

Ministry of Finance of Georgia



Quarterly Economic Outlook

III Quarter, 2022

Brief Summary

- Economic growth for 2021 equals to 10.4 percent
- According to preliminary data, economic growth in nine months 2022 equals to 10.2 percent
- Annual inflation in the third quarter equals to 11.3 percent, while core inflation (w/o tobacco) equals to 7.2
- Export increased by 40.5 percent annually
- Import increased by 29.0 percent annually
- Revenues from tourism increased significantly due to the base effect, and already is above the 2019 level
- The refinancing rate has been kept at 11.0 percent





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Real Sector

Economic Growth

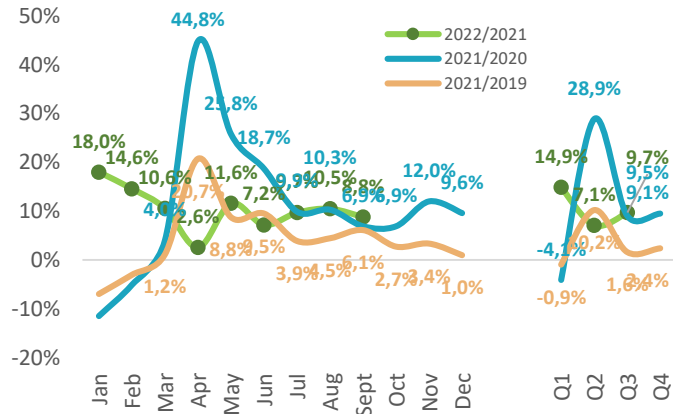
According to the preliminary data, in the third quarter of 2022 real GDP increased by 9.7 percent relative to same period of the previous year. At the same time, compared to the corresponding period of 2019, economic growth was 11.5 percent. . In particular, in the third quarter, exports increased annually by 40.5 percent, while imports increased annually by 29.0 percent. At the same time, compared to the third quarter of 2019, exports increased by 62.7 percent and imports increased by 44.5 percent. External demand continues to grow. Considering tourism, compared to the pre-pandemic situation, revenue from international travelers increased 2.4-fold year-on-year in the third quarter, and also, there was a 22 percent increase compared to the same period in 2019.

Due to the deteriorating epidemiological situation in early 2022, 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 of 2022. 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. In the second quarter of 2022, economic growth amounted to 7.1 percent. A significant share of GDP growth in the second quarter of 2022 was due to the export component, which grew by 13.4 percent annually in real terms. At the same time investments played a significant role in growth and increased by 3 percent in real terms. At the same time, consumption in real terms decreased by 6.5 percent, and imports in real terms decreased by 2.8 percent annually.

In the second quarter of 2022 the following sectors made a significant contribution to growth: Electricity, gas, steam

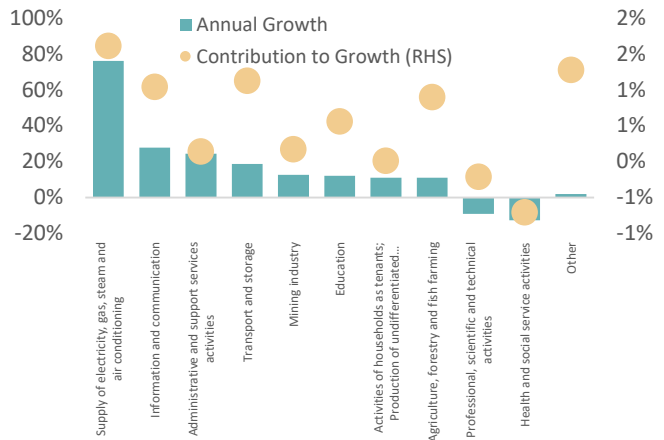
III Quarter, 2022

Figure 1: Economic Growth



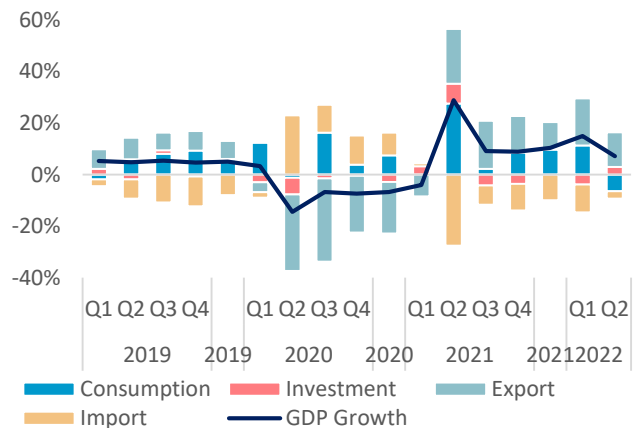
Source: Geostat

Figure 2: Real Sectoral Growth, 2022 2Q



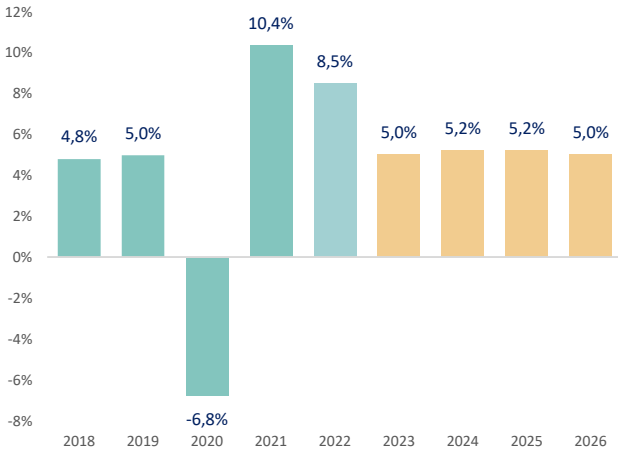
Source: Geostat

Figure 3: Decomposition of Economic Growth



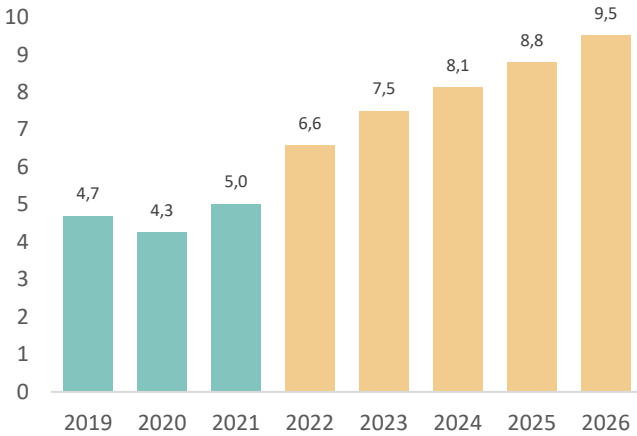
Source: Geostat

Figure 4: Economic Growth Projection



Source: MOF

Figure 5: GDP per capita, ths USD



Source: MOF

and air conditioning (75.9 percent), transportation and warehousing (18.6 percent), information and communication (27.7 percent), agriculture, forestry and fisheries (10.9 percent), education (12.0 percent), wholesale and retail Trade (3.0 percent).

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, 8.5 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 2023, the economy will continue to grow at an average of 5.1 percent in 2023-2025.

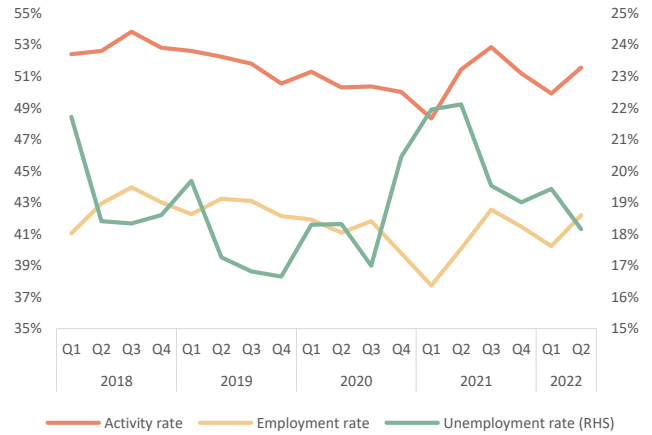
Employment and Unemployment

In the second quarter of 2022, the unemployment rate was 18.1 percent, which is 0.9 pp less than the value of the previous quarter and 3.9 pp less compared to the same period of last year. Among them, unemployment was 20.2 percent in urban areas (-3.9 percentage points per year) and 15.1 percent in rural areas (-3.9 percentage points per year). The highest unemployment rates are among 15-24 and 25-34 age groups. In the second quarter of 2022, the economically active population accounted for 51.5 percent of the working age population (15 years and older). In the fourth quarter of 2021, the unemployment rate in the women group was 15.0 percent, while in the men group, the figure was 20.5 percent.

In the second quarter of 2022 the number of employees increased by 4.6 percent compared to the corresponding quarter of the previous year, while the employment rate increased by 2.1 percentage point. The number of unemployed decreased by 18.3 percent annually. At the same time, productivity (ratio of real output to number of employees) increased by 2.4 percent annually, while the average nominal wage of employees increased by 16.1 percent, amounting to 1541.3 GEL as of the second quarter of 2022.

In the second quarter of 2022, there was an 2.4 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

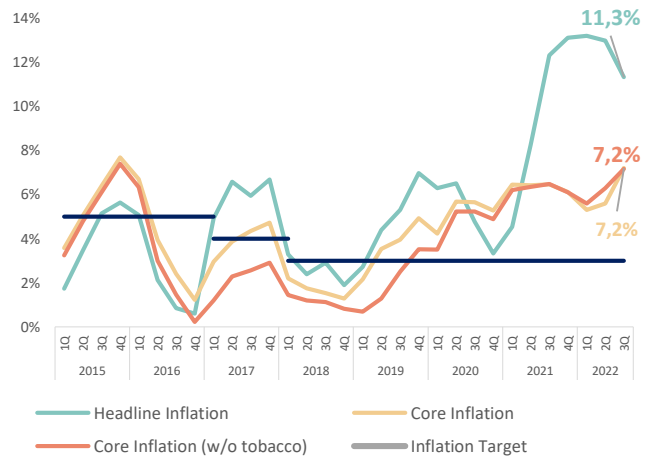
Price Level

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 (October, 2022), due to current world situation world inflation will increase from past forecast of 8.3 percent to 8.8 percent in 2023, and to 4.1 percent in 2024.

