



Quarterly Macroeconomic Review *

Main Indicators of Quarter

- According to preliminary estimate real GDP increased by 9%
- Annual inflation amounted to 12.3%
- GEL appreciated against USD by 6.6% QoQ and by depreciated by 0.6% YoY
- Negative overall balance of consolidated budget amounted to GEL 745.6 million
- Dollarization coefficient decreased on both deposits and loans

Macroeconomic Analysis and Tax Policy Unit

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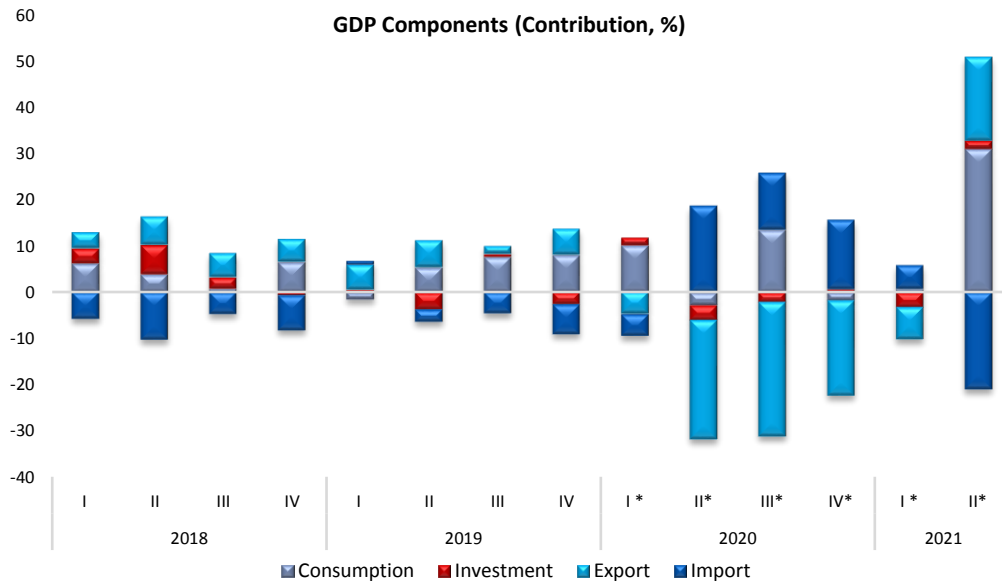
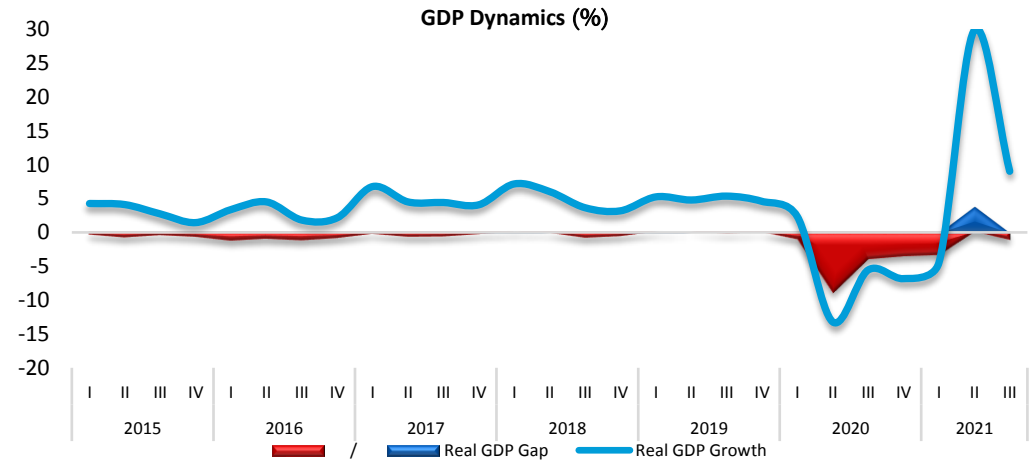
*According to the release calendar of the statistical data, some indicators represent the variables of the previous quarter



1. Real sector

In Q3 2021, according to preliminary estimate average growth of real GDP amounted to 9%.

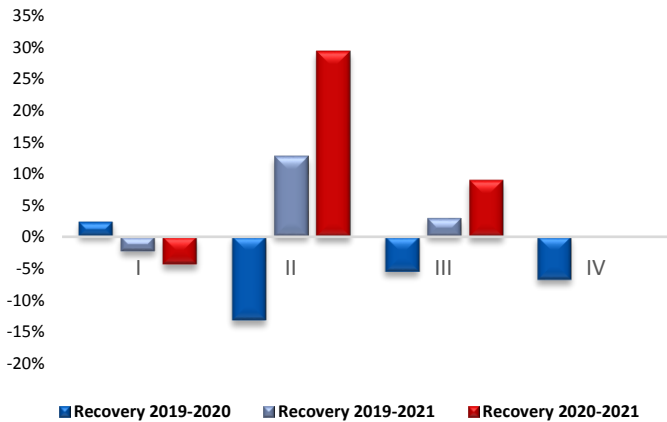
According to PBO evaluation, in Q3 2021, potential GDP was higher than the statistical measurement, hence the negative output gap equaled -1.2%, while the output gap for the previous quarter was positive 3.8%.



In Q2 2021, as per PBO estimates, consumption increase played a major role in GDP growth.

Analyzing GDP components, in Q2 2021, real GDP increase was primarily driven by consumption (30.9%), export (18.2) and investment (1.8%). In the reporting period, import (-20.9%) had a negative impact on GDP.

