

Macroeconomic Overview of Georgia



Ministry of Finance of Georgia

September, 2022

Georgia at a Glance



Tax Policy and FTAS	Doing Business	Economic Freedom	Open Budget
0%	#8	#12	#1
Corporate Income Tax on retained earning access to 2.8 BLN	Europe and Central Asia World Bank's Doing Business 2020 study	2021 Index of Economic Freedom by the Heritage Foundation	IBP Index 2021 https://www.internationalbudget.org/open-budget-survey/open-budget-index-rankings

Investor Friendly Business Environment

- ❖ **No** barriers for market entry and exit
- ❖ **No** restrictions on purchases of local assets by foreigners
- ❖ **No** restrictions on capital repatriation
- ❖ **No** restrictions on purchasing/selling foreign currencies
- ❖ **No** restrictions on money transfers.
- ❖ **No** taxes on government securities

Rating Agency	Rating	Outlook	Affirmed
Moody's	Ba2	Negative	Apr. 2022
S&P Global	BB	Stable	Aug. 2022
Fitch Ratings	BB	Stable	Jul. 2022



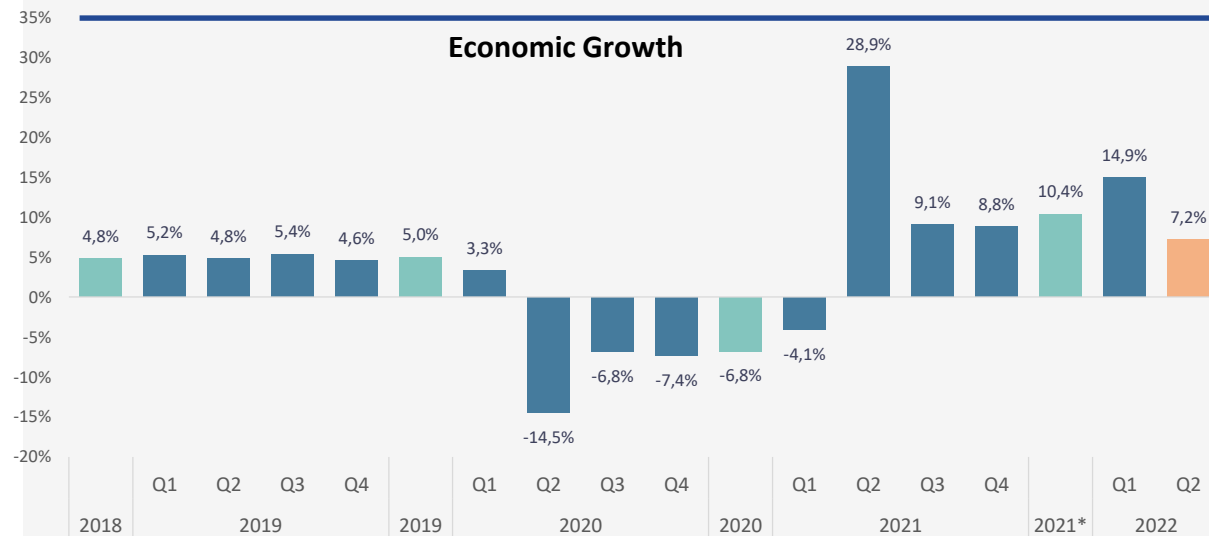
Georgia in Figures



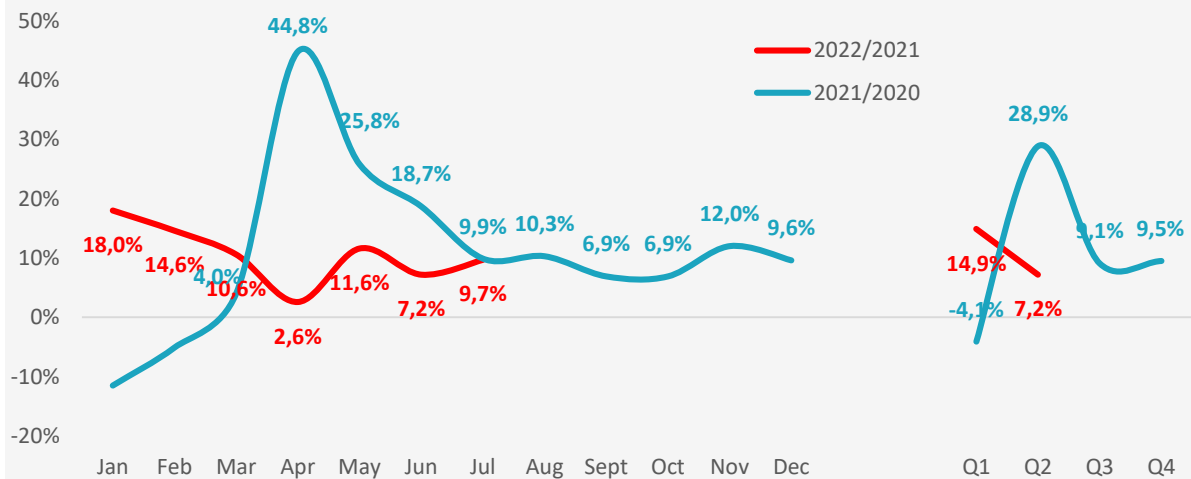
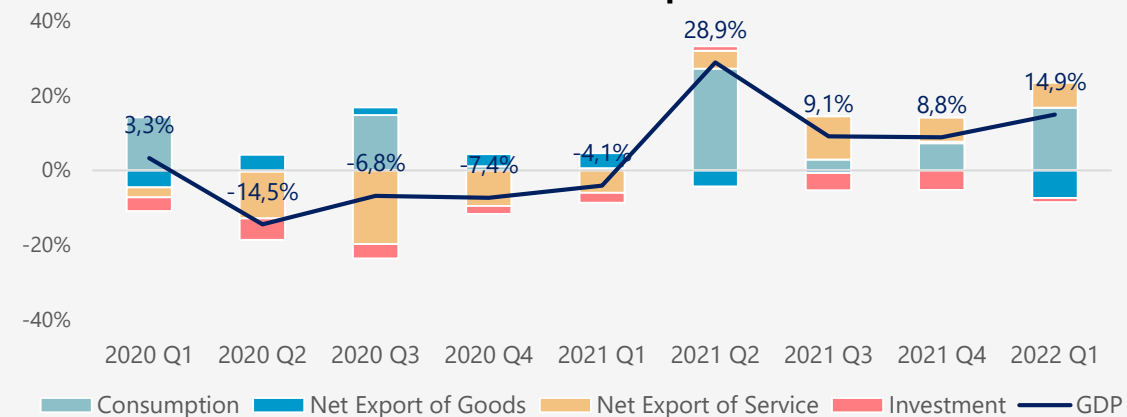
Area:	69,700 km ²
Population:	3.7 millions
Life Expectancy:	74 years
Official Language:	Georgian
Literacy	99.4 percent
GDP Per Capita (current US\$) 2021:	5,015
GDP Per Capita (PPP) 2021:	16,590
GDP Real Growth (2021)	10.4 Percent
GDP Real Growth (Average 2012-2021)	3.9 Percent
GDP Real Growth (Average 2010-2019)	4.9 Percent
Inflation Rate 2021:	9.6 percent
Inflation Rate (Average 2012-2021)	3.6 percent
Unemployment Rate 2021:	19.0 percent
Government Debt/GDP 2021:	49.5 percent
Credit ratings	BB/Ba2 Stable

Economic Outlook

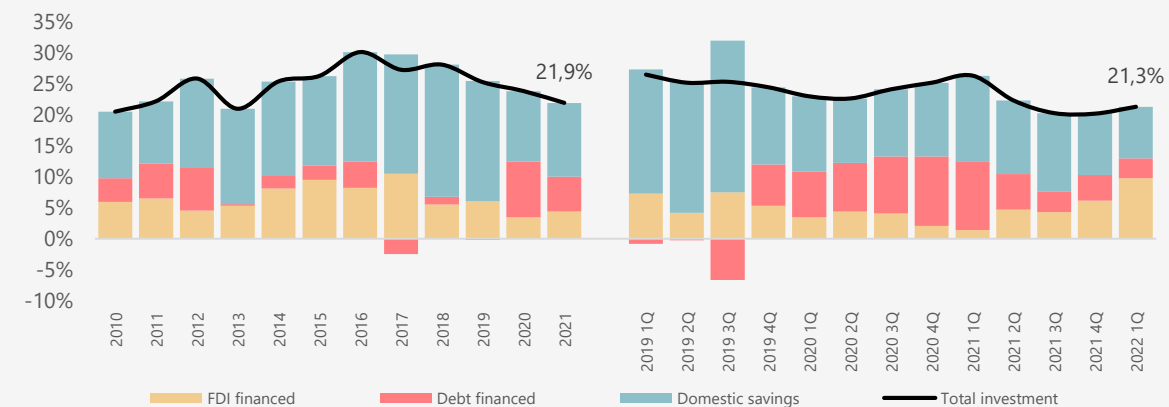
Economic Growth



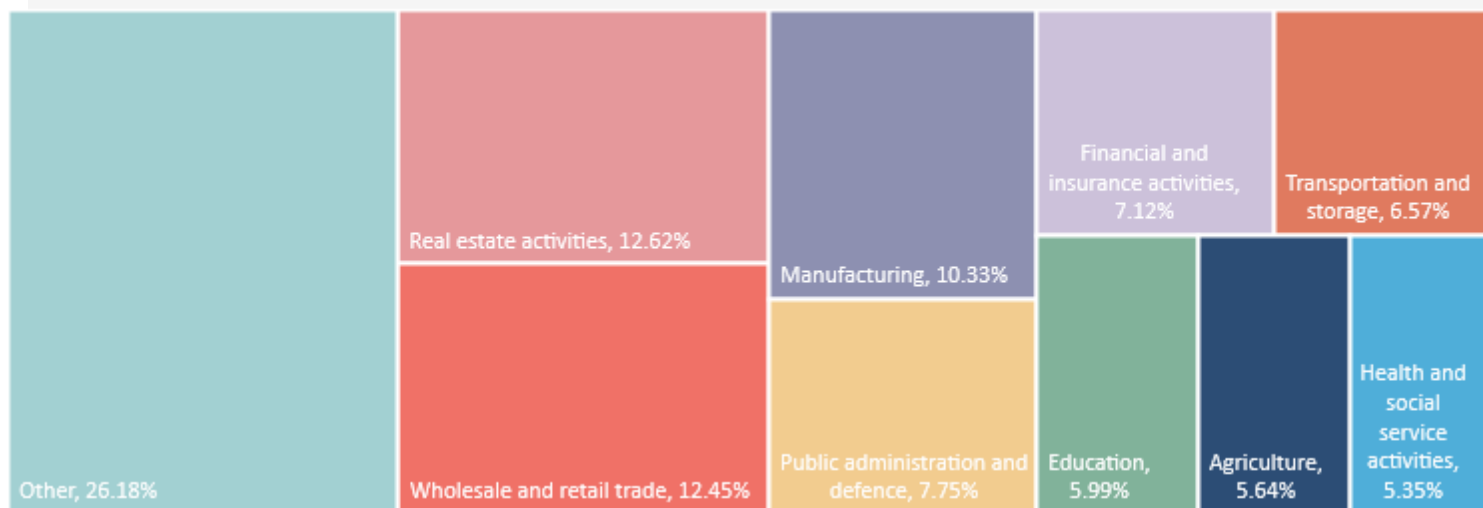
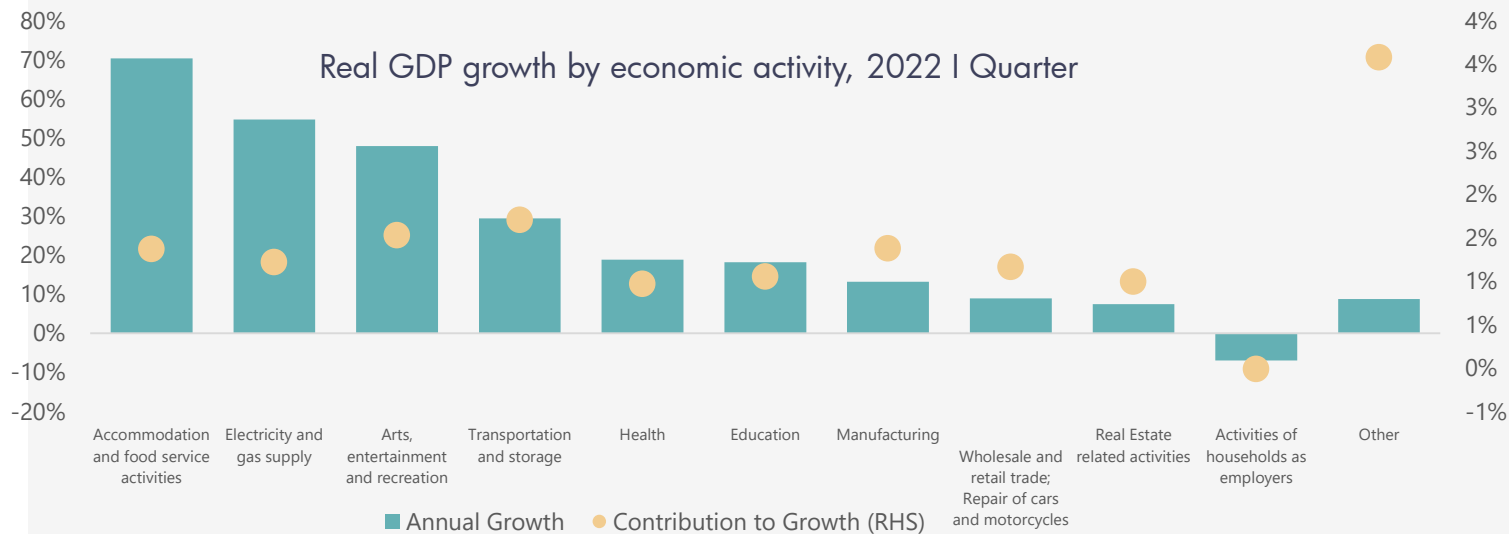
GDP Growth Decomposition



Investment to GDP



Economic Outlook



- According to preliminary estimates, in the second quarter of 2022 economic growth amounted to 7.2 percent, while in the first quarter of 2022, compared to the corresponding period of the previous year, real GDP increased by 14.9 percent and by 20.3 percent compared to the first quarter of 2019.

