

Ministry of Finance of Georgia



# Quarterly Economic Outlook

I Quarter, 2022



## Brief Summary

- Economic growth for 2021 equals to 10.4 percent
- According to preliminary data, economic growth in Q1 2022 equals to 14.4 percent
- Annual inflation in the first quarter equals to 13.2 percent, while core inflation equals to 5.6
- Export increased by 43.3 percent annually
- Import increased by 35.7 percent annually
- Revenues from tourism increased significantly due to the base effect, but still remain below the 2019 level
- The refinancing rate has increased to 11.0 percent





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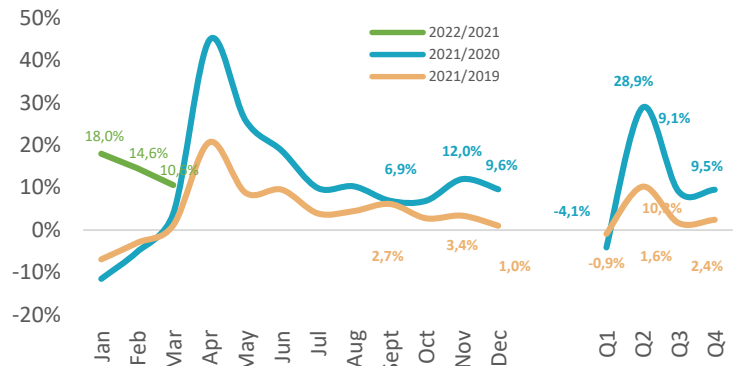
# Real Sector

## Economic Growth

In the fourth quarter of 2021, real GDP increased by an average of 8.8 percent compared to the same period last year. At the same time, compared to the corresponding period of 2019, economic growth was 0.8 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. According to preliminary data, in the first quarter of 2022 real GDP increased by 14.4 percent relative to same period of the previous year. In particular, in the first quarter, exports increased annually by 43.3 percent, while imports increased annually by 35.7 percent. At the same time, compared to the first quarter of 2019, exports increased by 41.6 percent and imports increased by 29.6 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 6-fold year-on-year in the first quarter, although there was a 19 percent decline compared to the same period in 2019.

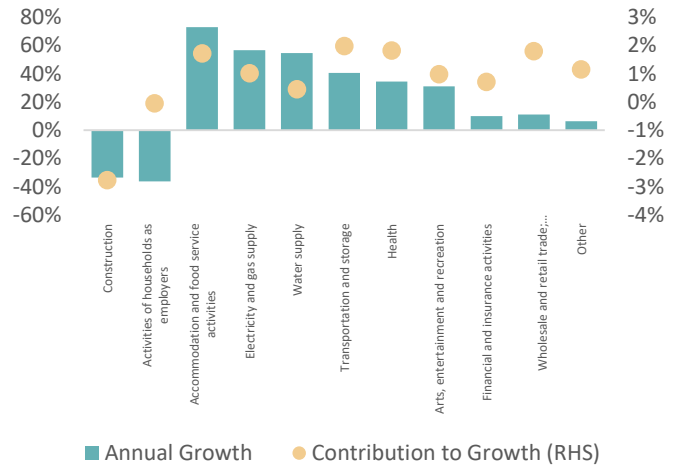
Due to the deteriorating epidemiological situation in early 2021, there were a number of restrictions that hindered the process of economic recovery. Accordingly, real GDP declined by 4.1 percent annually in the first quarter. A faster recovery than expected occurred in the second quarter of 2021. Compared to the same period of the previous year, real GDP increased by 28.9 percent, and compared to the second quarter of 2019, by 10.2 percent. As for the third quarter, growth was 9.1 percent compared to 2020, while compared to the same period of 2019 it increased by 1.6 percent. A significant share of GDP growth was due to the exports component, which grew by 48.1 percent annually in real terms and contributed 16.3 pp. to total growth. In fourth quarter real GDP growth was 8.8 percent compared to the same period of previous year. At the same time, consumption in real terms increased by 7.8 percent annually to 8.4 pp. of total growth due to the partial recovery of the tourism sector. This sharp increase in the second quarter is explained by the high base effect and the realization of the delayed demand

Figure 1: Economic Growth



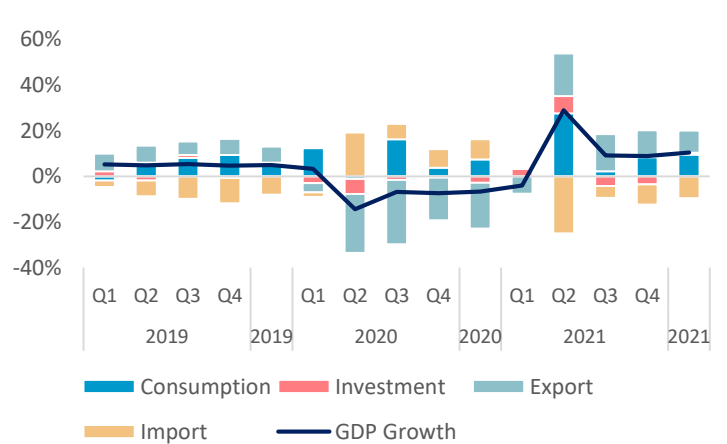
Source: Geostat

Figure 2: Real Sectoral Growth, 2021 4Q



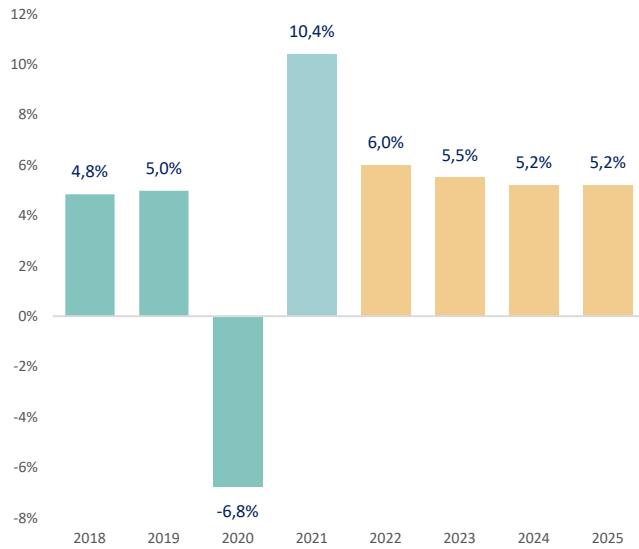
Source: Geostat

Figure 3: Decomposition of Economic Growth



Source: Geostat

Figure 4: Economic Growth Projection

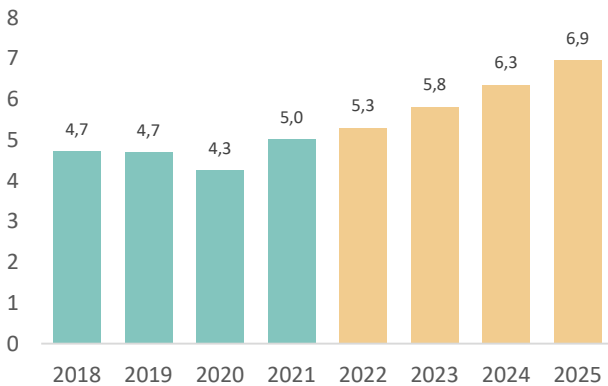


Source: MOF

in the current periods from the previous stages of the pandemic. Growth was observed in many sectors during the third quarter. In the fourth quarter of 2021, the following sectors made a significant contribution to growth: transport and warehousing (40.6 percent), wholesale and retail (11.2 percent), real estate activities (15.0 percent), accommodation and catering activities (72.8 percent), Health & Social Services (34.4 per cent), Electricity, gas, steam and air conditioning (56.5 per cent), Arts, Recreation (31.0 per cent), Financial & Insurance (10.1 per cent), Information & Communication (14.4 per cent)).

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.

Figure 5: GDP per capita, ths USD



Source: MOF

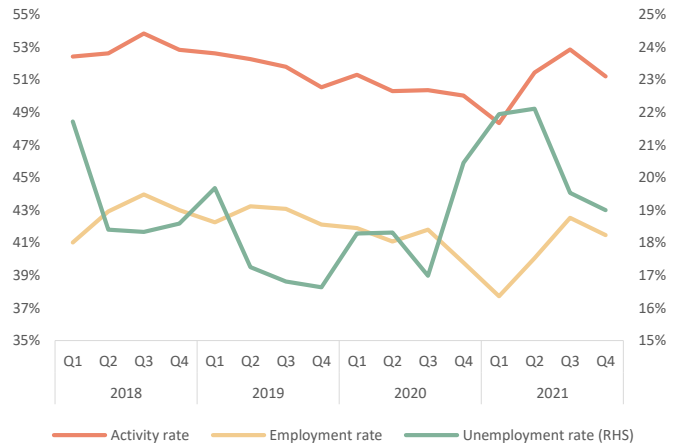


## Employment and Unemployment

In the fourth quarter of 2021, the unemployment rate was 19.0 percent, which is 0.5 pp less than the value of the previous quarter and 1.4 pp less compared to the same period of last year. Among them, unemployment was 20.1 percent in urban areas (-2.1 percentage points per year) and 17.4 percent in rural areas (-0.3 percentage points per year). The highest unemployment rates are among 15-24 and 25-34 age groups. In the fourth quarter of 2021, the economically active population accounted for 51.2 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 20.6 percent.

The number of employees increased by 0.4 percent compared to the corresponding quarter of the previous year, while the employment rate increased by 1.7 percentage point. The number of unemployed decreased by 5.2 percent annually. At the same time, productivity (ratio of real output to number of employees) increased by 4.7 percent annually, while the average nominal wage of employees increased by 11.3 percent, amounting to 1463.8 GEL as of the fourth quarter of 2021.