In the third quarter of 2022, annual inflation stood at 11.3 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 first quarter stands at 7.2 percent.

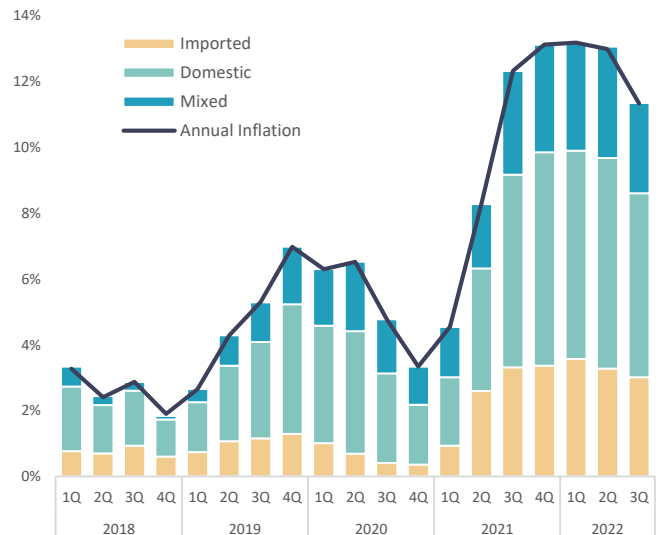
On October 26, the National Bank Monetary Policy Committee decided to keep the refinancing rate at 11

Figure 8: Annual Inflation



Source: NBG

Figure 9: Decomposition of Inflation

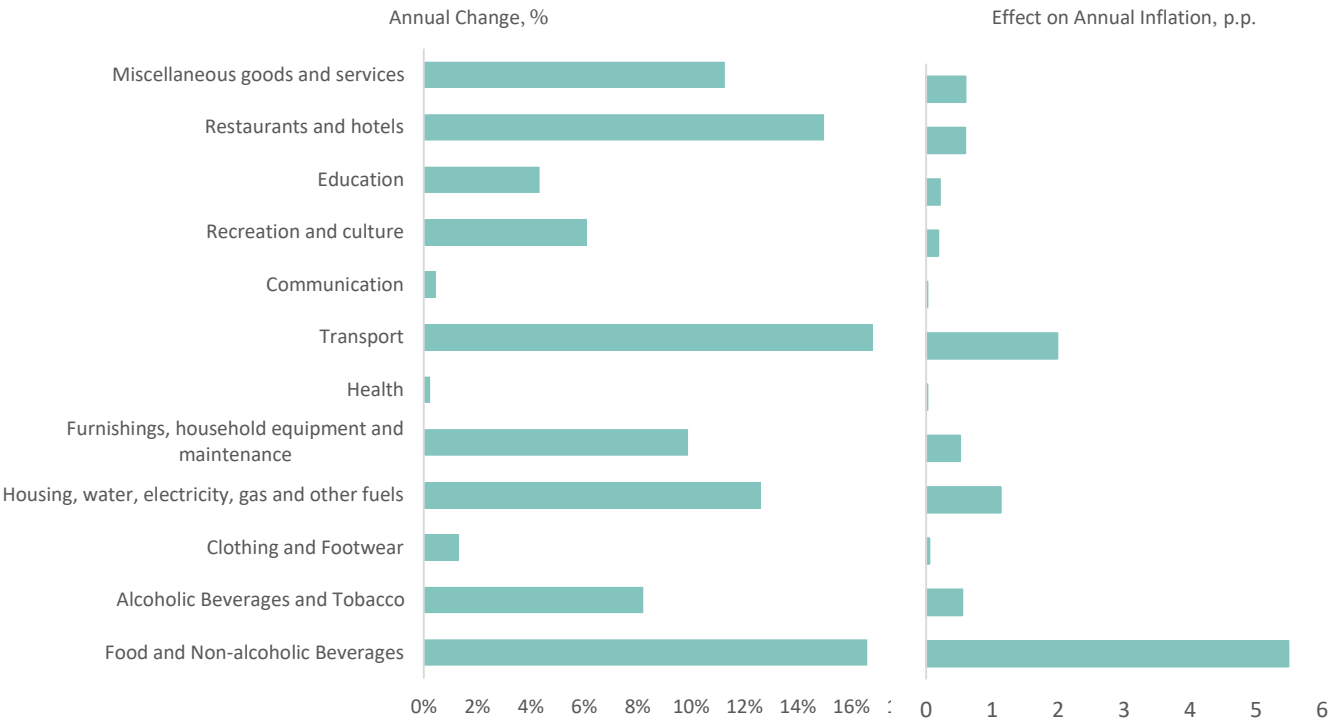


Source: NBG, Geostat

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

In the third quarter of 2022, the contribution of domestic inflation was 5.6 percent, while the contribution of imported inflation was 3.0 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 Q3



Source: Geostat

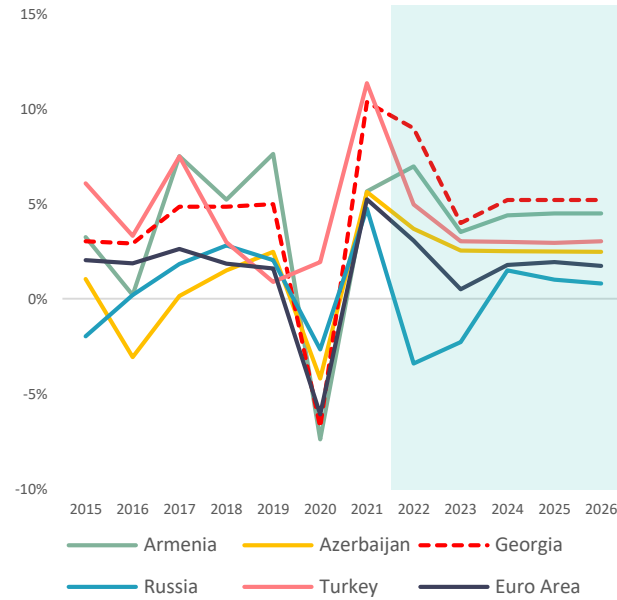
Economic Outlook of the Region

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, it was expected that world economic growth would stand at 3.6% both in 2022 and 2023, which was 0.8 and 0.2 percentage points lower than prewar forecasts. In current situation, when expected risks started to materialize, IMF further reviewed economic growth for major economies in July and October, in latter growth prospects for 2023 further deteriorated. Per October IMF WEO, global economic growth for 2022-2023 will stand at 3.2 and 2.7, which is 0.0 and 0.2 p.p. lower than July forecasts. After a strong growth in 2021, Euro Area economy will grow by 3.1 percent which is 0.5 pp higher than last forecast, but in 2023 it will growth by 0.5 percent, which is 0.7 pp lower than anticipated in July.

Even though in 2020 Turkey did not fall into recession, in 2021 Turkey experienced 11.4 percent growth in real GDP. Per IMF latest projections Turkey is expected to grow by 5.0 and 3.0 percent in 2022 and 2023, respectively. It is worth noting, that in both updates (July and October) IMF reviewed Turkey economic growth positively for 2023. Main challenges for Turkey remain exchange rate depreciation and high inflation. The inflation is expected to reach at 73.1 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).

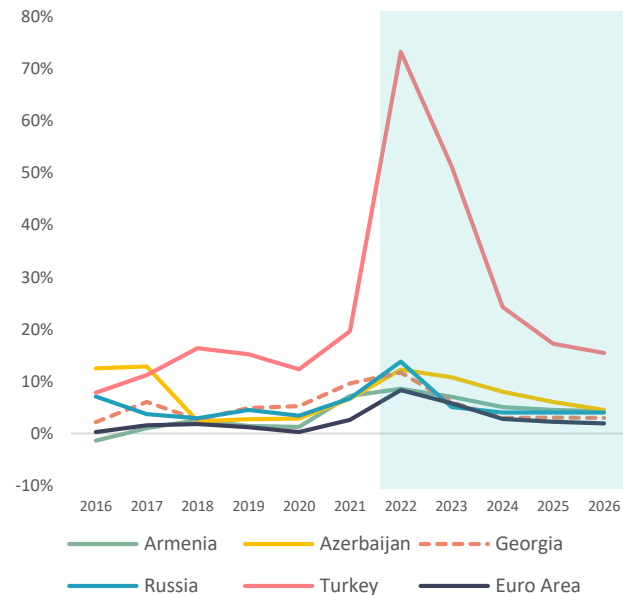
The main actor of global economic growth disruption Russia is expected to have its economy severely hit by sanctions, which will translate into large contraction of real GDP. This measures won't have only near term impact on Russian economy, but will affect its medium-term capabilities, since large consumers, as well as sovereign countries, wean themselves off Russia's energy and other sectors. Per October forecasts real economic growth for 2022-2023 is expected to stand at minus 3.4 and minus 2.3, respectively, those projections are revised upwards by 2.6 and 1.2 pp respectively, compared to what was expected in July. Its medium-term growth rate stands at 0.3 percent, while in the period of 2004-2013 it averaged at 4.2 percent and 2.1 percent in the period of 2014-2020. 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.

