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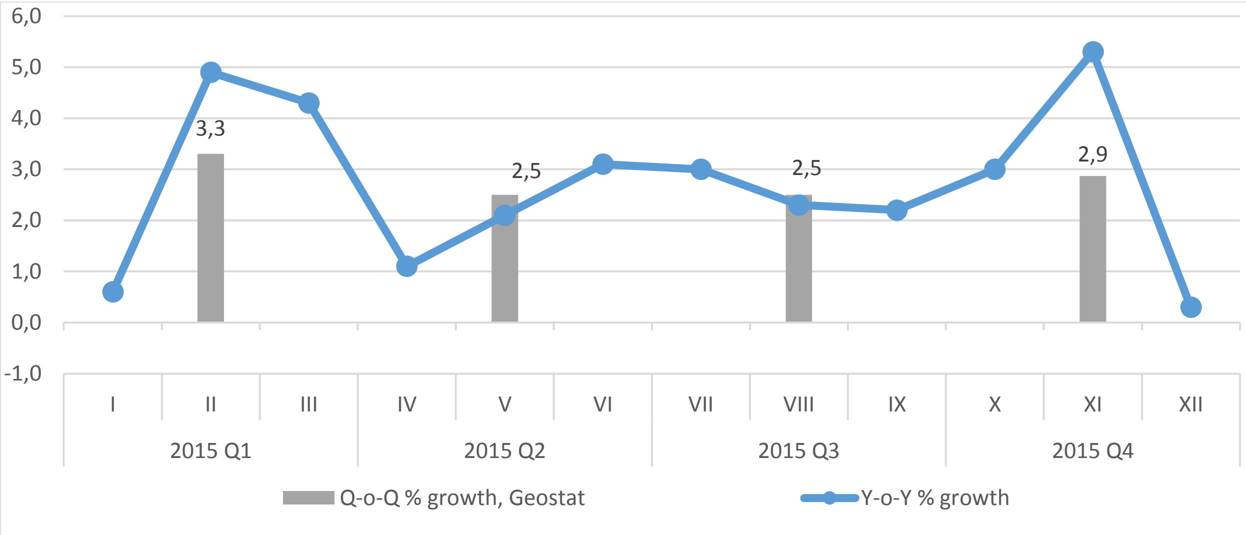
The Georgian economy in 2015-2016: take care of the foundations, and the facade will take care of itself…

Figure 1: GDP Growth, ISET-PI Forecast, % *Source: GeoStat, ISET-PI*



The year 2015 was one of turbulence. It was a year in which the institutional foundations of the Georgian economy were tested. However, as our analysis shows, the country's macroeconomic institutions exhibited remarkable resilience in the face of various shocks. This bodes well for the future growth prospects. Thus, in the spirit of Lewis Carroll's adage "take care of the sense, and the sounds will take care of themselves" we can give once piece of advice to Georgian policy makers: take care of the foundations, and the facade will take care of itself.

Georgia's economic growth: 2015 and beyond

According to the preliminary statistics released by GeoStat, Georgia's real GDP growth was 2.8% in 2015. This result exceeded the IMF's 2% and the EBRD's 2.3% growth projections from May 2015. The ISET-PI annual GDP growth forecast made in April 2015 was more optimistic. At that time, we predicted a 3.2% annual growth rate in the worst-case scenario, and 4.3% in the best case. However, in September, as the main economic trends settled in, the ISET-PI GDP forecast predicted 2.9% year-on-year growth in 2015.

Table 1: Real GDP Growth Forecast *Source: World Bank, January 2016*

	2014 (actual)	2015 (actual*)	2016	2017
Armenia	3.5%	2.5%	2.2%	2.8%
Azerbaijan	2.8%	2.0%	0.8%	1.2%
Georgia	**4.8%**	**2.8%**	**3.0%**	**4.5%**
Russia	0.6%	-3.8%	-0.7%	1.3%
Turkey	2.9%	4.2%	3.5%	3.5%
Ukraine	-6.8%	-12.0%	1.0%	2.0%
China	7.3%	6.9%	6.7%	6.5%

Europe and Central Asia	2.3%	2.1%	3.0%	3.5%
Euro Area	0.9%	1.5%	1.7%	1.7%
World	2.6%	2.4%	2.9%	3.1%

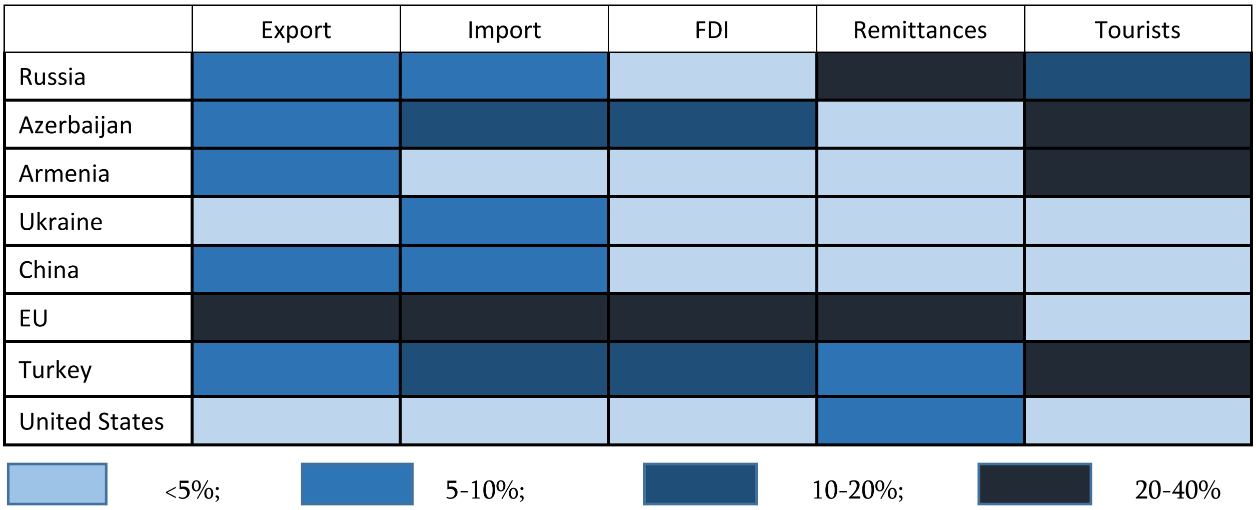
In the context of the global and regional economic slowdown, the growth rate of 2.8% may be "as good as it gets", at least for the time being. Among Georgia's immediate neighbors, only Turkey grew faster in 2015, with 4.2% real GDP growth. According to the World Bank's projections, in 2016 Georgia will have 3% real GDP growth – the same pace as countries in Europe and Central Asia, and slightly higher than the world average of 2.9%. In 2017, Georgia's growth prospects are expected to be much brighter than in neighboring countries; and it is expected to grow faster than the regional average.

Georgia thus seems to be in a relatively good position going forward. In this edition of the Macro review we will try to provide some insights into the main economic trends of 2015 and examine how they may affect Georgia's economic prospects.

How much is the Georgian economy affected by other countries?

Table 2 below offers a perspective on the linkages and dependencies between Georgia and other countries with respect to trade, foreign direct investment, remittances and the number of tourists in 2015. Darker colors correspond to stronger linkages and, consequently, stronger spillover effects on Georgia from other countries. For example, we can see that Russia, Azerbaijan, Armenia, Turkey each absorbed between 5-10% of Georgian exports. Thus, the negative growth rate in Russia and almost no growth in Azerbaijan as projected for 2016 will be bad news for the Georgian economy. The slowdown of the Russian economy will continue to affect Georgia through remittances transfers, while the slowdown in Azerbaijan will affect FDI levels and potentially the tourism sector. On the other hand, stable and increasing growth rates in European countries will positively affect economic indicators in Georgia.

