



Quarterly Macroeconomic Review *

Main Indicators of Quarter

- In Q1 2023, according to preliminary estimate real GDP increased by 7.2%. Should be remarked, that real GDP growth is in accordance to forecasted 7.2% in February by parliamentary budget office.
- In Q1 2023, annual inflation amounted to 7.6%, which was primarily driven by increasing prices on food and non-alcoholic beverages.
- In Q1 2022, positive overall balance of consolidated budget amounted to GEL 98.4 million.
- Public debt in nominal terms shows decreasing trend. The share of external debt in total public debt decreased, either. Namely, the share of external debt made up 75.2%, while the same indicator in Q1, 2022 was 80.2%.
- In Q4* 2022, current account balance improved. Namely, current account negative balance amounted to USD 540.0 million.
- In Q1 2023, the amount of international reserves reached historical maximum and amounted to USD 5,003.8 million.
- In Q1 2023, the share of the export in external trade decreased from 29.9% to 30.6% YoY.
- In Q1 2023, remittances increased by 130.3% YoY and amounted to USD 1,255.7 million.
- Monetary policy (refinancing) rate remains unchanged at 11.0% in Q1, 2023.
- The exchange rate of GEL shows appreciation trend. GEL appreciated against USD by 3.7% QoQ and by 18.1% YoY
- Dollarization coefficient decreased on both deposits and loans YoY

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

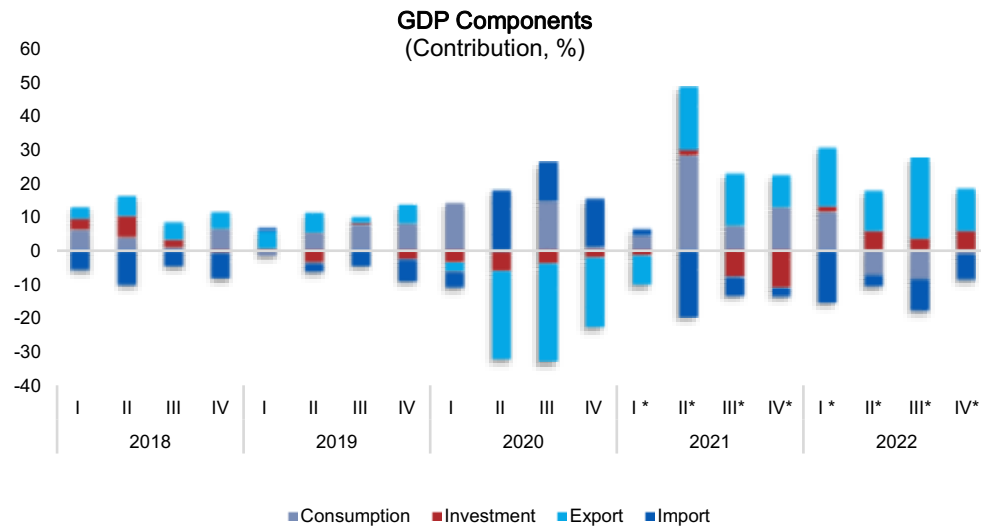
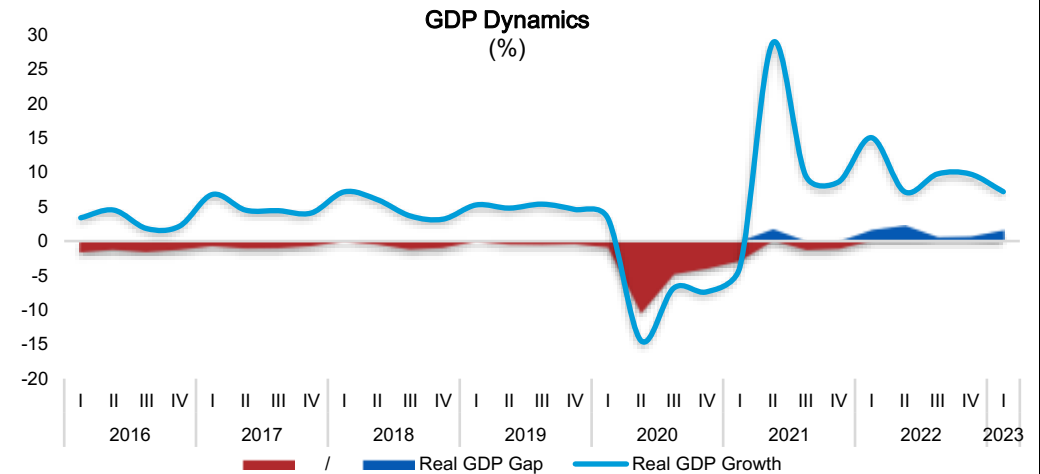


1. Real sector

In Q1 2023, according to GEOSTAT preliminary estimate average growth of real GDP amounted to 7.2%.

It should be noted, that the economic growth estimate for Q1 2023 made by the Parliamentary Budget Office in February 2023 was 7.2%¹, which took into account the impact of the expected war between Russia and Ukraine on the Georgian economy.

According to PBO evaluation, in Q1 2023, potential GDP was lower than the statistical measurement, hence the positive output gap equaled to 1.5%, while the output gap for the previous quarter was positive 0.7%.



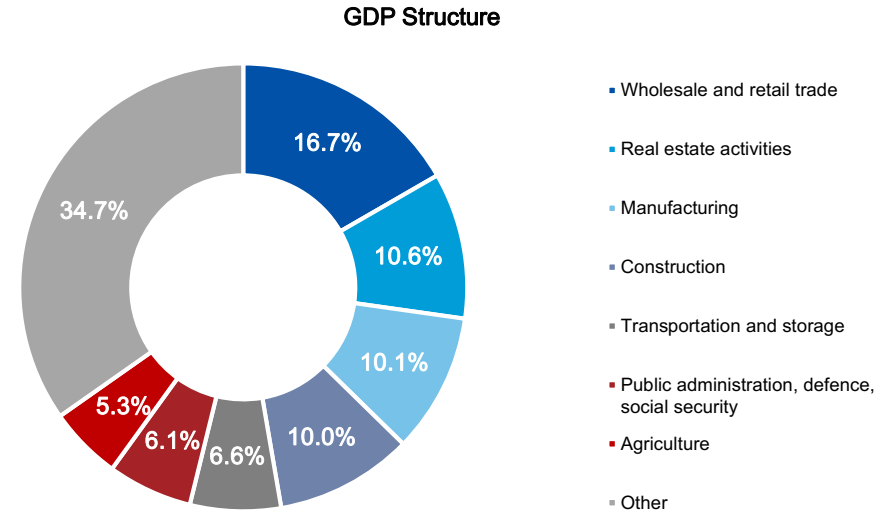
In Q4* 2022, as per PBO estimates, export and investment increase played major roles in GDP growth.

