



Quarterly Macroeconomic Review *

Main Indicators of Quarter

- According to preliminary estimate real GDP increased by 14.4%
- Annual inflation amounted to 13.2%
- GEL appreciated against USD by 0.4% QoQ and by 6.4% YoY
- Positive overall balance of consolidated budget amounted to GEL 38.8 million
- Dollarization coefficient decreased on both deposits and loans YoY

Macroeconomic Analysis and Tax Policy Unit

E-Mail: pbo@parliament.ge

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

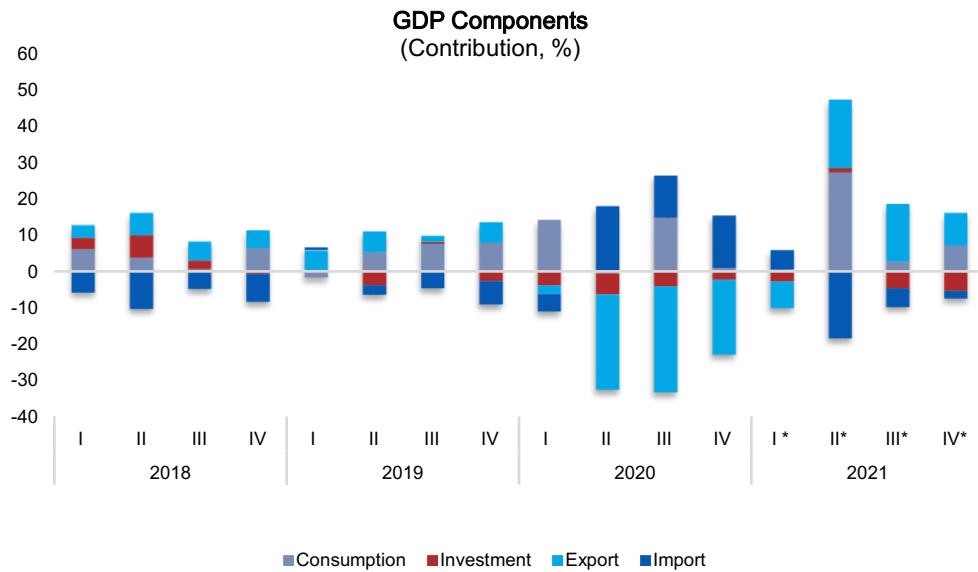
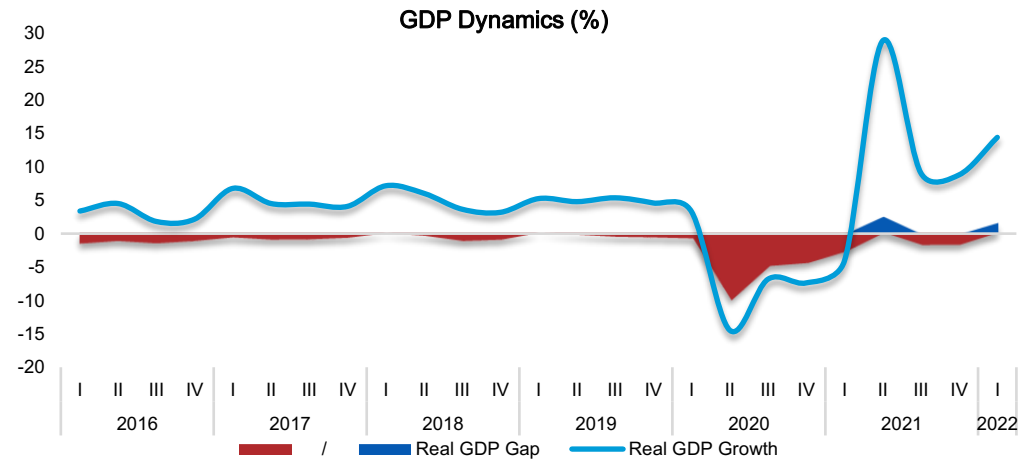


1. Real sector

In Q1 2022, according to GEOSTAT preliminary estimate average growth of real GDP amounted to 14.4%.

According to PBO evaluation, in Q1 2022, potential GDP was lower than the statistical measurement, hence the positive output gap equaled to 1.6%, while the output gap for the previous quarter was negative -1.7%.

It should be noted, that the economic growth estimate for Q1 2022 made by the Parliamentary Budget Office in February 2022 was 9.3¹%, which took into account the epidemiological situation in the country worsened by Covid Pandemic Omicron variant, as well as the impact of the expected war between Russia and Ukraine on the Georgian economy. However, the preliminary estimate from Geostat showed better-than-expected economic growth. Despite the war in neighboring countries, economic activity in Georgia did not slow down during the first quarter. Moreover, in Q1 2022, there was an increase in revenues from international travel, as well as remittances and foreign trade.

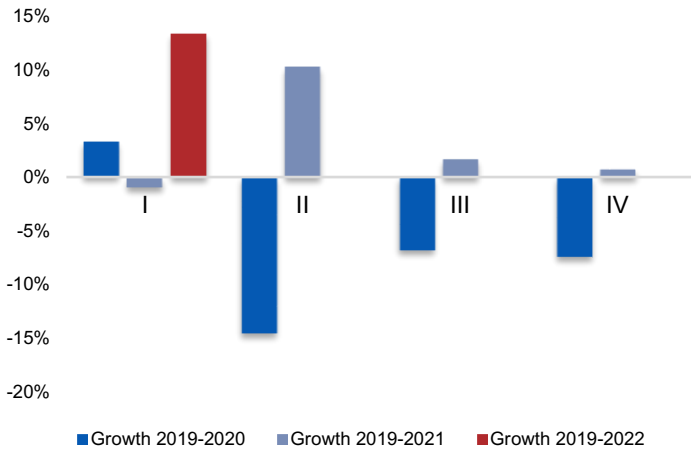


In Q4* 2021, as per PBO estimates, export and consumption increase played major roles in GDP growth.

Analyzing GDP components, in Q4 2021, real GDP increase was primarily driven by export (9.0%) and consumption (7.2%). In the reporting period, investment (-5.3%) and import (-2.2%) had a negative impact on GDP.

