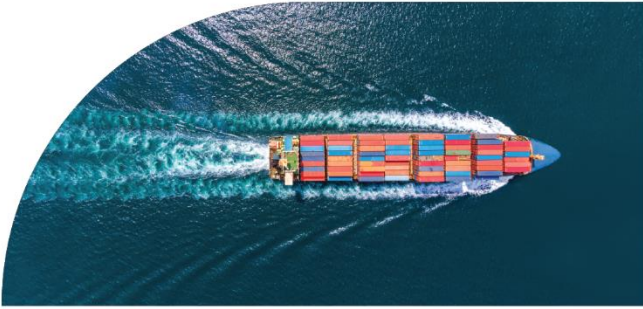




GALT & TAGGART
CREATING OPPORTUNITIES



NAVIGATING 2024

GEORGIA'S ECONOMIC OUTLOOK AND KEY SECTOR OVERVIEW

DECEMBER 2023

EVA BOCHORISHVILI

HEAD OF RESEARCH | EVABOCHORISHVILI@GT.GE | +995 322 401 111 EXT.8036

LASHA KAVTARADZE

HEAD OF MACROECONOMIC ANALYSIS AND FORECASTING | LASHAKAVTARADZE@GT.GE | +995 322 401 111 EXT.7473

KAKHA SAMKURASHVILI

HEAD OF SECTOR RESEARCH | KSAMKURASHVILI@GT.GE | +995 322 401 111 EXT.4298



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Telecom

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Tbilisi Residential Real Estate

Regional Residential Real Estate

Transport and Logistics

Energy

Agriculture

Education

Disclaimer



Georgia - EU candidate country Outlook

Georgia | Economy
December 25, 2023

Georgia continues to enjoy strong growth. The reduction in inflation should allow the refinancing rate to be cut further in 2024. Solid external inflows allow us to expect stability of GEL. Georgia has a strong growth outlook as the country starts 2024 on a high note, having achieved EU candidacy status, bolstering consumer and business confidence.

5.4% GDP growth in 2024 with potential upside

In 2023, Georgia's GDP continued its solid growth, expanding by 7.0% in 10M23. The primary driver of this growth was investments, with solid external inflows also playing a significant role. We expect growth of 5.4% in 2024 and see upside potential for 6.0% growth (see details on page 7).

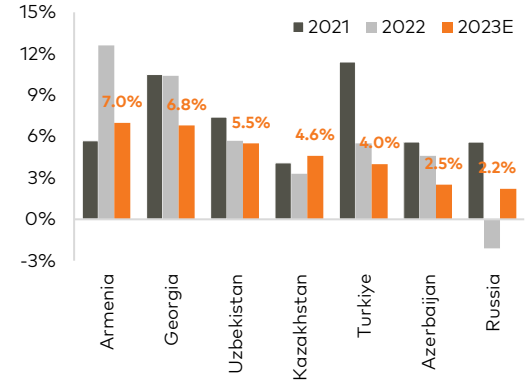
100bps rate cut in 2024

Inflation fell sharply in 2023, enabling the central bank to cut key rate by 150bps to 9.5%. We expect inflation to remain close to the target and anticipate average inflation at 3.5% in 2024. This will allow the central bank to cut key rate by 100bps to 8.5% by the end of 2024.

Appreciation potential for GEL in 2024

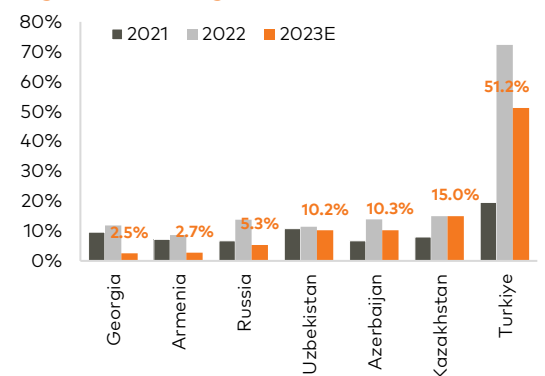
The expected solid external inflows and low current account deficit lead us to expect the GEL to remain stable at around 2.7 against the dollar and 3.0 against the Euro in 2024. We do not rule out a 2% appreciation of the GEL in our upside scenario.

Figure 1: Real GDP growth



Source: IMF, Geostat, Galt & Taggart

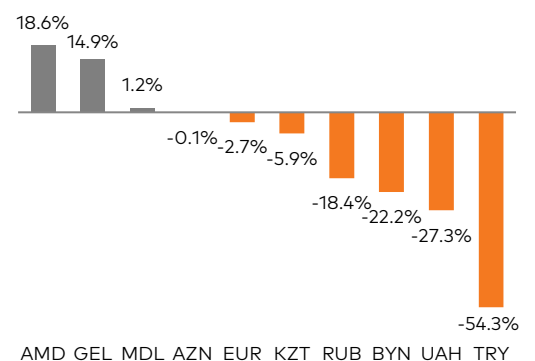
Figure 2: Average annual inflation



Source: IMF, Geostat, Galt & Taggart

Figure 3: Regional currencies vs. dollar

Period: January 1, 2022 – December 25, 2023



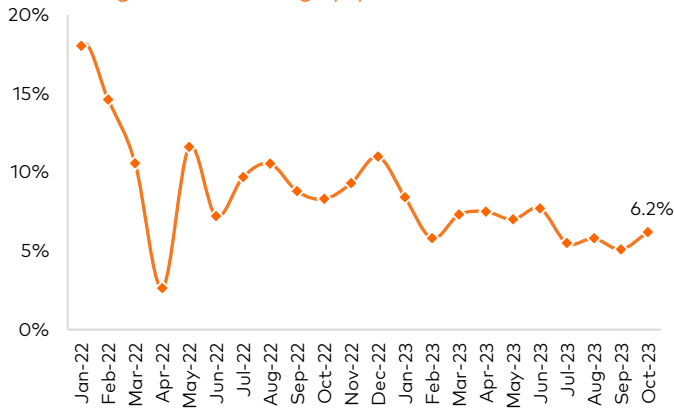
Source: Bloomberg
Note: +/- means appreciation/depreciation



Economic developments

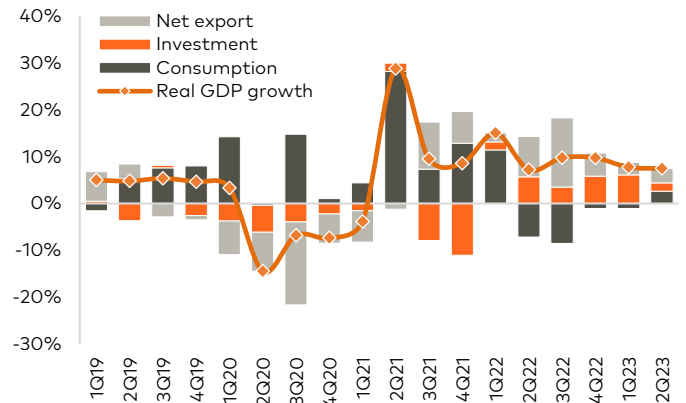
Despite regional geopolitical conflicts, solid growth continued in Georgia reaching 7.0% in 10M23...

Real GDP growth, % change y/y



...mainly driven by investments, a crucial factor for fostering resilient long-term economic growth

Contributions to real GDP growth, ppts



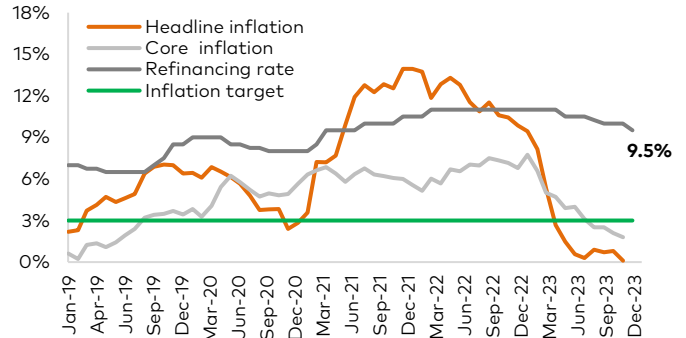
Strong activity led to further reduction in unemployment rate, standing at 16.8% in 9M23

Unemployment rate



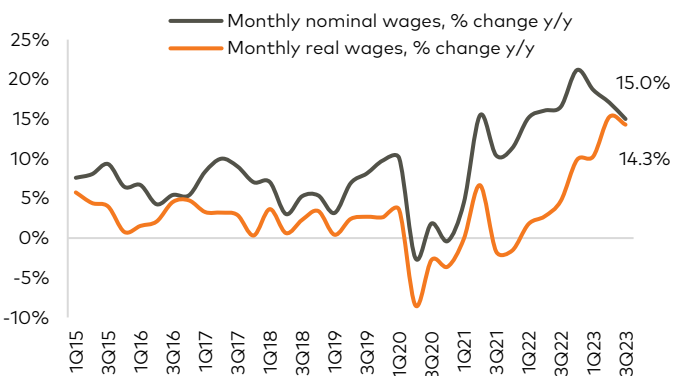
Inflation declined sharply, with both headline and core inflation falling below the NBG's 3.0% target...

Inflation, % change y/y



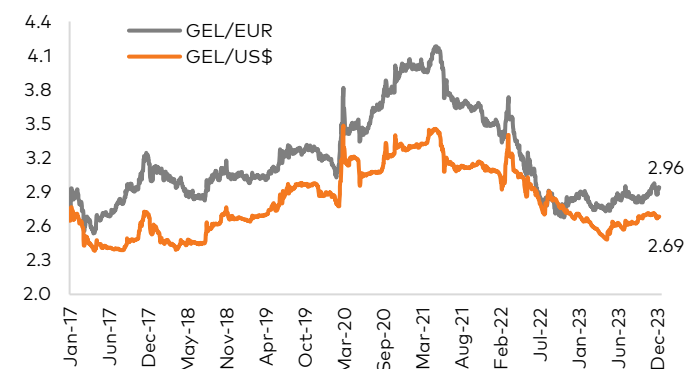
...boosting real wage growth and enhancing households' purchasing power

Nominal and real wages



...supported further by the appreciation of the GEL

GEL/US\$ and GEL/EUR



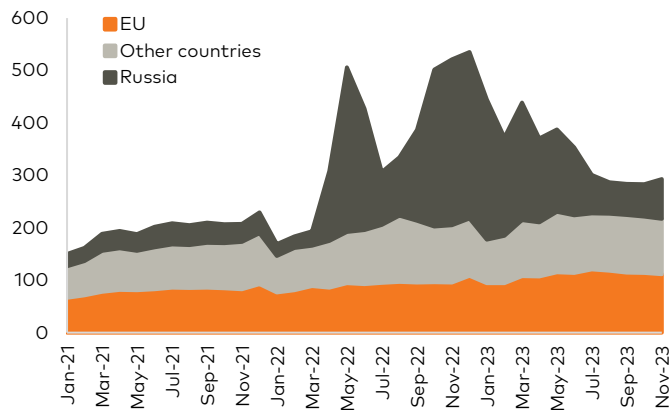
Source: Geostat, NBG, Galt & Taggart



External sector

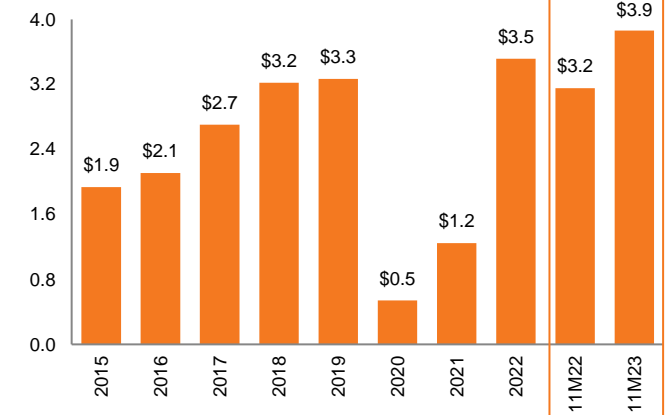
Money transfers from Russia started to normalize with the effects of relocation fading

Money transfers, US\$ mn



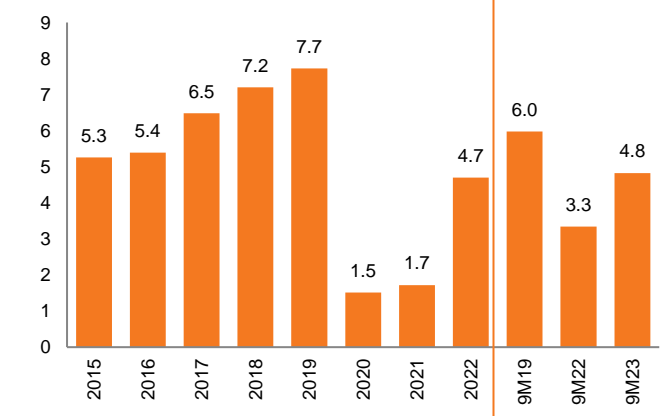
Tourism revenues continued strong recovery, surpassing 2019 level by 26.5% in 11M23...

