

Ministry of Finance of Georgia



Quarterly Economic Outlook

I Quarter, 2024

Brief Summary

- Economic growth for 2023, according to preliminary data, equals to 7.5 percent
- Average economic growth for the first quarter of 2024 equals to 7.8 percent
- Annual inflation in the first quarter equals to 0.3 percent, while core inflation (w/o tobacco) equals to 2.0
- Domestic export decreased by 21.0 percent annually
- Import decreased by 5.3 percent annually
- Revenues from tourism increased compared to the first quarter of 2023 as well as the 2019 level
- The refinancing rate is set at 8.25 percent

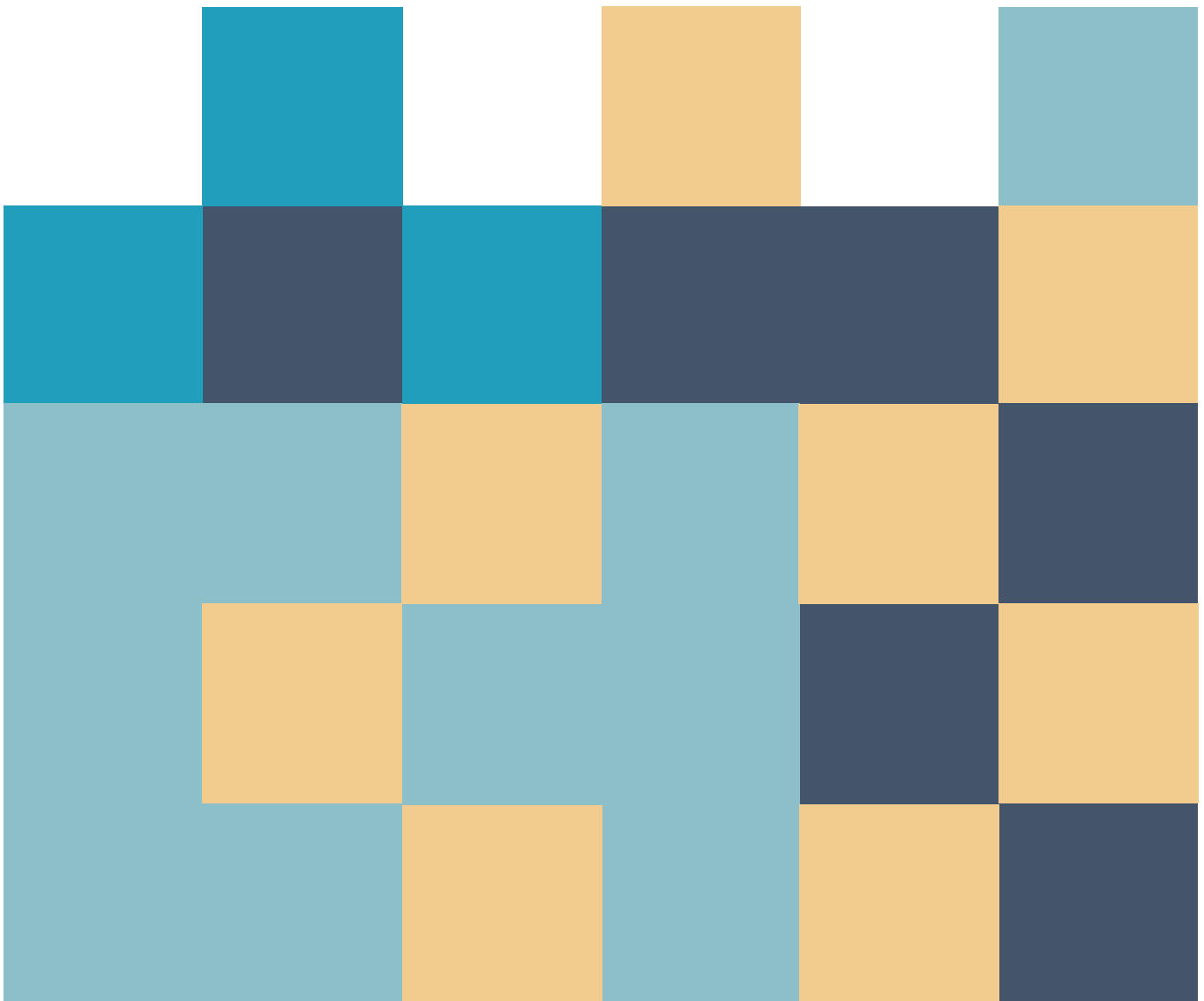




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Real Sector

Economic Growth

According to the preliminary data, in the first quarter of 2024 real GDP increased by 7.8 percent relative to same period of the previous year. At the same time, compared to the corresponding period of 2019, economic growth was 30.8 percent. In particular, in the first quarter, exports decreased annually by 9.3 percent, while imports decreased annually by 5.3 percent. At the same time, compared to the first quarter of 2019, exports increased by 60.2 percent and imports increased by 62.3 percent. Considering tourism, compared to the pre-pandemic situation, revenue from international travelers increased by 1.5 percent year-on-year in the first quarter, and also, there was a 38.4 percent decrease compared to the same period in the previous year in the net remittances.

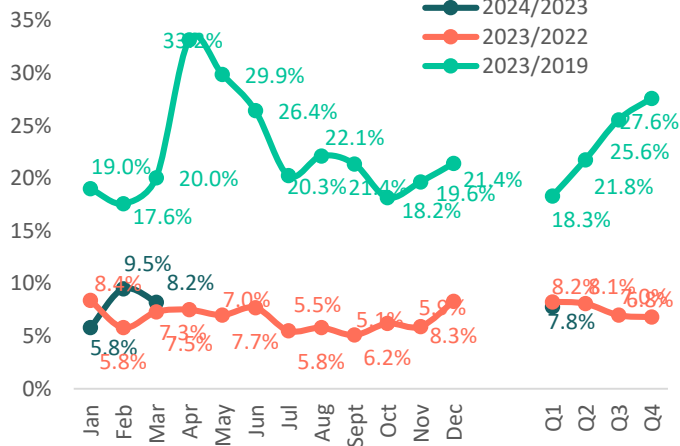
In the first quarter of 2023, real GDP grew by 8.2 percent annually. In the second and third quarters of 2023, 8.1 and 7.0 percent increases were recorded, respectively.

As for the fourth quarter of 2023, an increase of 6.9 percent was recorded, which means an increase of 30.2 percent compared to the corresponding period of 2019.

In the fourth quarter of 2023, the consumption component made a significant contribution to the overall growth in real terms and contributed to the increase by 6.3 pp., the export component also made a significant contribution, which contributed by 3.0 p.p. Investments had an impact of 1.6 p.p. At the same time, the contribution of the import component in the real terms decreased and it was negative 4.0 pp.

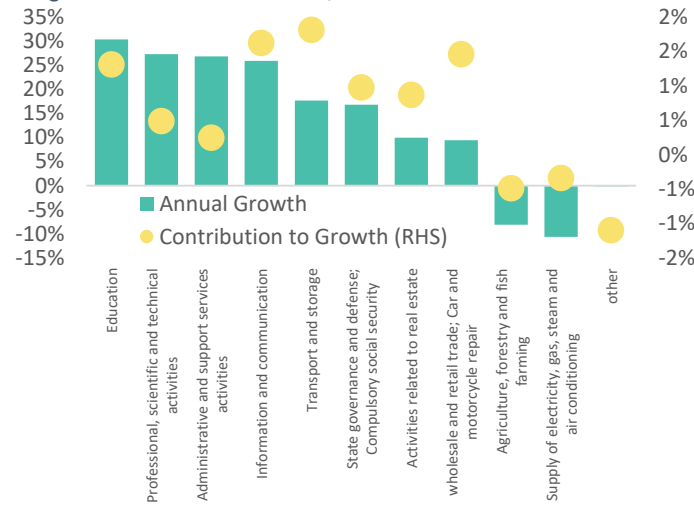
In the fourth quarter of 2023 the following sectors made a significant contribution to growth: Education: 30.4% y/y (1.3 p.p.),

Figure 1: Economic Growth



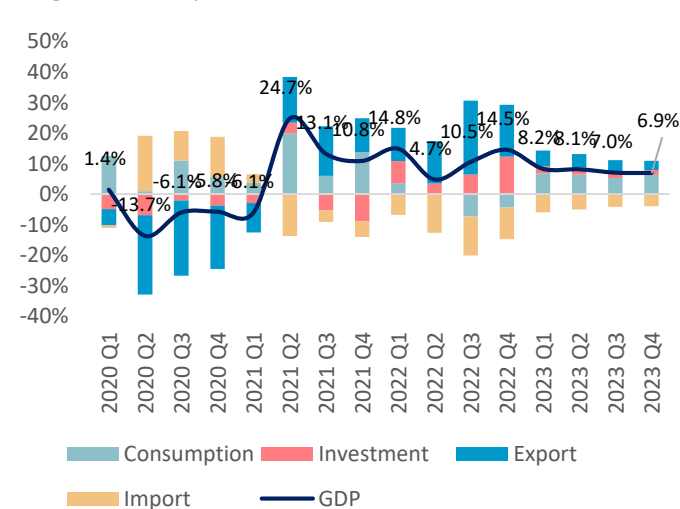
Source: Geostat

Figure 2: Real Sectoral Growth, 2023 4Q



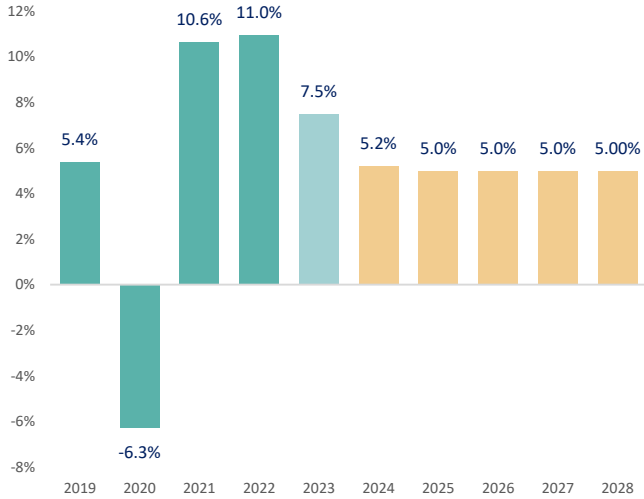
Source: Geostat

Figure 3: Decomposition of Economic Growth



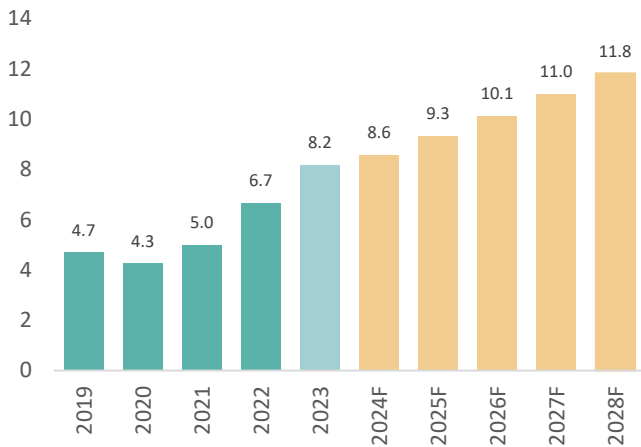
Source: Geostat

Figure 4: Economic Growth Projection



Source: MOF

Figure 5: GDP per capita, ths USD



Source: MOF

Professional, scientific and technical activities: 27.3% (0.5 p.p.), Administrative and support service activities: 26.9% (0.2 p.p.), Information and Communication: 25.9% (1.6 p.p.), Transport and warehousing: 17.7% (1.8 p.p.), Public administration and defense; Compulsory social security: 16.8% (1.0 p.p.), Activities related to real estate: 9.9% (0.9 p.p.), Wholesale and retail trade; Repair of automobiles and motorcycles: 9.4% (1.5 p.p.);

Growth in 2024 will partly depend on the current situation within the region and its impact on the Georgian economy. According to the forecast of the Ministry of Finance of Georgia, economic growth is expected to be 5.2 percent in 2024, which will be ensured by the growth of domestic demand and fiscal stimulus measures provided in the budget. The economic growth for 2025-2027 will see an average growth of 5.0 percent.

