



Quarterly Macroeconomic Review *

Main Indicators of Quarter

- According to preliminary estimate real GDP increased by 29.8%
- Annual inflation amounted to 8.3%
- GEL depreciated against USD by 0.4% QoQ and by 5.7% YoY
- Negative overall balance of consolidated budget amounted to GEL 1,101.7 million
- Dollarization coefficient decreased on both deposits and loans

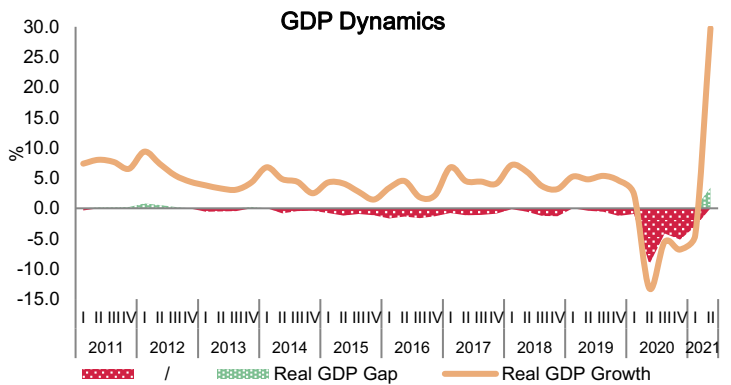
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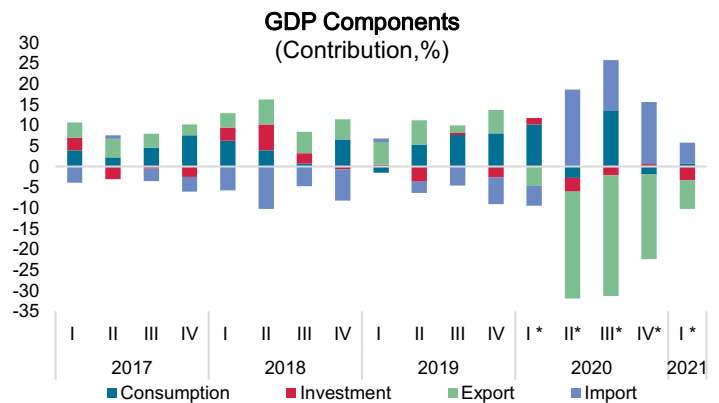
*According to the release calendar of the statistical data, some indicators represent the variables of the previous quarter

1. Real sector

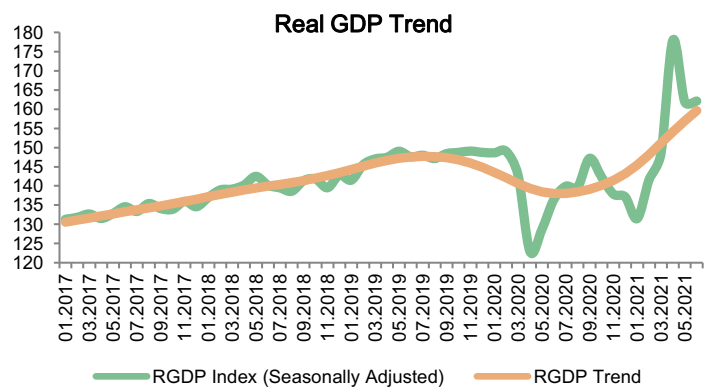
In Q2 2021, according to preliminary estimate average growth of real GDP amounted to 29.8%. According to PBO evaluation, in Q2 2021, potential GDP was lower than the statistical measurement, hence the positive output gap equaled 3.4%, while the output gap for the previous quarter was negative -3.0%.



