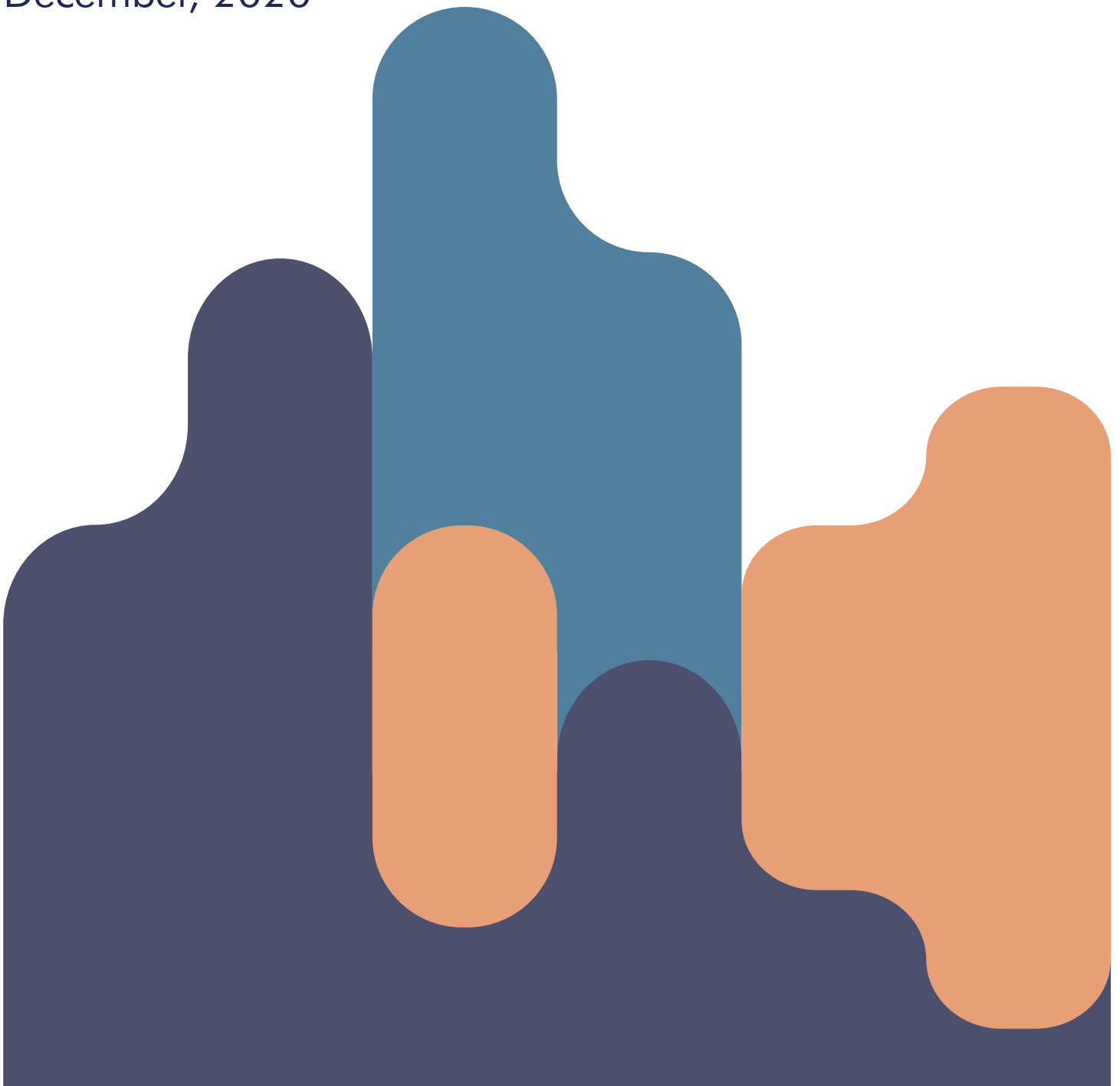




Current Economic Outlook

December, 2020



Brief Summary

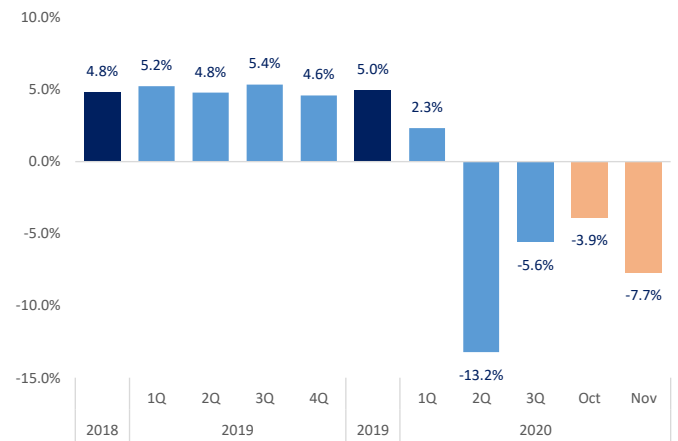
- Based on Geostat's preliminary data, annual real economic growth in November equals to -7.7 percent
- Annual inflation in December equals to 2.4 percent, while core inflation - 4.9 percent
- Export annually decreased by 13.4 percent in November
- Import annually decreased by 12.1 percent in November



Economic Growth

In November 2020, annual economic growth was -7.7 percent, while real growth in the first 11 months was -5.9 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 November 2020 the estimated reduction compared to the same period of the previous year was posted in the following activities: Construction, Transportation and storage, Arts, entertainment and recreation, Accommodation and food service activities, Wholesale and retail trade; repair of motor vehicles and motorcycles; A growth was registered in Manufacturing, Financial and Insurance activities, Information and communication, Water supply; sewerage, waste management and remediation activities.

