

Ministry of Finance of Georgia



Quarterly Economic Outlook

III Quarter, 2021



Brief Summary

- According to preliminary data, economic growth in 2021 Q3 equals to 9 percent
- Renewed economic growth forecast for Georgia in 2021 equals to 10 percent
- Annual inflation in the third quarter equals to 12.3 percent, while core inflation equals to 6.5
- Export annually increased by 21.9 percent
- Import annually increased by 23.8 percent
- Revenues from tourism increased significantly due to the base effect, but still remain below the 2019 level
- The refinancing rate has increased to 10 percent





Table of Contents

Real Sector	4
Economic Growth	4
Employment and Unemployment	6
Price Level	7
Economic Outlook of the Region	9
External Sector	11
Current Account Balance	11
External Debt	12
Foreign Direct Investment	12
International Trade	13
Tourism	14
Remittances	15
Dependence on other Countries	16
Exchange Rate	17
Fiscal Sector	18
Budget Performance	18
Government Debt	20
Monetary Sector	21
Private Sector Larization	21
Review of Loans	22
Review of Deposits	23
Monetary Policy Rate	24
Interest Rates	25

Real Sector

Economic Growth

According to preliminary data, in the third quarter of 2021, real GDP increased by an average of 9 percent compared to the same period last year. At the same time, compared to the corresponding period of 2019, economic growth was 4.8 percent. This increase is significantly due to the baseline effect and the realization of the delayed demand in the current periods and an increase of the economic activity in the region. In particular, in the third quarter, exports increased annually by 21.9 percent, while imports increased annually by 23.8 percent. At the same time, compared to the third quarter of 2019, exports increased by 15.8 percent and imports increased by 9.9 percent. The slow pace of the vaccination process is slowing down the recovery of the tourism sector. External demand continues to grow, however, considering tourism, remains reduced compared to the pre-pandemic situation. Revenue from international travelers increased 13-fold year-on-year in the third quarter, although there was a 49.8 percent decline compared to the same period in 2019.

Due to the deteriorating epidemiological situation in early 2021, there were a number of restrictions that hindered the process of economic recovery. Accordingly, real GDP declined by 4.5 percent annually in the first quarter. A faster recovery than expected occurred in the second quarter of 2021. Compared to the same period of the previous year, real GDP increased by 29.9 percent, and compared to the second quarter of 2019, by 12.7 percent. A significant share of GDP growth was due to the consumption component, which grew by 34.6 percent annually in real terms and contributed 18.2 pp. to total growth. At the same time, exports in real terms increased by 53.3 percent annually to 18.2 pp. of total growth due to the partial recovery of the tourism sector. This sharp increase is explained by the high base effect and the realization of the delayed demand in the current periods from the previous stages of the pandemic. Consequently, growth was observed in many sectors. In particular, the following activities made a significant contribution to growth: accommodation and food delivery activities (75.5% y/y, 2.5 pp.), information and communication (56.2% y/y, 1.8 pp.), wholesale and retail (53.9% y/y, 6.5 pp.), water supply

Figure 1: Economic Growth

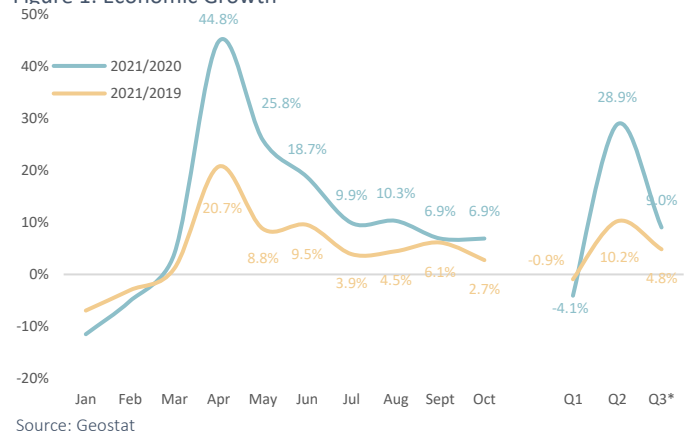


Figure 2: Real Sectoral Growth, 2021 2Q

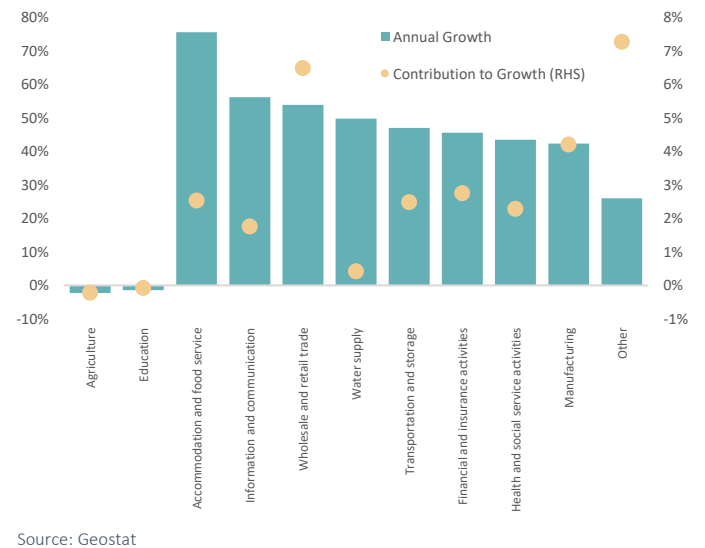


Figure 3: Decomposition of Economic Growth

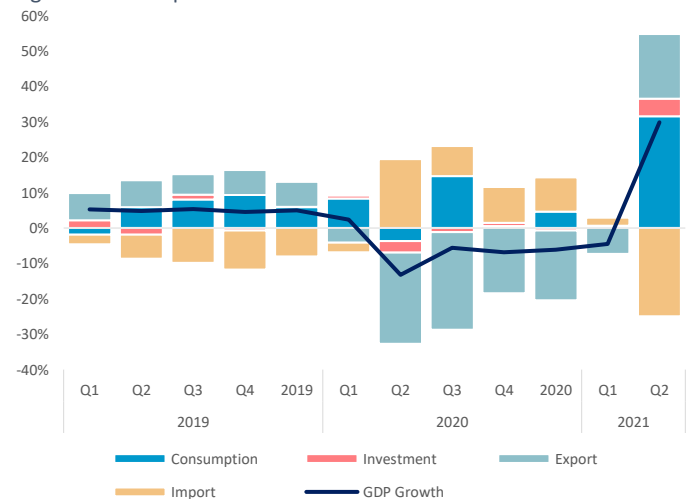
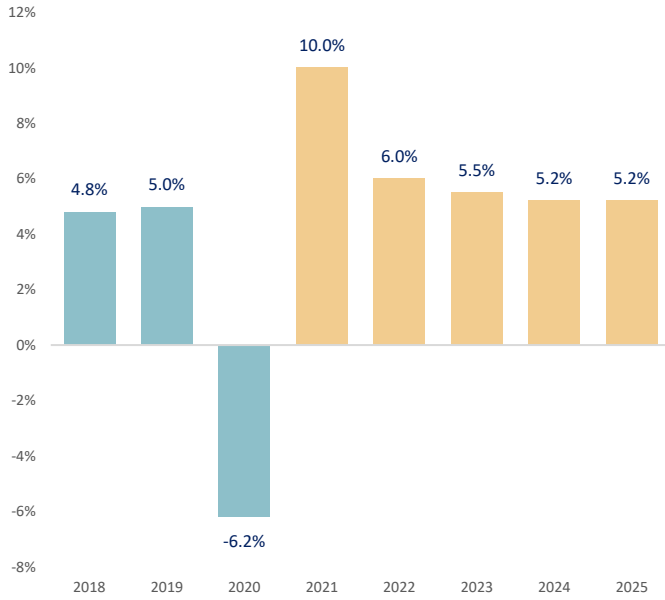




Figure 4: Economic Growth Projection

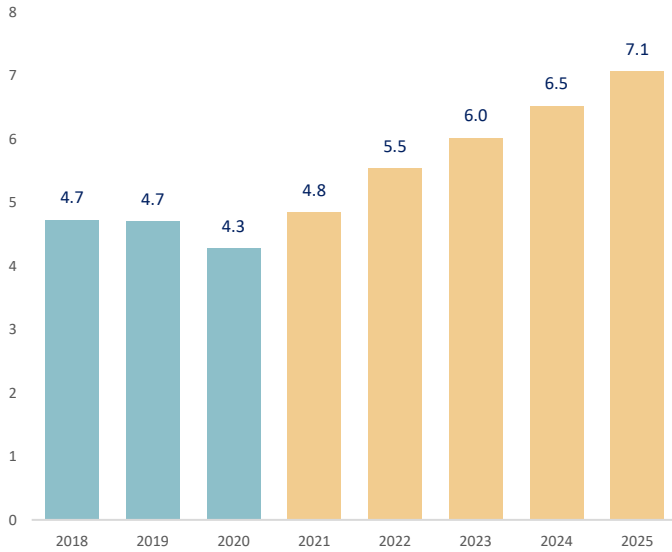


Source: MOF

(49.8% y/y, 0.4 pp.), transport and warehousing (47% y/y, 2.5 pp.), financial and insurance activities (45.5% y/y, 2.8 pp.), manufacturing (42.3% y/y, 4.2 pp.). The following sectors made a significant contribution to the decline: agriculture (-2.3% y/y, -2.2 pp.), arts, entertainment and leisure (-25.4% y/y, -0.2 pp.), education (-1.4% y/y, -0.1 pp.).

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, 10 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 5.5 percent in 2022-2025.

Figure 5: GDP per capita, ths USD



Source: MOF

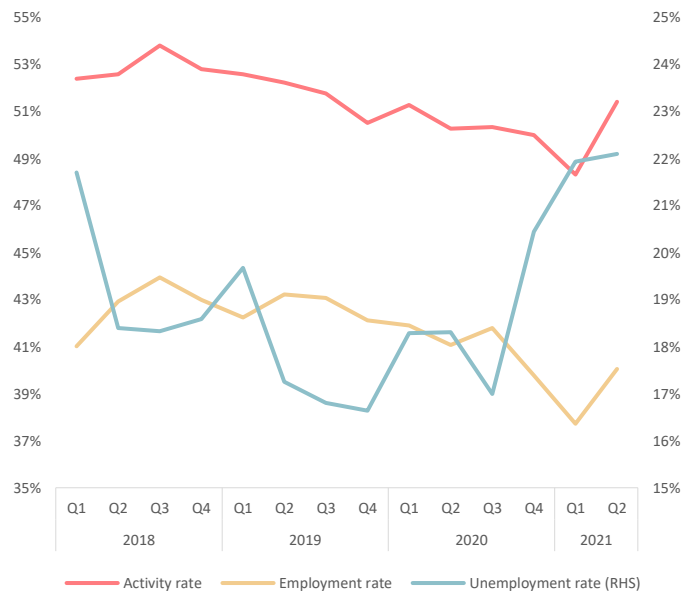


Employment and Unemployment

In the second quarter of 2021, the unemployment rate was 22.1 percent, which is 0.2 pp more than the value of the previous quarter and 3.8 pp compared to the same period last year. Among them, unemployment was 24.1 percent in urban areas (+2.3 percentage points per year) and 19 percent in rural areas (+6.2 percentage points per year). The highest unemployment rates are in the 15-24 and 25-34 age groups. In the second quarter of 2021, the economically active population accounted for 51.4 percent of the working age population (15 years and older). In the second quarter of 2021, the unemployment rate in the women group was 18.9 percent, while in the men group, the figure was 24.5 percent.