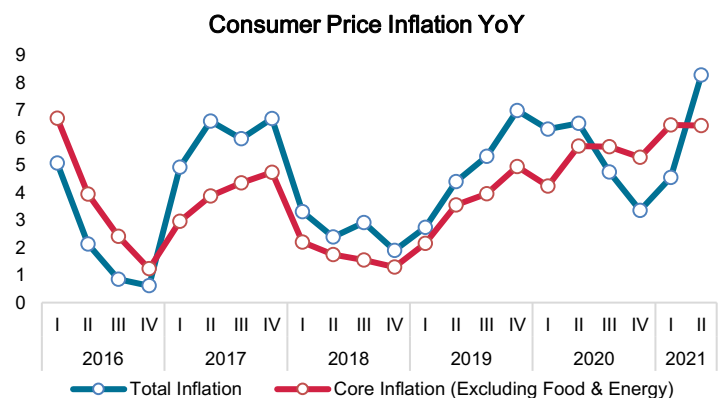
In Q1 2021, as per PBO estimates, export reduction played a major role in GDP decline. Analyzing GDP components, in Q1 2021, real GDP decrease was primarily driven by export (-7.0%), and investment (-3.3%). In the reporting period, import (5.1%) and consumption (0.7%) had a positive impact on GDP.



Observing monthly data reveals that the economic growth trend is not linear. According to preliminary data, in Q2 2021, YoY growth of the real GDP trend¹ was 13.2%, compared to -5.8% in the respective period of 2020.



In Q2 2021, consumer price inflation has increased YoY trend. In Q2 2021, average annual inflation reached 8.3%, higher than the inflation target of 3%. In Q2 2021, inflation was driven by increasing prices on food and non-alcoholic beverages, transport, healthcare, housing, water, electricity, gas and other fuels, and other groups.



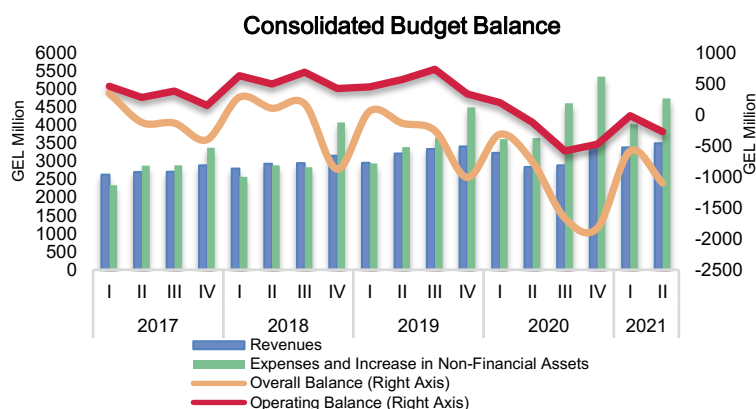
¹ The trend represents monthly economic growth estimate with removed seasonality and random shocks

2. Fiscal Sector

In Q2 2021, the consolidated budget balance was negative.

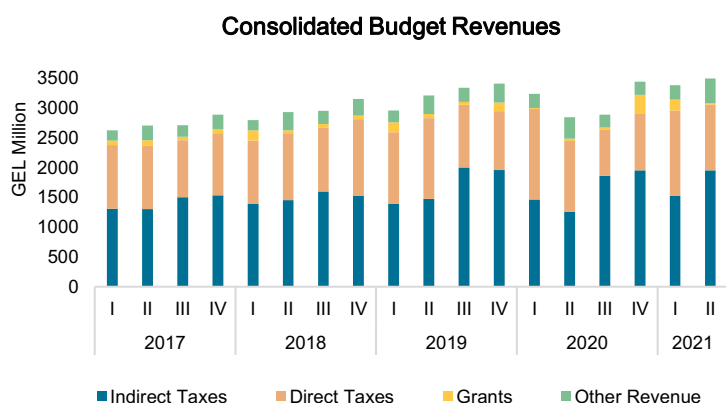
In Q2 2021, consolidated budget revenues increased by 22.7% YoY and reached GEL 3,492 million, while expenses and acquisition of non-financial assets increased by 30% and totaled GEL 4,735 million.

