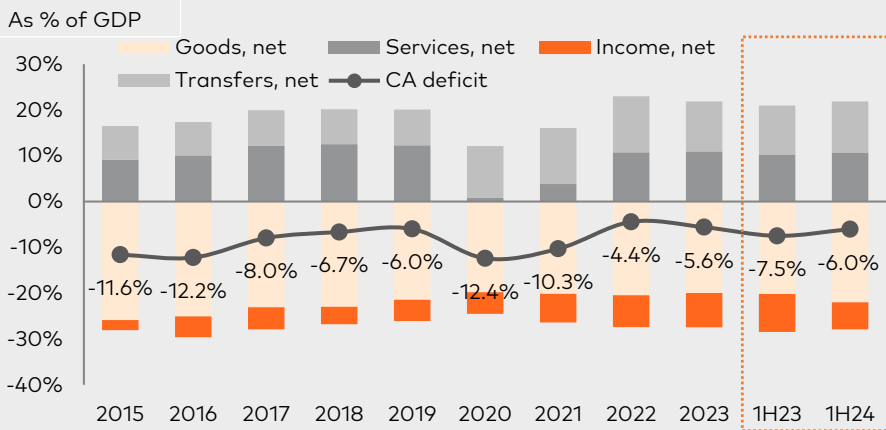




Chart of the month: Reduced CA deficit in 1H24



Source: NBG, Geostat

The Current Account (CA) deficit decreased to 6.0% of GDP in 1H24 from 7.5% in 1H23. This improvement was driven by strong growth in the transfer balance increasing by 13.5% y/y to US\$ 1.7bn, followed by the service balance (+10.5% y/y to US\$ 1.6bn). The merchandise trade deficit, traditionally the major contributor to deficit creation, increased by 17.0% y/y to US\$ 3.3bn, as exports decreased by 7.7% y/y and imports were up 2.4% y/y. We forecast CA deficit to GDP at 5.0% in 2024, down from 5.6% in 2023.

Economic summary

Growth: Georgia's economy expanded by 12.0% in Aug-24, after a 13.0% y/y growth in previous month. Cumulatively, real GDP growth came in at 10.0% y/y in 8M24. In August, significant growth was observed in the professional and scientific activities, ICT, construction, financial and insurance, real estate, and trade sectors, while the energy sector contracted. Due to the robust economic performance in 8M24, we updated our full-year real GDP growth projection to 9.0% from the earlier forecast of 8.0%.

Inflation: In Aug-24, annual inflation eased further to 1.0%, down from 1.8% in July. Primarily, this slowdown was driven by a moderation in domestic inflation, which eased to 1.1% y/y in August from 1.9% y/y in July, alongside a reduction in mixed goods inflation by -1.1% y/y. Similarly, imported inflation decelerated, reaching 3.0% y/y in August, down from 3.7% y/y in the previous month. Notably, core inflation, excluding volatile food, energy and tobacco prices, reduced to 0.9% y/y in Aug-24 from 1.1% y/y recorded in previous month. We forecast average annual inflation at 1.8% for 2024.

Monetary policy: On September 11, 2024, the NBG's Monetary Policy Committee kept its key rate unchanged at 8.0%, reflecting global uncertainty on food and energy markets, along with continued disruptions in supply chains and international shipping. Furthermore, strong economic growth in Georgia is adding to inflationary pressures. We anticipate that the NBG will maintain this rate throughout 2024.

FX: Similar to previous month, the GEL strengthened in August, appreciating by 1.1% m/m. Notably, the NBG purchased US\$ 41.0mn in August, bringing total net purchases to US\$ 109.8mn for 8M24 (purchased US\$ 329.5mn and sold US\$ 219.8mn). Consequently, gross international reserves reached US\$ 4.8bn as of Aug-24. We anticipate an average GEL rate of 2.74/1\$ and 2.99/1€ for 2024.

