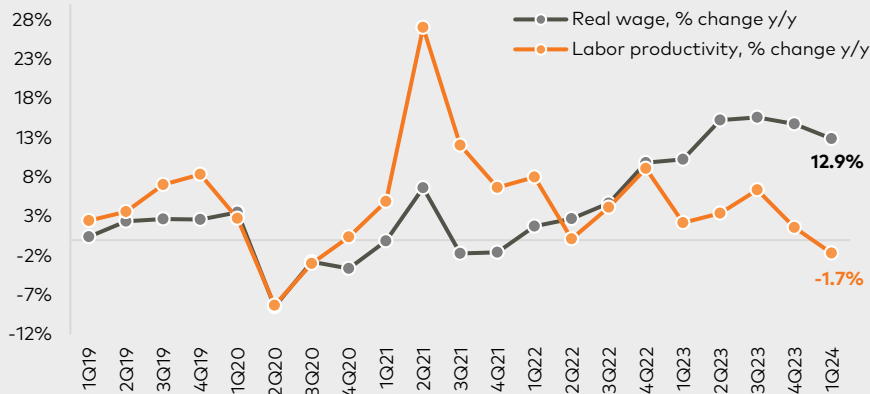




## Chart of the month: double-digit wage growth continued in 1Q24



Source: Geostat

In 1Q24, double-digit growth in both nominal and real wages continued. Nominal wages increased by 13.2% y/y, while real wages saw an annual rise of 12.9% y/y. However, labor productivity declined, which could lead to increased inflationary pressures if the trend persists.

### Economic summary

**Growth:** Georgia's economy grew by 9.2% in May-24, after a 11.8% y/y growth in previous month. Cumulatively, real GDP growth came in at 9.3% y/y in 5M24. In May, real growth was recorded in the ICT, professional & scientific activities, financial & insurance, construction and transport sectors. Due to stronger-than-expected growth in 5M24, we raised our real GDP growth forecast to 7.0% from 6.0% for the full-2024 year.

**Inflation:** In May-24, annual inflation rose to 2.0%, up from the 1.5% print in previous month. This increase was primarily driven by a 3.8% y/y rise in imported inflation (+3.5% in Apr-24), followed by a 2.5% y/y increase in domestic inflation (flat m/m). Notably, core inflation, excluding volatile food, energy and tobacco prices, reduced to 1.7% y/y in May-24 from 2.3% y/y recorded in previous month.

We forecast average annual inflation at 3.0% for 2024.

**Monetary policy:** On June 19, 2024, the NBG's Monetary Policy Committee kept its key rate unchanged at 8.0% due to heightened uncertainty from domestic and external factors, which have increased inflationary risks. In this context, the regulator noted that exchange rate volatility led to inflationary pressures from imported goods, compounded by the rise in global food prices over the past two months. We anticipate that the NBG will maintain this rate throughout 2024.

**FX:** The weakening of the GEL continued in June despite strong fundamentals. As in May, the GEL was affected by one-off transactions in June, prompting the NBG to intervene and sell US\$ 60mn. Overall, the NBG sold US\$ 177.8mn during May and June, though it remains a net FX buyer with an estimated net purchase of around US\$ 100mn. We anticipate an average GEL rate of 2.78/1\$ for 2024. Notably, CA deficit remained low at 5.0% of GDP in 1Q24 and we project 5.6% of GDP for the full year, suggesting limited pressure on GEL from external balance.

