Ministry of Finance of Georgia

Quarterly Economic Outlook

I Quarter, 2023

Brief Summary

- Economic growth for 2022, according to preliminary data, equals to 10.1 percent
- Average economic growth for the first quarter of 2023 equals to 7.2 percent
- Annual inflation in the first quarter equals to 7.6 percent, while core inflation (w/o tobacco) equals to 6.4
- Export decreased by 13.5 percent annually
- Import increased by 21.0 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

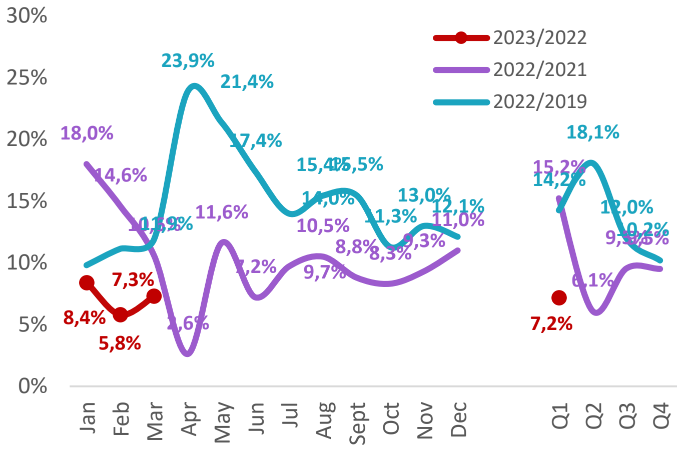
According to the preliminary data, in the first quarter of 2023 real GDP increased by 7.2 percent relative to same period of the previous year. At the same time, compared to the corresponding period of 2019, economic growth was 11.6 percent. In particular, in the first quarter, exports increased annually by 24.7 percent, while imports increased annually by 16.8 percent. At the same time, compared to the first quarter of 2019, exports increased by 76.6 percent and imports increased by 54.3 percent. External demand continues to grow. Considering tourism, compared to the pre-pandemic situation, revenue from international travelers increased 2-fold year-on-year in the first quarter, and also, there was a 37.5 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. In the second quarter of 2022, economic growth amounted to 7.1 percent.

As for the fourth quarter of 2022, economic growth amounted 9.7 percent. A significant share of GDP growth in the fourth quarter of 2022 was due to the export component, which grew by 12.6 percent annually in real terms. At the same time investments played a significant role in growth and increased by 5.8 percent in real terms. At the same time, consumption in real terms decreased by 1.0 percent, and imports in real terms decreased by 7.7 percent annually.

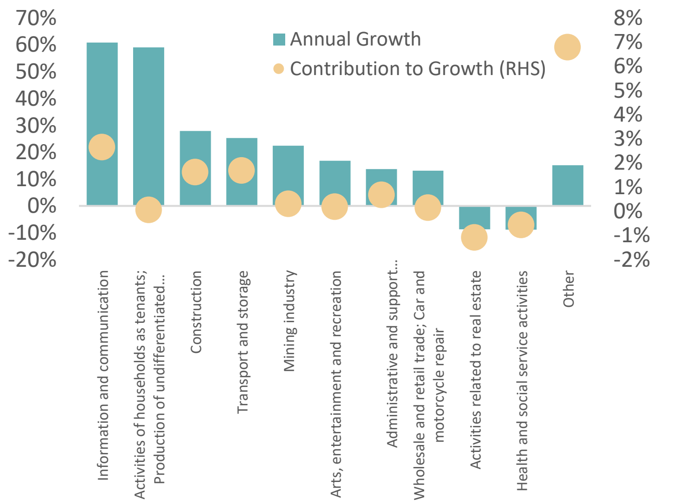
In the fourth quarter of 2022 the following sectors made a significant contribution to growth: Information and

Figure 1: Economic Growth



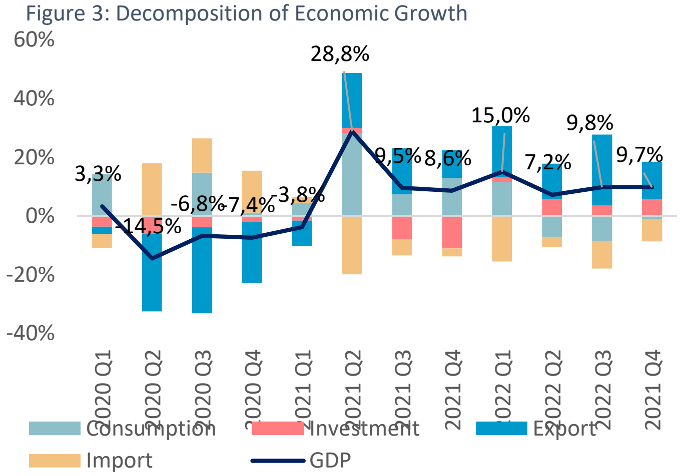
Source: Geostat

Figure 2: Real Sectoral Growth, 2022 4Q



Source: Geostat

Figure 3: Decomposition of Economic Growth



Source: Geostat

Figure 4: Economic Growth Projection

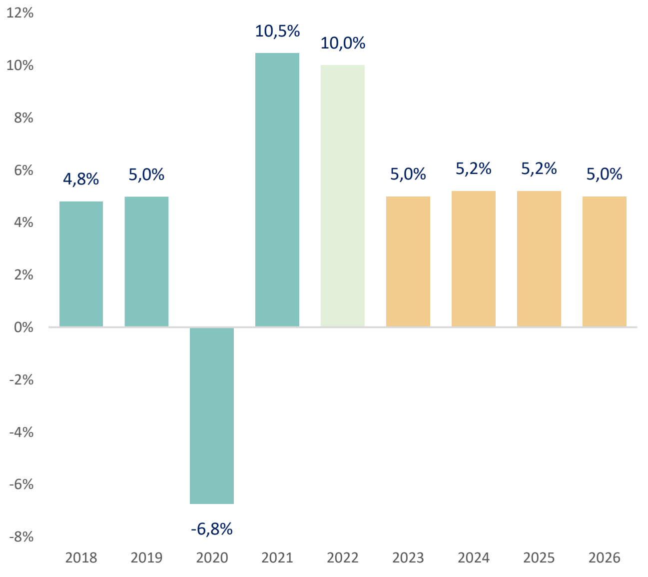
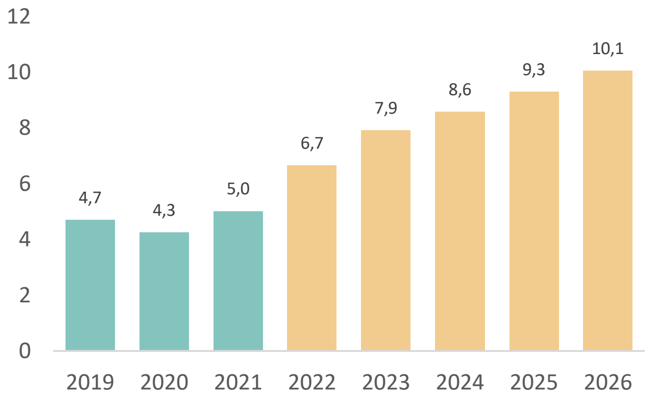


Figure 5: GDP per capita, ths USD



Source: MOF

communication 60.9 percent (2.7 p.p.), activities of households as employees 59.1 percent (0.05 p.p.), construction 27.9 percent (1.6 p.p.), transport and warehousing 25.3 percent (1.7 p.p.) , mining industry 22.5 percent (0.3 pp), arts, entertainment and recreation: 16.8 percent (0.2 pp), administrative and support service activities, wholesale and retail trade; Car and motorcycle repair 13.8 percent (0.7 p.p.).

Growth in 2023 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, 5.0 percent economic growth is expected in 2023, which will be ensured by the growth of domestic demand and fiscal stimulus measures provided in the budget. From 2024, the economy will continue to grow at an average of 5.1 percent in 2024-2026.

Employment and Unemployment

In the fourth quarter of 2022, the unemployment rate was 16.1 percent, which is 0.5 pp more than the value of the previous quarter and 2.9 pp less compared to the same period of last year. Among them, unemployment was 16.4 percent in urban areas (-3.7 percentage points per year) and 15.5 percent in rural areas (-1.7 percentage points per year). The highest unemployment rates are among 15-24 and 25-34 age groups. In the fourth quarter of 2022, the economically active population accounted for 52.7 percent of the working age population (15 years and older). In the fourth quarter of 2022, the unemployment rate in the women group was 13.8 percent, while in the men group, the above-mentioned was 17.5 percent.

In the fourth quarter of 2022 the number of employees increased by 4.9 percent compared to the corresponding quarter of the previous year, while the employment rate increased by 2.8 percentage point. The number of unemployed decreased by 14.5 percent annually. At the same time, productivity (ratio of real output to number of employees) increased by 4.6 percent annually, while the average nominal wage of employees increased by 21.2 percent, amounting to 1,773.7 GEL as of the fourth quarter of 2022.

In the fourth quarter of 2022, there was an 4.9 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 (April, 2023), due to current world situation world inflation will decrease from 8.7 percent of 2022 to 7.0 percent in 2023. Also, it is expected that inflation decreases to 4.9 percent in 2024, which is still higher than pre-pandemic (2017-2019 years) period inflation.

In the first quarter of 2023, annual inflation stood at 7.6 percent. The mentioned increase is significantly caused by the high level of uncertainty arising from the geopolitical situation. A long-term deviation of inflation from the target strengthens inflationary expectations. Also, the demand-driven inflationary effect is worth noting. Increased migration inflows stimulate demand and domestic inflation remains high. The decrease in international transportation prices is reflected in the imported inflation. Core inflation (excluding tobacco) in the first quarter stands at 6.4 percent.

On March 29, the National Bank Monetary Policy Committee decided to keep the refinancing rate at 11 percent to ease the pressure on expectations for further price increases.