¹ www.pbo.parliament.ge

Economic Growth Compared to 2019

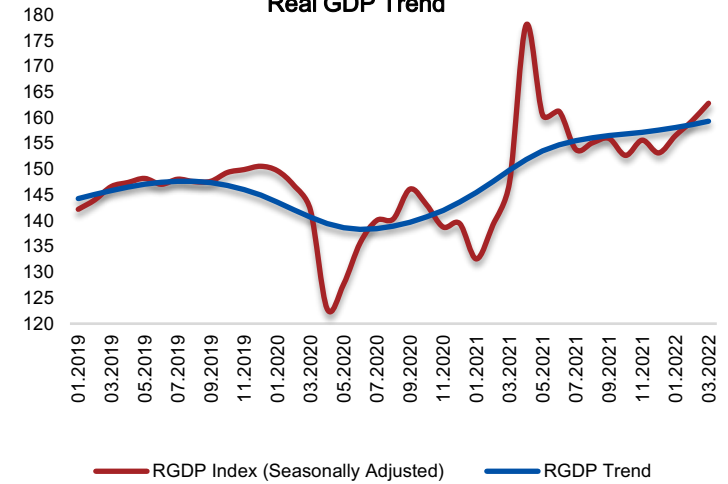


Observing monthly data reveals that the economic growth trend is not linear.

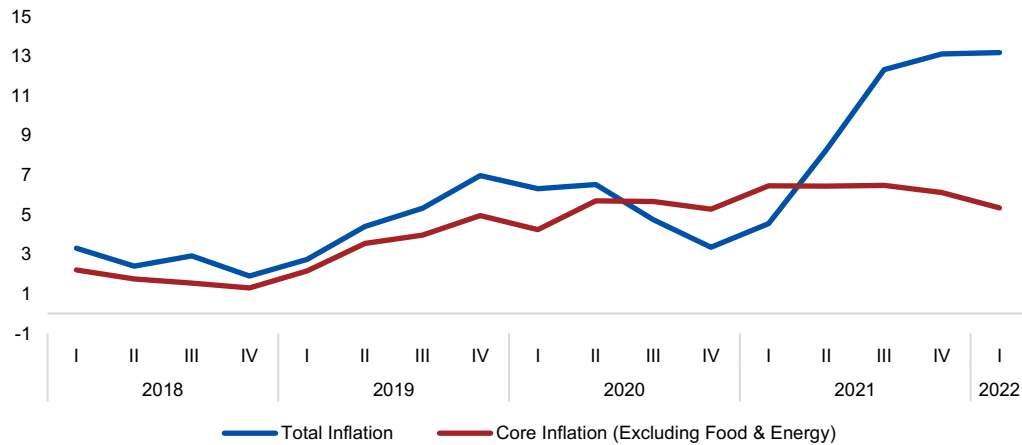
According to PBO estimate based on preliminary data, in Q1 2022, YoY growth of the real GDP trend² was 7.5%, compared to 10.5% growth rate in the respective period of 2021.

Should be marked high economic growth rates in recent months and fast recovery process compared to 2019, pre pandemic period.

Real GDP Trend



Consumer Price Inflation YoY



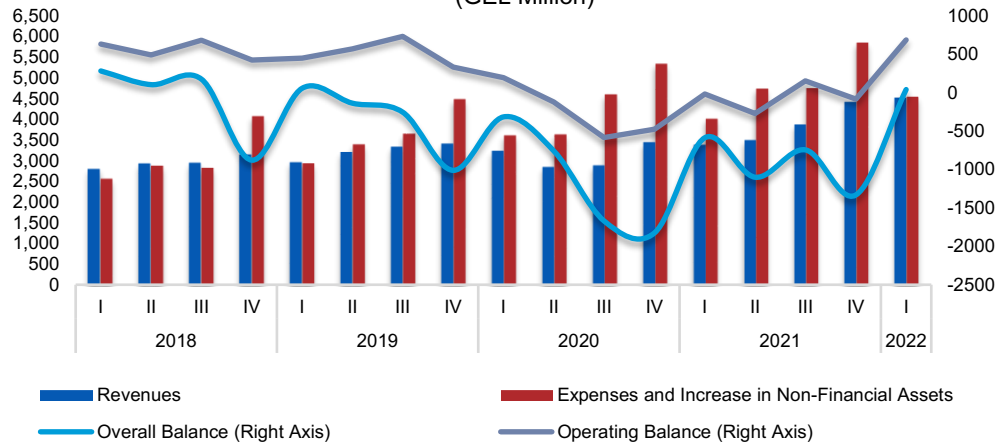
In Q1 2022, consumer price inflation has increased YoY trend.

In Q1 2022, average annual inflation reached 13.2%, higher than the inflation target of 3%. In Q1 2022, inflation was driven by increasing prices on food and non-alcoholic beverages, transport, healthcare, housing, water, electricity, gas and other fuels, and other groups.

² The trend represents monthly economic growth estimate with removed seasonality and random shocks

2. Fiscal Sector

Consolidated Budget Balance
(GEL Million)



In Q1 2022, the consolidated budget balance was positive.

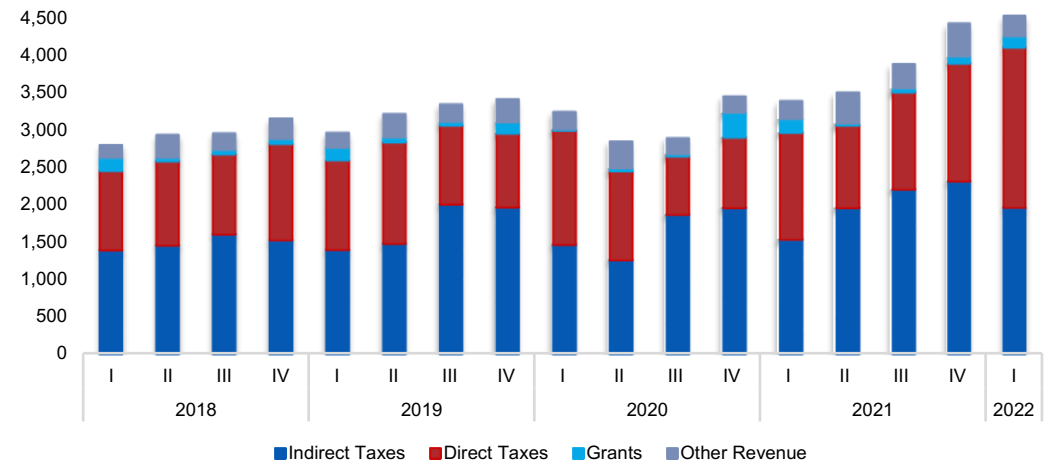
In Q1 2022, consolidated budget revenues increased by 33.5% YoY and reached GEL 4,508.7 million, while expenses and acquisition of non-financial assets increased by 13.1% and totaled GEL 4,541.2 million.

