



MACRO-SECTORAL OVERVIEW

23 SEPTEMBER | 2021





MACRO OVERVIEW



Economic restart is diversified, as the growth is driven by tourism as well as non-tourism sectors



In August, tourism growth has slowed down, but only moderately



Dissavings act as an additional stimulus to the economy



We maintain our earlier projection of higher than 10% growth for 2021



High inflation is still a challenge and is not expected to decrease before 2022



We expect GEL policy rate cuts from the second quarter of 2022



Baseline scenario does not include noticeable GEL volatility in 2021, with slight appreciation in 2022



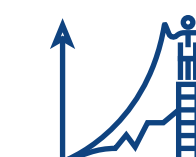
EXPECTED IMPACT ON BUSINESS SECTOR



In 2021, Pharmaceuticals, FMCG, and Healthcare will exceed their 2019 levels by more than 10% in terms of nominal turnover



The revenues from international tourists will recover to 37.5% of its 2019 level in 2021



Tourism will have to overcome challenges brought by the pandemic in 2022 as well



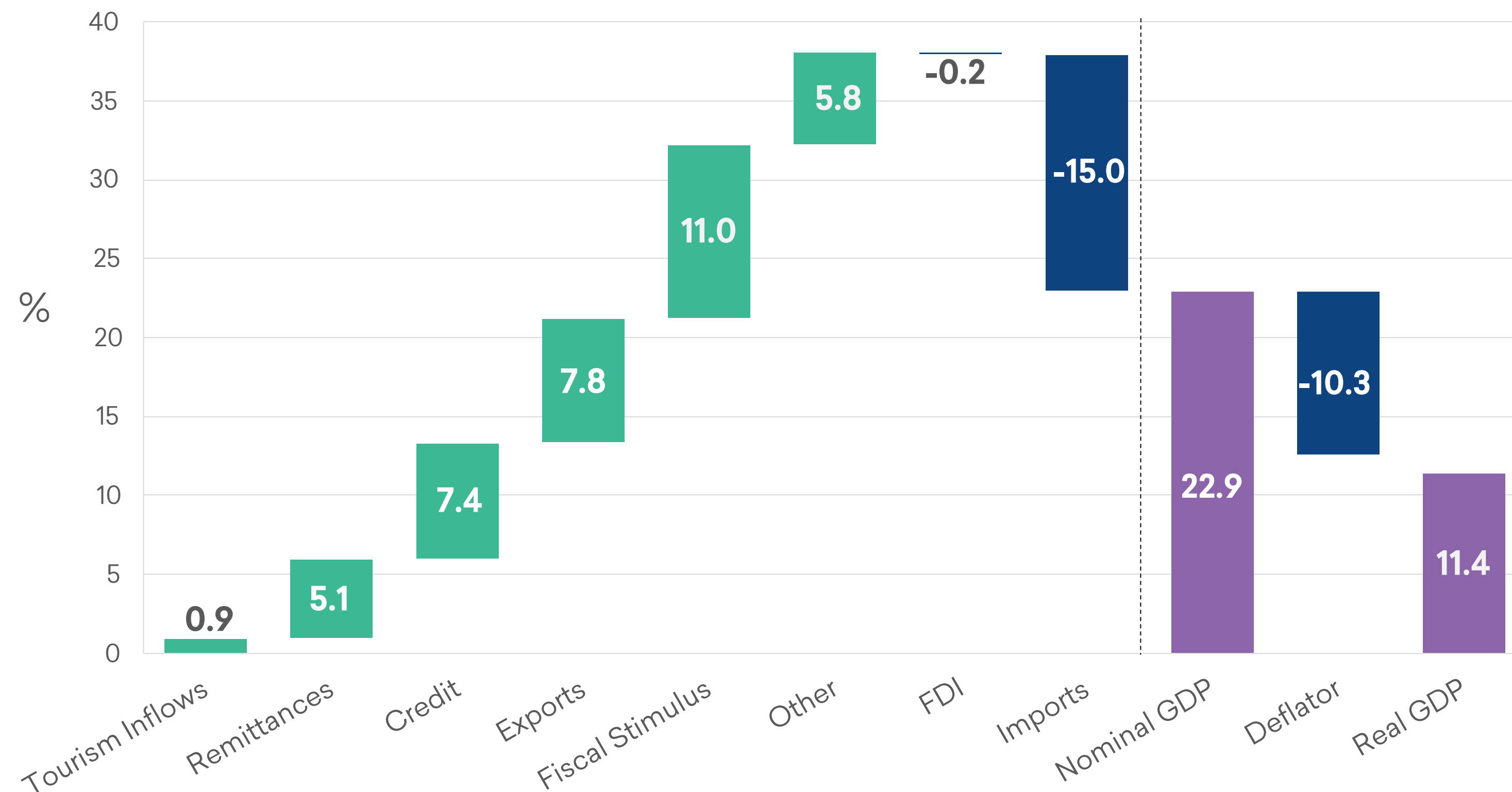
Residential real estate continues to recover. In 2021 the number of transactions will exceed its 2019 level by 3.8% while the price will stay almost at 2019 level



MACRO OVERVIEW

ECONOMIC RESTART IS DIVERSIFIED

GDP growth drivers in the first 7 months of 2021 compared to the same period of 2020



Note: FDI is calculated as a sum of the first two quarters. Sum of the drivers do not necessarily equal the overall GDP growth due to the multiplier, lockdown, savings and other factors, which are included in the "other".

Source: NBG, Geostat, MoF, TBC Capital

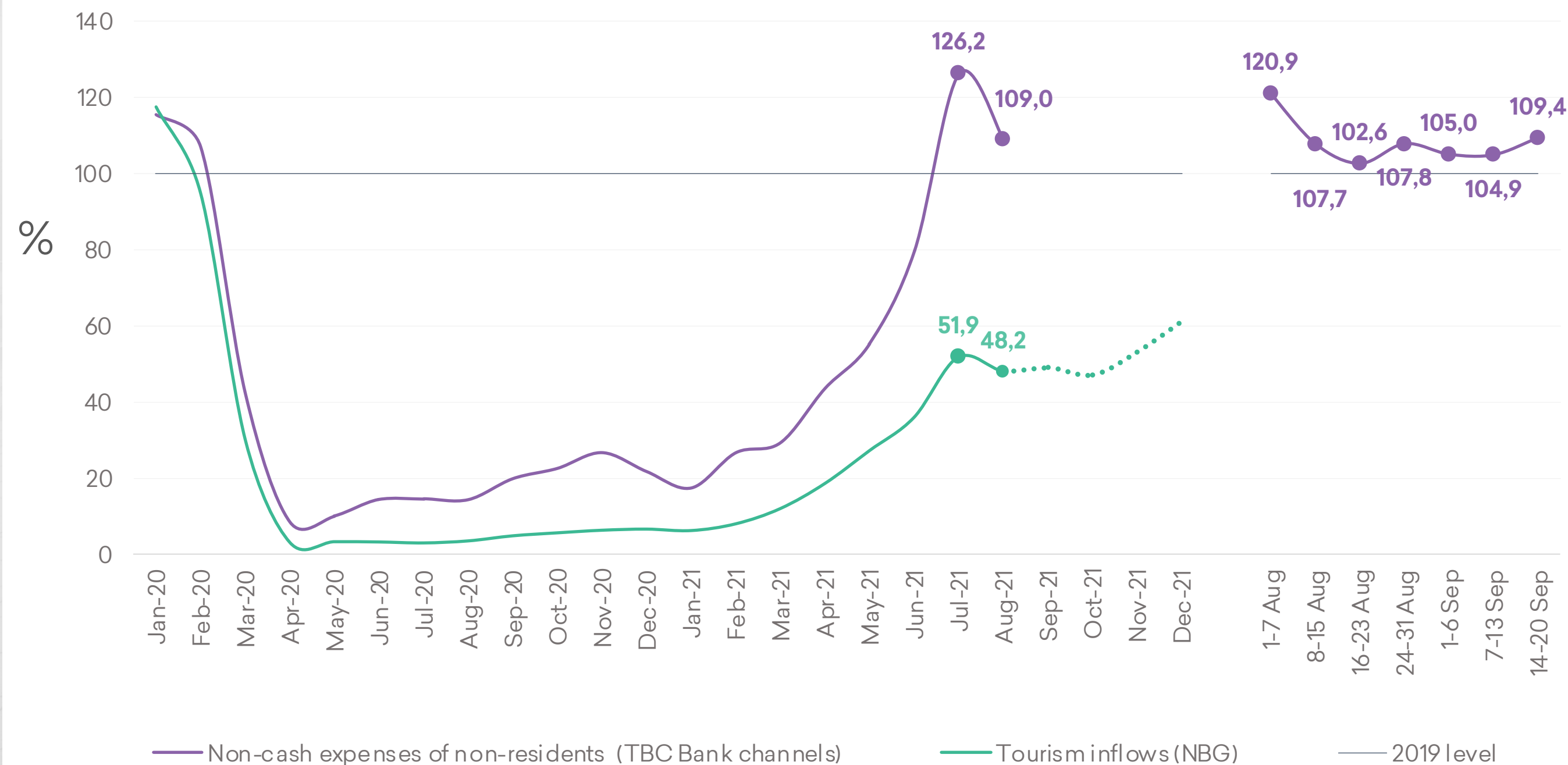


- ▶ Contribution of remittances, credit, exports and fiscal stimulus to growth were all sizable
- ▶ The effect of tourism inflows and FDI on GDP were minor
- ▶ Important to note, low share of tourism inflows was primarily caused by the unfavorable dynamics of the first quarter
- ▶ Real GDP growth compared to 2019 was positive as well and amounted to 4.8%