Figure 8: Annual Inflation

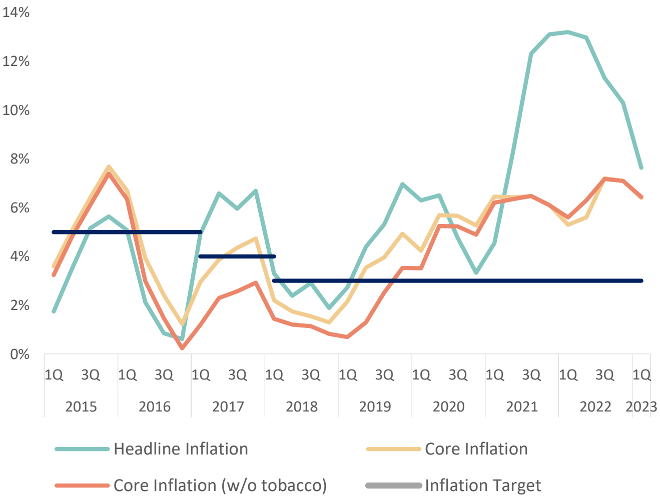
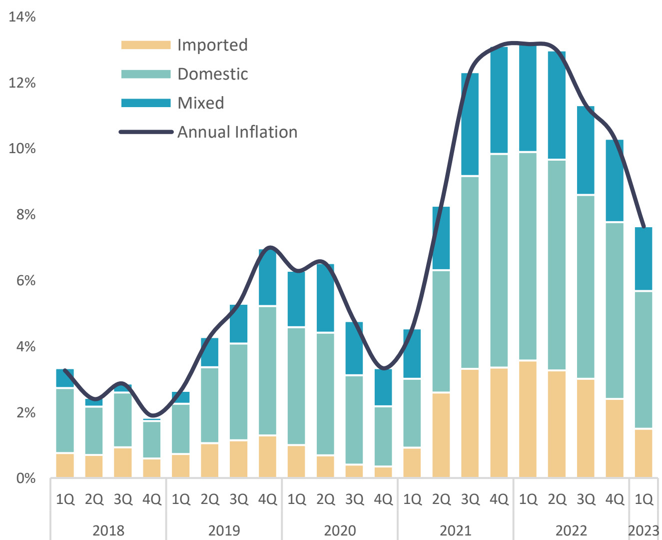


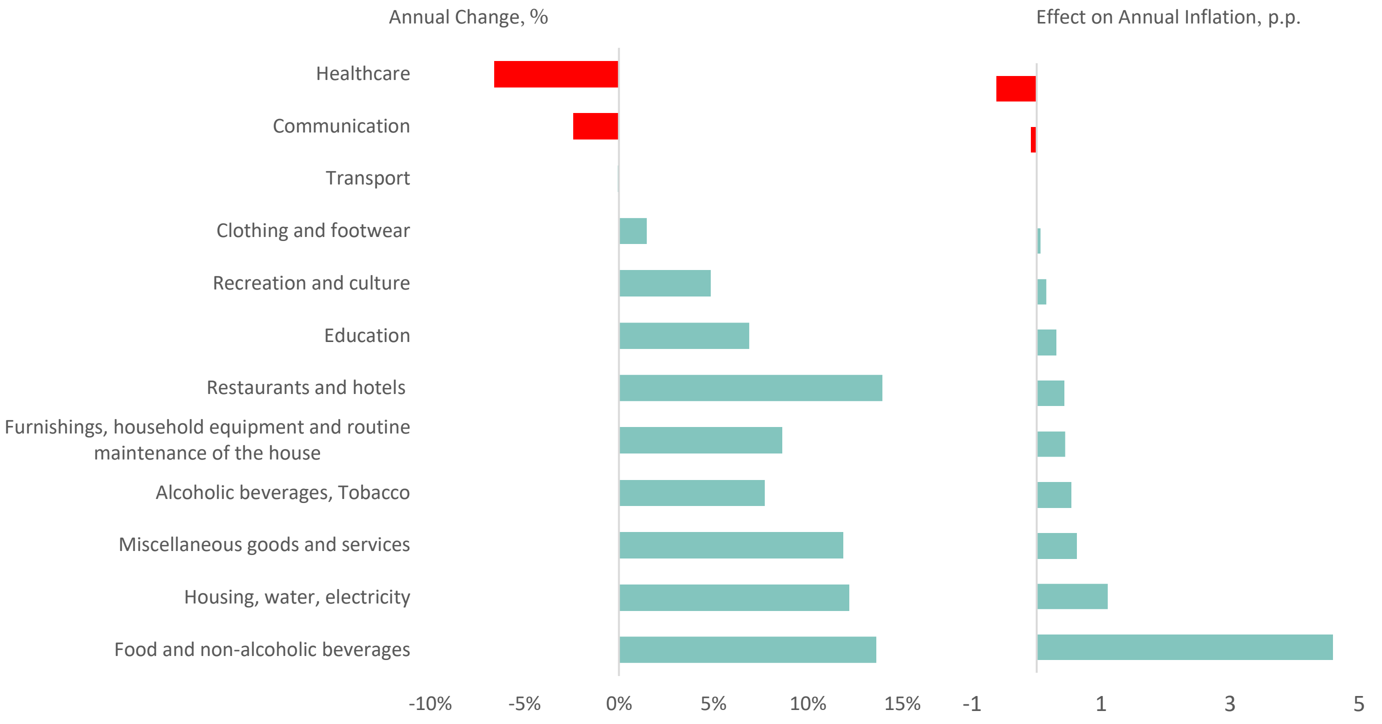
Figure 9: Decomposition of Inflation



Source: NBG, Geostat

In the first quarter of 2023, the contribution of domestic inflation was 4.2 percent, while the contribution of imported inflation was 1.5 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, 2023 Q1



Source: Geostat

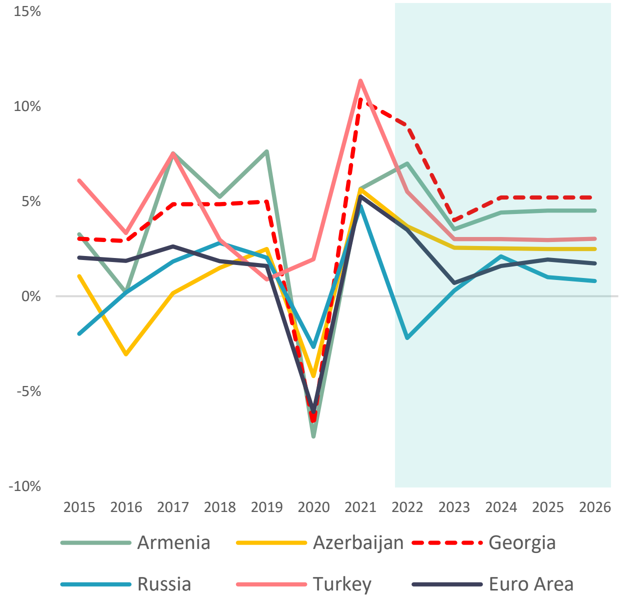
Economic Outlook of the Region

After Russia's invasion in Ukraine, the global growth prospects together with inflation have worsened. In April this year the IMF revised forecasts downward for major economies. Per April IMF WEO, the global economic growth for 2022-2023 years would stand 3.4 and 2.8 respectively. In April 2023 the IMF made additional changes into growth prospects. As for the 2023 estimates, it is worth noting, that the data came weaker for global growth at 2.8 percent for the whole world. The forecast of lower growth in 2023 reflects the rise in central bank rates to fight inflation, especially in advanced economies, as well as the war in Ukraine. The decline in growth in 2024 from 2023 is driven by advanced economies; In emerging markets and developing economies, the growth is estimated to have bottomed down in 2023. But the prospects for 2024 is still favorable than it was expected for the previous year.

Even though in 2020 Turkey did not fall into recession, in 2021 Turkey experienced a 11.4 percent growth in real GDP. Per the IMF April, 2023 the WEO projections for Turkey is expected to grow by 5.6 and 2.7 percent in 2022 and 2023, respectively. The projection for 2023 has been revised downward by 1.3 pp, comparted to October WEO. Main challenges for Turkey remain exchange rate depreciation and high inflation. In 2022 the factual inflation was 72..3%. The inflation is expected to reach at 50.6 percent in 2023. Turkey undergone changes into sovereign credit ratings in 2022. The S&P downgraded it to B (negative), Moody to B3 and Fitch to B with negative outlook.

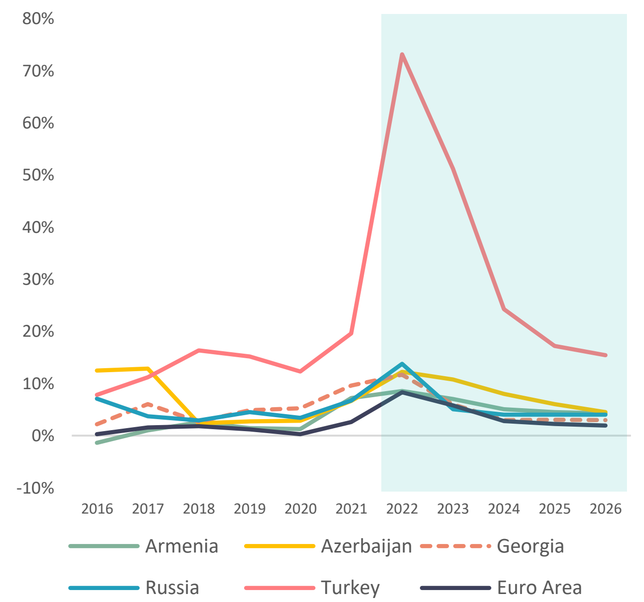
The main actor of global economic growth disruption Russia is expected to have its economy severely hit by sanctions, which will translate into large contraction of real GDP. This measures won't have only near term impact on Russian economy, but will affect its medium-term capabilities, since large consumers, as well as sovereign countries, wean themselves off Russia's energy and other sectors. Per April forecasts, the Russia's real economic growth was -2.1% in 2022. As for the period of 2023-2024, it is expected to stand at 0.7 and 1.3, respectively. In the period of 2004-2013 it averaged at 4.2 percent and 2.1 percent in the period of 2014-2020. According to the credit rating agencies (CRA), after sharp downgrading of Russia's sovereign credit ratings, they stopped assigning any ratings, S&P from April 11, Moody's from April 19 and Fitch from April 19.

