



Chart of the month: Unemployment has shown a consistent decreasing trend



Source: Geostat

The unemployment rate reduced by 1.4ppts y/y to the lowest quarterly figure of 16.7% in 2Q23. During the same period, both the number of hired employed individuals and self-employed persons were up by 5.6% y/y (69.1% of total employment) and 2.2% y/y (30.9% of total), respectively. Notably, the labor force participation rate has shown a consistent increase since 2Q21, rising by 1.6ppts y/y to reach 53.2% by 2Q23. We expect unemployment level to reduce to 16.0% in 2023 from 17.3% in 2022.

Economic summary

Growth: Georgia's economic growth slowed to 5.5% in Jul-23, after a 7.7% increase in the previous month. Overall, in 7M23, growth came in at 7.2% and we project a growth rate of 6.8% for the full year 2023.

July's growth was propelled by activities in the financial, construction, trade, and professional, scientific-technical sectors. In contrast, the manufacturing, mining and ICT sectors encountered a contraction.

Inflation: In Jul-23, headline CPI reduced to 0.3% from 0.6% inflation in previous month. This decline was mainly due to reduced inflation of imported goods (-7.4% y/y) and mixed goods (-4.5% y/y). Moreover, domestic goods inflation continued its downward trend, with a rate of 7.2% y/y in July compared to 8.5% y/y in June. Notably, core inflation (non-food, non-energy, non-tobacco) reduced significantly to 3.1% (-0.9ppts m/m) in July. We forecast average annual inflation at 2.4% in 2023.

Monetary policy: On 2 August 2023, the NBG cut its key rate by 25bps to 10.25%, marking the second rate cut this year. The regulator has expressed its intention to maintaining a gradual pace of monetary policy easing, while also being attentive to potential inflationary concerns. Looking ahead, there is a high likelihood that the NBG will reduce its key rate to 9.5% by the end of 2023.

FX: The GEL appreciated by 0.5% m/m in August vs dollar, amid robust FX inflows. Year-to-date GEL has strengthened by 2.7%. The NBG remains a net buyer of US\$ 1.34bn in 7M23, of which US\$ 278.5mn purchased in Jul-23. We expect average GEL rate at 2.62 vs dollar in 2023, revised slightly from the previous forecast of 2.6.

Activity

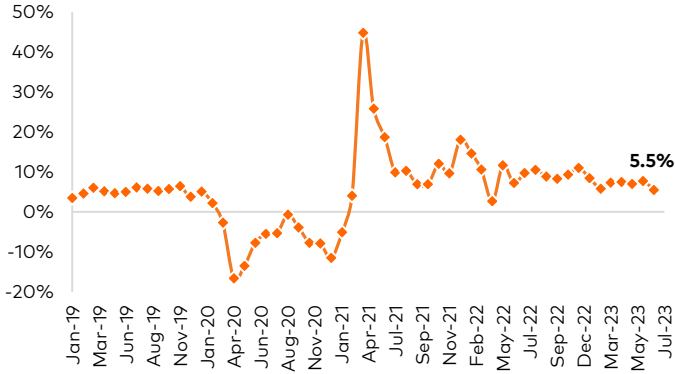
Trade: In Jul-23, trade deficit came in at US\$ 657.0mn (+2.8% y/y), compared to the US\$ 677.7mn (+3.2% y/y) deficit in Jun-23. The decline in exports by 0.7% y/y (due to last year's high base) and import growth slowing to 1.2% y/y to US\$ 1.2bn contributed to this outcome. The decrease in exports was mainly driven by the reduction in copper re-exports. Meanwhile, exports of cars, electricity, live bovine animals and pharmaceuticals witnessed significant growth in July. On the import side, copper and petroleum imports continued a sizable reduction, while imports of cars, phones, and tractors posted substantial growth in July. Overall, in 7M23, the trade deficit expanded by 21.3% y/y, reaching US\$ 4.9bn. This expansion was attributed to a 15.9% y/y increase in exports, totaling US\$ 3.6bn, and a 19.0% y/y rise in imports, reaching US\$ 8.5bn.

Tourism: According to our estimates, tourism revenues increased by 11.2% y/y to US\$ 530.0mn in Jul-23. Overall, tourism revenues reached US\$ 2.3bn (+44.2% y/y) in 7M23, based on our estimate. We expect tourism revenues at US\$ 4.0bn in 2023.

Banking sector: In Jul-23, the loan portfolio of banks expanded by 14.5% y/y (excluding FX effect), compared to 13.5% y/y growth in previous month, driven largely by a 14.7% y/y growth in corporate loans, while retail loans edged up by 14.2% y/y. The deposit portfolio growth slowed in July compared to June, with a 25.3% y/y increase (excluding FX effect). GEL deposits rose by 41.2% y/y, while FX deposits growth came in at 13.3% y/y. The dollarization rates remained favorable, with deposit and loan dollarization standing at 50.6% and 42.4%, respectively, in July.

