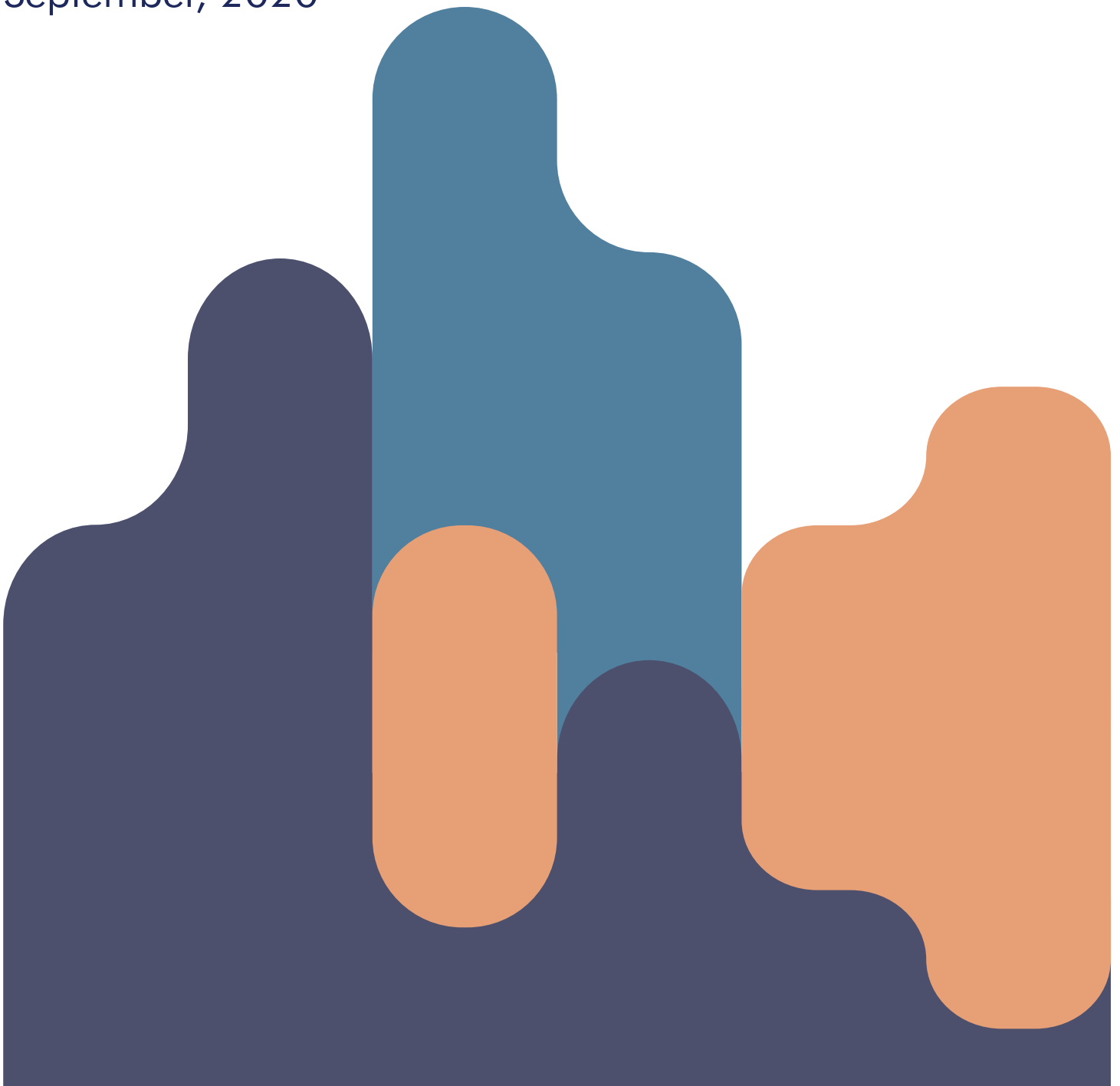




Current Economic Outlook

September, 2020



Brief Summary

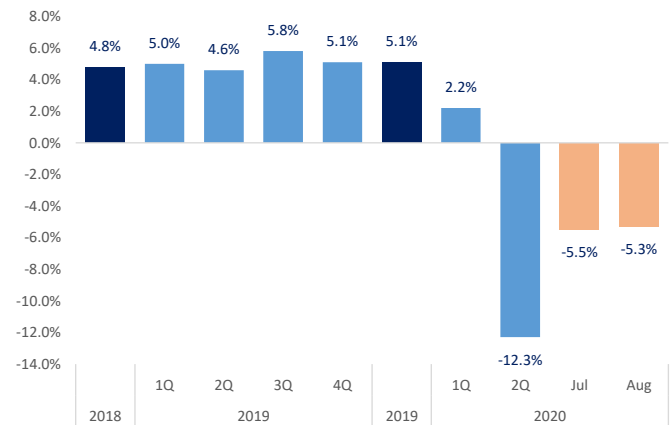
- Based on Geostat's preliminary data, annual real economic growth in August equals to -5.3 percent
- Annual inflation in September equals to 3.8 percent, while core inflation - 5.2 percent
- Export annually decreased by 6.3 percent in August
- Import annually decreased by 14.7 percent in August



Economic Growth

In August 2020, annual economic growth was -5.3 percent, while real growth in the second quarter was -12.3 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. The estimated real growth compared to the same period of the previous year was posted negative in almost all activities, other than Mining activities.