TOURISM GROWTH HAS SLOWED DOWN, BUT ONLY MODERATELY

Tourism Inflows

(in USD, the same months of 2019=100)



Sources: NBG, TBC Bank, TBC Capital



- ▶ Due to the surging Covid cases in Georgia tourism recovery has slowed down
- ▶ Main contributor to the slowdown was the fall of inflows from Israel
- ▶ In August, the largest share of tourism inflows came from the EU
- ▶ September preliminary data indicates that compared to 2019 the growth will be similar to the previous month
- ▶ For the overall year 2021, recovery of 37.5% of the 2019 inflows is expected
- ▶ In addition to the current year recovery projection, the monthly forecast dynamics also take into account the low base effect for July-September 2019, mainly due to the ban on flights from Russia

WE MAINTAIN OUR EARLIER PROJECTION OF HIGHER THAN 10% GROWTH FOR 2021

Major macro variable projections for 2021-2022 according to TBC Capital, YoY, %

	2020	2021		2022	
		1 July Projection	Updated projections	1 July Projection	Updated projections
EXPORTS*	-12.0	+23.5	+23.5	+12.0	+12.0
TOURISM*	-84.0	+138.7% / -60% rel. to 2019	+126.3% / -62.5% rel. to 2019	+128.6% / -10% rel. to 2019	+113.3% / -20% rel. to 2019
REMITTANCES*	+5.5 ¹	+24.5	+24.5	+11.0	+11.0
FDI*	-30.5 ²	+10.0	+10.0	+30.0	+30.0
IMPORT OF GOODS AND SERVICES*	-20.0	+21.0	+21.0	+18.0	+18.0
FISCAL DEFICIT**	9.3	7.1	6.9	4.4	4.4
BANK CREDIT***	+9.1	+16.2	+18.0	+13.6	+13.6
GDP GROWTH	-6.2%	+10.5%	+10.5%	+6.5%	+6.0%

*Growth in USD ** Ratio to GDP, as planned by the MoF, IMF methodology ***End of period, constant exchange rate

For GDP estimation inflation adjusted period credit growth is used. Also, the calculation is based on the estimation of inflows in real terms in GEL, not in USD. Moreover, various other assumptions are used in terms of the impact of key macroeconomic variables on economic growth

Adjusted taking into account reduced cash inflows due to closed borders

In Q4 2020, the main reason for the decline of FDI was transferring of ownership from non-resident to the resident companies, without cash outflow, but still reducing FDI by around 295 m USD. Adjusting for this component, FDI fell by 30.5% YoY, while without adjustment they fell by 52.9% YoY

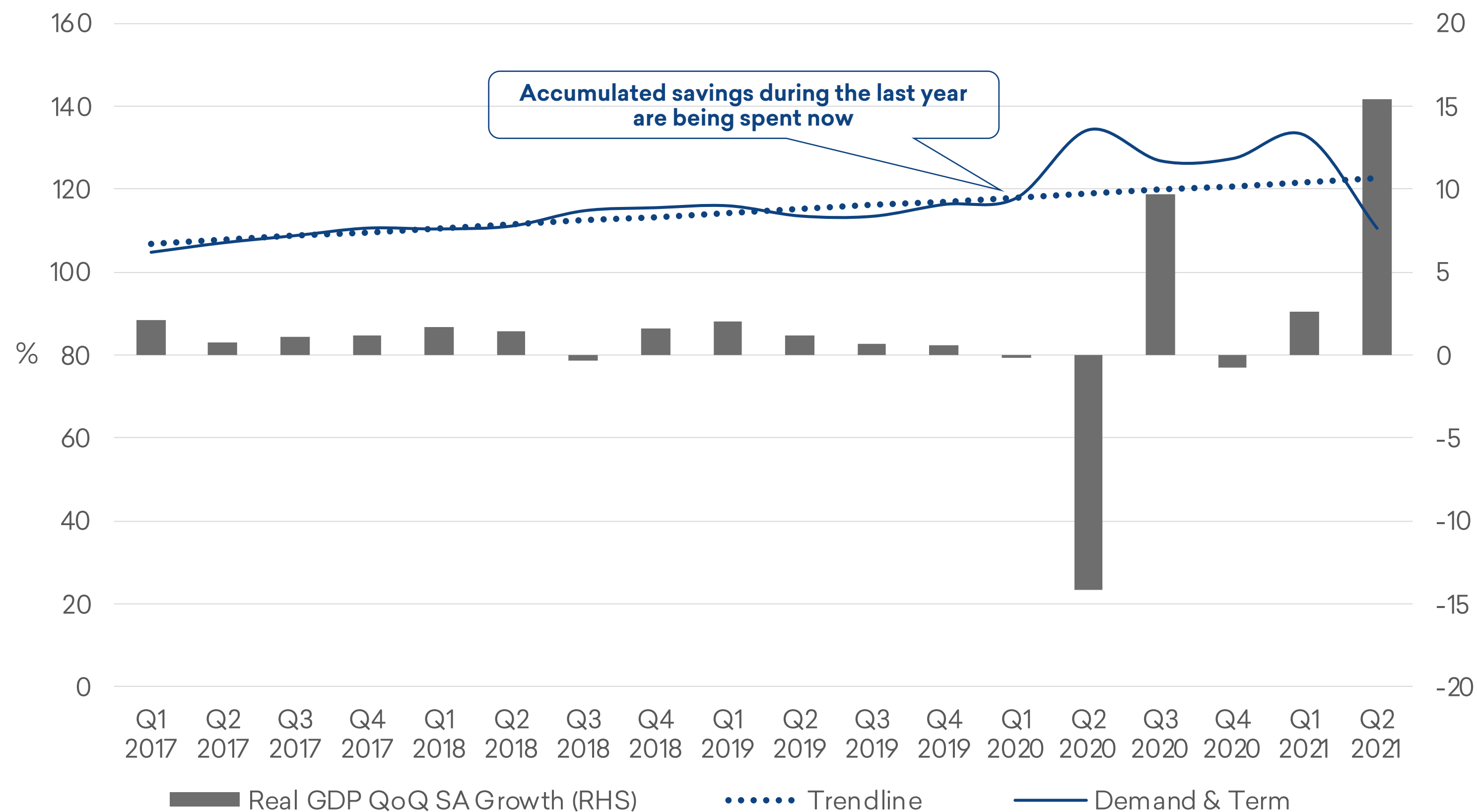
1) Adjusted taking into account reduced cash inflows due to closed borders

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Source: NBG, GeoStat, MoF, TBC Capital

