

Ministry of Finance of Georgia



Quarterly Economic Outlook

III Quarter, 2023

Brief Summary

- Economic growth for 2022, according to preliminary data, equals to 10.1 percent
- Average economic growth for the second quarter of 2023 equals to 7.5 percent, while for the first quarter growth amounted to 7.7 percent
- Annual inflation in the third quarter equals to 0.6 percent, while core inflation (w/o tobacco) equals to 2.9
- Domestic export decreased by 24.5 percent annually
- Import increased by 7.9 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 10.0 percent

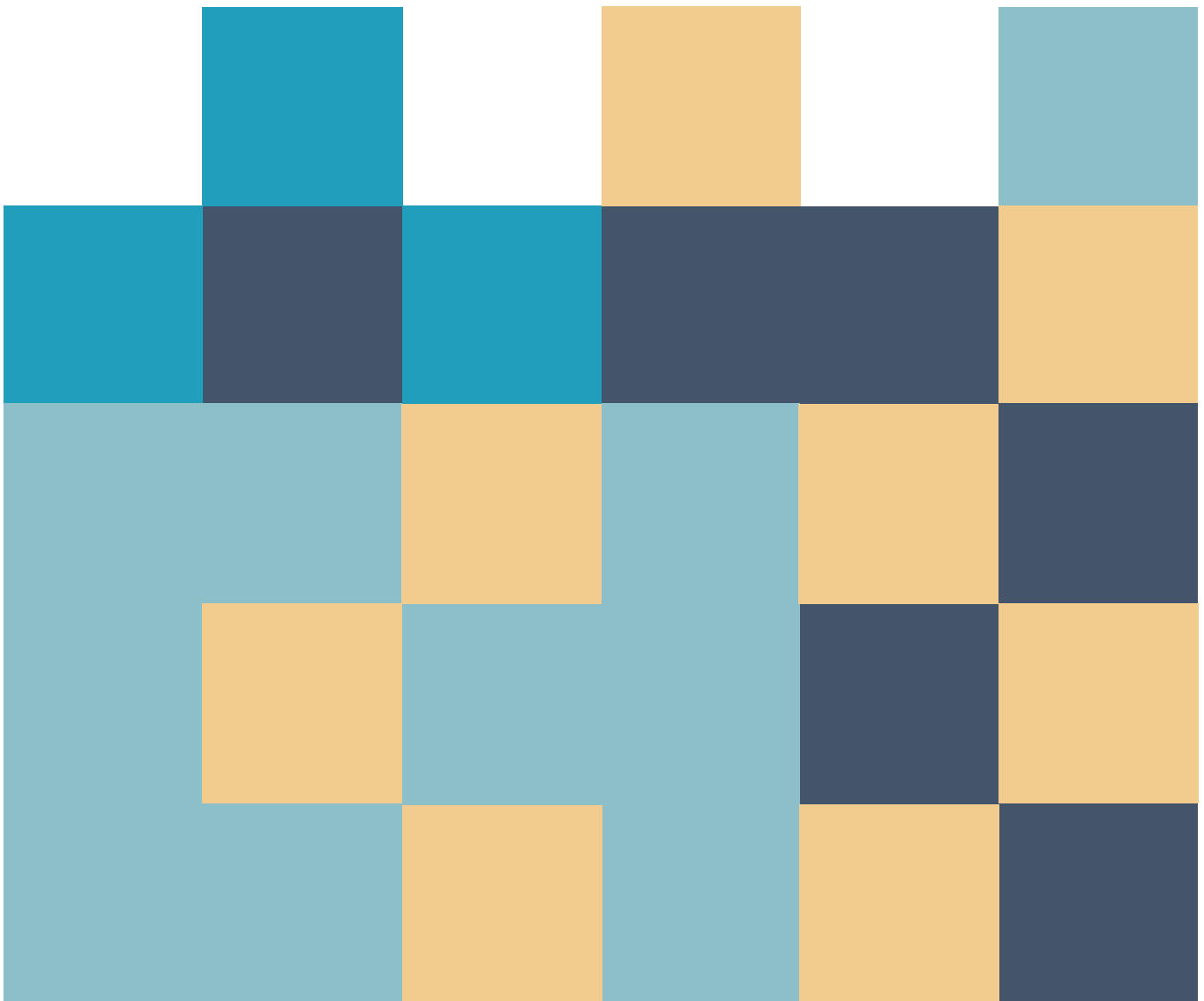




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Real Sector

Economic Growth

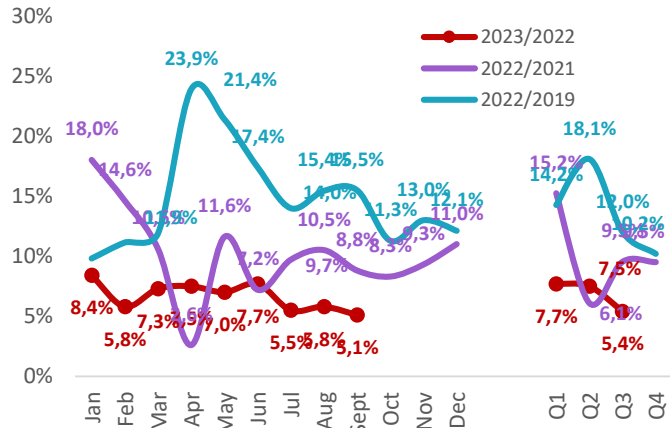
According to the preliminary data, in the third quarter of 2023 real GDP increased by 5.4 percent relative to same period of the previous year. At the same time, compared to the corresponding period of 2019, economic growth was 17.6 percent. In particular, in the third quarter, exports increased annually by 1.6 percent, while imports increased annually by 3.7 percent. At the same time, compared to the third quarter of 2019, exports increased by 64.3 percent and imports increased by 53.4 percent. External demand continues to grow. Considering tourism, compared to the pre-pandemic situation, revenue from international travelers increased by 5.3 percent year-on-year in the third quarter, and also, there was a 28.4 percent increase compared to the same period in 2019.

Real GDP grew 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. In the first quarter of 2023 real GDP growth was 7.7 percent.

As for the second quarter of 2023, economic growth amounted 7.5 percent. A significant share of GDP growth in the second quarter of 2023 was due to the export component, which grew by 6.4 percent annually in real terms. At the same time consumption played a significant role in growth and increased by 2.6 percent in real terms. At the same time, investments in real terms increased by 1.8 percent, and imports in real terms decreased by 3.4 percent annually.

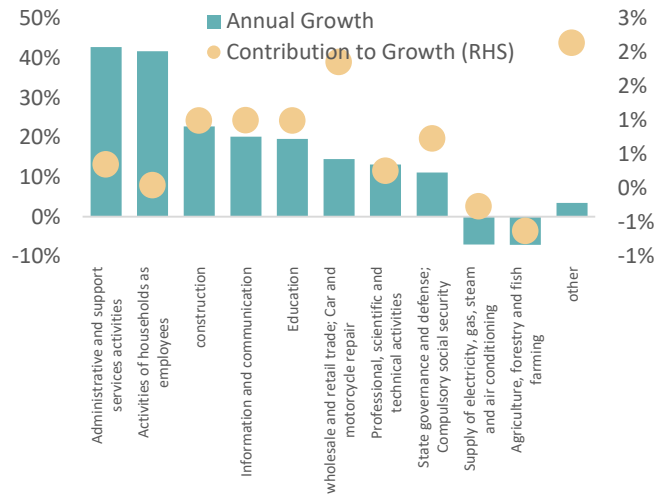
In the second quarter of 2023 the following sectors made a significant contribution to growth: Administrative and

Figure 1: Economic Growth



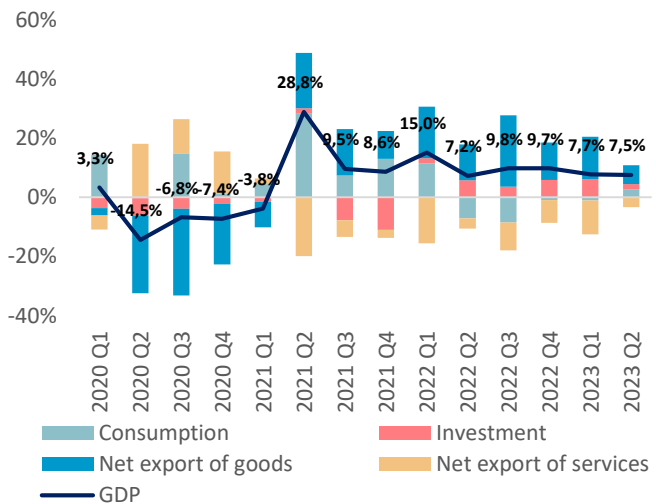
Source: Geostat

Figure 2: Real Sectoral Growth, 2023 2Q



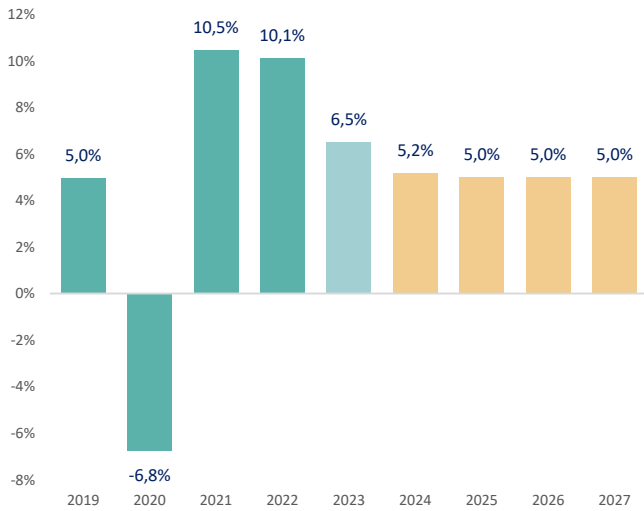
Source: Geostat

Figure 3: Decomposition of Economic Growth



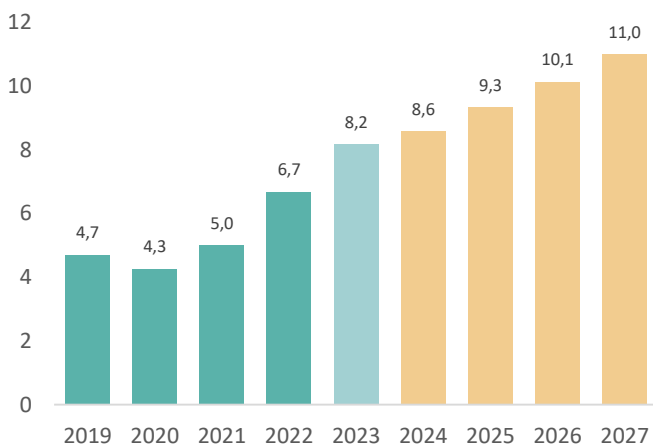
Source: Geostat

Figure 4: Economic Growth Projection



Source: MOF

Figure 5: GDP per capita, ths USD



Source: MOF

support services activities: 42.8% (0.4 p.p.), .), Activities of households as employees: 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 14.6% (1.9 p.p.); State governance and defense; Compulsory social security: 11.1% (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, 6.5 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 2024-2027.

