

Ministry of Finance of Georgia

# Current Economic Outlook March, 2020



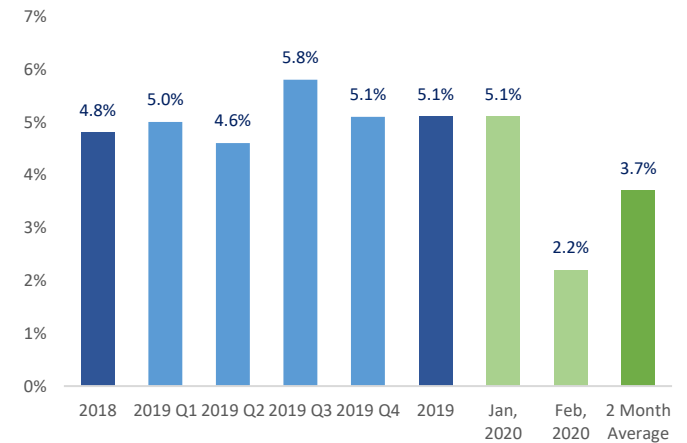
## Brief Summary

- Based on Geostat's preliminary data, annual real economic growth in January equals to 2.2%
- Annual inflation equals to 6.1%, while core inflation - 3.7%
- Export annually decreased by 0.5 %
- Import annually increased by 8.4 %
- Income from tourism annually decreased by 69.8 %

## Economic Growth

In February 2020, annual economic growth was 2.2 percent, and by 2020, the average real growth in January-February was 3.7 percent. Following the publication of GDP of 2019, economic growth was 5.1%, the largest growth in 2019 was recorded in the following sectors: information and communication (+ 15.2%), professional, scientific and professional services (+ 14.4%), art, entertainment and leisure (+ 14.3%), healthcare (+ 9.6%), accommodation and food supply activities (+ 8.9%), trade (+ 8.8%) and education (+ 8.8%). The decline was recorded in the following sectors: public administration (-2.7%), financial and insurance activities (-2.1%), mining (-2.0%) and agriculture (-1.1%).

Figure 1: Economic Growth



Source: Geostat

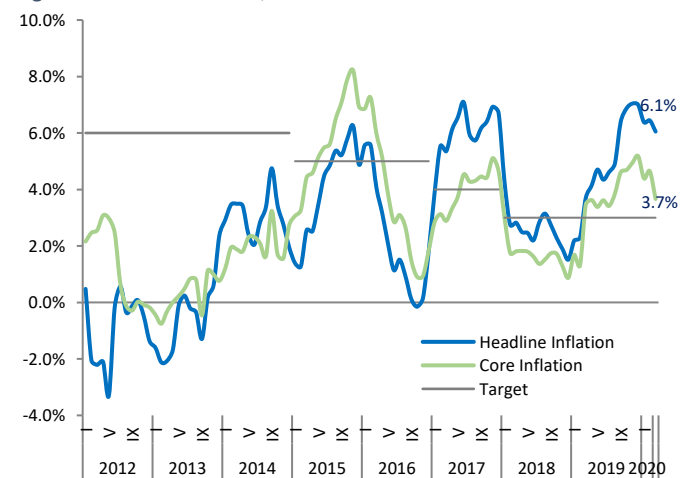
## Price Level

As of March 2020, the inflation rate was 6.1 percent compared to the same period last year, which is higher than the target inflation. Core inflation was 3.7 percent in the corresponding period. The effect of the excise rate change will also be reflected in 2020 inflation. The effect of the tobacco price change on inflation in March 2020 is 0.3 points.

The main influence on the formation of annual inflation was the dynamics of prices for food and non-alcoholic beverages (+ 13.4%), hotels and restaurants (+ 8.9%). And the annual decline was observed in the categories of leisure and entertainment (-4.4%), clothing and footwear (-0.9%).

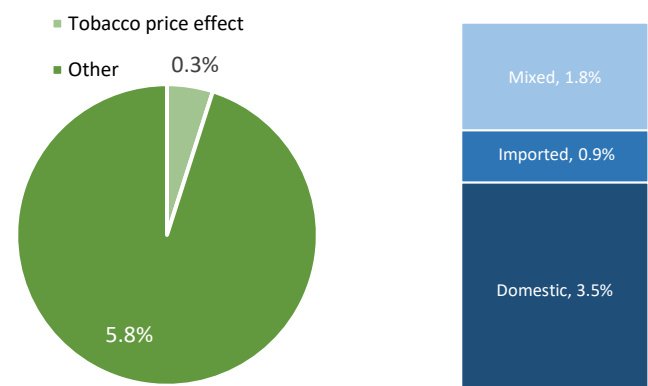
At the same time, in March 2020, inflation was 0.7 percent compared to the previous month, which was significantly caused by rising prices for food and non-alcoholic beverages (+ 2.0%) and lower prices for transport (-0.8%).