In Q2 2021, compared to Q2 2020, the operating balance decreased by GEL 150.1 million, and the overall balance decreased by GEL 341.9 million.



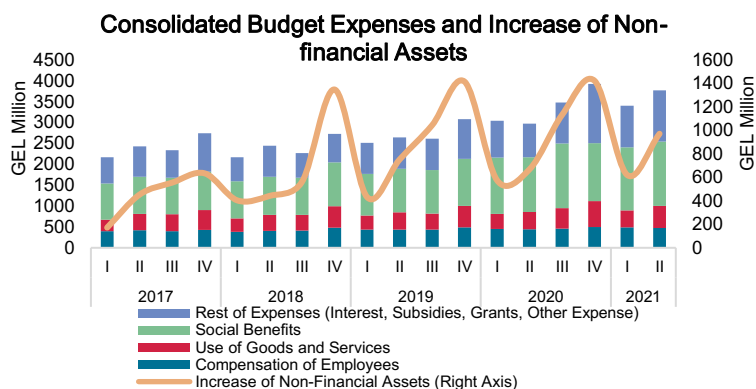
In Q2 2021, tax revenues increased by 24.8% YoY and amounted to GEL 3,051 million.

In Q2 2021, consolidated budget direct taxes decreased by 7.3% YoY and totaled GEL 1,101 million, while indirect taxes increased by 55.1% and reached GEL 1,951 million.



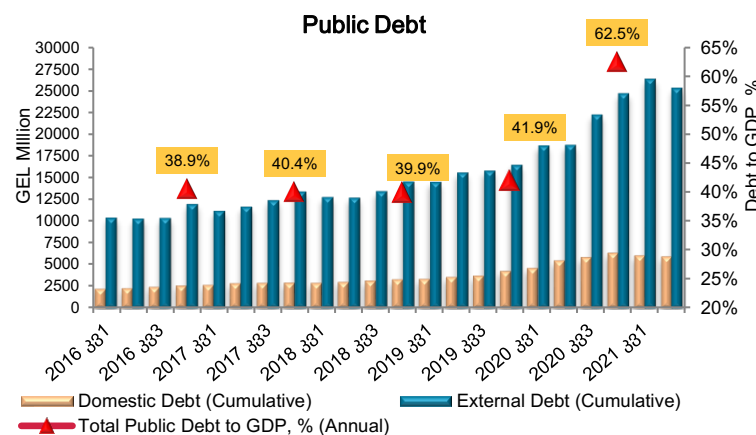
In Q2 2021, recurrent and capital expenditures increased YoY.

In Q2 2021, consolidated budget recurrent expenses increased by 26.9% YoY and amounted to GEL 3,766 million. Expenses in non-financial assets (i.e. capital expenditure) increased by 45.2% YoY and reached GEL 969 million.



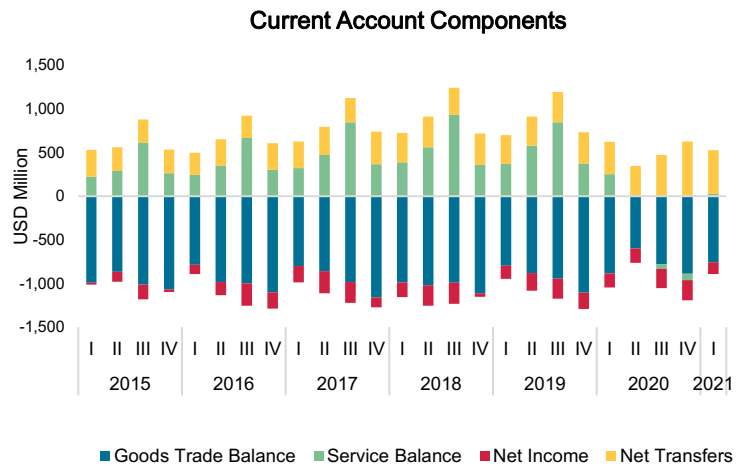
As of 30 June 2021, public debt in nominal terms reached GEL 31,124 million, a 29% increase YoY.

