TBC CAPITAL

MACRO-SETORAL OVERVIEW

2023

MACRO OVERVIEW

OTAR NADARAIA
Chief Economist, TBC Group

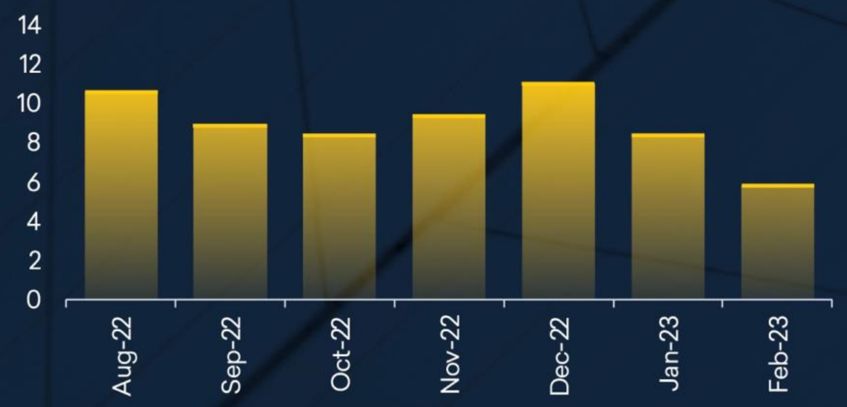
What has changed since December macro-sectoral overview?

EUR HAS APPRECIATED AGAINST USD

USD BENCHMARK RATE HAS DECREASED

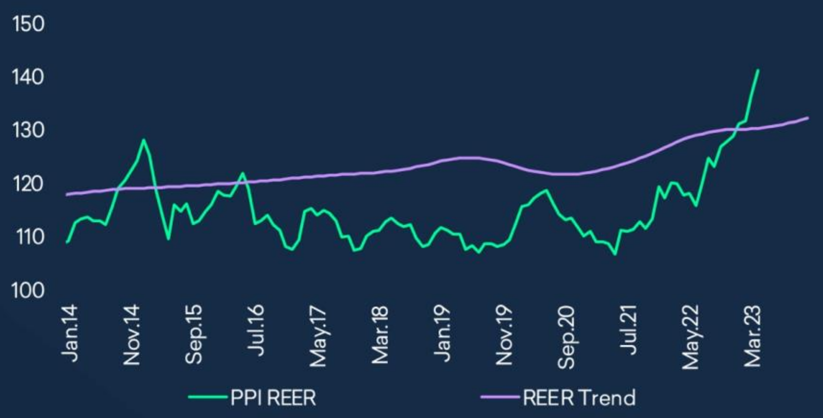
MIGRATION OUTFLOW IS LESS LIKELY THIS YEAR

ECONOMIC GROWTH IS NORMALIZING

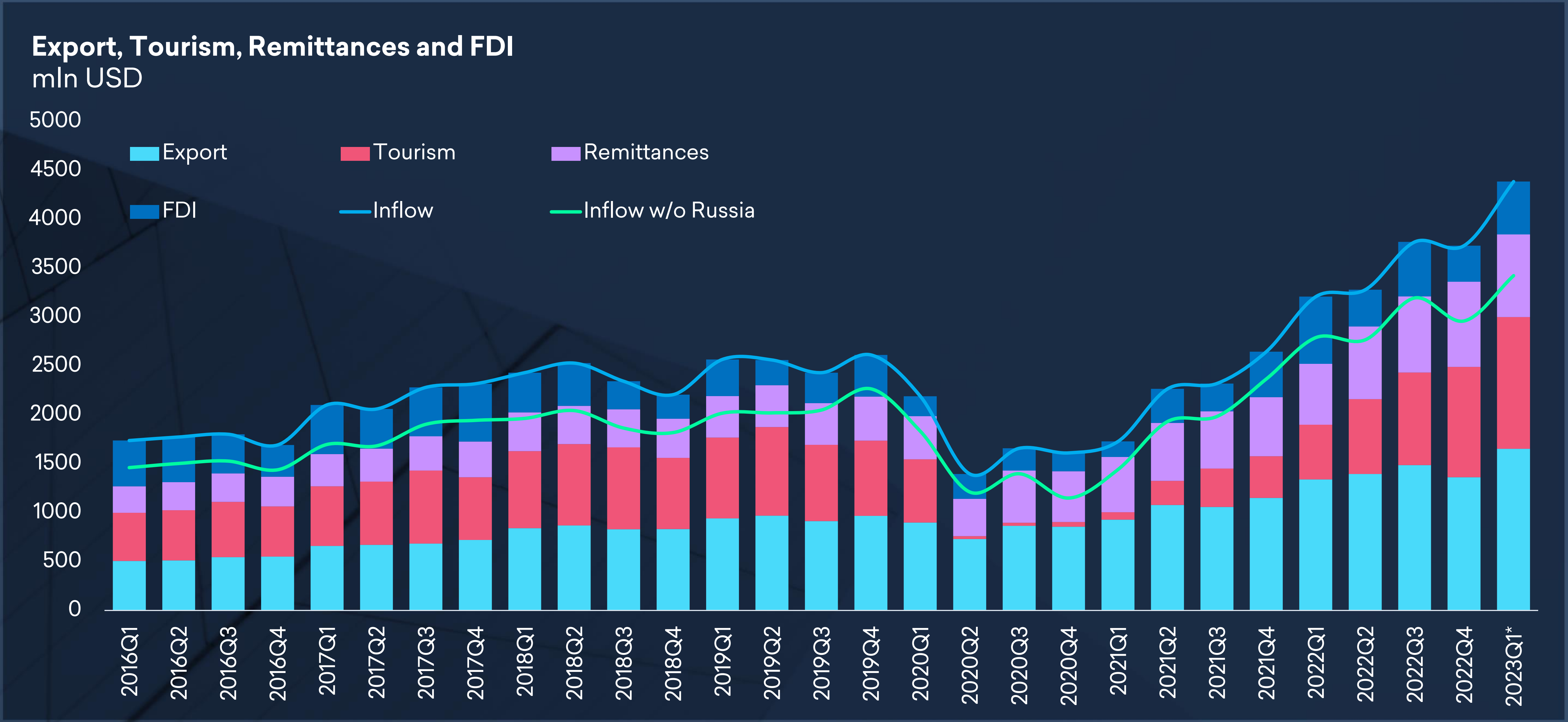


INFLATION IS REACHING LOWS

THE GEL IS ABOVE ITS LONG-TERM TREND



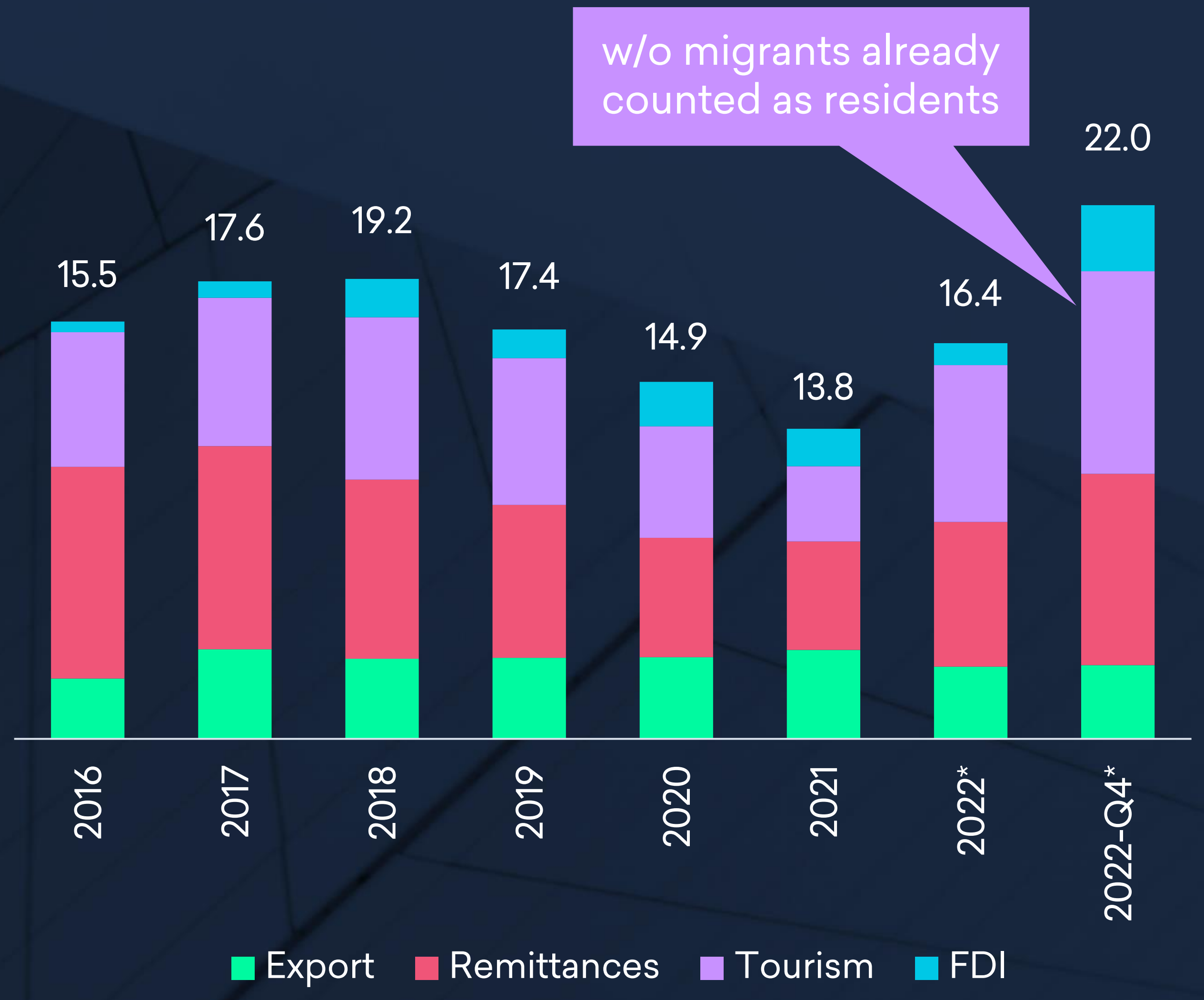
Strong growth not only on the back of inflows from Russia



