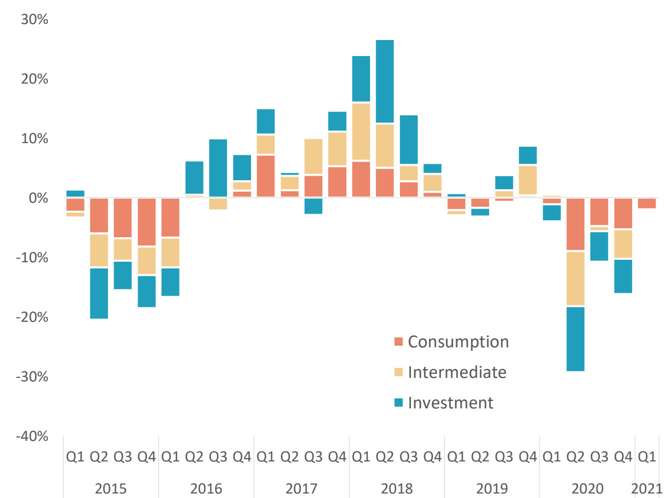
Source: Geostat

Figure 26: Annual Change of Import



Source: Geostat

Figure 27: Decomposition of Change of Import



Source: Geostat

The largest import products group was the car group with 168.5 million US dollars (8.6 percent of total imports), followed by copper ores and concentrates with 145.8 million US dollars (7.5 percent of total exports), and the third place – petroleum and petroleum oils with 141.9 million US dollars (7.3 percent).

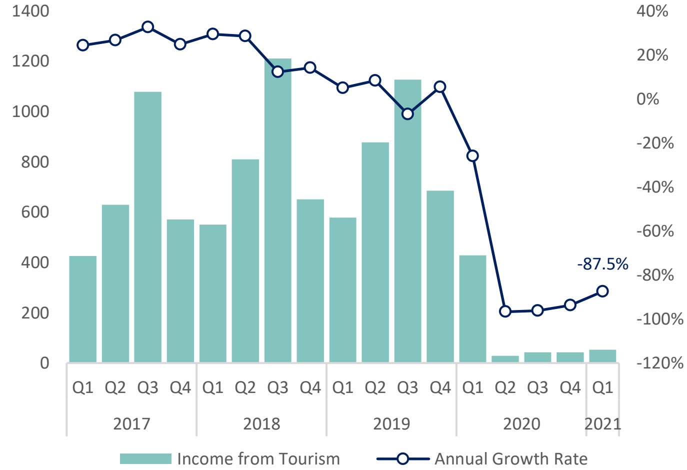
Tourism

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 from the second quarter of 2020. The declining trend has continued in the first quarter of 2021, when total visitors amounted to 138 thousand, while the same indicator in the same period of last year was 1,158 Thousand and decreased by 88 percent annually. Revenue from tourism decreased by 87.5 percent annually and amounted to USD 53.6 million. It is expected to continue the declining trend of revenue from tourism until the opening borders and resume of touristic travel.

Remittances

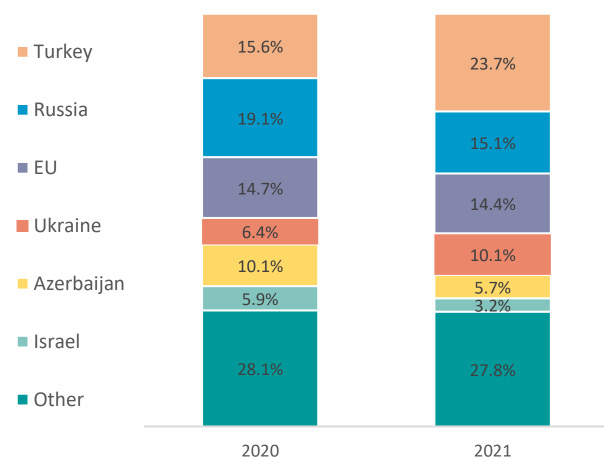
Net money transfers amounted to USD 1,639 million in 2020, which is 9.6 percent higher than in the previous year. The growth was mainly due to the higher remittances from Italy and Ukraine (7 p.p in total), while the share of Russia was negative, -4.4 p.p. as for the first quarter of 2021, net money transfers increased by 32.9 percent compared to the same period of last year, while there was a decline by 9.3 percent compared to the previous quarter. It should be noted that the growth of remittances during the first quarter, compared to the same period of the previous year, was mainly due to the higher remittances from European countries, the USA, Azerbaijan and Ukraine. As for Russia, after declining remittances recently, there was growth during the first quarter of 2021 and contributed positively, 0.5 percentage points in total growth, while reduction of remittances from Armenia contributed negatively (-0.8 p.p). The low level of money transfers during the first quarter of the previous year was partly due to the lower oil prices, which was an additional hit for the countries' economies that were significantly dependent on oil. Such a negative impact was noticeable on the Russian Ruble, and it was also reflected in the reduction of remittances from Russia.