Figure 2: Annual Inflation, 2020 March



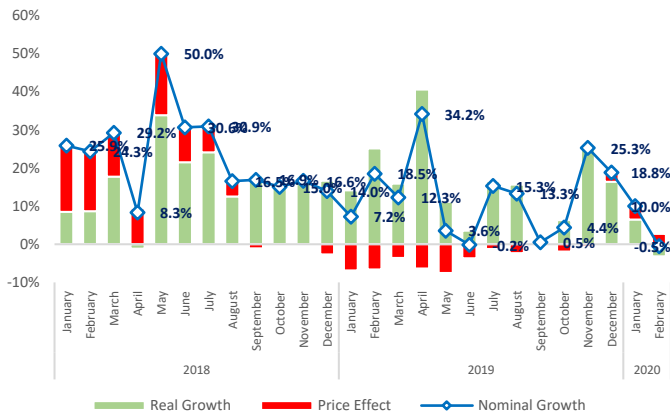
Source: NBG

Figure 3: Inflation Decomposition, 2020 March



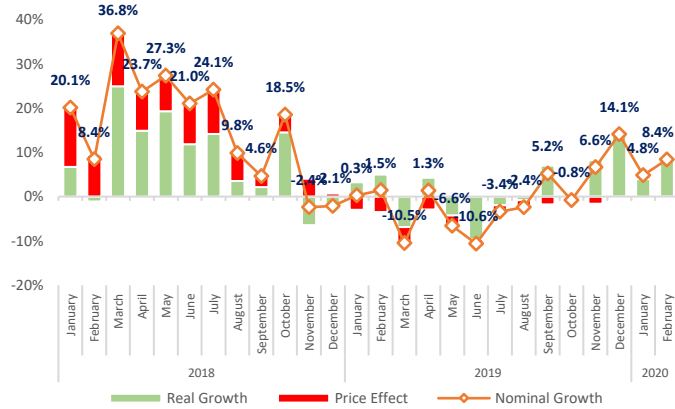
Source: Geostat

Figure 4: Annual Change of Export



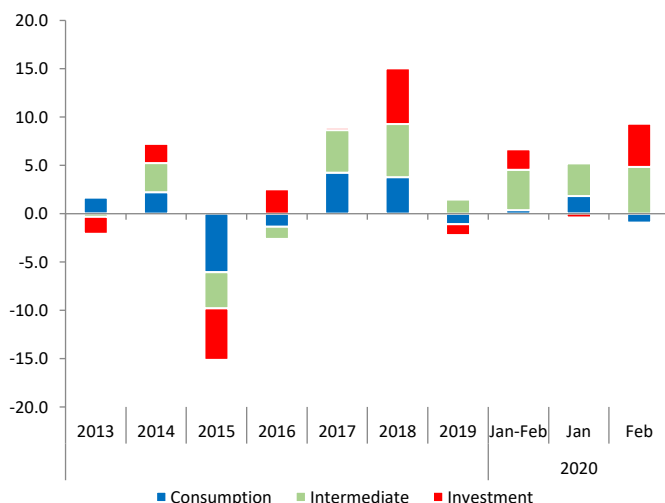
Source: Geostat

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.

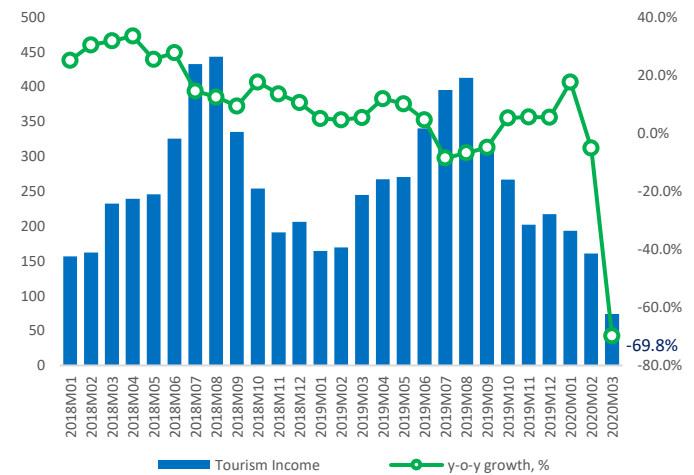
In February 2020, the first place in the top ten export goods from the commodity groups was occupied by light vehicles with 47.8 million. USD (18.1 percent of total exports), second place - copper ores and concentrates - 39.8 million US dollars (15.1 percent of total exports), and third - ferroalloys 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

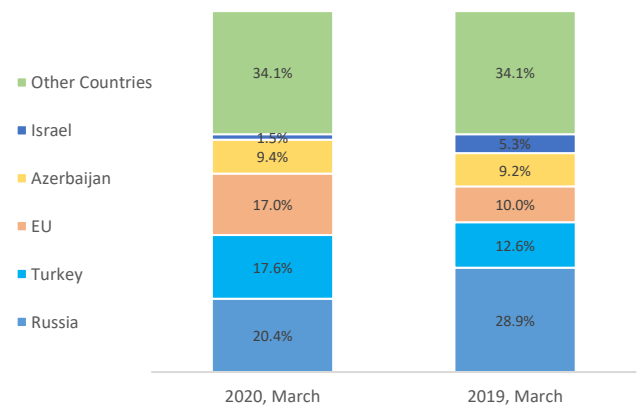
In March 2020, the total number of visitors was 196 thousand, which is 67.3 percent less than in March last year. Revenue from tourism fell 69.8 percent to \$ 73.8 million. This sharp decrease is due to the closure of the borders caused by the spread of the COVID-19 epidemic and the decline of international travel on the territory of Georgia in the second half of March. 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