Figure 6: Indicators of Labor Market



Source: Geostat

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



Source: Geostat

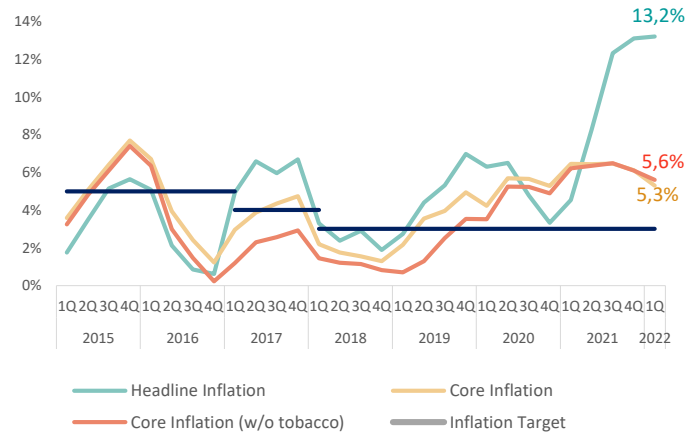
## Price Level

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 (April, 2022), due to current world situation world inflation will increase from 4.7 percent in 2021 to 7.4 percent in 2022 in. In advanced economy countries inflation will increase from 3.1 percent in 2021 to 5.7 percent in 2022. In developing countries inflation growth is expected to increase from 5.9 percent in 2021 to 8.9 percent in 2022. In the first quarter of 2022, annual inflation stood at 13.2 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 March 30, the National Bank Monetary Policy Committee decided to increase the refinancing rate by 0.5 pp to 11 percent to ease the pressure on expectations for further price increases. According to the National Bank, inflation will start approaching the target from the second quarter of 2022.

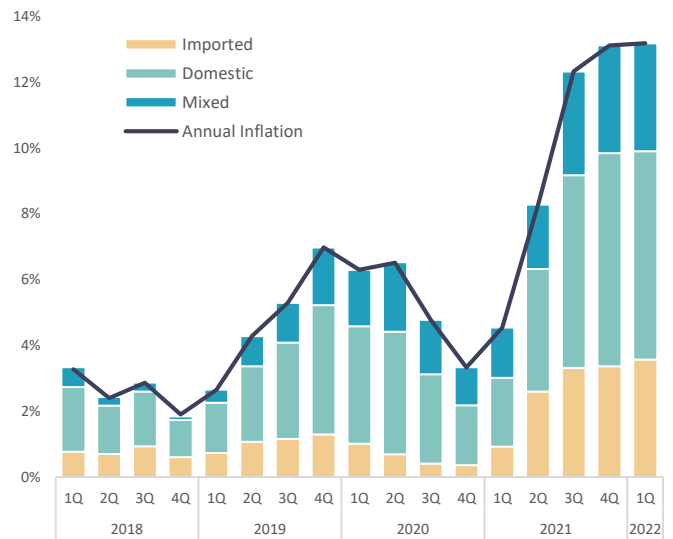
In the first quarter of 2022, the contribution of domestic inflation was 6.3 percent, while the contribution of imported inflation was 3.6 percent. This dynamics is caused by the increase in the price of food and the relatively high weight gain in the consumer basket relative to the food group.

Figure 8: Annual Inflation



Source: NBG

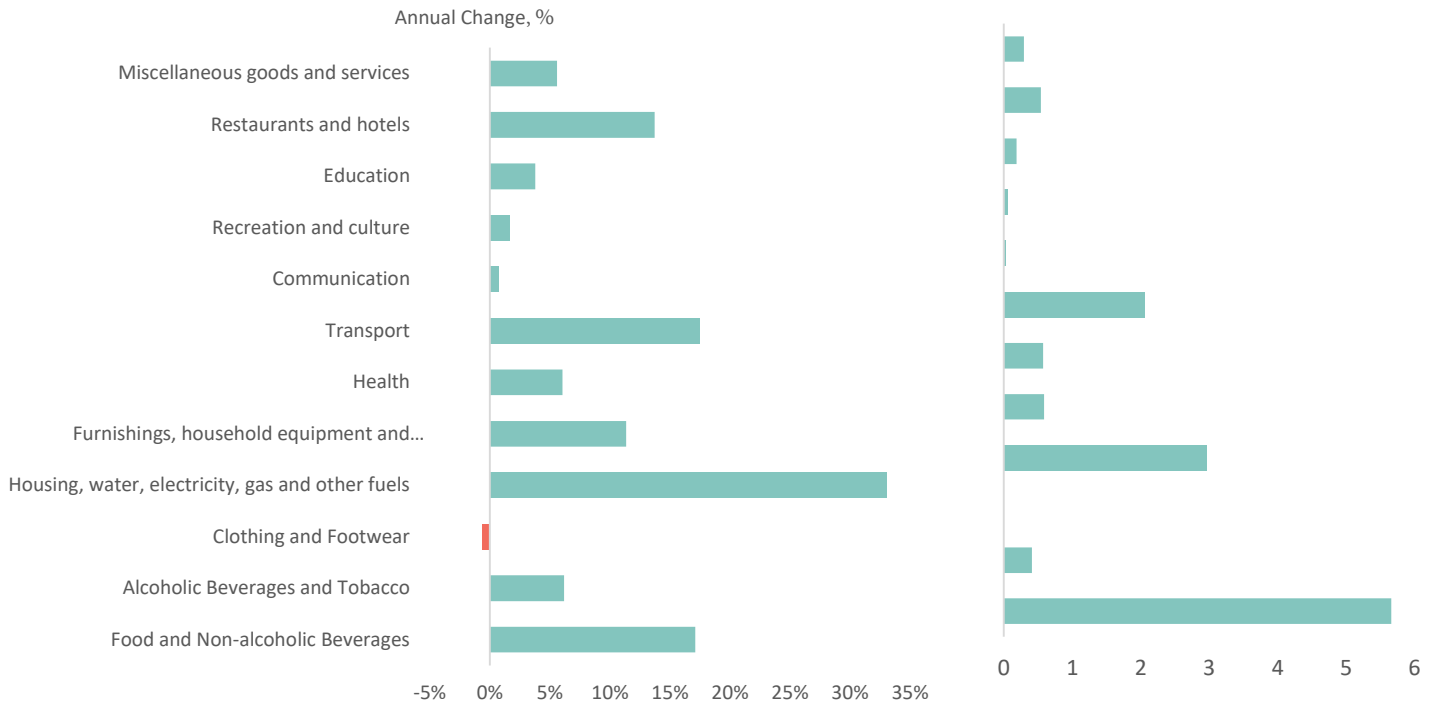
Figure 9: Decomposition of Inflation



Source: NBG, Geostat



Figure 10: Decomposition of Inflation, 2022 Q1



Source: Geostat



### Economic Outlook of the Region

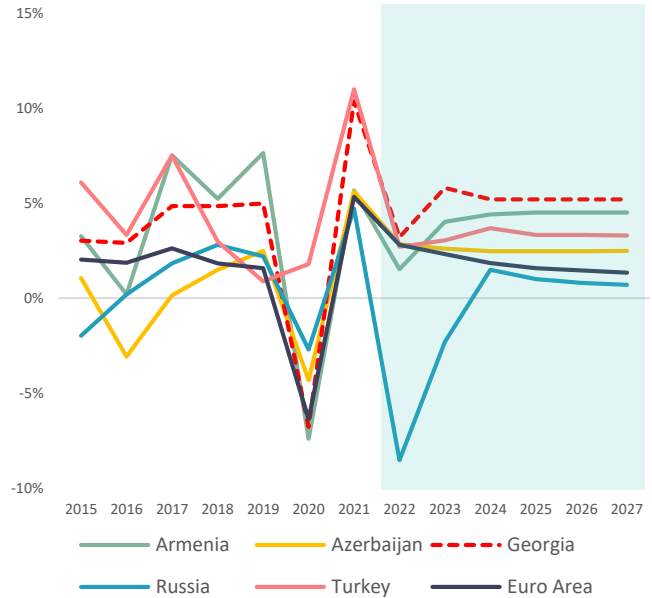
After COVID-19 recession, global economy showed V-shape recovery, but it still was on mending path. But after Russian invasion into Ukraine global growth prospects have worsened significantly. According to IMF April 2022 projections, world economic growth will stand at 3.6% both in 2022 and 2023, which is 0.8 and 0.2 percentage points lower than prewar forecasts. Per their estimates, most affected regions by this war will be Europe, Caucasus, Central Asia, Middle East, North Africa and sub-Saharan Africa. The war will cause sharp increase in commodity prices, both production and food, as Ukraine and Russia are major suppliers of those commodities.

After a strong growth in 2021, Euro Area economy will grow by 2.8 and 2.3 percent in 2022 and 2023 respectively. Those estimates are 1.1 and 0.2 p.p. below prewar figures.

Even though Turkey did not fall in recession in 2020, in 2021 Turkey experienced impressive 11.0 percent growth in real GDP. Per IMF latest projections Turkey is expected to grow by 2.7 and 3.0 percent in 2022 and 2023, respectively. Main challenges for Turkey remain exchange rate depreciation and high inflation. The inflation is expected to reach at 60.5 percent in 2022 after 19.6 percent in 2021. Turkey did not undergone any changes into sovereign credit ratings due to war. However, on 11th of February 2022 Fitch downgraded Turkey from BB- to B+ (negative).

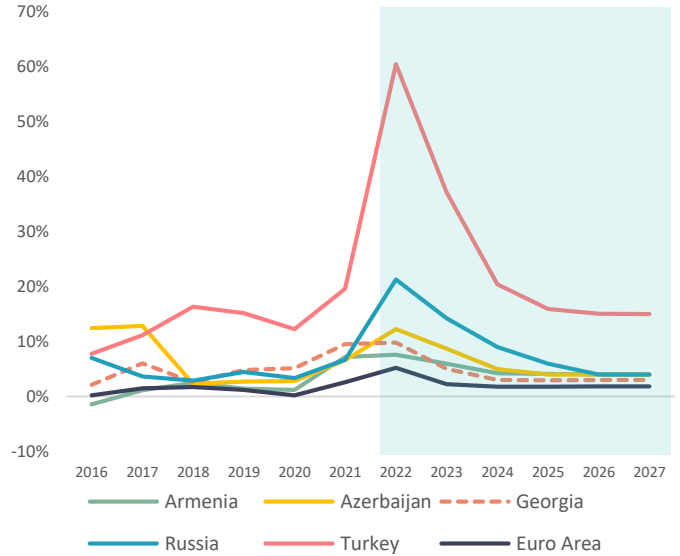
The main actor of global economic growth disruption Russia is expected to have its economy severely hit by sanctions, which will translate into large contraction of real GDP. This measures won't have only near term impact on Russian economy, but will affect its medium-term capabilities, since large consumers, as well as sovereign countries, wean themselves off Russia's energy and other sectors. In 2022 real GDP in Russia is projected to contract by 8.5 percent, followed by another 2.3 percent contraction in 2023, those projections are 11.3 and 4.4 p.p. below prewar projections, its medium-term growth rate stands at 0.7 percent, while in the period of 2004-2013 it averaged at 4.2 percent and 2.1 percent in the period of 2014-2020. Throughout those years Russia will experience high inflation, which will stand at 21.3 and 14.3 percent in 2022 and 2023, respectively. Also, unemployment will increase more than two-fold in 2022 amounting to 9.3 percent. 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