- The following industries have made a significant contribution to growth of Q1 2022:

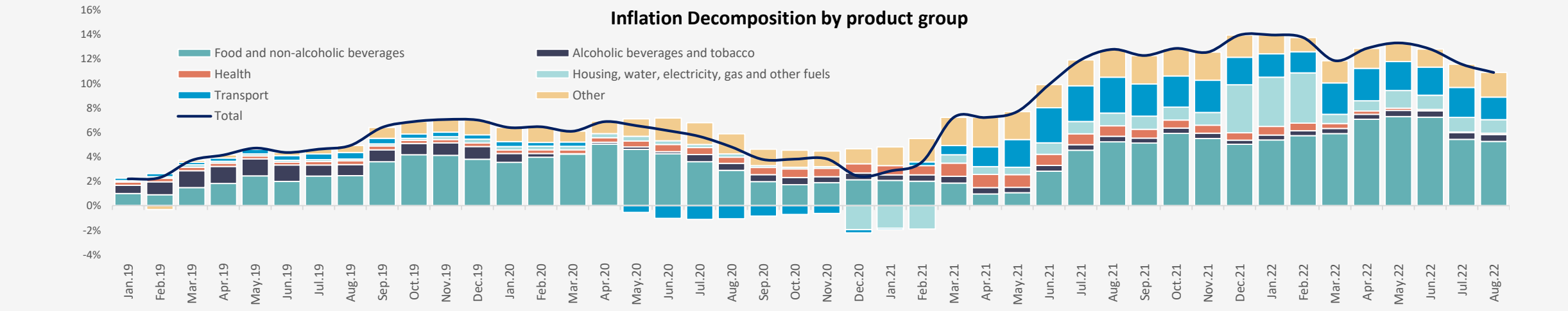
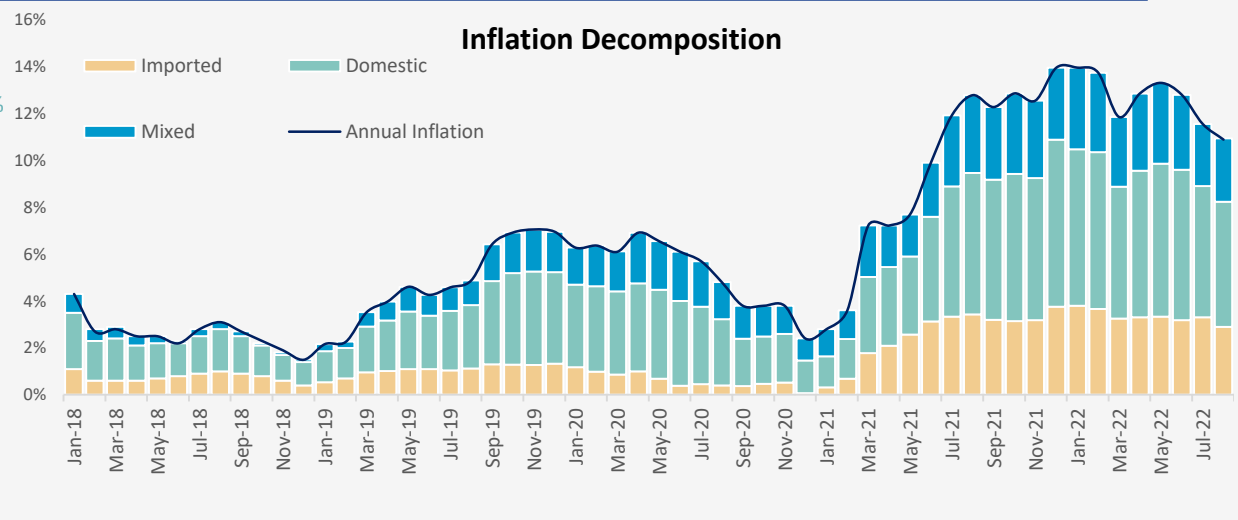
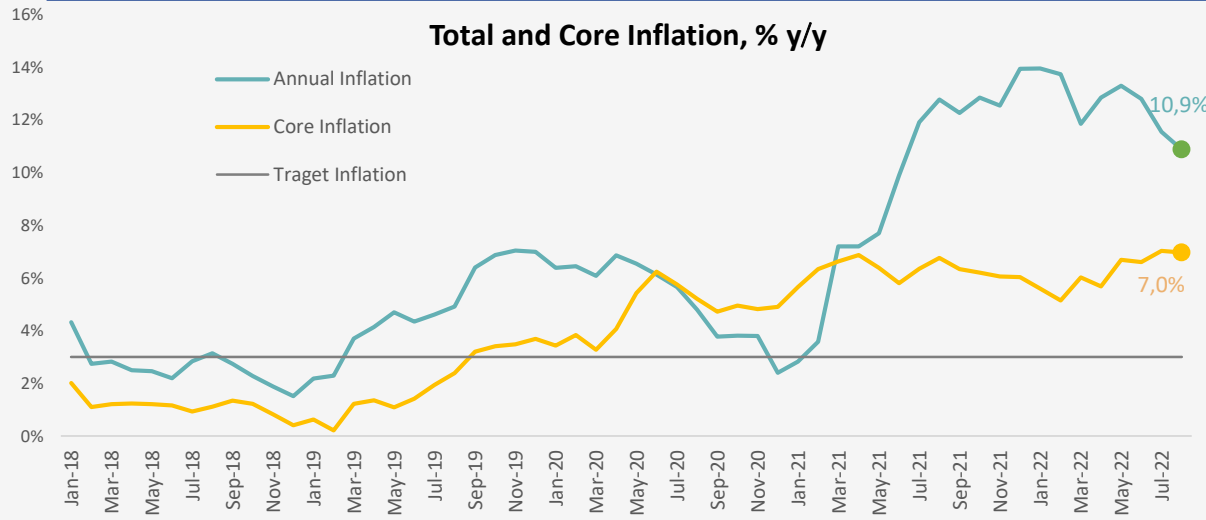
- Accommodation and food supply activities: 70.3% y/y (1.4 p.p.)
- Electricity and gas supply: 54.7% y/y (1.2 p.p.)
- Arts, entertainment and recreation: 47.6% y/y (1.5 p.p.)
- Transport and warehousing: 29.4% y/y (1.7 p.p.)
- Healthcare: 18.8% y/y (1.0 p.p.)
- Education: 18.2% y/y (1.1 p.p.)
- Manufacturing industry: 13.2% y/y (1.4% p.p.)
- Wholesale and retail trade; Car and motorcycle repair: 8.9% y/y (1.2 p.p.)
- Activities related to real estate: 7.4% y/y (1.0% p.p.)

- The following industries have made a significant contribution to the decline:

- Activities of Households as employers: -7.0% y/y (-0.01 p.p.)

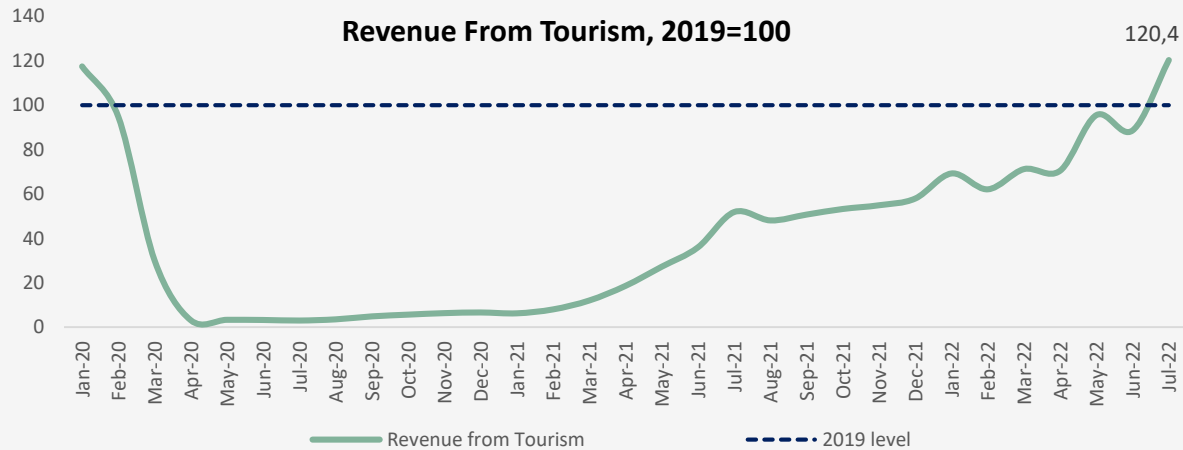


Pressure on Inflation due to World Market Dynamics

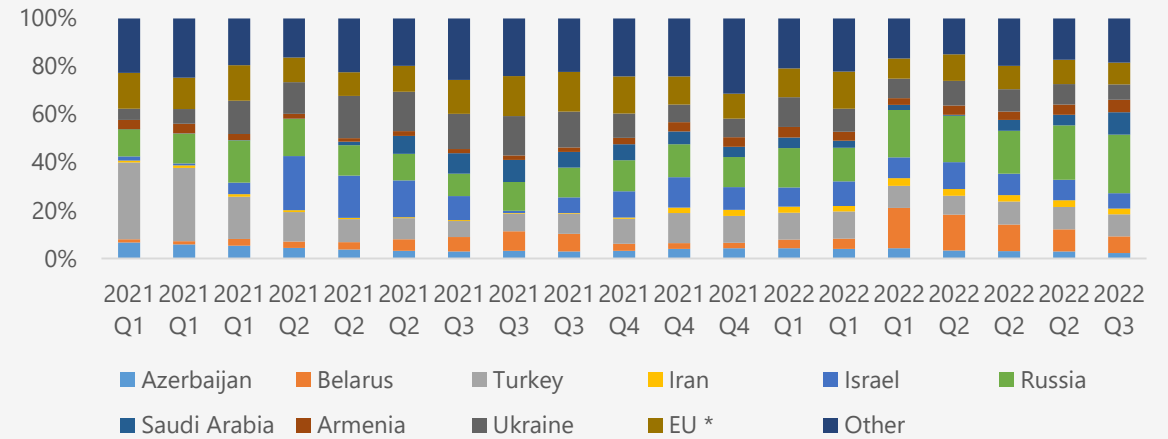


Tourism Sector has Started to Recover

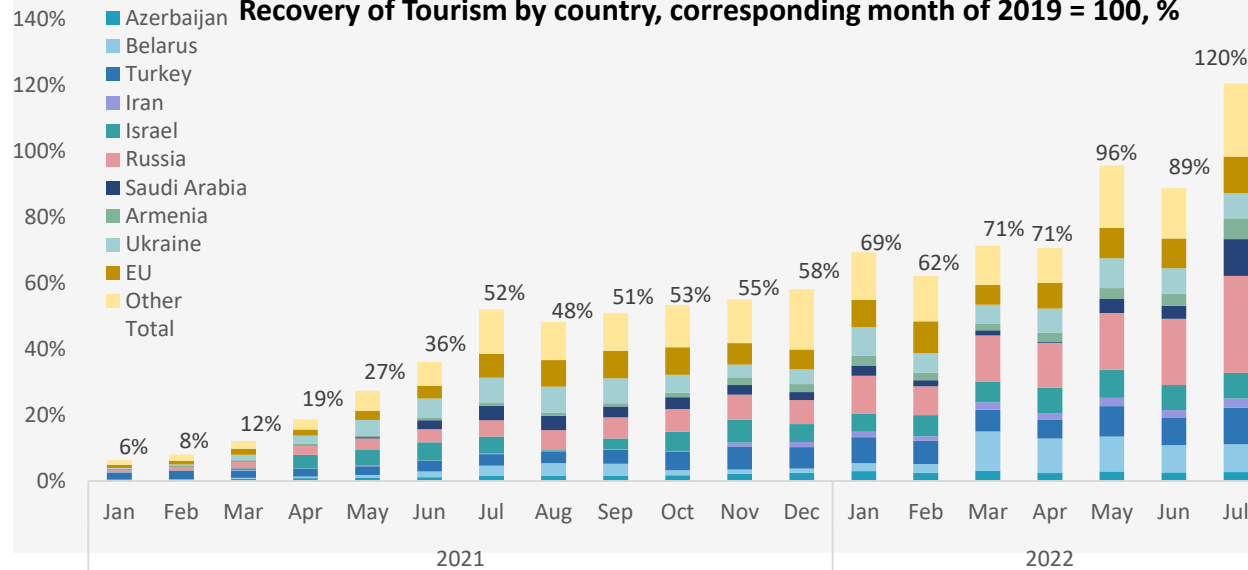
Revenue From Tourism, 2019=100



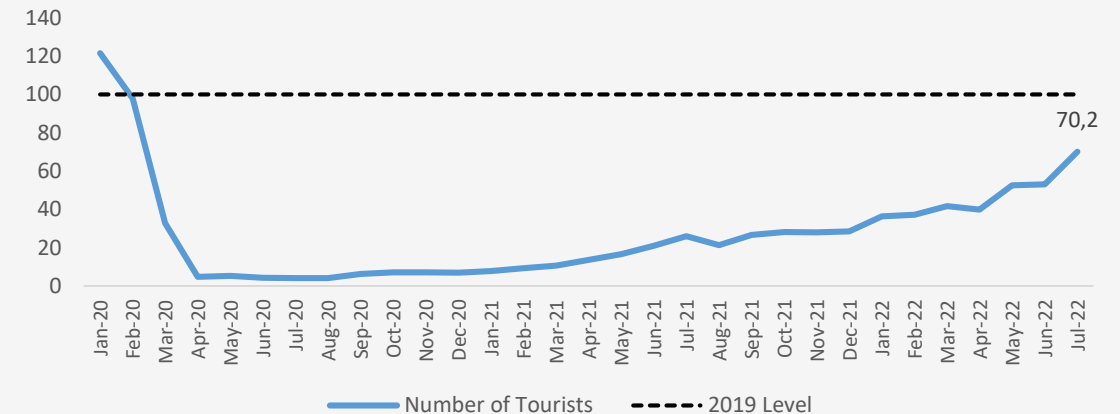
Tourism Revenue by country, % contribution



