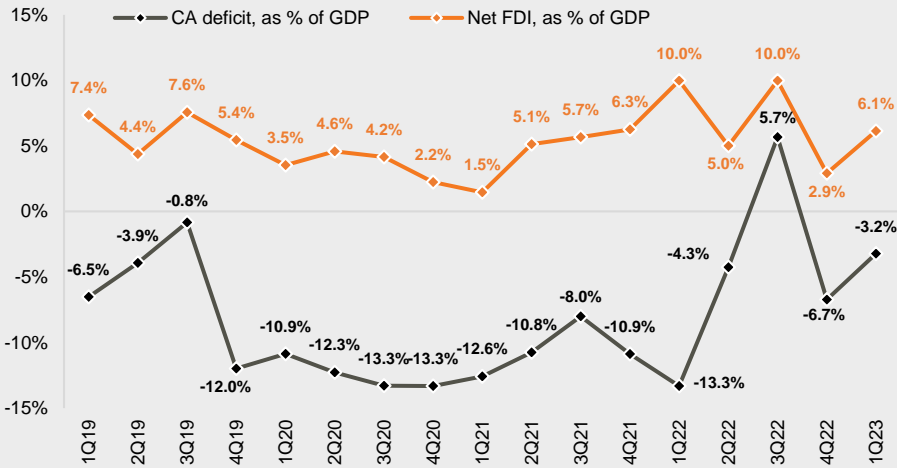




Chart of the month: Substantial Reduction in CA Deficit in 1Q23



Source: NBG, Geostat

CA deficit improved sharply in 1Q23, down by 67.1% y/y to 3.2% of GDP, from 13.3% in 1Q22. This improvement was driven by strong growth in the services (+197.8% y/y) and transfers (+36.1% y/y) balances, fully offsetting negative trade balance. FDI was key funding source of CA deficit, with net FDI at 6.1% of GDP. Strong external inflows and reduced CA deficit supported growth in reserves. Considering 1Q and ongoing data of FX inflows, we project CA deficit at 3.8% of GDP in 2023, improvement from our previous forecast of 5.4%.

Economic summary

Growth: The economy continued strong growth, with real GDP increasing by 7.0% in May 2023, following a 7.5% growth in previous month. Overall, in 5M23, growth came in at 7.5%. The expansion in May was primarily driven by construction, ICT, trade, financial, transportation and storage sectors, while the manufacturing and real estate sectors experienced contraction.

In light of the faster-than-expected reduction in the GDP deflator and upward revision of 1Q growth figure, we expect GDP growth at 6.8% in 2023, revised upwards from the previous projection of 5.8%.

Inflation: In May-23, headline CPI retreated to 1.5% from 2.7% inflation in previous month. This decline was primarily attributed to a reduction in inflation for imported goods (-6.5% y/y) and mixed goods (-4.2% y/y). Additionally, there was a slowdown in domestic inflation (+9.1% y/y in May vs. +10.6% y/y in April). We expect disinflation to continue and forecast average annual inflation at 3.1% for the entire year and end-2023 inflation at 1.0%.

Monetary policy: The NBG kept its key rate unchanged at 10.5% on 21 June 2023 meeting, after cutting it by 50bps in May-23. Based on communication from NBG, we expect further rate cut by 50bps on 2 August 2023 meeting. Considering disinflation trend, we see room for additional 100-150bps rate cut through end-2023.

FX: The GEL depreciated by 1.0% m/m in June vs dollar. Year-to-date GEL gained 3.1%. GEL's weakness in June is likely attributed to one-off factors, as FX inflows remain robust and NBG purchased US\$ 937.6mn in 5M23. We expect average GEL rate at 2.6 vs dollar in 2023.