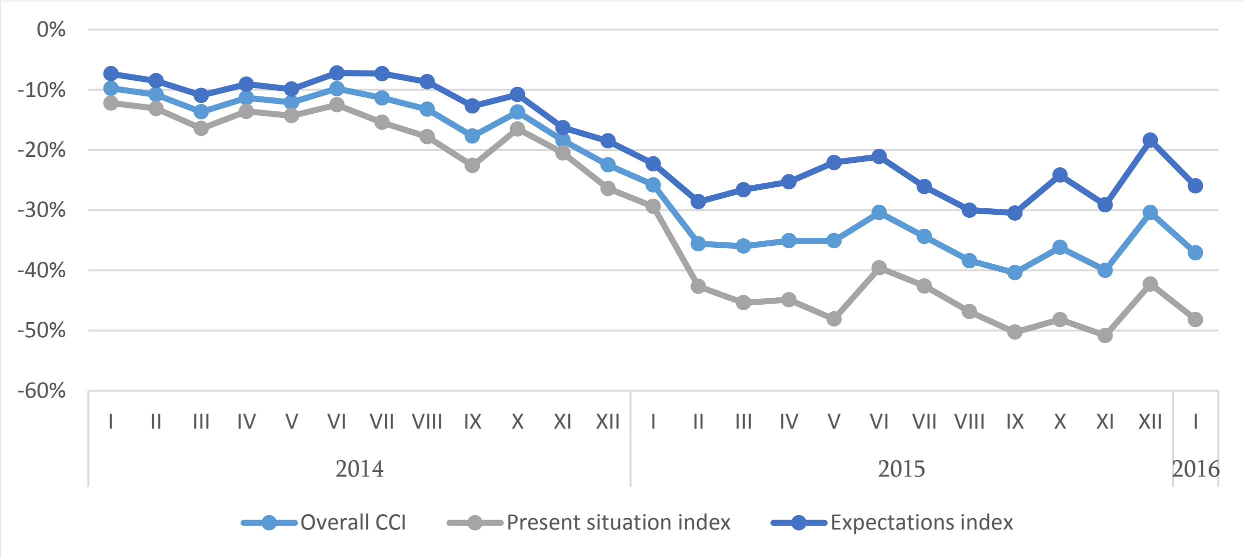
Table 2: Linkages with Partners, 2015 *Source: GeoStat, NBG, GNTA, ISET-PI*



Weak demand reflected in consumer confidence

The Consumer Confidence Index (CCI) is an important demand barometer for Georgia. This index has continuously been declining since November 2014. The lari depreciation was the main reason for consumer pessimism in 2015. The expectations component of the CCI only recovered to the level of the previous year in December 2015, but then dipped again in January 2016. Meanwhile, the present situation component has not yet recovered from the sharp drop the index suffered in February 2015.

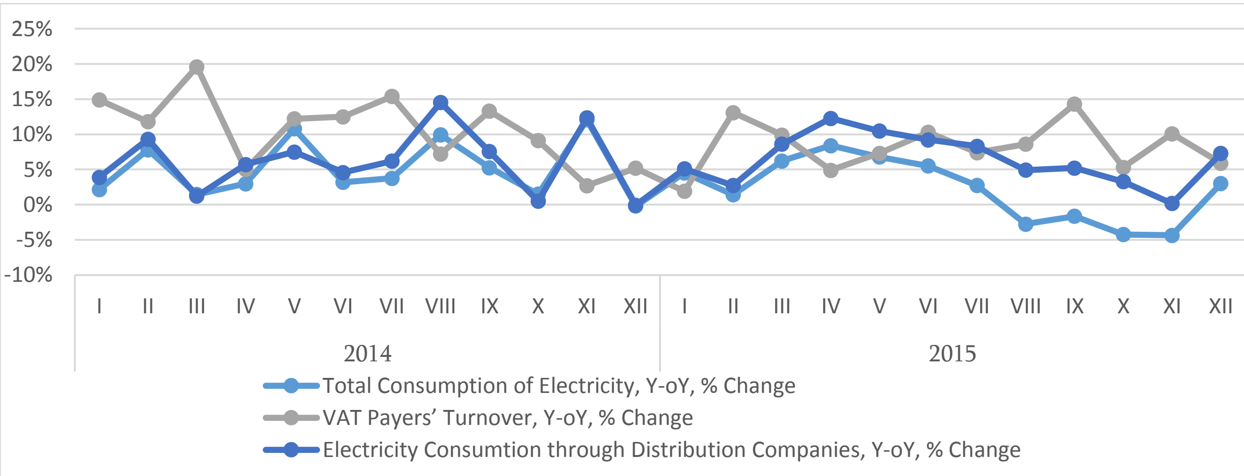
Figure 2: Consumer Confidence Index *Source: ISET-PI*



Electricity Consumption

Total consumption of electricity, a common proxy for real GDP growth, increased by only 2.1% year on year in 2015, showing negative growth for four out of the twelve months of the year. The main driver behind the slowdown was the electricity consumption of direct consumers, which fell by 21.1% compared to 2014. This decline was driven by the "Georgian Manganese" company – one of the largest exporters in Georgia, accounting for 10% of total Georgian exports in 2014, and one of the country's largest energy consumers, accounting for 11% of the total Georgian electricity consumption alone in 2014. However, in 2015 Georgia's exports of ferroalloys were only 195 million USD, representing a 32% year-on-year decline.

Figure 3: VAT Turnover and Electricity Consumption, Y-o-Y Change, % *Source: Ministry of Energy of Georgia, GeoStat*



"Georgian Manganese" continues to suffer from the rapidly decreasing metal prices worldwide. The price of ferroalloys decreased by 23% year over year in 2015, and, according to the IMF forecast, is expected to fall by a further 23%. As a result, in January 2016 the company decided to temporarily shut down production. Production is expected to resume in May 2016.

On the other hand, electricity consumption through distribution companies (i.e. the electricity typically consumed by households and small businesses) increased by 6.3% year on year in 2015. The hike of electricity tariffs in September had little effect on the electricity consumption of this category of consumers: a 7.5% year-on-year increase was seen in January-August 2015 and although the growth was lower in September-December, it remained positive at 4.1%. Given that prices increased by roughly 25-35%, this shows that the elasticity of demand for electricity is quite low.

VAT payers' turnover increased by 8.25% year on year in 2015, while the real GDP growth rate was only 2.8%.

Solving the puzzle of the growth of household consumption

Despite the sharp decline of the CCI and the low real GDP growth rate, households' final consumption increased by 9.7% year on year in 2015. The resilience of household consumption is something of a puzzle, and we have investigated this through a simple exercise using the national income accounts and balance of payments data.

In Table 1, we account for the possible sources of household disposable income in 2014-2015: income from transfers (remittances and social benefits); income from wages (government and private); household borrowing for private consumption; and households drawing on private savings.

The last category on the list is the **"catchall" residual**, which is supposed to account for all other possible sources of household disposable income not captured by the national accounts data. The residual may include anything from unreported income to expenditure financing derived from private loans and savings outside the commercial banks.

Column 5 on the table shows that remittances to Georgia decreased (in lari terms) by 6.7% year on year. Assuming that all remittances are spent on household consumption, we can conclude that the reduction in **remittances as a source of income contributed to a fall of overall consumption,** but that **contribution was -0.88 percentage points** at most (column 6).

Column 6 gives an idea about other sources of consumption growth in 2015. Among the main contributors were the **increase in private sector wages** (contributing 1.82 percentage points), and an increase in the **income of the self-employed** (a 1.44 percentage point contribution). **Drawing from private savings to finance consumption** (i.e. the decrease of individuals' deposits in commercial banks) contributed 1.78 percentage points, while the **increase in social benefits** contributed 1.33 percentage points to the total growth.

Tourist expenditure is also part of domestic consumption, and we know that international visits increased by approximately 7% between 2014-2015. In order to determine just how much tourists contribute to consumption growth, we proxy this kind of spending by the total value of travel services purchased by foreigners in 2014 and 2015.[1] This travel expenditure grew by 8.1% in US dollars and by about 17.6% in lari.

Since the value of travel services accounted for approximately 17% of total consumption spending in Georgia, we can estimate that the **tourism sector accounted for up to 30% of the total consumption growth** (contributing 2.97 percentage points to the total 9.7% growth).

Table 3: Households' Final Consumption, thousand lari, 3 quarters of 2014 and 2015 *Source: GeoStat, NBG, ISET-PI*

Sources of household income	2014 (1)	2015 (2)	Absolute Change (3)	Share in total consumption, 2014 (4)	Percent Change (5)	Contribution to Consumption Growth, % (6)
Remittances	1 921 369	1 793 320	-128 049	13,3%	-6,7%	**-0,88%**
Social Benfits	2 033 600	2 226 400	192 800	14,0%	9,5%	**1,33%**
Compensation to employees (in the government sector, after tax)	890 880	936 000	45 120	6,1%	5,1%	0,31%
Consumption financed by consumer loans	191 532	148 466	-43 066	1,3%	-22,5%	**-0,30%**
Consumption financed by change in deposits of individuals	458 737	201 330	-257 407	-3,2%	-56,1%	**1,78%**
Wages of the private sector (after tax)	4 000 366	4 264 301	263 935	27,6%	6,6%	**1,82%**
Proprietor's income (self-employed income, after tax)	2 835 471	3 043 920	208 450	19,6%	7,4%	**1,44%**
Tourist spending (value of travel services sold to foreigners)	2,443,171	2,873,094	429,923	16.9%	**17.6%**	**2.97%**
Resudial: (total consumption - tourist spending - after tax income from all sources)	641,083	824,273	183,190	4.4%	28.6%	1.26%
Total housholds' consumption	14 498 736	15 908 445	1 409 710	100,0%	9,72%	9,72%

The consumption growth puzzle thus all but disappears if we take into account consumption by tourists. Without the tourist sector, the nominal growth of household consumption would have been around 8% and real consumption growth would have been 4%, roughly keeping pace with the real GDP growth rate in 2015.