Figure 28: Income from Tourism



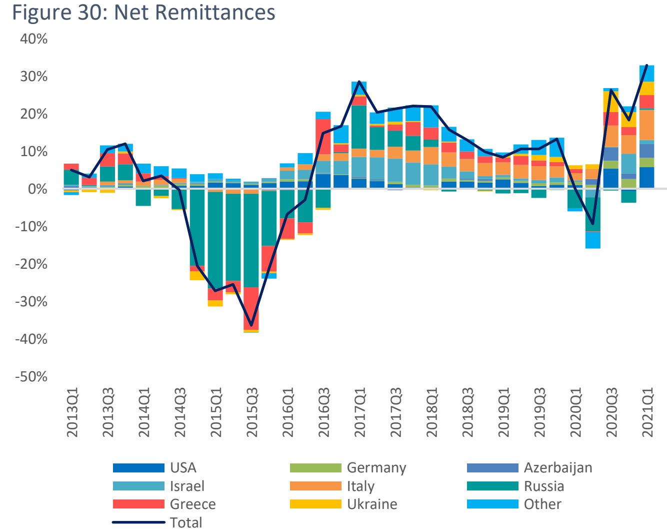
Source: NBG

Figure 29: Income from tourism, mln USD



Source: NBG

Figure 30: Net Remittances

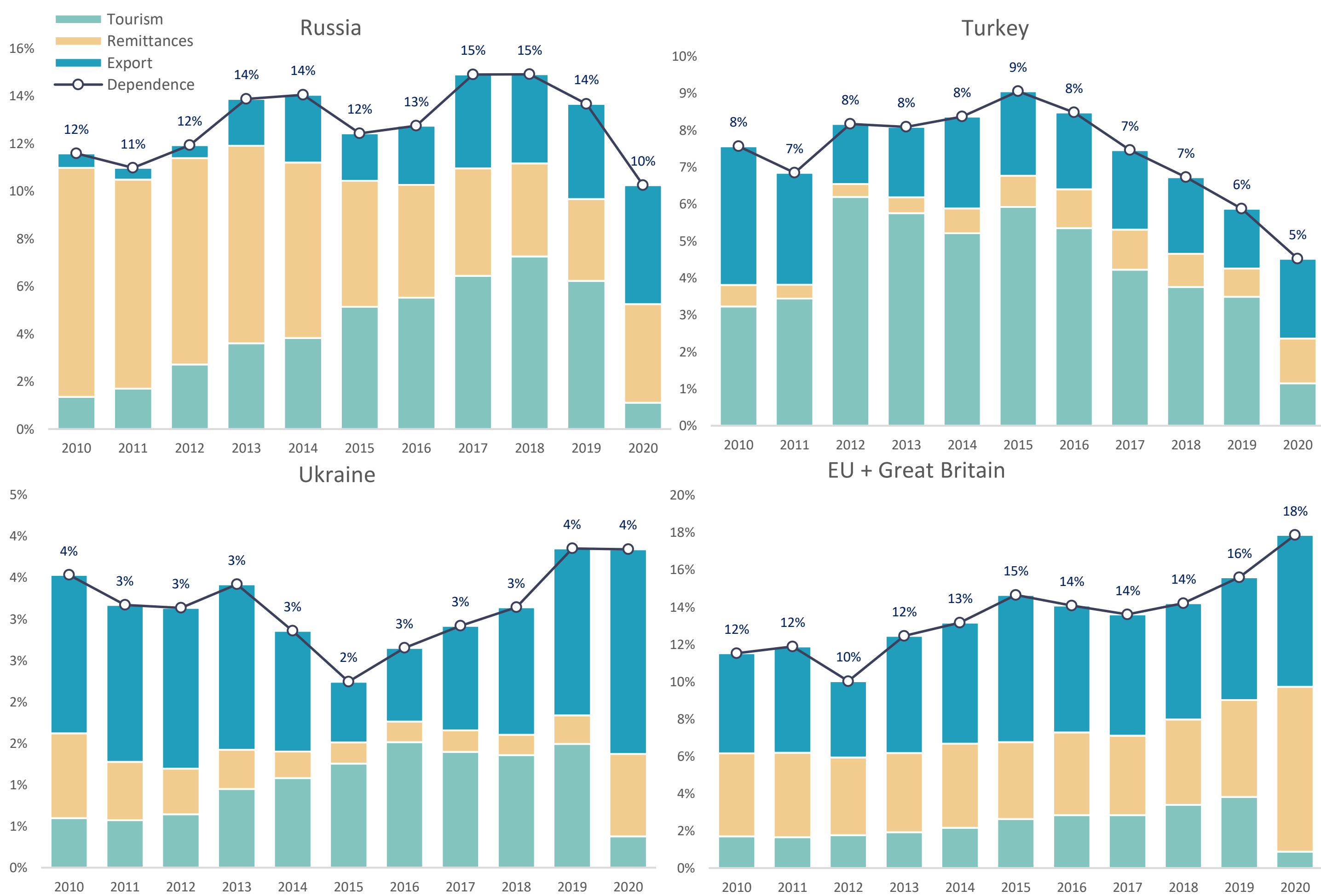


Source: NBG

Dependence on Other Countries

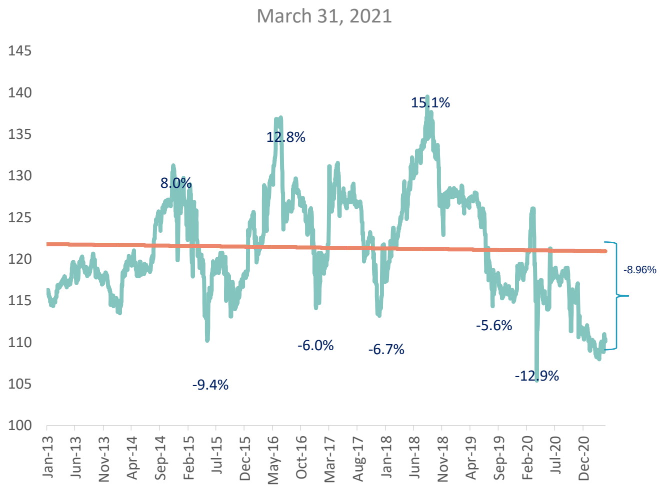
Georgian economy is diversified in terms of dependence on other countries. Based on the shares of exports, tourism, and transfers in the current account credits, it can be concluded that Georgia has a tight relationship with Russia, Turkey, Ukraine, and the European Union. Dependence on the EU has increased, according to the Balance of Payments of 2020, while dependence on Russia and Turkey has decreased significantly during the last years. Such decline might be explained by the sharp decline of revenue from tourism, which is due to the travel restrictions due to pandemic, and decline of remittances from Russia and Turkey due to the lower economic activity, driven by the change of oil price and exchange rate. 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. However, this loss was compensated by the growing number of international tourists from other countries. as for 2020, the share of tourism has decreased and is close to zero, while the share for remittances has increased. It should be noted that dependence on the EU has increased after the declining share of tourism, which was due to the increasing share of export and remittances. By 2020, the share of remittances has increased from 5 to 9 percent.

