

Ministry of Finance of Georgia

# Current Economic Outlook

June, 2020



## Brief Summary

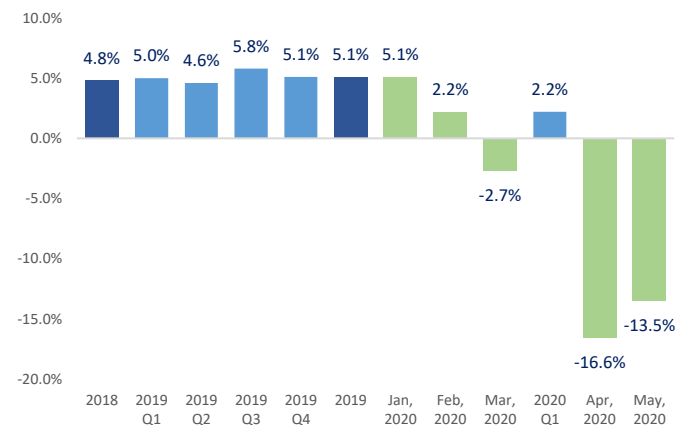
- Based on Geostat's preliminary data, annual real economic growth in May equals to -13.5%, while real GDP growth of the first quarter equaled 2.2 percent
- Annual inflation in June equals to 6.1%, while core inflation - 6.6%
- Export annually decreased by 29.9 % in May
- Import annually decreased by 31.3 % in May
- Refinancing rate decreased to 8.25 %



## Economic Growth

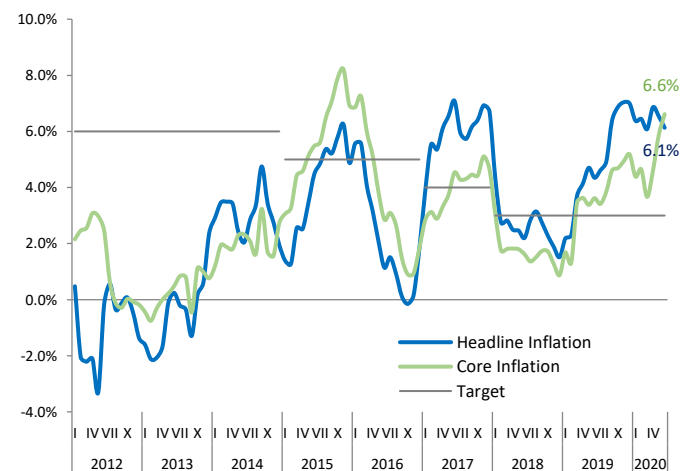
In May 2020, annual economic growth was -13.5 percent, while the average real growth in the first 5 months of 2020 was -5.4 percent. This sharp decline is due to declining economic activity, both within the country and in the region due to the outbreak of the COVID-19 pandemic. In March 2020 the estimated 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. GDP estimates of the first quarter of 2020 were published. The annual real growth rate of GDP equaled to 2.2 percent. The largest shares of GDP were registered in Trade (13.5 percent), Real estate activities (12.9 percent) and Manufacturing (9.5 percent), Agriculture, forestry and fishing (6.9 percent) and other activities. Real growth was registered in the Human health and social work activities (13.5 percent), Arts, entertainment and recreation (16.2 percent), Information and communication (7.6 percent) and other activities. A decrease occurred in Professional, scientific and technical activities (-13.1 percent), Financial and insurance activities (-6.1 percent), Electricity, gas, steam and air conditioning supply (-6.6 percent).

Figure 1: Economic Growth



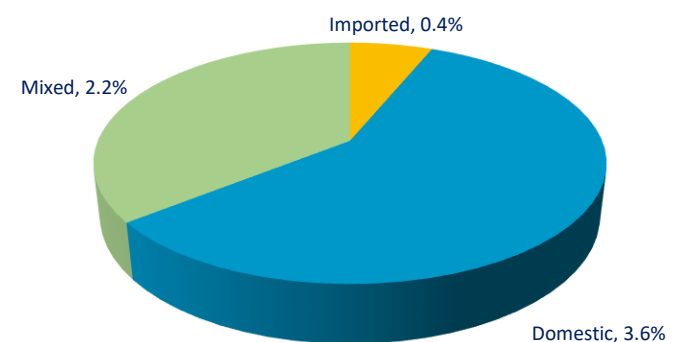
Source: Geostat

Figure 2: Annual Inflation, 2020 June



Source: NBG

Figure 3: Inflation Decomposition, 2020 June



Source: Geostat

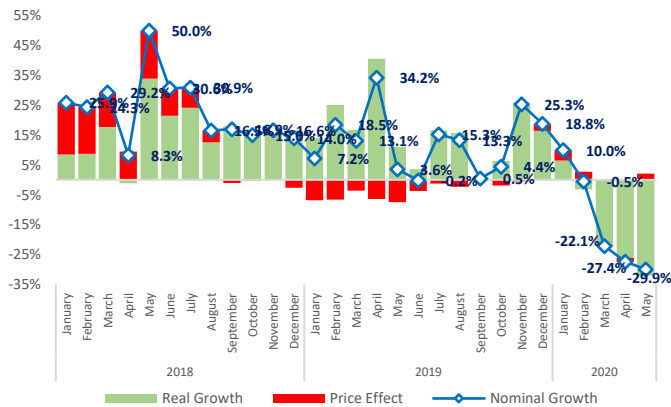
## Price Level

As of June 2020, the inflation rate was 6.1 percent compared to the same period last year, which is higher than the target inflation. Core inflation was 6.6 percent in the corresponding period.

