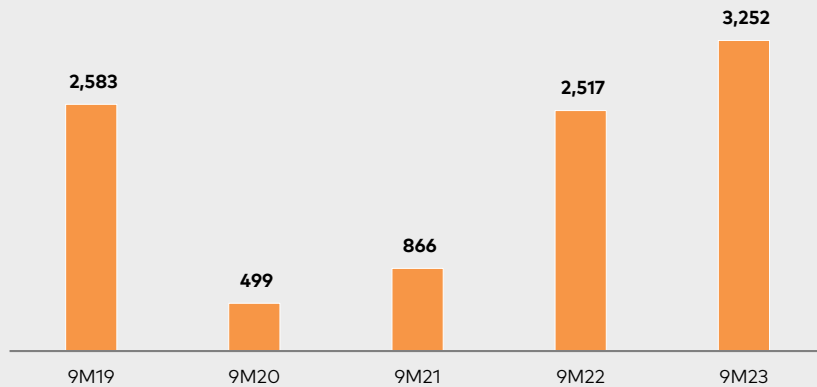




Chart of the month: Record-high Tourism Revenues in 9M23



Source: NBG

In 3Q23, international visitors to Georgia increased by 21.0% y/y to 2.3mn persons. The top source countries were Russia, Türkiye, and Armenia.

In total, 4.8mn international visitors came to Georgia in 9M23, with 3.7mn of them being tourists, while the rest consisted of same-day arrivals. These tourist arrivals represent 91.6% of the levels seen in the same period in 2019. Although arrivals remain below the 2019 levels, tourism revenues in 9M23 almost matched the full-year figure for 2019, increasing by 29.2% y/y to US\$ 3.25bn. We expect tourism revenues at US\$ 4.2bn for the full 2023.

Economic summary

Growth: Georgia's economy grew by 5.1% in Sep-23, in line with our expectations, after growing by 5.8% in August. Overall, in 9M23, growth reached 6.8% and we maintain our growth forecast at 6.8% for the full year 2023 and at 5.0% for 2024.

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

Inflation: Annual CPI inflation retreated to 0.7% in Sep-23 from the previous month's 0.9%, thanks to continued slowdown in domestic inflation (to 5.3% y/y from 6.1% y/y in Aug-23) and decline in inflation for imported goods (-4.1% y/y) and mixed goods (-2.9% y/y). Notably, core inflation remained at 2.5% in September, similar to August. We forecast average annual inflation at 2.7% for 2023 and 3.5% for 2024.

Monetary policy: On October 25, 2023, the NBG decided to maintain its key rate at 10.0%. Despite the low inflation, the NBG is concerned on the current geopolitical situation, particularly the Middle East conflict, which adds uncertainty to the inflation outlook. Consequently, the regulator intends to proceed with a cautious approach to monetary normalization. Given these concerns, we revised our forecast and expect the key rate at 9.75% in Dec-23 and at 8.75% by end-2024 (25bps higher than our earlier estimate).

FX: The GEL depreciated by 1.0% m/m in October vs dollar, though it has remained flat YTD. Despite the challenging geopolitical context, Georgia's fundamentals continue to show strength, with robust FX inflows, solid economic growth and sound fiscal parameters. Consequently, we anticipate the GEL to hover around 1\$/2.7 throughout 2023 and into 2024. Notably, the NBG is a net buyer of US\$ 1.3bn YTD.

