



Quarterly Macroeconomic Review *

Main Indicators of Quarter

- According to preliminary estimate real GDP fell by 4.2%
- Annual inflation amounted to 4.5%
- GEL depreciated against USD by 1.3% QoQ and by 11.7% YoY
- Negative overall balance of consolidated budget amounted to GEL 588.3 million
- Dollarization coefficient increased on deposits and decreased on loans

Macroeconomic Analysis and Tax Policy Unit

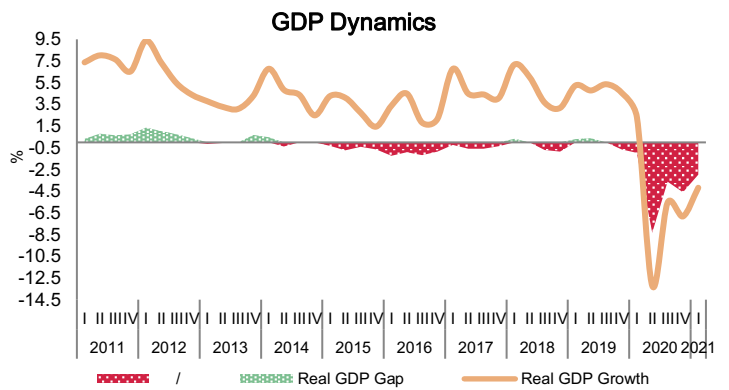
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*According to the release calendar of the statistical data, some indicators represent the variables of the previous quarter

1. Real sector

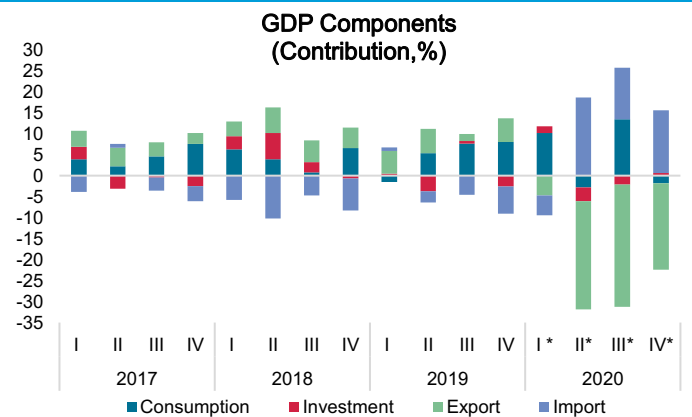
In Q1 2021, according to preliminary estimate average growth of real GDP amounted to -4.2%.

According to PBO evaluation, in Q1 2021, 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 -4.6%.



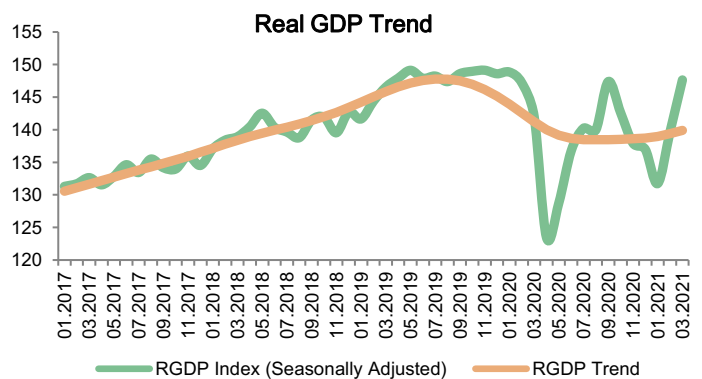
In Q4 2020, as per PBO estimates, export reduction played a major role in GDP decline.

Analyzing GDP components, in Q4 2020, real GDP decrease was primarily driven by export (-20.6%), and consumption (-1.8%). In the reporting period, import (15.0%) and investment (0.6%) had a positive impact on GDP.



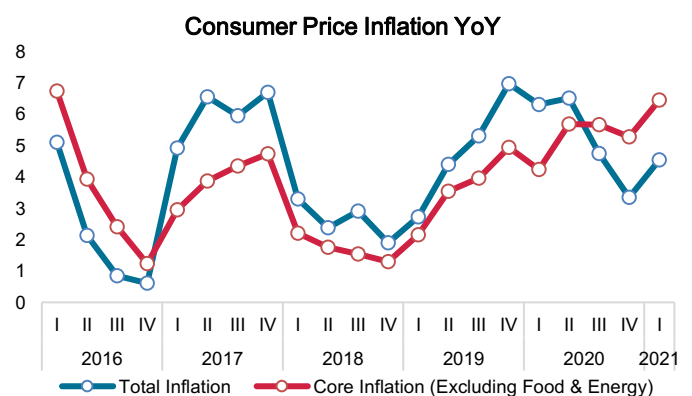
Observing monthly data reveals that the economic growth trend is not linear.

