



GALT & TAGGART

CREATING OPPORTUNITIES



Macroeconomic Overview - Georgia

October 2020

1 Economic trends

2 External sector

3 GEL/USD and inflation

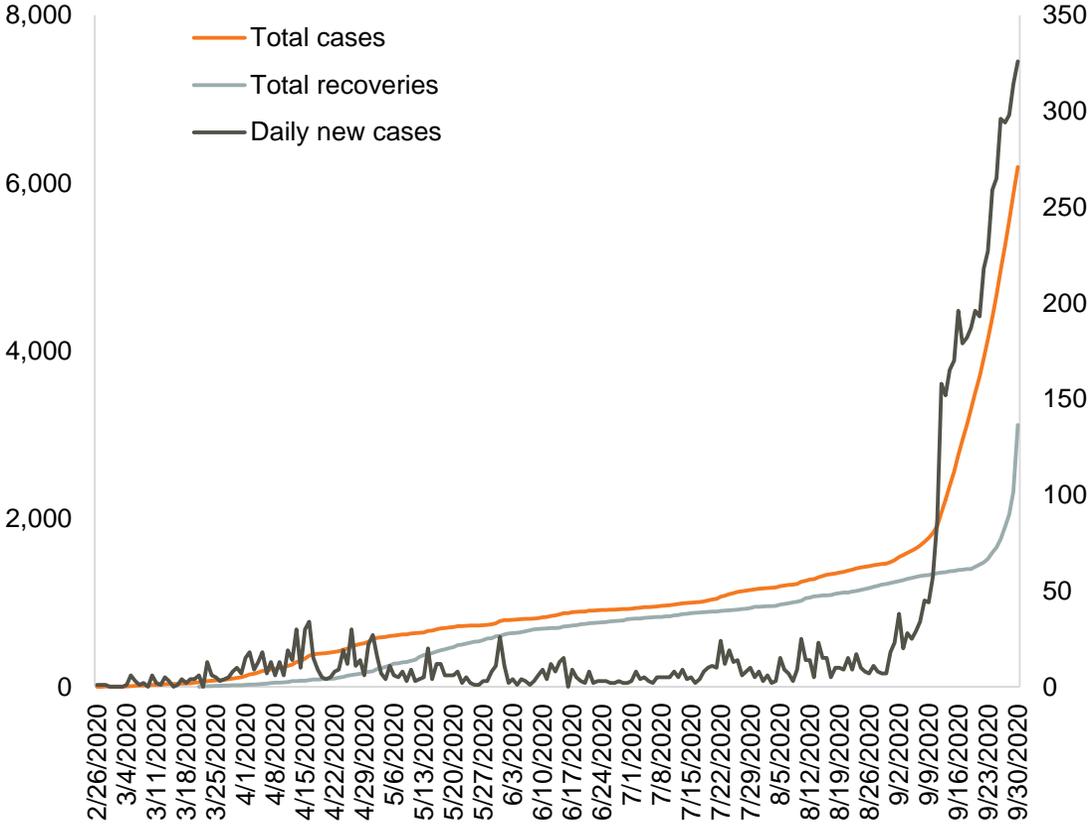
4 Banking Sector

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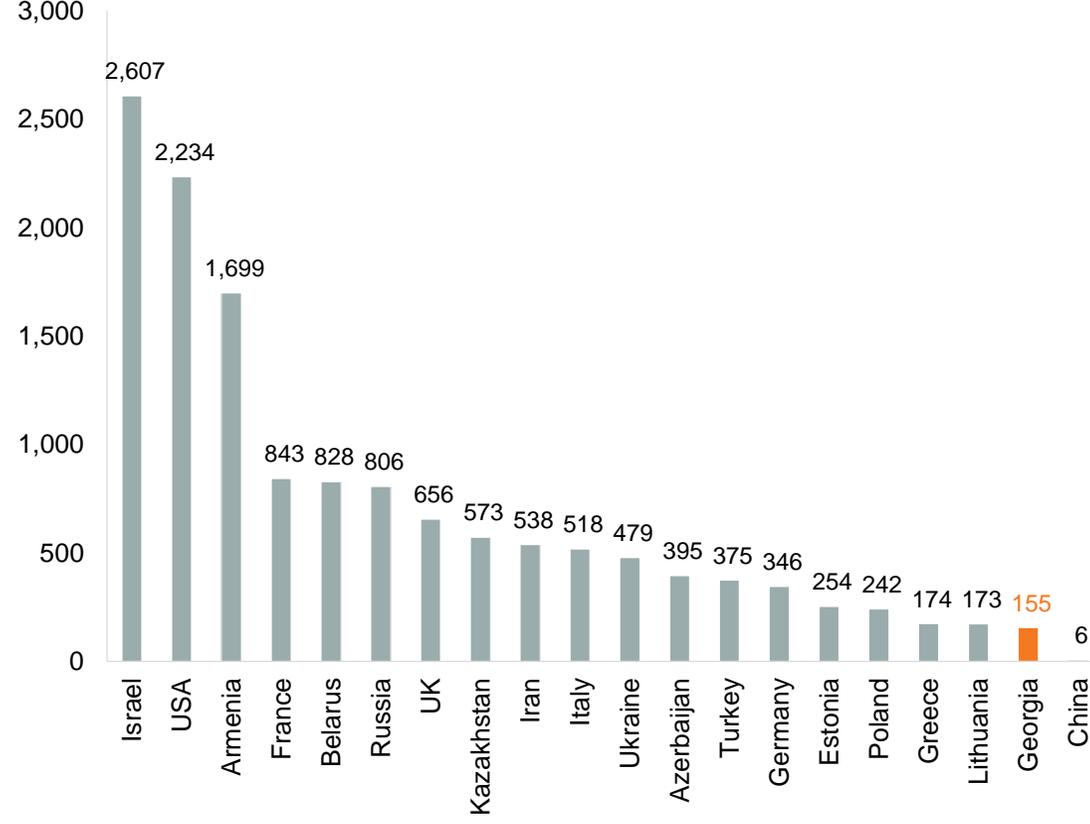
COVID-19 cases per 100,000 persons are low in Georgia despite recent surge

