



**GALT & TAGGART**

CREATING OPPORTUNITIES



# Macroeconomic overview - Georgia

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15 February 2021

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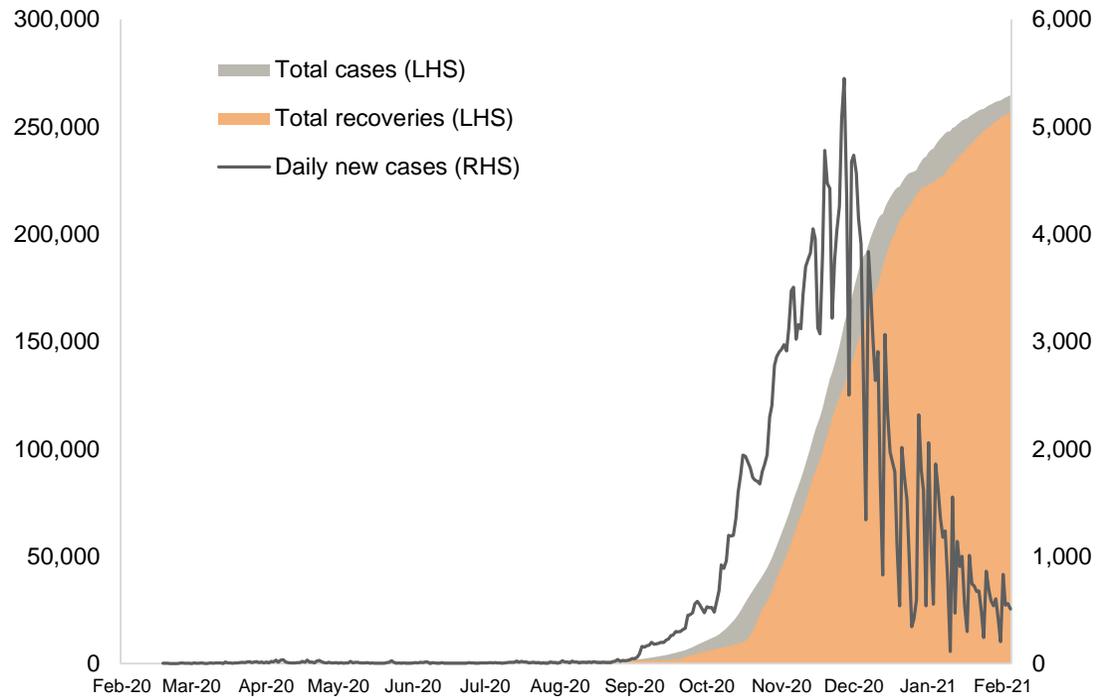
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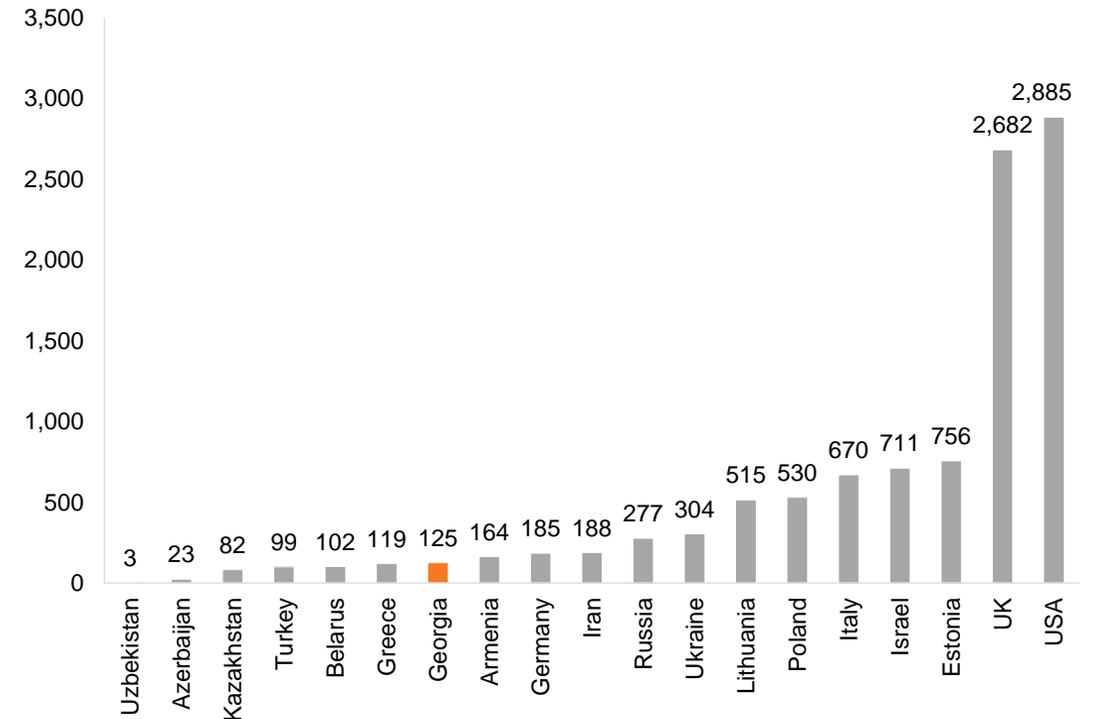
# Gradual easing of restrictions started on 1 February 2021, though COVID-19 remains a major challenge

## COVID-19 statistics in Georgia, persons



Source: NCDC, as of 12.02.2021

## Active COVID-19 cases per 100,000 persons



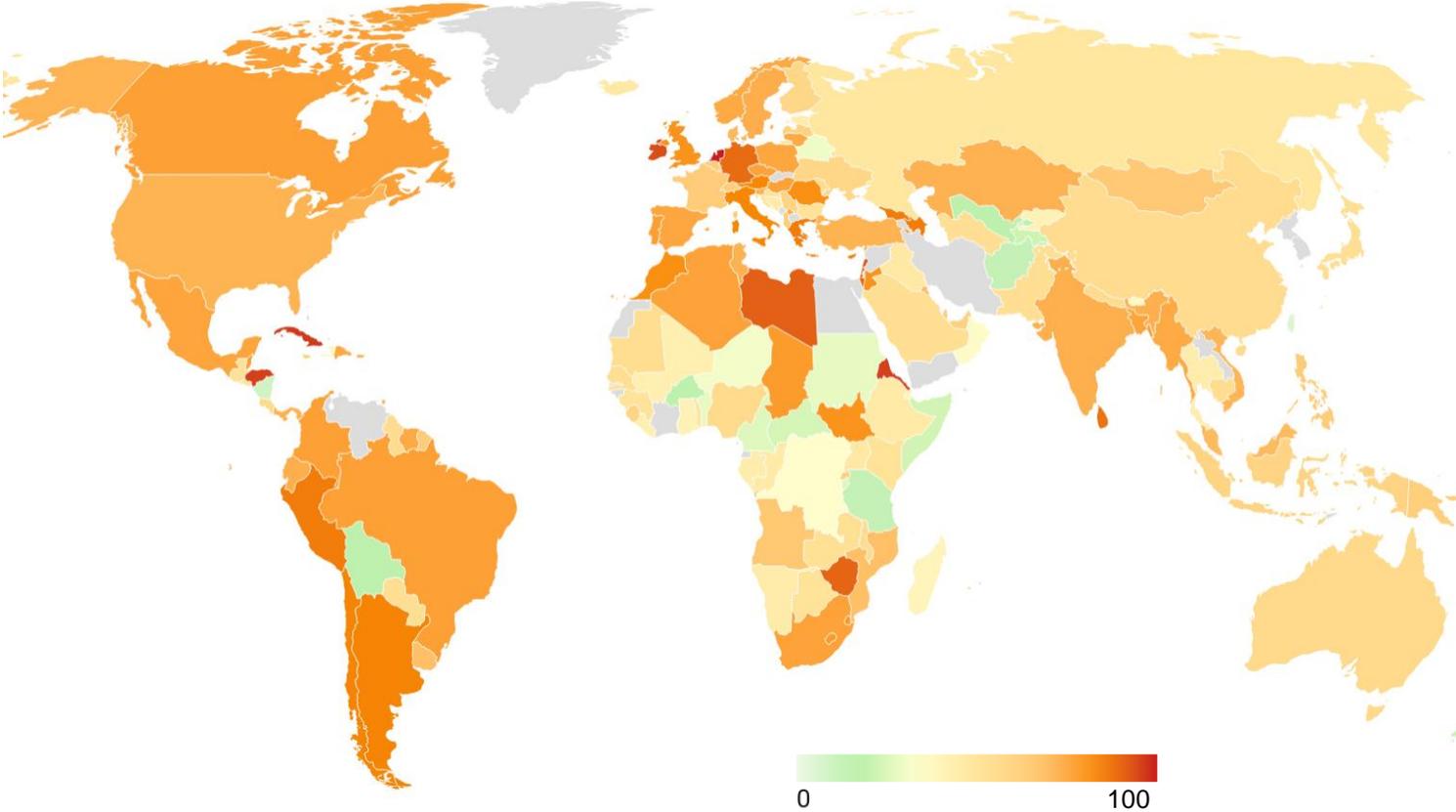
Source: Johns Hopkins University, as of 12..02.2021