Analyzing GDP components, in Q4 2022, real GDP increase was primarily driven by export (12.6%) and investment (5.8%). In the reporting period, consumption (-1.0%) and import (-7.7%) had a negative impact on GDP.

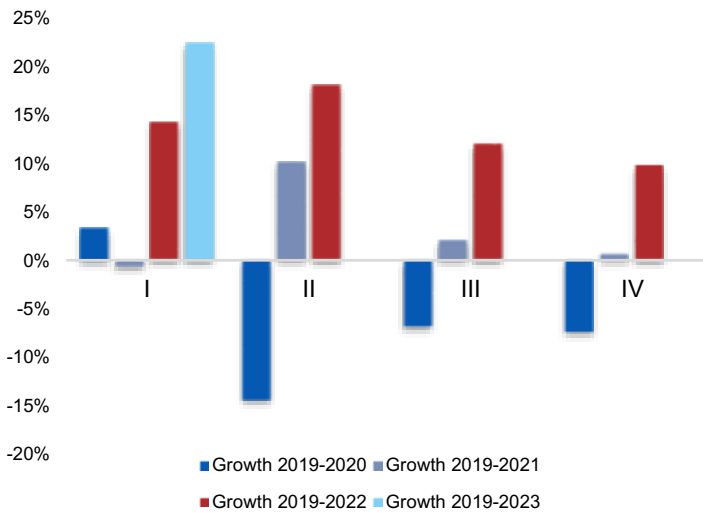
¹ www.pbo.parliament.ge

In Q4* 2022, wholesale and retail trade had the highest share in GDP structure.

In Q4* 2022, wholesale and retail trade had the highest share in GDP structure (16.7%). The important share was observed for several sectors, namely, real estate activities (10.6%), manufacturing (10.1%), construction (10.0%), transportation and storage (6.6%), public administration, defense, social security (6.1%) and agriculture (5.3%)



Economic Growth Compared to 2019

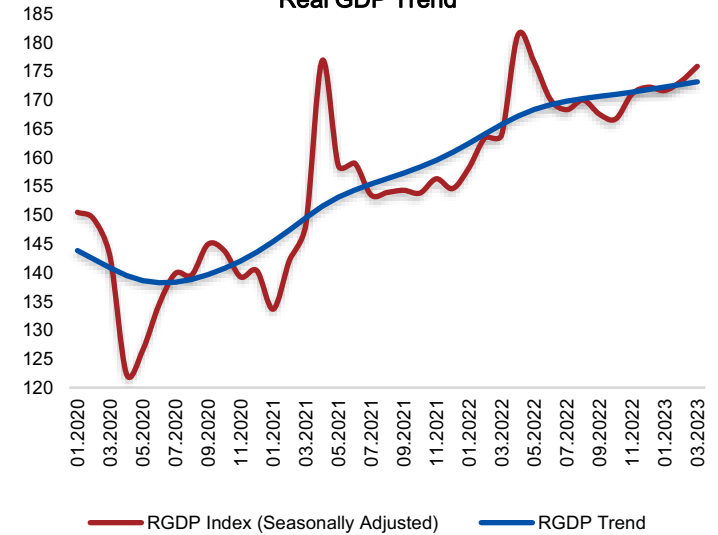


Observing monthly data reveals that the economic growth trend is not linear.

According to PBO estimate based on preliminary data, in Q1 2023, YoY growth of the real GDP trend² was 5.2%, compared to 11.3% growth rate in the respective period of 2022.

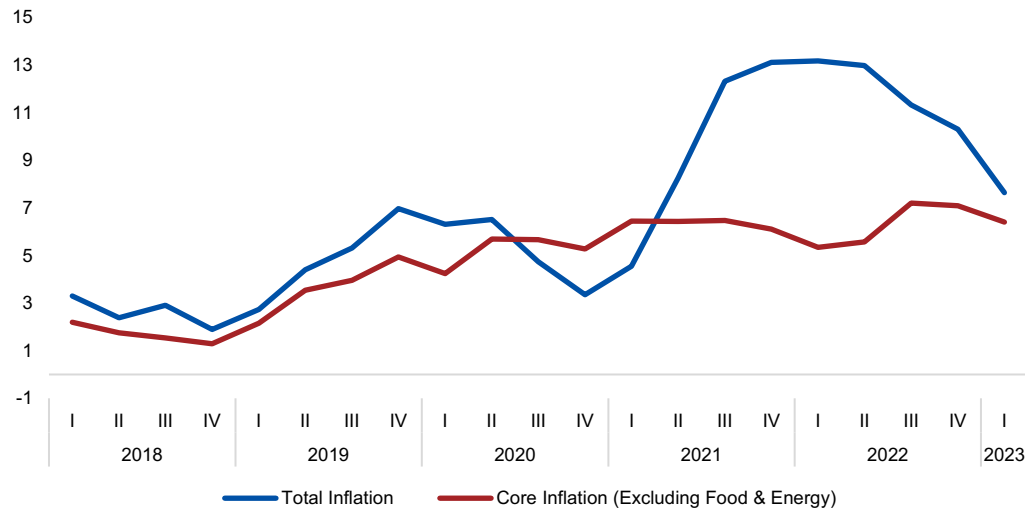
Should be marked high economic growth rates in recent months and fast recovery process compared to 2019, pre pandemic period.

Real GDP Trend



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

Consumer Price Inflation YoY



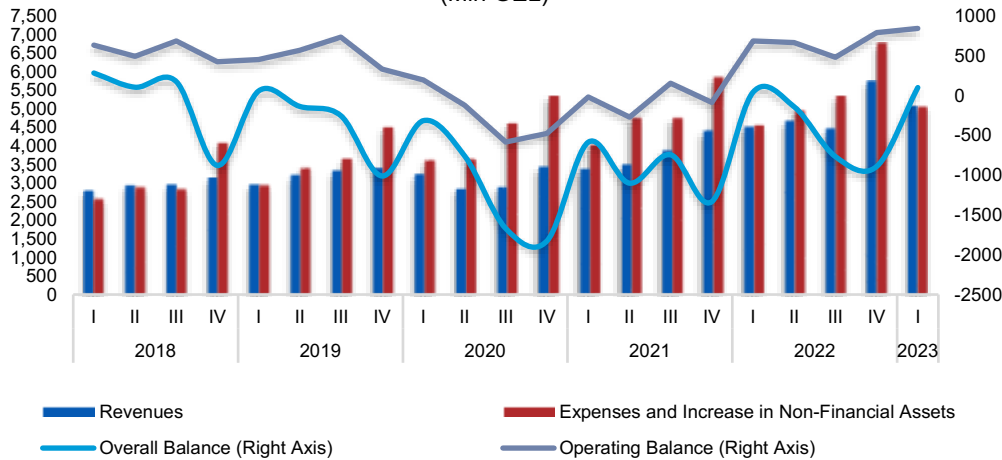
In Q1 2023, consumer price inflation has decreased YoY trend.