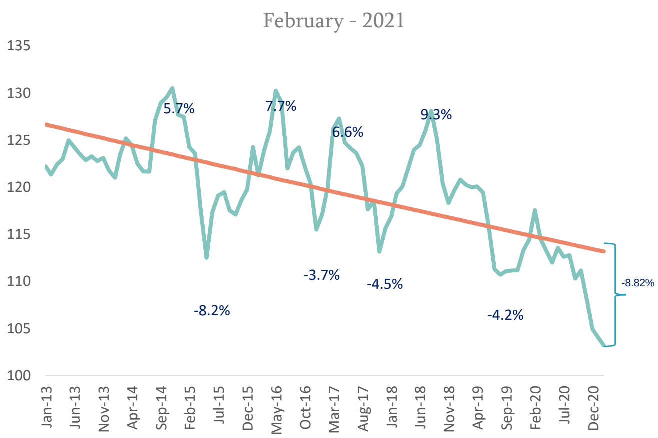
Figure 31: Dependence on Trading Partners



Source: NBG, Geostat

Figure 32: Nominal 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. Georgian Lari has appreciated relative to Turkish Lira.

During the first quarter of 2021, depreciation of Lari amounted to 11.7 percent compared to the same period of the previous year, while it depreciated by 1.3 percent compared to the previous quarter. Georgian Lari exchange rate has depreciated by 4.0 percent against US dollar and appreciated by 0.5 perrcent against the Euro relative to January 1, 2020. Lari has appreciated against Turkish Lira by 8.2 percent, while it is depreciated against the Russian Ruble by 2.3 percent. The nominal effective exchange rate index has depreciated, and it has deviated from its medium-term trend by -9 percent. As for the exchange rate corrected by the

Table 1: Change of Nominal and Real Effective Exchange Rates

	March 31, 2021	Mar 31, 2021 - Jan 1, 2021	Mar 31, 2021 - Jan 1, 2020
Euro	4.0044	▼ -19.7%	▼ -23.6%
US Dollar	3.4118	▼ -16.0%	▼ -21.7%
Turkish Lira	0.4064	▲ 18.5%	▲ 24.4%
Russian Ruble	0.0449	▲ 2.6%	▼ -14.5%
NEER	109.82	▼ -0.7%	▼ -7.9%
REER (February 2021)	103.18	▼ -1.7%	▼ -8.9%

Source: NBG

prices, the real effective exchange rate was deviated by -8.8 percent in March.

Fiscal Sector

Budget Revenue Performance

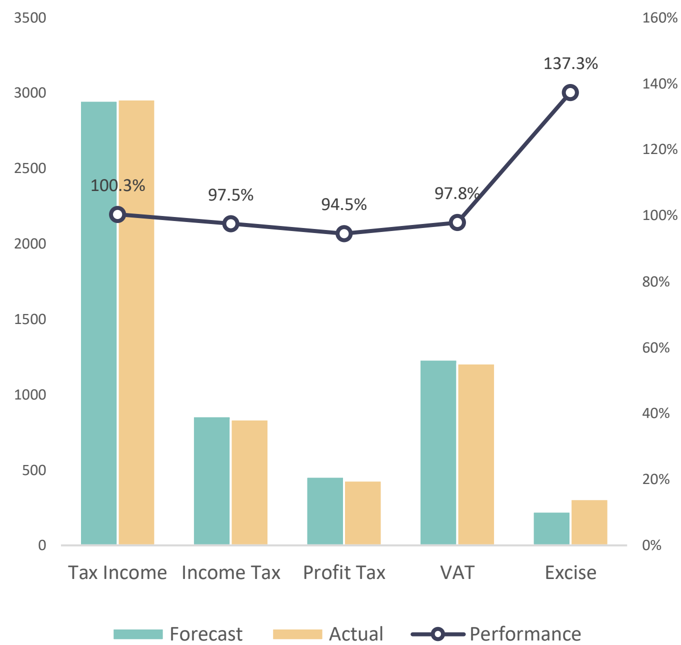
The consolidated budget tax revenue forecast for the first quarter of 2021 was set at 2,947.8 mln GEL, while 2,957.1 mln GEL was mobilized during the reporting period, which is 100.3 percent of the forecast.

- 834.5 million GEL is mobilized as income tax, which is 97.5 percent of the forecast figure (856 million GEL).
- 430 million GEL is mobilized as profit tax, which is 94.5 percent of the forecast indicator (455 million GEL).
- 1,205.4 million GEL was mobilized as VAT, which is 97.8 percent of the forecast (GEL 1,232 million).
- 306.7 million GEL is mobilized as excise, which is 137.3 percent of the forecast indicator (223.4 million GEL).
- 17 million GEL is mobilized in the form of import tax, which is 83.1 percent of the forecast (20.5 million GEL).
- 11.7 million GEL is mobilized in the form of property tax, 151.8 million GEL is mobilized from other taxes.

In the first quarter of 2021, compared to the same period last year, consolidated budget revenues increased by 4.5 percent and expenditures increased by 11.7 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to -18.2 million GEL, while the total balance was set at -588.3 million GEL.

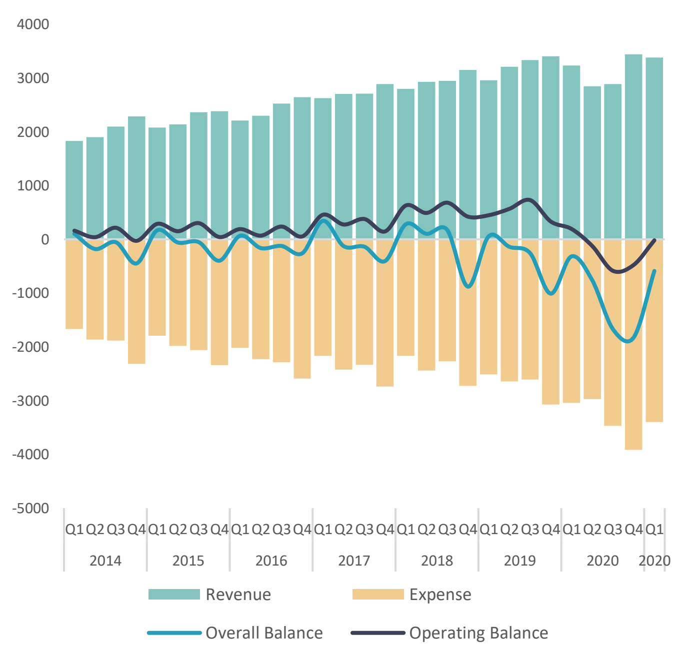
A significant share of budget revenues is accounted for by tax revenues, accounting for 87.5 percent in the first quarter of 2021. The consolidated budget received GEL 2,957 million in taxes, which is 0.9 percent less than the previous year. Revenue from income tax decreased by 15.5 percent year on year to GEL 834.5 million. High growth is observed in the form of revenue from excise tax, which increased annually by 36.5 percent compared to the previous year and amounted to 306.6 million. At the same time, it should be noted that the largest share of tax revenues is occupied by VAT revenues, which in the first quarter of 2021 accounted for 40.8 percent, while the annual growth rate was -0.9 percent. Revenue from profit tax also fell by 2.7 percent to GEL 430

