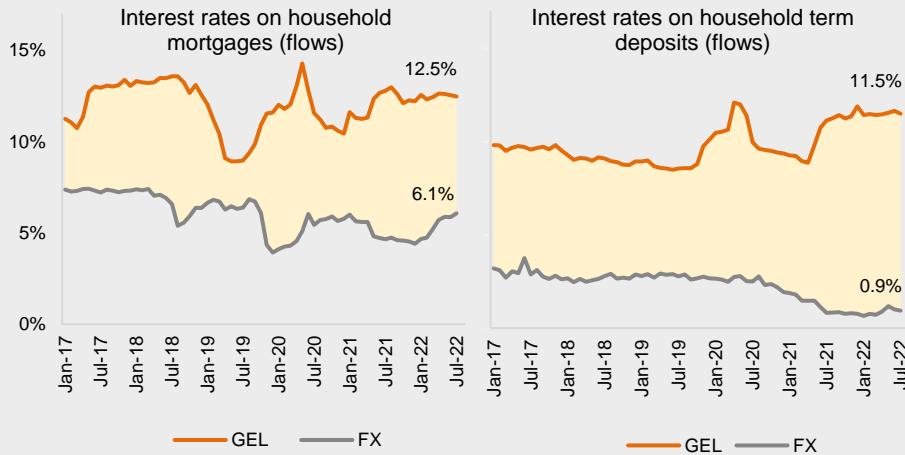




Chart of the month: Interest rate spreads in Georgia expected to shrink



Source: NBG

Loan interest rate spread (GEL/FX) started to shrink as expected, amid rising interest rates in advanced economies. Contrary to loans, deposit interest rate spread remains at record high in Georgia reflecting tight monetary policy, massive FX inflows along with de-dollarization measures. FX deposit rates anticipated to climb gradually as FX inflows expected to stabilize/reduce from current highs coupled with tighter financial conditions globally. Anticipated monetary easing in Georgia from 2Q23 will further narrow both spreads, making FX deposits more attractive and likely create some pressure on GEL, we expect.

Economic summary

Growth: Economic growth remained robust, strengthening by 9.7% y/y in July, after growing by 7.2% y/y in previous month. Cumulatively, in 7M22, the real growth was 10.3% y/y. We maintain the 2022 baseline growth forecast at 9.2% and in optimistic scenario, we expect 2022 growth at 10.6% (if external inflows remain strong despite global slowdown in 2H). Growth in July was broad based, driven by transport and communications, construction, mining and trade, while it reduced in manufacturing. On expenditure side, strong remittances and tourism receipts continued to support consumption.

Inflation: Headline CPI retreated for the 2nd consecutive month to 11.5% y/y in July, moderating from June's reading of 12.8%. Energy and food prices continued to be primary drivers, and the increased house rents limited deceleration, contributing 0.8ppts to the headline inflation. Going forward, inflation expected to moderate considering last year's high base and seasonal easing in food prices. Despite downward trend, inflationary pressures expected to last longer (end-2022F inflation at 9.2%).

Monetary policy: The NBG kept its key rate unchanged at 11.0% in August meeting, but reduced consumer loan tenor for a year to limit credit growth. We expect monetary easing from 2Q23 in line with inflation slowdown. NBG also updated forecasts and expects growth at 9.0% in 2022, up from 4.5% previous forecast.

FX: The GEL rose to 3-year high vs dollar on August 12, but weakened after, losing 7.5% at end-August (but still 6.0% stronger year-to-date). Amid robust external inflows, recent depreciation is likely related to expectations of GEL's seasonal weakness in 4Q. We expect GEL to remain close to 3.0 vs dollar through end-2022.