Employment and Unemployment

In the second quarter of 2023, the unemployment rate was 17.0 percent, which is 1.3 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 17.7 percent (-2.5 pp/year), and in rural areas - 15.3 percent (0.2 pp/year). The 15-24 and 25-34 age groups have the highest level of unemployment. In the second quarter of 2023, the economically active population made up 53.2 percent of the working-age population (population aged 15 and older). In the second quarter of 2023, the unemployment rate for women was 14.5 percent, and for men, it was 18.5 percent.

In the second quarter of 2023, compared to the corresponding period of the previous year, the number of employees increased by 4.5 percent, and the employment level decreased by 2.1 percentage points. In the same period, the number of unemployed decreased by 5.25 percent annually. As for productivity (the ratio of real output to the number of employees), it increased by 2.8 percent annually. At the same time, the average nominal salary of employees increased by 17.1 percent, which amounts to 1,804.5 GEL as of the second quarter of 2023.

In the second quarter of 2023, there was an 2.8 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

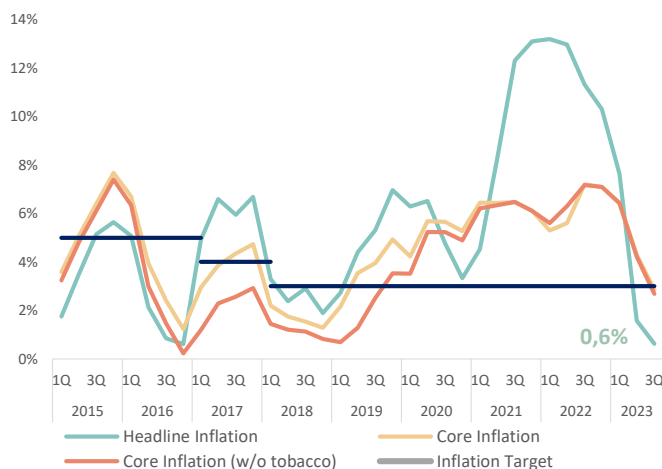
In 2022, double-digit inflation was recorded at the level of 11.9%. Inflation peaked in May 2022 at 13.3%, after which it began to decline and this trend continues in current period as well. Due to the high base effect on the one hand, and the tightened monetary policy on the other hand, the inflation 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 (October, 2023), due to current world situation world inflation will decrease from 8.7 percent of 2022 to 6.9 percent in 2023. Also, it is expected that inflation decreases to 5.8 percent in 2024, which is still higher than pre-pandemic (2017-2019 years) period inflation until 2025.

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. Inflation in the third quarter of 2023 was 0.6%. A decrease in international transportation prices is reflected in imported inflation. Core inflation (excluding tobacco) equaled 2.9 percent in the third 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.

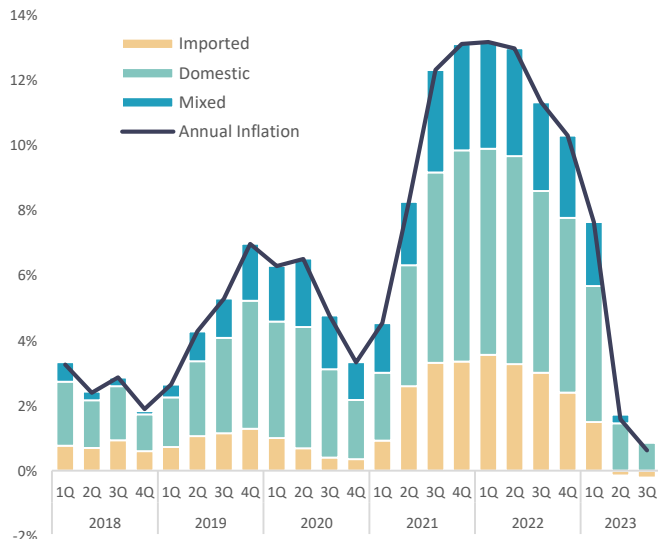
On September 13, the Monetary Policy Committee of the National Bank made a decision on gradual exit from the tightened monetary policy and reduced the monetary policy rate from the tightened 10.25 percent level to 10.0 percent.

Figure 8: Annual Inflation



Source: NBG

Figure 9: Decomposition of Inflation

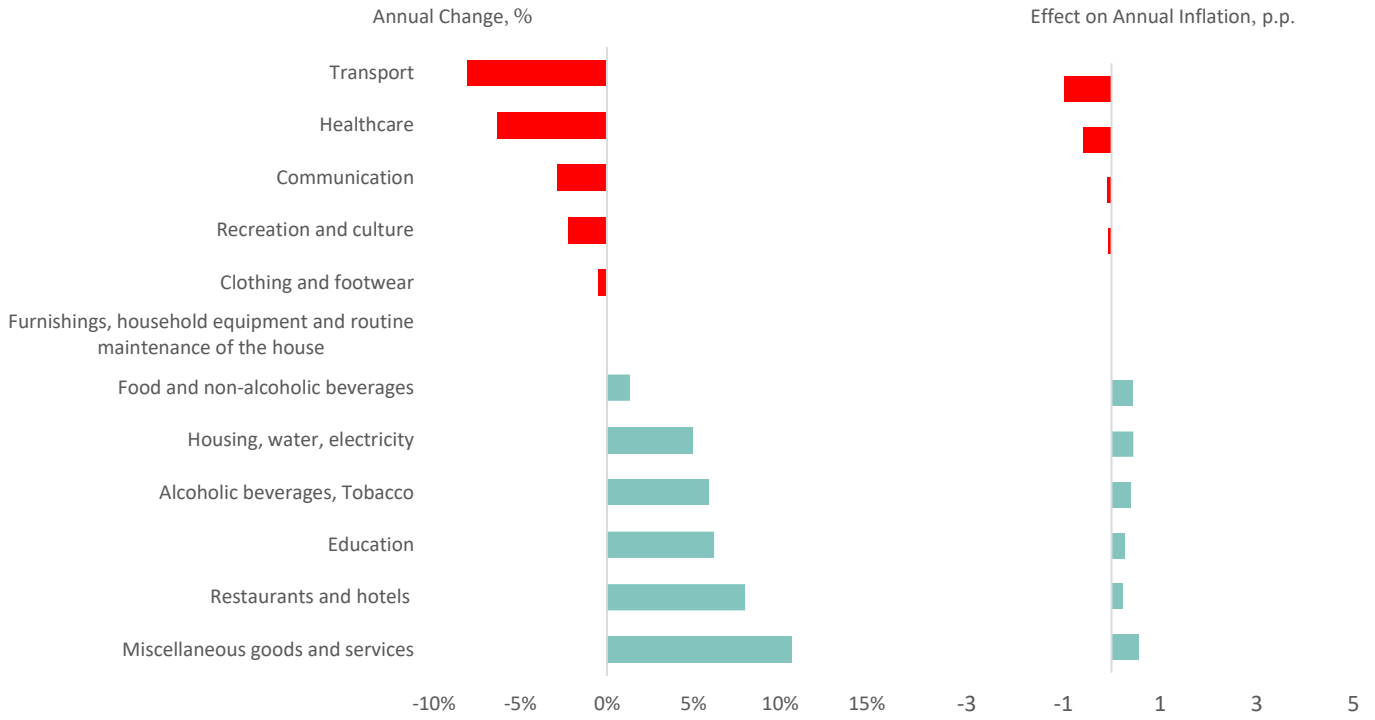


Source: NBG, Geostat

In conditions of high uncertainty, the National Bank of Georgia continues to reduce the monetary policy rate only at a slow pace.

In the third quarter of 2023, the contribution of domestic inflation was 0.9 percent, while the contribution of imported inflation was -0.2 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 Q3



Source: Geostat

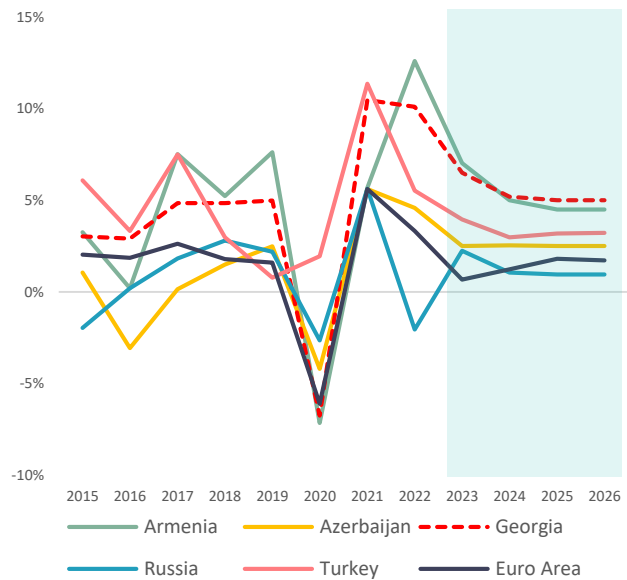
Economic Outlook of the Region

After Russia’s invasion in Ukraine, the global growth prospects together with inflation have worsened. In October this year the IMF revised forecasts downward for major economies. Per October IMF WEO, the global economic growth for 2022-2023 years would stand 3.5 and 3.0 respectively. In October, 2023 the IMF made additional changes into the growth prospects. As for the 2023 estimates, it is worth noting, that the data came weaker for global growth at 3.0 percent for the whole world. The forecast of the 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 October, 2023 the WEO projections for Turkey is expected to grow by 5.5 and 4.0 percent in 2022 and 2023, respectively. The projections for 2023 has been revised upward by 1.0 pp, compared to October WEO (2022). 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 51.2 percent in 2023. Turkey undergone changes into sovereign credit ratings in 2022. The S&P upgraded it to B (stable), Moody’s - to B3 and Fitch to B (stable).

