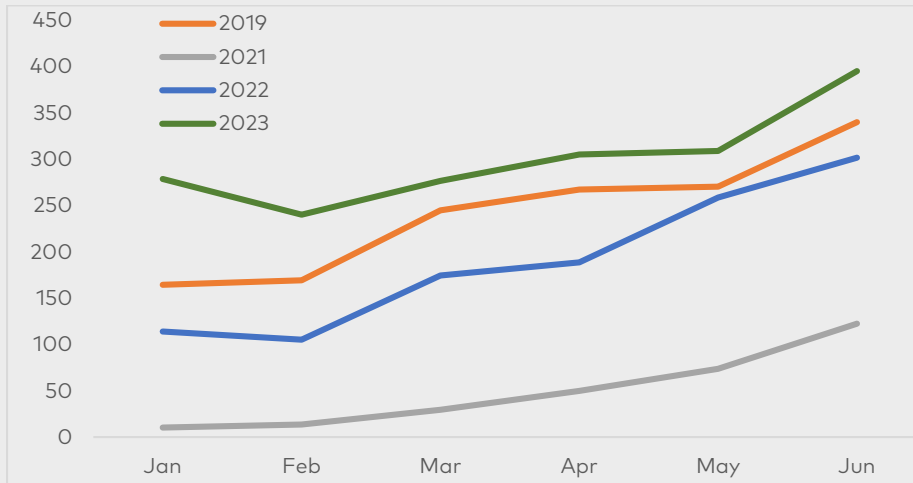




Chart of the month: Tourism revenues continue robust growth (US\$ mn)



Source: NBG

In 1H23, tourism revenues surpassed the 2019 level by 23.9%, and the number of tourists reached 90.8% of the pre-pandemic level. Among the top countries for arrivals, Turkey ranked first, followed by Russia, while Russia was the primary contributor to the growth in tourism revenue, followed by Turkey. Additionally, the EU was the third-largest source of tourism revenues, marking a 78.4% y/y growth.

Economic summary

Growth: The economy maintained its robust growth, with real GDP rising by 7.7% in June, as we had anticipated, following a 7.0% increase in the previous month. Overall, in 1H23, growth stood at 7.6% and we project a growth rate of 6.8% for the full year 2023.

The expansion in June was mainly fueled by the construction, trade, and financial sectors, while the transport and utilities sectors experienced a contraction.

Inflation: In Jun-23, headline CPI retreated further to 0.6% from 1.5% inflation in previous month. This decline was primarily attributed to a reduction in inflation for mixed goods (-6.8% y/y) and imported goods (-5.9% y/y). Additionally, there was a slowdown in domestic inflation (+8.5% y/y in June vs. +9.1% y/y in May). Accordingly, we revised average annual inflation forecast downwards to 2.4% for 2023, from the previous forecast of 3.1%.

Monetary policy: On 21 June 2023, the NBG decided to maintain its key rate at 10.5%, following a 50bps cut in May 2023. We anticipate another rate cut of 50bps during the meeting on 2 August 2023. Given the ongoing disinflation trend, there is a possibility of an additional 100bps rate cut by the end of 2023. However, despite the potential easing, the lending conditions expected to remain tight due to the rising FX interest rates.

FX: The GEL depreciated by 1.0% m/m in July vs dollar. Year-to-date GEL gained 2.2%. Local currency is supported by robust FX inflows despite NBG buying FX, being a net buyer of US\$ 1.06bn in 1H23, of which US\$ 137.6mn purchased in Jun-23. We expect average GEL rate at 2.6 vs dollar in 2023.

Activity

Trade: In Jun-23, there was a notable acceleration in export growth, up 22.5% y/y to US\$ 549.6mn (compared to a 3.6% y/y increase in May). The main drivers behind this growth were the export of cars, tobacco, waters, ferro-alloys, and wine. Goods imports also saw an uptick, rising by 10.0% y/y to US\$ 1.2bn (compared to a 3.4% y/y increase in May). The increase in imports was primarily fueled by higher pharmaceuticals, phone, and tobacco imports, while petroleum imports dropped sizably in June. Overall, in 1H23, the trade deficit expanded by 21.2% y/y, reaching US\$ 4.2bn. This was attributed to a 19.3% y/y increase in exports, totaling US\$ 3.1bn, and a 20.4% y/y rise in imports, reaching US\$ 7.2bn.

