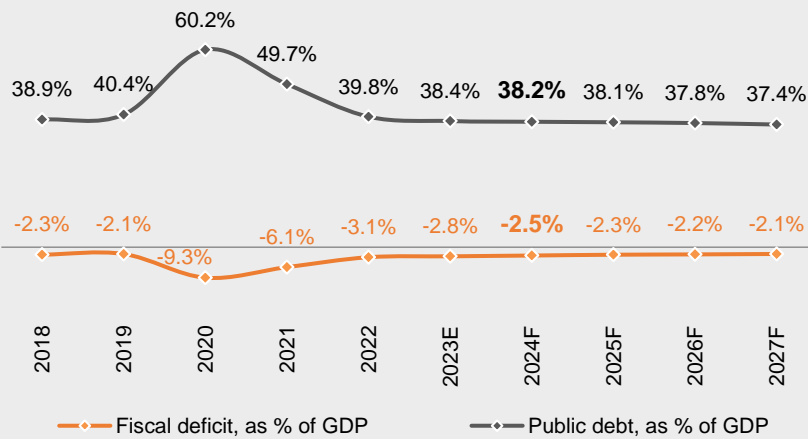




### Chart of the month: Fiscal consolidation continues



Source: MOF

The government has submitted to the Parliament an initial draft of 2024 state budget, which sets economic growth at 5.2% and GDP deflator at 3.0% for 2024. Fiscal deficit is planned at 2.5% of GDP for 2024, representing an improvement compared to 2023E (2.8%). Notably, tax revenues expected to increase by 9.4% y/y to 24.9% of GDP and privatization revenues are set at GEL 350mn. Total expenditures for 2024 is budgeted at 30.5% of GDP, with capex accounting for 7.6% of GDP. Total public debt to GDP is projected at 38.2% (2023E 38.4%), reflecting reduced share of external debt (2024F 26.6% of GDP vs. 2023E 27.7%) and an increased share of domestic debt (2024F 11.7% of GDP vs. 2023E 10.7%).

#### Economic summary

**Growth:** Georgia's economy expanded by 5.8% in Aug-23, in line with our expectations. Overall, in 8M23, growth reached 7.0% and we forecast a growth rate of 6.8% for the full year 2023.

Growth in August was primarily driven by robust activities in the financial, construction, manufacturing and trade sectors. In contrast, the real estate, transportation & storage and ICT sectors contracted during the same period.

**Inflation:** Annual CPI inflation increased to 0.9% in Aug-23, up from the previous month's 0.3%. Meanwhile, core inflation saw a significant decrease, dropping to 2.5% (-0.6ppts m/m). This reduction in inflation can be attributed to reduced imported inflation and a slowdown in domestic inflationary pressures. However, the recent uptick in oil prices on international markets is expected to limit this disinflationary trend. As a result, we have slightly revised our average annual inflation forecast upwards by 0.3ppts to 2.7% for the full-2023 year and by 0.4ppts to 3.5% for 2024.

**Monetary policy:** On September 13, 2023, the NBG reduced its key rate by 25bps to 10.0%, marking the 3rd rate cut this year. We anticipate that the NBG will continue to execute its planned strategy of gradually easing monetary policy throughout 2023, with an expected additional 50bps rate cut by the year-end. In 2024, we project the key rate to reach 8.5%, which is a revision upwards from our previous expectation of 8.0%. This adjustment is based on our updated inflation forecast, which has seen an upward revision.

**FX:** The GEL depreciated by 1.9% m/m in September vs dollar, yet it has slightly appreciated YTD. Given the robust fundamentals (FX inflows, strong growth, and healthy fiscal parameters) along with high FX liquidity in the market, we anticipate that the GEL will sustain its stability at 1\$/2.7 throughout 2023. Notably, the NBG is a net buyer of US\$ 1.4bn YTD by our estimates.

#### Activity

**Trade:** In Aug-23, goods exports resumed growth up by 4.8% to US\$ 495.8mn, after reducing by 0.6% y/y in previous month. The main drivers behind this growth were the export of live bovine animals, live sheep & goats and pharmaceuticals. The slowdown in goods imports growth persisted with substantial reduction in petroleum, gases, and tobacco imports, while cars, pharmaceuticals, and sugar imports increased. Overall, in 8M23, the trade deficit expanded by 20.2% y/y, reaching US\$ 5.8bn. This expansion was attributed to a 14.4% y/y increase in exports, totaling US\$ 4.1bn, and a 17.8% y/y rise in imports, reaching US\$ 9.9bn.

