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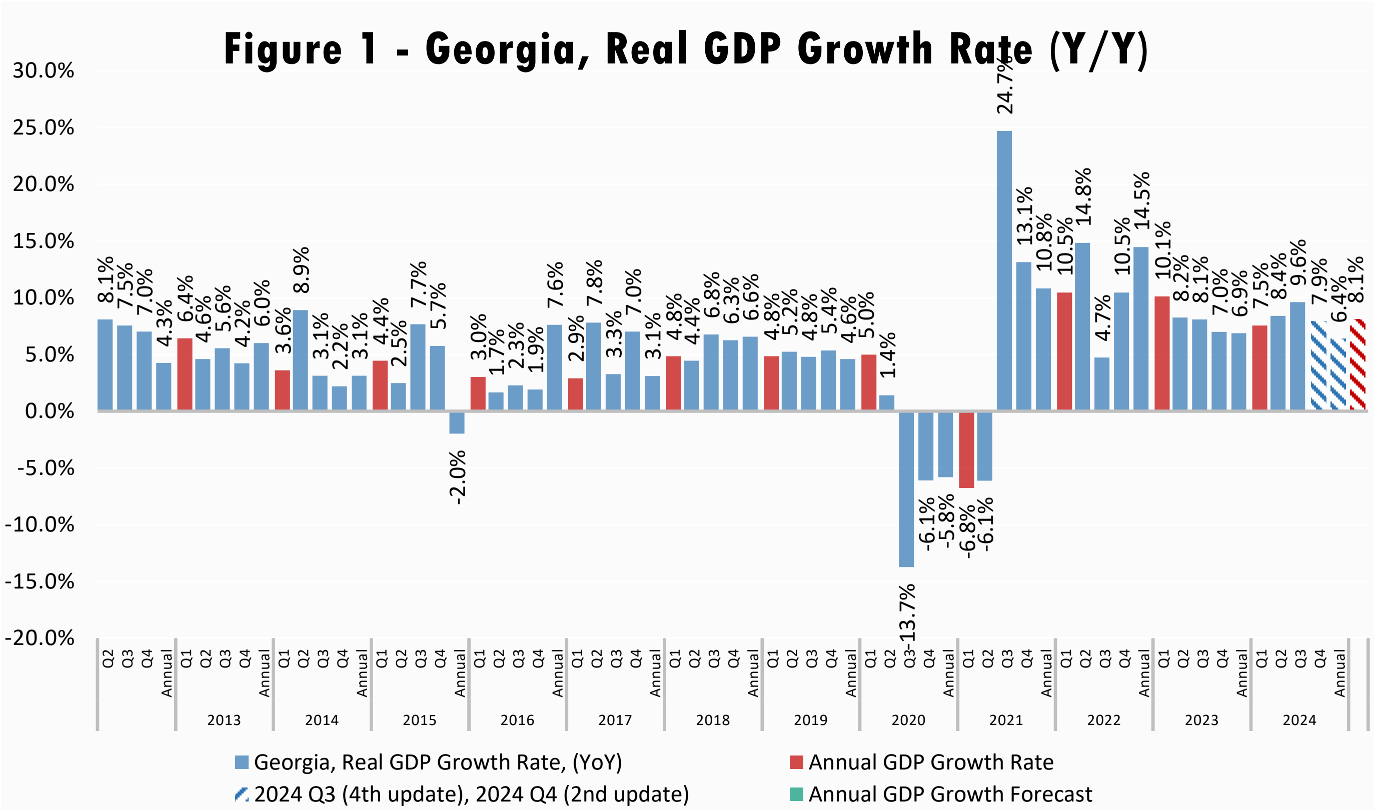
GEORGIA SUSTAINS ROBUST GROWTH OUTLOOK: STRENGTHENED EXTERNAL SECTOR AND EXPANDED LENDING DRIVE ECONOMIC MOMENTUM



ISET-PI has updated its real GDP growth forecast for the third and fourth quarters of 2024. Here are the highlights of this month's release.