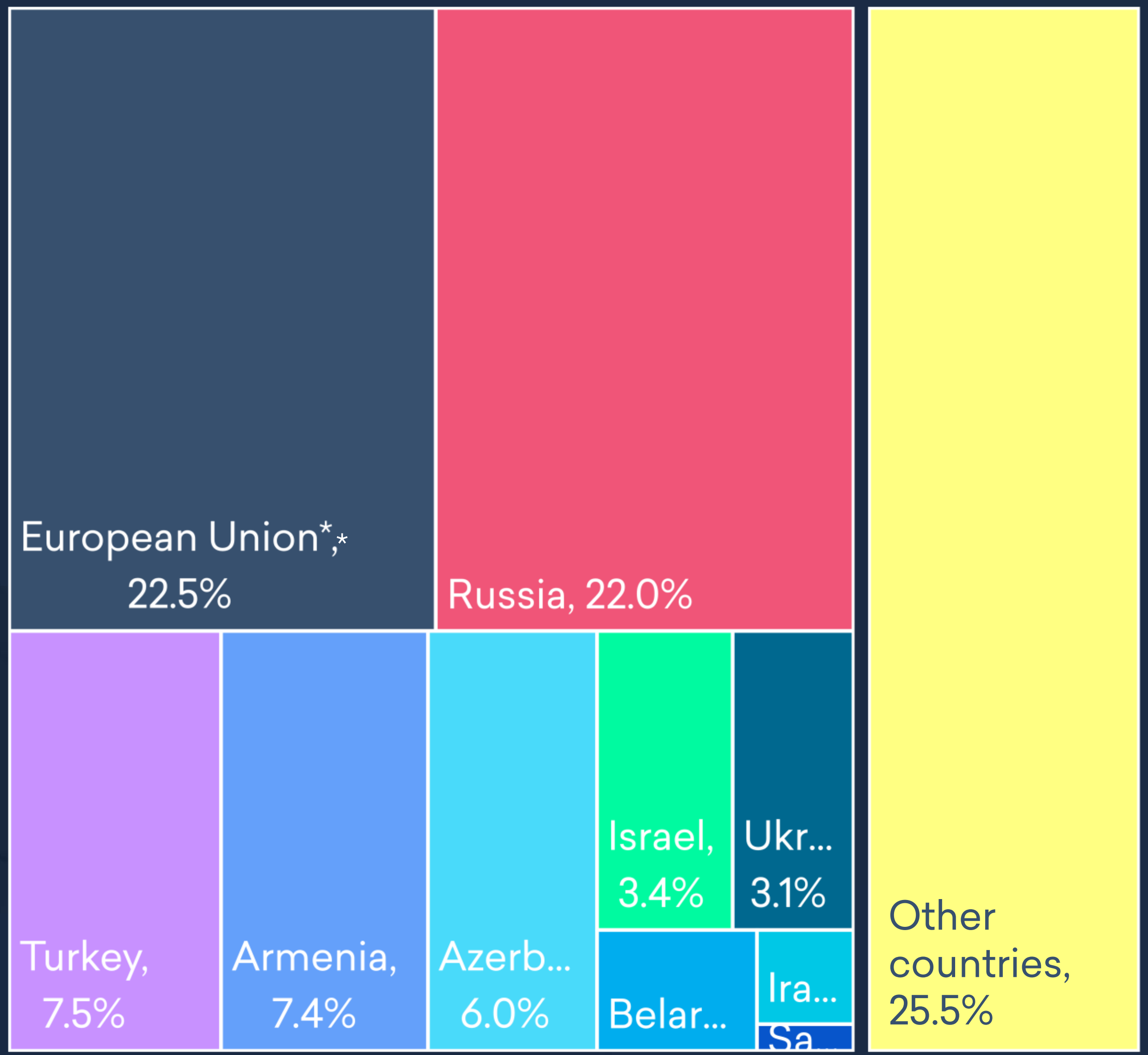
Note: Net inflows is a sum of net export of goods, gross tourism and remittances; *2023Q1 is an estimate;
Remittances from Russia are adjusted for double counting with tourism inflows and other issues.
Source: Geostat, NBG, TBC Capital

Exposure to Russia has risen mostly via migrants and remittance inflows

Share of Russia in total Inflows, %



Share of countries in external inflow, 2022 Q4, %

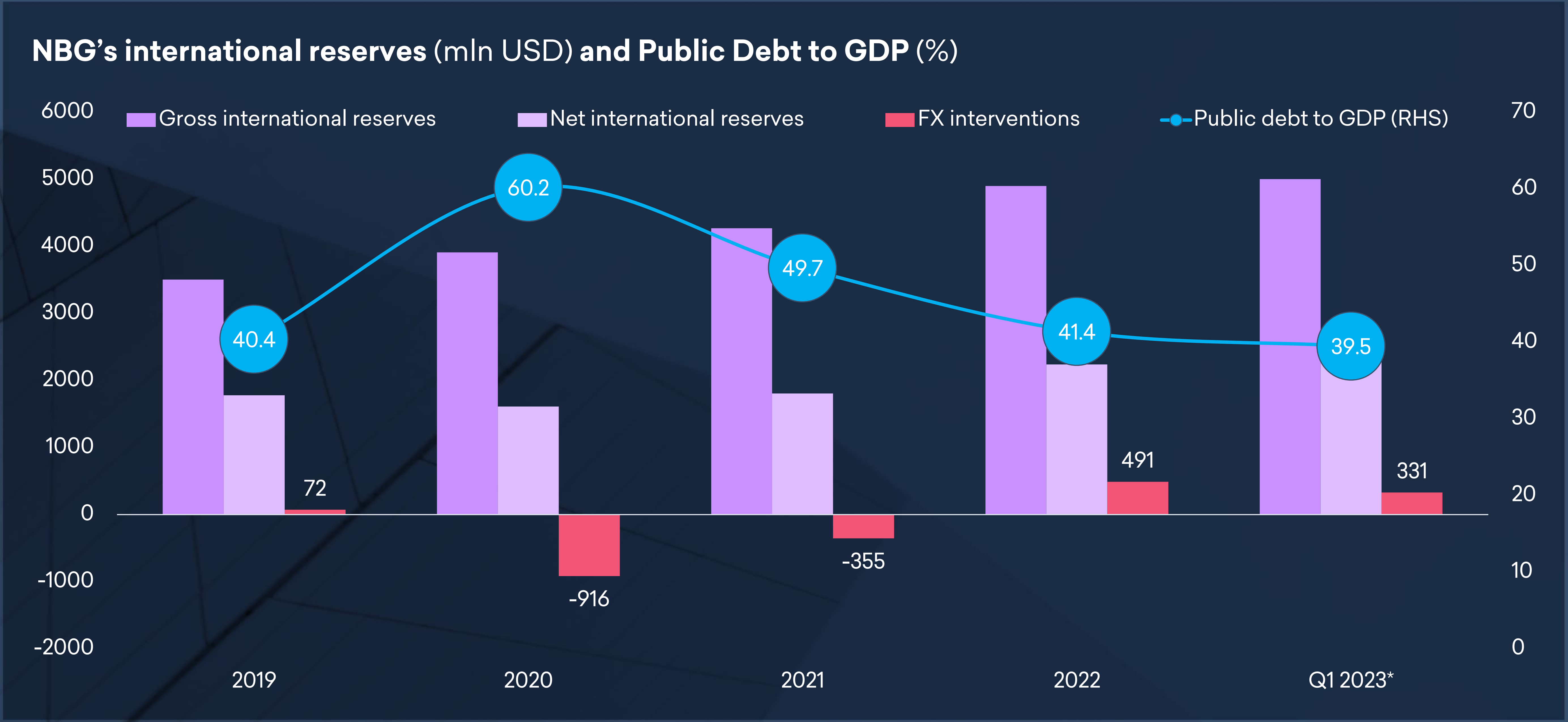


Note: External inflows as sum of Exports of Goods, Tourism Revenue, Remittance Inflows and FDI
*Remittances from Russia are adjusted for double counting with tourism inflows and other issues
** Includes EU and UK
Source: Geostat, NBG, TBC Capital

However large part of migrants receive revenues other than from Russia

Source: TBC Bank Client Survey, Dec-22

Also, central bank and fiscal buffers have been accumulated



*FX intervention of 2023Q1 is an estimate

Source: NBG, MoF, TBC Capital

The GEL drivers – the three pillar approach

Strong external inflows do not necessarily mean stronger GEL

External inflow-outflow balance:

GEL positive

REER:

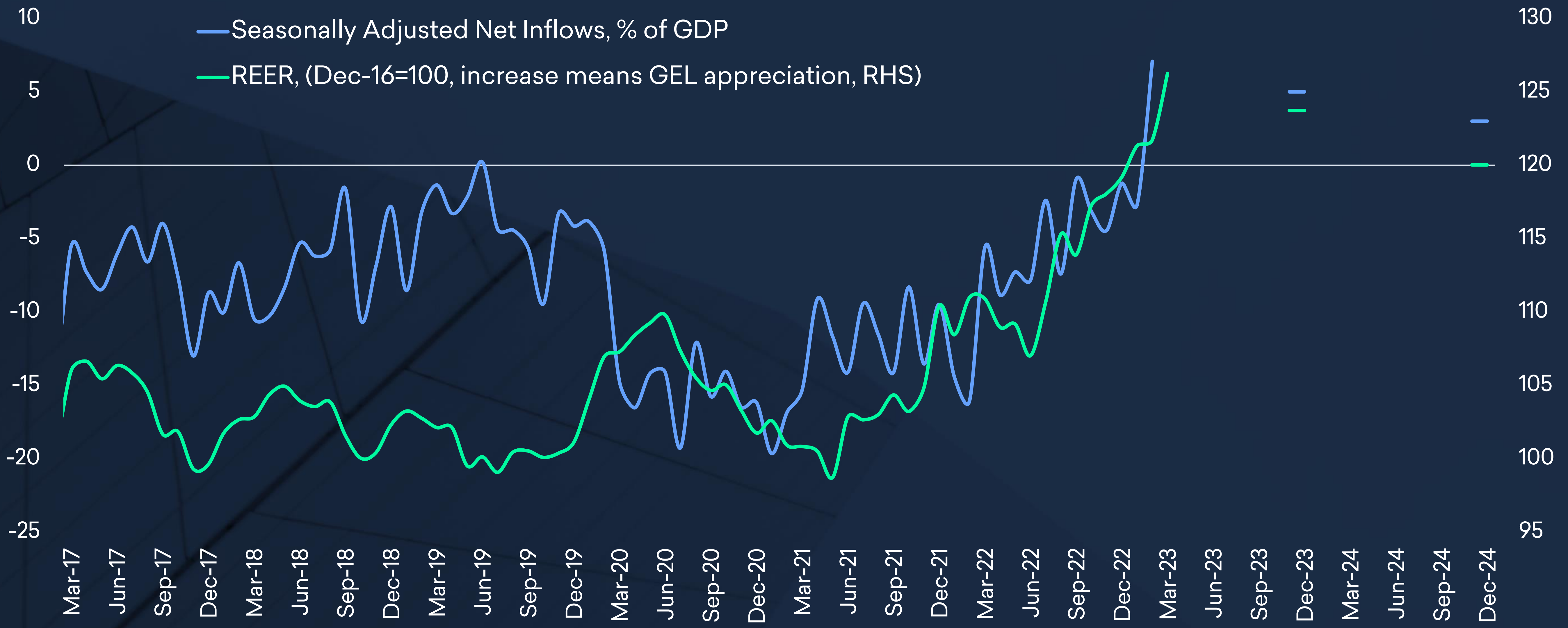
Slight overvaluation of the GEL – GEL negative projection

