

Ministry of Finance of Georgia



Quarterly Economic Outlook

II Quarter, 2022

Brief Summary

- Economic growth for 2021 equals to 10.4 percent
- According to preliminary data, economic growth in H1 2022 equals to 10.5 percent
- Annual inflation in the second quarter equals to 13.0 percent, while core inflation (w/o tobacco) equals to 6.3
- Export increased by 29.8 percent annually
- Import increased by 32.8 percent annually
- Revenues from tourism increased significantly due to the base effect, but still remain below the 2019 level
- The refinancing rate has been kept at 11.0 percent

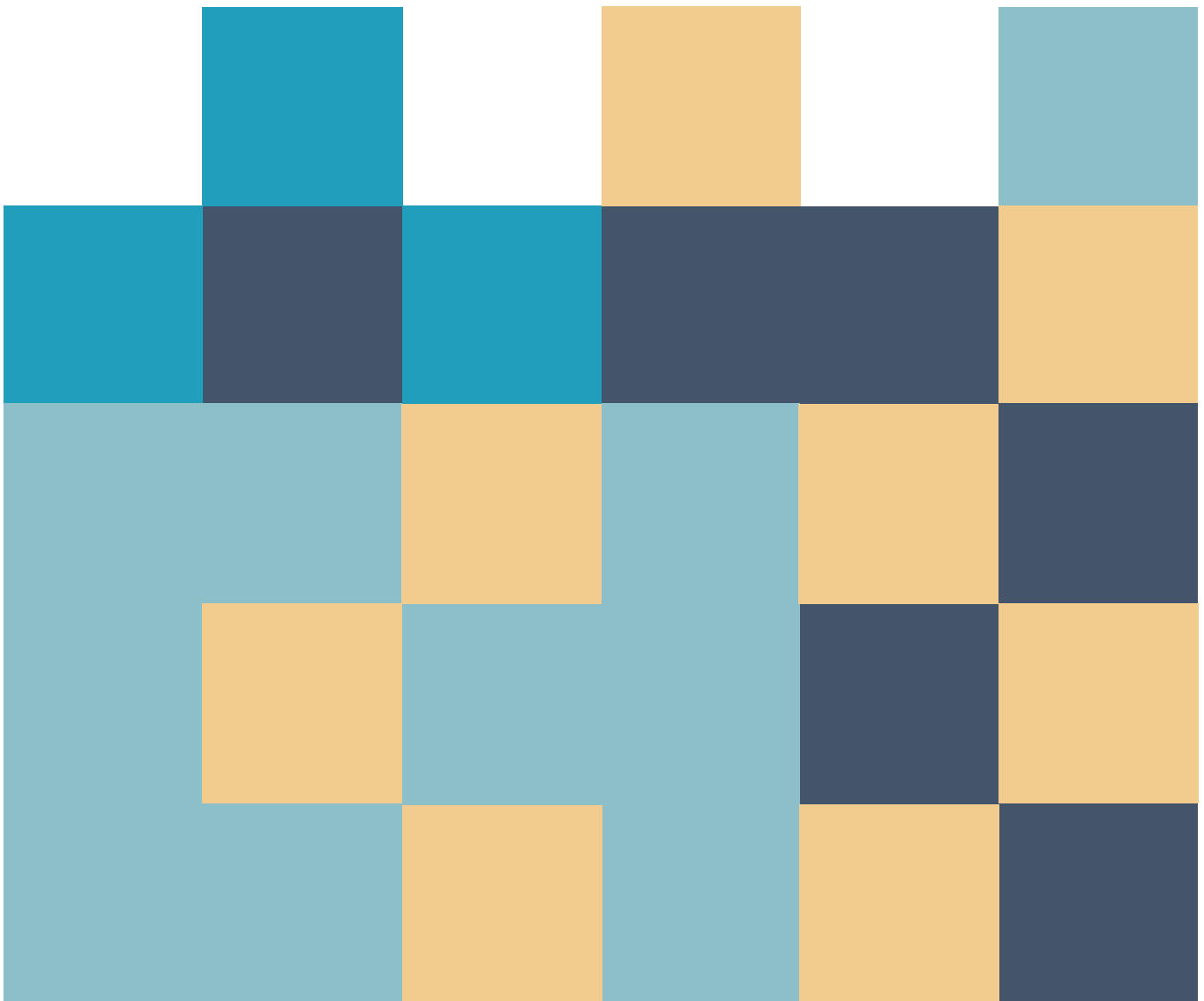




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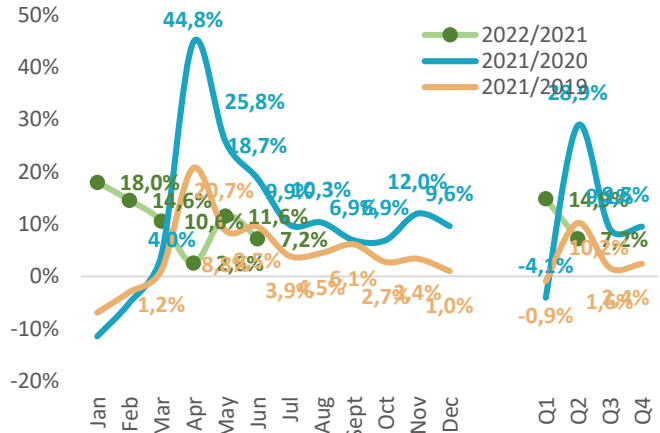
Real Sector

Economic Growth

According to the preliminary data, in the second quarter of 2022 real GDP increased by 7.2 percent relative to same period of the previous year. At the same time, compared to the corresponding period of 2019, economic growth was 13.1 percent. . In particular, in the second quarter, exports increased annually by 29.8 percent, while imports increased annually by 32.8 percent. At the same time, compared to the first quarter of 2019, exports increased by 44.2 percent and imports increased by 37.3 percent. External demand continues to grow, however, considering tourism, remains reduced compared to the pre-pandemic situation. Revenue from international travelers increased 3-fold year-on-year in the second quarter, although there was a 15 percent decline compared to the same period in 2019.

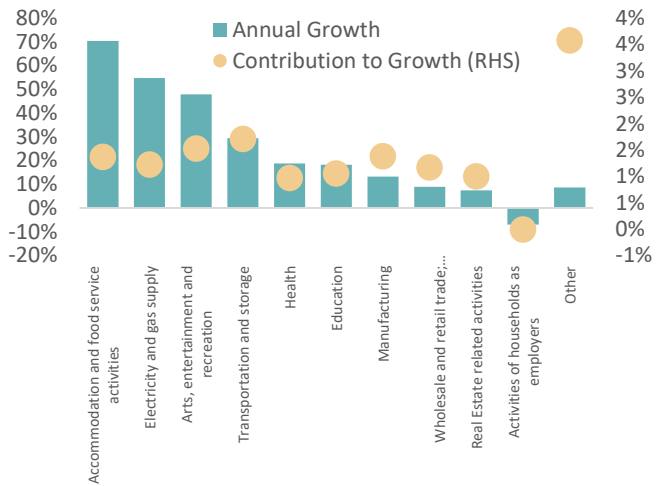
Due to the deteriorating epidemiological situation in early 2021, there were a number of restrictions that hindered the process of economic recovery. After gradually lifting the restrictions economic activity has increased and the real GDP increased by 14.9 percent annually in the first quarter. This means 21.6 percent growth comparing to the same period of 2019 year. 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. A significant share of GDP growth in the first quarter of 2022 was due to the consumption component, which grew by 16.8 percent annually in real terms. At the same time exports played a significant role in growth and increased by 16 percent in real terms. At the same time, imports in real terms decreased by 8.9 percent annually. In the first quarter of 2022 the following sectors made a significant contribution to growth: Accommodation and food service activities (70.3 percent, contributing 1.4 pp to growth), electricity,

Figure 1: Economic Growth



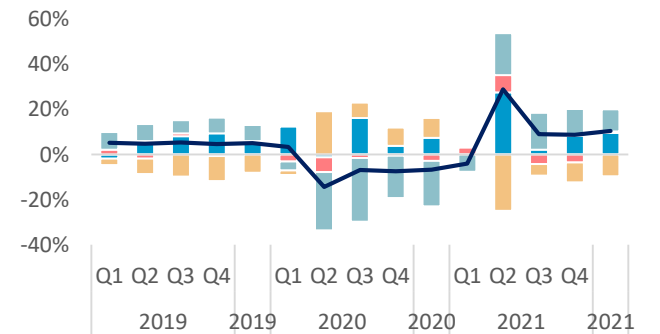
Source: Geostat

Figure 2: Real Sectoral Growth, 2022 1Q



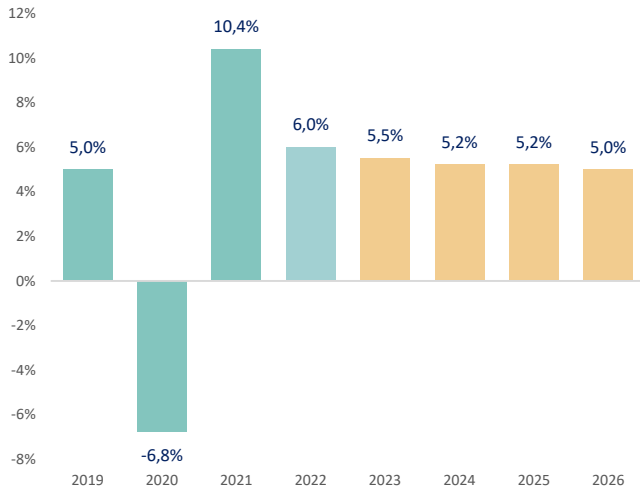
Source: Geostat

Figure 3: Decomposition of Economic Growth



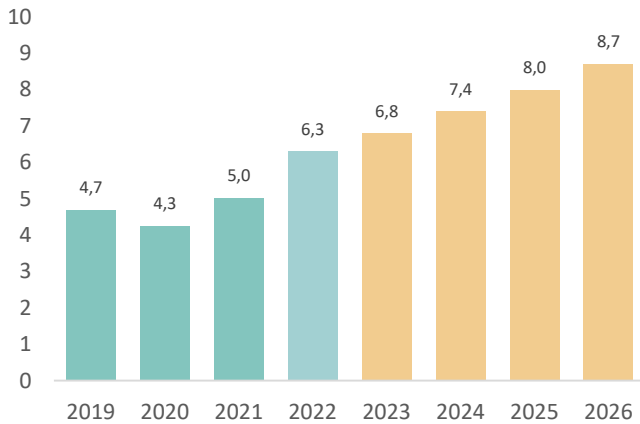
Source: Geostat

Figure 4: Economic Growth Projection



Source: MOF

Figure 5: GDP per capita, ths USD



Source: MOF

gas, steam and air conditioning (54.7 percent, contributing 1.2 pp to growth), arts, entertainment and recreation (47.9 percent, contributing 1.5 pp to growth), transportation and warehousing (29.4 percent, contributing 1.7 pp to growth), health care and social service activities (18.8 percent, contributing 1.0 pp to growth), education (18.2 percent, contributing 1.1 pp. contribution to growth), manufacturing (13.2 percent, 1.4 pp. contribution to growth), wholesale and retail trade (8.9 percent, 1.2 pp. contribution to growth), real estate related activities (7.4 percent, 1.0 pp. contribution to growth).

