

Ministry of Finance of Georgia



Quarterly Economic Outlook

IV Quarter, 2021



Brief Summary

- According to preliminary data, economic growth in 2021 Q4 equals to 9.5 percent
- Preliminary estimation for economic growth in 2021 equals to 10.6 percent
- Annual inflation in the fourth quarter equals to 13.1 percent, while core inflation equals to 6.1
- Export annually increased by 34.2 percent
- Import annually increased by 31.6 percent
- Revenues from tourism increased significantly due to the base effect, but still remain below the 2019 level
- The refinancing rate has increased to 10.5 percent





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Real Sector

Economic Growth

According to preliminary data, in the fourth quarter of 2021, real GDP increased by an average of 9.5 percent compared to the same period last year. At the same time, compared to the corresponding period of 2019, economic growth was 1.4 percent. This increase is significantly due to the baseline effect and the realization of the delayed demand in the current periods and an increase of the economic activity in the region. In particular, in the fourth quarter, exports increased annually by 34.2 percent, while imports increased annually by 31.6 percent. At the same time, compared to the fourth quarter of 2019, exports increased by 18.6 percent and imports increased by 10.1 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 8-fold year-on-year in the third quarter, although there was a 66.3 percent decline compared to the same period in 2019.

Due to the deteriorating epidemiological situation in early 2021, there were a number of restrictions that hindered the process of economic recovery. Accordingly, real GDP declined by 4.5 percent annually in the first quarter. A faster recovery than expected occurred in the second quarter of 2021. Compared to the same period of the previous year, real GDP increased by 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. At the same time, consumption in real terms increased by 2 percent annually to 2.2 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 in the current periods from the previous stages of the pandemic. Growth was observed in many sectors during the third quarter. In particular, the following activities made a significant

Figure 1: Economic Growth

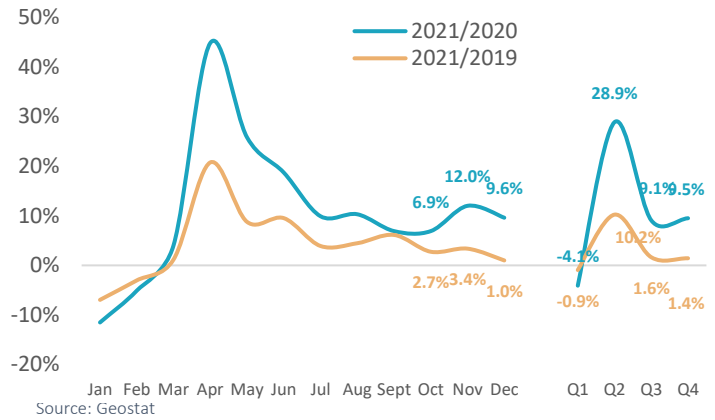


Figure 2: Real Sectoral Growth, 2021 3Q

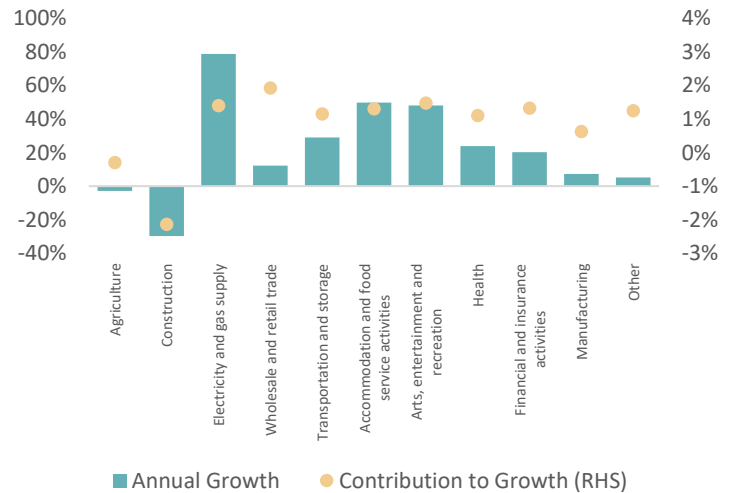


Figure 3: Decomposition of Economic Growth

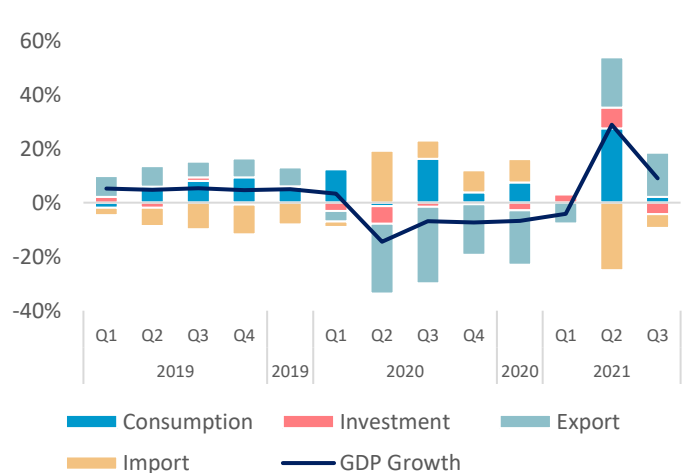
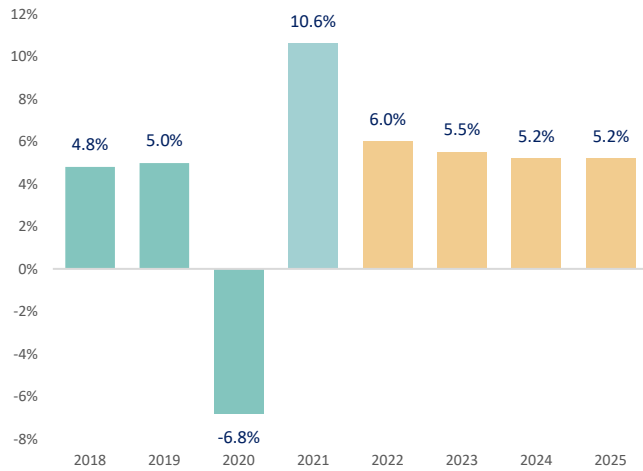


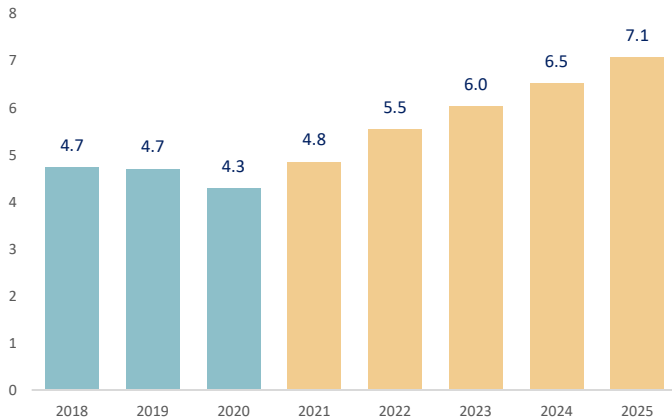


Figure 4: Economic Growth Projection



Source: MOF

Figure 5: GDP per capita, ths USD



Source: MOF

contribution to growth: Electricity and gas supply (78.8% y/y, 1.4 pp.), accommodation and food delivery activities (49.8% y/y, 1.3 pp.), arts, entertainment and leisure (48.1% y/y, 1.5 pp.), transport and warehousing (29% y/y, 1.1 pp.), health (23.8% y/y, 1.1 pp.), financial and insurance activities (20.3% y/y, 1.3 pp.), wholesale and retail (12.3% y/y, 1.9 pp.), manufacturing (7.3% y/y, 0.6 pp.). The following sectors made a significant contribution to the decline: construction (-29.7% y/y, -2.1 pp.), agriculture (-2.9% y/y, -0.3 pp.).

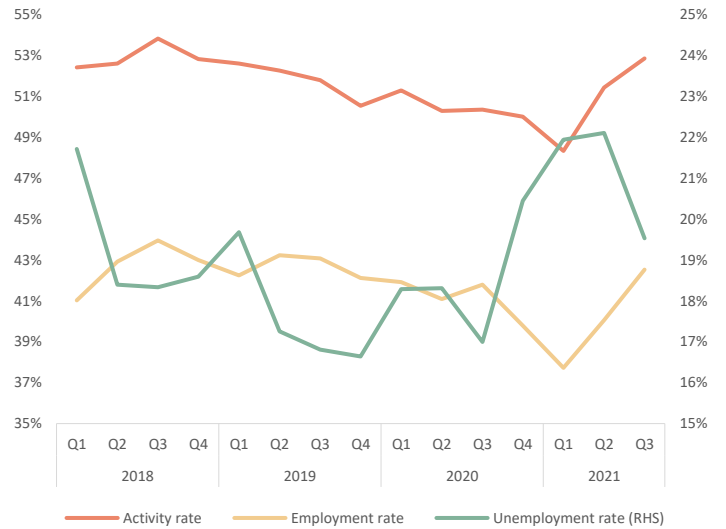
Growth in 2022 will depend significantly on the mitigation of social distance restrictions and the number of foreign visitors, which in turn will significantly depend on the vaccination process that started in March 2021 but is proceeding at a slower pace. According to the forecast of the Ministry of 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 5.5 percent in 2022-2025.

Employment and Unemployment

In the third quarter of 2021, the unemployment rate was 19.5 percent, which is 2.6 pp less than the value of the previous quarter and 2.5 pp more compared to the same period of last year. Among them, unemployment was 21.1 percent in urban areas (+1.9 percentage points per year) and 17.2 percent in rural areas (+3.5 percentage points per year). The highest unemployment rates are in the 15-24 and 25-34 age groups. In the third quarter of 2021, the economically active population accounted for 52.8 percent of the working age population (15 years and older). In the third quarter of 2021, the unemployment rate in the women group was 16.6 percent, while in the men group, the figure was 21.7 percent.

The number of employees increased by 1 percent compared to the corresponding quarter of the previous year, while the employment rate increased by 1 percentage point. The number of unemployed increased by 19.6 percent annually. At the same time, productivity (ratio of real output to number of employees) increased by 8.0 percent annually, while the average nominal wage of employees increased by 10.4 percent, amounting to 1369 GEL as of the third quarter of 2021.

