

Ministry of Finance of Georgia



# Quarterly Economic Outlook

II Quarter, 2021



## Brief Summary

- According to preliminary data, economic growth in 2021 Q2 equals to 29.8 percent
- Renewed economic growth forecast for Georgia in 2021 equals to 7.7 percent
- Annual inflation in the second quarter equals to 8.3 percent, while core inflation equals to 6.3
- Export annually increased by 47.1 percent
- Import annually increased by 44.8 percent
- Revenues from tourism increased significantly due to the base effect, but still remain below the 2019 level
- The refinancing rate has increased to 9.5 percent





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# Real Sector

## Economic Growth

According to preliminary data, in the second quarter of 2021, real GDP increased by an average of 29.8 percent compared to the same period last year. This increase is significantly due to the high base effect, as in the second quarter of 2020 there was a sharp decline in economic activity, both within the country and in the region due to the initial spread of the COVID-19 pandemic. At the same time, real economic growth in the second quarter of 2021 averaged 13 percent compared to the second quarter of 2019. This increase was due to the removal of restrictions on social distance and the intensification of the economic situation in the region. In particular, in the second quarter, exports increased by 47.1 percent year on year, while imports increased by 44.8 percent year on year. At the same time, compared to the second quarter of 2019, exports increased by 10.9 percent, while imports increased by 1.3 percent. The slow pace of the vaccination process is slowing down the recovery of the tourism sector. External demand continues to grow, however, tourism revenues remains reduced compared to the pre-pandemic situation. Revenue from international travelers increased 8.5 times year-on-year in the second quarter, although there is a 72 percent decrease compared to the same period in 2019.

Due to the deteriorating epidemiological situation in early 2021, a number of restrictions took place that hindered the process of economic recovery. Accordingly, real GDP declined by 4.5 percent year-on-year in the first quarter. At the same time, compared to 2019, real GDP decreased by 2.2 percent. A significant share in the decline in GDP was made by the export component, which in real terms decreased by 15.7 percent year-on-year and contributed -7.3 p.p. to overall growth. At the same time, in real terms, import fell 3.5 percent year-on-year to 2.2 p.p. contribution to overall growth. Despite the overall decline in economic activity, economic growth was evident in a number of activities. In particular, the following activities contributed significantly to the growth: mining (50.3% y/y, 0.6 p.p.), financial and insurance activities (24% y/y, 1.5 p.p.), information and communication (16.8 % y/y, 0.6 p.p.), healthcare and social service activities (13.3% y/y, 0.6 p.p.). The following sectors

Figure 1: Economic Growth

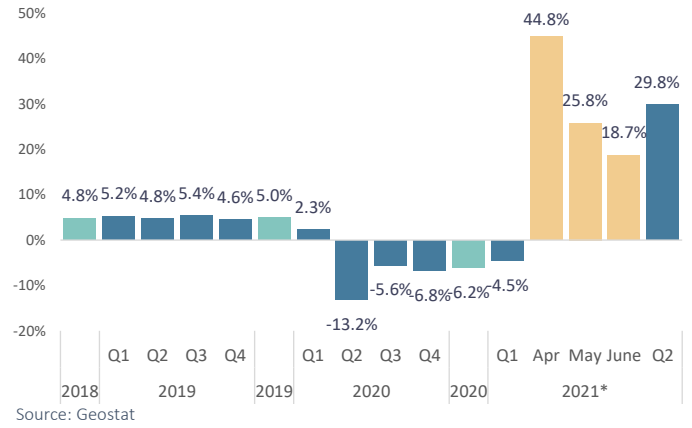


Figure 2: Real Sectoral Growth, 2020

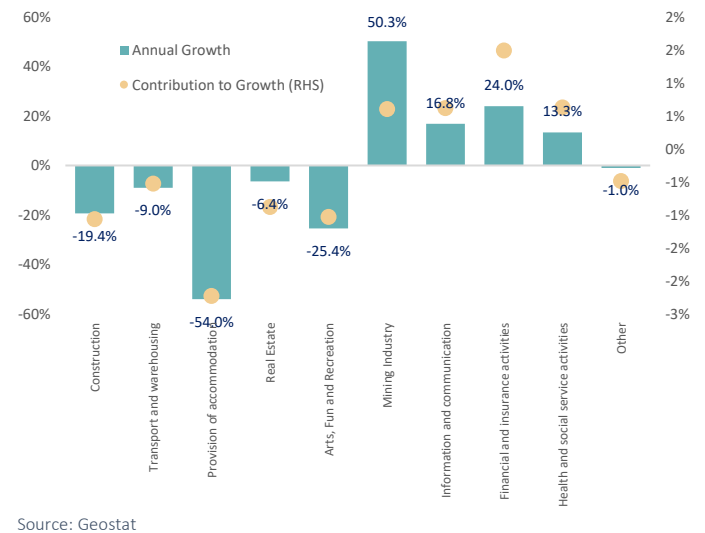


Figure 3: Decomposition of Economic Growth

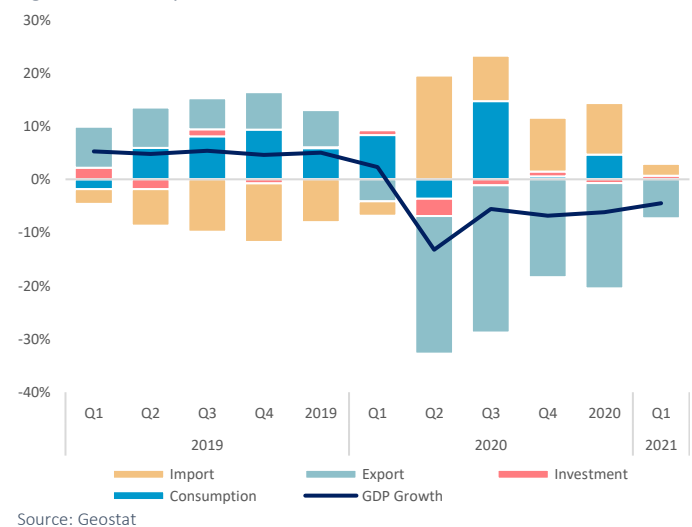
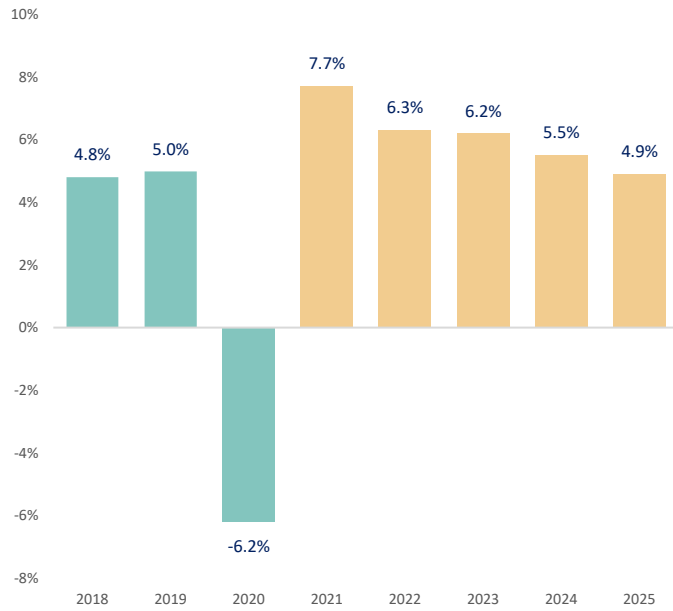




Figure 4: Economic Growth Projection

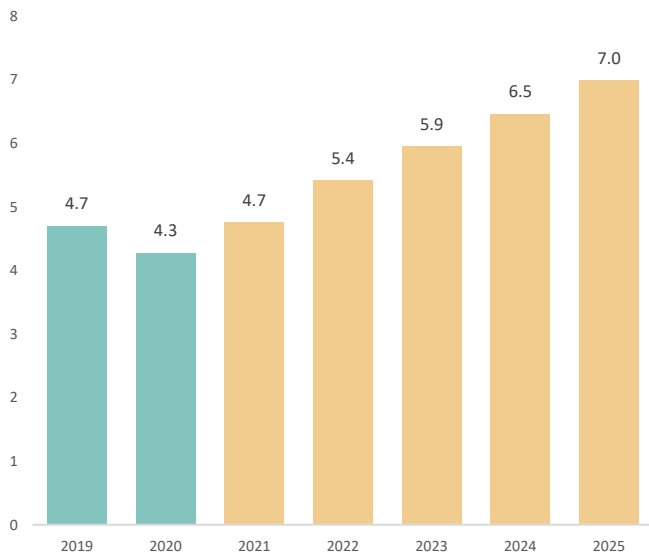


Source: MOF

made a significant contribution to the decline: provision of accommodation (-54% y/y, -2.2 p.p.), arts, entertainment and recreation (-25.4% y/y, -1 p.p.), construction (-19.4% y/y, -1.1 p.p.), Transport and warehousing (-9% y/y, -0.5 p.p.), Real estate (-6.4% y/y, -0.9 p.p.).

Growth in 2021 will depend significantly on the mitigation of social distance restrictions and the number of foreign visitors, which in turn will significantly depend on the vaccination process that started in March but is proceeding at a slower pace. According to the forecast of the Ministry of Finance of Georgia, 7.7 percent economic growth is expected in 2021, which will be ensured by the growth of domestic demand and fiscal stimulus measures provided in the budget. From 2022, the economy will continue to grow at an average of 5.7 percent in 2022-2025.

Figure 5: GDP per capita, ths USD



Source: IMF

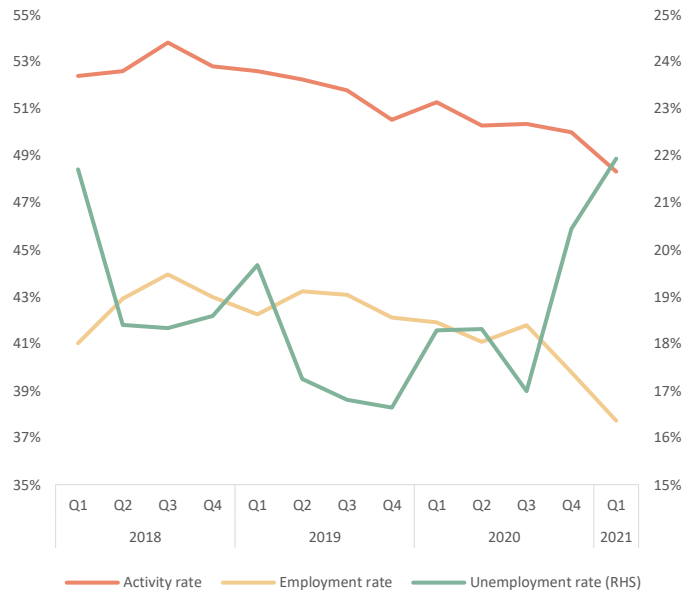
## Employment and Unemployment

In the first quarter of 2021, the unemployment rate was 21.9 percent, which is 1.5 pp more than the value of the previous quarter and 3.7 pp compared to the same period last year. Among them, unemployment was 23.6 percent in urban areas (+ 5.7 percentage points per year) and 19.3 percent in rural areas (+0.4 percentage points per year). The highest unemployment rates are in the 15-24 and 25-34 age groups. In the first quarter of 2021, the economically active population accounted for 48.3 percent of the working age population (15 years and older). In the first quarter of 2021, the unemployment rate in the women group was 19 percent, while in the men group, the figure was 24.1 percent.

Due to the slowdown in economic growth caused by the COVID-19 epidemic, which stood at -4.5 percent in the first quarter of 2021, the number of employees fell by 10.5 percent compared to the corresponding quarter of the previous year, while the employment rate fell by 4.2 percentage points. The number of unemployed increased by 12.4 percent annually. At the same time, productivity (ratio of real output to number of employees) increased by 6.8 percent annually. At the same time, the average nominal wage of employees increased by 4.4 percent, amounting to 1256.2 GEL as of the first quarter of 2021.