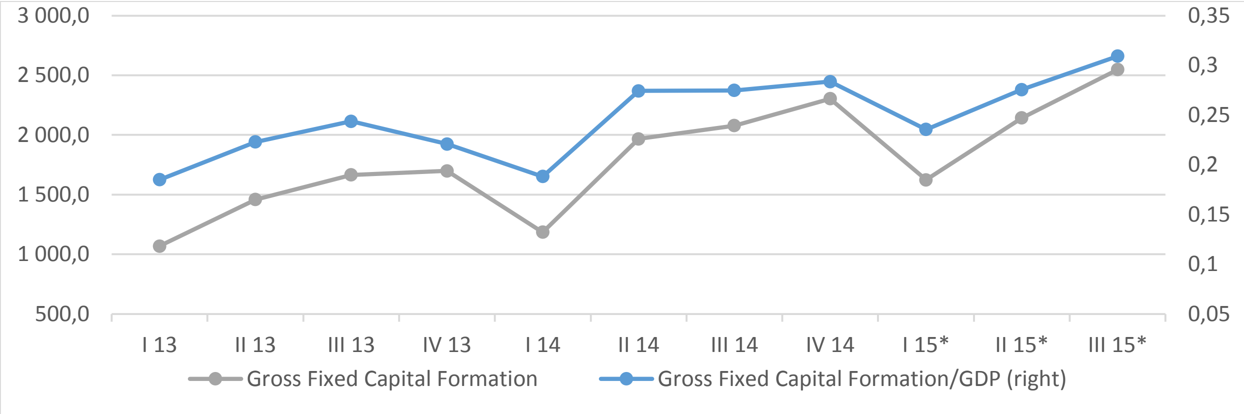
Investment

Capital investment trends in the first three quarters of 2015 offer no apparent cause for alarm. During this period, gross fixed capital formation amounted to 6,314 million GEL, a 21% year-on-year increase. The share of capital investment in GDP at market prices increased over the last three years, reaching 31% of GDP in the third quarter of 2015.

[1] Data from Balance of Payments accounts, travel services, and credit. Data source: NBG.

Going forward, Georgia may suffer from a fall in capital investment, especially in FDI flows (according to the Citigroup analysis reported by Bloomberg, oil-exporting countries may be liquidating their investments in developing markets). Georgia's close ties with Azerbaijan thus make it more vulnerable to direct outflows of foreign investment.

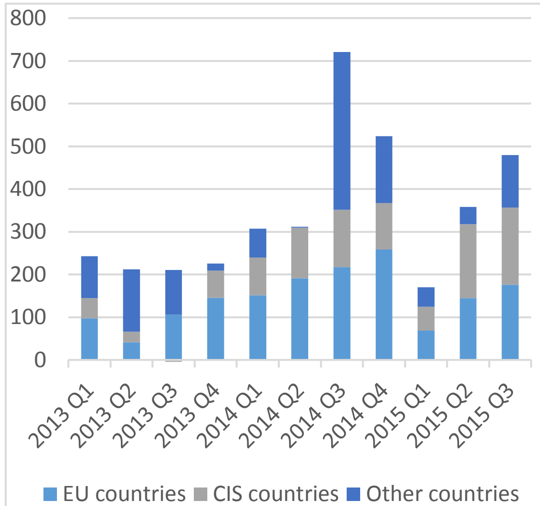
Figure 4: Gross Fixed Capital Formation (at current prices, mil. GEL)



Foreign Direct Investment

Foreign Direct Investment started from a very low level in Q1 2015, but steadily increased thereafter. The level of FDI surpassed that of 2013, but was behind the numbers posted in 2014. FDI in Georgia totaled 1,019 million USD in the first three quarters of 2015, representing a 17% year-on-year decline.

Figure 5: FDI by Country *Source: GeoStat*

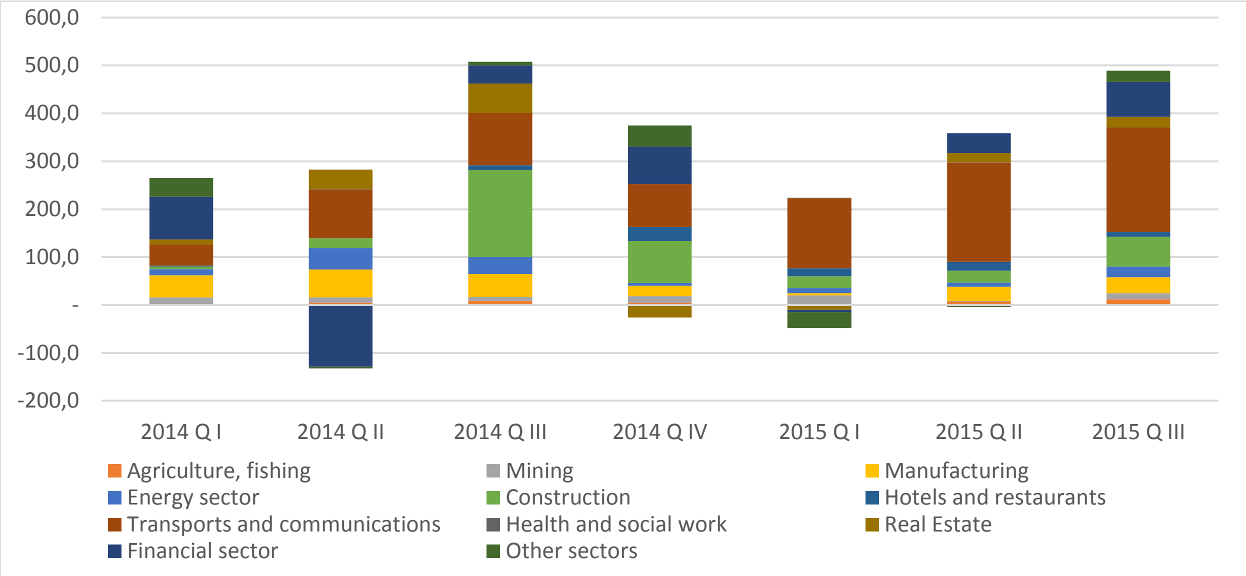


Investments were dominated by the Transport and Communications sector (572 million USD) – in particular, **the large investment flows from Azerbaijan into the Baku-Tbilisi-Kars railway**. In 2015, Azerbaijan was the top source countries for FDI in Georgia, while the Netherlands took second place. Turkey and the United Kingdom were also among the largest FDI investors in Georgia in 2015.

Among the top recipients of FDI in 2015 were the construction and financial services sectors, which attracted 112 million and 110 million USD respectively.

FDI in manufacturing was 60% lower than in the same period in 2014. A pullback of FDI was also evident in the hotels and restaurants, real estate, construction and energy sectors. All other sectors – including the agriculture, mining, transport and financial sectors – expanded in the last three quarters of 2015.