Figure 11: Economic Growth in the Region



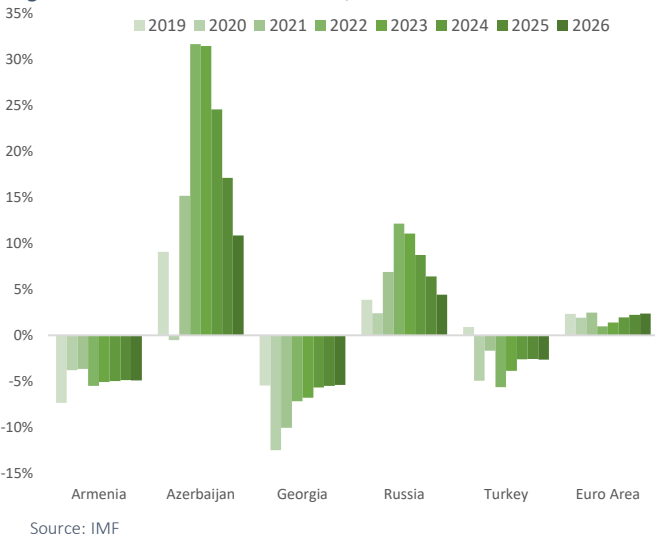
Source: IMF

Figure 12: Inflation in the Region



Source: IMF

Figure 13: Current Account to GDP, %

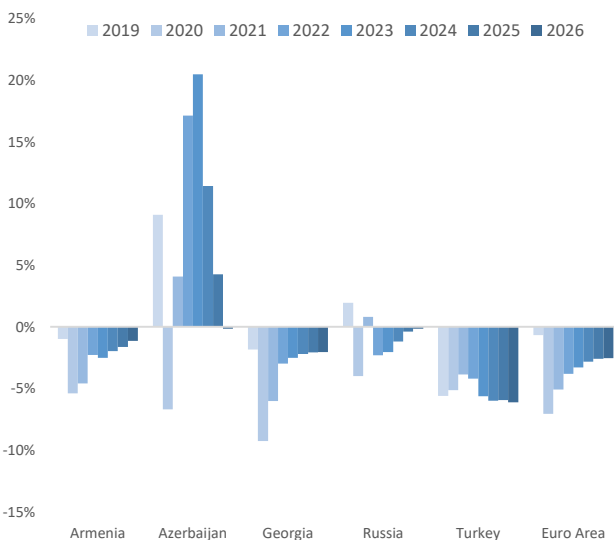


Rising oil prices due to Russia-Ukraine war, will benefit Azerbaijan. Followed by strong recovery from COVID-19. As for October WEO, economic growth has been revised upwards. Azerbaijan’s real economy is expected to grow by 3.7 and 2.5 percent in 2022 and 2023, respectively. Together with its medium term growth rate of Azerbaijan also increased from 1.8 percent to 2.5 percent. High inflation is also the case throughout those years. In 2022, inflation is estimated to be 12.2 percent, and it is expected to decrease and stand at 8.0 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 was expected to be hit hardest. This was expectable, since Armenia has tightest ties to Russian economy. But those risks did not materialize. As for October WEO, economic growth has been revised upwards. In 2022 Armenia, according to IMF, will grow by 7.0 percent, while in 2023 it will grow by 3.5 percent, which is slightly below to its medium term growth of 4.5 percent. Inflation will remain high throughout those year, 7.0 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.

Figure 14: Budget Balance to GDP, %



External Sector

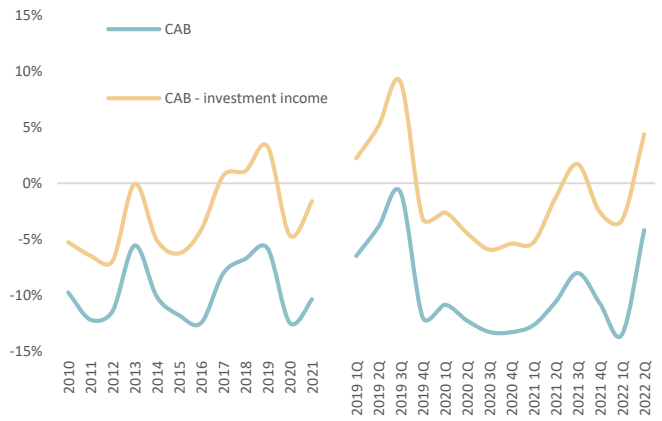
Current Account Balance

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 and stood at 4.2 percent of GDP in 2022.

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.

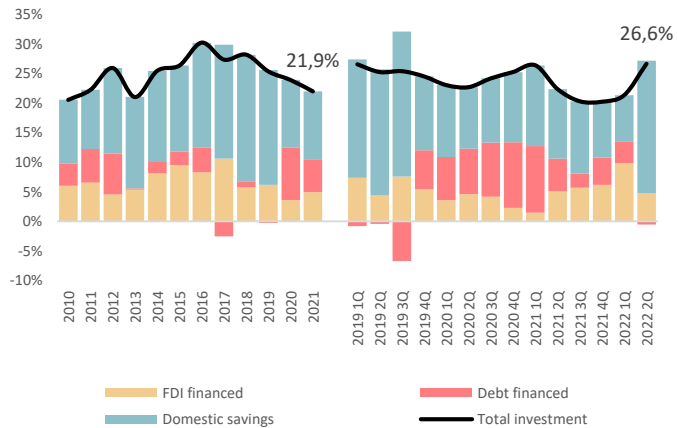
As of the second quarter of 2022, current account deficit financing has changed for the better. In particular, the FDI's share in financing stood at 4.7, while its debt contribution was negative at -0.5 pp.

Figure 15: Current Account to GDP, % of GDP



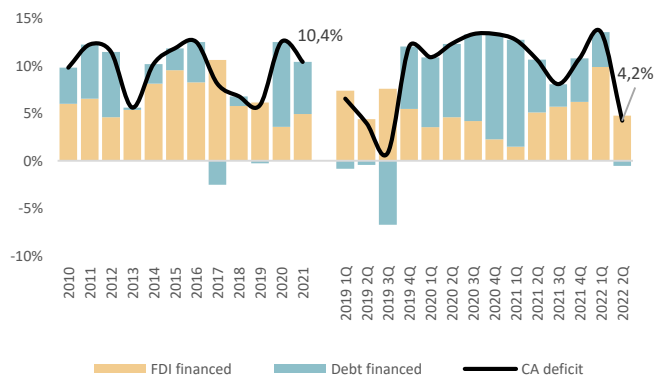
Source: NBG, Geostat

Figure 16: Financing of Investment



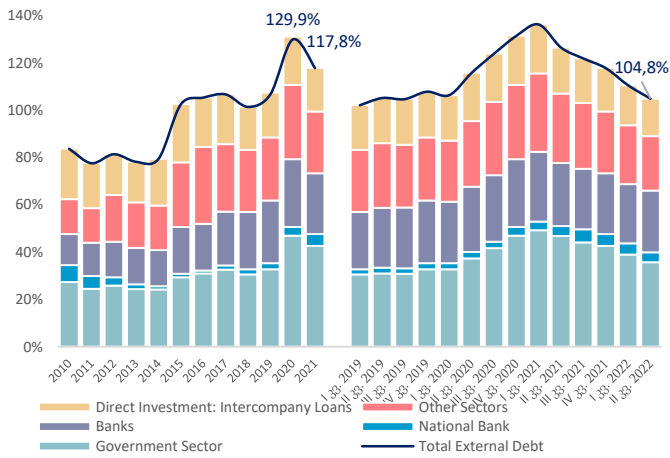
Source: NBG, Geostat

Figure 17: Financing of Current Account



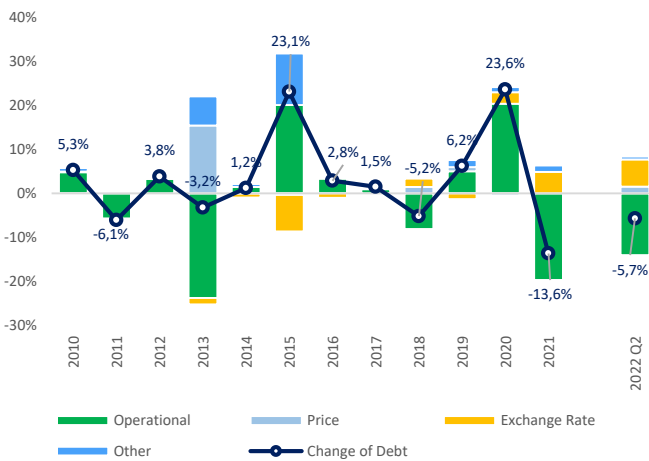
Source: NBG, Geostat

Figure 18: External Debt to GDP, %



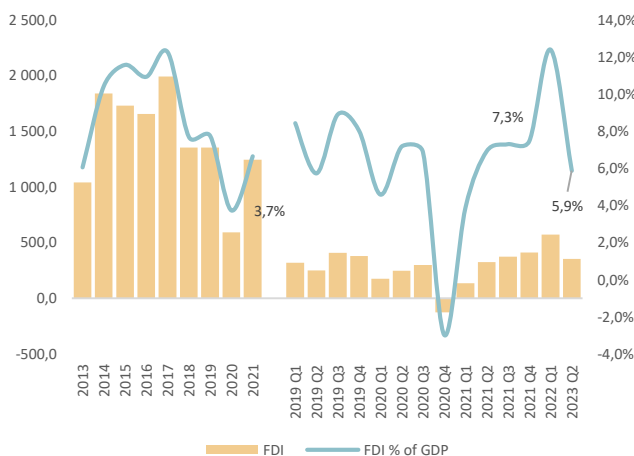
Source: NBG, Geostat

Figure 19: Change of Debt to GDP



Source: NBG, Geostat

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 129.9 percent in 2020. Debt has increased by 23.2 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 117.8 percent of GDP, which is 12.1 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 second quarter of 2022, external debt stood at 104.8 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

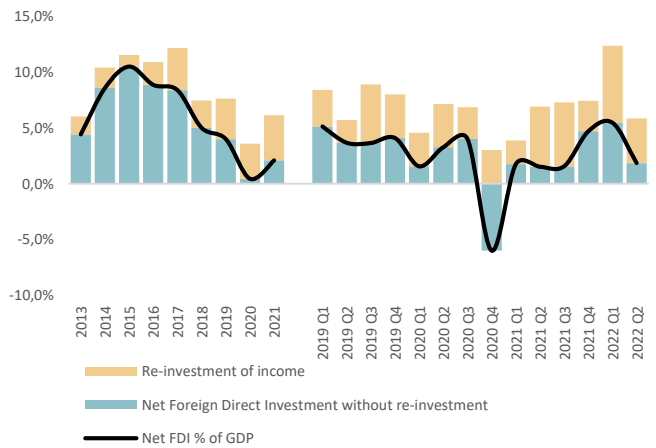
As for 2022 Q2, foreign direct investments amounted to 351.8 (5.9 percent of GDP) , which is 9.1 percent higher than in corresponding quarter in 2021.

