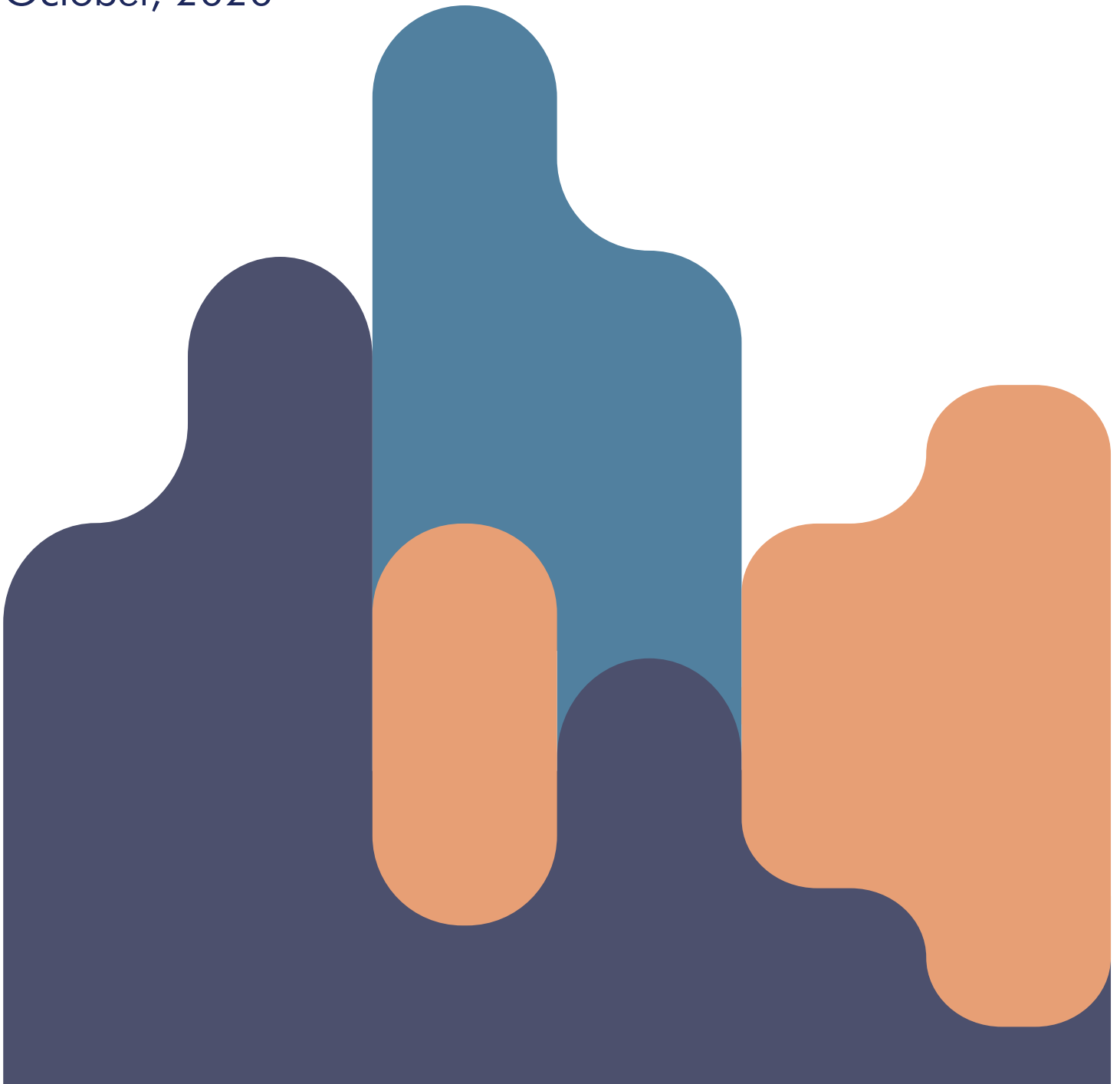




Current Economic Outlook

October, 2020



Brief Summary

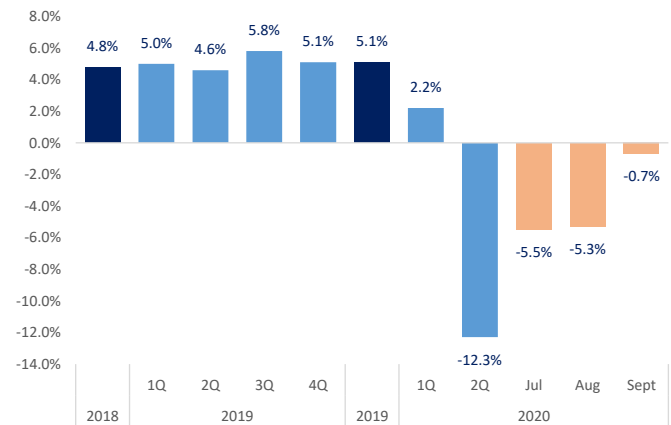
- Based on Geostat's preliminary data, annual real economic growth in September equals to -0.7 percent
- Annual inflation in October equals to 3.8 percent, while core inflation - 5.4 percent
- Export annually increased by 9.7 percent in September
- Import annually decreased by 3.5 percent in September



Economic Growth

In September 2020, annual economic growth was -0.7 percent, while real growth in the first 9 months was -5 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 September 2020 the estimated real growth compared to the same period of the previous year was posted negative in Transportation and storage, Accommodation and food service activities, Arts, entertainment and recreation, Construction, Professional, scientific and technical activities, Information and communication. Increase was registered in Manufacturing, Mining and quarrying, Wholesale and retail trade, Financial and insurance activities.

