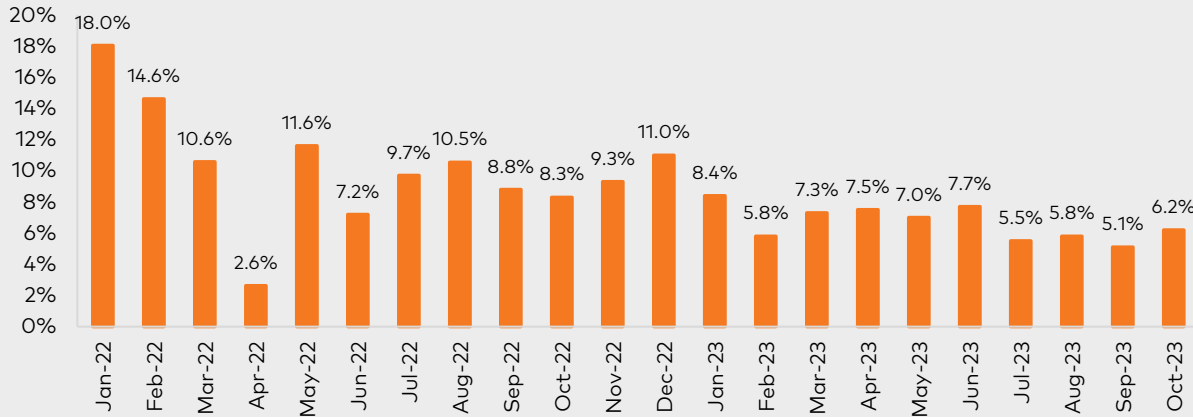




Chart of the month: Real GDP growth accelerated in Oct-23 after easing in previous 3 months



Source: Geostat

Economic summary

Growth: Georgia's economy grew by 6.2% in Oct-23, in line with our expectations, after growing by 5.1% in September. Overall, in 10M23, growth reached 6.9%, in line with our 6.8% growth projection for the full year 2023. For 2024 we forecast 5.0% growth.

In October, real growth was recorded in the financial, trade and transportation & storage sectors. In contrast, the manufacturing and real estate sectors contracted during the same period.

Inflation: Annual CPI inflation remained stable at 0.8% y/y compared to the previous month, thanks to a decline in prices for food and non-alcoholic beverages offsetting price increases in energy products. In October, both imported and mixed goods inflation stayed in negative territory, and domestic inflation reduced further to 4.5% y/y from 5.3% y/y in previous month. Importantly, core inflation (non-food, non-energy, non-tobacco) also decreased to 2.1% y/y in Oct-23 vs 2.5% y/y in Sep-23. We forecast average annual inflation at 2.7% for 2023 and 3.5% for 2024.

Monetary policy: On 29 November 2023, NBG's Financial Stability Committee decided to permit banks to gradually build a neutral countercyclical buffer, starting by 0.25% in Mar-24 (instead of initially planned 1%) and reaching 1.0% by Mar-2027. At an unscheduled Monetary Policy Committee meeting, the upper reserve norm on short-term FX liabilities was reduced from 25% to 20%. According to the regulator, these modifications aim to furnish the local market with increased FX liquidity and enhanced flexibility for buffer accumulation, aiming to mitigate the impact of tightened financial conditions globally. We anticipate these measures to support economic growth and GEL. In the final December meeting this year we expect a 25bps rate cut to 9.75% and a further 100bps cut to 8.75% by end-2024.

FX: The GEL was flat m/m in November against the dollar. Our outlook on the GEL remains unchanged and we anticipate the GEL vs. US\$ at around 1\$/2.7 throughout 2023 and into 2024. Notably, the NBG is a net buyer of US\$ 1.3bn YTD.

Activity

Trade: In Oct-23, goods exports growth accelerated increasing by 10.3% y/y to US\$ 494.9mn, while imports growth slowed to 3.3% y/y to US\$ 1.2bn. The surge in exports was mainly driven by the rise in re-exports of cars, followed by spirits, waters and live bovine animals, although there was a notable decline in copper, wine and nuts export. On the import side, positive contributions to the growth came from the import of pharmaceuticals, trucks and gases, while imports of cars, petroleum and copper dropped. Overall, in 10M23, the trade deficit increased by 21.7% y/y to US\$ 7.6bn. This growth was due to a 12.5% y/y increase in exports, totaling US\$ 5.1bn, and a 17.8% y/y rise in imports, reaching US\$ 12.7bn.

