



# CURRENT ECONOMIC OUTLOOK

February, 2021



## Brief Summary

Based on Geostat's preliminary data, annual real economic growth in January equals to -11.5 percent

Annual inflation in February equals to 3.6 percent, while core inflation - 6.3

Export annually decreased by 16.2 percent in January

Import annually decreased by 16.6 percent in January

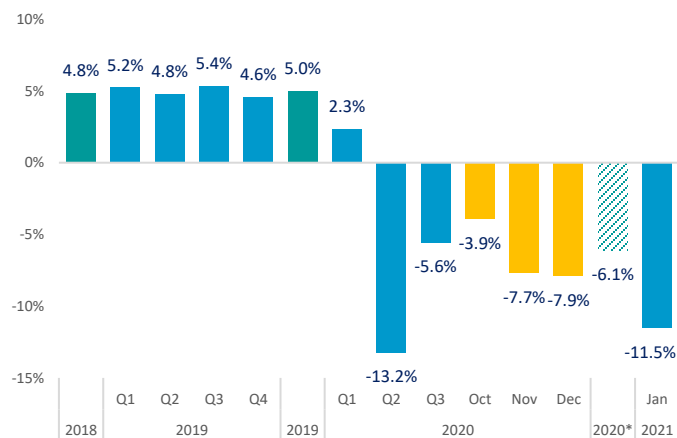
Rating company Fitch left its credit rating at BB unchanged, but changed its outlook from stable to negative

Rating company S&P left its credit rating at BB unchanged, but changed its outlook from stable to negative

## Economic Growth

In January 2020, compared to the corresponding period of the previous year, the decrease in real GDP amounted to 11.5 percent, while the average real growth in 2020 was set at -6.1 percent. This decrease 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 January 2021 the estimated real growth compared to the same period of the previous year was posted negative in the following activities: Construction, Transportation and storage, Manufacturing, Accommodation and food service activities, Arts, entertainment and recreation, Real estate activities, Electricity, gas, steam and air conditioning supply, Wholesale and retail trade; repair of motor vehicles and motorcycles. A growth was registered in Information and communication, Financial and Insurance activities.

Figure 1: Economic Growth



Source: Geostat

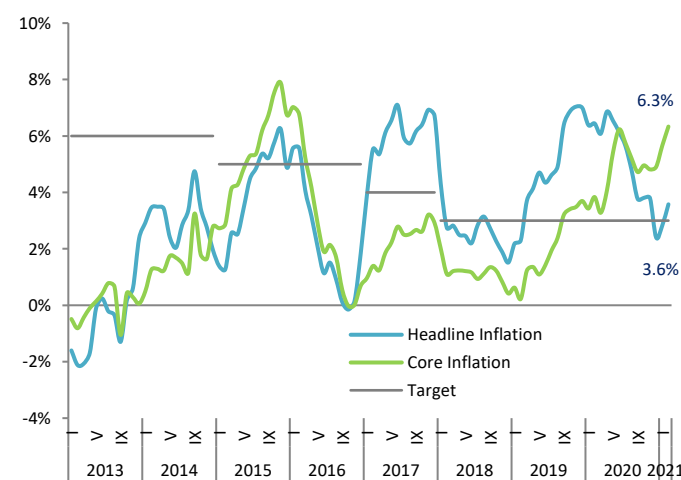
## Price Level

As of February 2021, the inflation rate was 3.6 percent compared to the same period last year. Core inflation (excluding tobacco) was 6.3 percent in the corresponding period.

The main impact on the formation of annual inflation was the price dynamics of furnishings, household equipment and maintenance (+12.3 percent), health care (+9.8), alcohol and tobacco (+8.1), food and non-alcoholic beverages (+6.2). And annual decline was observed in housing, water, electricity, gas (-21.2).

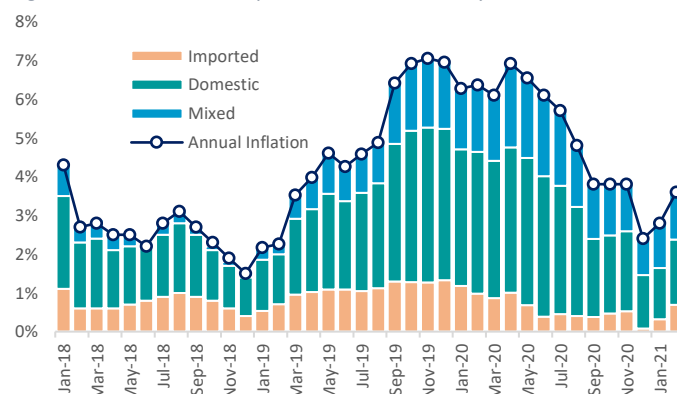
At the same time, in February 2021, inflation was 1.1 percent compared to the previous month. Prices increased in the following categories: food and restaurants and hotels (+3.7 percent), transport (+2.5), furnishings, household equipment and maintenance (+1.7). Prices on clothing and footwear decreased significantly (-3.4 percent).