Despite faster-than-expected economic growth in the second quarter of 2021 (29.9 percent annual growth and 12.7 percent growth compared to 2019), the number of employees decreased by 1.9 percent compared to the corresponding quarter of the previous year, while the employment rate decreased by 1 percentage point. The number of unemployed increased by 24.2 percent annually. At the same time, productivity (ratio of real output to number of employees) increased by 32.3 percent annually. At the same time, the average nominal wage of employees increased by 15.5 percent, amounting to 1328 GEL as of the second quarter of 2021.

Figure 7: Indicators of Labor Market



Source: Geostat

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



Source: Geostat

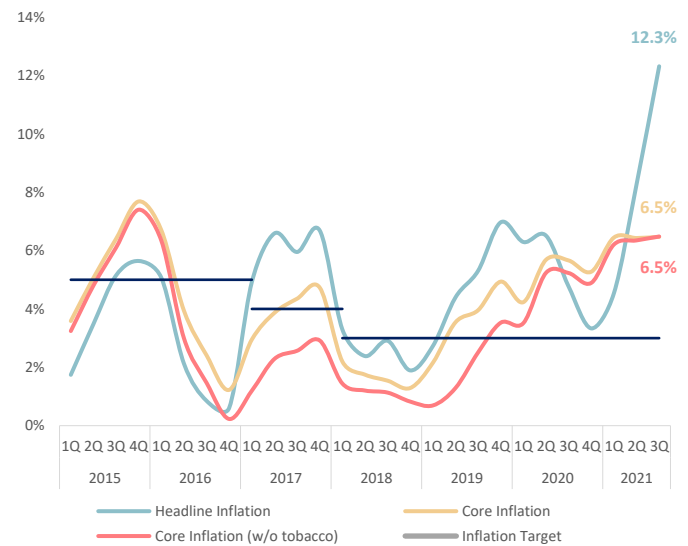
Price Level

Annual inflation significantly exceeds inflation target during 2021. The main reasons of such increase in inflation are supply side factors such as a significant increase in the cost of transporting and global rise of price of goods in the international commodity market. At the same time, the annual inflation rate was also affected by the change in utility bills, as the completion of the subsidy program increased the inflation rate of these goods more than it was initially declined by and strengthened the overall inflation rate. Significant pressure also comes from an increased economic activity from domestic demand side, which is not a reducing factor as it was in previous periods, during the economic downturn. Global inflation is a relevant issue covered by all international organizations. International market rise in prices of commodity, oil and gas and strong fiscal stimulus have led to rising inflationary pressures. According to the updated forecast of the International Monetary Fund (October, 2021), world inflation will increase from 3.2 percent in 2020 to 4.3 percent in 2021. In the third quarter of 2021, annual inflation stood at 12.3 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 in previous periods, imported inflation remains at a high level. Core inflation (excluding tobacco) in the third quarter stands at 6.5 percent.

On August 4, the National Bank Committee decided to increase the refinancing rate by 0.5 pp to ease the pressure on expectations for further price increases. According to the National Bank, inflation in 2021 will average 9.7 percent and will start approaching the target from the second quarter of 2022.

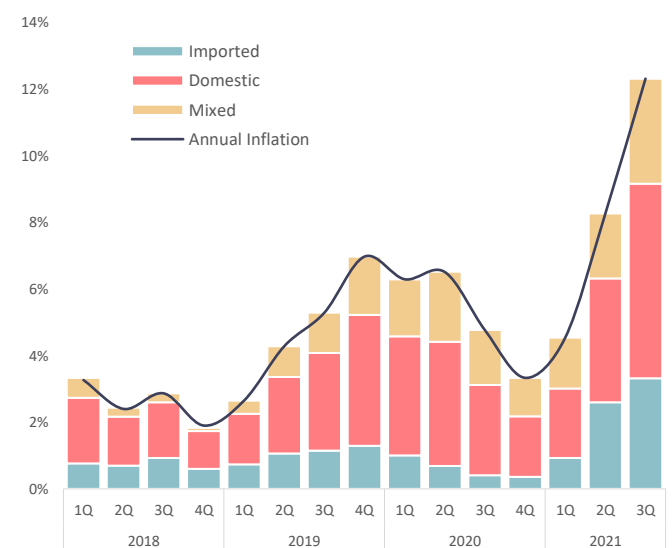
In the third quarter of 2021, the contribution of domestic inflation was 5.8 percent, while the contribution of imported inflation was 3.3 percent. This dynamics is caused by the increase in the price of food and the relatively high weight gain in the consumer basket relative to the food group.

Figure 9: Annual Inflation



Source: NBG

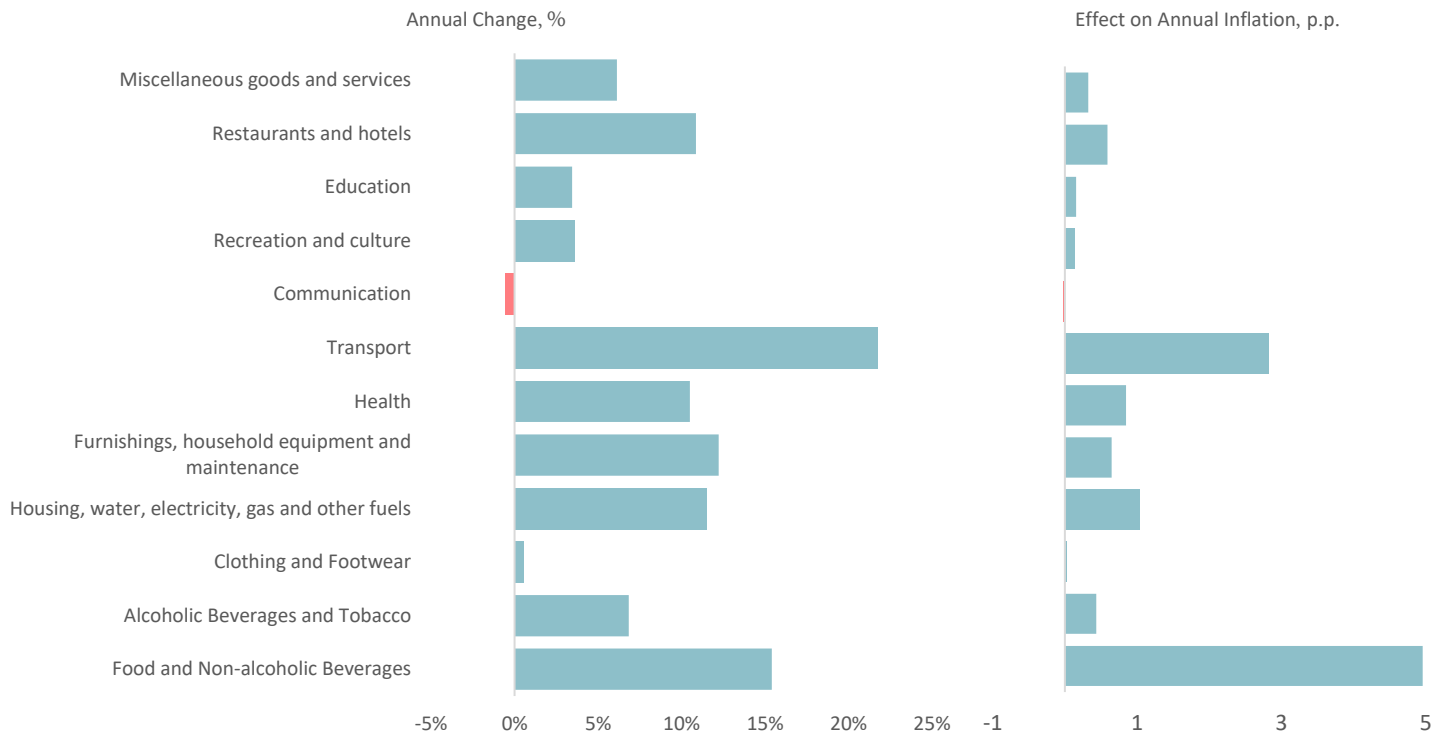
Figure 10: Decomposition of Inflation



Source: NBG, Geostat



Figure 11: Decomposition of Inflation, 2021 Q3



Source: Geostat

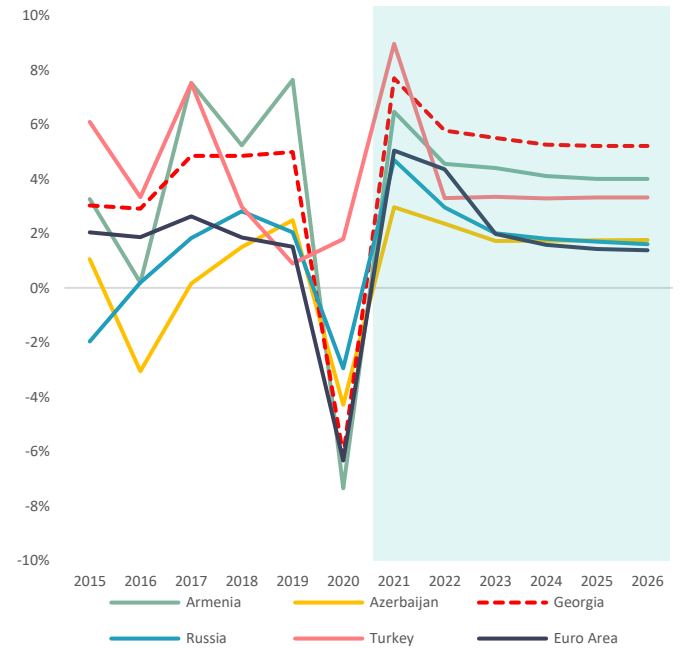


Economic Outlook of the Region

Following the recession caused by the COVID-19 pandemic in 2020, there seems to be V-shaped global recovery. However, the epidemiological situation in some countries still hinders economic activity, as restrictions are imposed due to the spread of new strains and it is ambiguous how governments will reponse to the emergence 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 October 2021, global economic growth in 2021 will be 5.9 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 5.2 percent in 2021 and 4.5 percent in 2022. At the same time, 6.4 percent growth is expected in 2021 and 5.1 percent in 2022 for growing and developing countries. According to the IMF forecast for October, the economic growth of the Eurozone will be 5 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 October forecast, the inflation rate will be 2.2 percent in 2021 and 1.7 percent in 2022.

