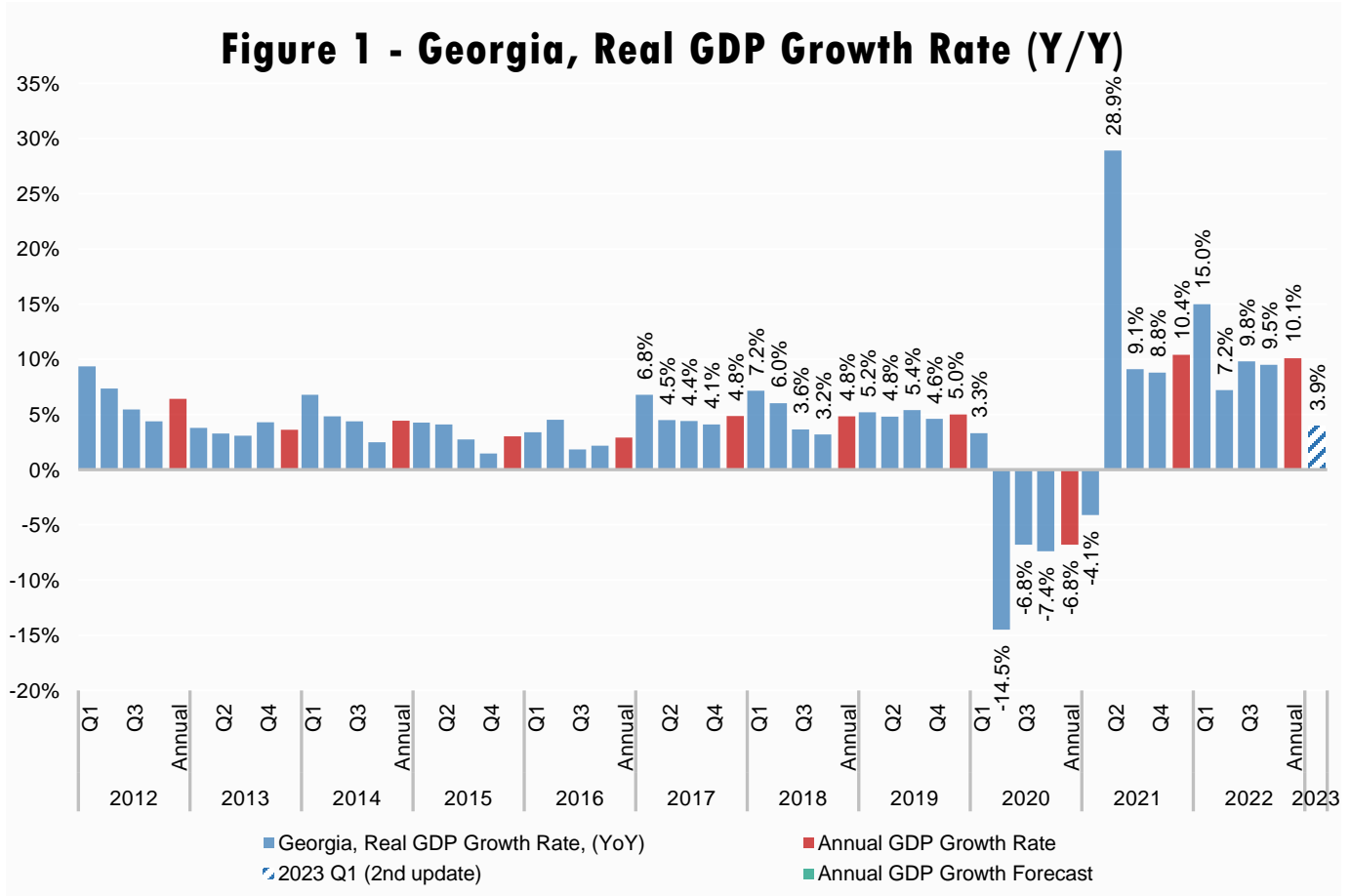




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**We may never see a year like this again:
Georgia’s annual growth for 2022 surpasses 10%, amidst regional and global crisis**