Figure 2: Annual Inflation, 2021 February



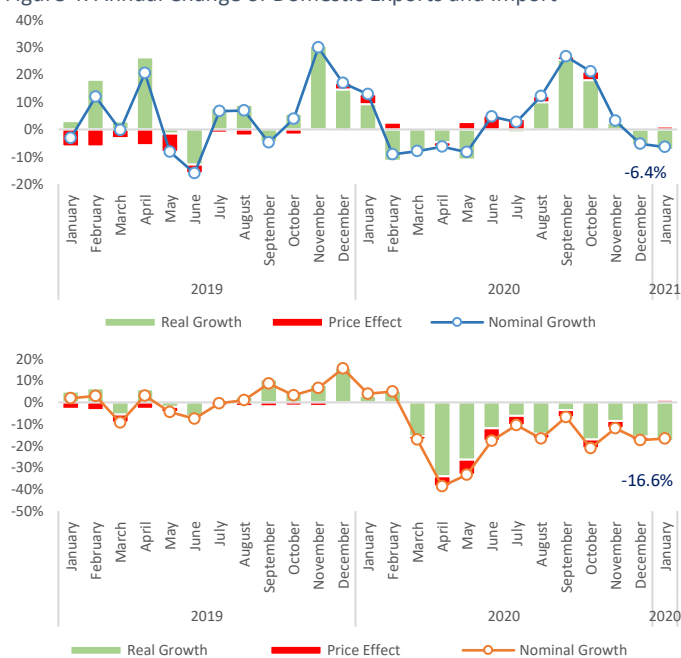
Source: NBG

Figure 3: Inflation Decomposition, 2021 February



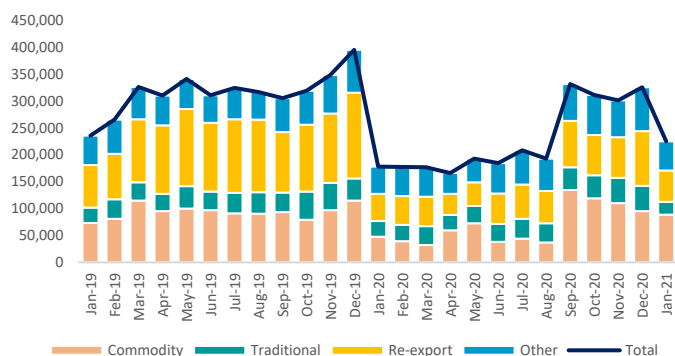
Source: Geostat

Figure 4: Annual Change of Domestic Exports and Import



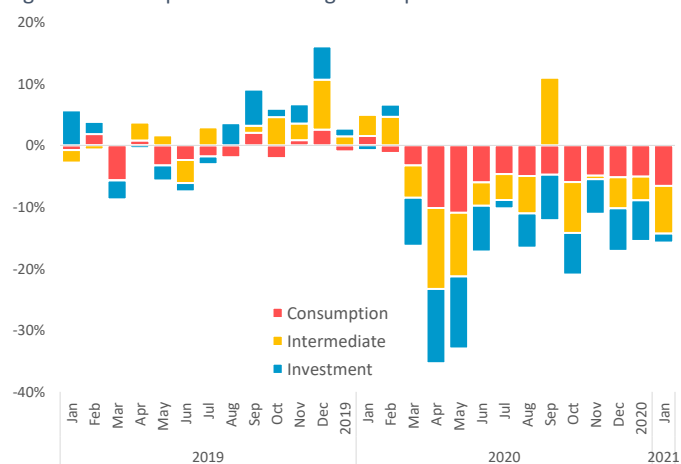
Source: Geostat

Figure 5: Decomposition of Export



Source: Geostat

Figure 6: Decomposition of Change of Import



Source: Geostat

## External Trade

In January 2021, export annually decreased by 16.2 percent (while domestic exports decreased by 6.4 percent) and reached value of 224.4 mln USD, while import decreased by 16.6 percent reaching 538.1 mln USD. These changes caused decrease of the trade deficit by 16.8 percent compared to previous year and was equal to 313.6 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 January 2021 real growth of domestic exports was equal to -7.5 percent, and real growth of import was -17.8 percent. The share of re-exports was 25.9 percent, while exports of commodity was - 39.4 percent.

In January 2021, import of investment, consumption and intermediate goods decreased by 1.4, 6.6 and 7.8 percent respectively (contribution to total growth).

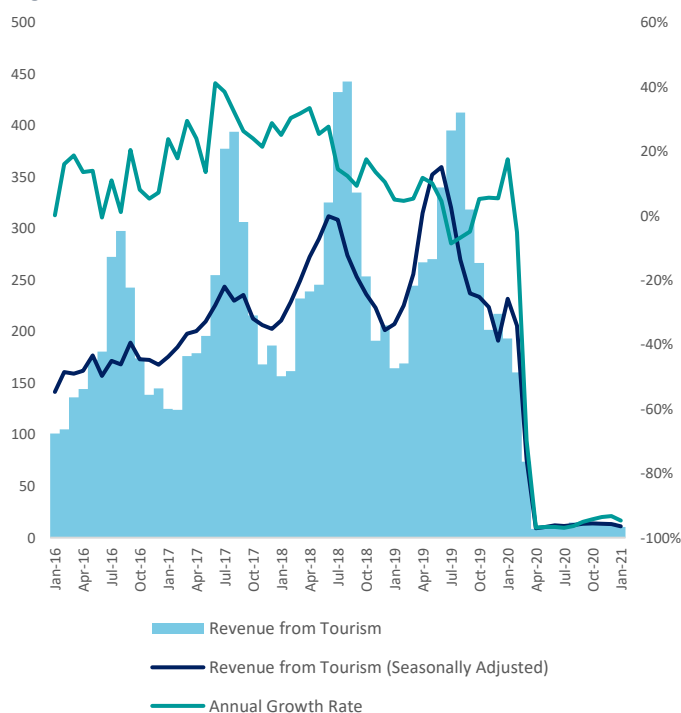
In January 2021, the first place in the top ten export goods from the commodity groups was occupied by copper ores and concentrates with 49.7 million USD (22.1 percent of total exports), second place – motor cars - 24.8 million US dollars (11.1 percent of total exports), and third – ferro-alloys - 23.8 million U.S. dollars (10.4 percent of total exports). The largest import commodity group in January 2021 was the group of petroleum gasess, whose imports amounted to 46.3 million USD and accounted for 8.6 percent of total imports. Also significant were boring machinery with 40.8 million (7.6 percent of imports) and petroleum and petroleum oils with 36.6 million U.S. dollars (6.8 percent of imports).

In January 2021, the largest export partners are Azerbaijan (34.4 million US dollars, 15.3 percent of total exports), Bulgaria (27 million US dollars, 12 percent) and China (26.9 million US dollars, 12 percent). The largest importing partner countries are China (99.6 million USD, 18.5 percent of total imports), Turkey (92.8 million USD, 17.3 percent) and Russia (55.6 million USD, 10.3 percent).

