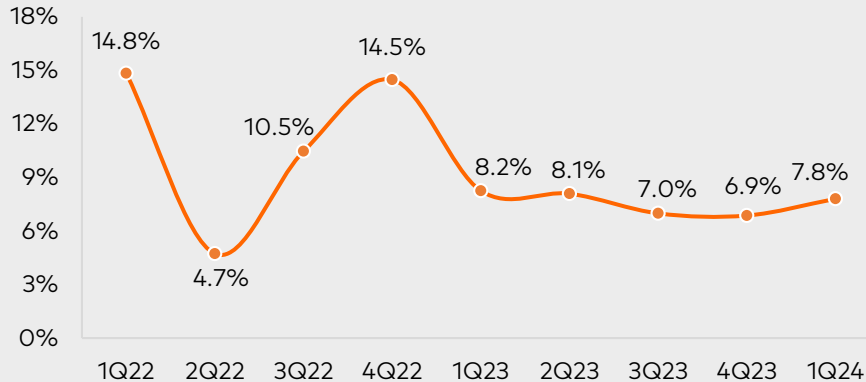




Chart of the month: Robust economic growth in 1Q24



Source: Geostat

In 1Q24, Georgia's economy expanded by 7.8% y/y, after growing by 6.9% y/y in previous quarter. Our analysis indicates that this growth was mainly driven by increased consumption due to low inflation, followed by investment activity.

We forecast real GDP to grow by 6.0% in our baseline scenario and by 7.0% in upside scenario. Given the growth in 1Q24, the probability of achieving the optimistic scenario has increased.

Economic summary

Growth: Georgia's economic growth was 8.2% in Mar-24 (above our expectations), after a 9.5% y/y growth in previous month. Cumulatively, real GDP growth came in at 7.8% y/y in 1Q24. In March, real growth was recorded in the manufacturing, ICT, professional & scientific activities and real estate sectors. In contrast, the construction, energy and transportation sectors contracted during the same period.

Inflation: In Mar-24, annual inflation was 0.5%, mostly affected by a 4.1% y/y decline in food prices and a 8.1% y/y increase in prices in the transport category. Core inflation, excluding volatile food, energy and tobacco stood at 2.3% y/y in Mar-24. Notably, domestically produced goods and services prices increased by 2.6% y/y in March (+2.4% 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. 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. This enabled NBG to continue building reserves, purchasing US\$ 213.5mn in 1Q24. We anticipate an average GEL rate of 2.7 against the dollar and 3.0 against the Euro in 2024, respectively.

Activity

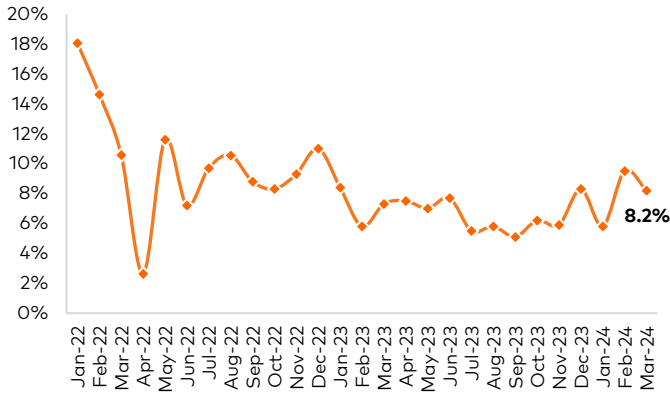
Trade: In Mar-24, both goods exports and imports reduced mostly due to the last year's high base effect. Exports decreased by 4.4% y/y to US\$ 522.4mn, after growing 2.0% y/y in previous month. Imports declined markedly by 17.0% y/y to US\$ 1.1bn, following a 6.9% y/y growth in previous month. A reduction in copper and fertilizer exports mainly contributed to the drop in overall exports. However, exports of ferro-alloys, wine, cars, and spirits saw a significant increase in March. On the import side, a reduction in imports of cars, phones, and automatic data processing machines drove the decline, while imports of petroleum, gases, and pharmaceuticals increased. Overall, in 1Q24, trade deficit narrowed by 2.5% y/y to US\$ 2.0bn, as exports decreased by 9.3% y/y to US\$ 1.3bn and imports were down by 5.3% y/y to US\$ 3.4bn.