Figure 34: Budget Revenue Performance



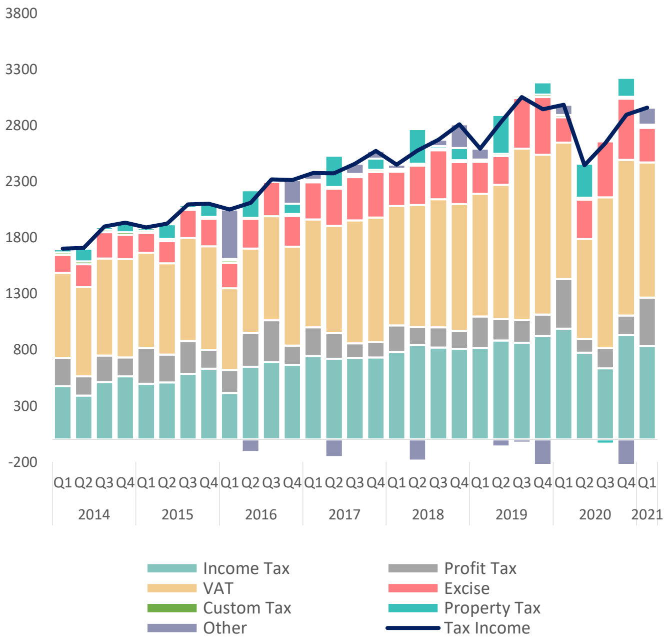
Source: MOF

Figure 35: Budget Balance



Source: MOF

Figure 36: Tax Income

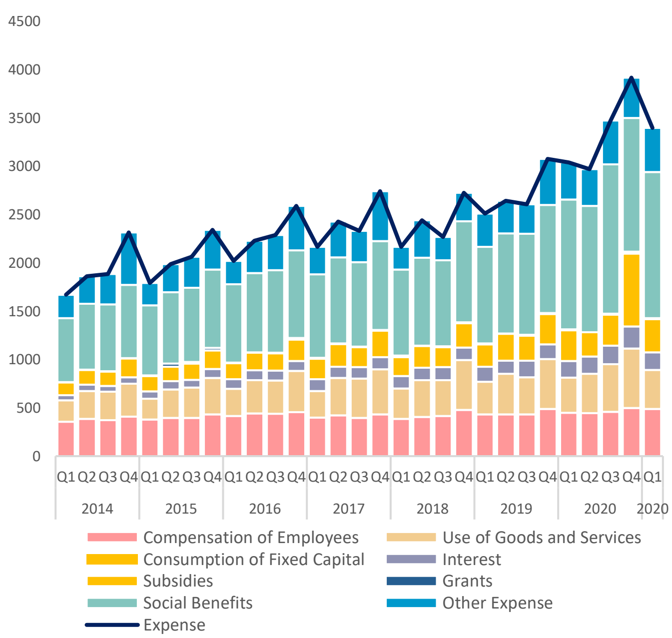


Source: MOF

million. There was a decrease in import tax revenue, which accounted for 0.6 percent of tax revenue and decreased by 16.3 percent annually.

Expenditures in the first quarter of 2021 increased by 11.7 percent year on year to GEL 3,396.4 million. The largest share of budget expenditures is in social security expenditures, which account for 44.5 percent of total expenditures, while the annual growth rate is equal to 12.8 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 7.9 percent to GEL 345.3 million, accounting for 10.2 percent of total expenditures. As for other items of expenditure, wages (14.4 percent of total costs), goods and services (11.9 percent of total costs), interest (5.4 percent of total costs) and other costs (13.4 percent of total costs) increased by 9.2 percent, 10.1 percent, 7 percent and 18 percent compared to the corresponding period of 2020, respectively,.