Figure 1: Economic Growth



Source: Geostat

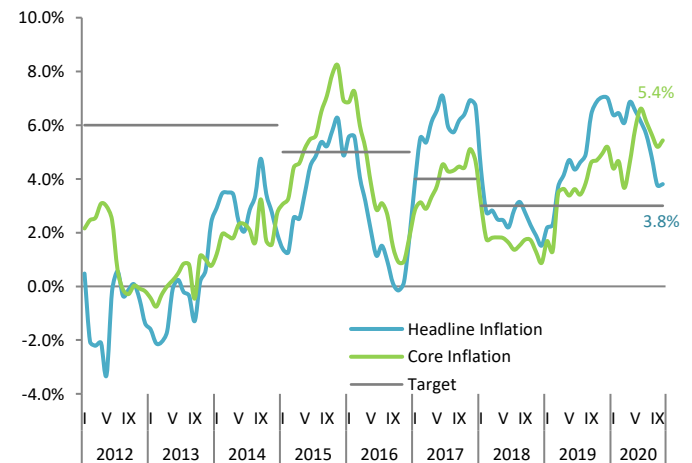
Price Level

As of October 2020, the inflation rate was 3.8 percent compared to the same period last year, which is higher than the target inflation. Core inflation was 5.4 percent in the corresponding period.

The main influence on the formation of annual inflation was the dynamics of prices for Furnishings, household equipment and maintenance (+9.1 percent), alcoholic beverages and tobacco (+9), healthcare (+9), food and non-alcoholic beverages (+5.5). And the annual decline was observed in the categories of transport (-6), recreation and culture (-2.9).

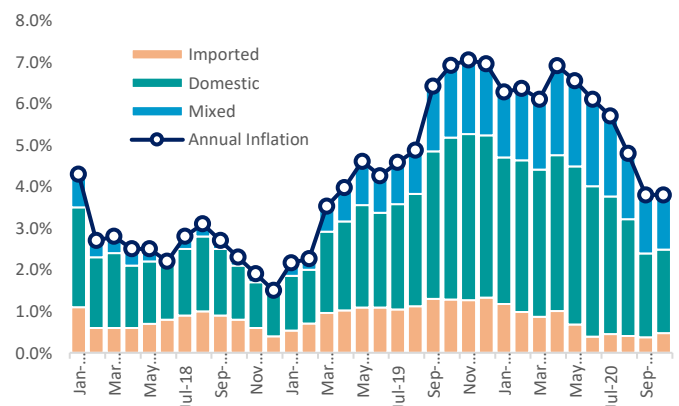
At the same time, in October 2020, inflation was 0.8 percent compared to the previous month, which was significantly caused by increasing prices for clothing and footwear food (+5.4), education (+1.5), Furnishings, household equipment and maintenance (+1.3).

Figure 2: Annual Inflation, 2020 October



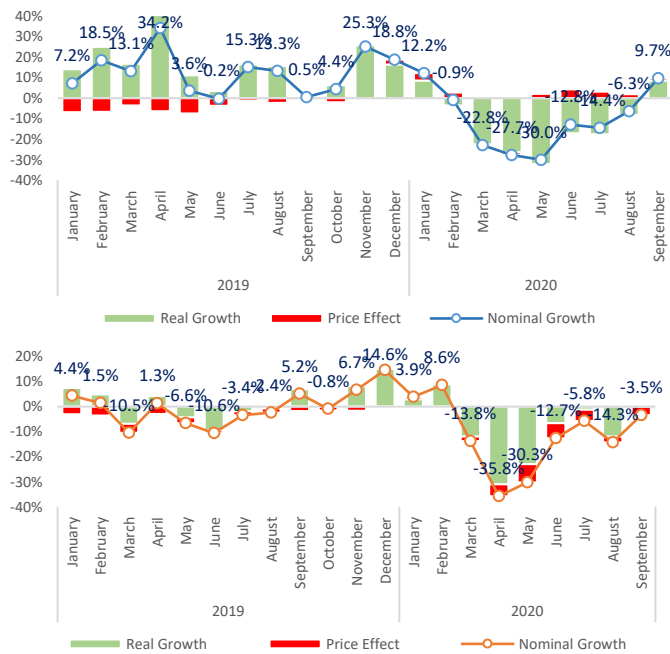
Source: NBG

Figure 3: Inflation Decomposition, 2020 October



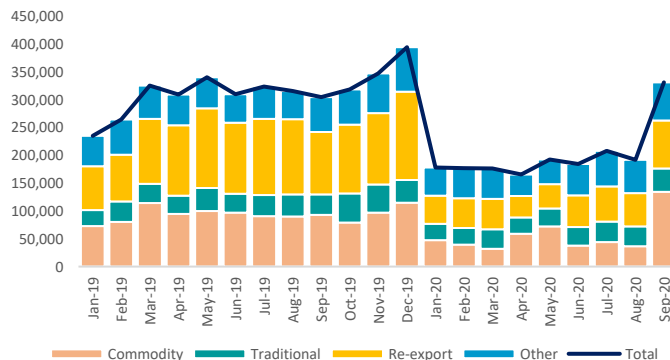
Source: Geostat

Figure 4: Annual Change of Export and Import



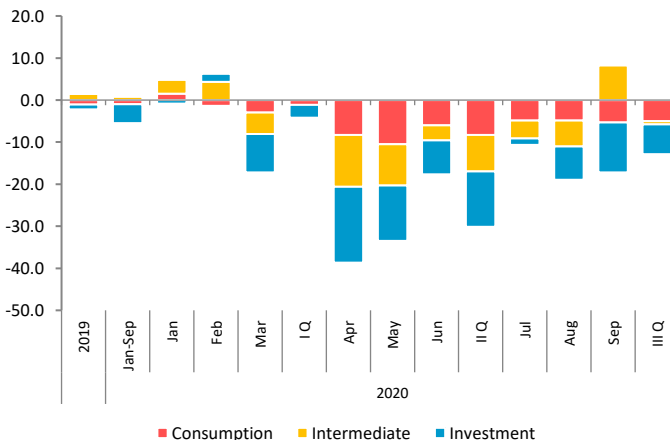
Source: Geostat

Figure 5: Decomposition of Export



Source: Geostat

Figure 6: Decomposition of Change of Import



Source: Geostat

External Trade

In September 2020, export annually increased by 9.7 percent and reached value of 332 mln USD, while import decreased by 3.5 percent reaching 731.3 mln USD. These changes caused decrease of the trade deficit by 12.2 percent compared to previous year and was equal to 399.3 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. In September 2020 real growth of export was equal to 8.7 percent, and real growth of import was -0.1 percent. The share of re-exports was 26 percent, while exports of commodity was -40.5 percent.

