

Ministry of Finance of Georgia



Quarterly Economic Outlook

IV Quarter, 2022

Brief Summary

- Economic growth for 2022, according to preliminary data, equals to 10.1 percent
- Average economic growth for the fourth quarter equals to 9.5 percent
- Annual inflation in the fourth quarter equals to 10.3 percent, while core inflation (w/o tobacco) equals to 7.1
- Export increased by 18.6 percent annually
- Import increased by 27.3 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

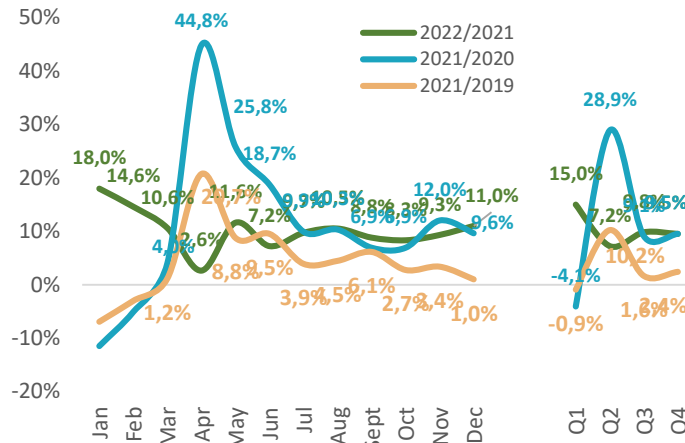
According to the preliminary data, in the fourth quarter of 2022 real GDP increased by 9.5 percent relative to same period of the previous year. At the same time, compared to the corresponding period of 2019, economic growth was 9.6 percent. In particular, in the fourth quarter, exports increased annually by 18.6 percent, while imports increased annually by 27.3 percent. At the same time, compared to the third quarter of 2019, exports increased by 40.7 percent and imports increased by 41.5 percent. External demand continues to grow. Considering tourism, compared to the pre-pandemic situation, revenue from international travelers increased 2.6-fold year-on-year in the fourth quarter, and also, there was a 45.7 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 third quarter of 2022, economic growth amounted 9.8 percent. A significant share of GDP growth in the third quarter of 2022 was due to the export component, which grew by 24.1 percent annually in real terms. At the same time investments played a significant role in growth and increased by 3.5 percent in real terms. At the same time, consumption in real terms decreased by 8.5 percent, and imports in real terms decreased by 9.4 percent annually.

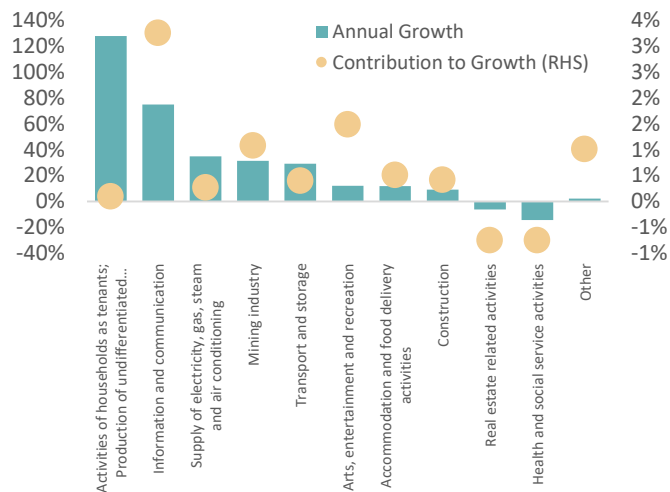
In the third quarter of 2022 the following sectors made a significant contribution to growth: Information and

Figure 1: Economic Growth



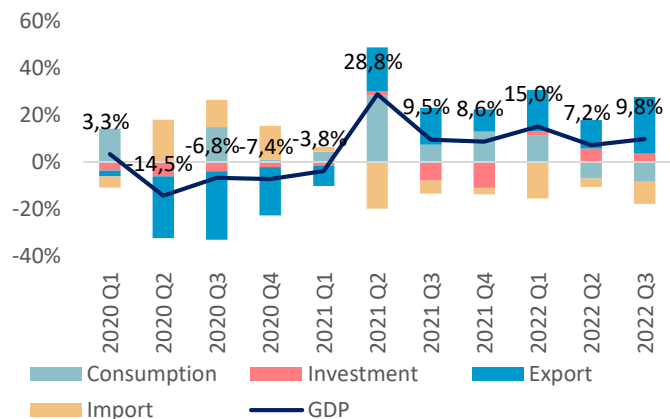
Source: Geostat

Figure 2: Real Sectoral Growth, 2022 3Q



Source: Geostat

Figure 3: Decomposition of Economic Growth



Source: Geostat

Figure 4: Economic Growth Projection

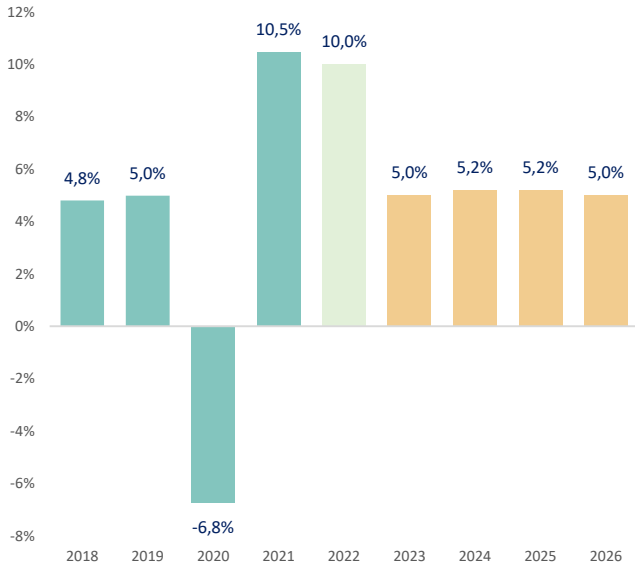
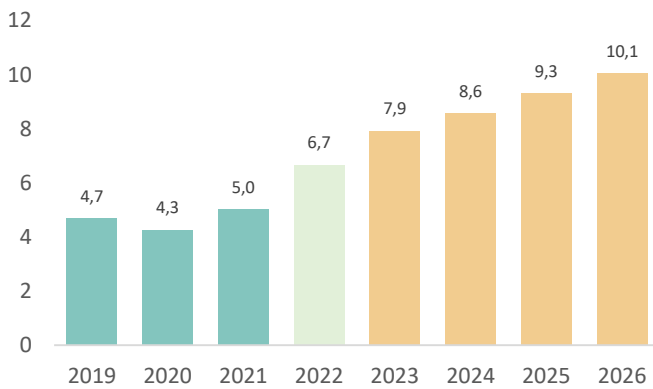


Figure 5: GDP per capita, ths USD



Source: MOF

communication (74.9 percent), electricity, gas, steam, and air conditioning (34.7 percent), mining (31.3 percent), transportation and warehousing (29.0 percent), arts, entertainment, and recreation (12.0 percent), accommodation facilities and food service activities (11.7 percent), construction (9.1 percent).

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.

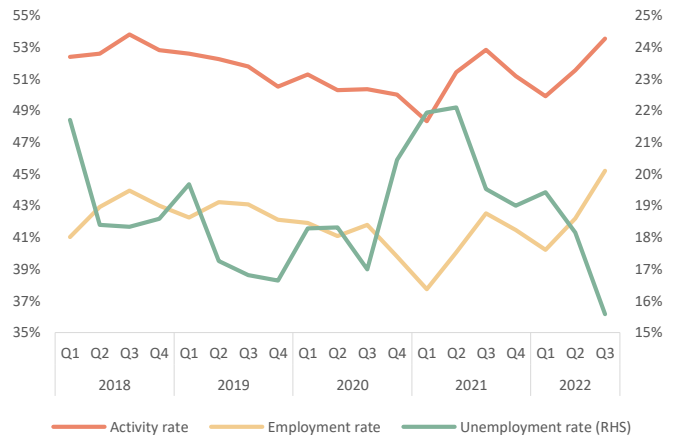
Employment and Unemployment

In the third quarter of 2022, the unemployment rate was 15.6 percent, which is 2.5 pp less than the value of the previous quarter and 3.9 pp less compared to the same period of last year. Among them, unemployment was 16.4 percent in urban areas (-4.7 percentage points per year) and 14.5 percent in rural areas (-2.7 percentage points per year). The highest unemployment rates are among 15-24 and 25-34 age groups. In the third quarter of 2022, the economically active population accounted for 53.5 percent of the working age population (15 years and older). In the third quarter of 2021, the unemployment rate in the women group was 13.1 percent, while in the men group, the figure was 17.5 percent.

In the third quarter of 2022 the number of employees increased by 6.0 percent compared to the corresponding quarter of the previous year, while the employment rate increased by 2.7 percentage point. The number of unemployed decreased by 19.3 percent annually. At the same time, productivity (ratio of real output to number of employees) increased by 3.5 percent annually, while the average nominal wage of employees increased by 16.5 percent, amounting to 1,595.0 GEL as of the second quarter of 2022.

In the third quarter of 2022, there was an 3.5 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 (January, 2023), due to current world situation world inflation will decrease from past forecast of 8.8 percent to 6.6 percent in. Also, it is expected that inflation decreases to 4.3 percent in 2024, which is still higher than pre-pandemic (2017-2019 years) period inflation.

In the fourth quarter of 2022, annual inflation stood at 10.3 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 fourth quarter stands at 7.1 percent.