The unemployment rate in 2020 was 18.5 percent, which is 0.9 percentage points higher than in 2019. The employment rate also fell by 1.5 percentage points to 41.1 percent. 31.9 per cent of the employed are self-employed, while 68.1 per cent are the employed workforce, whose activity rate has also been reduced by 1.3 percentage points to 50.5 percent.

Figure 7: Indicators of Labor Market



Source: Geostat

Figure 8: Productivity and Average Wage of employees (annual change, %)



Source: Geostat

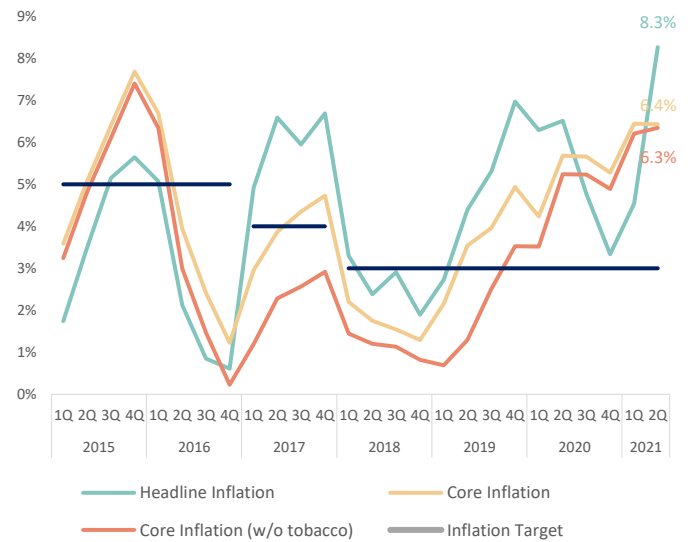
Price Level

During 2020, the dynamics of the inflation rate was under significant pressure from both supply and demand. Restrictions due to the spread of the COVID-19 virus complicate and slow down production, leading to increased costs, which in turn affects the price of the final product. In addition, the depreciation of the existing GEL increases the costs of firms that have loans in foreign currency, which, together with imported inflation, leads to higher inflation. At the same time, pandemic-related social distancing measures and reduced economic activity are reducing both domestic and foreign demand, leading to lower inflation. Consequently, the final change depends on which factor influences will be dominant. Eventually, the effects of increased production costs and the depreciation of the lari exchange rate under the pandemic outweighed that, keeping annual inflation above the target. In the second quarter of 2021, annual inflation stood at 8.3 percent. This increase is significantly due to rising prices for oil and food products in international markets, which is reflected in local prices, and the abolition of the utility subsidy program. At the same time, under the influence of the depreciated GEL exchange rate in previous periods, imported inflation remains at a high level. Core inflation (excluding tobacco) stood at 6.3 percent in the second quarter. The high rate of core inflation relative to headline inflation is due to the depreciation of the nominal effective GEL exchange rate and an increase in firms' operating costs.

On August 4, the National Bank Committee decided to increase the refinancing rate by 0.5 p.p. to ease the pressure on expectations for further price increases. According to the National Bank, inflation will average 9 percent in 2021 and then gradually approach the target.

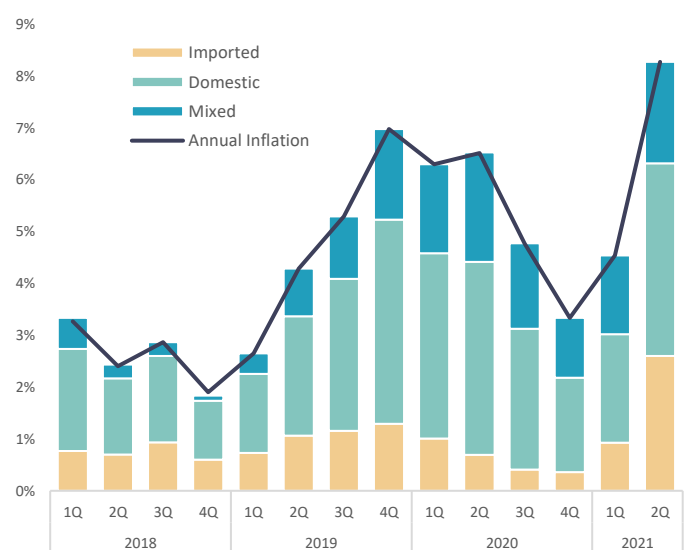
Despite the depreciation of the lari, local inflation exceeds imported inflation. In the second quarter of 2021, local inflation stood at 3.7 percent, while imported inflation stood at 2.6 percent. This dynamics is caused by the increase in the price of food and the relatively high weight gain in the consumer basket relative to the food product group.

Figure 9: Annual Inflation



Source: NBG

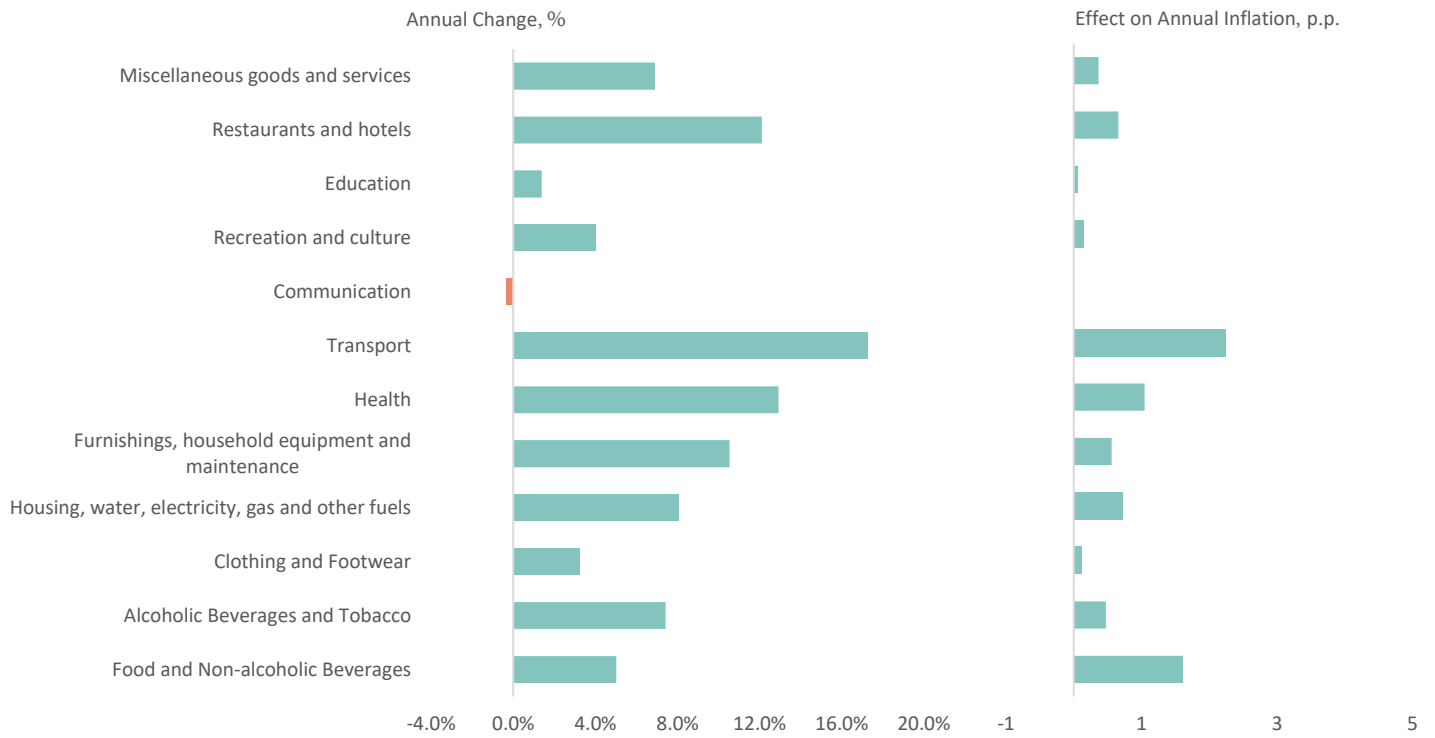
Figure 10: Decomposition of Inflation



Source: NBG, Geostat



Figure 11: Decomposition of Inflation, 2021 Q2



Source: Geostat

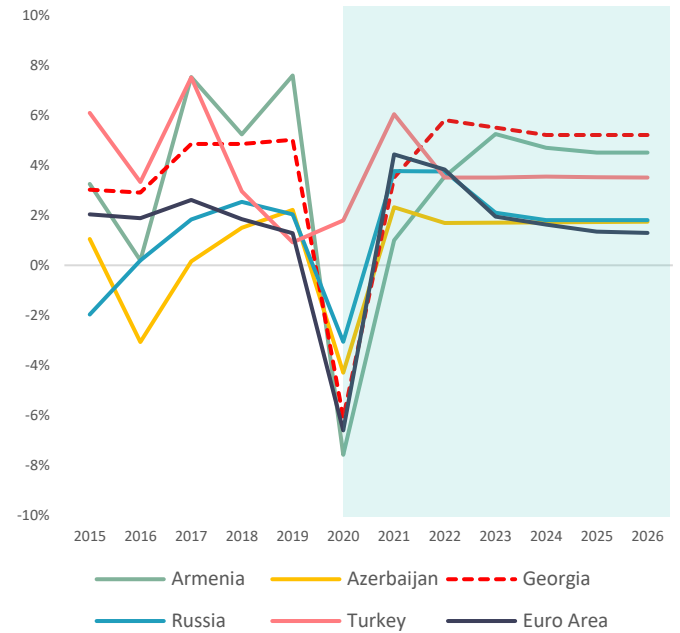


### Economic Outlook of the Region

Following the recession caused by the COVID-19 pandemic in 2020, the first half of 2021 is characterized by recovery in global economic activity. However, the epidemiological situation in some countries still hinders economic activity, as restrictions are imposed due to the spread of new strains. In developed countries, the growing vaccination process contributes to the recovery of economic activity, while in developing countries, vaccination is relatively slow, which is why the rate of recovery of economic activity is relatively weak. According to an updated forecast by the International Monetary Fund in July 2021, global economic growth in 2021 will be 6 percent at the expense of increased fiscal and monetary stimulus, while in 2022 global growth will reach 4.9 percent. According to the updated forecast, economic growth for developed countries is expected to reach 5.6 percent in 2021 and 4.4 percent in 2022. At the same time, 6.3 percent growth is expected in 2021 and 5.2 percent in 2022 for growing and developing countries. According to the IMF forecast for July, the economic growth of the Eurozone will be 4.6 percent in 2021 and 4.3 percent in 2022. This increase is due to the easing of restrictions due to the vaccination process, the recovery of the manufacturing and industrial sectors, and the positive expectations of economic agents, both in terms of investment and tourism. According to the July forecast, the inflation rate will be 1.4 percent in 2021 and 1.2 percent in 2022.