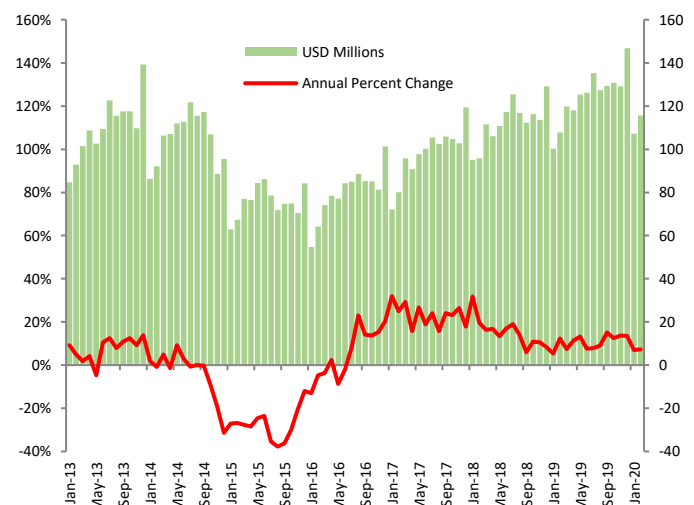


Source: NBG

## Remittances

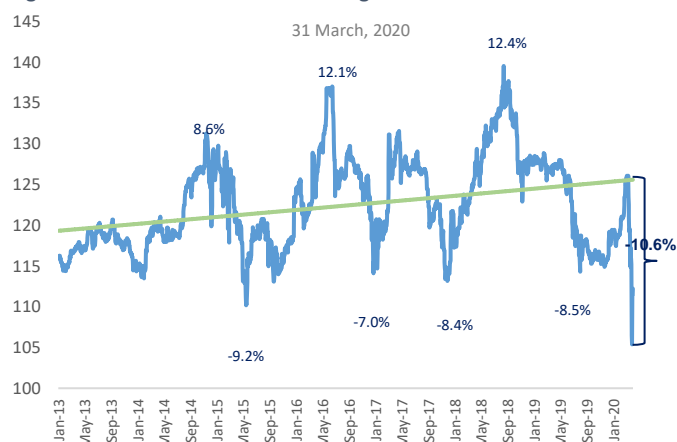
In February 2020, net remittances totaled \$ 115.6 million, up 7.3 percent year-on-year. In February, remittances increased significantly from Italy (3.8 percent contribution to total growth), Ukraine (1.2 percent contribution to total growth), Greece (1.9 percent contribution to total growth) and the 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



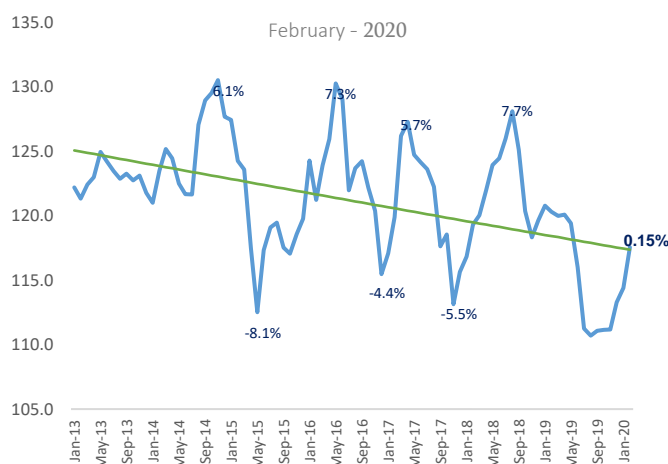
Source: NBG

Figure 10: Nominal Effective Exchange Rate



Source: NBG

Figure 11: Real Effective Exchange Rate



Source: NBG

## Exchange Rate

As of March 31, the nominal effective exchange rate of the lari has depreciated by 12.2 percent relative to January 1, 2019 and depreciated by 5.0 percent relative to January 1, 2018,. This time, the real effective exchange rate for February is depreciated by 1.7 percent than in January of the previous year and appreciated by 1.6 percent relative to January 2018.

As of the end of March, the nominal effective exchange rate of the lari has depreciated by 10.6 percent relative to the medium-term trend, while the real effective exchange rate of February has strengthened by 0.15 percent compared to the medium-term trend.

The depreciation during March is due to the spread of the COVID-19 epidemic and the fall in international oil prices, which has affected the economic activity of trading partners, revenue from tourism and remittances. At the same time, the depreciation of the exchange rate was also affected by the negative expectations and existing uncertainty regarding above events.