Tourism: In 1Q24, international visitors to Georgia increased by 8.6% y/y to 1.16mn persons. This growth was solely driven by a 11.0% y/y increase in tourist arrivals. Consequently, tourism revenues for the same period rose by 1.5% y/y to US\$ 807.7mn, according to the NBG's estimates. We forecast tourism revenues at US\$ 4.5bn (+10.0% y/y) for 2024.

Banking sector: In Mar-24, the bank loan portfolio increased by 17.3% y/y (excl. FX effect) reaching GEL 53.8bn, after a 16.4% y/y growth in previous month. Similar to previous month, the credit growth in March was mainly driven by a 20.7% y/y increase in corporate loans (contributing 11.0ppts to the total loan growth), followed by retail loans (+14.6% y/y). Bank deposits increased by 16.7% y/y (excl. FX effect) to GEL 51.8bn in Mar-24, after growing by 14.8% y/y in Feb-24. The dollarization rates remained stable, with deposit and loan dollarization standing at 49.7% and 44.8%, respectively, in March.

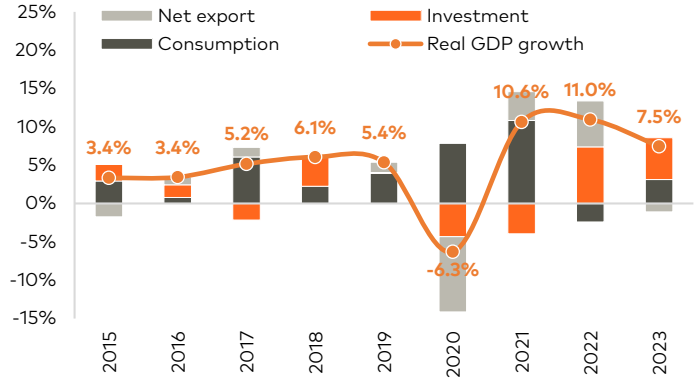


Real GDP growth, % change y/y



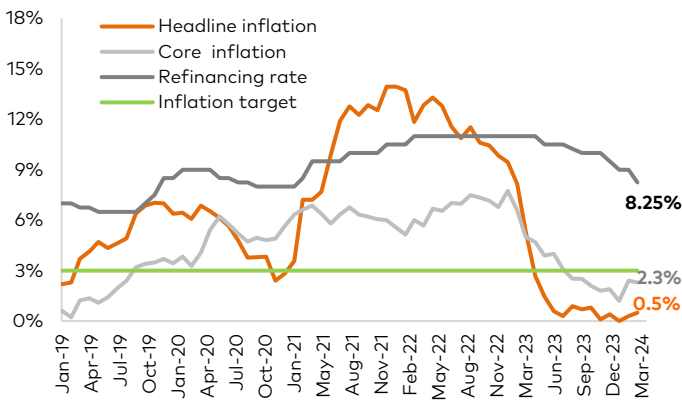
Source: Geostat

Contributions to real GDP growth, ppts



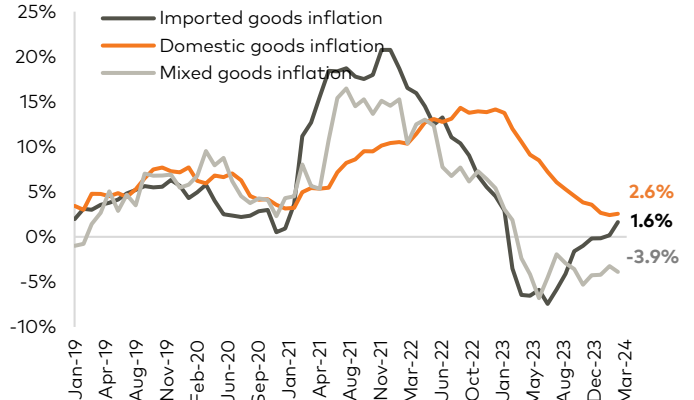
Source: Geostat, Galt & Taggart

Annual inflation and monetary policy rate



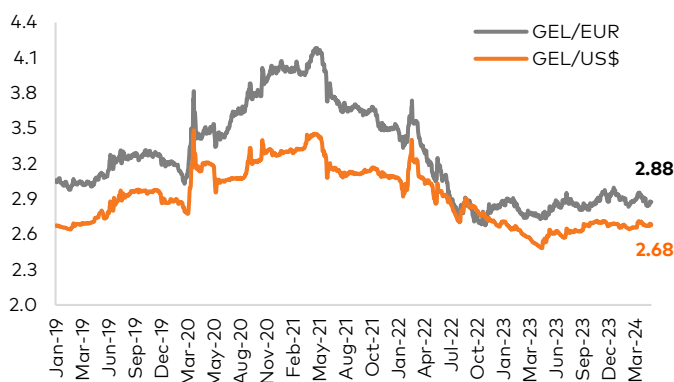
Source: Geostat, NBG

Imported and domestic inflation dynamics



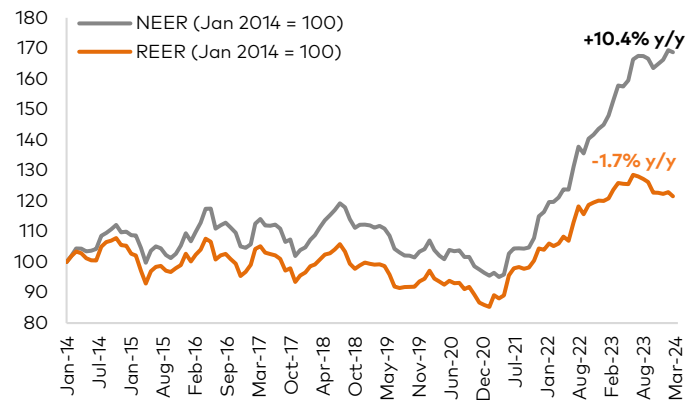
Source: Geostat

GEL/US\$ and GEL/EUR



Source: NBG

GEL's nominal and real effective exchange rates

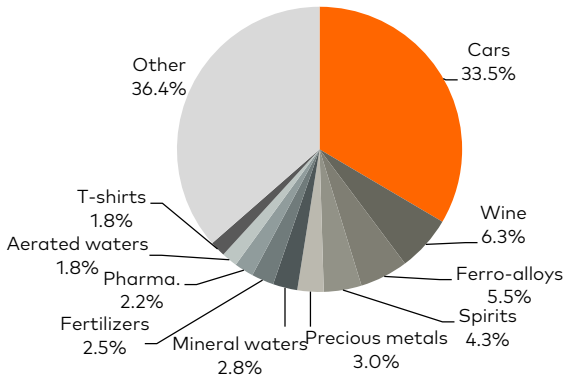


Source: NBG

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