Inflation:

Outlook close to the target or even lower and therefore GEL neutral or negative

Despite the maintenance of strong external inflows, the GEL appreciation is not a baseline

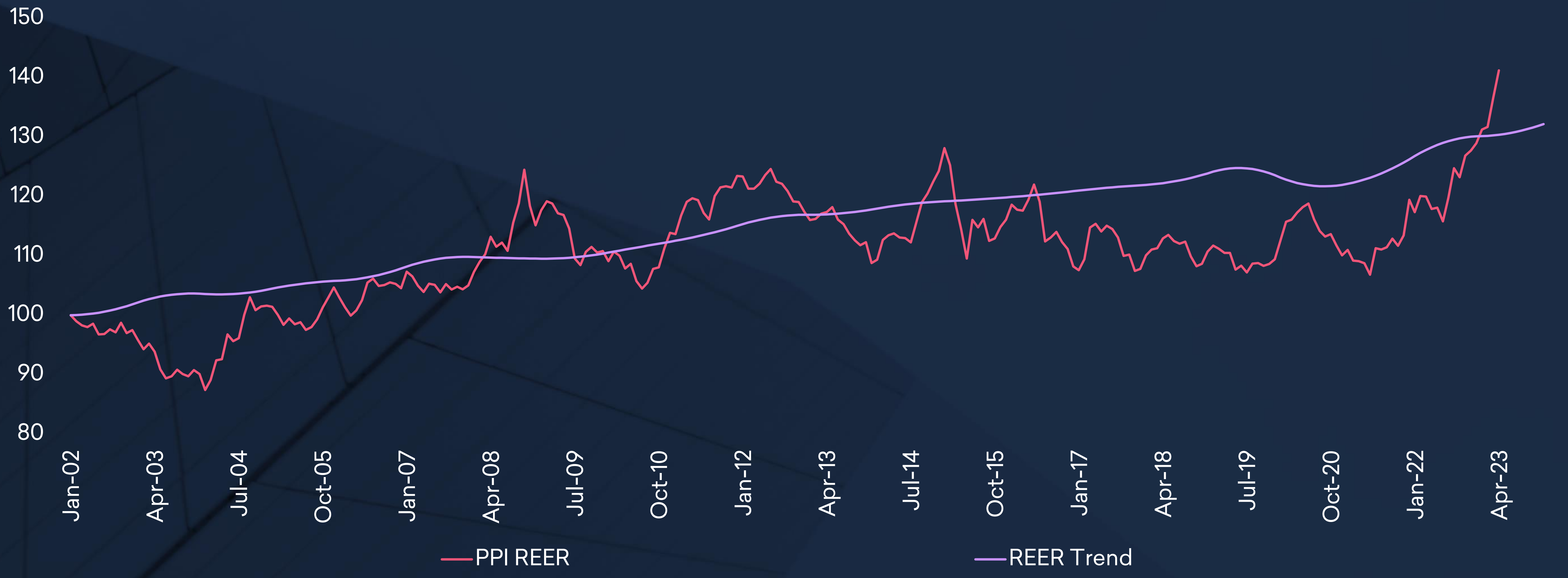
Net currency inflows and the GEL



Note: Remittances from Russia are adjusted for double counting with tourism inflows and other issues
Source: NBG, TBC Capital

According to the GEL REER assessment, the GEL is slightly overvalued by around 8%, but other trend assessments may be different

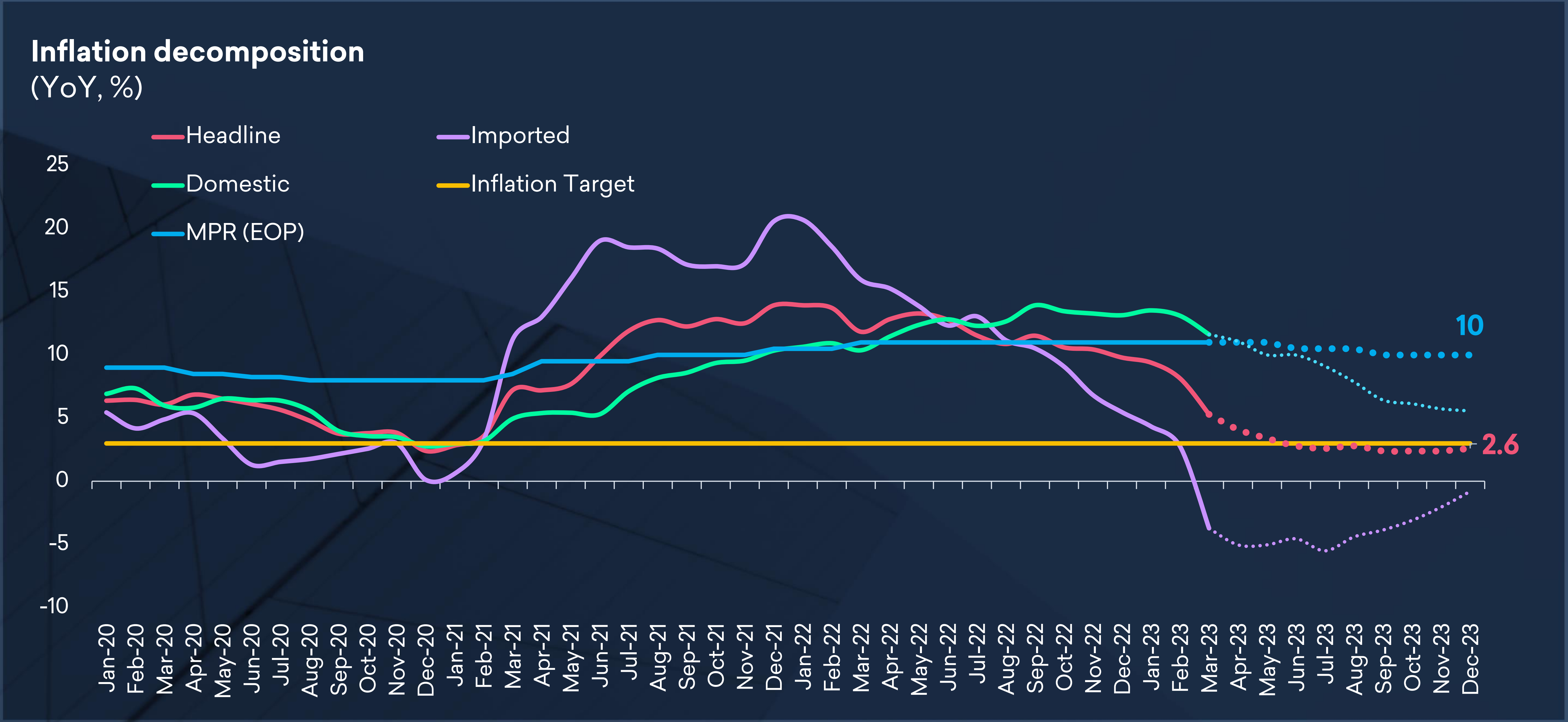
GEL REER actual and fitted REER
(As of 11-Apr-23, increase means GEL appreciation)



Note: PPI REER data is estimated from January 2013
REER Trend is estimated based on GDP per capita growth differential between Georgia and its main trading partners using relative trade weights and adjusted for the share of non-tradable sector

Source: NBG, Geostat, IMF, WB, TBC Capital

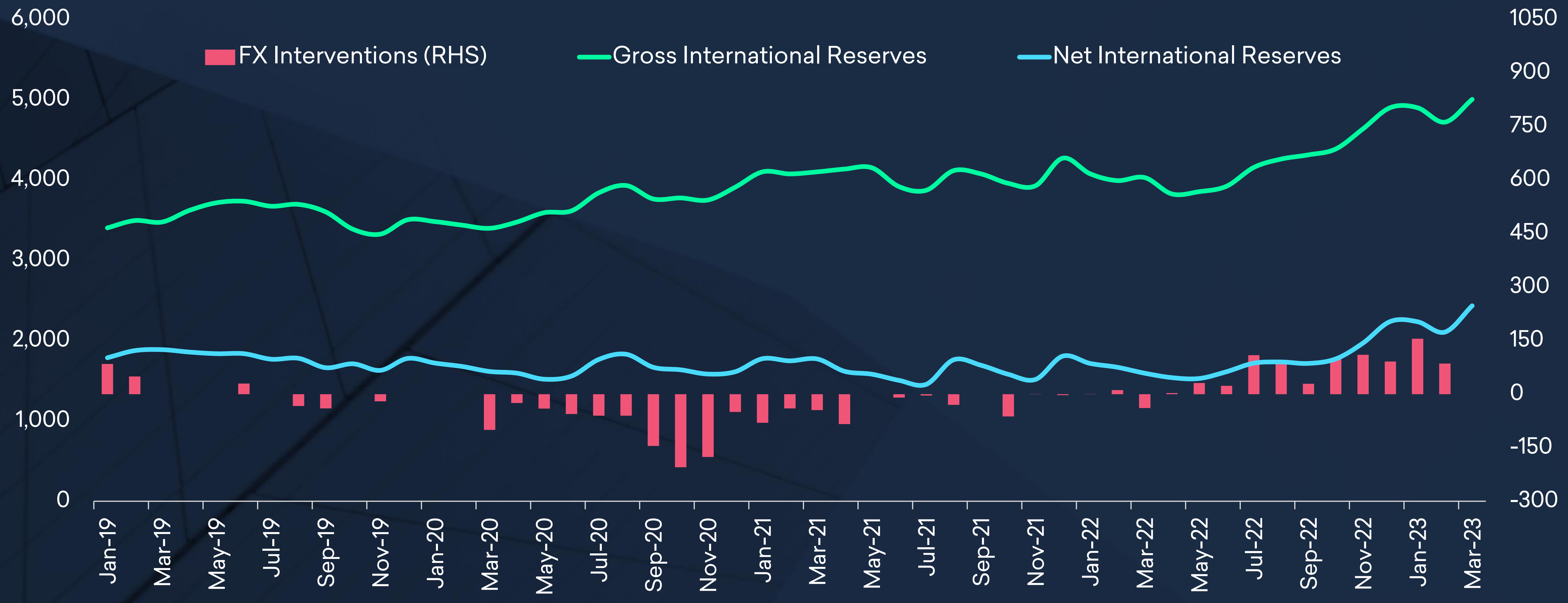
Disinflation mainly driven by imported inflation along with more gradual normalization in domestic one