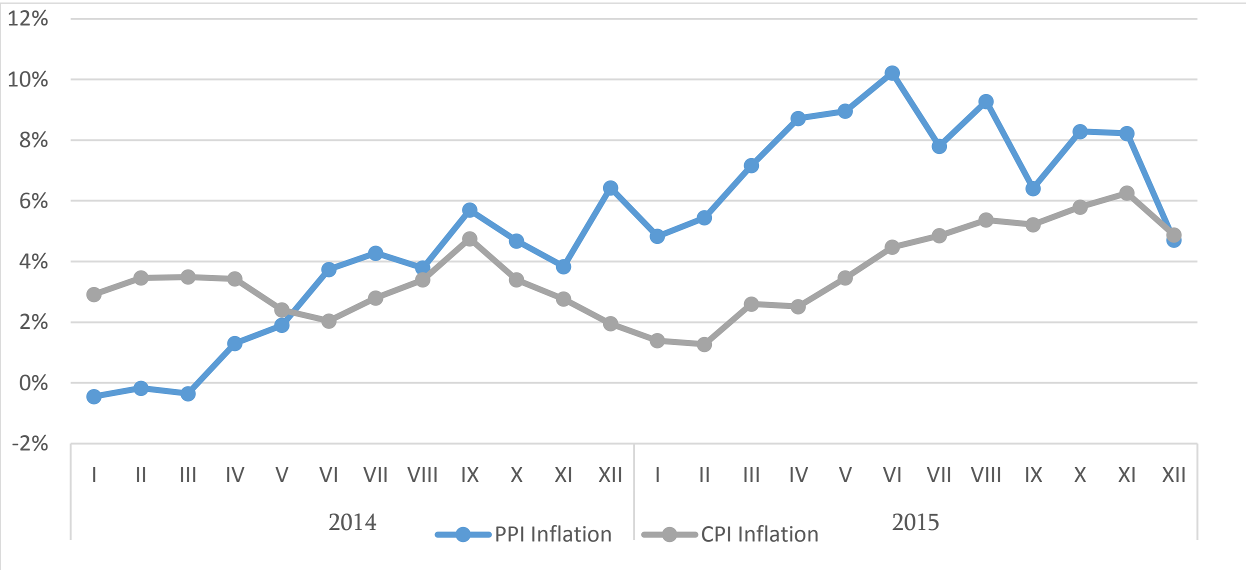
Figure 6: FDI by Sector *Source: GeoStat*



Money and credit markets

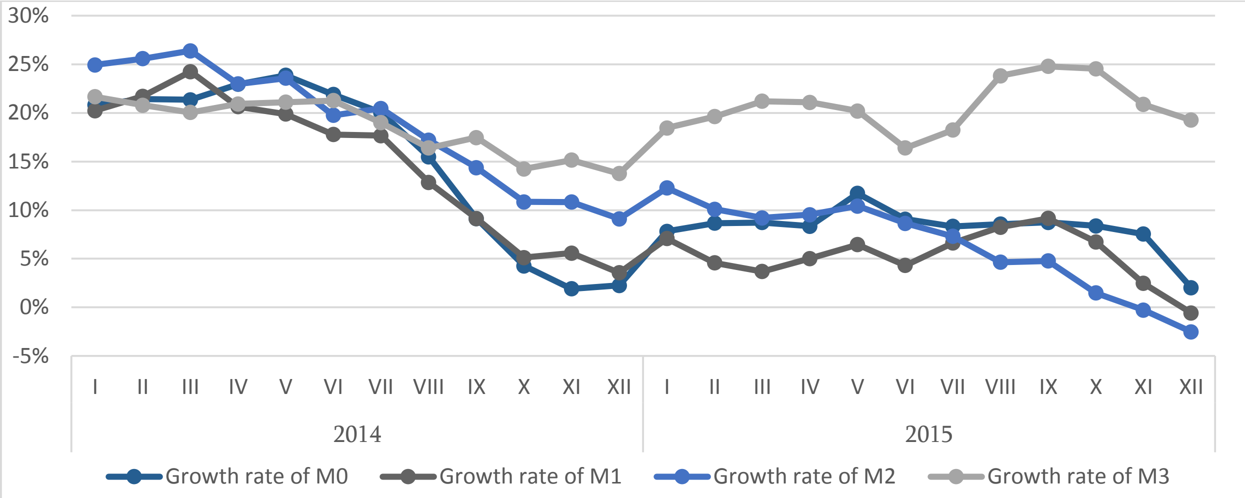
The year 2015 was characterized by monetary policy tightening and combatting increased inflation expectations. Overall, the NBG increased the refinancing rate by 400 basis points (4 percentage points) in 2015. The refinancing rate is now at the highest level since June 2011. The NBG successfully reduced annual inflation to its target level of 5% and average CPI-based prices increased by 4% year over year in 2015.

Figure 8: Inflation Rates, Y-o-Y, % *Source: GeoStat*



The NBG's monetary policy slowed the growth of monetary aggregates in the last months of the year. As a result of contractionary policies, the year-over-year growth rates of M1 and M2 in 2015 were 5.3% and 6.3% respectively (these indicators were 14.9% and 18.8% in 2014).

Figure 9: Growth Rates of Money Aggregates *Source: NBG*



The decomposition of the consumer price index shows that the 4% year-on-year inflation was mainly driven by higher prices of food and non-alcoholic beverages, which contributed 1.44 percentage points to total inflation in 2015.

The prices of alcoholic beverages and tobacco showed the largest increase of 8.8% (mainly due to the higher excise tax introduced in January) and contributed 0.6 percentage points to total inflation in 2015.

Figure 10: Inflation Rates by Category, Y-o-Y, %

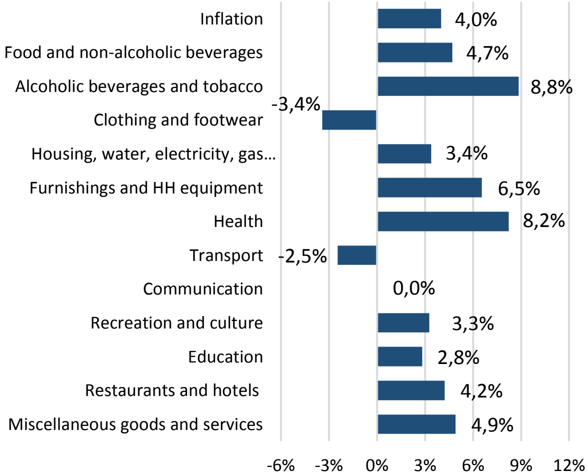
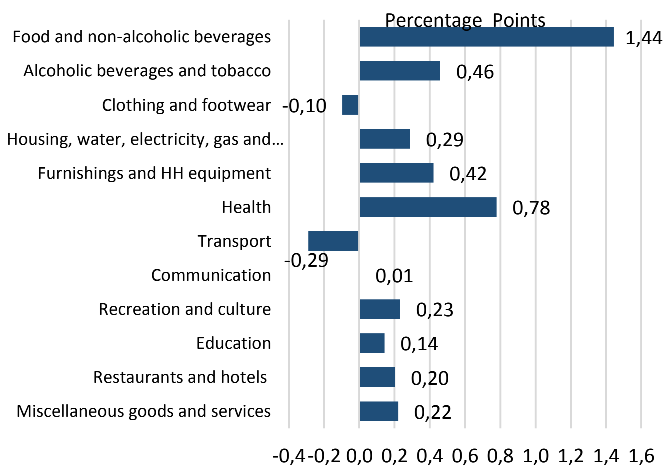


Figure 11: Contribution to Inflation Rate by Category, Percentage Points *Source: GeoStat*



Costs of healthcare and furniture/household equipment increased by 8.2% and 6.5% respectively. In total, both contributed 1.2 percentage points to the inflation rate in 2015.

Clothing and footwear, along with transport were the only categories for which inflation was negative year over year, at -3.4% and -2.5% respectively. This decline contributed -0.39 percentage points to total inflation.

Overall, the logic of price increases indicates that the **lari devaluation, electricity tariff increases and increased excise tax on alcohol and tobacco were the main driving factors behind CPI inflation** in 2015. The inflationary pressures were mitigated by the sharp decline of oil and commodities prices in world markets and the contractionary monetary policy of the NBG. Without these factors at play, price increases would have been much more dramatic.

Financial Sector

Household debt as a share of GDP has been growing for the last three years, and reached 25.7% in Q3 2015. This is 3.1 percentage points higher than in the same period of 2014. Household debt growth slowed in the first and second quarters of 2015 as people borrowed less due to the uncertainties associated with GEL devaluation, but the **ratio of household debt to disposable income increased dramatically** in 2015. According to the latest statistics, the ratio was 171.5% in Q3 2015, 36.3 percentage points higher than in the same period in 2014.

Despite the increase in household debt indicators and the sharp currency devaluation, which hit the heavily dollarized mortgage lending sector, **the share of non-performing loans to total loans declined** by the methodologies of both the NBG (7.5% in Q4 2015 vs. 7.6% in Q4 2014) and the IMF (2.7% in Q4 2015 vs. 3% in Q4 2014). This is certainly good news, not only for the Georgian financial sector but also for the country's overall macroeconomic performance.