Economic Recovery Compared to 2019 and 2020

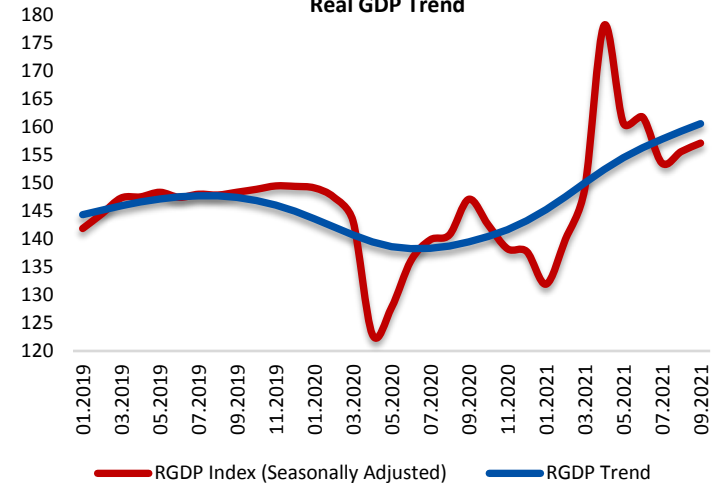


Observing monthly data reveals that the economic growth trend is not linear.

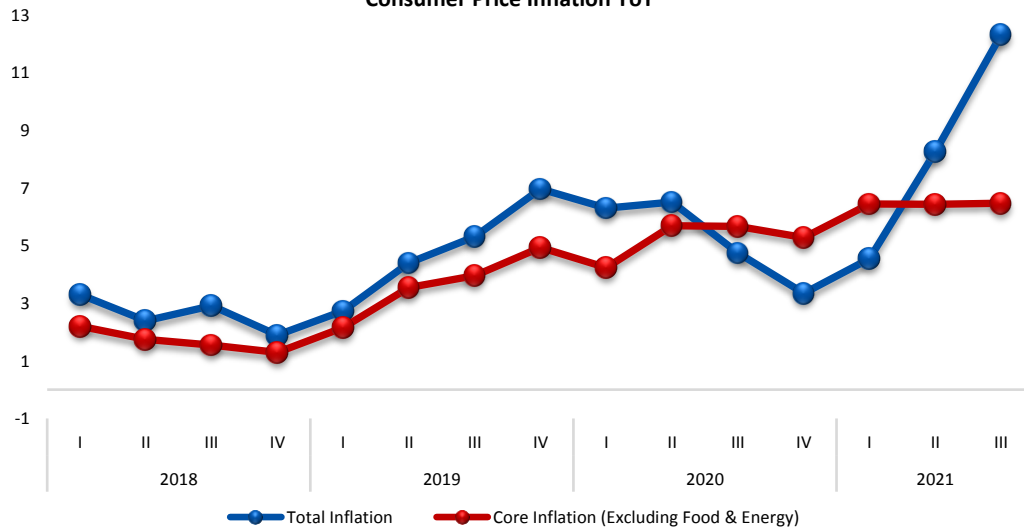
According to preliminary data, in Q3 2021, YoY growth of the real GDP trend¹ was 14.6%, compared to -5.9% in the respective period of 2020.

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



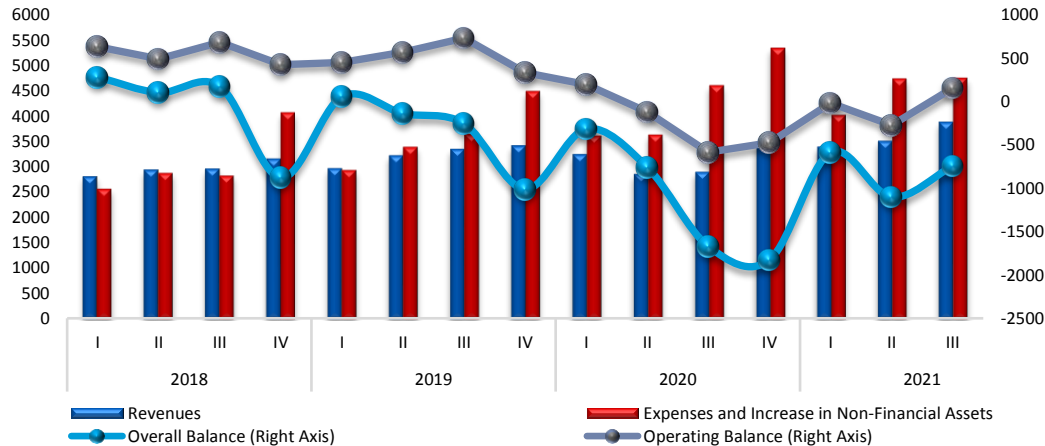
In Q3 2021, consumer price inflation has increased YoY trend.

In Q3 2021, average annual inflation reached 12.3%, higher than the inflation target of 3%. In Q3 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. It is worth to mention that price increase on utilities and agricultural products was mainly due to the growth of commodity prices on global markets, recovery in aggregated demand exceeding expectations and increasing economic activity since Q2.

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

2. Fiscal Sector

Consolidated Budget Balance (GEL Million)



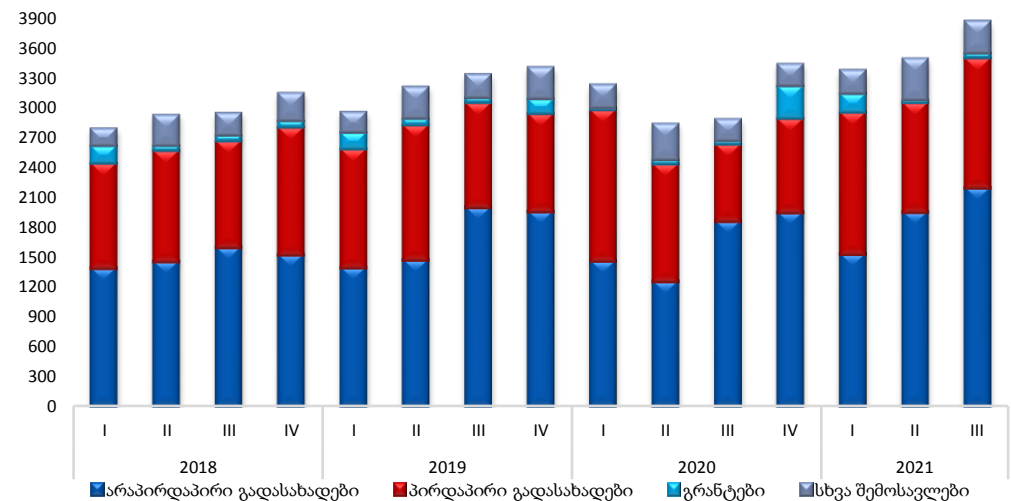
In Q3 2021, the consolidated budget balance was negative.

