



Quarterly Macroeconomic Review *

Main Indicators of Quarter

- According to preliminary estimate real GDP increased by 7.2%
- Annual inflation amounted to 13.0%
- GEL appreciated against USD by 3.9% QoQ and by 11.0% YoY
- Negative overall balance of consolidated budget amounted to GEL 143.6 million
- 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

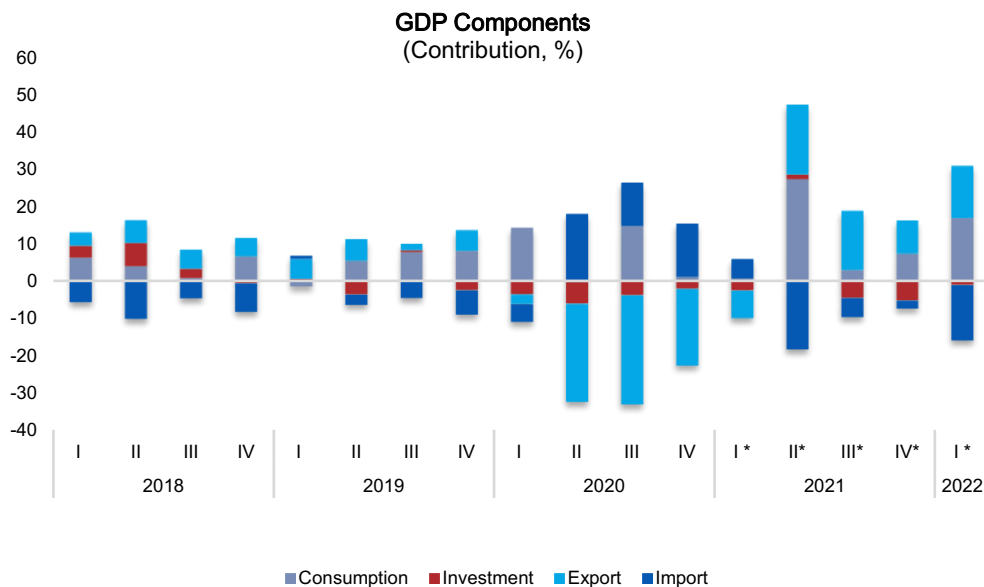
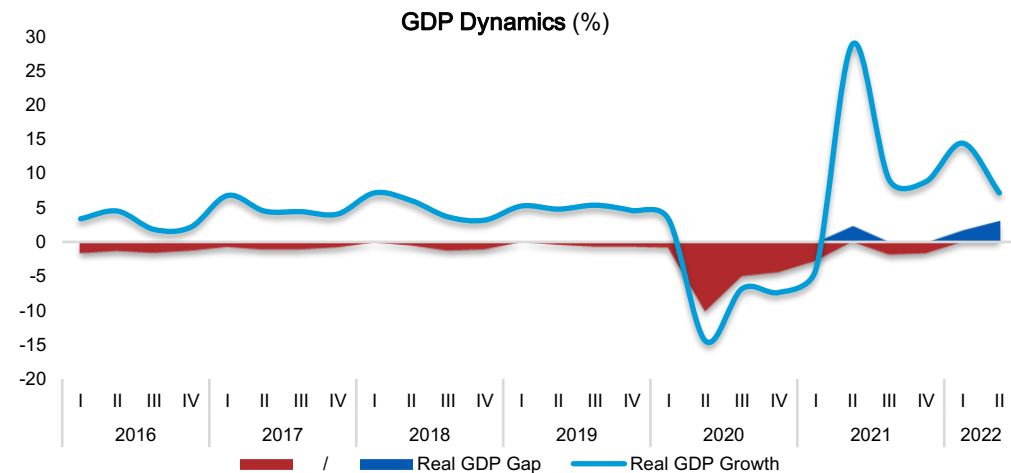


1. Real sector

In Q2 2022, according to GEOSTAT preliminary estimate average growth of real GDP amounted to 7.2%.

According to PBO evaluation, in Q2 2022, potential GDP was lower than the statistical measurement, hence the positive output gap equaled to 2.9%, while the output gap for the previous quarter was positive 1.6%.

It should be noted, that the economic growth estimate for Q2 2022 made by the Parliamentary Budget Office in May 2022 was 3.3%¹, which took into account 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 second quarter. Moreover, in Q2 2022, there was an increase in foreign direct investments, revenues from international travel, as well as remittances and foreign trade.

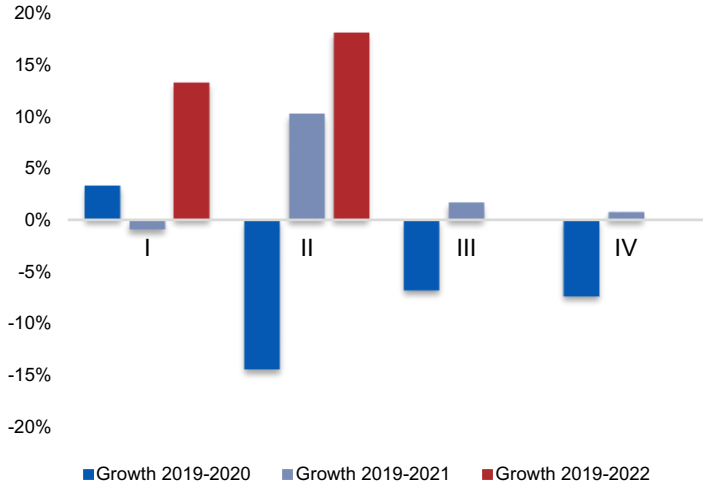


In Q1* 2022, as per PBO estimates, export and consumption increase played major roles in GDP growth.

Analyzing GDP components, in Q1 2022, real GDP increase was primarily driven by export (14.1%) and consumption (16.8%). In the reporting period, investment (-1.1%) and import (-14.8%) had a negative impact on GDP.