Growth in 2022 will partly depend on the current situation within the region and its impact on the Georgian economy. According to the forecast of the Ministry of Finance of Georgia, 6.0 percent economic growth is expected in 2022, 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 5.2 percent in 2022-2025.

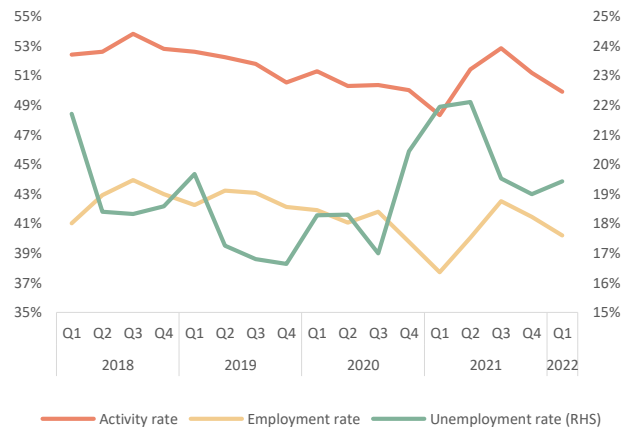
Employment and Unemployment

In the first quarter of 2022, the unemployment rate was 19.4 percent, which is 0.4 pp less than the value of the previous quarter and 2.5 pp less compared to the same period of last year. Among them, unemployment was 20.5 percent in urban areas (-3.1 percentage points per year) and 17.8 percent in rural areas (-1.5 percentage points per year). The highest unemployment rates are among 15-24 and 25-34 age groups. In the first quarter of 2022, the economically active population accounted for 49.9 percent of the working age population (15 years and older). In the fourth quarter of 2021, the unemployment rate in the women group was 16.8 percent, while in the men group, the figure was 21.4 percent.

In the first quarter of 2022 the number of employees increased by 6.3 percent compared to the corresponding quarter of the previous year, while the employment rate increased by 2.5 percentage point. The number of unemployed decreased by 8.8 percent annually. At the same time, productivity (ratio of real output to number of employees) increased by 8.1 percent annually, while the average nominal wage of employees increased by 15.1 percent, amounting to 1446.5 GEL as of the first quarter of 2022.

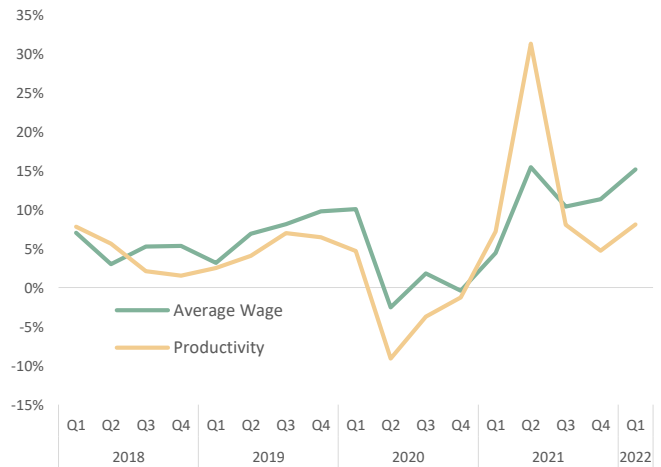
In the first quarter of 2022, there was an 8.1 percent increase in productivity compared to the corresponding period of the previous year. Productivity is calculated by the growth rate of the ratio of real GDP to the number of employees.

Figure 6: Indicators of Labor Market



Source: Geostat

Figure 7: Productivity and Average Wage of employees (annual change, %)



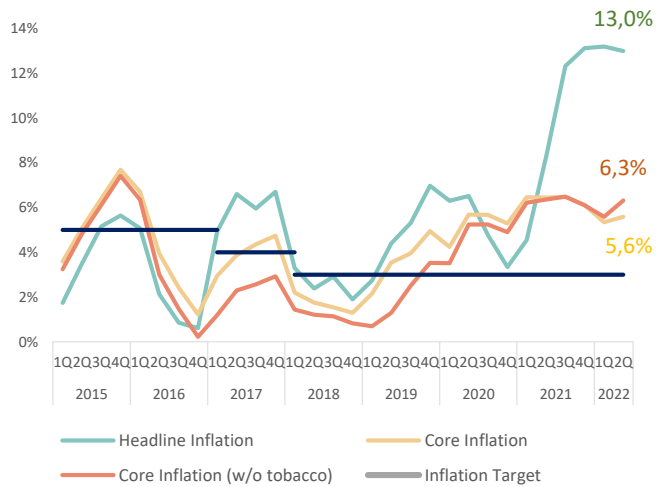
Source: Geostat

Price Level

Annual inflation significantly exceeds inflation target during 2022. 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 last forecast of the International Monetary Fund (July, 2022), due to current world situation world inflation will increase from 6.9 percent to 8.3 percent in. In advanced economy countries inflation will increase from former forecast of 4.8 percent to 6.3 percent in 2022. In developing countries inflation growth is expected to increase from 8.9 percent to 10.0 percent in 2022. In the second quarter of 2022, annual inflation stood at 13.0 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 first quarter stands at 5.6 percent.

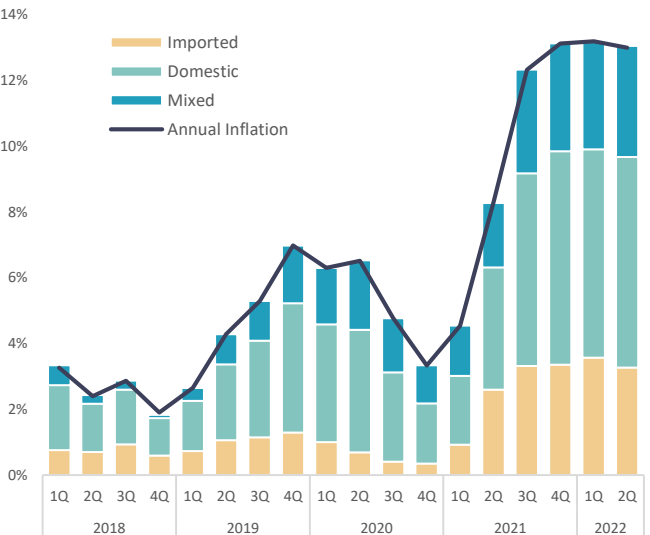
On June 22, the National Bank Monetary Policy Committee decided to keep the refinancing rate at 11

Figure 8: Annual Inflation



Source: NBG

Figure 9: Decomposition of Inflation

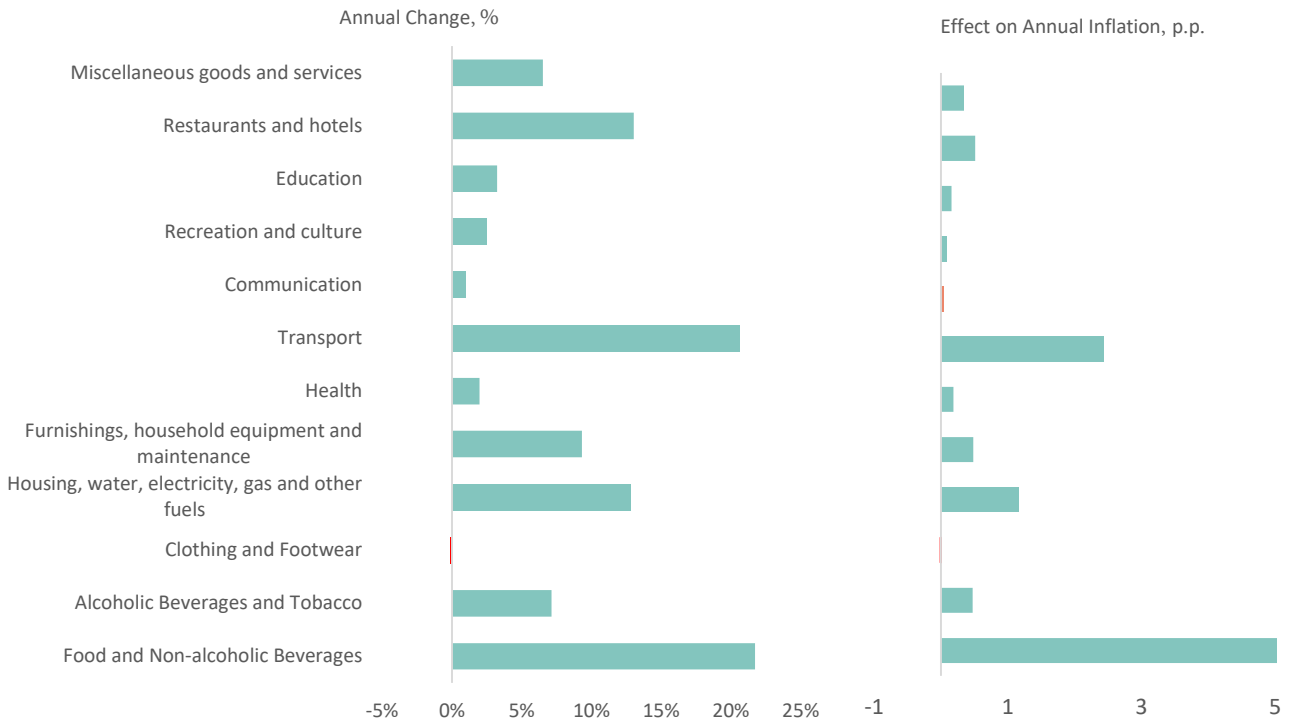


Source: NBG, Geostat

percent to ease the pressure on expectations for further price increases.

In the second quarter of 2022, the contribution of domestic inflation was 6.4 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 10: Decomposition of Inflation, 2022 Q2



Source: Geostat

Economic Outlook of the Region

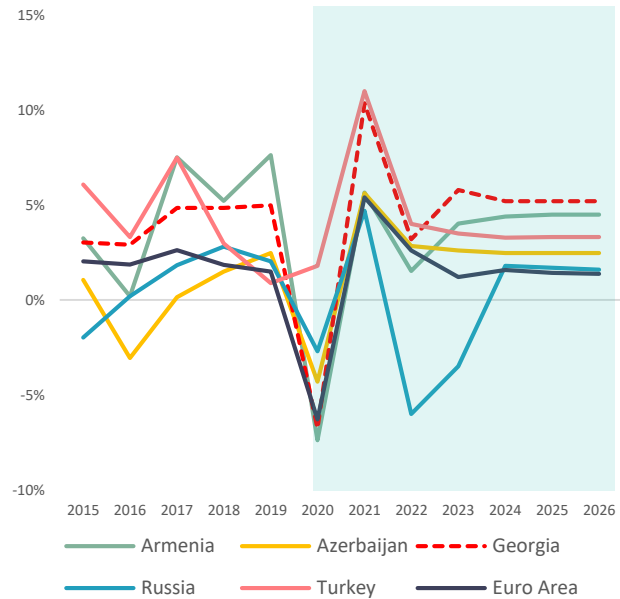
After COVID-19 recession, global economy showed V-shape recovery, but it still was on mending path. After Russian invasion into Ukraine global growth prospects have worsened significantly. Per IMF April 2022 projections, world economic growth would stand at 3.6% both in 2022 and 2023, which was 0.8 and 0.2 p.p. lower than prewar forecasts. As expected risks started to materialize, IMF further reviewed economic growth for major economies in July. As for July forecasts, global economic growth for 2022-2023 will stand at 3.2 and 2.9, which is 0.4 and 0.7 p.p. lower than April WEO forecasts. After a strong growth in 2021, Euro Area economy will grow by 2.6 and 1.2% in 2022 and 2023 respectively. Those estimates are 0.2 and 1.1 p.p. below April WEO figures.

