

Ministry of Finance of Georgia

Current Economic Outlook February, 2020



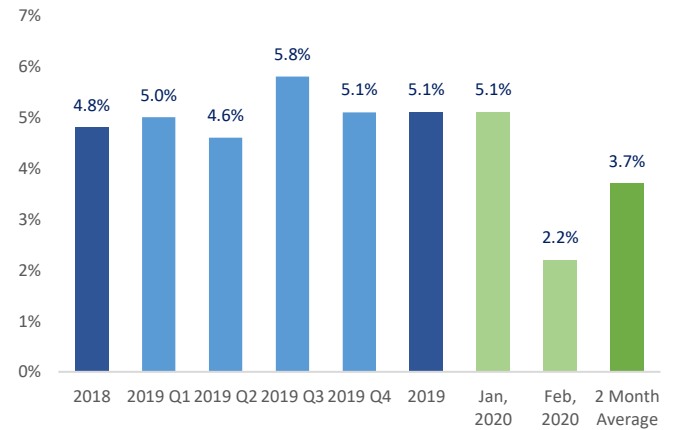
Brief Summary

- Based on Geostat's preliminary data, annual real economic growth in January equals to 2.2%
- Annual inflation equals to 6.4%, while core inflation - 4.6%
- Export annually decreased by 0.5 %
- Import annually increased by 8.4 %
- Income from tourism annually decreased by 5.2 %

Economic Growth

In February 2020, annual economic growth was 2.2 percent, while the average real growth in January-February 2020 was 3.7 percent. In January 2020, compared to the same period last year, growth was observed in the following sectors: trade; Car and motorcycle repair, information and communication, real estate, accommodation and food supply activities. While the decline was observed in the manufacturing, construction, transportation and storage sectors.

Figure 1: Economic Growth



Source: Geostat

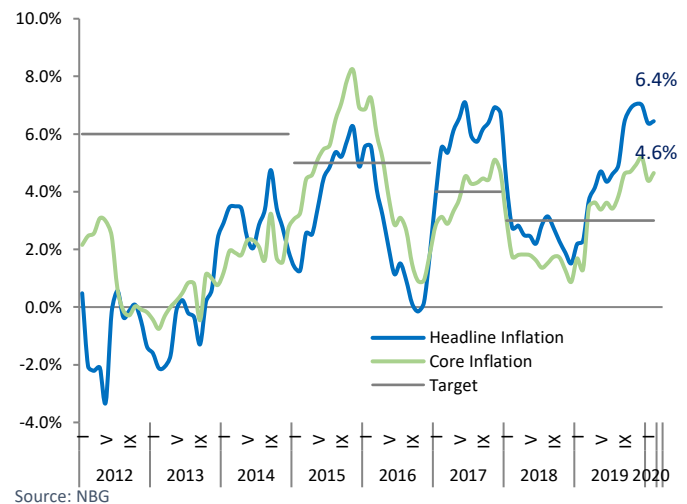
Price Level

In February 2020 annual inflation was 6.4 %, which is higher than targeted level, while core inflation was equal to 4.6 %. The effect of excise tax will be also represented in 2020 inflation. Effect of price change on tobacco in inflation of February 2020 was 0.3 percentage points.

The main influence on the formation of annual inflation was the dynamics of prices for food and non-alcoholic beverages (+ 12.7%), hotels and restaurants (+ 8.7%), alcoholic beverages and tobacco (+ 4.6%). And the annual decrease was observed in the categories of clothing and footwear (-1.7%) and communication (-1.3%).

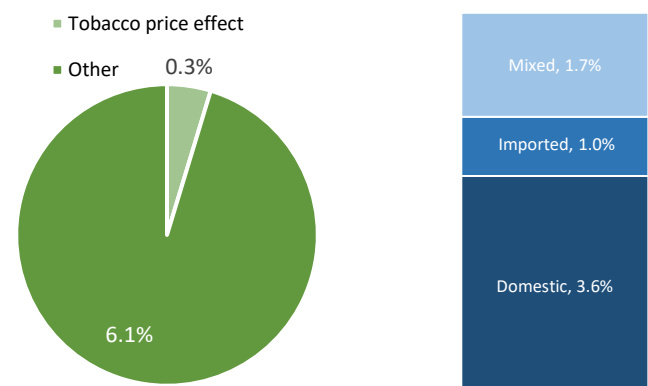
At the same time, in February 2020, the inflation rate was 0.3 percent compared to the previous month, which was significantly caused by the increase in the price of food and non-alcoholic beverages (+ 1.3%), the prices of leisure and entertainment group (-4.5%) and reduction of prices of clothes and shoes (-3.1%).

