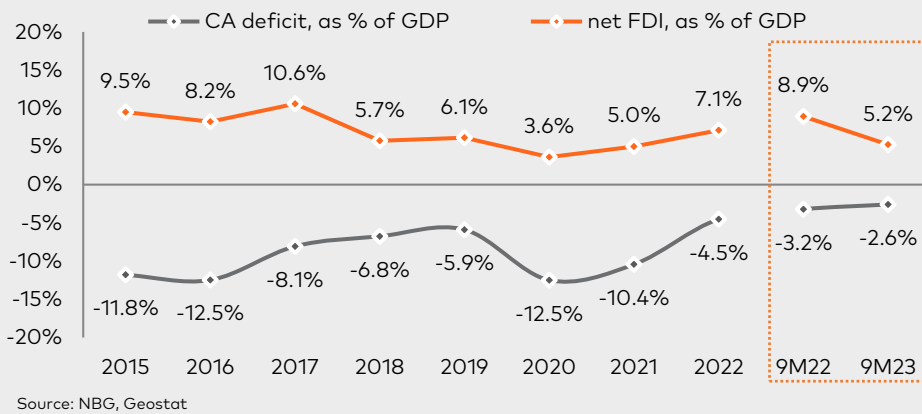




Chart of the month: CA deficit to GDP at a record low level in 9M23



CA deficit reached a historically low level of 2.6% of GDP in 9M23, down from 3.2% in 9M22. This positive shift was driven by strong growth in the services balance (+36.9% y/y), particularly in tourism (+29.2% y/y) and ICT services (+87.0% y/y), as well as a 6.4% y/y increase in the transfers balance. FDI remained the key funding source of CA deficit, with net FDI at 5.2% of GDP. We forecast CA deficit to improve further and project it at 4.3% of GDP in 2024 from 4.5% in 2023.

Economic summary

Growth: Georgia's economy grew by 5.9% in Nov-23, in line with our expectations, after growing by 6.2% in October. Overall, in 11M23, growth reached 6.9%, in line with our 6.8% growth projection for the full year 2023. For 2024, we anticipate a growth rate of 5.4% in our baseline scenario and 6.0% in upside scenario (see details [here](#)).

Inflation: In Dec-23, annual inflation in Georgia stood at 0.4%, with average annual inflation reaching 2.5% for the year. The subdued inflation was driven by a 3.1% y/y decline in food prices, along with reduced inflation for imported and mixed goods by 0.2% y/y and 4.3% y/y in December, respectively. Domestically produced goods inflation reached 3.6% y/y in Dec-23 and core inflation remained low at 1.9% y/y. For 2024, we expect average annual inflation at 3.5%.

Monetary policy: On December 20, 2023, the NBG's Monetary Policy Committee reduced its key rate by 50bps to 9.5% due to a larger-than-expected decline in inflation. The NBG plans to pursue a gradual normalization aligned with evolving inflation forecasts. We expect a 100bps rate cut to 8.5% in our baseline scenario by end-2024.

FX: The GEL appreciated slightly by 0.9% m/m in December against the dollar. Notably, the NBG was a net buyer of US\$ 1.3bn in 2023. The expected solid external inflows and low current account deficit lead us to expect the GEL to remain stable at around 2.7 against the dollar and 3.0 against the Euro in 2024, respectively, in our baseline scenario.

Activity

Trade: In Nov-23, goods exports declined by 1.8% y/y to US\$ 482.0mn, after a 10.3% y/y growth in previous month. Similarly, goods imports also contracted by 7.6% y/y, reaching US\$ 1.2bn in November, after growing by 4.8% y/y in October. The decline in exports was primarily driven by a decrease in copper, fertilizers and wine exports, although there was a notable increase in exports of cars, spirits and pharmaceuticals. On the import side, a reduction in the imports of gases and cars were the major driver of the drop in imports, while imports of petroleum and pharmaceuticals increased. Overall, in 11M23, trade deficit expanded by 19.8% y/y to US\$ 8.4bn, as exports increased by 11.1% y/y to US\$ 5.6bn, while imports were up by 16.1% y/y to US\$ 14.0bn.