COVID-19 statistics in Georgia, persons



Source: NCDC, as of 30.09.20

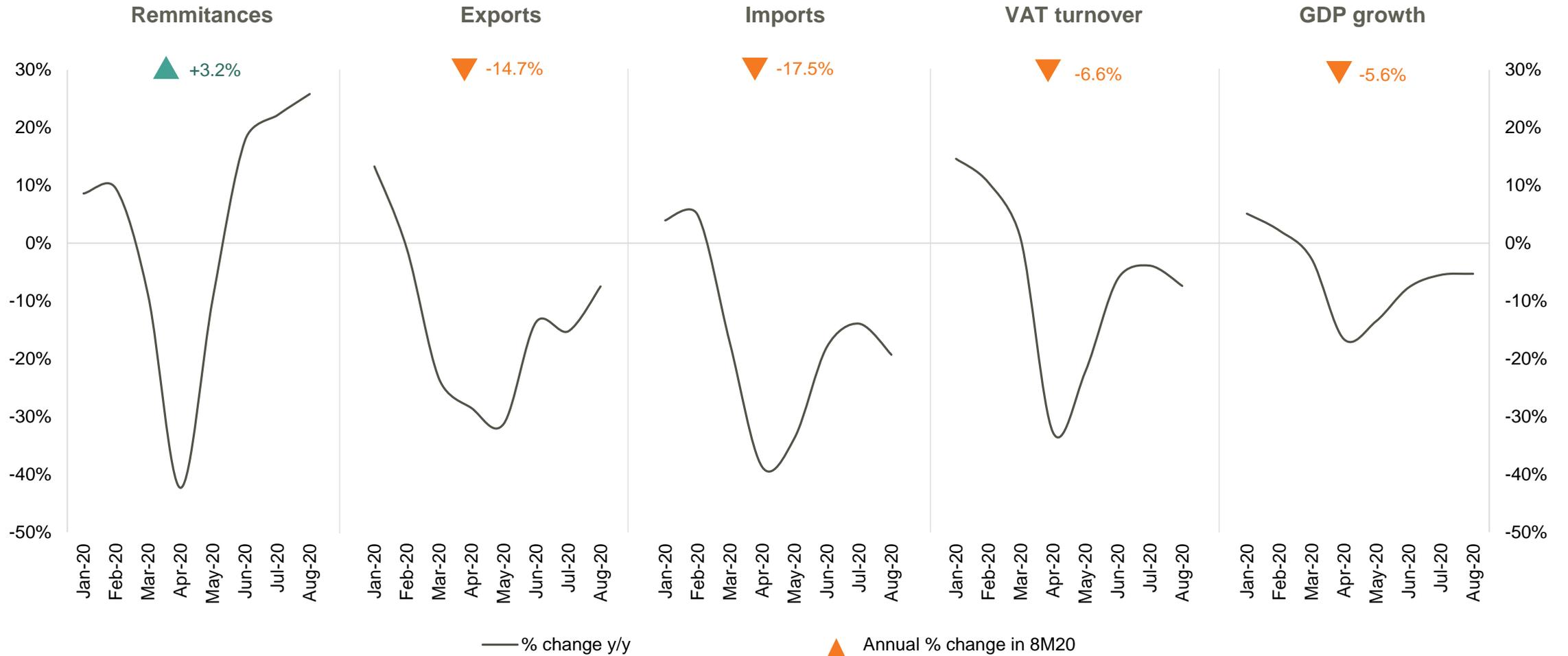
COVID-19 cases per 100,000 persons



Source: Johns Hopkins University, as of 30.09.2020



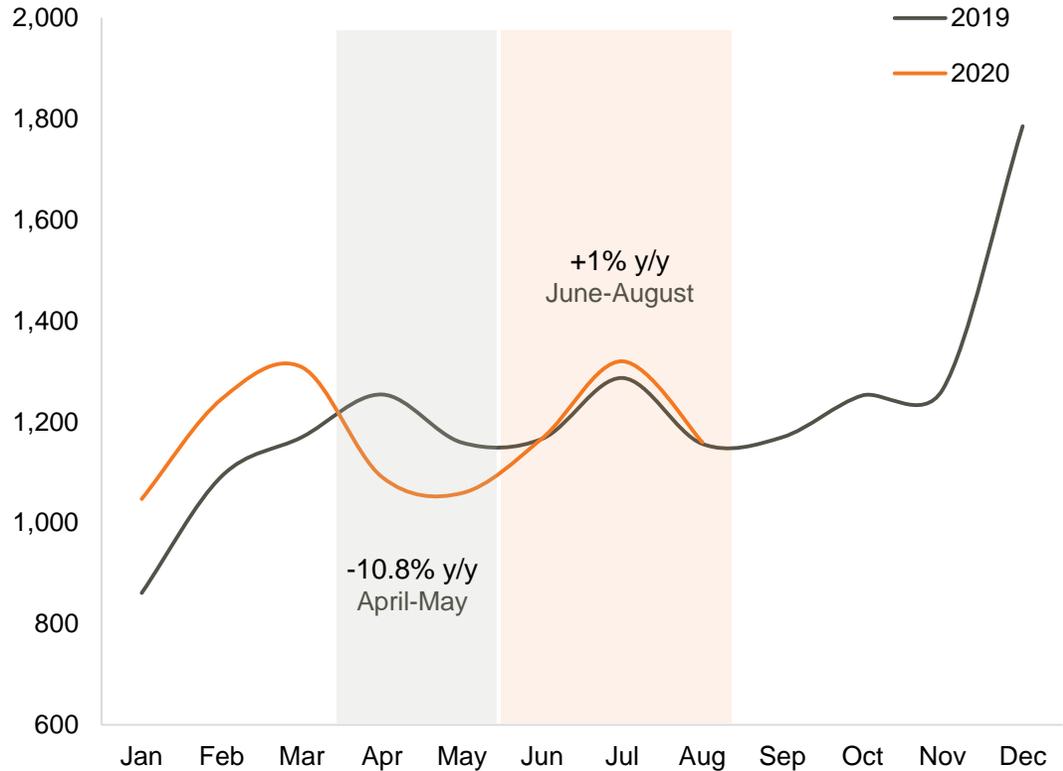
Economic recovery continues



Source: Geostat, NBS

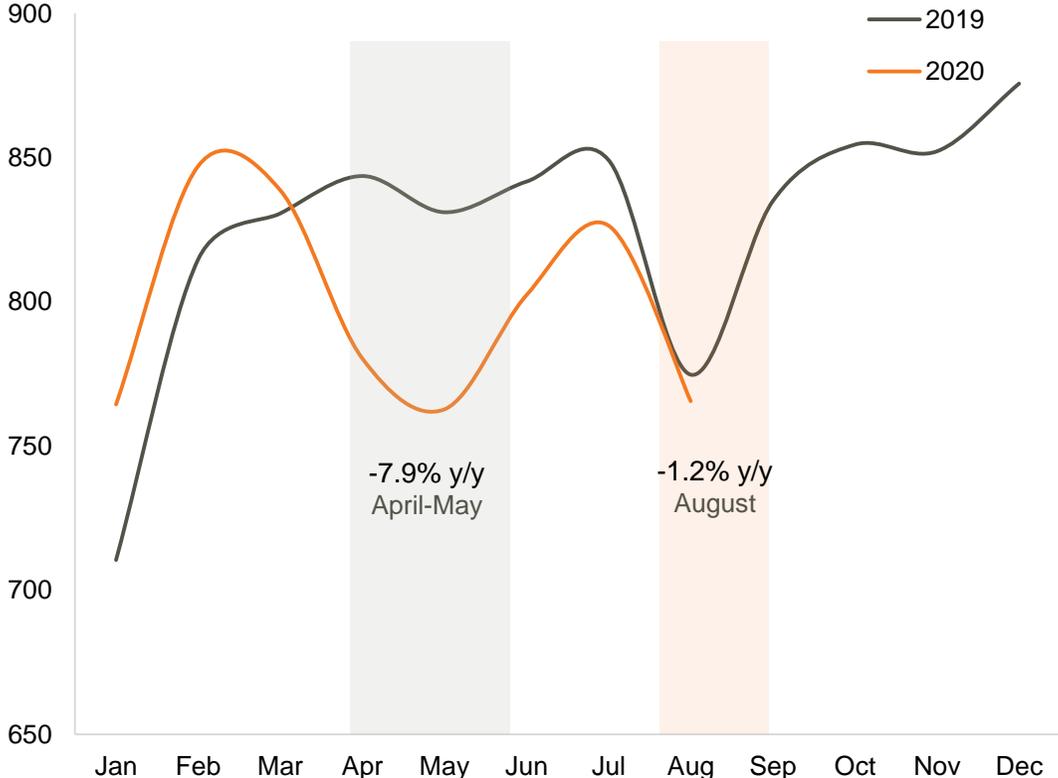
Salary and employment recovered since June 2020, converging the last year's levels

Gross salaries, GEL mn



Source: Revenue Service

Number of employed (hired), '000 persons



Source: Revenue Service



Capital expenditures were down slightly y/y in Aug-20, while current expenditures growth is high

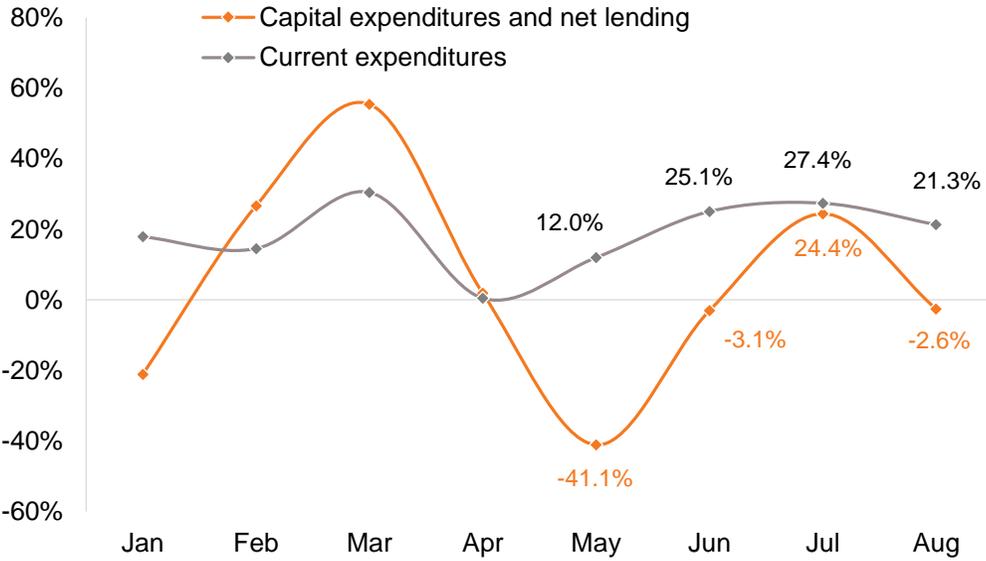
Consolidated budget tax revenues, GEL mn



