

Ministry of Finance of Georgia



Quarterly Economic Outlook

IV Quarter, 2023

Brief Summary

- Economic growth for 2022, according to preliminary data, equals to 10.4 percent
- Average economic growth for the fourth quarter of 2023 equals to 6.8 percent, while average growth for 2023 amounted to 7.0 percent
- Annual inflation in the fourth quarter equals to 0.4 percent, while core inflation (w/o tobacco) equals to 1.9
- Domestic export decreased by 29.6 percent annually
- Import decreased by 2.7 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 9.5 percent

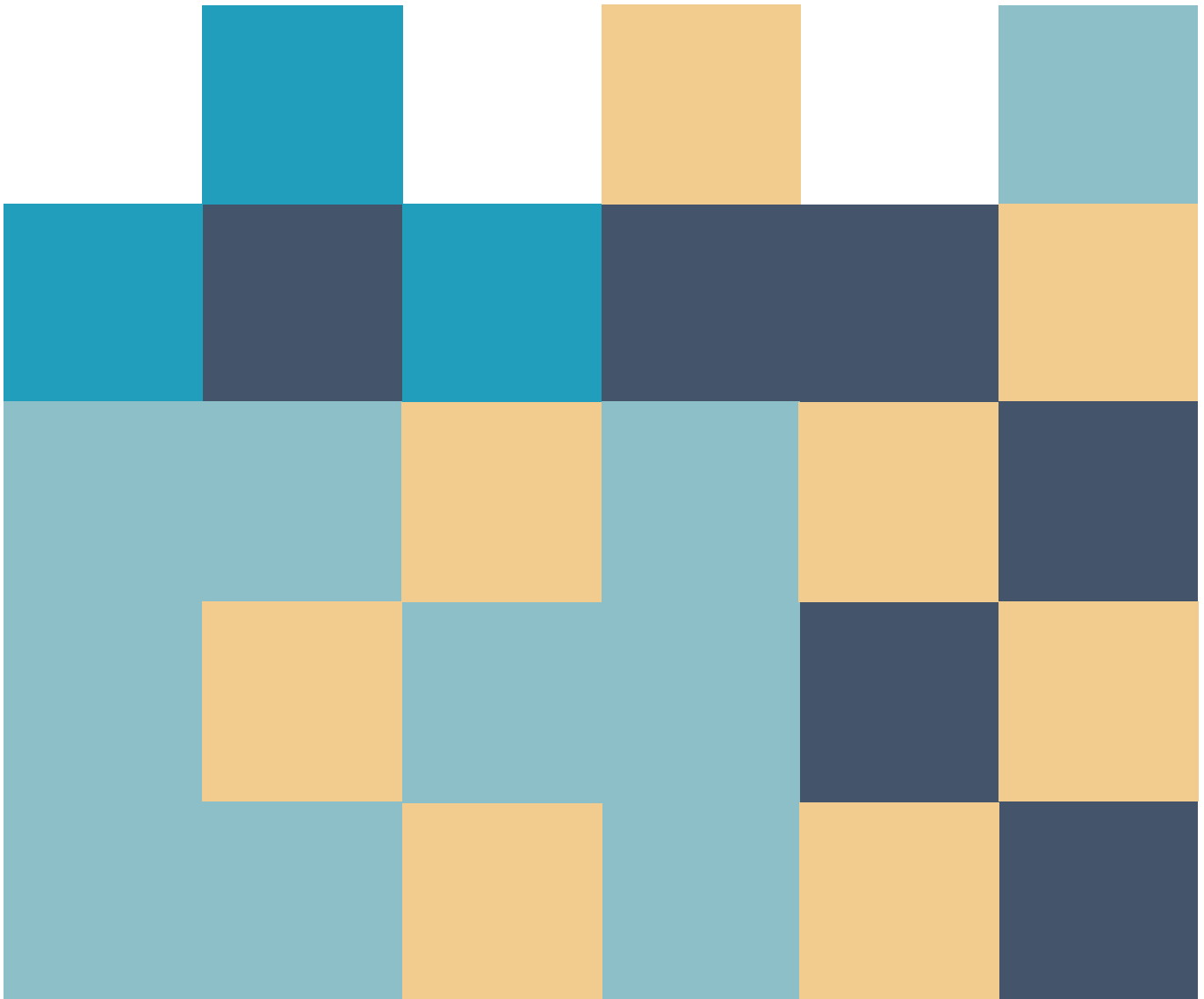




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Real Sector

Economic Growth

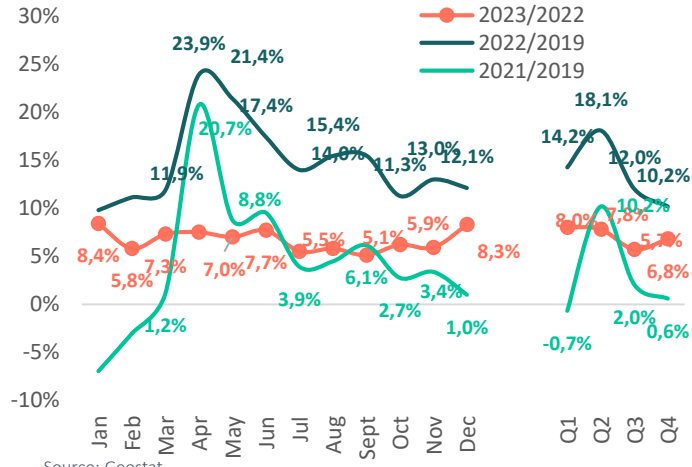
According to the preliminary data, in the fourth quarter of 2023 real GDP increased by 6.8 percent relative to same period of the previous year. At the same time, compared to the corresponding period of 2019, economic growth was 18.7 percent. In particular, in the fourth quarter, exports decreased annually by 0.3 percent, while imports decreased annually by 2.7 percent. At the same time, compared to the fourth quarter of 2019, exports increased by 40.3 percent and imports increased by 42.8 percent. Considering tourism, compared to the pre-pandemic situation, revenue from international travelers decreased by 12.6 percent year-on-year in the fourth quarter, and also, there was a 27.4 percent increase compared to the same period in 2019.

In the first quarter of 2023, real GDP grew by 8.0 percent annually. Which, compared to the corresponding period of 2019, is 23.8 percent. In the second quarter of 2023, there was a 7.8 percent increase.

As for the third quarter of 2023, an increase of 5.7 percent was recorded, which means an increase of 19.1 percent compared to the corresponding period of 2019. In the third quarter of 2023, the investment component, which grew by 7.2 percent year-on-year in real terms, contributed significantly, as did the consumption component, which grew by 3.4 percent. At the same time, in real terms, the export component decreased by 1.2 percent, and there was also an annual decrease in imports by 3.6 percent.

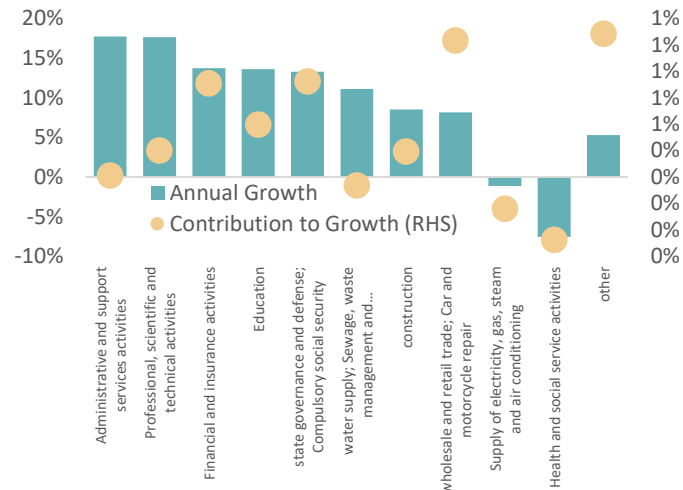
In the third quarter of 2023 the following sectors made a significant contribution to growth: Administrative and

Figure 1: Economic Growth



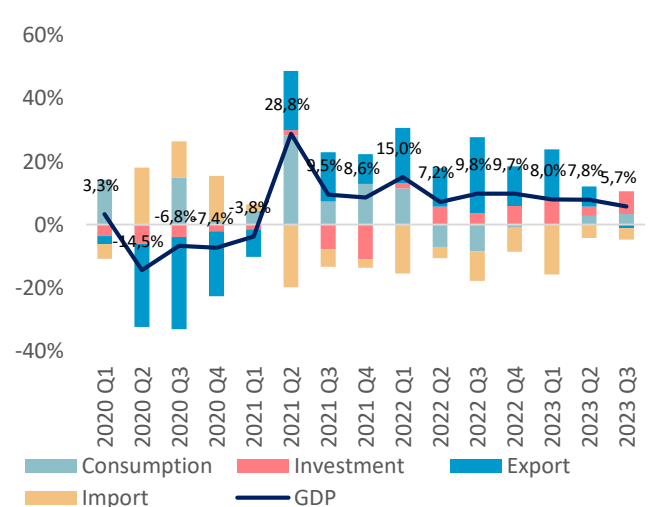
Source: Geostat

Figure 2: Real Sectoral Growth, 2023 3Q



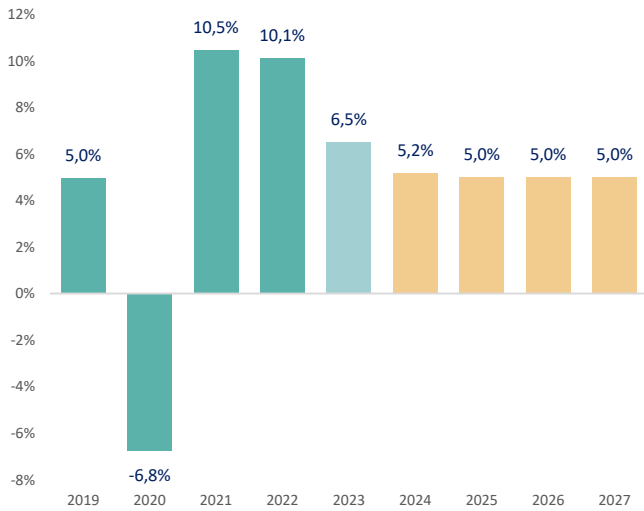
Source: Geostat

Figure 3: Decomposition of Economic Growth



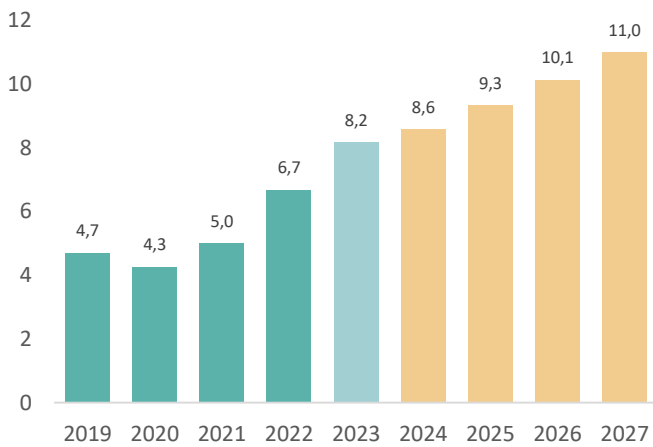
Source: Geostat

Figure 4: Economic Growth Projection



Source: MOF

Figure 5: GDP per capita, ths USD



Source: MOF

support service activities: 17.7% y/y (0.2 p.p.), professional, scientific and technical activities: 17.6% (0.44 p.p.), financial and insurance activities: 13.7% (0.9 p.p.), education: 13.6% (0.6 p.p.), state administration and defense; Mandatory social security: 13.3% (0.9 p.p.), water supply; Sewerage, waste management and decontamination activities: 11.1% (0.1 p.p.), construction: 8.5% (1.2 p.p.), wholesale and retail trade 8.1% (1.2 p.p.);

Growth in 2024 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, economic growth is expected to be 6.5 percent in 2023, which will be ensured by the growth of domestic demand and fiscal stimulus measures provided in the budget. The economic growth forecast for 2024 is 5.2, while 2025-2027 will see an average growth of 5.0 percent.

