



II Quarter 2020

Quarterly Macroeconomic Review*

Main Indicators of Quarter

- According to preliminary estimate real GDP fell by 12.6%
- Annual inflation amounted to 6.5%
- GEL depreciated against USD by 0.8% QoQ and depreciated by 12.7% YoY
- Negative overall balance of consolidated budget amounted to GEL 759.8 million
- Dollarization coefficient increased on both deposits and loans

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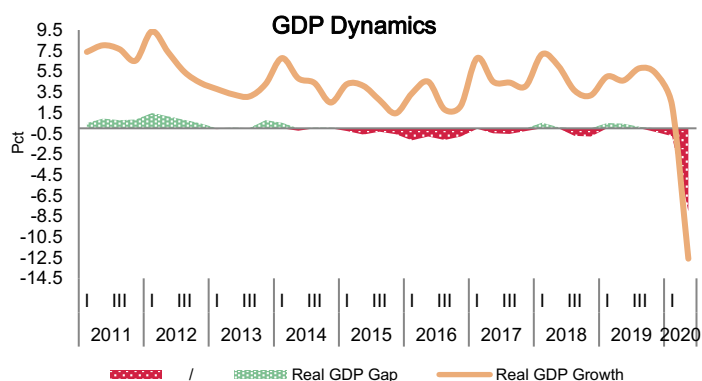
*According to the release calendar of the statistical data, some indicators represent the variables of the previous quarter



1. Real sector

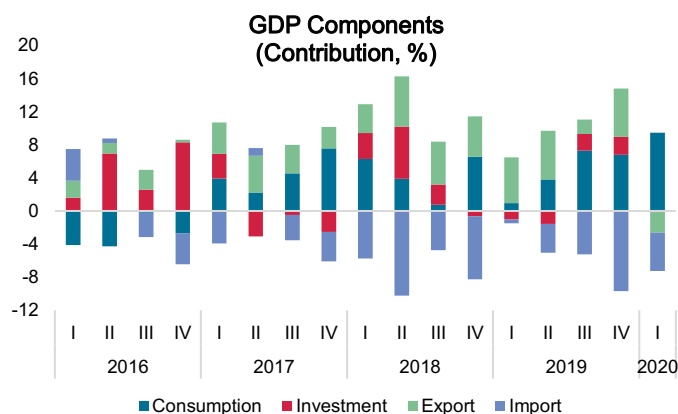
In Q2 2020, according to preliminary estimate average growth of real GDP amounted to -12.6%.

According to PBO evaluation, in Q2 2020, potential GDP was higher than the statistical measurement, hence the negative output gap equaled -8.0%, while the negative output gap for previous quarter was -0.8%.



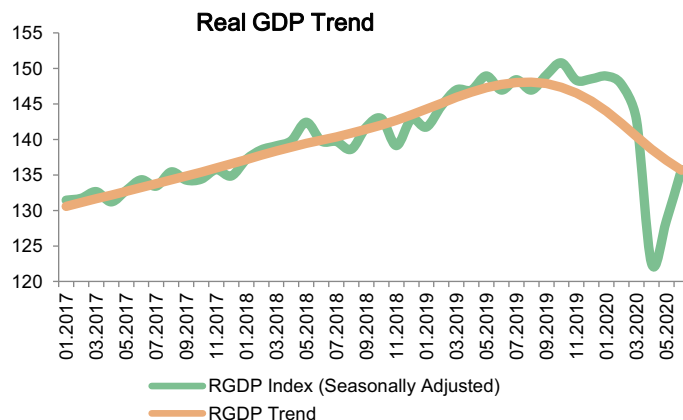
In Q1 2020, as per PBO estimates, consumption played a major role in GDP growth.

Analyzing GDP components, in Q1 2020, real GDP growth was primarily driven by consumption (9.5%). In the reporting period, import (-4.7%), export (-2.5%) and investment (-0.1%) had a negative impact on GDP growth.



