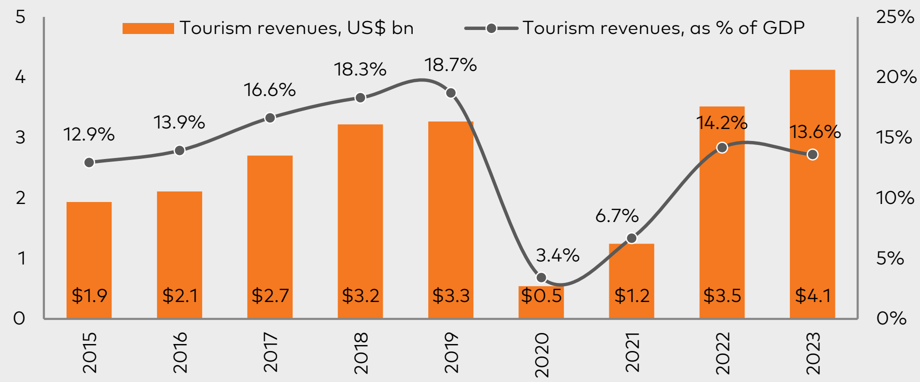
Chart of the month: Tourism revenues at a record high level in 2023



Source: NBG, Geostat, Galt & Taggart

In 2023, tourism revenues increased by 17.3% y/y to US$ 4.1bn, based on NBG. The top source of tourism revenues was Russia, contributing US$ 938.3mn (22.7% of total), followed by Turkiye at US$ 663.9mn, the EU at US$ 549.6mn and Israel at US$ 308.2mn.

We forecast tourism revenues to increase by 10.0% y/y to US$ 4.5bn in 2024.

Economic summary

Growth: Georgia's economy expanded by 8.3% in Dec-23, accelerating after 5.9% growth recorded in November. Overall, in 2023, growth reached 7.0%, beating our projection of 6.8%. In nominal term, GDP increased by 10.2% y/y to GEL 79.7bn (US$ 30.3bn) and GDP per capita reached US$ 8,111 (+21.5% y/y) in 2023.
For 2024, we forecast real GDP to grow by 5.4% in our baseline scenario and by 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 January 31, 2024, the NBG's Monetary Policy Committee reduced its key rate by 50bps to 9.0% considering the current inflation trend. The regulator emphasizes that achieving EU candidate status has lowered Georgia's sovereign risk premium, potentially triggering a downward adjustment to the neutral rate of monetary policy. Given the geopolitical risks, the NBG will proceed cautiously with monetary normalization.
We expect a further 50bps rate cut to 8.5% in our baseline scenario by end-2024.

FX: The GEL appreciated slightly by 0.2% m/m in January 2024 against the dollar, signifying a sustained influx of external inflows. We expect average GEL rate at 2.7 against the dollar and at 3.0 against the Euro in 2024, respectively.

Activity

Trade: In Dec-23, goods exports reduced by 7.5% y/y to US$ 514.2mn, mainly explained by last year's high base effect. Similarly, goods imports also contracted by 11.3% y/y to US$ 1.3bn in December. The decline in exports was primarily driven by a decrease in copper, fertilizers, tobacco and nuts exports, although there was a notable increase in exports of cars, ferro-alloys, citrus fruit and pharmaceuticals. On the import side, a reduction in the imports of cars, copper, gases, and phones was the key contributor to the drop in imports, while imports of petroleum, pharmaceuticals, and trucks increased. Overall, in 2023, goods exports and imports reached record-high levels; Exports increased by 9.1% y/y, reaching US$ 6.1bn, while imports were up by 14.0% y/y to US$ 15.4bn. Consequently, the trade deficit expanded by 17.4% y/y to US$ 9.3bn.

Banking sector: In Dec-23, the bank loan portfolio increased by 17.1% y/y (excl. FX effect) reaching GEL 52.7bn, after a 16.3% y/y growth in previous month. Similar to previous month, the December credit growth was mainly driven by a 19.8% y/y increase in corporate loans (contributing 9.1ppts to the total loan growth), followed by retail loans (+14.8% y/y).
Bank deposits increased by 14.1% y/y (excl. FX effect) to GEL 50.6bn in Dec-23. The dollarization rates remained favorable, with deposit and loan dollarization standing at 50.7% and 45.2%, respectively, in December.