As of Q2 2022, the United Kingdom is the leader by 18.4 percent of share in total FDI. As for 2nd and 3rd places, Netherlands and Japan have 12.7 percent and 11.9 percent share, respectively.

In 2022 Q2, Investments were mainly allocated in Energy sector, amounting 76.6 mln USD (21.8 percent of total FDI), in Real estate and Finance sector, where investments amounted 75.6 mln USD (21.5 percent) and 47.6 mln USD (13.5 percent) respectively.

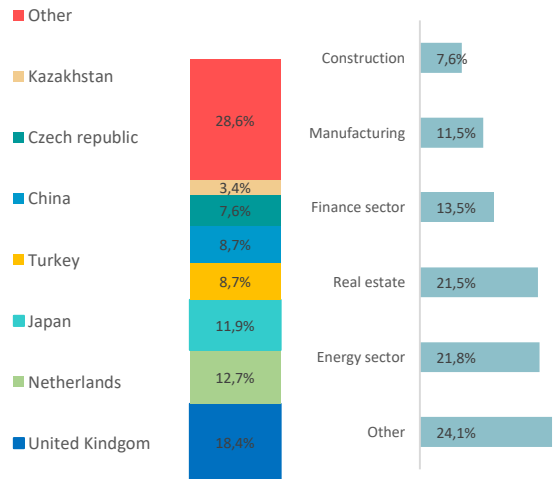
As for the components of FDI, in 2022 Q2 period, reinvestment stood at 4.0 percent of GDP, which is 68.3 percent of total FDI.

Figure 21: FDI



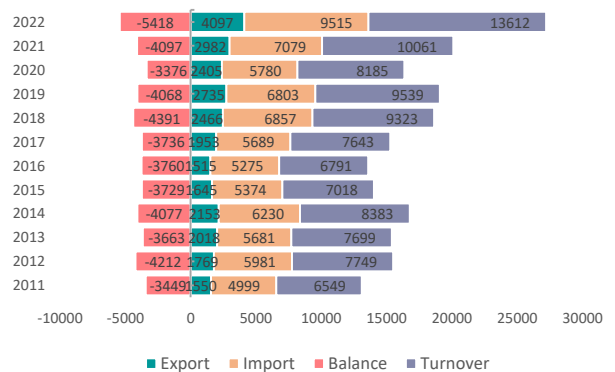
Source : Geostat

Figure 22: Composition of FDI, 2022 Q2



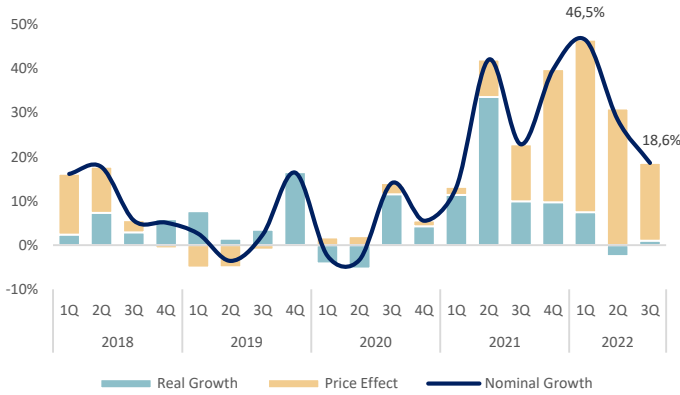
Source : Geostat

Figure 23: International Trade, January - September



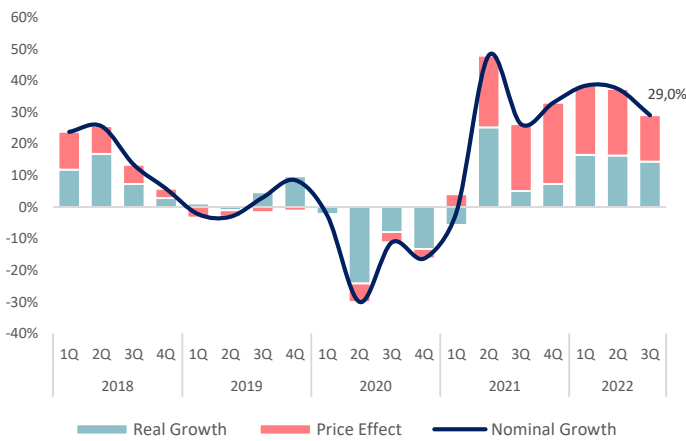
Source: Geostat

Figure 24: Annual Change of Domestic Export



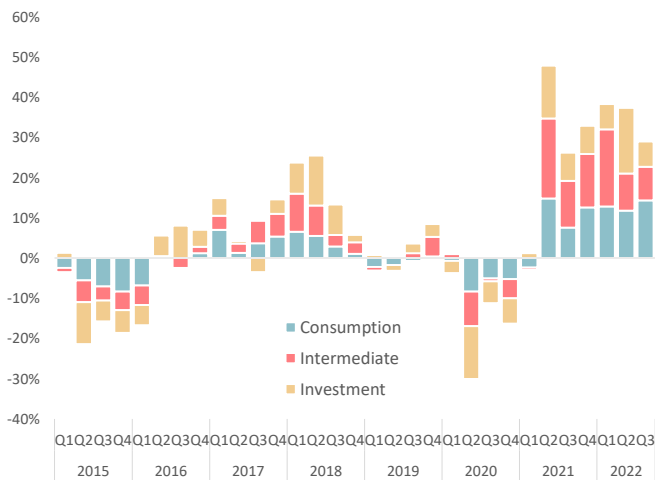
Source: Geostat

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.

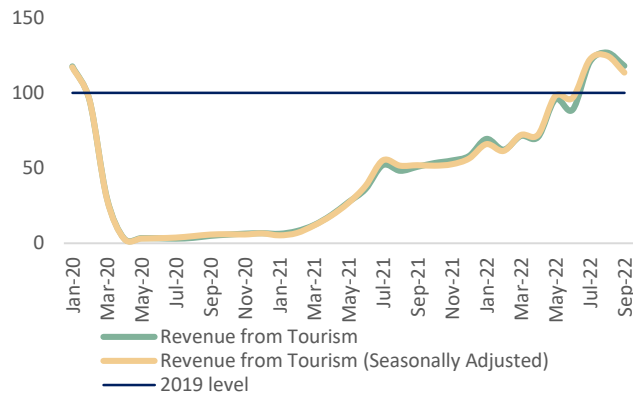
In 2021, after governments all over the world as well as in Georgia started to lift up restrictions, international trade started the fast recovery. Together with increased exports, imports also started fast recovery. Moreover, higher prices caused increased price effect in the export as well as import growth. As of third quarter of 2022, nominal growth of domestic exports stood at 18.6 percent, which was mainly driven by price effect by 17.6 percent (1.0 percent real reduction). The same pattern is observed in the growth of imports, which amounted to 29.0 percent, where price effect stood at 14.6 percent.

As of third quarter of 2022, import of investment goods increased by 21.0 percent annually (6.2 p.p. share in total imports). High growth was observed in imports of consumption goods and amounted 46.0 percent annually (14.3 p.p. share in total imports). As for the imports of intermediate goods, it increased by 21.4 percent annually (8.4 p.p. share in total imports). In Q3 2022, export of goods increased by 40.5 percent annually. The main driver of this growth are still motor cars (20.9 percent of total exports), copper ores and concentrated (14.3 percent of total exports) and ferro alloys (8.4 percent of total exports) have also high shares. As for the imports, oil products, motor cars, 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 Q3 2022 was 1374.7 mln USD, up by 142.9 percent compared to the same period of previous year and up to 122 percent of 2019 level.

Figure 27: Income from Tourism



Source: NBG

Remittances

In the second quarter of 2022, net remittances reached 1158 mln USD, up by 127.6 percent from the previous year.

In the third quarter of 2022, net remittances accounted 938.3 mln USD, which is by 73.8 percent more compared to the same period of the last year. The largest contributor to this growth was Russia (total contribution of 52.5 percent). Germany (2.6 p.p.), USA (1.6p.p.) Italy (1.4 p.p.), Israel (0.5 p.p.), Turkey (0.2 p.p.) also made positive contributions. A decrease of 199.8 percent was observed in net remittances from Ukraine, which contributed negatively to the overall growth by 5.6 p.p., remittances from Greece also decreased by 8.2 percent, which negatively contributed to overall growth by 0.9 p.p. and from Azerbaijan 171.4 percent which contributed negatively 1.7 p.p. to total growth. 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 third quarter of 2022 Russia contributed the most to overall growth by 52.5 p.p..