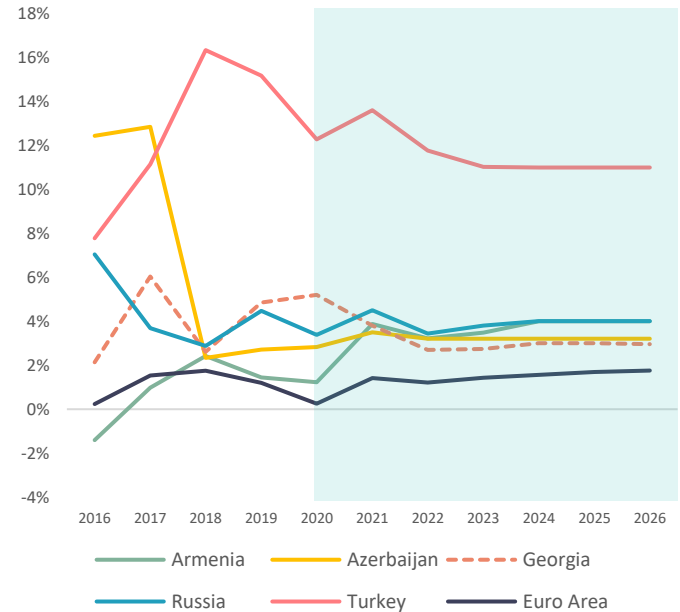
The decline in investment and the deteriorating trade balance remain significant challenges for Turkey recently. At the same time, the global pandemic has put additional pressure on the Turkish economy. According to the IMF forecast, real economic growth in Turkey in 2021 is set at 5.8 percent, while in 2022 it will reach 3.3 percent. The devaluation of the Turkish lira still has a significant impact on inflation. The IMF estimates that in 2021 and 2022, the expected inflation rate will be 13.6 and 11.8 percent, respectively. A significant decrease is observed in the ratio of the current account balance to GDP, its value increased by 1.7 percentage points compared to 2020 and amounted to -3.4 percent in 2021, while in 2022 it is expected to increase to -2.2 percent. The process of vaccination in the world and within the country and the easing of restrictions also had a

Figure 12: Economic Growth in the Region



Source: IMF

Figure 13: Inflation in the Region



Source: IMF

Source: International Monetary Fund. World Economic Outlook: Managing Divergent Recoveries. Washington, DC, April 2021.  
International Monetary Fund. World Economic Outlook Update: Policy Support and Vaccines Expected to Lift Activity. Washington, DC, January 2021



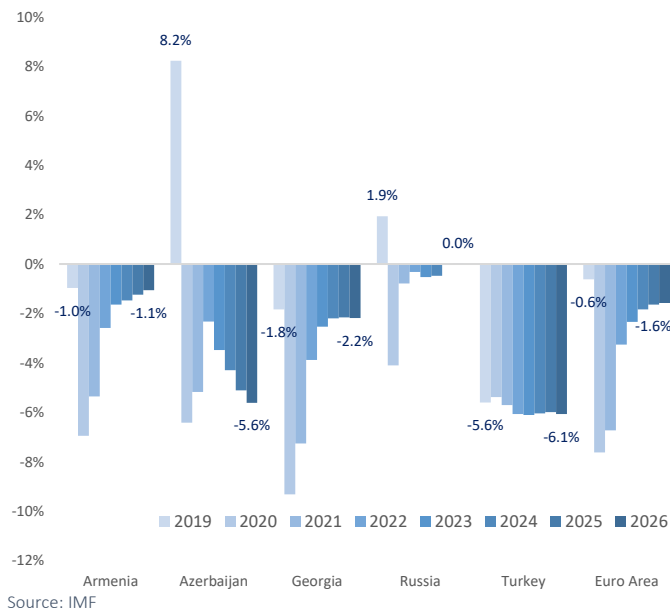
Figure 14: Current Account to GDP, %



positive impact on Russia's economic situation in the first half of 2021. Consumer spending and positive expectations of economic agents have increased. In addition, rising international oil prices on the world market have also improved Russia's foreign sector. According to the IMF, economic growth in Russia in 2021 was set at 4.4 percent, while in 2022 it is expected to grow by 3.1 percent. This recovery has created additional pressure on inflation, and the IMF estimates that it will reach 4.5 percent and 3.4 percent on average in 2021-2022. The consolidated budget will be significantly reduced, which according to the IMF in 2021 will equal -0.8 percent of GDP, and in 2022 will equal -0.3 percent.

Rising oil prices and easing of restrictions will also affect Azerbaijan's economic performance. According to the IMF, economic growth in Azerbaijan in 2021 will be 2.3 percent, and in 2021 - 1.7 percent. Rising oil prices will also improve Azerbaijan's trade balance, which the IMF estimates will improve its current account balance to GDP ratio to 1.1 percent by 2021. The recovery of the economy will also be reflected in inflation. According to the forecast, inflation will reach 3.5 percent in 2021 and 3.2 percent in 2022. The easing of restrictions has also had a positive impact on Armenia's economic activity. Consumer costs and the manufacturing sector have increased. However, the foreign sector is still in a deteriorating position. In addition, due to the post-war with Azerbaijan and the prevailing political instability, the risks have increased, which worsens the business confidence. Accordingly, according to the IMF July forecast, economic growth in 2021 was set at 1 percent, while in 2022 growth of 3.5 percent is expected.

Figure 15: Budget Balance to GDP, %



Source: International Monetary Fund. World Economic Outlook: Managing Divergent Recoveries. Washington, DC, April 2021.

International Monetary Fund. World Economic Outlook Update: Policy Support and Vaccines Expected to Lift Activity. Washington, DC, January 2021

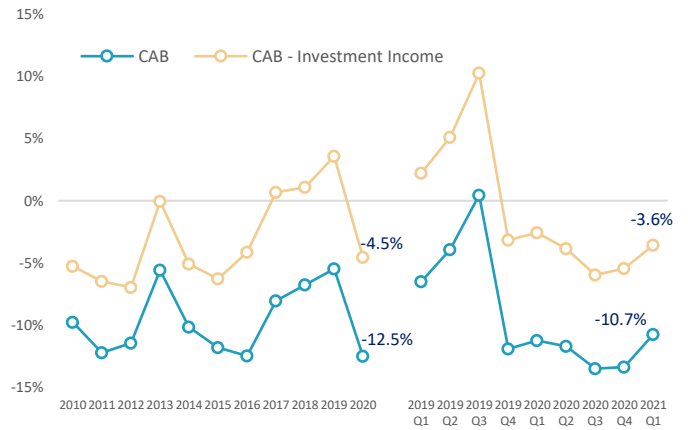
# External Sector

## Current Account Balance

The current account deficit was 12.5 percent in 2020, which is a significant deterioration after 5.5 percent in 2019. As for 2021, improvement has started in the international trade as well as in the tourism side. As a result, the current account deficit amounted to 10.7 percent in the first quarter, after being at 13.3 percent in the last quarter of 2020. It should be noted that the deterioration of the current account in 2020 is mainly due to the supply-demand imbalance caused by closing borders due to the Corona pandemic. Recently, the increasing demand for imported goods was supported by the growing supply of service exports, although the current circumstances have reduced the country's external tourism to almost zero. After 2008 (Q3 2008), there was the first case in the third quarter of 2020, when income from service outweighed the outcome and contributed negatively to the current account balance (1.2 p.p), which has maintained in the fourth quarter and negative share contributed 1.7 p.p.

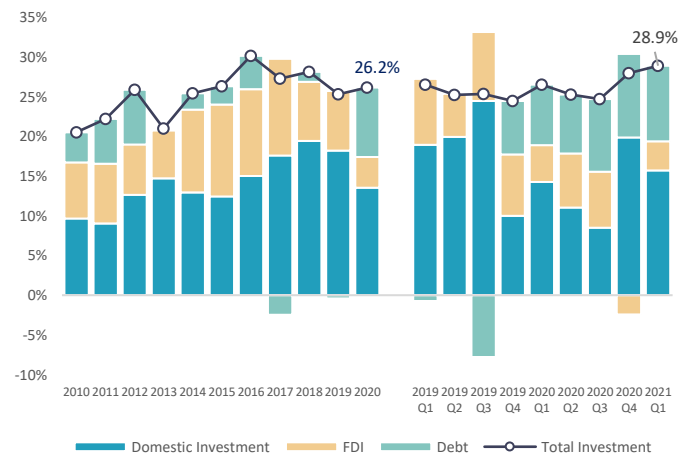
The current account deficit is financed by debt and foreign direct investment. Debt financing means borrowing new debt and, consequently, spending more on debt service. In this regard, it is important that the current account deficit is financed by increasing foreign direct investment. The structure of financing the current account deficit has been improving recently in Georgia. The deficit was entirely financed by foreign direct investment in 2017. There was a current account surplus of 0.4 percent in the third quarter of 2019. After that, foreign debt contributes quite a lot to finance the deficit. Especially noteworthy is 2020 when debt financing contributed a lot to the deficit financing. As for the first quarter of 2021, debt still has the large contribution in the deficit financing, but has been declined compared to the previous quarter. It is noteworthy that in the fourth quarter of 2020, fewer foreign direct investment contributed negatively to the deficit financing, while the decline of these investments was due to transferring of ownership from a non-resident to the resident units in several companies.

Figure 16: Current Account to GDP, %



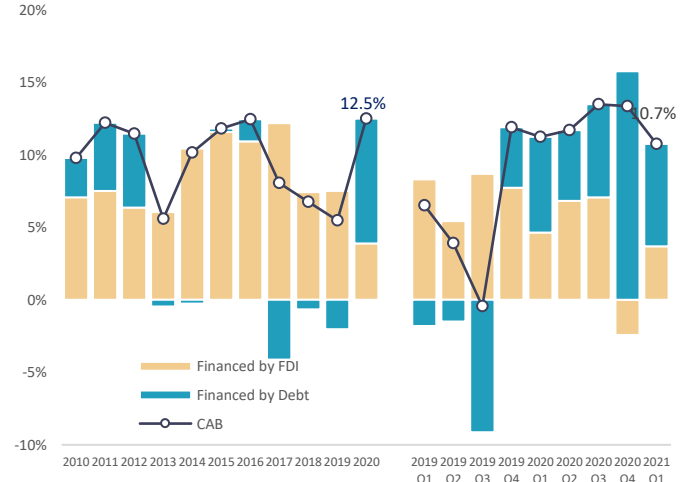
Source: NBG, Geostat

Figure 17: Financing of Investment



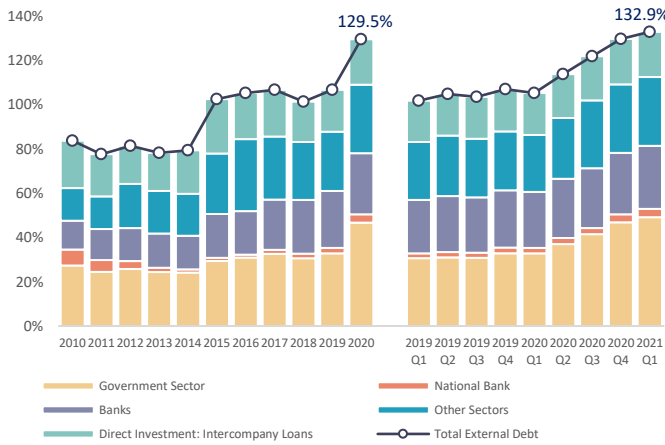
Source: NBG, Geostat

Figure 18: Financing of Current Account



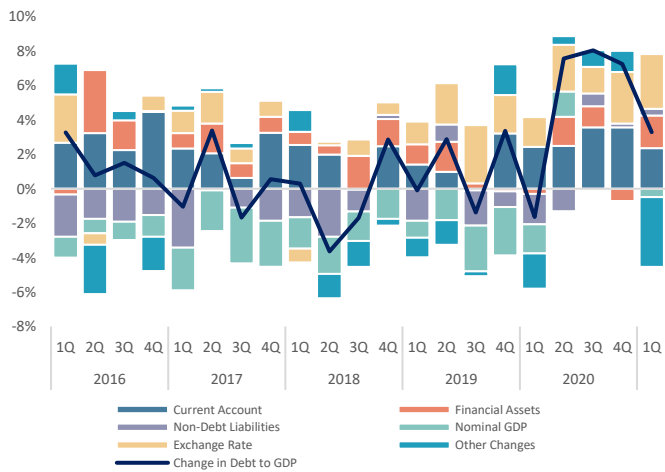
Source: NBG, Geostat

Figure 19: External Debt to GDP, %



Source: NBG, Geostat

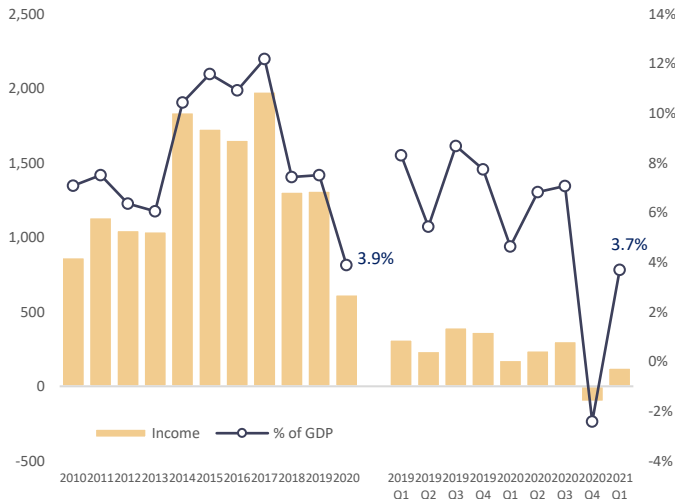
Figure 20: Change of Debt to GDP



Source: NBG, Geostat

Note: The sum of the last 4 quarters is used as a measure of GDP

Figure 21: Foreign Direct Investment



Source: Geostat

## External Debt

Along with the current account deficit, the additional weakness of the Georgian economy is considered to be external debt which remains a main source of vulnerability. External debt consists of government sector debt, as well as foreign debts of commercial and National Banks and intercompany loans.