Figure 2: Annual Inflation, 2020 February



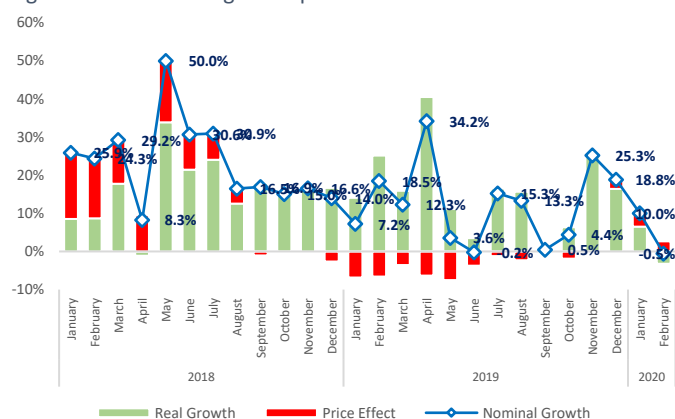
Source: NBG

Figure 3: Inflation Decomposition, 2020 February



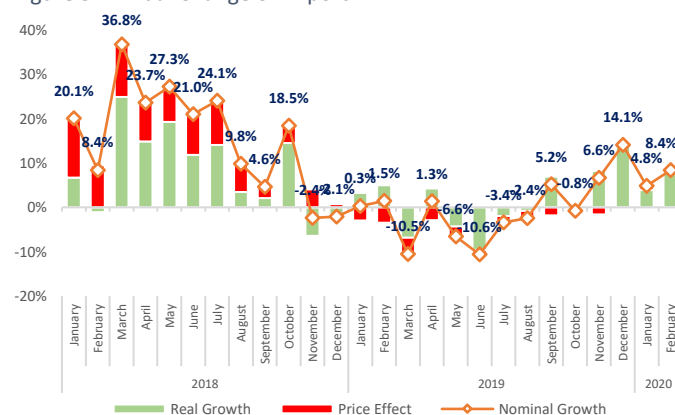
Source: Geostat

Figure 4: Annual Change of Export



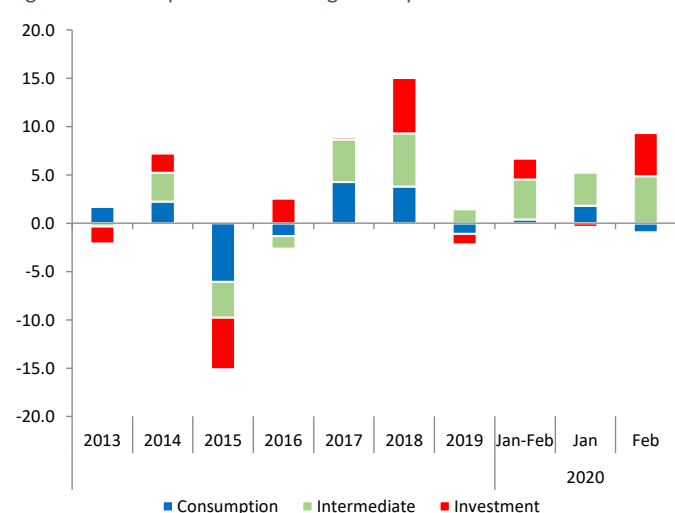
Source: Geostat

Figure 5: Annual Change of Import



Source: Geostat

Figure 6: Decomposition of Change of Import



Source: Geostat

External Trade

In February 2020, export annually decreased by 0.5 percent and reached value of 263 mln USD, while import annually increased by 8.4 percent reaching 702 mln USD. These changes caused increase of the trade deficit by 14.5 percent compared to previous year and was equal to 438.9 mln USD.

It is important to separate real and nominal effects in the changes of export and import. In February 2020 real growth of export was equal to -3.2 percent, and real growth of import was 8.6 percent.

In February 2020, import of consumption goods decreased by 0.9 percent, while import of investment and intermediate goods increased by 4.5 and 4.9 respectively.

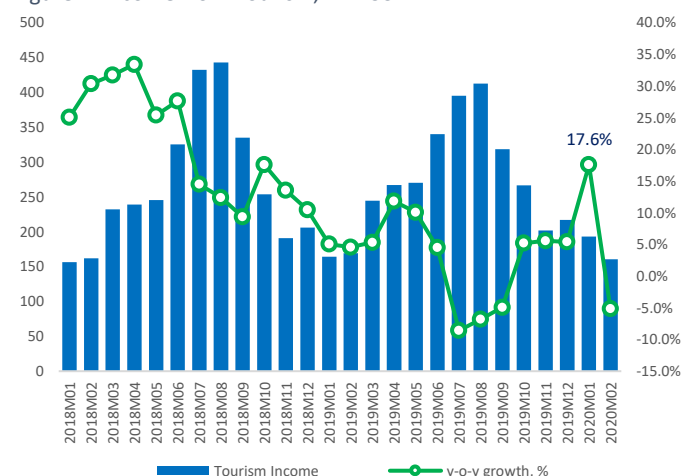
In February 2020, the first place in the top ten export goods from the commodity groups was occupied by light vehicles with 47.8 million. USD (18.1 percent of total exports), second place - copper ores and concentrates - 39.8 million US dollars (15.1 percent of total exports), and third - ferroalloys 26.9 million. In U.S. dollars (10.2 percent). The largest import commodity group in February 2020 was the group of cars, whose imports amounted to 54.2 million. USD and accounted for 7.7 per cent of total imports. Also significant were oil and oil products with \$ 54.1 million (7.7 percent of imports) and copper ores and concentrates with \$ 51.7 million. In U.S. dollars (7.4 percent of imports).

In February 2020, the largest export partners are Azerbaijan (46.3 million US dollars, 17.6% of total exports), Russia (26.9 million US dollars, 10.2%) and Bulgaria (26.8 million US dollars, 10.2%). The largest importing partner countries are Turkey (\$ 116.8 million, 16.4% of total imports), Azerbaijan (\$ 76.9 million, 10.9%) and China (\$ 67.1 million, 9.6%).

