



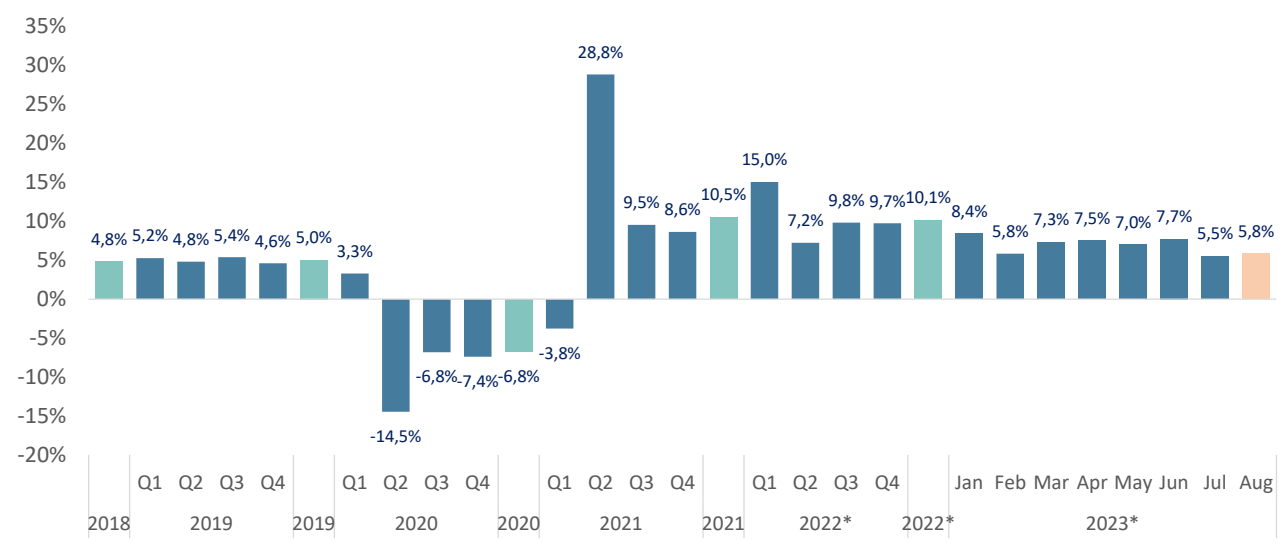
# Current Economic Outlook

September, 2023

- In August 2023, the real GDP growth rate was 5.8 percent and average growth rate of the first eight months of 2023 was 7.0 percent, according to the preliminary estimates of the National Statistics Office.
- In September, annual inflation stood at 0.7 percent, while core inflation was 2.6 percent
- In August, exports increased by 4.8 percent year-on-year and imports increased by 0.9 percent year-on-year, decreasing the trade deficit by 12.5 percent year-on-year to 691 million USD
- For August, the real effective exchange rate appreciated by 8.3 percent compared to the same period of the previous year and depreciated by 0.4 percent compared to the previous month
- The National Bank of Georgia decreased monetary policy rate at 10 percent in September

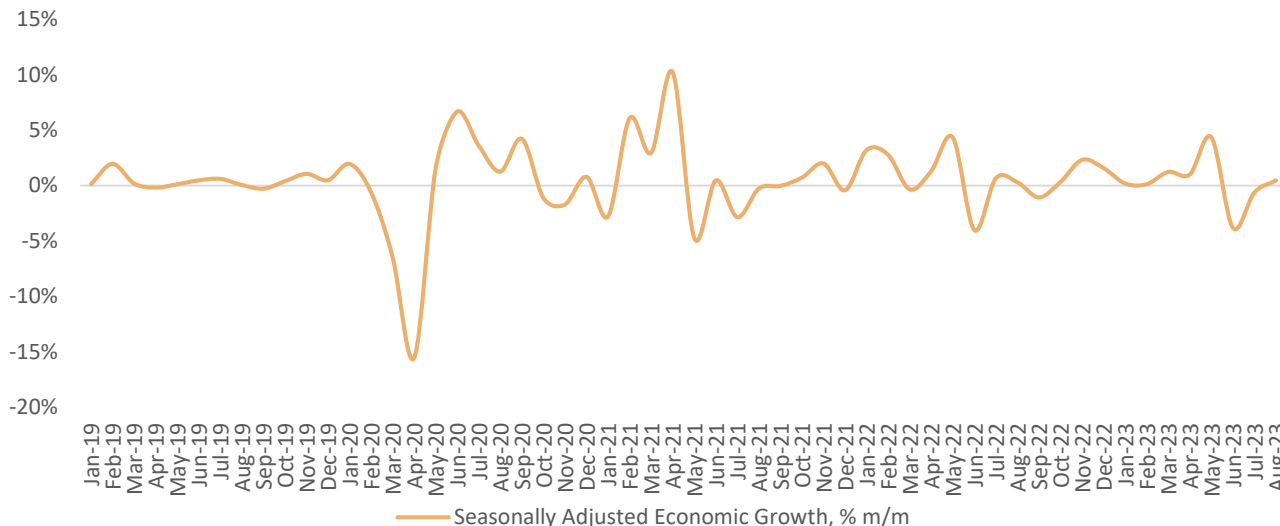
# Economic Growth in August was equal to 5.8 percent

Economic Growth, % y/y

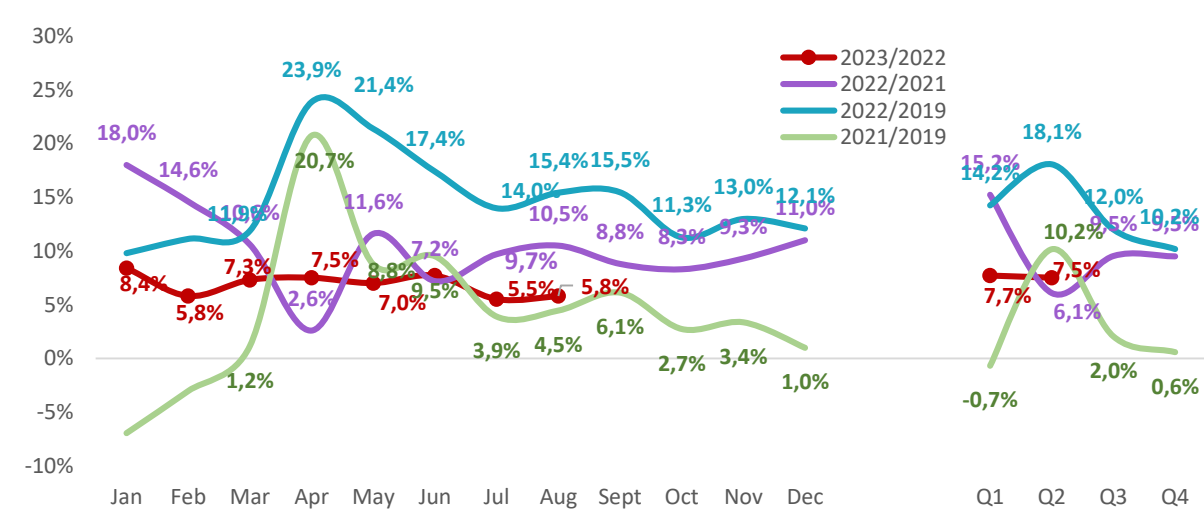


- Estimated real GDP growth rate in August 2023 equaled 5.8 percent YoY and average annual real GDP growth rate for the 2<sup>nd</sup> quarter of 2023 equals to 7.5 percent, while the average growth of the first 8 months was 7.0 percent. Seasonally adjusted economic growth in August comparing to the previous month was 0.5 percent.
- In August 2023 the estimated real growth compared to the same period of the previous year was observed in the following activities: Financial and insurance activities, Construction, Manufacturing, Trade.
- A decline was registered in the fields of Real estate activities, Transportation and storage, Information and communication activities.