# Georgia ranks 15th out of 184 countries in terms of strictness of COVID restrictions

## COVID-19 Government Stringency Index - (100 score = strictest)

Countries	Position out of 184 countries	Score (0-100)
Cube	1	90.7
Ireland	4	88.0
Germany	12	83.3
Cyprus	15	80.6
Azerbaijan	15	80.6
<b>Georgia</b>	<b>15</b>	<b>80.6</b>
Romania	26	76.9
Poland	45	71.3
Turkey	51	69.4
Kazakhstan	57	68.5
Lithuania	63	66.7
Israel	71	63.0
Latvia	89	56.5
Ukraine	95	54.6
Russia	127	45.8
Estonia	139	41.7
Belarus	163	27.8



Source: Oxford COVID-19 Government Response Tracker. OurWorldInData.org, as of 15.02.2021. 100 score = strictest  
 Note: The index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans and it does not measure or imply the appropriateness or effectiveness of a country's response

# Vaccination has started in more than 75 countries (up to 200mn people in total), including neighboring countries

## COVID vaccination statistics worldwide

Top 10 countries	Vaccinated population, %
Israel	40.3%
Seychelles	39.3%
UK	19.5%
Bahrain	14.3%
USA	10.5%
Serbia	7.6%
Malta	6.3%
Chile	5.9%
Maldives	5.4%
Slovakia	3.7%
<b>Neighboring countries</b>	
Turkey	3.5%
Russia	1.5%

Source: Bloomberg, as of 10.02.2021

## Vaccination process in Georgia

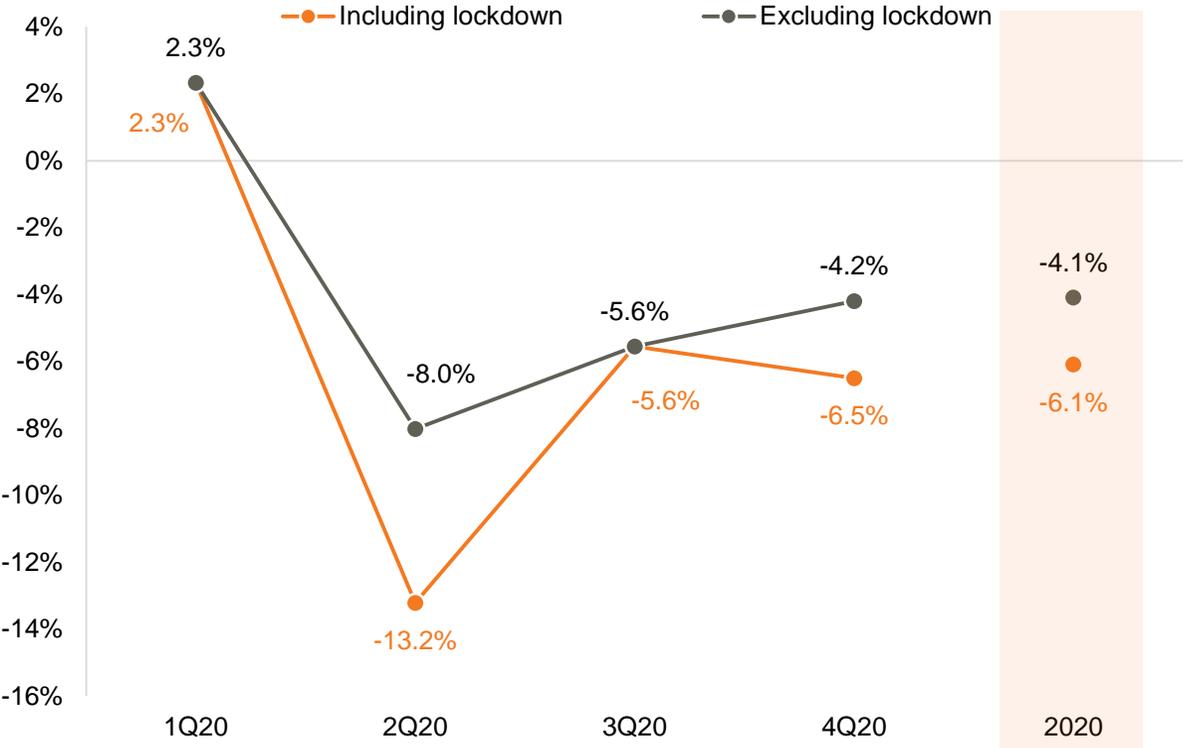
- A total of 3,979,327 doses are needed to cover approx. 60% of the adult population
- Georgia has a guarantee to receive 1,484,400 vaccine doses from the COVAX platform during 2021. An additional 2,494,927 doses are expected to come from alternative sources
- The cost of vaccination is estimated in the range of GEL 64-160mn.

Source: Georgia's national COVID-19 vaccination plan, approved by the government on 21 January 2021, government decree #67



# Georgia's economy contracted by 6.1% in 2020, with the biggest hit to tourism. The economy lost an additional GEL 1.0bn as a result of two lockdowns

## Real GDP growth: lockdown vs. without lockdown



Source: Geostat, Galt & Taggart

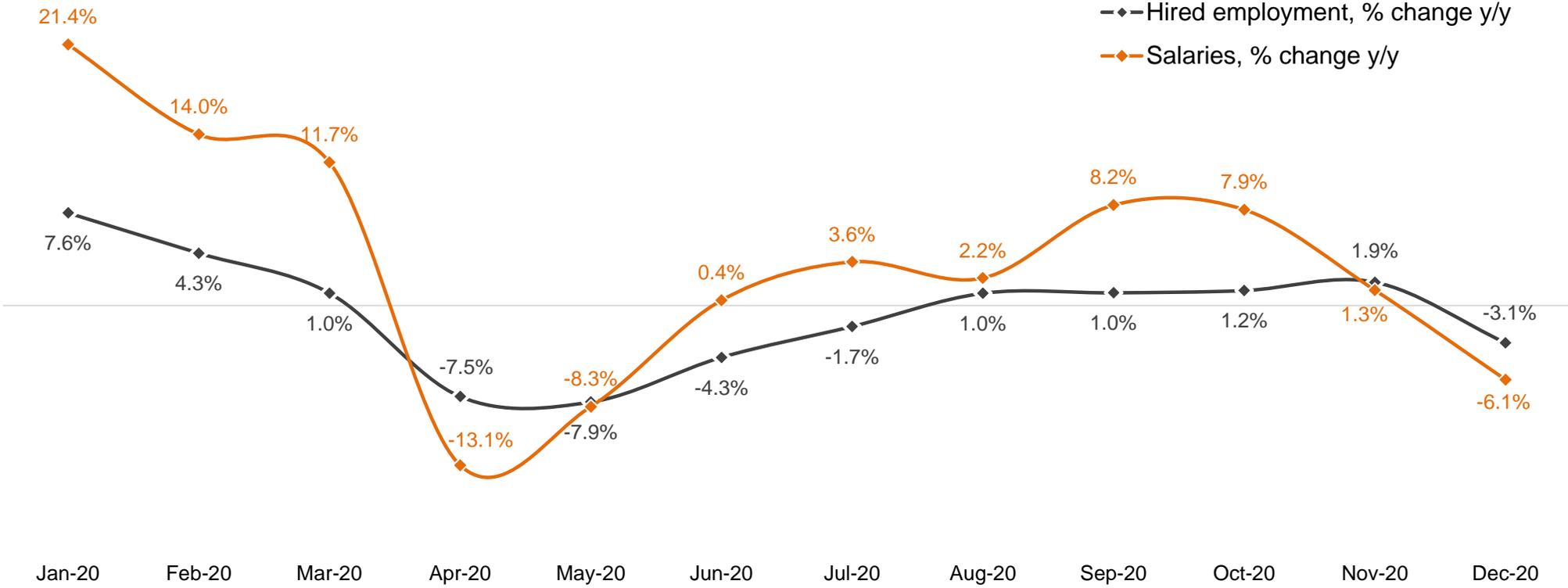
## What is the cost of the lockdown?