The total external debt of Georgia increased during the current pandemic and amounted to 129.5 percent. Debt has increased by 21 p.p compared to the previous year. Total external debt to GDP amounted to 132.9 percent of GDP in the first quarter of 2021, which means increase by 3.3 p.p. The change of external debt is mainly due to the increase in government sector debt, due to the measures and attracted financing during the current pandemic.

The decomposition of the change in external debt is presented in terms of operating or borrowing, as well as in terms of price effect, exchange rate changes and changes in nominal GDP. It should be noted that the largest contribution to the growth of external debt in 2015–2016 was made by the depreciation of the exchange rate, while GDP mainly contributed to the reduction of external debt. As for 2020, the debt-to-GDP ratio has increased by 21.0 percentage points, and the main factors were operating change (+17.6 percentage points) and changes in the exchange rate (+16.7 percentage points). Should be noted that the exchange rate contribution to the growth of debt was significant during the third quarter of 2020. As for the first quarter of 2021, debt increased by 3.3 p.p., in which a significant contribution was made to the current account deficit and exchange rate changes. The operating factor is compensated by other factors.

## Foreign Direct Investments

Foreign direct investment in Georgia amounted to USD 617 million, which is 52.9 percent less than in the previous year. As for the first quarter of 2021, foreign direct investments amounted to USD 125 million, 28.3 percent less than the same period of the previous year. The reduction is mainly due to transferring of ownership from a non-resident to the resident units in several companies (reduction by USD million 340.5). foreign direct investments during the first

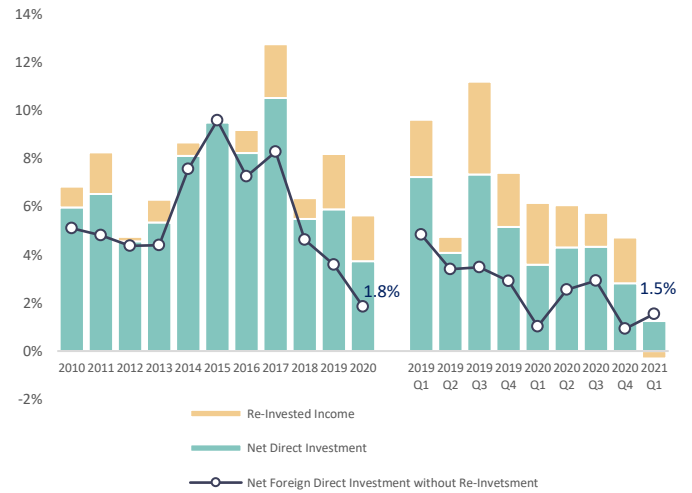
quarter of 2021 were mainly mobilized from the United Kingdom (70.5 percent), Russia (25.4 percent), Turkey (19.5 percent), Czech republic (11.3 percent) and United Arab Emirates (10.2 percent). As for the sectors, 74.9 percent of FDI was allocated in the financial sector, 28.3 percent in the energy, 22.2 percent in the manufacturing, 19.4 percent in the real estate and 9.6 percent in the healthcare sector.

It should be noted that since 2016, there has been a relatively high level of reinvestment in total investment, which shows that the country's economic policy and improved business environment are positively perceived by investors and more investors continue doing business in Georgia. Regardless of the corona pandemic, there was a high level of reinvestment in 2020. In particular, its volume amounted to 301 million US dollars, which is 1.9 percent of GDP (reinvestment for 2019 was observed at 2.3 percent of GDP). Moreover, reinvestment has contributed negatively in the first quarter of 2021, which shows the reduction in reinvestment.

International Trade

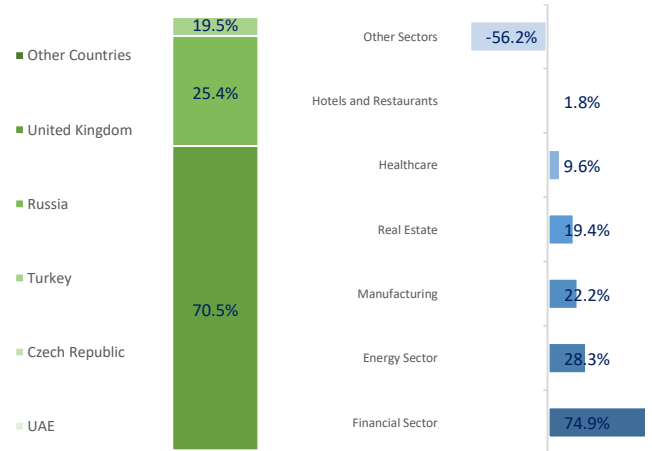
In 2020, because of the epidemic around the world and restrictions imposed by most countries, foreign demand declined. The impact of these factors on Georgia's exports, remittances and income from international travel will be negative due to the uncertainty of the epidemic for some time. At the same time, the volume of imports also decreased due to reduced economic activity within the country. The annual growth of nominal exports was to -12.0 percent in 2020 and amounted to 3,343 million US dollars, while the growth of domestic exports amounted to 3.5 percent. As for the first quarter of 2021, nominal export has increased by 4.8 percent, while domestic export has increased by 13.1 percent, with real growth amounted to 11.3 percent. Within the second quarter, nominal export has increased by 47.1 percent, while real growth in the 41.8 percent domestic export growth amounted to 33.3 percent. At the same time, annual growth in imports was negative 15.4 percent and amounted to 8,053 million US dollars in 2020, while for the first quarter of 2021 import decreased by 1.8 percent, with a real decline amounted to 5.8 percent. Within the second quarter, import increased by 44.8 percent, where real growth amounted to 22.6 percent.

Figure 22: FDI



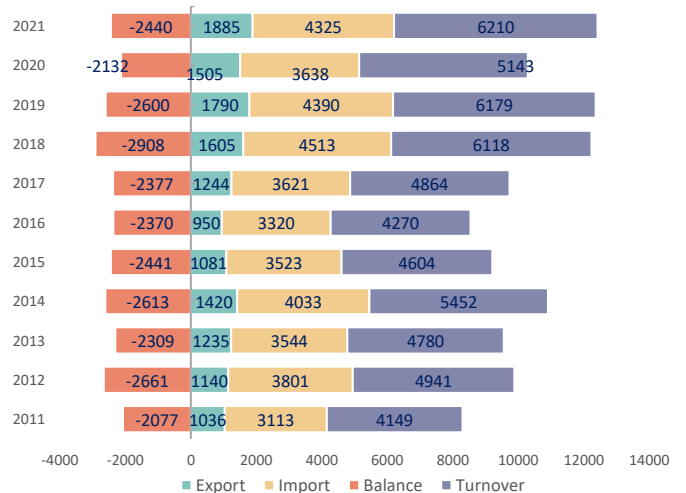
Source: NBG, Geostat

Figure 23: Composition of FDI, 2021 Q1



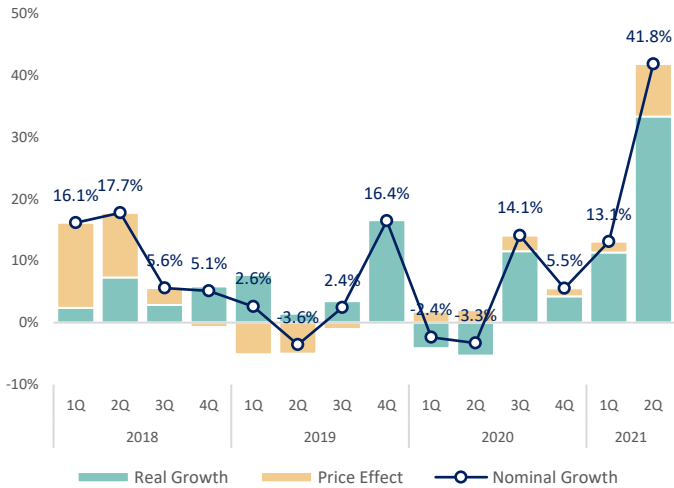
Source: Geostat

Figure 24: International Trade, January – June



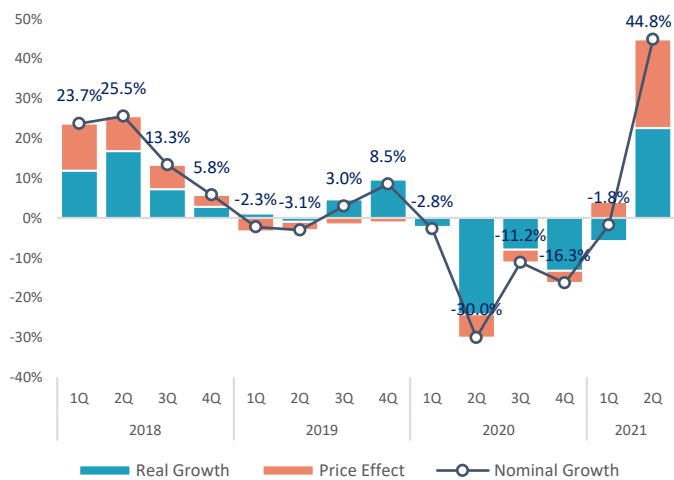
Source: Geostat

Figure 25: Annual Change of Domestic Export



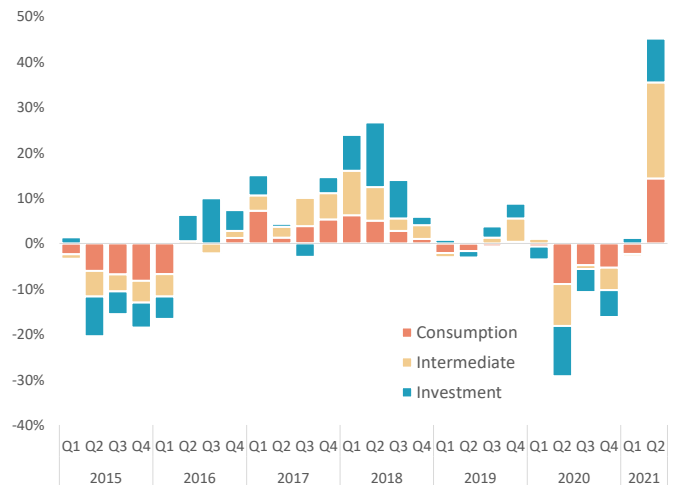
Source: Geostat

Figure 26: Annual Change of Import



Source: Geostat

Figure 27: Decomposition of Change of Import



Source: Geostat

In the second quarter of 2021, imports of consumption increased by 40.3 percent (14.3 p.p), imports of intermediate goods – by 54.7 percent (21.2 p.p), while imports of investment goods increased by 37.5 percent (9.7 p.p). During this period, the export of traditional goods increased by 48.5 percent, while raw materials increased by 32.1 percent. In the second quarter of 2021, copper ores and concentrates took first place in the top ten export products groups with 232.4 million USD (21.8 percent of total exports), in second place – cars with 118.8 million USD (11.1 percent of total export), and in third place – ferroalloys with 102.6 million US dollars (9.6 percent).

The largest import products group was the copper ores and concentrates with 189.7 million US dollars (8.1 percent of total imports), followed by petroleum and petroleum oils with 184.7 million (7.9 percent of total imports), and the third place – car group with 175.3 million US dollars (7.5 percent of total import).

