

Ministry of Finance of Georgia



# Quarterly Economic Outlook

II 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 7.4 percent, while for the first quarter growth amounted to 7.7 percent
- Annual inflation in the second quarter equals to 1.6 percent, while core inflation (w/o tobacco) equals to 4.2
- Export decreased by 28.8 percent annually
- Import increased by 11.8 percent annually
- Revenues from tourism increased significantly due to the base effect, and already is above the 2019 level
- The refinancing rate has been reduced to 10.5 percent





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# Real Sector

## Economic Growth

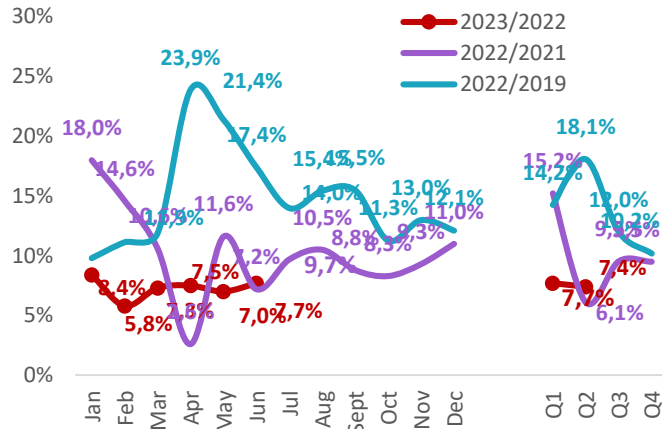
According to the preliminary data, in the second quarter of 2023 real GDP increased by 7.4 percent relative to same period of the previous year. At the same time, compared to the corresponding period of 2019, economic growth was 26.8 percent. In particular, in the second quarter, exports increased annually by 14.8 percent, while imports increased annually by 11.8 percent. At the same time, compared to the second quarter of 2019, exports increased by 65.4 percent and imports increased by 58.2 percent. External demand continues to grow. Considering tourism, compared to the pre-pandemic situation, revenue from international travelers increased 1.3 times year-on-year in the second quarter, and also, there was a 15.0 percent increase compared to the same period in 2019.

In the post-pandemic period, there were a number of restrictions that hindered the process of economic recovery. After gradually lifting the restrictions, economic activity has picked up, with real GDP growing at an annualized rate of 14.9 percent in the first quarter of 2022. Which, compared to the corresponding period of 2019, is 21.6 percent. In the fourth quarter of 2022, a 9.5 percent increase was recorded.

As for the first quarter of 2023, economic growth amounted 7.7 percent. A significant share of GDP growth in the first quarter of 2023 was due to the export component, which grew by 14.2 percent annually in real terms. At the same time investments played a significant role in growth and increased by 6.1 percent in real terms. At the same time, consumption in real terms decreased by 1.1 percent, and imports in real terms decreased by 11.6 percent annually.

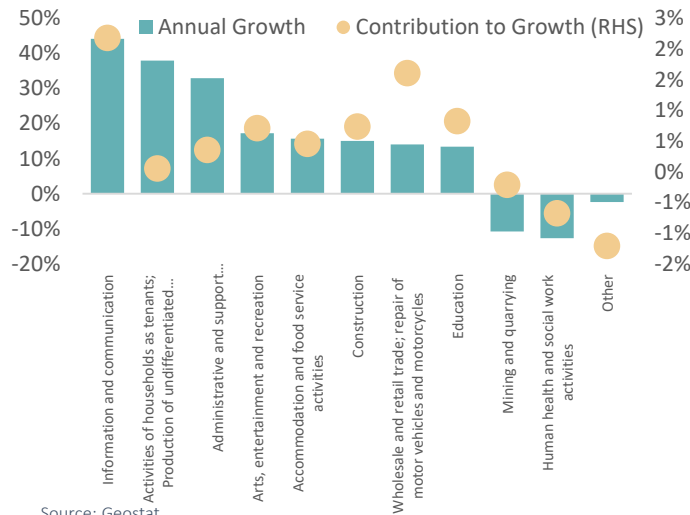
In the first quarter of 2023 the following sectors made a significant contribution to growth: Information and

Figure 1: Economic Growth



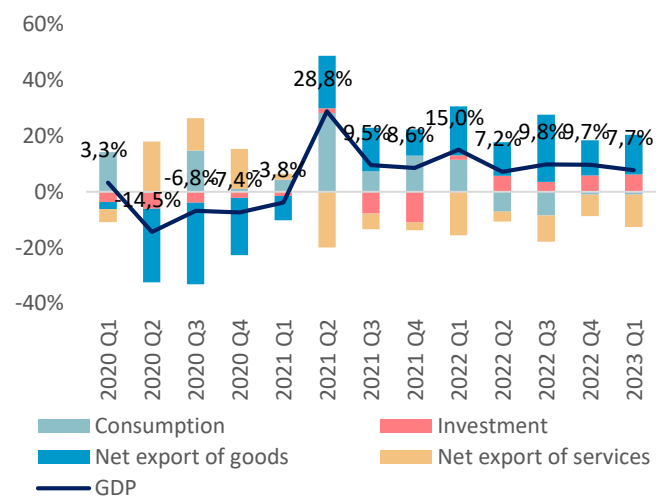
Source: Geostat

Figure 2: Real Sectoral Growth, 2023 1Q



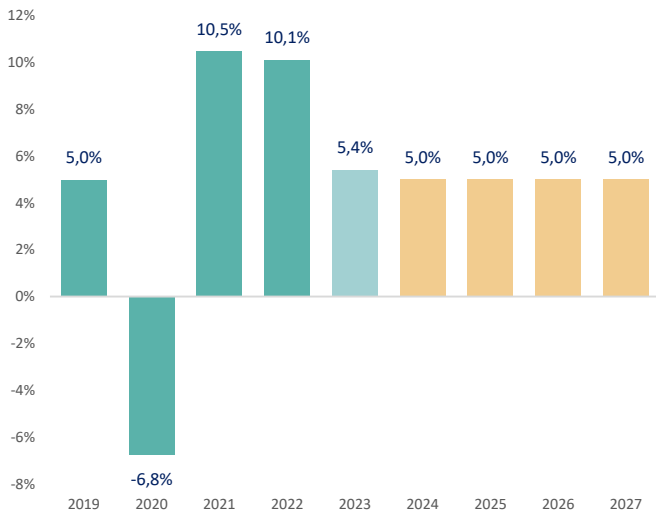
Source: Geostat

Figure 3: Decomposition of Economic Growth



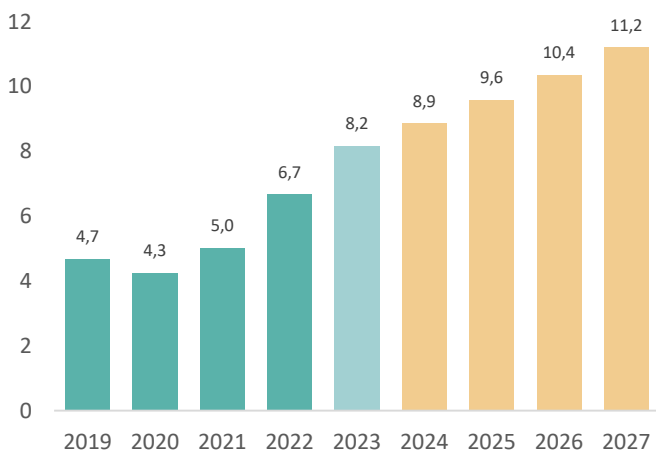
Source: Geostat

Figure 4: Economic Growth Projection



Source: MOF

Figure 5: GDP per capita, ths USD



Source: MOF

communication: 44.2% (2.2 p.p.), Activities of households as employees: 38.0% y/y (0.05 p.p.), Administrative and support service activities: 32.9% (0.4 p.p.), accommodation facilities and food delivery activities: 15.7% (0.5 p.p.), construction: 15.1% (0.7 p.p.), wholesale and retail trade 14.0% (1.6 p.p.); Repair of automobiles and motorcycles: 14.0% (1.6 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, 5.4 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 5.0 percent in 2024-2026.

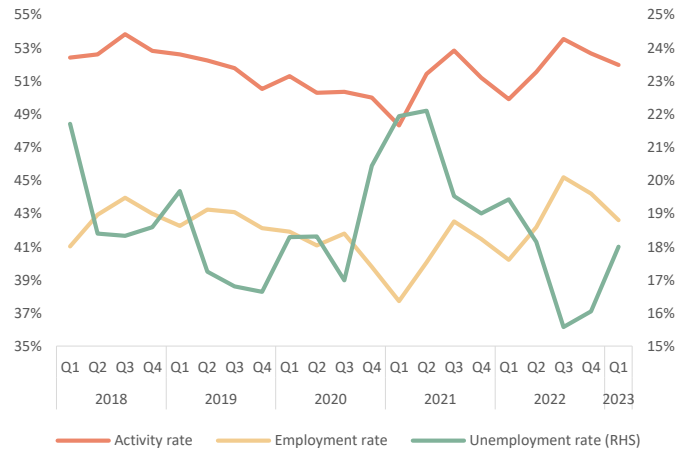
## Employment and Unemployment

In the first quarter of 2023, the unemployment rate was 18.0 percent, which is 2.0 pp higher than the value of the previous quarter and 1.4 pp lower compared to the corresponding period of the previous year. Among them, unemployment in urban areas was 19.7 percent (3.3 pp/year), and in rural areas - 15.5 percent (0.0 pp/year). The 15-24 and 25-34 age groups have the highest level of unemployment. In the first quarter of 2023, the economically active population made up 52.0 percent of the working-age population (population aged 15 and older). In the first quarter of 2023, the unemployment rate for women was 15.1 percent, and for men, it was 20.3 percent.

In the first quarter of 2023, compared to the corresponding period of the previous year, the number of employees increased by 5.9 percent, and the employment level decreased by 2.4 percentage points. In the same period, the number of unemployed decreased by 3.6 percent annually. As for productivity (the ratio of real output to the number of employees), it increased by 1.7 percent annually. At the same time, the average nominal salary of employees increased by 18.7 percent, which amounts to 1,716.6 GEL as of the first quarter of 2023.