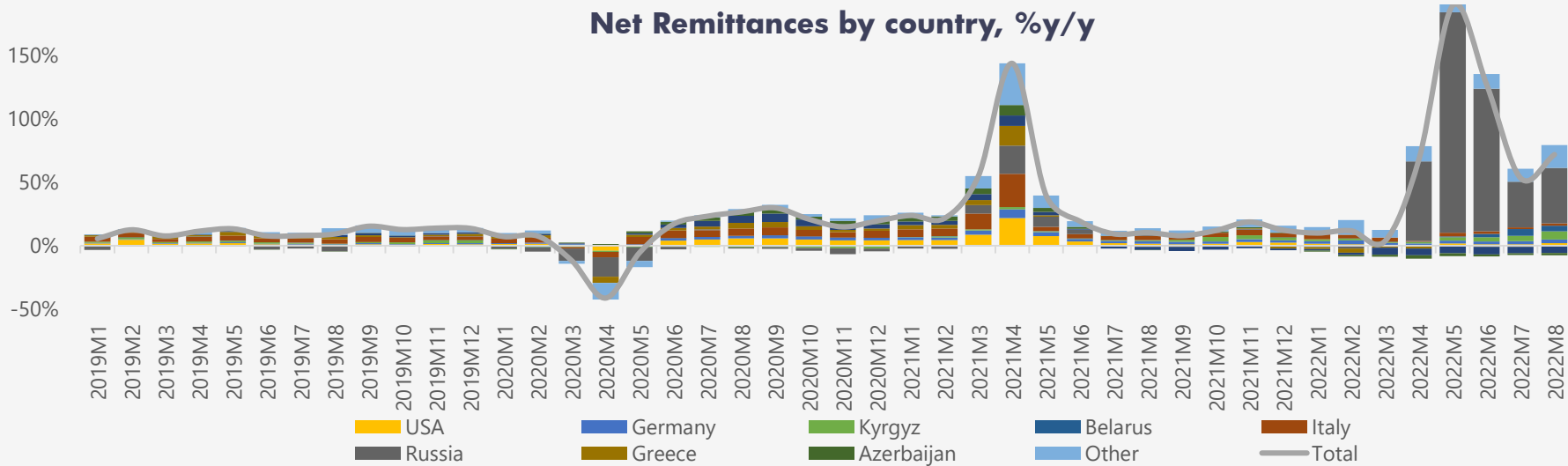
Recovery of Tourism by country, corresponding month of 2019 = 100, %



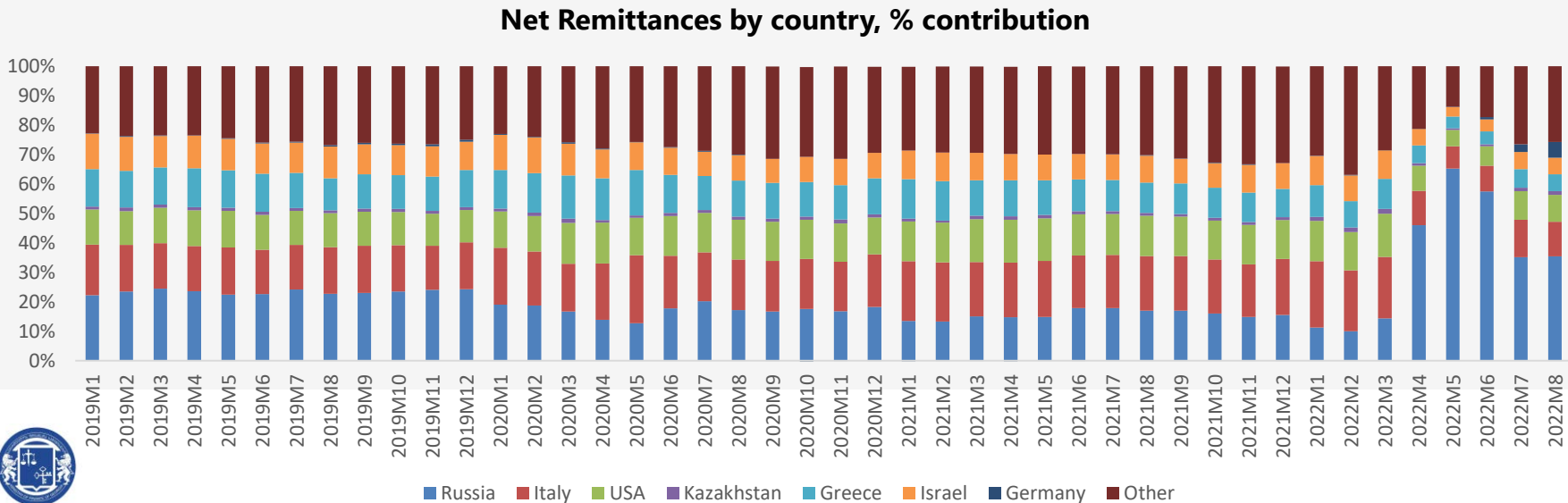
Number of Tourists, 2019=100



Remittances are Increasing as a Result of Economic Activity in the Region

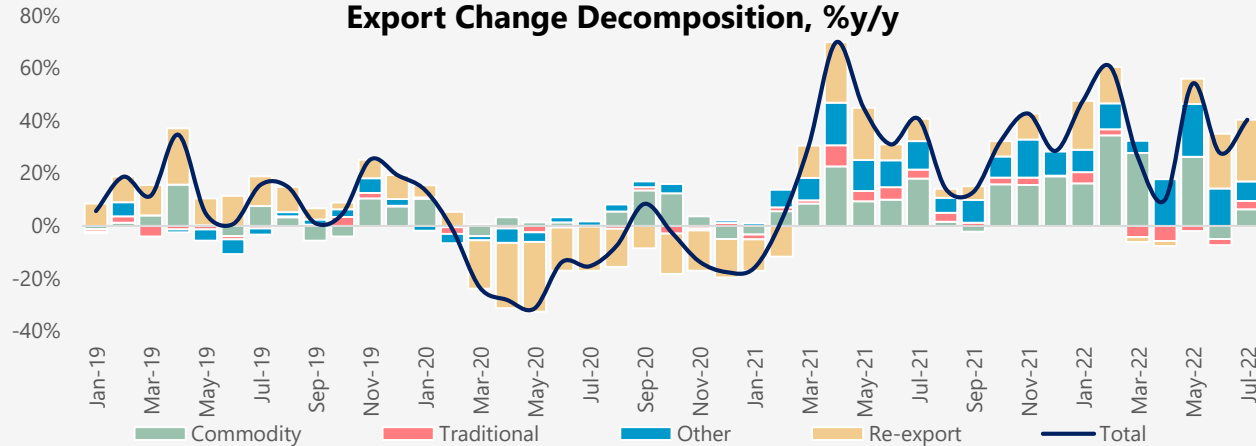


- In August 2022, net remittances were estimated at 304.7 million USD, representing a 71.7 percent annual increase.
- Net Remittances increased from:
 - Russia: 258 percent (43.9 p.p. contribution to overall growth).
 - Kyrgyzstan: 717 percent (6.5 p.p. contribution to overall growth).
 - Belarus: 2398 percent (4.5 p.p. contribution to overall growth).
 - Germany: 51 percent (2.7 p.p. contribution to overall growth).
- Net Remittances decreased from:
 - Ukraine -190 percent (-5.4 p.p. contribution to overall growth)