The main influence on the formation of annual inflation was the dynamics of prices for food and non-alcoholic beverages (+13.6%), furnishings, household equipment and maintenance (+9.6%), restaurants and hotels (+7.8%). And the annual decline was observed in the categories of transport (-8.6%), recreation and culture (-1.1%).

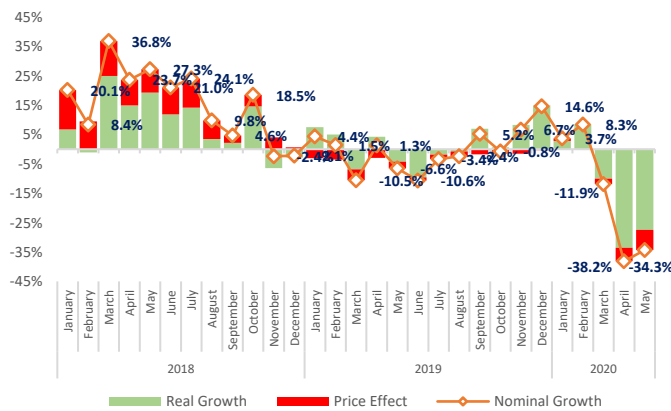
At the same time, in June 2020, inflation was -1.4 percent compared to the previous month, which was significantly caused by decreasing prices for food and non-alcoholic beverages (-4.8%) and lower prices for transport (-3.4%).

Figure 4: Annual Change of Export



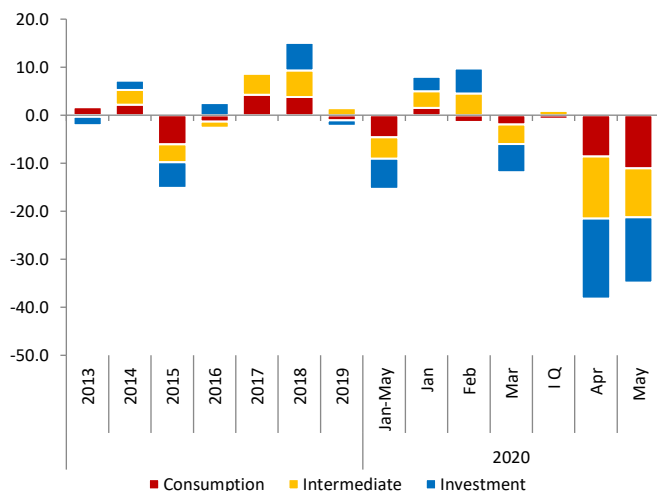
Source: Geostat

Figure 5: Annual Change of Import



Source: Geostat

Figure 6: Decomposition of Change of Import



Source: Geostat

## External Trade

In May 2020, export annually decreased by 29.9 percent and reached value of 234.4 mln USD, while import decreased by 34.3 percent reaching 497 mln USD. These changes caused decrease of the trade deficit by 37.8 percent compared to previous year and was equal to 262.9 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 May 2020 real growth of export was equal to -32 percent, and real growth of import was -27.5 percent.

In May 2020, import of investment goods, import of intermediate and consumption goods decreased by 13.6, 10.2 and 11 percent respectively.

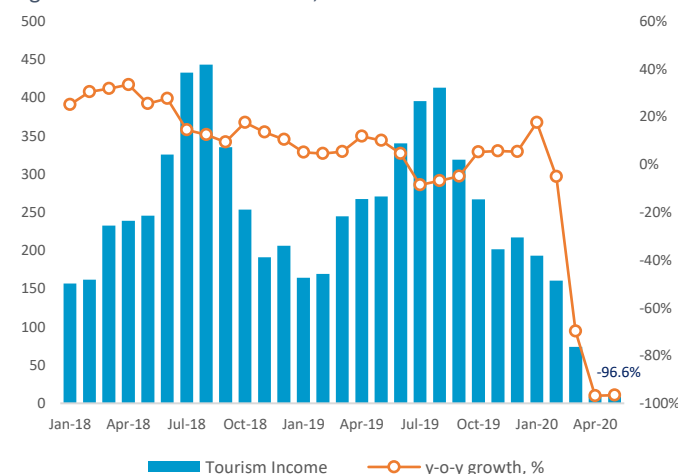
In May 2020, the first place in the top ten export goods from the commodity groups was occupied by copper ores and concentrates with 42.4 million USD (18.1 percent of total exports), second place - ferroalloys - 34.8 million US dollars (14.9 percent of total exports), and third - wine 17.7 million U.S. dollars (7.6 percent of total exports). The largest import commodity group in May 2020 was the group of copper ores and concentrates, whose imports amounted to 32.9 million USD and accounted for 6.6 percent of total imports. Also significant were motor cars with 27.5 million (5.5 percent of imports) and petroleum and petroleum oils with 24.5 million U.S. dollars (4.9 percent of imports).

In May 2020, the largest export partners are China (32.8 million US dollars, 14% of total exports), Russia (31.5 million US dollars, 13.4%) and Bulgaria (25.3 million US dollars, 10.8%). The largest importing partner countries are Turkey (72.1 million USD, 14.5% of total imports), Russia (65.9 million USD, 13.3%) and China (63.7 million USD, 12.8%).