In Q3 2021, consolidated budget revenues increased by 33.9% YoY and reached GEL 3,867 million, while expenses and acquisition of non-financial assets increased by 3% and totaled GEL 4,745 million.

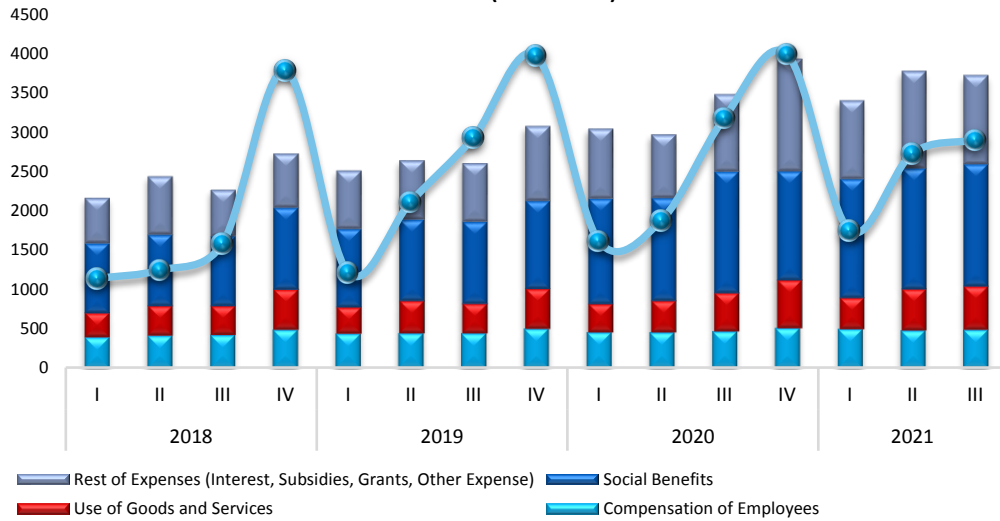
In Q3 2021, compared to Q3 2020, the operating balance increased by GEL 738.4 million, and the overall balance by GEL 925.5 million.

In Q3 2021, tax revenues increased by 32.4% YoY and amounted to GEL 3,496 million.
 In Q3 2021, consolidated budget direct taxes increased by 66.9% YoY and totaled GEL 1,300 million, while indirect taxes increased by 17.9% and reached GEL 2,197 million.

Consolidated Budget Revenues (GEL Million)

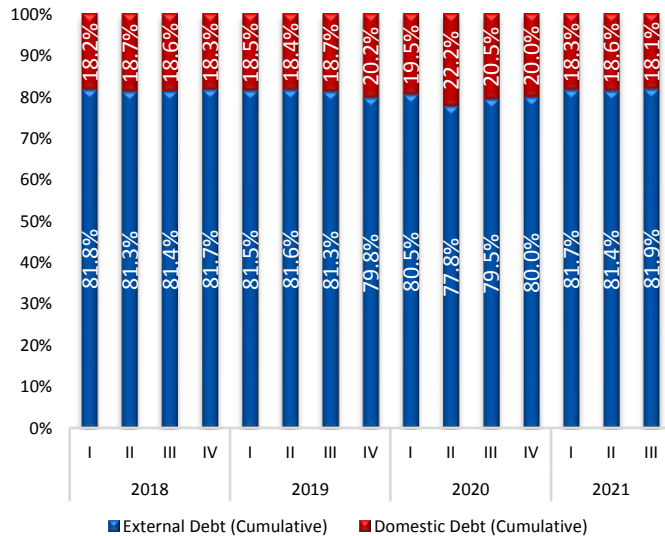


Consolidated Budget Expenditures and Increase of Non-financial Assets (GEL Million)



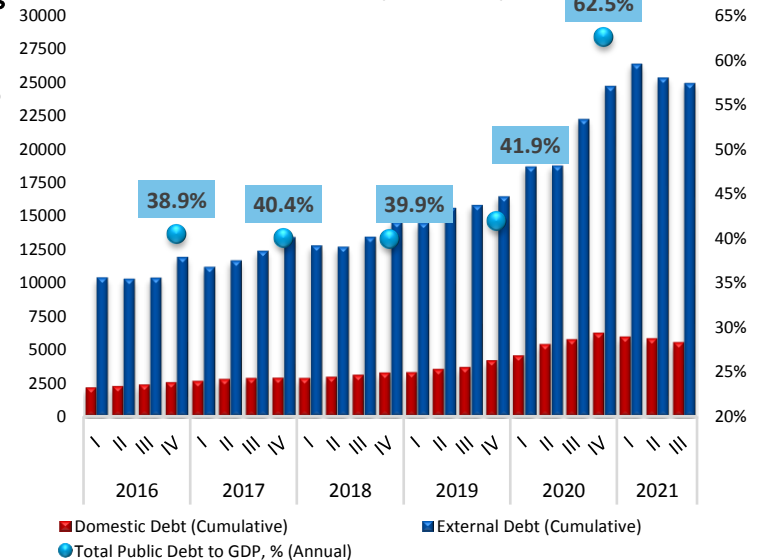
In Q3 2021, recurrent expenditure increased while capital expenditures decreased YoY.
 In Q3 2021, consolidated budget recurrent expenses increased by 6.9% YoY and amounted to GEL 3,714 million. Expenses in non-financial assets (i.e. capital expenditure) decreased by -8.7% YoY and reached GEL 1,031 million.

