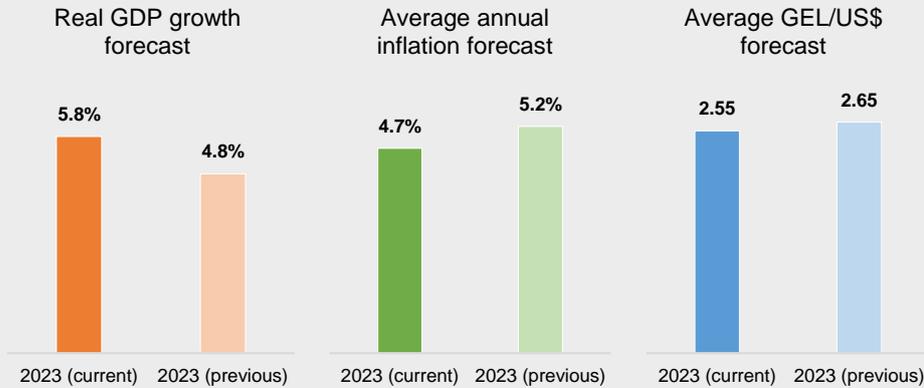




Chart of the month: improved macro indicators



Source: Galt & Taggart

Considering better-than-expected economic performance and ongoing disinflation in 1Q23, we revised 2023 annual growth forecast upwards to 5.8% from 4.8%, average annual inflation forecast downwards to 4.7% from 5.2% and average GEL rate to 2.55 vs dollar from 2.65 for 2023.

Economic summary

Growth: Real GDP growth accelerated to 7.3% in Mar-23, from 5.8% growth in previous month. Overall, in 1Q23, growth came in at 7.2%. In March, construction, financial, trade, and transportation and storage sectors drove the growth. Meanwhile, manufacturing, energy and real estate sectors contracted.

Considering better-than-expected growth in 1Q, we revised 2023 annual growth forecast upwards to 5.8% from 4.8%.

Inflation: Headline CPI retreated to 5.3% y/y in March, marking the 6th consecutive monthly decline. Core inflation also reduced to 5.0% from February's reading of 6.6%. We expect disinflation to continue, supported by delayed GEL appreciation pass-through and the high base effect of last year. Considering rapid reduction in inflation in March, we revised our average annual inflation forecast downwards to 4.7% from 5.2% in 2023 and expect inflation close to the 3.0% target at end-23.

Monetary policy: The NBG kept its key rate unchanged at 11.0% at Mar-23 meeting. NBG expects inflation to decline below the 3.0% target in 2H23, due to high base effect. Considering sharp deceleration in inflation, we do not rule out first rate cut in May-23. Overall in 2023 we see room for 100-150bps rate cut.

FX: The GEL strengthened by 7.5% vs dollar year-to-date, after gaining 12.5% in 2022. The continued robust growth of external inflows has been the key factor behind the currency's strength. Notably, NBG purchased US\$ 460.5mn in 1Q23 to build reserves. We revised average GEL rate to 2.55 vs dollar from 2.65 for 2023.

Activity

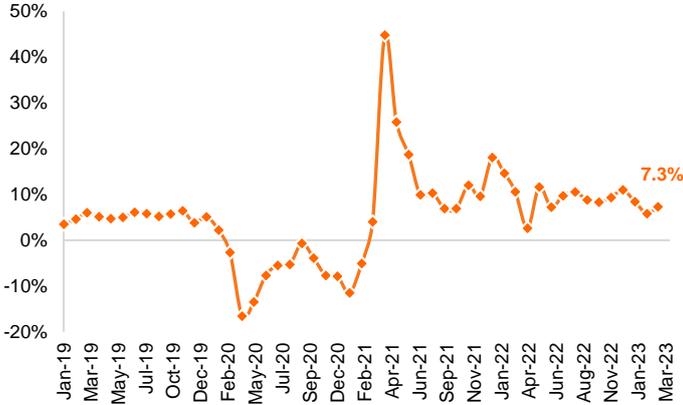
Trade: In March, both exports and imports accelerated up by 32.9% y/y and 33.4% y/y, respectively, resulting trade deficit to increase by 33.7% y/y. Cars, fertilizers, spirits and wine exports contributed most to growth. Import growth reflected increase in cars, phones, petroleum and pharmaceutical products. Despite widening deficit in goods trade, external balance (goods trade, remittances and tourism) remained positive supported by strong growth in remittances and tourism inflows.

Tourism: Hospitality sector continued strong growth in 1Q23. International visitors increased by 106.0% y/y to 1.1mn persons and tourism revenues reached US\$ 795.4mn up 102.0% y/y in 1Q23. We remain optimistic about the industry's prospects and anticipate tourism revenues at US\$ 4.0bn (+15.0% y/y) in 2023 (see [here](#) for more information).