In the first quarter of 2023, there was an 1.7 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

In 2022, double-digit inflation was recorded at the level of 11.9%. Inflation peaked in May 2022 at 13.3%, after which it began to decline and this trend continues in current period as well. Due to the high base effect on the one hand, and the tightened monetary policy on the other hand, the inflation level decreased in the first half of 2023. This was influenced by the decrease in the commodity prices on global market, as well as the prices of food products and oil. The downward impact on annual inflation also depends on the appreciation of the exchange rate, which reduces the impact of imported goods and food prices on the inflation rate.

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.

Taking into account the above-mentioned factors, 7.6% inflation was recorded in the first quarter of 2023, and in all three months of the second quarter it was below the target of 3%, and the second quarter inflation amounted to 1.6 percent. A decrease in international transportation prices is reflected in imported inflation. Core inflation (excluding tobacco) equaled 4.2 percent in the second quarter. It is expected that during 2023, inflation will gradually approach the target rate of 3% and will be fixed at 2.8% on average.

On May 10, the Monetary Policy Committee of the National Bank made a decision on gradual exit from the tightened monetary policy and reduced the monetary policy rate from the tightened 11 percent level to 10.5 percent. In conditions of high uncertainty, the National Bank of Georgia continues to reduce the monetary policy rate only at a slow pace.

Figure 8: Annual Inflation

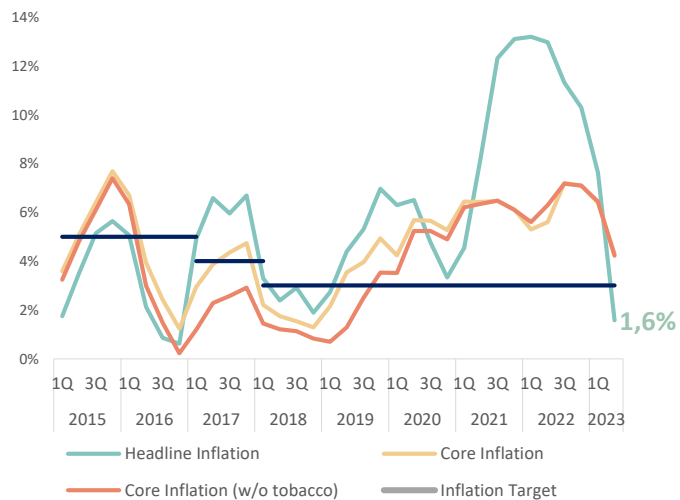
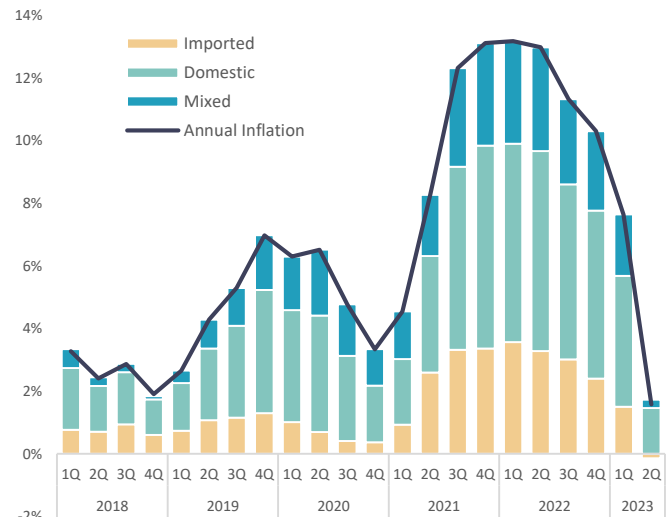


Figure 9: Decomposition of Inflation

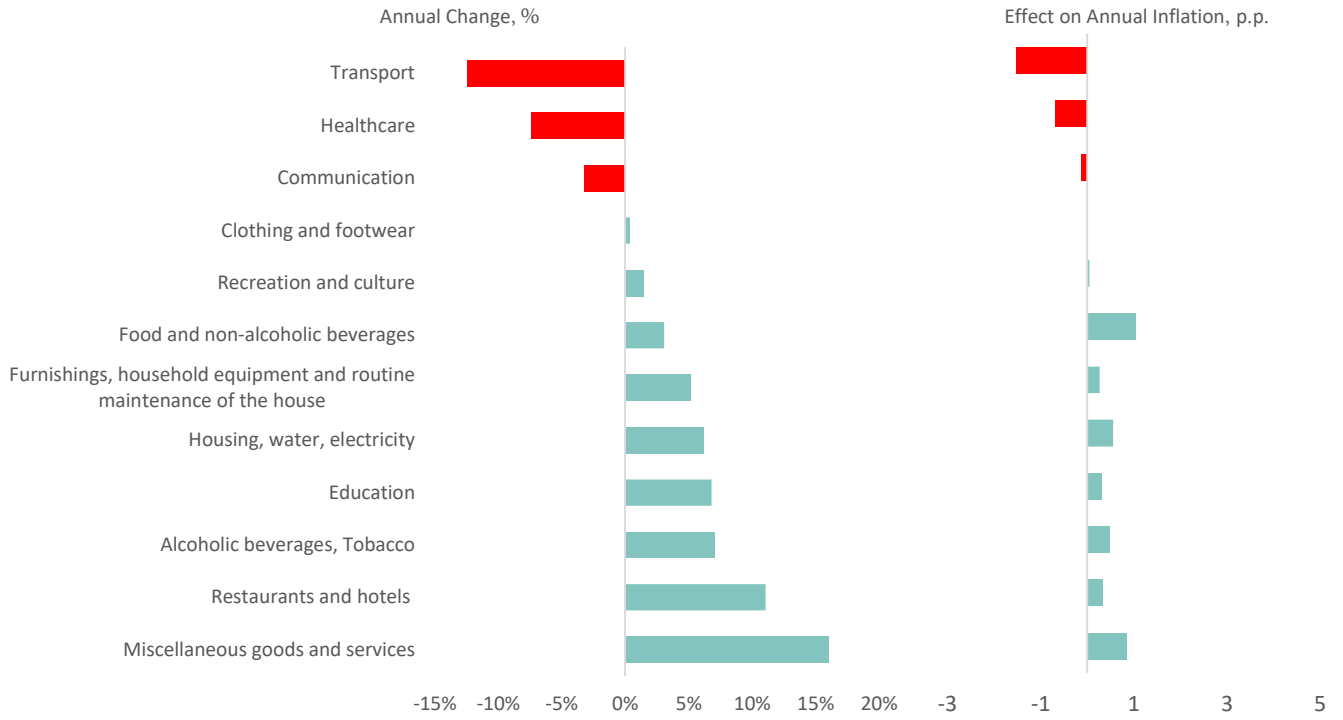


Source: NBS, Geostat

That is why, on June 21, the Monetary Policy Committee decided to leave the monetary policy rate at 10.5 percent.

In the second quarter of 2023, the contribution of domestic inflation was 1.6 percent, while the contribution of imported inflation was -0.1 percent. This dynamics is caused by the decrease 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 Q2



Source: Geostat



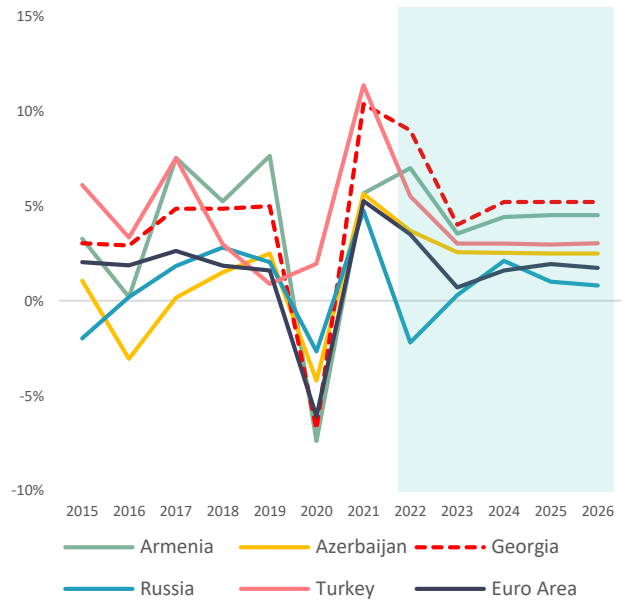
## Economic Outlook of the Region

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, compared 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.

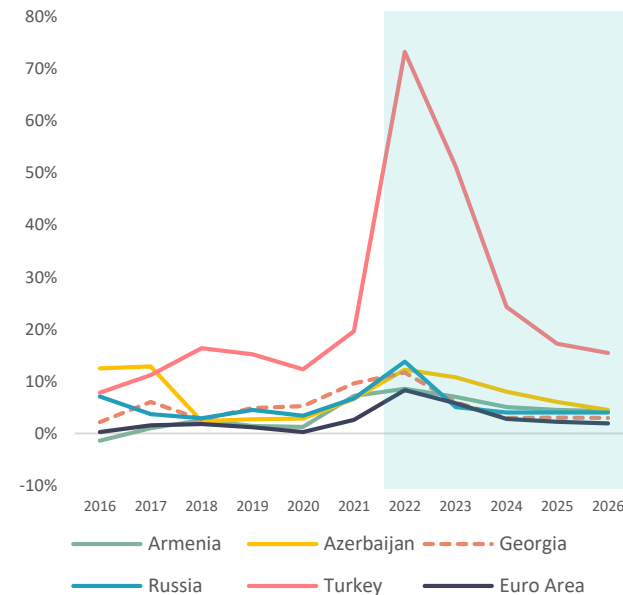
The main actor of global economic growth disruption Russia is expected to have its economy severely hit by sanctions, which will translate into large contraction of real GDP. This measures won’t have only near term impact on Russian economy, but will affect its medium-term capabilities, since large consumers, 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