HIGHLIGHTS:

- Geostat has published its preliminary estimate of real GDP growth for July 2024, which stands at 13%. In addition, the estimated growth for the first and second quarters of 2024 reached 8.4% and 9.5%, respectively. As a result, the average real GDP growth from January to July 2024 was 9.7%.
- ISET-PI forecasts Georgia's economy to grow by 7.9% in the third quarter and 6.4% in the fourth quarter of 2024.
- Based on July data, the annual growth in 2024 is expected to be 8.1%.

VARIABLES INFLUENCING THE GDP GROWTH FORECAST BASED ON THE JULY DATA:

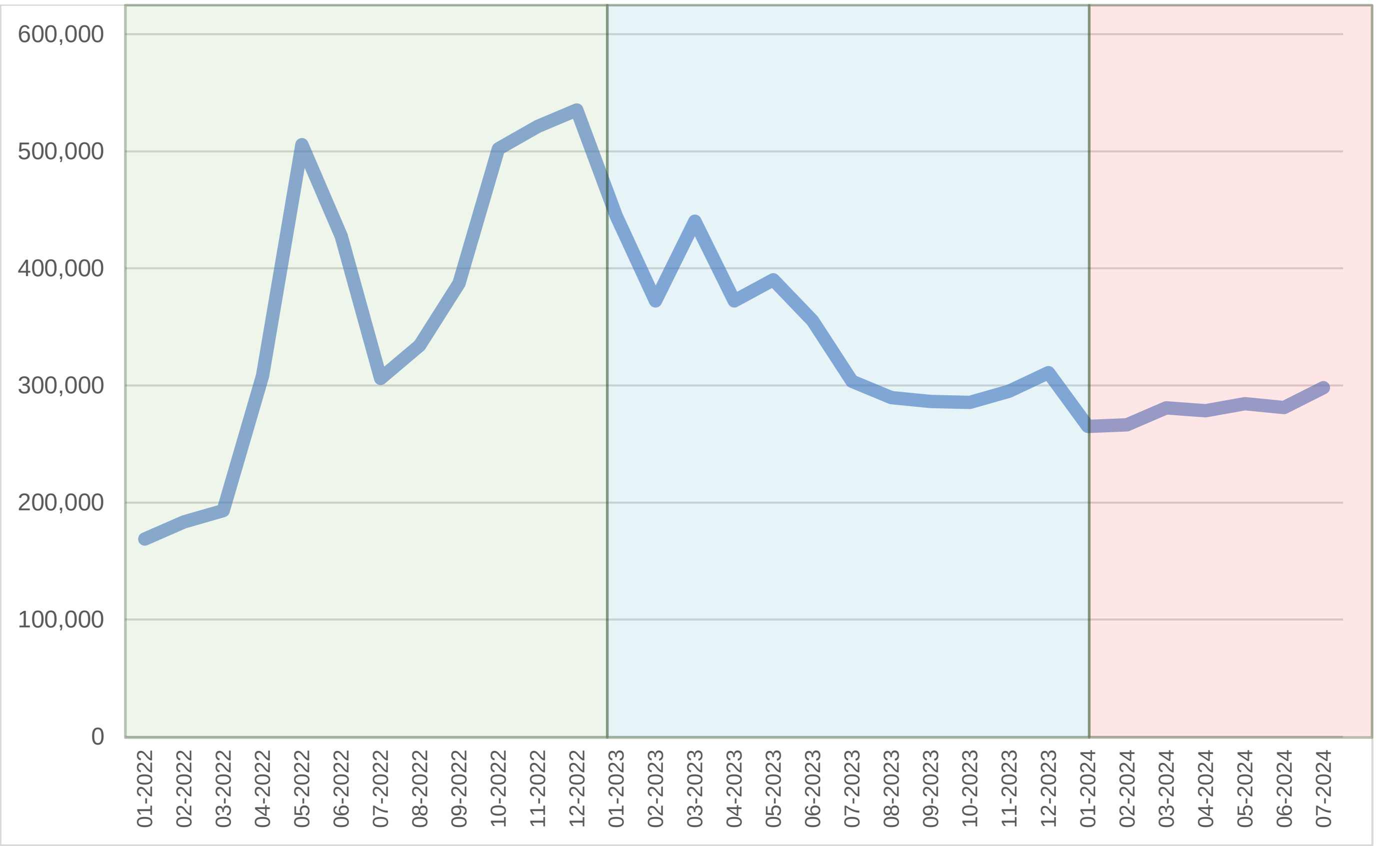
National and Foreign Currency Deposits. The first set of variables with a moderate impact on our forecast pertains to national and foreign currency deposits in commercial banks. Almost all major categories of national currency deposits showed annual growth. Specifically, national currency demand deposits increased by 15.8% year-over-year, while time deposits rose by 35.6% annually. As a result, total national currency deposits grew by 21.2% on an annual basis. Furthermore, **total foreign currency deposits increased by 13.4% compared to the same month of the previous year.** In the same period, foreign currency current accounts and demand deposits increased by 7.5% and 0.8%, respectively, in annual terms. Furthermore, foreign currency time deposits saw a significant annual increase of 32.5%. *However, according to our model, variables related to the national and foreign currency deposits still had a slight negative contribution to the real GDP growth forecast according to our model.*