¹ www.pbo.parliament.ge

Economic Growth Compared to 2019

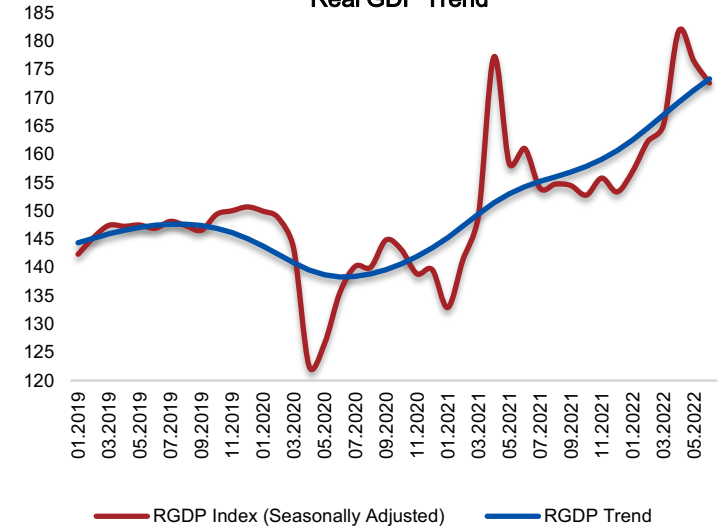


Observing monthly data reveals that the economic growth trend is not linear.

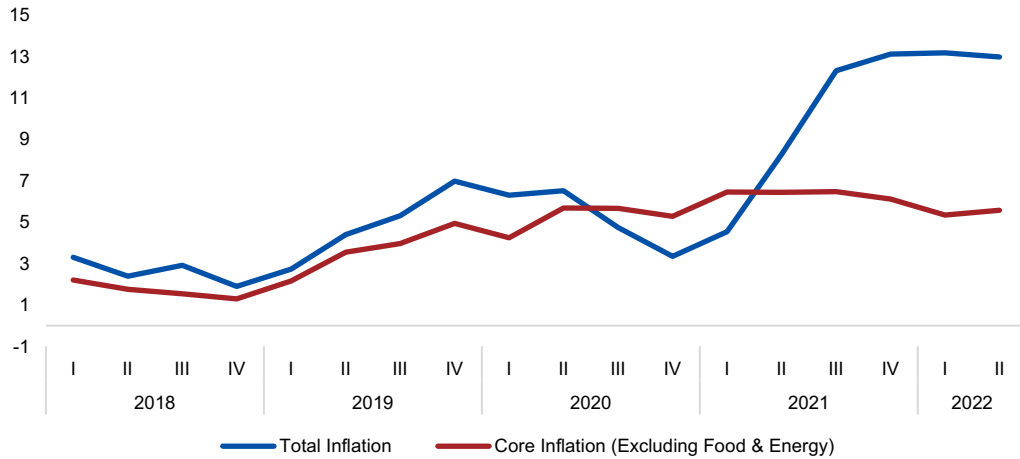
According to PBO estimate based on preliminary data, in Q2 2022, YoY growth of the real GDP trend² was 12.0%, compared to 10.1% growth rate in the respective period of 2021.

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 (%)

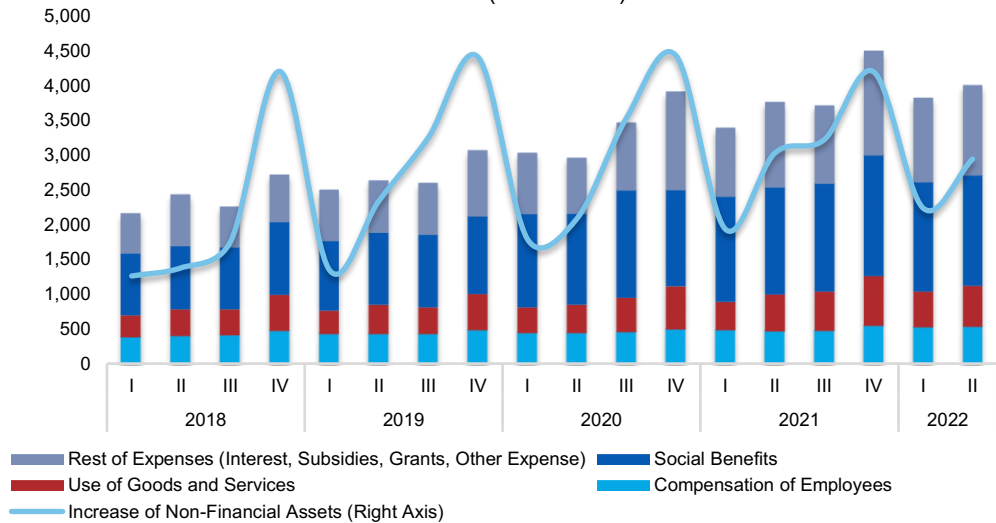


In Q2 2022, consumer price inflation has increased YoY trend.

In Q2 2022, average annual inflation reached 13.0%, higher than the inflation target of 3%. In Q2 2022, 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.

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

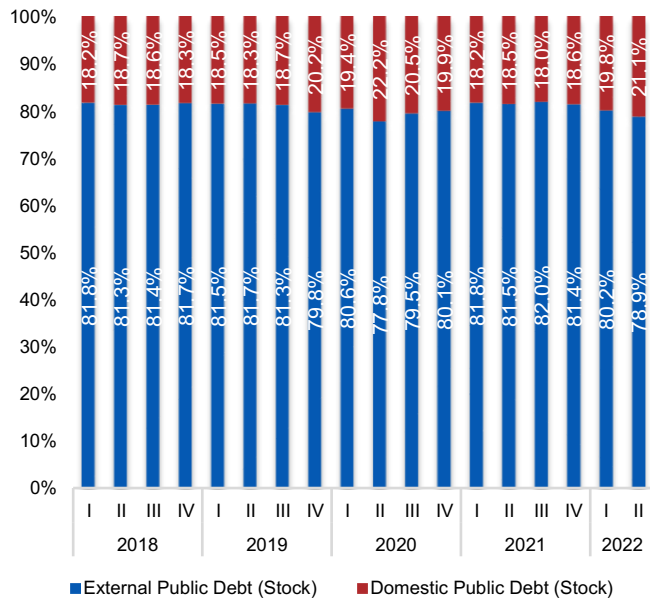
Consolidated Budget Expenditures and Increase of Non-financial Assets (GEL Million)



In Q2 2022, recurrent expenditure increased, while capital expenditures decreased YoY.