## Tourism

In January 2021, revenue from tourism fell 94.6 percent to 10.4 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 2020, tourism revenue fell 83.4 percent to 542 million USD. Turkey accounts for the largest share of travel revenue in 2020, at 18.6 percent. Russia also has a significant share, 18.1 percent, and the EU, 14.4 percent.

Figure 7: Income from Tourism, mln USD

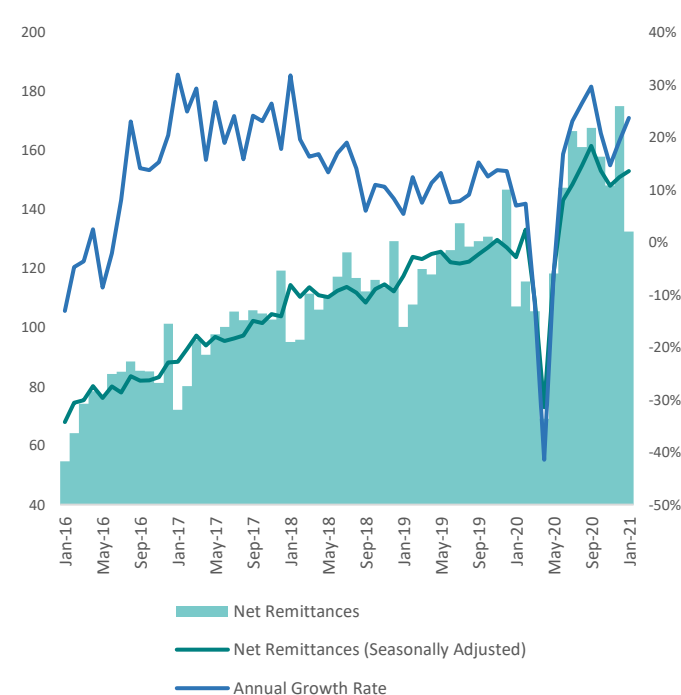


Source: NBG

## Remittances

In January 2021, net remittances totaled 132.5 million USD, which is 24 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 30.5 percent from Italy (5.9 percent contribution to total growth), 35.8 percent from USA (4.4 percent contribution to total growth), 26.1 percent from Greece (3.4 percent contribution to total growth). Remittances from Ukraine and Azerbaijan also increased significantly. At the same time, decrease was recorded at 12.3 percent from Russia (-2.1 percent contribution to total growth) and -2.1 percent decrease from Turkey (-0.1 percent contribution to total growth).

Figure 8: Net Remittances

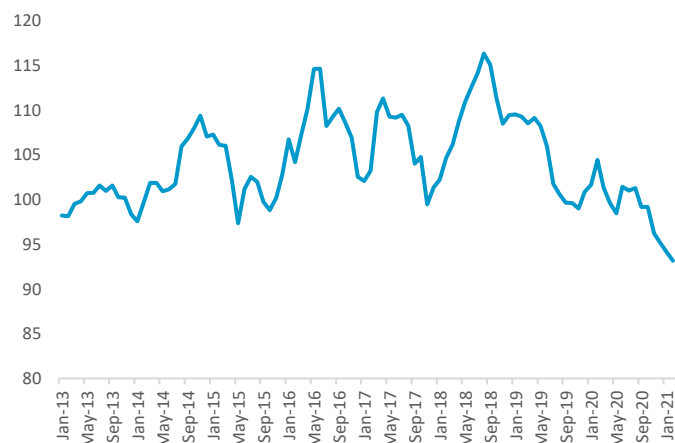


Source: NBG

## Exchange Rate

As of February 28, compared to January 1, 2020, the nominal effective exchange rate of the GEL has depreciated by 7.9 percent, and compared to January 1, 2020 by 0.7 percent. At the same time, the real effective exchange rate in January depreciated by 8.2 percent compared to January of the previous year and by 0.9 percent compared to January 2021.

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

	February 28, 2021	Feb 28, 2021 - Jan 1, 2021	Feb 28, 2021 - Jan 1, 2020
Euro	4.0322	▼ -20.3%	▼ -24.1%
US Dollar	3.3255	▼ -13.8%	▼ -19.6%
Turkish Lira	0.4498	▲ 7.1%	▲ 12.4%
Russian Ruble	0.0446	▲ 3.3%	▼ -14.0%
NEER	109.82	▼ -0.7%	▼ -7.9%
REER (January 2021)	103.97	▼ -0.9%	▼ -8.2%

Source: NBG

## Budget Revenue Performance

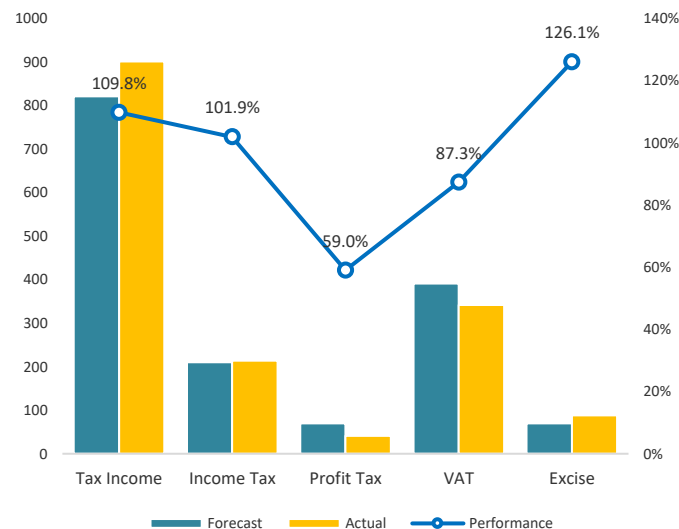
The forecast of tax income for January-February 2021 is 1,771 million GEL, while the actual figure for January-February 2021 is 3.5 percent higher than planned and equals to 1,832.9 mln GEL.