In September 2020, import of investment and consumption goods decreased by 11.8 and 5.4 percent respectively, while import of intermediate goods increased by 8.2 percent.

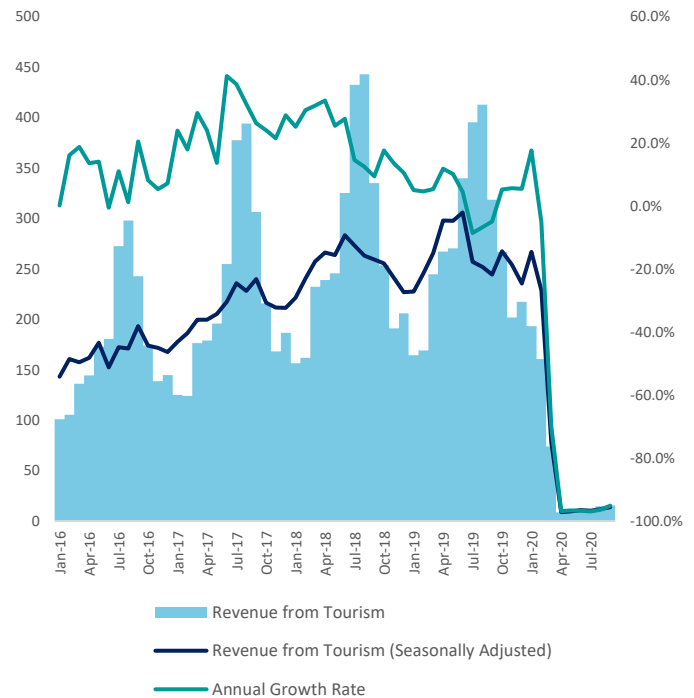
In September 2020, the first place in the top ten export goods from the commodity groups was occupied by copper ores and concentrates with 79.6 million USD (24 percent of total exports), second place – motor cars - 44.1 million US dollars (13.3 percent of total exports), and third – ferro-alloys 34.8 million U.S. dollars (10.5 percent of total exports). The largest import commodity group in September 2020 was the group of copper ores and concentrates, whose imports amounted to 103.5 million USD and accounted for 14.2 percent of total imports. Also significant were motor cars with 46.8 million (6.4 percent of imports) and petroleum and petroleum oils with 41.5 million U.S. dollars (5.7 percent of imports).

In September 2020, the largest export partners are China (58.8 million US dollars, 17.7 percent of total exports), Azerbaijan (43.5 million US dollars, 13.1 percent) and Russia (42.6 million US dollars, 12.8 percent). The largest importing partner countries are Turkey (140.3 million USD, 19.2 percent of total imports), Russia (71.4 million USD, 9.8 percent) and China (68.6 million USD, 9.4 percent).

Tourism

In September 2020, revenue from tourism fell 95.1 percent to 15.7 million USD. 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

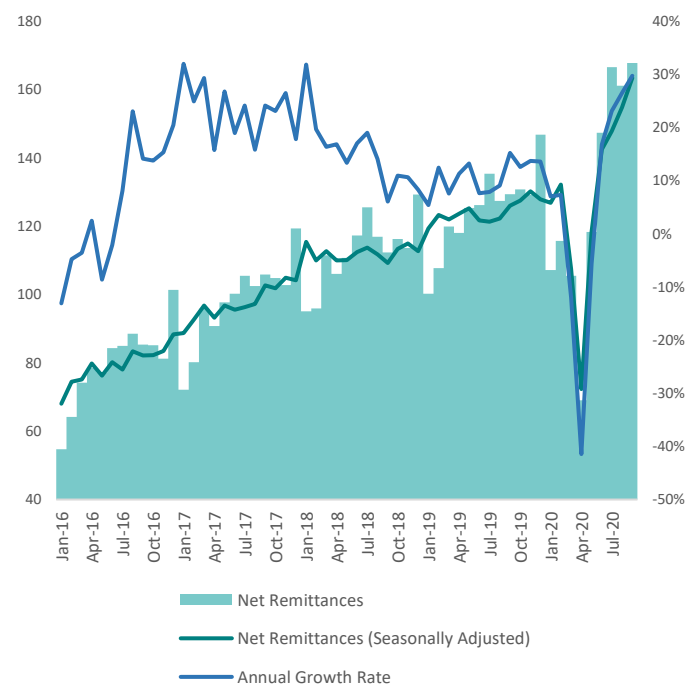


Source: NBG

Remittances

In September 2020, net remittances totaled 167.7 million USD, which is 29.7 percent higher compared to previous year. Remittances increased from trading partner countries, where existing restrictions were partially eased and economic activity intensified. Remittances increased by 39 percent from Italy (6.3 percent contribution to total growth), 49.3 percent from USA (5.7 percent contribution to total growth), 35.5 percent from Greece (4.1 percent contribution to total growth). Remittances from Azerbaijan and Ukraine also increased significantly. At the same time, decrease was recorded at 2.5 percent from Turkey (-0.1 percent contribution to total growth), -5.8 percent from Russia (-1.3 percent contribution to total growth).

