

Ministry of Finance of Georgia

Current Economic Outlook January, 2020





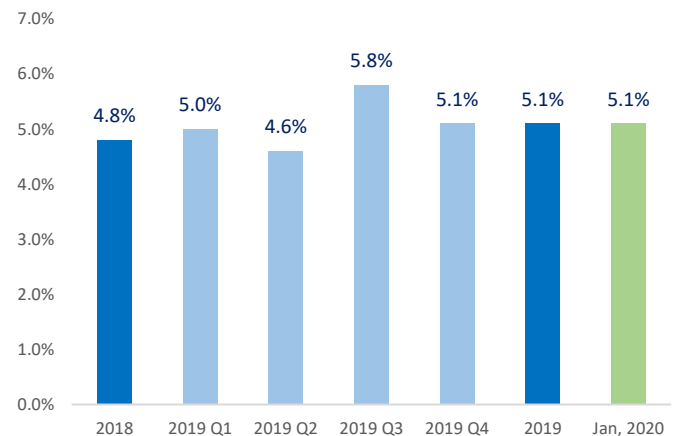
Brief Summary

- Based on Geostat's preliminary data, annual real economic growth in January equals to 5.1 %.
- Annual inflation equals to 6.4 %, while core inflation - 4.4 %
- Export annually increased by 10 %
- Import annually increased by 4.8 %
- Income from tourism annually increased by 17.6

Economic Growth

In January 2020, annual economic growth was 5.1 %, while average growth rate of 2019 was 5.2 %. In IV quarter of 2019, economy expanded annually by 5.3 %. In January 2020, relative to previous year, significant growth was recorded in following sectors: transportation and storage, construction, real estate, accommodation and food service activities, trade, repair of motor vehicles and motorcycles, information and communication, energy supply, manufacturing. At the same time, growth decreased in mining and quarrying sector.

Figure 1: Economic Growth



Source: Geostat

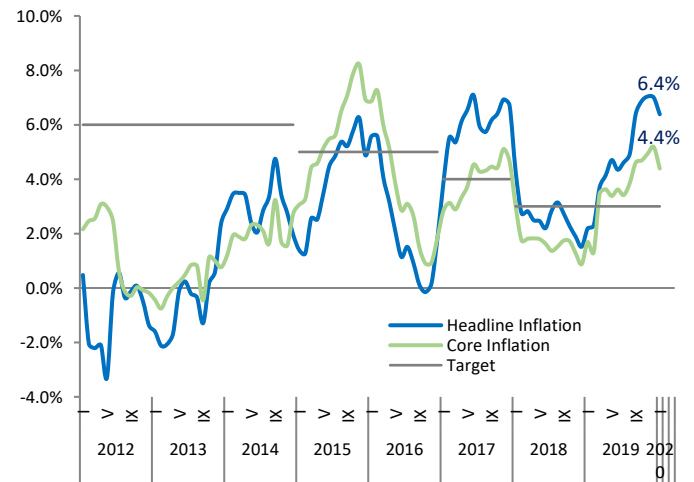
Price Level

In January 2020 annual inflation was 6.4 %, which is higher than targeted level, while core inflation was equal to 4.4 %. The effect of excise tax will be also represented in 2020 inflation. Effect of price change on tobacco in inflation of January 2020 was 0.6 percentage points.

The annual inflation rate was mainly influenced by price changes for the food and non-alcoholic beverages (+11.3%), alcoholic beverages and tobacco (+11.2%), restaurants and hotels (+8.2%). At the same time, annual decrease of prices was recorded clothing and footwear (-3.3%) and communication (-1.2%) groups.

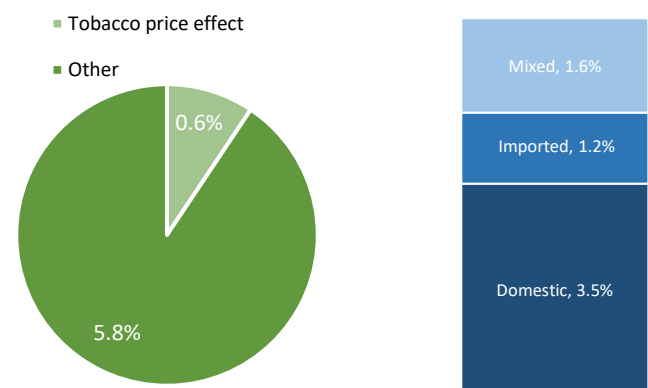
The monthly inflation of January 2020 was 0.7 %, which was mostly caused by increase of prices for the food and non-alcoholic beverages (+2.3%) and decrease of the prices for recreation and culture (-4.5%).

