



## Chart of the month: Historically low level of unemployment in 2Q24



Source: Geostat

The unemployment rate reduced by 3.1ppts y/y to a record low level of 13.7% in 2Q24, driven by strong economic growth. During this period, the number of hired employed individuals increased by 2.1% y/y, accounting for 67.4% of total employment, while self-employed persons rose by 10.1% y/y. Notably, labor force participation rate increased by 1.3ppts y/y to 54.5% in 2Q24.

We forecast unemployment rate at 14.5% in 2024, down from 16.4% in 2023.

### Economic summary

**Growth:** Georgia's economy gained momentum, with real GDP up by 13.0% in Jul-24, after a 7.5% growth in previous month. Cumulatively, real GDP growth came in at 9.7% in 7M24. In July, real growth was recorded in the construction, manufacturing, ICT, professional & scientific activities and trade sectors. Meanwhile, the energy sector contracted in the same period. Given the stronger-than-expected growth in 7M24, we are raising our real GDP growth forecast to 8.0% from 7.0% for the full-2024 year.

**Inflation:** In Jul-24, annual inflation retreated to 1.8%, down from the 2.2% print in previous month. This slowdown was largely driven by a deceleration in domestic inflation, which slowed to 1.9% in Jul-24 from 2.8% y/y in Jun-24. At the same time, imported inflation rose to 3.7% y/y in July, up from 3.3% y/y in June. Notably, core inflation, excluding volatile food, energy and tobacco prices, further reduced to 1.1% y/y in Jul-24 from 1.4% y/y recorded in previous month.

Due to lower-than-expected inflation in 7M24, thanks to a stable GEL, we now forecast average annual inflation at 2.0% for 2024.

**Monetary policy:** On July 30, 2024, the NBG's Monetary Policy Committee kept its key rate unchanged at 8.0%, citing increased inflationary risks from volatile international oil and food prices and higher shipping costs from China. We anticipate that the NBG will maintain this rate throughout 2024.

**FX:** Due to continued strong FX inflows, the GEL further strengthened in August. Notably, the NBG purchased US\$ 1.9mn in July and it is likely that these purchases continued into August. Overall, the NBG was a net buyer of US\$ 68.8mn in 7M24 (purchased US\$ 288.5mn and sold US\$ 219.8mn), with gross international reserves reaching US\$ 4.7bn as of Jul-24. We now anticipate an average GEL rate of 2.74/1\$ and 2.99/1€ for 2024, slightly improving from our previous forecasts of 2.77/1\$ and 3.0/1€.

### Activity

**Trade:** In Jul-24, goods exports surged by 29.9% y/y to a new record high monthly level of US\$ 684.6mn, following a 5.8% y/y growth in previous month. Imports also increased by 7.2% y/y to US\$ 1.4bn, rebounding from a 5.7% y/y decline in previous month. Consequently, the trade deficit decreased by 7.8% y/y to US\$ 735.7mn in Jul-24. The sharp increase in exports was primarily driven by higher exports of cars, ferro-alloys, spirits, precious metals, and mineral and aerated waters. However, exports of wine and copper experienced a significant decline in July. On the import side, the overall growth was mainly due to increased imports of petroleum and automatic data processing machines, while imports of cars and phones fell significantly. Overall, in 7M24, trade deficit increased by 5.8% y/y to US\$ 5.5bn, as exports declined by 1.3% y/y to US\$ 3.5bn, while imports rose by 2.9% y/y to US\$ 9.0bn.

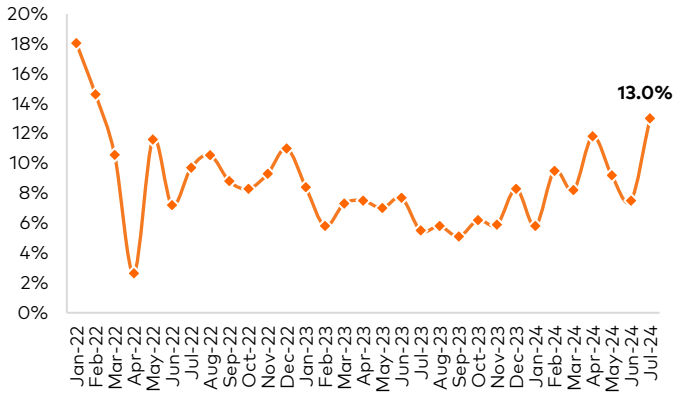
**Tourism:** In Jul-24, tourism revenues increased by 23.5% y/y to US\$ 600mn, according to our estimates. Overall, in 7M24 tourism revenues reached US\$2.5bn (+9.1% y/y) by our estimates.