In Q1 2023, average annual inflation reached 7.6%, higher than the inflation target of 3.0%. In Q1 2023, inflation was driven by increasing prices on food and non-alcoholic beverages, transport, housing, water, electricity, gas and other fuels, hotels and restaurants and other groups.

In Q1 2023, average annual core inflation (excluding groups of food and non-alcoholic beverages and energy prices) amounted to 6.4%.

2. Fiscal Sector

Consolidated Budget Balance (Mln GEL)



In Q1 2023, the consolidated budget balance was positive.

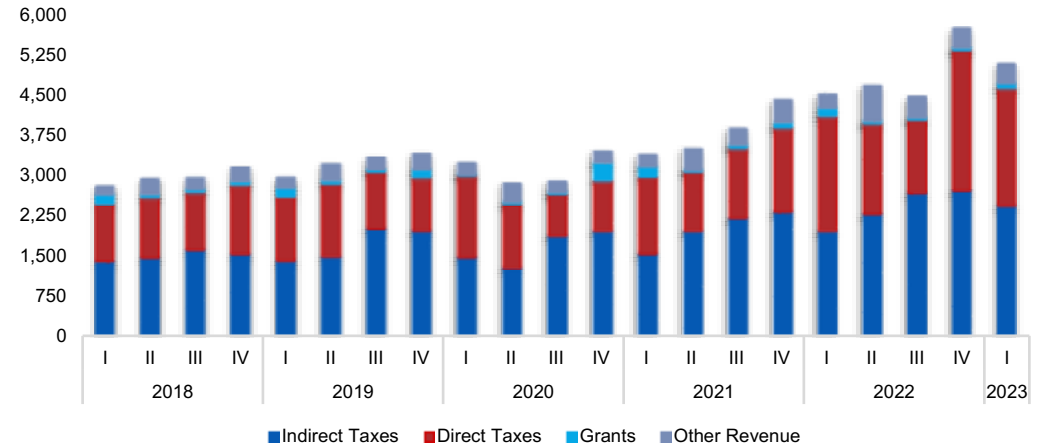
In Q1 2023, consolidated budget revenues increased by 12.4% YoY and reached GEL 5,069.7 million, while expenses and acquisition of non-financial assets increased by 11.1% and totaled GEL 5,045.5 million.

In Q1 2023, compared to Q1 2022, the operating balance increased by GEL 157.0 million and amounted to GEL 840.6 million, while the overall positive balance totaled GEL 98.4 million. It is worth mentioning that in the first quarter of 2022, the overall consolidated budget balance was positive and amounted to GEL 38.8 million.

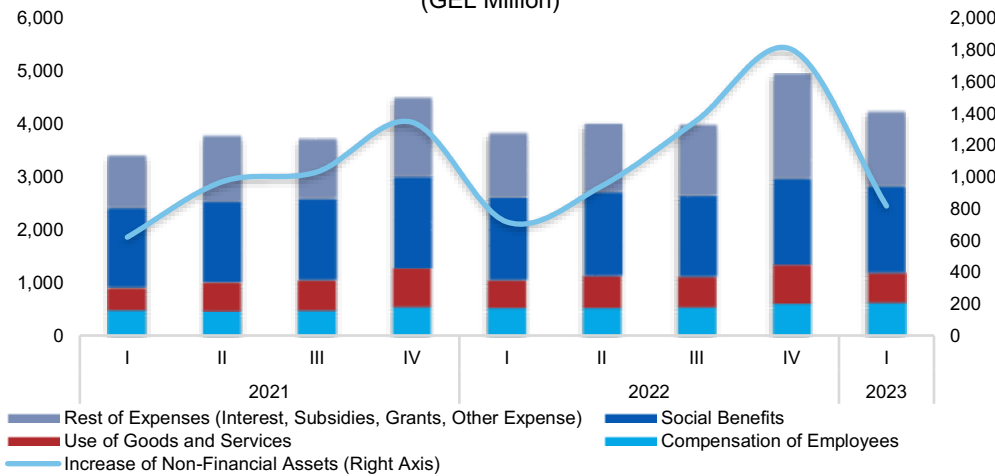
In Q1 2023, tax revenues of consolidated budget increased by 12.7% YoY and amounted to GEL 4,609.3 million.

In Q1 2023, direct taxes of consolidated budget increased by 2.2% YoY and totaled GEL 2,185.8 million, while indirect taxes increased by 24.1% and reached GEL 2,423.5 million. It is noteworthy that during the period, the grant component decreased by 39.2% and amounted to GEL 89.2 million, while other revenues increased by 37.0% and amounted to GEL 371.2 million.

Consolidated Budget Revenues
(GEL Million)



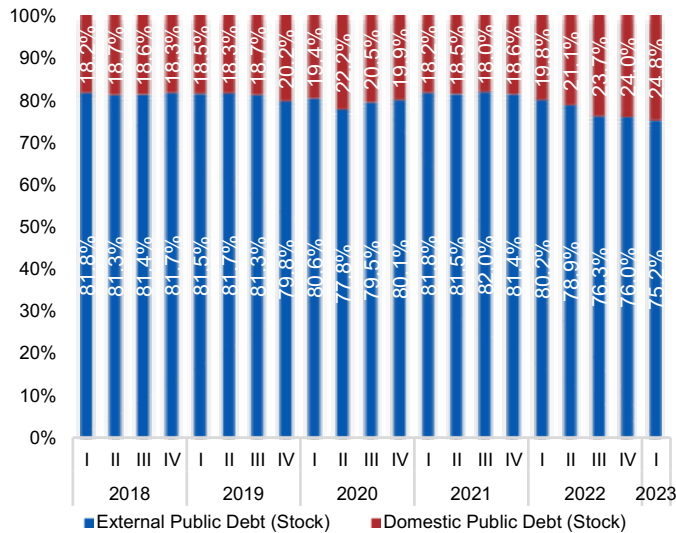
Consolidated Budget Expenditures and Increase of Non-financial Assets
(GEL Million)



In Q1 2023, both recurrent expenditures and capital expenditures increased YoY.

In Q1 2023, consolidated budget recurrent expenses increased by 10.6% YoY and amounted to GEL 4,229.1 million. Expenses in non-financial assets (i.e. capital expenditure) increased by 14.0% YoY and reached GEL 816.4 million. During the mentioned period expenditures on goods and services increased by 7.8% and amounted to GEL 549.9 million. Expenditures on compensation of employees increased by 18.4% and on social benefits increased by 4.8%, while in nominal terms they amounted to GEL 626.7 million and GEL 1,647.8 million. Other expenses (interest, subsidies, grants, other services) increased by 15.8% and amounted to GEL 1,404.7 million.