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

	March 31, 2020		Mar 31, 2020 - Jan 1, 2019		Mar 31, 2020 - Jan 1, 2018
Euro	3.6363	▼	-23.2%	▼	-28.1%
US Dollar	3.2845	▼	-19.4%	▼	-27.0%
Turkish Lira	0.5039	▲	48.9%	▲	62.5%
Russian Ruble	0.0412	▲	4.3%	▼	-21.2%
NEER	112.21	▼	-12.2%	▼	-5.0%
REER (February 2020)	117.53	▼	-1.7%	▲	1.6%

Source: NBG

## Budget Revenue Performance

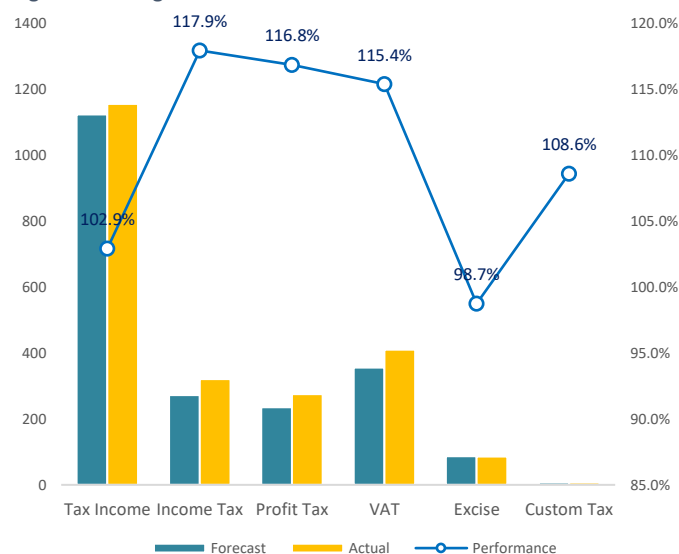
The forecast of tax income for January-March 2020 is 2,801.1 million GEL, while the actual figure for January-March 2020 is 6.5 percent higher than planned, reaching value of 2982.9 million GEL.

The actual level of tax income in March was 1154.5 mln GEL, which is 2.9 percent higher compared to the forecasted value of tax income in March (1122 mln GEL).

- Revenue from Income tax amounted 320.7 mln GEL, which is 117.9 percent of forecasted value (272 mln GEL).
- Revenue from Profit tax was equal to 274.5 mln GEL, which is 116.8 percent of projected value (235 mln GEL).
- Revenue from VAT was equal to 409.5 mln GEL, which is 115.4 percent of the forecasted value of 355 mln GEL.
- Revenue from Excise tax amounted 85.4 mln GEL, which is 98.7 percent of the projected value of 86.5 mln GEL.
- Revenue from Custom tax was equal to 7.6 mln GEL, which is 109 percent of the forecasted value (7 mln GEL).
- Revenue from Property tax was equal to 0.3 mln GEL, which is 20.8 percent of forecasted value was of 1.5 mln GEL. The other tax income is 56.2 million GEL.

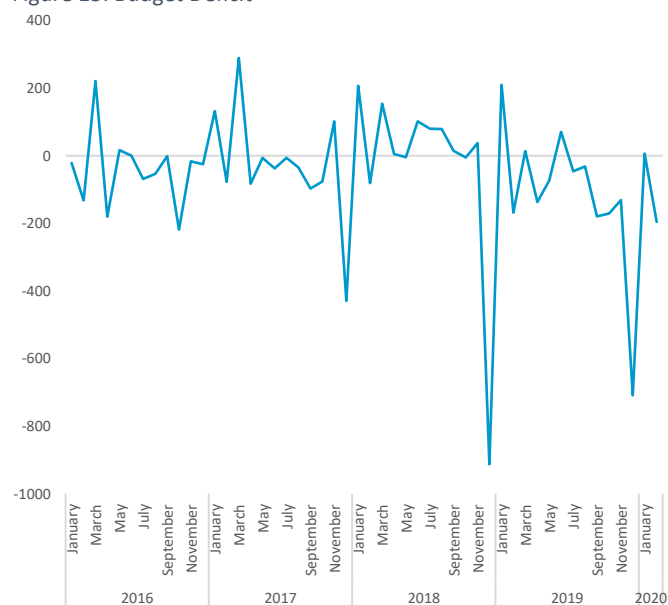
In February 2020, compared to the same period last year, consolidated budget revenues increased by 16.6% and expenditures increased by 14.5%. At the same time, the operating budget of the consolidated budget, which is the government's savings, amounted to -55.9 million GEL, while the total balance was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