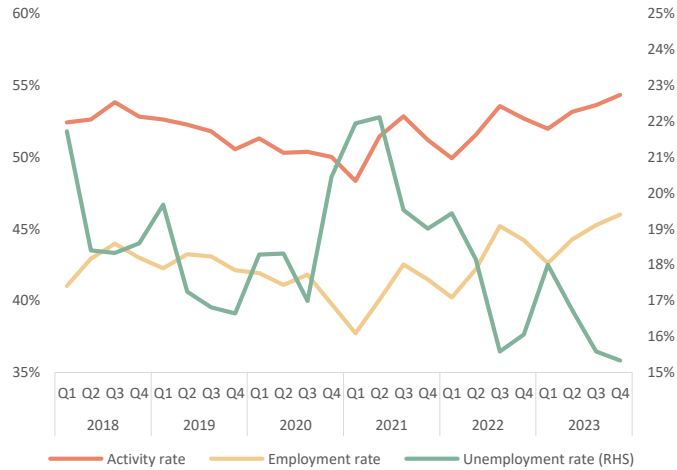
Employment and Unemployment

In the fourth quarter of 2023, the unemployment rate was 15.3 percent, which is 0.3 p.p. higher than the value of the previous quarter and 0.8 p.p. lower compared to the corresponding period of the previous year. Among them, unemployment in urban areas was 16.2 percent (0.2 p.p. y/y), and in rural areas – 14.0 percent (-1.5 p.p. y/y). In the fourth quarter of 2023, the economically active population made up 54.3 percent of the working-age population (population aged 15 and older). In the fourth quarter of 2023, the unemployment rate for women was 13.5 percent, and for men, it was 16.8 percent.

In the fourth quarter of 2023, compared to the corresponding period of the previous year, the number of employees increased by 5.2 percent, and the employment level decreased by 21.0 percentage points. In the same period, the number of unemployed decreased by 0.4 percent annually. At the same time, the average nominal salary of employees increased by 15.3 percent, which amounts to 2044.5 GEL as of the fourth quarter of 2023.

In the fourth quarter of 2023, there was an 1.6 percent increase in productivity compared to the corresponding period of the previous year. Productivity is calculated as the growth rate of the ratio of real GDP to the number of employees.

Figure 6: Indicators of Labor Market



Source: Geostat

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



Source: Geostat

Price Level

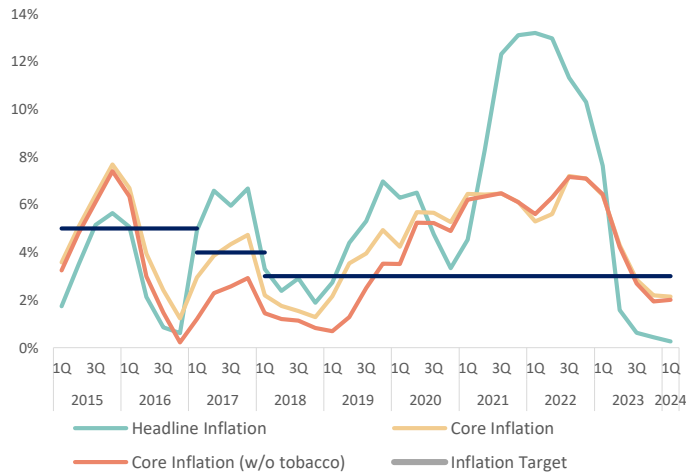
After double-digit inflation was recorded at 11.9% in 2022 and peaked at 13.3% in May, it began to decline and this trend continues in current period as well. Due to the high base effect on the one hand, and the tightened monetary policy on the other hand, the inflation level decreased in 2023 and the same trend continues in 2024.. This was influenced by the decrease in the commodity prices on global market, as well as the prices of food products and oil. The downward impact on annual inflation also depends on the appreciation of the exchange rate, which reduces the impact of imported goods and food prices on the inflation rate.

According to the latest forecast of the International Monetary Fund (April, 2024), world inflation will decrease to 5.9 percent in 2024 from 6.8 percent in 2023, and it is also expected to decrease to 4.5 percent in 2025. with advanced economies returning to their inflation targets sooner than emerging market and developing economies. The International Monetary Fund cites that Inflation could fall faster than expected amid further gains in labor force participation, allowing central banks to bring easing plans forward.

Taking into account the above-mentioned factors, 2.5 percent inflation was recorded in 2023 which is below the target of 3%. In the first quarter of 2024, the average inflation was 0.3 percent, which is also lower than the target inflation. The source of low inflation is the declining inflation of domestically produced products due to tight monetary policy and reduced inflationary expectations. Core inflation equaled 2.1 percent in the first quarter and Core inflation (excluding tobacco) was 2.0 percent.

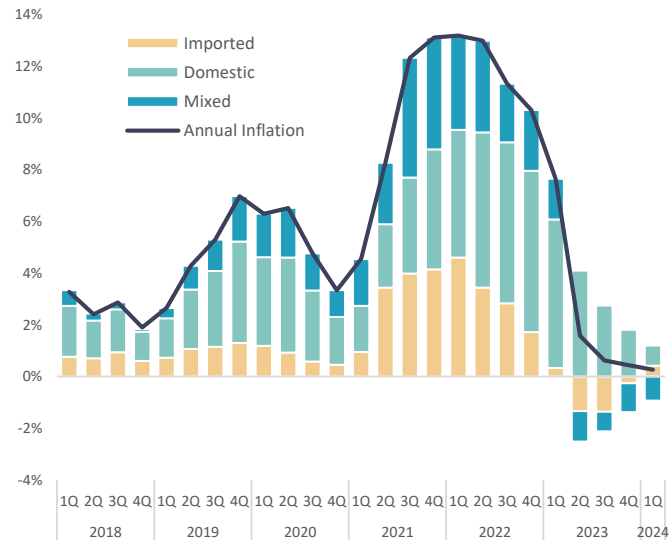
On March 13, 2024, the Monetary Policy Committee of the National Bank made a decision on gradual exit from the tightened monetary policy and reduced the monetary policy rate from 9 percent level to 8.25 percent. Because

Figure 8: Annual Inflation



Source: NBG

Figure 9: Decomposition of Inflation

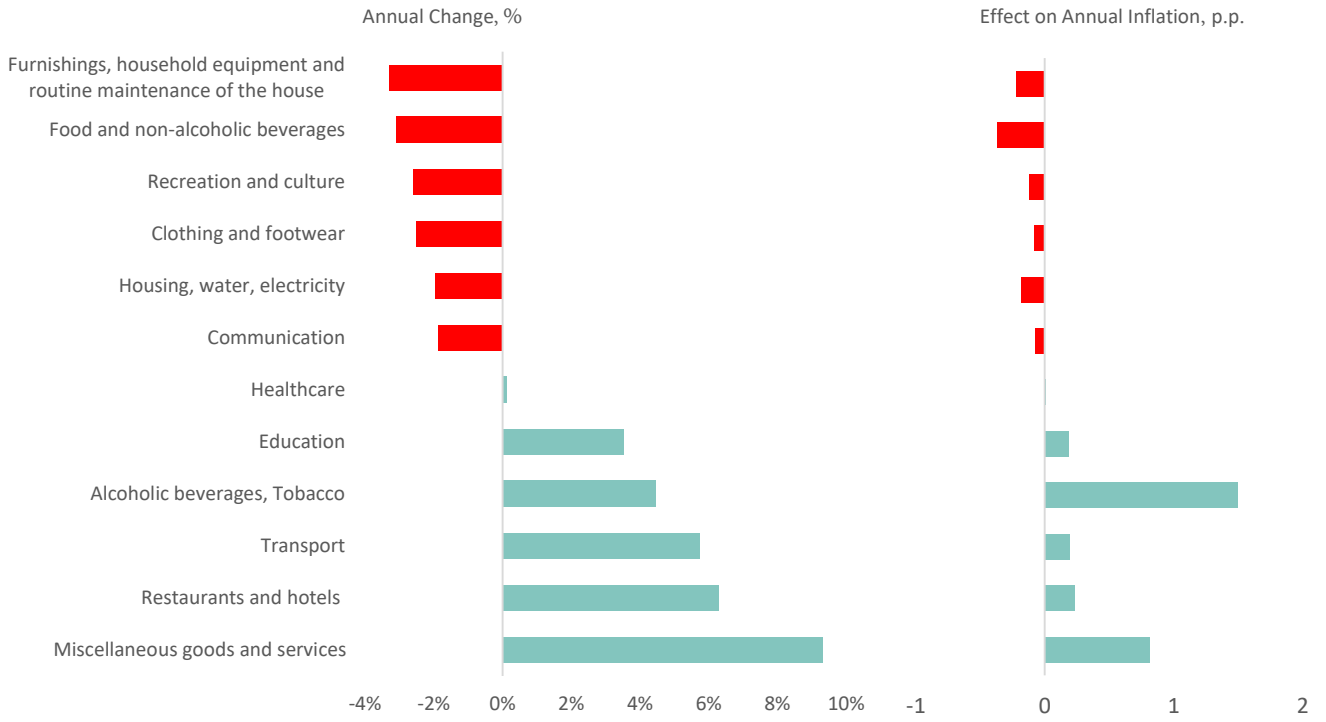


Source: NBG, Geostat

the low-inflationary environment is maintained in Georgia and the overall inflation is still below the target rate. One of the main risks of inflation is the increase in the price of international transportation due to the tension in the Red Sea, so the National Bank of Georgia continues to reduce the monetary policy rate only at a slow pace.

In the first quarter of 2024, the contribution of domestic inflation was 0.8 percent, while the contribution of imported inflation was 0.4 percent. A solid position of the real effective exchange rate helps keep imported inflation at a low level.

Figure 10: Decomposition of Inflation, 2024 Q1



Source: Geostat

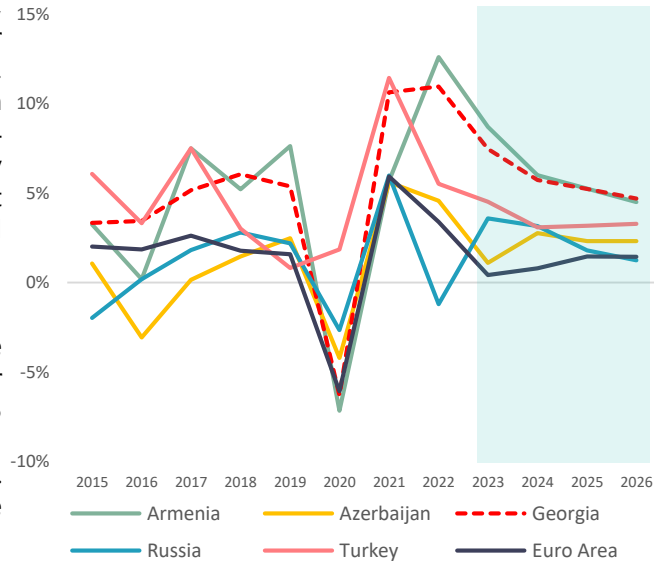
Economic Outlook of the Region

In April, 2024 the IMF revised forecasts for major economies. According to the latest WEO, the global economic growth for 2022-2023 years stood at 3.5 and 3.2 percent levels, respectively. As for the 2024 estimates, the data came stronger for global growth at 3.2 percent for the whole world. According to the previous IMF WEO the world economy in 2024 was expected to grow by 2.9%. The rise in growth in 2024 compared to 2023 is driven by advanced economies, especially by the USA's strong recovery. It is also important to note that the prospects for 2024 is more favorable than it was expected in the previous year.