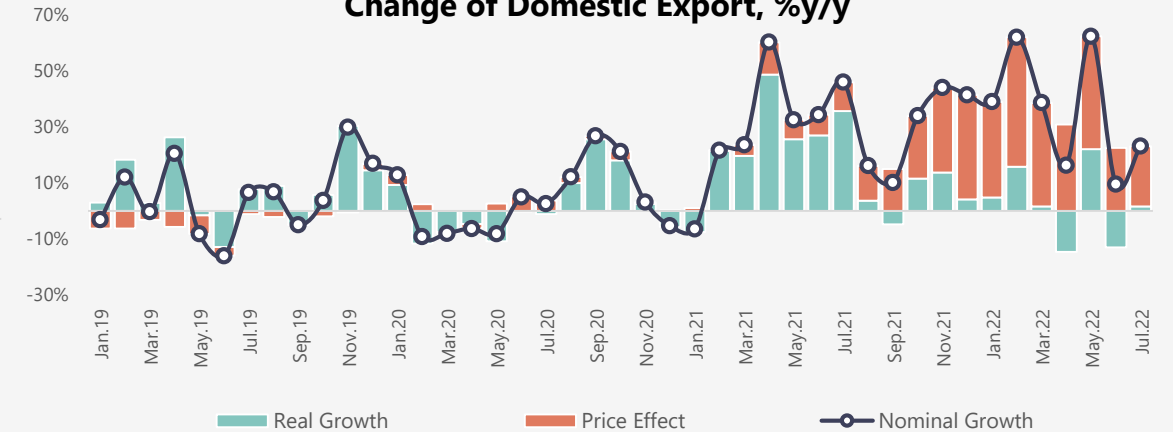


External Sector

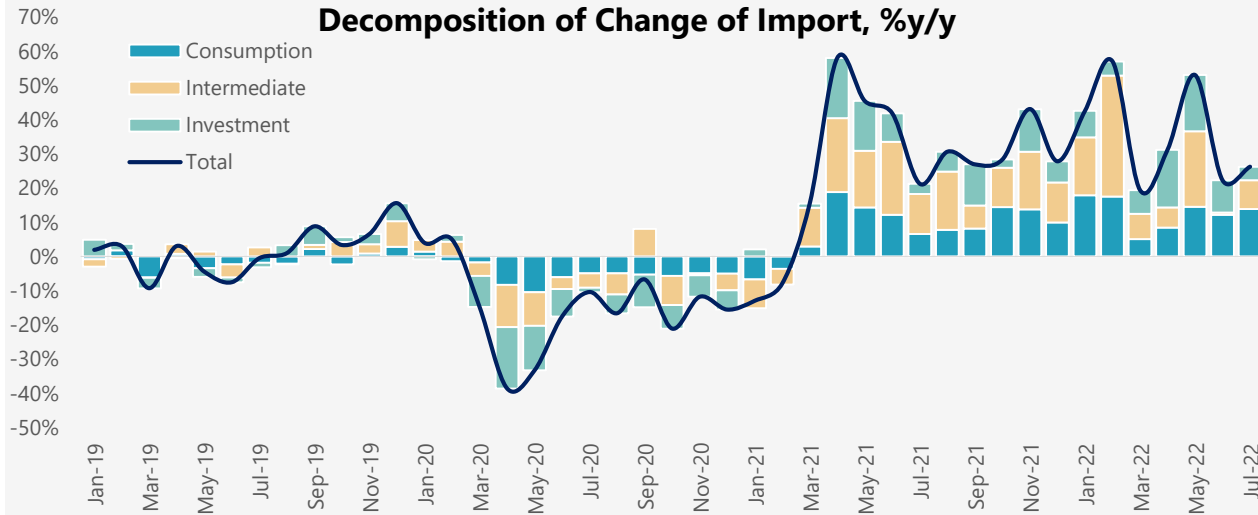
Export Change Decomposition, %y/y



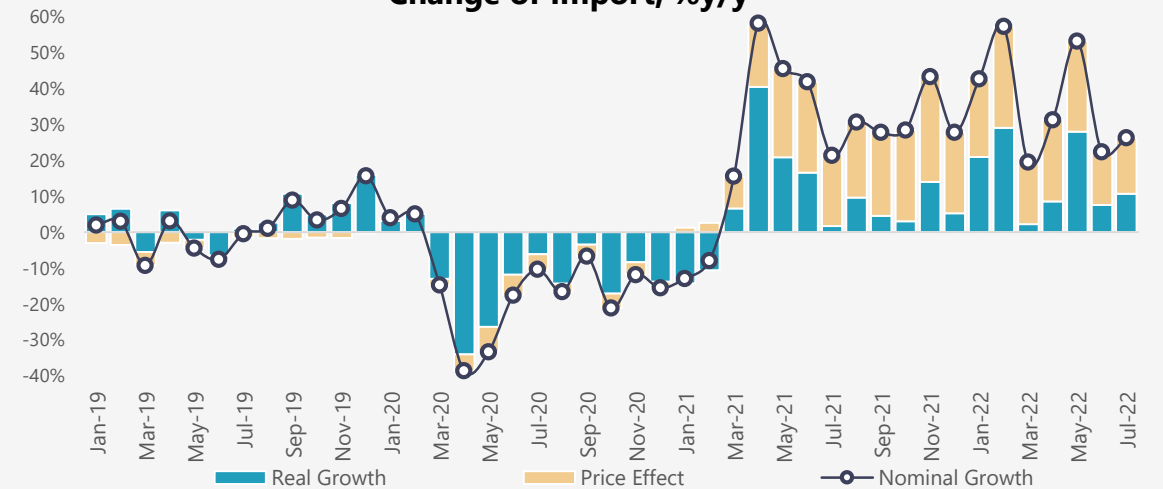
Change of Domestic Export, %y/y



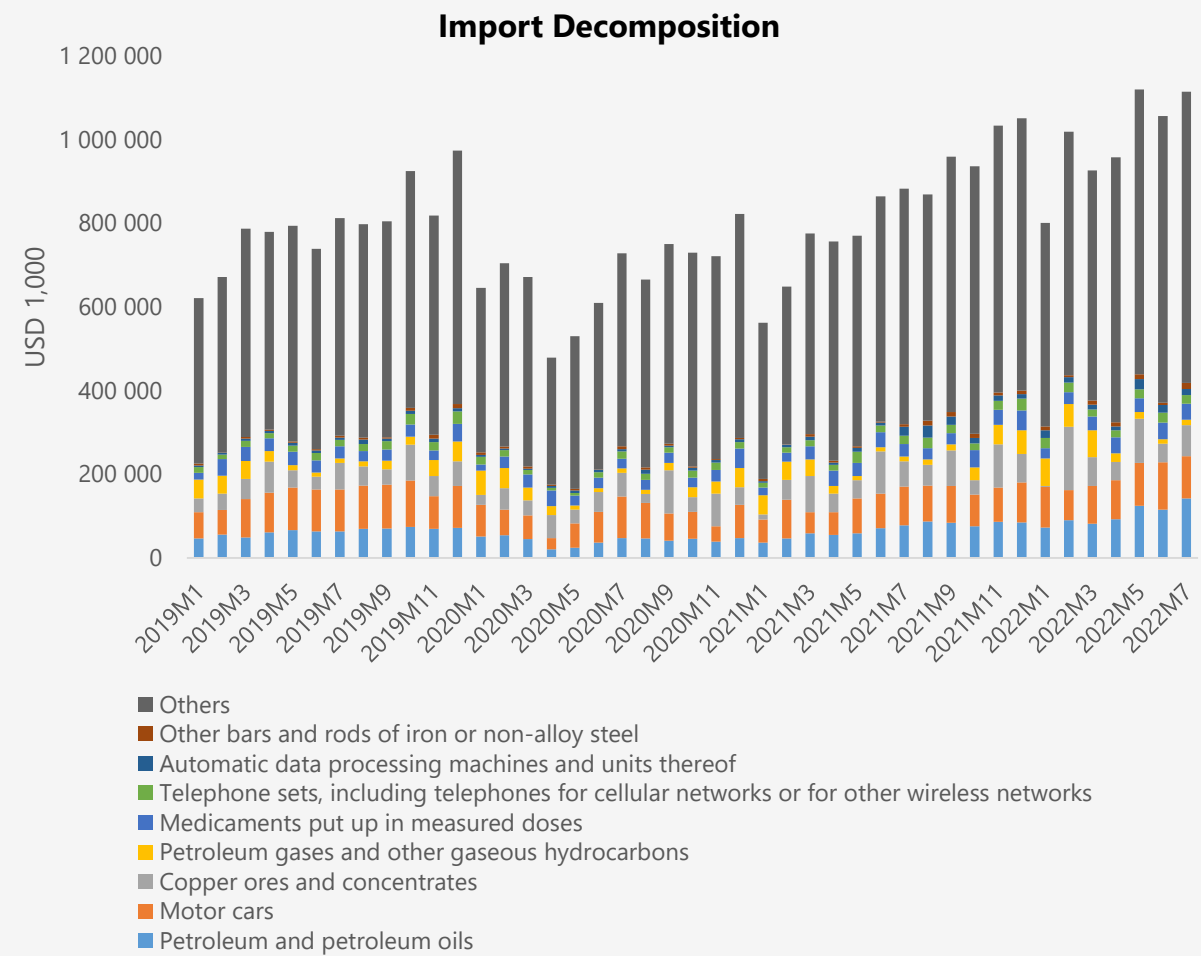
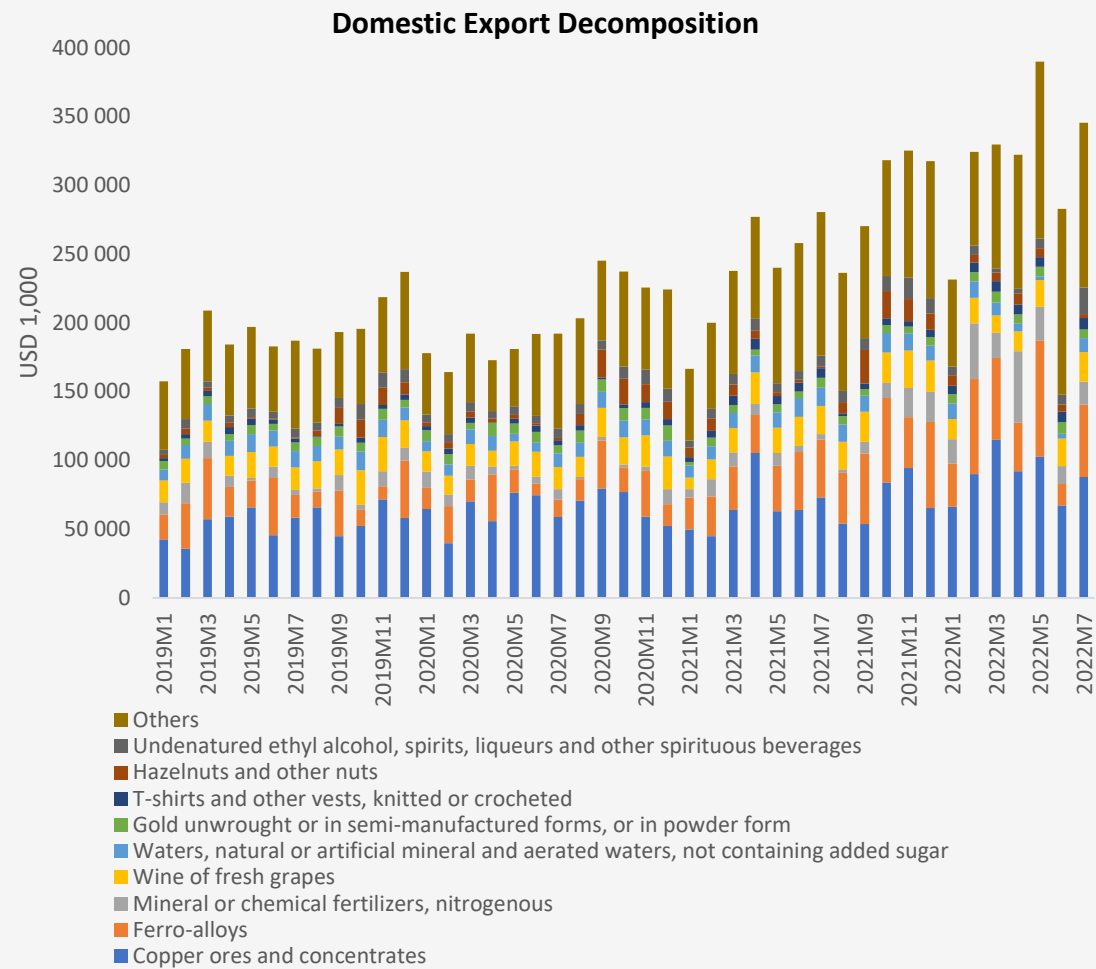
Decomposition of Change of Import, %y/y