Figure 11: Economic Growth in the Region



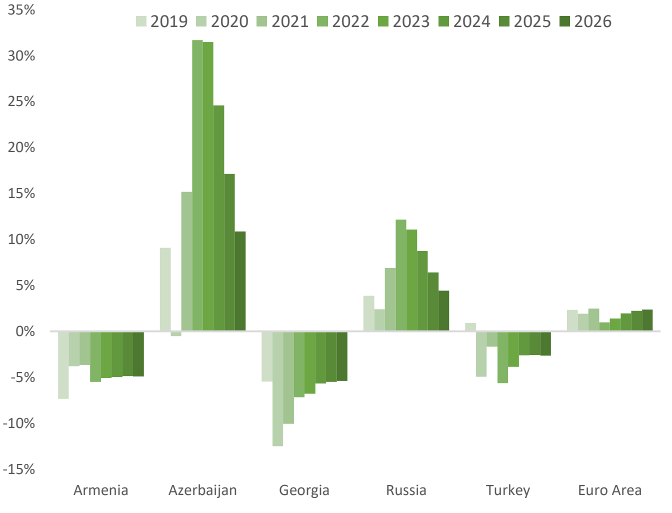
Source: IMF

Figure 12: Inflation in the Region



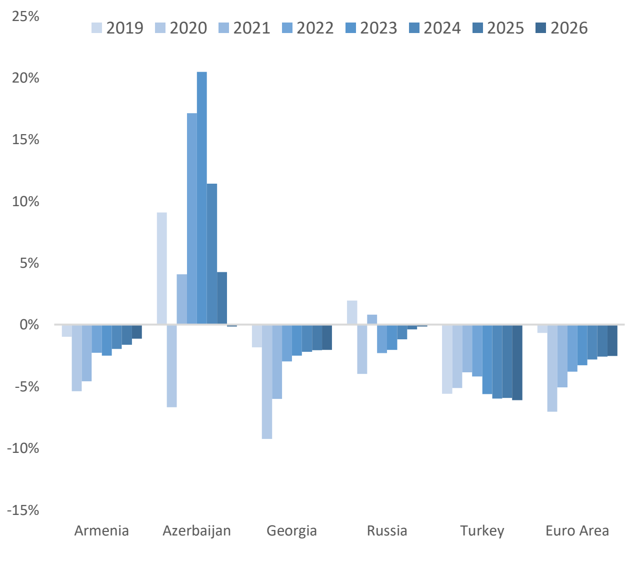
Source: IMF

Figure 13: Current Account to GDP, %



Source: IMF

Figure 14: Budget Blance to GDP, %



Source: IMF

Rising oil prices due to Russia-Ukraine war, will benefit Azerbaijan. Followed by strong recovery from COVID-19. In the updates for Azerbaijan in January 2023 WEO has not been made. As for October WEO, economic growth has been revised upwards. The real growth of the county was 4.6% in 2021. Azerbaijan's real economy is expected to grow by 3.0 percent in 2023 respectively. It's medium-term growth rate of Azerbaijan also increased from 2.5 percent to 2.6 percent. High inflation is also the case throughout those years. In 2022, inflation was 13.8 percent, and it is expected to decrease and stand at 11.3 and 8.0 percentages in 2023 and 2024 respectively. In 2022 Azerbaijan's sovereign credit rating from Fitch stands at BB+ (outlook positive), which is improvement from BB+ (outlook negative). Moody's assigned Ba1 (stable), improvement from Ba2 (positive) and S&P did not make any changes in 2022 and rating from it stands at BB+ (stable).

In 2022, Armenia managed to attain a high real economic growth rate at 12.6% level. Per the IMF projections in our region, except the participants of war, Armenia was expected to be hit hardest. This was expectable, since Armenia has the tightest ties to the Russian economy. But those risks did not materialize. As for April WEO, the economic growth has been revised upwards. In 2023 and 2024, Armenia, according to the IMF, will grow by 5.5% and 5.0%, respectively, compared to the projection of October 2022 these indicators are higher (3.5 and 4.4 percent for 2023 and 2024, respectively). Inflation will remain high throughout those years, at 7.1 percent in 2023 and 5.0 percent in 2024, but relatively muted compared to peer region countries. The Moody's downgraded Armenia's sovereign credit rating by one notch to Ba3 (negative). The Fitch and S&P upgraded it to B+ (positive).

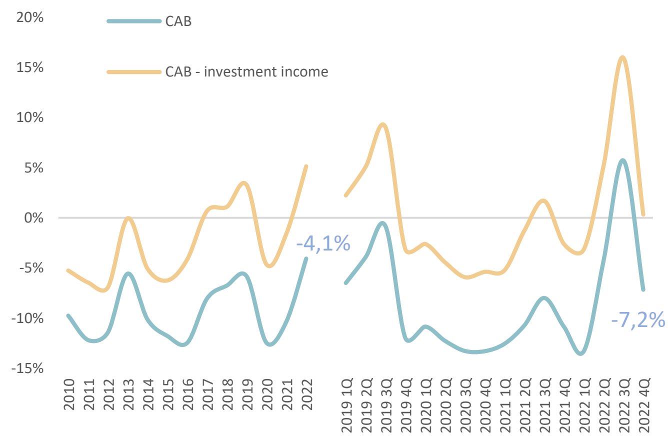
The situation around the Ukraine remains uncertain. There are no long-term projections of the Ukrainian economy, since the situation may change in any given time. In 2022 the Ukrainian economy contracted by 30.3 percent according to the IMF. This contraction is directly related to the Russian invasion into Ukraine, which resulted into humanitarian crisis, destruction of infrastructure and exodus of its people.

External Sector

Current Account Balance

In 2020 current account deficit stood at 12.5 percent of GDP, which has significant worsened from 2019 numbers, when CA deficit was 5.8 percent of GDP. From Q2 2021 current account deficit started to improve. As of 2021, CA deficit stood at 10.4 percent of GDP. In Q4 2022 CA deficit was negative and amounted to -7.2 percent of GDP. It is also important to note that the current deficit of 2022 has significantly improved and amounted to 4.1% of GDP.

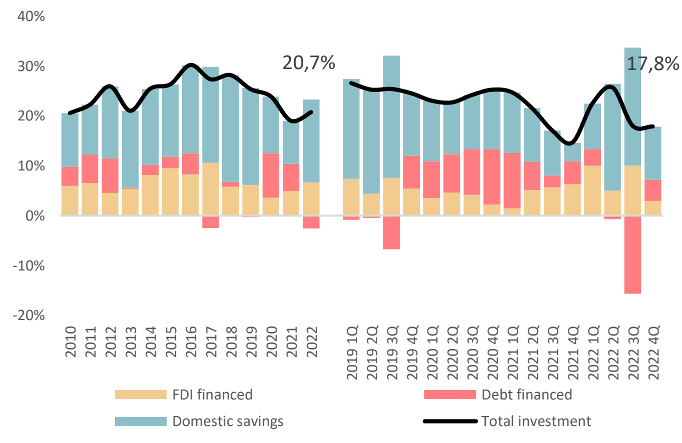
Figure 15: Current Account to GDP, % of GDP



Source: NBG, Geostat

The current account deficit of Georgia is financed by the 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 the foreign direct investment in 2017. After that, the foreign debt contributes quite a lot to finance the deficit. Especially noteworthy is 2020 when the debt financing contributed sizably to the deficit financing. In 2021 the debt contribution decreased, while the FDI and domestic investments undergone slight increase in financing the investments.

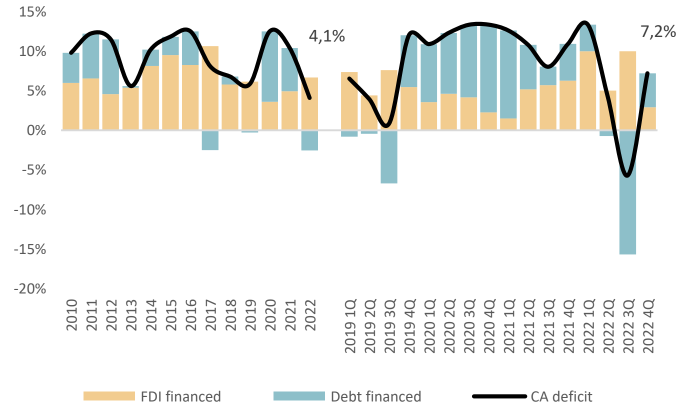
Figure 16: Financing of Investment



Source: NBG, Geostat

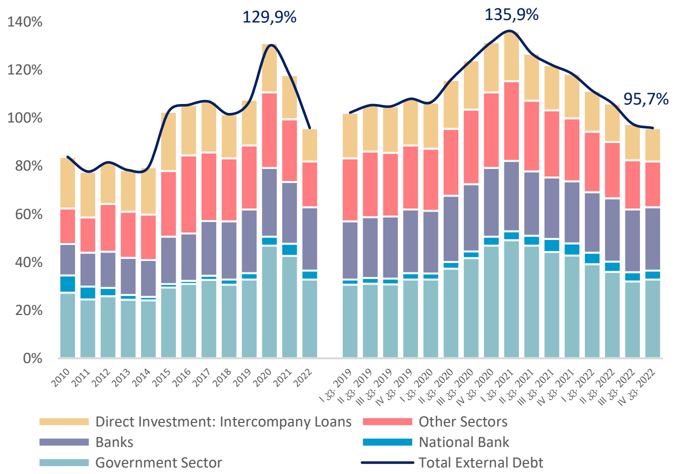
As of the fourth quarter of 2022, debt contributed positively in financing the current account deficit, while it had negative share in the third quarter. In particular, the FDI's share in financing stood at 2.9, while its debt contribution was positive at 4.3 pp.

Figure 17: Financing of Current Account



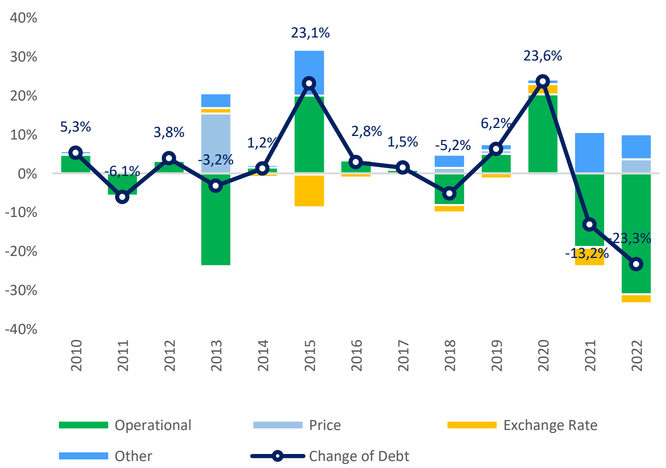
Source: NBG, Geostat

Figure 18: External Debt to GDP, %



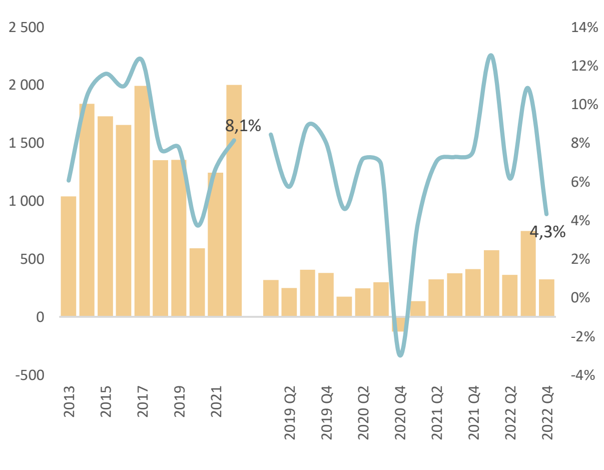
Source: NBG, Geostat

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. External debt started to decline from 2021 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 and the corresponding growth of nominal GDP by more than expected. As for 2022, external debt stood at 95.7 percent, which shows the continuity of the debt reduction tendency and is the lowest after the pandemic.

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 some quarters of 2015-2016 was made by the depreciation of the exchange rate, but operational change has more impact annually. Also, GDP mostly contributed to the reduction of external debt. After the pandemic, Debt to GDP in USD terms decreased by 13.2 p.p in 2021 and 23.3 p.p in 2022, while debt considering exchange rate, in GEL terms decreased by 24.7 p.p and 25.0 p.p, respectively, with a significant contribution from nominal GDP growth. As for 2021-2022, deficit did not require to use debt for financing, due to improved Current account balance, which helped debt to decrease.