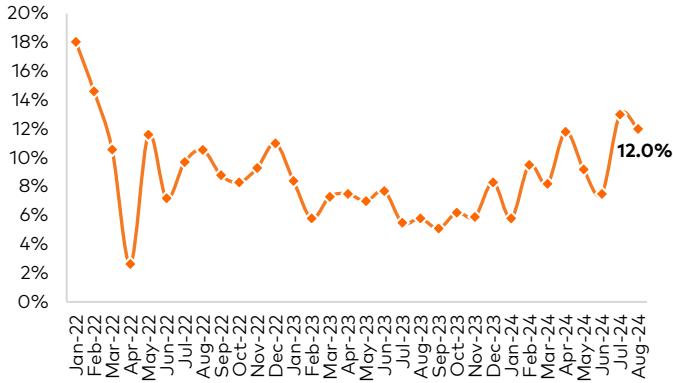
Activity

Trade: In Aug-24, goods exports continued to exhibit strong growth, increasing by 30.1% y/y to US\$ 641.7mn, following a robust 29.9% y/y growth in previous month. In contrast, imports fell by 4.8% y/y to US\$ 1.3bn, after a 11.2% growth y/y in previous month. Consequently, the trade deficit declined by 23.5% y/y to US\$ 702.4mn in Aug-24. The surge in exports was primarily driven by heightened demand for cars, precious metals, ferro-alloys, spirits, water, and wine. However, similar to the previous month, copper exports experienced a substantial decline. On the import side, the decrease was largely due to a drop in car imports, although imports of iron bars and rods, gases, petroleum, and automatic data processing machines saw considerable increases. Overall, in 8M24, trade deficit increased by 3.8% y/y to US\$ 6.4bn, as exports increased by 2.5% y/y to US\$ 4.2bn and imports were up by 3.3% y/y to US\$ 10.5bn.

Tourism: In 8M24, tourism revenues increased by 23.5% y/y to US\$ 670mn in Jul-24, according to our estimates. Overall, in 8M24 tourism revenues reached US\$ 3.2bn (+11.8% y/y) by our estimates. We forecast tourism revenues at US\$ 4.4bn for 2024, up from US\$ 4.1bn in 2023.

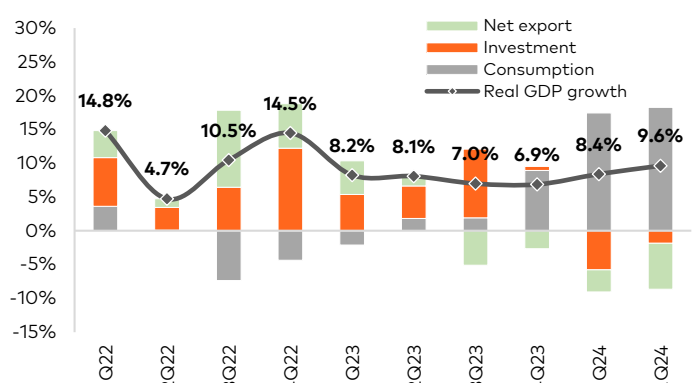
Banking sector: In Aug-24, the bank loan portfolio increased by 18.6% y/y (excl. FX effect) reaching GEL 57.7bn, after a 18.3% y/y growth in previous month. Similar to previous months, the credit growth in August was mainly driven by a 20.7% y/y increase in corporate loans (contributing 9.4ppts to the total loan growth), followed by retail loans (+16.8% y/y). Bank deposits rose by 15.3% y/y (excl. FX effect) to GEL 56.1bn in Aug-24, after growing by 15.0% y/y in Jul-24. Consequently, the dollarization rates improved further in August, with deposit and loan dollarization at 47.8% (-0.34ppts m/m) and 43.9% (-0.68ppts m/m), respectively.

