



Quarterly Macroeconomic Review *

Main Indicators of Quarter

- According to preliminary estimate real GDP fell by 3.8%
- Annual inflation amounted to 4.8%
- GEL appreciated against USD by 1.1% QoQ and depreciated by 5.9% YoY
- Negative overall balance of consolidated budget amounted to GEL 1,671.1 million
- Dollarization coefficient increased on both deposits and loans

Macroeconomic Analysis and Tax Policy Unit

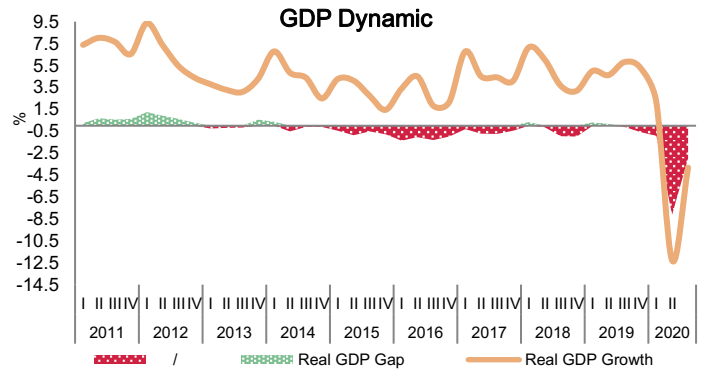
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*According to the release calendar of the statistical data, some indicators represent the variables of the previous quarter

1. Real sector

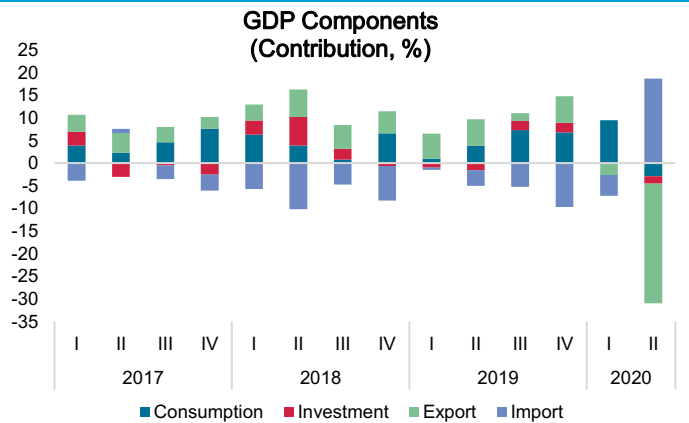
In Q3 2020, according to preliminary estimate average growth of real GDP amounted to -3.8%.

According to PBO evaluation, in Q3 2020, potential GDP was higher than the statistical measurement, hence the negative output gap equaled -3.0%, while the negative output gap for previous quarter was -8.1%.



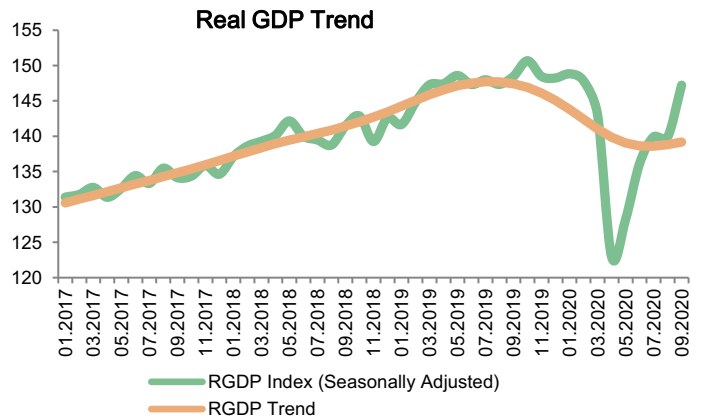
In Q2 2020, as per PBO estimates, export played a major role in reduction of GDP.