Figure 6: Indicators of Labor Market



Source: Geostat

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



Source: Geostat

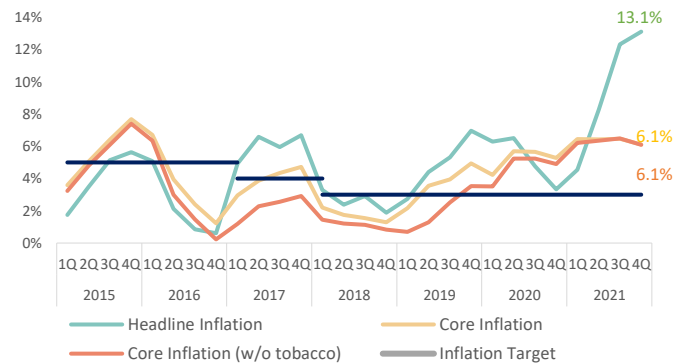
Price Level

Annual inflation significantly exceeds inflation target during 2021. The main reasons of such increase in inflation are supply side factors such as a significant increase in the cost of transporting and global rise of price of goods in the international commodity market. At the same time, the annual inflation rate was also affected by the change in utility bills, as the completion of the subsidy program increased the inflation rate of these goods more than it was initially declined by and strengthened the overall inflation rate. Significant pressure also comes from an increased economic activity from domestic demand side, which is not a reducing factor as it was in previous periods, during the economic downturn. Global inflation is a relevant issue covered by all international organizations. International market rise in prices of commodity, oil and gas and strong fiscal stimulus have led to rising inflationary pressures. According to the updated forecast of the International Monetary Fund (October, 2021), world inflation will increase from 3.2 percent in 2020 to 4.3 percent in 2021. In the fourth quarter of 2021, annual inflation stood at 13.1 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 fourth quarter stands at 6.1 percent.

On December 8, the National Bank Committee decided to increase the refinancing rate by 0.5 pp to 10.5 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.

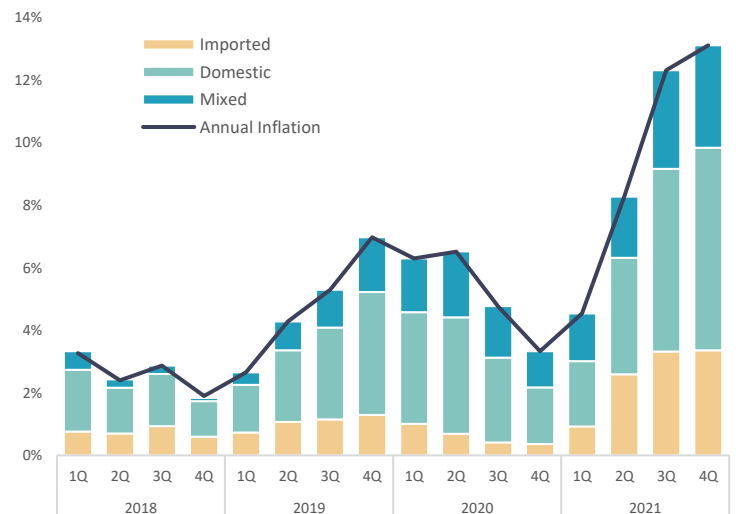
In the fourth quarter of 2021, the contribution of domestic inflation was 6.5 percent, while the contribution of imported inflation was 3.4 percent. This dynamics is caused by the increase in the price of food and the relatively high weight gain in the consumer basket relative to the food group.

Figure 8: Annual Inflation



Source: NBG

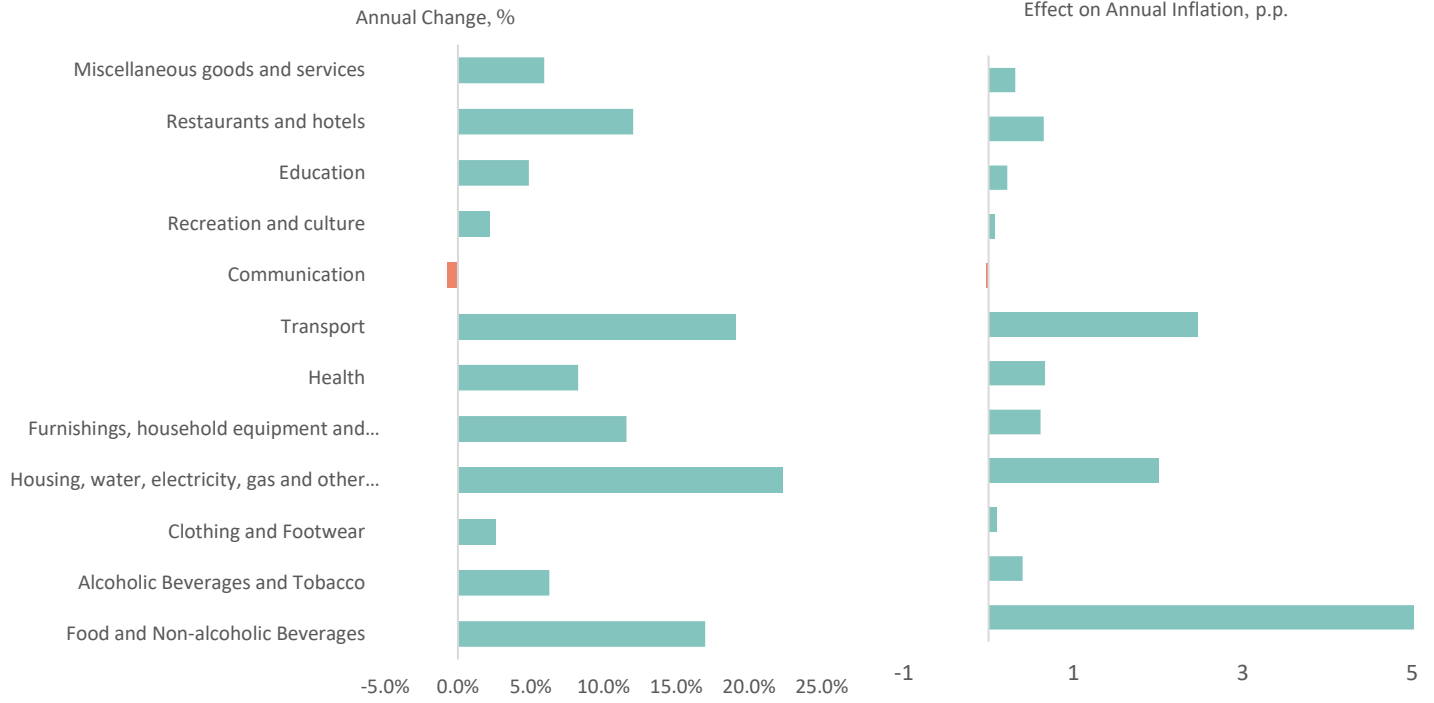
Figure 9: Decomposition of Inflation



Source: NBG, Geostat



Figure 10: Decomposition of Inflation, 2021 Q4



Source: Geostat

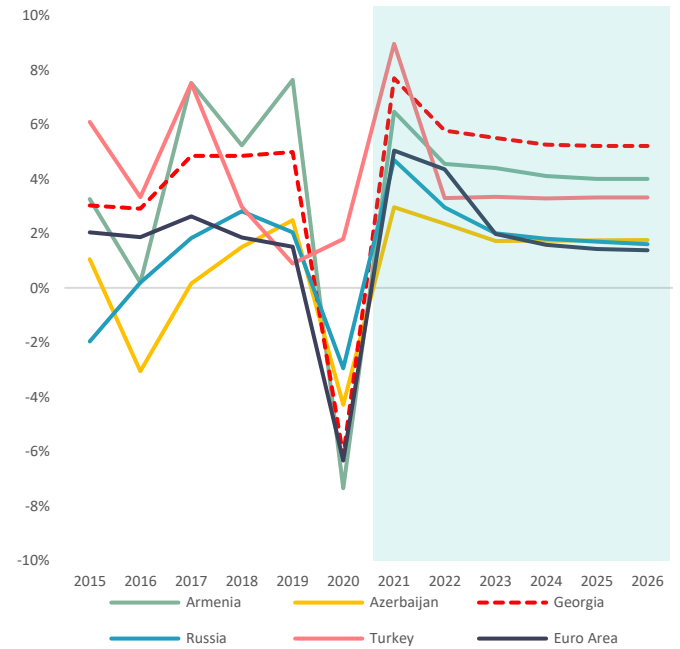


Economic Outlook of the Region

Following the recession caused by the COVID-19 pandemic in 2020, there seems to be V-shaped global recovery. However, the epidemiological situation in some countries still hinders economic activity, as restrictions are imposed due to the spread of new strains and it is ambiguous how governments will reponse to the emergence of new strains. In developed countries, the growing vaccination process contributes to the recovery of economic activity, while in developing countries, vaccination is relatively slow, which is why the rate of recovery of economic activity is relatively weak. According to an updated forecast by the International Monetary Fund in October 2021, global economic growth in 2021 will be 5.9 percent at the expense of increased fiscal and monetary stimulus, while in 2022 global growth will reach 4.9 percent. According to the updated forecast, economic growth for developed countries is expected to reach 5.2 percent in 2021 and 4.5 percent in 2022. At the same time, 6.4 percent growth is expected in 2021 and 5.1 percent in 2022 for growing and developing countries. According to the IMF forecast for October, the economic growth of the Eurozone will be 5 percent in 2021 and 4.3 percent in 2022. This increase is due to the easing of restrictions due to the vaccination process, the recovery of the manufacturing and industrial sectors, and the positive expectations of economic agents, both in terms of investment and tourism. According to the October forecast, the inflation rate will be 2.2 percent in 2021 and 1.7 percent in 2022.

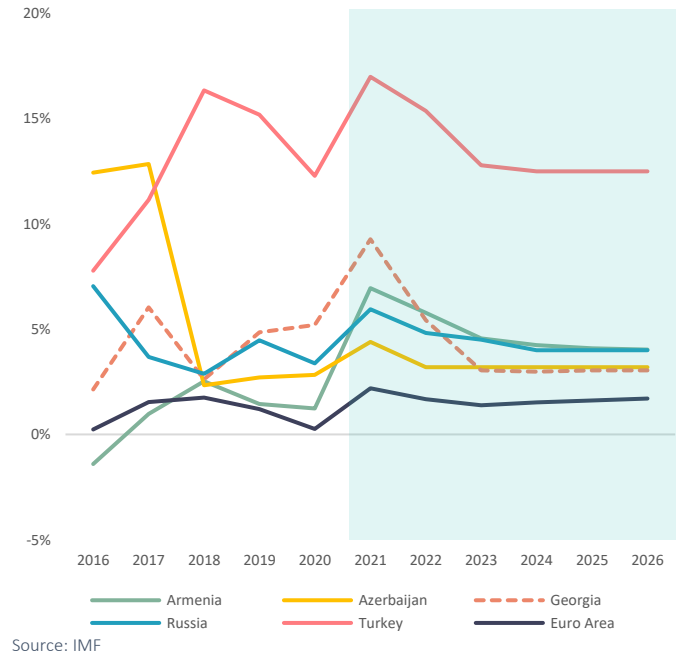
The process of economic recovery is also observed in Turkey, where investment and tourism expectations have recently improved, as well as increased export volumes and manufacturing activity. However, the main challenge remains the volatility of the exchange rate of lira and the inflationary pressure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