According to preliminary data, in Q1 2021, YoY growth of the real GDP trend¹ totaled -2.2%, compared to -1.7% in the respective period of 2020.



In Q1 2021, consumer price inflation has increased YoY trend.

In Q1 2021, average annual inflation reached 4.5%, higher than the inflation target of 3%. In Q1 2021, inflation was driven by increasing prices on food and non-alcoholic beverages, healthcare, furnishing, household equipment and routine maintenance of the house, and other groups.



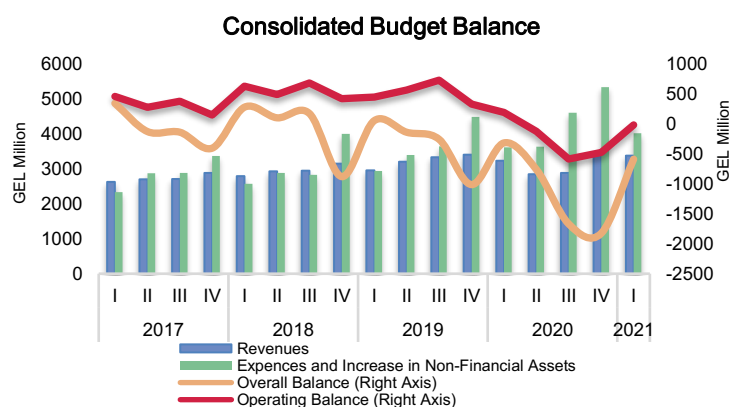
¹ The trend represents monthly economic growth estimate with removed seasonality and random shocks

2. Fiscal Sector

In Q1 2021, the consolidated budget balance was negative.

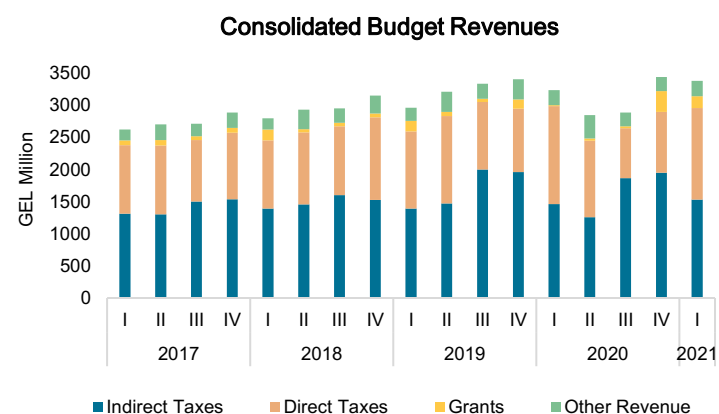
In Q1 2020, consolidated budget revenues increased by 4.5% YoY and reached GEL 3,378 million, while expenses and acquisition of non-financial assets increased by 11% and totaled GEL 4,016 million.

In Q1 2021, compared to Q1 2020, the operating balance decreased by GEL 211.7 million, and the negative overall balance decreased by GEL 271.4 million.



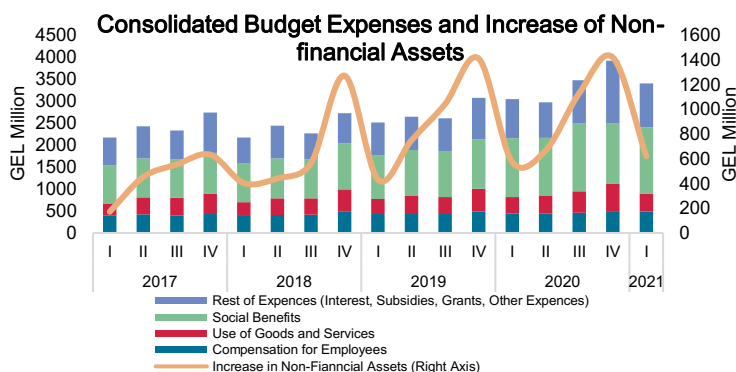
In Q1 2021, tax revenues decreased by 0.9% YoY and amounted to GEL 2,957 million.