Figure 1: Economic Growth



Source: Geostat

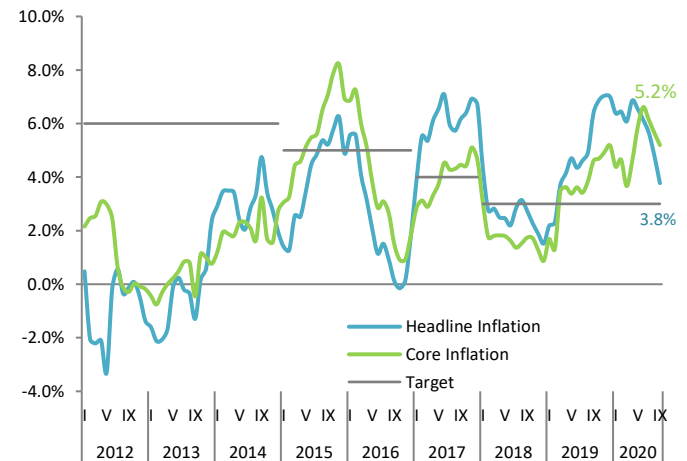
Price Level

As of September 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 5.2 percent in the corresponding period.

The main influence on the formation of annual inflation was the dynamics of prices for Alcoholic beverages and tobacco (+8.9 percent), furnishings, household equipment and maintenance (+8.4), healthcare (+7.5), food and non-alcoholic beverages (+6.3). And the annual decline was observed in the categories of transport (-7), recreation and culture (-2.8).

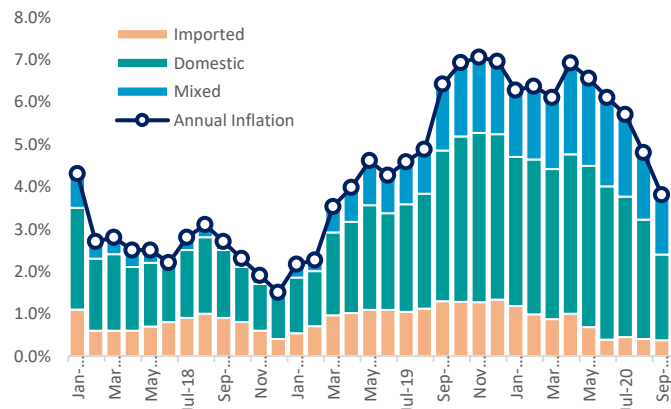
At the same time, in September 2020, inflation was 0.7 percent compared to the previous month, which was significantly caused by increasing prices for clothing and footwear food (+2.4), transport (+1.9) and healthcare (+1.8).

Figure 2: Annual Inflation, 2020 September



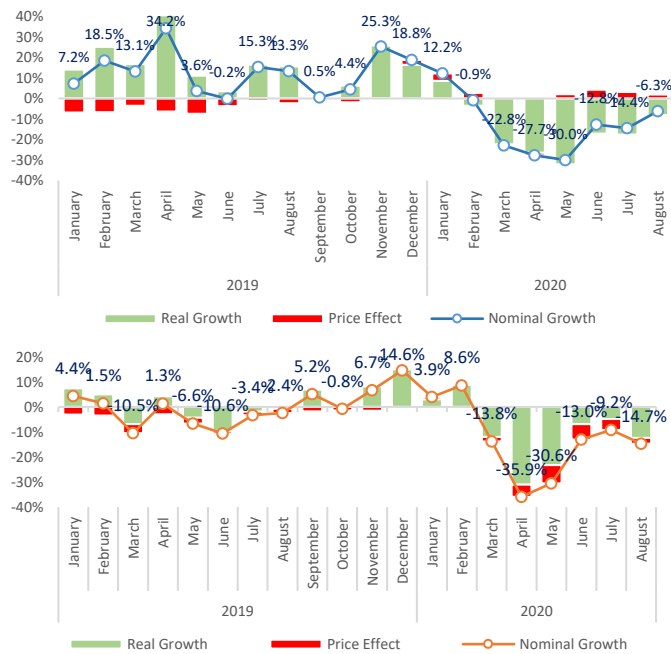
Source: NBG

Figure 3: Inflation Decomposition, 2020 September



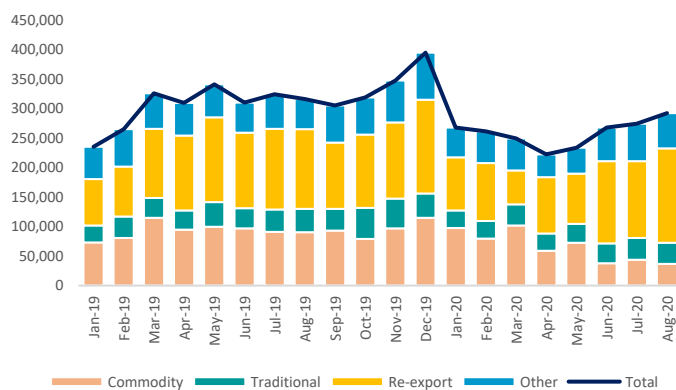
Source: Geostat

Figure 4: Annual Change of Export and Import



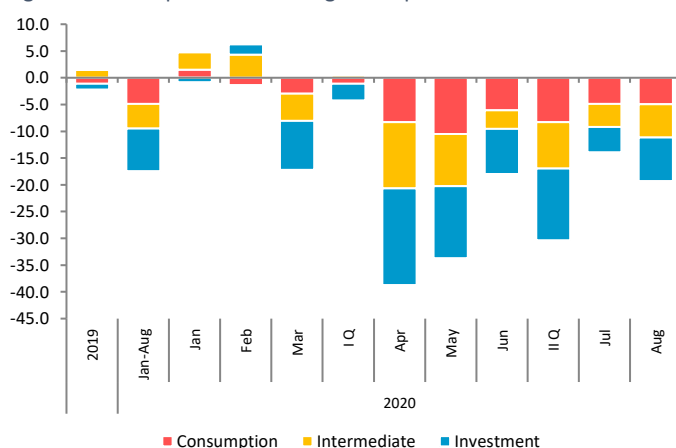
Source: Geostat

Figure 5: Decomposition of Export



Source: Geostat

Figure 6: Decomposition of Change of Import



Source: Geostat

External Trade

In August 2020, export annually decreased by 6.3 percent and reached value of 292.4 mln USD, while import decreased by 14.7 percent reaching 643.3 mln USD. These changes caused decrease of the trade deficit by 20.7 percent compared to previous year and was equal to 350.8 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 August 2020 real growth of export was equal to -8.1 percent, and real growth of import was -12.4 percent. The share of re-exports was 54.7 percent, while exports of commodity was - 12.5 percent.

