

Ministry of Finance of Georgia



Current Economic Outlook

November, 2019

Brief Summary

- Geostat has moved to the new standards of the System of National Accounts (SNA 2008)
- Annual inflation in November was 7%, while core inflation stood – 4.9%
- Export has increased by 25.2% annually, in November
- Import has increased by 4.2% annually, in November
- Tourism revenue has increased by 5.6% annually
- The monetary policy rate has increased by 0.5p.p and amounted to 9%
- Rating agency S&P has improved Georgian sovereign credit rating by 1 notch, from BB- to BB
- In terms of Doing Business, Georgia is on the 7th position worldwide

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Real Sector

Gross Domestic Product

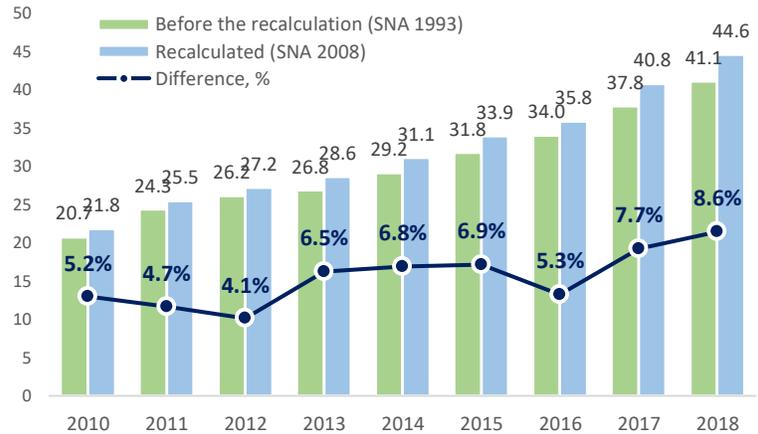
The New Standards of SNA

In November 2019, the National Statistics Office of Georgia had introduced the new standard of the National Account (SNA). The movement to the new system of National Account (SNA 2008) means the calculation of the Gross Domestic Product (GDP) and a number of macroeconomic indicators, in accordance with the new methodology. European Union countries have begun switching to the new SNA methodology in 2014. Armenia, Turkey, Ukraine, and Belarus joined their ranks in 2015. To date, the abovementioned system (SNA 2008) has been introduced in about 80 countries around the world. The base period has changed from 2010 to 2015, and historical data has been recalculated from 2010. It is available the annual GDP data by sectors and expenditure. According to the new methodology, the quarterly data of recalculated GDP will be accessible at the end of 2019.

Differences between the old and new methodologies are mainly related to the transition to the new methodology and the substantial improvement of the data source in terms of assessing the scope of the non-observed economy and the processing of administrative data. The main difference between the old (SNA 1993) and the new methodology (SNA 2008) is related to the capitalizing of research and development (R&D) costs, change in the Financial Intermediation Services Indirectly Measured (FISIM), and improving the calculation of imputed rents on owner-occupied dwellings.

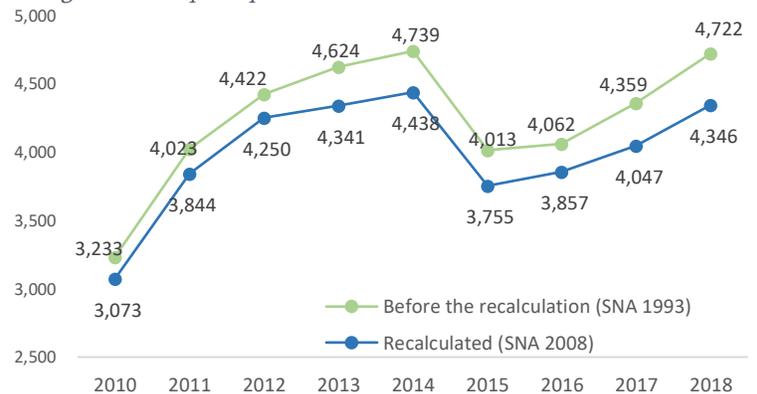
Recalculation of GDP also has positive consequences. Switching to the new methodology gives the opportunity for a more valid comparison of different countries' GDP and the indicators based on GDP. Moreover, due to the growth of nominal GDP, public debt, budget deficit, current account deficit, and other indicators have declined as a GDP share.

Figure 1: Nominal GDP



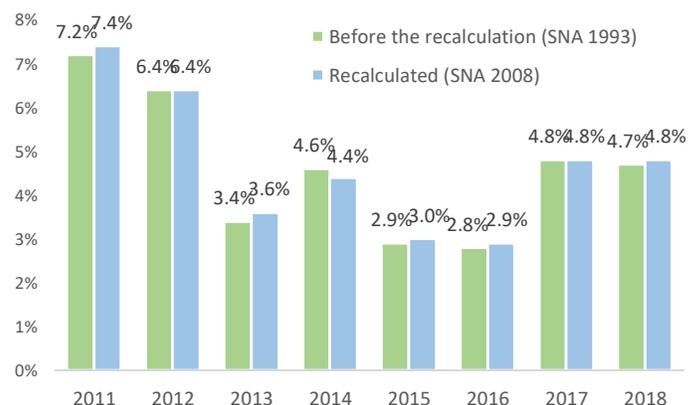
Source: Geostat

Figure 2: GDP per capita



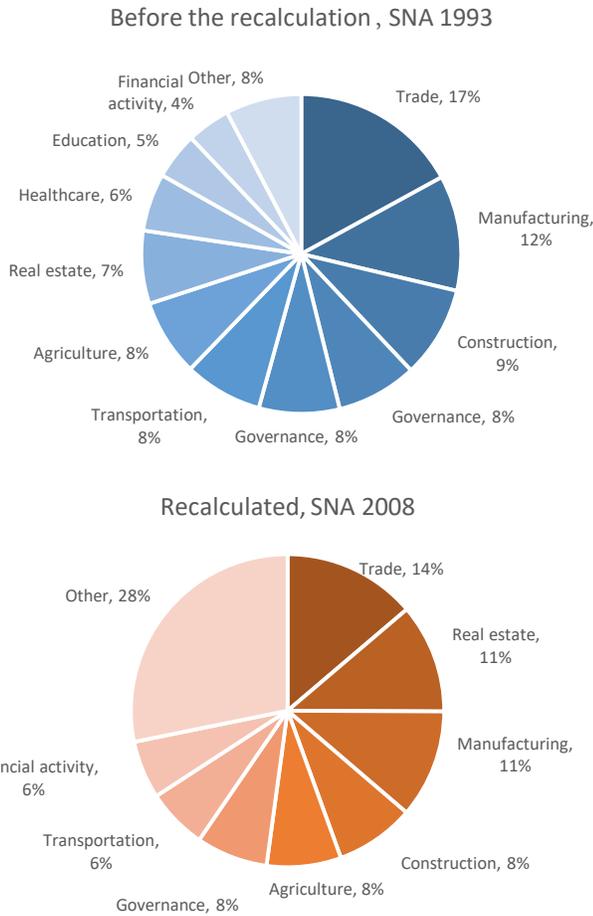
Source: Geostat

Figure 3: Real GDP growth



Source: Geostat

Figure 4: GDP by sectors

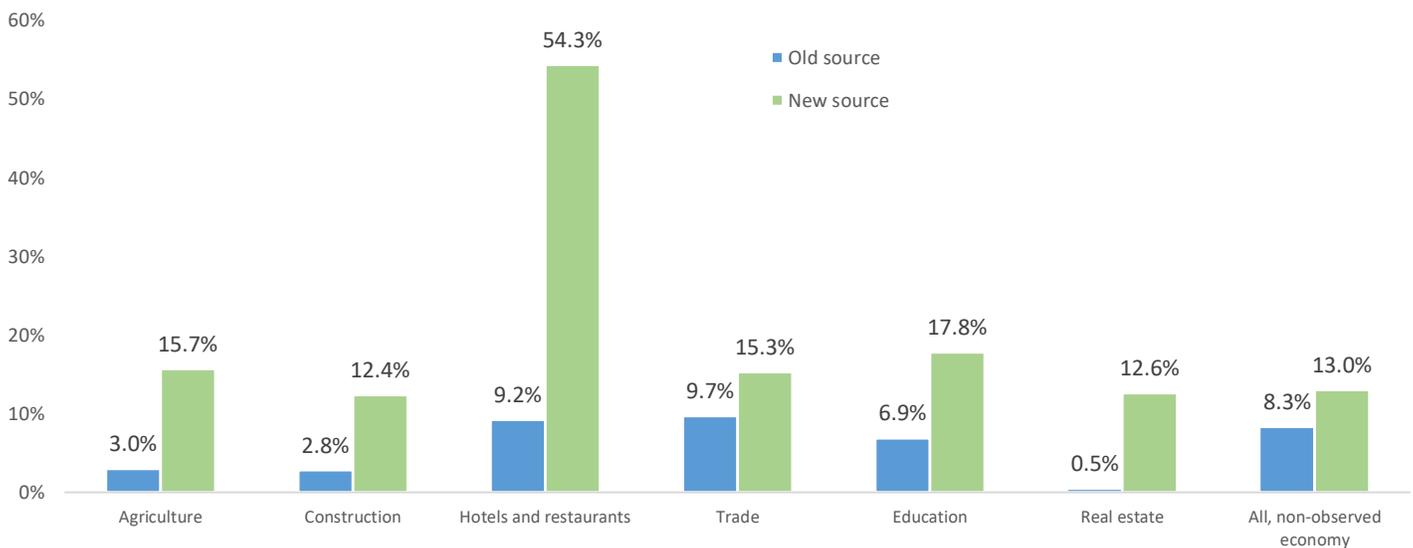


Source: Geostat

The transition to the new standards of SNA has caused the broadening of the size of the economy. Nominal indicators of GDP, calculated by the new standard, are different by around 6.2 percent during 2010-2018. Nominal GDP growth for 2018 has amounted to 9.4 percent, which is higher than the same indicator using the old methodology, 8.5 percent. For 2018, GDP per capita has also increased from USD 4,346 to USD 4,722. According to the National Statistics Office of Georgia, an existing 8.6 percent difference in the 2018 nominal GDP, 3 p.p is coming from the methodological change, while the remaining 5.6 p.p is coming from the improvement of data sources.

The change of the standard and the improvement of the data sources have also impacted on the GDP decomposition by sectors. According to the recalculated data, the share of the service sector was 77.6 percent in 2018, which is higher than the calculation by the old methodology, 75.3 percent. The growth is coming from the increase of transactions in the real estate and the financial sectors, as well as private education, tourism, and other covered non-

Figure 5: The share of non-observed economy in the value added



Source: Geostat

observed data sources. According to the new data, the share of the non-observed economy in the value-added was 131 percent in 2018 (the same indicator was 8.3 percent under the old methodology).

Growth of nominal GDP has caused the change of different indicators: public debt to GDP has reduced from 42.2 percent to 38.9 percent of GDP in 2018. Despite the reduction of tax revenue as a percent of GDP, it is still at a high level of 23.6 percent. Moreover, the budget deficit has also declined from 2.5 to 2.3 percent of GDP for 2018. The current account deficit has reduced from 7.3 to 6.8 percent. The improved macroeconomic indicators are facilitating to upgrade the credit ratings of the country.

