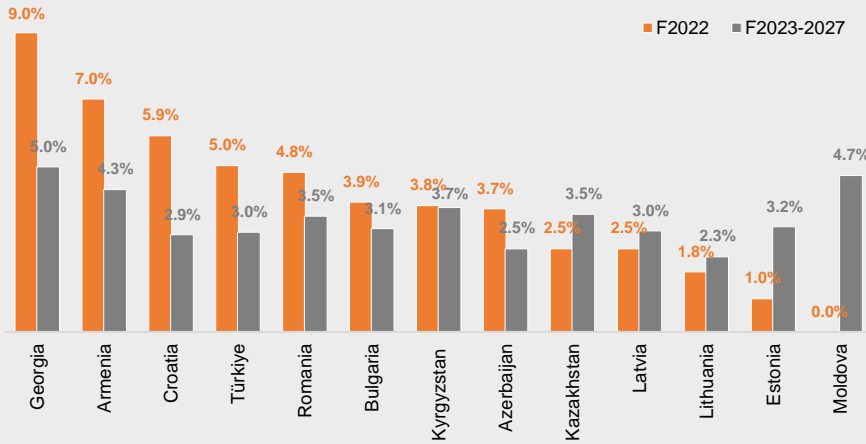




## Chart of the month: Georgia's medium-term growth outlook remains strong



Source: IMF, WEO October 2022

In October 2022, the IMF released updated world economic outlook. The IMF projects the global economy to grow by 3.2% in 2022 and 2.7% in 2023, which is the weakest growth profile since 2001 except for the global financial and the COVID-19 crises. Contrary to the global trend, Georgian economy expected to be one of the growth leaders in the region with growth projected at 9.0% for 2022 and at an average 5.0% over 2023-2027.

### Economic summary

**Growth:** Economy expanded by 8.8% y/y in September and by 10.2% overall in 9M22. Considering strong ongoing data, we revised 2022 growth projection upwards to 10.2%, from our baseline projection of 9.2%. In 2023, we expect growth at 4.8%, considering lasting impact of migration, stronger tourism and recovery in investments. In September growth was driven by transport, IT services, construction, hospitality and industry sectors, while real estate operations contracted.

**Inflation:** Headline CPI rose to 11.5% y/y in September, up from August's reading of 10.9%. Energy and food prices continued to be primary drivers, while the former decelerated. Continued reduction of global food prices expected to have a lagged impact on local prices and soften inflationary pressures, we believe. We expect end-2022 inflation at 9.2% and end-2023 inflation at 3.3%.

**Monetary policy:** The NBG kept its key rate unchanged at 11.0% in October meeting. The regulator expects some positive trends in international commodity markets and GEL's appreciation to gradually transmitted to the local market and favorably affect the inflation dynamics. NBG also renewed projections, expects 2022 growth at 10.0% up from previous 9.0%, and sees room for monetary normalization once a clear trend of decreasing inflation is observed. We do not rule out first rate cut in 1Q23 considering expected moderation in inflation.

**FX:** The GEL strengthened 2.1% m/m vs dollar in October after gaining 2.4% in September; currency gained 10.1% year-to-date. Continued robust growth of external inflows was the key factor behind currency strength. Possible deceleration of these flows and NBG buying FX (purchased US\$ 263.2mn in 9M22) to build reserves may put some pressure on the currency, but the GEL expected to remain below 3.0 vs dollar through end-2022.

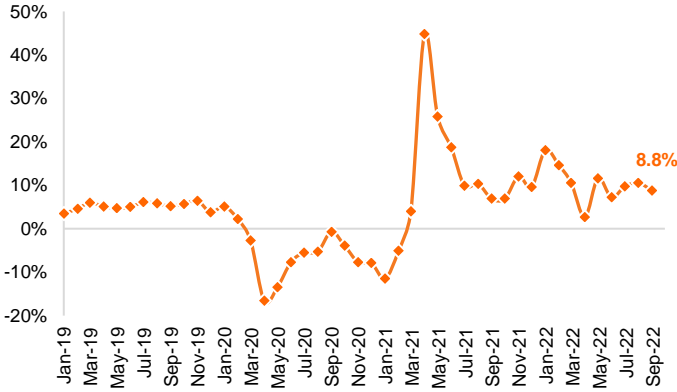
### Activity

**Trade:** In September exports continued strong growth (up 40.0% y/y), while import growth slowed markedly (up 13.8% y/y) contributing to a reduction of trade deficit by 3.1% y/y. Cars, wine and commodities were key exports and petroleum continued to contribute most to imports growth. Meanwhile, robust remittances and tourism inflows along with reduced trade deficit resulted in sizable improvement in external balance (goods trade, remittances and tourism), remaining positive for the 5th consecutive month.

