



Quarterly Macroeconomic Review *

Main Indicators of Quarter

- In Q4 2022, according to preliminary estimate real GDP increased by 9.5%. Should be remarked, that real GDP growth is higher compared to forecasted 8.2% in November by parliamentary budget office. GDP showed better-than-expected economic growth.
- In Q4 2022, annual inflation amounted to 10.3%, which was primarily driven by increasing prices on food and non-alcoholic beverages.
- In Q4 2022, negative overall balance of consolidated budget amounted to GEL 892.9 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 76.0%, while the same indicator in Q4, 2021 was 81.4%.
- In Q3* 2022, current account balance improved significantly. Namely, current account positive balance and amounted to USD 400.2 million.
- In Q4 2022, the amount of international reserves reached historical maximum and amounted to USD 4,901.5 million.
- In Q4 2022, the share of the export in external trade decreased from 29.4% to 28.0% YoY.
- In Q4 2022, remittances increased by 142.2% YoY and amounted to USD 1,558.4 million.
- Monetary policy (refinancing) rate remains unchanged at 11.0% since March, 2022.
- The exchange rate of GEL shows appreciation trend. GEL appreciated against USD by 3.3% QoQ and by 14.3% 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

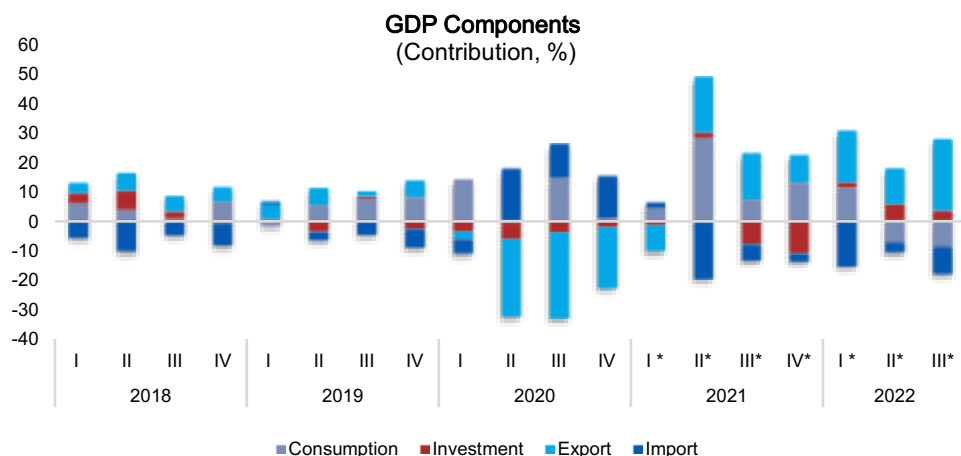
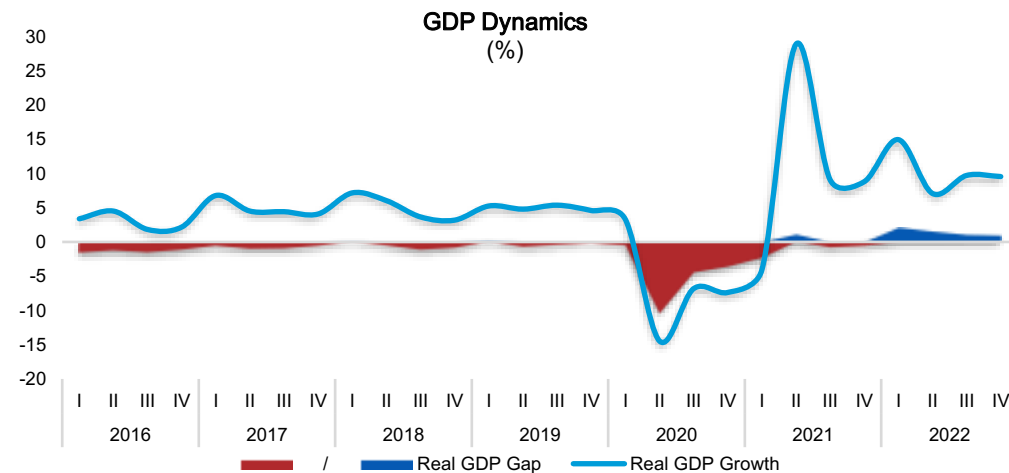


1. Real sector

In Q4 2022, according to GEOSTAT preliminary estimate average growth of real GDP amounted to 9.5%.

According to PBO evaluation, in Q4 2022, potential GDP was lower than the statistical measurement, hence the positive output gap equaled to 1.0%, while the output gap for the previous quarter was positive 1.1%.

It should be noted, that the economic growth estimate for Q4 2022 made by the Parliamentary Budget Office in November 2022 was 8.2%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 third quarter. Moreover, in Q4 2022, there was an increase in foreign direct investments, revenues from international travel, as well as remittances and foreign trade.

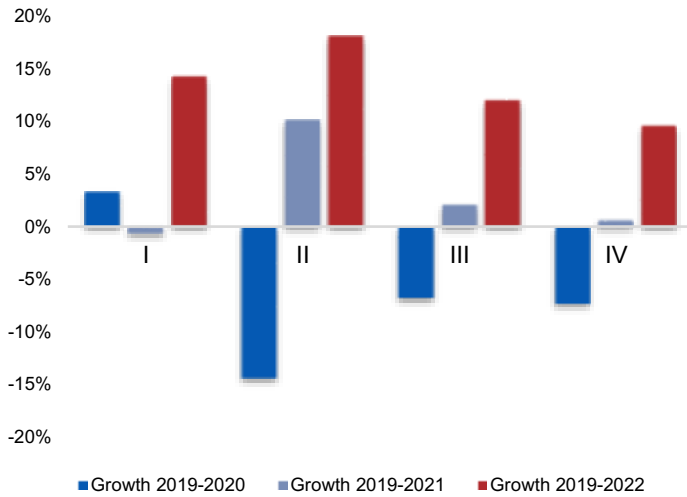


In Q3* 2022, as per PBO estimates, export and investment increase played major roles in GDP growth.

Analyzing GDP components, in Q3 2022, real GDP increase was primarily driven by export (24.1%) and investment (3.6%). In the reporting period, consumption (-5.8%) and import (-9.4%) had a negative impact on GDP.