Figure 12: Budget Revenue Performance



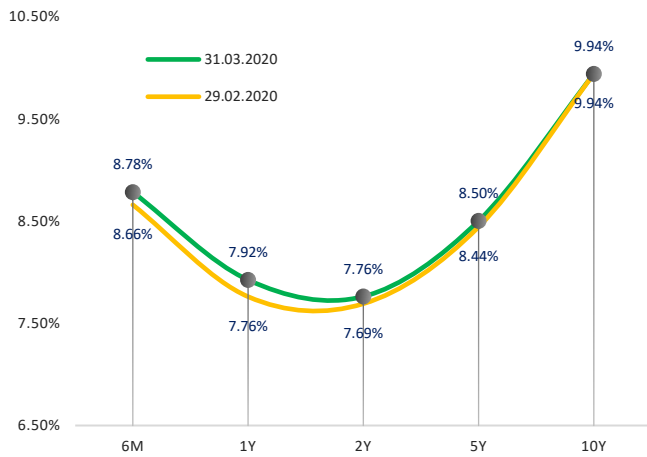
Source: MOF

Figure 13: Budget Deficit



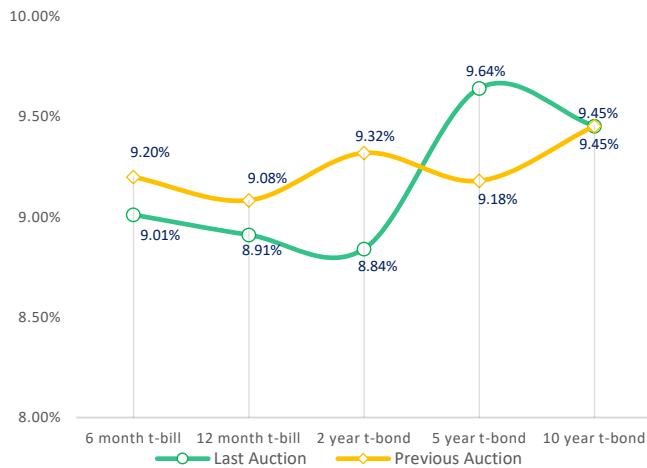
Source: MOF

Figure 14: Portfolio Yield Curve



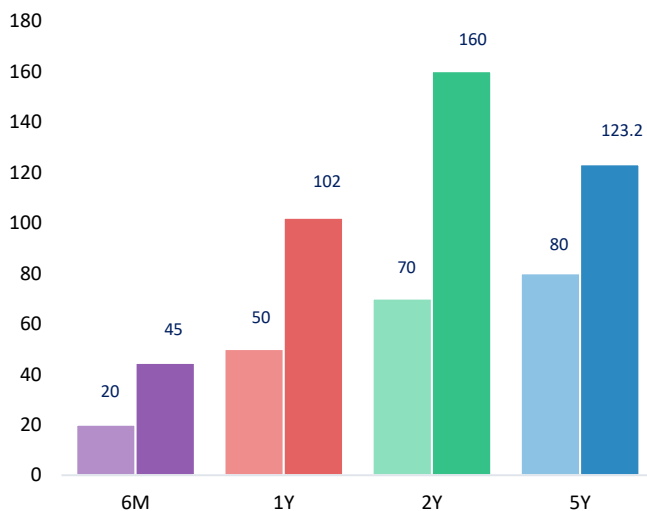
Source: MOF

Figure 15: Weighted average interest rates



Source: MOF

Figure 16: Issuance and Demand, mln GEL



Source: MOF

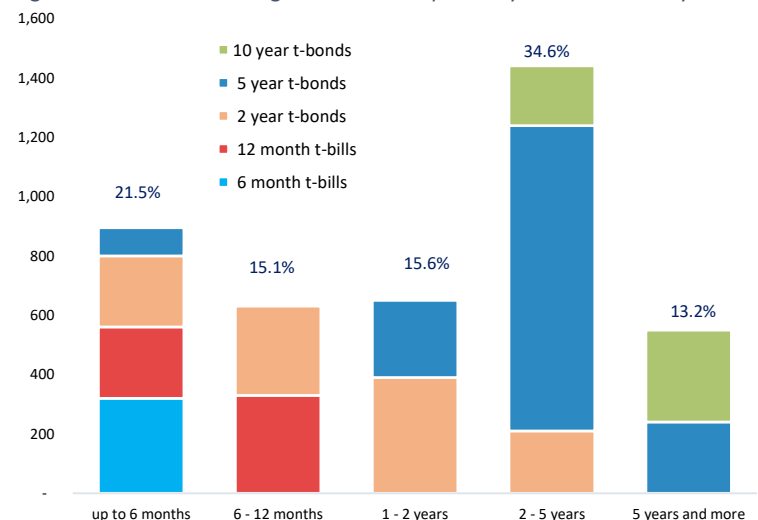
## Treasury Securities Portfolio

In March 2020, 4 auctions were held with total issuance volume of 220 million GEL. The weighted average interest rate amounted to 9.162%. 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 and 12 months compared to other maturities.

As of March 31, 2020, 36.6% of treasury securities portfolio is composed of securities whose maturity date is due for the next 1 year. Bid-to-cover ratio decreased compared to the previous month's value (February 2.79) and is 1.95.

