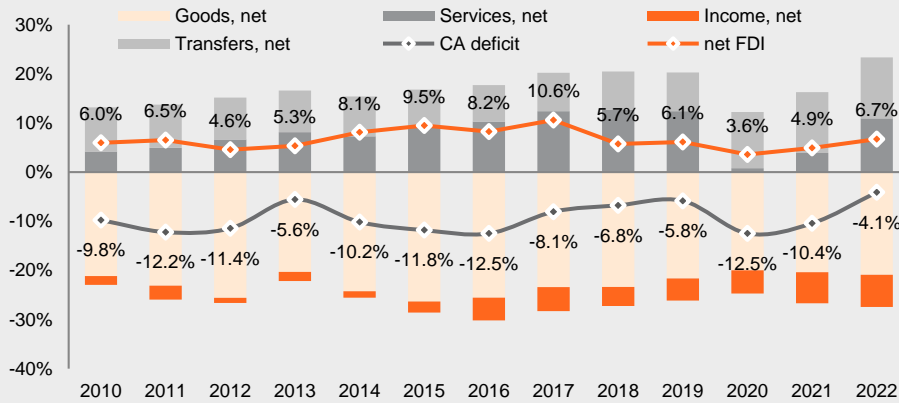




### Chart of the month: Record low current account deficit



Source: NBG, Geostat

Current account deficit reduced to record low 4.1% of GDP in 2022, supported by strong positive balance in services, followed by transfers. Reduced deficit resulted in NBG's reserve accumulation and strong GEL. We expect current account deficit to increase to 5.4% of GDP in 2023, as transfers expected to normalize from last year's high base.

### Economic summary

**Growth:** Real GDP growth eased to 5.8% in Feb-23, from 8.4% growth in previous month. Overall, in 2M23, growth came in at 7.1%, remaining robust considering last year's high base. Our 2023 baseline growth forecast is 4.8% and expect growth at 6.9% if migration impact remains strong. In February, construction, financial, trade, and transportation and storage sectors drove the growth. Meanwhile, manufacturing, real estate and professional activities sectors contracted.

**Inflation:** Headline CPI retreated to 8.1% y/y in February, marking the 5<sup>th</sup> consecutive monthly decline. Core inflation also reduced to 6.6% from January's reading of 7.7%. 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.

**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. Despite slowdown in inflation, NBG intends to maintain a tight monetary policy amid high uncertainty due to the geopolitical situation, as well as inflationary risks coming from the labor market. We see room for 100bps rate cut in 2H23, as we expect disinflation to continue.

**FX:** The GEL strengthened by 5.2% 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 and US\$ 85.7 in Feb-23 to build reserves. We see average GEL rate at 2.65 vs dollar in 2023.

### Activity

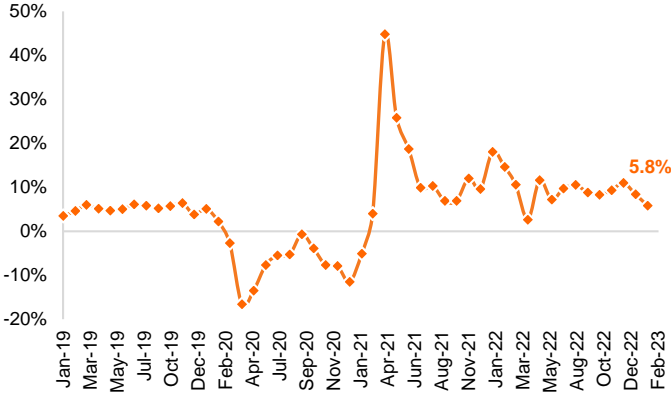
**Trade:** In February, exports posted growth while imports reduced, resulting trade deficit to drop also. Cars, precious metals and tobacco exports contributed most to growth, while decline in imports reflected reduced copper and petroleum imports. A reduction in trade deficit along with continued strong 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 from last year's low base, reaching US\$ 607.0mn in 2M23 (up c.180% y/y). 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 was 13.3% y/y in February, excluding FX effect, same as in previous month. Deposits continued strong growth up 29.5% y/y (exc. FX effect) in February, with both FX and GEL deposits driving growth. Amid strong GEL, deposit dollarization reduced further to 54.8%, and loan dollarization reduced to 44.4% from previous month's 44.7%. Other performance indicators remained healthy in February, with NPLs at 1.8%.