¹ www.pbo.parliament.ge

Economic Growth Compared to 2019

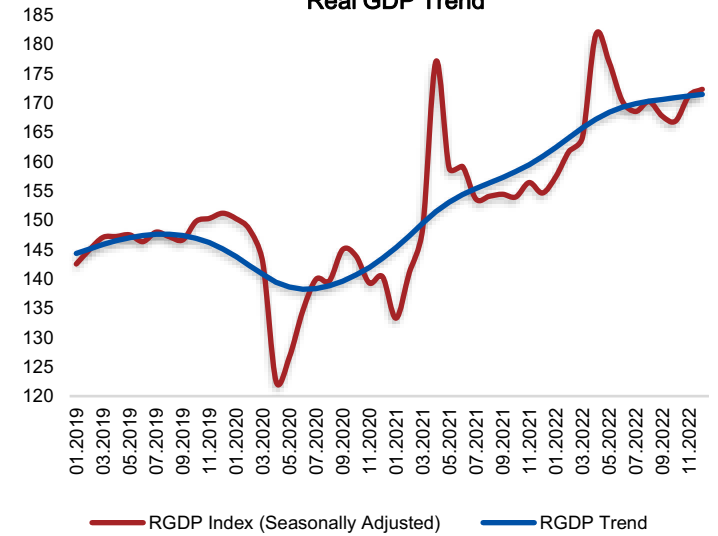


Observing monthly data reveals that the economic growth trend is not linear.

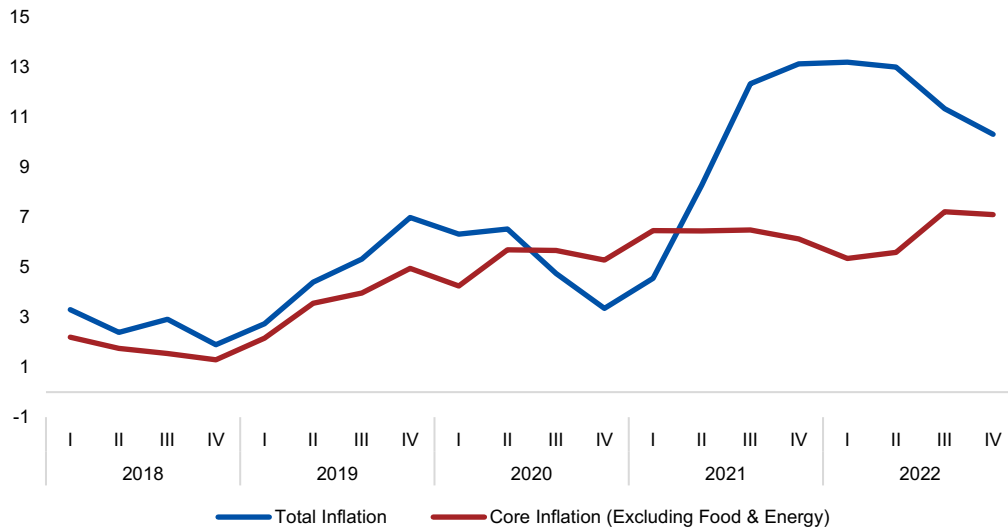
According to PBO estimate based on preliminary data, in Q4 2022, YoY growth of the real GDP trend² was 7.3%, compared to 12.3% growth rate in the respective period of 2021.

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



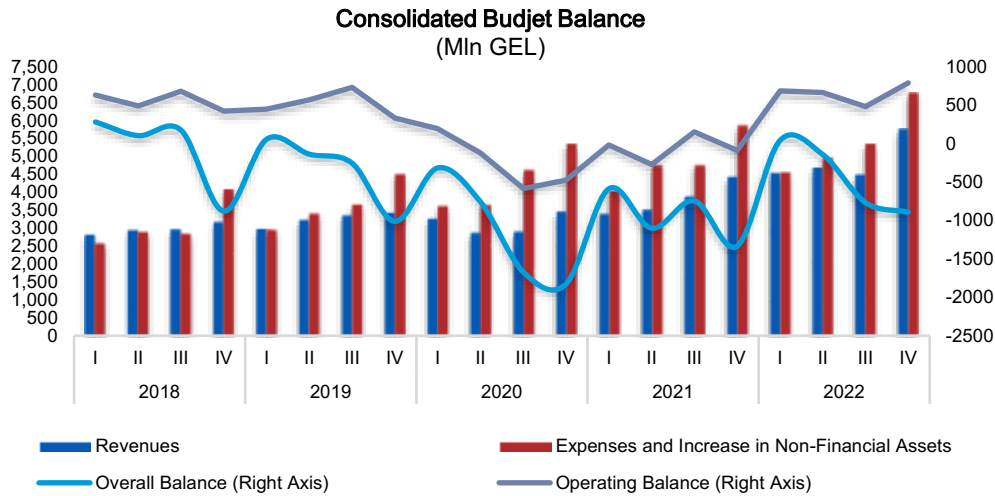
In Q4 2022, consumer price inflation has slightly decreased YoY trend.

In Q4 2022, average annual inflation reached 10.3%, higher than the inflation target of 3.0%. In Q4 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.

In Q4 2022, average annual core inflation (excluding groups of food and non-alcoholic beverages and energy prices) amounted to 7.1%.

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

2. Fiscal Sector



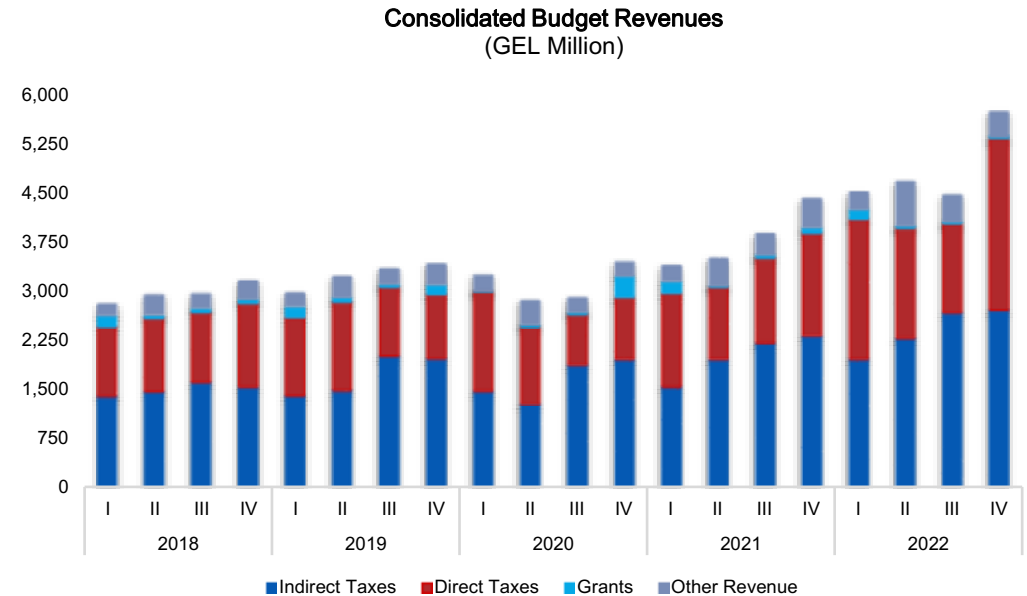
In Q4 2022, the consolidated budget balance was negative.

In Q4 2022, consolidated budget revenues increased by 30.2% YoY and reached GEL 5,738.6 million, while expenses and acquisition of non-financial assets increased by 15.6% and totaled GEL 6,752.1 million.