Tourism

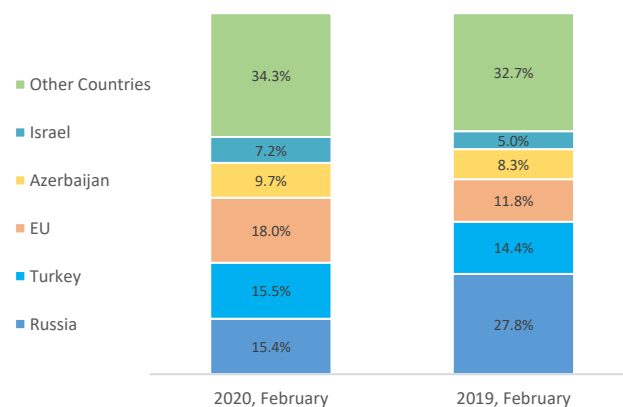
The total number of visitors in February 2020 was 435 thousand, which is 2.2 percent less than in February of the previous year. This increase is due to both the number of tourist visits (the number of tourists has increased by 4 percent) and the decrease in the number of one-day visitors by 8.6 percent. Revenue from tourism fell 5.2 percent to \$ 160.5 million. In 2019, revenue from tourism increased by 1.4 percent. The small increase in the ratio is due to the ban on flights from Russia to Georgia in July. However, at the same time, increased revenue from other countries has managed to mitigate the impact of this negative shock. At the same time, the number of visitors in 2019 increased by 8.4 percent annually.

Figure 7: Income from Tourism, mln USD



Source: NBG

Figure 8: Top Countries, Tourism

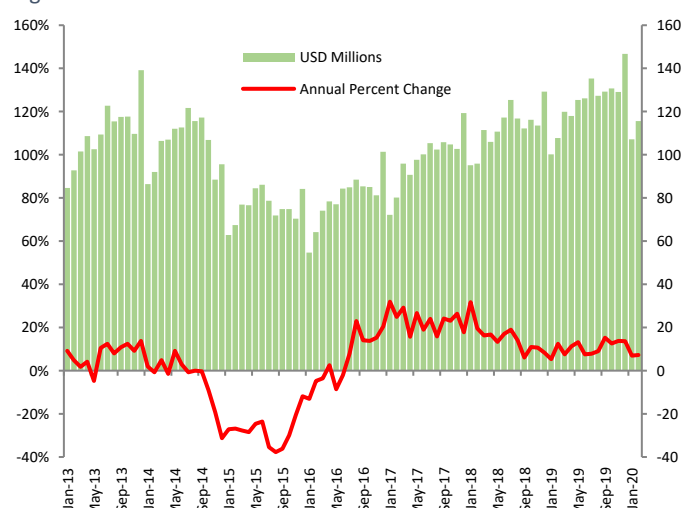


Source: Geostat

Remittances

In February 2020, net remittances totaled \$ 115.6 million, up 7.3 percent year-on-year. In February, remittances increased significantly from Italy (3.8 percent contribution to total growth), Ukraine (1.2 percent contribution to total growth), Greece (1.9 percent contribution to total growth) and the United States (1.5 percent contribution to total growth). Remittances from Russia and Turkey decreased by -14.3 and -19.9 percent, respectively (-3.4 and -1.1 percent in total growth). In 2019, remittances from Russia and Turkey fell by 6.2 and 10.4 percent, respectively, which accounted for -1.8 and -0.7 percent of total growth. At the same time, in 2019, shipments increased from Poland (70.5% and 0.8 percent contribution), Kazakhstan (65.4% and 0.7 percent contribution), Ukraine (49.1% and 0.9 percent contribution), Italy (24% and 2.9 percent contribution), Germany (20.1% and 0.5 percent contribution).

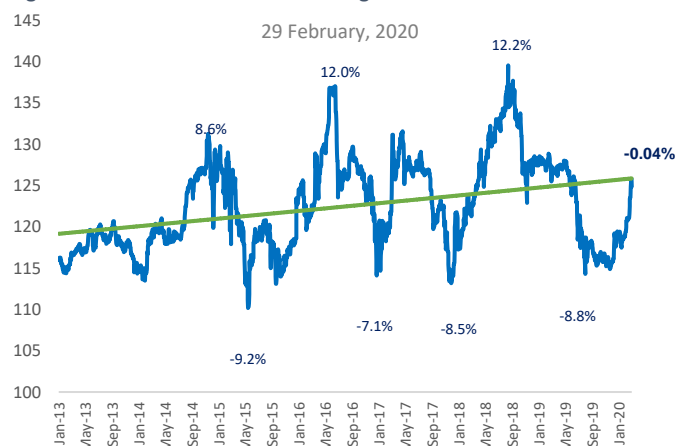
Figure 9: Net Remittances



Source: NBG

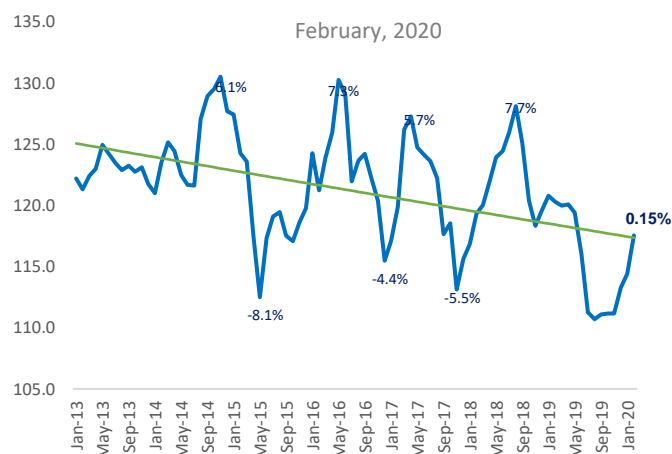
Exchange Rate

Figure 10: Nominal Effective Exchange Rate



Source: NBG

Figure 11: Real Effective Exchange Rate



Source: NBG

As of February 29, the nominal effective exchange rate of the lari has depreciated by 1.6 percent compared to January 1, 2019. And compared to January 1 of 2018, it is appreciated by 6.5 percent. As for the real effective exchange rate, it is 1.7 percent depreciated compared to January of the previous year and appreciated by 1.6 percent compared to January 2018.