## Tourism

In May 2020, revenue from tourism fell 96.6 percent to \$ 9.1 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

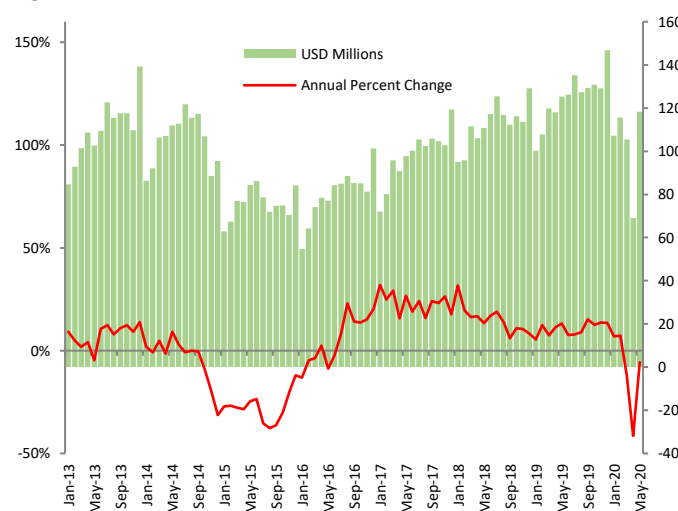


Source: NBG

## Remittances

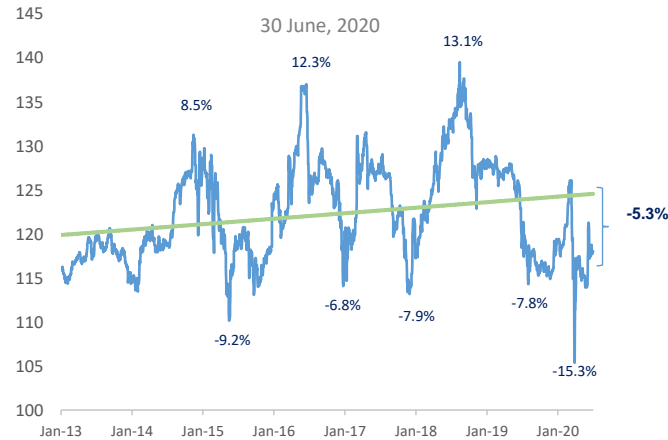
In May 2020, net remittances totaled \$ 118.3 million, which is 5.6 percent lower compared to previous year. This decrease reflects effect of declined economic activity in countries due to spread of COVID-19 pandemic along with tightened social distancing measures in countries of origin of remittances. Remittances fell by 46.6 percent from Russia (-10.5 percent contribution to total growth), 16.7 percent from Israel (-1.8 percent contribution to total growth). At the same time, growth was recorded at 36.9 percent from Italy (5.9 percent contribution to total growth), 14.8 percent from Greece (1.9 percent contribution to total growth), and 99 percent from Ukraine (0.9 percent contribution to overall growth).

Figure 8: Net Remittances



Source: NBG

Figure 9: Nominal Effective Exchange Rate



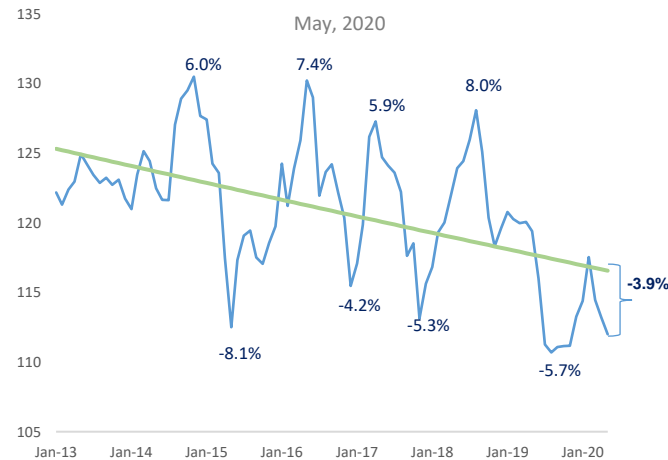
Source: NBG

## Exchange Rate

As of June 30, the nominal effective exchange rate of the lari has depreciated by 7.7 percent relative to January 1, 2019 and depreciated by 0.1 percent relative to January 1, 2018,. This time, the real effective exchange rate for May is depreciated by 6.4 percent than in January of the previous year and depreciated by 3.1 percent relative to January 2018.

As of the end of June, the nominal effective exchange rate of the lari has depreciated by 5.3 percent relative to the medium-term trend, while the real effective exchange rate of May has depreciated by 3.9 percent compared to the medium-term trend.

Figure 10: Real Effective Exchange Rate



Source: NBG

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

	June 30, 2020	Jun 30, 2020 - Jan 1, 2019	Jun 30, 2020 - Jan 1, 2018
Euro	3.4466	▼ -18.9%	▼ -24.2%
US Dollar	3.0552	▼ -13.4%	▼ -21.6%
Turkish Lira	0.4457	▲ 68.4%	▲ 83.8%
Russian Ruble	0.0437	▼ -1.6%	▼ -25.6%
NEER	118.02	▼ -7.7%	▼ -0.1%
REER (May 2020)	111.99	▼ -6.4%	▼ -3.1%