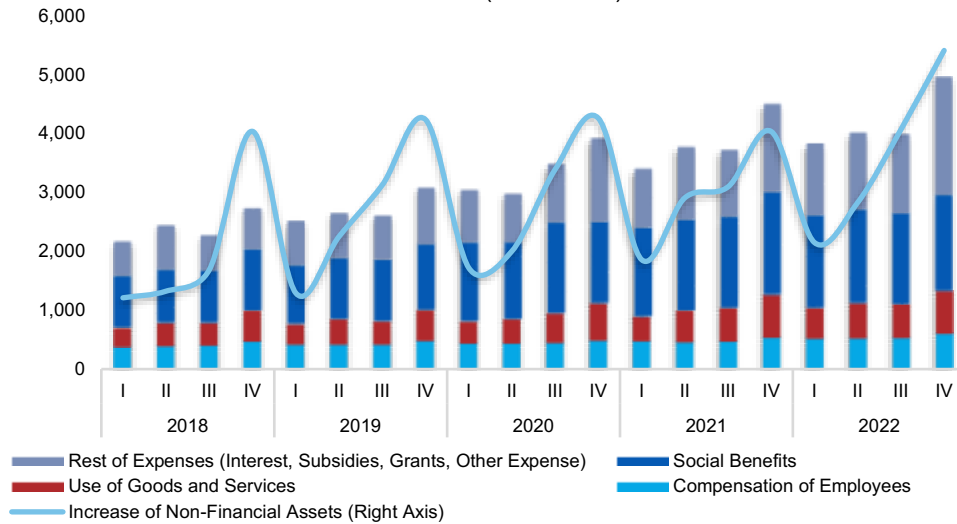
In Q4 2022, compared to Q4 2021, the operating balance increased by GEL 877.6 million and amounted to GEL 789.3 million, while the overall negative balance (budget deficit) totaled GEL 892.9 million. It is worth mentioning that in the fourth quarter of 2021, the overall consolidated budget balance was negative and amounted to GEL 1,334.3 million.

In Q4 2022, tax revenues of consolidated budget increased by 37.3% YoY and amounted to GEL 5,319.1 million.

In Q4 2022, direct taxes of consolidated budget increased by 467.0% YoY and totaled GEL 2,616.1 million, while indirect taxes increased by 17.1% and reached GEL 2,703.0 million. It is noteworthy that during the period, the grant component decreased by 53.8% and amounted to GEL 41.9 million, while other revenues decreased by 14.2% and amounted to GEL 377.6 million.



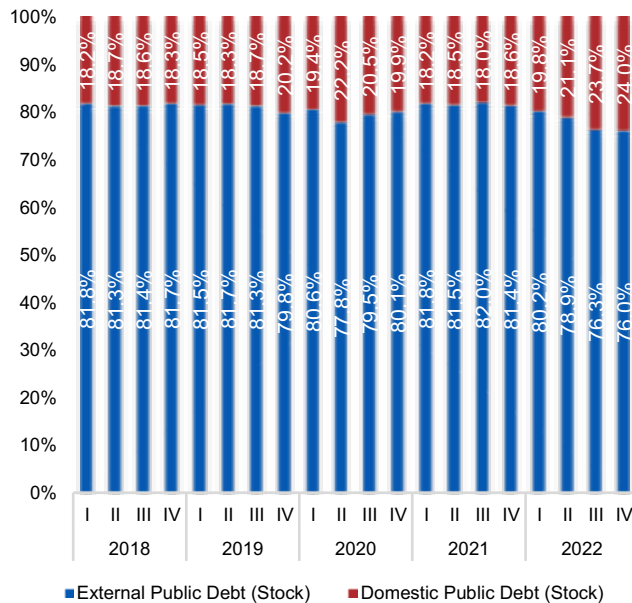
Consolidated Budget Expenditures and Increase of Non-financial Assets (GEL Million)



In Q4 2022, both recurrent expenditures and capital expenditures increased YoY.

In Q4 2022, consolidated budget recurrent expenses increased by 10.1% YoY and amounted to GEL 4,949.3 million. Expenses in non-financial assets (i.e. capital expenditure) increased by 34.1% YoY and reached GEL 1,802.8 million. During the mentioned period expenditures on goods and services increased by 0.5% and amounted to GEL 718.2 million. Expenditures on compensation of employees increased by 11.7% and on social benefits decreased by 6.1%, while in nominal terms they amounted to GEL 609.7 million and GEL 1,632.3 million. Other expenses (interest, subsidies, grants, other services) increased by 33.0% and amounted to GEL 1,989.1 million.

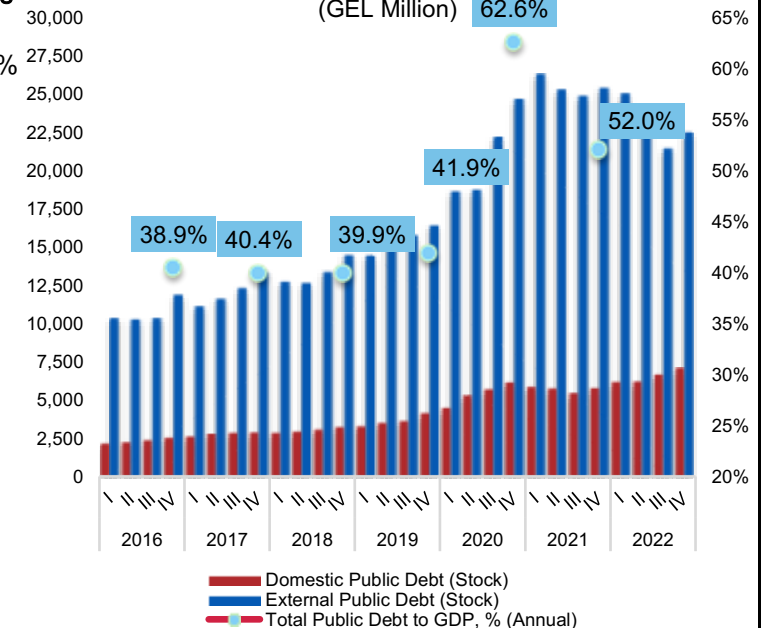
Dept Composition



As of 31 December 2022, public debt in nominal terms reached GEL 29,655 million, a 5.0% decrease YoY.

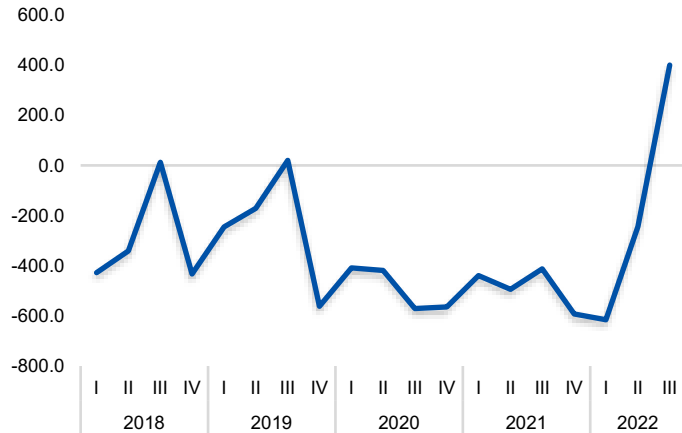
The external debt share made up 76.0% in Q4 2022 (81.4% at the end of Q4 2021), while the domestic debt share reached 24.0% (18.6% at the end of Q4 2021).