Figure 1: Economic Growth



Source: Geostat

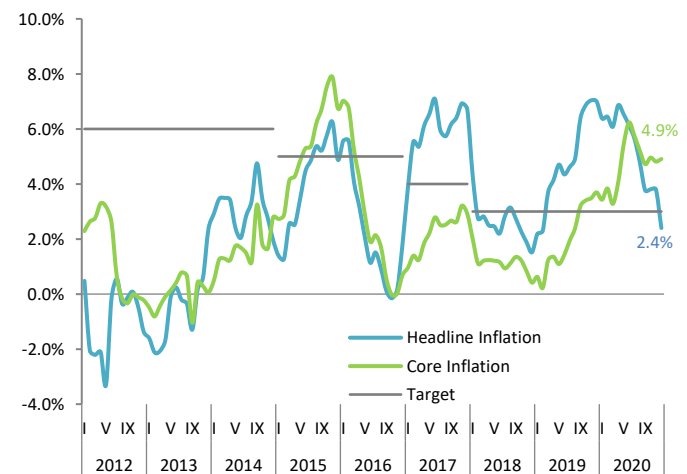
Price Level

As of December 2020, the inflation rate was 2.4 percent compared to the same period last year, which is higher than the target inflation. Core inflation (without tobacco) was 4.9 percent in the corresponding period.

The main influence on the formation of annual inflation was the dynamics of prices for healthcare (+9.6), furnishings, household equipment and maintenance (+9.5 percent), alcoholic beverages and tobacco (+8.6), food and non-alcoholic beverages (+6.8). And the annual decline was observed in the categories of housing, water, electricity, gas and other fuels (-21.7), recreation and culture (-2.8).

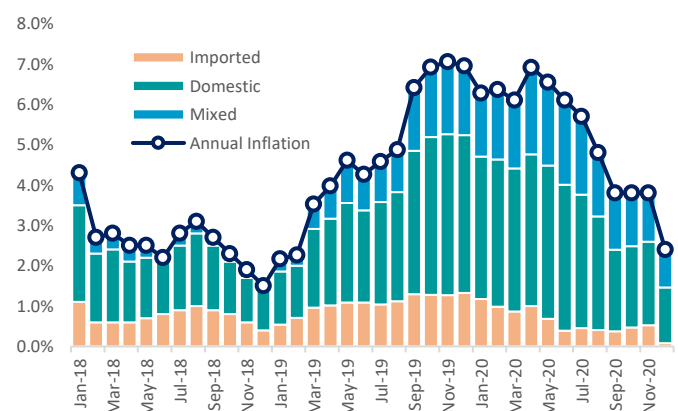
At the same time, in December 2020, inflation was -1 percent compared to the previous month, which was significantly caused by decreasing prices for housing, water, electricity, gas and other fuels (-22 percent).