Economic Growth, % m/m

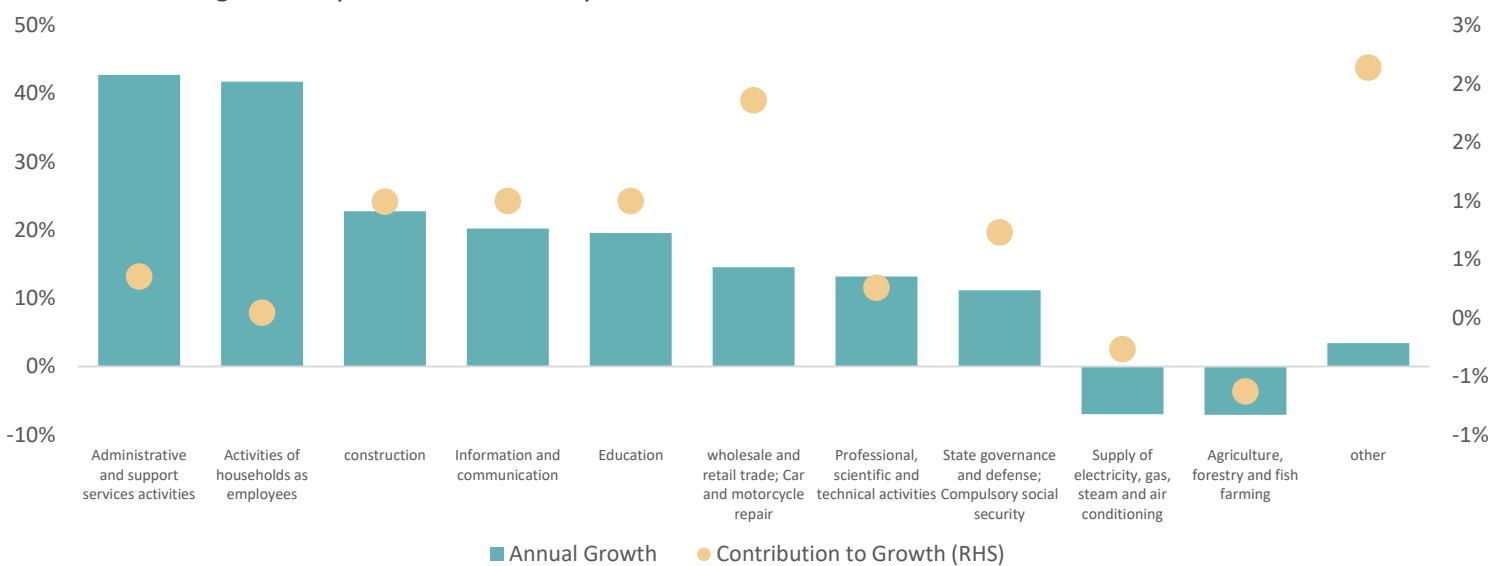


Economic Growth, 2023-2019

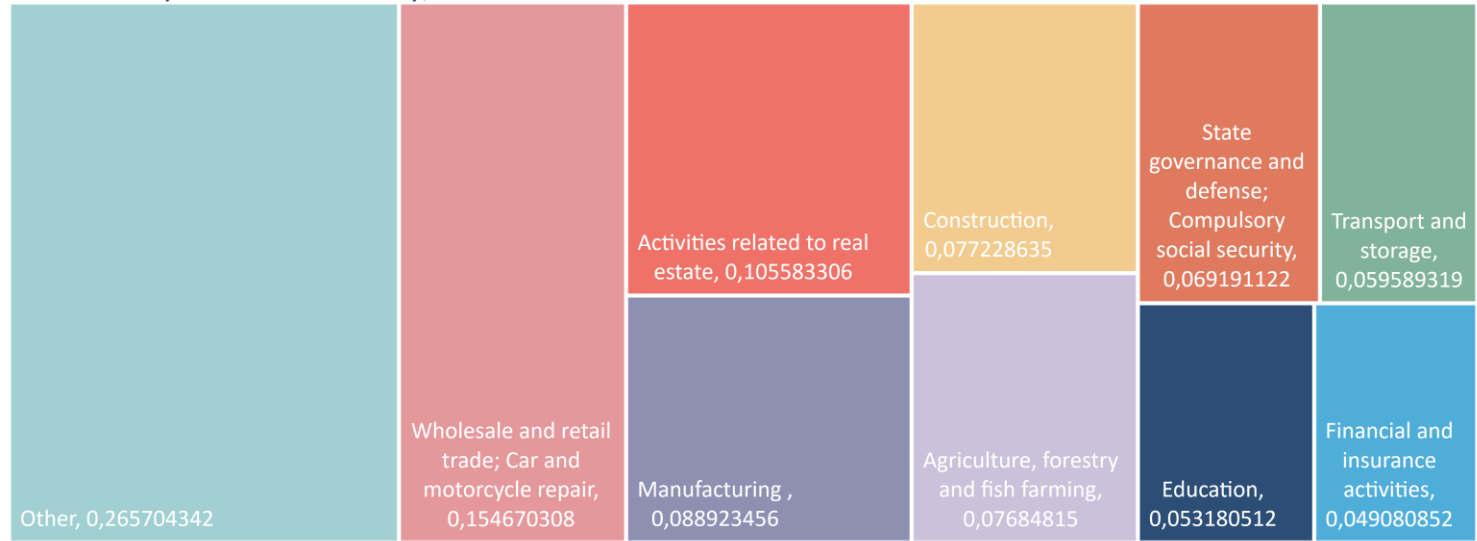


# According to preliminary estimates, real GDP increased by 7.5 percent in the second quarter of 2023

Real GDP growth by economic activity, 2023 II Quarter



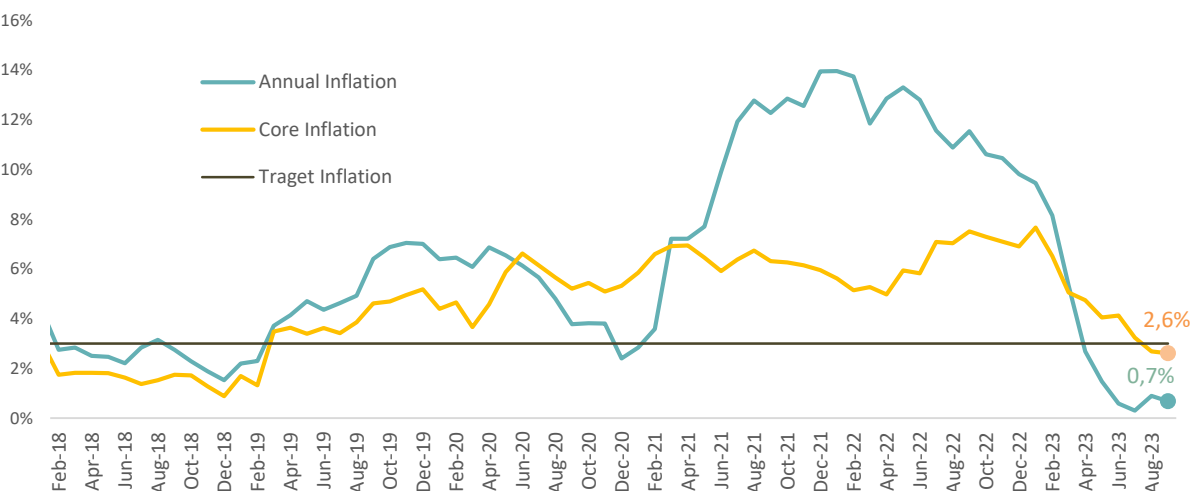
GDP by economic activity, 2023 II Quarter



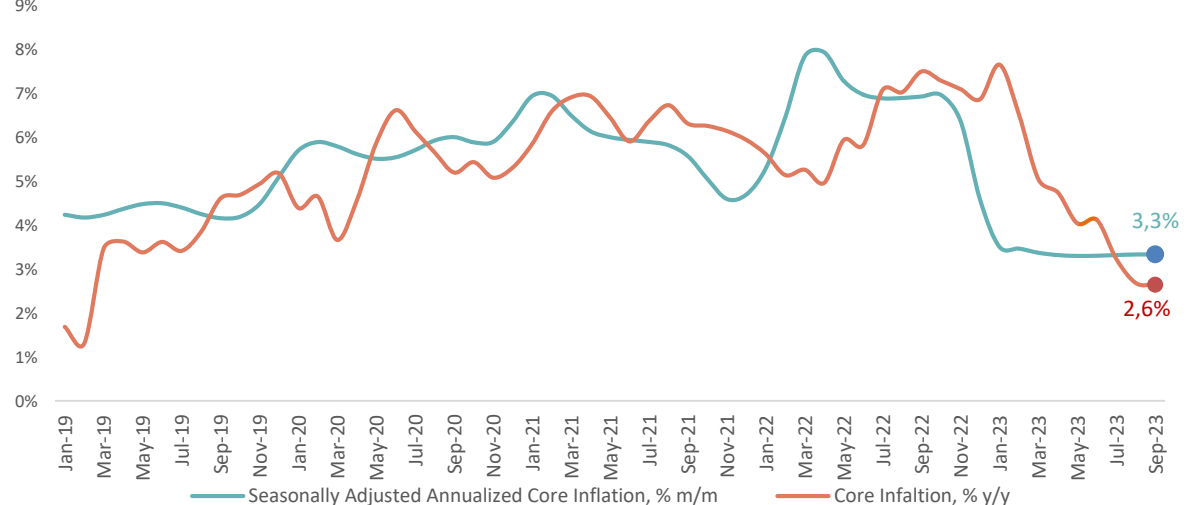
- According to preliminary estimates, in the second quarter of 2023 economic growth amounted to 7.5 percent, while in the first quarter of 2023, compared to the corresponding period of the previous year, real GDP increased by 7.7 percent. In the second quarter 2023 economic growth was 26.9 percent compared to the second quarter of 2019.
- The following industries have made a significant contribution to growth of Q2 2023:
  - Administrative and support services activities 42.8% (0.4 p.p.)
  - Activities of households as renters: 41.8% y/y (0.04 p.p.)
  - Construction: 22.7% (1.0 p.p.)
  - Information and communication: 20.2% (1.0 p.p.)
  - Education: 19.6% (1.0 p.p.)
  - Wholesale and retail trade; Car and motorcycle repair: 14.6% (1.9 p.p.)
- The following sectors made a significant contribution to the decrease:
  - Supply of electricity, gas, steam and air conditioning: -7.0% (-0.3 p.p.)
  - Agriculture, forestry and fish farming: -7.1% (-0.6 p.p.)

