



## Quarterly Macroeconomic Review \*

### Main Indicators of Quarter

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- In Q2 2023, according to preliminary estimate real GDP increased by 7.4%. Should be remarked, that real GDP growth is in more than forecasted 6.4% in May by parliamentary budget office.
- In Q2 2023, annual inflation amounted to 1.6%, lower than the inflation target of 3.0%.
- In Q2 2022, positive overall balance of consolidated budget amounted to GEL 77.4 million.
- Public debt in nominal terms shows increasing trend. The share of external debt in total public debt decreased. Namely, the share of external debt made up 74.1%, while the same indicator in Q2, 2022 was 78.9%.
- In Q1\* 2023, current account balance improved. Namely, current account negative balance amounted to USD 201.4 million.
- In Q2 2023, the amount of international reserves reached historical maximum and amounted to USD 5,066.7 million.
- In Q2 2023, the share of the export in external trade increased from 29.8% to 30.3% YoY.
- In Q2 2023, remittances decreased by 10.5% YoY and amounted to USD 1,111.3 million.
- Monetary policy (refinancing) rate decreased to 10.5% since May, 2023.
- The exchange rate of GEL shows appreciation trend. GEL appreciated against USD by 3.0% QoQ and by 17.1% YoY
- Dollarization coefficient decreased on both deposits and loans YoY

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

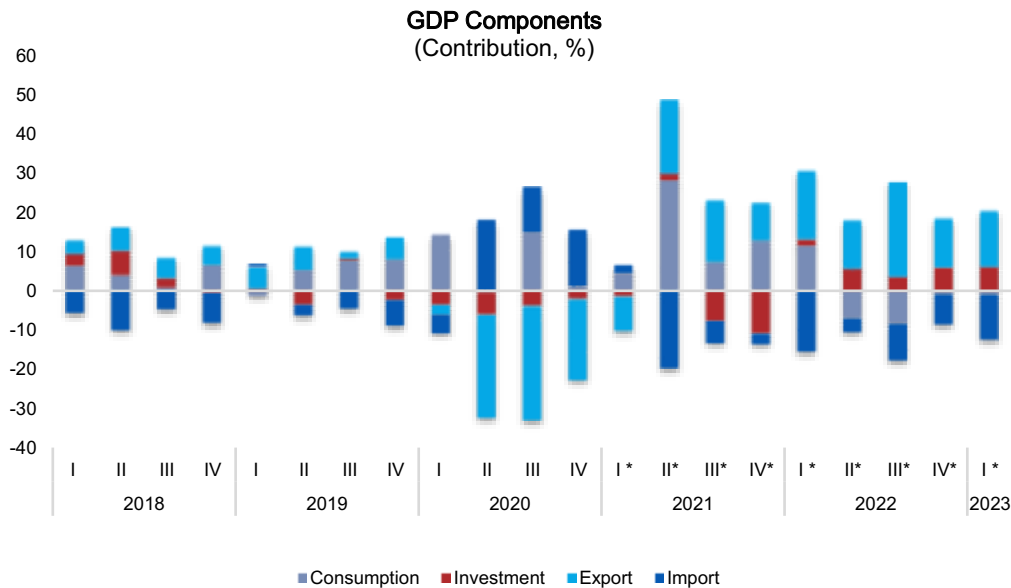
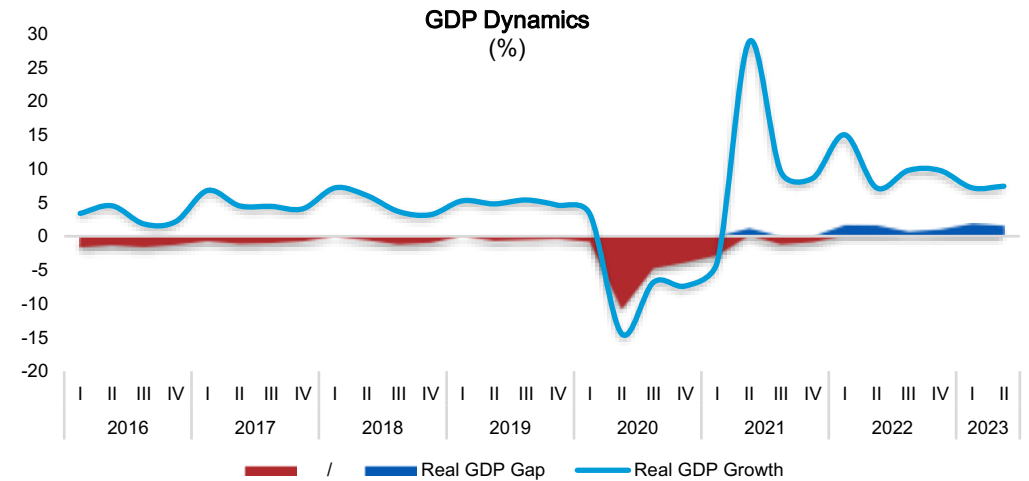


# 1. Real sector

In Q2 2023, according to GEOSTAT preliminary estimate average growth of real GDP amounted to 7.4%.

According to PBO evaluation, in Q2 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 1.8%.

The economic growth estimate for Q2 2023 made by the Parliamentary Budget Office in May 2023 was 6.4%<sup>1</sup>, which took into account the impact of the expected war between Russia and Ukraine on the Georgian economy.



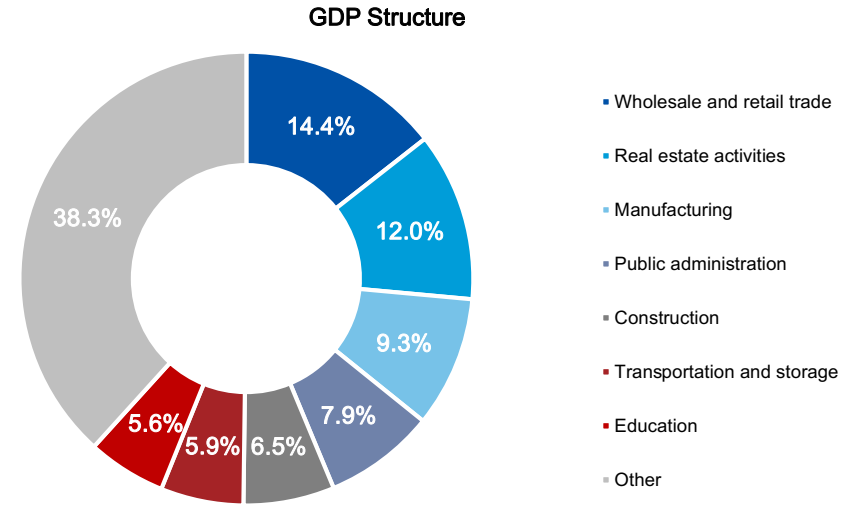
In Q1\* 2023, as per PBO estimates, export and investment increase played major roles in GDP growth.