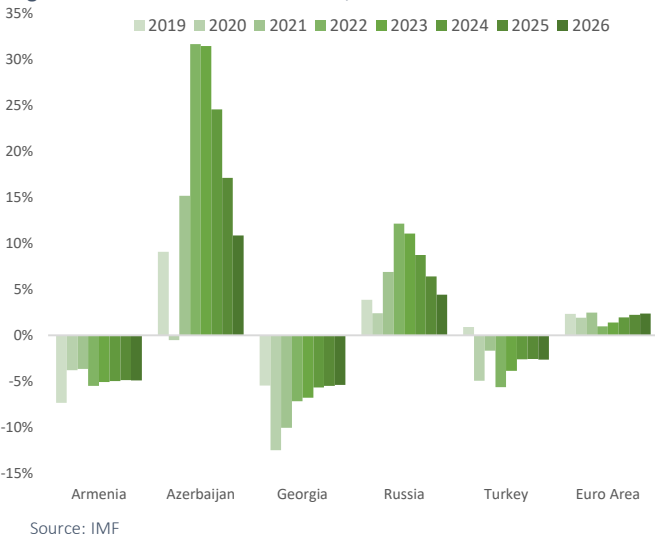
Source: IMF

Figure 12: Inflation in the Region



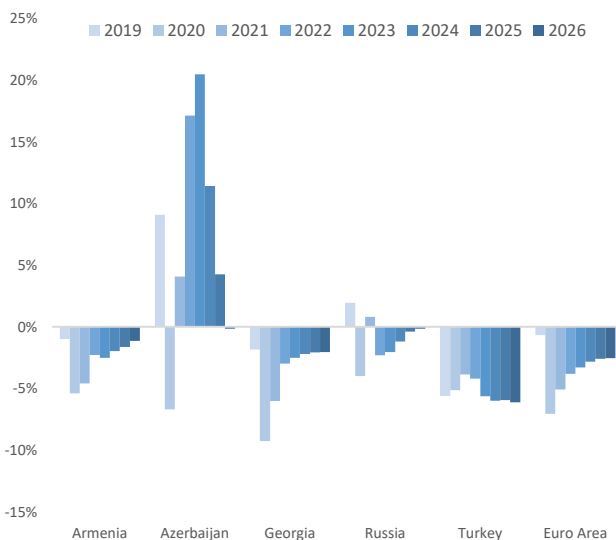
Source: IMF

Figure 13: Current Account to GDP, %



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).

Figure 14: Budget Balance to GDP, %



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

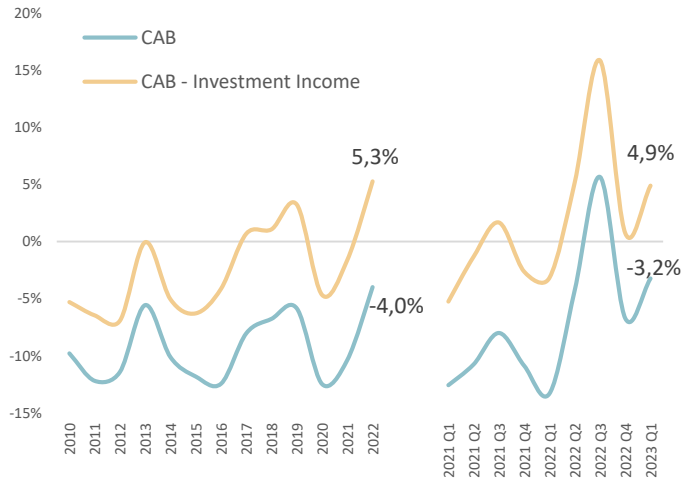
### Current Account Balance

In 2020 current account deficit stood at 12.5 percent of GDP, which has significantly 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. The current account deficit has significantly improved in 2022 and amounted to 4.0% of GDP. An improvement has continued in 2023 as well and was observed at 3.2 percent for the first quarter.

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, during the post pandemic period, the foreign debt contributes quite a lot to finance the deficit. Especially noteworthy is 2020 when the debt financing contributed sizably, 8.9 p.p out of 12.5% deficit financing. In 2021 the debt contribution decreased, while for 2022 the financing structure has still improved and current account was financed fully by the FDI, which contributed 6.7 p.p out of 4.0% of current account deficit financing.

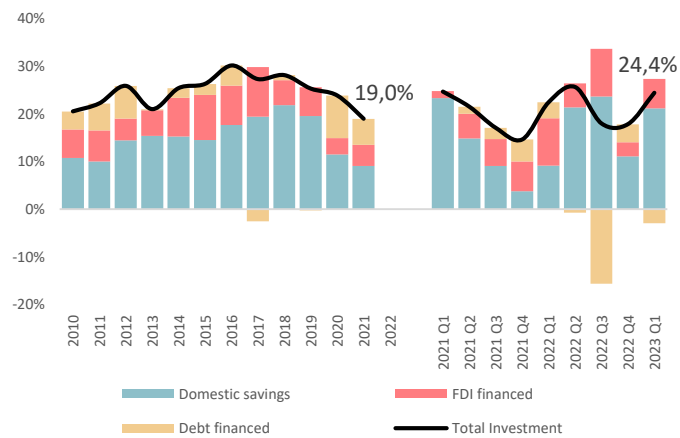
As of the first quarter of 2023, debt still contributed positively in financing the current account deficit. In particular, during the improvement of the current account deficit, the FDI's share in financing 3.2% deficit stood at 6.4 p.p, while its debt contribution was negative 2.9 p.p.

Figure 15: Current Account to GDP, % of GDP



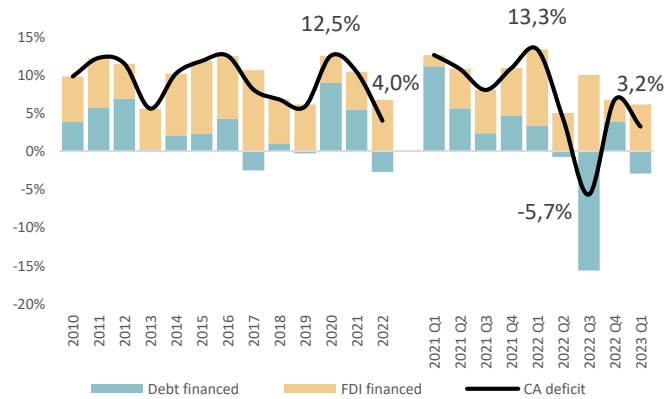
Source: NBG, Geostat

Figure 16: Financing of Investment



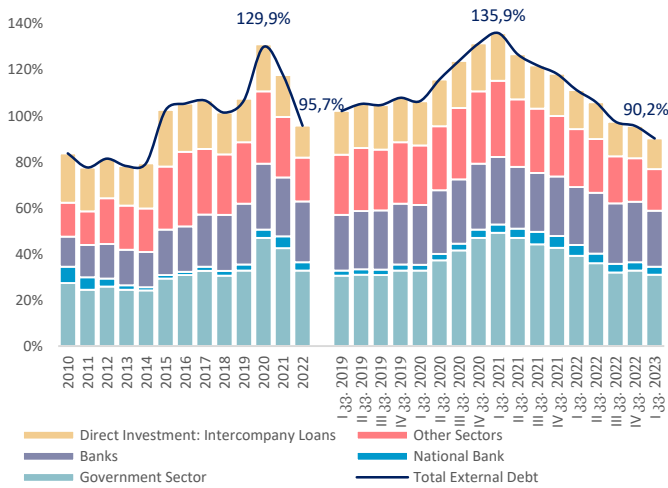
Source: NBG, Geostat

Figure 17: Financing of Current Account



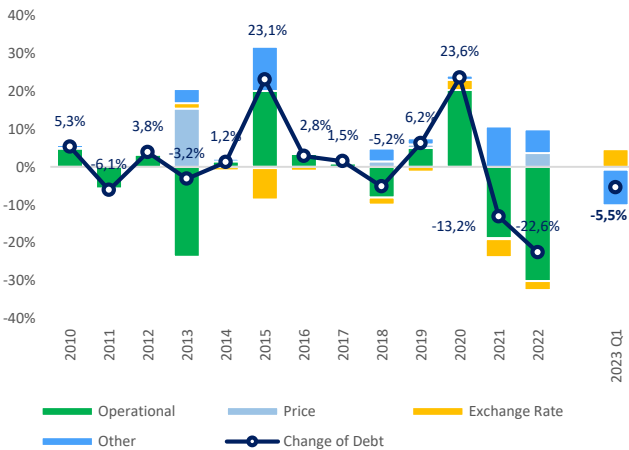
Source: NBG, Geostat

Figure 18: External Debt to GDP, %



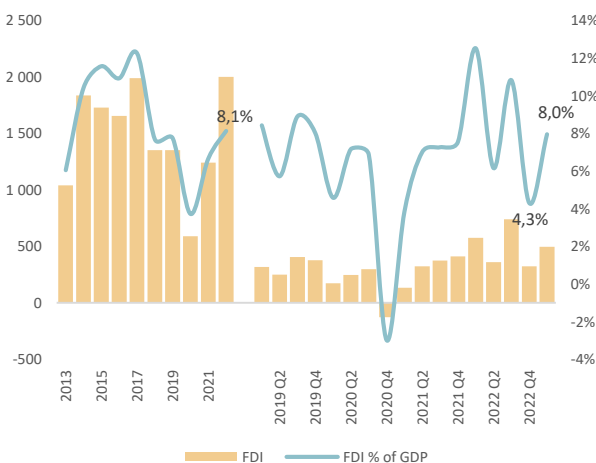
Source: NBG, Geostat

Figure 19: Change of Debt to GDP



Source: NBG, Geostat

Figure 20: Foreign Direct Investment



Source: Geostat

## External Debt

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

The total external debt increased during the pandemic and amounted to 129.9 percent in 2020. Debt increased by 23.2 p.p compared to the previous year. The main reason was increased 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, while for the first quarter of 2023 it amounted to 90.2 percent of GDP, 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, changes in exchange rate and in nominal GDP. The largest contribution to the growth of external debt in some quarters of 2015-2016 was due to the exchange rate depreciation, 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 and 22.6 p.p in 2021-2022, while debt considering exchange rate, in GEL terms decreased by 24.7 p.p and 25.1 p.p, with a major contribution from nominal GDP. Deficit did not require to use debt for financing for 2021-2020, due to improved current account, which helped debt to decrease. This continued in 2023 and debt decreased by 5.5 p.p in the Q1, where operational helped to decrease but exchange rate contributed debt is to increase.

## Foreign Direct Investments

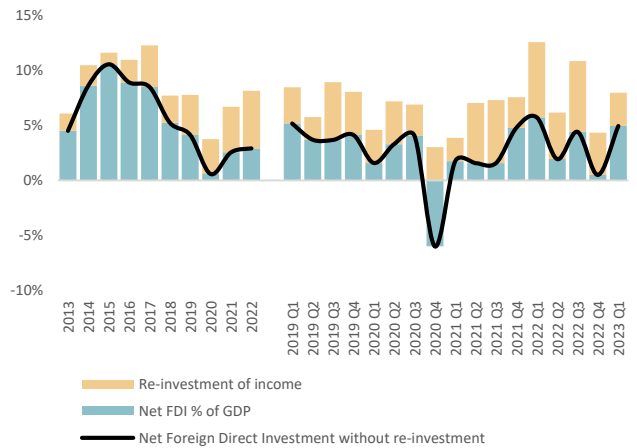
As for 2023 Q1 period, the foreign direct investments (FDI) amounted to 497 mln USD (8.0 percent of GDP), that was 13.7 percent lower than in corresponding quarter of 2022.