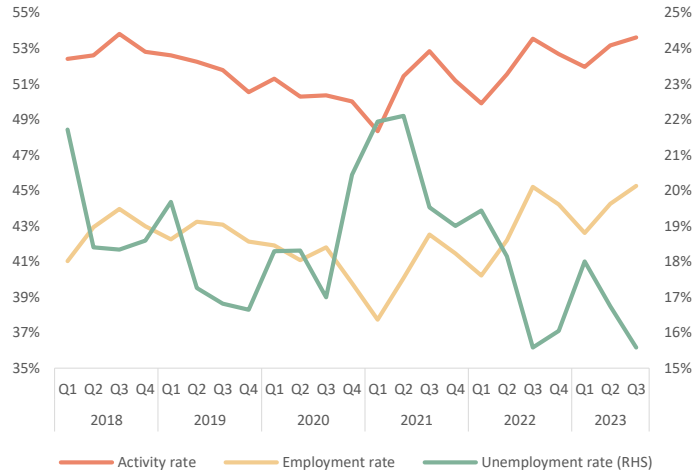
Employment and Unemployment

In the third quarter of 2023, the unemployment rate was 15.6 percent, which is 1.1 p.p. higher than the value of the previous quarter and 0.4 p.p. lower compared to the corresponding period of the previous year. Among them, unemployment in urban areas was 16.7 percent (0.3 p.p. y/y), and in rural areas – 13.9 percent (-0.6 p.p. y/y). In the third quarter of 2023, the economically active population made up 53.6 percent of the working-age population (population aged 15 and older). In the third quarter of 2023, the unemployment rate for women was 12.8 percent, and for men, it was 17.7 percent.

In the third quarter of 2023, compared to the corresponding period of the previous year, the number of employees increased by 0.6 percent, and the employment level decreased by 1.0 percentage points. In the same period, the number of unemployed decreased by 0.6 percent annually. At the same time, the average nominal salary of employees increased by 16.3 percent, which amounts to 1,855.4 GEL as of the third quarter of 2023.

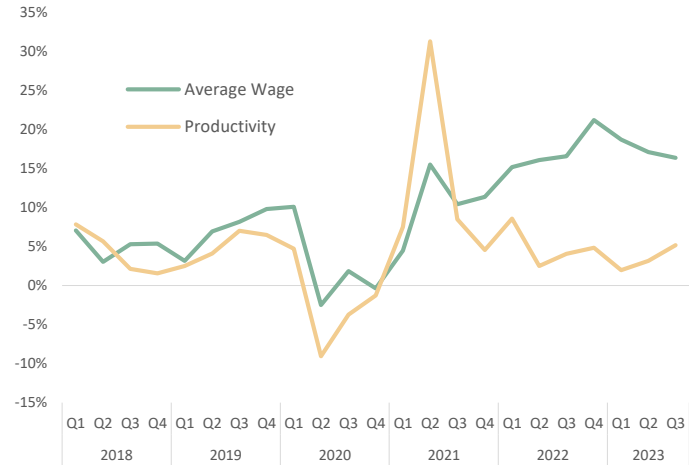
In the third quarter of 2023, there was an 5.2 percent increase in productivity compared to the corresponding period of the previous year. Productivity is calculated as the growth rate of the ratio of real GDP to the number of employees.

Figure 6: Indicators of Labor Market



Source: Geostat

Figure 7: Productivity and Average Wage of employees (annual change, %)



Source: Geostat

Price Level

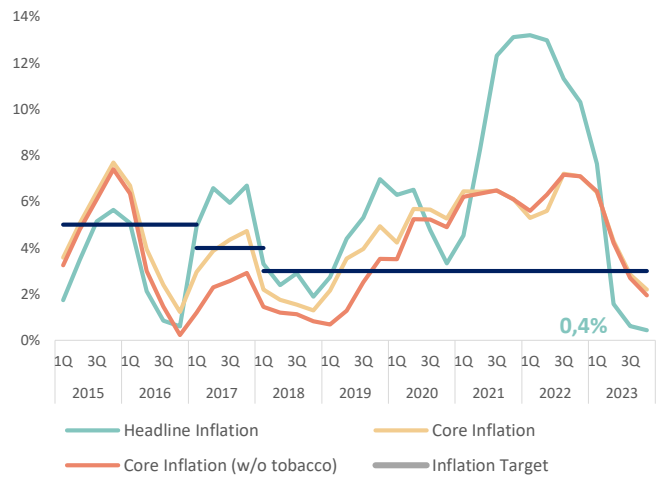
After double-digit inflation was recorded at 11.9% in 2022 and peaked at 13.3% in May, it began to decline and this trend continues in current period as well. Due to the high base effect on the one hand, and the tightened monetary policy on the other hand, the inflation level decreased in 2023. This 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 latest forecast of the International Monetary Fund (January, 2024), world inflation will decrease to 5.8 percent in 2024 from 6.8 percent in 2023, and it is also expected to decrease to 4.4 percent in 2025. In developed countries, inflation is expected to drop by 2 percentage points to 2.6 percent, while in developing countries, inflation is expected to decrease by only 0.3 percentage points to 8.1 percent. The International Monetary Fund cites the maintenance of a tighter monetary policy and the decrease in relative energy prices as the reasons for the decrease in 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. Inflation in the third quarter of 2023 was 0.6% and in the fourth quarter – 0.4 percent. A decrease in international transportation prices is reflected in imported inflation. Core inflation (excluding tobacco) equaled 1.9 percent in the fourth quarter. In 2023, inflation gradually approached the 3% target and averaged 2.6%.

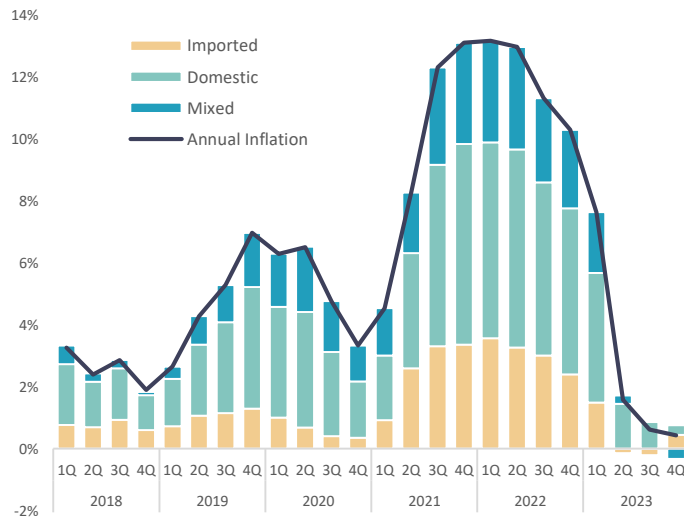
On December 20, 2023, the Monetary Policy Committee of the National Bank made a decision on gradual exit from the tightened monetary policy and reduced the

Figure 8: Annual Inflation



Source: NBG

Figure 9: Decomposition of Inflation

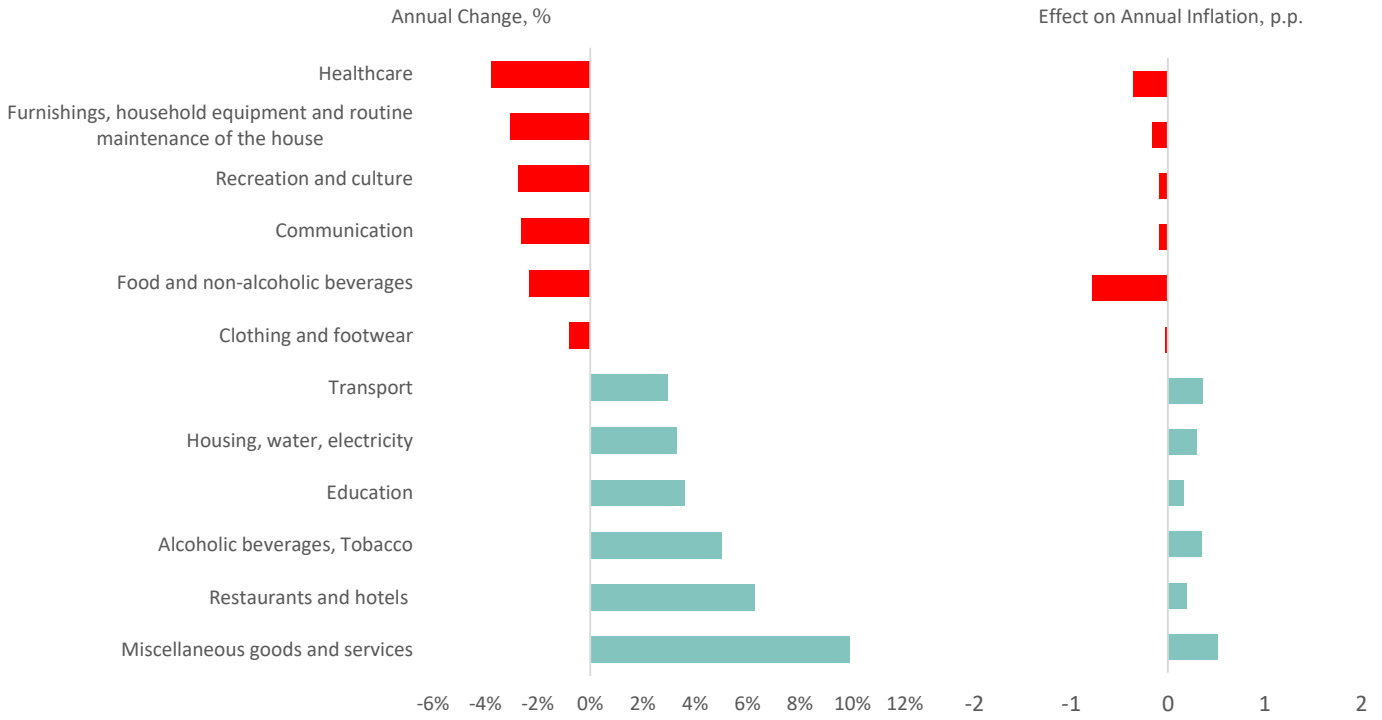


Source: NBG, Geostat

monetary policy rate from the tightened 10 percent level to 9.5 percent. In conditions of high uncertainty, the National Bank of Georgia continues to reduce the monetary policy rate only at a slow pace.

In the fourth quarter of 2023, the contribution of domestic inflation was 0.3 percent, while the contribution of imported inflation was 0.4 percent. This dynamics is caused by the decrease in the price of the energy, food and the relatively high weight gain in the consumer basket relative to the food group.