Figure 11: Economic Growth in the Region



Source: IMF

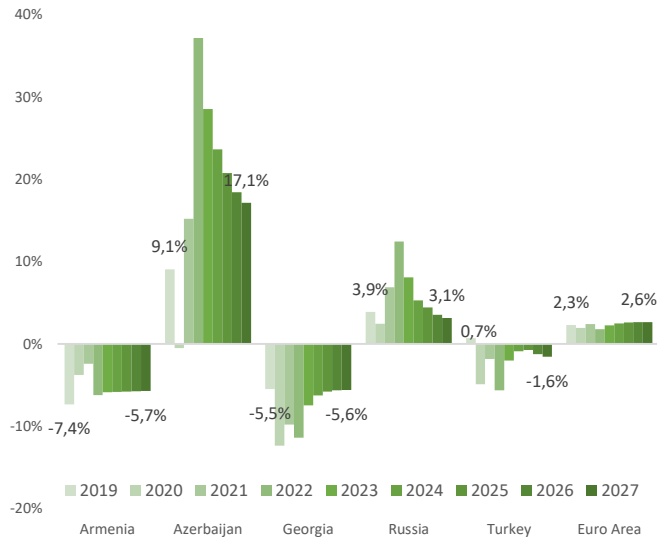
Figure 12: Inflation in the Region



Source: IMF

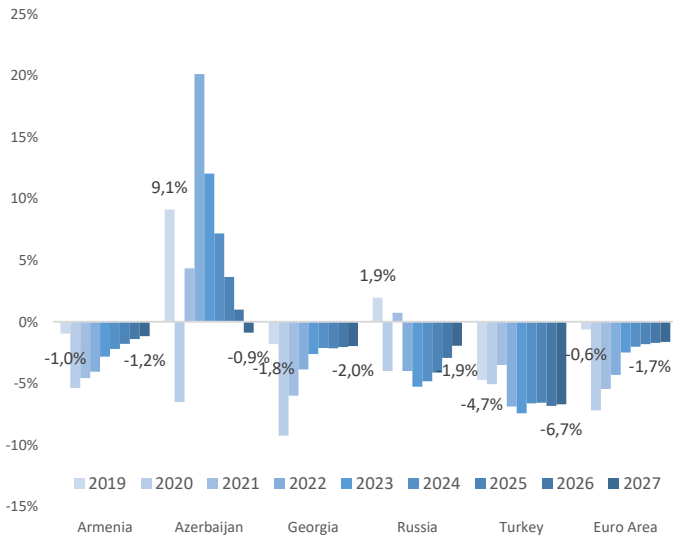


Figure 13: Current Account to GDP, %



Source: IMF

Figure 14: Budget Balance to GDP, %



Source: IMF

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, Azerbaijan’s real economy is expected to grow by 2.8 and 2.3 percent in 2022 and 2023, respectively, which are slightly more than its medium-term growth rate of 1.8 percent. High inflation is also the case throughout those years. In 2022, inflation is estimated to be 12.3 percent, and it is expected to decrease and stand at 8.7 percent in 2023. There were no changes into sovereign credit ratings in 2022.

In 2021 Armenia was not able to fully recover from COVID-19 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. In 2022 Armenia, according to IMF, will grow by 1.5 percent, while in 2023 it will grow by 4.0 percent, which is near to its medium term growth of 4.5 percent. Inflation will remain high throughout those year, 7.5 percent in 2022 and 5.0 percent 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 percent 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

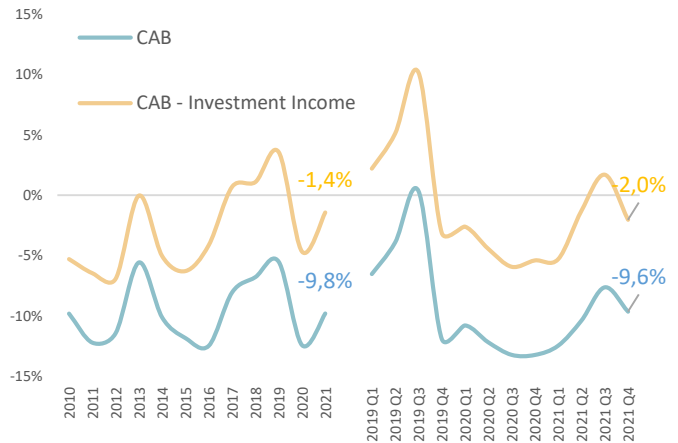
## Current Account Balance

In 2020 current account deficit stood at 12.4 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 9.8 percent of GDP, which is 2.6 pp improvement from 2020. The improvement in CA deficit is mostly driven by exports of services, which is due to tourism sector recovery and the 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. In 2021 debt contribution decreased, while FDI and domestic investments undergone slight increase in financing the investments.

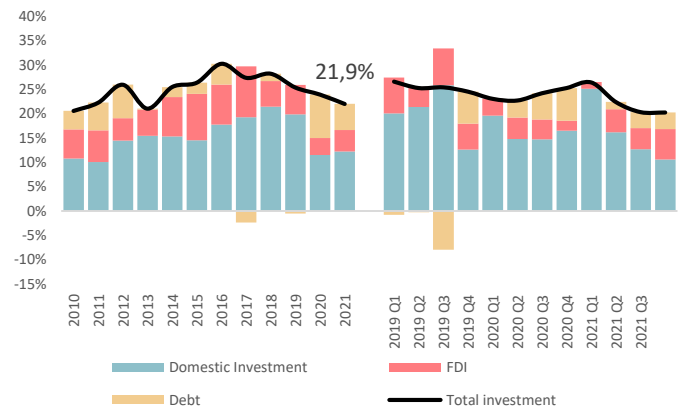
As of the fourth quarter of 2021, current account deficit financing has changed for the better. In particular, the FDI's share in financing increased from 4.3 pp. to 6.2 pp., while its debt contribution slightly increased from 3.3 pp. to 3.5 pp during 2021 Q4. As of year 2021 overall contribution of FDI increased from 3.5 to 4.4 and contribution of debt decreased from 8.9 to 5.4 pp.

Figure 15: Current Account to GDP, % of GDP



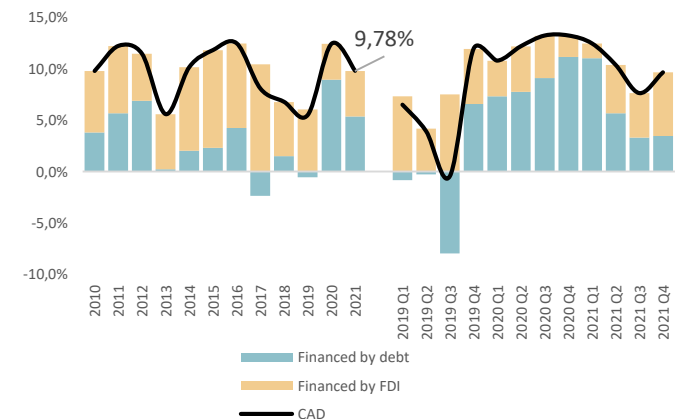
Source: NBG, Geostat

Figure 16: Financing of Investment



Source: NBG, Geostat

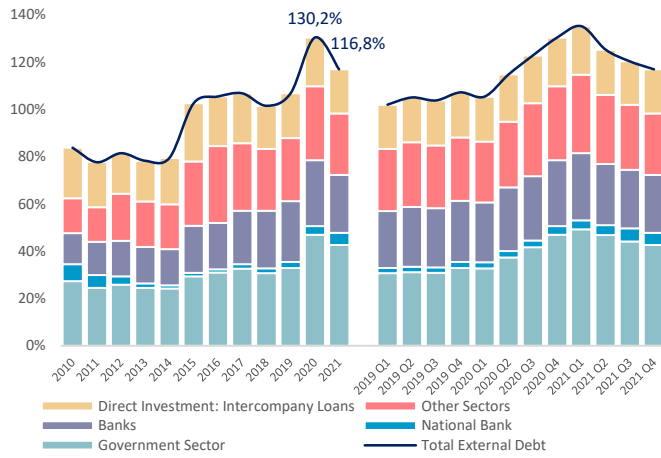
Figure 17: Financing of Current Account



Source: NBG, Geostat

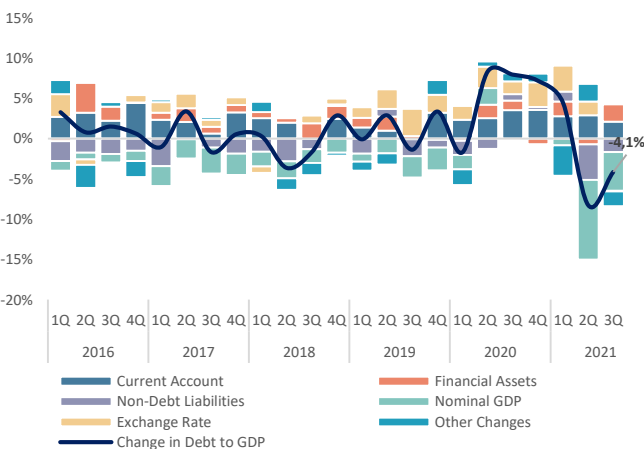


Figure 18: External Debt to GDP, %



Source: NBG, Geostat

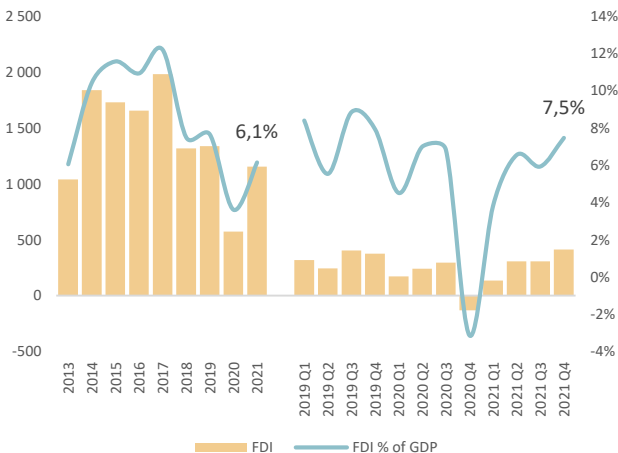
Figure 19: Change of Debt to GDP



Source: NBG, Geostat

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

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 130.2 percent. 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, foreign debt is 116.8 percent of GDP, which is 13.4 pp 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.