The external debt share made up 81.4% (77.8% at the end of Q2 2020), while the domestic debt share reached 18.6% (22.2% at the end of Q2 2020).

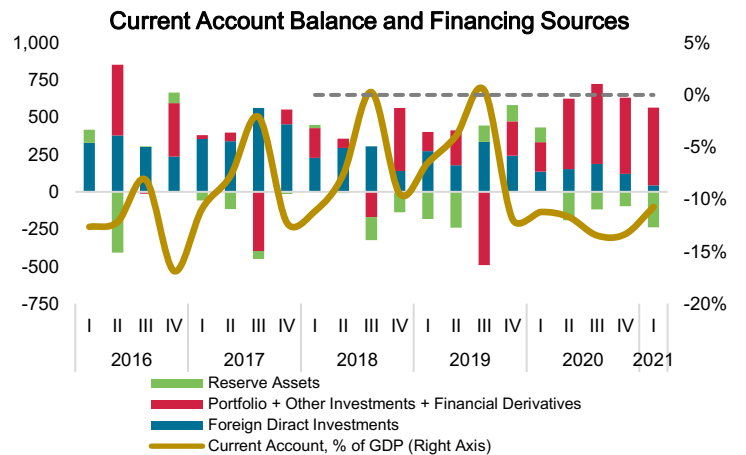


3. External Sector

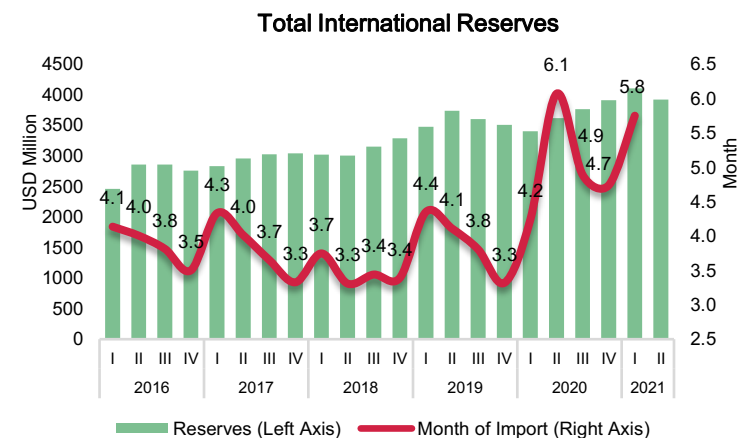
In Q1 2021, the current account balance was negative.
 In Q1 2021, the negative current account balance reached USD 365.5 million (-10.7% of GDP). Analyzing current account components, the trade balance of goods and services and net income deficit were only partially compensated by the surplus in transfers. It needs to be noted that because of ongoing difficulties export of tourism was decreased by 87.5% in Q1 2021.



In Q1 2021, the primary source of the current account deficit was foreign direct and other investments.
 During this period, net direct investments totaled USD 42.3 million (1.2% of GDP), a 68.8% decrease in comparison with the same period of the previous year.

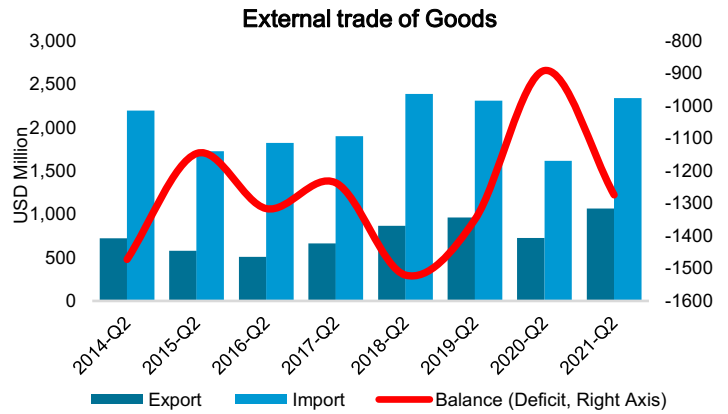


In Q2 2021, total international reserves reached USD 3,918 million.
 At the end of Q2 2021 total international reserves made up USD 3,918 million, an 8.4% increase YoY. In 2020, in response to the sharp exchange rate depreciation, the National Bank of Georgia sold USD 873 million. In January-April 2021, NBG sold USD 243 million.