In Q1 2022, compared to Q1 2021, the operating balance increased by GEL 701.8 million and amounted to GEL 683.6 million, while the overall balance increased by GEL 627.1 million and totaled GEL 38.8 million. It is worth mentioning that in the first quarter of 2021, the overall consolidated budget balance was negative (budget deficit) and amounted to GEL 588.3 million.

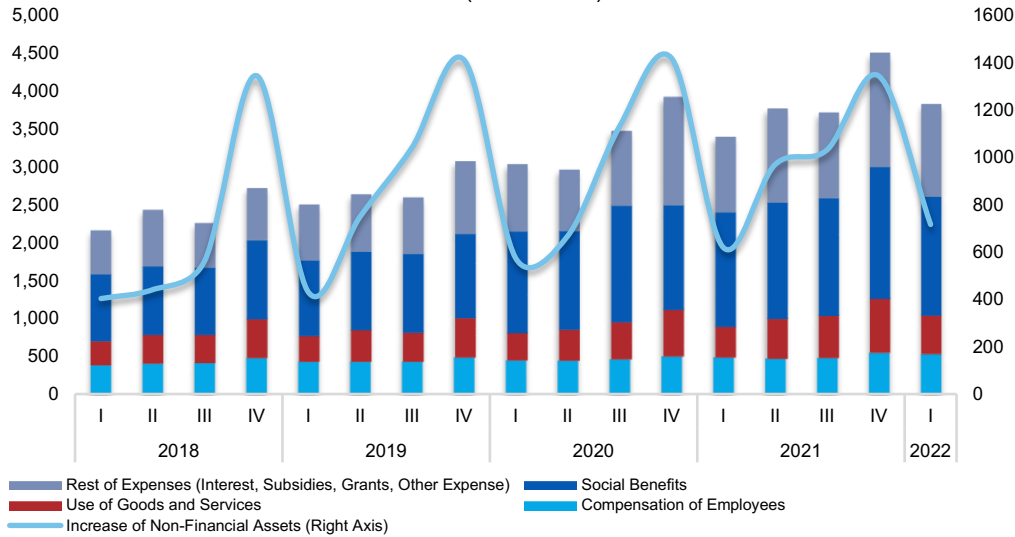
In Q1 2022, tax revenues of consolidated budget increased by 38.4% YoY and amounted to GEL 4,091 million.

In Q1 2022, direct taxes of consolidated budget increased by 49.7% YoY and totaled GEL 2,138 million, while indirect taxes increased by 27.8% and reached GEL 1,953 million. It is noteworthy that during the period, the grant component decreased by 20.3% and amounted to GEL 147 million, while other revenues increased by 14.2% and amounted to GEL 271 million.

Consolidated Budget Revenues
(GEL Million)



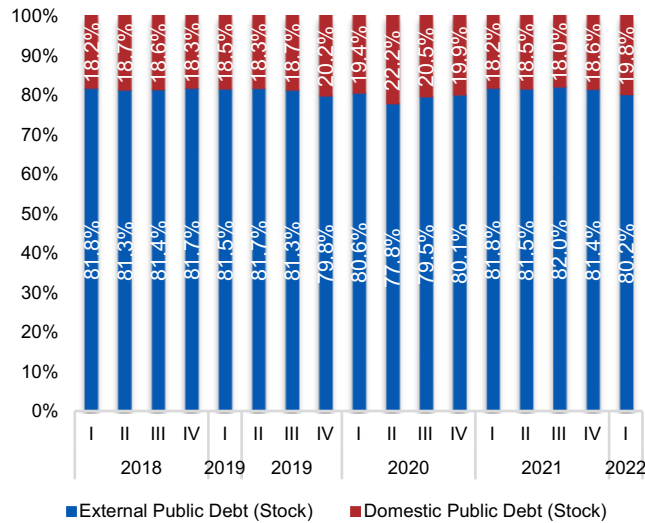
Consolidated Budget Expenditures and Increase of Non-financial Assets (GEL Million)



In Q1 2022, both recurrent expenditure and capital expenditures increased YoY.

In Q1 2022, consolidated budget recurrent expenses increased by 12.6% YoY and amounted to GEL 3,825 million. Expenses in non-financial assets (i.e. capital expenditure) increased by 15.6% YoY and reached GEL 716 million. During the mentioned period expenditures on goods and services increased by 26.6% and amounted to GEL 510 million. Expenditures on compensation of employees and social benefits increased by 8.5% and 3.9%, respectively, while in nominal terms they amounted to GEL 529 million and GEL 1,572 million. Other expenses (interest, subsidies, grants, other services) increased by 22.3% and amounted to GEL 1,214 million.

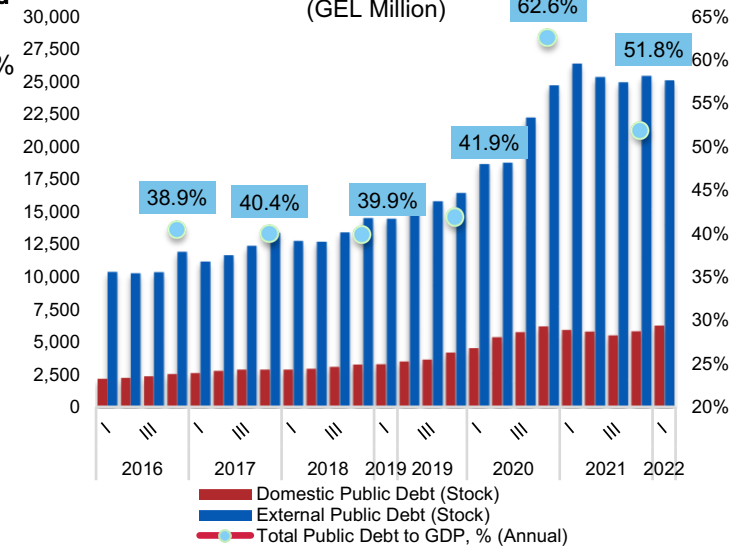
Dept Composition



As of 31 March 2022, public debt in nominal terms reached GEL 31,265 million, a 2.9% decrease YoY.

