



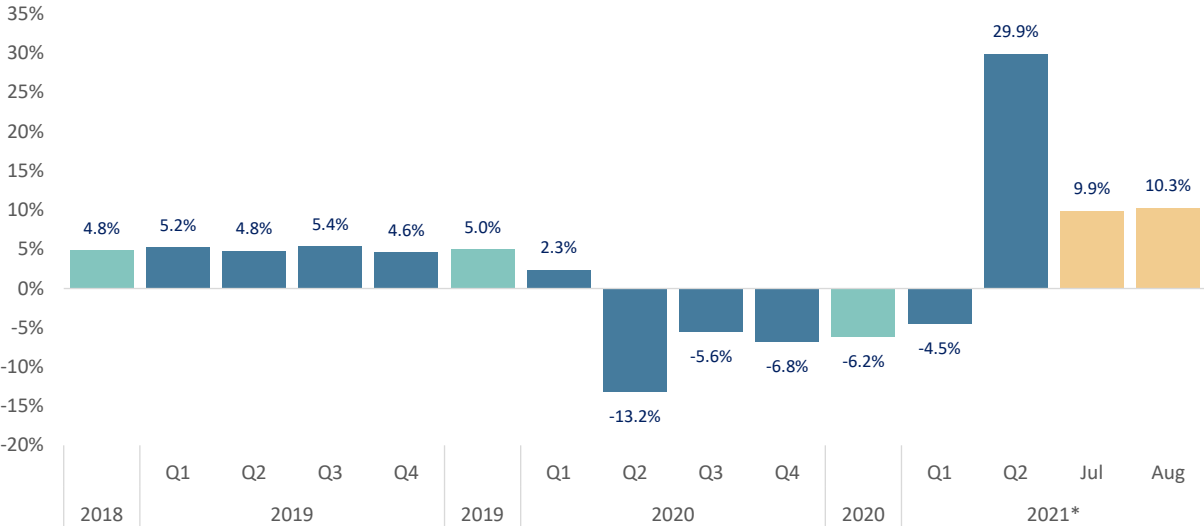
# Current Economic Outlook

September, 2021

- According to the preliminary estimates of the National Statistics Office, in August 2021, the real GDP growth rate was 10.3 percent and average growth rate of first eight months was 12 percent. At the same time, economic growth compared to compared to corresponding month of 2019 amounted to 4.5 percent
- Annual inflation stood at 12.3 percent in September, while core inflation was 6.3 percent
- In August, exports increased by 15.7 percent year-on-year and imports increased by 26.1 percent year-on-year, increasing the trade deficit by 34.2 percent year-on-year to 499.9 million USD
- The real effective exchange rate for August appreciated by 5.6 percent compared to the same period of the previous year and by 0.4 percent compared to the previous month
- The National Bank of Georgia left the monetary policy rate unchanged at 10 percent

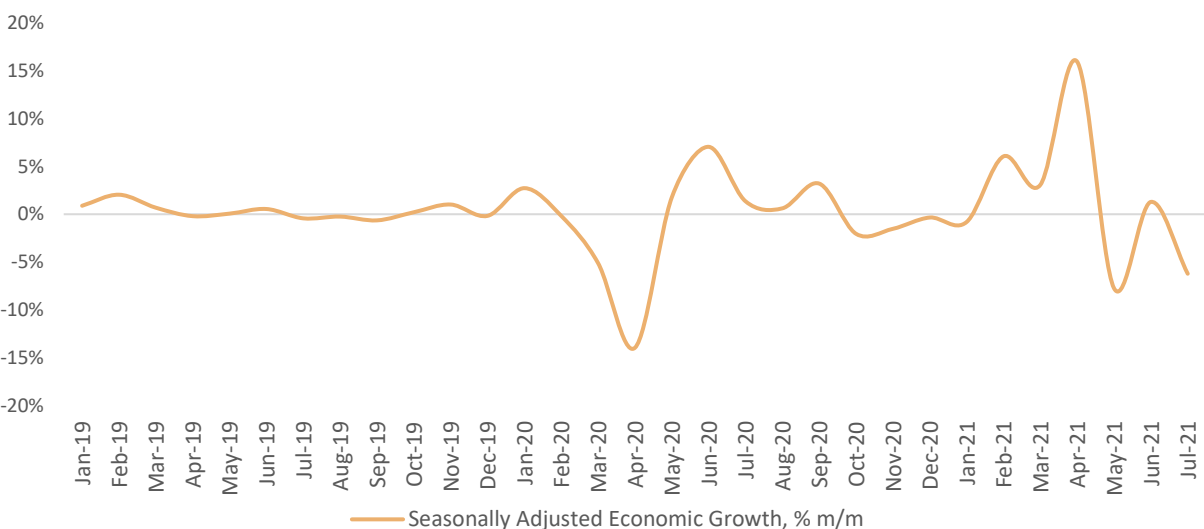
# Economic Growth in August was equal to 10.3 percent

Economic Growth, % y/y

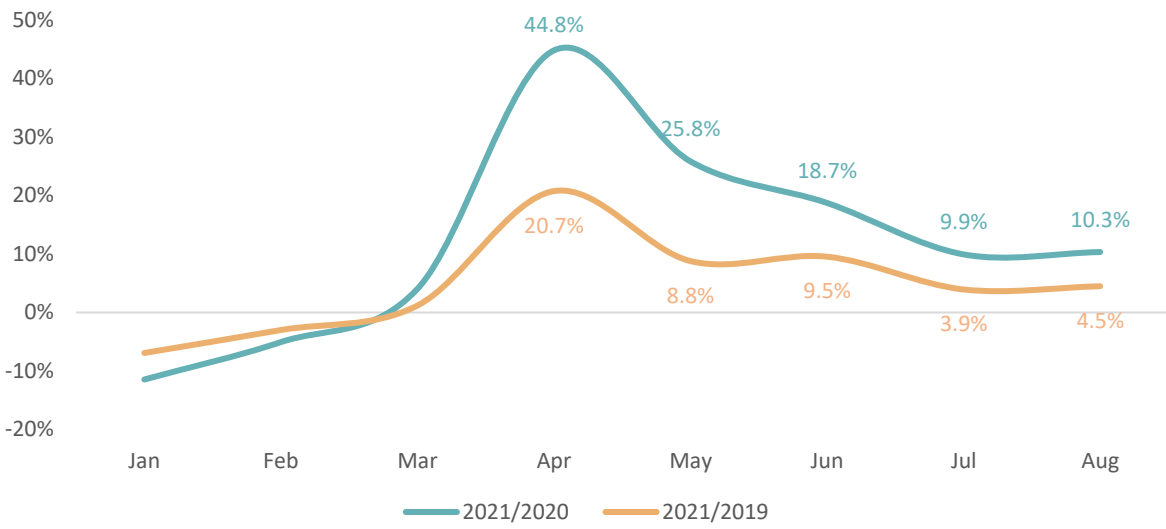


- Estimated real GDP growth rate in August 2021 equaled 10.3 percent YoY and average annual real GDP growth rate for the first 8 months equals to 12 percent.
- In July 2021 the estimated real growth compared to the same period of the previous year was observed in the following activities: Manufacturing, Financial and Insurance activities, Trade, Electricity, gas, steam and air conditioning supply, Hotels and restaurants, Transportation and storage, Arts, entertainment and recreation.
- A decline was registered in Construction, Mining and quarrying.

Economic Growth, % m/m



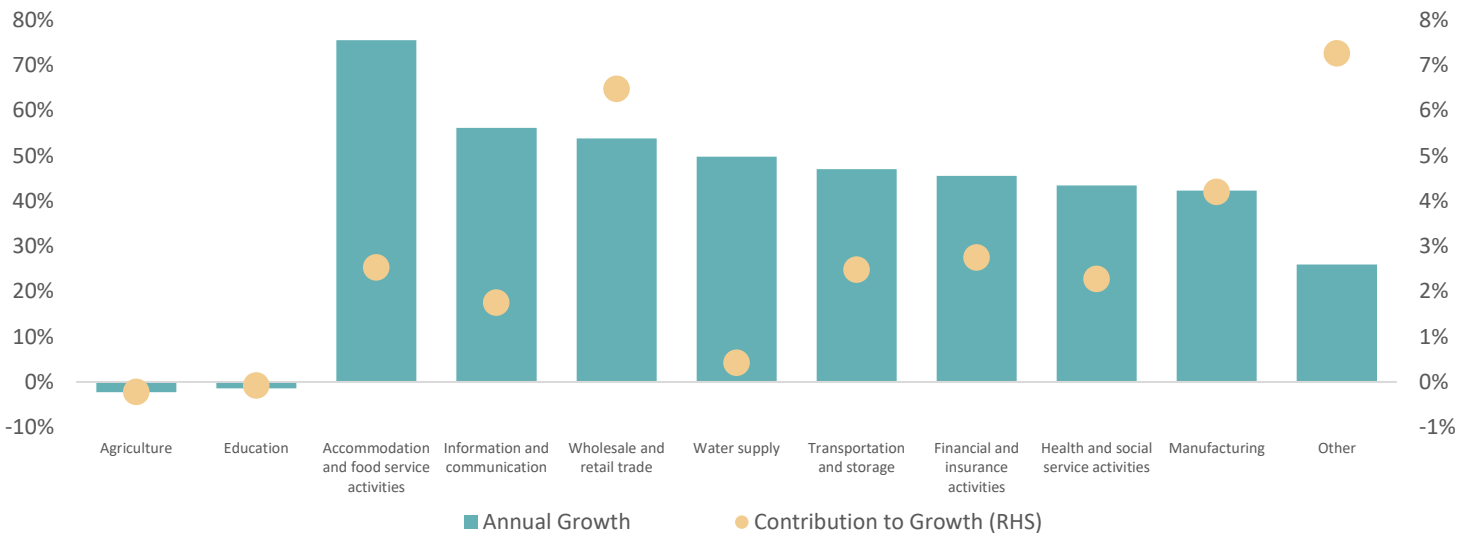
Economic Growth, 2021-2019



Source: Geostat, author's calculations

# According to preliminary estimates, real GDP increased by 29.9 percent in the second quarter of 2021

Real GDP growth by economic activity, 2021 II Quarter

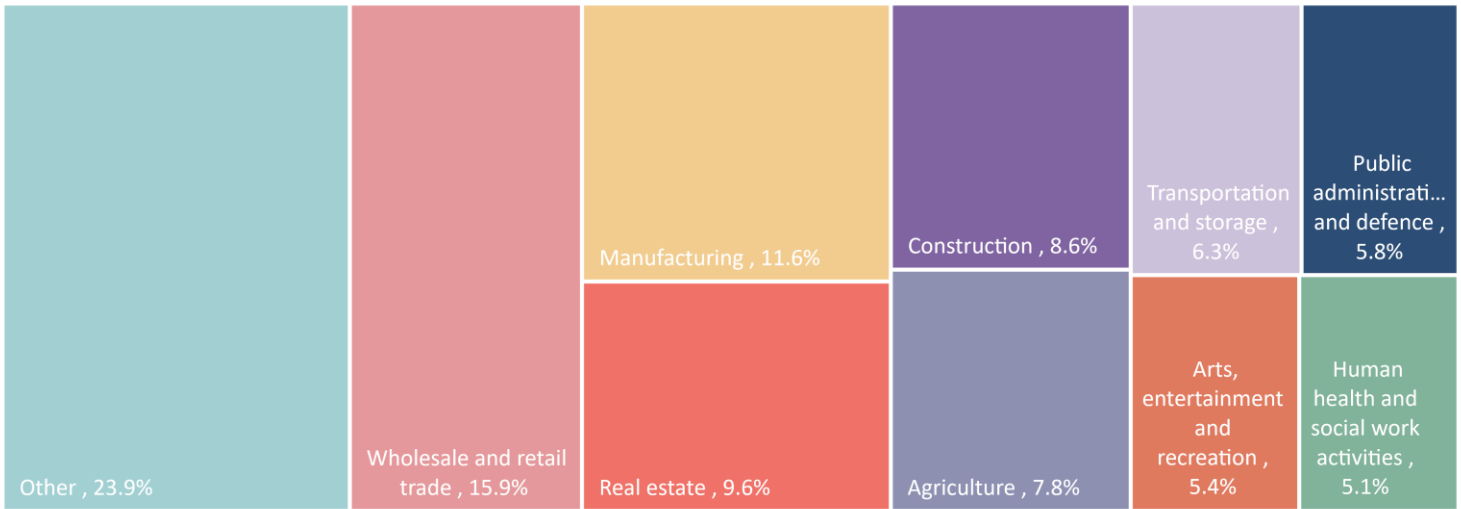


▪ According to preliminary estimates, in the second quarter of 2021, compared to the corresponding period of the previous year, real GDP increased by 29.9 percent and by 12.7 percent compared to the second quarter of 2019.