In Q1 2021, consolidated budget direct taxes decreased by 6.1% YoY and totaled GEL 1428 million, while indirect taxes increased by 4.6% and reached GEL 1,529 million.



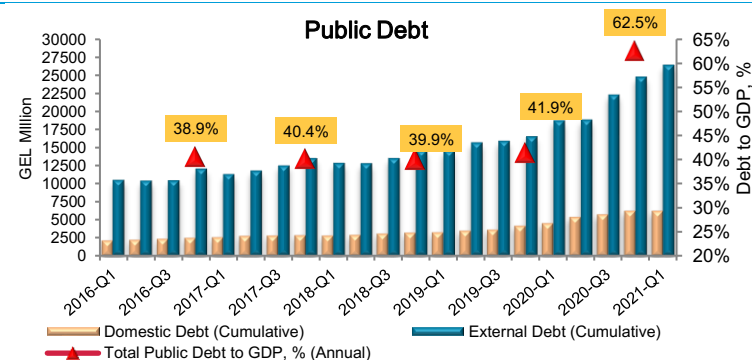
In Q1 2021, recurrent and capital expenditures increased YoY.

In Q1 2021, consolidated budget recurrent expenses increased by 11.7% YoY and amounted to GEL 3,396 million. Expenses in non-financial assets (i.e. capital expenditure) increased by 8.1% YoY and reached GEL 619.6 million.



As of 31 March 2021, public debt in nominal terms reached GEL 32,242 million, a 39% increase YoY.

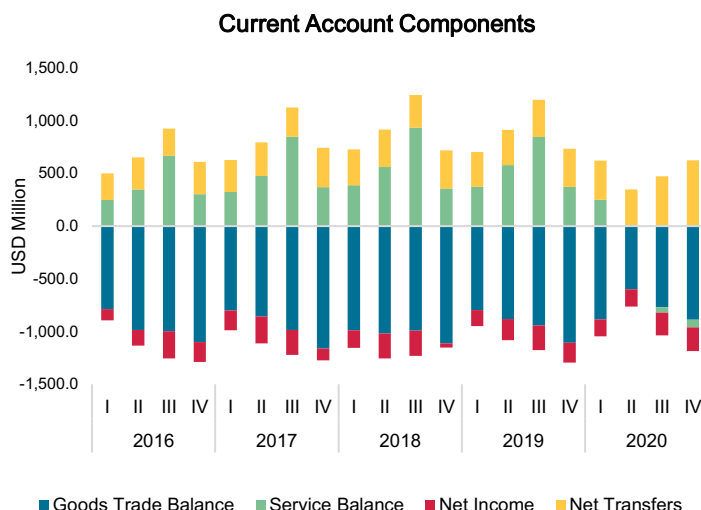
The external debt share made up 81.7% (80.5% at the end of Q1 2020), while the domestic debt share reached 18.3% (19.5% at the end of Q1 2020).



3. External Sector

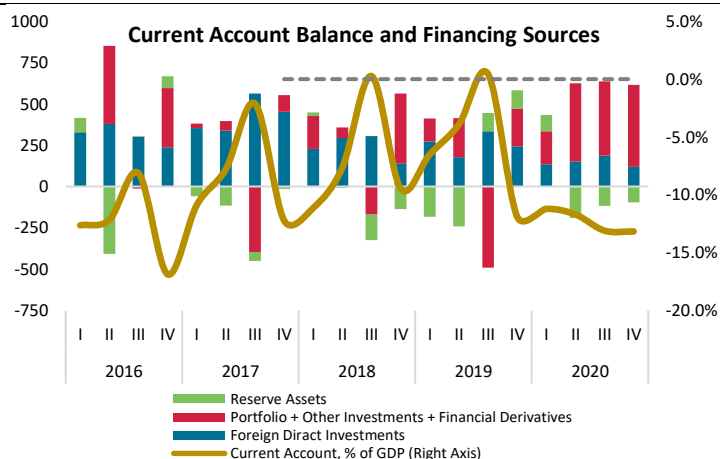
In Q4 2020, the current account balance was negative.

In Q4 2020, the negative current account balance reached USD 560.2 million (-13% of GDP). Analyzing current account components, deficit in goods and services trade and net income was only partially compensated by surplus in transfers. It needs to be noted that because of ongoing difficulties export of tourism was decreased by 93.8% in Q4 2020.