Figure 17: Portfolio Forming Securities Composed by Time to Maturity



Source: MOF



## Private Sector Larization

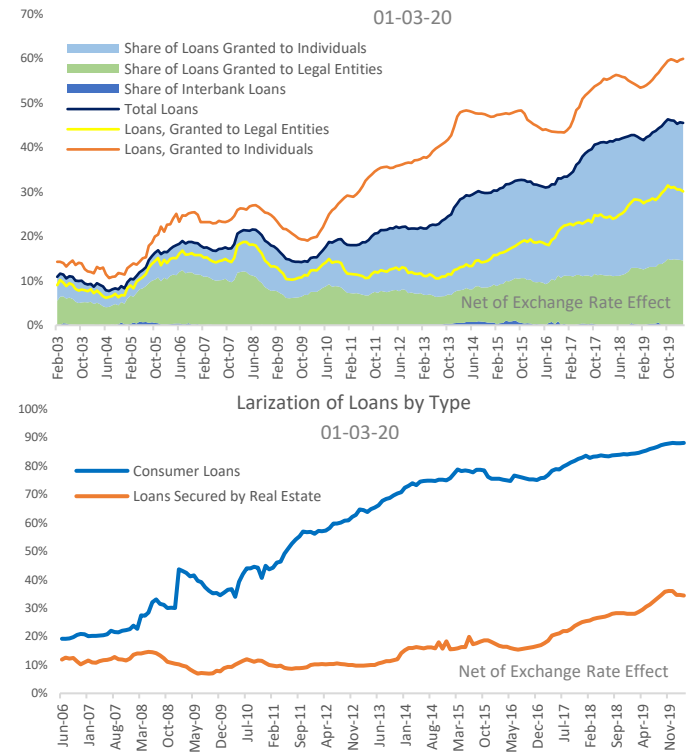
Loan larization is on the rise. The larization of total loans is largely due to the larization of loans issued to individuals. By February 2020, the larization of loans to individuals was 59.8 percent, the legalization of loans to legal entities was 30 percent, and the total larization of loans was 45.5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

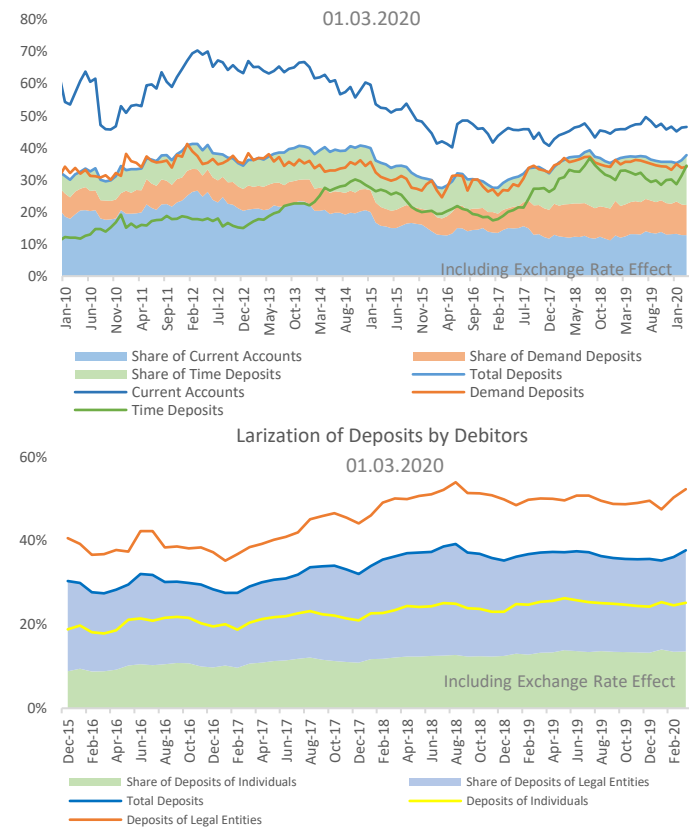
The larization of current accounts for February 2020 was 46.4 percent. At the same time, the larization of deposits before demand is 34.1 percent, and the larization of time deposits - 34.5 percent.

Figure 18: Loan Larization



Source: NBG

Figure 19: Deposit Larization



Source: NBG

Figure 20: Annual Growth of Loans

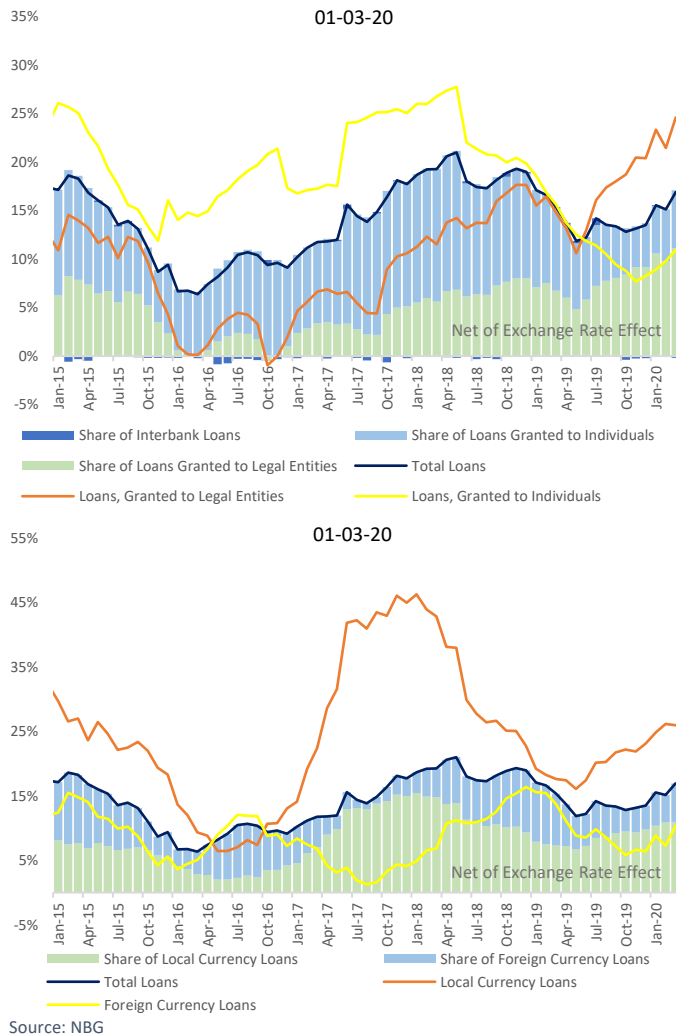
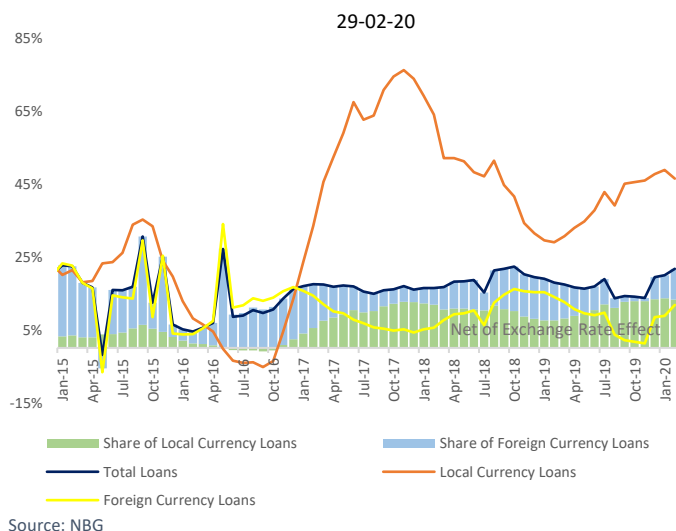