Source: MOF
 Note: Tax revenue reduction since May 2020 reflects significant tax relief for different business

- Tax revenues decreased by 4.4% y/y to GEL 7.2bn (68.2% of the annual plan) in 8M20
- VAT refunds amounted to GEL 563mn in 8M20

Consolidated budget capital and current expenditures, % change y/y



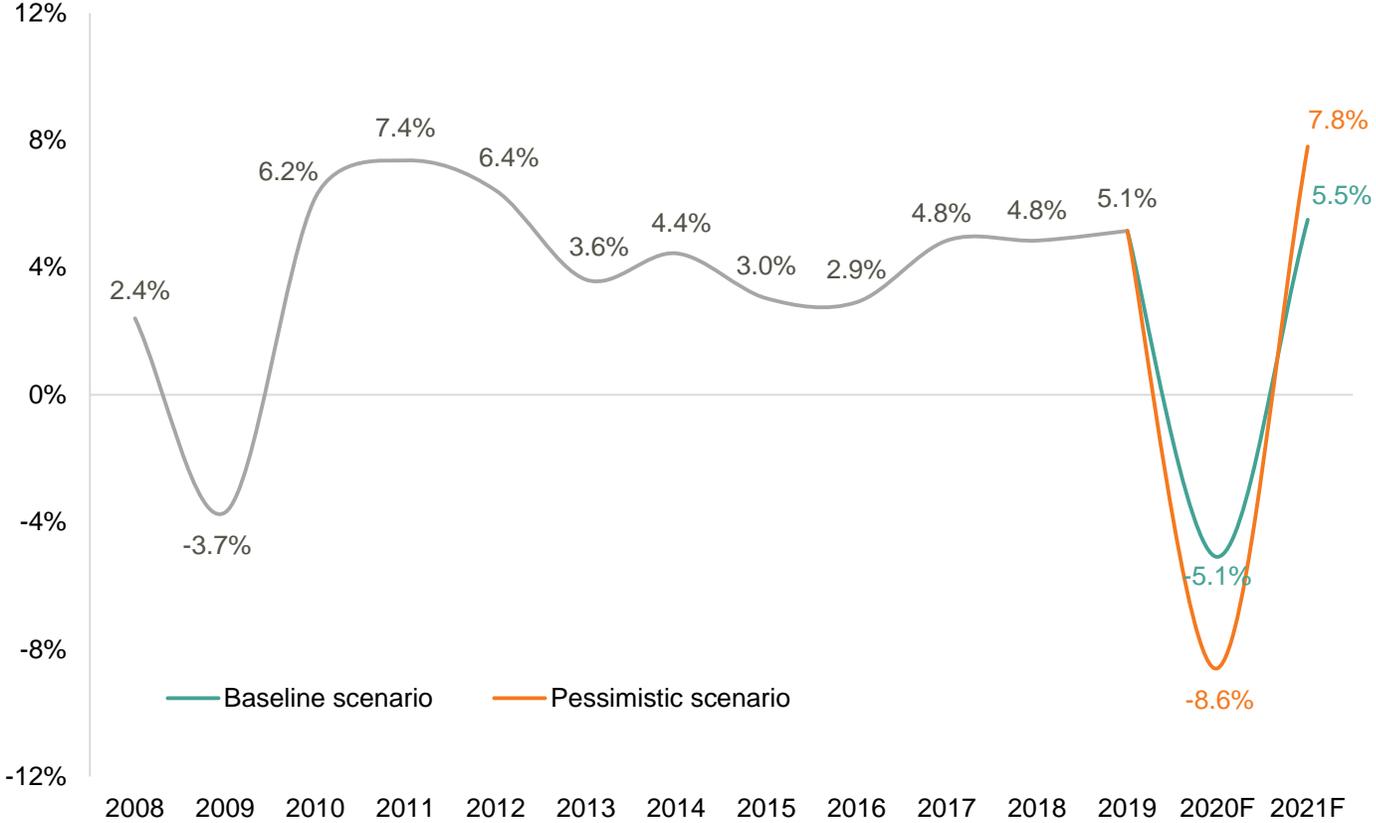
Source: MOF

- Current expenditures grew by an average 25% y/y, while capital expenditures and net lending increased by 6.3% in June-August 2020
- Overall, capex & net lending increased by 4.8% y/y (51.9% of the annual plan) in 8M20



Georgia's GDP growth forecast in 2020-2021

Georgia's economic growth forecast



Source: Geostat, Galt & Taggart

Baseline scenario, 2020
assumes no re-imposition of lockdown measures

Pessimistic scenario, 2020
assumes strict lockdown measures



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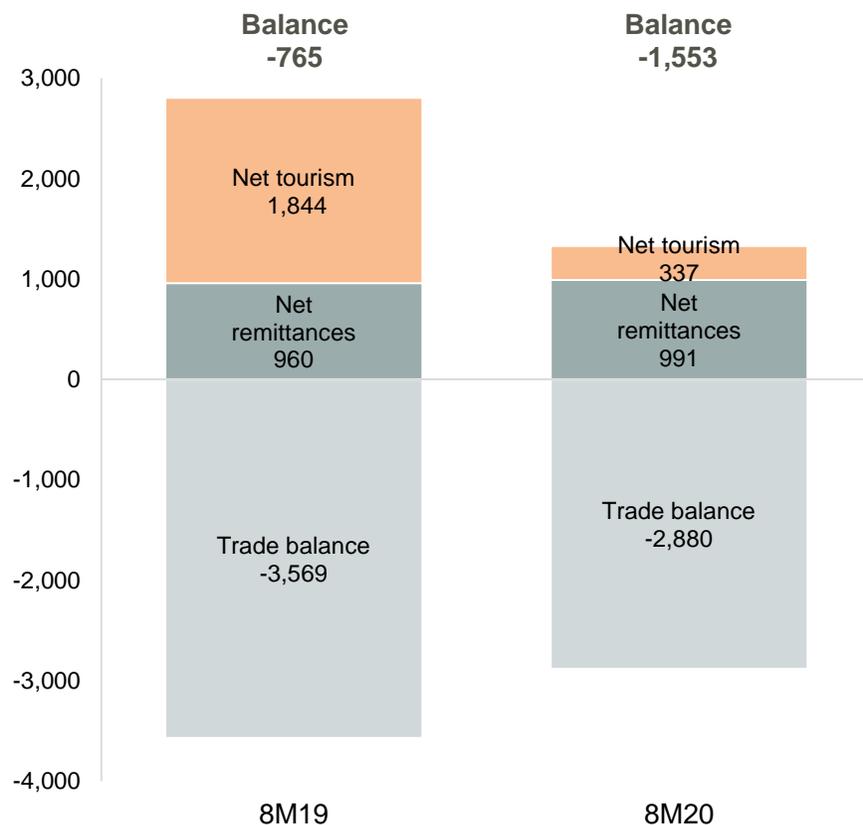
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External balance deteriorated by \$787mn in 8M20 as tourism vanished

