



Chart of the month: External inflows continue strong growth



Source: NBG, Geostat, Galt & Taggart

The external inflows from exports, remittances, and tourism have been performing well, with a 96.0% y/y growth in Jan-23. This growth outpaced the 75.1% annual average growth observed over the last 6 months. Remittances have been the biggest driver of this growth, followed by tourism revenues.

Given this trend, we are bullish about GEL's performance in the coming months. As a result, we have revised our annual average forecast for 1\$/GEL to 2.65 from 2.80.

Economic summary

Growth: Economy expanded by a robust 8.4% y/y in Jan-23, from last year's high base of 18.0% y/y. If this positive momentum continues in the coming months, the likelihood of achieving our optimistic growth scenario of 6.9% for 2023 will increase (see [here](#) for more details). However, for now, we are maintaining our baseline growth forecast at 4.8% for 2023. In January, construction, financial, transportation and storage, trade, ICT and hospitality sectors drove the growth. Meanwhile, manufacturing, professional activities and energy sectors contracted.

Inflation: Headline CPI retreated to 9.4% y/y in January, marking the 4th consecutive monthly decline. Meanwhile core inflation rose to 7.7% from December's reading of 6.8%, driven by an increase in housing rent prices. We expect disinflation to continue, supported by delayed GEL appreciation pass-through and the high base effect of last year. We expect average annual inflation at 5.2% in 2023 down from 11.9% in 2022 and see inflation close to the target by end-23, in our baseline scenario. However, in the case of our optimistic GDP growth scenario, we forecast average annual inflation to be at 6.0% in 2023.

Monetary policy: The NBG has kept its key rate unchanged at 11.0% since Mar-22. Given the uncertainty stemming from the current geopolitical situation and the upward risks to inflation, the NBG intends to delay monetary easing until inflation approaches the target. In our view, delaying monetary easing would be a more reasonable approach in case of stronger growth compared to the NBG's 4.0% 2023 growth projection.

FX: The GEL strengthened by 2.8% 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\$ 155.2mn in Jan-23. As external inflows continue to experience strong growth, we see average GEL rate at 2.65 vs dollar in 2023, an improvement from our previous forecast of 2.80.

Activity

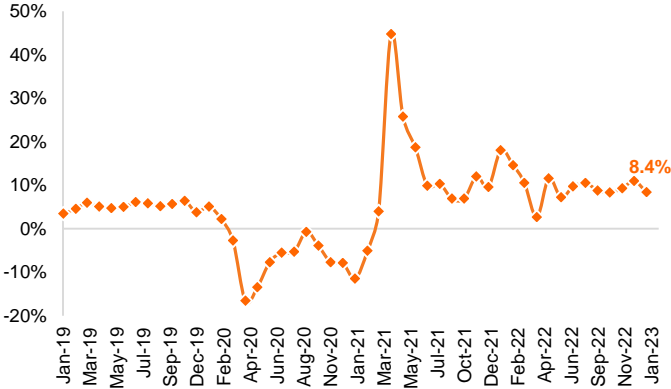
Trade: In January, exports posted strong growth while imports growth slowed, resulting trade deficit growth to slow also. Cars, ferro-alloys and heavy vehicles exports contributed most to growth, while slowdown in import growth reflected reduced car and automatic data processing machines imports. A slowdown in trade deficit along with continued strong growth in remittances and tourism inflows helped external balance (goods trade, remittances and tourism) to remain positive.

Tourism: According to our estimates, tourism revenues continued strong growth up by 163.1% y/y, reaching US\$ 300.0mn in Jan-23. Looking ahead, we remain optimistic about the industry's prospects and anticipate tourism revenues at US\$ 4.0bn (+15.0% y/y) in 2023.

Banking sector: Credit growth strengthened to 13.3% y/y in January, excluding FX effect, after a 12.1% y/y growth in previous month. Deposits continued strong growth up 29.2% y/y (exc. FX effect) in January, with both FX and GEL deposits driving growth. Amid strong GEL, deposit dollarization reduced further to 54.9%, while loan dollarization increased slightly to 44.7% from previous month's 44.3%. Other performance indicators remained healthy in January, with NPLs at 1.8%.