Foreign Direct Investments

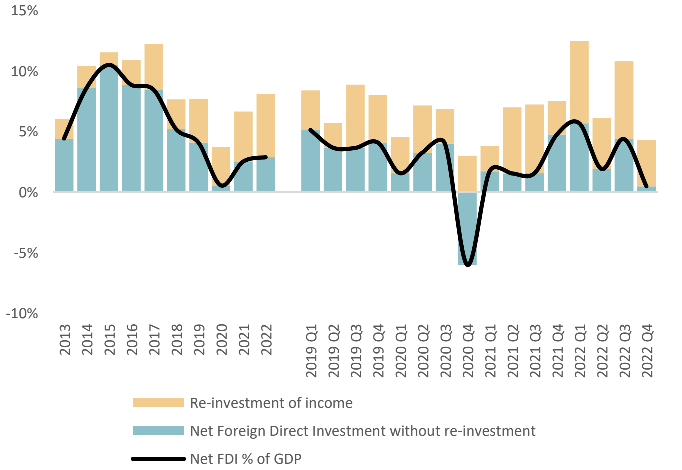
As for 2022 Q4 period, the foreign direct investments (FDI) amounted to 324 mln USD (4.3 percent of GDP), that was 21.2 percent lower than in corresponding quarter of 2021.

As of Q4 2022 period, the UK is the top investor in terms of FDI with a 47.4 percent share in totals. As for the 2nd and 3rd places, the USA and the Russian Federation had 18.7 percent and 10.7 percent shares, respectively.

In 2022 Q4, the direct foreign investments were mainly allocated in the financial sector, amounted to 197.2 mln USD (61 percent of total FDI). The relatively larger shares had the real estate sector, where the investments amounted 73 mln USD (22.5 percent).

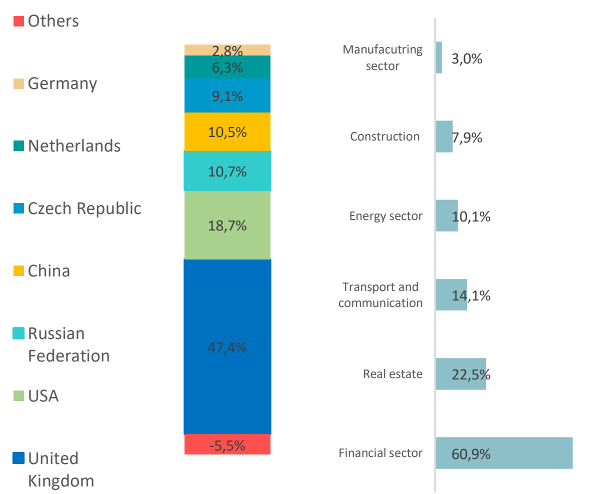
As for the components of the FDI, in 2022 Q4 period, reinvestment stood at 3.8 percent of GDP with the volume of 287.4 mln USD.

Figure 21: FDI, % of DGP



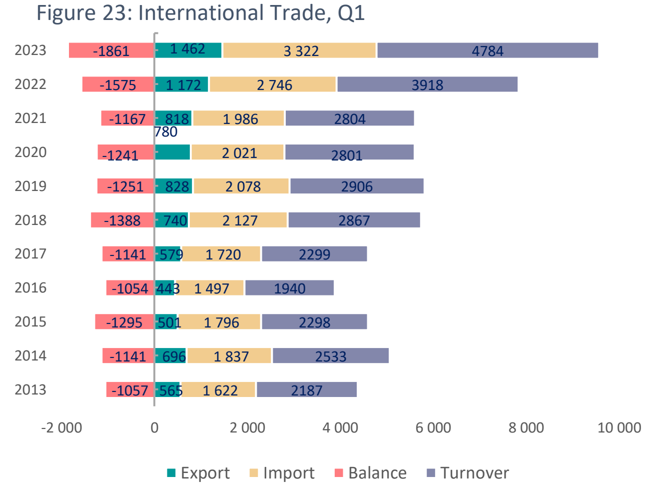
Source: Geostat

Figure 22: Composition of FDI, 2022 Q4



Source : Geostat

Figure 23: International Trade, Q1

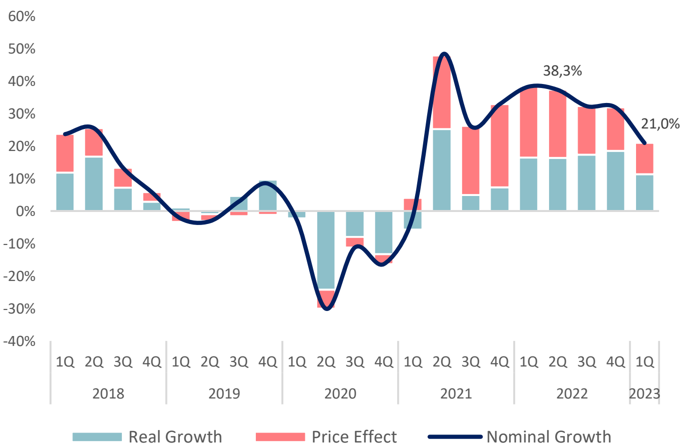


Source: Geostat

Figure 24: Annual Change of Domestic Export

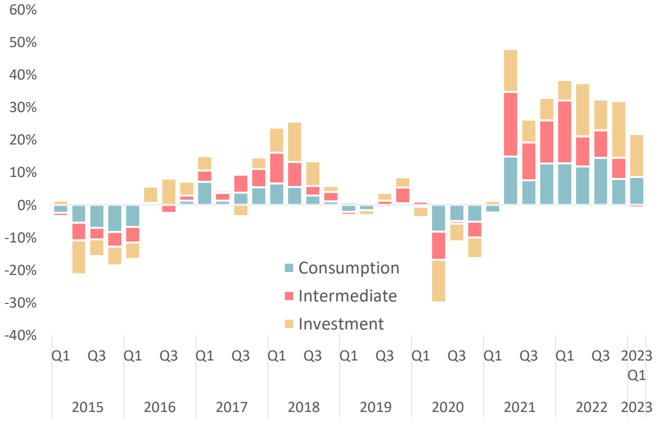
Source: Geostat

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.

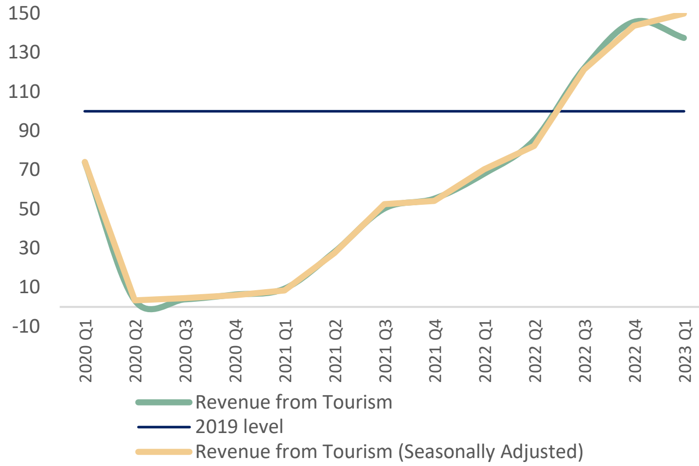
In 2021, after governments all over the world as well as in Georgia started to lift up restrictions, international trade started the fast recovery. Together with increased exports, imports also started fast recovery. Moreover, higher prices caused increased price effect in the export as well as import growth. However, together with the reduction of the price effect, domestic export started to increase slowly in 2022. Hence, as of fourth quarter of 2022, there was a reduction in nominal growth of domestic exports by 7.4 percent, which was driven by real reduction by 11.2 percent, while during the first quarter of 2023, reduction of domestic export was observed at 13.5 out of which real growth contributed minus 15.2 percent and price effect was positive..

As of first quarter of 2023, import of investment goods increased by 50.7 percent annually (13.2 p.p. share in total imports). High growth was observed in imports of consumption goods and amounted 25.1 percent annually (8.5 p.p. share in total imports). As for the imports of intermediate goods, it decreased by 1.9 percent annually (-0.8 p.p. share in total imports). In Q1 2023, export of goods increased by 24.7 percent annually. The main driver of this growth are still motor cars (28.2 percent of total exports), copper ores and concentrated (14.1 percent of total exports) and ferro-alloys (5.6 percent of total exports) have also high shares. As for the imports, motor cars, oil products, and petroleum gases are still the main imported goods.

Tourism

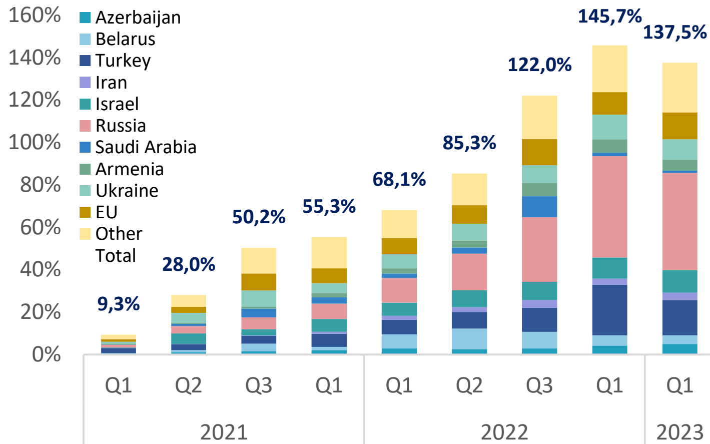
In 2020, when the economy was operating under severe constraints, the number of tourists almost reduced to zero. From 2021, the tourism sector has started gradual recover. Revenues from tourism increased annually from the second quarter of 2021. From the second quarter of 2021, tourism revenues increased annually, and from the third quarter, tourism recovered by half. This trend was maintained in rest of the periods. It is worth noting that from the third quarter of 2022, the income from tourism exceeded the level of 2019. Revenue from tourism in Q1 2023 was 795.4 mln USD, up by 102 percent compared to the same period of previous year and up to 137.5 percent of 2019 level.