Source: NBG

## Budget Revenue Performance

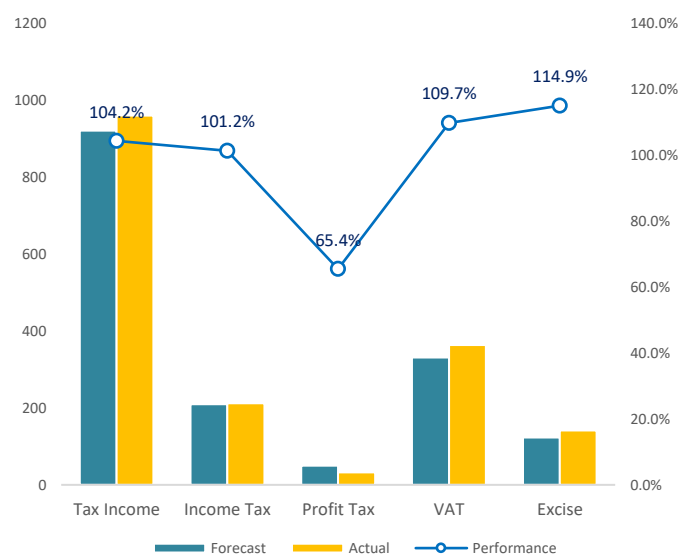
The forecast of tax income for January-June 2020 is 5,389.6 million GEL, while the actual figure for January-June 2020 is 0.7 percent higher than planned.

The actual level of tax income in June was 920 mln GEL, which is 4.2 percent higher compared to the forecasted value of tax income in May (958.6 mln GEL).

- Revenue from Income tax amounted 211.5 mln GEL, which is 101.2 percent of forecasted value (209 mln GEL).
- Revenue from Profit tax was equal to 32.7 mln GEL, which is 65.4 percent of projected value (50 mln GEL).
- Revenue from VAT was equal to 363.2 mln GEL, which is 109.7 percent of the forecasted value of 331 mln GEL.
- Revenue from Excise tax amounted 141.3 mln GEL, which is 114.9 percent of the projected value of 123 mln GEL.
- Revenue from Custom tax was equal to 6.4 mln GEL, which is 127.7 percent of the forecasted value (5 mln GEL).
- Revenue from Property tax was equal to 274.2 mln GEL, which is 104.7 percent of forecasted value was of 262 mln GEL.

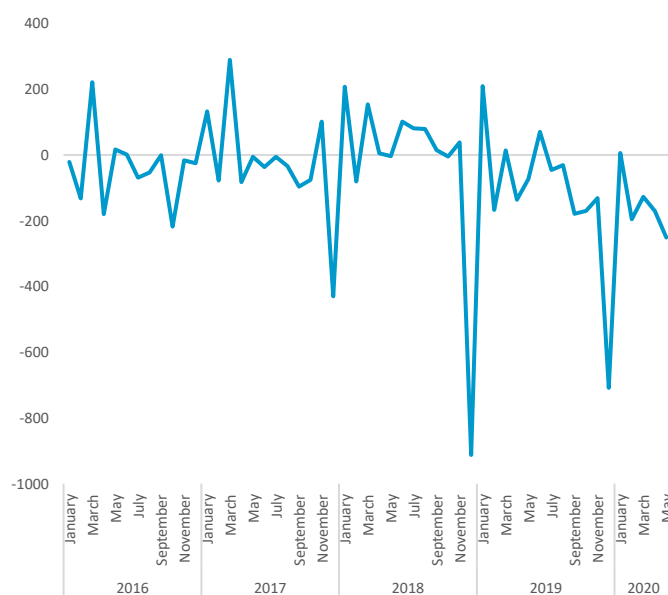
In May 2020, compared to the same period last year, consolidated budget revenues decreased by 14% and expenditures increased by 12%. At the same time, the operating budget of the consolidated budget, which is the government's savings, amounted to -113.4 million GEL, while the total balance was set at -250.9 million GEL.