Activity

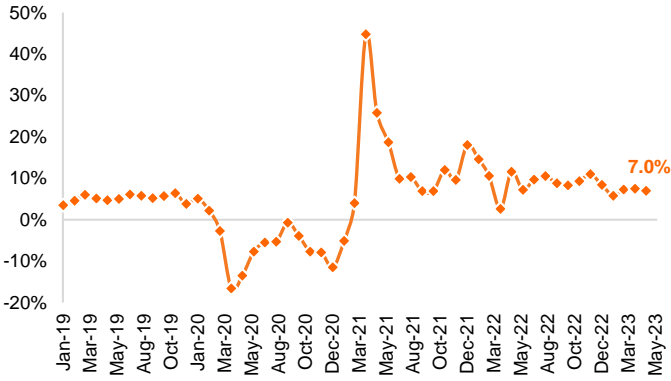
Trade: In May 2023, both exports (+3.5% y/y) and imports (+1.4% y/y) growth slowed due to last year's high base effect, although the volumes remained robust. The main contributors to export growth were cars, waters, wine, and tobacco. Imports growth was driven by an increase in pharmaceuticals and phones, while copper and petroleum imports dropped sizably in May. Overall, in 5M23, trade deficit increased by 19.5% y/y to US\$ 3.4bn, as exports increased by 18.5% y/y to US\$ 2.5bn, while imports were up by 19.1% y/y to US\$ 5.9bn.

Tourism: According to our estimates, tourism revenues increased by 17.6% y/y to US\$ 304.0mn in May-23. Overall, tourism revenues reached US\$ 1,350mn (+60.5% y/y) in 5M23, based on our estimate. We expect tourism revenues at US\$ 4.0bn in 2023.

Banking sector: Credit growth was 12.8% y/y in May, excluding FX effect, after growing by 13.2% y/y in previous month. Deposits growth accelerated to 31.2% y/y (exc. FX effect) in May, after a 28.7% y/y growth in April. In terms of currency breakdown, GEL deposits growth accelerated to 44.8% y/y (+39.1% y/y in previous month) and FX deposits growth (exc. FX effect) slowed to 21.3% y/y (+21.5% in previous month). Consequently, deposit dollarization reduced further to 50.5% in May, which is the lowest level observed since Sep-97. Contrary, loan dollarization increased to 44.5% from previous month's 43.9%. Other performance indicators remained healthy in May, with NPLs at 1.8%.