Figure 12: Households Debt to GDP *Source: NBG*

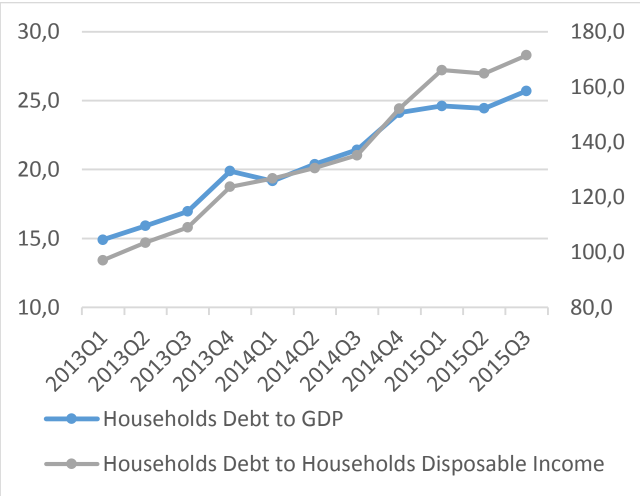
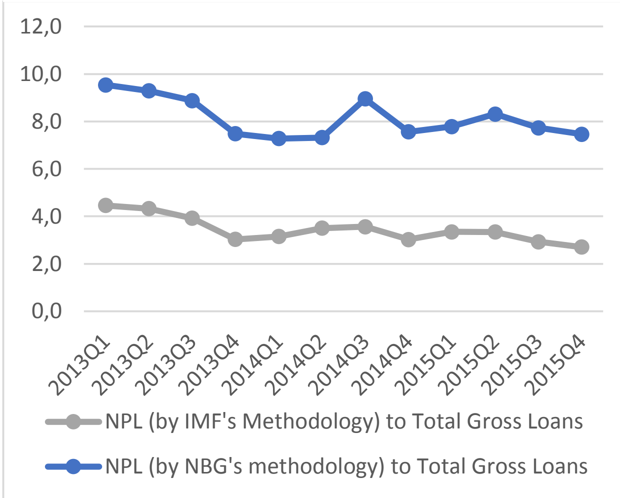
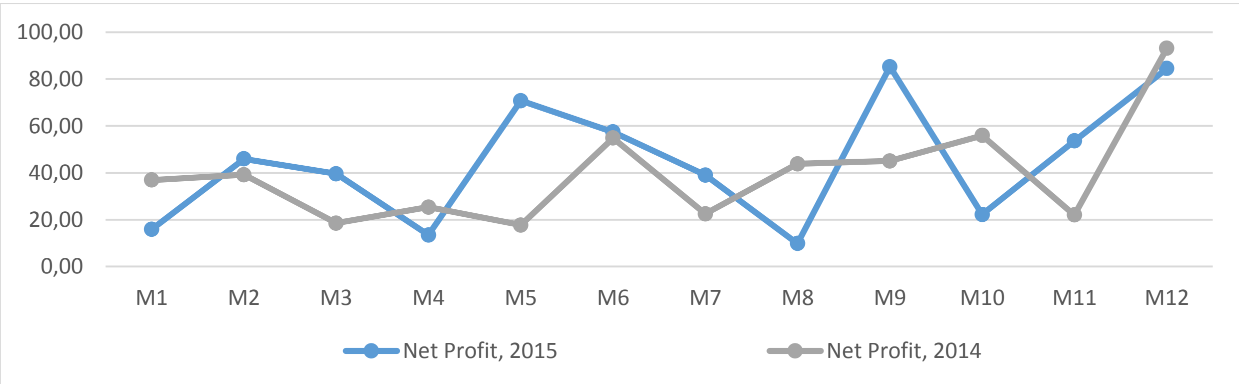


Figure13: NPL to Total Gross Loans *Source: NBG*



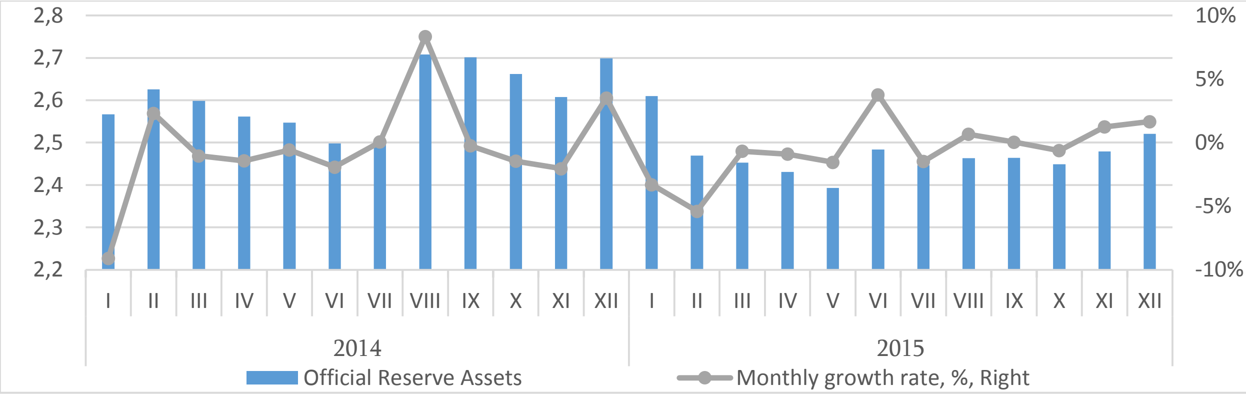
The **profitability of the Georgian financial sector increased** as well, reaching 537 million GEL (a 13% year-on-year increase). However, on a monthly basis, net profits were much more volatile than in the previous year.

Figure 14: Deposit Takers Net Profit, million Lari *Source: NBG*



In December 2015, official reserves of the NBG amounted to 2.52 billion USD, which was a 179 million USD decline year over year. **The NBG took a prudent approach to reserve management, allowing the currency to depreciate in the face of external pressures** that stemmed from a number of shocks (the USD appreciation against the euro, the reduction of remittances inflows from Russia and Greece, the decline in export demand, and the reduction of capital inflows from CIS countries). The NBG intervend only to smooth the depreciation process and lost only 7% of its official reserves.

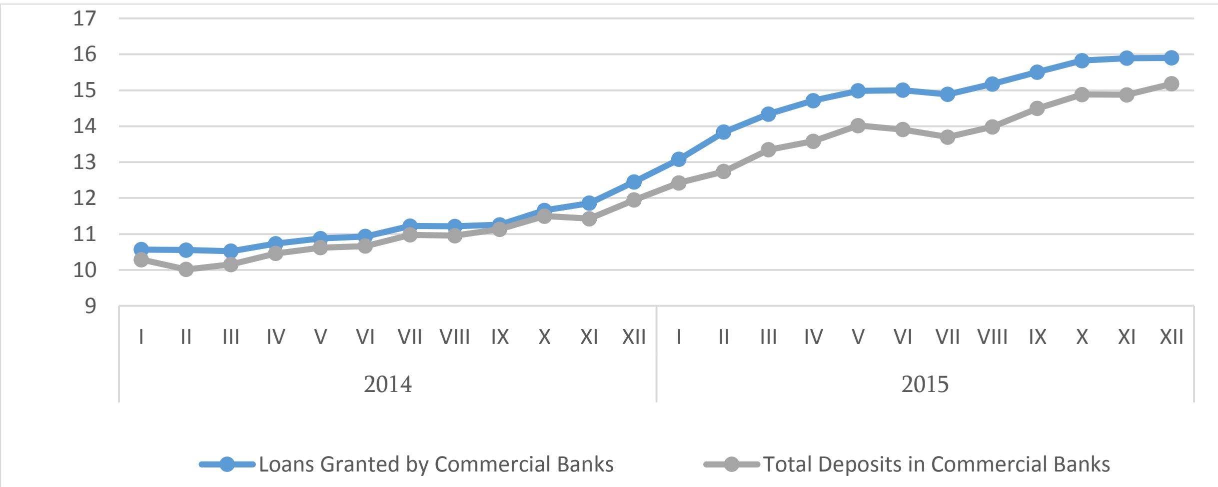
Figure 15: NBG's Official Reserve Assets *Source: NBG*



Total loans (stocks) granted by commercial banks amounted to 15.9 billion GEL in December 2015 – a 27.7% increase year over year. Total deposits of enterprises and households in commercial banks amounted to 15.2 billion GEL, which was also a 27% year-over-year increase.