Figure 11: Budget Revenue Performance



Source: MOF

Figure 12: Budget Deficit



Source: MOF

Figure 13: Portfolio Yield Curve

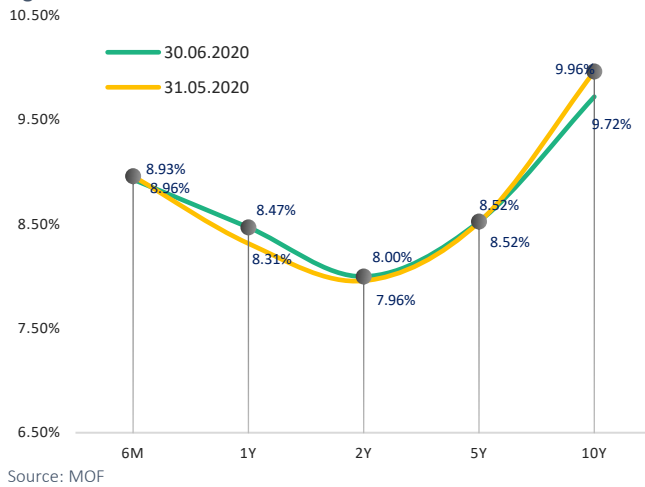


Figure 14: Weighted average interest rates

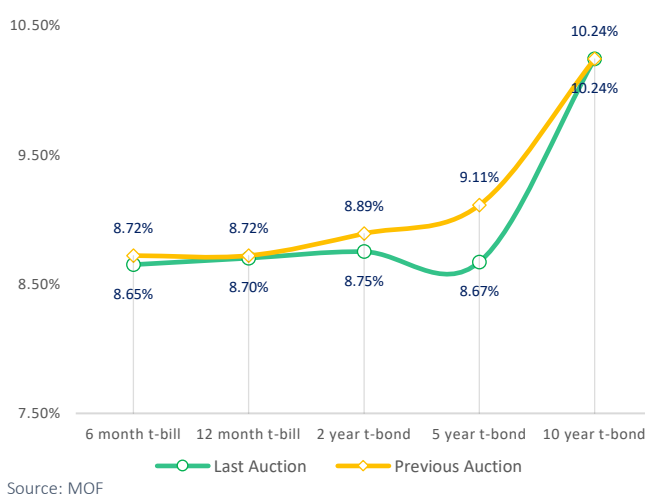
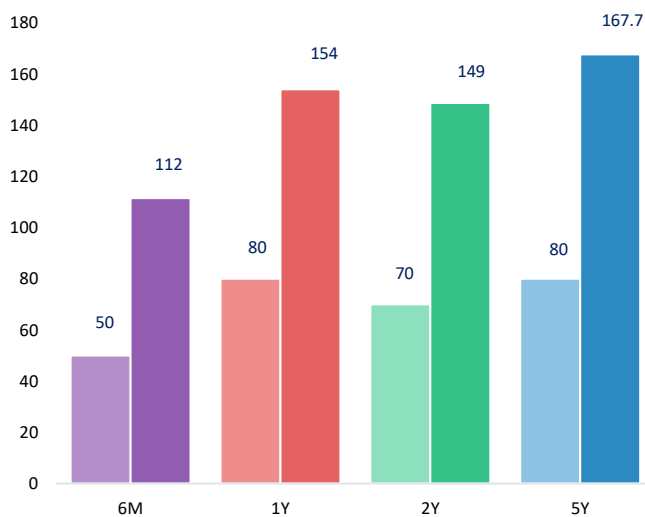


Figure 15: Issuance and Demand, mln GEL



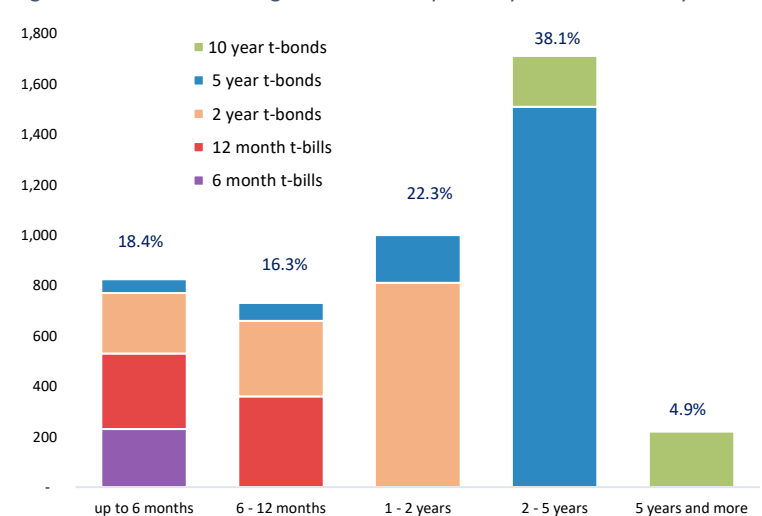
## Treasury Securities Portfolio

In June 2020, 4 auctions were held with total issuance volume of 280 million GEL. Also, 2 issuances were executed through the direct placement method, within the framework of providing long-term Lari resource to Georgian economy. The weighted average interest rate for all issuances made amounted to 9.093%.

There were issued treasury bills with maturities of 6 months and 12 months; Treasury bonds with maturities of 2 years, 5 years and 10 years. Treasury securities with total amount of 110 million GEL were redeemed. The portfolio of 10-year treasury bonds grew significantly, led to narrow the shares of other maturities. Average Time to Maturity (ATM) for the portfolio increased significantly mostly due to 10-year bonds issued for long Lari resource mechanism.

As of June 30, 2020, 31% 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 (May 1.98) and is 2.08.

Figure 16: Portfolio Forming Securities Composed by Time to Maturity





## Private Sector Larization

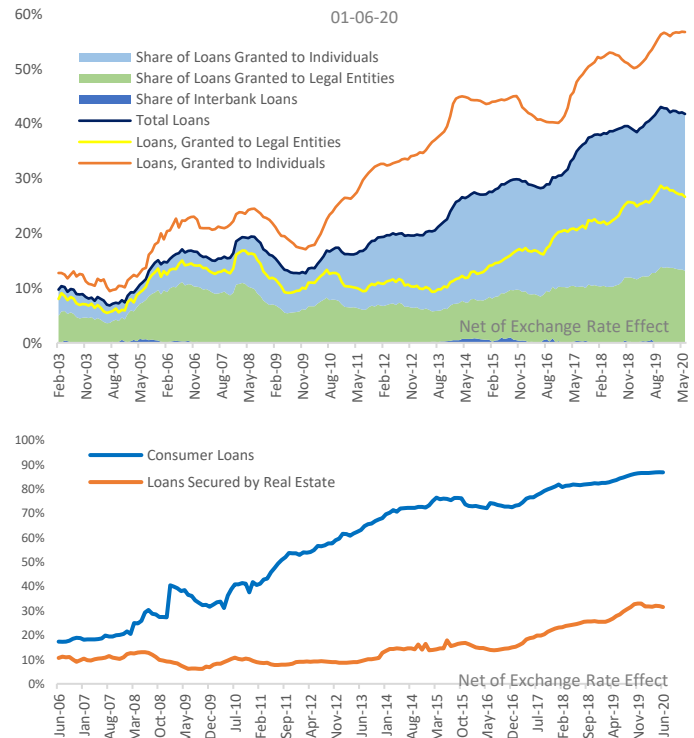
Loan larization is on the rise. The larization of total loans is largely due to the larization of loans issued to individuals. By 1 of June 2020, the larization of loans to individuals was 56.8 percent, the larization of loans to legal entities was 26.7 percent, and the total larization of loans was 41.8 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 June 2020, the larization of consumer loans was 86.8 percent, while the larization of mortgage loans was 31.5 percent.

