

Ministry of Finance of Georgia



Quarterly Economic Outlook

I Quarter, 2020



Brief Summary

- Economic growth of the first quarter equals to 1.5 percent
- Renewed economic growth forecast for Georgia in 2020 equals to -4 percent
- Annual inflation equals to 6.3 percent, while core inflation equals to 4.2 percent
- Due to the spread of the COVID-19 epidemic, economic activity has decreased both in the world and in the region
- Export annually decreased by 5.9 percent
- Import annually decreased by 1.0 percent
- Revenue from tourism decreased by 26.1 percent
- A sharp drop in international oil prices in March by 42 percent
- NBG leaves refinancing rate unchanged at 9 percent





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Real Sector

Economic Growth

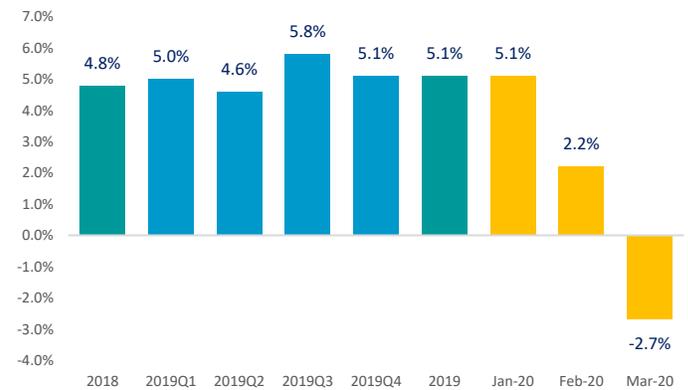
In March 2020, annual economic growth was -2.7 percent. This sharp decline is due to the decline in economic activity, both within the country and due to the spread of the COVID-19 pandemic in the region. In March 2020, compared to the corresponding period of the previous year, an increase was observed in the following activities: construction, information and communication. There was a decline in accommodation and food, transport and warehousing, arts, entertainment and leisure, wholesale and retail, finance and insurance, electricity, gas, steam and air conditioning, manufacturing, as well as real estate.

In the fourth quarter of 2019, real GDP growth was 5.1 percent compared to the same period last year. Significant growth was observed in the leisure and entertainment (+ 25 percent y/y), information and communication (17 percent y/y) and real estate operations (7 percent y/y) sectors. The most significant contribution to economic growth was made by the trade sector, whose annual growth amounted to 12.4 percent, while the contribution amounted to 1.6 pp. Economic growth in the fourth quarter was mainly driven by tourism-related sectors. Although the flight ban imposed in July significantly reduced the number of tourists from Russia, the increase in the number of passengers from other countries compensated for the shortfall. The pace of the construction sector decreased in the previous quarter to 1.4 percent, while a significant decline was recorded in the agricultural sector, -5.1 percent.

The main factor of GDP growth is consumption, whose annual growth was set at 6.3 percent, while its contribution to overall growth was 7.6 percent. Although the growth of exports at the beginning of the year significantly exceeded the growth of imports and had a positive impact on economic growth, at the end of the year, the share of net exports contributed negatively to overall growth, -4.6 percent. Total capital formation has also increased, reflecting both private sector investment and public sector capital expenditures.

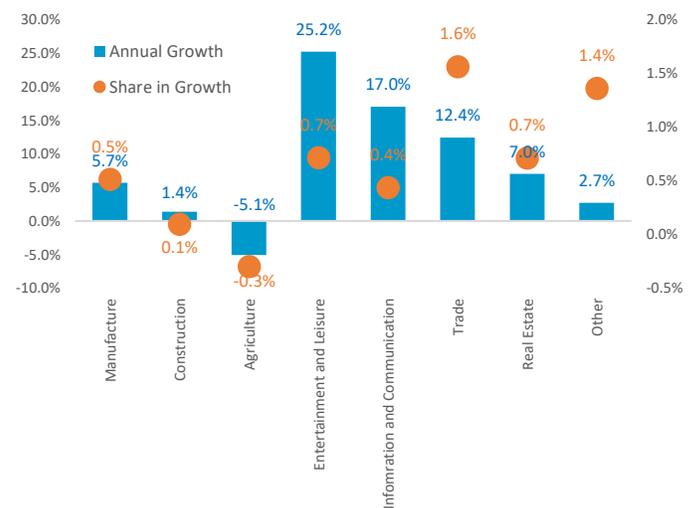
Due to the spread of the COVID-19 pandemic in early 2020, economic slowdown is expected amid reduced

Figure 1: Economic Growth



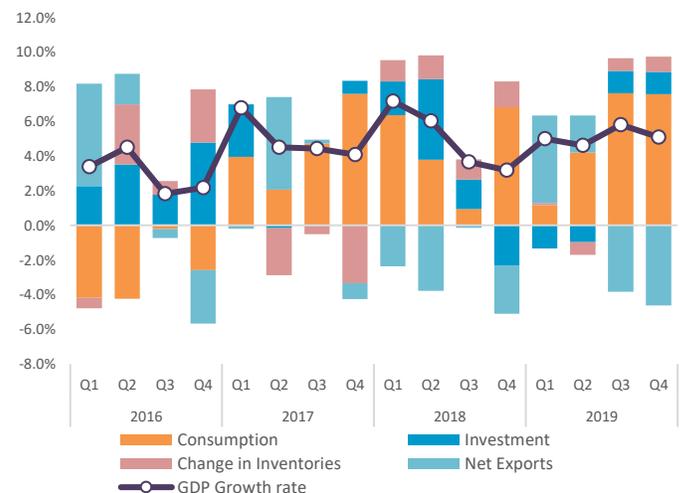
Source: Geostat

Figure 2: Sectoral Growth, 2019 Q IV



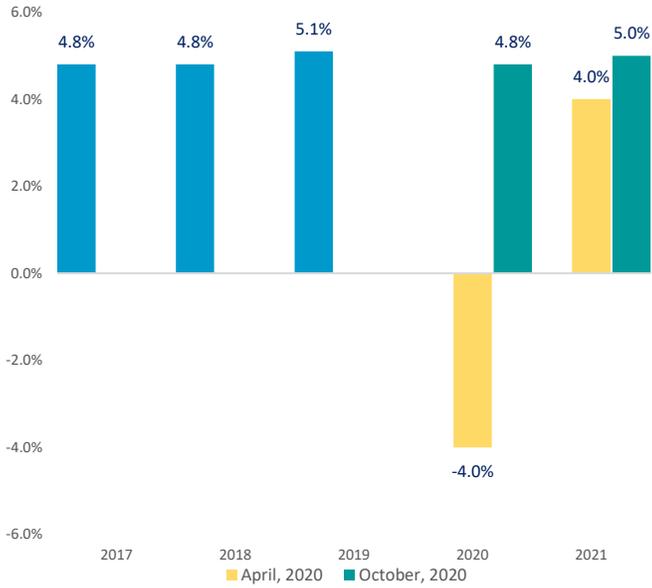
Source: Geostat

Figure 3: Decomposition of Economic Growth



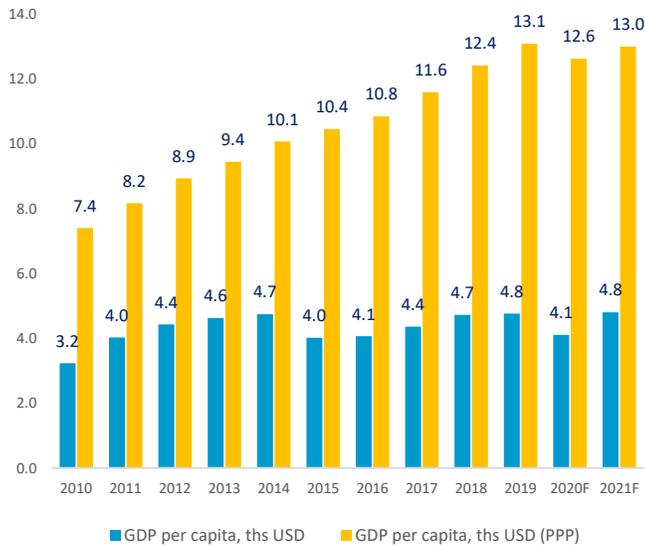
Source: Geostat

Figure 4: Economic Growth Projection



Source: IMF

Figure 5: GDP per capita



Source: IMF

economic activity in the world and the region. According to the forecasts of the Ministry of Finance of Georgia and the International Monetary Fund, economic growth in 2020 will become negative and will equal -4 percent. The economy will start to recover in the fourth quarter of 2020, and economic growth is projected to reach 4 percent in 2021, which will be offset by the lifting of restrictions and improved economic growth in trading partner countries. However, any type of forecast in the light of this situation is subject to great uncertainty as to the duration of the existing pandemic.

It is expected that in 2020, considering reduced economic activity in the region, reduced exports, a significant reduction in revenues from tourism and a lack of remittances will widen the current account deficit to 11.3% of GDP. At the same time, globally increasing risks will reduce private financial flows and delay investment, which will further reduce the GDP growth rate. Prolonged economic slowdown requires fiscal stimulus and fiscal policy flexibility, and in response to market pressures, exchange rate flexibility must be maintained and reserves must be used, accompanied by proactive measures to maintain financial stability. Authorities have mobilized donor assistance to build external and fiscal buffers to facilitate shock response measures and build confidence to reduce risks.

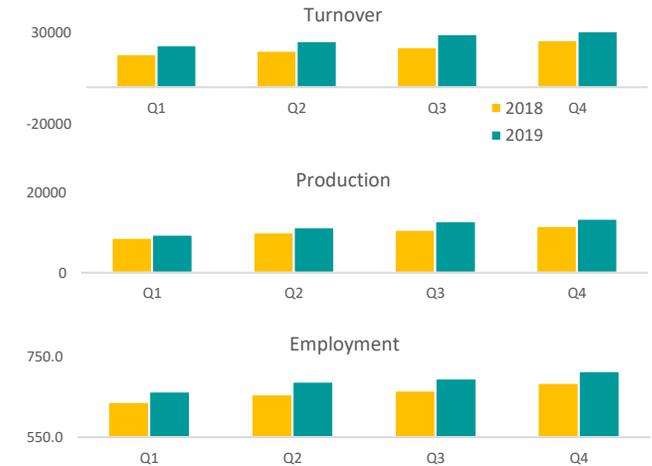
Business Sector

In the fourth quarter of 2019, the turnover of the business sector amounted to 31.4 billion GEL, which is 21.7 percent more compared to the same period last year. The output of the business sector is also characterized by an upward trend. In the IV quarter of 2019, its volume was set at 13.4 billion GEL, which is 15.7 percent more than in 2018. In the fourth quarter of 2019, 52.7 percent of total turnover came from large businesses, 20 percent from medium-sized businesses, and 27.3 percent from small businesses. In the case of gross output: Large businesses account for 36.2 percent of output, medium-sized 27.3 percent, and small businesses 36.5 percent. The average number of employees in the IV quarter of 2019 was 713.9 thousand people, which is 4.3 percent more than in the same period last year. 41.7 percent of the total number of employees are women and 58.3 percent are men. 36.2 percent of the total number of employees come from large businesses, 21.7 percent from medium-sized businesses and 42.1 percent from small businesses.