The largest part of the above mentioned increases was due to the "valuation effect" associated with depreciation. We estimated that the valuation effect contributed 17.7 percentage points to the December increase in the stock of total loans and 23.5 percentage points to the increase in the stock of total deposits. *The real increase in loans and deposits was about 10% and 8.1% respectively.*[2]

Figure 16: Deposits and Loans, billion Lari *Source: NBG*

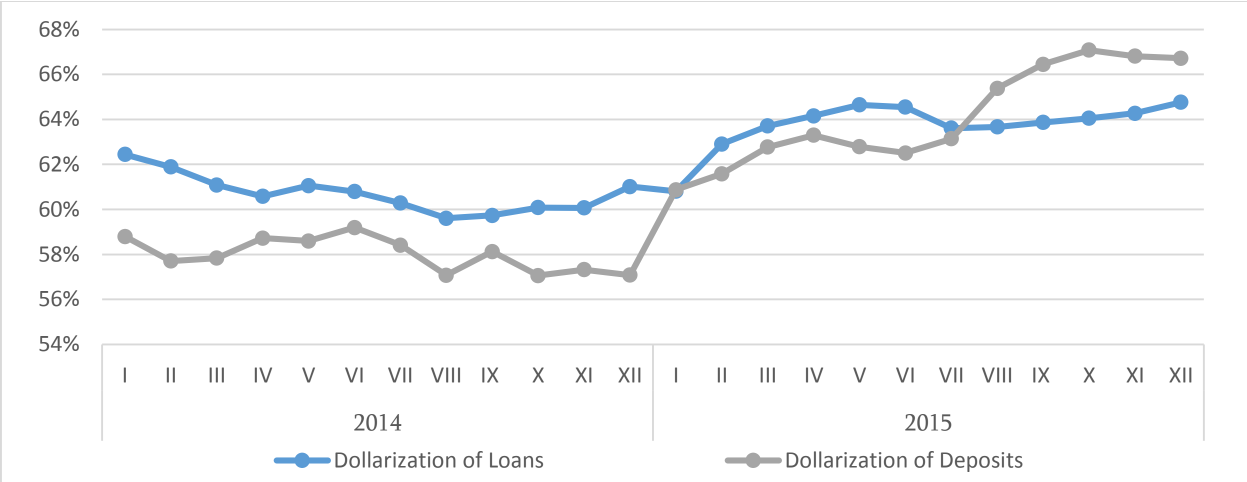


Dollarization rates of both deposits and loans have gone up. Once again, the depreciation of the lari was one of the main factors behind the increase. However, while loan dollarization rates stabilized

[2] This is the sum of the growth rate in lari loans and the growth rate of foreign currency (dollar) loans in USD terms.

after the increase and stabilization of the lari, deposit dollarization rates kept climbing. This indicates that depositors were switching their currency holdings from lari into US dollars, trying to hedge the inflation risks. At the end of 2015, the dollarization rate of loans was 66.7%, while deposits were 64.8% dollarized.

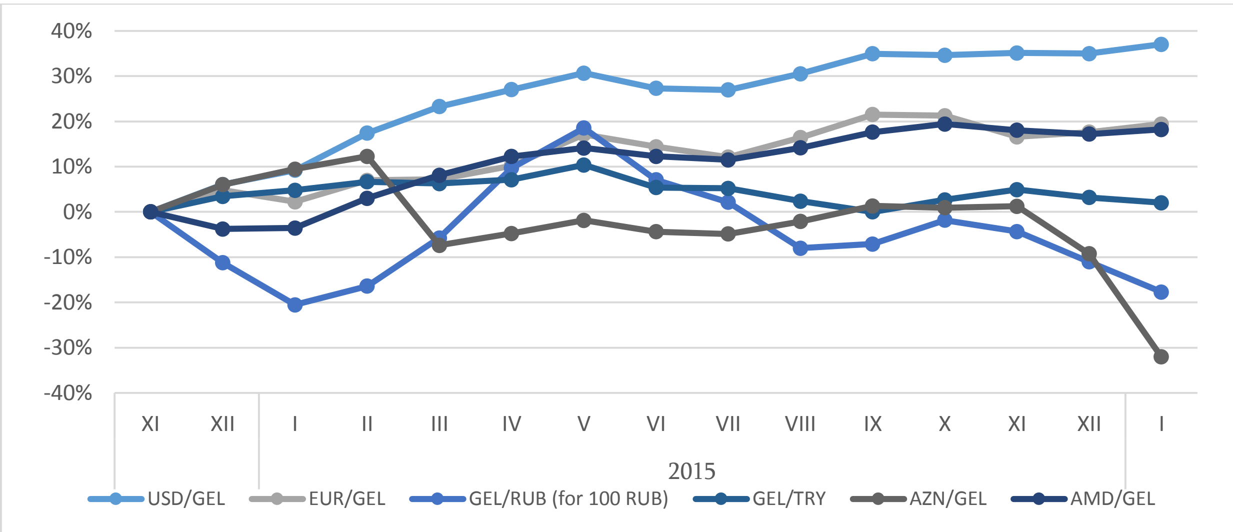
Figure 17: Dollarization Rates *Source: NBG*



Exchange Rates

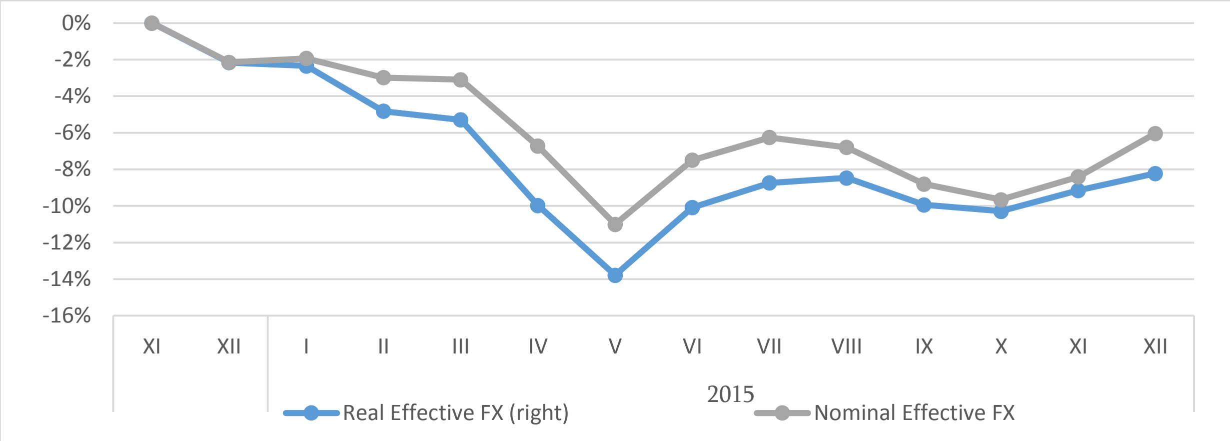
The year 2015 saw a record depreciation of the lari against the US dollar. This process started in November 2014, when remittances from Russia and Greece declined dramatically. In the beginning of 2015, the dollar gained against almost all currencies and the lari depreciated even further. From November 2014 to December 2015 the lari lost 35% of its value against dollar and 17.6% against euro. At the same time, the lari appreciated against the Russian ruble and the Azerbaijani manat by 11% and 9% respectively.

Figure 18: Lari against Other Currencies *Source: NBG, ISET-PI*



These currency trends were reflected in the effective exchange rates. In the period November 2014-December 2015, the Georgian lari depreciated in both nominal and real terms by 6% and 8.2% respectively. This means that Georgia's main trading partners had higher annual inflation rates, which made Georgian export goods relatively cheaper. In the long term, real depreciation could contribute to the increased competitiveness of the Georgian goods on international markets.

Figure 15: Change of Effective Exchange Rates *Source: NBG, ISET-PI*



Trade

The year 2015 was marked by a **significant decline in trade volumes**. External merchandise trade turnover declined by 13% year over year and amounted to 9,928 million USD according to Geostat data. Exports decreased by 23% and constituted 2,204 million USD, while imports shrank by 10.1% to 7,724 million USD (note that excluding the donation of hepatitis C medicine, imports shrank by 15.3% to 7,281 million USD).

The trade balance position of the country has actually improved. The deficit shrank by 3.7% (excluding the hepatitis C medicine donation, the merchandize trade deficit shrank by 11.4%). Despite this, the share of the trade deficit in external merchandise trade turnover amounted to 55.6%, a 5.6 percentage point increase year-on-year (or, more precisely, a 53.5% and 5.3 percentage point increase year on year if we exclude the hepatitis C medicine donation).

