

Ministry of Finance of Georgia

Current Economic Outlook May, 2020



Brief Summary

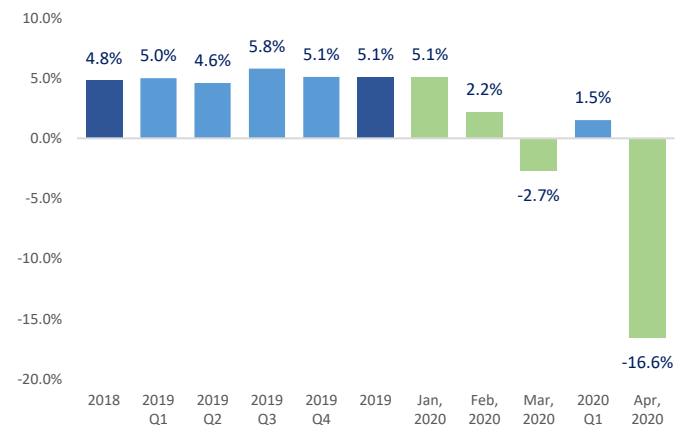
- Based on Geostat's preliminary data, annual real economic growth in April equals to -16.6%, while average annual real GDP growth for first four months of 2020 equaled -3.6 percent
- Annual inflation in May equals to 6.5%, while core inflation - 5.9%
- Export annually decreased by 27.4 % in April
- Import annually decreased by 38.5 % in April
- Income from tourism annually decreased by 96.8 %



Economic Growth

In April 2020, annual economic growth was -16.6 percent, while the average real growth in the first 4 months of 2020 was -3.6 percent. This sharp decline is due to declining economic activity, both within the country and in the region due to the outbreak of the COVID-19 pandemic. In March 2020 the estimated real growth compared to the same period of the previous year was posted in mining and quarrying sector. A decrease was registered in almost all activities

Figure 1: Economic Growth



Source: Geostat

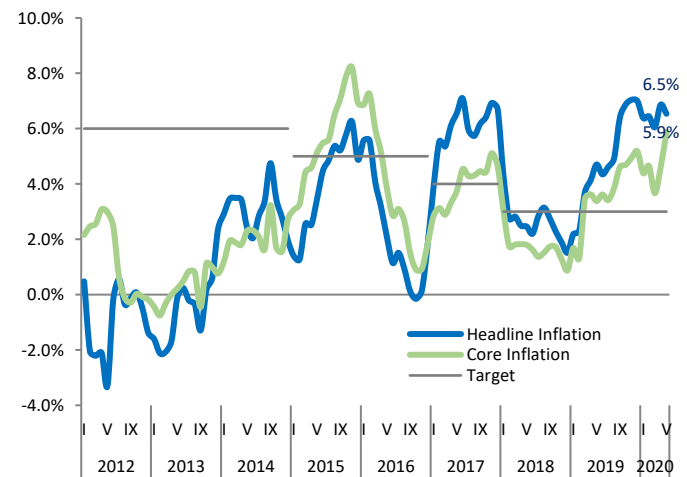
Price Level

As of May 2020, the inflation rate was 6.5 percent compared to the same period last year, which is higher than the target inflation. Core inflation was 5.9 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 May 2020 is 0.4 points.

The main influence on the formation of annual inflation was the dynamics of prices for food and non-alcoholic beverages (+14.7%), furnishings, household equipment and maintenance (+8.3%), restaurants and hotels (+6.1%). And the annual decline was observed in the categories of transport (-4.6%), recreation and culture (-1.7%), clothing and footwear (-1.4%).

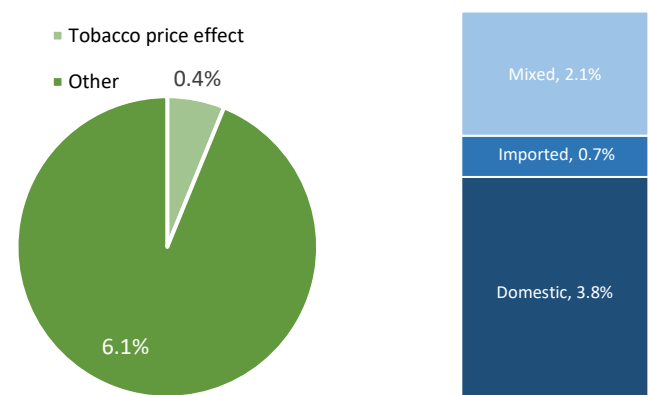
At the same time, in May 2020, inflation was 0.2 percent compared to the previous month, which was significantly caused by rising prices for restaurants and hotels (+4.3%), health (+1.3%) and lower prices for transport (-2.4%).