Source: Geostat, NBG, TBC Capital

NBG continues to conduct interventions based on their estimation of the GEL REER and inflation projection as well as to accumulate international reserves

NBG's international reserves and FX interventions
(mln USD)



Note: Mar-23 NBG's FX interventions w/o auction will be available at the end of the month
Source: NBG, MoF, TBC Capital

Summary of key Macro Projections

	2021	2022	2023	2024	2025
GDP Growth, YoY, %	10.5	10.1	5.6	4.8	5.3
Inflation (EOP), YoY, %	13.9	9.8	2.6	3.0	3.0
Monetary Policy Rate (EOP), %	10.5	11.0	10.0	8.5	7.75
EUR/USD	1.13	1.07	1.12	1.14	1.18
USD/GEL	3.10	2.70	2.60	2.70	2.65
EUR/GEL	3.50	2.88	2.91	3.08	3.13

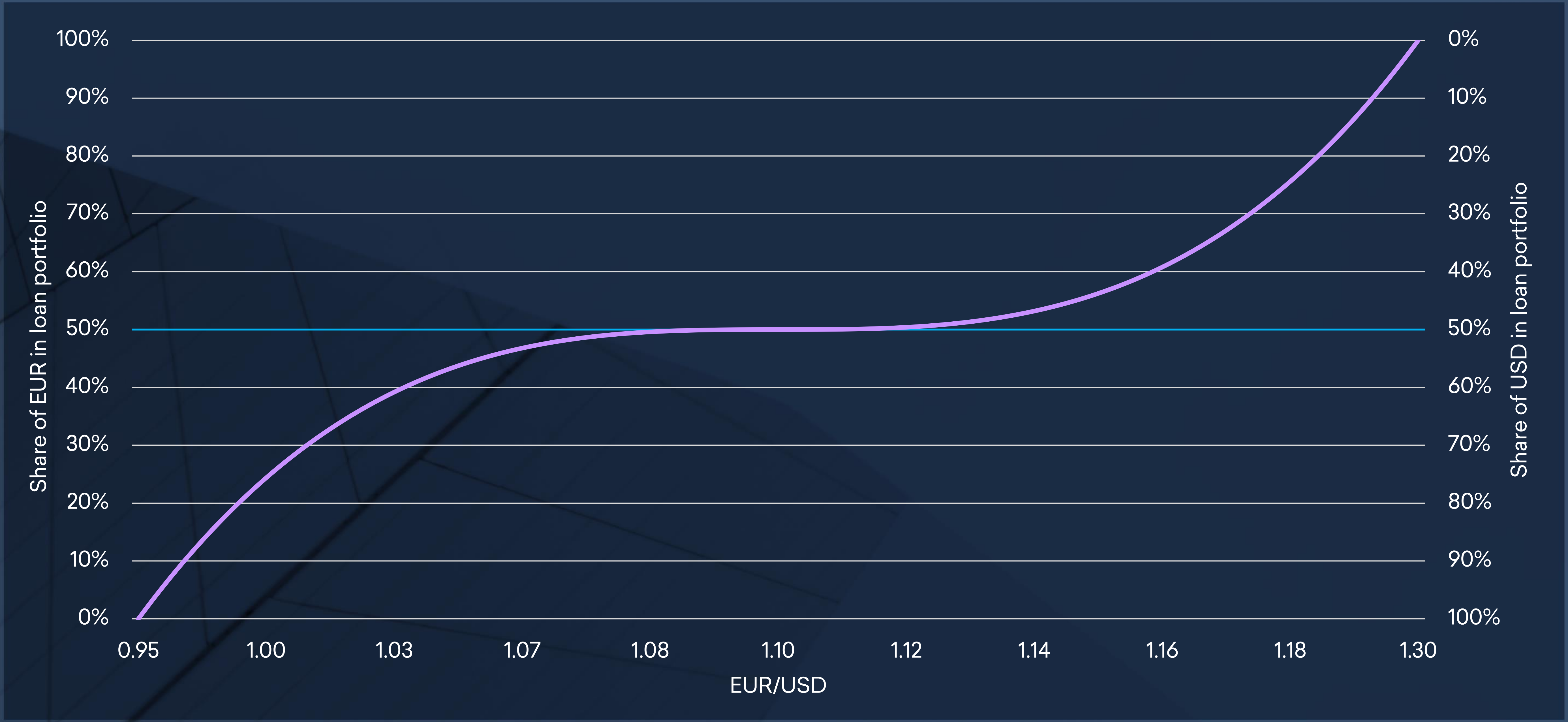
Source: NBG, Geostat, MOF, TBC Capital

EUR and USD Rate Outlook

	2021	2022	2023	2024	2025
FED Funds rate (EOP), %	0.08	4.10	4.66	3.08	2.54
6m TERM SOFR (EOP), %	0.20	4.78	3.92	2.90	2.77
6m USD Libor (EOP), %	0.34	5.14	4.51	3.29	3.20
10 Year US Treasury (EOP), %	1.51	3.88	3.36	3.21	3.35
ECB rate (EOP), %	-0.50	2.00	3.58	2.61	2.40
6m EURIBOR (EOP), %	-0.54	2.73	3.39	2.77	2.60
10 Year Germany Bond (EOP), %	-0.21	2.51	2.17	1.91	2.90

Source: Bloomberg, FRED, ECB, Bundesbank as of 11-Apr-2023

Possibly optimal structure of a loan portfolio when taking the FX risk



Source: NBG, TBC Capital

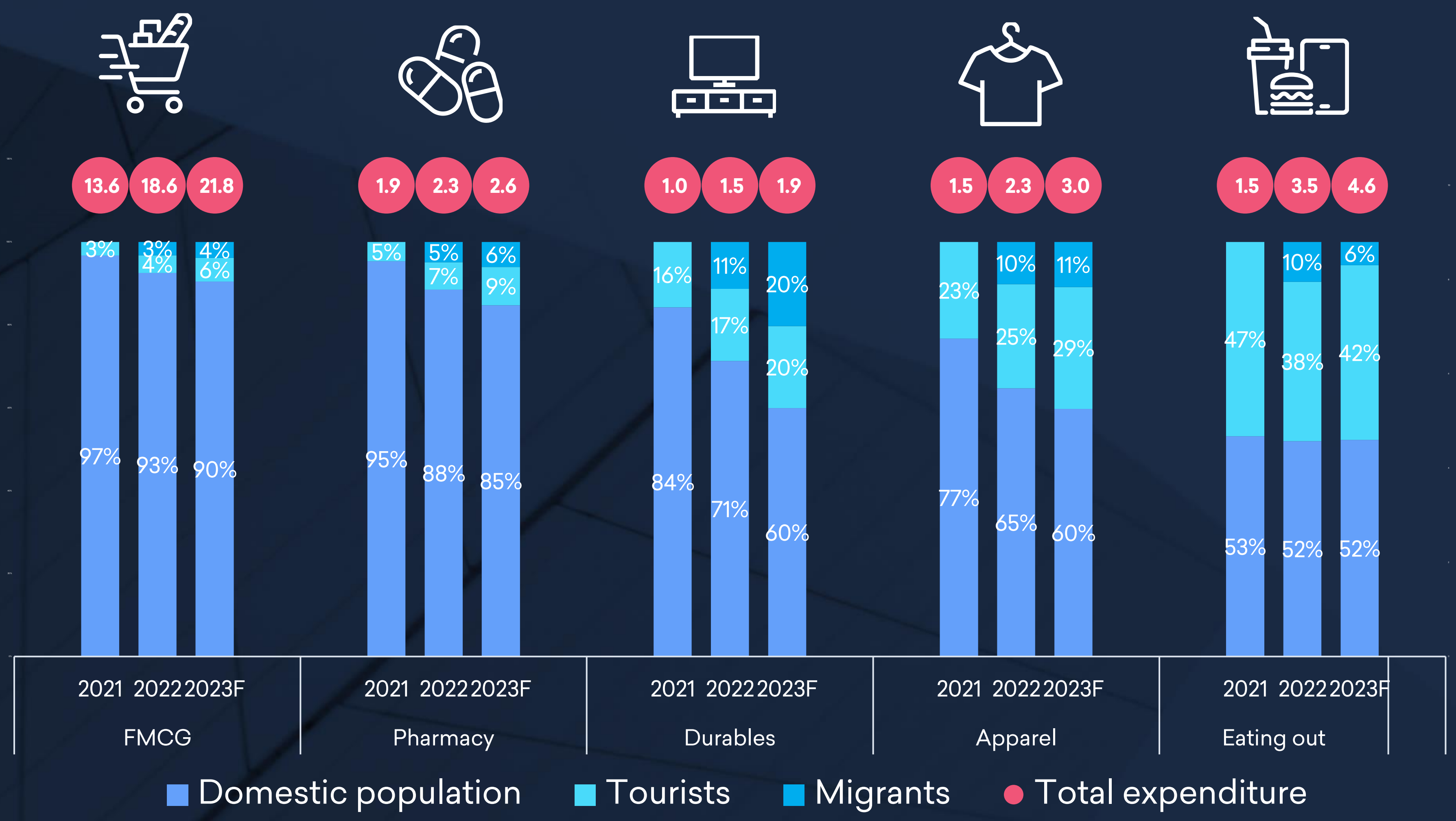
SECTORAL OVERVIEW

IRINA KVAKHADZE
Vice president, TBC Capital

RETAIL SECTOR

Increased expenditures are expected in all sub-categories of the retail sector in 2023