Even though in 2020 Turkey did not fall into recession, in 2021 Turkey experienced a 11.4 percent growth in real GDP. Per the IMF April report, for 2024 and 2025 the WEO projections for Turkey's economic growth are 3.1 and 3.2 percent (after 4.5 percent growth in 2023). The projections for 2024 has been revised upward by 0.1 pp, compared to October WEO (2023). The main challenges for Turkey remain exchange rate depreciation and high inflation. It is also relevant to mention that the tight monetary policy is close to end and the consumption starts recovering. In 2023 the actual inflation was 53.9%. The inflation is expected to reach a 59.5 percent in 2024. Turkey undergone changes into sovereign credit ratings in 2024. Fitch upgraded it to B+ (stable), S&P to B+ (positive), and Moody's affirmed to B3.

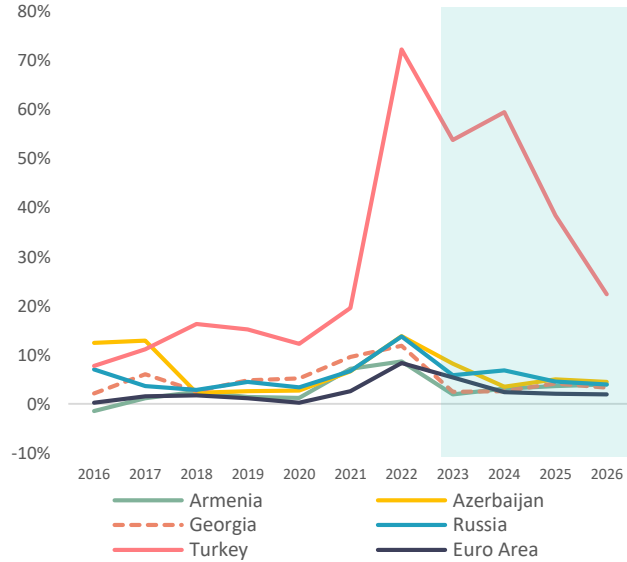
The Russian Federation economy, under the ongoing sanctions, performed better than it was expected in 2023. However, underlined sanctions will affect its medium-term capabilities, since the large consumers, as well as the sovereign countries, wean themselves off Russia's energy and other sectors. Per the IMF's April forecasts, the Russia's real economic growth was 3.6% in 2023. As for the period of 2024-2025, it is expected to stand at 3.2 and 1.8, respectively. In 2022 the credit rating agencies (CRA), after sharp downgrading of Russia's sovereign credit ratings, stopped assigning any ratings.

Figure 11: Economic Growth in the Region



Source: IMF

Figure 12: Inflation in the Region



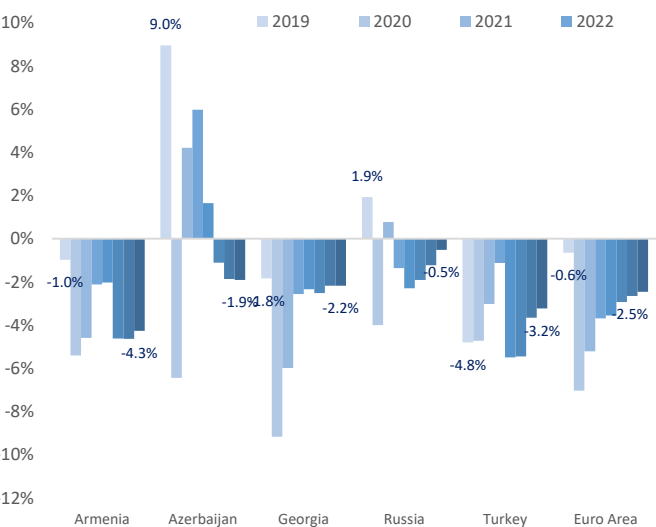
Source: IMF

Figure 13: Current Account to GDP, %



Source: IMF

Figure 14: Budget Balance to GDP, %



Source: IMF

A rising in oil prices, due to the Russia-Ukraine war, is expected to benefit Azerbaijan. As for 2024 April WEO, the economic growth has been revised downwards. After the high economic growth in 2021 and 2022 the real growth of the country was 1.1% in 2023. Azerbaijan’s real economy is expected to grow by 2.8% and 2.3% in 2024 and 2025 respectively. The country is characterized by a high inflation. In 2023, inflation was 8.2 percent and it is expected to decrease and stand at 3.5 and 5.0 percent in 2024 and 2025, respectively. In 2024 Azerbaijan’s sovereign credit ratings were BB+ (positive) according to Fitch, BB+ (stable) for S&P and Ba1 (stable) for Moody’s.

Per the IMF projections, Armenia was expected to be hit hardest in our region, except the participants of war. This was predictable, since Armenia has the tightest ties to the Russian economy. But those risks did not materialize. The economy of Armenia grew by 8.7% in 2023. As for 2024 April WEO, in 2024 and 2025, Armenia will grow by 6.0% and 5.2% respectively (in October 2023 the forecast for this indicator was 5.0 percent for 2024). Inflation was not very high in 2023 (2.0 percent) and it is expected to stand within the range of 3.1-3.7 percent in 2024-2025 period. At the beginning of 2024 the credit ratings of Armenia are as follows: BB- (stable) according to Fitch and S&P, and Ba3 (stable) according to Moody’s.

The situation around the Ukraine remains uncertain. The IMF restored the projections of the Ukrainian economy. However, the situation may change in any given time. According to the IMF latest data and projections, in 2023 the Ukrainian economy grew by 5.0 percent and taking into account a significant fall in the previous year this can be considered as a recovery. As for the short-term projections, the real GDP of Ukraine is expected to rise by 3.2% and 6.5% in 2024 and 2025 respectively. In 2023 inflation in Ukraine is expected to be 12.9 percent and it is predictable that it will be reduced.

External Sector

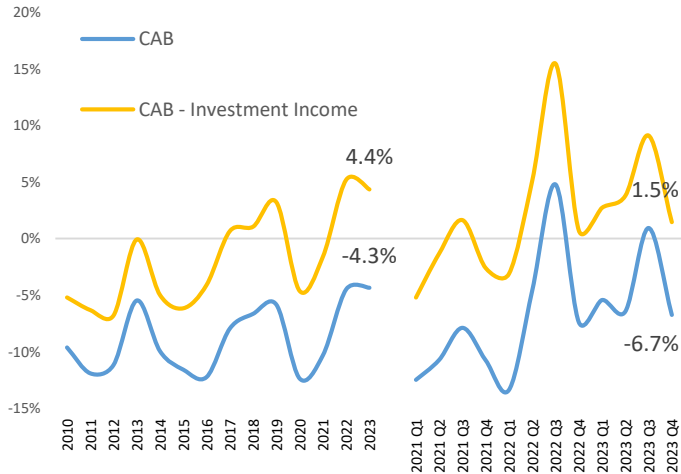
Current Account Balance

In 2020 current account deficit stood at 12.4 percent of GDP, which has significantly worsened from 2019 numbers, when CA deficit was 5.8 percent of GDP. From Q2 2021 current account balance started to improve. As of 2021, CA deficit stood at 10.3 percent of GDP, while it improved in 2022 and amounted to 4.5% of GDP. An improvement has continued in 2023 as well and was observed at 4.3 percent of GDP, while in the third quarter there was a positive balance at 0.9 percent.

The current account deficit of Georgia is financed by the FDI and debt. Financing the deficit by debt, 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 the foreign direct investment in 2017. After that, during the post pandemic period, the foreign debt contributes quite a lot to finance the deficit. Especially noteworthy is 2020 when the debt financing contributed sizably, 8.8 p.p out of 12.4% deficit financing. The financing structure has still improved in 2022-2023 and current account was financed fully by the FDI, which contributed 7.1 and 4.3 p.p, out of 4.5% and 4.3% of current account deficit financing, respectively.

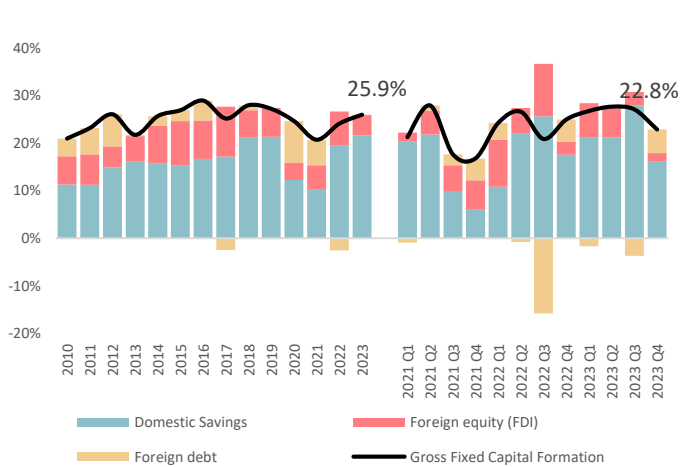
As of 2023, debt has negligible (0.1 p.p) contribution in financing the current account deficit. During the improvement of the current account deficit in 2022-2023, the debt contribution was lower in the financing the deficit. Especially, during the third quarter 2022, debt share was negative 15.8 p.p in the financing 4.8% current account deficit, while in the third quarter of 2023, there was a positive current account balance at 0.9% and debt contributed negative 3.7 p.p.

