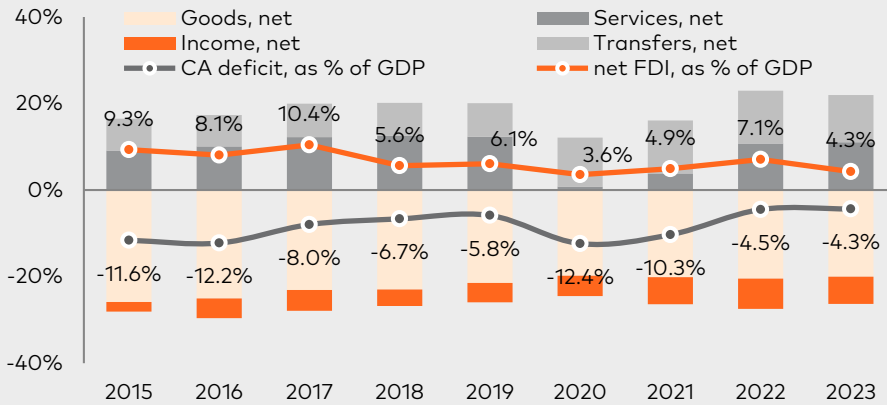




Chart of the month: Record low CA deficit to GDP in 2023



Source: Geostat, NBG

CA deficit reached a historically low level of 4.3% of GDP in 2023, supported by strong positive balance in services (+25.5% y/y), particularly in tourism (+17.3% y/y) and ICT services (+53.2% y/y), as well as a 9.1% y/y increase in the transfers balance. FDI remained the key funding source of CA deficit, with net FDI at 4.3% of GDP.

We forecast CA deficit at 4.7% of GDP in 2024.

Economic summary

Growth: Georgia's economic growth accelerated, up by 9.5% in Feb-24 (in line with our expectation), after a 5.8% y/y growth in previous month. Cumulatively, real GDP growth reached 7.7% y/y in 2M24. In February, real growth was recorded in the manufacturing, construction, professional & scientific activities, ICT and transport sectors. In contrast, the energy and mining sectors contracted during the same period. For 2024, we forecast real GDP to grow by 6.0% in our baseline scenario and by 7.0% in upside scenario.

Inflation: In Feb-24, annual inflation was 0.3%, following zero inflation in previous month. The inflation observed in February was primarily driven, on one hand, by a 3.1% y/y decline in mixed goods prices and, on the other hand, by a 2.4% y/y inflation in domestically produced goods. However, the latter exhibits a deceleration trend. Notably, imported inflation turned positive in February (+0.2% y/y) for the first time since Feb-23. Core inflation, excluding volatile food, energy and tobacco stood at 2.4% y/y in Feb-24.

We forecast average annual inflation at 3.0% for 2024.

Monetary policy: On March 13, 2024, the NBG's Monetary Policy Committee reduced its key rate by 75bps to 8.25% considering the low inflation environment along with reduced inflationary risks related to Red Sea tensions. Additionally, the decision was supported by the neutralization of demand-driven inflationary pressures, as local economic activity is gradually approaching its potential level.

We expect a further 25bps rate cut to 8.0% in our baseline scenario by end-2024.

FX: The GEL remained stable at around 2.7 vs. the US dollar year-to-date amid solid FX inflows. Notably, NBG purchased US\$ 85.6mn in 2M24. We anticipate an average GEL rate of 2.7 against the dollar and at 3.0 against the Euro in 2024, respectively.

Activity

Trade: In Feb-24, goods exports and imports increased by 2.0% y/y and 4.4% y/y, respectively. Consequently, the trade deficit widened by 6.3% y/y to US\$ 650.6mn in Feb-24. The growth in exports was mainly driven by a rise in cars, fertilizers, wine, spirits and precious metals exports, although copper exports ceased in February. On the import side, an increase in imports of petroleum, aircraft and truck was the key contributor to the rise, while imports of cars, gases and copper dropped markedly. Overall, in 2M24, trade deficit increased by 5.9% y/y to US\$ 1.3bn, as exports decreased by 12.2% y/y to US\$ 803mn, while imports were down by 1.6% y/y to US\$ 2.1bn.