Retail Sector
GEL bn, share%

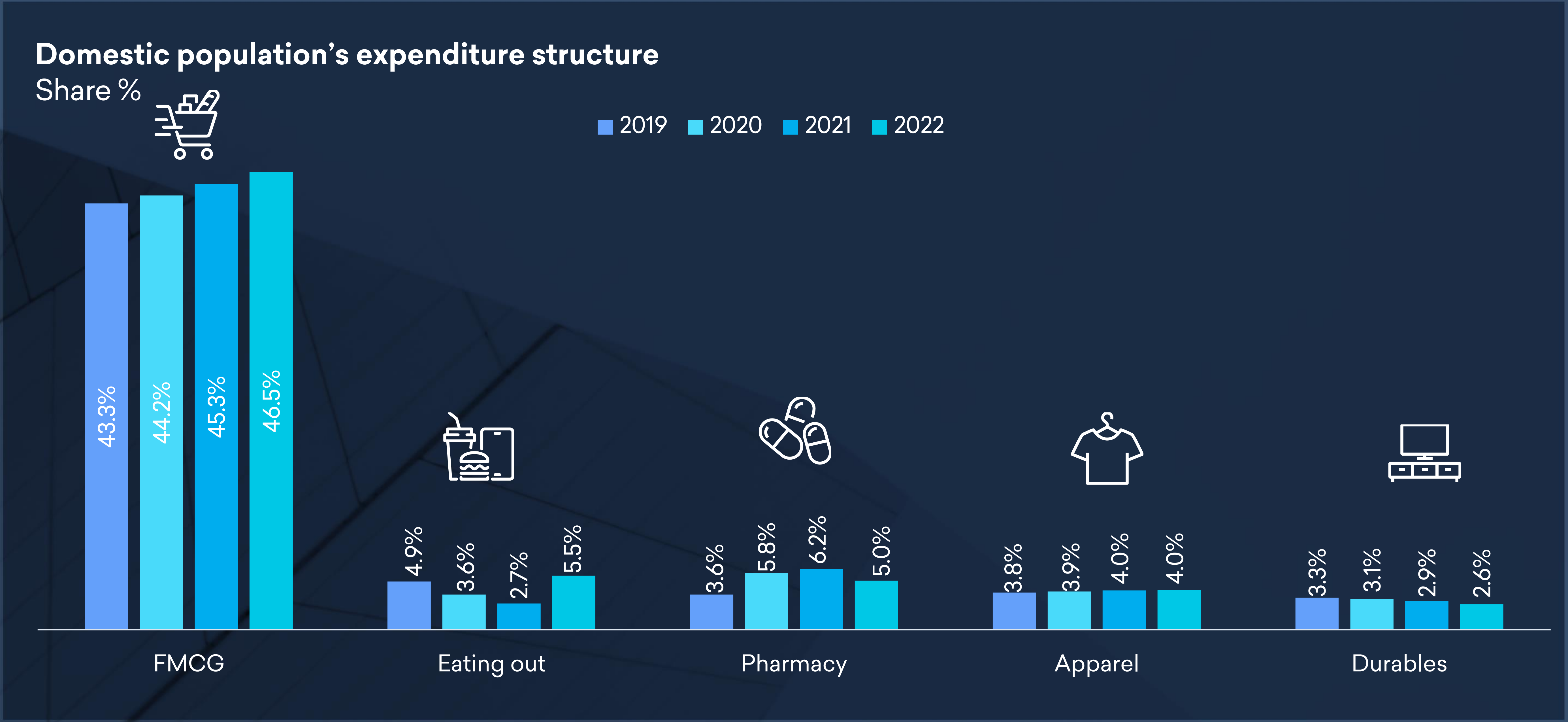


The growth is driven by

- Increased consumption
- Migrant inflows
- Strong tourism recovery

Source: GeoStat, TBC Capital

Domestic population's increasing tendency of expenditures will carry out in 2023 and reach 15% annual growth



Source: GeoStat, TBC Capital

Migrants' expenditures are expected to increase in 2023

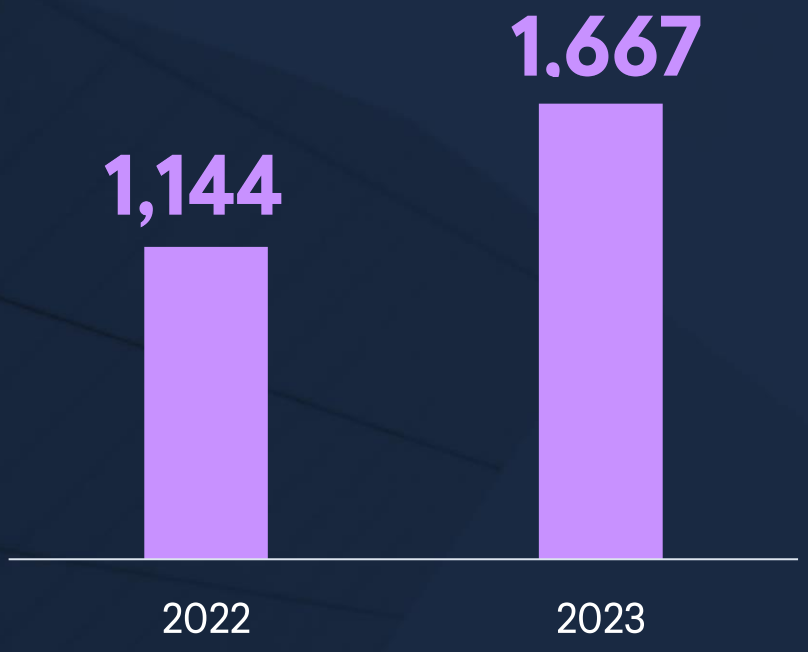
Major characteristics of the migrants

Number of migrants

c. 115,000
2022

c. 115,000
2023

Migrant expenditures, USD mln



Effects of migrant expenditures in the retail sector, 2022:

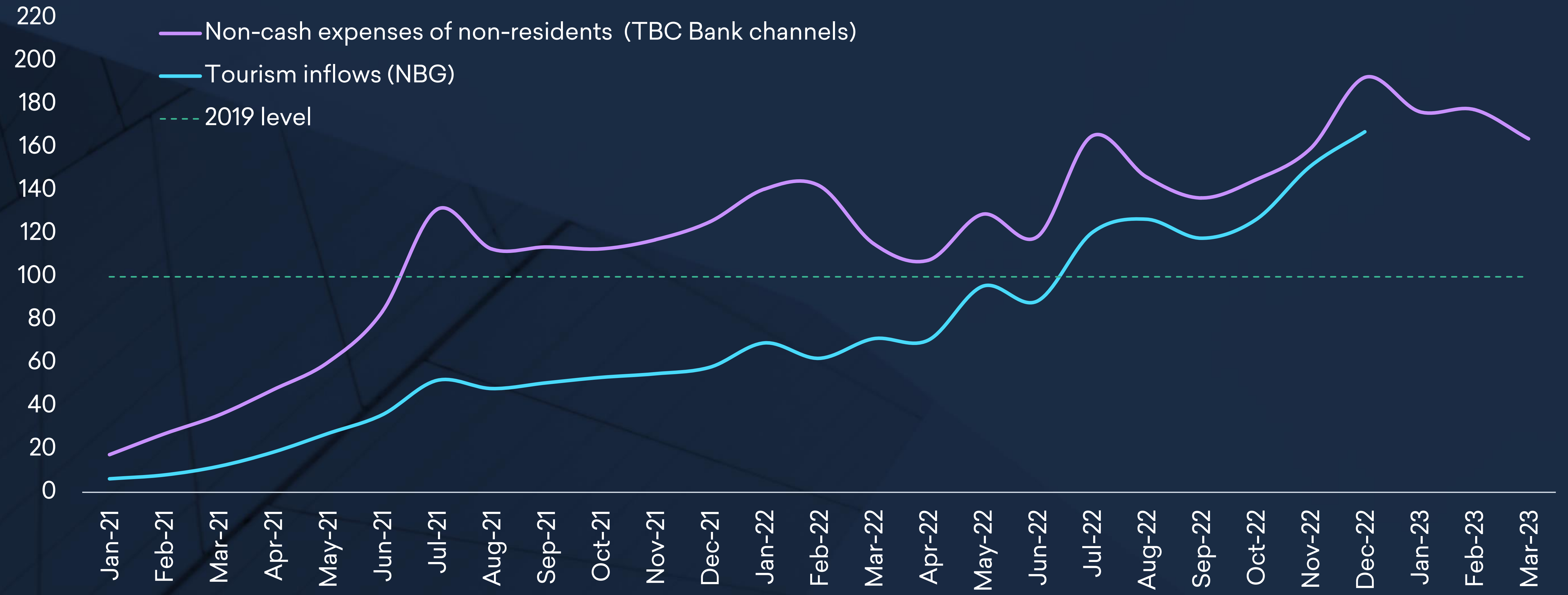
5.2%
Contribution in overall expenditures

16.6%
Contribution in annual change

The share is expected to reach **5.8%** by 2023

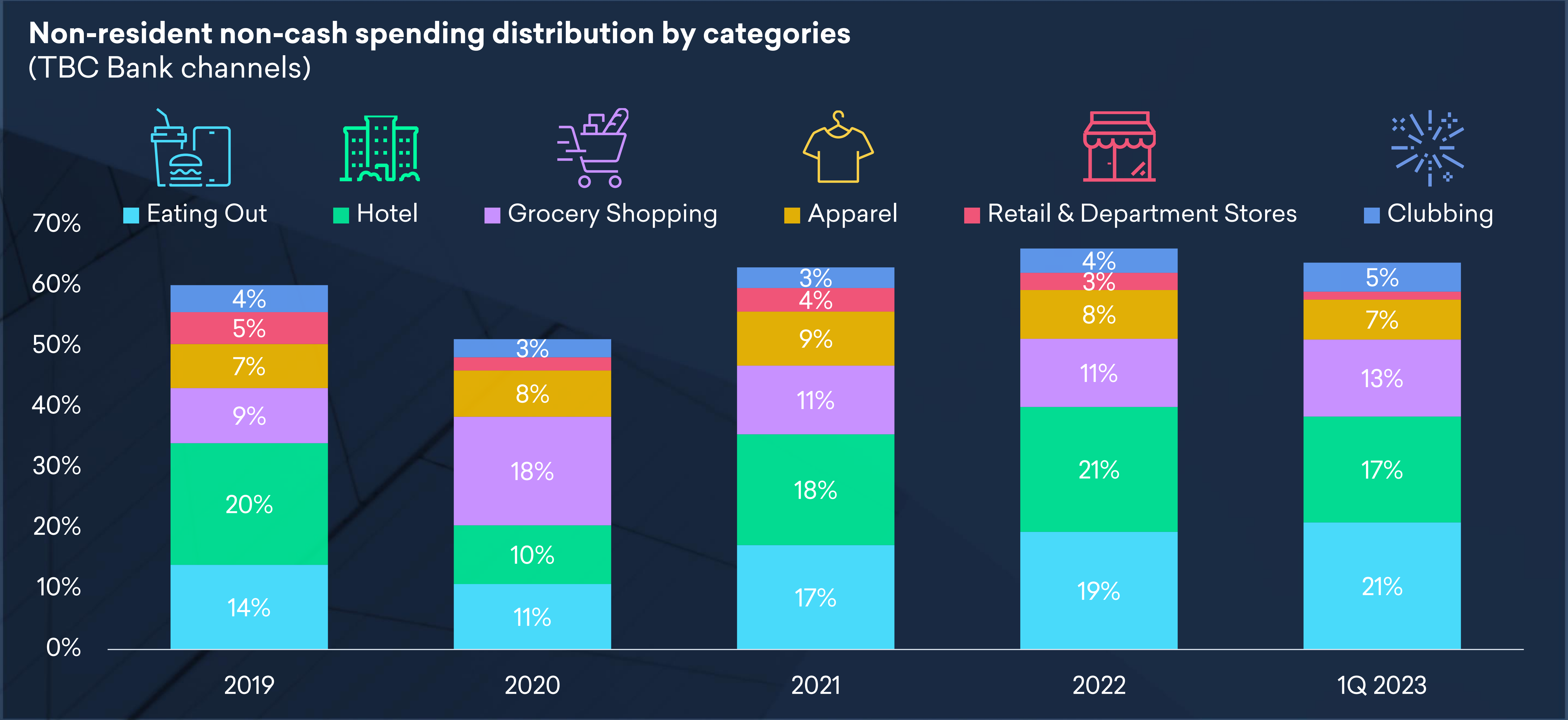
In the first quarter of 2023, non-resident non-cash spending remains high and significantly surpasses the 2019 level