Figure 37: Budget Expenses



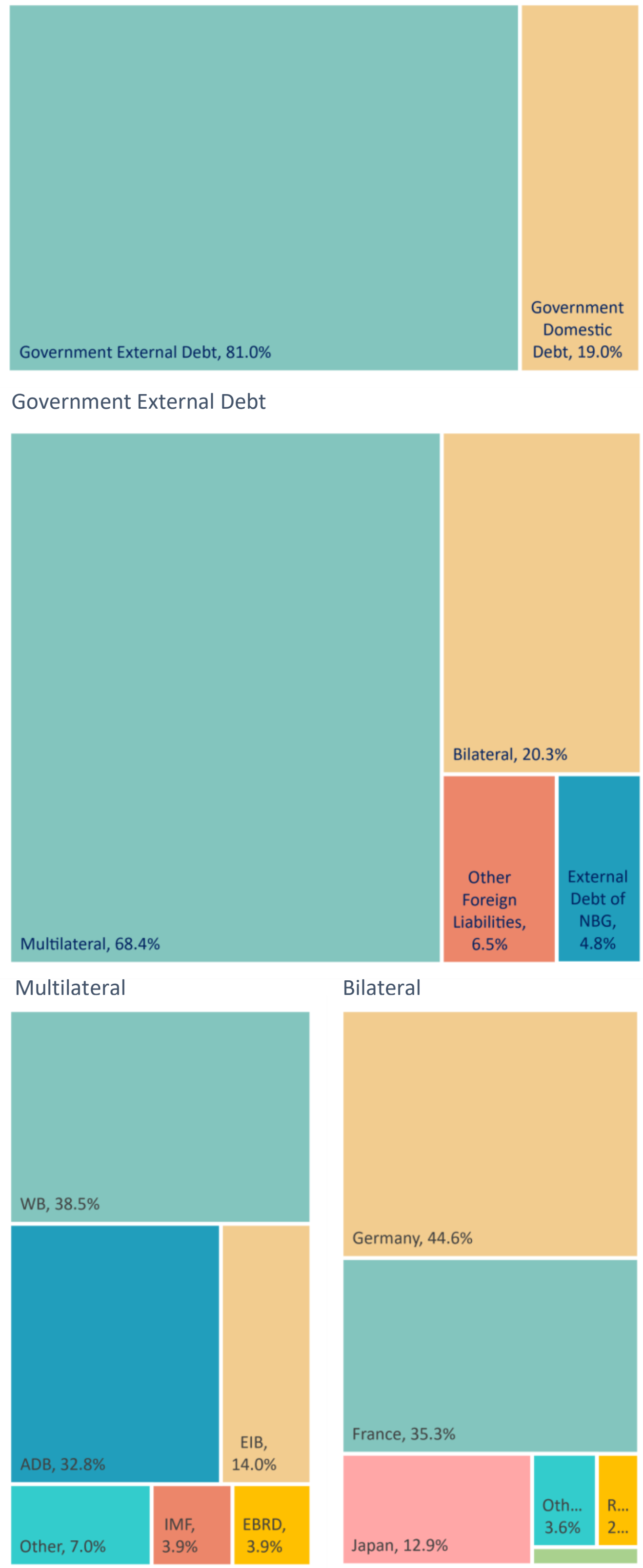
Source: MOF

Governmen Debt

As of March 31, 2020, the stock of public debt of Georgia amounted to GEL 32,526.9 million, including:

- Government domestic debt stock is GEL 6,186.1 million, including:
  - Annual Renewable Government Bond for the National Bank ("Bond for the NBG") - GEL 200.8 million;
  - Government bonds with different maturities for open market operations ("Bonds for open market") - 152.0 million GEL;
  - Treasury liabilities of the Ministry of Finance - GEL 723.4 million;
  - Treasury bonds of the Ministry of Finance - GEL 5,069.1 million;
- Government external debt stock is 26,340.8 million GEL.

Figure 38: Government Debt



Source: MOF

Monetary Sector

Private Sector Larization

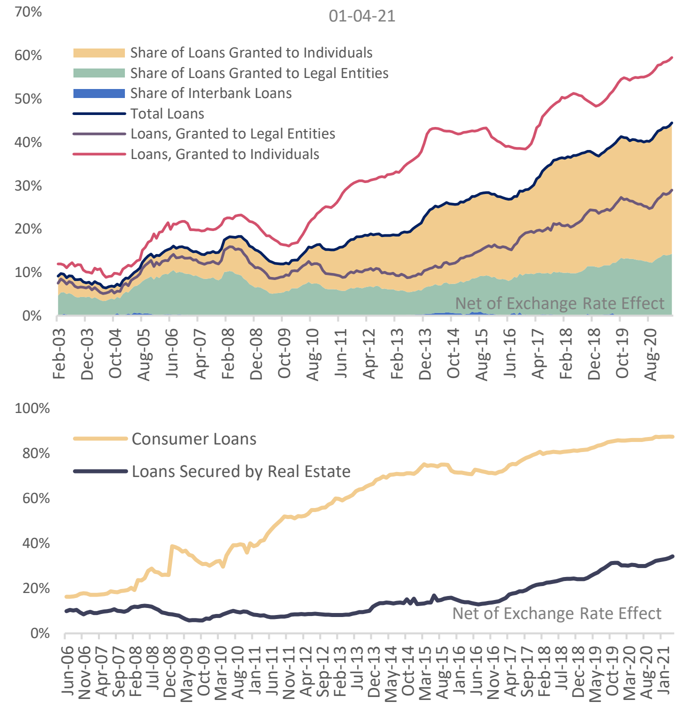
The larization of loans has increasing trend and by 1 of April 2021 it reached 44.4 percent. It should be noted that the main determinant of total loan larization is the larization of loans granted to individuals. By 1 of April 2021, the larization of loans of individuals was 59.5 percent, in the same period the larization of loans granted to legal entities amounted 28.9 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 April 2021, the larization of consumer loans was 87.3 percent, while the larization of mortgage loans was 34.2 percent.

We also observe increasing trend of deposit larization but it still remains singnificantly lower than larizarion of loans. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. As of 1 of April 2021, the total larization of total deposits was 36.1 percent, the larization of deposits of legal entities in the same period was 50.3 percent, and the larization of deposits of individuals – 23.3 percent.

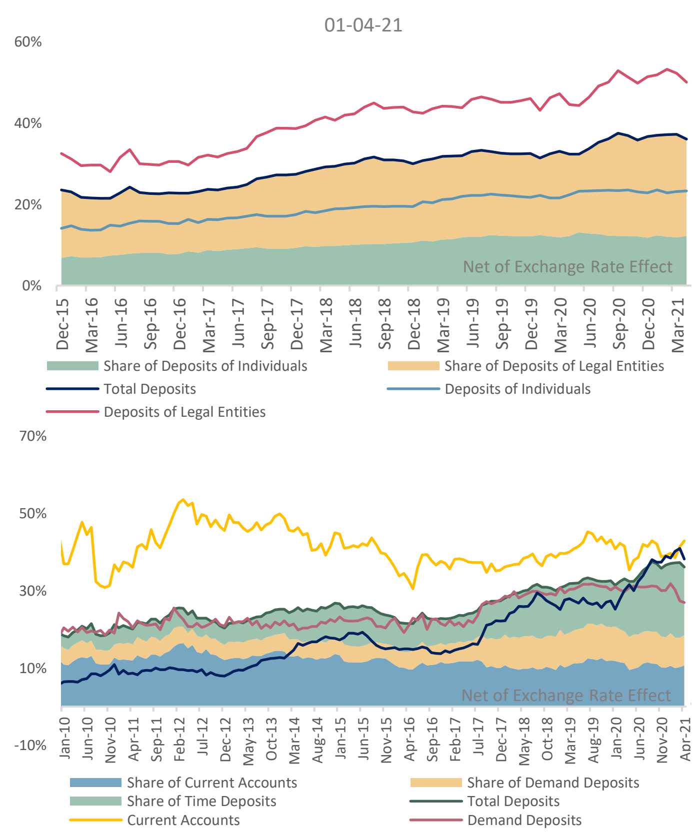
It should be noted that the singificant increase was observed in the trend of time deposits larization (excluding exchange rate effects), by the 1 April 2021 it reached 38.1 percent, making time deposits main contributor in the larization of the deposits. We observe little decrease in the larization of current accounts for 1 April 2021 it amounted 42.9 percent. At the same time, the larization of deposits before demand was 32.7 percent.