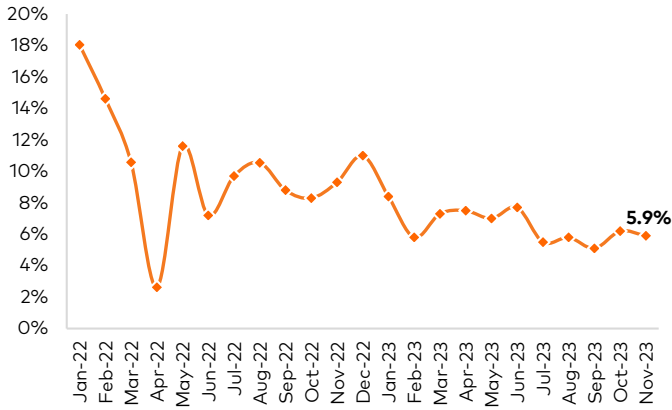
Tourism: In Nov-23, tourism revenues stood at US\$ 274.0mn (+20.9% y/y, excluding migration effect), according to our estimates. Overall, tourism revenues came in at US\$ 3.9bn (+22.4% y/y) in 11M23. We forecast tourism revenues at US\$ 4.2bn (+19.0% y/y) for the full year 2023 and at US\$ 4.5bn (+7.0% y/y) for 2024.

Banking sector: In Nov-23, the loan portfolio in the banking sector increased by 16.3% y/y (excl. FX effect) reaching GEL 51.2bn, after a 16.1% y/y growth in previous month. The November credit growth was mainly driven by a 19.3% y/y increase in corporate loans (contributing 9.4ppts to the total loan growth), followed by retail loans (+13.7% y/y). We expect loan portfolio growth at 12-14% in 2024.

Bank deposits increased by 17.8% y/y (excl. FX effect) to GEL 50.4bn in Nov-23. The dollarization rates remained favorable, with deposit and loan dollarization standing at 50.8% and 45.5%, respectively, in November.