We forecast tourism revenues at US\$ 4.3bn for 2024, up from US\$ 4.1bn in 2023.

**Banking sector:** In Jul-24, the bank loan portfolio increased by 18.3% y/y (excl. FX effect) reaching GEL 57.1bn, after a 17.8% y/y growth in previous month. The credit growth in July was mainly driven by a 20.5% y/y increase in corporate loans (contributing 9.4ppts to the total loan growth), followed by retail loans (+16.5% y/y). Bank deposits rose by 15.0% y/y (excl. FX effect) to GEL 55.7bn in Jun-24, after growing by 13.5% y/y in Jun-24. Consequently, the dollarization rates improved further in July, with deposit and loan dollarization at 48.5% (-0.56ppts m/m) and 44.2% (-0.93ppts m/m), respectively.

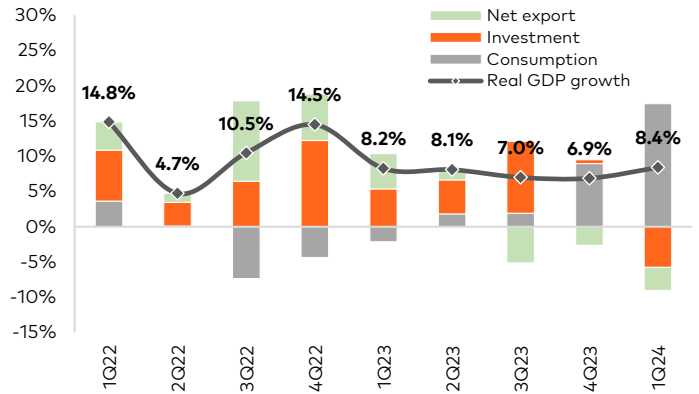


**Real GDP growth, % change y/y**



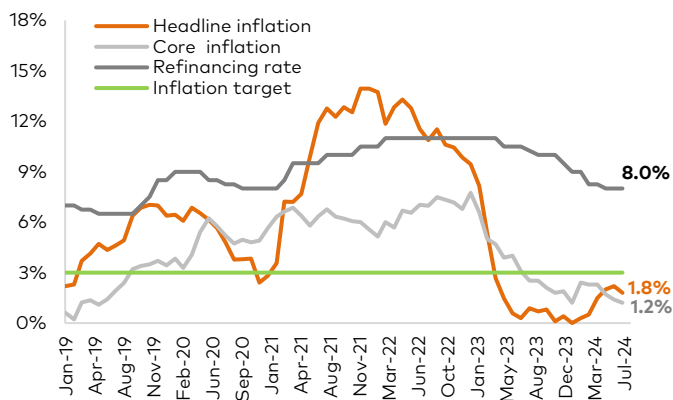
Source: Geostat

**Contributions to real GDP growth, ppts**



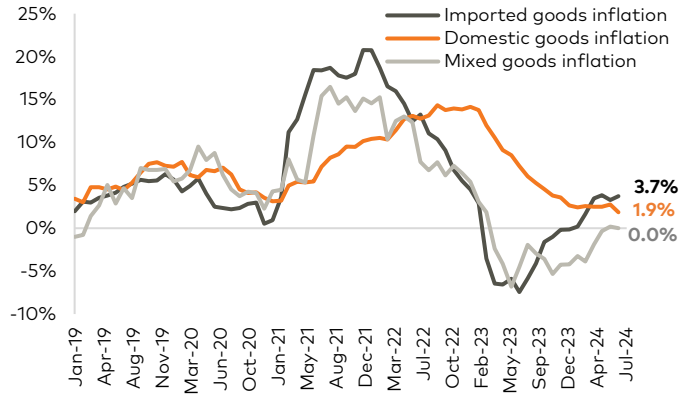
Source: Geostat, Galt & Taggart

**Annual inflation and monetary policy rate**



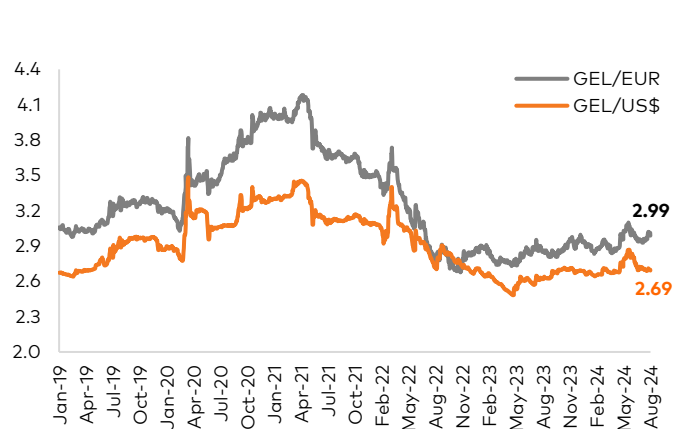
Source: Geostat, NBG

**Imported and domestic inflation dynamics**



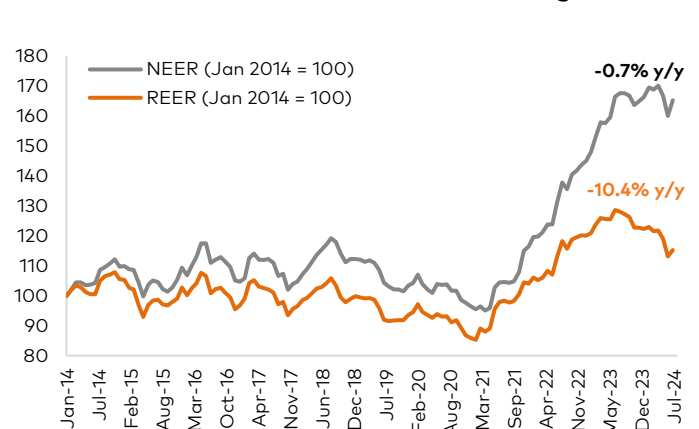