Figure 2: Annual Inflation, 2020 January



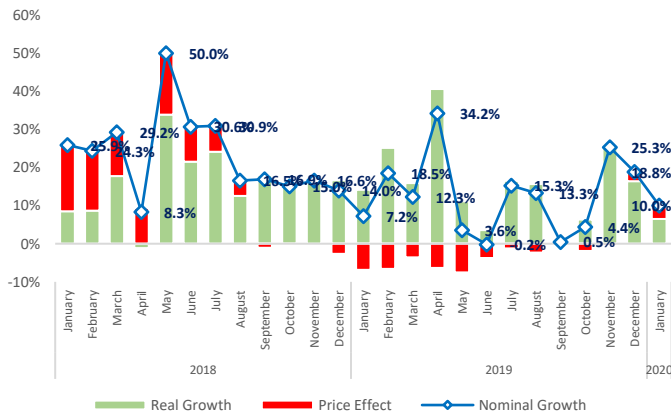
Source: NBG

Figure 3: Inflation Decomposition, 2020 January



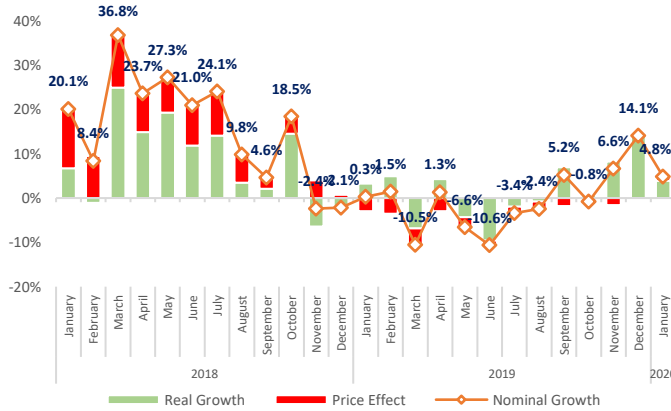
Source: Geostat

Figure 4: Annual Change of Export



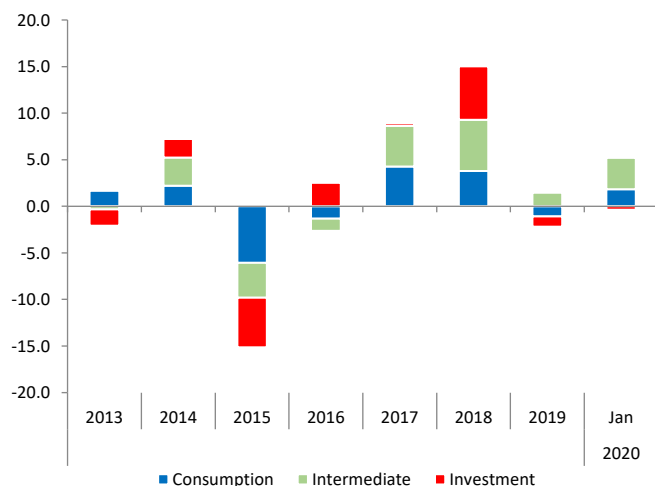
Source: Geostat

Figure 5: Annual Change of Import



Source: Geostat

Figure 6: Decomposition of Change of Import



Source: Geostat

External Trade

In January 2020, export annually increased by 10 percent and reached value of 262 mln USD, while import annually increased by 4.8 percent reaching 625 mln USD. These changes caused increase of the trade deficit by 1.4 percent compared to previous year and was equal to 362.3 mln USD.

It is important to separate real and nominal effects in the changes of export and import. In January 2020 real growth of export was equal to 6.5 percent, and real growth of import was 3.6 percent.

In January 2020, import of investment goods decreased by 0.4 percent, while import of consumption and intermediate goods increased by 1.8 and 3.4 respectively.

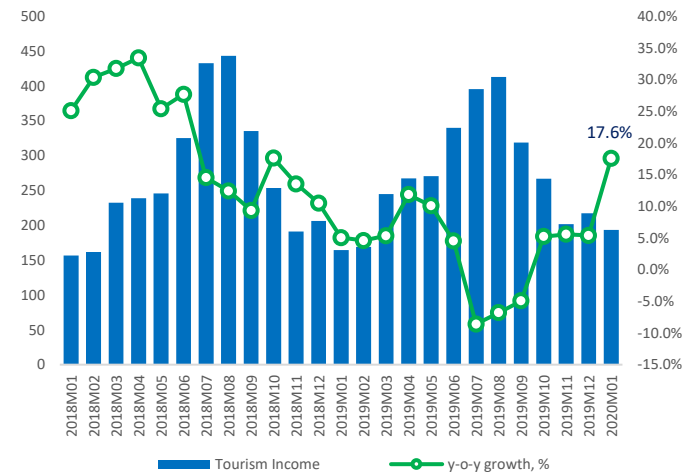
In January 2020, the first place in the top 10 of export goods was taken by export of motor cars with value of 51.8 mln USD (19.7 % of total export), second place – copper ores and concentrates of the value of 49.4 mln USD (18.8 % of total export) and third place – ferro-alloys with value of 16 mln USD (6.1 % of total export). At the same time, the largest import goods are petroleum and petroleum oils with value of 51.6 mln USD (8.3 % of total import) and motor cars with value of 50 mln USD (8.1 % of total import).

In January 2020, the biggest export destination countries were: China (44.4 mln USD with 17 % of total export), Azerbaijan (44 mln USD with 17 % of total export) and Russia (33.4 mln USD with 12.7 % of total export). At the same time, the biggest countries of import of origins were: Turkey (97.6 mln USD with 15.6 % of total import), Russia (72.6 mln USD with 11.3 % of total import) and China (65 mln USD with 10.4% of total import).

Tourism

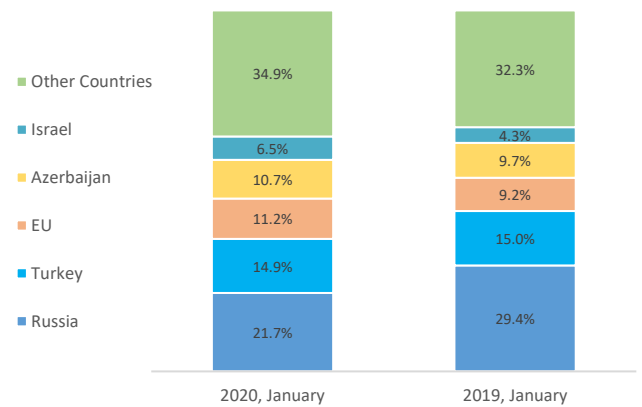
In January 2020, the number of visitors was equal to 526 thousand, which is 21.5 higher percent compared to January of previous year. This growth is caused by increase in tourist visits (number of tourists is increased by 18.9 percent) and by increase in daily visits (21.9 percent). Income from tourism increased by 17.6 percent and reached value of 193.4 mln USD. In 2019, income from tourism increased by 1.4 percent. This Relatively low growth was caused by flight ban from Russia to Georgia enforced in July. However, at the same time, increased income from other countries managed to lower negative impact of this flight ban. In addition, number of visitors in 2019 increased by 8.4 percent.