### Activity

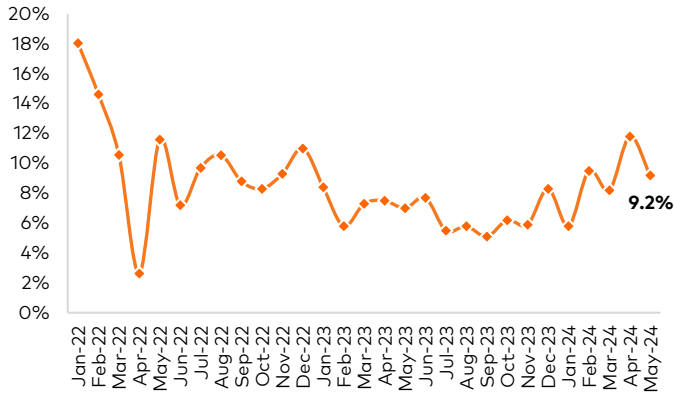
**Trade:** In May-24, both goods exports and imports saw moderate reductions. Good exports reduced by 5.6% y/y to US\$ 510.8mn in May-24, after a 12.7% y/y decline in previous month. Similarly, goods imports decreased by 4.0% y/y to US\$ 1.3bn, reversing from a 13.8% y/y growth in April. The reduction in overall exports was mainly due to decreases in copper, cars, wine and fertilizer exports. However, exports of precious metals and ferro-alloys increased significantly in May. On the import side, a decrease in imports of cars, phones and pharmaceuticals drove the decline, while imports of automatic data processing machines and petroleum increased markedly. Overall, in 5M24, trade deficit increased by 7.4% y/y to US\$ 3.9bn, as exports decreased by 9.2% y/y to US\$ 2.3bn and imports were up by 0.7% y/y to US\$ 6.2bn.

**Tourism:** In 5M24, tourism revenues rose by 0.5% y/y to US\$ 1.4bn, according to our estimates. We project tourism revenues to reach US\$ 4.3bn for 2024, up from US\$ 4.1bn in 2023.

**Banking sector:** In May-24, the bank loan portfolio increased by 19.0% y/y (excl. FX effect) reaching GEL 56.4bn, after a 18.4% y/y growth in previous month. The credit growth in May was mainly driven by a 23.2% y/y increase in corporate loans (contributing 10.4ppts to the total loan growth), followed by retail loans (+15.7% y/y). Bank deposits increased by 12.2% y/y (excl. FX effect) to GEL 53.0bn in May-24, after growing by 17.7% y/y in Apr-24. The dollarization rates deteriorated due to GEL depreciation, with deposit and loan dollarization standing at 49.8% (+1.54ppts m/m) and 45.6% (+0.97ppts m/m), respectively, in May.