Figure 2: Annual Inflation, 2020 December



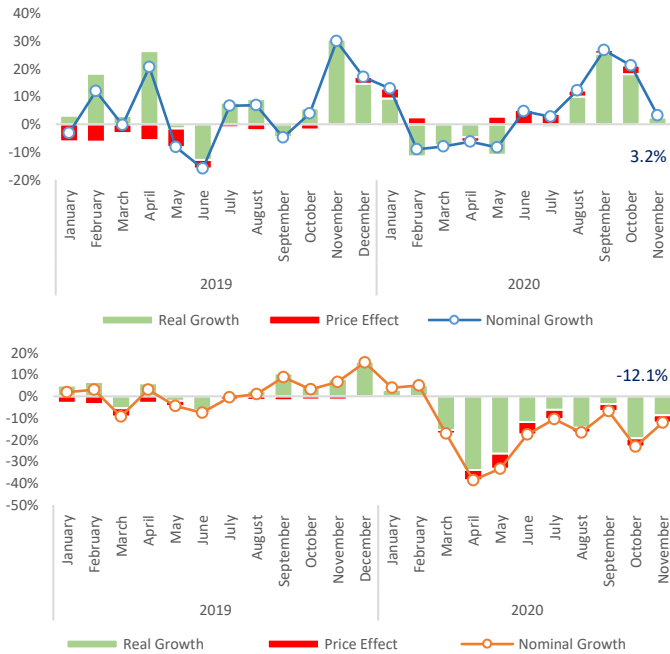
Source: NBG

Figure 3: Inflation Decomposition, 2020 December



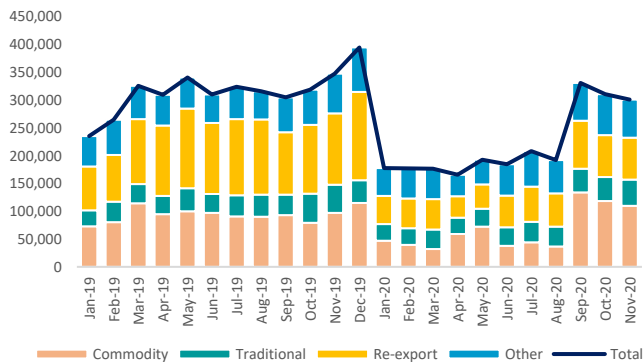
Source: Geostat

Figure 4: Annual Change of Domestic Exports and Import



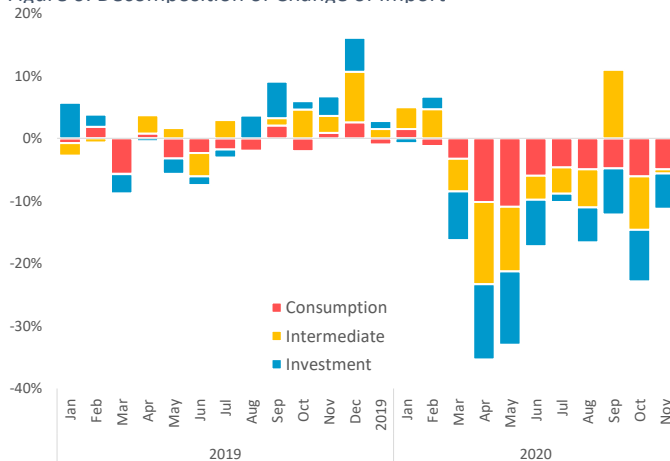
Source: Geostat

Figure 5: Decomposition of Export



Source: Geostat

Figure 6: Decomposition of Change of Import



Source: Geostat

External Trade

In November 2020, export annually decreased by 13.4 percent (while domestic exports increased by 3.2 percent) and reached value of 301.1 mln USD, while import decreased by 12.1 percent reaching 718.9 mln USD. These changes caused decrease of the trade deficit by 11.3 percent compared to previous year and was equal to 417.8 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. In November 2020 real growth of domestic exports was equal to 2.5 percent, and real growth of import was -8.7 percent. The share of re-exports was 25.1 percent, while exports of commodity was - 36.5 percent.

In November 2020, import of investment, consumption and intermediate goods decreased by 5.6, 5 and 0.6 percent respectively (contribution to total growth).

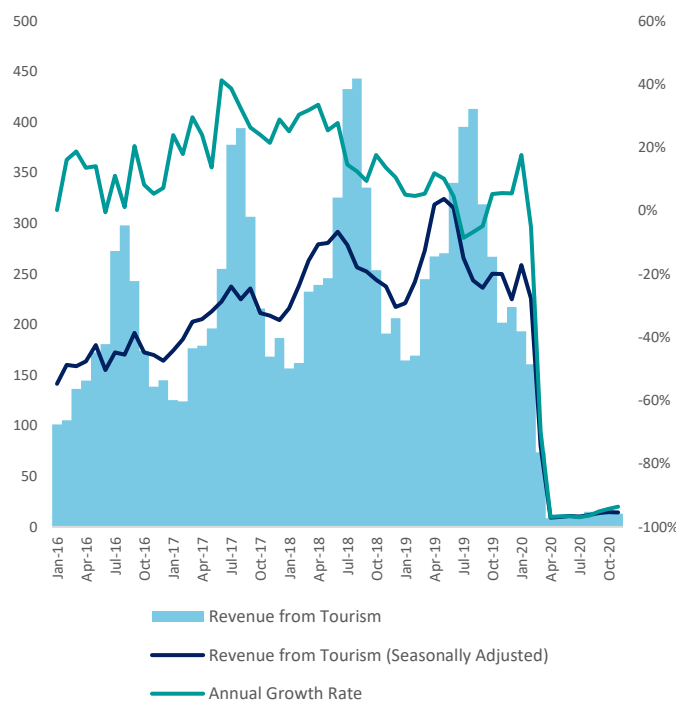
In November 2020, the first place in the top ten export goods from the commodity groups was occupied by copper ores and concentrates with 58.6 million USD (19.5 percent of total exports), second place – ferro-alloys - 33.3 million US dollars (11.1 percent of total exports), and third – motor cars - 29.3 million U.S. dollars (9.7 percent of total exports). The largest import commodity group in November 2020 was the group of copper ores and concentrates, whose imports amounted to 43.8 million USD and accounted for 6.1 percent of total imports. Also significant were petroleum and petroleum oils with 38.6 million (5.4 percent of imports) and motor cars with 36.3 million U.S. dollars (5 percent of imports).

In November 2020, the largest export partners are Russia (45.4 million US dollars, 15.1 percent of total exports), Azerbaijan (35 million US dollars, 11.6 percent) and Bulgaria (27.1 million US dollars, 9 percent). The largest importing partner countries are Turkey (126.3 million USD, 17.6 percent of total imports), Russia (79.2 million USD, 11 percent) and China (73.4 million USD, 10.2 percent).

Tourism

In November 2020, revenue from tourism fell 93.6 percent to 12.9 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

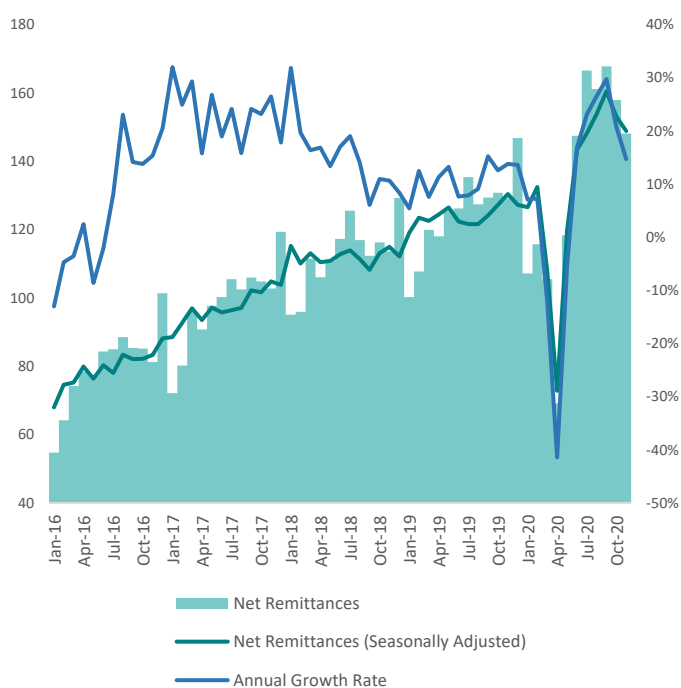


Source: NBG

Remittances

In November 2020, net remittances totaled 148.1 million USD, which is 15 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 28 percent from Italy (4.2 percent contribution to total growth), 38.5 percent from USA (4.2 percent contribution to total growth), 68.3 percent from Germany (2.2 percent contribution to total growth). Remittances from Ukraine and Spain also increased significantly. At the same time, decrease was recorded at 19.5 percent from Russia (-4.7 percent contribution to total growth).