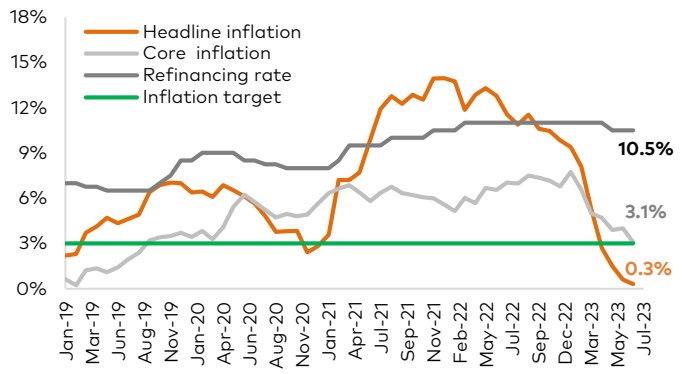


Real GDP growth, % change y/y



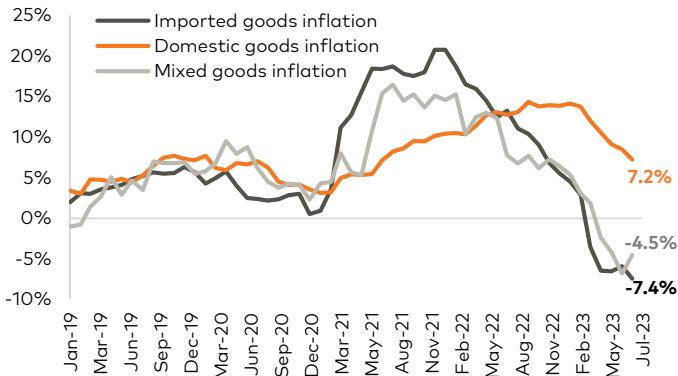
Source: Geostat

Annual inflation and monetary policy rate



Source: Geostat, NBG

Imported and domestic inflation dynamics



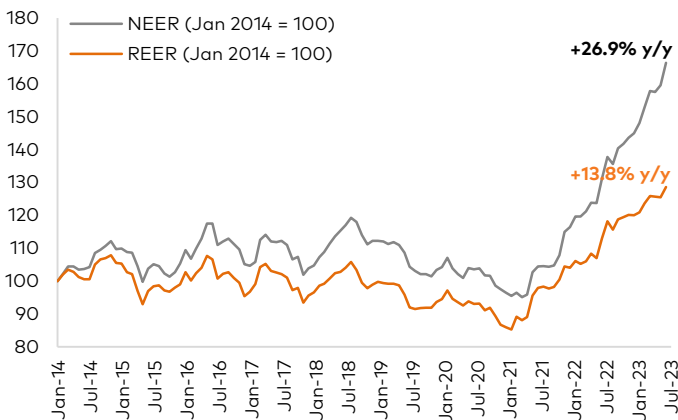
Source: Geostat

GEL vs USD



Source: NBG

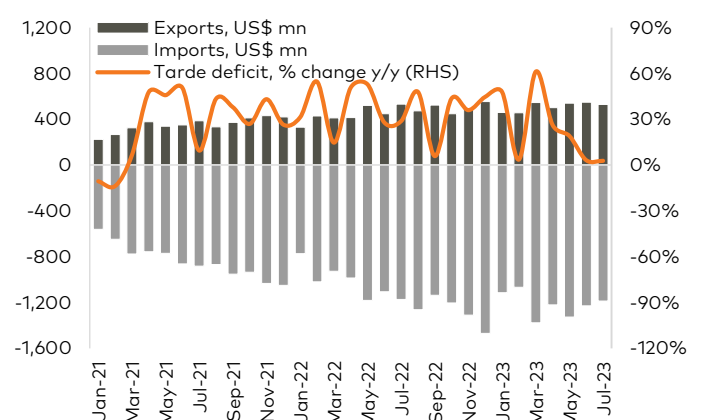
GEL's nominal and real effective exchange rates



Source: NBG

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

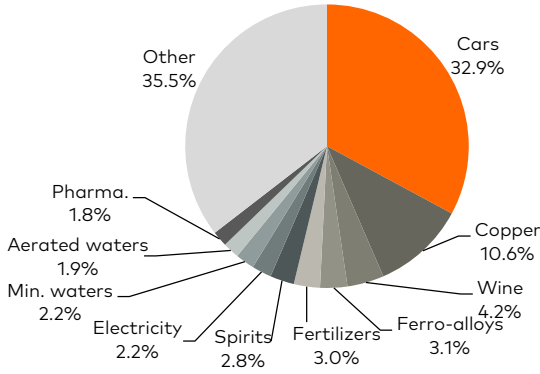
Goods exports, imports and trade deficit