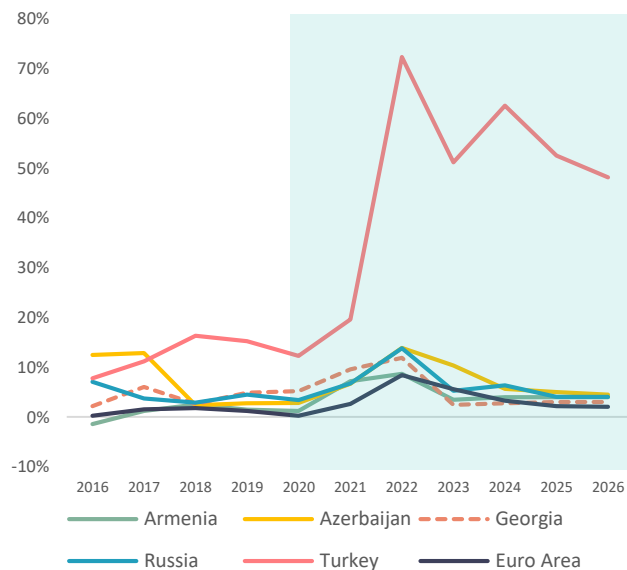
The main actor of global economic growth disruption Russia is expected to have its economy severely hit by the sanctions, which will translate into a contraction of its real GDP. This measures won’t have only near term impact on Russian economy, but will affect its medium-term capabilities, since large consumers, as well as sovereign countries, wean themselves off Russia’s energy and other sectors. Per October forecasts, the Russia’s real economic growth was -2.1% in 2022. As for the period of 2023-2024, it is expected to stand at 2.2 and 1.1 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



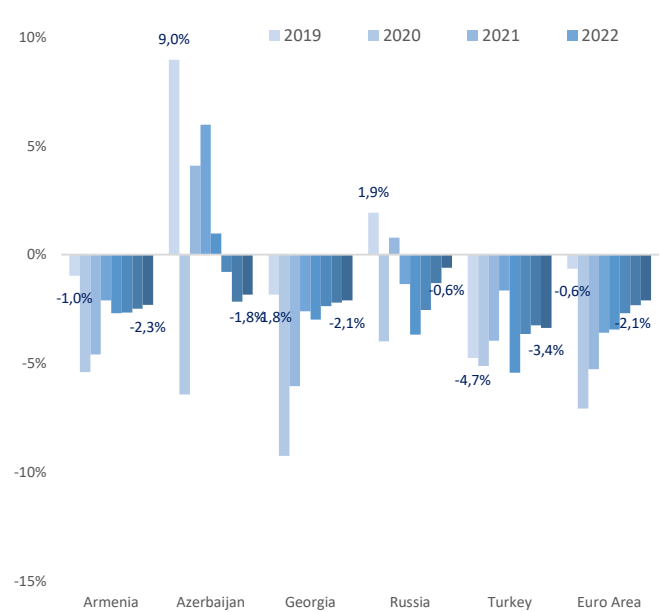
Source: IMF

Figure 13: Current Account to GDP, %



Source: IMF

Figure 14: Budget Balance to GDP, %



Source: IMF

A rising oil prices due to Russia-Ukraine war, will benefit Azerbaijan. The country experienced a strong recovery from the COVID-19. As for October WEO, the economic growth has been revised downwards. The real growth of the county was 4.6% in 2022. Azerbaijan’s real economy is expected to grow by 2.5 percent in 2023 respectively. It’s medium-term growth rate of Azerbaijan also increased from 2.5 percent to 2.6 percent. A high inflation is also the case throughout those years. In 2022, inflation was 13.9 percent and it is expected to decrease and stand at 10.3 and 5.6 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 October WEO, the economic growth has been revised upwards. In 2023 and 2024, Armenia, according to the IMF, will grow by 7.0% and 5.0%, respectively (in October 2022 the forecast for this indicator was 3.5 percent for 2023, respectively). Inflation was high in 2022 at 8.6 percent level and it is expected that it will be 3.5 and 4.0 percent in 2023 and 2024 respectively. These outcomes are relatively muted compared to the peer region countries. The Moody’s upgraded Armenia’s sovereign credit rating by one notch to Ba3 (stable). The Fitch and S&P downgraded it to BB- (stable).

The situation around the Ukraine remains uncertain. The IMF restored the projections of the Ukrainian economy. However, the situation may change in any given time. According to the IMF latest data and projections, in 2022 the Ukrainian economy contracted by 29.1 percent. This contraction is directly related to the Russian invasion into Ukraine, which resulted into humanitarian crisis, destruction of infrastructure and exodus of its people. As for the projections for the period of 2023-2024, the real GDP of Ukraine is expected to rise by 2.0% and 3.2% in 2023 and 2024 respectively.

External Sector

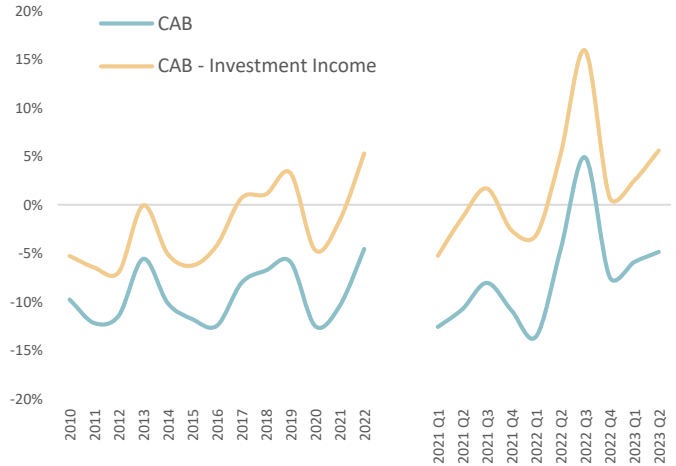
Current Account Balance

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 4.6% of GDP. An improvement has continued in 2023 as well and was observed at 5.9 and 4.9 percent of GDP, for the first and second quarter, respectively.

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 7.2 p.p out of 4.6% of current account deficit financing.

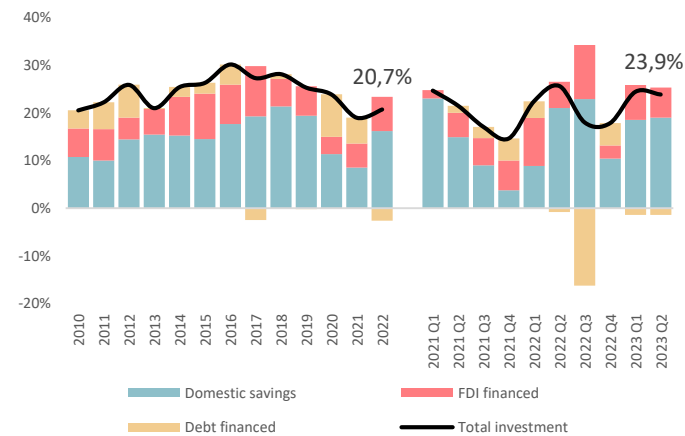
As of the first and second quarter of 2023, debt still contributed positively in financing the current account deficit. In particular, during the improvement of the current account deficit, the FDI's share in financing 5.9% deficit stood at 7.3 p.p, while its debt contribution was negative 1.4 p.p, while for the financing 4.9% deficit in the second quarter, FDI financing was 6.3 p.p, while debt still had negative 1.4 p.p contribution.

Figure 15: Current Account to GDP, % of GDP



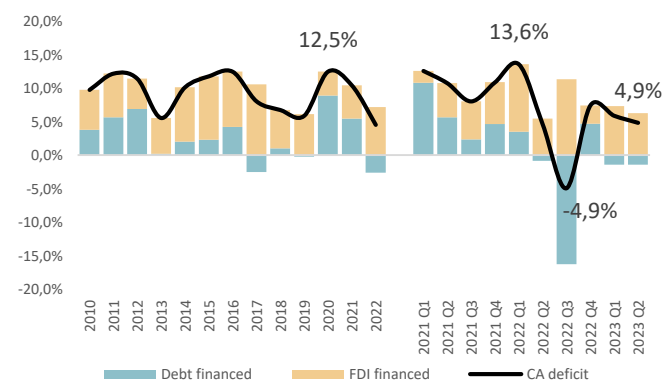
Source: NBG, Geostat

Figure 16: Financing of Investment



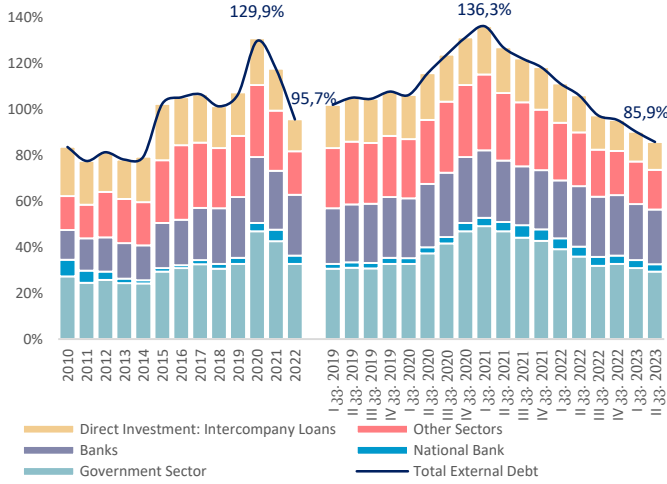
Source: NBG, Geostat

Figure 17: Financing of Current Account



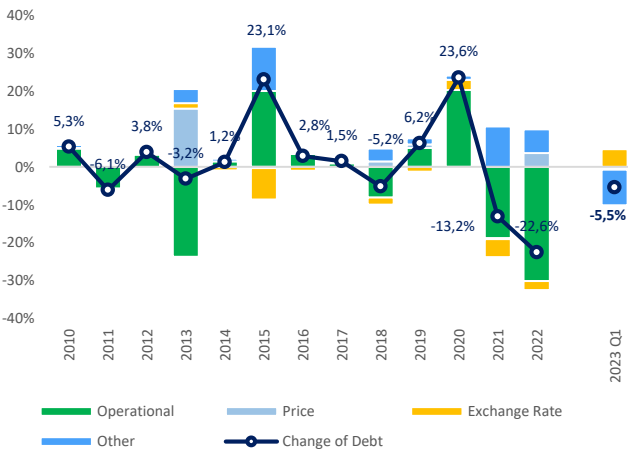
Source: NBG, Geostat

Figure 18: External Debt to GDP, %



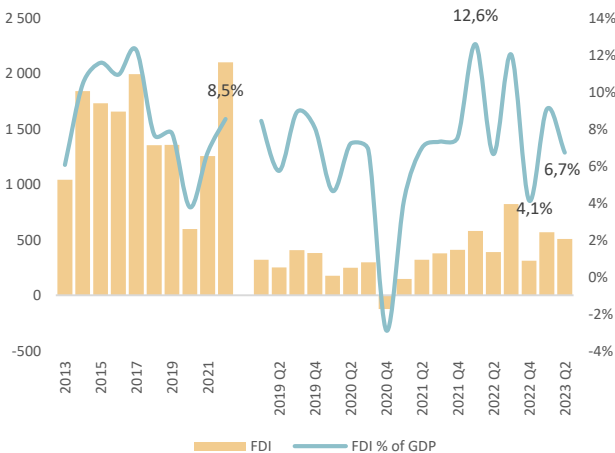
Source: NBG, Geostat

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. External debt stood at 95.7 percent in 2022 and even further declined in 2023. For the first quarter of 2023 it amounted to 90.3 percent of GDP, while for the second quarter it stood at 85.9 percent of GDP, which 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