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Gross Domestic Product									
Nominal GDP, billion GEL (new)	21.8	25.5	27.2	28.6	31.1	33.9	35.8	40.8	44.6
<i>Nominal GDP, billion GEL (old)</i>	20.7	24.3	26.2	26.8	29.2	31.8	34.0	37.8	41.1
Nominal GDP, billion USD (new)	12.2	15.1	16.5	17.2	17.6	14.9	15.1	16.2	17.6
<i>Nominal GDP, billion USD (old)</i>	11.6	14.4	15.8	16.1	16.5	14.0	14.4	15.1	16.2
Nominal GDP per capita, billion USD (new)	3,233	4,023	4,422	4,624	4,739	4,013	4,062	4,359	4,722
<i>Nominal GDP per capita, billion USD (old)</i>	3,073	3,844	4,250	4,341	4,438	3,755	3,857	4,047	4,346
Real growth, % (new)		7.4%	6.4%	3.6%	4.4%	3.0%	2.9%	4.8%	4.8%
<i>Real growth, % (old)</i>		7.2%	6.4%	3.4%	4.6%	2.9%	2.8%	4.8%	4.7%
External indicators									
Current account balance, % of GDP (new)	-9.8%	-12.2%	-11.4%	-5.6%	-10.1%	-11.8%	-12.5%	-8.0%	-6.8%
<i>Current account balance, % of GDP (old)</i>	-10.3%	-12.8%	-11.9%	-5.9%	-10.8%	-12.6%	-13.1%	-8.7%	-7.4%
Export, % of GDP (new)	13.7%	14.5%	14.4%	16.9%	16.2%	14.7%	14.0%	16.8%	19.1%
<i>Export, % of GDP (old)</i>	14.4%	15.1%	15.0%	18.0%	17.3%	15.8%	14.7%	18.1%	20.7%
Import, % of GDP (new)	42.8%	46.8%	48.9%	46.7%	48.8%	48.8%	48.2%	48.9%	51.9%
<i>Import, % of GDP (old)</i>	45.0%	49.0%	50.8%	49.7%	52.1%	52.2%	50.7%	52.7%	56.4%
Net FDI, % of GDP (new)	6.0%	6.5%	4.6%	5.3%	8.1%	9.5%	8.2%	10.4%	5.3%
<i>Net FDI, % of GDP (old)</i>	6.3%	6.8%	4.7%	5.7%	8.7%	10.1%	8.6%	11.2%	5.7%
Income from tourism, % of GDP (new)	5.4%	6.3%	8.6%	10.0%	10.1%	12.5%	13.9%	16.6%	18.3%
<i>Income from tourism, % of GDP (old)</i>	5.7%	6.6%	8.9%	10.7%	10.8%	13.4%	14.7%	17.9%	19.9%
Fiscal indicators									
Tax revenue, % of GDP (new)	26.9%	27.0%	27.8%	26.0%	26.1%	26.4%	27.0%	26.8%	26.5%
<i>Tax revenue, % of GDP (old)</i>	28.3%	28.2%	28.9%	27.7%	27.9%	28.2%	28.4%	28.9%	28.8%
Current spending, % of GDP (new)	25.2%	22.0%	22.4%	22.7%	23.8%	23.3%	24.6%	22.6%	21.3%
<i>Current spending, % of GDP (old)</i>	26.6%	23.1%	23.3%	24.2%	25.4%	24.9%	25.9%	24.3%	23.1%
Budget deficit, % of GDP (new)	-5.3%	-2.0%	-1.7%	-1.9%	-2.6%	-2.4%	-2.9%	-2.7%	-2.3%
<i>Budget deficit, % of GDP (old)</i>	-5.6%	-2.1%	-1.7%	-2.1%	-2.8%	-2.6%	-3.0%	-2.9%	-2.5%
Public domestic debt, % of GDP (new)	5.2%	4.7%	4.5%	4.7%	6.1%	6.4%	7.0%	7.0%	7.3%
<i>Public domestic debt, % of GDP (old)</i>	5.5%	4.9%	4.7%	5.0%	6.5%	6.8%	7.3%	7.6%	7.9%
Public external debt, % of GDP (new)	26.8%	23.9%	24.2%	23.8%	23.6%	28.7%	29.8%	31.3%	29.9%
<i>Public external debt, % of GDP (old)</i>	28.2%	25.0%	25.2%	25.3%	25.2%	30.7%	31.4%	33.8%	32.5%

Source: Geostat, National Bank of Georgia, Ministry of Finance of Georgia

Economic Growth

Real GDP growth for the third quarter of 2019 reached 5.8 percent, while deflator increased by 7.2 percent.

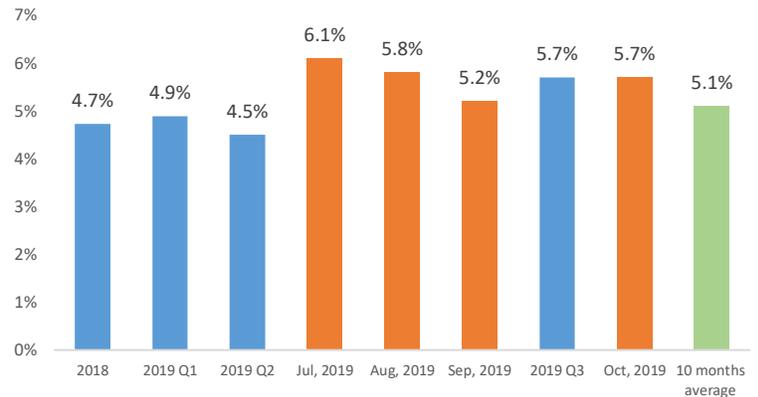
For the first quarter of 2019, growth was posted in education, hotels and restaurants, transportation, and communication sectors. However, for the second quarter, high growth was registered in the real estate, transport, hotels and restaurants, communication, and service activities. For the third quarter, growth was posted in construction, recreation, communication, and manufacturing sectors.

Net export has contributed to the economic growth of the second quarter of 2019, which was caused due to export improvement. Moreover, unlike 2018, investment has a negative contribution to economic growth. For the medium run, it is expected that export will still be the driver of the economy. Besides, global economic improvement is expected to be due to the trade. One more important factor is an investment. The reforms implemented are oriented to the enhancement of the savings and investments in the country.

GDP per capita has a growing trend. For 2018, GDP per capita was GEL 11,485 (USD 4,722). Moreover, according to the IMF, GDP per capita PPP is USD 11,485.

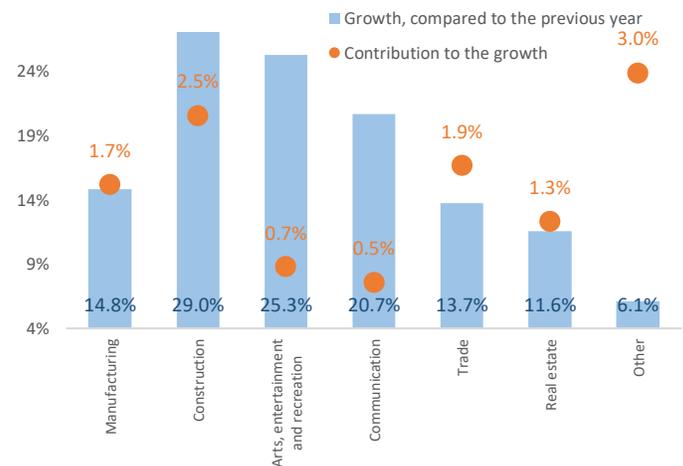
Recently, despite the economic slowdown, Georgian economic growth was higher than in the partner countries. Georgia has shown the important sustainability during 2014-2016 in light of the regional slowdown. During this period, the Georgian economy was growing on average by 3.4 percent, while in the neighboring countries there was negative economic growth. For 2017 and 2018, significant improvement has observed, and economic growth was 4.8 percent in both years. The macroeconomic policy had a consistent reaction to the external shocks, which led the Georgian economy to be one of the outliers in the region.

Figure 6: Economic growth



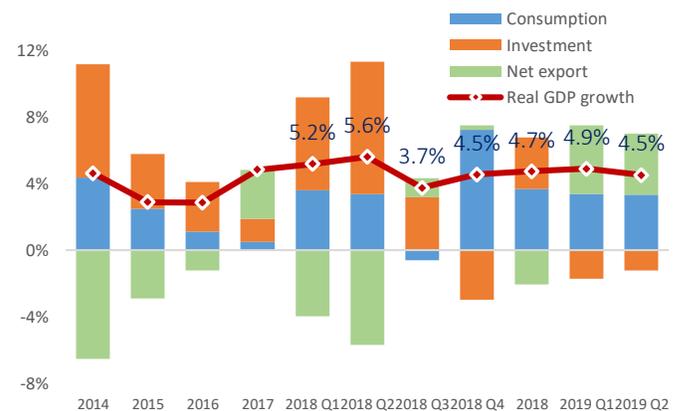
Source: Geostat

Figure 7: Groth of the sectors, 2019 Q III



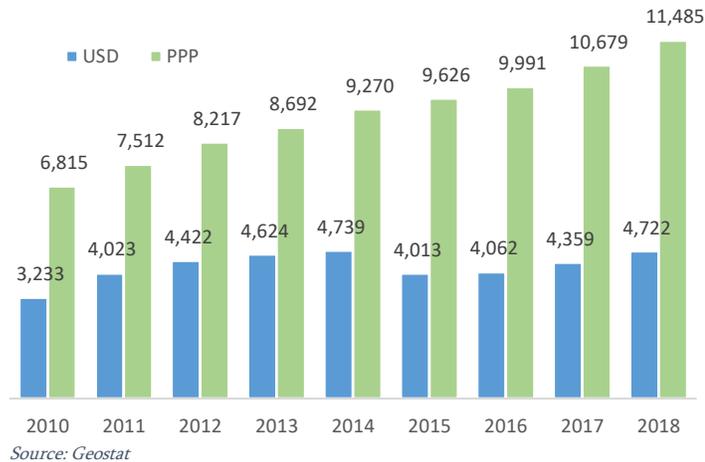
Source: Geostat

Figure 7: Decomposition of economic growth



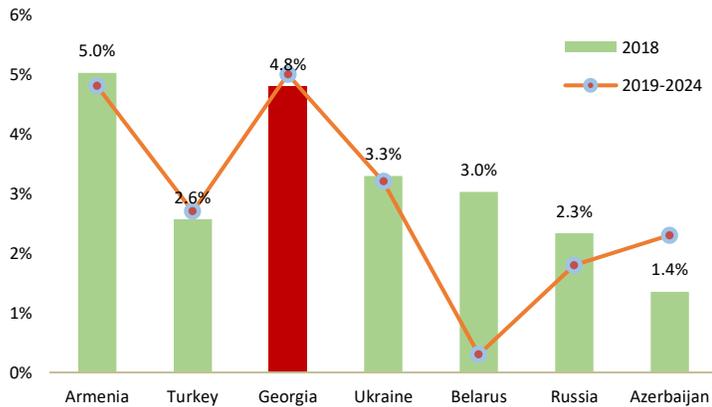
Source: Geostat

Figure 8: GDP per capita



According to IMF, Georgia will still maintain the leading positions in terms of economic growth in the region, for the medium run. The medium-run economic growth forecast for Georgia, for 2019-2024 is 5 percent, which is significantly above the other countries' growth in the region.

Figure 9: Economic growth within the region



Prices

After the impact of excise has faded out, inflation started to stabilize and was around targeted at 3 percent in 2018. However, from the second half of 2019, there was observed pressure on inflation, in creasing the annual inflation. The pressure was caused by not only the direct increase of prices on local and import products due to currency depreciation but also by the inflation expectations. Inflation was 7 percent in November 2019, compared to the same month of the previous year, and is higher than targeted inflation. Core inflation amounted to 4.9 percent for the same period. The change in tobacco excise tax will be reflected in the inflation rate of 2019. The impact of a price change on tobacco amounts to 0.9 points of inflation in November 2019.

The main impact on the formation of annual inflation was coming from the price dynamics on the food, non-alcoholic and alcoholic beverages, and tobacco particularly.