Activity

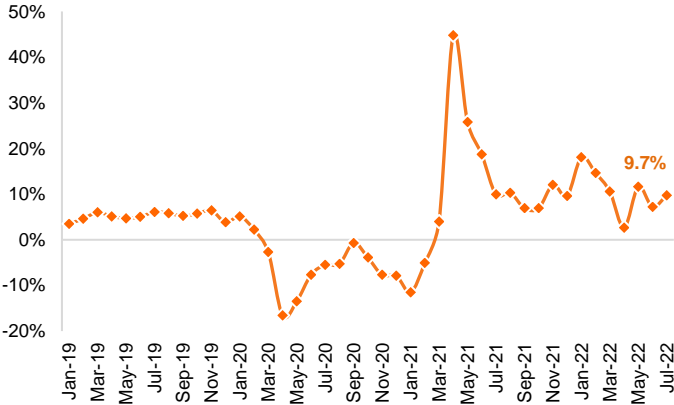
Trade: In July, exports surged, up 40.3% y/y (increasing strongly in real terms also), reflecting resumed growth to both Russian and Ukrainian markets. As imports growth was slower (up 26.3% y/y), trade deficit growth softened compared to previous months. Notably, cars and commodities were key exports and petroleum contributed most to imports growth. Meanwhile, robust remittances and tourism inflows continue to offset trade deficit, and external balance (goods trade, remittances and tourism) remained positive for the 3rd consecutive month.

Tourism: Tourism recovery strengthened further in July, with revenues hitting record high monthly figure (up 2.3x y/y and surpassing 2019 level by 20.4%). International visitors stood at 597,887 persons, up 158.9% y/y. Considering strong ongoing figures and migrants' impact, we expect full recovery of tourism in 2022 compared to pre-pandemic levels (see [here](#)).

Banking sector: Credit growth slowed in July to 16.3% y/y (-0.4% m/m), excluding FX effect, reflecting slowdown in corporate loan book. As construction permits 15.6% y/y growth in 1H22 suggests recovery in domestic investment, corporate loans expected to rise going forward. Dollarization ratios reduced markedly, with loan dollarization at all-time low 45.8% (-6.15ppts y/y) and deposit dollarization at 56.9% (-3.10ppts y/y). Banking sector performance indicators remained healthy in July, with NPLs standing at 2.0%.