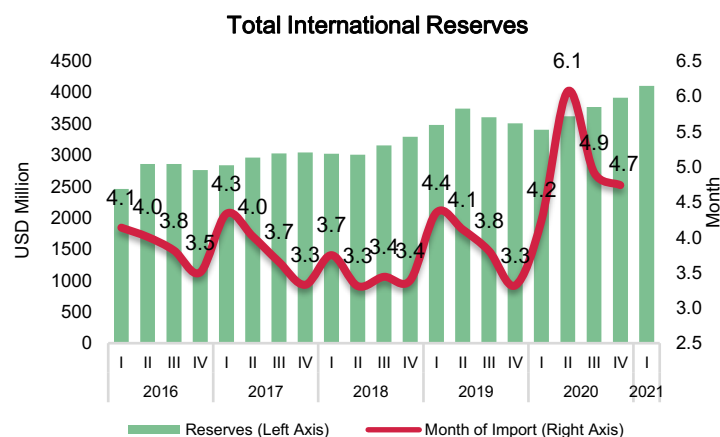
In Q4 2020, the primary source of the capital and financial account deficit was foreign direct and other investments.

During this period, net direct investments totaled USD 120.0 million (2.8% of GDP), 50.6% decrease in comparison with the same period of the last year.



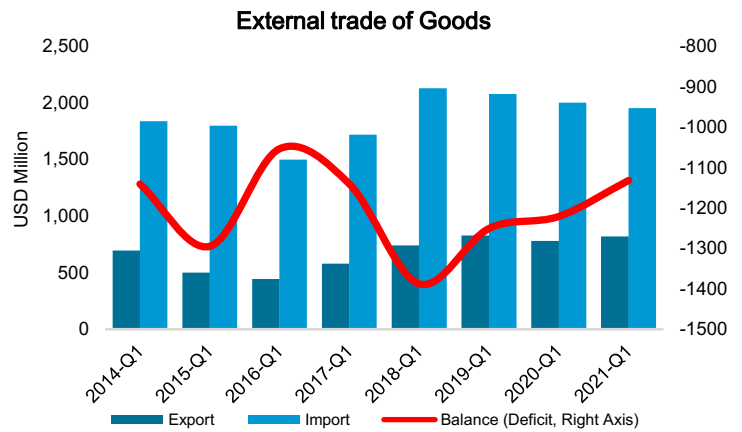
In Q1 2021, total international reserves reached USD 4,101 million

At the end of the Q1 2021 total international reserves made up USD 4,101 million, a 20.6% increase YoY. In 2020, in response to the sharp exchange rate depreciation the National Bank of Georgia sold USD 873 million. In January-March 2021, NBG sold USD 160 million.



In Q1 2021, upward trend was observed in export and downward trend in import of goods.

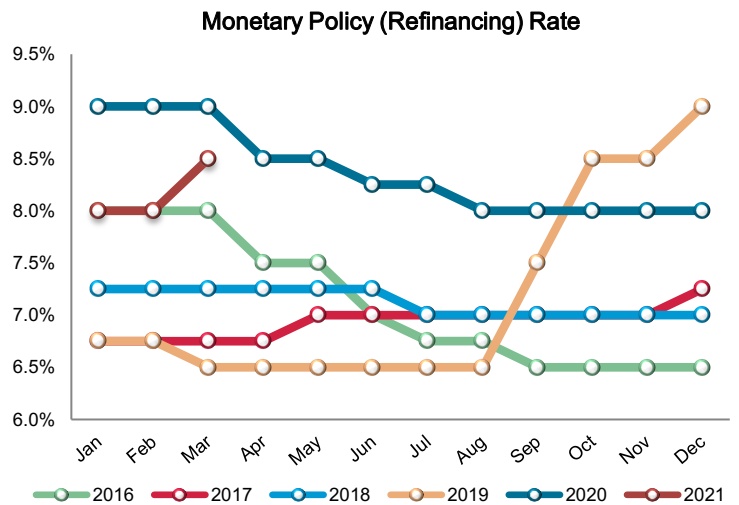
In Q1 2021, compared to the same period of the previous year export increased by 5.2%, while import decreased by 2.4%. It is noteworthy that after a significant decline in export in 2020, an increase was recorded in export in Q1 2021. The growth rate of export is positive since Q1 2017 but because of explosion of corona virus pandemic in Q1 2020, the export and import decreased in 2020. In the reporting period share of the export in external trade increased from 28.0% to 29.6%.