On December 21, the National Bank Monetary Policy Committee decided to keep the refinancing rate at 11

Figure 8: Annual Inflation

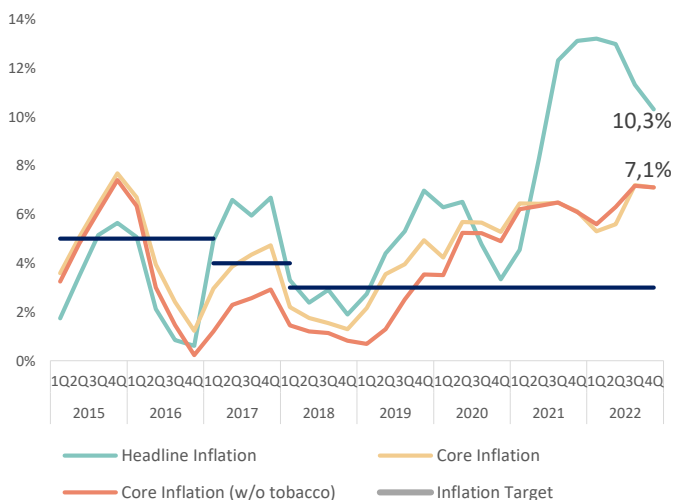
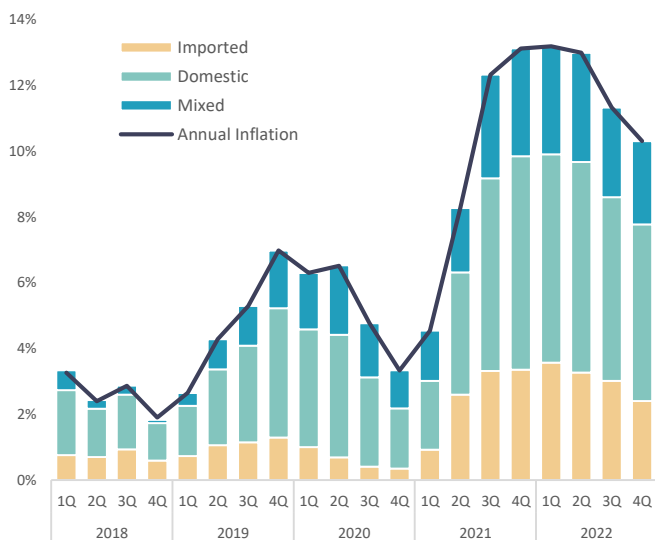


Figure 9: Decomposition of Inflation

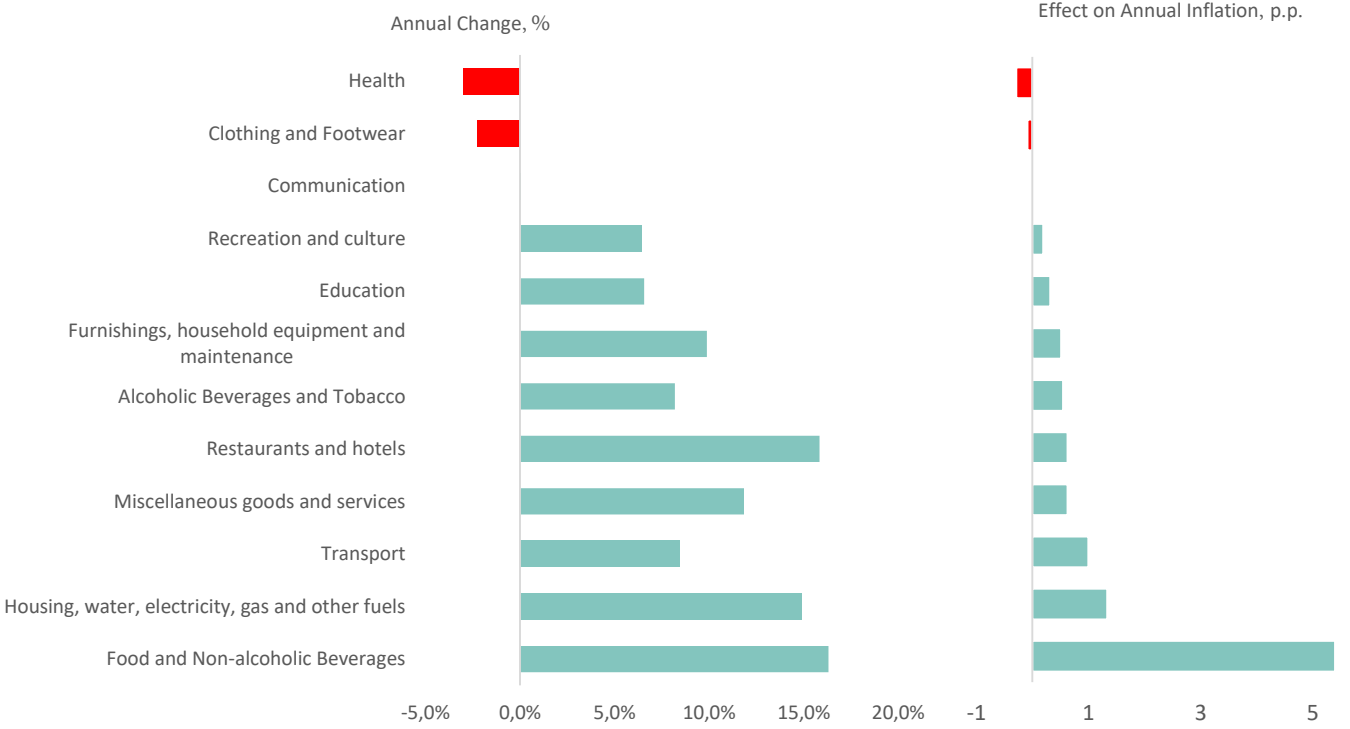


Source: NBS, Geostat

percent to ease the pressure on expectations for further price increases.

In the fourth quarter of 2022, the contribution of domestic inflation was 5.4 percent, while the contribution of imported inflation was 2.4 percent. This dynamics is caused by the increase in the price of food and the relatively high weight gain in the consumer basket relative to the food group.

Figure 10: Decomposition of Inflation, 2022 Q4



Source: Geostat

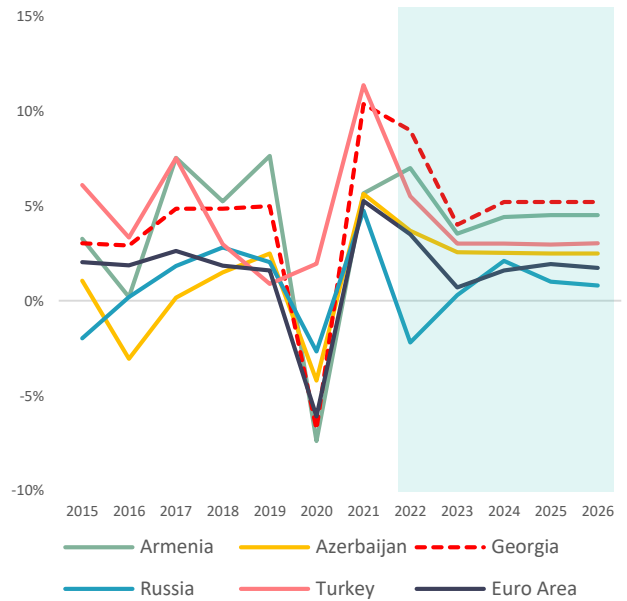
Economic Outlook of the Region

After Russia’s invasion in Ukraine, global growth prospects together with inflation have worsened. In October IMF revised forecasts downward for major economies. Per October IMF WEO, global economic growth for 2022-2023 would stand 3.2 and 2.7. In January 2023 IMF made additional changes into growth prospects. As for 2022 estimates it is worth noting, that numbers came stronger for global growth at 3.4 percent against October 3.2. The forecast of low 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 2023 from 2022 is driven by advanced economies; in emerging market and developing economies, growth is estimated to have bottomed out in 2022. But prospects for 2023 is still favorable than it was expected in October.

Even though in 2020 Turkey did not fall into recession, in 2021 Turkey experienced 11.4 percent growth in real GDP. Per IMF January 2023 WEO projections Turkey is expected to grow by 5.5 and 3.0 percent in 2022 and 2023, respectively. Projection for 2022 has been revised upwards by 0.5 pp, compared to October WEO. Main challenges for Turkey remain exchange rate depreciation and high inflation. The inflation is expected to reach at 73.1 percent in 2022 after 19.6 percent in 2021. Turkey undergone changes into sovereign credit ratings in 2022. S&P downgraded it to B, Moody’s to B3 and Fitch to B with negative outlook.

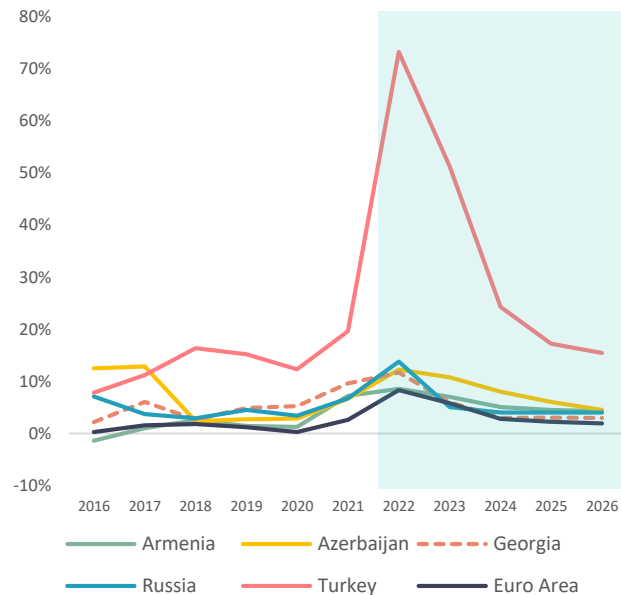
The main actor of global economic growth disruption Russia is expected to have its economy severely hit by sanctions, which will translate into large contraction of real GDP. This measures won’t have only near term impact on Russian economy, but will affect its medium-term capabilities, since large consumers, as well as sovereign countries, wean themselves off Russia’s energy and other sectors. Per January forecasts real economic growth for 2022-2023 is expected to stand at minus 2.2 and 0.3, respectively, those projections are revised upwards by 2.6 and 0.6 pp respectively, compared to what was expected in July. Its medium-term growth rate stands at 0.3 percent, while in the period of 2004-2013 it averaged at 4.2 percent and 2.1 percent in the period of 2014-2020. According to 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