Analyzing GDP components, in Q1 2023, real GDP increase was primarily driven by export (14.2%) and investment (6.1%). In the reporting period, consumption (-1.1%) and import (-11.6%) had a negative impact on GDP.

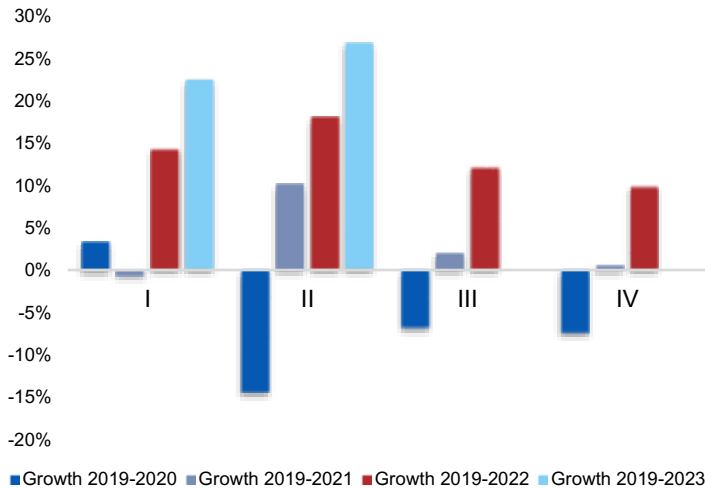
<sup>1</sup> [www.pbo.parliament.ge](http://www.pbo.parliament.ge)

In Q1\* 2023, wholesale and retail trade had the highest share in GDP structure.

In Q1\* 2023, wholesale and retail trade had the highest share in GDP structure (14.4%). The important share was observed for several sectors, namely, real estate activities (12.0%), manufacturing (9.3%), public administration, defense, social security (7.9%), construction (6.5%), transportation and storage (5.9%) and education (5.6%).



**Economic Growth Compared to 2019**

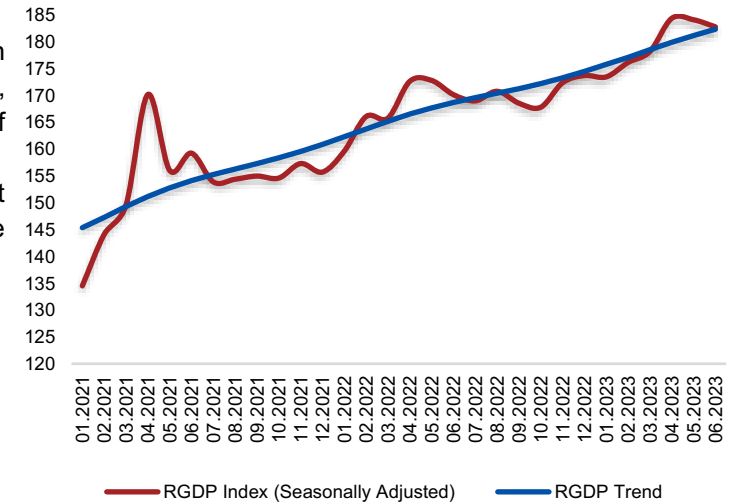


**Observing monthly data reveals that the economic growth trend is not linear.**

According to PBO estimate based on preliminary data, in Q2 2023, YoY growth of the real GDP trend<sup>2</sup> was 8.1%, compared to 9.8% growth rate in the respective period of 2022.

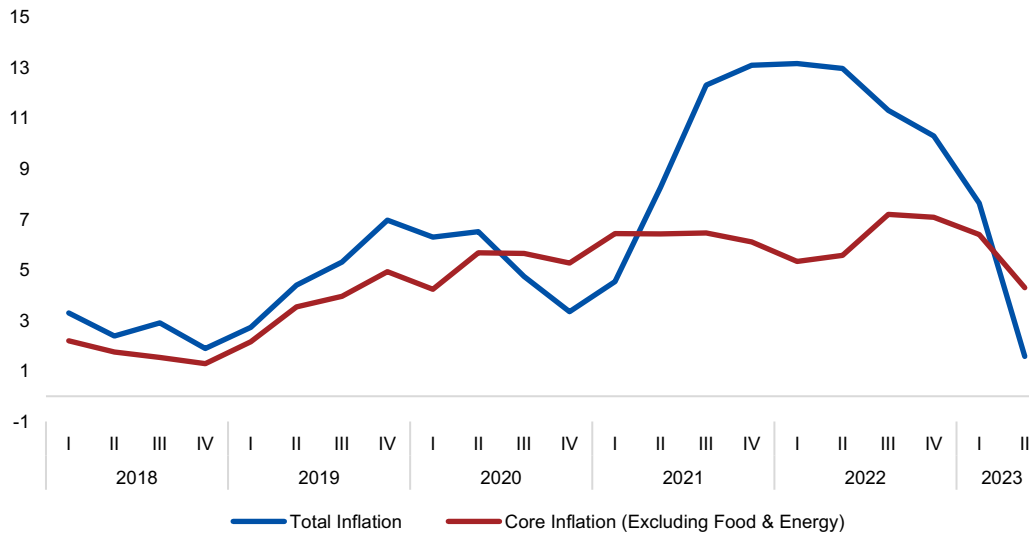
Should be marked high economic growth rates in recent months and fast recovery process compared to 2019, pre pandemic period.