Analyzing GDP components, in Q2 2020, real GDP decrease was primarily driven by export (-26.5%), consumption (-2.9%) and investment (-1.6%). In the reporting period, reduction of import had a positive impact on GDP (18.7%).



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

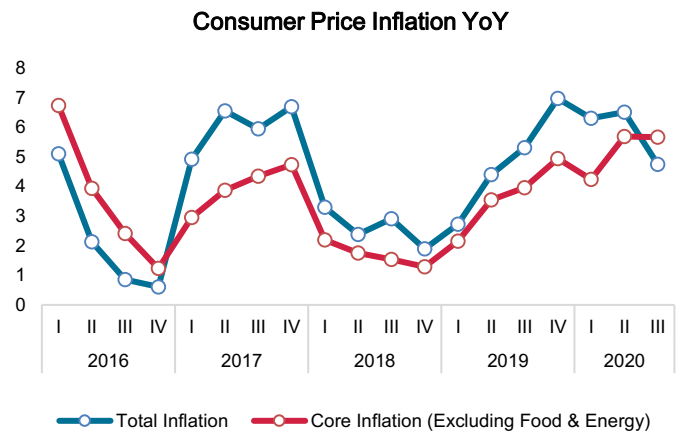
According to preliminary data, in Q3 2020, YoY growth of the real GDP trend¹ totaled -5.9%, compared to 4.8% in the respective period of 2019.



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

In Q3 2020, consumer price inflation has decreased YoY trend.

In Q3 2020, average annual inflation reached 4.8%, higher than the inflation target of 3%. In Q2 2020, inflation was driven by increasing prices on food, non-alcoholic and alcoholic beverages, tobacco, transport, healthcare, furnishing, household equipment and routine maintenance of the house and other groups.

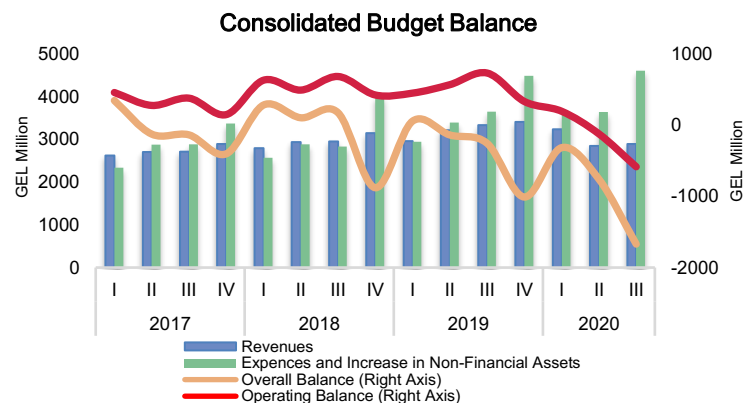


2. Fiscal Sector

In Q3 2020, the consolidated budget balance was negative.

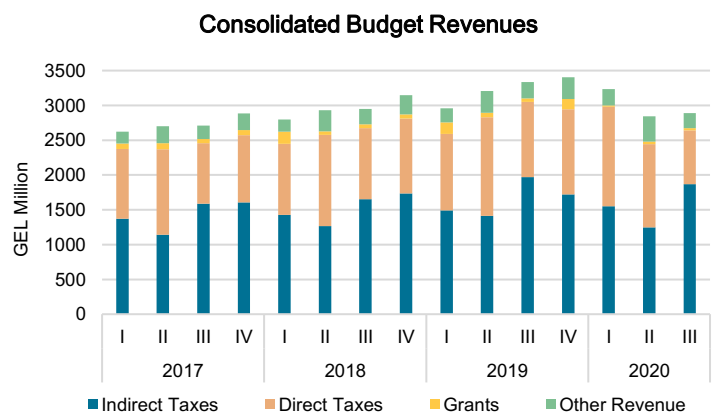
In Q3 2020, consolidated budget revenues decreased by 13.4% YoY and reached GEL 2,887 million, while expenses and acquisition of non-financial assets increased by 26.2% and totaled GEL 4,602 million.