### Tourism

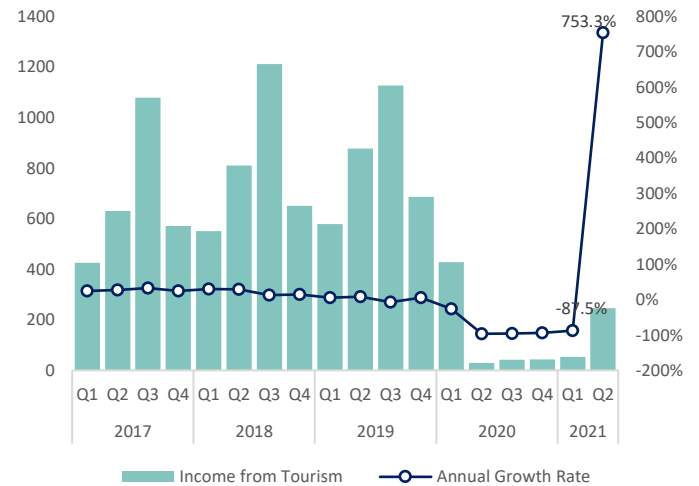
In order to mitigate the spread of COVID-19, there was a closure of the borders and cancellation of international travels in Georgia, in March. Due to this restriction, there was a sharp decrease in international visits. Therefore, the number of visitors, as well as revenue from international tourism, have decreased significantly from the second quarter of 2020. The declining trend has continued in the first quarter of 2021, when total visitors decreased by 88 percent annually. Revenue from tourism decreased by 87.5 percent annually. As for the second quarter, it is noted the improvement of tourism, where the number of visitors amounted to 391 thousand, while is was 105 thousand during the second quarter of the previous year and the annual growth amounted to 271 percent. Revenue from international tourism increased by 753.3 percent during this time, annually, and was around USD 246.1 million .



### Remittances

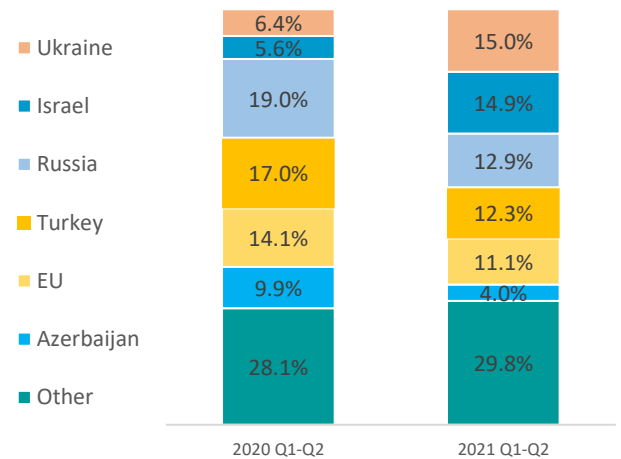
Net money transfers amounted to USD 1,639 million in 2020, which is 9.6 percent higher than in the previous year. The growth was mainly due to the higher remittances from Italy and Ukraine (7 p.p in total), while the share of Russia was negative, -4.4 p.p. As for 2021, after the decline in the first half of 2020, the current period shows improvements. The net money transfers increased in the first quarter of 2021, by 32.9 percent compared to the same period of last year, while there was a decline by 9.3 percent compared to the previous quarter. Transfers increased by 52 percent in the second quarter, compared to the same period of previous year, which is an increase by 16.6 percent compared to the previous quarter. It should be noted that the growth of remittances during the second quarter, compared to the same period of the previous year, was mainly due to the higher remittances from Russian Federation, USA and Italy. The net money transfers was reduced from Russia recently and contributed negatively in the growth of remittances. The low level of money transfers during the first quarter and the half of second quarter of the previous year was partly due to the lower oil prices, which was an additional hit for the countries' economies that were significantly dependent on oil. Such a negative impact was noticeable on the Russian Ruble, and it was also reflected in the reduction of remittances from Russia.

Figure 28: Income from Tourism



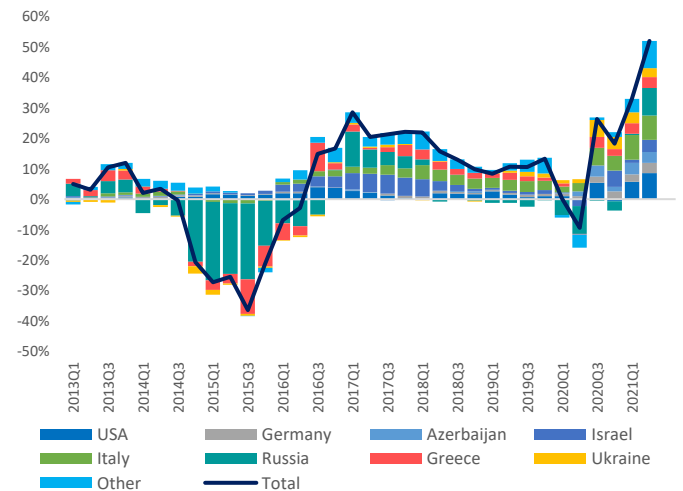
Source: NBG

Figure 29: Income from tourism, mln USD



Source: NBG

Figure 30: Net Remittances

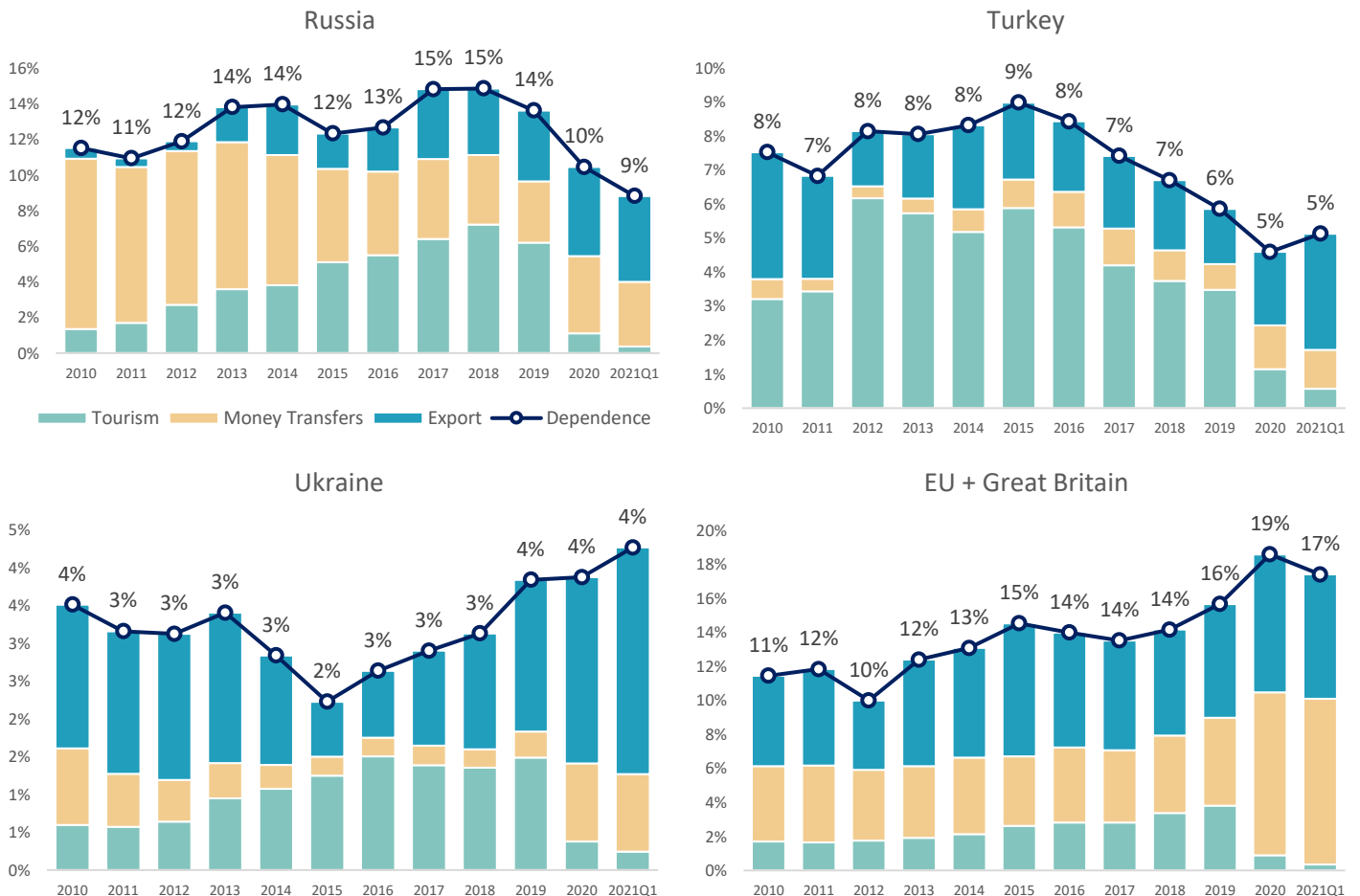


Source: NBG

## Dependence on Other Countries

Georgian economy is diversified in terms of dependence on other countries. Based on the shares of exports, tourism, and transfers in the current account credits, it can be concluded that Georgia has a tight relationship with Russia, Turkey, Ukraine, and the European Union. Dependence on Russia has been continuing the reduction, according to the first quarter of 2021, due to the decline in the revenue from tourism. In terms of Turkey and Ukraine, such reduction is compensated by the growing export, while remittances has increased from EU. Dependence on the EU has increased, according to the Balance of Payments of 2020, while dependence on Russia and Turkey has decreased significantly during the last years. Such decline might be explained by the sharp decline of revenue from tourism, which is due to the travel restrictions due to pandemic, and decline of remittances from Russia and Turkey due to the lower economic activity, driven by the change of oil price and exchange rate. The ban of flights from Russia to Georgia caused the sharp decline of tourists from Russia, during the second half of 2019, which was reflected in the reduction of revenue from tourism from Russia. However, this loss was compensated by the growing number of international tourists from other countries. as for 2020, the share of tourism has decreased and is close to zero, while the share for remittances has increased. It should be noted that dependence on the EU has increased after the declining share of tourism, which was due to the increasing share of export and remittances. By 2020, the share of remittances has increased from 5 to 9 percent.

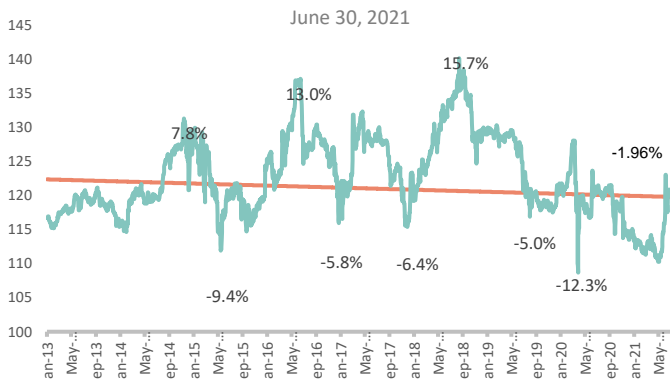
Figure 31: Dependence on Trading Partners



Source: NBG, Geostat

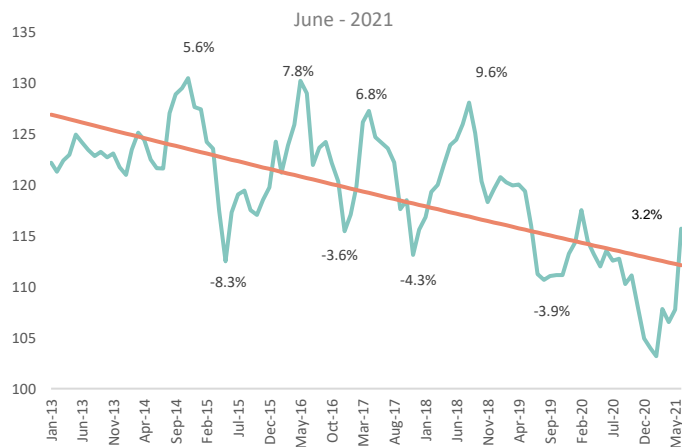


Figure 32: Nominal Effective Exchange Rate



Source: NBG

Figure 33: Real Effective Exchange Rate



Source: NBG

## Exchange Rate

USD has appreciated relative to the currencies of developing countries, due to the COVID-19 pandemic and the drop in oil prices internationally. This can also be observed in the downward trend of the weighted index of the currencies of regional countries. However, it should be mentioned that Georgian Lari has also depreciated relative to the currencies of the region, which is caused by the fact, that Tourism has a significant share in the Georgian economy, compared to other countries from the region, and the current pandemic hit the tourism sector mainly.