The actual level of tax income in February was 901.2 mln GEL, which is 9.8 percent less compared to the forecasted value of tax income of 820.9 mln GEL.

- Revenue from Income tax amounted 214 mln GEL, which is 101.9 percent of forecasted value (210 mln GEL).
- Revenue from Profit tax was equal to 41.3 mln GEL, which is 59 percent of projected value (70 mln GEL).
- Revenue from VAT was equal to 341.5 mln GEL, which is 87.3 percent of the forecasted value of 391 mln GEL.
- Revenue from Excise tax amounted 87.7 mln GEL, which is 69.6 percent of the forecasted value of 126.1 mln GEL.
- Revenue from Custom tax was equal to 5.1 mln GEL, which is 72.8 percent of the forecasted value (7 mln GEL).

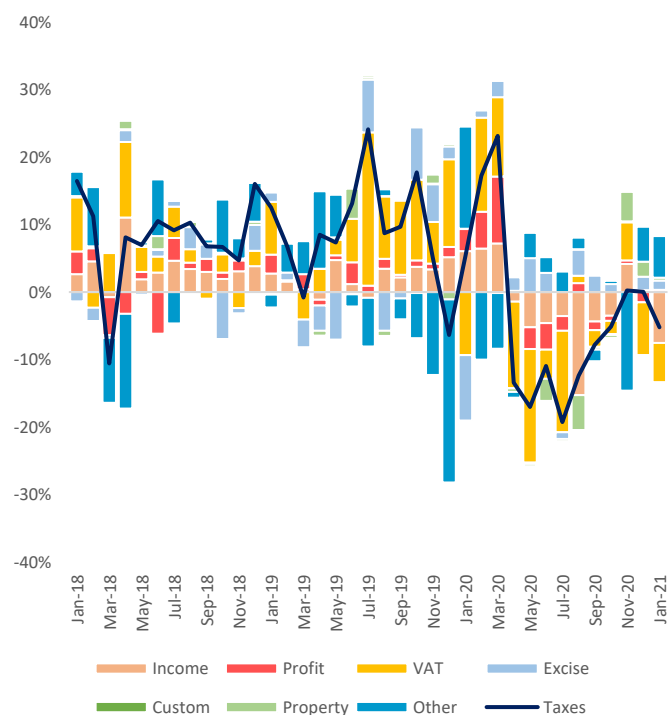
In January 2021, compared to the same period of the previous year, consolidated budget revenues increased by 13.1 percent and expenditures increased by 16.1 percent. At the same time, the operating balance of the consolidated budget, which represents the savings of the government, amounted to 96.1 million GEL, while the total balance was set at -47.8 million GEL. Overall, tax revenue was significantly impacted by annual growth of revenue from VAT revenues, which fell by 13.7 percent year-on-year and contributed -5.8 percent to overall growth and by growth of revenue from income tax, which decreased by 17.7 percent annually and contributed -7.5 percent to overall growth.