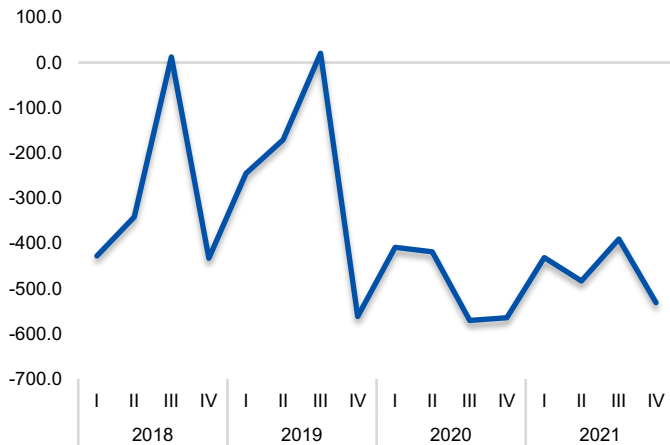
The external debt share made up 80.2% in Q1 2022 (81.4% at the end of Q1 2021), while the domestic debt share reached 19.8% (18.6% at the end of Q1 2021).

Public Debt (GEL Million)



3. External Sector

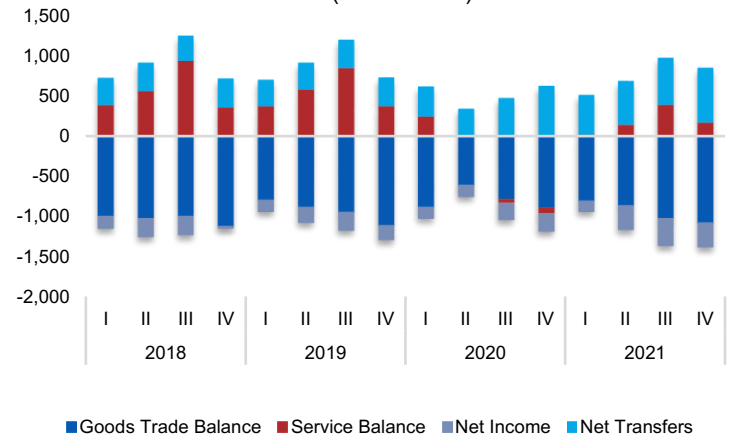
Current Account



In Q4* 2021, the BOP current account balance was negative.

In Q4 2021, the negative current account balance reached USD 531.1 million (-9.6% of GDP), which is 5.9% decrease YoY (-564.5 million US dollars in Q4 2021). 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. However, significant improvements were observed since Q2-Q4. In Q1 2021, this figure increased by 790% YoY.

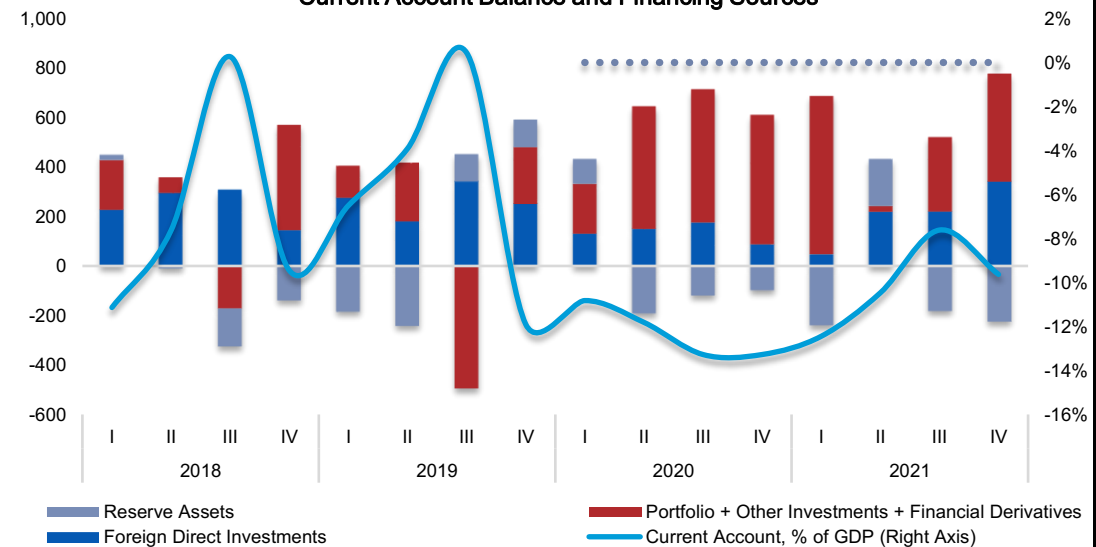
Current Account Components (USD Million)



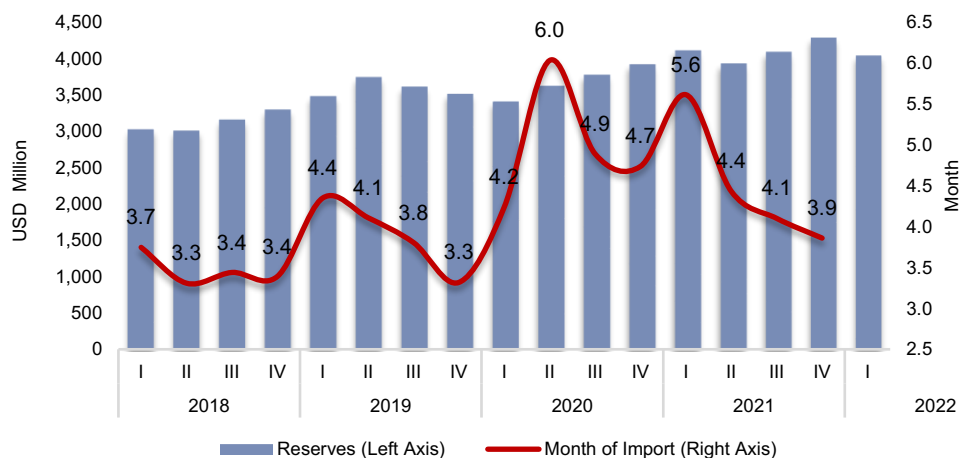
In Q4* 2021, the primary financing source of the current account deficit was portfolio and other investments, financial derivatives and foreign direct investments.

During this period, net direct investments totaled USD 341 million (6.2% of GDP), a 284.3% increase in comparison with the same period of the previous year. As for the amount of portfolio investments, other investments and financial derivatives, in the fourth quarter of 2021 they totaled 434.5 million US dollars, 16.7% decrease YoY.