Figure 10: Decomposition of Inflation, 2023 Q4



Source: Geostat

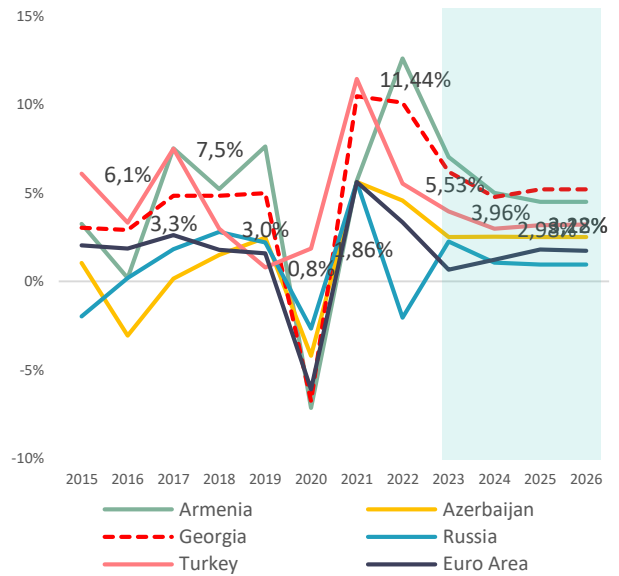
Economic Outlook of the Region

After Russia’s invasion in Ukraine, the global growth prospects together with inflation have worsened. In October, 2023 the IMF revised forecasts for major economies. In October, 2023 the IMF made additional changes into the growth prospects and per the WEO, the global economic growth for 2022-2023 years would stand 3.5 and 3.0, respectively. As for the 2023 estimates, the data came weaker for global growth at 3.0 percent for the whole world, which reflects the rise in central bank rates to fight inflation, especially in advanced economies, as well as the war in Ukraine. According to the abovementioned report, the world economy in 2024 is expected to grow by 2.9%. The decline in growth in 2024 compared to 2023 is driven by advanced economies. But the prospects for 2024 is more favorable than it was expected in 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 report, for 2023 the WEO projections for Turkey is expected to grow by 4.0 percent in 2023 (after 5.5 percent growth in 2022). The projections for 2023 has been revised upward by 1.0 pp, compared to October WEO (2022). The main challenges for Turkey remain exchange rate depreciation and high inflation. In 2022 the actual inflation was 72.3%. The inflation is expected to reach a 51.2 percent in 2023. Turkey undergone changes into sovereign credit ratings in 2023. Fitch upgraded it to B (stable), S&P to B (positive), and Moody’s affirmed to B3.

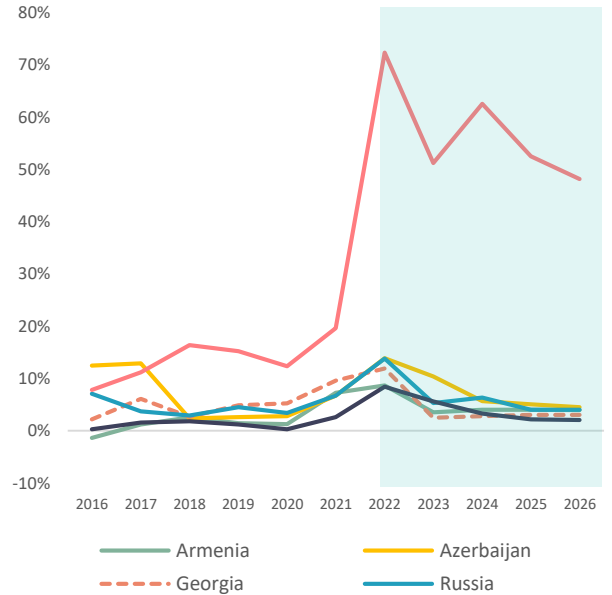
The main actor of the global economic growth disruption, Russia is expected to have its economy severely hit by the sanctions, which will translate into a slower growth of its real GDP. This measures won’t have only near term impact on Russian economy, but will affect its medium-term capabilities, since large consumers, as well as sovereign countries, wean themselves off Russia’s energy and other sectors. Per IMF’s 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 2022 the credit rating agencies (CRA), after sharp downgrading of Russia’s sovereign credit ratings, stopped assigning any ratings.

Figure 11: Economic Growth in the Region



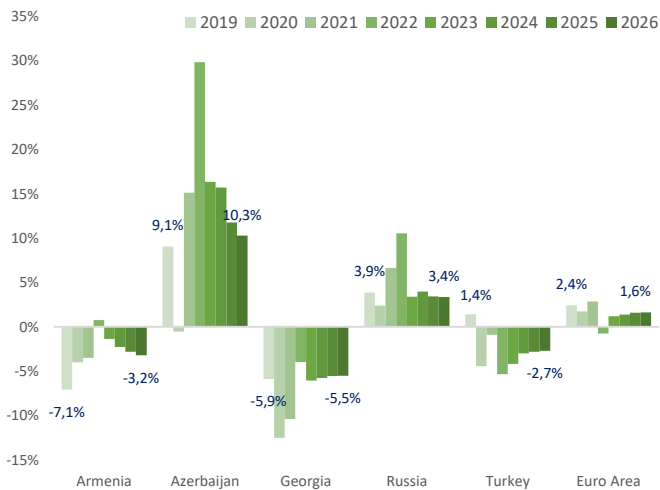
Source: IMF

Figure 12: Inflation in the Region



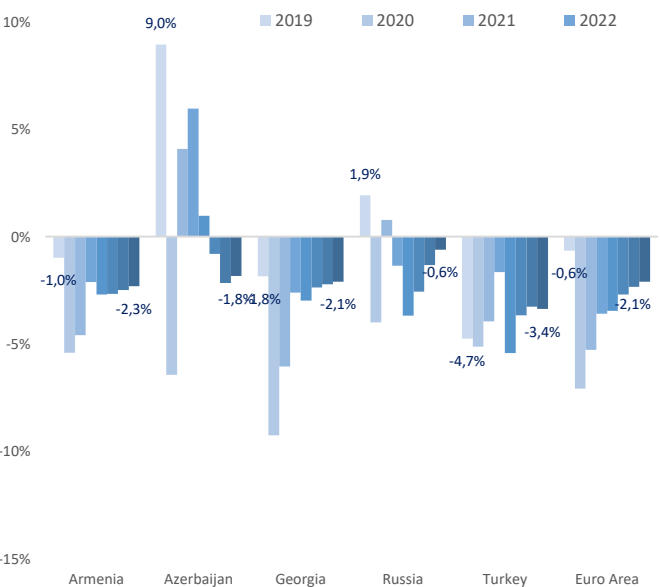
Source: IMF

Figure 13: Current Account to GDP, %



Source: IMF

Figure 14: Budget Balance to GDP, %



Source: IMF

A rising in oil prices, due to the Russia-Ukraine war, will benefit Azerbaijan. The country experienced a robust recovery from the COVID-19. As for 2023 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 both in 2023 and 2024. 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 5.7 percent in 2023 and 2024, respectively. In 2023 Azerbaijan’s sovereign credit ratings were BB+ (positive) according to Fitch, BB+ (stable) for S&P and Ba1 (stable) for Moody’s.

Per the IMF projections, Armenia was expected to be hit hardest in our region, except the participants of war. This was expectable, since Armenia has the tightest ties to the Russian economy. But those risks did not materialize. As for 2023 October WEO, the economic growth has been revised upwards. In 2023 and 2024, according to the IMF, Armenia will grow by 7.0% and 5.0% respectively (in October 2022 the forecast for this indicator was 3.5 percent for 2023). Inflation was not very high in 2023 (3.5 percent) and it is expected to stand at 4.0 percent in 2024-2025. These outcomes are relatively muted compared to the peer region countries. The credit ratings of Armenia are the following by the end of 2023: BB- (stable) according to Fitch and S&P, and Ba3 (stable) according to Moody’s.

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. In 2023 inflation in Ukraine is expected to be 17.7 percent.

External Sector

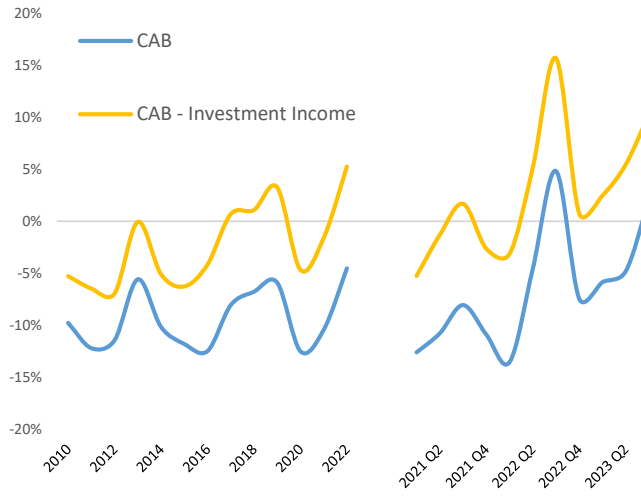
Current Account Balance

In 2020 current account deficit stood at 12.5 percent of GDP, which has significantly worsened from 2019 numbers, when CA deficit was 5.9 percent of GDP. From Q2 2021 current account balance started to improve. As of 2021, CA deficit stood at 10.4 percent of GDP. It improved in 2022 and amounted to 4.5% of GDP. An improvement has continued in 2023 as well and was observed at 5.9 and 4.8 percent of GDP during the first two quarters, respectively, while in the third quarter there was a positive balance of 2.0 percent.

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

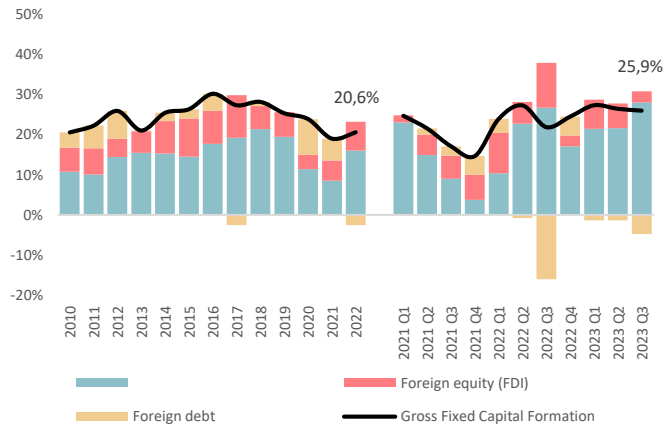
As of the first three quarters of 2023, debt still contributed positively in financing the current account deficit. In particular, during the improvement of the current account deficit, the FDI's share in financing 5.9% deficit stood at 7.3 p.p, while its debt contribution was negative 1.4 p.p, debt still had negative 1.4 p.p contribution in the second quarter, while in the third quarter, when there was a positive current account balance, debt contributed negative 4.8 p.p.