Figure 7: Income from Tourism, mln USD



Source: NBG

Figure 8: Top Countries, Tourism

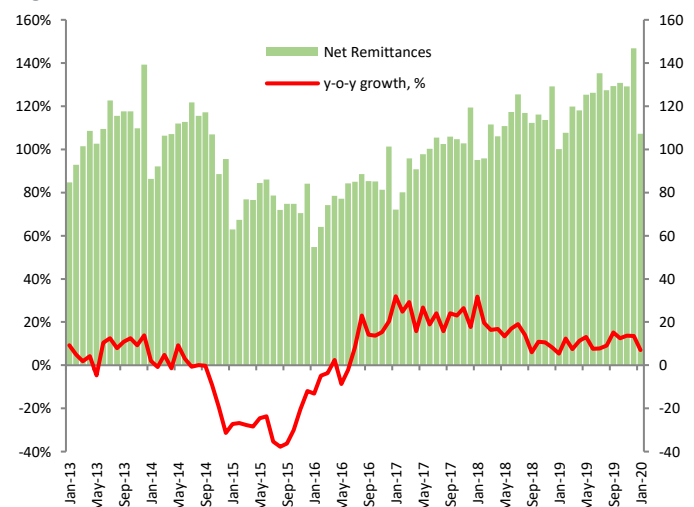


Source: Geostat

Remittances

In January 2020, the value of net remittances was 107.2 mln USD, which is 7 percent higher compared to previous year. In January, transfers mainly increased from Italy (3.4 p.p. share in total growth), Ukraine (1.4 p.p. share in total growth), Greece (1.4 p.p. share in total growth) and USA (1.2 p.p. share in total growth). Remittances decreased from Russia and Turkey by -8.3 and -24.6 percent correspondingly (-1.8 and -1.2 p.p. share in total growth respectively). In 2019, remittances from Russia and Turkey decreased by 6.2 and 10.4 percent correspondingly. At the same time, remittances increased from Poland (70.5 %), Kazakhstan (65.4 %), Ukraine (49.1 %), Italy (24 %), Germany (20.1 %), Greece (12.7 %), USA (11.8 %).

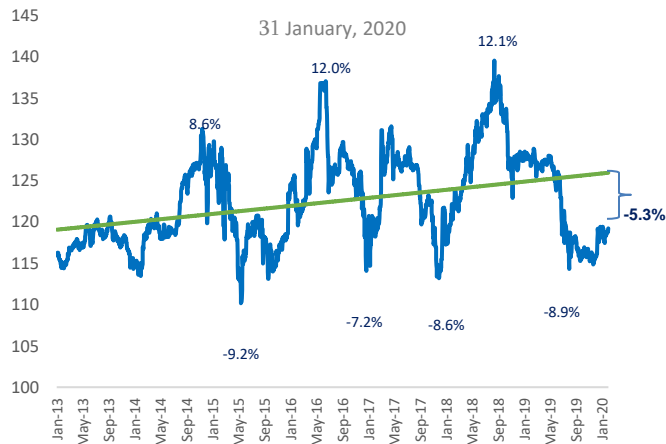
Figure 9: Net Remittances



Source: NBG

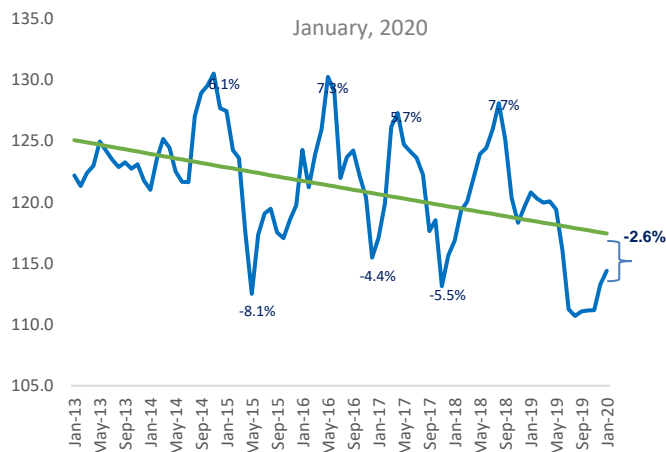
Exchange Rate

Figure 10: Nominal Effective Exchange Rate



Source: NBG

Figure 11: Real Effective Exchange Rate



Source: NBG

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

	January 31, 2020	Jan 31, 2020 - Jan 1, 2019	Jan 31, 2020 - Jan 1, 2018
Euro	3.1868	▼ -12.3%	▼ -18.0%
US Dollar	2.8934	▼ -8.5%	▼ -17.2%
Turkish Lira	0.4836	▲ 55.2%	▲ 69.4%
Russian Ruble	0.0459	▼ -6.3%	▼ -29.2%
NEER	119.24	▼ -6.7%	▲ 0.9%
REER (February 2020)	117.53	▼ -1.7%	▲ 1.6%