**Tourism:** Tourism revenues continued strong growth in September, surpassing 2019 level by 17.9%. Considering strong ongoing figures and migrants' impact, we expect full recovery of tourism in 2022 compared to pre-pandemic levels (see [here](#)).

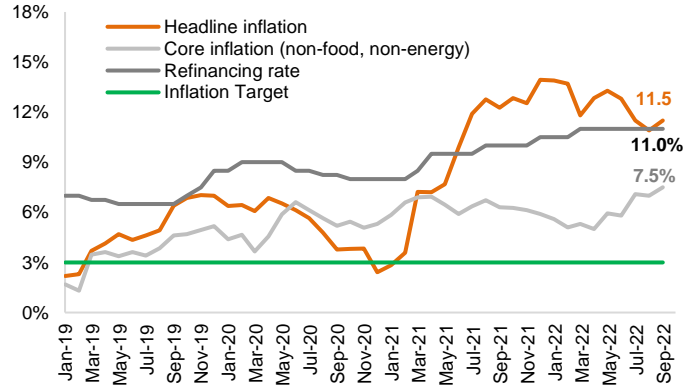
**Banking sector:** Credit growth slowed to 13.7% y/y (+1.1% m/m) in September, excluding FX effect, after a 15.3% y/y growth in previous month. Meanwhile, the retail credit growth remained relatively strong, while corporate loans slowed further. Contrary to loans, deposit growth accelerated further up 26.6% y/y (+2.5% m/m, exc. FX effect) in September, with both GEL and FX deposits growing strongly. Loan and deposit dollarization improved further (standing at 45.0% and 57.0%, respectively) and other performance indicators remained healthy in September, with NPLs at 1.9%.

### Real GDP growth, % change y/y



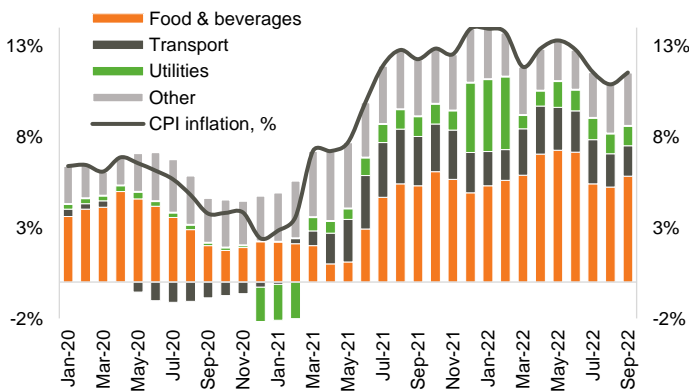
Source: Geostat

### Annual inflation and monetary policy rate



Source: Geostat, NBG

### Contributions to annual inflation



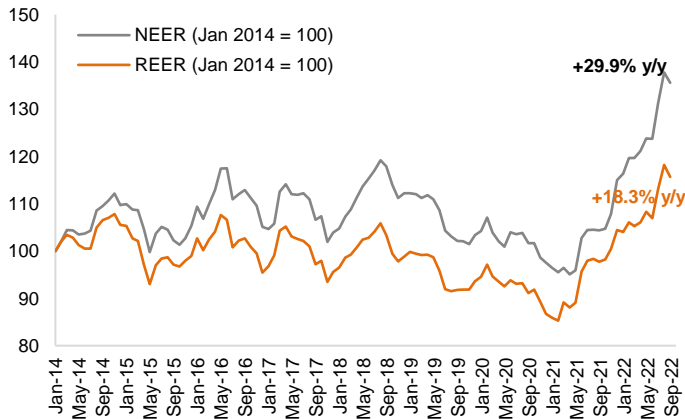
Source: Geostat

### GEL vs USD



Source: NBG

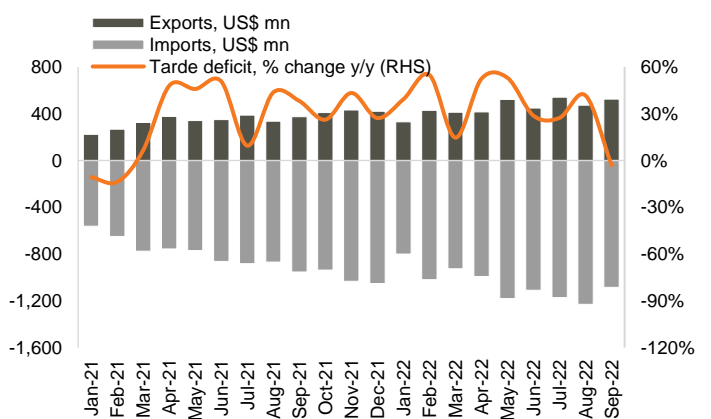
### GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)