Foreign Direct Investments

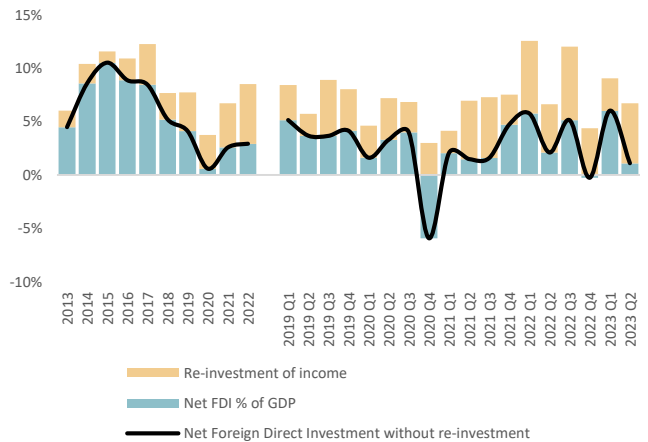
As for 2023 Q2 period, the foreign direct investments (FDI) amounted to 506 mln USD (6.7 percent of GDP), that was 29.9 percent lower than in corresponding quarter of 2022.

As of Q2 2023 period, UK is the top investor in terms of FDI with a 33.3 percent share in totals. As for the 2nd and 3rd places, Türkiye and the Netherlands had 14.0 percent and 12.4 percent shares, respectively.

In 2023 Q2, the direct foreign investments were mainly allocated in the financial sector, amounted to 255.7 mln USD (50.6 percent of total FDI). The relatively larger shares had the real energy sector, where the investments amounted 137.2 mln USD (27.1 percent).

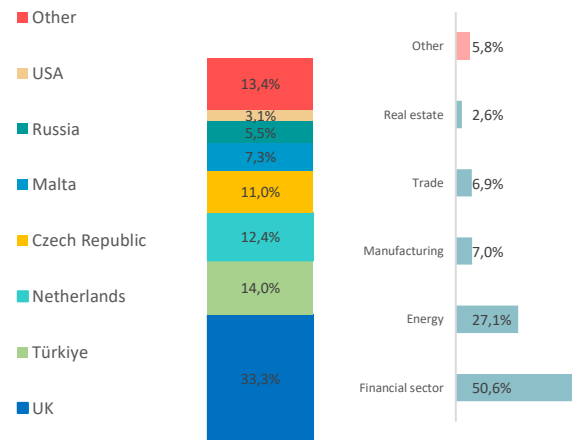
As for the components of the FDI, in 2023 Q2 period, reinvestment stood at 5.6 percent of GDP with the volume of 422.5 mln USD.

Figure 21: FDI, % of GDP



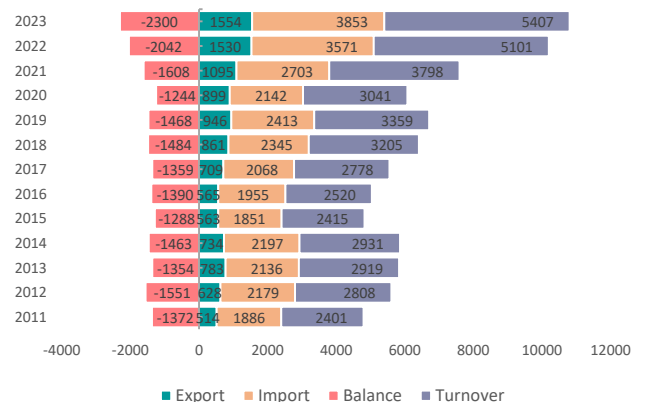
Source : Geostat

Figure 22: Composition of FDI, 2023 Q2



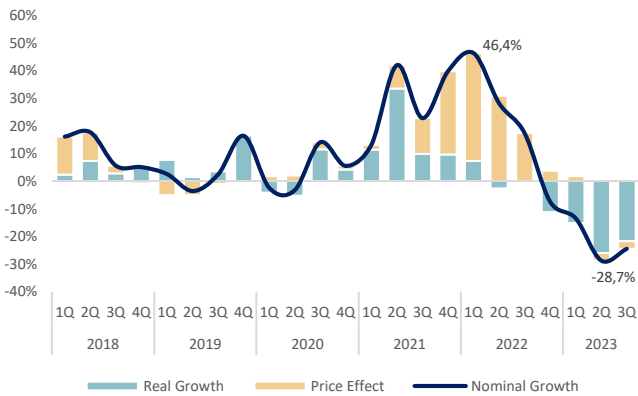
Source : Geostat

Figure 23: International Trade, Q3



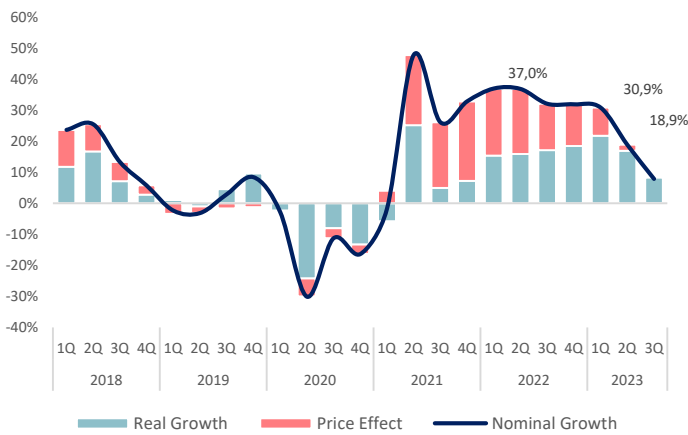
Source: Geostat

Figure 24: Annual Change of Domestic Export



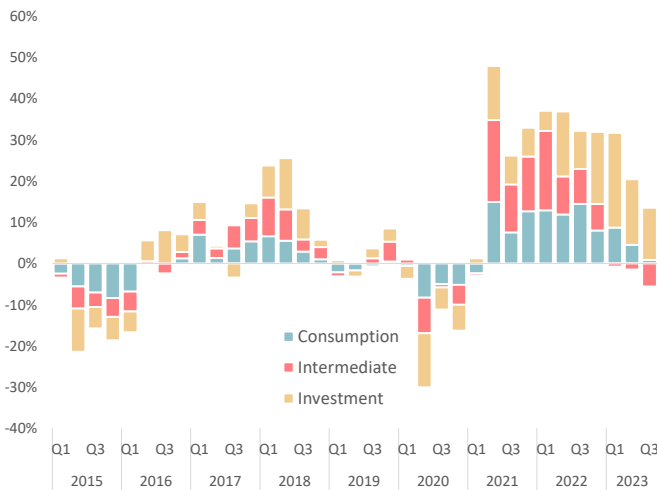
Source: Geostat

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.

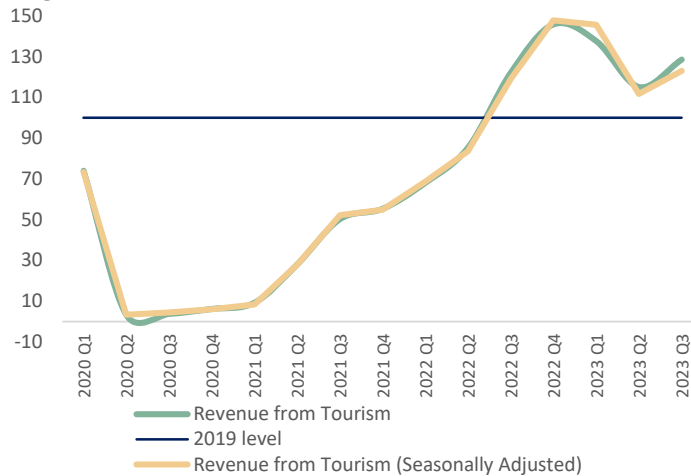
In 2021, after governments all over the world as well as in Georgia started to lift up restrictions, international trade started the fast recovery. Together with increased exports, imports also started fast recovery. Moreover, higher prices caused increased price effect in the export as well as import 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. As for 2023, reduction of domestic export was observed and for the third quarter it reached to 24.5 percent reduction, out of which real growth contributed minus 21.8 percent. Price effect was small – negative 2.7 percent.

As of third quarter of 2023, import of investment goods increased by 40.7 percent annually (11.9 p.p. share in total imports). Growth of imports of consumption goods was observed at 1.2 percent annually (0.4 p.p. share in total imports). As for the imports of intermediate goods, it decreased by 9.0 percent annually (-3.1 p.p. share in total imports). In Q3 2023, export of goods increased by 1.6 percent annually. The main driver of this growth are still motor cars (37.0 percent of total exports), copper ores and concentrated (6.2 percent of total exports) and wine of fresh grapes (4.3 percent of total exports) have also high shares. As for the imports, motor cars, oil products, and medicaments are still the main imported goods, with 19.2, 8.3 and 3.3 percent shares, respectively.

Tourism

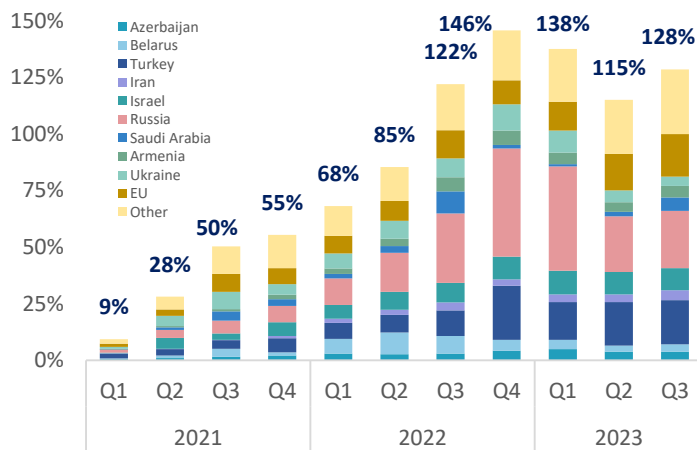
In the post-pandemic period, from 2021, the tourism sector has started gradual recover. From the second quarter of 2021, tourism revenues increased annually and from the third quarter tourism recovered by half. This trend was maintained in subsequent quarters as well. It should be noted that from the third quarter of 2022, the income from tourism exceeded the level of 2019, and this trend continues in the current period. In the third quarter of 2023, the income from tourism amounted to 1,447.1 million US dollars, which is 5.3 percent higher than the same period of the previous year, and 128.4 percent of the 2019 level.