Public Debt (GEL Million)



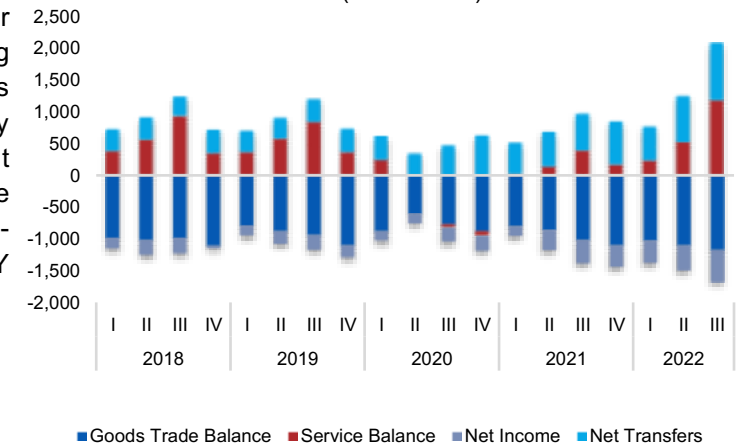
3. External Sector

Current Account
(USD Million)



In Q3* 2022, the BOP current account balance was positive. In Q3 2022, the positive current account balance reached USD 400.2 million (-5.9% of GDP), while the same indicator of the previous year was USD -412.2 million. Analyzing current account components, the trade balance of goods and services and net income deficit were 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-Q2 in 2022. In Q3 2022, indicator increased by 143.4% YoY and totaled USD 1,377.8 million.

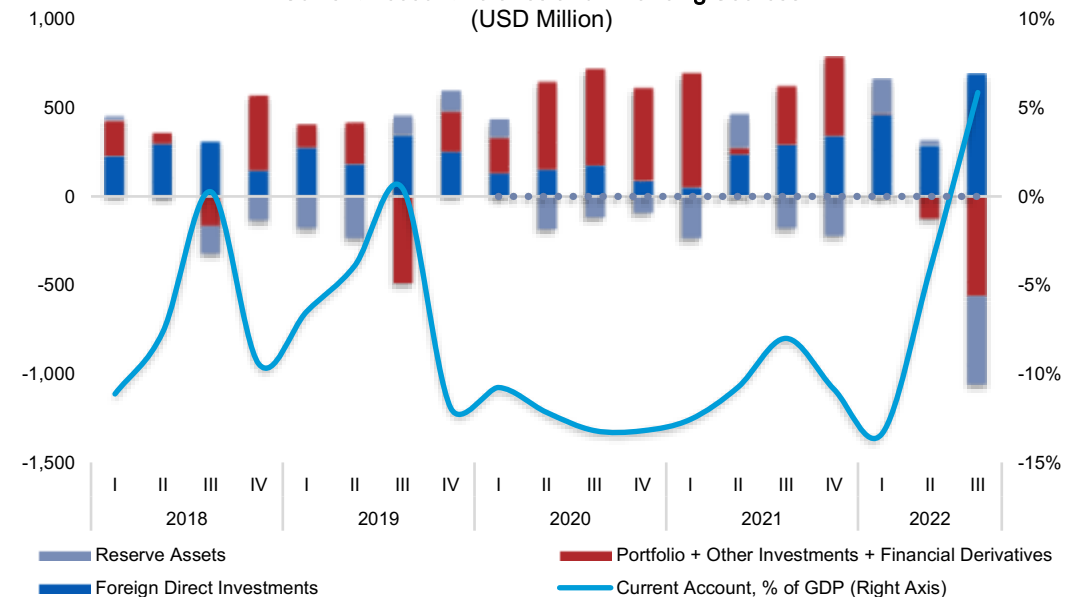
Current Account Components
(USD Million)



In Q3* 2022, the primary financing source of the current account deficit was foreign direct investments and other investments.

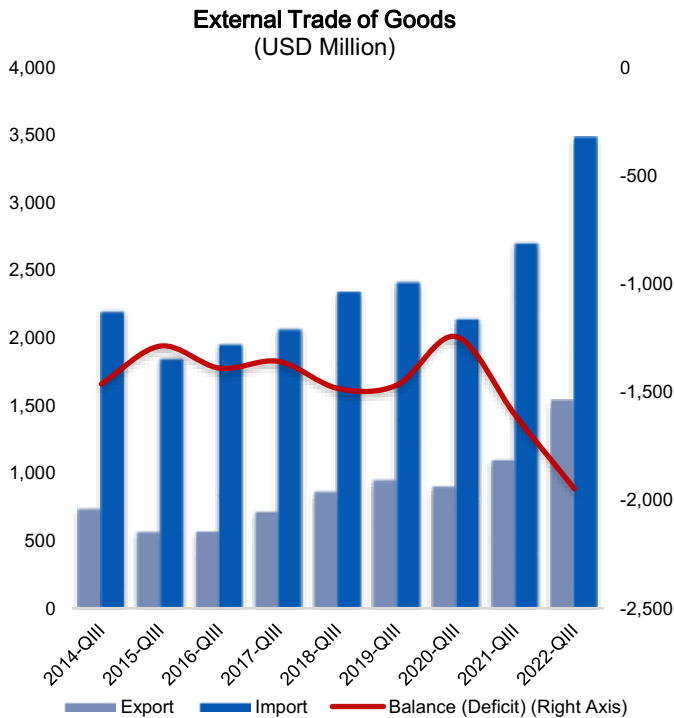
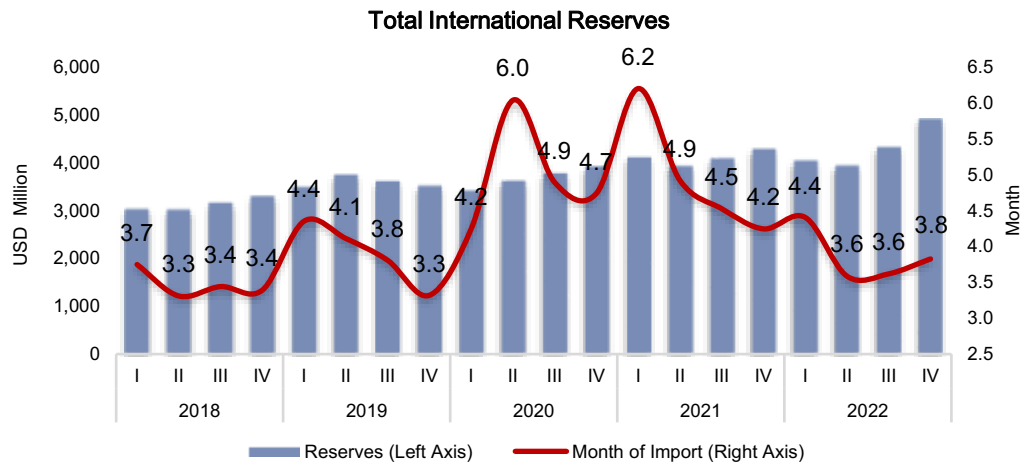
During this period, net direct investments totaled USD 687.2 million (10.1% of GDP), a 135.6% increase in comparison with the same period of the previous year. As for the amount of other investments, in the third quarter of 2022 they totaled 480.3 million US dollars, 2.0% decrease YoY.