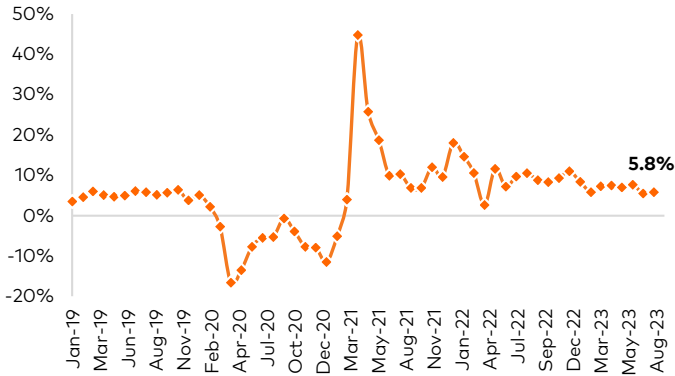
**Tourism:** According to our estimates, tourism revenues increased by 5.2% y/y to US\$ 550.0mn in Aug-23. Overall, tourism revenues reached US\$ 2.9bn (+34.7% y/y) in 8M23, based on our estimate. We expect tourism revenues at US\$ 4.2bn in 2023.

**Current account:** CA deficit improved significantly in 1H23, down by 18.0% y/y to 5.3% of GDP, from 8.6% in 1H22. This positive shift was driven by strong growth in the services balance (+77.7% y/y), particularly in tourism (+62.7% y/y) and ICT services (+246.5% y/y), as well as a 21.6% y/y increase in the transfers balance. FDI remained the key funding source of CA deficit, with net FDI at 6.7% of GDP. Robust external inflows and the reduced CA deficit supported growth in reserves. We forecast CA deficit at 4.5% of GDP in 2023 up from our previous forecast of 3.8%, reflecting revisions in official statistics for 2022 and 1Q23.

**Banking sector:** In Aug-23, the banking sector loan portfolio increased by 14.6% y/y (excluding FX effect) to GEL 48.0bn, after a 14.5% y/y growth in previous month. This growth was driven equally by a 16.0% y/y increase in corporate loans and by 13.5% y/y increase in retail loans. Bank deposits increased by 20.1% y/y (+0.4% m/m, exc. FX effect) to GEL 48.1bn (US\$ 18.3bn) in Aug-23. The dollarization rates remained favorable, with deposit and loan dollarization standing at 49.7% and 41.6%, respectively, in August.

