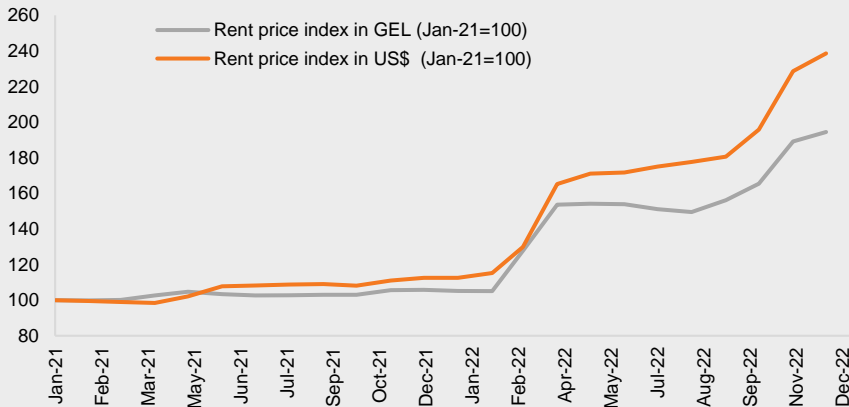




Chart of the month: Real estate rents surged in Tbilisi



Source: NBG

Migrants boosted housing market and rents skyrocketed. Notably, prices experienced larger upward correction in dollar terms amid GEL appreciation. Real estate rent index in Tbilisi increased by 83.9% y/y in GEL and by 112.0% y/y in dollar terms in Dec-22 from its pre-war levels. In the same period, real estate prices increased at a slower pace, up by 11.2% y/y in GEL and 28.3% y/y in dollar terms. After extraordinary growth in 2022, we anticipate correction in rent market and expect close to zero growth, while expect single digit growth in real estate prices.

Economic summary

Growth: Economy expanded by 11.0% y/y in Dec-22, after growing by 9.3% y/y in November. 2022 growth came in at 10.1% overall, in line with our expectations. We forecast growth at 4.8% in 2023 and 5.0% in 2024 (see [here](#) for more details). In December, the growth was driven by construction, manufacturing, transportation and storage, financial, trade and hospitality sectors. Meanwhile, real estate operations, professional activities and utilities sectors contracted.

Inflation: Headline CPI retreated to 9.8% y/y in December, down from November's reading of 10.4%. Decelerating energy prices contributed most to ease inflationary pressures along with base effect. We expect food price pressures to ease this year driven by delayed effects of GEL appreciation and reduction in global food prices. We expect average annual inflation at 5.2% in 2023 down from 11.9% in 2022 and see inflation close to target by end-23.

Monetary policy: The NBG kept its key rate unchanged at 11.0% since Mar-22. The regulator believes that inflation has already passes its peak, but intends to keep policy rate at 11.0% until a clear trend of decreasing inflation is observed. We see room for policy rate cut from spring 2023 and expect policy rate at 9.0% at end-23, considering expected deceleration in inflation. We believe that continued global tightening will be transmitted to Georgia and therefore reduction in GEL rates will be necessary to escape overtightening.

FX: The GEL strengthened by 12.5% vs dollar in 2022, and the currency is on a continued appreciation trend since Oct-22. Continued robust growth of external inflows was the key factor behind currency strength. Notably, NBG was net buyer of US\$ 564.6mn during 2022 raising international reserves to record high US\$ 4.9bn. In baseline scenario, we see average GEL rate at 2.8 vs dollar in 2023 (down from 2.9 in 2022), as FX inflows (including from tourism) remain solid.