# Annual inflation in September has reached 0.7 percent

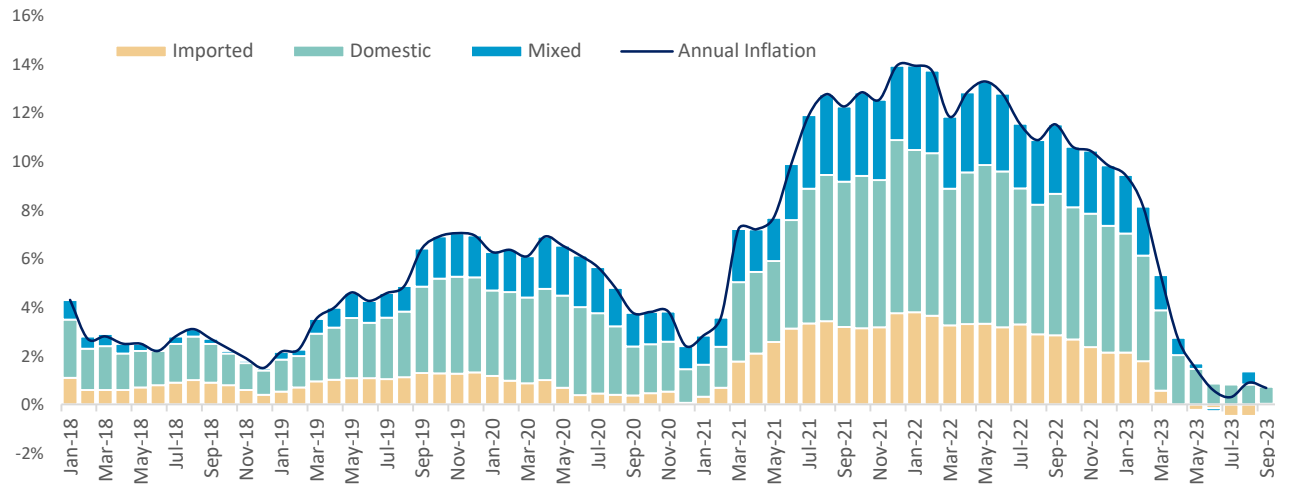
## Total and Core Inflation, % y/y



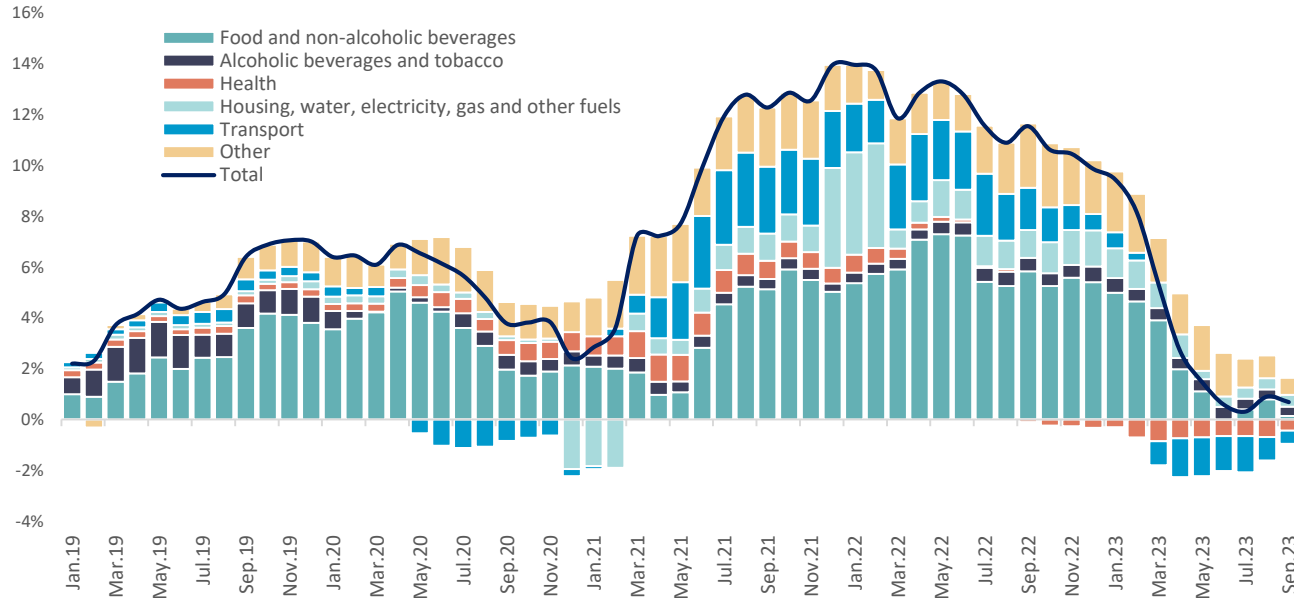
## Core Inflation, % m/m



## Inflation Decomposition



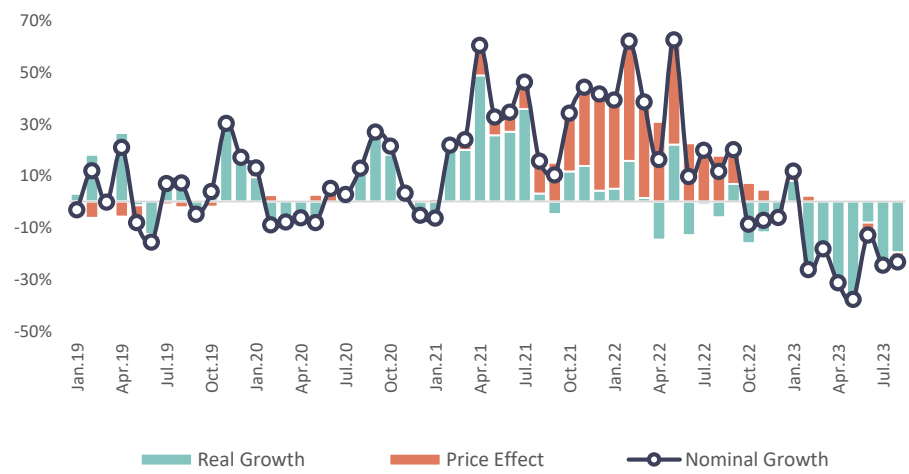
## Inflation Decomposition by product group



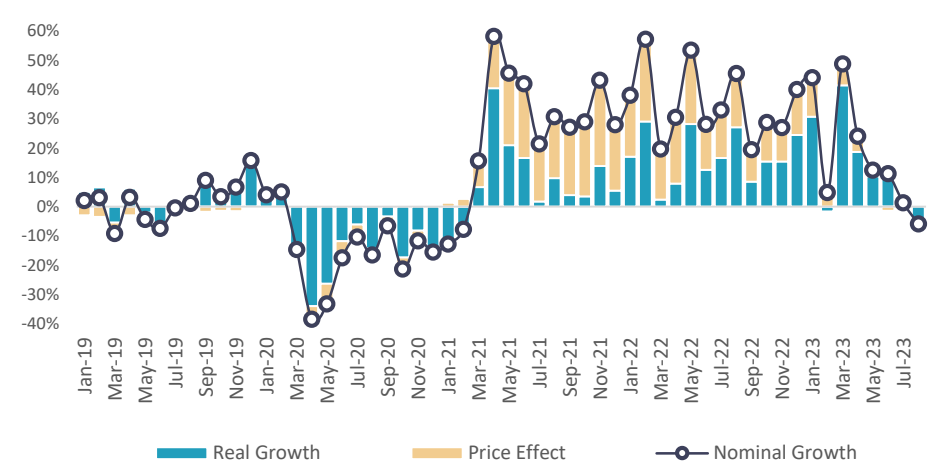
Source: Geostat, NBG, MOF

# Trade Deficit decreased by 12.5 percent annually

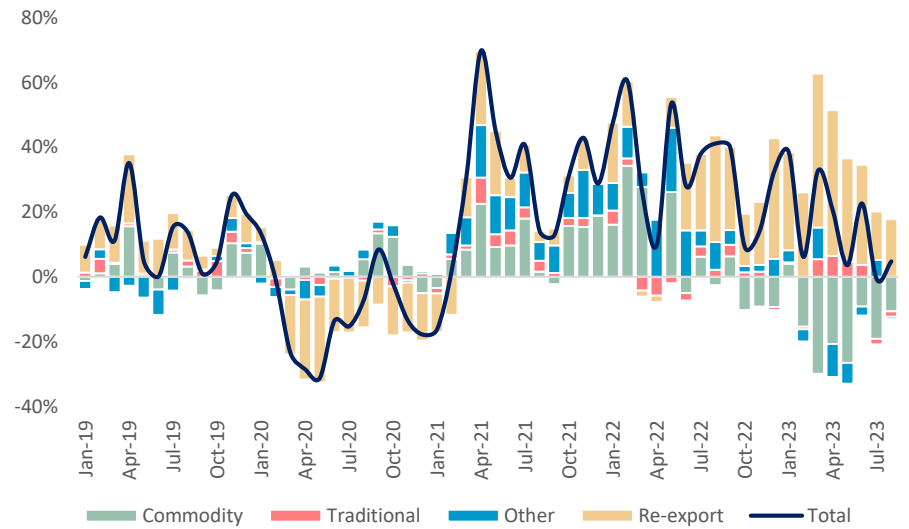
Change of Domestic Export, %y/y



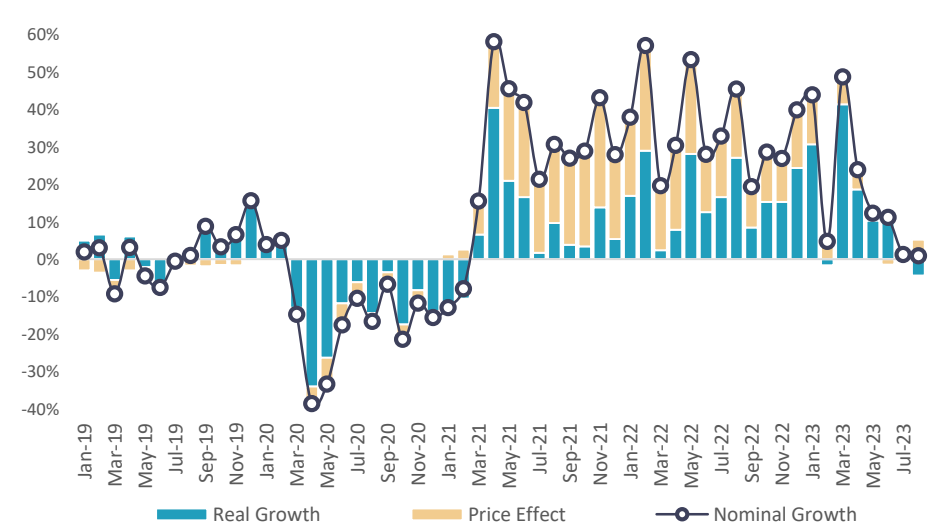
Change of Import, %y/y



Decomposition of Export



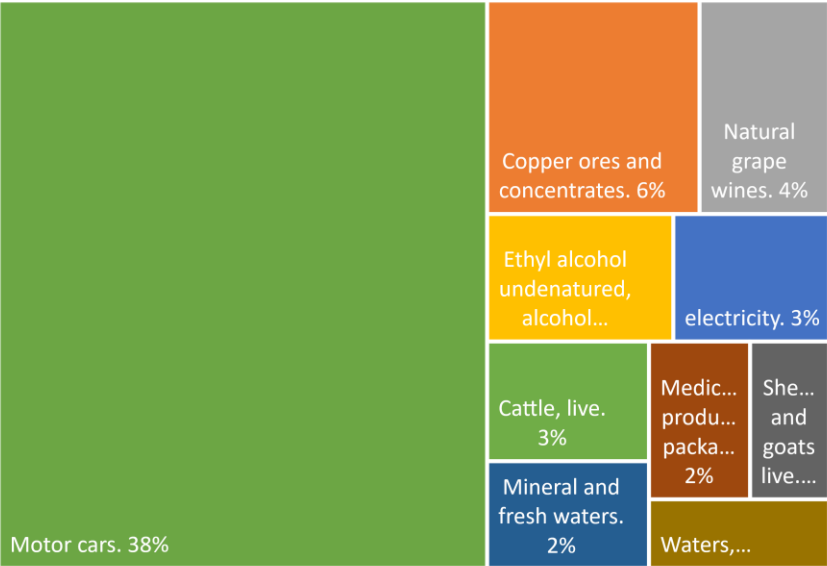
Decomposition of Change of Import, %y/y



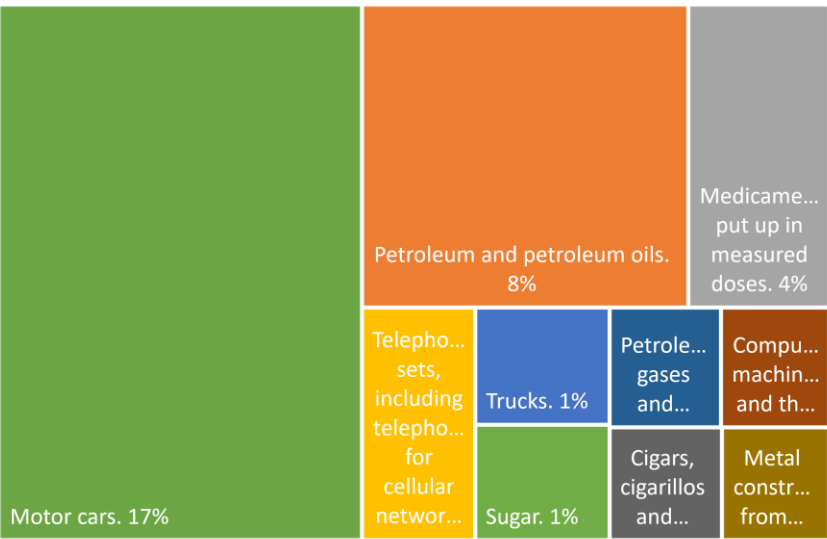
- Export increased annually by 4.8 percent to 495.8 million USD in August.
- Domestic export decreased annually by 23.4 percent to 202.1 million USD.
- Import annually increased by 0.9 percent to 1 274 million USD in August.
- Trade deficit annually decreased by 12.5 percent to 691 million USD in August.
- Share of re-export in export growth is equal to 17.8 percent (40.3 %y/y), while share of commodity export is negative 10.6 percent (-48.4 %y/y).
- Contribution of import of Investment, Consumption and Intermediate goods to total import annual growth was equal to 7.6, 1.2 and -7.9 percent respectively.