In August 2020, import of investment goods, import of intermediate and consumption goods decreased by 8.2, 6.2 and 4.9 percent respectively.

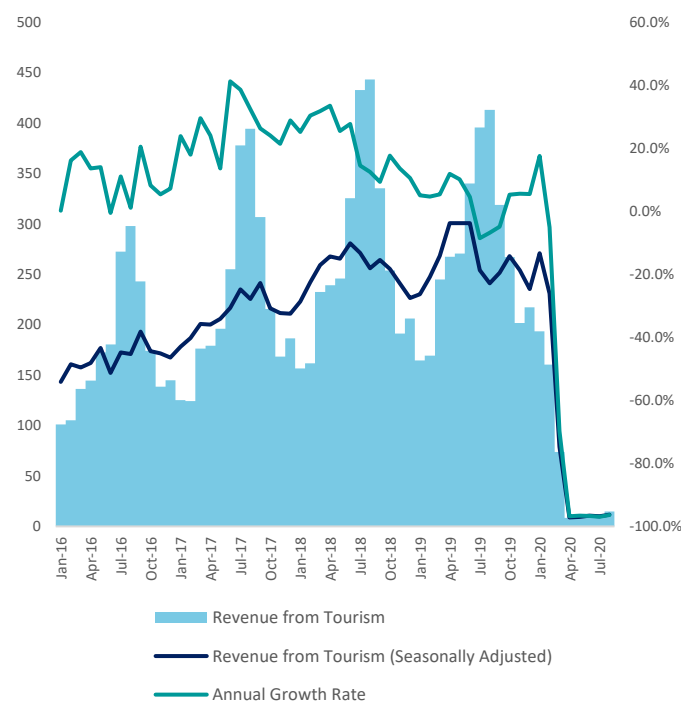
In August 2020, the first place in the top ten export goods from the commodity groups was occupied by copper ores and concentrates with 70.8 million USD (24.2 percent of total exports), second place – motor cars - 41.1 million US dollars (14.1 percent of total exports), and third – ferro-alloys 15.4 million U.S. dollars (5.3 percent of total exports). The largest import commodity group in August 2020 was the group of motor cars, whose imports amounted to 64.6 million USD and accounted for 10.1 percent of total imports. Also significant were petroleum and petroleum oils with 46.5 million (7.2 percent of imports) and medicine with 23 million U.S. dollars (3.6 percent of imports).

In August 2020, the largest export partners are China (48.3 million US dollars, 16.5 percent of total exports), Azerbaijan (43.5 million US dollars, 14.9 percent) and Russia (36.2 million US dollars, 12.4 percent). The largest importing partner countries are Turkey (111.6 million USD, 17.3 percent of total imports), Russia (81.5 million USD, 12.7 percent) and China (61.6 million USD, 9.6 percent).

Tourism

In July 2020, revenue from tourism fell 96.4 percent to 14.8 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

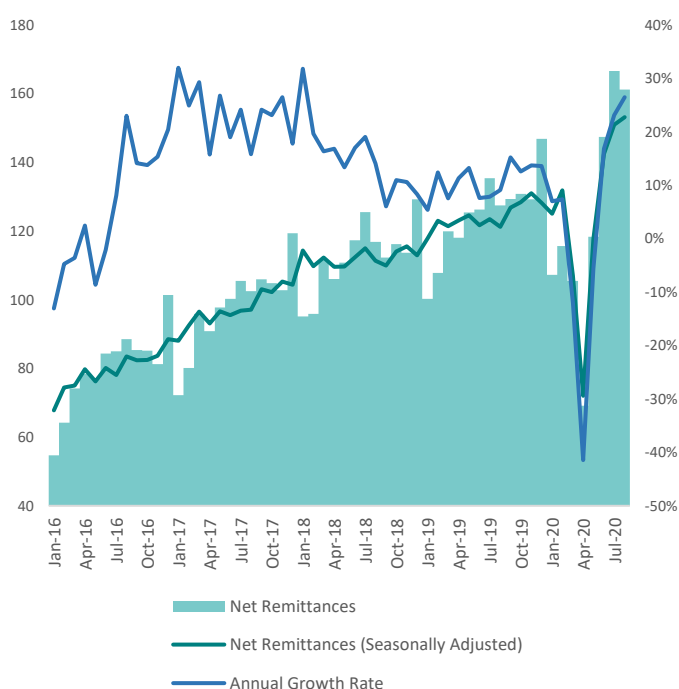


Source: NBG

Remittances

In August 2020, net remittances totaled 161.1 million USD, which is 26 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 36.1 percent from Italy (5.8 percent contribution to total growth), 48.5 percent from USA (5.6 percent contribution to total growth), 41.5 percent from Greece (4.5 percent contribution to total growth). Remittances from Azerbaijan and Ukraine also increased significantly. At the same time, decrease was recorded at 26.3 percent from Turkey (-1.2 percent contribution to total growth), -4 percent from Russia (-0.9 percent contribution to total growth).