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

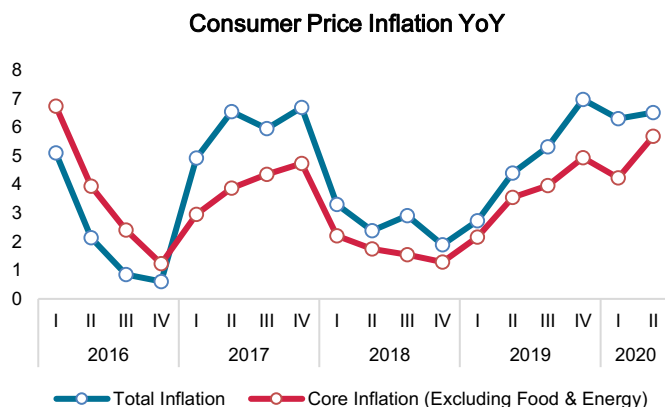
According to preliminary data, in Q2 2020, YoY growth of the real GDP trend¹ totaled -6.9%, compared to 5.6% in the respective period of 2019.



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

In Q2 2020, consumer price inflation has increased YoY trend.

In Q2 2020, average annual inflation reached 6.5%, higher than the inflation target of 3%. In Q1 2020, inflation was driven by increasing prices on food, non-alcohol beverages, transport, healthcare, clothing and other groups.

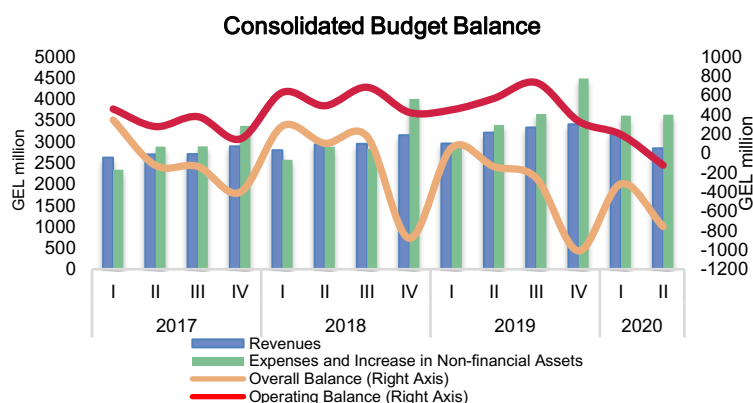


2. Fiscal Sector

In Q2 2020, the consolidated budget balance was negative.

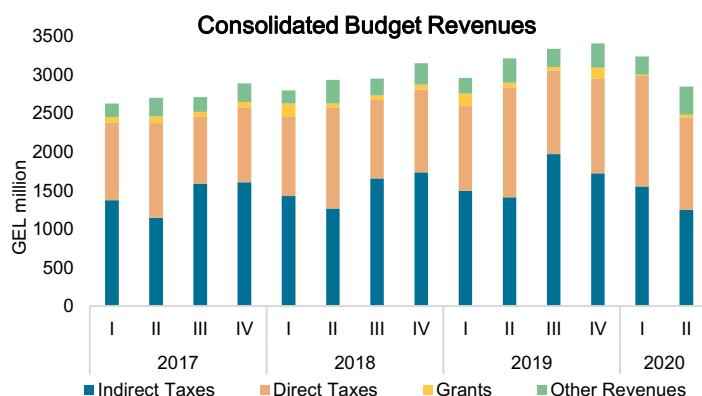
In Q2 2020, consolidated budget revenues decreased by 11.3% YoY and reached GEL 2,845 million, while expenses and acquisition of non-financial assets increased by 7.2% and totaled GEL 3,636 million.

In Q2 2020, compared to Q2 2019, the operating balance decreased by GEL 690.4 million, and the negative overall balance decreased by GEL 620.8 million.