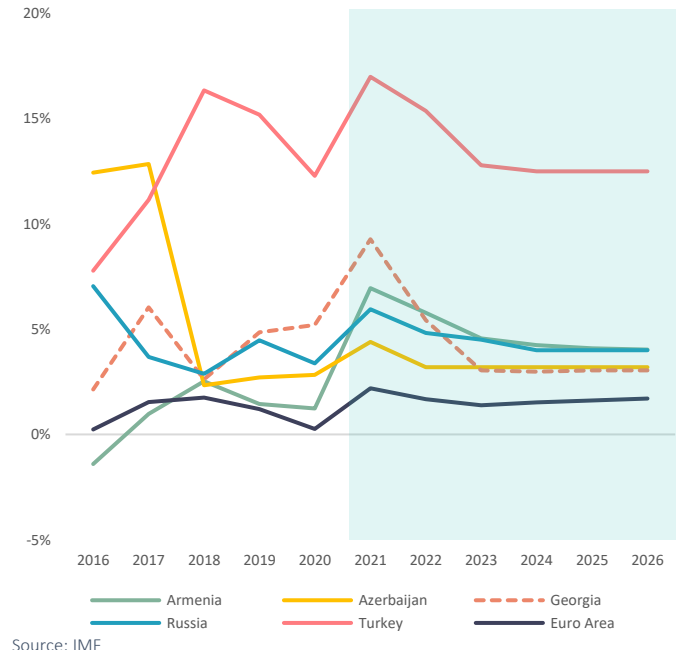
The process of economic recovery is also observed in Turkey, where investment and tourism expectations have recently improved, as well as increased export volumes and manufacturing activity. However, the main challenge remains the volatility of the exchange rate of lira and the inflationary pressure following it. According to the IMF forecast, real economic growth in Turkey in 2021 is set at 9 percent, while in 2022 it will reach 3.3 percent. The IMF estimates that in 2021 and 2022, the expected inflation rate will be 17 and 15.4 percent, respectively. The process of vaccination in the world and within the country and the easing of restrictions also had a positive impact on Russia's economic situation. Consumer spending and positive expectations of economic agents have increased. In addition, rising international oil prices on the

Figure 12: Economic Growth in the Region



Source: IMF

Figure 13: Inflation in the Region

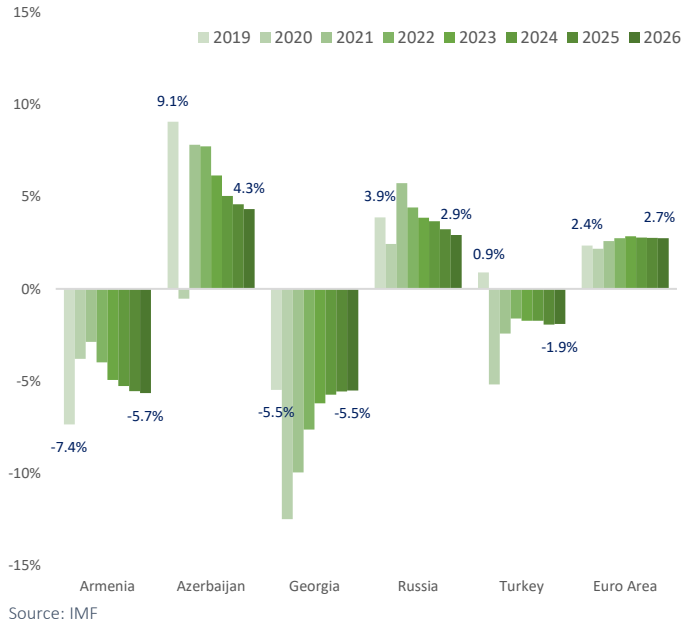


Source: IMF

Source: International Monetary Fund. World Economic Outlook: Recovery During a Pandemic; Health Concerns, Supply Disruptions and Price Pressures. Washington, DC, October 2021
International Monetary Fund. World Economic Outlook Update: Fault Lines Widen in the Global Recovery. Washington, DC, July 2021



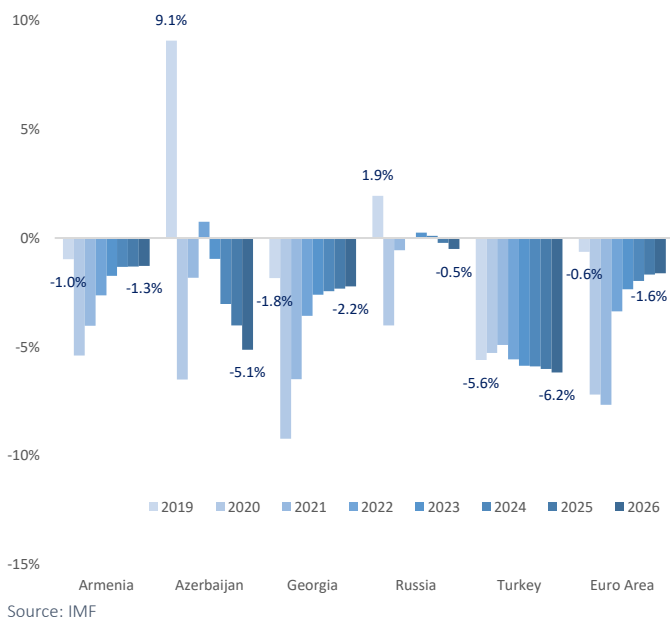
Figure 14: Current Account to GDP, %



world market have also improved Russia's foreign sector. According to the IMF, economic growth in Russia in 2021 was set at 4.7 percent, while in 2022 it is expected to grow by 2.9 percent. This recovery has created additional pressure on inflation, and the IMF estimates that it will reach 5.9 percent and 4.8 percent on average in 2021-2022.

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 3 percent, and in 2021 - 2.3 percent. The recovery of the economy will also be reflected in inflation. According to the forecast, inflation will reach 4.4 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 October forecast, economic growth in 2021 was set at 6.5 percent, while in 2022 growth of 4.5 percent is expected. As for inflation, in 2021 it will be 6.9 percent, while in 2022 it is expected to average 5.8 percent.

Figure 15: Budget Balance to GDP, %



It should be noted that due to global inflationary pressures and expectations, some of the central banks of Georgia's trading partner countries tightened monetary policy rates in the third quarter of 2021.

Source: International Monetary Fund. World Economic Outlook: Recovery During a Pandemic; Health Concerns, Supply Disruptions and Price Pressures. Washington, DC, October 2021
 International Monetary Fund. World Economic Outlook Update: Fault Lines Widen in the Global Recovery. Washington, DC, July 2021



External Sector

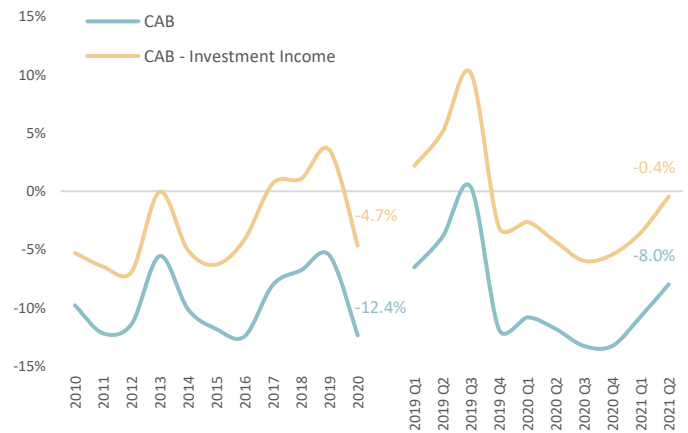
Current Account Balance

In 2020 current account deficit stood at 12.5 percent of GDP, which has significantly worsened from 2019 numbers, when CA deficit was 5.5 percent of GDP. From Q2 2021 current account deficit started to improve. In Q1 2021 CA deficit decreased to 10.8 percent. In Q2 2021 it further continued to decrease and stood at 8 percent of GDP. The improvement in CA deficit is nearly 6 percent compared to Q4 2020, when CA deficit was 13.3 percent. The improvement in CA deficit is mostly driven by exports of services, which is due to tourism sector recovery and by current transfers.

Current account deficit is financed by FDI and debt. Financing the deficit by debt, 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

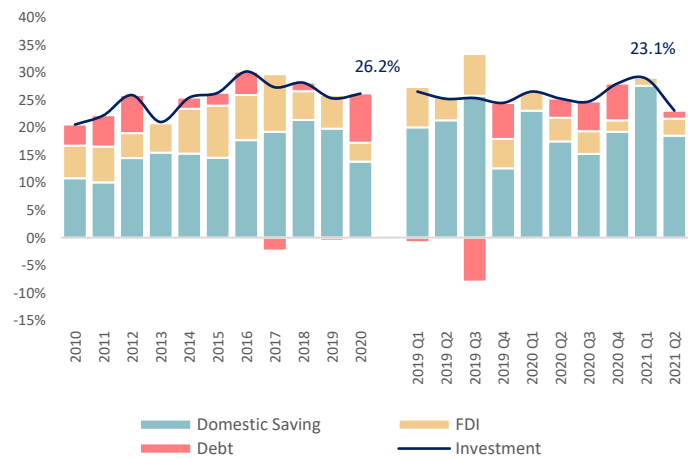
As of the second quarter of 2021, current account deficit financing has changed for the better. In particular, the FDI's share in financing increased from 1.4 pp. to 3.1 pp., while its debt contribution decreased from 9.3 pp. to 4.8 pp..