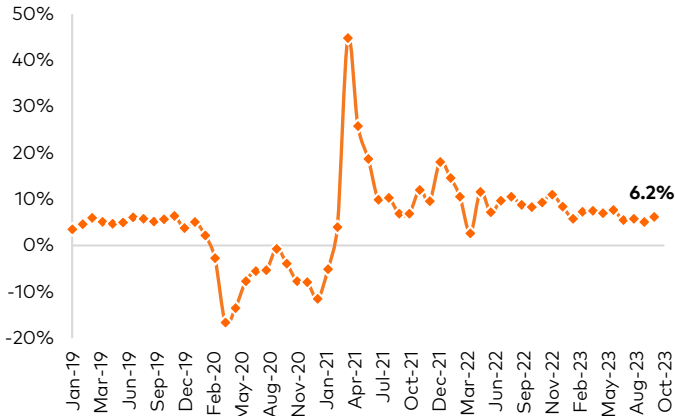
Tourism: In Oct-23, tourism revenues was flat y/y at US\$ 335.0mn, according to our estimate. Overall, tourism revenues came in at US\$ 3.6bn (+25.8% y/y) in 10M23. We forecast tourism revenues at US\$ 4.2bn (+19.0% y/y) for the full year 2023 and at US\$ 4.5bn (+7.0% y/y) for 2024.

Banking sector: In Oct-23, the loan portfolio growth in the banking sector accelerated to 16.1% y/y (excl. FX effect) reaching GEL 50.1bn, after a 14.9% y/y growth in previous month. The October credit growth was mainly driven by a 19.3% y/y increase in corporate loans (contributing 8.8ppts to the total loan growth), followed by retail loans (+13.4% y/y). Importantly, the acceleration in corporate loan growth is positive for economic growth due to its higher multiplier effect.

Bank deposits increased by 18.7% y/y (excl. FX effect) to GEL 49.8bn in Oct-23, with accelerating GEL deposits. The dollarization rates remained favorable, with deposit and loan dollarization standing at 50.3% and 45.2%, respectively, in October.