Major categories of external balance US\$ mn



Source: NBG, Geostat

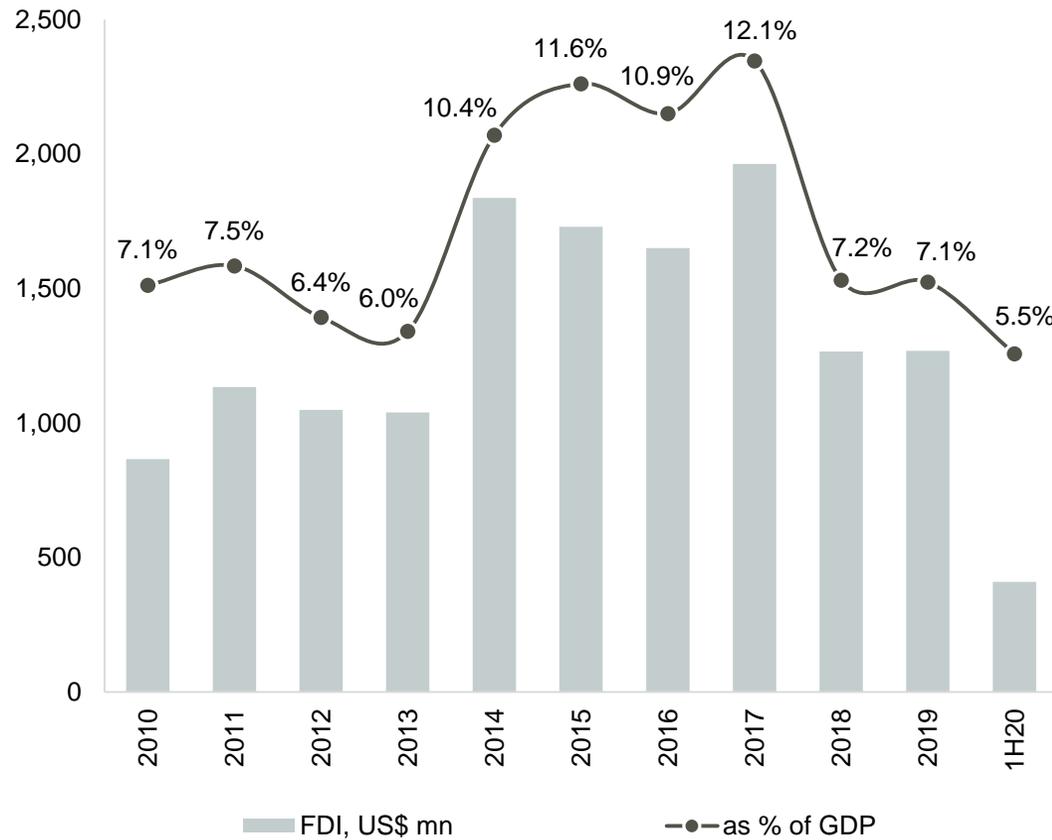
January – August 2020:



Source: NBG, Geostat

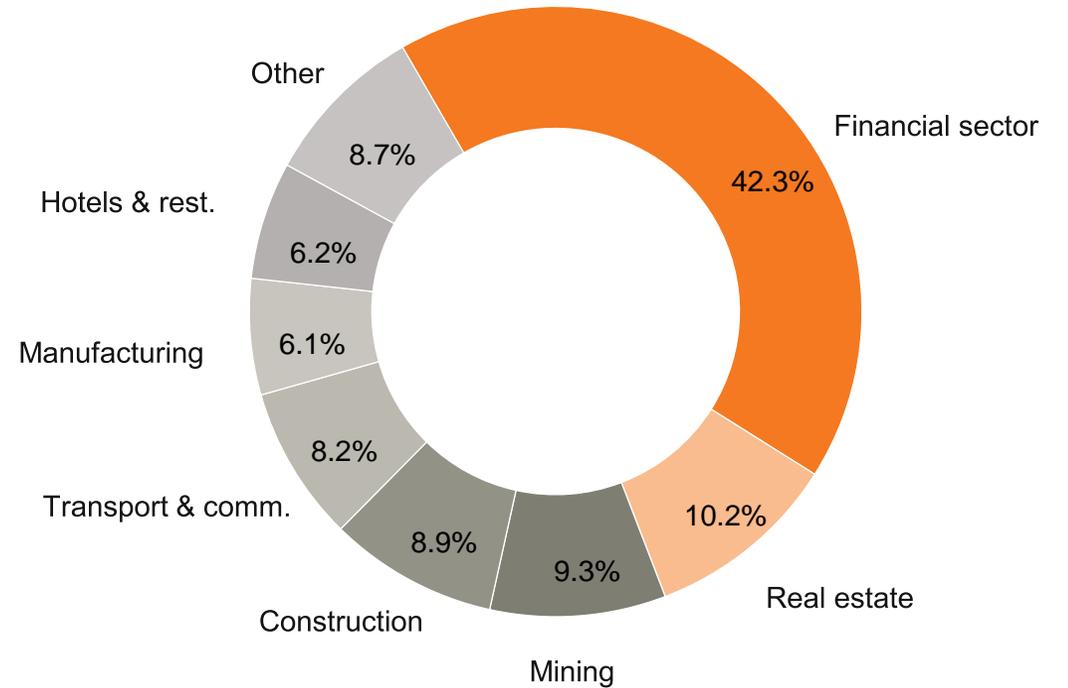
FDI down 26% y/y in 1H20

Foreign direct investment in Georgia



Source: Geostat

FDI by sector in 1H20, share in total



Source: Geostat



Azerbaijan and Armenia accounted for 8.1% and 4.3% total foreign inflows, respectively, in 8M20

Georgia's economic linkages by country, January-August 2020 (share in total foreign inflows)

	Exports	Tourism	FDI	Remittances	Total
EU	21.8%	11.5%	69.3%	42.0%	31.0%
Russia	12.8%	18.7%	3.4%	19.4%	14.4%
Azerbaijan	13.7%	7.9%	-4.7%	2.6%	8.1%
Turkey	6.3%	17.7%	10.8%	5.9%	8.0%
China	14.3%	0.5%	0.6%	0.1%	7.4%
Ukraine	5.9%	4.6%	1.3%	3.9%	4.7%
Armenia	5.9%	8.9%	0.8%	0.7%	4.3%
Other countries	19.2%	30.2%	18.5%	25.6%	22.2%

Source: Geostat, NBG, GNTA, Galt & Taggart

Note: FDI data is given as of 1H20. Negative investment means a sale of shares or distributed profit.



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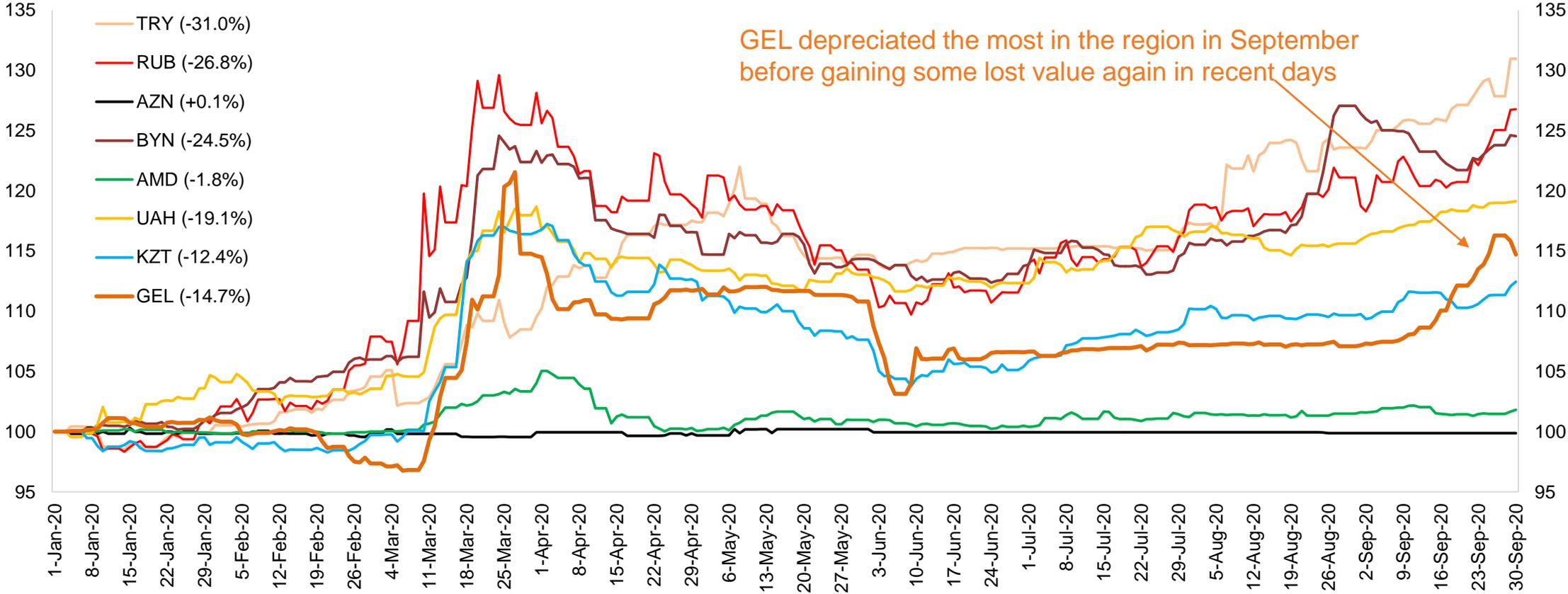
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GEL's recent weakness reflects deterioration of fundamentals and increased uncertainty