Current Account Balance and Financing Sources
(USD Million)



In Q4 2022, total international reserves reached USD 4,901.5 million.

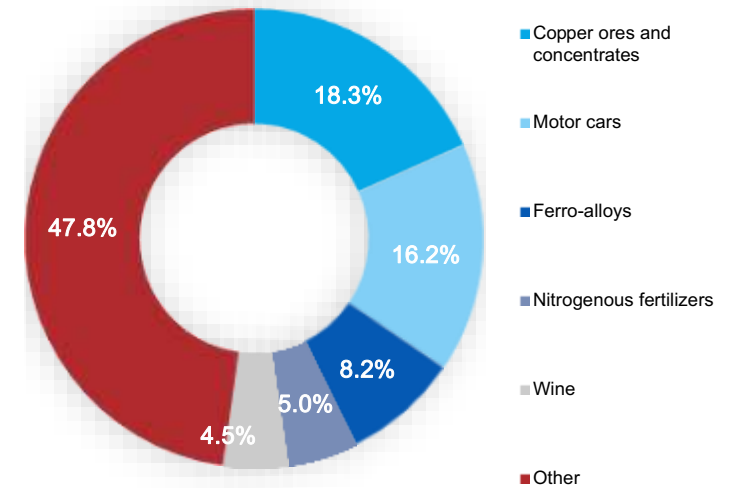
At the end of Q4 2022 total international reserves reached historical maximum and made up USD 4,901.5 million, which is 14.7% increase YoY.



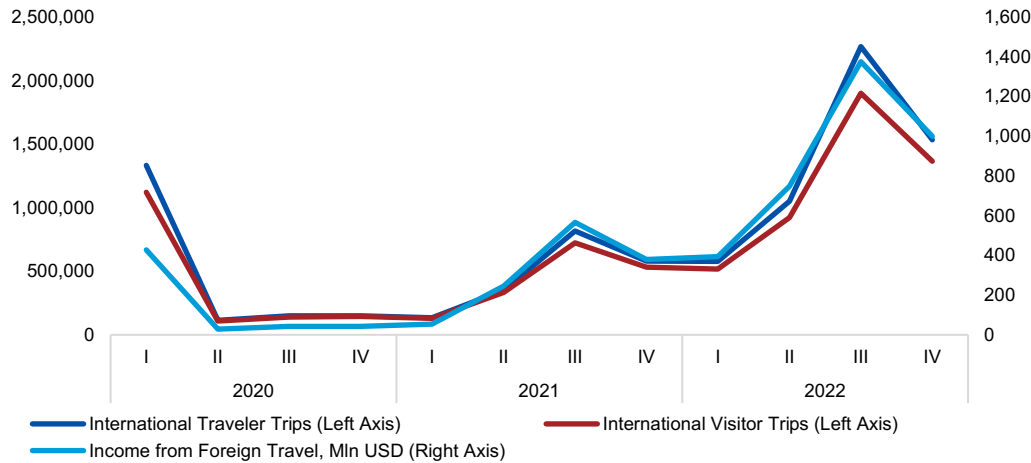
In Q4 2022, an upward trend was observed in both export and import of goods.

In Q4 2022, compared to the same period of the previous year export of goods increased by 18.6% and amounted to USD 1,495.6 million, while import of goods increased by 27.3% and totaled USD 3,844.3 million. In the reporting period share of the export in external trade decreased from 29.4% to 28.0%. In the fourth quarter of 2022, the largest export commodities were exports of motor cars, copper ores and concentrates, wines, nitrogenous fertilizers and others.

Major Commodity Groups by Exports (I - IV Quarters)



International Traveler Trips and Income from Foreign Travel

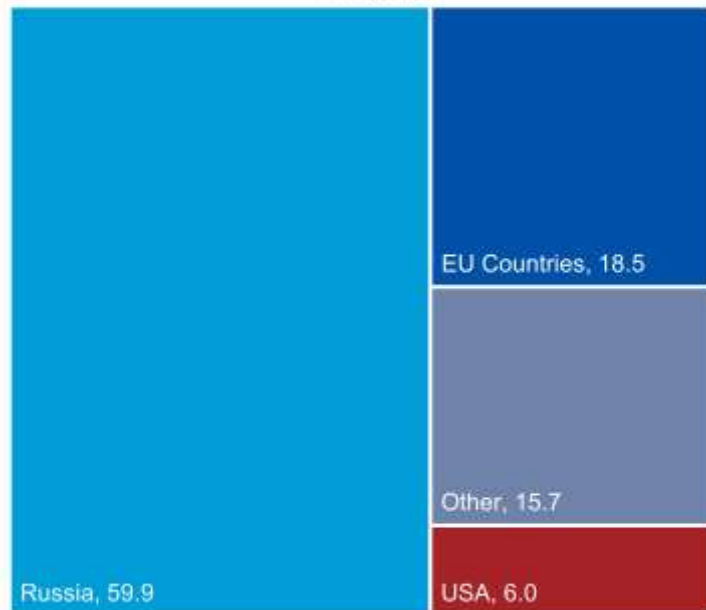


In Q4, 2022 both international traveler trips and international visitor trips have increased.

In Q4 2022, international traveler trips increased by 164.6% YoY and amounted to 1,534,298. International traveler trips also include trips made by international visitors. In Q4 2022, International visitor trips reached 1,364,407 (156.0% higher compared to the same indicator of Q4, 2021). The majority of trips conducted by international visitor were from Turkey (382,097, increase by 278.2% YoY), Armenia (220,843, Increase by 285.8% YoY) and Russia (206,918, increase by 191.3% YoY).

In Q4 2022, income from foreign travel amounted to 999.5 mln USD, a 163.5% increase YoY.