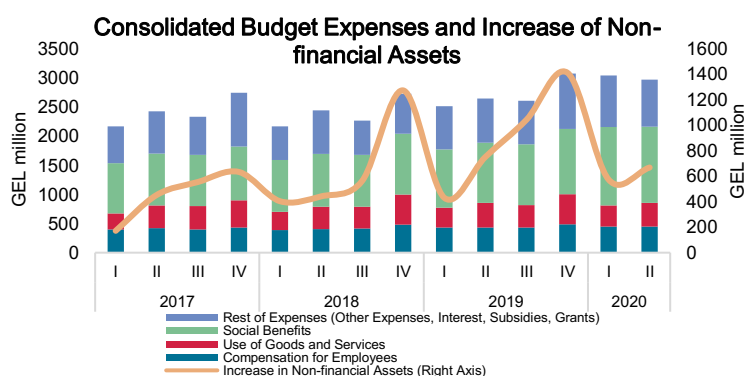
In Q2 2020, tax revenues decreased by 13.6% YoY and amounted to GEL 2,445 million.

In Q2 2020, consolidated budget direct taxes decreased by 15.4% YoY and totaled GEL 1,199.1 million, while indirect taxes decreased by 11.7% and reached GEL 1,245.9 million.



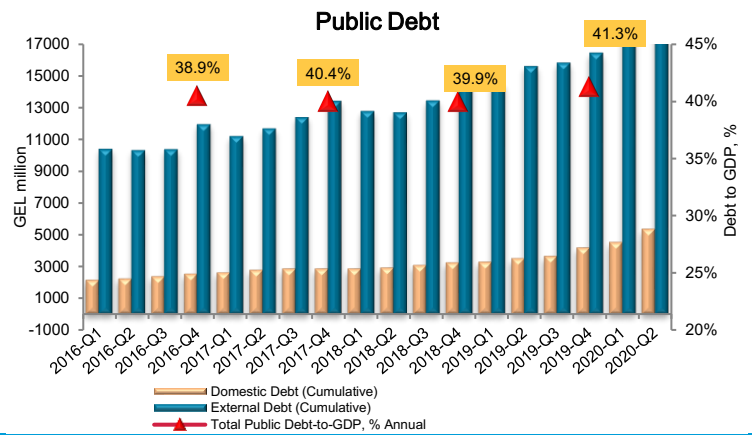
In Q2 2020, recurrent expenditures increased YoY, while capital expenditures declined.

In Q2 2020, consolidated budget recurrent expenses increased by 12.4% YoY and amounted to GEL 2,968 million. Expenses in non-financial assets (i.e. capital expenditure) decreased by 11% YoY and reached GEL 667 million.



As of 30 June 2020, public debt in nominal terms reached GEL 24,114 million, a 26.2% increase YoY.

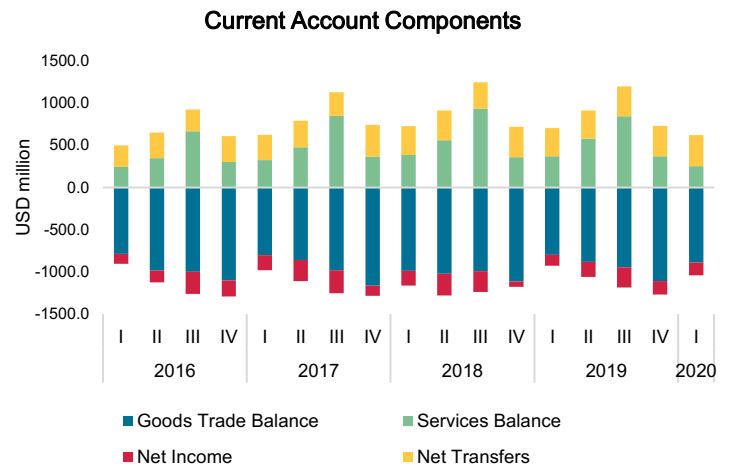
The external debt share made up 77.8% (81.6% at the end of Q2 2019), while the domestic debt share reached 22.2% (18.4% at the end of Q2 2019).