Figure 15: Current Account to GDP, % of GDP



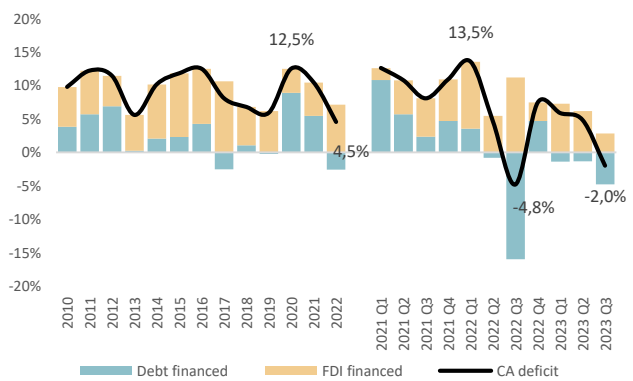
Source: NBG, Geostat

Figure 16: Financing of Investment



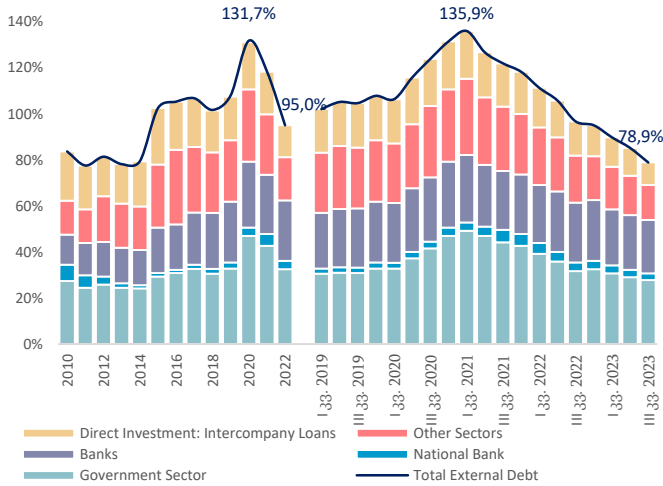
Source: NBG, Geostat

Figure 17: Financing of Current Account



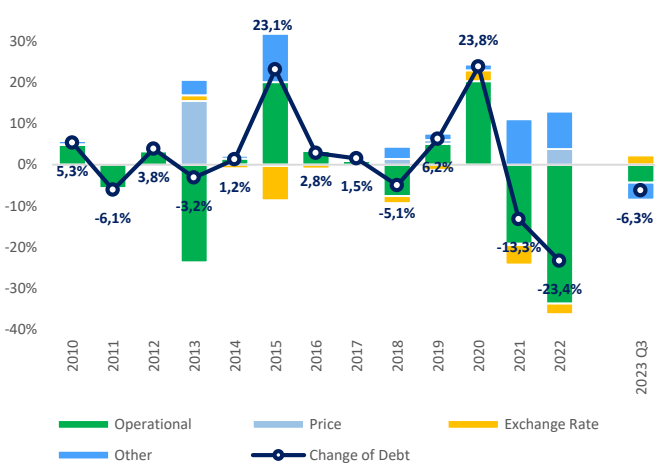
Source: NBG, Geostat

Figure 18: External Debt to GDP, %



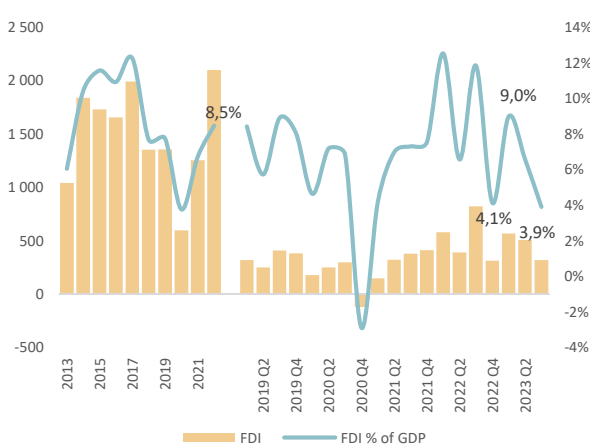
Source: NBG, Geostat

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 131.7 percent in 2020. Debt increased by 23.8 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 118.4 percent of GDP, which is 13.3 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 95.0 percent in 2022 and even further declined in 2023. For the first quarter of 2023 it amounted to 89.8 percent of GDP, for the second quarter it stood at 85.2 percent of GDP, while for the third quarter it was 78.9 percent, 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 13.3 p.p and 23.4 p.p in 2021-2022. 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 6.3 p.p in the Q3, where operational helped to decrease but exchange rate contributed debt is to increase.

Foreign Direct Investments

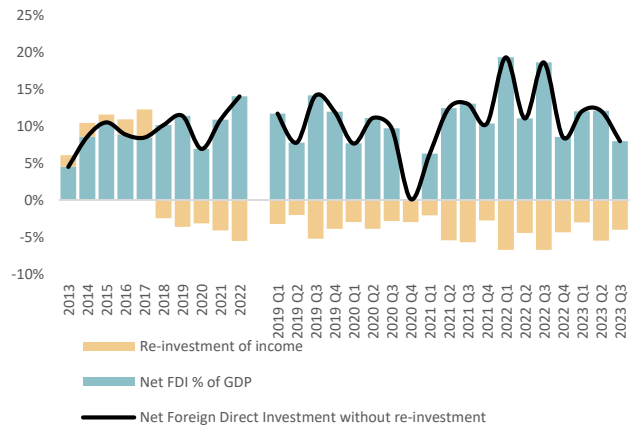
As for 2023 Q3 period, the foreign direct investments (FDI) amounted to 316 mln USD (3.9 percent of GDP), that was 61.5 percent lower than in corresponding quarter of 2022.

As of Q3 2023 period, US is the top investor in terms of FDI with a 16.4 percent share in totals. As for the 2nd and 3rd places, UK and the Netherlands had 14.5 percent and 14.3 percent shares, respectively.

In 2023 Q3, the direct foreign investments were mainly allocated in the financial sector, amounted to 80.2 mln USD (25.4 percent of total FDI). The relatively larger shares had the transportation and storage sector, where the investments amounted 61.9 mln USD (19.6 percent).

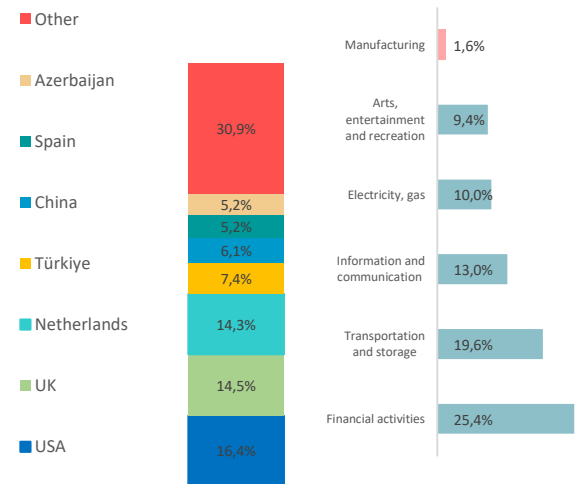
As for the components of the FDI, in 2023 Q3 period, reinvestment stood at 4.1 percent of GDP with the volume of 329.2 mln USD.

Figure 21: FDI, % of GDP



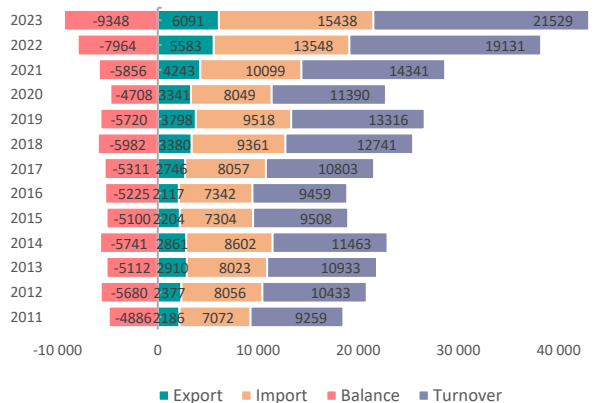
Source : Geostat

Figure 22: Composition of FDI, 2023 Q3



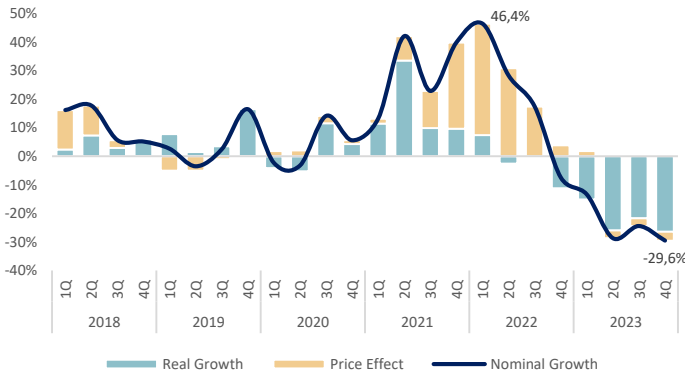
Source : Geostat

Figure 23: International Trade



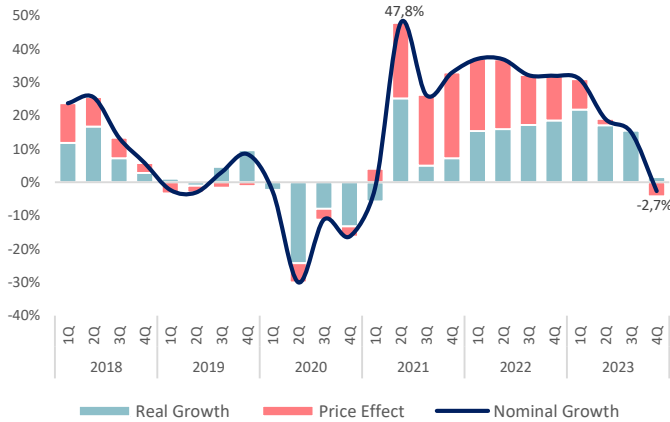
Source: Geostat

Figure 24: Annual Change of Domestic Export



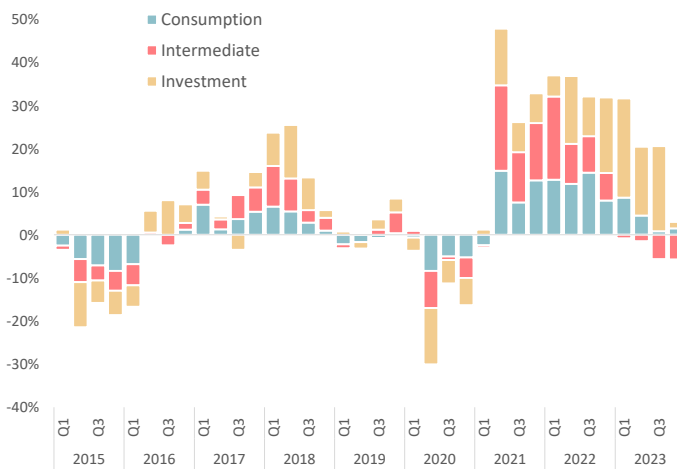
Source: Geostat

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 fourth quarter it reached to 29.6 percent reduction, out of which real growth contributed minus 26.4 percent, while price effect was small (negative 3.1 percent).

As of fourth quarter of 2023, import of consumption goods increased by 4.6 percent annually (1.6 p.p. share in total imports). Growth of imports of investment goods was observed at 4.4 percent annually (1.4 p.p. share in total imports). As for the imports of intermediate goods, it decreased by 17.0 percent annually (-5.7 p.p. share in total imports). In Q4 2023, export of goods increased by 9.1 percent annually. The main driver of this growth are still motor cars (37.6 percent of total exports), wine of fresh grapes (4.4 percent of total exports) and spirituous beverages (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 16.2, 9.0 and 3.9 percent shares, respectively.