Figure 15: Current Account, % of GDP



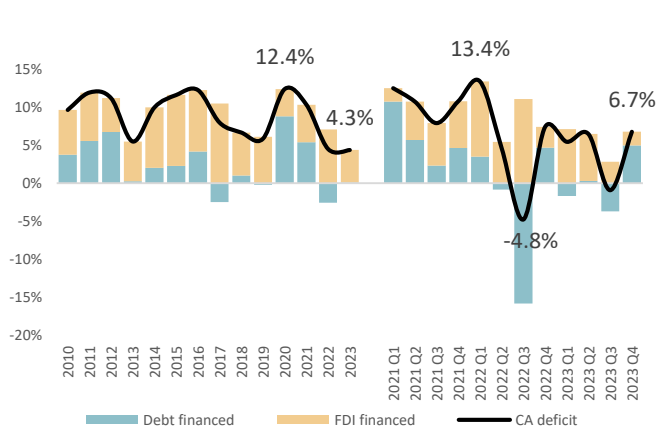
Source: NBG, Geostat

Figure 16: Financing of Investment



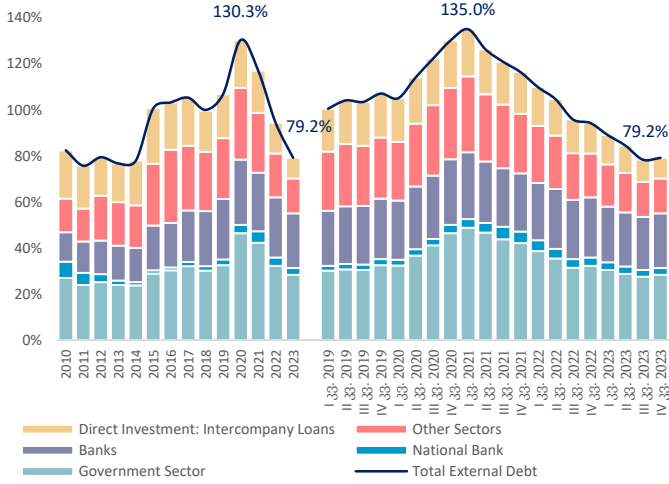
Source: NBG, Geostat

Figure 17: Financing of Current Account



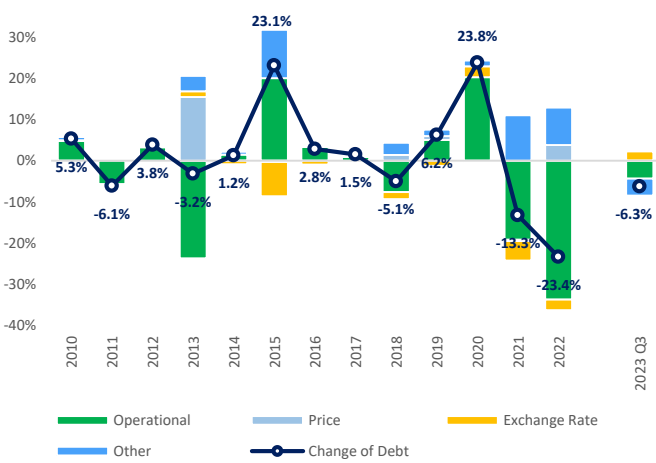
Source: NBG, Geostat

Figure 18: External Debt to GDP, %



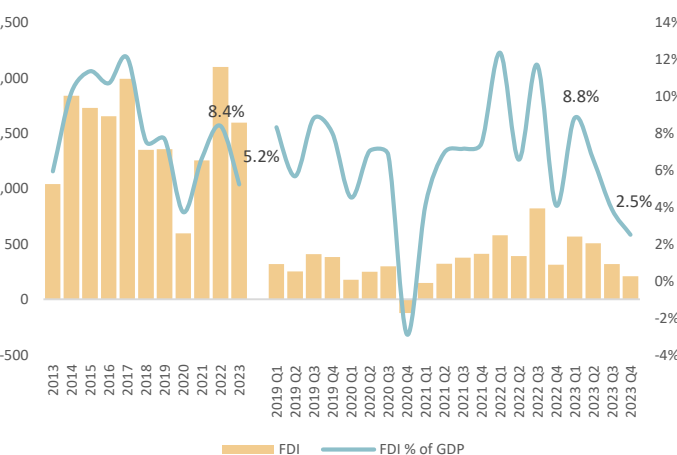
Source: NBG, Geostat

Figure 19: Change of Debt to GDP



Source: NBG, Geostat

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.

The total external debt increased during the pandemic and amounted to 130.3 percent in 2020. Debt increased by 23.4 p.p compared to the previous year. The main reason was increased debt taken by the government sector, due to the financing during the pandemic. External debt started to decline from 2021 and amounted to 117.0 percent of GDP, which is 13.3 p.p. less than in the previous year. The reason for the decline is the sharpening of economic activity and the corresponding growth of nominal GDP by more than expected. External debt stood at 94.3 percent in 2022 and even further declined in 2023 to 79.2 percent, which is the lowest after the 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, changes in exchange rate and in nominal GDP. The largest contribution to the growth of external debt in some quarters of 2015-2016 was due to the exchange rate depreciation, but operational change has more impact annually. Also, GDP mostly contributed to the reduction of external debt. After the pandemic, debt to GDP in USD terms decreased by 13.3 p.p and 23.4 p.p in 2021-2022. Deficit did not require to use debt for financing for 2021-2020, due to improved current account, which helped debt to decrease. This continued in 2023 and debt decreased by 6.3 p.p, where operational helped to decrease but exchange rate contributed debt is to increase.

Foreign Direct Investments

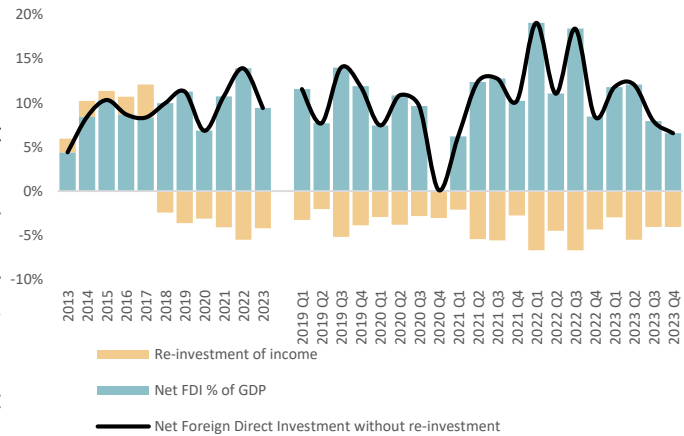
As for 2023, the foreign direct investments (FDI) amounted to 1,595 mln USD (5.2 percent of GDP), that was 24.0 percent lower than in 2022.

As of 2023, UK is the top investor in terms of FDI with a 24.6 percent share in totals. As for the 2nd and 3rd places, the Netherlands and Turkey had 22.6 percent and 10.6 percent shares, respectively.

In 2023, the direct foreign investments were mainly allocated in the financial sector, amounted to 630.1 mln USD (39.5 percent of total FDI). The relatively larger shares had the manufacturing sector, where the investments amounted 291.7 mln USD (18.3 percent).

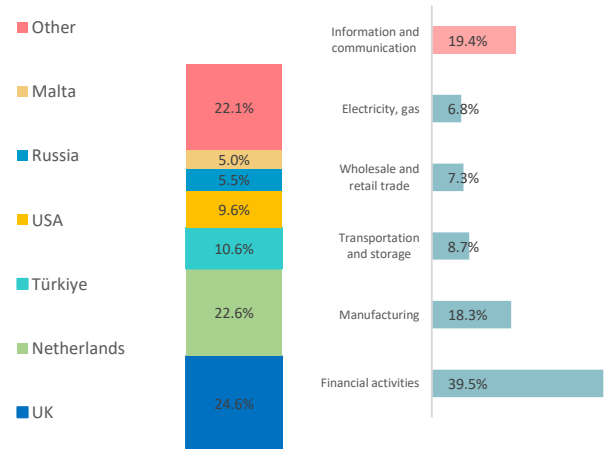
As for the components of the FDI, in 2023, reinvestment stood at 4.2 percent of GDP with the volume of 1,279.1 mln USD.

Figure 21: FDI, % of GDP



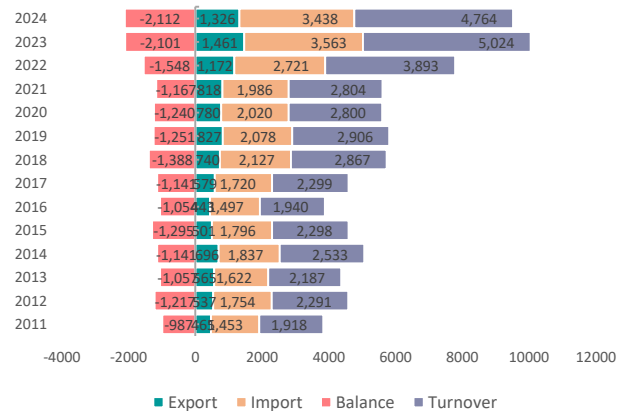
Source : Geostat

Figure 22: Composition of FDI, 2023



Source : Geostat

Figure 23: International Trade, Q1



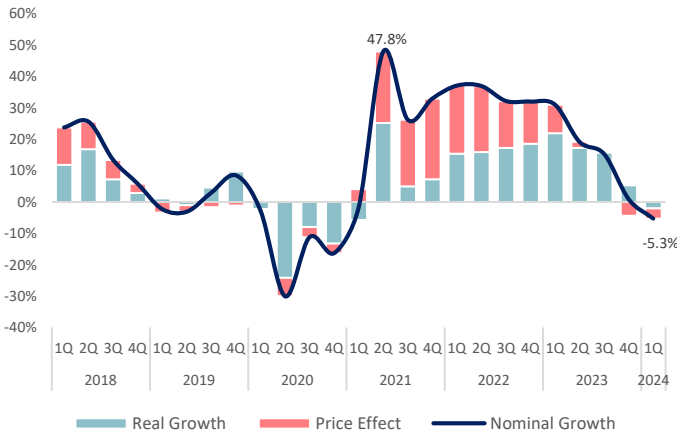
Source: Geostat

Figure 24: Annual Change of Domestic Export



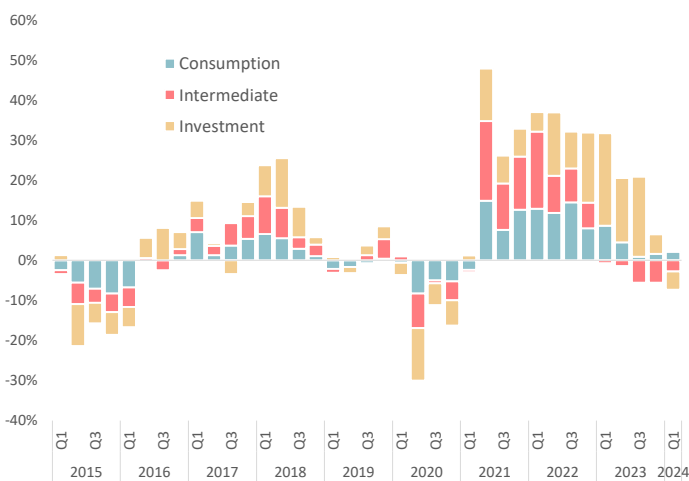
Source: Geostat

Figure 25: Annual Change of Import



Source: Geostat

Figure 26: Decomposition of Change of Import



Source: Geostat; Author's calculation

International Trade

Due to the epidemic around the world and restrictions imposed by most countries, foreign demand declined globally in 2020. All this had an impact on Georgia's economy. Due to reduced economic activity, import decreased as well, along with deteriorating exports in the first half of 2020.

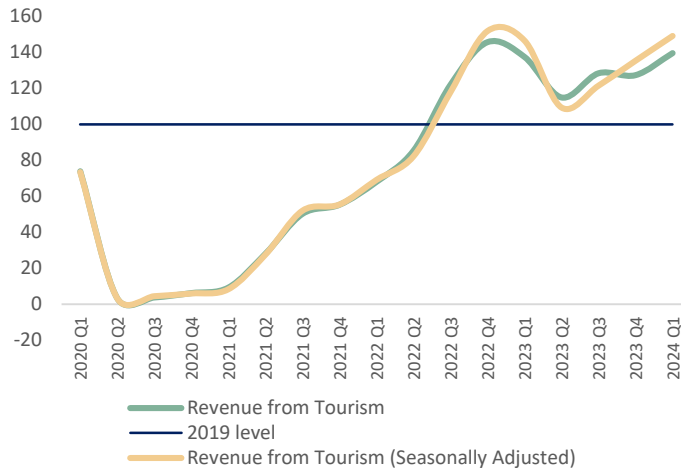
In 2021, after governments all over the world as well as in Georgia started to lift up restrictions, international trade started the fast recovery. Together with increased exports, imports also started fast recovery. Moreover, higher prices caused increased price effect in the export as well as import growth. However, together with the reduction of the price effect, domestic export started to increase slowly in 2022. Hence, as of fourth quarter of 2022, there was a reduction in nominal growth of domestic exports by 7.4 percent, which was driven by real reduction by 11.2 percent. As for 2023, reduction of domestic export was even higher, mainly due to the real reduction, and for the first quarter of 2024 it reached to 21.0 percent reduction, out of which real growth contributed minus 18.5 percent, while price effect was small (negative 2.5 percent).

As of first quarter of 2024, import of consumption goods increased by 6.3 percent annually (2.1 p.p. share in total imports). Reduction of imports of investment goods was observed at 12.4 percent annually (4.6 p.p. share in total imports). As for the imports of intermediate goods, it decreased by 9.2 percent annually (-2.8 p.p. share in total imports). In Q1 2024, export of goods decreased by 9.3 percent annually. The main driver of this growth are still motor cars (33.5 percent of total exports), wine of fresh grapes (6.3 percent of total exports) and ferroalloys (5.5 percent of total exports) have also high shares. As for the imports, motor cars, oil products, and petroleum gases are still the main imported goods, with 14.4, 8.6 and 5.5 percent shares, respectively.