Banking sector: Credit growth accelerated to 13.8% y/y in March, excluding FX effect, after growing by 13.3% y/y in previous month. Deposits continued strong growth up 30.4% y/y (exc. FX effect) in March, with both FX and GEL deposits driving growth. Amid strong GEL, deposit dollarization reduced further to 53.5%, and loan dollarization reduced to 44.3% from previous month's 54.8% and 44.4%, respectively. Other performance indicators remained healthy in March, with NPLs at 1.7%.

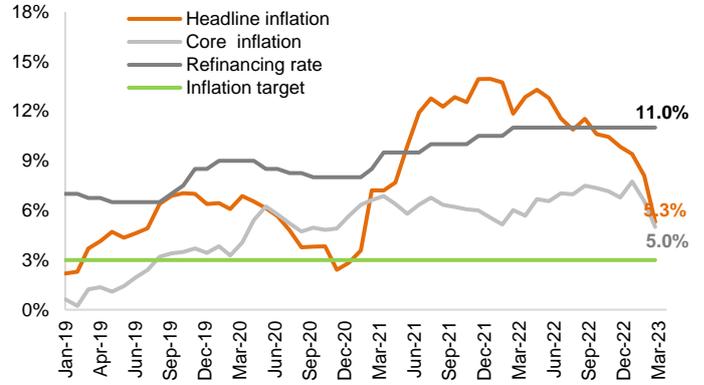


Real GDP growth, % change y/y



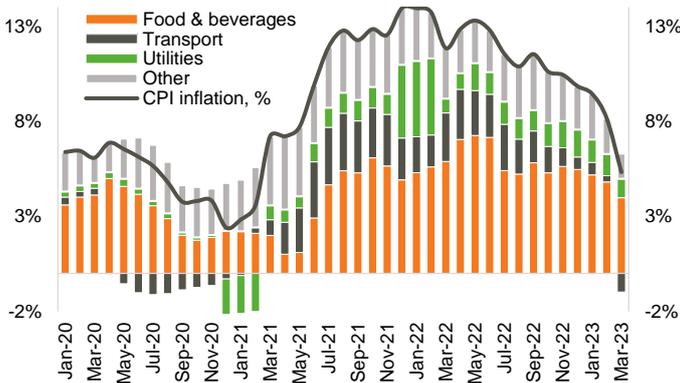
Source: Geostat

Annual inflation and monetary policy rate



Source: Geostat, NBG

Contributions to annual inflation



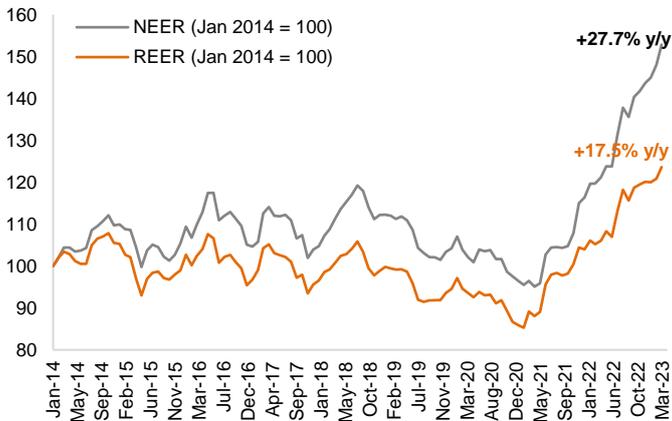
Source: Geostat

GEL vs USD



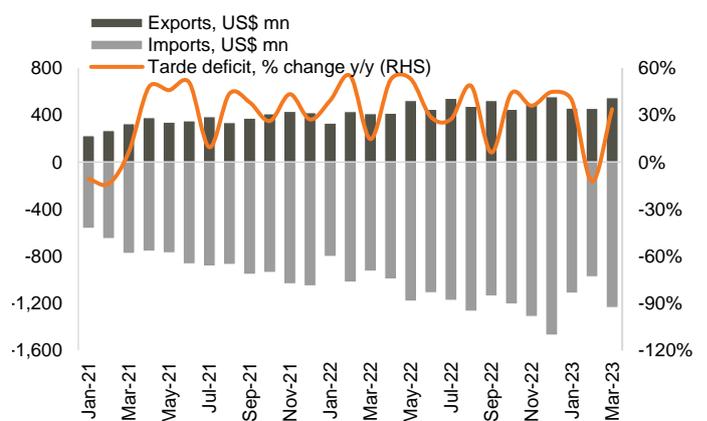
Source: NBG

GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)