Figure 27: Income from Tourism



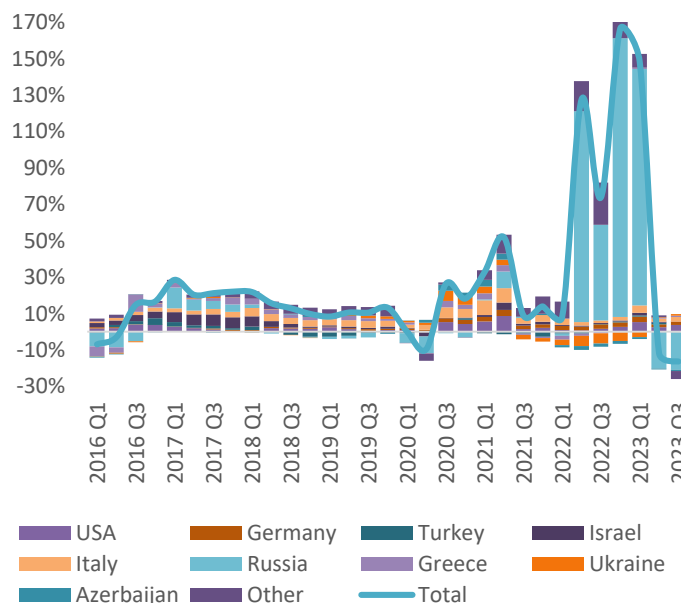
Source: NBG

Figure 28: Income from tourism, mln USD



Source: NBG

Figure 29: Net Remittances



Source: NBG

Remittances

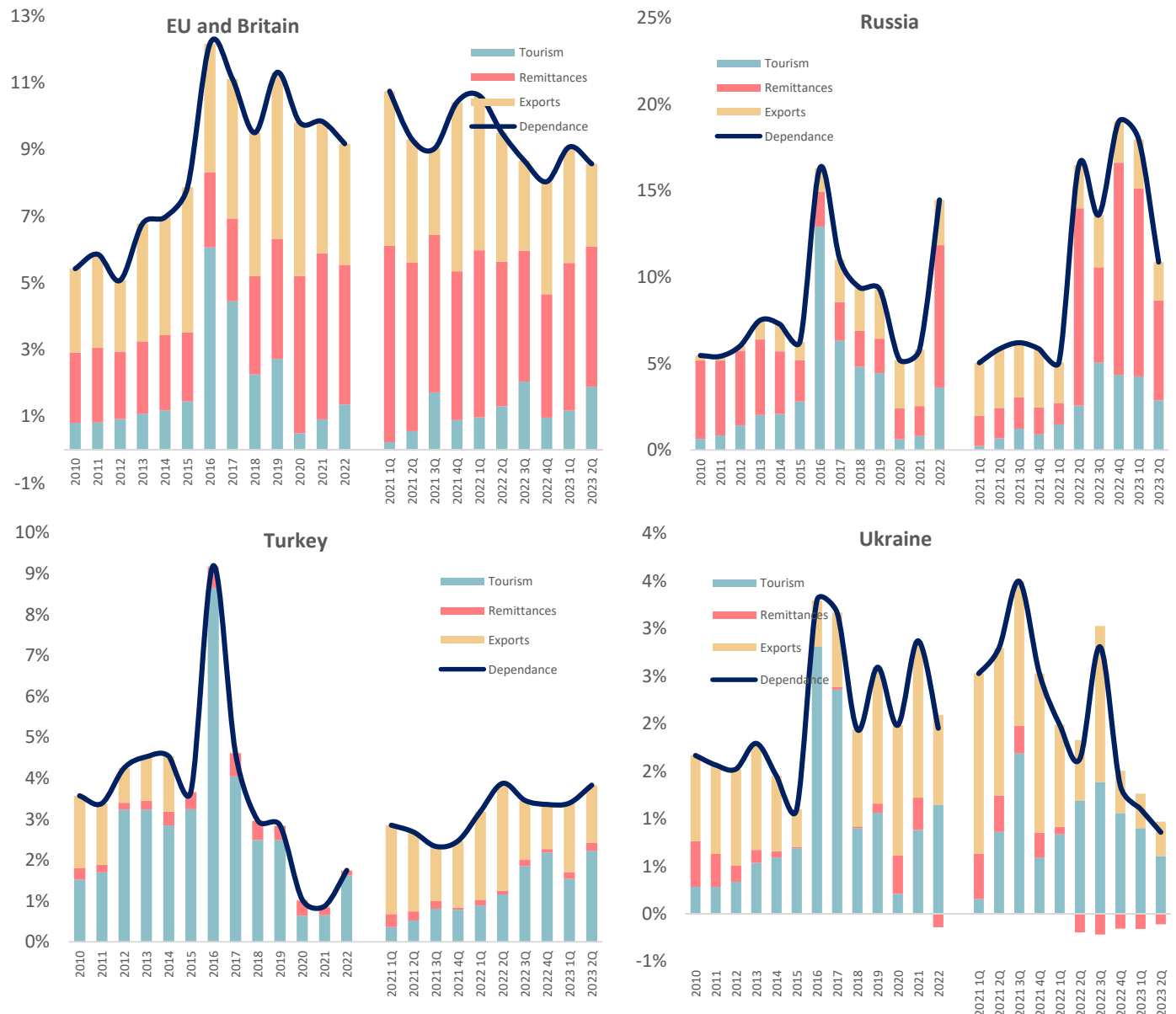
In the first quarter of 2023, net remittances reached 1171.5 mln USD, up by 148.6 percent from the previous year. In the second quarter of 2023, net remittances accounted 1023.0 mln USD, which is by 11.6 percent less compared to the same period of the last year.

As for the third quarter of 2023, net remittances accounted 785.4 mln USD, which is by 16.3 percent less compared to the same period of the last year. Russia made the main contribution to the decrease by 20.6 pp.. Armenia (-3.2), Kyrgyzstan (-3.1 p.p.), Belarus (-2.6 p.p.), Tajikistan (-0.8 p.p.) and Azerbaijan (-0.6 p.p.) also contributed negatively. Growth was recorded in net remittances from the USA of 43.1 percent, which contributed positively to overall growth by 3.8 pp, as well as net remittances from Italy of 22.8 percent, which added 2.6 pp to overall growth, and Germany by 37.2 percent, which contributed positively 1.7 pp. 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.

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 Q2 2023 data, the dependence on Russia is still high and it has a decreasing trend. The dependence on Russia is still mainly driven by a spike in the remittances. The dependence on Turkey is still stable, though it increased in 2022 due to the revenue from tourism. A fall was observed in the 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 Q2 of 2023. The fall in dependence of main countries in the fourth quarter of 2022 (except Turkey) 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

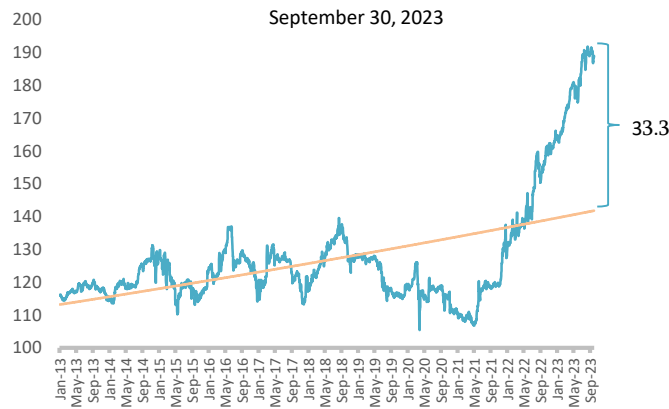


Figure 32: Real Effective Exchange Rate

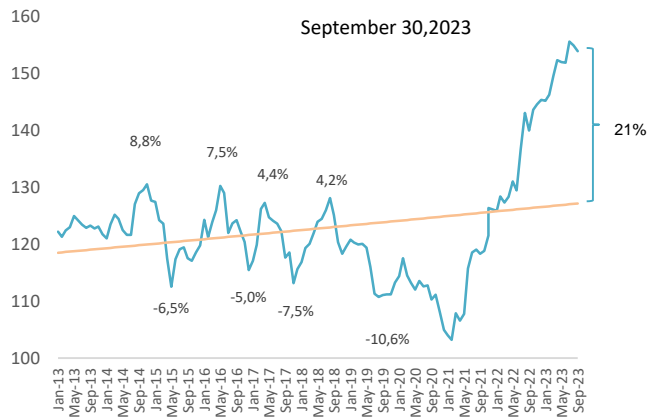
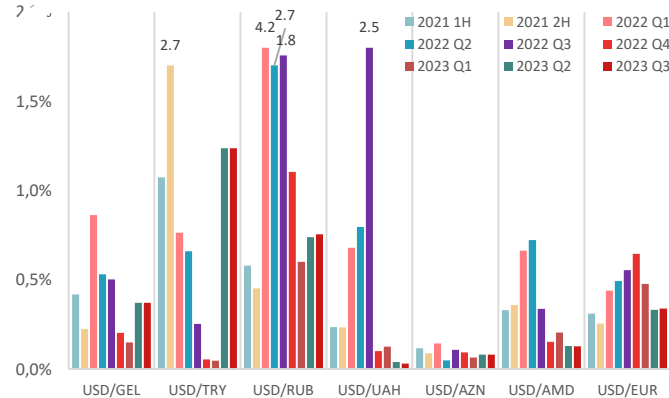


Figure 33: Volatility of Exchange Rates



Source: NBG, MOF

Table 1: Change of Nominal and Real Effective Exchange Rates

	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 (September 2023)	154.91	▲ 6.7%	▲ 22.6%

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 Q3 the 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 Q3 2023, the Georgian Lari appreciated against USD by 2.9 percent, compared to same period of the previous year. At the same time, the appreciation against EUR equaled 5.6 percent. The GEL appreciated against Lira and RUB by 56.1 and 30.6 percent, respectively. In the same period, there was a sharp appreciation of the nominal and real effective exchange rates of the national current. Due to this sharp appreciation, they are above their medium-term trends by 33.3 and 21.0 percent respectively.