Source: Geostat

**GEL/US\$ and GEL/EUR**



Source: NBG

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

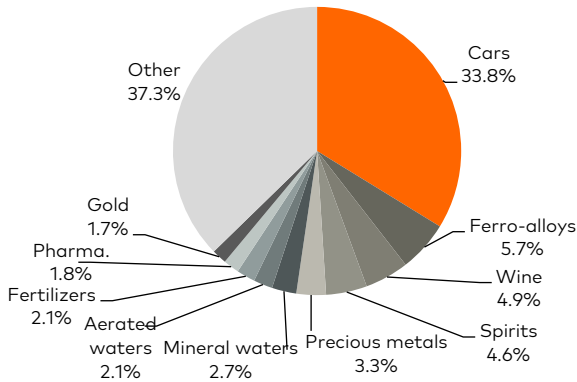


Source: NBG

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

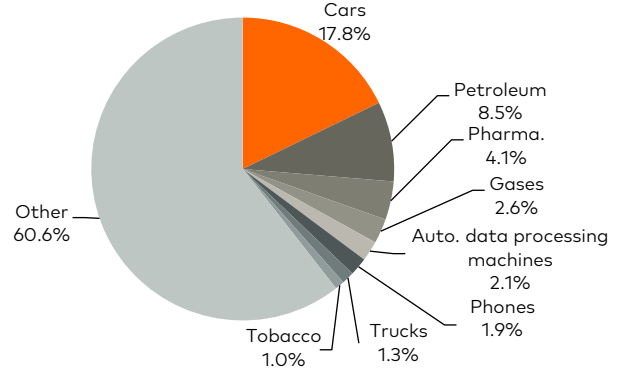


**Exports by product, 7M24**



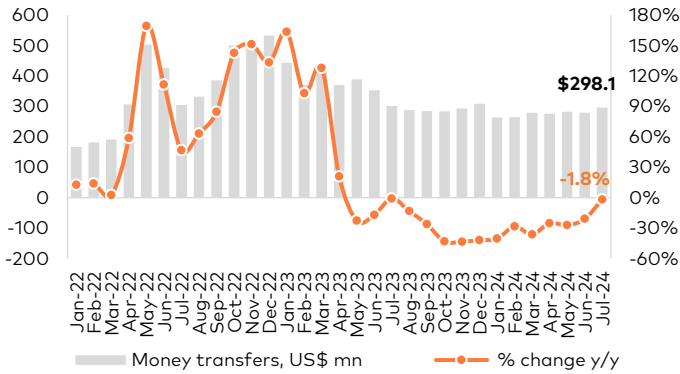
Source: Geostat

**Imports by product, 7M24**



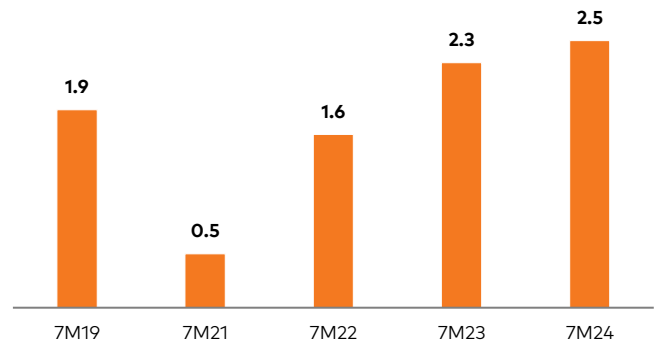
Source: Geostat

**Money transfers to Georgia**



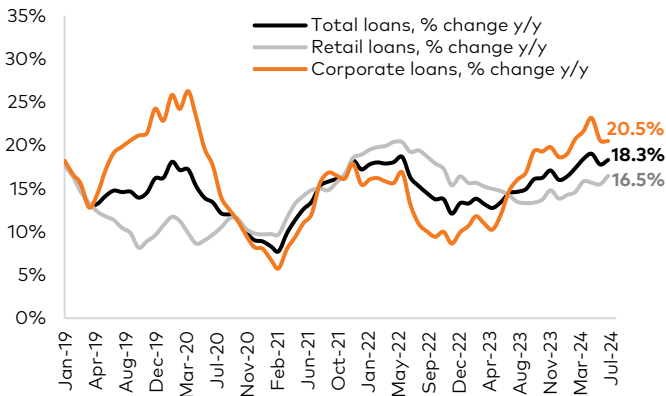
Source: NBG

**Tourism revenues, US\$ bn**



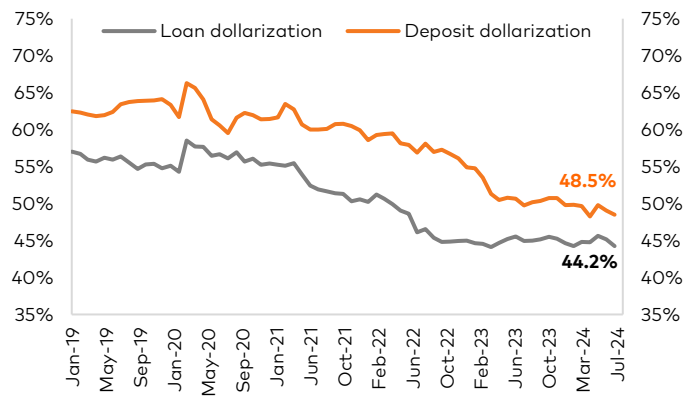
Source: NBG, Galt & Taggart

**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	89.8	99.0
Nominal GDP, US\$ bn	15.2	15.4	16.5	17.9	17.6	16.0	18.9	25.0	30.5	32.8	35.4
Nominal GDP per capita, US\$	4,085	4,143	4,420	4,804	4,741	4,301	5,084	6,731	8,210	8,869	9,569
Real GDP, % change y/y	3.4%	3.4%	5.2%	6.1%	5.4%	-6.3%	10.6%	11.0%	7.5%	8.0%	5.5%
CPI Inflation, ave	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.9%	2.5%	2.0%	4.2%
CPI Inflation, eop	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.8%	0.4%	3.8%	3.5%