Tourism

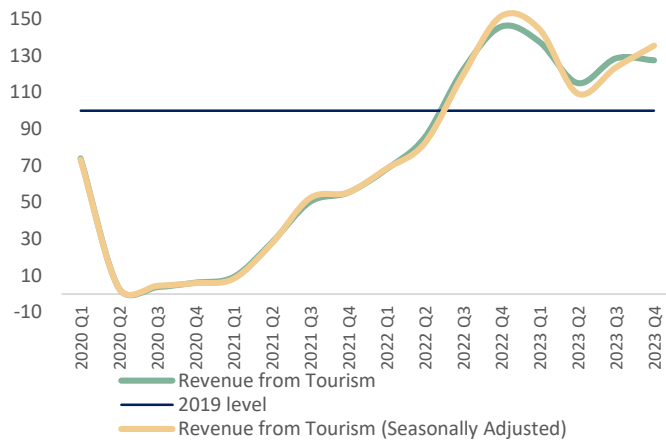
In the post-pandemic period, from 2021, the tourism sector has started gradual recover. From the second quarter of 2021, tourism revenues increased annually and from the third quarter tourism recovered by half. This trend was maintained in subsequent quarters as well. It should be noted that from the third quarter of 2022, the income from tourism exceeded the level of 2019, and this trend continues in the current period. In the fourth quarter of 2023, the income from tourism amounted to 873.7 million US dollars, which is 12.6 percent lower than the same period of the previous year, and 127.4 percent of the 2019 level.

Remittances

In the first quarter of 2023, net remittances reached 1171.5 mln USD, up by 148.6 percent from the previous year. Net remittances started to decrease in the second quarter. In the second quarter of 2023, it decreased by 11.6 percent. In the third quarter, there was a 16.3 percent decrease compared to the corresponding period of the previous year.

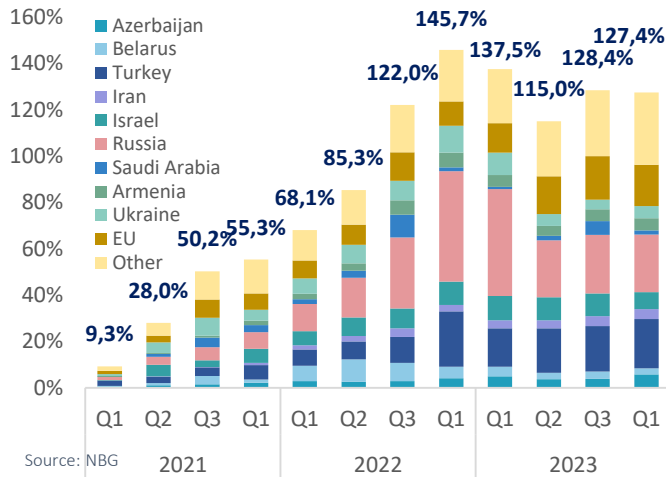
As for the fourth quarter of 2023, net remittances accounted 787.2 mln USD, which is by 46.1 percent less compared to the same period of the last year. Russia made the main contribution to the decrease by 49.9 p.p., Kyrgyzstan (-2.6 p.p.), Tajikistan (-0.7 p.p.), Belarus (-0.6 p.p.), Armenia (-0.5) also contributed negatively. Growth was recorded in net remittances from the US by 41.19 percent, which contributed positively to the overall growth by 2.5 p.p., and net remittances from Italy increased by 17.9 percent, which increased the total growth by 1.4 p.p., and from Kazakhstan by 68.1 percent, which contributed 1.3 p.p. There was also a positive impact from Germany with 33.3 percent, which contributed 1.0 p.p. 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 27: Income from Tourism



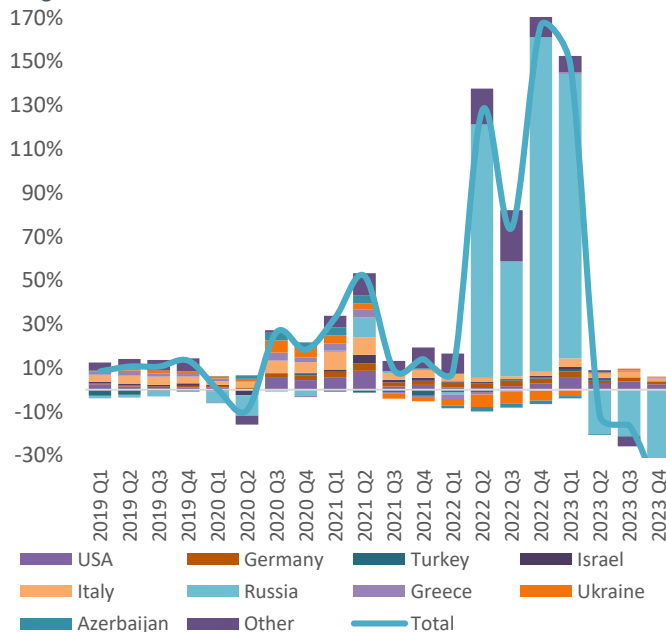
Source: NBG

Figure 28: Income from tourism, mln USD



Source: NBG

Figure 29: Net Remittances

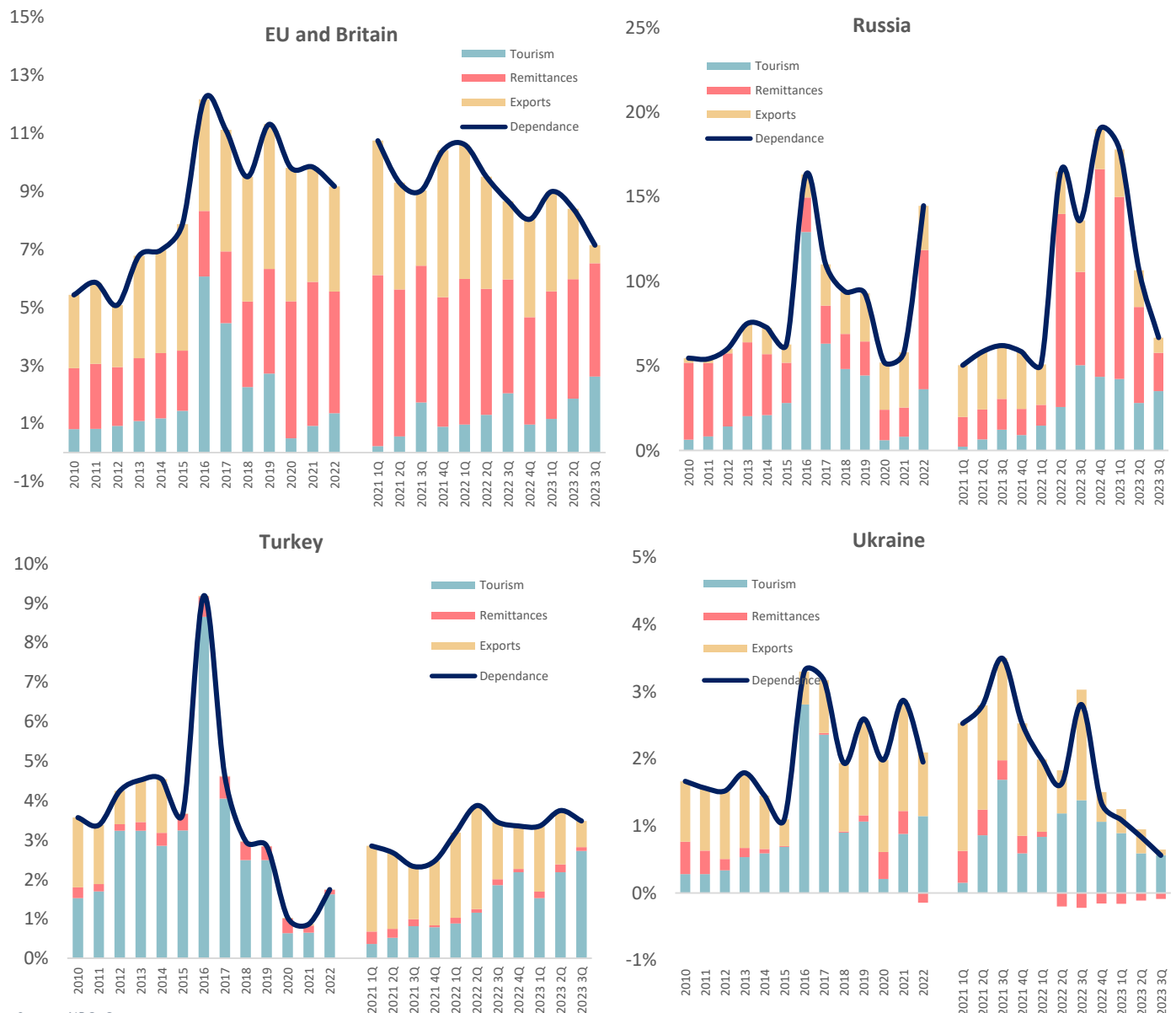


Source: NBG

Dependence on Other Countries

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 Q3 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 the tourism. The dependence on Turkey is still stable, though it increased in 2022 due to the revenues from tourism. A fall was observed in the dependence on Ukraine, which was due to a decrease in exports of goods and remittances. The dependence on the EU maintains a high level, but decreased in Q3 of 2023. The fall in dependence of main countries in the 3rd quarter of 2023 indicates to more diversified structure of the FX inflows.

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



Source: NBS, Geostat

Figure 31: Nominal Effective Exchange Rate

December 31, 2023

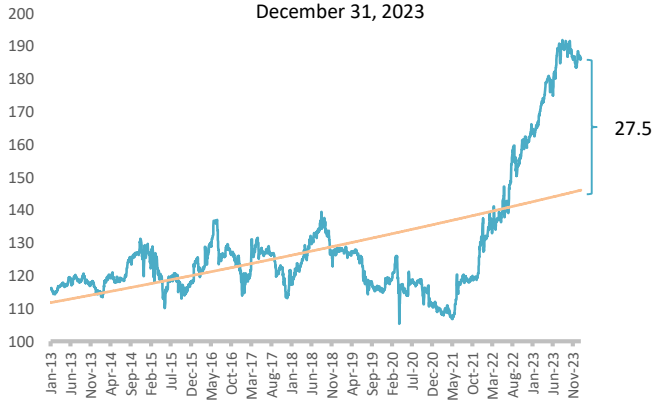


Figure 32: Real Effective Exchange Rate

December 31, 2023

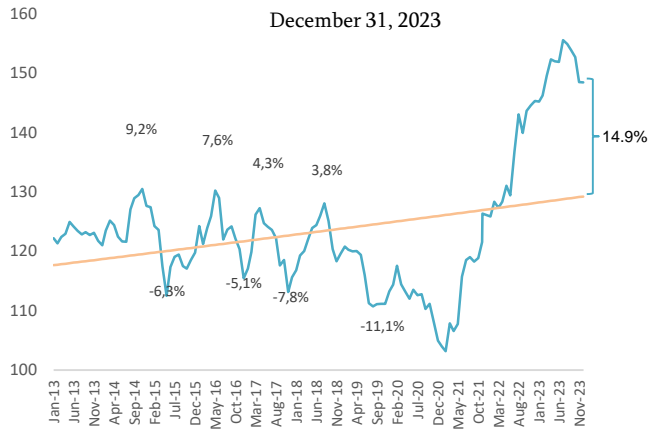
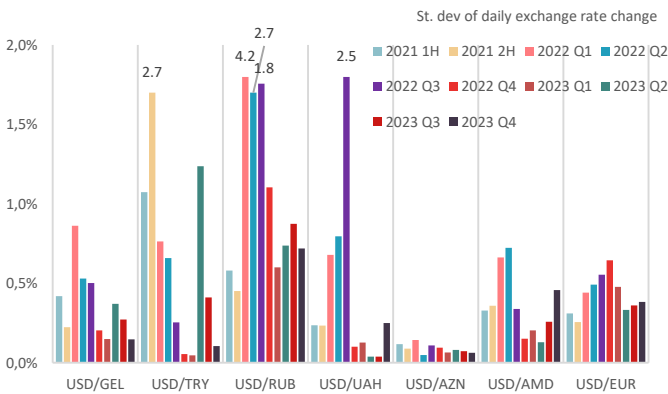