DISSAVINGS ACT AS AN ADDITIONAL STIMULUS TO THE ECONOMY

Household saving deposits divided by quarterly GDP and GDP growth



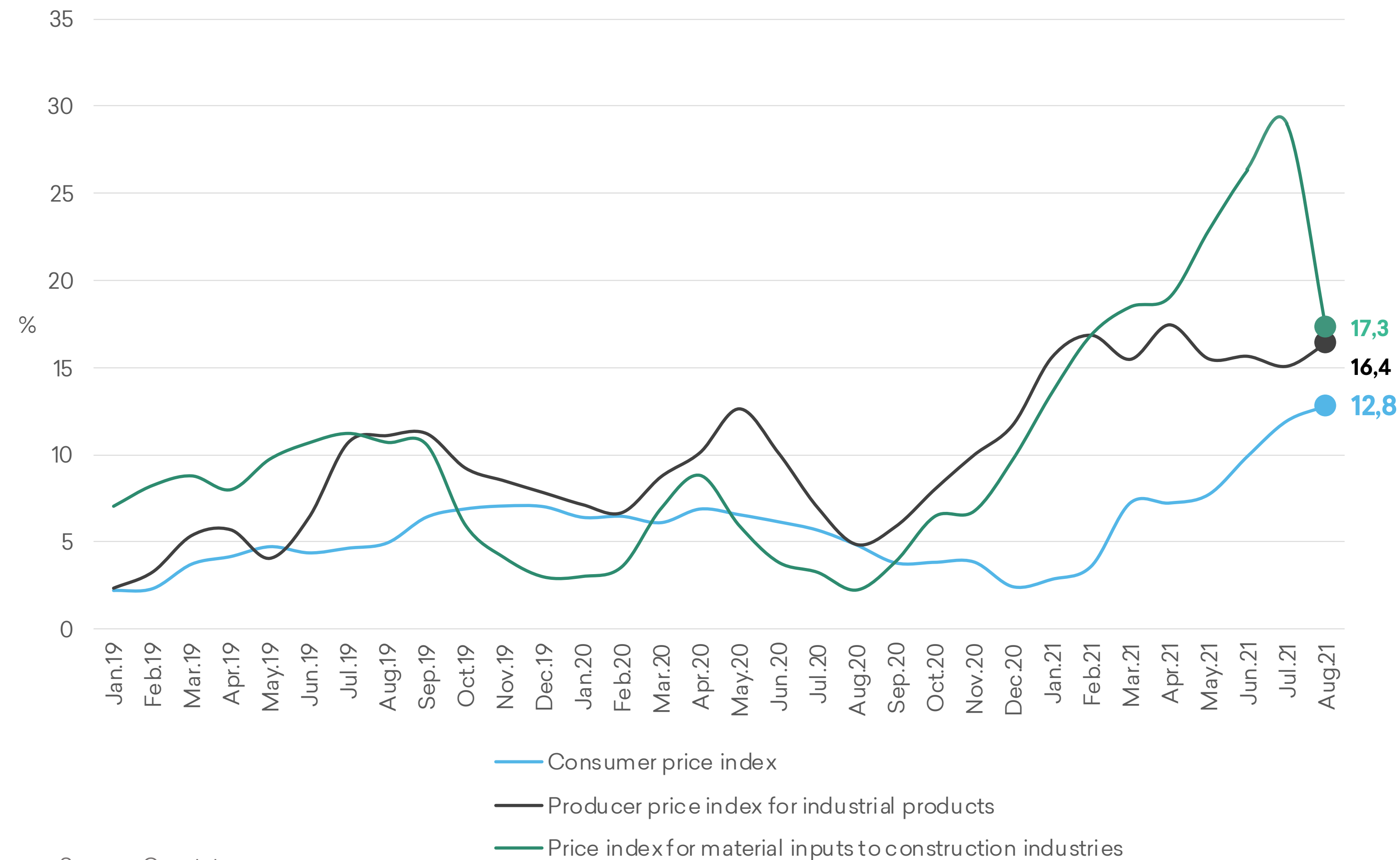
Source: NBG, Geostat, TBC Capital



- ▶ Savings of the high income households increased during the pandemic
- ▶ During the second quarter of 2021, alongside opening of the economy and borders, dissavings further fueled the restart
- ▶ Dissavings were also boosted by falling yields on foreign deposits
- ▶ Due to high dollarization, USD rates have higher significance for savings rather than GEL rates

HIGH INFLATION IS STILL A CHALLENGE

Price indices (YoY)



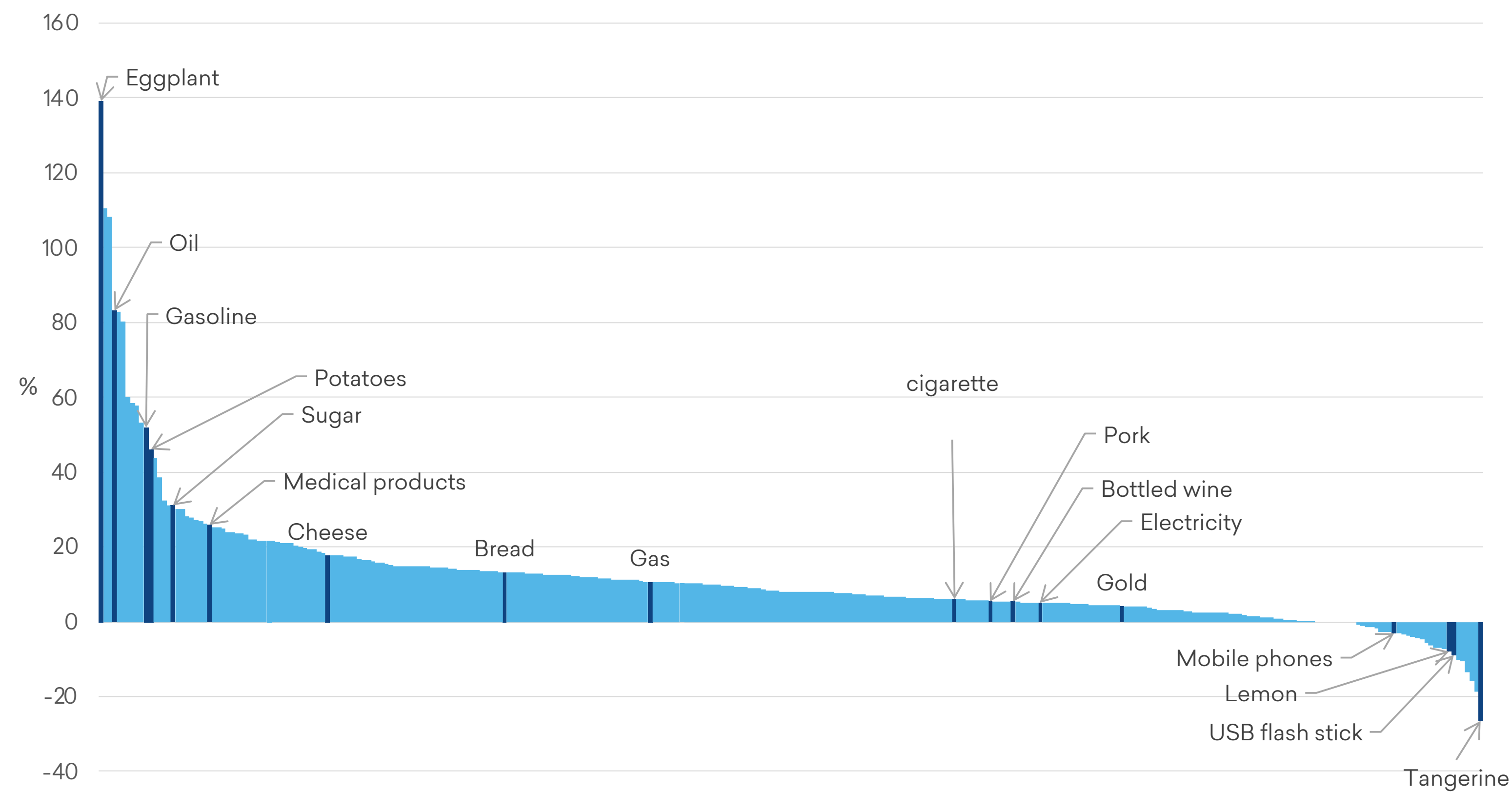
Source: Geostat



- ▶ Inflation is high according to both consumer as well as industrial products
- ▶ In the later period industrial price growth has stabilized, which in tandem with other factors indicates normalization of consumer price growth

PRICE GROWTH HAS AFFECTED MOST OF THE PRODUCTS

Annual price change in August according to the 305 products in the consumer basket