Current Account Balance and Financing Sources



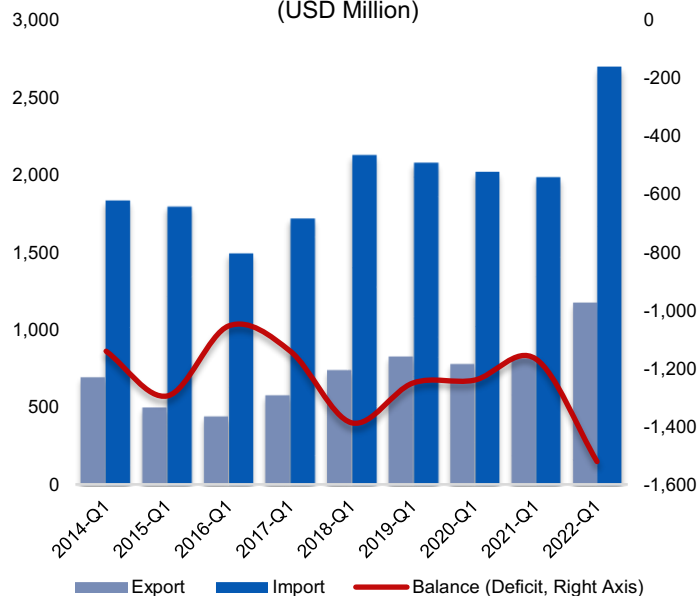
Total International Reserves



In Q1 2022, total international reserves reached USD 4,031 million.

At the end of Q1 2022 total international reserves made up USD 4,031 million, an 1.7% decrease YoY. In 2021, in response to the exchange rate depreciation, the National Bank of Georgia sold USD 333 million in foreign exchange auctions. In January-March 2022, NBG sold USD 40 million.

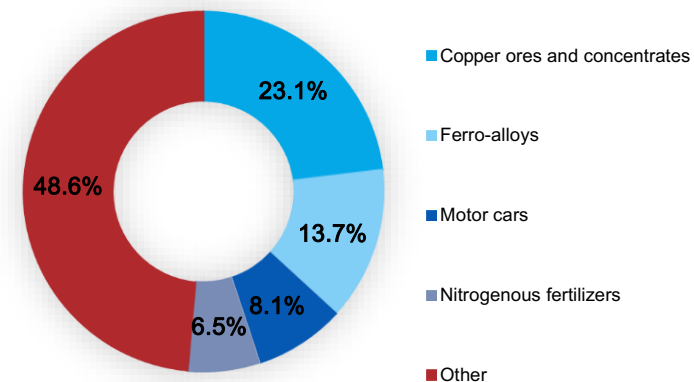
External Trade of Goods (USD Million)



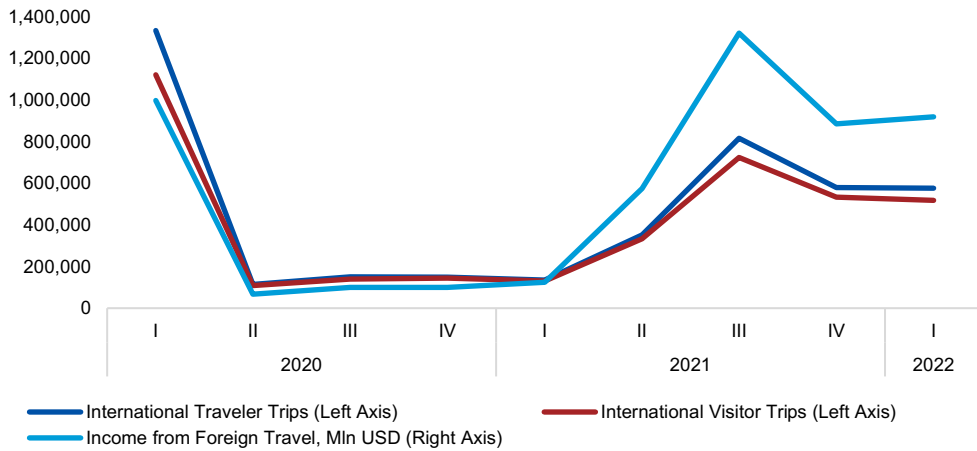
In Q1 2022, an upward trend was observed in both export and import of goods.

In Q1 2022, compared to the same period of the previous year export of goods increased by 43.3% and amounted to USD 1,172 million, while import of goods increased by 35.7% and totaled USD 2,693 million. In the reporting period share of the export in external trade increased from 29.2% to 30.3%. In the first quarter of 2022, the largest export commodities were copper ores and concentrates, ferro-alloys, exports of motor cars, as well as nitrogenous fertilizers.

Major Commodity Groups by Exports (January - March)



International Traveler Trips and Income from Foreign Travel

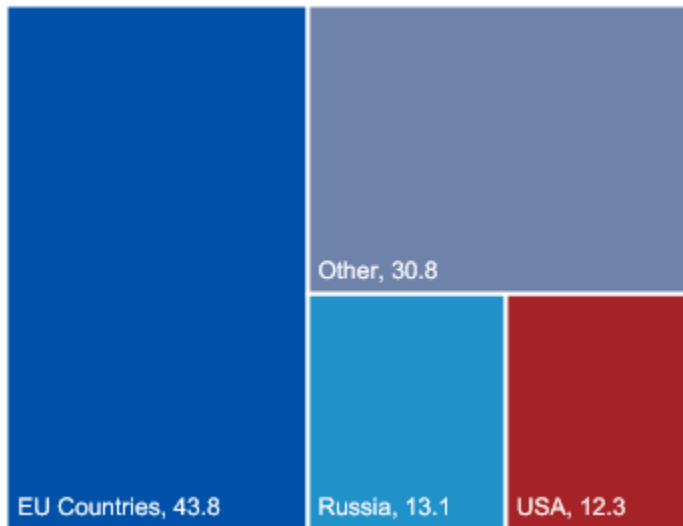


In Q1, 2022 both international traveler trips and international visitor trips have increased.

In Q1 2022, international traveler trips increased by 328% YoY and amounted to 576,503. International traveler trips also include trips made by international visitors. In Q1 2022, International visitor trips reached 517,296 (297.3% higher compared to the same indicator of Q1, 2021).

In Q1 2022, income from foreign travel amounted to 393.7 mln USD, a 635.3% increase YoY.