Figure 8: Net Remittances



Source: NBG

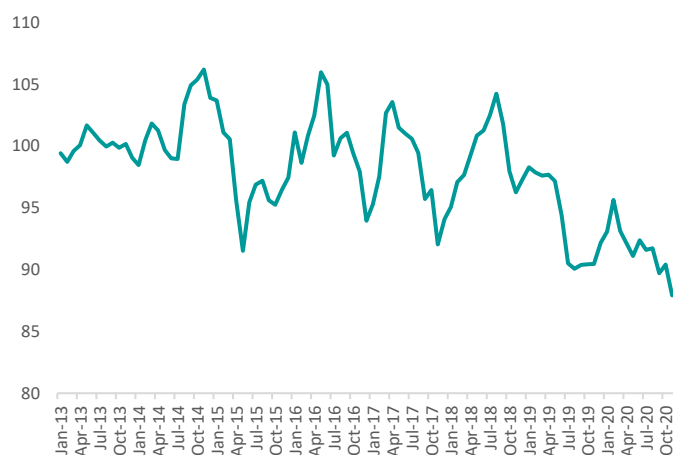
Exchange Rate

Figure 9: Nominal Effective Exchange Rate



Source: NBG

Figure 10: Real Effective Exchange Rate



Source: NBG

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

	December 31, 2020	Dec 31, 2020 - Jan 1, 2020	Dec 31, 2020 - Jan 1, 2019
Euro	4.0233	▼ -20.1%	▼ -24.0%
US Dollar	3.2766	▼ -12.5%	▼ -18.4%
Turkish Lira	0.4462	▲ 8.0%	▲ 13.3%
Russian Ruble	0.0440	▲ 4.7%	▼ -12.8%
NEER	110.25	▼ -7.5%	▼ -13.7%
REER (November 2020)	108.06	▼ -4.6%	▼ -9.7%

Source: NBG

Budget Revenue Performance

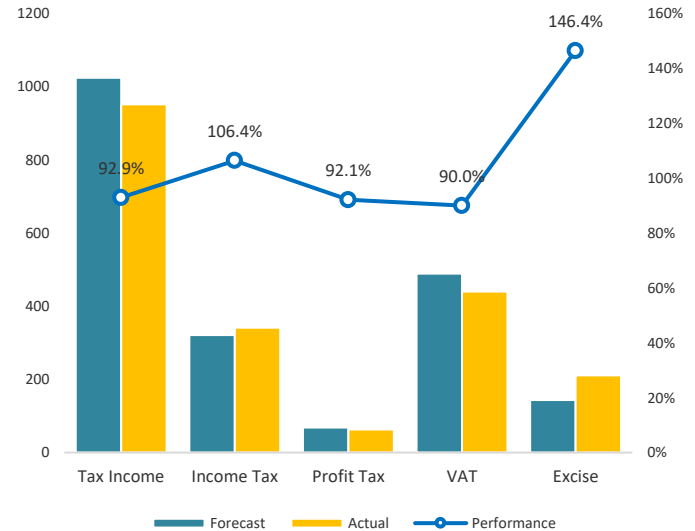
The forecast of tax income for January-December 2020 is 10,510 million GEL, while the actual figure for January-December 2020 is 4.3 percent higher than planned and equals to 10,964.4 mln GEL.

The actual level of tax income in December was 1.024 mln GEL, which is 7.1 percent less compared to the forecasted value of tax income of 952 mln GEL.

- Revenue from Income tax amounted 341.4 mln GEL, which is 106.4 percent of forecasted value (320.9 mln GEL).
- Revenue from Profit tax was equal to 62.8 mln GEL, which is 92.1 percent of projected value (68.1 mln GEL).
- Revenue from VAT was equal to 440.1 mln GEL, which is 90 percent of the forecasted value of 489 mln GEL.
- Revenue from Excise tax amounted 210.7 mln GEL, which is 146.4 percent of the forecasted value of 143.8 mln GEL.
- Revenue from Custom tax was equal to 6.5 mln GEL, which is 108.5 percent of the forecasted value (6 mln GEL).

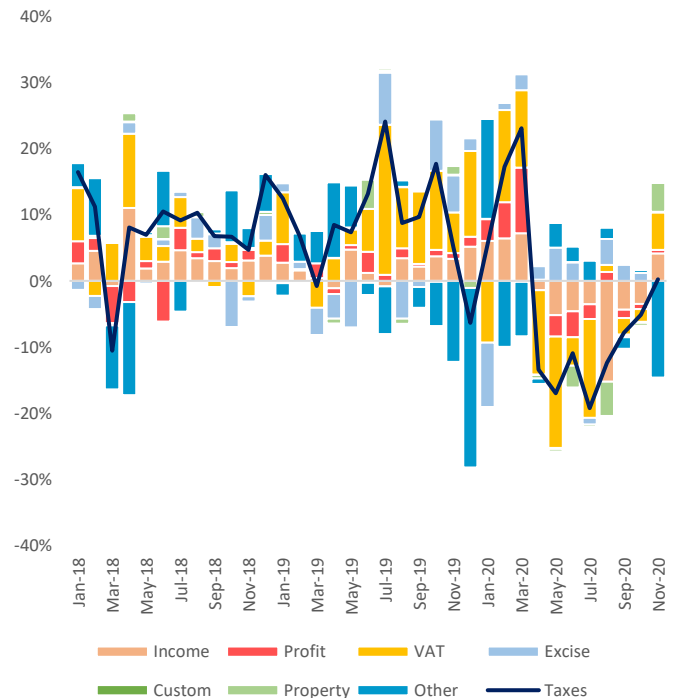
In November 2020, compared to the same period last year, consolidated budget revenues increased by 2.8 percent and expenditures increased by 19.8 percent. At the same time, the operating balance of the consolidated budget, which is the government's savings, amounted to 39 million GEL, while the total balance was set at 263.7 million GEL. In total, annual increase in tax revenue was significantly affected by the income tax and VAT revenue.