Source: Geostat

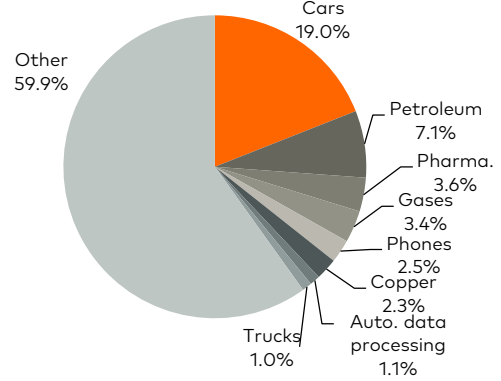


Exports by product, 7M23



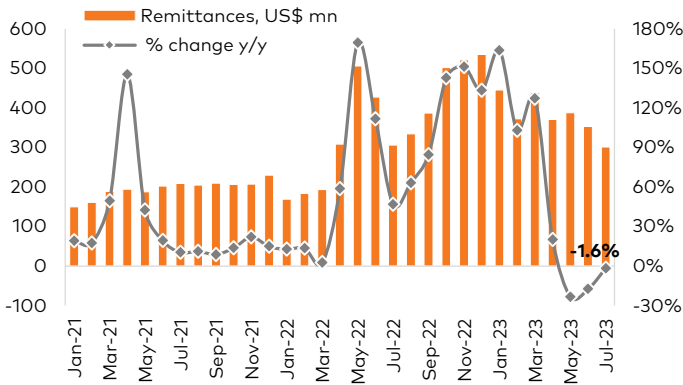
Source: Geostat

Imports by product, 7M23



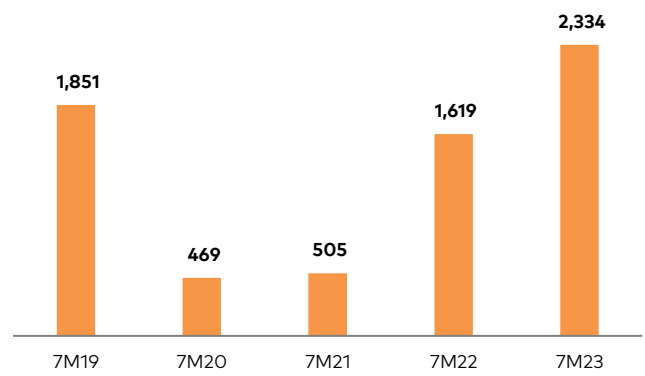
Source: Geostat

Remittances



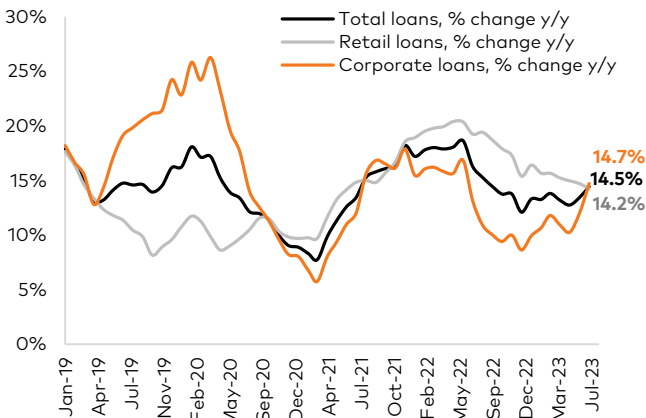
Source: NBG

Tourism revenues, US\$ mn



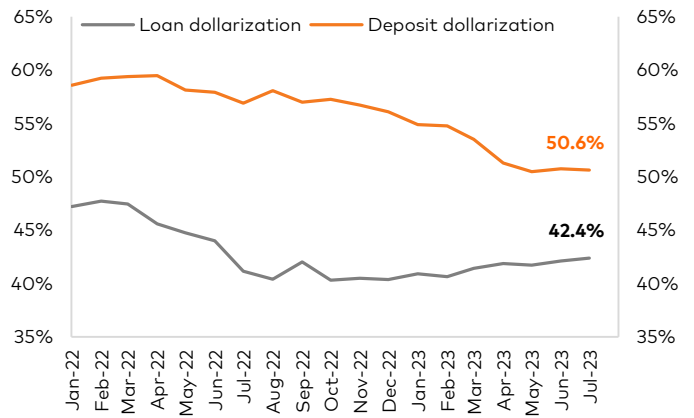
Source: NBG, Galt & Taggart

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
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	30.3	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	8,104	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	2.62	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%	-3.9%	-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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