GEL and regional currencies against US\$, index (1 January 2020 = 100)

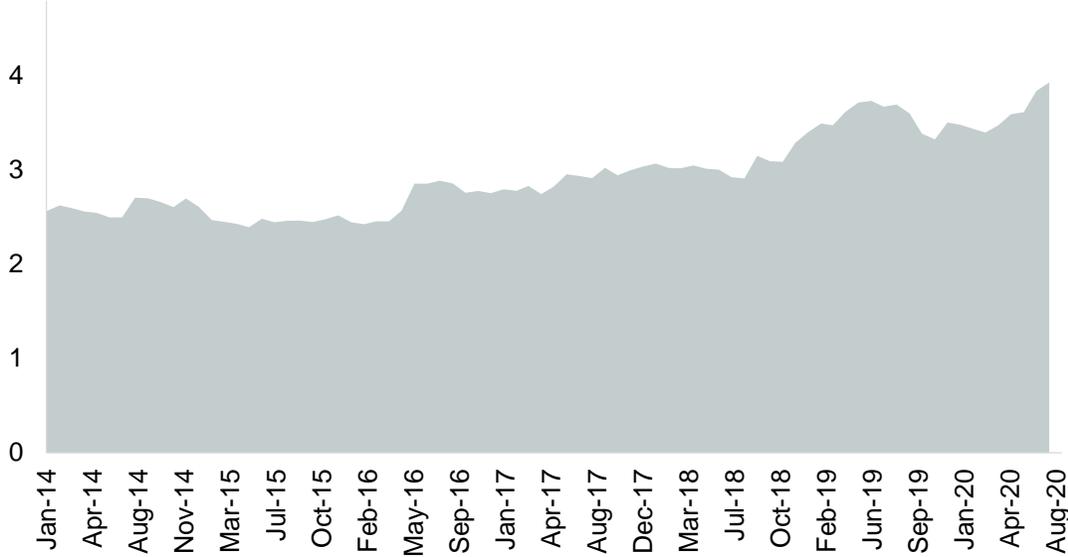


Source: Central Banks
 Note: minus means depreciation, period 1 January - 30 September, 2020



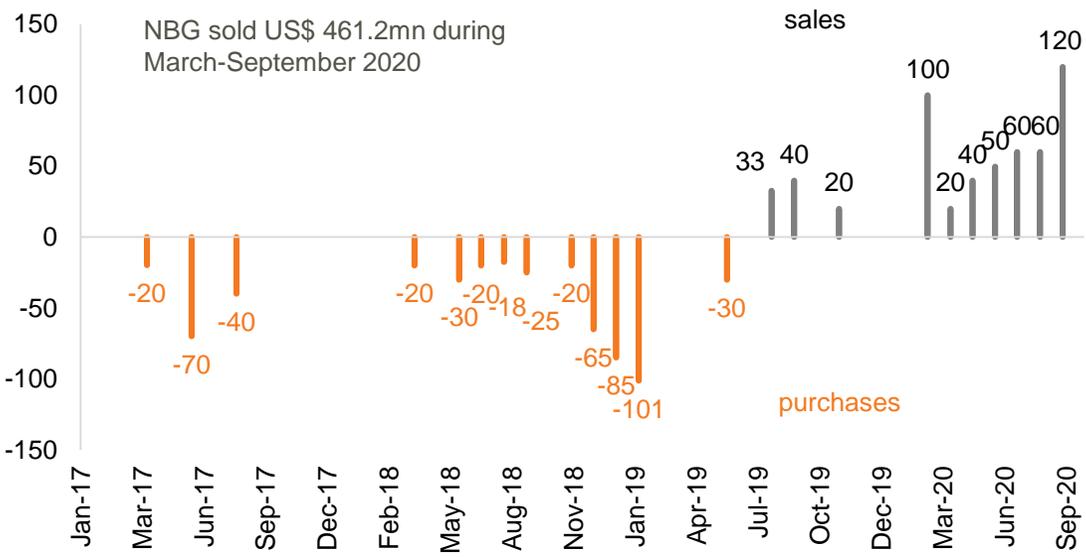
International reserves are growing despite NBG interventions

Gross international reserves, US\$ bn



Source: NBG

NBG's interventions, US\$ mn



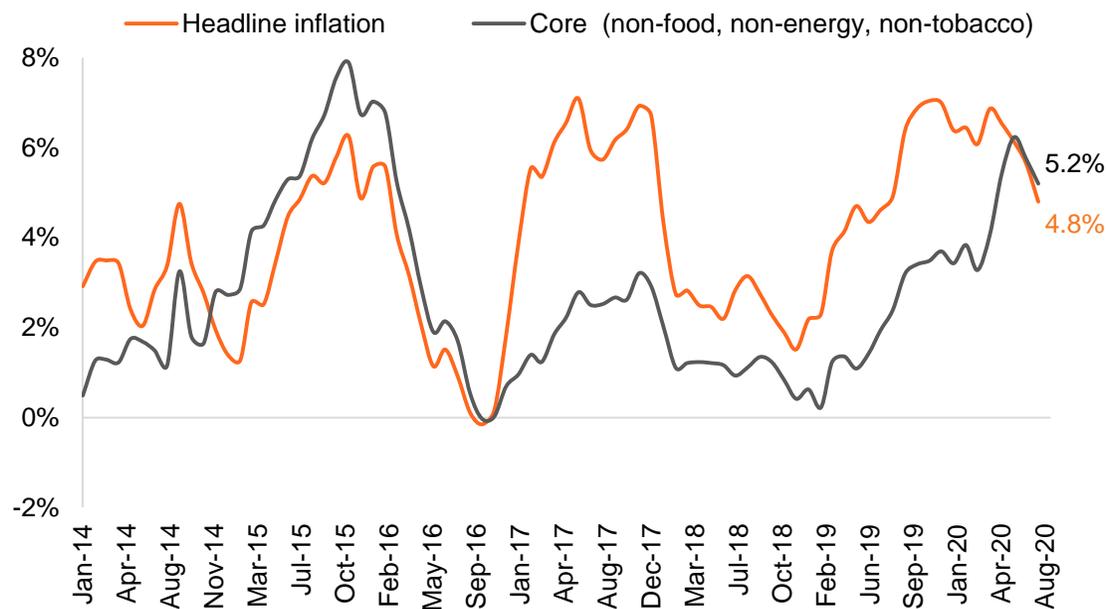
Source: NBG

- NBG's reserves increased by 6.4% y/y to US\$ 3.9bn in Aug-20. Moreover, the monthly increase in reserves in July and August were US\$ 224.3mn and US\$ 91.6mn, respectively, attributed to the disbursement of donor funding
- NBG sold US\$ 461.2mn through FX interventions in March-September 2020
- NBG will sell over US\$ 200mn through year-end.



