III Quarter, 2022

Quarterly Macroeconomic Review *

Main Indicators of Quarter

- In Q3 2022, according to preliminary estimate real GDP increased by 9.7%. Should be remarked, that real GDP growth is higher compared to forecasted 7.9% in August by parliamentary budget office. GDP showed better-than-expected economic growth.
- In Q3 2022, annual inflation amounted to 11.3%, which was primarily driven by increasing prices on food and non-alcoholic beverages.
- In Q3 2022, negative overall balance of consolidated budget amounted to GEL 768.4 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 76.3%, while the same indicator in Q3, 2021 was 82.0%.
- In Q2* 2022, current account balance improved significantly. Namely, current account negative balance decreased by 49.0% and amounted to USD 252.1 million.
- In Q3 2022, the amount of international reserves reached historical maximum and amounted to USD 4,313 million.
- In Q3 2022, the share of the export in external trade increased from 28.8% to 30.6% YoY.
- In Q3 2022, remittances increased by 64.9% YoY and amounted to USD 1,027.5 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 2.8% QoQ and by 10.5% 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

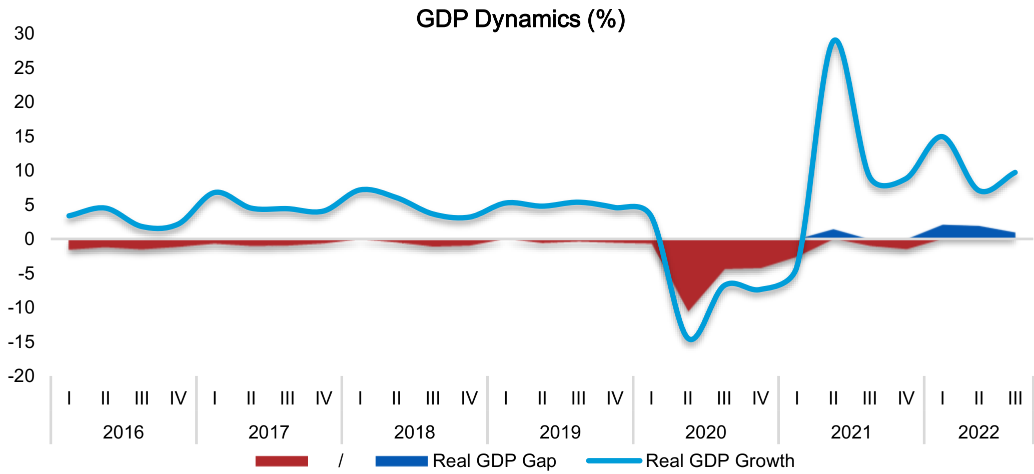
Parliamentary Budget Office of Georgia, 2022

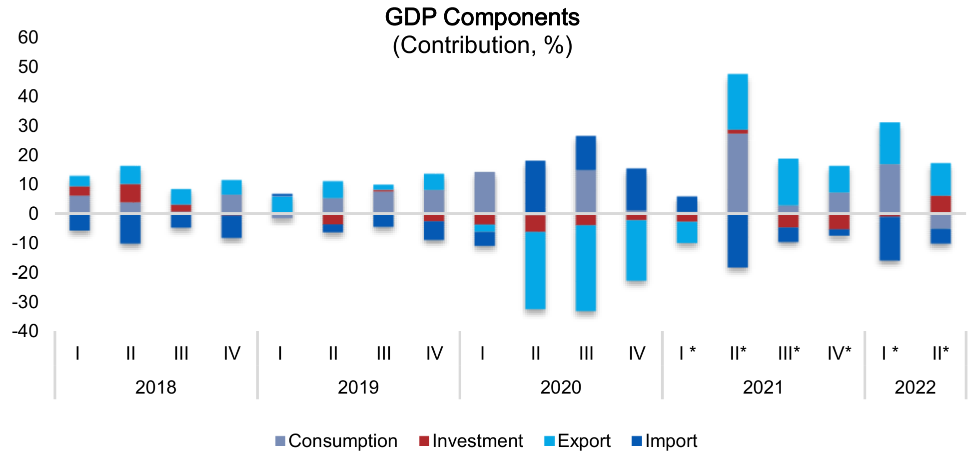
1. Real sector

In Q3 2022, according to GEOSTAT preliminary estimate average growth of real GDP amounted to 9.7%.

According to PBO evaluation, in Q3 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 1.9%.

It should be noted, that the economic growth estimate for Q3 2022 made by the Parliamentary Budget Office in August 2022 was 7.9%[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 Q3 2022, there was an increase in foreign direct investments, revenues from international travel, as well as remittances and foreign trade.

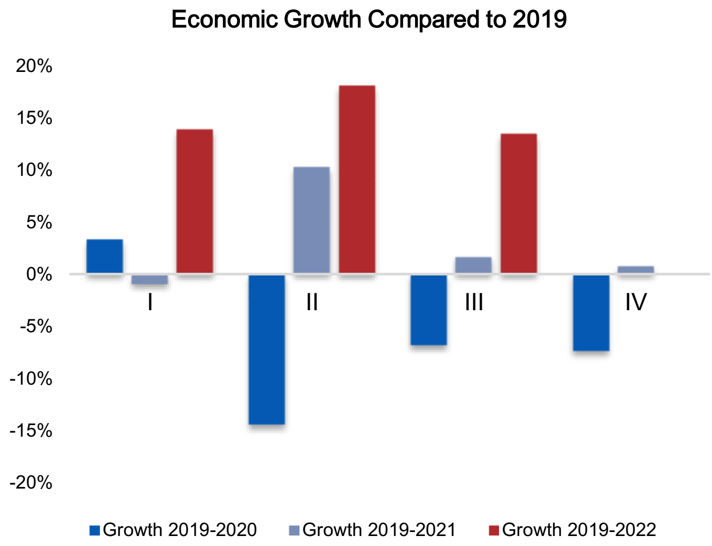




In Q2* 2022, as per PBO estimates, export and investment increase played major roles in GDP growth.

Analyzing GDP components, in Q2 2022, real GDP increase was primarily driven by export (11.0%) and investment (6.2%). In the reporting period, consumption (-5.1%) and import (-5.0%) had a negative impact on GDP.