As of Q1 2023 period, the Netherlands is the top investor in terms of FDI with a 48.2 percent share in totals. As for the 2nd and 3rd places, Japan and the USA had 12.7 percent and 11.0 percent shares, respectively.

In 2023 Q1, the direct foreign investments were mainly allocated in the manufacturing sector, amounted to 225.8 mln USD (45.5 percent of total FDI). The relatively larger shares had the real transport and communication sector, where the investments amounted 72.1 mln USD (14.5 percent).

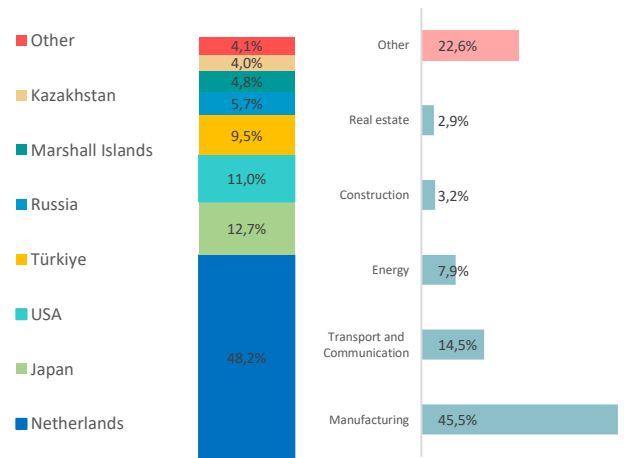
As for the components of the FDI, in 2023 Q1 period, reinvestment stood at 3.0 percent of GDP with the volume of 289.6 mln USD.

Figure 21: FDI, % of GDP



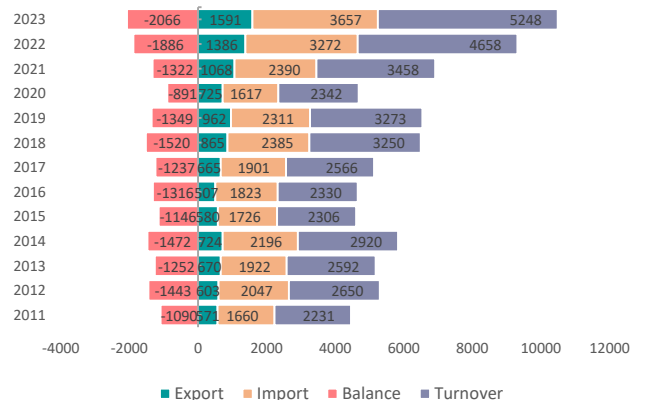
Source : Geostat

Figure 22: Composition of FDI, 2023 Q1



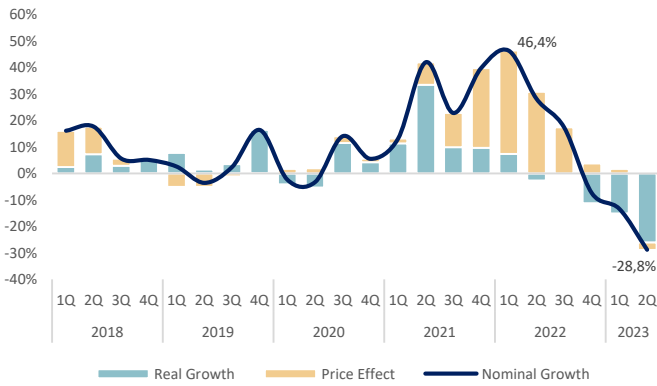
Source : Geostat

Figure 23: International Trade, Q2



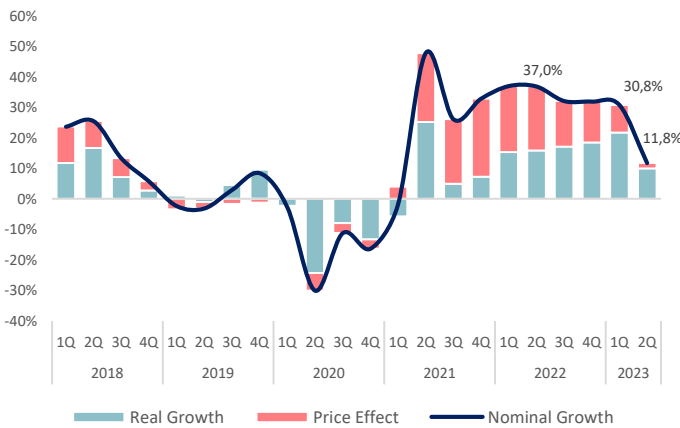
Source: Geostat

Figure 24: Annual Change of Domestic Export



Source: Geostat

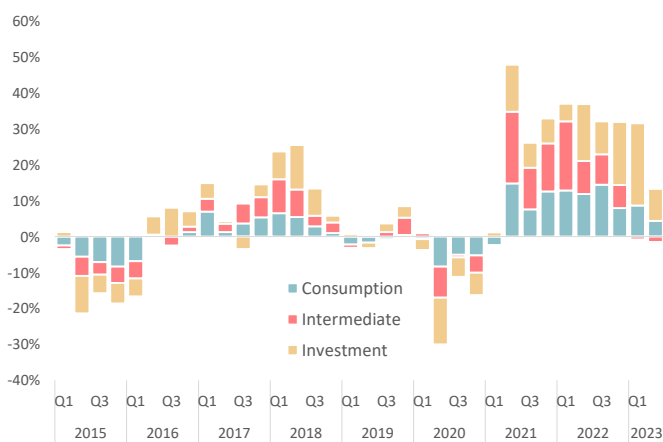
Figure 25: Annual Change of Import



Source: Geostat

Figure 26: Decomposition of Change of Import

Decomposition 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.

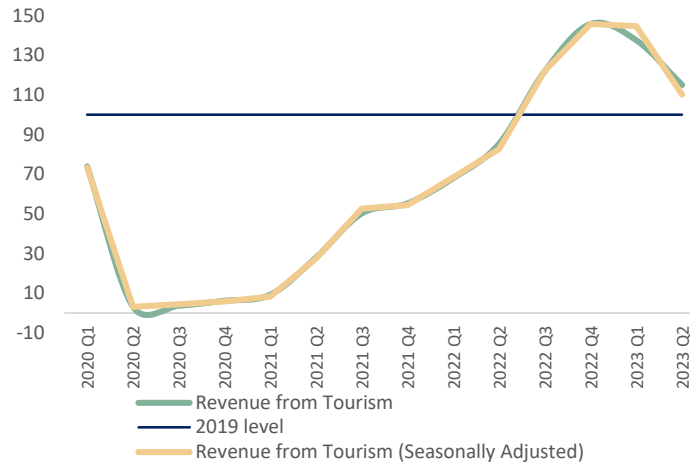
In 2021, after governments all over the world as well as in Georgia started to lift up restrictions, international trade started the fast recovery. Together with increased exports, imports also started fast recovery. Moreover, higher prices caused increased price effect in the export as well as import 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. As for the first quarter of 2023, reduction of domestic export was observed at 13.4 percent, while for the second quarter it reached 28.8 percent reduction, out of which real growth contributed minus 15.1 and minus 26.1 percent, respectively. Price effect for the first two quarters was small – positive 1.7 and negative 2.7 percent, respectively.

As of second quarter of 2023, import of investment goods increased by 28.2 percent annually (8.9 p.p. share in total imports). High growth was observed in imports of consumption goods and amounted 12.9 percent annually (4.4 p.p. share in total imports). As for the imports of intermediate goods, it decreased by 4.4 percent annually (-1.5 p.p. share in total imports). In Q2 2023, export of goods increased by 28.8 percent annually. The main driver of this growth are still motor cars (36.4 percent of total exports), copper ores and concentrated (8.5 percent of total exports) and wine of fresh grapes (4.4 percent of total exports) have also high shares. As for the imports, motor cars, oil products, and medicaments are still the main imported goods.

## Tourism

In the post-pandemic period, from 2021, the tourism sector has started gradual recover. From the second quarter of 2021, tourism revenues increased annually and from the third quarter tourism recovered by half. This trend was maintained in subsequent quarters as well. It should be noted that from the third quarter of 2022, the income from tourism exceeded the level of 2019, and this trend continues in the current period. In the second quarter of 2023, the income from tourism amounted to 1,009.1 million US dollars, which is 34.8 percent higher than the same period of the previous year, and 115.0 percent of the 2019 level.

Figure 27: Income from Tourism



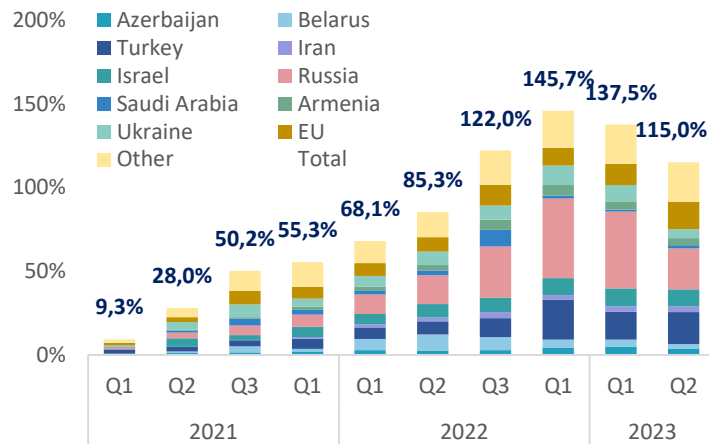
Source: NBG

## Remittances

In the first quarter of 2023, net remittances reached 1171.5 mln USD, up by 148.6 percent from the previous year.