In Q2 2021, an upward trend was observed in both export and import of goods.

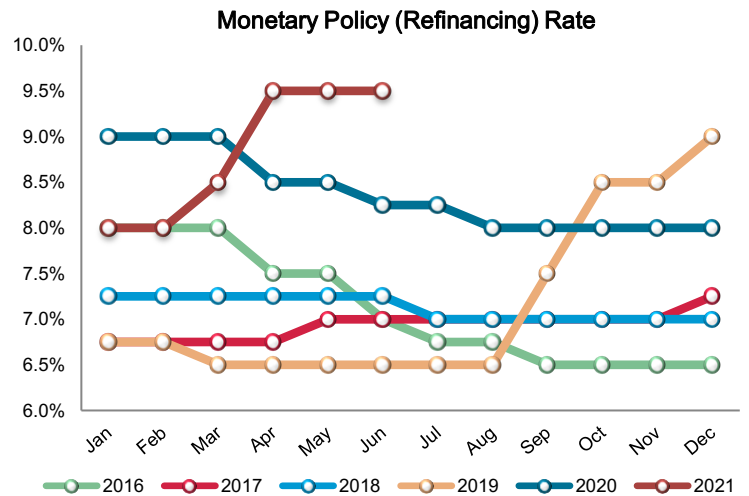
In Q2 2021, compared to the same period of the previous year export increased by 47.1%, while import increased by 44.8%. It is noteworthy that after a significant decline in 2020, notable growth was recorded in both export and import in Q2 2021. In the reporting period share of the export in external trade increased from 31.0% to 31.3%.



4. Monetary Sector

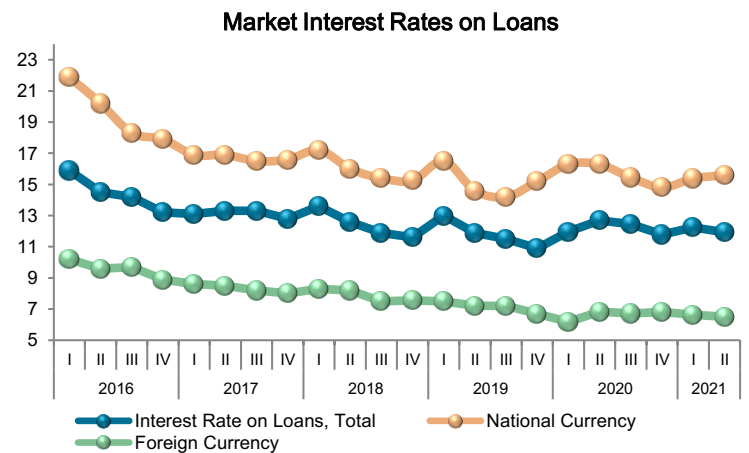
In Q2 2021 the monetary policy rate was 9.5%.

At the beginning of 2020, the monetary policy rate was 9.0%, and from Q2 it started to decrease gradually and was set at 8.0% by the end of 2020. 8% was maintained in January-February 2021, and from March, in order to mitigate inflationary pressures, monetary policy was strengthened gradually, and the policy rate increased to 8.5%. In April, the Monetary Policy Committee increased the rate to 9.5% and was maintained at this level during the second quarter of 2021.