Figure 11: Economic Growth in the Region



Source: IMF

Figure 12: Inflation in the Region



Source: IMF

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

Figure 13: Current Account to GDP, %

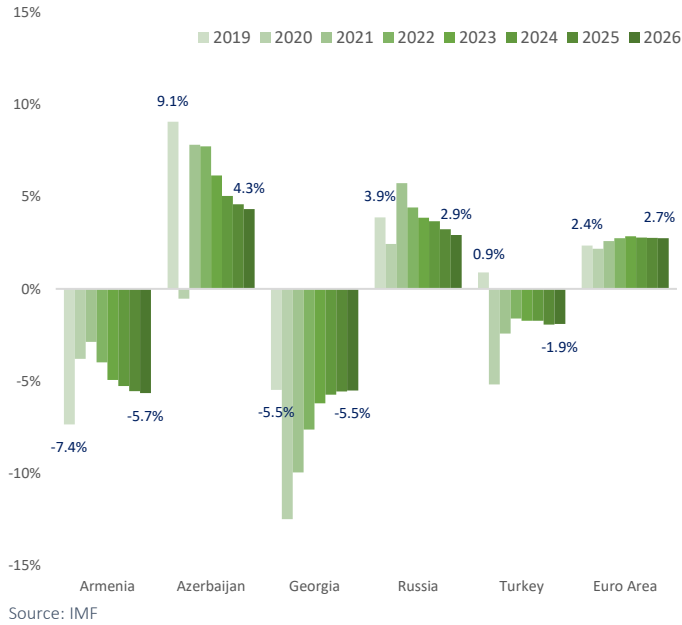
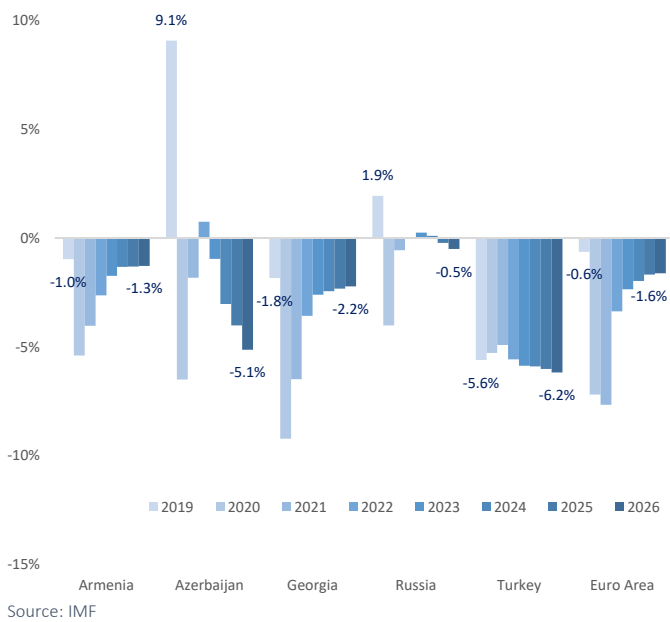


Figure 14: Budget Balance to GDP, %



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

Rising oil prices and easing of restrictions will also affect Azerbaijan's economic performance. According to the IMF, economic growth in Azerbaijan in 2021 will be 3 percent, and in 2021 - 2.3 percent. The recovery of the economy will also be reflected in inflation. According to the forecast, inflation will reach 4.4 percent in 2021 and 3.2 percent in 2022. The easing of restrictions has also had a positive impact on Armenia's economic activity. Consumer costs and the manufacturing sector have increased. However, the foreign sector is still in a deteriorating position. In addition, due to the post-war with Azerbaijan and the prevailing political instability, the risks have increased, which worsens the business confidence. Accordingly, according to the IMF October forecast, economic growth in 2021 was set at 6.5 percent, while in 2022 growth of 4.5 percent is expected. As for inflation, in 2021 it will be 6.9 percent, while in 2022 it is expected to average 5.8 percent.

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

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

External Sector

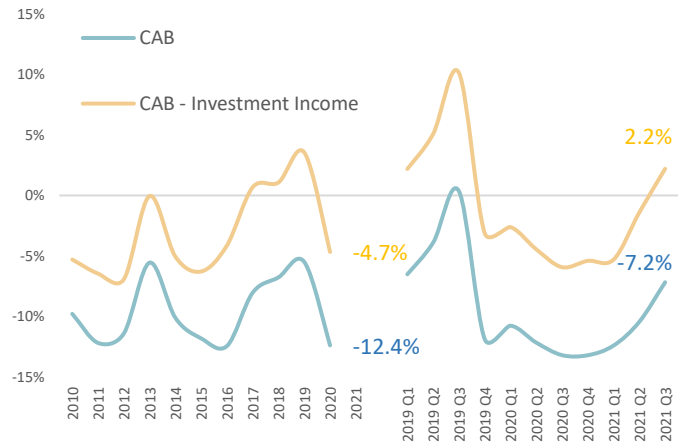
Current Account Balance

In 2020 current account deficit stood at 12.5 percent of GDP, which has significantly worsened from 2019 numbers, when CA deficit was 5.5 percent of GDP. From Q2 2021 current account deficit started to improve. In Q1 2021 CA deficit decreased to 12.4 percent. In Q2 2021, it further continued to decrease and stood at 10.4 percent of GDP and in Q3 it amounted 7.2%. The improvement in CA deficit is 6 percent compared to Q3 2021, when CA deficit was 13.2 percent. The improvement in CA deficit is mostly driven by exports of services, which is due to tourism sector recovery and by current transfers.

Current account deficit is financed by FDI and debt. Financing the deficit by debt, means borrowing new debt and, consequently, spending more on debt service. In this regard, it is important that the current account deficit is financed by increasing foreign direct investment. The structure of financing the current account deficit has been improving recently in Georgia. The deficit was entirely financed by foreign direct investment in 2017. There was a current account surplus of 0.4 percent in the third quarter of 2019. After that, foreign debt contributes quite a lot to finance the deficit. Especially noteworthy is 2020 when debt financing contributed a lot to the deficit financing

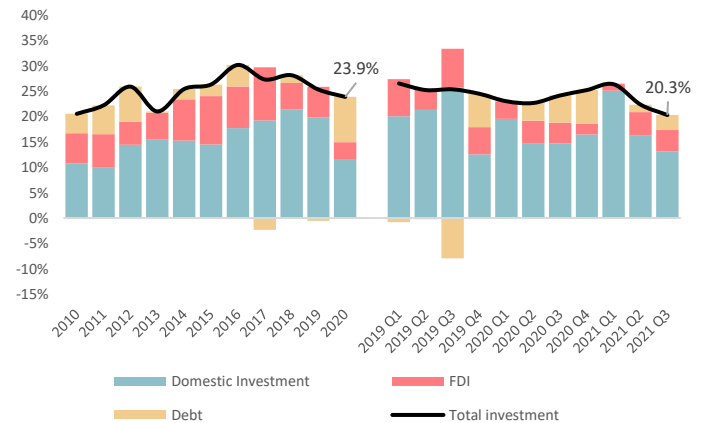
As of the third quarter of 2021, current account deficit financing has changed for the better. In particular, the FDI's share in financing increased from 1.4 pp. to 4.2 pp., while its debt contribution decreased from 11.0 pp. to 3.0 pp during 2021.

Figure 15: Current Account to GDP, % of GDP



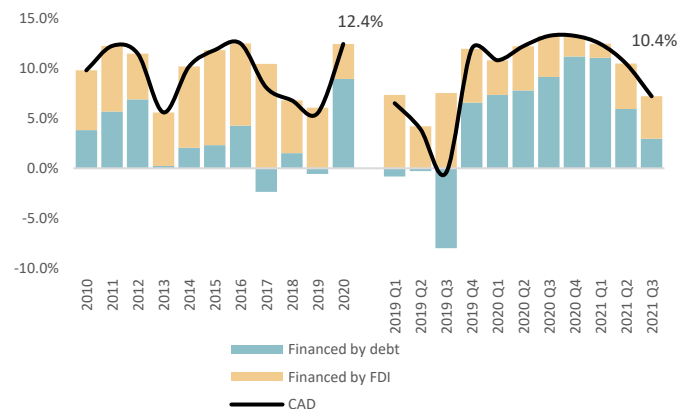
Source: NBG, Geostat

Figure 16: Financing of Investment



Source: NBG, Geostat

Figure 17: Financing of Current Account



Source: NBG, Geostat

Figure 18: External Debt to GDP, %

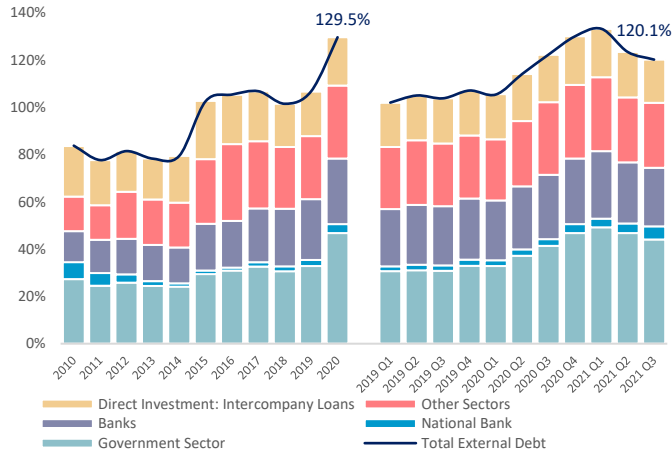


Figure 19: Change of Debt to GDP

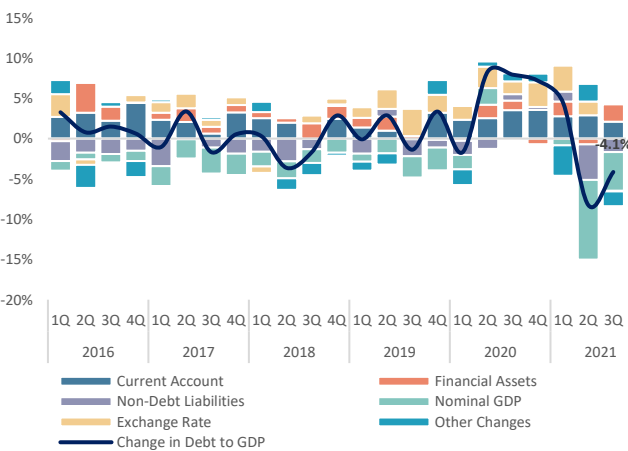
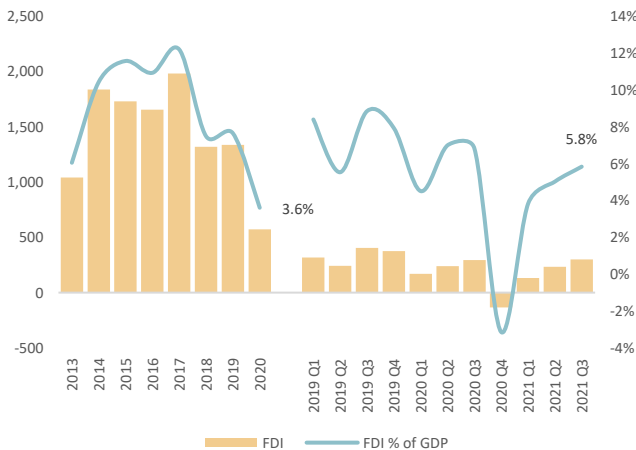


Figure 20: Foreign Direct Investment



External Debt

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

The total external debt of Georgia increased during the current pandemic and amounted to 129.5 percent. Debt has increased by 21 p.p compared to the previous year. As of the third quarter of 2021, foreign debt is 120.1 percent of GDP, which is 3.2 pp less than in the previous quarter. The reason for the decline is the sharpening of economic activity in the second quarter and the corresponding growth of nominal GDP by more than expected.