Fiscal Sector

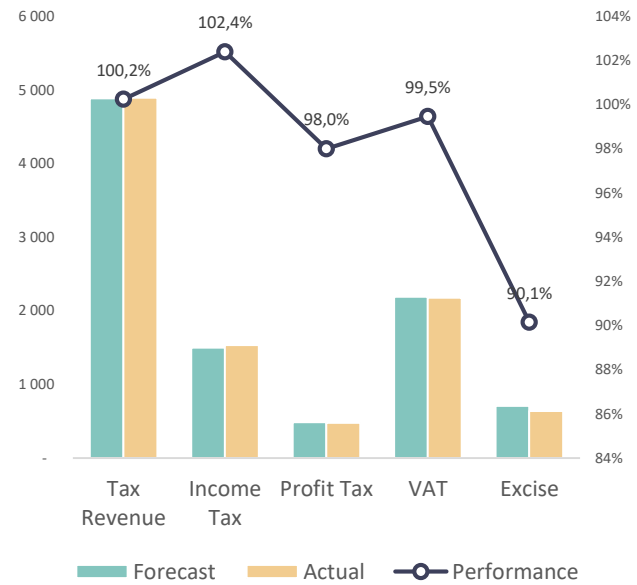
Budget Performance

The consolidated budget tax revenue forecast for the third quarter of 2023 was set at 4,881 mln GEL, while 4,893 mln GEL was mobilized during the reporting period, which is 100.2 percent of the forecast.

- 1,532 million GEL is mobilized as income tax, which is 102.4 percent of the forecast figure (1,496 million GEL).
- 475 million GEL is mobilized as profit tax, which 98.0 percent of the forecast indicator (485 million GEL).
- 2,177 million GEL was mobilized as VAT, which is 99.5 percent of the forecast (GEL 2,189 million).
- 638 million GEL is mobilized as excise, which is 90.1 percent of the forecast indicator (708 million GEL).
- 43 million GEL is mobilized in the form of import tax, which is 118.9 percent of the forecast (36 million GEL).
- 20 million GEL is mobilized in the form of property tax, which is 204.4 percent of the forecast (10 million GEL).

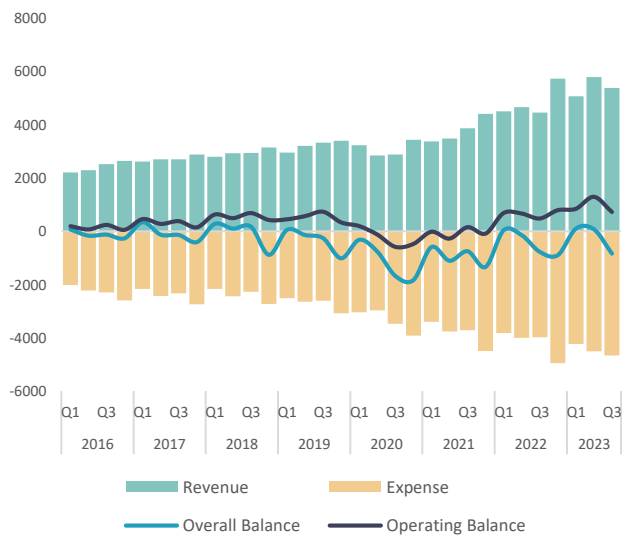
In the third quarter of 2023, compared to the same period last year, consolidated budget revenues increased by 20.8 percent and expenditures increased by 17.2 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to 723.3 million GEL, while the total balance was set at negative 834.5 million GEL.

Figure 34: Budget Revenue Performance



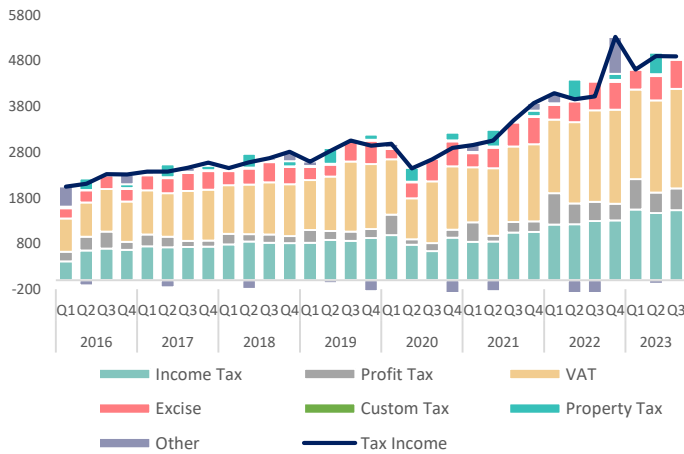
Source: MOF

Figure 35: Budget Balance



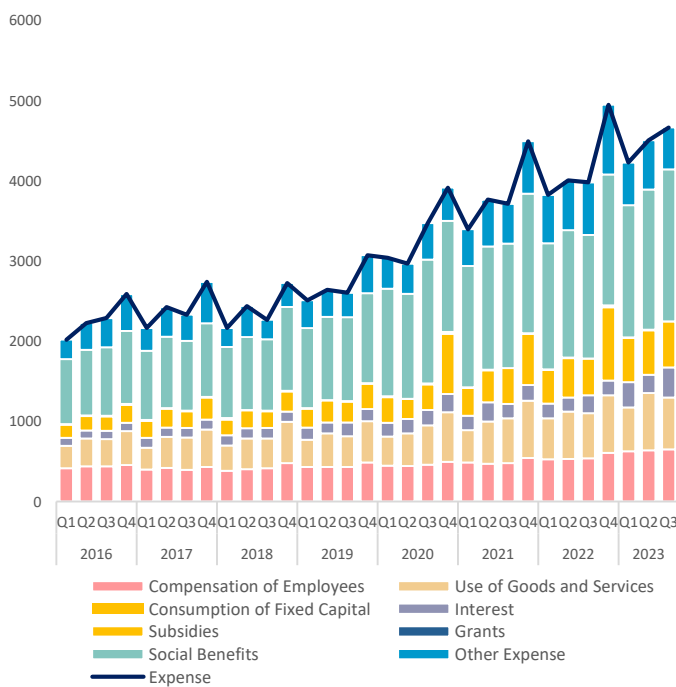
Source: MOF

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 90.8 percent in the third quarter of 2023. The consolidated budget received GEL 4,893 million in taxes, which is 21.7 percent more than the same period of previous year. Revenue from income tax increased by 18.7 percent year on year to GEL 1,532 million. Revenue from profit increased annually by 12.7 percent compared to the third quarter of 2022, amounted to 475 million and is 9.7 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 8.6 percent, accounting 44.5 percent of total tax revenue, while revenue from income tax increased by 18.7 percent, and contributing by 31.3 percent. Revenue from custom tax increased by 22.0 percent.

Expenditures in the third quarter of 2023 increased by 17.2 percent year on year to GEL 4,666 million. The largest share of budget expenditures is in social security expenditures, which account for 40.6 percent of total expenditures, while the annual growth rate is equal to 23.3 percent. Expenditures in the form of wages increased, with an annual growth rate of 20.3 percent to GEL 652 million, accounting for 14.0 percent of total expenditures. As for other items of expenditure, goods and services (13.9 percent of total costs), subsidies (12.3 percent of total costs), interest (8.1 percent of total costs) and other costs (11.2 percent of total costs) increased by 15.3 percent, 24.1 percent, 70.1 percent and -20.8 percent compared to the corresponding period of 2022, respectively.

Government Debt

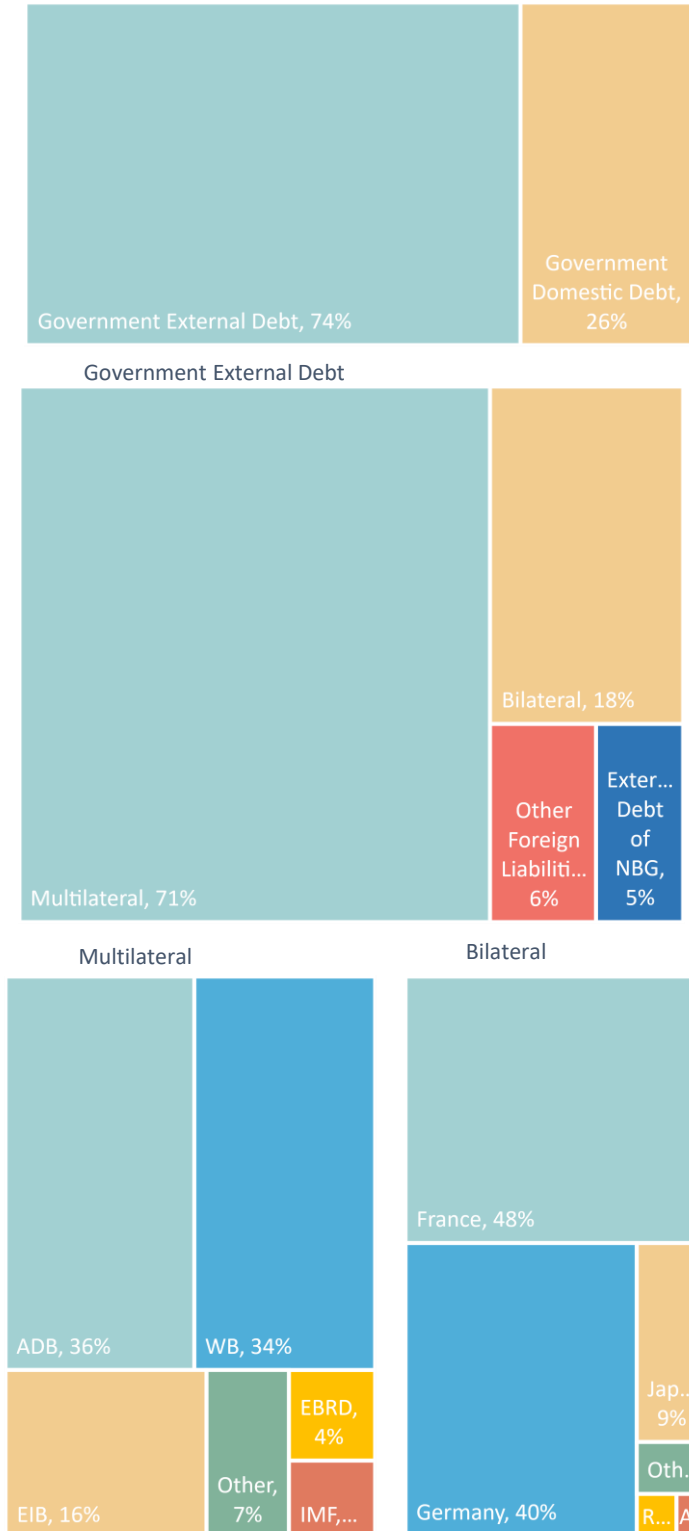
As of September 30, 2023, the stock of public debt of Georgia amounted to GEL 30,664 million, including:

☐ Government domestic debt stock is GEL 8,025.1 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") - 160 million GEL;
- Treasury liabilities of the Ministry of Finance – GEL 390 million;
- Treasury bonds of the Ministry of Finance - GEL 7,310.7 million;

☐ Government external debt stock is 22,639.1 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 October 2023. It has reached 55 percent. It should be noted that the main determinant of the total loan larization is the larization of the loans granted to individuals. By 1 of October 2023, the larization of the loans of individuals was 71 percent, in the same period the larization of loans granted to legal entities amounted to 36.3 percent.