Tourism

In 2023, income from international travel in all four quarters fully recovered from and exceeded 2019 levels. In the first quarter of 2024, the income from tourism amounted to 807.7 million USD, which is 1.5 percent more comparing to the same period of the previous year, and it is 139.6 percent of the 2019 level. Russia is the largest contributor to tourism revenues, accounting for 21.2 percent of total revenues. The next contributor is Turkey - with 14.5 percent, followed by the European Union with 13.4 percent.

Figure 27: Income from Tourism

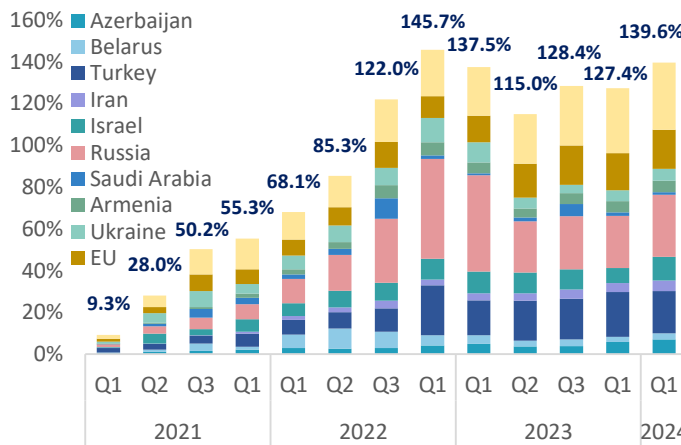


Source: NBG

Remittances

In 2023, the net remittances reached 3,769,183 million USD. It decreased by 6.4 percent compared to the previous year. This decrease is caused by a high base effect and a significant decrease in net remittances from Russia (-26.7 percent y/y). It should be noted that 34.9 percent of net remittances in 2023 came from Russia.

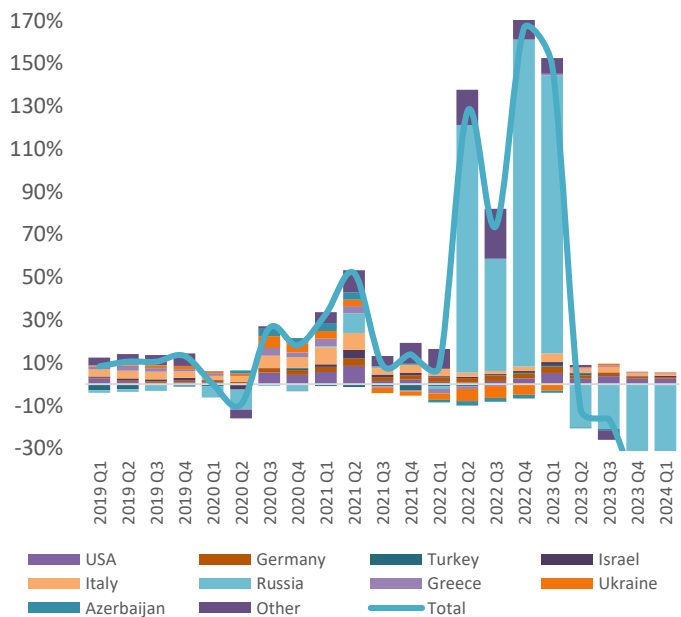
Figure 28: Income from tourism, mln USD



Source: NBG

As for the first quarter of 2024, net remittances accounted 721.9 mln USD, which is by 38.4 percent less compared to the same period of the last year. Russia made the main contribution to the decrease by 43.1 pp. Kyrgyzstan (-0.7 p.p.), Kazakhstan (-0.7 p.p.), Tajikistan (-0.5 p.p.), Turkey (-0.4) also contributed negatively. Growth was recorded in net remittances from the USA of 33.0 percent, which contributed positively to overall growth by 2.5 pp. Net remittances from Germany also increased by 19.6 percent, which contributed 0.7 pp. to overall growth, and from Israel by 14.3 percent, which contributed 0.6 pp. There was also a positive impact from Italy which increased by 10.6 percent and contributed 1.1 p.p. positively to growth.

Figure 29: Net Remittances



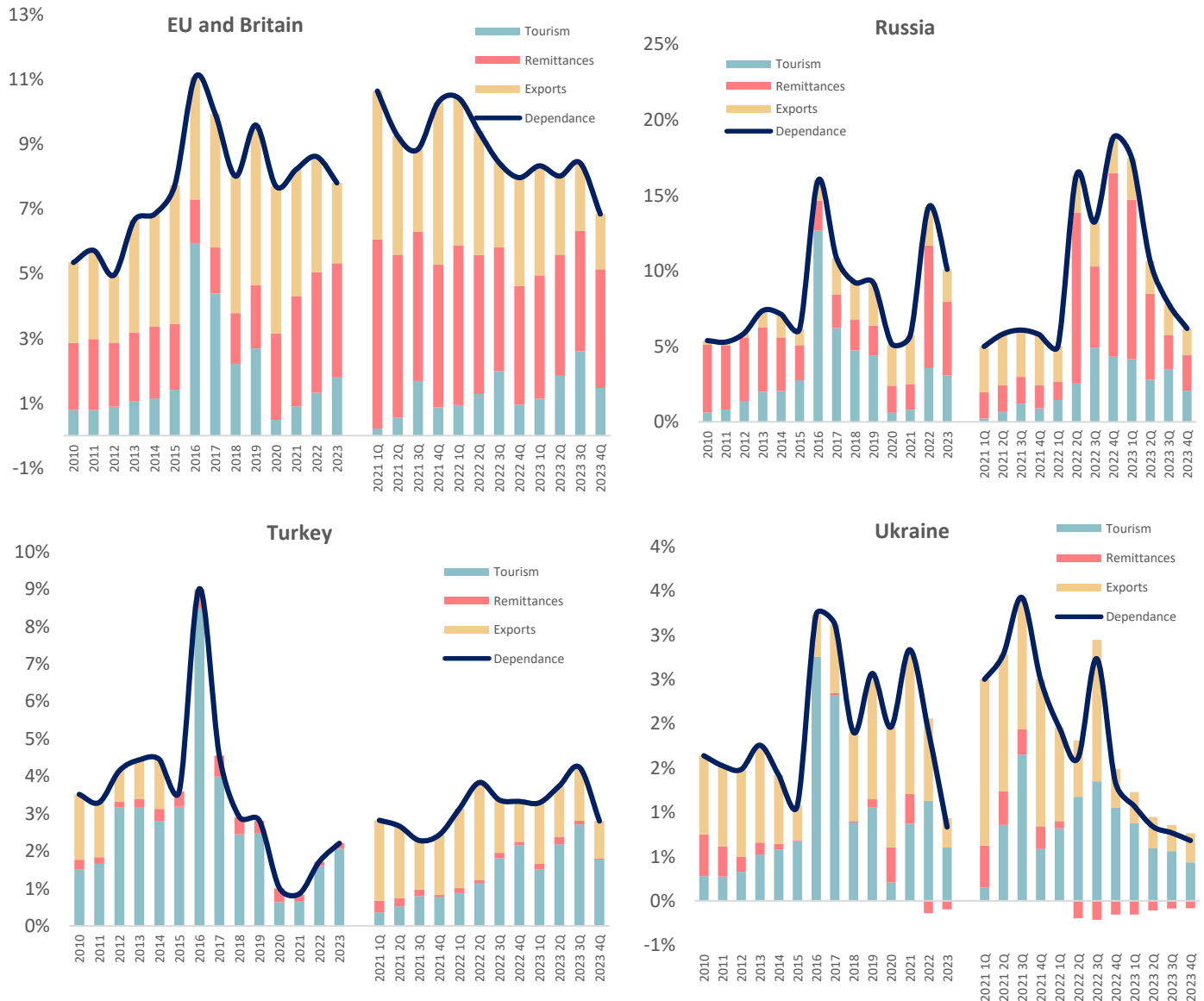
Source: NBG

It should be noted that remittances from Russia was increased recently and had a positive contribution to the growth of net remittances. The mentioned dynamics changed in the second quarter of 2023, which may be related to the high base effect.

Dependence on Other Countries

The Georgian economy is diversified in terms of dependence on other countries. Based on the shares of exports, tourism, and transfers in the GDP, it can be concluded that Georgia has a tight relationship with Russia, Turkey, Ukraine, and the European Union. According to the Q4 2023 data, the dependence on Russia is still high and it has a decreasing trend. The dependence on Russia is still mainly driven by the tourism and the remittances. The dependence on Turkey has increased in 2022 and 2023, mainly due to the revenues from tourism. Within the last 3 years a fall was observed in the dependence on Ukraine, which was due to a decrease in exports of goods and remittances. The dependence on the EU maintains a high level, but significantly decreased in Q4 of 2023. The fall in dependence of main countries in the 4th quarter and during the whole 2023 indicates to more diversified structure of the FX inflows. It is also relevant to note that the Georgian economy's dependency on the EU and Great Britain, the Russian Federation and Ukraine reduced and it increased with respect to Turkey.

Figure 30: Dependence on Trading Partners (% of GDP)



Source: NBS, Geostat

Figure 31: Nominal Effective Exchange Rate

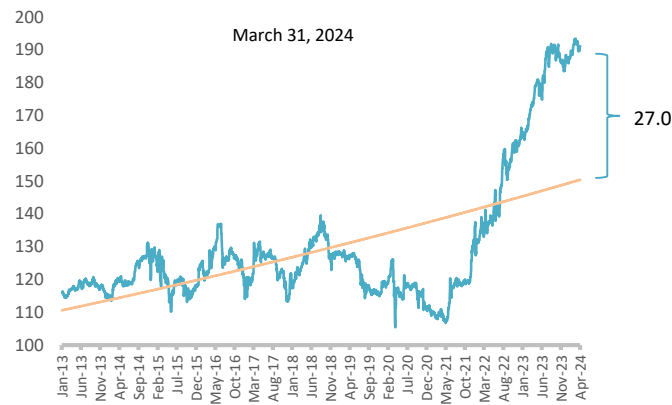


Figure 32: Real Effective Exchange Rate

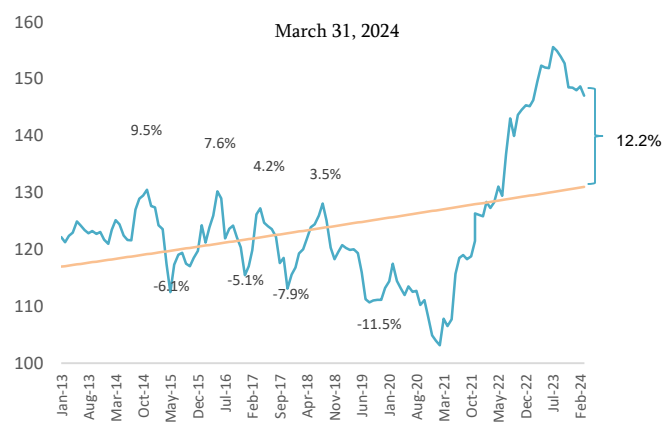
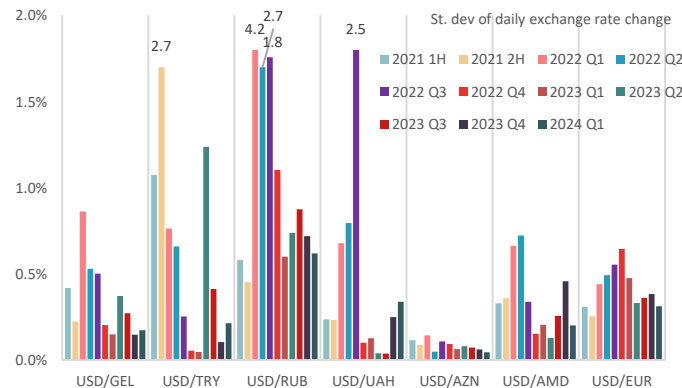