Figure 8: Net Remittances



Source: NBG

Exchange Rate

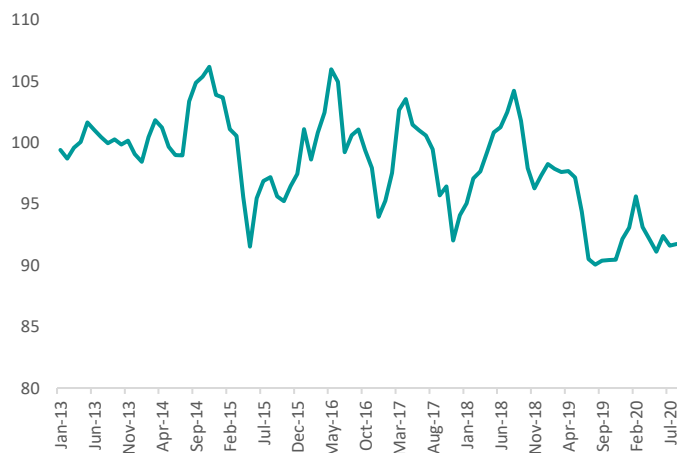
Figure 9: Nominal Effective Exchange Rate



Source: NBG

As of August 30, the nominal effective exchange rate of the lari has depreciated by 4.8 percent relative to January 1, 2020 and depreciated by 11.2 percent relative to January 1, 2019. At the same time, the real effective exchange rate for June is depreciated by 5.7 percent relative to January of the previous year and depreciated by 0.5 percent relative to January 2020.

Figure 10: Real Effective Exchange Rate



Source: NBG

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

	September 30, 2020	Sep 30, 2020 - Jan 1, 2020	Sep 30, 2020 - Jan 1, 2019
Euro	3.8415	▼ -16.3%	▼ -20.4%
US Dollar	3.2878	▼ -12.8%	▼ -18.7%
Turkish Lira	0.4219	▲ 14.2%	▲ 19.8%
Russian Ruble	0.0417	▲ 10.5%	▼ -8.0%
NEER	113.51	▼ -4.8%	▼ -11.2%
REER (August 2020)	112.74	▼ -0.5%	▼ -5.7%

Source: NBG

Budget Revenue Performance

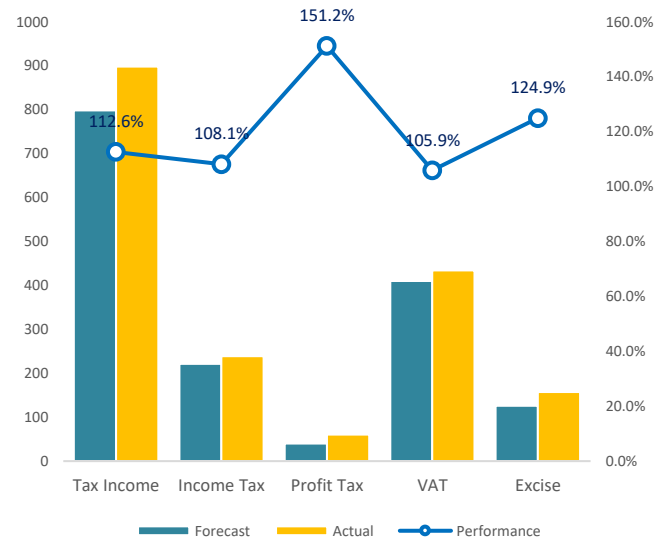
The forecast of tax income for January-September 2020 is 7,675.8 million GEL, while the actual figure for January-September 2020 is 5.1 percent higher than planned and equals to 8,069 mln GEL.

The actual level of tax income in September was 797.9 mln GEL, which is 12.6 percent higher compared to the forecasted value of tax income in (898.3 mln GEL).

- Revenue from Income tax amounted 238.9 mln GEL, which is 108.1 percent of forecasted value (221 mln GEL).
- Revenue from Profit tax was equal to 60.5 mln GEL, which is 151.2 percent of projected value (40 mln GEL).
- Revenue from VAT was equal to 434.2 mln GEL, which is 105.9 percent of the forecasted value of 410 mln GEL.
- Revenue from Excise tax amounted 157.3 mln GEL, which is 124.9 percent of the forecasted value of 126 mln GEL.
- Revenue from Custom tax was equal to 5.5 mln GEL, which is 98.8 percent of the forecasted value (5.4 mln GEL).

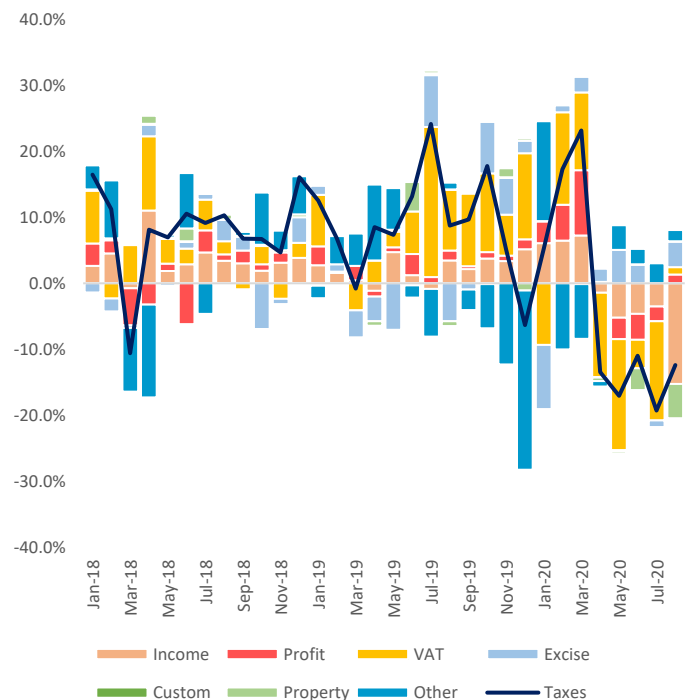
In August 2020, compared to the same period last year, consolidated budget revenues decreased by 12.2 percent and expenditures increased by 21.3 percent. At the same time, the operating balance of the consolidated budget, which is the government's savings, amounted to -53.6 million GEL, while the total balance was set at -328.8 million GEL. In total, tax revenue fell by 12.3 percent year on year, which was significantly affected by the decline in personal income tax revenue.