3. External Sector

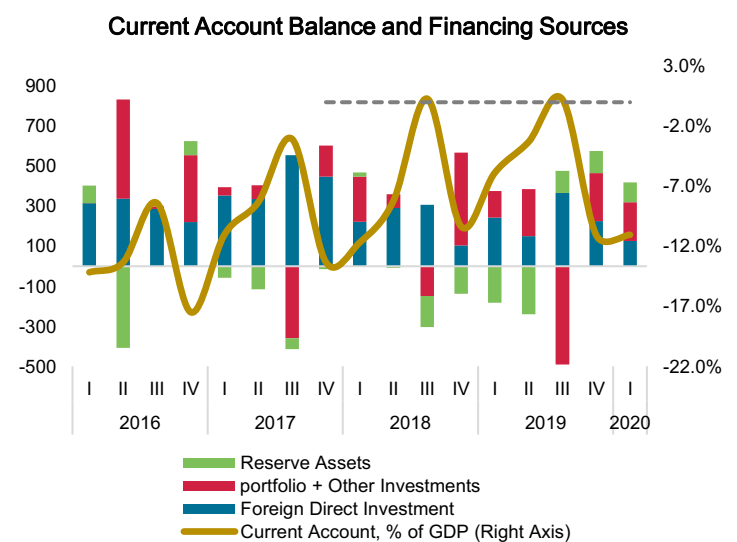
In Q1 2020, the current account balance was negative.

In Q1 2020, the negative current account balance increased by 86.2% YoY and reached USD 417.7 million (-11.0% of GDP). Analyzing current account components, deficit in goods trade and net income was only partially compensated by surplus in transfers and services. It needs to be noted that because of ongoing difficulties export of tourism was decreased by 32.1% in Q1 2020.



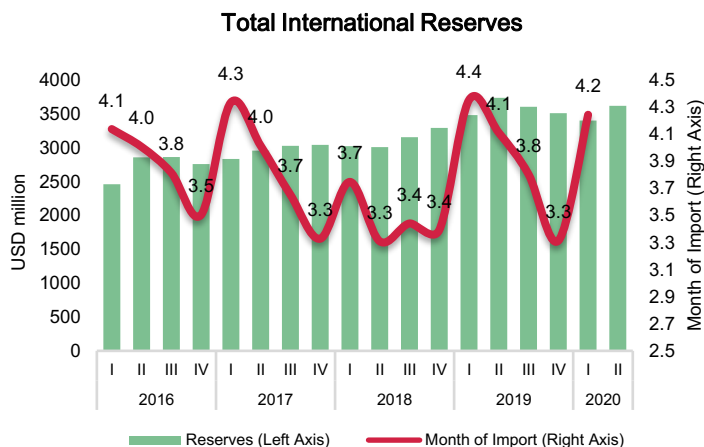
In Q1 2020, the primary source of the capital and financial account deficit was foreign direct and other investments.

During this period, net direct investments totaled USD 125.7 million (3.3% of GDP), 48.3% decrease in comparison with the same period of the last year.



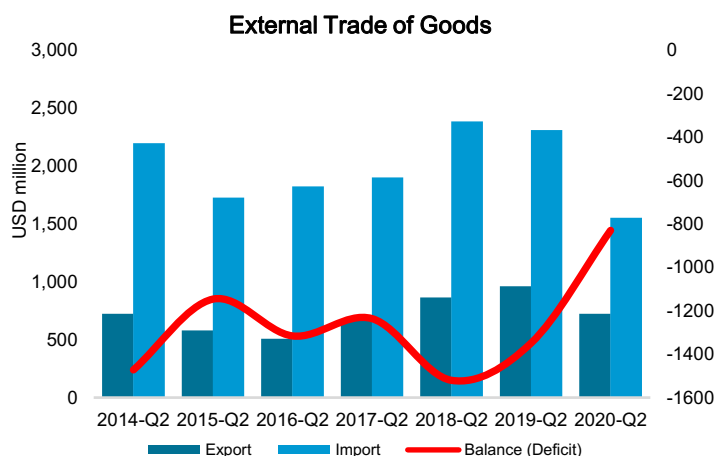
In Q2 2020, total international reserves reached USD 3,616 million

At the end of the Q2 2020 total international reserves made up USD 3,616 million, a 3.2% 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.