Figure 11: Budget Revenue Performance



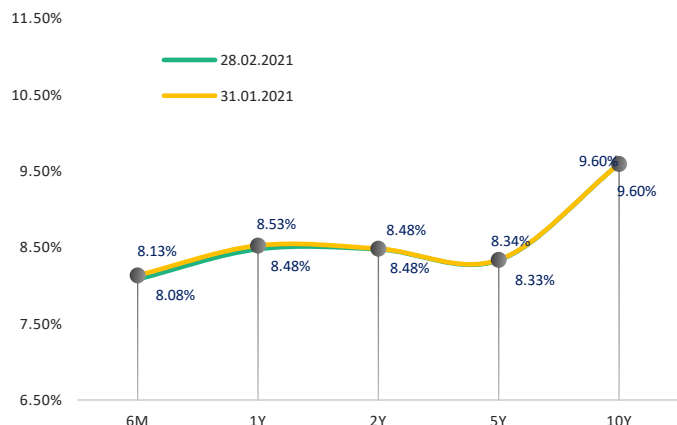
Source: MOF

Figure 12: Tax Income



Source: MOF

Figure 13: Portfolio Yield Curve



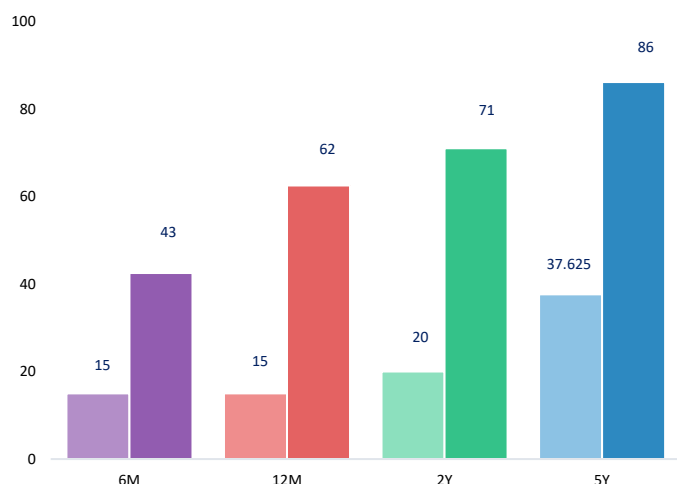
Source: MOF

Figure 14: Weighted average interest rates



Source: MOF

Figure 15: Issuance and Demand, mln GEL



Source: MOF

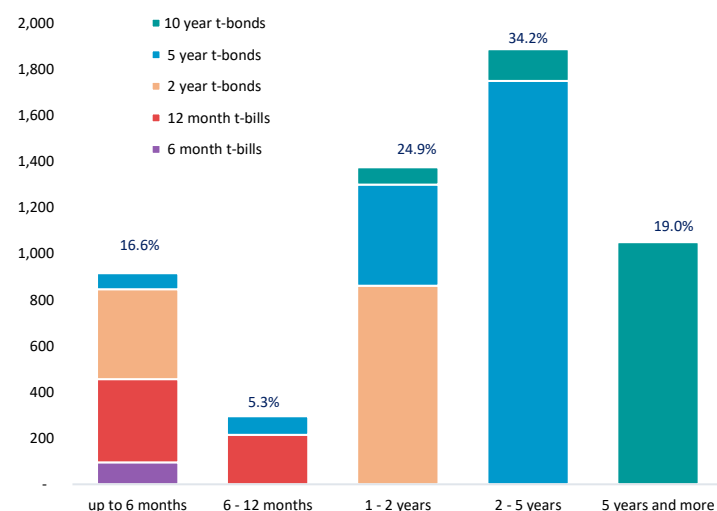
## Treasury Securities Portfolio

In February 2021, 4 auctions were held with total issuance volume of 87.625 million GEL. The weighted average interest rate amounted to 8.005 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 70 million GEL were redeemed. The structure of treasury securities portfolio changed slightly. The portfolio yield curve did not change significantly.

As of February 28, 2021, 21.93 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 (January 2.20) and is 2.99.

Figure 16: Portfolio Forming Securities Composed by Time to Maturity



Source: MOF



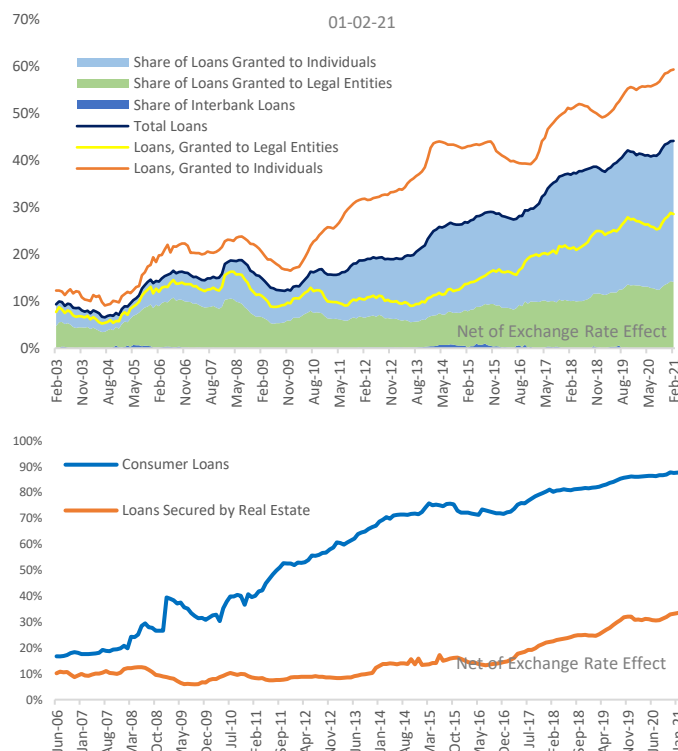
## Private Sector Larization

The larization of loans has increasing trend and by 1 of February 2021 it reached 44.1 percent. It should be noted that the main determinant of total loan larization is the larization of loans granted to individuals. By 1 of February 2021, the larization of loans of individuals was 59.4 percent, in the same period the larization of loans granted to legal entities amounted 28.6 percent.

We also observe increasing trend of deposit larization but it still remains significantly lower than larization of loans. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. As of 1 of February 2021, the total larization of total deposits was 37.9 percent, the larization of deposits of legal entities in the same period was 54 percent, and the larization of deposits of individuals – 23.4 percent.

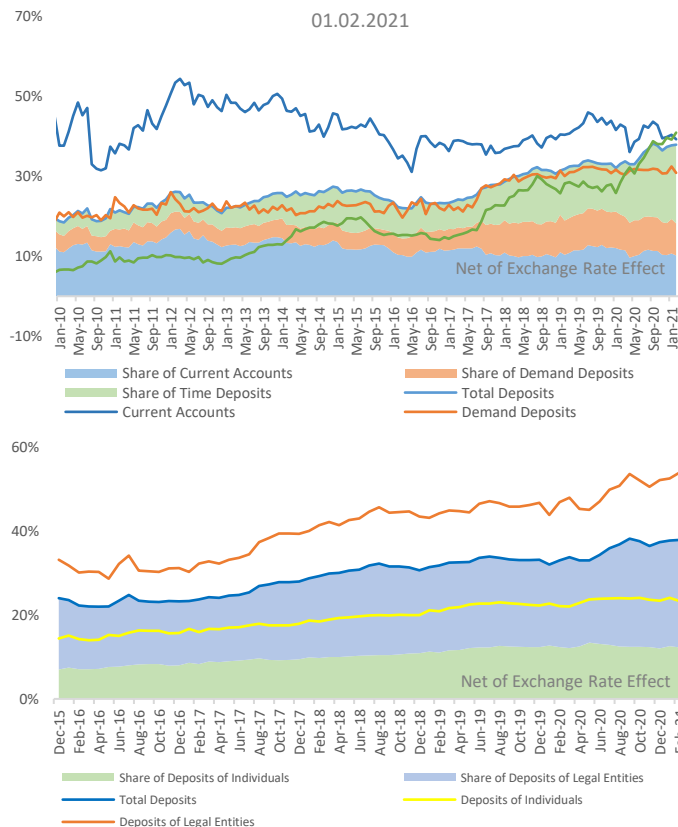
It should be noted that the significant increase was observed in the trend of time deposits larization (excluding exchange rate effects), by the 1 February 2021 it reached 41 percent, making time deposits main contributor in the larization of the deposits. We observe little decrease in the larization of current accounts for 1 February 2021 it amounted 39.3 percent. At the same time, the larization of deposits before demand was 31 percent.