Figure 16: Current Account to GDP, %



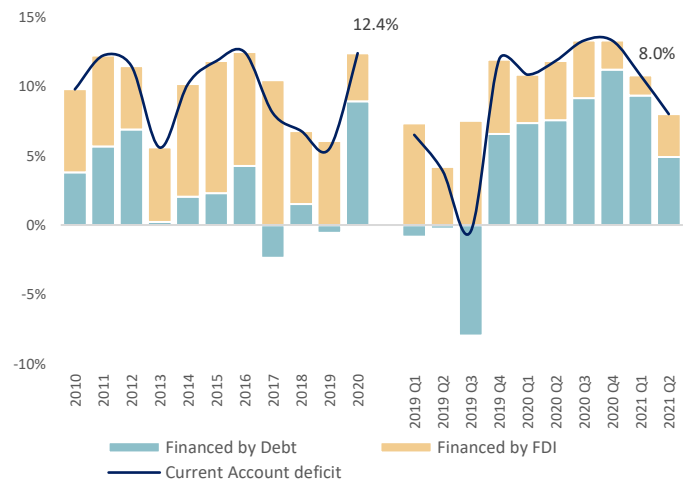
Source: NBG, Geostat

Figure 17: Financing of Investment



Source: NBG, Geostat

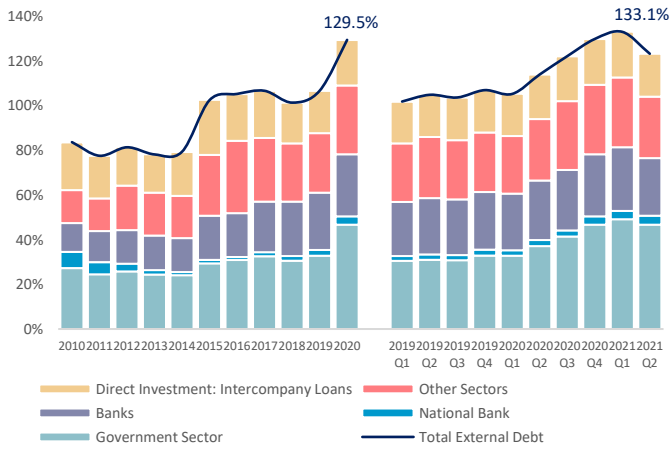
Figure 18: Financing of Current Account



Source: NBG, Geostat

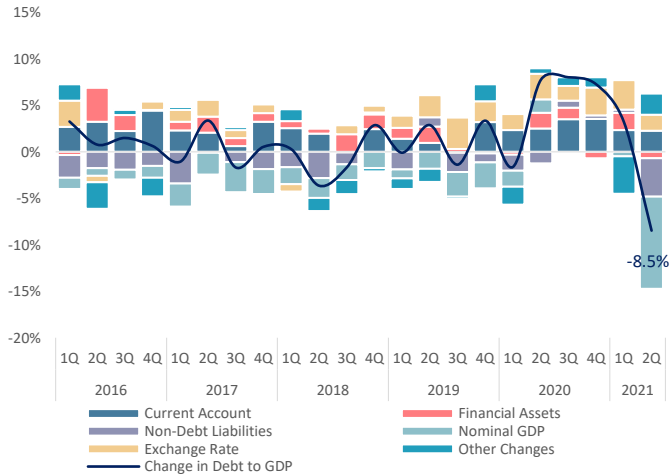


Figure 19: External Debt to GDP, %



Source: NBS, Geostat

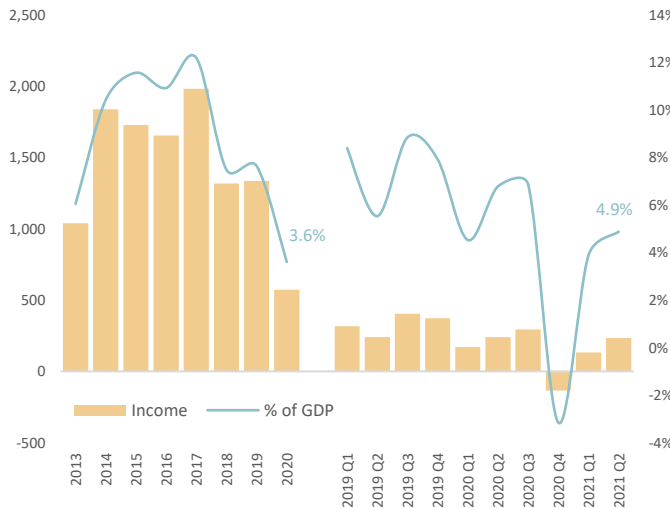
Figure 20: Change of Debt to GDP



Source: NBS, 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. As of the second quarter of 2021, foreign debt is 123.3 percent of GDP, which is 9.8 pp less than in the previous quarter. The reason for the decline is the sharpening of economic activity in the second quarter and the corresponding growth of nominal GDP by more than expected.

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 the second quarter of 2021, debt to GDP decreased by 8.5 pp., with a significant contribution from nominal GDP growth in the second quarter, contributing -9.9 pp. to overall growth. The exchange rate is still one of the sources of debt growth (+1.7 pp. contribution to total growth), because of the high share of external debt in total debt.



Foreign Direct Investments

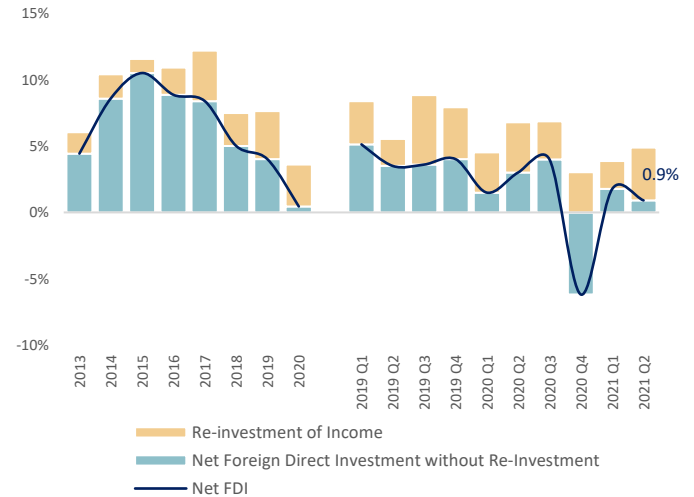
Foreign direct investment in Georgia amounted to 617 million USD, which is 52.9 percent less than in the previous year. As for the first quarter of 2021, foreign direct investments amounted to 125 million USD, 28.3 percent less than the same period of the previous year. The reduction is mainly due to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

As of Q2 2021, the Great Britain is still the leader by 32.9 percent of share in total FDI. As for 2nd and 3rd places, Czech Republic and Netherlands have 13.5 percent and 13.2 percent share respectively.

Investments were mainly allocated in financial sector, amounting 82 mln USD (35 percent of total FDI), in Energy sector and manufacturing, where investments amounted 65 mln USD (27.8 percent) and 56.5 mln USD (19. percent) respectively. It is important to note, that in hospitality, constructing and mining sectors FDI decreased. This decrease amounted 4.3 percent of total FDI.

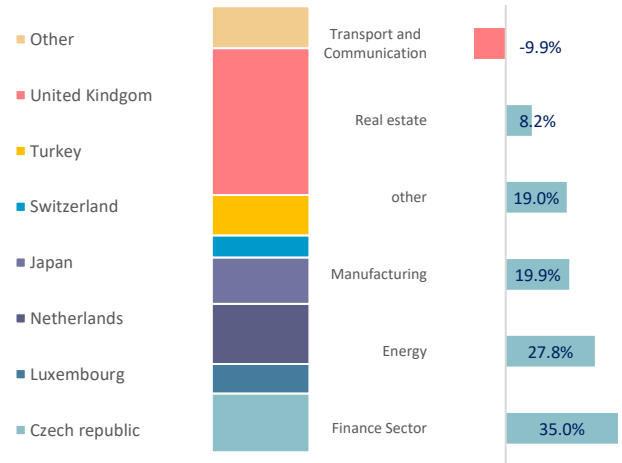
FDI structure still keeps its latest trend. In particular the share of reinvested earnings is still high in total FDI. In Q2 2021 the share of reinvestment increased by 1.9 pp. and stood at 4 percent of GDP, which is 81 percent of total FDI.

Figure 22: FDI



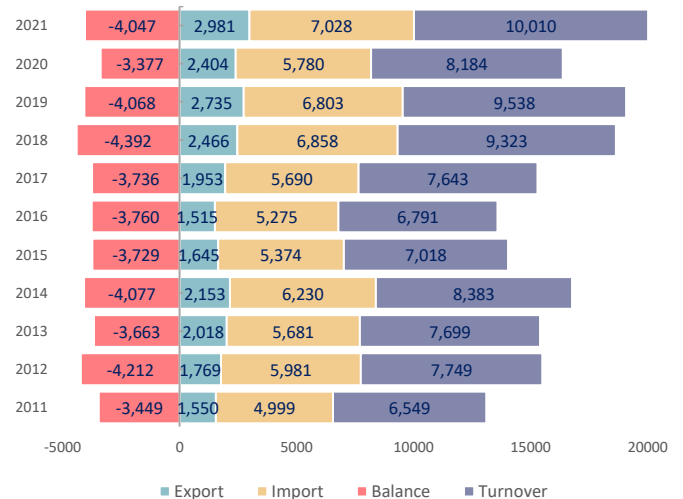
Source: NBG, Geostat

Figure 23: Composition of FDI, 2021 Q2



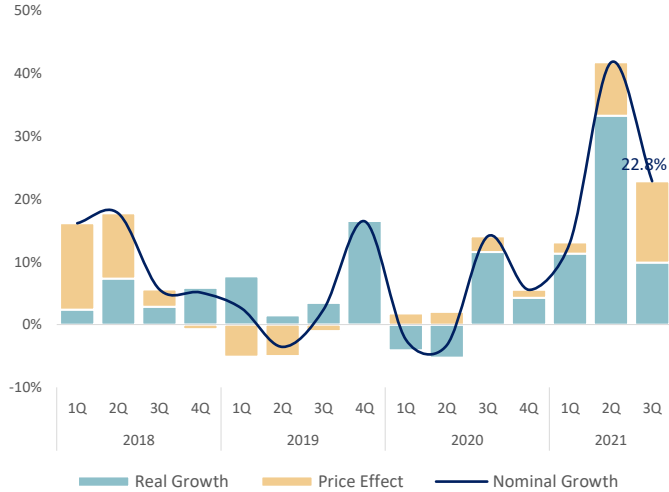
Source: Geostat

Figure 24: International Trade, January – June



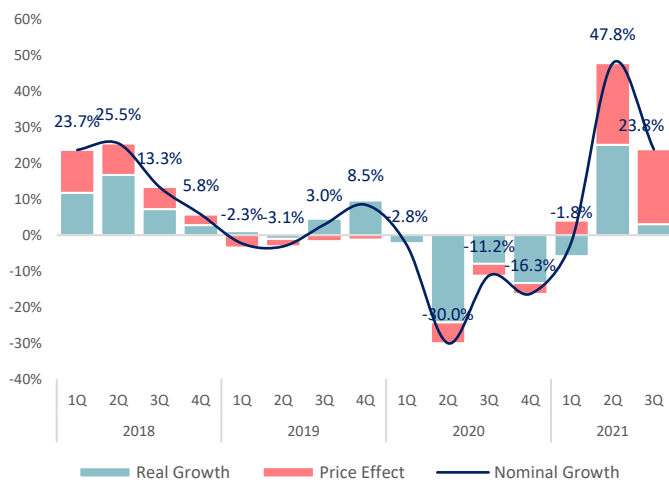
Source: Geostat

Figure 25: Annual Change of Domestic Export



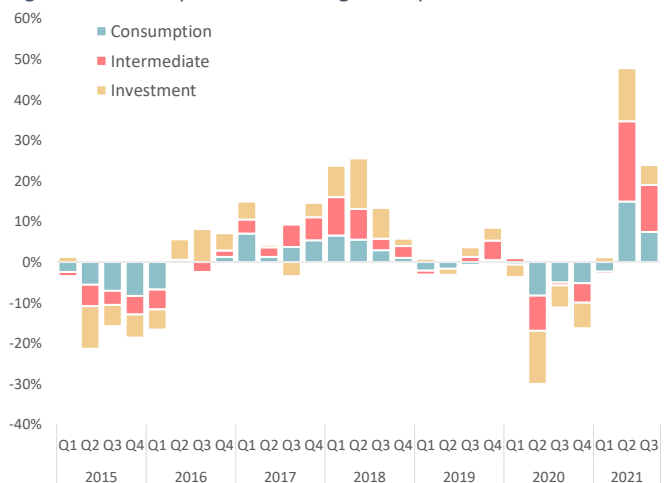
Source: Geostat

Figure 26: Annual Change of Import



Source: Geostat

Figure 27: Decomposition of Change of Import



Source: Geostat

International Trade

Due to the epidemic around the world and restrictions imposed by most countries, foreign demand declined globally in 2020. All this had impact on Georgia's economy. Due to reduced economic activity, import decreased as well, along with deteriorating export exports in the first half of 2020.

In 2021, after governments all over the world as well as in Georgia started to lift up restrictions, international trade started the fast recovery. Together with increased exports, imports also started fast recovery. As of third quarter of 2021, nominal growth of domestic exports stood at 22.8 percent, which was mainly driven by price effect (13.0 percent). The same pattern is observed in the growth of imports, which amounted 23.8 percent, where price effect stood at 20.8 percent.