Figure 2: Annual Inflation, 2020 May



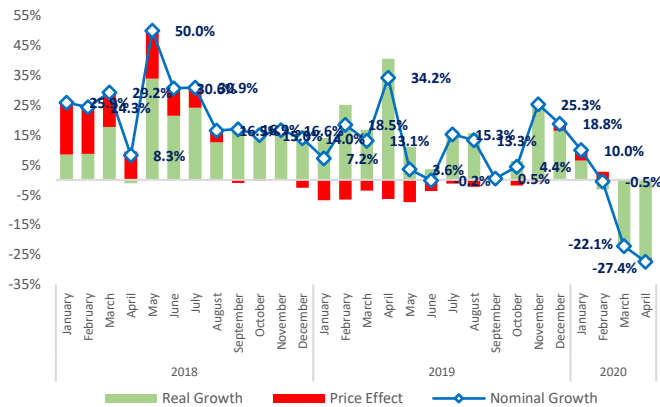
Source: NBG

Figure 3: Inflation Decomposition, 2020 May



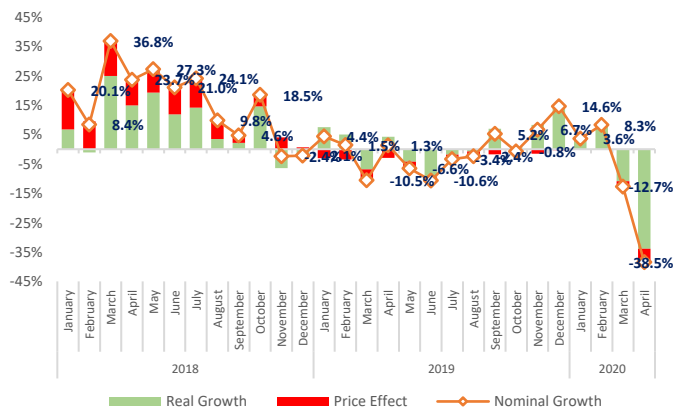
Source: Geostat

Figure 4: Annual Change of Export



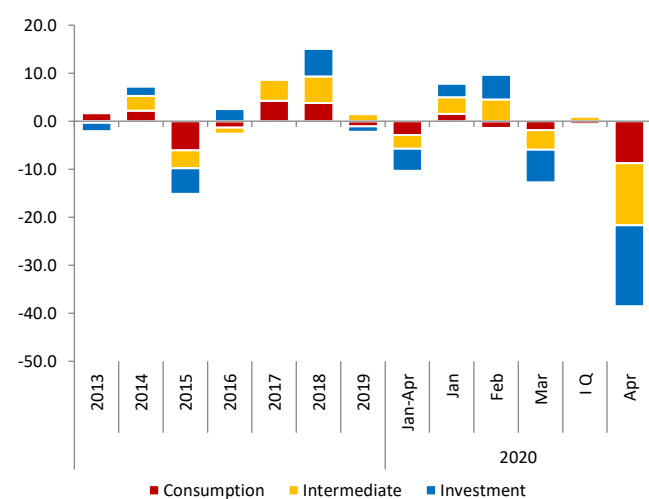
Source: Geostat

Figure 5: Annual Change of Import



Source: Geostat

Figure 6: Decomposition of Change of Import



Source: Geostat

External Trade

In April 2020, export annually decreased by 27.4 percent and reached value of 223.2 mln USD, while import decreased by 38.5 percent reaching 458 mln USD. These changes caused decrease of the trade deficit by 46.3 percent compared to previous year and was equal to 234.8 mln USD. This significant reduction is due to the decline of domestic and external demand and decrease of economic activity in the world and the region as a result of the spread of the COVID-19 epidemic.

It is important to separate real and nominal effects in the changes of export and import. In April 2020 real growth of export was equal to -26.1 percent, and real growth of import was -33.9 percent.

In April 2020, import of investment goods, import of intermediate and consumption goods decreased by 16.8, 13 and 8.7 percent respectively.

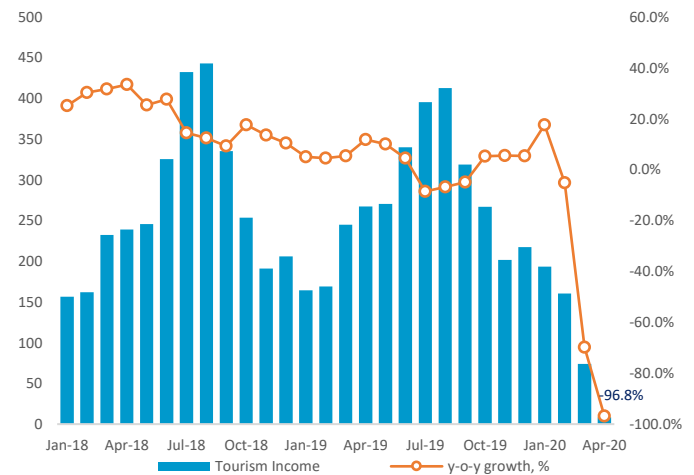
In April 2020, the first place in the top ten export goods from the commodity groups was occupied by copper ores and concentrates with 56.7 million USD (25.4 percent of total exports), second place - ferroalloys - 33.6 million US dollars (15.1 percent of total exports), and third - medicaments 15.8 million U.S. dollars (7.1 percent of total exports). The largest import commodity group in April 2020 was the group of copper ores and concentrates, whose imports amounted to 55 million USD and accounted for 12 percent of total imports. Also significant were medicaments with 37.5 million (8.2 percent of imports) and petroleum gases with 22.3 million U.S. dollars (4.9 percent of imports).

In April 2020, the largest export partners are China (35.6 million US dollars, 16% of total exports), Russia (34.4 million US dollars, 15.4%) and Bulgaria (21.8 million US dollars, 12.6%). The largest importing partner countries are Russia (59.9 million USD, 13.1%), Turkey (57.4 million USD, 12.5% of total imports) and Azerbaijan (37.5 million USD, 8.2%).

