



CURRENT ECONOMIC OUTLOOK

January, 2021



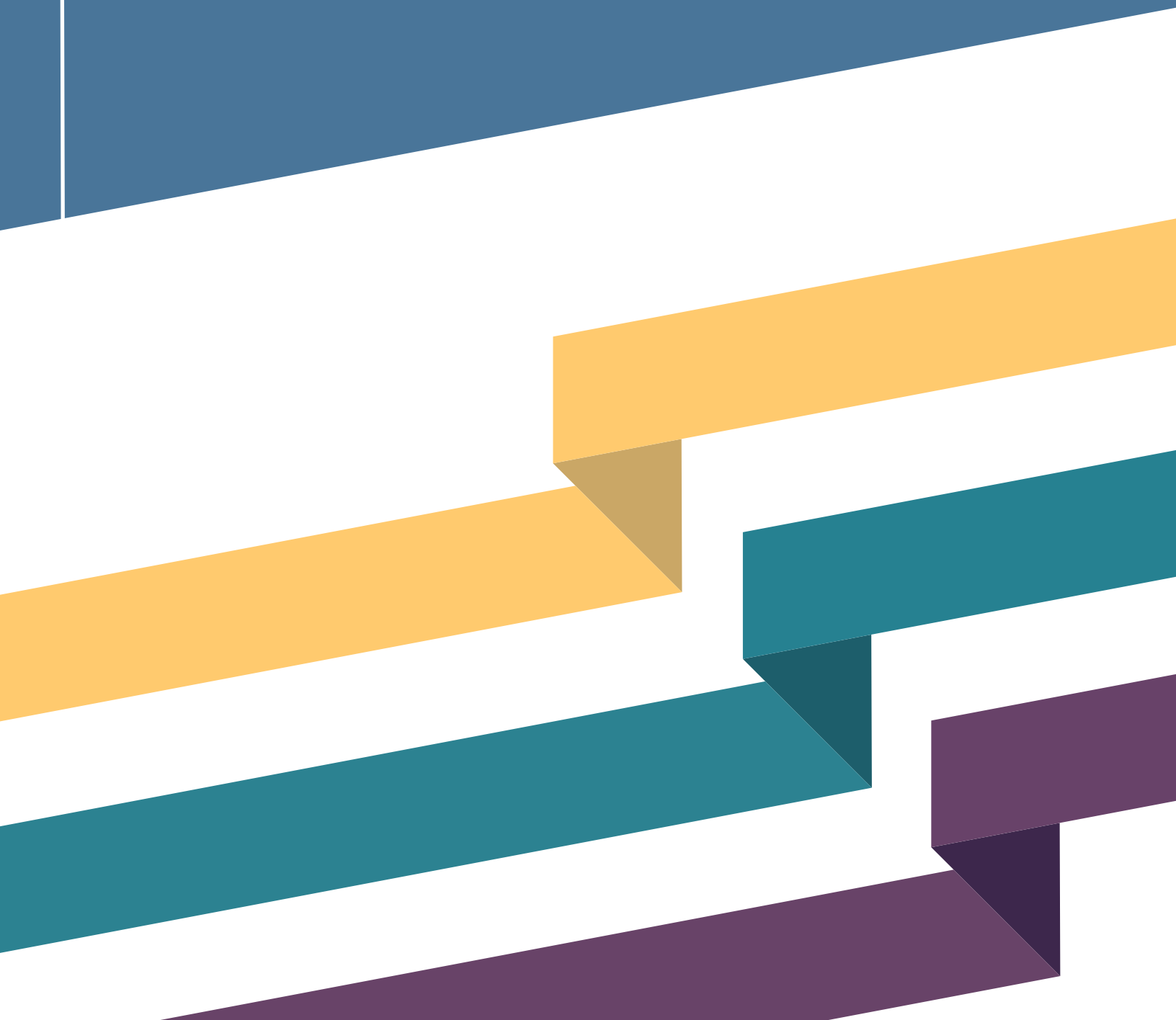
Brief Summary

Based on Geostat's preliminary data, annual real economic growth in December equals to -7.9 percent. Average growth rate in 2020 equals to -6.4 percent.

Annual inflation in January equals to 2.8 percent, while core inflation - 5.7 percent.

Export annually decreased by 17.7 percent in December.

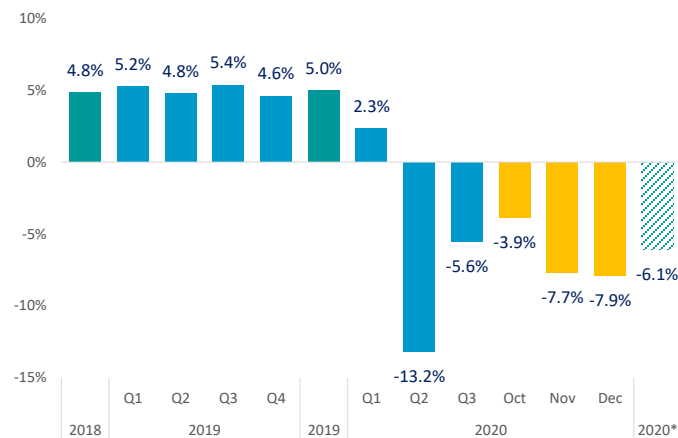
Import annually decreased by 17.9 percent in December.



Economic Growth

In December 2020, compared to the corresponding period of the previous year, the decrease in real GDP amounted to 7.9 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 December 2020, compared to the same period of the previous year, a decrease was observed in the following activities: accommodation, construction, arts, entertainment and leisure, manufacturing, transport and warehousing, wholesale and retail trade; Repair of cars and motorcycles. Growth was observed in the following areas: financial and insurance activities, water supply, sewerage, waste management and clean-up activities, information and communication, mining industry. Real growth averaged -6.5 percent in the fourth quarter.