In Q2 2022, consolidated budget recurrent expenses increased by 6.4% YoY and amounted to GEL 4,005 million. Expenses in non-financial assets (i.e. capital expenditure) decreased by 2.7% YoY and reached GEL 943 million. During the mentioned period expenditures on goods and services increased by 11.8% and amounted to GEL 589 million. Expenditures on compensation of employees and social benefits increased by 13.2% and 3.3%, respectively, while in nominal terms they amounted to GEL 533 million and GEL 1,588 million. Other expenses (interest, subsidies, grants, other services) increased by 5.3% and amounted to GEL 1,294 million.

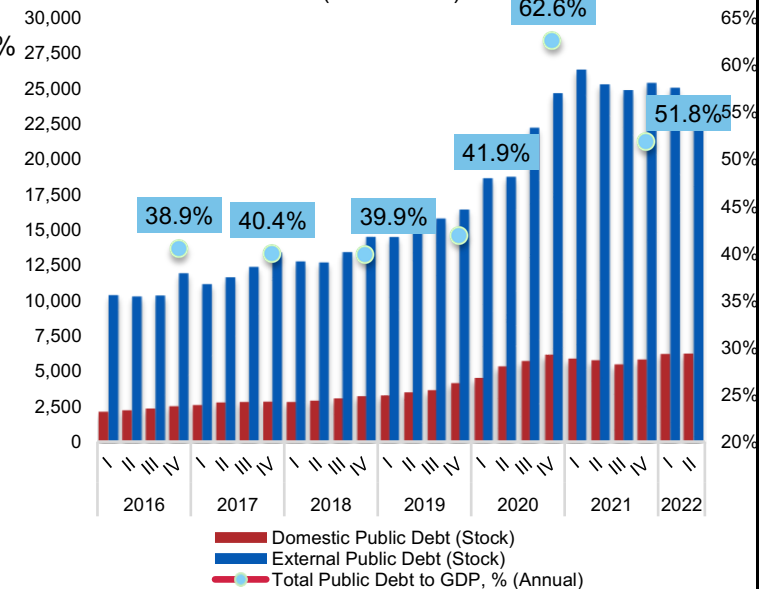
Dept Composition



As of 30 June 2022, public debt in nominal terms reached GEL 29,367 million, a 5.6% decrease YoY.

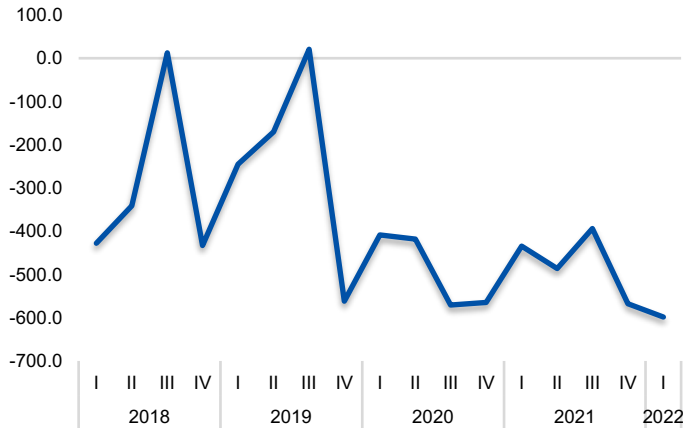
The external debt share made up 78.9% in Q2 2022 (81.5% at the end of Q2 2021), while the domestic debt share reached 21.1% (18.5% at the end of Q2 2021).

Public Debt (GEL Million)



3. External Sector

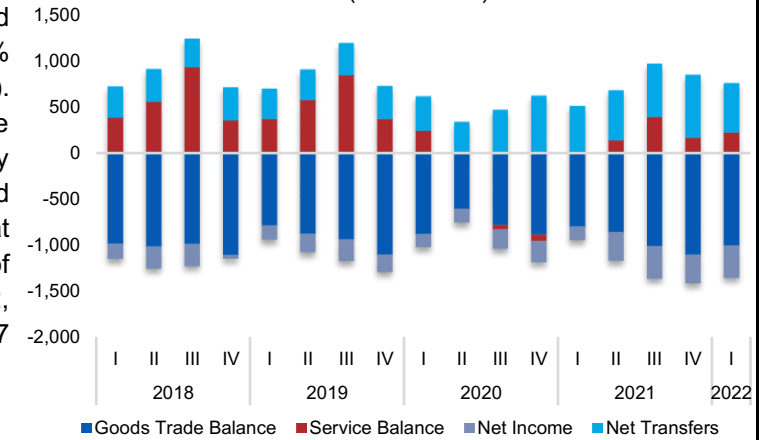
Current Account
(USD Million)



In Q1* 2022, the BOP current account balance was negative.

In Q1 2022, the negative current account balance reached USD 598.4 million (-13.0% of GDP), which is 37.6% decrease YoY (-434.8 million US dollars in Q1 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 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 in 2022. In Q1 2022, indicator increased by 635.2% YoY and totaled USD 393.7 million.