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

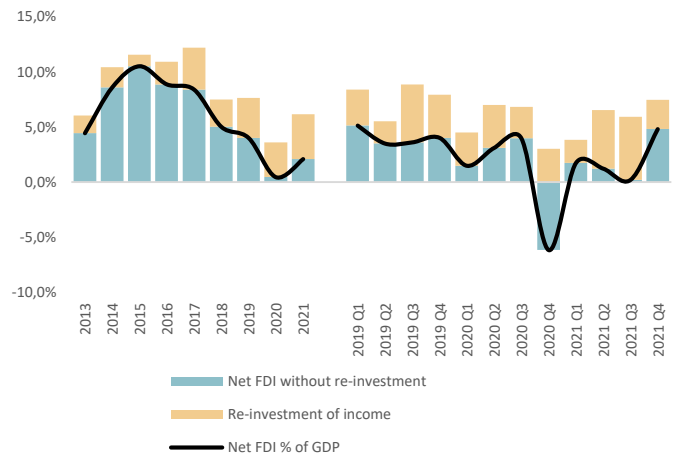
In 2020 foreign direct investment in Georgia amounted to 572 million USD, which is 57.2 percent less than in the previous year. The reduction was mainly due to transferring of ownership from a non-resident to the resident units in several companies (reduction by USD million 340.5). As for 2021, foreign direct investments amounted to 1,152, which is 101.6 percent higher than in 2020. Moreover, for the fourth quarter of 2021, foreign direct investments amounted to 411 million USD (7.5 percent of GDP), 406.5 percent more than the same period of the previous year.

As of Q4 2021, the Great Britain is the leader by 79.1 percent of share in total FDI. As for 2nd and 3rd places, USA and Netherlands have 8.8 percent and 5.3 percent share, respectively. As of 2021, Great Britain is again a leader by 51.8 percent share in total FDI, while Netherlands and Czech Republic are on 2nd and 3rd places with 10.9 and 7.1 percent shares, respectively.

In 2021 Investments were mainly allocated in financial sector, amounting 443 mln USD (38.5 percent of total FDI), in Energy and Manufacturing, where investments amounted 157 mln USD (13.6 percent) and 143 mln USD (12.4 percent) respectively. FDI decreased in Energy, Hotels and Restaurants, and Mining sectors.

FDI structure reverted from its latest trend. In particular, the share of reinvested earnings fell dramatically. As of 2021, reinvestment share in total FDI compared to 2020 decreased from 87.5 to 66.0 percent, while the contribution in the total FDI increased from 3.2 p.p to 4.1 p.p.

Figure 21: FDI



Source: NBG, Geostat

Figure 22: Composition of FDI, 2021

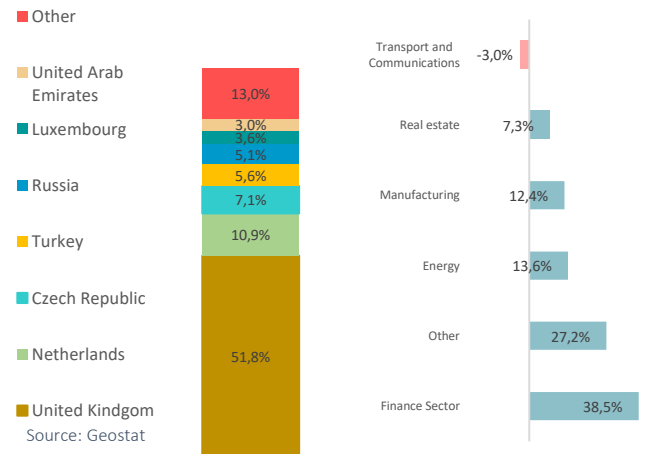
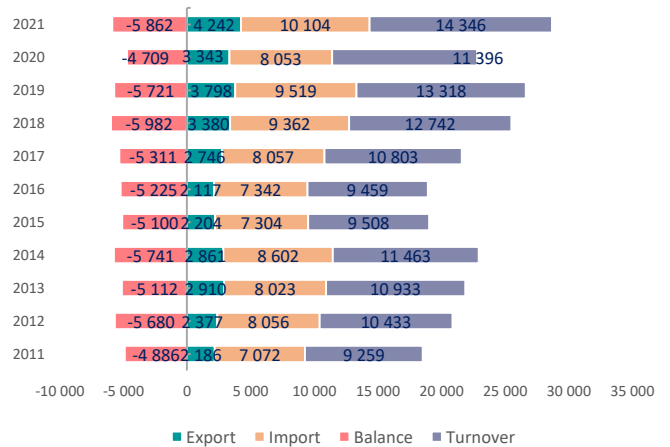


Figure 23: International Trade, 2021



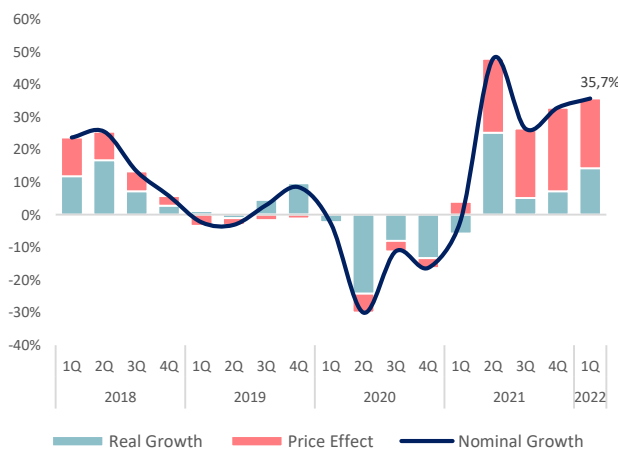
Source: Geostat

Figure 24: Annual Change of Domestic Export



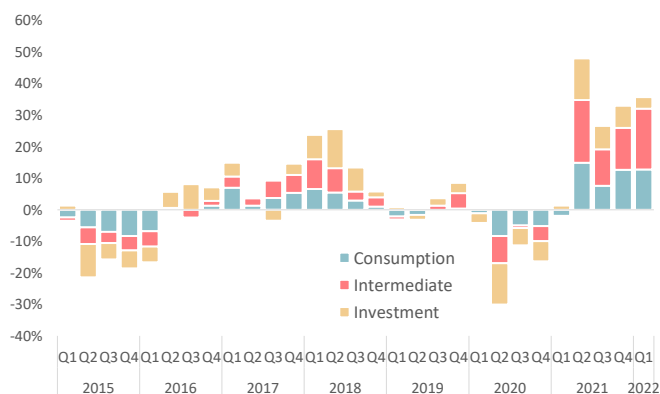
Source: Geostat

Figure 25: Annual Change of Import



Source: Geostat

Figure 26: Decomposition of Change of Import



Source: Geostat

## 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 first quarter of 2022, nominal growth of domestic exports stood at 46.6 percent, which was mainly driven by price effect (39 percent). The same pattern is observed in the growth of imports, which amounted to 35.7 percent, where price effect stood at 21.4 percent.

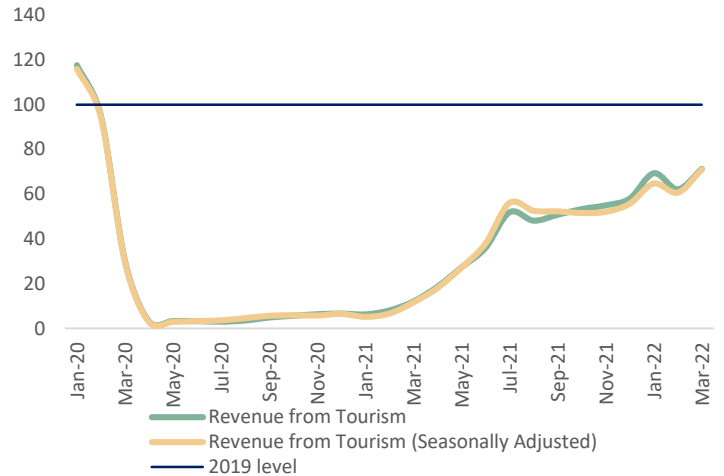
As of first quarter of 2022, import of consumption goods increased by 37.5 percent annually (12.8 p.p. share in total imports). High growth was observed in imports of intermediate goods and amounted 53.2 percent annually (19.2 p.p. share in total imports). Relatively slow growth was in imports of investment goods, which increased by 12.4 percent annually (3.7 p.p. share in total imports). In Q1 2022, export of goods increased by 43.3 percent annually. The main driver of this growth are still copper ores and concentrated (23.1 percent of total exports), ferro alloys (13.7 percent of total exports) and motor cars (8.1 percent of total exports). As for the imports, oil products, copper ores and concentrates, and motor cars 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 Q1 2022 was 393.7 mln USD, up by 635 percent compared to the same period of previous year and up to 68 percent of 2019 level.

Figure 27: Income from Tourism

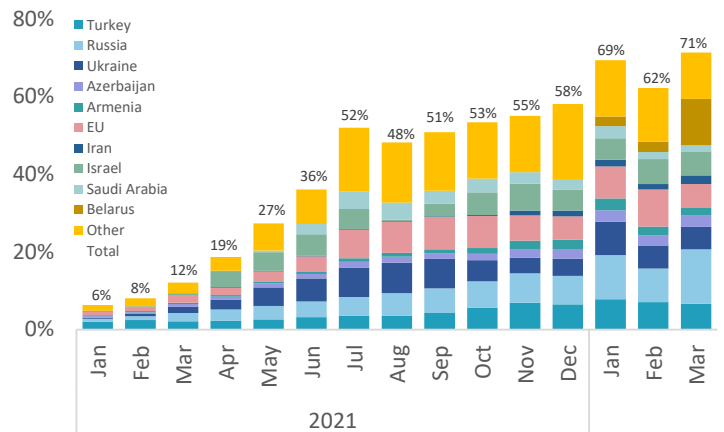


Source: NBG

### Remittances

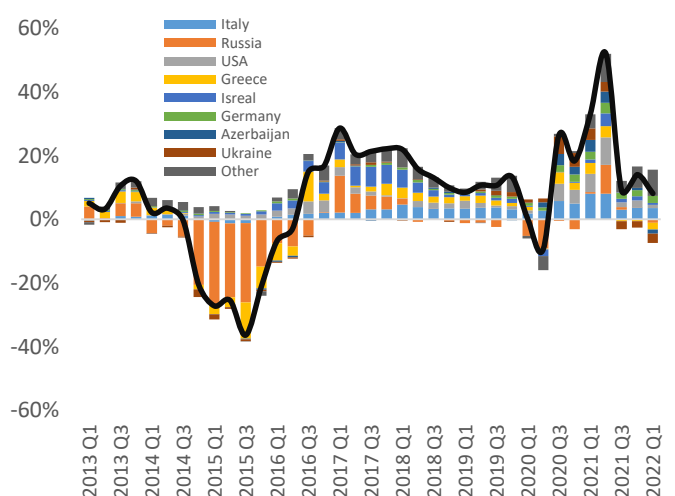
In 2021, net remittances reached 2,032 mln USD, up by 24 percent from the previous year. The largest contributors to this growth were Italy and USA (total contribution of 10.2 percent). As for 2022, the growth in the first quarter compared to the same period of the last year was 8 percent. The main contributor to the growth was Italy with 3.5 p.p., Germany (2.2 p.p.), USA (1.0 p.p.), Israel (0.6 p.p.) also made positive contributions. A decrease of 77.9 percent was observed in net remittances from Ukraine, which contributed negatively to the overall growth by 2.96 p.p., remittances from Greece also decreased by 16.5 percent, which negatively contributed to overall growth by 2.1 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 first quarter of 2022 Russia contributed negatively to overall growth by 1.14 p.p.