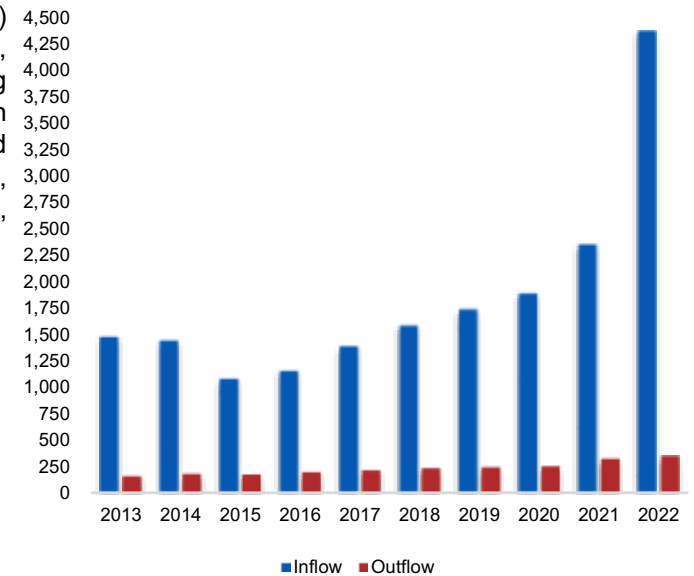
**Remittance (%)
IV Quarter**



In Q4, 2022 remittances increased significantly

In Q4 2022, remittances increased by 142.2% YoY and amounted to USD 1,558.4 million. During this period the main source of money transfers are Russia (59.9% of total) and EU countries (18.5%). In the analyzing period, remittances increased significantly from the following countries: Belarus (748.8%), Russia (745.3%), Tajikistan (238.0%), Armenia (210.6%), Kyrgyzstan (153.1%), United Kingdom (120.6%), Austria (105.9%), Uzbekistan (96.3%), Ireland (52.3%), Netherlands (50.2%), Germany (43.4%), USA (25.2%) and others.

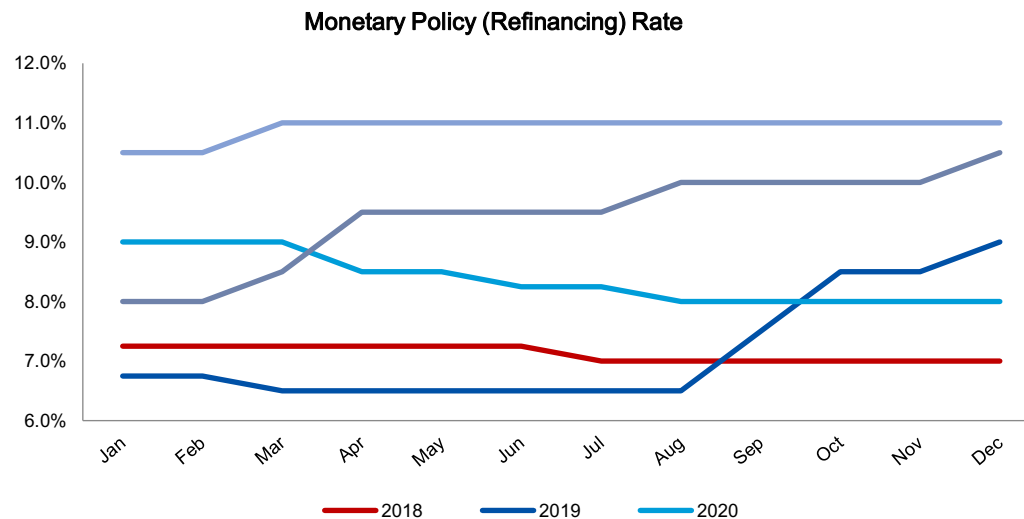
**Remittance
(USD Million)
I - IV Quarter**



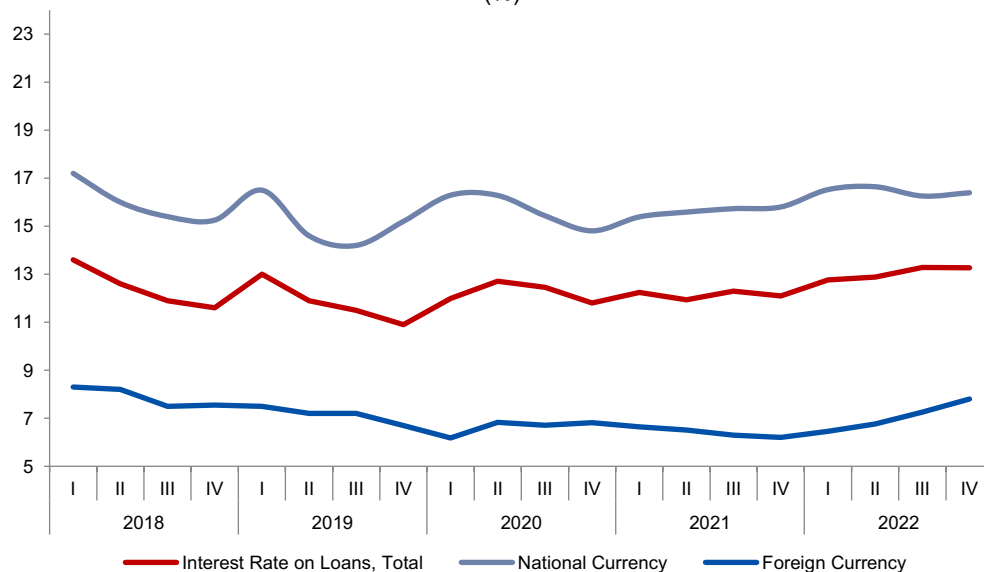
4. Monetary Sector

In Q4 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 October 26 and December 21, monetary policy committee decided to remain the rate unchanged (11.0%).