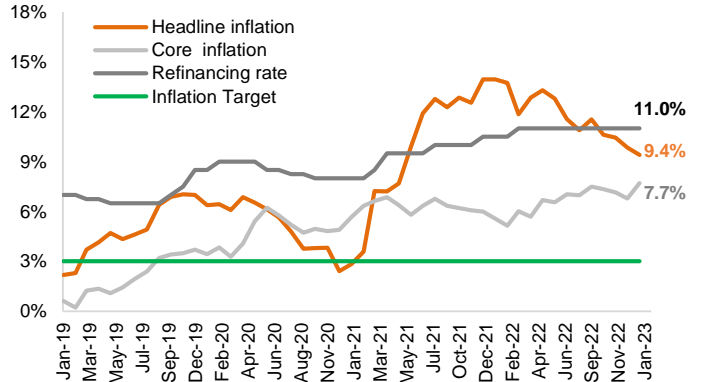


Real GDP growth, % change y/y



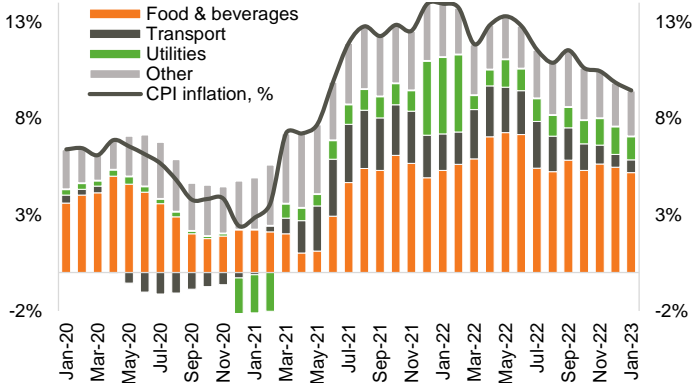
Source: Geostat

Annual inflation and monetary policy rate



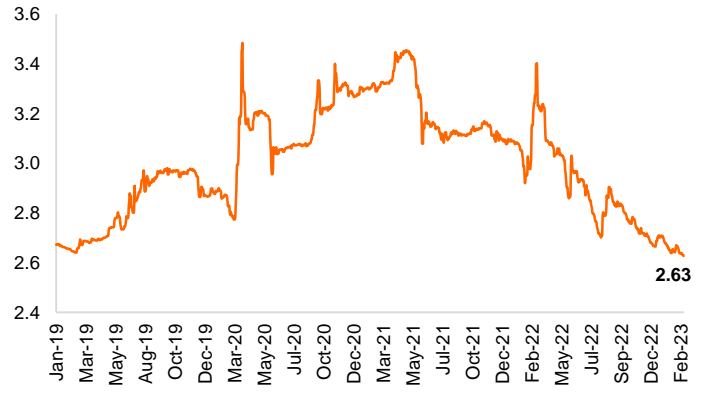
Source: Geostat, NBG

Contributions to annual inflation



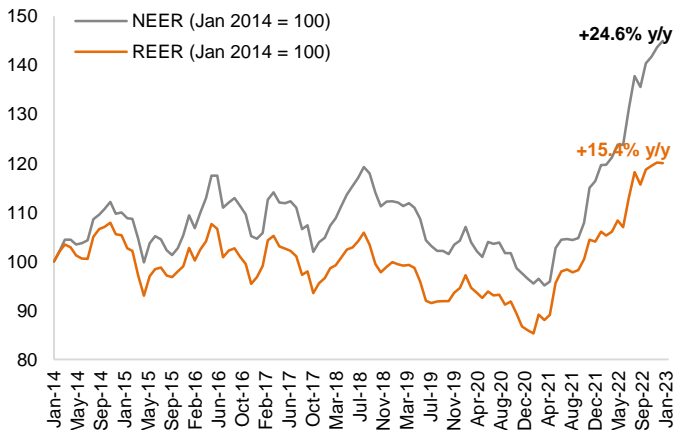
Source: Geostat

GEL vs USD



Source: NBG

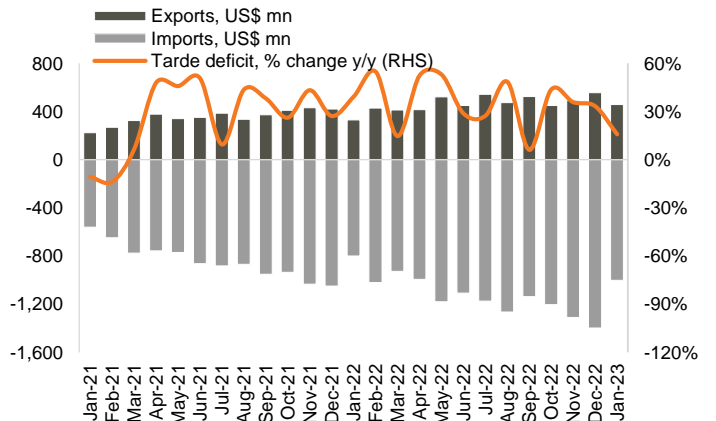
GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)



Source: NBG

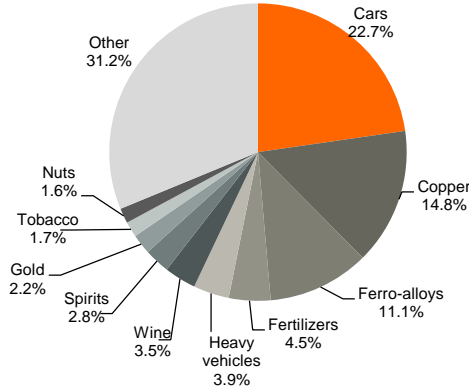
Note: Index growth/decline means appreciation/depreciation of GEL