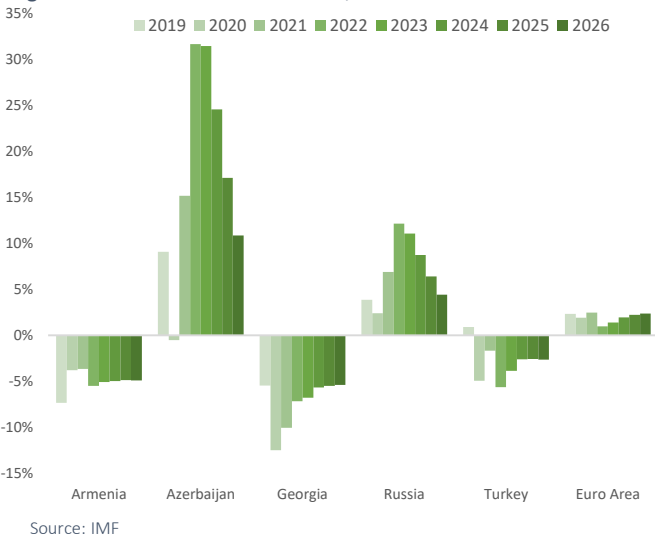
Source: IMF

Figure 12: Inflation in the Region



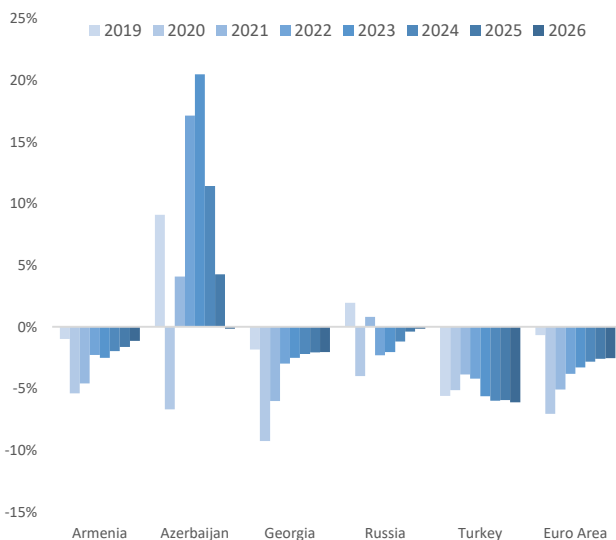
Source: IMF

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 Updates for Azerbaijan in January 2023 WEO has not been made. As for October WEO, economic growth has been revised upwards. Azerbaijan's real economy is expected to grow by 3.7 and 2.5 percent in 2022 and 2023, respectively. Together with it medium term growth rate of Azerbaijan also increased from 1.8 percent to 2.5 percent. High inflation is also the case throughout those years. In 2022, inflation is estimated to be 12.2 percent, and it is expected to decrease and stand at 8.0 percent in 2023. 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 Blance to GDP, %



In 2021 Armenia was not able to fully recover from COVID-19 and stayed below 2019 figures. Per IMF projections in our region, except the participants of war, Armenia was expected to be hit hardest. This was expectable, since Armenia has tightest ties to Russian economy. But those risks did not materialize. Updates for Armenia in January 2023 WEO has not been made. As for October WEO, economic growth has been revised upwards. In 2022 Armenia, according to IMF, will grow by 7.0 percent, while in 2023 it will grow by 3.5 percent, which is slightly below to its medium term growth of 4.5 percent. Inflation will remain high throughout those year, 7.0 percent in 2022 and 5.0 percent in 2023, but relatively muted compared to peer region countries. All three CRAs downgraded Armenia's sovereign credit rating by one notch. Moody's downgraded to Ba3 (negative), Fitch downgraded to B+ and S&P downgraded to B+ (stable).

Situation around Ukraine remain uncertain, there are no long term projections of Ukrainian economy, since situation may change in any given time. In 2022 Ukrainian economy will contract by 35 percent according to IMF. This contraction is direct product of Russian invasion into Ukraine, which resulted into humanitarian crisis, destruction of infrastructure and exodus of its people.

External Sector

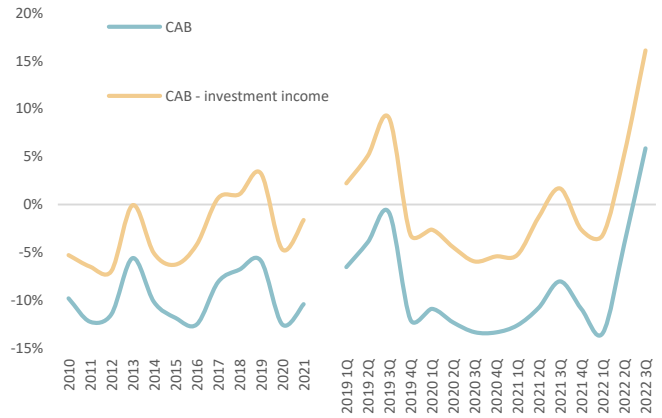
Current Account Balance

In 2020 current account deficit stood at 12.5 percent of GDP, which has significantly worsened from 2019 numbers, when CA deficit was 5.5 percent of GDP. From Q2 2021 current account deficit started to improve. As of 2021, CA deficit stood at 10.3 percent of GDP. In Q3 2022 CA deficit improved rapidly and became positive with value of 5.9 percent of GDP.

Current account deficit is financed by FDI and debt. Financing the deficit by debt, means borrowing new debt and, consequently, spending more on debt service. In this regard, it is important that the current account deficit is financed by increasing foreign direct investment. The structure of financing the current account deficit has been improving recently in Georgia. The deficit was entirely financed by foreign direct investment in 2017. After that, foreign debt contributes quite a lot to finance the deficit. Especially noteworthy is 2020 when debt financing contributed a lot to the deficit financing. In 2021 debt contribution decreased, while FDI and domestic investments undergone slight increase in financing the investments.

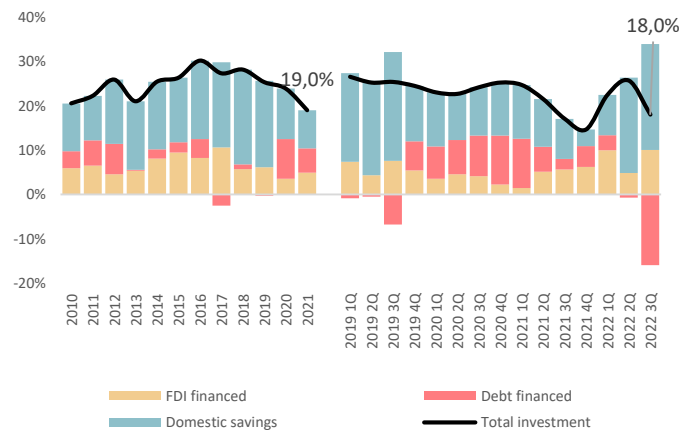
As of the third quarter of 2022, current account deficit financing has changed for the better. In particular, the FDI's share in financing stood at 10.1, while its debt contribution was negative at -15.9 pp.

Figure 15: Current Account to GDP, % of GDP



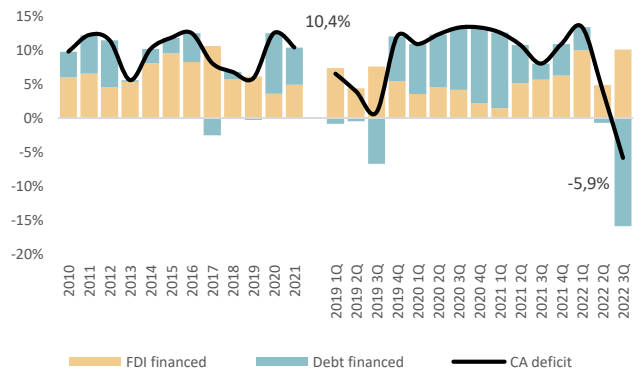
Source: NBG, Geostat

Figure 16: Financing of Investment



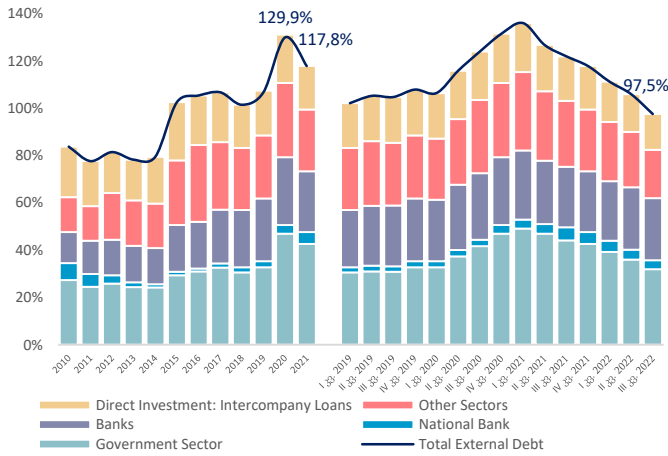
Source: NBG, Geostat

Figure 17: Financing of Current Account



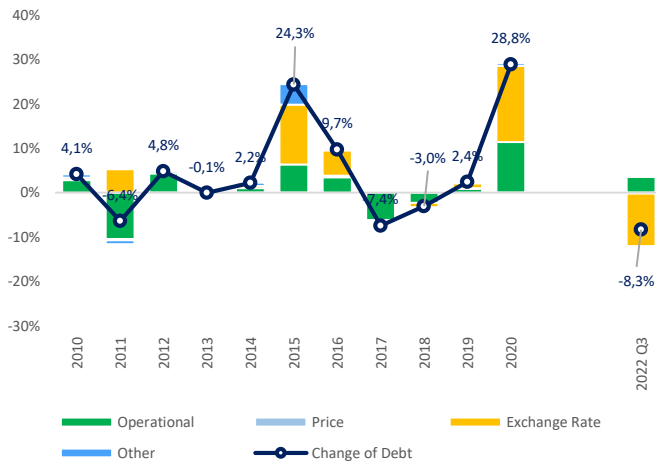
Source: NBG, Geostat

Figure 18: External Debt to GDP, %

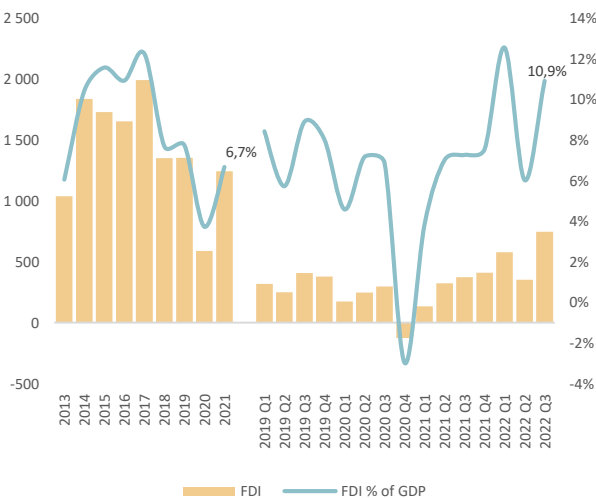


Source: NBG, Geostat

Figure 19: Change of Debt to GDP (in GEL terms)



Source: NBG, Geostat



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. As for 2021, external debt started to decline 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 in the second quarter and the corresponding growth of nominal GDP by more than expected. As for the third quarter of 2022, external debt stood at 97.5 percent, which shows the continuity of the debt reduction tendency.