Average annual inflation expected at 5.2% in 2020; NBG kept monetary policy rate unchanged at 8.0% in September

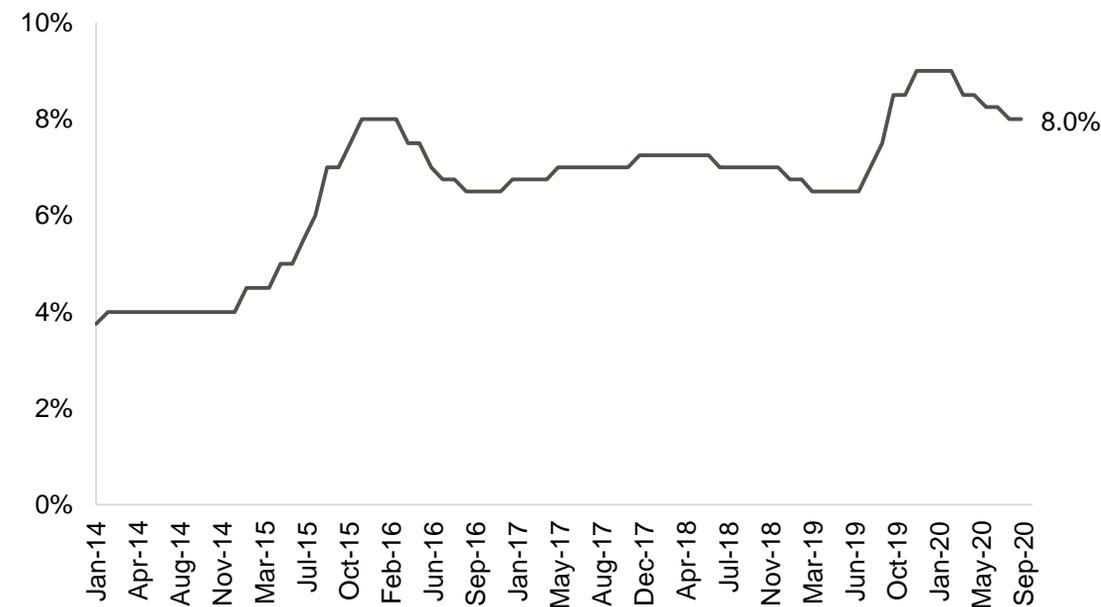
Annual inflation



Source: NBG

- Annual inflation reduced by 0.9ppts to 4.8% in Aug-20
- We forecast average annual inflation at 5.2% in 2020.

Monetary policy rate



Source: NBG

- NBG decided to keep its key rate unchanged at 8.0% in September due to increased volatility in FX markets
- According to the NBG, inflation will continue to decline throughout the year, fall below the target level in 1H21 and then approach it from below.



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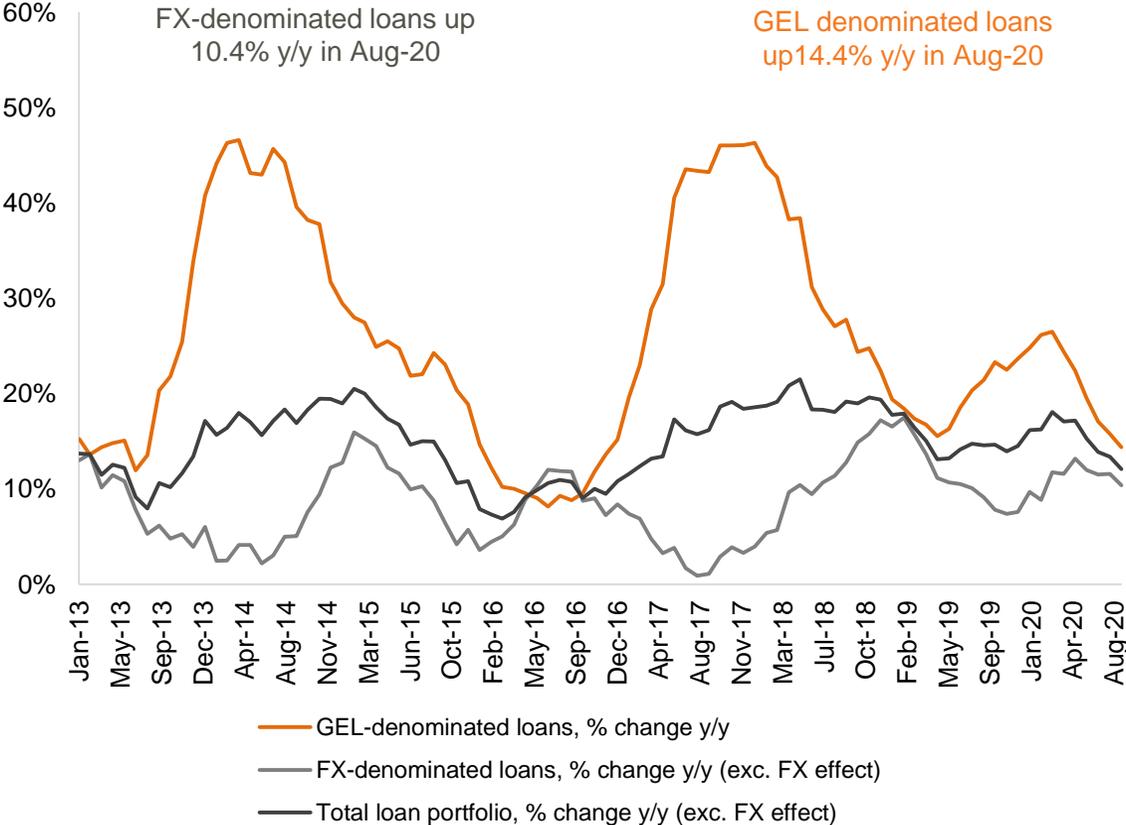
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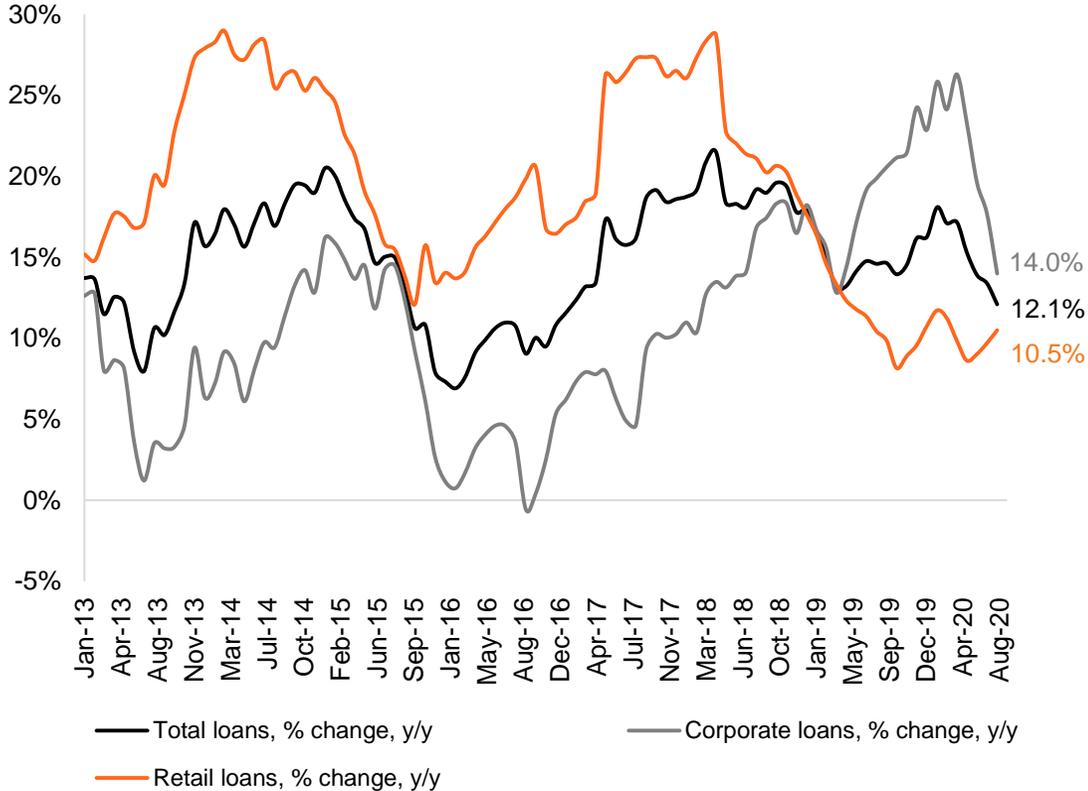
Bank loan portfolio growth is above 10% (excluding FX effect)