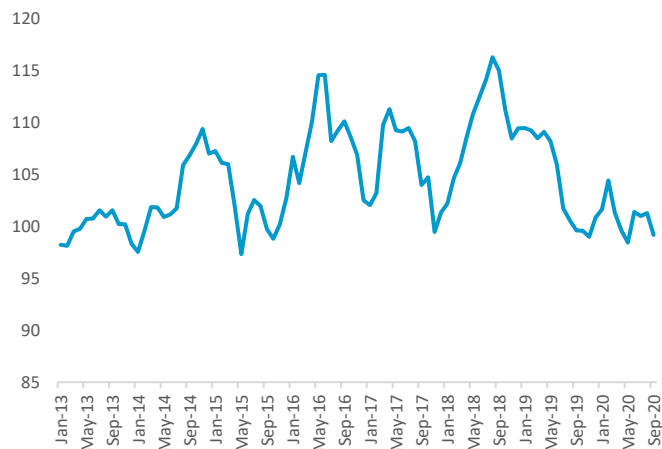
Figure 8: Net Remittances



Source: NBG

Exchange Rate

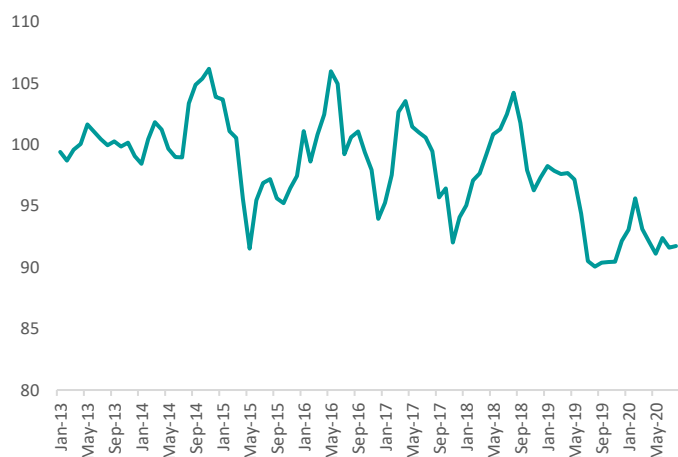
Figure 9: Nominal Effective Exchange Rate



Source: NBG

As of October 31, the nominal effective exchange rate of the lari has depreciated by 1.9 percent relative to January 1, 2020 and depreciated by 8.5 percent relative to January 1, 2019. At the same time, the real effective exchange rate for September is depreciated by 7.8 percent relative to January of the previous year and depreciated by 2.6 percent relative to January 2020.

Figure 10: Real Effective Exchange Rate



Source: NBG

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

	October 31, 2020	Oct 31, 2020 - Jan 1, 2020	Oct 31, 2020 - Jan 1, 2019
Euro	3.7732	▼ -14.8%	▼ -18.9%
US Dollar	3.2327	▼ -11.3%	▼ -17.3%
Turkish Lira	0.3881	▲ 24.1%	▲ 30.2%
Russian Ruble	0.0408	▲ 13.1%	▼ -5.8%
NEER	116.93	▼ -1.9%	▼ -8.5%
REER (September 2020)	110.27	▼ -2.6%	▼ -7.8%

Source: NBG

Budget Revenue Performance

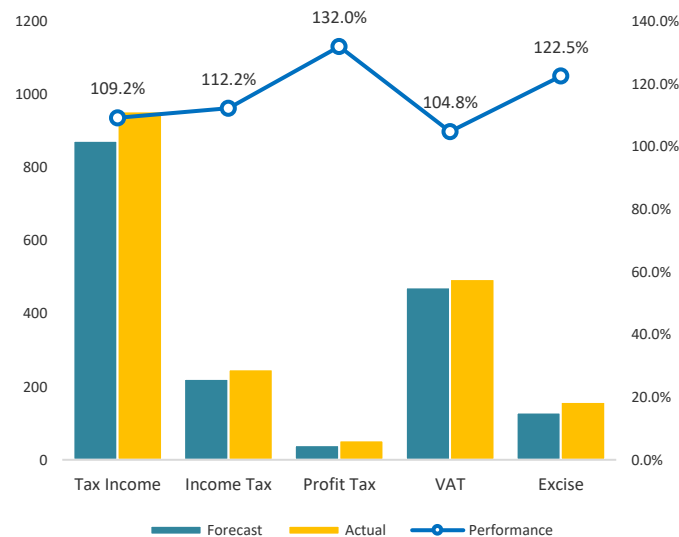
The forecast of tax income for January-October 2020 is 8,549.1 million GEL, while the actual figure for January-October 2020 is 5.5 percent higher than planned and equals to 9,022 mln GEL.

The actual level of tax income in October was 873.3 mln GEL, which is 9.2 percent higher compared to the forecasted value of tax income in (953.4 mln GEL).

- Revenue from Income tax amounted 248 mln GEL, which is 112.2 percent of forecasted value (221 mln GEL).
- Revenue from Profit tax was equal to 52.7 mln GEL, which is 132 percent of projected value (40 mln GEL).
- Revenue from VAT was equal to 494.3 mln GEL, which is 104.8 percent of the forecasted value of 471.7 mln GEL.
- Revenue from Excise tax amounted 158.2 mln GEL, which is 122.5 percent of the forecasted value of 129.1 mln GEL.
- Revenue from Custom tax was equal to 5.9 mln GEL, which is 98.1 percent of the forecasted value (6 mln GEL).

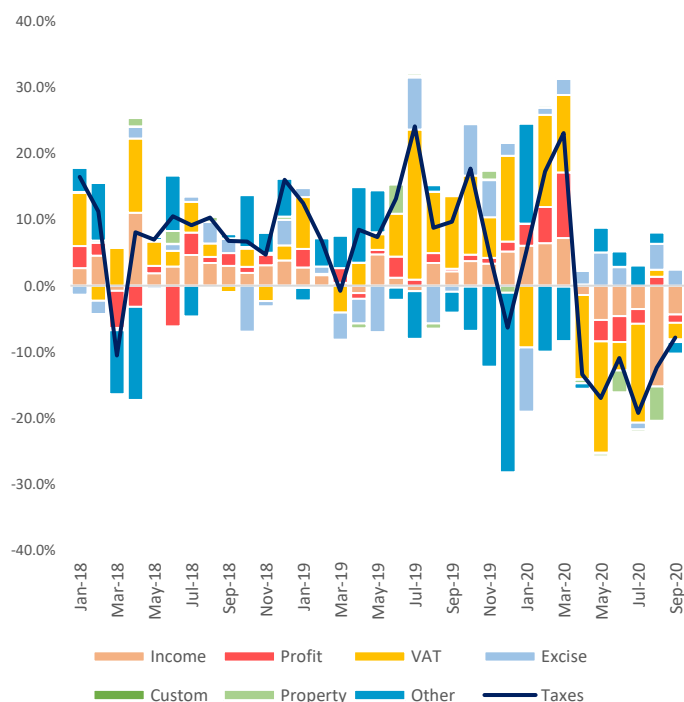
In September 2020, compared to the same period last year, consolidated budget revenues decreased by 10.1 percent and expenditures increased by 52.1 percent. At the same time, the operating balance of the consolidated budget, which is the government's savings, amounted to -257.9 million GEL, while the total balance was set at -727.2 million GEL. In total, tax revenue fell by 7.8 percent year on year, which was significantly affected by the decline in personal income tax revenue.

