



I Quarter 2020

Quarterly Macroeconomic Review*

Main Indicators of Quarter

- According to preliminary estimate real GDP growth amounted to 1.5%
- Annual inflation amounted to 6.3%
- GEL appreciated against USD by 0.7% QoQ and depreciated by 8.8% YoY
- Negative overall balance of consolidated budget amounted to GEL 316.9 million
- Dollarization coefficient increased on both deposits and loans

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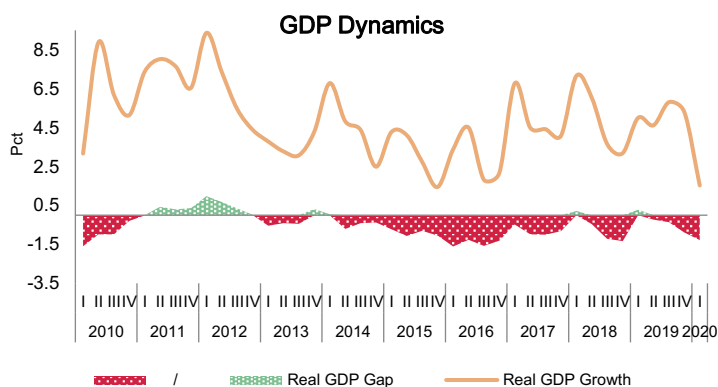
*According to the release calendar of the statistical data, some indicators represent the variables of the previous quarter



1. Real sector

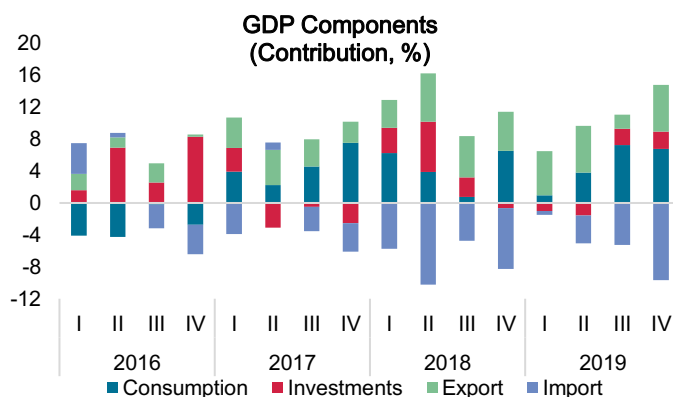
In Q1 2020, according to preliminary estimate average growth of real GDP amounted to 1.5%.

According to PBO evaluation, in Q1 2020, potential GDP was higher than the statistical measurement, hence the negative output gap equaled -1.3%, while the negative output gap for previous quarter was -0.9%.



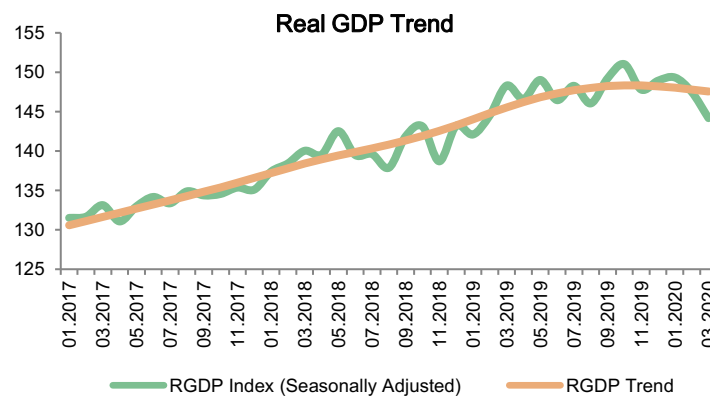
In Q4 2019, as per PBO estimates, consumption and export played a major role in GDP growth.

Analyzing GDP components, in Q4 2019, real GDP growth was primarily driven by consumption (6.8%), export (5.8%) and investment (2.1%) components. In the reporting period, only import (-9.7%) had a negative impact on GDP growth.