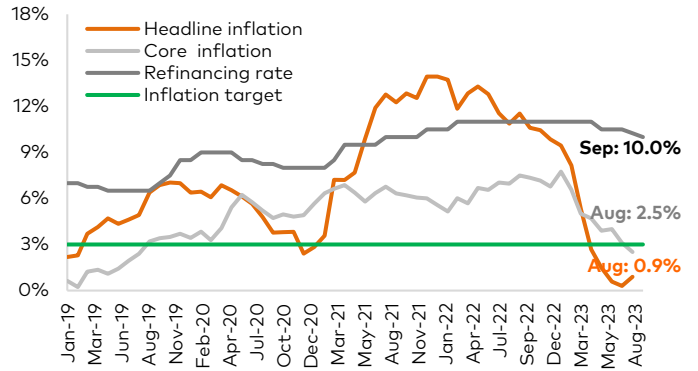


**Real GDP growth, % change y/y**



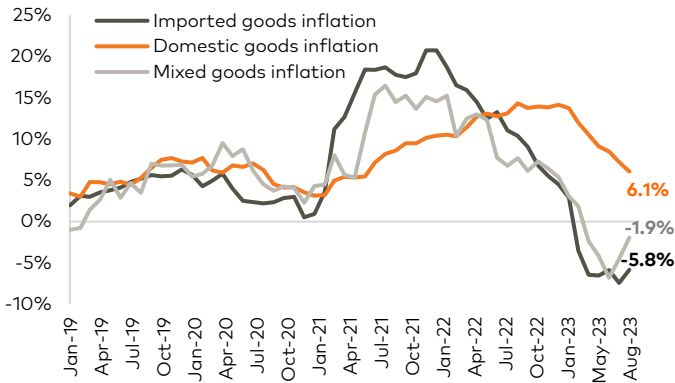
Source: Geostat

**Annual inflation and monetary policy rate**



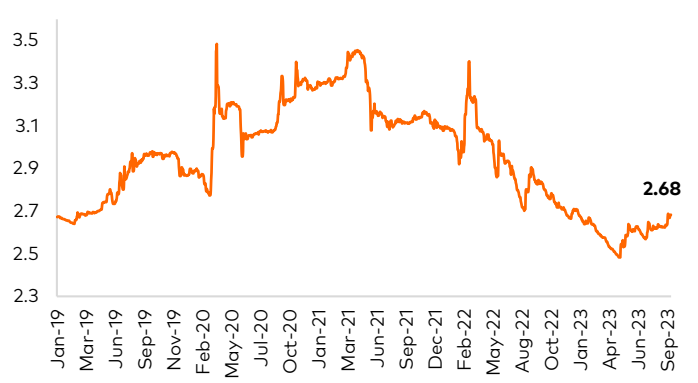
Source: Geostat, NBG

**Imported and domestic inflation dynamics**



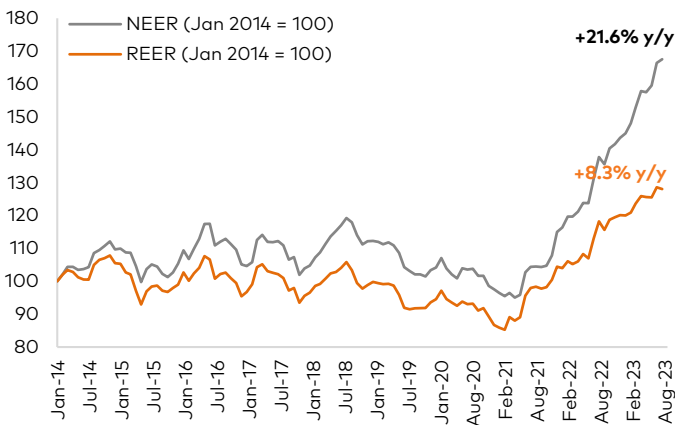
Source: Geostat

**GEL vs USD**



Source: NBG

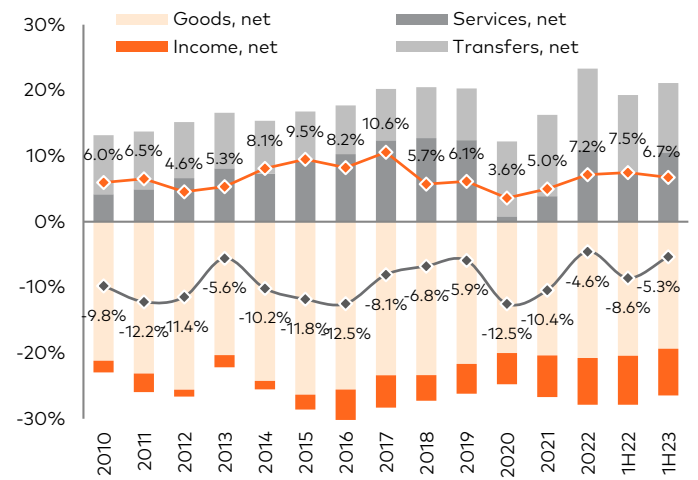
**GEL's nominal and real effective exchange rates**



Source: NBG

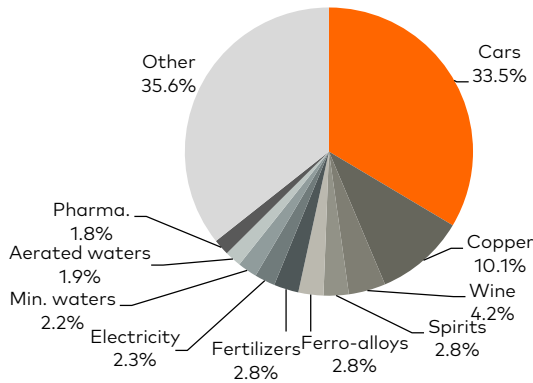
Note: Index growth/decline means appreciation/depreciation of GEL