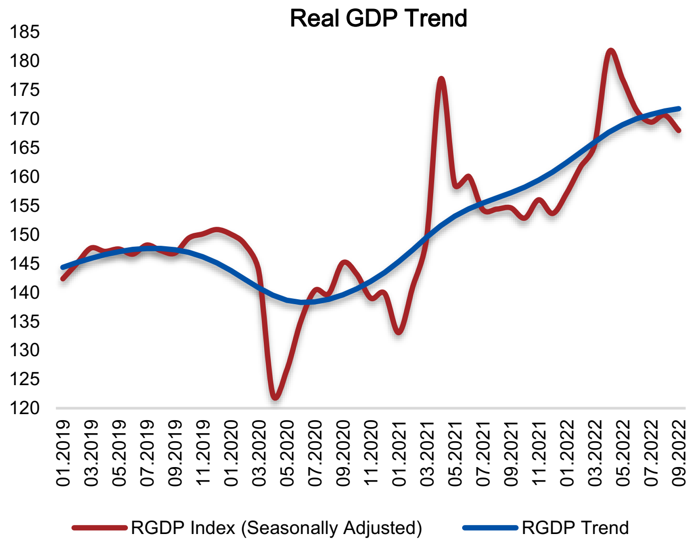
[1] www.pbo.parliament.ge

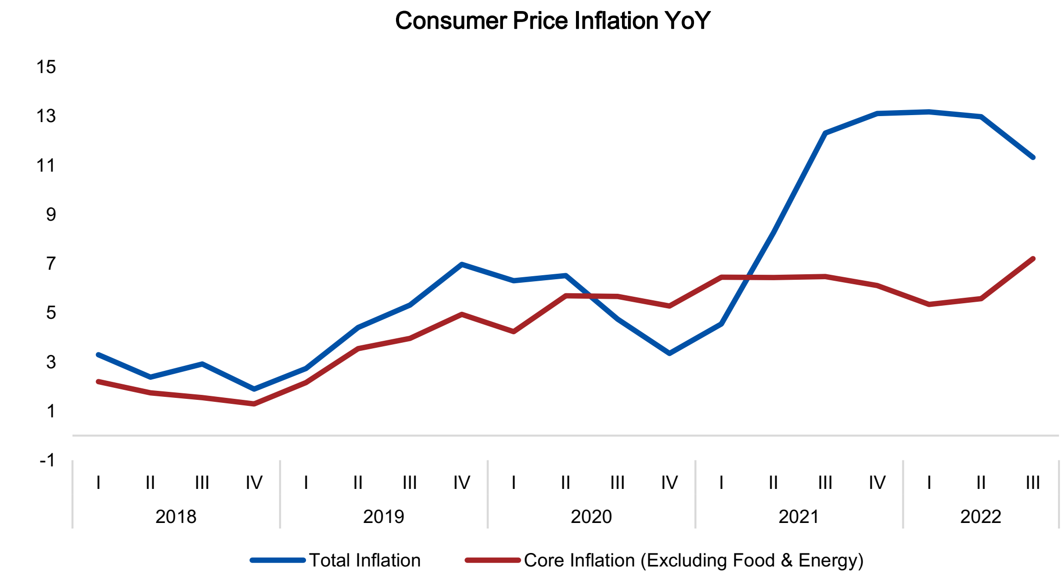


Observing monthly data reveals that the economic growth trend is not linear.

According to PBO estimate based on preliminary data, in Q3 2022, YoY growth of the real GDP trend[2] was 9.6%, compared to 12.5% 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.





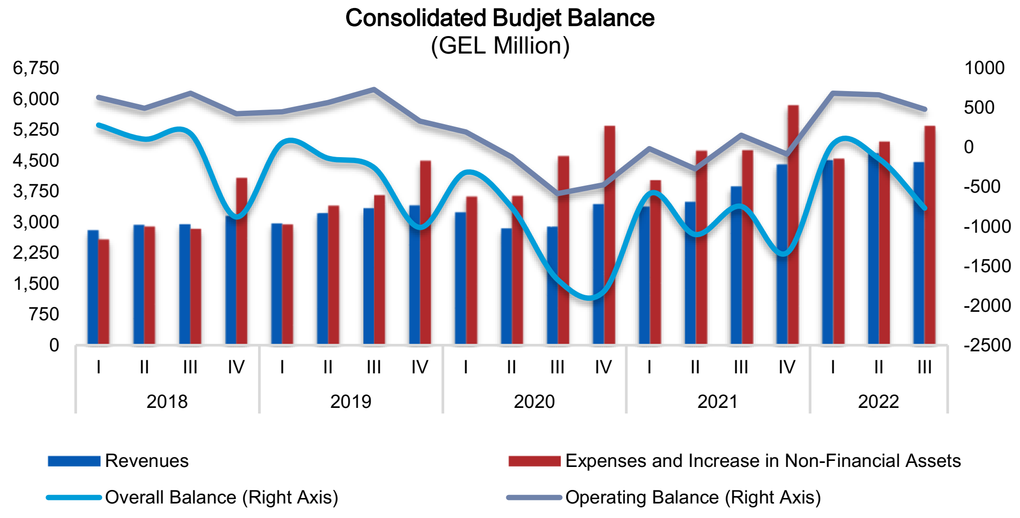
In Q3 2022, consumer price inflation has slightly decreased YoY trend.

In Q3 2022, average annual inflation reached 11.3%, higher than the inflation target of 3.0%. In Q3 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 Q3 2022, average annual core inflation (excluding groups of food and non-alcoholic beverages and energy prices) amounted to 7.2%.

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

2. Fiscal Sector



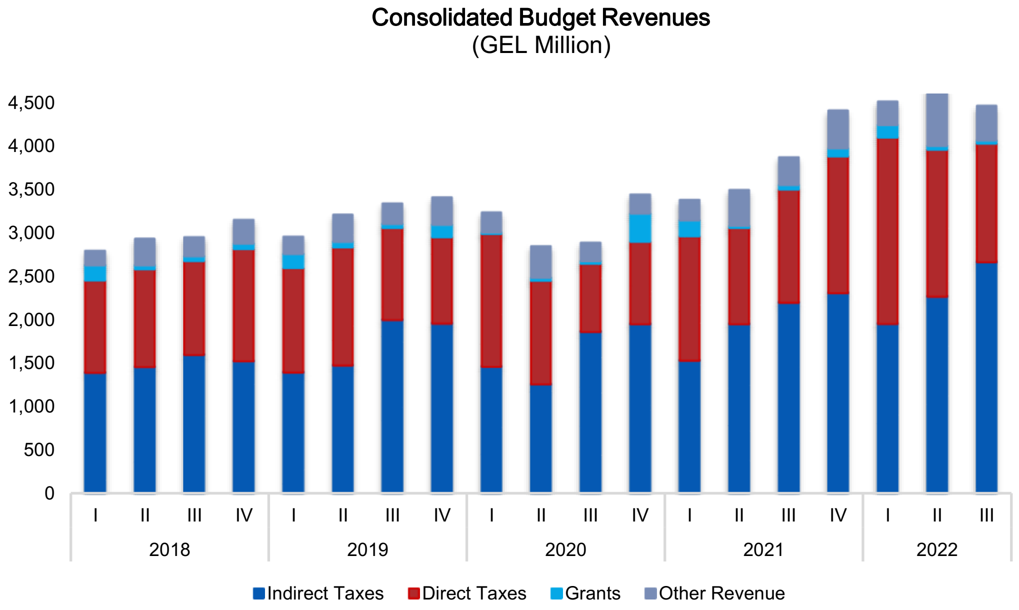
In Q3 2022, the consolidated budget balance was negative.