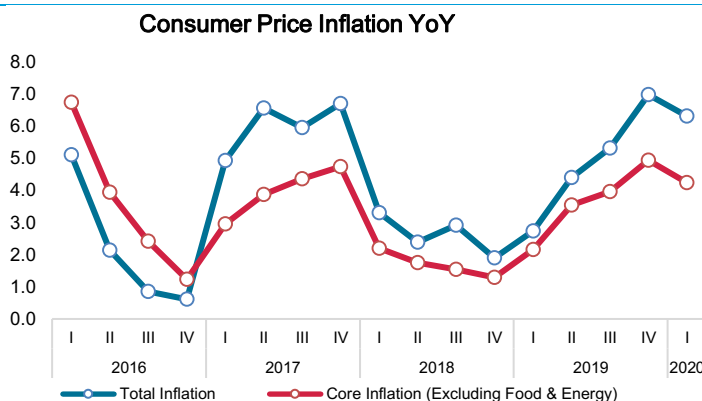
Observing monthly data reveals that the economic growth trend is not linear.

According to preliminary data, in Q1 2020, YoY growth of the real GDP trend¹ totaled 2.1%, compared to 5.1% in the respective period of 2019.



In Q1 2020, consumer price inflation has declining YoY.

In Q1 2020, average annual inflation reached 6.3%, higher than the inflation target of 3%. In Q1 2020, inflation was driven by increasing prices on food, alcohol and non-alcohol beverages, tobacco and other groups.



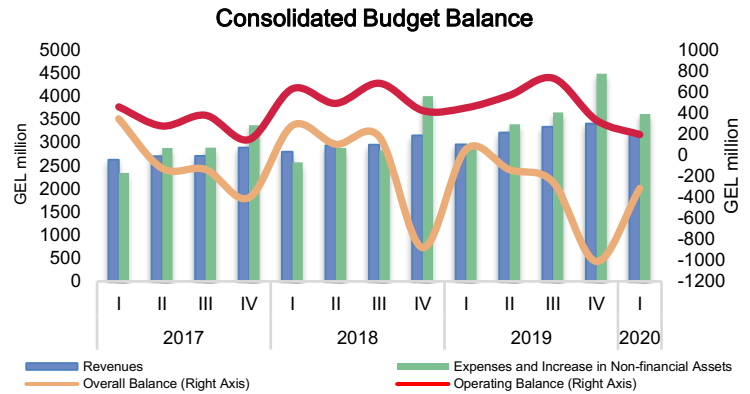
¹ The trend represents monthly economic growth estimate with removed seasonality and random shocks

2. Fiscal Sector

In Q1 2020, the consolidated budget balance was negative.

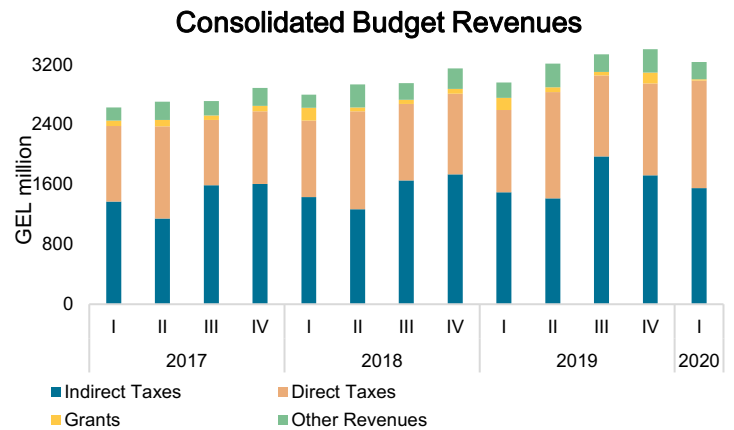
In Q1 2020, consolidated budget revenues increased by 9.3% YoY and reached GEL 3,234 million, while expenses and acquisition of non-financial assets increased by 22.9% and totaled GEL 3,613 million.