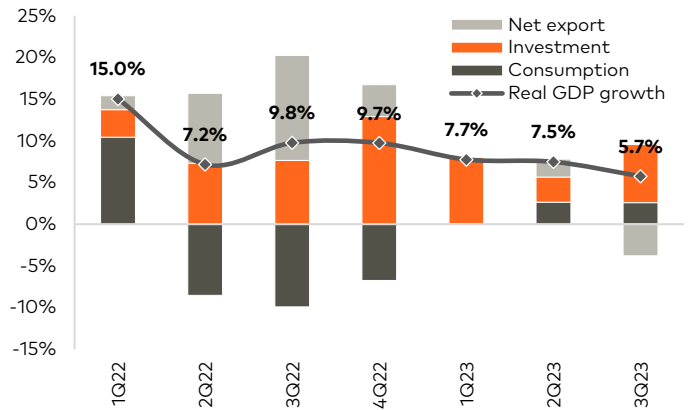


Real GDP growth, % change y/y



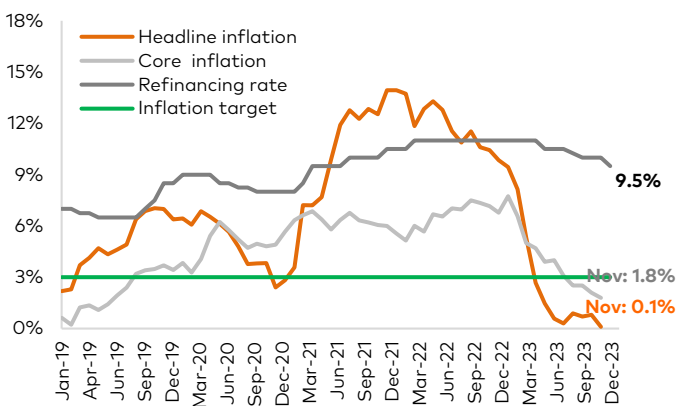
Source: Geostat

Contributions to real GDP growth, pts



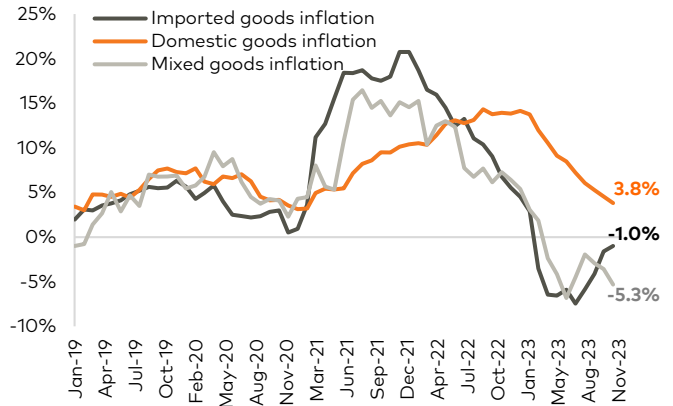
Source: Geostat, Galt & Taggart

Annual inflation and monetary policy rate



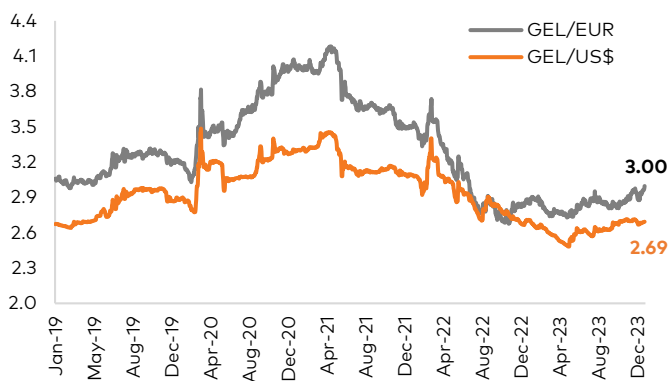
Source: Geostat, NBG

Imported and domestic inflation dynamics



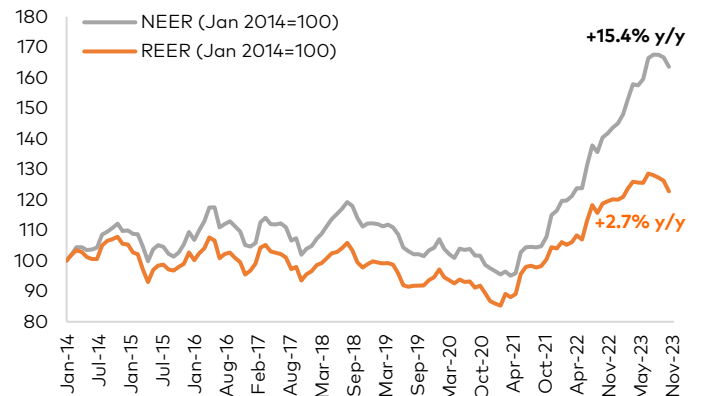
Source: Geostat

GEL/US\$ and GEL/EUR



Source: NBG

GEL's nominal and real effective exchange rates

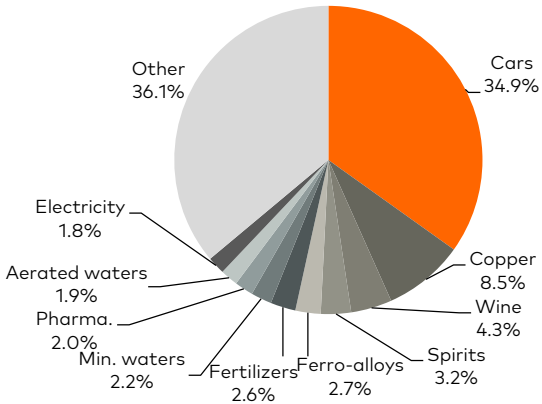


Source: NBG

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

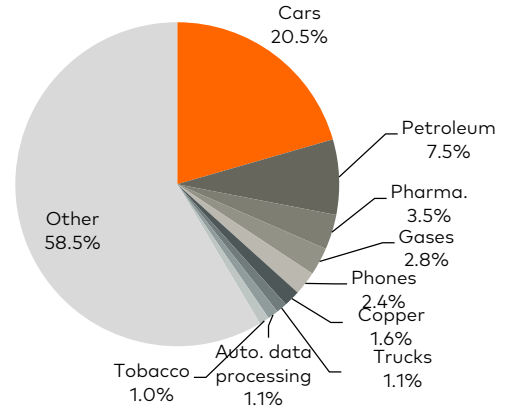


Exports by product, 11M23



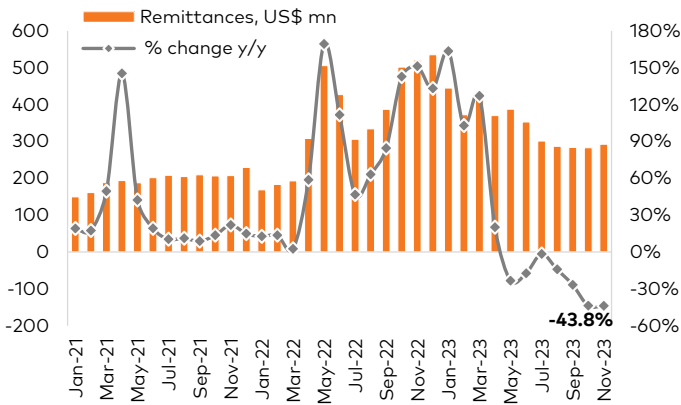
Source: Geostat

Imports by product, 11M23



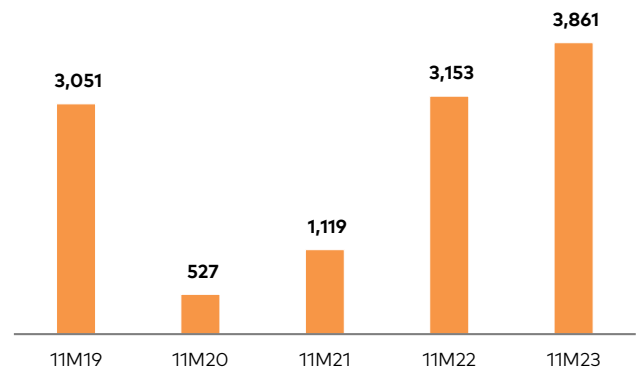
Source: Geostat

Remittances in Georgia



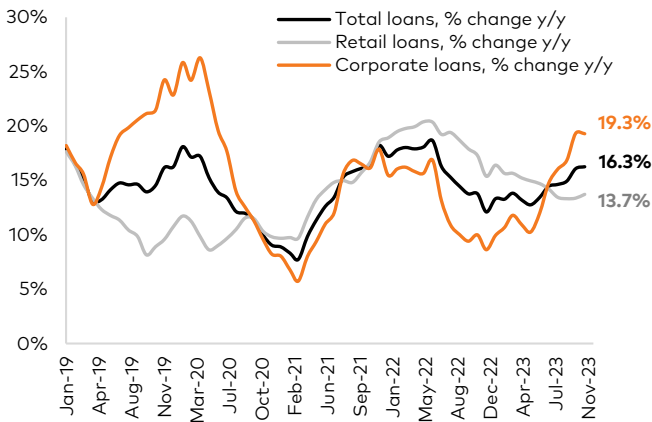
Source: NBG

Tourism revenues in 11M, US\$ mn



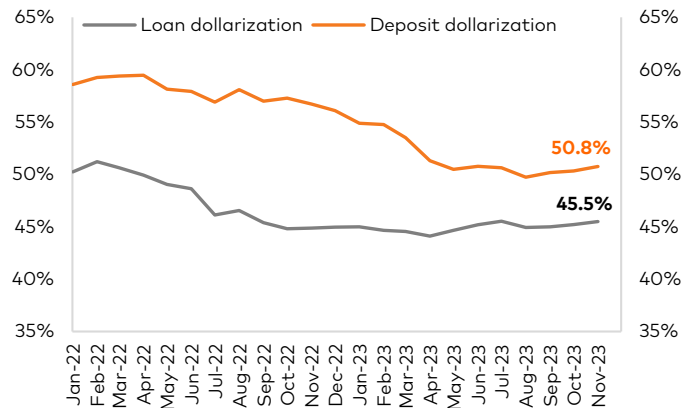
Source: NBG, Galt & Taggart

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 |
|---------------------------------|--------|-------|--------|--------|--------|-------|-------|-------|--------|--------|-------|-------|-------|