Source: Geostat, TBC Capital

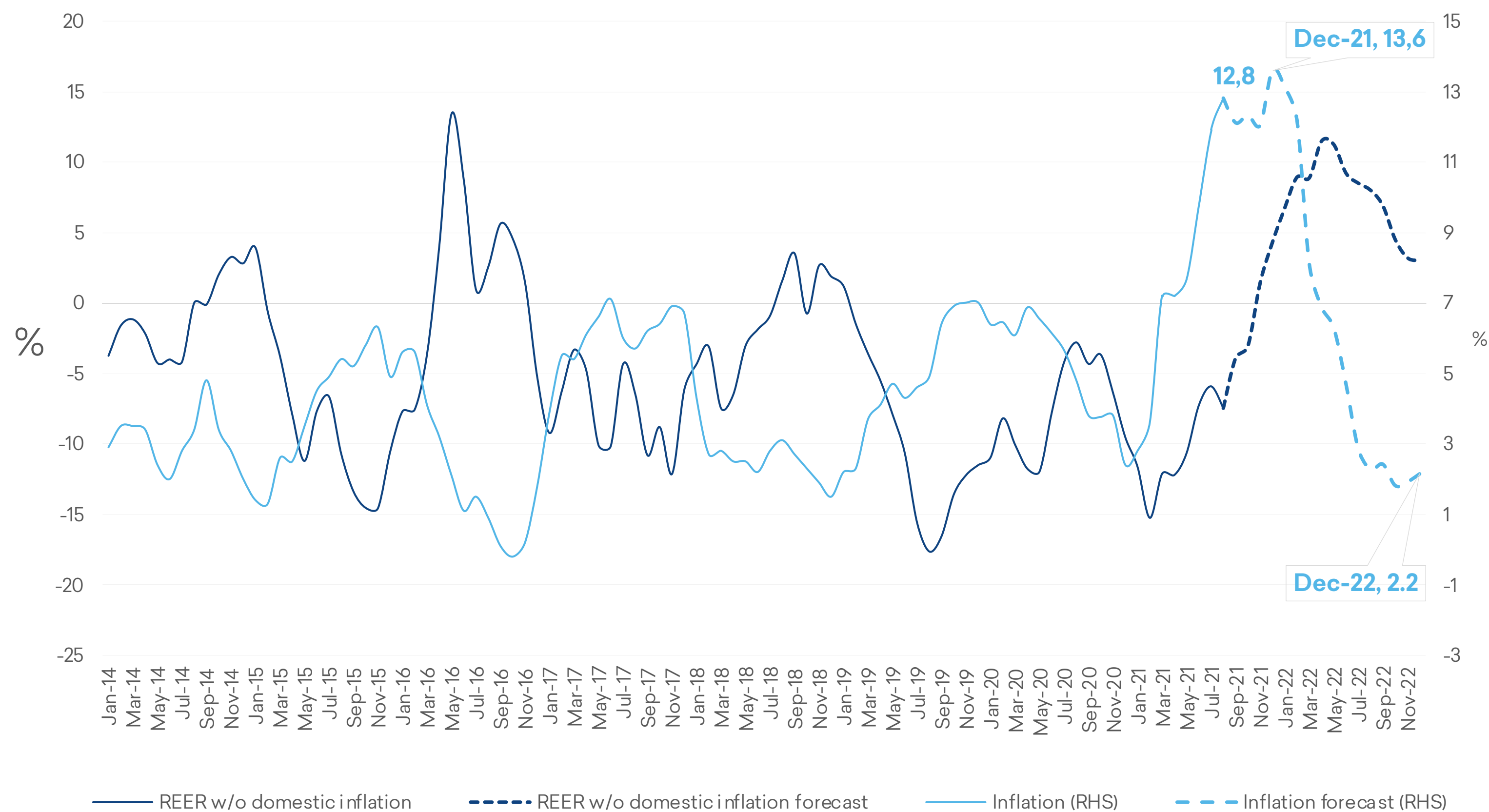


Out of 305 products in the consumer basket prices have increased for 87.9%, the reasons for this growth being:

- ▶ GEL depreciation mainly against US dollar and euro
- ▶ Commodity price hikes on international markets
- ▶ Elimination of subsidies on flour
- ▶ Increasing demand

INFLATION IS EXPECTED TO DECREASE, BUT NOT SOONER THAN 2022

The GEL REER and inflation (YoY)



Source: NBG, Geostat, TBC Capital

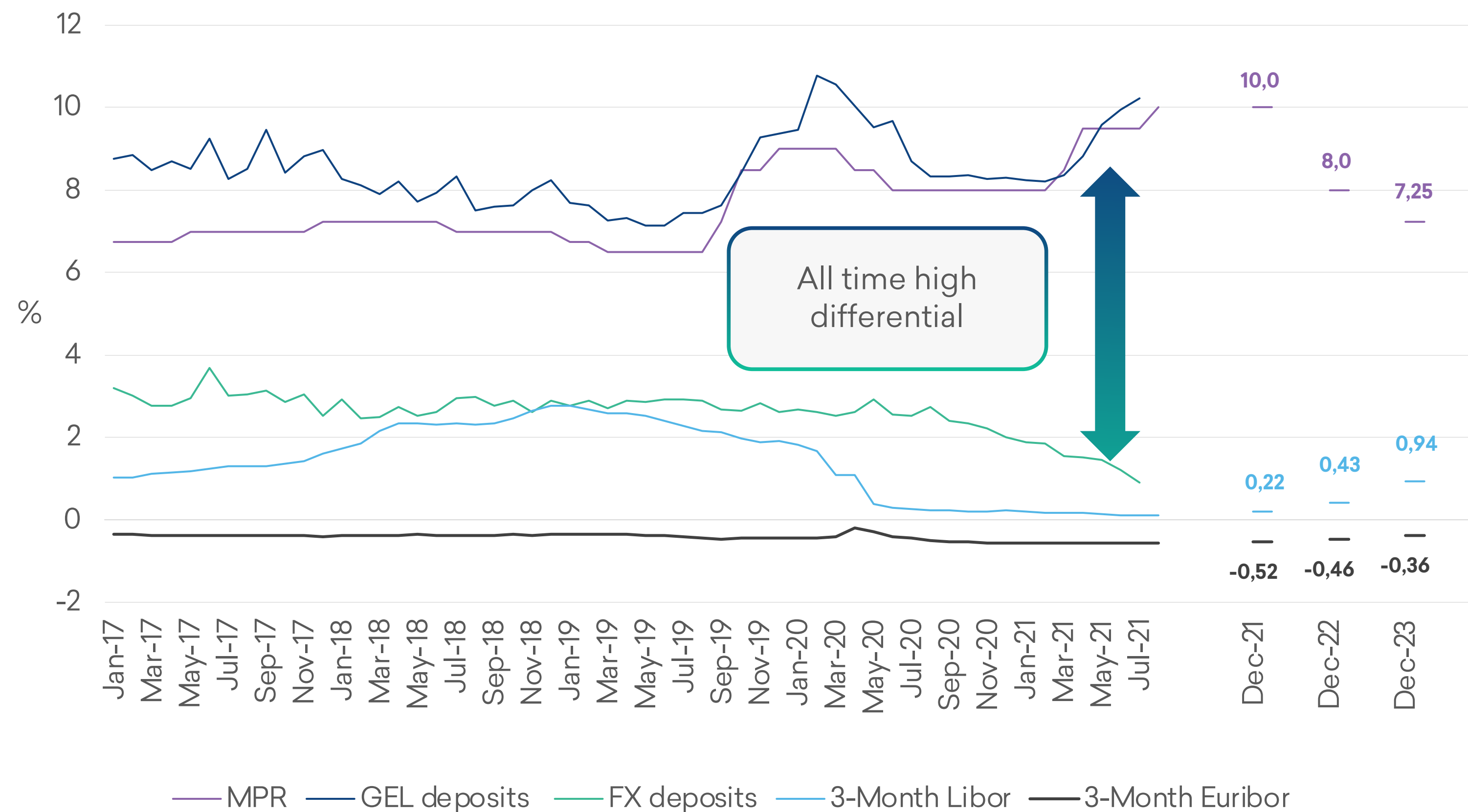


Inflation forecast is based on the following assumptions:

- ▶ Slight appreciation of the GEL against major trading partners' currencies, such as euro, US dollar etc.
- ▶ Price of the Brent to stay around 80\$ per barrel
- ▶ Price stability on other commodities
- ▶ Real GDP growth to be 10.5% in 2021, and 6.0% in 2022

WE EXPECT GEL POLICY RATE CUTS FROM THE SECOND QUARTER OF 2022

Interest rates on domestic and foreign currency denominated deposits, monetary policy rate, Libor, and Euribor



Source: NBG, Bloomberg, TBC Capital



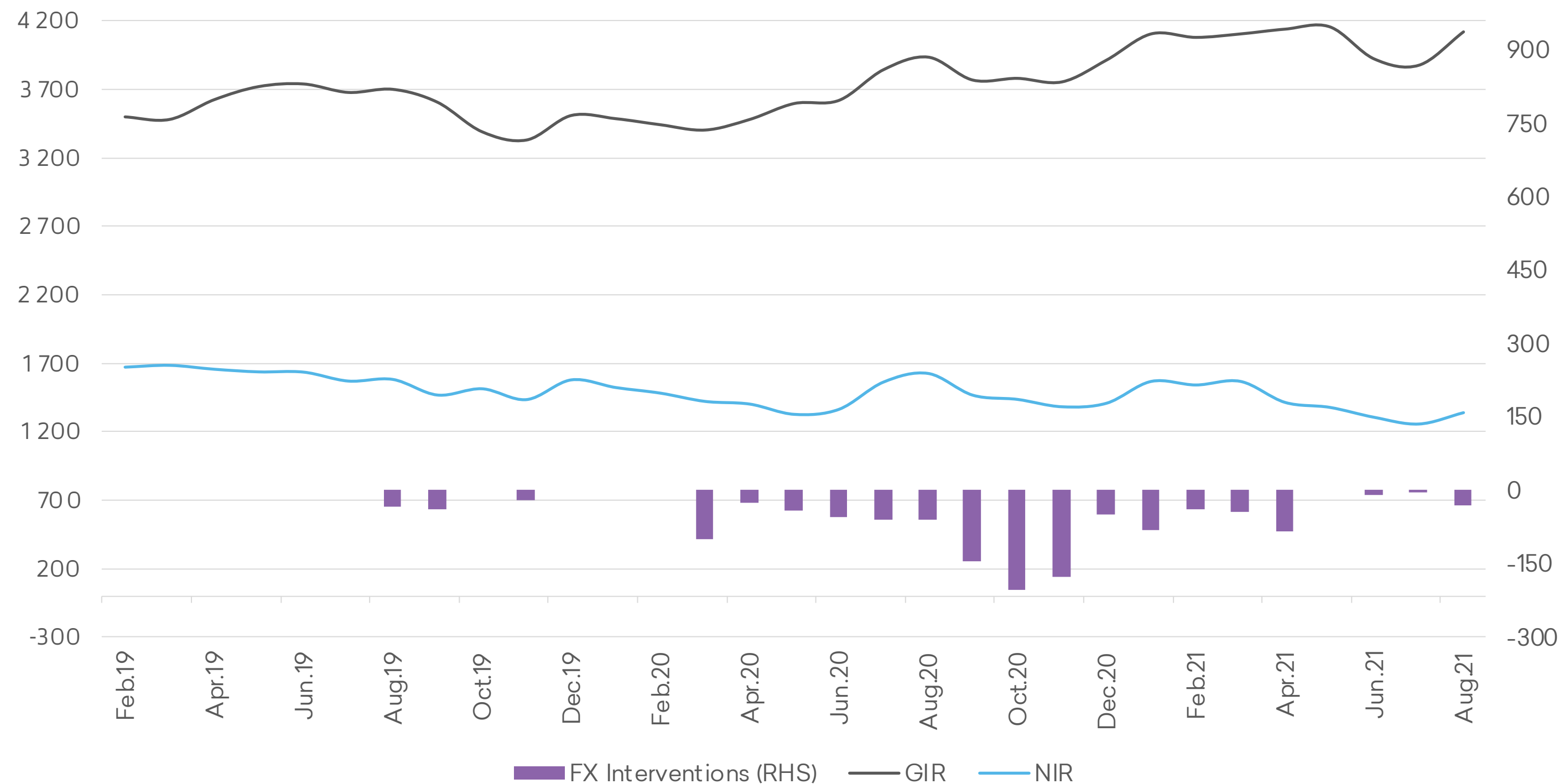
Arguments for lower GEL policy rate:

- ▶ Lower inflation
- ▶ Mitigation of the negative pandemic effects
- ▶ Recovery of the tourism inflows
- ▶ More stable GEL

Based on the past occurrences, expectation of the Fed rate hike does not necessarily translate into stronger USD

GROSS RESERVES OF NBG HAVE INCREASED, WHEREAS NET RESERVES HAVE STAYED AROUND PRE-PANDEMIC LEVELS

NBG gross and net international reserves and FX interventions (Million USD)



Note: NIR level for Aug-2021 is calculated based on the assumed values for FX swap operations between the NBG and commercial banks and MoF liabilities to the IMF. The actual data will be released later this month

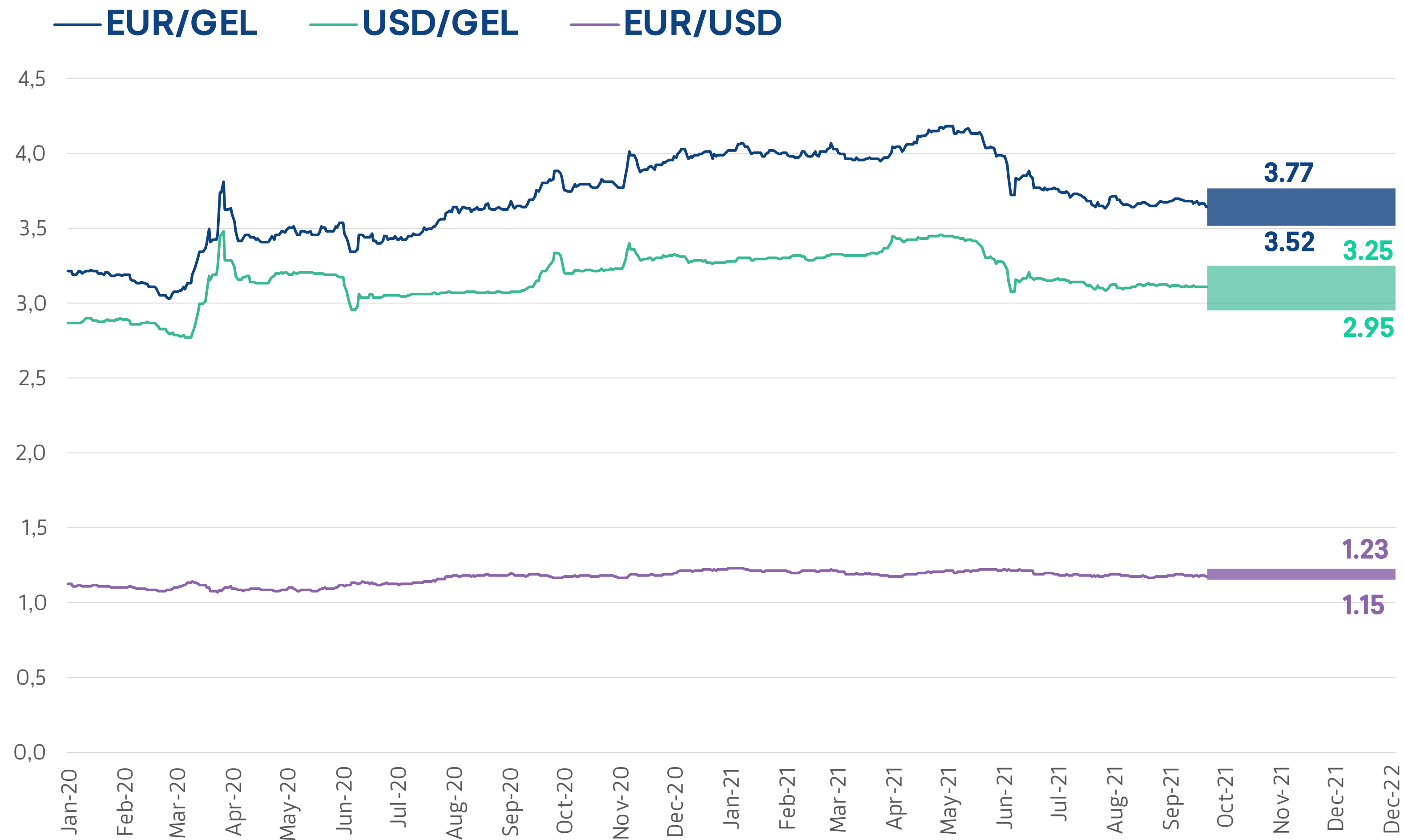
See TBC Capital's [13 September](#) Weekly Update from the Chief Economist

Sources: NBG, MOF, TBC Capital estimations



- ▶ Since May, NBG has had minor interventions in the FX market
- ▶ During the pandemic, most of the NBG interventions have been funded by government foreign debt
- ▶ According to TBC Capital's estimations*, based on the projection of tourism inflows, trade balance, remittances and foreign debt the FX inflow-outflow balance will be positive in 2021

BASELINE SCENARIO DOES NOT INCLUDE NOTICEABLE GEL VOLATILITY IN 2021, WITH SLIGHT APPRECIATION IN 2022



Source: NBG, TBC Capital



Factors pushing GEL towards depreciation:

- ▶ Weak Turkish lira
- ▶ Possible deflation in 2022
- ▶ Fed's early rate hike and stronger US dollar
- ▶ Prolonged pandemic

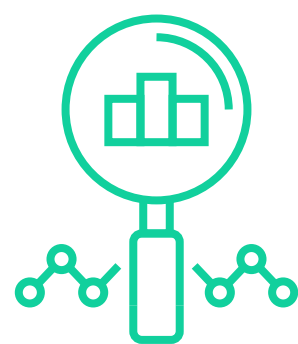
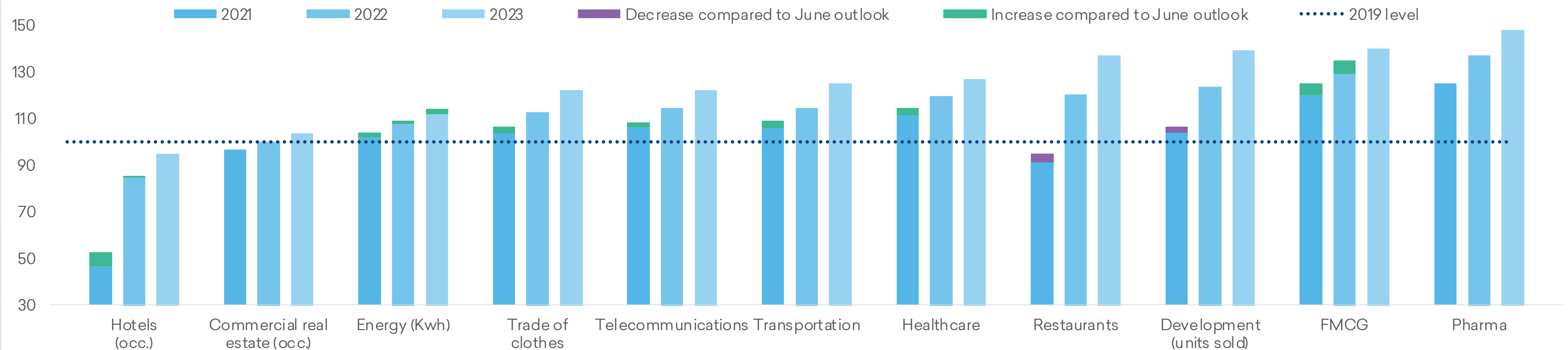
Factors pushing GEL towards appreciation