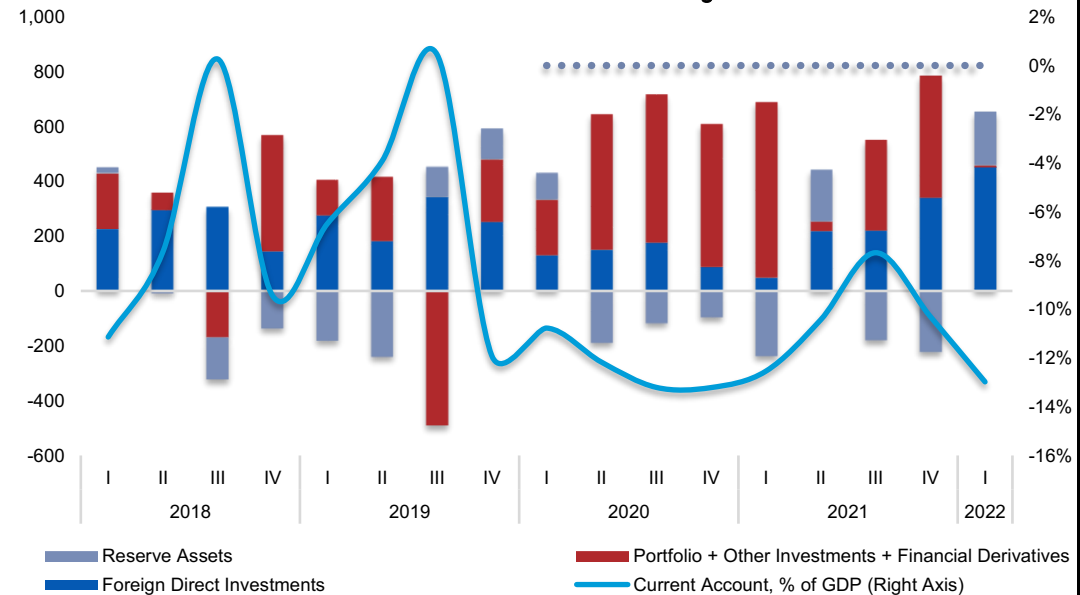
Current Account Components
(USD Million)



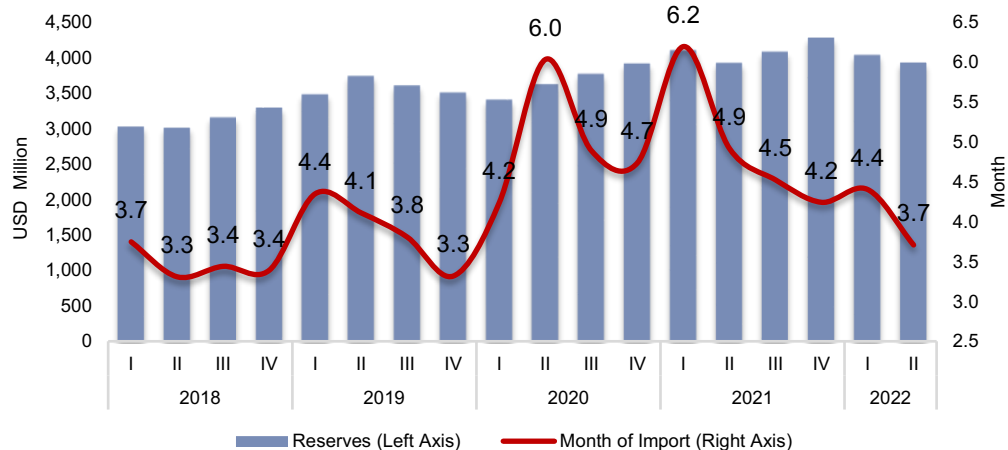
In Q1* 2022, the primary financing source of the current account deficit was foreign direct investments, portfolio investments and financial derivatives.

During this period, net direct investments totaled USD 451.1 million (9.8% of GDP), a 813.5% increase in comparison with the same period of the previous year. As for the amount of portfolio investments and financial derivatives, in the first quarter of 2022 they totaled 61.4 million US dollars, 13.6% increase YoY.

Current Account Balance and Financing Sources



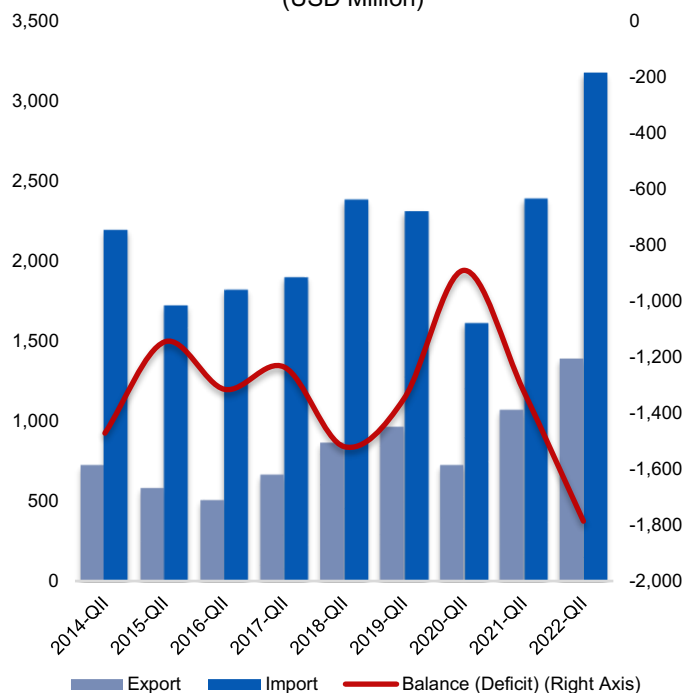
Total International Reserves



In Q2 2022, total international reserves reached USD 3,922 million.

At the end of Q2 2022 total international reserves made up USD 3,922 million, which is 0.1% increase YoY. In March 2022, in response to the exchange rate depreciation, the National Bank of Georgia sold USD 39.6 million in foreign exchange auctions, while in May 2022 purchased USD 10.0 million.

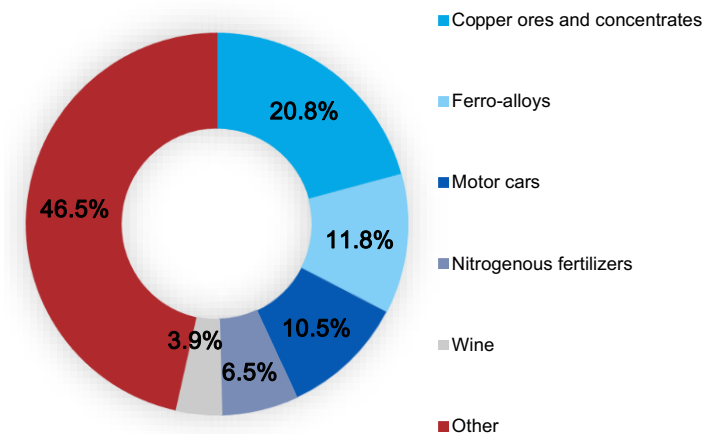
External Trade of Goods (USD Million)