Bank loan portfolio growth



Source: NBG

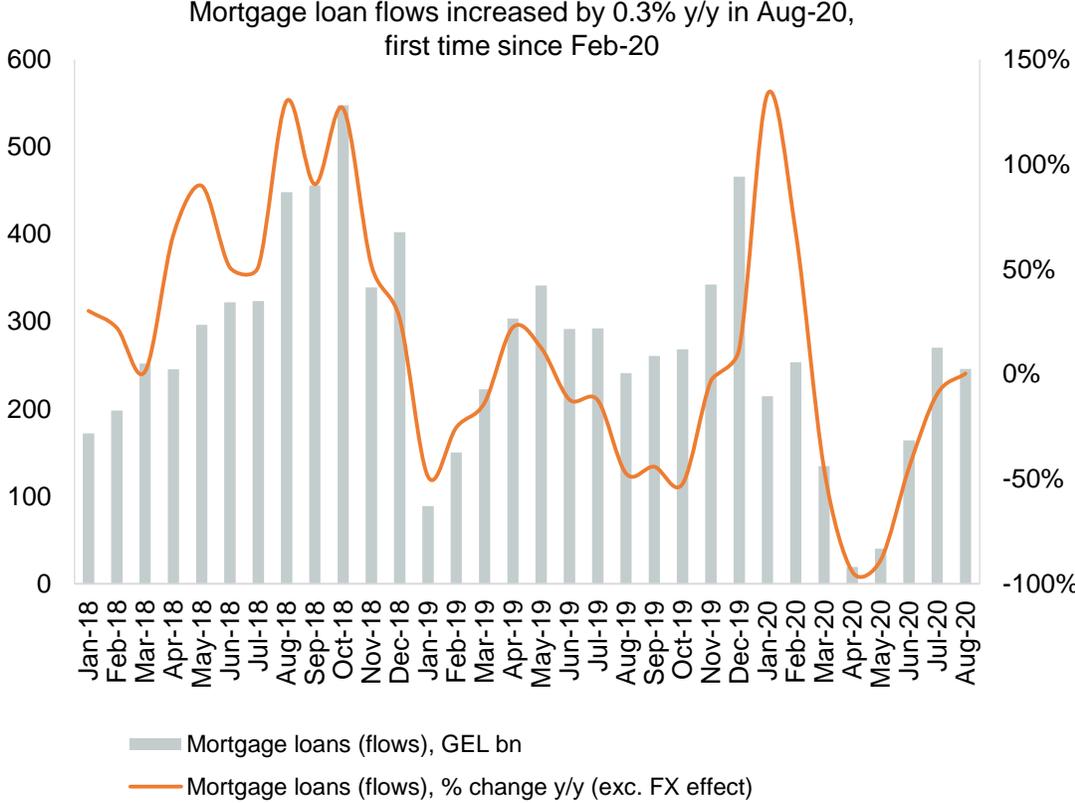
Retail & corporate loans growth (exc. FX effect)



Source: NBG

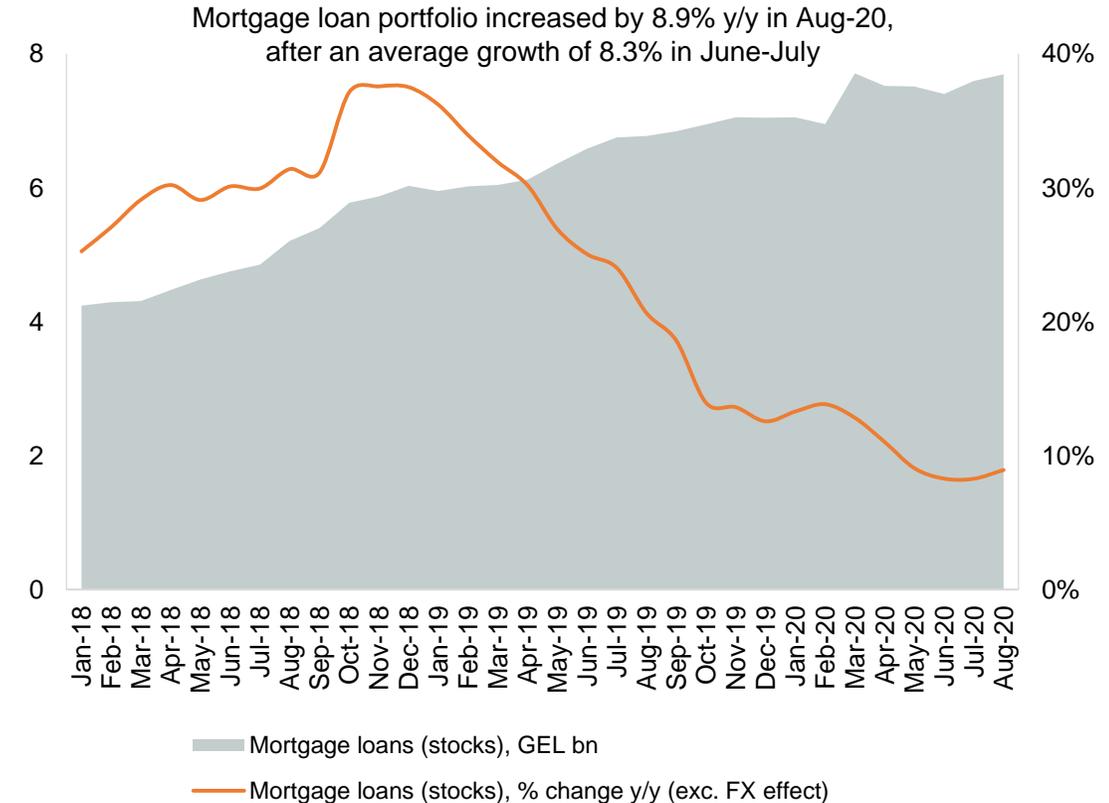
Demand for mortgage loans has increased supported by the government subsidy program

Mortgage loans (flows)



Source: NBG

Mortgage loans (stocks)