- ▶ Tourism recovery
- ▶ Government external borrowings
- ▶ NBG reserves
- ▶ High inflation in 2021
- ▶ Tighter GEL interest rate
- ▶ Increased FX credit
- ▶ Weakening of US dollar
- ▶ GEL REER long-term appreciation trend



EXPECTED IMPACT ON BUSINESS SECTOR

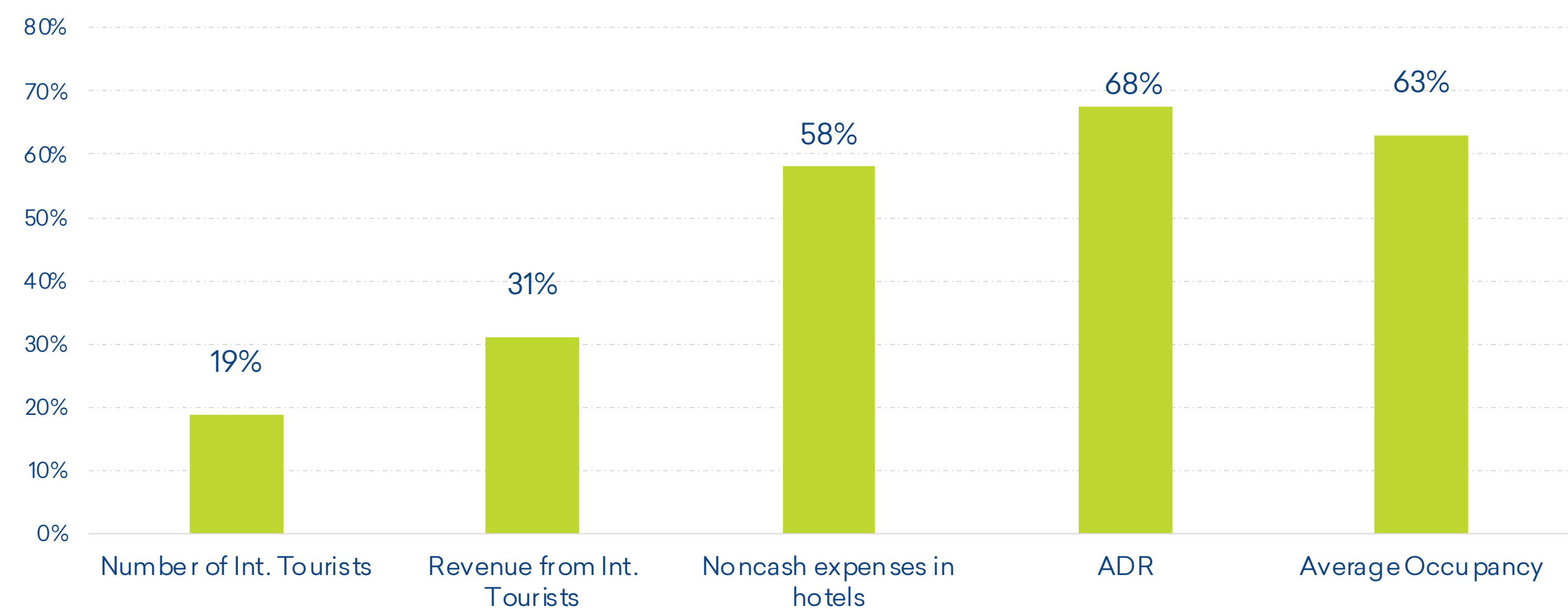
IN 2021 SEVERAL SECTORS WILL GROW BEYOND THEIR PRE PANDEMIC LEVEL



- ▶ According to TBC Capital's projections, nominal turnover of pharmaceuticals, FMCG, and healthcare will exceed their 2019 levels in 2021 by more than 10%.
- ▶ Major determinants of turnover growth in sectors are real consumption and increase of prices.
- ▶ Tourism and related sectors, HORECA, commercial real estate, will not recover to their pre pandemic levels in 2021.

COVID SAFETY GIVES TOURISM INDUSTRY A CHANCE TO RECOVER FASTER

Recovery of Tourism compared to 2019 January - August , 2021



	2019, 8M	2021, 8M
Number of Int. Tourists (000)	5,198	962
Revenue form Int. Tourists, USD (000)	2,264,206	703,792
Noncash expenditures in hotels, in TBC Bank channels, USD (000)	35,382	20,550
ADR, USD	123	83
Average occupancy	46%	29%

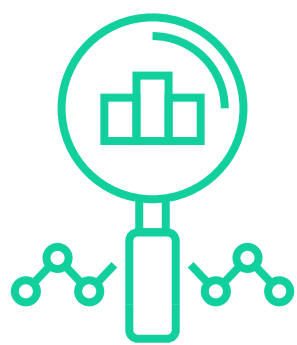
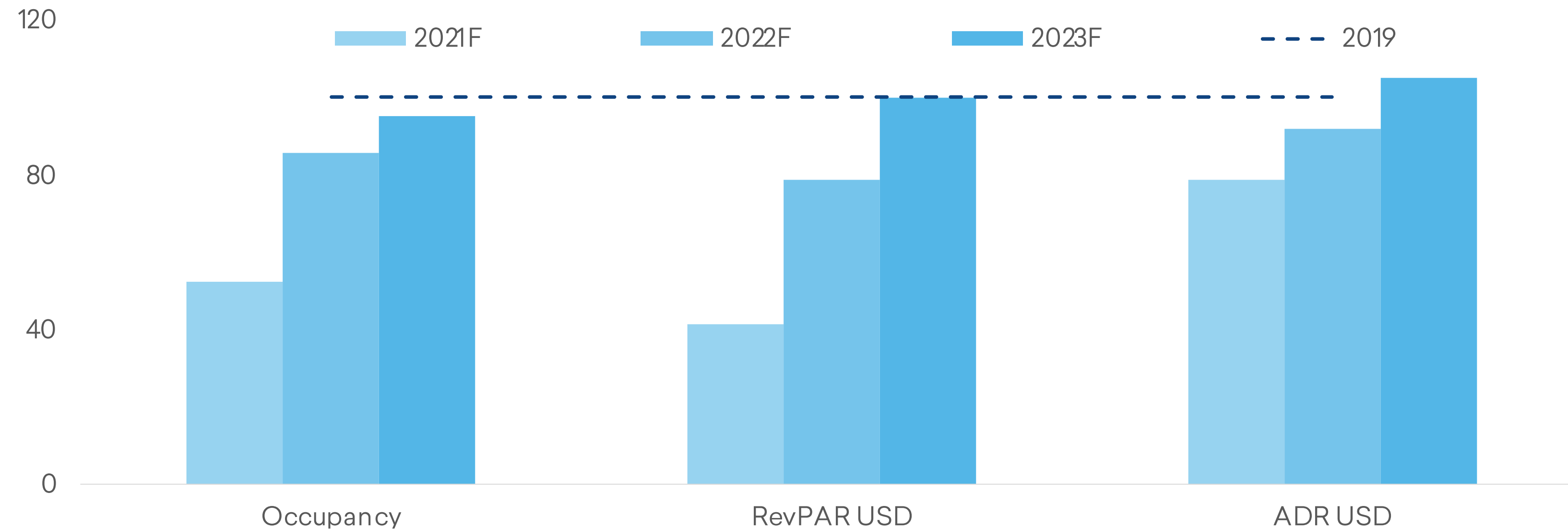


- ▶ Inflow of tourists from neighbor countries has slowed down in 2021 compared to 2019.
- ▶ Ukraine, Israel, and the EU and the middle east countries have larger share in revenues generated from international tourists.
- ▶ Average occupancy and ADR show strong recovery and local tourism played an important role in achieving these results.
- ▶ Fourth wave of pandemic slowed down the recovery of the tourism.

