

WEEKLY UPDATE FROM  
THE CHIEF ECONOMIST

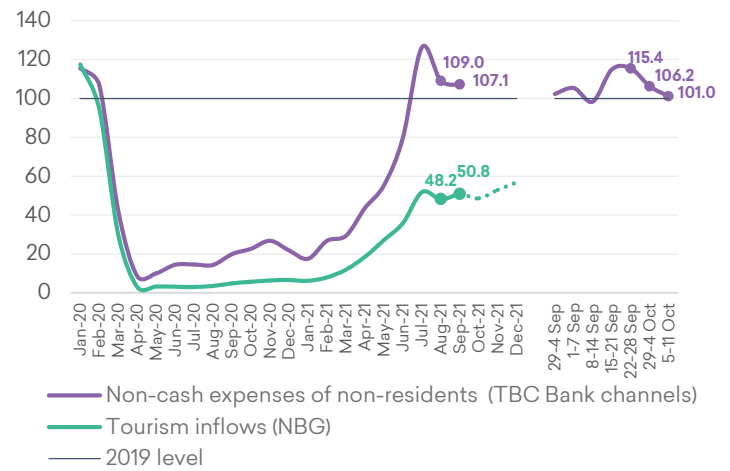


# Weekly Update from the Chief Economist

18.10.2021

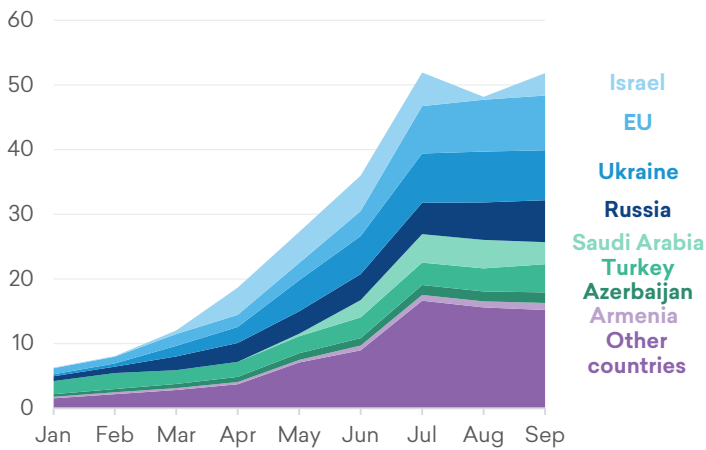
The fourth wave of Covid pandemic decelerated the tourism recovery in August, especially when Israel considered enlisting Georgia among the red countries. As expected, the growth from Israel is back and overall September inflows remained broadly flat reaching 50.8% in USD terms compared to 2019. The gradual MoM recovery should continue, though as in October 2019 the adverse impact of the Russian flight ban was compensated by other countries the EU having the highest contribution, one should expect a slightly weaker increase compared to 2019 in October. This is also evident in our latest weekly non-cash expenses of non-residents. September remittance inflows were also in line with expectations – YoY growth equaling 8.8%.

