

Georgian Economy in 2019

Economic growth accelerated further and stood robust in 2019

- The average estimated y-o-y real GDP growth equaled 5.2% for 2019, while it was 4.8% for 2018.
- Compared to 2018, the main drivers of the real growth was trade, real estate activities, transportation & storage, ICT, education & human health activities.

Unemployment data indicates continuing easing in the labor market in 2019 partially driven by the decline in labor force participation

- In 2019, the unemployment rate decreased by 1.1 percentage point compared to the previous year and equaled 11.6%.
- This is attributable to the decline in the labor force participation and the employment rate by 1.0 and 0.2 percentage point, respectively.
- The number of unemployed people abated by 10% y-o-y and stood at 221 thousand persons.

Core and headline inflations accelerated in 2019 mainly driven by cost channel

- Annual inflation stood at 7.0%, which is above the central bank target of 3%. The overshooting the target was caused by the increased pass-through from the nominal exchange rate depreciation to inflation in 2019.
- Annual core inflation* increased to 5.2% from 0.9% in 2018, implying that a significant part of the annual headline inflation is persistent. The annual core inflation without tobacco** rose by 3.3 percentage points compared to 2018 and stood at 3.7%.
- In the breakdown of annual inflation:
 - * Food & non-alcoholic beverages turned out to be the major contributor to the overall 7% annual inflation. The prices increased by 12.3%, adding 3.78 percentage points (p.p.).
 - * Alcoholic beverages & tobacco pulled inflation up by 1.03 p.p. in 2019 driven by the increase in tobacco prices (31%).
 - * Recreation & culture was another driver, adding 0.40 p.p., triggering by the higher prices for tourist trip (13.6%) and other major durables for recreation & culture (7.4%).
 - * The prices of restaurants & hotel services went up by 7.9%, driven by catering services (9%). The total contribution was 0.34 p.p. to the overall annual inflation rate.

- Meanwhile, the domestic PPI for manufactured products increased by 7.8% compared to 2018, resulting in a 6.18 percentage points contribution to the overall annual DPPI change.
- 45% of annual domestic PPI change comes from food products, beverages & tobacco, which went up by 9% y-o-y. The Import Price Index (MPI) for food products, beverages & tobacco increased by 9.9% y-o-y, which implies that there is strong cost pressure on the consumer food inflation, and subsequently on the headline inflation.

*The core inflation is calculated by excluding food and non-alcoholic beverages, energy, regulated tariffs, and transport (specific tariffs) from the consumer basket.

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Trade deficit declined in 2019, mainly driven by increasing exports

- As of December 2019, total assets of the banks increased by 18.9% compared to 2018 and stood at GEL 47.2 bln. While loan portfolio (excl. interbank loans) rose by 20.1% and amounted to GEL 32.2 bln.
- In YoY terms, loans to households went up by 12.3% (GEL 16.4 bln.), while the consumer loans (inc. auto loans) experienced a sluggish 5.5% growth and accounted for GEL 4.2 bln. The corporate loan portfolio grew by 31.2% and stood at GEL 15.1 bln.
- The share of non-performing loans in total loans realized as 4.4%, which is 1.1 percentage points lower comparing to 2018.
- Deposit portfolio of non-financial borrowers expanded by 14% y-o-y to GEL 27.2 bln. The main drivers were FC deposits of individuals & legal entities, constituting 56% and 16% of the growth, respectively. While 44% (11% NC, 33% FC) of the total deposit growth was driven by individuals' term deposits, term deposits of legal entities dragged down the growth by 7 p.p. (-8% YoY).
- Dollarization of the total deposits stood at 65%, while it was 75% for individuals' deposits and 53% for legal entities.
- During the reporting period, the Return on Assets ratio (ROA) of the sector stood at 0.3%, while Return on Equity ratio (ROE) was 2.3%.

The NBG tightened monetary policy from September 2019 aiming at neutralizing inflationary pressures stemming from the depreciation

- The NBG raised the policy rate in total by 250 basis points over the four meetings during the September-December period of 2019. It kept the refinancing rate unchanged at 9.0% on MPC meeting dated January 29, 2020.
- The decision based on the significant impact of the exchange rate depreciation on inflation.
- According to the NBG, the nominal effective exchange rate remains undervalued.

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