In Q1 2020, compared to Q1 2019, the operating balance decreased by GEL 254.7 million, and the negative overall balance decreased by GEL 372.2 million.



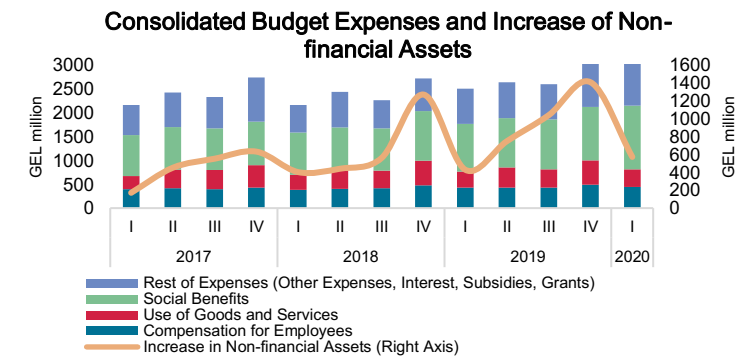
In Q1 2020, tax revenues increased by 15.1% YoY and amounted to GEL 2,983 million.

In Q1 2020, consolidated budget direct taxes increased by 30.1% YoY and totaled GEL 1,431.7 million, while indirect taxes increased by 4.0% and reached GEL 1,551.1 million.



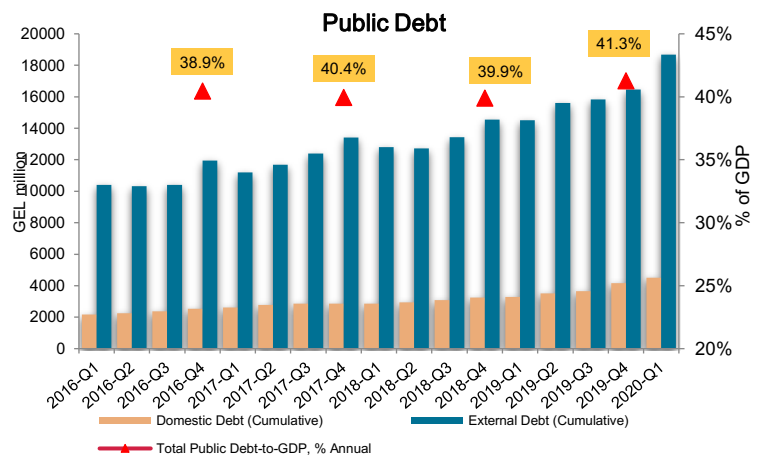
In Q1 2020, recurrent and capital expenditures increased YoY.

In Q1 2020, consolidated budget recurrent expenses increased by 21.1% YoY and amounted to GEL 3,040 million. Expenses in non-financial assets (i.e. capital expenditure) increased by 33.2% YoY and reached GEL 573 million.



As of 31 March 2020, public debt in nominal terms reached GEL 23,195 million, a 30.4% increase YoY.

The external debt share made up 80.5% (81.5% at the end of Q1 2019), while the domestic debt share reached 19.5% (18.5% at the end of Q1 2019).

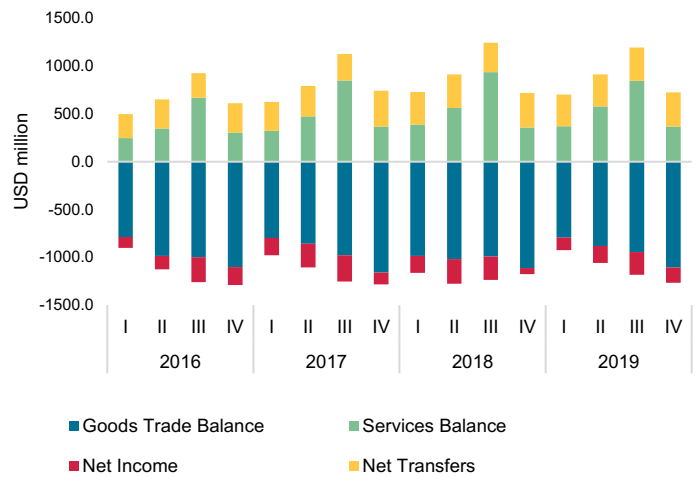


3. External Sector

In Q4 2019, the current account balance was negative.