**Current account components and net FDI**



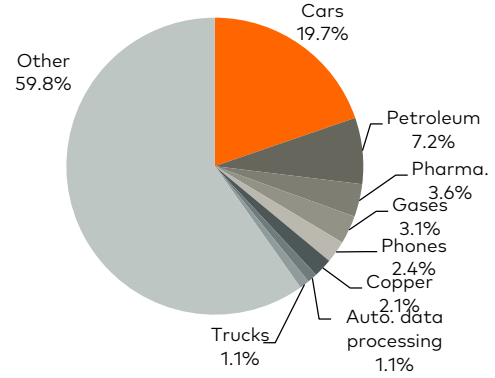
Source: NBG, Geostat

**Exports by product, 8M23**



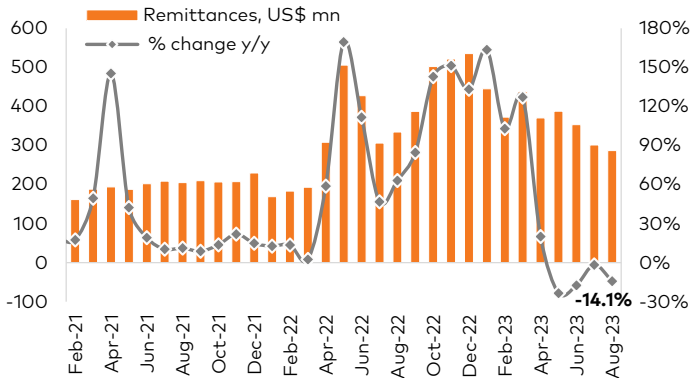
Source: Geostat

**Imports by product, 8M23**



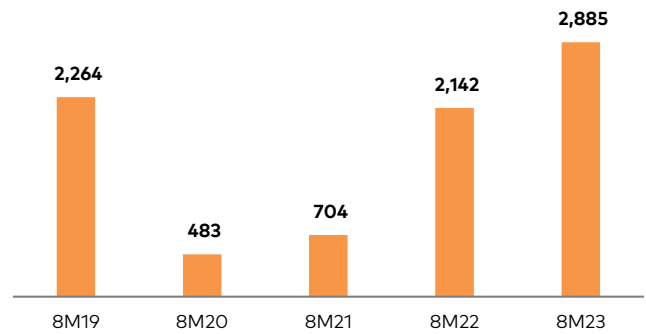
Source: Geostat

**Remittances**



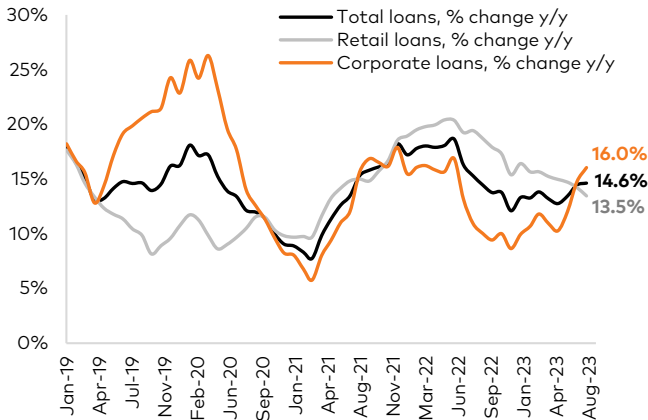
Source: NBG

**Tourism revenues, US\$ mn**



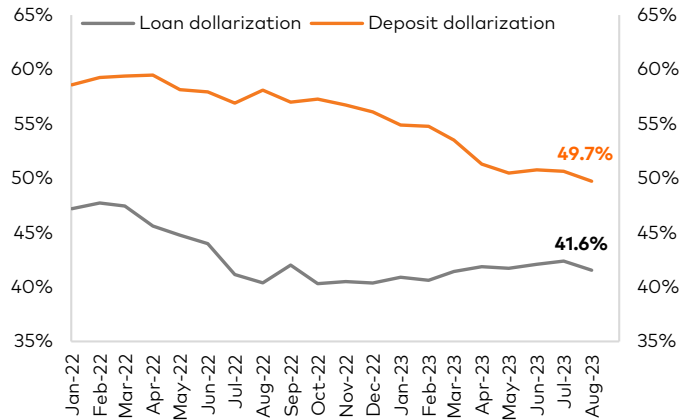
Source: NBG, Galt & Taggart

**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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
<b>GDP and Prices</b>													
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	86.6
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	30.2	32.1
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	8,074	8,588
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%	6.8%	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%	2.7%	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%	0.8%	4.4%
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	2.63	2.70
Population, mn	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
<b>Government Finances</b>													
Budget revenues, % of GDP	28.8%	26.4%	26.5%	27.5%	28.0%	27.4%	27.0%	26.6%	25.6%	25.9%	27.6%	27.9%	28.0%
Budget expenses, % of GDP	29.4%	27.6%	28.4%	28.6%	29.4%	28.2%	27.7%	29.4%	34.9%	32.3%	30.1%	30.9%	30.5%
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%	-2.5%
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%	38.4%	38.2%
<b>External Sector</b>													
Current account, US\$ bn	-1.9	-1.0	-1.8	-1.8	-1.9	-1.3	-1.2	-1.0	-2.0	-1.9	-1.1	-1.4	-1.4
Current account, % of GDP	-11.4%	-5.6%	-10.2%	-11.8%	-12.5%	-8.1%	-6.8%	-5.9%	-12.5%	-10.4%	-4.6%	-4.5%	-4.3%
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	16.0	17.5
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	15.6	18.2	19.7
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	2.9	3.1
Net FDI, US\$ bn	0.8	0.9	1.4	1.4	1.2	1.7	1.0	1.1	0.6	0.9	1.8	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%	5.0%	7.2%	6.0%	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	5.5	5.6
<b>Financial sector</b>													
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	18.2	19.3
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%	61.8%	61.1%
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%	9.5%	8.5%