Figure 19: Trade Balance, billion USD

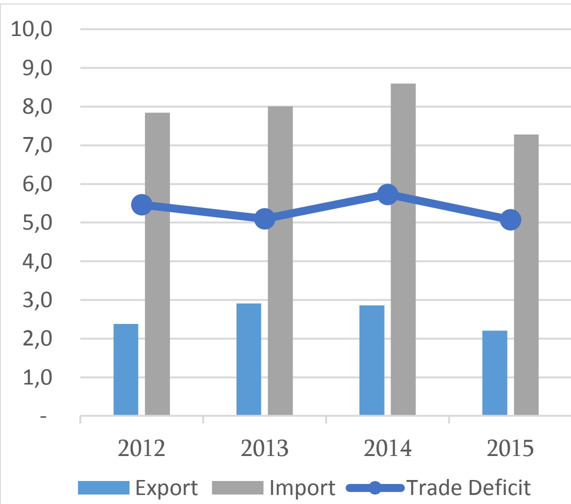
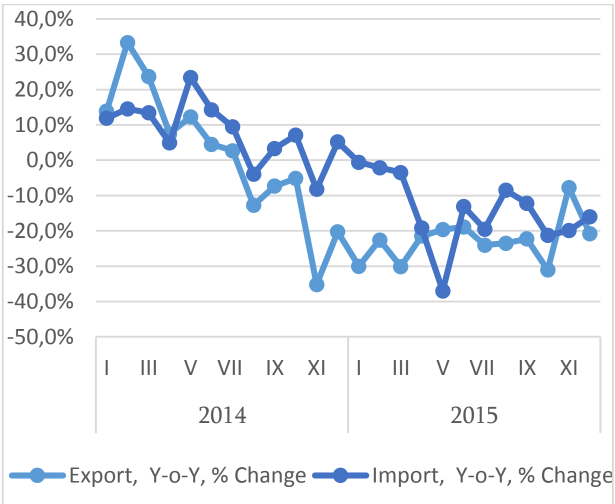


Figure 20: Trade, Y-o-Y, % Change *Source: GeoStat*



The reduction in export and import volumes were driven in part by **weak external demand conditions** (lackluster growth performance and currency crises in Georgia's main trading partners) and in part by a **reduction in the USD denominated trade volume with countries affected by the depreciation wave** (CIS partner countries, in particular).

Figure 21: Export by Country Groups, billion USD

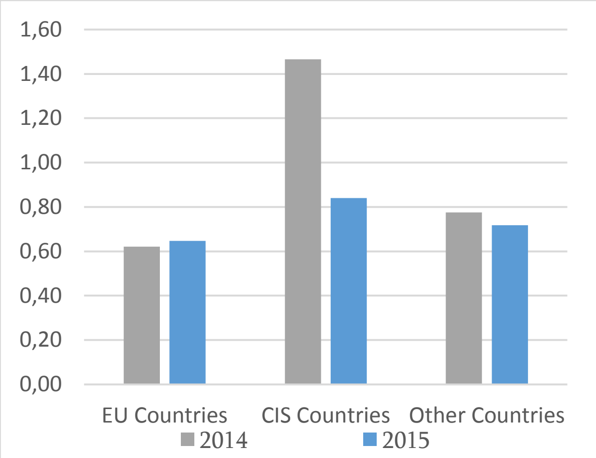
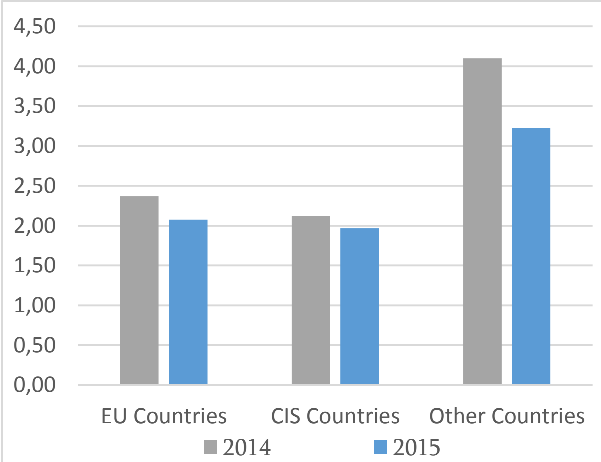


Figure 22: Import by Country Groups, billion USD



Most of the year-on-year decline in exports came, as was expected, from CIS countries. These countries exhibited a 42.7% decline and contributed -21.9 percentage points to the reduction of exports. Exports to EU countries increased by 4% while those to other countries decreased by 7.4% year on year, which boosted exports by 0.9 and -2.0 percentage points respectively.

Imports from the EU and CIS countries decreased by 12.5% and 7.4% respectively, contributing -5.3 percentage points to the total year-on-year decline of imports.

Table 4: Export by Country, million USD

Country	2014	2015	Rank in 2015	Change in export, %
Azerbaijan	544 504	240 430	1	-56%
Armenia	288 084	180 104	4	-37%
Russia	274 675	162 865	5	-41%
Turkey	239 295	186 014	3	-22%
USA	207 332	104 181	7	-50%
Bulgaria	167 104	214 247	2	28%
Ukraine	139 920	59 873	9	-57%
China	90 392	125 800	6	39%
Kazakhstan	88 589	44 967	10	-49%
Italy	86 094	74 407	8	-14%

Table 5: Import by Country, million USD

Country	2014	2015	Rank in 2015	Change in imports,%
Turkey	1 727 390	1 330 651	1	-23%
China	732 996	586 988	3	-20%
Azerbaijan	637 582	542 894	4	-15%
Russia	575 443	625 666	2	9%
Ukraine	546 121	455 135	5	-17%
Germany	465 907	431 264	6	-7%
Japan	368 173	206 010	9	-44%
Romania	311 457	207 162	8	-33%
United States	287 091	251 345	7	-12%
Italy	221 693	197 588	10	-11%

In 2015, some of Georgia's main trading partners changed. Bulgaria became the second biggest destination for Georgian exports after Azerbaijan; China also improved its position in the rankings of export destinations. Armenia and Russia, which in 2014 had held the second and third place in export rankings, were relegated to fourth and fifth places respectively in 2015.

Turkey retained its leading position in the list of main import partners, despite a 23% year-over-year decline. Of the top ten import partners, only Russian imports increased in volume, showing a 9% year-on-year growth in 2015. Due to the sharp devaluation (80-100%) of the Russian ruble, Russia became the second largest import destination for Georgia.

The structure of exports has also changed profoundly. Due to new import regulations on motor cars in Azerbaijan, exports of this commodity group decreased dramatically in 2015 (-65% year over year) and the share of motor cars exports in total exports fell by 10 percentage points (from 18% to 8%).

The volume of other top export commodities also declined in 2015 compared to the previous year. The only exceptions to this were pharmaceuticals and copper ores, which increased by 53% and 9% respectively.

The dramatic fall of global commodity prices was one of the main drivers of export decline in 2015. This decline may continue in 2016, as the IMF's predictions about the price evolution of top Georgian export commodities are not optimistic (see Table 6 below).

Table 5: Import by Country, million USD *Source: IMF*

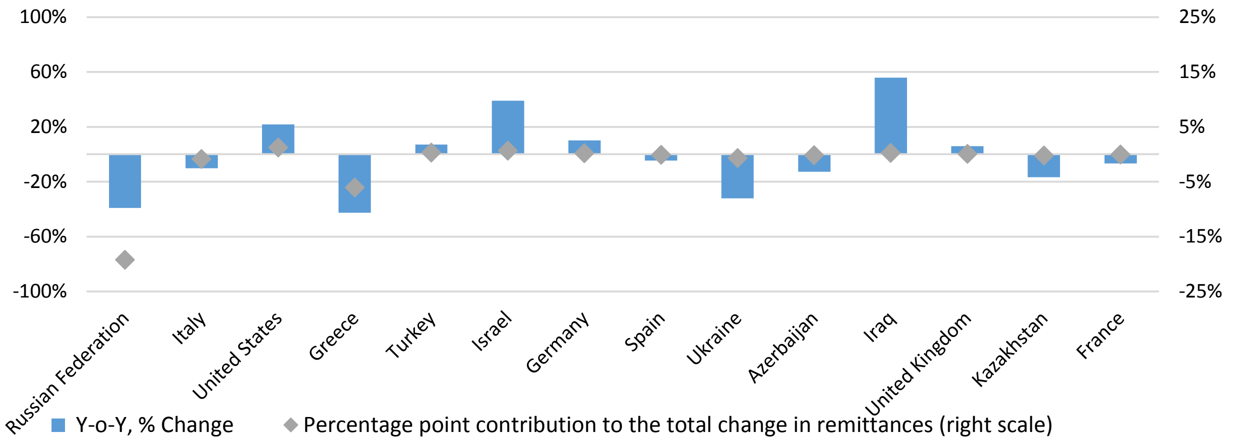
	Share in Export		Export Change	World Price Change	Price Change (Projections, 2016vs2015)
	2014	2015	2015 vs 2014	(2015vs2014)	
Motor cars	18%	8%	-65%		
Ferro-alloys	10%	9%	-32%	-23%	-23%
Copper ores and concentrates	9%	12%	9%	-20%	-20%
Other nuts, fresh or dried	6%	8%	-4%	-9%	-18%
Wine of fresh grapes	6%	4%	-47%		
Mineral or chemical fertilizers, nitrogenous	5%	5%	-20%		
Waters, natural or artificial mineral and aerated waters, not containing added sugar	5%	4%	-40%		
Undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages	3%	3%	-32%		
Medicaments put up in measured doses	3%	6%	53%		
Other bars and rods of iron or non-alloy steel	2%	1%	-68%	-43%	-35%