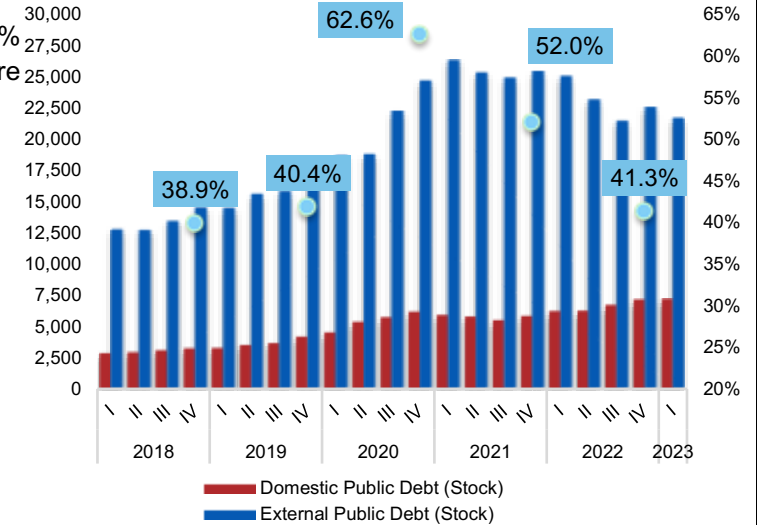
Dept Composition



As of 31 March 2023, public debt in nominal terms reached **GEL 28,852 million, a 7.7% decrease YoY.**

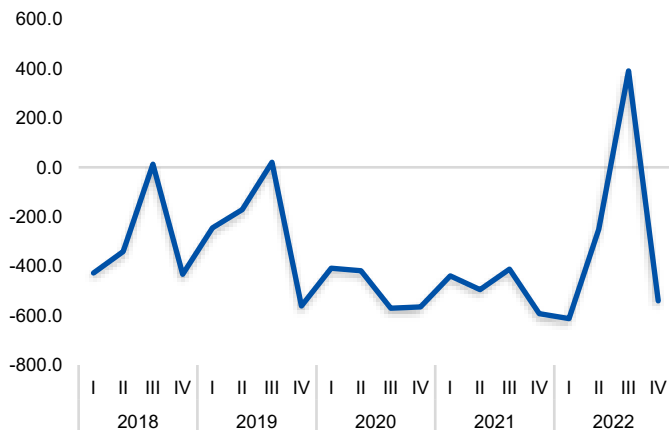
The external debt share made up 75.2% in Q1 2023 (80.2% at the end of Q1 2022), while the domestic debt share reached 24.8% (19.8% at the end of Q1 2022).

Public Debt (GEL Million)



3. External Sector

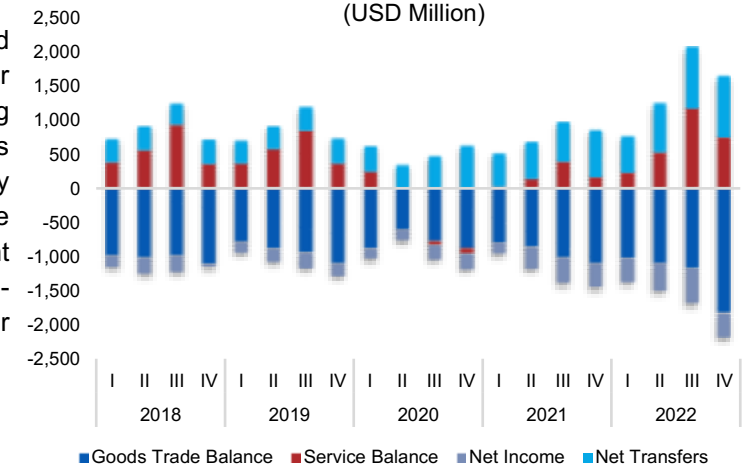
Current Account (USD Million)



In Q4* 2022, the BOP current account balance was **negative**.

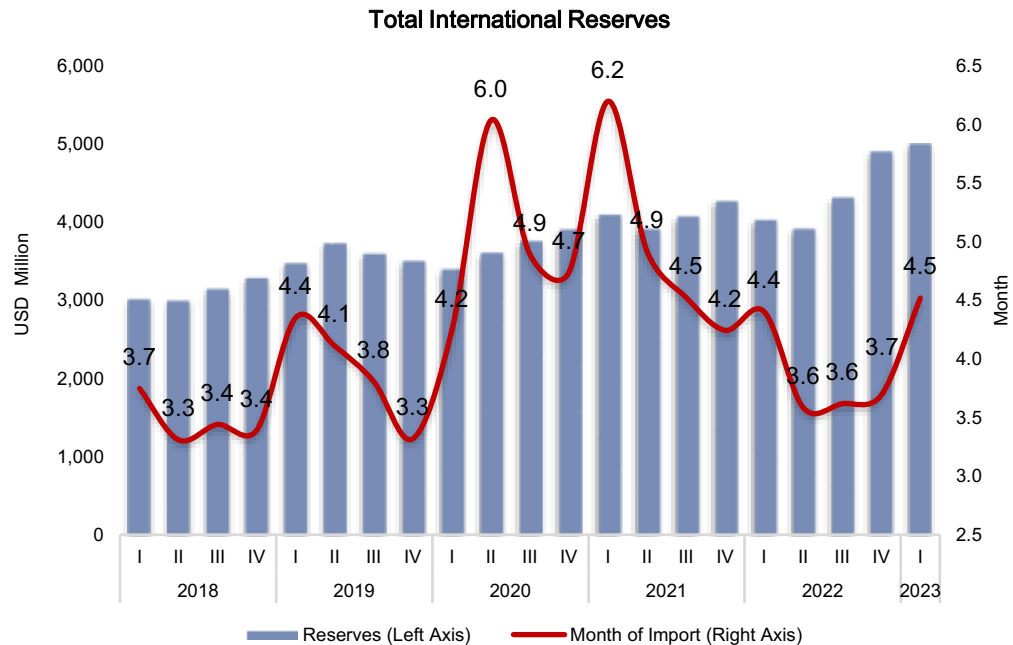
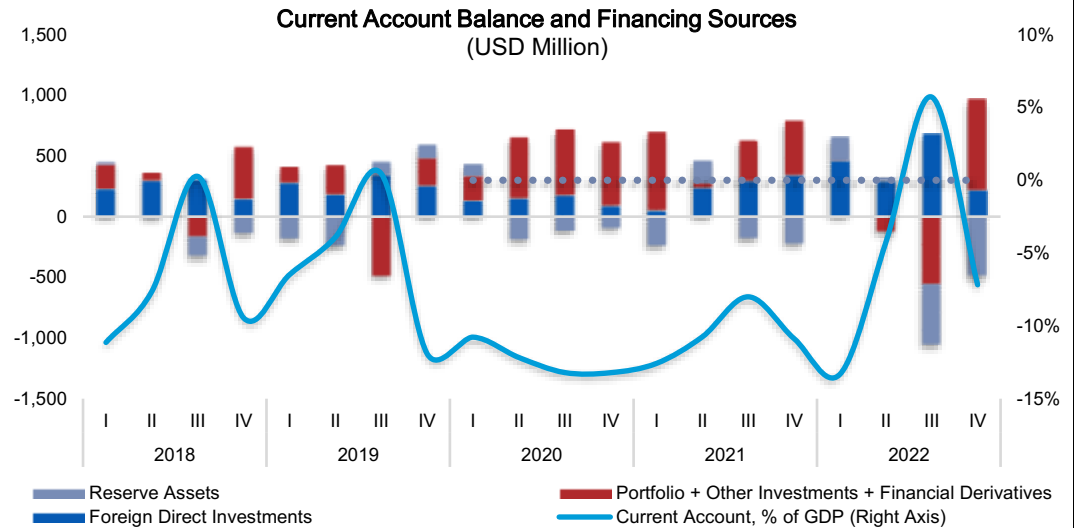
In Q4 2022, the negative current account balance reached USD 540.0 million (-7.2% of GDP), while the same indicator of the previous year was USD -592.8 million. Analyzing current account components, the trade balance of goods and services and net income deficit were partially compensated by the surplus in transfers and positive service balance. It needs to be noted that significant improvements were observed in export of tourism since Q2-Q4 in 2021 and Q1-Q4 in 2022. In Q4 2022, indicator increased by 163.5% YoY and totaled USD 999.5 million.