Figure 11: Budget Revenue Performance



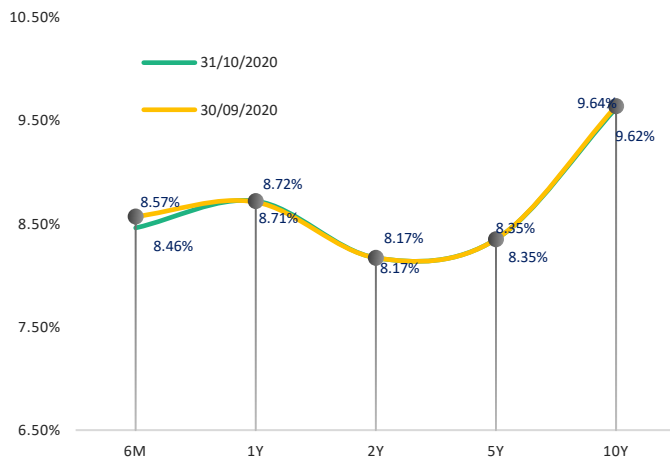
Source: MOF

Figure 12: Tax Income



Source: MOF

Figure 13: Portfolio Yield Curve



Source: MOF

Treasury Securities Portfolio

In October 2020, 5 auctions were held with total issuance volume of 260 million GEL. The weighted average interest rate amounted to 8.281 percent. Average Time to Maturity (ATM) for the portfolio slightly decreased compared to the previous month's value. The portfolio yield curve did not change significantly

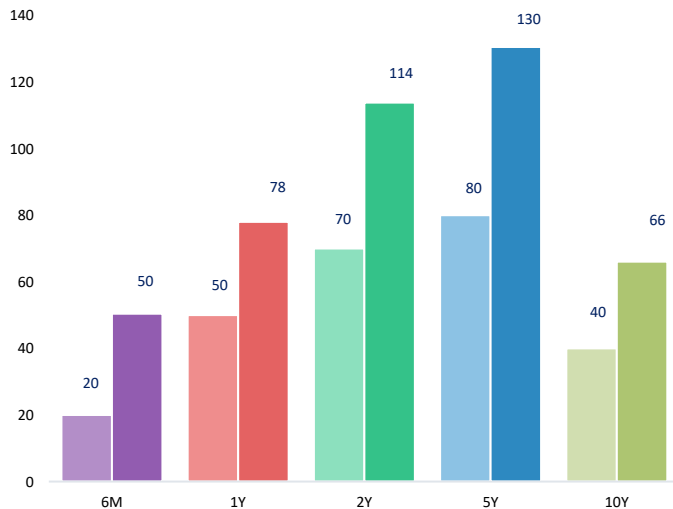
As of October 31, 2020, 30.5 percent of treasury securities portfolio is composed of securities whose maturity date is due for the next 1 year. Bid-to-cover ratio decreased compared to the previous month's value (September 2.02) and is 1.69.