In Q2 2020, significant downward trend was observed in external trade of goods.

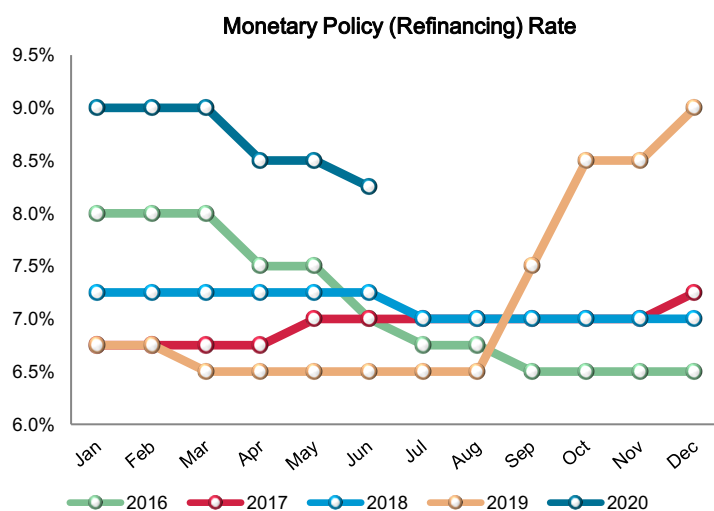
In Q2 2020, compared to the same period of the previous year export decreased by 24.8%, while import decreased by 32.8%. It is worth noting that the growth rate of exports positive since Q4 2016 but because of explosion of corona virus pandemic in Q1 2020, the further decline in export and import is expected through the year. In the reporting period share of the export in external trade increased from 29.4% to 31.8%.



4. Monetary Sector

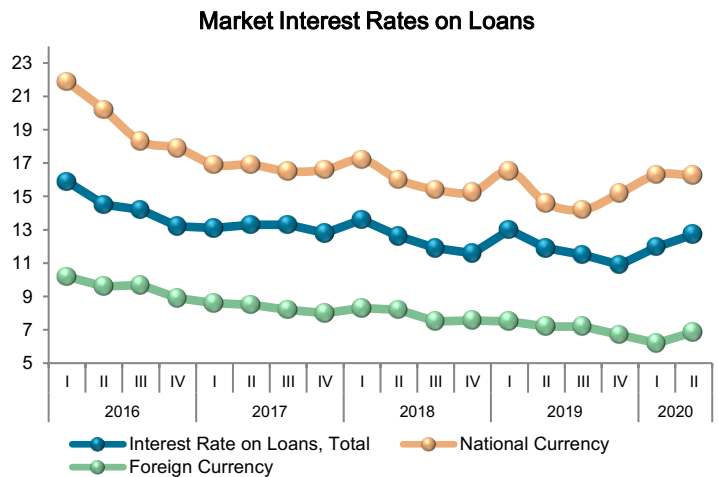
In Q2 2020 the monetary policy rate was 8.25%.

In 2018 strengthened monetary policy rate was loosened since the end of the year, and gradual lessening 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 Q2 2020 the monetary policy rate was lowered and amounted to 8.25%.