Dept Composition



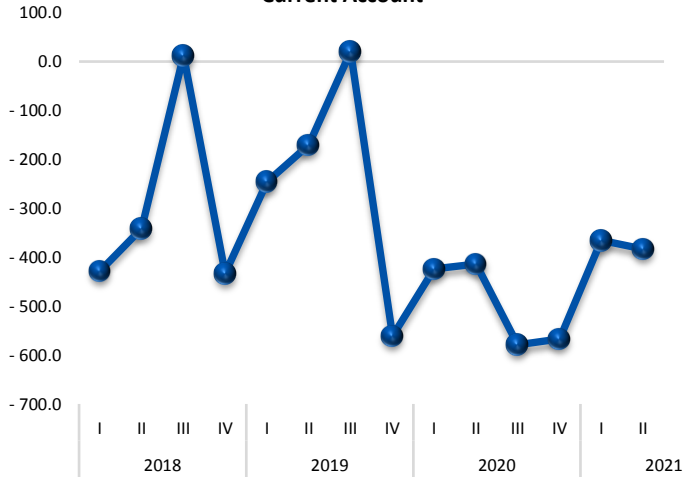
As of 30 September 2021, public debt in nominal terms reached GEL 30,413 million, a 8.8% increase YoY.
 The external debt share made up 81.9% (79.5% at the end of Q3 2020), while the domestic debt share reached 18.1% (20.5% at the end of Q3 2020).

Public Debt (GEL Million)



3. External Sector

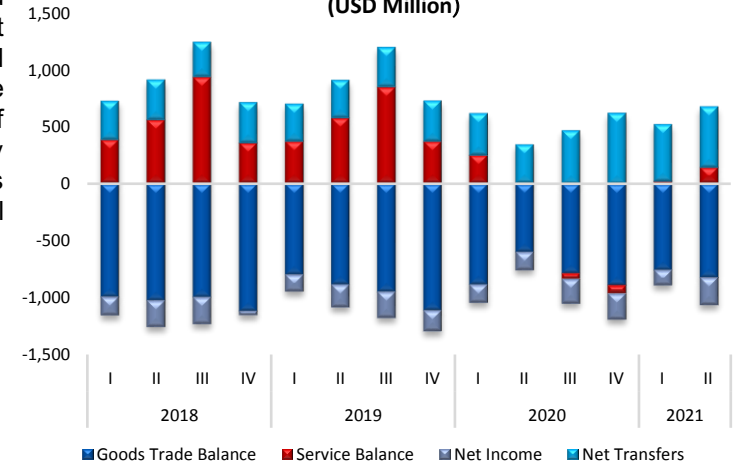
Current Account



In Q2 2021, the current account balance was negative.

In Q2 2021, the negative current account balance reached USD 383.3 million (-8% 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. However, significant improvement was observed since Q2 and revenues from international travel increased by 753.3%.

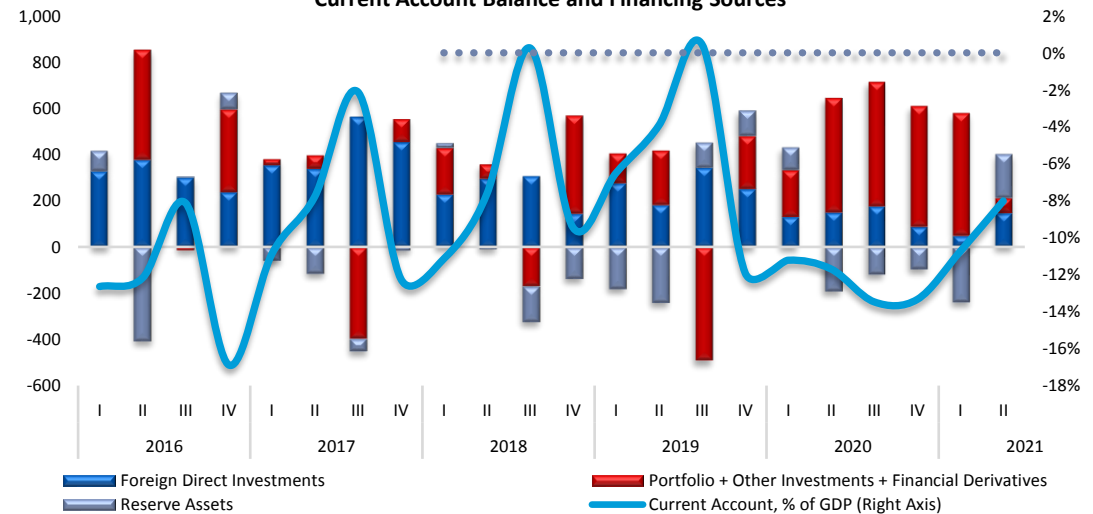
Current Account Components (USD Million)