Merchandise Trade. In July, Georgia's exports experienced a 29.9% annual increase. This upsurge was primarily driven by a significant increase in the export/re-export of motor cars (increased by 38% YoY), Ferro-alloys (increased by 3608% YoY), undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages (increased by 99% YoY), and precious metal ores and concentrates (increased by 167% YoY). On the contrary, export/re-export of wine of fresh grapes showed a significant annual decrease (fell by 26% YoY).

During this period, the import of goods increased by 7.2% year-over-year, driven by an annual increase in the import/re-import petroleum and petroleum oils (increased by 24% YoY), medicaments put up in measured doses (increased by 19% YoY), and automatic data processing machines and units thereof (increased by 350% YoY). In contrast, there was a decline in the import/re-import of motor cars (fell by 15% YoY) and petroleum gases and other gaseous hydrocarbons (fell by 24% YoY). **Consequently, the trade deficit decreased by 7% year-over-year, amounting to 735 million USD.** *Overall, trade-related variables had a slight positive influence on the GDP growth forecast.*

Remittances. In July, remittances decreased by 1.8% year-over-year, reaching 298 million USD. The primary contributors to this decline were the Russian Federation (down 39% YoY, -9.4 percentage points) and Kazakhstan (down 36% YoY, -1.4 percentage points). Conversely, money inflows increased from the United States (up 25% YoY, 3.3 percentage points), Italy (up 7% YoY, 1 percentage point), Germany (up 18% YoY, 1.2 percentage points), Greece (up 6% YoY, 0.4 percentage points), and Israel (up 22% YoY, 1.3 percentage points). The reduction in money inflow can still be attributed to the base effect. In 2022, there was a substantial surge in the influx of Russian citizens relocating to Georgia following Russia's war in Ukraine, and they subsequently remitted funds for their expenditures. As the transient impact of this event diminishes, Georgia is observing a return to more typical patterns in money transfers. *However, money transfers still had no contribution to the growth forecast according to our model.*