Figure 14: Weighted average interest rates



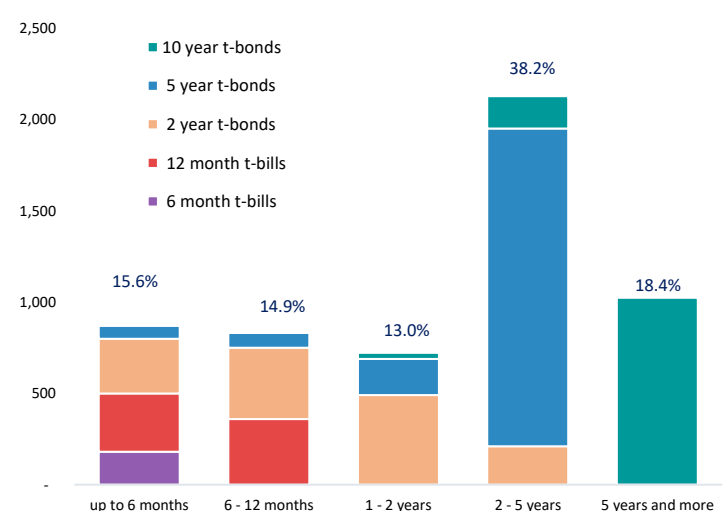
Source: MOF

Figure 15: Issuance and Demand, mln GEL



Source: MOF

Figure 16: Portfolio Forming Securities Composed by Time to Maturity



Source: MOF

Private Sector Larization

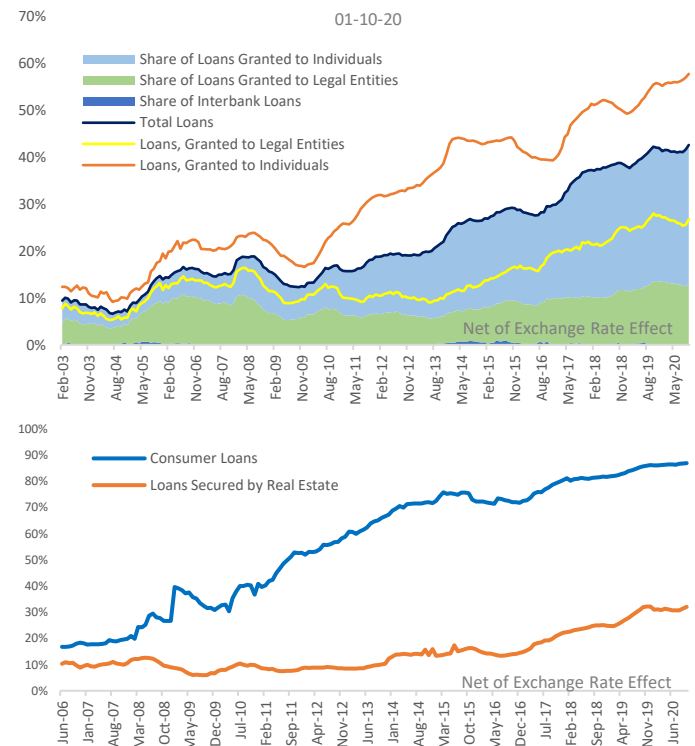
Loan larization is on the rise. The larization of total loans is largely due to the larization of loans issued to individuals. By 1 of October 2020, the larization of loans to individuals was 57.7 percent, the larization of loans to legal entities was 26.7 percent, and the total larization of loans was 42.6 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 October 2020, the larization of consumer loans was 86.9 percent, while the larization of mortgage loans was 32.1 percent.

The larization of deposits is significantly conditioned by the larization of deposits of legal entities. As of 1 of October 2020, the total larization of total deposits was 37.8 percent, the larization of deposits of legal entities in the same period was 52.3 percent, and the larization of deposits of individuals – 24.2 percent.

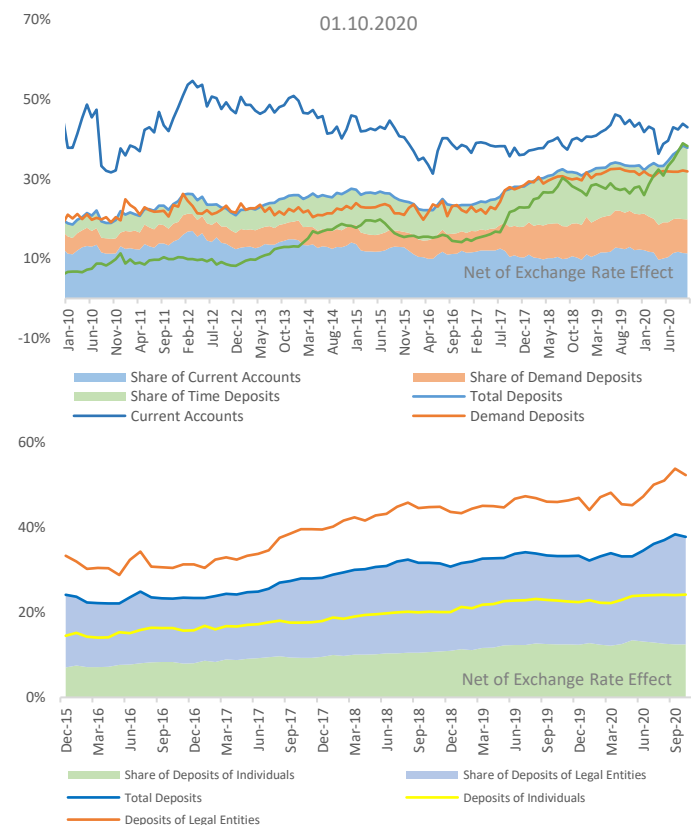
The larization of current accounts for October 2020 was 42.9 percent. At the same time, the larization of deposits before demand is 31.9 percent, and the larization of time deposits – 38.2 percent.