In Q3 2020, compared to Q3 2019, the operating balance decreased by GEL 1,315.6 million, and the negative overall balance decreased by GEL 1,414.4 million.



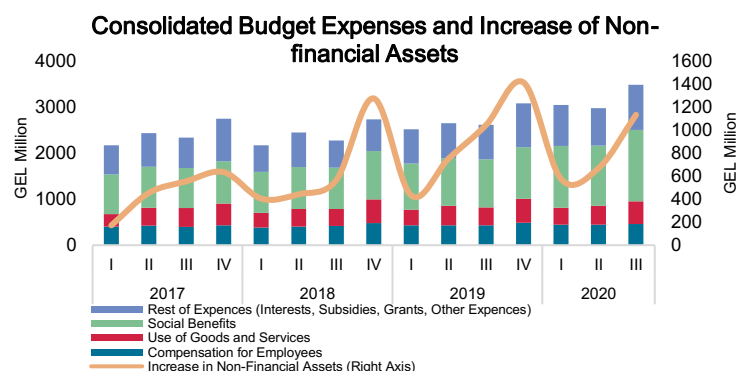
In Q3 2020, tax revenues decreased by 13.5% YoY and amounted to GEL 2,641 million.

In Q3 2020, consolidated budget direct taxes decreased by 28.4% YoY and totaled GEL 774.6 million, while indirect taxes decreased by 5.3% and reached GEL 1,866.6 million.

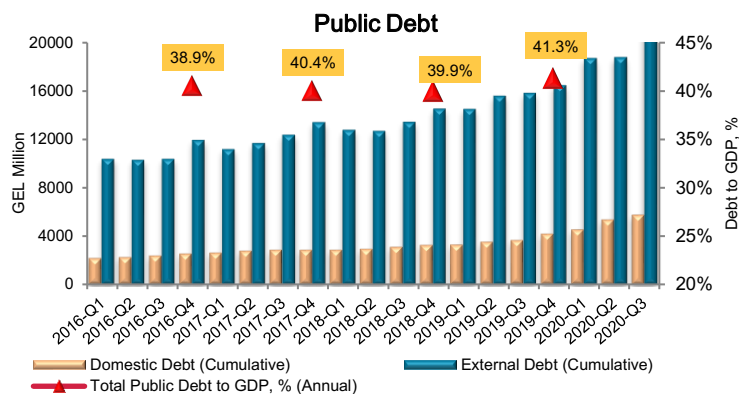


In Q3 2020, recurrent and capital expenditures increased YoY.

In Q3 2020, consolidated budget recurrent expenses increased by 33.3% YoY and amounted to GEL 3,473 million. Expenses in non-financial assets (i.e. capital expenditure) increased by 8.5% YoY and reached GEL 1,130 million.

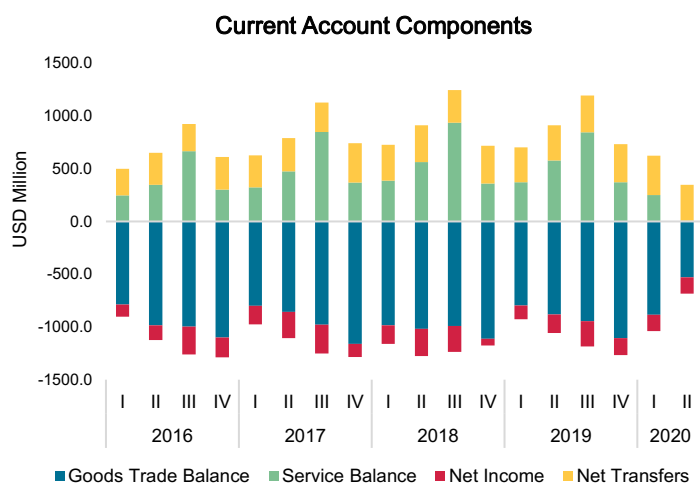


As of 31 September 2020, public debt in nominal terms reached GEL 27,959 million, a 43.5% increase YoY. The external debt share made up 79.5% (81.3% at the end of Q3 2019), while the domestic debt share reached 20.5% (18.7% at the end of Q3 2019).