In Q4 2019, the negative current account balance increased by 23.8% YoY and reached USD 538.9 million (-11.1% of GDP). Analyzing current account components, deficit in goods trade and net income was only partially compensated by surplus in transfers and services, particularly by export of tourism that despite the problems in Q3, in Q4 2019 was increased by 0.3%.

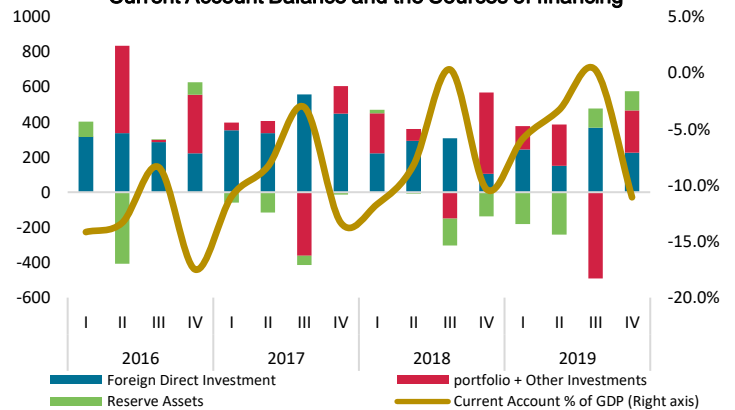
Current Account Components



In Q4 2019, the primary source of the capital and financial account deficit was foreign direct and other investments.

During this period, net direct investments totaled USD 225.7 million (4.6% of GDP), 116.2% increase in comparison with the same period of the last year.

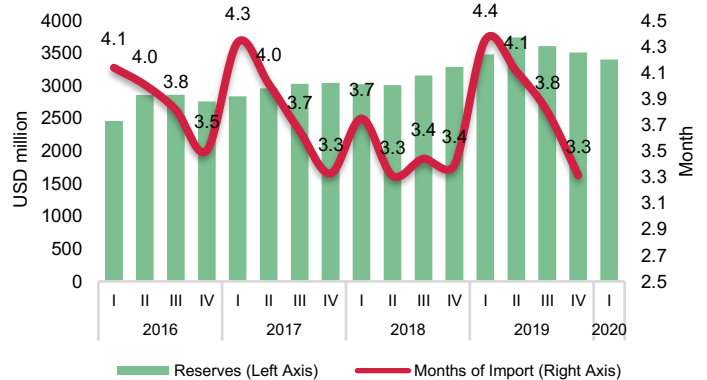
Current Account Balance and the Sources of financing



In Q1 2020, total international reserves reached USD 3,399 million

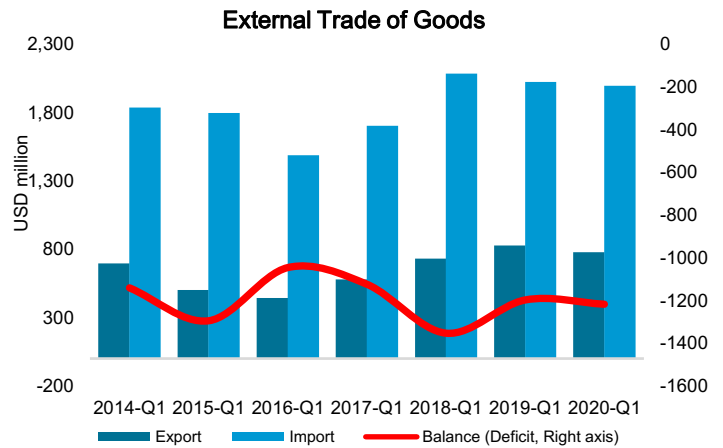
At the end of the Q1 2020 total international reserves made up USD 3,399 million, a 2.2% increase YoY. In January-June 2019, the National Bank of Georgia acquired USD 165 million through the auctions and 50 million USD through the used options, while in August-November sold USD 92.8 million. In March 2020, in response to the sharp exchange rate depreciation National Bank sold 100 million USD.