Tourism revenues, US\$ bn



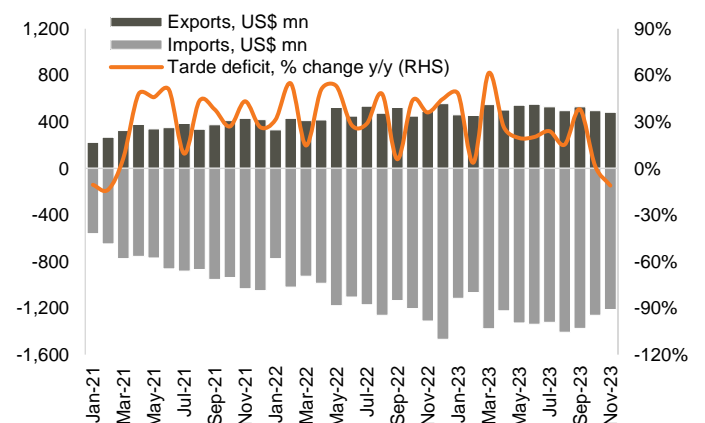
...despite a slower recovery in tourist arrivals, recovering at 80.7% of pre-pandemic level in 9M23

International visitors, mn persons



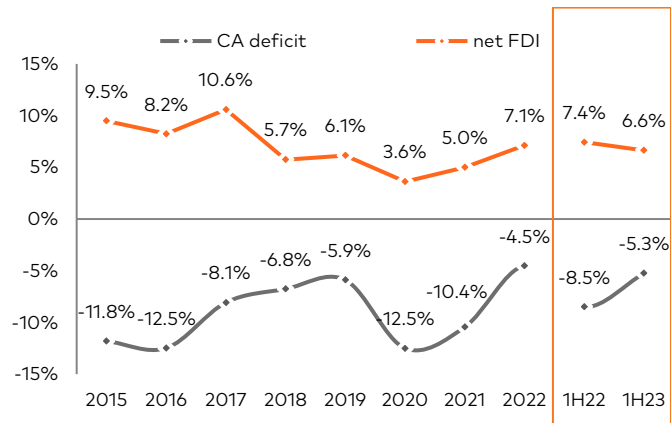
Goods trade balance deteriorated due to strong import growth...

Exports, imports, and trade deficit



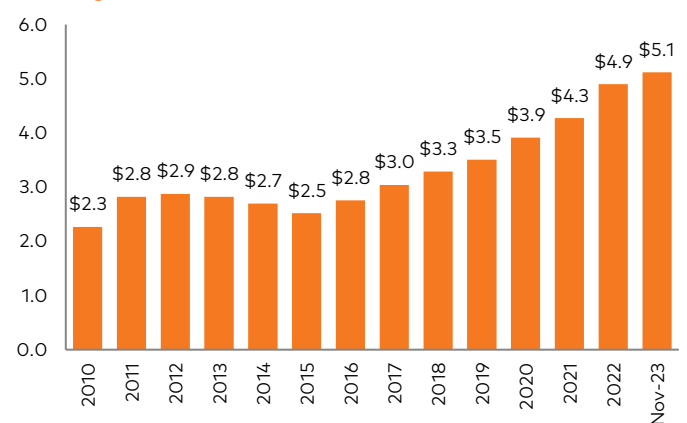
...however total FX balance improved with the CA deficit shrinking to 5.3% of GDP in 1H23

Current account deficit and net FDI, as % of GDP



FX reserve accumulation continued, crucial for mitigating potential external shocks

NBG's gross international reserves, US\$ bn



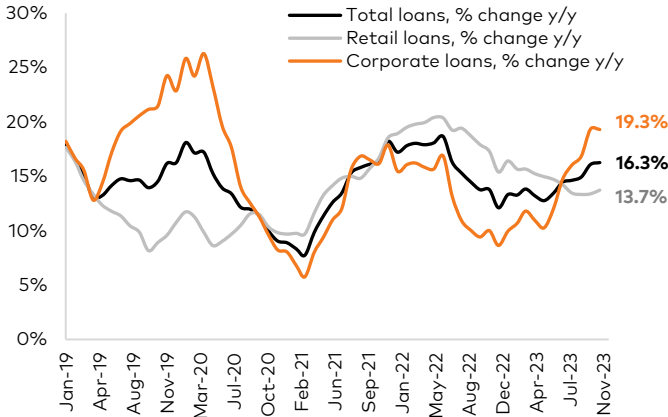
Source: Geostat, NBG, GNTA



Banking and fiscal sector

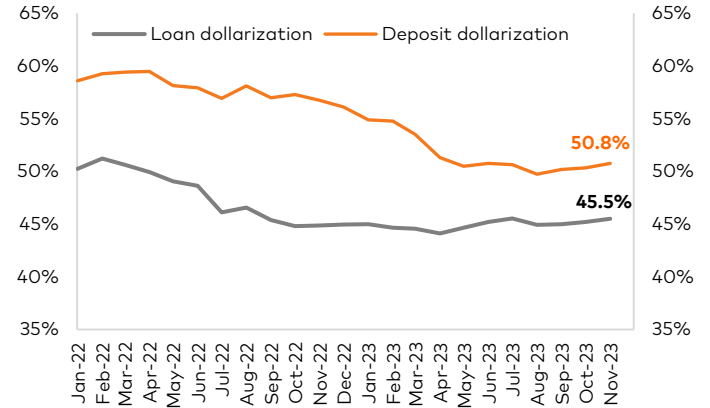
Credit growth remained strong despite tight financial conditions ...

Banking sector loan portfolio growth, (excl. FX effect)



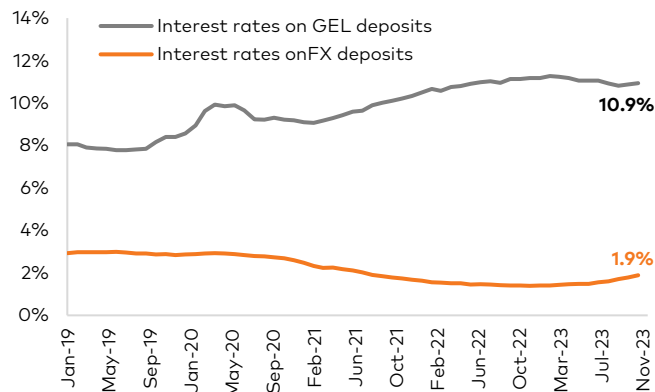
... and dollarization ratios remained improved and largely stable

Banking sector loan and deposit dollarization



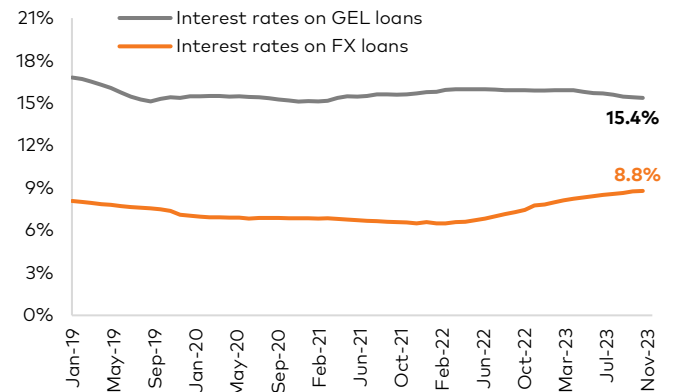
GEL deposit interest rates started to decline and expected to decline further in 2024...

Interest rates on bank deposits



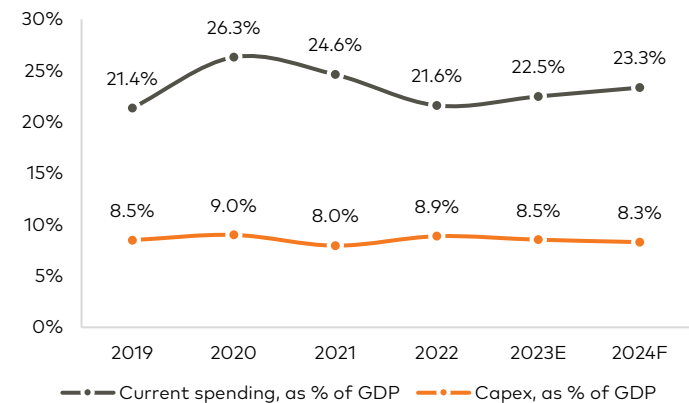
... and GEL loan interest rates expected to decline in 2024, strengthening growth outlook

Interest rates on bank loans



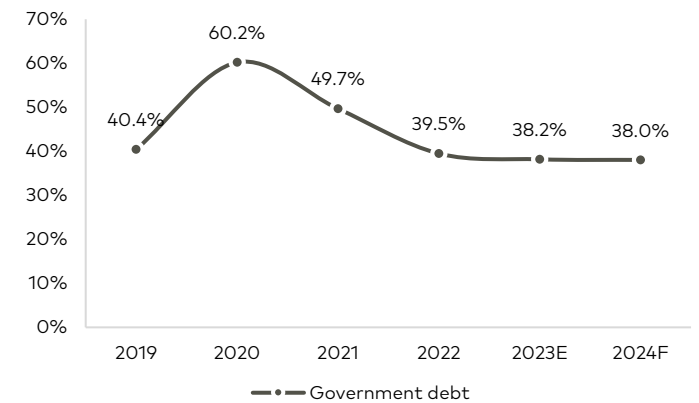
Capital spending remains high and growth in current spending reflects higher interest payments in 2024

Government current spending and capex, % of GDP



Government debt fell below 40% of GDP, reducing sharply after spike during the pandemic

Government debt, as % of GDP





What we expect for 2024

We anticipate a growth rate of 5.4% in 2024 in our baseline scenario and 6.0% in upside scenario.

In the **baseline** 5.4% growth scenario for 2024, our assumptions include:

- FX inflows to remain solid, including tourism revenues at US\$ 4.5bn.
- Average inflation at 3.5%, enabling the central bank to continue easing and cut the key rate by 100bps to 8.5% by end-2024, compared to 9.5% at the end-2023.
- With strong fundamentals and a favorable current account deficit (expected at 4.3% of GDP), we maintain a positive outlook on GEL, anticipating an average exchange rate of 2.7 against the dollar and 3.0 against the Euro in 2024.

In our **upside** scenario, we expect 6.0% growth for 2024, assuming faster growth in tourism arrivals and a larger boost to consumer and business sentiments from EU candidacy status, compared to our baseline assumptions. We expect:

- Tourism revenues at US\$ 4.8bn.
- A stronger GEL, at average 2.65 vs the dollar.
- Lower inflation (3.0%) and more substantial rate cuts (8.0% at the end of 2024).

Risks to growth may come from regional geopolitical conflicts as in previous years as well as globally tight financial conditions. However, Georgia's rebuilt fiscal buffers and replenished international reserves provide a solid foundation to effectively manage potential shocks.