• The following industries have made a significant contribution to growth:

- Accommodation and food service activities: 75.5% y/y (2.5 pp)
- Information and communication: 56.2% y/y (1.8 pp)
- Wholesale and retail trade: 53.9% y/y (6.5 pp)
- Water supply: 49.8% y/y (0.4 pp)
- Transportation and storage: 47% y/y (2.5 pp)
- Financial and insurance activities: 45.5% y/y (2.8 pp)
- Health and social service activities: 43.4% y/y (2.3 pp)
- Manufacturing: 42.3% y/y (4.2 pp)

GDP by economic activity, 2021 II Quarter

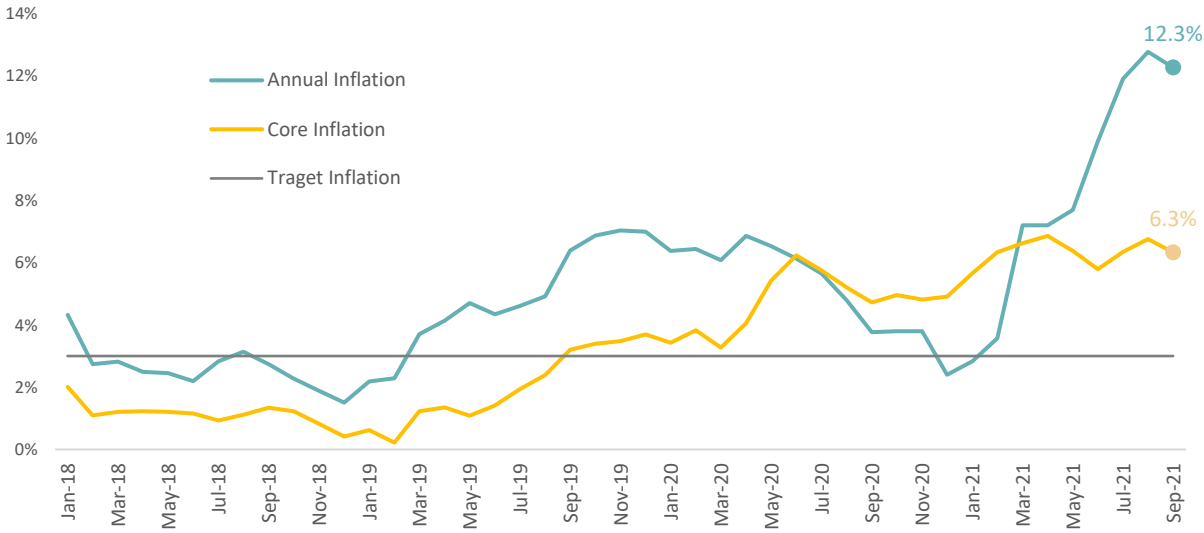


• The following industries have made a significant contribution to the decline:

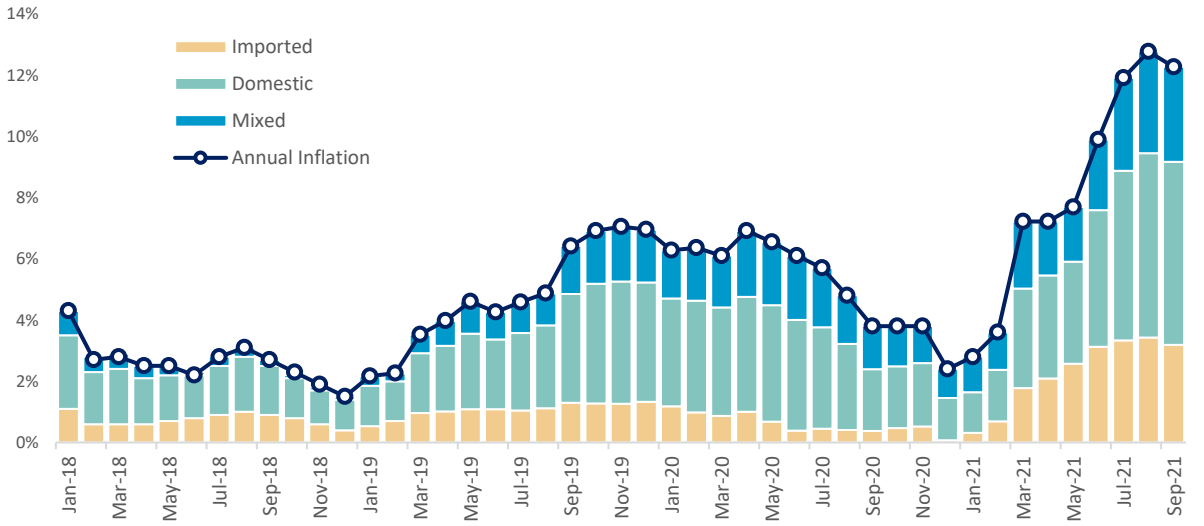
- Agriculture: -2.3% y/y (-0.2 pp)
- Education: -1.4% y/y (-0.1 pp)

# Annual inflation in September has reached 12.3 percent

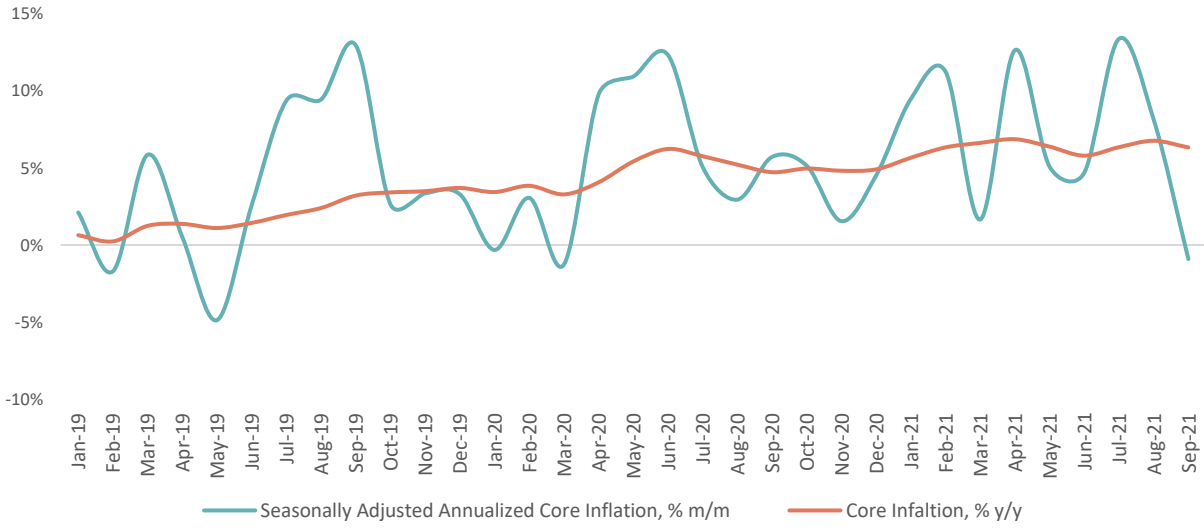
Total and Core Inflation, % y/y



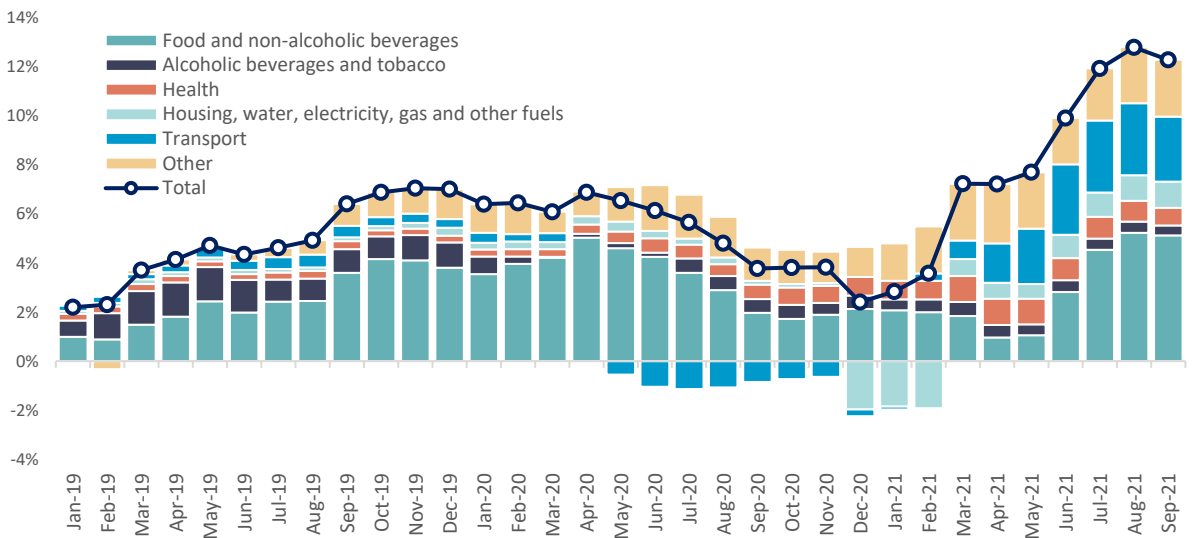
Inflation Decomposition



Core Inflation, % m/m



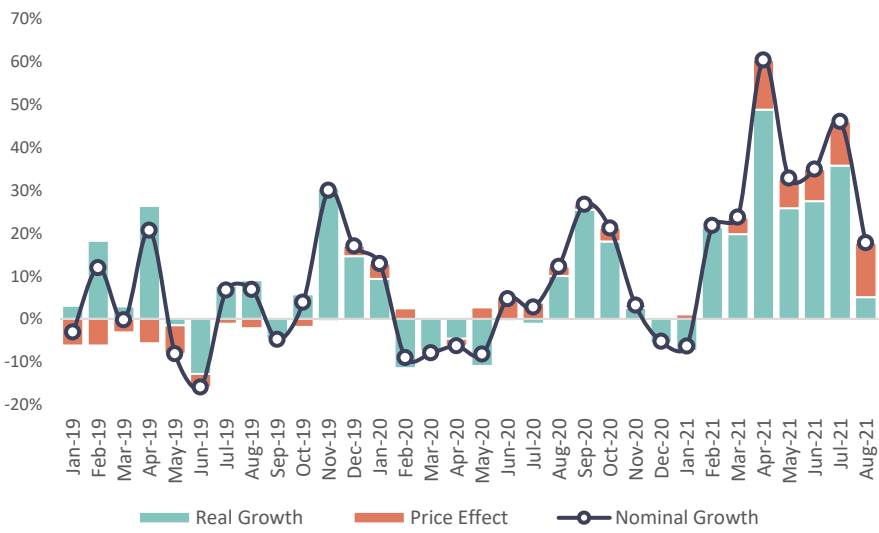
Inflation Decomposition by product group