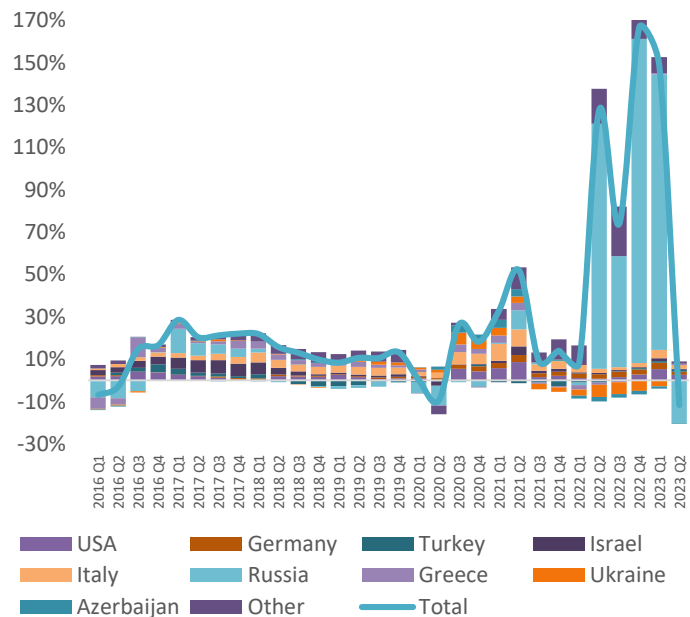
In the first quarter of 2023, net remittances accounted 1023.0 mln USD, which is by 11.6 percent less compared to the same period of the last year. Russia made the main contribution to the decrease by 20.2 pp., Belarus (-0.5 p.p.), Azerbaijan (-0.39 p.p.), Kyrgyzstan (-0.37 p.p.) also made a negative contribution. Growth was recorded in net remittances from the USA of 38.4 percent, which contributed positively to overall growth by 2.6 p.p., as well as net remittances from Italy, which increased by 20.7 percent and added 1.9 p.p. to overall growth, Germany by 49.5 percent, which contributed 1.6 p.p. contributed positively to the growth. It should be noted that remittances from Russia was increased recently and had a positive contribution to the growth of net remittances. The mentioned dynamics changed in the second quarter of 2023, which may be related to the high base effect.

Figure 28: Income from tourism, mln USD



Source: NBG

Figure 29: Net Remittances



Source: NBG

### Dependence on Other Countries

The Georgian economy is diversified in terms of dependency 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 Q1 2023 data, the dependence on Russia is still high and it decreased sharply in the first quarter of 2023 as a result of a fall in remittances. The dependence on Russia is mainly driven by the remittances and tourism. The dependence on Turkey is still stable, though revenues from exports increased insignificantly in the 1<sup>st</sup> quarter of 2023. A fall was observed in dependence on Ukraine, which was due to decreased in exports of goods and tourism. The dependence on the EU is maintained at a high level and increased in the Q1 of 2023, mainly from the remittances. The overall fall in dependency on main partner countries in the first quarter of 2023 (except the EU) indicates to relatively more diversified structure of the FX inflows.

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



Source: NBS, Geostat



Figure 31: Nominal Effective Exchange Rate

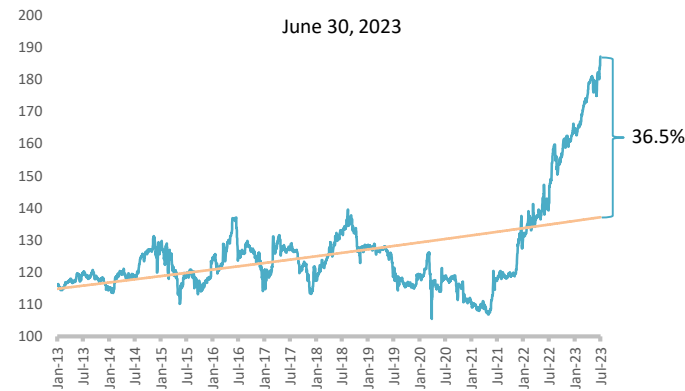


Figure 32: Real Effective Exchange Rate

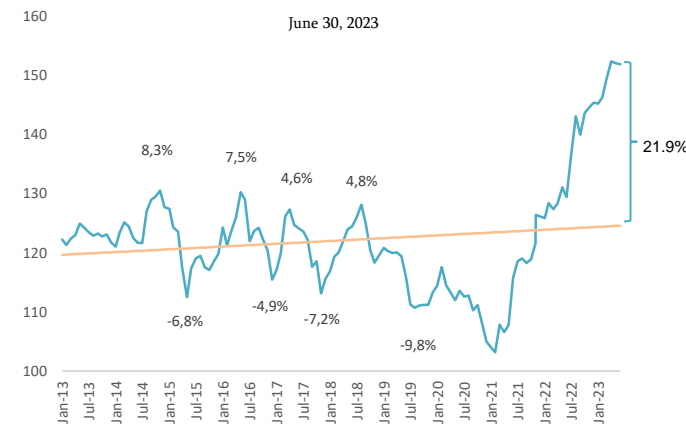


Figure 33: Volatility of Exchange Rates

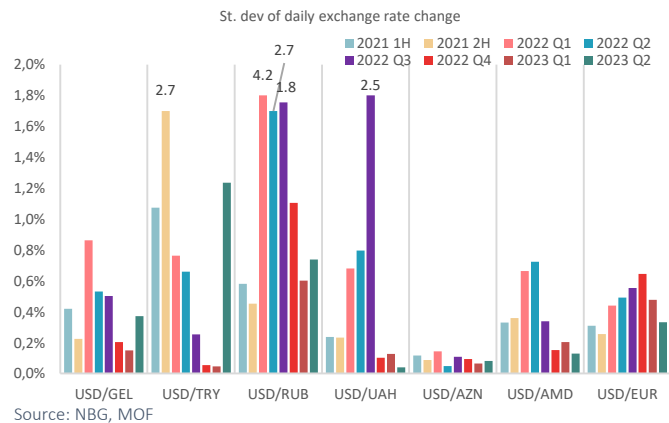


Table 1: Change of Nominal and Real Effective Exchange Rates

	June 30, 2023	June 30, 2023 - Jan 1, 2023	June 30, 2023 - Jan 1, 2022
Euro	2,8591	▲ 0,9%	▲ 22,4%
US Dollar	2,6177	▲ 3,2%	▲ 18,0%
Turkish Lira	0,1004	▲ 43,7%	▲ 130,3%
Russian Ruble	0,0301	▲ 22,2%	▲ 37,0%
NEER	185,90	▲ 13,0%	▲ 41,8%
REER (June 2023)	151,88	▲ 4,6%	▲ 20,2%

Source: NBG

## Exchange Rate

At the start of the COVID-19 pandemic, when the uncertainty was high all over the world, USD tended to be strong against other currencies. From the start of 2021, USD started to weaken against both developed and developing countries' currencies. GEL followed the same trend. From April 2021, GEL started sharp appreciation, which was due to the weaker USD, as well as strong numbers in export and improved expectations. From the start of 2022 GEL started gradual appreciation against USD as well as to other trading partners, but after Russia invaded Ukraine and full scale war started, GEL sharply depreciated, than throughout first quarter stabilized, all this caused sharp increase in GEL volatility, this increase in volatility 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 Q2 2023, the Georgian Lari appreciated against USD by 10.8 percent, compared to same period of the previous year. At the same time, the appreciation against EUR equaled to 7.1 percent. The GEL appreciated against Lira and RUB by 43.1 and 41.3 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 36.5 and 21.9 percent respectively.

# Fiscal Sector

## Budget Performance

The consolidated budget tax revenue forecast for the second quarter of 2023 was set at 4,675 mln GEL, while 4,900 mln GEL was mobilized during the reporting period, which is 104.8 percent of the forecast.

- 1,471 million GEL is mobilized as income tax, which is 103.7 percent of the forecast figure (1,418 million GEL).
- 442 million GEL is mobilized as profit tax, which 110.5 percent of the forecast indicator (400 million GEL).
- 2,019 million GEL was mobilized as VAT, which is 100.2 percent of the forecast (GEL 2,014 million).
- 531 million GEL is mobilized as excise, which is 112.9 percent of the forecast indicator (470 million GEL).
- 39 million GEL is mobilized in the form of import tax, which is 130.8 percent of the forecast (30 million GEL).
- 475 million GEL is mobilized in the form of property tax, which is 106.4 percent of the forecast (447 million GEL).

In the second quarter of 2023, compared to the same period last year, consolidated budget revenues increased by 24.2 percent and expenditures increased by 12.5 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to 1291.9 million GEL, while the total balance was set at 77.4 million GEL.

Figure 34: Budget Revenue Performance

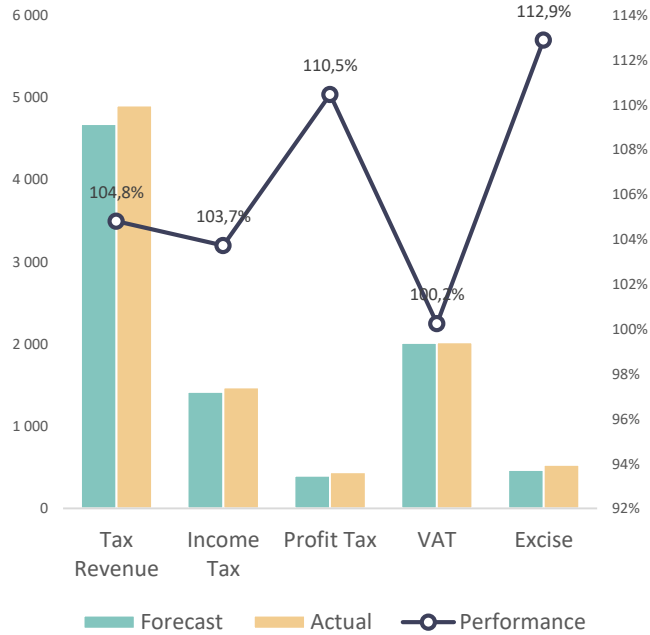
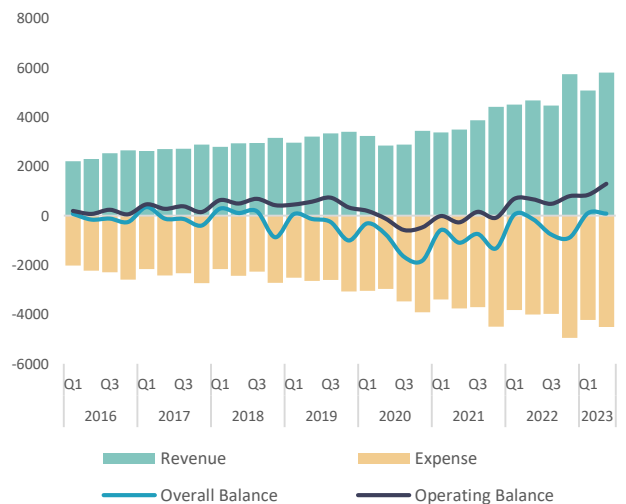