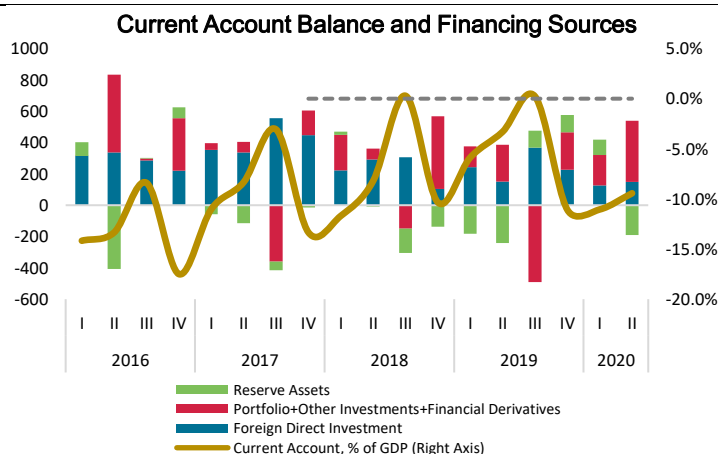


3. External Sector

In Q2 2020, the current account balance was negative. In Q2 2020, the negative current account balance increased by 97% YoY and reached USD 337.1 million (-9.4% 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 97.8% in Q2 2020.

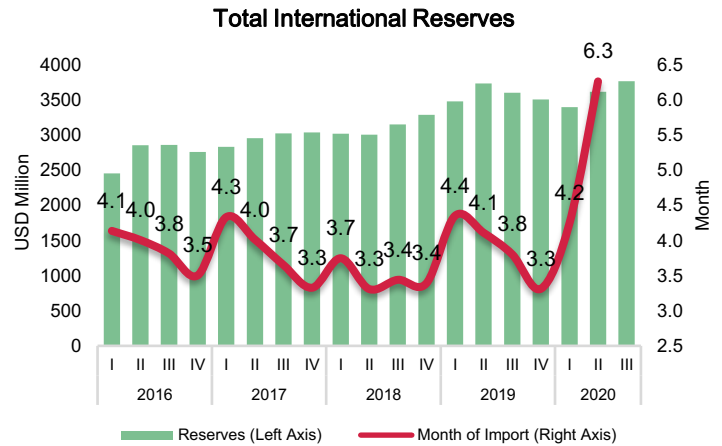


In Q2 2020, the primary source of the capital and financial account deficit was other and foreign direct investments. During this period, net direct investments totaled USD 148.9 million (4.2% of GDP), 1.4% decrease in comparison with the same period of the last year.



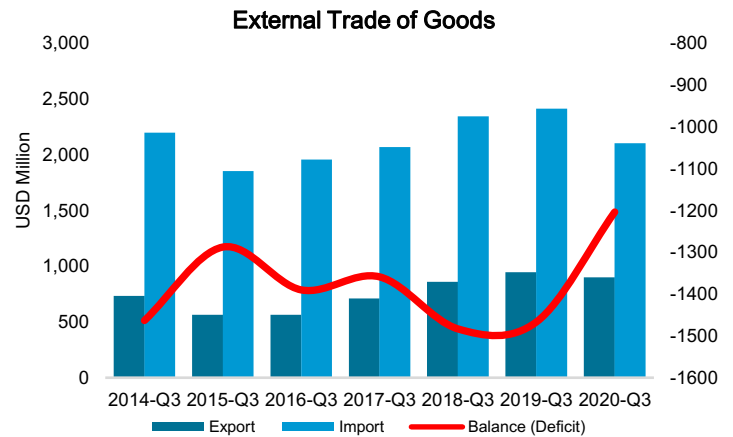
In Q3 2020, total international reserves reached USD 3,764 million

At the end of the Q3 2020 total international reserves made up USD 3,764 million, a 4.5% 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 September 2020, in response to the sharp exchange rate depreciation National Bank sold USD 120 million. While In March 2020 NBG sold USD 100 million.