As of third quarter of 2021, import of consumption goods increased by 23.4 percent annually (7.4 pp. share in total imports). High growth was observed in imports of intermediate goods and amounted 30.6 percent annually (11.6 pp. share in total imports). Relatively slow growth was in imports of investment goods, which increased by 15.9 percent annually (4.9 pp. share in total imports). In Q3 2021, export of goods increased by 22 percent annually. The main driver of this growth are still copper ores and concentrated (16.5 percent of total exports), motor cars (12.1 percent of total exports) and ferro alloys (11.9 percent of total exports). As for the imports, copper ores and concentrates, motor cars and oil products are still the main imported goods.

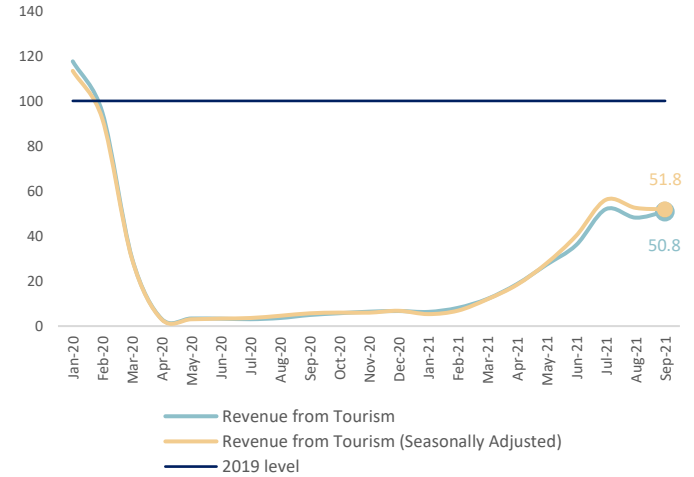
Tourism

In 2020, when the economy was operating under severe constraints, the tourism sector received a particularly big blow. The closure of borders and the cessation of international travel by 2020 almost reduced the number of tourists to zero. From 2021, the tourism sector has started gradual recover. Revenues from tourism increased annually from the second quarter of 2021. This trend was maintained in the third quarter as well. Revenue from tourism during the period was 565.9 mln USD, up by 1230.6 percent compared to the same period of previous year and up to 50 percent of 2019 level. However, tourism recovery has slowed down in September due to new waves of COVID-19 cases. The recovery of tourism sector in 2022 will be highly dependent on vaccination procees, which currently has a slow pace.

Remittances

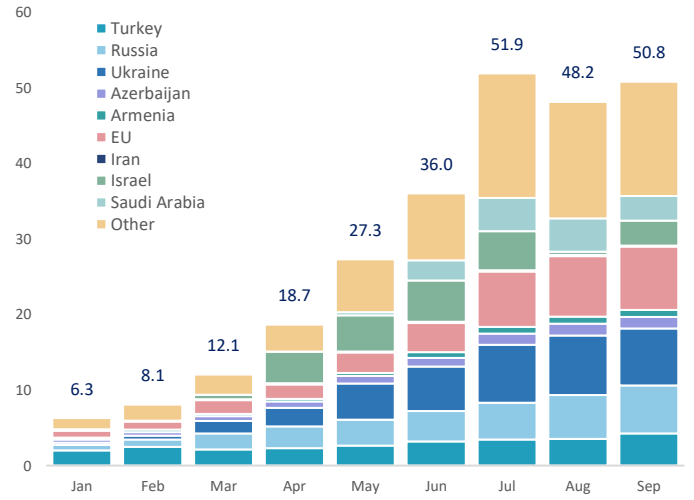
In 2020, net remittances reached 1.639 mln USD, up by 9.6 percent from a year earlier. The largest contributors to this growth were Italy and Ukraine (total contribution of 7 percent), while Russia contributed negatively, -4.4 percent. As for 2021, the growth in the second quarter compared to the same period of the last year was 52 percent, an increase of 16.6 percent over the previous quarter. In the third quarter of 2021, growth stabilized at 9 percent. The main contributor to the growth was Italy with 3.1 pp. USA (1.5 pp), Germany (1.9 pp) and Israel (1.1 pp) also made positive contributions. A decrease of -45.1 percent was observed in remittances from Ukraine, which contributed negatively to the overall growth by 2.5 pp. It is noteworthy that remittances from Russia have been declining recently and have contributed negatively to the increase in remittances. These dynamics have changed over the last two quarters, which may be related to the rise in oil prices and the process of economic recovery.

Figure 28: Income from Tourism



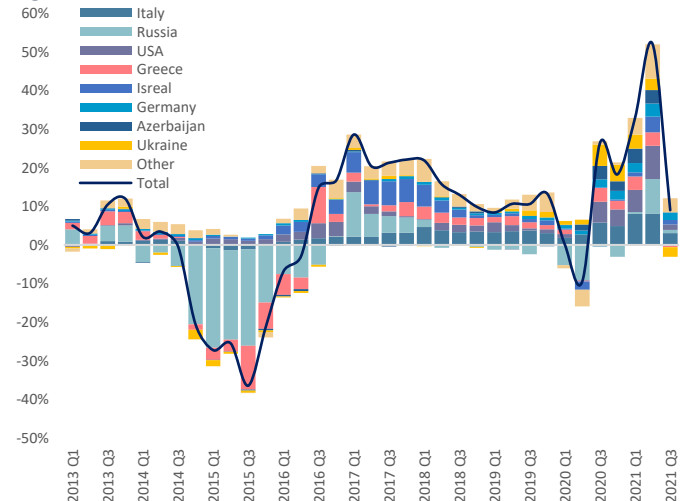
Source: NBG

Figure 29: Income from tourism. mln USD



Source: NBG

Figure 30: Net Remittances



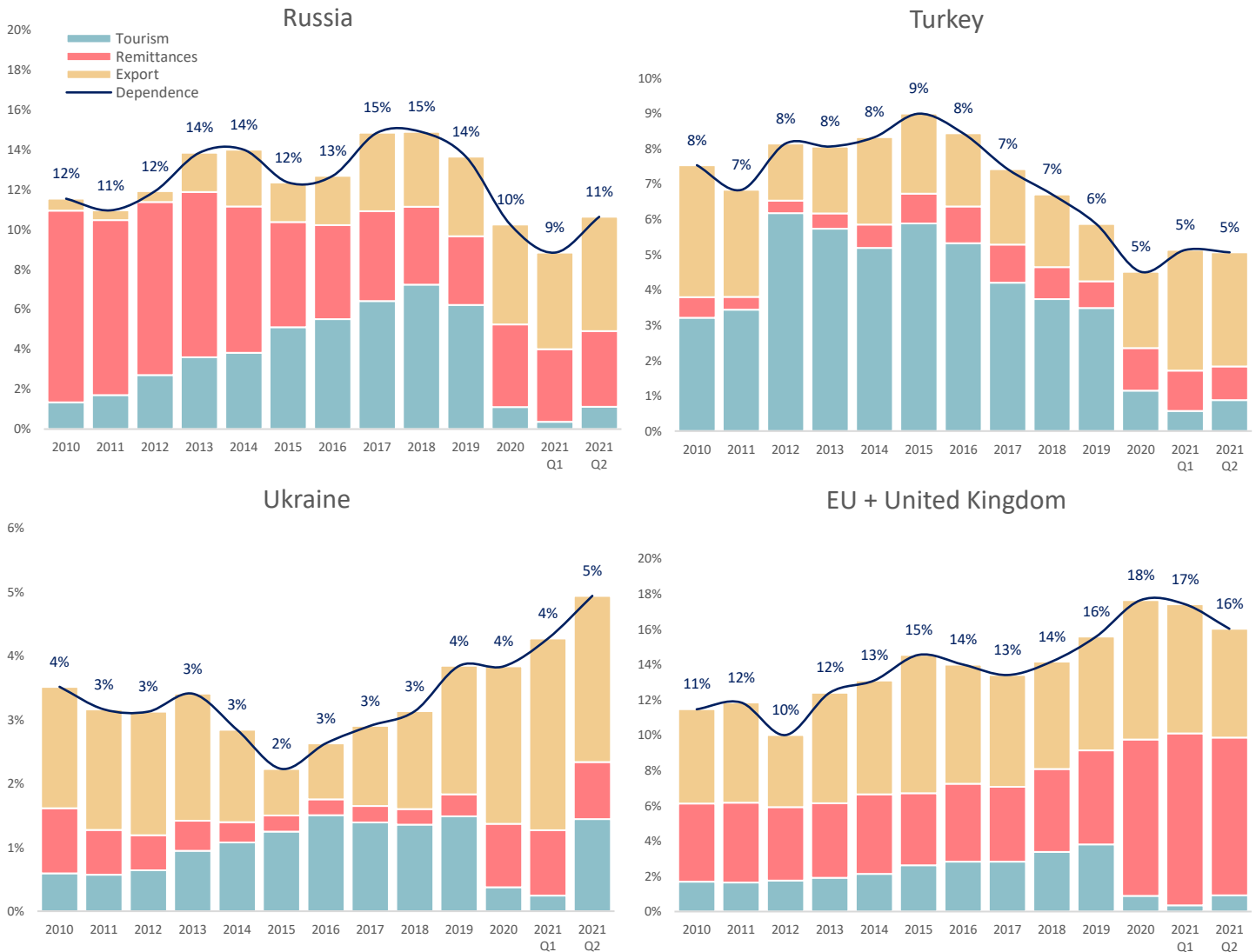
Source: NBG



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. According to Q2 2021 numbers, first time after 2018 dependence on Russia slightly increased, which is driven by increase of remittances from Russia. Dependence on Turkey is still stable and amounts 5%. Slight increase was observed in dependence on Ukraine, which was due to increase in income from tourism from Ukraine. Dependence on the EU maintains a high level, but according to Q2 2021, there was a minor decrease of dependence on EU, which was driven by decreased share of remittances and exports in total income.

Figure 31: Dependence on Trading Partners



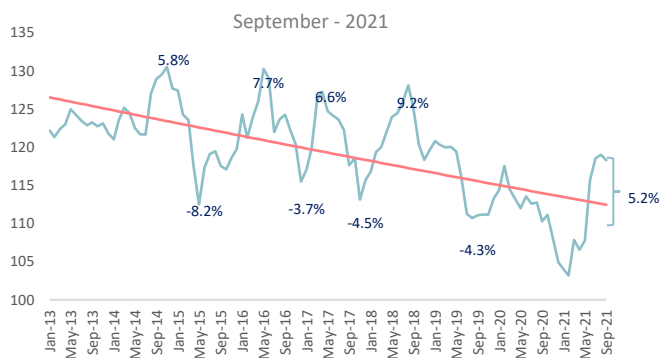
Source: NBG, Geostat

Figure 32: Nominal Effective Exchange Rate



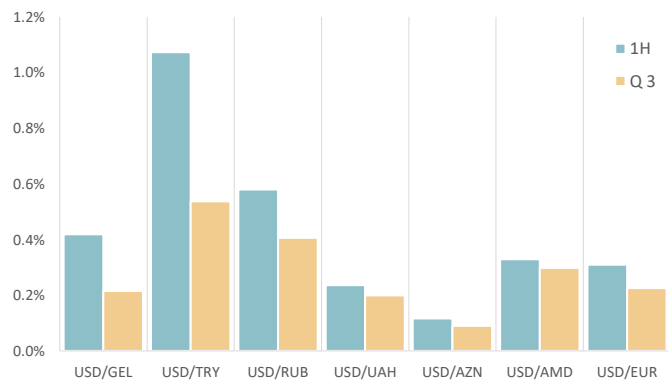
Source: NBG

Figure 33: Real Effective Exchange Rate



Source: NBG

Figure 34: Volatility of Exchange Rates



Source: NBG, MOF

Table 1: Change of Nominal and Real Effective Exchange Rates

	30 Sep, 2021	30 Sep 2021 - 1 Jan 2021	31 Sep 2021 - 1 Jan 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 (September, 2021)	118.28	12.7%	4.4%

Source: NBG

Exchange Rate

At the start of the COVID-19 pandemic, when the uncertainty was high all over the world, USD tended to be strong against other currencies. From the start of 2021, USD started to weaken against both developed and developing countries' currencies. GEL followed the same trend. From the April 2021, GEL started sharp appreciation, which was due to the weaker USD, as well as strong numbers in export and improved expectations. At the end of Q3, GEL started to stabilize, same behavior is observed in Georgia's trading partners currencies, which also stabilized in Q3 compared to the first half of 2021. Going forward, per FED statement, it is going to tighten monetary policy, which in fact will put pressure on USD to appreciate.