- According to our estimates, the average daily loss of the economy due to the lockdown is GEL 16mn
- The total loss in 2020 was GEL 1.0bn.



# Wages and employment were reduced during the lockdown periods

## Hired employment and paid salaries



Source: Revenue Service

# Remittances increased in 2020, the trade balance improved, and tourism was minimal since April 2020

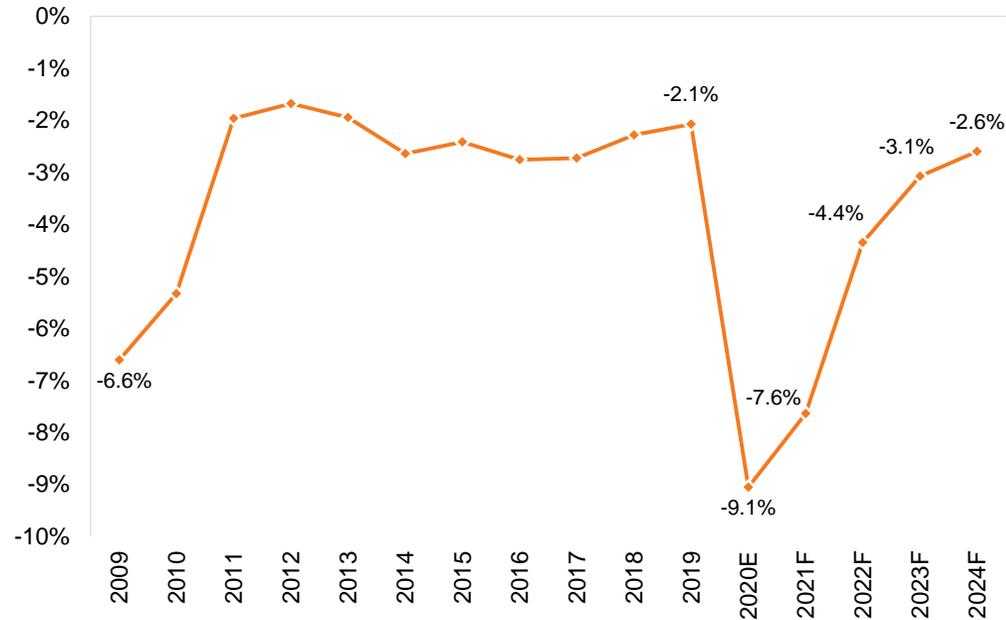


Source: Geostat, NBG



# Fiscal stimulus remains central for economic recovery in 2021

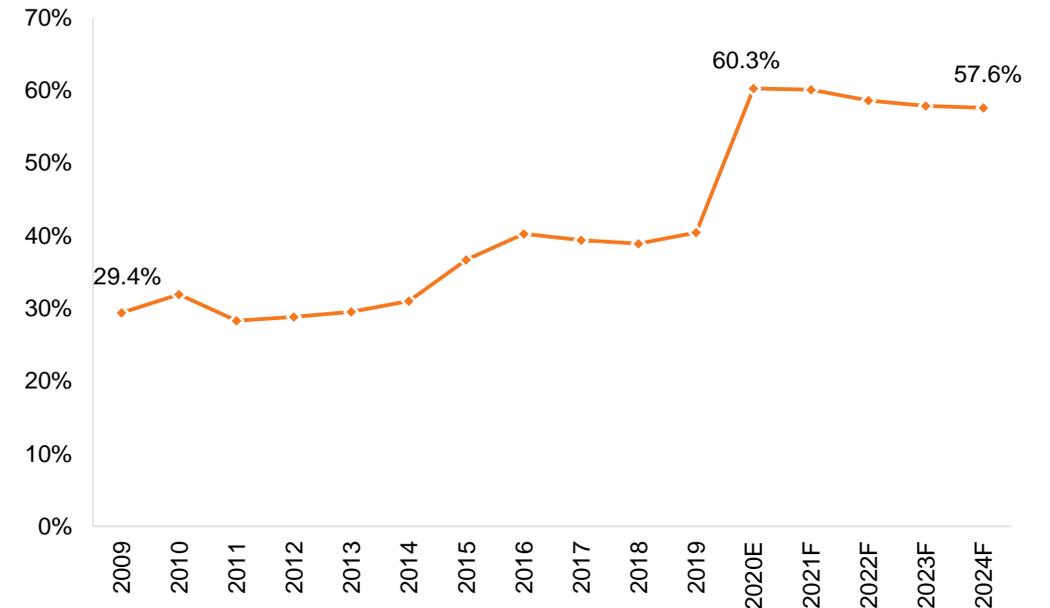
## Fiscal deficit, as % of GDP



Source: MOF

- Government anti-crisis spending (healthcare, business and household assistance) amounted to 4% of GDP (GEL 2bn) in 2020
- In 2021, anti-crisis spending is planned at 2.1% of GDP (GEL 1.1bn)
- Infrastructure projects are planned at a record high in 2021 (GEL 4.3bn).