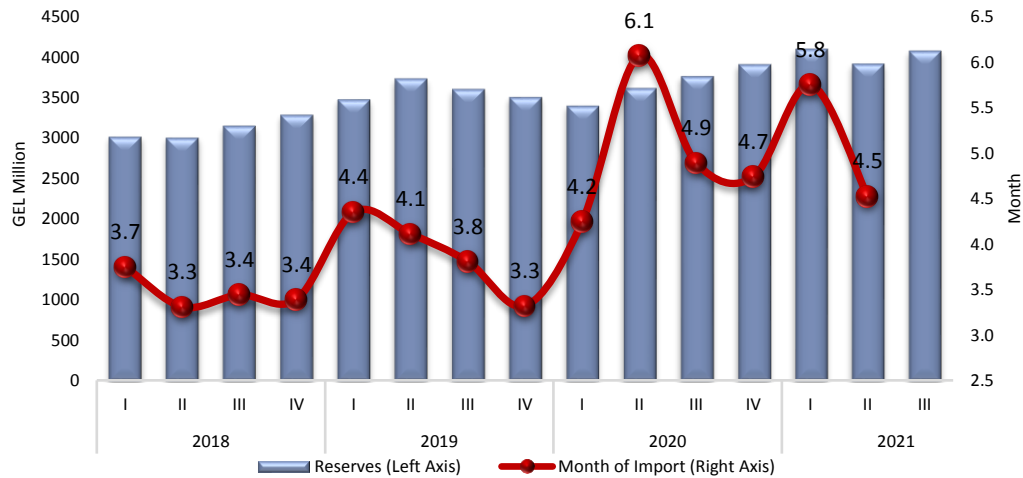
In Q2 2021, the primary source of the current account deficit was reserve assets and foreign direct investments.

During this period, net direct investments totaled USD 148 million (3.1% of GDP), a 2.3% decrease in comparison with the same period of the previous year.

Current Account Balance and Financing Sources



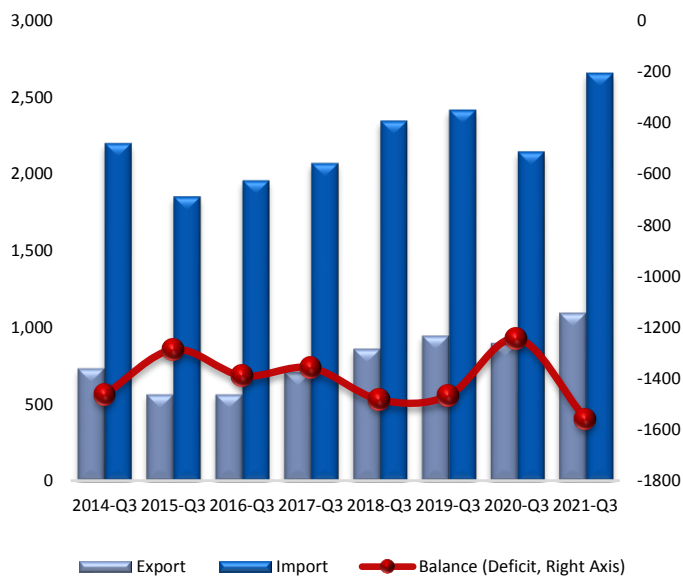
Total International Reserves



In Q3 2021, total international reserves reached USD 4,077 million.

At the end of Q3 2021 total international reserves made up USD 4,077 million, and 8.3% increase YoY. In 2020, in response to the sharp exchange rate depreciation, the National Bank of Georgia sold USD 873 million. In January-September 2021, NBG sold USD 333 million.

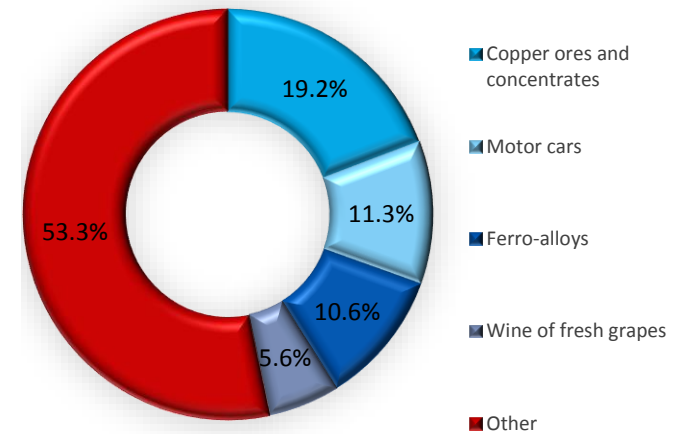
External Trade of Goods (USD Million)



In Q3 2021, an upward trend was observed in both export and import of goods.

In Q3 2021, compared to the same period of the previous year export increased by 21.9%, while import increased by 23.8%. It is noteworthy that after a significant decline in 2020, notable growth was recorded in both export and import in Q3 2021. In the reporting period share of the export in external trade decreased from 29.5% to 29.2%.

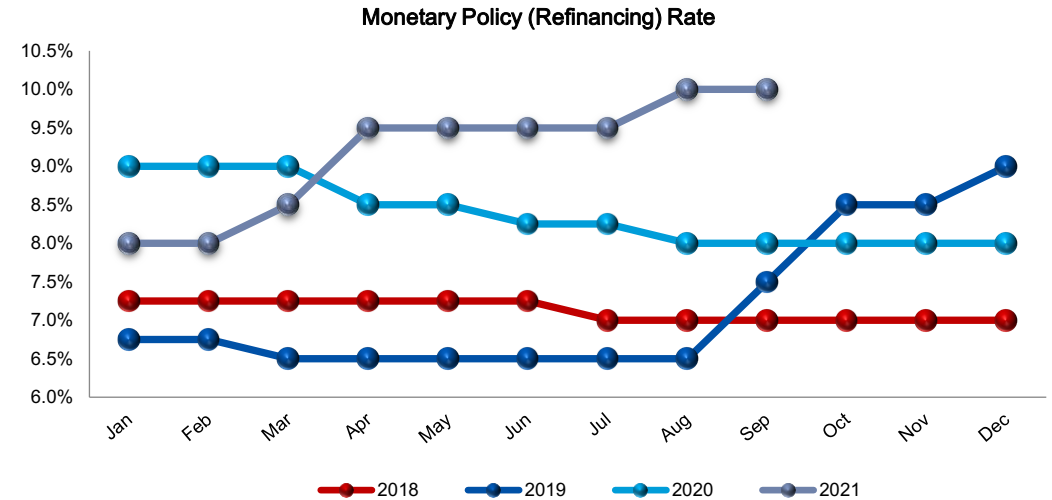
Major Commodity Groups by Exports (January - September)