Figure 33: Volatility of Exchange Rates



Source: NBG, MOF

Table 1: Change of Nominal and Real Effective Exchange Rates

	May 1, 2024	May 1, 2024 - Jan 1, 2024	May 1, 2024 - Jan 1, 2023
Euro	2.8804	▲ 3.3%	▲ 0.1%
US Dollar	2.6849	▲ 0.2%	▲ 0.6%
Turkish Lira	0.0829	▲ 9.8%	▲ 74.1%
Russian Ruble	0.0287	▲ 4.1%	▲ 27.9%
NEER	192.24	▲ 3.2%	▲ 16.8%
REER (March 2024)	147.05	▼ -0.6%	▲ 1.2%

Source: NBG

Exchange Rate

At the start of the COVID-19 pandemic, when the uncertainty was high all over the world, USD tended to be strong against other currencies. From the start of 2021, USD started to weaken against both developed and developing countries' currencies. GEL followed the same trend. From April 2021, GEL started sharp appreciation, which was due to the weaker USD, as well as strong numbers in export and improved expectations. From the start of 2022 GEL started gradual appreciation against USD as well as to other trading partners, but after Russia invaded Ukraine and full scale war started, GEL sharply depreciated, then throughout first quarter stabilized, all this caused sharp increase in GEL volatility, this increase in volatility was in line with behavior of trading countries' currencies. But at the end of the 2022 GEL and other currencies of our trading partners stabilized. As of 2024 Q1 the GEL was depreciating at a very low rate, mainly on the back of decreased capital inflows. Within the same period, the Georgian Lari depreciated against USD by 0.2 percent, compared to the previous quarter. Within the 1st quarter of the current year, the GEL appreciated against EUR by 1.6 percent. It is also relevant to note that the GEL appreciated against Turkish Lira by 8.5 percent. The nominal exchange rate of GEL did not change with respect to RUB. In the 1st quarter of 2024, there was a sharp appreciation of the nominal and real effective exchange rates of the national current. Due to this sharp appreciation, they are above their medium-term trends by 27.0 and 12.2 percent respectively.

Fiscal Sector

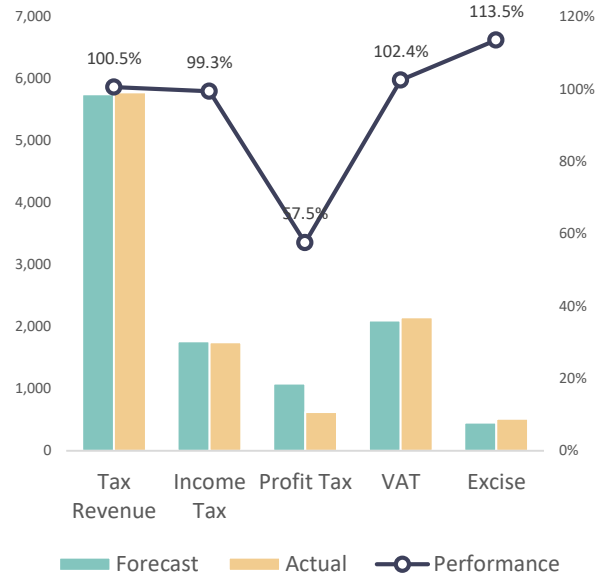
Budget Performance

The consolidated budget tax revenue forecast for the first quarter of 2024 was set at 5,747 mln GEL, while 5,773 mln GEL was mobilized during the reporting period, which is 100.5 percent of the forecast.

- 1,748 million GEL is mobilized as income tax, which is 99.3 percent of the forecast figure (1,760 million GEL).
- 621 million GEL is mobilized as profit tax, which 57.6 percent of the forecast indicator (1,080 million GEL).
- 2,148 million GEL was mobilized as VAT, which is 102.4 percent of the forecast (GEL 2,098 million).
- 515 million GEL is mobilized as excise, which is 113.5 percent of the forecast indicator (454 million GEL).
- 32 million GEL is mobilized in the form of import tax, which is 99.4 percent of the forecast (32 million GEL).
- 10 million GEL is mobilized in the form of property tax, which is 153.3 percent of the forecast (7 million GEL).

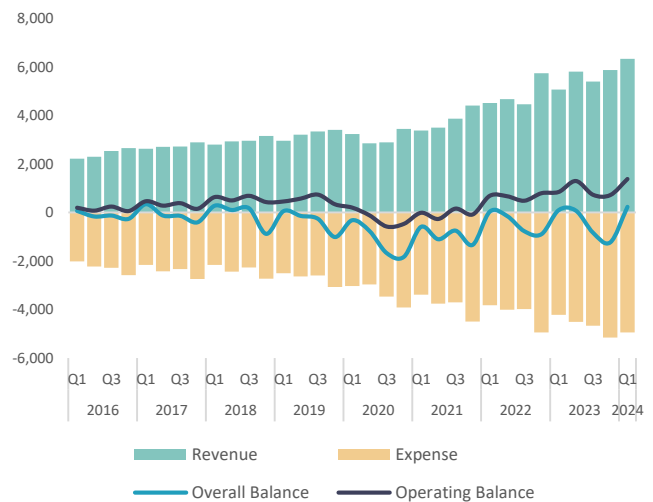
In the first quarter of 2024, compared to the same period last year, consolidated budget revenues increased by 24.7 percent and expenditures increased by 17.0 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to 1,375.1 million GEL, while the total balance was set at 233.3 million GEL.

Figure 34: Budget Revenue Performance



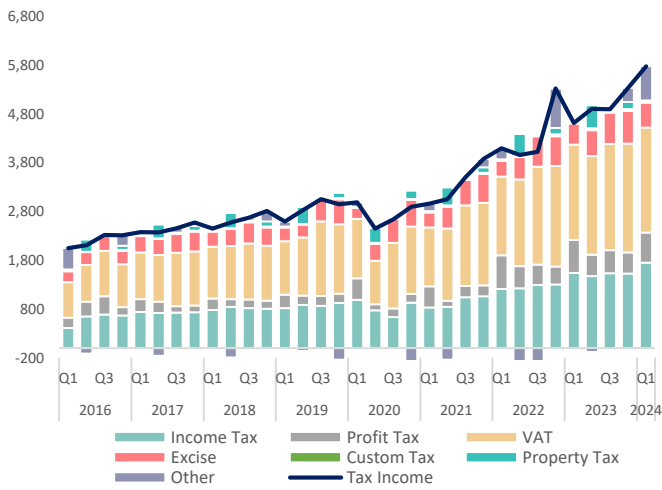
Source: MOF

Figure 35: Budget Balance



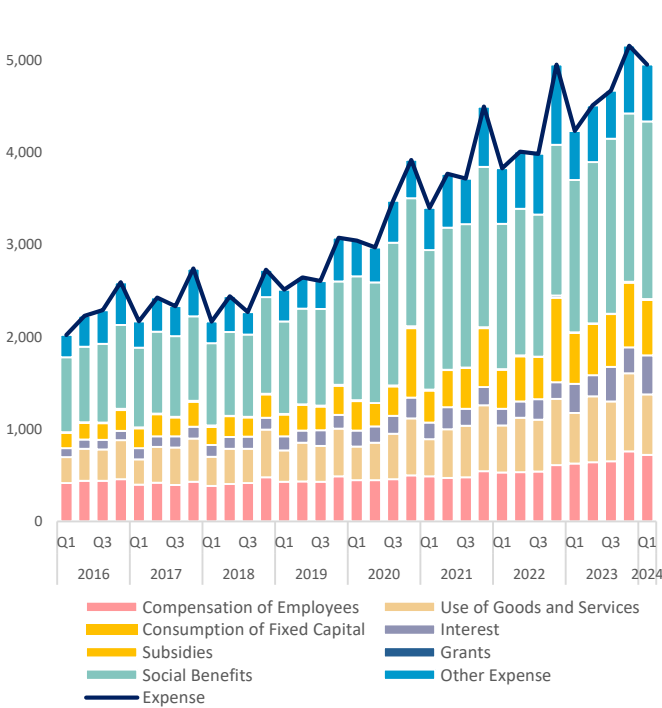
Source: MOF

Figure 36: Tax Income



Source: MOF

Figure 37: Budget Expenses



Source: MOF

A significant share of budget revenues is accounted by tax revenues, accounting for 91.3 percent in the first quarter of 2024. The consolidated budget received GEL 5,773 million in taxes, which is 25.3 percent more than the same period of previous year. Revenue from income tax increased by 13.4 percent year on year to GEL 1,748 million. Revenue from profit decreased annually by 7.5 percent compared to the first quarter of 2023, amounted to 621 million and is 10.8 percent of total revenue from tax. At the same time, a significant increase in tax revenues is observed from VAT and income taxes. In particular, revenue from VAT increased by 9.7 percent, accounting 37.2 percent of total tax revenue, while revenue from income tax increased by 13.4 percent, and contributing by 30.3 percent. Revenue from property tax increased by 53.3 percent.

Expenditures in the first quarter of 2024 increased by 17.0 percent year on year to GEL 4,949 million. The largest share of budget expenditures is in social security expenditures, which account for 38.9 percent of total expenditures, while the annual growth rate is equal to 16.8 percent. Expenditures in the form of wages increased, with an annual growth rate of 15.1 percent to GEL 721 million, accounting for 14.6 percent of total expenditures. As for other items of expenditure, goods and services (13.2 percent of total costs), subsidies (12.1 percent of total costs), interest (8.5 percent of total costs) and other costs (12.4 percent of total costs) increased by 19.1 percent, 8.5 percent, 34.9 percent and 15.9 percent compared to the corresponding period of 2023, respectively.

Government Debt

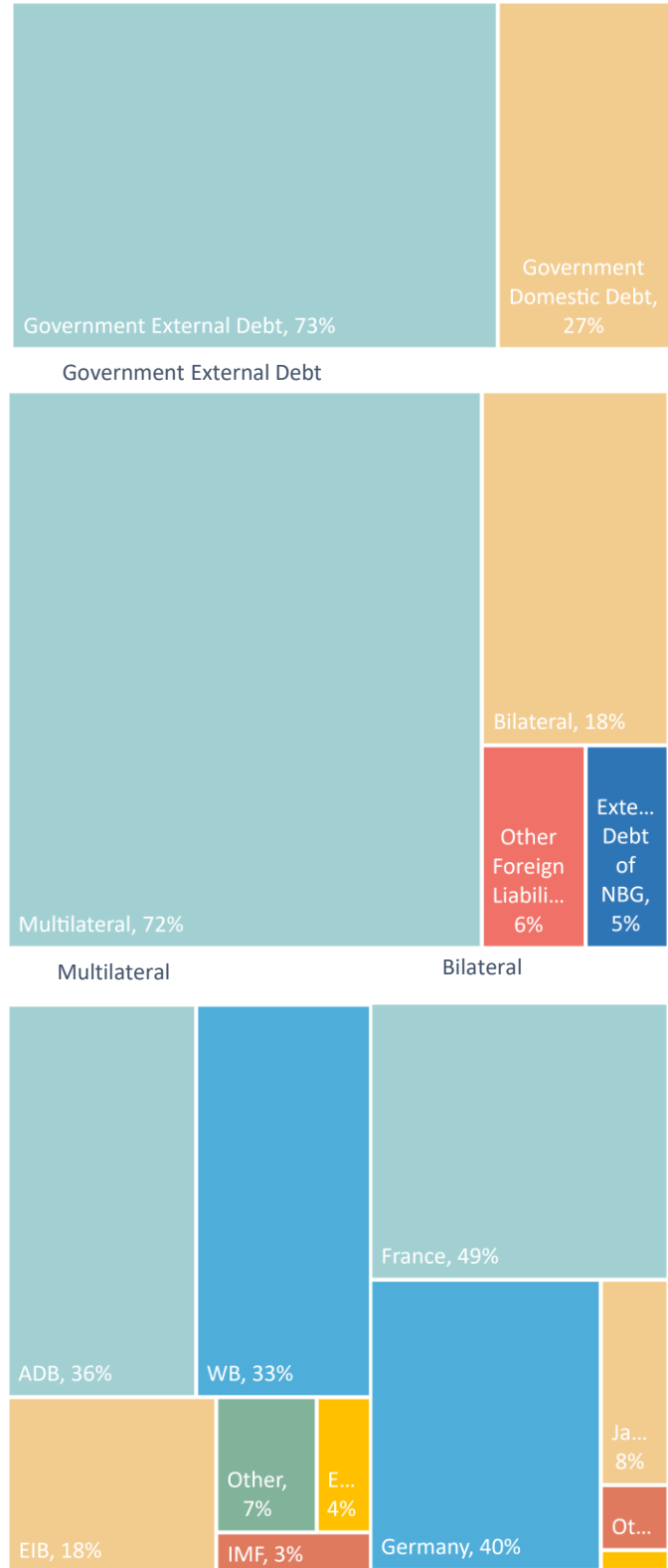
As of March 31, 2024, the stock of public debt of Georgia amounted to GEL 32,146 million, including:

☐ Government domestic debt stock is GEL 8,635.5 million, including:

- Annual Renewable Government Bond for the National Bank ("Bond for the NBG") - GEL 40.8 million;
- Government bonds with different maturities for open market operations ("Bonds for open market") - 182 million GEL;
- Treasury liabilities of the Ministry of Finance – GEL 410 million;
- Treasury bonds of the Ministry of Finance - GEL 7,972.4 million;

☐ Government external debt stock is 23,510.7 million GEL.

Figure 38: Government Debt



Source: MOF

Monetary Sector

Private Sector Larization

The larization of loans has an increasing trend and by 31st of March 2024 it has reached 55.2 percent. It should be noted that the main determinant of the total loan larization is the loans' larization granted to individuals. By 31 of March 2024, the larization of the loans of individuals was 72 percent. In the same period the larization of loans granted to legal entities amounted to 36 percent.

As for the larization of loans according to collateral, the larization of the consumer loans significantly exceeds the larization of real estate loans. The larization of the consumer loans evolved around at 88 percent during the first quarter of 2024. By the 31st of March 2024 it amounted to 88.4 percent. As for the larization of the mortgage loans, it amounted to 48 percent.

The larization of deposits remain lower than the larization of loans. As of the 31st of March 2024, the larization of the total deposits reached 48.9 percent. The larization of the deposits is mainly conditioned by the larization of deposits of legal entities. By the 31 of March, 2024 the larization of deposits of legal entities reached 73.3 percent and the larization of deposits of individuals in the same period was 35.5 percent.

It should be noted that the main contributor in the deposits larization is still time deposits larization. By the 31st of March 2024, it reached 54.2 percent. In the same period the current accounts larization amounted to 46.8 percent, while the larization of the demand deposits stands at 43.2 percent level.

Figure 39: Loan Larization

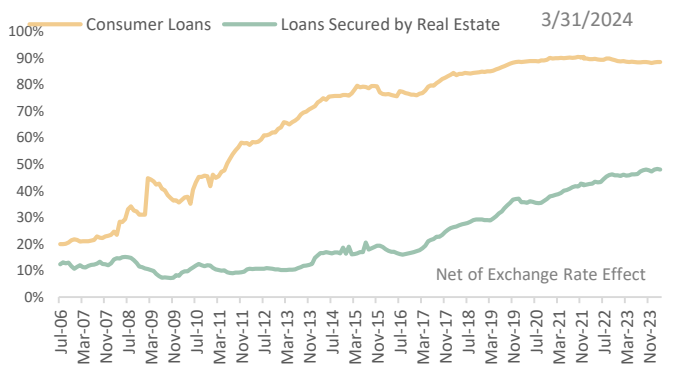
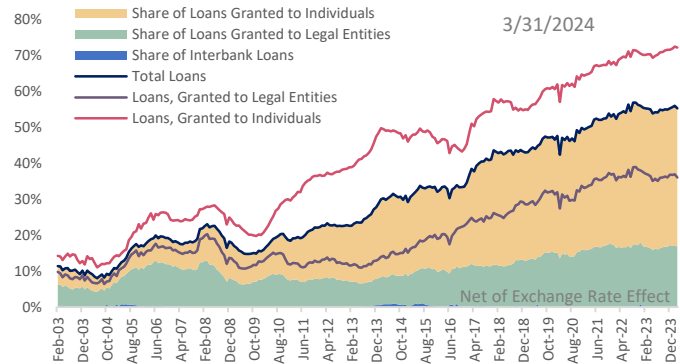
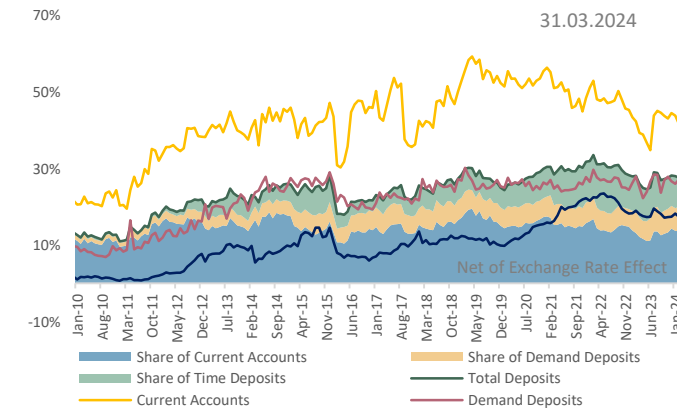
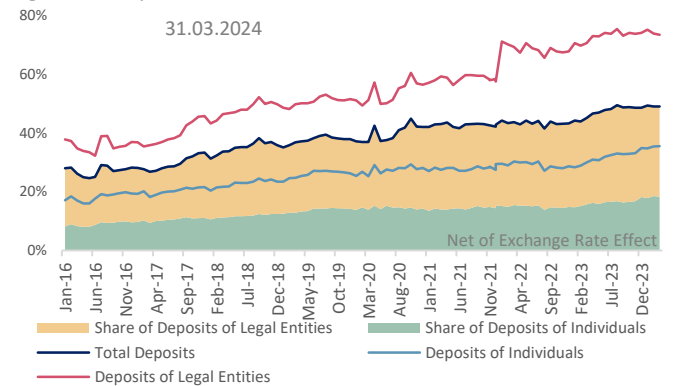
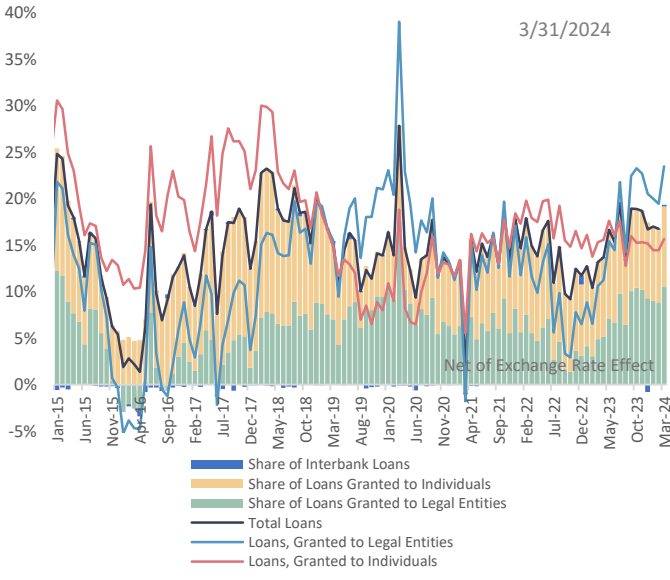


Figure 40: Deposit Larization



Source: NBG

Figure 41: Annual Growth of Loans



Review of Loans

As of 31 March 2024 the overall loans increased by 20 percent compared to the corresponding period of 2023, which was 3.4 percentage points greater than the previous quarter growth rate (net of exchange rate effect). A significant increase was observed also in the annual growth of the loans granted to legal entities. Its growth was amounted to 24.4 percent. During the same period, the loans to individuals increased by 16.1 percent.

It is important to note that there is an increasing trend in the growth of the loans denominated in the local currency as of 31 of March 2024 it amounted to 19.5 percent that is 4.2 pp greater that the level of the same indicator in the corresponding period of 2023. During the same period, the growth of the loans in foreign currency was 20.6 percent, which is 2.3 percentage points greater than in the previous quarter (excluding exchange rate effect).

By 31 of March 2024, the mortgage loans had increased by 23.1 percent compared to the corresponding period of the previous period. Moreover, the mortgage loans that are denominated in national currency increased by 26 percent that is 1.1 percentage points greater than in the previous quarter, while the foreign currency denominated mortgage loans increased by 20.6 percent, 3.8 percentage points higher than previous quarter.

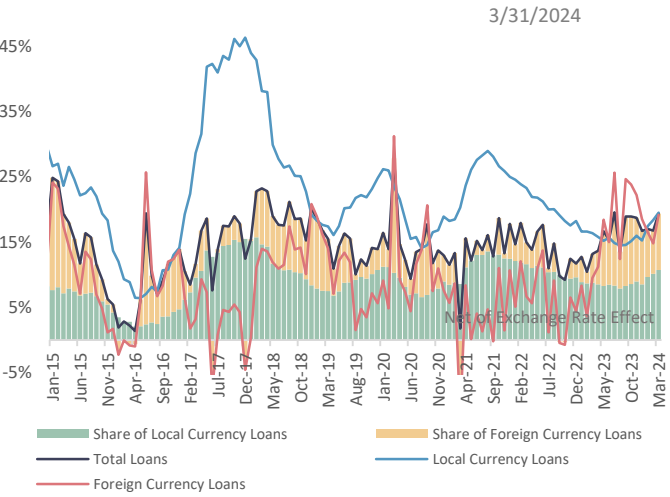
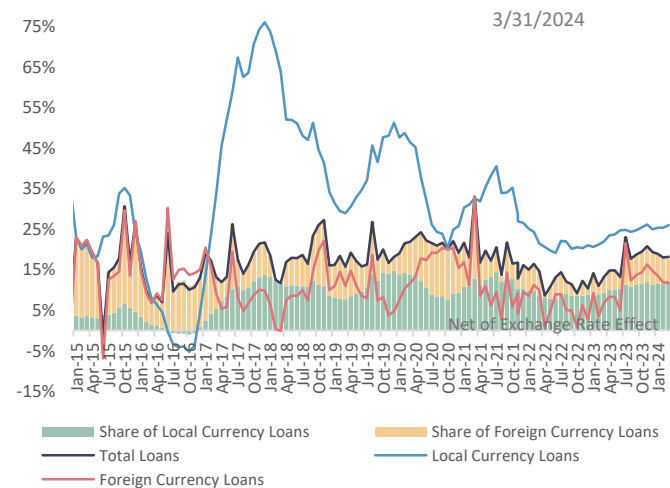