Source: NBG

Budget Revenue Performance

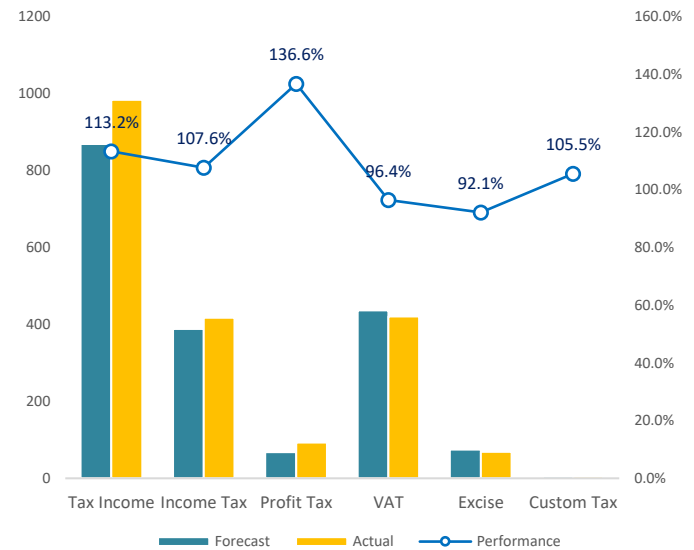
In 2019 the budget received tax income of 11 417.8 mln GEL, which is 8.7 percent higher compared to previous year (10 506.3 mln GEL). The actual level of tax income was higher the forecasted value of 11 310 mln GEL by 1 percent.

The actual level of tax income in January was 983 mln GEL, which is 13.2 percent higher compared to the forecasted value of tax income in January (868 mln GEL).

- Revenue from Income tax amounted 417.4 mln GEL, which is 107.6 percent of forecasted value (388 mln GEL).
- Revenue from Profit tax was equal to 92.9 mln GEL, which is 136.6 percent of projected value (68 mln GEL).
- Revenue From VAT was equal to 420.2 mln GEL, which is 96.4 percent of the forecasted value of 436 mln GEL.
- Revenue from Excise tax amounted 68.6 mln GEL, which is 92 percent of the projected value of 74.5 mln GEL.
- Revenue from Custom tax was equal to 5.8 mln GEL, which is 105.5 percent of the forecasted value (5.5 mln GEL).
- Revenue from Property tax was equal to -0.5 mln GEL, while forecasted value was equal to -21.3 mln GEL.

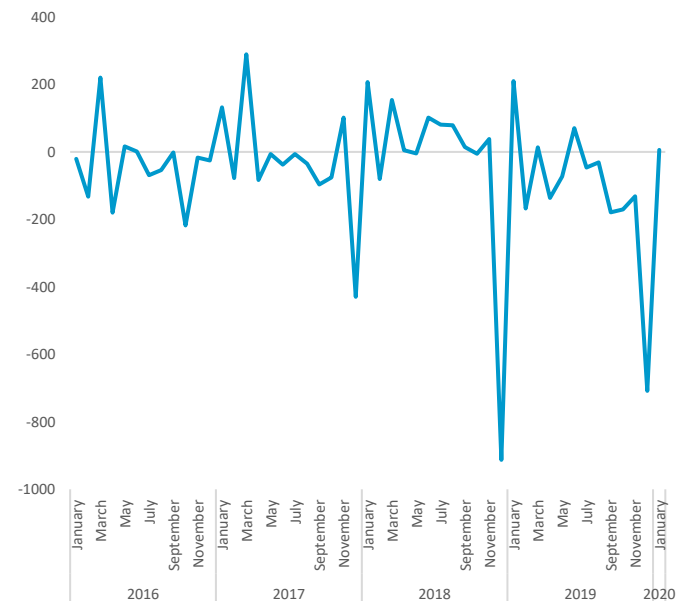
In January 2020, budget income decreased by 6.6 percent relative to the previous year, while expenditure increased by 17.9 percent. At the same time, net operating balance, which is government saving, was equal to 110.3 mln GEL, while overall balance was equal to 6.1 mln GEL.

Figure 12: Budget Revenue Performance



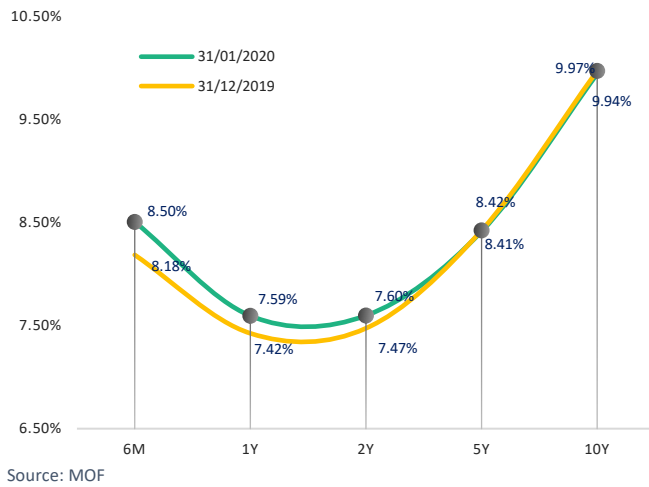
Source: MOF

Figure 13: Budget Deficit



Source: MOF

Figure 14: Portfolio Yield Curve



Treasury Securities Portfolio

In January 2020, 5 auctions were held with total issuance volume of 300 million GEL. The weighted average interest rate amounted to 9.227%. There were issued treasury bills with maturities of 6 months and 12 months; Treasury bonds with maturities of 2 years, 5 years and 10 years. Treasury securities with total amount of 252 million GEL were redeemed.

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

As of January 31, 2020, 39% of treasury securities portfolio is composed of securities whose maturity date is due for the next 1 year. Bid-to-cover ratio has increased compared to the previous month's value (December 2.27) and is 2.46.