Figure 11: Budget Revenue Performance



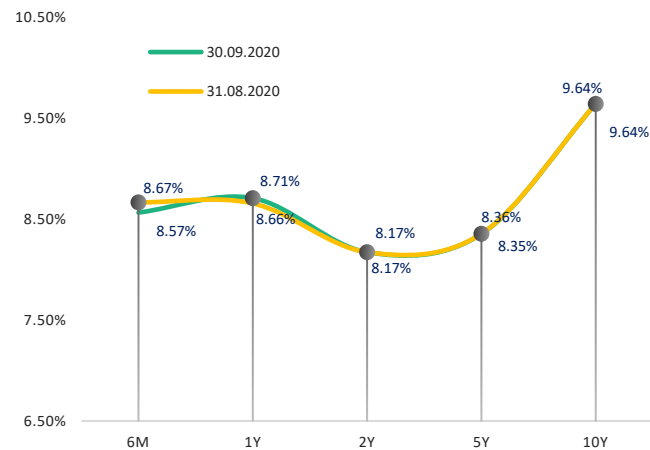
Source: MOF

Figure 12: Tax Income



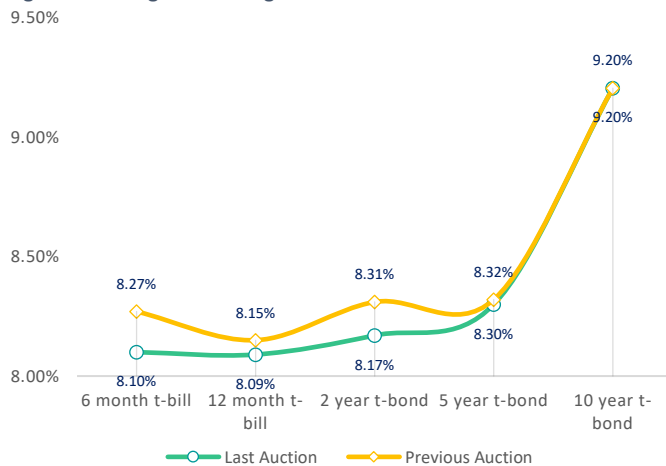
Source: MOF

Figure 13: Portfolio Yield Curve



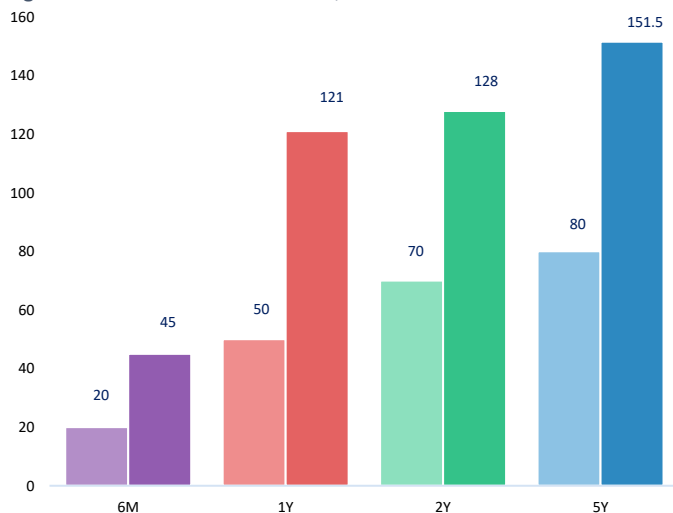
Source: MOF

Figure 14: Weighted average interest rates



Source: MOF

Figure 15: Issuance and Demand, mln GEL



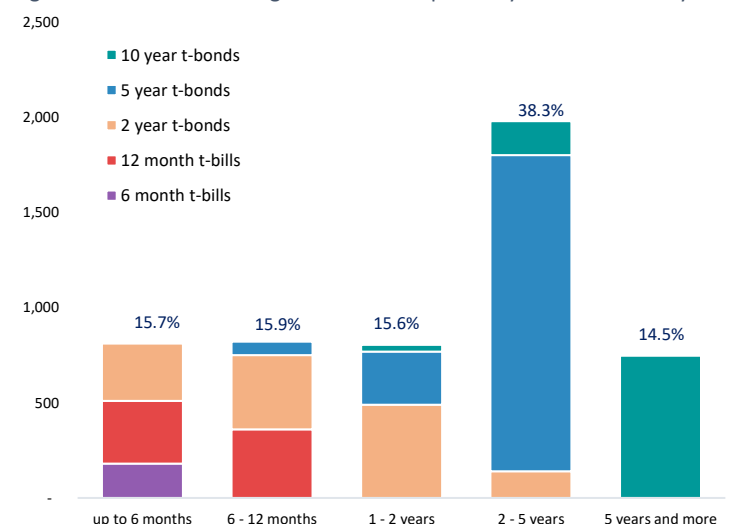
Source: MOF

Treasury Securities Portfolio

In September 2020, 4 auctions were held with total issuance volume of 220 million GEL. The weighted average interest rate amounted to 8.193 percent. There were issued treasury bills with maturities of 6 months and 12 months; Treasury bonds with maturities of 2 years and 5 years. Treasury securities with total amount of 60 million GEL were redeemed. Average Time to Maturity (ATM) for the portfolio decreased compared to the previous month's value.

As of September 30, 2020, 31.6 percent of treasury securities portfolio is composed of securities whose maturity date is due for the next 1 year. Bid-to-cover ratio increased slightly compared to the previous month's value (August 2.00) and is 2.02.