The decomposition of the change in external debt is presented in terms of operating or borrowing, as well as in terms of price effect, exchange rate changes and changes in nominal GDP. It should be noted that the largest contribution to the growth of external debt in 2015-2016 was made by the depreciation of the exchange rate, while GDP mostly contributed to the reduction of external debt. As for 2021, debt to GDP in USD terms decreased by 12.1 pp., while debt considering exchange rate, in GEL terms decreased by 24.7 pp. with a significant contribution from nominal GDP growth. As for the third quarter of 2022, the exchange rate is no longer the sources of debt growth. Due to improved Current account balance, deficit did not require to use debt for financing, which helped debt to decrease.

Foreign Direct Investments

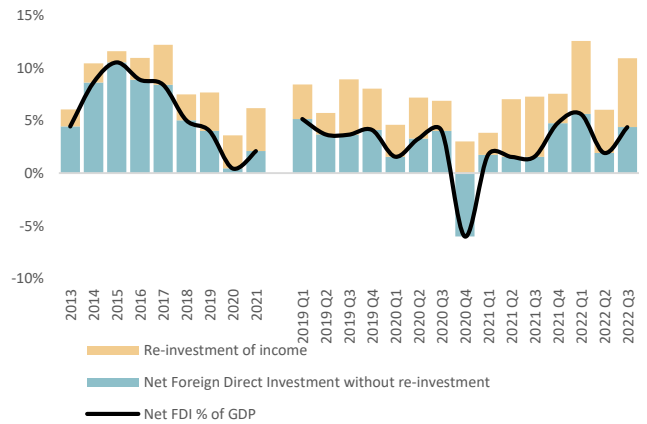
As for 2022 Q3, foreign direct investments amounted to 745.3 (10.9 percent of GDP) , which is 99.3 percent higher than in corresponding quarter in 2021.

As of Q3 2022, the Spain is the leader by 22.3 percent of share in total FDI. As for 2nd and 3rd places, United Kingdom and Ireland have 16.5 percent and 16.1 percent share, respectively.

In 2022 Q3, Investments were mainly allocated in Real Estate sector, amounting 265.3 mln USD (35.6 percent of total FDI), in other sectors and Finance sector, where investments amounted 176.5 mln USD (23.7 percent) and 159.0 mln USD (21.3 percent) respectively.

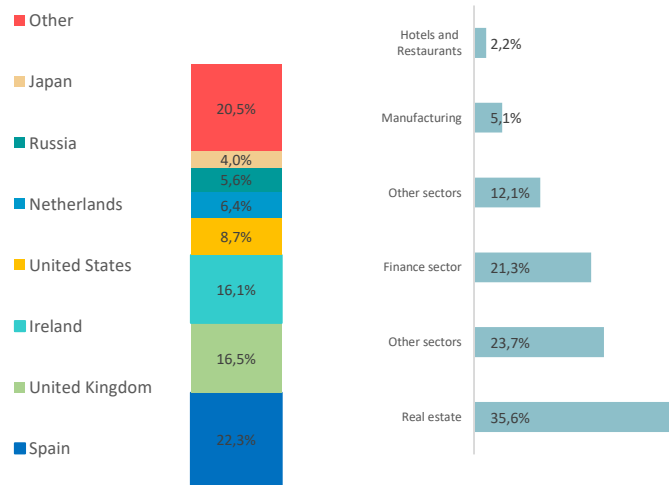
As for the components of FDI, in 2022 Q3 period, reinvestment stood at 6.5 percent of GDP, which is 60.0 percent of total FDI.

Figure 21: FDI



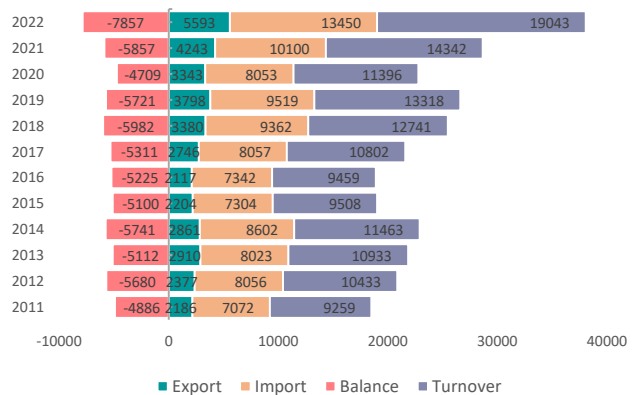
Source : Geostat

Figure 22: Composition of FDI, 2022 Q3



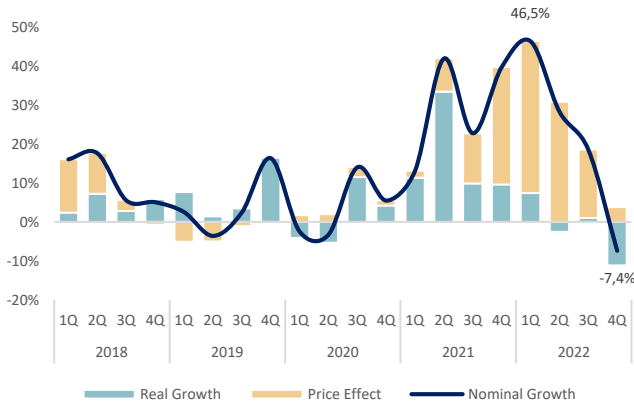
Source : Geostat

Figure 23: International Trade, 2022



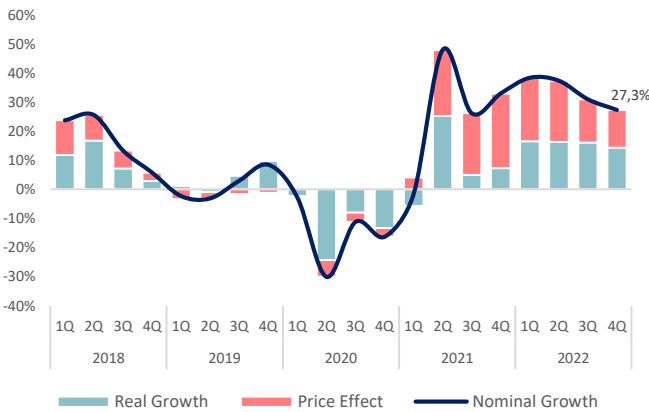
Source: Geostat

Figure 24: Annual Change of Domestic Export



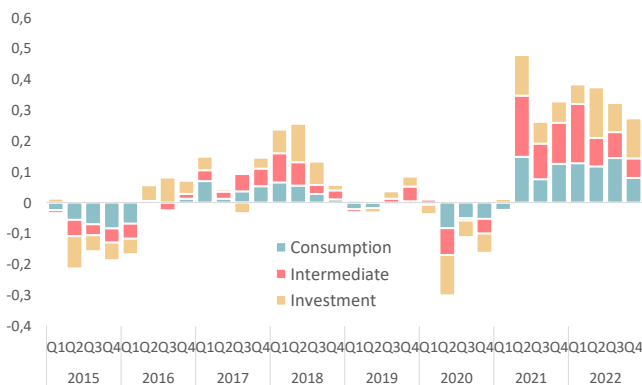
Source: Geostat

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 and price effect was 3.8 percent. In the same time, import increased by 27.3 percent, out of which 12.9 percent was observed in price effect.

As of fourth quarter of 2022, import of investment goods increased by 49.8 percent annually (12.9 p.p. share in total imports). High growth was observed in imports of consumption goods and amounted 21.7 percent annually (8.0 p.p. share in total imports). As for the imports of intermediate goods, it increased by 17.1 percent annually (6.4 p.p. share in total imports). In Q4 2022, export of goods increased by 18.6 percent annually. The main driver of this growth are still motor cars (20.9 percent of total exports), copper ores and concentrates (18.1 percent of total exports) and wine of fresh grapes (5.3 percent of total exports) have also high shares. As for the imports, motor cars, oil products, and copper ores and concentrates are still the main imported goods.

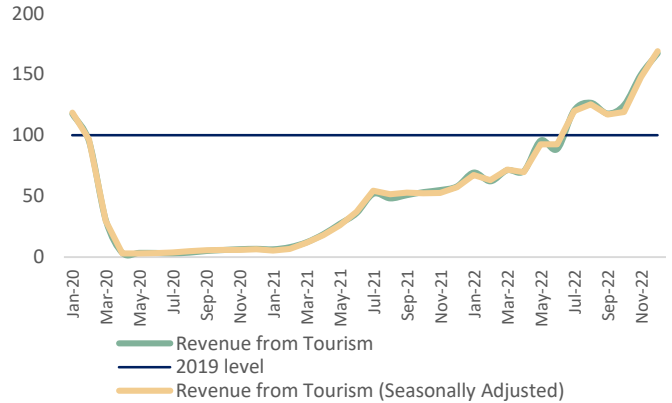
Tourism

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 second quarter of 2022, the income from tourism exceeded the level of 2019. Revenue from tourism in Q4 2022 was 999.5 mln USD, up by 163.5 percent compared to the same period of previous year and up to 145.7 percent of 2019 level.

Remittances

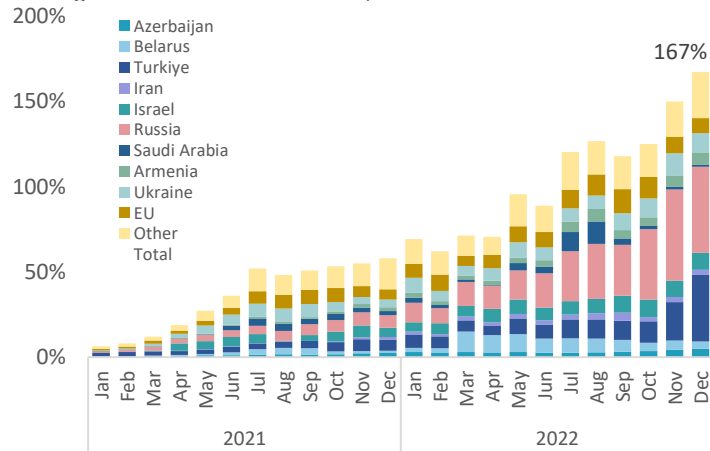
In the third quarter of 2022, net remittances reached 938.3 mln USD, up by 73.8 percent from the previous year. In the fourth quarter of 2022, net remittances accounted 1461.8 mln USD, which is by 166.7 percent more compared to the same period of the last year. The largest contributor to this growth was Russia (total contribution of 152.9 percent). Kyrgyzstan (5.1 p.p.), USA (2.7 p.p.), Germany (2.4 p.p.), Italy (2.0 p.p.), Belarus (1.7 p.p.), Armenia (1.5 pp) also made positive contributions. A decrease of 183.4 percent was observed in net remittances from Ukraine, which contributed negatively to the overall growth by 4.7 p.p., remittances from Greece also decreased by 2.4 percent, which negatively contributed to overall growth by 0.2 p.p. and from Azerbaijan 60.2 percent which contributed negatively 1.7 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. Although, in the fourth quarter of 2022 Russia contributed the most to overall growth by 152.9 p.p..