The larization of deposits is significantly conditioned by the larization of deposits of legal entities. As of 1 of June 2020, the total larization of total deposits was 35.3 percent, the larization of deposits of legal entities in the same period was 48.1 percent, and the larization of deposits of individuals – 24.6 percent.

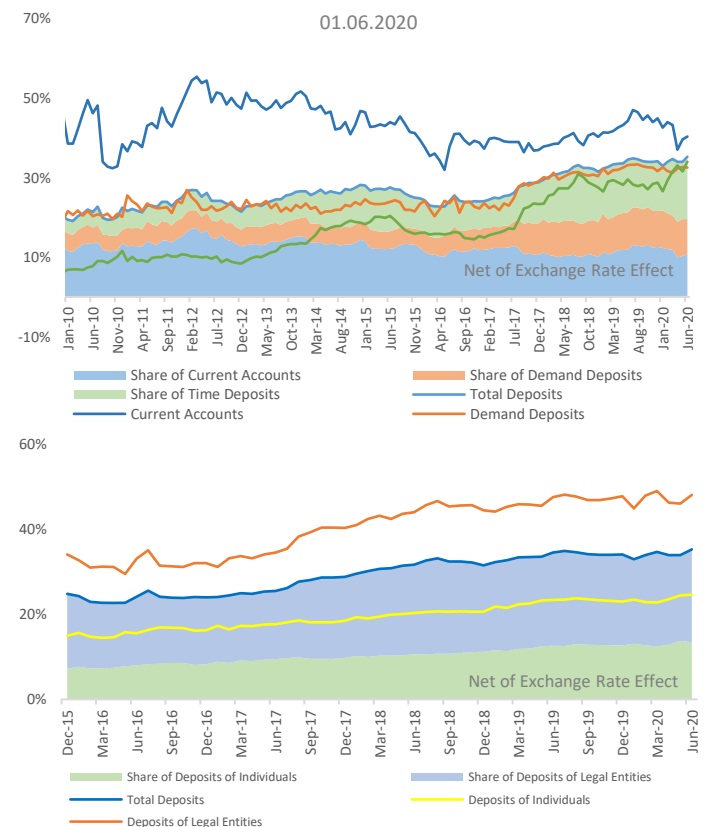
The larization of current accounts for June 2020 was 40.3 percent. At the same time, the larization of deposits before demand is 32.6 percent, and the larization of time deposits – 34 percent.