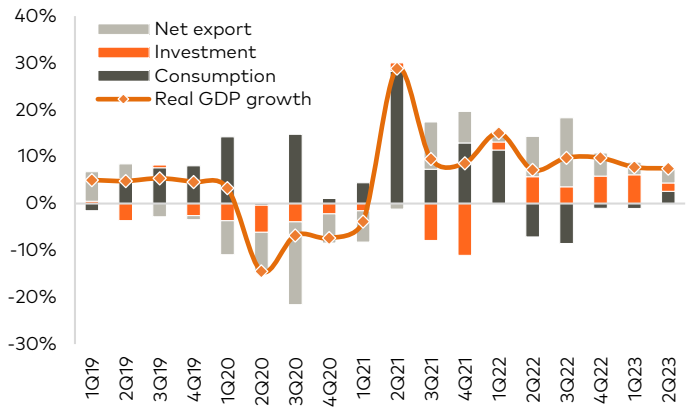


Real GDP growth, % change y/y



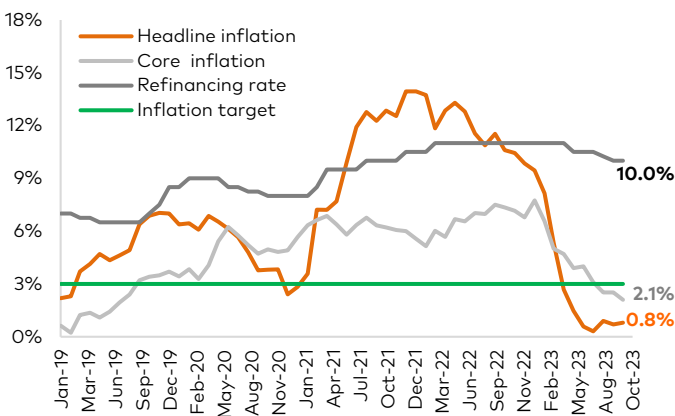
Source: Geostat

Contributions to GDP, ppts



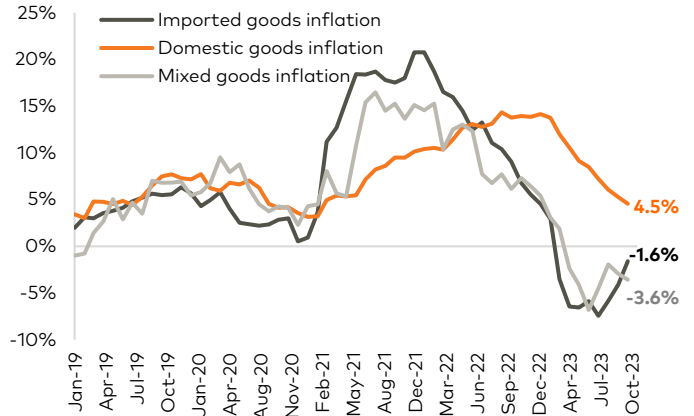
Source: Geostat, Galt & Taggart

Annual inflation and monetary policy rate



Source: Geostat, NBG

Imported and domestic inflation dynamics



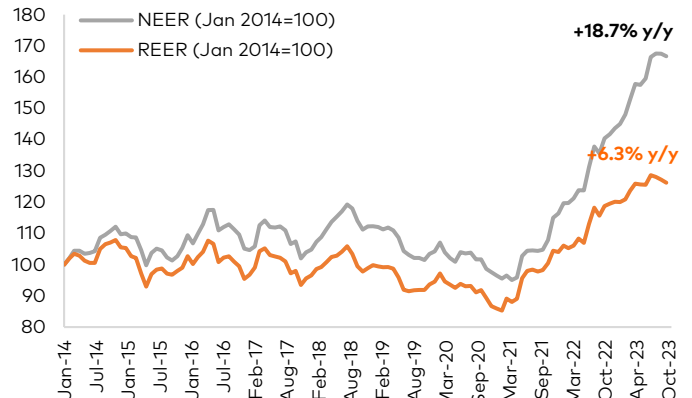
Source: Geostat

GEL vs USD



Source: NBG

GEL's nominal and real effective exchange rates

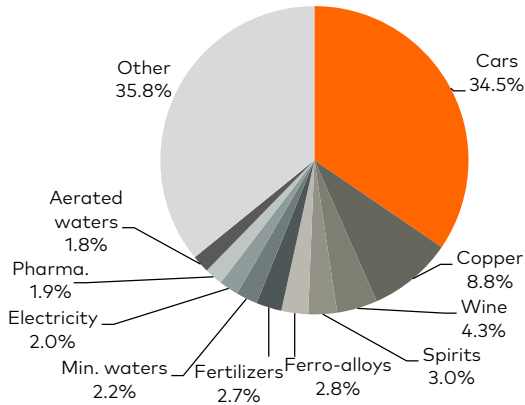


Source: NBG

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

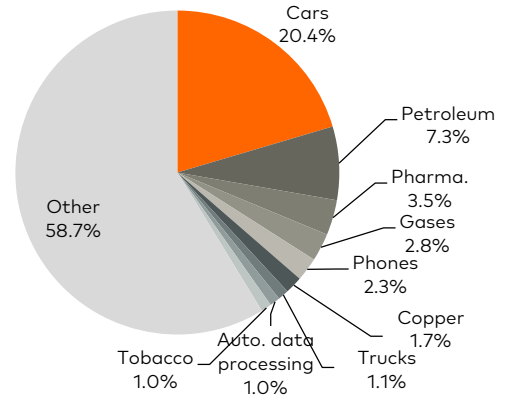


Exports by product, 10M23



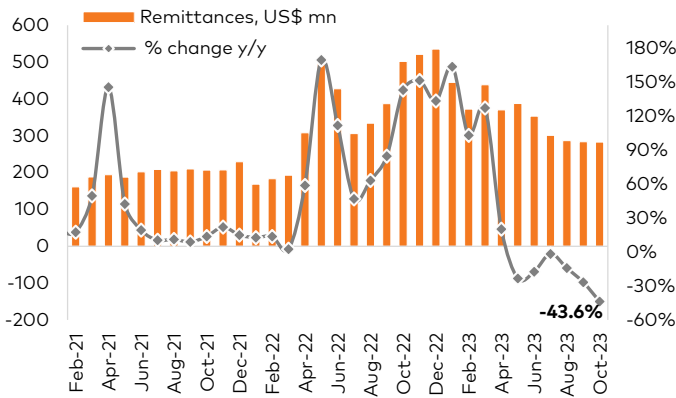
Source: Geostat

Imports by product, 10M23



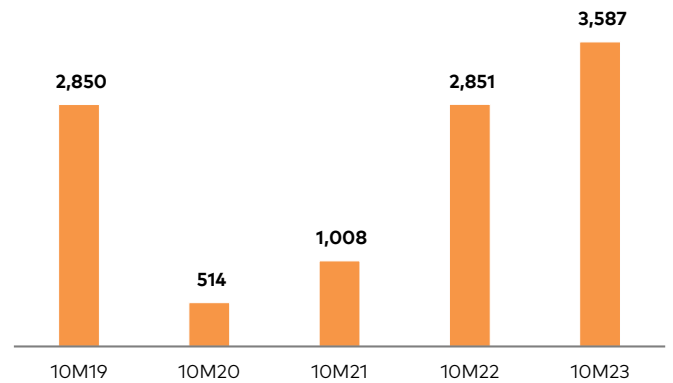
Source: Geostat

Remittances



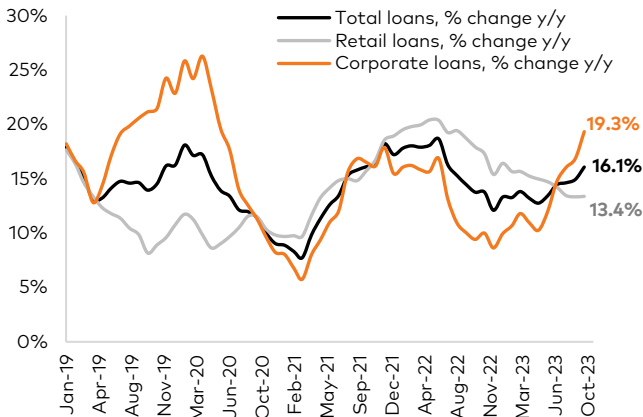
Source: NBG

Tourism revenues in 10M, US\$ mn



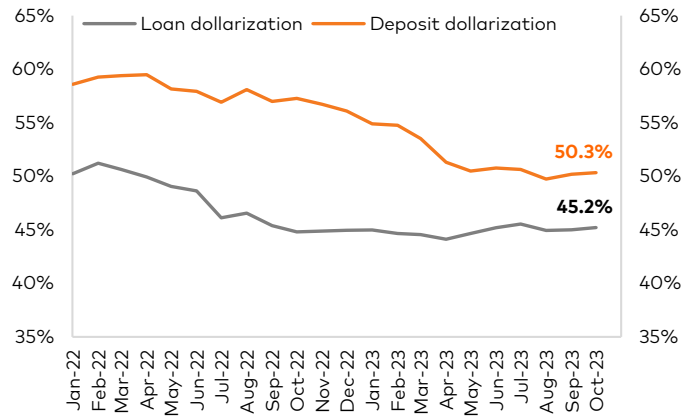
Source: NBG, Galt & Taggart

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	2022	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	72.3	79.7	87.0
Nominal GDP, US\$ bn	16.5	17.2	17.6	14.9	15.1	16.2	17.6	17.5	15.8	18.6	24.8	30.3	32.2
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	6,676	8,108	8,624
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%	10.4%	6.8%	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%	2.7%	3.5%
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%	0.8%	4.4%
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	2.63	2.70
GEL per US\$, end of period	1.66	1.74	1.86	2.39	2.65	2.59	2.68	2.87	3.28	3.10	2.70	2.69	2.75