## Government debt, as % of GDP



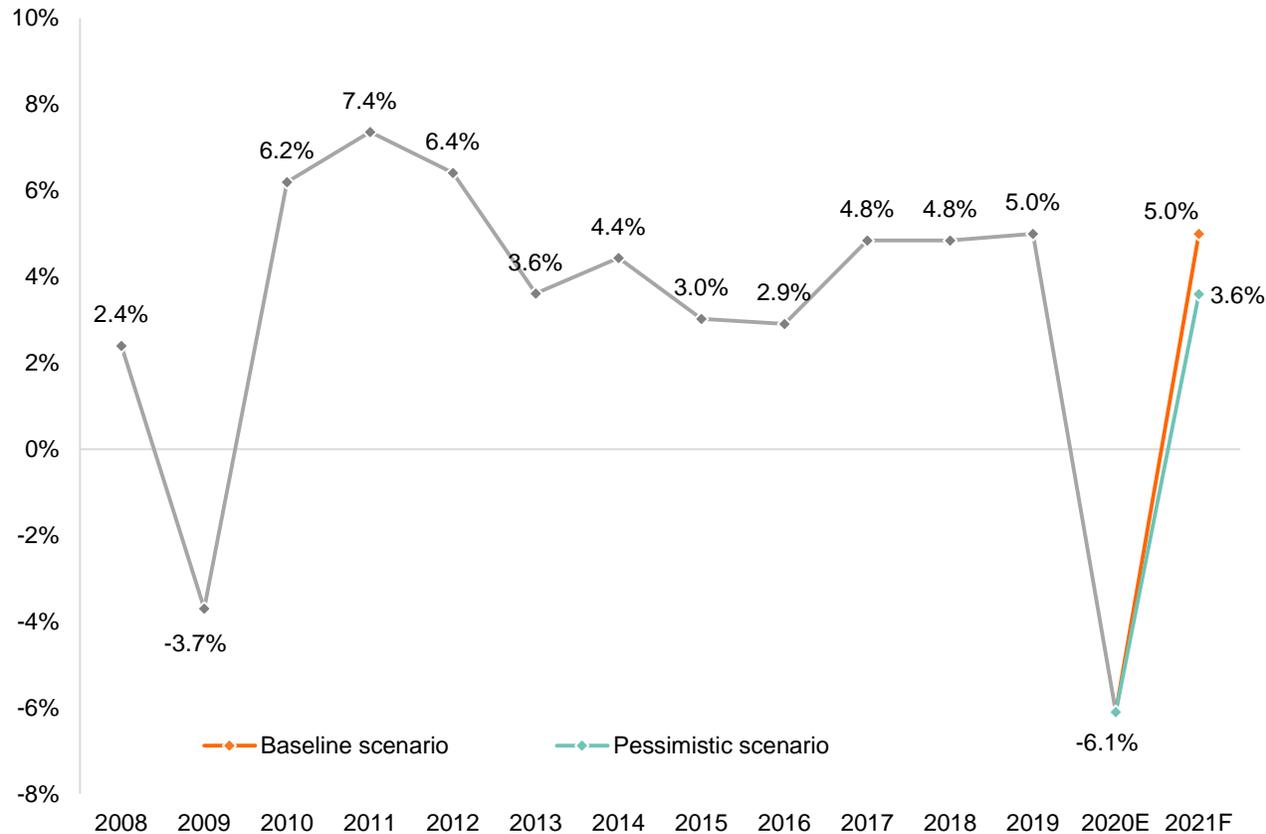
Source: MOF

- In 2020, government's total debt increased by GEL 9.7bn y/y to 60.3% of GDP according to preliminary data
- In 2021, the government plans to refinance 500mn Eurobonds
- Returning fiscal parameters to pre-pandemic levels in the medium term is a major challenge.



# Georgia's GDP growth forecast in 2021

## Georgia's economic growth forecast



Source: Geostat, Galt & Taggart

### Baseline scenario, 2021

Assumes tourism gradually to recover in 2H21 and tourism revenues expected at US\$ 1.2bn (36% of 2019 level)

Growth will also be driven by fiscal stimulus, bank lending and remittances.

### Pessimistic scenario, 2021

Assumes that the tourism sector will not recover. In this case, we assume that additional fiscal stimulus will be needed.

Note: These scenarios do not assume further strict lockdown measures.



# Expectations on economic sectors

## Fast growing sectors in the baseline scenario

Trade

Construction

Hotels/restaurants

Transport

Financial sector

Manufacturing

Agriculture



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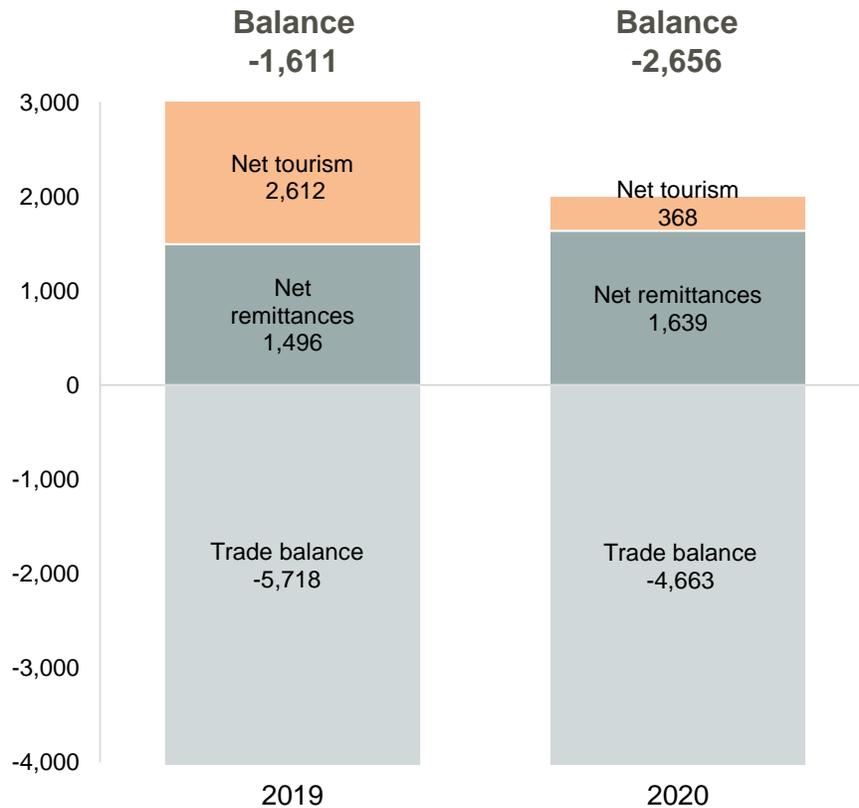
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# External balance deteriorated by USD 1,045mn in 2020

## Major categories of external balance, US\$ mn



Source: NBG, Geostat, Galt & Taggart

## Change in 2020



Source: NBG, Geostat, Galt & Taggart



# As imports fell more than exports, the trade balance improved by US\$ 1.1bn in 2020

## Goods exports

	2019	2020	% change y/y
<b>Total exports</b>	<b>3,798</b>	<b>3,342</b>	<b>-12.0%</b>
Copper	649	729	12.3%
Cars	733	404	-44.9%
Ferro-alloys	303	247	-18.5%
Wine	223	210	-5.6%
Spirits	127	132	3.8%
Mineral waters	134	117	-12.7%
Pharmaceuticals	172	99	-42.6%
Gold	73	98	34.0%
Nut	67	94	40.9%
Precious metals	11	90	+8.2x
Others	1,306	1,122	-14.2%

Source: Geostat

## Goods imports

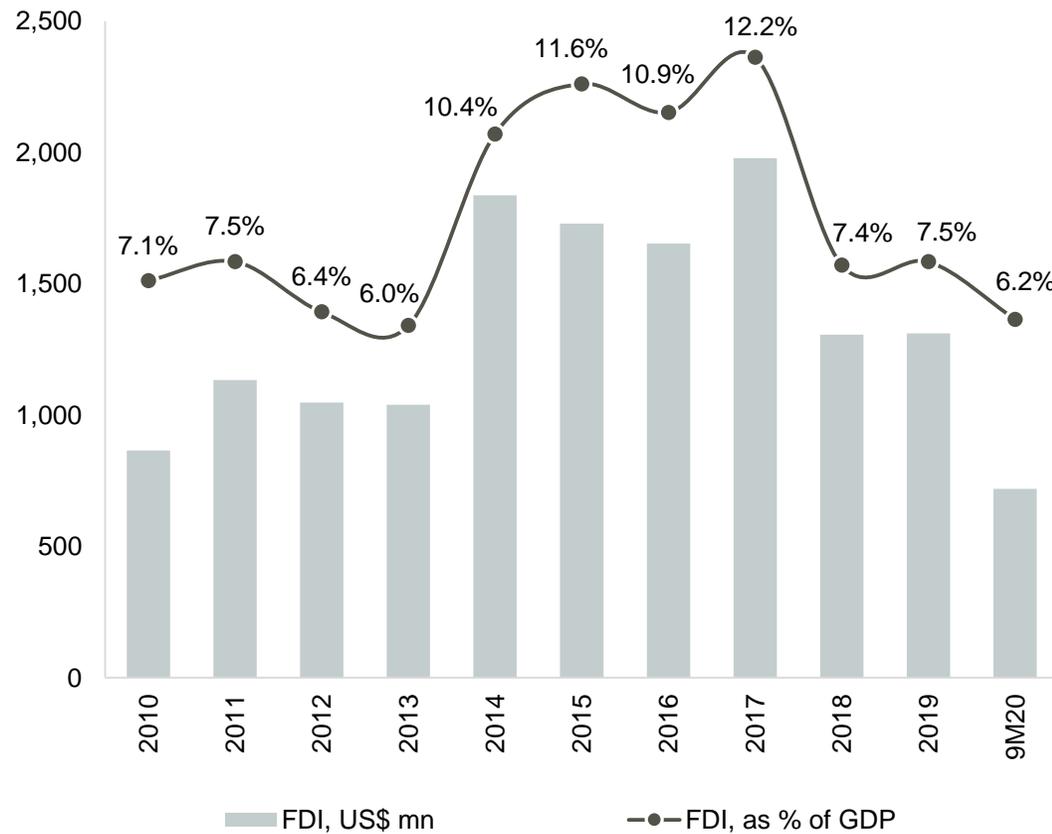
	2019	2020	% change y/y
<b>Total imports</b>	<b>9,517</b>	<b>8,006</b>	<b>-15.9%</b>
Cars	1,108	759	-31.4%
Copper	604	533	-11.6%
Oil	757	498	-34.2%
Pharmaceuticals	355	327	-7.9%
Gases	328	295	-10.2%
Telephones	212	165	-22.3%
Wheat	109	108	-0.9%
Tobacco	105	89	-15.4%
Precious metals	6	77	+12.1x
Trucks	72	72	-0.4%
Others	5,860	5,082	-13.3%