**Real GDP Trend**



<sup>2</sup> The trend represents monthly economic growth estimate with removed seasonality and random shocks

**Consumer Price Inflation YoY**

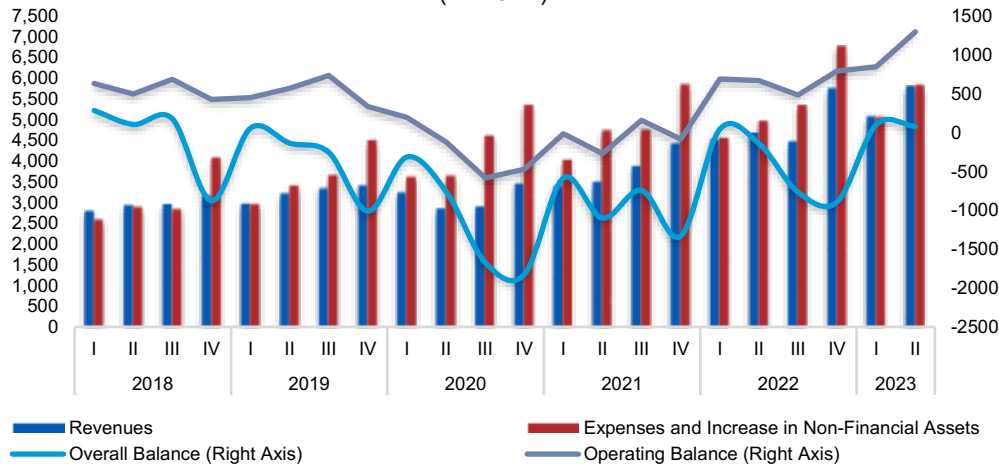


**In Q2 2023, consumer price inflation has decreased YoY trend.**

In Q2 2023, average annual inflation reached 1.6%, lower than the inflation target of 3.0%. In Q2 2023, inflation was driven by increasing prices on food and non-alcoholic beverages, housing, water, electricity, gas and other fuels, alcoholic beverages and tobacco, hotels and restaurants and other groups. In Q2 2023, average annual core inflation (excluding groups of food and non-alcoholic beverages and energy prices) amounted to 4.3%.

## 2. Fiscal Sector

**Consolidated Budget Balance (Mln GEL)**



**In Q2 2023, the consolidated budget balance was positive.**

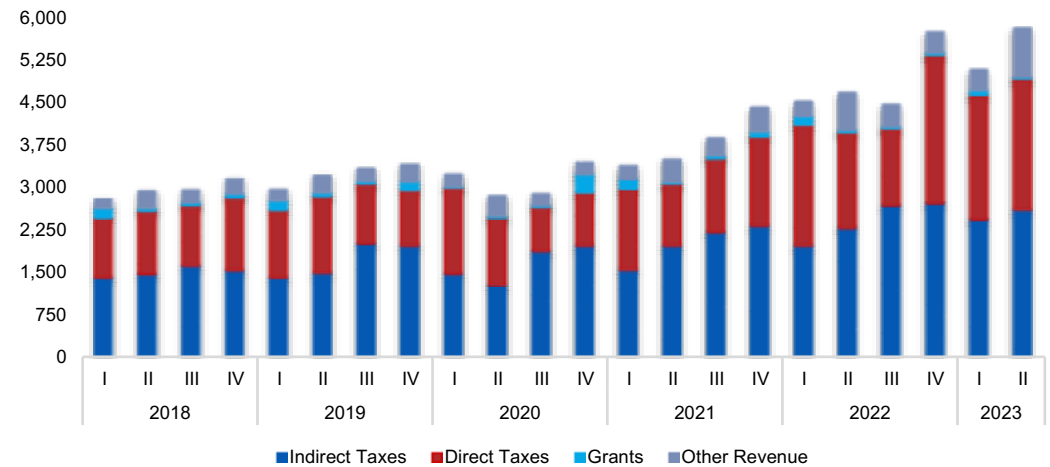
In Q2 2023, consolidated budget revenues increased by 24.2% YoY and reached GEL 5,798.7 million, while expenses and acquisition of non-financial assets increased by 17.6% and totaled GEL 5,817.3 million.

In Q2 2023, compared to Q2 2022, the operating balance increased by GEL 628.7 million and amounted to GEL 1,291.9 million, while the overall positive balance totaled GEL 77.4 million. It is worth mentioning that in the second quarter of 2022, the overall consolidated budget balance was negative and amounted to GEL 143.6 million.

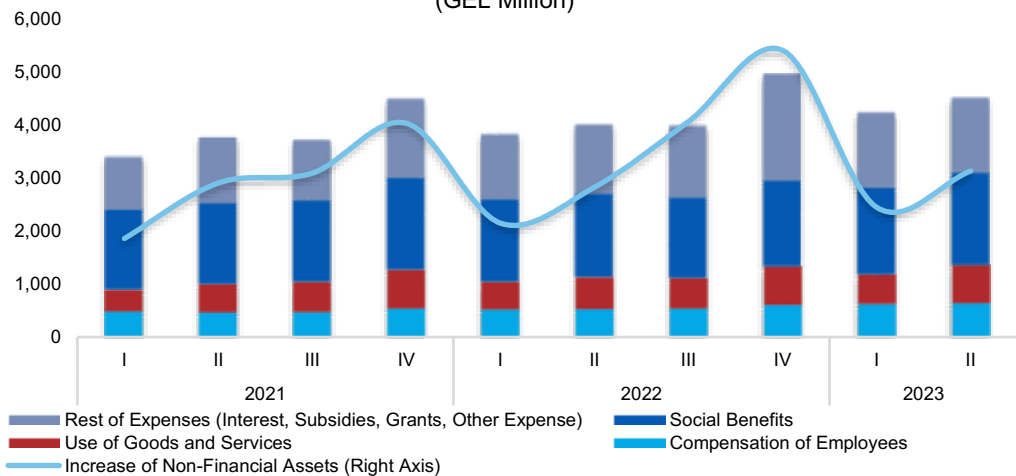
**In Q2 2023, tax revenues of consolidated budget increased by 23.9% YoY and amounted to GEL 4,899.7 million.**

In Q2 2023, direct taxes of consolidated budget increased by 37.0% YoY and totaled GEL 2,310.8 million, while indirect taxes increased by 14.2% and reached GEL 2,588.9 million. It is noteworthy that during the period, the grant component decreased by 25.5% and amounted to GEL 30.7 million, while other revenues increased by 28.9% and amounted to GEL 868.3 million.