Figure 28: Income from tourism, mln USD



Source: NBG

Figure 29: Net Remittances



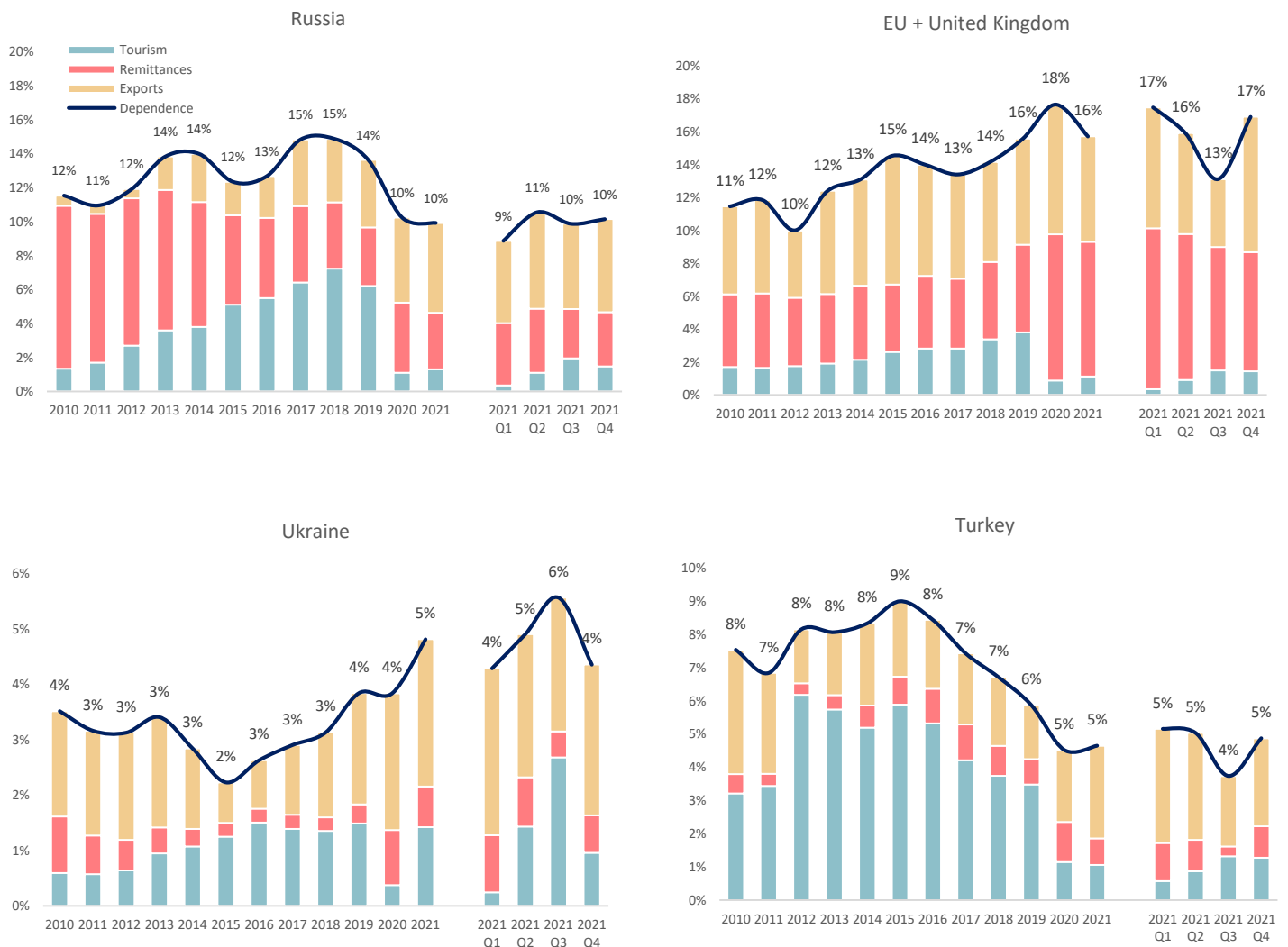
Source: NBG



### 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 Q4 2021 numbers, dependence on Russia equaled to its year 2020 level, dependence on Russia is mainly driven by export of goods. Dependence on Turkey is still stable, but there was a slight increase in Q4 compared to previous quarter. In addition, decrease was observed in dependence on Ukraine, which was due to reduced remittances from Ukraine, dependence on Ukraine is expected to continue to decrease, because of Russia-Ukraine war. Dependence on the EU maintains a high level, according to Q4 2021, there was 3 p.p. hike in dependence on EU, which was driven by an increase in exports of goods.

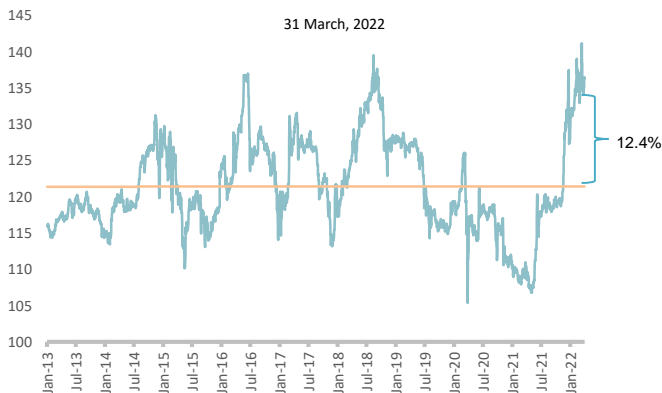
Figure 30: Dependence on Trading Partners



Source: NBG, Geostat

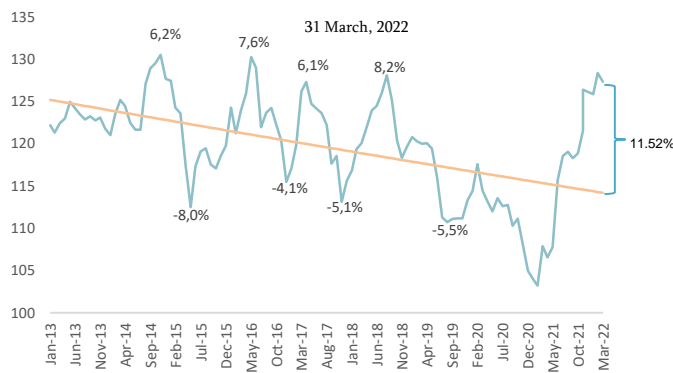


Figure 31: Nominal Effective Exchange Rate



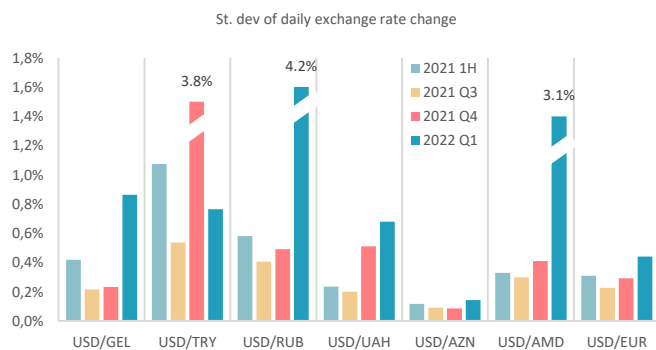
Source: NBG

Figure 32: Real Effective Exchange Rate



Source: NBG

Figure 33: Volatility of Exchange Rates



Source: NBG, MOF

Table 1: Change of Nominal and Real Effective Exchange Rates

	March 31, 2022	Mar 31, 2022 - Jan 1, 2022	Mar 31, 2022 - Jan 1, 2021
Euro	3.4496	▼ -6.8%	▼ -11.3%
US Dollar	3.1013	▼ -7.6%	▼ -13.8%
Turkish Lira	0.2113	▲ 128.0%	▲ 139.2%
Russian Ruble	0.0368	▲ 25.4%	▲ 4.4%
NEER	136.49	▲ 4.1%	▲ 23.4%
REER (March 2022)	127.32	▲ 1.2%	▲ 21.3%

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, and after that it started to stabilize throughout the first quarter. All this caused sharp increase in GEL volatility, this increase in volatility is in line with behavior of trading countries' currencies. Going forward, prolonged war, decreased FC inflows further put pressure on GEL exchange rate.

In Q1 2022, GEL appreciated against USD by 6.2 percent, compared to same period of previous year. At the same time, appreciation against EUR equaled 12.7 percent. GEL appreciated against Lira by 50.4 percent and against RUB by 18.2 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 12.4 and 11.5 percent respectively.