Source: Geostat



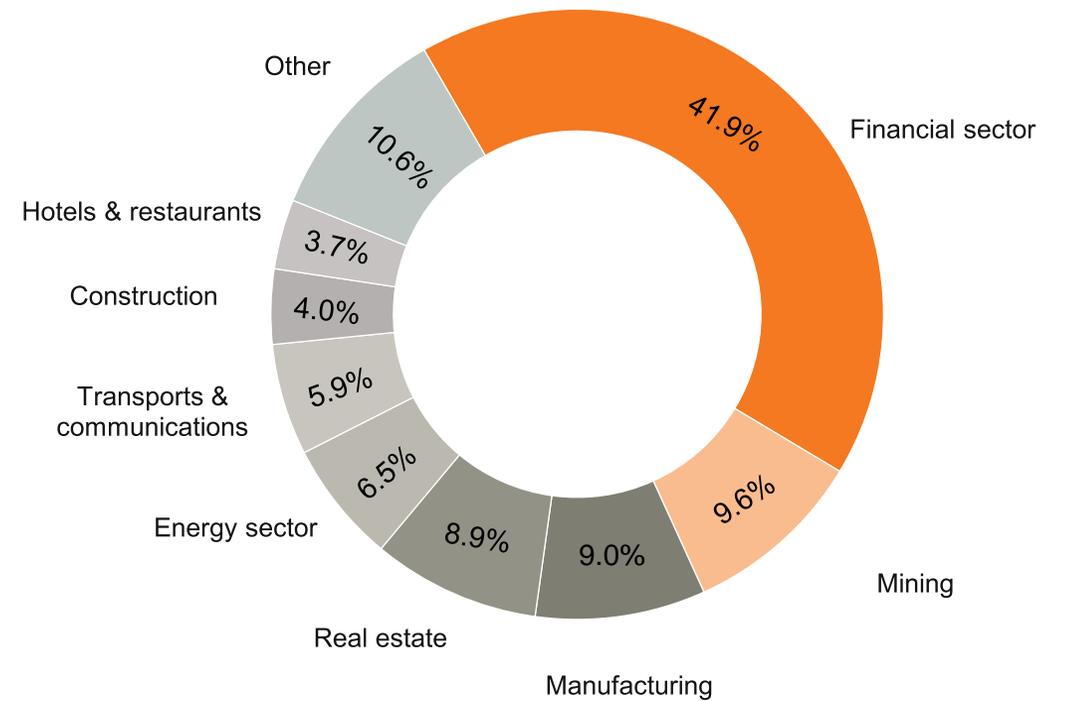
# FDI inflows decreased by 24% y/y in 9M20

## Foreign direct investment in Georgia



Source: Geostat

## FDI by sector in 9M20, share in total



Source: Geostat



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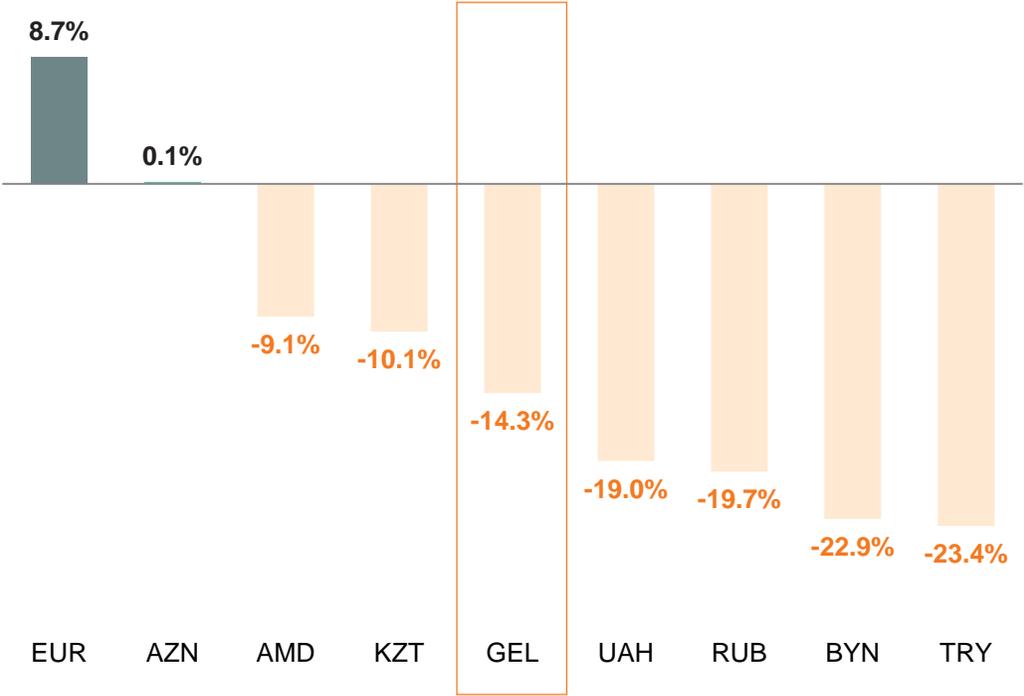
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# GEL depreciated by 14.3% vs dollar in 2020

## GEL and regional currencies against US\$



Considering the gradual resumption of tourism, we expect the GEL to strengthen to 3.15-3.2 vs dollar

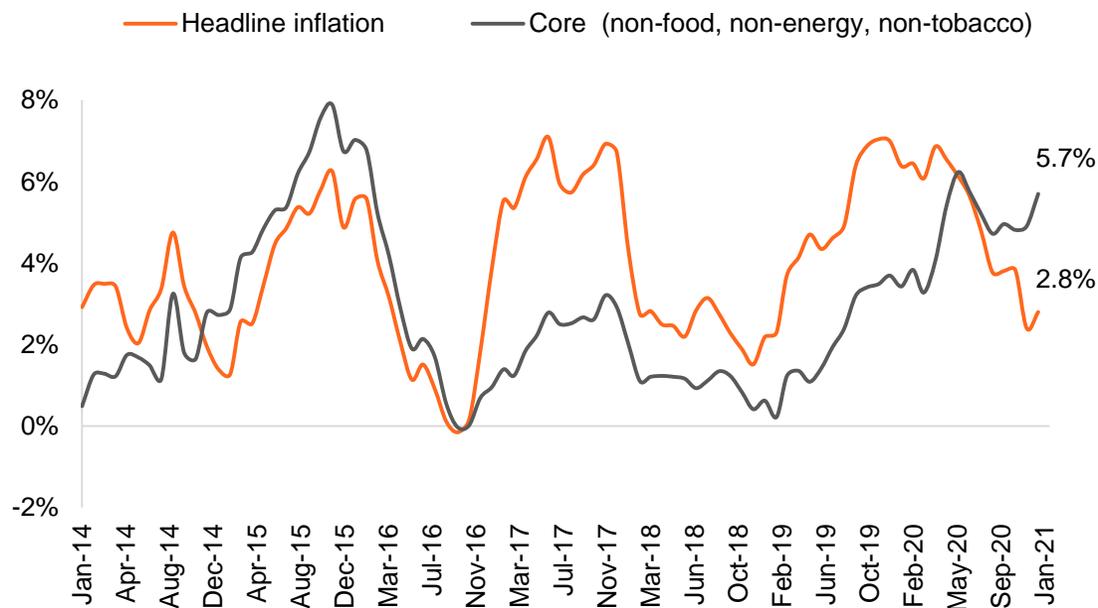
In pessimistic scenario, we expect GEL/US\$ in the range of 3.3-3.4