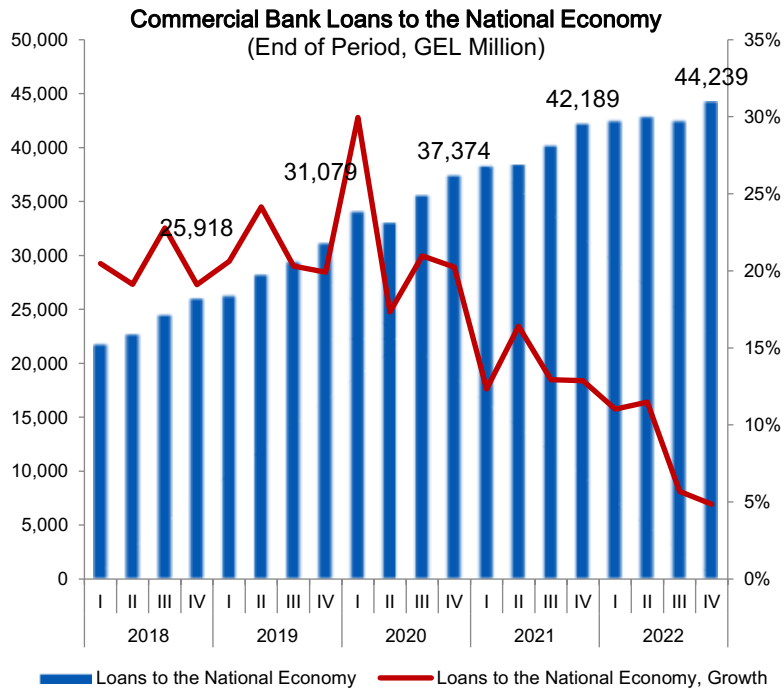
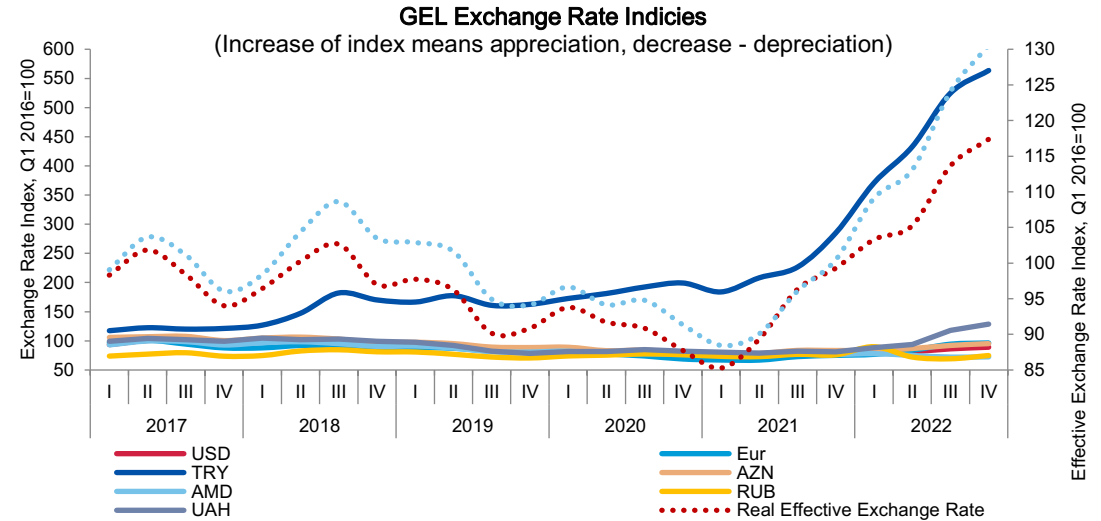
Market Interest Rates on Loans (%)



In Q4 2022, the market interest rate on loans reached 13.3%.

In Q4 2022, market interest rate on loans decreased by 0.01 pp QoQ and reached 13.3%. The interest rate on national currency loans increased by 0.1 pp QoQ (16.4%), while on foreign currency loans increased by 0.5 pp QoQ (7.8%).

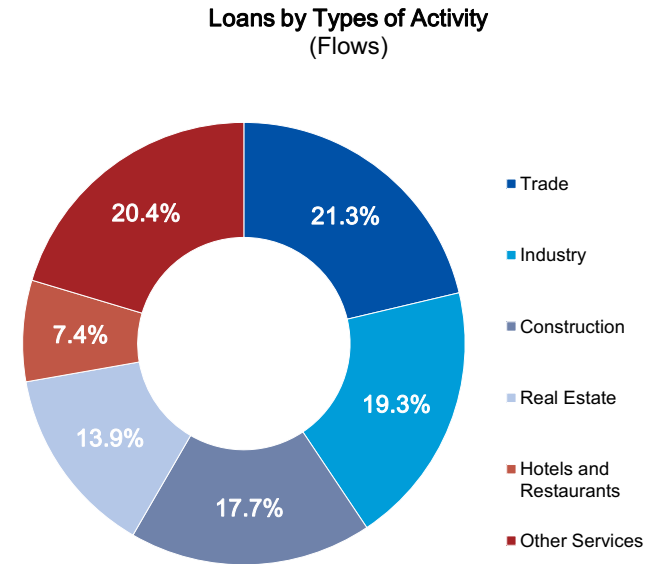
In Q4 2022, the exchange rate of GEL appreciated QoQ against all primary currencies. In Q4 2022, the exchange rate of GEL (period average) against USD appreciated by 3.3% QoQ and by 14.3% YoY. Compared to the Q3 2021, GEL appreciated against EUR (28.4%), TRY (97.7%), AZN (14.1%) and UAH (58.3%), while depreciated against AMD (5.6%) and RUB (1.5%).



In Q4 2022, loans to the national economy (end of period) increased.

In Q4 2022, loans to the national economy increased by 4.9% YoY and amounted to GEL 44,239 million. More than half of total loans (53.5%) was distributed to households.

As for loans issued by types of activity, the highest 21.3% were issued in trade, 19.3% in industry, 17.7% in construction, 13.9% in real estate and 7.4% in hotels and restaurants.

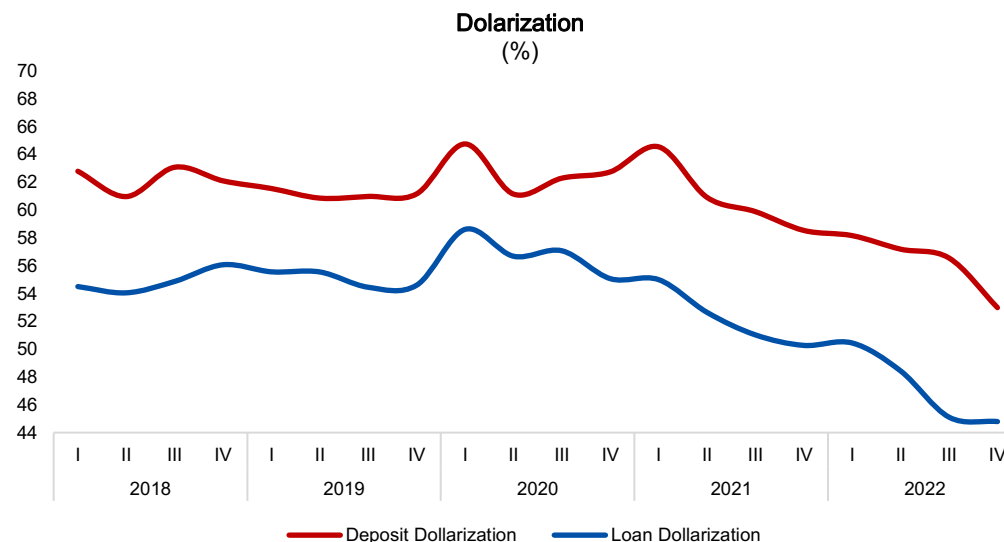


In Q4 2022, the dollarization coefficient decreased on both deposits and loans YoY.