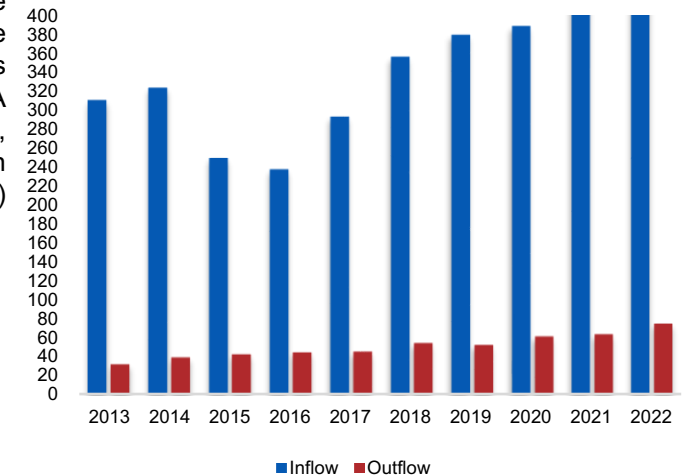
Remittance (%) January-March



In Q1, 2022 remittances increased

In Q1 2022, remittances increased by 9.2% YoY. During this period the main source of money transfers are EU countries (43.8% of total), Russia (13.1%), and the USA (12.3%). In the analyzing period, remittances increased significantly from the following countries: USA (9.3%), Israel (7.7%), France (28.8%), Spain (10.1%), Poland (27.7%), Kazakhstan (340.3%), Kyrgyzstan (212.7%), United Kingdom (72.2%), from Ireland (26.0%) and Germany (46.6%).

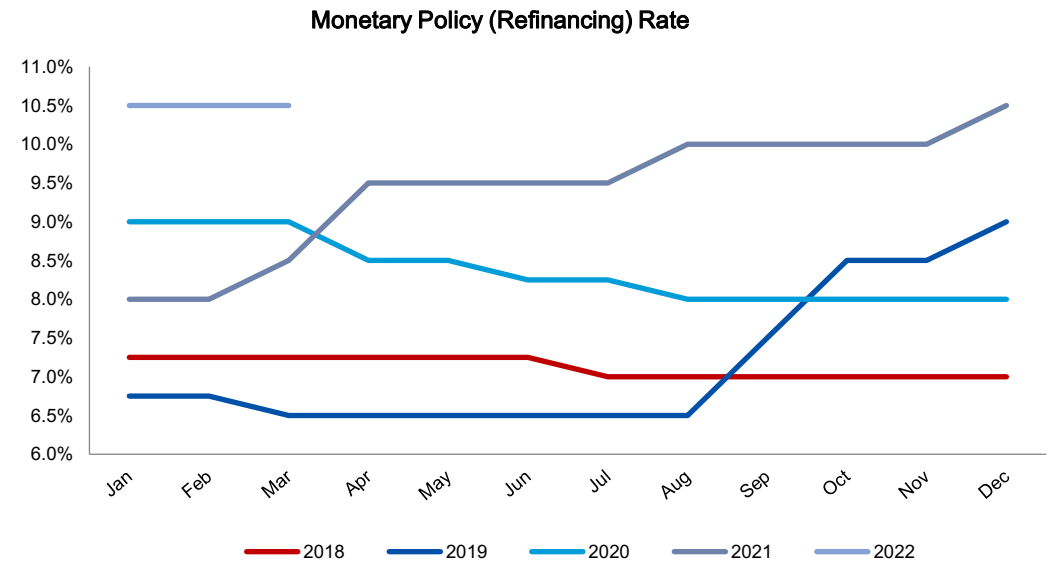
Remittance January-March (USD Million)



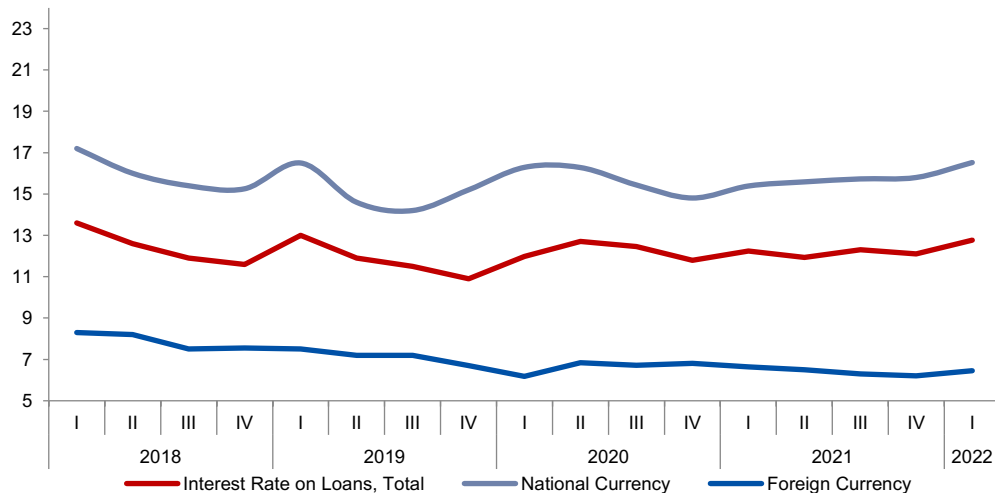
4. Monetary Sector

In Q1 2022 the monetary policy rate was 10.5%.

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%. The Monetary Policy Committee increased the rate to 9.5% and 10% accordingly in April and August. In December, monetary policy rate was set at 10.5%. 10.5% was maintained in January-February 2022, and on March 30, the Monetary Policy Committee decided to increase the rate again by 0.5 pp to 11%.



Market Interest Rates on Loans (%)

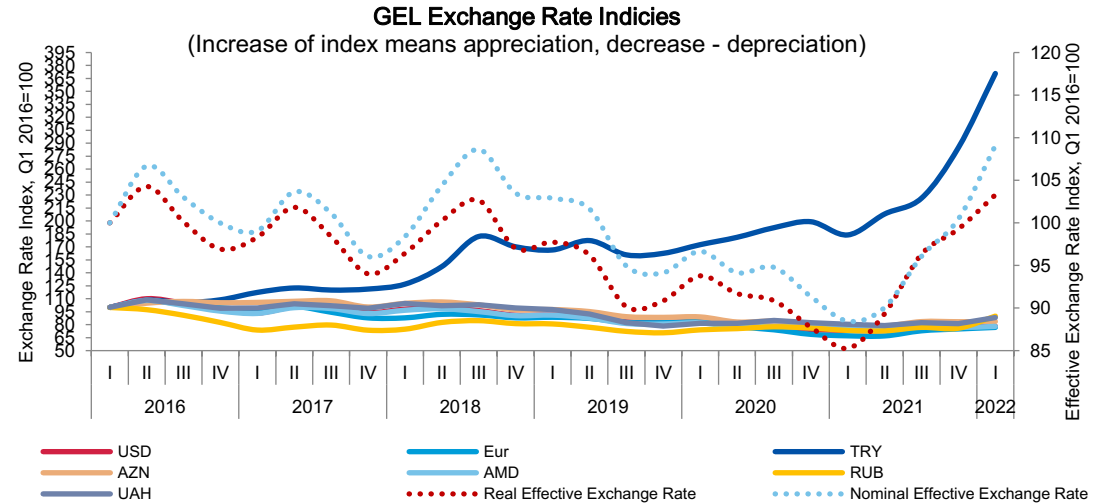


In Q1 2022, the market interest rate on loans reached 12.8%.