Tourism: In Jun-23 tourism revenues displayed strong growth, increasing by 31.0% y/y to US\$ 395.1mn, following a growth of 19.5% y/y in the previous month. Overall, tourism revenues in 1H23 reached US\$ 1.8bn, marking a significant 57.9% growth y/y. We project tourism revenues to reach US\$ 4.0bn in 2023.

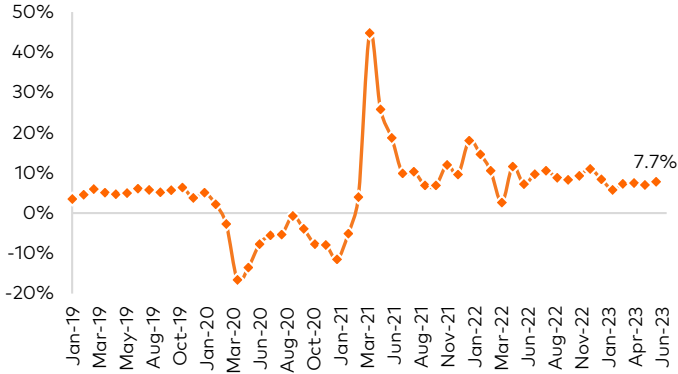
Banking sector: In Jun23, credit growth picked up pace, reaching 13.5% y/y (excluding FX effect), compared to 12.8% y/y growth in previous month. Notably, corporate loans increased by 12.0% y/y in June, and retail loans saw a rise of 14.7% y/y.

Deposits growth slightly slowed in June compared to May, with a 29.2% y/y increase (excluding FX effect). GEL deposits rose by 43.1% y/y, while FX deposits increased by 19.1% y/y. Dollarization ratios remained favorable, with deposit and loan dollarization standing at 50.8% and 45.0%, respectively, in June.

Other performance indicators remained healthy, with NPLs at 1.7%.