Current Account Components (USD Million)



In Q4* 2022, the primary financing source of the current account deficit was foreign direct investments and other investments.

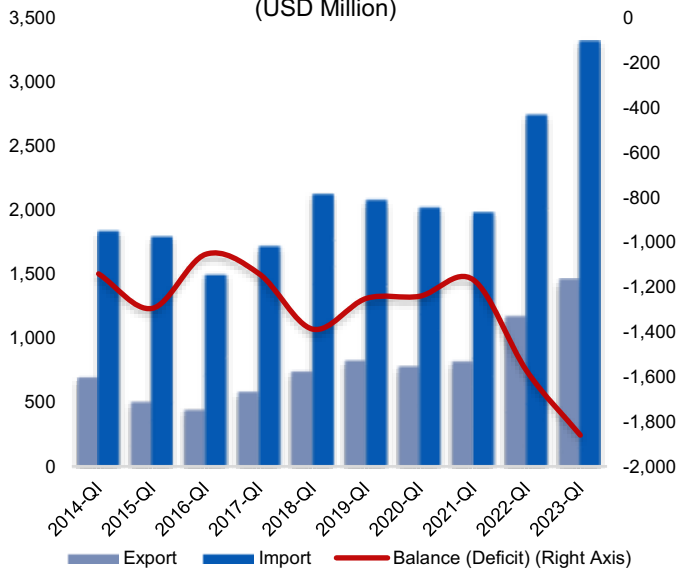
During this period, net direct investments totaled USD 218.6 million (2.9% of GDP), a 35.8% decrease in comparison with the same period of the previous year. As for the amount of other investments, in the fourth quarter of 2022 they totaled 1,087.8 million US dollars, 214.4% increase YoY.



In Q1 2023, total international reserves reached historical maximum and amounted to USD 5,003.8 million.

At the end of Q1 2023 total international reserves reached historical maximum and made up USD 5,003.8 million, which is 24.1% increase YoY.

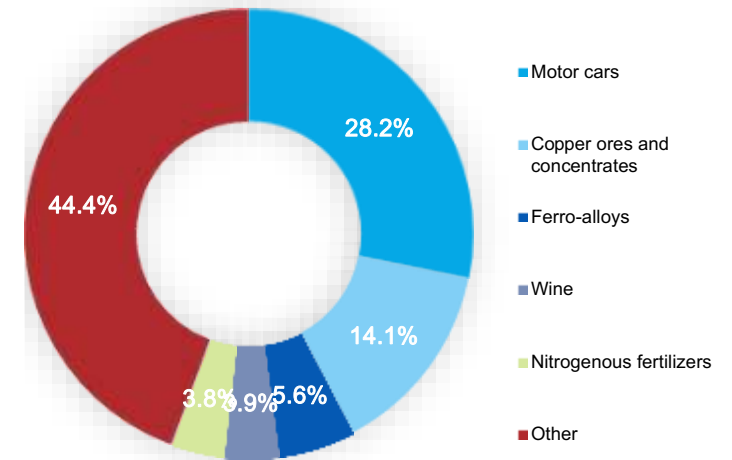
External Trade of Goods
(USD Million)



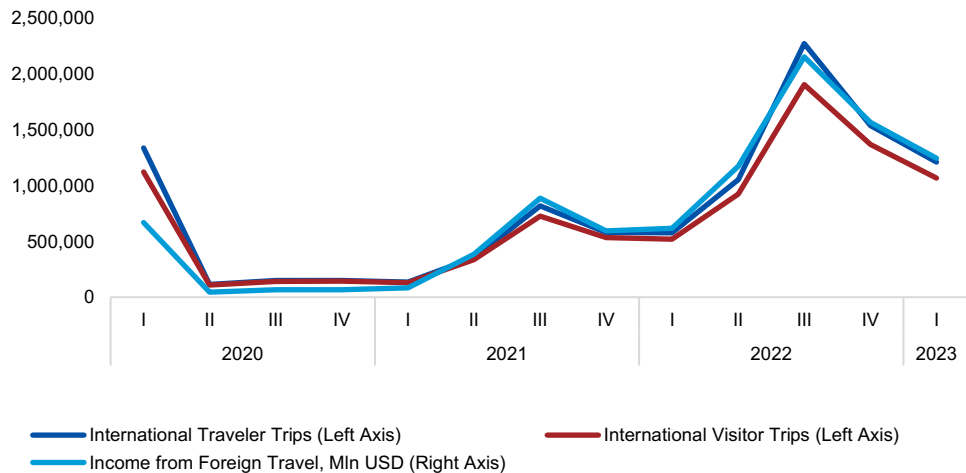
In Q1 2023, an upward trend was observed in both export and import of goods.

In Q1 2023, compared to the same period of the previous year export of goods increased by 24.7% and amounted to USD 1,462.5 million, while import of goods increased by 21.0% and totaled USD 3,322.2 million. In the reporting period share of the export in external trade increased from 29.9% to 30.6%. In the first quarter of 2023, the largest export commodities were exports of motor cars, copper ores and concentrates, ferro-alloys, wines, nitrogenous fertilizers and others.