Activity

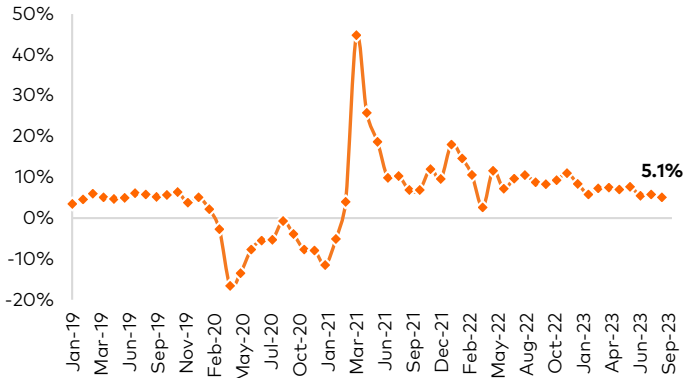
Trade: In Sep-23, goods exports increased by 0.9% y/y to US\$ 528.0mn, while imports were up by 9.2% y/y to US\$ 1.2bn. The growth in exports was primarily driven by the rise in re-exports of cars, while there was a significant decline in the export of copper and ferro-alloys. On the import side, substantial contributions to the growth came from the import of cars, pharmaceuticals and tractors, while there was a notable decrease in petroleum and copper imports in September. Overall, in 9M23, the trade deficit expanded by 22.3% y/y, reaching US\$ 6.7bn. This expansion was attributed to a 12.7% y/y increase in exports, totaling US\$ 4.6bn, and a 18.2% y/y rise in imports, reaching US\$ 11.3bn.

Tourism: In 3Q23, tourism revenues increased by 5.3% y/y to US\$ 1.45bn. The top source of tourism revenues was Russia, contributing US\$ 285.3mn (19.7% of total), following Türkiye at US\$ 220.5mn and the European Union at US\$ 212.0mn. Overall, tourism revenues reached US\$ 3.25bn (+29.2% y/y) in 9M23.

Banking sector: In Sep-23, the banking sector loan portfolio increased by 14.9% y/y (excl. FX effect) to GEL 49.2bn, after a 14.6% y/y growth in previous month. Similar to August, the credit growth was driven equally by a 16.9% y/y increase in corporate loans and by 13.3% y/y increase in retail loans. Bank deposits increased by 19.6% y/y (+2.0% m/m, excl. FX effect) to GEL 49.3bn in Sep-23. The dollarization rates remained favorable, with deposit and loan dollarization standing at 50.2% and 45.0%, respectively, in September.