The nominal effective exchange rate of the lari has depreciated by 0.04 percent from the medium-term trend, while the real effective exchange rate has strengthened by 0.15 percent compared to the medium-term trend.

Table 1: Change of Nominal Effective and Real Effective Exchange rates

	February 29, 2020	Feb 29, 2020 - Jan 1, 2019	Feb 29, 2020 - Jan 1, 2018
Euro	3.0782	▼ -9.2%	▼ -15.1%
US Dollar	2.7905	▼ -5.1%	▼ -14.1%
Turkish Lira	0.4485	▲ 67.3%	▲ 82.6%
Russian Ruble	0.0416	▲ 3.4%	▼ -21.9%
NEER	125.80	▼ -1.6%	▲ 6.5%
REER (February 2020)	117.53	▼ -1.7%	▲ 1.6%

Source: NBG

Budget Revenue Performance

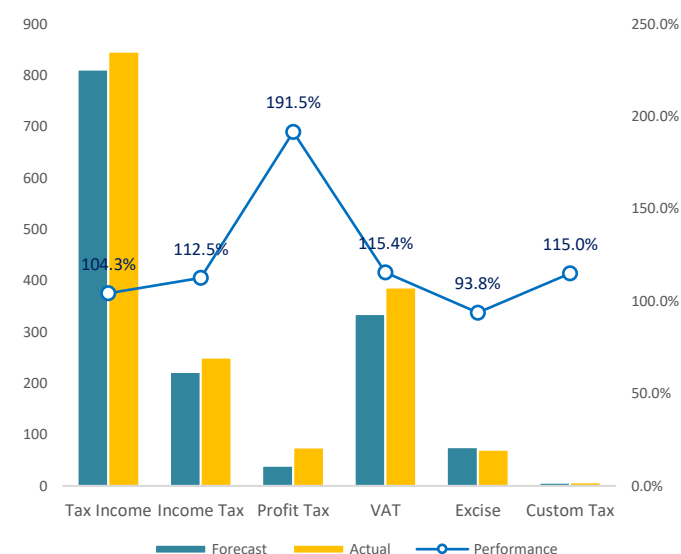
In 2019, 11,417.8 million GEL has been mobilized in the form of taxes in the budget, which is 8.7 percent more than in the corresponding period of the previous year (911.5 million GEL). The forecast for 2019 taxes is 11,310.0, the actual figure is 1.0 percent higher than planned, amounting to 107.8 million GEL.

The actual level of tax income in February was 845.6 mln GEL, which is 4.3 percent higher compared to the forecasted value of tax income in January (811.1 mln GEL).

- Revenue from Income tax amounted 249.8 mln GEL, which is 112.5 percent of forecasted value (222 mln GEL).
- Revenue from Profit tax was equal to 74.7 mln GEL, which is 191.5 percent of projected value (39 mln GEL).
- Revenue From VAT was equal to 386.7 mln GEL, which is 115.4 percent of the forecasted value of 335 mln GEL.
- Revenue from Excise tax amounted 70.6 mln GEL, which is 93.8 percent of the projected value of 75.3 mln GEL.
- Revenue from Custom tax was equal to 6.9 mln GEL, which is 115.2 percent of the forecasted value (6 mln GEL).
- Revenue from Property tax was equal to 1.9 mln GEL, which is 105.4 percent of forecasted value was of 1.8 mln GEL. The other tax income is 55.0 million GEL.

In February 2020, compared to the same period last year, consolidated budget revenues increased by 16.6% and expenditures increased by 14.5%. At the same time, the operating budget of the consolidated budget, which is the government's savings, amounted to -55.9 million GEL, while the total balance was set at -196 million GEL.

Figure 12: Budget Revenue Performance



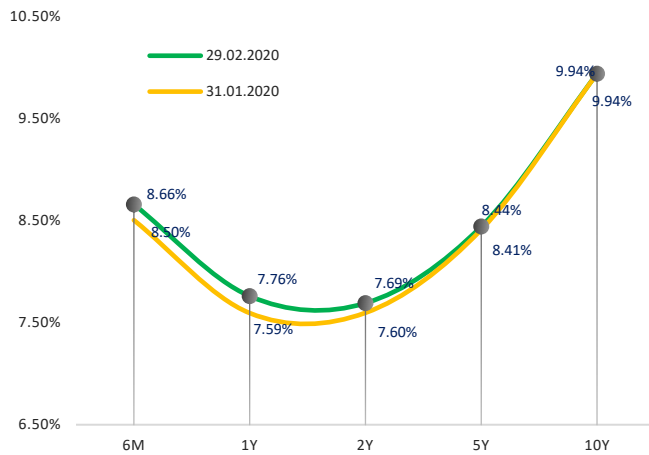
Source: MOF

Figure 13: Budget Deficit



Source: MOF

Figure 14: Portfolio Yield Curve



Source: MOF

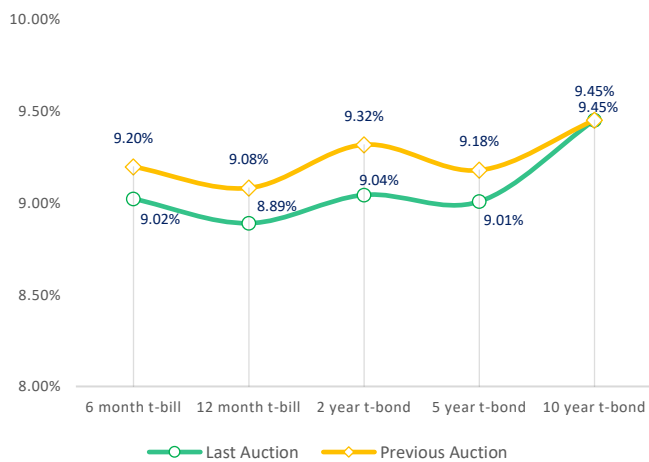
Treasury Securities Portfolio

In February 2020 4 auctions were held with total issuance volume of 220 million GEL. The weighted average interest rate amounted to 8.994%. There were issued treasury bills with maturities of 6 months and 12 months; Treasury bonds with maturities of 2 years and 5 years. Treasury securities with total amount of 60 million GEL were redeemed.