The decomposition of the change in external debt is presented in terms of operating or borrowing, as well as in terms of price effect, exchange rate changes and changes in nominal GDP. It should be noted that the largest contribution to the growth of external debt in 2015-2016 was made by the depreciation of the exchange rate, while GDP mainly contributed to the reduction of external debt. As for the 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

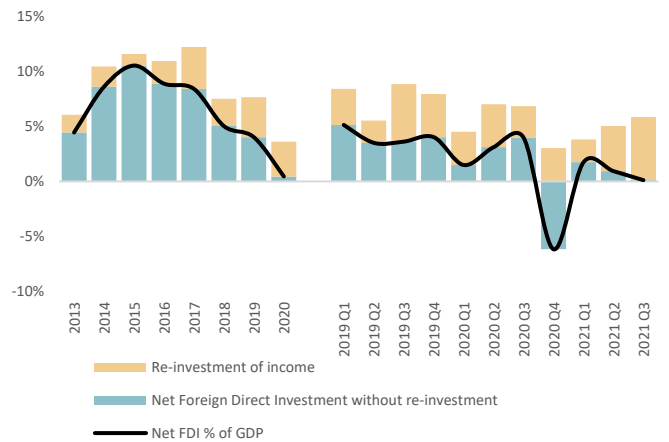
In 2020 foreign direct investment in Georgia amounted to 572 million USD, which is 57.2 percent less than in the previous year. The reduction was mainly due to transferring of ownership from a non-resident to the resident units in several companies (reduction by USD million 340.5). As for the third quarter of 2021, foreign direct investments amounted to 299 million USD, 1.4 percent more than the same period of the previous year.

As of Q3 2021, the Czech Republic is the leader by 20.4 percent of share in total FDI. As for 2nd and 3rd places, Luxembourg and Netherlands have 20 percent and 12 percent share, respectively.

Investments were mainly allocated in financial sector, amounting 87.1 mln USD (29.1 percent of total FDI), in Energy sector and manufacturing, where investments amounted 69.3 mln USD (23.2 percent) and 54.7 mln USD (18.3 percent) respectively. It is important to note that FDI decreased only in constructing sector.

FDI structure still keeps its latest trend. In particular, the share of reinvested earnings is still high in total FDI. In Q3 2021, the share of reinvestment increased by 1.6 pp. and stood at 5.7 percent of GDP, which is 98.1 percent of total FDI.

Figure 21: FDI



Source: NBS, Geostat

Figure 22: Composition of FDI, 2021 Q3

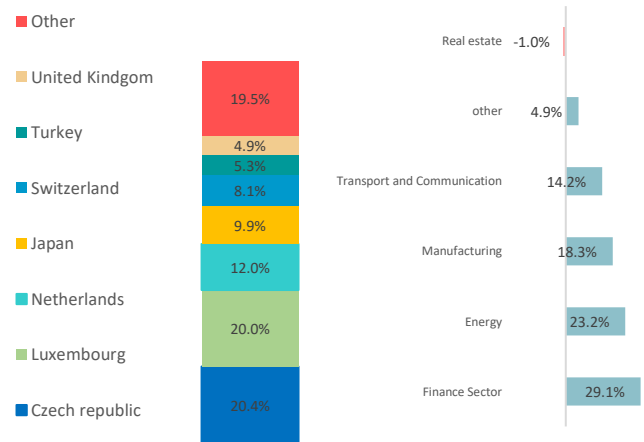
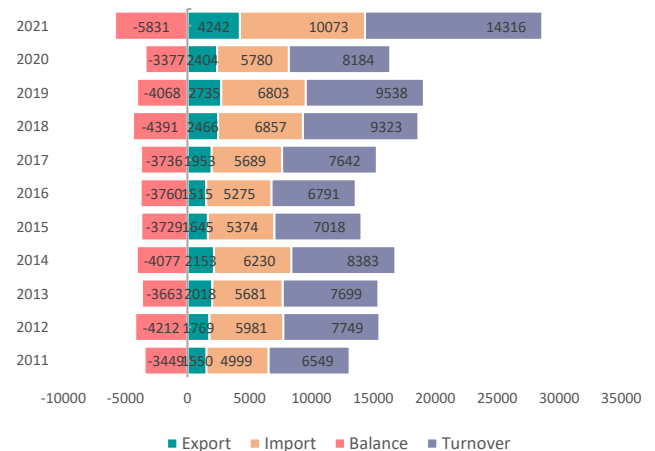


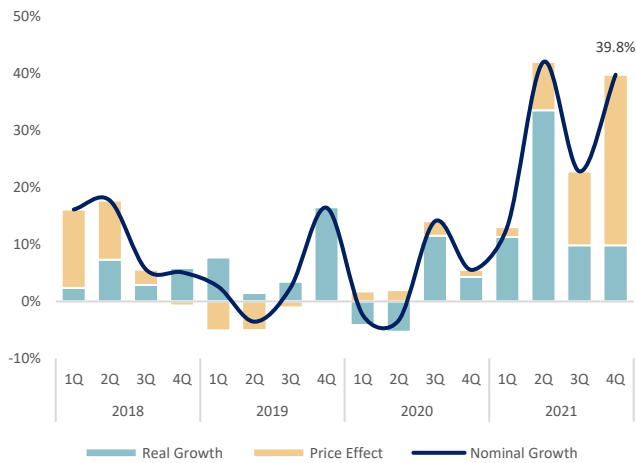
Figure 23: International Trade, 2021



Source: Geostat

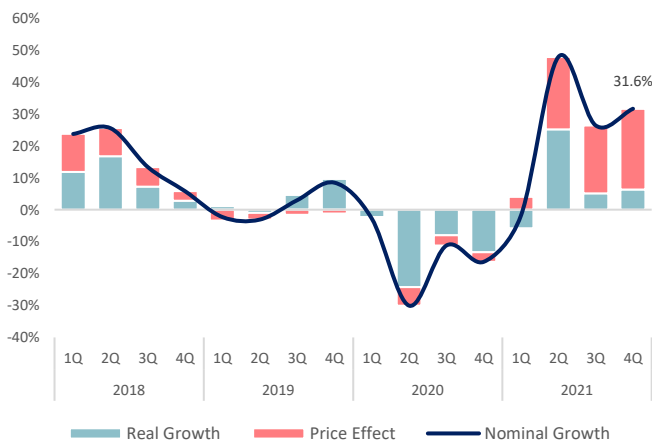


Figure 24: Annual Change of Domestic Export



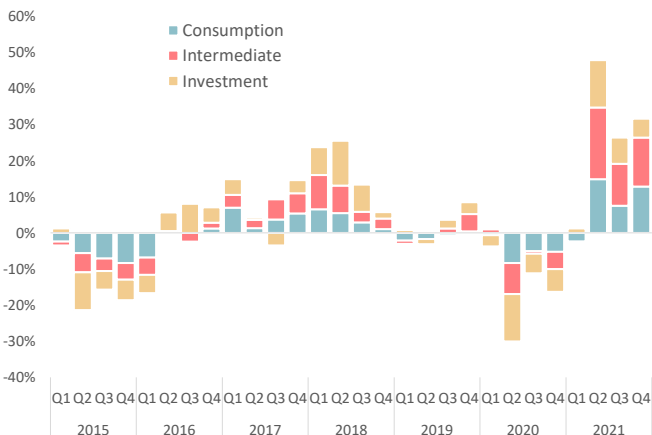
Source: Geostat

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 impact on Georgia’s economy. Due to reduced economic activity, import decreased as well, along with deteriorating export exports in the first half of 2020.

In 2021, after governments all over the world as well as in Georgia started to lift up restrictions, international trade started the fast recovery. Together with increased exports, imports also started fast recovery. As of fourth quarter of 2021, nominal growth of domestic exports stood at 39.8 percent, which was mainly driven by price effect (30.0 percent). The same pattern is observed in the growth of imports, which amounted 31.6 percent, where price effect stood at 25.2 percent.

As of fourth quarter of 2021, import of consumption goods increased by 35.6 percent annually (12.9 pp. share in total imports). High growth was observed in imports of intermediate goods and amounted 37.2 percent annually (13.5 pp. share in total imports). Relatively slow growth was in imports of investment goods, which increased by 18.9 percent annually (5.2 pp. share in total imports). In Q4 2021, export of goods increased by 34.2 percent annually. The main driver of this growth are still copper ores and concentrated (19.3 percent of total exports), motor cars (9.4 percent of total exports) and ferro alloys (12.8 percent of total exports). As for the imports, copper ores and concentrates, motor cars and oil products are still the main imported goods.

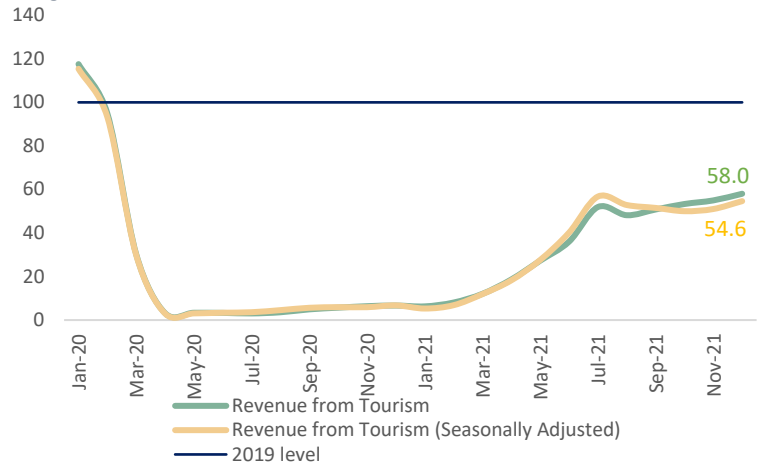
Tourism

In 2020, when the economy was operating under severe constraints, the tourism sector received a particularly big blow. The closure of borders and the cessation of international travel by 2020 almost reduced the number of tourists to zero. From 2021, the tourism sector has started gradual recover. Revenues from tourism increased annually from the second quarter of 2021. This trend was maintained in rest of the periods. Revenue from tourism in Q4 was 379.3 mln USD, up by 790 percent compared to the same period of previous year and up to 55.3 percent of 2019 level.