Figure 28: Income from tourism, mln USD

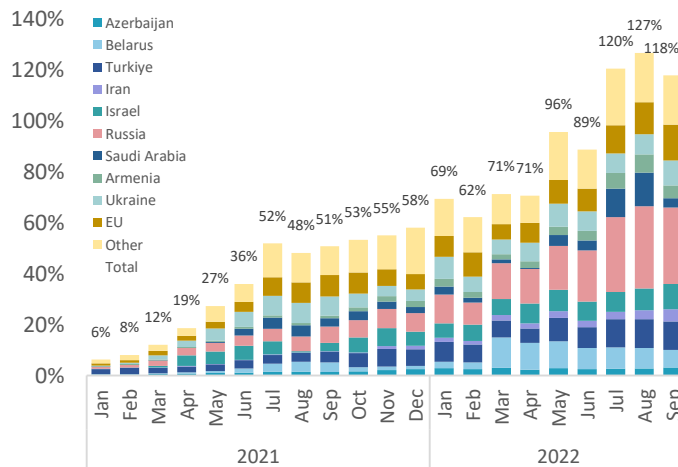
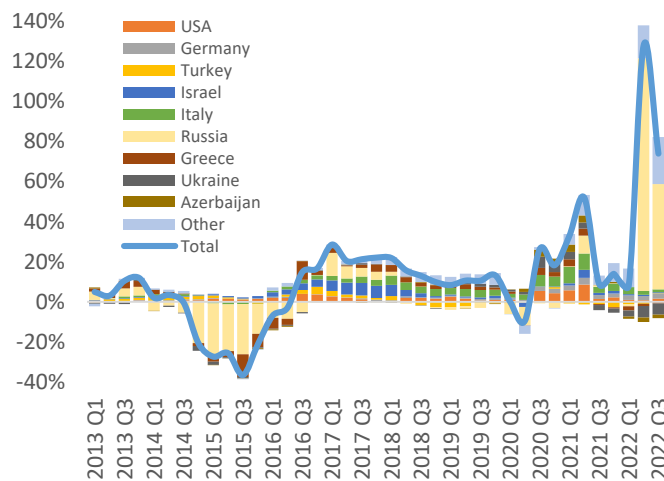


Figure 29: Net Remittances

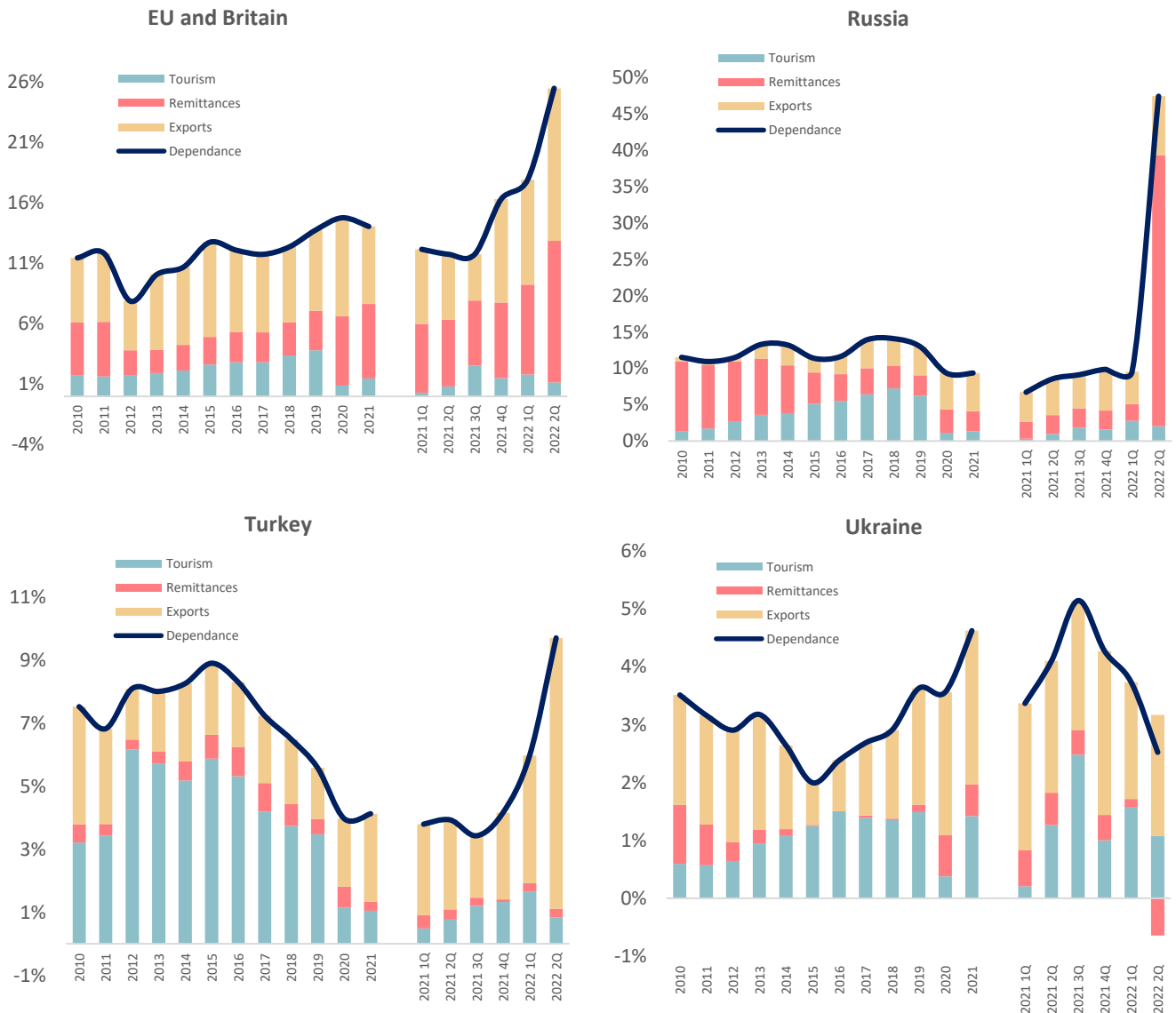


Source: NBG

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: NBG, Geostat

Figure 31: Nominal Effective Exchange Rate

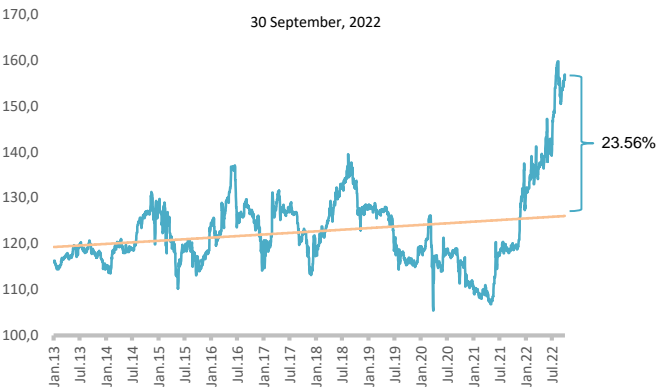


Figure 32: Real Effective Exchange Rate

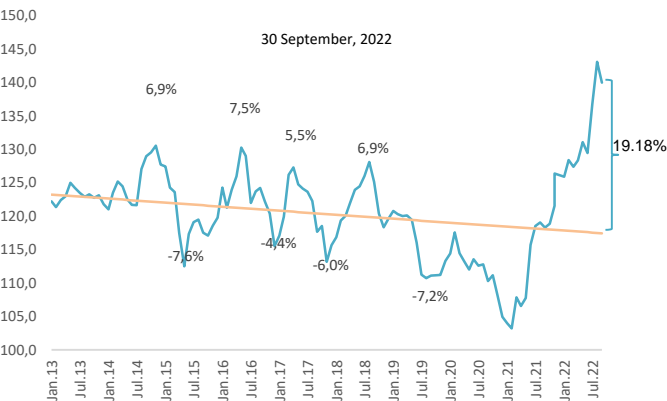
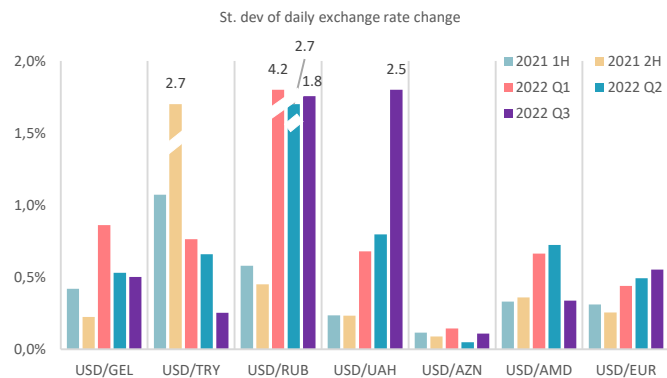


Figure 33: Volatility of Exchange Rates



Source: NBG, MOF

Table 1: Change of Nominal and Real Effective Exchange Rates

	September 30, 2022	▲	Sep 30, 2022 - Jan 1, 2022	▲	Sep 30, 2022 - Jan 1, 2021
Euro	2.7482	▲	17.0%	▲	11.3%
US Dollar	2.8352	▲	1.1%	▼	-5.7%
Turkish Lira	0.1529	▲	215.0%	▲	230.5%
Russian Ruble	0.0490	▼	-5.9%	▼	-21.6%
NEER	137.07	▲	4.5%	▲	23.9%
REER (September 2022)	139.94	▲	11.2%	▲	33.4%

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 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

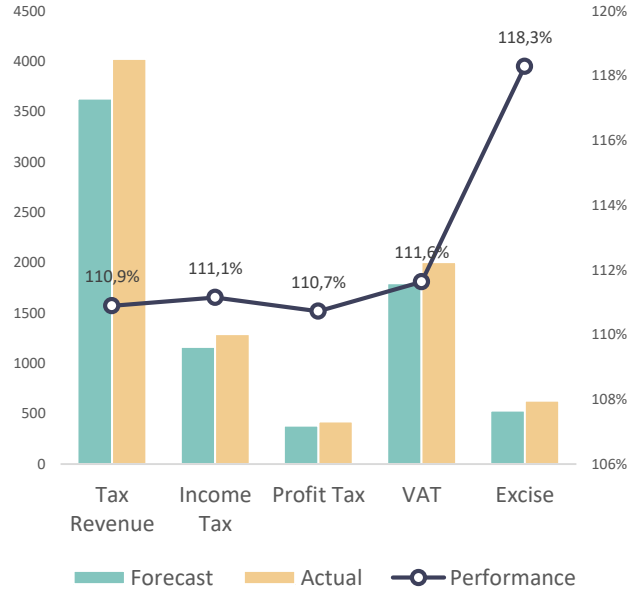
Budget Performance

The consolidated budget tax revenue forecast for the third quarter of 2022 was set at 3,627 mln GEL, while 4,022 mln GEL was mobilized during the reporting period, which is 110.9 percent of the forecast.