Employment and Unemployment

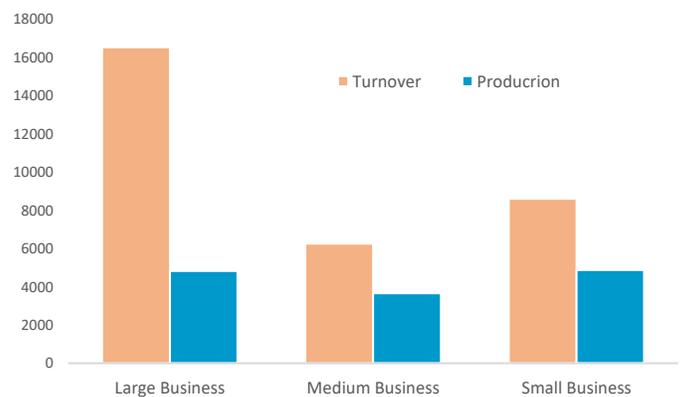
The unemployment rate for 2019 was 11.6 percent, which is 1.1 pp less than the value of 2018 and represents the lowest mark in recent years. Among them, unemployment was 17.3 percent in urban areas (-1.8 percentage points per year) and 5.5 percent in rural areas (-0.3 percentage points per year). The highest unemployment rates are in the 15-24 and 25-34 age groups. In 2019, the economically active population accounted for 62.9 percent of the working age population (15 years and older). Compared to the corresponding period of the previous year, both the level of population activity and the level of employment decreased by 1 and 0.2 percentage points, respectively. In the fourth quarter of 2019, the unemployment rate was 10.9 percent, down 1.4 percentage points from a year earlier. The share of hired employees in the fourth quarter of 2019 was 50 percent of the total number of employees, which is 1.3 pp less than in the corresponding period of the previous year.

Figure 5: Business Sector



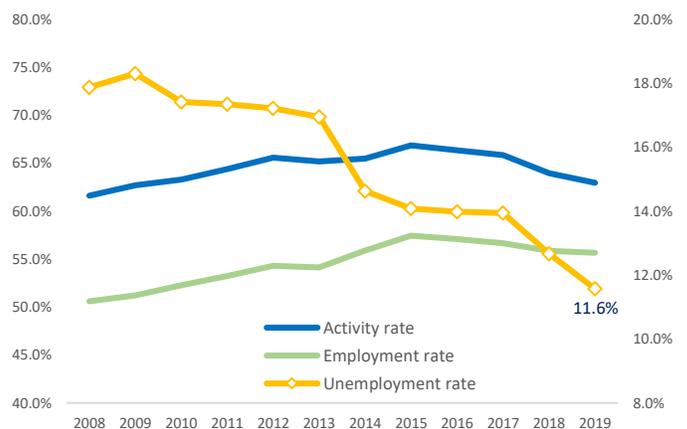
Source: Geostat

Figure 6: Business Sector composition by size, 2019 Q IV



Source: Geostat

Figure 7: Labor Market Indicators



Source: Geostat

Price Level

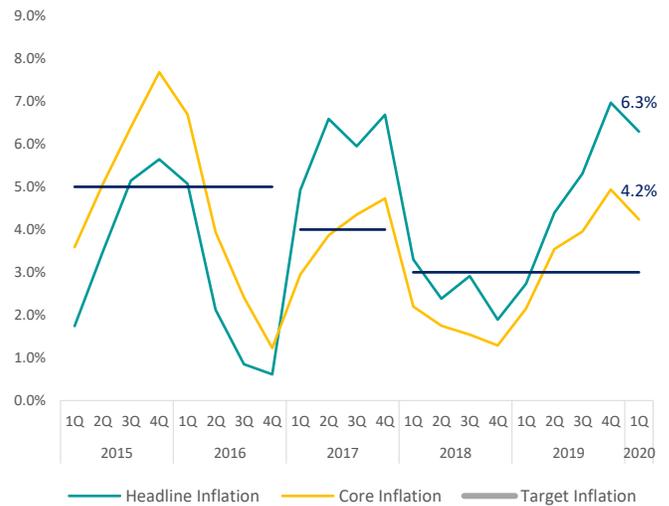
In the current period, the dynamics of the inflation rate is under significant pressure from both supply and demand sides. Restrictions due to the spread of COVID-19 virus complicate and slow down production, leading to increased costs, which is reflected in the price of the final product. In addition, the depreciation of the existing GEL increases the costs of firms that have loans in foreign currency, which, together with imported inflation, leads to higher inflation. At the same time, due to pandemic-related social distancing measures and reduced economic activity, both domestic and foreign demand is declining, leading to lower inflation. Consequently, the final change depends on which factor influences will be dominant. At the beginning of 2020, as a result of the tightened monetary policy at the end of 2019, annual inflation decreased from 7 percent (December 2019) to 6.1 percent (March 2020). In the first quarter of 2020, annual inflation was 6.3 percent. However, due to the above-mentioned factors, the annual inflation in April reached 6.9 percent. This increase is also reflected in the core inflation growth, which in the first quarter amounted to 4.2 percent, and in April 2020 - 4.6 percent.

According to the monetary policy report of the National Bank, given the medium-term inflation forecast, which is based on the expectation that supply factors will be neutralized and prices will be reduced by reducing aggregate demand, a gradual reduction of the monetary policy rate is expected to help the economy recover. According to the International Monetary Fund, nominal depreciation will maintain inflationary pressures throughout 2020, but lower commodity prices, coupled with declining domestic demand, will help keep inflation at 3 percent by the end of 2021.

Despite the depreciation of the lari, domestic inflation exceeds imported inflation, both in the first quarter of 2020 and in April. In particular, in the first quarter, local inflation was 3.6 percent, while imported inflation was 1 percent. This dynamics is caused by the increase in food prices and the relatively high weight gain of the grocery group in the consumer basket.

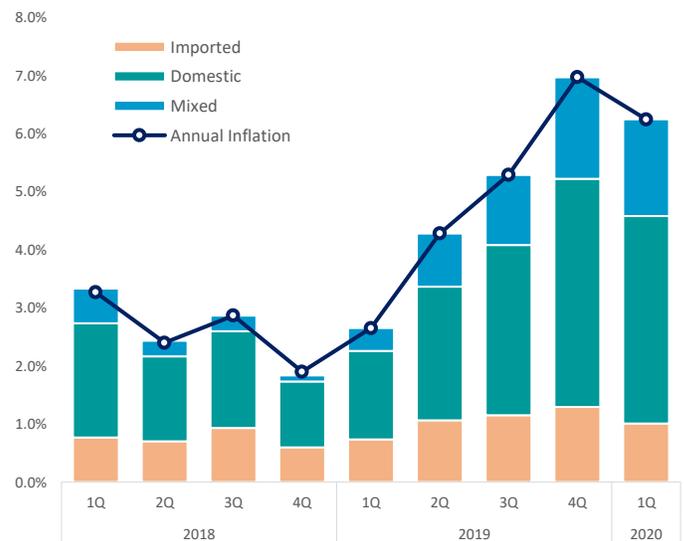
It should also be noted that although the sharp decline in international oil prices in March, this change on the Georgian market is having a gradual impact. Accordingly, in March, the

Figure 8: Annual Inflation



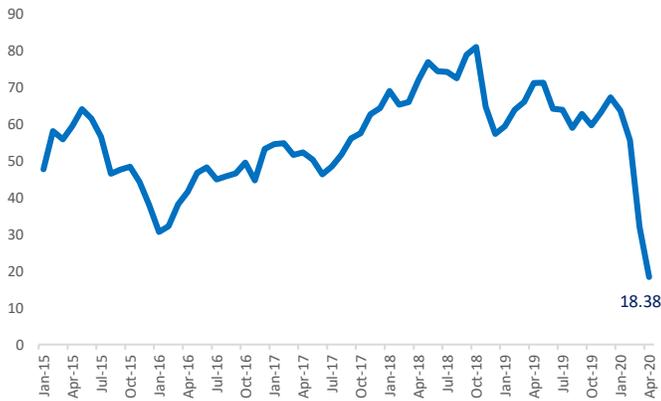
Source: NBG

Figure 9: Decomposition of Inflation



Source: NBG, Geostat

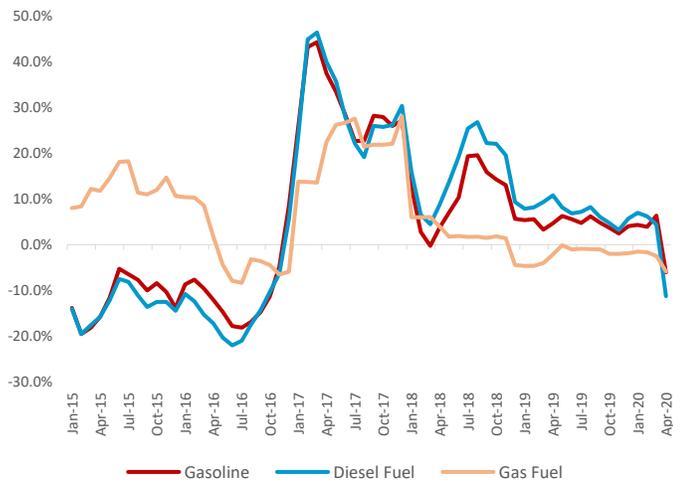
Figure 10: International Price of Oil, USD per barrel



Source: FRED

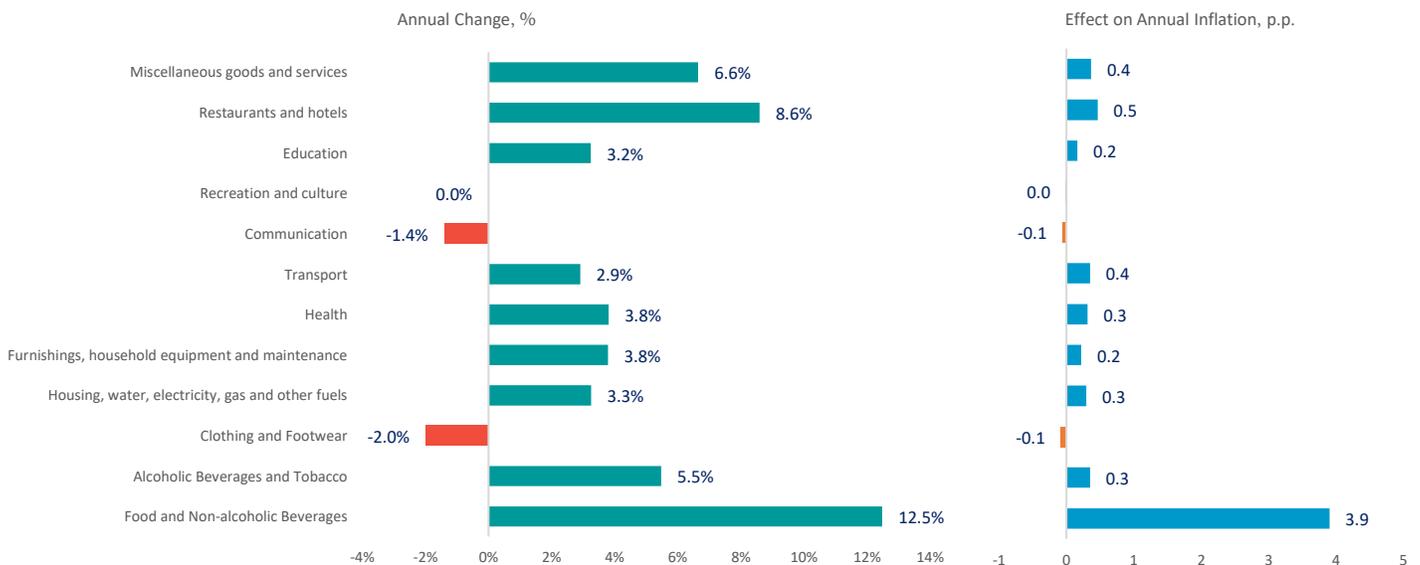
price of gasoline increased by 6.4 percent year on year, while the price of diesel fuel increased by 4.4 percent. However, in April, the price of gasoline fell by 6 percent year on year, while the price of diesel fuel fell by 11.3 percent. In March 2020, price dynamics for food and non-alcoholic beverages (+13.4 percent), hotels and restaurants (+8.9 percent) had a major impact on the formation of annual inflation. And an annual decrease was observed in the categories of recreation and entertainment (-4.4 percent), clothing and footwear (-0.9 percent).