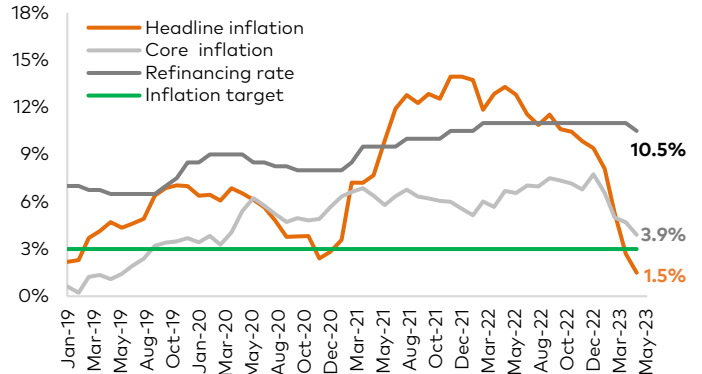


Real GDP growth, % change y/y



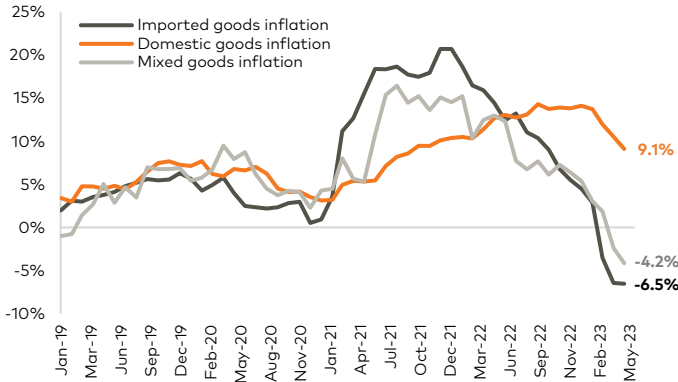
Source: Geostat

Annual inflation and monetary policy rate



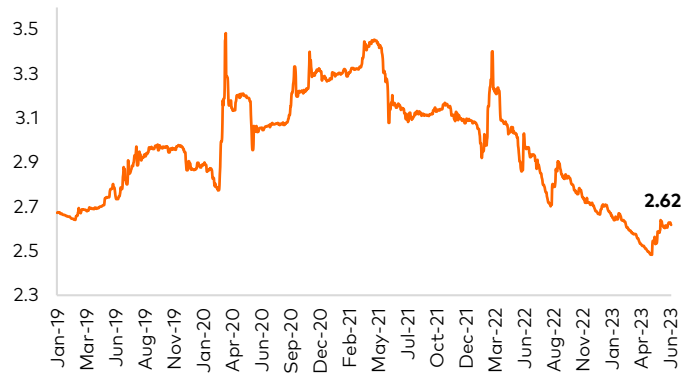
Source: Geostat, NBG

Imported and domestic inflation dynamics



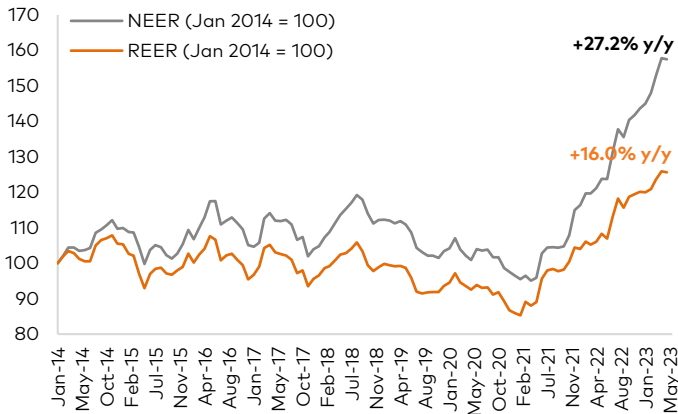
Source: Geostat

GEL vs USD



Source: NBG

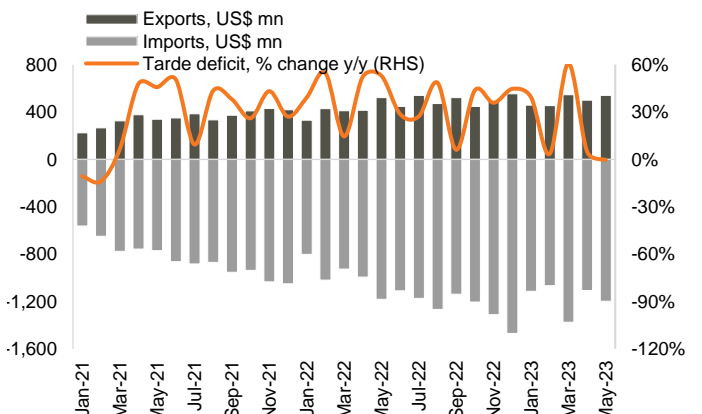
GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)



Source: NBG

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

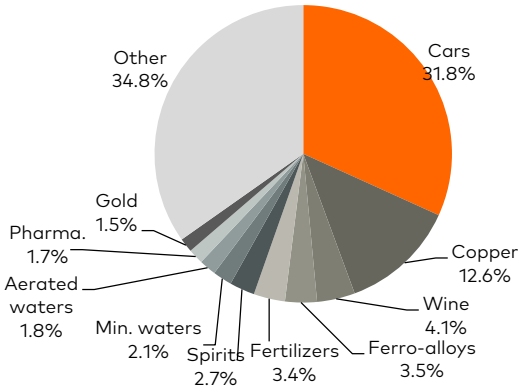
Goods exports, imports and trade deficit