- 1,290million GEL is mobilized as income tax, which is 111.1 percent of the forecast figure (1,090 million GEL).
- 442 million GEL is mobilized as profit tax, which is 110.7 percent of the forecast indicator (381 million GEL).
- 2,004 million GEL was mobilized as VAT, which is 111.6 percent of the forecast (GEL 1,795 million).
- 427 million GEL is mobilized as excise, which is 118.3 percent of the forecast indicator (530 million GEL).
- 35 million GEL is mobilized in the form of import tax, which is 174.8 percent of the forecast (20 million GEL).
- 18 million GEL is mobilized in the form of property tax, which is 121.6 percent of the forecast (15 million GEL).

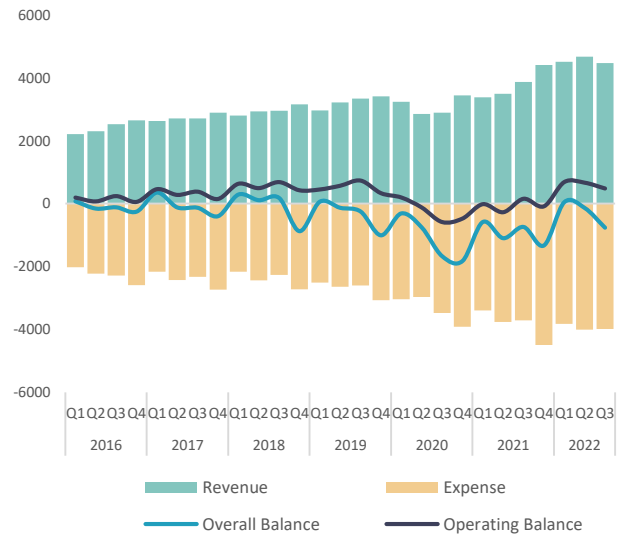
In the third quarter of 2022, compared to the same period last year, consolidated budget revenues increased by 15.4 percent and expenditures increased by 7.2 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to 479.1 million GEL, while the total balance was set at -768.4 million GEL.

Figure 34: Budget Revenue Performance



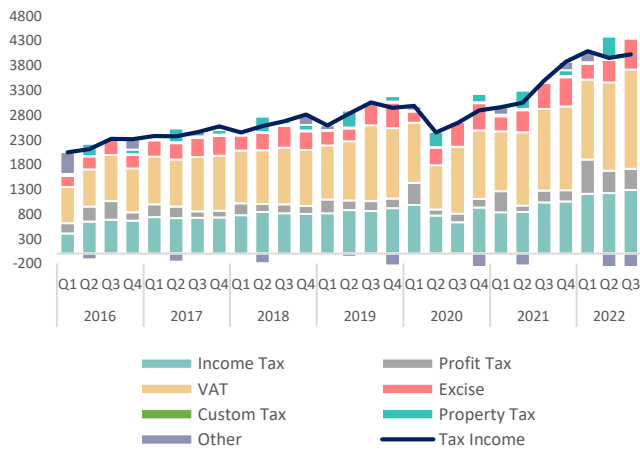
Source: MOF

Figure 35: Budget Balance



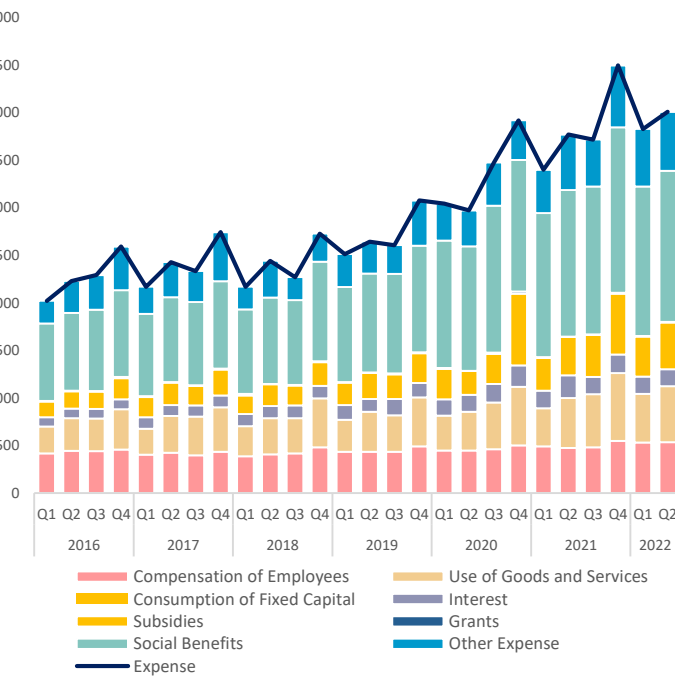
Source: MOF

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 90.2 percent in the third quarter of 2022. The consolidated budget received GEL 4,022 million in taxes, which is 15.0 percent more than the same period of previous year. Revenue from income tax increased by 24.1 percent year on year to GEL 1,290 million. High growth is observed in the form of revenue from profit, which increased annually by 80.1 percent compared to the third quarter of 2021, amounted to 422 million and is 10.5 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 21.3 percent, accounting 49.8 percent of total tax revenue, while revenue from import tax increased by 62.0 percent, and contributing by 0.9 percent.

Expenditures in the third quarter of 2022 increased by 7.2 percent year on year to GEL 3,982 million. The largest share of budget expenditures is in social security expenditures, which account for 38.6 percent of total expenditures, while the annual growth rate has decreased and is equal to -0.9 percent. Expenditures in the form of goods and services increased, with an annual growth rate of 0.7 percent to GEL 562 million, accounting for 14.1 percent of total expenditures. As for other items of expenditure, wages (13.6 percent of total costs), subsidies (11.6 percent of total costs), interest (5.5 percent of total costs) and other costs (16.5 percent of total costs) increased by 13.0 percent, 3.8 percent, 21.2 percent and 33.1 percent compared to the corresponding period of 2021, respectively.

Government Debt

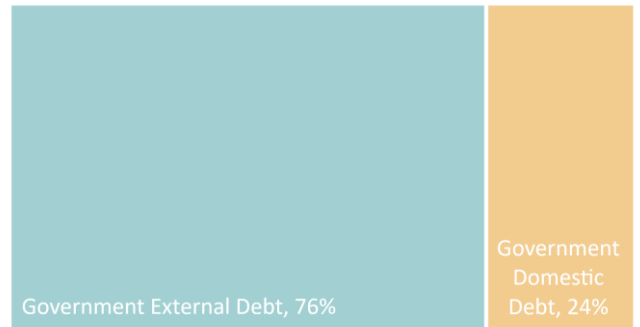
As of September 30, 2022, the stock of public debt of Georgia amounted to GEL 28,193 million, including:

☐ Government domestic debt stock is GEL 6,716.2 million, including:

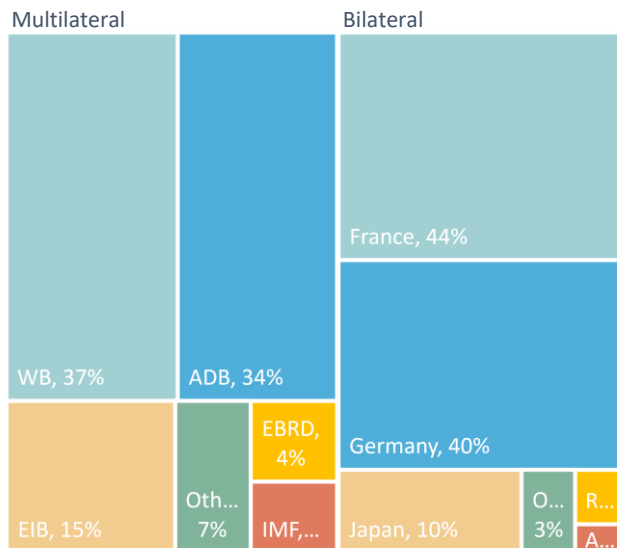
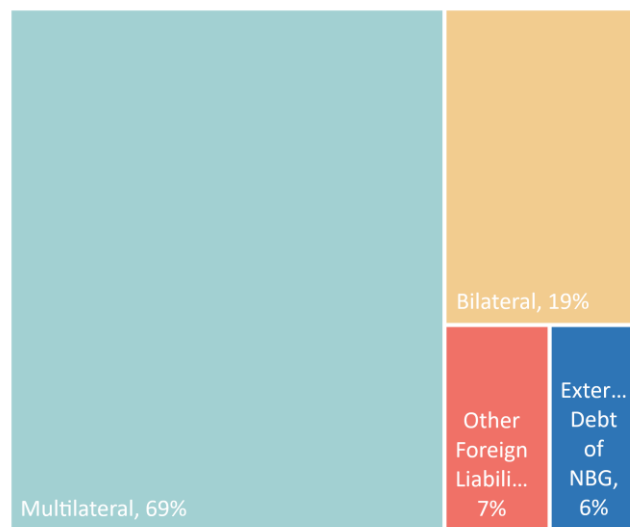
- Annual Renewable Government Bond for the National Bank ("Bond for the NBG") - GEL 120.8 million;
- Government bonds with different maturities for open market operations ("Bonds for open market") - 160 million GEL;
- Treasury liabilities of the Ministry of Finance – GEL 415.0 million;
- Treasury bonds of the Ministry of Finance - GEL 5,978.0 million;

☐ Government external debt stock is 21,478.6 million GEL.

Figure 38: Government Debt



Government External Debt



Source: MOF

Monetary Sector

Private Sector Larization

The larization of loans has an increasing trend and by 1 of October 2022 it reached 54.4 percent. It should be noted that the main determinant of total loan larization is the larization of loans granted to individuals. By 1 of October 2022, the larization of loans of individuals was 69.5 percent, in the same period the larization of loans granted to legal entities amounted to 36.7 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 October 2022 amounted to 89.1 percent, as of the larization of mortgage loans, it amounted to 44.4 percent.