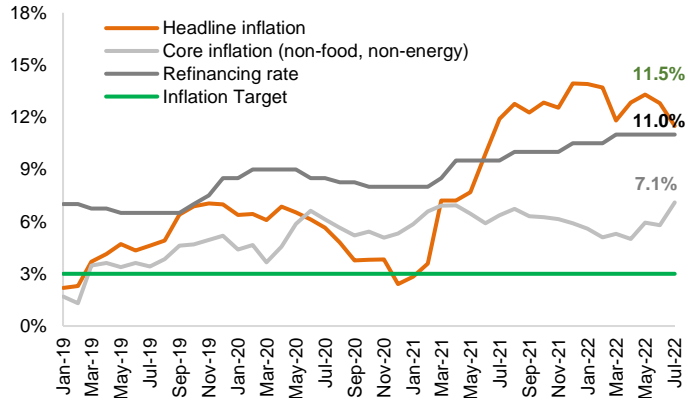


Real GDP growth, % change y/y



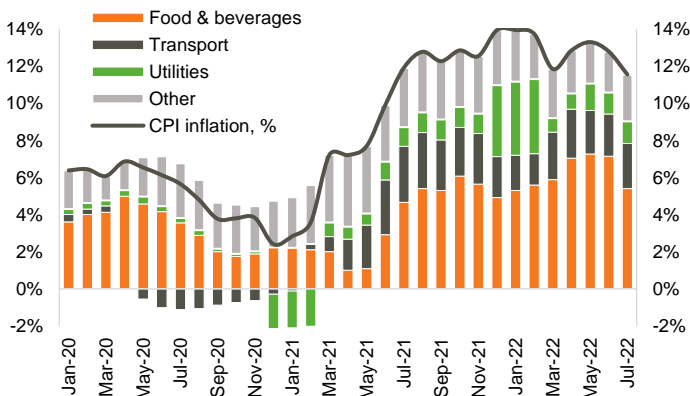
Source: Geostat

Annual inflation and monetary policy rate



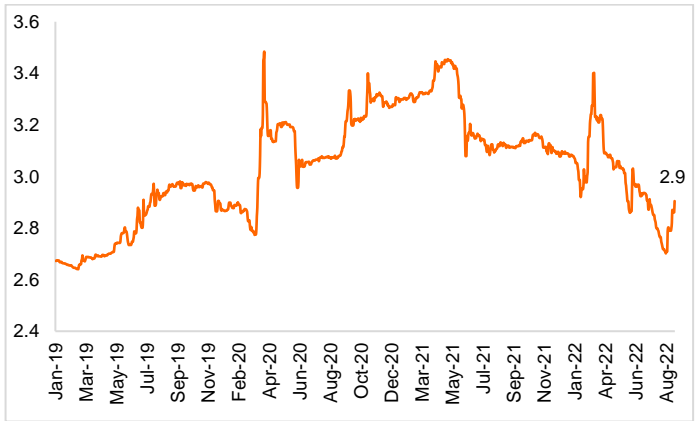
Source: Geostat, NBG

Contributions to annual inflation



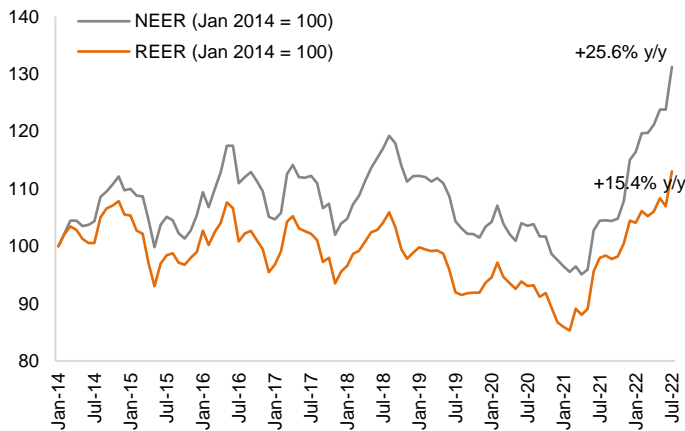
Source: Geostat

GEL vs USD



Source: NBG

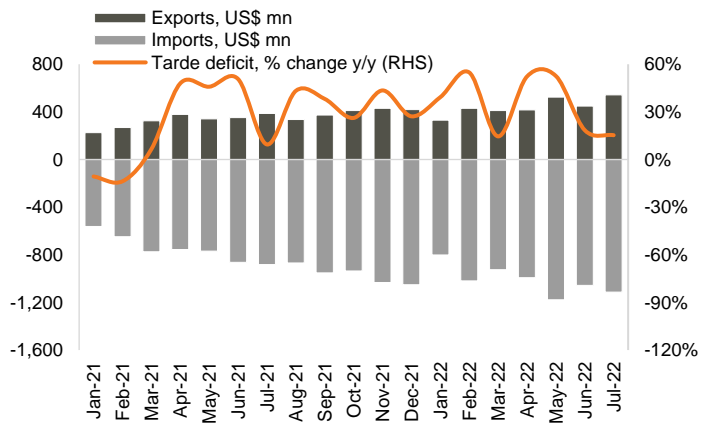
GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)



Source: NBG

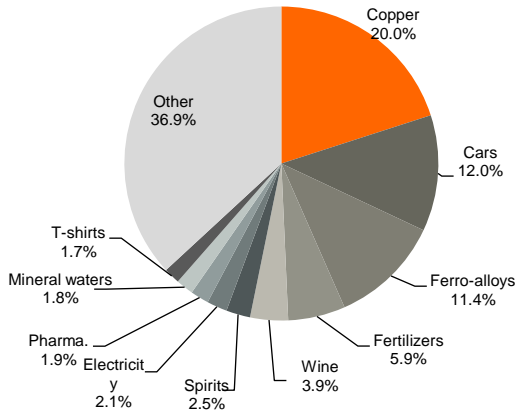
Note: Index growth/decline means appreciation/depreciation of GEL