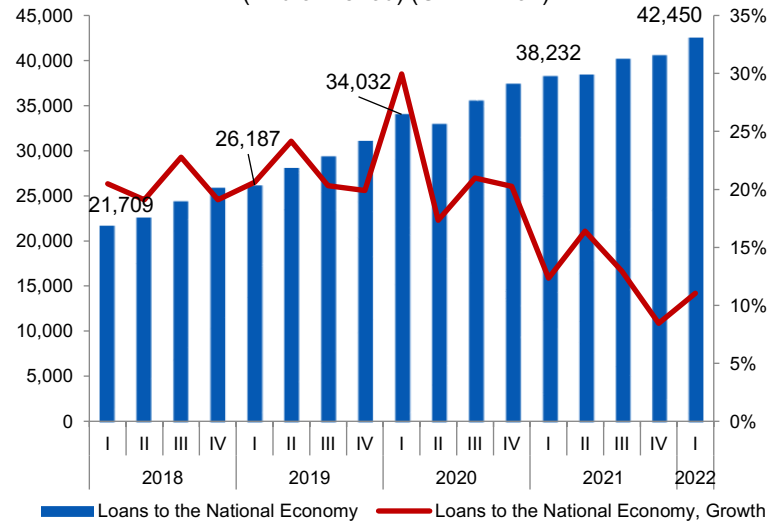
In Q1 2022, market interest rate on loans increased by 0.7 pp QoQ and reached 12.8%. The interest rate on national currency increased by 0.7 pp QoQ (16.5%) loans, while on foreign currency loans increased by 0.3 pp QoQ (6.5%).

In Q1 2022, the exchange rate of GEL appreciated QoQ against all primary currencies.

In Q1 2022, the exchange rate of GEL (period average) against USD appreciated by 0.4% QoQ and by 6.4% YoY. Compared to the Q1 2021, GEL appreciated against EUR (14.4%), TRY (101.6%), AZN (6.3%), RUB (22.6%) and UAH (9.8%) while depreciated against AMD (0.9%).



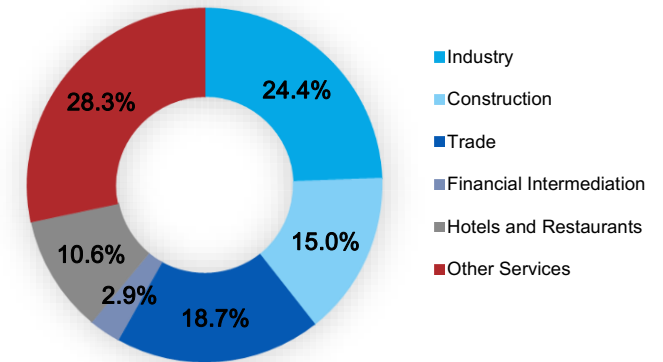
Commercial Bank Loans to the National Economy (End of Period) (GEL Million)



In Q1 2022, loans to the national economy (end of period) increased.

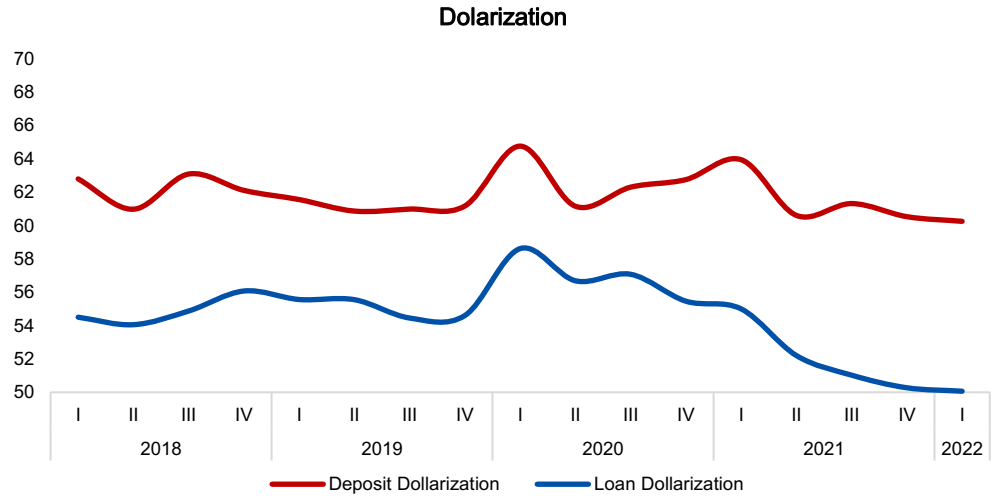
In Q1 2022, loans to the national economy increased by 11% YoY and by 4.7% QoQ. More than half of total loans (52.2%) was distributed to households. As for loans issued by types of activity, the highest 24.4% were issued in industry, 18.7% in trade, 15.0% in construction, 10.6% in hotels and restaurants and 2.9% in financial intermediation.

Loans by Types of Activity (Flows) (GEL Million)



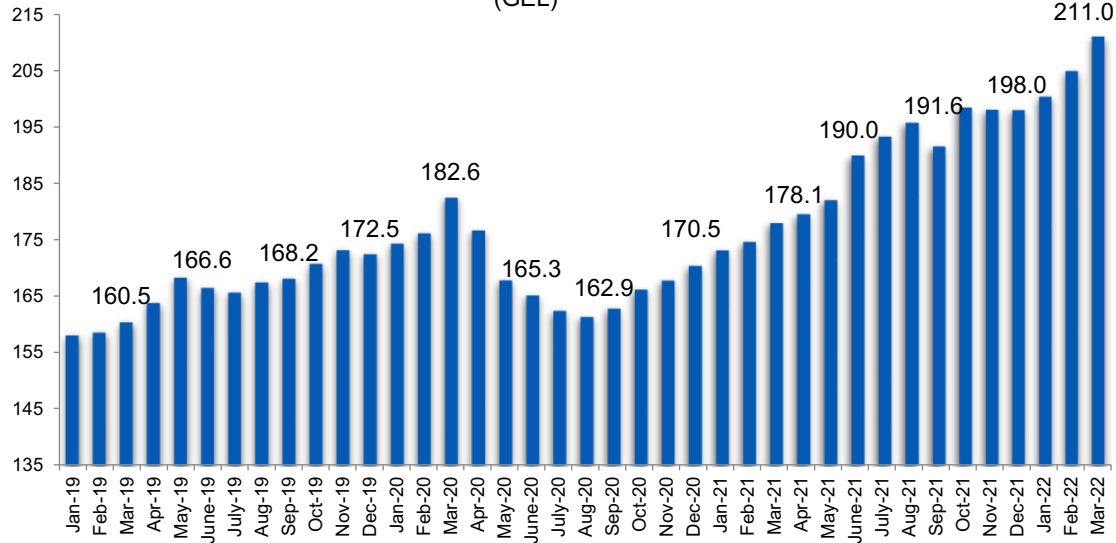
In Q1 2022, the dollarization coefficient decreased on both deposits and loans.