Figure 42: Annual Growth of Loans secured by Real Estate



Source : NBG

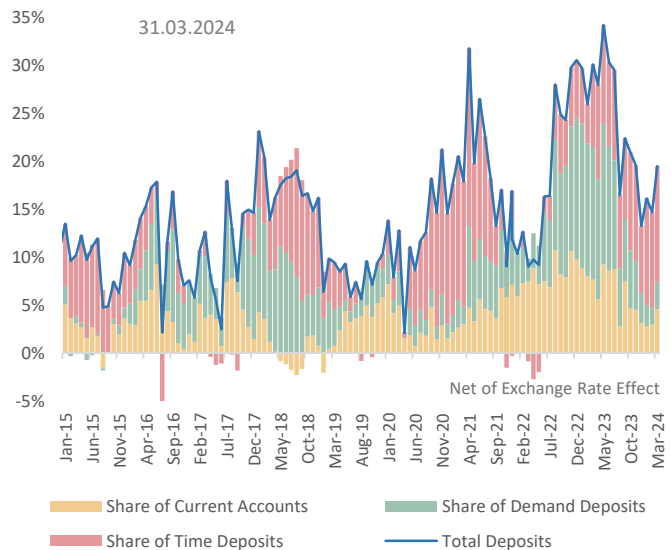
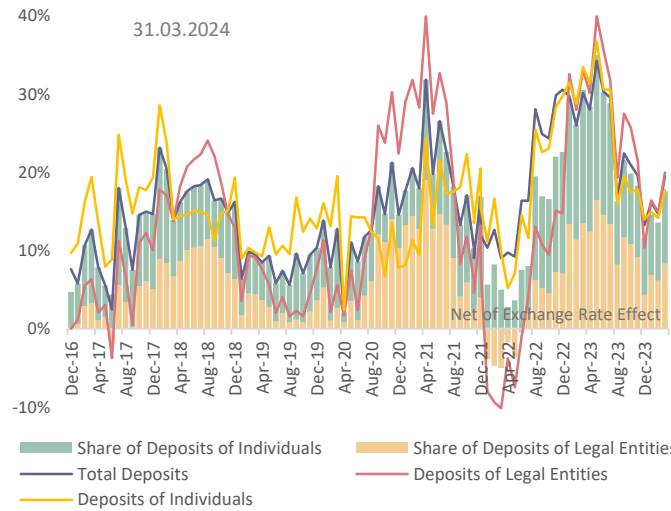
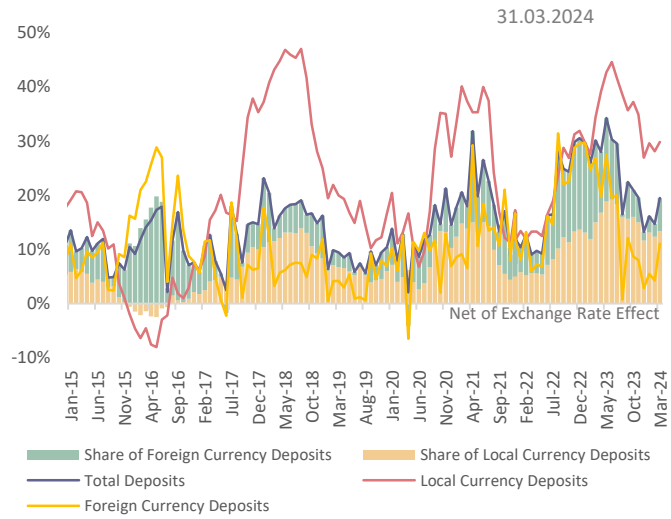
Review of Deposits

The growth of the total deposits on was 20.4 percent on 31st of March 2023. Compared to the corresponding period of 2023 it is 2.9 percentage points greater. A medium growth rate of the deposits is on the back of relatively slower growth rate of the foreign currency denominated deposits. The deposits denominated in the national currency increased 20.4 percent, while the annual growth of the deposits denominated in foreign currency amounted 2.7 percent in the same period.

By 31st of March 2024, annual growth of the deposits of individuals reached 18.8 percent, while the annual growth of the deposits of legal entities also experienced growth and amounted to 20.4 percent.

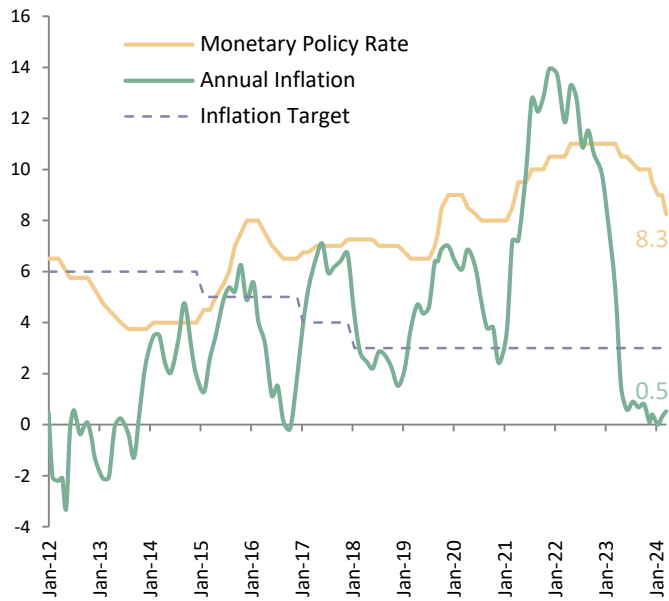
As for the growth of deposits by types, the larger deposits growth was reflected in the growth rate of the time and current deposits. By 1st of April 2024, the time deposits grew by 32 percent. As for the current and demand deposits, their growth rates equaled to 16.7 and 9.7 percent, respectively.

Figure 43: Annual Growth of Deposits



Source : NBG

Figure 44: Inflation and Monetary Policy Rate



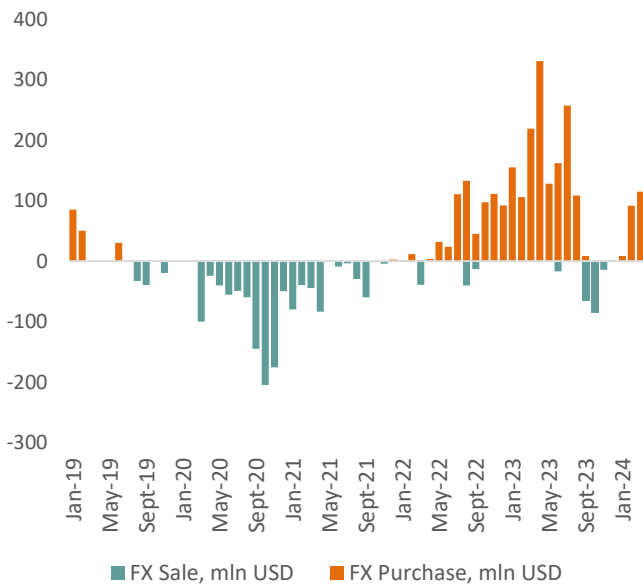
Monetary Policy Rate

The Monetary Policy Committee of the National Bank of Georgia (NBG) held two sessions in the first quarter of 2024. On January 31 and on March 13, 2024 the monetary policy authorities reduced the monetary policy rate by 0.5 pp and 0.75 pp respectively. As a result the refinancing rate was determined at 8.25 percent level.

According to the NBG, there is a low-inflationary environment in the country. This situation is caused by different internal and external factors; Among the domestic factors, the effects of tight monetary policy of the NBG, declining inflation of domestically produced products and reduced inflation expectations are worth highlighting. In addition, the country's economic growth is returning to a high rate (economic growth in March was 8.2%). Among the external factors, the Red Sea crisis is relevant to be mentioned which contributes to an increase in the cost of international transport. The inflation in Georgia has already passed its peak period, decreased and even fell below the monetary policy target rate. In March of this year, inflation amounted to 0.5 percent. It should also be emphasized that the actual annual inflation of 2024 is 1.5% and has already fallen short of the target rate (3%). It is expected that the National Bank of Georgia will ease the monetary policy at a slow pace, taking into account the inflationary risks.

The NBG made a few foreign exchange interventions through the auctions during the first quarter of 2024 and purchased 213.5 mln USD within this period.

Figure 45: Trade of USD by NBG, mln



Source: National Bank of Georgia

Interest Rates

As of 31st of March 2024, the interest rate on foreign currency deposits was 2.0 percent, while on the national currency deposits it amounted to 10.7 percent.

As of 31 of March 2024, the weighted average interest rate on deposits of legal entities in national currency was 10.4 percent, and in foreign currency – 2.8 percent. In the same period, the average annual interest rate was 2.0 percent on deposits of individuals in foreign currency and 10.7 percent in national currency.

By March 31, 2024, the weighted average annual interest rate on short-term consumer loans was 13.9 percent (17.0 percent in national currency and 6.6 percent in foreign currency). The weighted average interest rates on long-term consumer loans are largely determined by the loans denominated in the national currency. The magnitude of it was 15.9 percent in the above-mentioned period.

At the end of March, 2024, the interest rate on mortgage loans issued to legal entities in the national currency was 12.7 percent, and in foreign currency – 9.4 percent. The interest rate on loans to individuals in the national currency was 12.5 percent, and in the foreign currency it was 7.4 percent.

Figure 46: Interest rates on Deposits (stock)

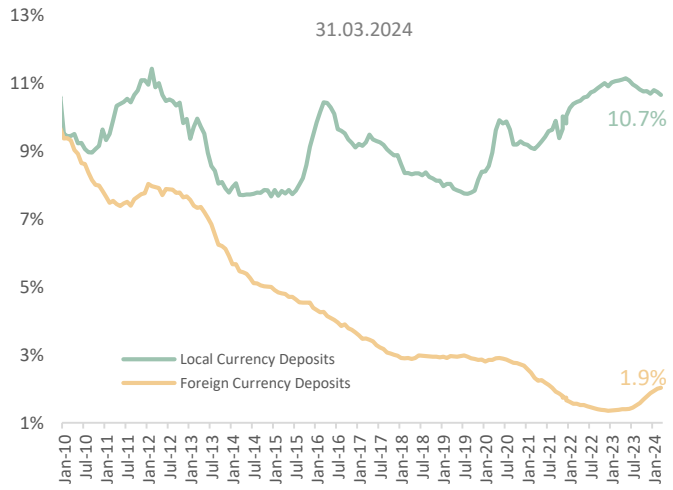
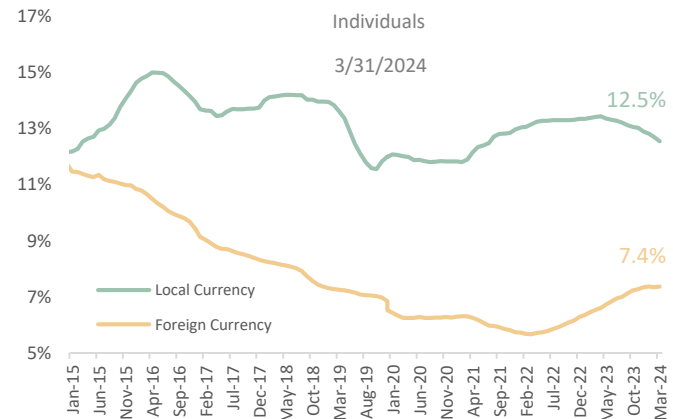
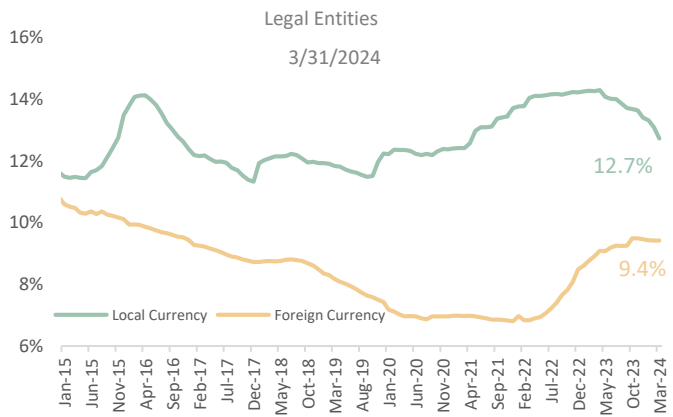


Figure 47: Interest rates on Loans secured by Real Estate



Source: NBG

Disclaimer

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