Figure 15: Weighted average interest rates

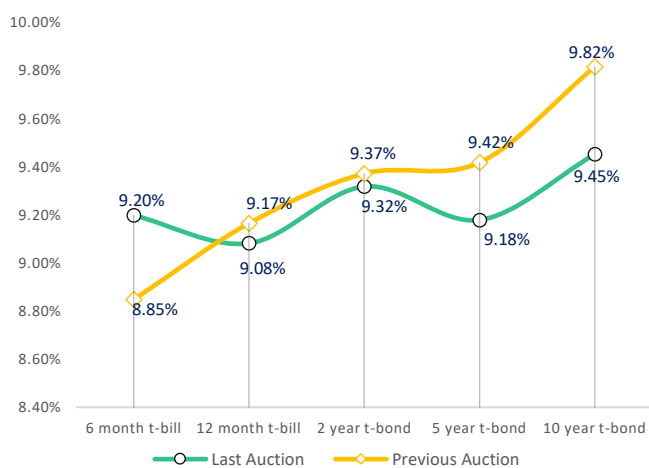


Figure 16: Issuance and Demand, mln GEL

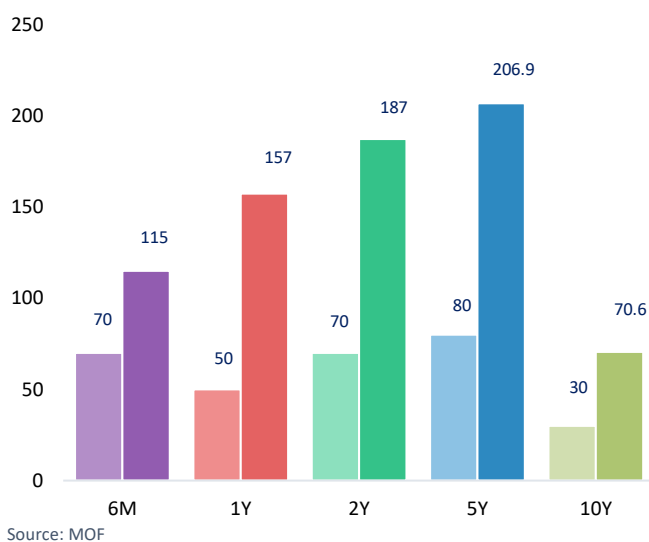
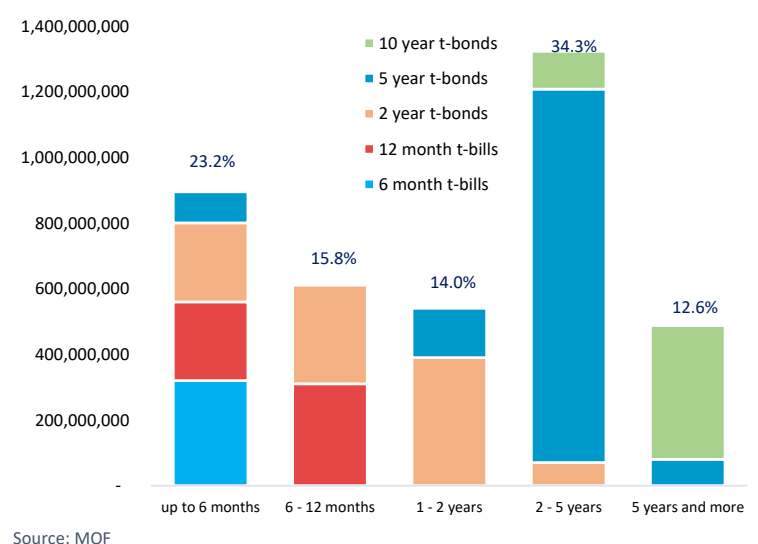


Figure 17: Portfolio Forming Securities Composed by Time to Maturity



Private Sector Larization

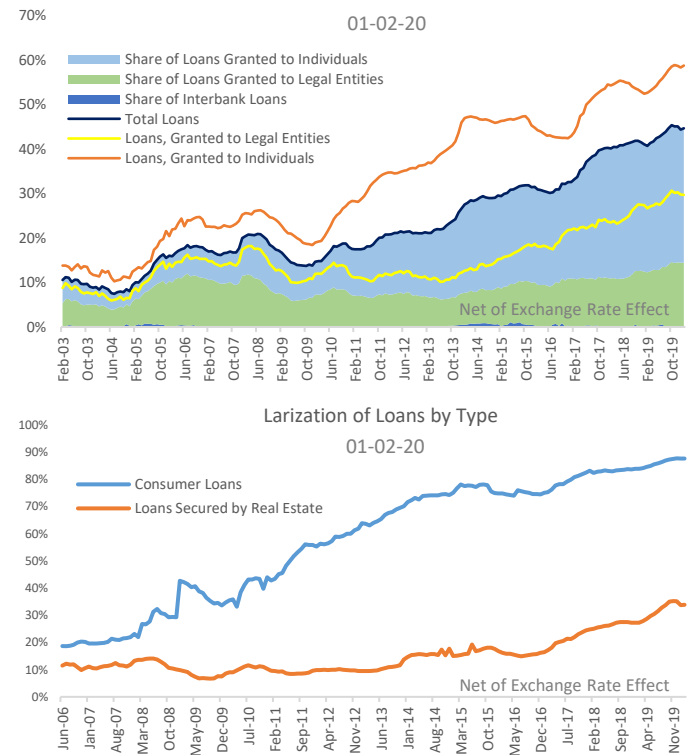
Loan larization is on the rise. The larization of total loans is largely due to the larization of loans issued to individuals. By January 2020, the larization of loans to individuals was 58.8 percent, the larization of loans to legal entities was 29.7 percent, and the total larization of loans was 44.7 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. In January 2020, the larization of consumer loans amounted to 87.6 percent, while the larization of mortgage loans amounted to 33.8 percent.