Figure 35: Budget Balance



Source: MOF

Figure 36: Tax Income

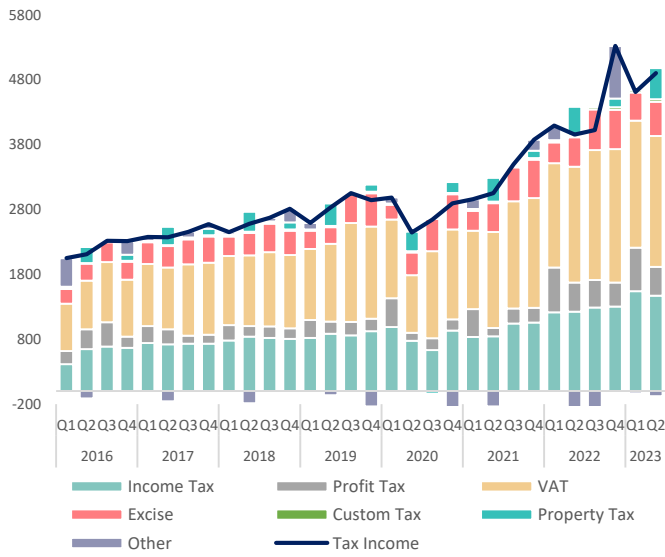
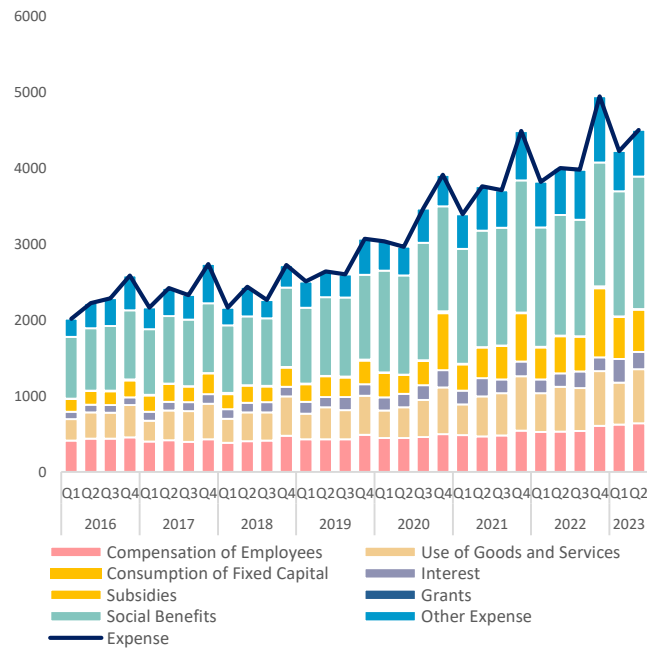


Figure 37: Budget Expenses



Source: MOF

A significant share of budget revenues is accounted by tax revenues, accounting for 84.5 percent in the second quarter of 2023. The consolidated budget received GEL 4,900 million in taxes, which is 23.9 percent more than the same period of previous year. Revenue from income tax increased by 20.0 percent year on year to GEL 1,471 million. Reduction is observed in the form of revenue from profit, which decreased annually by 1.6 percent compared to the second quarter of 2022, amounted to 442 million and is 9.0 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 13.3 percent, accounting 41.2 percent of total tax revenue, while revenue from income tax increased by 20.0 percent, and contributing by 30.0 percent. Revenue from custom tax increased by 32.5 percent.

Expenditures in the second quarter of 2023 increased by 12.5 percent year on year to GEL 4,507 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 9.9 percent. Expenditures in the form of goods and services increased, with an annual growth rate of 21.2 percent to GEL 714 million, accounting for 15.8 percent of total expenditures. As for other items of expenditure, wages (14.2 percent of total costs), subsidies (12.3 percent of total costs), interest (5.0 percent of total costs) and other costs (13.6 percent of total costs) increased by 20.4 percent, 12.9 percent, 28.7 percent and -0.7 percent compared to the corresponding period of 2022, respectively.

### Government Debt

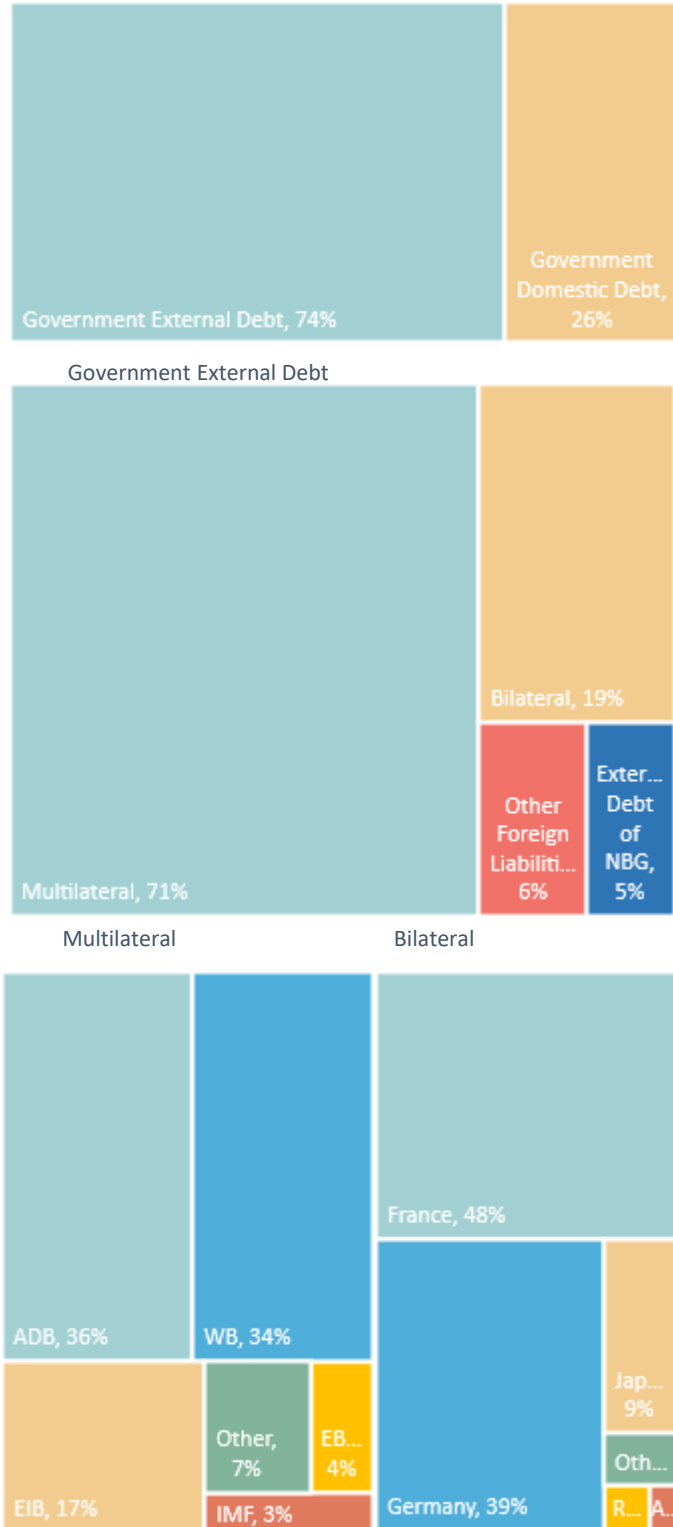
As of March 30, 2023, the stock of public debt of Georgia amounted to GEL 30,054 million, including:

☐ Government domestic debt stock is GEL 7,776.3 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") - 170 million GEL;
- Treasury liabilities of the Ministry of Finance – GEL 420 million;
- Treasury bonds of the Ministry of Finance - GEL 7,020.8 million;

☐ Government external debt stock is 22,278.0 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 July, 2023 it has reached 54.8 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 July, 2023, the larization of loans of individuals was 70.3 percent, in the same period the larization of loans granted to the legal entities amounted to 36.3 percent.

As for the larization of loans by collaterals, the larization of the consumer loans significantly exceeds the larization of the real estate loans. The larization of the consumer loans evolved around 89 percent during 2022 and stays at that level. By 1 of July 2023 it amounted to 88.5 percent. As for the larization of the mortgage loans, it amounted to 46.5 percent.

The larization of deposits remain significantly lower than larization of loans. As of 1 of July, 2023 the larization of the total deposits reached 48.8 percent. The larization of deposits is mainly conditioned by the larization of the deposits of legal entities. By the 1 of July, 2023, the larization of the deposits of legal entities reached 74.7 percent and the larization of deposits of individuals in the same period was 32.7 percent.

It should be noted that the main contributor in the deposits larization is still time deposits' larization. By 1 July, 2023, it reached 56.3 percent. In the same period, the current accounts larization amounted to 47.7 percent, while the larization of the demand deposits stands at 40.6 percent level.