Figure 17: Loan Larization



Source: NBG

Figure 18: Deposit Larization



Source: NBG

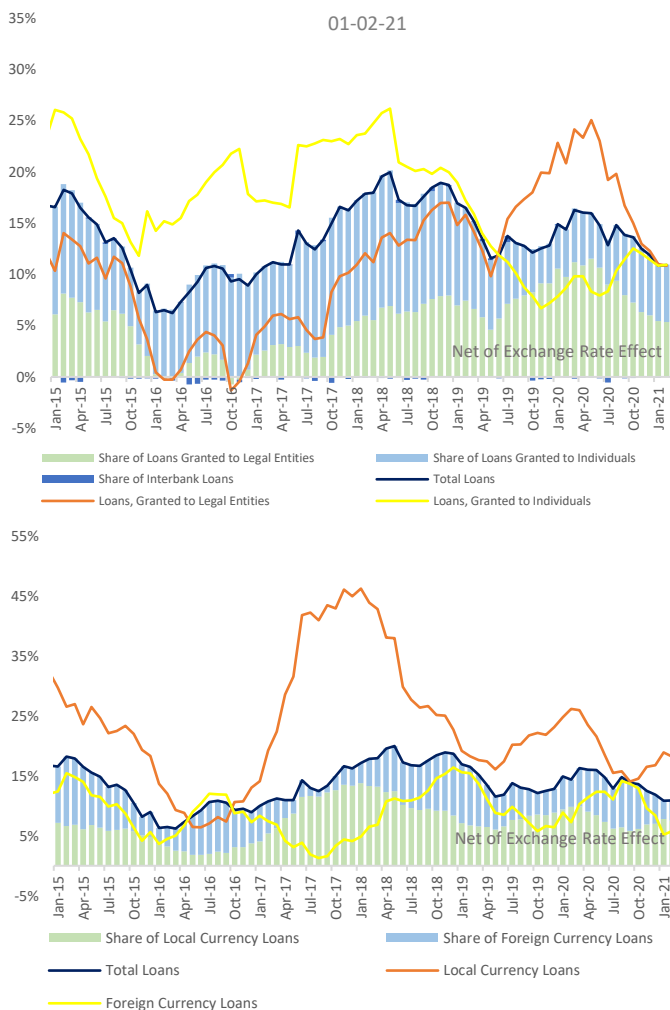
## Review of Loans

Declining trend was observed in the annual growth of the credit portfolio (net of exchange rate effect) and as of 1 February 2021 overall loans compared to corresponding period of 2020 increased by 10.9 percent. Significant decrease was observed also in the annual growth of loans granted to legal entities and by the 1 of February it amounted 10.8 percent, during the same period loans to individuals increased by 10.9 percent. Due to above mentioned changes latest dynamic, that loans granted to legal entities was main driver of total loans growth, changed and by the beginning of 2021 loans granted to legal entities, as well as to individuals contribute to the total loans growth equally.

It should be noted that the growth of loans denominated in the national currency has a recent upward trend and as of February 1, 2021, its value was 18.2 percent. During the same period, the annual growth of foreign currency denominated loans amounted to 5.8 percent. It should be noted that the current dynamics contributes to the increase in loan larization, which has a positive impact on reducing the country's vulnerability to exchange rate fluctuations.

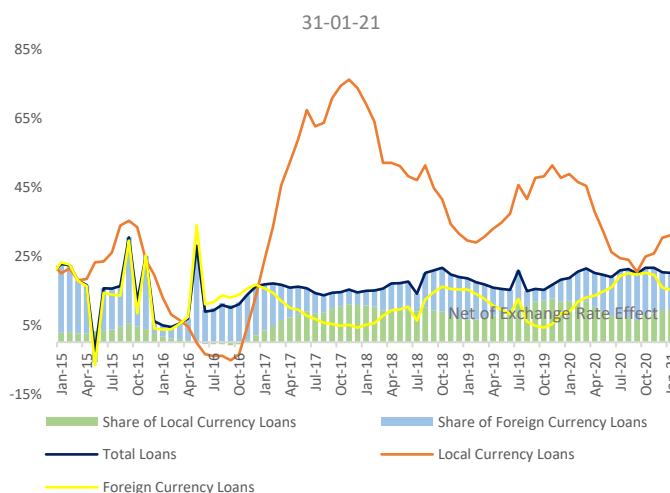
As of January 1, 2021, the annual growth of real estate loans was 20.1 percent. At the same time, mortgage loans denominated in national currency increased by 31.1 percent, while mortgage loans denominated in foreign currency increased by 15.2 percent.