Figure 16: Portfolio Forming Securities Composed by Time to Maturity



Source: MOF

Private Sector Larization

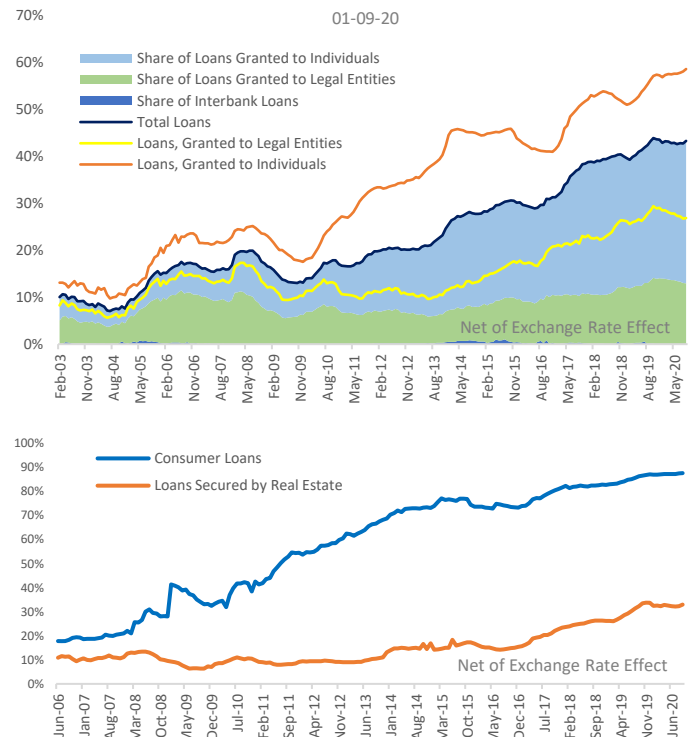
Loan larization is on the rise. The larization of total loans is largely due to the larization of loans issued to individuals. By 1 of September 2020, the larization of loans to individuals was 58.6 percent, the larization of loans to legal entities was 26.9 percent, and the total larization of loans was 43.3 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 September 2020, the larization of consumer loans was 87.5 percent, while the larization of mortgage loans was 33 percent.

The larization of deposits is significantly conditioned by the larization of deposits of legal entities. As of 1 of September 2020, the total larization of total deposits was 40 percent, the larization of deposits of legal entities in the same period was 55.5 percent, and the larization of deposits of individuals – 25.3 percent.

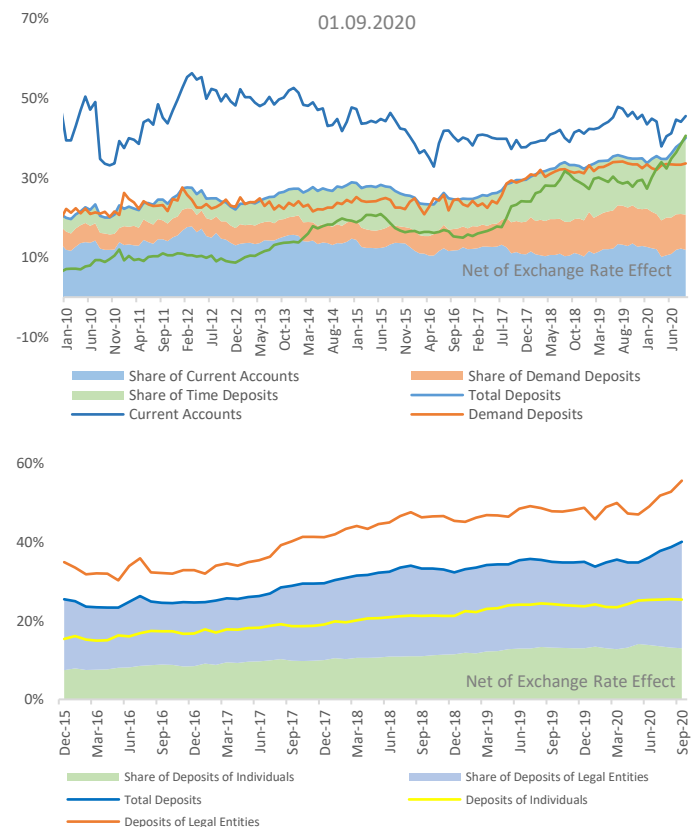
The larization of current accounts for September 2020 was 45.5 percent. At the same time, the larization of deposits before demand is 33.6 percent, and the larization of time deposits – 40.5 percent.