## Fiscal Sector

### Budget Revenue Performance

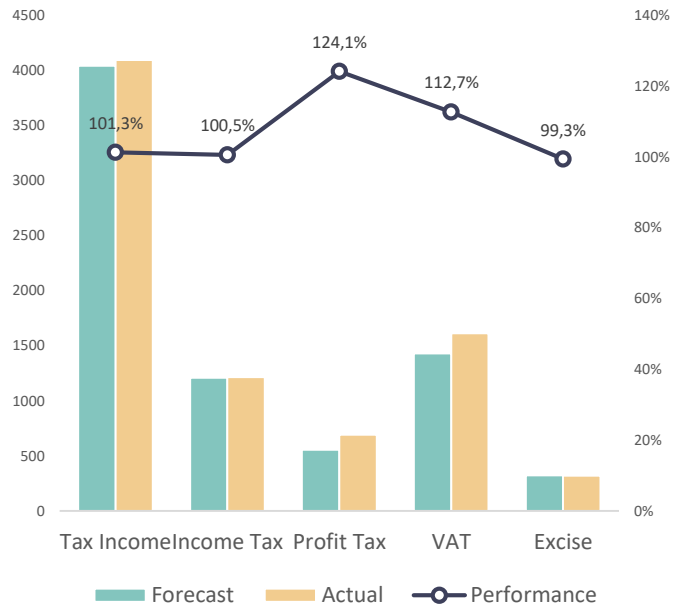
The consolidated budget tax revenue forecast for the first quarter of 2022 was set at 4,040 mln GEL, while 4,091 mln GEL was mobilized during the reporting period, which is 101.3 percent of the forecast.

- 1,214 million GEL is mobilized as income tax, which is 100.5 percent of the forecast figure (1,207 million GEL).
- 690 million GEL is mobilized as profit tax, which is 124.1 percent of the forecast indicator (556 million GEL).
- 1,611 million GEL was mobilized as VAT, which is 112.7 percent of the forecast (GEL 1,430 million).
- 320 million GEL is mobilized as excise, which is 99.3 percent of the forecast indicator (322 million GEL).
- 22 million GEL is mobilized in the form of import tax, which is 131.6 percent of the forecast (17 million GEL).
- 10 million GEL is mobilized in the form of property tax, which is 90.2 percent of the forecast (11 million GEL).

In the first quarter of 2022, compared to the same period last year, consolidated budget revenues increased by 33.5 percent and expenditures increased by 12.6 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to 683.6 million GEL, while the total balance was set at 38.8 million GEL.

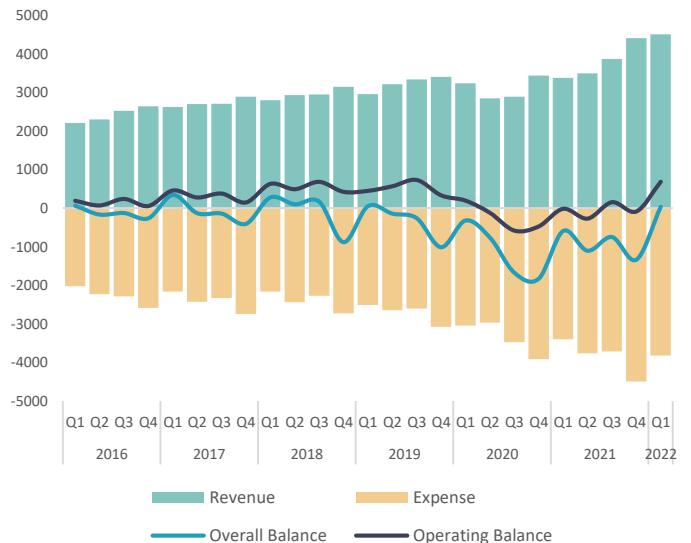
A significant share of budget revenues is accounted by tax revenues, accounting for 90.7 percent in the first quarter of 2022. The consolidated budget received GEL 4,091 million in taxes, which is 38.4 percent more than the same period of previous year. Revenue from income tax increased by 45.4 percent year on year to GEL 1,214 million. High growth is observed in the form of revenue from profit, which increased annually by 60.5 percent compared to the first quarter of 2021, amounted to 690 million and is 16.9 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 33.7 percent, accounting 39.4 percent of total tax revenue, while revenue from import tax increased by 31.6 percent, and contributing by 0.5 percent.

Figure 34: Budget Revenue Performance



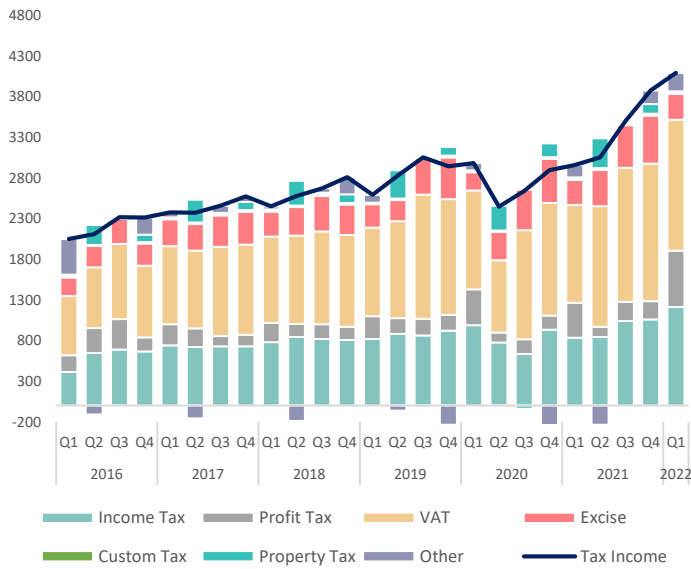
Source: MOF

Figure 35: Budget Balance



Source: MOF

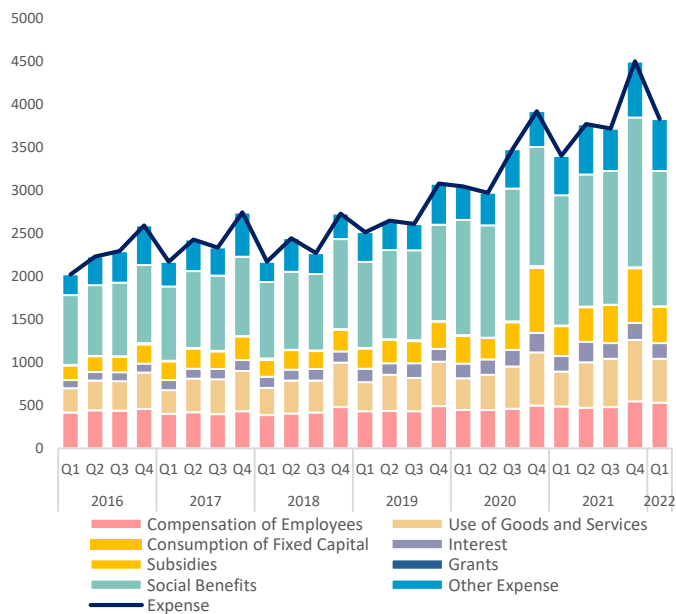
Figure 36: Tax Income



Source: MOF

Expenditures in the first quarter of 2022 increased by 12.6 percent year on year to GEL 3,825.1 million. The largest share of budget expenditures is in social security expenditures, which account for 41.1 percent of total expenditures, while the annual growth rate is equal to 3.9 percent. Expenditures in the form of goods and services also increased, with an annual growth rate of 26.6 percent to GEL 510.2 million, accounting for 13.3 percent of total expenditures. As for other items of expenditure, wages (13.8 percent of total costs), subsidies (11.0 percent of total costs), interest (4.8 percent of total costs) and other costs (15.8 percent of total costs) increased by 8.5 percent, 21.9 percent, -0.3 percent and 32.3 percent compared to the corresponding period of 2021, respectively.

Figure 37: Budget Expenses



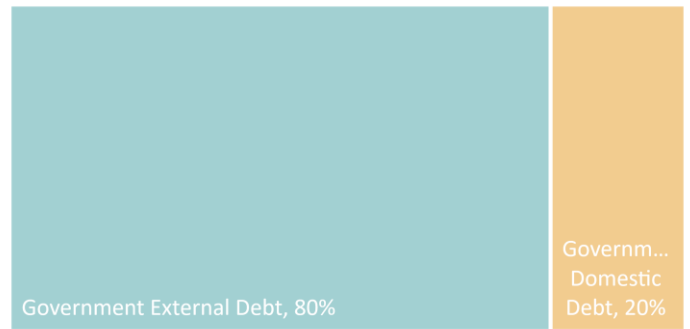
Source: MOF

### Government Debt

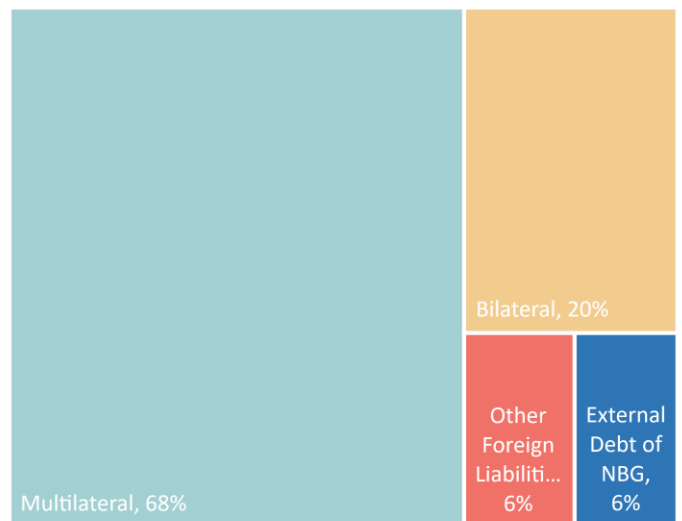
As of March 31, 2022, the stock of public debt of Georgia amounted to GEL 31,303 million, including:

- Government domestic debt stock is GEL 6,238.3 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”) - 182 million GEL;
  - Treasury liabilities of the Ministry of Finance – GEL 340.0 million;
  - Treasury bonds of the Ministry of Finance - GEL 5,553.0 million;
- Government external debt stock is 25,064.9 million GEL.