Figure 10: Annual inflation

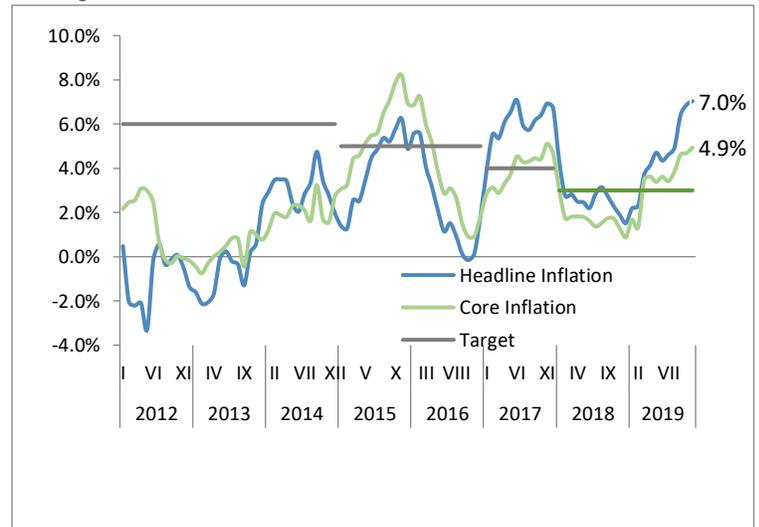
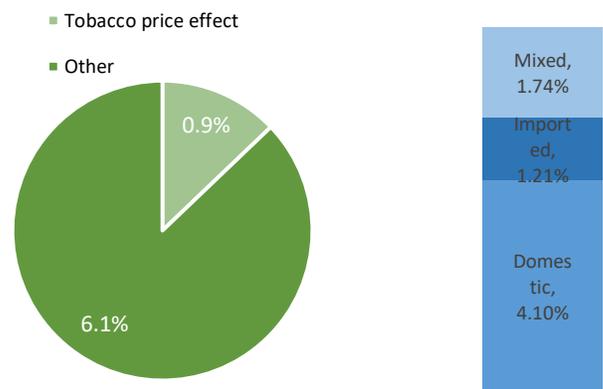
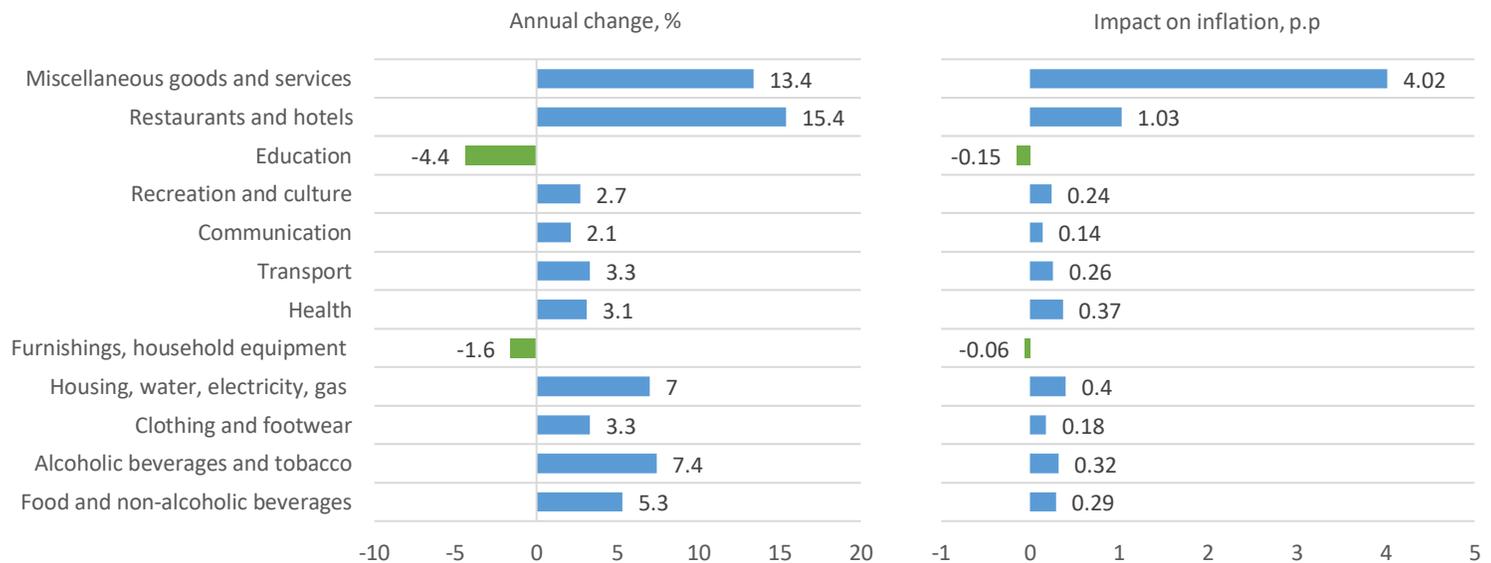


Figure 11: Inflation decomposition, .



Source: Geostat

Figure 12: Inflation decomposition, November 2019



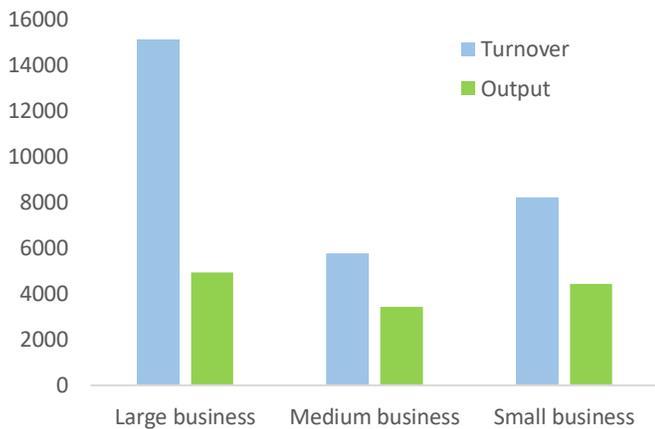
Source: Geostat

Figure 13: Business sector



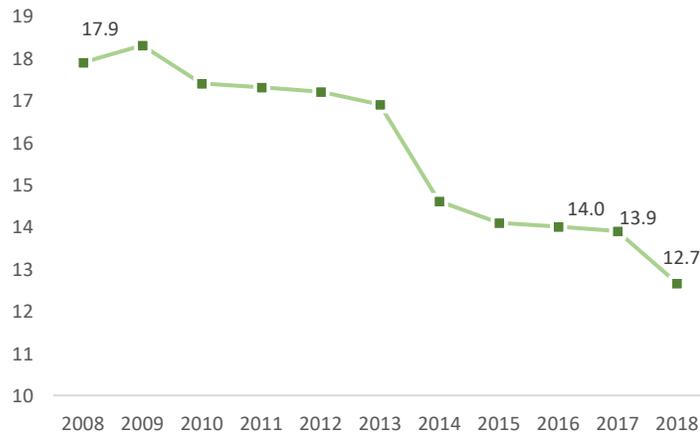
Source: Geostat

Figure 14: Business sector according to the size, 2019 Q3



Source: Geostat

Figure 15: Unemployment rate



Source: Geostat

Business Sector

Business sector turnover has increased by 33.0 percent in 2019 Q3, compared to the same period of the previous year, and amounted to GEL 29.0 billion. Business sector output also has a growing trend, and for the third quarter of 2019, it was GEL 12.8 billion, which is 19.8 percent higher than in 2018 Q3.

51.9 percent of the total turnover of 2019 Q3 is from the large business, while 19.9 percent is from the medium business, and only 28.2 percent – from the small business. In terms of total output, 38.2 percent is from the large business, 23.7 percent – from the medium, and 38.1 percent – from the small business.

The average number of employees during the third quarter of 2019 was 696.0 thousand, which is 4.6 percent higher than the same period of the last year. 40.9 percent of the employed people are women, and 59.1 percent are men. 36.3 percent of total employment is coming from the large business, 22.2 percent - from the medium, and 41.5 percent – from the small business.

Unemployment Rate

The unemployment rate was observed at 12.7 percent for 2018, the minimum level for the last several years. Unemployment was 11.1 percent for the third quarter of 2019. As for 2018, unemployment amounted to 12.7 percent, out of which unemployment in the urban area was 19.3 percent and in the rural, it was 5.8 percent. For 2019 Q3, urban unemployment was observed at 16.6 percent, while rural unemployment was 5.5 percent. Unemployment is the highest among the 15-24 and 25-34 age groups.

External Sector

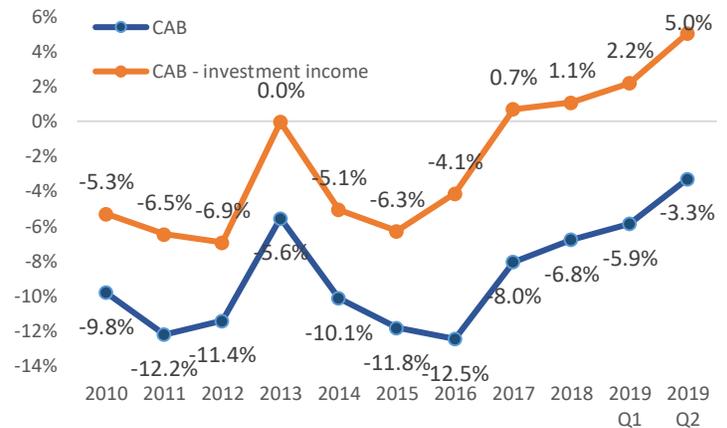
Current Account Balance

The current account deficit was 2.9 percent in the second quarter of 2019, which is a significant improvement. The decline of the deficit is mainly due to the decrease in negative goods balance, which is the result of export improvement.

It is important that the improvement of the current account balance is coming from the increased savings, which was facilitated by the Corporate Income Tax reform launched in 2017. Under this reform, reinvesting profit is exempted from the corporate income tax. For the second quarter of 2019, debt share to investment financing has declined, while savings have increased significantly.

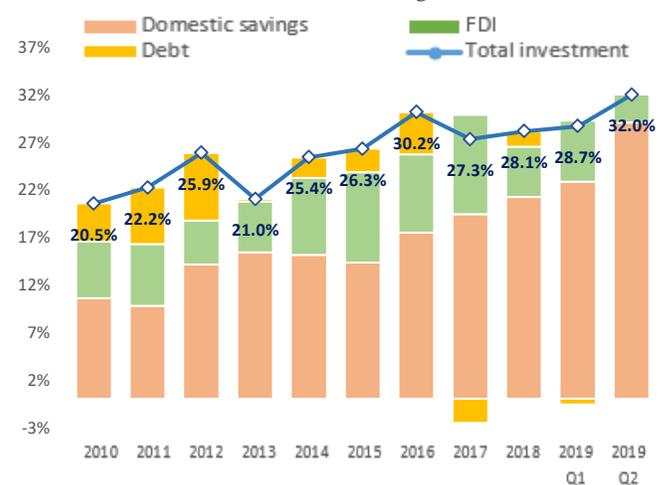
The current account deficit is financing through debt and foreign direct investments (FDI). Though debt financing means more borrowing and, thus, more interest payments. Therefore, it is favorable to finance the current account deficit through increased FDI. The financing structure of the current account deficit was recently improved, and it was fully financed through the FDI in 2017. In the second quarter of 2019, the current account deficit has significantly decreased to 2.9 percent, while the deficit was mainly financed by investments contributing 3.2 percent. Moreover, as there is no need for financing through debt, its share is 0, which is a significant improvement during the last years. As for 2018, overall, the deficit was financed through FDI and debt as well.