The larization of deposits is significantly conditioned by the larization of deposits of legal entities. By January 2020, the larization of total deposits amounted to 36.1 percent, the larization of deposits of legal entities during the same period was 50.3 percent, and the larization of deposits of individuals - 24.5 percent.

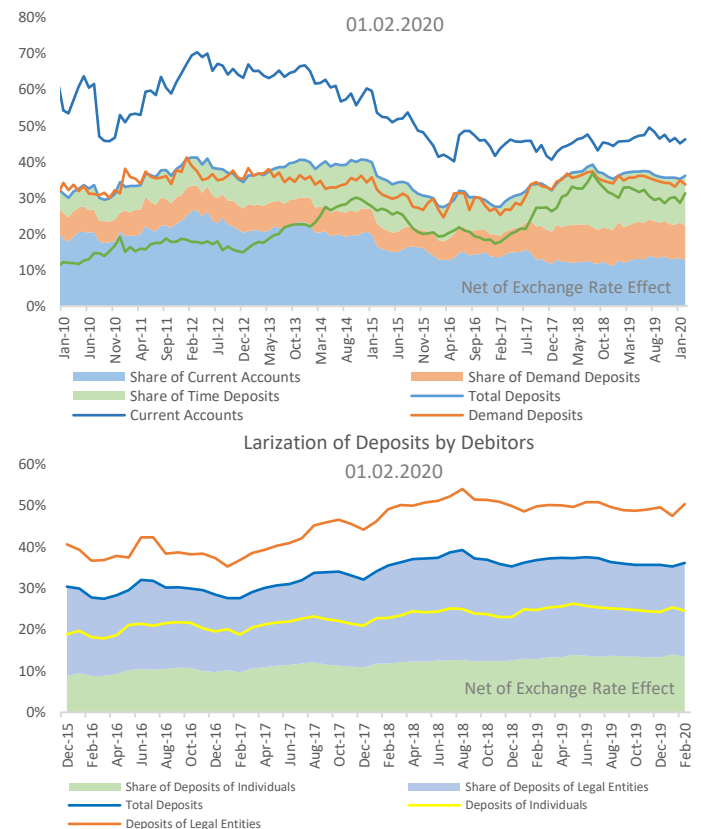
The larization of current accounts for January 2020 was 46.3 percent. In the same period, the larization of demand deposits is 33.7 percent, and the larization of term deposits is 31.3 percent.

Figure 18: Loan Larization



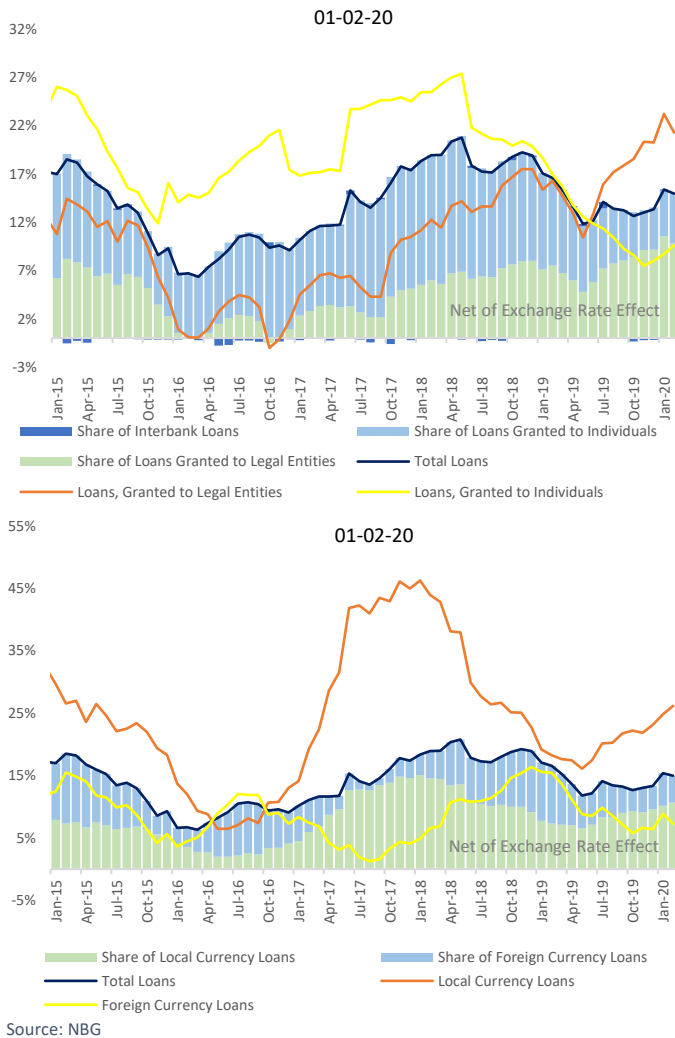
Source: NBG

Figure 19: Deposit Larization



Source: NBG

Figure 20: Annual Growth of Loans



Review of Loans

The annual growth of the loan portfolio in January 2020 was 14.9 percent compared to January 2019. The annual growth of loans to legal entities decreased by 1.9 percentage points compared to the previous month and amounted to 21.3 percent during the same period, while the annual growth of loans to individuals amounted to 9.6 percent.

In January 2020, the growth of loans in national currency amounted to 26.2 percent compared to the same period last year, the annual growth of loans in foreign currency decreased by 1.6 percentage points compared to the previous month and amounted to 7.3 percent, while total credit portfolio growth was 14.9 percent.