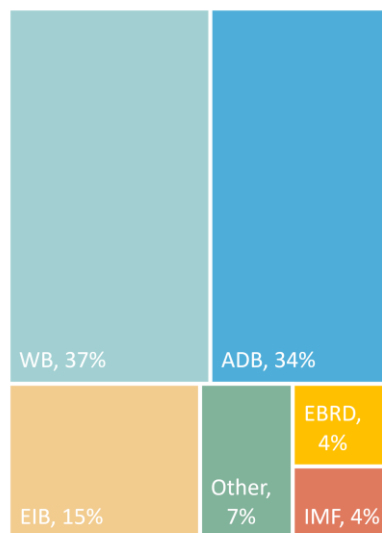
Figure 38: Government Debt



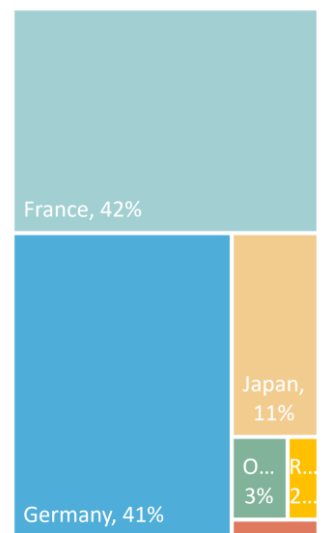
Government External Debt



Multilateral



Bilateral



Source: MOF



# Monetary Sector

## Private Sector Larization

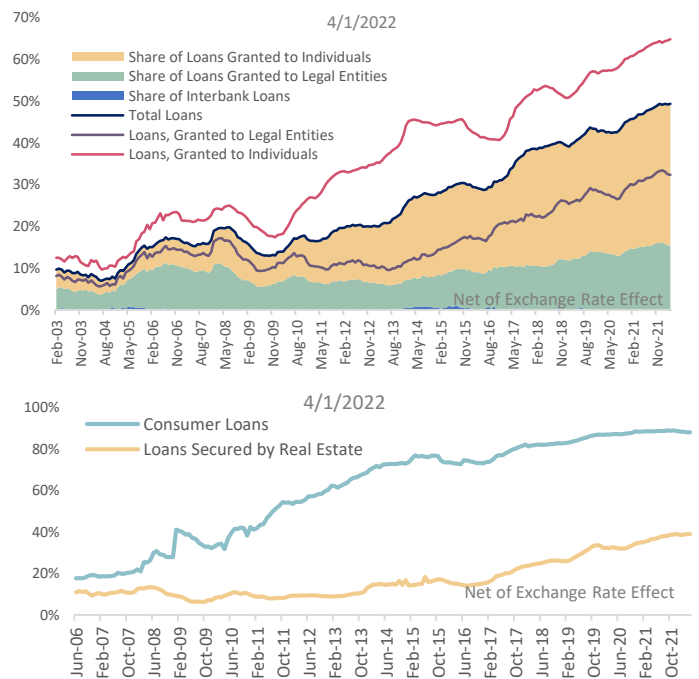
The larization of loans has an increasing trend and by April 1, 2022 it reached 49.4 percent. It should be noted that the main determinant of total loan larization is the larization of loans granted to individuals. By April 1, 2022, the larization of loans of individuals was 64.8 percent, in the same 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 stays in that territory. By April 1, 2022 amounted to 87.9 percent, as of the larization of mortgage loans, it amounted to 39.0 percent.

The larization of deposits remain significantly lower than larization of loans. The larization of total deposits decreased by 0.5 percentage points compared to the previous quarter and as of April 1, 2022 reached 39.8 percent. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. By April 1, larization of deposits of legal entities reached 65.7 percent and the larization of deposits of individuals in the same period was 27.0 percent.

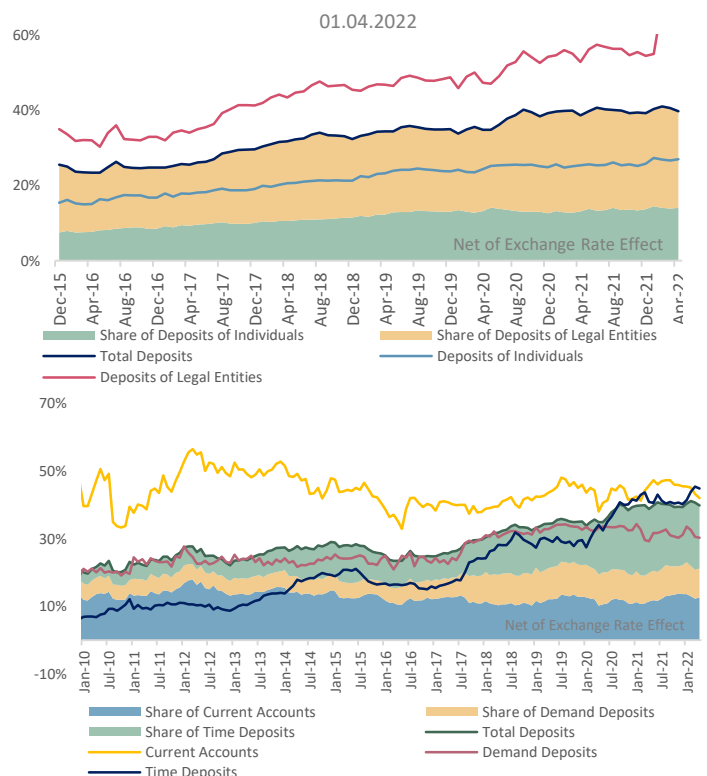
It should be noted that the main contributor in the deposits larization is still time deposits larization, by April 1, 2022 it reached 40.4 percent. In the same period current accounts larization amounted to 44.8 percent, while larization of the deposits before demand decreased by 0.9 percentage points compared to the previous quarter and reached 30.2 percent.

Figure 39: Loan Larization



Source: NBG

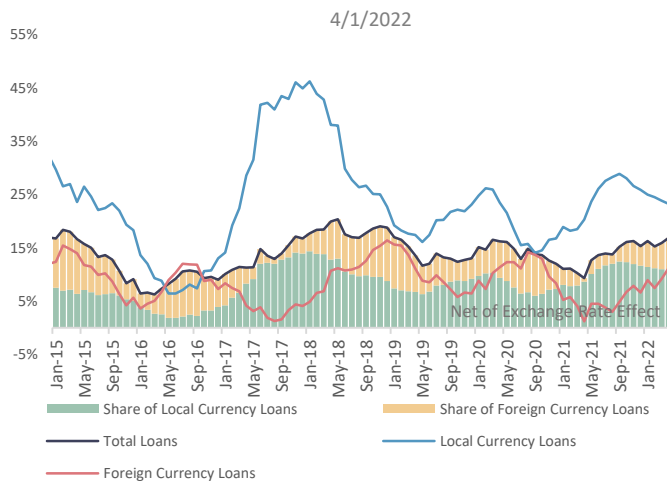
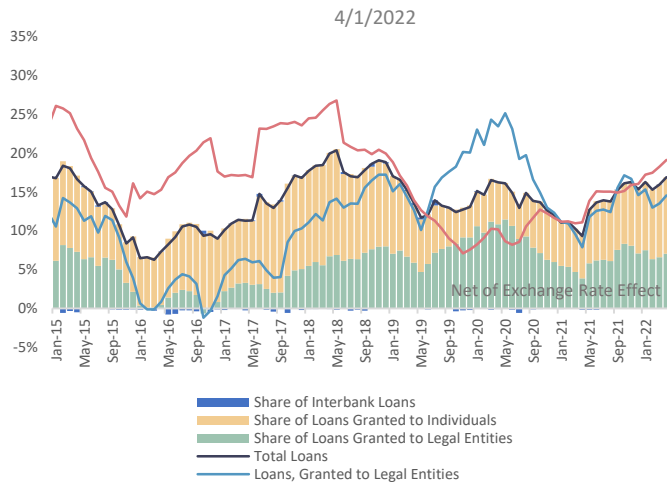
Figure 40: Deposit Larization



Source: NBG



Figure 41: Annual Growth of Loans



Source: NBG

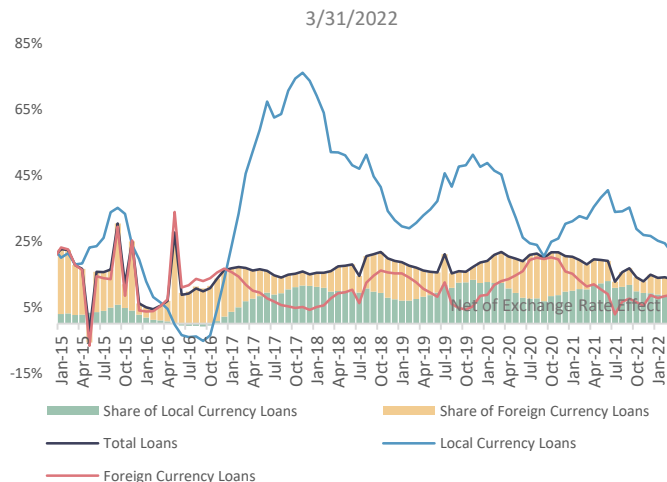
## Review of Loans

As of 1 April 2022 overall loans increased by 16.9 percent compared to the corresponding period of 2021, which exceeds the value of the previous quarter by 1 percentage points (net of exchange rate effect). Significant increase was observed also in the annual growth of loans granted to legal entities, growth amounted to 14.5 percent, but compared to previous quarter it increased by 0.9. During the same period loans to individuals increased by 19.1 percent.

It is important to note that there is an increasing trend in the growth of loans denominated in local currency as of April 1, 2022 it amounted to 21.5 percent, compared to the corresponding period of 2021. During the same period, the growth of loans in foreign currency was 8.7 percent, which is 0.3 percentage points higher than in the last quarter (excluding exchange rate effect).

By 31<sup>st</sup> of March 2022, mortgage loans had increased by 13.4 percent compared to the corresponding period of the previous year, which is 0.7 percentage points lower than in the previous quarter (excluding exchange rate effect). Moreover, mortgage loans that are denominated in national currency increased by 21.5 percent, 2.9 percentage points lower than in the previous quarter, while foreign currency denominated mortgage loans increased by 8.7 percent and is higher than during previous quarter.