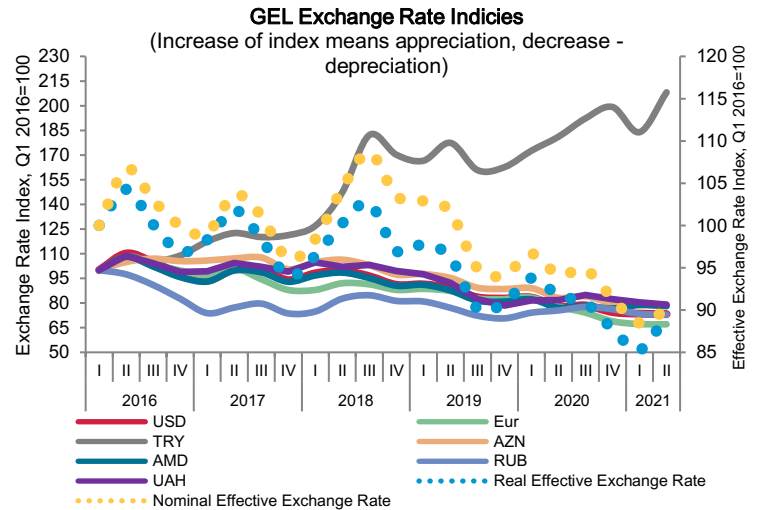
In Q2 2021, the market interest rate on loans reached 11.9%.

In Q2 2021 market interest rate on loans decreased by 0.3 pp QoQ and reached 11.9%. The interest rate on national currency increased by 0.2 pp QoQ (15.6%) loans, while on foreign currency loans decreased by 0.1 pp (6.5%).



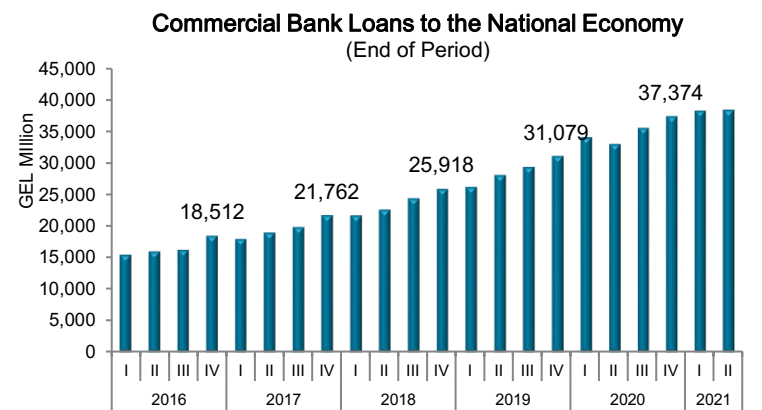
In Q2 2021, the exchange rate of GEL depreciated QoQ against all primary currencies, except of TRY.

In Q2 2021, the exchange rate of GEL (period average) against USD depreciated by 0.4% QoQ and depreciated by 5.7% YoY. Compared to the Q2 2020 GEL depreciated against EUR (13.8%), AZN (5.7%), UAH (3.3%), and RUB (3.4%), while appreciated against TRY (14.9%) and AMD (1.3%).



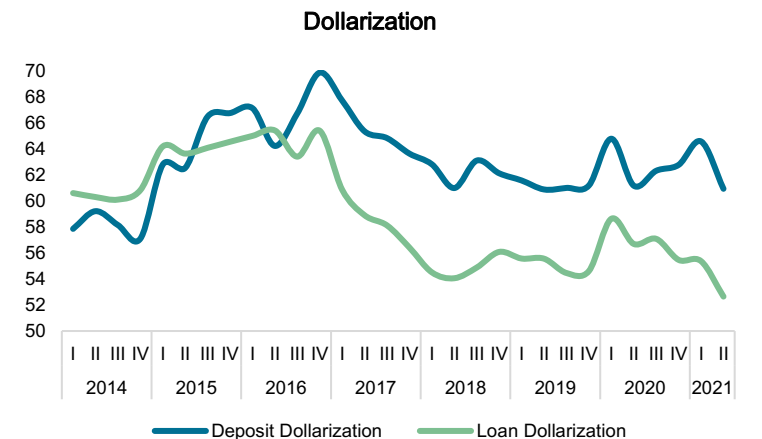
In Q2 2021, loans to the national economy (end of period) increased.