Change of Import, %y/y

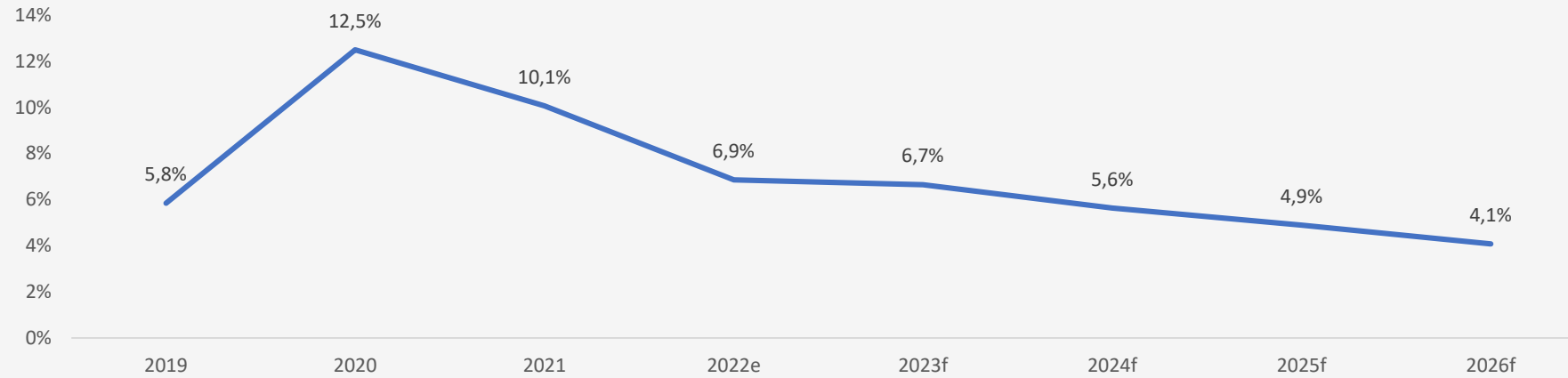


External Sector

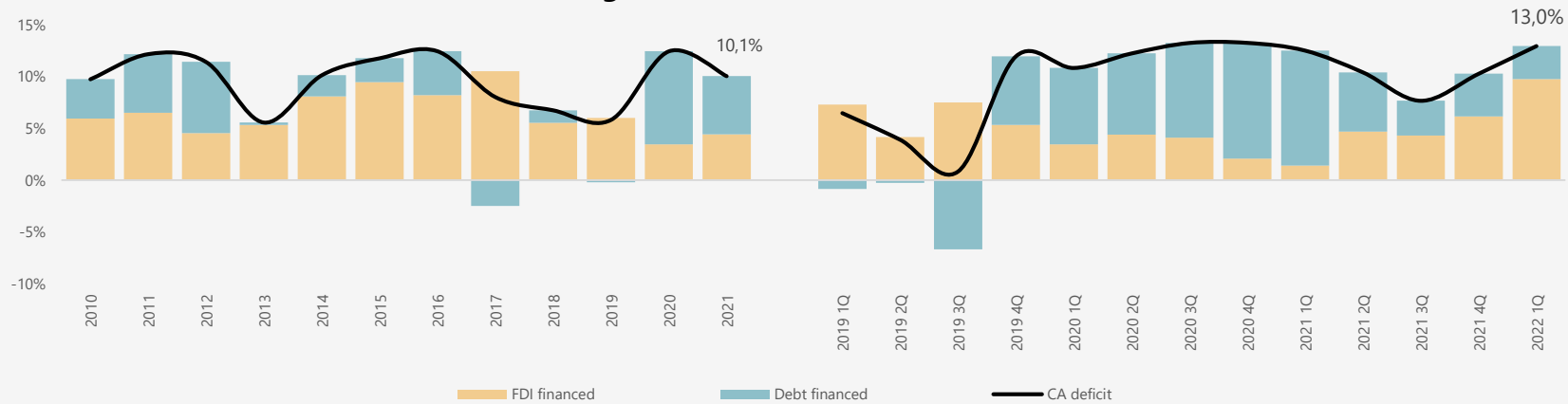


External Vulnerabilities

Current Account Deficit Projection



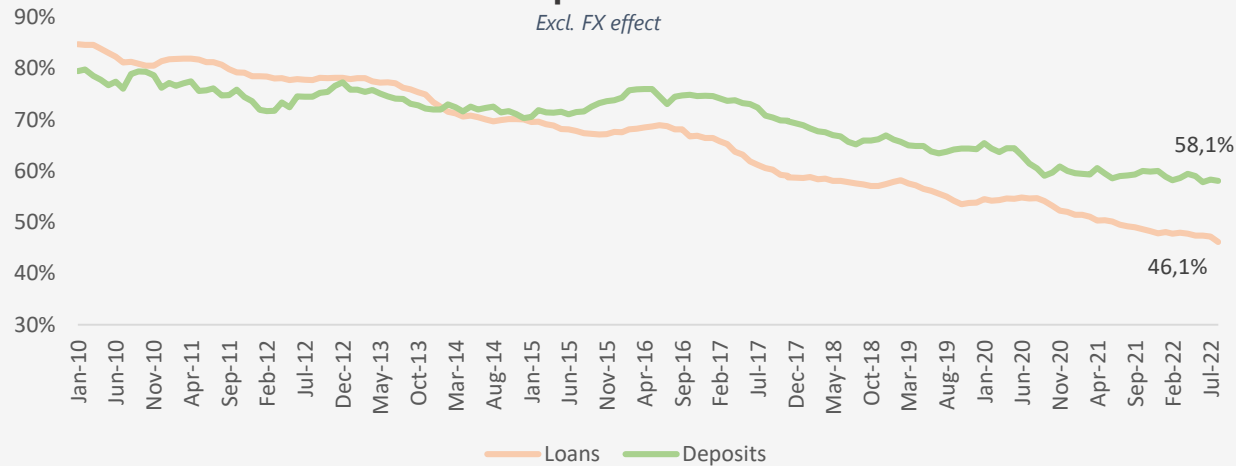
Financing of current account



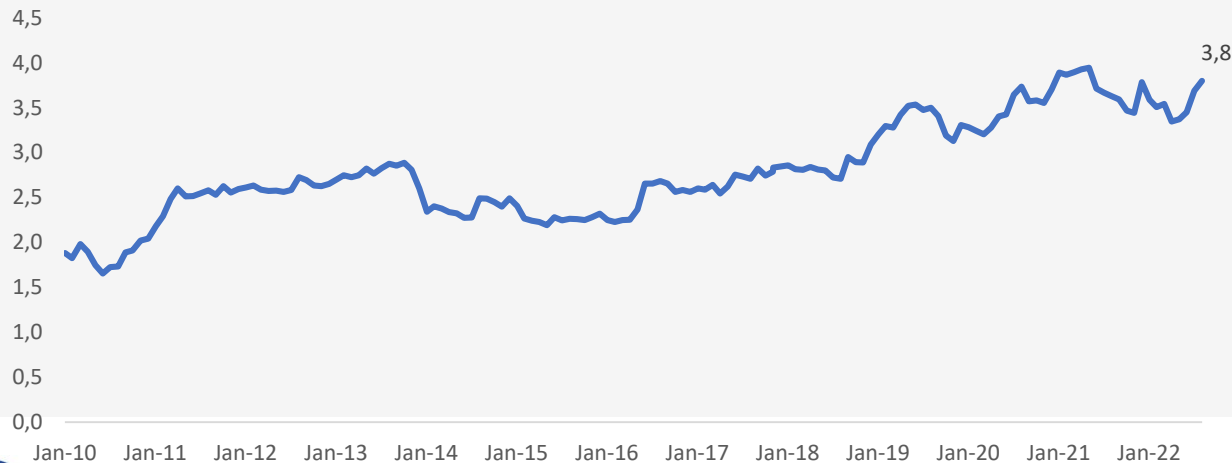
External Vulnerabilities

Loan and Deposit Dollarization

Excl. FX effect



Gross International Reserves, US\$ bn



The COVID-19 crisis resulted in several significant vulnerabilities, however, these deteriorations are anticipated to be temporary with recovery bolstered by resumption of tourist activity

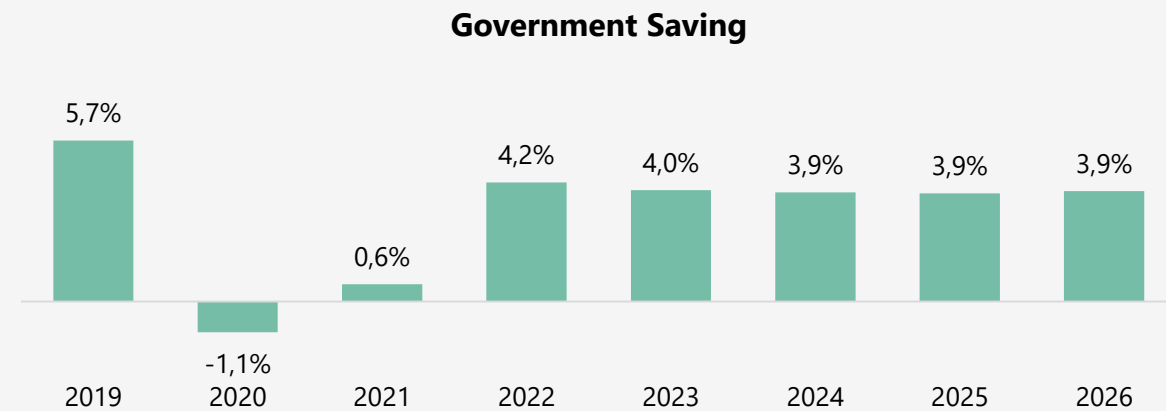
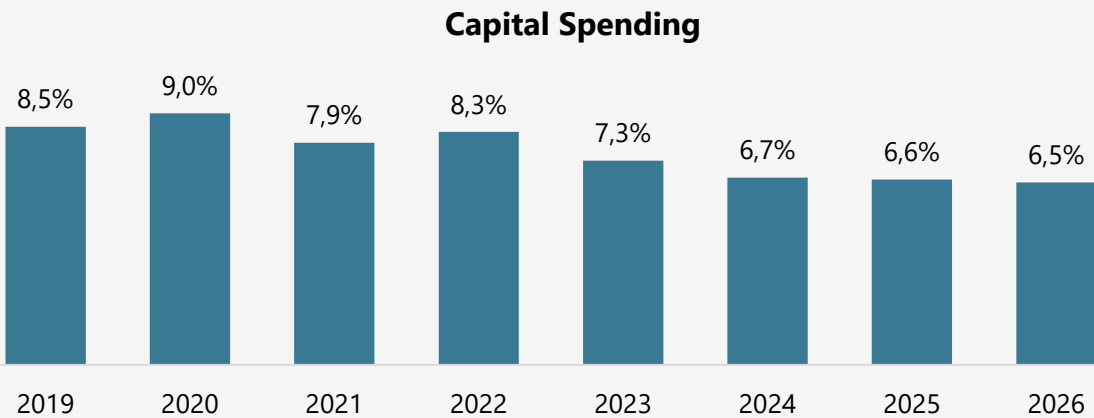
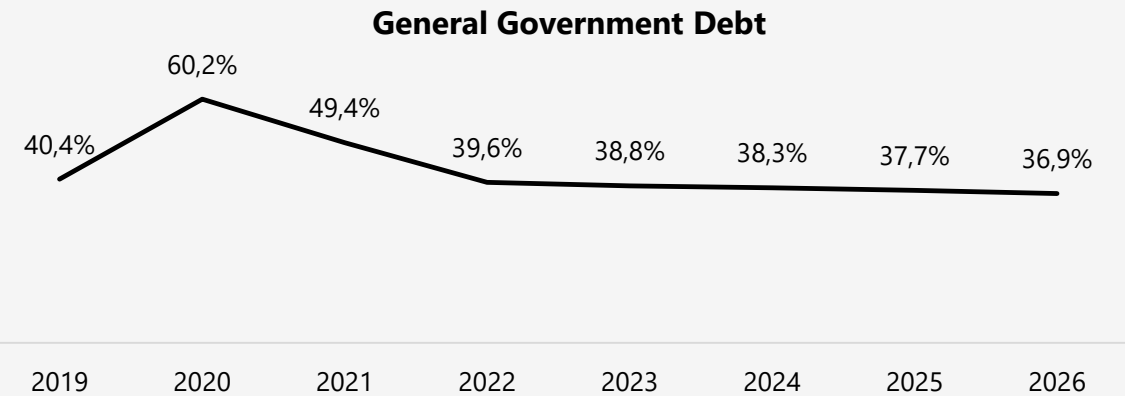
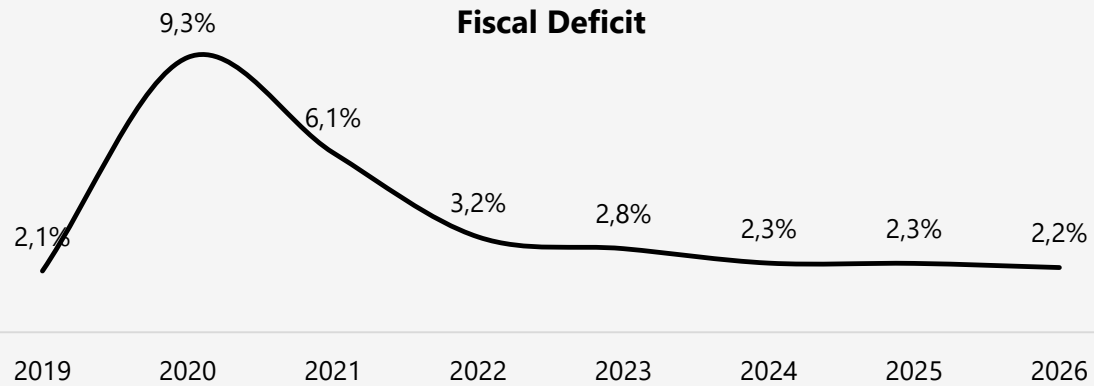
Current Account Deficit | In 2019 the CAD was 5.8% of GDP, a decrease of 50% as compared to 2016, mainly driven by the growing tourism industry and an improved trade balance. In 2020, it increased by 104.9%, due to reduced economic activity, reduced exports and a significant reduction in revenues from tourism

De-Dollarization | Georgia has achieved significant success with de-dollarization measures implemented in 2017. While de-dollarization is a long term process, positive dynamics have already been observed. In August 2022, dollarization of loans and deposits in the banking sector continued to decrease and reached 46.1% and 58.1%, respectively

Gross International Reserves | After historic high level of Georgia's gross international reserves, which stood at \$3.9bn (above 100% of IMF's Assessing Reserves Adequacy metric), it slightly deteriorated and stand at \$3.8bn as of August 2022



Fiscal Consolidation



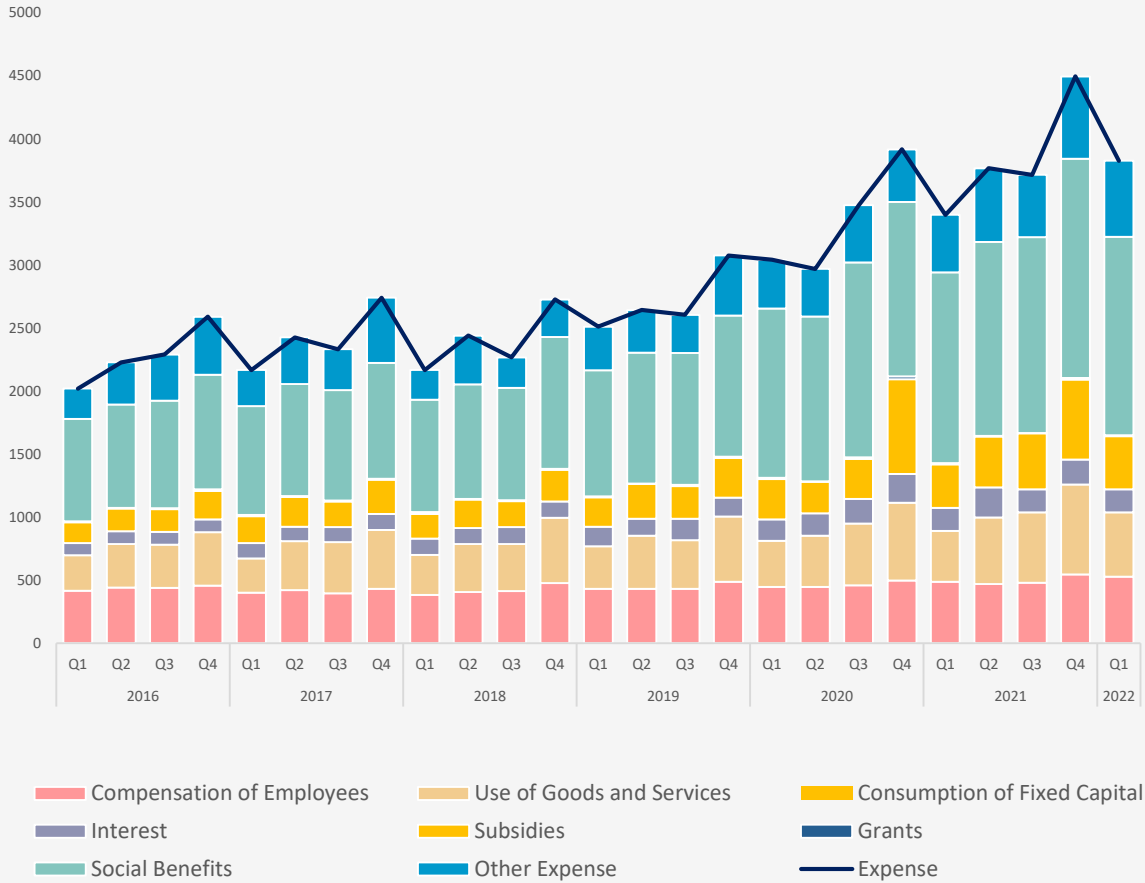
Source: MOF

* Augmented Fiscal Deficit, IMF program definition. Augmented NLB = NLB + Net Budget Lending