Remittances

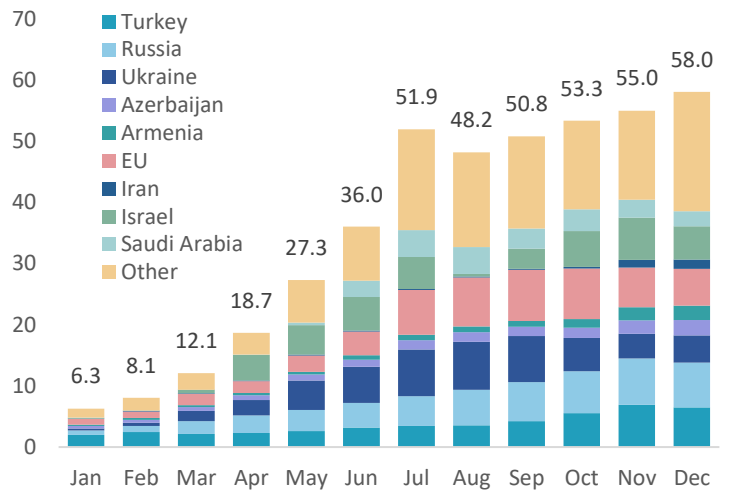
In 2020, net remittances reached 1.639 mln USD, up by 9.6 percent from a year earlier. The largest contributors to this growth were Italy and Ukraine (total contribution of 7 percent), while Russia contributed negatively, -4.4 percent. As for 2021, the growth in the second quarter compared to the same period of the last year was 52 percent. In the third quarter of 2021, growth stabilized at 9 percent, but in fourth quarter growth rate still reached double-digit and amounted to 14%. The main contributor to the growth was Italy with 3.7 pp., USA (2.2 pp), Germany (1.1 pp), Israel (1.3 pp) and Kazakhstan (2.0 pp) also made positive contributions. A decrease of -88.6 percent was observed in remittances from Ukraine, which contributed negatively to the overall growth by 4.4 pp, also remittances from Greece decreased by 5.2 percent, which negatively contributed to overall growth by 0.6 pp. It is noteworthy that remittances from Russia have been declining recently and have contributed negatively to the increase in remittances. These dynamics have changed over the last three quarters, which might be related to the rise in oil prices.

Figure 27: Income from Tourism



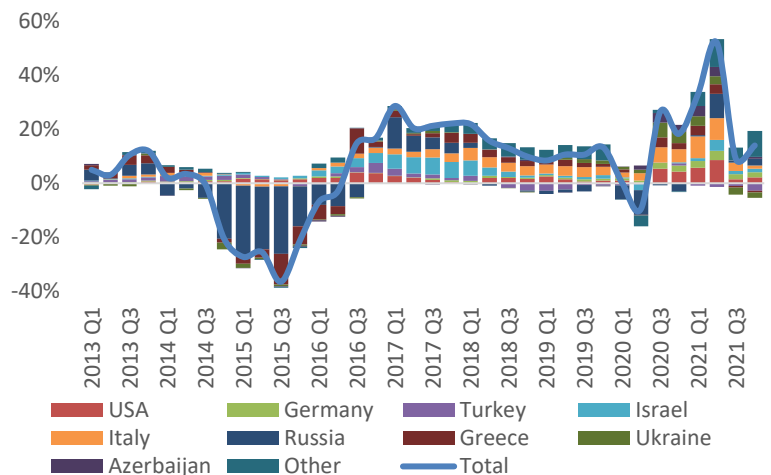
Source: NBG

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 Q3 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 decrease in Q3. In addition, small decrease was observed in dependence on Ukraine, which was due to reduced remittances from Ukraine. Dependence on the EU maintains a high level, but according to Q3 2021, there was a minor decrease of dependence on EU, which was driven by decreased share of remittances and exports in total income. It is evident that in Q3 dependence on Georgia's traditional countries have decreased, which indicates the increase in diversification of inflows.

Figure 30: Dependence on Trading Partners

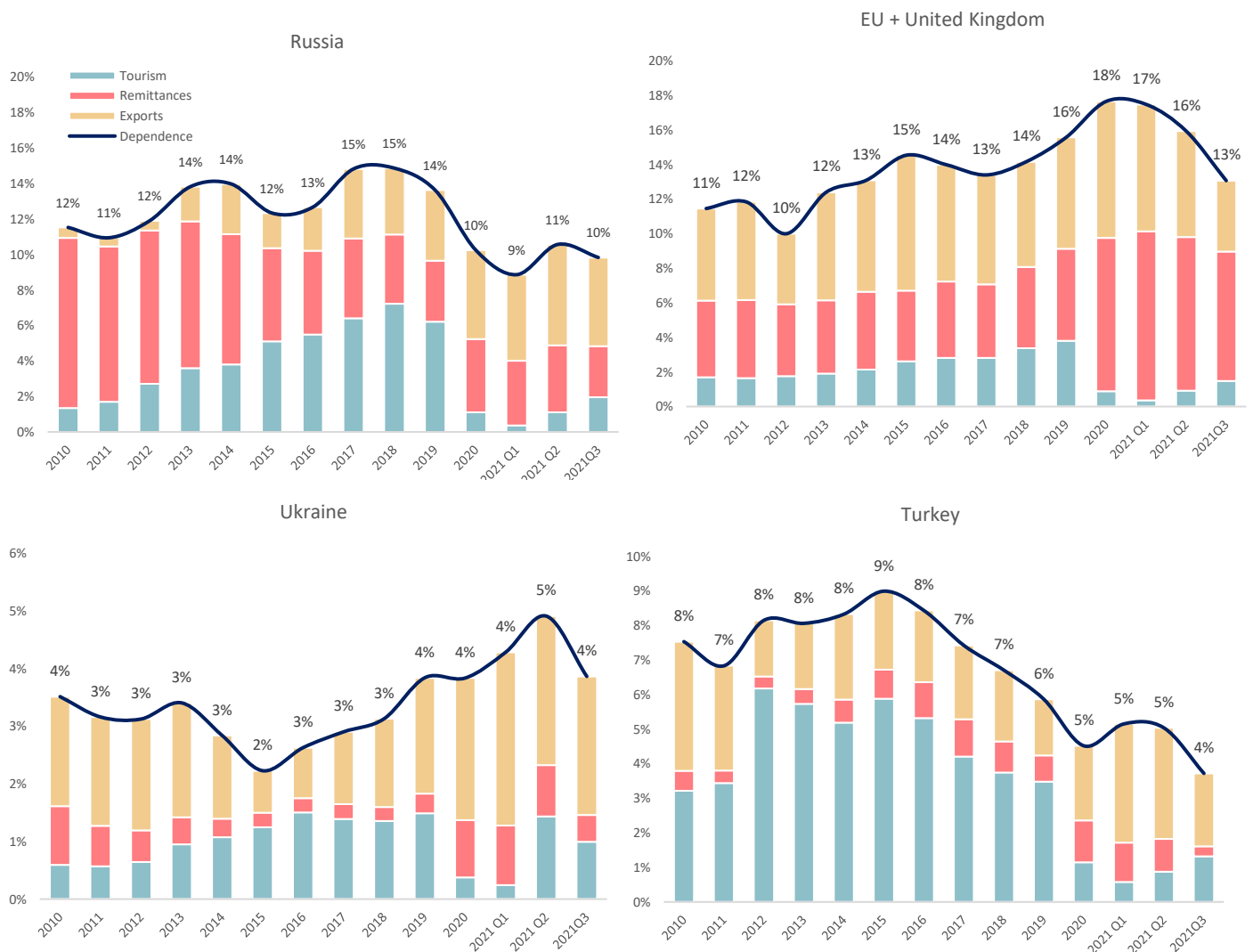
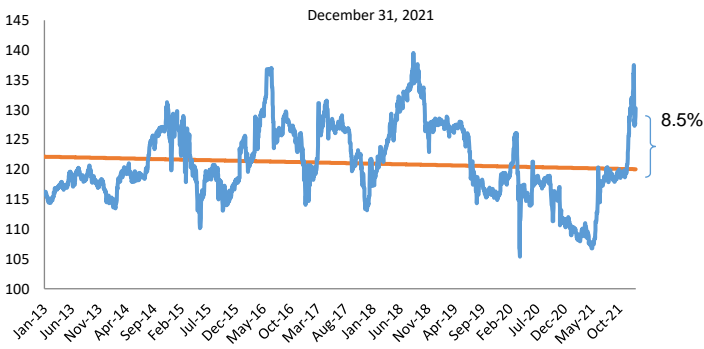
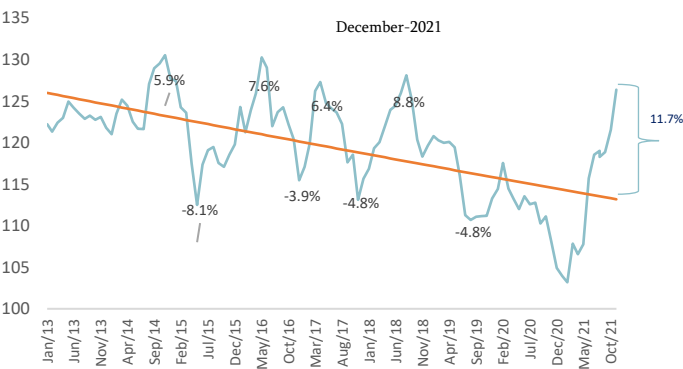


Figure 31: Nominal Effective Exchange Rate



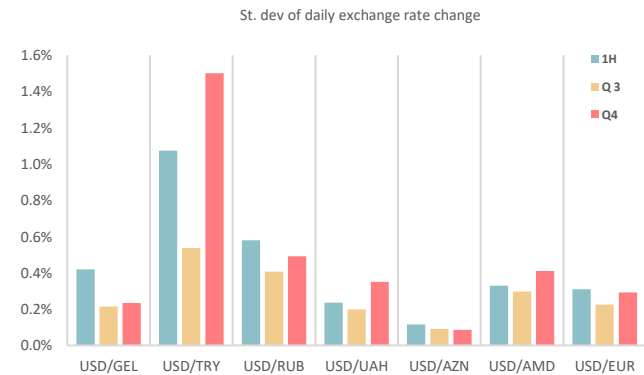
Source: NBG

Figure 32: Real Effective Exchange Rate



Source: NBG

Figure 33: Volatility of Exchange Rates



Source: NBG, MOF

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. In Q4 2021, GEL started gradual appreciation against USD as well as to other trading partners, together with this volatility of GEL increased compared to Q3, this increase in volatility is in line with behavior of trading countries' currencies. Going forward, rate hikes from FED and EU central bank, together with instability in region poses threats to the appreciation and stability of GEL.

In Q4 2021, GEL depreciated against USD by 0.7 percent, compared to same period of previous year. At the same time, appreciation against EUR equaled 1.5 percent. GEL appreciated against Lira by 32.5 percent and depreciated against RUB by 2.2 percent. Partly, the depreciation of GEL against those currencies, can be explained by high base effect. 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 8.5 and 11.7 percent respectively.