Key assumptions for 2024 growth scenarios

	2023E	2024 Baseline	2024 Upside
Tourism revenues, bn	\$4.2	\$4.5	\$4.8
Average GEL/US\$	2.63	2.70	2.65
Average annual inflation	2.5%	3.5%	3.0%
Refinancing rate	9.5%	8.5%	8.0%
Investment growth, % change y/y	15.0%	14.0%	17.3%
Real GDP growth	6.8%	5.4%	6.0%



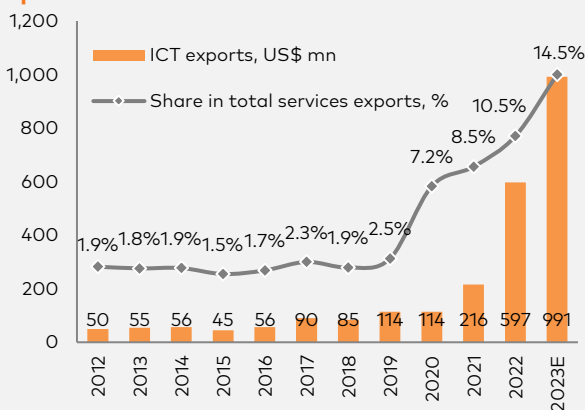
BOX 1: Information and Communication Sector - Diversifying beyond tourism

The Information and communication sector (ICT) in Georgia has tripled over the past 5 years, marking the largest increase among the country's economic sectors. Currently, it is the 8th largest sector, surpassing the financial sector since 2022. At the initial stage, government incentives were instrumental in driving IT sector growth (personal and corporate income taxes at 5% for international companies from Oct-20). Since 2022, an additional boost has come from a considerable number of highly skilled regional migrants and international IT companies relocating or setting up operations in Georgia.

This sector emerged as the new fastest-growing source of foreign currency inflows for the country. The sector exports almost doubled, reaching US\$ 597mn in 2022. As a result, its share in total services exports rose substantially from around 2% before 2021 to 10.5% in 2022 and 14.7% in 1H23, despite a sizable increase in tourism revenues, which is a key services export category. We expect Information and communication sector revenues to reach US\$ 1.0bn in 2023.

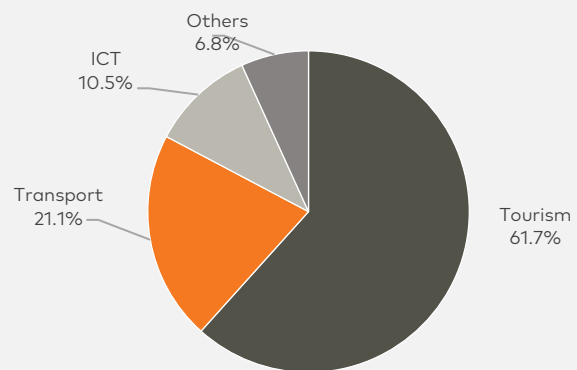
The growth prospects for this sector are promising, and for the economy, this implies strengthened resilience to external shocks. It also provides better shielding for the country against any potential slowdown in other FX sources or partner countries' economies. Additionally, widespread integration of digital solutions across various sectors and the establishment of a robust digital business ecosystem expected to boost productivity, fostering overall economic growth.

Exports of ICT services



Source: NBG
Note: This category includes information, communication and computer services.

Total services exports by type, share in total, 2022



Source: NBG



BOX 2: Georgia is an EU candidate country: What to expect

Georgia starts 2024 on a high note, having achieved EU candidacy status and enjoying broad consensus within the nation regarding its significant advantages. Experience from other countries gaining EU candidacy status suggests positive effects on economic growth, foreign investment, and trade:

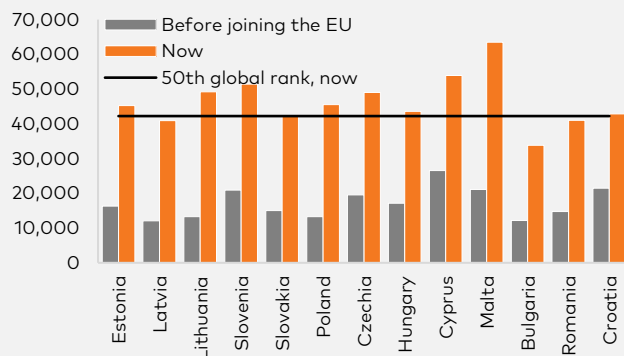
- Serbia witnessed a significant increase in foreign direct investment in relation of the granting of EU candidacy status in 2012. FDI inflows tripled during the transition period.
- Albania experienced a substantial increase in exports to the EU after gaining candidate status in 2014. In 2013, exports to the EU accounted for 57% of total Albanian exports, while in 2022, this figure had risen to 73%.
- North Macedonia's trade with the EU grew significantly following the granting of candidate status in 2005. In 2022, the EU accounted for 77% of North Macedonia's exports and 46% of its imports.
- Additionally, EU candidacy status generally provides candidate countries with access to EU funding and technical assistance, which can help support reforms and development projects. For example, from 2007 to 2020, North Macedonia received over EUR 1.2bn in EU assistance through the Instrument for Pre-Accession Assistance (IPA).

The duration between obtaining EU candidacy status and achieving full EU membership can vary widely for different countries. The process involves fulfilling a set of criteria, implementing reforms, and demonstrating readiness to meet the obligations and standards set by the European Union. Generally it takes 5.8 years on average.

While the specific benefits of EU candidacy status for Georgia would depend on the country's specific circumstances, overall, with EU candidacy status paving the way, Georgia is poised for positive transformations.

Countries experience a rapid increase in GDP per capita after joining the EU, surpassing the 50th position in the global ranking

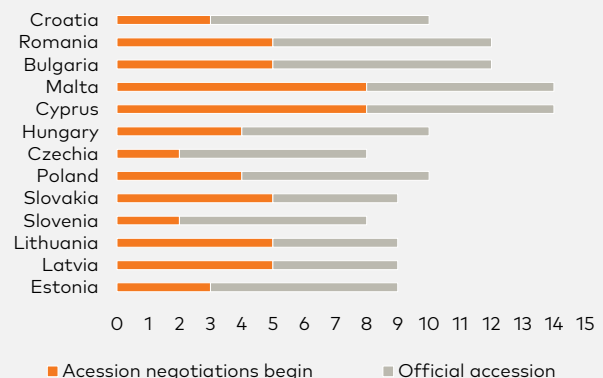
GDP per capita, US\$ (PPP)



Source: IMF

Generally it takes 5.8 years on average to achieve EU membership, and timeline varies across countries

EU membership timeline after submitting application, years



Source: PEW research center



Macro data and forecasts

Georgia	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023E	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	8,623
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%	5.4%
CPI Inflation, ave	-0.9%	-0.5%	3.1%	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.9%	2.5%	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\$, ave	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\$, eop	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, ave	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, eop	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, ave	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, eop	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%	27.7%	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%	30.6%	31.4%
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%	38.2%	38.0%
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, 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, 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	1.7	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%	5.6%	5.6%
Gross int. 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%	9.50%	8.50%

Source: NBG, MOF, Geostat, Galt & Taggart

Note 1: Fiscal balance according to IMF Program Definition

Note 2: Exports and imports include both – goods and services

Key Sector Overview



Tourism & Hospitality

Tourism revenues showed a robust recovery, reaching US\$ 3.3bn in 9M23 (or 125.9% of 9M19). However, international visitor numbers remained at 80.7% of 9M19 (4.8mn). The revenue surge was driven by faster recovery in tourist numbers over same-day arrivals, increased airport arrivals (typically high-spending visitors), longer stays from certain top contributing countries along with increased prices and GEL appreciation. Slower arrival growth was primarily due to border restrictions with Azerbaijan and conflicts in the region.

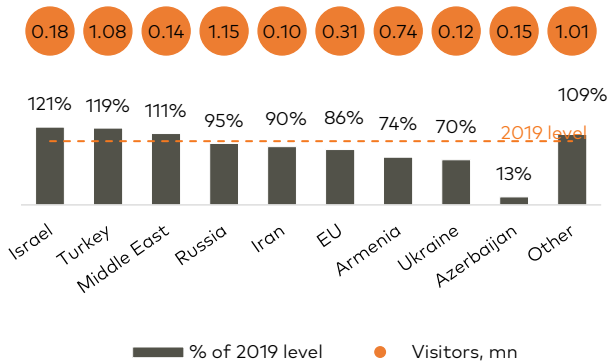
Post-pandemic concerns regarding hotel oversupply have eased, evidenced by reduced new hotel permits and a decline in the branded hotel pipeline.

Branded hotel KPIs look healthy in both Tbilisi and regions, despite a slower-than-expected recovery in arrivals.

- We expect full tourism recovery in 2024, with 7.85mn international visitors (102% of 2019 level).
- We forecast US\$ 4.5bn tourism revenues in 2024 in baseline scenario (137% of 2019 level) and US\$ 4.8bn revenues in upside scenario.
- Regional conflicts and possible delay in Azerbaijan border opening are key risks for 2024.

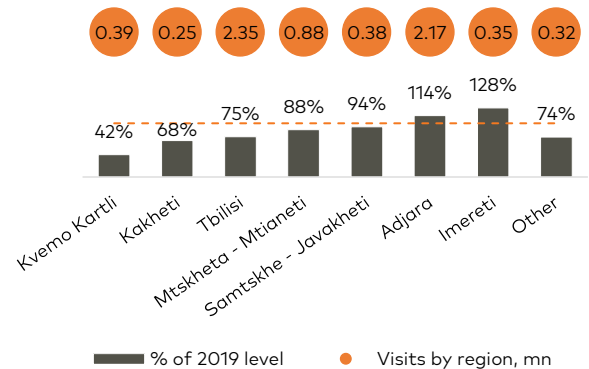
International visitor numbers at 4.8mn in 9M23, still lagging 2019, key reason being Azeri border crossing restrictions

Recovery of Int'l visitors from top countries, 9M23



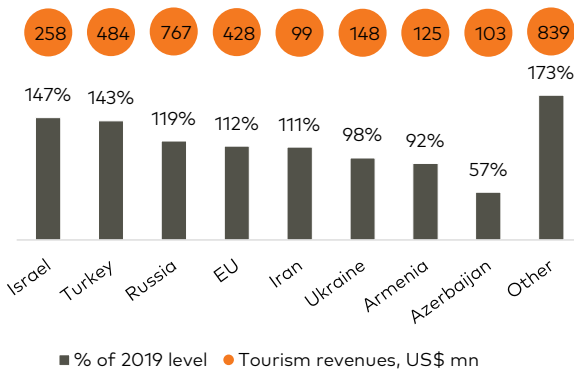
Among Georgian regions, international visitors rebounded above 2019 levels only in Adjara and Imereti

Recovery of int'l visits across Georgian regions, 9M23



Tourism revenues at US\$ 3.3bn in 9M23, already surpassing 2019 level...

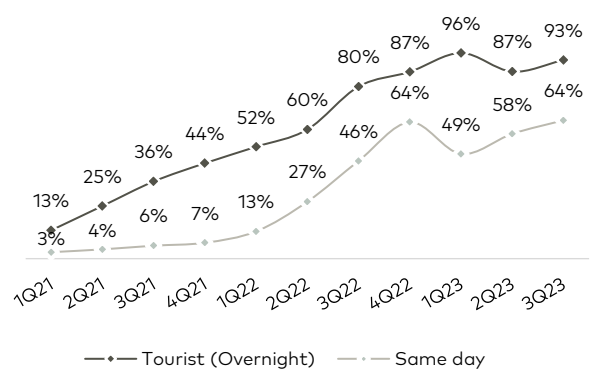
Recovery of tourism revenue by source country, 9M23



Source: GNTA, Geostat

... supported by faster recovery in tourist numbers over same-day arrivals

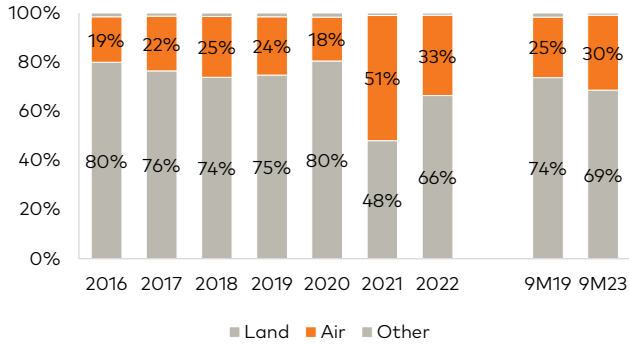
Recovery of tourists/same day visitors as % of 2019 level