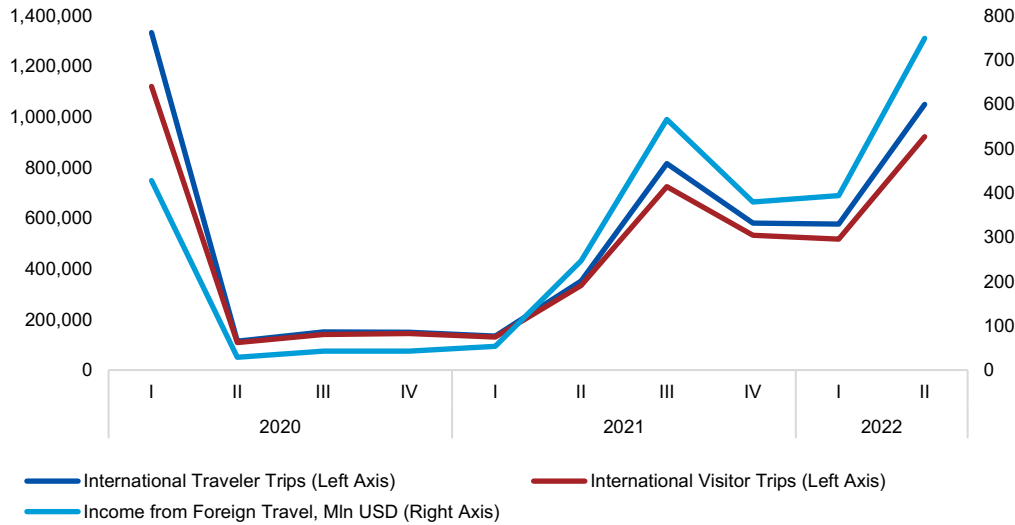
In Q2 2022, an upward trend was observed in both export and import of goods.

In Q2 2022, compared to the same period of the previous year export of goods increased by 29.8% and amounted to USD 1,387 million, while import of goods increased by 32.8% and totaled USD 3,173 million. In the reporting period share of the export in external trade decreased from 30.9% to 30.4%. In the second quarter of 2022, the largest export commodities were copper ores and concentrates, ferroalloys, exports of motor cars, nitrogenous fertilizers, wines and others.

Major Commodity Groups by Exports (I - II Quarters)

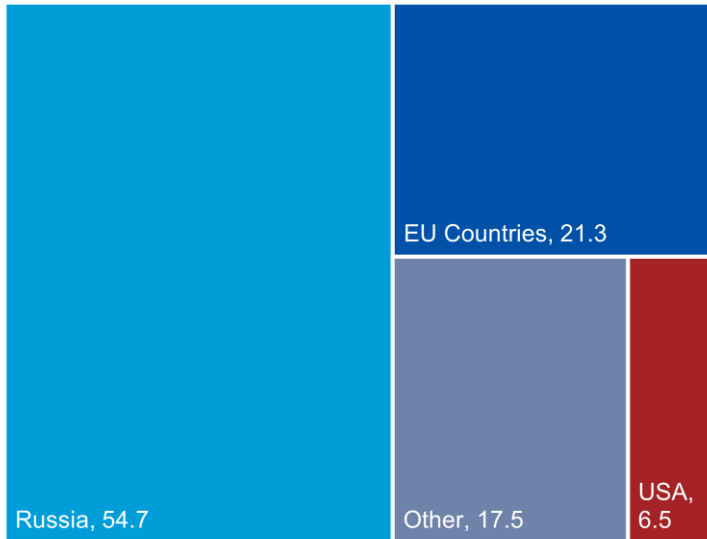


International Traveler Trips and Income from Foreign Travel



In Q2, 2022 both international traveler trips and international visitor trips have increased. In Q2 2022, international traveler trips increased by 198.7% YoY and amounted to 1,049,425. International traveler trips also include trips made by international visitors. In Q2 2022, International visitor trips reached 922,221 (176.2% higher compared to the same indicator of Q2, 2021). The majority of trips conducted by international visitor were from Russia (175,356, increase by 411.2% YoY), Turkey (158,335, Increase by 118.2% YoY) and Armenia (136,808, increase by 333.8% YoY). In Q2 2022, income from foreign travel amounted to 748.8 mln USD, a 204.2% increase YoY.

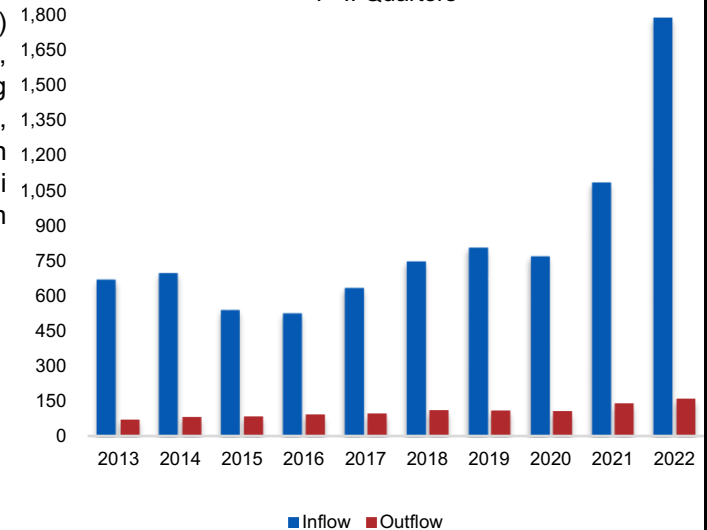
Remittance (%) II Quarter



In Q2, 2022 remittances increased significantly

In Q2 2022, remittances increased by 112.7% YoY and amounted to USD 1,241.2 million. During this period the main source of money transfers are Russia (54.7% of total) and EU countries (21.3%). In the analyzing period, remittances increased significantly from the following countries: Russia (551.1%), Kazakhstan (480.1%), Belarus (416.7%), Kyrgyzstan (346.7%), Tajikistan (248.8%), Uzbekistan (147.3%), Armenia (113.8%), Saudi Arabia (103.0%), Netherlands (76.2%), United Kingdom (46.4%), Germany (42.6%) and others.