Source: NBG, MOF, Geostat, Galt &amp; Taggart

Note: Fiscal balance according to IMF Program Definition

## Disclaimer

This document is the property of and has been prepared by JSC Galt & Taggart ("Galt & Taggart"), a member of Bank of Georgia group PLC ("Group") solely for informational purposes and independently of the respective companies mentioned herein. This document does not constitute or form part of, and should not be construed as, an offer or solicitation or invitation of an offer to buy, sell or subscribe for any securities or assets and nothing contained herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions.

Galt & Taggart is authorized to perform professional activities on the Georgian market. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes are required by Galt & Taggart to inform themselves about and to observe any and all restrictions applicable to them. This document is not directed to, or intended for distribution, directly or indirectly, to, or use by, any person or entity that is a citizen or resident located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would require any registration or licensing within such jurisdiction.

Investments (or any short-term transactions) in emerging markets involve significant risk and volatility and may not be suitable for everyone. The recipients of this document must make their own investment decisions as they believe appropriate based on their specific objectives and financial situation. When doing so, such recipients should be sure to make their own assessment of the risks inherent in emerging market investments, including potential political and economic instability, other political risks including without limitation changes to laws and tariffs, and nationalization of assets, and currency exchange risk.

No representation, warranty or undertaking, express or implied, is or will be made by Galt & Taggart or any other member of the Group or their respective directors, employees, affiliates, advisers or agents or any other person as to, and no reliance should be placed on, the fairness, accuracy, completeness or correctness of this document and the information contained herein (and whether any information has been omitted from this document) and no reliance should be placed on it. This document should not be considered as a complete description of the markets, industries and/or companies referred to herein. Nothing contained in this document is, is to be construed as, or shall be relied on as legal, investment, business or tax advice, whether relating to the past or the future, by Galt & Taggart any other member of the Group or any of their respective directors, employees, affiliates, advisers or agents in any respect. Recipients are required to make their own independent investigation and appraisal of the matters discussed herein. Any investment decision should be made at the investor's sole discretion. To the extent permitted by law, Galt & Taggart, any other member of the Group and their respective directors, employees, affiliates, advisers and agents disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this document or its contents or otherwise arising in connection with this document, or for any act, or failure to act, by any party, on the basis of this document.

The information in this document is subject to verification, completion and change without notice and Galt & Taggart is not under any obligation to update or keep current the information contained herein. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the information since the date hereof or the date upon which this document has been most recently updated, or that the information contained in this document is correct as at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. No representation or warranty, expressed or implied, is made by Galt & Taggart or any other member of the Group, or any of their respective directors, employees, affiliates, advisers or agents with respect to the accuracy or completeness of such information.

The information provided and opinions expressed in this document are based on the information available as of the issue date and are solely those of Galt & Taggart as part of its internal research coverage. Opinions, forecasts and estimates contained herein are based on information obtained from third party sources believed to be reliable and in good faith, and may change without notice. Third party publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, but that there is no guarantee of the accuracy or completeness of such data. Accordingly, undue reliance should not be placed on any such data contained in this document. Neither Galt & Taggart, any other member of the Group, nor their respective directors, employees, affiliates, advisers or agents make any representation or warranty, express or implied, of this document's usefulness in predicting the future performance, or in estimating the current or future value, of any security or asset.

Galt & Taggart does, and seeks to do, and any other member of the Group may or seek to do business with companies covered in its research. As a result, investors should be aware of a potential conflict of interest that may affect the objectivity of the information contained in this document.

Unauthorized copying, distribution, publication or retransmission of all or any part of this document by any medium or in any form for any purpose is strictly prohibited.

The recipients of this document are responsible for protecting against viruses and other destructive items. Receipt of the electronic transmission is at risk of the recipient and it is his/her responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

### Head of Research

Eva Bochorishvili | evaboshorishvili@gt.ge

### Head of Macroeconomic Analysis and Forecasting

Lasha Kavtaradze | lkavtaradze@gt.ge

### Galt & Taggart

Address: 3 A. Pushkin Street, Tbilisi 0105, Georgia

Tel: + (995) 32 2401 111

Email: research@gt.ge