Goods exports, imports and trade deficit



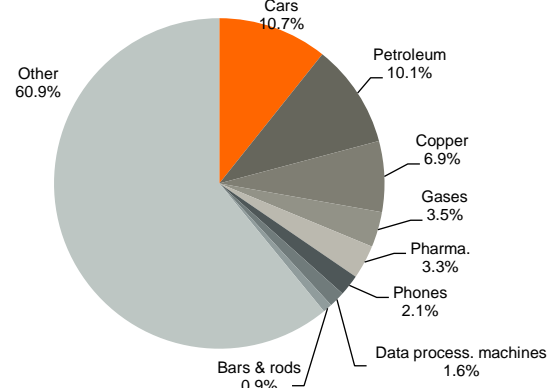
Source: Geostat

Exports by product, 7M22



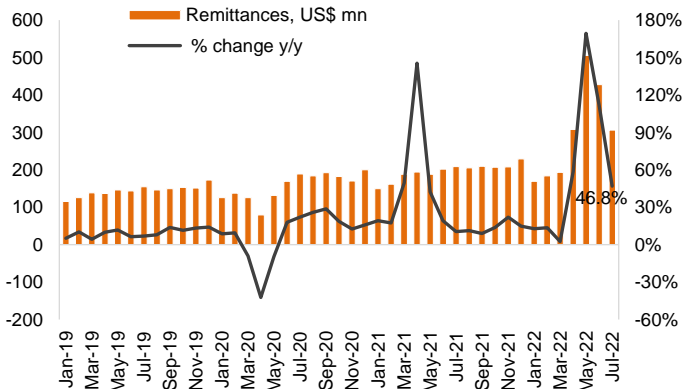
Source: Geostat

Imports by product, 7M22



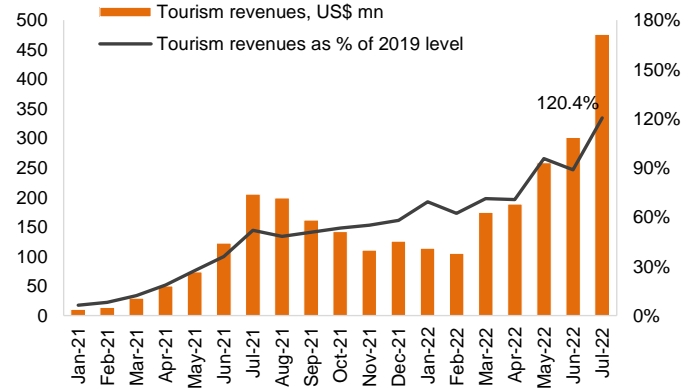
Source: Geostat

Remittances



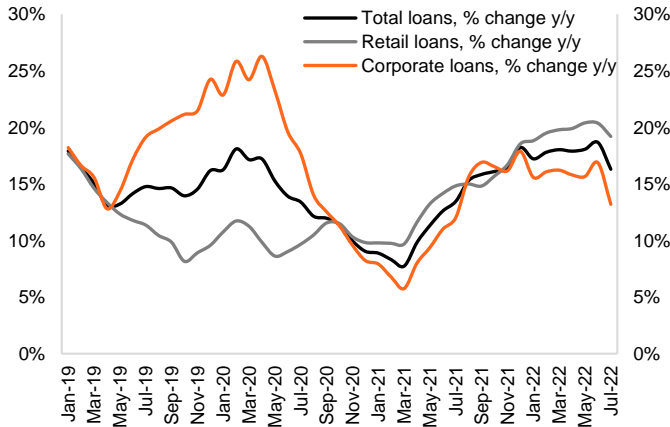
Source: NBG

Tourism revenues



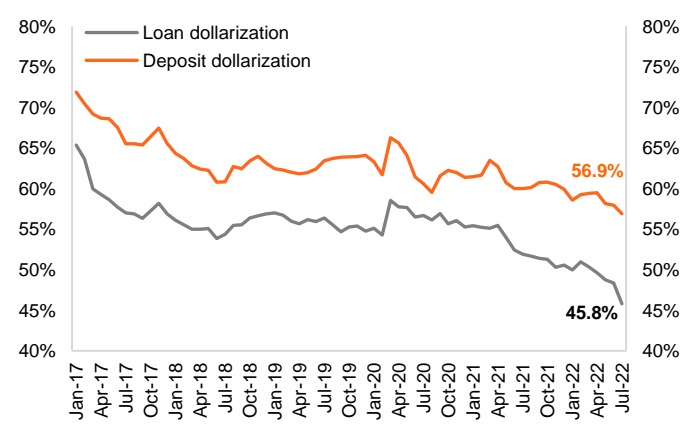
Source: NBG

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	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F
GDP and Prices										
Nominal GDP, GEL bn	31.1	33.9	35.8	40.8	44.6	49.3	49.3	60.2	71.8	78.8
Nominal GDP, US\$ bn	17.6	14.9	15.1	16.2	17.6	17.5	15.8	18.7	24.1	26.3
Nominal GDP per capita, US\$	4,739	4,013	4,062	4,359	4,722	4,696	4,256	5,017	6,540	7,123
Real GDP, % change y/y	4.4%	3.0%	2.9%	4.8%	4.8%	5.0%	-6.8%	10.4%	9.2%	5.0%
CPI Inflation, average	3.1%	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.7%	4.9%
CPI Inflation, eop	2.0%	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.2%	3.3%
GEL per US\$, average	1.77	2.27	2.37	2.51	2.53	2.82	3.11	3.22	2.98	3.00
Population, mn	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	26.5%	27.5%	28.0%	27.4%	27.0%	26.6%	25.6%	25.8%	26.4%	25.7%