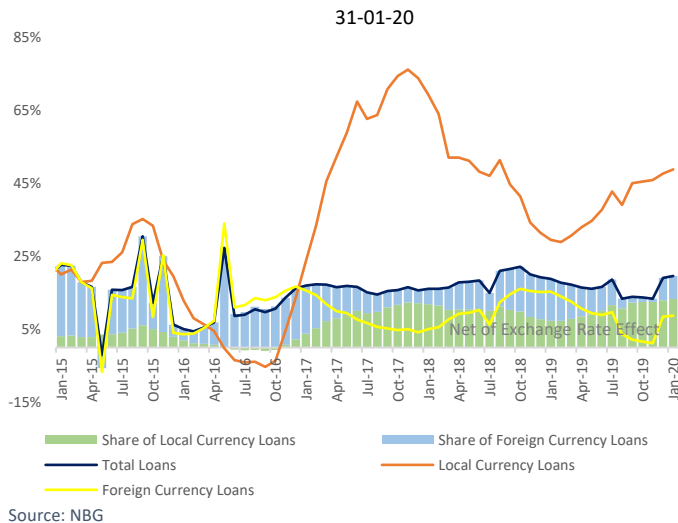
By January 2020, mortgage loans had increased by 0.5 percentage points compared to the previous month and amounted to 19.6 percent. And the annual growth of consumer loans was 9.8 percent.

Review of Deposits

The growth of total deposits in January 2020 compared to the corresponding period of 2019 was 15 percent, the annual growth of deposits denominated in the national currency increased by 2 percentage points compared to the previous period and amounted to 13 percent, and the annual growth of deposits denominated in foreign currency - 17 percent.

In January 2020, the annual increase in deposits of individuals was 23 percent, while the annual increase in deposits of legal entities was 7 percent.

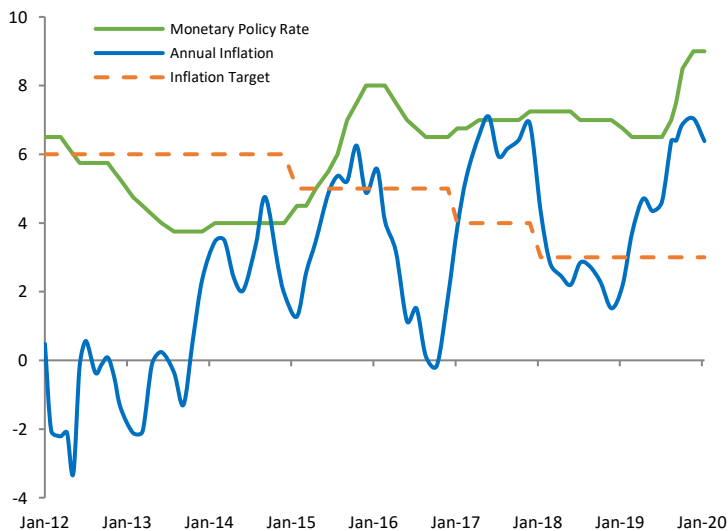
Figure 21: Annual Growth of Loans secured by Real Estate



Monetary Policy Rate

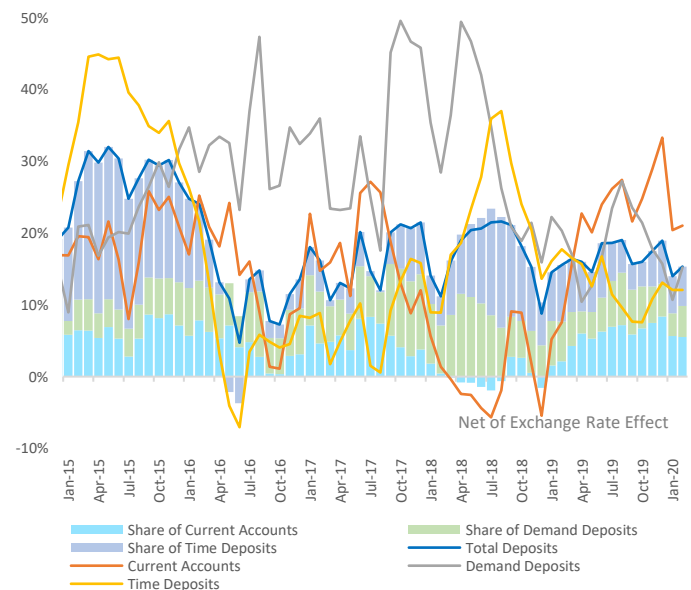
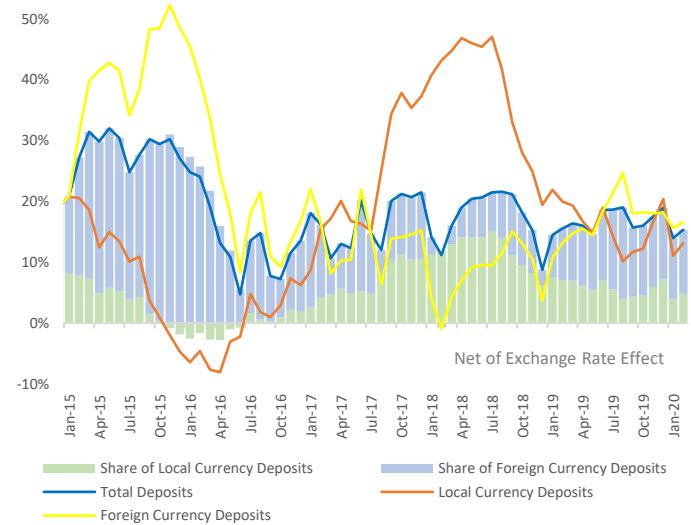
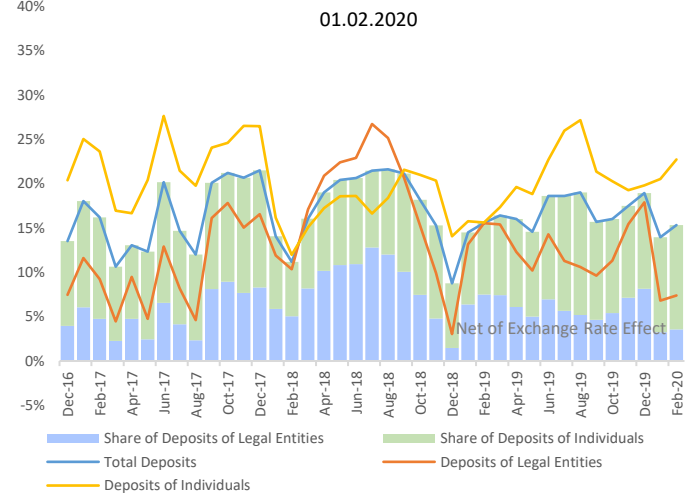
In September 2019, the Monetary Policy Committee of the National Bank of Georgia twice decided to increase the refinancing rate by 0.5 percentage points, on September 4 from 6.5 to 7 percent, and on September 25 at the extraordinary session by 7.5 percent. At the same time, further monetary policy tightened 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 23: Inflation and Monetary Policy Rate