**TOURISM INFLOWS**  
(in USD, same month 2019=100, %)



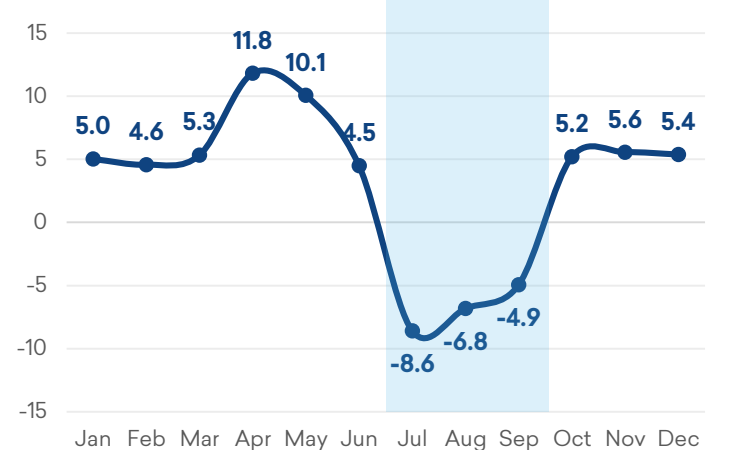
Source: NBG, TBC Bank, TBC Capital

**TOURISM INFLOWS: RECOVERY BY COUNTRIES**  
(in USD, same month 2019=100, %)



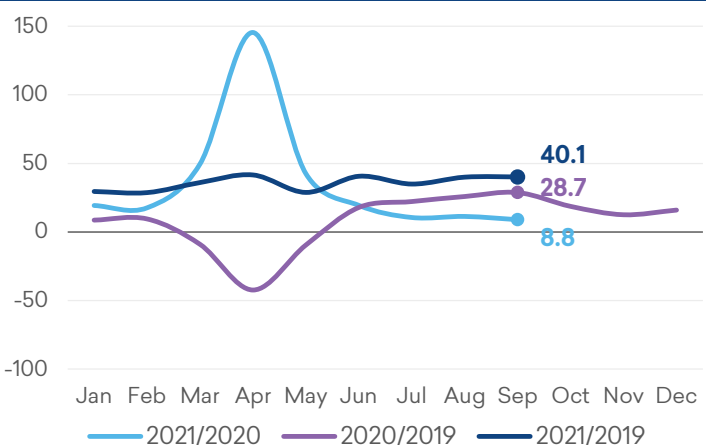
Source: NBG

**TOURISM INFLOWS IN 2019**  
(in USD, YoY, %)



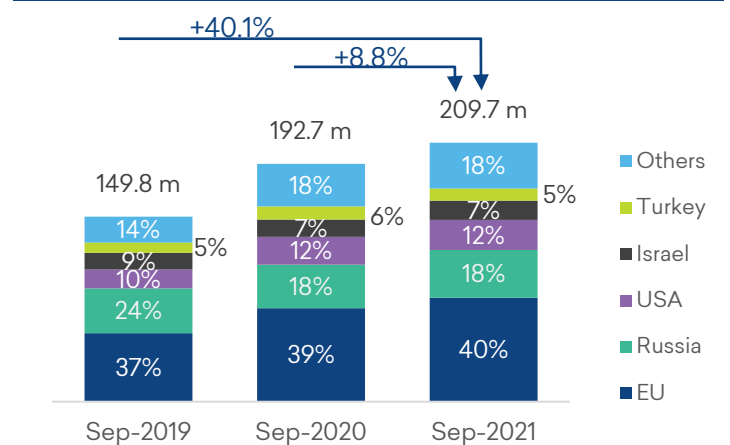
Source: NBG

**REMITTANCES**  
(in USD, %)



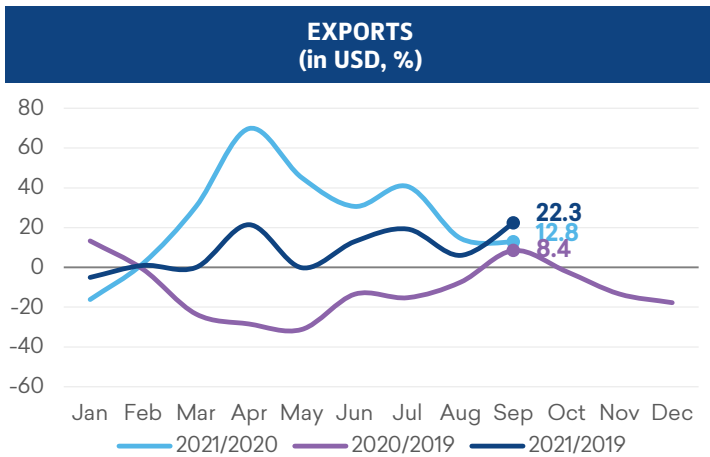
Source: NBG

**REMITTANCES BY COUNTRIES**  
(in USD)

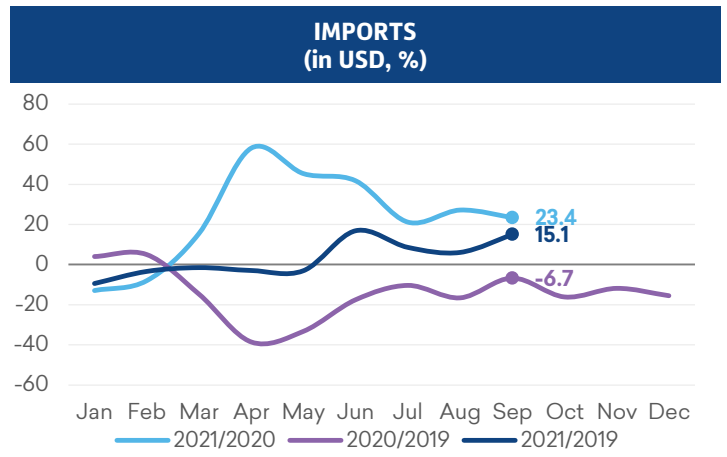


Source: NBG

Unlike Tourism and remittances, trade in goods increased at a much stronger rate compared to our expectations, indicating to a higher than [assumed September GDP growth](#). As per usual, the rebound led to the worsening of the trade balance – by 8.1% MoM and 31.8% YoY.



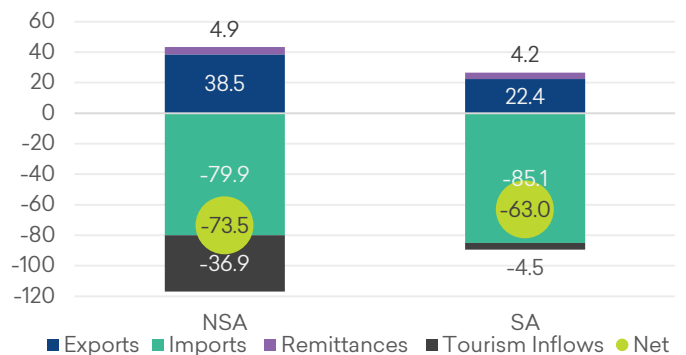
Source: GeoStat



Source: GeoStat

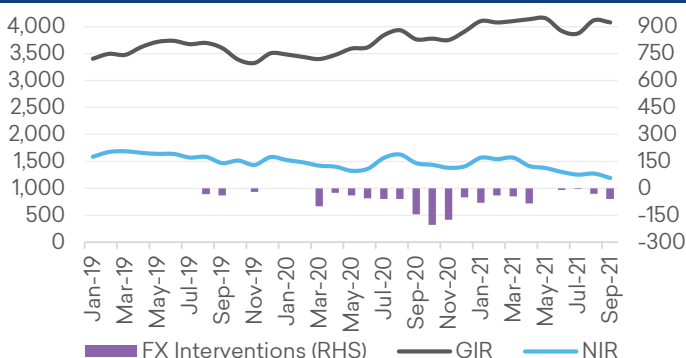
Overall, MoM change in currency flows from trade, tourism and remittances in September amounted to negative 73.5 mln USD (63.0 mln USD in seasonally-adjusted terms), which in this month was almost equal to the NBG’s intervention of selling 60 million USD on September 30. Although, we believe [post-election depreciation expectations](#) were a primary reason behind the pressures on the GEL, rather than an estimated balance of key CA components. This, in spite of [record high interest rate deferential](#), is evident from much stronger growth of FC deposits in August-September compared to the previous months, what also likely continued in October based on the NBG’s monetary aggregates daily data. At the same time, the [FC credit has recently also strengthened](#). In fact, even during the pandemic, the GEL REER often has been more correlated with the currency composition of credit, rather than with the major components of the CA (see [The Additional Fuel behind the Restart](#)).