Figure 21: Annual Growth of Loans secured by Real Estate



## 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. On March 18, 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

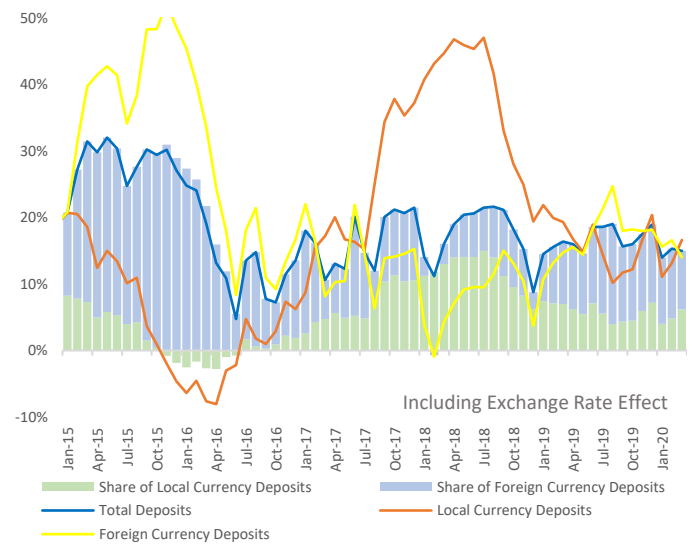
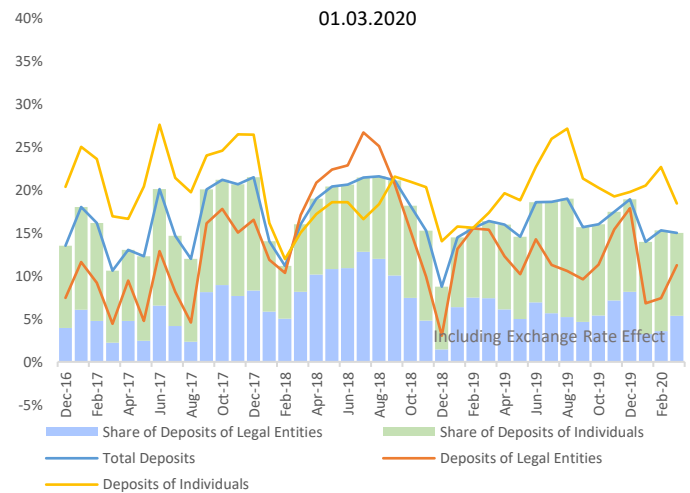
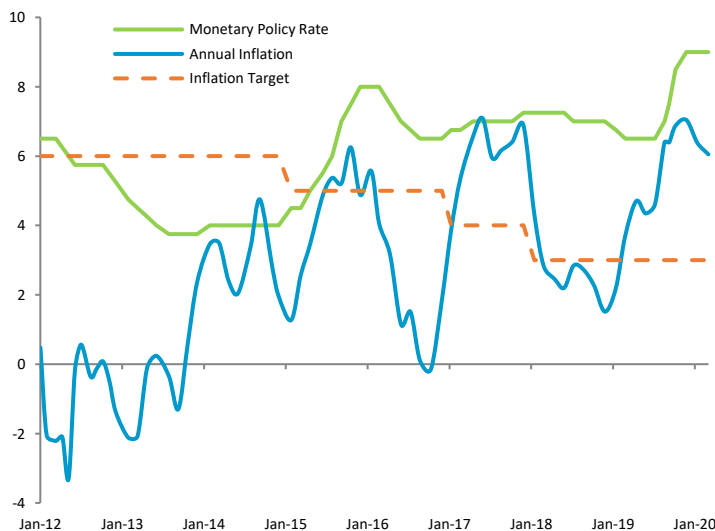
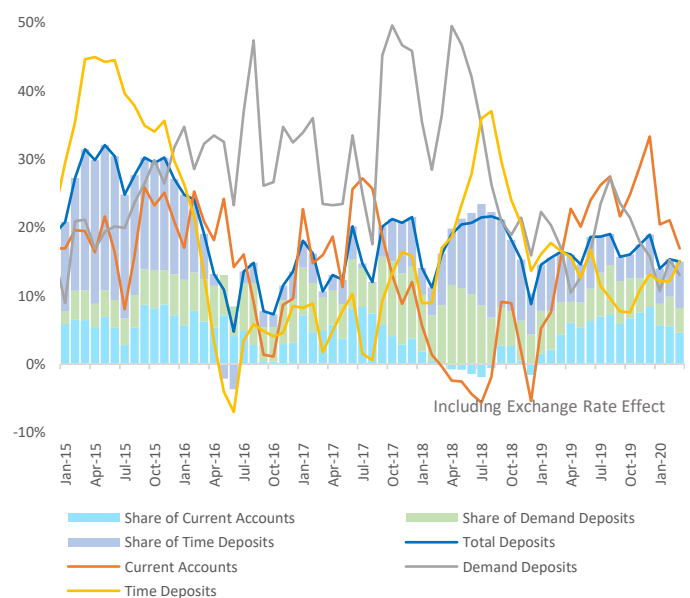


