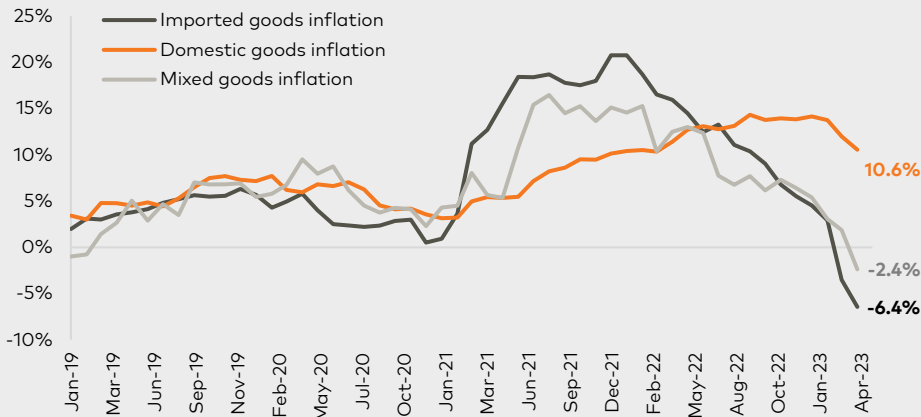




Chart of the month: reduced imported inflation drove headline inflation down



Source: Geostat

In April 2023, annual headline inflation retreated to 2.7%, supported by a significant decrease in imported goods inflation (-6.4% y/y, subtracting 1.6ppts from headline). Mixed goods inflation also contributed to the reduction (-2.4% y/y, -0.7ppts). However, domestic inflation remained high at 10.6% y/y (+5.0ppts), with a decreasing trend.

Economic summary

Growth: Economy continues strong growth, with real GDP up 7.5% in Apr-23, after 7.3% growth in previous month. Overall, in 4M23, growth came in at 7.3%. In April, construction, financial, trade, ICT, transportation and storage sectors drove the growth. Meanwhile, manufacturing, and real estate sectors contracted. We forecast Georgia's economy to grow by 5.8% in 2023.

Inflation: In Apr-23, headline CPI receded to 2.7% y/y, marking the 7th consecutive monthly decline. This decrease in inflation reflected a decline in imported inflation, driven by falling global commodity prices and international shipping costs along with GEL appreciation. While there is a slowdown in domestic inflation, it remained high at 10.6% y/y in April. We expect disinflation to continue and forecast average annual inflation at 3.1% for the entire year and end-2023 inflation at 1.0%.

Monetary policy: The NBG cut its key rate by 50bps to 10.5% on 10 May 2023 meeting. The decision was prompted by a significant deceleration of annual inflation, which dropped to 2.7% in April 2023 from 9.4% in January 2023. Considering disinflation trend, we see room for additional 100-150bps rate cut through the end-2023.

FX: The GEL depreciated by 3.8% m/m in May, but still gaining 4.4% vs dollar year-to-date. We attribute the recent depreciation to one-off factors, as FX inflows remain robust and tourism revenues are growing strongly. Notably, NBG purchased US\$ 782.9mn in 4M23 (o.w. US\$ 322.4mn in April), resulting record high gross international reserves reaching US\$ 5.1bn in April 2023. We expect average GEL rate at 2.55 vs dollar in 2023.

Activity

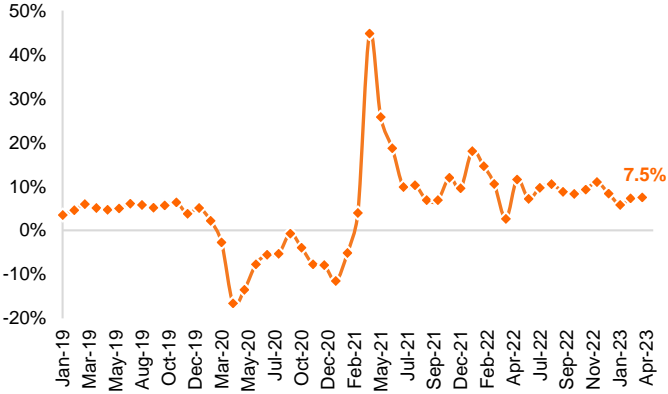
Trade: In April 2023, both exports and imports growth moderated compared to previous month, increasing by 20.4% y/y and 9.8% y/y, respectively. As a result, the trade deficit increased by 2.2% y/y. The main contributors to export growth were cars, electricity, spirits, wine, and water. Imports growth was driven by an increase in cars, phones, tractors, and gas products. Overall, in 4M23, trade deficit increased by 19.4% y/y to US\$ 2.6bn, as exports increased by 23.6% y/y to US\$ 2.0bn, while imports were up by 21.2% y/y to US\$ 4.5bn. The high growth in trade flows indicates strong external and domestic demand.