Figure 1: Economic Growth



Source: Geostat

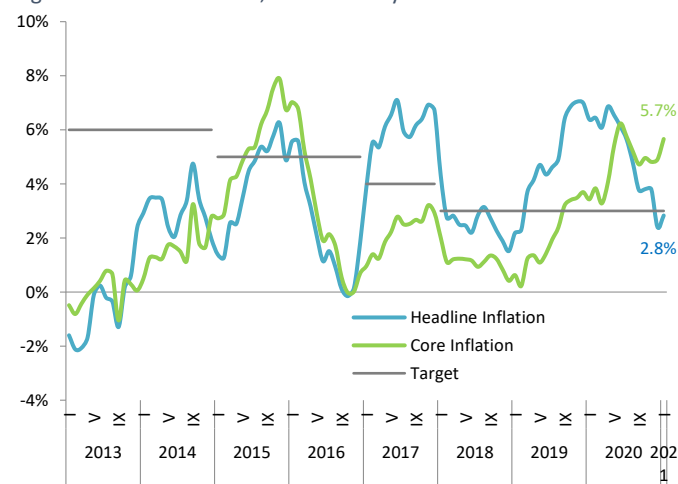
Price Level

As of January 2021, the inflation rate was 2.8 percent compared to the same period last year. Core inflation (excluding tobacco) was 5.7 percent in the corresponding period.

The main impact on the formation of annual inflation was the price dynamics of furniture, household items, home care (+10.8 percent), health care (+9.7), alcohol and tobacco (+6.9), food and non-alcoholic beverages (+6.4). And annual decline was observed in housing, water, electricity, gas (-20.5) and transport (-0.9).

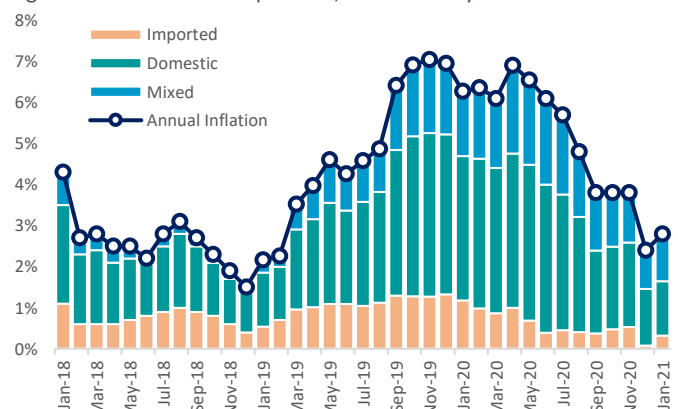
At the same time, in January 2021, inflation was 1.1 percent compared to the previous month. Prices increased in the following categories: food and non-alcoholic beverages (+2 percent), housing, water, electricity, gas (+1.9), furniture, household items, home care (+1.6).