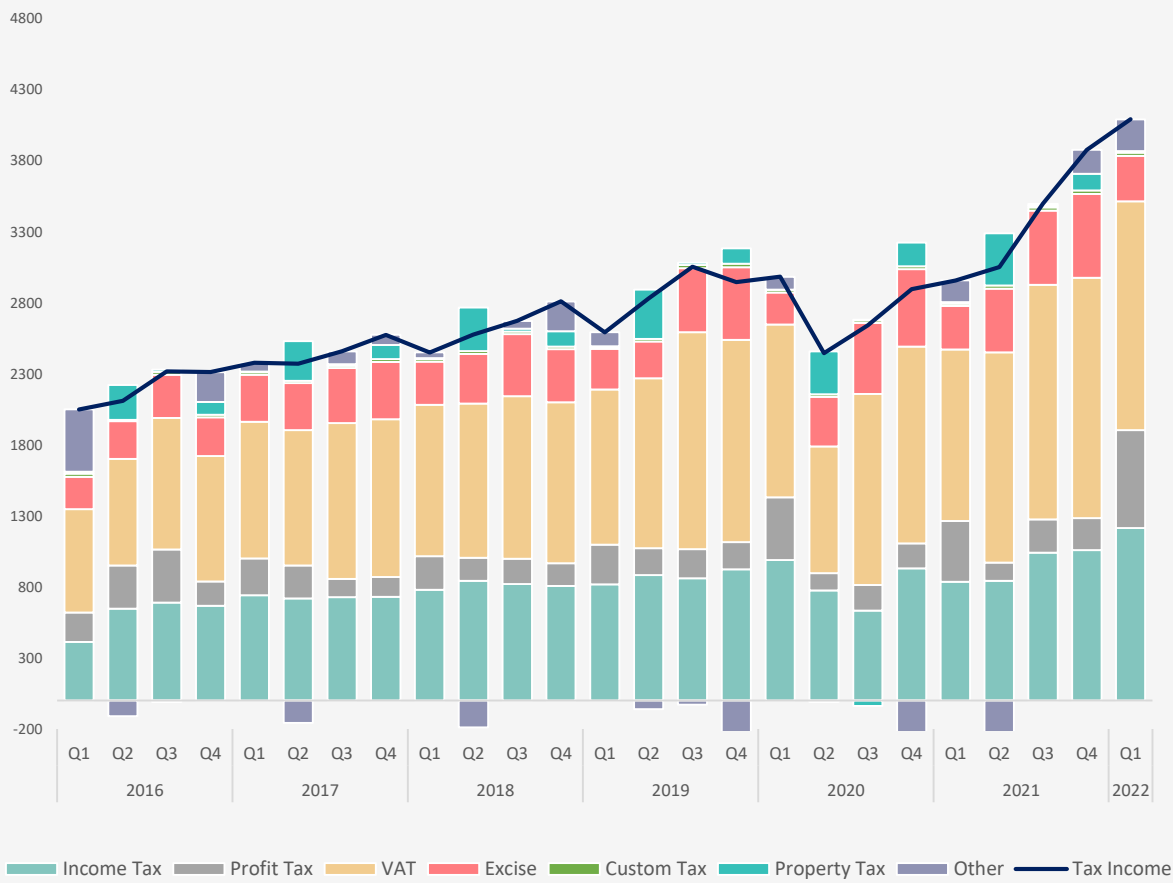


Fiscal Indicators

Expenditure composition

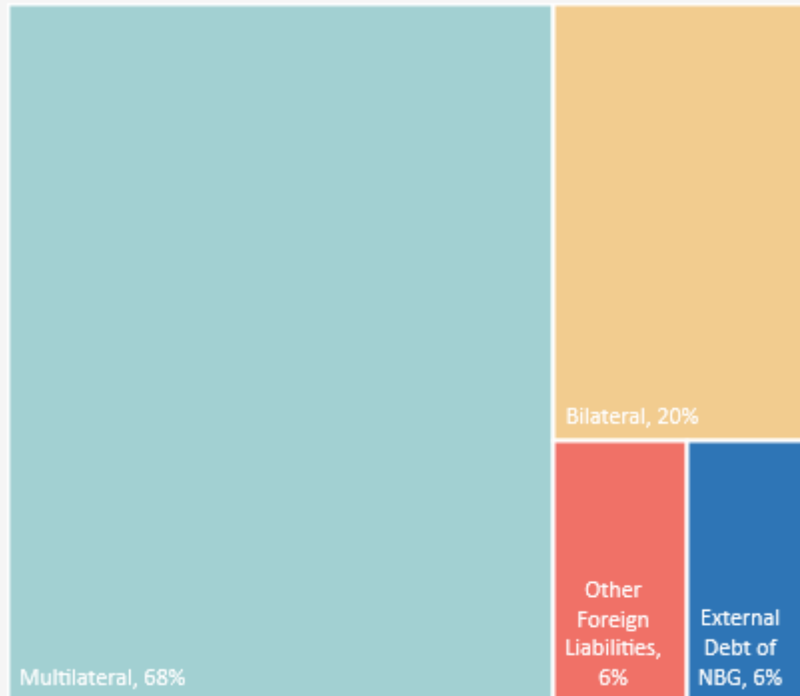


Tax revenue composition

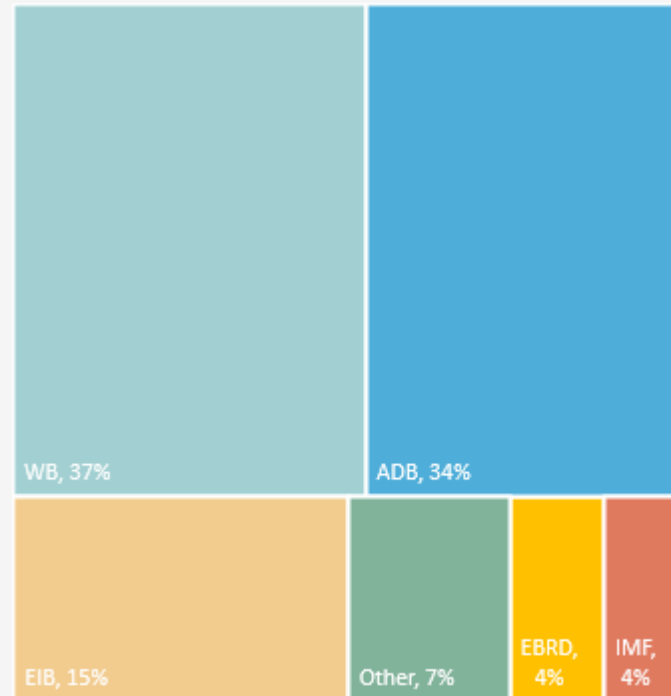


Debt Composition

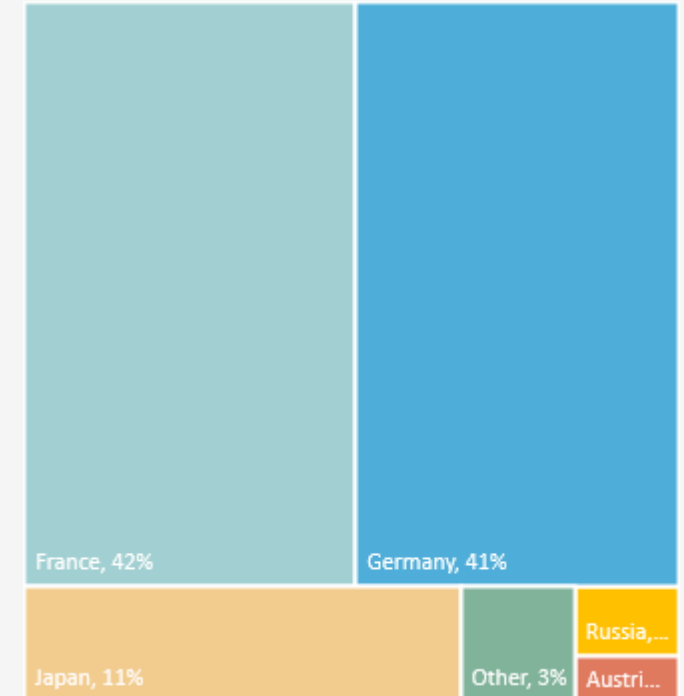
Government External Debt



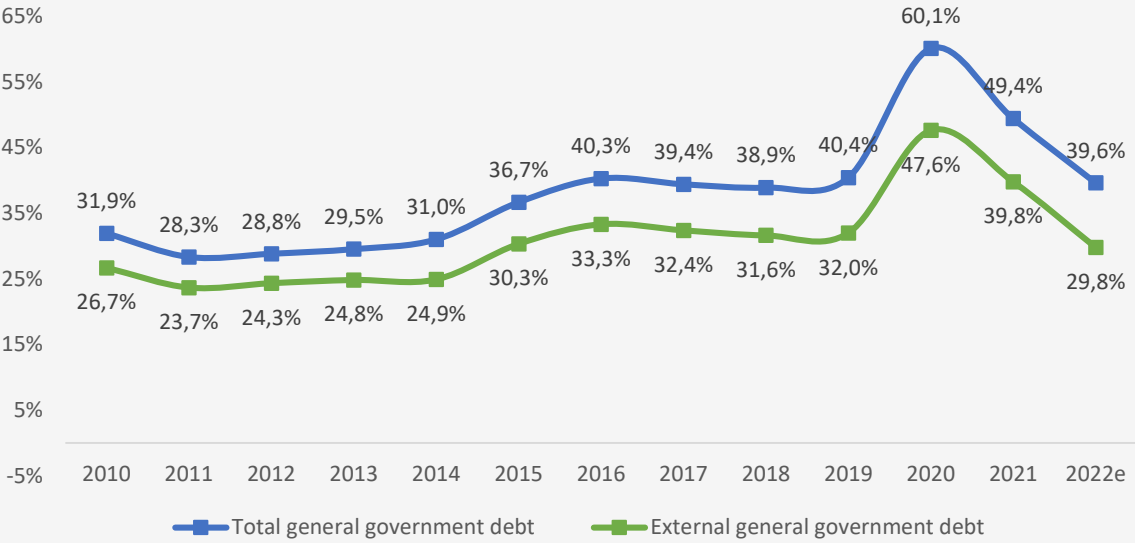
Multilateral



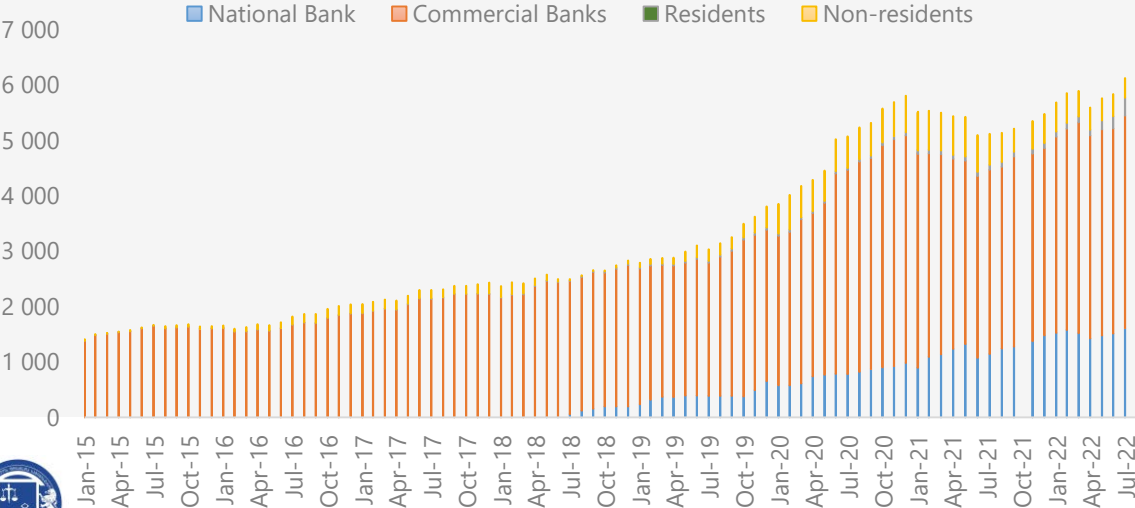
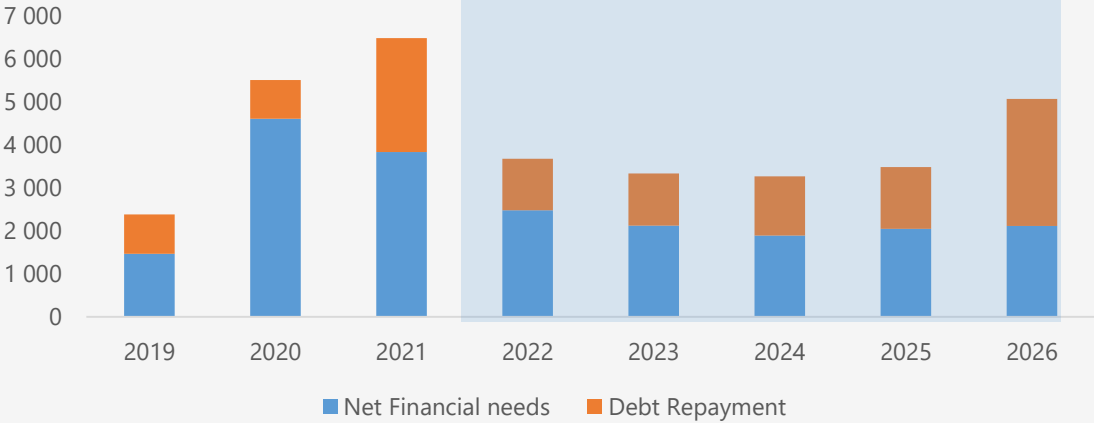
Bilateral