Total International Reserves



In Q1 2020, significant downward trend was observed in external trade of goods.

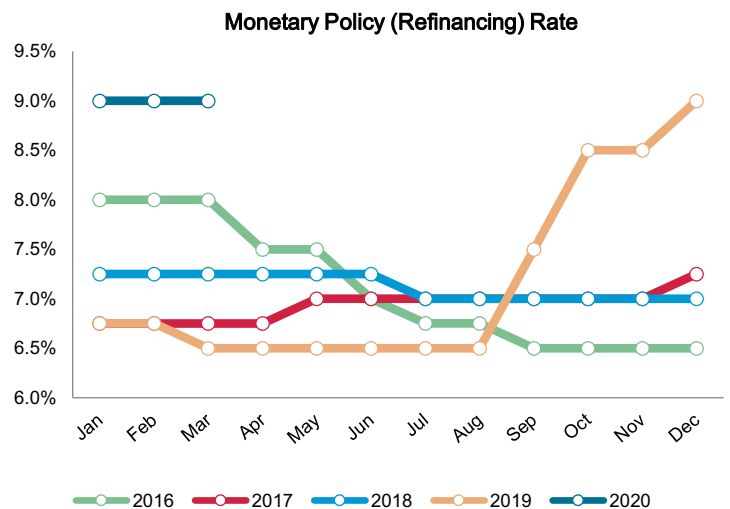
In Q1 2020, compared to the same period of the previous year export decreased by 5.9%, while import decreased by 1.4%. It is worth noting that the growth rate of exports positive since Q4 2016 but because of explosion of corona virus pandemic in Q1 2020, the further decline in export and import is expected through the year. In the reporting period share of the export in external trade decreased from 29.0% to 28.1%.



4. Monetary Sector

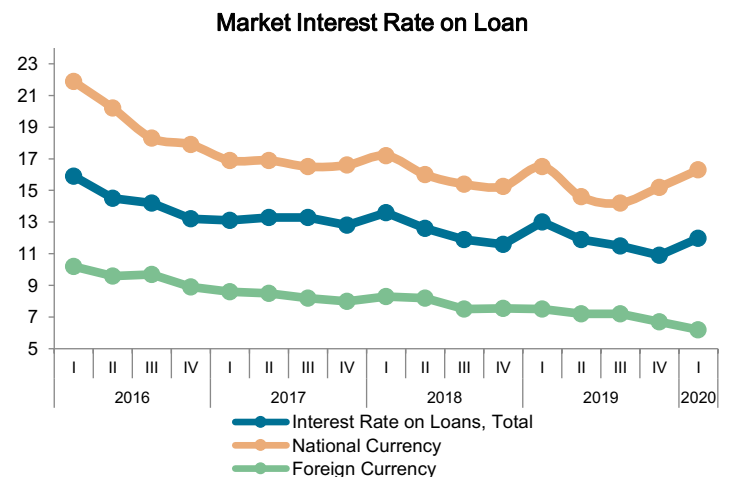
In Q1 2020, the monetary policy rate was 9.0%.

In 2018 strengthened monetary policy rate was loosened since the end of the year, and gradual loosening was continued through 2019, with the policy rate lowered to 6.5% in Q2 2019. Since September 2019 because of depreciation of GEL, to mitigate inflation pressure, monetary policy was strengthened and in December 2019 monetary policy rate reached 9.0%. the rate was maintained on same level in Q1 2020.