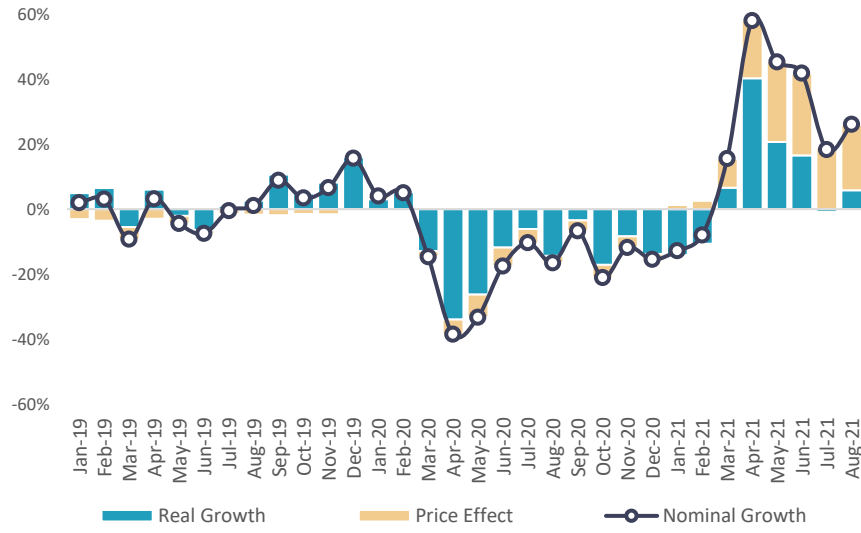
Source: Geostat, NBG, author's calculations

# Trade Deficit increased by 34.2 percent annually

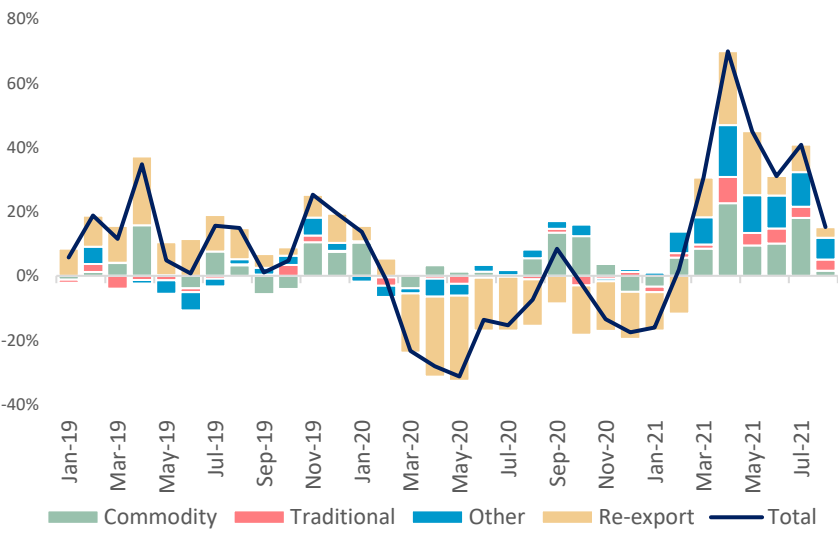
Change of Domestic Export, %/y



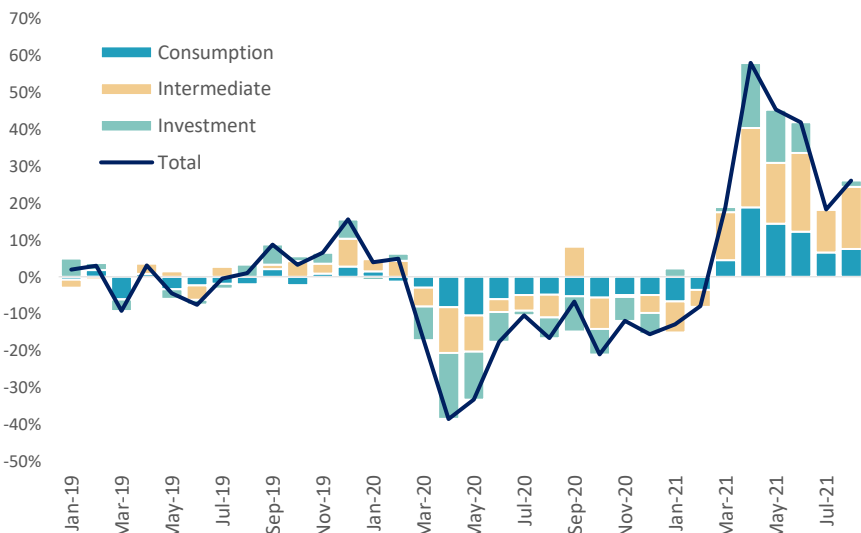
Change of Import, %/y



Decomposition of Export



Decomposition of Change of Import, %/y

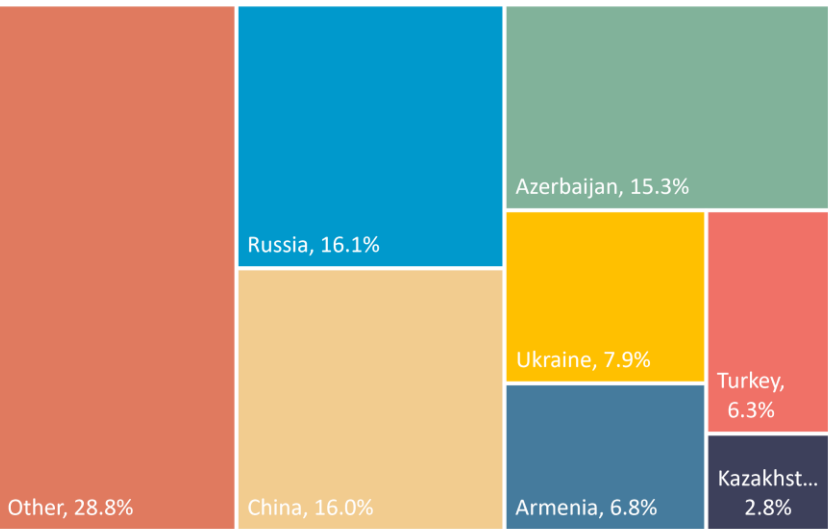


- Export increased annually by 15.7 percent to 338.2 million USD in August.
- Domestic export increased annually by 17.7 percent to 239.4 million USD.
- Import annually increased by 26.1 percent to 838.1 million USD in August.
- Trade deficit annually increased by 34.2 percent to 499.9 million USD in August.
- Share of re-export is equal to 29.4 percent, while share of commodity export equals to 33.3 percent.
- Contribution of import of Investment, Consumption and Intermediate goods to total import annual growth was equal to 7.6, 16.8 and 1.7 percent respectively.

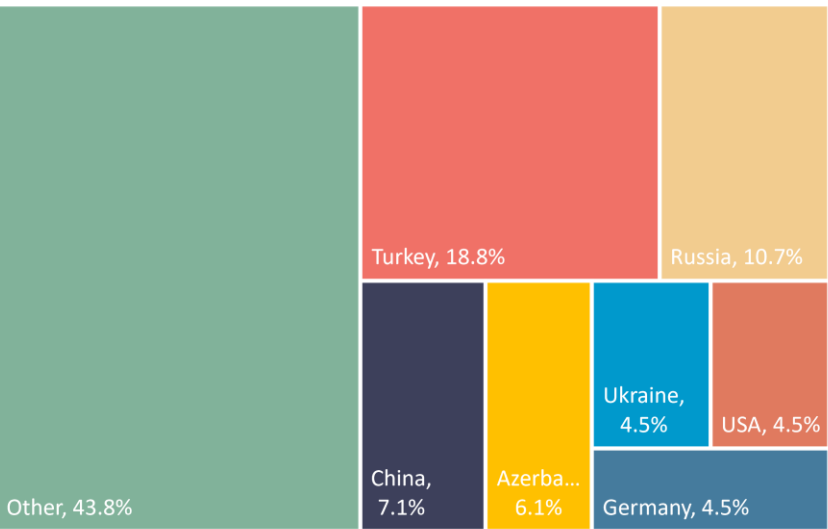
Source: Geostat, author's calculations

# International trade is characterized by stable diversification

Export by country, August 2021

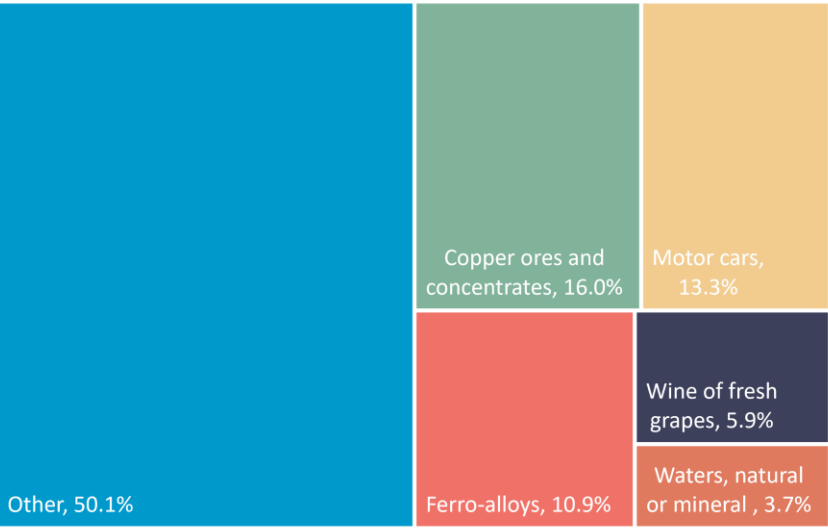


Import by country, August 2021

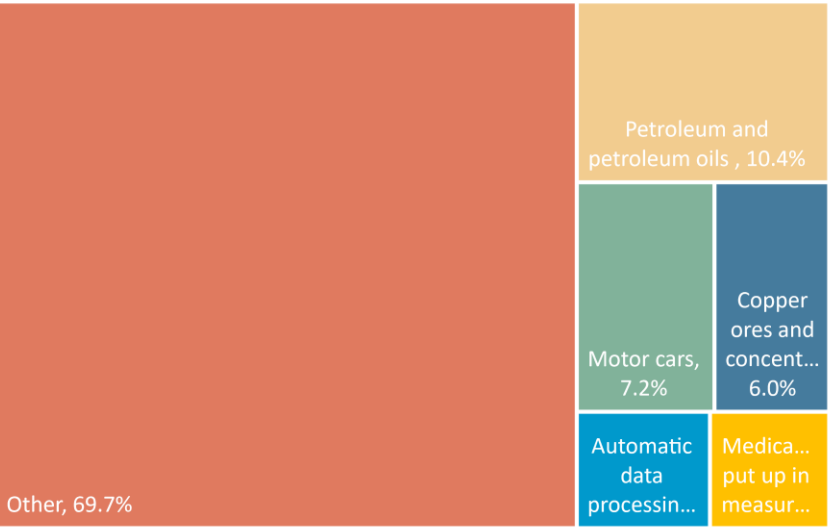


- Top Export Products:
  - Copper ores and concentrates: 54 mln. USD – 16 percent of total export.
  - Motor cars: 45 mln. USD – 13.3 percent.
  - Ferro-alloys: 36.9 mln. USD – 10.9 percent.
- Top Import Products :
  - Petroleum and petroleum oils : 87.1 mln. USD – 10.4 percent of total import.
  - Motor cars: 60.4 mln. USD – 7.2 percent.
  - Copper ores and concentrates: 50.3 mln. USD – 6 percent.