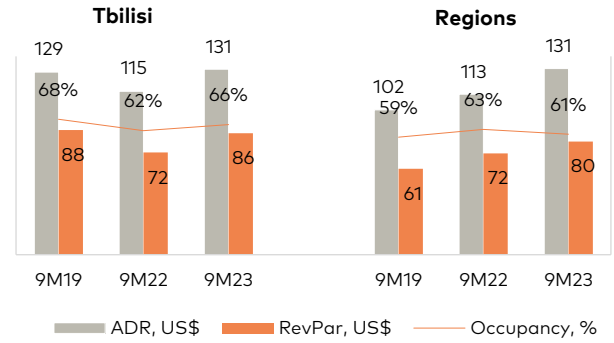
Airport arrivals increased from 24.6% of total in 9M19 to 30.5% in 9M23, supporting revenue growth

International visitor trips by border type



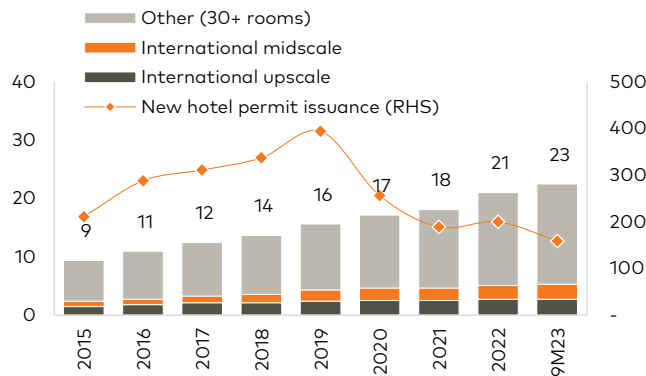
Branded hotel KPIs look healthy in 2023, despite a slower-than-expected arrival recovery

Average ADR, RevPar and % occupancy in selected branded hotels



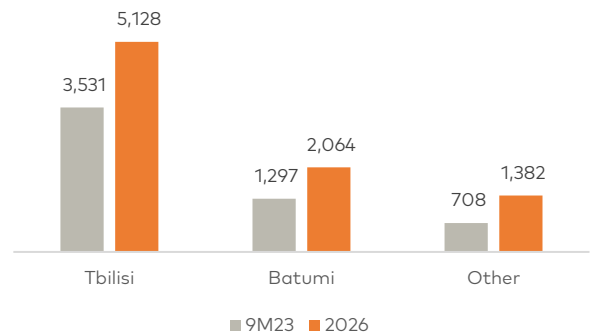
Reduced new hotel permits eased oversupply risk, particularly in the upscale segment

Hotel room stock ('000) and number of new hotel permits



Many branded hotels cancelled since pandemic, 17 hotels with 3,038 rooms set to be added by 2026

Branded hotel room stock projection over 2023-26



Source: GNTA, Geostat, NBS, Galt & Taggart
Note: Empirical evidence indicates considerable delay in completing the planned hotel projects.



Wine & Spirits

Wine exports grew in 2023, fueled by Russian market, but new target markets saw a reduced share to 17.6% from the 2015-21 average of 21.0%. Brandy exports surged, driven by demand from Russia, Armenia, and France.

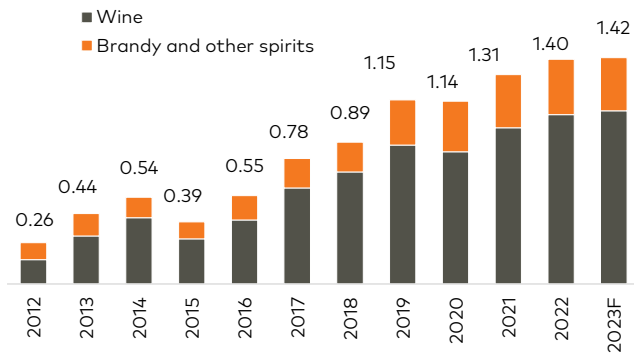
Ukraine, previously was a major export market for Georgia's brandy and a significant wine destination. In 10M23, wine and brandy exports to Ukraine were at 58% of their pre-war levels.

Historically, exports drive around 80% of sector revenue, with wine as the primary contributor, though income from brandy and other spirits has been increasing.

- Sector's positive outlook is backed by rising exports, a revived local market fueled by tourism, and higher demand for bottled wine.
- We stress the need for Georgian companies to diversify exports. We suggest to consider exploring opportunities in the Netherlands, Switzerland, Germany and Denmark. These markets display a substantial wine share in alcohol consumption, low market concentration, import reliance and no unique export challenges, as per Georgian wine companies.

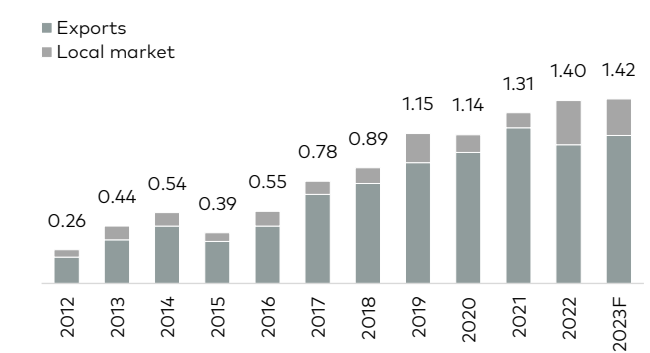
Wine remains the key revenue contributor, growth in brandy and spirits also noticeable in recent years

Wine and spirits sector turnover by type, GEL bn



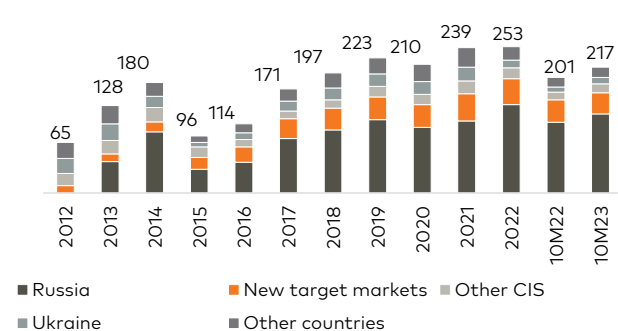
The sector heavily relies on exports, constituting 82.0% of revenue in the past decade

Wine and spirits sector turnover by source, GEL bn



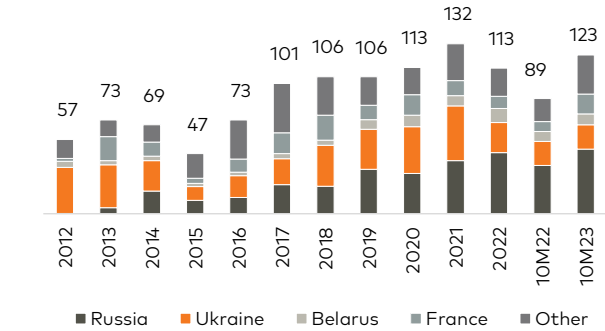
Wine exports up 8.2% y/y in 10M23, Russia was the key driver, new target markets declined in share

Wine exports, US\$ mn



Brandy exports surged 37.9% y/y in 10M23, driven by Russia along with Armenia and France

Brandy exports, US\$ mn



Source: Geostat, Galt & Taggart
Note: New target markets include the US, UK, China, Japan, Poland, Germany and the Baltic States



Auto Business

Georgia is a regional hub for car trade and is expected to continue benefitting from export opportunities.

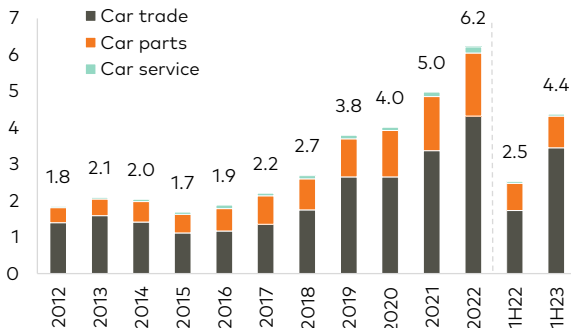
Georgia's car trade sector benefits from both car exports and local sales, despite popular belief that it relies solely on exports. On average, exports constitute 55%-60% of total car trade turnover, with occasional spikes due to external factors.

As for the domestic market, the upcoming prohibition on importing cars produced pre-2013 is expected to lower domestic demand temporarily in 2024.

- The car re-export trends are subject to changes in regional car-trade related regulations.
- Local market has room for expansion, considering the low level of car ownership and need for renewal (average age 19.2 years).
- We expect a gradual transition to electric mobility in the medium term, where government incentives will be crucial, as in many other countries.

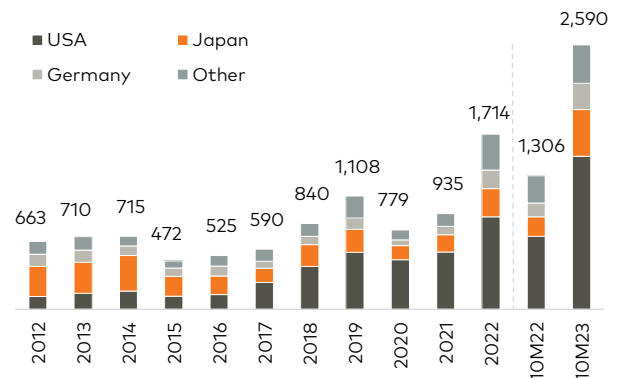
The formal automobile business sector turnover surged 72.8% y/y to GEL 4.4bn in 1H23

Formal auto business turnover, GEL bn



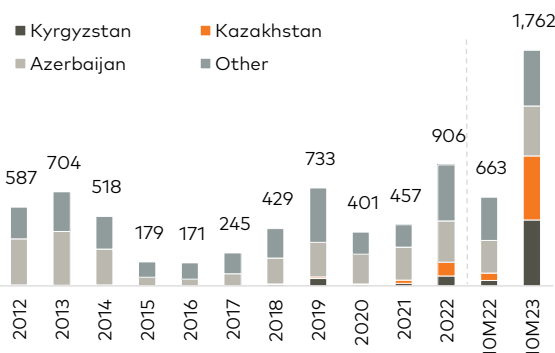
Passenger car imports doubled in 10M23, import source markets remained the same

Passenger car imports by top source market, US\$ mn



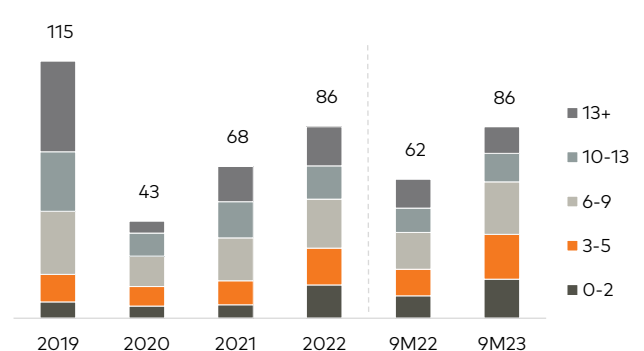
2.7x surge in passenger car exports driven by the demand from Kyrgyzstan, Kazakhstan, Azerbaijan and Armenia

Passenger car exports by top export market, US\$ mn



Export growth mostly fueled by the demand on 0-5 years old cars

Passenger car exports by age, '000 units



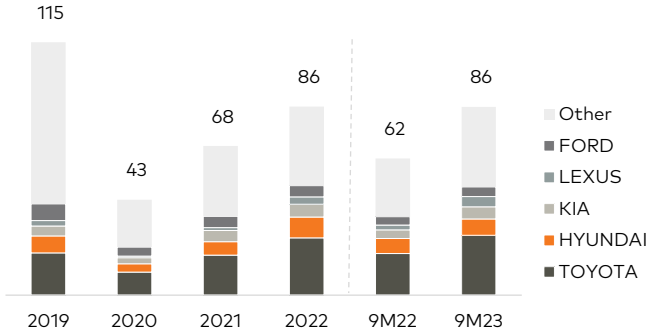
Source: Geostat, MIA.