Figure 27: Income from Tourism



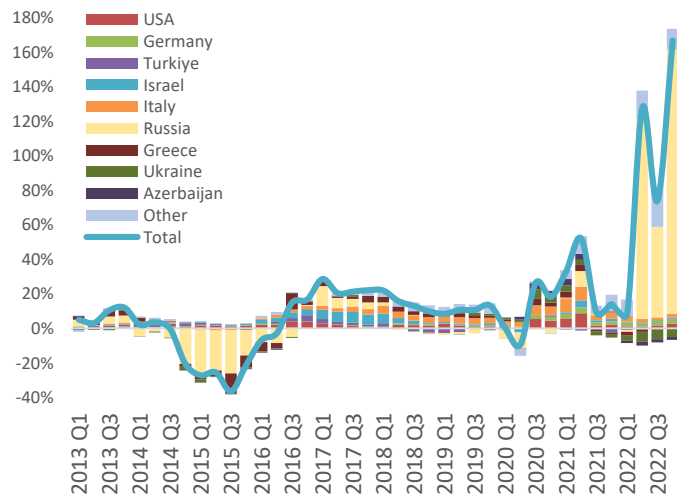
Source: NBG

Figure 28: Income from tourism, mln USD



Source: NBG

Figure 29: Net Remittances

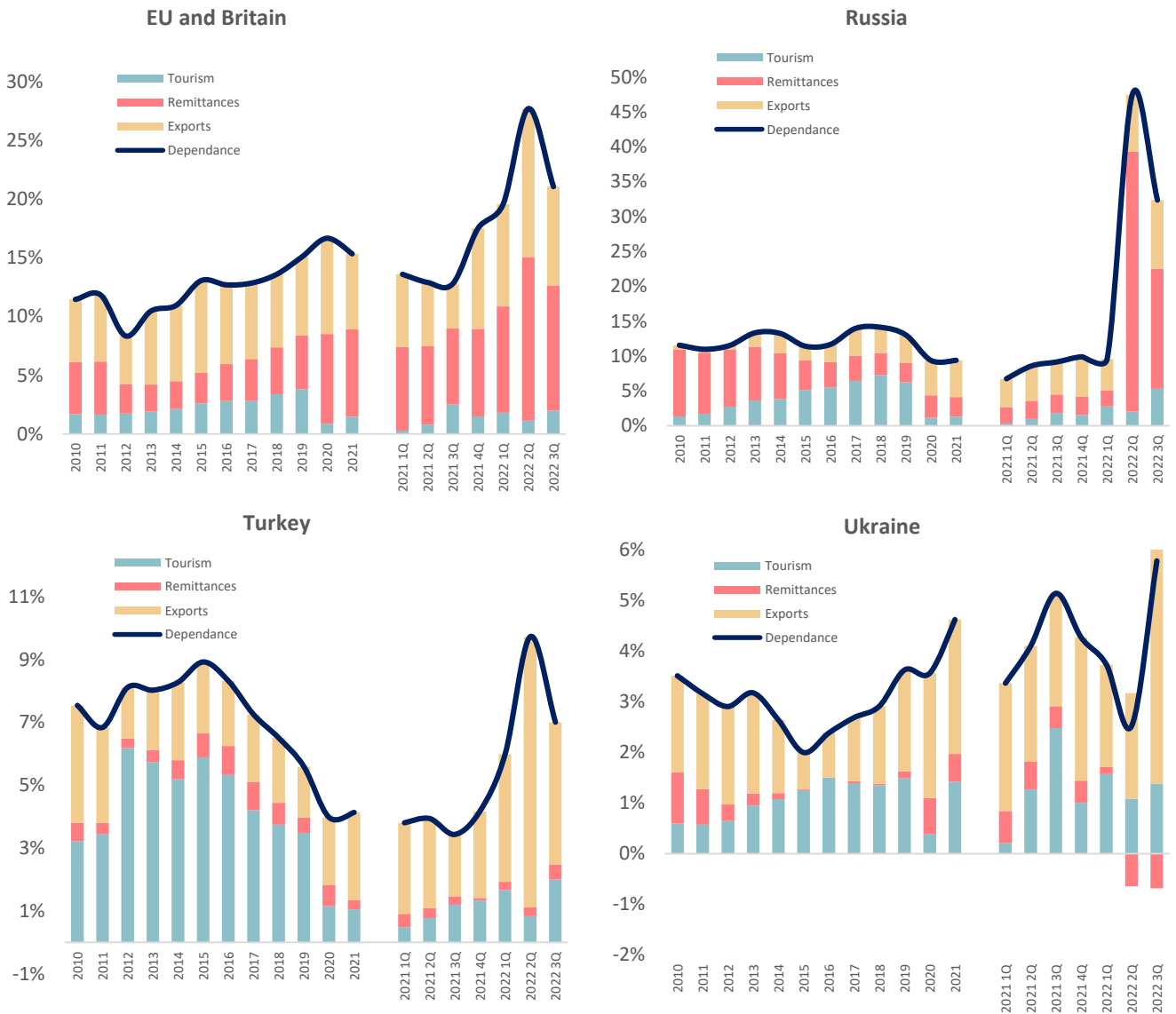


Source: NBG

Dependence on Other Countries

Georgian economy is diversified in terms of dependence on other countries. Based on the shares of exports, tourism, and transfers in the current account credits, it can be concluded that Georgia has a tight relationship with Russia, Turkey, Ukraine, and the European Union. According to Q3 2022 numbers, dependence on Russia decreased, but remains higher than it's dependence levels in previous years. Dependence on Russia is mainly driven by spike in remittances. Dependence on Turkey is still stable. Increase was observed in dependence on Ukraine, which was due to increased export of goods. Dependence on the EU maintains a high level, but decreased according to Q3 2022. Decrease in dependence of main countries indicates to more diversified structure of FX inflows.

Figure 30: Dependence on Trading Partners



Source: NBG, Geostat

Figure 31: Nominal Effective Exchange Rate

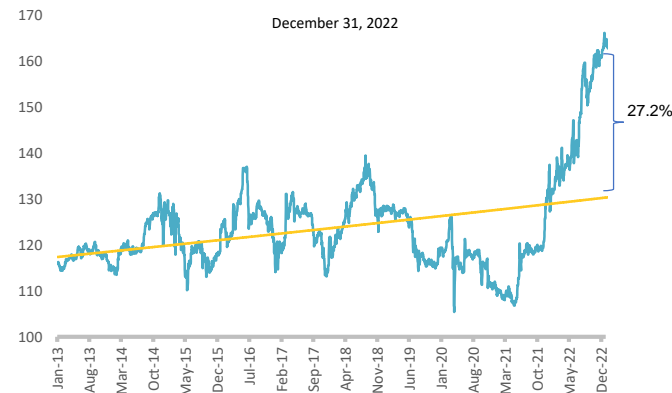


Figure 32: Real Effective Exchange Rate

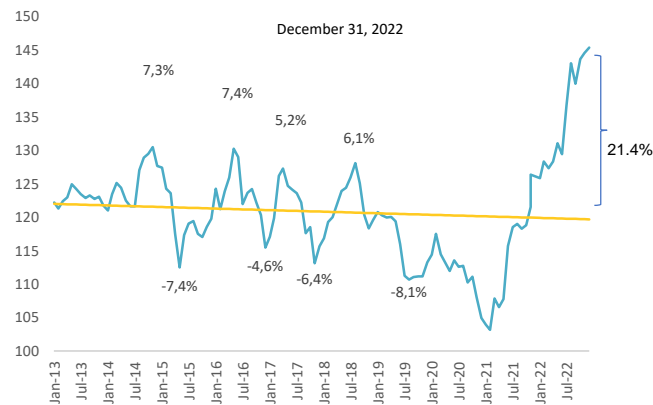
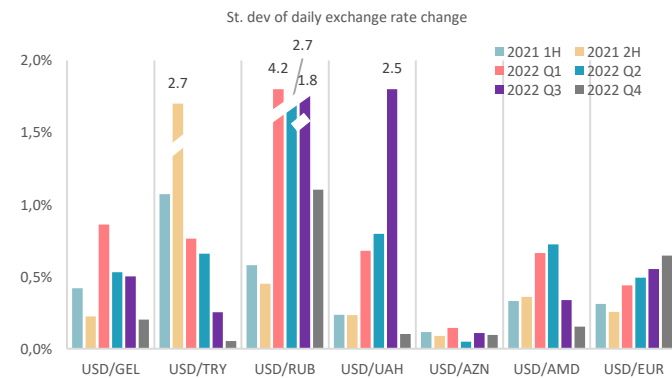


Figure 33: Volatility of Exchange Rates



Source: NBG, MOF

Table 1: Change of Nominal and Real Effective Exchange Rates

| | December 31, 2022 | Dec 31, 2022 - Jan 1, 2022 | Dec 31, 2022 - Jan 1, 2021 |
|----------------------|-------------------|----------------------------|----------------------------|
| Euro | 2.8844 | ▲ 11.4% | ▲ 6.1% |
| US Dollar | 2.7020 | ▲ 6.1% | ▼ -1.1% |
| Turkish Lira | 0.1443 | ▲ 233.8% | ▲ 250.2% |
| Russian Ruble | 0.0368 | ▲ 25.4% | ▲ 4.4% |
| NEER | 137.07 | ▲ 4.5% | ▲ 23.9% |
| REER (December 2022) | 145.35 | ▲ 15.5% | ▲ 38.5% |

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 2022 Q4 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 sharp depreciation is not expected, as it was the case at the start of the spring. In Q4 2022, GEL appreciated against USD by 12.5 percent, compared to same period of previous year. At the same time, appreciation against EUR equaled 22.1 percent. GEL appreciated against Lira by 49.4 percent and against RUB depreciated by 1.5 percent. 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 27.2 and 21.4 percent respectively.