Figure 27: Income from Tourism



Source: NBG

Figure 28: Income from tourism, mln USD



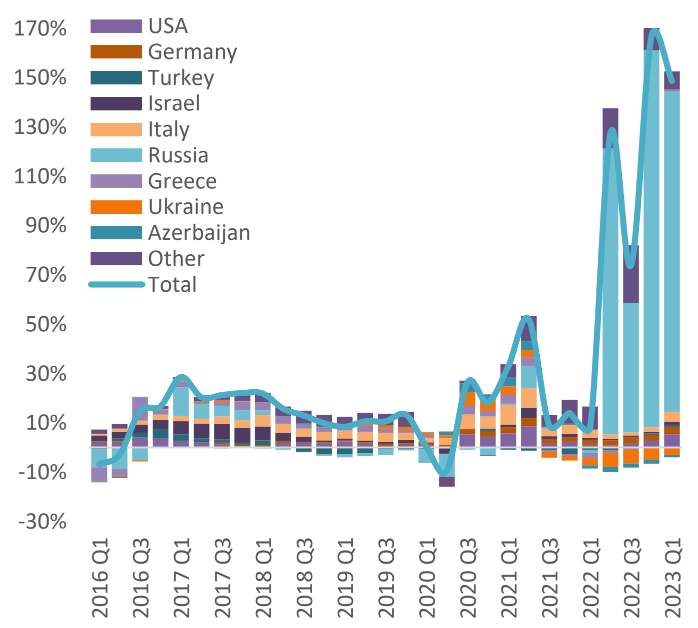
Source: NBG

Remittances

In the fourth quarter of 2022, net remittances reached 1461.8 mln USD, up by 166.7 percent from the previous year.

In the first quarter of 2023, net remittances accounted 1171.4 mln USD, which is by 148.6 percent more compared to the same period of the last year. The largest contributor to this growth was Russia (total contribution of 130.0 percent). USA (5.4 p.p.), Italy (4.0 p.p.) Germany (2.9 p.p.), Kazakhstan (2.2 p.p.), Kyrgyzstan (1.6 p.p.), Israel (1.3 pp) also made positive contributions. A decrease of 374.5 percent was observed in net remittances from Ukraine, which contributed negatively to the overall growth by 2.9 p.p.. Remittances from Azerbaijan also decreased by 53.1 percent, which negatively contributed to overall growth by 1.1 p.p. and from Poland 36.5 percent which contributed negatively 0.3 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

Figure 29: Net Remittances

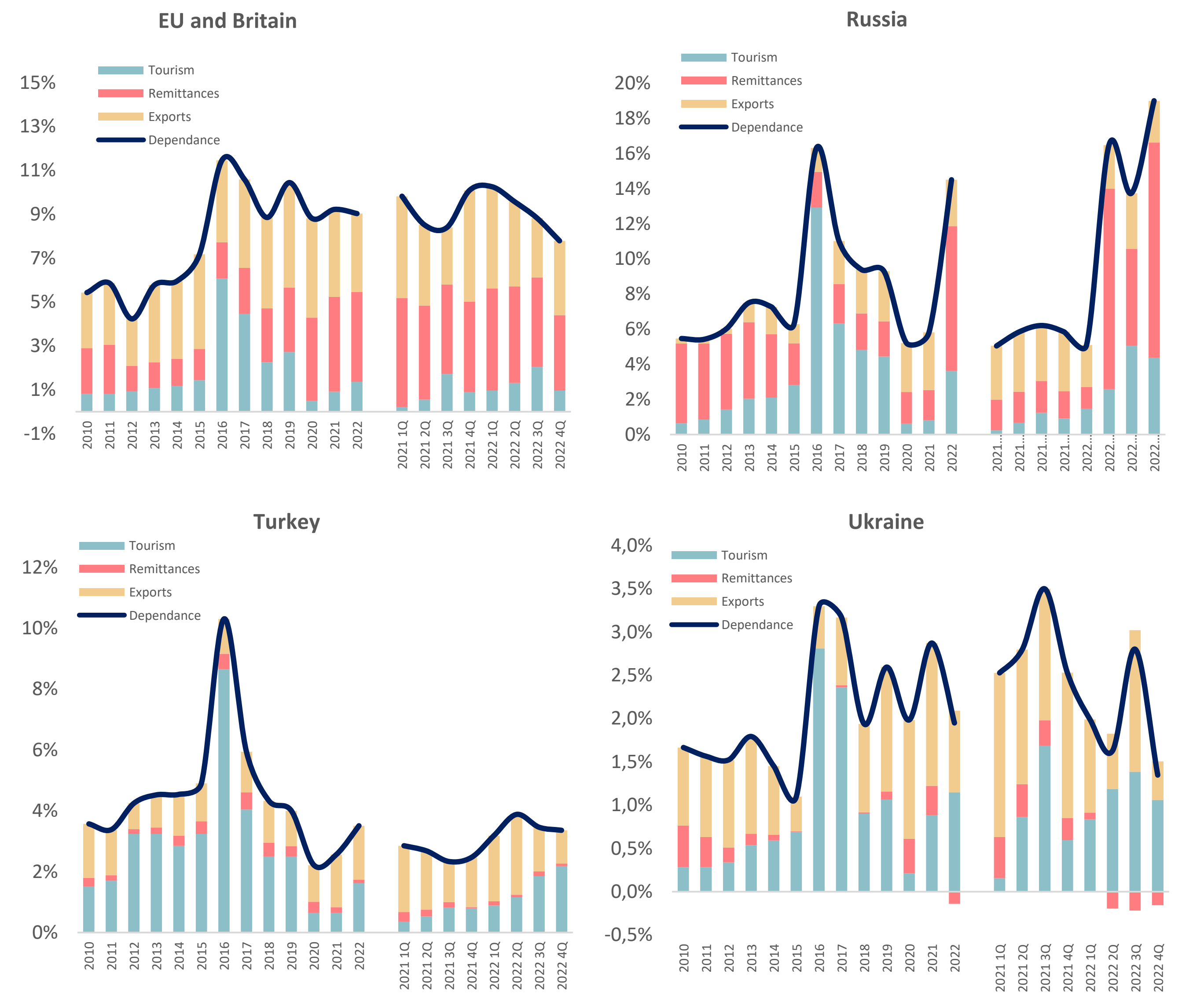


Source: NBG

Dependence on Other Countries

The Georgian economy is diversified in terms of dependence on other countries. Based on the shares of exports, tourism, and transfers in the GDP, it can be concluded that Georgia has a tight relationship with Russia, Turkey, Ukraine, and the European Union. According to the Q4 2022 data, the dependence on Russia is still high and it increased sharply in 2022 as a result of the migrants. The dependence on Russia is mainly driven by spike in remittances. The dependence on Turkey is still stable, though it increased in 2022 due to the revenue from tourism. A fall was observed in dependence on Ukraine, which was due to decreased in export of goods and remittances. The dependence on the EU maintains a high level, but decreased in Q4 of 2022. The fall in dependence of main countries in the fourth quarter of 2022 (except the Russian Federation) indicates to more diversified structure of the FX inflows.

Figure 30: Dependence on Trading Partners (% of GDP)



Source: NBG, Geostat

Figure 31: Nominal Effective Exchange Rate

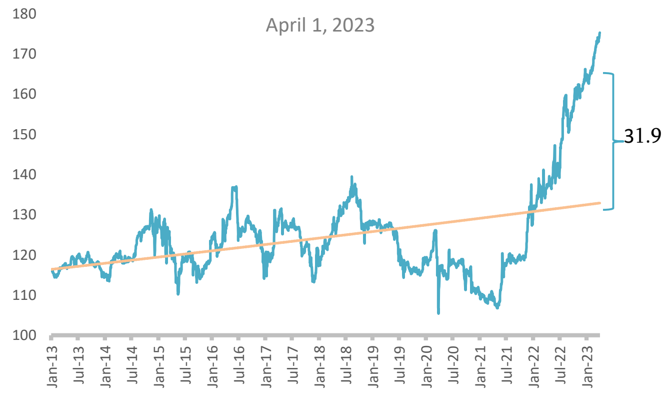


Figure 32: Real Effective Exchange Rate

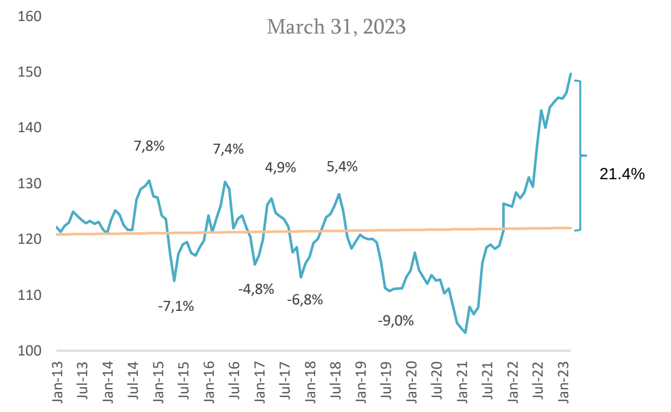
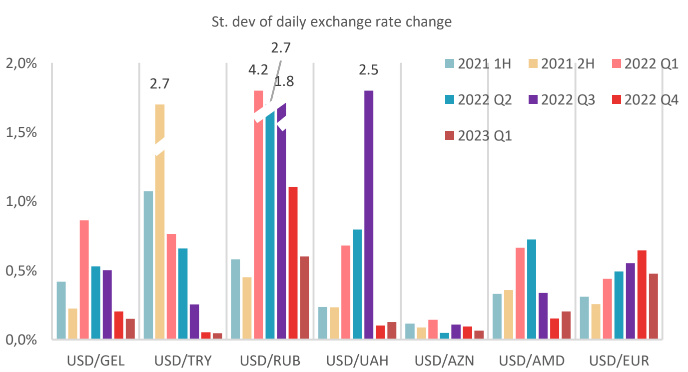


Figure 33: Volatility of Exchange Rates



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. 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 was in line with behavior of trading countries' currencies. But at the end of the 2022 GEL and other currencies of our trading partners stabilized. As of 2023 Q1 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, a sharp depreciation is not expected, as it was the case at the start of the spring. In Q1 2023, the Georgian Lari appreciated against USD by 17.4 percent, compared to same period of the previous year. At the same time, the appreciation against EUR equaled 19.1 percent. The GEL appreciated against Lira and RUB by 38.1 and 21.4 percent respectively. 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 31.9 and 21.4 percent respectively.

Table 1: Change of Nominal and Real Effective Exchange Rates

	April 30, 2023	Apr 30, 2023 - Jan 1, 2023	Apr 30, 2023 - Jan 1, 2022
Euro	2.7441	▲ 5.1%	▲ 27.5%
US Dollar	2.4967	▲ 8.2%	▲ 23.7%
Turkish Lira	0.1283	▲ 12.5%	▲ 293.9%
Russian Ruble	0.0311	▲ 18.2%	▲ 23.4%
NEER	180.61	▲ 9.8%	▲ 37.7%
REER (March 2023)	149.58	▲ 3.0%	▲ 18.4%

Source: NBG

Fiscal Sector

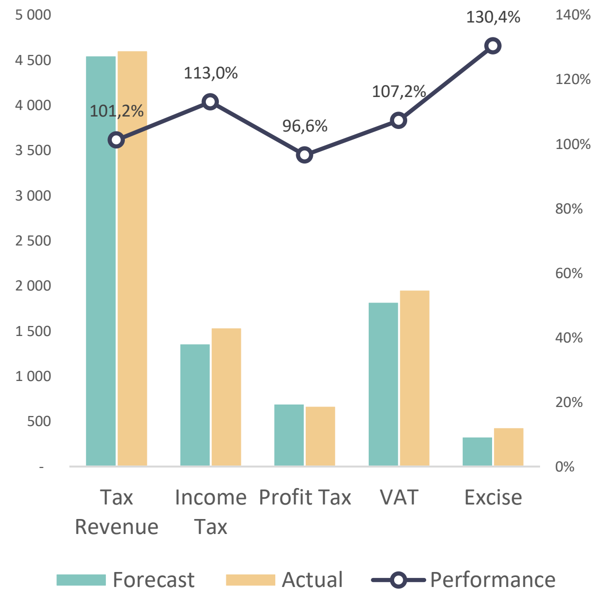
Budget Performance

The consolidated budget tax revenue forecast for the first quarter of 2023 was set at 4,554 mln GEL, while 4,609 mln GEL was mobilized during the reporting period, which is 101.2 percent of the forecast.