In Q3 2020, significant downward trend was observed in external trade of goods.

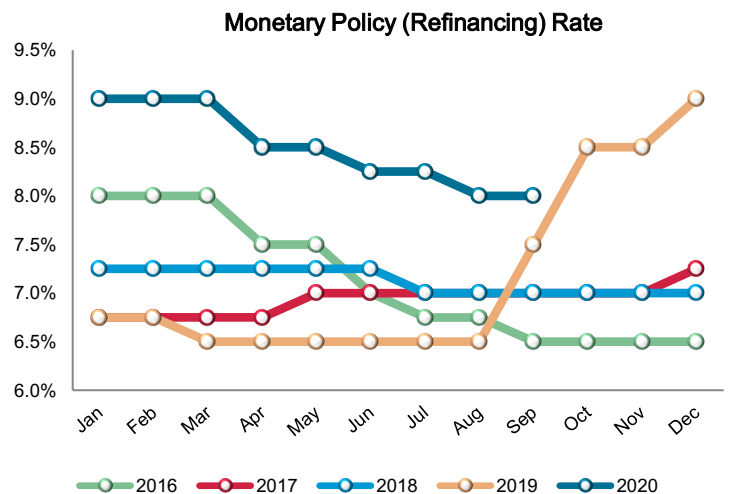
In Q3 2020, compared to the same period of the previous year export decreased by 5.0%, while import decreased by 12.8%. It is worth noting that the growth rate of export is positive since Q4 2016 but because of explosion of corona virus pandemic in Q1 2020, the further decline in export and import is expected through the year. In the reporting period share of the export in external trade increased from 28.2% to 29.9%.



4. Monetary Sector

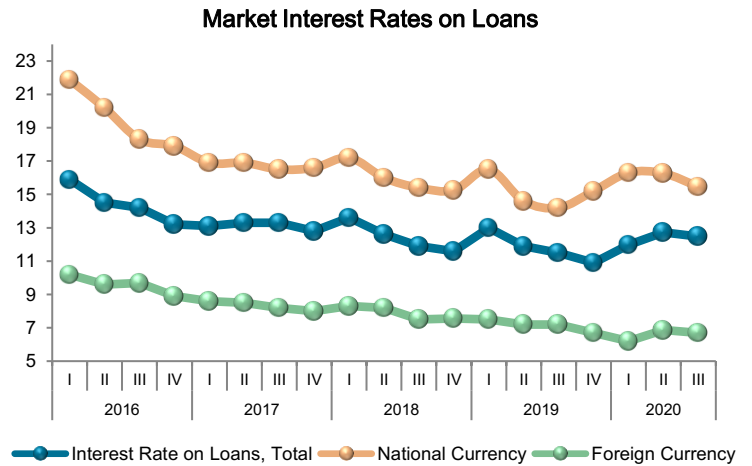
In Q3 2020 the monetary policy rate was 8.0%.

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. Since Q2 2020 the monetary policy rate started gradual decrease and in Q3 2020 amounted to 8.0%.