Figure 16: Current Account Balance



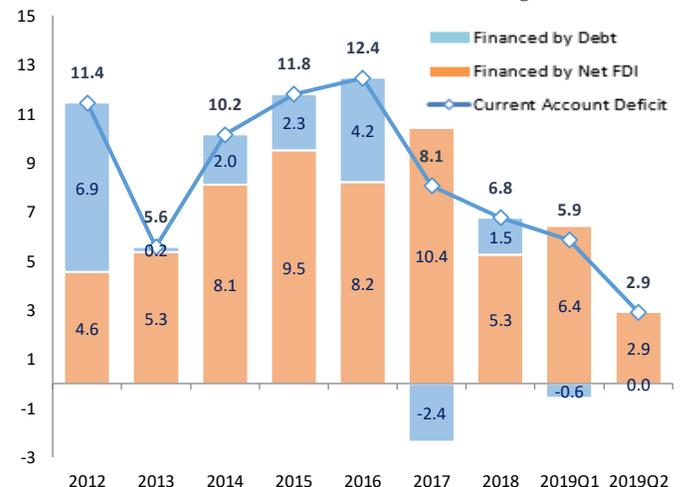
Source: National bank of Georgia

Figure 17: Domestic investment financing



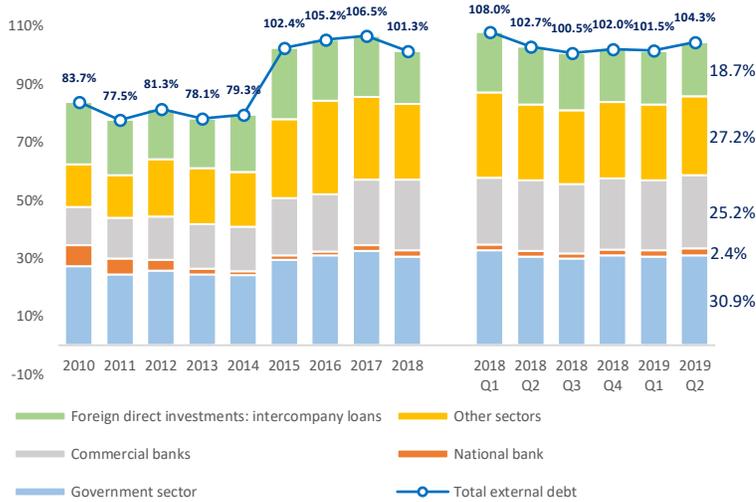
Source: Geostat, National bank of Georgia

Figure 17: Sources of domestic investment financing



Source: National bank of Georgia

Figure 18: External debt



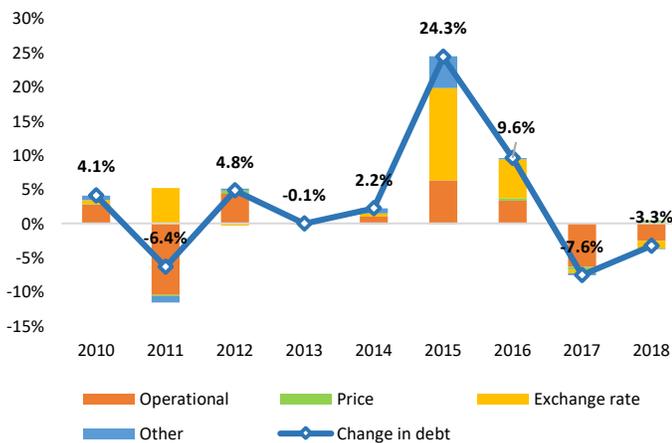
Source: Geostat, National bank of Georgia

External Debt

External debt is another vulnerability for the Georgian economy. External debt consists of the government debt on the one hand and commercial debt, the debt of the NBS, and intercompany loans on the other hand.

The external debt has declined in 2018 compared to 2017 and amounted to 110 percent of GDP. The reduction was mainly due to the reduced government debt and intercompany loans. In the first half of 2019, external debt was 104.7 percent of GDP.

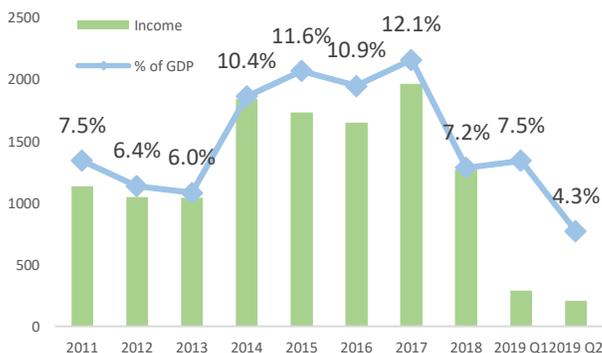
Figure 19: Change in debt



Source: Geostat, National bank of Georgia

Change in external debt can be decomposed into the operational change (new debt) and price effect, exchange rate, and nominal GDP effect. During 2015-2016, depreciation was the main driver of increasing the external debt, while a change in GDP was positively contributing towards its reduction. In 2018, operational and exchange rate effects were a source of increase external debt. However, the growth of nominal GDP and price effects outweighed and caused debt to decline. In the second quarter of 2019, external debt has increased by 3.3 percent, and the main contributor to the debt change was the exchange rate effect, while a decrease in the new debt and economic growth has contributed to reducing the external debt.

Figure 20: Foreign Direct Investments



Source: Geostat

Foreign Direct Investments

FDI amounted to USD 417.3 million in the third quarter of 2019, which means a 13.7 percent increase compared to the same period of the last year. Investor countries in the third quarter of 2019 were United Kingdom (18.8 percent), Netherlands (16.4 percent), Turkey (10.3 percent), China (7.2 percent), and the USA (6.0 percent). As for sectors,

FDI in the financial sector reached 23 percent, while in the manufacturing, it was 11.8 percent, hotels and restaurants – 11 percent, construction – 10.4 percent, and energy sector – 9.5 percent. In the first 9 months of 2019, FDI has declined an annual 16.9 percent. The main reasons for the reduction were the completed pipeline project, and transferring of ownership in some companies from non-resident to resident units.

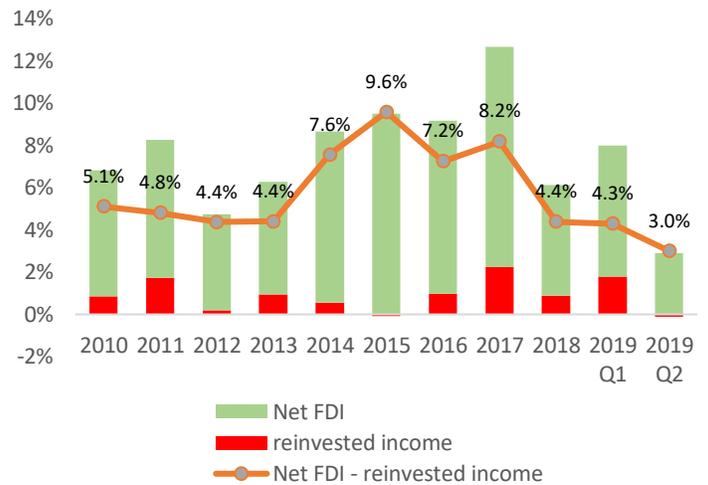
In 2016, the highest indicator was recorded in reinvestments and amounted to 32 percent of total FDI, which increased to 43.9 percent in 2017. It demonstrates that the government’s economic policy and the improved business environment are perceived positively by investors, and more investors have decided to extend their business plans in Georgia. The current economic policies and reforms are prerequisites for maintaining high levels of reinvestment in subsequent periods and for increasing it in the medium and long term. A rising share of reinvestments can be linked with CIT reform, the so-called “Estonian Model”, under which reinvestment profits are exempt from taxation.

External Trade

In November of 2019, export has increased by 25.2 percent and amounted to USD 346 million, while import has increased by 4.2 percent and amounted to USD 783 million. Therefore, the trade deficit has reduced by 8 percent compared to the same period of 2018. Overall, in January-November, export has increased by 11.7 percent and reached USD 3.38 billion, while import has declined by 2.3 percent and reached USD 8.12 billion, with reduced trade balance by 10.3 percent.

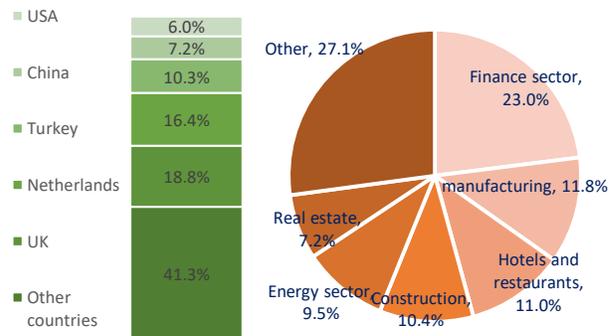
It is essential to differentiate between the real and price effects, when analyzing export and import changes, in order to see the real change. For the second half of 2018, a real change of export has been improved, and from

Figure 20: Foreign Direct Investments



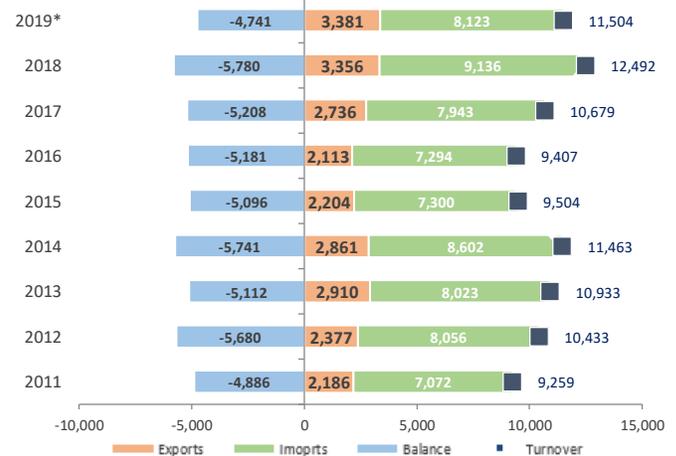
Source: Geostat, National bank of Georgia

Figure 21: FDI decomposition, 2019 Q3



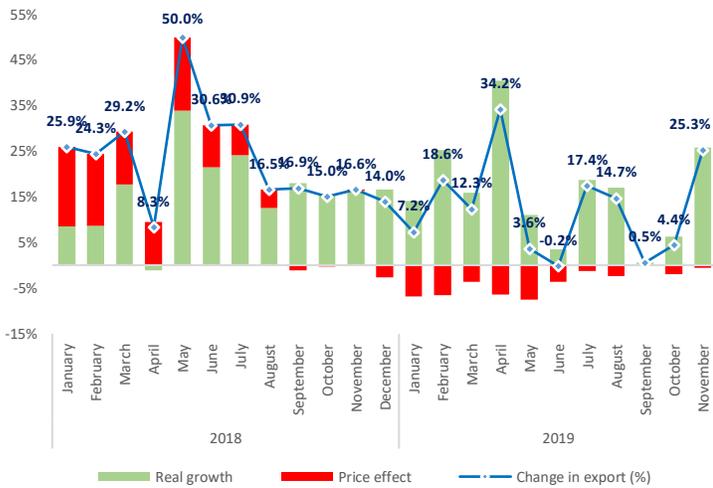
Source: Geostat

Figure 21: External trade – Jan- Nov, 2019



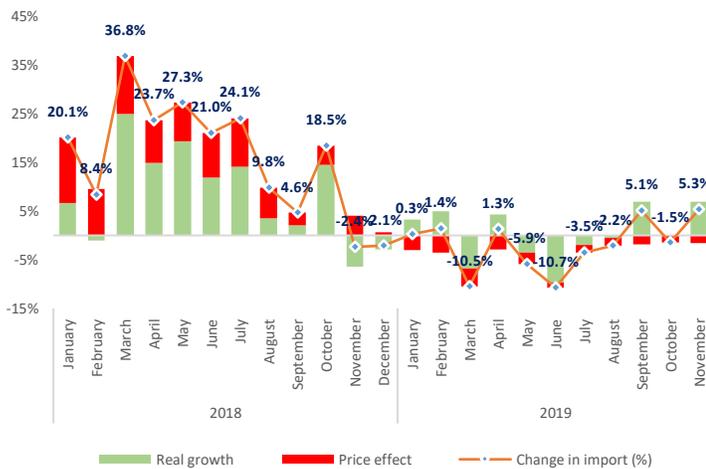
Source: Geostat

Figure 22: Annual change in export



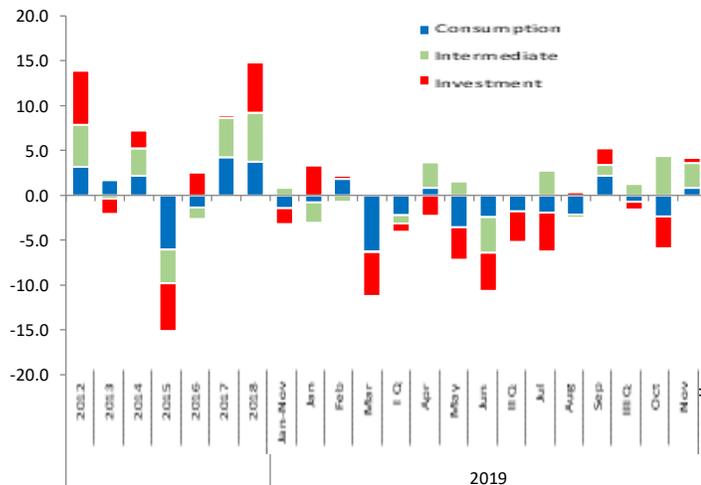
Source: Geostat

Figure 23: Annual change in import



Source: Geostat

Figure 24: Decomposition of import change



Source: Geostat

September, price change on export was negative, making the real change of exports greater than the nominal change of export. This tendency has also continued in 2019. In November 2019, the real growth of export amounted to 25.8 percent, while its nominal growth was only 25.3 percent.