**Consolidated Budget Revenues**  
(GEL Million)



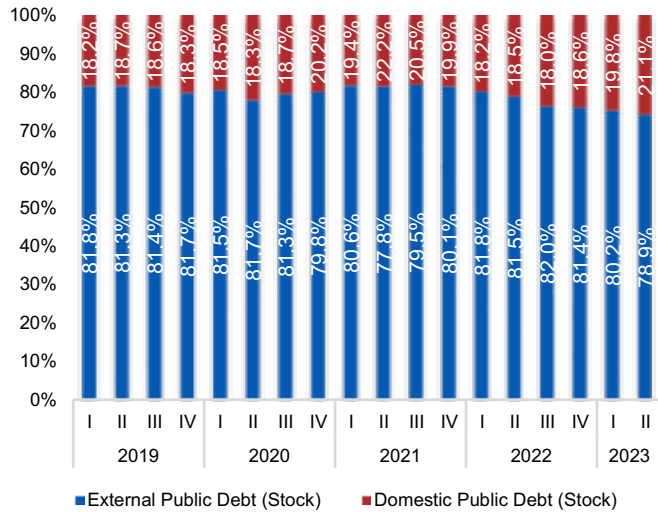
**Consolidated Budget Expenditures and Increase of Non-financial Assets**  
(GEL Million)



**In Q2 2023, both recurrent expenditures and capital expenditures increased YoY.**

In Q2 2023, consolidated budget recurrent expenses increased by 12.5% YoY and amounted to GEL 4,506.8 million. Expenses in non-financial assets (i.e. capital expenditure) increased by 10.8% YoY and reached GEL 1,044.6 million. During the mentioned period expenditures on goods and services increased by 21.2% and amounted to GEL 714.1 million. Expenditures on compensation of employees increased by 20.4% and on social benefits increased by 9.9%, while in nominal terms they amounted to GEL 642.1 million and GEL 1,746.0 million. Other expenses (interest, subsidies, grants, other expenses) increased by 8.5% and amounted to GEL 1,404.6 million.

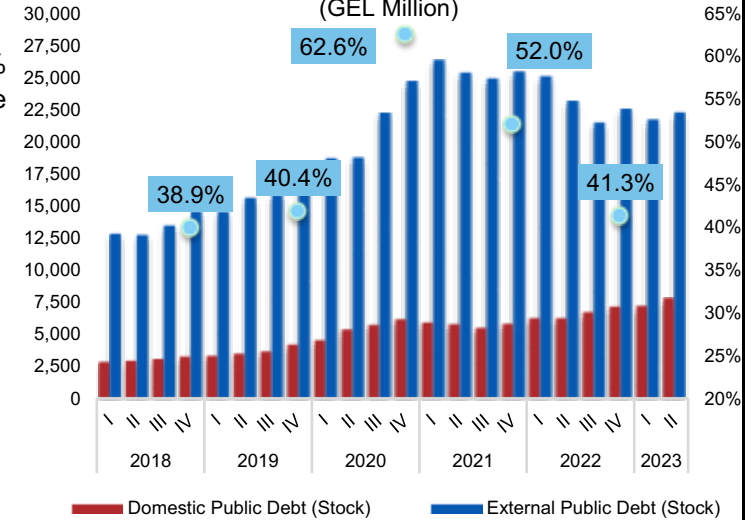
**Dept Composition**



As of 30 June 2023, public debt in nominal terms reached GEL 30,055 million, an 2.3% increase YoY.

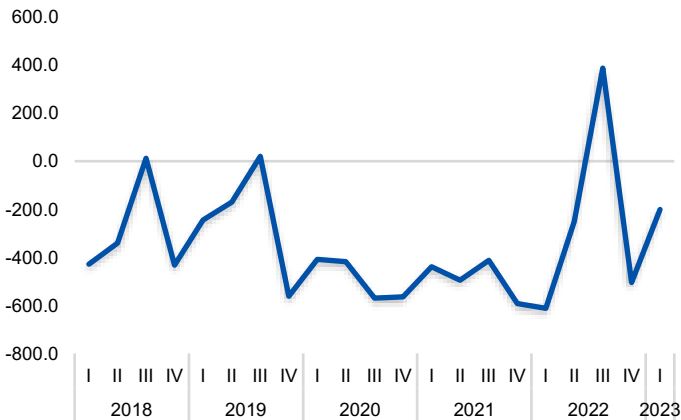
The external debt share made up 74.1% in Q2 2023 (78.9% at the end of Q2 2022), while the domestic debt share reached 25.9% (21.1% at the end of Q2 2022).

**Public Debt (GEL Million)**



### 3. External Sector

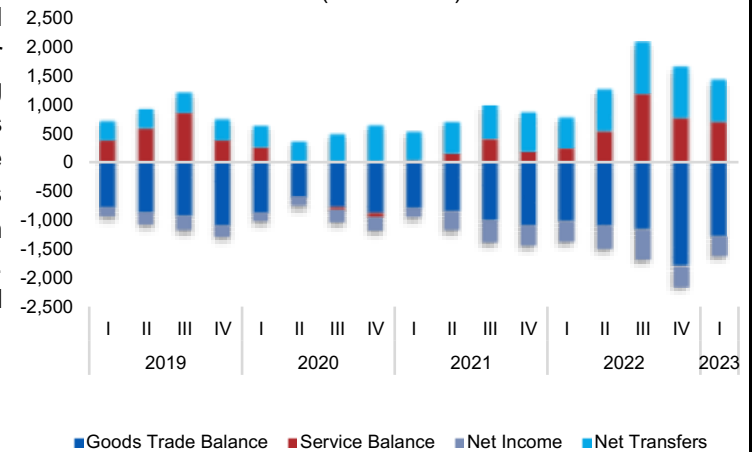
**Current Account (USD Million)**



In Q1\* 2023, the BOP current account balance was negative.

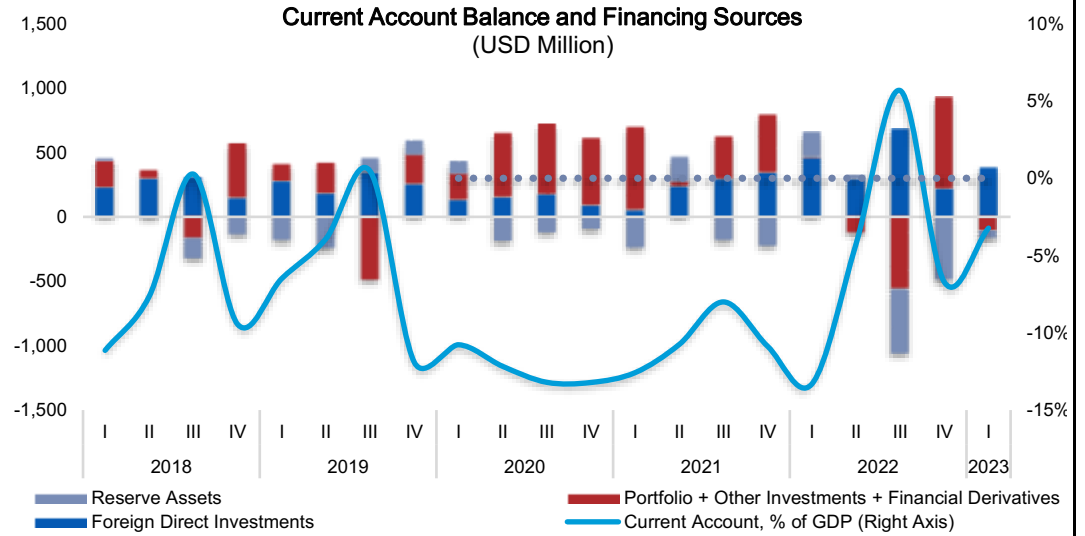
In Q1 2023, the negative current account balance reached USD 201.4 million (-3.2% of GDP), while the same indicator of the previous year was USD -250.1 million. Analyzing current account components, the trade balance of goods and net income deficit were partially compensated by the surplus in transfers 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 Q1 2023, indicator increased by 102.0% YoY and totaled USD 795.4 million.