The portfolio yield curve changed significantly for maturities of 6 months, 12 months and 2 years.

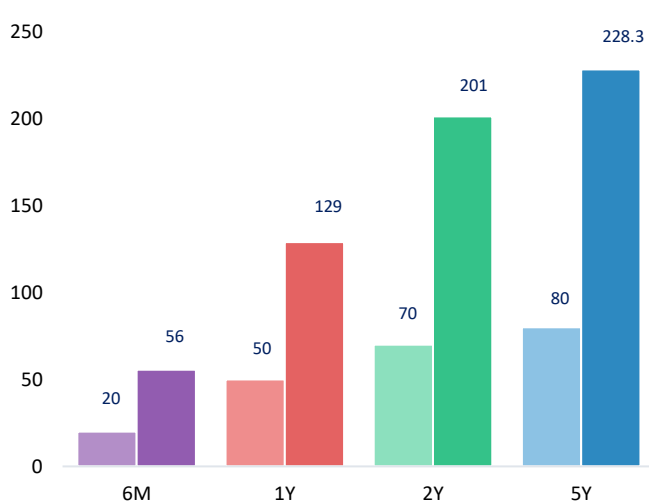
As of February 29, 2020, 37.17% of treasury securities portfolio is composed of securities whose maturity date is due for the next 1 year. Bid-to-cover ratio increased compared to the previous month's value (January 2.46) and is 2.79.

Figure 15: Weighted average interest rates



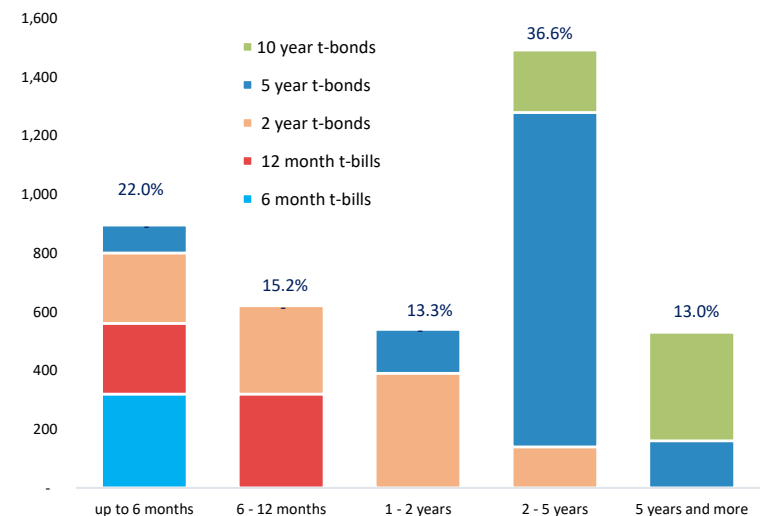
Source: MOF

Figure 16: Issuance and Demand, mln GEL



Source: MOF

Figure 17: Portfolio Forming Securities Composed by Time to Maturity



Source: MOF

Private Sector Larization

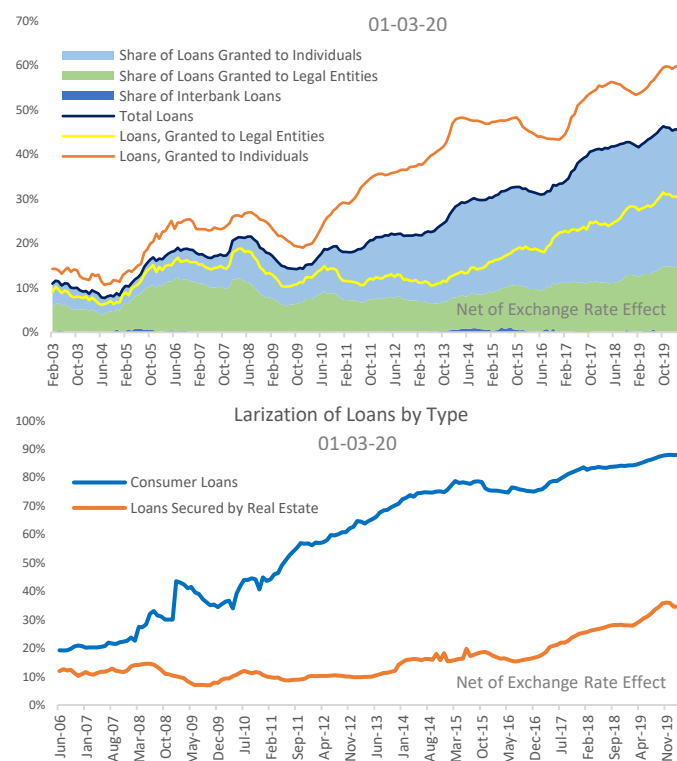
Loan larization is on the rise. The larization of total loans is largely due to the larization of loans issued to individuals. By February 2020, the larization of loans to individuals was 59.8 percent, the legalization of loans to legal entities was 30 percent, and the total larization of loans was 45.5 percent.

As for the larization of loans according to collateral, there is a growing trend of both mortgage and consumer loans, but the larization of consumer loans significantly exceeds the larization of real estate loans. By February 2020, the larization of consumer loans was 88 percent, while the larization of mortgage loans was 34.4 percent.