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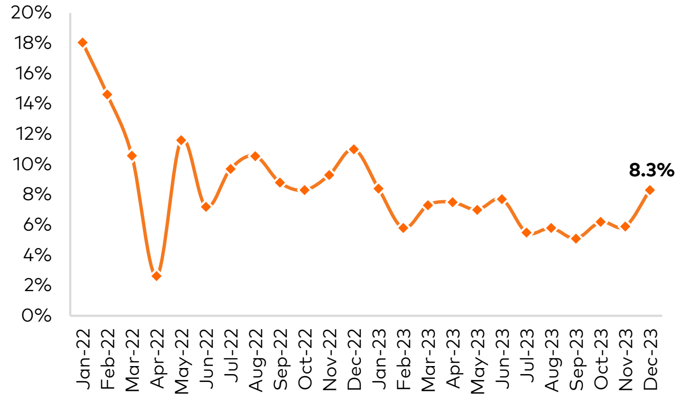
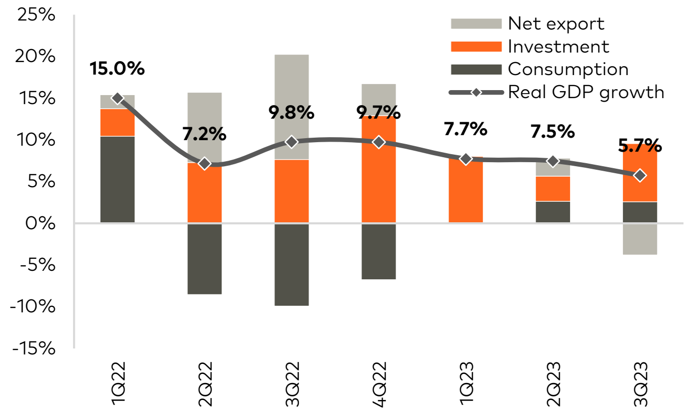
Real GDP growth, % change y/y