Figure 42: Annual Growth of Loans secured by Real Estate



Source: NBG



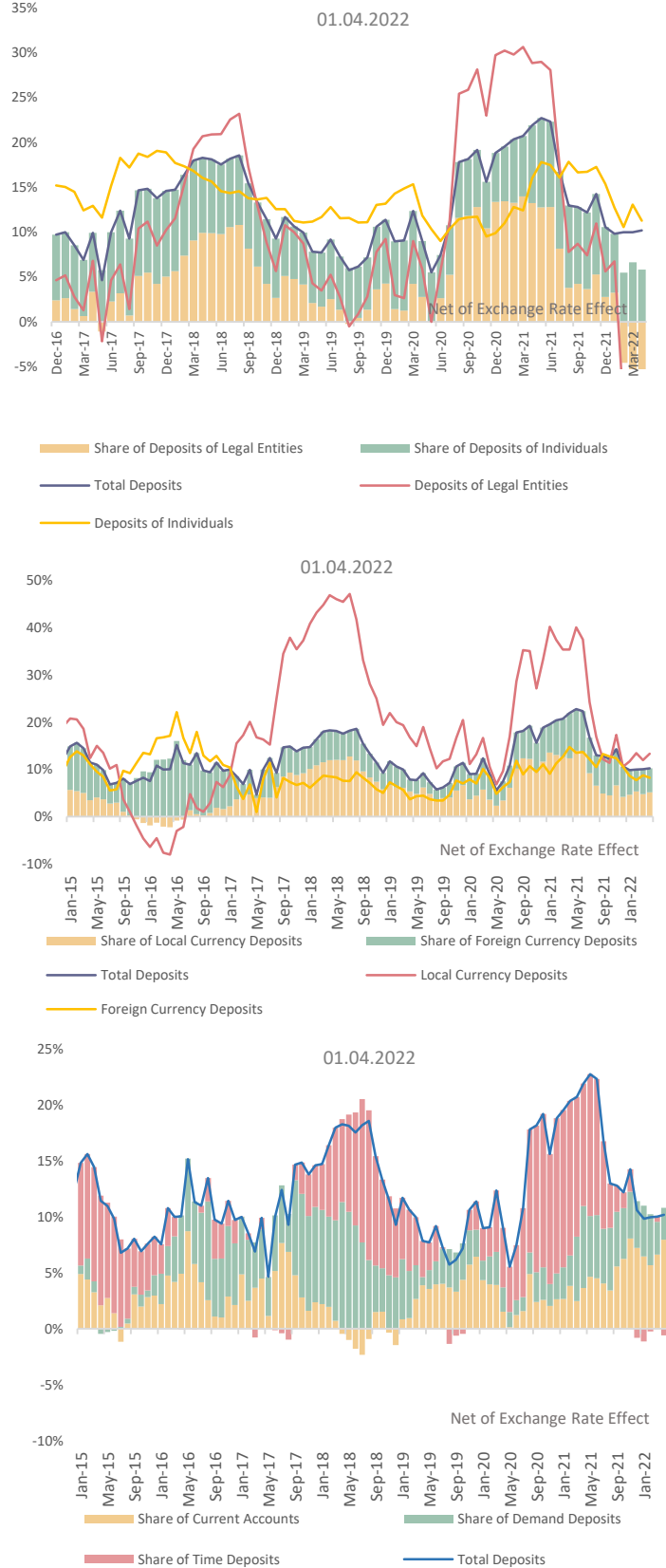
## Review of Deposits

The growth of total deposits on the April 1, 2022 was 10.2 percent compared to the corresponding period of 2021, which is by 0.2 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 13.3 percent by April 1, 2022, while the annual growth of deposits denominated in foreign currency amounted 8.2 percent in the same period.

By the April 1, 2022 annual growth of deposits of individuals reached 11.3 percent, while the annual growth of deposits of legal entities experienced sharp decline and amounted to -11.1 percent, this decrease was evident through all months in of first 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. Decrease was observed in the growth rate of the time deposits, compared to previous quarters annual growth rate of the time deposits decreased by 2.2 percentage points (net of exchange rate effect) and by April 1, 2022 reached negative 1.3 percent. As for the current and demand deposits, their growth rates equaled to 7.9 and 2.8 percent, respectively.

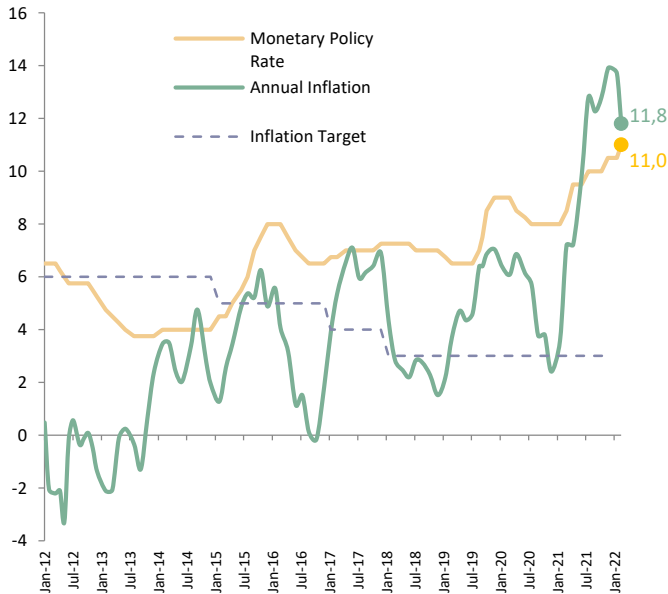
Figure 43: Annual Growth of Deposits



Source: NBG

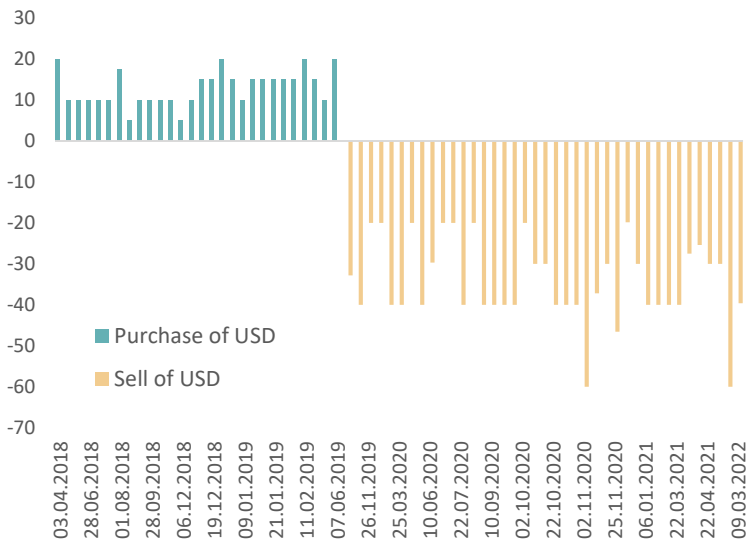


Figure 44: Inflation and Monetary Policy Rate



Source: NBG

Figure 45: Trade of USD by NBG, mln



Source: NBG

## Monetary Policy Rate

The Monetary Policy Committee of the National Bank of Georgia held two sessions in the first quarter of 2022. In their first meeting of 2022 held on February 2, they kept monetary policy rate unchanged, while on 30<sup>th</sup> of March they increased rate by 0.5 to 11.0 percent.

According to the NBG, the recent developments, in particular Russia's invasion in Ukraine and the resulting full scale war, have posed new challenges to the world economy that was still in the phase of post-pandemic recovery. The intensified inflationary risks amid a new shock have on a world scale slowed the projected pace of decline of already high global inflation. Moreover, the sanctions imposed on Russia due to military actions and supply-side disruptions have significantly increased the prices of a number of product categories on the world markets. First of all, against the background of increasing oil prices, there is a sharp rise in fuel prices, which is expected to have a significant impact on inflation.

On March 9, 2022 NBG sold 39.570 million USD first time in 2020.





### Interest Rates

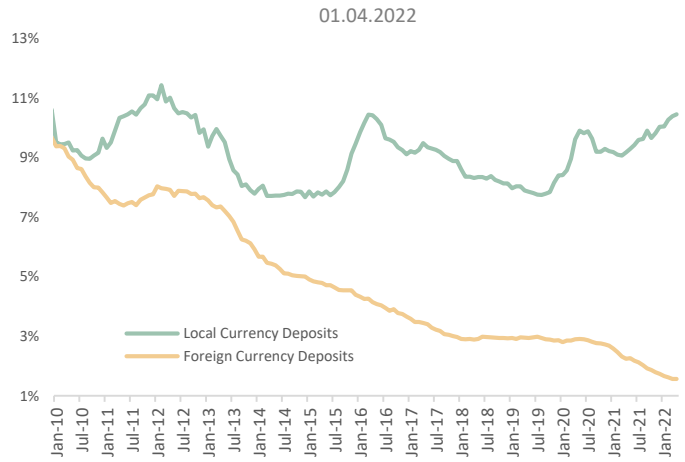
As for April 2022, the interest rate on foreign currency deposits was 1.56 percent, while on the national currency deposits it amounted to 10.44 percent.

As of April 1, 2022, the weighted average interest rate on deposits of legal entities in national currency was 10.64 percent, and in foreign currency – 1.58 percent. In the same period, the average annual interest rate was 1.56 percent on deposits of individuals in foreign currency and 10.44 percent in national currency.

By April 1, 2022, the weighted average annual interest rate on short-term consumer loans was 17.0 percent (19.9 percent in national currency and 5.9 percent in foreign currency). Weighted average interest rates on long term consumer loans are largely determined by loans denominated in national currency.

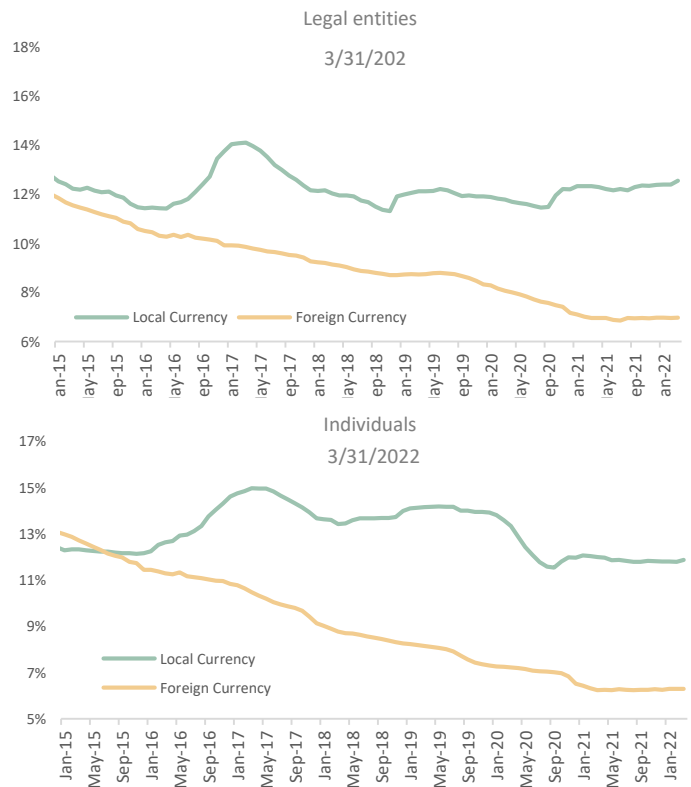
At the end of March 2022, the interest rate on mortgage loans issued to legal entities in national currency was 12.6 percent, and in foreign currency – 7.0 percent. The interest rate on loans to individuals in national currency was 11.9 percent, and in foreign currency it was 6.3 percent.

Figure 46: Interest rates on Deposits (stock)



Source: NBG

Figure 47: 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.