Activity

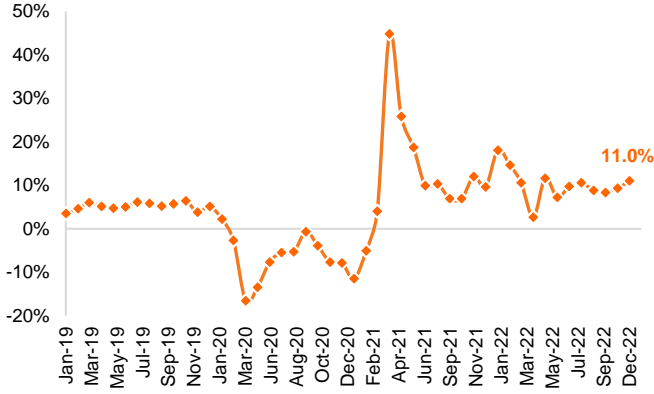
Trade: In December, both exports and imports growth accelerated, reaching record high levels. Cars, copper and fertilizers exports contributed most to growth, while energy products along with cars continued to drive imports. Despite substantial growth in trade deficit was offset by robust remittances and tourism inflows and external balance (goods trade, remittances and tourism) remained positive for the 8th consecutive month. Notably, current account balance turned into surplus at 5.9% of GDP in 3Q22 for the 2nd time on record (0.3% of GDP in 3Q18).

Tourism: Tourism revenues continued strong growth in December, surpassing 2019 level by 67.2% (see [here](#)). In 2022, tourism revenues increased by 182.5% y/y to US\$ 3.5bn, which is also 7.6% higher vs pre-pandemic level. We expect tourism revenues to increase by 15% y/y in 2023.

Banking sector: Credit growth slowed to 12.1% y/y (+2.4% m/m) in December, excluding FX effect, after a 13.8% y/y growth in previous month, mostly reflecting last year's high base effect. Contrary to loans, deposit growth continued strong growth up 29.6% y/y (exc. FX effect) in December, with both FX and GEL deposits driving growth. Dollarization ratios improved further, with deposit dollarization at 56.1% and loan dollarization at 44.3%. Other performance indicators remained healthy in December, with NPLs at record-low 1.7%.