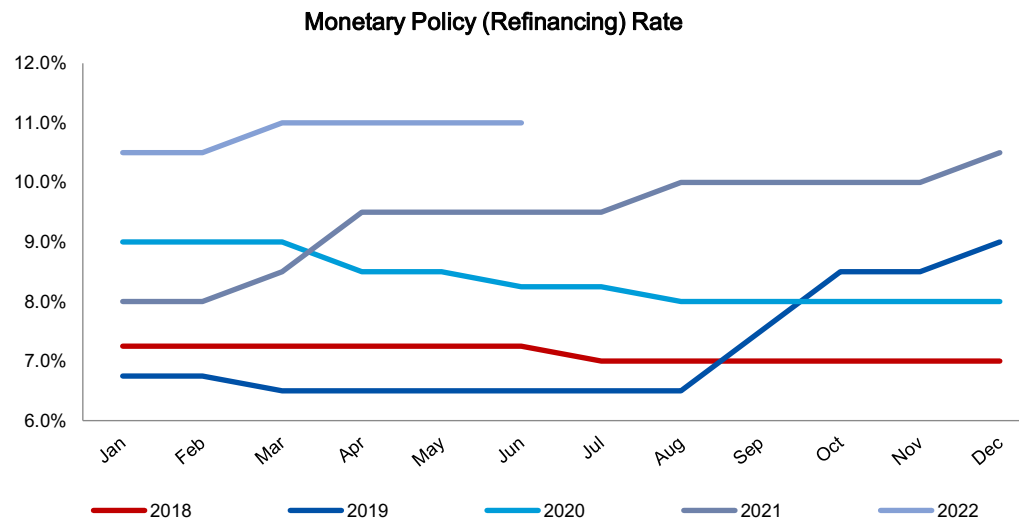
Remittance (USD Million) I - II Quarters



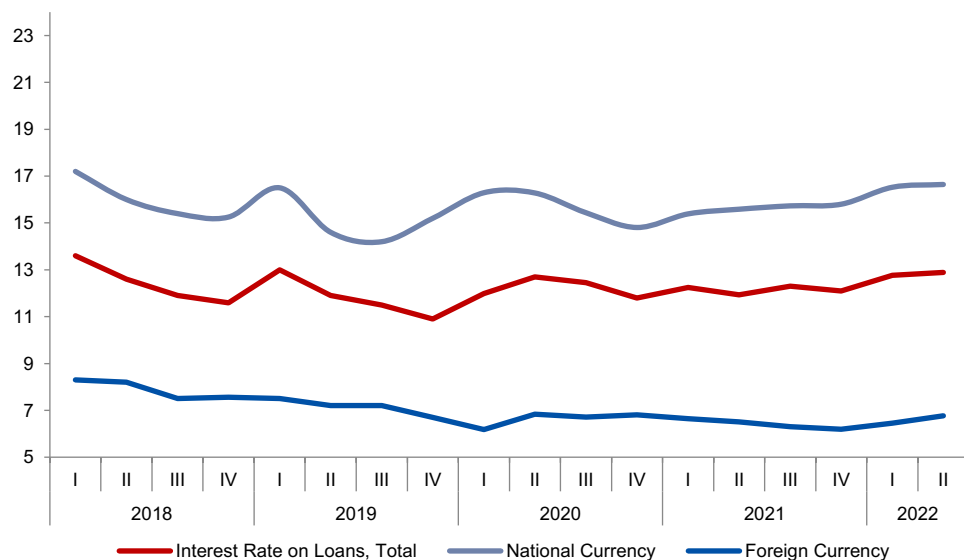
4. Monetary Sector

In Q2 2022 the monetary policy (refinancing) rate was 11.0%.

At the beginning of March 2021, 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 10.0% 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 rate increased again by 0.5 pp to 11.0%. On June 22, monetary policy committee decided to remain the rate unchanged (11.0%).



Market Interest Rates on Loans (%)

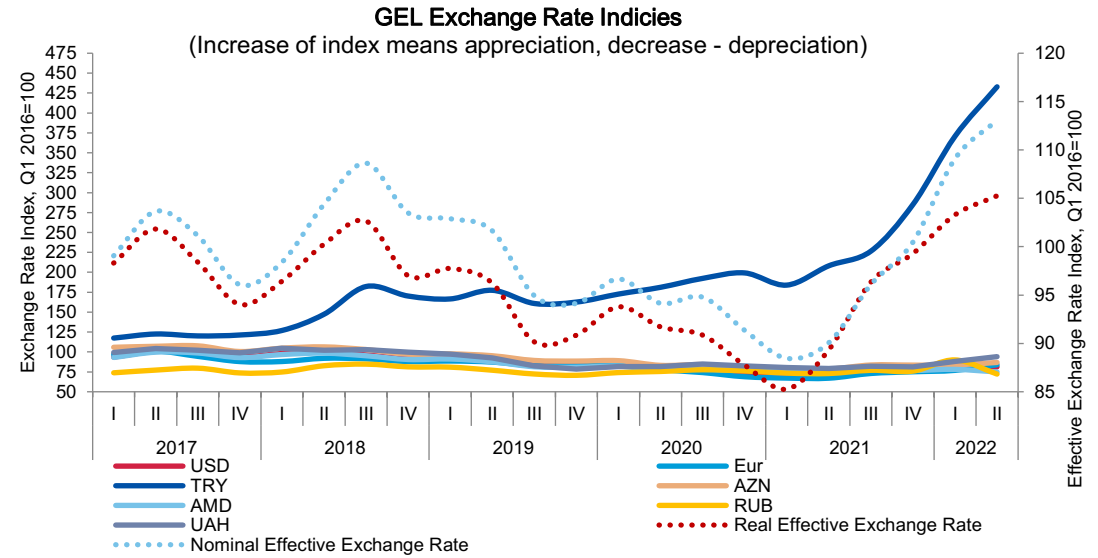


In Q2 2022, the market interest rate on loans reached 12.9%.

In Q2 2022, market interest rate on loans increased by 0.1 pp QoQ and reached 12.9%. The interest rate on national currency loans increased by 0.1 pp QoQ (16.6%), while on foreign currency loans increased by 0.3 pp QoQ (6.8%).