Figure 39: Loan Larization

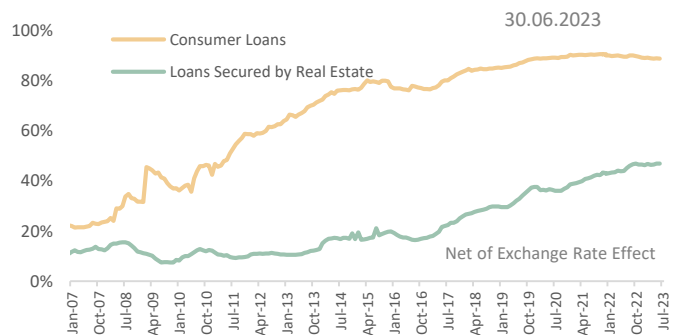
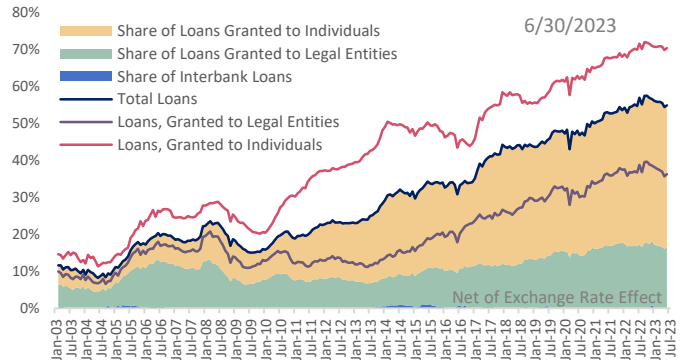
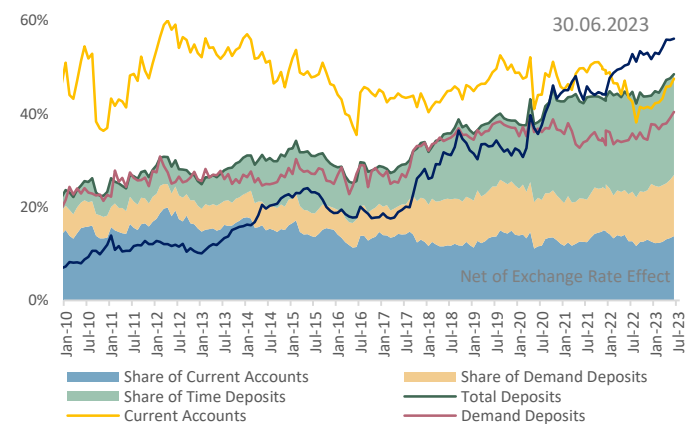
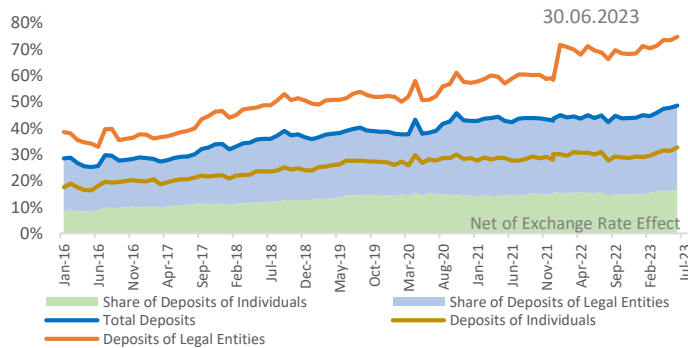
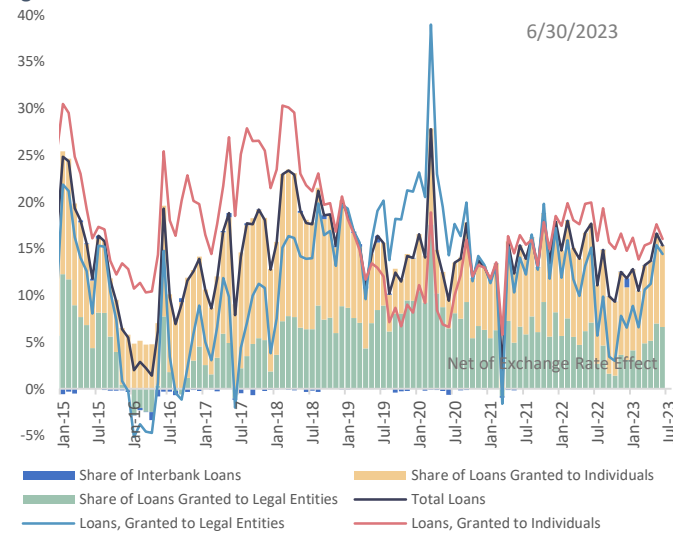


Figure 40: Deposit Larization



Source: NBG

Figure 41: Annual Growth of Loans



## Review of Loans

As of 1 July, 2023, the overall loans increased by 8.5 percent compared to the corresponding period of 2022, which was 4.9 percentage points higher than previous quarter growth rate (net of exchange rate effect). A significant increase was observed also in the annual growth of loans granted to the legal entities, growth amounted to 5.1 percent. During the same period, the loans to individuals increased by 11.3 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 July, 2023, it amounted to 15.7 percent, compared to the corresponding period of 2022. During the same period, the growth of loans in foreign currency was 0.9 percent, which is 9.9 percentage points higher (as there was a negative growth in the previous period) than in the last quarter (excluding exchange rate effect).

By 30 of June 2023, the mortgage loans had increased by 9.7 percent compared to the corresponding period of the previous. Moreover, the mortgage loans that are denominated in the national currency increased by 24.8 percent, 2.8 percentage points higher than in the previous quarter, while the foreign currency denominated mortgage loans decreased by 0.7 percent, 9.9 percentage points lower than previous quarter.

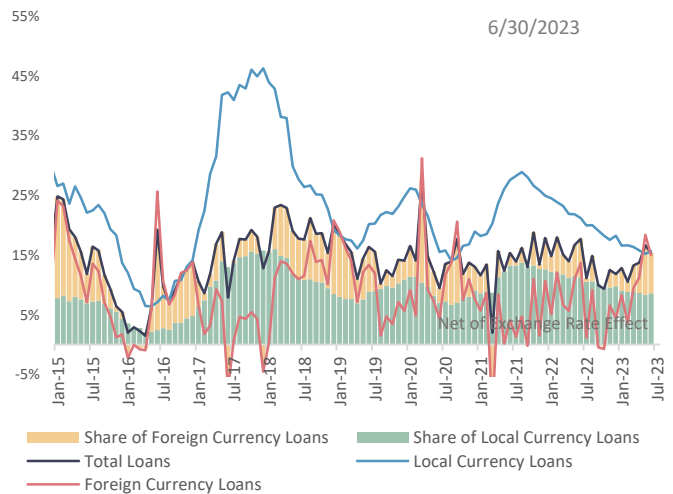
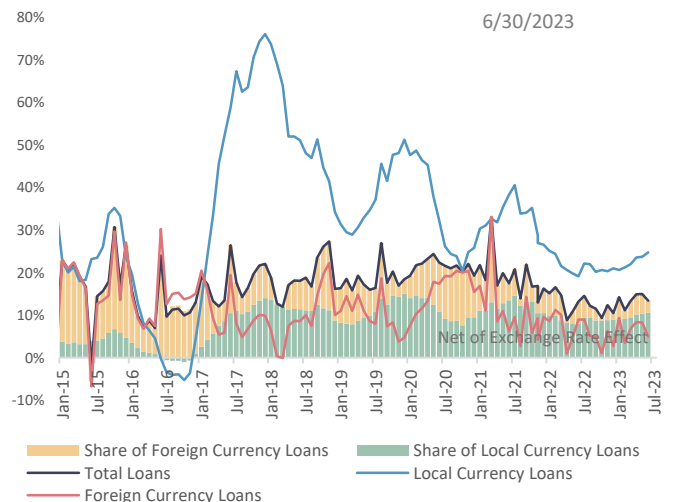


Figure 42: Annual Growth of Loans secured by Real Estate



Source : NBG

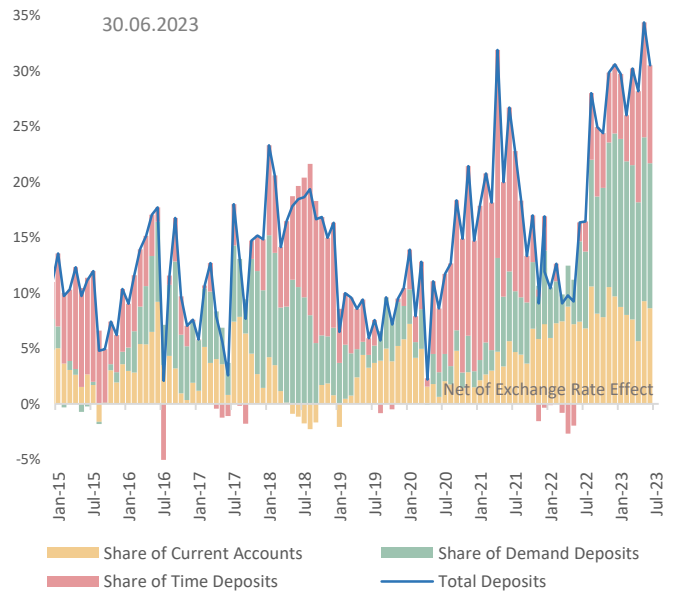
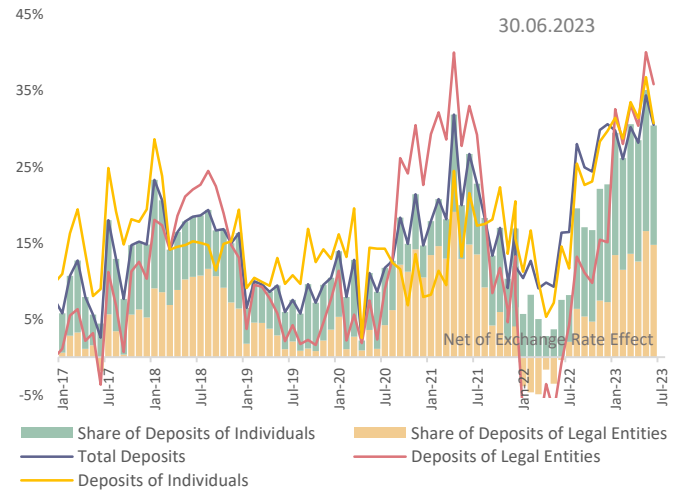
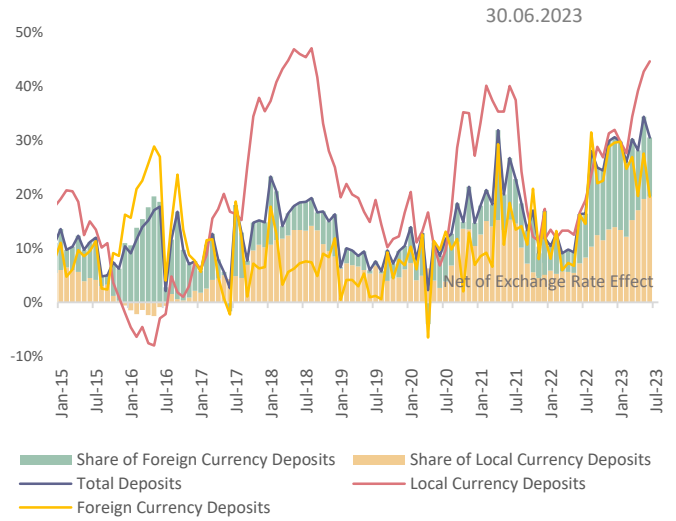
## Review of Deposits

The growth of the total deposits on the 1 of July 2023 was 21.1 percent compared to the corresponding period of 2022, which is 4.0 percentage points lower compared to the previous quarter. A high growth rate of the deposits is on the back of relatively a higher growth rate of the national currency denominated deposits. The deposits denominated in the national currency increased 44.6 percent, while the annual growth of the deposits denominated in foreign currency amounted 4.8 percent in the same period.