The larization of deposits is significantly conditioned by the larization of deposits of legal entities. By February 2020, the total larization of total deposits was 37.7 percent, the larization of deposits of legal entities in the same period was 52.2 percent, and the larization of deposits of individuals - 25.1 percent.

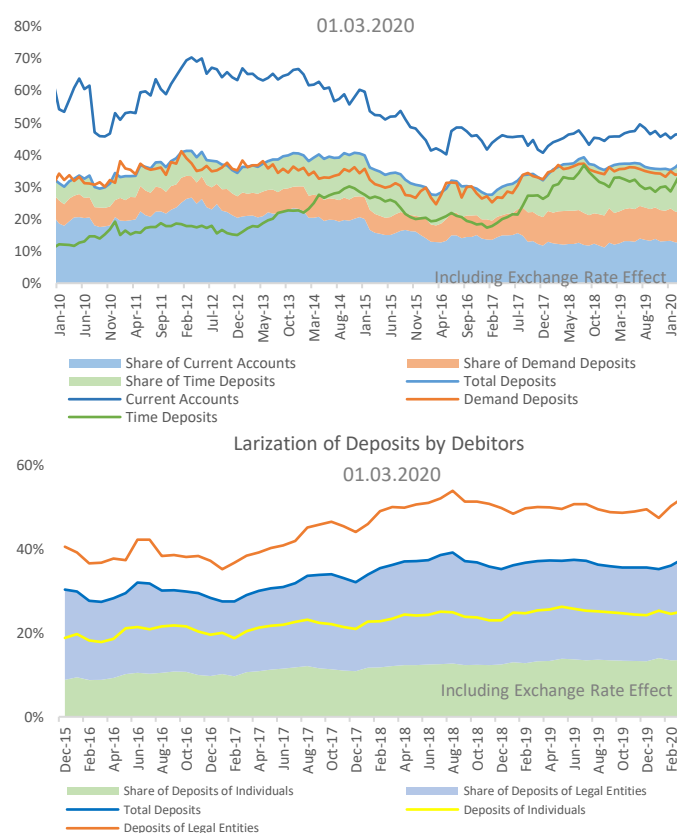
The larization of current accounts for February 2020 was 46.4 percent. At the same time, the larization of deposits before demand is 34.1 percent, and the larization of time deposits - 34.5 percent.

Figure 18: Loan Larization



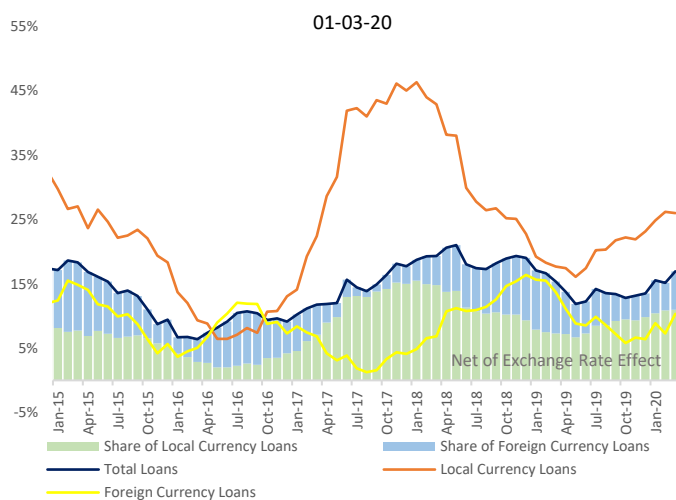
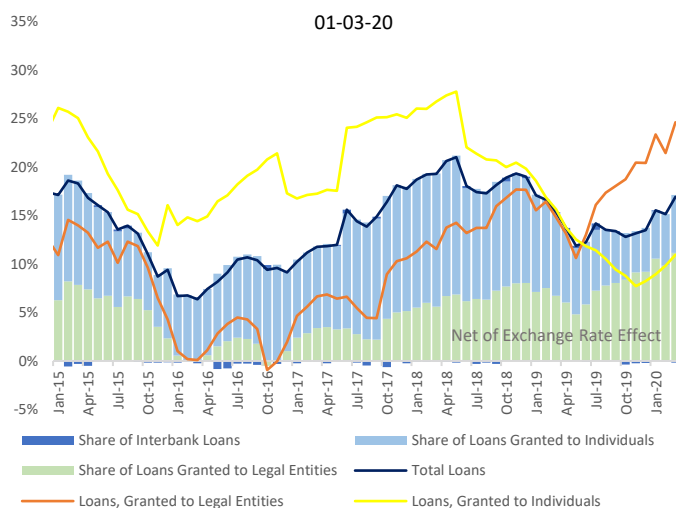
Source: NBG

Figure 19: Deposit Larization



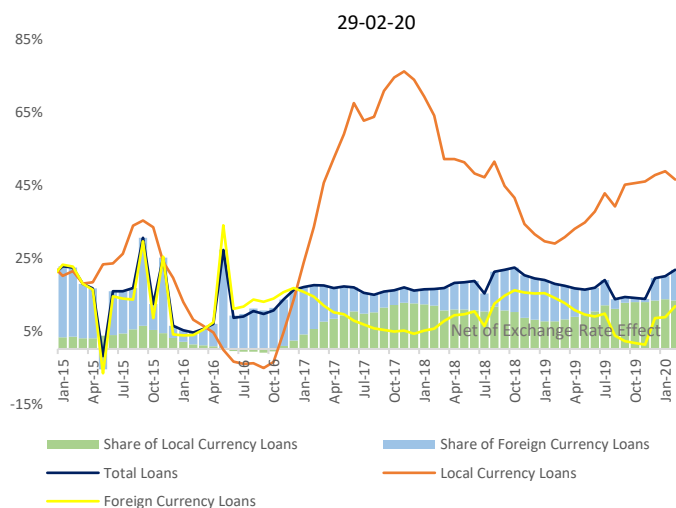
Source: NBG

Figure 20: Annual Growth of Loans



Source: NBG

Figure 21: Annual Growth of Loans secured by Real Estate



Source: NBG

Review of Loans

The annual growth of the credit portfolio in February 2020 compared to February 2019 was 16.9 percent. The annual growth of loans to legal entities decreased by 3.2 percentage points compared to the previous month and amounted to 24.6 percent during the same period, while the annual growth of loans to individuals amounted to 10.9 percent.

