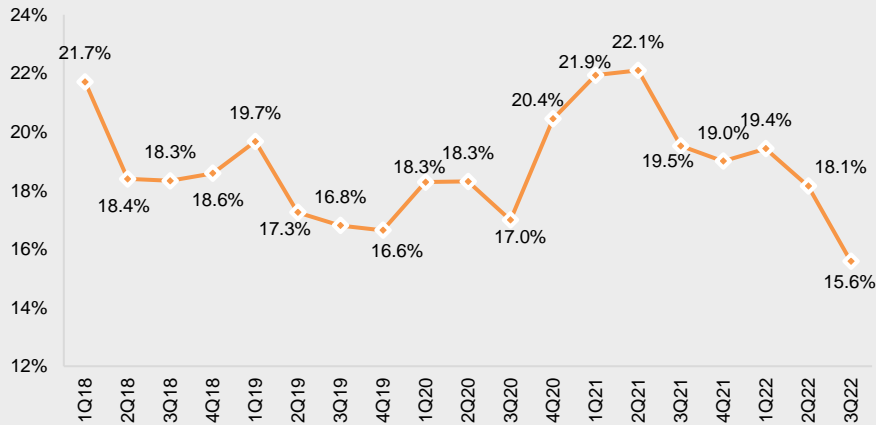




Chart of the month: Unemployment rate in Georgia at record low



Source: Geostat

Unemployment rate reduced by 3.9ppts y/y and by 2.6ppts q/q to 15.6% (record low level) in 3Q22, amid strong economic growth. In 3Q22, out of employed persons hired labor accounted for 67.3% of total (-1.1ppts q/q) and self-employed persons stood at 32.7% of total (+1.1ppts q/q). Notably, labor force participation rate was strong and surpassed pre-pandemic level of 2019 reaching 53.5% (+2.0ppts q/q) in 3Q22.

Economic summary

Growth: Economy expanded by 8.3% y/y in October, after growing by 8.8% y/y in September. Growth came in at 10.0% overall in 10M22. We expect 2022 growth at 10.2%, and project growth at 4.8% in 2023 (considering lasting impact of migration, stronger tourism and recovery in investments). In October, the growth was driven by construction, transport, financial intermediation, hospitality and mining sectors, while manufacturing and real estate operations contracted.

Inflation: Headline CPI retreated to 10.6% y/y in October, down from September's reading of 11.5%. Energy and food prices continued to be primary drivers, while both decelerated. Notably, continued reduction of global food prices along with GEL appreciation softened inflationary pressures, despite strong growth. We maintain our forecast and 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 favorably affect the inflation dynamics. NBG also renewed projections, and 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 by 2.2% m/m vs dollar in November, after gaining 2.1% in October; currency gained 12.1% year-to-date. Continued robust growth of external inflows was the key factor behind currency strength. Notably, NBG purchased US\$ 362.6mn in 10M22 to build reserves. As external inflows remain strong, we expect GEL to remain stable in coming months and expect some volatility once these flows decelerate.

Activity

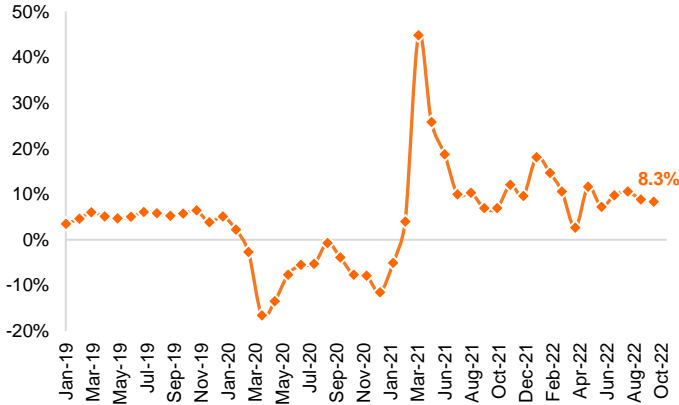
Trade: In October, exports growth slowed to 9.2% y/y, from 40.0% y/y growth in September. The slowdown was largely driven by 73.8% y/y reduction of ferro-alloys exports. Meanwhile, imports grew by 20.1% y/y, and petroleum, cars and copper imports contributed most to this growth. As a result, trade deficit increased by 28.6% y/y in October, after reducing by 1.9% y/y in previous month. Meanwhile, robust remittances and tourism inflows continued to offset trade deficit, and external balance (goods trade, remittances and tourism) remained positive for the 6th consecutive month.