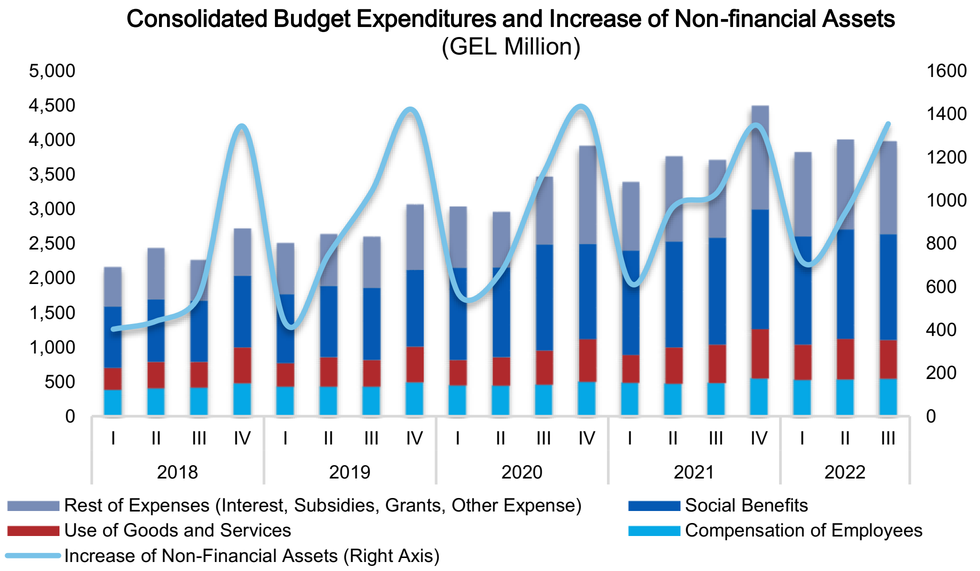
In Q3 2022, consolidated budget revenues increased by 15.4% YoY and reached GEL 4,461.2 million, while expenses and acquisition of non-financial assets increased by 12.5% and totaled GEL 5,337.5 million.

In Q3 2022, compared to Q3 2021, the operating balance increased by GEL 326.1 million and amounted to GEL 479.1 million, while the overall negative balance (budget deficit) totaled GEL 768.4 million. It is worth mentioning that in the third quarter of 2021, the overall consolidated budget balance was negative and amounted to GEL 745.6 million.

In Q3 2022, tax revenues of consolidated budget increased by 15.0% YoY and amounted to GEL 4,021.9 million.

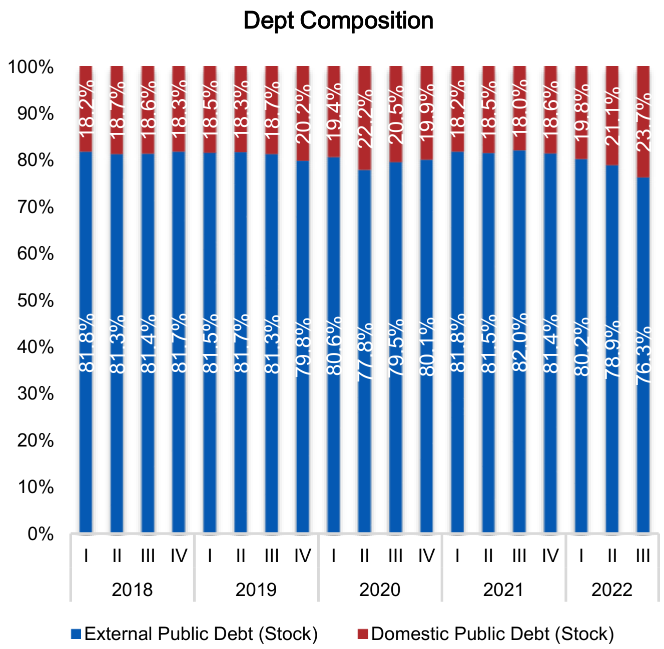
In Q3 2022, direct taxes of consolidated budget increased by 4.4% YoY and totaled GEL 1,356.3 million, while indirect taxes increased by 21.4% and reached GEL 2,665.6 million. It is noteworthy that during the period, the grant component decreased by 26.3% and amounted to GEL 36.2 million, while other revenues increased by 25.5% and amounted to GEL 403.1 million.





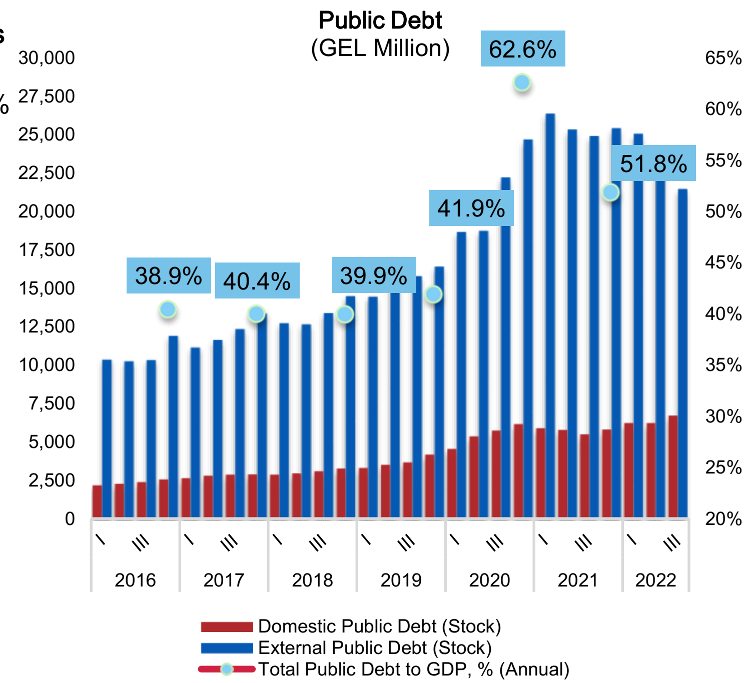
In Q3 2022, both recurrent expenditures and capital expenditures increased YoY.

In Q3 2022, consolidated budget recurrent expenses increased by 7.2% YoY and amounted to GEL 3,982.1 million. Expenses in non-financial assets (i.e. capital expenditure) increased by 31.5% YoY and reached GEL 1,355.4 million. During the mentioned period expenditures on goods and services increased by 0.7% and amounted to GEL 561.9 million. Expenditures on compensation of employees increased by 13.0% and on social benefits decreased by 0.9%, while in nominal terms they amounted to GEL 542.2 million and GEL 1,537.8 million. Other expenses (interest, subsidies, grants, other services) increased by 19.3% and amounted to GEL 1,340.2 million.