Figure 19: Annual Growth of Loans



Source: NBG

Figure 20: Annual Growth of Loans secured by Real Estate



Source: NBG

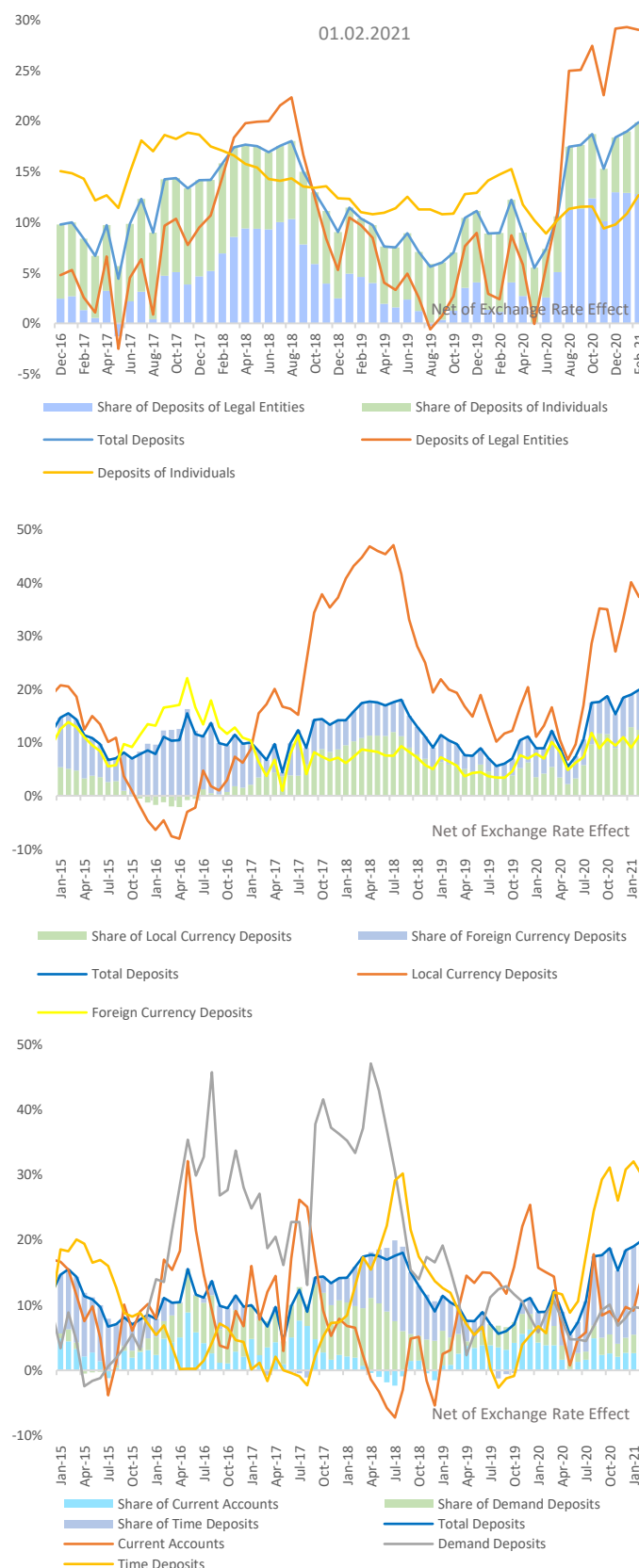
## Review of Deposits

The growth of total deposits on the 1 of February 2021 was 20 percent compared to the corresponding period of 2020. Significant increase was observed in the annual growth of deposits denominated in national currency, causing growth rate to reach 37 percent by the 1 of February 2021, while the annual growth of deposits denominated in foreign currency relatively stable and amounted 11 percent in the same period. This dynamics have positive impact on the larization of deposits.

We observe significant increase in the annual growth of deposits of legal entities and by the 1 of February 2021 it reached 29 percent, in the same period the annual growth of deposits of individuals amounted 13 percent.

As for the growth of deposits by types, the annual growth of current accounts increased by 5.1 percentage points compared to January. At the beginning of February 2021, it amounted to 14.3 percent, in parallel with the growth of current account growth, a decrease in the growth of time deposit balances and as of February 1, the annual growth of time deposit balances was 30 percent and significantly contributed to the total deposits. Over the same period, demand deposits grew by 9.5 percent.

Figure 21: Annual Growth of Deposits

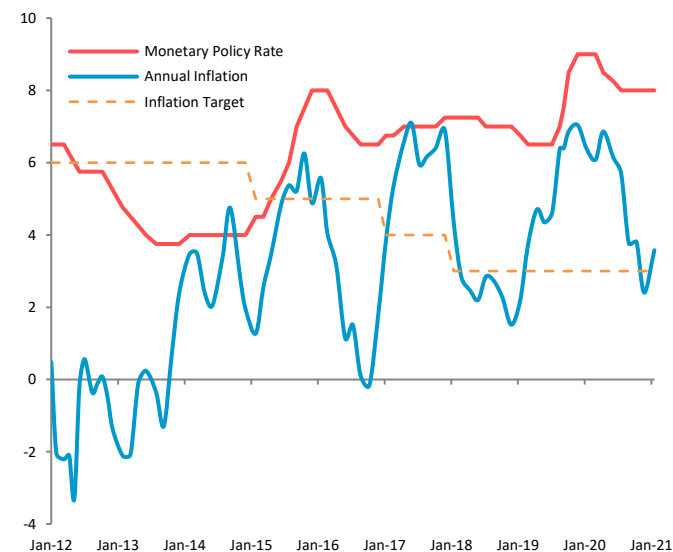


Source: NBG

## Monetary Policy Rate

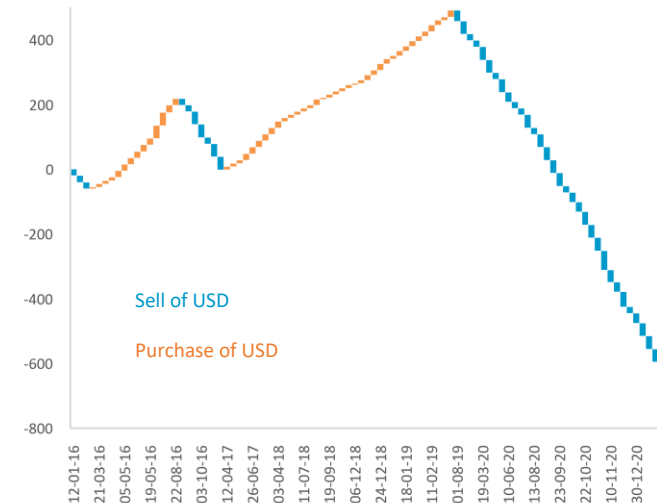
On February 3, 2021, the Monetary Policy Committee of the National Bank of Georgia decided to leave the refinancing rate unchanged. The monetary policy rate is 8.0 percent. According to the National Bank, all other things being equal, inflation will remain at an average of 4 percent in 2021 and then gradually approach the target. The upward pressure on inflation is maintained against the backdrop of the prolongation of pandemic-related constraints due to rising production costs and the depreciated rate, which in turn increases imported inflation and intermediate costs. Aggregate demand is still declining due to a sharp decline in external demand. Uncertainty remains high about both the dynamics of the recovery of global economic activity and the growth rate of local lending. Taking into account the above factors, the need to maintain a tighter monetary policy was identified. However, the Committee does not rule out raising interest rates in the future. The next meeting of the Monetary Policy Committee will be held on March 17, 2021.