# International trade is characterized by stable diversification

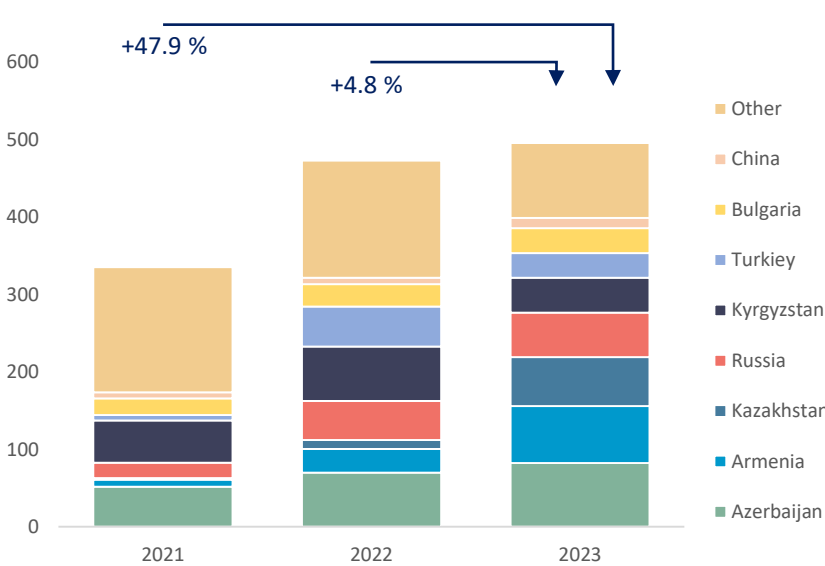
Top 10 Export goods, % of total Export



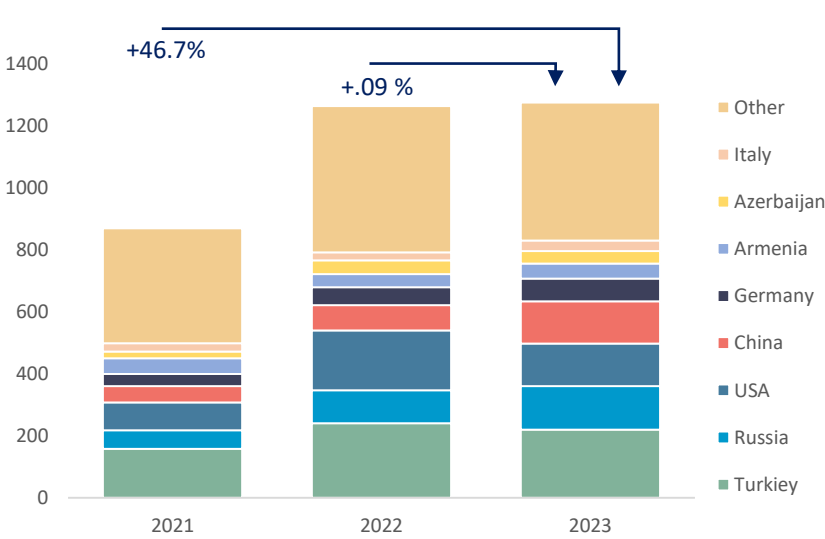
Top 10 Import goods, % of total Import



Export by country, August



Import by country, August



▪ **Top Export Products:**

- Motor cars: 190.6 mln. USD - 38.4 percent of total exports.
- Copper ores and concentrates: 31.1 mln. USD - 6.3 percent.
- Natural grape wines: 19.1 mln. USD - 3.8 percent.

▪ **Top Import Products :**

- Motor cars: 212.0 mln. USD - 16.6 percent of total imports.
- Petroleum and petroleum products: 107.7 mln. USD - 8.5 percent.
- Medicinal products packaged: 46.6 mln. USD - 3.7 percent.

▪ **Top Export Country:**

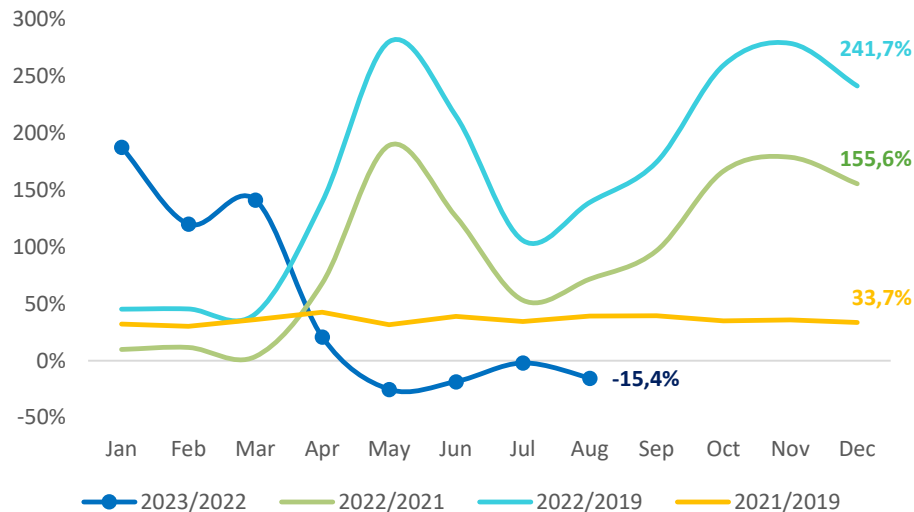
- Azerbaijan: 82/5 mln. USD - 16.6 percent.
- Kazakhstan: 73.7 mln. USD - 14.9 percent.
- Kyrgyzstan: 63.2 mln. USD - 12.7 percent.

▪ **Top Import Country :**

- EU: 328.1 mln. USD - 25.8 percent.
- Turkey: 219.7 mln. USD - 17.2 percent.
- China: 140.6 mln. USD - 11.0 percent..

# Net Remittances decreased by 15.4 percent in August 2023

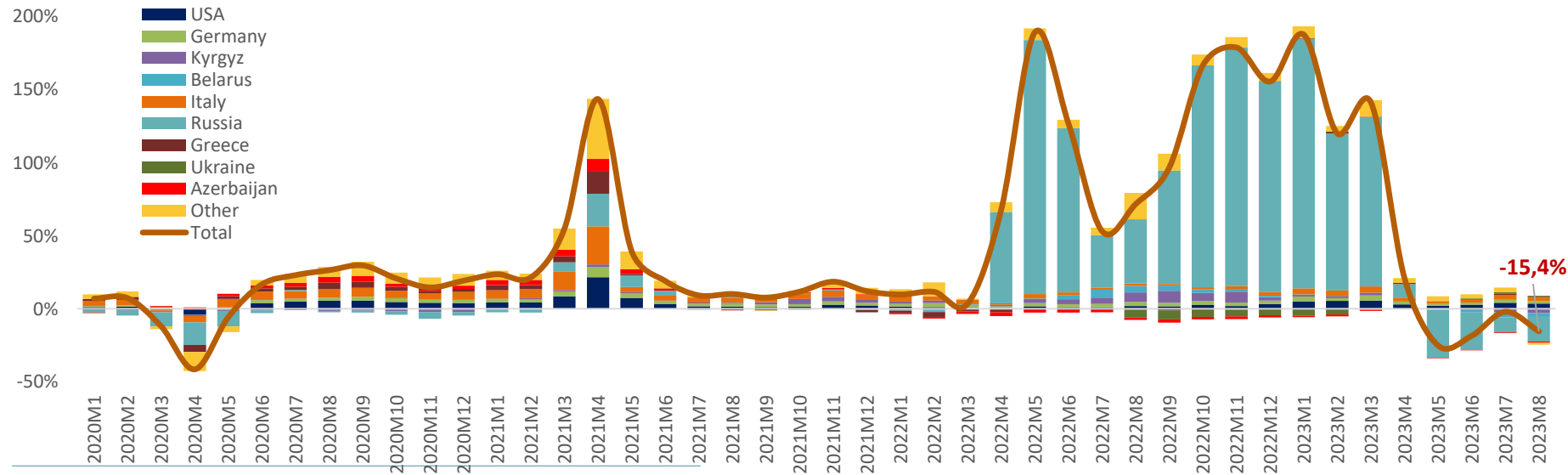
Net Remittances



Net Remittances, August 2023

Country	Net Remittances (USD million)	Change, %y/y	Share in growth, pp
Russia	57.1	-47.1	-16.7
Italy	44.2	23.0	2.7
USA	38.8	39.8	3.6
Germany	19.4	34.5	1.6
Greece	18.5	6.9	0.4
Kazakhstan	17.7	63.3	2.2
Other	62.1	-31.4	-5.0

Net Remittances by country, %y/y



- In July 2023, net remittances were estimated at 272.7 million USD, representing a 2.0 percent annual decrease. Relative to corresponding month of 2019, Net Remittances increased by 102 percent.
- Net Remittances increased from:
  - Ireland: 122.9 percent (contributing 0.8 pp to total growth).
  - Iraq: 94.9 percent (contributing 0.1 pp to total growth).
  - Kazakhstan: 63.3 percent (contribution of 2.2 pp to total growth).
  - USA: 39.8 percent (contributing 3.6 pp to total growth).
- Net Remittances decreased from:
  - Kyrgyzstan: -65.3 percent (-2.8 pp contribution to total growth)
  - Russia: -47.1 percent (-16.7 pp contribution to total growth)