Even though Turkey did not fall in recession in 2020, it experienced 11.0% growth in real GDP in 2021. Per IMF latest projections Turkey is expected to grow by 4.0 and 3.5% in 2022 and 2023, respectively. It is worth noting, that IMF reviewed Turkey economic growth positively in July. Main challenges remain exchange rate depreciation and high inflation. The inflation is expected to reach at 60.5% in 2022 after 19.6% in 2021. Turkey did not undergo any changes into sovereign credit ratings due to war. However, on February 11 2022 Fitch downgraded from BB- to B+ (negative).

The main actor of global economic growth disruption Russia is expected to have its economy severely hit by sanctions, which will translate into large contraction of real GDP. The measures won't have only near term impact on Russian economy, but will affect its medium-term capabilities, since large consumers, as well as sovereign countries, wean themselves off Russia's energy and other sectors. Per July forecasts for 2022 real GDP in Russia is projected to contract less, while in 2023 it is expected to contract more than it was anticipated in April WEO. Real growth for 2022-2023 is expected to stand at minus 6.0 and minus 3.5, respectively, those projections are 8.8 and 5.6 p.p. below prewar projections, its medium-term growth rate stands at 0.7%.

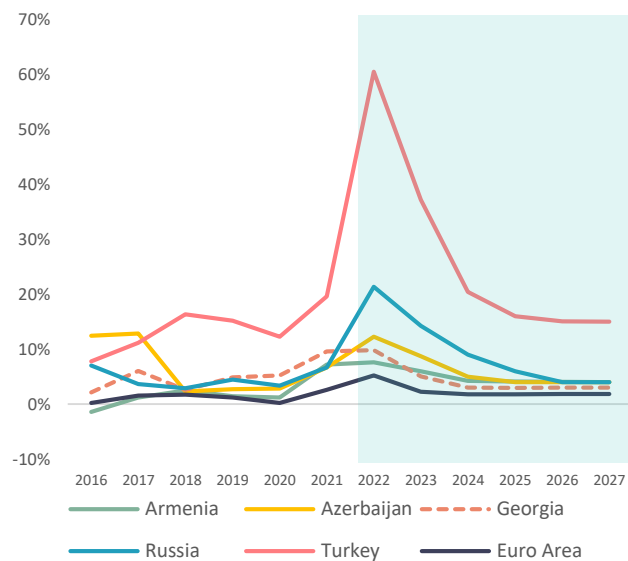
Russia will experience high inflation, which will stand at 21.3

Figure 11: Economic Growth in the Region



Source: IMF

Figure 12: Inflation in the Region



Source: IMF

Figure 13: Current Account to GDP, %

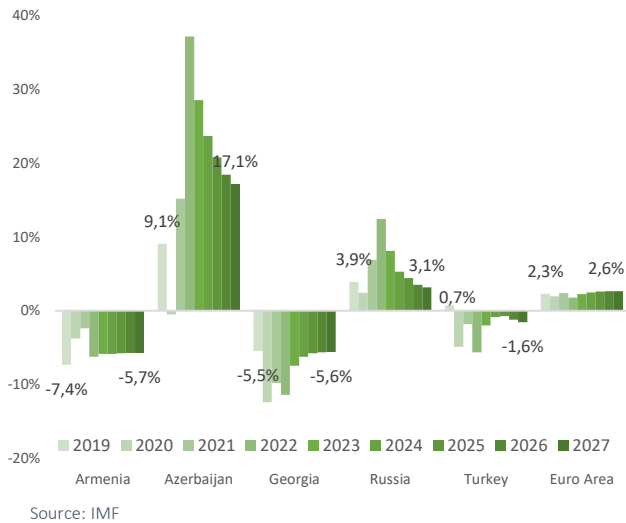
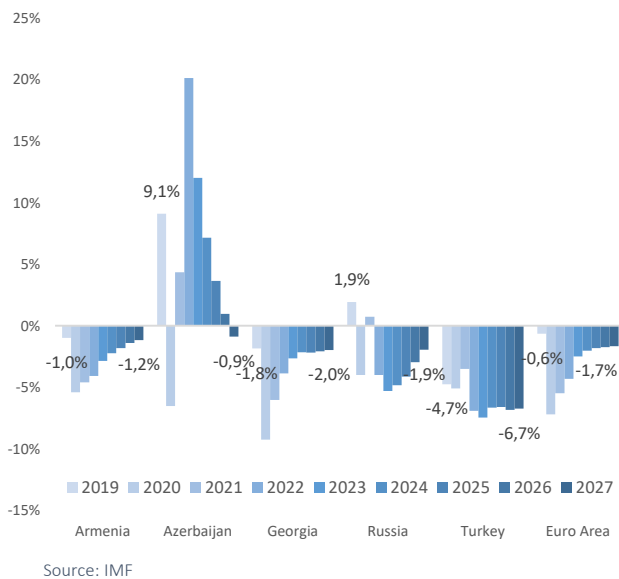


Figure 14: Budget Balance to GDP, %



and 14.3% in 2022 and 2023, respectively. Also, unemployment will increase more than two-fold in 2022 amounting to 9.3%. According to credit rating agencies (CRA), Russia’s sovereign credit rating worsened to the high degree of default risk. Moody’s cut Russia’s credit rating to Ca (negative), Fitch downgraded it to the C and S&P to CC, while in prewar period Russia held investment rating from all of those CRAs.

Rising oil prices due to Russia-Ukraine war, will benefit Azerbaijan, followed by strong recovery from COVID-19. As for July WEO, economic growth has not been revised. Azerbaijan’s real economy is expected to grow by 2.8 and 2.3% in 2022 and 2023, respectively, which are slightly more than its medium-term growth of 1.8%. High inflation is also the case throughout those years. Inflation is estimated to be 12.3% in 2022, and it is expected to decrease at 8.7% in 2023. There were no changes into sovereign credit ratings in 2022.

Armenia was not able to fully recover from COVID-19 in 2021 and stayed below 2019 figures. Per IMF projections in our region, except the participants of war, Armenia will be hit hardest. This is expectable, since Armenia has tightest ties to Russian economy. As for July WEO, growth has not been revised and Armenia will grow by 1.5% in 2022, while in 2023 it will grow by 4.0%, which is near to its medium term growth of 4.5%. Inflation will remain high throughout those year, 7.5% in 2022 and 5.0% in 2023, but relatively muted compared to peer region countries. All three CRAs downgraded Armenia’s sovereign credit rating by one notch. Moody’s downgraded to Ba3 (negative), Fitch downgraded to B+ and S&P downgraded to B+ (stable).

Situation around Ukraine remain uncertain, there are no long term projections of Ukrainian economy, since situation may change in any given time. In 2022 Ukrainian economy will contract by 35% according to IMF. This contraction is direct product of Russian invasion into Ukraine, which resulted into humanitarian crisis, destruction of infrastructure and exodus of its people.

External Sector

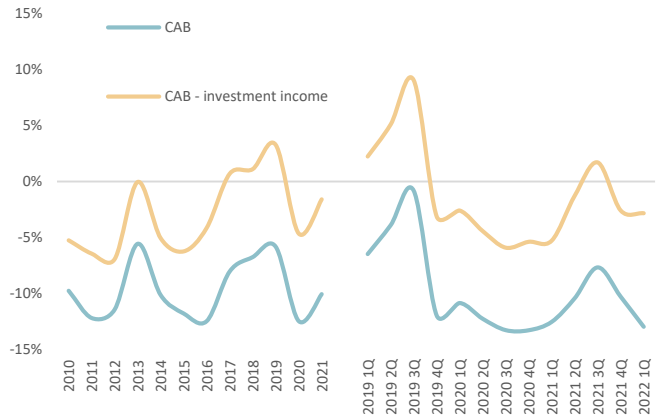
Current Account Balance

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. As of 2021, CA deficit stood at 10.3 percent of GDP. In Q1 2022 CA deficit deteriorated and became 13.0 percent of GDP. The main factor of it is increased imports of goods.

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. 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. In 2021 debt contribution decreased, while FDI and domestic investments undergone slight increase in financing the investments.

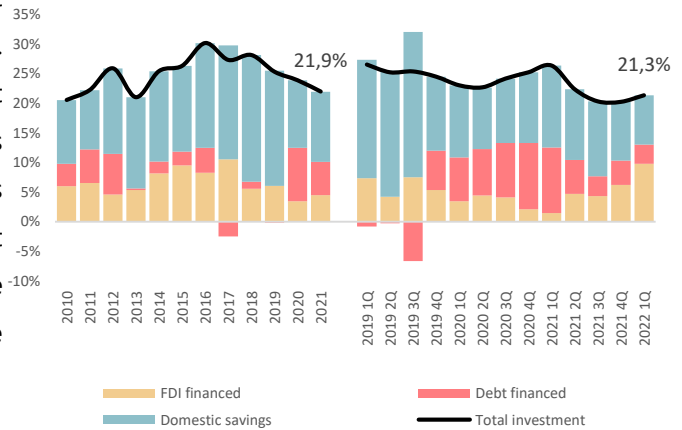
As of the first quarter of 2022, current account deficit financing has changed for the better. In particular, the FDI's share in financing increased from 6.2 pp. to 9.8 pp., while its debt contribution slightly increased from 4.1 pp. to 3.2pp during 2022 Q1.