GEL per US\$, ave	2.27	2.37	2.51	2.53	2.82	3.11	3.22	2.92	2.63	2.74	2.80
GEL per US\$, eop	2.39	2.65	2.59	2.68	2.87	3.28	3.10	2.70	2.69	2.85	2.90
GEL per EUR, ave	2.52	2.62	2.83	2.99	3.15	3.55	3.82	3.08	2.84	2.99	3.08
GEL per EUR, eop	2.62	2.79	3.10	3.07	3.21	4.02	3.50	2.88	2.98	3.14	3.19
GEL per GBP, ave	3.47	3.21	3.23	3.38	3.60	3.99	4.43	3.62	3.27	3.51	3.65
GEL per GBP, eop	3.55	3.26	3.50	3.40	3.76	4.45	4.17	3.26	3.42	3.73	3.83
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%	38.6%	37.1%
<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	-1.6	-1.8
Current account, % of GDP	-11.6%	-12.2%	-8.0%	-6.7%	-5.8%	-12.4%	-10.3%	-4.5%	-4.4%	-4.8%	-5.1%
Exports, US\$ bn	6.2	6.2	7.6	8.9	9.6	5.9	8.1	13.2	15.0	15.7	16.6
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%	3.1%
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	21.1	22.4
Bank loan portfolio, % of GDP	46.4%	51.7%	53.9%	58.6%	64.2%	76.8%	71.0%	61.5%	65.6%	66.9%	65.5%
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: NBS, 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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