Figure 33: Volatility of Exchange Rates



Source: NBG, MOF

Table 1: Change of Nominal and Real Effective Exchange Rates

	January 1, 2024	Jan 1, 2024 - Jan 1, 2023	Jan 1, 2024 - Jan 1, 2022
Euro	2.9753	▼ -3.1%	▲ 17.6%
US Dollar	2.6894	▲ 0.5%	▲ 14.9%
Turkish Lira	0.0910	▲ 58.6%	▲ 154.1%
Russian Ruble	0.0299	▲ 22.9%	▲ 37.8%
NEER	186.24	▲ 13.2%	▲ 42.0%
REER (December 2023)	148.47	▲ 2.3%	▲ 17.5%

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 2023 Q4 the GEL was depreciating at a lower rate, mainly on the back of decreased capital inflows. In the Q4, 2023, the Georgian Lari depreciated against USD by 0.4 percent, compared to the previous quarter. Within the same period, the GEL also appreciated against EUR by 4.7 percent. It is also relevant to note that the GEL appreciated against Turkish Lira by 6.9 percent and depreciated with respect to RUB by 9.1. In the 4th quarter of 2023, 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 27.5 and 14.9 percent respectively.

Fiscal Sector

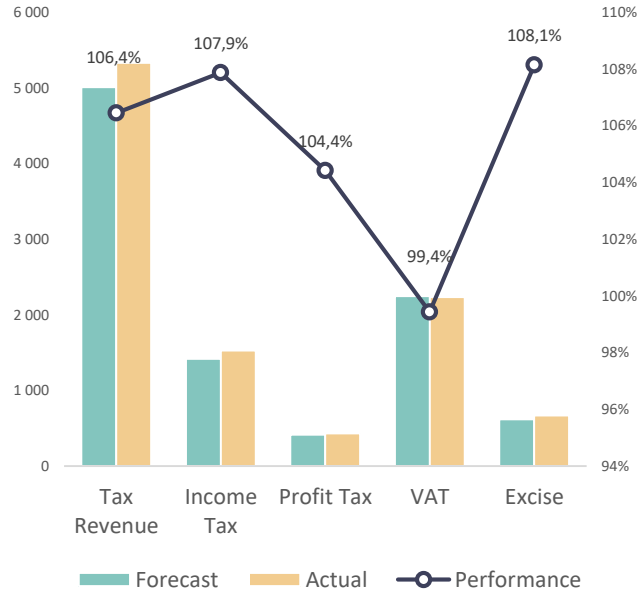
Budget Performance

The consolidated budget tax revenue forecast for the fourth quarter of 2023 was set at 5,008 mln GEL, while 5,330 mln GEL was mobilized during the reporting period, which is 106.4 percent of the forecast.

- 1,526 million GEL is mobilized as income tax, which is 107.9 percent of the forecast figure (1,415 million GEL).
- 430 million GEL is mobilized as profit tax, which 104.4 percent of the forecast indicator (412 million GEL).
- 2,234 million GEL was mobilized as VAT, which is 99.4 percent of the forecast (GEL 2,246 million).
- 667 million GEL is mobilized as excise, which is 108.1 percent of the forecast indicator (617 million GEL).
- 37 million GEL is mobilized in the form of import tax, which is 103.4 percent of the forecast (36 million GEL).
- 146 million GEL is mobilized in the form of property tax, which is 114.3 percent of the forecast (128 million GEL).

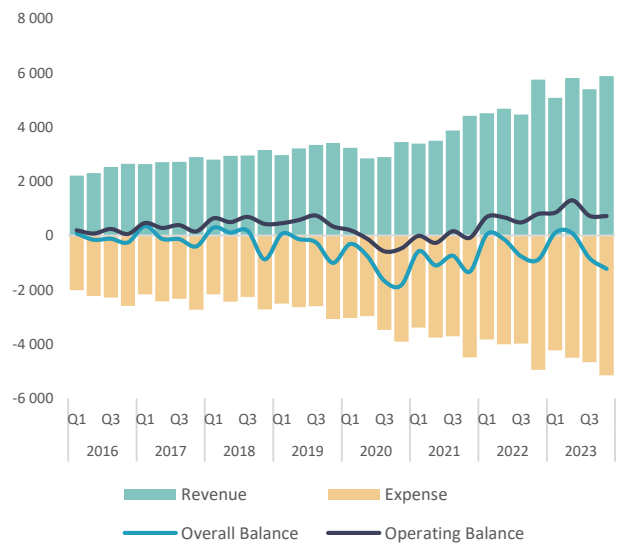
In the fourth quarter of 2023, compared to the same period last year, consolidated budget revenues increased by 2.2 percent and expenditures increased by 4.1 percent. At the same time, the operating budget of the consolidated budget, which represents the savings of the government, amounted to 712.2 million GEL, while the total balance was set at negative 1229.7 million GEL.

Figure 34: Budget Revenue Performance



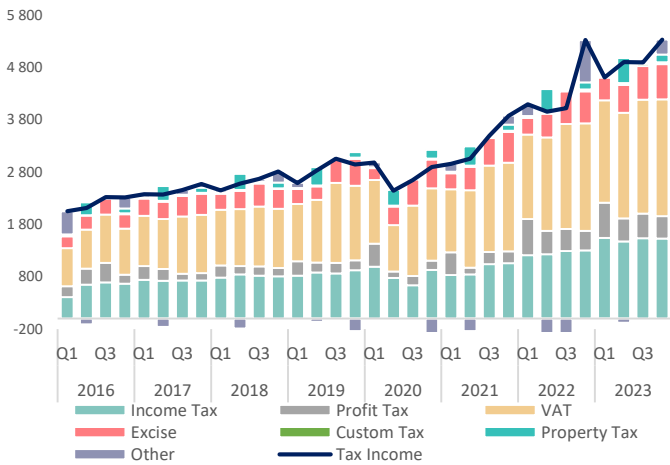
Source: MOF

Figure 35: Budget Balance



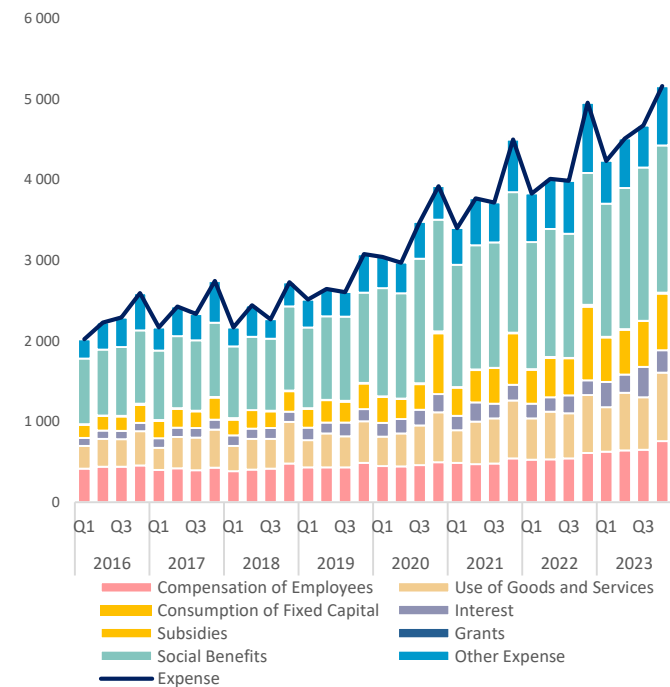
Source: MOF

Figure 36: Tax Income



Source: MOF

Figure 37: Budget Expenses



Source: MOF

A significant share of budget revenues is accounted by tax revenues, accounting for 90.9 percent in the fourth quarter of 2023. The consolidated budget received GEL 5,330 million in taxes, which is 0.2 percent more than the same period of previous year. Revenue from income tax increased by 17.1 percent year on year to GEL 1,526 million. Revenue from profit increased annually by 16.4 percent compared to the fourth quarter of 2022, amounted to 430 million and is 8.1 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 8.7 percent, accounting 41.9 percent of total tax revenue, while revenue from income tax increased by 17.1 percent, and contributing by 28.6 percent. Revenue from excise tax increased by 9.7 percent.

Expenditures in the fourth quarter of 2023 increased by 4.1 percent year on year to GEL 5,154 million. The largest share of budget expenditures is in social security expenditures, which account for 35.3 percent of total expenditures, while the annual growth rate is equal to 11.6 percent. Expenditures in the form of wages increased, with an annual growth rate of 24.4 percent to GEL 758 million, accounting for 14.7 percent of total expenditures. As for other items of expenditure, goods and services (16.5 percent of total costs), subsidies (13.6 percent of total costs), interest (5.4 percent of total costs) and other costs (14.3 percent of total costs) increased by 18.1 percent, -23.3 percent, 53.5 percent and -15.4 percent compared to the corresponding period of 2022, respectively.