In Q3 2020, GEL depreciated against USD by 0.6 percent, compared to same period of previous year. Depreciation against EUR was 1.5 percent. GEL appreciated against Lira by 15.1 percent and depreciated against RUB by 0.9 percent. Partly, the depreciation of GEL against those currencies, can be explained by high base effect. In the same period nominal effective exchange rate equaled to its medium-term trend. This means that that there is no over or undervaluation of GEL against its trading partners currencies. As for the real effective exchange rate, it continues to appreciate, and as for September it is above its medium-term trend by 5.1 percent.

Fiscal Sector

Budget Revenue Performance

The consolidated budget tax revenue forecast for the first 9 months of 2021 was set at 9,406 mln GEL, while 9,504.7 mln GEL was mobilized during the reporting period, which is 101 percent of the forecast.

- 2,717.4 million GEL is mobilized as income tax, which is 102 percent of the forecast figure (2,664.8 million GEL).
- 790.9 million GEL is mobilized as profit tax, which is 103.4 percent of the forecast indicator (764.7 million GEL).
- 4,337.9 million GEL was mobilized as VAT, which is 102.4 percent of the forecast (GEL 4,236.4 million).
- 1,277.6 million GEL is mobilized as excise, which is 103.4 percent of the forecast indicator (1,235.3 million GEL).
- 60.8 million GEL is mobilized in the form of import tax, which is 102.8 percent of the forecast (59.2 million GEL).
- 394.5 million GEL is mobilized in the form of property tax, which is 101.9 percent of the forecast (387 million GEL).

In the third quarter of 2021, compared to the same period last year, consolidated budget revenues increased by 33.9 percent and expenditures increased by 6.9 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to 152.9 million GEL, while the total balance was set at -745.6 million GEL.

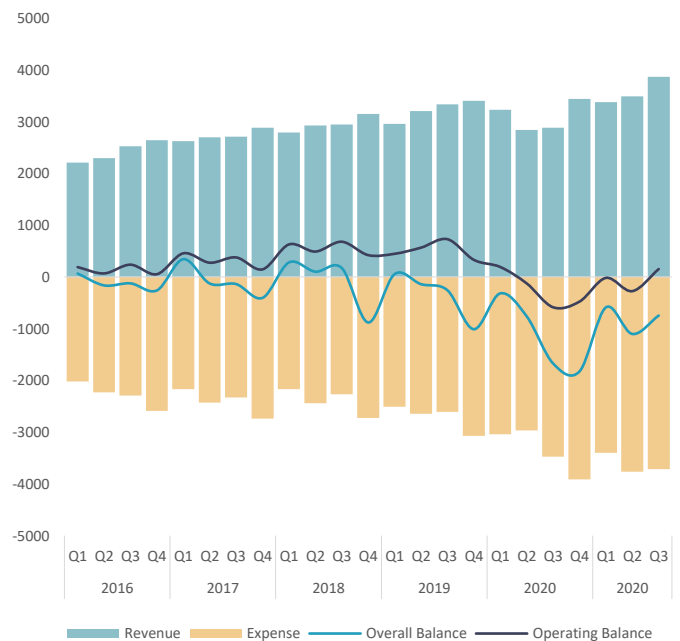
A significant share of budget revenues is accounted for by tax revenues, accounting for 90.4 percent in the third quarter of 2021. The consolidated budget received GEL 3,496.2 million in taxes, which is 32.4 percent more than the previous year. Revenue from income tax increased by 64.2 percent year on year to GEL 1,039.5 million. High growth is observed in the form of revenue from VAT, which increased annually by 22.7 percent compared to the previous year and amounted to 1,651.5 million and is 47.2 percent of total revenue from tax. At the same time, a significant increase in tax revenues is observed from import and profit taxes. In particular, revenue from import tax increased by 18 percent, while revenue from profit tax increased by 30.3 percent. Revenue from excise tax increased relatively slightly, accounting for 15 percent, while the growth rate was 5 percent.

Figure 35: Budget Revenue Performance



Source: MOF

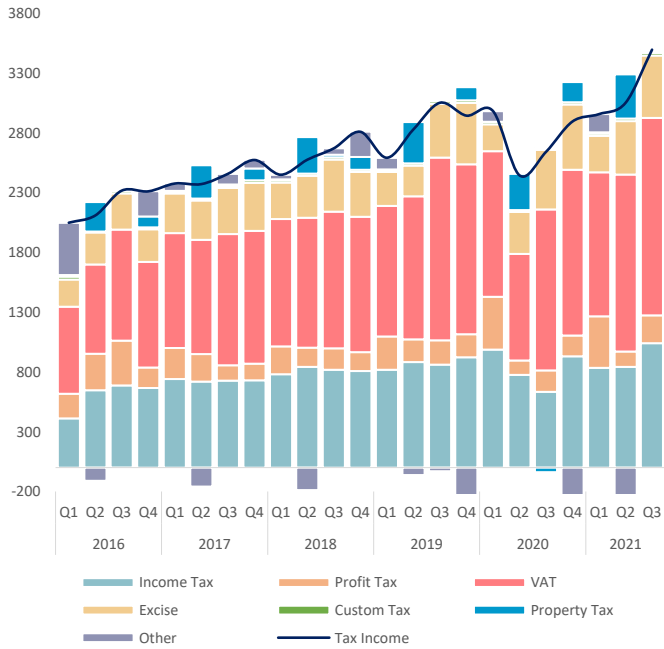
Figure 36: Budget Balance



Source: MOF



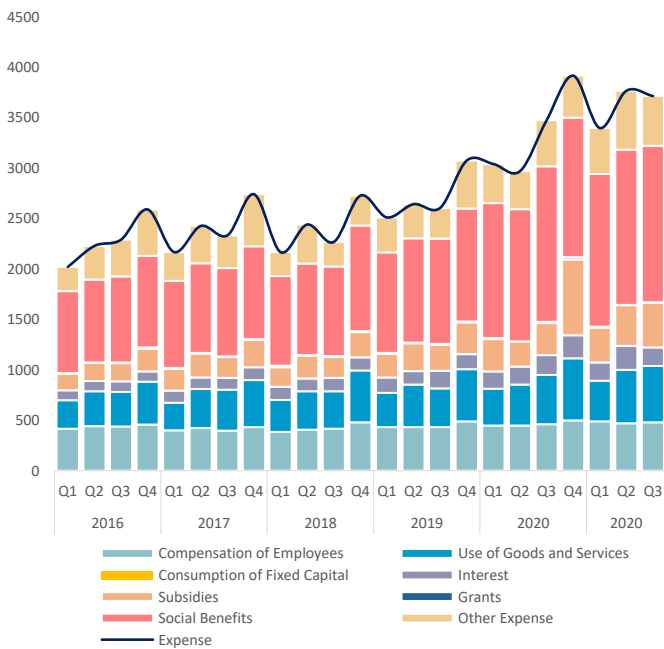
Figure 37: Tax Income



Source: MOF

Expenditures in the third quarter of 2021 increased by 6.9 percent year on year to GEL 3,713.5 million. The largest share of budget expenditures is in social security expenditures, which account for 41.8 percent of total expenditures, while the annual growth rate is equal to 0.6 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 39.7 percent to GEL 443.8 million, accounting for 12 percent of total expenditures. As for other items of expenditure, wages (12.9 percent of total costs), goods and services (15 percent of total costs), interest (4.9 percent of total costs) and other costs (13.3 percent of total costs) increased by 4.4 percent, 13.7 percent, -6.3 percent and 8.7 percent compared to the corresponding period of 2020, respectively.

Figure 38: Budget Expenses



Source: MOF

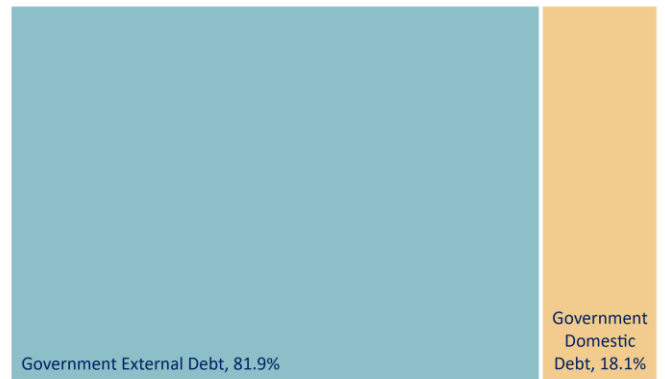


Government Debt

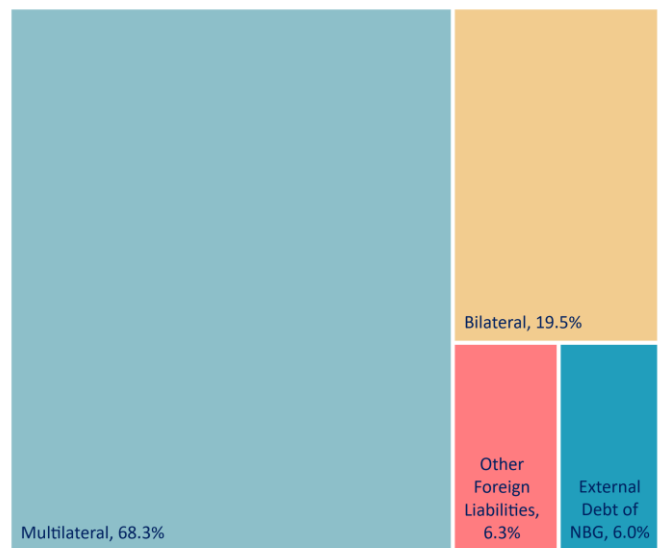
As of September 30, 2020, the stock of public debt of Georgia amounted to GEL 30,413 million, including:

- Government domestic debt stock is GEL 5,507.1 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”) - 160 million GEL;
 - Treasury liabilities of the Ministry of Finance – GEL 307.1 million;
 - Treasury bonds of the Ministry of Finance - GEL 4,480.4 million;
- Government external debt stock is 23,423.5 million GEL.