Figure 2: Annual Inflation, 2021 January



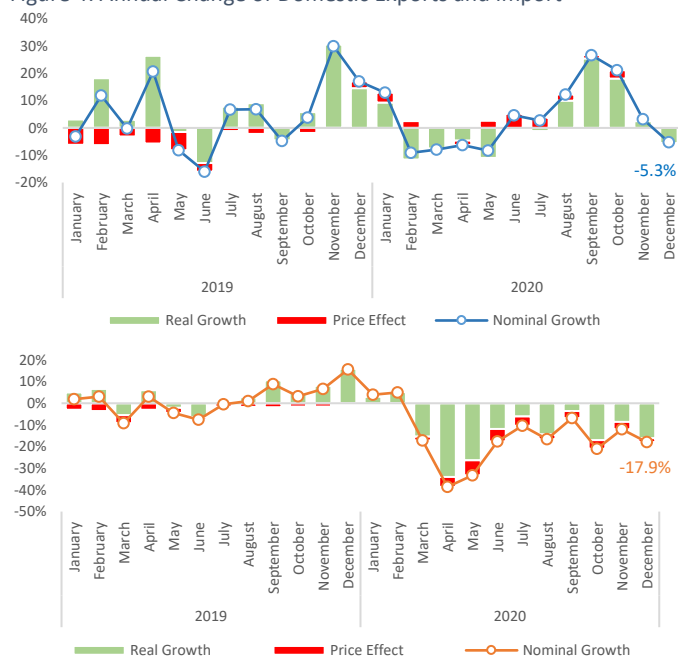
Source: NBG

Figure 3: Inflation Decomposition, 2021 January



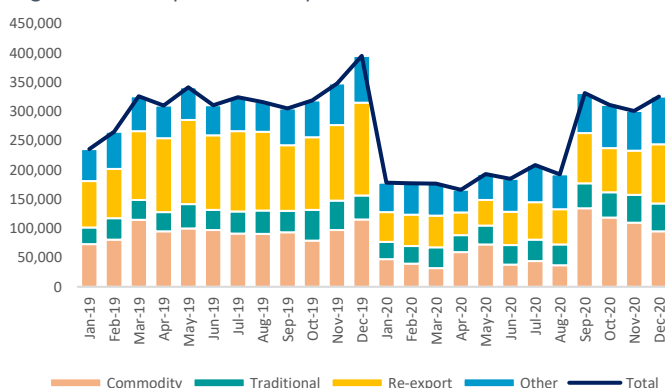
Source: Geostat

Figure 4: Annual Change of Domestic Exports and Import



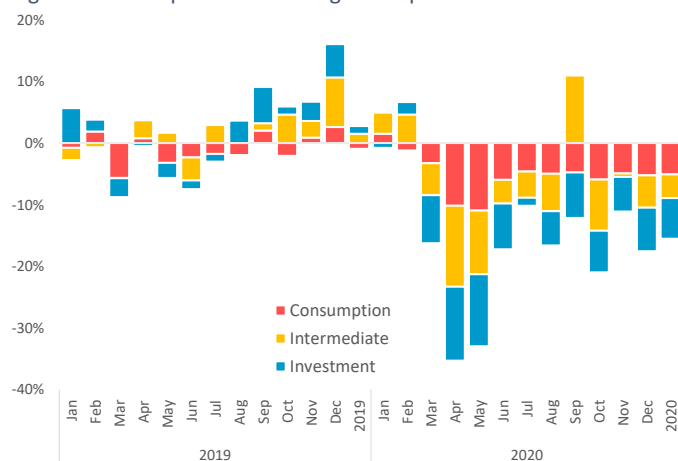
Source: Geostat

Figure 5: Decomposition of Export



Source: Geostat

Figure 6: Decomposition of Change of Import



Source: Geostat

External Trade

In December 2020, export annually decreased by 17.7 percent (while domestic exports decreased by 5.3 percent) and reached value of 325.7 mln USD, while import decreased by 17.9 percent reaching 798.9 mln USD. These changes caused decrease of the trade deficit by 21.9 percent compared to previous year and was equal to 574.6 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 December 2020 real growth of domestic exports was equal to -5.6 percent, and real growth of import was -16.2 percent. The share of re-exports was 31.2 percent, while exports of commodity was - 29.2 percent.

In December 2020, import of investment, consumption and intermediate goods decreased by 7, 5.3 and 5.2 percent respectively (contribution to total growth).

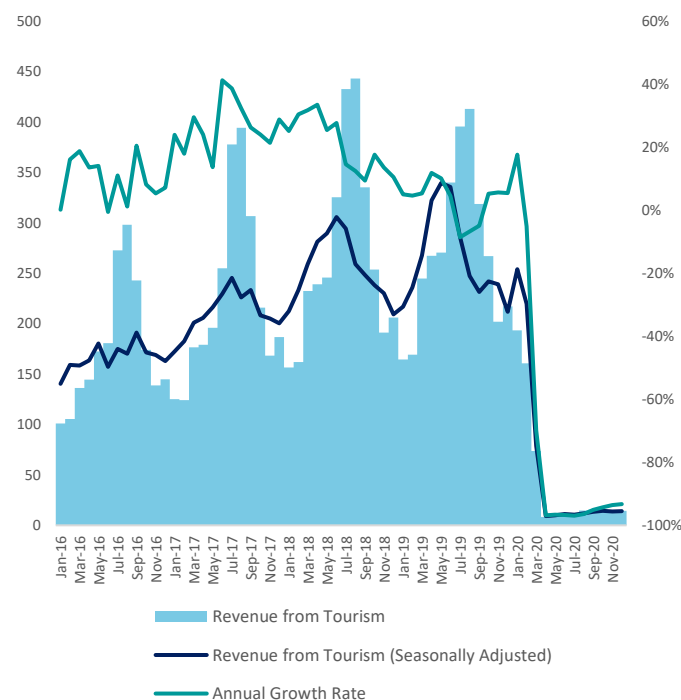
In December 2020, the first place in the top ten export goods from the commodity groups was occupied by copper ores and concentrates with 52.3 million USD (16 percent of total exports), second place – motor cars - 39.3 million US dollars (12.1 percent of total exports), and third – wine - 24.1 million U.S. dollars (7.4 percent of total exports). The largest import commodity group in December 2020 was the group of motor cars, whose imports amounted to 59.4 million USD and accounted for 7.4 percent of total imports. Also significant were petroleum and petroleum oils with 47.5 million (5.9 percent of imports) and medicine with 46.4 million U.S. dollars (5.8 percent of imports).

In December 2020, the largest export partners are Russia (44.5 million US dollars, 13.7 percent of total exports), Azerbaijan (41.7 million US dollars, 12.8 percent) and China (30.4 million US dollars, 9.3 percent). The largest importing partner countries are Turkey (149 million USD, 18.6 percent of total imports), Russia (98 million USD, 12.3 percent) and China (62.4 million USD, 7.8 percent).

Tourism

In December 2020, revenue from tourism fell 93.3 percent to 14.5 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

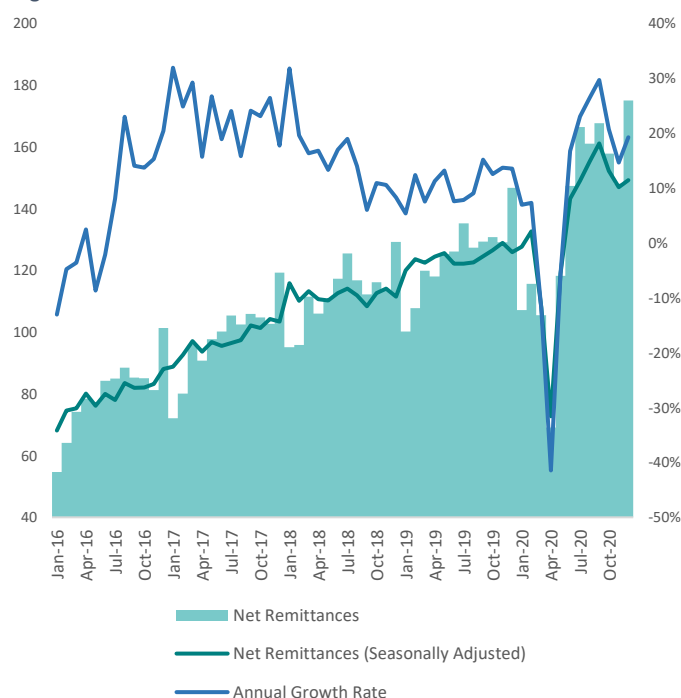


Source: NBG

Remittances

In December 2020, net remittances totaled 175 million USD, which is 19 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 33.8 percent from Italy (5.4 percent contribution to total growth), 36.9 percent from USA (4 percent contribution to total growth), 64.4 percent from Germany (2.1 percent contribution to total growth). Remittances from Ukraine and Azerbaijan also increased significantly. At the same time, decrease was recorded at 10 percent from Russia (-2.4 percent contribution to total growth).