In February 2020, the growth of loans in national currency amounted to 26 percent compared to the same period last year, the annual growth of loans in foreign currency decreased by 3 percentage points compared to the previous month and amounted to 10.3 percent during the same period.

By February 2020, mortgage loans had increased by 1.7 percentage points compared to the previous month and amounted to 21.6 percent. And the annual growth of consumer loans was 10.4 percent.

Review of Deposits

The growth of total deposits in February 2020 compared to the corresponding period of 2019 was 15 percent, the annual growth of deposits denominated in the national currency increased by 5 percentage points compared to the previous period and amounted to 17 percent, and the annual growth of deposits denominated in foreign currency - 14 percent.

In February 2020, the annual increase in deposits of individuals was 18 percent, while the annual increase in deposits of legal entities was 11 percent.

Monetary Policy Rate

In September 2019, the Monetary Policy Committee of the National Bank of Georgia twice decided to increase the refinancing rate by 0.5 percentage points, on September 4 from 6.5 to 7 percent, and on September 25 at the extraordinary session by 7.5 percent. At the same time, further monetary policy tightened in October. In particular, on October 23, the monetary policy rate increased by 1 percentage point to 8.5 percent. And on December 11, the rate rose to 9 percent. And on January 29, 2020, a decision was made to leave the refinancing rate unchanged at 9.0%. This tightening monetary policy is aimed at neutralizing the inflationary pressure resulting from the depreciation of the exchange rate, it is noteworthy that the tightening of the policy will continue in the future, until the pressure on the exchange rate on inflation is eliminated.