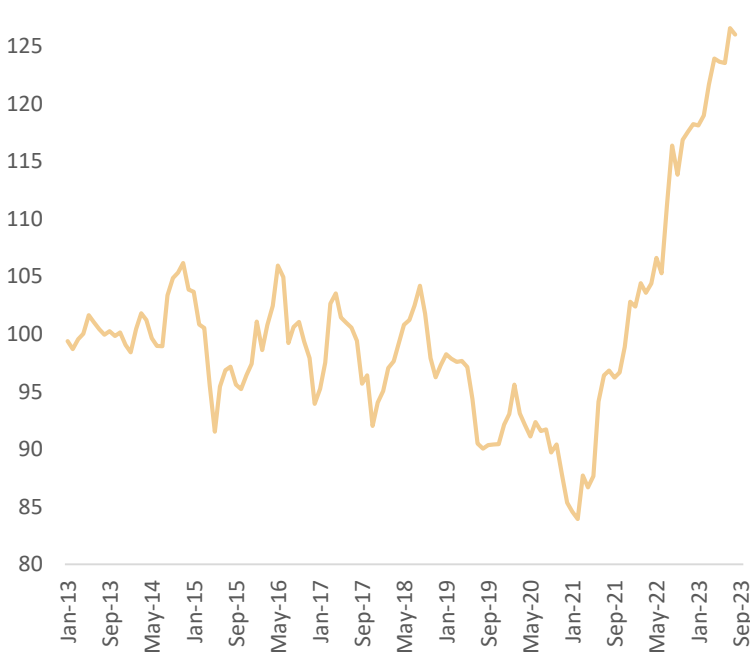


# Real Effective Exchange Rate in August Appreciated by 8.3 percent Annually

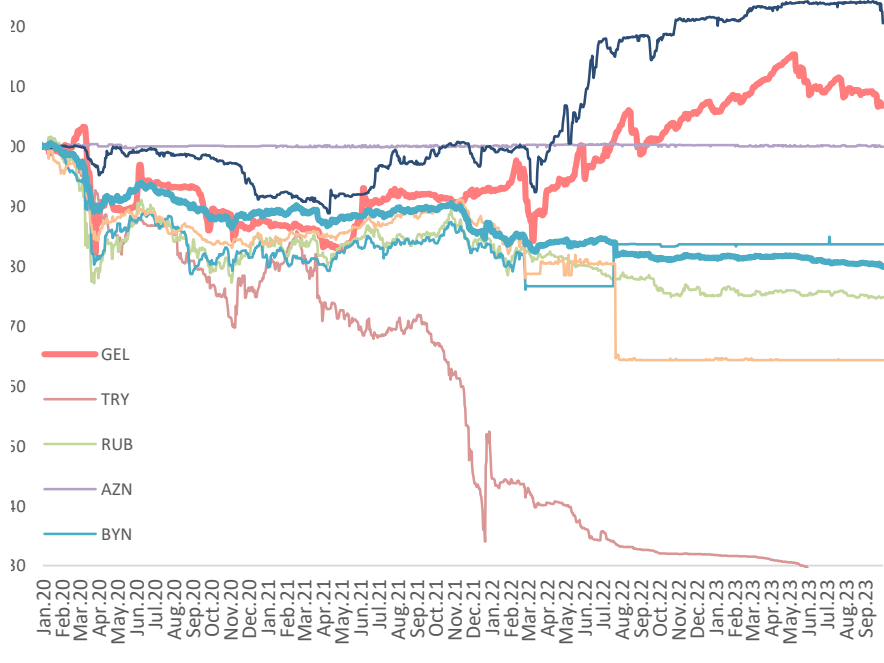
NEER: 2013 = 100



REER: 2013 = 100



USD Exchange Rates September 30, 2023



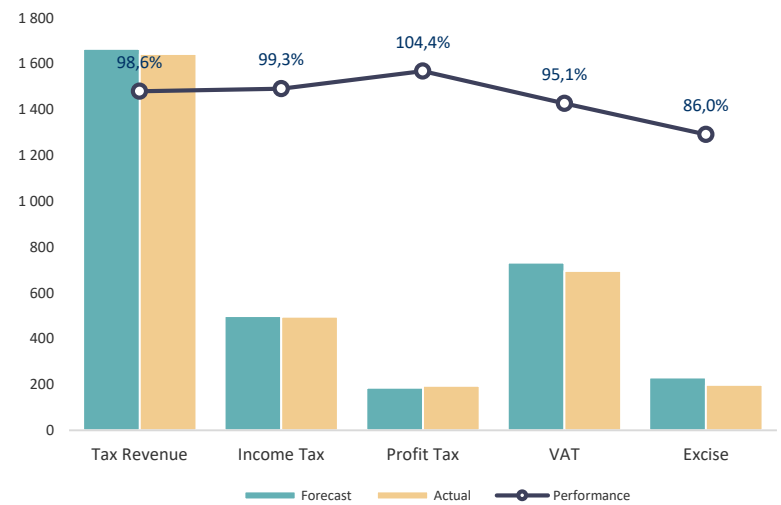
Note: Increase means appreciation

	October 1, 2023		Oct 1, 2023 - Jan 1, 2023		Oct 1, 2023 - Jan 1, 2022
Euro	2.8422	▲	1.5%	▲	23.1%
US Dollar	2.6783	▲	0.9%	▲	15.3%
Turkish Lira	0.0977	▲	47.7%	▲	136.6%
Russian Ruble	0.0274	▲	34.1%	▲	50.4%
NEER	189.06	▲	14.9%	▲	44.2%
REER (August 2023)	154.91	▲	6.7%	▲	22.6%

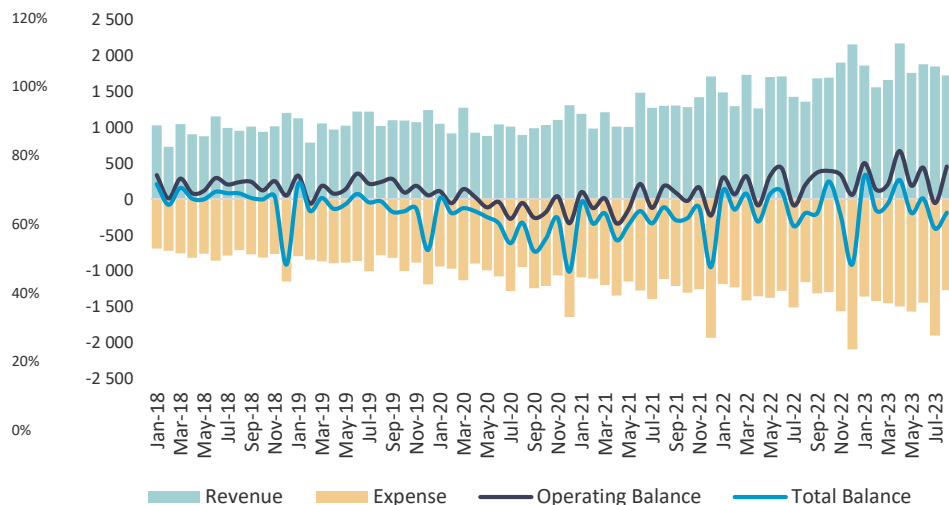
Source: NBG

# Tax revenues in September is below the forecast value by 1.4 percent

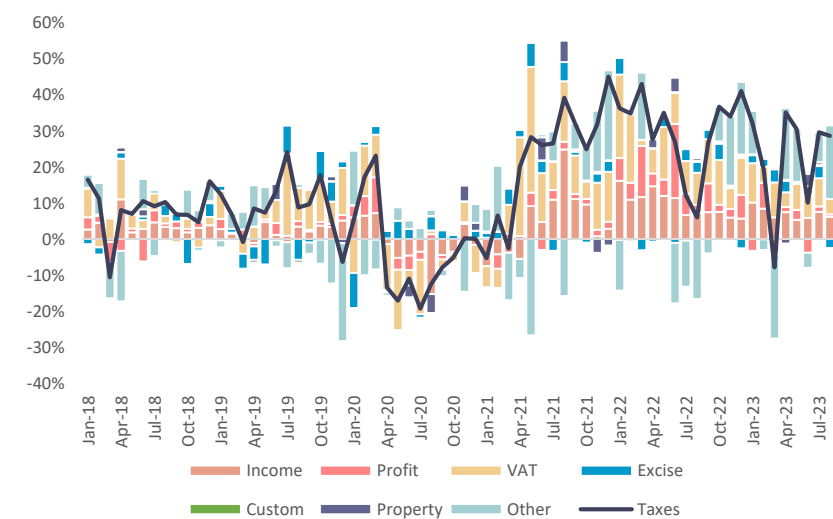
Budget Revenue Performance, September 2023



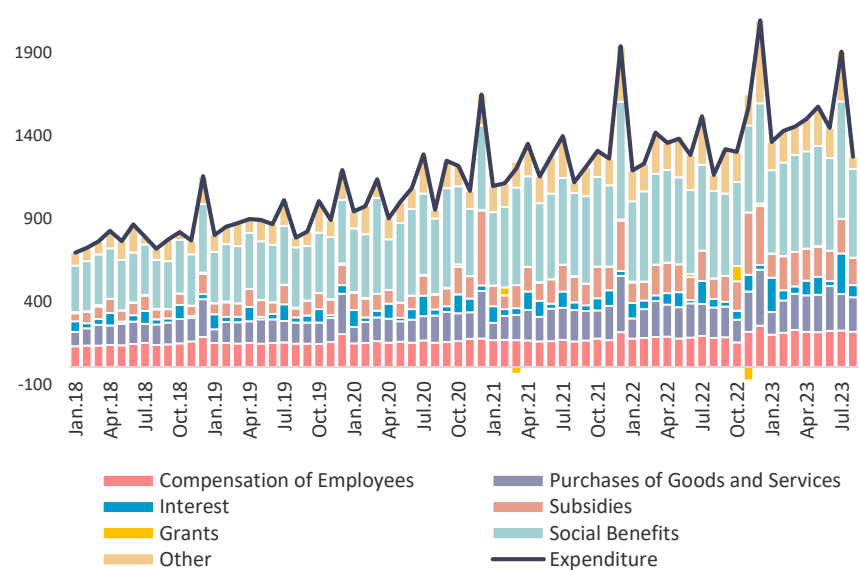
Consolidated Budget, mln GEL



Tax Income, % y/y



Consolidated Budget Expenditure, mln GEL

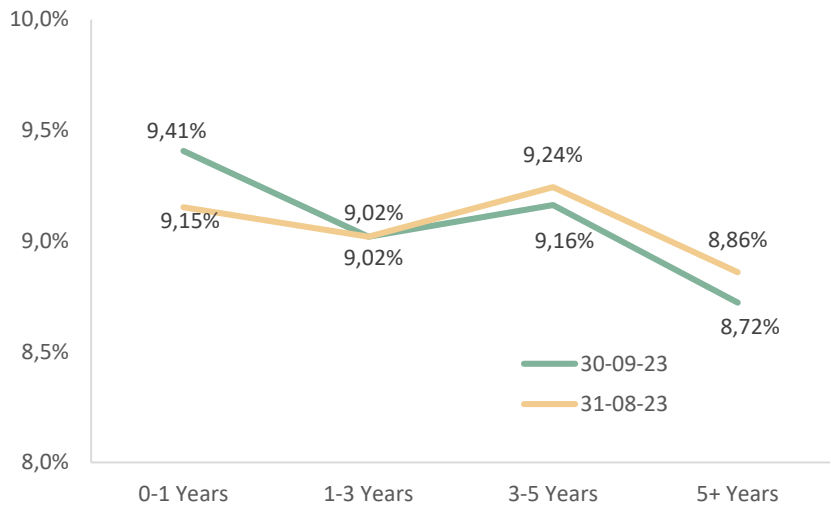


- The actual level of tax income in August 2023 was 1,587 mln GEL, which is above the forecasted value by 0.3 percent.
- Consolidated budget revenues increased by 26.9 percent and expenditures increased by 9.5 percent in August.
- The operating budget of the consolidated budget, which represents the savings of the government, amounted to 452.5 million GEL, while the total balance was set at negative 189.2 million GEL.
- Revenue from taxes had a significant impact on revenue from Income tax and VAT in August, accounting for 6.2 and 4.2 percent of total growth, respectively.