**Current Account Components (USD Million)**

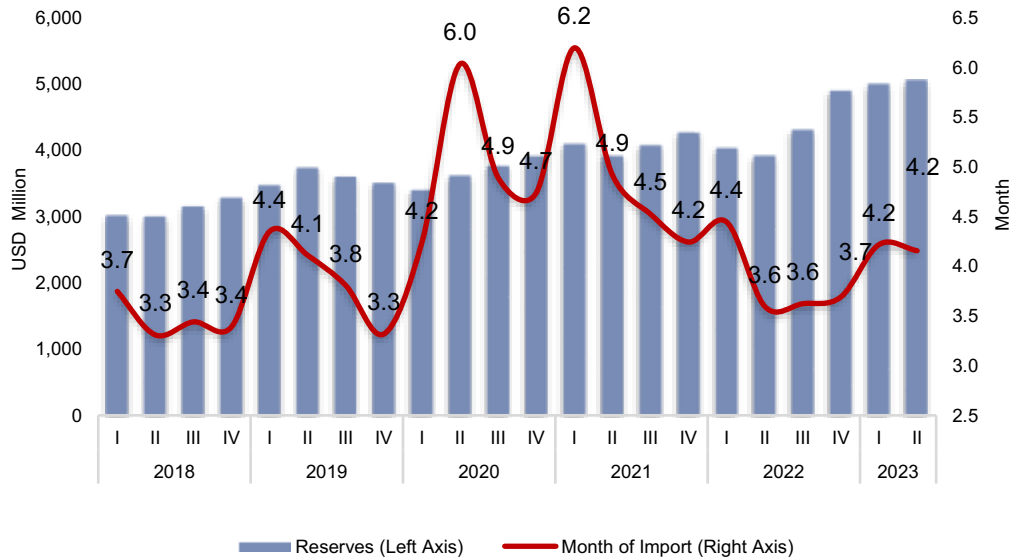


In Q1\* 2023, the primary financing source of the current account deficit was foreign direct investments.

During this period, net direct investments totaled USD 383.4 million (6.1% of GDP), a 16.4% decrease in comparison with the same period of the previous year.



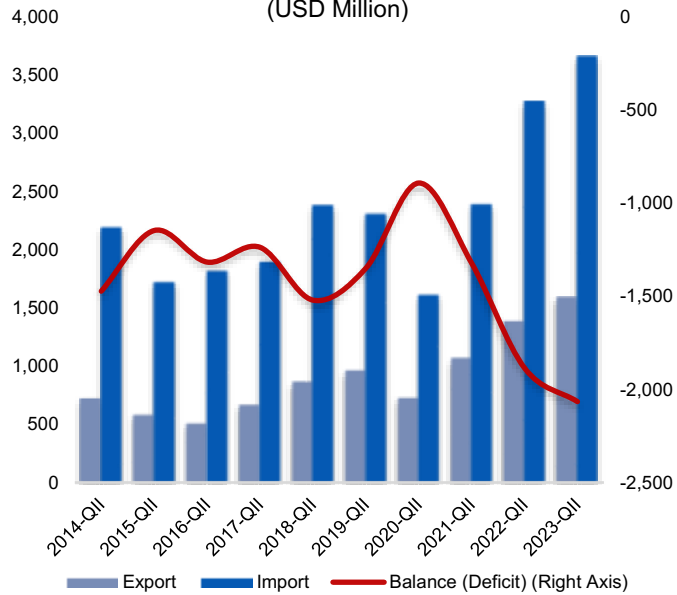
### Total International Reserves



In Q2 2023, total international reserves reached historical maximum and amounted to USD 5,066.7 million.

At the end of Q2 2023 total international reserves reached historical maximum and made up USD 5,066.7 million, which is 29.2% increase YoY.

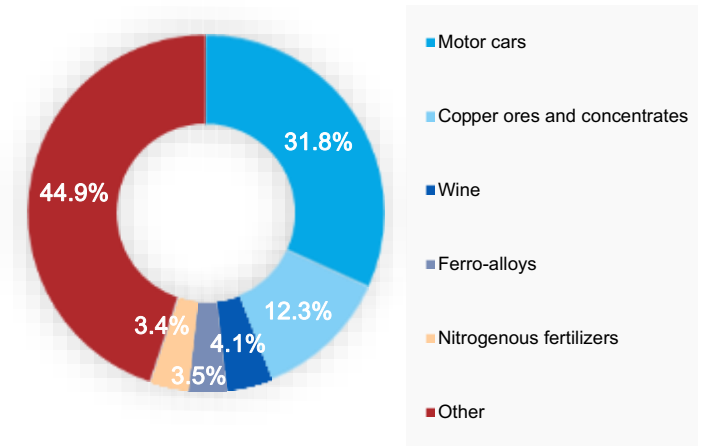
**External Trade of Goods**  
(USD Million)



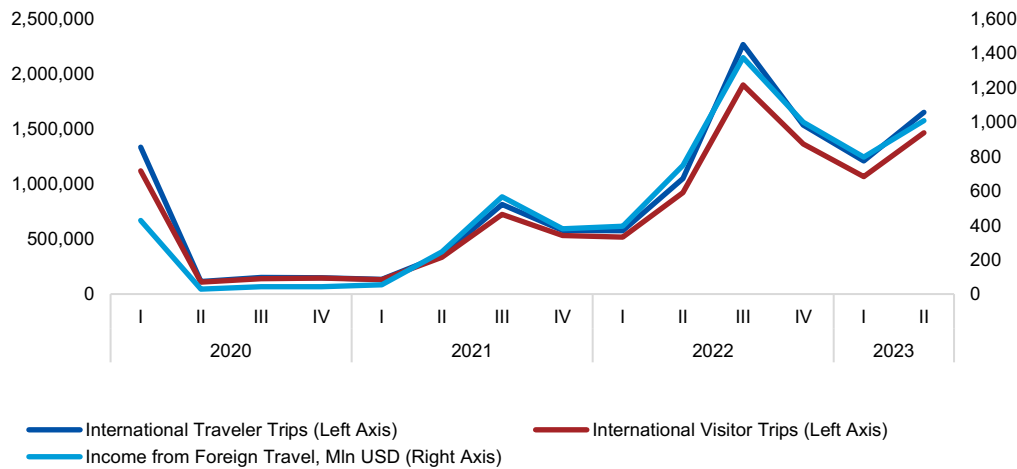
**In Q2 2023, an upward trend was observed in both export and import of goods.**