Tourism: According to our estimates, tourism revenues continued strong growth up by 32.6% y/y, reaching US\$ 250.0mn in Apr-23. Overall, tourism revenues reached US\$ 1,045mn (+79.5% y/y) in 4M23, based on our estimate.

Banking sector: Credit growth was 13.2% y/y in April, excluding FX effect, after growing by 13.8% y/y in previous month. Deposits growth slowed to 28.7% y/y (exc. FX effect) in April, after a 30.4% y/y growth in March. In terms of currency breakdown, GEL deposits growth accelerated to 39.1% y/y (+33.7% y/y in previous month) and FX deposits growth (exc. FX effect) slowed to 21.5% y/y (+28.1% in previous month), hinting also on conversion of FX deposits into GEL with both FX and GEL deposits driving growth. As a result, deposit dollarization reduced to 51.3% in April, which is the lowest level observed since Sep-97. Loan dollarization also reduced to 43.9% from previous month's 44.3%. Other performance indicators remained healthy in April, with NPLs at 1.8%.

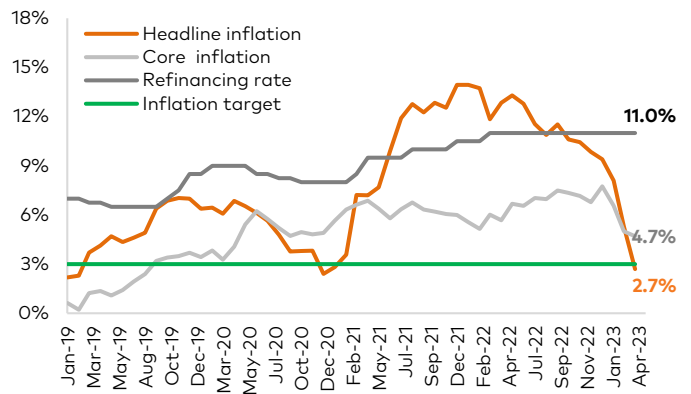


Real GDP growth, % change y/y



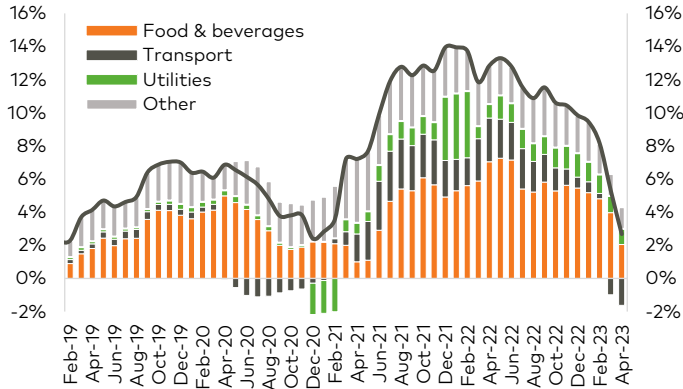
Source: Geostat

Annual inflation and monetary policy rate



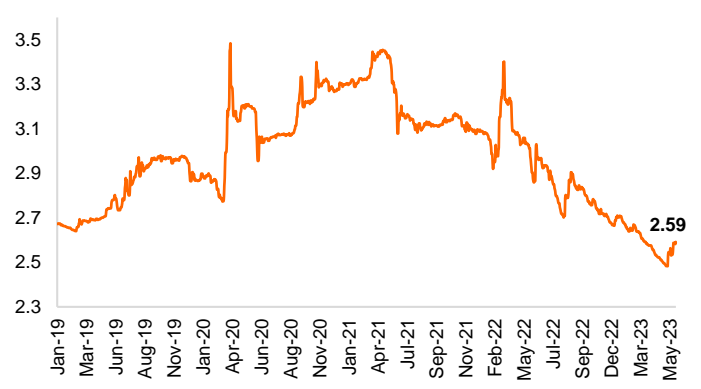
Source: Geostat, NBG

Contributions to annual inflation



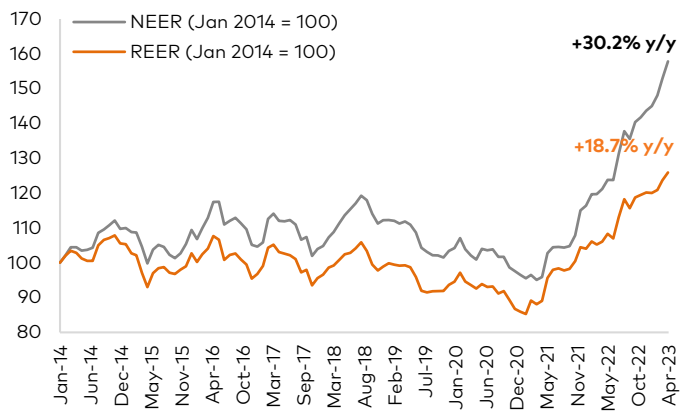
Source: Geostat

GEL vs USD



Source: NBG

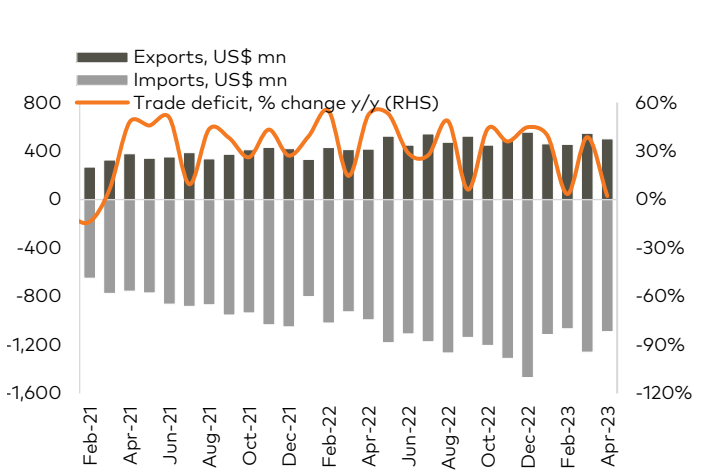
GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)



Source: NBG

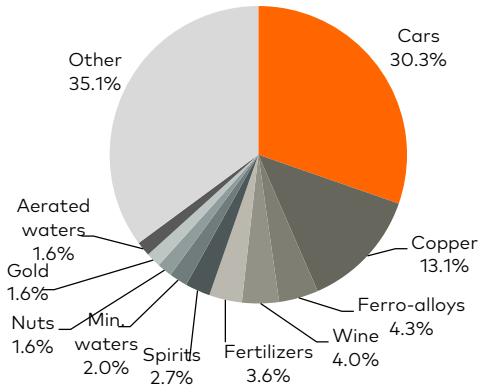
Note: Index growth/decline means appreciation/depreciation of GEL