ISSET-PI has updated its real GDP growth forecast for the first quarter of 2023. Here are the highlights of this month’s release:

HIGHLIGHTS

- Geostat has published its rapid estimate of **the real GDP growth for the fourth quarter of 2022, and their estimated growth stands at 9.5%**, which is 2.5 percentage points below the ISET-PI’s most recent forecast.
- **The annual real GDP growth in 2022 amounted to 10.1%**, which is just 0.9 percentage point lower than our recent prediction.
- **ISSET-PI growth forecast for Q1 of 2023 remained unchanged at 3.9%.**

Variables behind the GDP growth forecast:

Money Supply. In November, all monetary aggregates including the narrowest, **Narrow Money (M0) and Broad Money (M3)**, experience notable growth in annual terms. Monetary aggregates M2 and M3 saw a yearly growth of 18.4% and 9.2%, respectively. Meanwhile, currency in circulation increased



relatively moderately, by 7.6% yearly. Moreover, the Narrow Money (M0) increased by 6.6% in annual terms. *Overall, money supply related variables had a slight positive contribution to the real GDP growth for the first quarter of 2023 based on our model.*

National and Foreign Currency Deposits. The other set of variables with a moderate effect on our forecast relates to national and foreign currency deposits in commercial banks. All categories of national currency deposits experienced growth in annual terms, while some of them (e.g. time deposit with maturity less than 3 month) declining on a month-to-month basis in November. In particular, national currency demand deposits saw an annual increase of 47.2%, while time deposits increased by 37.9% annually. **Consequently, national currency total deposits increased by 31.2% yearly.** In the same time period, time deposits increased by 0.9% in monthly terms, and demand deposits and currency in circulation increased by 1.6% and 5.4% respectively compared to the previous month. *The national currency deposits had a positive contribution to the real GDP growth.*

In contrast to domestic currency deposits, **foreign currency total deposits increased relatively moderately by 13.1%** compared to the same month of the previous year. In the same time period, foreign currency current account and demand deposits increased by more than 10% in annual terms, while foreign currency time deposits decreased by 15.4% yearly. The slowdown of the annual growth of foreign currency deposits is partially driven by the appreciation of the national currency. As a result, **deposit dollarization decreased by 0.6 percentage points monthly and by 3.8 percentage points yearly.** *Despite the positive annual trends, foreign currency deposit-related variables still had a slight negative contribution to real GDP growth based on our model.*

VAT Turnover. As far as other variables of interest, **VAT turnover in November increased by 13.1% yearly and decreased by 4.7% monthly.** *Consequently, this variable had a positive contribution to real GDP growth.*

Merchandise Trade. In November, Georgia's exports experienced a moderate 14.1% annual growth. This was mainly driven by increased export/re-export of *motor cars* (increased by 129% YoY, which is 13.3 pts), *Petroleum and petroleum oils* (increased by 1983% YoY, 2.2 pts), *Mineral or chemical fertilizers, nitrogenous* (increased by 29.3% YoY, 1.4 pts), *Waters, mineral and aerated waters, containing added sugar* (increased by 173.2% YoY, 1.4 pts), and *Wine of fresh grapes* (increased by 16.2% YoY, 1.0 pts). In contrast, exports of *ferro-alloys* (decreased by 80.7% YoY, which is -6.9 pts), *Ferrous waste and scrap; remelting scrap ingots of iron or steel* (decreased by 99% YoY, -1.6 pts), and *Undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages* (decreased by 29.2% YoY, -1.3 pts), experienced annual decline. It is notable that increase of the goods export is mainly a reflection of higher prices, as the volume of exports increased by 16.1% yearly.