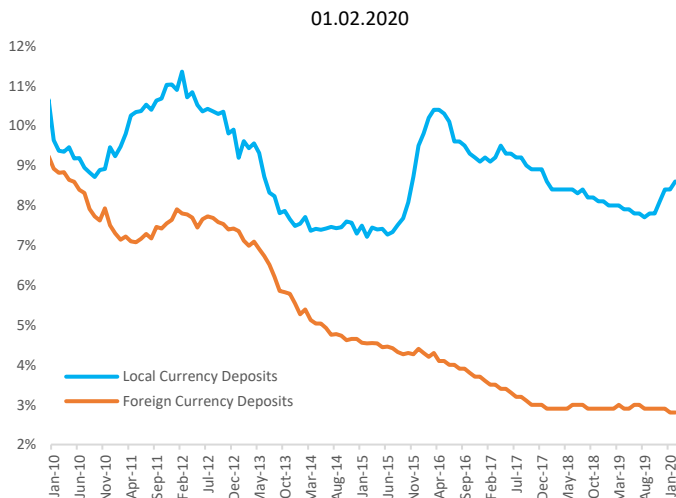
Source: NBG

Figure 22: Annual Growth of Deposits



Source: NBG

Figure 24: Interest rates on Deposits (stock)



Source: NBG

Interest Rates

As of January 2020, the interest rate on foreign currency deposits was 2.8 percent, while the national currency was 8.6 percent.

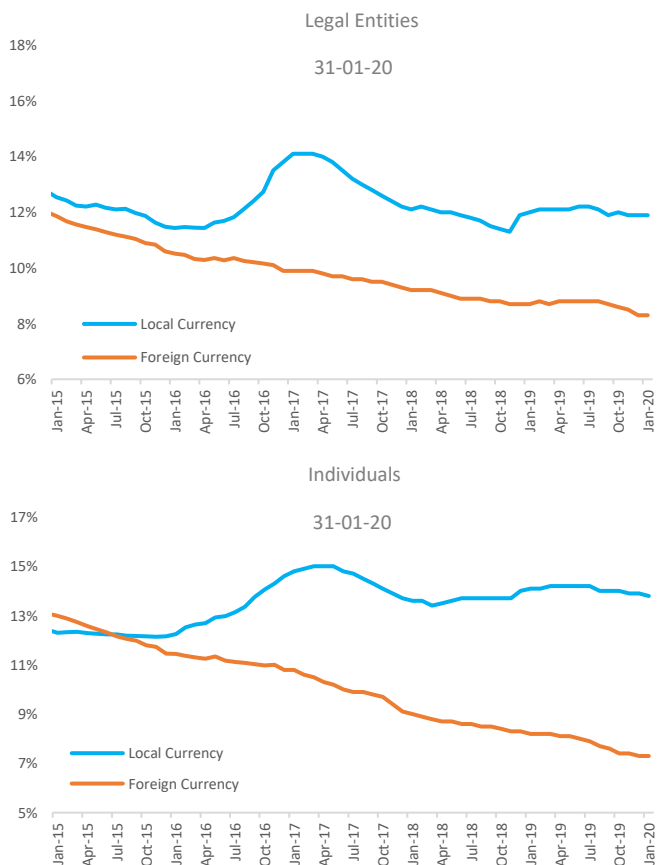
By January 2020, the average weighted interest rate on deposits in national currency of legal entities was 9.2 percent, and in foreign currency - 2.8 percent. The average annual interest rate on deposits of individuals was 2.7 percent on deposits in foreign currency and 10.5 percent in national currency.

By January 2020, the weighted average annual interest rate on short-term consumer loans was 20.6 percent (26.0 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 January 2020 was 16.6 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 8.6 percent.

The interest rate on mortgage loans denominated in national currency issued to legal entities at the end of January 2020 was 12.2 percent, and in foreign currency - 6.8 percent. The interest rate on loans to individuals in national currency was 12.1 percent, and in foreign currency it was 6.4 percent.

Figure 25: Interest rates on Loans secured by Real Estate



Source: NBG



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.