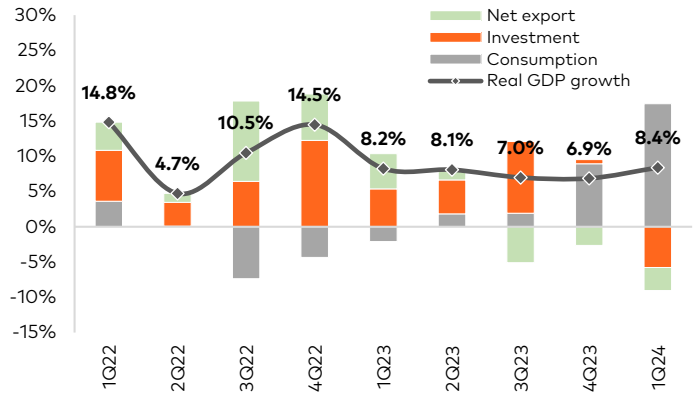


### Real GDP growth, % change y/y



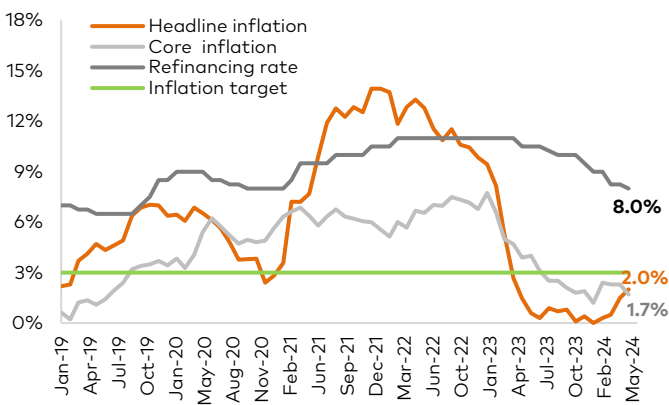
Source: Geostat

### Contributions to real GDP growth, ppts



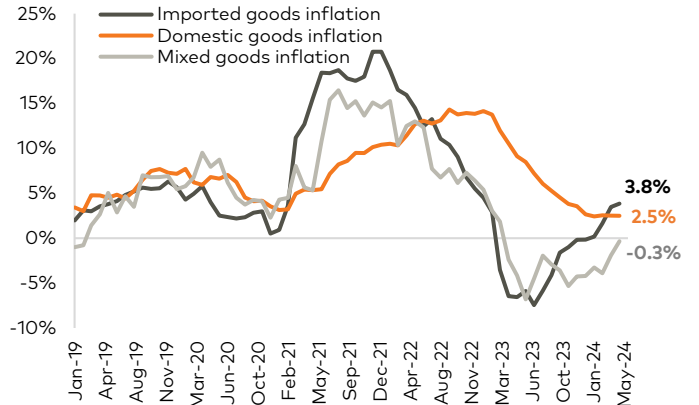
Source: Geostat, Galt & Taggart

### Annual inflation and monetary policy rate



Source: Geostat, NBG

### Imported and domestic inflation dynamics



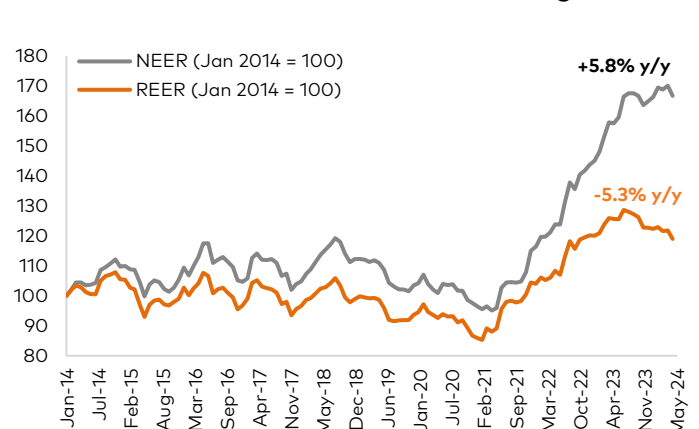
Source: Geostat

### GEL/US\$ and GEL/EUR



Source: NBG

### GEL's nominal and real effective exchange rates

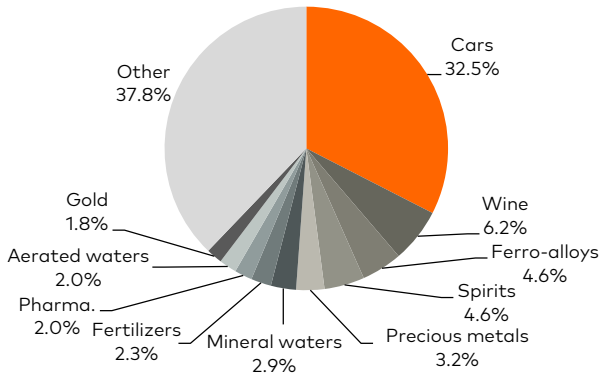


Source: NBG

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

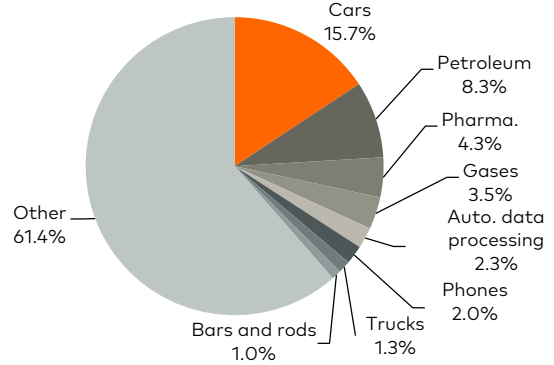


**Exports by product, 5M24**



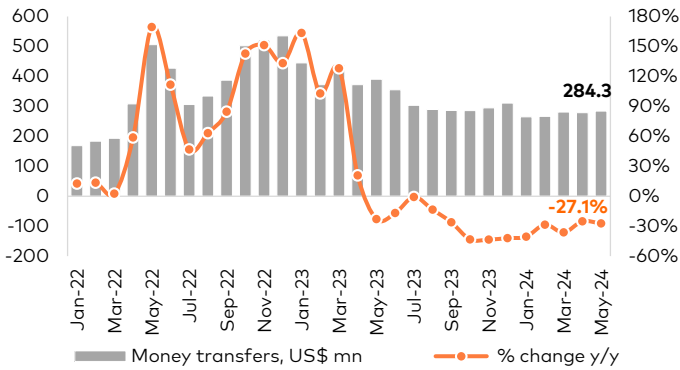
Source: Geostat

**Imports by product, 5M24**



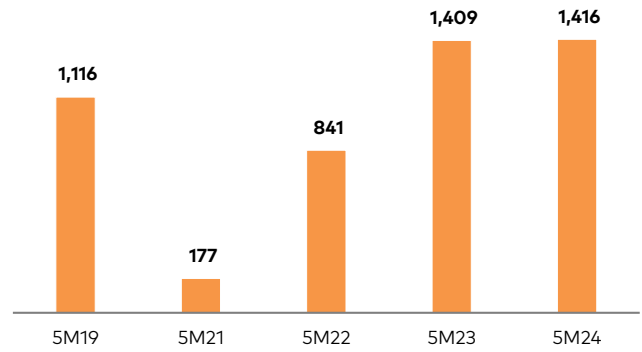
Source: Geostat

**Money transfers to Georgia**



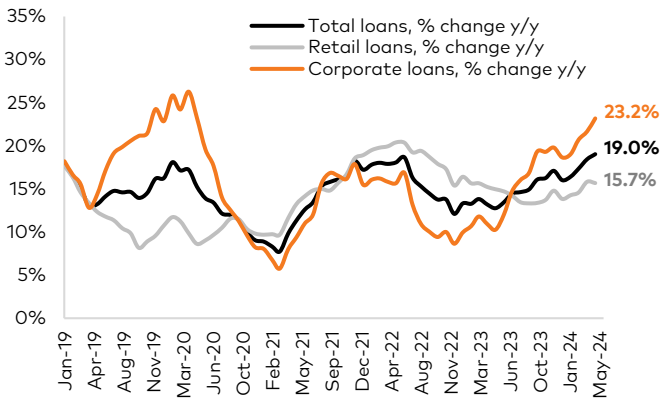
Source: NBG

**Tourism revenues, US\$ bn**



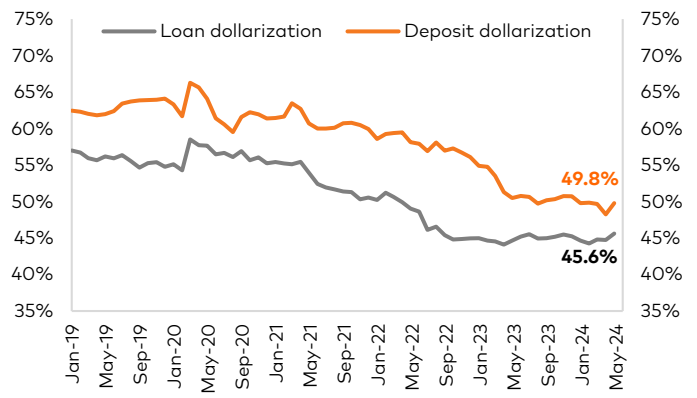
Source: NBG, Galt & Taggart

**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
<b>GDP and Prices</b>											
Nominal GDP, GEL bn	34.5	36.6	41.3	45.4	49.7	49.8	60.7	72.9	80.2	89.3	98.0