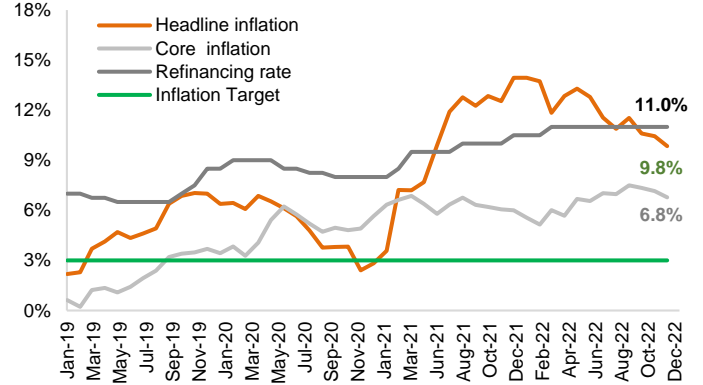


Real GDP growth, % change y/y



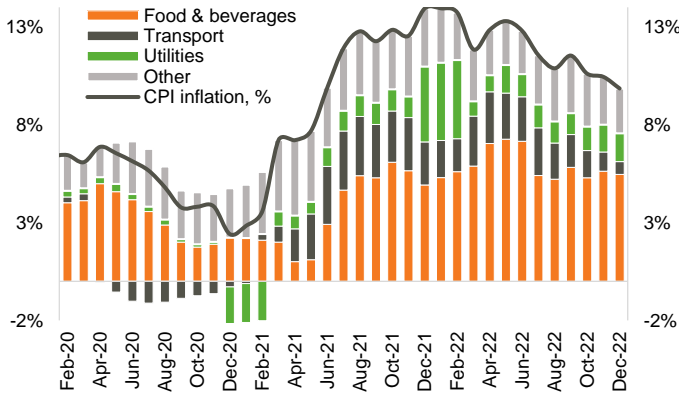
Source: Geostat

Annual inflation and monetary policy rate



Source: Geostat, NBG

Contributions to annual inflation



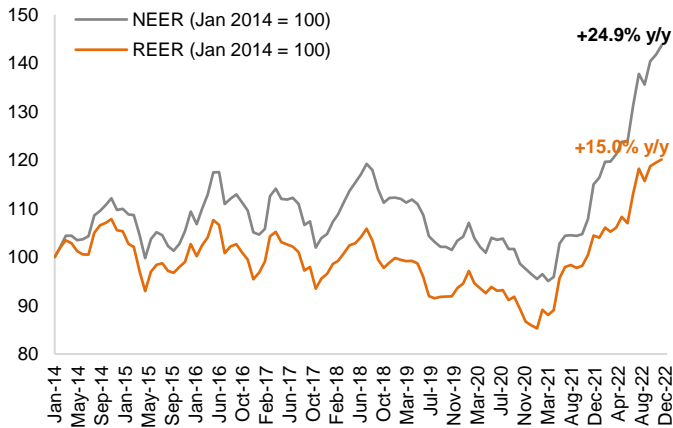
Source: Geostat

GEL vs USD



Source: NBG

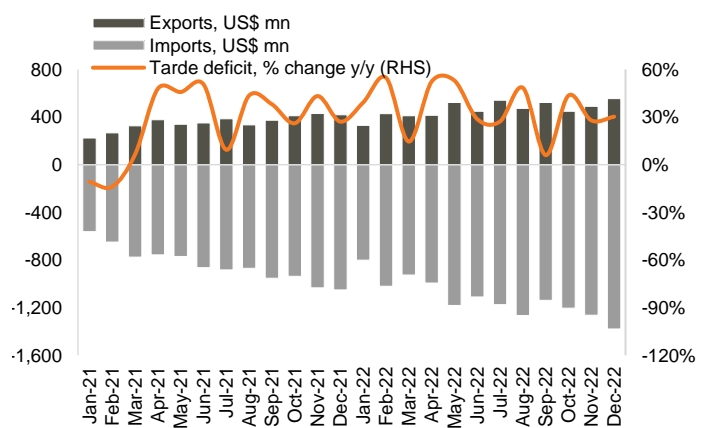
GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)



Source: NBG

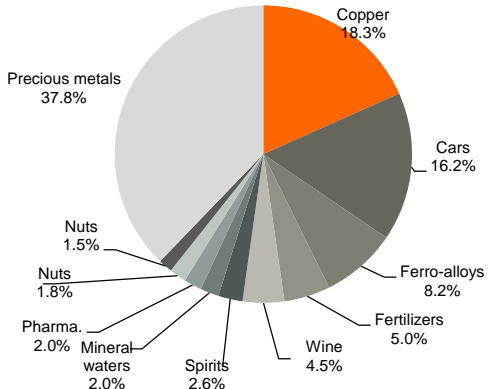
Note: Index growth/decline means appreciation/depreciation of GEL