### SELECTED CURRENCY FLOWS IN SEPTEMBER (in mln USD, MoM, %)



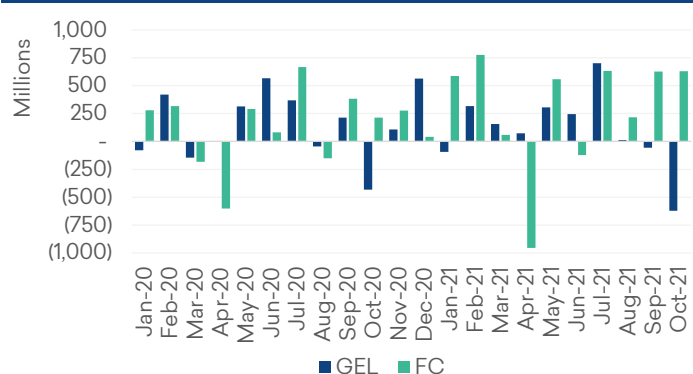
Source: Geostat, NBG, TBC Capital

### NBG’S INTERNATIONAL RESERVES AND FX INTERVENTIONS (in million USD)



Note: NIR level for Sep-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  
Source: NBG, MoF, TBC Capital

### GROWTH OF DEPOSITS BY CURRENCIES (MoM, SA, FX-adjusted GEL)

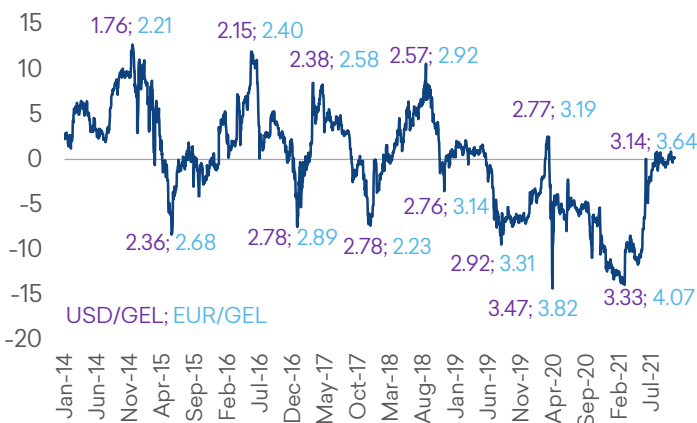


Note: Excluding government deposits; September and October estimates are based on M2 and M3 daily dynamics; as of 11-Oct  
Source: NBG, TBC Capital

On the GEL, also important that last week the lira weakened further. Should the GEL follow? Despite the fact that the historical correlation exists and the risk is considerable, not necessarily in our view. First, the overall REER is at its medium term average as other trading partner currencies have a different pattern than lira. Second, high inflation in Turkey largely offsets lira's nominal depreciation. Third, the real GEL/TRY has a long term appreciation trend as the [GEL should strengthen in the long term](#) due to the stronger per capita GDP and productivity growth in Georgia compared to Turkey, however, recent GEL appreciation against lira is around 18% higher compared to what the long term trend would suggest. Fourth, while the TRY/GEL has some impact on Turkey/Georgia's trade balance, it appears Turkish imports are primarily competing with other imports as the impact on overall trade balance is not evident and overall, its more about growth rather than the exchange rate (see [March 15 Macro Insights](#)). Fifth, we stick to our view that 2021 [the inflow-outflow balance is positive](#). And the last, but not least, with already [very high inflation in Georgia](#), being strongly linked to the GEL, we don't think there is an appetite for the further depreciation.