Figure 15: Current Account to GDP, % of GDP



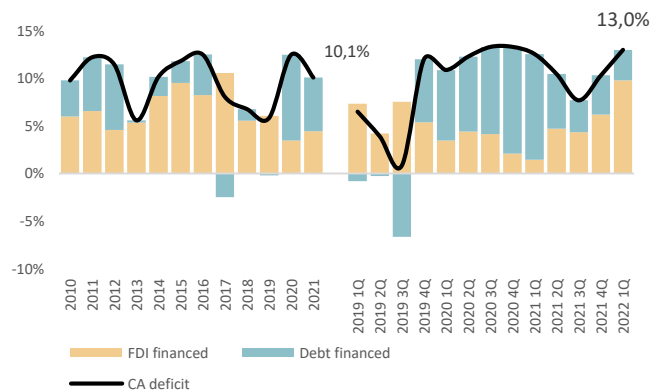
Source: NBG, Geostat

Figure 16: Financing of Investment



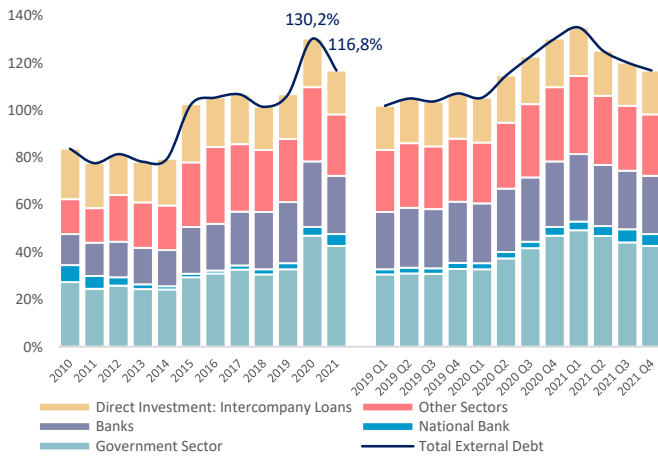
Source: NBG, Geostat

Figure 17: Financing of Current Account



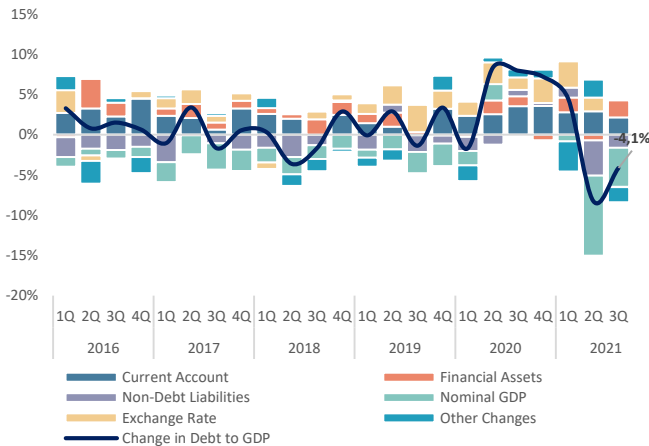
Source: NBG, Geostat

Figure 18: External Debt to GDP, %



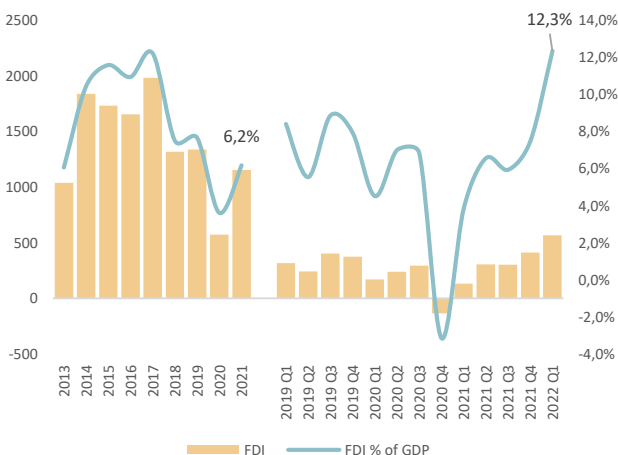
Source: NBG, Geostat

Figure 19: Change of Debt to GDP



Source: NBG, Geostat

Figure 20: 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 131.1 percent in 2020. Debt has increased by 23.5 p.p compared to the previous year. The main reason of the increase for higher debt taken by the government sector, due to the financing during the pandemic. As for 2021, external debt started to decline and amounted to 118.0 percent of GDP, which is 13.1 p.p. less than in the previous year. 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. As for the first quarter of 2022, external debt stood at 110.8 percent, which shows the continuity of the debt reduction tendency.

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 third quarter of 2021, debt to GDP decreased by 4.1 pp., with a significant contribution from nominal GDP growth in the second quarter, contributing -4.1 pp. to overall growth. The exchange rate is no longer the sources of debt growth (-0.1 pp. contribution to total growth). Current account deficit remains stable (+2.1 p.p) at increasing the debt dynamics.

Foreign Direct Investments

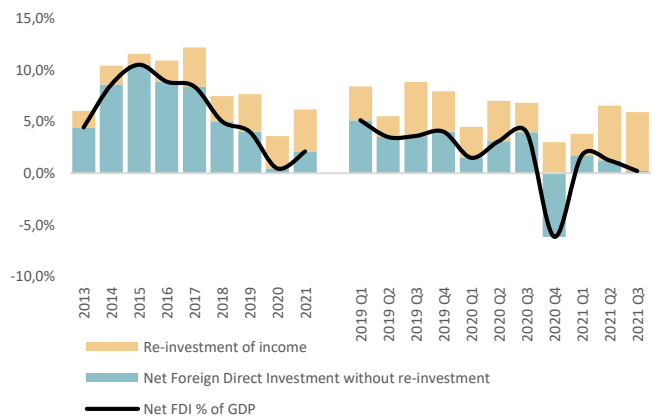
In 2020 foreign direct investment in Georgia amounted to 572 million USD, which is 57.2 percent less than in the previous year. The reduction was mainly due to transferring of ownership from a non-resident to the resident units in several companies (reduction by USD million 340.5). as for 2022 Q1, foreign direct investments amounted to 568.2 (12.3 percent of GDP) , which is 328.2 percent higher than in corresponding quarter in 2021..

As of Q1 2022, the Spain is the leader by 34.5 percent of share in total FDI. As for 2nd and 3rd places, Great Britain and Turkey have 15.3 percent and 11.8 percent share, respectively.

In 2022 Q1, Investments were mainly allocated in Energy sector, amounting 236.4 mln USD (41.6 percent of total FDI), in Finance and Real estate, where investments amounted 111.1 mln USD (19.5 percent) and 81.2 mln USD (14.3 percent) respectively.

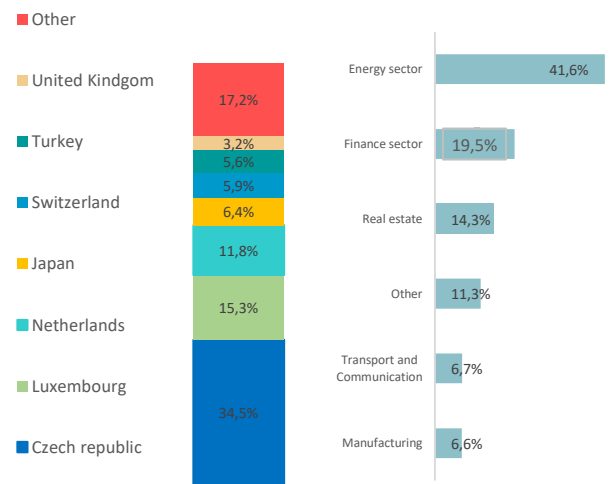
FDI structure reverted from its latest trend. In 2022 Q1 period, the share of reinvestment stood at 6.9 pp, which is 56.0 percent of total FDI.

Figure 21: FDI



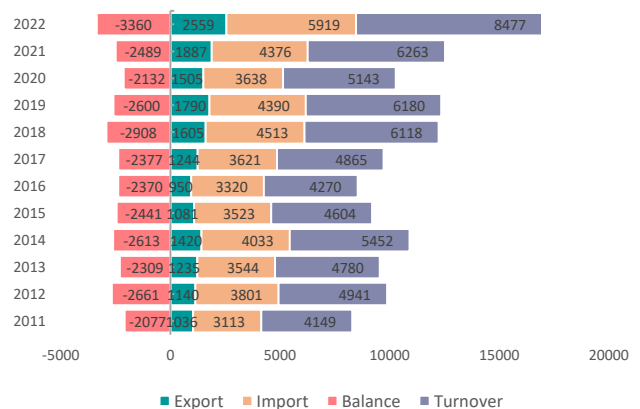
Source: NBG, Geostat

Figure 22: Composition of FDI, 2022 Q1



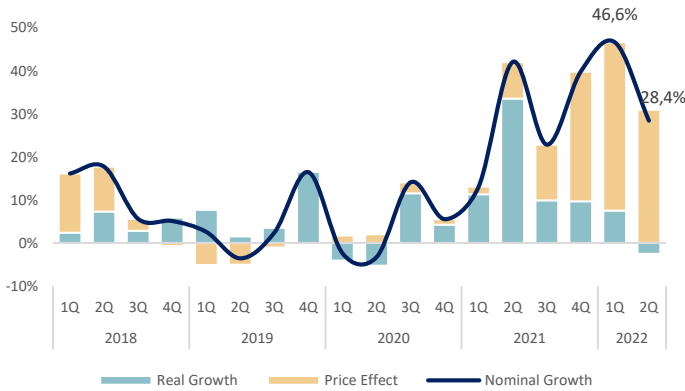
Source: Geostat

Figure 23: International Trade, January - June



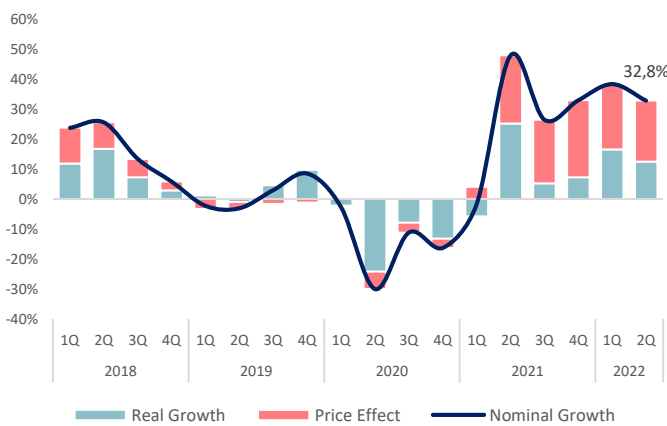
Source: Geostat

Figure 24: Annual Change of Domestic Export



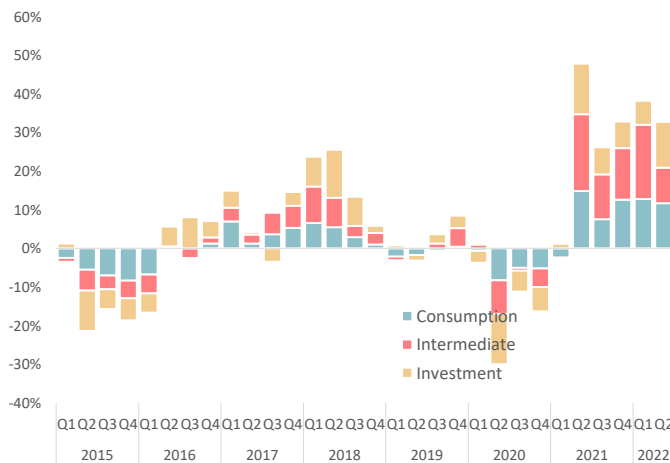
Source: Geostat

Figure 25: Annual Change of Import



Source: Geostat

Figure 26: Decomposition of Change of Import



Source: Geostat; Author's calculation

International Trade

Due to the epidemic around the world and restrictions imposed by most countries, foreign demand declined globally in 2020. All this had an impact on Georgia's economy. Due to reduced economic activity, import decreased as well, along with deteriorating 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 second quarter of 2022, nominal growth of domestic exports stood at 28.4 percent, which was mainly driven by price effect by 30.9 percent (2.5 percent real reduction). The same pattern is observed in the growth of imports, which amounted to 32.8 percent, where price effect stood at 20.3 percent.