Source: Geostat

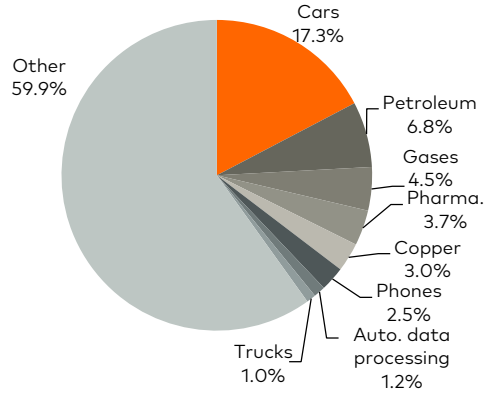


Exports by product, 5M23



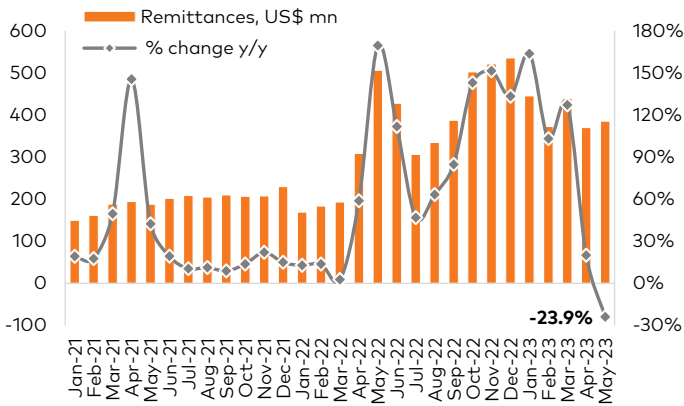
Source: Geostat

Imports by product, 5M23



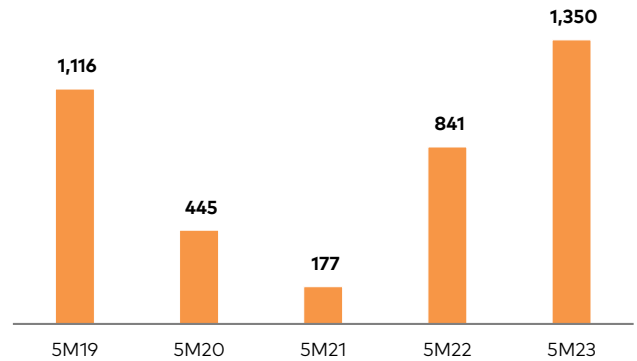
Source: Geostat

Remittances



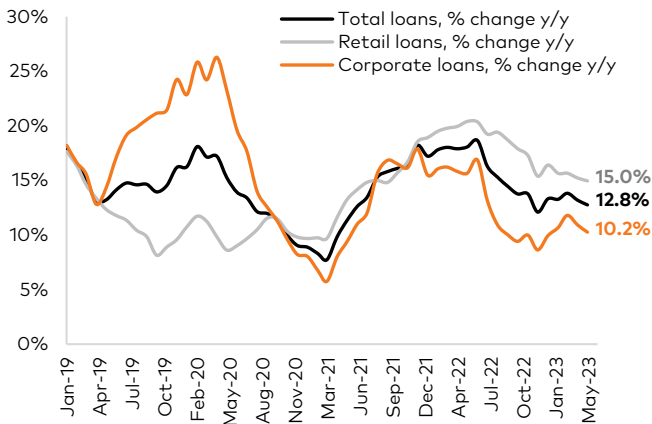
Source: NBG

Tourism revenues, US\$ mn



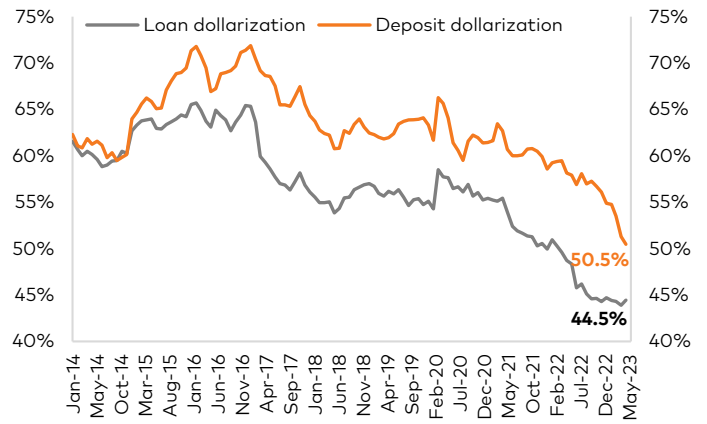
Source: NBG, Galt & Taggart estimate for Apr-23

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
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%	3.1%	2.9%
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%	1.0%	3.4%
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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