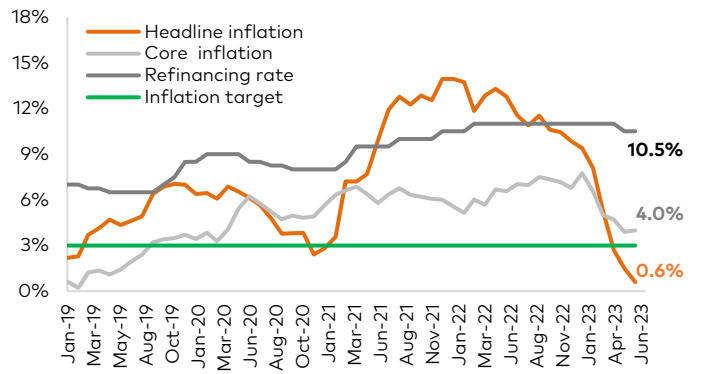


Real GDP growth, % change y/y



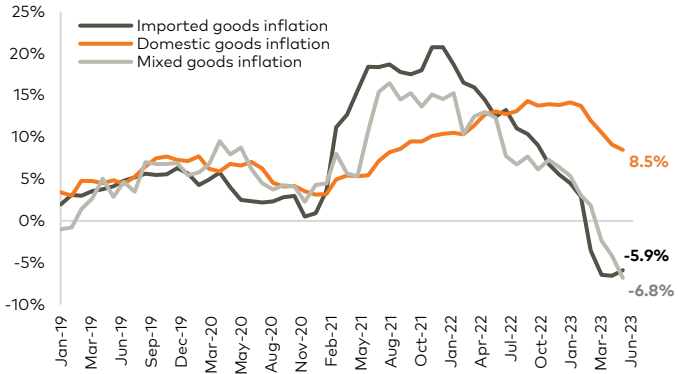
Source: Geostat

Annual inflation and monetary policy rate



Source: Geostat, NBG

Imported and domestic inflation dynamics



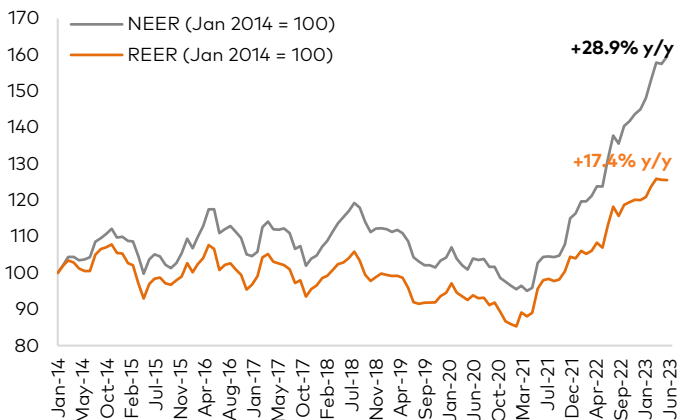
Source: Geostat

GEL vs USD



Source: NBG

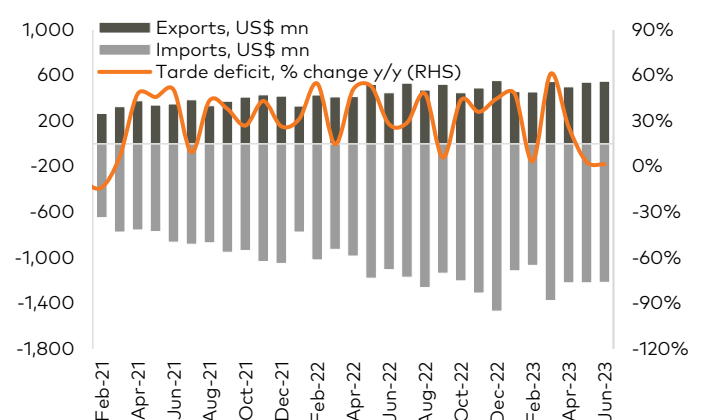
GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)



Source: NBG

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

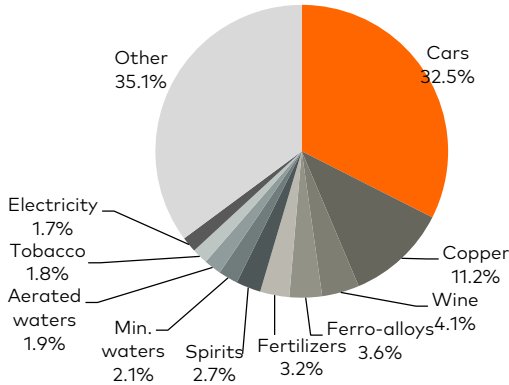
Goods exports, imports and trade deficit