Tourism

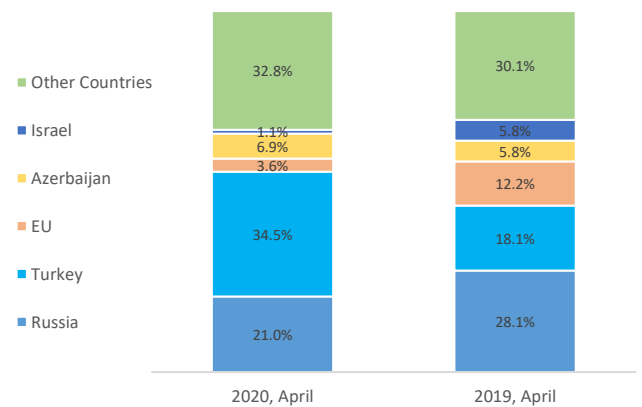
In April 2020, revenue from tourism fell 96.8 percent to \$ 8.5 million. This sharp decrease is due to the closure of the borders caused by the spread of the COVID-19 epidemic and the decline of international travel on the territory of Georgia since the second half of March. In 2019, revenue from tourism 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

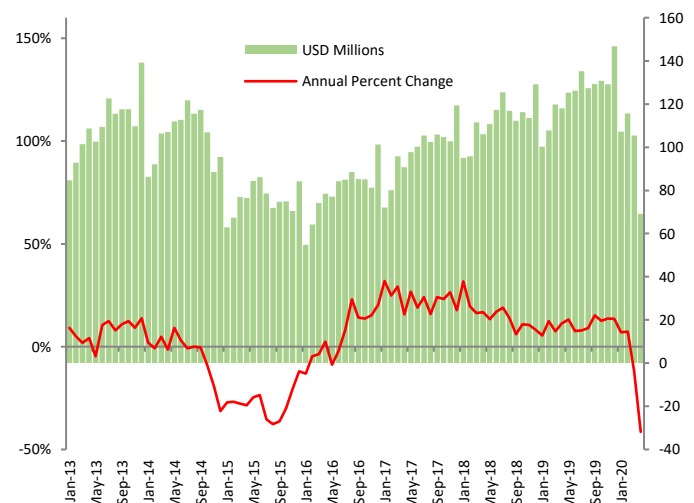


Source: NBG

Remittances

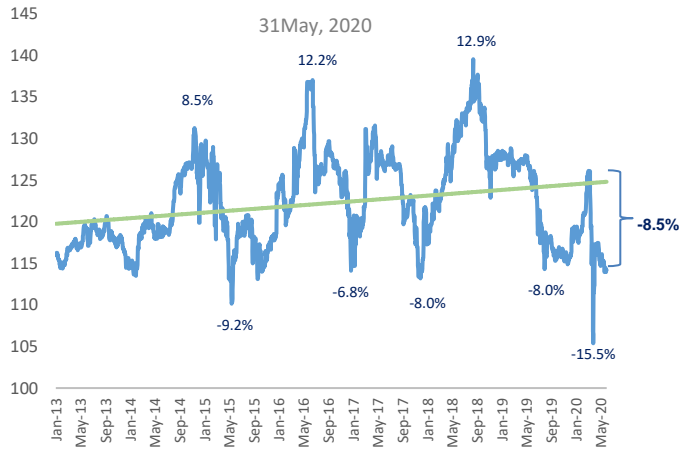
In April 2020, net remittances totaled \$ 69.5 million, which is 69.6 percent lower compared to previous year. This decrease reflects effect of declined economic activity in countries due to spread of COVID-19 pandemic along with tightened social distancing measures in countries of origin of remittances. Remittances fell by 65.4 percent from Russia (-15.4 percent contribution to total growth), 48 percent from Israel (-5.3 percent contribution to total growth), 21.1 percent from Italy (-4.2 percent contribution to total growth), 23.9 percent from Turkey (-1.1 percent contribution to total growth) and 36.8 percent from Greece (-4.8 percent contribution to total growth). At the same time, growth was recorded at 180.2 percent from Azerbaijan (0.9 percent contribution to total growth), 21.1 percent from Ukraine (0.1 percent contribution to total growth), and 4 percent from Germany (0.1 percent contribution to overall growth).

Figure 9: Net Remittances



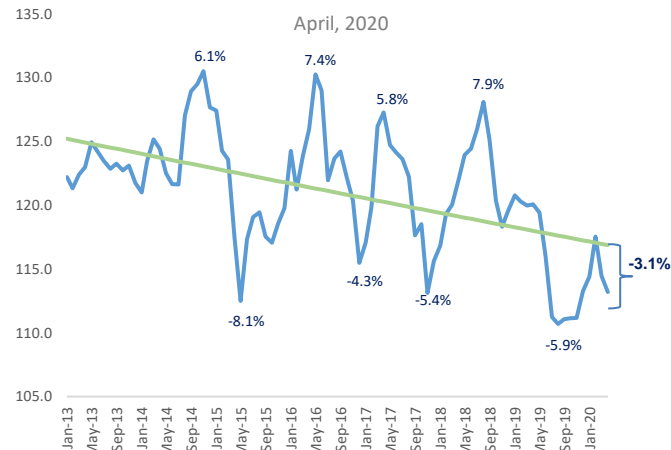
Source: NBG

Figure 10: Nominal Effective Exchange Rate



Source: NBG

Figure 11: Real Effective Exchange Rate



Source: NBG

Exchange Rate

As of May 31, the nominal effective exchange rate of the lari has depreciated by 10.7 percent relative to January 1, 2019 and depreciated by 3.4 percent relative to January 1, 2018. This time, the real effective exchange rate for May is depreciated by 5.4 percent than in January of the previous year and depreciated by 2.1 percent relative to January 2018.

As of the end of May, the nominal effective exchange rate of the lari has depreciated by 8.5 percent relative to the medium-term trend, while the real effective exchange rate of April has depreciated by 3.1 percent compared to the medium-term trend.