Table 1: Change of Nominal and Real Effective Exchange Rates

	December 31, 2021	Dec 31, 2021 - Jan 1, 2021	Dec 31, 2021 - Jan 1, 2020
Euro	3.5040	▲ 14.8%	▼ -8.3%
US Dollar	3.0976	▲ 5.8%	▼ -7.5%
Turkish Lira	0.2379	▲ 84.9%	▲ 102.5%
Russian Ruble	0.0415	▲ 5.9%	▲ 11.1%
NEER	130.23	▲ 17.7%	▲ 9.2%
REER (December 2021)	126.36	▲ 20.4%	▲ 11.6%

Source: NBG

Fiscal Sector

Budget Revenue Performance

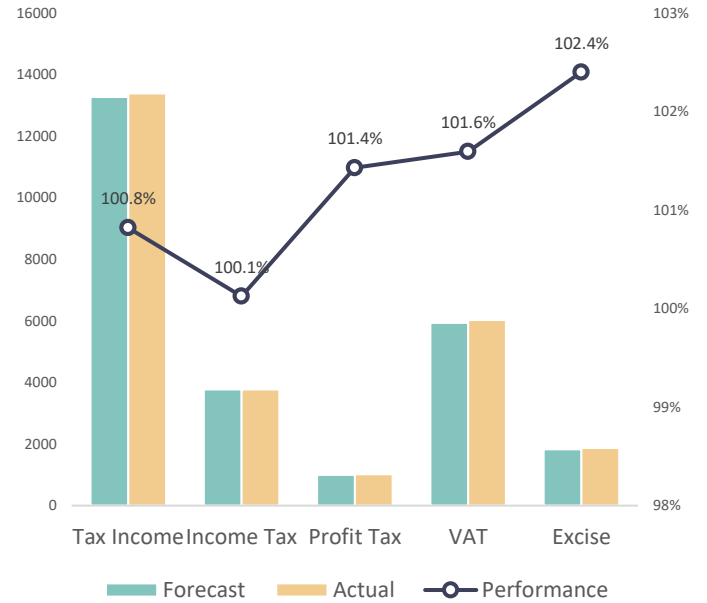
The consolidated budget tax revenue forecast for 2021 was set at 13,271.3 mln GEL, while 13,380 mln GEL was mobilized during the reporting period, which is 100.8 percent of the forecast.

- 3,775.7 million GEL is mobilized as income tax, which is 100.1 percent of the forecast figure (3,771 million GEL).
- 1,015.3 million GEL is mobilized as profit tax, which is 101.4 percent of the forecast indicator (1,001 million GEL).
- 6,029.5 million GEL was mobilized as VAT, which is 101.6 percent of the forecast (GEL 5,935 million).
- 1,868.8 million GEL is mobilized as excise, which is 102.4 percent of the forecast indicator (1,825 million GEL).
- 86.4 million GEL is mobilized in the form of import tax, which is 106.3 percent of the forecast (81.3 million GEL).
- 510.7 million GEL is mobilized in the form of property tax, which is 100.1 percent of the forecast (510 million GEL).

In the fourth quarter of 2021, compared to the same period last year, consolidated budget revenues increased by 28.1 percent and expenditures increased by 14.8 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to -87.4 million GEL, while the total balance was set at -1,332.7 million GEL.

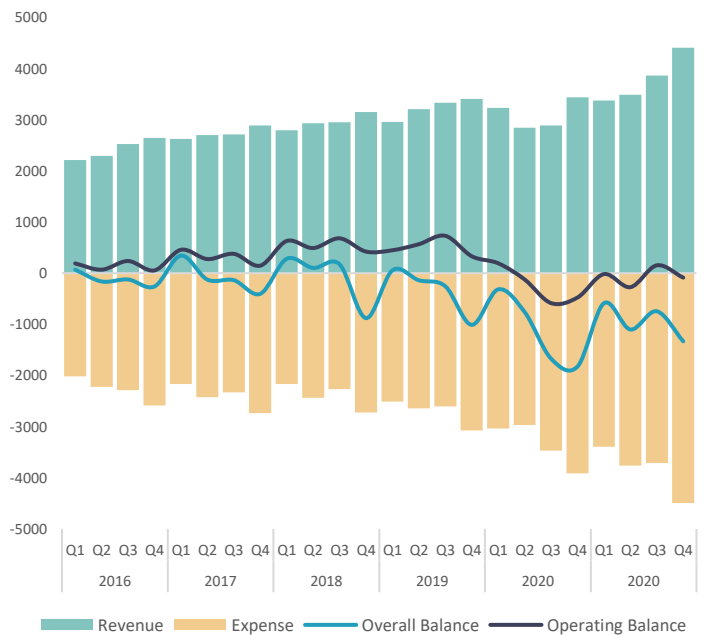
A significant share of budget revenues is accounted for by tax revenues, accounting for 88.0 percent in the fourth quarter of 2021. The consolidated budget received GEL 3,875.3 million in taxes, which is 33.8 percent more than the previous year. Revenue from income tax increased by 13.7 percent year on year to GEL 1,058.4 million. High growth is observed in the form of revenue from VAT, which increased annually by 22.1 percent compared to the previous year and amounted to 1,691.7 million and is 43.7 percent of total revenue from tax. At the same time, a significant increase in tax revenues is observed from import and profit taxes. In particular, revenue from import tax increased by 35.7 percent, while revenue from profit tax increased by 28.1 percent. Revenue from excise tax increased relatively slightly,

Figure 34: Budget Revenue Performance



Source: MOF

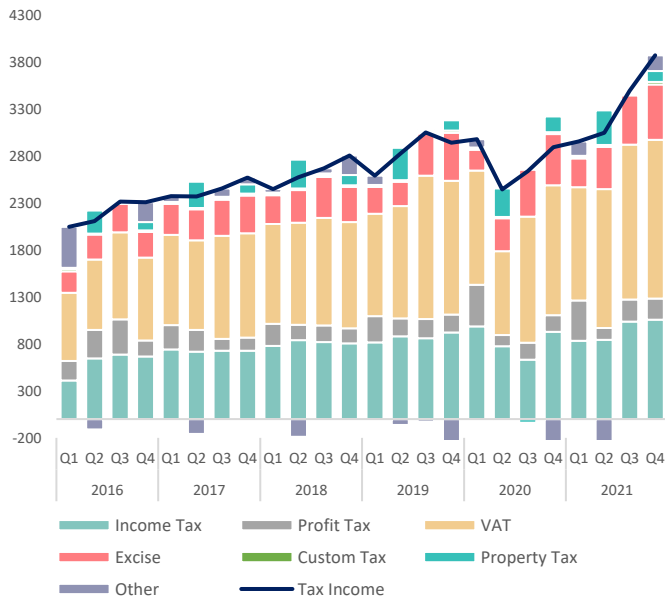
Figure 35: Budget Balance



Source: MOF



Figure 36: Tax Income

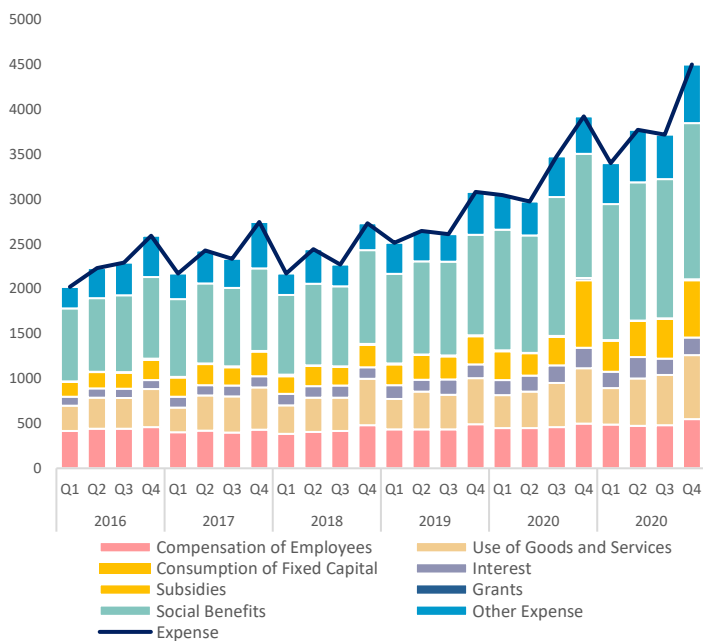


Source: MOF

accounting for 15.3 percent, while the growth rate was 8.3 percent.

Expenditures in the fourth quarter of 2021 increased by 14.8 percent year on year to GEL 4,493.5 million. The largest share of budget expenditures is in social security expenditures, which account for 38.7 percent of total expenditures, while the annual growth rate is equal to 25.7 percent. Expenditures in the form of goods and services also increased, with an annual growth rate of 15.8 percent to GEL 714.4 million, accounting for 15.9 percent of total expenditures. As for other items of expenditure, wages (12.1 percent of total costs), subsidies (14.2 percent of total costs), interest (4.4 percent of total costs) and other costs (14.5 percent of total costs) increased by 9.6 percent, -15.5 percent, -13.6 percent and 56.8 percent compared to the corresponding period of 2020, respectively.

Figure 37: Budget Expenses



Source: MOF



Government Debt

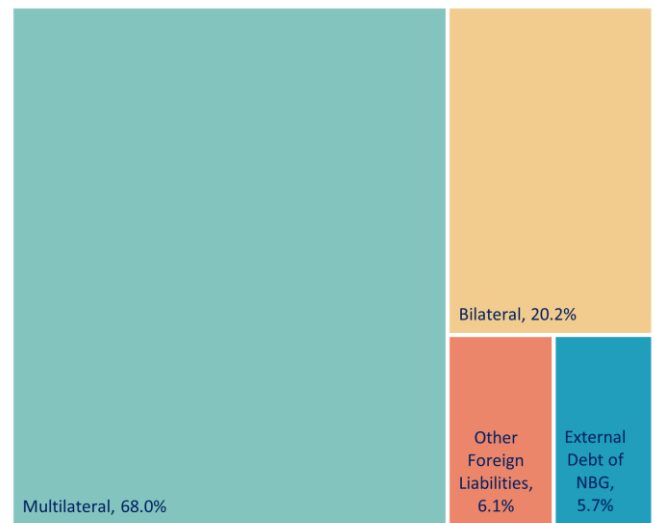
As of December 31, 2021, the stock of public debt of Georgia amounted to GEL 31,255 million, including:

- Government domestic debt stock is GEL 5,837.9 million, including:
 - Annual Renewable Government Bond for the National Bank (“Bond for the NBG”) - GEL 160.8 million;
 - Government bonds with different maturities for open market operations (“Bonds for open market”) - 152 million GEL;
 - Treasury liabilities of the Ministry of Finance – GEL 300.0 million;
 - Treasury bonds of the Ministry of Finance - GEL 5,178.7 million;
- Government external debt stock is 25,416.9 million GEL.