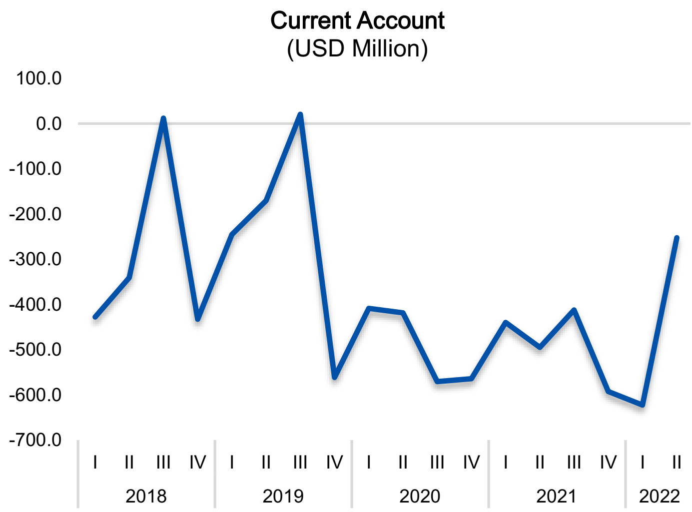


As of 30 September 2022, public debt in nominal terms reached GEL 28,153 million, a 7.3% decrease YoY.

The external debt share made up 76.3% in Q3 2022 (82.0% at the end of Q3 2021), while the domestic debt share reached 23.7% (18.0% at the end of Q3 2021).

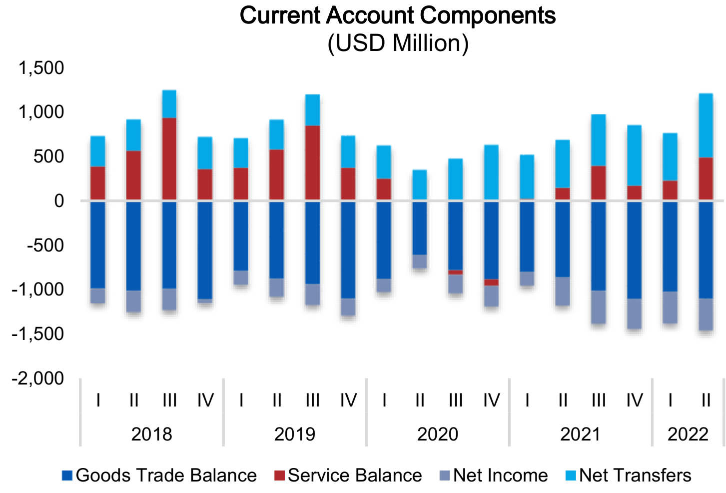


3. External Sector



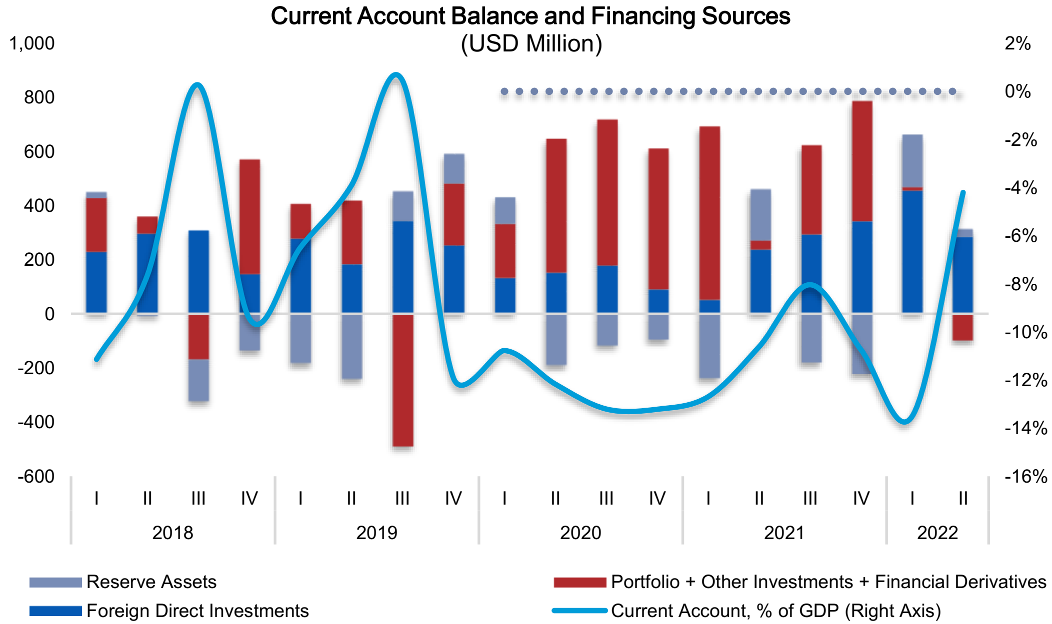
In Q2* 2022, the BOP current account balance was negative.

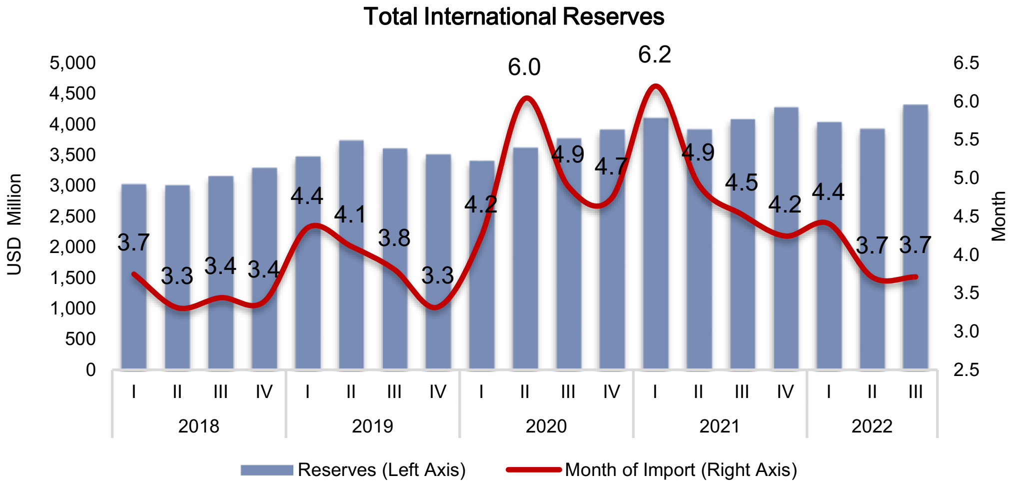
In Q2 2022, the negative current account balance reached USD 252.1 million (-4.2% of GDP), which is 49.0% decrease YoY (-494.8 million US dollars in Q2 2021). Analyzing current account components, the trade balance of goods and services and net income deficit were only partially compensated by the surplus 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-Q2 in 2022. In Q2 2022, indicator increased by 204.2% YoY and totaled USD 748.8 million.