Note: We refer 0-2 year old cars as new, as no better classification exists from official sources



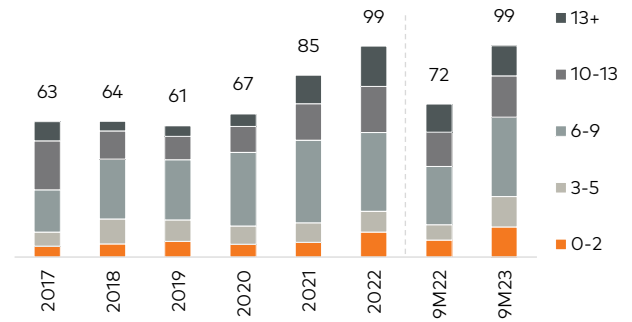
Toyota remained the top choice among export markets in 9M23, consistent with historical trends

Passenger car exports by top 5 brand, '000 units



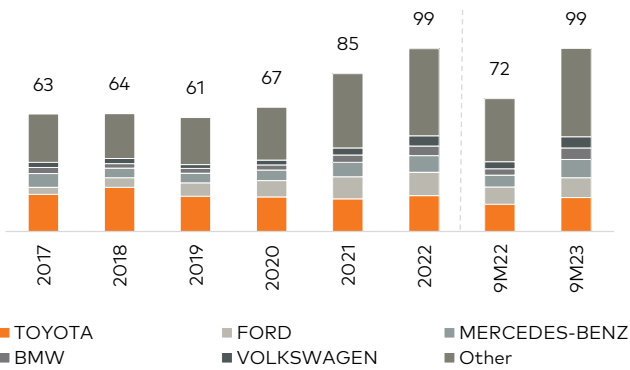
Strong domestic demand: customs clearance of passenger cars up 38.0% y/y to 98.8k cars in 9M23

Customs clearance of passenger cars by age, '000 units



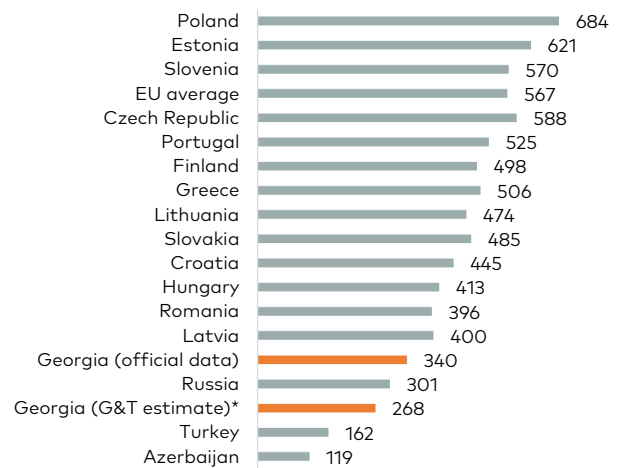
Like in exports, Toyota dominates local market, but sees a decreasing share in total customs clearance

Customs clearance of passenger cars by top 5 brand, '000 units



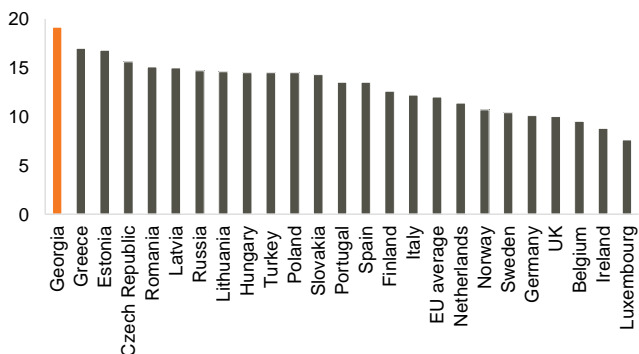
Local market has room for expansion, considering the low level of car ownership...

Number of passenger cars per 1,000 inhabitants, 2021



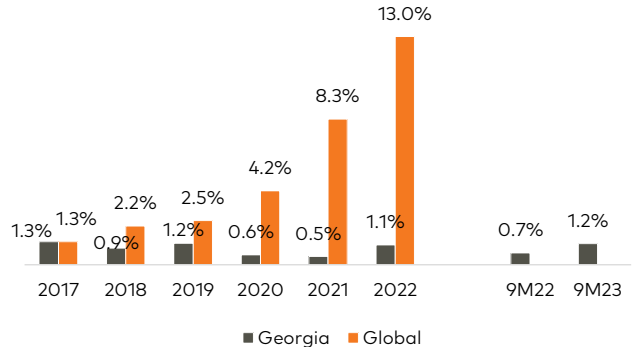
... and old car fleet

Average age of passenger car fleet by country, latest available data



Electric vehicle sales growth is slow in Georgia, diverging from the global trend

% share of electric vehicles in total sales in Georgia and globally



Source: MIA, ACEA, Autostat, Turkstat, EV Volumes, Galt & Taggart

Note 1: Data estimated with excluding the lapsed cars from car fleet

Note 2: Clearance data may include cars deregistered later for re-exporting purposes. We refer 0-2 year old cars as new, as no better classification exists from official sources



Telecom

Telecom sector growth accelerated since pandemic, driven by mobile segment.

Mobile services is the largest segment, generating 58.3% of total telecom sector revenues. Mobile data traffic is the main driver of growth, skyrocketing 7x due to growth of subscribers and data usage per user over 2019-9M23.

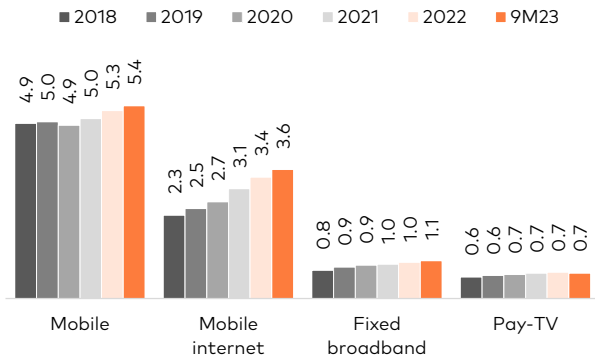
Fixed broadband is the 2nd largest segment, with 29.1% share in total (9M23). Fixed broadband revenues have been steadily growing over 2018-23, driven by growth of subscribers and tariffs.

Pay-TV accounted for 10.8% of total revenues (9M23). Pay-TV revenues rise despite stagnant subscriber base, fueled by higher prices and broadband bundling.

- Mobile data will drive sector growth, fueled by increased smartphone adoption and data usage per person.
- Fixed broadband subscribers expected to grow, reflecting real estate sales growth.
- Pay-TV subscriptions are expected to remain stagnant due to the increasing competition from digital streaming platforms.

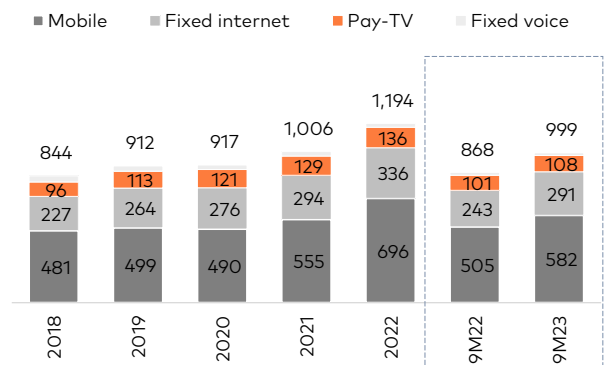
Mobile internet subscribers are the fastest-growing segment, reflecting the impact of the younger generation...

Telecom sector subscribers, mn



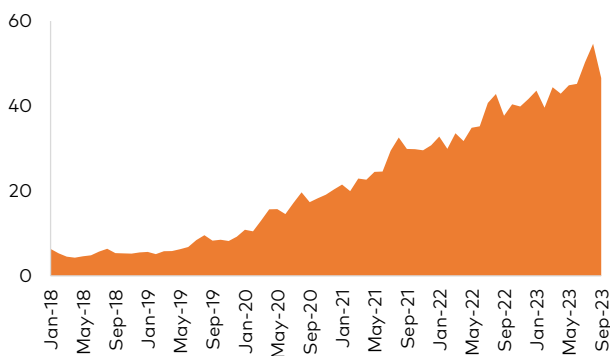
... and thus contributing largest share in total telecom sector revenue growth

Telecom sector turnover by segments, GEL mn



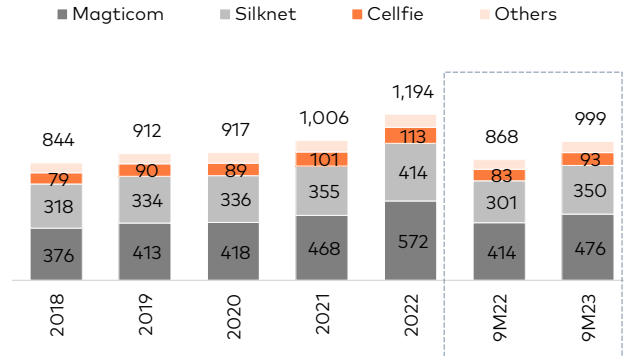
Mobile data traffic is the key driver for the sector growth

Monthly mobile data traffic, TB ('000)



Telecom market is highly concentrated, with three major providers maintaining stable market shares

Telecom sector turnover by company, GEL mn



Source: GNCC

Note: Other companies are operating in fixed broadband and Pay-TV segments



Consumer Electronics

Electronics sector continues strong growth since 2021. The growth is driven by increased demand for certain electronic items like laptops & mobile phones and increased prices as well.

Nearly half of the revenue in the electronics sector comes from retail trade, with the remaining portion attributed to B2B/wholesale trade.

Notably, IT & Mobile contributes c.60% to total electronics sector revenue, with household appliances and heating & cooling generating remaining c.40%.

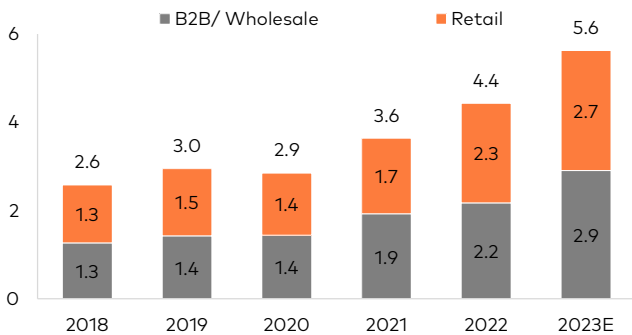
The sector relies entirely on imports, with China (23%), UAE (21%), and Turkey (12%) being the main import markets in 11M23.

Sector growth expected to be fuelled by:

- Increasing adoption of IT & Mobile appliances.
- Relatively low ownership of non-traditional household appliances (AC, dishwasher, etc.) compared to Europe.
- Growing sales of real estate and tendency to own real estate for investment purposes.

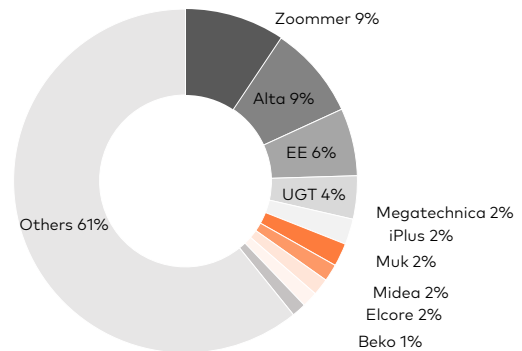
Electronics sector's robust growth is driven equally by retail and B2B trade

Electronics sector turnover, GEL bn



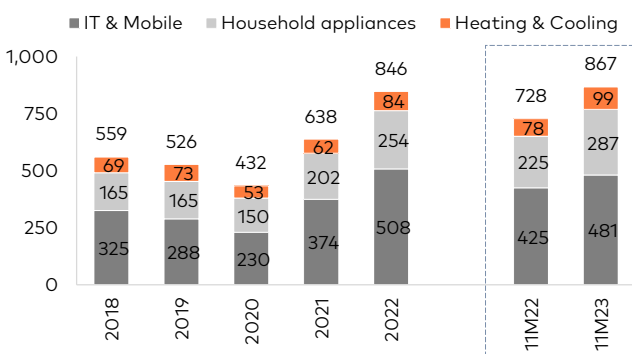
Sector is highly fragmented due to non-organized market presence, hinting at potential consolidation

Key market players, 2022



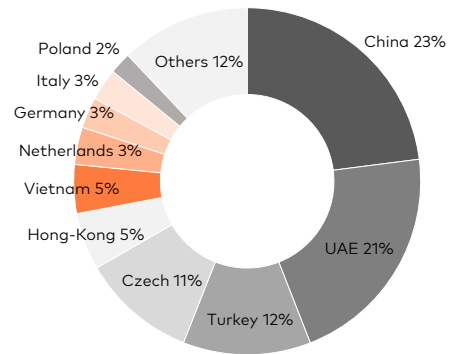
IT & mobile are largest import items, followed by household appliances and heating & cooling items

Electronics import, US\$ mn



Largest import market is China, followed by UAE

Electronics import by country, 11M23



Source: Geostat, Saras



IT Sector

Georgia's IT sector continued impressive growth in 2023. Vast majority of the sector revenues is generated by service export, influenced by two key factors:

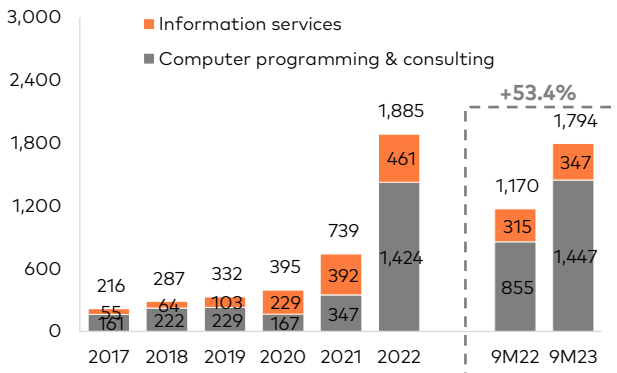
1. Income tax reduction for international companies from October 2020 (reducing personal income tax from 20% to 5% and corporate income tax from 15% to 5%).
2. The relocation of IT companies to Georgia due to the Russia-Ukraine war.