As for the growth in import, the effect of price change has a significant share in its nominal increase in 2018. Real import was reduced during November and December of 2018, while in January-February of 2019, the real growth of import was higher than nominal growth. In November 2019, the real growth of import amounted to 6.9 percent, while in nominal terms, it increased by 5.3 percent.

In January-November of 2019, import of investment goods has declined by 1.7 percent and import of consumption goods – by 1.4 percent, while import of intermediate goods has increased by 0.9 percent.

The highest share of products in the top ten export products for January-November of 2019 have copper ores with USD 601.9 million (17.8 percent of total export), next were cars with USD 594.6 million (17.6 percent of total export) and on the third position is ferroalloys with USD 261.2 million (7.7 percent). The top import products in January-November were oil products with USD 685.8 million import (8.4 percent of total import), cars with USD 579.4 million (7.1 percent of total import), and copper ores with USD 545.1 million (6.8 percent of total import).

Tourism

In November of 2019, total visitors amounted to 632 thousand, which is 13.2 percent higher than November of 2018. Increase the number of visitors was mainly due to touristic trips (the number of tourists has increased by 10.3 percent) and one-day trips (have increased by 14.8 percent). Revenue from tourism has increased by 5.6 percent and amounted to USD 201.7 million. For the first 11 months of 2019, tourism revenue has increased by 1.2 percent. The lower growth is driven by the prohibition of flights from Russia to Georgia in July. However, higher revenue from other countries has compensated to mitigate the negative impact of such shock. Moreover, the number of visitors has increased by 7.7 percent during January-November of 2019.

Remittances

From the beginning of 2019, net money transfers in a month were higher than USD 100 million, which was higher compared to the same period of the previous year. In November, net remittances amounted to USD 129.2 million, which was 13.7 percent higher than in the previous year. Remittances have increased significantly from Italy (2.7 percent share of the total increase), Kyrgyzstn (2.5 percent share of the total growth), Ukraine (1.4 percent share of the total increase), and Kazakhstan (1.3 percent share of the total increase) in November, while they have decreased from Turkey (-0.9 percent share of the total growth). The annual increase of money transfers was observed from Russia by 1.4 percent (0.4 percent share of the total increase) and decline is continuing from Turkey by -19.8 percent (-0.9 percent share of the total increase).

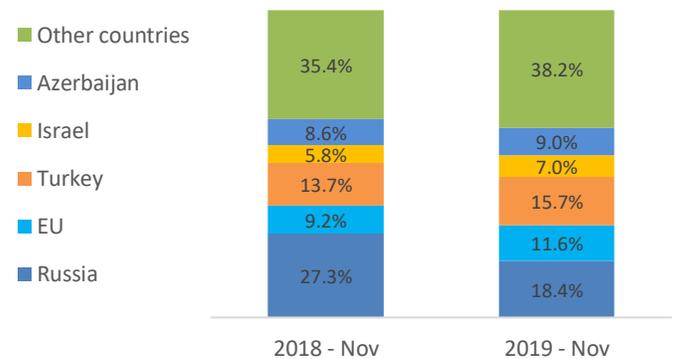
Overall, in 2018, the inflow of foreign currency, through export, tourism, and remittances, has increased by USD 1,321 million, while foreign currency outflow

Figure 25: Revenue from tourism, USD million



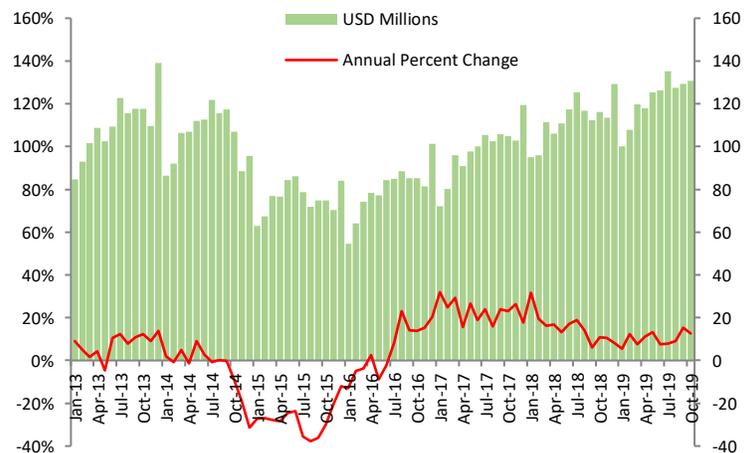
Source: National bank of Georgia

Figure 26: Top countries



Source: National bank of Georgia

Figure 27: Net money transfers



Source: National bank of Georgia

Figure 28: Dependence on the money transfers (% of the CAB credits)



Source: National bank of Georgia

determined by import has increased by to USD 1,183 million. As a result, there was a positive impact on the current account balance by USD 137 million for 2018. As for January–November of 2019, the inflow of foreign currency driven by an increase in export, tourism and remittances, increased by USD 522 million (7.0 percent), while outflows determined by import decreased by USD 192 million (less than 2.3 percent).

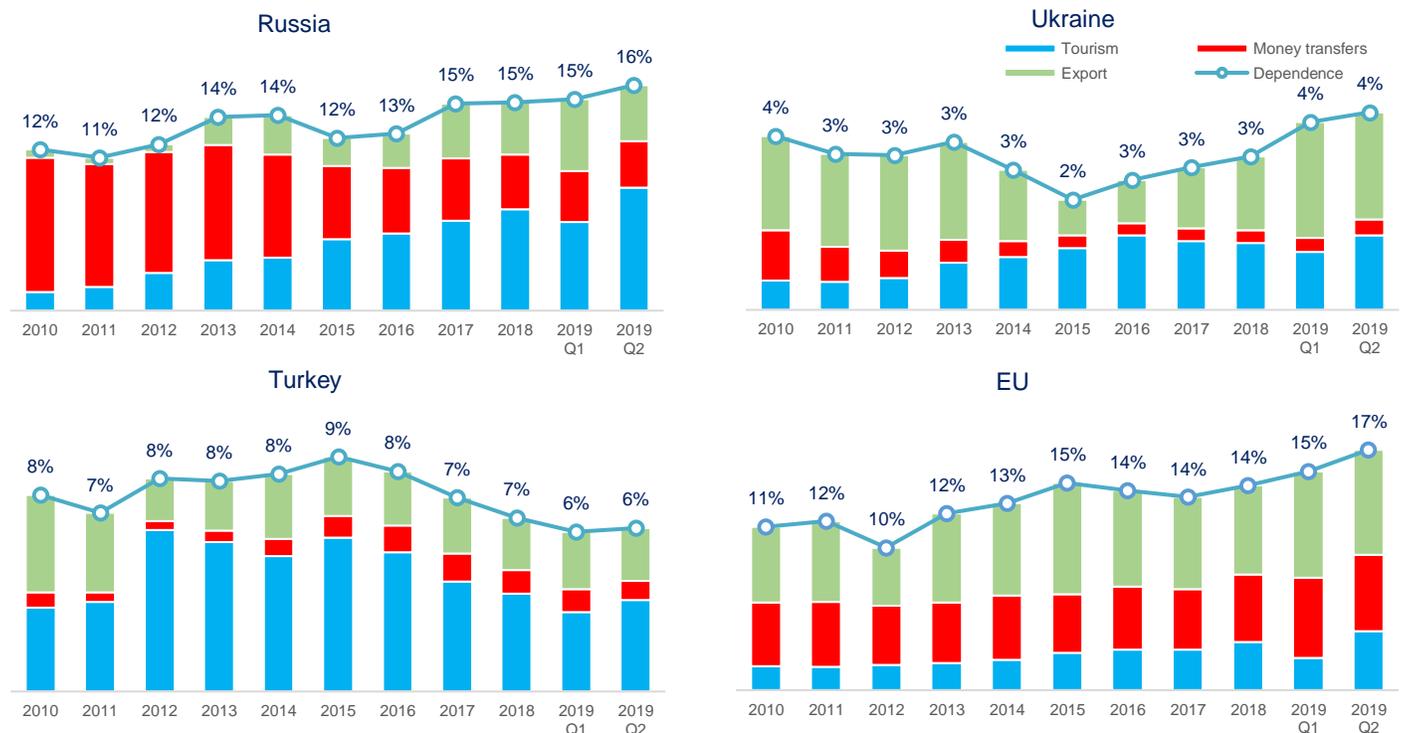
Even though money transfers have increased as a result of the exhaustion of external shocks during

recent years, dependence on the economy of such transfers has been declining through years, which can be explained by the rapid growth of export and tourism.

Dependence on Other Countries

Georgian economy is diversified in terms of dependence on other countries. Based on shares of exports, tourism, and transfers in the current account deficit, it can be concluded that Georgia has tight relationships with Russia, Turkey, Ukraine, and the European Union.

Figure 29: Dependence on the trading partners



Source: Geostat, National bank of Georgia

Dependence on Ukraine and the EU has increased in the first half of 2019, while based on the 2018 data, total dependence on Russia is almost unchanged. However, compared to the previous years, it increased in 2017-2018. Dependence on Turkey has slightly reduced, while dependence on Ukraine and the European Union has increased. There is also a change in the composition of dependence. There has been a declining tendency in the share of transfers and an increase in the share of tourism from Russia, Turkey, and Ukraine during recent years. The share of exports, in turn, has been increasing in the case of Russia and Ukraine while being almost unchanged in the case of Turkey and the European Union.

Exchange Rate

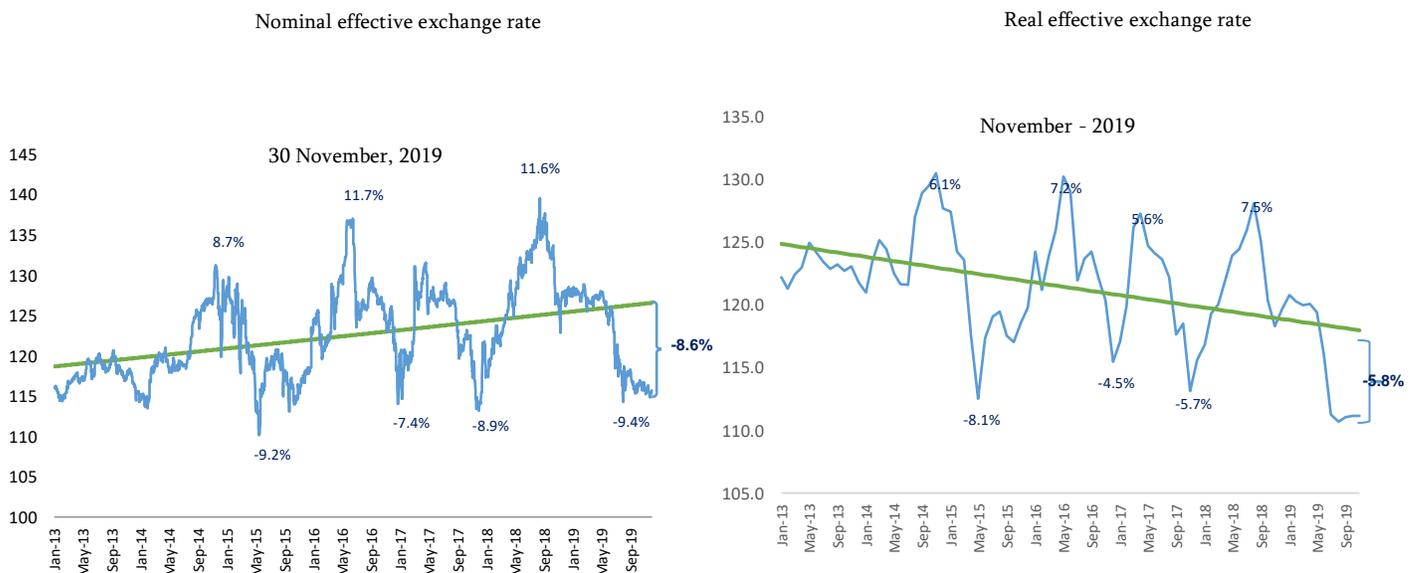
On November 30 of 2019, the nominal effective exchange rate of Georgian Lari depreciated by 9.5 percent compared to January 1 of 2019, and there was a 2.1 percent depreciation compared to January 1 of 2018. The real exchange rate depreciated by 8.0 percent compared to January of the last year and by 4.9 percent compared to January of 2019.