In Q2* 2022, the primary financing source of the current account deficit was foreign direct investments and other investments.

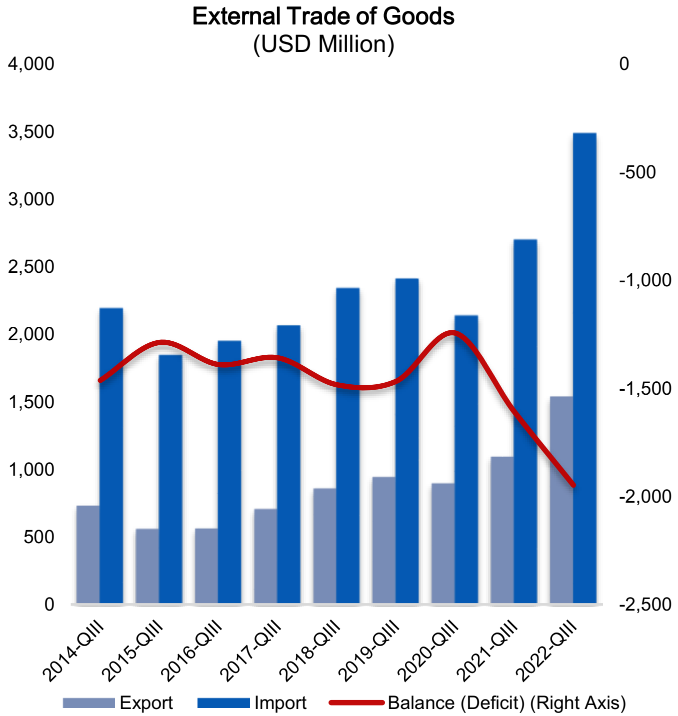
During this period, net direct investments totaled USD 284.3 million (4.7% of GDP), a 20.3% increase in comparison with the same period of the previous year. As for the amount of other investments, in the second quarter of 2022 they totaled 34.3 million US dollars, 89.9% decrease YoY.





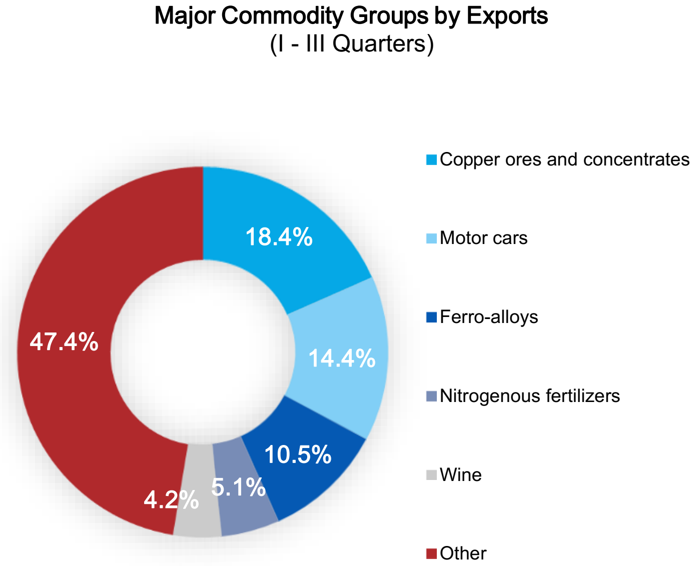
In Q3 2022, total international reserves reached USD 4,313 million.

At the end of Q3 2022 total international reserves made up USD 4,313 million, which is 5.8% increase YoY. In August 2022, in response to the exchange rate depreciation, the National Bank of Georgia sold USD 40.6 million in foreign exchange auctions, while in September 2022 sold USD 13.6 million.



In Q3 2022, an upward trend was observed in both export and import of goods.

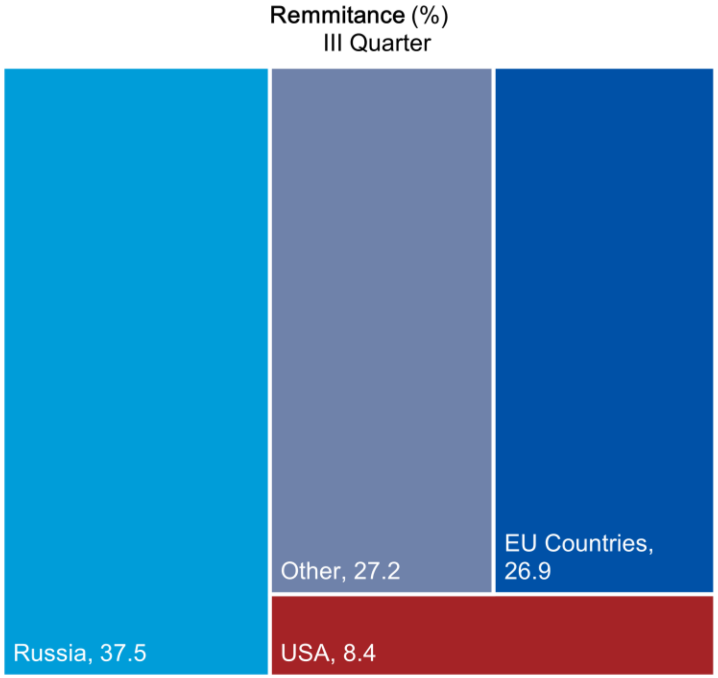
In Q3 2022, compared to the same period of the previous year export of goods increased by 40.5% and amounted to USD 1,539 million, while import of goods increased by 29.0% and totaled USD 3,487 million. In the reporting period share of the export in external trade increased from 28.8% to 30.6%. In the third quarter of 2022, the largest export commodities were copper ores and concentrates, exports of motor cars, ferro-alloys, nitrogenous fertilizers, wines and others.



In Q3, 2022 both international traveler trips and international visitor trips have increased.