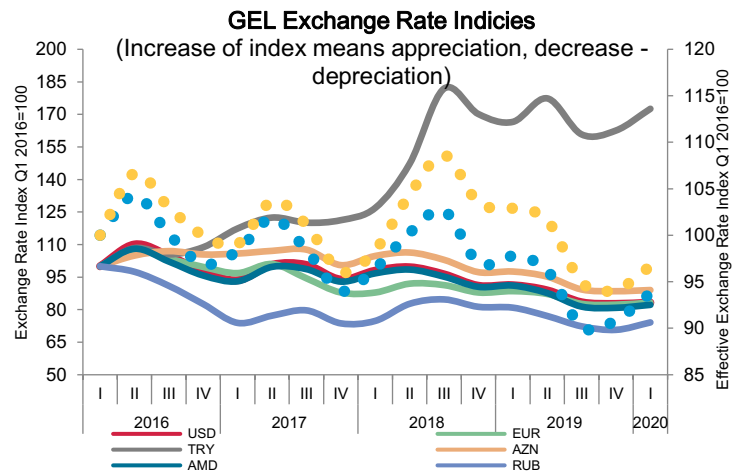
In Q1 2020, the market interest rate on loans reached 12.0%.

In Q1 2020 market interest rate on loans increased by 1.1% QoQ and reached 12.0%. The interest rate was 1.1 pp higher QoQ on national currency (16.3%) loans, while 0.5 pp lower on foreign currency (6.2%) loans.



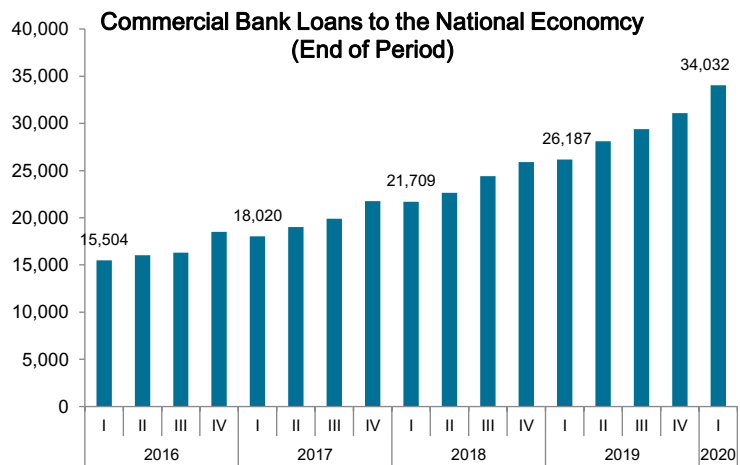
In Q1 2020, the exchange rate of GEL appreciated QoQ against primary currencies.

In Q1 2020, the exchange rate of GEL (period average) against USD appreciated by 0.7% QoQ and depreciated by 8.8% YoY. Compared to the Q1 2019 GEL depreciated against UAH (16.3%), AMD (9.8%), AZN (8.8%), RUB (8.4%) and EUR (6.0%). Meanwhile GEL appreciated against TRY by 3.6%,



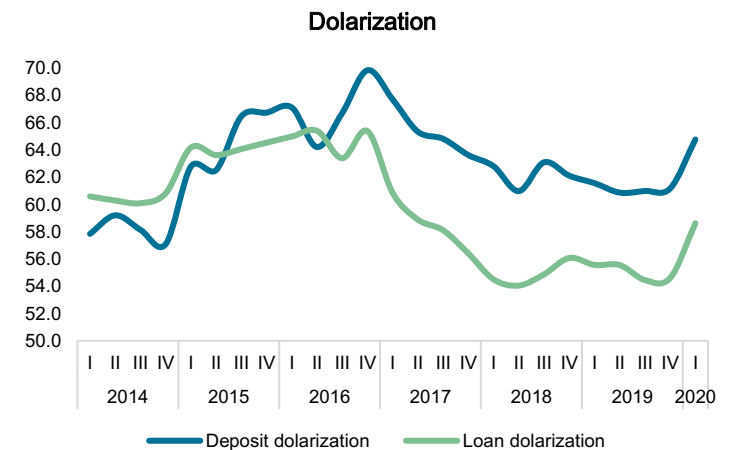
In Q1 2020, loans to the national economy (end of period) increased.