Figure 11: Annual Change of Fuel Prices



Source: Geostat

Figure 12: Decomposition of Inflation, 2020 Q 1



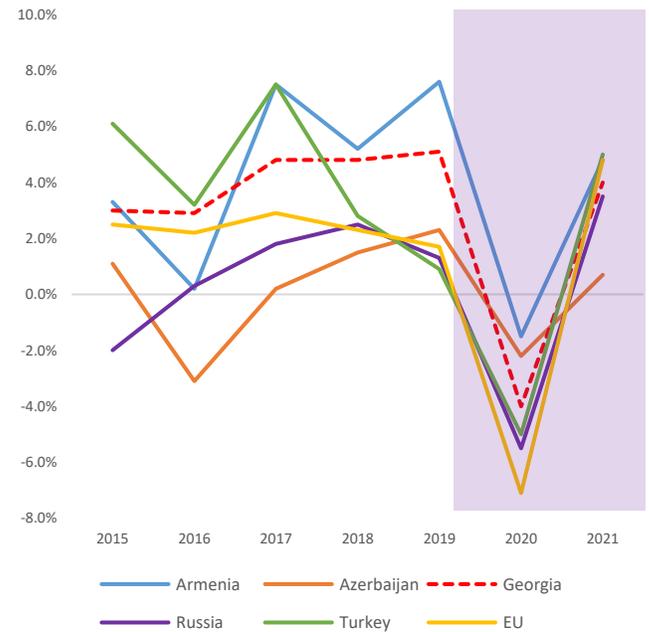
Source: Geostat

Economic Outlook of the Region

In early 2020, the world economy found itself in the middle of a global crisis. The COVID-19 (coronavirus) pandemic has hampered economic activity in both developed as well as growing and developing countries. The borders between the countries were closed, the trade facilities were closed, if possible the services were switched to remote mode. A particular problem is the uncertainty surrounding the pandemic. According to the forecast published by the International Monetary Fund in April, global growth will reach -3 percent in 2020, which is 6.3 percentage points less than the forecast published in January of the same year. At the same time, according to the IMF, global growth of 5.8 percent is expected in 2021. According to the updated forecast, the expected economic growth of developed countries will be -6.1 percent in 2020, and 4.5 percent in 2021. At the same time, the expected economic growth of growing and developing countries is equal to -1 percent in 2020 and reaches 6.6 percent in 2021. According to the IMF forecast for April, the EU economic growth forecast is -7.1 percent, and in 2021 - 4.8 percent. This decrease is due to the closure of borders between countries due to the COVID-19 pandemic, the decrease in investment and exports, which is due to the decrease in demand from trading partners. The inflation rate will be 0.6 percent in 2020 and 1.2 percent in 2021.

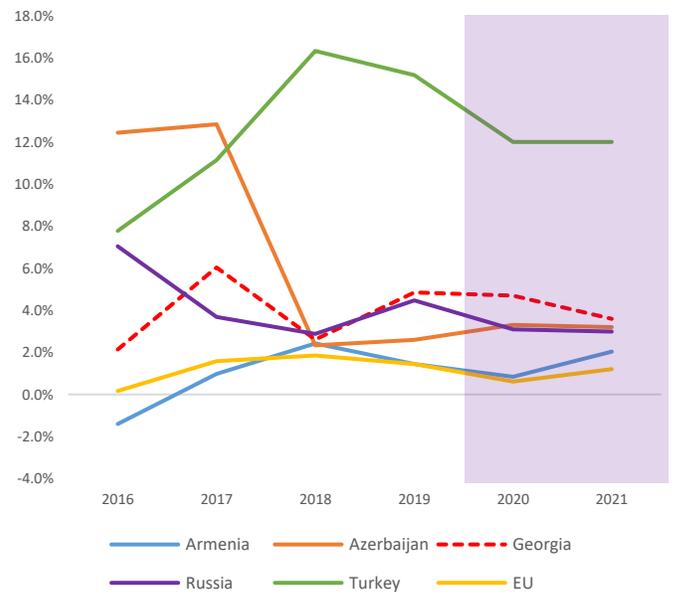
The decline in investment and the deteriorating trade balance remain significant challenges for Turkey recently. At the same time, the state of emergency and the global pandemic have put additional pressure on the Turkish economy. According to the IMF forecast, real economic growth in Turkey in 2020 was set at -5 percent, which is 8 pp less than the previous forecast, and in 2021 it will be 5 percent. The devaluation of the Turkish lira still has a significant impact on inflation. The IMF estimates that in 2020 and 2021, the expected value of inflation will be 12 percent. The ratio of the current account balance to GDP will decrease from 1.1 percent to 0.4 percent in 2020 compared to 2019, and -0.2 percent is expected in 2021. 2020 turned out to be especially difficult for Russia, because along with the coronavirus pandemic, the economic situation was also negatively affected by the decline in international oil prices. The output of the oil and refining sectors decreased, which,

Figure 13: Economic Growth in the Region



Source: IMF

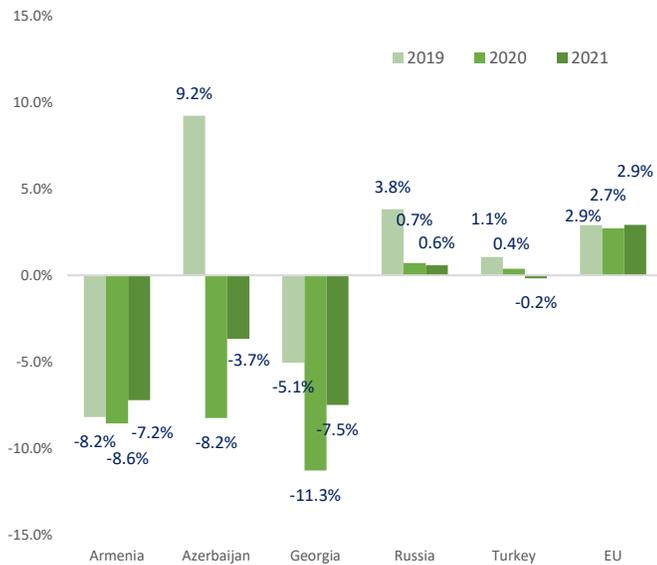
Figure 14: Inflation in the Region



Source: IMF

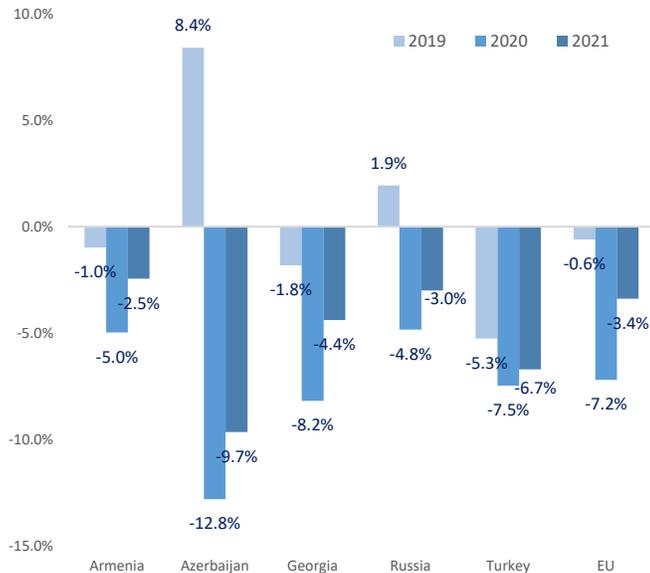
Source: International Monetary Fund. World Economic Outlook: The Great Lockdown. Washington, DC, April 2020.
International Monetary Fund. World Economic Outlook Update: Tentative Stabilization, Sluggish Recovery? Washington, DC, January 2020.

Figure 15: Current Account to GDP, %



Source: IMF

Figure 16: Budget Balance to GDP, %



Source: IMF

together with the deteriorating external demand, significantly reduced exports. According to the IMF, economic growth in Russia in 2020 was set at -5.5 percent, which is 7.4 pp less than the previous forecast, and in 2021 is expected to grow by 3.5 percent. The inflation rate will be 3.1 percent in 2020 and 3 percent in 2021. Due to the reduction in oil prices, the consolidated budget will be significantly reduced, which according to the IMF forecast in 2020 will equal -4.8 percent of GDP, and in 2021 will equal -3 percent. The ratio of the current account balance to GDP will decrease from 3.8 percent to 0.7 percent in 2020 compared to 2019, and 0.6 percent is expected in 2021.

The fall in oil prices and the state of emergency caused by the Coronavirus pandemic are also affecting Azerbaijan's economic performance. According to the IMF, economic growth in Azerbaijan in 2020 will be -2.2 percent, and in 2021 - 0.7 percent. Annual inflation will reach 3.3 percent in 2020 and 3.2 percent in 2021. Compared to 2019, the ratio of the consolidated budget to GDP will be significantly reduced, from 8.4 percent to -12.7 percent in 2020, and will equal -9.7 percent in 2021. There is also a significant reduction in the ratio of the current account balance to GDP, which was 9.2 percent in 2019, while the IMF estimates it will reach -8.2 percent in 2020, and will reach -3.7 percent in 2021. Due to reduced investment and exports, Armenia's economic growth is projected at -1.5 percent in 2020, and 4.8 percent growth is expected in 2021. According to the IMF, annual inflation will reach 0.8 percent in 2020 and 2 percent in 2021. Against the background of recently reduced exports and increased imports, the ratio of the current account balance to GDP is projected at -8.6 percent of the IMF in April, while in 2021 it is expected -7.2 percent.

Source: International Monetary Fund. World Economic Outlook: The Great Lockdown. Washington, DC, April 2020.
International Monetary Fund. World Economic Outlook Update: Tentative Stabilization, Sluggish Recovery? Washington, DC, January 2020.

External Sector

Current Account Balance

Current account deficit amounted to 5.1 percent in 2019, which was a significant improvement. The reduction of the deficit was mainly due to the decline of negative goods balance, which was caused by the export improvement and lowering import.

Improvement of the deficit was due to the growing savings during the recent years, which was facilitated by the profit tax reform implemented from 2017. Under the reform, reinvested profit is not taxed. Debt share in investment financing is decreased, while savings are increased during 2019.

Financing of the current account deficit is through debt and the FDI. Financing through debt means to take the new debt and therefore, to spend more for the debt service. Therefore, it is important to finance current account deficit through increasing FDI. Financing structure of the current account deficit was improved recently and for 2017, deficit was fully financed by the FDI. As for the third quarter of 2019, there was a current account profit at 0.4 percent, while in terms of deficit financing, FDI contributed 7.7 percent, while financing through debt contributed 8.2 percent. As for the total 2019, deficit was financed by FDI.