Figure 39: Loan Larization



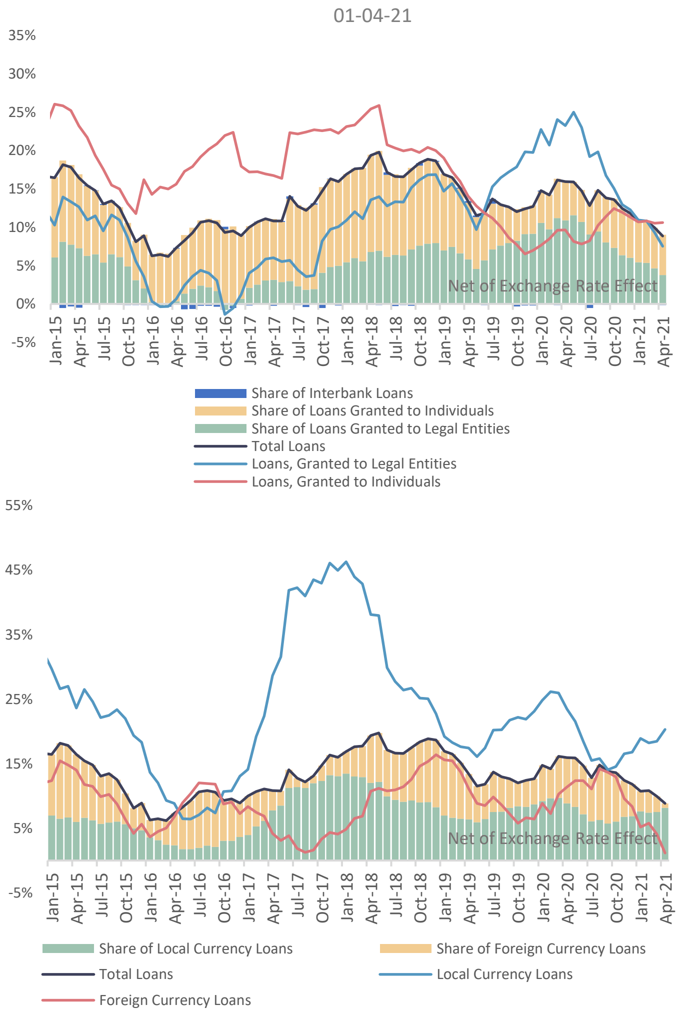
Source: NBG

Figure 40: Deposit Larization



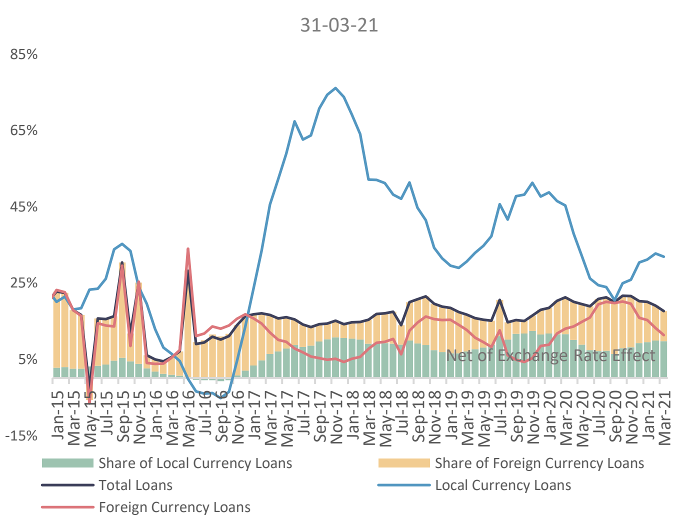
Source: NBG

Figure 41: Annual Growth of Loans



Source: NBG

Figure 42: Annual Growth of Loans secured by Real Estate



Source: NBG

Review of Loans

Declining trend was observed in the annual growth of the credit portfolio (net of exchange rate effect) and as of 1 April 2021 overall loans compared to corresponding period of 2020 increased by 8.9 percent. Significant decrease was observed also in the annual growth of loans granted to legal entities and by the 1 of January it amounted 7.5 percent, during the same period loans to individuals increased by 10.6 percent. Due to above mentioned changes latest dynamic, that loans granted to legal entities was main driver of total loans growth, changed and by the first quarter of 2021 mainly loans granted to individuals contribute to the total loans growth.

It is important to note that there is increasing trend in the growth of loans denominated in local currency and as of 1 of April 2021 compared to corresponding period of 2020 it amounted 20.3 percent. During the same period sharp decrease was observed in the growth dynamic of loans in foreign currency, compared to previous quarter it decreased by 4 percentage points (net of exchange rate effect) and at the beginning of 2021 amounted 1.2 percent. This dynamic has positive effect on loans larization, which helps to decrease vulnerability coming from exchange rate fluctuation.

By 31 of March 2021, mortgage loans had increased by 17.5 percent compared to corresponding period of previous year. Moreover mortgage loans that are denominated in national currency increased by 31.8 percent, while foreign currency denominated mortgage loans increased by 11.3 percent.