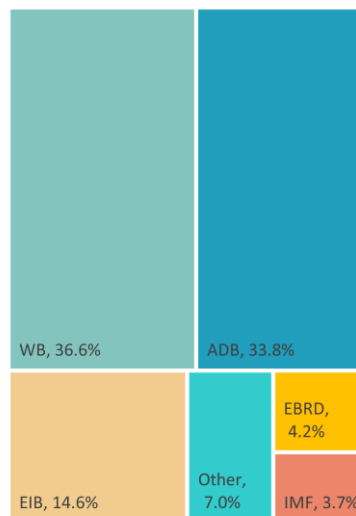
Figure 38: Government Debt



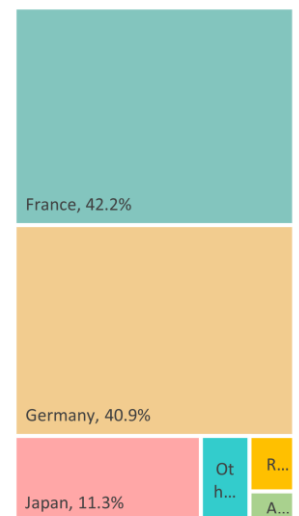
Government External Debt



Multilateral



Bilateral



Source: MOF

Monetary Sector

Private Sector Larization

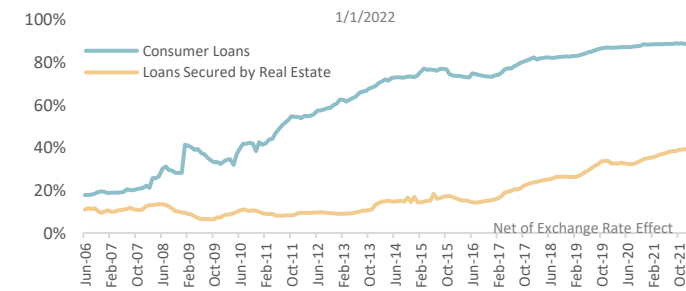
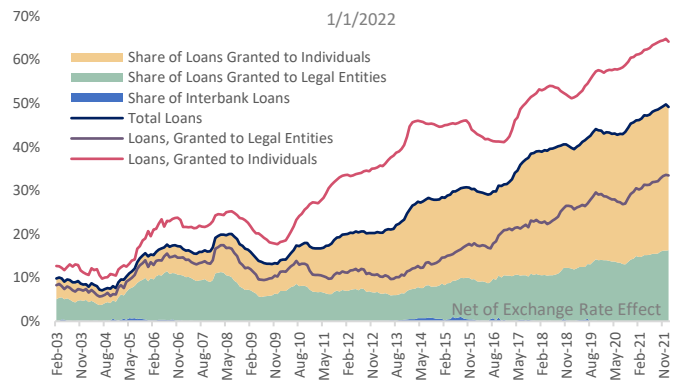
The larization of loans has an increasing trend and by 1 of January 2022 it reached 49.15 percent. It should be noted that the main determinant of total loan larization is the larization of loans granted to individuals. By 1 of January 2022, the larization of loans of individuals was 64.1 percent, in the same period the larization of loans granted to legal entities amounted to 33.4 percent.

As for the larization of loans according to collateral, larization of consumer loans significantly exceeds the larization of real estate loans. Larization of consumer loans evolved around 88 percent during 2021 and by 1 of January 2022 amounted to 88.2 percent, as of the larization of mortgage loans, it amounted to 38.4 percent.

The larization of deposits remain significantly lower than larization of loans. The larization of total deposits decreased by 1 percentage points compared to the previous quarter and as of 1 of January 2022 reached 39.4 percent. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. By the 1 of January larization of deposits of legal entities reached 53.9 percent and the larization of deposits of individuals in the same period was 26.6 percent.

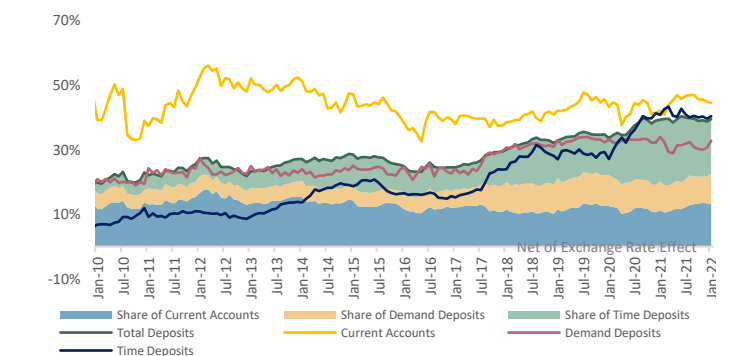
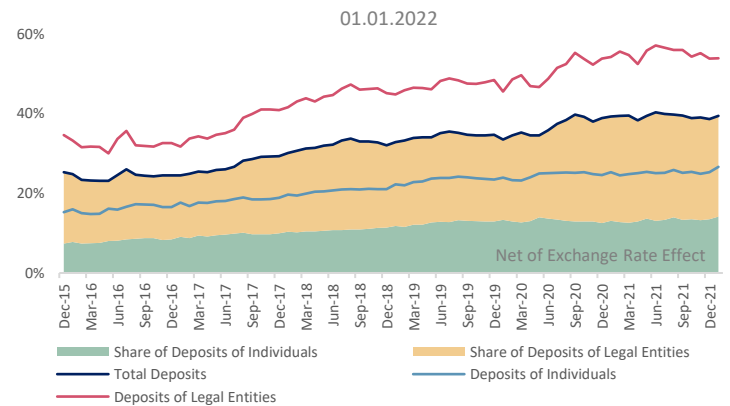
It should be noted that the main contributor in the deposits larization is still time deposits larization, by 1 January 2022 it reached 40.4 percent. In the same period current accounts larization amounted to 44.4 percent, while larization of the deposits before demand increased by 2.47 percentage points compared to the previous quarter and reached 32.7 percent.

Figure 39: Loan Larization



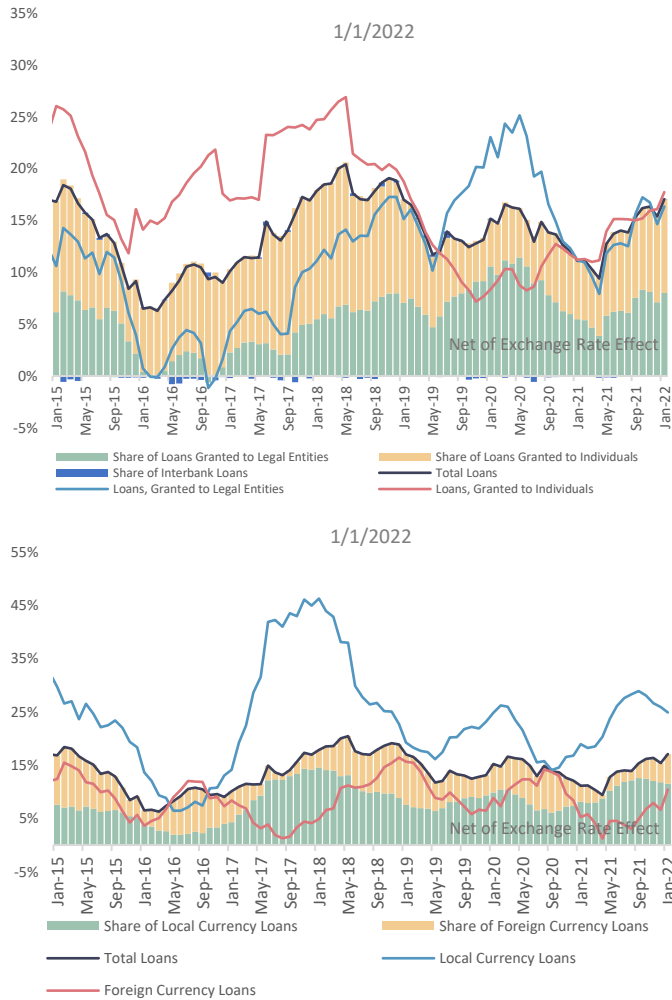
Source: NBG

Figure 40: Deposit Larization



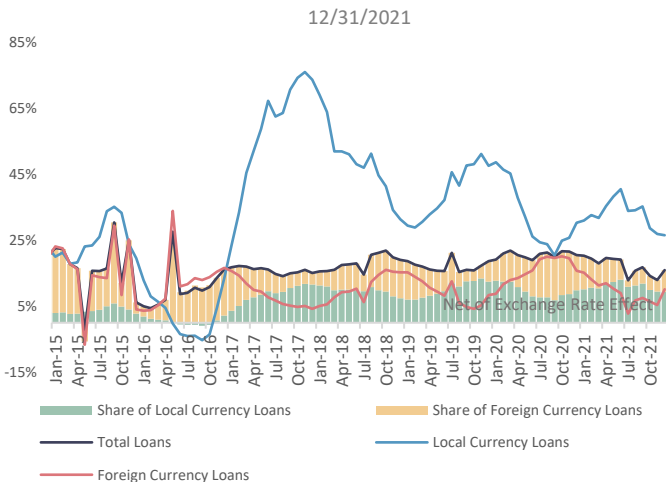
Source: NBG

Figure 41: Annual Growth of Loans



Source: NBG

Figure 42: Annual Growth of Loans secured by Real Estate



Source: NBG

Review of Loans

After a declining trend, an increase was observed in the growth rate of the credit portfolio in the second quarter of the 2021 and as of 1 January 2022 overall loans increased by 17.1 percent compared to the corresponding period of 2021, which exceeds the value of the previous quarter by 0.9 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 16.3 percent, but compared to previous quarter it slightly decreased by 0.9. During the same period loans to individuals increased by 17.7 percent.

It is important to note that there is an increasing trend in the growth of loans denominated in local currency, but the growth was lower during the last quarter of 2021 and as of 1 of January 2022 it amounted to 24.9 percent, compared to the corresponding period of 2021. During the same period, the growth of loans in foreign currency was 10.4 percent, which is 3.6 percentage points higher than in the last quarter (excluding exchange rate effect).

By 31 of December 2021, mortgage loans had increased by 15.9 percent compared to the corresponding period of the previous year, which is 1.0 percentage points lower than in the third quarter (excluding exchange rate effect). Moreover, mortgage loans that are denominated in national currency increased by 26.5 percent, 8.7 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.