Notable international companies operating in Georgia include Viber, Exadel, EPAM, Global Technologies and others, enhancing the country's transformation into hub for the technology industry.

- IT sector growth supported by preferential treatment.
- Georgia expected to become IT hub.

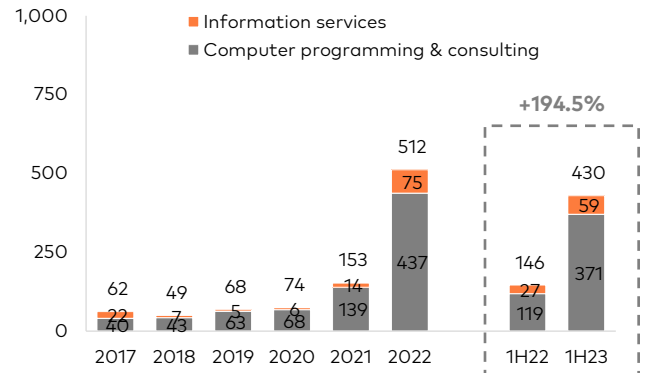
Georgia is becoming a hub for IT and BPO services, with sector revenues surging from 2021

IT sector turnover, GEL mn



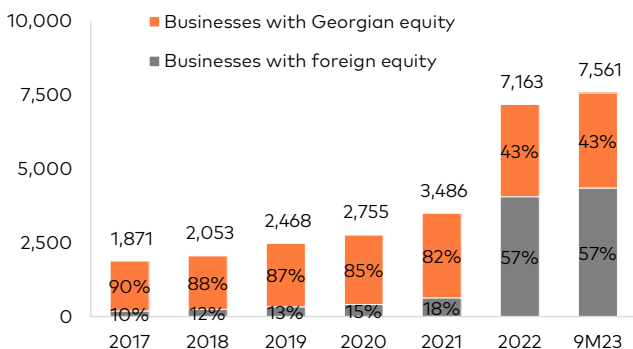
The sector generates strong export revenues

IT service export from Georgia, US\$ mn



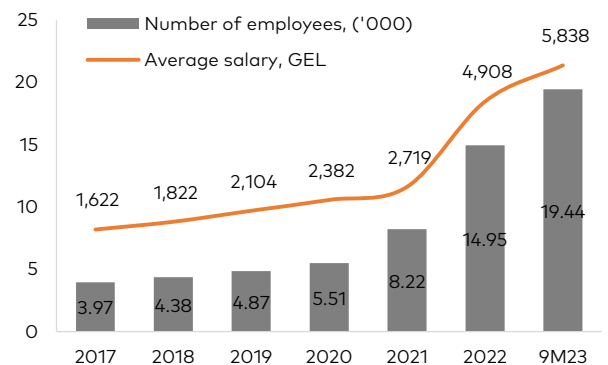
Tax incentives encouraged the entry of global tech companies...

Number of business units in ICT sector



...supporting employment growth in IT sector

Employment and salary in IT sector



Source: Geostat, NBG



Tbilisi Residential Real Estate

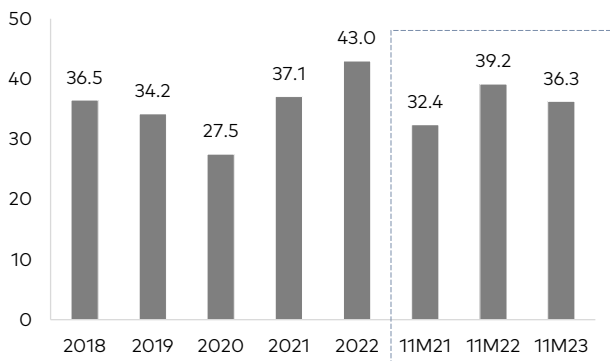
Residential real estate demand in Tbilisi is shaped by needs and investment-based fundamentals such as rising urbanization, shrinking family size, increasing income and high rental yields.

In 2023, the housing market continued to gradually cool down, experiencing a slight slowdown in transactions while sustaining high prices. It is important to note that this slowdown is influenced by the exceptionally high base from the previous year, and demand remains robust. Real estate prices increased more in dollars than in GEL, due to GEL appreciation, mitigating the impact on local buyers.

- Fundamentals of Tbilisi real estate market are healthy, boosting demand for the housing market.
- For 2024, we anticipate a stabilization in real estate price growth.
- After the extraordinary growth in 2022-23, we expect a 10-15% decline in rent prices for 2024, converging to generally consistent 8-10% rental yields.

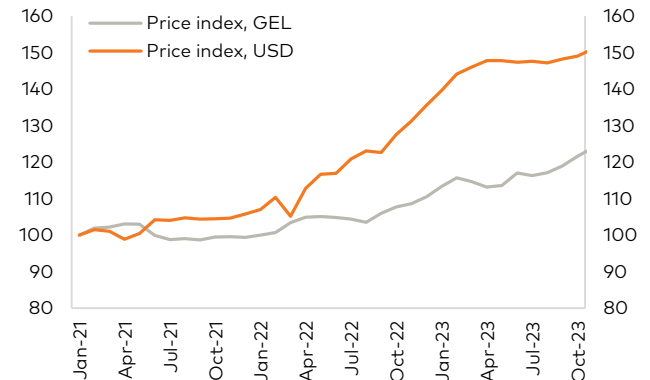
Apartment sales remained strong in 2023, after extraordinary growth in 2022

Number of sold apartments in Tbilisi, '000



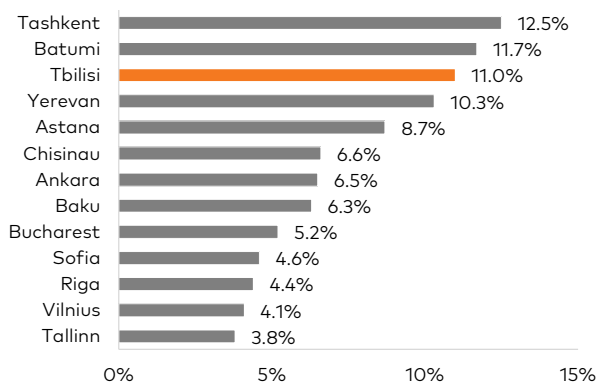
Price growth more pronounced in dollar than in GEL, supported by GEL appreciation

Real estate prices in Tbilisi, index Jan-21=100



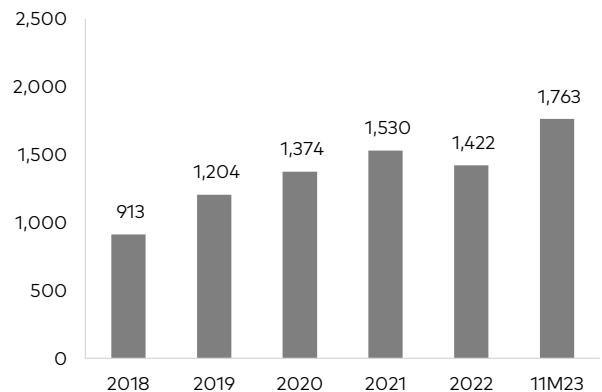
Tbilisi boasts high rental yields, making it an attractive choice for investors

Real estate rental yields outside city center by city



No oversupply risk now. 2023 permit uptick warrants attention if trend persists

Issued construction permits, '000 sq.m.



Source: Napr, Numbeo, NBG, Galt & Taggart



Regional Residential Real Estate

Batumi, Bakuriani, Gudauri

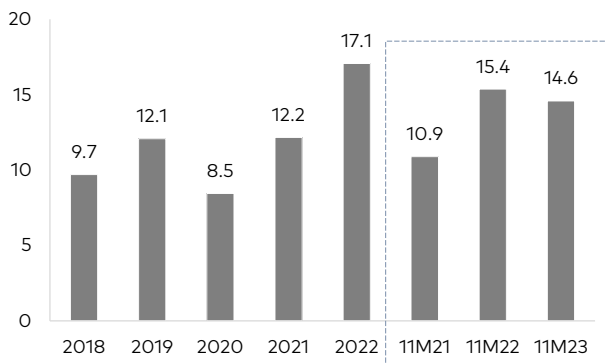
Real estate markets in Batumi, Bakuriani, and Gudauri heavily rely on foreign buyers. Real estate market in Batumi experienced a more noticeable influence from the influx of migrants compared to the market in Tbilisi. Notably, increased demand boosted construction activities in Bakuriani, increasing future supply of residential projects. Supply in Gudauri is stagnant, due to scarcity of land.

In 2022, demand surged due to recovering tourism and migration, leading to higher prices driven also by increased construction costs and wages. In 2023, residential demand slowed down, but prices remained high.

- We expect residential development to move from central districts of Batumi to suburbs and neighboring cities, such as Kobuleti, Gonio-Kvariati and Makhinjauri-Tsikhisdziri.
- Unlike Bakuriani, where there are ongoing development projects, Gudauri has a scarce availability of land, keeping prices steadily on a high level.

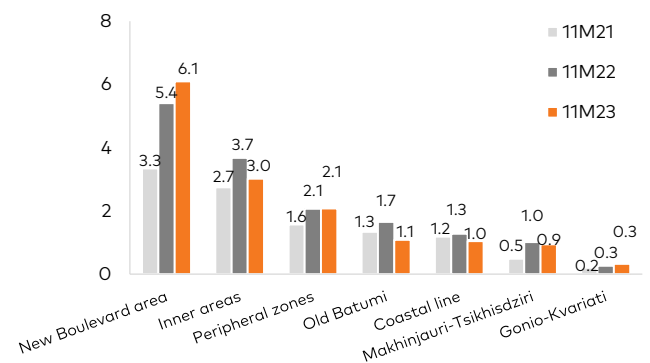
In 2023, apartment sales stayed robust, maintaining performance seen in 2022

Number of sold apartments in Batumi, '000



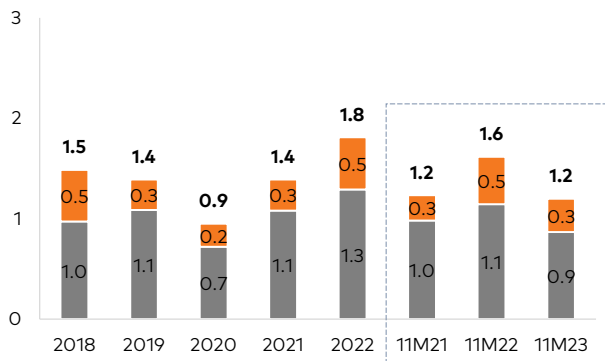
Residential projects are shifting to suburbs and neighboring areas of Batumi

Number of sold apartments in Batumi by districts



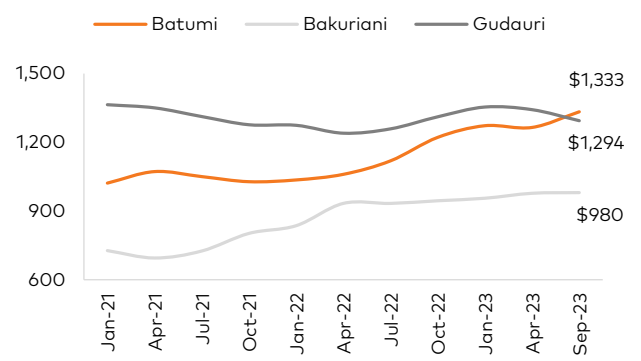
Apartment sales in mountain resorts in 2023 returned to 2021 levels, after solid growth in 2022

Number of sold apartments in Bakuriani and Gudauri, '000



Prices surged in Batumi, while remaining stable in Gudauri and Bakuriani

Real estate prices by regions



Source: Napr, Galt & Taggart



Transport and Logistics

Georgia has a strategic location connecting resource-rich Central Asian countries with Europe. Georgia holds a crucial part in the Caucasus Transit Corridor (CTC).