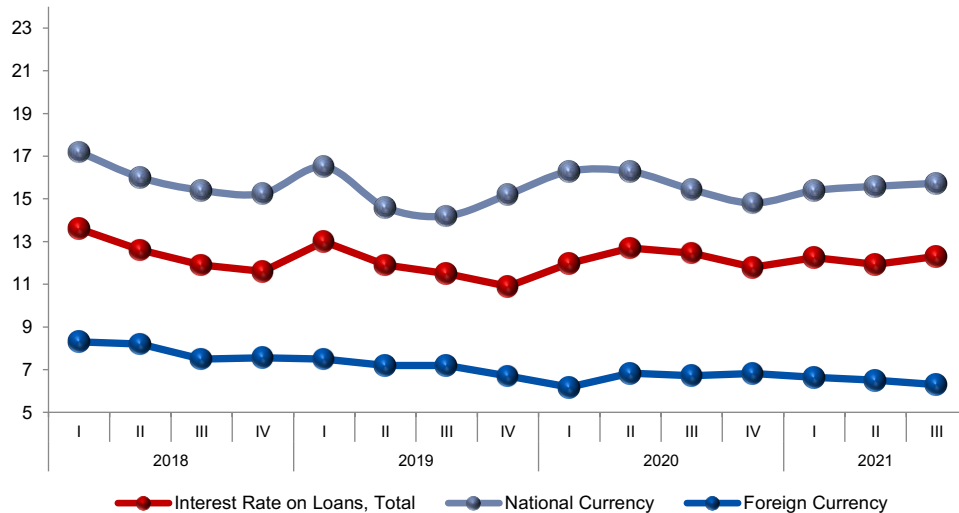
4. Monetary Sector

In Q3 2021 the monetary policy rate was 10%.

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 September and was maintained at this level during the third quarter of 2021.



Market Interest Rates on Loans (%)

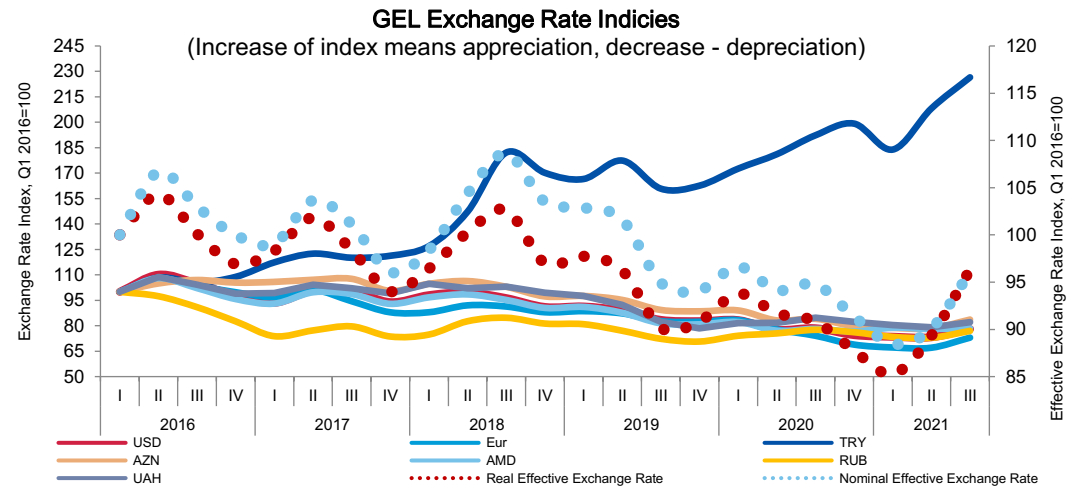


In Q3 2021, the market interest rate on loans reached 12.3%.

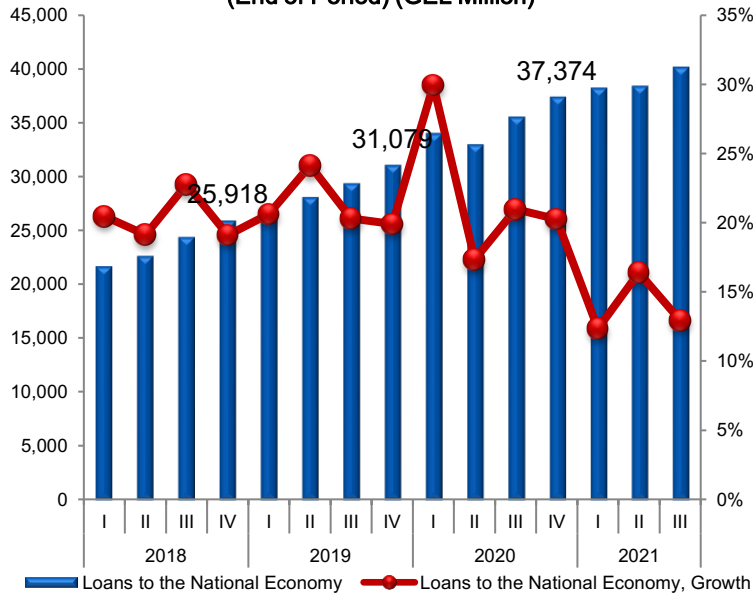
In Q3 2021 market interest rate on loans increased by 0.4 pp QoQ and reached 12.3%. The interest rate on national currency increased by 0.1 pp QoQ (15.7%) loans, while on foreign currency loans decreased by 0.2 pp (6.3%).

In Q3 2021, the exchange rate of GEL appreciated QoQ against all primary currencies.