Non-cash expenses of non-residents and tourism inflows
(Same period of 2019=100, in USD)



Source: TBC Bank, NBG

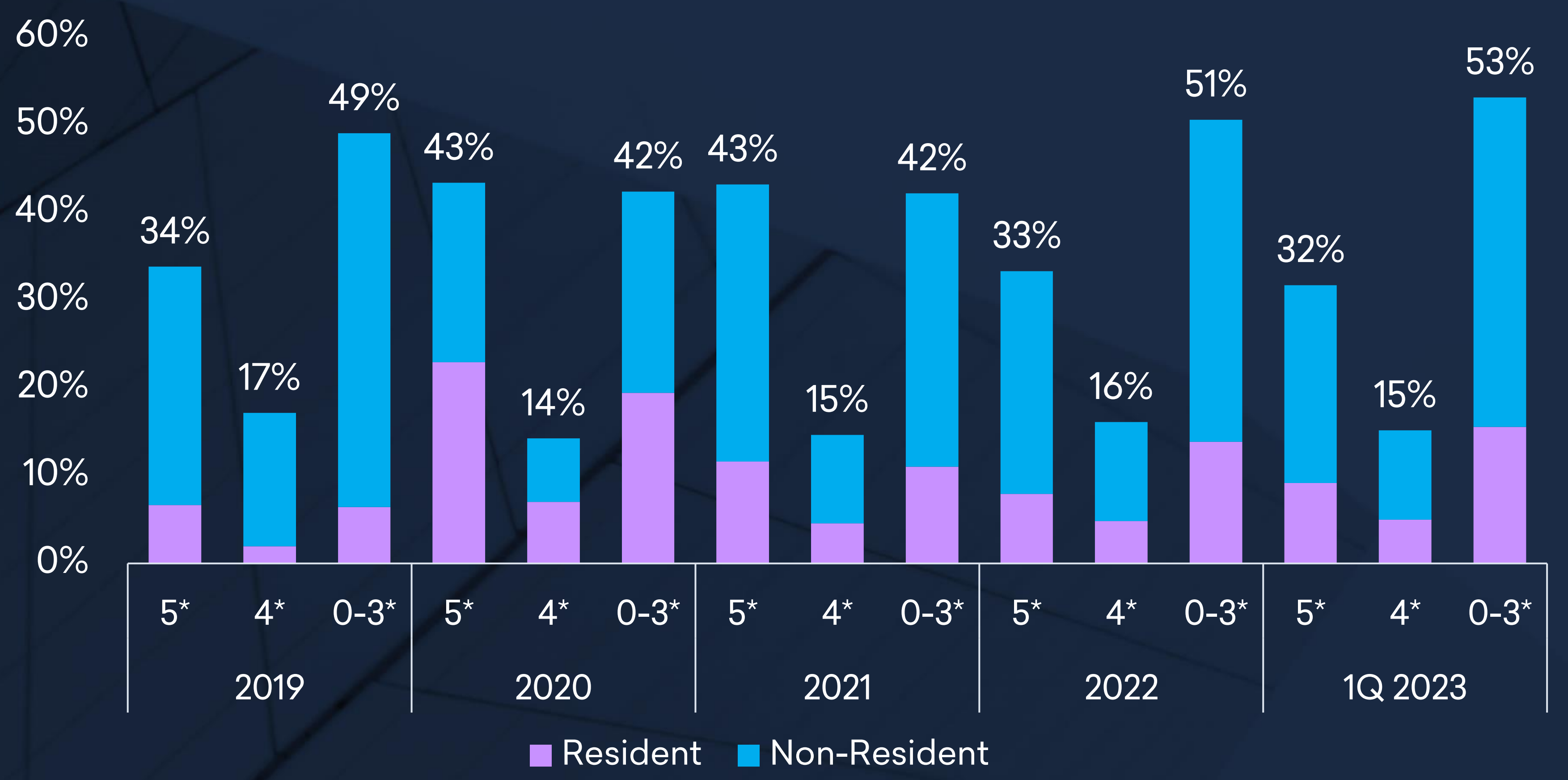
Spending on hotels and eating out remain as the largest non-cash spending categories for non-residents in the first quarter of 2023



Source: TBC Bank

For the accommodation industry, the largest revenue generating segment is the low cost, 0-3 star-rating hotels

Non-cash spending in hotels by the star ratings
(TBC Bank channels)



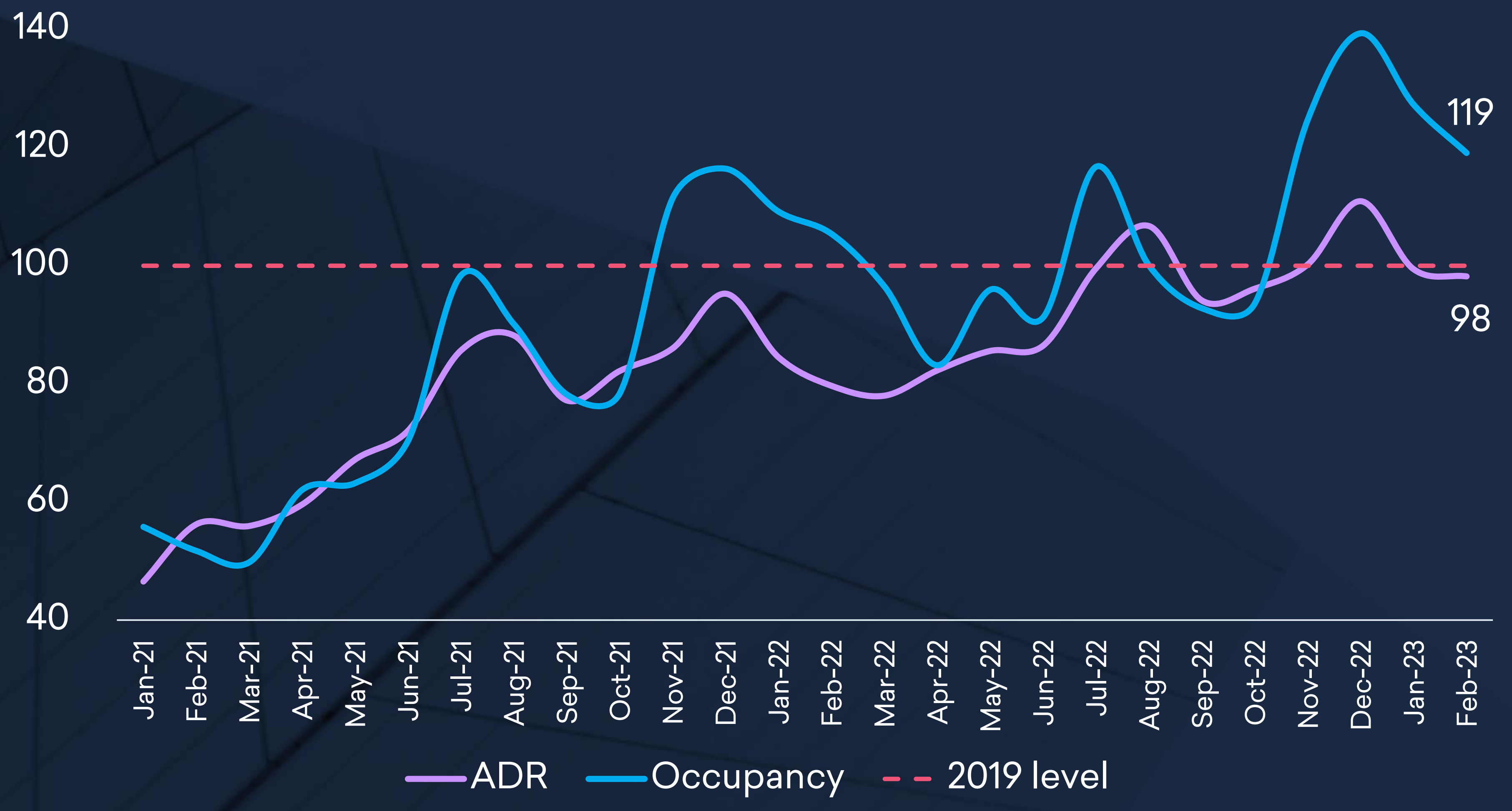
In 2022, the largest average non-cash transaction in hotels was recorded by residents of the following countries:

- Kuwait,
- Hong Kong,
- Israel,
- Singapore.

Source: TBC Bank, GNTA

Prices in Georgian large hotels will continue to rise in 2023 and the USD denominated price is likely to surpass the 2019 level

Recovery dynamics in large hotels, Georgia
(Same period of 2019=100)