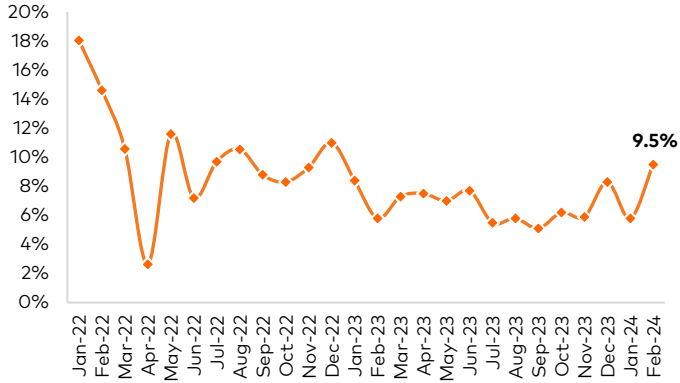
Tourism: Tourism revenues increased by 14.4% y/y to US\$ 275mn (+34.6% y/y, excluding migration effect) in Feb-24, according to our estimates. Overall, in 2M24 tourism revenues reached US\$574mn (+10.7% y/y) by our estimates. We forecast tourism revenues at US\$ 4.5bn (+10.0% y/y) for 2024.

Banking sector: In Feb-24, the bank loan portfolio increased by 16.4% y/y (excl. FX effect) reaching GEL 52.2bn, after a 16.0% y/y growth in previous month. Similar to previous month, the February's credit growth was mainly driven by a 19.0% y/y increase in corporate loans (contributing 9.3ppts to the total loan growth), followed by retail loans (+14.3% y/y).

Bank deposits increased by 14.8% y/y (excl. FX effect) to GEL 50.5bn in Feb-24, after growing by 15.3% y/y in previous month. The dollarization rates improved further, with deposit and loan dollarization standing at 49.8% and 44.3%, respectively, in February.