Source: Central banks  
Note: +/- means depreciation/appreciation, period 1 January – 31 December, 2020



# Average annual inflation expected at 4.5% in 2021; NBG's monetary policy rate is unchanged at 8.0% since August 2020

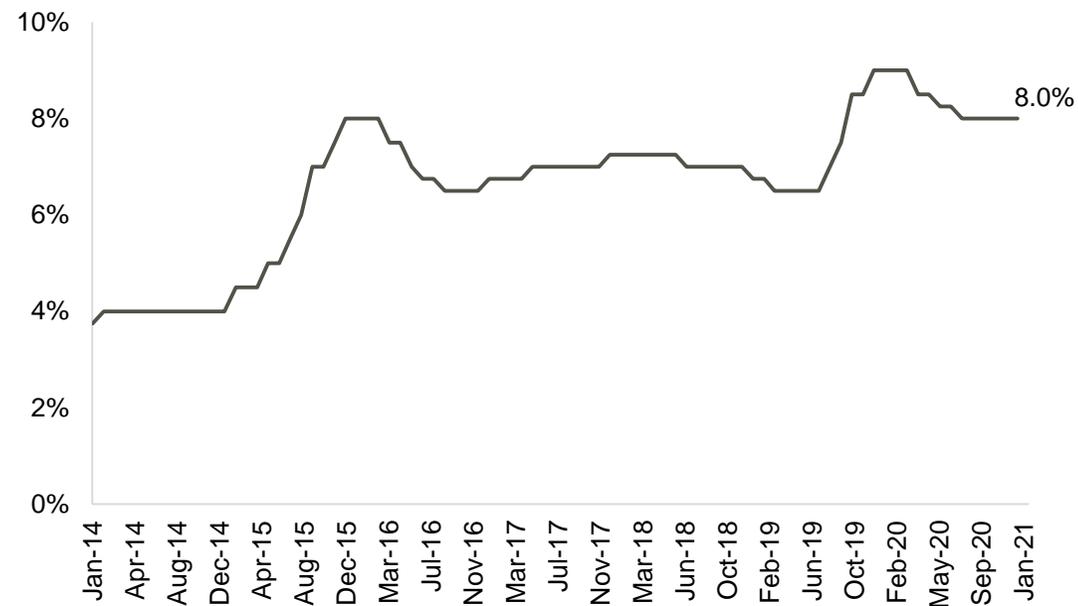
## Annual inflation



Source: Geostat

- Reduction of annual inflation in December 2020 and January 2021 is related to the government subsidy of utility bills.

## Monetary policy rate



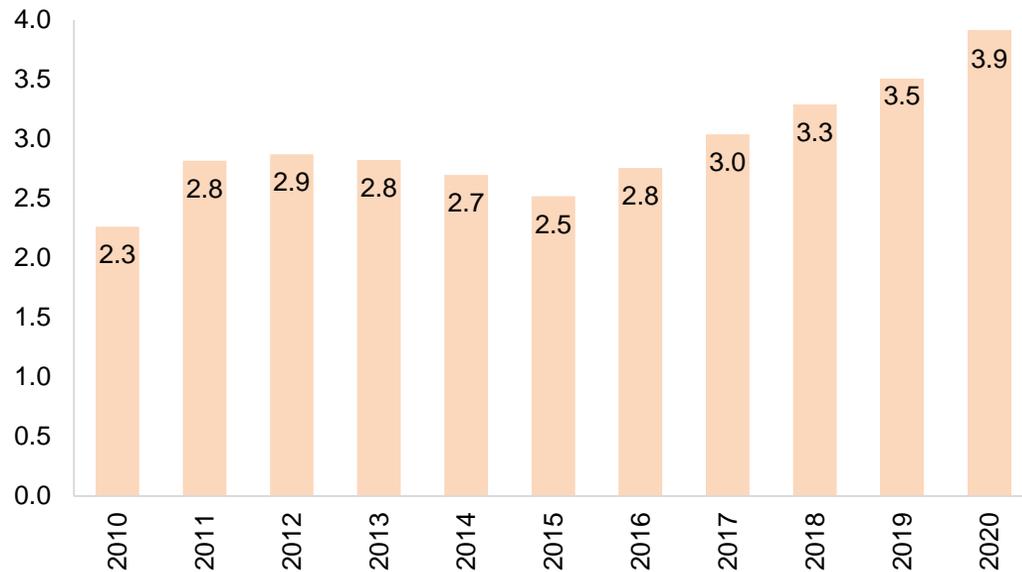
Source: Geostat

- According to the latest NBG's forecast, a slight decrease in the key rate is expected at the end of 2021, although there is a likelihood of an increase in the interest rate before that.



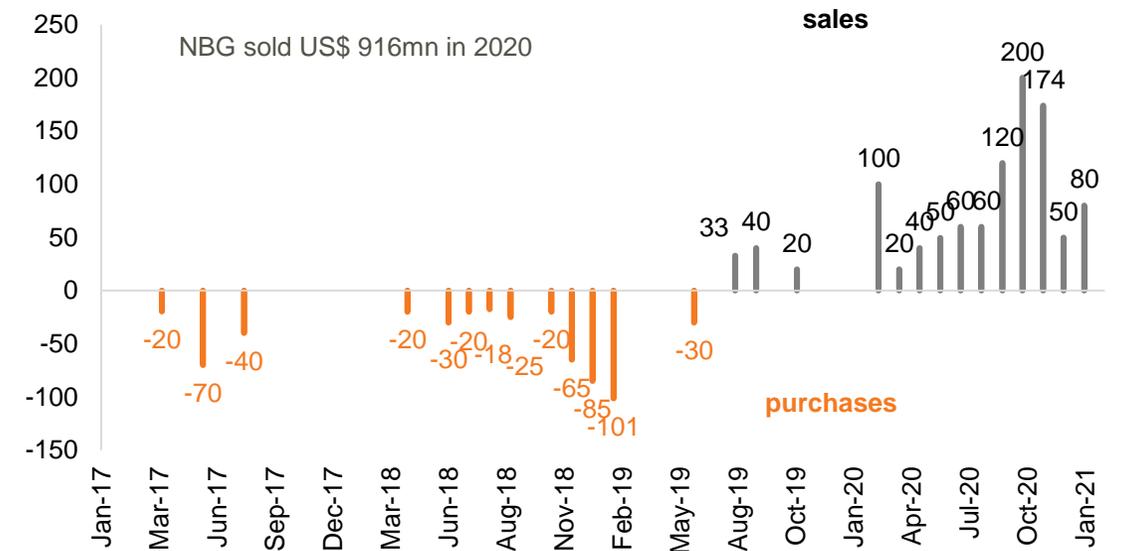
# In 2020, international reserves increased despite NBG's interventions

## Gross international reserves, US\$ bn



Source: NBG

## NBG's interventions, US\$ mn



Source: NBG

- NBG's reserves increased by 11.5% y/y to US\$ 3.9bn in 2020, attributed to the disbursement of donor funding
- NBG sold US\$ 916mn in the FX market in 2020
- NBG continues FX interventions to support the GEL and ease inflationary pressures.