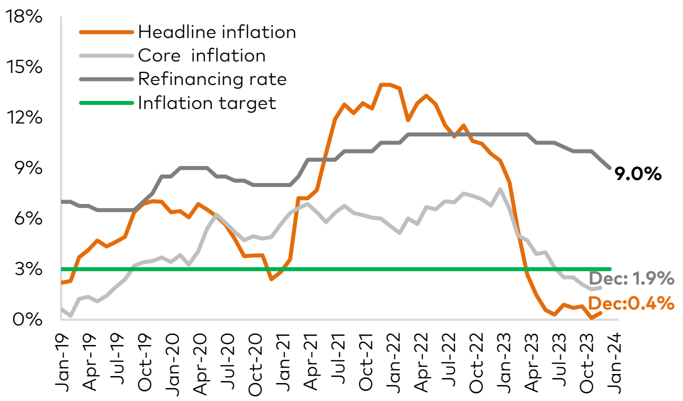
Source: Geostat

Contributions to real GDP growth, ppts



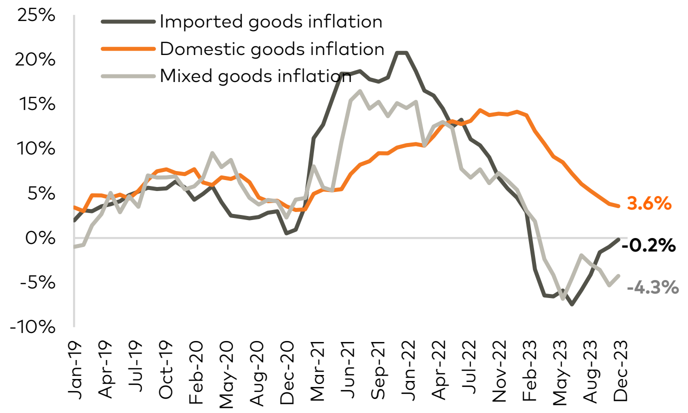
Source: Geostat, Galt & Taggart

Annual inflation and monetary policy rate



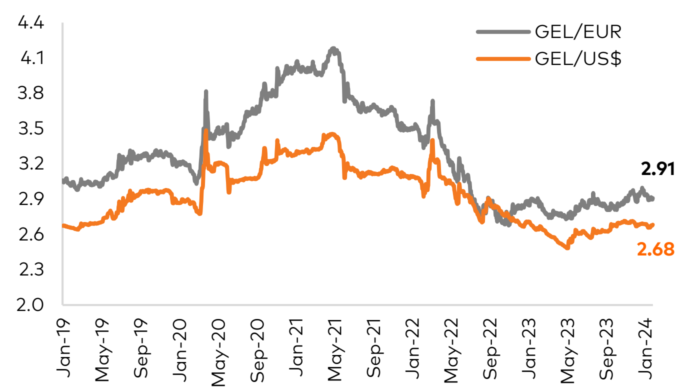
Source: Geostat, NBG

Imported and domestic inflation dynamics



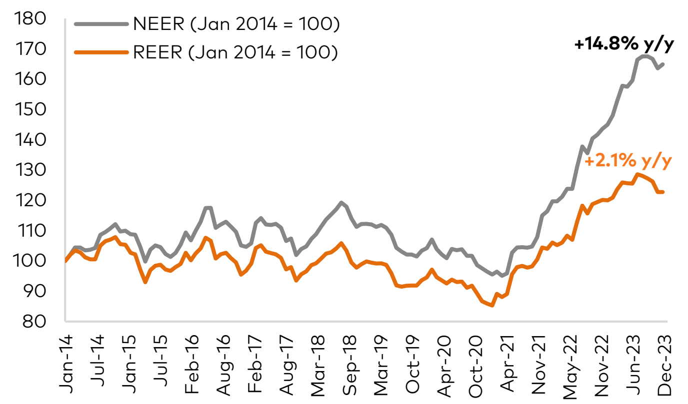
Source: Geostat

GEL/US$ and GEL/EUR



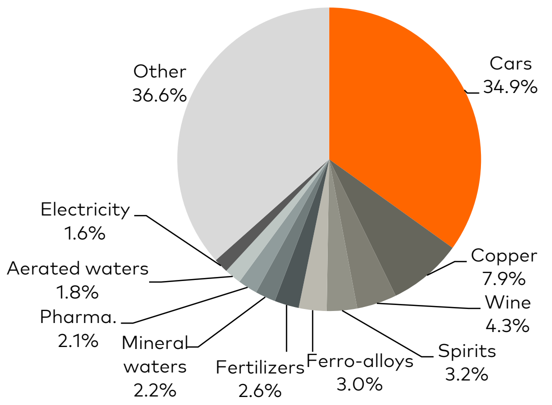
Source: NBG

GEL's nominal and real effective exchange rates



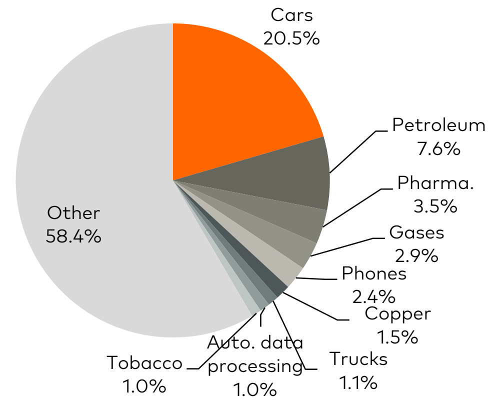
Source: NBG
Note: Index growth/decline means appreciation/depreciation of GEL