As of second quarter of 2022, import of investment goods increased by 43.6 percent annually (11.9 p.p. share in total imports). High growth was observed in imports of consumption goods and amounted 33.6 percent annually (11.7 p.p. share in total imports). As for the imports of intermediate goods, it increased by 24.2 percent annually (9.2 p.p. share in total imports). In Q2 2022, export of goods increased by 29.8 percent annually. The main driver of this growth are still copper ores and concentrated (18.9 percent of total exports), motor cars (12.6 percent of total exports) and ferro alloys (10.2 percent of total exports) have also high shares. As for the imports, motor cars, oil products, and copper ores and concentrates are still the main imported goods.

Tourism

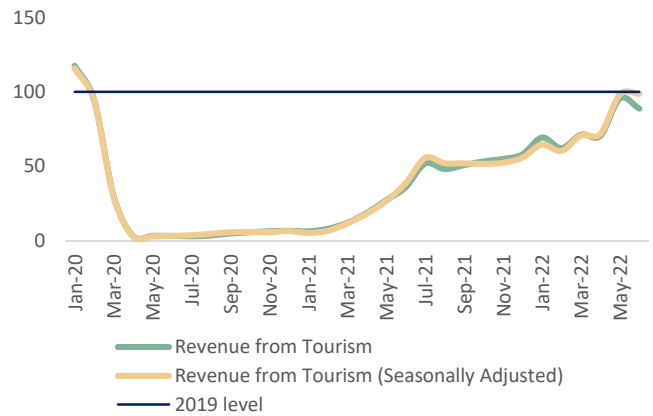
In 2020, when the economy was operating under severe constraints, the tourism sector received a particularly big blow. The closure of borders and the cessation of international travel by 2020 almost reduced the number of tourists to zero. From 2021, the tourism sector has started gradual recover. Revenues from tourism increased annually from the second quarter of 2021. This trend was maintained in rest of the periods. Revenue from tourism in Q2 2022 was 748.8 mln USD, up by 204.2 percent compared to the same period of previous year and up to 88.7 percent of 2019 level.

Remittances

In the first quarter of 2022, net remittances reached 471 mln USD, up by 8 percent from the previous year.

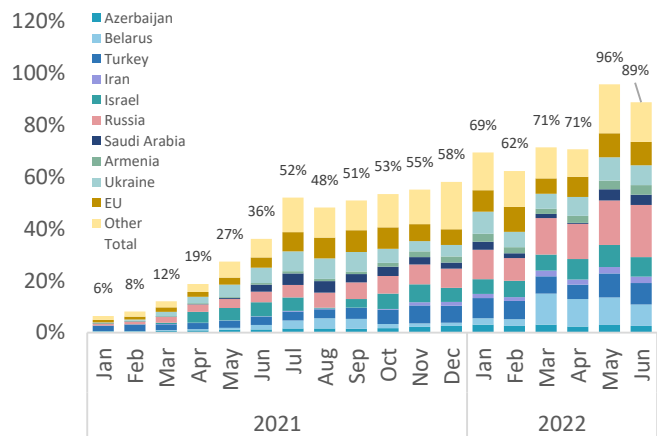
In the second quarter of 2022, net remittances accounted 1.158 mln USD, which is by 127.6 percent more compared to the same period of the last year. The largest contributor to this growth was Russia (total contribution of 115.8 percent). Germany (2.1 p.p.), Italy (1.9 p.p.), Israel (0.6 p.p.) also made positive contributions. A decrease of 167.5 percent was observed in net remittances from Ukraine, which contributed negatively to the overall growth by 5.7 p.p., remittances from Greece also decreased by 9.5 percent, which negatively contributed to overall growth by 1.1 p.p. 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 2021, which might be related to the rise in oil prices. Although, in the second quarter of 2022 Russia contributed the most to overall growth by 115.8 p.p.

Figure 27: Income from Tourism



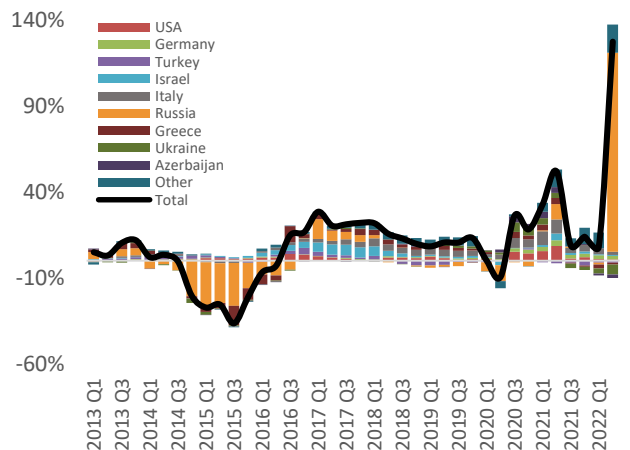
Source: NBG

Figure 28: Income from tourism, mln USD



Source: NBG

Figure 29: Net Remittances

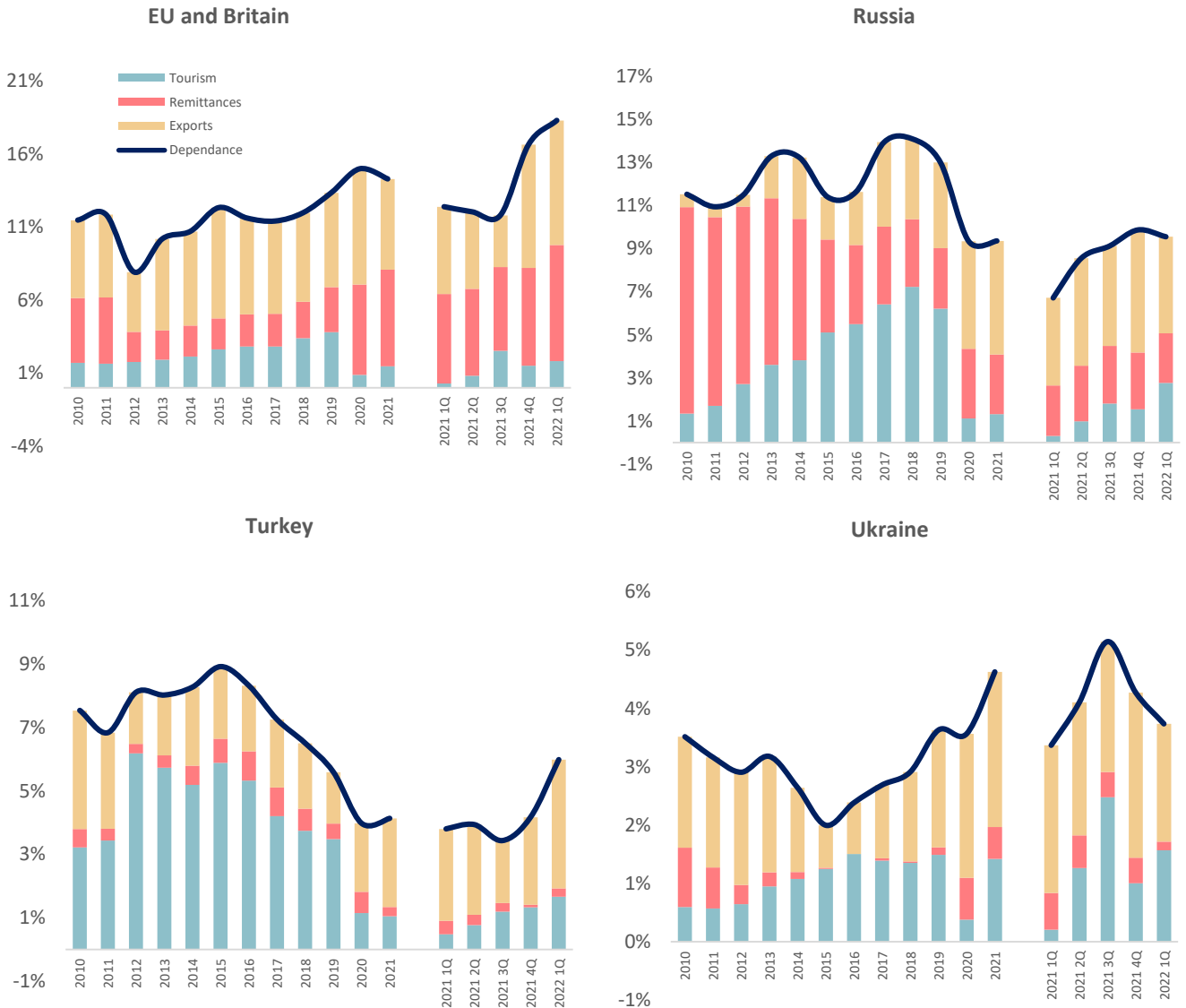


Source: NBG

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 Q1 2022 numbers, dependence on Russia equaled to its year 2020-2021 levels, dependence on Russia is mainly driven by export of goods. Dependence on Turkey is still stable, but there was an increase in Q1 compared to previous quarter. In addition, decrease was observed in dependence on Ukraine, which was due to reduced remittances from Ukraine, dependence on Ukraine will continue to decrease, because of Russia-Ukraine war. Dependence on the EU maintains a high level, according to Q1 2022, there was 2.7 pp hike in dependence on EU, which was driven by increase export of goods.

Figure 30: Dependence on Trading Partners



Source: NBS, Geostat

Figure 31: Nominal Effective Exchange Rate

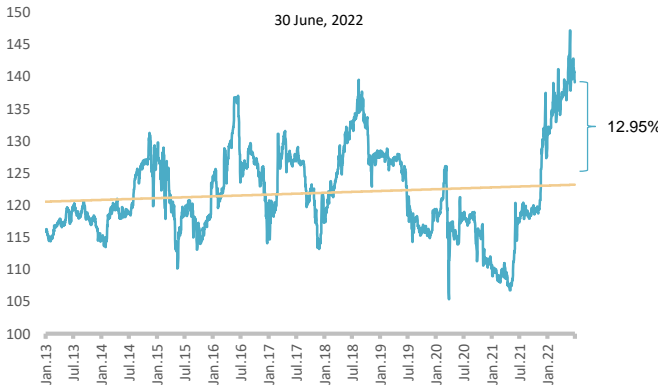


Figure 32: Real Effective Exchange Rate

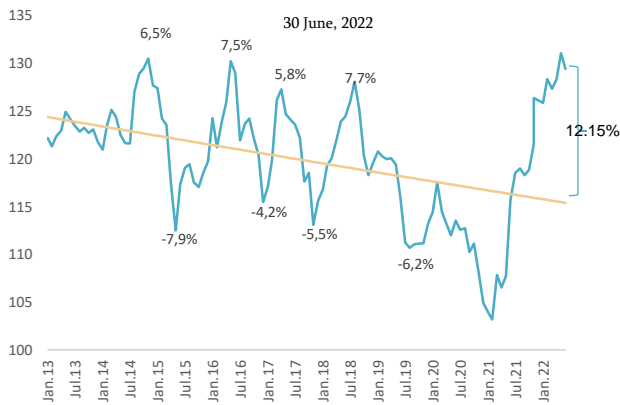
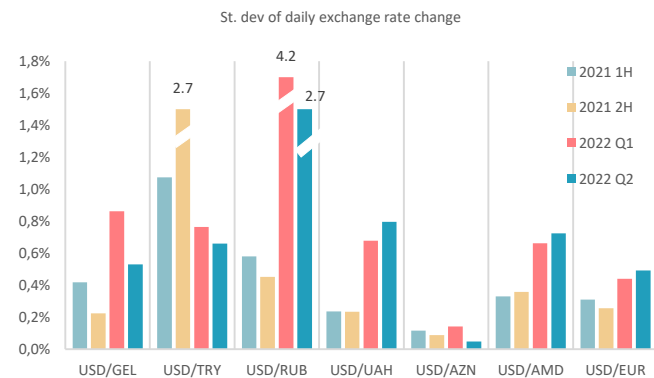