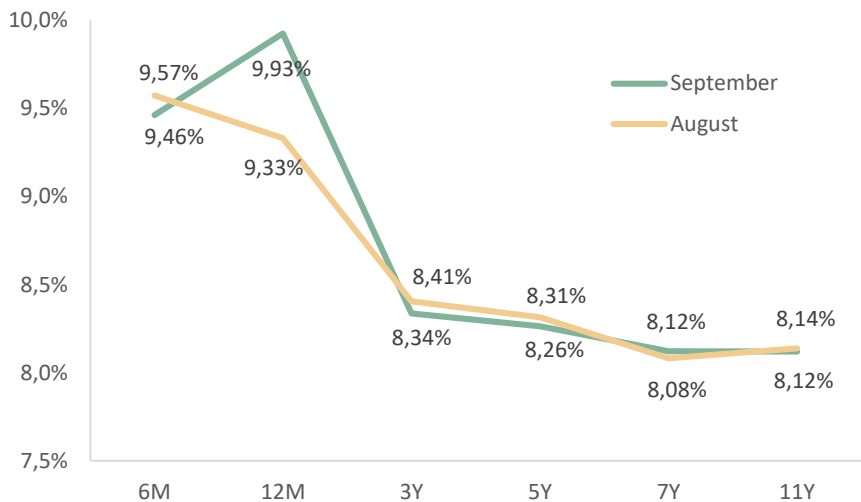
Source: MOF

# Structure of the Securities Portfolio has Undergone Changes

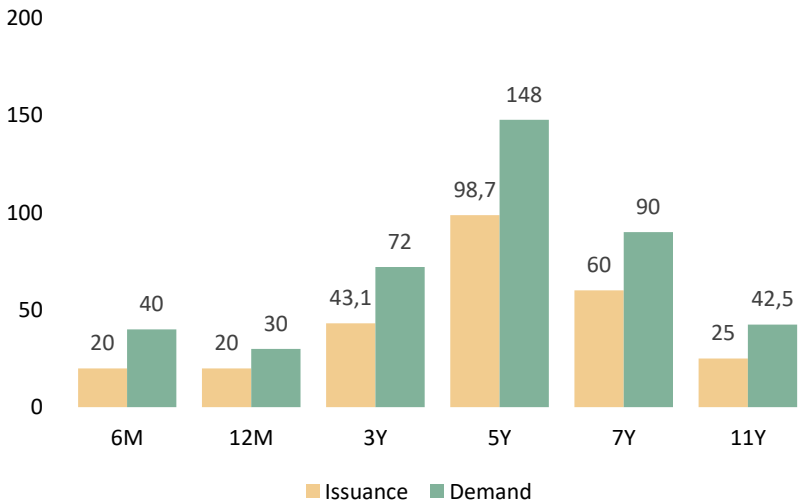
Portfolio Yield Curve



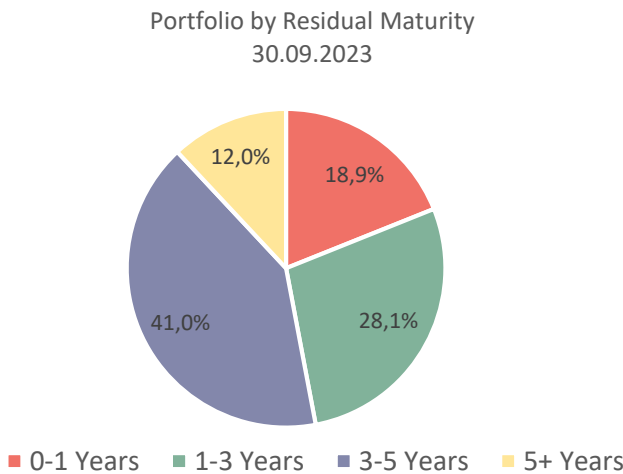
Weighted average interest rates



Issuance and Demand of Treasury Bonds, mln GEL



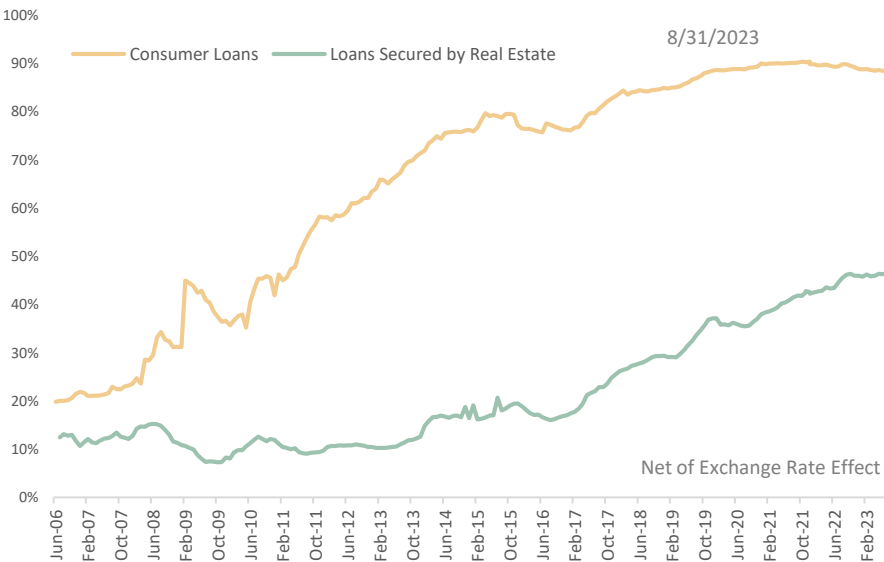
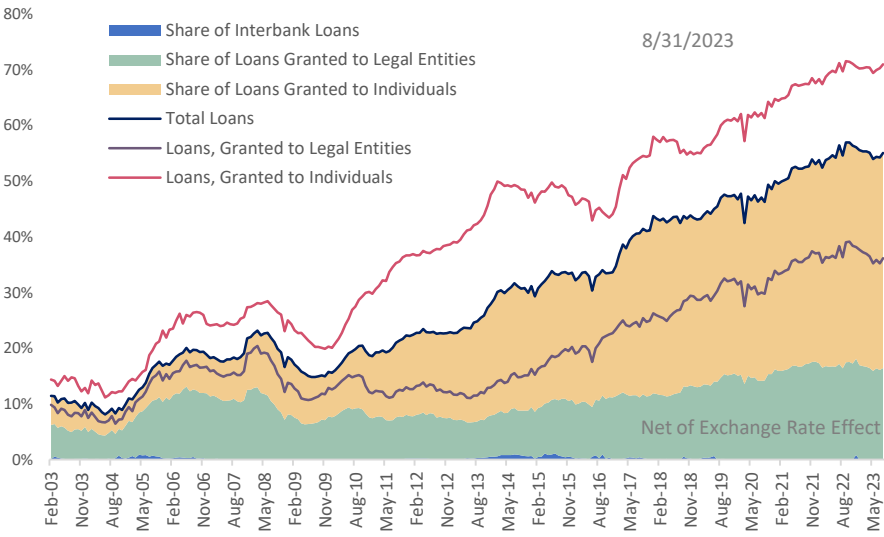
Portfolio by Residual Maturity



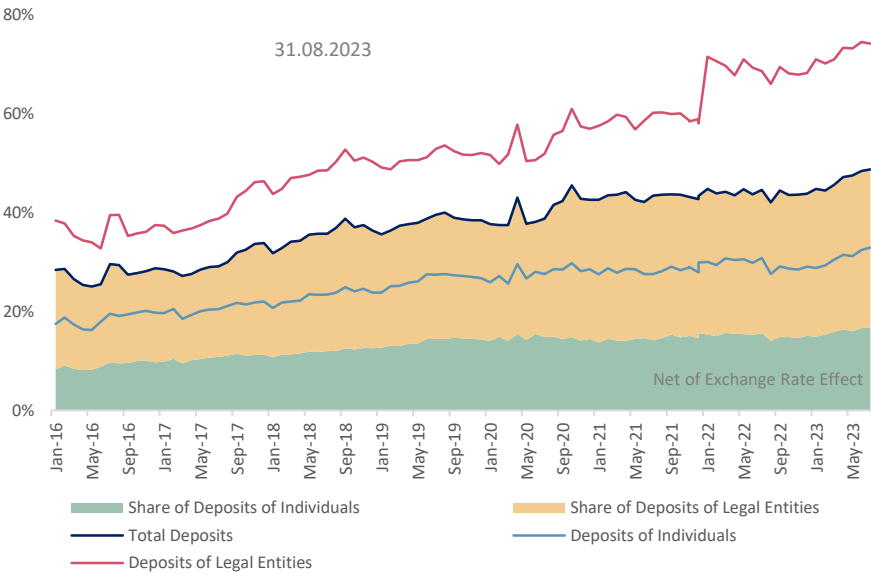
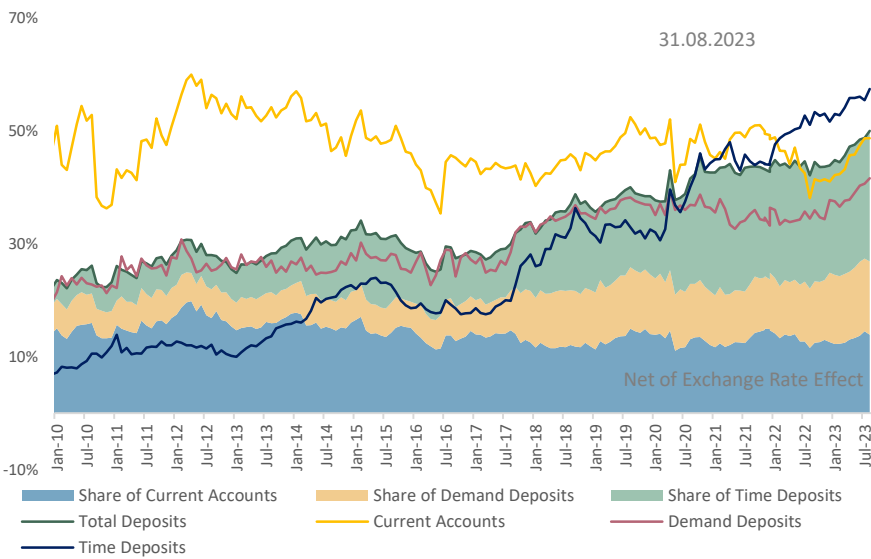
- In September 2023, 6 auctions were held with the total issuance volume of 266.77 million GEL. One buyback auction was held during the month.
- The weighted average interest rate amounted to 8.445%.
- There were issued treasury bills with maturities of 6 months and 12 months and the treasury bonds with maturities of 3, 5, 7 and 11 years. The treasury securities with total amount of 305.13 million GEL were redeemed.
- As of September 30, 2023 around 41% of the treasury securities portfolio is composed of the securities whose maturity date is due for the next 3-5 year. The medium-term state financials securities (with duration 1-3 years) have also a sizable share (at around 28%) in the total portfolio.
- The Bid-to-cover ratio decreased compared to the previous month's value (August 1.68) and amounted to 1.58.