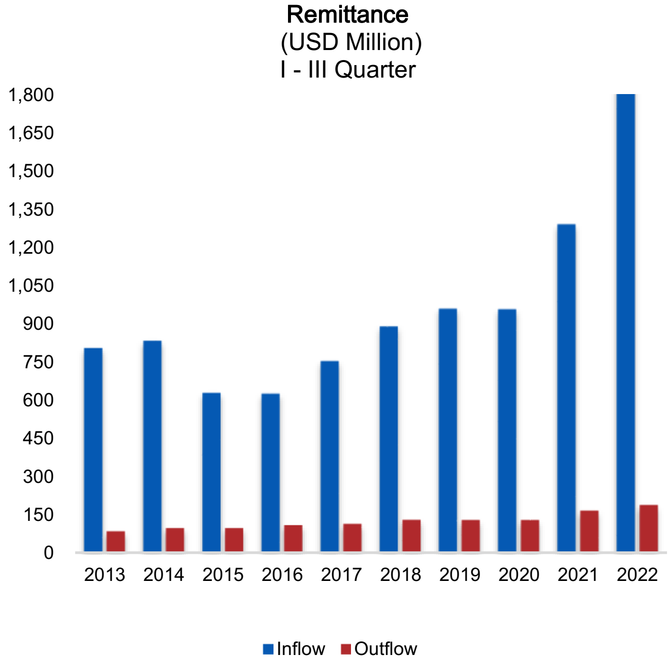
In Q3 2022, international traveler trips increased by 178.0% YoY and amounted to 2,266,677. International traveler trips also include trips made by international visitors. In Q3 2022, International visitor trips reached 1,900,021 (162.4% higher compared to the same indicator of Q3, 2021). The majority of trips conducted by international visitor were from Russia (533,190, increase by 443.5% YoY), Armenia (325,980, Increase by 437.9% YoY) and Turkey (281,327, increase by 175.3% YoY).

In Q3 2022, income from foreign travel amounted to 1,374.7 mln USD, a 142.9% increase YoY.



In Q3, 2022 remittances increased significantly

In Q3 2022, remittances increased by 64.9% YoY and amounted to USD 1,027.5 million. During this period the main source of money transfers are Russia (37.5% of total) and EU countries (26.9%). In the analyzing period, remittances increased significantly from the following countries: Belarus (1,314%), Armenia (868%), Kyrgyzstan (476%), Tajikistan (286%), Russia (231%), Uzbekistan (200%), Kazakhstan (110%), United Kingdom (106%), Netherlands (59%), Saudi Arabia (55%), Germany (48%) and others.

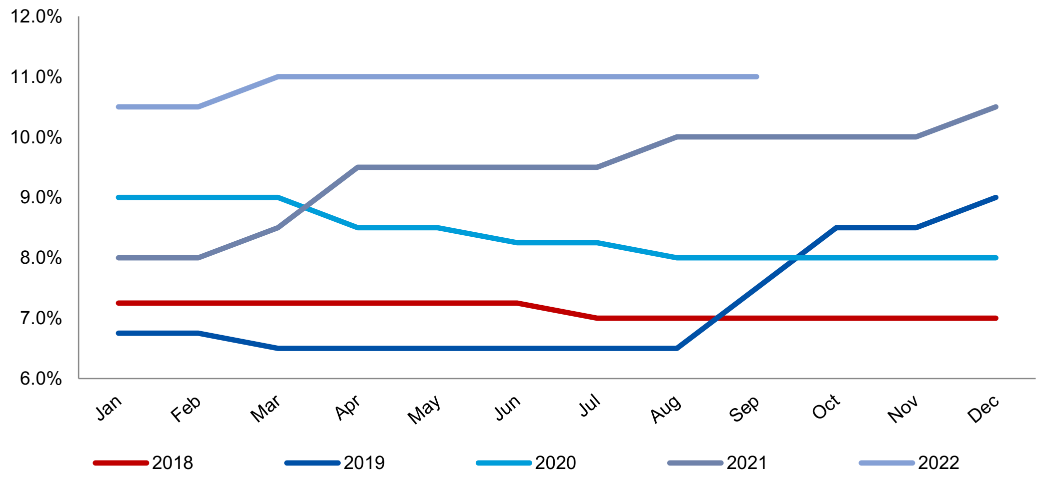


4. Monetary Sector

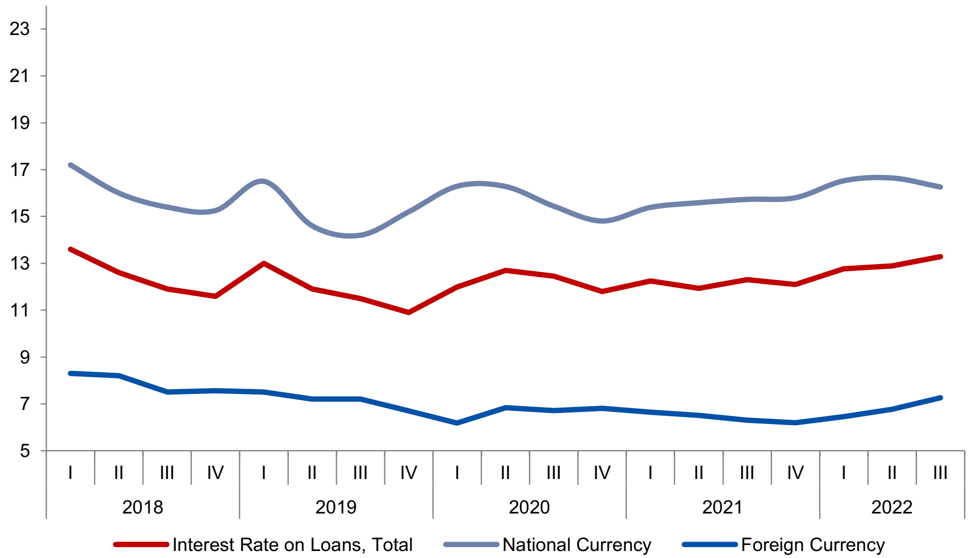
In Q3 2022 the monetary policy (refinancing) rate was 11.0%.

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 August 3 and September 14, monetary policy committee decided to remain the rate unchanged (11.0%).

Monetary Policy (Refinancing) Rate



Market Interest Rates on Loans (%)



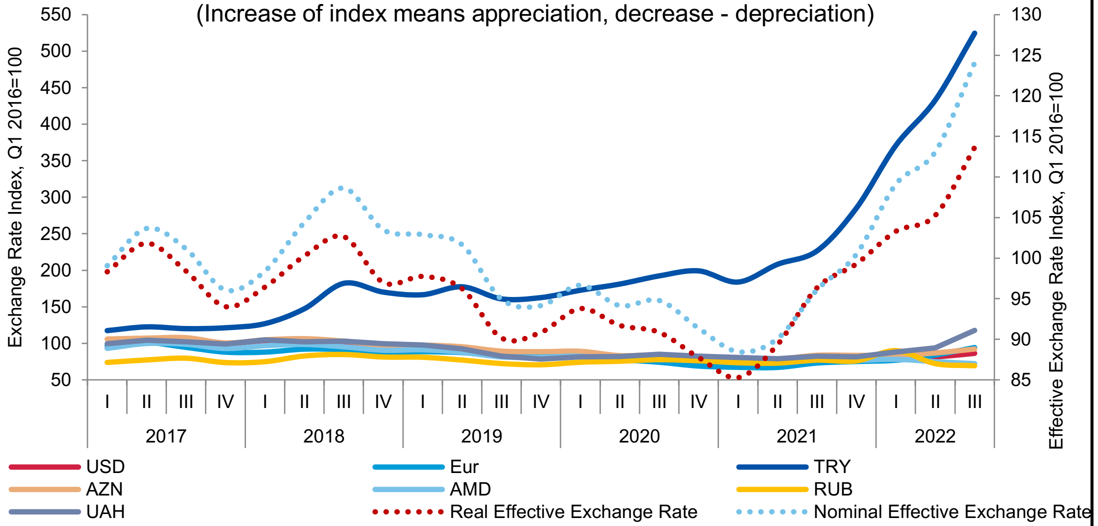
In Q3 2022, the market interest rate on loans reached 13.3%.