Figure 17: Current Account to GDP, %

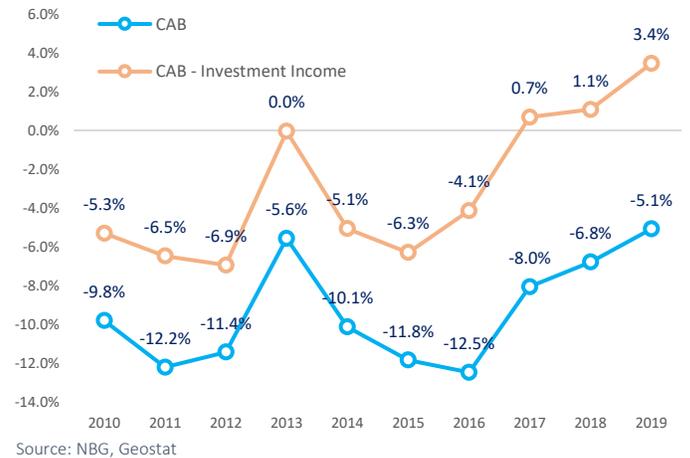


Figure 18: Financing of Investment

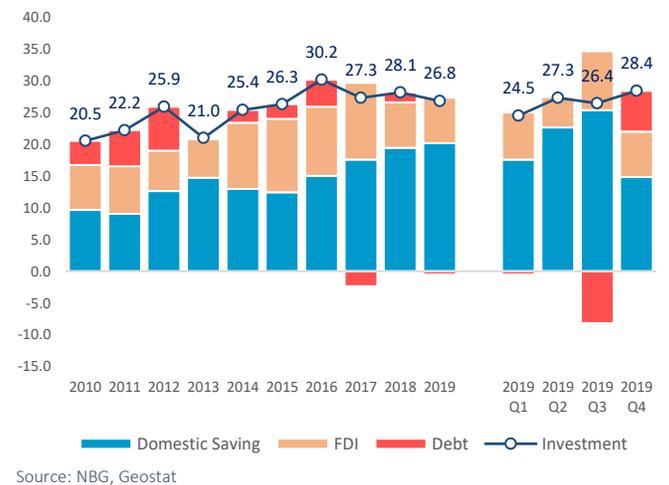


Figure 19: Financing of Current Account

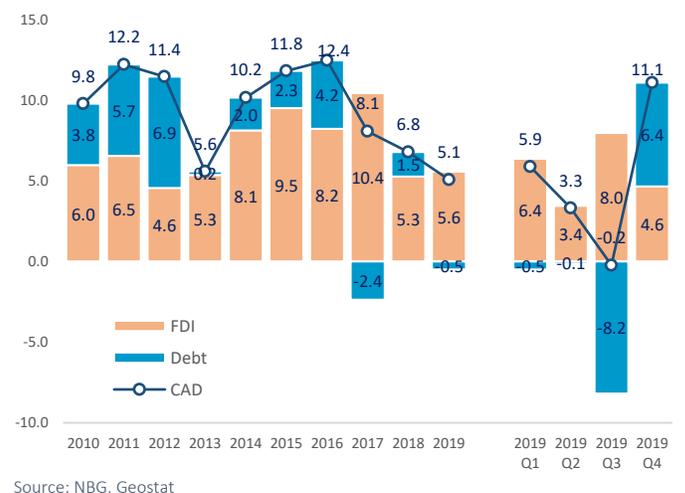
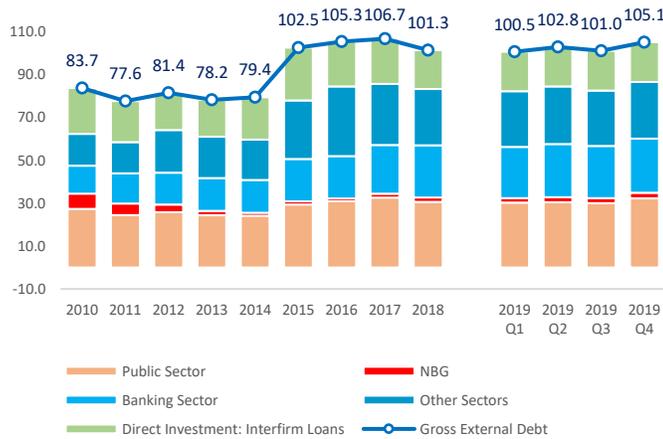


Figure 20: External Debt to GDP, %



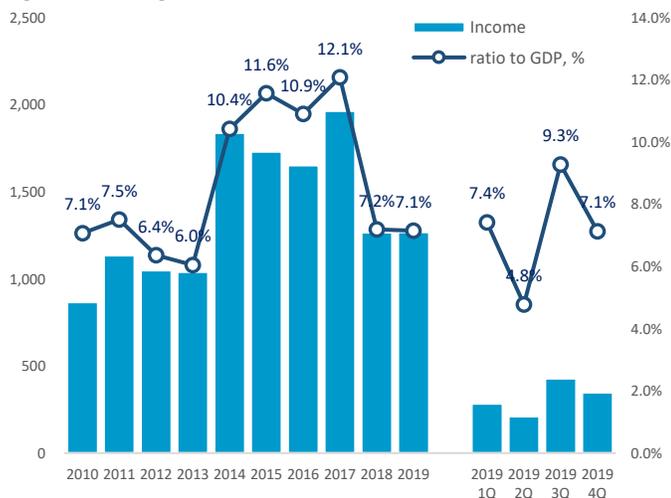
Source: NBG, Geostat

Figure 21: Change of Debt to GDP



Source: NBG, Geostat

Figure 22: Foreign Direct Investment



Source: Geostat

External Debt

Together with the current account deficit, external debt is another weakness of Georgian economy, and is still remained as the main source of vulnerability. Total external debt consists of the debt of government sector as well as external debt of commercial and the national bank, and the intercompany loans.

Total external debt increased at the end of 2019 compared to previous year, and amounted to 105.1 percent of GDP. Increase was mainly due to the growing debt of government sector and the bank loans.

Decomposition of the change of external debt is presented by the operational or the taking the new debt, as well as the price effect, changes in exchange rate, and changes in the nominal GDP. It should be noted that the main contribution of the change in external debt during 2015-2016 was exchange rate depreciation, while GDP was mainly facilitating to decline the external debt. Operational and exchange rate effects were reasons of the external debt increase, while nominal GDP growth and price effects exceed and caused the reduction of the debt. As for 2019, debt to GDP increased by 3.0 p.p. the main contributor of the change was exchange rate effect, while economic growth contributed for reduction of the debt.

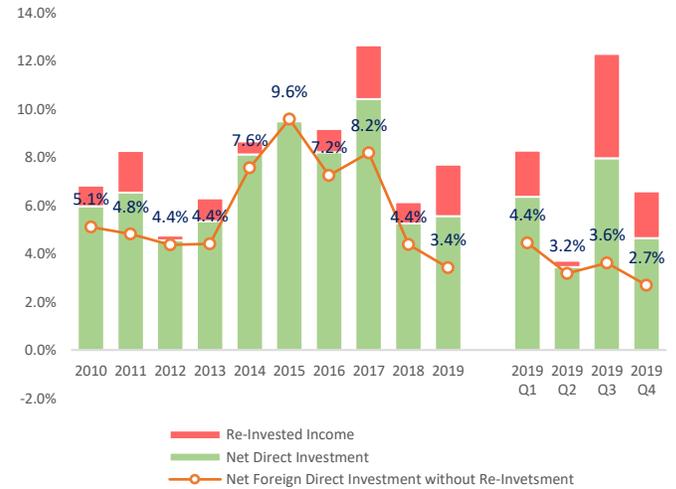
Foreign Direct Investments

Foreign direct investments amounted to USD 1,268 million in 2019, which is 0.2 percent higher than the same period of the previous year. FDI was coming mainly from UK (36.1 percent), Turkey (22.2 percent), Netherlands (13.9 percent), USA (7.4 percent) and Luxemburg (5.0 percent) during the fourth quarter of 2019. As for sectors, in the financial sector was implemented 39.8 percent of FDI, construction - 14.3 percent, real estate - 12.0 percent, energy sector - 11.9 percent, and in the transport and communication - 9.5 percent of FDI.

It is important that the highest number was observed in reinvestment in 2016, which was 32 percent of FDI, while in 2017 it was 43.9 percent. This shows that economic policy of

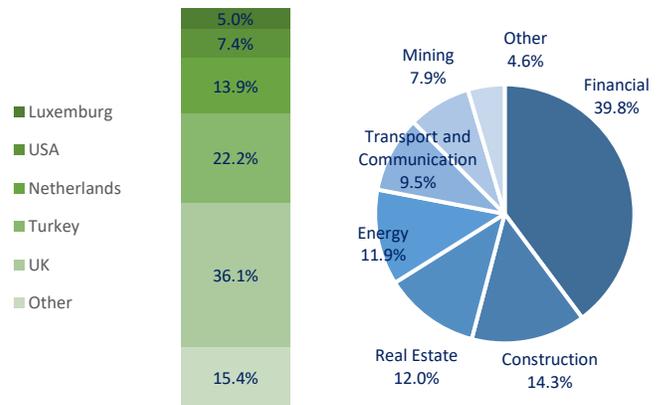
the government and the improved business environment is perceived positively by the investors, and more investors are continuing business plans in Georgia. Current economic policy and the reforms are the basis of maintaining high level of reinvestment and promoting the medium and long run growth. Upward trend of the reinvestment is coming from the introduction of the profit tax reform so-called Estonian model, which means that reinvested profit is not taxed.

Figure 23: FDI



Source: NBG, Geostat

Figure 24: Composition of FDI, 2019 4Q

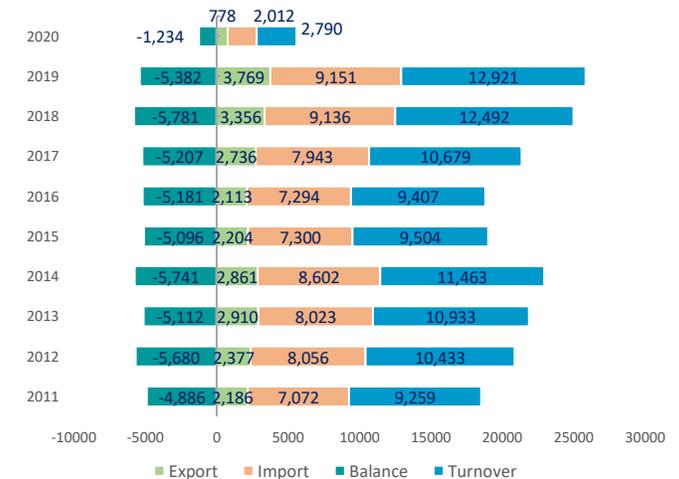


Source: Geostat

International Trade

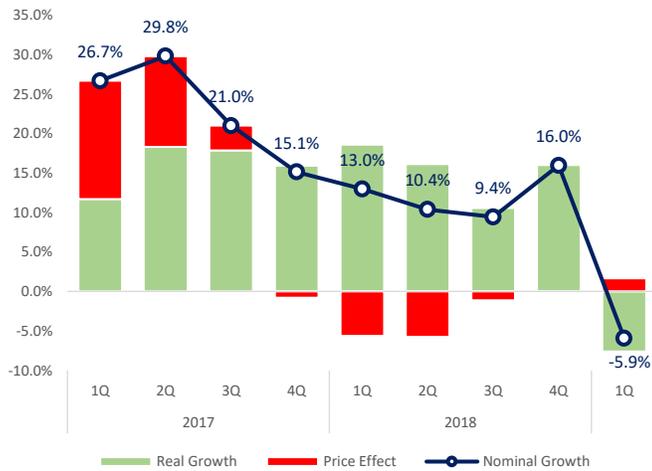
During the first quarter of 2020, there was a reduction in external demand due to the COVID-19 epidemic and the restrictions in most countries. The impact of those factors on Georgian export, remittances and revenues from international tourism will be negative for some time as there is an uncertainty about the epidemic. In addition, import has also decreased due to the lower economic activity within the country. Annual growth of nominal export was -5.9 percent during the first quarter of 2020 and amounted to USD 778.1 million, while real growth of export was -7.6 percent. Annual growth of import was -1 percent and amounted to USD 2004 million, while real growth was -0.5 percent.