Exports by product, 2023



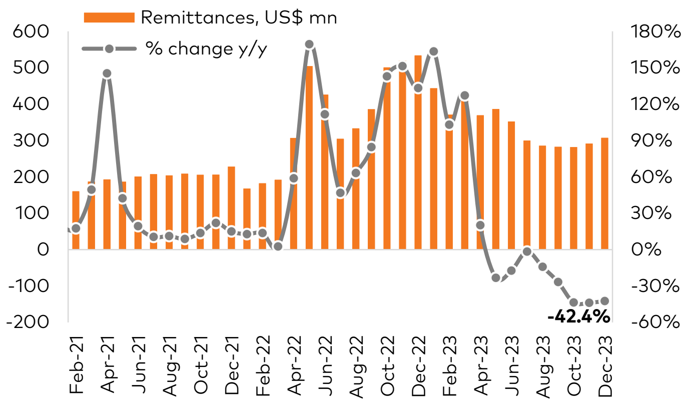
Source: Geostat

Imports by product, 2023



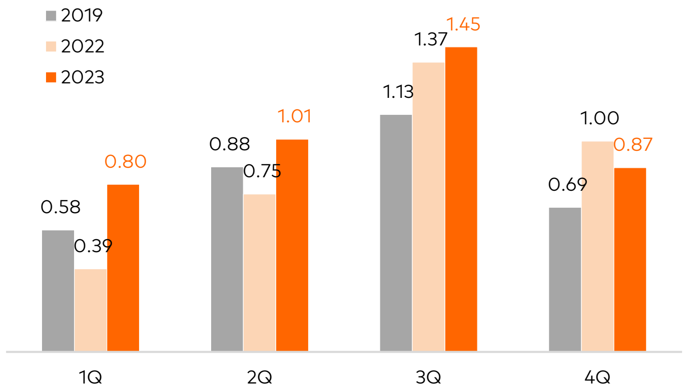
Source: Geostat

Remittances in Georgia



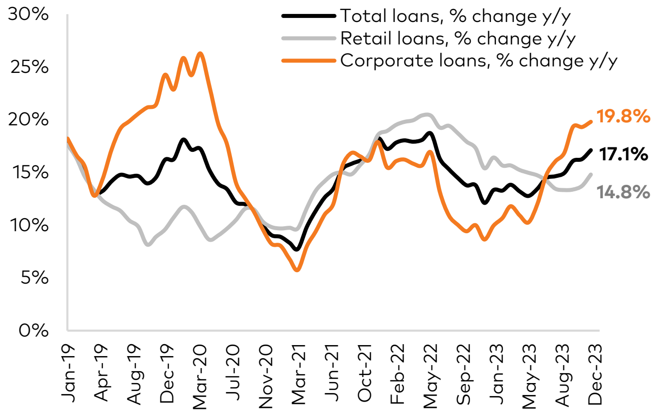
Source: NBG

Tourism revenues in Georgia, US$ bn



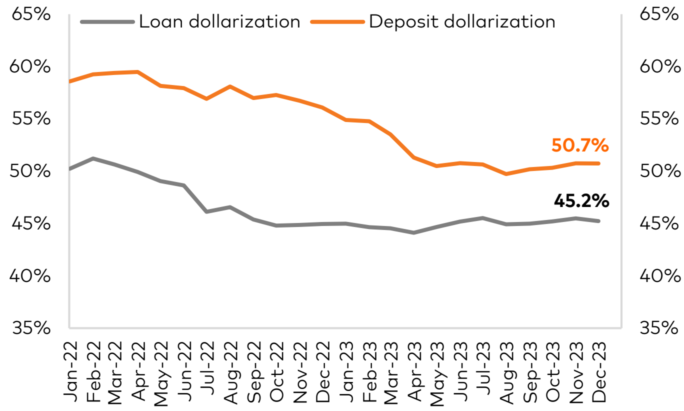
Source: NBG

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	2023E	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	8,111	8,621
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%	7.0%	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 GDP	-1.7%	-1.9%	-2.6%	-2.4%	-2.8%	-2.7%	-2.3%	-2.1%	-9.3%	-6.1%	-3.0%	-2.5%	-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	5.0	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	19.6	20.9
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%	66.1%	66.0%
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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