Major Commodity Groups by Exports
(I Quarter)



International Traveler Trips and Income from Foreign Travel

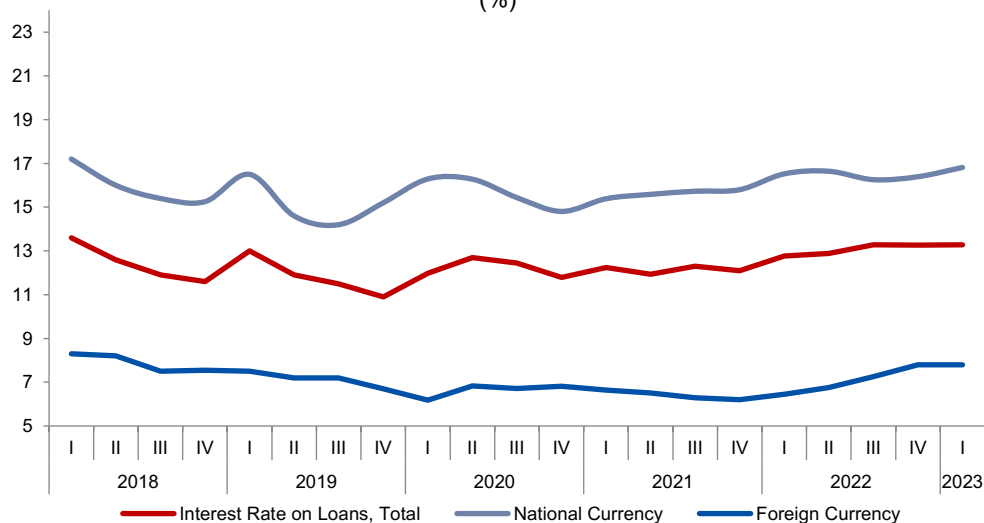


In Q1, 2023 both international traveler trips and international visitor trips have increased.

In Q1 2023, international traveler trips increased by 109.6% YoY and amounted to 1,208,462. International traveler trips also include trips made by international visitors. In Q1 2023, International visitor trips reached 1,065,679 (106.0% higher compared to the same indicator of Q1, 2022). The majority of trips conducted by international visitor were from Russia (256,787, increase by 257.7% YoY), Turkey (216,391, Increase by 108.5% YoY) and Armenia (182,543, increase by 209.6% YoY).

In Q1 2023, income from foreign travel amounted to 795.4 mln USD, a 102.0% increase YoY.

Market Interest Rates on Loans (%)



In Q1 2023, the market interest rate on loans reached 13.3%.

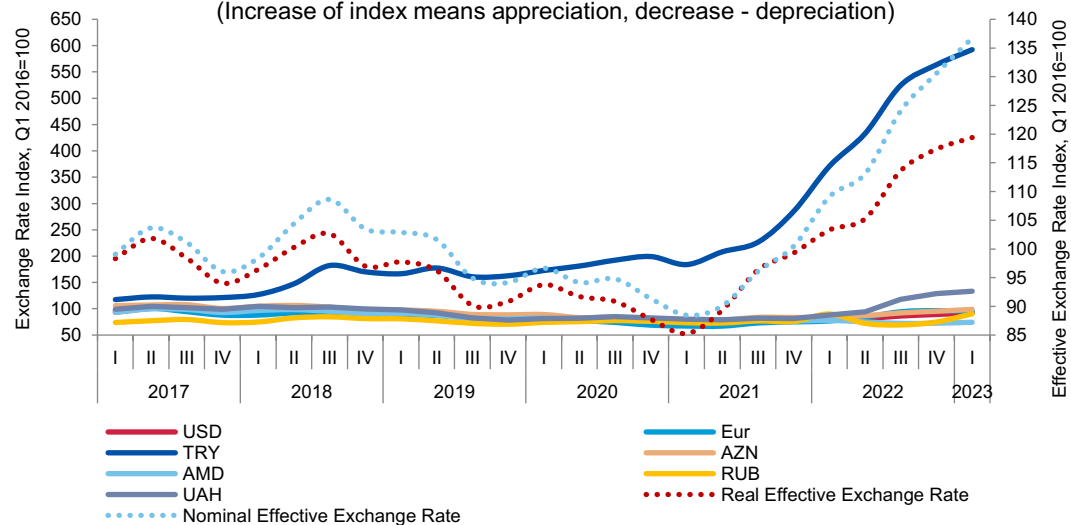
In Q1 2023, market interest rate on loans increased by 0.02 pp QoQ and reached 13.3%. The interest rate on national currency loans increased by 0.42 pp QoQ (16.8%), while on foreign currency loans increased by 0.04 pp QoQ (7.8%).

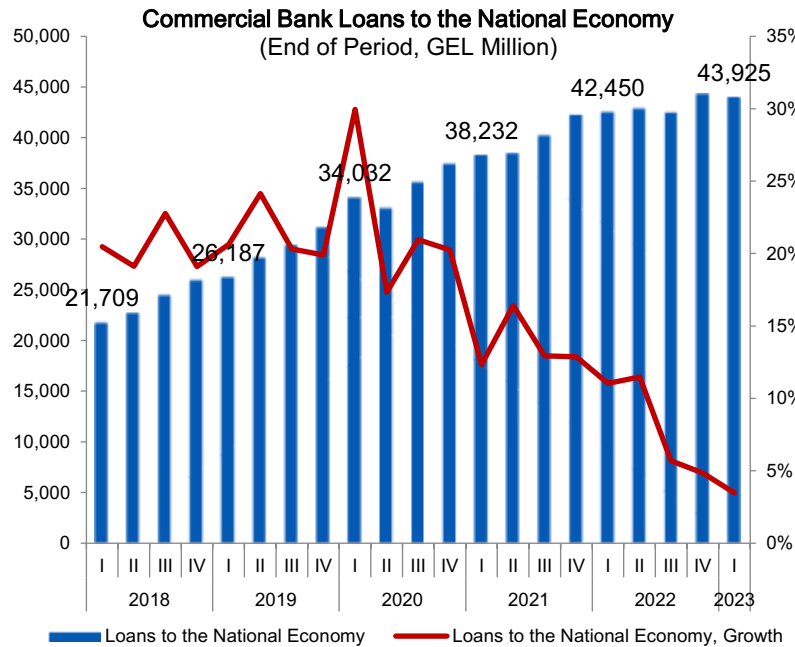
In Q1 2023, the exchange rate of GEL appreciated QoQ against all primary currencies, except AMD.

In Q1 2023, the exchange rate of GEL (period average) against USD appreciated by 3.7% QoQ and by 18.1% YoY. Compared to the Q1 2022, GEL appreciated against EUR (23.5%), TRY (59.8%), RUB (0.5%), AZN (18.1%) and UAH (51.1%), while depreciated against AMD (4.9%).