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

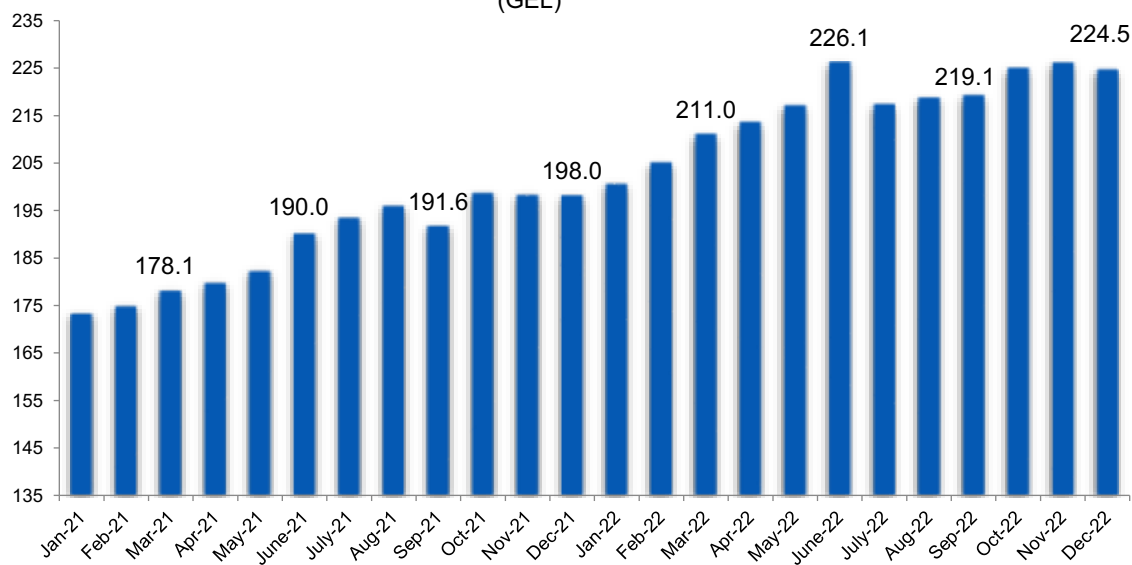
In Q2 2022, the dollarization coefficient decreased on both deposits and loans. Namely, dollarization on deposits amounted to 57.2%, while dollarization on loans was observed on 48.4%. In Q3 2022, dollarization on deposits amounted to 56.6%, while dollarization on loans was observed on 45.1%.

In Q4 2022, the dollarization coefficient decreased on both deposits and loans YoY. Namely, dollarization on deposits amounted to 53.0%, which is 3.6 pp lower QoQ and 5.6 pp lower YoY. While dollarization on loans was observed on 44.8%, decrease by 0.3 pp QoQ and by 5.5% YoY.



5. Social Sector

Subsistence Minimum for Average Consumer (GEL)



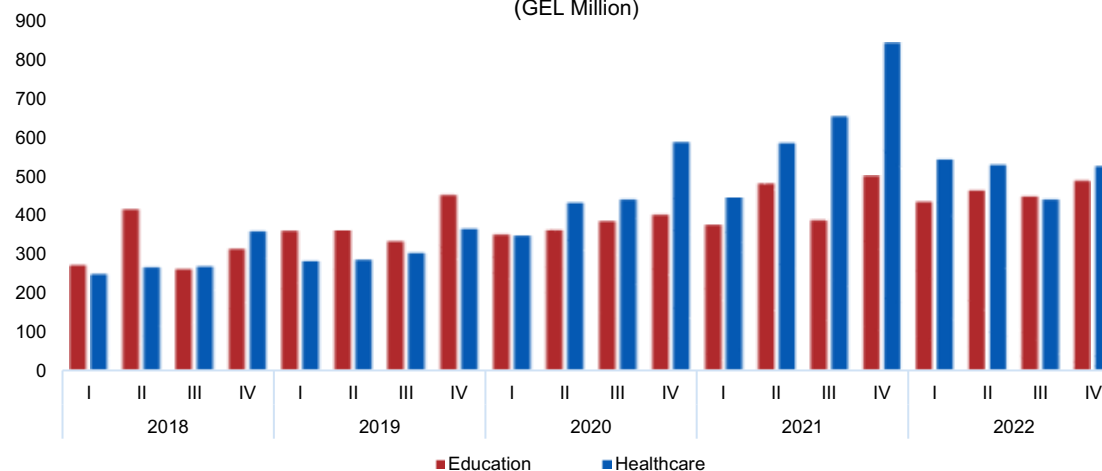
In Q4 2022, the subsistence minimum increased YoY.

At the end of Q4 2022, in December, the average consumer subsistence minimum totaled GEL 224.5, GEL 26.5 higher YoY and GEL 5.5 higher QoQ. In Q4 2022, average quarterly subsistence minimum rate increased by 13.6% YoY.

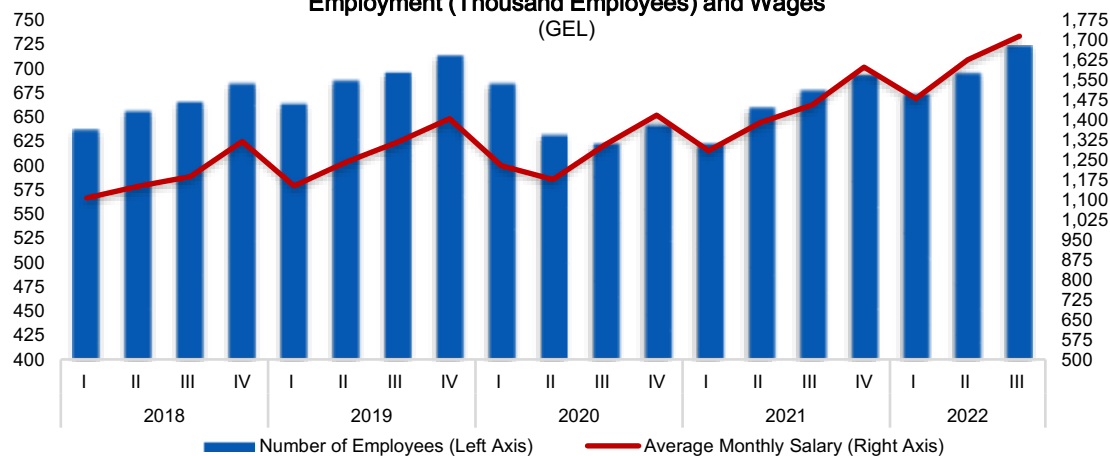
In Q4 2022, compared to the same period of the previous year, increased both, public expenditures on healthcare and public expenditures on education.

In Q4 2022, expenditure on education (as per functional classification) amounted to GEL 487.9 million, 2.4% decrease compared to the same period of the last year. Meanwhile expenditure on healthcare amounted to GEL 525.6 million, 37.7% decrease compared to the same period of the last year.

Public Expenditure on Education and Healthcare
(GEL Million)



Employment (Thousand Employees) and Wages
(GEL)



In Q3* 2022, the total number of employees in the business sector and salary increased YoY.

In Q3 2022, the number of business sector employees increased by 6.7% YoY and amounted to 723.3 thousand. Average monthly salary increased by GEL 258.7 YoY and amounted to GEL 1,714.2.

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