Figure 17: Loan Larization



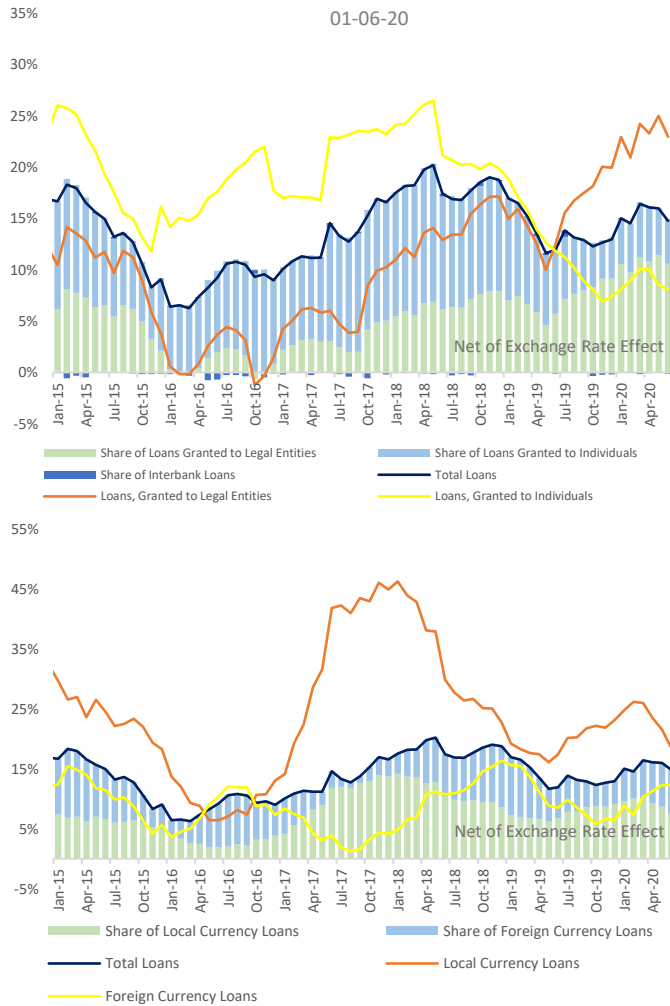
Source: NBG

Figure 18: Deposit Larization



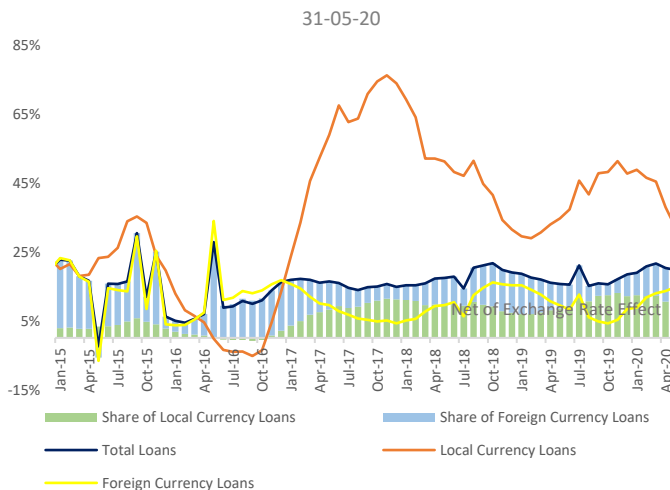
Source: NBG

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 June 2020 compared to 2019 was 14.8 percent. The annual growth of loans to legal entities decreased by 2 percentage points compared to the previous month and amounted to 23 percent during the same period, while the annual growth of loans to individuals amounted to 8.1 percent.

As of 1 of June 2020, the growth of loans in national currency amounted to 18.5 percent compared to the same period last year, the annual growth of loans in foreign currency hasn't changed and amounted to 12.3 percent during the same period.

By June 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

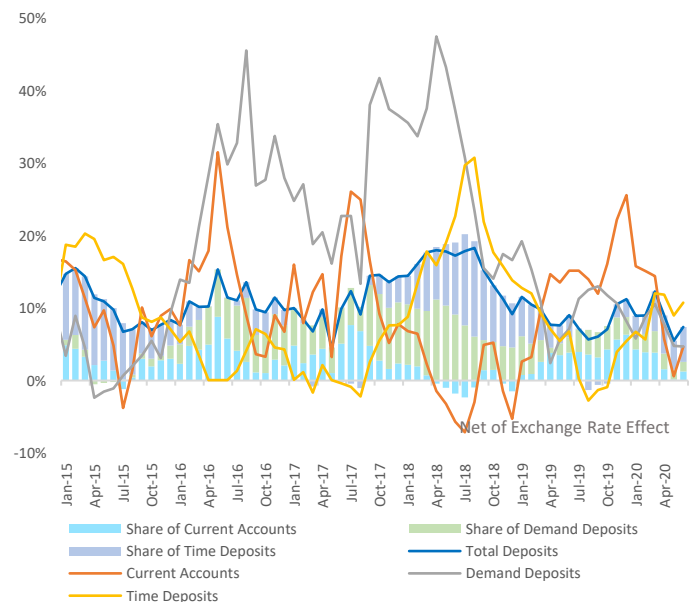
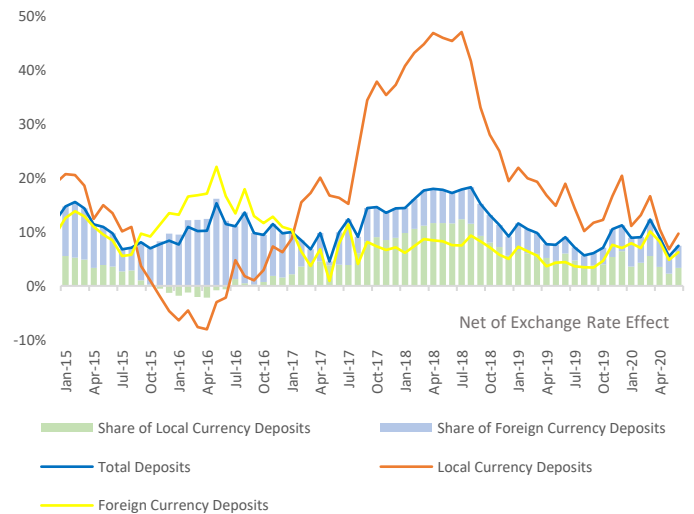
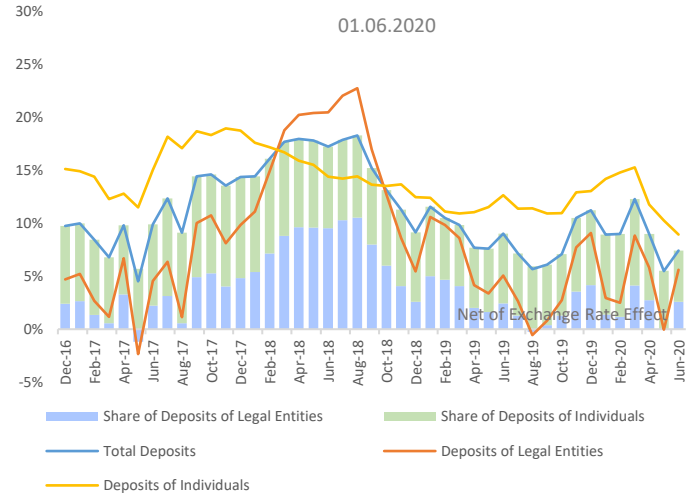
The growth of total deposits in June 2020 compared to the corresponding period of 2019 was 7 percent, the annual growth of deposits denominated in the national currency increased by 3 percentage points compared to the previous period and amounted to 10 percent, and the annual growth of deposits denominated in foreign currency - 6 percent.

In June 2020, the annual increase in deposits of individuals was 9 percent, while annual increase in deposits of legal entities was 6 percent.