Figure 25: International Trade – January-March, 2020



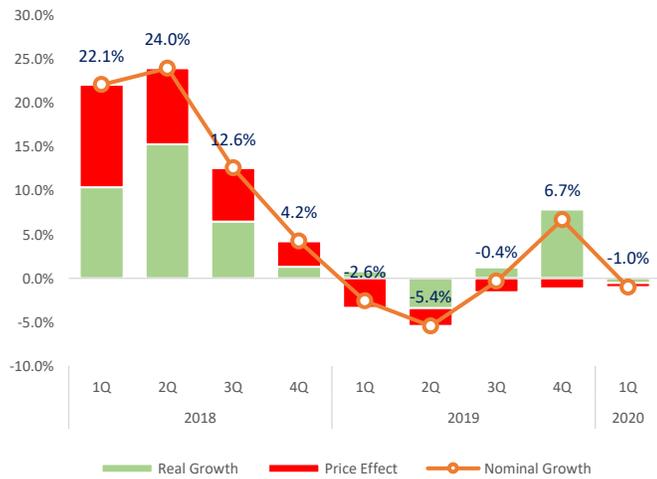
Source: Geostat

Figure 26: Annual Change of Export



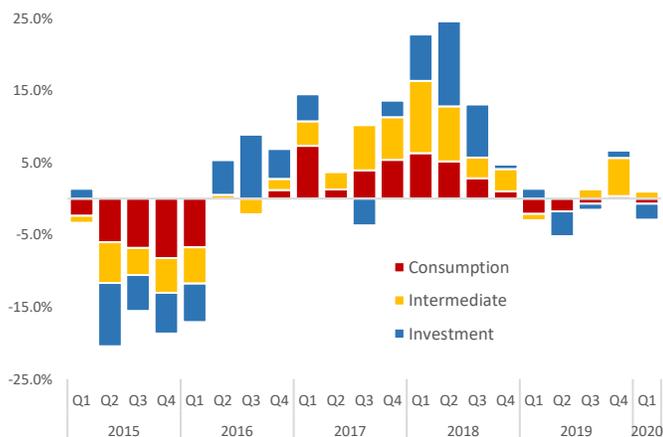
Source: Geostat

Figure 26: Annual Change of Import



Source: Geostat

Figure 27: Decomposition of Change of Import



Source: Geostat

For the first quarter of 2020, import of investment goods decreased by 8 percent, import of consumption goods – by 1.9 percent, while import of intermediate goods increased by 2.7 percent. It should be noted that decline of import goods is mainly due to the import of investment goods.

For the first quarter of 2020, the first place in the top ten export goods from the commodity groups was occupied by copper ores, and concentrated with USD 158.9 million (20.4 percent of total export), second place – motor cars with USD 127.9 million (16.4 percent of total export), and third – ferro-alloys with USD 58.2 million (7.5 percent).

The top largest group of import goods was motor cars with USD 186.7 million (9.3 percent of total import), oil and oil products with USD 150.3 million (7.5 percent of total import). Moreover, petroleum gases and copper ores have also contributed significantly, by USD 134.9 million (6.7 percent of import) and by USD 111.1 million (5.5 percent), respectively.

Tourism

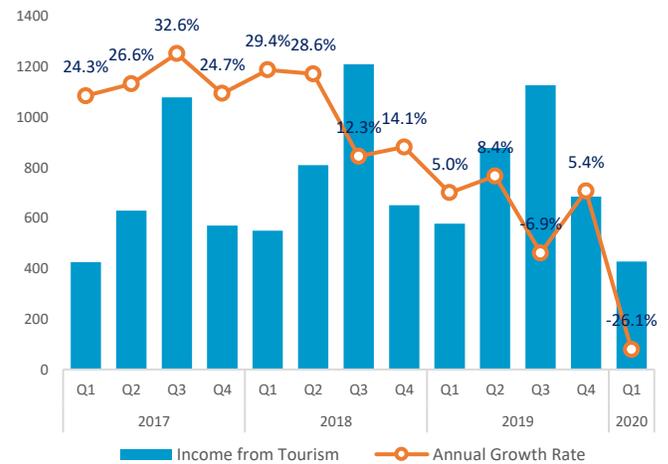
Revenue from tourism increased by 1.4 percent in 2019. The relatively small increase is due to the ban on flights from Russia to Georgia in July. However, at the same time, increased revenue from other countries has managed to mitigate the impact of this negative shock. Moreover, the number of visitors increased by 8.4 percent annually, in 2019.

In order to mitigate the spread of COVID-19, there was a closure of the borders and cancelation of international travels in Georgia, in March. Due to this restriction, there was a sharp decrease of international visits. Total visitors amounted to 196 thousand in March 2020, which is 67.3 percent lower than in March of the previous year. Revenue from international tourism decreased by 69.8 percent and amounted to USD 73.8 million. As for the first quarter, revenue from tourism decreased by 26.1 percent annually and amounted to USD 427.7 million, while the number of visitors has decreased by 21.7 and was 1158 thousand. It is expected to continue the declining trend of revenue from tourism until the opening borders and resume of touristic travel.

Remittances

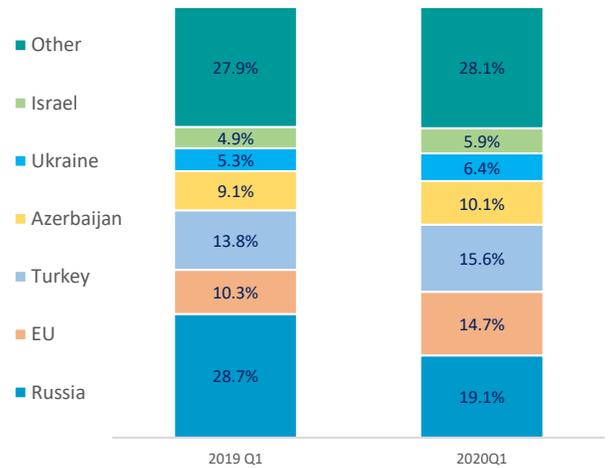
Net money transfers amounted to USD 328.2 million in the first quarter of 2020, which is about the same as in the first quarter of the previous year (there is observed increase by 0.1 percent), while it is less than 19.3 percent compared to the previous quarter. It should be mentioned that lowering the growth of remittances is coming from the decline in March. After increase in January and February by around 7 percent, there was 12 percentage decline in March. The reason of a such decline is the worsening of the global economic environment due to COVID pandemic, on the one hand. The reason is a lower amount of the money transfers from the main contributor countries such as Italy - after 24.1 percentage increasing in February, there was a decline by 8 percent in March. The decrease was caused the lowering of the quarterly growth, and for the first quarter of 2020 it amounted to 11.3 percent – minimum during the recent period, which contributed 1.8 percent in the growth. In addition, higher oil prices were the additional pressure and hit the countries' economies which were significantly depended on oil, such as Russia, for example. In Russian case, there was a noticeable depreciation of Russian Ruble, and it was also reflected in the amount of remittances from Russia. Net money transfers decreased by 40 percent from Russia, in March, which caused decline of remittances by 22.2 percent in the first quarter. Overall, money transfers from Russia has contributed negative 5.2 percent in the total net money transfers.

Figure 28: Income from Tourism



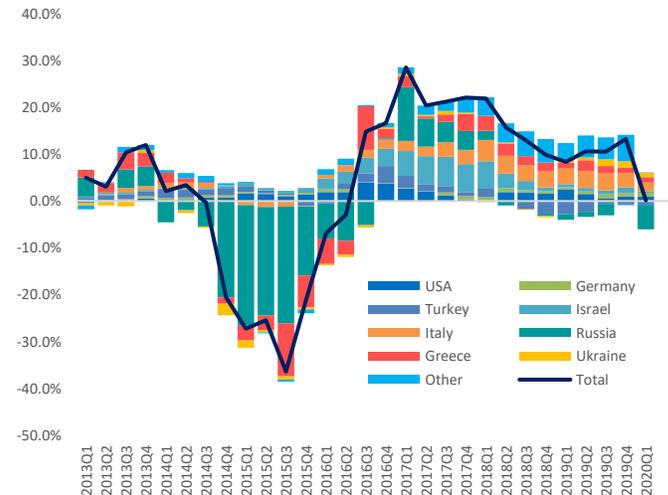
Source: NBG

Figure 29: Income from tourism, mln USD



Source: NBG

Figure 30: Net Remittances



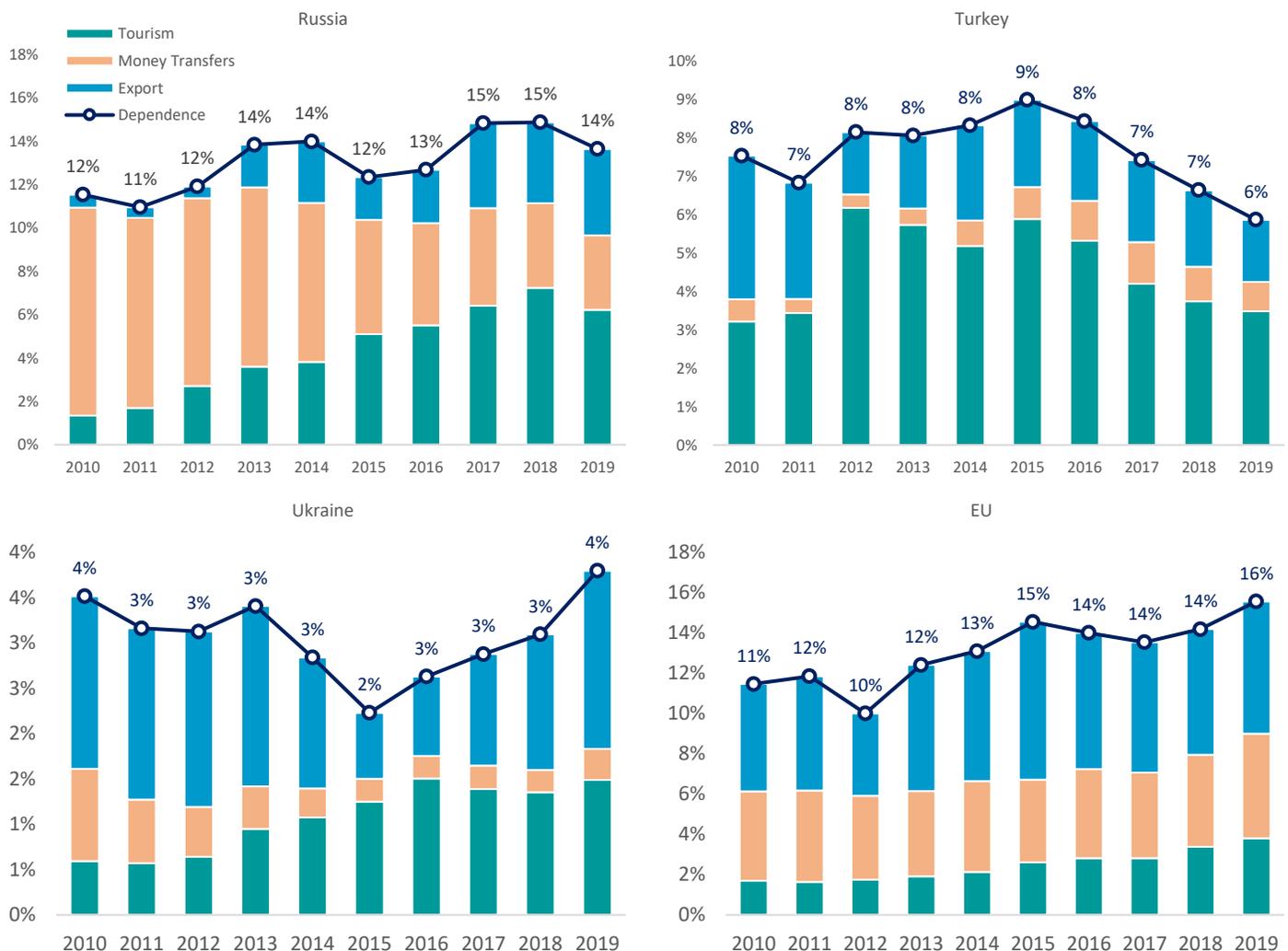
Source: NBG

Dependence on Other Countries

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

Dependence on Ukraine and the EU has increased, according to the Balance of Payments of 2019, while dependence on Russia and Turkey has decreased. Moreover, it should be mentioned the change of composition in the dependence on other countries. there is a declining trend of the share of transfers, while there is an increasing trend of the share of tourism and export, during the last several years. The share of tourism in the current account credits has the positive trend, except tourism from Turkey. The ban of flights from Russia to Georgia caused the sharp decline of tourists from Russia, during the second half of 2019, which was reflected in the reduction of revenue from tourism from Russia, in the current account. However, this loss was compensated by the growing number of international tourists from other countries. as for export, it has a growing trend for Russia and Ukraine, and is almost unchanged for Turkey and the EU countries.