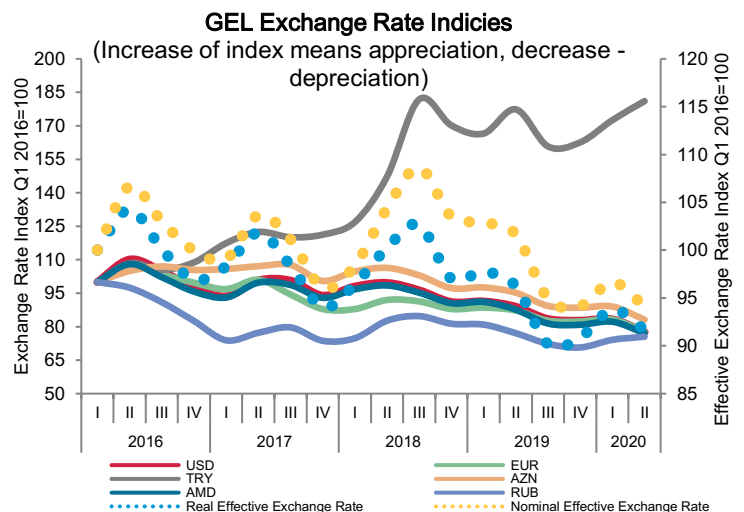
In Q2 2020, the market interest rate on loans reached 12.7%.

In Q2 2020 market interest rate on loans increased by 0.7 pp QoQ and reached 12.7%. The interest rate did not change QoQ on national currency (16.3%) loans, while on foreign currency loans is 0.7 pp higher (6.9%).



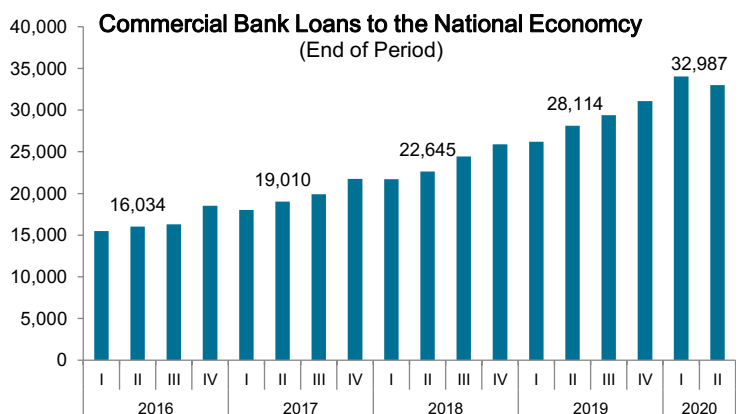
In Q2 2020, the exchange rate of GEL depreciated QoQ against all primary currencies, except of TRY.

In Q2 2020, the exchange rate of GEL (period average) against USD depreciated by 0.8% QoQ and by 12.7% YoY. Compared to the Q2 2019 GEL depreciated against AZN (12.7%), AMD (12.1%), UAH (11.5%), EUR (10.9%) and RUB (2.0%). Meanwhile GEL appreciated against TRY by 2.1%,



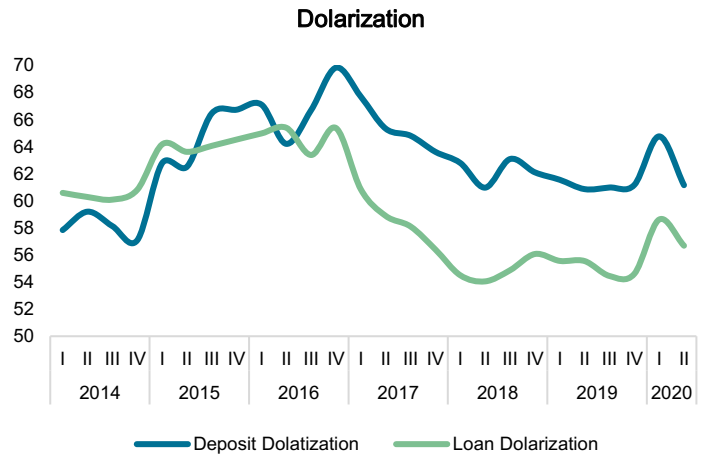
In Q2 2020, loans to the national economy (end of period) increased.