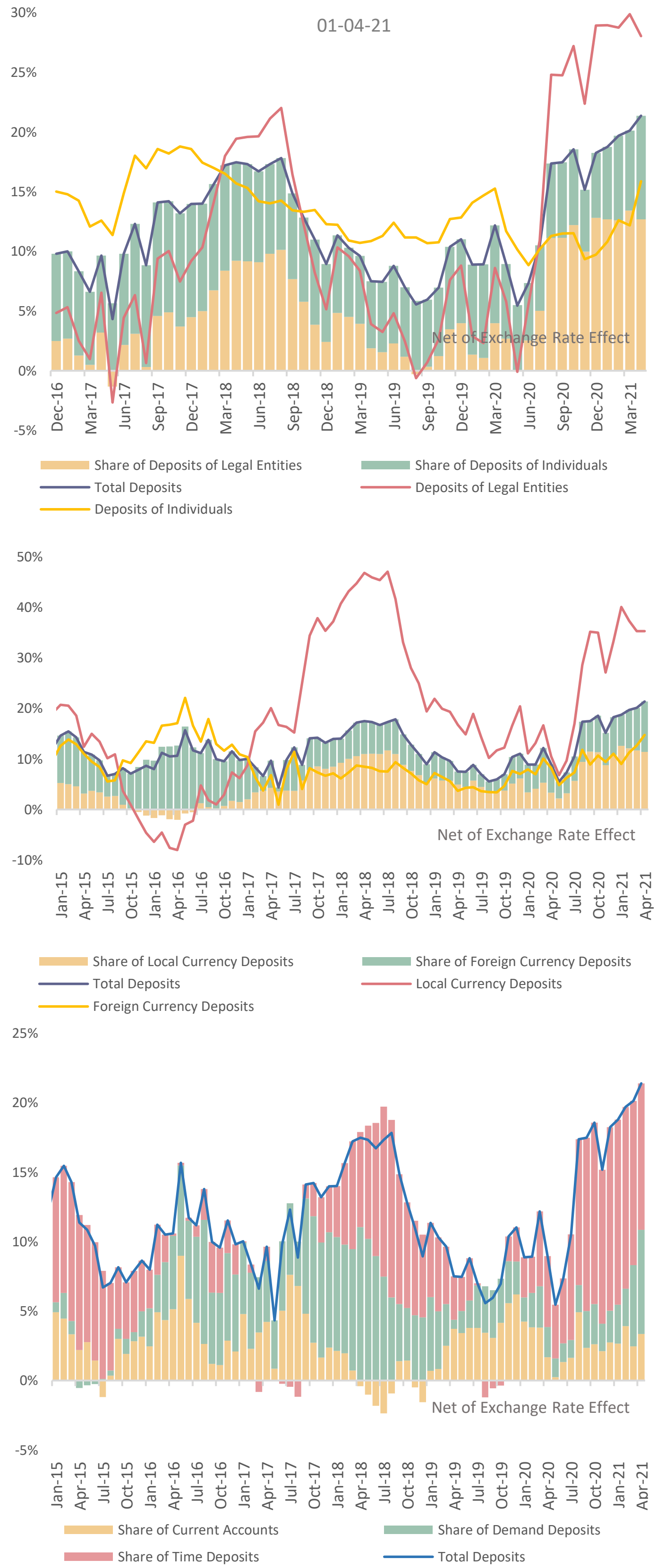
Review of Deposits

The growth of total deposits on the 1 of April 2021 was 21.4 percent compared to the corresponding period of 2020. After significant increase in the annual growth of deposits denominated in national currency, during the last quarter decline of growth rate was observed, causing growth rate to decline by 4.8 percentage points compared to previous quarter and reaching 35.3 percent by the 1 of was observed 2021, while the annual growth of deposits denominated in foreign currency increased after relatively stable pass and amounted 14.7 percent in the same period.

We observe significant increase in the annual growth of deposits of individuals and by the 1 of April 2021 it reached 15.9 percent, which is 5.5 percentage points higher than last quarter. In the same period the annual growth of deposits of legal entities amounted 28 percent.

As for the growth of deposits by types, the annual growth of current accounts decreased significantly during the last period and amounted 12.5 percent on April 1, 2021. The slowdown in current account growth was offset by significant increases in the growth of demand deposits, as of April 1, the annual growth of demand deposits was 27 percent and significantly contributed to the growth of total deposits. The annual growth in time deposits during the same period was 23.1 percent.