GEL per EUR, average	2.12	2.21	2.35	2.52	2.62	2.83	2.99	3.15	3.55	3.82	3.08	2.85	3.00
GEL per EUR, end of period	2.18	2.39	2.27	2.62	2.79	3.10	3.07	3.21	4.02	3.50	2.88	2.99	3.05
GEL per GBP, average	2.62	2.60	2.91	3.47	3.21	3.23	3.38	3.60	3.99	4.43	3.62	3.27	3.48
GEL per GBP, end of period	2.67	2.86	2.89	3.55	3.26	3.50	3.40	3.76	4.45	4.17	3.26	3.48	3.55
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%	27.4%	27.9%	28.8%
Budget expenses, % of GDP	29.4%	27.6%	28.4%	28.6%	29.4%	28.2%	27.7%	29.4%	34.9%	32.3%	29.9%	30.9%	31.3%
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%	-3.0%	-2.8%	-2.5%
Public debt, % of GDP	28.8%	29.5%	31.0%	36.7%	40.3%	39.4%	38.9%	40.4%	60.2%	49.7%	39.5%	38.4%	38.1%
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	-1.1	-1.4	-1.4
Current account, % of GDP	-11.4%	-5.6%	-10.2%	-11.8%	-12.5%	-8.1%	-6.8%	-5.9%	-12.5%	-10.4%	-4.5%	-4.5%	-4.3%
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	16.0	17.5
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	15.6	18.2	19.7
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	2.9	3.1
Net FDI, US\$ bn	0.8	0.9	1.4	1.4	1.2	1.7	1.0	1.1	0.6	0.9	1.8	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%	5.0%	7.1%	5.9%	5.6%
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	5.2
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	19.0	20.2
Bank loan portfolio, % of GDP	31.2%	36.1%	40.8%	47.2%	52.8%	54.7%	59.6%	64.8%	77.6%	71.8%	62.0%	64.6%	64.5%
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%	9.75%	8.75%

Source: NBG, MOF, Geostat, Galt & Taggart

Note: Fiscal balance according to IMF Program Definition

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