Figure 33: Volatility of Exchange Rates



Source: NBG, MOF

Table 1: Change of Nominal and Real Effective Exchange Rates

	June 30, 2022	June 30, 2022 - Jan 1, 2022	June 30, 2022 - Jan 1, 2021
Euro	3.0821	▲ 4.3%	▼ -0.7%
US Dollar	2.9289	▼ -2.1%	▼ -8.7%
Turkish Lira	0.1758	▲ 174.0%	▲ 187.5%
Russian Ruble	0.0565	▼ -18.4%	▼ -32.1%
NEER	137.07	▲ 4.5%	▲ 23.9%
REER (June 2022)	129.42	▲ 2.8%	▲ 23.3%

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 April 2021, GEL started sharp appreciation, which was due to the weaker USD, as well as strong numbers in export and improved expectations. From the start of 2022 GEL started gradual appreciation against USD as well as to other trading partners, but after Russia invaded Ukraine and full scale war started, GEL sharply depreciated, than throughout first quarter stabilized, all this caused sharp increase in GEL volatility, this increase in volatility is in line with behavior of trading countries' currencies. As for Q2 2022, GEL is steadily appreciating, mainly on the back of increased inflows due to migration, which was caused by the Russia-Ukraine war. Going forward after period of appreciation sharp depreciation is not expected, as it was the case at the start of the spring. In Q2 2022, GEL appreciated against USD by 9.9 percent, compared to same period of previous year. At the same time, appreciation against EUR equaled 20.1 percent. GEL appreciated against Lira by 51.9 percent and against RUB by 1.0 percent. In the same period there was sharp appreciation of nominal and real effective exchange rates. Due to this sharp appreciation, they are above their medium-term trends by 12.95 and 12.15 percent respectively.

Fiscal Sector

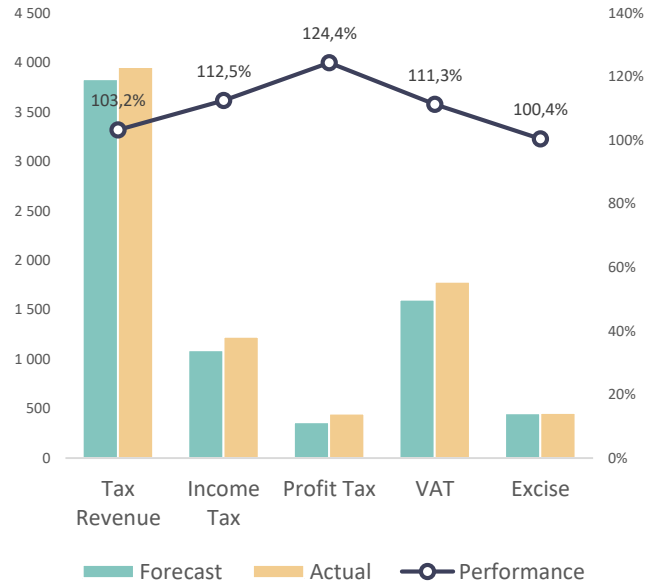
Budget Performance

The consolidated budget tax revenue forecast for the second quarter of 2022 was set at 3,831 mln GEL, while 3,954 mln GEL was mobilized during the reporting period, which is 103.2 percent of the forecast.

- 1,226 million GEL is mobilized as income tax, which is 112.5 percent of the forecast figure (1,090 million GEL).
- 449 million GEL is mobilized as profit tax, which is 124.4 percent of the forecast indicator (361 million GEL).
- 1,783 million GEL was mobilized as VAT, which is 111.3 percent of the forecast (GEL 1,602 million).
- 455 million GEL is mobilized as excise, which is 100.4 percent of the forecast indicator (453 million GEL).
- 30 million GEL is mobilized in the form of import tax, which is 134.9 percent of the forecast (22 million GEL).
- 441 million GEL is mobilized in the form of property tax, which is 115.5 percent of the forecast (382 million GEL).

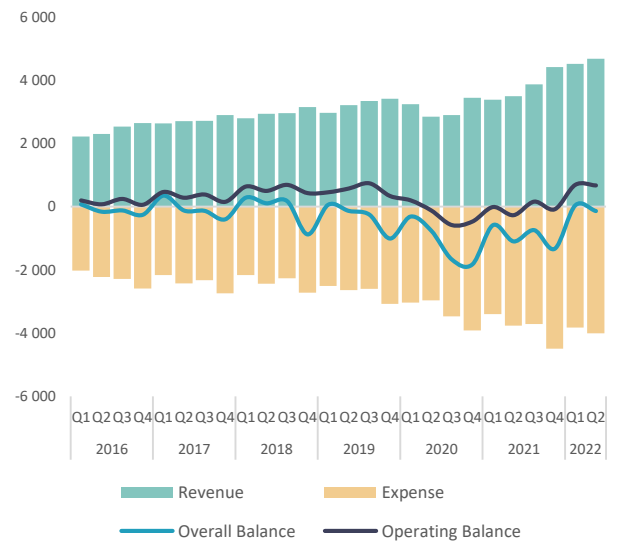
In the second quarter of 2022, compared to the same period last year, consolidated budget revenues increased by 33.7 percent and expenditures increased by 6.4 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to 663.2 million GEL, while the total balance was set at -143.6 million GEL.

Figure 34: Budget Revenue Performance



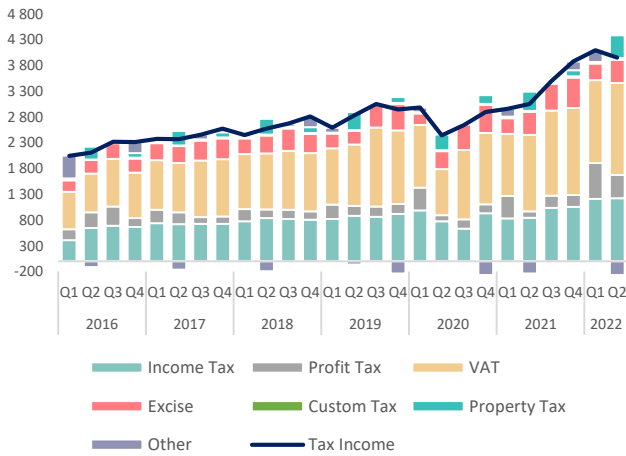
Source: MOF

Figure 35: Budget Balance



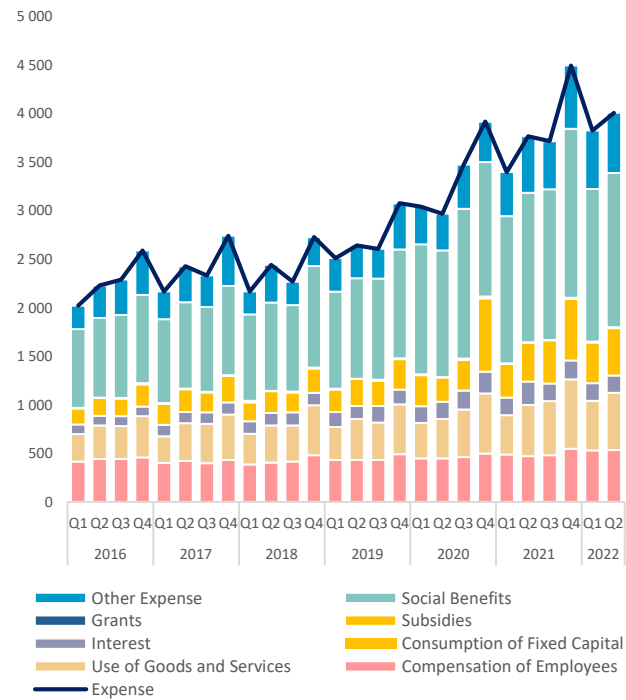
Source: MOF

Figure 36: Tax Income



Source: MOF

Figure 37: Budget Expenses



Source: MOF

A significant share of budget revenues is accounted by tax revenues, accounting for 84.7 percent in the second quarter of 2022. The consolidated budget received GEL 3,954 million in taxes, which is 29.6 percent more than the same period of previous year. Revenue from income tax increased by 45.4 percent year on year to GEL 1,226 million. High growth is observed in the form of revenue from profit, which increased annually by 254.3 percent compared to the second quarter of 2021, amounted to 449 million and is 11.4 percent of total revenue from tax. At the same time, a significant increase in tax revenues is observed from VAT and import taxes. In particular, revenue from VAT increased by 20.4 percent, accounting 45.1 percent of total tax revenue, while revenue from import tax increased by 33.6 percent, and contributing by 0.8 percent.

Expenditures in the second quarter of 2022 increased by 6.4 percent year on year to GEL 4,005 million. The largest share of budget expenditures is in social security expenditures, which account for 39.7 percent of total expenditures, while the annual growth rate is equal to 3.3 percent. Expenditures in the form of goods and services also increased, with an annual growth rate of 11.8 percent to GEL 589 million, accounting for 14.7 percent of total expenditures. As for other items of expenditure, wages (13.3 percent of total costs), subsidies (12.3 percent of total costs), interest (4.4 percent of total costs) and other costs (15.4 percent of total costs) increased by 13.2 percent, 21.8 percent, -26.0 percent and 6.0 percent compared to the corresponding period of 2021, respectively.