In Q1 2020, dollarization indices increased on both deposits and loans and 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 64.5%. In Q1 2022, compared to the previous quarter, the dollarization coefficient on deposits decreased by 0.4 pp to 58.2%, while on loans it decreased by 0.2 pp to 50.1%. Compared to Q1 2021, the dollarization rate decreased by 6.4% on deposits and by 4.9% on loans.



5. Social Sector

Subsistence Minimum for Average Consumer (GEL)

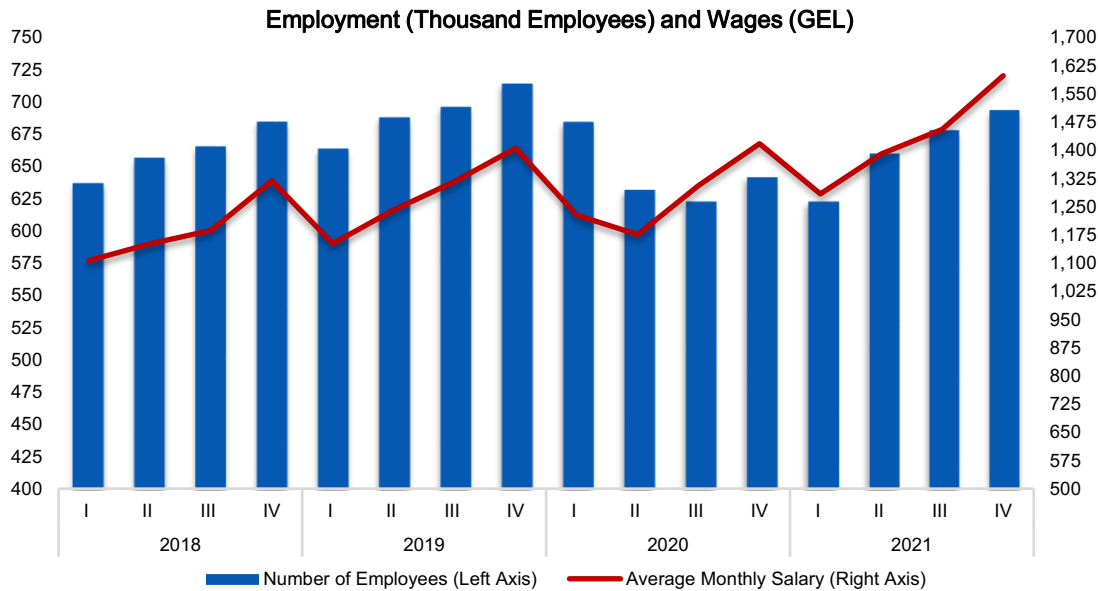
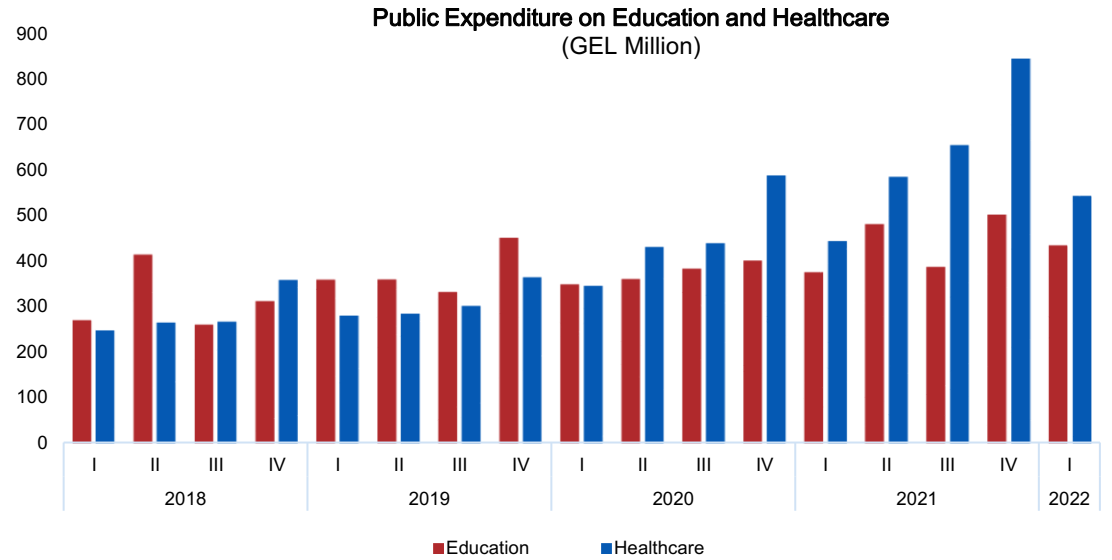


In Q1 2022, the subsistence minimum increased YoY.

At the end of Q1 2022, in March, the average consumer subsistence minimum totaled GEL 211, GEL 32.9 higher YoY. Average quarterly subsistence minimum rate increased by 17.2% YoY.

In Q1 2022, compared to the same period of the previous year, public expenditures on healthcare and education significantly increased.

In Q1 2022, expenditure on education (as per functional classification) amounted to GEL 432.8 million, 15.5% increase compared to the same period of the last year. Meanwhile expenditure on healthcare reached GEL 543.3 million, 22.2% increase compared to the same period of the last year.



In Q4+ 2021, the total number of employees in the business sector and salary increased YoY.

In Q4 2021, the number of business sector employees increased by 8.1% YoY and amounted to 693.4 thousand. Average monthly salary increased by GEL 180.8 YoY and amounted to GEL 1,597.8.