During the second quarter of 2021, depreciation of Lari vis-à-vis USD amounted to 5.7 percent compared to the same period of the previous year, while it depreciated by 0.4 percent compared to the first quarter. Georgian Lari exchange rate has appreciated by 3.7 percent against US dollar and by 7 percent against the Euro relative to January 1, 2020. Lari has appreciated significantly against Turkish Lira, by 21.4 percent, while it is appreciated against the Russian Ruble by 0.9 percent. The nominal effective exchange rate index has depreciated, and it has deviated from its medium-term trend by -2 percent. As for the exchange rate corrected by the prices, the real effective exchange rate was deviated by 3.2 percent in March, which means the appreciation of exchange rate.

Table 1: Change of Nominal and Real Effective Exchange Rates

	June 30, 2021		Jun 30, 2021 - Jan 1, 2021	Jun 30, 2021 - Jan 1, 2020
Euro	3.7608	▲	7.0%	▼ -14.5%
US Dollar	3.1603	▲	3.7%	▼ -9.3%
Turkish Lira	0.3625	▲	21.4%	▲ 32.9%
Russian Ruble	0.0435	▲	0.9%	▲ 5.9%
NEER	117.43	▲	6.1%	▼ -1.5%
REER (June 2021)	115.70	▲	10.3%	▲ 2.2%

Source: NBG

# Fiscal Sector

## Budget Revenue Performance

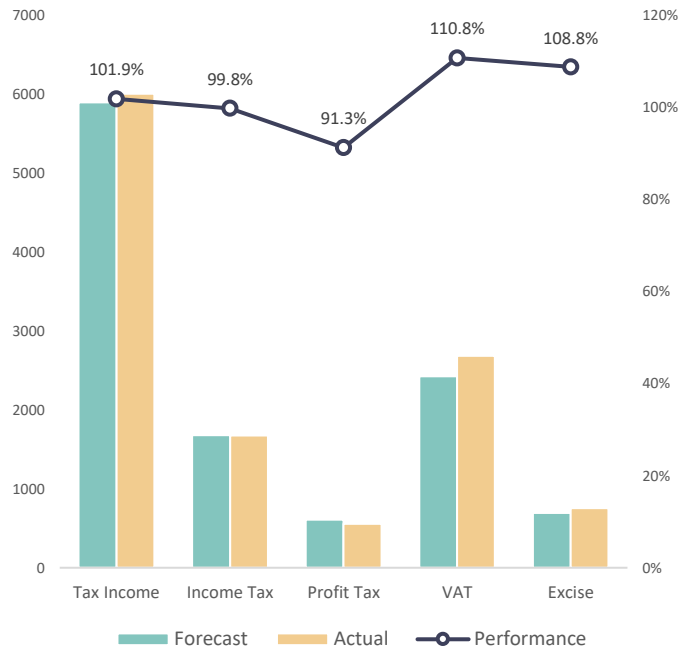
The consolidated budget tax revenue forecast for the first half of 2021 was set at 5,898.1 mln GEL, while 6,008.4 mln GEL was mobilized during the reporting period, which is 101.9 percent of the forecast.

- 1,677.8 million GEL is mobilized as income tax, which is 99.8 percent of the forecast figure (1,681 million GEL).
- 556,7 million GEL is mobilized as profit tax, which is 91.3 percent of the forecast indicator (610 million GEL).
- 2,686.4 million GEL was mobilized as VAT, which is 110.8 percent of the forecast (GEL 2,425 million).
- 754.3 million GEL is mobilized as excise, which is 108.8 percent of the forecast indicator (693.2 million GEL).
- 39.2 million GEL is mobilized in the form of import tax, which is 103 percent of the forecast (38 million GEL).
- 379.4 million GEL is mobilized in the form of property tax, which is 124.8 percent of the forecast (303.9 million GEL).

In the second quarter of 2021, compared to the same period last year, consolidated budget revenues increased by 22.8 percent and expenditures increased by 26.9 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to -273.9 million GEL, while the total balance was set at -1,101.7 million GEL.

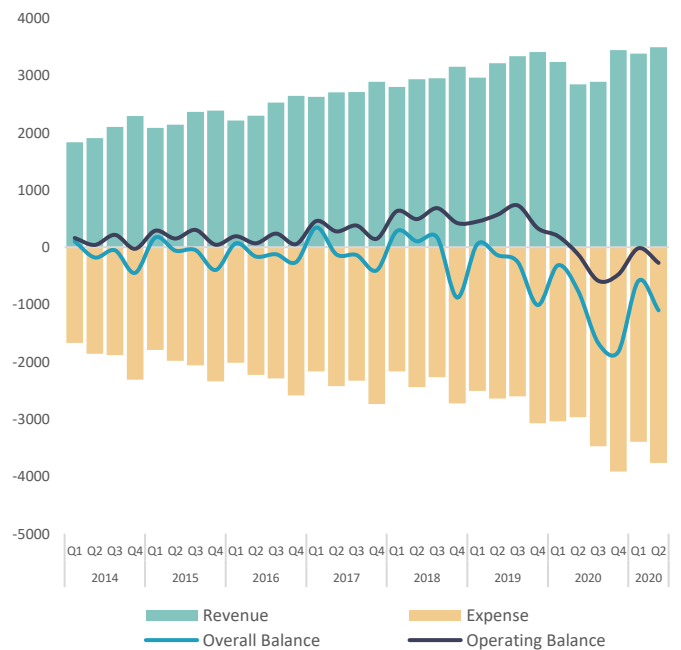
A significant share of budget revenues is accounted for by tax revenues, accounting for 87.4 percent in the second quarter of 2021. The consolidated budget received GEL 3,051.4 million in taxes, which is 24.8 percent more than the previous year. Revenue from income tax increased by 8.9 percent year on year to GEL 843.3 million. High growth is observed in the form of revenue from VAT, which increased annually by 66.4 percent compared to the previous year and amounted to 1,481 million. At the same time, a significant increase in tax revenues is observed from import and excise taxes. In particular, revenue from import tax increased by 31.4 percent, while revenue from excise tax increased by 28 percent. Revenue from income tax increased relatively slightly, accounting for 14.5 percent, while the growth rate was 3.5 percent. Property tax revenue also increased significantly. With a small share of 0.4 percent, the annual growth was 21.8 percent.

Figure 34: Budget Revenue Performance



Source: MOF

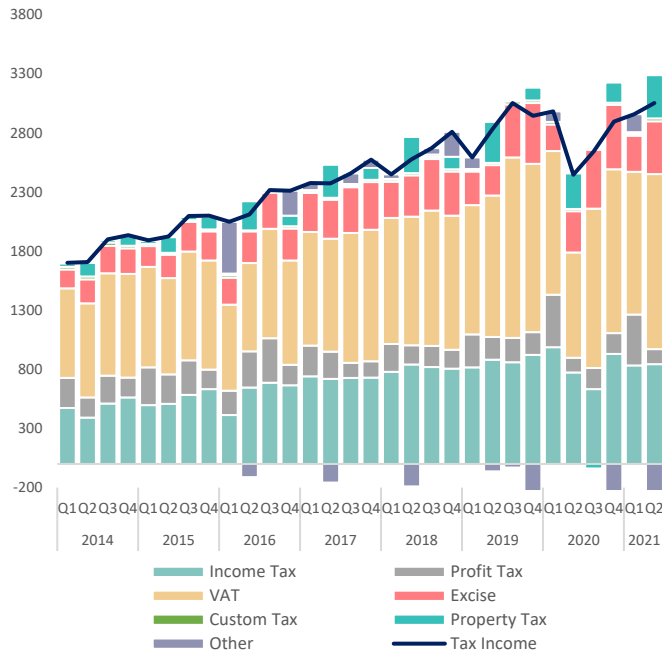
Figure 35: Budget Balance



Source: MOF



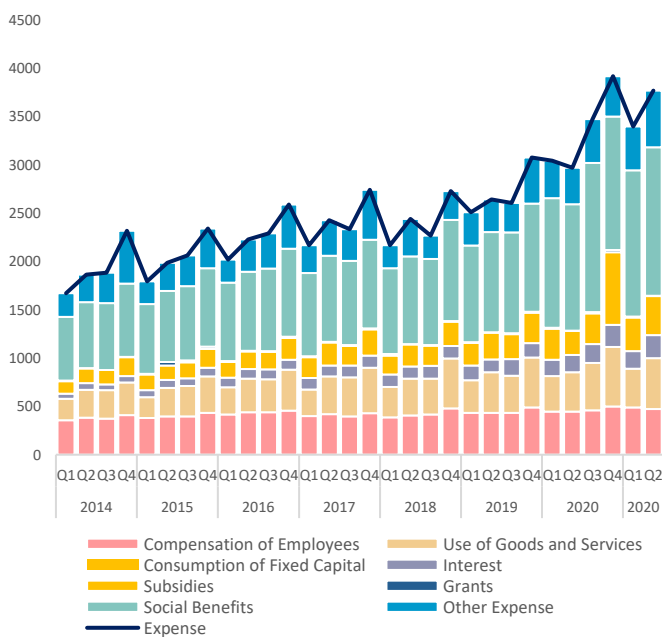
Figure 36: Tax Income



Source: MOF

Expenditures in the second quarter of 2021 increased by 26.9 percent year on year to GEL 3,765.6 million. The largest share of budget expenditures is in social security expenditures, which account for 40.8 percent of total expenditures, while the annual growth rate is equal to 17.6 percent. This increase is partly due to the social measures developed in the conditions of the pandemic. Expenditures in the form of subsidies also increased significantly, with an annual growth rate of 10.7 percent to GEL 402.9 million, accounting for 10.7 percent of total expenditures. As for other items of expenditure, wages (12.5 percent of total costs), goods and services (14 percent of total costs), interest (6.3 percent of total costs) and other costs (15.5 percent of total costs) increased by 5.8 percent, 29.4 percent, 34.6 percent and 54.4 percent compared to the corresponding period of 2020, respectively,.

Figure 37: Budget Expenses



Source: MOF

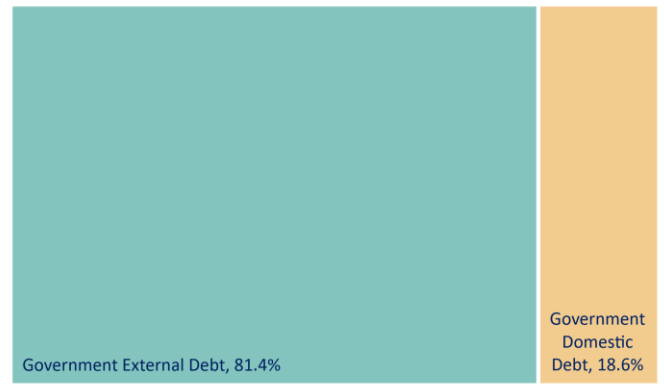


Government Debt

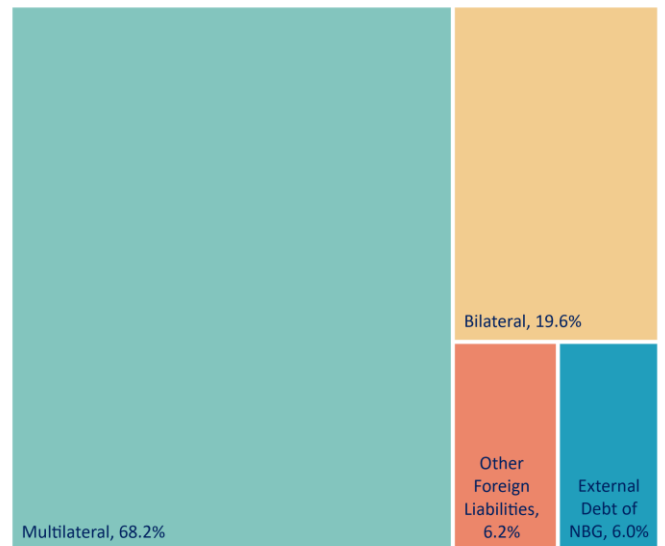
As of June 30, 2020, the stock of public debt of Georgia amounted to GEL 31,124 million, including:

- Government domestic debt stock is GEL 5,789.4 million, including:
  - Annual Renewable Government Bond for the National Bank ("Bond for the NBG") - GEL 160.8 million;
  - Government bonds with different maturities for open market operations ("Bonds for open market") - 170 million GEL;
  - Treasury liabilities of the Ministry of Finance – GEL 390.4 million;
  - Treasury bonds of the Ministry of Finance - GEL 5,038.2 million;
- Government external debt stock is 25,334.7 million GEL.