Figure 8: Net Remittances



Source: NBG

Exchange Rate

As of January 31, compared to January 1, 2020, the nominal effective exchange rate of the GEL has depreciated by 7.9 percent, and compared to January 1, 2019 by 14.1 percent. At the same time, the real effective exchange rate in December depreciated by 12.3 percent compared to January of the previous year and by 7.4 percent compared to January 2020. The real effective exchange rate index depreciated by 2.9 percent compared to the previous month.

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

	January 31, 2021	Jan 31, 2021 - Jan 1, 2020	Jan 31, 2021 - Jan 1, 2019
Euro	4.0037	▼ -19.7%	▼ -23.6%
US Dollar	3.3026	▼ -13.2%	▼ -19.1%
Turkish Lira	0.4504	▲ 6.9%	▲ 12.2%
Russian Ruble	0.0434	▲ 6.3%	▼ -11.5%
NEER	109.82	▼ -7.9%	▼ -14.1%
REER (December 2020)	104.93	▼ -7.4%	▼ -12.3%

Source: NBG

Budget Revenue Performance

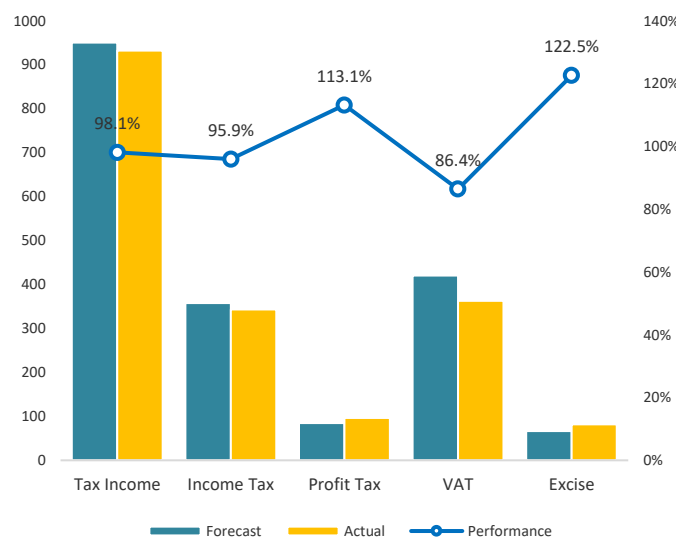
The forecast of tax income for January 2021 is 950 million GEL, while the actual figure for January 2021 is 2 percent less than planned and equals to 931.8 mln GEL.

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 343.4 mln GEL, which is 95.9 percent of forecasted value (358 mln GEL).
- Revenue from Profit tax was equal to 96.2 mln GEL, which is 113.1 percent of projected value (85 mln GEL).
- Revenue from VAT was equal to 362.7 mln GEL, which is 86.4 percent of the forecasted value of 420 mln GEL.
- Revenue from Excise tax amounted 81.9 mln GEL, which is 66.8 percent of the forecasted value of 122.5 mln GEL.
- Revenue from Custom tax was equal to 4.4 mln GEL, which is 74 percent of the forecasted value (6 mln GEL).

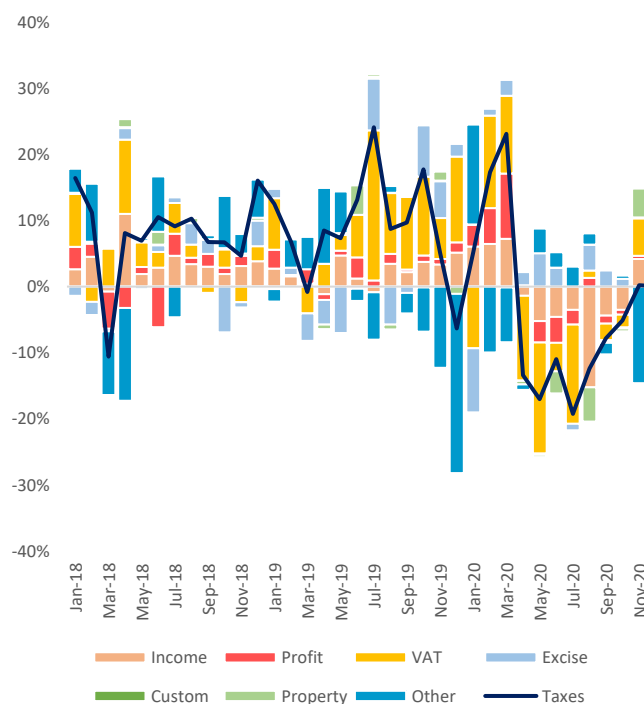
In December 2020, compared to the same period of the previous year, consolidated budget revenues increased by 5.2 percent and expenditures increased by 38.3 percent. At the same time, the operating balance of the consolidated budget, which represents the savings of the government, amounted to -335.1 million GEL, while the total balance was set at -1,011.3 million GEL. Overall, tax revenue was significantly impacted by annual growth of revenue from VAT revenues, which fell by 14.5 percent year-on-year and contributed -7.8 percent to overall growth.