The depreciation during May 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

	May 31, 2020		May 31, 2020 - Jan 1, 2019	May 31, 2020 - Jan 1, 2018
Euro	3.5366	▼	-21.0%	-26.1%
US Dollar	3.1761	▼	-16.7%	-24.5%
Turkish Lira	0.4654	▲	61.2%	76.0%
Russian Ruble	0.0450	▼	-4.5%	-27.8%
NEER	114.17	▼	-10.7%	-3.4%
REER (April 2020)	113.20	▼	-5.4%	-2.1%

Source: NBG

Budget Revenue Performance

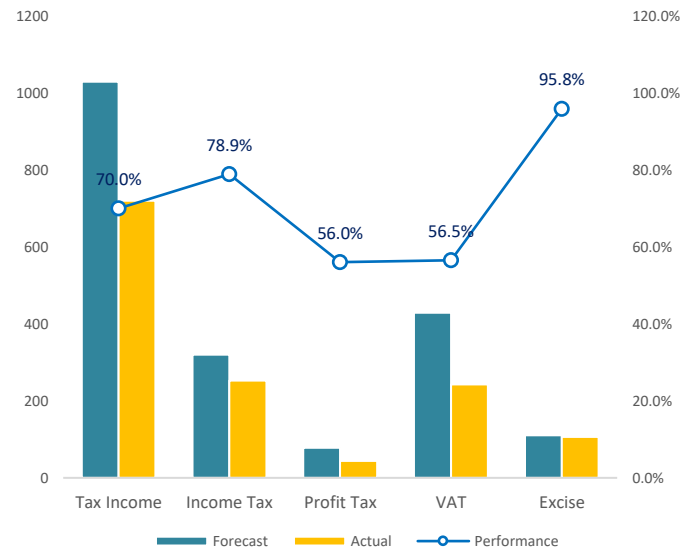
The forecast of tax income for January-May 2020 is 4,785.8 million GEL, while the actual figure for January-May 2020 is 6.6 percent lower than planned, reaching value of 4,444.7 million GEL.

The actual level of tax income in April was 719.8 mln GEL, which is 30 percent lower compared to the forecasted value of tax income in May (1,028.6 mln GEL).

- Revenue from Income tax amounted 252.5 mln GEL, which is 78.9 percent of forecasted value (320 mln GEL).
- Revenue from Profit tax was equal to 43.7 mln GEL, which is 56 percent of projected value (78 mln GEL).
- Revenue from VAT was equal to 242.4 mln GEL, which is 56.5 percent of the forecasted value of 429 mln GEL.
- Revenue from Excise tax amounted 106 mln GEL, which is 95.8 percent of the projected value of 110.6 mln GEL.
- Revenue from Custom tax was equal to 4.6 mln GEL, which is 70.8 percent of the forecasted value (6.5 mln GEL).
- Revenue from Property tax was equal to 1.4 mln GEL, which is 31.1 percent of forecasted value was of 4.5 mln GEL. Revenue from other taxes was equal to 69.3 mln GEL.

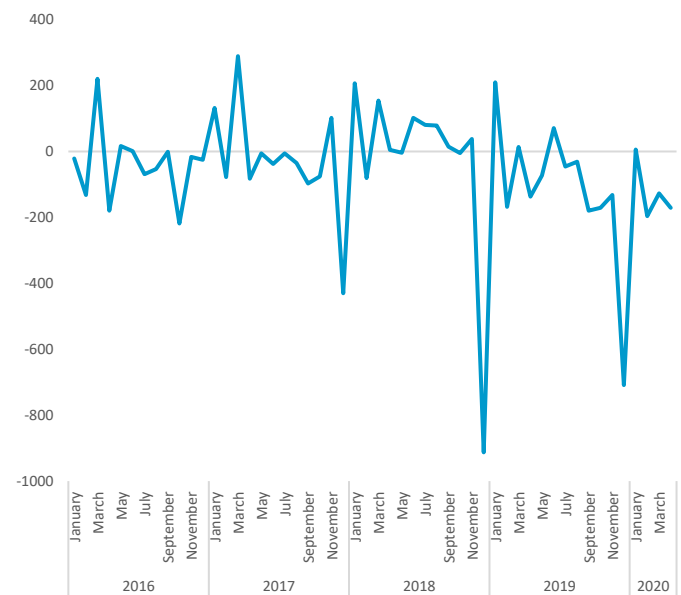
In April 2020, compared to the same period last year, consolidated budget revenues decreased by 4.5% and expenditures decreased by 0.5%. At the same time, the operating budget of the consolidated budget, which is the government's savings, amounted to 28.6 million GEL, while the total balance was set at -170.7 million GEL.