As for the larization of loans according to collateral, larization of the consumer loans significantly exceeds the larization of real estate loans. Th larization of the consumer loans evolved around 88 percent during 2022 and stays at that level. By 1 of October 2023 it amounted to 88.5 percent. As for the larization of the mortgage loans, it amounted to 48 percent.

The larization of deposits remain lower than the larization of loans. As of 1 of October, 2023 the larization of total deposits reached 48.7 percent. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. By the 1 of October, 2023 the larization of deposits of legal entities reached 73.1 percent and the larization of deposits of individuals in the same period was 32.8 percent.

It should be noted that the main contributor in the deposits larization is still time deposits larization. By 1 October, 2023 it reached 55.4 percent. In the same period current accounts larization amounted to 48.6 percent, while the larization of the demand deposits stands at 40.2 percent level.

Figure 39: Loan Larization

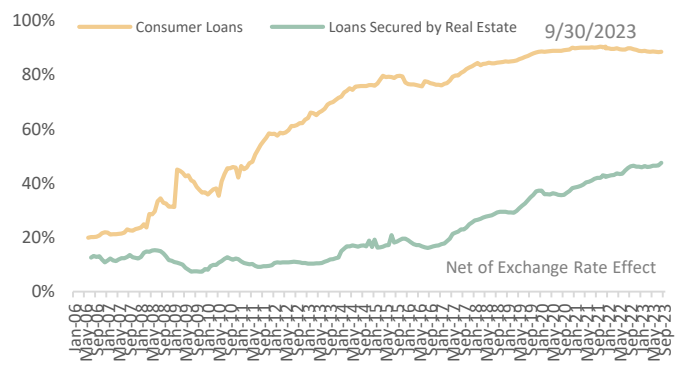
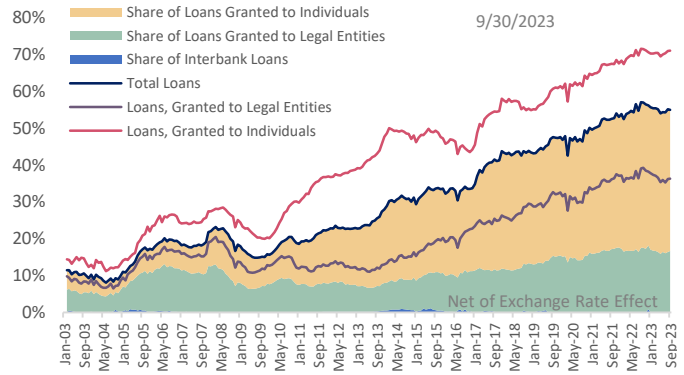
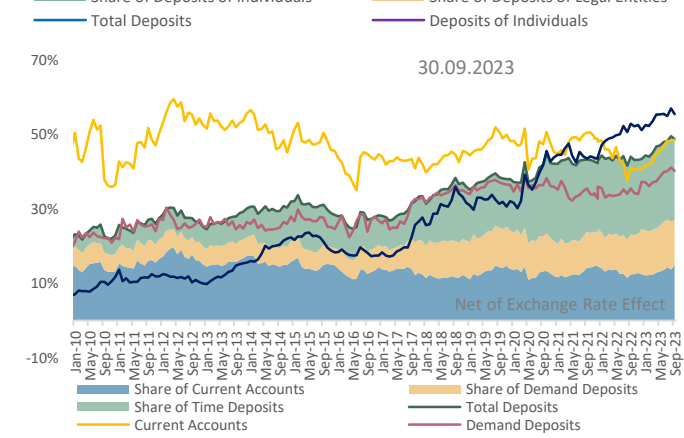
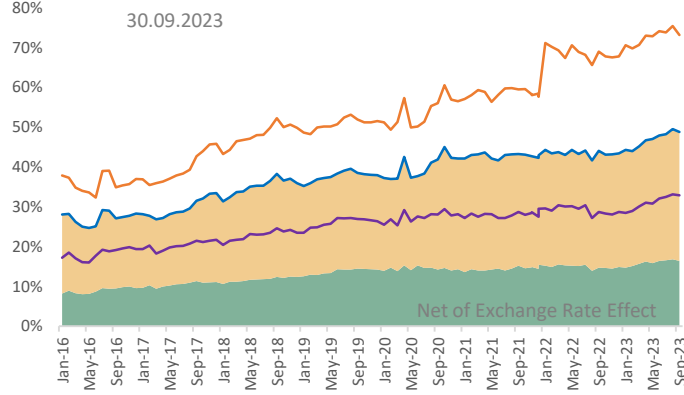
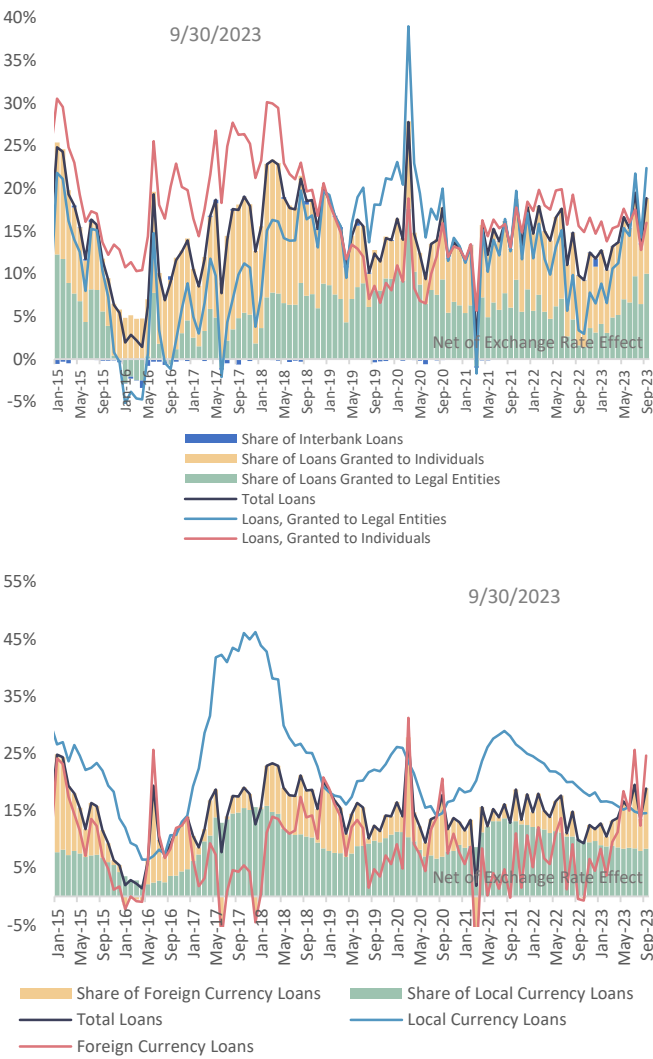


Figure 40: Deposit Larization



Source: NBG

Figure 41: Annual Growth of Loans



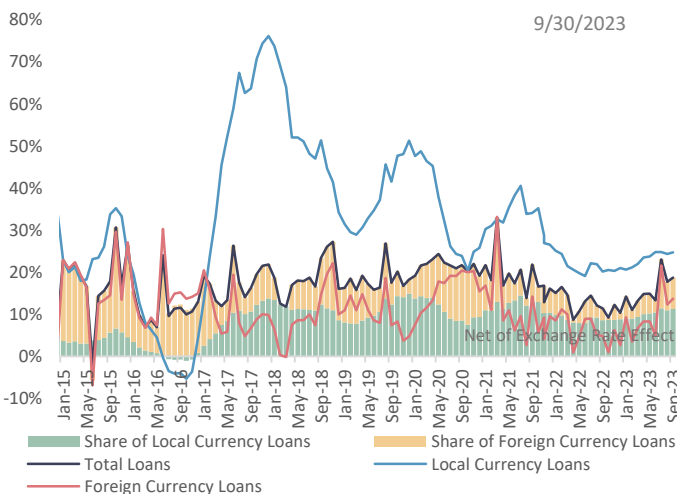
Review of Loans

As of 1 October 2023 the overall loans increased by 18.9 percent compared to the corresponding period of 2022, which was 3.5 percentage points higher than the previous quarter growth rate (net of exchange rate effect). A significant increase was observed also in the annual growth of loans granted to legal entities, the growth amounted to 22.4 percent. During the same period, the loans to individuals increased by 16 percent.

It is important to note that there is an increasing trend in the growth of loans denominated in the local currency as of 1 of October 2023 it amounted to 14.6 percent, compared to the corresponding period of 2022. During the same period, the growth of loans in foreign currency was 24.6 percent, which is 9.7 percentage points higher than in the last quarter (excluding exchange rate effect).

By 30 of September 2023, the mortgage loans had increased by 18.7 percent compared to the corresponding period of the previous. Moreover, the mortgage loans that are denominated in national currency increased by 24.7 percent, 0.1 percentage points higher than in the previous quarter, while the foreign currency denominated mortgage loans increased by 13.7 percent, 8.8 percentage points higher than previous quarter.