Figure 11: Budget Revenue Performance



Source: MOF

Figure 12: Tax Income



Source: MOF

Figure 13: Portfolio Yield Curve

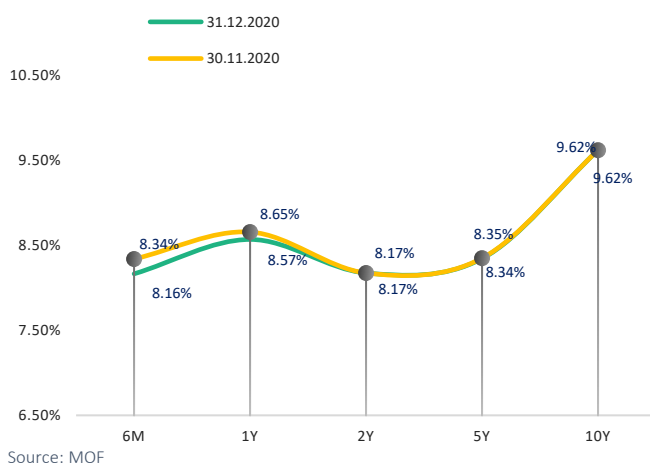
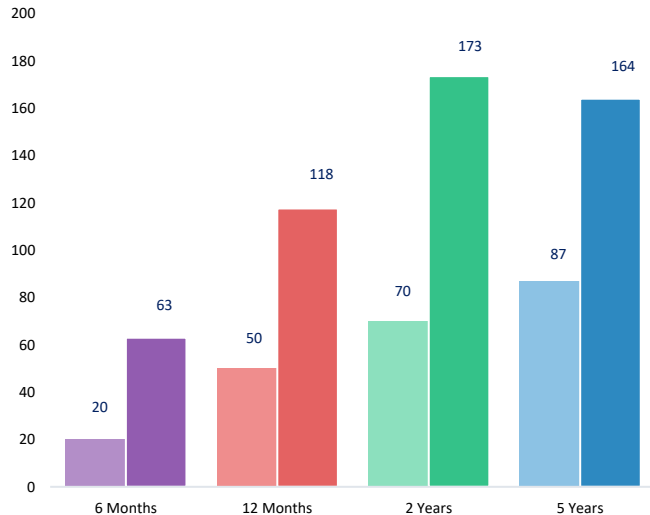


Figure 14: Weighted average interest rates



Figure 15: Issuance and Demand, mln GEL



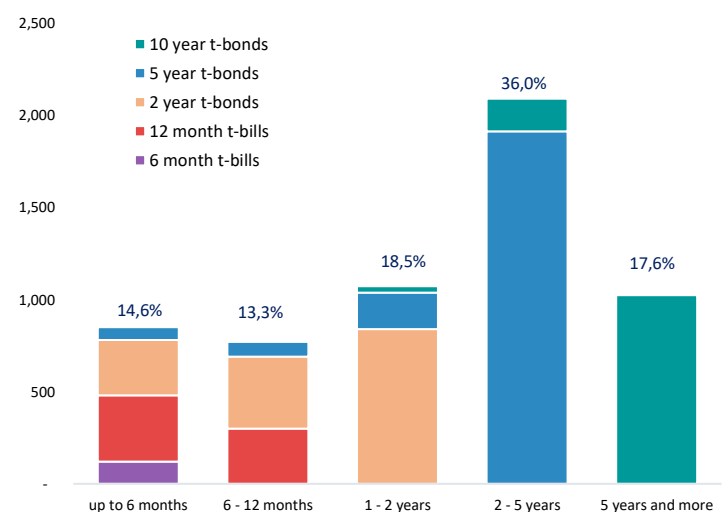
Treasury Securities Portfolio

In December 2020, 4 auctions were held with total issuance volume of 226.7 million GEL. The weighted average interest rate amounted to 8.161 percent.

There were issued treasury bills with maturities of 6 months and 12 months; Treasury bonds with maturities of 2 and 5. Treasury securities with total amount of 110 million GEL were redeemed. The structure of treasury securities portfolio changed slightly. The portfolio yield curve did not change significantly. Average Time to Maturity (ATM) for the portfolio increased compared to the previous month's value.

As of December 31, 2020, 27.9 percent 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 (November 1.79) and is 2.28.