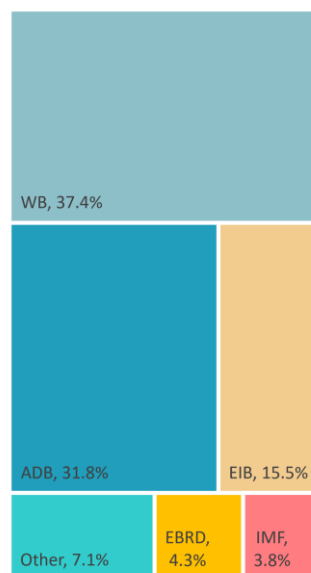
Figure 39: Government Debt



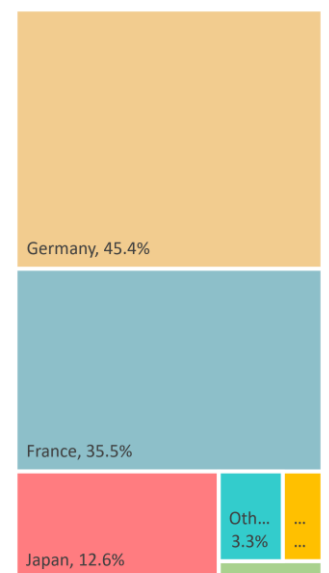
Government External Debt



Multilateral



Bilateral



Source: MOF

Monetary Sector

Private Sector Larization

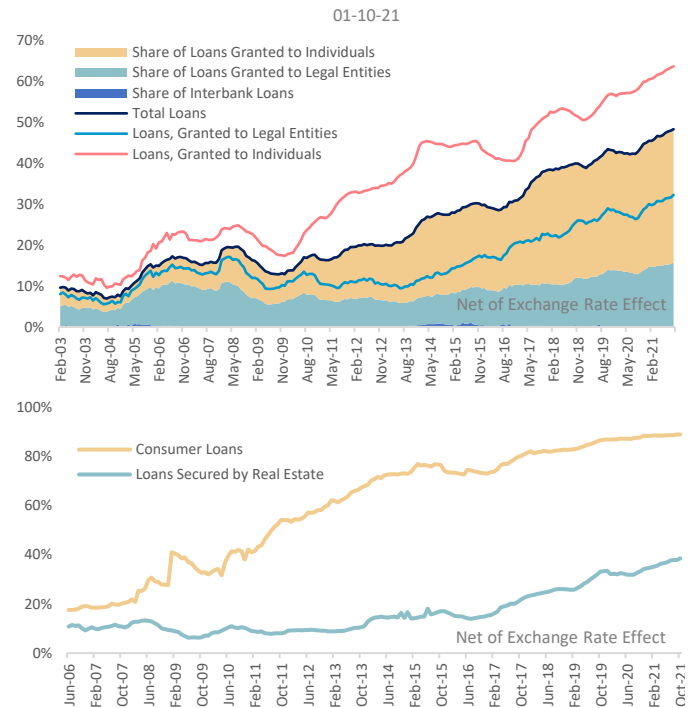
The larization of loans has an increasing trend and by 1 of October 2021 it reached 48.3 percent. It should be noted that the main determinant of total loan larization is the larization of loans granted to individuals. By 1 of October 2021, the larization of loans of individuals was 63.7 percent, in the same period the larization of loans granted to legal entities amounted to 32.3 percent.

As for the larization of loans according to collateral, 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 October 2021 amounted to 88.7 percent, as of the larization of mortgage loans, compared to the previous quarter, it increased by 1 percentage points (net of exchange rate effect) and amounted to 38.5 percent, in the same period.

The larization of deposits remain significantly lower than larization of loans. The larization of total deposits decreased by 1 percentage points compared to the previous quarter and as of 1 of October 2021 reached 38.7 percent. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. Compared to the second quarter it decreased by 2.2 percentage points and by the 1 of October reached 54.1 percent and the larization of deposits of individuals in the same period was 25.2 percent.

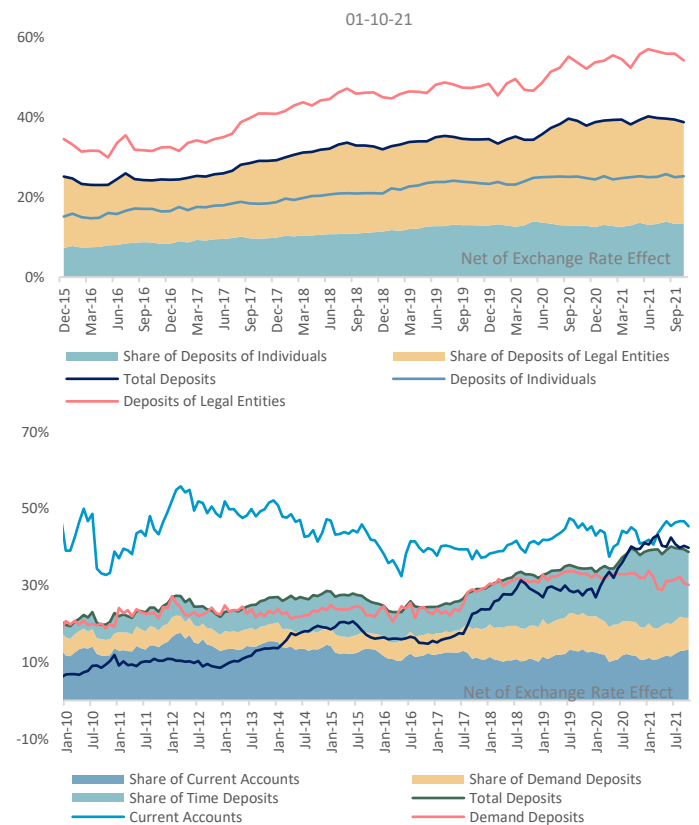
It should be noted that the main contributor in the deposits larization is still time deposits larization, by 1 October 2021 it reached 49.7 percent. In the same period current accounts larization amounted to 45.3 percent, while larization of the deposits before demand decreased by 1.5 percentage points compared to the previous quarter and reached 30.1 percent.

Figure 40: Loan Larization



Source: NBG

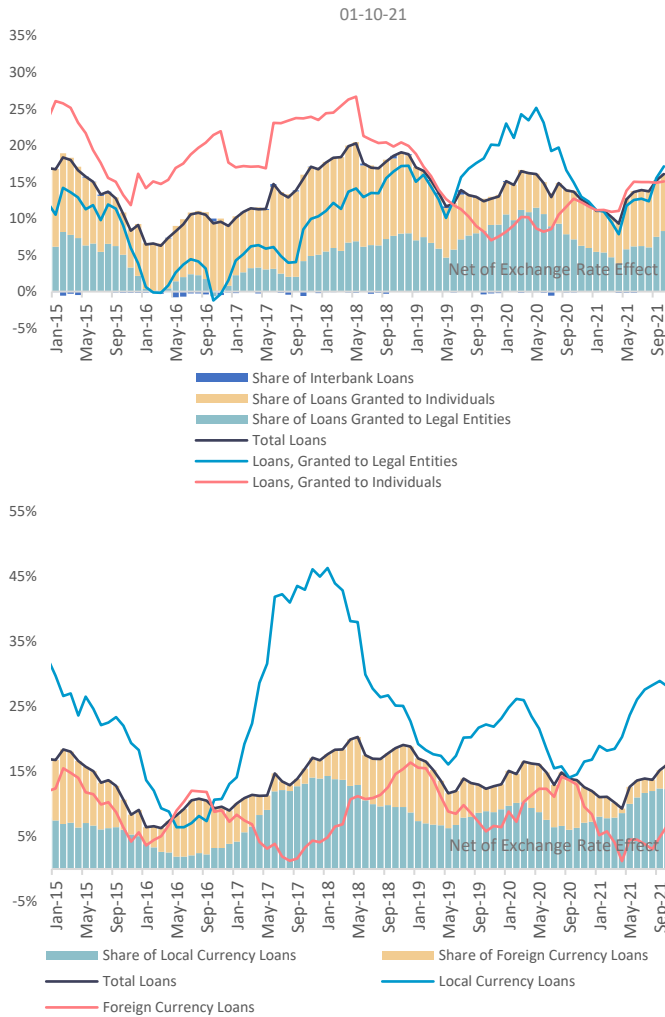
Figure 41: Deposit Larization



Source: NBG

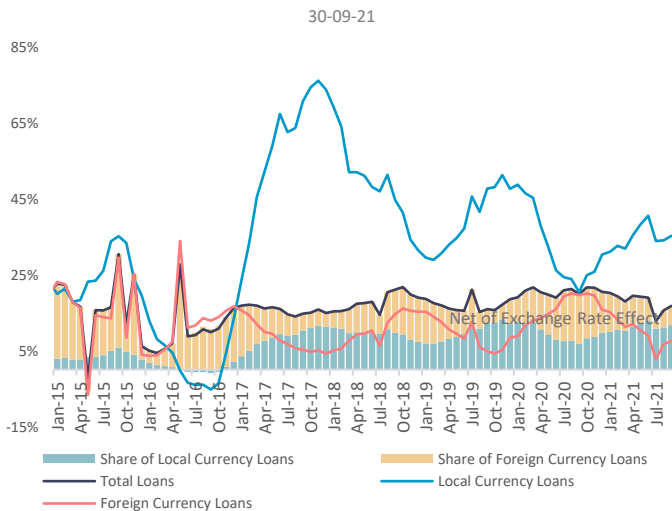


Figure 42: Annual Growth of Loans



Source: NBG

Figure 43: 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 October 2021 overall loans compared to the corresponding period of 2020 increased by 16.1 percent, which exceeds the value of the previous quarter by 2.2 percentage points (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 4.4 percentage points and by 1 October 2021 it reached 17.1 percent. During the same period loans to individuals increased by 15.1 percent. During 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 October 2021 compared to the corresponding period of 2020 it amounted to 28 percent. During the same period, the growth of loans in foreign currency was 6.7 percent, which is 2.9 percentage points higher than in the last quarter (excluding exchange rate effect).

By 30 of September 2021, mortgage loans had increased by 16.7 percent compared to the corresponding period of the previous year, which is 2.3 percentage points lower than in the second quarter (excluding exchange rate effect). Moreover, mortgage loans that are denominated in national currency increased by 35.2 percent, 5.3 percentage points lower than in the previous quarter, while foreign currency denominated mortgage loans increased by 7.6 percent and had a decreasing trend.