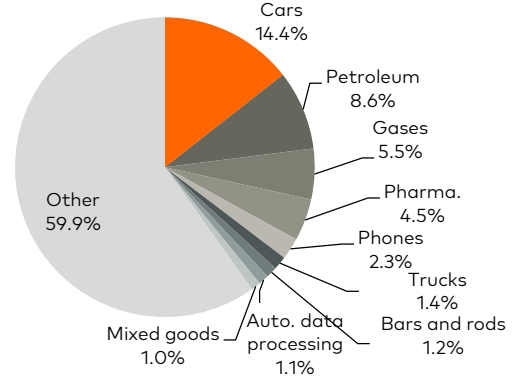


Exports by product, 1Q24



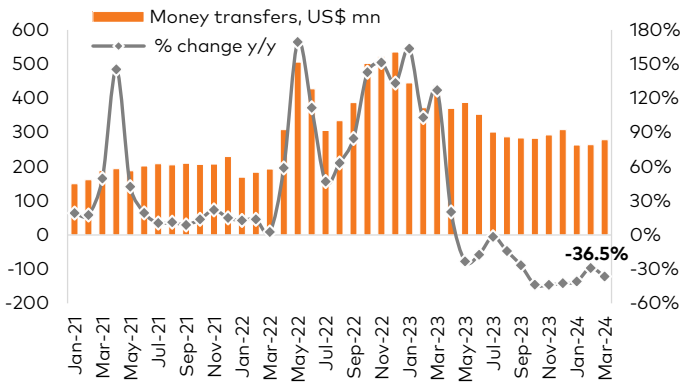
Source: Geostat

Imports by product, 1Q24



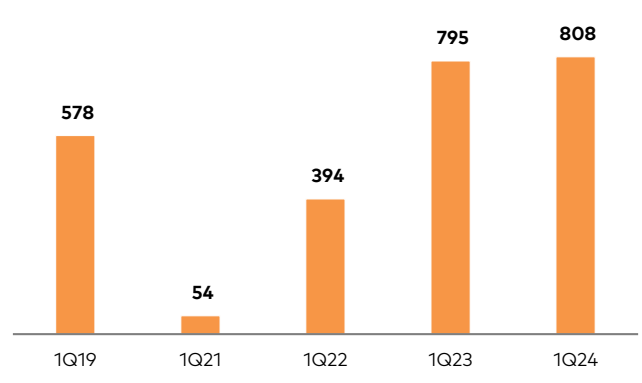
Source: Geostat

Money transfers to Georgia



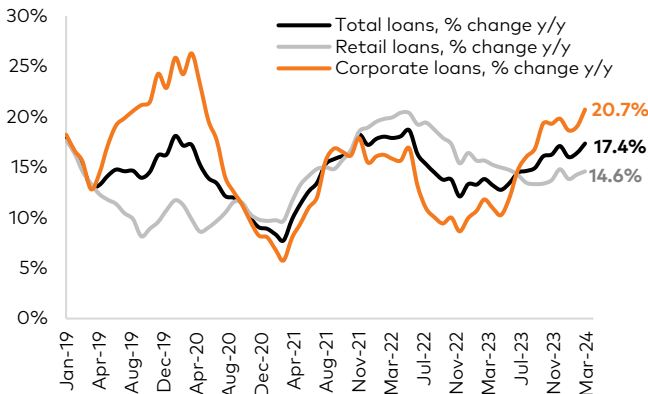
Source: NBG

Tourism revenues, US\$ bn



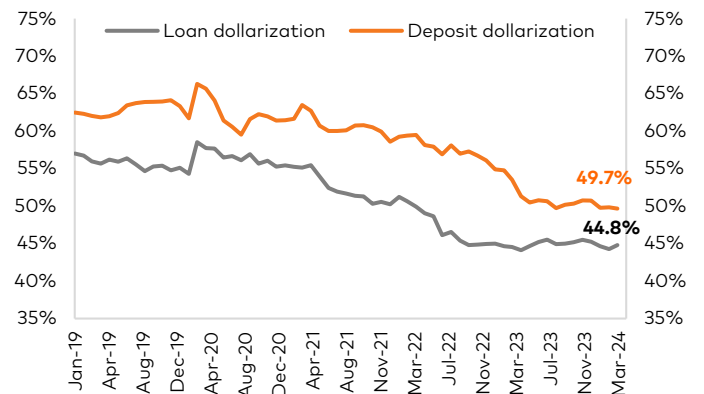
Source: NBG

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	8,874	9,381
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	2.97	3.11
GEL per EUR, eop	2.62	2.79	3.10	3.07	3.21	4.02	3.50	2.88	2.98	3.02	3.20
GEL per GBP, ave	3.47	3.21	3.23	3.38	3.60	3.99	4.43	3.62	3.27	3.46	3.61
GEL per GBP, eop	3.55	3.26	3.50	3.40	3.76	4.45	4.17	3.26	3.42	3.51	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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