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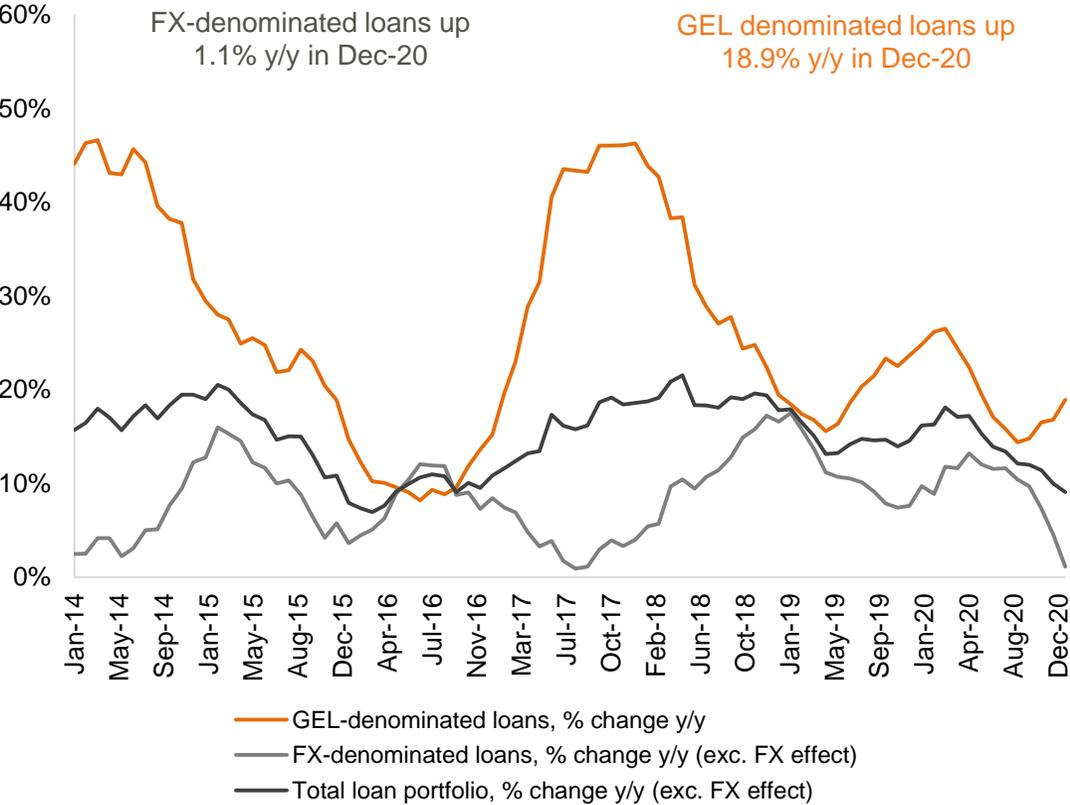
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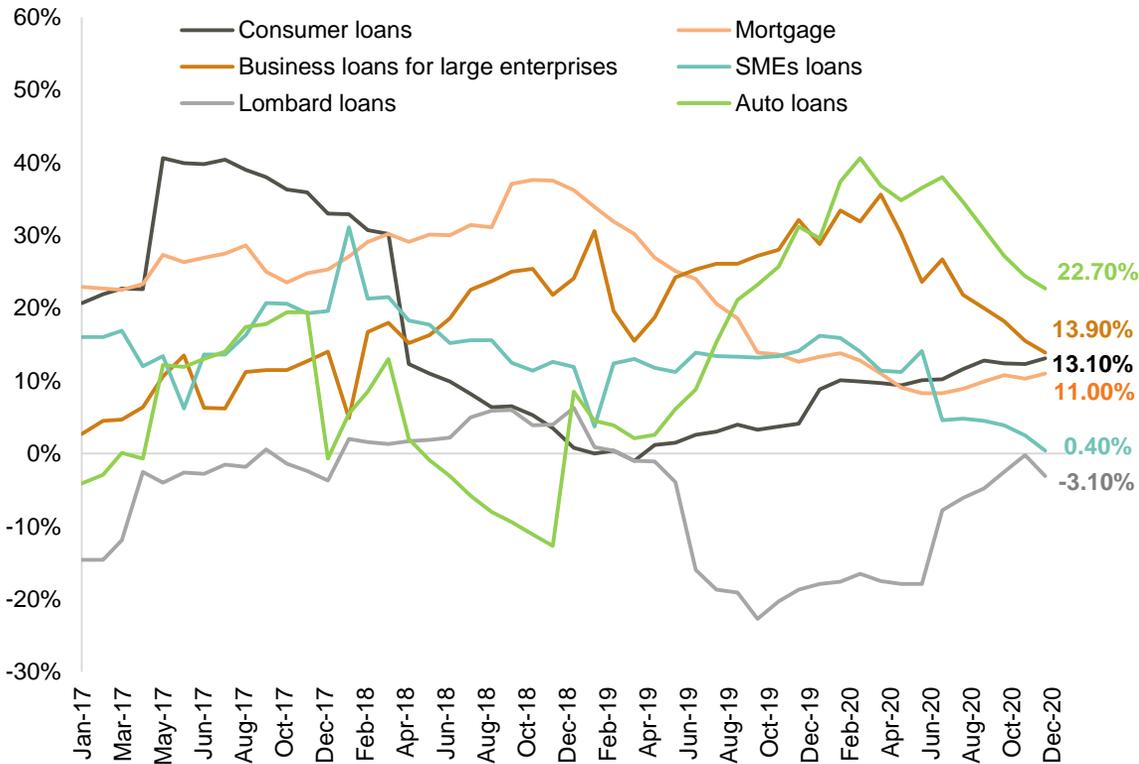