Fiscal Sector

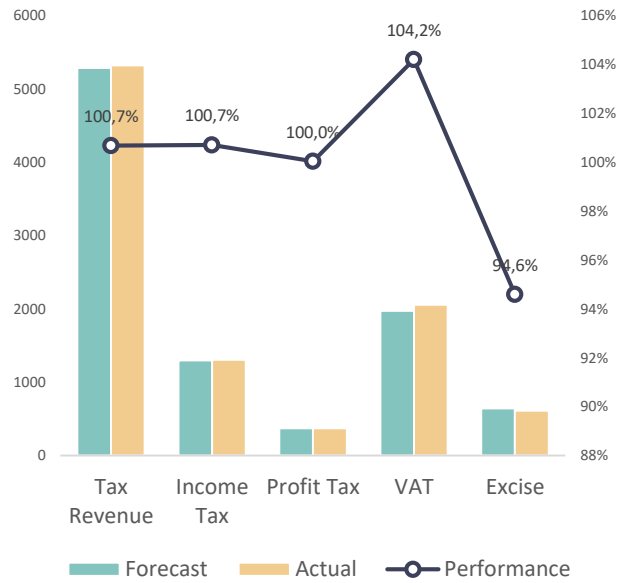
Budget Performance

The consolidated budget tax revenue forecast for the fourth quarter of 2022 was set at 5,283 mln GEL, while 5,319 mln GEL was mobilized during the reporting period, which is 100.7 percent of the forecast.

- 1,304 million GEL is mobilized as income tax, which is 100.7 percent of the forecast figure (1,295 million GEL).
- 369 million GEL is mobilized as profit tax, which is the same as the forecast indicator (369 million GEL).
- 2,055 million GEL was mobilized as VAT, which is 104.2 percent of the forecast (GEL 1,972 million).
- 609 million GEL is mobilized as excise, which is 94.6 percent of the forecast indicator (644 million GEL).
- 39 million GEL is mobilized in the form of import tax, which is 102.6 percent of the forecast (38 million GEL).
- 134 million GEL is mobilized in the form of property tax, which is 106.8 percent of the forecast (126 million GEL).

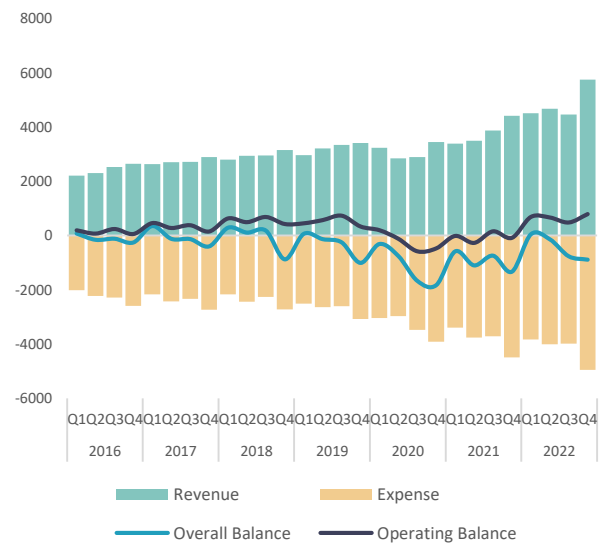
In the fourth quarter of 2022, compared to the same period last year, consolidated budget revenues increased by 28.6 percent and expenditures increased by 24.3 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to 789.4 million GEL, while the total balance was set at -892.8 million GEL.

Figure 34: Budget Revenue Performance



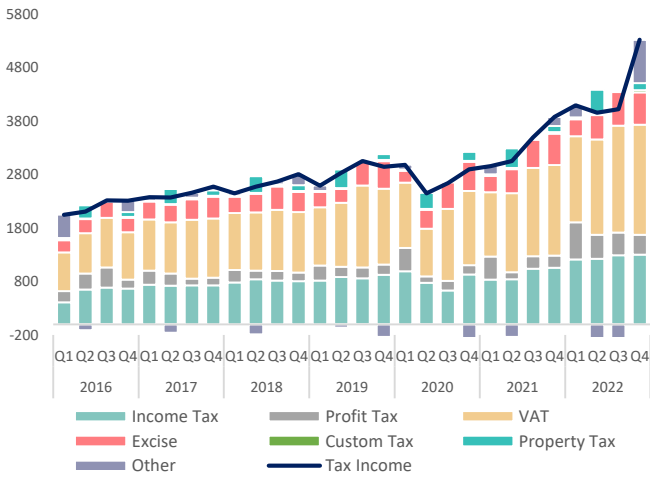
Source: MOF

Figure 35: Budget Balance



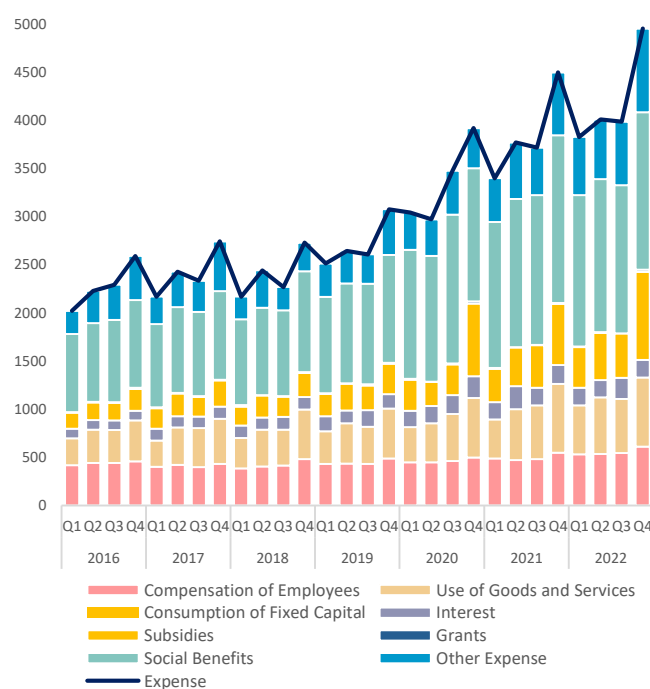
Source: MOF

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 92.7 percent in the fourth quarter of 2022. The consolidated budget received GEL 5,319 million in taxes, which is 37.3 percent more than the same period of previous year. Revenue from income tax increased by 23.2 percent year on year to GEL 1,304 million. High growth is observed in the form of revenue from profit, which increased annually by 64.7 percent compared to the fourth quarter of 2021, amounted to 370 million and is 6.9 percent of total revenue from tax. At the same time, a significant increase in tax revenues is observed from VAT and import taxes. In particular, revenue from VAT increased by 21.5 percent, accounting 38.6 percent of total tax revenue, while revenue from import tax increased by 52.3 percent, and contributing by 0.7 percent.

Expenditures in the fourth quarter of 2022 increased by 10.1 percent year on year to GEL 4,949 million. The largest share of budget expenditures is in social security expenditures, which account for 28.4 percent of total expenditures, while the annual growth rate has decreased and is equal to -6.1 percent. Expenditures in the form of goods and services increased, with an annual growth rate of 0.5 percent to GEL 718 million, accounting for 12.5 percent of total expenditures. As for other items of expenditure, wages (10.6 percent of total costs), subsidies (15.9 percent of total costs), interest (3.2 percent of total costs) and other costs (15.2 percent of total costs) increased by 11.7 percent, 43.4 percent, -7.3 percent and 33.3 percent compared to the corresponding period of 2021, respectively.

Government Debt

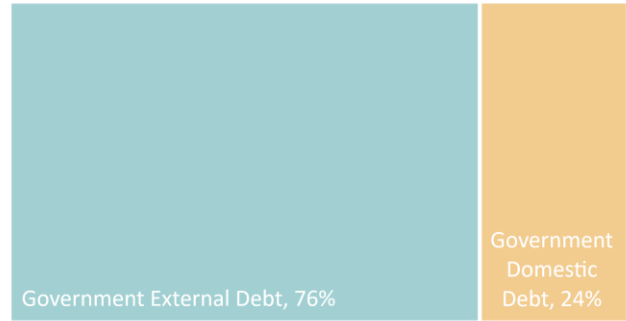
As of December 31, 2022, the stock of public debt of Georgia amounted to GEL 29,669 million, including:

☐ Government domestic debt stock is GEL 7,119.5 million, including:

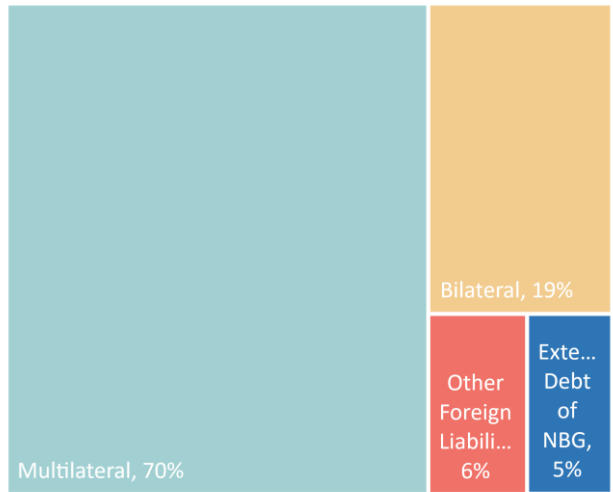
- Annual Renewable Government Bond for the National Bank ("Bond for the NBG") - GEL 120.8 million;
- Government bonds with different maturities for open market operations ("Bonds for open market") - 152 million GEL;
- Treasury liabilities of the Ministry of Finance – GEL 415 million;
- Treasury bonds of the Ministry of Finance - GEL 6,390.5 million;

☐ Government external debt stock is 22,549.9 million GEL.