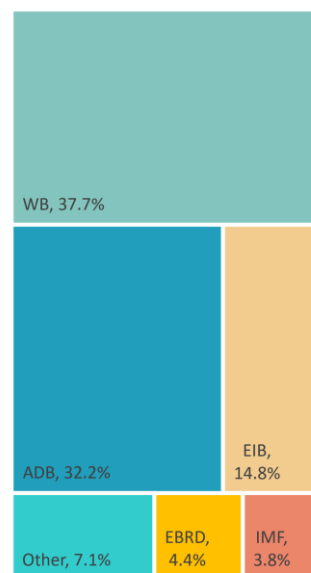
Figure 38: Government Debt



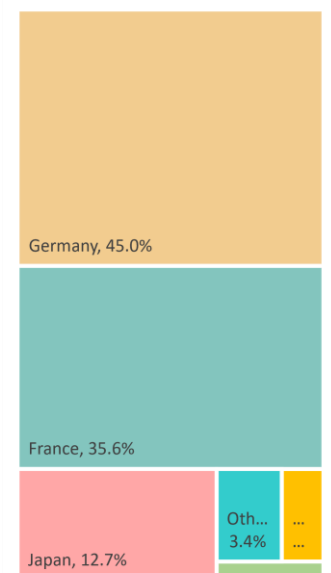
Government External Debt



Multilateral



Bilateral



Source: MOF

# Monetary Sector

## Private Sector Larization

The larization of loans has an increasing trend and by 1 of July 2021 it reached 47.2 percent. It should be noted that the main determinant of total loan larization is the larization of loans granted to individuals. By 1 of July 2021, the larization of loans of individuals was 62.5 percent, in the same period the larization of loans granted to legal entities amounted to 31.1 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. Larization of consumer loans evolved around 88 percent during 2021 and by 1 of July 2021 amounted to 88.3 percent, as of the larization of mortgage loans, compared to the previous quarter, it increased by 1.2 percentage points (net of exchange rate effect) and amounted to 37.2 percent, in the same period.

We also observe an increasing trend of deposit larization but it still remains significantly lower than larization of loans. The larization of total deposits increased by 1.6 percentage points compared to the previous quarter and as of 1 of July 2021 reached 39.4 percent. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. Significant increase was observed in the larization of the deposits of legal entities, compared to the first quarter it increased by 4.1 percentage points and by the 1 of July reached 56 percent and the larization of deposits of individuals in the same period was 23.3 percent.

It should be noted that the main contributor in the deposits larization is still time deposits larization, by 1 July 2021 it reached 40.4 percent. In the same period current accounts larization amounted to 46.1 percent, while larization of the deposits before demand increased by 2.9 percentage points compared to the previous quarter and reached 31.4 percent.

Figure 39: Loan Larization

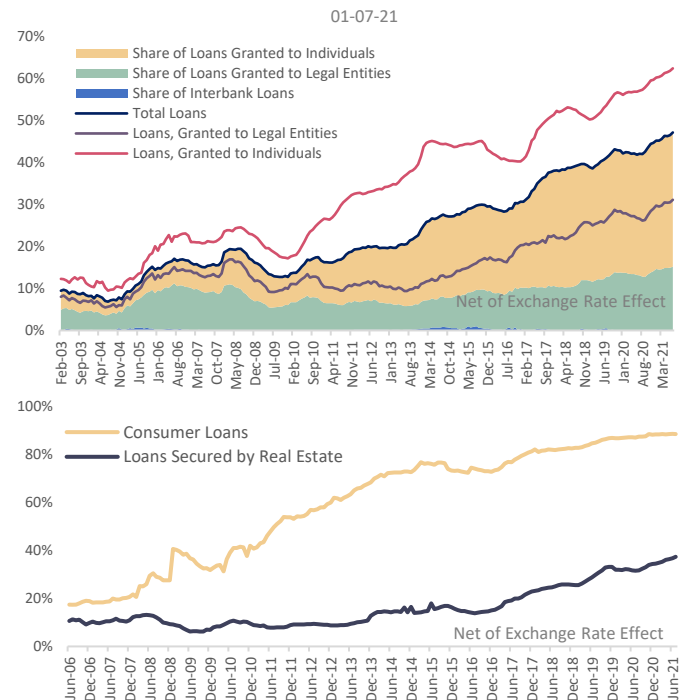


Figure 40: Deposit Larization

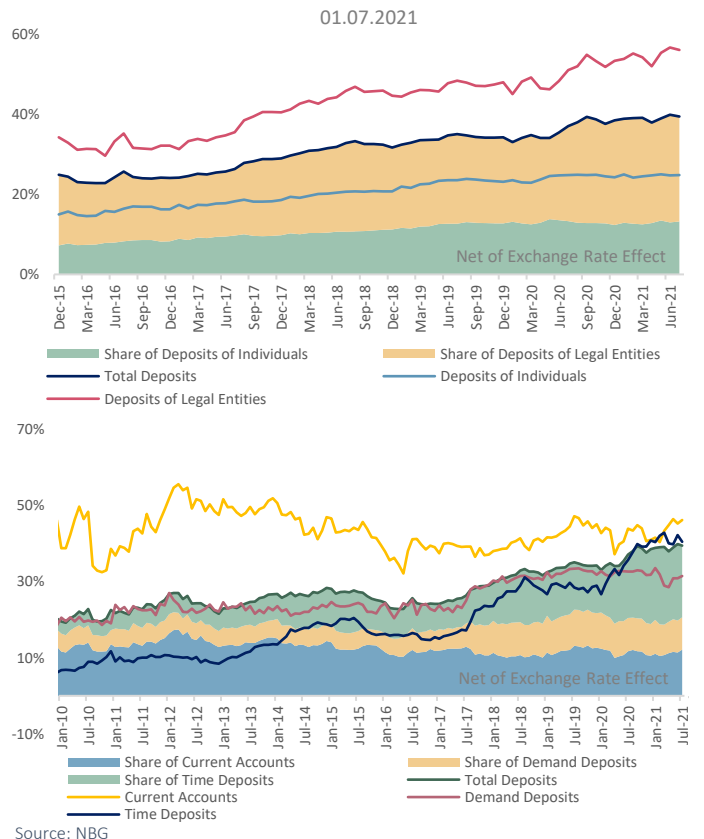
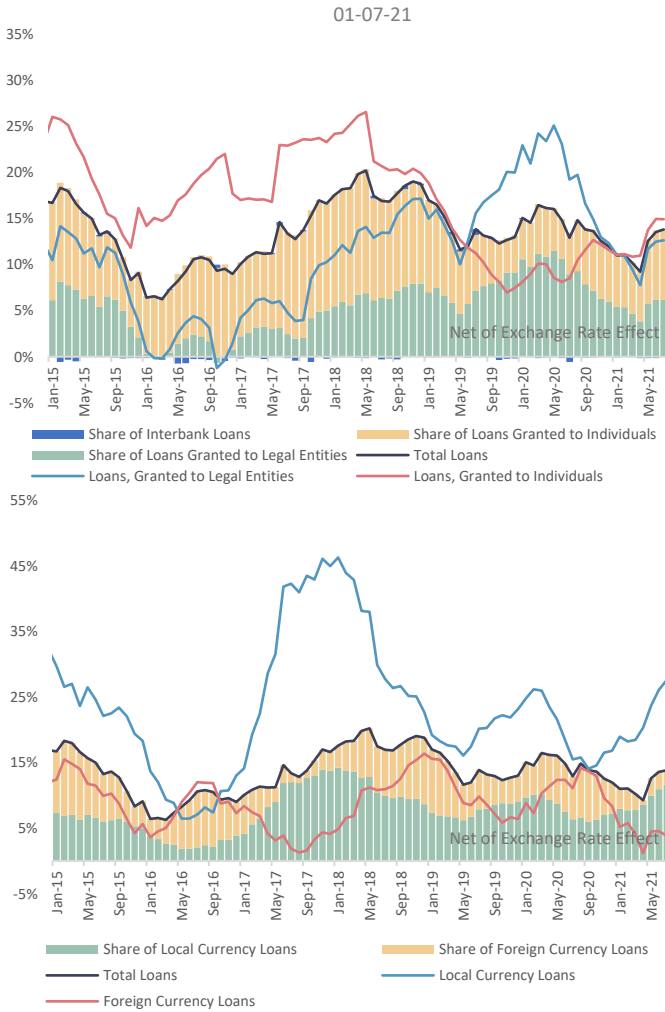


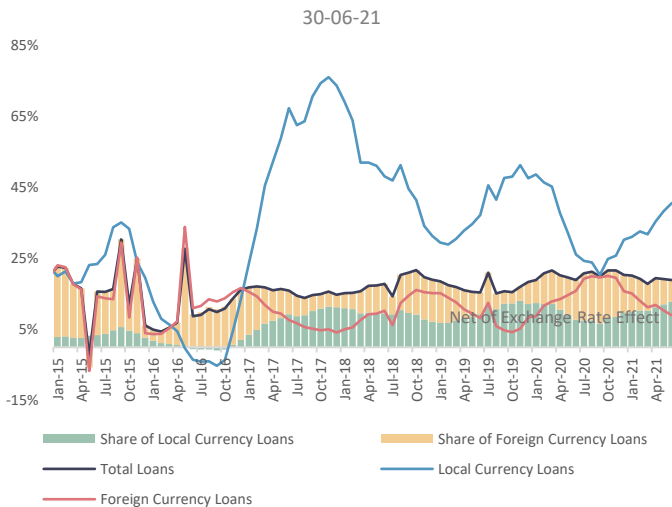


Figure 41: Annual Growth of Loans



Source: NBG

Figure 42: Annual Growth of Loans secured by Real Estate



Source: NBG

## Review of Loans

After a declining trend, an increase was observed in the growth rate of the credit portfolio in the second quarter of the 2021 and as of 1 July 2021 overall loans compared to the corresponding period of 2020 increased by 13.8 percent, which exceeds the value of the previous quarter by 4.6 percent (net of exchange rate effect). Significant increase was observed also in the annual growth of loans granted to legal entities, compared to the previous quarter it increased by 4.8 percentage points and by 1 July 2021 it increased by 12.6 percent, compared to the same period of previous year. During the same period loans to individuals increased by 14.9 percent. By 2021 mainly loans granted to individuals contribute to the total loans growth.

It is important to note that there is an increasing trend in the growth of loans denominated in local currency and as of 1 of July 2021 compared to the corresponding period of 2020 it amounted to 27.6 percent, which is 7.3 percent higher than in the last quarter (excluding exchange rate effect). During the same period, the growth of loans in foreign currency was only 3.8 percent. This dynamic has a positive effect on loan larization, which helps to decrease vulnerability coming from exchange rate fluctuation.

By 30 of June 2021, mortgage loans had increased by 18.9 percent compared to the corresponding period of the previous year. Moreover, mortgage loans that are denominated in national currency increased significantly, by 40.5 percent, 8.7 percentage points higher than in the previous quarter, while foreign currency denominated mortgage loans increased by 9 percent and had a decreasing trend.