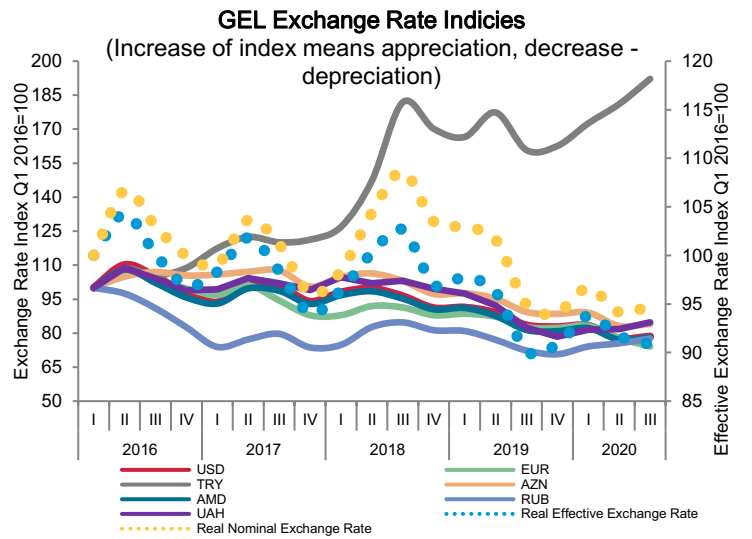
In Q3 2020, the market interest rate on loans reached 12.5%.

In Q3 2020, market interest rate on loans decreased by 0.2 pp QoQ and reached 12.5%. The interest rate on national currency loans decreased by 0.8 pp QoQ (15.5%) loans, while on foreign currency loans decreased by 0.2 pp (6.7%).



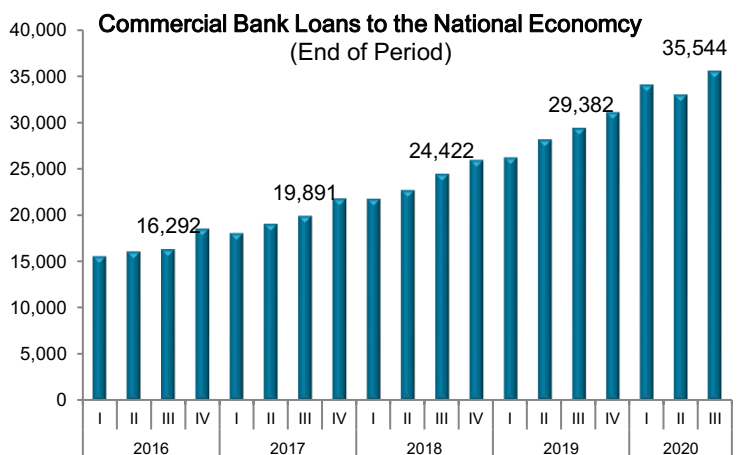
In Q3 2020, the exchange rate of GEL appreciated QoQ against all primary currencies, except of EURO.

In Q3 2020, the exchange rate of GEL (period average) against USD appreciated by 1.1% QoQ and depreciated by 5.9% YoY. Compared to the Q3 2019 GEL depreciated against EUR (10.4%), AZN (5.9%), AMD (4.0%), while appreciated against TRY (19.5%), UAH (3.0%) and RUB (7.4%).



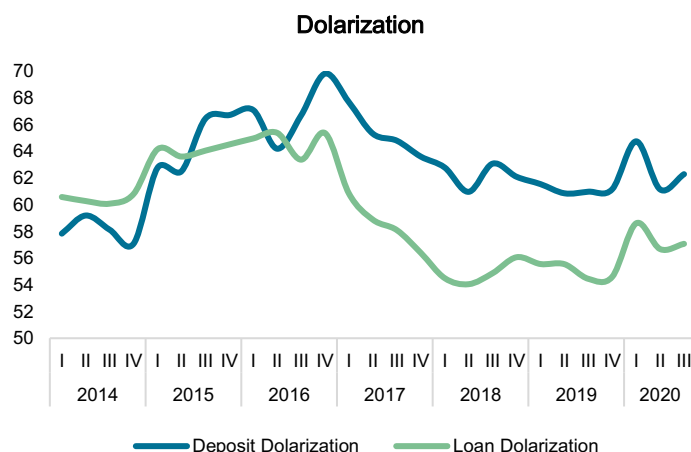
In Q3 2020, loans to the national economy (end of period) increased.