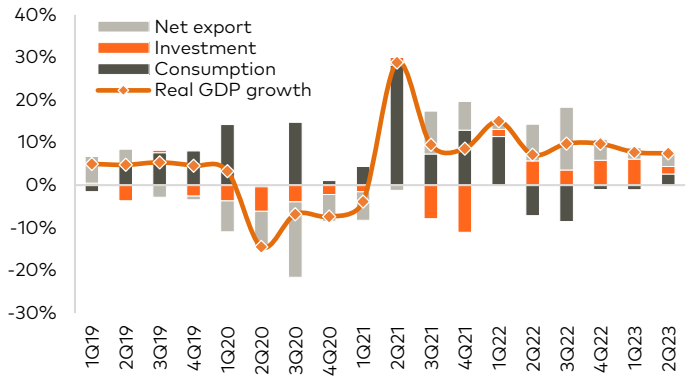


Real GDP growth, % change y/y



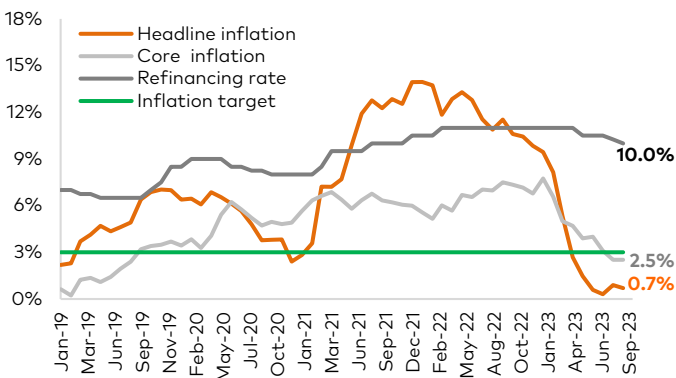
Source: Geostat

Contributions to GDP, ppts



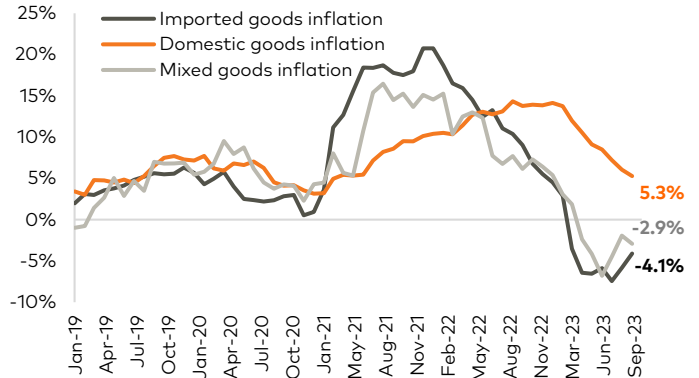
Source: Geostat, Galt & Taggart

Annual inflation and monetary policy rate



Source: Geostat, NBG

Imported and domestic inflation dynamics



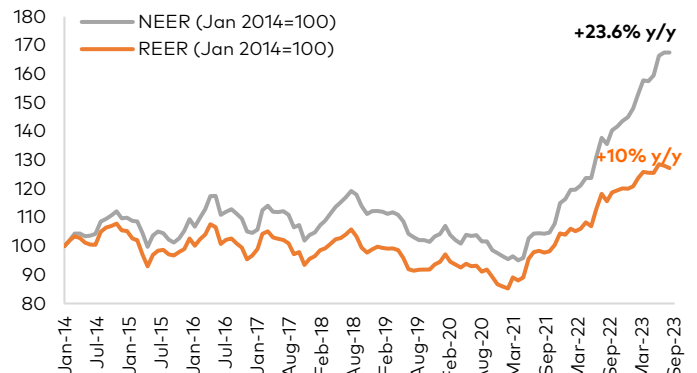
Source: Geostat

GEL vs USD



Source: NBG

GEL's nominal and real effective exchange rates

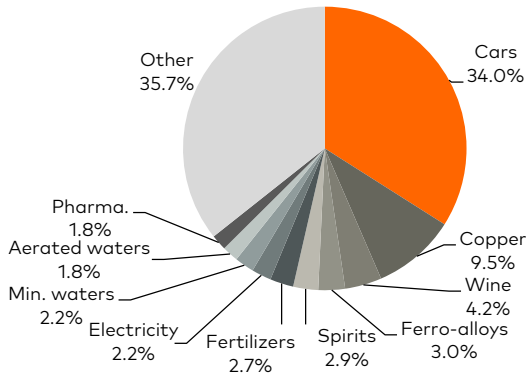


Source: NBG

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

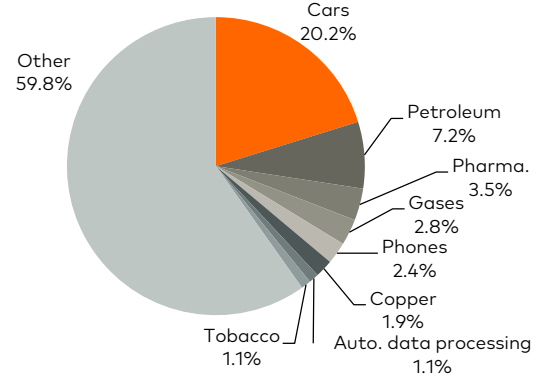


Exports by product, 9M23



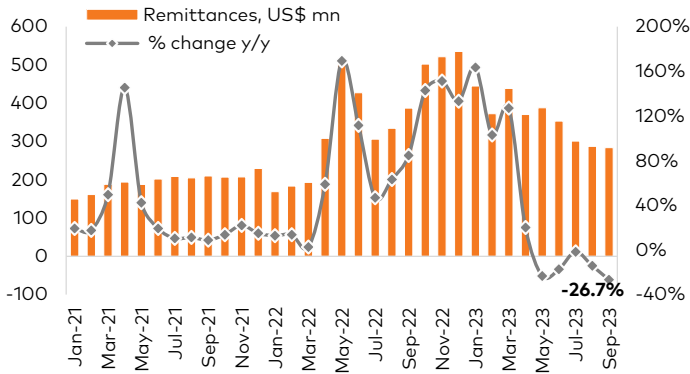
Source: Geostat

Imports by product, 9M23



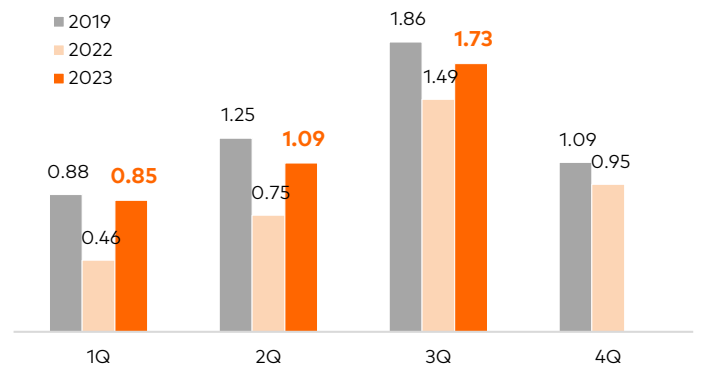
Source: Geostat

Remittances



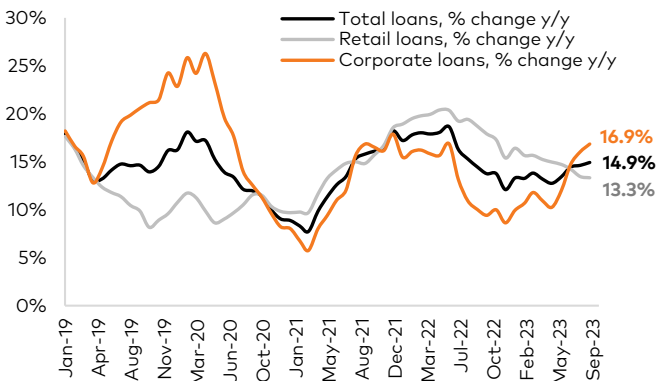
Source: NBG

Tourist arrivals, mn persons



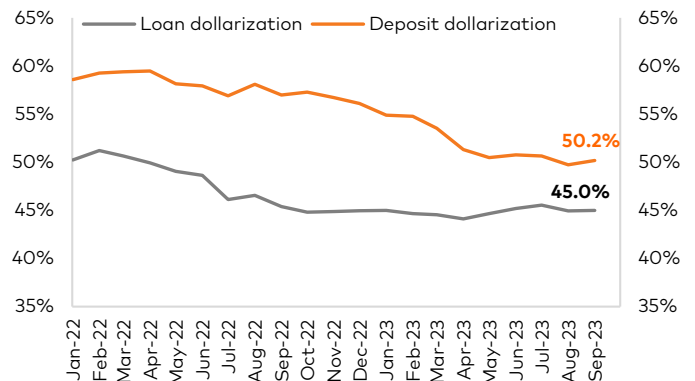
Source: GNTA

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	71.8	79.1	86.4
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	30.1	32.0
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	8,050	8,563
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%	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
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%	27.9%	28.0%
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%	30.9%	30.5%
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%	-2.5%
Public debt, % of GDP	28.8%	29.5%	31.0%	36.7%	40.3%	39.4%	38.9%	40.4%	60.2%	49.7%	39.8%	38.4%	38.2%
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%	-4.6%	-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%	7.2%	6.0%	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	5.3	5.3
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	18.8	19.7
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%	64.0%	63.3%
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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