- 1,542 million GEL is mobilized as income tax, which is 113.0 percent of the forecast figure (1,364 million GEL).
- 671 million GEL is mobilized as profit tax, which 96.6 percent of the forecast indicator (695 million GEL).
- 1,957 million GEL was mobilized as VAT, which is 107.2 percent of the forecast (GEL 1,825 million).
- 434 million GEL is mobilized as excise, which is 130.4 percent of the forecast indicator (333 million GEL).
- 32 million GEL is mobilized in the form of import tax, which is 128.4 percent of the forecast (25 million GEL).
- 7 million GEL is mobilized in the form of property tax, which is 66.8 percent of the forecast (10 million GEL).

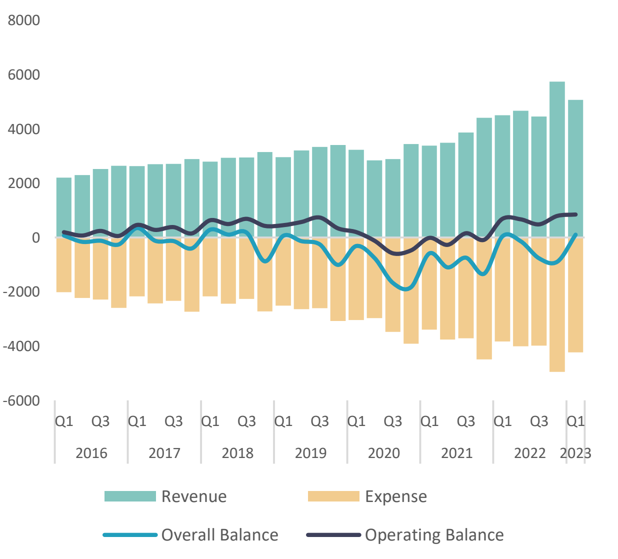
In the first quarter of 2023, compared to the same period last year, consolidated budget revenues increased by 12.46 percent and expenditures increased by 10.6 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to 840.6 million GEL, while the total balance was set at 98.4 million GEL.

Figure 34: Budget Revenue Performance



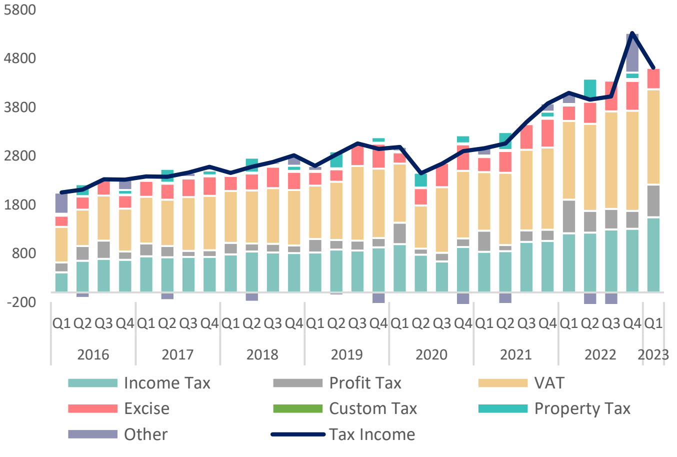
Source: MOF

Figure 35: Budget Balance



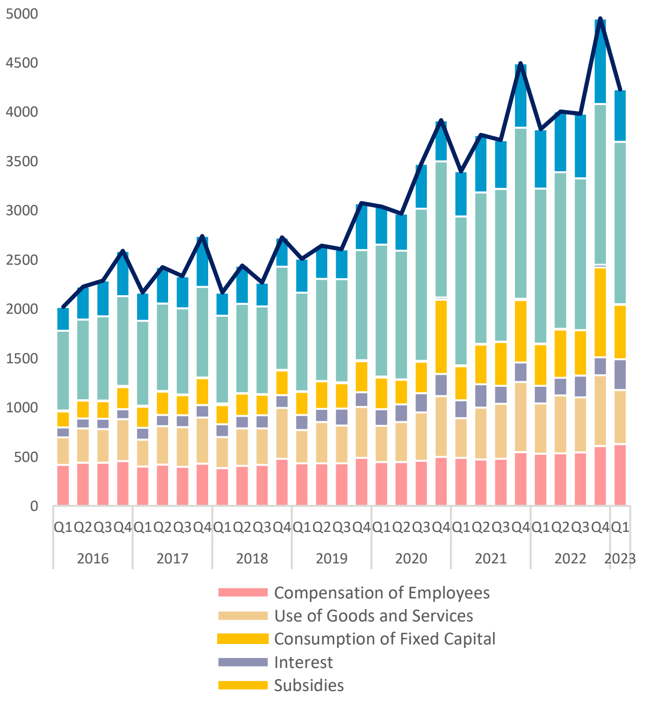
Source: MOF

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 90.9 percent in the first quarter of 2023. The consolidated budget received GEL 4,609 million in taxes, which is 12.7 percent more than the same period of previous year. Revenue from income tax increased by 27.1 percent year on year to GEL 1,542 million. Reduction is observed in the form of revenue from profit, which decreased annually by 2.7 percent compared to the first quarter of 2023, amounted to 671 million and is 14.6 percent of total revenue from tax. At the same time, a significant increase in tax revenues is observed from VAT and income taxes. In particular, revenue from VAT increased by 21.5 percent, accounting 42.5 percent of total tax revenue, while revenue from income tax increased by 27.1 percent, and contributing by 33.4 percent.

Expenditures in the first quarter of 2023 increased by 10.6 percent year on year to GEL 4,229 million. The largest share of budget expenditures is in social security expenditures, which account for 39.0 percent of total expenditures, while the annual growth rate is equal to 4.8 percent. Expenditures in the form of wages increased, with an annual growth rate of 18.4 percent to GEL 627 million, accounting for 14.8 percent of total expenditures. As for other items of expenditure, subsidies (13.1 percent of total costs), goods and services (13.0 percent of total costs), interest (7.4 percent of total costs) and other costs (12.6 percent of total costs) increased by 31.5 percent, 7.8 percent, 72.3 percent and -11.9 percent compared to the corresponding period of 2022, respectively.

Government Debt

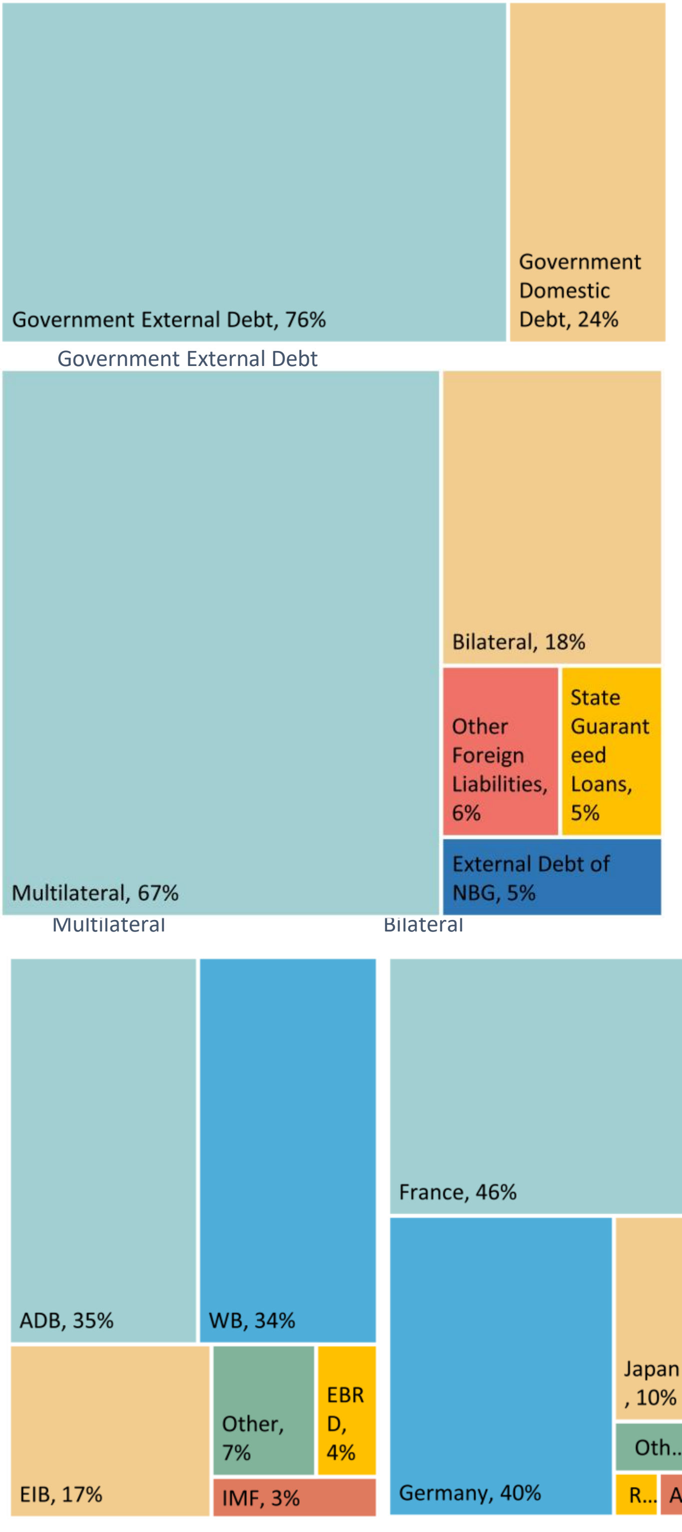
As of March 31, 202, the stock of public debt of Georgia amounted to GEL 29,943 million, including:

❑ Government domestic debt stock is GEL 7,143.2 million, including:

- Annual Renewable Government Bond for the National Bank ("Bond for the NBG") - GEL 80.8 million;
- Government bonds with different maturities for open market operations ("Bonds for open market") - 182 million GEL;
- Treasury liabilities of the Ministry of Finance – GEL 420 million;
- Treasury bonds of the Ministry of Finance - GEL 6,423.8 million;

❑ Government external debt stock is 22,800.2 million GEL.