The larization of deposits remain significantly lower than larization of loans. As of 1 of October larization of total deposits reached 42.0 percent. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. By the 1 of October larization of deposits of legal entities reached 67.5 percent and the larization of deposits of individuals in the same period was 26.5 percent.

It should be noted that the main contributor in the deposits larization is still time deposits larization, by 1 October 2022 it reached 50.9 percent. In the same period current accounts larization amounted to 38.9 percent, while larization of the deposits before demand stands at 33.6 percent.

Figure 39: Loan Larization

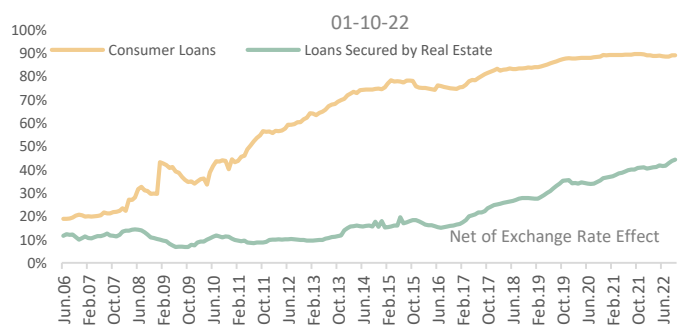
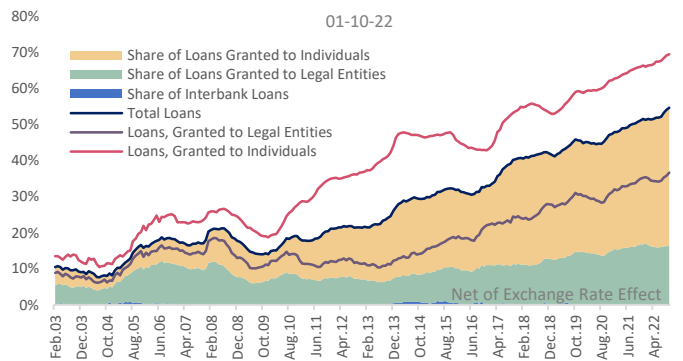
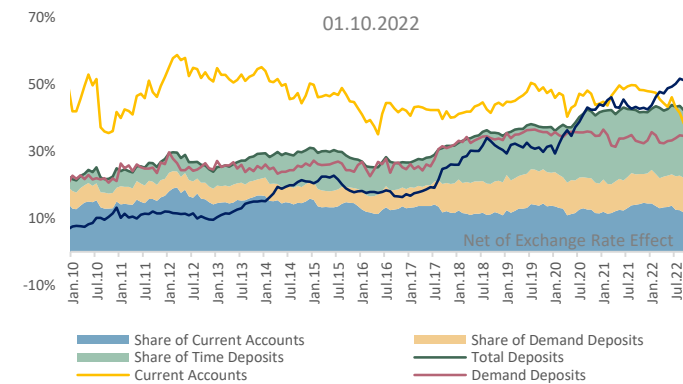
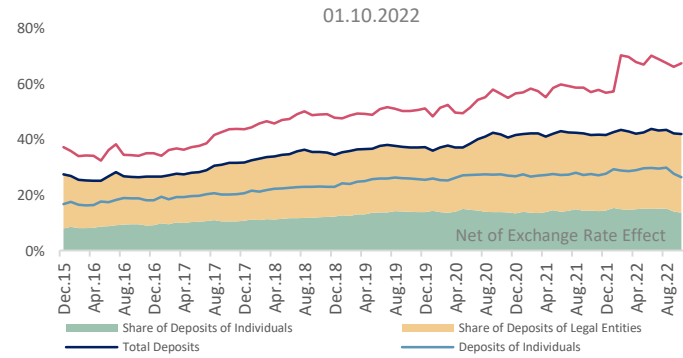
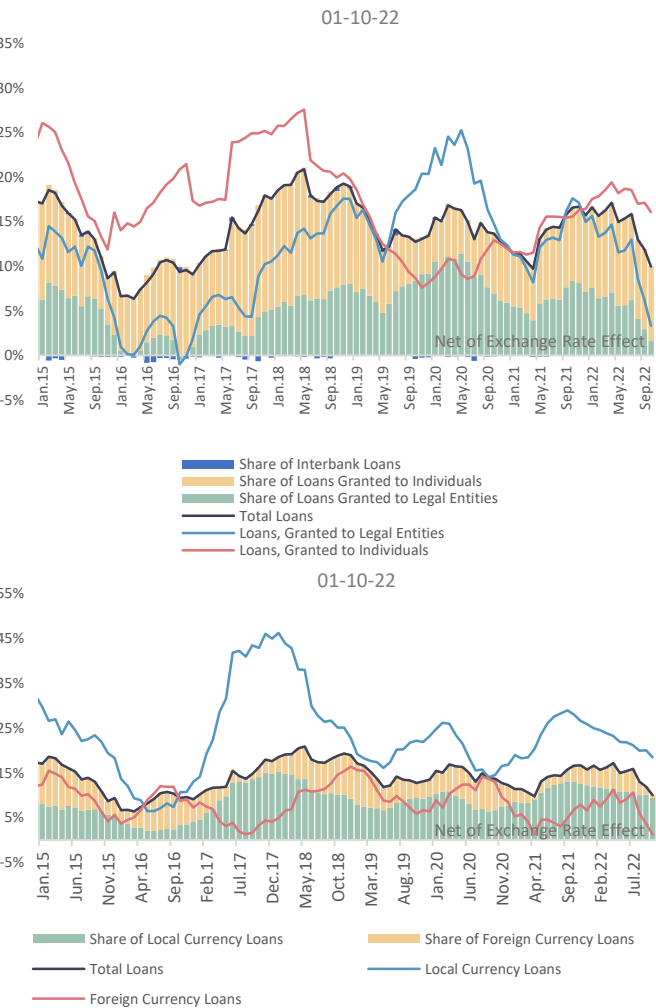


Figure 40: Deposit Larization



Source: NBG

Figure 41: Annual Growth of Loans



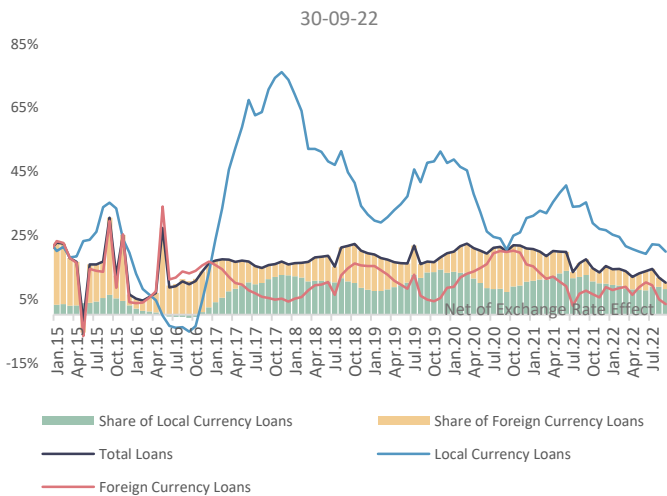
Review of Loans

As of 1 October 2022 overall loans increased by 10.0 percent compared to the corresponding period of 2021, which is 5.8 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 3.3 percent. During the same period loans to individuals increased by 16.1 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 October 2022 it amounted to 18.5 percent, compared to the corresponding period of 2021. During the same period, the growth of loans in foreign currency was 1.3 percent, which is 9.9 percentage points lower than in the last quarter (excluding exchange rate effect).

By 30 of September 2022, mortgage loans had increased by 10.1 percent compared to the corresponding period of the previous. Moreover, mortgage loans that are denominated in national currency increased by 19.8 percent, 0.7 percentage points higher than in the previous quarter, while foreign currency denominated mortgage loans increased by 3.3 percent.