Tourism: Tourism revenues continued strong growth in October, surpassing 2019 level by 26.4%. In 10M22, tourism revenues increased by 183.2% y/y to US\$ 2.9bn, recovering fully vs pre-pandemic level. We expect tourism revenues to increase by 10-15% y/y in 2023.

Banking sector: Credit growth slowed to 13.8% y/y (+0.5% m/m) in October, excluding FX effect, after a 14.4% y/y growth in previous month. Meanwhile, the retail credit growth (+17.9% y/y) remained relatively strong, while corporate loans (+9.4% y/y) slowed further. Contrary to loans, deposit growth accelerated up 28.0% y/y (+1.6% m/m, exc. FX effect) in October, with FX deposits growth accelerating. As a result, deposit dollarization increased slightly to 57.3%, while loan dollarization reduced to 44.6%. Other performance indicators remained healthy in October, with NPLs at 1.8%.

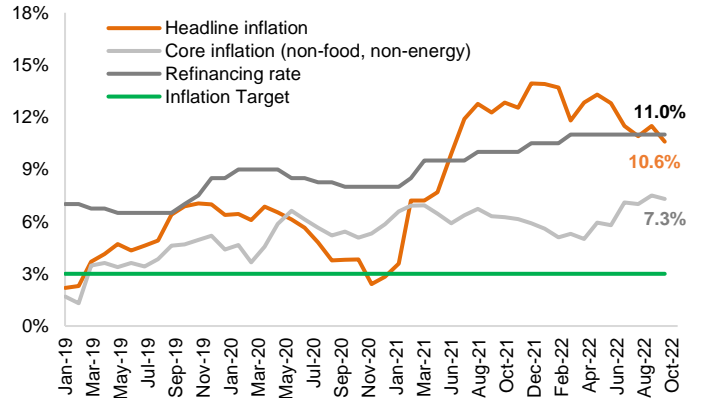


Real GDP growth, % change y/y



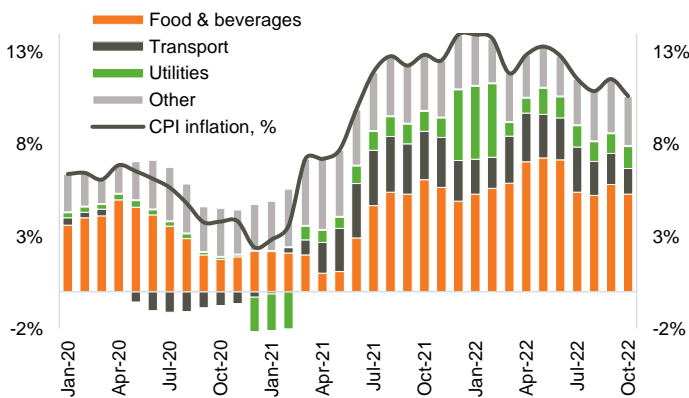
Source: Geostat

Annual inflation and monetary policy rate



Source: Geostat, NBG

Contributions to annual inflation



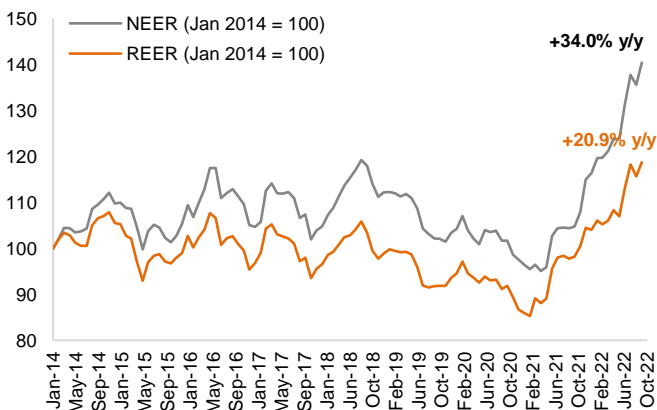
Source: Geostat

GEL vs USD



Source: NBG

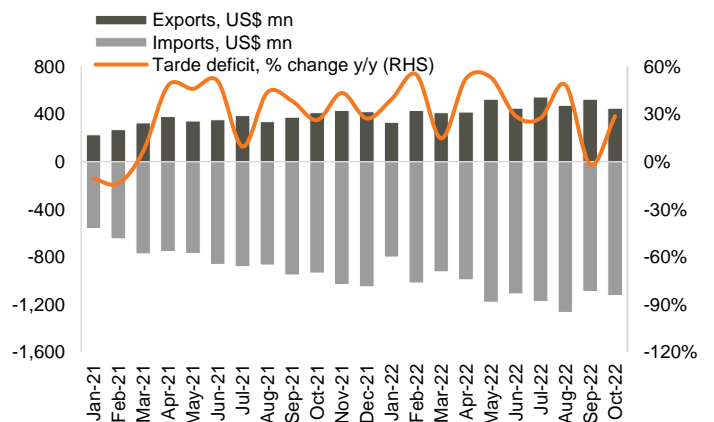
GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)



Source: NBG

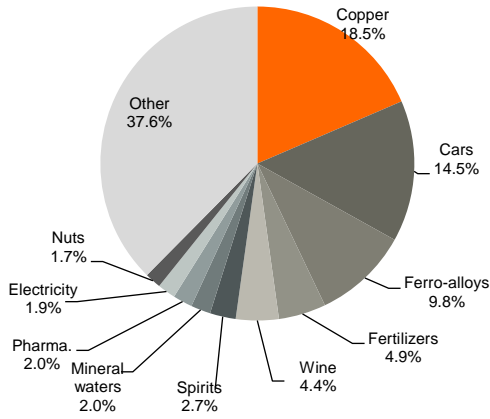
Note: Index growth/decline means appreciation/depreciation of GEL