In Q3 2020, loans to the national economy increased by 21% YoY and by 7.8% QoQ. More than half of total loans was distributed to households.



In Q3 2020, the dollarization coefficient increased on both deposits and loans.

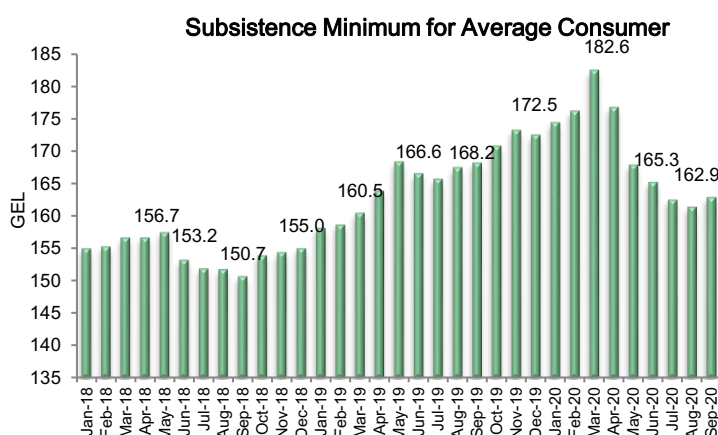
From 2015, both coefficients started to increase and reached 69.8% and 65.4% in Q4 2016, respectively. However, since the beginning of 2017, dollarization has declined significantly, however since Q2 2019 the coefficient started increasing and in September 2020 amounted to 62.3% on deposits and 57.1% on loans. The dollarization coefficient decreased QoQ by 1.1 pp on deposits and by 0.4 pp on loans.



5. Social Sector Indicators

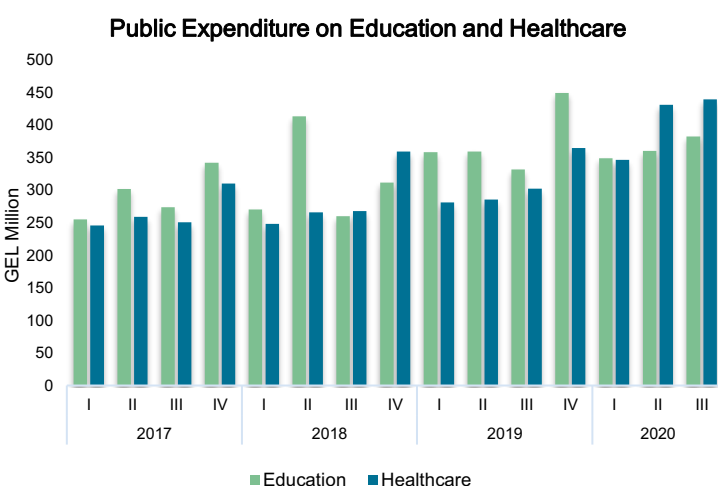
In Q3 2020, the subsistence minimum insignificantly decreased YoY.

At the end of Q3 2020, in June, the average consumer subsistence minimum totaled GEL 162.9, GEL 5.3 lower YoY.



In Q3 2020 compared to the same period of the previous year public expenditures on healthcare and education significantly increased.

In Q3 2020, expenditure on education (as per functional classification) amounted to GEL 382.5 million, 15.3% increase compared to the same period of the last year (total expenditure is 98.6% of 9-month plan). Meanwhile expenditure on healthcare reached GEL 439.3 million, 45.3% increase compared to the same period of the last year (total expenditure is 91.8% of 9-month plan).



In Q2 2020, the total number and salary of employees in the business sector decreased YoY.

In Q2 2020, the number of business sector employees increased by 8.2% YoY and amounted to 631.8 thousand. Average monthly salary decreased by GEL 65.5 YoY and amounted to GEL 1,175.6.