Export by product, August 2021



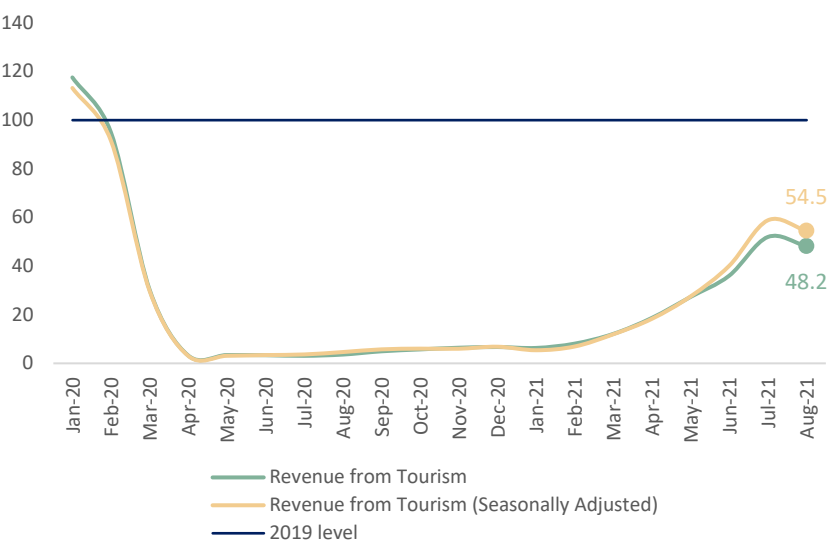
Import by product, August 2021



- Top Export Country:
  - Russia: 54.5 mln. USD – 16.1 percent.
  - China: 54.2 mln. USD – 16 percent.
  - Azerbaijan: 51.7 mln. USD – 15.3 percent.
- Top Import Country :
  - Turkey: 157.7 mln. USD – 18.8 percent.
  - Russia: 89.4 mln. USD – 10.7 percent.
  - China: 59.9 mln. USD – 7.1 percent.

# Tourism recovery has slowed down in August due to increase of COVID daily cases

Revenue from Tourism, 2019 = 100

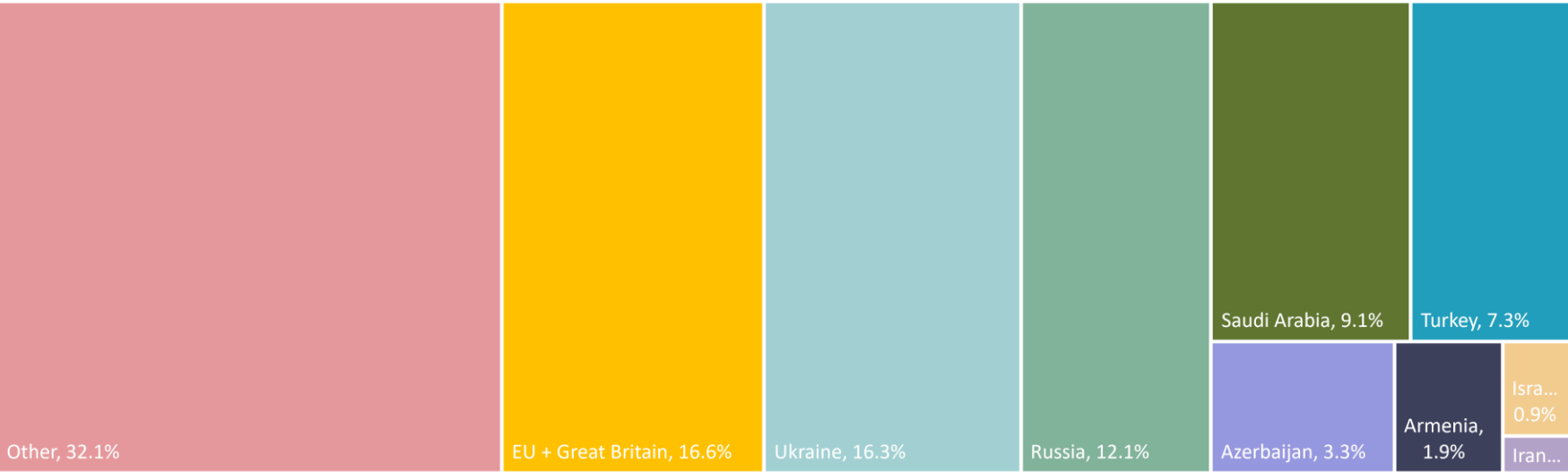


Revenue from Tourism, August 2021

Country	Tourism Revenue
EU + UK	33.1
Ukraine	32.5
Russia	24
Saudi Arabia	18.2
Turkey	14.6
Azerbaijan	6.5
Other	70

- In August 2021, tourism revenues increased by 1,243.6 percent to 198.8 million USD. Such high increase is mainly due to low level of tourism revenue inflow in August 2020 (14.8 million USD).
- Despite the slight recovery in the region and within the country, tourism sector activities remains on a lower levels compared to 2019. In particular, revenue from tourism in August 2021 decreased by 51.8 compared to August 2019.

Revenue from Tourism by country

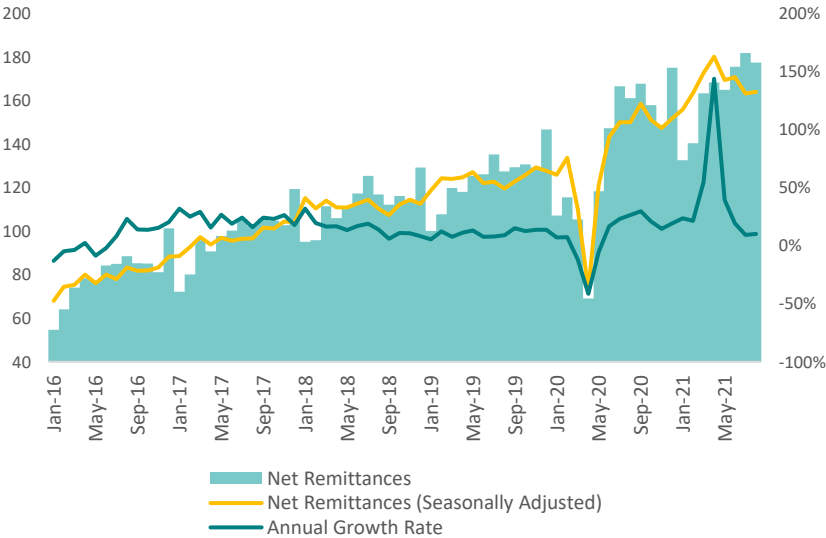


- At the same time, seasonally adjusted tourism revenues decreased by 19.7 percent compared to the previous month, which is partly due to increased daily COVID cases.



# Remittances are increasing as a result of economic activity in the region

Net Remittances

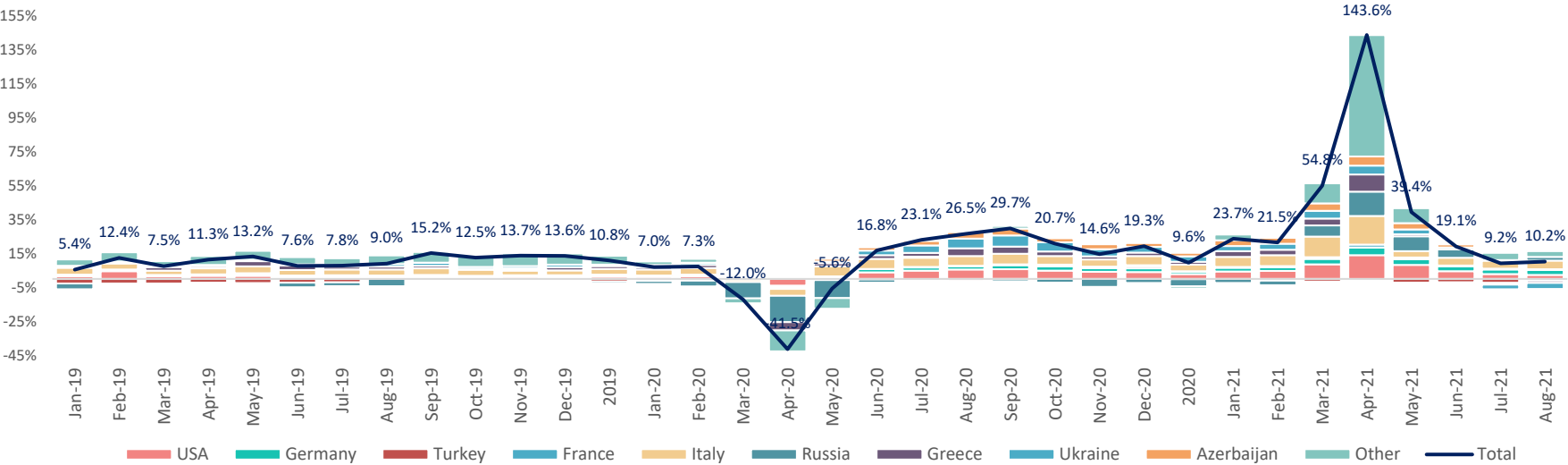


Net Remittances, August 2021

Country	Net Remittances	Change, %y/y	Share, %
Russia	30,125.0	8.5%	1.5%
Italy	33,007.3	19.6%	3.4%
USA	24,259.5	11.2%	1.5%
Greece	18,171.3	-7.4%	-0.9%
Israel	16,258.5	16.3%	1.4%
Turkey	3,106.6	-24.9%	-0.6
Other	52,530.2	13.8%	4.0%

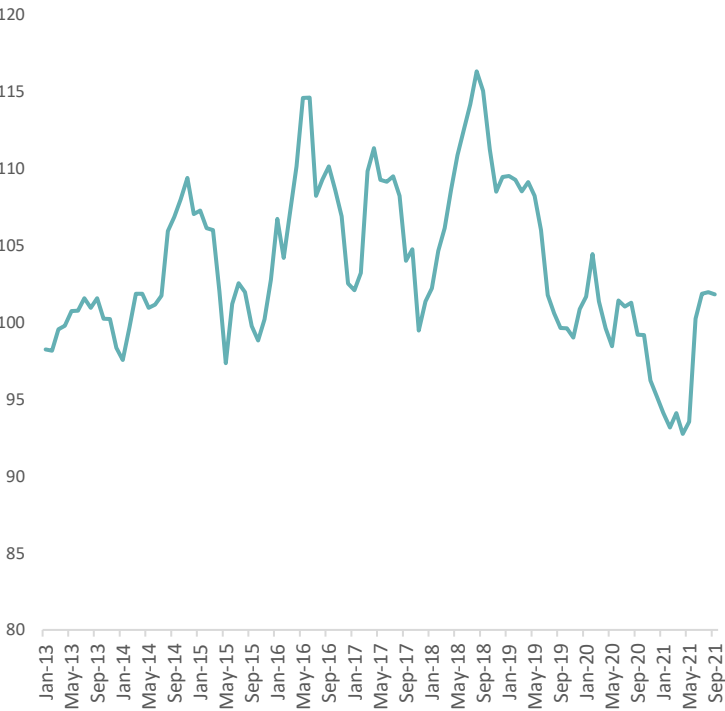
- In August 2021, net remittances were estimated at 177.5 million USD, representing a 10.2 percent annual increase.
- Net Remittances increased from:
  - Russia: 8.5 percent (1.5 p.p. contribution to overall growth).
  - Italy: 19.6 percent (3.4 p.p. contribution to overall growth).
  - USA: 11.2 percent (1.5 p.p. contribution to overall growth).
  - Israel: 16.3 percent (1.4 p.p. contribution to overall growth).
- Net Remittances decreased from:
  - Greece: 7.4 percent (-0.9 p.p. contribution to overall growth).
  - Turkey: 24.9 percent (-0.6 p.p. contribution to overall growth).