Nominal GDP, US\$ bn	15.2	15.4	16.5	17.9	17.6	16.0	18.9	25.0	30.5	32.1	34.2
Nominal GDP per capita, US\$	4,085	4,143	4,420	4,804	4,741	4,301	5,084	6,731	8,210	8,693	9,261
Real GDP, % change y/y	3.4%	3.4%	5.2%	6.1%	5.4%	-6.3%	10.6%	11.0%	7.5%	7.0%	5.0%
CPI Inflation, ave	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.9%	2.5%	3.0%	4.2%
CPI Inflation, eop	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.8%	0.4%	4.4%	3.5%
GEL per US\$, ave	2.27	2.37	2.51	2.53	2.82	3.11	3.22	2.92	2.63	2.78	2.86
GEL per US\$, eop	2.39	2.65	2.59	2.68	2.87	3.28	3.10	2.70	2.69	2.90	2.99
GEL per EUR, ave	2.52	2.62	2.83	2.99	3.15	3.55	3.82	3.08	2.84	3.02	3.15
GEL per EUR, eop	2.62	2.79	3.10	3.07	3.21	4.02	3.50	2.88	2.98	3.15	3.29
GEL per GBP, ave	3.47	3.21	3.23	3.38	3.60	3.99	4.43	3.62	3.27	3.53	3.72
GEL per GBP, eop	3.55	3.26	3.50	3.40	3.76	4.45	4.17	3.26	3.42	3.77	3.94
Population, mn	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
<b>Government Finances</b>											
Budget revenues, % of GDP	27.0%	27.5%	27.0%	26.5%	26.4%	25.3%	25.6%	27.2%	28.1%	28.7%	27.9%
Budget expenses, % of GDP	28.1%	28.9%	27.8%	27.2%	29.1%	34.5%	31.9%	29.6%	30.5%	31.3%	30.2%
Fiscal balance (-deficit), % of GDP	-2.4%	-2.7%	-2.7%	-2.2%	-2.1%	-9.2%	-6.0%	-3.0%	-2.5%	-2.5%	-2.4%