The nominal effective exchange rate of Lari is depreciated by 8.6 percent from its medium-run trend.

	November 30, 2019	Nov 30, 2019 - Jan 1, 2018	Nov 30, 2019 - Jan 1, 2017
Euro	3.2876	▼ -14.5%	▼ -20.0%
US Dollar	2.9695	▼ -10.9%	▼ -19.3%
Turkish Lira	0.5162	▲ 45.4%	▲ 58.7%
Russian Ruble	0.0483	▼ -7.1%	▼ -29.8%
NEER	115.70	▼ -2.1%	▼ -3.6%
REER (November 2019)	111.17	▼ -3.9%	▼ -3.7%

Source: National bank of Georgia

Figure 30: Nominal and real effective exchange rates and their deviation from trend



Source: National bank of Georgia

Fiscal Sector

Budget of 2020

The forecast of the income revenue for 2020 is GEL 13,612.0 million. Out of which, tax revenue is GEL 12,305.0 million, grants – GEL 317.0 million, and other revenue – GEL 990.0 million.

The forecast of tax revenue is based on 4.5 percent economic growth and 3.5 inflation rate. Moreover, legislative changes, tax base changes, administration improvement and the current economic tendencies were taken into accounts while forecasting tax revenues. In particular:

- BP’s payment (GEL 180.0 million)
- Effect of the “Golden list” (GEL -200.0 million)
 - VAT (GEL -100 million)
 - Excise (GEL -100 million)
- Impact of tobacco taxation (GEL 80.0 million)

The budget deficit of 2019 was planned at 2.4 percent, which was 0.1 points higher than the actual deficit of 2018.

Consolidated Budget Performance

The forecast of income of consolidated budget for January-September of 2019 was GEL 9,225.7 million, while the actual number was GEL 9,501.9 million, 103.0 percent of the forecasted value.

The forecast of the tax revenue was GEL 8,362.7 million, while the actual number was GEL 8,473.5 million, 101.3 percent of the forecasted value.

Forecast of grants was GEL 240 million, and it amounted to GEL 324.3 million, which is 135.1 percent of the forecasted value.

Other revenues forecast was GEL 623.1 million, while the actual value amounted to GEL 704.1, which is 113.0 percent of the forecast.

The reduction of non-financial assets amounted to GEL 136.7 million, which is 129.6 percent of the forecast (GEL 105.5 million).

The reduction of financial assets amounted to GEL 63.3 million, which is 89.8 percent of the forecast (GEL 70.5 million).

The forecast for tax revenue was GEL 7,091.6 million, while the actual number was 7,177.3 million, which is 101.2 percent of the forecasted value.

Tax mobilization in the budget in terms of different taxes is following:

- Income tax revenue amounted to GEL 2,355.3 million, which is 99.8 percent of the forecasted value (GEL 2,359 million);
- Profit tax revenue amounted to GEL 674.1 million, which is 101.8 percent of the forecasted value (GEL 662.3 million);
- VAT revenue amounted to GEL 3,091 million, which is 102.6 percent of the forecasted value (GEL 3,012.9 million);
- Excise tax amounted to GEL 993.4 million, which is 91.3 percent of the forecasted value (GEL 1,088.4 million);
- Import tax revenue amounted to GEL 56.4 million, which is 89.5 percent of the forecasted value (GEL 63 million).

Figure 30: Budget deficit (percent of GDP)



Source: Ministry of Finance of Georgia

Table 2: Budget performance of 2019 first 9 months, GEL thousand

	9 months, plan	9 months, actual	Performance, %
<i>Revenue</i>	7,664,369.5	7,868,295.5	102.7%
<i>Expenditure</i>	7,159,184.7	7,030,653.2	98.2%
<i>Operational balance</i>	505,184.8	837,642.2	165.8%
<i>Acquisition of non-financial assets</i>	1,356,122.1	1,335,193.5	98.5%
<i>Overall balance</i>	-850,937.3	-497,551.3	58.5%
<i>Acquisition of financial assets</i>	-480,909.1	-194,802.1	40.5%
<i>Change in liabilities</i>	370,028.2	302,749.2	81.8%
<i>Increase</i>	1,095,824.5	1,027,213.0	93.7%
<i>Domestic</i>	427,833.5	425,994.8	99.6%
<i>External</i>	667,991.0	601,218.2	90%
<i>Decrease</i>	725,796.3	724,463.9	100%
<i>Domestic</i>	34,165.1	34,165.1	100%
<i>External</i>	691,631.3	690,298.8	100%

Source: Ministry of Finance of Georgia

State Security Market

In November 2019, 4 auctions were held with a total issuance volume of GEL 270 million. The weighted average interest rate amounted to 9.201 percent.

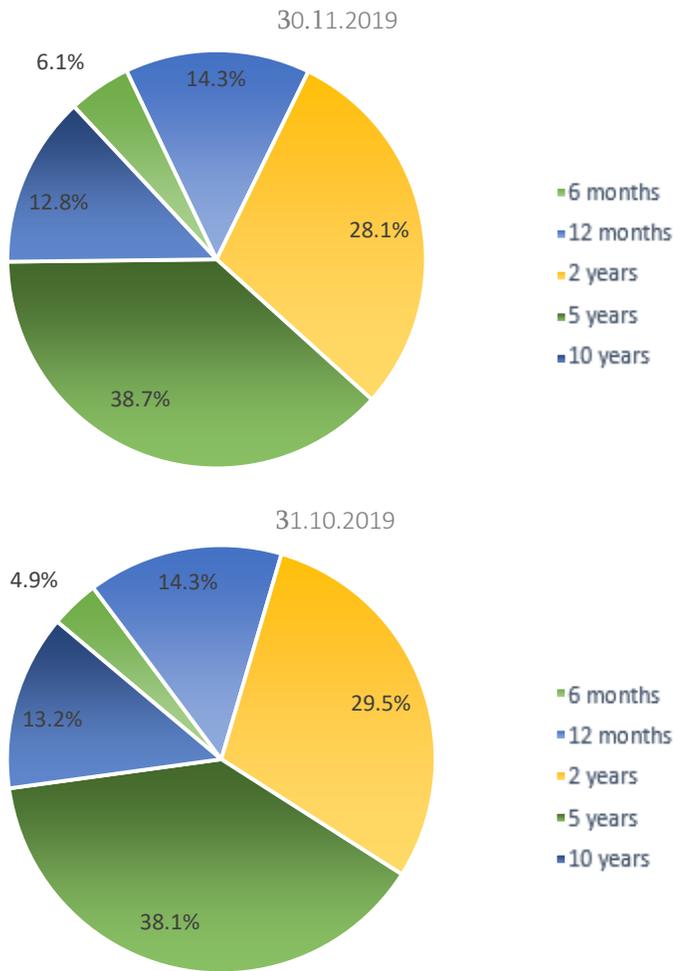
There were issued treasury bills with maturities of 6 months and 12 months; Treasury bonds with matured of 2 and 5 years. Treasury securities with a total amount of GEL 140 million were redeemed.

Table 3: Budget performance of 2019 first 10 months, GEL thousand

	6M	12M	2Y	5Y	Total
<i>Issuance volume</i>	70	60	70	70	270
<i>Average weighted interest rate</i>	8.971	9.072	9.281	9.461	9.201
<i>Redemption</i>	20	40	80	0	140
<i>Difference</i>	50	20	-10	70	130

Source: Ministry of Finance of Georgia

Figure 31: The structure of treasury securities portfolio



Source: Ministry of Finance of Georgia

Figure 32: The portfolio yield



Source: Ministry of Finance of Georgia

The composition of portfolio state securities has changed slightly. Compared to the October share of 6-month maturity, treasury bills has increased from 4.9 percent to 6.1 percent. Portfolio yield has significantly changed for 6 months maturity treasury bills, from 7.2 percent to 7.8 percent, and for 1-year maturity bills, from 7 percent to 7.2 percent.

Average Time to Maturity (ATM) for all securities forming the portfolio has decreased compared to the previous month's value, from 2.55 to 2.35.

As for November 30, 35.3 percent of the treasury securities portfolio is composed of securities whose maturity date is due for the next one year.

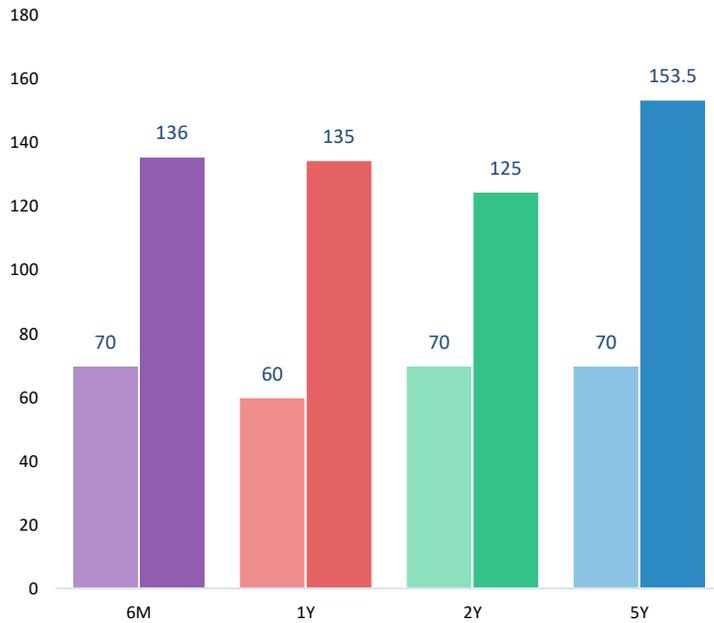
The bid-to-cover ratio has increased compared to the previous month's value (1.81 in October) and amounted to 2.03.

Table 4: Average time to maturity (Years; End of month)

2019	September	October	November
6 months	0.24	0.30	0.32
12 months	0.47	0.49	0.60
2 years	0.92	0.97	1.00
5 years	3.03	3.03	3.16
10 years	6.33	6.37	6.29
Total	2.37	2.55	2.35