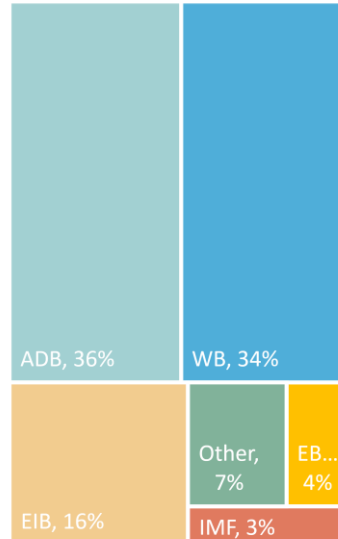
Figure 38: Government Debt



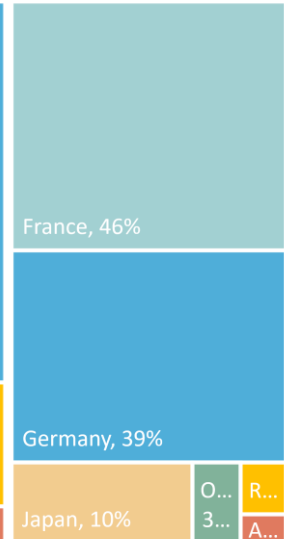
Government External Debt



Multilateral



Bilateral



Source: MOF

Monetary Sector

Private Sector Larization

The larization of loans has an increasing trend and by 1 of January 2023 it reached 55.4 percent. It should be noted that the main determinant of total loan larization is the larization of loans granted to individuals. By 1 of January 2023, the larization of loans of individuals was 69.9 percent, in the same period the larization of loans granted to legal entities amounted to 37.5 percent.

As for the larization of loans according to collateral, larization of consumer loans significantly exceeds the larization of real estate loans. Larization of consumer loans evolved around 88 percent during 2021 and stays in that territory. By 1 of January 2023 it amounted to 88.5 percent, as of the larization of mortgage loans, it amounted to 45.2 percent.

The larization of deposits remain significantly lower than larization of loans. As of 1 of January 2023 larization of total deposits reached 43.0 percent. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. By the 1 of January 2023 larization of deposits of legal entities reached 67.5 percent and the larization of deposits of individuals in the same period was 28.4 percent.

It should be noted that the main contributor in the deposits larization is still time deposits larization, by 1 January 2023 it reached 50.7 percent. In the same period current accounts larization amounted to 40.2 percent, while larization of the deposits before demand stands at 37.0 percent.

Figure 39: Loan Larization

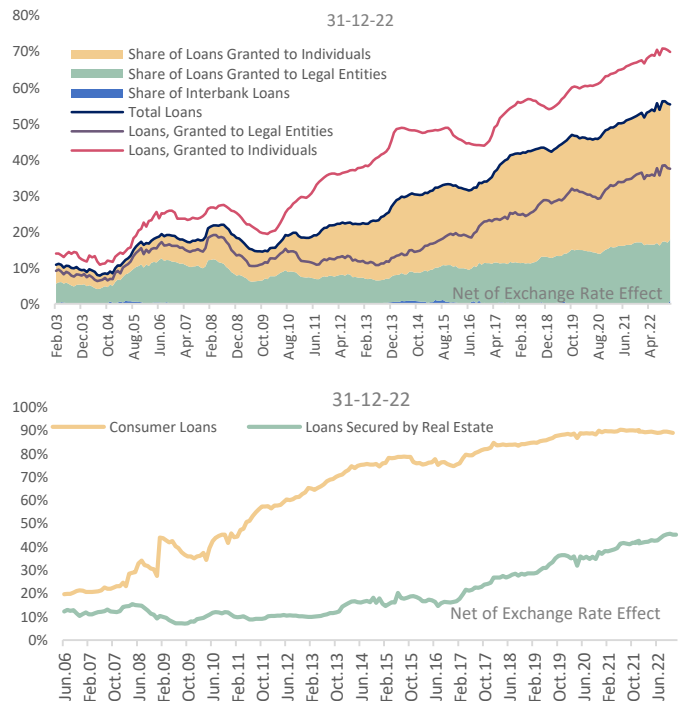
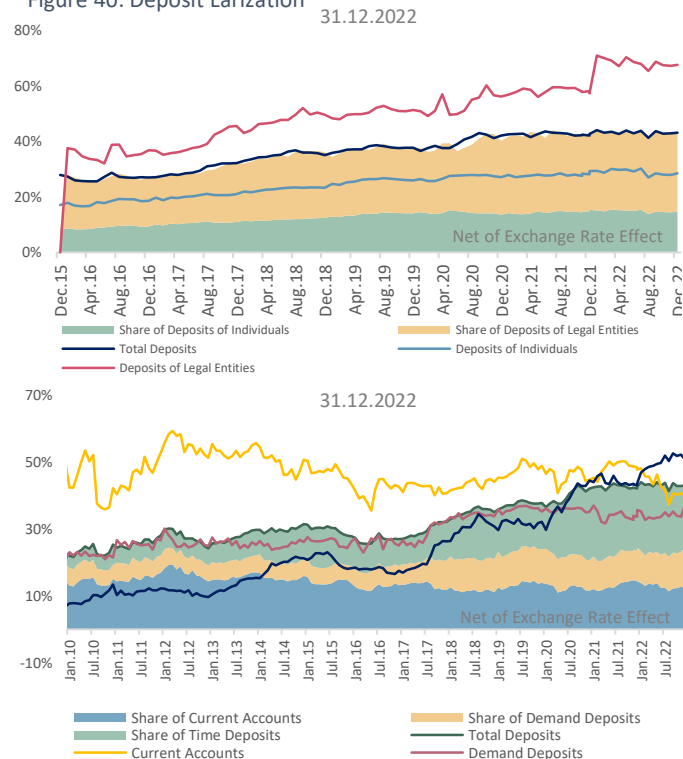
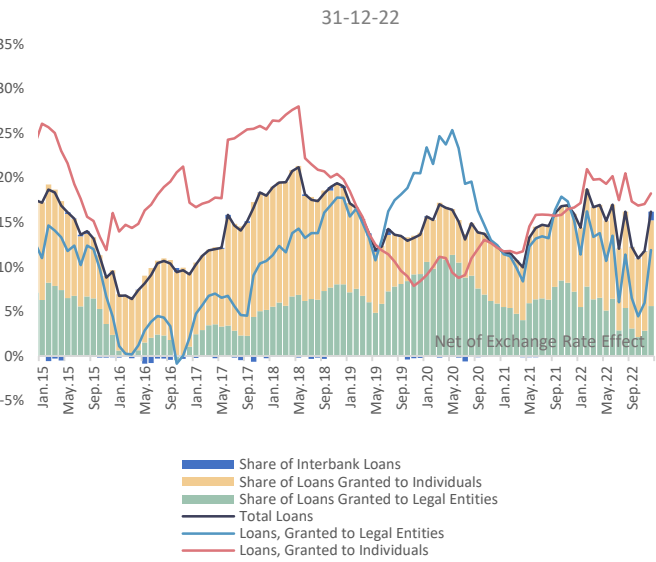


Figure 40: Deposit Larization



Source: NBG

Figure 41: Annual Growth of Loans



Review of Loans

As of 1 January 2023 overall loans increased by 16.2 percent compared to the corresponding period of 2021, which is 6.2 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 11.9 percent. During the same period loans to individuals increased by 18.2 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 January 2023 it amounted to 22.3 percent, compared to the corresponding period of 2021. During the same period, the growth of loans in foreign currency was 9.4 percent, which is 8.1 percentage points higher than in the last quarter (excluding exchange rate effect).

By 31 of December 2022, mortgage loans had increased by 10.3 percent compared to the corresponding period of the previous. Moreover, mortgage loans that are denominated in national currency increased by 21.0 percent, 1.2 percentage points higher than in the previous quarter, while foreign currency denominated mortgage loans increased by 2.7 percent, 0.5 percentage points lower than previous quarter.

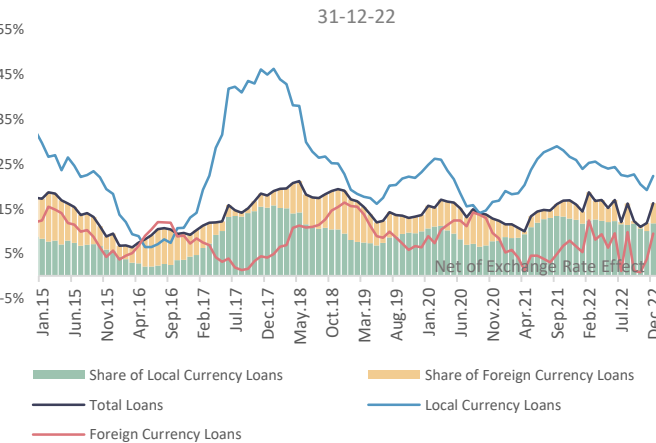
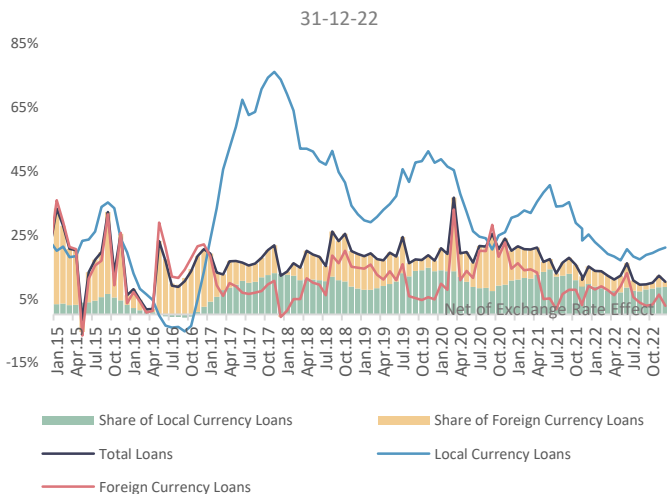