Remittances

According to GeoStat, the volume of total remittances to Georgia amounted to 1,079 million USD in 2015 – a 25% year-on-year decrease. **Money transfers from Russia and Greece declined** by 39% and 42.5% respectively, contributing -19.2 and -6.0 percentage points to the total decrease. The economic situation and exchange rate dynamics in these countries determined the total amount of remittances in 2015.

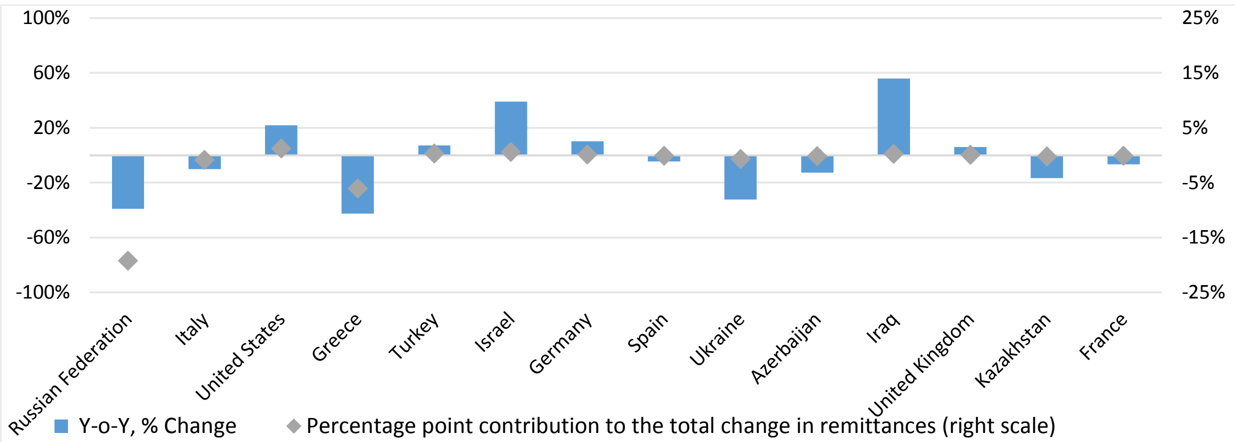
On the other hand, the increase in **remittances from the USA, Turkey, Israel, Germany, Iraq and the United Kingdom were quite high**. However, even when combined, the increase from these countries contributed only 2.7 percentage points to the total year-on-year growth of remittance transfers.

Figure 23: Remittances by Country, 2015 Compared to 2014, % Change *Source: NBG*



Despite a dramatic reduction in remittance transfers, Georgian households did not suffer a proportional decrease in incomes in lari terms. Adjusted statistics for remittances show that **Georgian beneficiaries of money transfers from abroad received only 3.4% less in lari terms**. Accounting for inflation, they could thus buy 7.1% less goods and services in 2015 than in the previous year.[3]

Figure 24 : Remittances, 2015 Compared to 2014, Y-o-Y Change, % *Source: NBG, GeoStat, ISET-PI*



Public Finances

In 2015, general government revenues amounted to 8,938 million USD, which represents a 10.1% year-over-year increase. At the same time, the cash payments for operating activities increased by 5.5% and amounted to 8,155 million USD. The general government budget deficit turned out to be higher than was projected at the beginning of the year by the Ministry of Finance of Georgia, but lower than was expected by the IMF. The overall balance amounted to -341.1 million GEL.

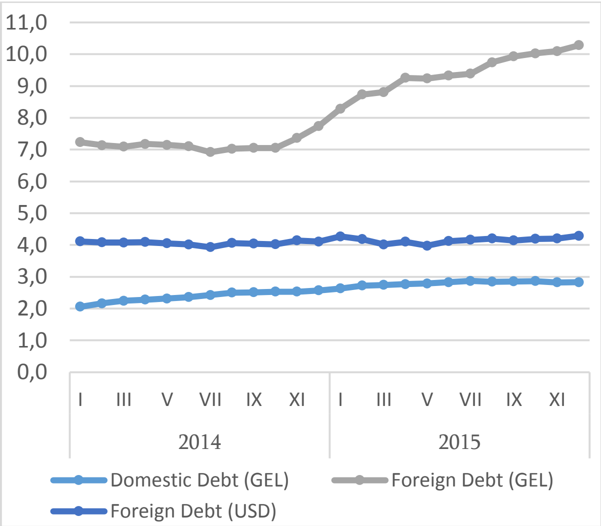
[3] Since most of the remittances received from abroad support consumption expenditure of Georgian households, we can calculate how the change in inflows affected the purchasing power of remittances in lari terms. To see this, we convert the remittance volumes into lari and then deflate them by the CPI. Figure 24 shows the results of this.

Table 7: Common Budget, million GEL *Source: Ministry of Finance of Georgia*

Statement of Sources & Uses of Cash, thousand GEL	2014	2015	% change
Cash receipts from operating activities	**8118,9**	**8938,3**	**10.1%**
Taxes	7241,6	8010,8	10.6%
Grants	279,5	293,9	5.2%
Other receipts	597,80	633,6	6.0%
Cash payments for operating activities	**7730,8**	**8155,6**	**5.5%**
Compensation of employees	1521,9	1601,7	5.2%
Purchases of goods and services	1143,6	1203,2	5.2%
Interest	248,5	329,8	32.7%
Subsidies	625,8	670,9	7.2%
Grants	12,2	83,8	586.9%
Social benefits	2791,1	3036,7	8.8%
Other payments	1387,7	1229,5	-11.4%
Net cash inflow from operating activities	**388,1**	**782,7**	**101.7%**
Net cash outflow from investments in nonfinancial assets	**967,6**	**1123,8**	**16.1%**
Purchases of nonfinancial assets	1082,3	1479	36.7%
Sales of nonfinancial assets	114,7	355,2	209.7%
Cash surplus (+) / deficit (-)	**-579,5**	**-341,1**	**-41.1%**

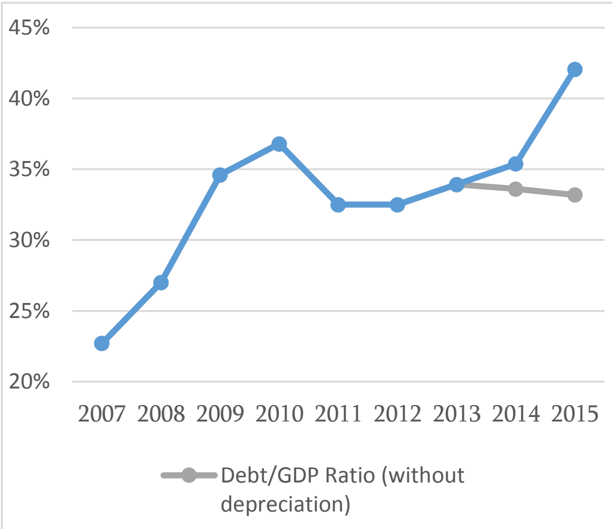
The general government debt increased by 27.1% year on year in 2015 and amounted to 13,109 million GEL. Government debt as a share of GDP increased from 35% to 42%. It should be noted that **the increase in government debt was largely due to the depreciation of the lari**. **Without depreciation, the government debt to GDP ratio would have actually showed a declining trend in 2015.** External government debt denominated in US dollars remained largely unchanged, but total interest payments increased by 32.7% in 2015, mostly driven by the lari depreciation.

Figure 25: General Government's Debt, billion GEL, billion USD



Source: GeoStat, MOF

Figure 7: General Government's Debt/GDP



Source: GeoStat, MOF