Figure 11: Budget Revenue Performance



Source: MOF

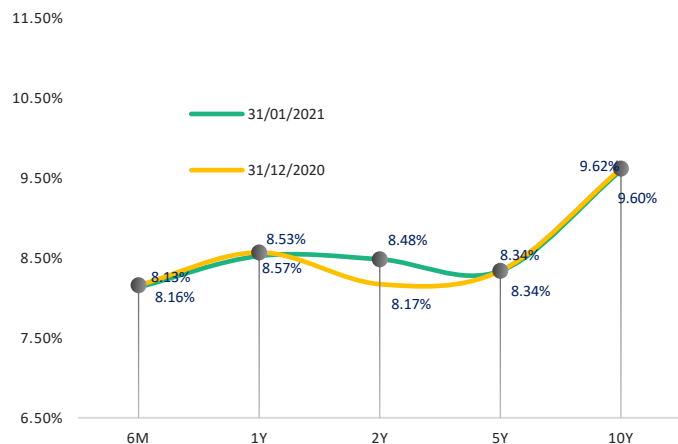
Figure 12: Tax Income



Source: MOF

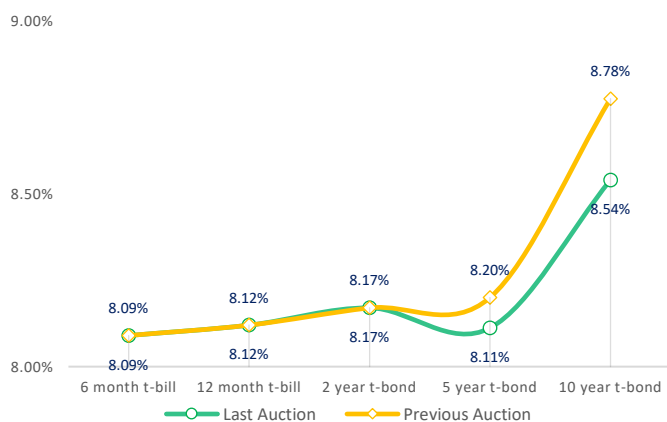


Figure 13: Portfolio Yield Curve



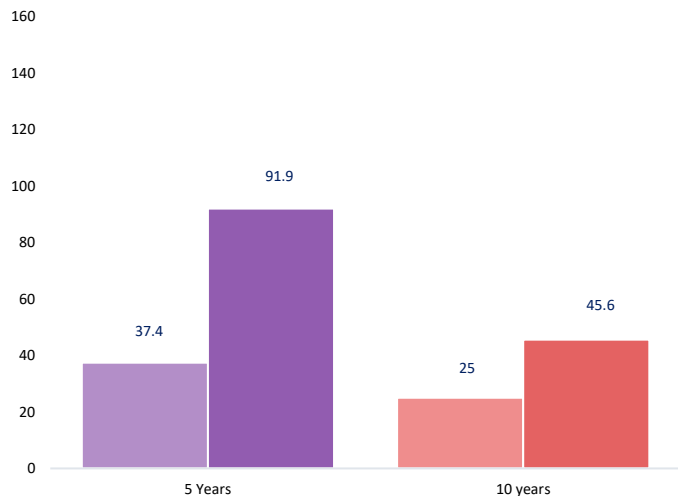
Source: MOF

Figure 14: Weighted average interest rates



Source: MOF

Figure 15: Issuance and Demand, mln GEL



Source: MOF

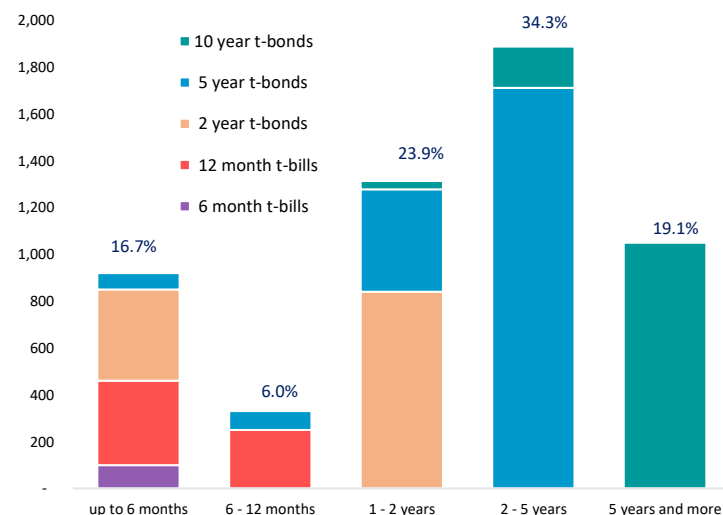
Treasury Securities Portfolio

In January 2021, 2 auctions were held with total issuance volume of 62.4 million GEL. The weighted average interest rate amounted to 8.28 percent.

There were issued Treasury bonds with maturities of 5 and 10 years. Treasury securities with total amount of 370 million GEL were redeemed. The structure of treasury securities portfolio changed slightly. The portfolio yield curve did not change significantly.

As of January 31, 2021, 22.7 percent of treasury securities portfolio is composed of securities whose maturity date is due for the next 1 year. Bid-to-cover ratio decreased compared to the previous month's value (December 2020 2.28) and is 2.20.

Figure16: Portfolio Forming Securities Composed by Time to Maturity



Source: MOF

Private Sector Larization

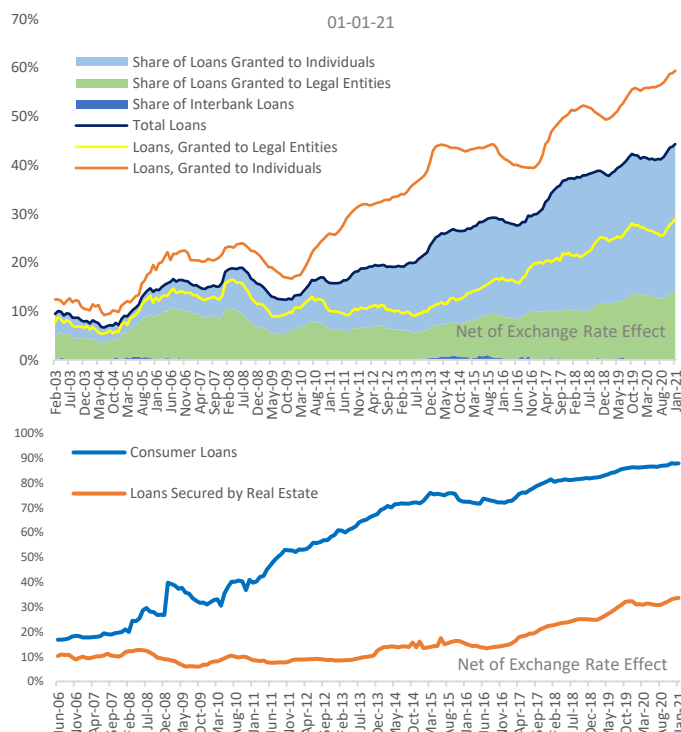
The larization of loans has increasing trend and by 1 of January 2021 it reached 44.3 percent. It should be noted that the main determinant of total loan larization is the larization of loans granted to individuals. By 1 of January 2021, the larization of loans of individuals was 49.5 percent, in the same period the larization of loans granted to legal entities amounted 29 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 January 2021, the larization of consumer loans was 87.7 percent, while the larization of mortgage loans was 33.6 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 January 2021, the total larization of total deposits was 38 percent, the larization of deposits of legal entities in the same period was 52.8 percent, and the larization of deposits of individuals – 24.3 percent.