In Q2 2023, compared to the same period of the previous year export of goods increased by 14.8% and amounted to USD 1,591.3 million, while import of goods increased by 11.8% and totaled USD 3,657.0 million. In the reporting period share of the export in external trade increased from 29.8% to 30.3%. In the I-II quarters of 2023, the largest export commodities were exports of motor cars, copper ores and concentrates, wines, ferro-alloys, nitrogenous fertilizers and others.

**Major Commodity Groups by Exports**  
(I - II Quarter)



**International Traveler Trips and Income from Foreign Travel**



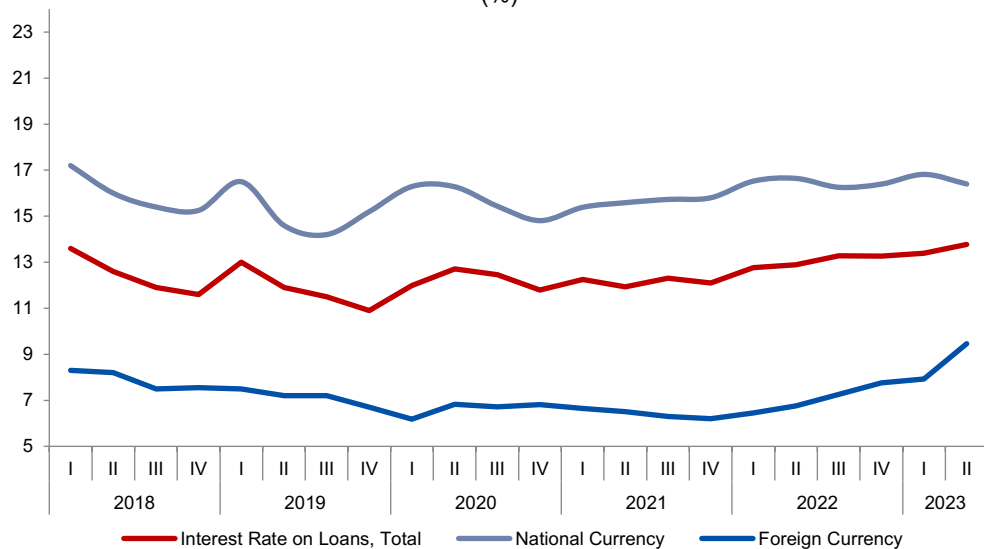
**In Q2, 2023 both international traveler trips and international visitor trips have increased.**

In Q2 2023, international traveler trips increased by 57.4% YoY and amounted to 1,651,655. International traveler trips also include trips made by international visitors. In Q2 2023, International visitor trips reached 1,463,838 (58.7% higher compared to the same indicator of Q2, 2022). The majority of trips conducted by international visitor were from Turkey (366,136, increase by 131.2% YoY), Russia (320,845, increase by 83.0% YoY) and Armenia (214,573, increase by 56.8% YoY).

In Q2 2023, income from foreign travel amounted to 1,009.1 mln USD, a 34.8% increase YoY.



### Market Interest Rates on Loans (%)



**In Q2 2023, the market interest rate on loans reached 13.8%.**

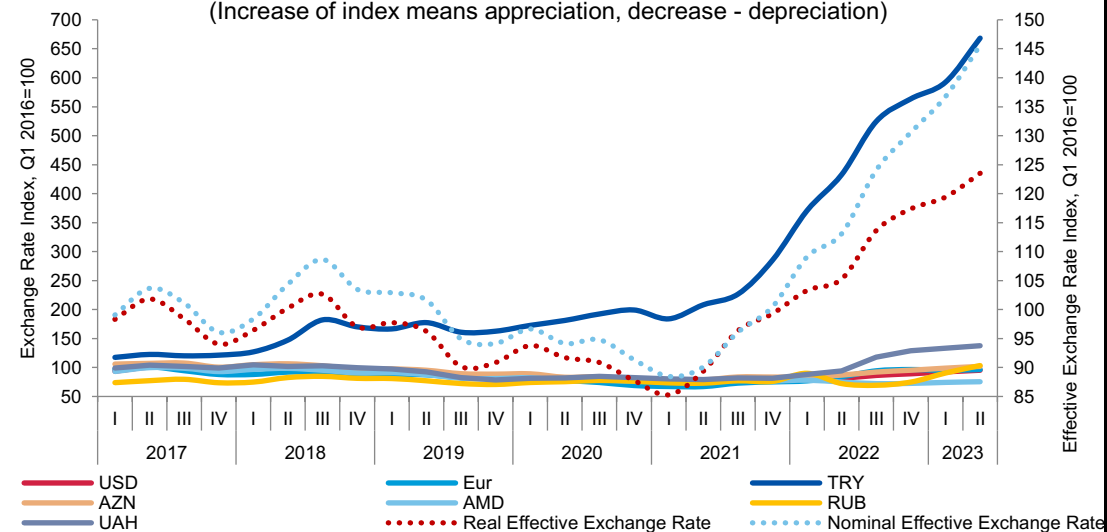
In Q2 2023, market interest rate on loans increased by 0.39 pp QoQ and reached 13.8%. The interest rate on national currency loans decreased by 0.42 pp QoQ (16.4%), while on foreign currency loans increased by 1,54 pp QoQ (9.5%).