Figure 17: Loan Larization



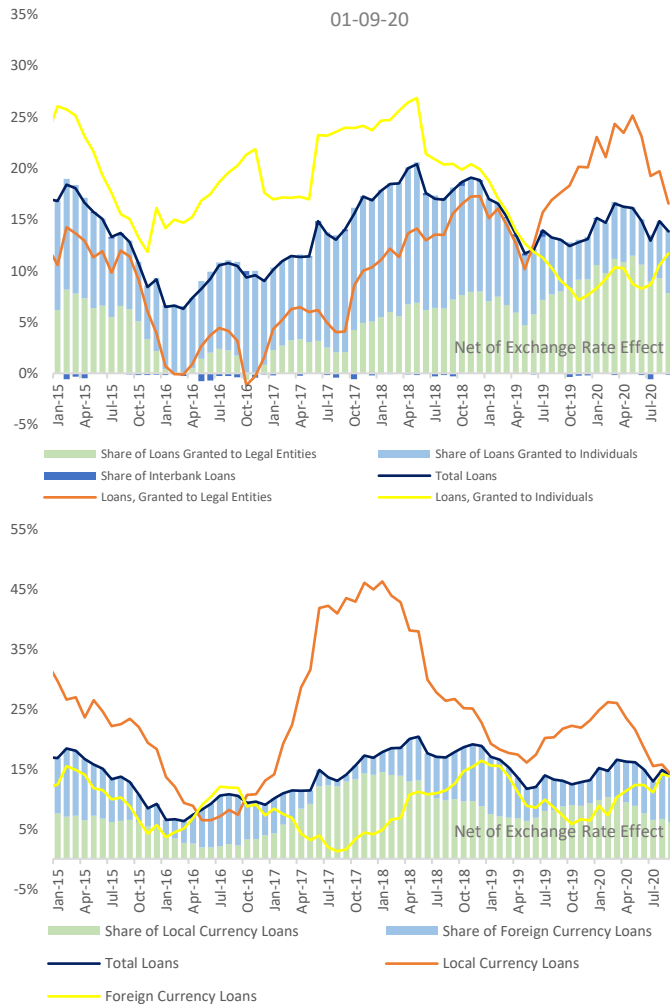
Source: NBG

Figure 18: Deposit Larization



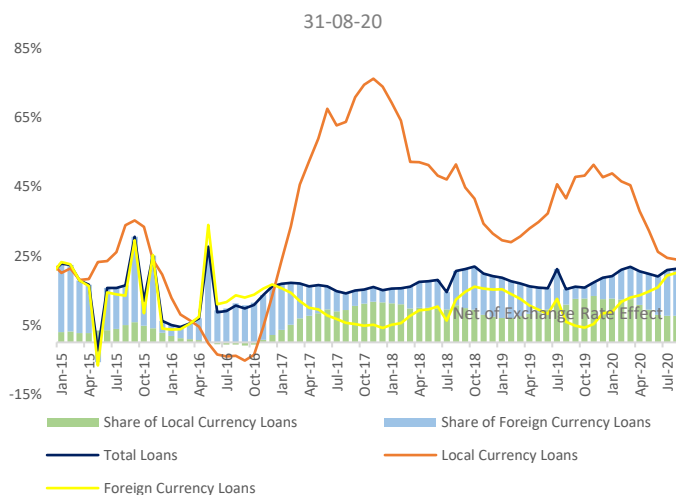
Source: NBG

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 September 2020 compared to 2019 was 13.8 percent. The annual growth of loans to legal entities decreased by 3.1 percentage points compared to the previous month and amounted to 16.6 percent during the same period, while the annual growth of loans to individuals amounted to 11.7 percent.

As of 1 of September 2020, the growth of loans in national currency amounted to 14 percent compared to the same period last year, the annual growth of loans in foreign currency hasn't changed and amounted to 13.7 percent during the same period.

By September 2020, mortgage loans had increased by 0.4 percentage points compared to the previous month and amounted to 21.3 percent.

Review of Deposits

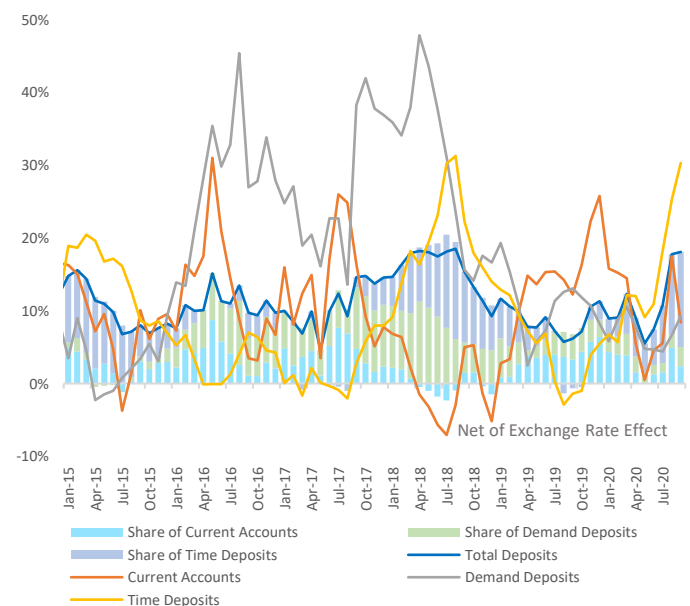
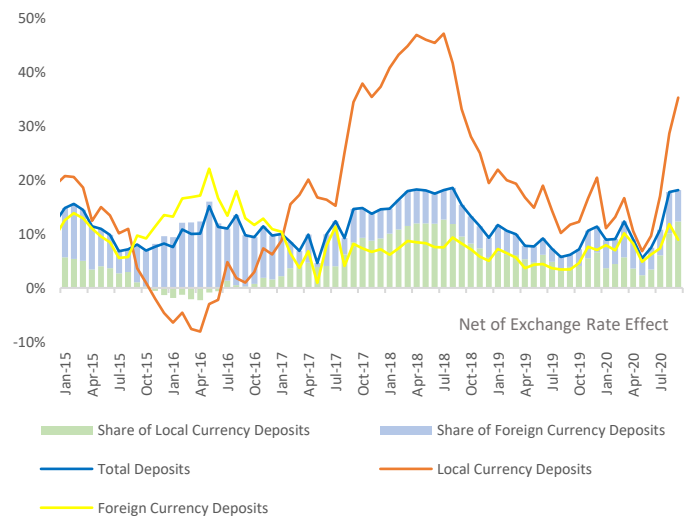
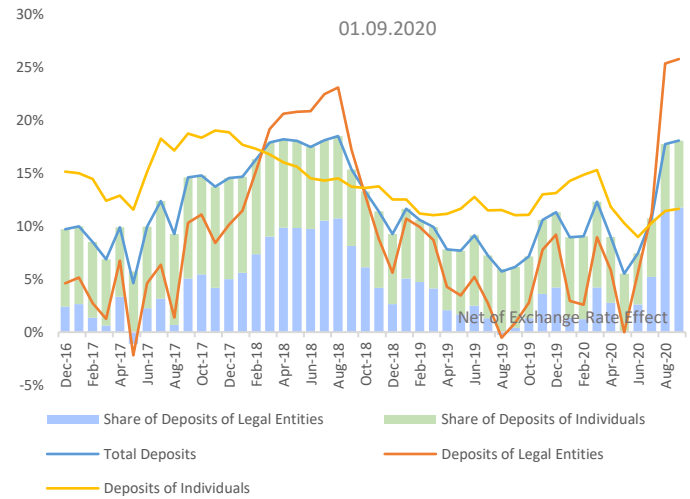
The growth of total deposits in September 2020 compared to the corresponding period of 2019 was 18 percent, the annual growth of deposits denominated in the national currency increased by 6 percentage points compared to the previous period and amounted to 35 percent, and the annual growth of deposits denominated in foreign currency was 9 percent.