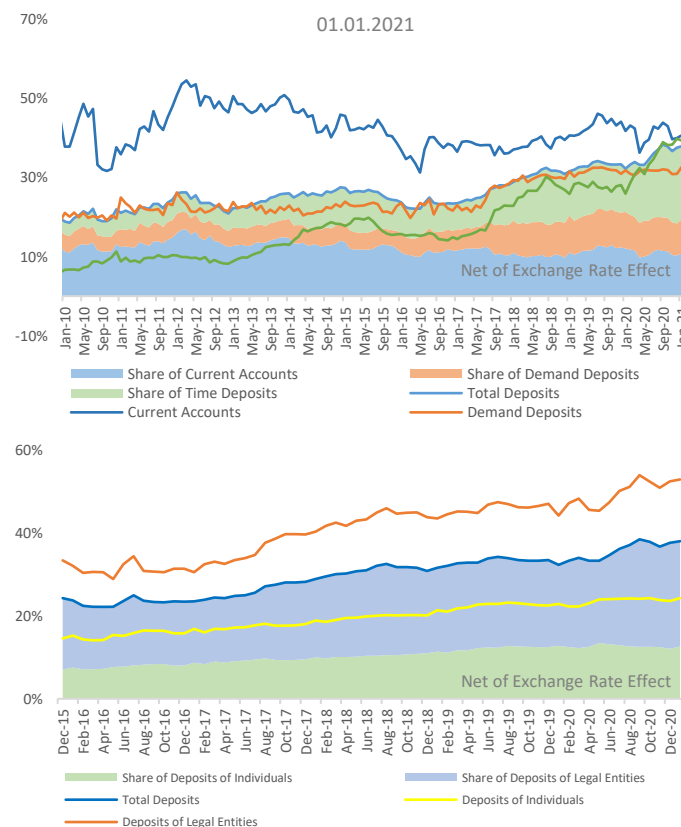
It should be noted that the significant increase was observed in the trend of time deposits larization (excluding exchange rate effects), by the 1 January 2021 it reached 39.4 percent, making time deposits main contributor in the larization of the deposits. We observe little decrease in the larization of current accounts for 1 January 2021 it amounted 40.6 percent. At the same time, the larization of deposits before demand was 32.7 percent.