By the 1 of July, 2023, an annual growth of deposits of individuals reached 19.1 percent, while the annual growth of the deposits of legal entities also experienced growth and amounted to 30.3 percent.

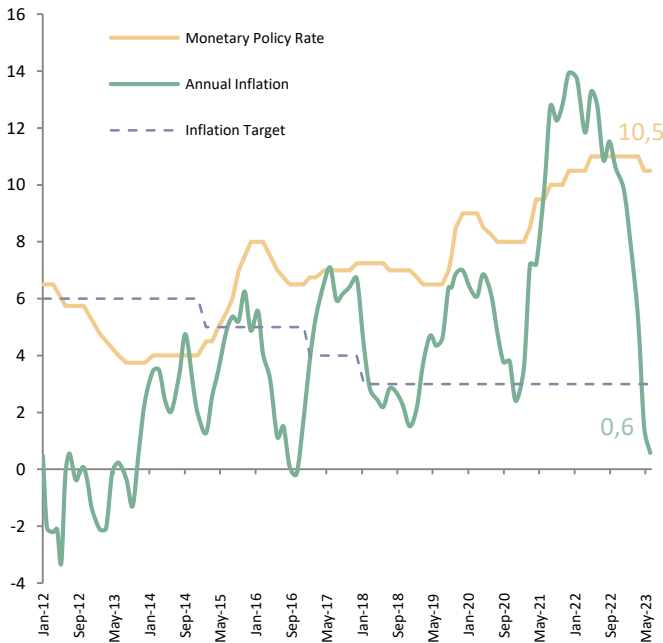
As for the growth of deposits by types, the larger deposits growth was reflected in the growth rate of the time and demand deposits. By 1 on July, 2023, the time deposits grew by 13.5 percent. As for the current and demand deposits, their growth rates equaled to 20.2 and 32.4 percent, respectively.

Figure 43: Annual Growth of Deposits



Source : NBG

Figure 44: Inflation and Monetary Policy Rate



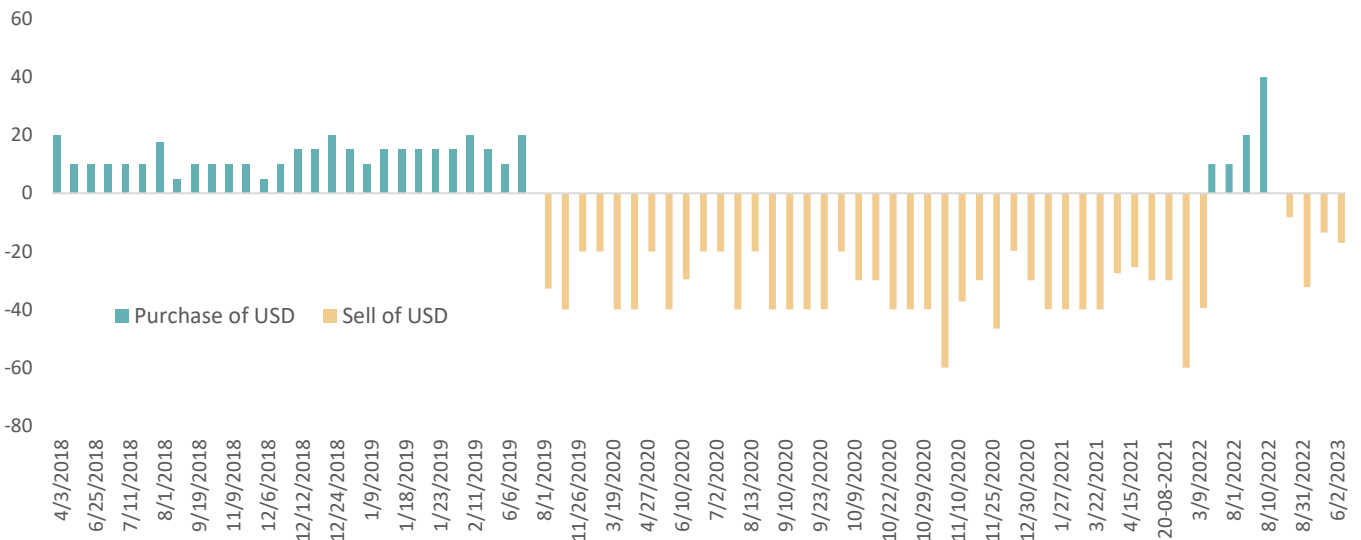
### Monetary Policy Rate

The Monetary Policy Committee of the National Bank of Georgia (NBG) held two sessions in the second quarter of 2023. In May, the monetary policy authorities reduced the monetary policy rate by 0.5 p.p. and set at 10.5 percent level.

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 0.6 percent in June 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

The NBG conducted the interventions through the auctions only in June, 2023 and sold 17.1 million USD.

Figure 45: Trade of USD by NBG, mln



Source: National Bank of Georgia



## Interest Rates

As of 1 of July 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 July 2023, the weighted average interest rate on deposits of legal entities in national currency was 11 percent, and in foreign currency – 2.1 percent. In the same period, the average annual interest rate was 1.4 percent on the deposits of individuals in foreign currency and 11.1 percent in the national currency.

By July 1, 2023, the weighted average annual interest rate on the short-term consumer loans was 16.2 percent (17.9 percent in the national currency and 6.6 percent in foreign currency). The weighted average interest rates on the long-term consumer loans are largely determined by the loans denominated in national currency.

At the end of June, 2023, the interest rate on the mortgage loans issued to the legal entities in the national currency was 14 percent, and in foreign currency – 9.2 percent. The interest rate on loans to individuals in the national currency was 13.3 percent, and in foreign currency it was 6.8 percent.

Figure 46: Interest rates on Deposits (stock)

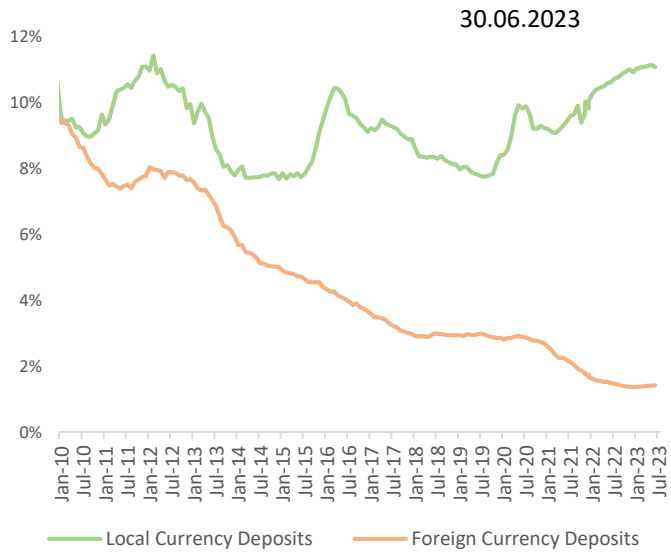
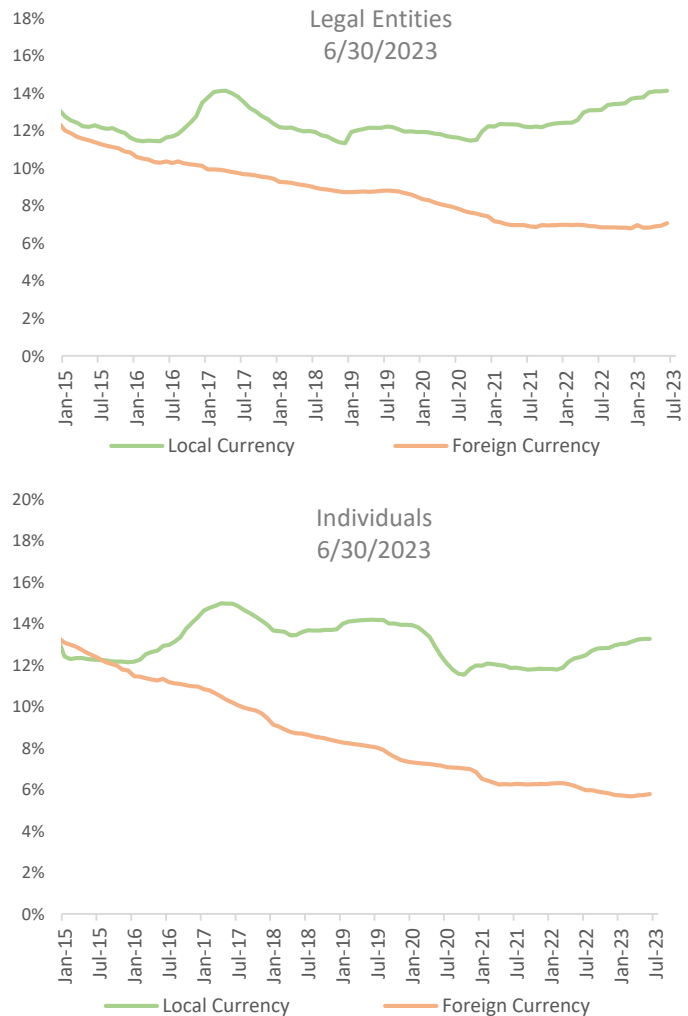


Figure 47: Interest rates on Loans Secured by Real Estate



Source: NBG

## Disclaimer

The publication was prepared by the Macroeconomic Analysis and Fiscal Policy Planning Department of the Ministry of Finance of Georgia. The information and opinions contained in this publication represent the views of the authors - the economic team of the Macroeconomic Analysis and Fiscal Policy Planning Department and do not represent the official position of the Ministry of Finance of Georgia. The analytical information provided in the publication serves informational purposes and is obtained from public sources. The forecasts and calculations given in the report should not be taken as a promise, reference or guarantee.