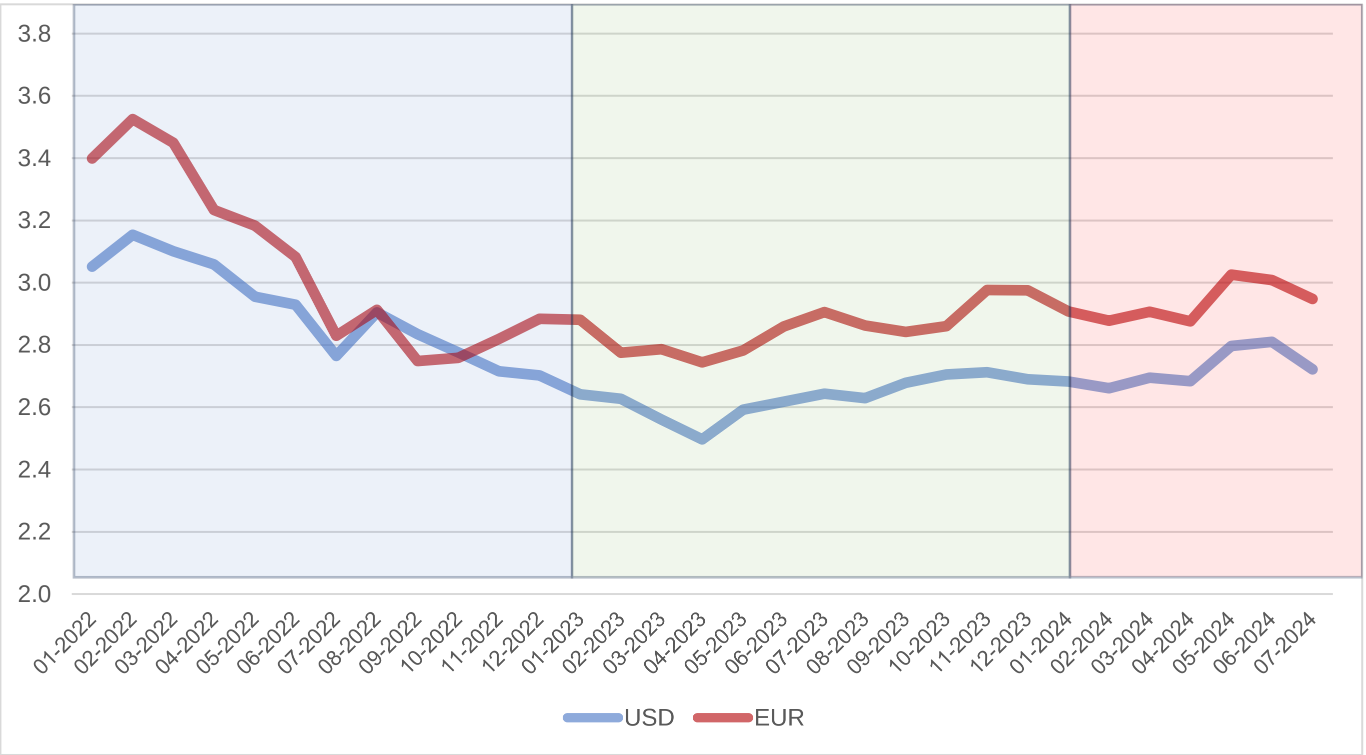
Figure 2: Money Inflow, 2022-2024



Source: NBG

Exchange Rate. In July, the Georgian Lari appreciated against the **Dollar** (3.2% in monthly terms), **Euro** (2% in monthly terms), **Ruble** (4.5% in monthly terms), and **Turkish lira** (3.6% in monthly terms). Furthermore, **REER appreciated by 1.9% monthly and depreciated by 10.4% yearly.** The depreciation of the Georgian Lari negatively impacts the Georgian population due to heavy reliance on imports and significant levels of debt dollarization (a notable portion of businesses having income and liabilities in different currencies). However, it simultaneously increases the competitiveness of exports. Overall, REER-*related variables had a negative influence on the real GDP growth projections.*

Figure 3: Nominal Exchange Rate (USD/GEL and EUR/GEL), 2022-2024



Source: NBG

Consumer Credit. In July**, the total volume of commercial banks' consumer credit increased by 29% year-over-year.** The volume of short-term consumer credits rose significantly by 86.7% annually, driven mainly by increases in both domestic and foreign currencies, which grew by 30.8% and 382.3%, respectively, on a yearly basis. Furthermore, the volume of long-term consumer credits provided by commercial banks increased by 27.5% annually. *However, according to our model, the variables related to consumer credit had a negative impact on the growth forecast.*

Inflation. In July, **the annual inflation rate for consumer prices was 1.8%, which is significantly lower than the targeted 3%.** Stable international commodity prices have played a key role in mitigating inflationary pressures. It is expected that inflation will gradually realign with the medium-term target. It is also worth noting, that **oil prices on the global market (Euro Brent Spot Price) increased by 6.3% year-over-year.** However, inflationary risks persist. *Overall, CPI-related variables have had a slight positive impact on 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.