In Q3 2021, the exchange rate of GEL (period average) against USD appreciated by 6.6% QoQ and depreciated by 0.6% YoY. Compared to the Q3 2020 GEL depreciated against EUR (1.5%), AZN (0.5%), UAH (3.1%), and RUB (0.9%), while appreciated against TRY (17.8%) and AMD (0.4%).



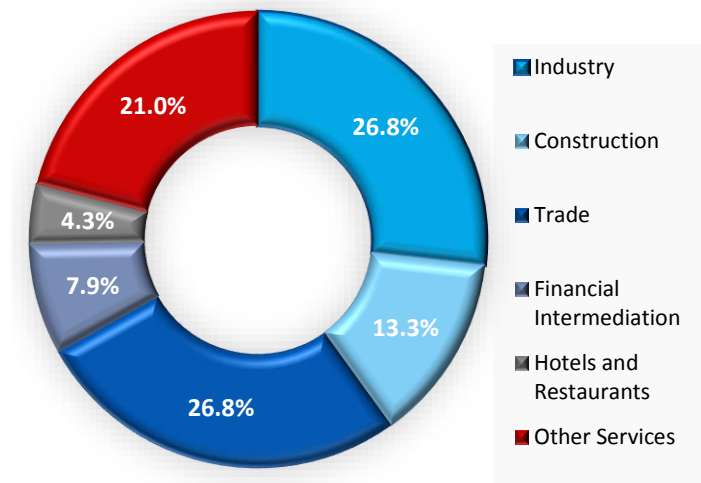
Commercial Bank Loans to the National Economy (End of Period) (GEL Million)



In Q3 2021, loans to the national economy (end of period) increased.

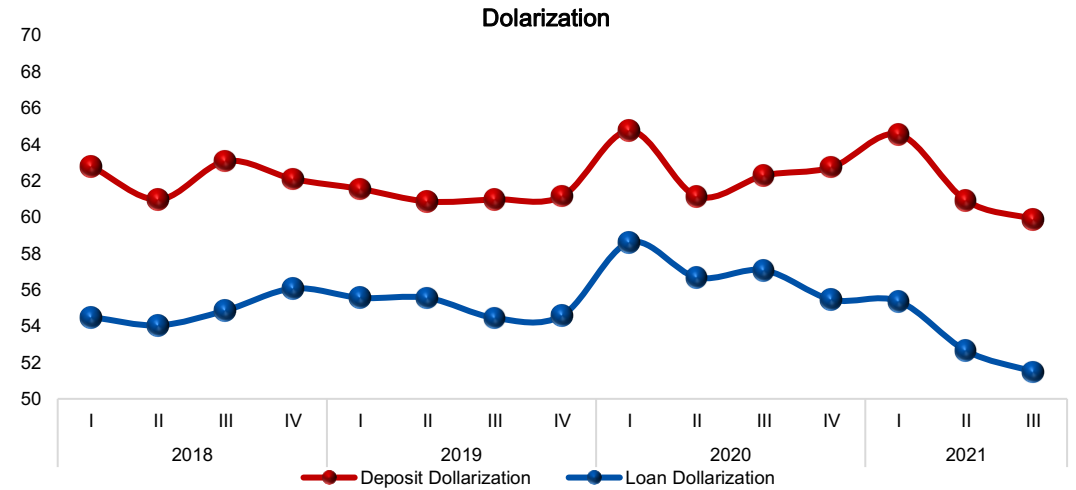
In Q3 2021, loans to the national economy increased by 12.9% YoY and by 4.5% QoQ. More than half of total loans was distributed to households.

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



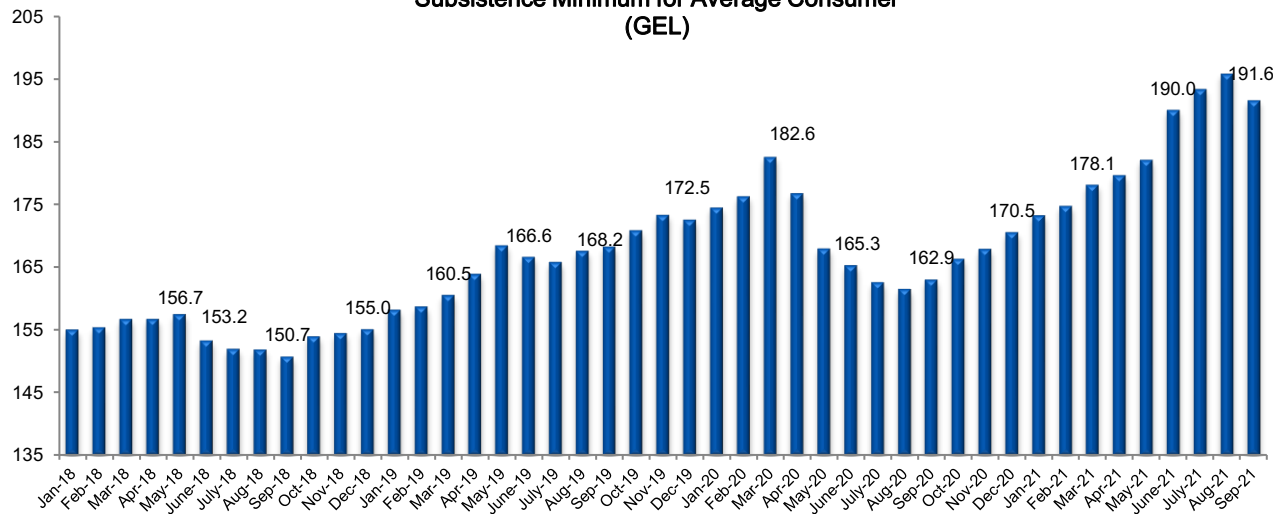
In Q3 2021, the dollarization coefficient decreased on both, deposits and loans.

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 Q3 2021, compared to the previous quarter, the dollarization coefficient on deposits decreased by 1 pp to 59.9%, while on loans it decreased by 1.2 pp to 51.5%.