Interest for the Middle Corridor increased since 2022 as shippers are searching for alternative routes after sanctions on Russia.

Key drivers for new cargos in the Middle Corridor are:

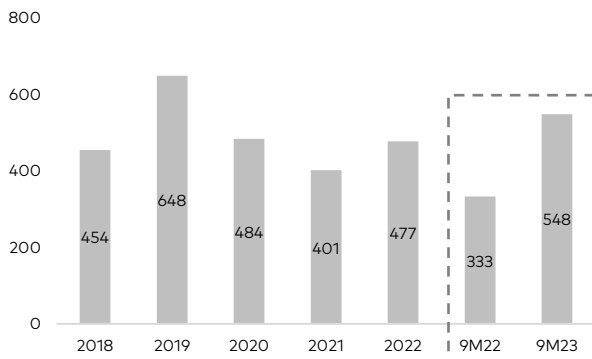
- **Containers:** growth of containerized trade between Western markets and Central Asia;
- **Bulk cargo:** growth of nitrogenous fertilizer exports from Central Asia to Western markets.

➤ Favorable location for cargoes originated/destined from/to Central Asia is a competitive advantage of the Middle Corridor.

➤ Increased interest in Middle Corridor presents opportunities for Georgia to integrate into regional value chains.

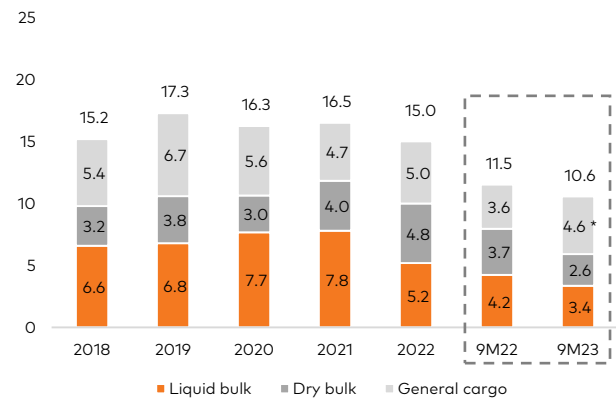
Container handling at Poti and Batumi seaports increased substantially...

Containers handled at sea ports, '000 TEU's



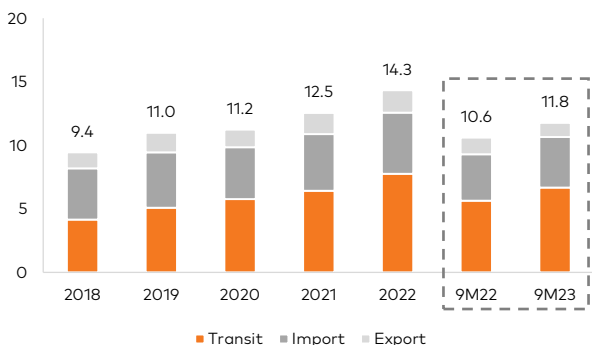
... partially compensating reduced liquid/dry cargo transportation volumes

Freight handled at sea ports, mn tons



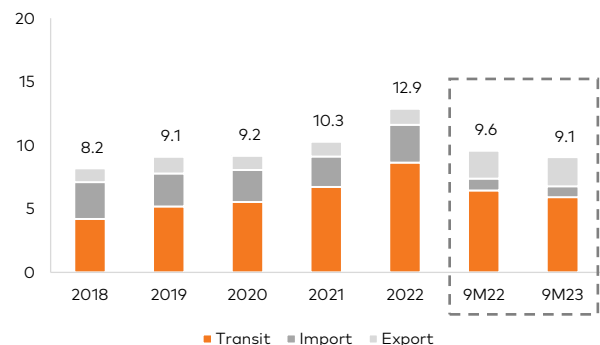
Transit shipment is key component for growth in road transportation

Freight handled on land, mn tons



Majority of railway transit cargo originates from Azerbaijan, Kazakhstan and Turkmenistan

Freight handled on railway, mn tons



Source: Georgian Railways, Ministry of Economy, Revenue Service, Galt & Taggart
Note: General cargo includes containers



Energy

Energy sector is attractive for investors due to rising electricity prices, growing demand, untapped renewable capacity, ongoing market reforms and export opportunities.

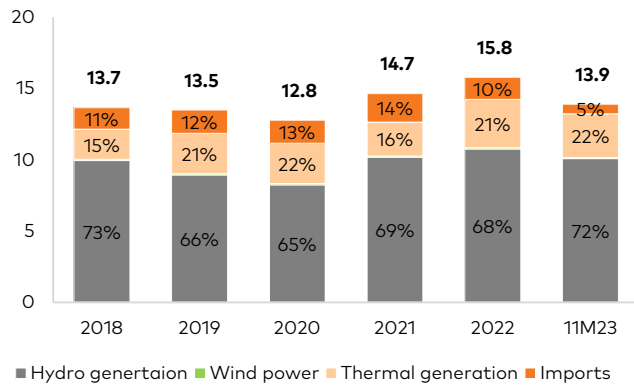
Georgia's consumption and renewable generation have opposite seasonality, creating surplus in summer. In 2023, the sector achieved record-high exports, marking the first time Georgia became a net exporter of electricity since 2010. Turkey was the key export market, amid high electricity prices. However, the spike in exports was primarily fueled by import-dependent thermal generation, stressing need to utilize local renewable generation potential.

In 2023, the government introduced capacity auctions granting renewable energy generation CFD. First one completed successfully for 300MW, second for 600MW anticipated in 1Q24.

- We expect electricity consumption growth at 5.7% over 2024-28, in line with GDP and urbanization growth.
- We forecast installed capacity of Georgia to reach 5.0GW in 2028 from current 4.6GW.
- We expect electricity prices in Georgia to rise reflecting higher construction costs for new generation capacities and higher import prices.

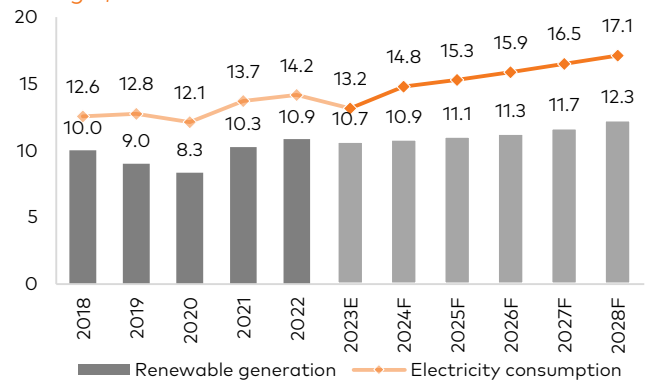
Electricity supply in Georgia is dominated by generation of hydro power plants

Electricity supply, TWh



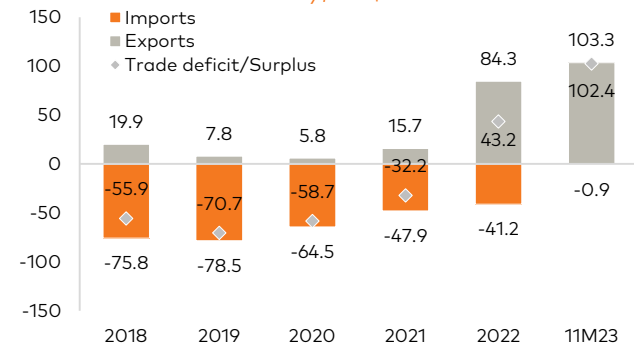
Increasing demand requires further expansion of local generation capacities to reduce energy deficit

Electricity consumption and renewable generation in Georgia, TWh



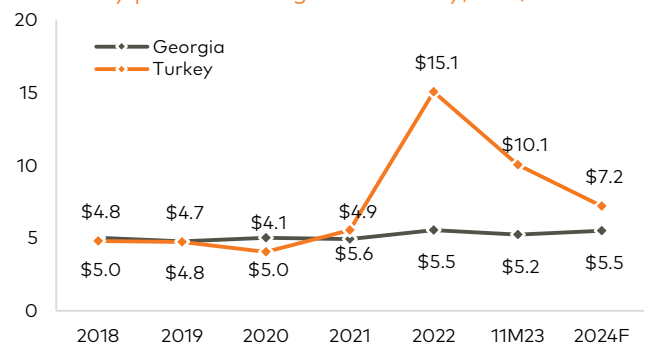
2023 marked a record-setting year for electricity exports

Trade balance of electricity, US\$ mn



We expect Turkey to stay an attractive export market for Georgia due to higher prices

Electricity prices in Georgia and Turkey, US\$/kWh



Source: Geostat, GNERC, Geostat, Epias, Galt & Taggart.
Note: Contract for Differences (CFD).



Agriculture

Georgia's agriculture has considerable potential, but is hindered by production fragmentation, insufficient value chain infrastructure, and limited compliance to safety/quality standards. The sector benefits from government subsidies, promoting growth, notably in crop production.

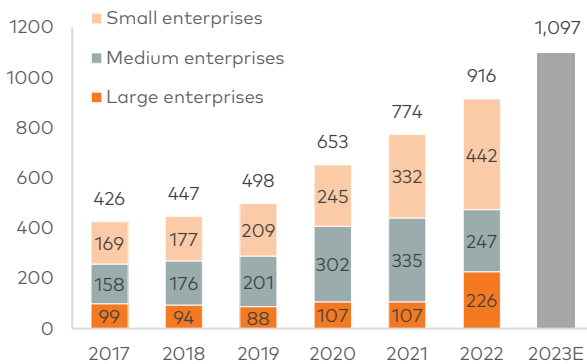
Georgia is mainly self-sufficient in dairy and eggs, while meat consumption is import-dependent. Concerning crops, fruits are Georgia's main export product, with vegetables and cereals heavily dependent on imports.

The growth potential in the agri-business sector is high, with the prospect of replacing households and undergoing consolidation to achieve economies of scale.

- We see potential in the consolidation of small producers to increase productivity.
- Growth opportunities arise from the rapid expansion of high-value fruit and vegetable production and export opportunities to the EU.