GEL Exchange Rate Indices

(Increase of index means appreciation, decrease - depreciation)

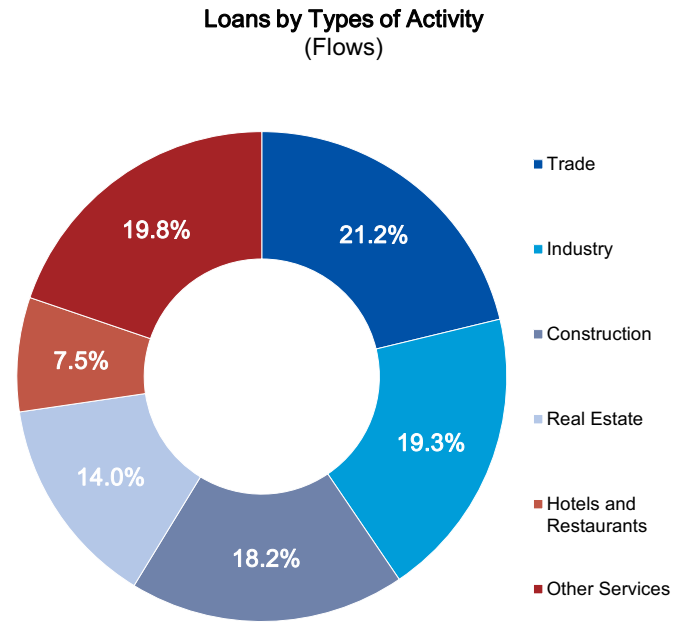




In Q1 2023, loans to the national economy (end of period) decreased.

In Q1 2023, loans to the national economy decreased by 0.7% YoY and amounted to GEL 43,925 million. More than half of total loans (54.8%) was distributed to households.

As for loans issued by types of activity, the highest 21.2% were issued in trade, 19.3% in industry, 18.2% in construction, 14.0% in real estate and 7.5% in hotels and restaurants.

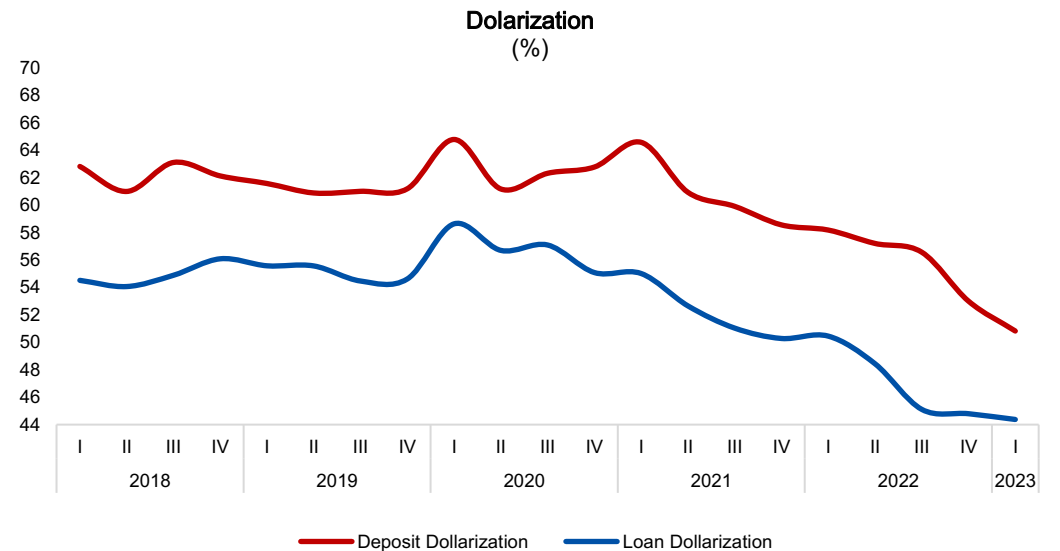


In Q1 2023, the dollarization coefficient decreased on both deposits and loans YoY.

In Q1 2022, compared to the previous quarter, the dollarization coefficient on deposits amounted to 58.2%, while on loans 50.4%.

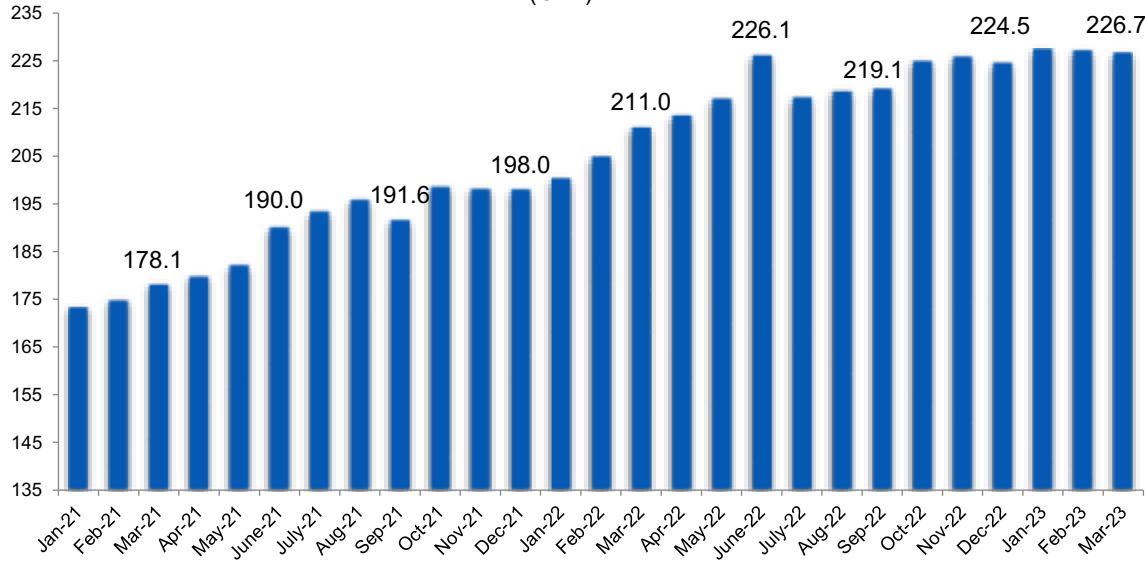
In 2022, the dollarization coefficient decreased on both deposits and loans. Namely, in Q4 2022 dollarization on deposits amounted to 53.0%, while dollarization on loans was observed on 48.4%.

In Q1 2023, the dollarization coefficient decreased on both deposits and loans YoY. Namely, dollarization on deposits amounted to 50.8%, which is 2.2 pp lower QoQ and 7.4 pp lower YoY. While dollarization on loans was observed on 44.4%, decrease by 0.4 pp QoQ and by 6.2% YoY.