Public debt, % of GDP	36.0%	39.5%	38.9%	38.2%	40.0%	59.6%	49.1%	39.2%	39.2%	39.0%	38.5%
<b>External Sector</b>											
Current account, US\$ bn	-1.8	-1.9	-1.3	-1.2	-1.0	-2.0	-1.9	-1.1	-1.3	-1.8	-2.0
Current account, % of GDP	-11.6%	-12.2%	-8.0%	-6.7%	-5.8%	-12.4%	-10.3%	-4.5%	-4.4%	-5.6%	-5.9%
Exports, US\$ bn	6.2	6.2	7.6	8.9	9.6	5.9	8.1	13.2	15.0	15.5	16.4
Imports, US\$ bn	8.7	8.5	9.4	10.8	11.2	9.0	11.2	15.6	17.8	18.7	20.0
Net Current transfers, US\$ bn	1.1	1.1	1.3	1.4	1.4	1.8	2.3	3.1	3.3	3.1	3.2
Net FDI, US\$ bn	1.4	1.2	1.7	1.0	1.1	0.6	0.9	1.8	1.3	1.0	1.1
Net FDI, % of GDP	9.3%	8.1%	10.4%	5.6%	6.1%	3.6%	4.9%	7.1%	4.3%	3.1%	3.2%
Gross international reserves, US\$ bn	2.5	2.8	3.0	3.3	3.5	3.9	4.3	4.9	5.0	4.8	4.9
<b>Financial sector</b>											
Bank loan portfolio, US\$ bn	6.7	7.1	8.6	9.9	11.1	11.7	13.9	16.6	19.6	20.7	21.7
Bank loan portfolio, % of GDP	46.4%	51.7%	53.9%	58.6%	64.2%	76.8%	71.0%	61.5%	65.6%	67.2%	66.2%
Monetary policy rate, %	8.0%	6.5%	7.25%	7.0%	9.0%	8.0%	10.5%	11.0%	9.50%	8.00%	8.50%

Source: NBG, MOF, Geostat, Galt &amp; Taggart

Note 1: Fiscal balance according to IMF Program Definition

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

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