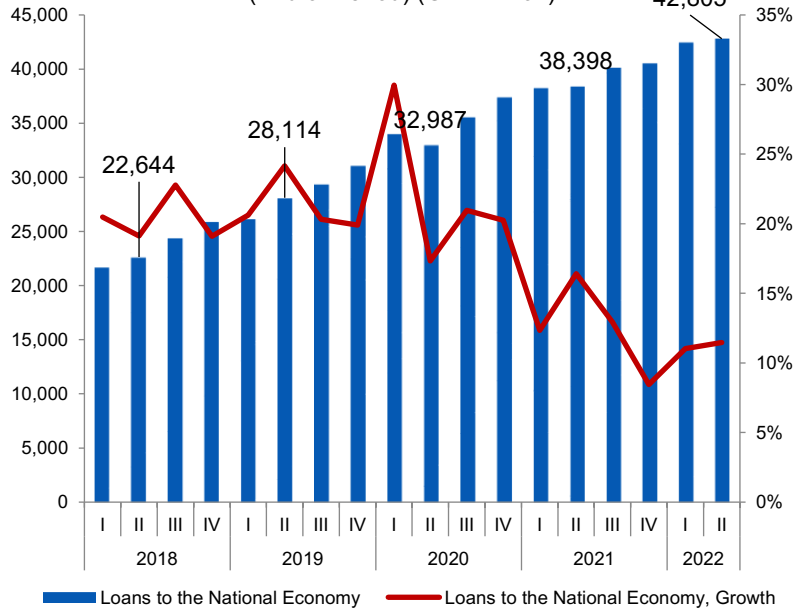
In Q2 2022, the exchange rate of GEL appreciated QoQ against all primary currencies, except RUB and AMD.

In Q2 2022, the exchange rate of GEL (period average) against USD appreciated by 3.9% QoQ and by 11.0% YoY. Compared to the Q2 2021, GEL appreciated against EUR (25.2%), TRY (108.0%), AZN (10.7%) and UAH (18.8%), while depreciated against AMD (4.1%) and RUB (1.0%)



Commercial Bank Loans to the National Economy

(End of Period) (GEL Million)



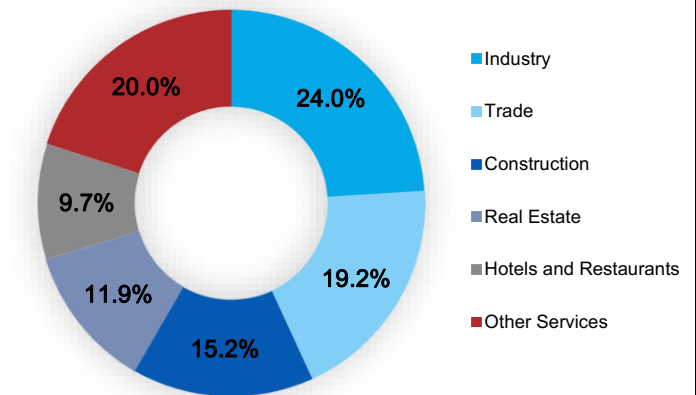
In Q2 2022, loans to the national economy (end of period) increased.

In Q2 2022, loans to the national economy increased by 11.5% YoY and amounted to GEL 42,805 million. More than half of total loans (52.8%) was distributed to households.

As for loans issued by types of activity, the highest 24.0% were issued in industry, 19.2% in trade, 15.2% in construction, 11.9% in real estate and 9.7% in hotels and restaurants.

Loans by Types of Activity

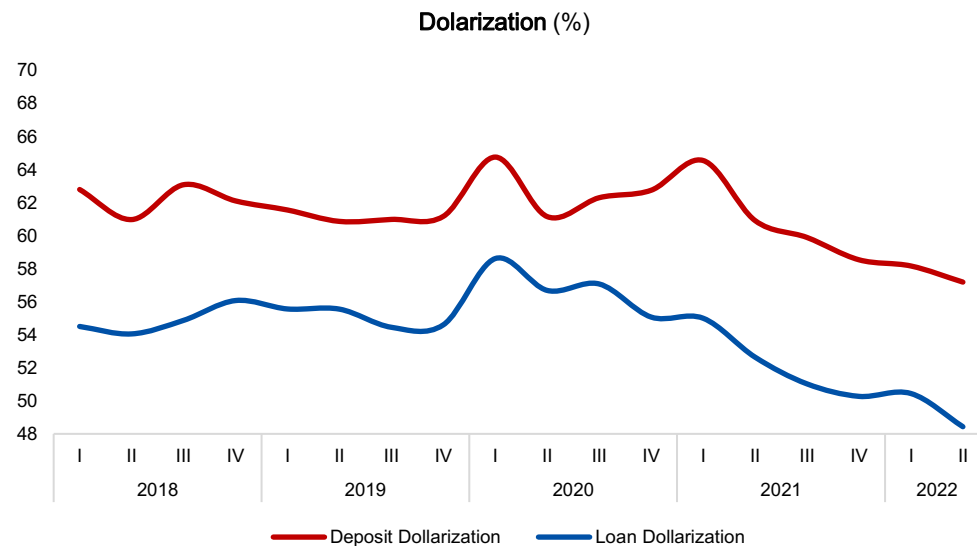
(Flows)



In Q2 2022, the dollarization coefficient decreased on both deposits and loans.