Figure 38: Government Debt



Source: MOF

Monetary Sector

Private Sector Larization

The larization of loans has an increasing trend and by 1 of April 2023. It has reached 55.4 percent. It should be noted that the main determinant of the total loan larization is the larization of loans granted to individuals. By 1 of April 2023, the larization of loans of individuals was 70.5 percent, in the same period the larization of loans granted to legal entities amounted to 37.1 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 89 percent during 2022 and stays at that level. By 1 of April 2023 it amounted to 88.6 percent. As for the larization of the mortgage loans, it amounted to 45.9 percent.

The larization of deposits remain significantly lower than larizarion of loans. As of 1 of April, 2023 larization of total deposits reached 46.3 percent. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. By the 1 of April, 2023 the larization of deposits of legal entities reached 71.5 percent and the larization of deposits of individuals in the same period was 31.0 percent.

It should be noted that the main contributor in the deposits larization is still time deposits larization. By 1 April, 2023 it reached 54.8 percent. In the same period current accounts larization amounted to 43.8 percent, while the larization of the demand deposits stands at 38.2 percent level.

Figure 39: Loan Larization

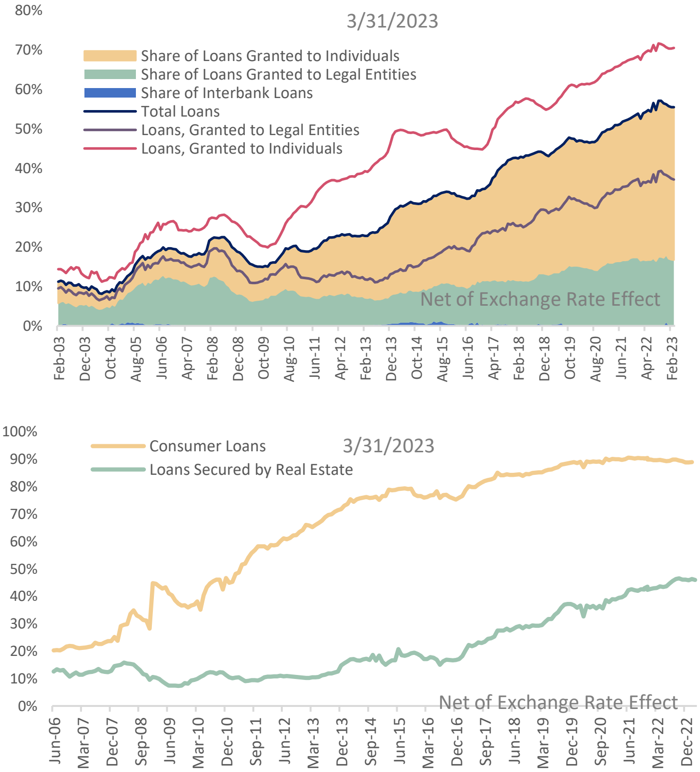
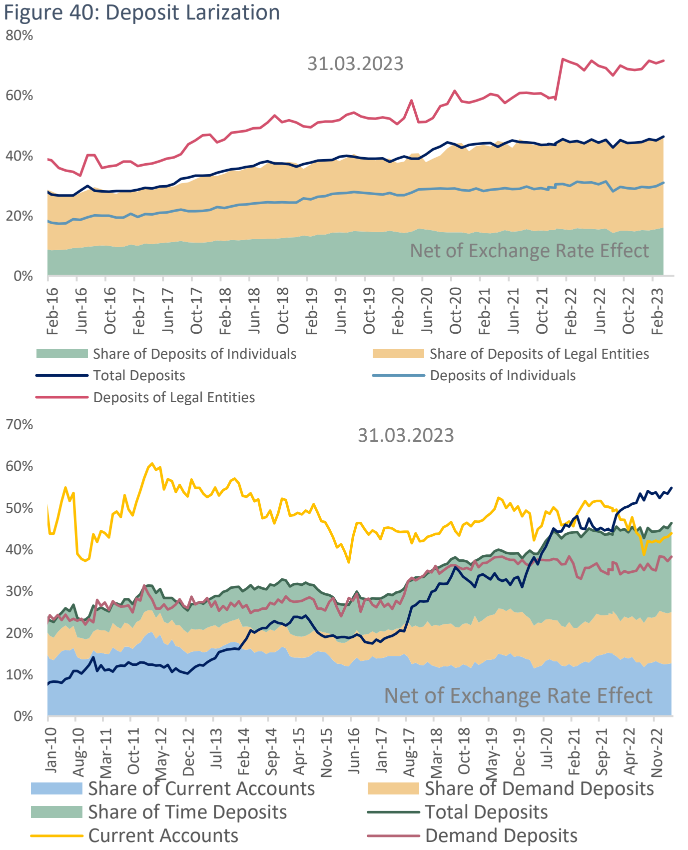
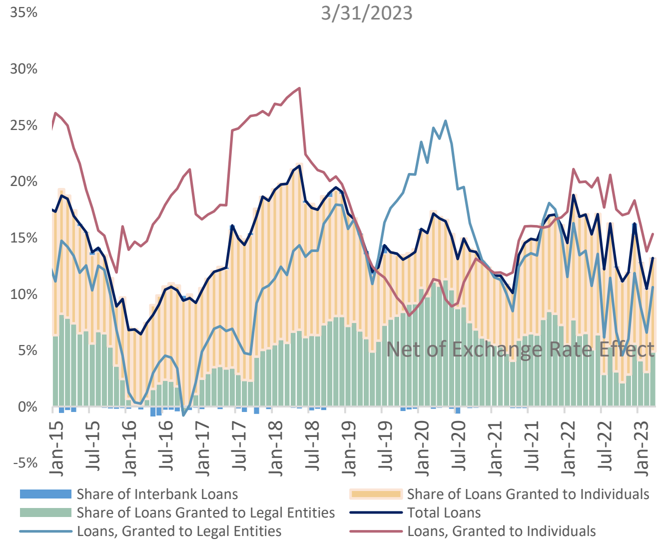


Figure 40: Deposit Larization



Source: NBG

Figure 41: Annual Growth of Loans



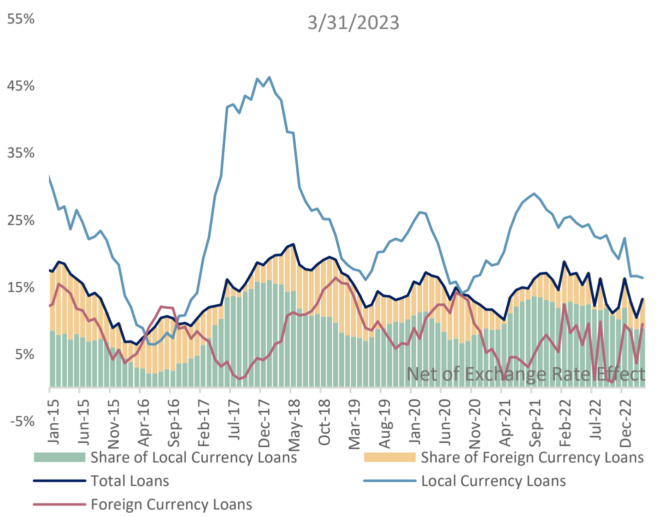
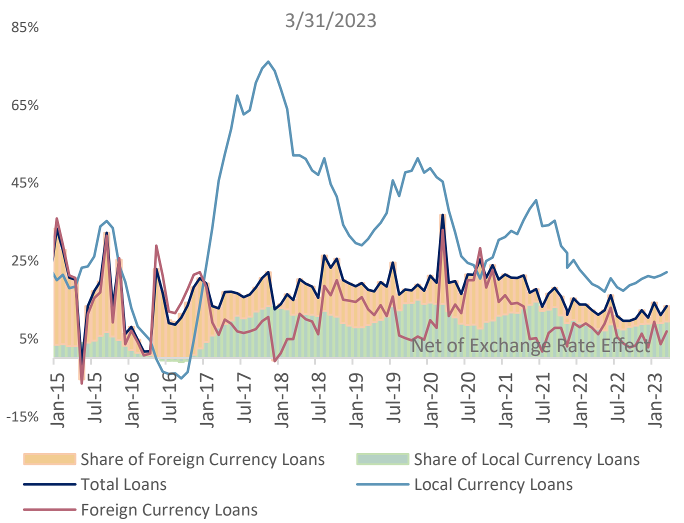


Figure 42: Annual Growth of Loans secured by Real Estate



Source : NBG

Review of Loans

As of 1 April 2023 overall loans increased by 13.2 percent compared to the corresponding period of 2022, which was 3.1 percentage points higher 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 10.6 percent. During the same period, the loans to individuals increased by 15.3 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 April 2023 it amounted to 16.4 percent, compared to the corresponding period of 2022. During the same period, the growth of loans in foreign currency was 9.5 percent, which is 0.1 percentage points higher than in the last quarter (excluding exchange rate effect).

By 31 of March 2023, the mortgage loans had increased by 13.3 percent compared to the corresponding period of the previous. Moreover, the mortgage loans that are denominated in national currency increased by 22.0 percent, 1.0 percentage points higher than in the previous quarter, while the foreign currency denominated mortgage loans increased by 6.8 percent, 4.1 percentage points lower than previous quarter.