Real GDP growth, % change y/y



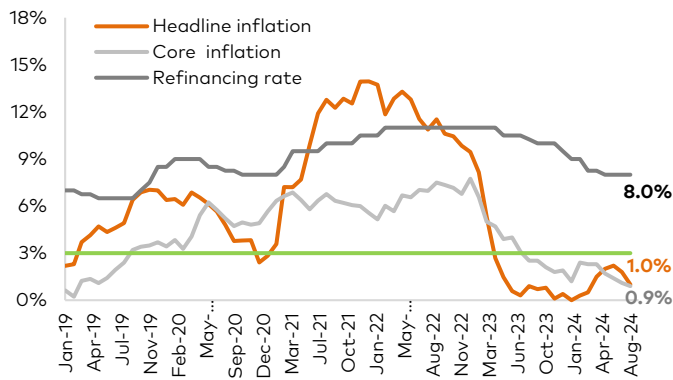
Source: Geostat

Contributions to real GDP growth, pts



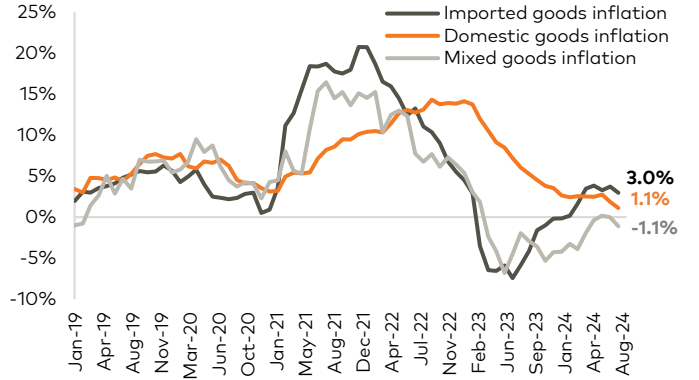
Source: Geostat, Galt & Taggart

Annual inflation and monetary policy rate



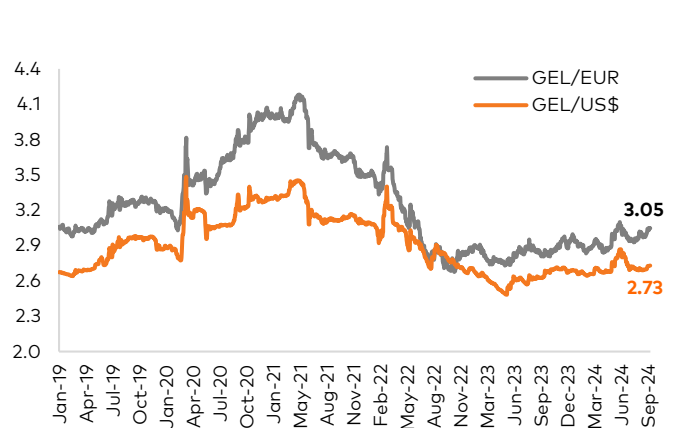
Source: Geostat, NBG

Imported and domestic inflation dynamics



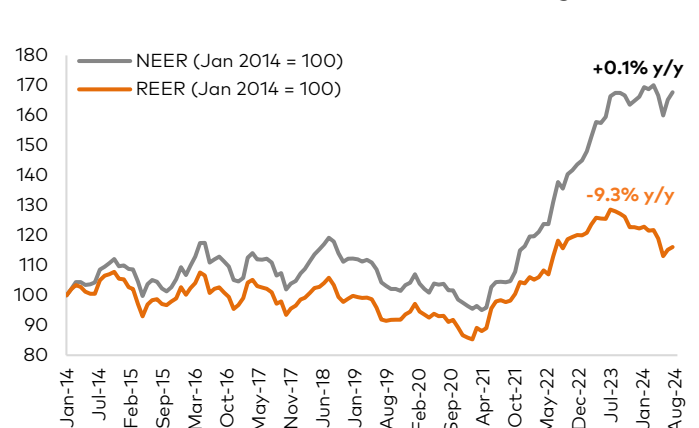
Source: Geostat

GEL/US\$ and GEL/EUR



Source: NBG

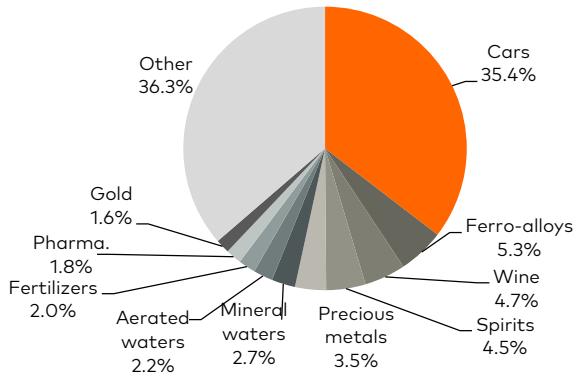
GEL's nominal and real effective exchange rates