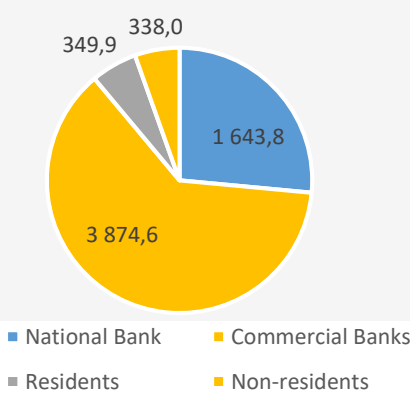
Debt Profile



Gross Financial needs



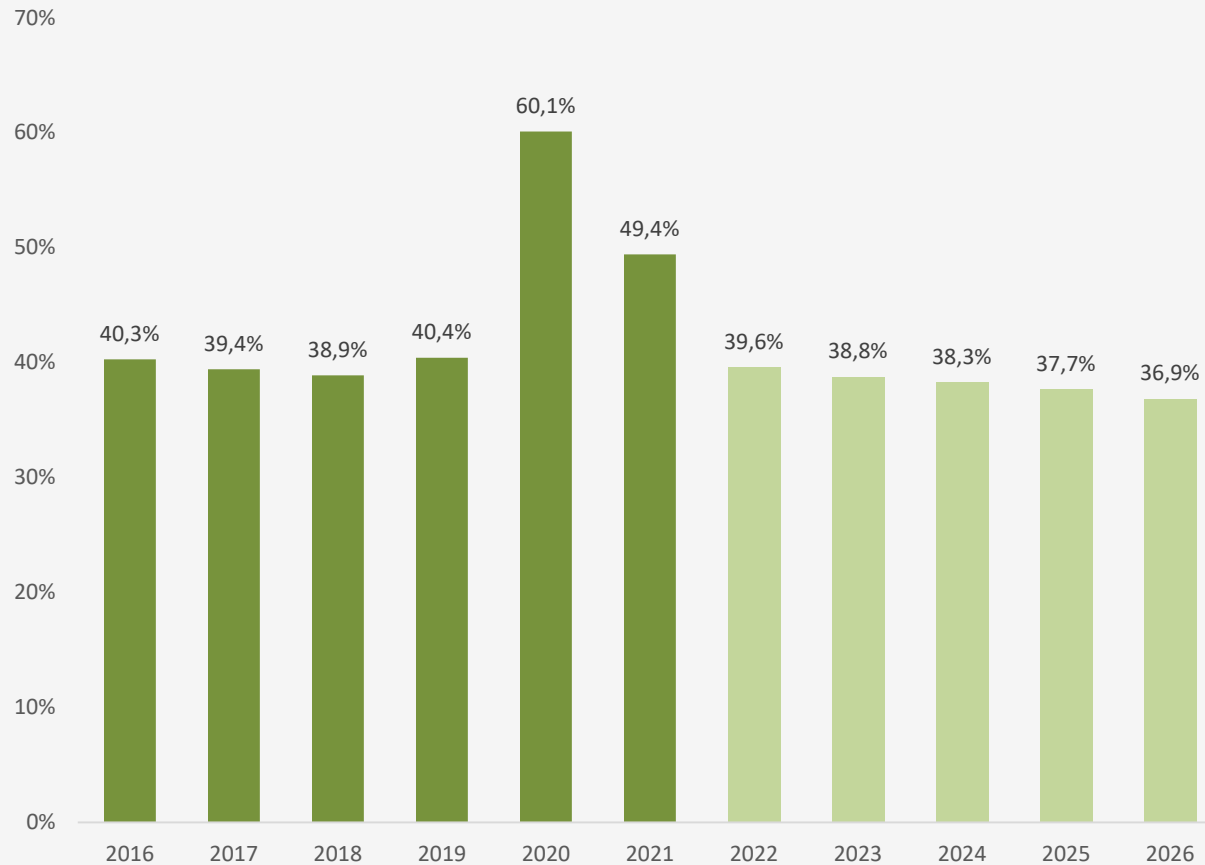
Aug 31, 2022



Government Debt	Weighted Average Maturity (Years)	Weighted Average Interest
	August	August
Domestic Debt	2.85	9.16%
External Debt	9.36	1.58%

Debt Management Strategy

Government Debt % of GDP



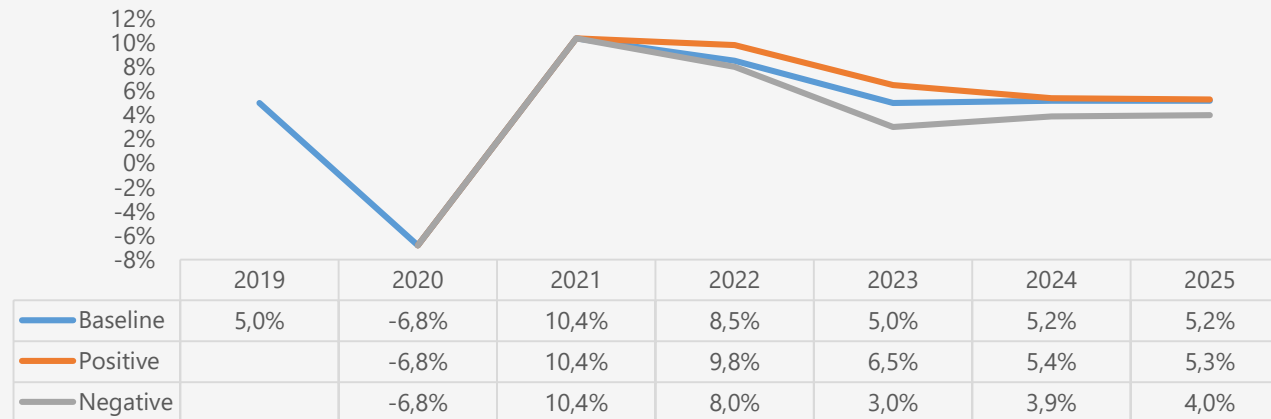
Debt management Strategy

- Going back to pre-pandemic level of GG debt
- Reduce dollarization to 65 percent
- Strong PIM filter for investment projects and FX financing for only economically efficient projects
- Reform oriented program loans
- Development of domestic security market



Medium-term Projections (As of September 2022)

GDP growth scenarios



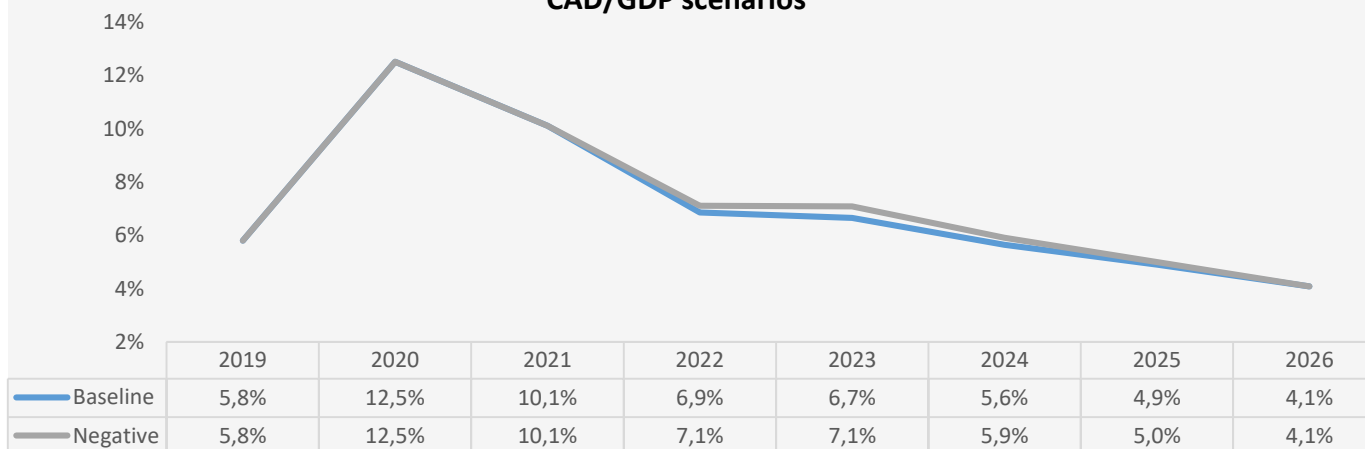
Materialized Events:

- Russia-Ukraine conflict and sanctions to Russia;
- Application of experience of rapid recovery of macroeconomic stability after a crisis. **Strong recovery is still here.**

Potential Risks:

- Postponed effect of Russian sanctions
- Possibility of New COVID-19 Variant
- Domestic Political Tensions
- Tightening of the monetary policy as a result of high inflation
- Regional risks;

CAD/GDP scenarios

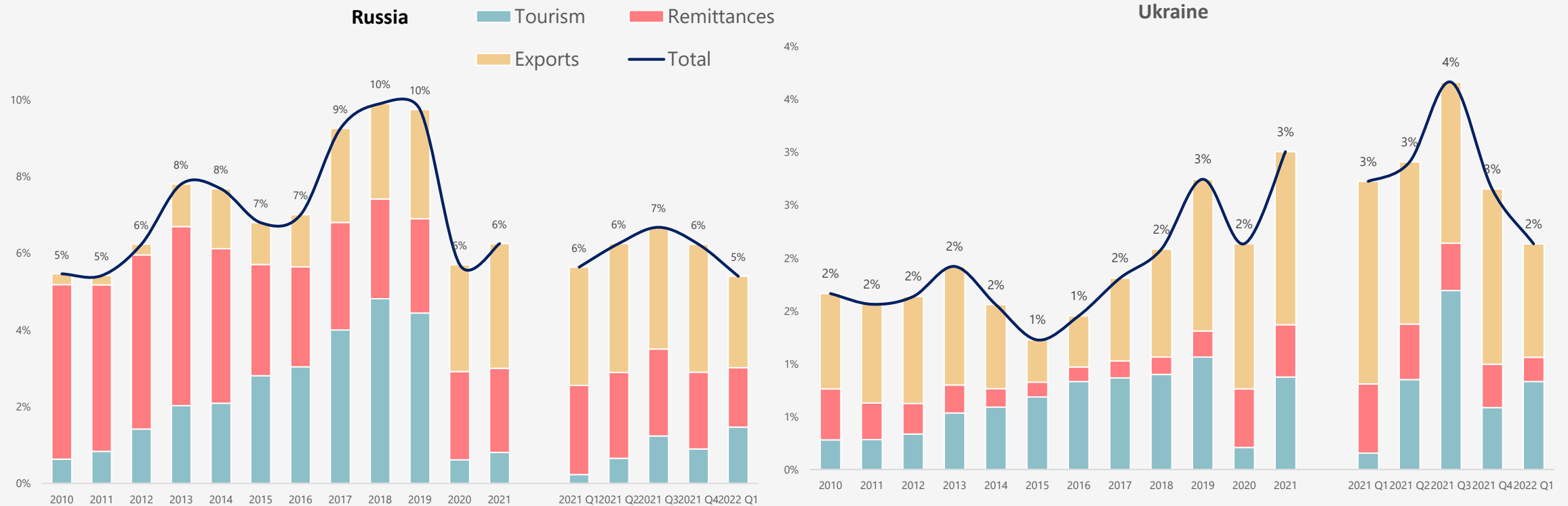


Opportunities:

- Application of experience of rapid recovery of macroeconomic stability after a crisis (2014-2016 years)
- Stronger external recovery



Dependence on Russia and Ukraine

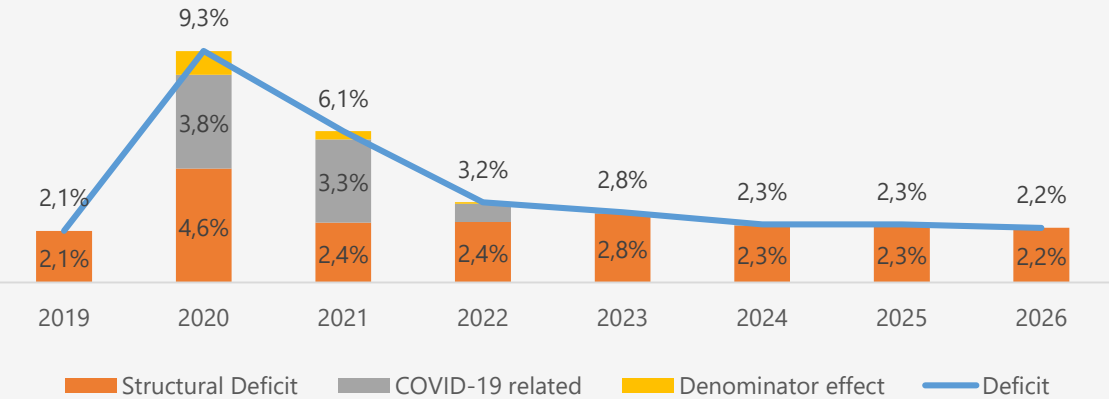


- Dependence on Russia has significantly decreased since 2020, mostly due to Russian flight restrictions, from June 2019
- Dependence on Ukraine is not so important to have significant direct effect