# Larization Indicators Are Rising

## Loan Larization



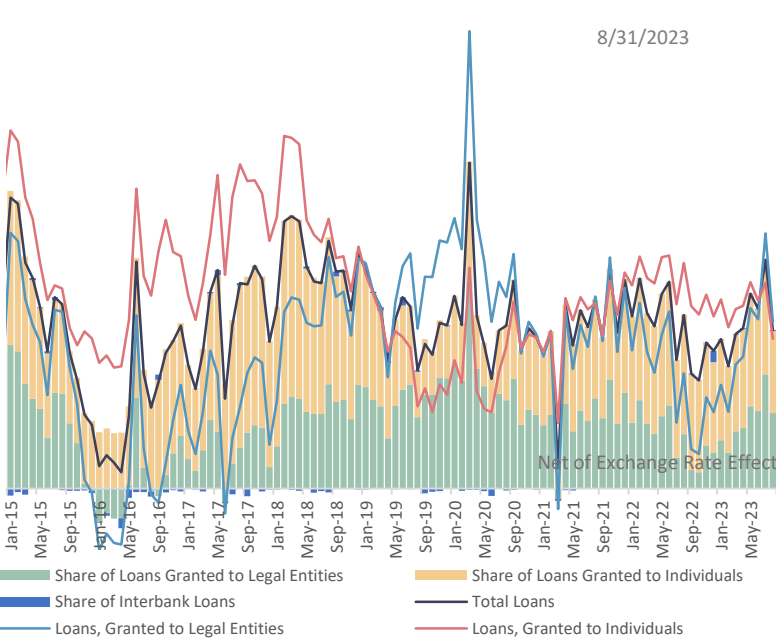
## Deposit Larization



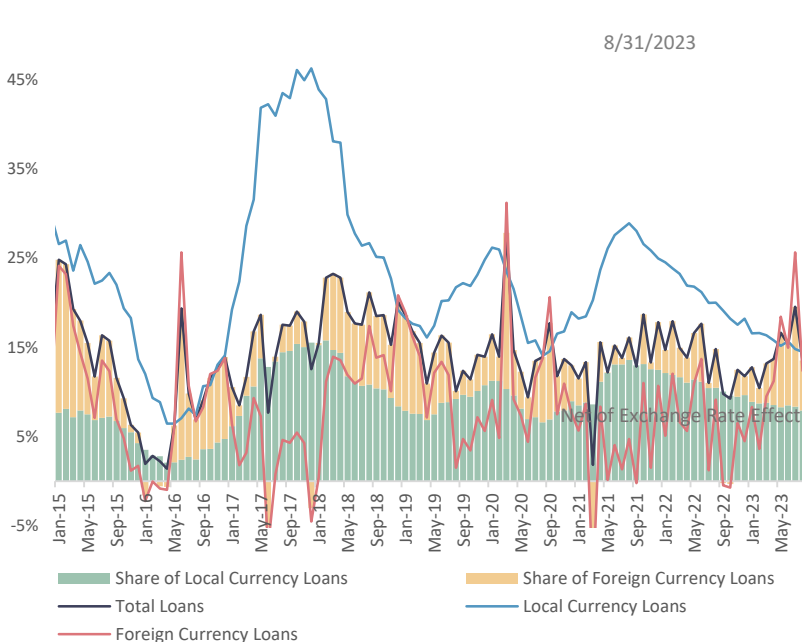
- As of August 31, 2023, the larization of total loans is 50 percent.
- The larization of loans to individuals is 70.9 percent.
- The larization of the loans to legal entities amounted to 36.1 percent.
- The larization of the total deposits equals to 50 percent.
- The larization on the deposits of legal entities amounted to 75.7 percent.
- The larization of the deposits of individuals is 33.5 percent.
- The larization of time deposits is 57.4 percent.
- The larization of current accounts equals to 48.6 percent.
- The larization of the demand deposits is 41.6 percent.

# Annual Growth Trend of Loans is Sustained

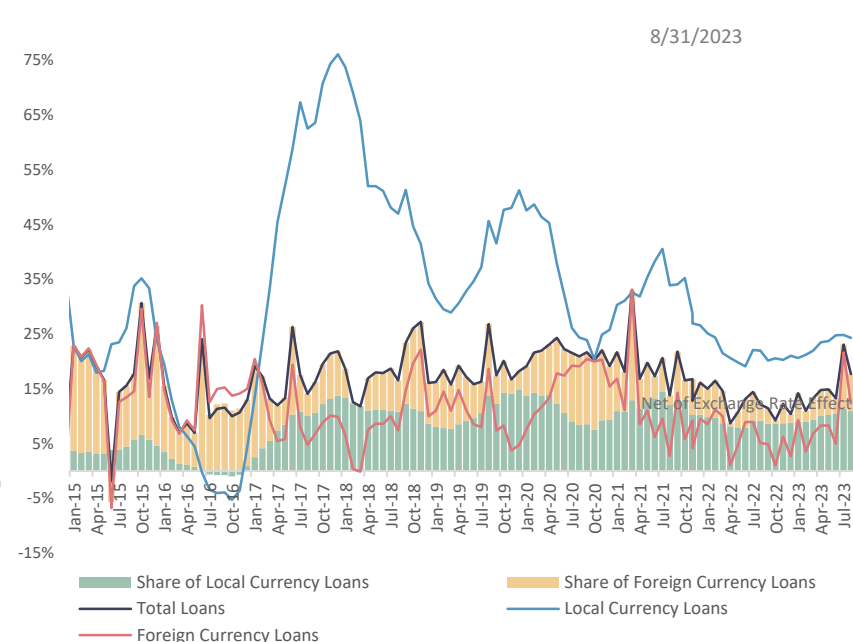
Loans Growth Rates, % y/y



Loans by Currency, % y/y

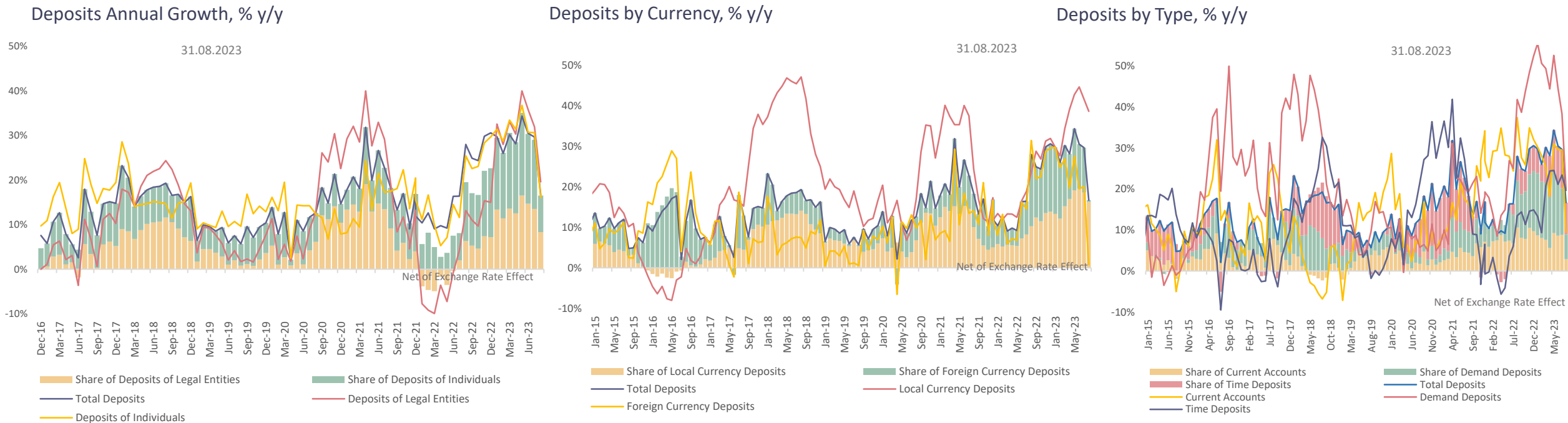


Mortgage Loans, % y/y



- As of August 31, 2023, the total loans increased by 13.5 percent compared to the corresponding period of 2022 (excluding exchange rate effects).
- The annual growth of loans to the legal entities is 14.3 percent.
- The annual growth of loans to individuals is 12.8 percent.
- As of August 31, 2023, the growth rate of the loans denominated in the national currency amounted to 14.5 percent.
- The annual growth of loans denominated in foreign currency amounted to 12.4 percent.
- As of August 31, 2023, the annual growth of loans secured by real estate amounted to 17.7 percent. At the same time, the mortgage loans denominated in national currency increased by 24.3 percent, while the mortgage loans denominated in the foreign currency increased by 12.3 percent.

# Annual Changes of Deposits Continue Growing at the Stable Rates

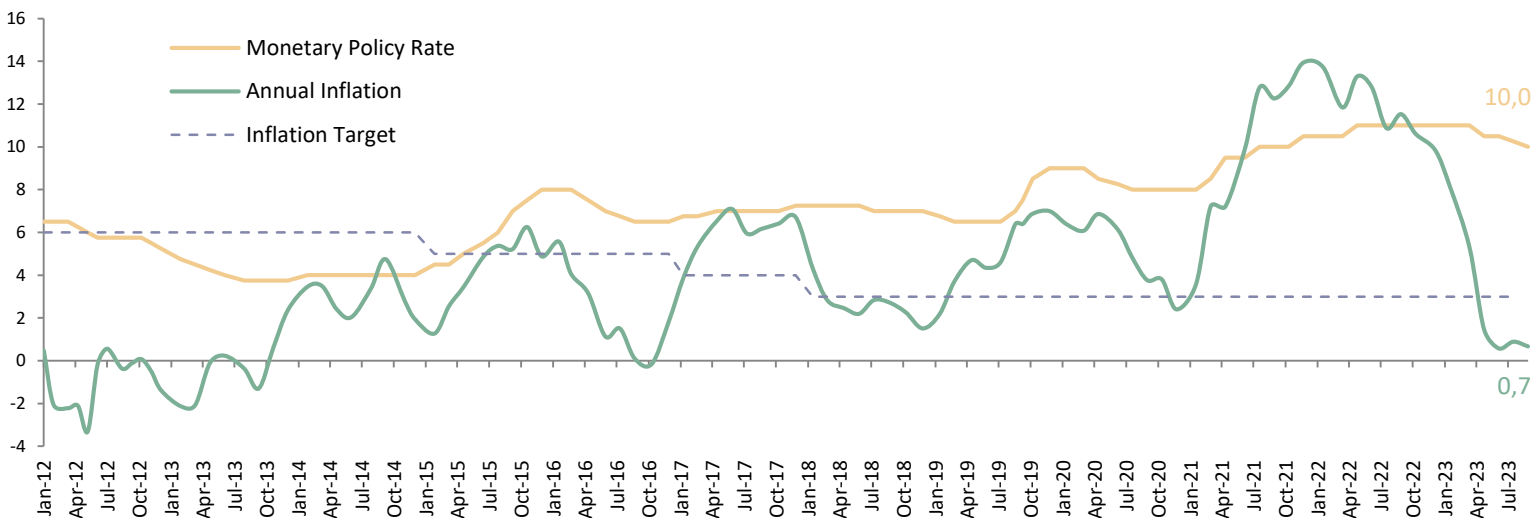


- As of August 31, 2023, the growth of the total deposits compared to the corresponding period of the previous year is 16.7 percent.
- The annual growth of the deposits denominated in the national currency amounted to 38.6 percent. The annual growth of the deposits denominated in foreign currency stood at 0.8 percent over the same period.
- The growth of deposits of individuals amounted to 16.1 percent, while the annual growth of deposits of legal entities in the same period amounted to 19.6 percent.
- The annual growth of current accounts at the beginning of September, 2023, was equal to 9.4 percent.
- The annual growth of the time deposits was 19.6 percent.
- The growth of the demand deposits amounted to 20.1 percent.