Net Remittances by country, %y/y

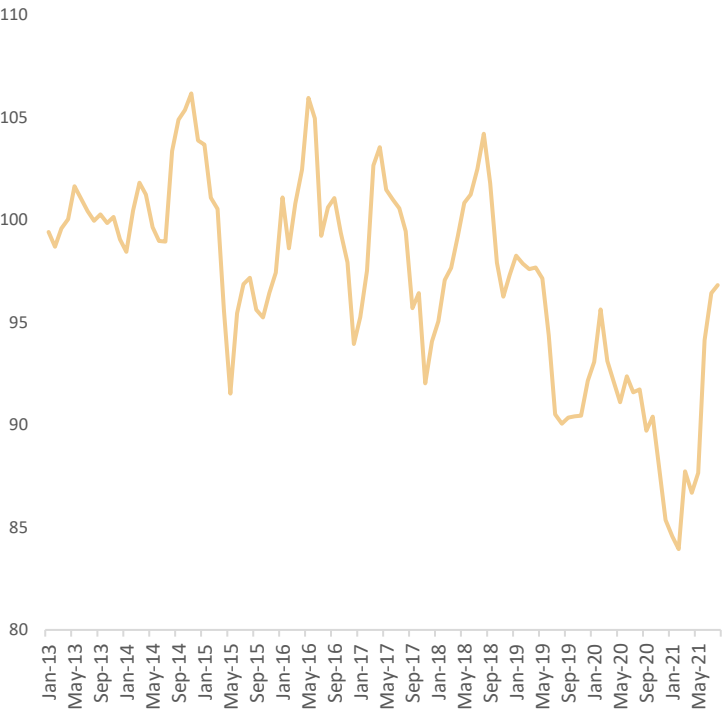


The real effective exchange rate in August appreciated by 5.6 percent annually

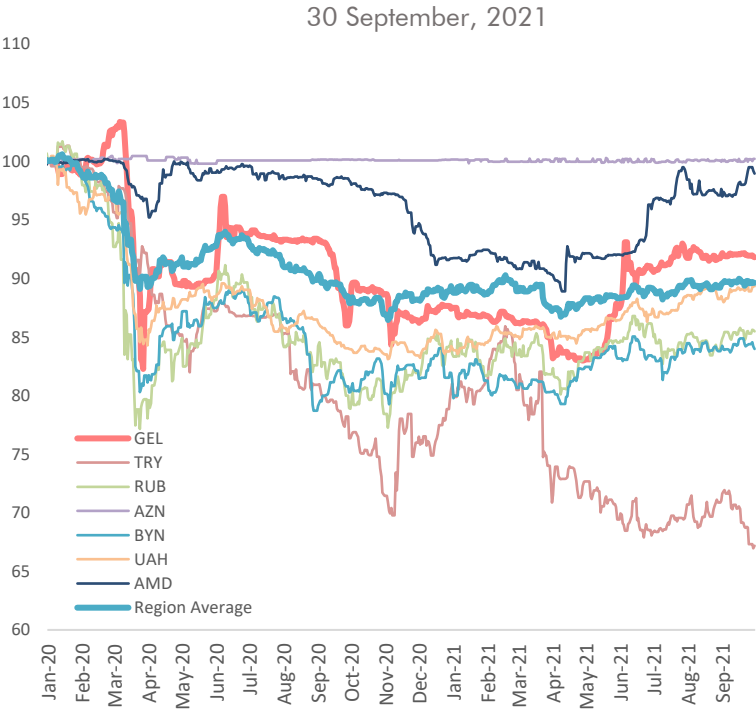
NEER: 2013 = 100



REER: 2013 = 100



USD Exchange Rates

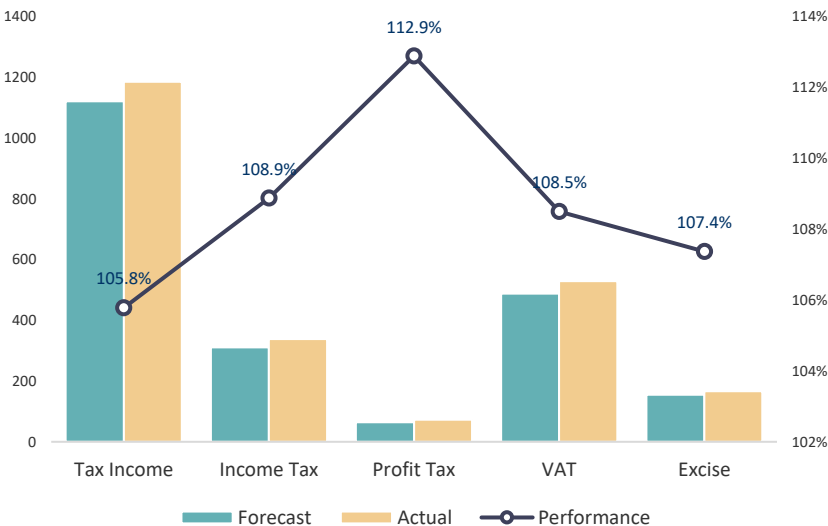


Note: Increase means appreciation

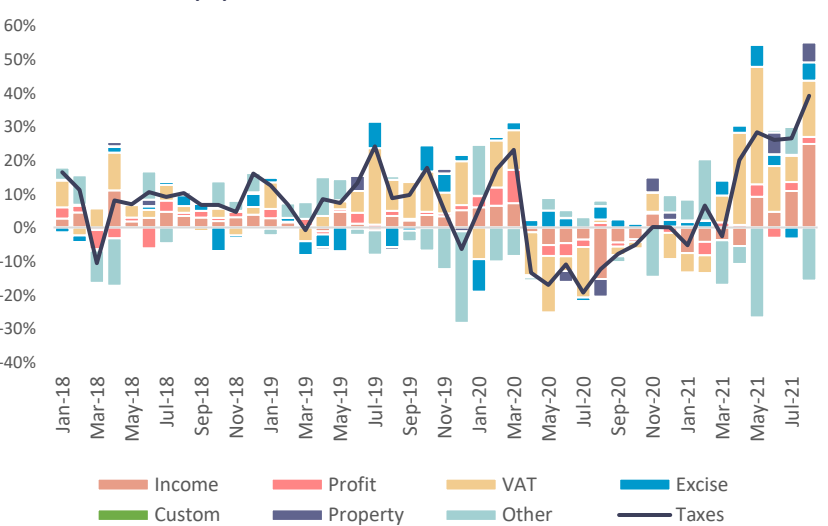
	30 September, 2021	30 September 2021 - 1 January 2021	31 September 2021 - 1 January 2020
Euro	3.6409	-11.7%	-16.0%
US Dollar	3.1228	-8.2%	-14.4%
Turkish Lira	0.3525	36.7%	43.4%
Russian Ruble	0.0429	7.4%	-10.6%
NEER	109.82	-0.7%	-7.9%
REER (August, 2021)	119.01	13.4%	5.1%

# Tax revenues in the first 9 months exceeded the forecast value by 1 percent

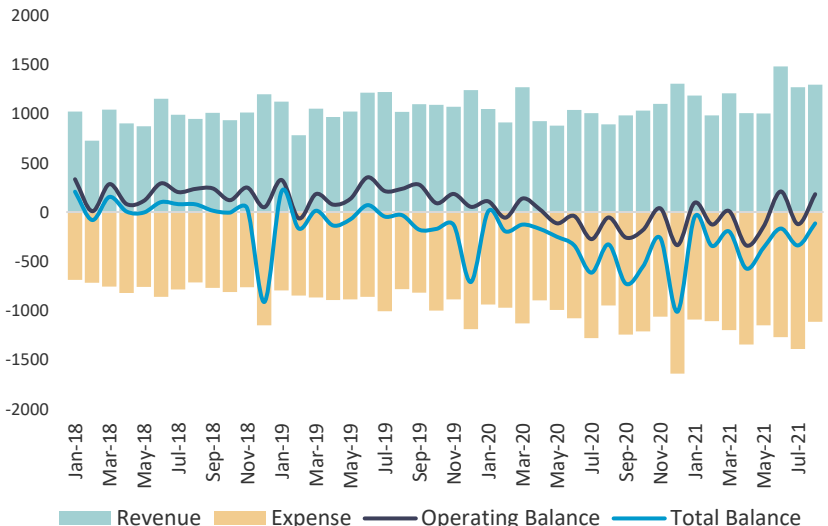
Budget Revenue Performance, September 2021



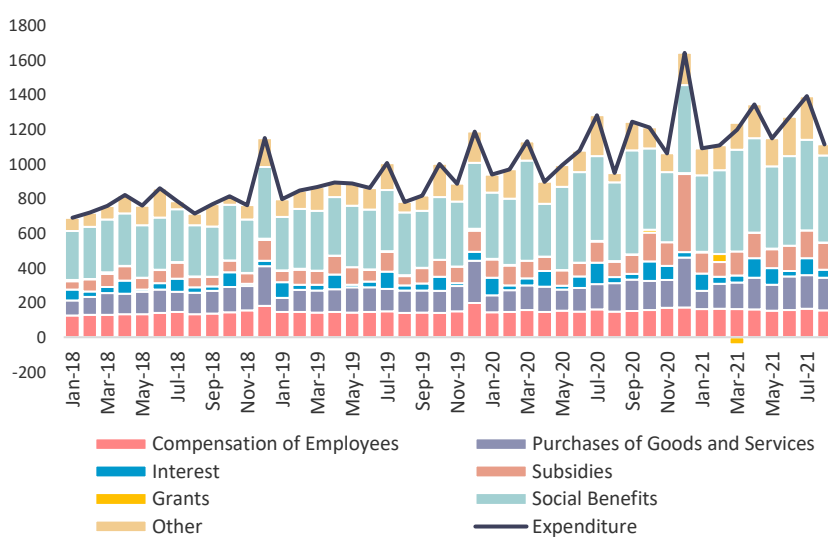
Tax Income, % y/y



Consolidated Budget, mln GEL



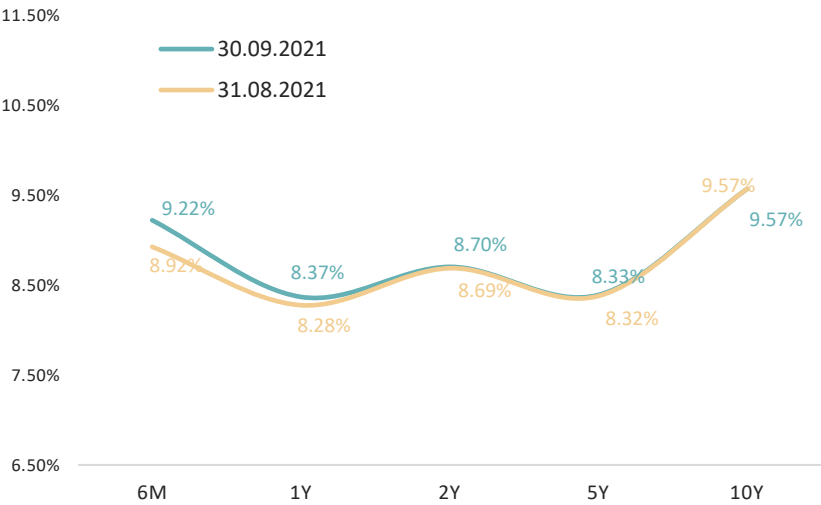
Consolidated Budget Expenditure, mln GEL