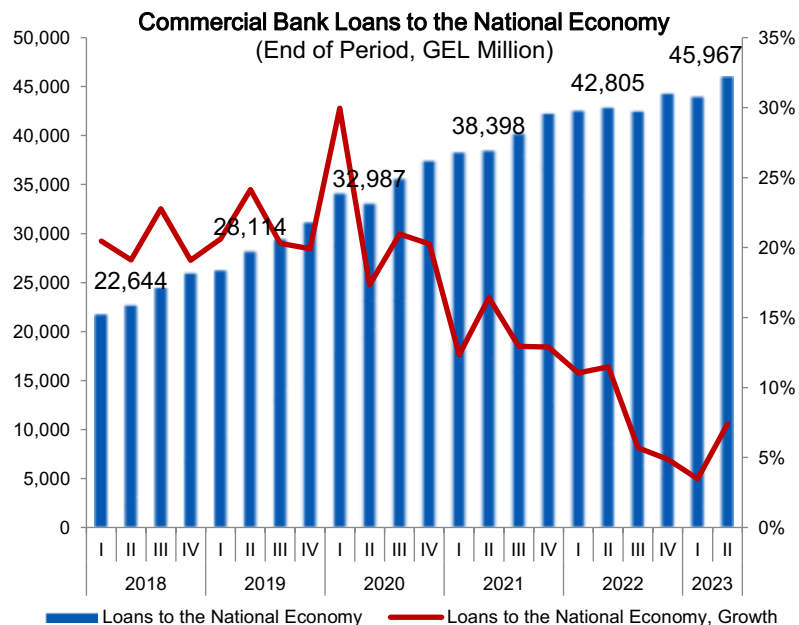
**In Q2 2023, the exchange rate of GEL appreciated QoQ against all primary currencies.**

In Q2 2023, the exchange rate of GEL (period average) against USD appreciated by 3.0% QoQ and by 17.1% YoY. Compared to the Q2 2022, GEL appreciated against EUR (14.8%), TRY (54.4%), RUB (43.2%), AZN (17.3%), AMD (0.8%) and UAH (46.4%).

### GEL Exchange Rate Indices

(Increase of index means appreciation, decrease - depreciation)

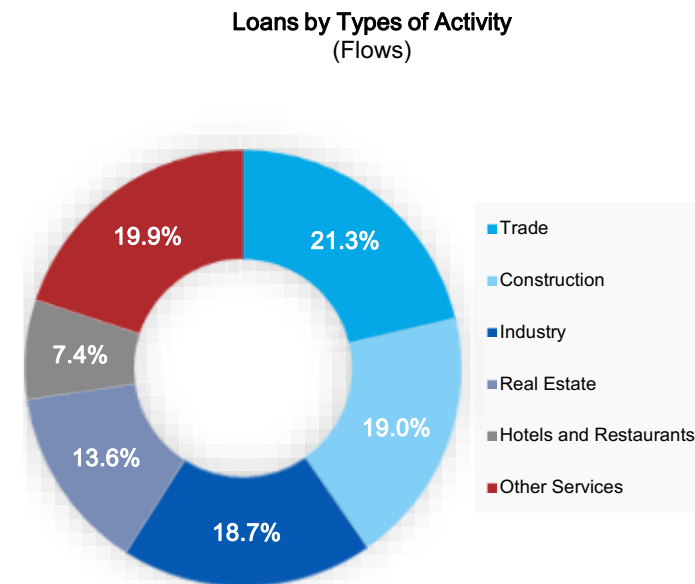




**In Q2 2023, loans to the national economy (end of period) increased.**

In Q2 2023, loans to the national economy increased by 7.4% YoY and amounted to GEL 45,967 million. More than half of total loans (54.7%) was distributed to households.

As for loans issued by types of activity, the highest 21.3% were issued in trade, 19.0% in construction, 18.7% in industry, 13.6% in real estate and 7.4% in hotels and restaurants.

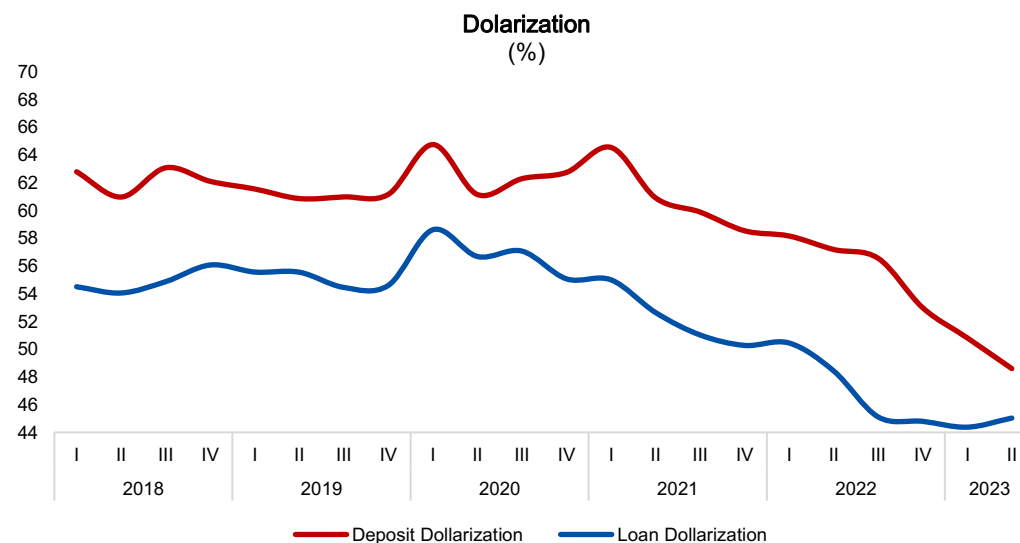


**In Q2 2023, the dollarization coefficient decreased on both deposits and loans YoY.**

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

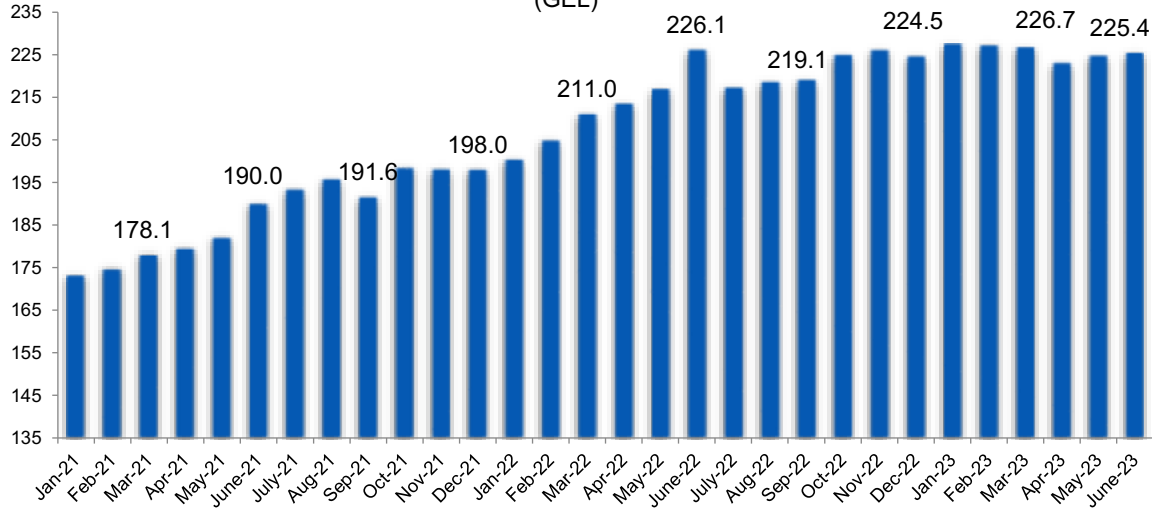
In 2022, the dollarization coefficient decreased on both deposits and loans. Namely, in Q4 2022 dollarization on deposits amounted to 53.0%, while dollarization on loans was observed on 48.4%.