Source: NBG

Note: Index growth/decline means appreciation/depreciation of GEL

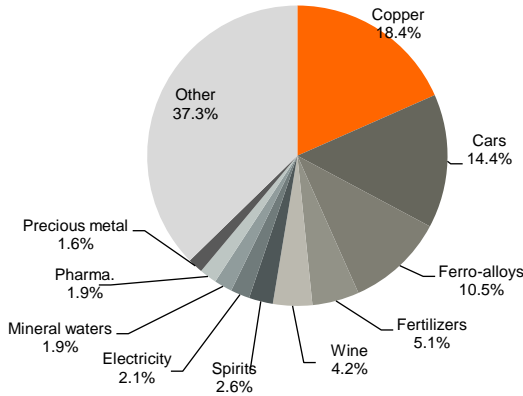
### Goods exports, imports and trade deficit



Source: Geostat

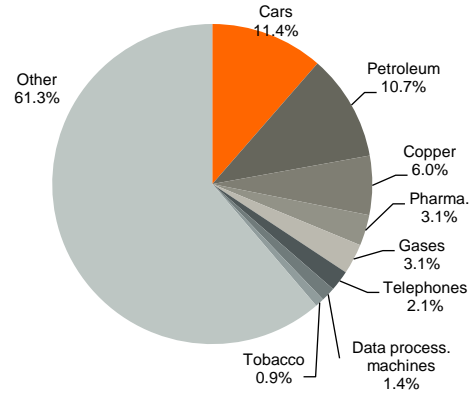


**Exports by product, 9M22**



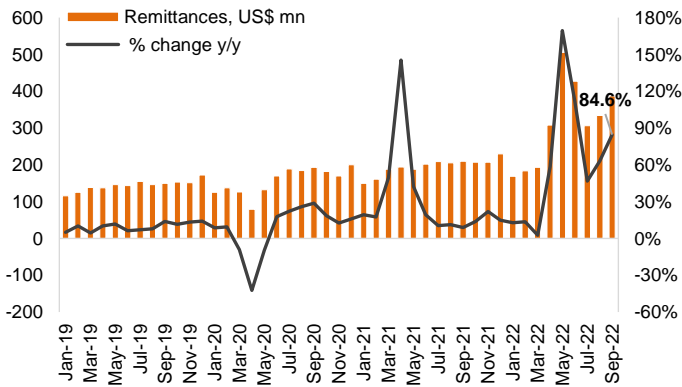
Source: Geostat

**Imports by product, 9M22**



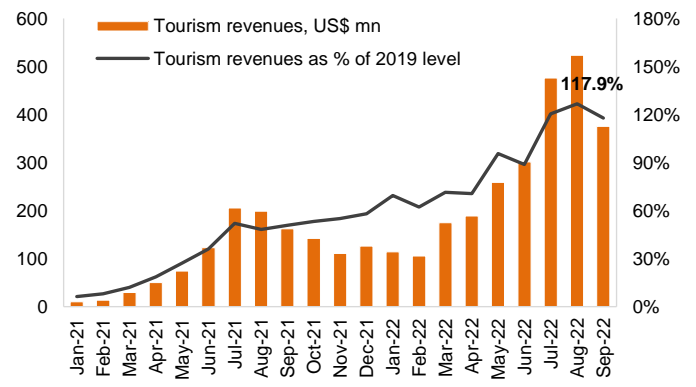
Source: Geostat

**Remittances**



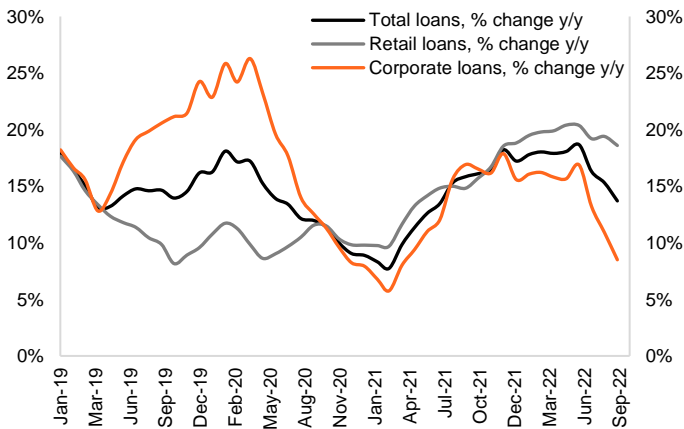
Source: NBG

**Tourism revenues**



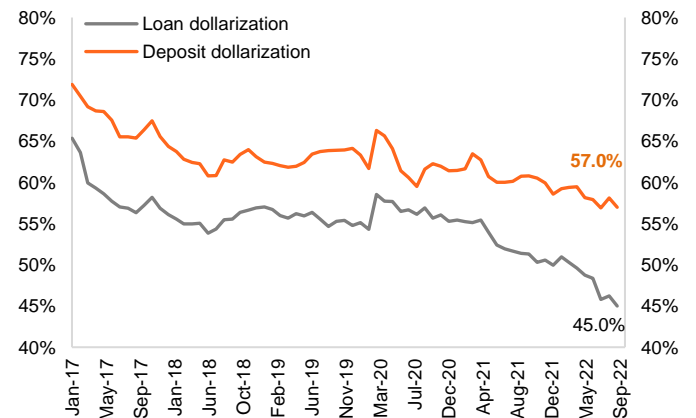
Source: NBG

**Banking sector loan portfolio growth by sector, (excluding FX effect)**



Source: NBG

**Banking sector loan and deposit dollarization**



Source: NBG

**Macro data and forecasts**

Georgia	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
<b>GDP and Prices</b>										
Nominal GDP, GEL bn	31.1	33.9	35.8	40.8	44.6	49.3	49.3	60.2	72.5	79.4
Nominal GDP, US\$ bn	17.6	14.9	15.1	16.2	17.6	17.5	15.8	18.7	24.6	26.5
Nominal GDP per capita, US\$	4,739	4,013	4,062	4,359	4,722	4,696	4,256	5,017	6,661	7,174
Real GDP, % change y/y	4.4%	3.0%	2.9%	4.8%	4.8%	5.0%	-6.8%	10.4%	10.2%	4.8%
CPI Inflation, average	3.1%	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.7%	4.9%
CPI Inflation, eop	2.0%	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.2%	3.3%
GEL per US\$, average	1.77	2.27	2.37	2.51	2.53	2.82	3.11	3.22	2.95	3.00
Population, mn	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