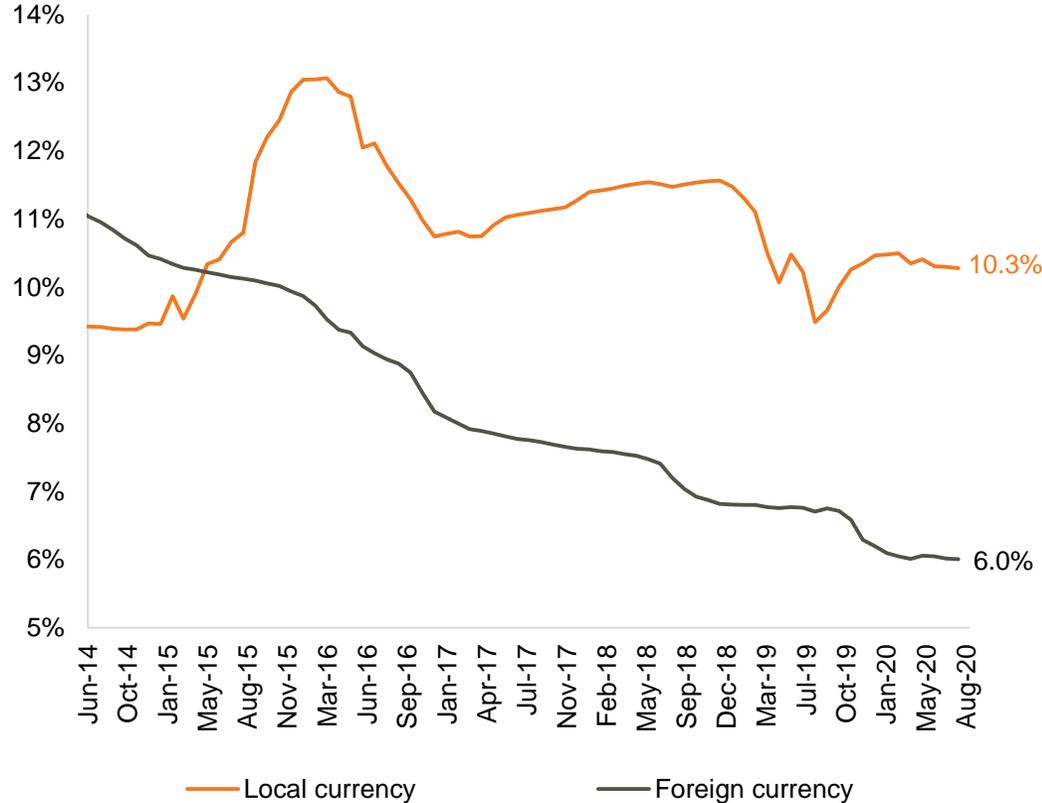


Source: NBG



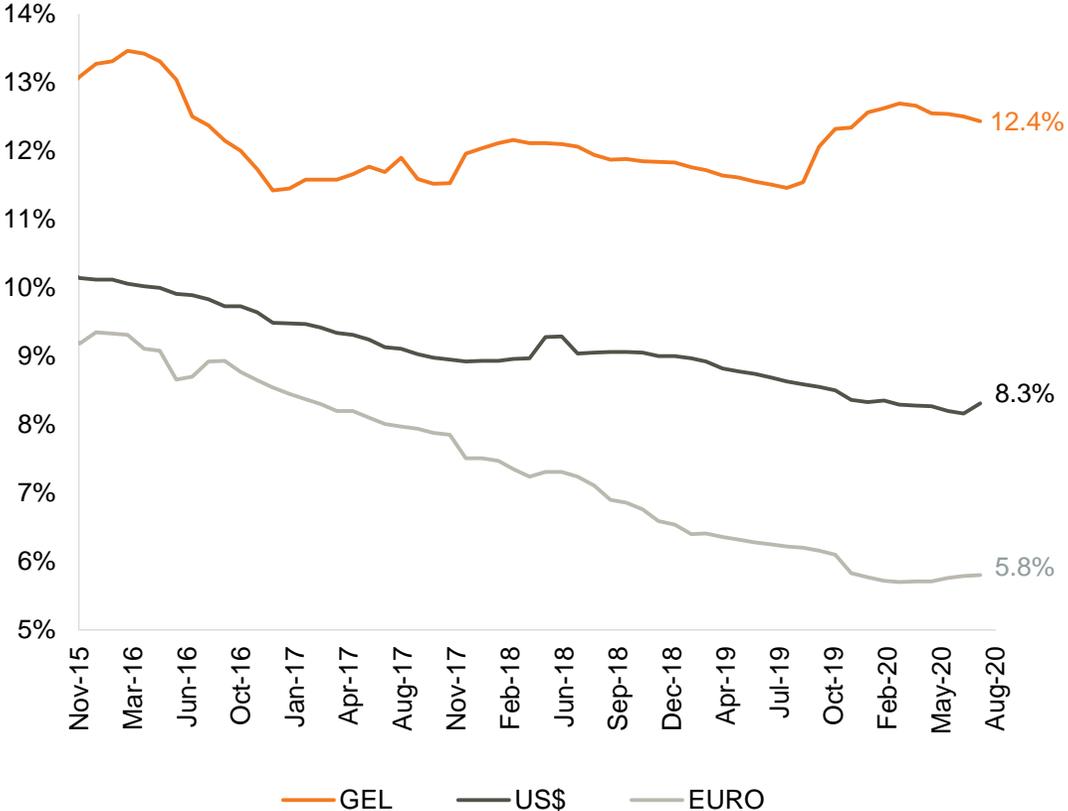
Changes in interest rates on GEL loans are not expected through 2020

Interest rates on mortgages



Source: NBG

Interest rates on loans to legal entities

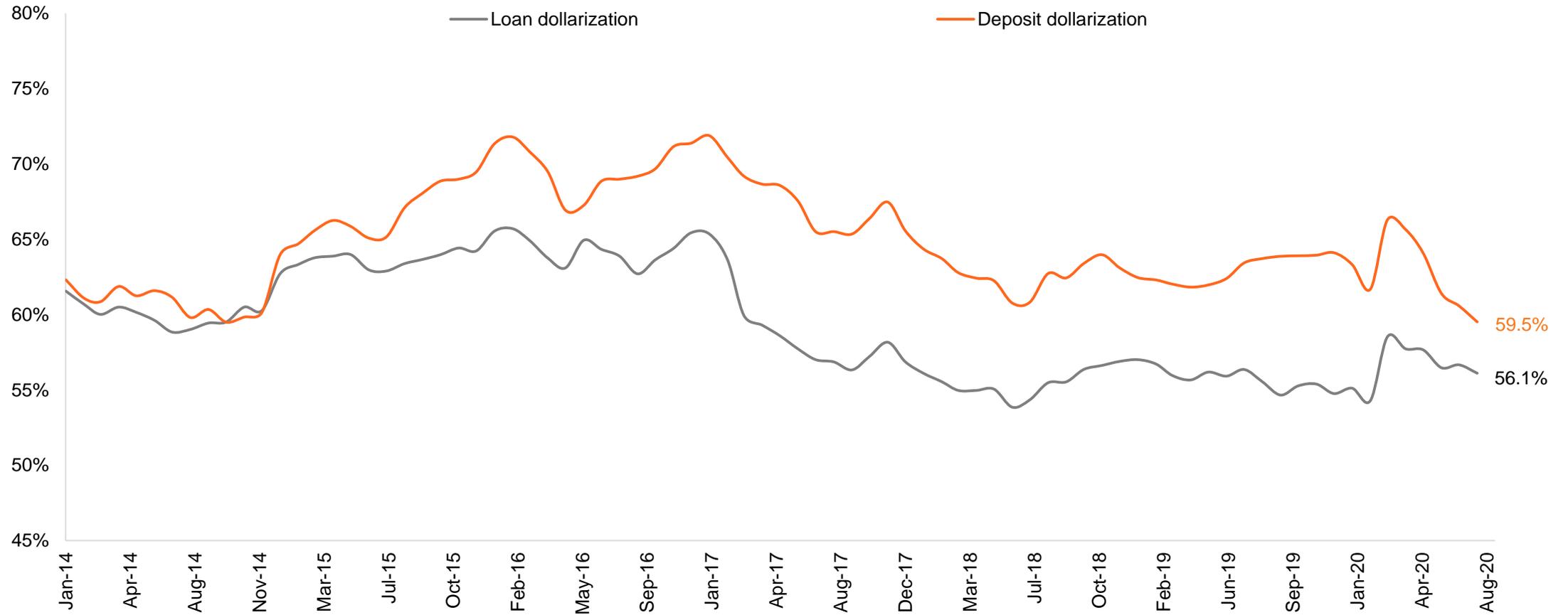


Source: NBG



Dollarization has declined since the peak in March 2020

Loan and deposit dollarization



Source: NBG

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Conclusion

GDP

- We forecast 5.1% economic contraction in 2020, in our baseline scenario.
- In 8M20, Georgia's real GDP decreased by 5.6% y/y. Since June, economic recovery is in line with expectations, but risks also rose.
- Fiscal stimulus is supporting recovery and solid fiscal buffers will also help the economy in 1H21.

Inflation

- Average annual inflation is expected at 5.2% in 2020.
- In August 2020, annual inflation came in at 4.8%. In the coming months slowdown in inflation will be supported by last year's high base.

GEL/\$

- GEL/US\$ average exchange rate expected in the range of 3.1-3.2 through end of 2020.
- NBG will sell over US\$ 200mn through year-end.

Refinancing rate

- YTD, NBG has cut monetary policy rate by 100bps to 8.0%.
- Further easing of monetary policy will depend on the situation in FX markets.

Bank loans

- Bank loan portfolio is expected to grow by 5-10% by the end of 2020.
- In Aug-20, bank loans increased by 12.1% y/y (exc. FX effect).
- Retail lending recovered driven by mortgages, supported partly by the government's loan subsidy program.

Risks

- COVID-19 pandemic
- Ongoing conflict between Armenia and Azerbaijan
- If this conflict continues, it will deteriorate Georgia's economic recovery in 2021.





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