Sources: GNTA, NBG, TBC Capital, TBC Bank

TOURISM WILL HAVE TO OVERCOME PANDEMIC CHALLENGES IN 2022 AS WELL

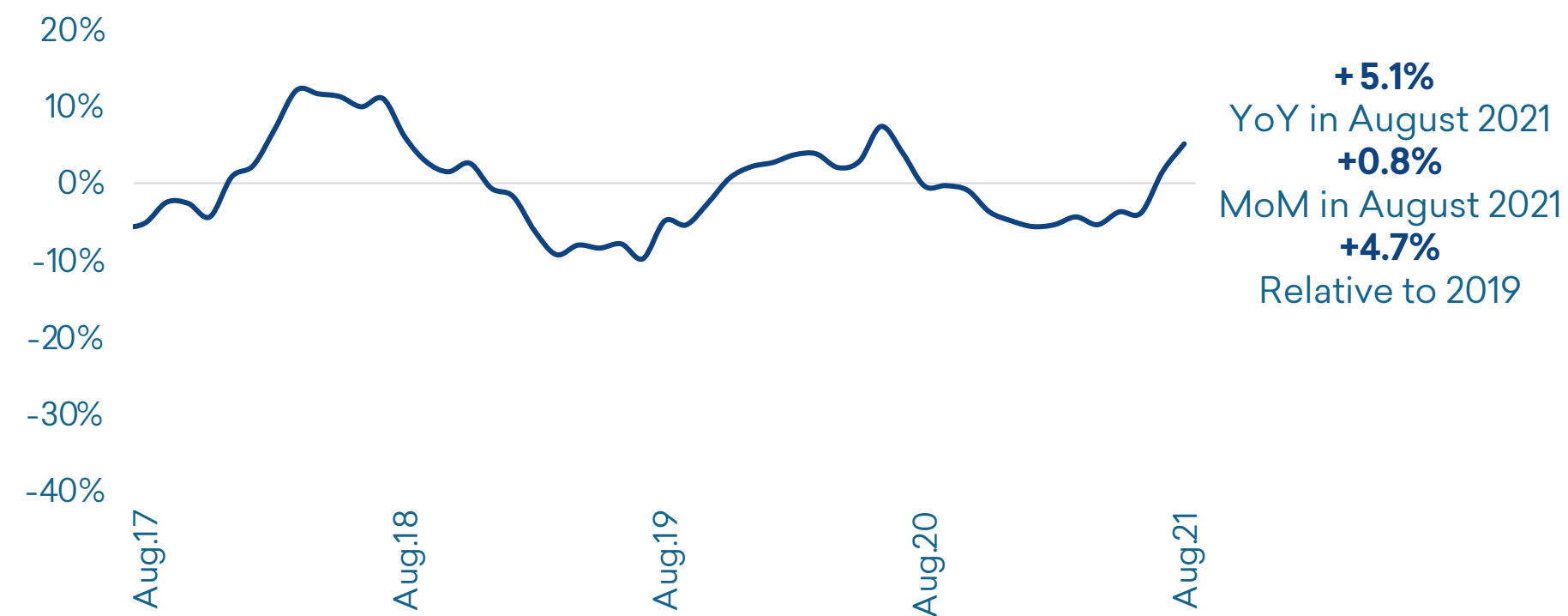
Projections



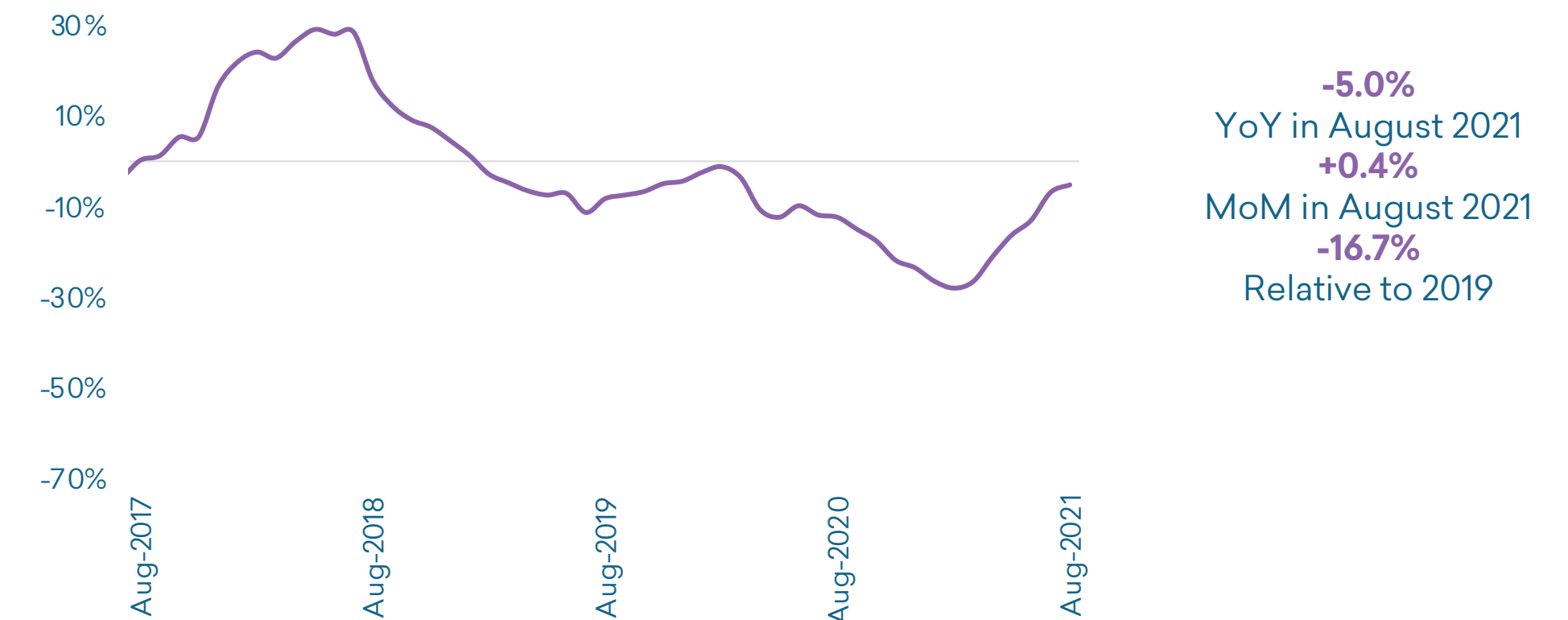
- ▶ In 2021 revenues from international tourists will recover to 37.5% of its 2019 level.
- ▶ In 2021 average occupancy will recover to 55% of its 2019 level.
- ▶ Average Daily Rate will have a stronger, 79% recovery in 2021.
- ▶ Local tourism plays a significant role in recovery of occupancy and ADR in 2021. In 2021, number of local tourists increased by 18% and 29% in I and II quarters, respectively, compared to the same periods of 2019.
- ▶ In 2023, the industry will mostly approach its 2019 levels.

RESIDENTIAL REAL ESTATE ON A STEADY TRACK OF RECOVERY

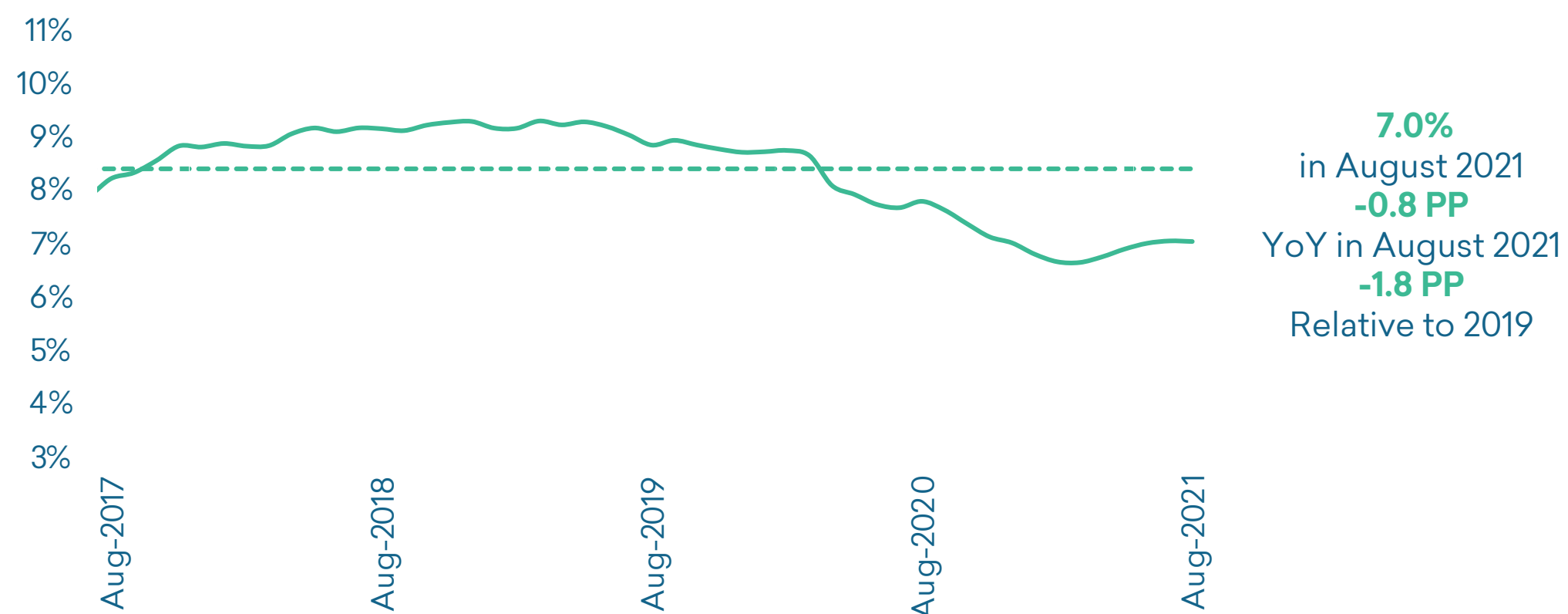
TBILISI RESIDENTIAL REAL ESTATE PRICE* - USD
(Change YoY, %)



TBILISI RESIDENTIAL REAL ESTATE RENT - USD
(Change YoY, %)