Goods exports, imports and trade deficit



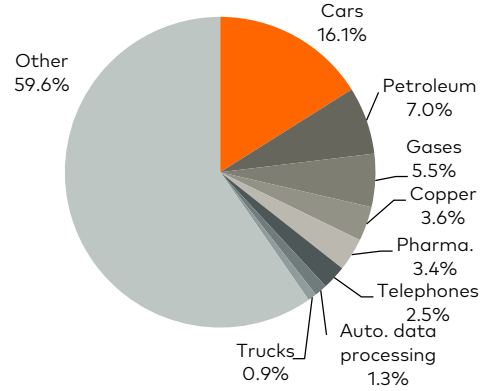
Source: Geostat

Exports by product, 4M23



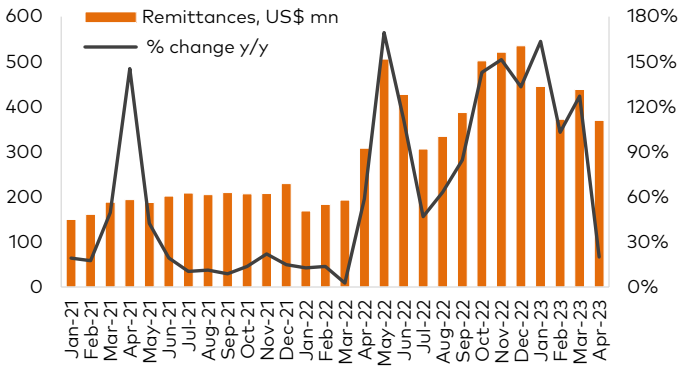
Source: Geostat

Imports by product, 4M23



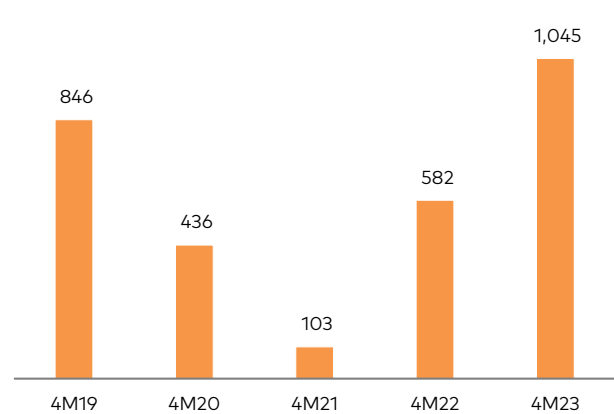
Source: Geostat

Remittances



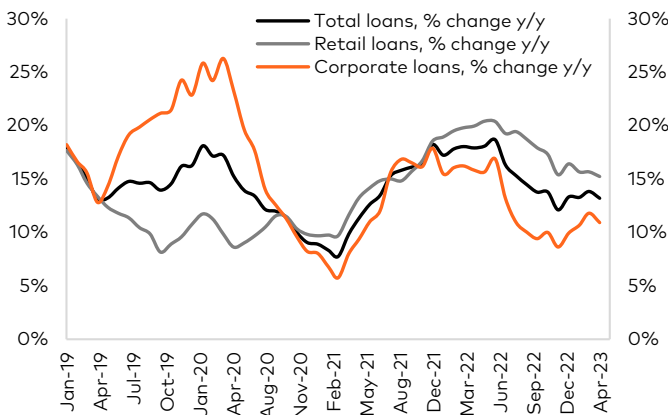
Source: NBG

Tourism revenues, US\$ mn



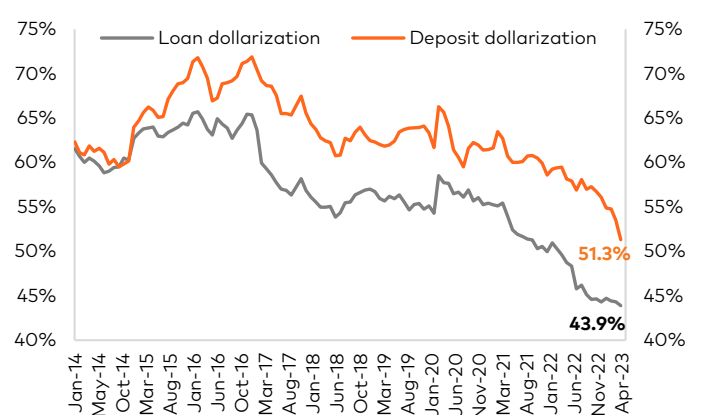
Source: NBG, Galt & Taggart estimate for Apr-23

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	71.8	78.8	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	30.9	32.8
Nominal GDP per capita, US\$	4,422	4,624	4,739	4,013	4,062	4,359	4,722	4,696	4,256	5,023	6,672	8,271	8,773
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%	5.8%	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%	3.1%	2.9%
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%	1.0%	3.4%
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	2.55	2.60
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%	27.6%	27.1%	26.4%
Budget expenses, % of GDP	29.4%	27.6%	28.4%	28.6%	29.4%	28.2%	27.7%	29.4%	34.9%	32.3%	30.1%	30.1%	28.7%
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%	-2.9%	-2.4%
Public debt, % of GDP	28.8%	29.5%	31.0%	36.7%	40.3%	39.4%	38.9%	40.4%	60.2%	49.7%	39.8%	37.9%	37.5%
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	-1.0	-1.7	-1.7
Current account, % of GDP	-11.4%	-5.6%	-10.2%	-11.8%	-12.5%	-8.1%	-6.8%	-5.8%	-12.5%	-10.4%	-4.1%	-5.4%	-5.2%
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	13.2	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	15.7	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	3.1	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	1.7	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%	6.7%	5.8%	5.5%
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	5.5	5.6
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	18.1	19.2
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%	62.4%	60.8%	60.7%
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%	9.5%	8.0%

Source: NBG, MOF, Geostat, Galt & Taggart

Note: Fiscal balance according to IMF Program Definition

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Head of Research

Eva Bochorishvili | evaboshorishvili@gt.ge

Head of Macroeconomic Analysis and Forecasting

Lasha Kavtaradze | lkavtaradze@gt.ge

Galt & Taggart

Address: 3 A. Pushkin Street, Tbilisi 0105, Georgia

Tel: + (995) 32 2401 111

Email: research@gt.ge