Figure 42: Annual Growth of Loans secured by Real Estate



Source : NBG

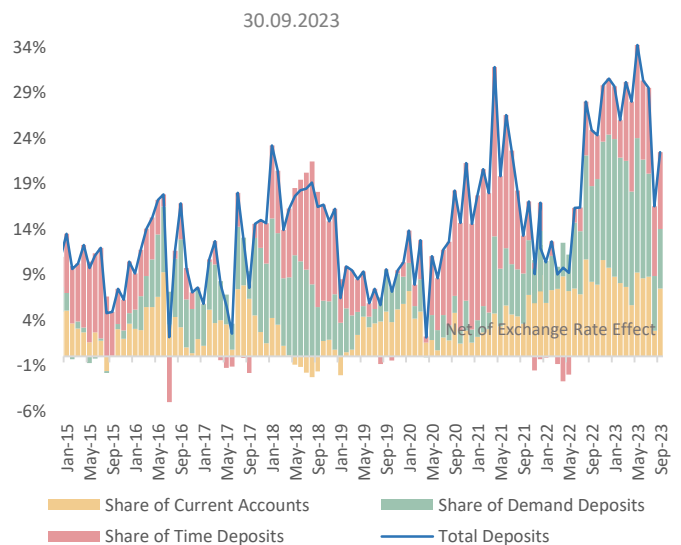
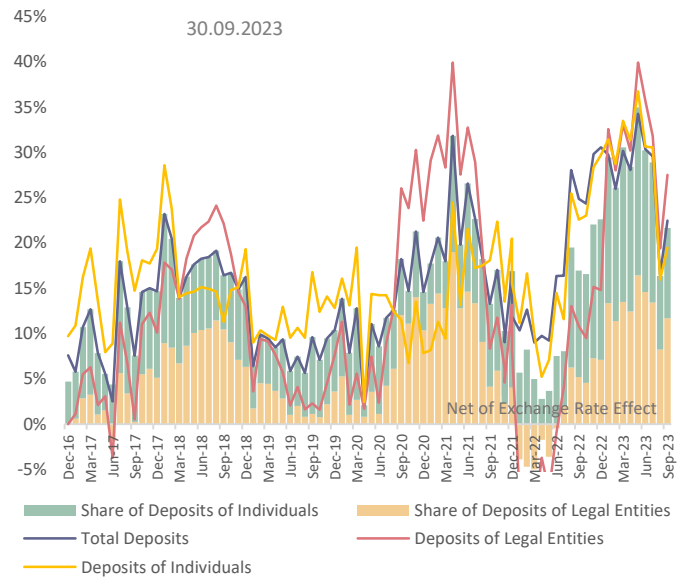
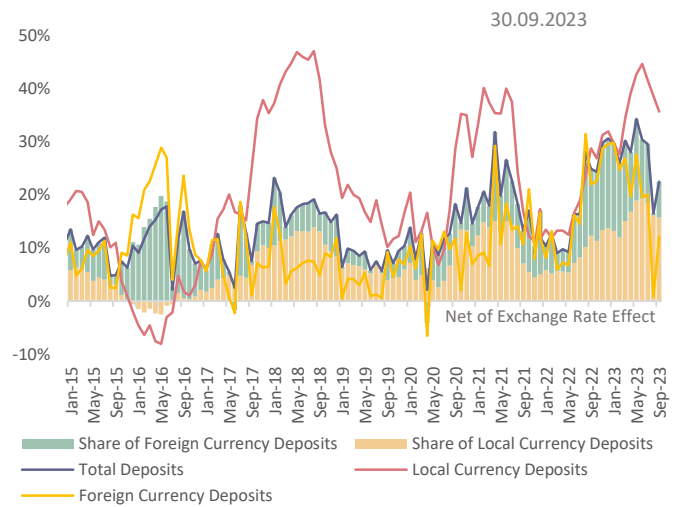
Review of Deposits

The growth of the total deposits on the 1 of October 2023 was 22.5 percent compared to the corresponding period of 2022, which is 7.9 percentage points lower compared to the previous quarter. A high growth rate of deposits is on the back of relatively slower growth rate of the foreign and the national currency denominated deposits. The deposits denominated in the national currency increased 35.7 percent, while the annual growth of deposits denominated in foreign currency amounted 12.1 percent in the same period.

By the 1 of October 2023 annual growth of the deposits of individuals reached 19.4 percent, while the annual growth of the deposits of legal entities also experienced growth and amounted to 27.5 percent.

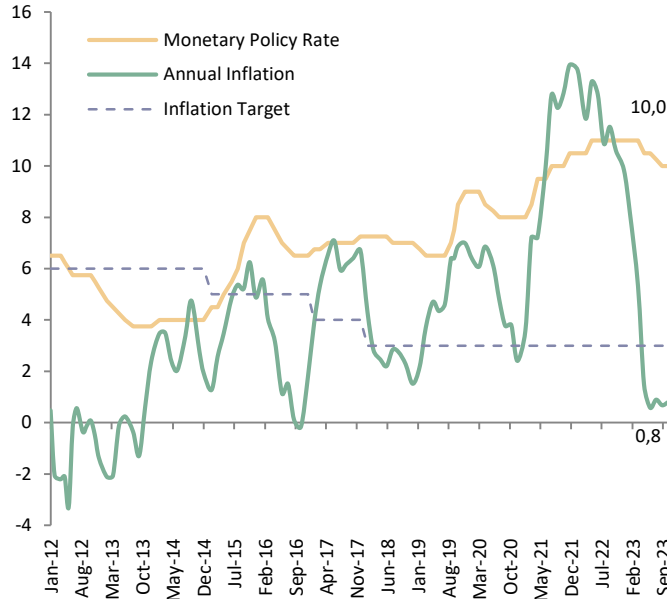
As for the growth of deposits by types, the larger deposits growth was reflected in the growth rate of the time and demand deposits. By 1 on October 2023 the time deposits grew by 21.4 percent. As for the current and demand deposits, their growth rates equaled to 24.7 and 21.6 percent, respectively.

Figure 43: Annual Growth of Deposits



Source : NBG

Figure 44: Inflation and Monetary Policy Rate

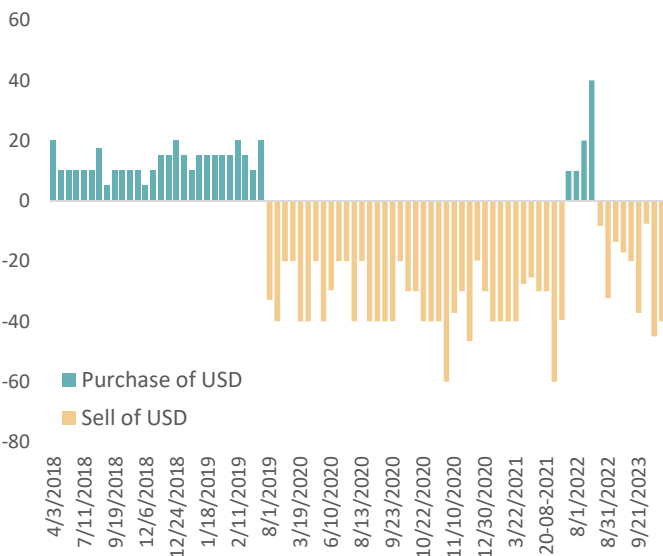


Monetary Policy Rate

The Monetary Policy Committee of the National Bank of Georgia (NBG) held two sessions in the third quarter of 2023. In both cases, the monetary policy authorities reduced the monetary policy rate by 0.25 pp and determined it at 10.0 percentage 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 (3%). It's level was at 0.8 percent in October this year and it is below the target one. 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. It is also important to note that the NBG will loose the monetary policy at a slow pace.

Figure 45: Trade of USD by NBG, mln



The NBG has made the foreign exchange interventions through the auctions during the third quarter of 2023. The NBG totally sold 149.65 million USD.

Source: National Bank of Georgia

Interest Rates

As of 1 of October 2023, the interest rate on foreign currency deposits was 1.6 percent, while on the national currency deposits it amounted to 10.8 percent.

As of 1 of October 2023, the weighted average interest rate on deposits of legal entities in national currency was 10.8 percent, and in foreign currency – 2.4 percent. In the same period, the average annual interest rate was 1.5 percent on deposits of individuals in foreign currency and 10.9 percent in national currency.

By October 1, 2023, the weighted average annual interest rate on short-term consumer loans was 15.4 percent (17.4 percent in national currency and 5.9 percent in foreign currency). The weighted average interest rates on long-term consumer loans are largely determined by the loans denominated in the national currency.

At the end of September, 2023, the interest rate on mortgage loans issued to legal entities in the national currency was 13.7 percent, and in foreign currency – 9.3 percent. The interest rate on loans to individuals in the national currency was 13.1 percent, and in the foreign currency it was 7.1 percent.

Figure 46: Interest rates on Deposits (stock)

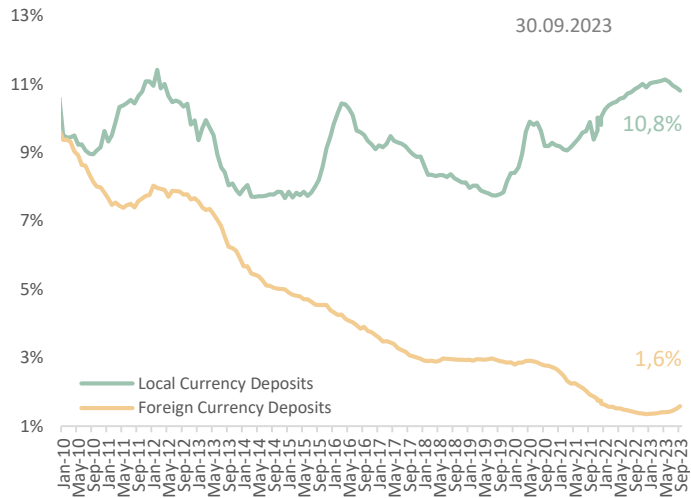
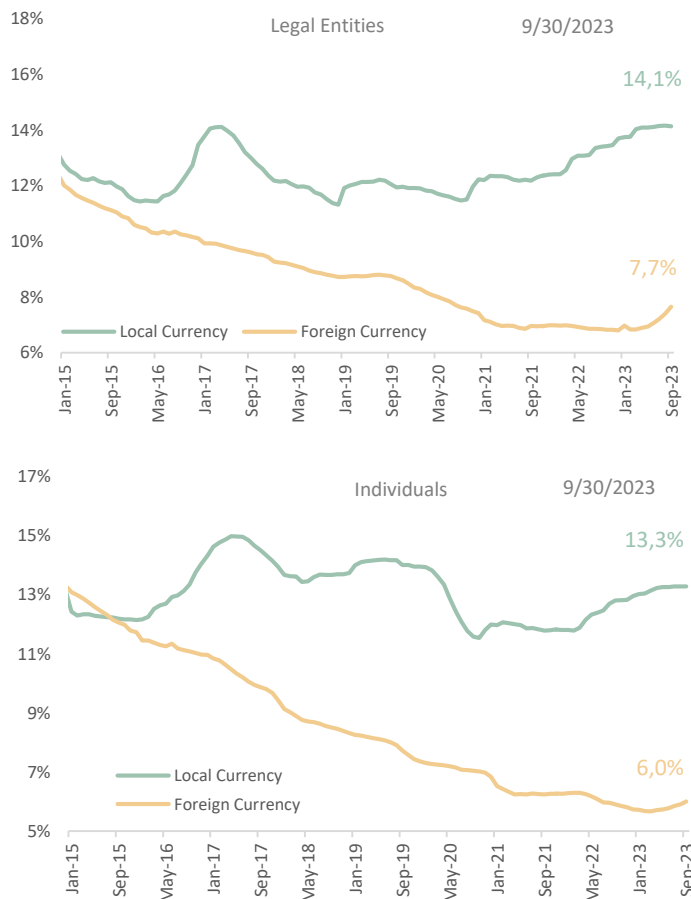


Figure 47: Interest rates on Loans secured by Real Estate



Source: NBG

Disclaimer

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