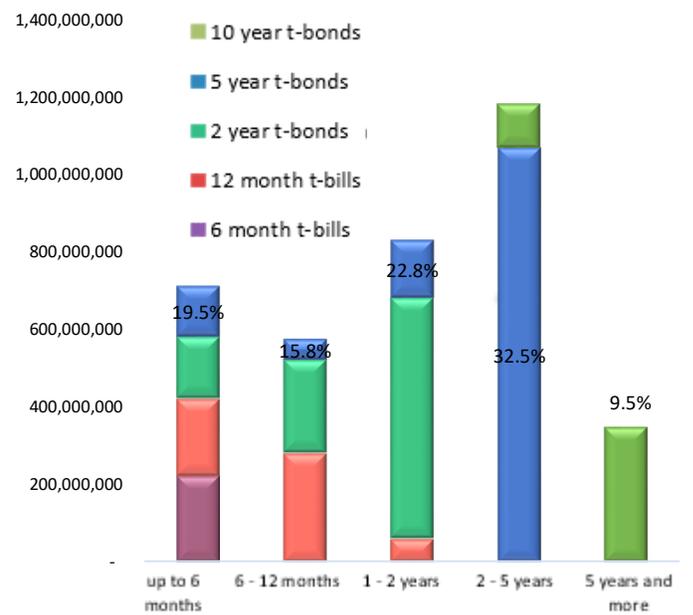
Source: Ministry of Finance of Georgia

Figure 33: Issuance and demand, million GEL



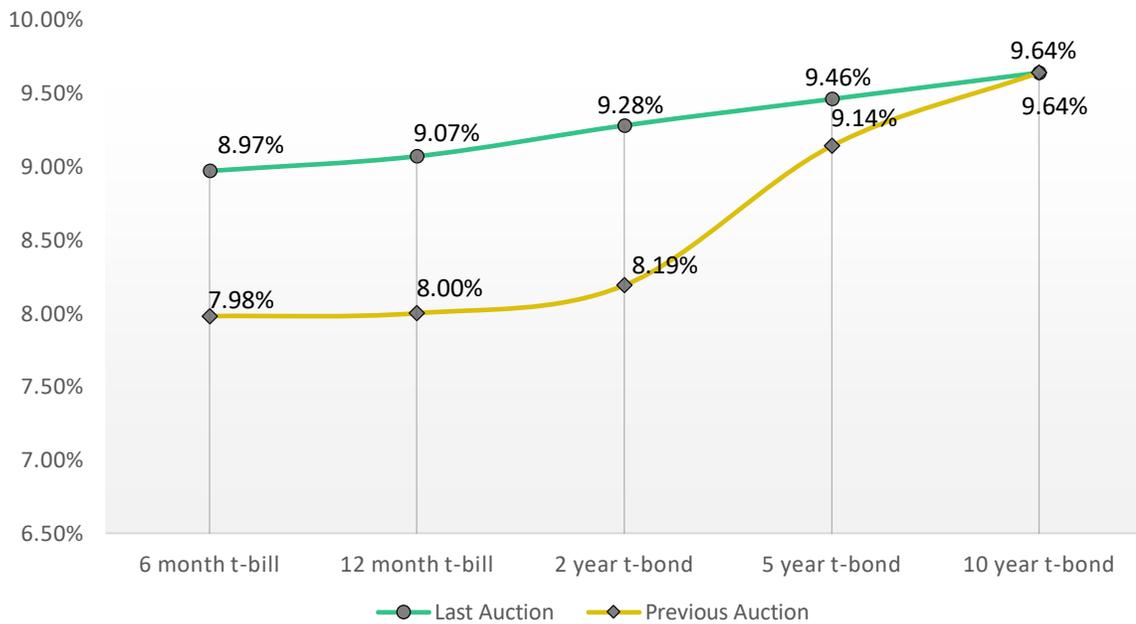
Source: Ministry of Finance of Georgia

Figure 34: Portfolio forming securities composed by time to maturity



Source: Ministry of Finance of Georgia

Figure 35: Weighted average interest rates from the last month's auctions



Source: Ministry of Finance of Georgia

Monetary Sector

Dollarization of the Private Sector

Loan larization has an increasing trend. Larization of total loans is mainly driven by the larization of individual loans. As of November 2019, the larization of individual loans amounted to 58.0 percent, while the larization of corporate loans is 29.7 percent. Larization of total loans stood 44.4 percent in the given period.

There is an increasing trend of larization of loans secured by real estate as well as consumer loans, but the latter is significantly higher than the former. The larization of consumer loans was 87.3 percent in November 2019, while larization of loans secured by real estate amounted 34.5 percent in November 2019.

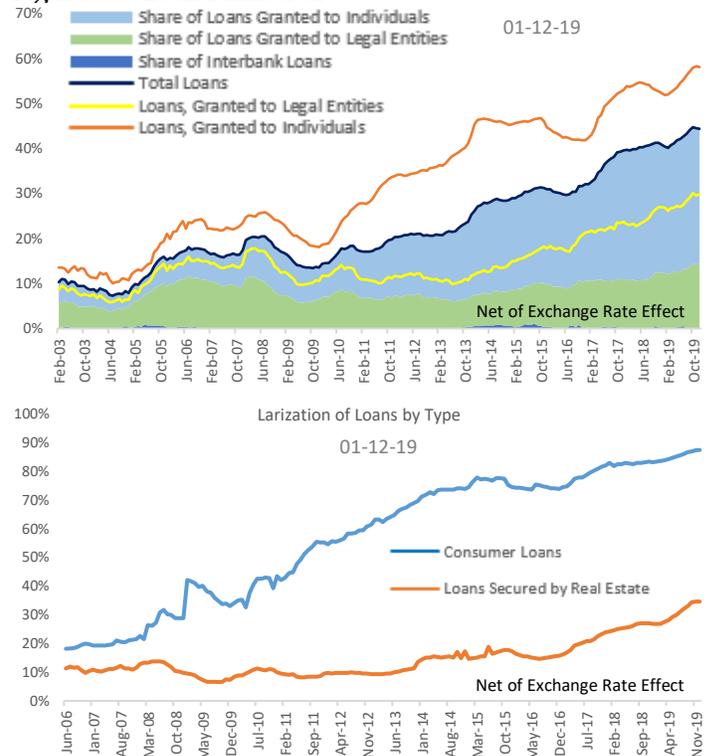
Larization of deposits is mainly driven by corporate deposits. Larization of total deposits was 35.6 percent in November 2019. Larization of corporate deposits was 49.5 percent during the same period, while the larization of deposits of individuals amounted to 24.2 percent.

Larization of current accounts increased by 1.0 percentage points compared to the previous month and amounted to 46.6 percent in November 2019. In the same period, the larization of demand deposits was 33.1 percent, and the larization of time deposits was 30.2 percent.

Overview of Loans

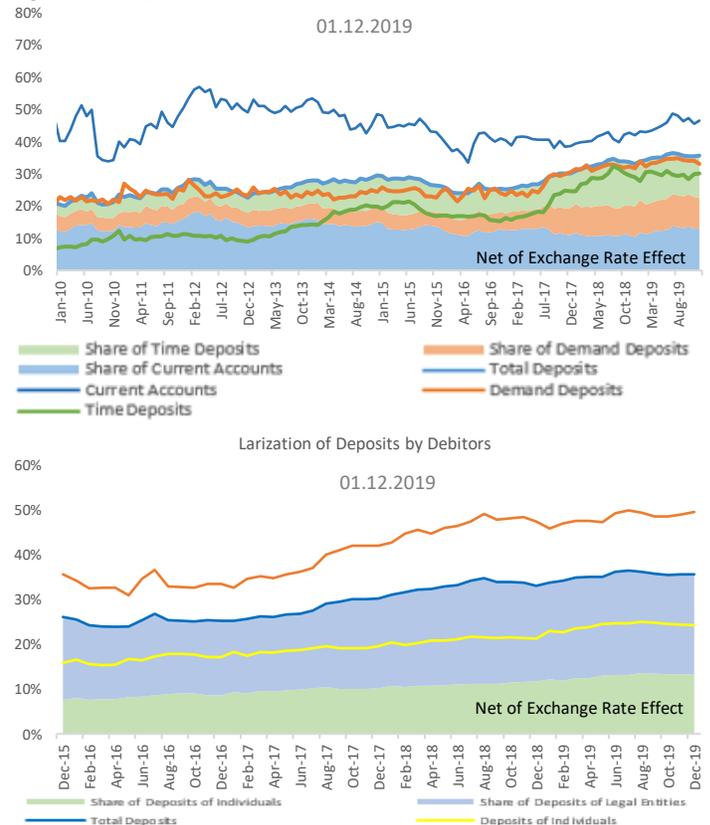
In November 2019, the annual growth rate of total loans increased by 0.3 percentage points compared to the previous month and amounted to 13.2 percent compared to November 2018. In the same period, the

Figure 36: Loan larization



Source: National bank of Georgia

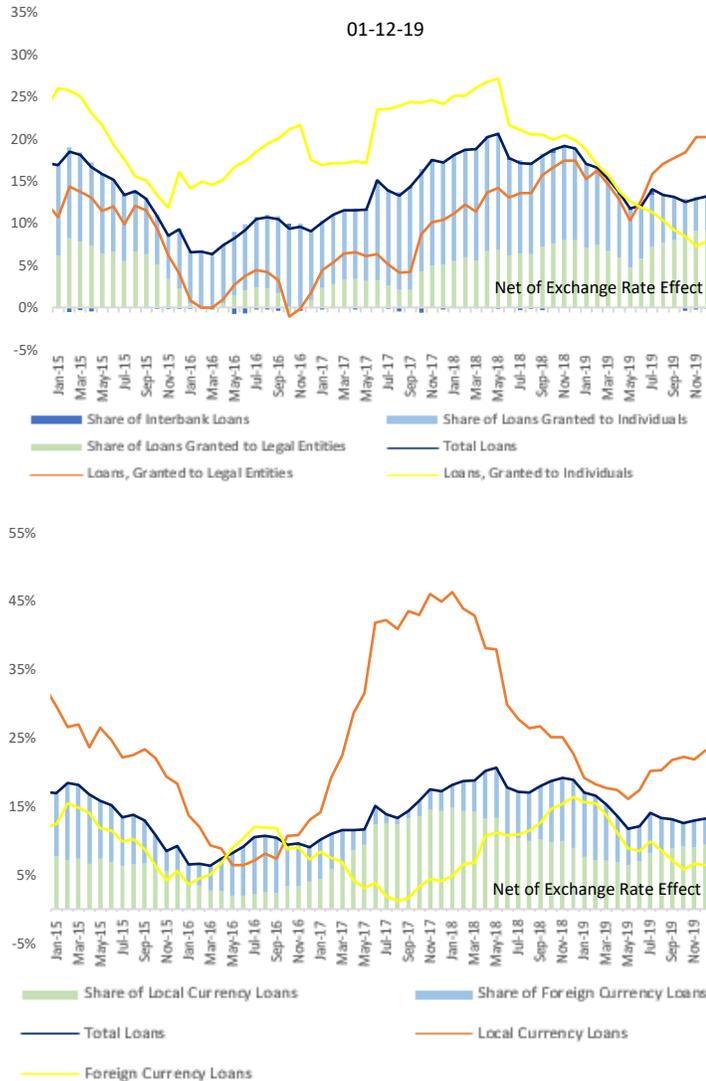
Figure 37: Deposit larization



Source: National bank of Georgia

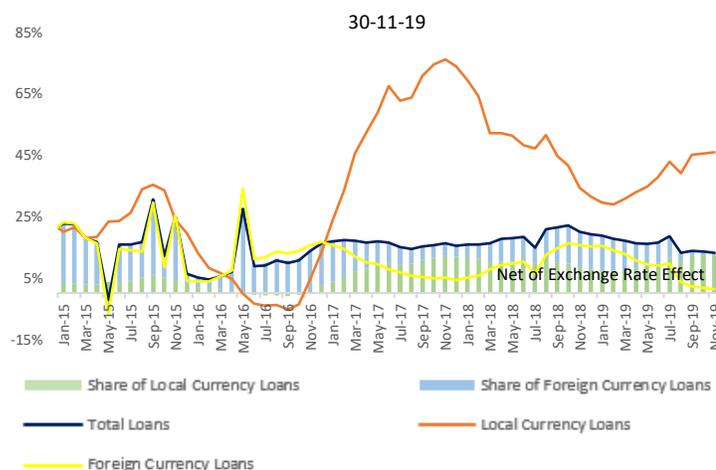
Note: Larization and growth rate indicators are calculated net of exchange rate effect

Figure 38: Annual growth of loans



Source: National bank of Georgia

Figure 39: Annual growth of loans secured by real estate



Source: National bank of Georgia

annual growth rate of corporate loans decreased by 0.1 percentage points compared to the previous month and amounted to 20.2 percent, while the annual growth of loans granted to individuals reached 7.8 percent.

In November 2019, the annual growth rate of national currency-denominated loans amounted to 23.1 percent compared to the same period of 2018. Loans in foreign currency grew by 0.2 percentage points and amounted to 6.4 percent. Total loans grew by 13.2 percent. Since 2018, the contribution of the growth of loans denominated in foreign currency has been increasing in the growth of the total loans.

In November 2019, the annual growth of loans secured by real estate decreased by 0.3 percentage points compared to the previous month and amounted to 13.1 percent.

As for consumer loans, in November 2019, the annual growth rate increased by 0.4 percentage points compared to the previous month and amounted to 4.8 percent. Since 2017, an increase in consumer loans was mainly driven by the growth of loans denominated in national currency.

Overview of Deposits

In November 2019, the annual growth rate of total deposits was 11 percent compared to the same period of the previous year. The annual growth rate of national currency denominated deposits increased by 3 percentage points compared to the previous month and reached 20 percent, while deposits in foreign currency grew by 7 percent.