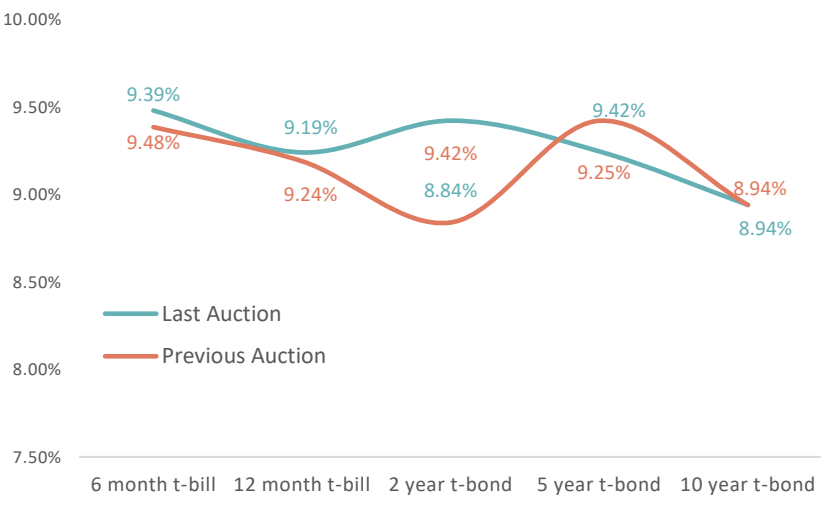
- The forecast of tax income for January-September 2021 is 9,406 million GEL, while the actual figure for January-September 2021 is 1 percent higher than planned and equals to 9,504.7 mln GEL.
- The actual level of tax income in September was 1,185.6 mln GEL, which is 5.8 percent higher compared to the forecasted value of tax income of 1,120.8 mln GEL.
- Consolidated budget revenues increased by 45 percent and expenditures increased by 17.5 percent.
- The operating budget of the consolidated budget, which represents the savings of the government, amounted to 182.7 million GEL, while the total balance was set at -114.7 million GEL.
- Revenue from taxes had a significant impact on revenue from Income tax and VAT, accounting for 24.9 and 16.7 percent of total growth, respectively.

# The structure of the securities portfolio has undergone minor changes

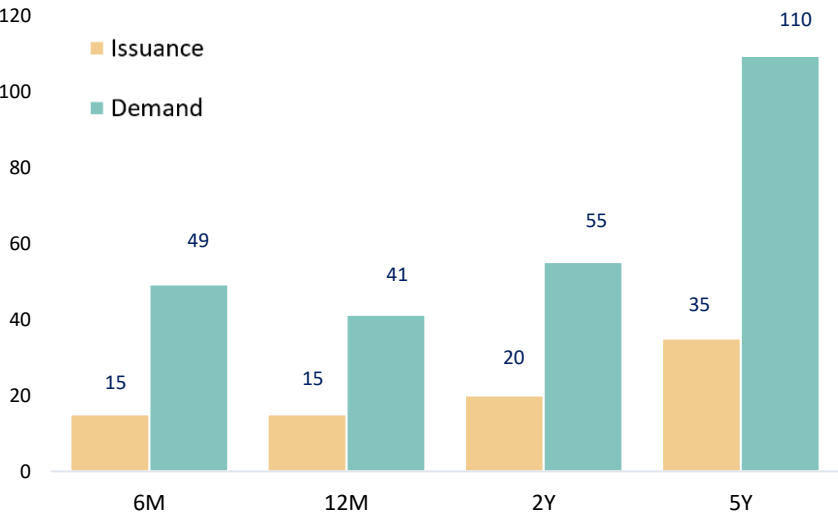
Portfolio Yield Curve



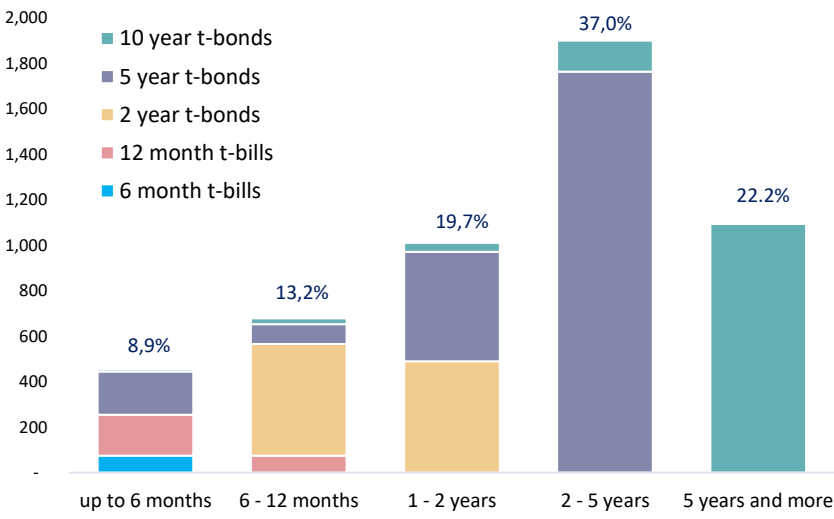
Weighted average interest rates



Issuance and Demand, mln GEL



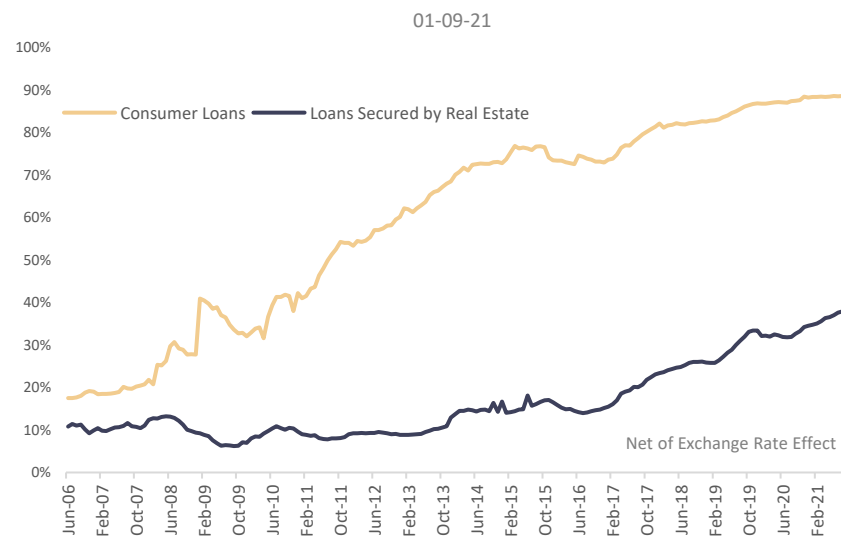
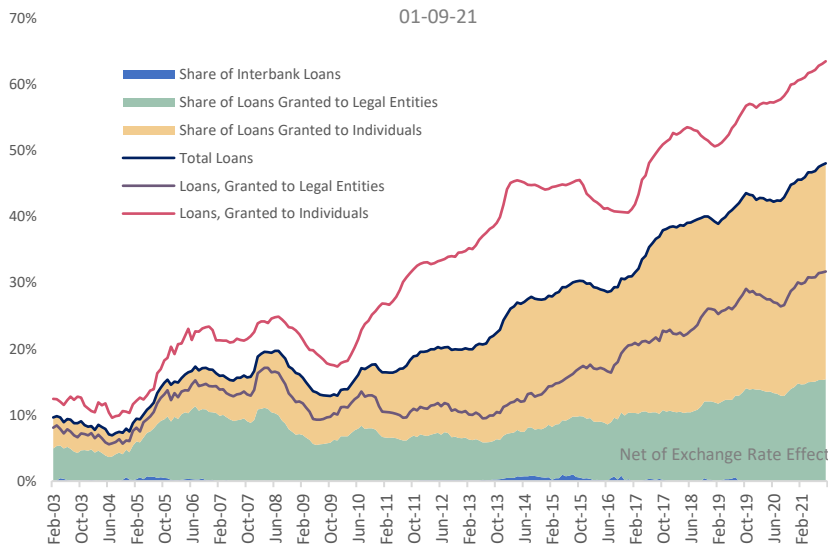
Portfolio Forming Securities Composed by Time to Maturity



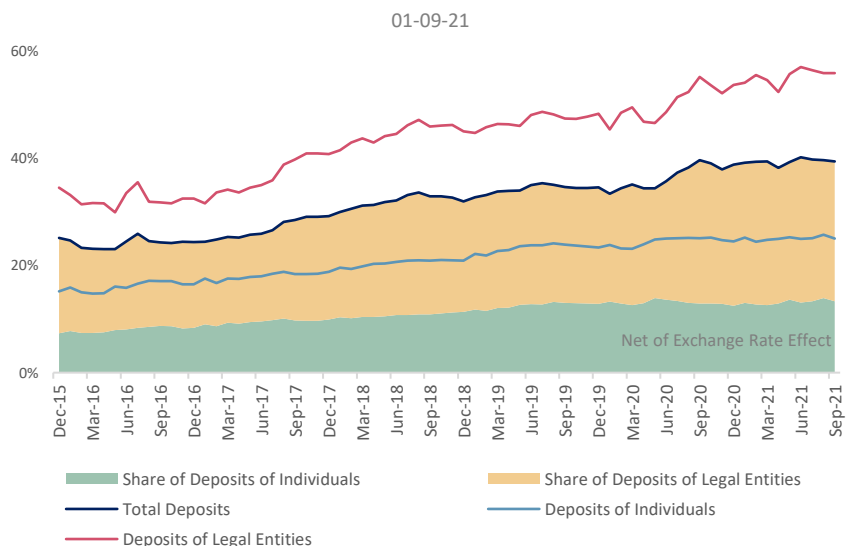
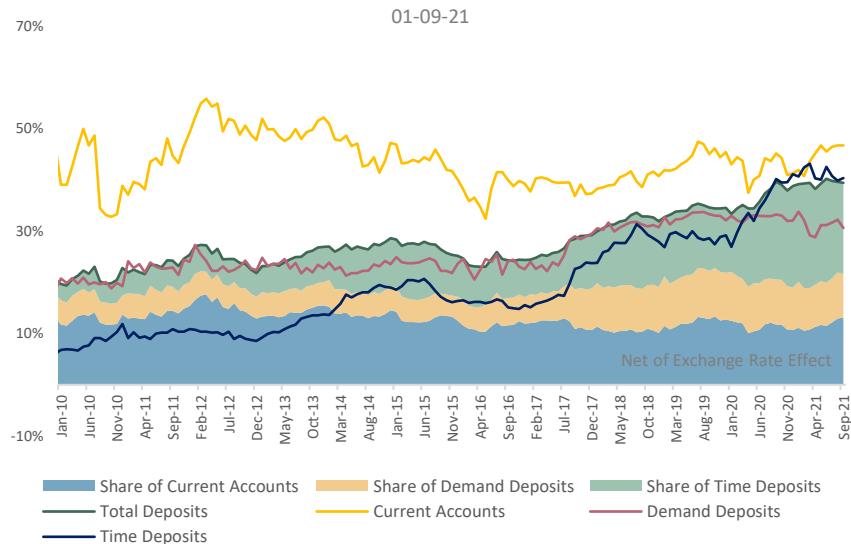
- In September 2021, 4 auctions were held with total issuance volume of 85 million GEL.
- The weighted average interest rate amounted to 9.328 percent.
- There were issued treasury bills with maturities of 6 months and 12 months; Treasury bonds with maturities of 2 and 5. Treasury securities with total amount of 65 million GEL were redeemed.
- As of September 30, 2021 22.1 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 2.97) and is 3.