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

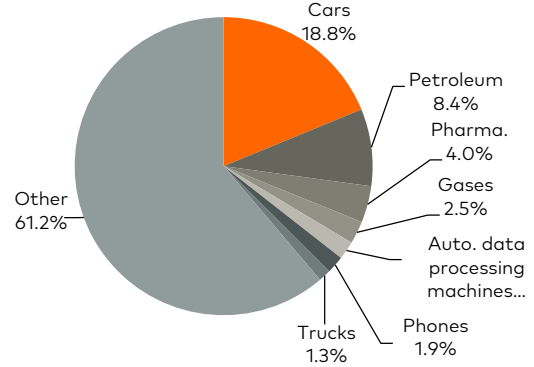


Exports by product, 8M24



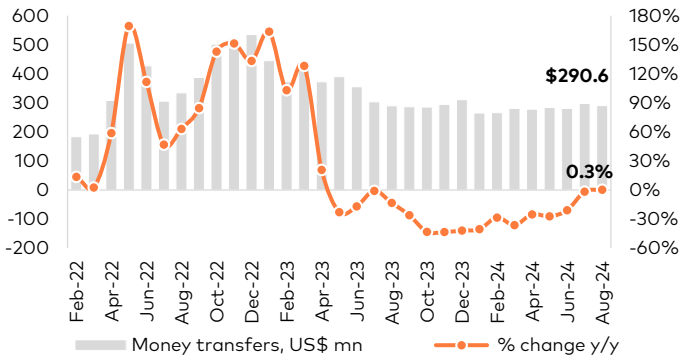
Source: Geostat

Imports by product, 8M24



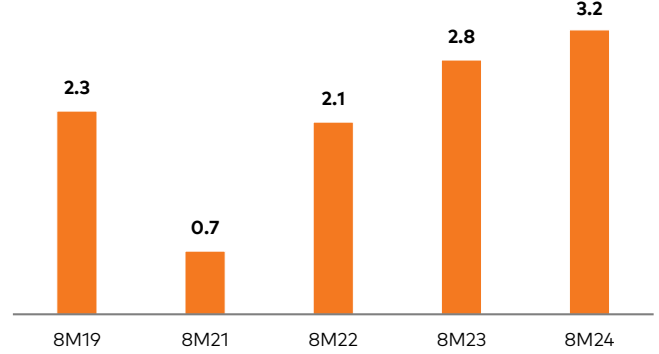
Source: Geostat

Money transfers to Georgia



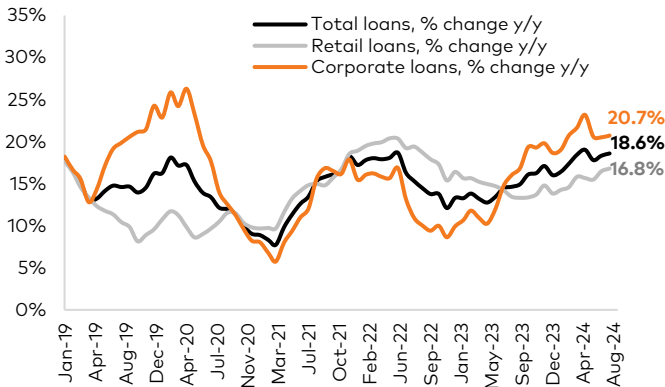
Source: NBG

Tourism revenues, US\$ bn



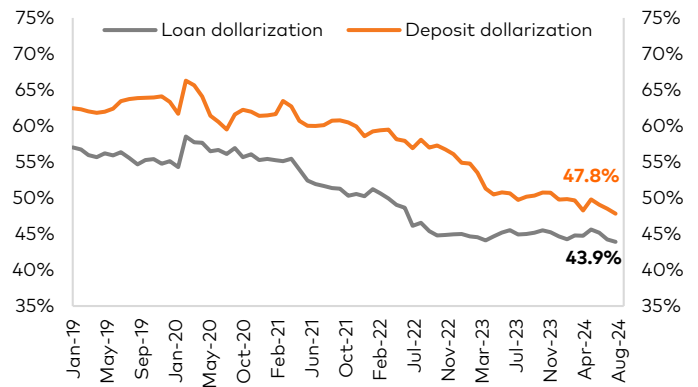
Source: NBG, Galt & Taggart

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
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	90.5	100.2
Nominal GDP, US\$ bn	15.2	15.4	16.5	17.9	17.6	16.0	18.9	25.0	30.5	33.0	35.8
Nominal GDP per capita, US\$	4,085	4,143	4,420	4,804	4,741	4,301	5,084	6,731	8,210	8,939	9,691
Real GDP, % change y/y	3.4%	3.4%	5.2%	6.1%	5.4%	-6.3%	10.6%	11.0%	7.5%	9.0%	6.0%
CPI Inflation, ave	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.9%	2.5%	1.8%	4.2%
CPI Inflation, eop	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.8%	0.4%	3.3%	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	2.82	2.82
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	3.10	3.13
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	3.72	3.78
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%	28.1%	28.6%	27.8%
Budget expenses, % of GDP	28.1%	28.9%	27.8%	27.2%	29.1%	34.5%	31.9%	29.6%	30.5%	31.1%	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%	-2.5%
Public debt, % of GDP	36.0%	39.5%	38.9%	38.2%	40.0%	59.6%	49.1%	39.2%	39.2%	36.5%	36.8%
External Sector											
Current account, US\$ bn	-1.8	-1.9	-1.3	-1.2	-1.1	-2.0	-1.9	-1.1	-1.7	-1.6	-1.7
Current account, % of GDP	-11.6%	-12.2%	-8.0%	-6.7%	-6.0%	-12.4%	-10.3%	-4.4%	-5.6%	-5.0%	-4.8%
Exports, US\$ bn	6.2	6.2	7.6	8.9	9.6	5.9	8.1	13.2	15.0	15.8	16.7
Imports, US\$ bn	8.7	8.5	9.4	10.8	11.2	9.0	11.2	15.6	17.8	19.2	20.5
Net Current transfers, US\$ bn	1.1	1.1	1.3	1.4	1.4	1.8	2.3	3.1	3.3	3.7	3.9
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%	3.0%	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
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	21.3	23.0
Bank loan portfolio, % of GDP	46.4%	51.7%	53.9%	58.6%	64.2%	76.8%	71.0%	61.5%	65.6%	66.4%	64.7%
Monetary policy rate, %	8.0%	6.5%	7.25%	7.0%	9.0%	8.0%	10.5%	11.0%	9.50%	8.00%	8.00%

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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