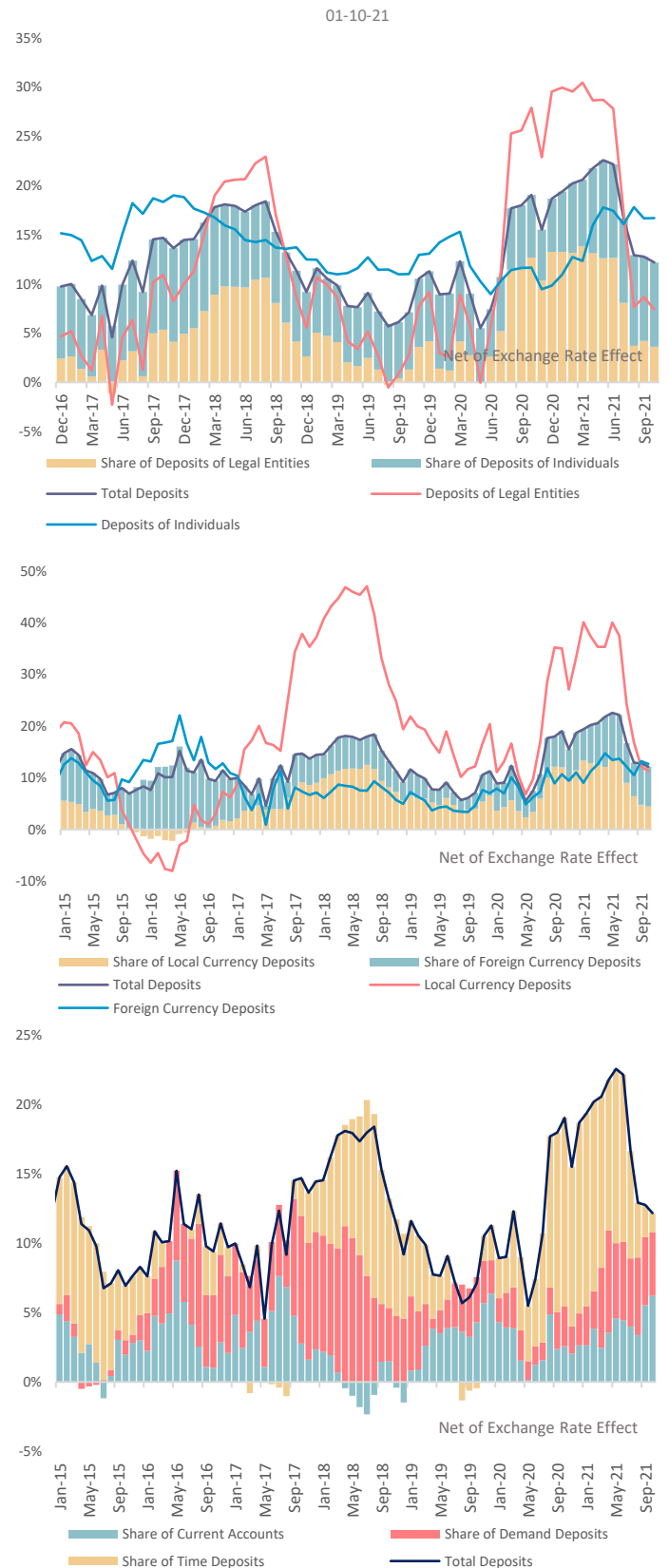
Review of Deposits

The growth of total deposits on the 1 of October 2021 was 12.2 percent compared to the corresponding period of 2020, which is significantly, by 4.5 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 12.9 percentage points compared to previous quarter (net of exchange rate effect) and reaching 11.3 percent by the 1 of October 2021, while the annual growth of deposits denominated in foreign currency amounted 12.7 percent in the same period.

By the 1 of October 2021 annual growth of deposits of individuals reached 16.7 percent, while the annual growth of deposits of legal entities amounted to 7.4 percent, in the same period, which is 9.9 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 time deposits, compared to previous quarters annual growth rate of the time deposits decreased by 13.7 percentage points (net of exchange rate effect) and by 1 on October 2021 reached 3 percent. Growth rate demand deposits also decreased by 1.1 percentage points compared to the second quarter of 2021 and by 1 October amounted to 17.2 percent. In the same period, a significant increase was observed in the annual growth rate of current accounts, compared to the previous quarter it increased by 8.5 percentage points and amounted to 23.5 percent.

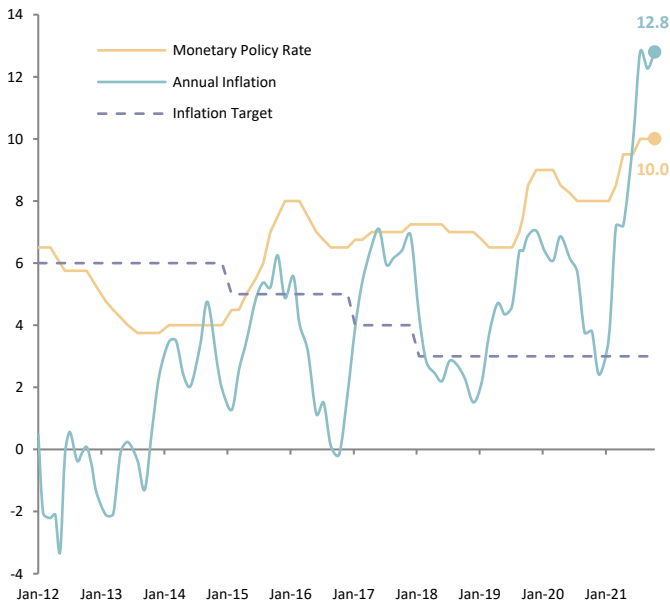
Figure 44: Annual Growth of Deposits



Source: NBG



Figure 45: Inflation and Monetary Policy Rate



Source: NBG

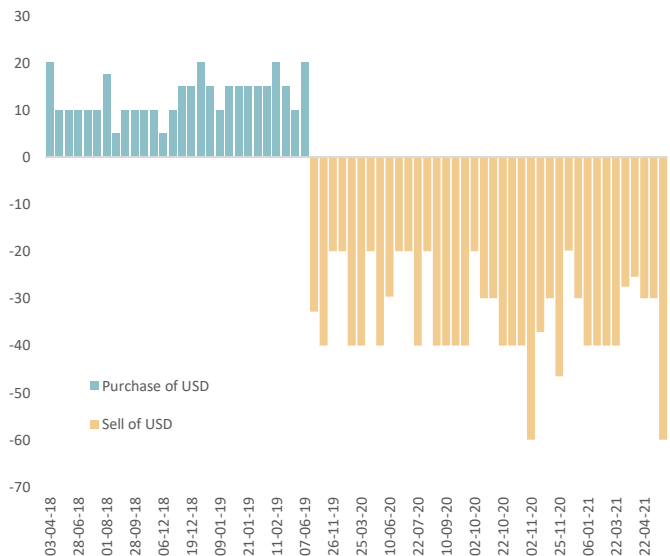
Monetary Policy Rate

The Monetary Policy Committee of the National Bank of Georgia held two sessions in the third quarter of 2021. At its August 4 meeting, the National Bank's Monetary Policy Committee decided to increase the refinancing rate by 0.5 percentage points. At a meeting on September 15, the National Bank decided to leave the refinancing rate unchanged. By the end of the third quarter, the rate was 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, under other things being equal, inflation will remain high for the remainder of the year. In December of this year and January-February next year, the annual inflation rate will increase further due to the basic effect of the utility subsidy. And from the spring of 2022, inflation will decrease, which, together with the adoption of temporary factors, will be facilitated by tighter monetary policy and fiscal consolidation.

In the third quarter of 2021, the National Bank sold 90 million USD. And for the first 9 months of 2021, the National Bank sold 332.9 million USD.

Figure 46: Trade of USD by NBG, mln



Source: NBG



Interest Rates

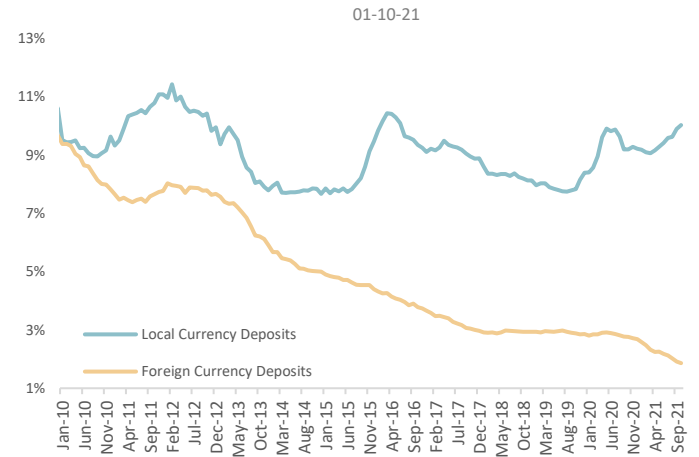
As of October 2021, the interest rate on foreign currency deposits was 1.9 percent, while on the national currency deposits it amounted to 10.2 percent.

As of 1 of October 2021, the weighted average interest rate on deposits of legal entities in national currency was 10.2 percent, and in foreign currency – 1.9 percent. In the same period the average annual interest rate on deposits of individuals was 1.9 percent on deposits in foreign currency and 9.7 percent in national currency.

By 1 of October 2021, the weighted average annual interest rate on short-term consumer loans was 17.1 percent (20.7 percent in national currency and 5.8 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 October 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 7.1 percent.

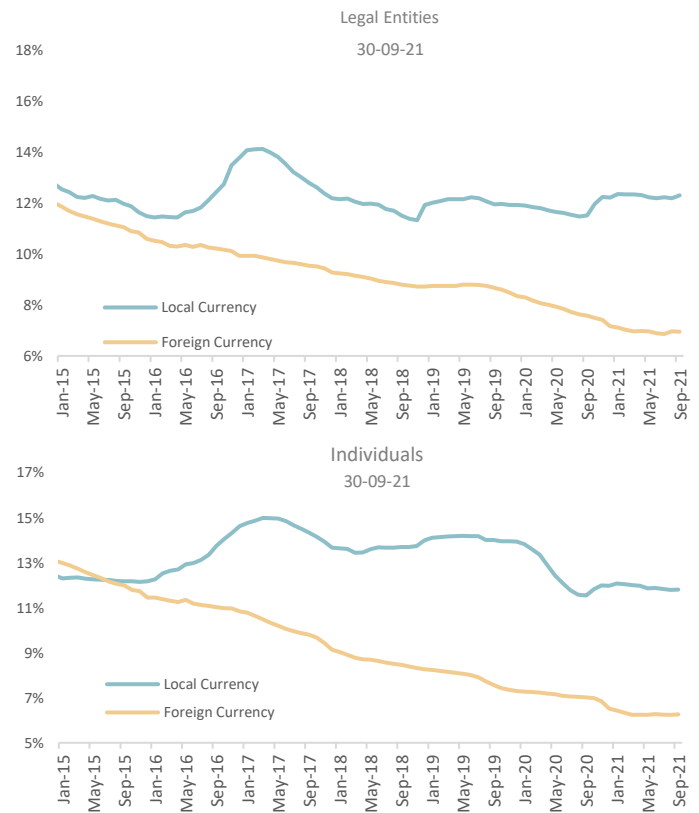
At the end of September 2021, the interest rate on mortgage loans issued to legal entities in national currency was 13.4 percent, and in foreign currency – 6.8 percent. The interest rate on loans to individuals in national currency was 12.8 percent, and in foreign currency it was 5.9 percent.

Figure 47: Interest rates on Deposits (stock)



Source: NBG

Figure 48: Interest rates on Loans secured by Real Estate



Source: NBG



Disclaimer

The publication was prepared by the Macroeconomic Analysis and Fiscal Policy Planning Department of the Ministry of Finance of Georgia. The information and opinions contained in this publication represent the views of the authors - the economic team of the Macroeconomic Analysis and Fiscal Policy Planning Department and do not represent the official position of the Ministry of Finance of Georgia. The analytical information provided in the publication serves informational purposes and is obtained from public sources. The forecasts and calculations given in the report should not be taken as a promise, reference or guarantee.