# The larization rates continue to rise

## Loan Larization



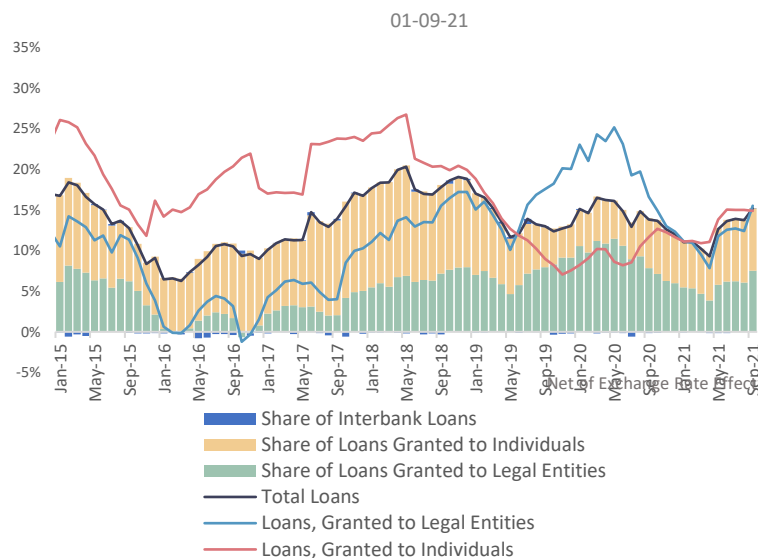
## Deposit Larization



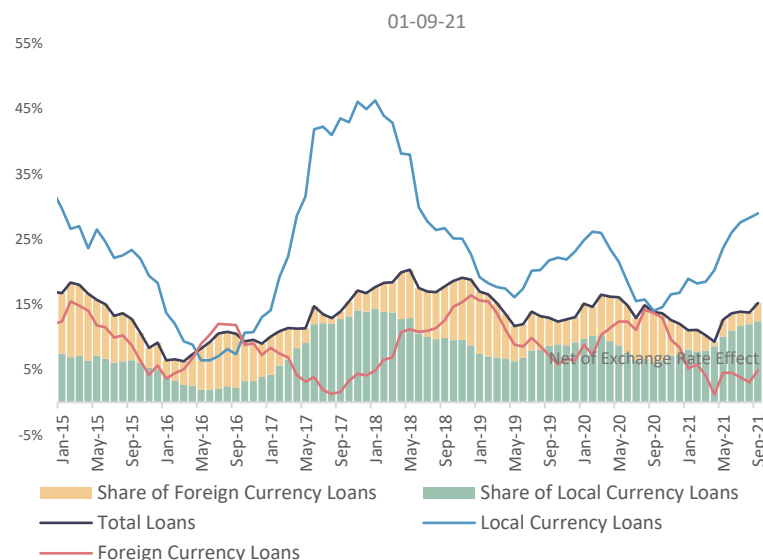
- As of September 1, 2021, the larization of total loans is 48 percent.
- The larization of loans to individuals is 63.4 percent.
- The larization of loans to legal entities amounted to 31.7 percent.
- The larization of total deposits equals to 39.4 percent.
- The larization on deposits of legal entities amounted to 55.8 percent.
- The larization of deposits of individuals is 25 percent.
- The larization of time deposits is 40.3 percent.
- The larization of current accounts equals to 46.7 percent.
- The larization of demand deposits is 30.6 percent.

# The annual growth trend of loans is revealed

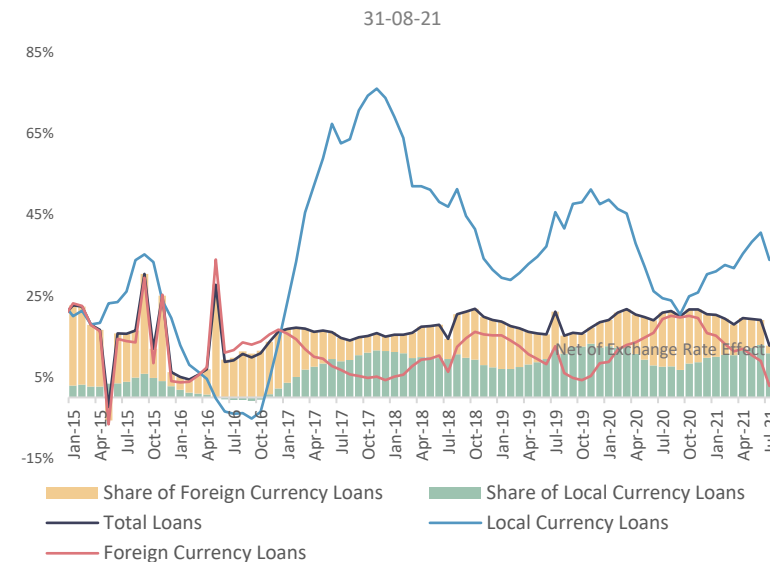
Loans, % y/y



Loans by Currency, % y/y



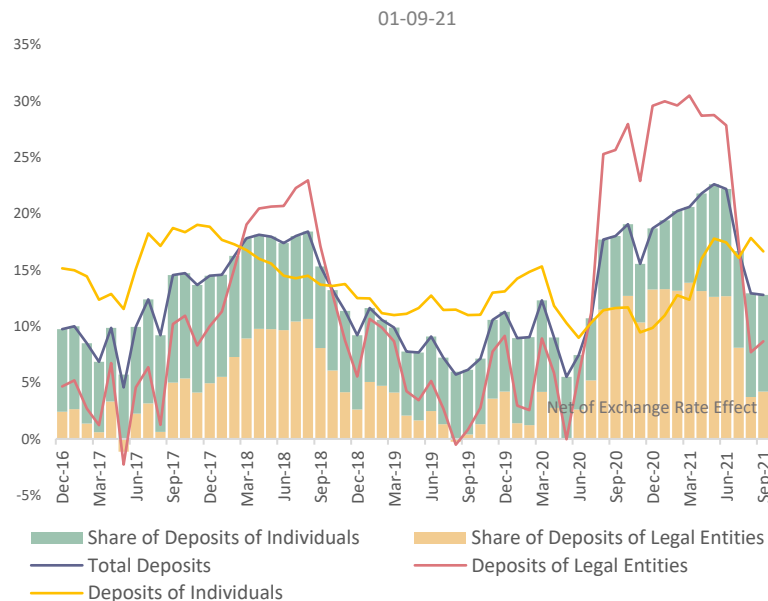
Mortgage Loans, % y/y



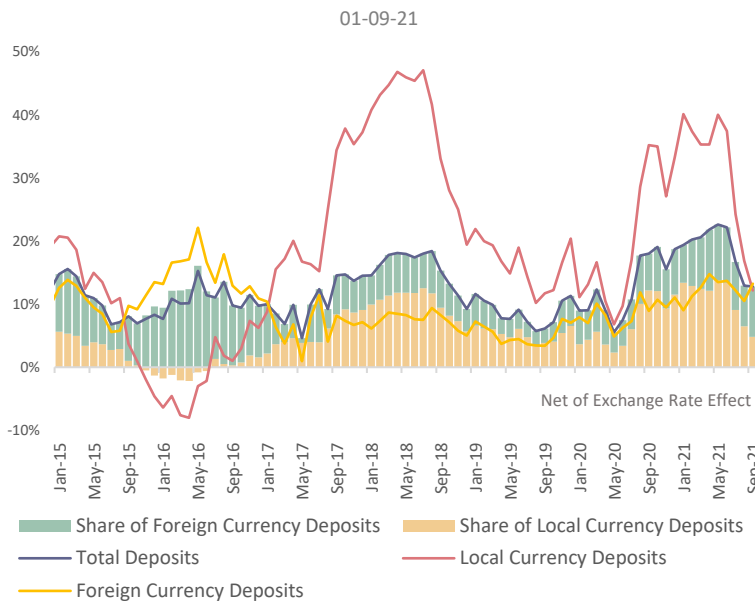
- As of September 1, 2021, total loans increased by 15.2 percent compared to the corresponding period of 2020 (excluding exchange rate effects).
- The annual growth of loans to legal entities is 15.5 percent.
- The annual growth of loans to individuals is 14.9 percent.
- As of September 1, 2021, the growth rate of loans denominated in the national currency amounted to 28.9 percent.
- The annual growth of loans denominated in foreign currency amounted to 4.9 percent.
- As of August 31, 2021, the annual growth of loans secured by real estate amounted to 15.6 percent. At the same time, mortgage loans denominated in national currency increased by 34.1 percent, while mortgage loans denominated in foreign currency increased by 6.7 percent.