Goods exports, imports and trade deficit



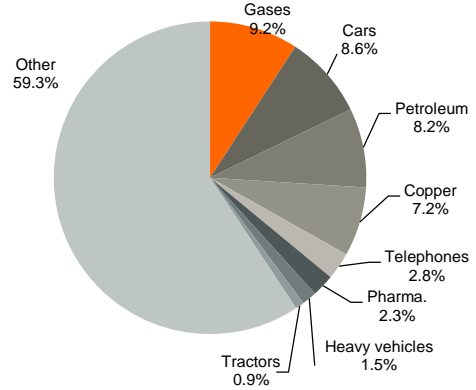
Source: Geostat

Exports by product, 1M23



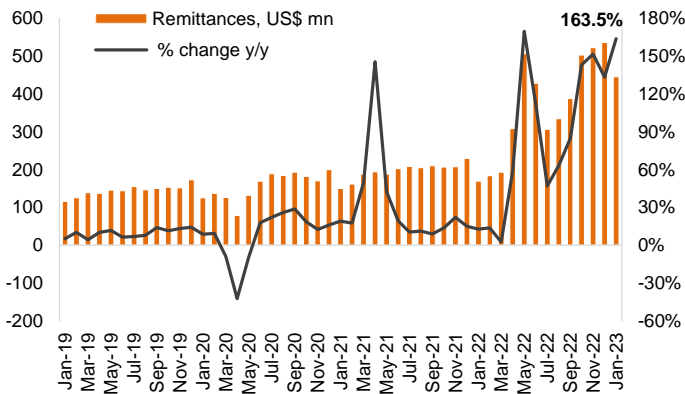
Source: Geostat

Imports by product, 1M23



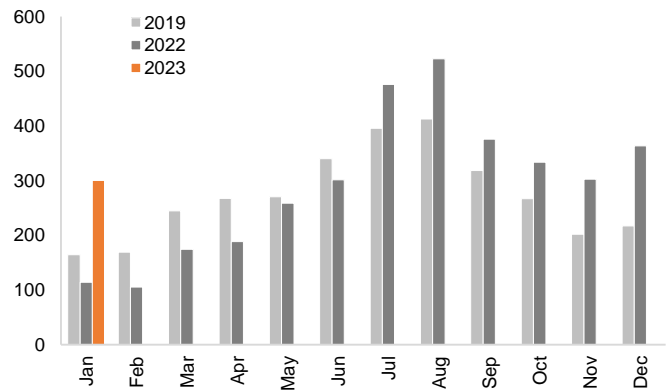
Source: Geostat

Remittances



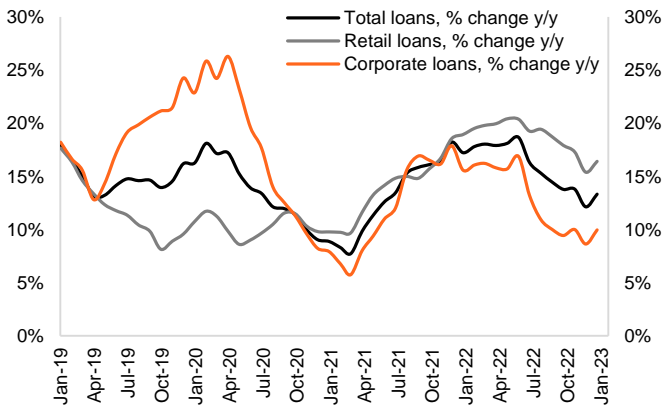
Source: NBG

Tourism revenues, US\$ mn



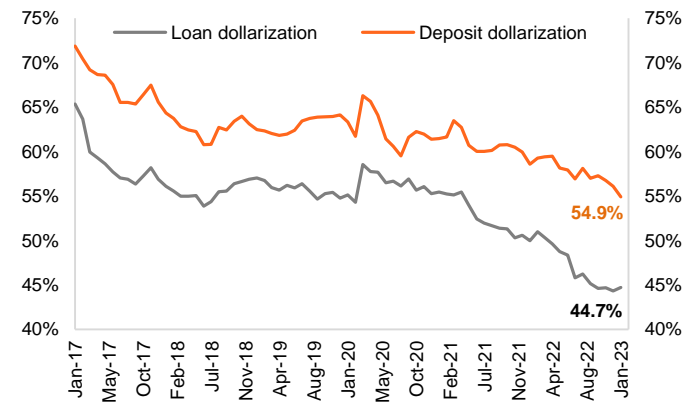
Source: NBG, Galt & Taggart estimate for Jan-23

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	71.6	78.4	85.2
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	29.6	32.2
Nominal GDP per capita, US\$	4,422	4,624	4,739	4,013	4,062	4,359	4,722	4,696	4,256	5,015	6,656	8,021	8,717
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%	4.8%	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%	5.2%	3.8%
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%	3.5%	3.3%
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	2.65	2.65
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	-0.8	-1.5	-1.6
Current account, % of GDP	-11.4%	-5.6%	-10.2%	-11.8%	-12.5%	-8.1%	-6.8%	-5.8%	-12.5%	-10.4%	-3.1%	-5.2%	-4.9%
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	13.3	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	15.5	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	3.2	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	2.0	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%	8.3%	6.1%	5.6%
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	5.3	5.5
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	17.5	18.5
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%	62.6%	61.3%	60.9%
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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