Figure 22: Annual Growth of Deposits

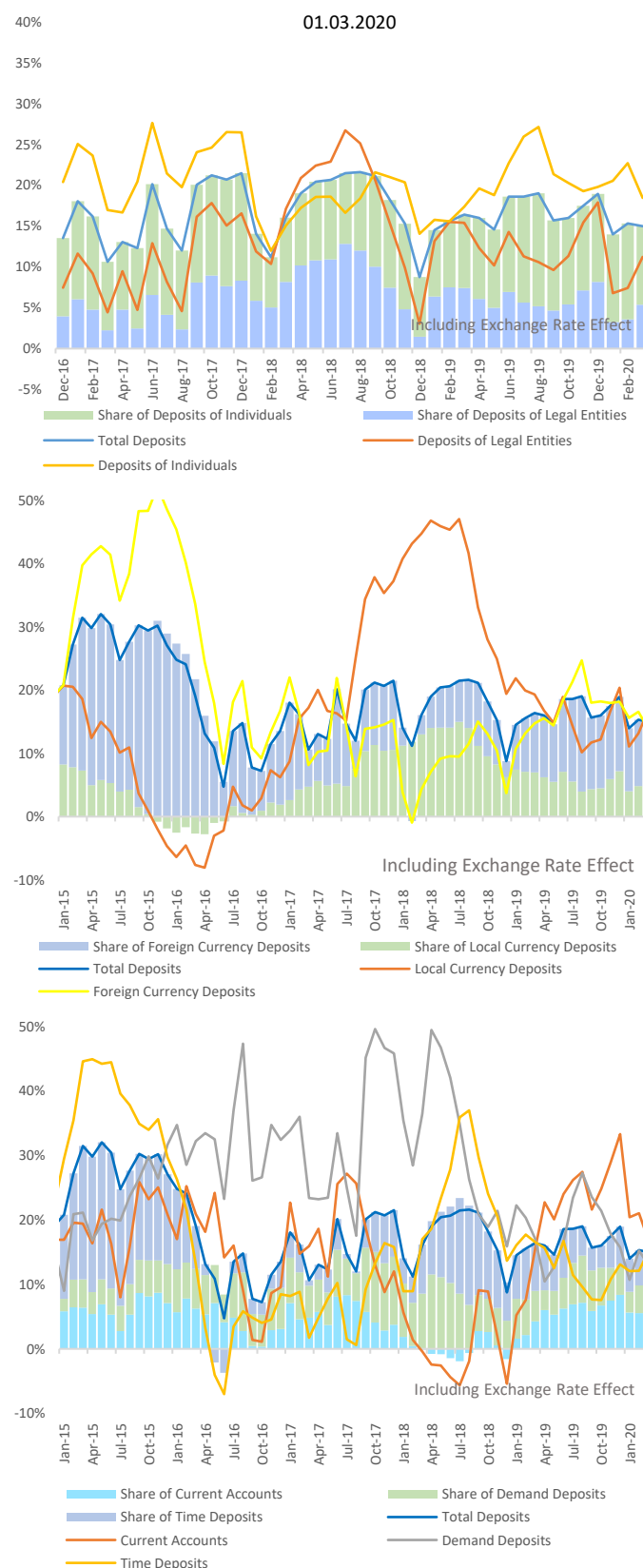


Figure 23: Inflation and Monetary Policy Rate

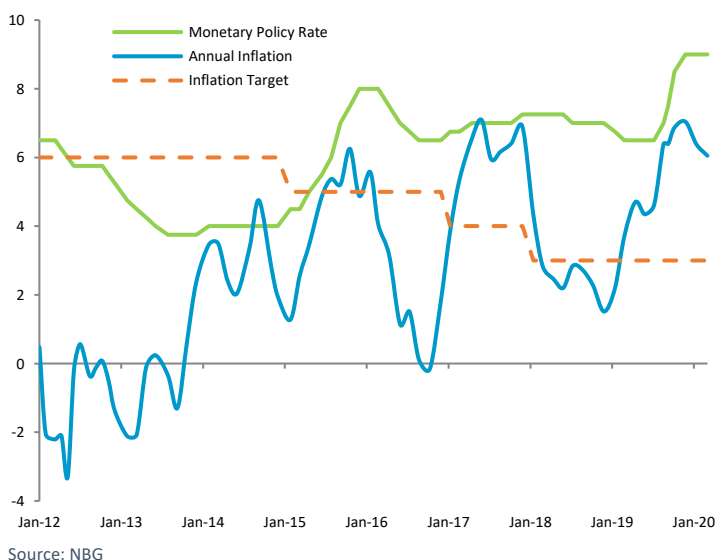
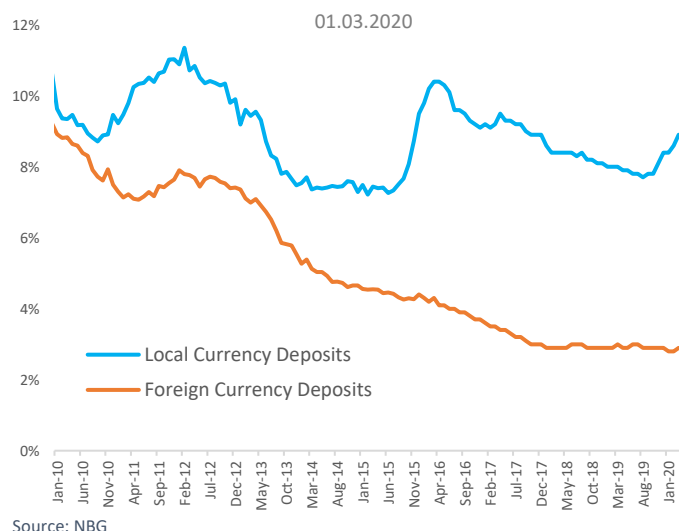


Figure 24: Interest rates on Deposits (stock)



Interest Rates

As of February 2020, the interest rate on foreign currency deposits was 2.9 percent, while the national currency was 8.9 percent.

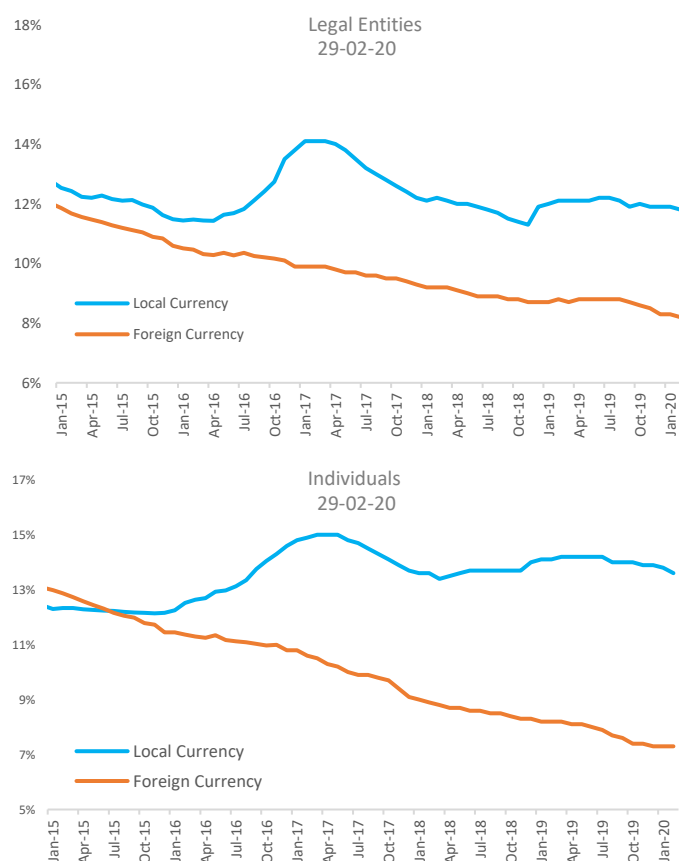
As of February 2020, the weighted average interest rate on deposits in national currency of legal entities was 10.8 percent, and in foreign currency - 2.8 percent. The average annual interest rate on deposits of individuals was 2.6 percent on deposits in foreign currency and 10.5 percent in national currency.

By February 2020, the weighted average annual interest rate on short-term consumer loans was 20.3 percent (25.8 percent in national currency and 6.2 percent in foreign currency).

Weighted average interest rates on long-term consumer loans are largely determined by loans denominated in the national currency. Its value for February 2020 was 16.7 percent. The interest rate on loans denominated in the national currency is 17.7 percent, and the interest rate on loans denominated in foreign currency is 8.4 percent.

At the end of February 2020, the interest rate on mortgage loans issued to legal entities issued was 12.3 percent, and in foreign currency - 7.0 percent. The interest rate on loans to individuals in national currency was 12.0 percent, and in foreign currency it was 6.3 percent.

Figure 25: Interest rates on Loans secured by Real Estate



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.