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

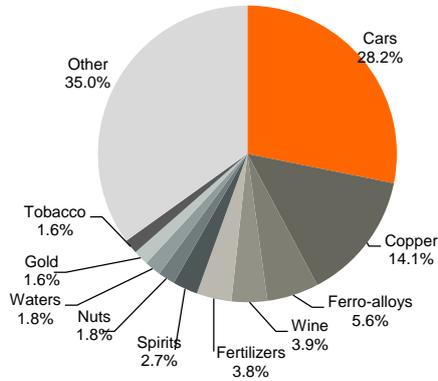
Goods exports, imports and trade deficit



Source: Geostat

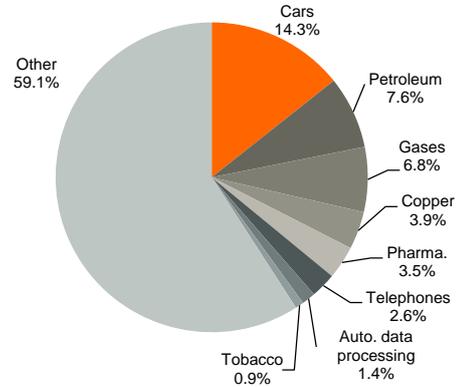


Exports by product, 1Q23



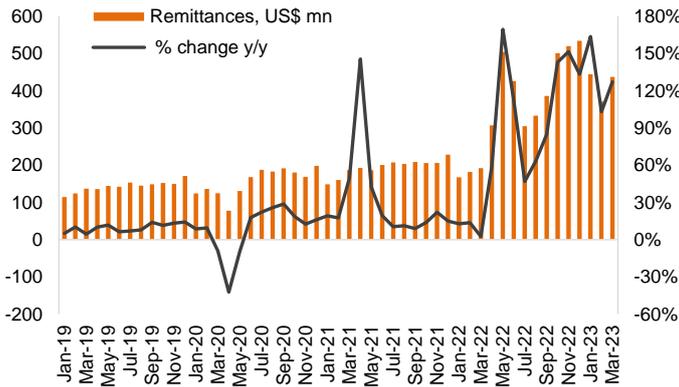
Source: Geostat

Imports by product, 1Q23



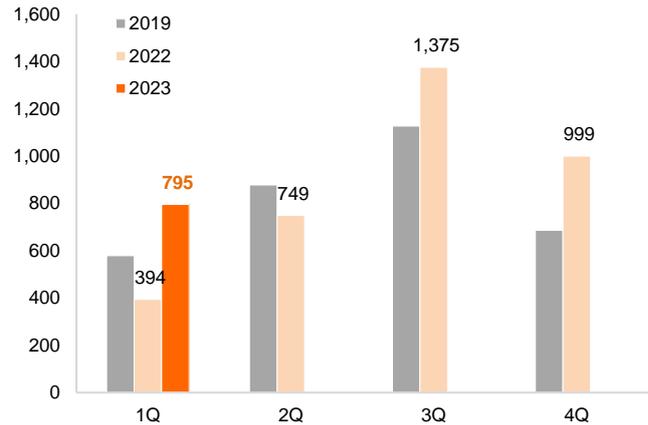
Source: Geostat

Remittances



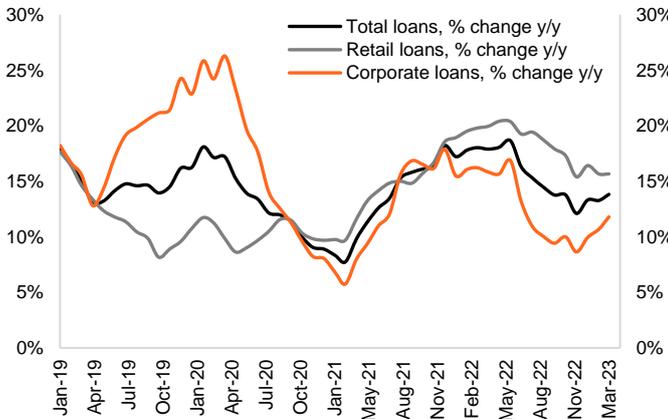
Source: NBG

Tourism revenues, US\$ mn



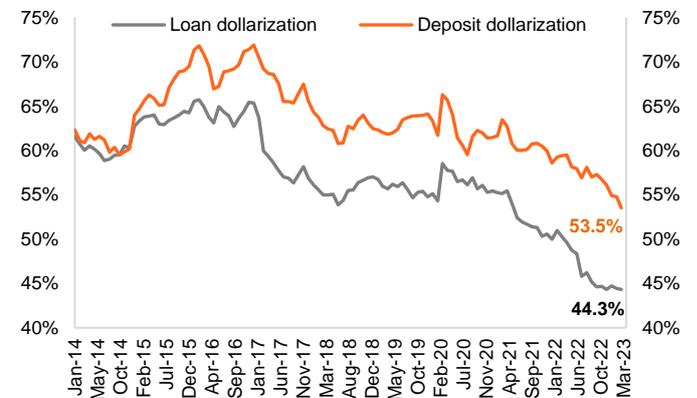
Source: NBG, Galt & Taggart estimate for Jan-Feb 2023