In Q2 2020, loans to the national economy increased by 17.3% YoY while decreased by 3.1% QoQ. Almost half of total loans was distributed to households.



In Q2 2020, the dollarization coefficient increased on both deposits and loans.

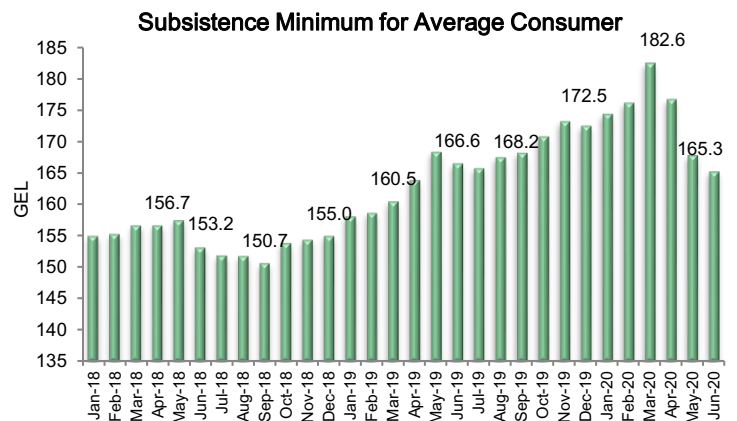
From 2015, both coefficients started to increase and reached 69.8% and 65.4% in Q4 2016, respectively. However, since the beginning of 2017, dollarization has declined significantly, however since Q2 2019 the coefficient started increasing and in June 2020 amounted to 61.2% on deposits and 56.7% on loans. The dollarization coefficient decreased QoQ by 3.6 pp on deposits and by 1.9 pp on loans.



5. Social Sector

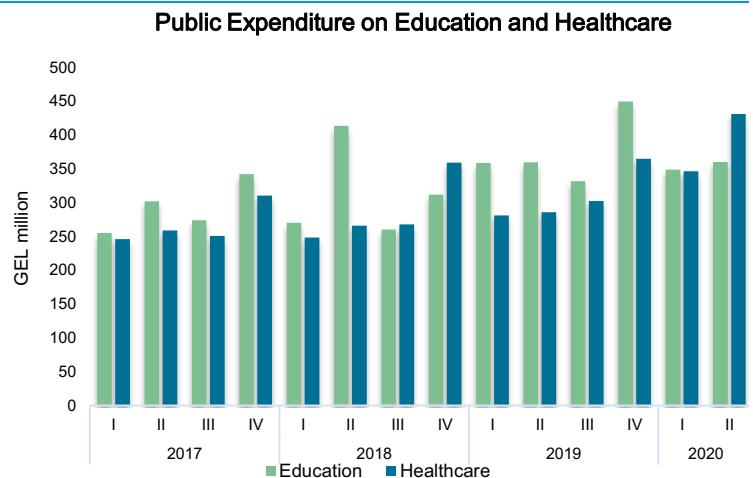
In Q2 2020, the subsistence minimum insignificantly decreased YoY.

At the end of Q2 2020, in June, the average consumer subsistence minimum totaled GEL 165.3, GEL 1.3 lower YoY.



In Q2 2020 compared to the same period of the previous year public expenditures on healthcare significantly increased while expenditures on education increased slightly.

In Q2 2020, expenditure on education (as per functional classification) amounted to GEL 360.2 million, 0.2% increase compared to the same period of the last year (92.2% of quarter plan). Meanwhile expenditure on healthcare reached GEL 431.2 million, 51% increase compared to the same period of the last year (102.7% of quarter plan).



In Q1 2020, the total number and salary of employees in the business sector increased YoY.

In Q1 2020, the number of business sector employees increased by 3.1% YoY and amounted to 684.4 thousand. Average monthly salary increased by GEL 75.1 YoY and amounted to GEL 1,227.0.