Figure 23: Inflation and Monetary Policy Rate

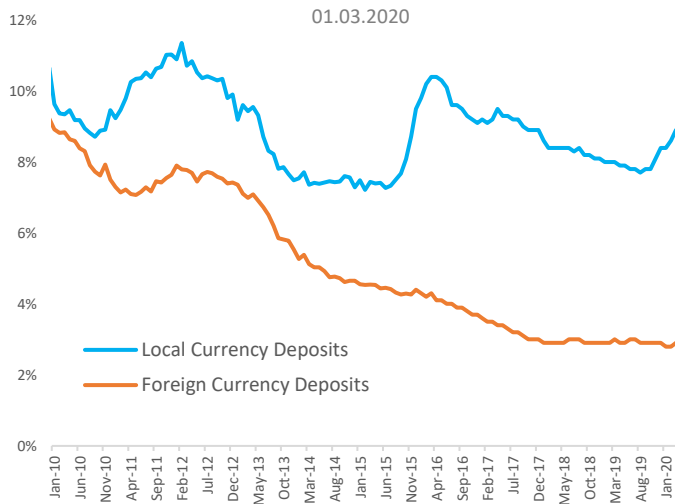


Source: NBG



Source: NBG

Figure 24: Interest rates on Deposits (stock)



Source: NBG

## 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.

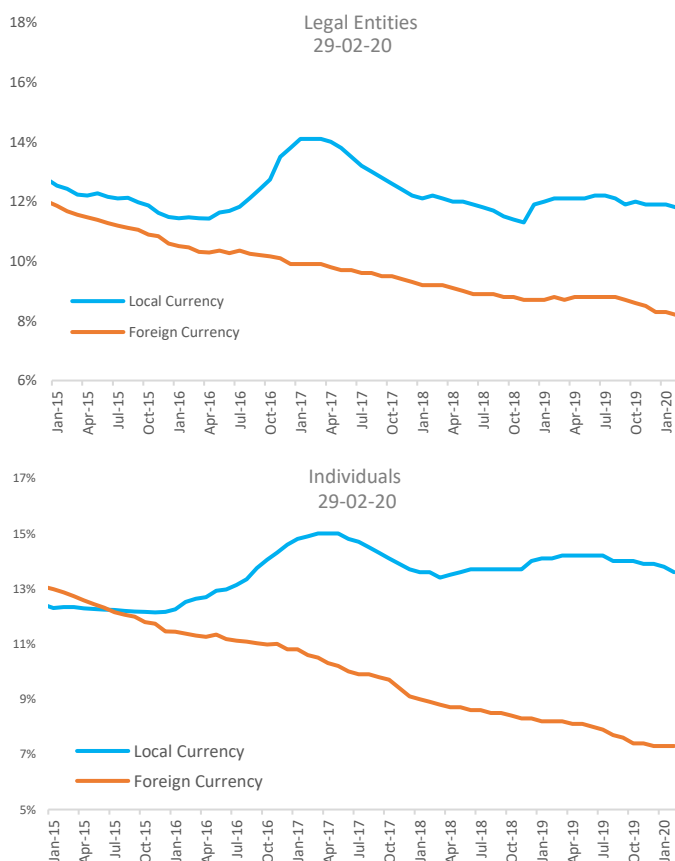
As of February 2020, the weighted average interest rate on deposits in national currency of legal entities was 10.8 percent, and in foreign currency - 2.8 percent. The average annual interest rate on deposits of individuals was 2.6 percent on deposits in foreign currency and 10.5 percent in national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



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.