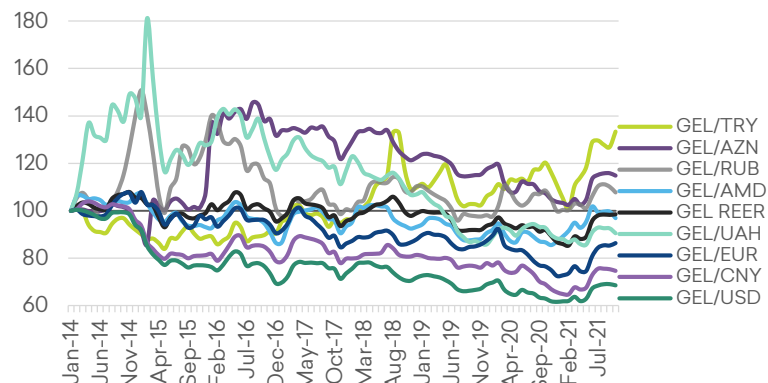
We once again highlight the [benefits of the multicurrency portfolio](#), for borrowings as well as for the savings, with the TRY and the RUB also in play.

**THE GEL REER, DAILY ESTIMATES**  
(% deviation from period average)



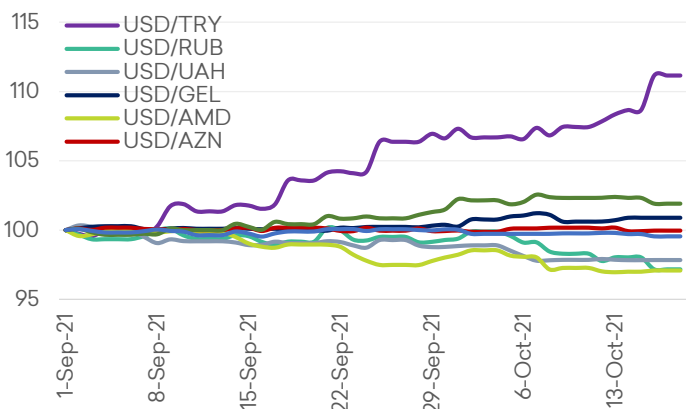
Note: As of 15-Oct, increase means GEL appreciation  
Source: NBG, corresponding statistical entities, TBC Capital

**RER INDICES OF GEL**  
(Jan-14 = 100)



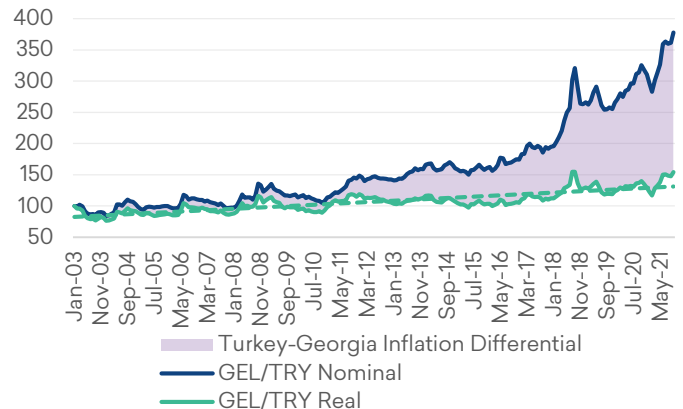
Note: As of 15-Oct, increase means GEL appreciation  
Source: NBG, corresponding statistical entities, TBC Capital

**GEORGIA'S MAJOR TRADE PARTNERS' CURRENCIES TO USD**  
(1-Sep-2021 = 100)



Note: As of 15-Oct  
Source: NBG

**REAL AND NOMINAL GEL/TRY EXCHANGE RATES**  
(Jan-03=100)



Note: As of 15-Oct, increase means GEL appreciation  
Source: NBG, corresponding statistical entities, TBC Capital

**Data releases to watch this week:**

- Oct 19 – External Trade Detailed Data, September 2021;
- Oct 20 – Producer Price Index, September 2021.

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