4. Monetary Sector

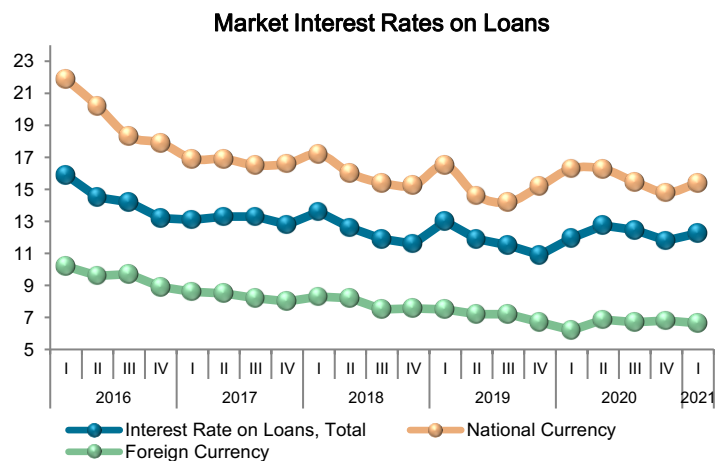
In Q1 2021 the monetary policy rate was 8.5%.

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 Q4 2020 amounted to 8.0%. The rate was maintained on same level in January-February 2021, while in March the rate increased to 8.5%.



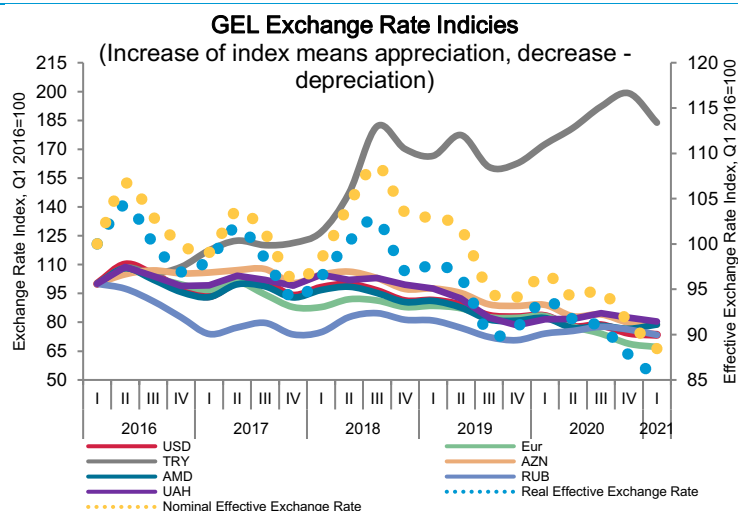
In Q1 2021, the market interest rate on loans reached 12.3%.

In Q1 2021 market interest rate on loans increased by 0.5 pp QoQ and reached 12.3%. The interest rate on national currency increased by 0.6 pp QoQ (15.4%) loans, while on foreign currency loans decreased by 0.2 pp (6.6%).



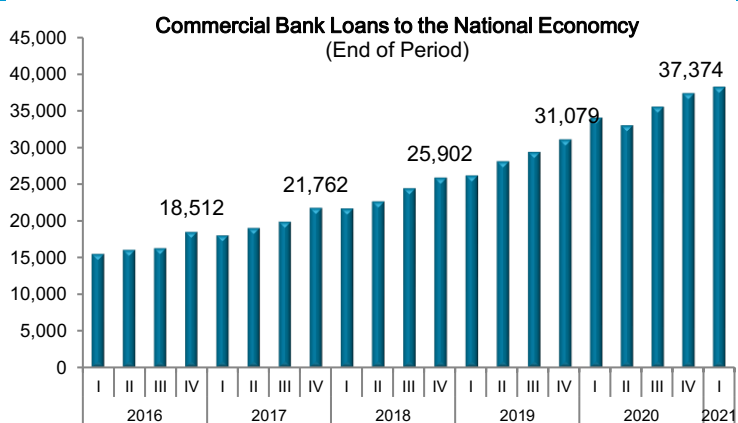
In Q1 2021, the exchange rate of GEL depreciated QoQ against all primary currencies, except of AMD.

In Q1 2021, the exchange rate of GEL (period average) against USD depreciated by 1.3% QoQ and depreciated by 11.7% YoY. Compared to the Q1 2020 GEL depreciated against EUR (19.3%), AZN (11.6%), UAH (1.4%), RUB (0.9%) and AMD (4.1%), while appreciated against TRY (6.5%).