Government Debt

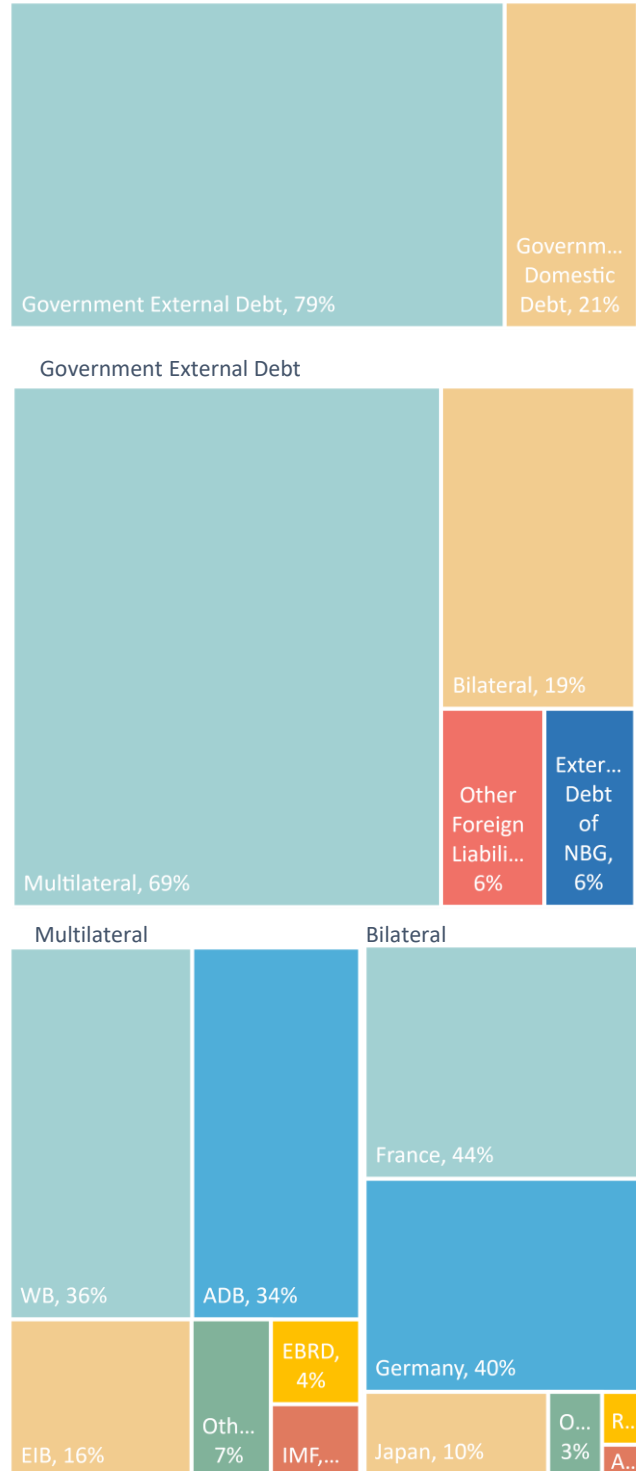
As of June 30, 2022, the stock of public debt of Georgia amounted to GEL 29,409 million, including:

☐ Government domestic debt stock is GEL 6,250.3 million, including:

- Annual Renewable Government Bond for the National Bank ("Bond for the NBG") - GEL 120.8 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 370.0 million;
- Treasury bonds of the Ministry of Finance - GEL 5,545.5 million;

☐ Government external debt stock is 23,158.2 million GEL.

Figure 38: Government Debt



Source: MOF

Monetary Sector

Private Sector Larization

The larization of loans has an increasing trend and by 1 of July 2022 it reached 51.4 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 2022, the larization of loans of individuals was 67.0 percent, in the same period the larization of loans granted to legal entities amounted to 33.7 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 stays in that territory. By 1 of July 2022 amounted to 88.2 percent, as of the larization of mortgage loans, it amounted to 40.9 percent.

The larization of deposits remain significantly lower than larization of loans. As of 1 of July larization of total deposits reached 40.8 percent. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. By the 1 of July larization of deposits of legal entities reached 66.7 percent and the larization of deposits of individuals in the same period was 27.5 percent.

It should be noted that the main contributor in the deposits larization is still time deposits larization, by 1 July 2022 it reached 47.6 percent. In the same period current accounts larization amounted to 40.6 percent, while larization of the deposits before demand stands at 31.7 percent.

Figure 39: Loan Larization

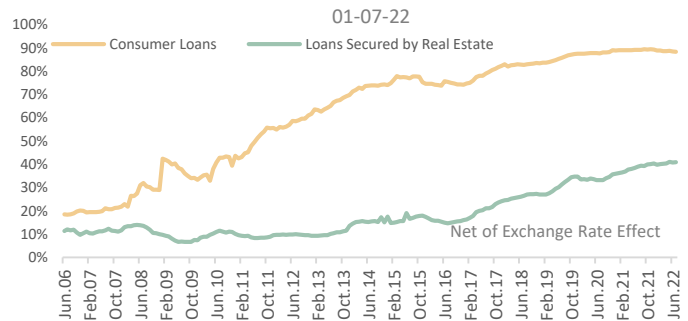
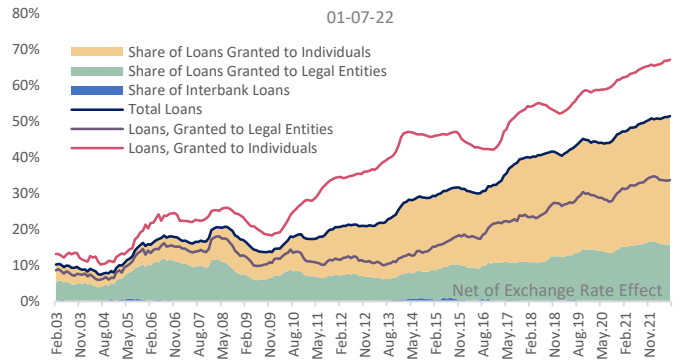
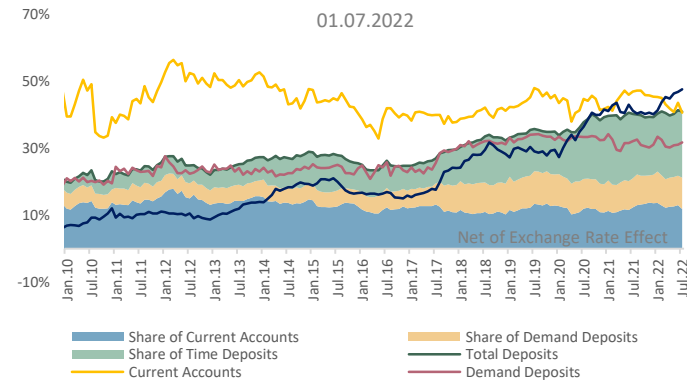
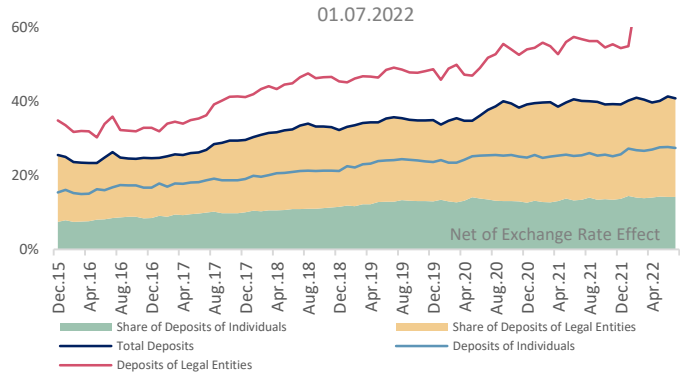
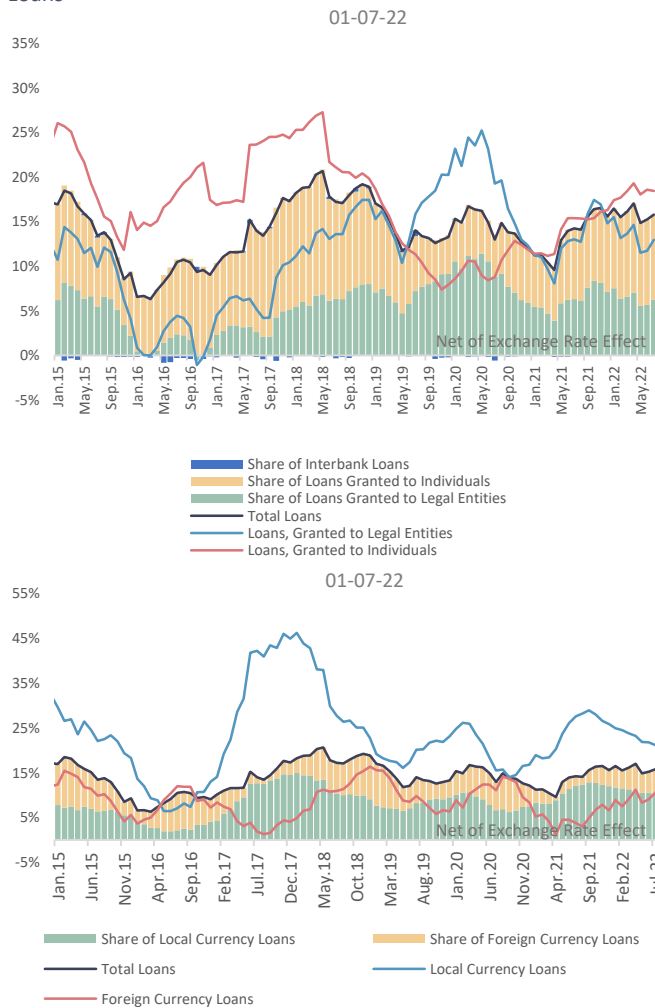


Figure 40: Deposit Larization



Source: NBG

Figure 41: Annual Growth of Loans



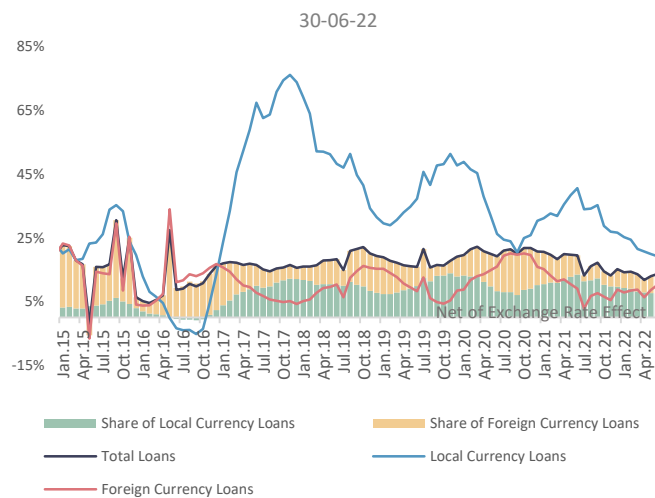
Review of Loans

As of 1 July 2022 overall loans increased by 15.8 percent compared to the corresponding period of 2021, which is 0.3 percentage points lower than previous quarter growth rate (net of exchange rate effect). Significant increase was observed also in the annual growth of loans granted to legal entities, growth amounted to 13.0 percent. During the same period loans to individuals increased by 18.4 percent.

It is important to note that there is an increasing trend in the growth of loans denominated in local currency as of 1 of July 2022 it amounted to 21.2 percent, compared to the corresponding period of 2021. During the same period, the growth of loans in foreign currency was 10.6 percent, which is 1.4 percentage points higher than in the last quarter (excluding exchange rate effect).

By 30 of June 2022, mortgage loans had increased by 13.7 percent compared to the corresponding period of the previous. Moreover, mortgage loans that are denominated in national currency increased by 19.1 percent, 1.4 percentage points lower than in the previous quarter, while foreign currency denominated mortgage loans increased by 10.2 percent and is higher than during previous quarter.