5. Social Sector

Subsistence Minimum for Average Consumer (GEL)

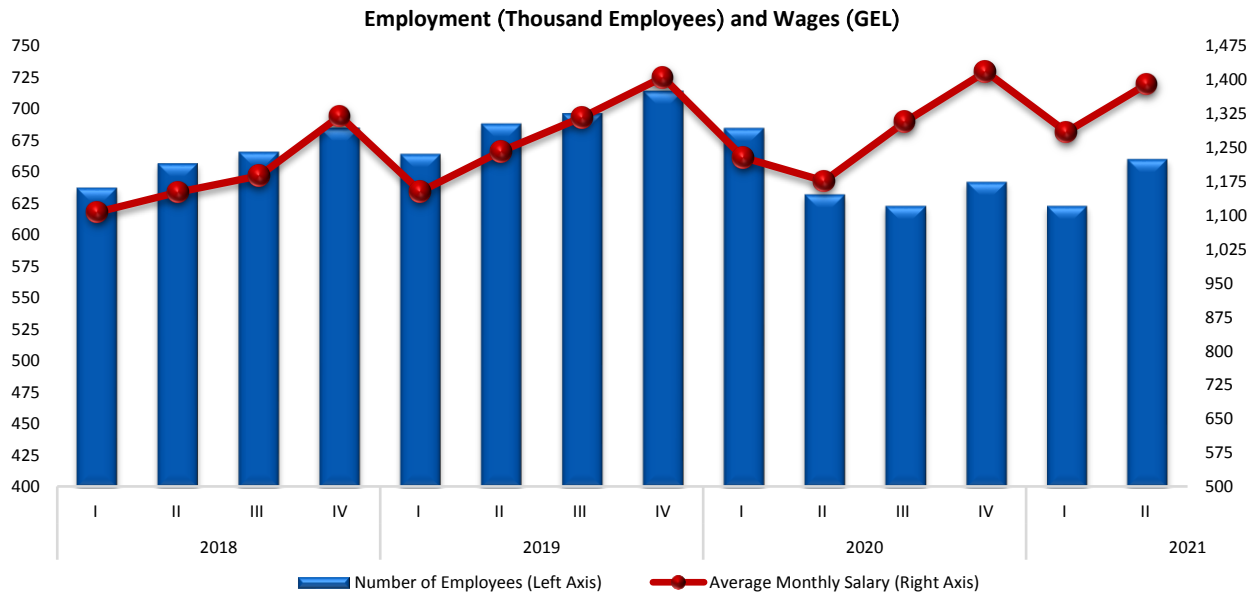
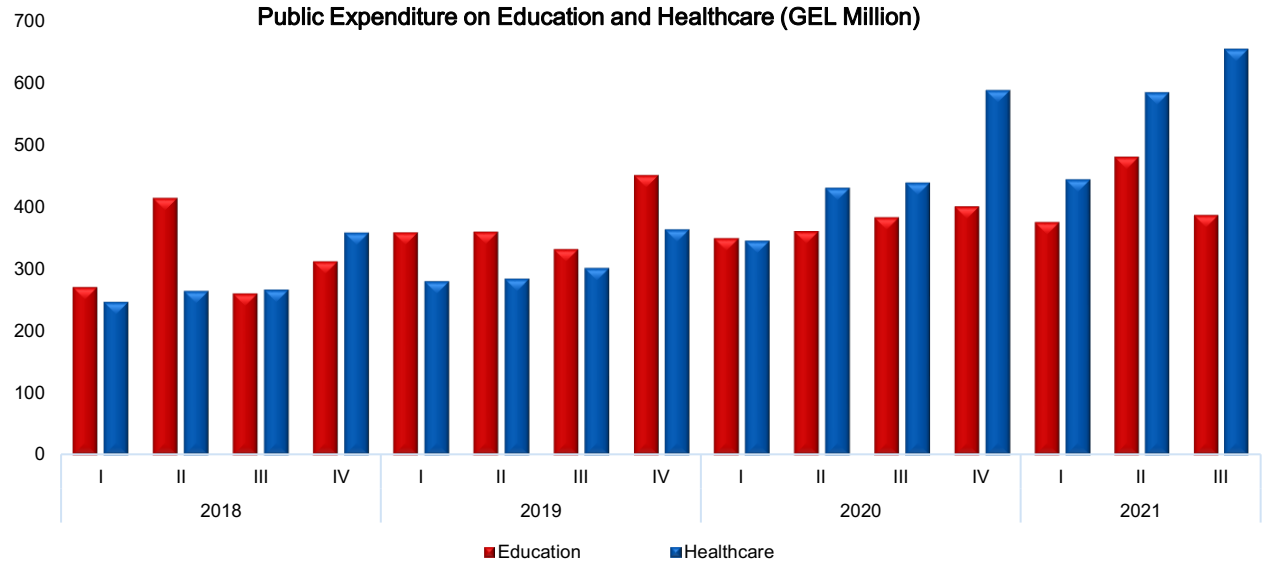


In Q3 2021, the subsistence minimum increased YoY.

At the end of Q3 2021, in September, the average consumer subsistence minimum totaled GEL 191.6, GEL 28.6 higher YoY.

In Q3 2021 compared to the same period of the previous year public expenditures on healthcare and education significantly increased.

In Q3 2021, expenditure on education (as per functional classification) amounted to GEL 386.4 million, 1% increase compared to the same period of the last year (99.8% of quarterly plan). Meanwhile expenditure on healthcare reached GEL 654.2 million, 48.9% increase compared to the same period of the last year (95.7% of quarterly plan).



In Q2 2021, the total number of employees in the business sector and salary increased YoY.

In Q2 2021, the number of business sector employees increased by 4.4% YoY and amounted to 659.7 thousand. Average monthly salary increased by GEL 214 YoY and amounted to GEL 1,389.6.