Figure 31: Dependence on Trading Partners



Source: NBG, Geostat

Figure 32: Nominal Effective Exchange Rate

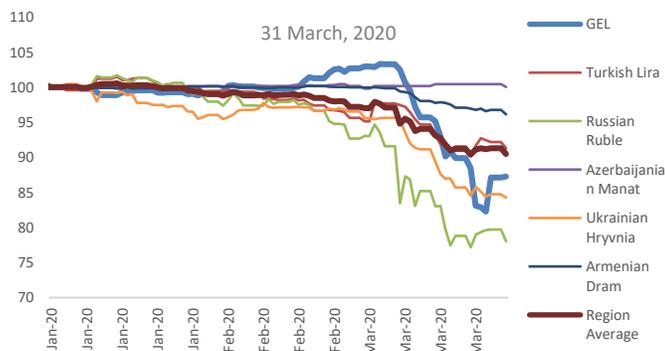


Figure 33: Real Effective Exchange Rate



Source: NBG

Figure 34: Exchange Rate of Region Currencies to USD (Index, base = 2020 1 January)



Source: NBG

Table 1: Change of Nominal and Real Effective Exchange Rates

	March 31, 2020	March 31, 2020 - Jan 1, 2019	March 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

Exchange Rate

USD has appreciated relative to the currencies of developing countries, due to the COVID-19 pandemic and the drop of oil prices internationally. This can also be observed in the downward trend of the weighted index of the currencies of regional countries. However, it should be mentioned that Georgian Lari has also depreciated relative to the currencies of the region, which is caused by the fact, that Tourism has a significant share in the Georgian economy, compared to other countries from the region, and the current pandemic hit the tourism sector mainly.

During the last quarter, Depreciation of Lari has achieved its maximum for March 27, when nominal effective exchange rate index was deviated from its medium-term trend by maximum, -16.1 percent. Nominal effective exchange rate has then started to go toward the trend until the end of March, and for March 31, the deviation was declined to -10.6 percent. As for the exchange rate corrected by the prices, real effective exchange rate has approached to its trend in April, while in March it was deviated by -2.3 percent.

Fiscal Sector

Budget Revenue Performance

The consolidated budget revenue forecast for January-March 2020 was set at 3,034 mln GEL, while 3,233.5 mln GEL was mobilized during the reporting period, which is 106.6% of the forecast. The forecast of taxes was set at 2,801.1 mln GEL, while 2,982.8 mln GEL was mobilized during the reporting period, which is 106.5% of the forecast.

- 987.9 million GEL is mobilized as income tax, which is 112.0% of the forecast figure (882.0 million GEL).
- 442.1 million GEL is mobilized as profit tax, which is 129.3% of the forecast indicator (342.0 million GEL).
- 1,216.4 million GEL was mobilized as VAT, which is 108.0% of the forecast (GEL 1,126 million).
- 224.6 million GEL is mobilized as excise, which is 95.0% of the forecast indicator (236.3 million GEL).
- 20.3 million GEL is mobilized in the form of import tax, which is 110.0% of the forecast (18.5 million GEL).
- 1.7 million GEL is mobilized in the form of property tax, which is 40.1% of the forecast indicator (4.3 million GEL).
- Other taxes amount to GEL 89.8 million.

The forecast of grants was set at 34.2 million GEL, while 30.5 million GEL was mobilized during the reporting period, which is 89.3% of the forecast value.

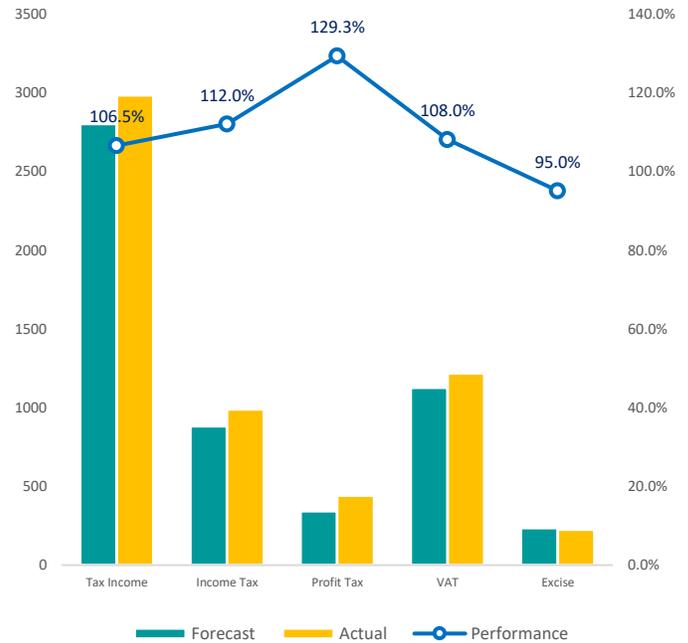
The forecast for other revenues was set at 198.8 million GEL, and 220.1 million GEL was mobilized during the reporting period, which is 110.7% of the forecast.

63.1 million GEL was mobilized from the decrease in non-financial assets, which is 145.1% of the forecast (43.5 million GEL).

24.1 million GEL was mobilized from the decrease in financial assets, which is 79.1% of the forecast (GEL 30.5 million).

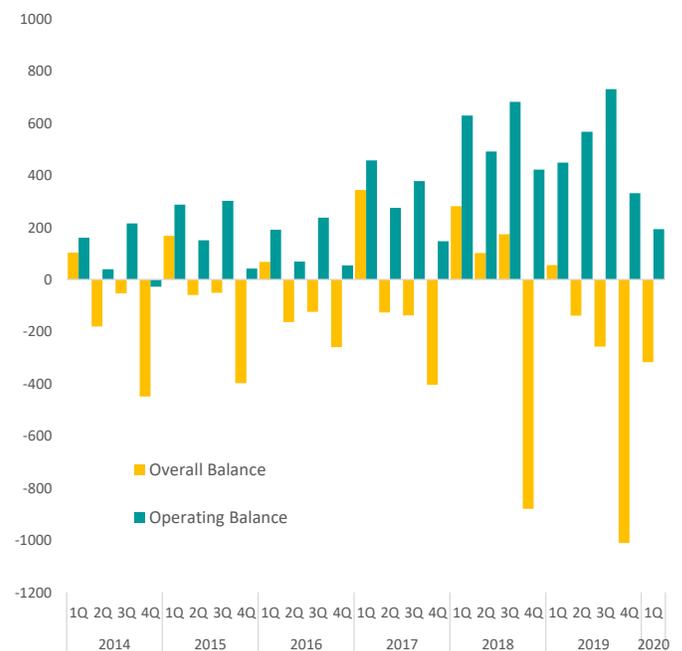
A significant share of budget revenues is accounted for by tax revenues, which in the first quarter of 2020 amounted to 92%. In the first quarter, the consolidated budget received 2,982.8 million GEL from taxes, which is 15.1% more than the same period last year. Revenue from income tax increased by 20.9% year-on-year to 987.9 million GEL. The highest increase is observed in the form of income from income tax,

Figure 35: Budget Revenue Performance



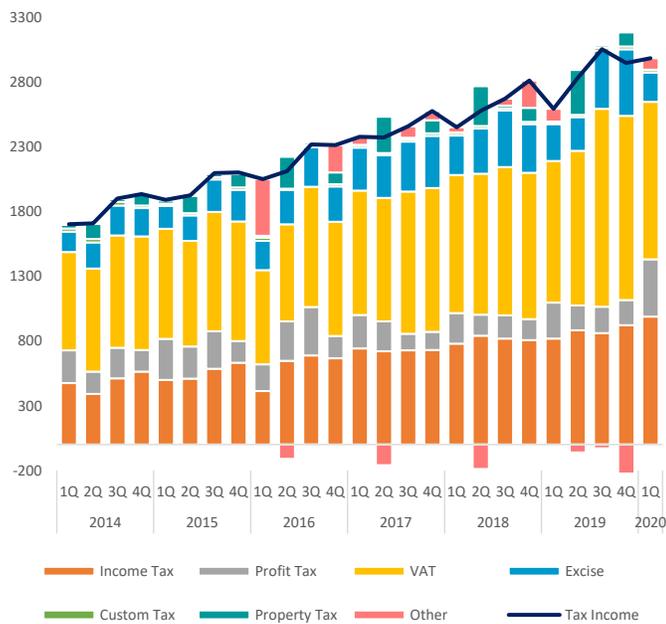
Source: MOF

Figure 36: Budget Balance



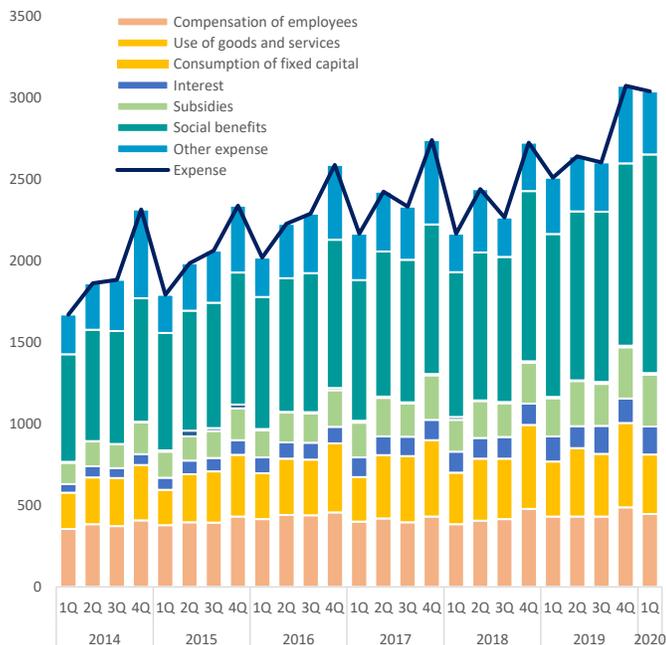
Source: MOF

Figure 37: Tax Income



Source: MOF

Figure 38: Budget Expenses



Source: MOF

which increased by 58.3% compared to the same period last year and amounted to 442.1 million GEL. At the same time, it should be noted that the largest share of tax revenue is accounted for by VAT revenue, which in the first quarter of 2020 amounted to 40.8%, while the annual growth rate was 11.3%. Revenue from import tax also increased by 30.1% and amounted to 20.3 million GEL. Revenue from excise tax decreased by 21.3% compared to the same period last year and amounted to 224.6 million GEL. There was also a decrease in property tax revenue, which accounted for 0.1% of tax revenue and decreased by 58.5% annually.