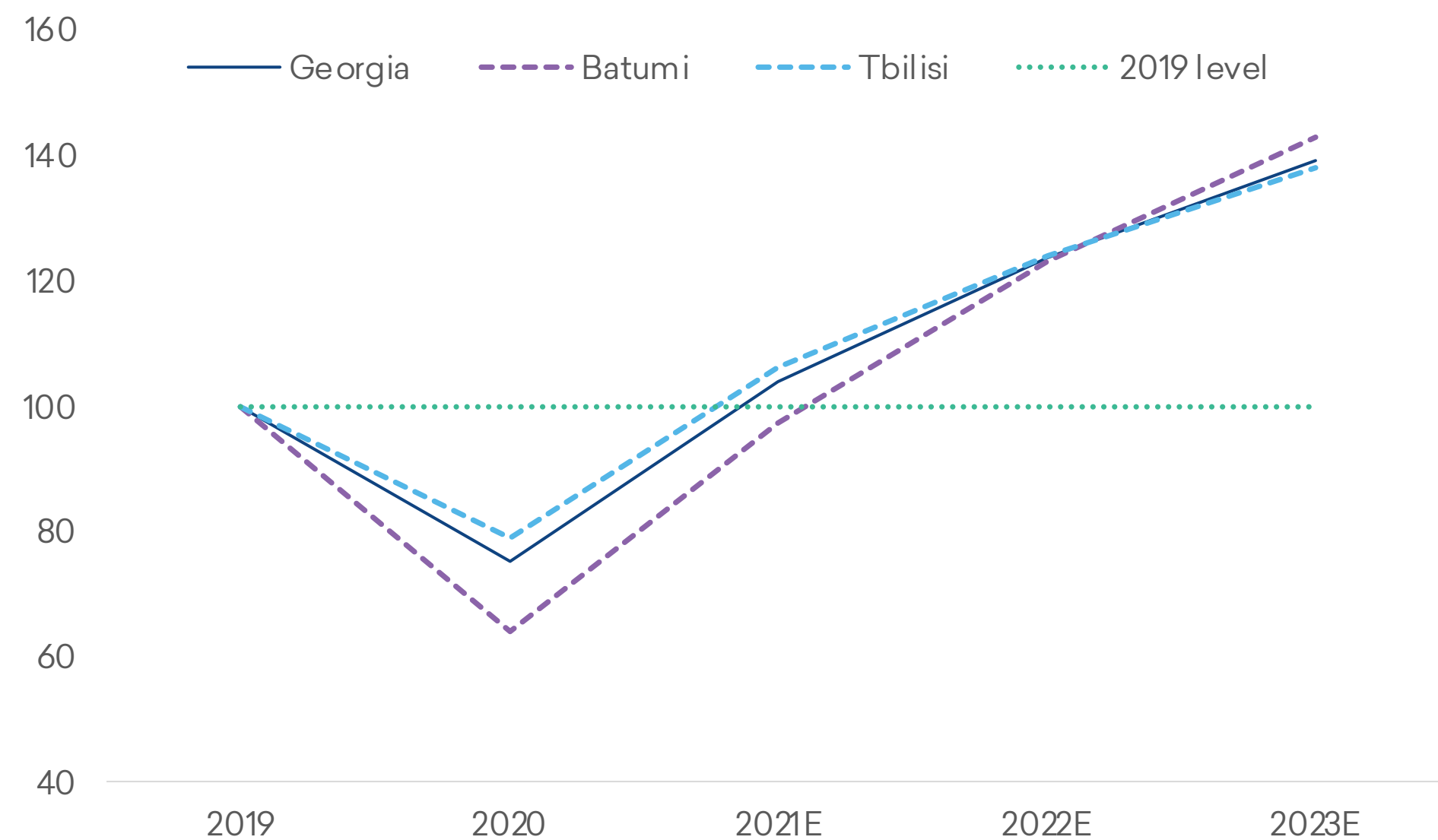
RENT-TO-PRICE RATIO AND ITS LONG-TERM AVERAGE
(%)



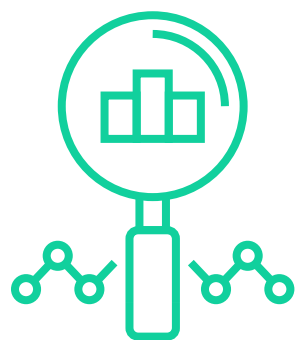
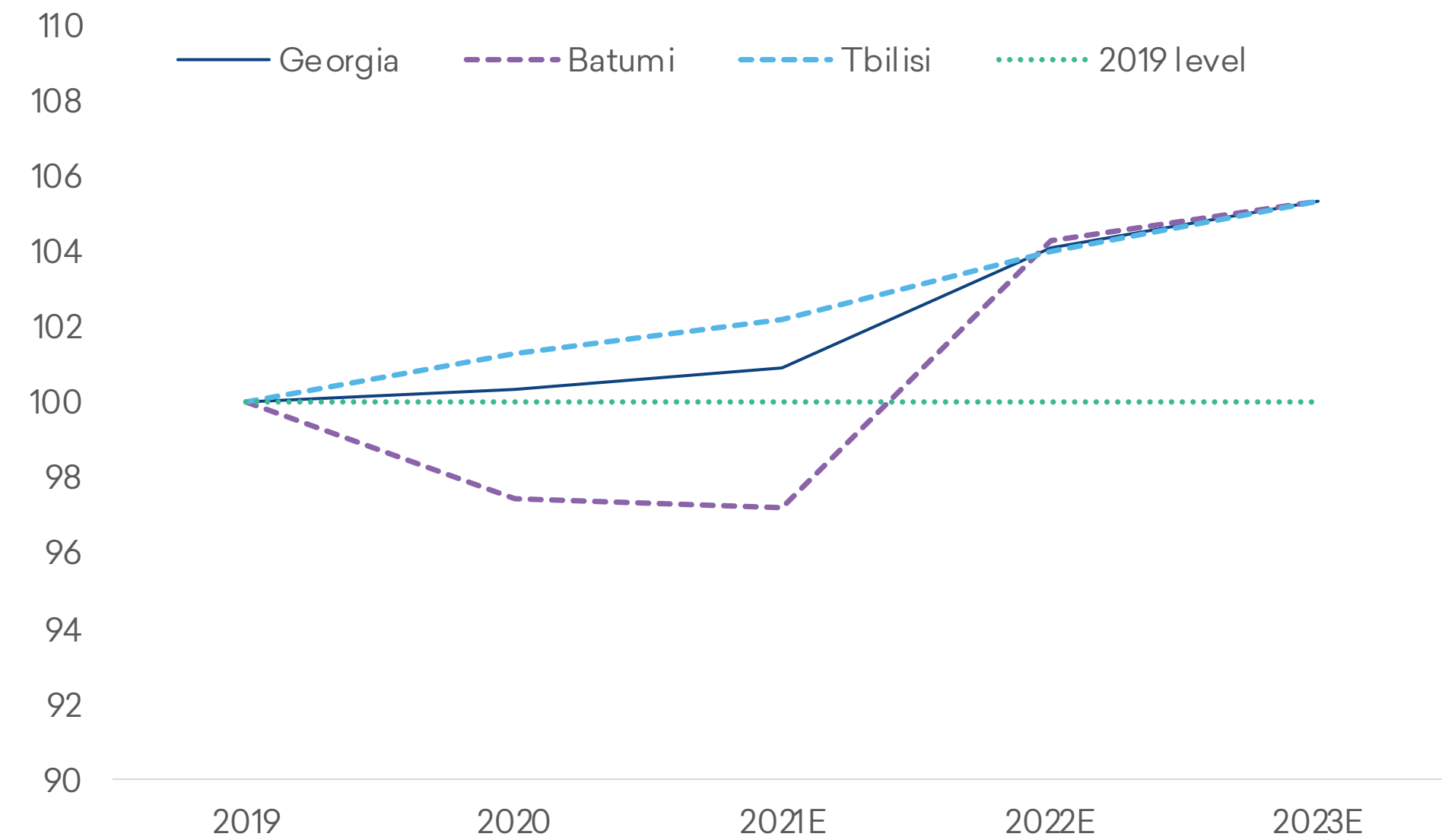
- ▶ In 2021, price of residential real estate in Tbilisi demonstrate positive trend.
- ▶ The effect of pandemic is stronger on rent and in August 2021 the rent is beyond its 2019 level by 16.7%.
- ▶ Demand increases in Didube, Isani, and Samgori.
- ▶ Number of transactions has exceeded its 2019 level by 1.2% in January- August 2021.

RESIDENTIAL REAL ESTATE MORE RESILIENT TO CRISIS

Number of sold apartments



Price USD



- ▶ In 2021, number of transactions will exceed its 2019 level by 3.8%.
- ▶ In 2021 the price of residential real estate will insignificantly exceed its 2019 level.
- ▶ Pandemic hit Batumi RE harder, however, starting from 2022, the recovery of prices and transactions in Batumi will be faster than in Tbilisi.

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