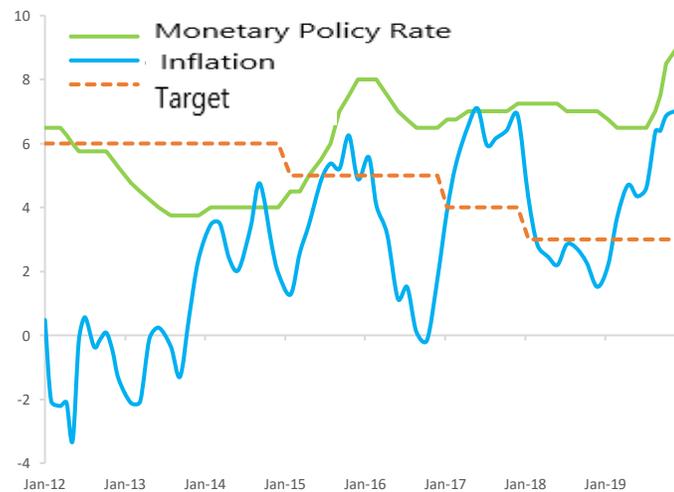
The growth rate of individuals' deposits increased by 11 percent in November 2019, while the annual

growth rate of deposits of legal entities increased by 2 percentage points compared to the previous month and amounted to 12 percent.

Monetary Policy Rate

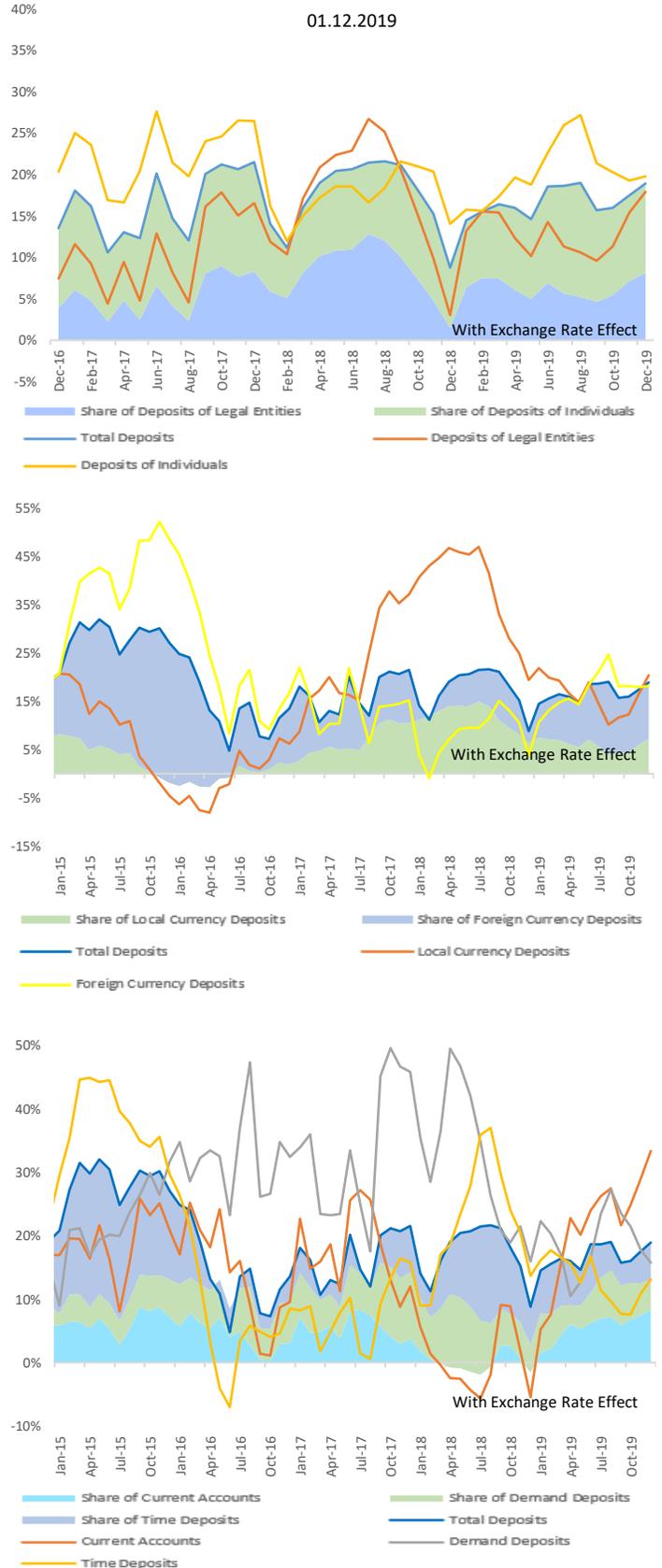
Starting from the beginning of 2018, the National Bank of Georgia was gradually exiting the moderate tightening monetary policy. However, in September 2019, the Monetary Policy Committee decided to raise the refinancing rate by 0.5 percentage points twice, on September 4, from 6.5 to 7 percent, and on September 25 at an extraordinary meeting, to 7.5 percent. Moreover, policy tightening has continued in October as well, and on October 23, the monetary policy rate has increased by 1 percentage point and amounted to 8.5 percent, while on December 11, refinancing rate has increased and reached 9 percent. Such a contractionary monetary policy is aiming to neutralize inflationary pressure stemming from the exchange rate depreciation. Besides, the tightening policy will continue until the neutralize the inflationary pressure stemming from the exchange rate.

Figure 41: Inflation and monetary policy rate



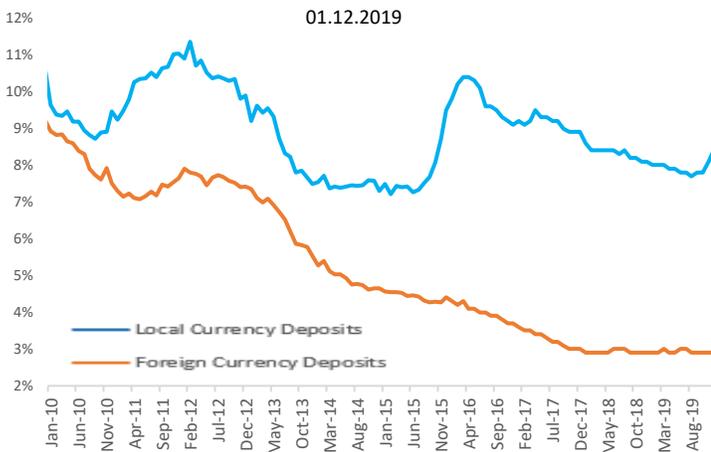
Source: National bank of Georgia

Figure 40: Annual growth of deposits



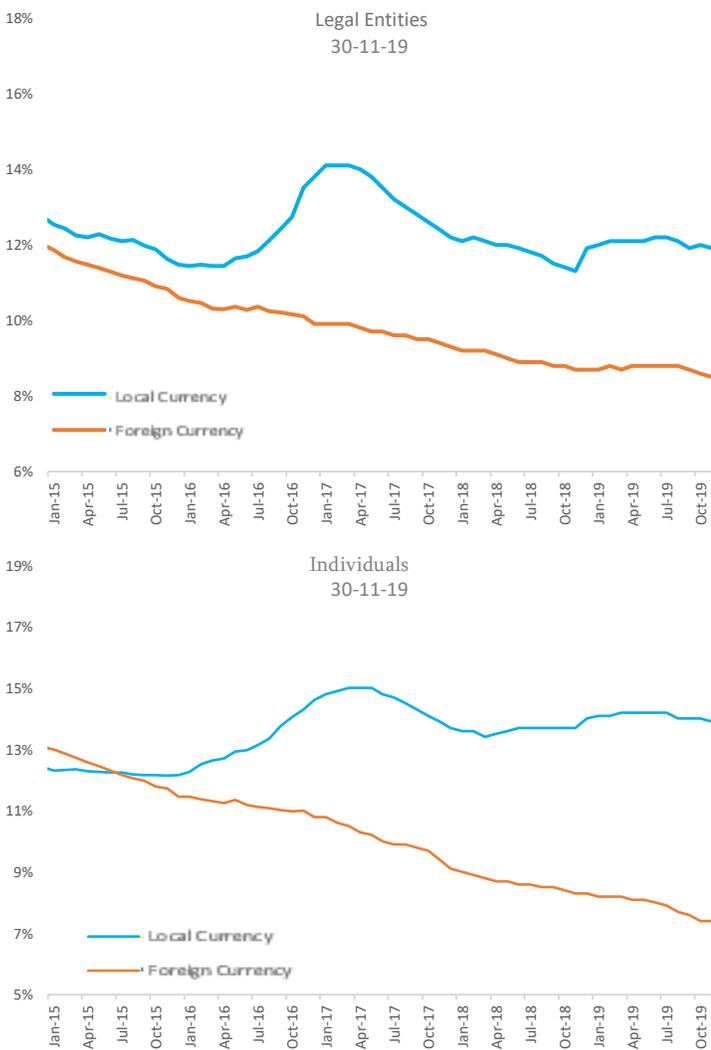
Source: National bank of Georgia

Figure 42: Interest rates on deposits (stock)



Source: National bank of Georgia

Figure 43: Interest rates on loans secured by real estate (at the end of month)



წყვილი: Source: National bank of Georgia

Interest Rates

The interest rate on foreign currency deposits in November 2019 reached 2.9 percent, while on local currency deposits, it was 8.4 percent.

In November 2019, the annual weighted average interest rate on national currency deposits of legal entities reached 9.2 percent, while on foreign currency deposits, it was 3.8 percent. As for individuals, the annual weighted average interest rate on foreign currency deposits reached 2.8 percent, while on the local currency, it was 9.8 percent.

In November 2019, the annual weighted average interest rate on short-term consumer loans reached 20.3 percent (in the national currency, it was 26.1 percent, while on foreign currency loans, it was 5.9 percent).

The annual weighted average interest rate on long-term consumer loans was mainly determined by national currency loans. In November 2019, it reached 16.6 percent on total long-term consumer loans. On national currency loans, it reached 17.6 percent and on foreign currency loans – 9.1 percent.

At the end of November 2019, the interest rate on corporate loans secured by real estate denominated in local currency was 12.2 percent, while on foreign currency loans, it was 7.4 percent. The interest rate on national currency individual loans secured by real estate amounted to 11.9 percent, while in foreign currency, it reached 6.8 percent.

Credit Ratings

In October 2019, international credit rating S&P has improved Georgian sovereign rating by 1 notch, from BB- to BB. According to S&P, improvement is related to Georgia’s relatively higher economic growth despite the worsening external factors. The rating agency expects that Georgian economic growth in the following years will be higher than other countries from the region, and the increase during 2020-2022 will reach 4 percent. According to S&P, the further improvement of the credit rating is limited by the low level of income, import dependence, and high external financing. Moreover, according to Moody’s and Fitch, Georgia has Ba2 stable and BB stable ratings, respectively.

Overall, even though there is a worsening economic environment in the region, Georgian sovereign credit rating has been improved, while the perspective remains on a stable level. This is mainly due to the conducting of the right policy (floating exchange rate, inflation targeting, counter-cyclical fiscal policy, removal of external trading barriers and export diversification, and association agreement with EU), reduction of risks, and medium-run perspectives.

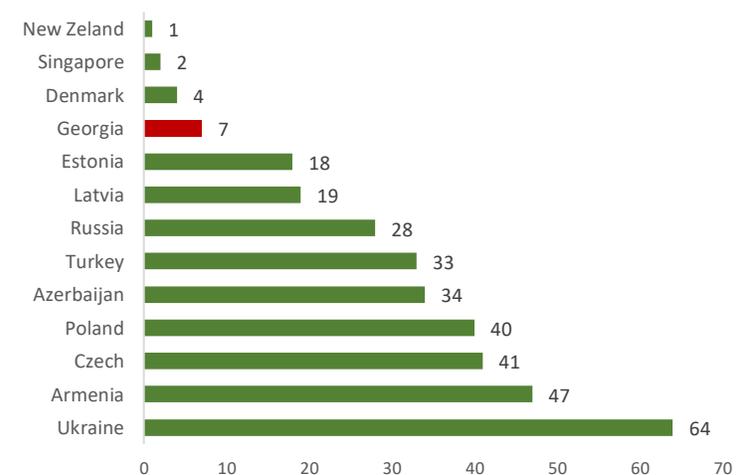
In terms of doing business, Georgia has shifted from 6th to 7th position. According to the World Bank, the most significant improvement has observed in the “construction permit” category in Georgia.

Figure 44: Credit Ratings of Georgia



Source: Rating agencies: Moody's, Fitch and S&P

Figure 44: Doing Business 2020, rating



Source: World Bank

Disclaimer

The outlook is prepared by the Department of Macroeconomic Analysis and Fiscal Policy Planning. Analytical information presented in the outlook does not represent official statistics.