Government Debt

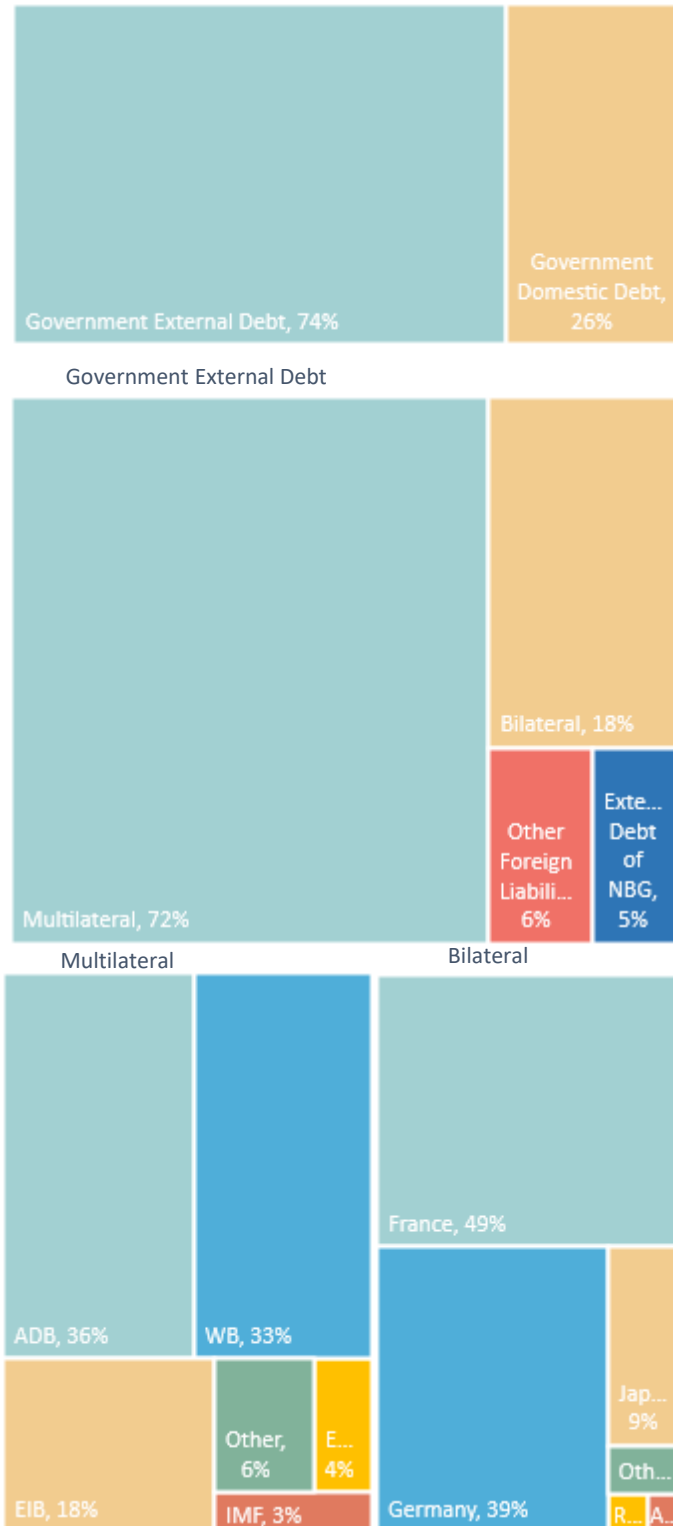
As of December 31, 2023, the stock of public debt of Georgia amounted to GEL 32,409 million, including:

☐ Government domestic debt stock is GEL 8,452.7 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”) - 152 million GEL;
- Treasury liabilities of the Ministry of Finance – GEL 360 million;
- Treasury bonds of the Ministry of Finance - GEL 7,778.1 million;

☐ Government external debt stock is 23,956.6 million GEL.

Figure 38: Government Debt



Source: MOF

Monetary Sector

Private Sector Larization

The larization of loans has an increasing trend and by 31st of December 2023 it has reached 54.7 percent. It should be noted that the main determinant of the total loan larization is the larization of the loans granted to individuals. By 31 of December 2023, the larization of the loans of individuals was 71.1 percent. In the same period the larization of loans granted to legal entities amounted to 36.4 percent.

As for the larization of loans according to collateral, larization of the consumer loans significantly exceeds the larization of real estate loans. The larization of the consumer loans evolved around at 88 percent during 2022. 31st of December 2023 it amounted to 87.8 percent. As for the larization of the mortgage loans, it amounted to 46.9 percent.

The larization of deposits remain lower than the larization of loans. As of 31st of December 2023, the larization of total deposits reached 48.5 percent. The larization of deposits is mainly conditioned by the larization of deposits of legal entities. By the 31 of December, 2023 the larization of deposits of legal entities reached 74 percent and the larization of deposits of individuals in the same period was 34.9 percent.

It should be noted that the main contributor in the deposits larization is still time deposits larization. 31st of December 2023, it reached 50.4 percent. In the same period the current accounts larization amounted to 50.7 percent, while the larization of the demand deposits stands at 40.2 percent level.

Figure 39: Loan Larization

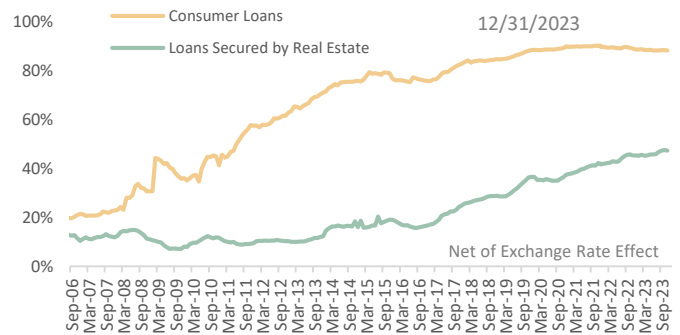
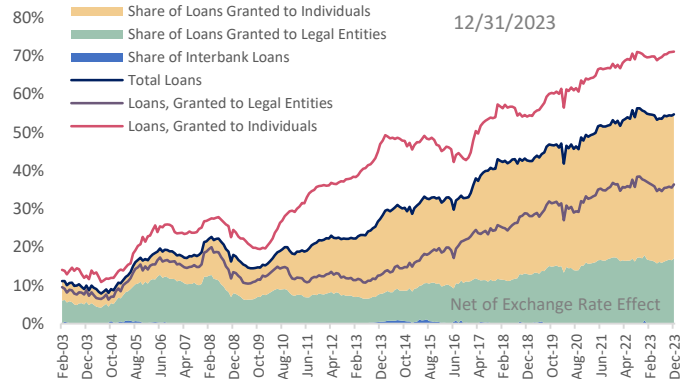
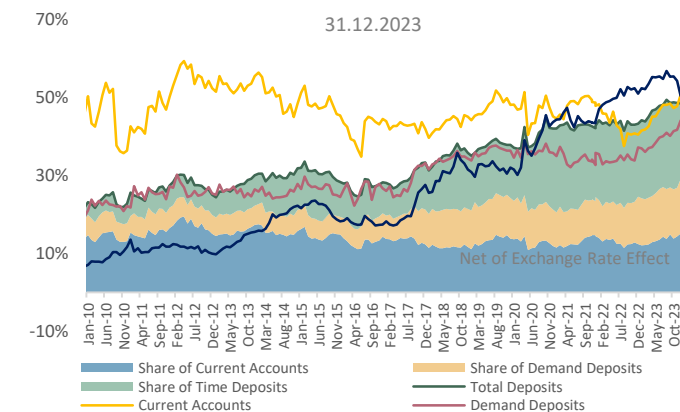
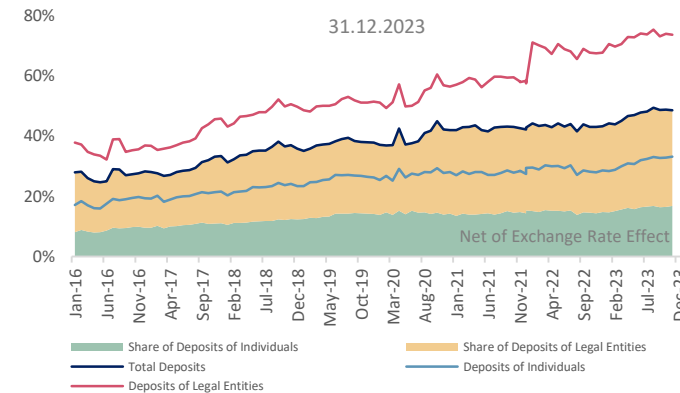
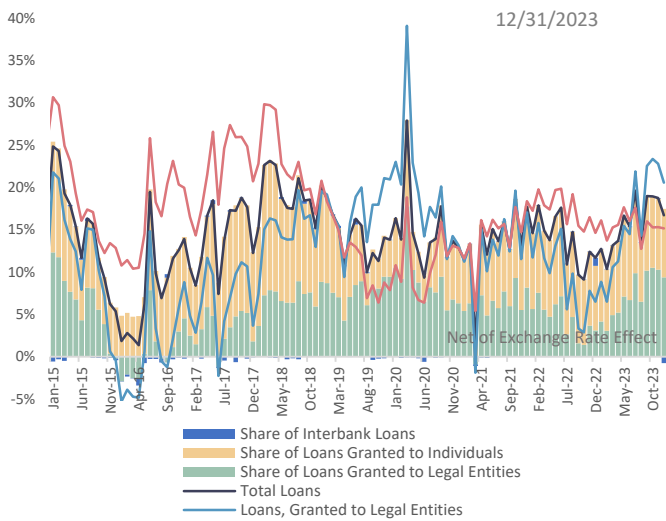


Figure 40: Deposit Larization



Source: NBG

Figure 41: Annual Growth of Loans



Review of Loans

As of 31 December 2023 the overall loans increased by 16.7 percent compared to the corresponding period of 2022, which was 2.3 percentage points lower than the previous quarter growth rate (net of exchange rate effect). A significant increase was observed also in the annual growth of the loans granted to legal entities. Its growth was amounted to 20.5 percent. During the same period, the loans to individuals increased by 15.1 percent.

It is important to note that there is an increasing trend in the growth of the loans denominated in the local currency as of 31 of December 2023 it amounted to 15.2 percent that is 0.7 pp greater than the level of the same indicator in the corresponding period of 2022. During the same period, the growth of the loans in foreign currency was 18.5 percent, which is 6.1 percentage points lower than in the previous quarter (excluding exchange rate effect).

By 31 of December 2023, the mortgage loans had increased by 18.3 percent compared to the corresponding period of the previous period. Moreover, the mortgage loans that are denominated in national currency increased by 24.2 percent that is 0.5 percentage points lower than in the previous quarter, while the foreign currency denominated mortgage loans increased by 13.6 percent, 0.1 percentage points higher than previous quarter.

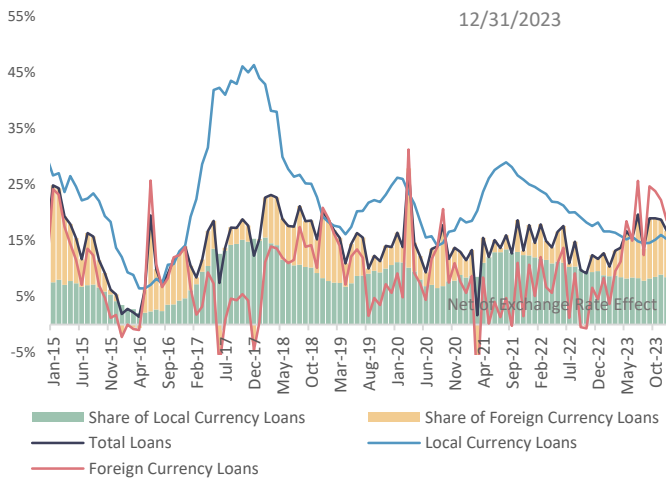
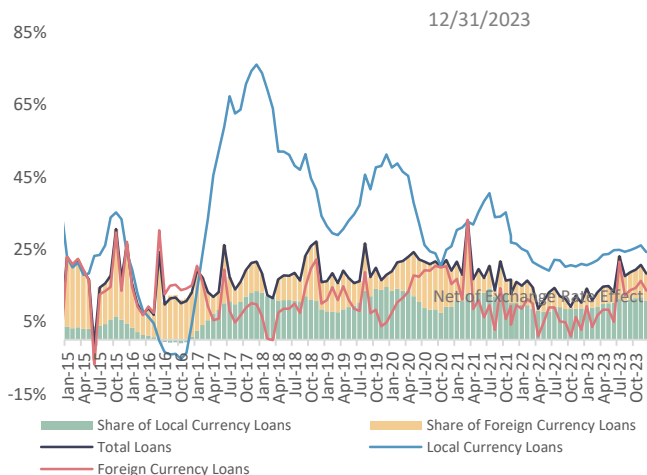