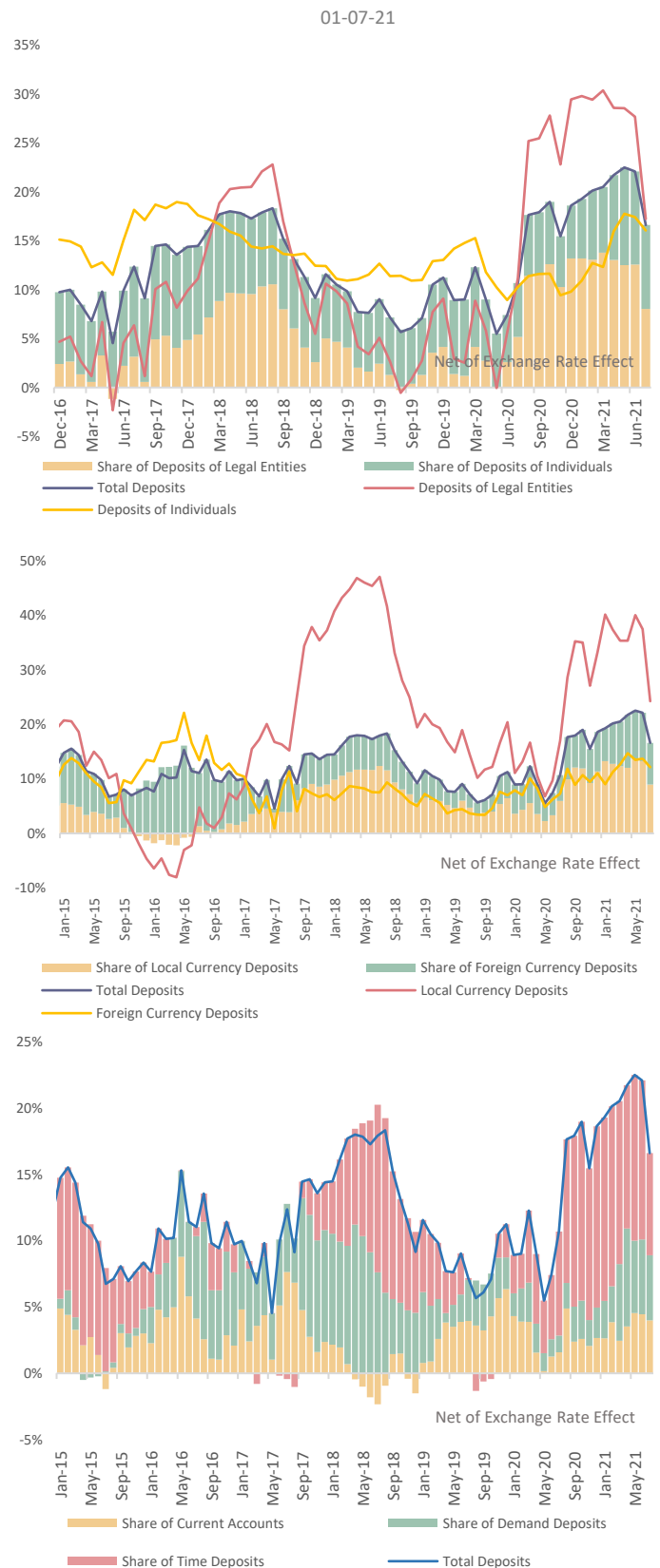
## Review of Deposits

The growth of total deposits on the 1 of July 2021 was 16.6 percent compared to the corresponding period of 2020, which is significantly, by 5.1 percentage points lower compared to the previous quarter. After significant increase in the annual growth of deposits denominated in national currency, decline of growth rate was observed, causing growth rate to decline by 11.1 percentage points compared to previous quarter (net of exchange rate effect) and reaching 24.2 percent by the 1 of July 2021, while the annual growth of deposits denominated in foreign currency amounted 12.2 percent in the same period.

By the 1 of April 2021 annual growth of deposits of individuals reached 16.1 percent, while the annual growth of deposits of legal entities amounted to 17.2 percent, in the same period, which is 11.3 percentage points lower than the same value of the previous quarter.

As for the growth of deposits by types, the slowing down of the deposits growth was reflected in the growth rate of time and demand deposits. Significant decrease was observed in the growth rate of the demand deposits, compared to previous quarters annual growth rate of the demand deposits decreased by 8.3 percentage points and by 1 on July 2021 reached 18.3 percent. Growth rate of time deposits also decreased by 7.2 percentage points compared to first quarter of 2021 and by 1 July amounted to 16.6 percent, in the same period annual growth rate of current accounts was 15 percent.

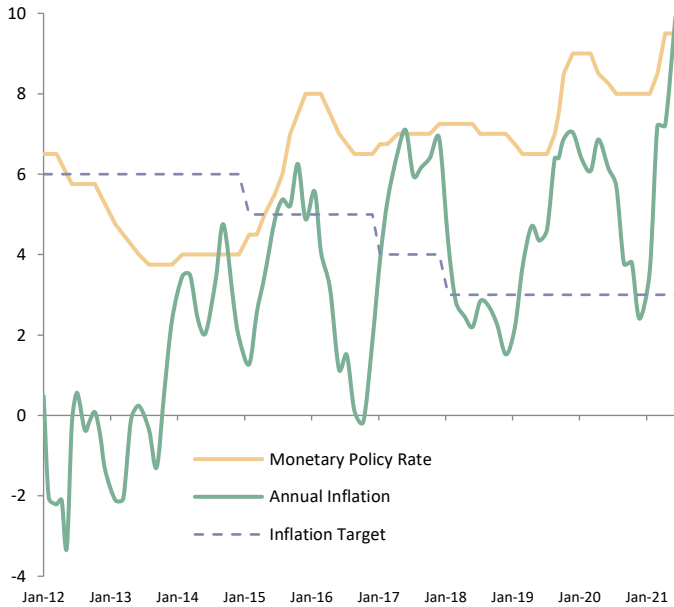
Figure 43: Annual Growth of Deposits



Source: NBG



Figure 44: Inflation and Monetary Policy Rate



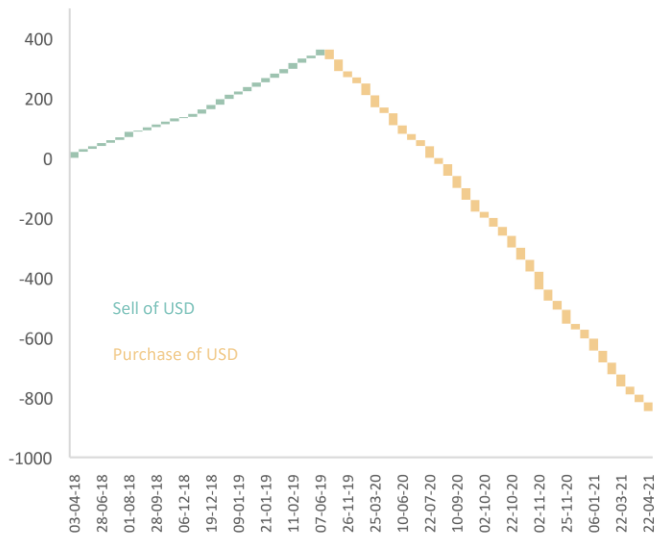
Source: NBG

### Monetary Policy Rate

The Monetary Policy Committee of the National Bank of Georgia held two sessions in the second quarter of 2021. At its meeting on April 28, the National Bank Monetary Policy Committee decided to increase the refinancing rate by 1 percentage point. And at the June 23 meeting, the National Bank decided to leave the refinancing rate unchanged. At the end of the second quarter, the rate was 9.5 percent.

According to the National Bank, other things equal, inflation will be above 9 percent on average in 2021, and in 2022 inflation will begin to decline, gradually approaching its medium-term target. 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. In the second quarter of 2021, the National Bank sold \$ 82.9 million. And in the first half of 2021, the National Bank sold \$ 242.9 million.

Figure 45: Trade of USD by NBG, mln



Source: NBG



### Interest Rates

As of July 2021, the interest rate on foreign currency deposits was 2.1 percent, while on the national currency deposits it amounted to 9.6 percent.

As of 1 of July 2021, the weighted average interest rate on deposits of legal entities in national currency was 9.9 percent, and in foreign currency – 2 percent. In the same period the average annual interest rate on deposits of individuals was 2.2 percent on deposits in foreign currency and 8.9 percent in national currency.

By 1 of July 2021, the weighted average annual interest rate on short-term consumer loans was 17.7 percent (22.2 percent in national currency and 6 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 July 1, 2021 was 17.3 percent. The interest rate on loans denominated in the national currency is 18.5 percent and the interest rate on loans denominated in foreign currency is 7.4 percent.

At the end of June 2021, the interest rate on mortgage loans issued to legal entities in national currency was 13.1 percent, and in foreign currency – 6.9 percent. The interest rate on loans to individuals in national currency was 12.4 percent, and in foreign currency it was 6.1 percent.

Figure 46: Interest rates on Deposits (stock)

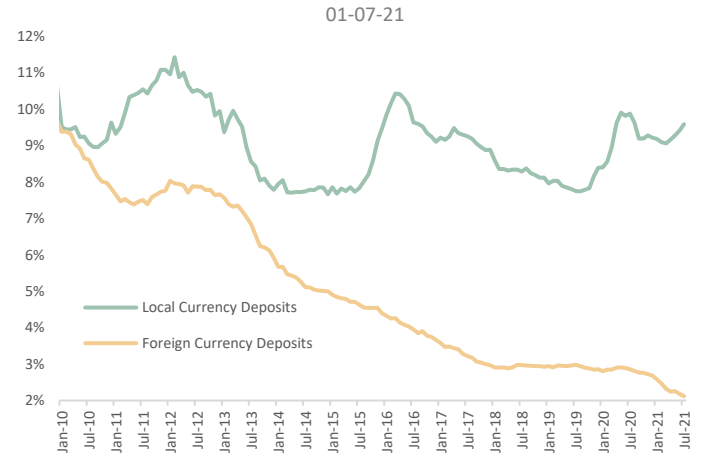
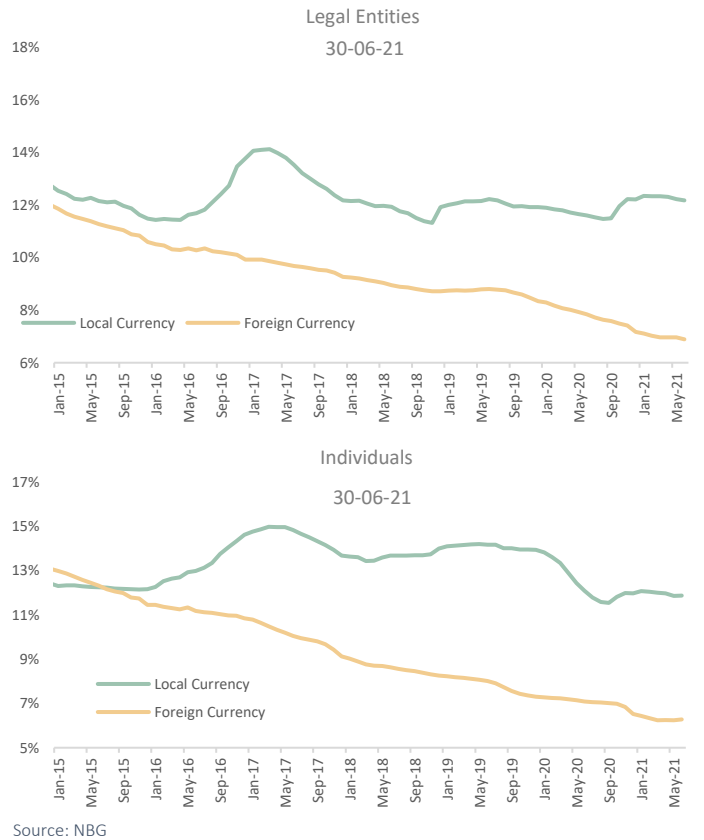


Figure 47: Interest rates on Loans secured by Real Estate





## 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.