In the first quarter of 2020, compared to the same period last year, expenditures increased by 21.1% and amounted to 3.040 billion GEL. Social security expenditures account for the largest share of budget expenditures, accounting for 44.1% of total expenditures, while the annual growth rate is 34.2%. Expenditures in the form of subsidies also increased significantly, with an annual growth rate of 37.2% and amounted to GEL 320 million, accounting for 10.5% of total expenditures. Grants account for the smallest share, accounting for 0.3% of total expenditures, with an annual growth rate of 11.4%. As for other items of expenditure, compensation of employees (14.7% of total expenditure), goods and services (12% of total expenditure), interest (5.6% of total expenditure) and other expenditures (12.7% of total expenditure), in the first quarter compared to the same period of the previous year, increased by 3.5%, 8.2%, 10.6% and 11.9%, respectively.

The forecast of the state budget revenues for January-March 2020 was set at 2,635.8 mln GEL, during the reporting period 2,839.5 mln GEL was mobilized, or 107.7% of the forecast.



Operating balance of the state budget for 2020 (difference between budget revenues and expenditures) in the first quarter amounted to 193.5 million GEL (254.7 million GEL less compared to the same period of the previous year), while the overall balance (operating balance minus change in non-financial assets) amounted to -316.9 million GEL (372.2 mln GEL less compared to the same period of the previous year). Consolidated budget revenues increased by 9.3% year-on-year to 3,234 million GEL, while changes in expenditures and non-financial assets increased by 21.1% and 29.9%, respectively.

Table 2: Performance indicators of the state budget of Georgia for the first quarter of 2020

	3 Month Plan	3 Month Actual	Performance, %
Income	2,635,817.0	2,839,478.2	107.7%
Expense	2,949,407.3	2,750,152.4	93.2%
Operating Balance	-313,590.3	89,325.9	-28.5%
Change in Non-financial Assets	412,991.9	369,611.3	89.5%
Overall Balance	-726,582.2	-280,285.5	38.6%
Change in Financial Assets	-174,560.6	290,303.7	-166.3%
Change in Liabilities	552,021.6	570,589.2	103.4%
Increase	805,950.7	822,563.5	102.1%
Domestic	360,000.0	358,156.1	99.5%
External	445,950.7	464,407.4	104.1%
Decrease	253,929.1	251,974.4	99.2%
Domestic	12,129.1	12,129.1	100.0%
External	241,800.0	239,845.2	99.2%

Source: MOF

Table 3: January-March 2020 State Budget Tax Income Performance Indicators

	3 Month Plan	3 Month Actual	Performance, %
Taxes	2,512,860.0	2,673,040.3	106.4
Income Tax	812,000.0	910,919.8	112.2
Profit Tax	342,000.0	442,090.1	129.3
VAT	912,060.0	985,320.9	108.0
Excise	236,300.0	224,558.1	95.0
Customs Tax	18,500.0	20,341.1	110.0
Other	192,000.0	89,810.2	46.8

Source: MOF

Monetary Sector

Private Sector Larization

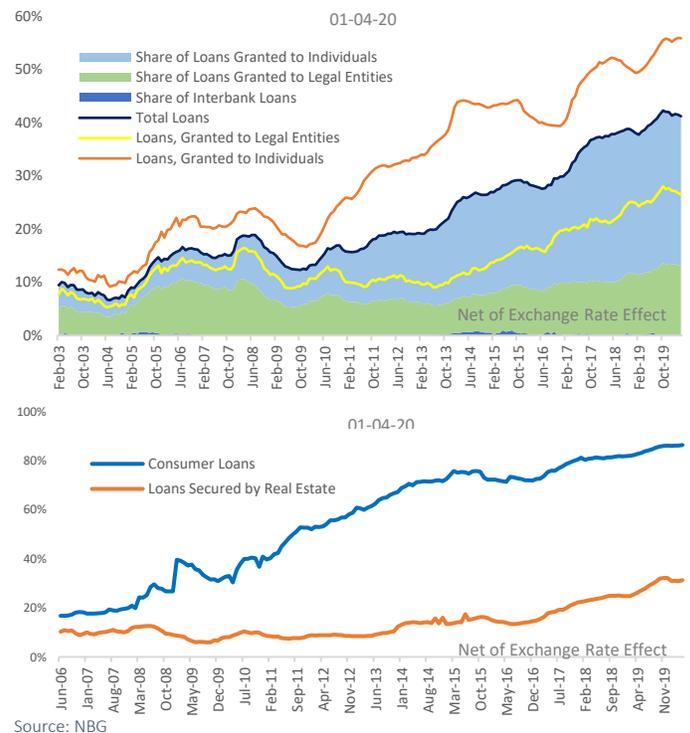
The growing trend of loan larization stabilized at around 41 percent in the first quarter of 2020. It should be noted that the main determinant of total loan larization is the larization of loans to individuals. By 1 of April 2020, the larization of loans to individuals was 55.8 percent, the larization of loans to legal entities was 26.5 percent, and the total larization of loans was 41.2 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 April 2020, the larization of consumer loans was 86.4 percent, while the larization of mortgage loans was 31.3 percent.

No significant change was observed in the trend of deposit larization according to debtors. The larization of deposits is significantly conditioned by the larization of deposits of legal entities. As of 1 of April 2020, the total larization of total deposits was 33.2 percent, the larization of deposits of legal entities in the same period was 45.5 percent, and the larization of deposits of individuals - 23 percent.

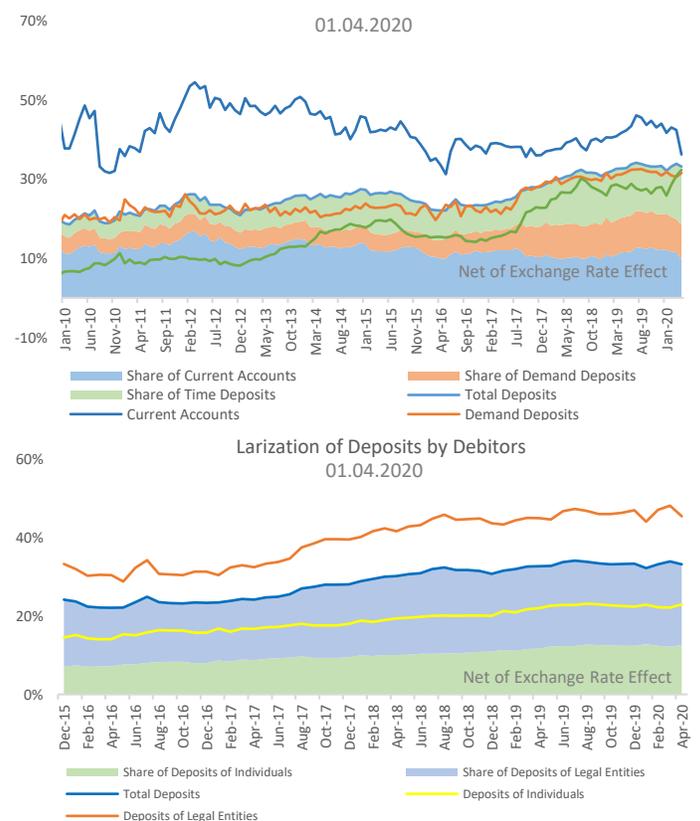
It should be noted that the downward trend in current account larization (excluding exchange rate effects) was observed for the first quarter of 2020, but this decline was offset by the upward trend in the larization of time deposit balances, which ultimately kept the larization of deposits stable. The larization of current accounts for April 2020 was 36.2 percent. At the same time, the larization of deposits before demand is 31.6 percent, and the larization of time deposits – 32.4 percent.

Figure 39: Loan Larization



Source: NBS

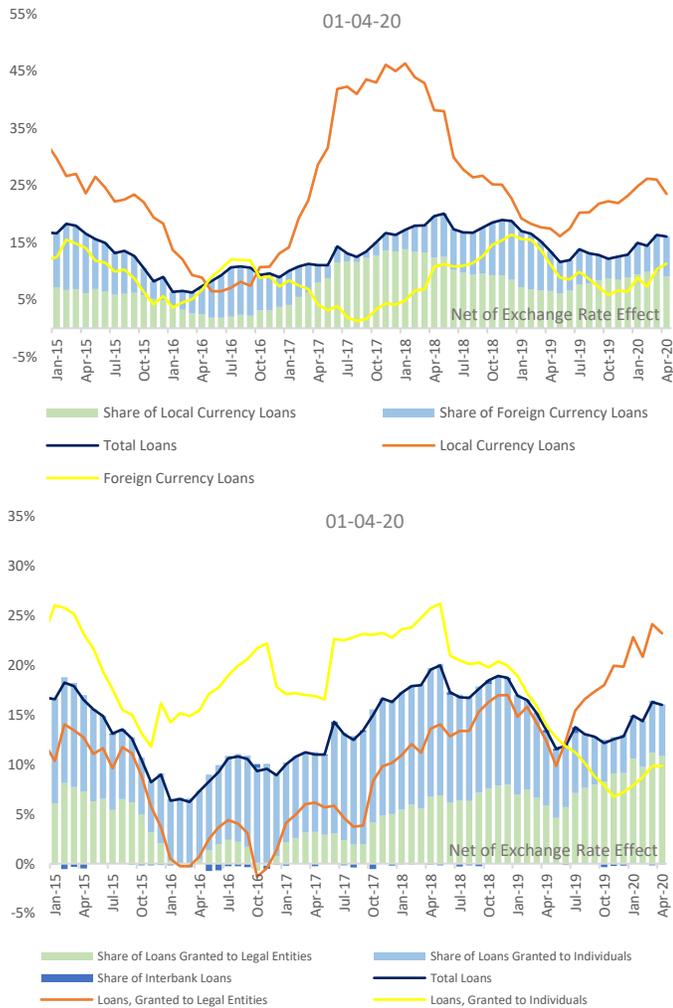
Figure 40: Deposit Larization



Source: NBS

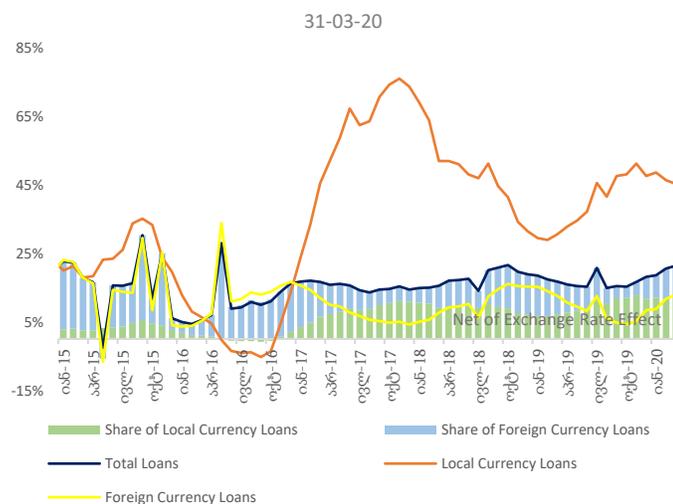


Figure 41: Annual Growth of Loans



Source: NBG

Figure 42: Annual Growth of Loans secured by Real Estate



Source: NBG

Review of Loans

As of April 1, 2020, the annual growth of the loan portfolio was 16 percent. Although the growth of loans is still largely determined by loans denominated in national currency, it should be noted that the upward trend in this quarter was characterized by an increase in loans denominated in foreign currency and in early April its value was 11.3 percent, which is 2.5 percentage points lower than the previous month.

No significant changes were observed in the growth of loans by lenders, the main determinant of the growth of the loan portfolio is still the growth of loans to legal entities, its value as of April 1 was 23.2 percent, while the annual growth of loans to individuals in the same period was 9.8 percent.

By April 2020, the annual growth of real estate loans was 21.4 percent. At the same time, the growth of mortgage loans denominated in the national currency increased by 45.3 percent, the growth of loans denominated in foreign currency tended to increase in the given quarter and reached 12.9 percent at the end of April.