<b>Government Finances</b>										
Budget revenues, % of GDP	26.5%	27.5%	28.0%	27.4%	27.0%	26.6%	25.6%	25.8%	25.8%	25.7%
Budget expenses, % of GDP	28.4%	28.6%	29.4%	28.2%	27.7%	29.4%	34.9%	32.1%	29.5%	28.7%
Fiscal balance (-deficit), % of GDP	-2.6%	-2.4%	-2.8%	-2.7%	-2.3%	-2.1%	-9.3%	-6.1%	-3.2%	-2.8%
Public debt, % of GDP	31.0%	36.7%	40.3%	39.4%	38.9%	40.4%	60.2%	49.5%	39.5%	38.9%
<b>External Sector</b>										
Current account, US\$ bn	-1.8	-1.8	-1.9	-1.3	-1.2	-1.0	-2.0	-1.9	-1.4	-1.9
Current account, % of GDP	-10.2%	-11.8%	-12.5%	-8.0%	-6.8%	-5.8%	-12.5%	-10.1%	-5.8%	-7.1%
Exports of goods & services, US\$ bn	7.1	6.2	6.2	7.6	8.9	9.6	5.9	8.1	11.6	13.3
Imports of goods & services, US\$ bn	10.1	8.7	8.5	9.4	10.8	11.2	9.0	11.2	14.9	16.8
Net Current transfers, US\$ bn	1.4	1.1	1.1	1.3	1.4	1.4	1.8	2.3	3.4	3.0
Net FDI, US\$ bn	1.4	1.4	1.2	1.7	1.0	1.1	0.5	0.8	1.2	1.4
Net FDI, % of GDP	8.1%	9.5%	8.2%	10.5%	5.6%	6.0%	3.5%	4.4%	4.9%	5.3%
Gross international reserves, US\$ bn	2.7	2.5	2.8	3.0	3.3	3.5	3.9	4.3	4.5	4.7
<b>Financial sector</b>										
Bank loan portfolio, US\$ bn	7.0	6.7	7.1	8.6	9.9	11.1	11.7	13.9	15.7	17.1
Bank loan portfolio, % of GDP	40.8%	47.2%	52.8%	54.7%	59.6%	64.8%	77.6%	71.4%	63.6%	63.3%
Monetary policy rate, %	4.0%	8.0%	6.5%	7.3%	7.0%	9.0%	8.0%	10.5%	11.0%	9.0%

Source: NBG, MOF, Geostat, Galt &amp; Taggart

Note: Fiscal balance according to IMF Program Definition

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