Figure 12: Budget Revenue Performance



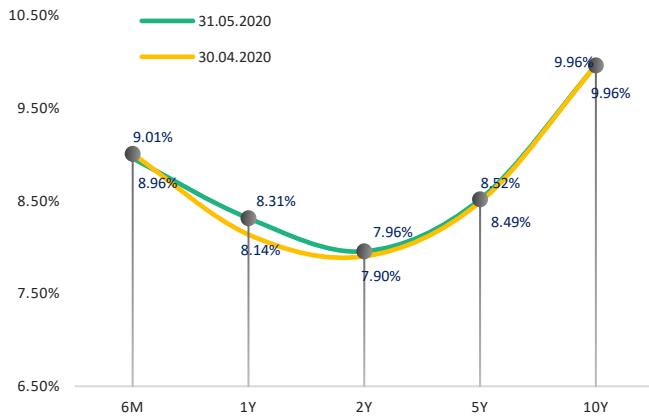
Source: MOF

Figure 13: Budget Deficit



Source: MOF

Figure 14: Portfolio Yield Curve



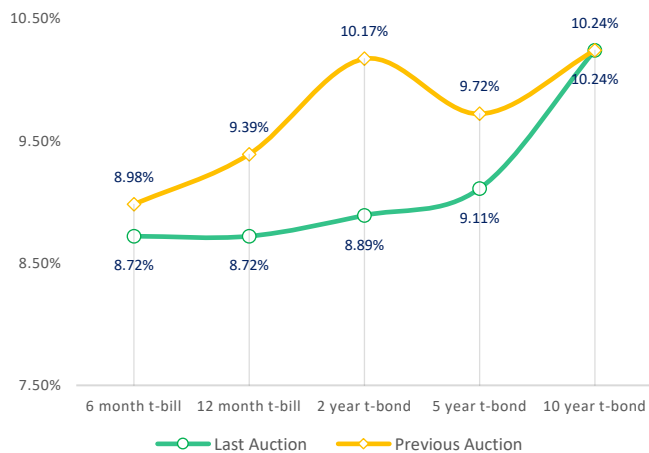
Source: MOF

Treasury Securities Portfolio

In May 2020, 4 auctions were held with total issuance volume of 280 million GEL. The weighted average interest rate amounted to 8.874%. 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 110 million GEL were redeemed. The portfolio yield curve has not changed significantly.

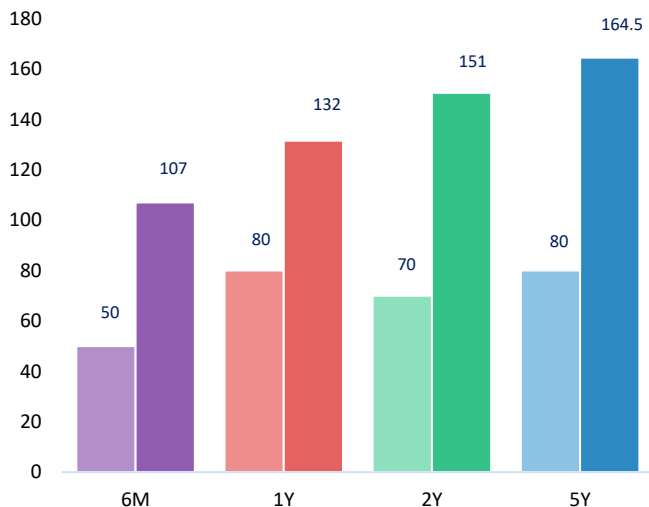
As of May 31, 2020, 35% of treasury securities portfolio is composed of securities whose maturity date is due for the next 1 year. Bid-to-cover ratio increased compared to the previous month's value (April 1.84) and is 1.98.

Figure 15: Weighted average interest rates



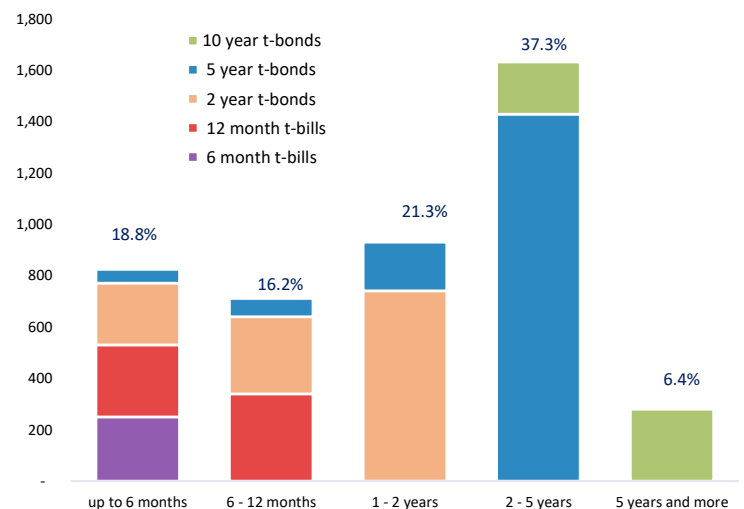
Source: MOF

Figure 16: Issuance and Demand, mln GEL



Source: MOF

Figure 17: Portfolio Forming Securities Composed by Time to Maturity



Source: MOF

Private Sector Larization

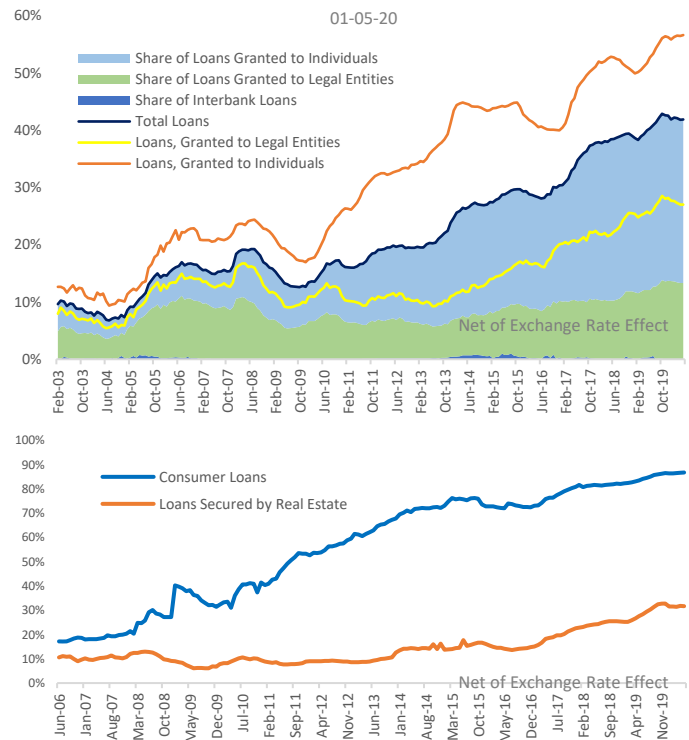
Loan larization is on the rise. The larization of total loans is largely due to the larization of loans issued to individuals. By 1 of May 2020, the larization of loans to individuals was 56.6 percent, the larization of loans to legal entities was 27 percent, and the total larization of loans was 41.9 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 1 of May 2020, the larization of consumer loans was 86.7 percent, while the larization of mortgage loans was 31.7 percent.