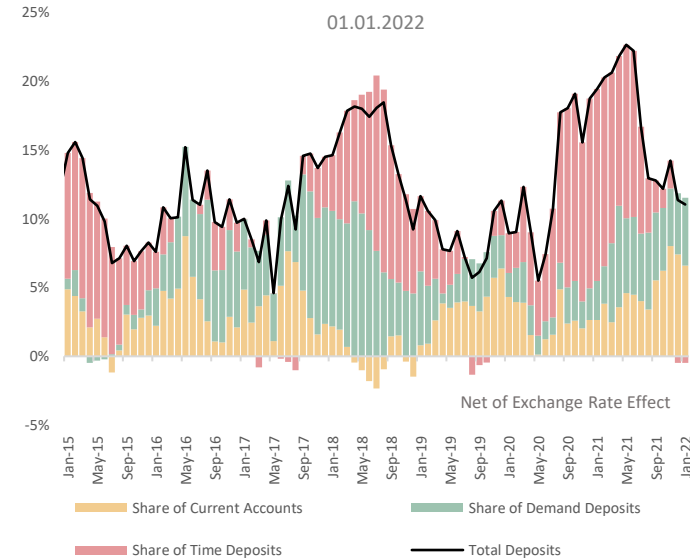
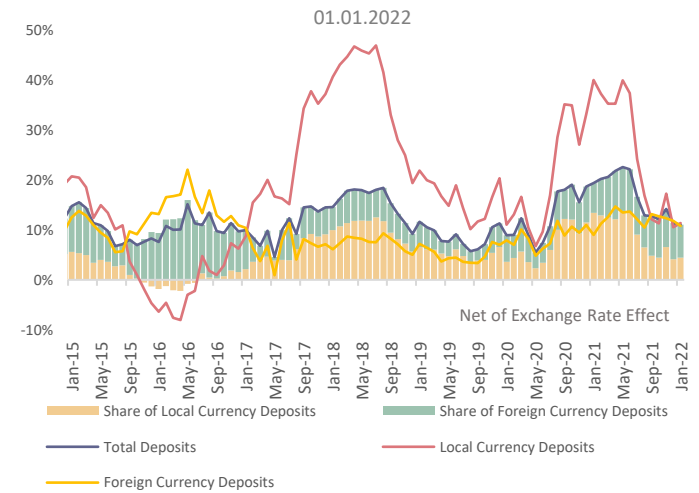
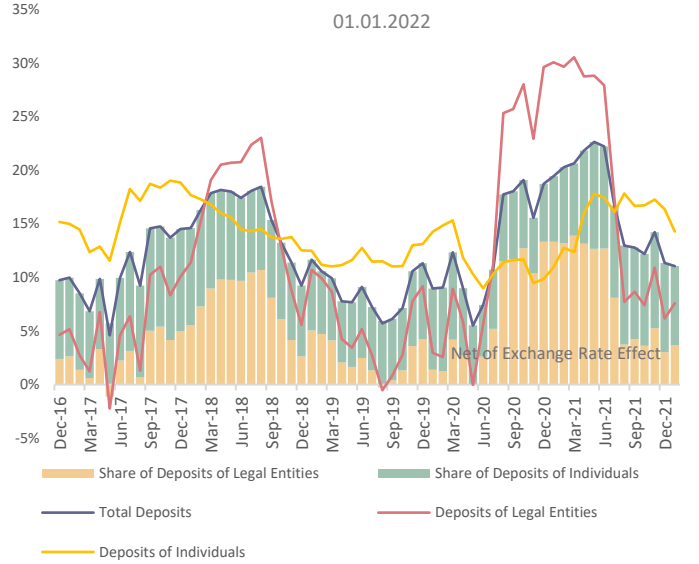
Review of Deposits

The growth of total deposits on the 1 of January 2022 was 11.0 percent compared to the corresponding period of 2021, which is by 1.2 percentage points lower compared to the previous quarter. After significant increase in the annual growth of deposits denominated in national currency, decline of growth rate was observed, but the growth then stabilized and increased by 0.1 percent compared to third quarter and reaching 11.4 percent by the 1 of January 2021, while the annual growth of deposits denominated in foreign currency amounted 10.8 percent in the same period.

By the 1 of January 2022 annual growth of deposits of individuals reached 14.3 percent, while the annual growth of deposits of legal entities amounted to 7.6 percent, which is 2.4 percentage points lower than the same value of the previous quarter.

As for the growth of deposits by types, the slowing down of the deposits growth was reflected in the growth rate of time and demand deposits. Decrease was observed in the growth rate of the time deposits, compared to previous quarters annual growth rate of the time deposits decreased by 4 percentage points (net of exchange rate effect) and by 1 on January 2022 reached negative 1.0 percent. As for the current and demand deposits, their growth rates as of 1 January 2022 equaled to 24.8 and 18.6 percent, respectively.

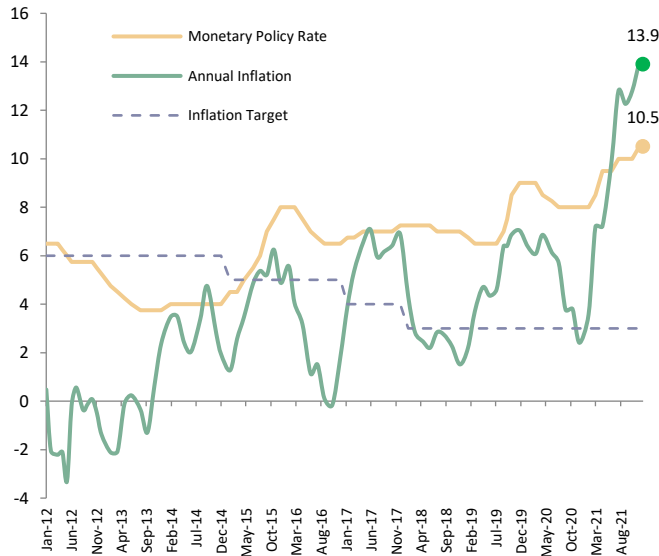
Figure 43: Annual Growth of Deposits



Source: NBG

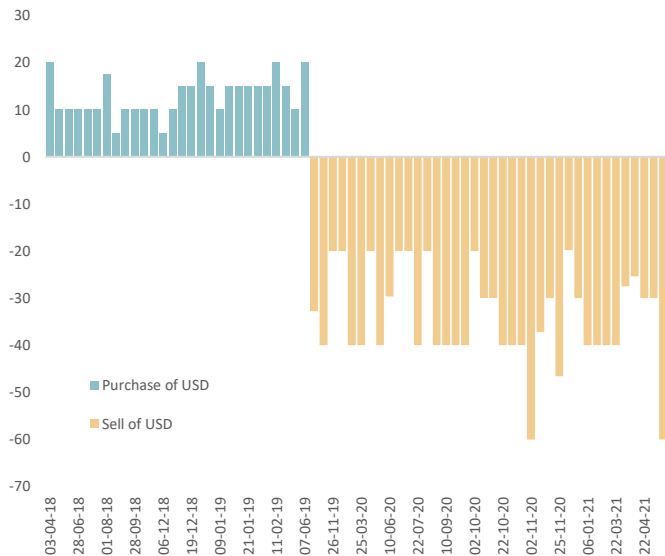


Figure 44: Inflation and Monetary Policy Rate



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 one session in the fourth quarter of 2021. The National Bank's Monetary Policy Committee decided to increase the refinancing rate by 0.5 percentage points from 10.0 to 10.5 percent. In their first meeting of 2022 held on February 2, they kept monetary policy rate unchanged.

According to the NBG, the high inflation in December and January was due to base effect of utility subsidy. Also per their statement high inflation starting from mid 2021 is due to increased prices at international level on commodity, oil and transportation, resulting in increased imported prices and thus translating into inflation. Assuming all things remain equal, they estimate that inflation will decrease gradually from spring 2022 and will be close to the targeted level by the end of the year. This, together with the adoption of temporary factors, will be facilitated by tighter monetary policy and fiscal consolidation.

From the third quarter of 2021, there was no interventions into FX market by NBG.



Interest Rates

As of January 2022, the interest rate on foreign currency deposits was 1.67 percent, while on the national currency deposits it amounted to 10.33 percent.

As of 1 of January 2022, the weighted average interest rate on deposits of legal entities in national currency was 10.52 percent, and in foreign currency – 1.7 percent. In the same period, the average annual interest rate was 1.67 percent on deposits of individuals in foreign currency and 10.03 percent in national currency.

By 1 of January 2022, the weighted average annual interest rate on short-term consumer loans was 17.8 percent (19.98 percent in national currency and 6.66 percent in foreign currency). Weighted average interest rates on long-term consumer loans are largely determined by loans denominated in national currency. Its value for January 1, 2022 was 16.76 percent. The interest rate on loans denominated in the national currency was 18.11 percent and the interest rate on loans denominated in foreign currency was 6.52 percent.

At the end of December 2021, the interest rate on mortgage loans issued to legal entities in national currency was 13.7 percent, and in foreign currency – 6.8 percent. The interest rate on loans to individuals in national currency was 13.0 percent, and in foreign currency it was 5.7 percent.

Figure 46: Interest rates on Deposits (stock)

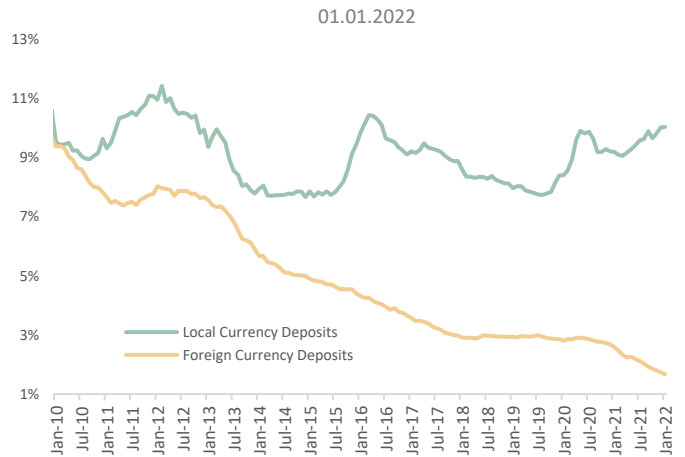
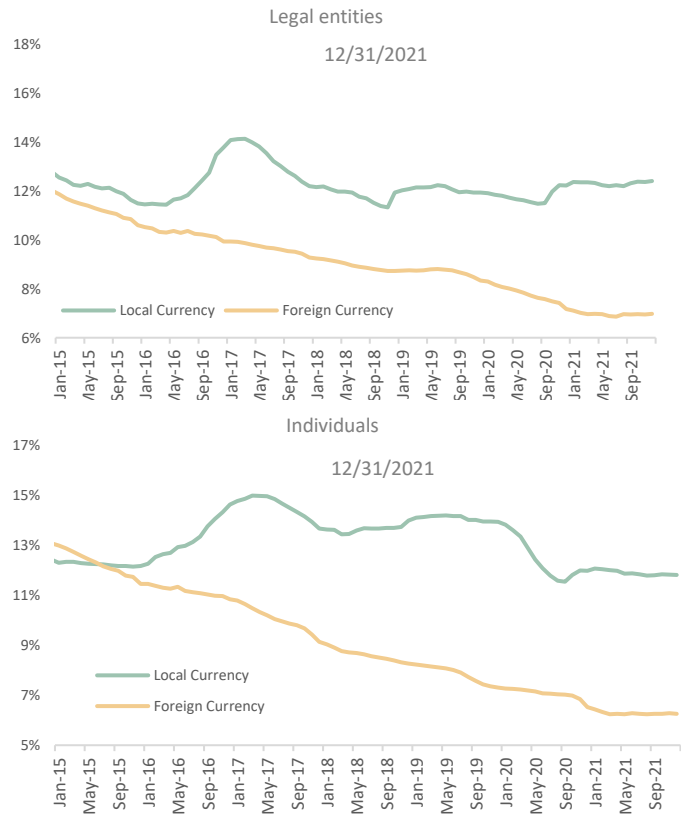


Figure 47: Interest rates on Loans secured by Real Estate



Source: NBG



Disclaimer

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