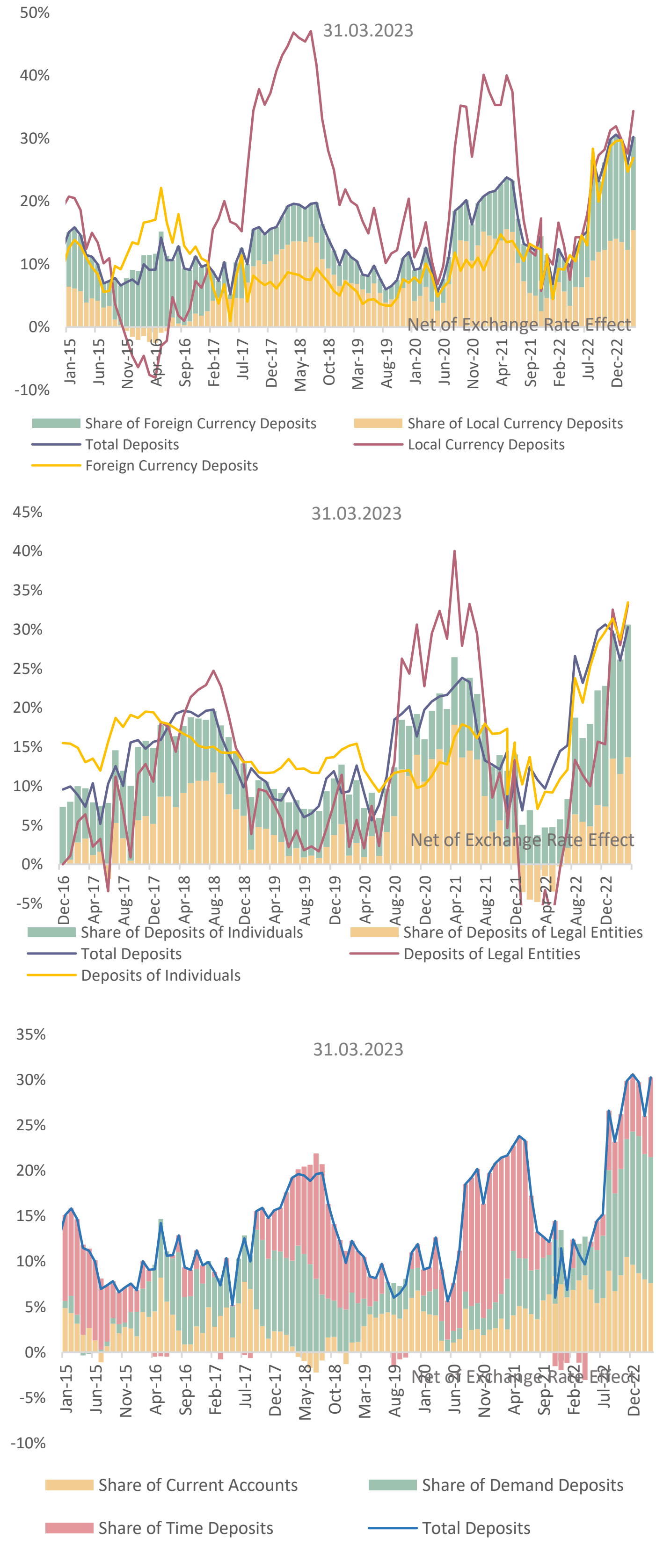
Review of Deposits

The growth of total deposits on the 1 of April 2023 was 30.2 percent compared to the corresponding period of 2022, which is 0.3 percentage points lower compared to the previous quarter. High growth rate of deposits is on the back of relatively slower growth rate of the foreign currency denominated deposits. Deposits denominated in national currency increased 34.4 percent, while the annual growth of deposits denominated in foreign currency amounted 26.9 percent in the same period.

By the 1 of April 2023 annual growth of deposits of individuals reached 33.4 percent, while the annual growth of deposits of legal entities also experienced growth and amounted to 33.2 percent.

As for the growth of deposits by types, the larger deposits growth was reflected in the growth rate of the time and demand deposits. By 1 on April 2023 the time deposits grew by 20.9 percent. As for the current and demand deposits, their growth rates equaled to 25.2 and 49.4 percent, respectively.

Figure 43: Annual Growth of Deposits



Source : NBG

Figure 44: Inflation and Monetary Policy Rate

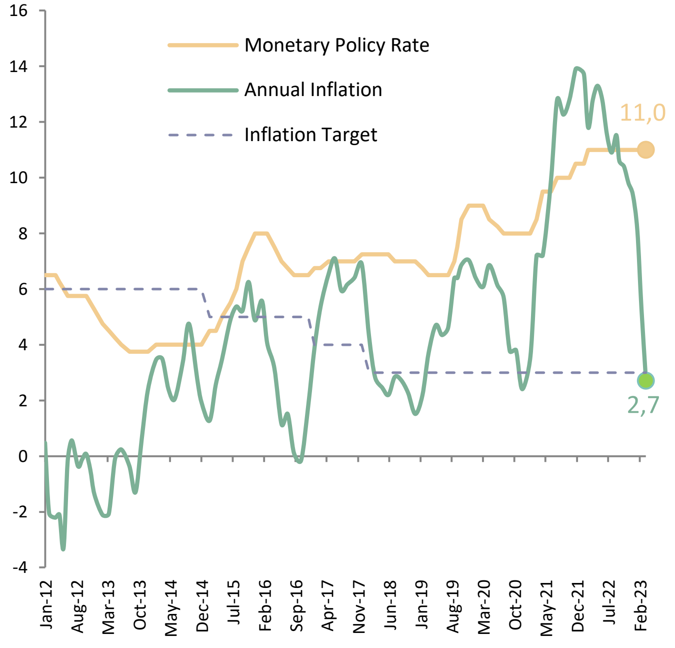
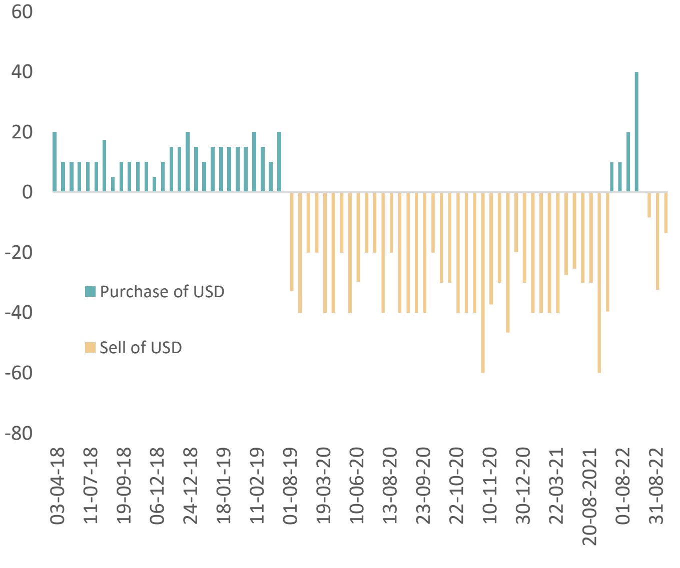


Figure 45: Trade of USD by NBG, mln



Source: National Bank of Georgia

Monetary Policy Rate

The Monetary Policy Committee of the National Bank of Georgia (NBG) held two sessions in the first quarter of 2023. In both cases, monetary policy authorities kept the monetary policy rate unchanged at 11.0 percent.

According to the NBG, Russia's invasion in Ukraine has led to significant global economic disturbances and further exacerbated supply-demand imbalances already in place due to the pandemic. Recently, however, there have appeared signs of price stabilization on international commodity markets. As a result of the sanctions lately imposed by the European Union, the oil prices have decreased. At the same time, international shipping costs continue to fall at a rapid pace, which should be reflected in import prices. In Georgia, the inflation has already retreated from its peak started to move towards the target rate. It's level was at 2.7 percent in April this year and is now on a downward path. It is expected that given the appreciated exchange rate, the aforementioned global trends will be gradually transmitted to the local market, helping to further reduce inflation

There was no FX interventions through auctions during fourth quarter.

Interest Rates

As of 1 of April 2023, the interest rate on foreign currency deposits was 1.4 percent, while on the national currency deposits it amounted to 11.1 percent.

As of 1 of April 2023 , the weighted average interest rate on deposits of legal entities in national currency was 11.3 percent, and in foreign currency – 1.9 percent. In the same period, the average annual interest rate was 1.4 percent on deposits of individuals in foreign currency and 11.1 percent in national currency.

By April 1, 2023, the weighted average annual interest rate on short-term consumer loans was 16.8 percent (18.7 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 March, 2023, the interest rate on mortgage loans issued to legal entities in national currency was 14.3 percent, and in foreign currency – 8.9 percent. The interest rate on loans to individuals in national currency was 13.4 percent, and in foreign currency it was 6.5 percent.

Figure 46: Interest rates on Deposits (stock)

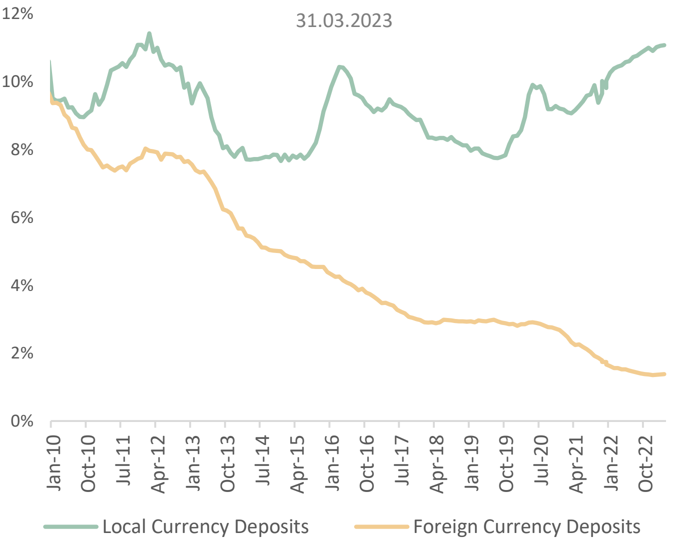
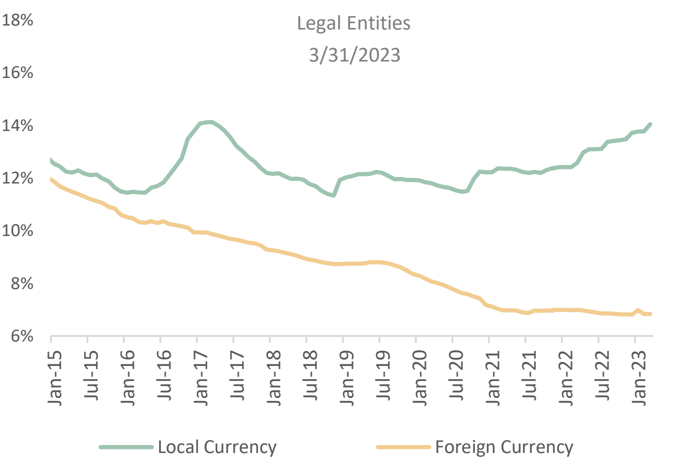
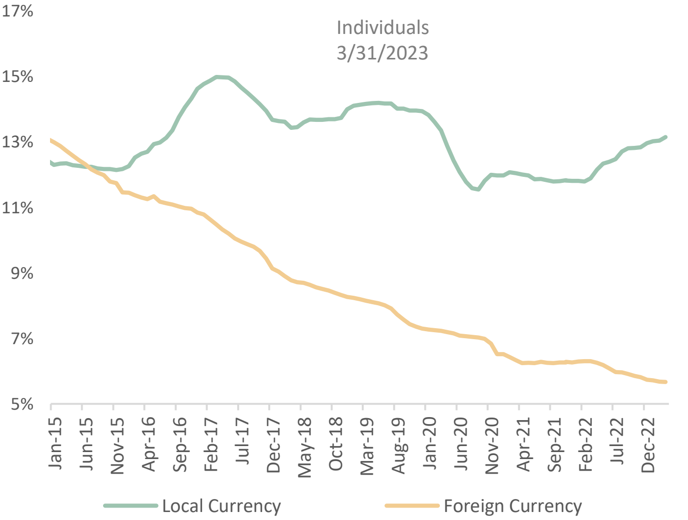


Figure 47: Interest rates on Loans secured by Real Estate





Source: NBG

Disclaimer

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