Figure 42: Annual Growth of Loans secured by Real Estate



Source : NBG

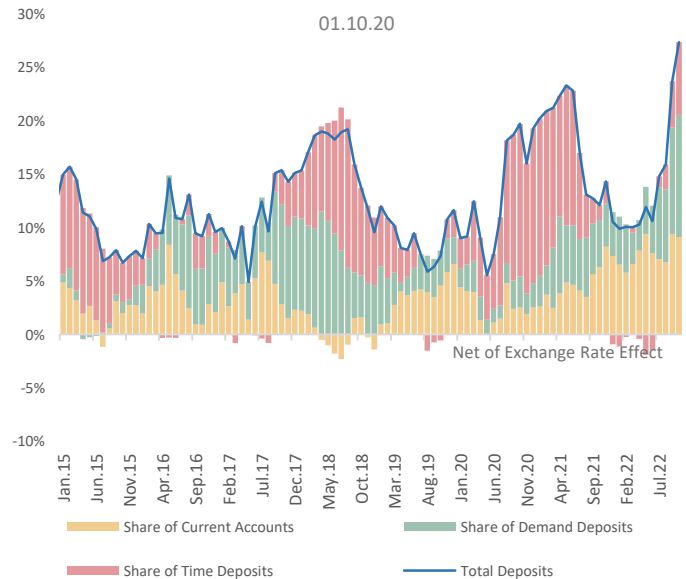
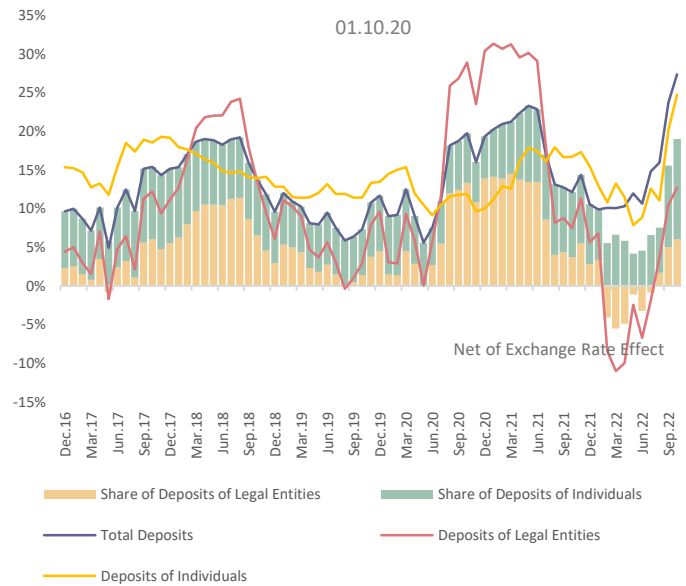
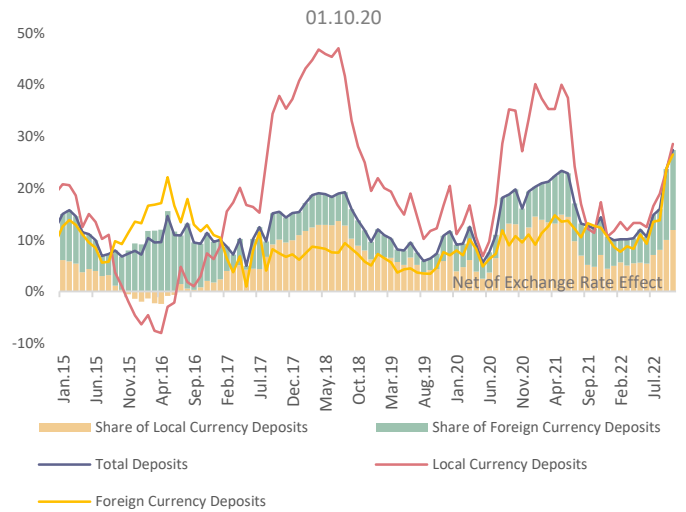
Review of Deposits

The growth of total deposits on the 1 of October 2022 was 27.4 percent compared to the corresponding period of 2021, which is by 12.7 percentage points higher compared to the previous quarter. High growth rate of deposits is on the back of both national and foreign currency denominated deposits. Deposits denominated in national currency increased 28.6 percent by the 1 of October 2021, while the annual growth of deposits denominated in foreign currency amounted 26.5 percent in the same period.

By the 1 of October 2022 annual growth of deposits of individuals reached 24.8 percent, while the annual growth of deposits of legal entities also experienced growth and amounted to 12.6 percent.

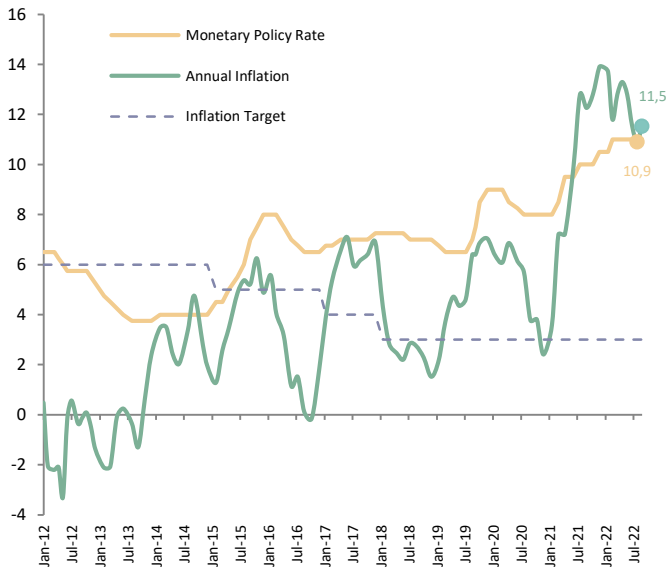
As for the growth of deposits by types, the slowing down of the deposits growth was reflected in the growth rate of time and demand deposits. By 1 on October 2022 time deposits grew by 15.7 percent. As for the current and demand deposits, their growth rates as of 1 October 2022 equaled to 31.0 and 41.9 percent, respectively.

Figure 43: Annual Growth of Deposits



Source : NBG

Figure 44: Inflation and Monetary Policy Rate



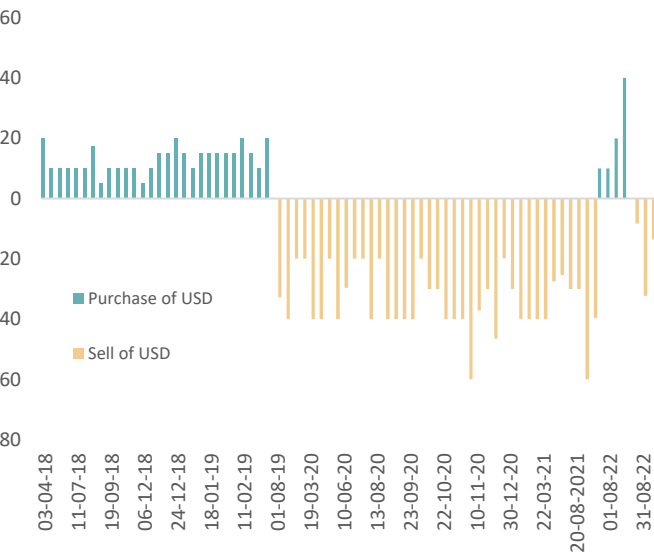
Monetary Policy Rate

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

According to National Bank, Inflationary pressure is still quite high both in Georgia and in the rest of the world. The sanctions imposed against Russia and the additional supply-side disruption stemming from the Russia-Ukraine war have significantly raised international prices on food, energy and other commodities. Besides this, against the backdrop of consecutive shocks, inflation has long deviated from the target level, which further amplifies inflationary risks. However, recently some positive trends are observed on international markets. Brent oil prices and shipping costs continue to decline.

In third quarter of 2022 NBG sold 13.6 million USD dollar via FX auction.

Figure 45: Trade of USD by NBG, mln



Source : NBG

Interest Rates

As of October 2022, the interest rate on foreign currency deposits was 1.4 percent, while on the national currency deposits it amounted to 10.7 percent.

As of 1 of October 2022, the weighted average interest rate on deposits of legal entities in national currency was 11.0 percent, and in foreign currency – 1.7 percent. In the same period, the average annual interest rate was 1.4 percent on deposits of individuals in foreign currency and 10.7 percent in national currency.

By 1 of October 2022, the weighted average annual interest rate on short-term consumer loans was 17.6 percent (19.3 percent in national currency and 6.8 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 September 2022, the interest rate on mortgage loans issued to legal entities in national currency was 14.2 percent, and in foreign currency – 7.7 percent. The interest rate on loans to individuals in national currency was 13.3 percent, and in foreign currency it was 6.0 percent.

Figure 46: Interest rates on Deposits (stock)

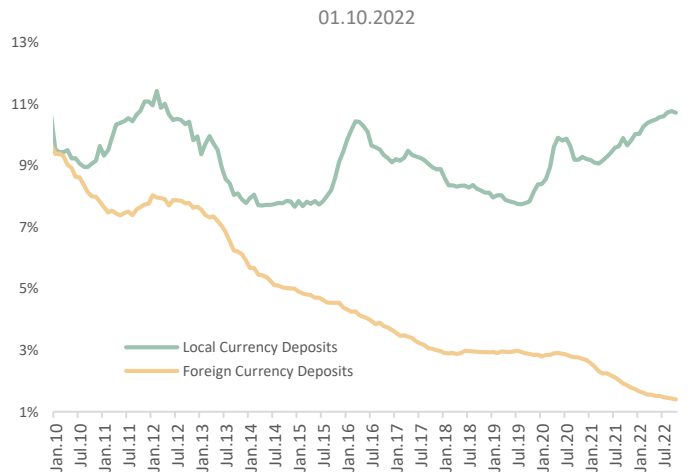
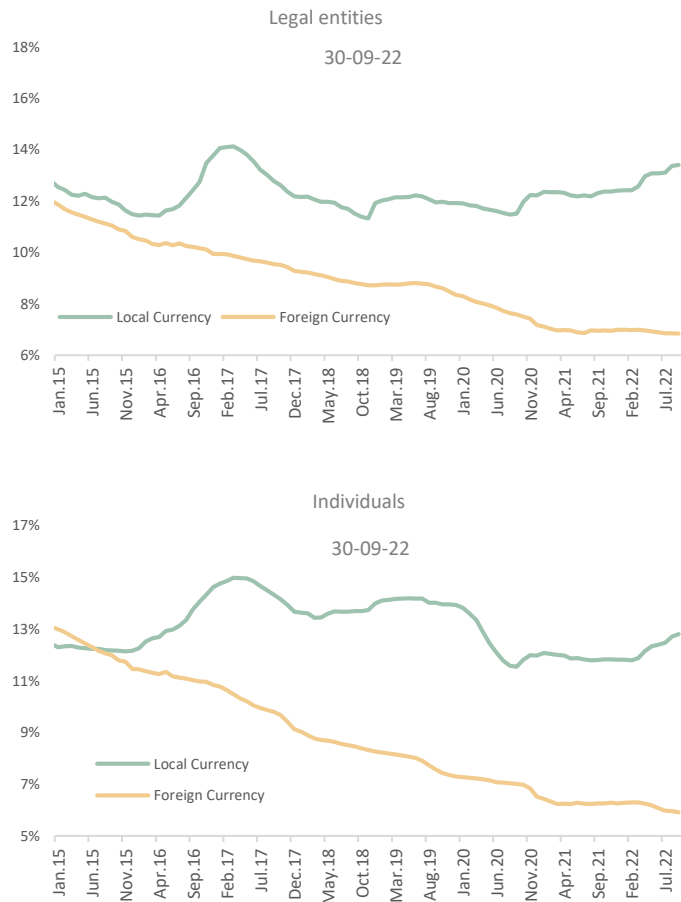


Figure 47: Interest rates on Loans secured by Real Estate



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.