Figure 17: Loan Larization



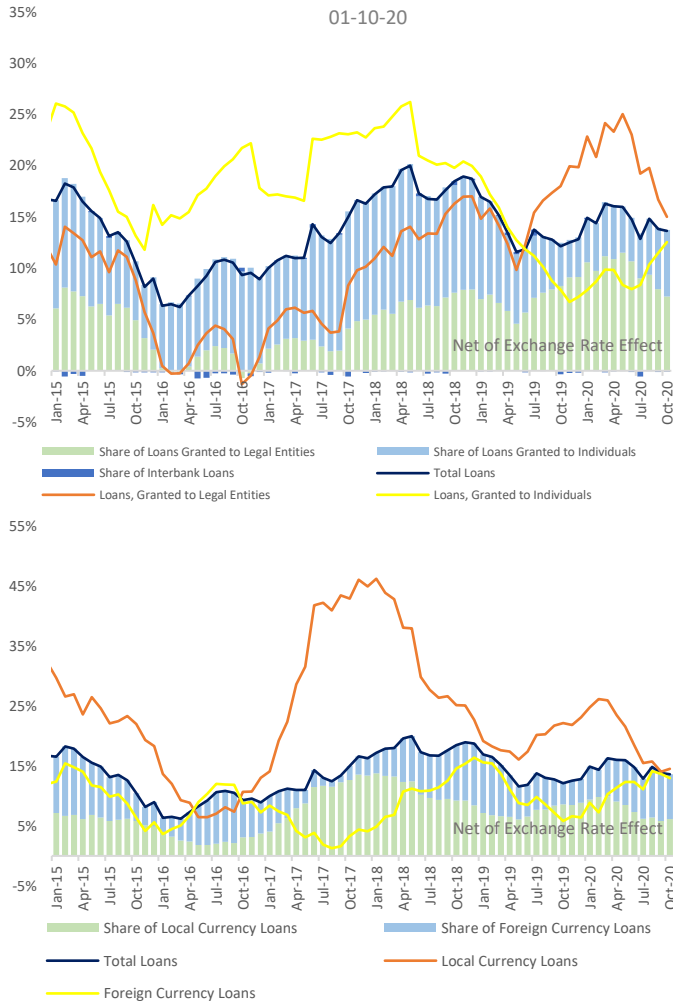
Source: NBG

Figure 18: Deposit Larization



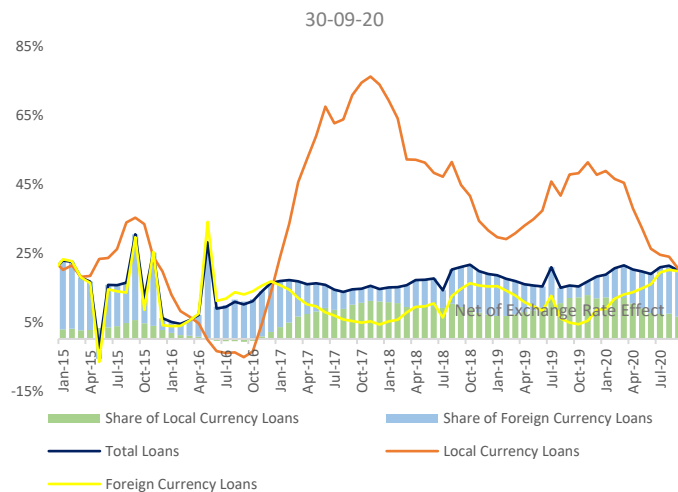
Source: NBG

Figure 19: Annual Growth of Loans



Source: NBG

Figure 20: Annual Growth of Loans secured by Real Estate



Source: NBG

Review of Loans

The annual growth of the credit portfolio as of 1 of October 2020 compared to 2019 was 13.6 percent. The annual growth of loans to legal entities decreased by 1.7 percentage points compared to the previous month and amounted to 15 percent during the same period, while the annual growth of loans to individuals amounted to 12.6 percent.

As of 1 of October 2020, the growth of loans in national currency amounted to 14.5 percent compared to the same period last year, the annual growth of loans in foreign currency increased and amounted to 13 percent during the same period.

By October 2020, mortgage loans had decreased by 1.3 percentage points compared to the previous month and amounted to 19.9 percent.

Review of Deposits

The growth of total deposits in October 2020 compared to the corresponding period of 2019 was 19 percent, the annual growth of deposits denominated in the national currency was equal to 35 percent, and the annual growth of deposits denominated in foreign currency increased by 2 percentage points compared to previous month and was 9 percent.

In October 2020, the annual increase in deposits of individuals was 12 percent, while annual increase in deposits of legal entities was 28 percent.

Monetary Policy Rate

On October 28, 2020, the Monetary Policy Committee of the National Bank of Georgia decided to leave the refinancing rate unchanged. The monetary policy rate is 8.0 percent. According to the National Bank, the downward trend in annual inflation will continue and it will be close to the target inflation in 2021. The dynamics of inflation reduction is driven by weak aggregate demand and it is expected that this impact will continue in future periods. The expected change in inflation is largely driven by weak aggregate - largely external - demand. However, the Committee also took into account the risks in terms of inflation expectations, which are accompanied by increased volatility in foreign exchange markets and long-term maintenance of inflation above the target. Inflation expectations are rapidly declining. The next meeting of the Monetary Policy Committee will be held on December 9, 2020.

Figure 21: Annual Growth of Deposits

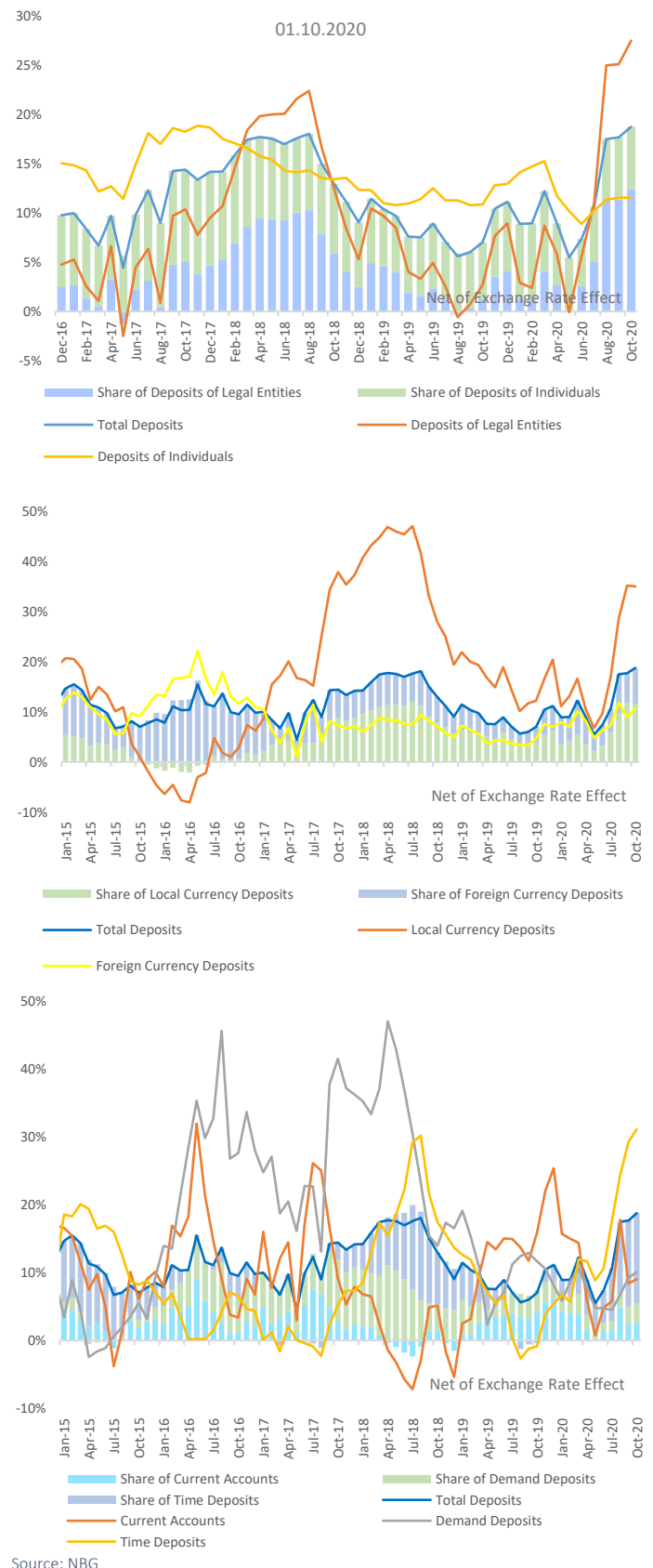
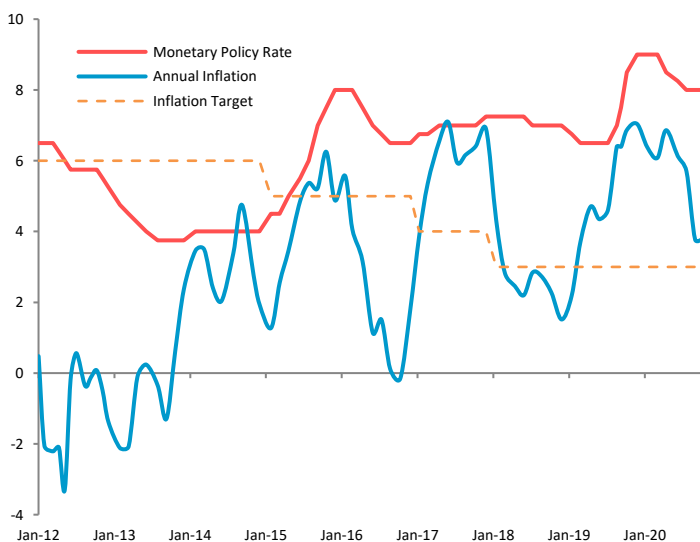