In Q3 2022, market interest rate on loans increased by 0.4 pp QoQ and reached 13.3%. The interest rate on national currency loans decreased by 0.4 pp QoQ (16.3%), while on foreign currency loans increased by 0.5 pp QoQ (7.3%).

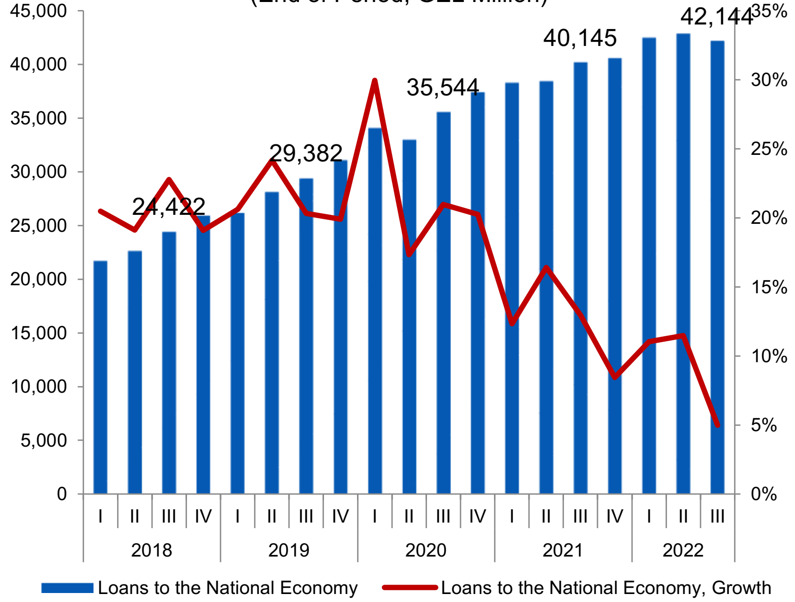
In Q3 2022, the exchange rate of GEL appreciated QoQ against all primary currencies, except RUB and AMD.

In Q3 2022, the exchange rate of GEL (period average) against USD appreciated by 2.8% QoQ and by 10.5% YoY. Compared to the Q3 2021, GEL appreciated against EUR (29.2%), TRY (131.6%), AZN (10.2%) and UAH (43.2%), while depreciated against AMD (8.0%) and RUB (10.0%).

GEL Exchange Rate Indicies
(Increase of index means appreciation, decrease - depreciation)



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

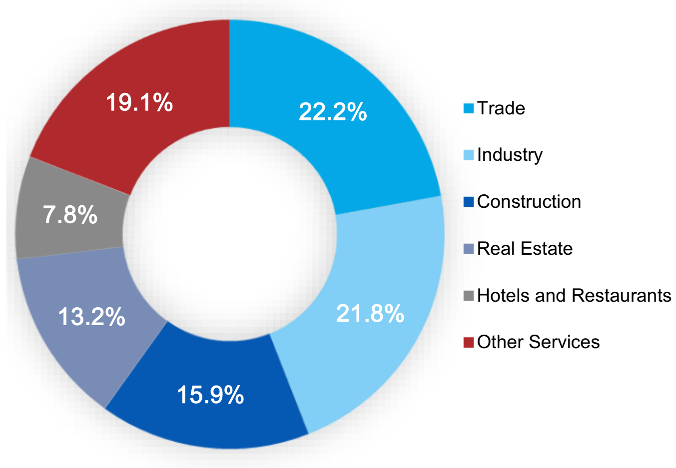


In Q3 2022, loans to the national economy (end of period) increased.

In Q3 2022, loans to the national economy increased by 5.0% YoY and amounted to GEL 42,144 million. More than half of total loans (54.5%) was distributed to households.

As for loans issued by types of activity, the highest 22.2% were issued in trade, 21.8% in industry, 15.9% in construction, 13.2% in real estate and 7.8% in hotels and restaurants.

Loans by Types of Activity
(Flows)

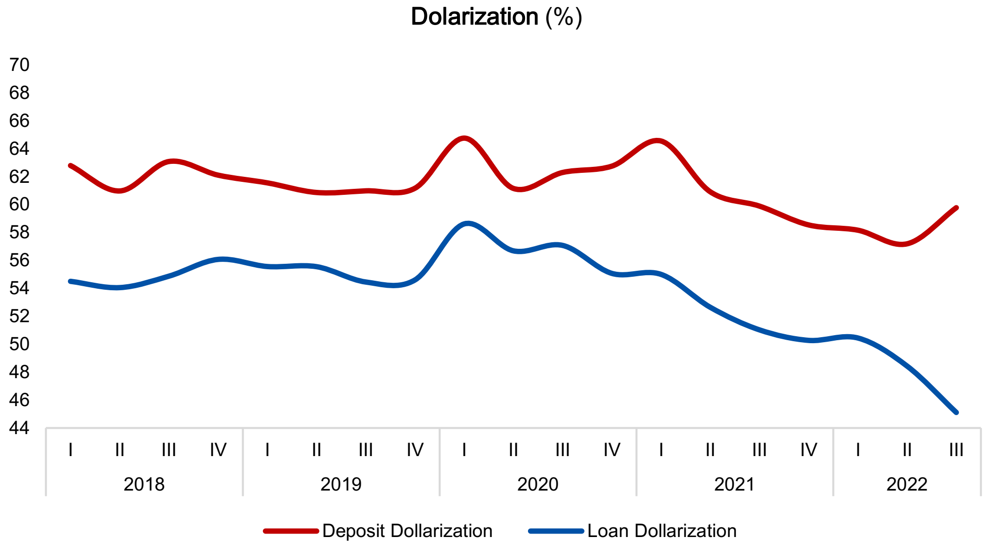


In Q3 2022, the dollarization coefficient decreased on both deposits and loans YoY.