Figure 16: Portfolio Forming Securities Composed by Time to Maturity



Private Sector Larization

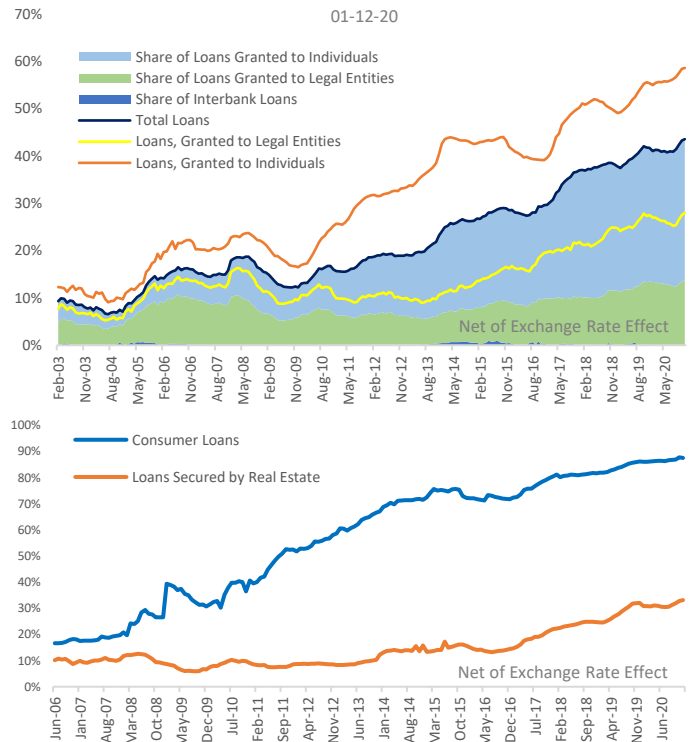
The larization of total loans is largely due to the larization of loans issued to individuals. By 1 of December 2020, the larization of loans to individuals was 58.6 percent, the larization of loans to legal entities was 28 percent, and the total larization of loans was 43.5 percent.

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 1 of December 2020, the larization of consumer loans was 87.5 percent, while the larization of mortgage loans was 33.1 percent.

The larization of deposits is significantly conditioned by the larization of deposits of legal entities. As of 1 of December 2020, the total larization of total deposits was 37.3 percent, the larization of deposits of legal entities in the same period was 52.1 percent, and the larization of deposits of individuals – 23.2 percent.

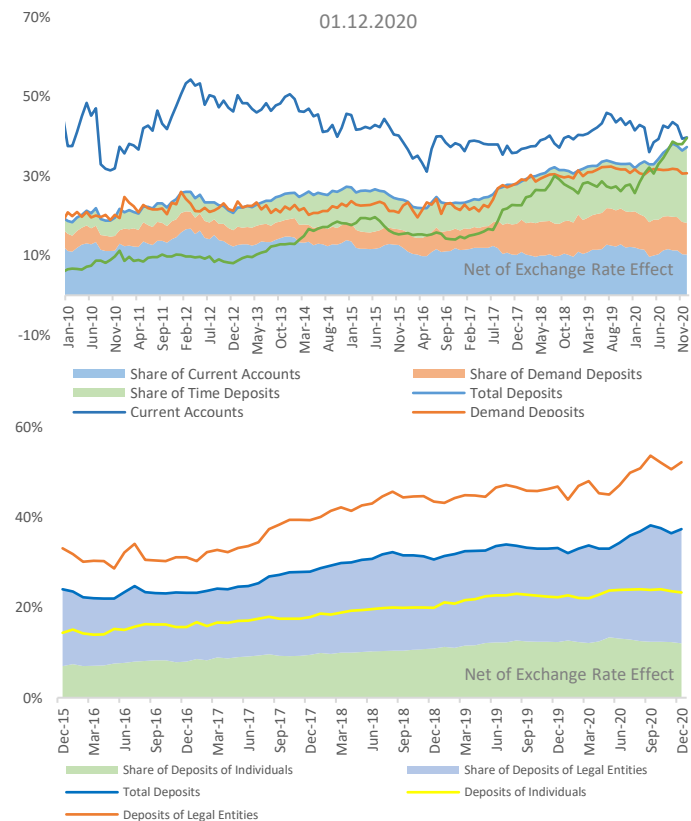
The larization of current accounts for December 2020 was 39.8 percent. At the same time, the larization of deposits before demand is 30.7 percent, and the larization of time deposits – 39.6 percent.