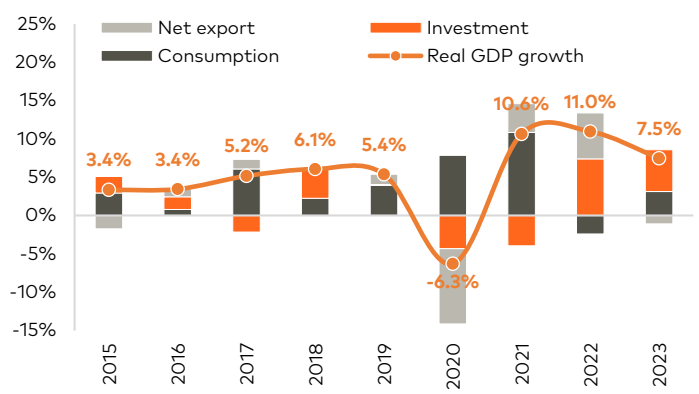


Real GDP growth, % change y/y



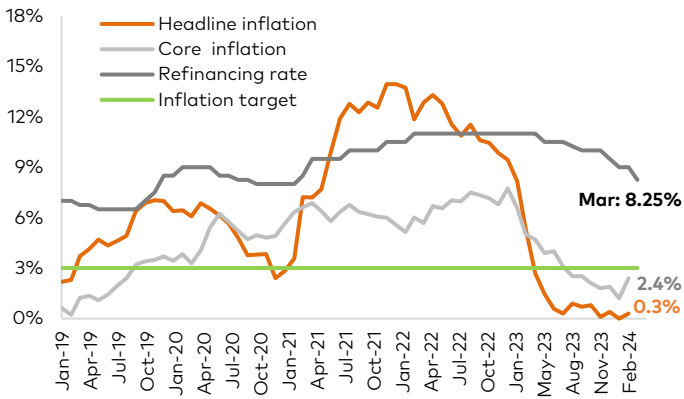
Source: Geostat

Contributions to real GDP growth, ppts



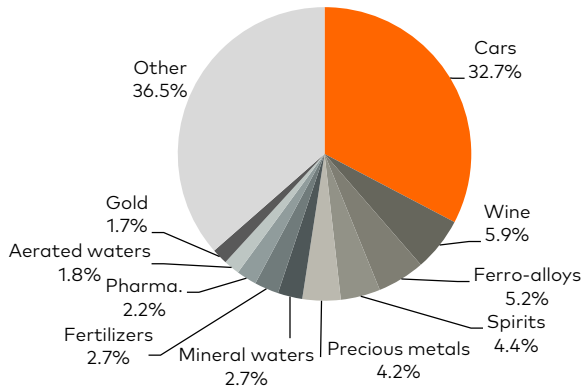
Source: Geostat, Galt & Taggart

Annual inflation and monetary policy rate



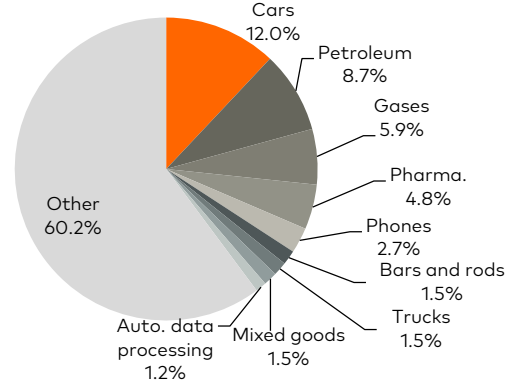


Exports by product, 2M24



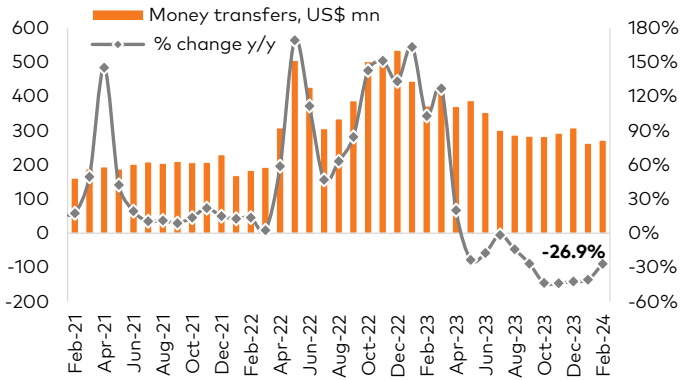
Source: Geostat

Imports by product, 2M24



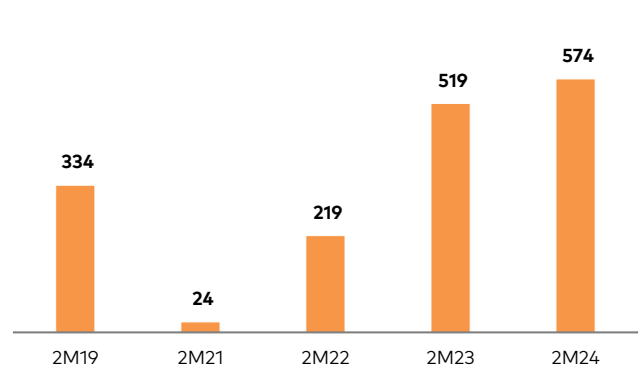
Source: Geostat

Remittances in Georgia



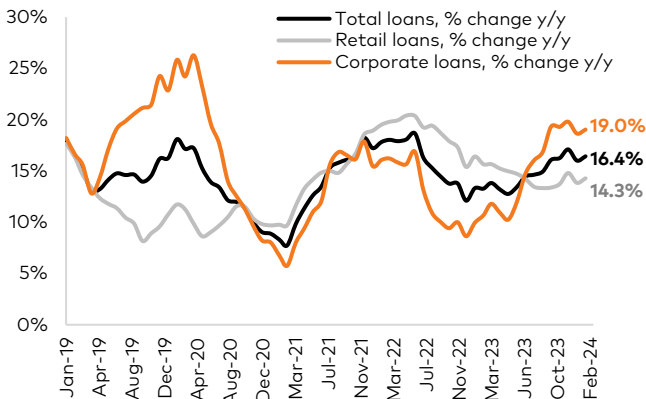
Source: NBG

Tourism revenues in Georgia, US\$ bn



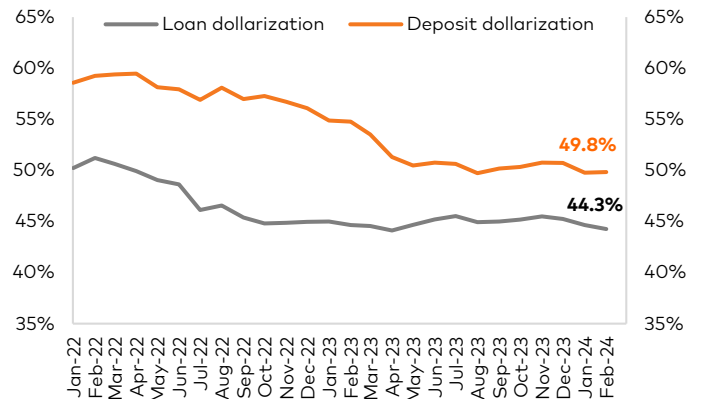
Source: NBG, Galt & Taggart

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	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024F	2025F
GDP and Prices											
Nominal GDP, GEL bn	34.5	36.6	41.3	45.4	49.7	49.8	60.7	72.9	80.2	88.5	96.4
Nominal GDP, US\$ bn	15.2	15.4	16.5	17.9	17.6	16.0	18.9	25.0	30.5	32.8	34.7
Nominal GDP per capita, US\$	4,085	4,143	4,420	4,804	4,741	4,301	5,084	6,731	8,210	8,861	9,277
Real GDP, % change y/y	3.4%	3.4%	5.2%	6.1%	5.4%	-6.3%	10.6%	11.0%	7.5%	6.0%	5.5%
CPI Inflation, ave	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.9%	2.5%	3.0%	3.3%
CPI Inflation, eop	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.8%	0.4%	4.4%	2.9%
GEL per US\$, ave	2.27	2.37	2.51	2.53	2.82	3.11	3.22	2.92	2.63	2.70	2.78
GEL per US\$, eop	2.39	2.65	2.59	2.68	2.87	3.28	3.10	2.70	2.69	2.70	2.80
GEL per EUR, ave	2.52	2.62	2.83	2.99	3.15	3.55	3.82	3.08	2.84	3.00	3.11
GEL per EUR, eop	2.62	2.79	3.10	3.07	3.21	4.02	3.50	2.88	2.98	3.05	3.20
GEL per GBP, ave	3.47	3.21	3.23	3.38	3.60	3.99	4.43	3.62	3.27	3.48	3.61