During this period, the import of goods increased by 20.4%, driven by an increased import/re-import of *motor cars, petroleum and petroleum oils, and copper ores and concentrates*. In contrast, imports of *vaccines, blood and immune products* experienced annual decline. However, the volume of imports increased only by 4.2% yearly (hence, the growth was mostly driven by increased prices). **Consequently, the trade deficit increased by 24.9% yearly, and amounted to 752.9 million USD.** *Overall, trade related variables still had a positive contribution to the GDP growth forecast.*

Remittances. In November, **remittances increased by 151.4% annually and reached 521 million USD.** The main contributors to this increase were *Russian Federation* (increased by 819.1%, 135.8 pts), *Kyrgyzstan* (increased by 206.4%, 6.4 pts), *United States of America* (increased by 20.0%, 2.3 pts),



Germany (increased by 41.4%, 2.2 ppts), Italy (increased by 11.5%, 1.8 ppts), Belarus (increased by 867.7%, 1.6 ppts), Armenia (increased by 231.1%, 1.4 ppts), United Kingdom of Great Britain and Northern Ireland (increased by 132.7%, 1.1 ppts), and Tajikistan (increased by 190.9%, 1.1 ppts). Whereas money inflows decreased from Ukraine (decreased by 99.4%, -3.6 ppts), and Azerbaijan (decreased by 39.9%, -1.4 ppts). Overall, the significant increase in remittances flows made a notable positive contribution to the growth forecast.

Tourism. Tourism arrivals and receipts notably recovered in November of 2022 after a sharp decline in 2020 and a recovery process in 2021. **In November, the number of international visitors increased by 150.5% yearly, while the increase in tourist numbers (visitors who spent 24 hours or more in Georgia) amounted to 97.9%.** Overall, recovering numbers of visitors and tourists, along with an increase in touristic spending has made a positive contribution to the growth forecast.

Real Effective Exchange Rate (REER). REER appreciated by 0.6% monthly and 18.9% yearly in November. The Lari Real Exchange Rate (RER) appreciated monthly with respect to the Russian Ruble (RUB) (by 1.3%), and US Dollar (USD) (by 2.7%), and depreciated with respect to Turkish Lira (TRY) (by 0.2%), and Euro (by 1.1%). **Moreover, the GEL/EUR, GEL/USD, and GEL/TRY real exchange rate appreciated (except GEL/RUB, which depreciated by 4.9%) compared to the same month of the previous year by 29.4%, 18.6%, and 22.6% respectively.** REER appreciation is mostly related to the relocation of the Russian and Belarusian citizens. Overall, REER-related variables had a small negative contribution to the real GDP growth projections.

World Prices. The other variables of interest in our growth forecast were Metals Price Index (PMETA) and the Agricultural Raw Materials Index (PRAWM). Metals form a significant share in Georgia's exports, while food and oil are among the main imports. Therefore, a global increase in the price of metal will likely cause improvement to the Georgian economy, whereas an increase in the price of agricultural products will be damaging. **In annual terms, metal prices as well as agricultural raw material prices decreased by 11.5% and 15.4% respectively in November.** On the balance, adding the PMETA and PRAWM indicators to the model thus decrease the growth forecast.

Inflation. In November, the annual inflation of consumer prices amounted to 10.4%, which is notably higher than the targeted 3%. Approximately 4.9 percentage points of CPI inflation were related to higher food prices. Furthermore, increased fuel prices made a positive contribution (0.4 ppts) to the annual inflation measure (the contribution of oil prices decreased monthly). **The latter trend is mostly a reflection of increased oil prices on the global market (Euro Brent Spot Price (COP) increased by 12.8% yearly).** We can safely conclude that current inflation is notably related to increased demand related to the relocation of Russian and Belarusian citizens. There are two factors giving us a reason for optimism on inflation: (1) oil prices started to decrease from their peak earlier in the year and (2) GEL exchange rate appreciated against the currencies of the main trading partners. Meanwhile, the measure of core inflation amounted to 7.2%. Overall, CPI related variables had a slight negative contribution to the GDP forecast.

Our forecasting model is based on the Leading Economic Indicator (LEI) methodology developed by the [New Economic School](#), Moscow, Russia. We have constructed a dynamic model of the Georgian economy, which assumes that all economic variables, including GDP itself, are driven by a small number of factors that can be extracted from the data well before the GDP growth estimates are published. For each quarter, ISET-PI produces five consecutive monthly forecasts (or "vintages"), which increase in precision as time passes. Our first forecast (the 1st vintage) is available around five months before the end of the quarter in question. The last forecast (the 5th vintage) is published in the first month of the next quarter.