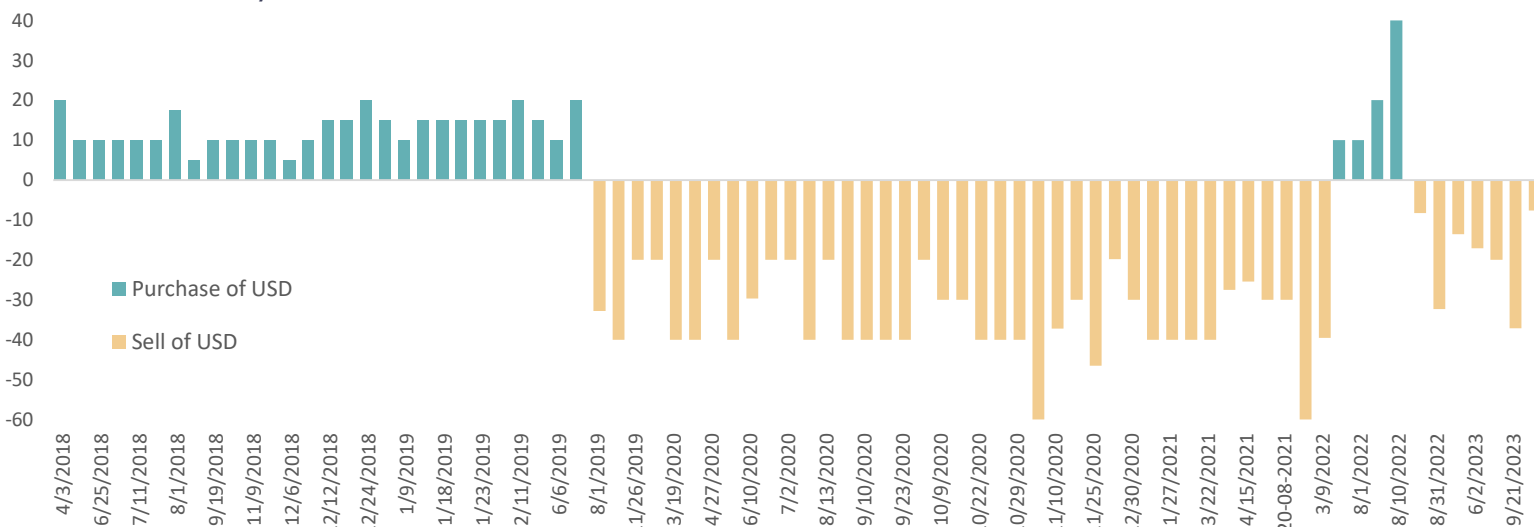
Source: NBG

# The National Bank of Georgia Decreased the Monetary Policy Rate to 10.0 percent

## Inflation and Monetary Policy Rate



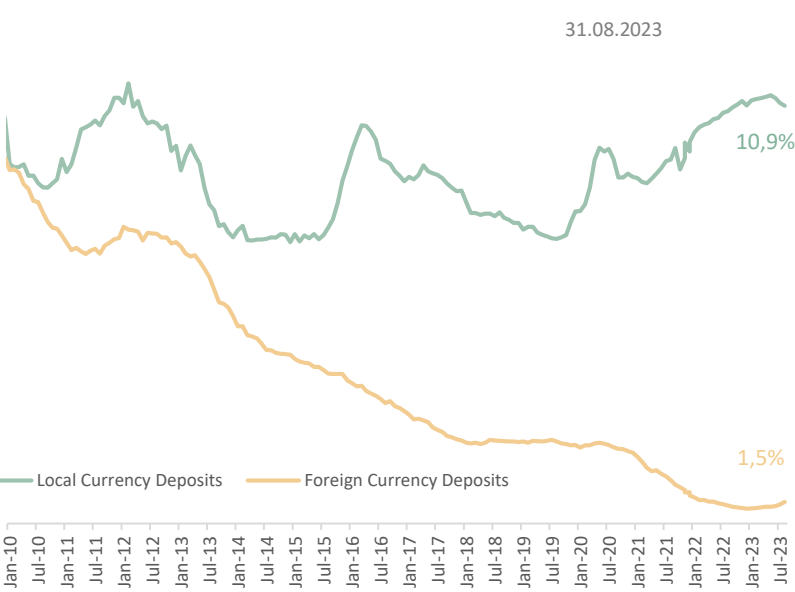
## Trade of USD by NBG, mln USD



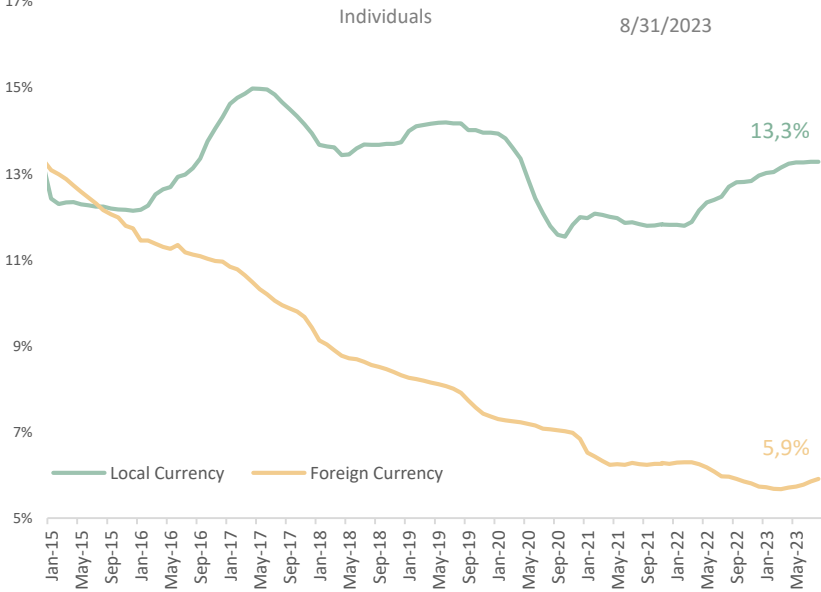
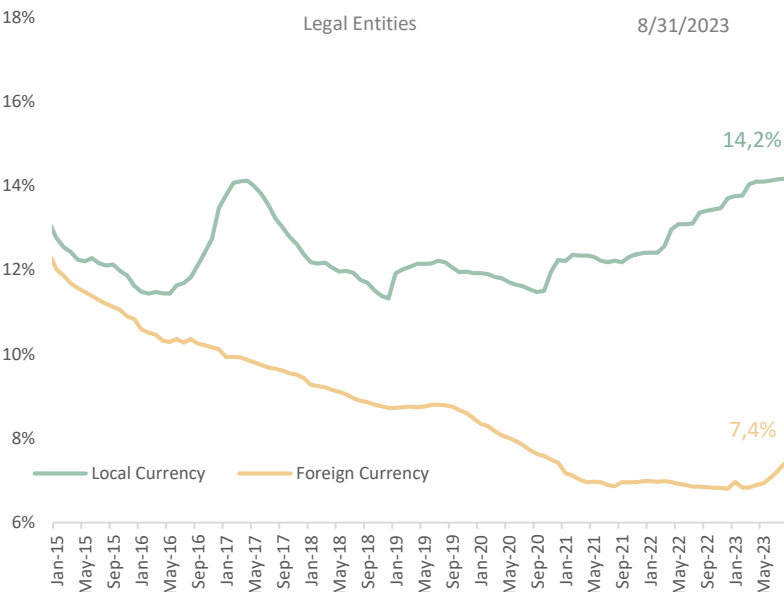
- On September 13, 2023, the Monetary Policy Committee of the National Bank of Georgia decided to reduce the refinancing rate by 0.25 pp and determined it at 10.0 percent level.
- Per the NBG, inflation is less than the target one (3 percent). Besides, the role of the external factors in the formation of inflation has eased significantly. Recently, prices of raw food commodities on international markets have decreased, and international shipping costs have approached almost its pre-pandemic levels, which are reflected in import prices. Inflation has also been declining, albeit at a relatively slower speed and fell below the target inflation at 0.7 percent in September, is now on a downward path. It is expected that given the appreciated Georgian lari, the aforementioned global trends will be gradually transmitted to the local markets, helping to further reduce inflation. In spite of the tendencies mentioned above, the risks of inflation remain at the high level that, with the existing strain geopolitical situation, pushes the NBG to loose the monetary policy at a slower pace.
- The next meeting of the Monetary Policy Committee will be held on October 25, 2023.
- The NBG has made the foreign exchange interventions through the auctions during September, 2023. The NBG totally sold 64.75 million USD.

# Market Interest Rates Decreased in National Currency and Increased in Foreign Currency

Interest Rates on Deposits



Interest rates on Loans secured by Real Estate



- As of September 1, 2023, the interest rate on foreign currency deposits was 1.5 percent, and in national currency – 10.9 percent.
- The weighted average interest rate on deposits in the national currency by legal entities was 10.9 percent, and in foreign currency – 2.3 percent.
- The average annual interest rate on deposits by individuals is 1.5 percent for foreign currency deposits and 11.0 percent for national currency deposits.
- The weighted average annual interest rate on short-term consumption loans was 15.8 percent (17.6 percent in national currency and 6.4 percent in foreign currency).
- The weighted average annual interest rate on long-term consumption loans was 16.4 percent (17.5 percent in national currency and 7.5 percent in foreign currency).
- At the end of August, 2023, the interest rate on mortgage loans denominated in local currency issued to legal entities was 13.9 percent, and in the foreign currency 9.2 percent. The interest rate on the loans to individuals in the national currency was 13.2 percent, and in foreign currency 7.0 percent.



## 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.

Georgia, Tbilisi 0105, Gorgasali Street N16

Tel: (995 32) 2 261 407

E-mail: [info@mof.ge](mailto:info@mof.ge); [www.mof.ge](http://www.mof.ge)



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OF GEORGIA