# The growth of deposits denominated in national currency exceeds that of foreign currency

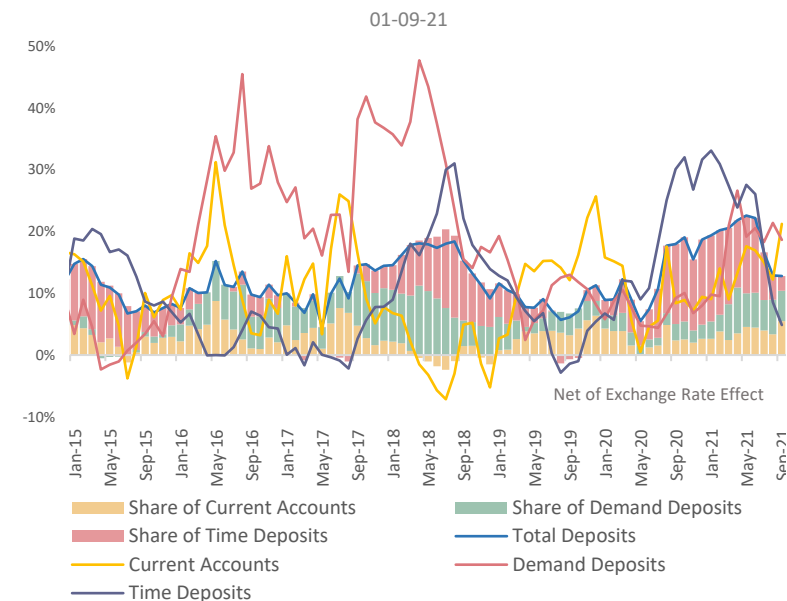
Deposits, % y/y



Deposits by Currency, % y/y



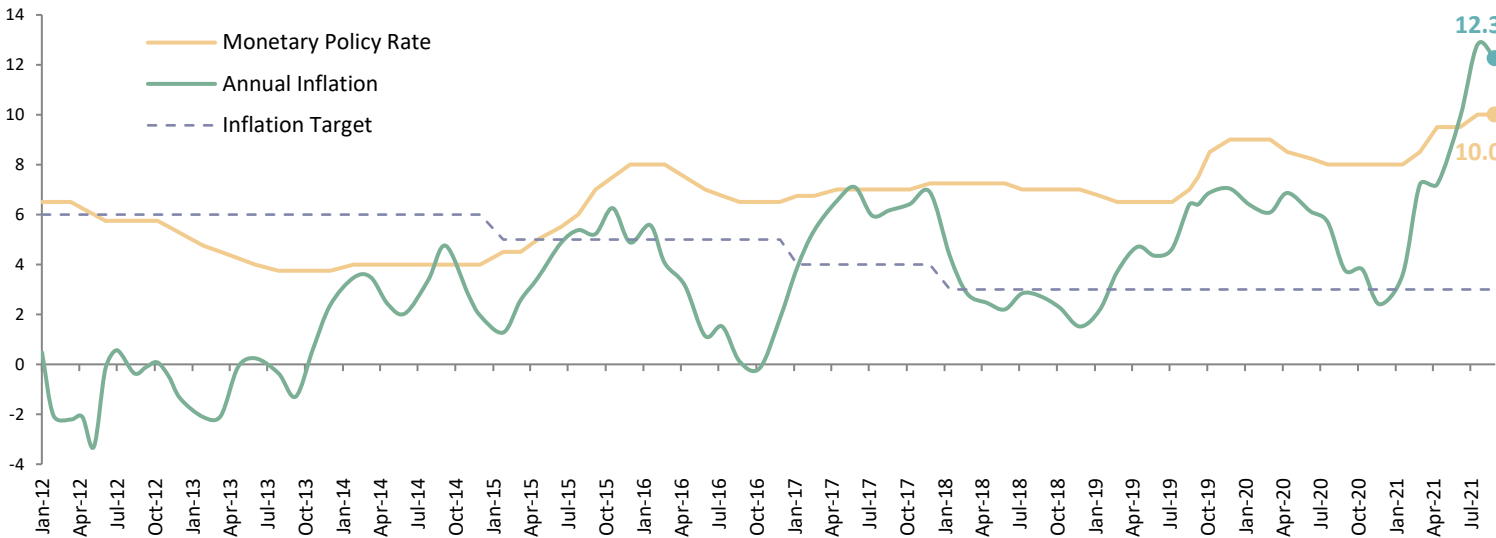
Deposits by type, % y/y



- As of September 1, 2021, the growth of total deposits compared to the corresponding period of the previous year is 13 percent.
- The annual growth of deposits denominated in the national currency amounted to 12 percent. The annual growth of deposits denominated in foreign currency is relatively stable at 13 percent over the same period.
- The growth of deposits of individuals amounted to 17 percent, while the annual growth of deposits of legal entities showed a significant increase and its value in the same period amounted to 9 percent.
- The annual growth of current accounts at the beginning of September 2021 was equal to 21.2 percent.
- The annual growth of time deposits was 4.9 percent and significantly contributed to the growth of total deposits.
- The growth of demand deposits amounted to 18.6 percent.

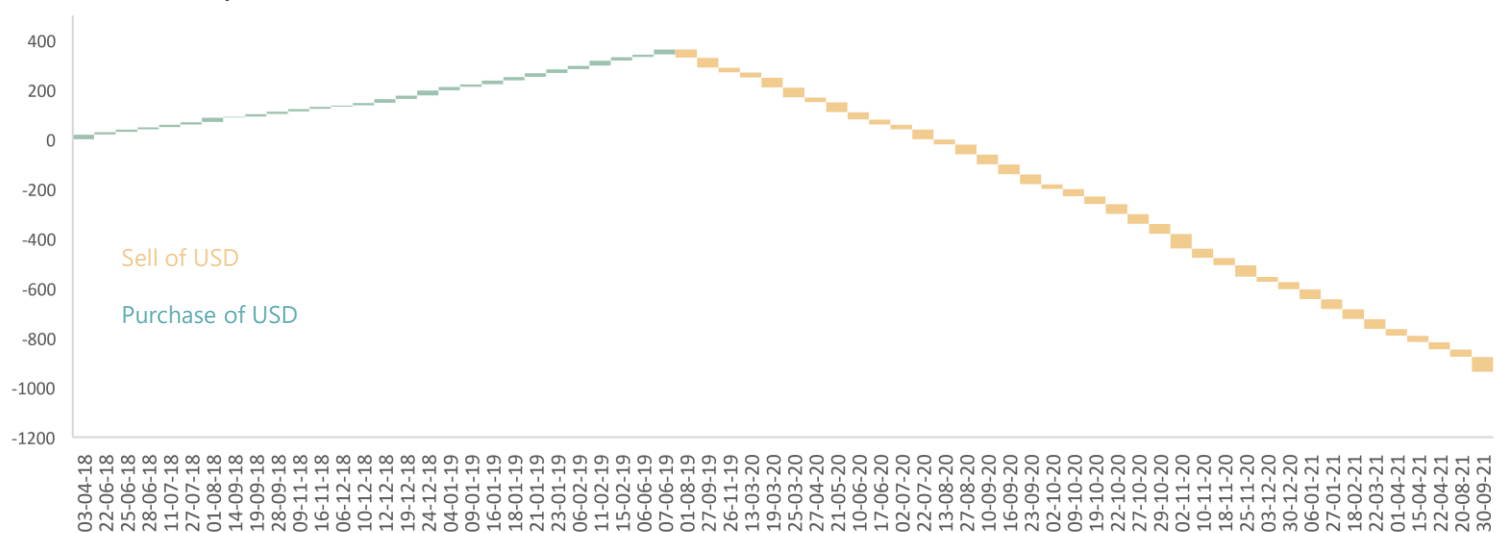
# The National Bank of Georgia has left the monetary policy rate unchanged at 10 percent

Inflation and Monetary Policy Rate



- On September 15, 2021, the Monetary Policy Committee of the National Bank of Georgia decided to leave the refinancing rate unchanged.
- The monetary policy rate is 10 percent.
- According to the NBG, the upward pressure on inflation depends on sharply increased prices for food and oil in world markets. International transportation costs have also increased significantly, affecting the prices of imported products.
- According to the National Bank, all other things equal, inflation will remain high for the rest of the year. Inflation will decline significantly from spring 2022, which, along with the fading-out of temporary factors, will be facilitated by tight monetary policy and fiscal consolidation.
- The next meeting of the Monetary Policy Committee will be held on October 27, 2021.
- In September 2021, the National Bank sold 60 million USD.

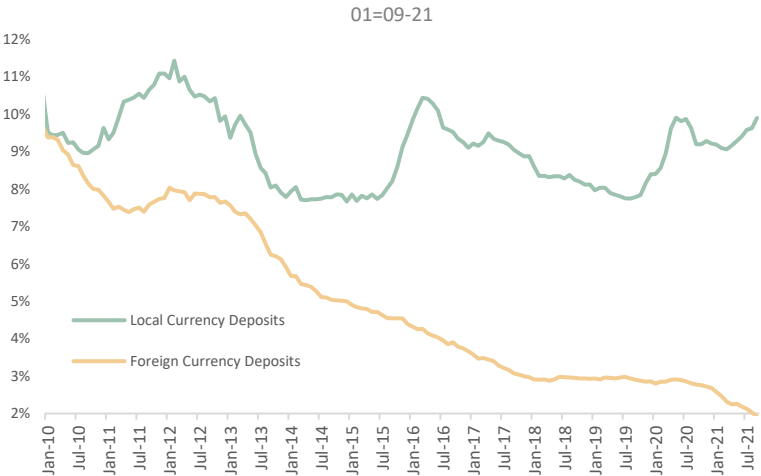
Trade of USD by NBG, mln USD



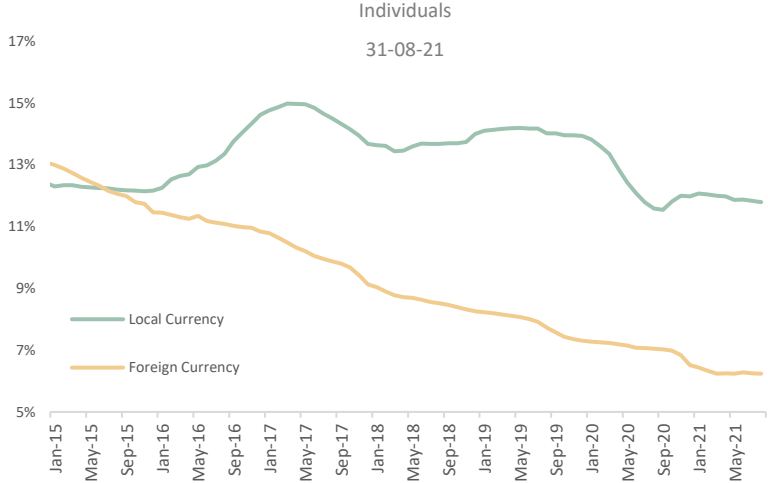
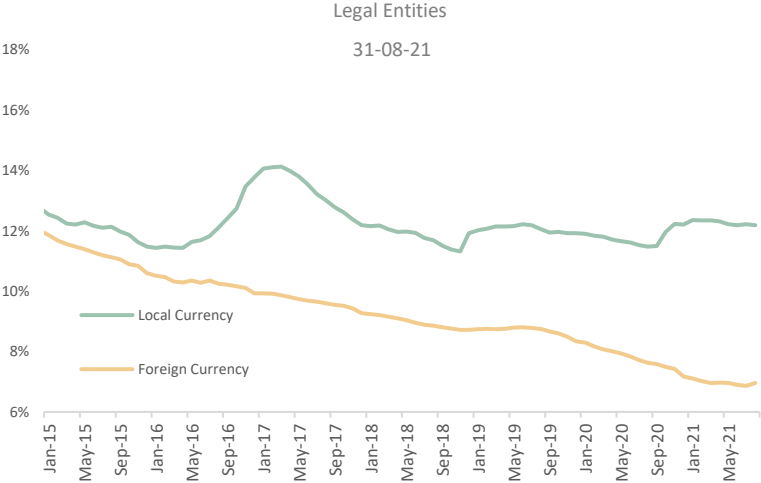


# Market interest rates increased in national currency and decreased in foreign currency

Interest Rates on Deposits



Interest rates on Loans secured by Real Estate



- As of September 1, 2021, the interest rate on foreign currency deposits was 1.9 percent, and in national currency - 9.9 percent.
- The weighted average interest rate on deposits in the national currency by legal entities was 10.1 percent, and in foreign currency - 2 percent.
- The average annual interest rate on deposits by individuals is 1.9 percent for foreign currency deposits and 9.4 percent for national currency deposits.
- The weighted average annual interest rate on short-term consumption loans was 17.6 percent (21.1 percent in national currency and 6 percent in foreign currency).
- The weighted average annual interest rate on long-term consumption loans was 17.2 percent (18.4 percent in national currency and 7.2 percent in foreign currency).
- At the end of August 2021, the interest rate on mortgage loans denominated in local currency issued to legal entities was 13.4 percent, and in foreign currency – 6.9 percent. The interest rate on loans to individuals in the national currency was 12.7 percent, and in foreign currency - 6 percent.

## Disclaimer

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