In September 2020, the annual increase in deposits of individuals was 12 percent, while annual increase in deposits of legal entities was 26 percent.

Monetary Policy Rate

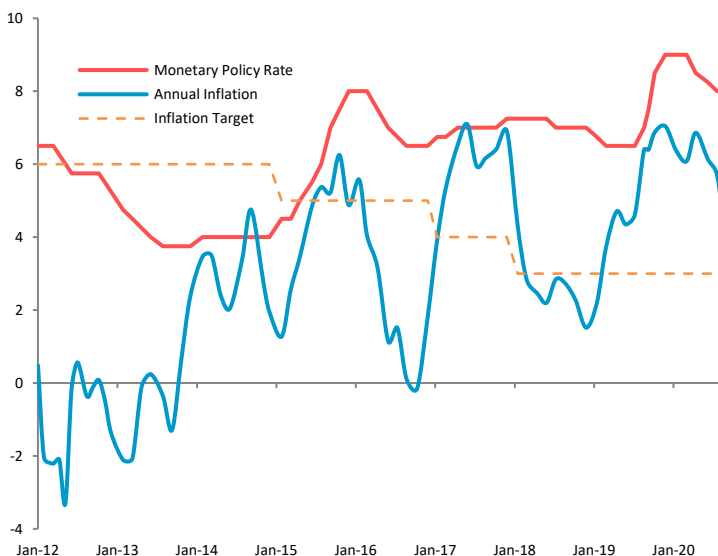
On September 16, 2020, the Monetary Policy Committee of the National Bank of Georgia decided to leave the refinancing rate unchanged. The monetary policy rate is 8.0 percent. According to the National Bank, the downward trend in annual inflation will continue for the rest of the year and will fall below the target level in the first half of 2021. 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 October 28, 2020.

Figure 21: Annual Growth of Deposits



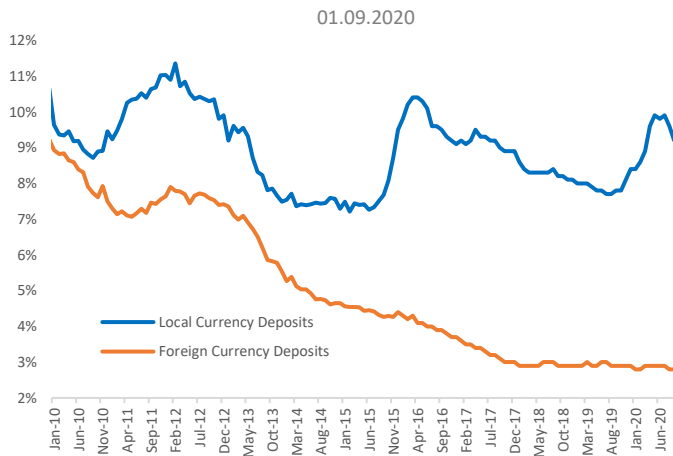
Source: NBG

Figure 22: Inflation and Monetary Policy Rate



Source: NBG

Figure 23: Interest rates on Deposits (stock)



Source: NBG

Interest Rates

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

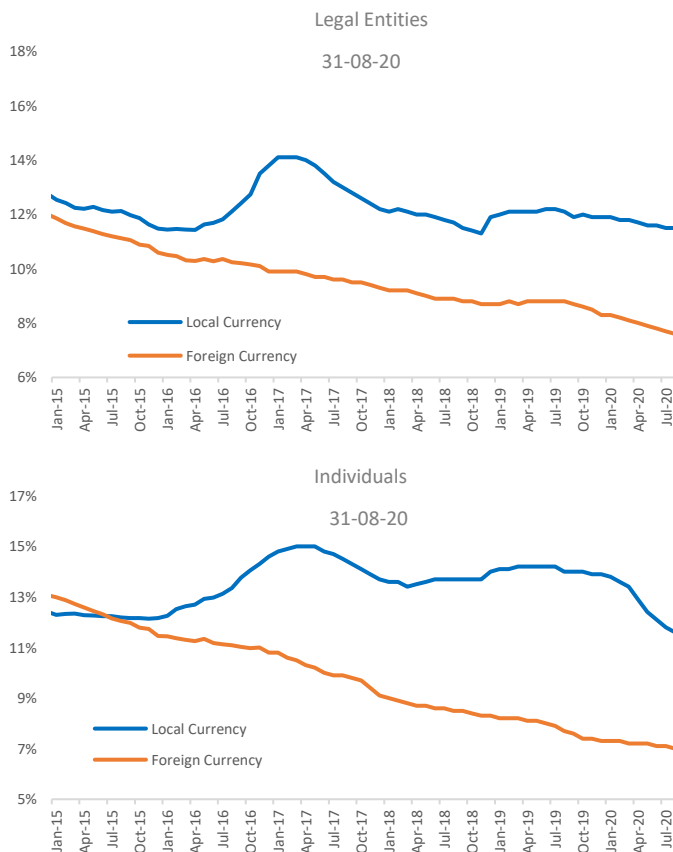
As of September 2020, the weighted average interest rate on deposits in national currency of legal entities was 9 percent, and in foreign currency - 2.5 percent. The average annual interest rate on deposits of individuals was 2.9 percent on deposits in foreign currency and 9.5 percent in national currency.

By September 2020, the weighted average annual interest rate on short-term consumer loans was 20.4 percent (26.4 percent in national currency and 6.4 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 September 2020 was 16.9 percent. The interest rate on loans denominated in the national currency is 18.1 percent, and the interest rate on loans denominated in foreign currency is 8.1 percent.

At the end of August 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 11.8 percent, and in foreign currency it was 6.2 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.