In Q1 2020, loans to the national economy increased by 30.0% YoY and by 9.5% QoQ. Almost half of total loans was distributed to households.



In Q1 2020, the dollarization coefficient increased on both deposits and loans.

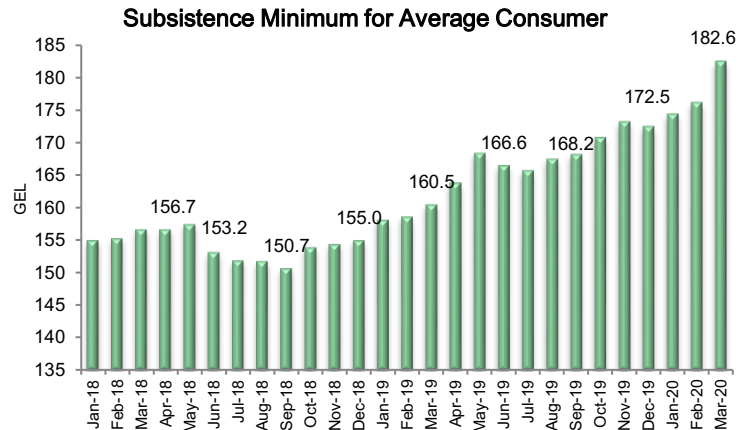
From 2015, both coefficients started to increase and reached 69.8% and 65.4% in Q4 2016, respectively. However, since the beginning of 2017, dollarization has declined significantly, however since Q2 2019 the coefficient started increasing and in March 2020 amounted to 64.8% on deposits and 58.6% on loans. The dollarization coefficient increased QoQ by 3.6 pp on deposits and by 4.0 pp on loans.



5. Social Sector

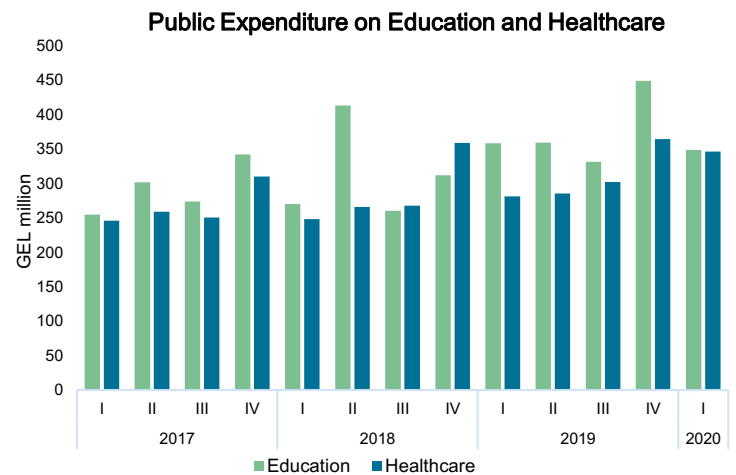
In Q1 2020, the subsistence minimum significantly increased YoY.

At the end of Q1 2020, in March, the average consumer subsistence minimum totaled GEL 182.6 GEL 22.0 higher YoY.



In Q1 2020 compared to the same period of the previous year public expenditures on healthcare significantly increased while expenditures on education decreased slightly.

In Q1 2020, expenditure on education (as per functional classification) amounted to GEL 348.9 million, 2.7% decrease compared to the same period of the last year (99.7% of planned). Meanwhile expenditure on healthcare reached GEL 346.6 million, 23.3% increase compared to the same period of the last year (88.7% of planned).



In Q4 2019, the total number and salary of employees in the business sector increased YoY.

In Q4 2019, the number of business sector employees increased by 4.3% YoY and amounted to 713.9 thousand. Average monthly salary increased by GEL 86.0 YoY and amounted to GEL 1404.7.