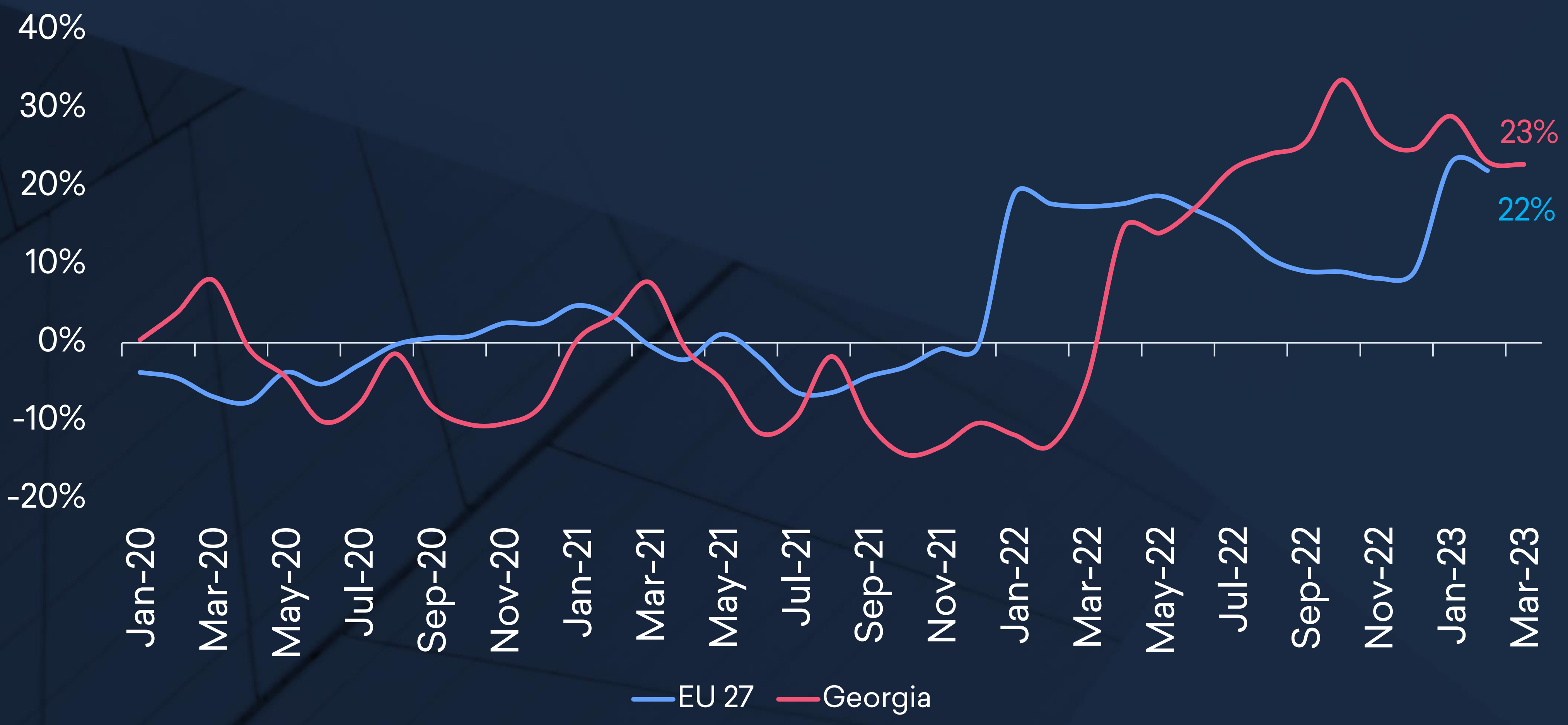
Price Growth Determinants

USD denominated price increase in large hotels is partly due to the recovery of international visitor trips, as well as the appreciation on GEL.

Source: Hotel Survey, TBC Capital

In Georgia and Europe, average room price in hotels and similar accommodations significantly exceeds its 2019 level

Change of hotel prices in Georgia and Europe
(2019 = 100)



Price Growth drivers:

Inflation, pent up demand, work-force shortage.

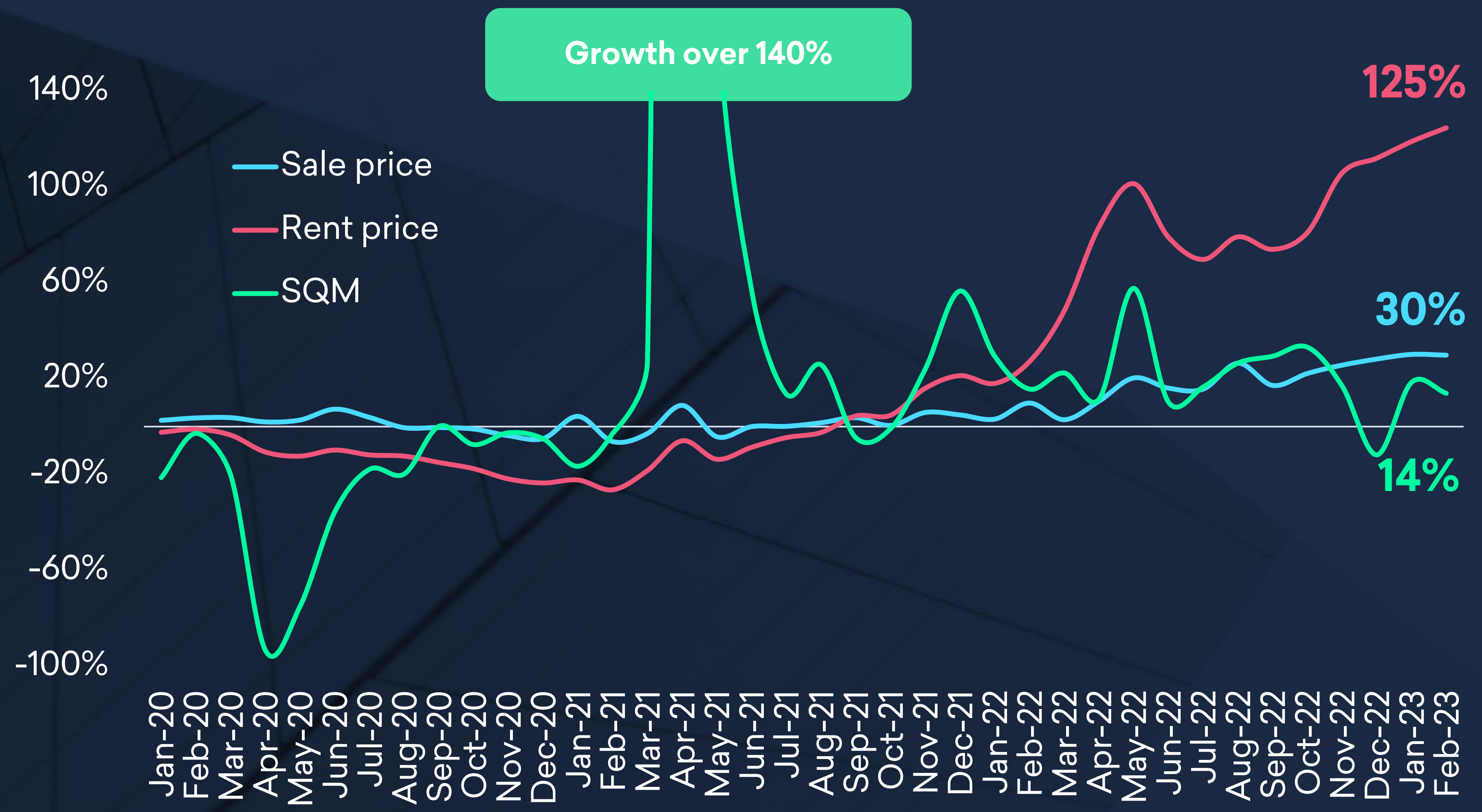
In Georgia, demand created by migrants is an additional factors that drives hotel prices up.

Source: Eurostat, Geostat, TBC Capital

REAL ESTATE

In 2023, residential real estate market indicators continue to grow. In February, sale prices posted a 30% annual increase, while rent prices grew by 125%.

Residential real estate market indicators, Tbilisi
(YoY change)



Major factors affecting the market
(February, 2023)