Figure 42: Annual Growth of Loans secured by Real Estate



Source : NBG

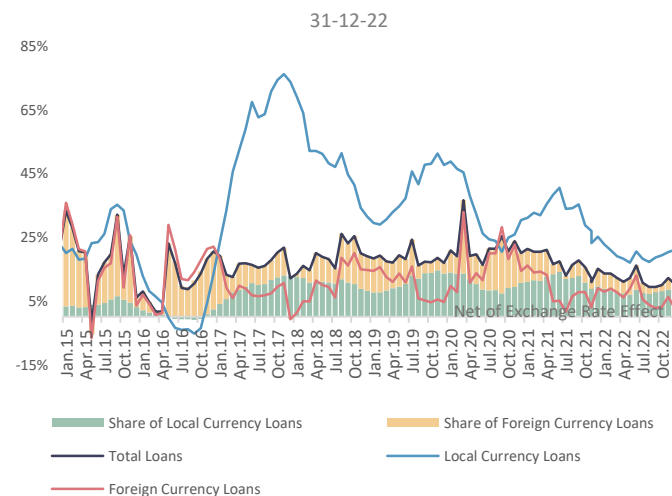
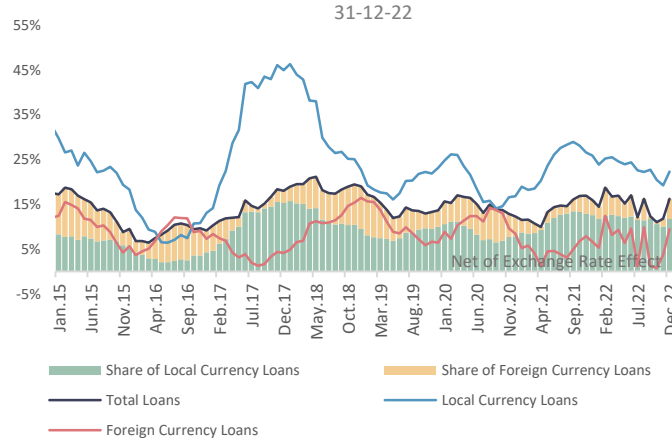
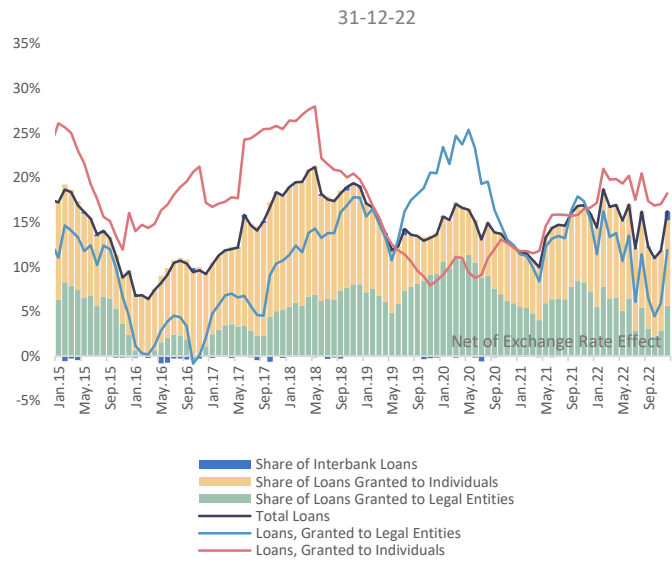
Review of Deposits

The growth of total deposits on the 1 of January 2023 was 30.6 percent compared to the corresponding period of 2021, which is by 3.2 percentage points higher compared to the previous quarter. High growth rate of deposits is on the back of both national and foreign currency denominated deposits. Deposits denominated in national currency increased 31.9 percent, while the annual growth of deposits denominated in foreign currency amounted 29.6 percent in the same period.

By the 1 of January 2023 annual growth of deposits of individuals reached 29.8 percent, while the annual growth of deposits of legal entities also experienced growth and amounted to 14.6 percent.

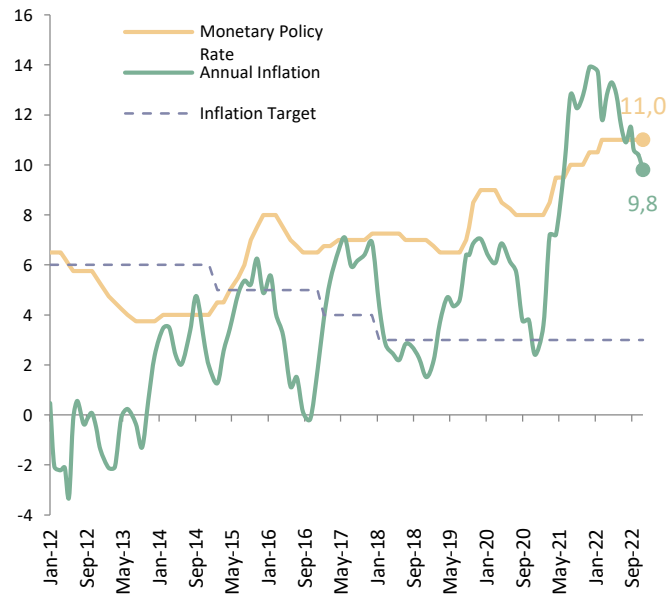
As for the growth of deposits by types, the slowing down of the deposits growth was reflected in the growth rate of time and demand deposits. By 1 on January 2023 time deposits grew by 14.7 percent. As for the current and demand deposits, their growth rates equaled to 32.3 and 52.3 percent, respectively.

Figure 43: Annual Growth of Deposits



Source : NBG

Figure 44: Inflation and Monetary Policy Rate



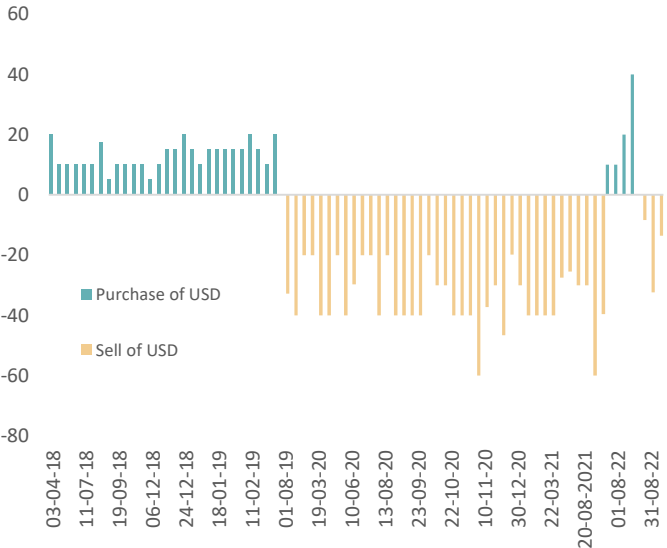
Monetary Policy Rate

The Monetary Policy Committee of the National Bank of Georgia held two sessions in the fourth quarter of 2022. In both cases, they kept the monetary policy rate unchanged at 11.0 percent.

According to NBS, 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, 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 inflation has already retreated from its peak and, even though it still remains at a high level at 10.4 percent in November, 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 were no FX interventions through auctions during the fourth quarter.

Figure 45: Trade of USD by NBS, mln



წყარო: საქართველოს ეროვნული ბანკი

Interest Rates

As of 1 of January 2023, the interest rate on foreign currency deposits was 1.4 percent, while on the national currency deposits it amounted to 10.9 percent.

As of 1 of January 2023, the weighted average interest rate on deposits of legal entities in national currency was 11.3 percent, and in foreign currency – 1.7 percent. In the same period, the average annual interest rate was 1.4 percent on deposits of individuals in foreign currency and 10.9 percent in national currency.

By 1 of January 2023, the weighted average annual interest rate on short-term consumer loans was 16.7 percent (18.8 percent in national currency and 6.5 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 December 2022, the interest rate on mortgage loans issued to legal entities in national currency was 14.2 percent, and in foreign currency – 8.5 percent. The interest rate on loans to individuals in national currency was 13.3 percent, and in foreign currency it was 6.3 percent.

Figure 46: Interest rates on Deposits (stock)

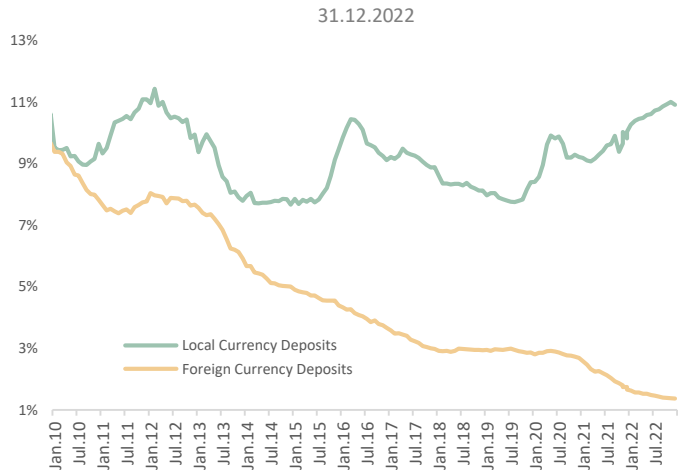
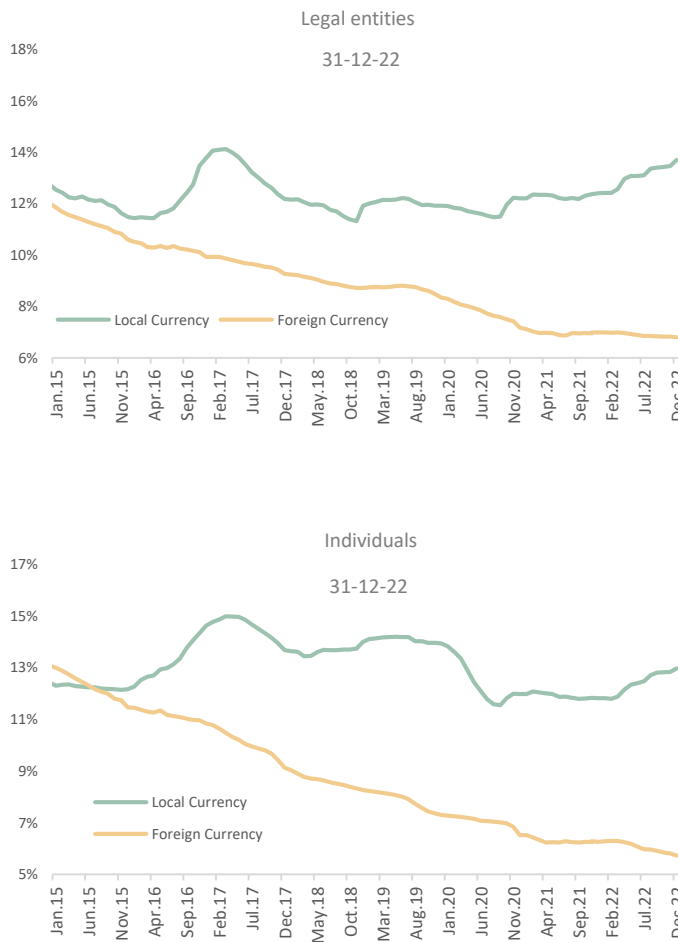


Figure 47: Interest rates on Loans secured by Real Estate



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.