The larization of deposits is significantly conditioned by the larization of deposits of legal entities. As of 1 of May 2020, the total larization of total deposits was 33.8 percent, the larization of deposits of legal entities in the same period was 45.9 percent, and the larization of deposits of individuals – 24.3 percent.

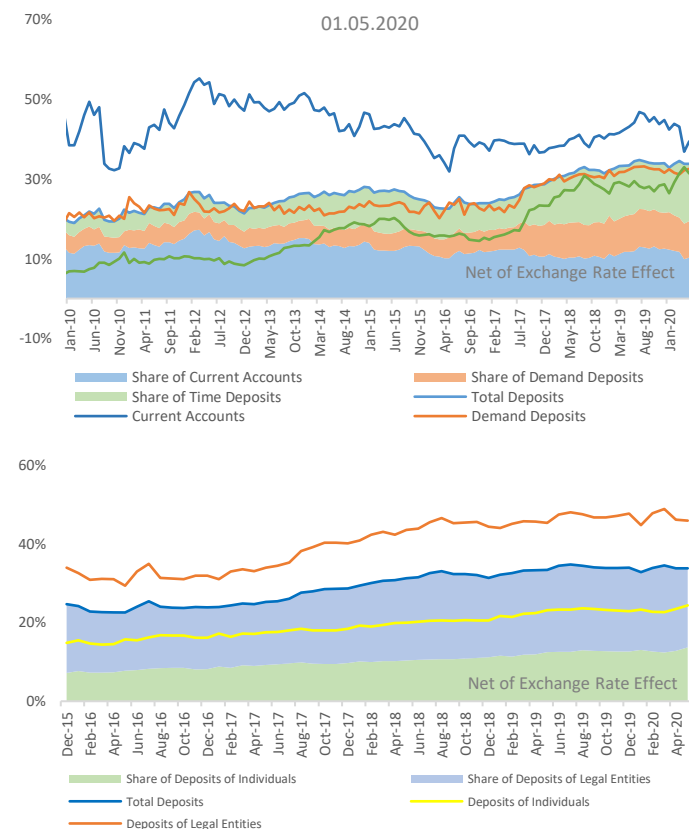
The larization of current accounts for May 2020 was 39.4 percent. At the same time, the larization of deposits before demand is 32.5 percent, and the larization of time deposits – 31.4 percent.

Figure 18: Loan Larization



Source: NBG

Figure 19: Deposit Larization



Source: NBG

Figure 20: Annual Growth of Loans

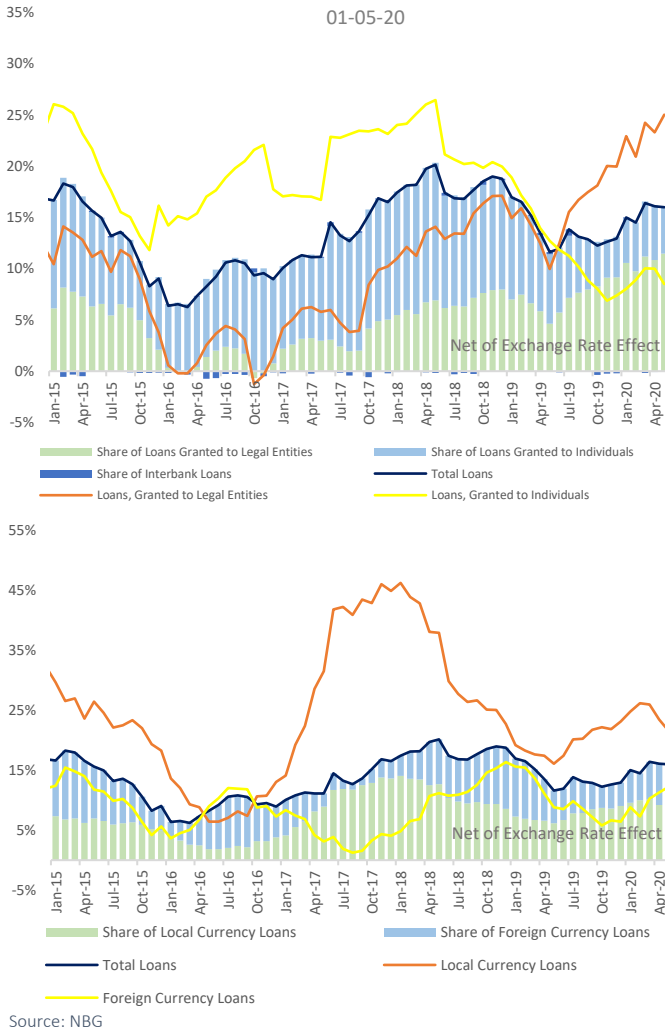
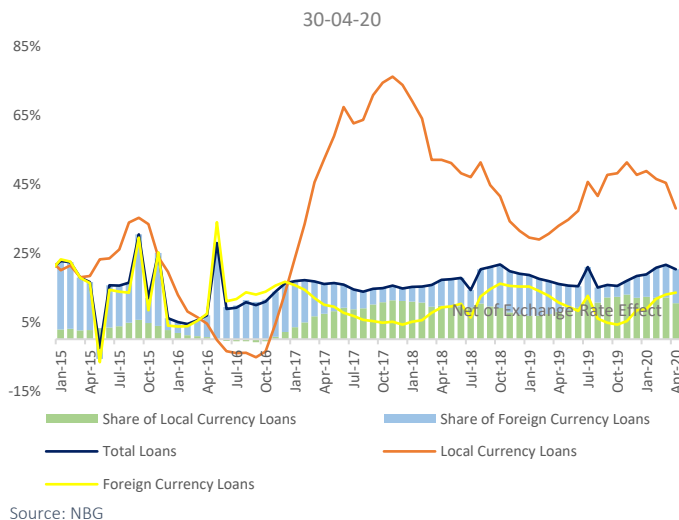


Figure 21: Annual Growth of Loans secured by Real Estate



Review of Loans

The annual growth of the credit portfolio as of 1 of May 2020 compared to 2019 was 16 percent. The annual growth of loans to legal entities decreased by 1.7 percentage points compared to the previous month and amounted to 25 percent during the same period, while the annual growth of loans to individuals amounted to 8.5 percent.