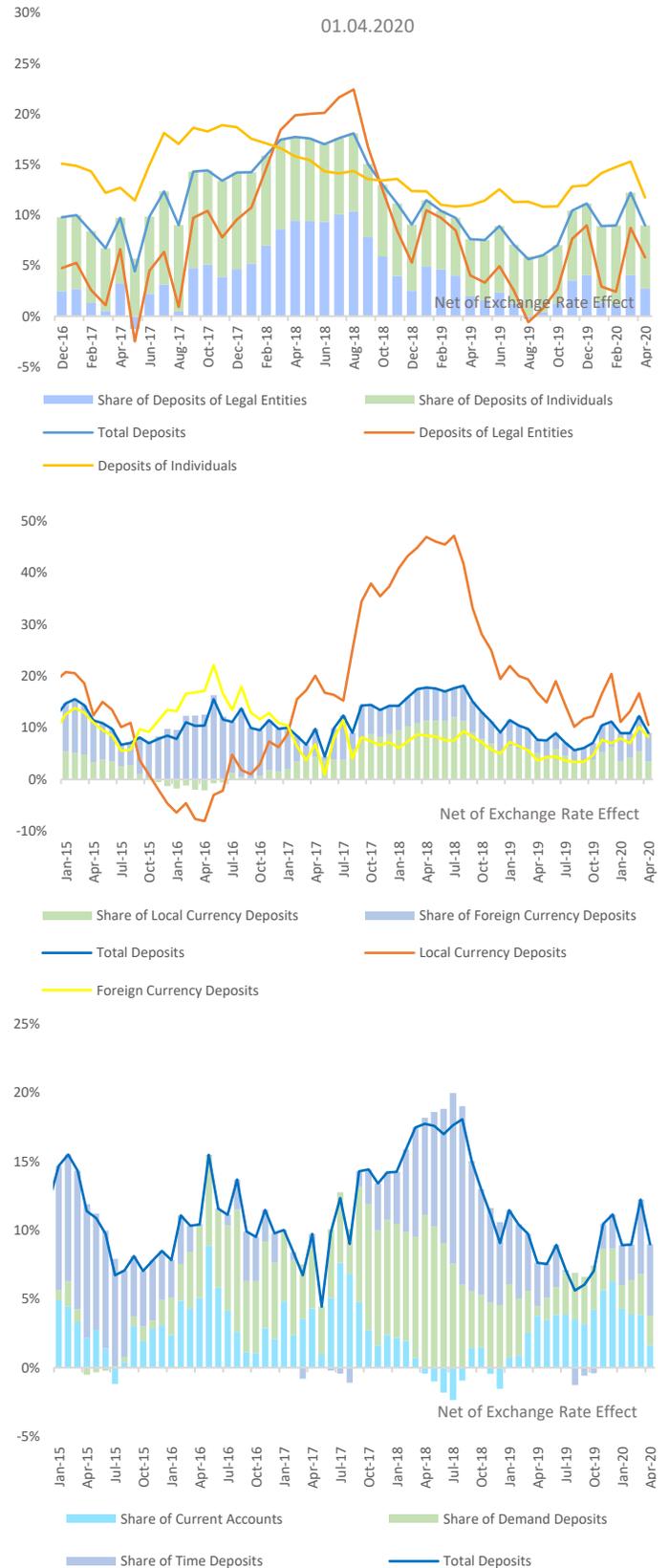
Review of Deposits

No significant change was observed in the growth trend of deposits, the maximum growth was recorded in the first quarter of 2020 as of March 1, and in early April the growth of total deposits was 9 percent compared to the corresponding period of 2019. The annual growth as of April 1 was 11.7 percent, while the annual growth of deposits of legal entities in the same period amounted to 5.8 percent.

Recently, the growth of deposits denominated in national currency has fluctuated around a relatively constant trend, and as of April 1, the annual growth was 10.5 percent, while the growth of deposits denominated in foreign currency was characterized by an upward trend, which was mainly due to 8.2 percent increase in foreign currency deposits in early April.

As for the growth of deposits by types, the annual growth of current accounts decreased significantly during the current quarter and amounted to 5.9 percent at the beginning of April. Led to an increase in total deposits. Over the same period, demand deposits grew by 7.7 percent.

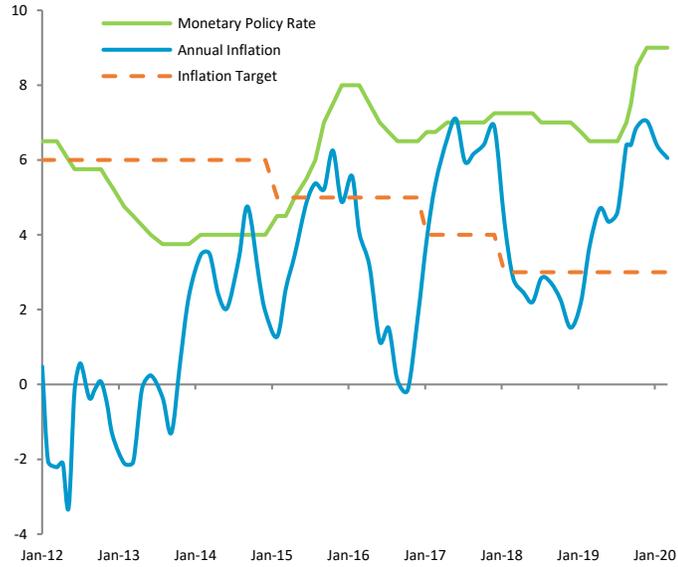
Figure 43: Annual Growth of Deposits



Source: NBG



Figure 44: Inflation and Monetary Policy Rate

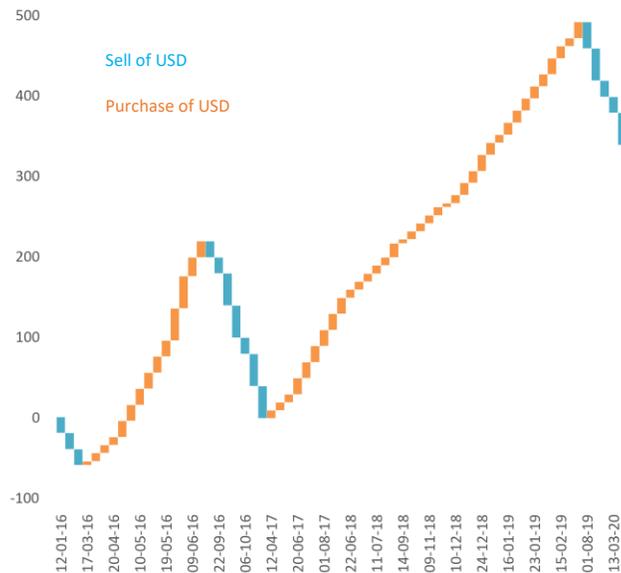


Source: NBG

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. However, inflation is expected to decline over the rest of the year and return to target, amid a coronavirus pandemic and a sharp drop in oil prices on the world commodity market. Factors affecting inflation, which exert pressure on both growth and decline: weakened aggregate demand pushes inflation down, while high volatility in the foreign exchange market and the depreciation of the nominal effective exchange rate increase inflation expectations. Ultimately, the value of inflation depends on strength of these factors. Given the high uncertainty, it was considered appropriate to keep the interest rate unchanged.

Figure 45: Trade of USD by NBG, mln



წყარო: საქართველოს ეროვნული ბანკი

Interest Rates

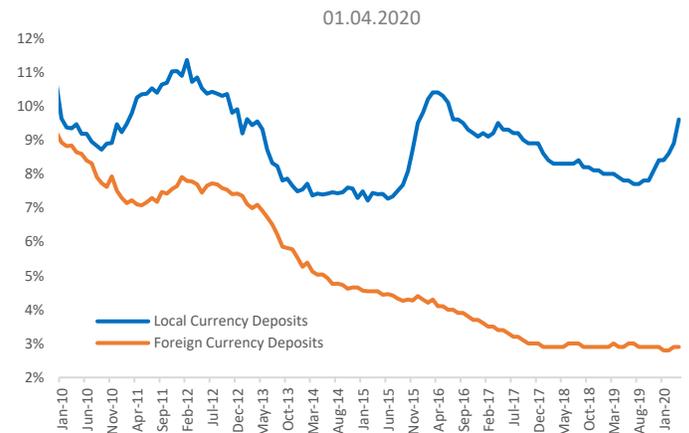
In the first quarter of 2020, there was a significant increase in interest rates on deposits denominated in national currency and amounted to 9.6 percent by the end of April, while interest rates on foreign currency deposits stood at 2.9 percent. In April 2020, the weighted average interest rate on deposits in the national currency by legal entities was 10.6 percent, and in foreign currency - 2.5 percent. The average annual interest rates on retail deposits were 2.5 percent for foreign currency deposits and 10.6 percent for national currency deposits.

In March 2020, the weighted average annual interest rate on short-term consumer loans was 19.5 percent (25.7 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 April 2020 was 16.5 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 8.3 percent.

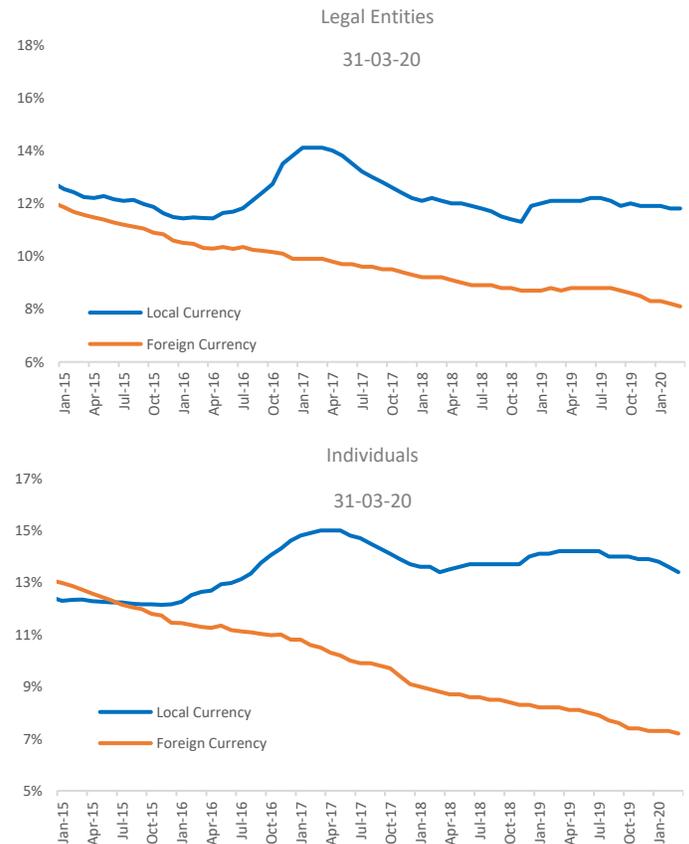
At the end of March 2020, the interest rate on mortgage loans issued to legal entities issued was 12.3 percent, and in foreign currency - 7.0 percent. The interest rate on loans to individuals in national currency was 12.0 percent, and in foreign currency it was 6.2 percent.

Figure 46: Interest rates on Deposits (stock)



Source: NBG

Figure 47: Interest rates on Loans secured by Real Estate



Source: NBG

Disclaimer

The publication was prepared by the Macroeconomic Analysis and Fiscal Policy Planning Department of the Ministry of Finance of Georgia. The information and opinions contained in this publication represent the views of the authors - the economic team of the Macroeconomic Analysis and Fiscal Policy Planning Department and do not represent the official position of the Ministry of Finance of Georgia. The analytical information provided in the publication serves informational purposes and is obtained from public sources. The forecasts and calculations given in the report should not be taken as a promise, reference or guarantee.