Figure 17: Loan Larization



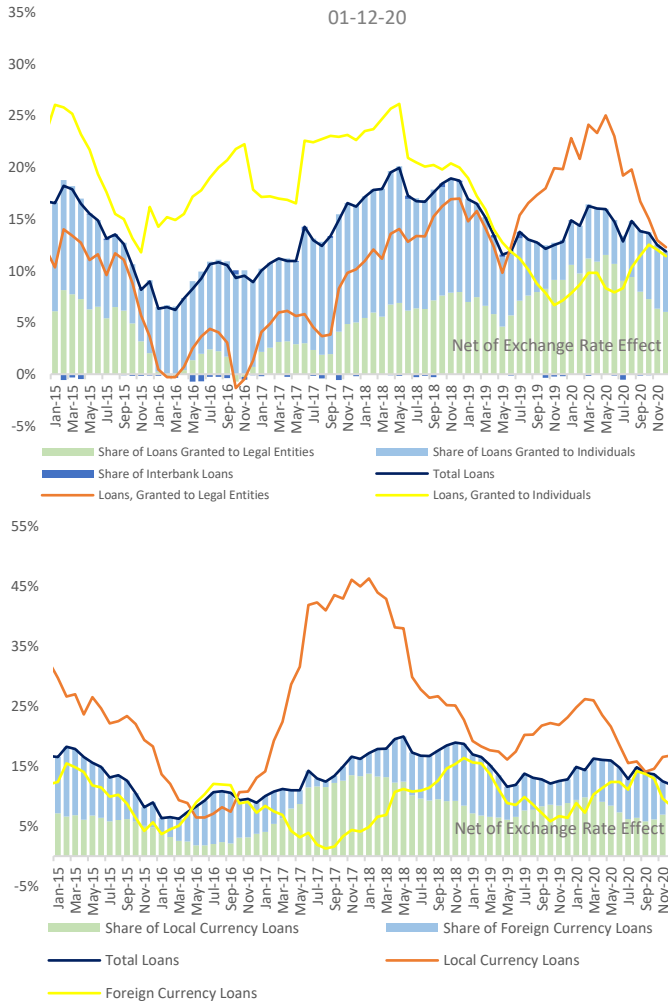
Source: NBG

Figure 18: Deposit Larization



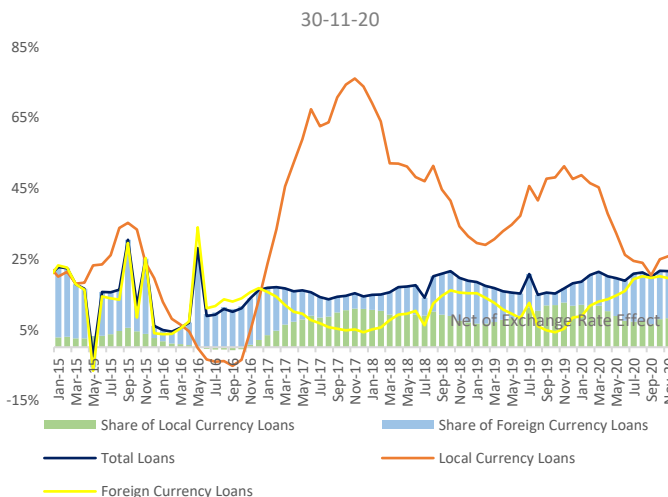
Source: NBG

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 December 2020 compared to 2019 was 11.9 percent. The annual growth of loans to legal entities decreased by 0.7 percentage points compared to the previous month and amounted to 12.3 percent during the same period, while the annual growth of loans to individuals amounted to 11.4 percent.

As of 1 of December 2020, the growth of loans in national currency amounted to 16.8 percent compared to the same period last year, the annual growth of loans in foreign currency decreased and amounted to 8.4 percent during the same period.

By December 2020, mortgage loans have increased by 0.1 percentage points compared to the previous month and amounted to 21.5 percent.

Review of Deposits

The growth of total deposits in December 2020 compared to the corresponding period of 2019 was 18 percent, the annual growth of deposits denominated in the national currency was equal to 33 percent, and the annual growth of deposits denominated in foreign currency increased by 2 percentage points compared to previous month and was 11 percent.

In December 2020, the annual increase in deposits of individuals was 10 percent, while annual increase in deposits of legal entities was 29 percent.

Monetary Policy Rate

On December 9, 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 move close to the target level in the first half of 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 Monetary Policy Committee also took into account supply-side factors such as rising production costs caused by additional constraints in the wake of the pandemic. According to the National Bank, the possibility of easing monetary policy is limited due to the still high dollarization of the economy. The next meeting of the Monetary Policy Committee will be held on February 3, 2021.

Figure 21: Annual Growth of Deposits

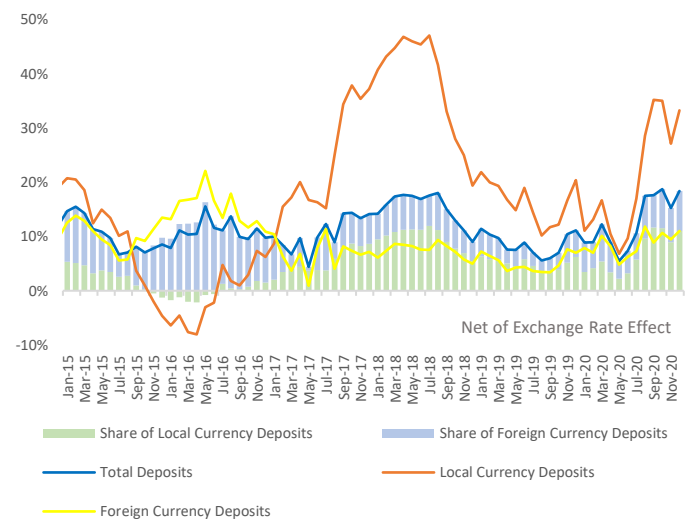
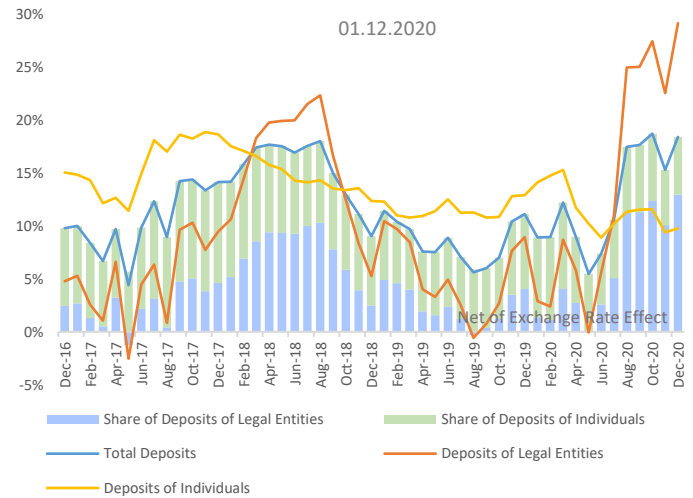
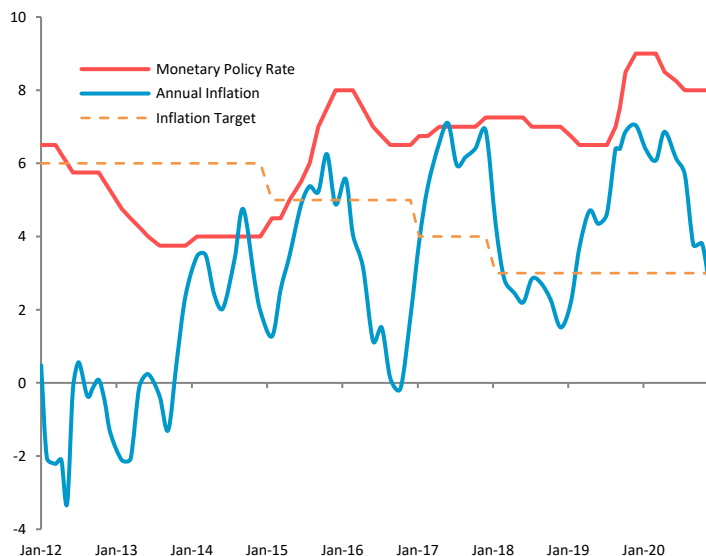
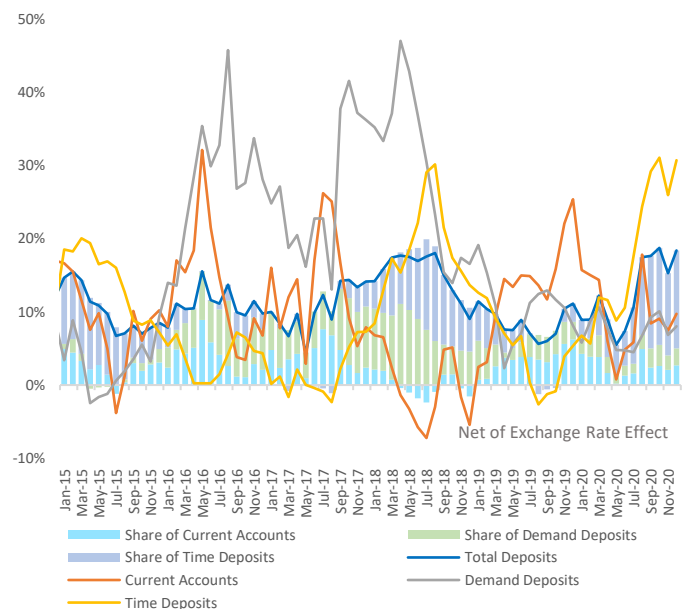