Goods exports, imports and trade deficit



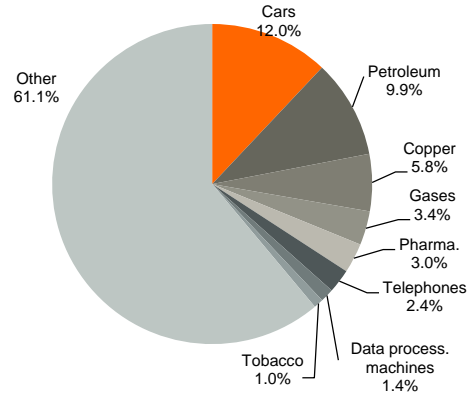
Source: Geostat

Exports by product, 2022



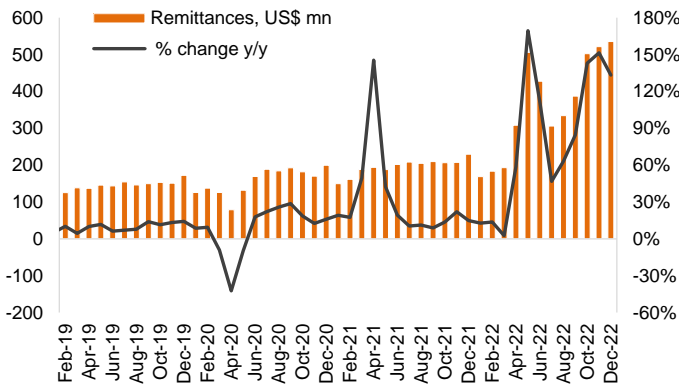
Source: Geostat

Imports by product, 2022



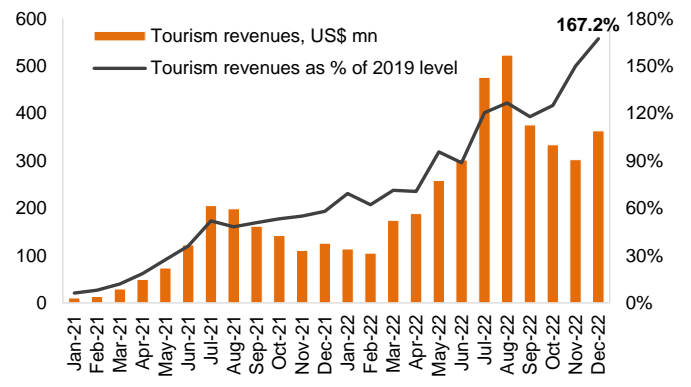
Source: Geostat

Remittances



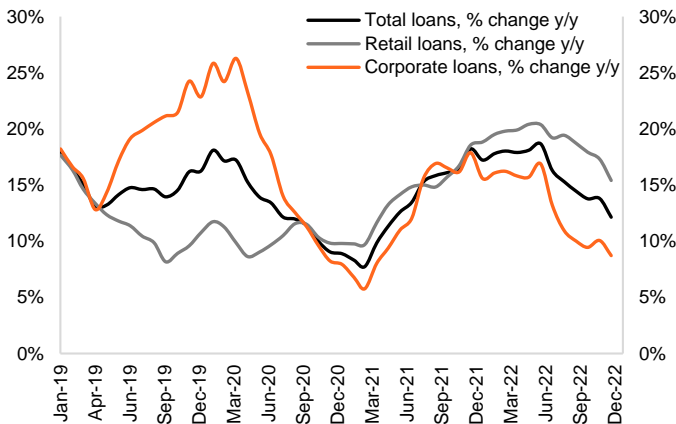
Source: NBG

Tourism revenues



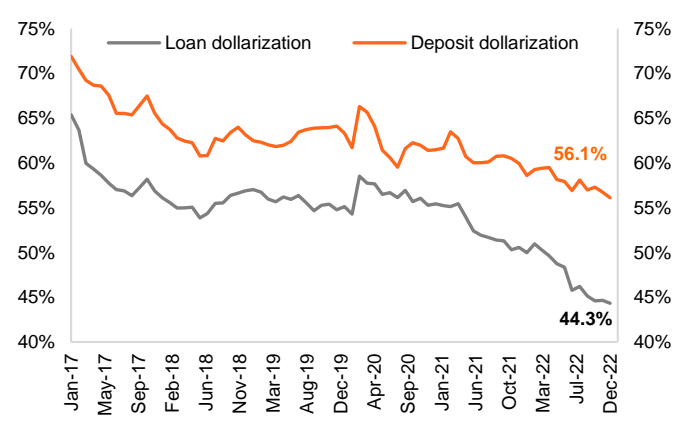
Source: NBG

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023F	2024F
GDP and Prices													
Nominal GDP, GEL bn	27.2	28.6	31.1	33.9	35.8	40.8	44.6	49.3	49.3	60.0	71.6	78.4	85.2
Nominal GDP, US\$ bn	16.5	17.2	17.6	14.9	15.1	16.2	17.6	17.5	15.8	18.6	24.6	28.0	30.4
Nominal GDP per capita, US\$	4,422	4,624	4,739	4,013	4,062	4,359	4,722	4,696	4,256	5,015	6,656	7,592	8,250
Real GDP, % change y/y	6.4%	3.6%	4.4%	3.0%	2.9%	4.8%	4.8%	5.0%	-6.8%	10.5%	10.1%	4.8%	5.0%
CPI Inflation, average	-0.9%	-0.5%	3.1%	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.9%	5.2%	3.8%
CPI Inflation, eop	-1.4%	2.4%	2.0%	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.8%	3.3%	3.5%
GEL per US\$, average	1.65	1.66	1.77	2.27	2.37	2.51	2.53	2.82	3.11	3.22	2.92	2.80	2.80
Population, mn	3.7	3.7	3.7	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	28.8%	26.4%	26.5%	27.5%	28.0%	27.4%	27.0%	26.6%	25.6%	25.9%	27.2%	26.5%	25.9%
Budget expenses, % of GDP	29.4%	27.6%	28.4%	28.6%	29.4%	28.2%	27.7%	29.4%	34.9%	32.3%	30.0%	29.5%	28.1%