Figure 42: Annual Growth of Loans secured by Real Estate



Source: NBG

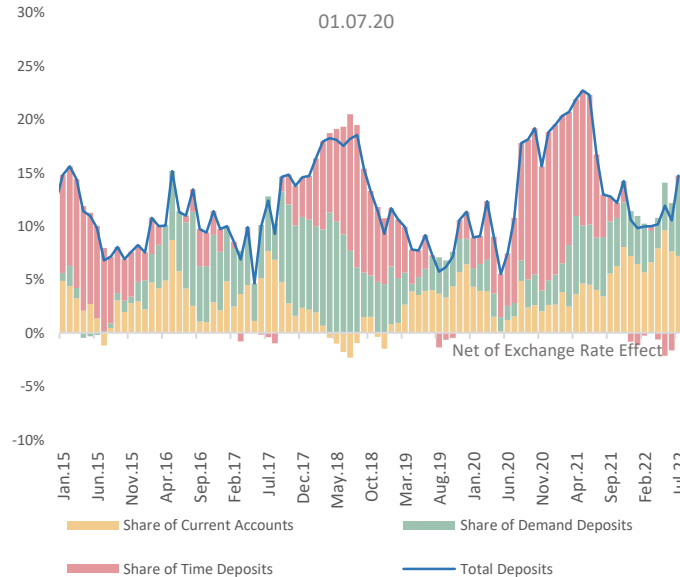
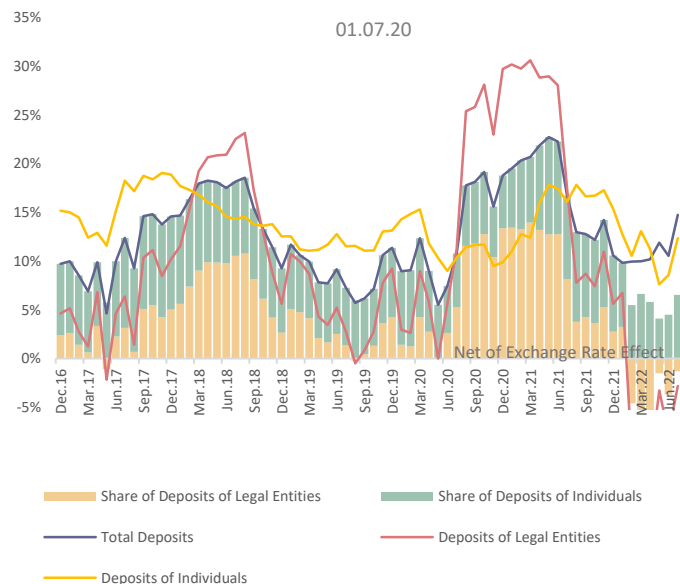
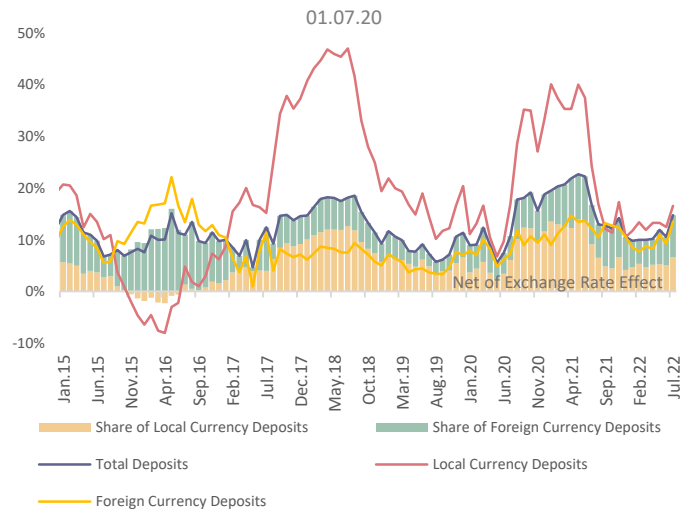
Review of Deposits

The growth of total deposits on the 1 of July 2022 was 14.7 percent compared to the corresponding period of 2021, which is by 4.7 percentage points higher compared to the previous quarter. After significant increase in the annual growth of deposits denominated in national currency, decline of growth rate was observed, but the growth then stabilized which reached 16.5 percent by the 1 of July 2021, while the annual growth of deposits denominated in foreign currency amounted 13.5 percent in the same period.

By the 1 of July 2022 annual growth of deposits of individuals reached 12.3 percent, while the annual growth of deposits of legal entities experienced decline and amounted to -2.8 percent, this decrease was evident through all months in of second quarter.

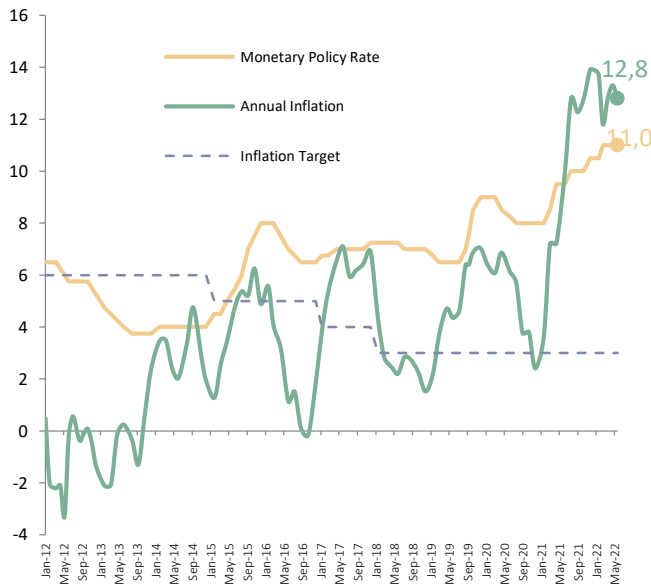
As for the growth of deposits by types, the slowing down of the deposits growth was reflected in the growth rate of time and demand deposits. By 1 on July 2022 time deposits grew by 1.5 percent. As for the current and demand deposits, their growth rates as of 1 July 2022 equaled to 27.4 and 25.1 percent, respectively.

Figure 43: Annual Growth of Deposits



Source: NBG

Figure 44: Inflation and Monetary Policy Rate

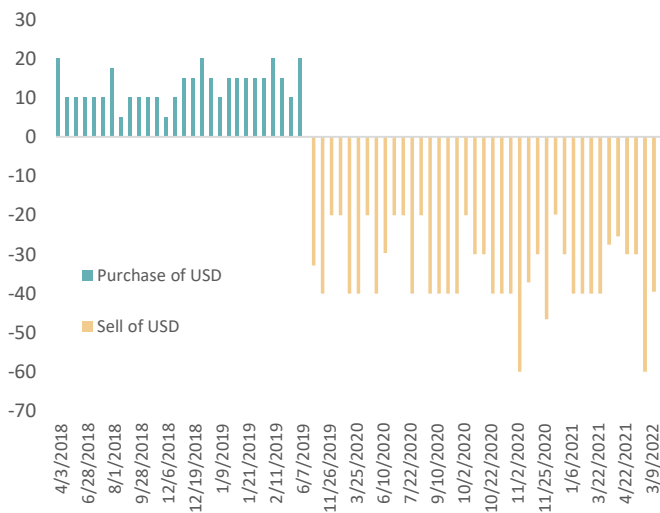


Monetary Policy Rate

The Monetary Policy Committee of the National Bank of Georgia held two sessions in the second quarter of 2022. In both cases, they kept monetary policy rate unchanged at 11.0 percent..

According to National Bank, the sanctions imposed against Russia due to its aggression against Ukraine, as well as supply-side disruptions, and a sharp decline of goods exports from Ukraine due to the ongoing war, have significantly raised international prices on food, energy and other commodities. According to the National Bank, other things equal, it is expected that inflation will remain above the target throughout the year; however, it will have a declining path as external factors are phased-out and given that monetary policy remains tight

Figure 45: Trade of USD by NBG, mln



First time after 2019, in May 24, NBG bought 10 million USD.

Source: NBG

Interest Rates

As of July 2022, the interest rate on foreign currency deposits was 1.5 percent, while on the national currency deposits it amounted to 10.6 percent.

As of 1 of July 2022, the weighted average interest rate on deposits of legal entities in national currency was 11.1 percent, and in foreign currency – 1.6 percent. In the same period, the average annual interest rate was 1.5 percent on deposits of individuals in foreign currency and 10.6 percent in national currency.

By 1 of July 2022, the weighted average annual interest rate on short-term consumer loans was 15.3 percent (19.8 percent in national currency and 4.6 percent in foreign currency). Weighted average interest rates on long-term consumer loans are largely determined by loans denominated in national currency.

At the end of June 2022, the interest rate on mortgage loans issued to legal entities in national currency was 14.1 percent, and in foreign currency – 7.1 percent. The interest rate on loans to individuals in national currency was 13.3 percent, and in foreign currency it was 5.8 percent.

Figure 46: Interest rates on Deposits (stock)

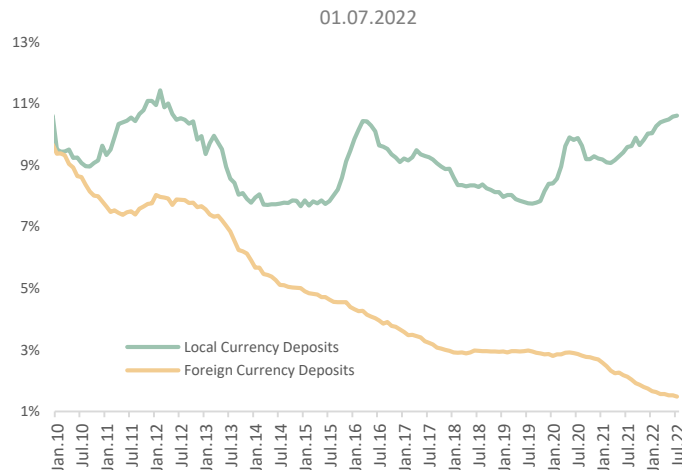
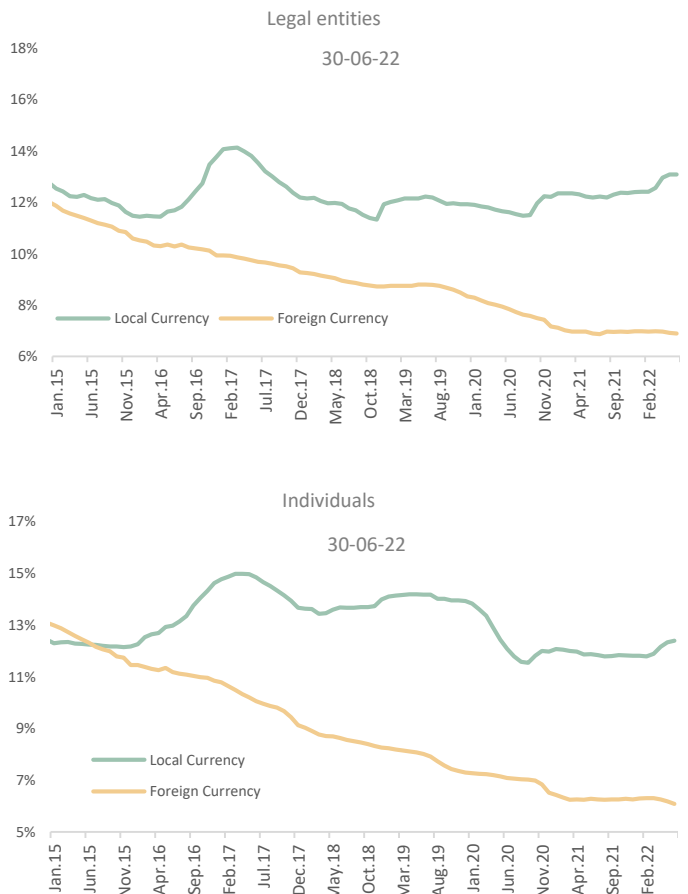


Figure 47: Interest rates on Loans secured by Real Estate



Source: NBG

Disclaimer

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