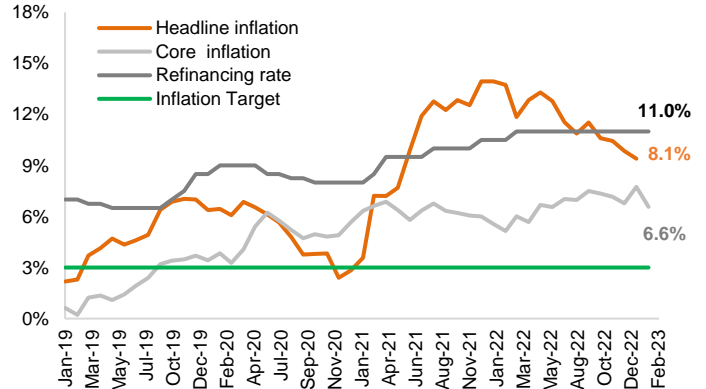


**Real GDP growth, % change y/y**



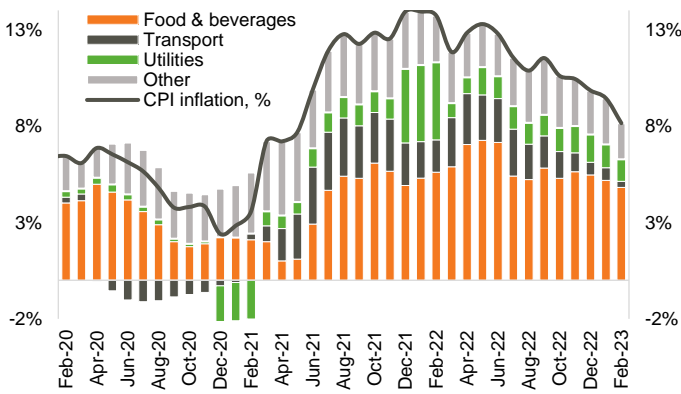
Source: Geostat

**Annual inflation and monetary policy rate**



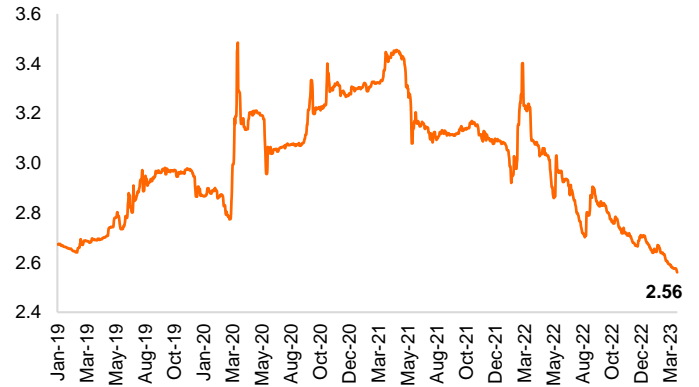
Source: Geostat, NBG

**Contributions to annual inflation**



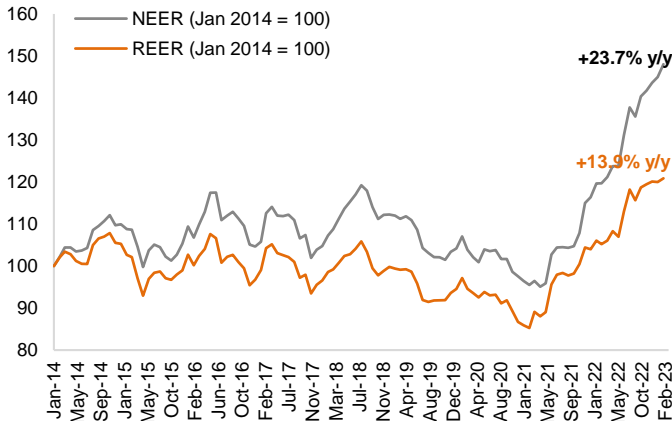
Source: Geostat

**GEL vs USD**



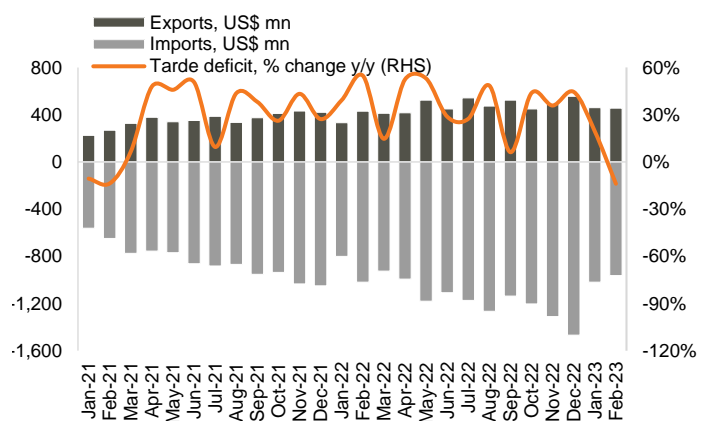
Source: NBG

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



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

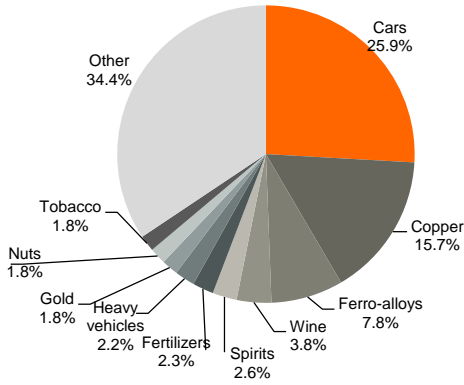
**Goods exports, imports and trade deficit**