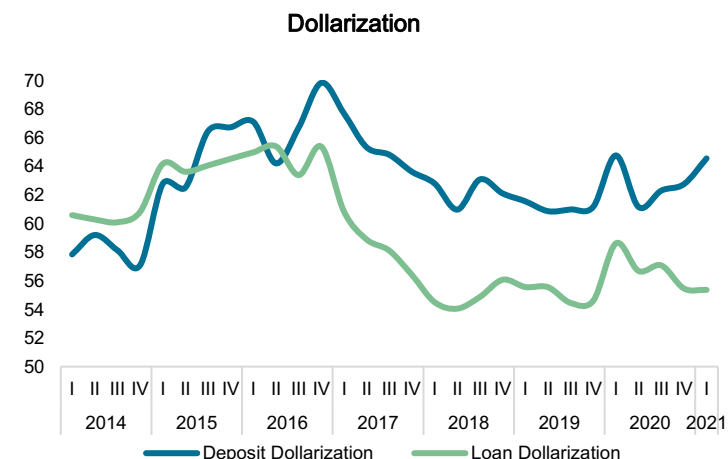
In Q1 2021, loans to the national economy (end of period) increased.

In Q1 2021, loans to the national economy increased by 12.3% YoY and by 2.3% QoQ. More than half of total loans was distributed to households.



In Q1 2021, the dollarization coefficient decreased both on 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 Q4 2019 the coefficient started increasing and in December 2020 amounted to 62.7% on deposits and 55.5% on loans. The dollarization coefficient increased in Q1 2021 QoQ by 1.8 pp on deposits and decreased by 0.1 pp on loans.

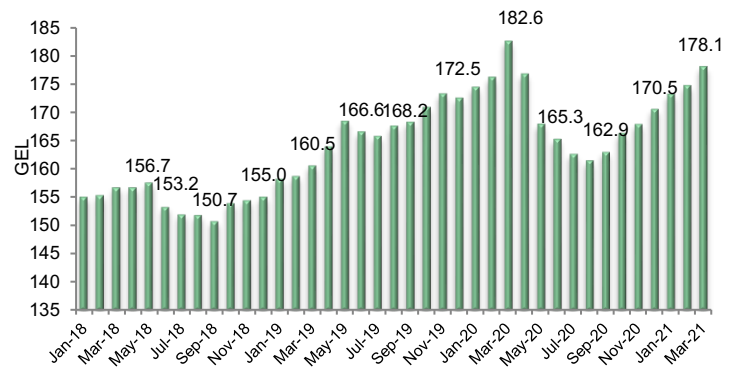


5. Social Sector

In Q1 2021, the subsistence minimum insignificantly decreased YoY.

At the end of Q1 2021, in March, the average consumer subsistence minimum totaled GEL 178.1, GEL 4.5 lower YoY.

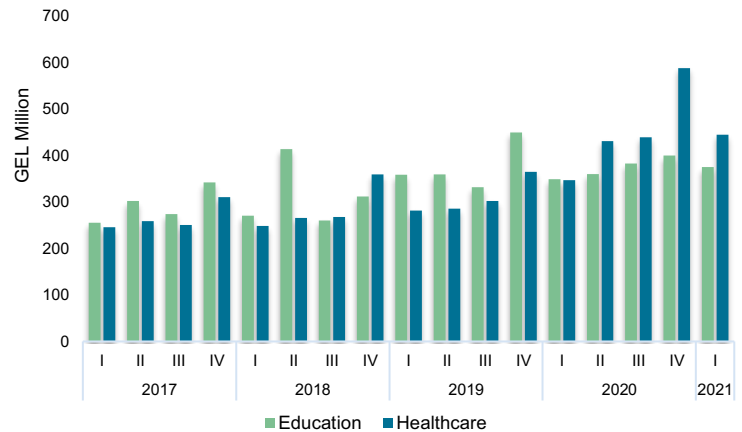
Subsistence Minimum for Average Consumer



In Q1 2021 compared to the same period of the previous year public expenditures on healthcare and education significantly increased.

on education (as per functional classification) amounted to GEL 375 million, 7.4% increase compared to the same period of the last year (94% of quarterly plan). Meanwhile expenditure on healthcare reached GEL 444.6 million, 28.3% increase compared to the same period of the last year (87% of quarterly plan).

Public Expenditure on Education and Healthcare



In Q4 2020, the total number of employees in the business sector decreased YoY, while salary increased insignificantly.

In Q4 2020, the number of business sector employees decreased by 10.1% YoY and amounted to 641.6 thousand. Average monthly salary increased by GEL 12.3 YoY and amounted to GEL 1,417.

Employment and Wages