Figure 43: Annual Growth of Deposits

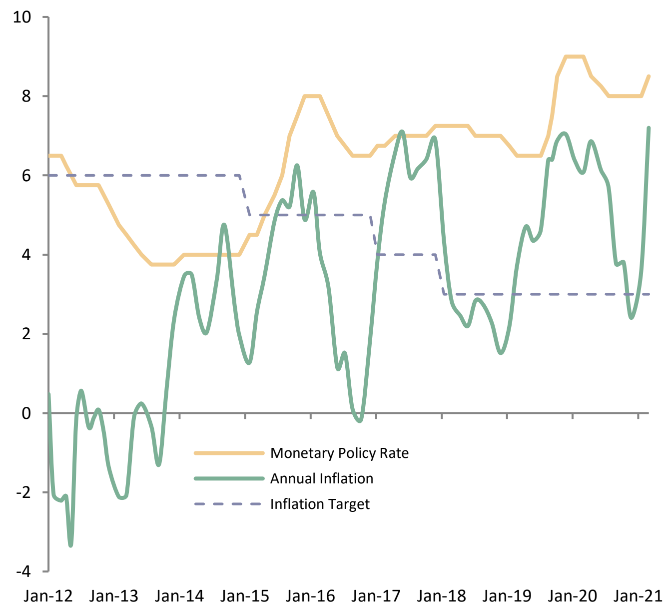


Source: NBG

Monetary Policy Rate

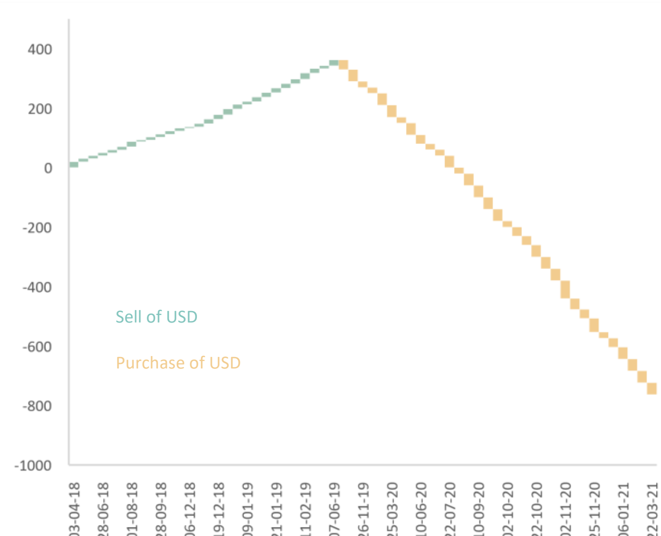
The Monetary Policy Committee of the National Bank of Georgia held two sessions in the first quarter of 2021. At the meeting on February 3, the Monetary Policy Committee decided to leave the refinancing rate unchanged at 8 percent level, while on March 17, the refinancing rate was increased by 50 basis points and the monetary policy rate was set at 8.50 percent. According to the NBG, there is the upward pressure on inflation coming from increasing trend of prices in international commodity markets and the increase in average expenditures on products due to the reduction in output caused by the pandemic. At the same time, long-term maintenance of the depreciated level of the GEL exchange rate puts additional pressure on price increases. In addition, uncertainty remains high regarding the dynamics of external demand recovery. According to the current forecast of the National Bank of Georgia, with other things held constant, inflation in 2021 will be in the range of 4-4.5 percent on average and then gradually approach the target. In the first quarter of 2021, the National Bank sold 160 million USD.

Figure 44: Inflation and Monetary Policy Rate



Source: NBG

Figure 45: Trade of USD by NBG, mln



Source: NBG

Interest Rates

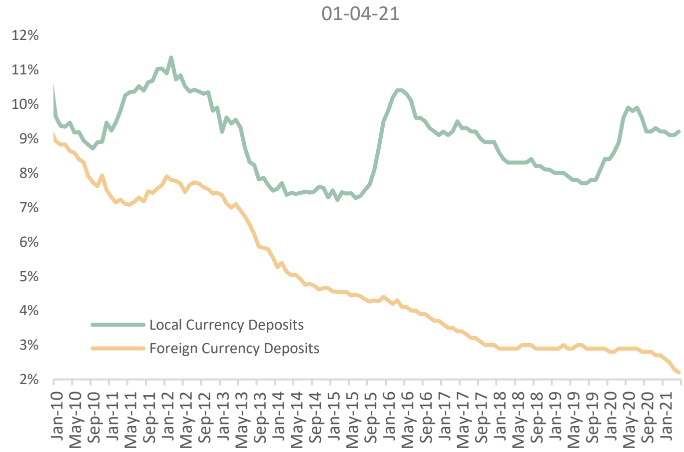
As of April 2021, the interest rate on foreign currency deposits was 2.2 percent, while on the national currency deposits it amounted 9.2 percent.

As of 1 of April 2021, the weighted average interest rate on deposits of legal entities in national currency was 9.2 percent, and in foreign currency – 1.7 percent. In the same period the average annual interest rate on deposits of individuals was 2.4 percent on deposits in foreign currency and 9 percent in national currency.

By 1 of April 2021, the weighted average annual interest rate on short-term consumer loans was 18.2 percent (23.5 percent in national currency and 6.4 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 April 1, 2021 was 17.3 percent. The interest rate on loans denominated in the national currency is 18.6 percent and the interest rate on loans denominated in foreign currency is 7.8 percent.

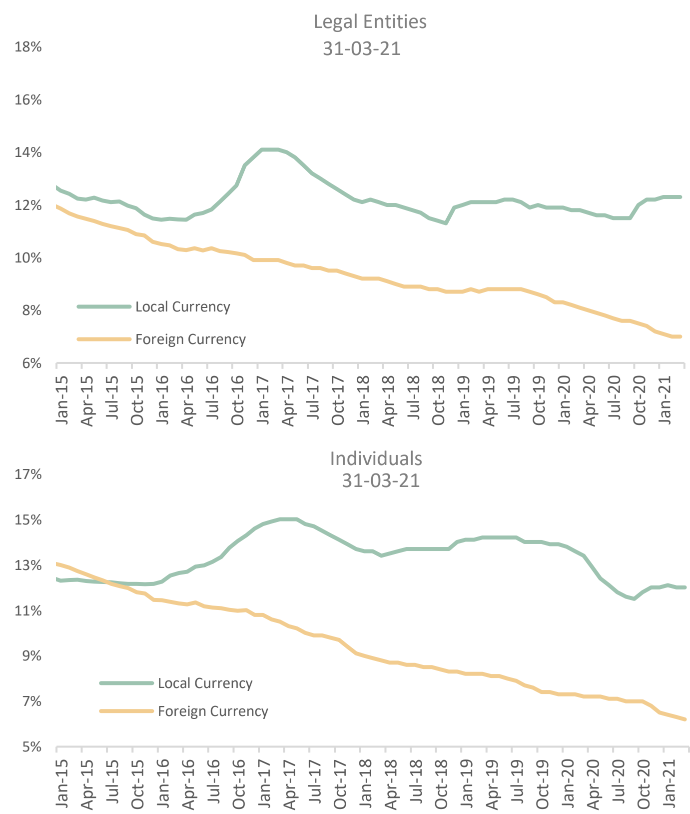
At the end of March 2021, the interest rate on mortgage loans issued to legal entities was 12.6 percent, and in foreign currency – 7 percent. The interest rate on loans to individuals in national currency was 11.9 percent, and in foreign currency it was 6.3 percent.

Figure 46: Interest rates on Deposits (stock)



Source: NBG

Figure 47: Interest rates on Loans secured by Real Estate



Source: NBG

Disclaimer

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