As of 1 of May 2020, the growth of loans in national currency amounted to 21.5 percent compared to the same period last year, the annual growth of loans in foreign currency increased by 1 percentage points compared to the previous month and amounted to 12.3 percent during the same period.

By May 2020, mortgage loans had decreased by 1.2 percentage points compared to the previous month and amounted to 20.3 percent. And the annual growth of consumer loans was 12 percent.

Review of Deposits

The growth of total deposits in May 2020 compared to the corresponding period of 2019 was 5 percent, the annual growth of deposits denominated in the national currency increased by 3 percentage points compared to the previous period and amounted to 7 percent, and the annual growth of deposits denominated in foreign currency - 5 percent.

In May 2020, the annual increase in deposits of individuals was 10 percent.

Monetary Policy Rate

On March 18, 2020, the Monetary Policy Committee of the National Bank of Georgia decided to leave the refinancing rate unchanged at 9.0 percent. This tightened monetary policy was aimed at neutralizing inflationary pressures following the depreciation of the exchange rate. On April 29, 2020, the committee decided to reduce the refinancing rate to 8.5 percent. According to the NBG's forecast, due to temporary factors, inflation will remain high for several months, then gradually decline, and in the first half of 2021 approach the target level. According to the National Bank, despite the rate cut, monetary policy remains tight, ensuring a return of inflation to the target level in the medium term. The Monetary Policy Committee will exit the tight monetary policy stance gradually and further steps will depend on how quickly inflation expectations recede. The next meeting of the Monetary Policy Committee will be held on June 24, 2020.

Figure 22: Annual Growth of Deposits

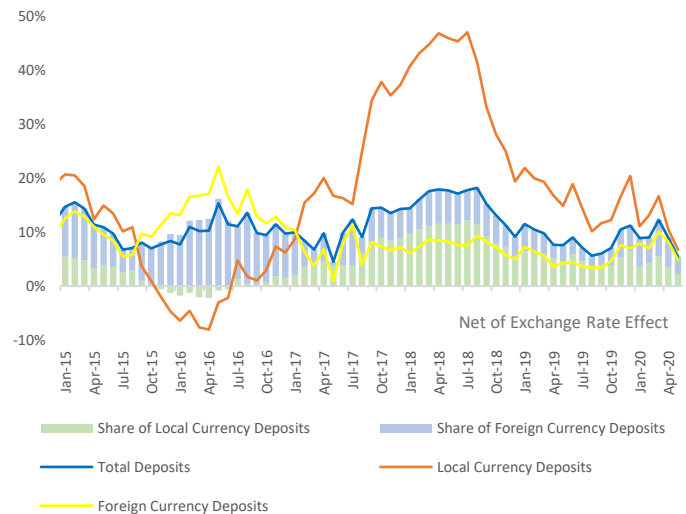
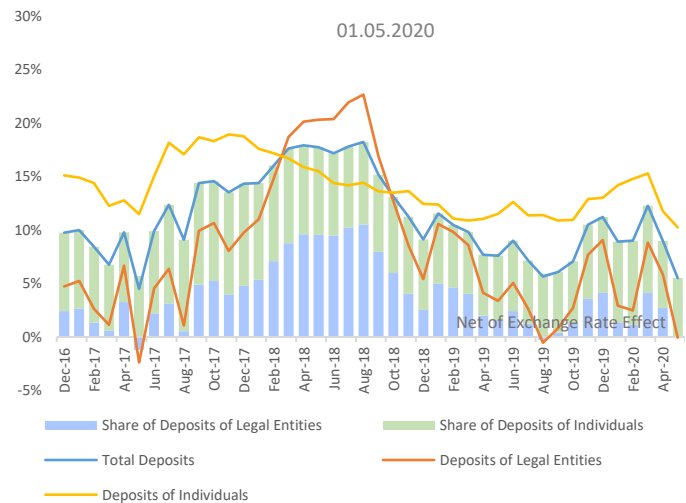
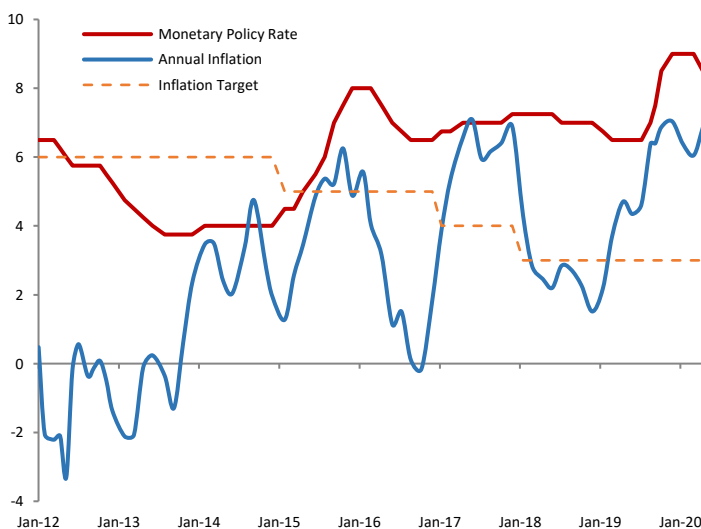
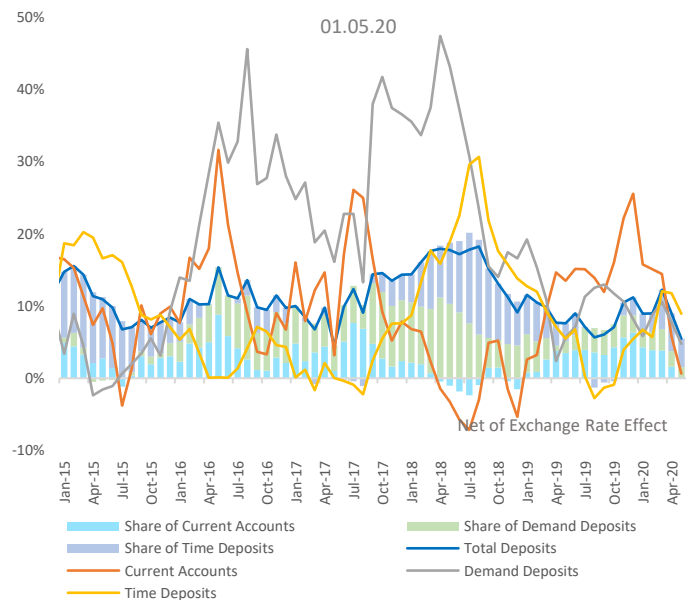