| 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 | 72.3 | 79.7 | 87.0 |
| Nominal GDP, US\$ bn | 16.5 | 17.2 | 17.6 | 14.9 | 15.1 | 16.2 | 17.6 | 17.5 | 15.8 | 18.6 | 24.8 | 30.3 | 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 | 6,676 | 8,108 | 8,623 |
| 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% | 10.4% | 6.8% | 5.4% |
| CPI Inflation, ave | -0.9% | -0.5% | 3.1% | 4.0% | 2.1% | 6.0% | 2.6% | 4.9% | 5.2% | 9.6% | 11.9% | 2.5% | 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% | 0.4% | 4.4% |
| GEL per US\$, ave | 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 |
| GEL per US\$, eop | 1.66 | 1.74 | 1.86 | 2.39 | 2.65 | 2.59 | 2.68 | 2.87 | 3.28 | 3.10 | 2.70 | 2.69 | 2.75 |
| GEL per EUR, ave | 2.12 | 2.21 | 2.35 | 2.52 | 2.62 | 2.83 | 2.99 | 3.15 | 3.55 | 3.82 | 3.08 | 2.84 | 3.00 |
| GEL per EUR, eop | 2.18 | 2.39 | 2.27 | 2.62 | 2.79 | 3.10 | 3.07 | 3.21 | 4.02 | 3.50 | 2.88 | 2.98 | 3.05 |
| GEL per GBP, ave | 2.62 | 2.60 | 2.91 | 3.47 | 3.21 | 3.23 | 3.38 | 3.60 | 3.99 | 4.43 | 3.62 | 3.27 | 3.48 |
| GEL per GBP, eop | 2.67 | 2.86 | 2.89 | 3.55 | 3.26 | 3.50 | 3.40 | 3.76 | 4.45 | 4.17 | 3.26 | 3.42 | 3.55 |
| 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% | 27.4% | 27.7% | 28.8% |
| Budget expenses, % of GDP | 29.4% | 27.6% | 28.4% | 28.6% | 29.4% | 28.2% | 27.7% | 29.4% | 34.9% | 32.3% | 29.9% | 30.6% | 31.4% |
| Fiscal balance (-deficit), % of | -1.7% | -1.9% | -2.6% | -2.4% | -2.8% | -2.7% | -2.3% | -2.1% | -9.3% | -6.1% | -3.0% | -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% | 39.5% | 38.2% | 38.0% |
| 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 | -1.1 | -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% | -4.5% | -4.5% | -4.3% |
| Exports, 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, 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 | 1.7 | 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% | 7.1% | 5.6% | 5.6% |
| Gross int. 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 | 5.2 | 5.2 |
| 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 | 19.0 | 20.2 |
| Bank loan portfolio, % of GDP | 31.2% | 36.1% | 40.8% | 47.2% | 52.8% | 54.7% | 59.6% | 64.8% | 77.6% | 71.8% | 62.0% | 64.6% | 64.5% |
| 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% | 9.50% | 8.50% |

Source: NBG, MOF, Geostat, Galt & Taggart

Note 1: Fiscal balance according to IMF Program Definition

Note 2: Exports and imports include both – goods and services

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