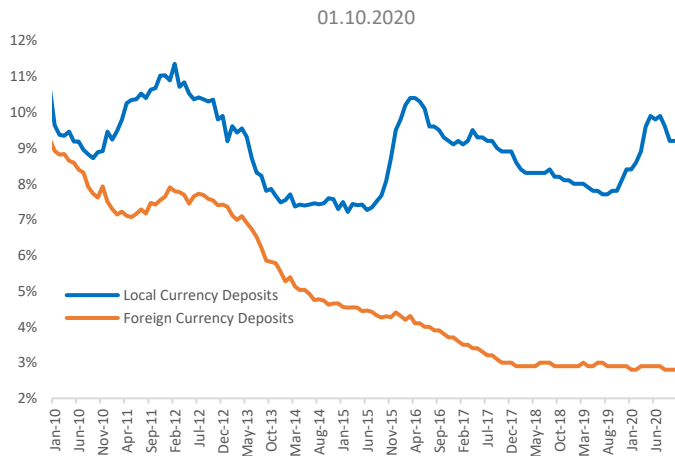
Figure 22: Inflation and Monetary Policy Rate



Source: NBG

Source: NBG

Figure 23: Interest rates on Deposits (stock)



Source: NBG

Interest Rates

As of October 2020, the interest rate on foreign currency deposits was 2.8 percent, while the national currency was 9.2 percent.

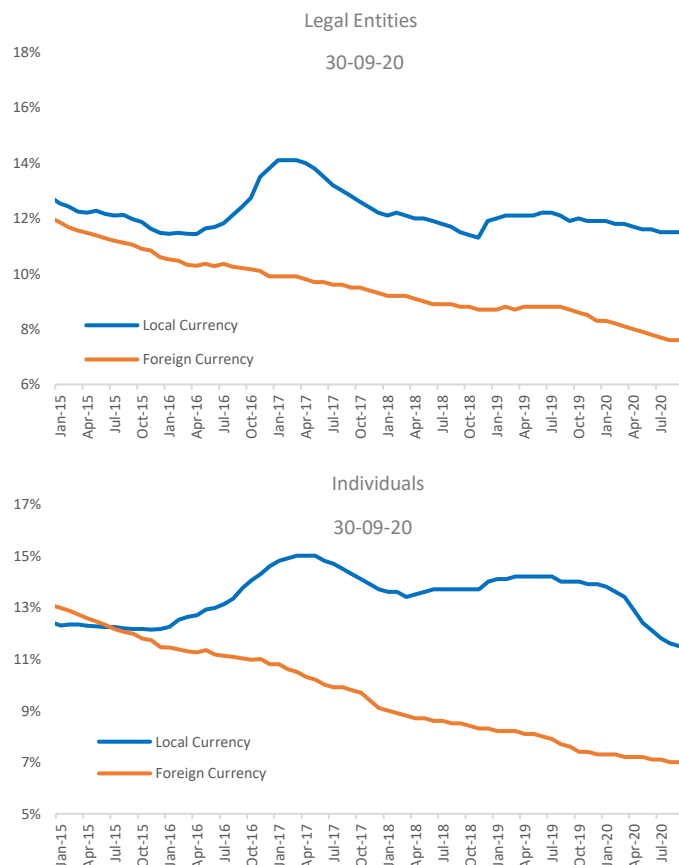
As of October 2020, the weighted average interest rate on deposits in national currency of legal entities was 9.1 percent, and in foreign currency - 2.5 percent. The average annual interest rate on deposits of individuals was 2.9 percent on deposits in foreign currency and 9.4 percent in national currency.

By October 2020, the weighted average annual interest rate on short-term consumer loans was 20 percent (26.2 percent in national currency and 6.5 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 October 2020 was 16.9 percent. The interest rate on loans denominated in the national currency is 18.2 percent, and the interest rate on loans denominated in foreign currency is 8.1 percent.

At the end of September 2020, the interest rate on mortgage loans issued to legal entities issued was 12.3 percent, and in foreign currency – 6.9 percent. The interest rate on loans to individuals in national currency was 11.8 percent, and in foreign currency it was 6.3 percent.

Figure 24: 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.