Figure 22: Inflation and Monetary Policy Rate

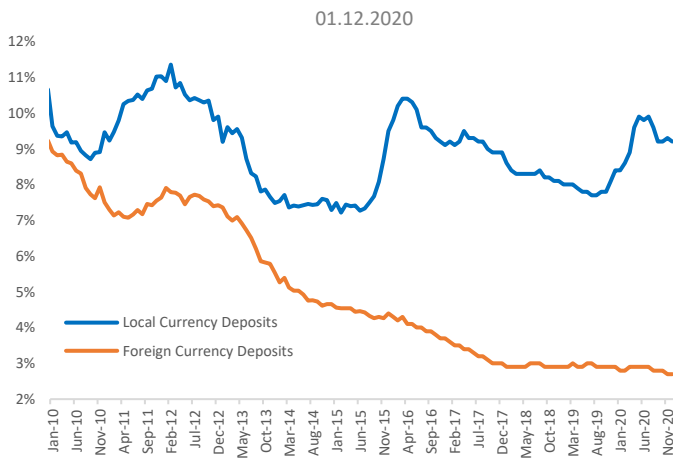


Source: NBG



Source: NBG

Figure 23: Interest rates on Deposits (stock)



Source: NBG

Interest Rates

As of December 2020, the interest rate on foreign currency deposits was 2.7 percent, while the national currency was 9.2 percent.

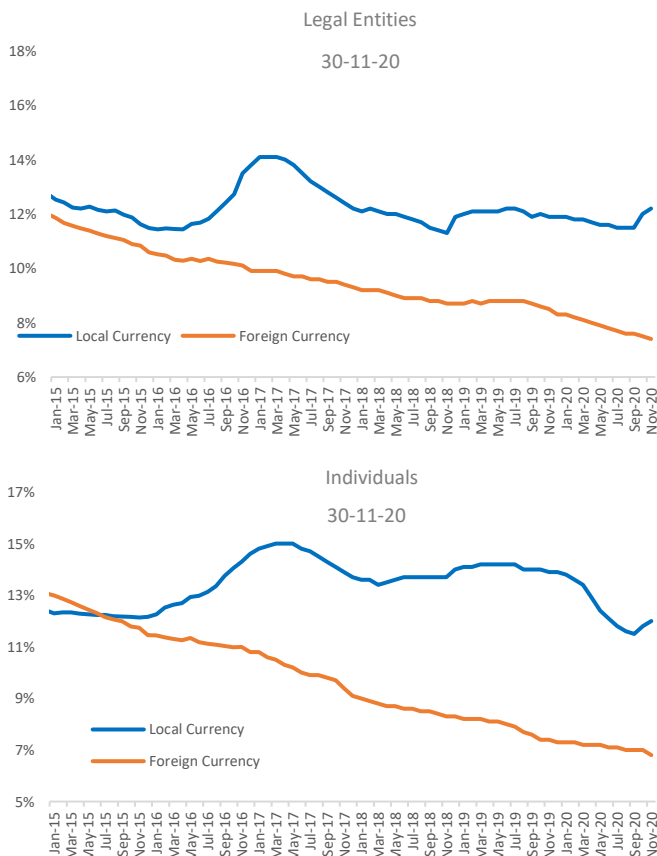
As of December 2020, the weighted average interest rate on deposits in national currency of legal entities was 9.1 percent, and in foreign currency - 2.4 percent. The average annual interest rate on deposits of individuals was 2.8 percent on deposits in foreign currency and 9.4 percent in national currency.

By December 2020, the weighted average annual interest rate on short-term consumer loans was 22.1 percent (26.1 percent in national currency and 7.2 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 December 2020 was 17 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 percent.

At the end of November 2020, the interest rate on mortgage loans issued to legal entities issued was 12.4 percent, and in foreign currency – 7 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.