Figure 22: Inflation and Monetary Policy Rate



Source: NBG

Figure 23: Trade of USD by NBG, mln



Source: NBG

## Interest Rates

As of February 2021, the interest rate on foreign currency deposits was 2.5 percent, while on the national currency deposits it amounted 9.1 percent.

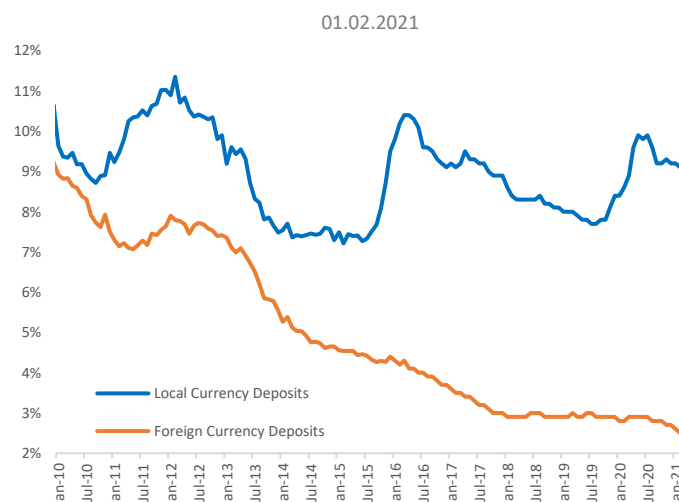
As of 1 of February 2021, the weighted average interest rate on deposits of legal entities in national currency was 9.1 percent, and in foreign currency - 2 percent. In the same period the average annual interest rate on deposits of individuals was 2.6 percent on deposits in foreign currency and 9.2 percent in national currency.

By 1 of February 2021, the weighted average annual interest rate on short-term consumer loans was 22.7 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 February 1, 2021 was 17.1 percent. The interest rate on loans denominated in the national currency is 18.4 percent, and the interest rate on loans denominated in foreign currency is 7.9 percent.

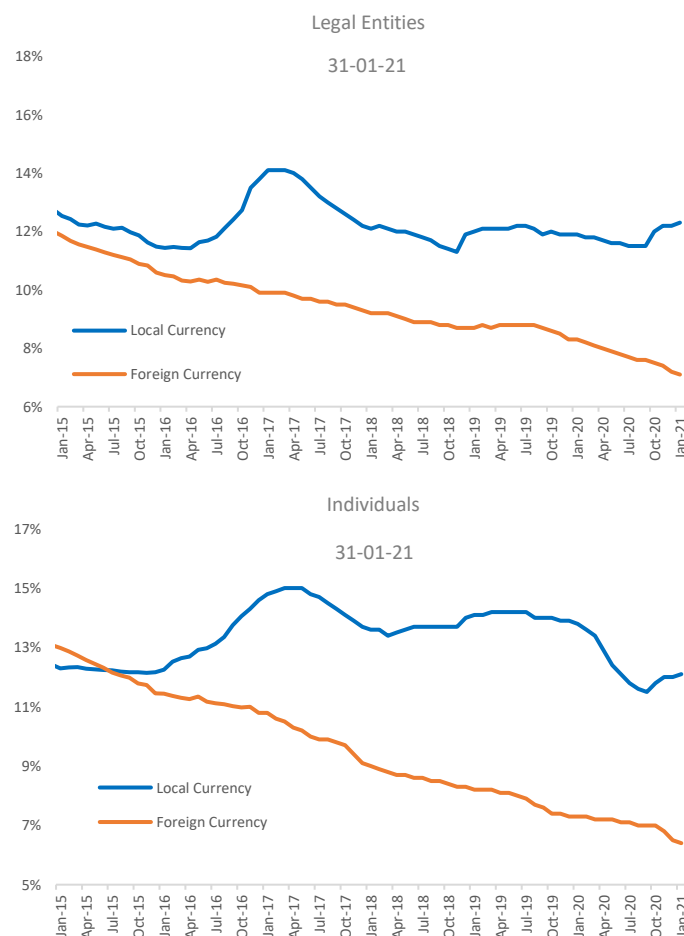
At the end of January 2021, the interest rate on mortgage loans issued to legal entities issued was 12.4 percent, and in foreign currency – 7 percent. The interest rate on loans to individuals in national currency was 11.8 percent, and in foreign currency it was 6.3 percent.

Figure 24: Interest rates on Deposits (stock)



Source: NBG

Figure 25: Interest rates on Loans secured by Real Estate



Source: NBG

Figure 26: Georgia Credit Ratings



Source: Rating companies: Moody's, Fitch and S&amp;P

## Sovereign Ratings

In February 2021, the Fitch Agency published a report, according to which Georgia's sovereign credit rating remained unchanged at "BB" level with a negative outlook. The agency notes that Georgia is a clear leader among countries with similar ratings in terms of the degree of governance and business environment. The agency emphasizes the resilience of the economy to increased flexibility and shocks as a result of its consistent and convincing macroeconomic policies in recent years. According to the agency, Georgia's economy will recover faster than similar countries and economic growth in 2021 will be 4.3. The assessment highlights the progress made by the Ministry of Finance in assessing and managing fiscal risks. The reform of state-owned enterprises is also positively assessed.

In February 2021, the rating company S&P renewed Georgia's credit rating and left it unchanged at BB, although it changed its outlook from stable to negative. According to S&P, maintaining the rating is supported by a strong institutional arrangement compared to the region of Georgia; Floating exchange rate mode; And timely receipt of preferential financing from international financial institutions. Giving a negative perspective is conditioned by the risk of Georgia finding the appropriate foreign financing funds in comparison with foreign liabilities. According to the S&P, revenues from tourism will not reach 2019 levels by 2024. At the same time, according to the S&P, in addition to the domestic political and political environment, the above factors may hinder growth and the medium-term outlook for foreign inflows of significant foreign investment. According to the agency, Georgia's economic growth will be 4 percent in 2021 and 4.2 percent in 2022.



## Disclaimer

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