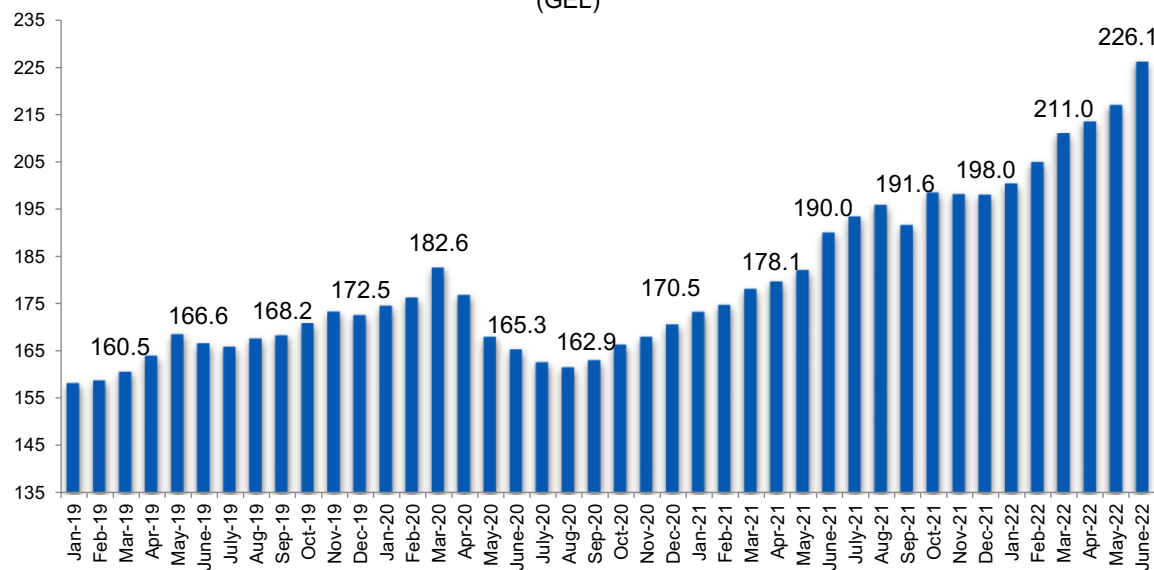
In Q1 2022, compared to the previous quarter, the dollarization coefficient on deposits decreased by 0.4 pp to 58.2%, while on loans it increased by 0.2 pp to 50.4%.

In Q2 2022, the dollarization coefficient decreased on both deposits and loans. Namely, dollarization on deposits amounted to 57.2%, which is 1.0 pp lower QoQ and 3.7 pp lower YoY. While dollarization on loans was observed on 48.4%, decrease by 2.0 pp QoQ and by 4.2% YoY.



5. Social Sector

Subsistence Minimum for Average Consumer (GEL)

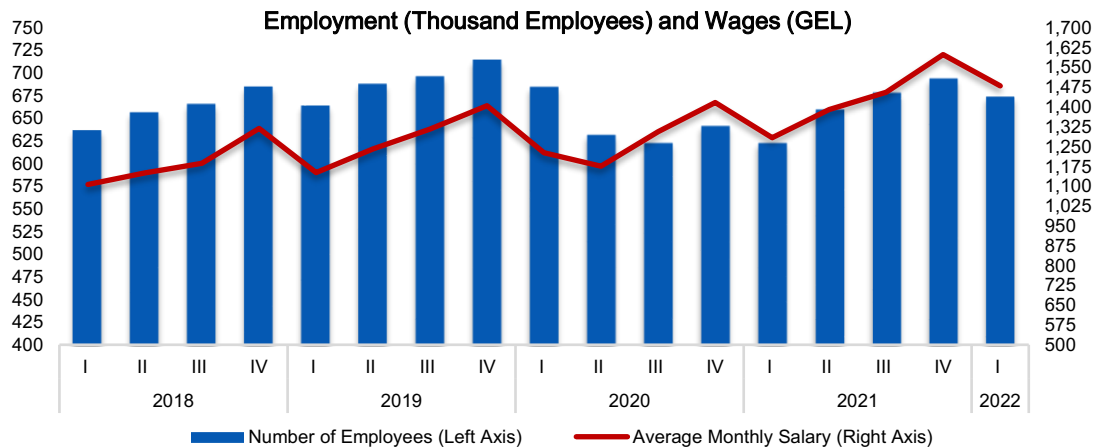
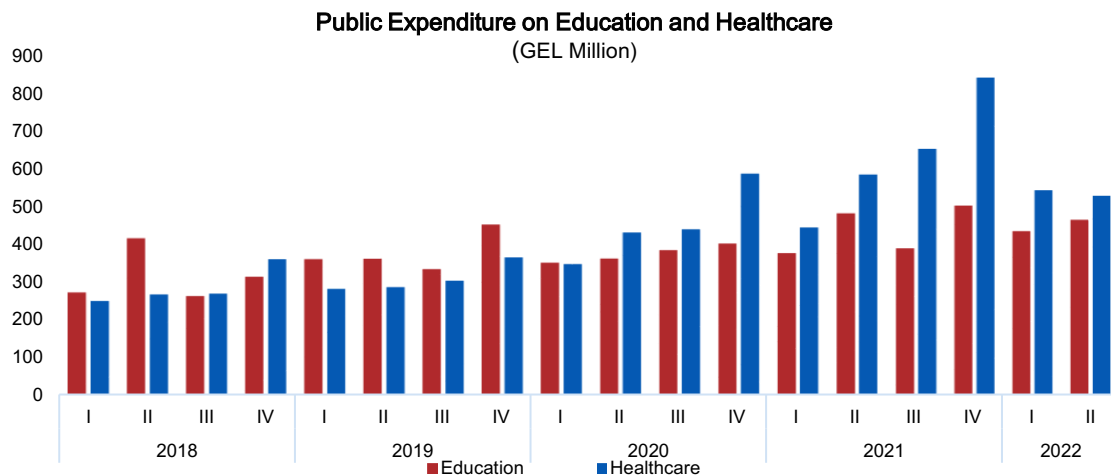


In Q2 2022, the subsistence minimum increased YoY.

At the end of Q2 2022, in June, the average consumer subsistence minimum totaled GEL 226.1, GEL 36.1 higher YoY and GEL 15.1 higher QoQ. In Q2 2022, average quarterly subsistence minimum rate increased by 19.0% YoY.

In Q2 2022, compared to the same period of the previous year, public expenditures on healthcare and education decreased.

In Q2 2022, expenditure on education (as per functional classification) amounted to GEL 462.7 million, 3.6% decrease compared to the same period of the last year. Meanwhile expenditure on healthcare amounted to GEL 528.8 million, 9.5% decrease compared to the same period of the last year.



In Q1* 2022, the total number of employees in the business sector and salary increased YoY.

In Q1 2022, the number of business sector employees increased by 8.2% YoY and amounted to 673.6 thousand. Average monthly salary increased by GEL 196.2 YoY and amounted to GEL 1,479.7.

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