Budget expenses, % of GDP	28.4%	28.6%	29.4%	28.2%	27.7%	29.4%	34.9%	32.1%	29.9%	28.3%
Fiscal balance (-deficit), % of GDP	-2.6%	-2.4%	-2.8%	-2.7%	-2.3%	-2.1%	-9.3%	-6.1%	-3.6%	-2.8%
Public debt, % of GDP	31.0%	36.7%	40.3%	39.4%	38.9%	40.4%	60.2%	49.5%	45.3%	44.6%
External Sector										
Current account, US\$ bn	-1.8	-1.8	-1.9	-1.3	-1.2	-1.0	-2.0	-1.9	-1.7	-2.0
Current account, % of GDP	-10.2%	-11.8%	-12.5%	-8.0%	-6.8%	-5.8%	-12.5%	-10.1%	-6.9%	-7.8%
Exports of goods & services, US\$ bn	7.1	6.2	6.2	7.6	8.9	9.6	5.9	8.1	11.6	13.1
Imports of goods & services, US\$ bn	10.1	8.7	8.5	9.4	10.8	11.2	9.0	11.2	14.8	16.4
Net Current transfers, US\$ bn	1.4	1.1	1.1	1.3	1.4	1.4	1.8	2.3	3.3	2.9
Net FDI, US\$ bn	1.4	1.4	1.2	1.7	1.0	1.1	0.5	0.8	1.2	1.4
Net FDI, % of GDP	8.1%	9.5%	8.2%	10.5%	5.6%	6.0%	3.5%	4.4%	5.0%	5.3%
Gross international reserves, US\$ bn	2.7	2.5	2.8	3.0	3.3	3.5	3.9	4.3	4.6	4.8
Financial sector										
Bank loan portfolio, US\$ bn	7.0	6.7	7.1	8.6	9.9	11.1	11.7	13.9	16.0	17.6
Bank loan portfolio, % of GDP	40.8%	47.2%	52.8%	54.7%	59.6%	64.8%	77.6%	71.4%	66.0%	65.5%
Monetary policy rate, %	4.0%	8.0%	6.5%	7.3%	7.0%	9.0%	8.0%	10.5%	11.0%	9.0%

Source: NBG, MOF, Geostat, Galt & Taggart

Note: Fiscal balance according to IMF Program Definition

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