# The banking system met the COVID-19 pandemic well-prepared. The loan portfolio grew by 9.1% y/y in 2020

## Bank loan portfolio growth



## Annual growth rate decomposition by sector



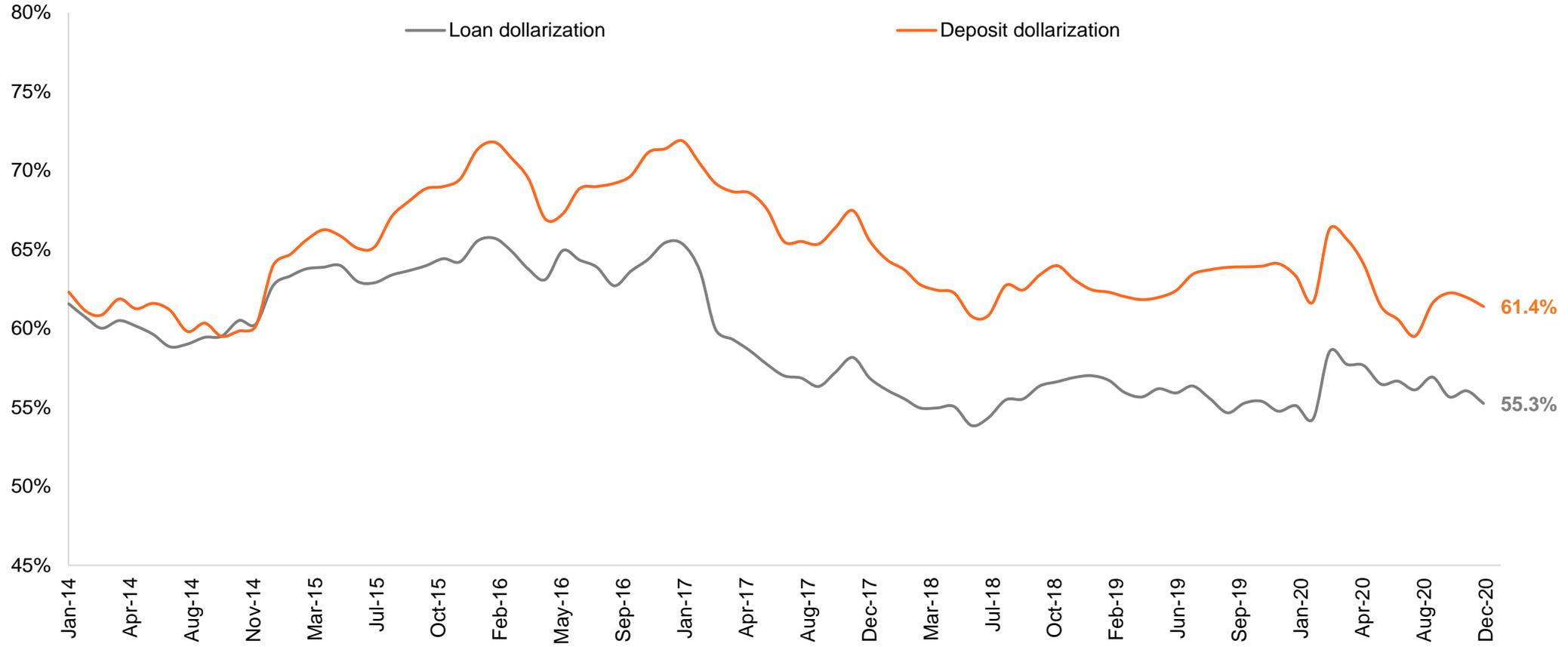
Source: NBS

Source: NBS



# Dollarization has declined since the peak in March 2020

## Loan and deposit dollarization

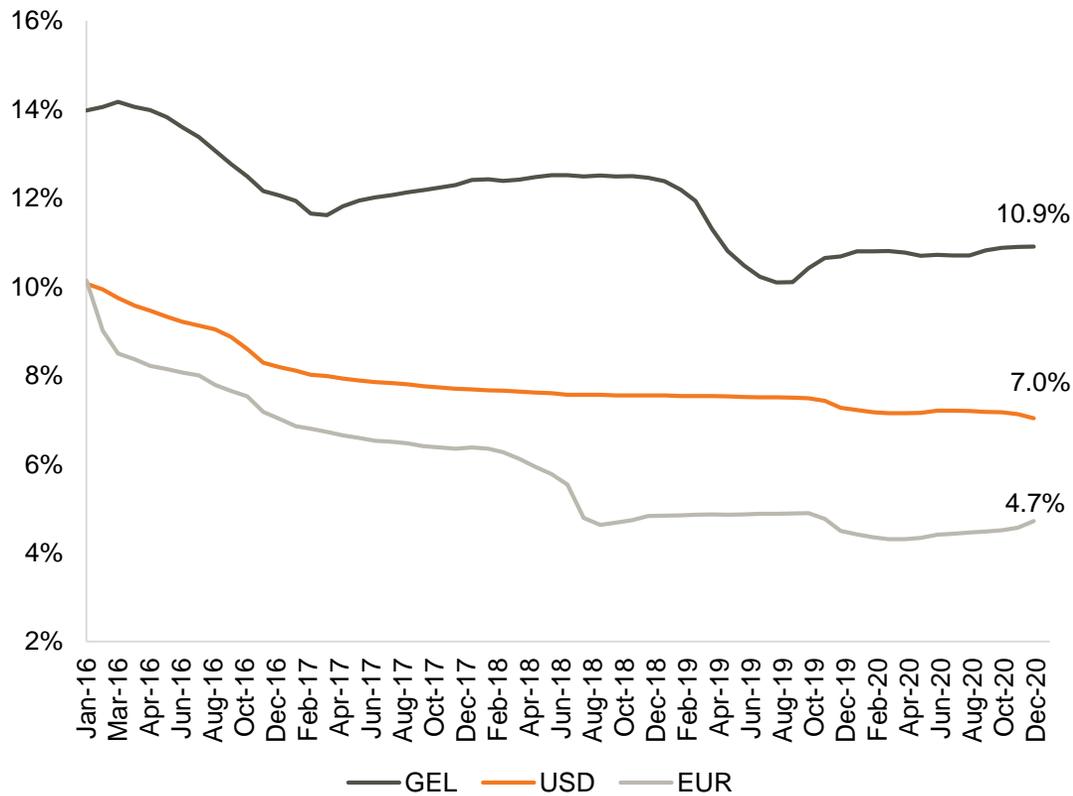


Source: NBG



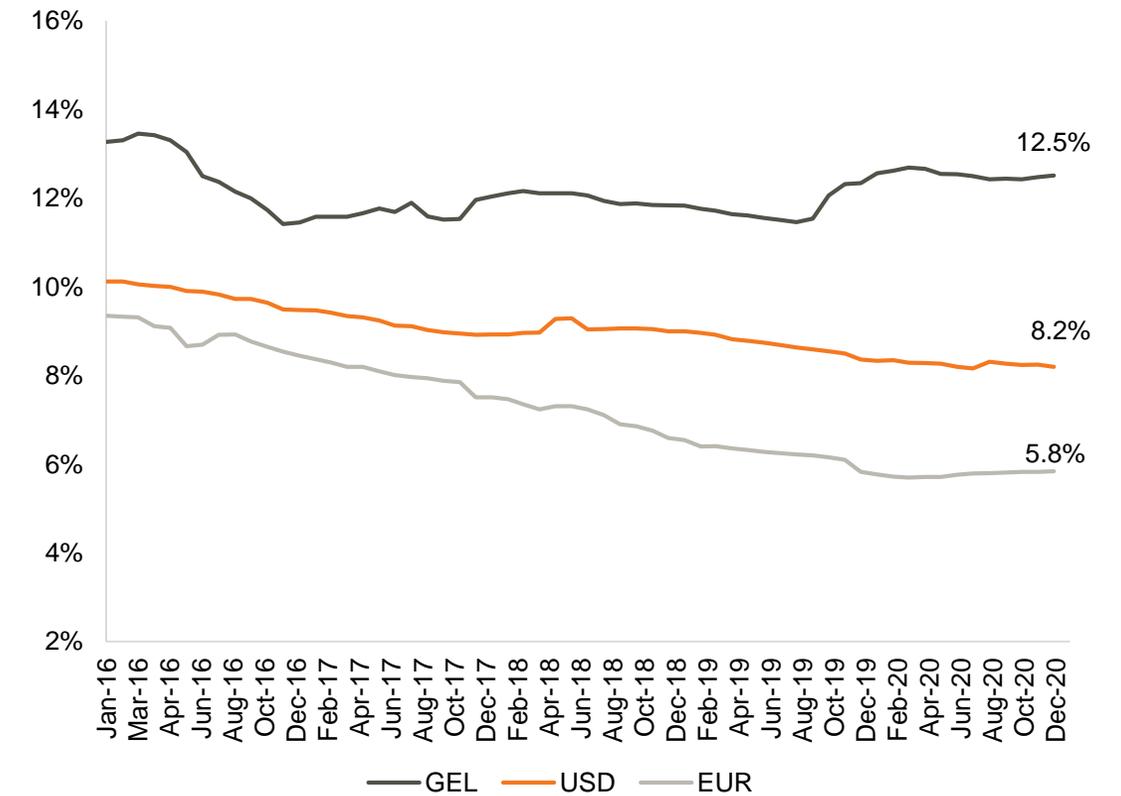
# Short-term uncertainties will again affect interest rate dynamics in 2021

## Interest rates on mortgages



Source: NBG

## Interest rates on loans to legal entities



Source: NBG

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# Conclusion

## GDP

- In baseline scenario, we forecast 5.0% economic growth in 2021.
- In pessimistic scenario, we forecast real GDP growth at 3.6%.

## Inflation

- Average annual inflation expected at 4.5% in 2021.
- In pessimistic scenario, annual inflation expected in the range of 5-6%.

## GEL/\$

- In case of the resumption of tourism, GEL is expected to gain strengthen against the USD.

## Refinancing rate

- In pessimistic scenario we expect NBG to increase the refinancing rate by around 1pts to anchor inflationary pressures.

## Bank loans

- Bank loan portfolio is expected to grow by 10-12% in 2021, excluding FX effect.
- In pessimistic scenario, we expect loan portfolio growth at 5-7% in 2021.

## Risks

- COVID-19 pandemic and delayed vaccine rollout
- Political instability
- Slow tourism recovery





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# Thank you

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**Q/A**



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