In Q2 2021, loans to the national economy increased by 16.4% YoY and by 0.4% QoQ. More than half of total loans was distributed to households.



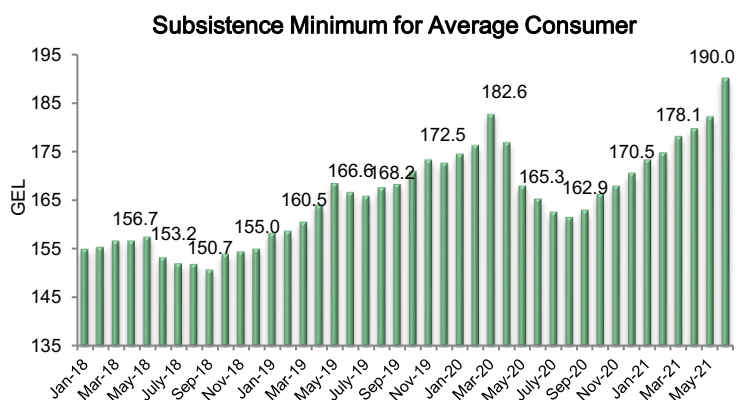
In Q2 2021, the dollarization coefficient decreased both on deposits and loans.

In Q1 2020, both indices showed high growth, and the dollarization of deposits and loans amounted to 64.8% and 58.6%, respectively. By the end of 2020, dollarization had declined, although in the first quarter of 2021, the dollarization of deposits was still high at 64.6%. In Q2 2021, compared to the previous quarter, the dollarization coefficient on deposits decreased by 3.6 pp to 60.9%, while on loans it decreased by 2.7 pp to 52.6%.



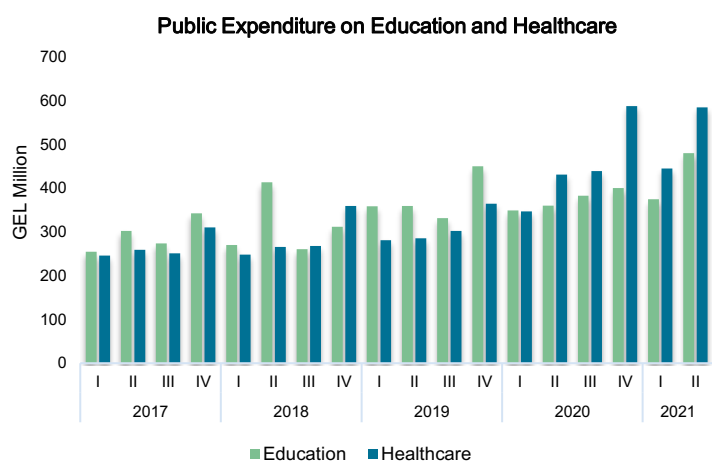
5. Social Sector

In Q2 2021, the subsistence minimum increased YoY. At the end of Q2 2021, in June, the average consumer subsistence minimum totaled GEL 190.0, GEL 24.7 higher YoY.



In Q2 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 480 million, 33.2% increase compared to the same period of the last year (99.96% of quarterly plan). Meanwhile expenditure on healthcare reached GEL 584.5 million, 35.6% increase compared to the same period of the last year (91.9% of quarterly plan).



In Q1 2021, the total number of employees in the business sector decreased YoY, while salary increased.

In Q1 2021, the number of business sector employees decreased by 9.0% YoY and amounted to 622.7 thousand. Average monthly salary increased by GEL 56.5 YoY and amounted to GEL 1,283.5.