Source: Geostat

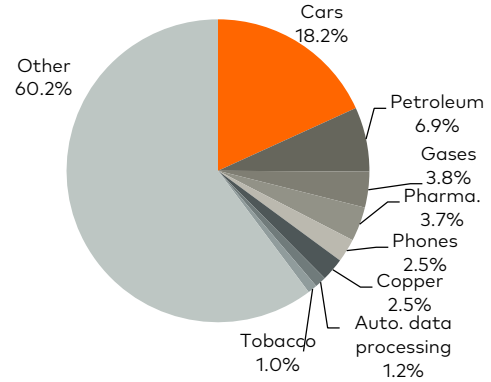


Exports by product, 1H23



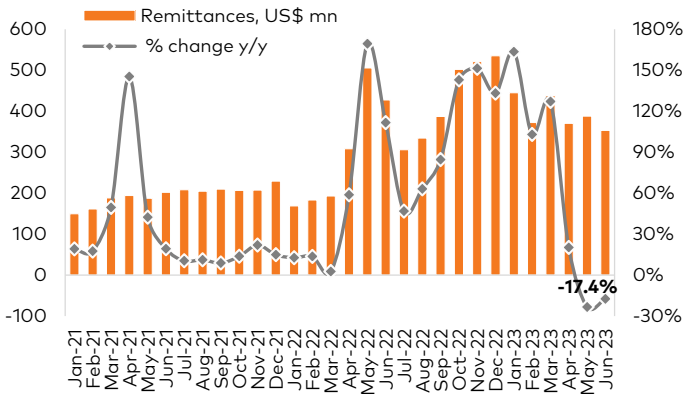
Source: Geostat

Imports by product, 1H23



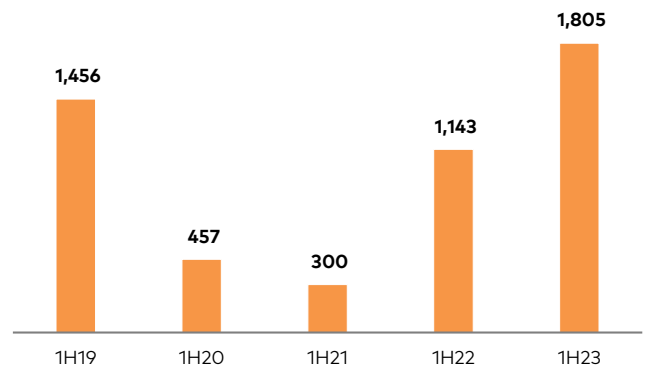
Source: Geostat

Remittances



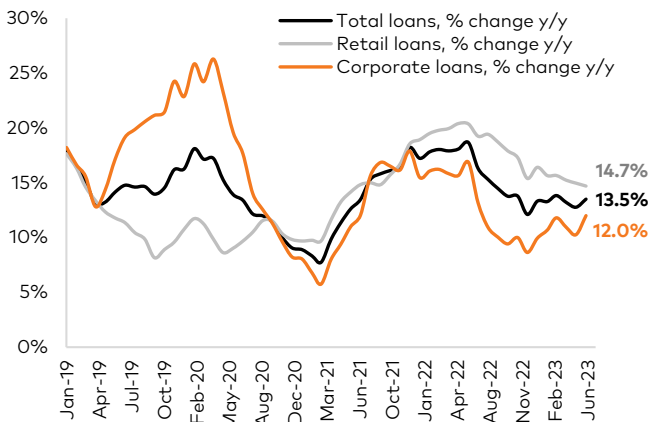
Source: NBG

Tourism revenues, US\$ mn



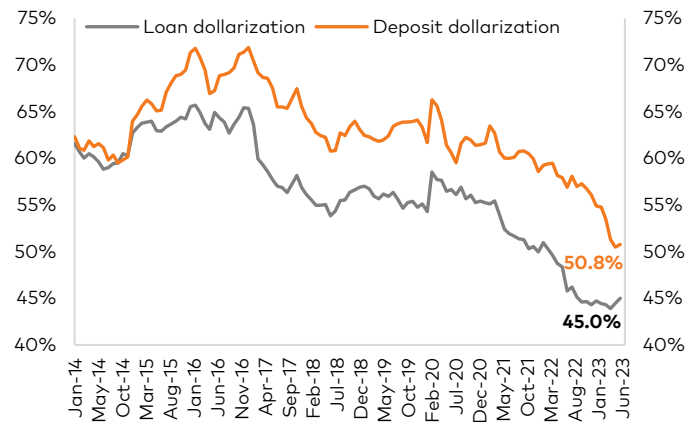
Source: NBG

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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	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	85.8
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	30.5	31.8
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	8,167	8,505
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%	2.4%	3.1%
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%	0.3%	4.2%
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	2.60	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
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%	27.6%	27.1%	26.4%
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%	30.1%	28.7%
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%	-2.9%	-2.4%
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%	37.9%	37.5%
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	-1.2	-1.2
Current account, % of GDP	-11.4%	-5.6%	-10.2%	-11.8%	-12.5%	-8.1%	-6.8%	-5.8%	-12.5%	-10.4%	-4.0%	-3.8%	-3.7%
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	17.4
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	18.1	19.6
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	2.7	2.9
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%	5.9%	5.7%
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	18.1	19.2
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%	60.3%
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%	8.0%

Source: NBG, MOF, Geostat, Galt & Taggart

Note: Fiscal balance according to IMF Program Definition

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