Goods exports, imports and trade deficit



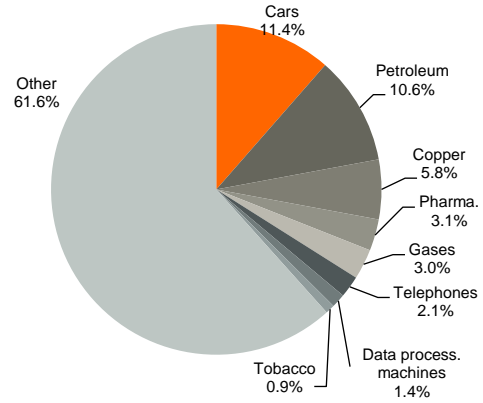
Source: Geostat

Exports by product, 10M22



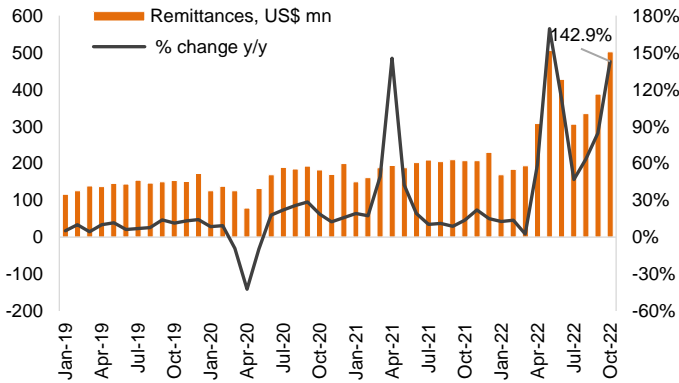
Source: Geostat

Imports by product, 10M22



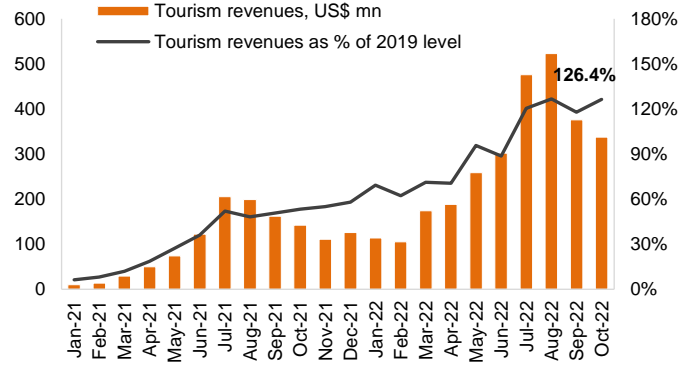
Source: Geostat

Remittances



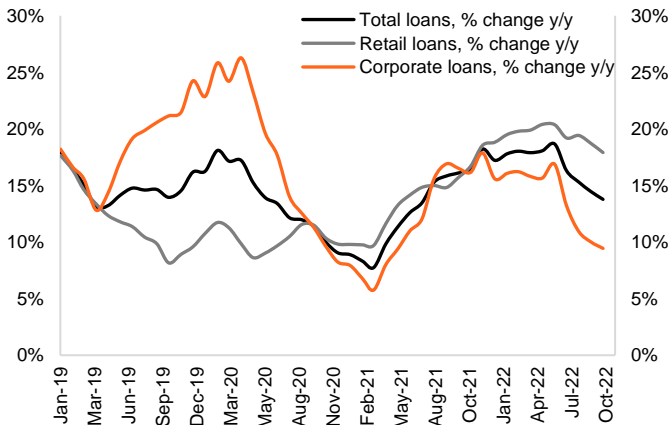
Source: NBG

Tourism revenues



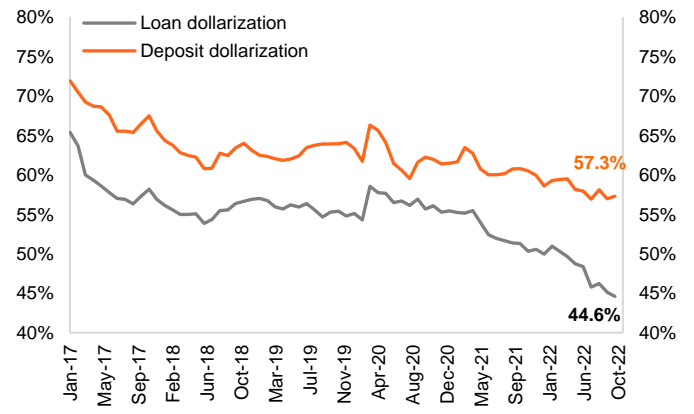
Source: NBG

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
GDP and Prices										
Nominal GDP, GEL bn	31.1	33.9	35.8	40.8	44.6	49.3	49.3	60.0	72.2	79.1
Nominal GDP, US\$ bn	17.6	14.9	15.1	16.2	17.6	17.5	15.8	18.6	24.7	26.4
Nominal GDP per capita, US\$	4,739	4,013	4,062	4,359	4,722	4,696	4,256	5,015	6,707	7,150
Real GDP, % change y/y	4.4%	3.0%	2.9%	4.8%	4.8%	5.0%	-6.8%	10.5%	10.2%	4.8%
CPI Inflation, average	3.1%	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.9%	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	2.92	3.00
Population, mn	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Government Finances										
Budget revenues, % of GDP	26.5%	27.5%	28.0%	27.4%	27.0%	26.6%	25.6%	25.9%	27.2%	26.5%
Budget expenses, % of GDP	28.4%	28.6%	29.4%	28.2%	27.7%	29.4%	34.9%	32.3%	30.0%	29.5%
Fiscal balance (-deficit), % of GDP	-2.6%	-2.4%	-2.8%	-2.7%	-2.3%	-2.1%	-9.3%	-6.1%	-3.1%	-2.8%
Public debt, % of GDP	31.0%	36.7%	40.3%	39.4%	38.9%	40.4%	60.2%	49.7%	39.6%	38.3%
External Sector										
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%	-10.4%	-5.7%	-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%	4.5%	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
Financial sector										
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 & Taggart

Note: Fiscal balance according to IMF Program Definition

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