5. Social Sector

Subsistence Minimum for Average Consumer (GEL)



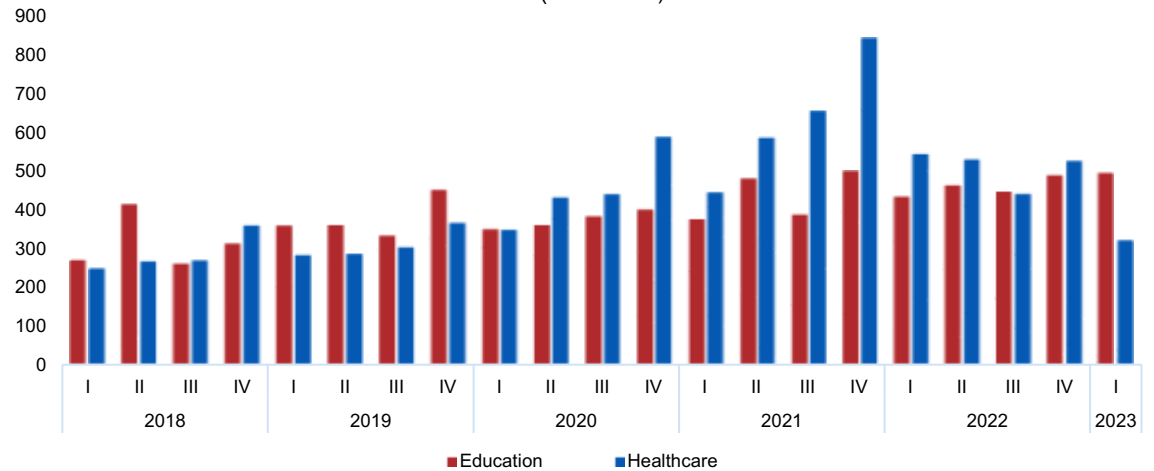
In Q1 2023, the subsistence minimum increased YoY.

At the end of Q1 2023, in March, the average consumer subsistence minimum totaled GEL 226.7, GEL 15.7 higher YoY and GEL 2.2 higher QoQ. In Q1 2023, average quarterly subsistence minimum rate increased by 10.6% YoY.

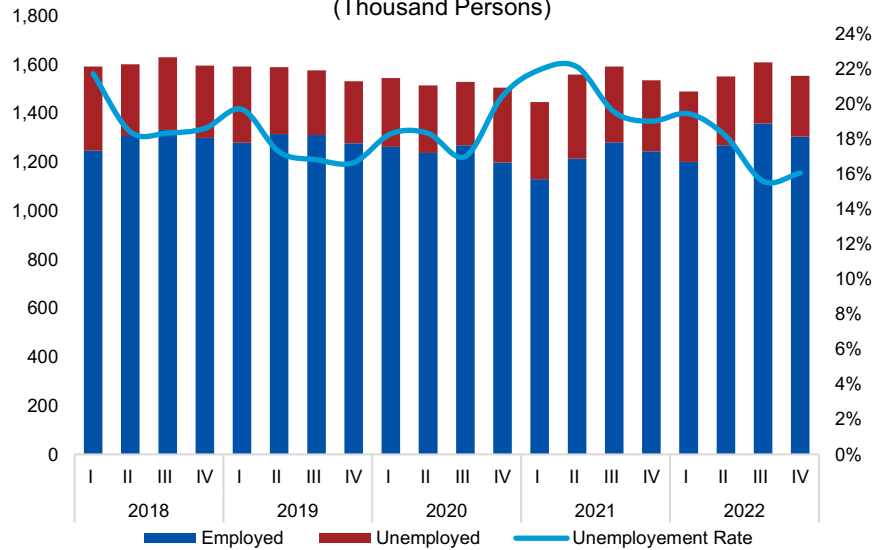
In Q1 2023, compared to the same period of the previous year, increased, public expenditures on education, while decreased public expenditures on healthcare.

In Q1 2023, expenditure on education (as per functional classification) amounted to GEL 492.2 million, 14.2% increase compared to the same period of the last year. Meanwhile expenditure on healthcare amounted to GEL 320.4 million, 41.0% decrease compared to the same period of the last year.

Public Expenditure on Education and Healthcare (GEL Million)



Labour Force Indicators
(Thousand Persons)



In Q4* 2022, the total number of employed persons increased, while the number of unemployed persons decreased YoY.

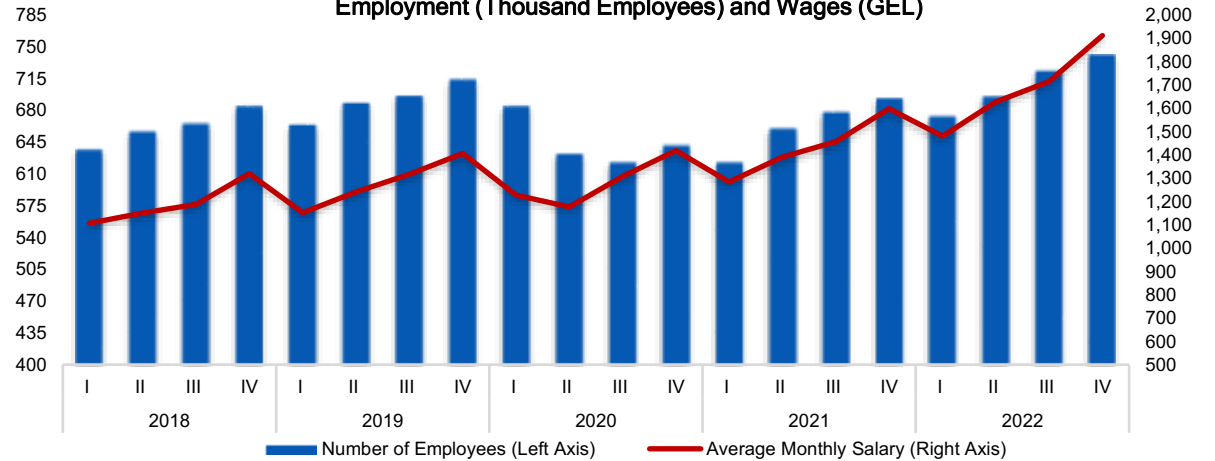
In Q4 2022, the number employed persons increased by 4.9% YoY and amounted to 1,305.2 thousand (Hired employees share in total employed persons amounted 67.7%, while the share of self-employed was observed at 32.2%). While the number of unemployed persons decreased by 14.5% and amounted 249.5 thousand.

In Q4 2022, unemployment rate was observed at 16.1% (3.0 pp lower compared to Q4 2021).

In Q4* 2022, the total number of employees in the business sector and salary increased YoY.

In Q4 2022, the number of business sector employees increased by 6.9% YoY and amounted to 741.0 thousand. Average monthly salary increased by 19.6% YoY and amounted to GEL 1,911.1.

Employment (Thousand Employees) and Wages (GEL)



Sources of Used Data:

1. National Statistics Office of Georgia
2. Ministry of Finance of Georgia
3. National Bank of Georgia
4. Georgian National Tourism Administration