Figure 17: Loan Larization



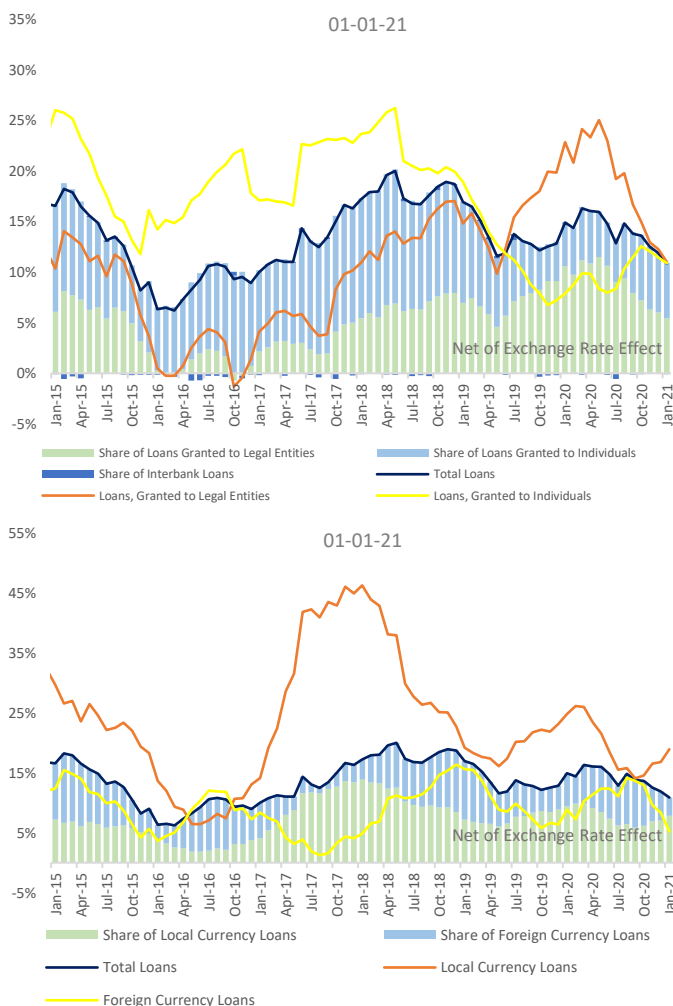
Source: NBG

Figure 18: Deposit Larization



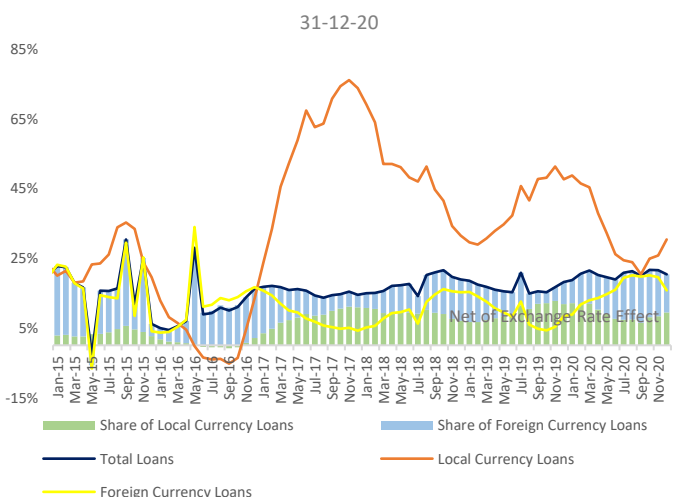
Source: NBG

Figure 19: Annual Growth of Loans



Source: NBG

Figure 20: Annual Growth of Loans secured by Real Estate



Source: NBG

Review of Loans

Declining trend was observed in the annual growth of the credit portfolio (net of exchange rate effect) and as of 1 January 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 January it amounted 11 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 is important to note that there is increasing trend in the growth of loans denominated in local currency and as of 1 of January 2021 compared to corresponding period of 2020 it amounted 18.9 percent. During the same period sharp decrease was observed in the growth dynamic of loans in foreign currency, compared to previous quarter it decreased by 7.7 percentage points (net of exchange rate effect) and at the beginning of 2021 amounted 5.2 percent. This dynamic has positive effect on loans larization, which helps to decrease vulnerability coming from exchange rate fluctuation.

By 31 of December 2020, mortgage loans had increased by 20.3 percent compared to corresponding period of previous year. Moreover mortgage loans that are denominated in national currency increased by 30.3 percent, while foreign currency denominated mortgage loans increased by 15.8 percent.

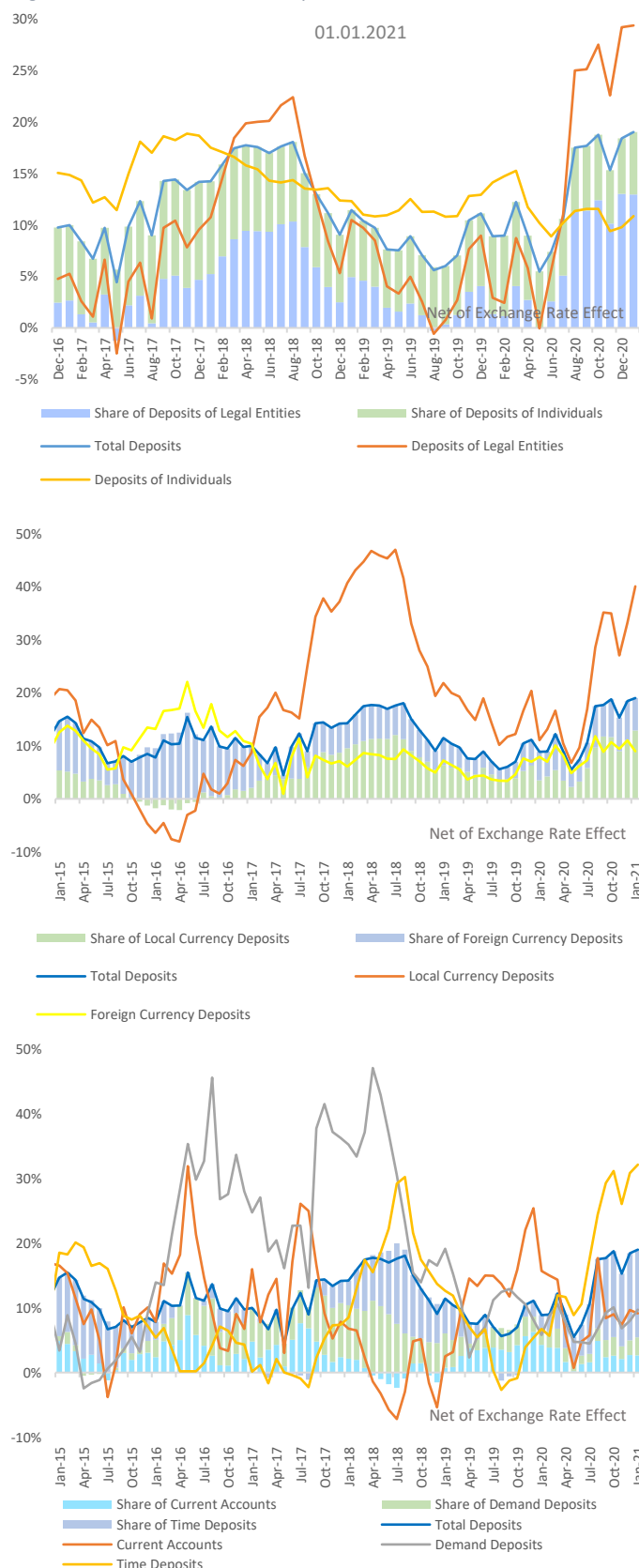
Review of Deposits

The growth of total deposits on the 1 of January 2021 was 19 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 40.1 percent by the 1 of January 2021, while the annual growth of deposits denominated in foreign currency relatively stable and amounted 9 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 January 2021 it reached 29.4 percent, in the same period the annual growth of deposits of individuals amounted 10.9 percent.

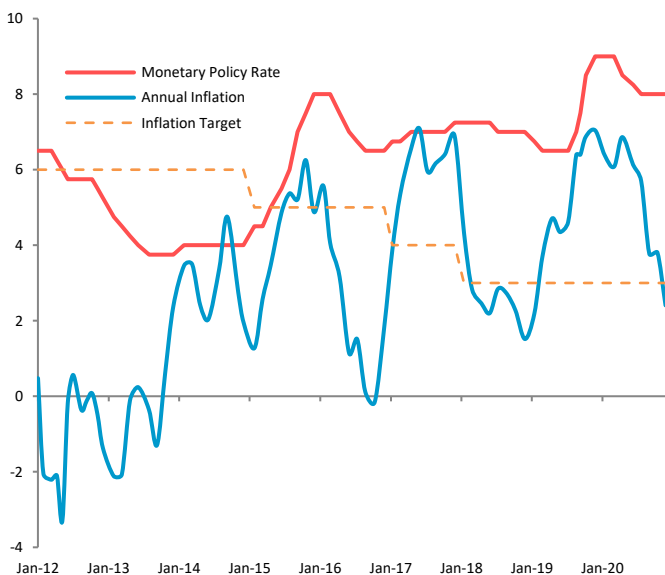
As for the growth of deposits by types, the annual growth of current accounts decreased significantly during the last period and amounted 9.2 percent on January 1, 2021. The slowdown in current account growth was offset by significant increases in the growth of time deposit balances, as of January 1, the annual growth of time deposit balances was 32.2 percent and significantly contributed to the growth of total deposits. The annual growth in demand deposits during the same period was 9.7 percent.