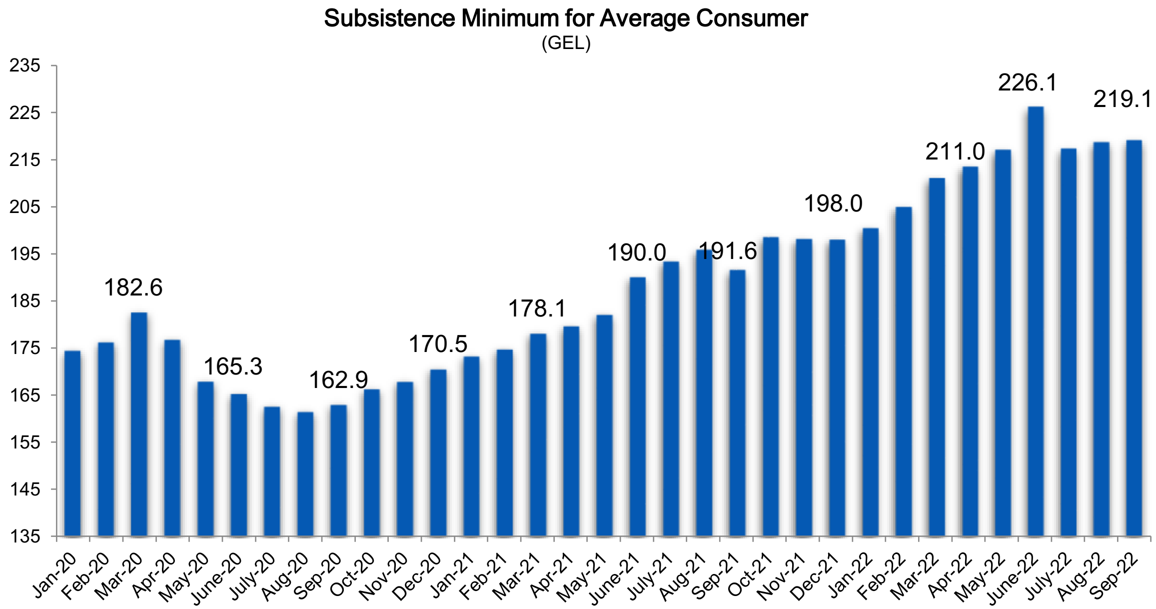
In Q1 2022, compared to the previous quarter, the dollarization coefficient on deposits amounted to 58.2%, while on loans 50.4%.

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, the dollarization coefficient decreased on both deposits and loans YoY. Namely, dollarization on deposits amounted to 59.8%, which is 2.6 pp higher QoQ and 0.1 pp lower YoY. While dollarization on loans was observed on 45.1%, decrease by 3.3 pp QoQ and by 5.9% YoY.



5. Social Sector

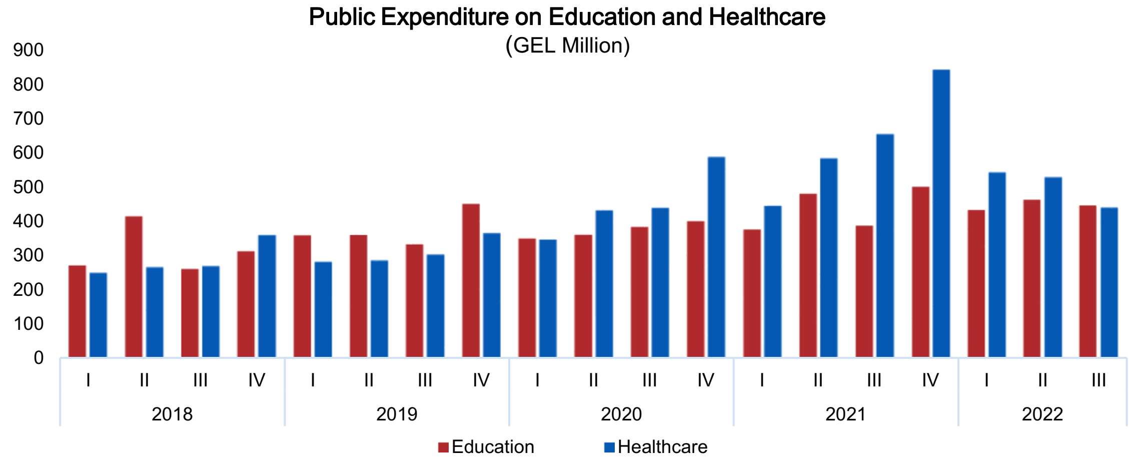


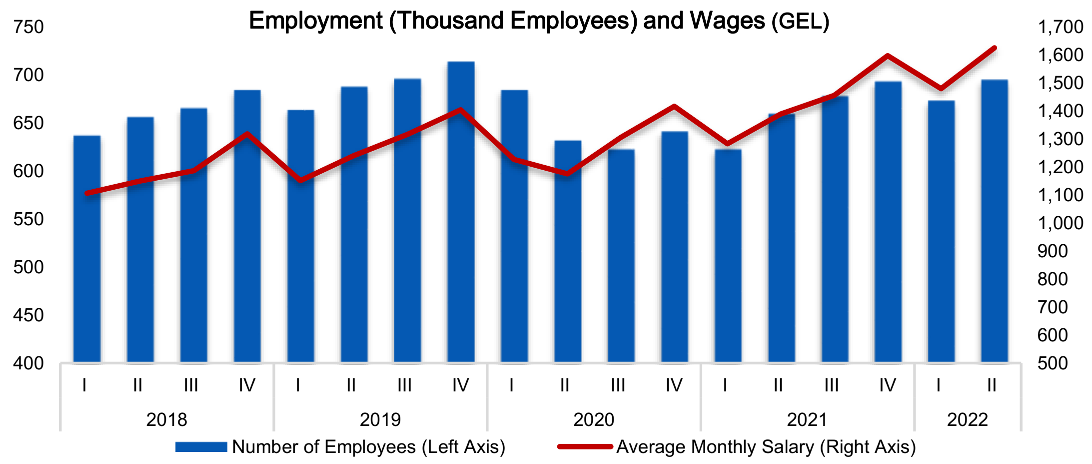
In Q3 2022, the subsistence minimum increased YoY.

At the end of Q3 2022, in September, the average consumer subsistence minimum totaled GEL 219.1, GEL 27.5 higher YoY and GEL 7.0 lower QoQ. In Q3 2022, average quarterly subsistence minimum rate increased by 12.8% YoY.

In Q3 2022, compared to the same period of the previous year, public expenditures on healthcare decreased, while expenditures on education increased.

In Q3 2022, expenditure on education (as per functional classification) amounted to GEL 446.0 million, 15.4% increase compared to the same period of the last year. Meanwhile expenditure on healthcare amounted to GEL 440.1 million, 32.7% decrease compared to the same period of the last year.





In Q2* 2022, the total number of employees in the business sector and salary increased YoY.

In Q2 2022, the number of business sector employees increased by 5.4% YoY and amounted to 695.2 thousand. Average monthly salary increased by GEL 236.2 YoY and amounted to GEL 1,625.8.

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