Figure 23: Inflation and Monetary Policy Rate

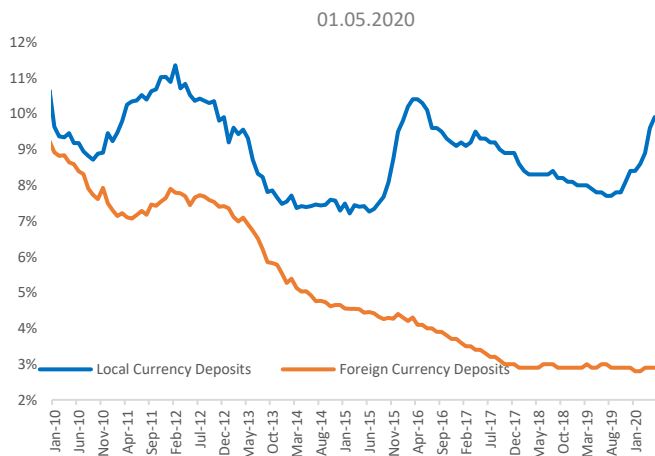


Source: NBG



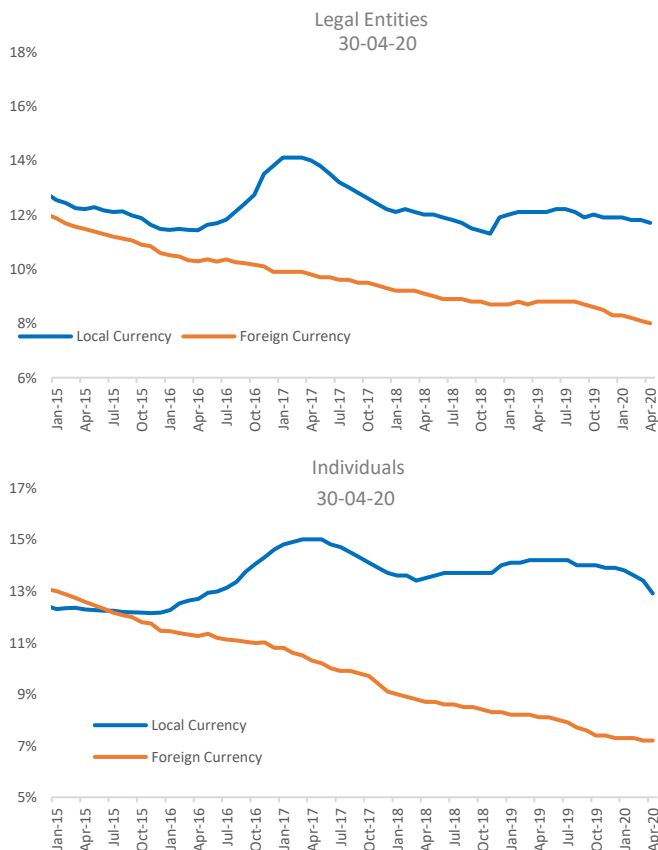
Source: NBG

Figure 24: Interest rates on Deposits (stock)



Source: NBG

Figure 25: Interest rates on Loans secured by Real Estate



Source: NBG

Interest Rates

As of May 2020, the interest rate on foreign currency deposits was 2.9 percent, while the national currency was 9.9 percent.

As of May 2020, the weighted average interest rate on deposits in national currency of legal entities was 10 percent, and in foreign currency - 2.5 percent. The average annual interest rate on deposits of individuals was 3 percent on deposits in foreign currency and 9.7 percent in national currency.

By May 2020, the weighted average annual interest rate on short-term consumer loans was 20.2 percent (26.4 percent in national currency and 6.1 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 May 2020 was 16.6 percent. The interest rate on loans denominated in the national currency is 17.8 percent, and the interest rate on loans denominated in foreign currency is 8.3 percent.

At the end of April 2020, the interest rate on mortgage loans issued to legal entities issued was 12.3 percent, and in foreign currency - 7 percent. The interest rate on loans to individuals in national currency was 12.0 percent, and in foreign currency it was 6.2 percent.

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.