In Q1 2023, the dollarization coefficient decreased on both deposits and loans YoY, amounted to 50.8% and 44.4%, respectively. In Q2 2023, the dollarization coefficient decreased on both deposits and loans YoY. Namely, dollarization on deposits amounted to 48.6%, which is 2.2 pp lower QoQ and 8.6 pp lower YoY. While dollarization on loans was observed on 45.0%, increase by 0.7 pp QoQ and decrease by 3.4% YoY.



# 5. Social Sector

**Subsistence Minimum for Average Consumer (GEL)**



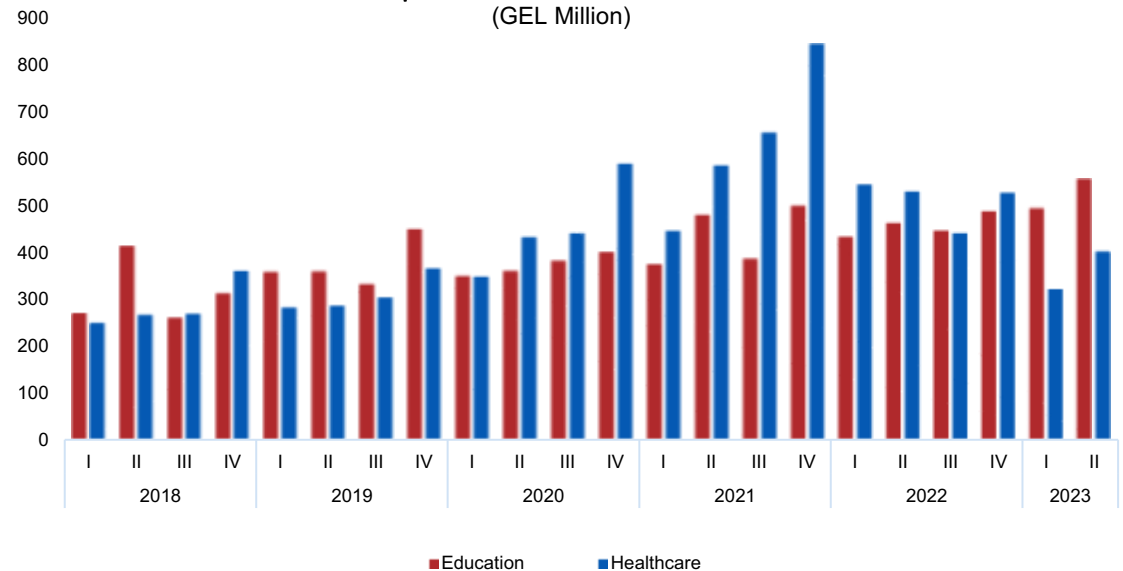
**In Q2 2023, the subsistence minimum decreased YoY.**

At the end of Q2 2023, in June, the average consumer subsistence minimum totaled GEL 225.4, GEL 0.7 lower YoY and GEL 1.4 lower QoQ. In Q2 2023, average quarterly subsistence minimum rate increased by 2.5% YoY.

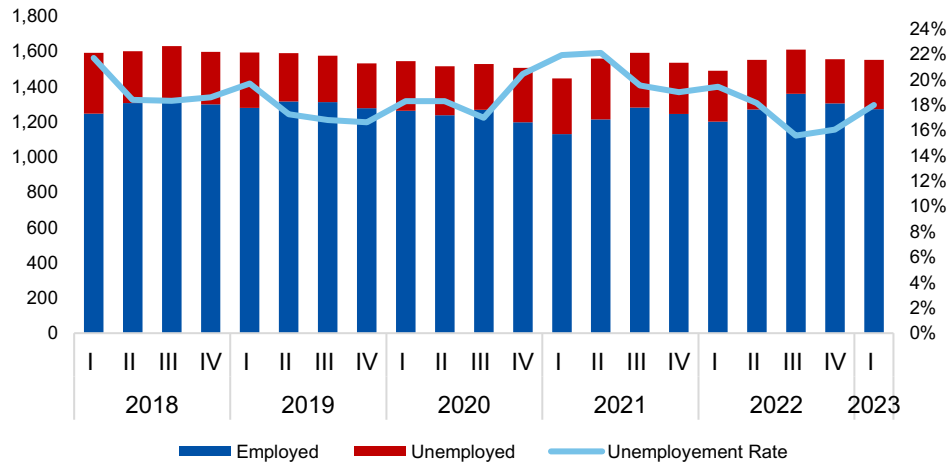
**In Q2 2023, compared to the same period of the previous year, increased, public expenditures on education, while decreased public expenditures on healthcare.**

In Q2 2023, expenditure on education (as per functional classification) amounted to GEL 556.4 million, 20.3% increase compared to the same period of the last year. Meanwhile expenditure on healthcare amounted to GEL 400.9 million, 24.2% decrease compared to the same period of the last year.

**Public Expenditure on Education and Healthcare (GEL Million)**



**Labour Force Indicators**  
(Thousand Persons)



In Q1+ 2023, the total number of employed persons increased, while the number of unemployed persons decreased YoY.

In Q1 2023, the number employed persons increased by 5.9% YoY and amounted to 1,271.9 thousand (Hired employees share in total employed persons amounted 67.9%, while the share of self-employed was observed at 32.1%). While the number of unemployed persons decreased by 3.6% and amounted 279.2 thousand.

In Q1 2023, unemployment rate was observed at 18.0% (1.4 pp lower compared to Q1 2022).

**In Q1+ 2023, the total number of employees in the business sector and salary increased YoY.**

In Q1 2023, the number of business sector employees increased by 6.3% YoY and amounted to 716.1 thousand. Average monthly salary increased by 18.9% YoY and amounted to GEL 1,759.1.

**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