## Monetary Policy Rate

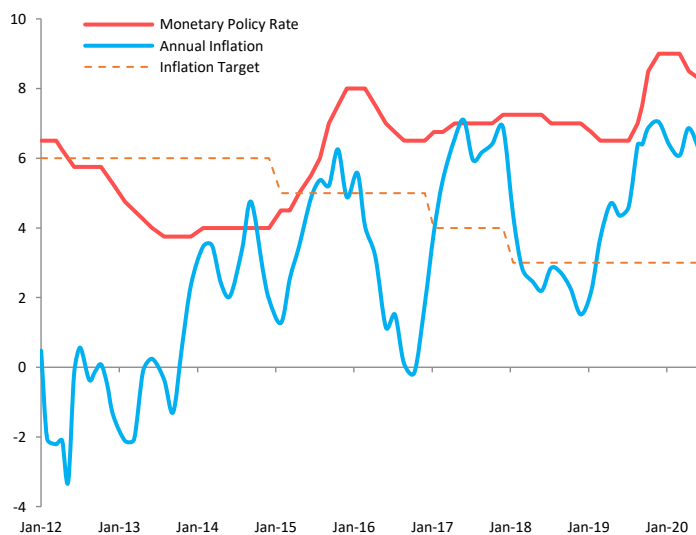
On June 24, 2020, the monetary policy committee decided to reduce the refinancing rate by 0.25 percentage points to 8.25 percent. According to the NBG's forecast, due to temporary factors, inflation will remain high for several months, then gradually decline, and in the first half of 2021 approach the 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 August 5, 2020.

Figure 21: Annual Growth of Deposits



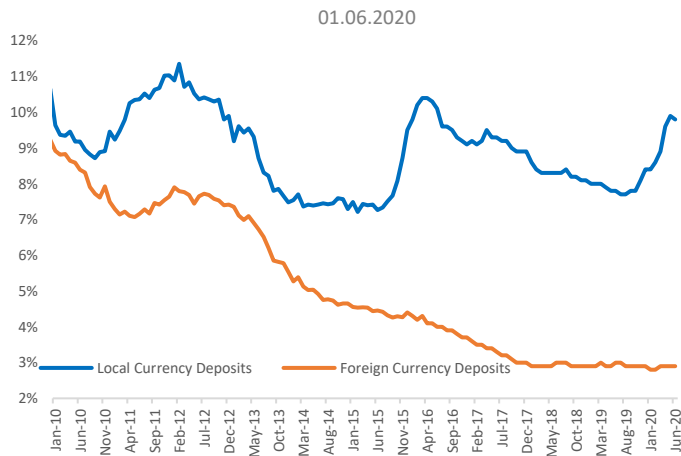
Source: NBG

Figure 22: Inflation and Monetary Policy Rate



Source: NBG

Figure 23: Interest rates on Deposits (stock)



Source: NBG

## Interest Rates

As of June 2020, the interest rate on foreign currency deposits was 2.9 percent, while the national currency was 9.8 percent.

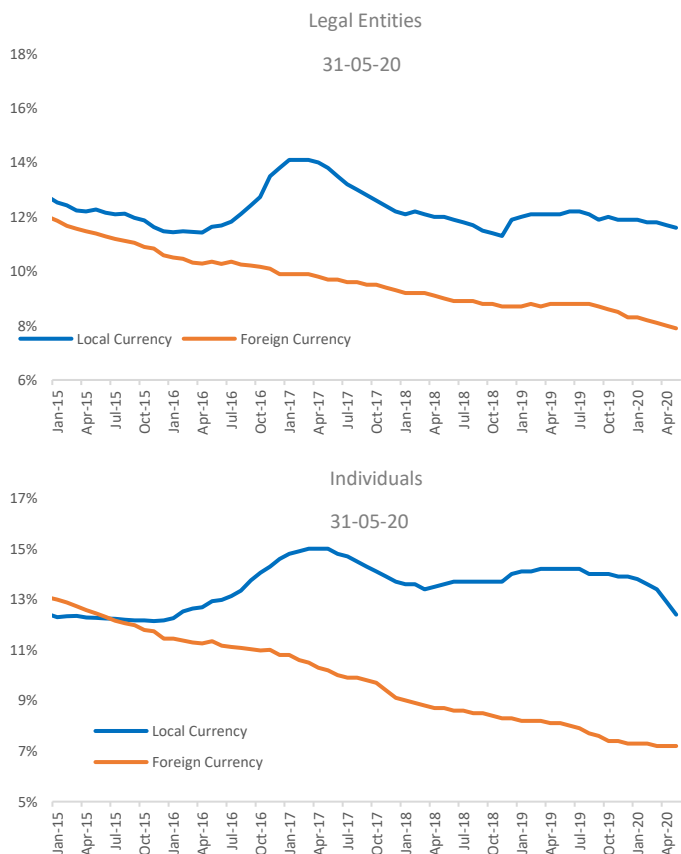
As of June 2020, the weighted average interest rate on deposits in national currency of legal entities was 9.7 percent, and in foreign currency - 2.5 percent. The average annual interest rate on deposits of individuals was 3 percent on deposits in foreign currency and 10 percent in national currency.

By June 2020, the weighted average annual interest rate on short-term consumer loans was 20.5 percent (26.8 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 June 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 May 2020, the interest rate on mortgage loans issued to legal entities issued was 12.2 percent, and in foreign currency - 7 percent. The interest rate on loans to individuals in national currency was 11.9 percent, and in foreign currency it was 6.2 percent.

Figure 24: Interest rates on Loans secured by Real Estate



Source: NBG

## Disclaimer

The outlook is prepared by the Department of Macroeconomic Analysis and Fiscal Policy Planning. Analytical information presented in the outlook does not represent official statistics.