Source: Geostat

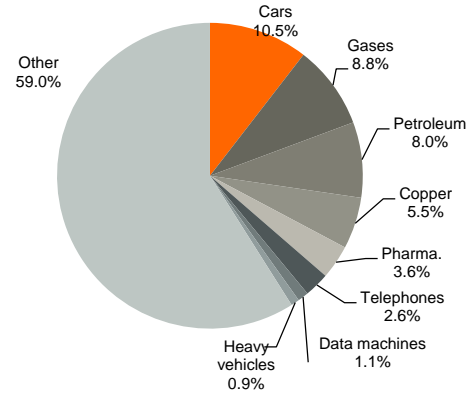


**Exports by product, 2M23**



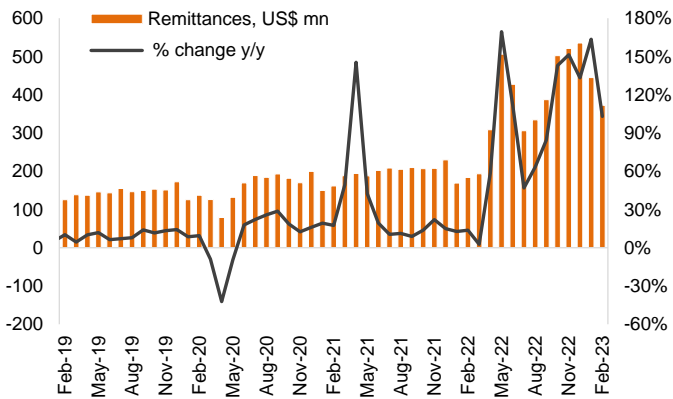
Source: Geostat

**Imports by product, 2M23**



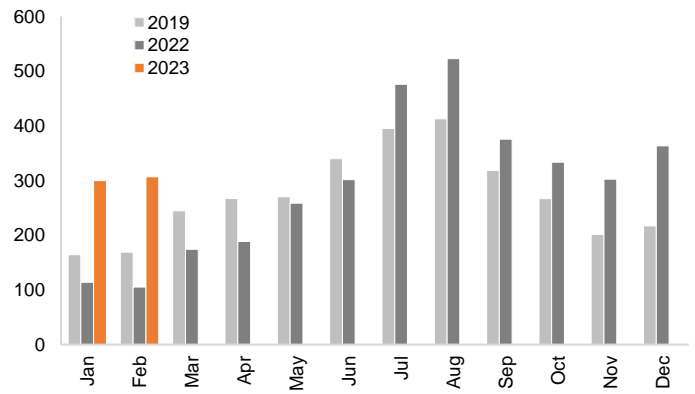
Source: Geostat

**Remittances**



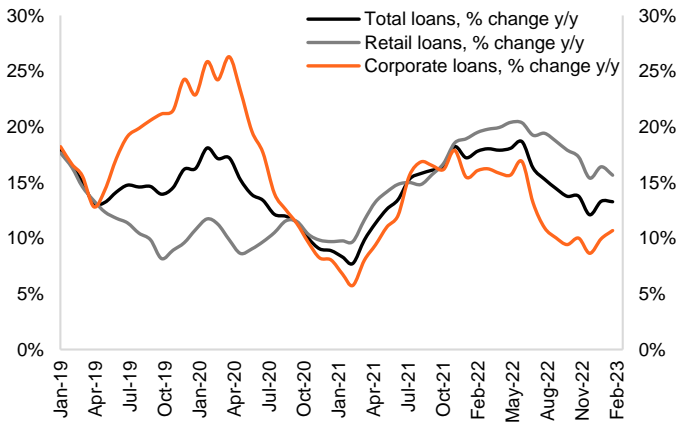
Source: NBG

**Tourism revenues, US\$ mn**



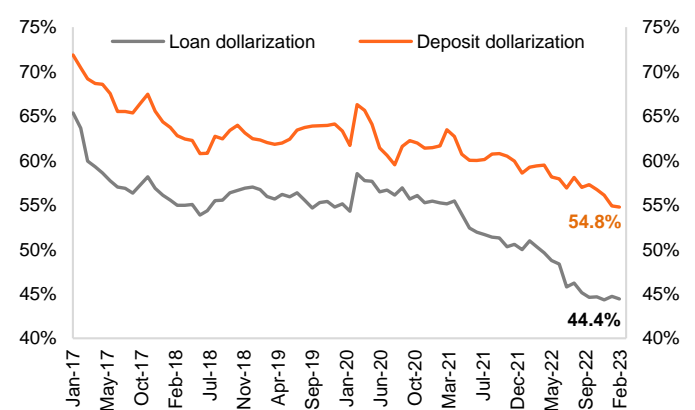
Source: NBG, Galt & Taggart estimate for Jan-Feb 2023

**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
<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	78.6	85.4
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	29.7	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	5,023	6,672	8,039	8,737
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
<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%	27.2%	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%
<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	-1.0	-1.6	-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%	-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%	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
<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	17.9	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%	62.1%	61.7%
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 &amp; Taggart

Note: Fiscal balance according to IMF Program Definition

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