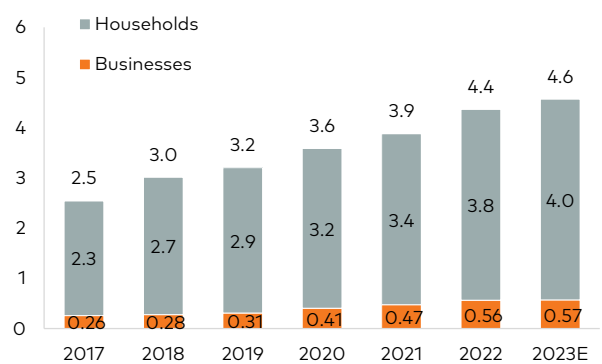
Agricultural business sector is growing and consolidating

Agri-business sector turnover by company size, GEL mn



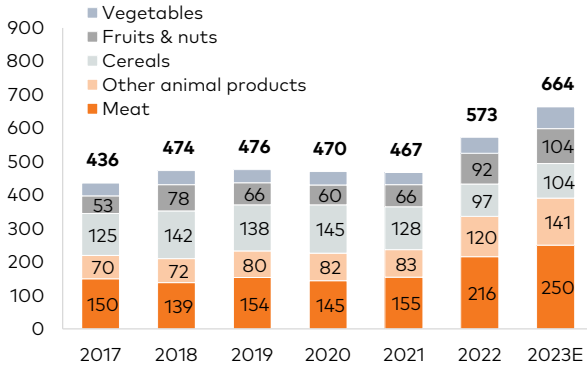
Share of businesses in agriculture is increasing

Agri-GDP by businesses and households, GEL bn



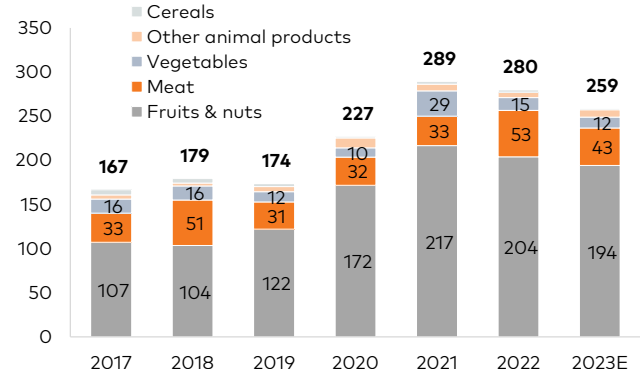
Meat and cereals are leading import products

Agricultural product imports, US\$ mn



Nuts and fruits are key agricultural export products

Agricultural product export, US\$ mn



Source: Geostat, Galt & Taggart



Education

Georgia has a high prevalence of private education providers supported by government's policy to foster a favorable business environment.

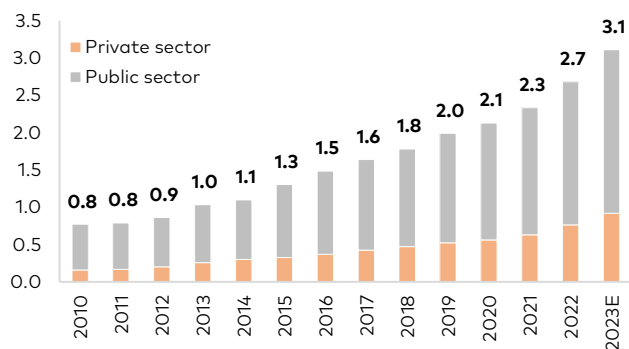
The private general education sector is experiencing increased enrollment due to rising income, urbanization, and positive demographic trends.

In higher education, the private sector is rapidly expanding, driven mainly by foreign students. Demand has notably surged, especially with the relocation of students from Ukraine in 2022, solidifying Georgia's position as an education hub.

- We expect the education sector to grow by 8-10% annually in the medium term.
- Only 11 private schools have more than 1,000 enrollments, collectively accounting for 21.0% of the private market as of 2022-23, leaving room for consolidation.
- Higher education sector's outlook is strong, given the increasing presence of international students.

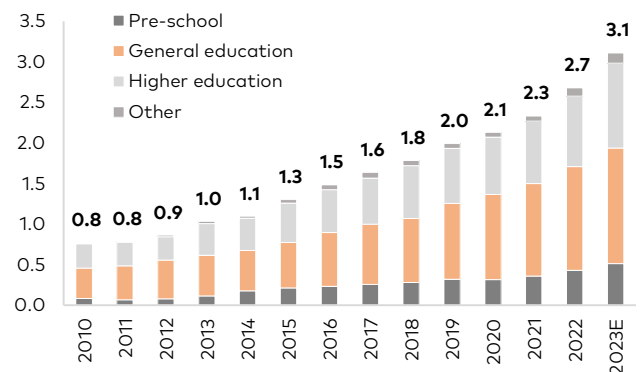
Size of education industry estimated to reach GEL 3.1bn (+16.1% y/y) in 2023...

Revenue of private and public education sectors, GEL bn



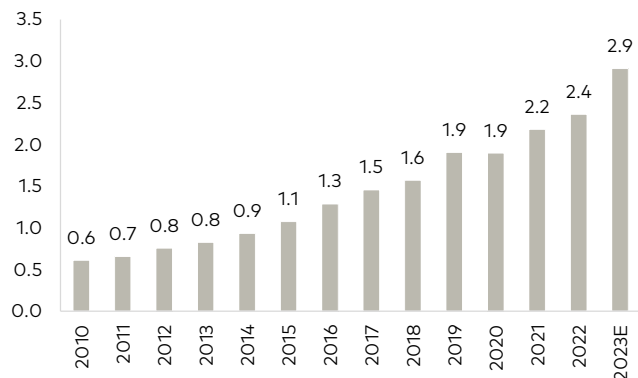
...driven by growth in all subsectors: general, higher, pre-school and other education

Revenue of education industry by subsectors, GEL bn



Government expenditure on education will total GEL 2.9bn (+23.3% y/y) in 2023...

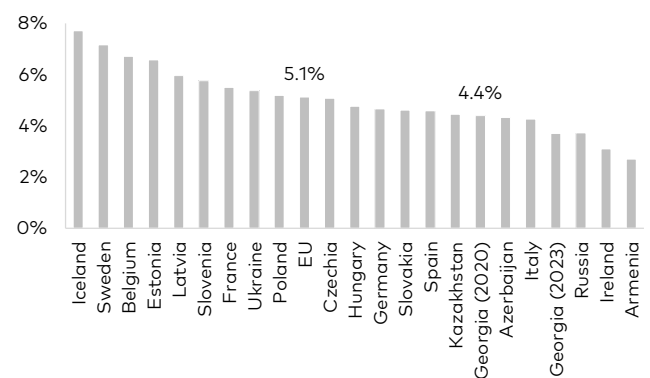
Government expenditure on education in Georgia, GEL bn



Source: Geostat

...however Georgia still lags behind peers in terms of spending relative to GDP

Government expenditure on education as % of GDP, 2020

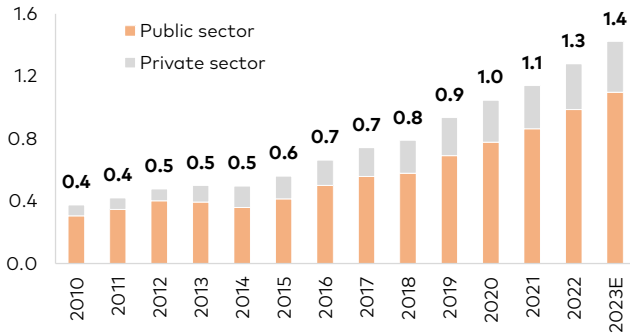


Source: Geostat



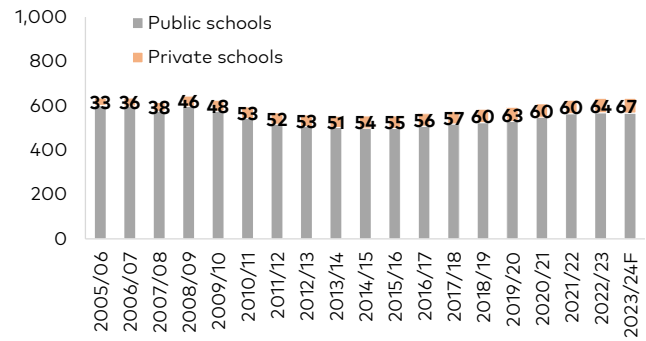
General education sector revenue estimated to reach GEL 1.4bn (+11.2% y/y) in 2023

General education revenue, GEL bn



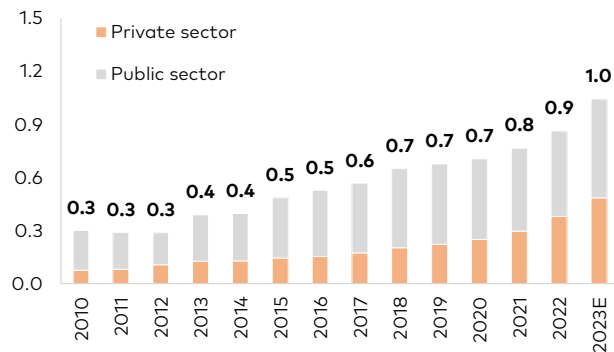
Number of pupils increased in private and decreased in public schools in 2023/24, bringing private enrollment rate at 10.5%

Number of pupils, '000



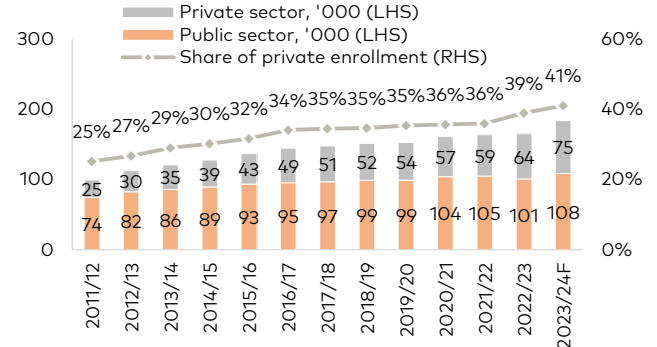
Higher education sector revenue estimated to reach GEL 1.04bn (+20.8% y/y) in 2023...

Higher education revenue, GEL bn



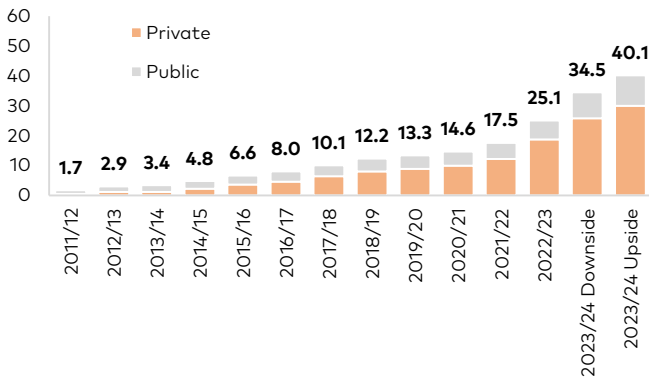
...driven by the growth of students and gradually growing private enrolments

Number of students in higher educational institutions, '000



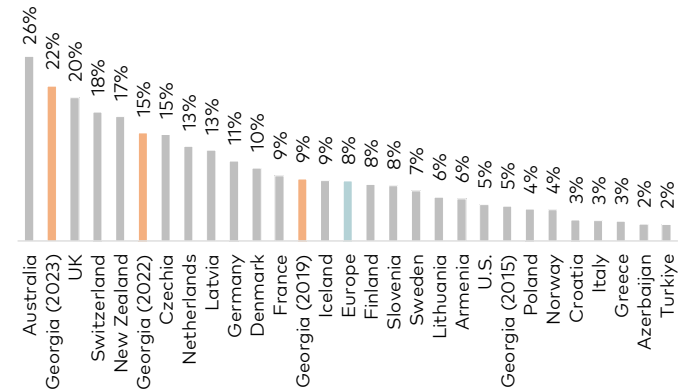
Demand has surged from int'l students after relocation of Indian students from Ukraine in 2022/23

Number of foreign students in Georgia, '000



...cementing Georgia's status of education hub

Inbound mobility rate in 2020, %



Source: Geostat, MESD, Galt & Taggart



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Head of Research

Eva Bochorishvili | evabochorishvili@gt.ge

Head of Macroeconomic Analysis and Forecasting

Lasha Kavtaradze | lashakavtaradze@gt.ge

Head of Analytics

Giorgi Iremashvili | giremashvili@gt.ge

Head of Sector Research

Kakha Samkurashvili | ksamkurashvili@gt.ge

Head of Sector

Mariam Chakhvashvili | mchakhvashvili@gt.ge

Head of Sector

Tatia Mamrikishvili | tmamrikishvili@gt.ge

Senior Analyst

Giorgi Tskitishvili | g.tskitishvili@gt.ge

Senior Analyst

Zurab Tavkelishvili | ztavkelishvili@gt.ge

Senior Analyst

Sergi Kurashvili | s.kurashvili@gt.ge

Analyst

Dachi Mujirishvili | dmujirishvili@gt.ge

Analyst

Mariam Okropiridze | maokropiridze@gt.ge

Analyst

Otar Tsukhishvili | otsukhishvili@gt.ge

Address: 3 Pushkin Street, Tbilisi 0105, Georgia

Tel: + (995) 32 2401 111

Email: research@gt.ge