GEL per GBP, eop	3.55	3.26	3.50	3.40	3.76	4.45	4.17	3.26	3.42	3.55	3.70
Population, mn	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Government Finances											
Budget revenues, % of GDP	27.0%	27.5%	27.0%	26.5%	26.4%	25.3%	25.6%	27.2%	27.4%	28.0%	27.4%
Budget expenses, % of GDP	28.1%	28.9%	27.8%	27.2%	29.1%	34.5%	31.9%	29.6%	30.3%	30.5%	29.5%
Fiscal balance (-deficit), % of GDP	-2.4%	-2.7%	-2.7%	-2.2%	-2.1%	-9.2%	-6.0%	-3.0%	-2.4%	-2.5%	-2.3%
Public debt, % of GDP	36.0%	39.5%	38.9%	38.2%	40.0%	59.6%	49.1%	39.2%	39.0%	38.0%	37.8%
External Sector											
Current account, US\$ bn	-1.8	-1.9	-1.3	-1.2	-1.0	-2.0	-1.9	-1.1	-1.3	-1.5	-1.7
Current account, % of GDP	-11.6%	-12.2%	-8.0%	-6.7%	-5.8%	-12.4%	-10.3%	-4.5%	-4.3%	-4.7%	-5.0%
Exports, US\$ bn	6.2	6.2	7.6	8.9	9.6	5.9	8.1	13.2	15.0	16.2	17.7
Imports, US\$ bn	8.7	8.5	9.4	10.8	11.2	9.0	11.2	15.6	17.8	19.2	21.0
Net Current transfers, US\$ bn	1.1	1.1	1.3	1.4	1.4	1.8	2.3	3.1	3.3	3.5	3.7
Net FDI, US\$ bn	1.4	1.2	1.7	1.0	1.1	0.6	0.9	1.8	1.3	1.6	1.9
Net FDI, % of GDP	9.3%	8.1%	10.4%	5.6%	6.1%	3.6%	4.9%	7.1%	4.3%	4.9%	5.5%
Gross int. reserves, US\$ bn	2.5	2.8	3.0	3.3	3.5	3.9	4.3	4.9	5.0	5.2	5.4
Financial sector											
Bank loan portfolio, US\$ bn	6.7	7.1	8.6	9.9	11.1	11.7	13.9	16.6	19.6	20.9	22.5
Bank loan portfolio, % of GDP	46.4%	51.7%	53.9%	58.6%	64.2%	76.8%	71.0%	61.5%	65.6%	64.8%	64.3%
Monetary policy rate, %	8.0%	6.5%	7.25%	7.0%	9.0%	8.0%	10.5%	11.0%	9.5%	8.0%	7.5%

Source: NBS, MOF, Geostat, Galt & Taggart

Note 1: Fiscal balance according to IMF Program Definition

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

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