Figure 21: Annual Growth of Deposits



Source: NBG

Figure 22: Inflation and Monetary Policy Rate

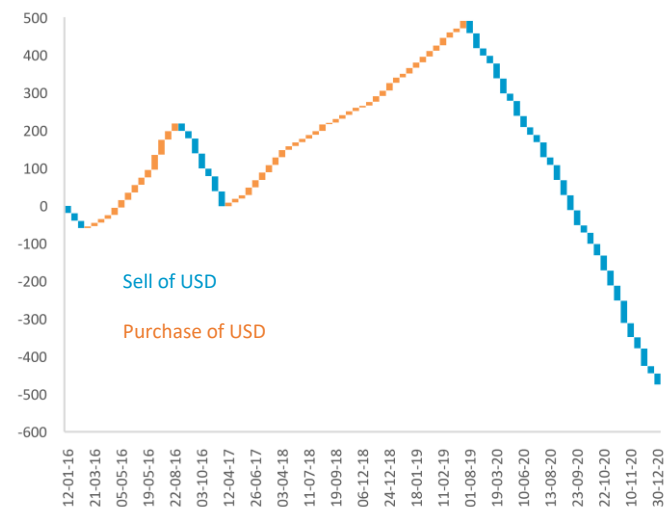


Source: NBG

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 factors on the supply side, such as the increase in production costs caused by additional restrictions 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 23: Trade of USD by NBG, mln



Source: NBG

Interest Rates

As of January 2021, the interest rate on foreign currency deposits was 2.6 percent, while on the national currency deposits it amounted 9.2 percent.

As of 1 of January 2021, the weighted average interest rate on deposits of legal entities in national currency was 9.2 percent, and in foreign currency - 2.3 percent. In the same period the average annual interest rate on deposits of individuals was 2.7 percent on deposits in foreign currency and 9.2 percent in national currency.

By 1 of January 2021, the weighted average annual interest rate on short-term consumer loans was 23 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 January 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 December 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)

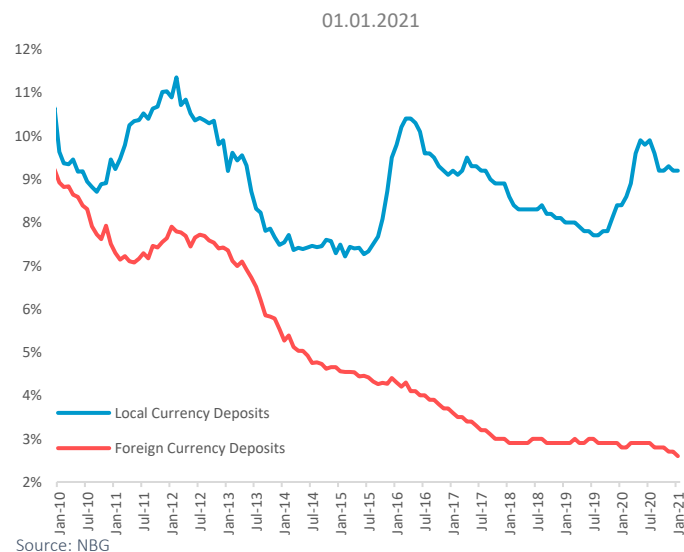
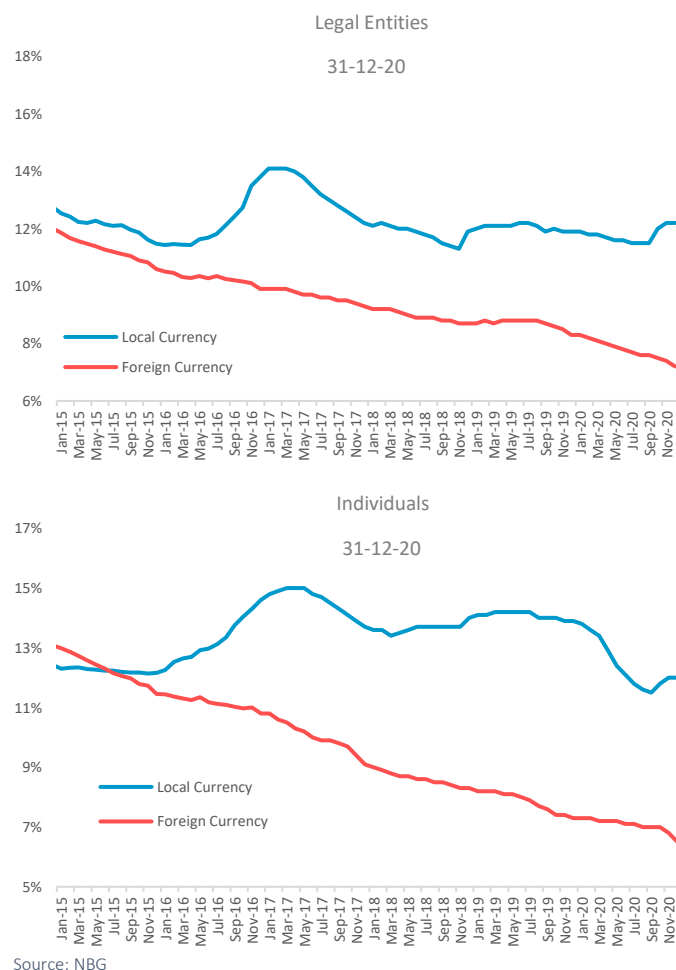


Figure 25: Interest rates on Loans secured by Real Estate





Disclaimer

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