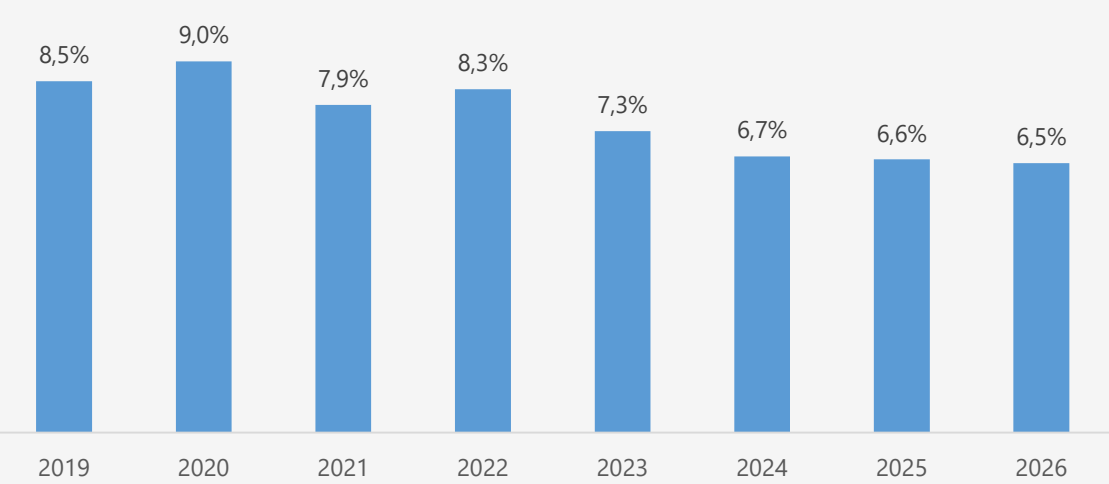


Fiscal Outlook

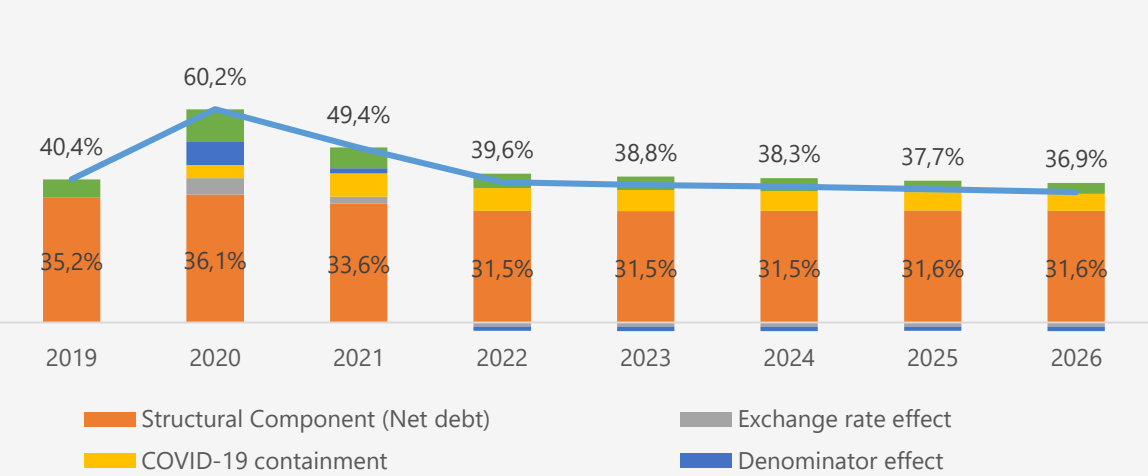
Fiscal Deficit



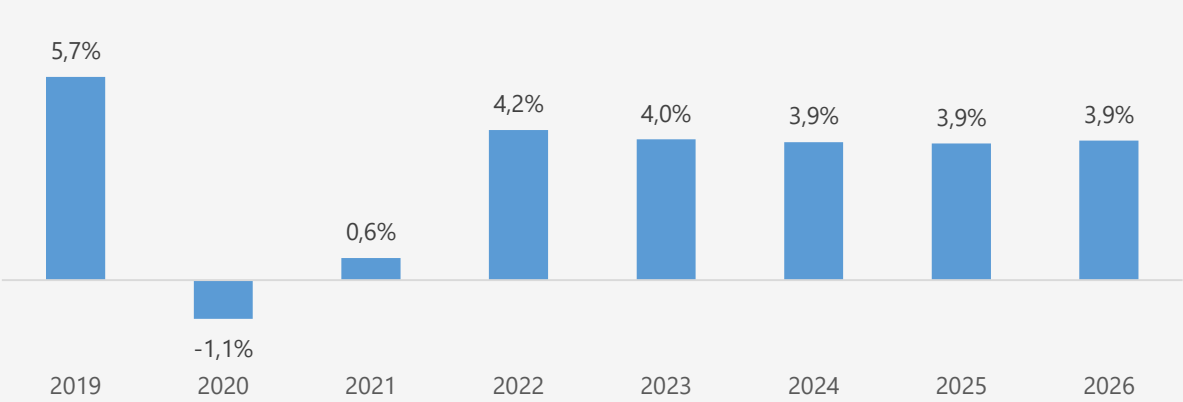
Capital Spending



General Government Debt



Government Saving

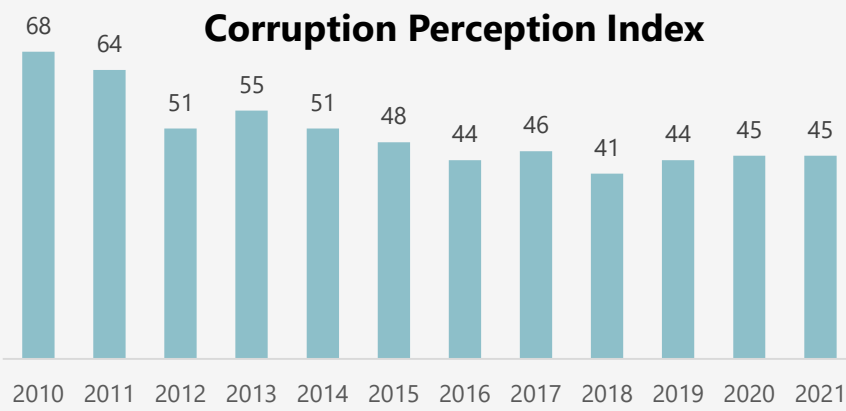
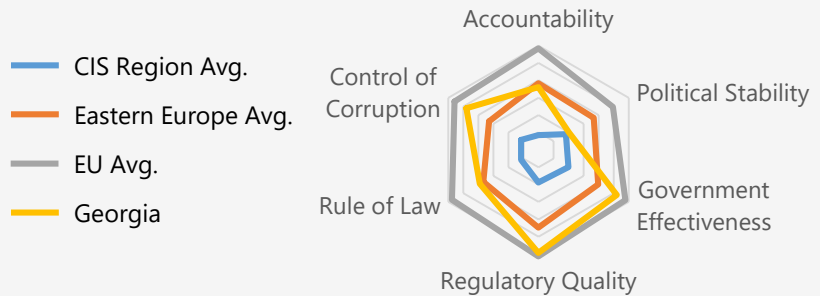


Strong Governance & Robust Reform | Georgia's Governance Indicators

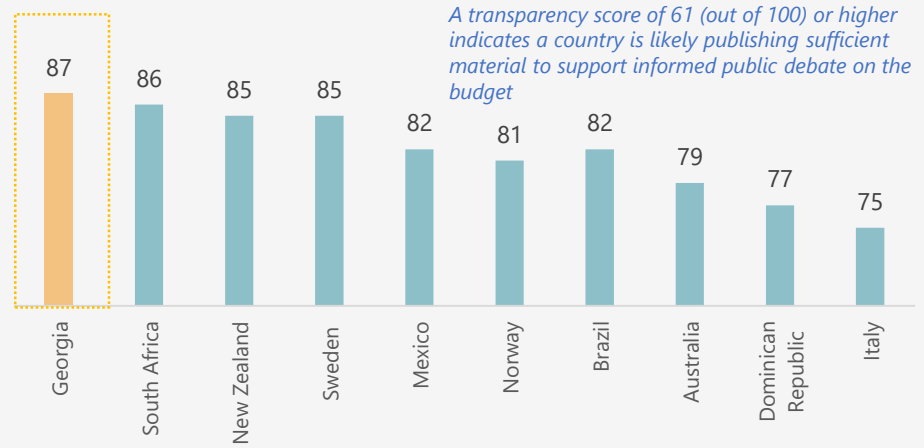
Outperform those of Regional Peer Countries

Georgia is an attractive destination for foreign direct investment due to its reputation for transparency and ease of doing business. Georgia was ranked seventh (second in Europe and Central Asia) in the World Bank-IFC Doing Business Report for Ease of Doing Business 2020

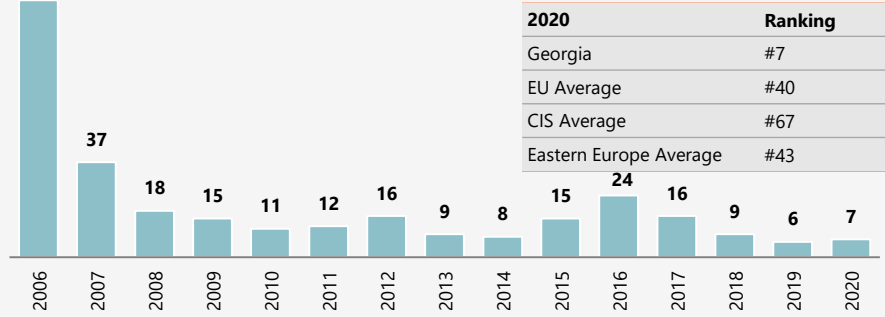
World Governance Indicators*



Budget Transparency Score 2021 (Open Budget Index) – Top 10



World Bank-IFC Doing Business Ranking*

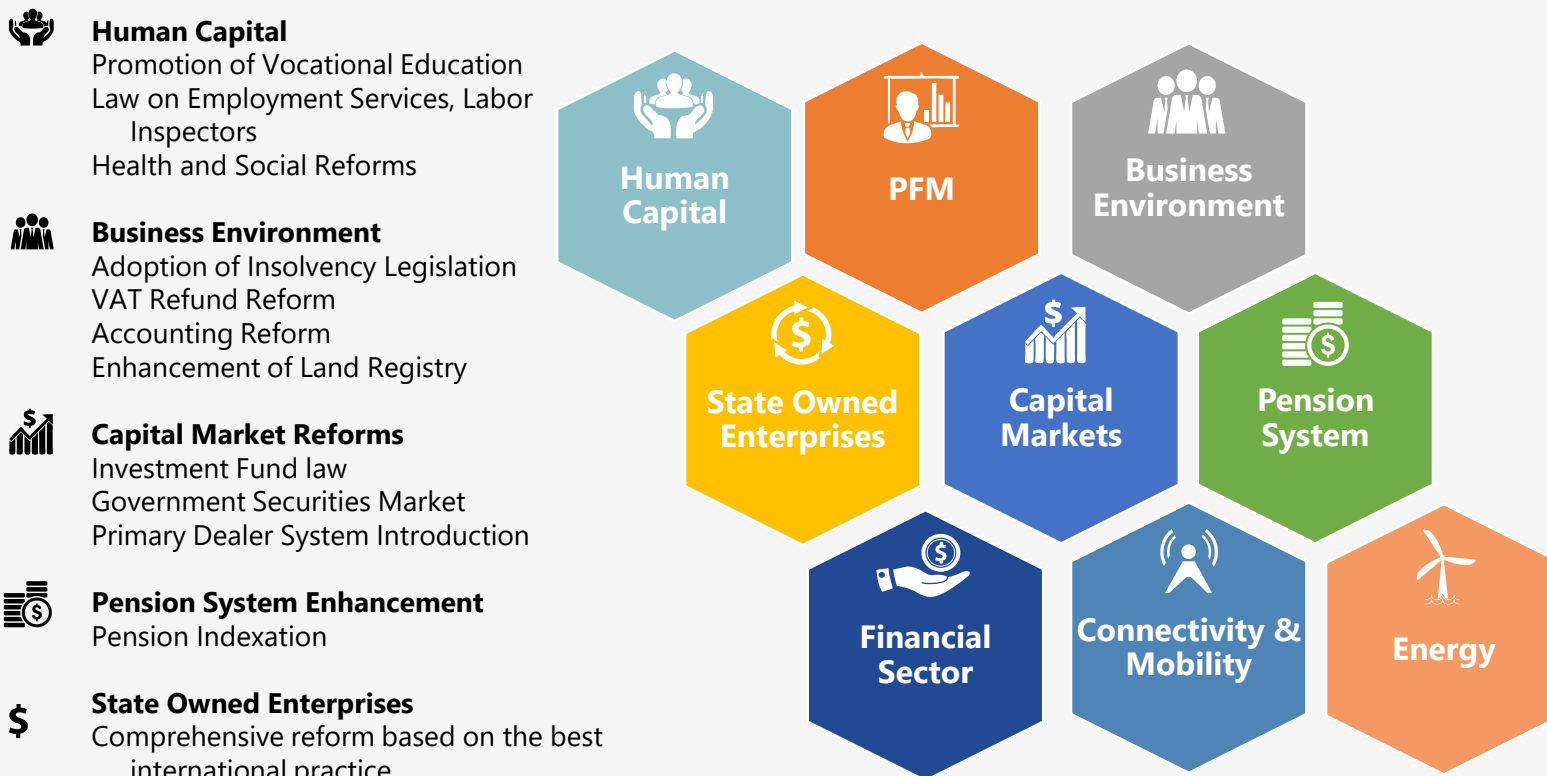


Source: Ministry of Finance. Open Budget Survey 2019 <https://www.internationalbudget.org/open-budget-survey/country-results>. *EU countries: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden. CIS countries: Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Uzbekistan, Ukraine, Afghanistan, Mongolia | Eastern Europe: Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Ukraine



Robust Reform Agenda

Georgia has a robust and homegrown commitment to structural reforms. These are reinforced by its continued engagement with the IMF and its efforts toward EU accession



Human Capital
Promotion of Vocational Education
Law on Employment Services, Labor Inspectors
Health and Social Reforms

Business Environment
Adoption of Insolvency Legislation
VAT Refund Reform
Accounting Reform
Enhancement of Land Registry

Capital Market Reforms
Investment Fund law
Government Securities Market
Primary Dealer System Introduction

Pension System Enhancement
Pension Indexation

State Owned Enterprises
Comprehensive reform based on the best international practice

Energy/Environment reforms

- Laws on Energy, Energy Efficiency and Water
- Electricity Market Development
- National Energy Efficiency Action Plan (NEEAP) strategy

Connectivity and Mobility

- Development of Roads Infrastructure and Full Highway Spinal Network
- Broadband Development Strategy

PFM Reform

- Public Investment Management Reform
- Implementation of Various Fiscal Rules and Enhanced Fiscal Risk Analysis (SOE risks, ESG risks)
- Full introduction of IPSAS
- Establishment of Public Procurement Dispute Resolution Body
- Enhancement of Macro and Fiscal Forecasting E-Governance

Financial Sector Reform

- Implementation of Deposit Insurance
- Banking Resolution Framework
- Introduction of Several De-Dollarization Reforms