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023F	2024F
GDP and Prices													
Nominal GDP, GEL bn	27.2	28.6	31.1	33.9	35.8	40.8	44.6	49.3	49.3	60.0	71.8	79.3	86.2
Nominal GDP, US\$ bn	16.5	17.2	17.6	14.9	15.1	16.2	17.6	17.5	15.8	18.6	24.6	31.1	33.2
Nominal GDP per capita, US\$	4,422	4,624	4,739	4,013	4,062	4,359	4,722	4,696	4,256	5,023	6,672	8,434	8,990
Real GDP, % change y/y	6.4%	3.6%	4.4%	3.0%	2.9%	4.8%	4.8%	5.0%	-6.8%	10.5%	10.1%	5.8%	5.0%
CPI Inflation, average	-0.9%	-0.5%	3.1%	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.9%	4.7%	3.5%
CPI Inflation, eop	-1.4%	2.4%	2.0%	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.8%	3.0%	3.2%
GEL per US\$, average	1.65	1.66	1.77	2.27	2.37	2.51	2.53	2.82	3.11	3.22	2.92	2.55	2.60
Population, mn	3.7	3.7	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	28.8%	26.4%	26.5%	27.5%	28.0%	27.4%	27.0%	26.6%	25.6%	25.9%	27.2%	26.5%	25.9%
Budget expenses, % of GDP	29.4%	27.6%	28.4%	28.6%	29.4%	28.2%	27.7%	29.4%	34.9%	32.3%	30.0%	29.5%	28.1%
Fiscal balance (-deficit), % of GDP	-1.7%	-1.9%	-2.6%	-2.4%	-2.8%	-2.7%	-2.3%	-2.1%	-9.3%	-6.1%	-3.1%	-2.8%	-2.3%
Public debt, % of GDP	28.8%	29.5%	31.0%	36.7%	40.3%	39.4%	38.9%	40.4%	60.2%	49.7%	39.8%	38.3%	37.8%
External Sector													
Current account, US\$ bn	-1.9	-1.0	-1.8	-1.8	-1.9	-1.3	-1.2	-1.0	-2.0	-1.9	-1.0	-1.7	-1.7
Current account, % of GDP	-11.4%	-5.6%	-10.2%	-11.8%	-12.5%	-8.1%	-6.8%	-5.8%	-12.5%	-10.4%	-4.1%	-5.4%	-5.1%
Exports of goods and services, US\$ bn	6.0	7.2	7.1	6.2	6.2	7.6	8.9	9.6	5.9	8.1	13.2	14.8	16.3
Imports of goods and services, US\$ bn	9.2	9.3	10.1	8.7	8.5	9.4	10.8	11.2	9.0	11.2	15.7	17.3	18.7
Net Current transfers, US\$ bn	1.4	1.5	1.4	1.1	1.1	1.3	1.4	1.4	1.8	2.3	3.1	2.8	3.0
Net FDI, US\$ bn	0.8	0.9	1.4	1.4	1.2	1.7	1.0	1.1	0.6	0.9	1.7	1.8	1.8
Net FDI, % of GDP	4.6%	5.3%	8.1%	9.5%	8.2%	10.6%	5.7%	6.1%	3.6%	4.9%	6.7%	5.8%	5.4%
Gross international reserves, US\$ bn	2.9	2.8	2.7	2.5	2.8	3.0	3.3	3.5	3.9	4.3	4.9	5.5	5.6
Financial sector													
Bank loan portfolio, US\$ bn	5.3	6.0	7.0	6.7	7.1	8.6	9.9	11.1	11.7	13.9	16.6	18.4	19.5
Bank loan portfolio, % of GDP	31.2%	36.1%	40.8%	47.2%	52.8%	54.7%	59.6%	64.8%	77.6%	71.4%	62.4%	60.4%	60.0%
Monetary policy rate, %	5.3%	3.8%	4.0%	8.0%	6.5%	7.3%	7.0%	9.0%	8.0%	10.5%	11.0%	10.0%	8.0%

Source: NBG, MOF, Geostat, Galt & Taggart

Note: Fiscal balance according to IMF Program Definition

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