Fiscal balance (-deficit), % of GDP	-1.7%	-1.9%	-2.6%	-2.4%	-2.8%	-2.7%	-2.3%	-2.1%	-9.3%	-6.1%	-3.1%	-2.8%	-2.3%
Public debt, % of GDP	28.8%	29.5%	31.0%	36.7%	40.3%	39.4%	38.9%	40.4%	60.2%	49.7%	39.6%	38.3%	37.8%
External Sector													
Current account, US\$ bn	-1.9	-1.0	-1.8	-1.8	-1.9	-1.3	-1.2	-1.0	-2.0	-1.9	-0.8	-1.5	-1.6
Current account, % of GDP	-11.4%	-5.6%	-10.2%	-11.8%	-12.5%	-8.1%	-6.8%	-5.8%	-12.5%	-10.4%	-3.1%	-5.5%	-5.1%
Exports of goods and services, US\$ bn	6.0	7.2	7.1	6.2	6.2	7.6	8.9	9.6	5.9	8.1	13.3	14.8	16.3
Imports of goods and services, US\$ bn	9.2	9.3	10.1	8.7	8.5	9.4	10.8	11.2	9.0	11.2	15.5	17.3	18.7
Net Current transfers, US\$ bn	1.4	1.5	1.4	1.1	1.1	1.3	1.4	1.4	1.8	2.3	3.2	2.8	3.0
Net FDI, US\$ bn	0.8	0.9	1.4	1.4	1.2	1.7	1.0	1.1	0.6	0.9	2.0	1.8	1.8
Net FDI, % of GDP	4.6%	5.3%	8.1%	9.5%	8.2%	10.6%	5.7%	6.1%	3.6%	4.9%	8.3%	6.4%	5.9%
Gross international reserves, US\$ bn	2.9	2.8	2.7	2.5	2.8	3.0	3.3	3.5	3.9	4.3	4.9	5.2	5.4
Financial sector													
Bank loan portfolio, US\$ bn	5.3	6.0	7.0	6.7	7.1	8.6	9.9	11.1	11.7	13.9	16.6	17.2	18.5
Bank loan portfolio, % of GDP	31.2%	36.1%	40.8%	47.2%	52.8%	54.7%	59.6%	64.8%	77.6%	71.4%	62.6%	61.3%	60.9%
Monetary policy rate, %	5.3%	3.8%	4.0%	8.0%	6.5%	7.3%	7.0%	9.0%	8.0%	10.5%	11.0%	9.0%	8.0%

Source: NBG, MOF, Geostat, Galt & Taggart

Note: Fiscal balance according to IMF Program Definition

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