Figure 42: Annual Growth of Loans secured by Real Estate



Source : NBG

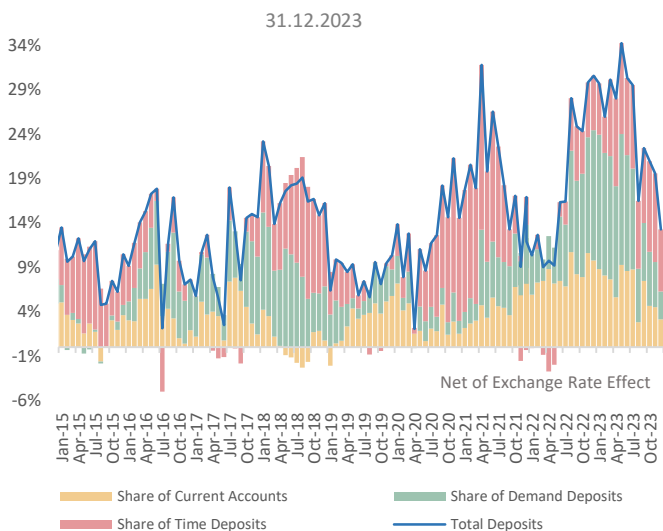
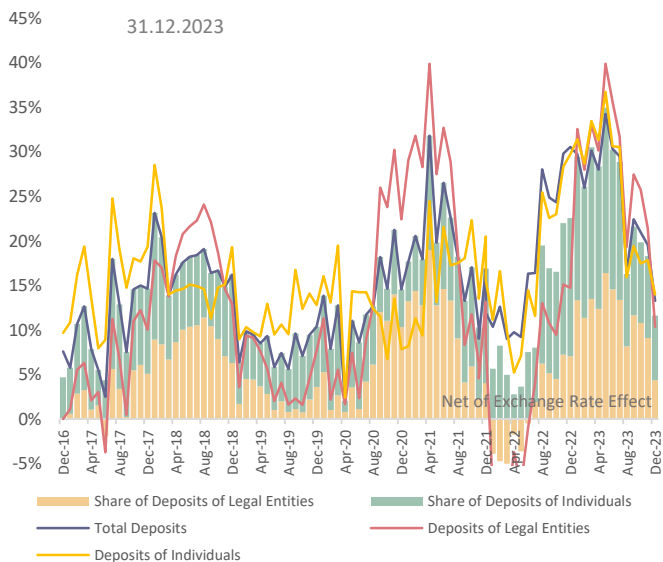
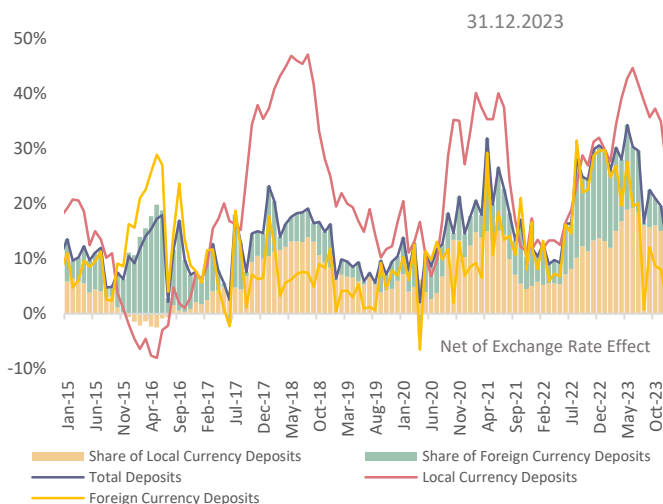
Review of Deposits

The growth of the total deposits on was 13.2 percent on 31st of December 2023. Compared to the corresponding period of 2022 it is 9.2 percentage points greater. A medium growth rate of the deposits is on the back of relatively slower growth rate of the foreign currency denominated deposits. The deposits denominated in the national currency increased 26.9 percent, while the annual growth of the deposits denominated in foreign currency amounted 2.8 percent in the same period.

By 31st of December 2023, annual growth of the deposits of individuals reached 14 percent, while the annual growth of the deposits of legal entities also experienced growth and amounted to 10.4 percent.

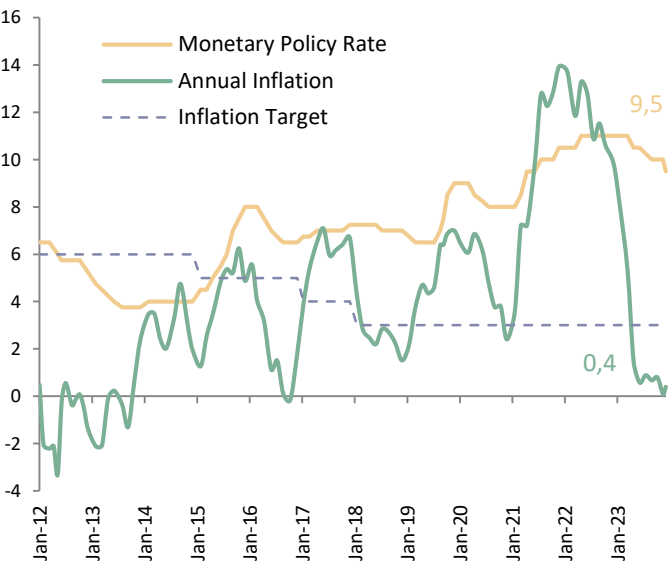
As for the growth of deposits by types, the larger deposits growth was reflected in the growth rate of the time and current deposits. 31st of December 2023, the time deposits grew by 13.2 percent. As for the current and demand deposits, their growth rates equaled to 10.2 and 9.6 percent, respectively.

Figure 43: Annual Growth of Deposits



Source : NBG

Figure 44: Inflation and Monetary Policy Rate

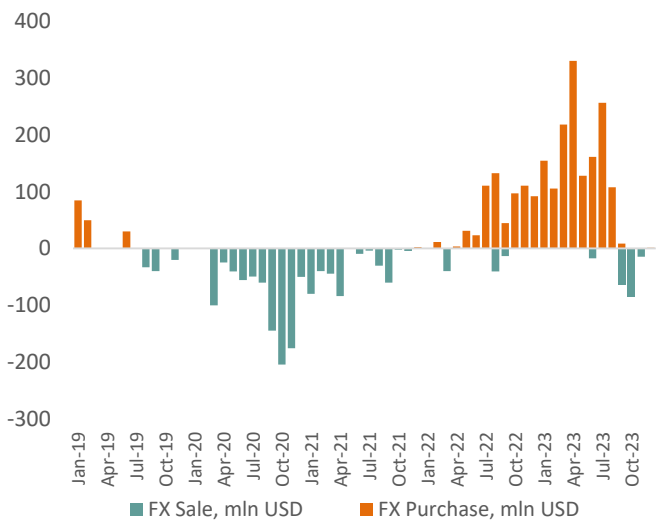


Monetary Policy Rate

The Monetary Policy Committee of the National Bank of Georgia (NBG) held two sessions in the fourth quarter of 2023. On December 20, 2023 the monetary policy authorities reduced the monetary policy rate by 0.5 pp and determined it at 9.5 percent.

According to the NBG, Russia's invasion in Ukraine has led to significant global economic disturbances. The political conflict in the middle-east exacerbates the current situation further. However, there have appeared some signs of price stabilization on international commodity and raw materials international markets that reduces imported inflation. It is also important to mention about the internal factors affecting the inflation in Georgia such as medium economic growth rate (7%), decreasing inflation of local production prices, increasing business loans, and tight monetary policy. In Georgia, the inflation has already retreated from its peak started to move towards the target rate (3%). It's level was at 0.4 percent in December, 2023. As for the annual inflation, it was amounted 2.0% and it is below the target one. It is expected that given the appreciated exchange rate, the effects of the aforementioned global trends and the tightened monetary policy will be gradually transmitted into the local market, inducing to reduce inflation further. It is also relevant to note that the NBG will loose the monetary policy at a slow pace taking into consideration the existing inflationary risks.

Figure 45: Trade of USD by NBG, mln



The NBG made a few foreign exchange interventions through the auctions during the fourth quarter of 2023 and sold around 100 mln USD within this period.

Source: National Bank of Georgia

Interest Rates

As of 31st of December 2023, the interest rate on foreign currency deposits was 1.9 percent, while on the national currency deposits it amounted to 10.7 percent.

As of 31 of December 2023, the weighted average interest rate on deposits of legal entities in national currency was 10.9 percent, and in foreign currency – 2.6 percent. In the same period, the average annual interest rate was 1.8 percent on deposits of individuals in foreign currency and 10.8 percent in national currency.

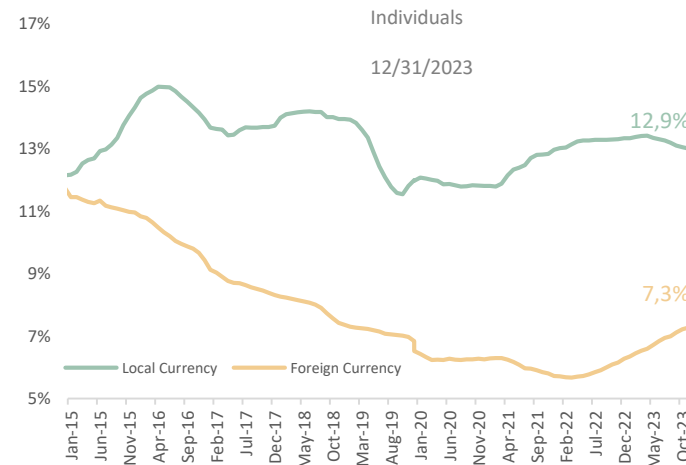
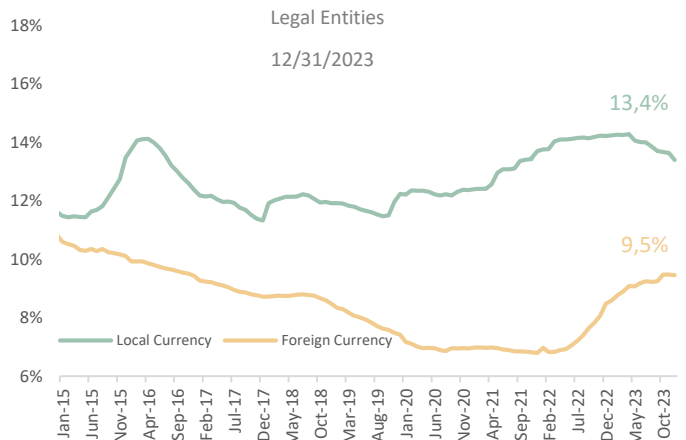
By December 31, 2023, the weighted average annual interest rate on short-term consumer loans was 14.6 percent (17.2 percent in national currency and 6.3 percent in foreign currency). The weighted average interest rates on long-term consumer loans are largely determined by the loans denominated in the national currency.

At the end of December, 2023, the interest rate on mortgage loans issued to legal entities in the national currency was 13.4 percent, and in foreign currency – 9.5 percent. The interest rate on loans to individuals in the national currency was 12.9 percent, and in the foreign currency it was 7.3 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.