12.2%
High rental yield

$/₾: 12% YoY
Strengthened GEL

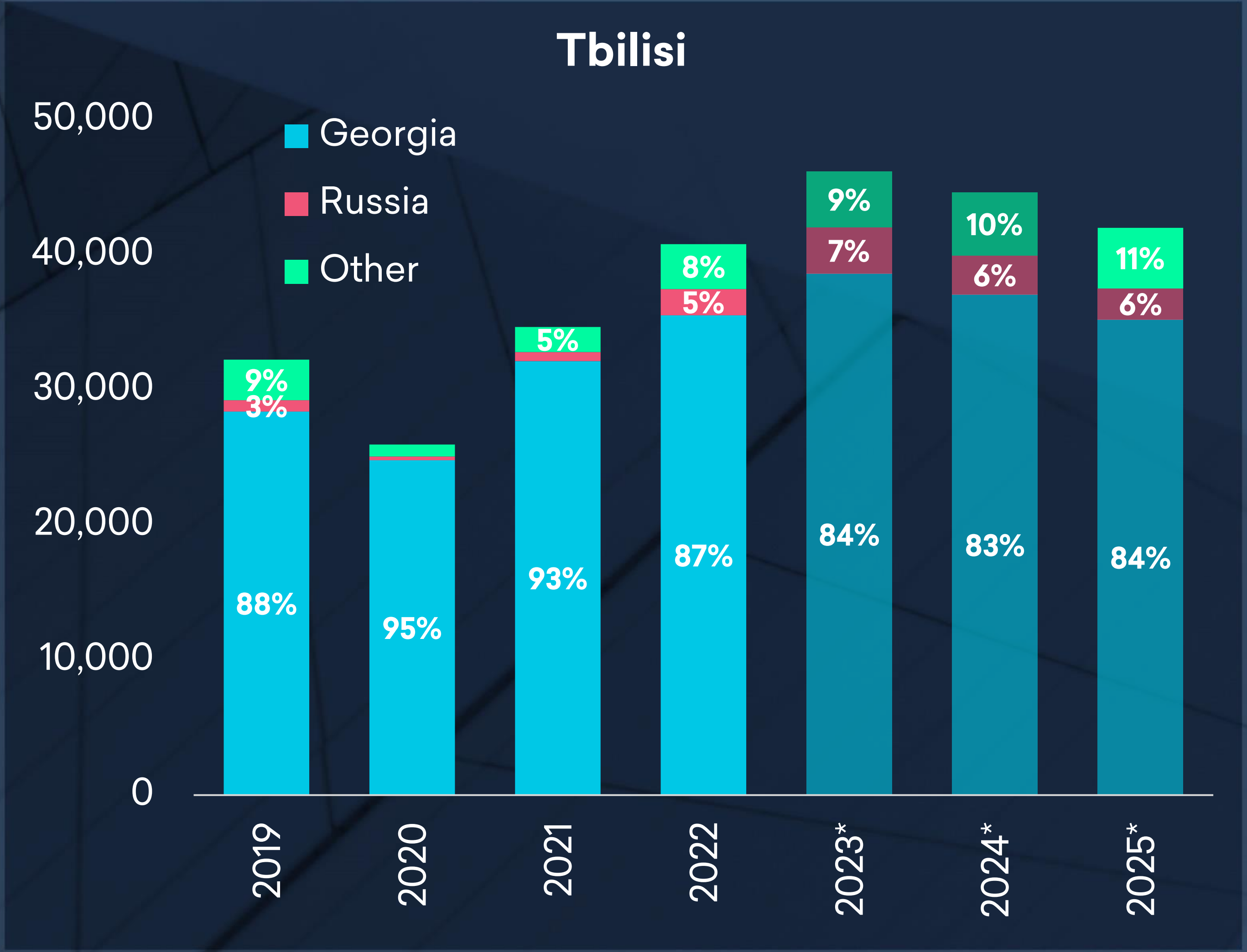
$: 14% YoY
Construction material prices

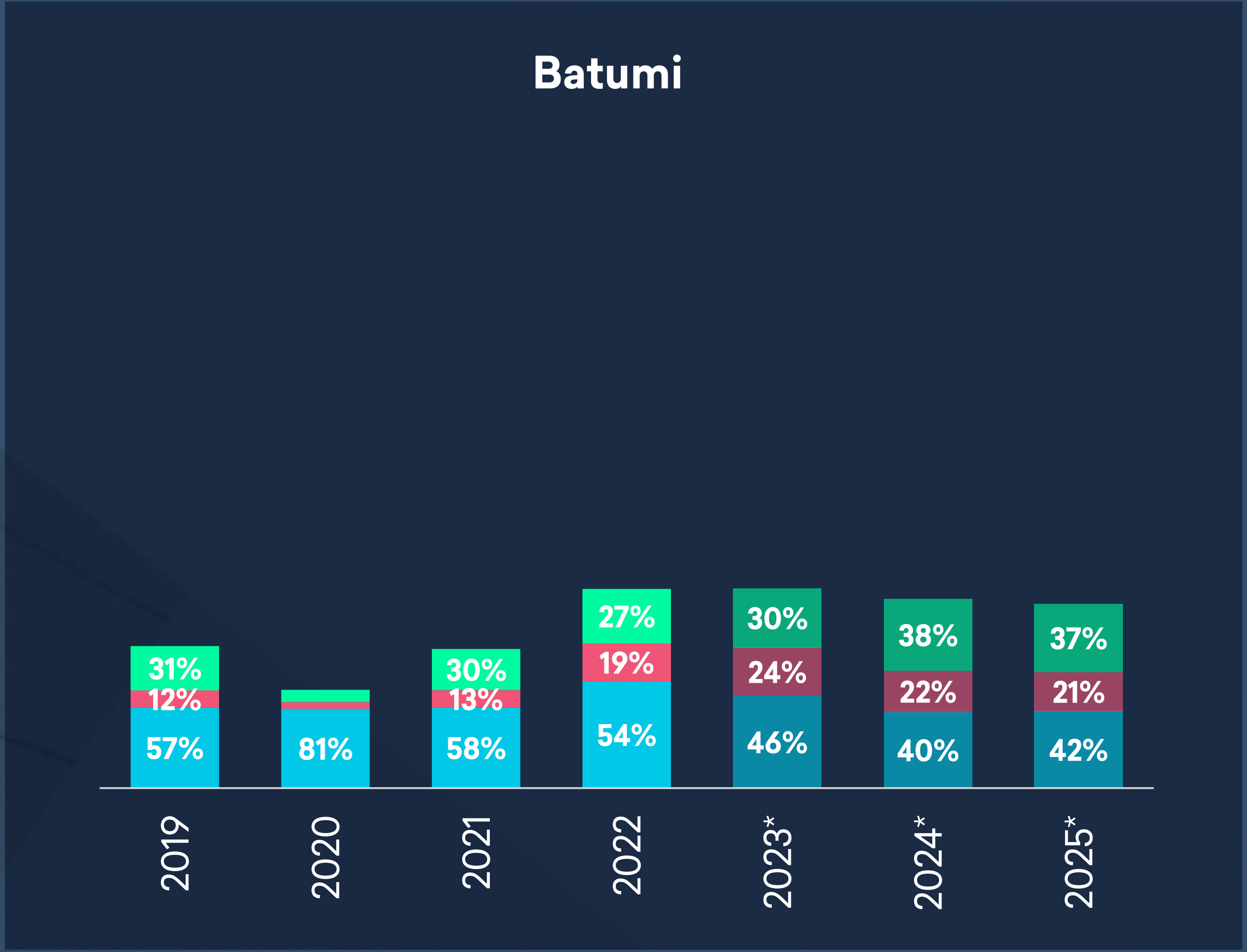
No signs of migrants leaving

Source: NAPR, NBG, TBC Capital

In 2022, the share of foreign citizens in total apartments sales increased in Tbilisi and Batumi. The growth was driven by the end of pandemic, accelerated migration and high rental yield.

Residential real estate transactions by citizenship
(Number of transactions, share)

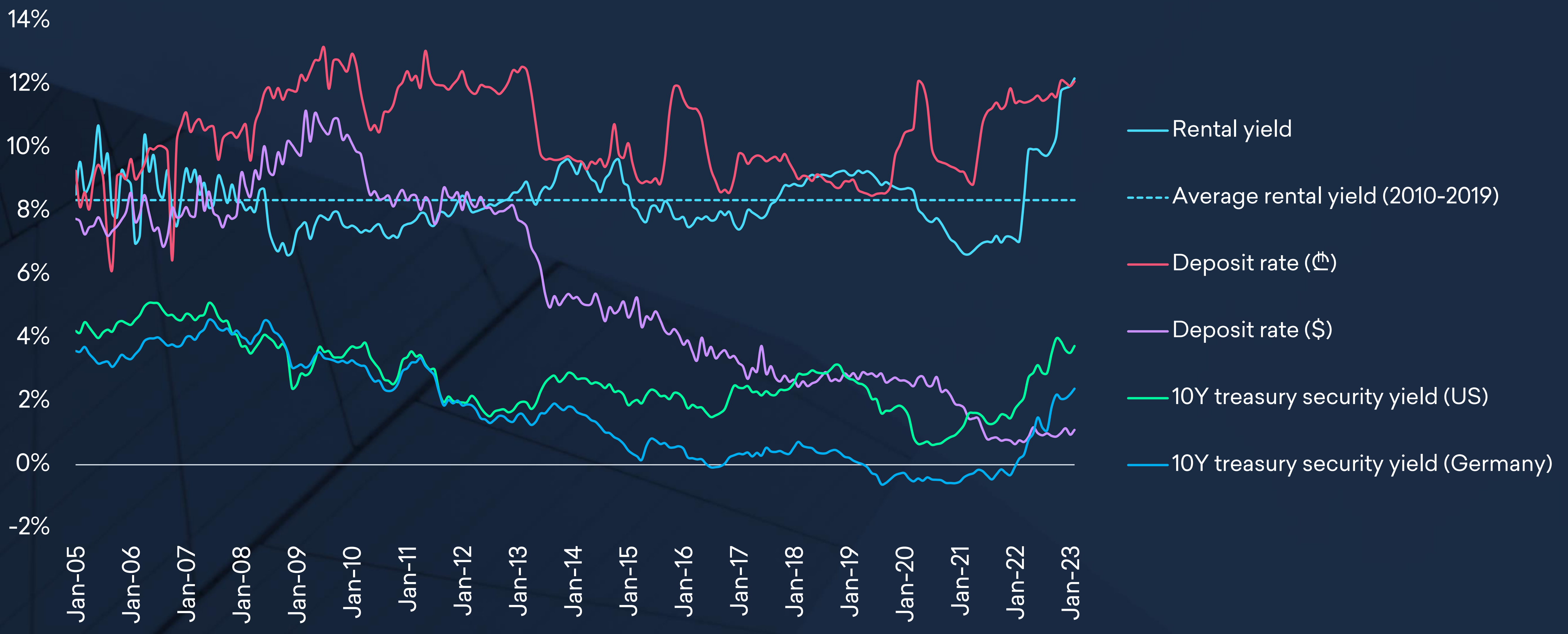




Source: NAPR, TBC Capital

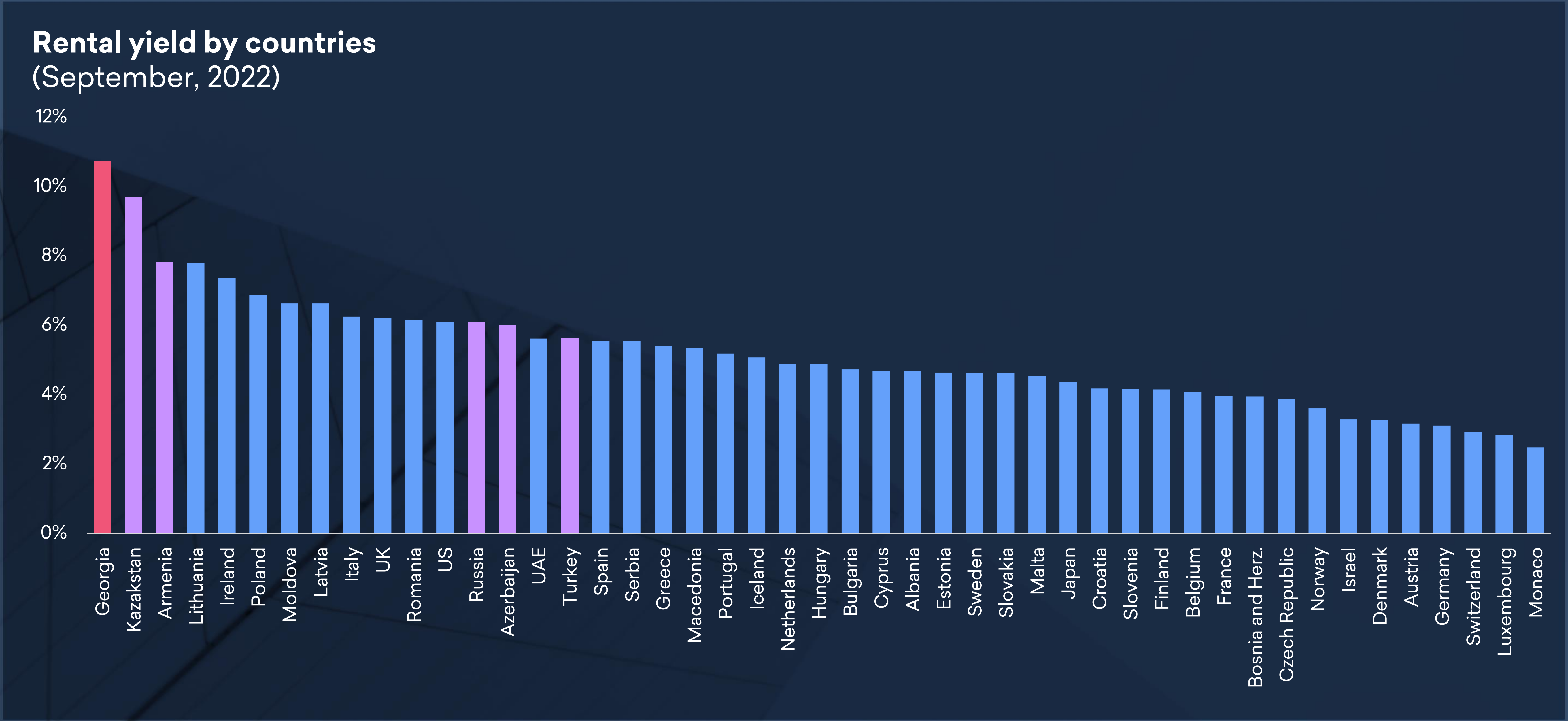
Rental yield in Georgia is at its record high. Furthermore, rental yields are considerably higher compared to returns from most popular saving options.

Rental yield in Georgia and interest rates



Source: Deutsche Bundesbank, FRED, NBG, TBC Capital

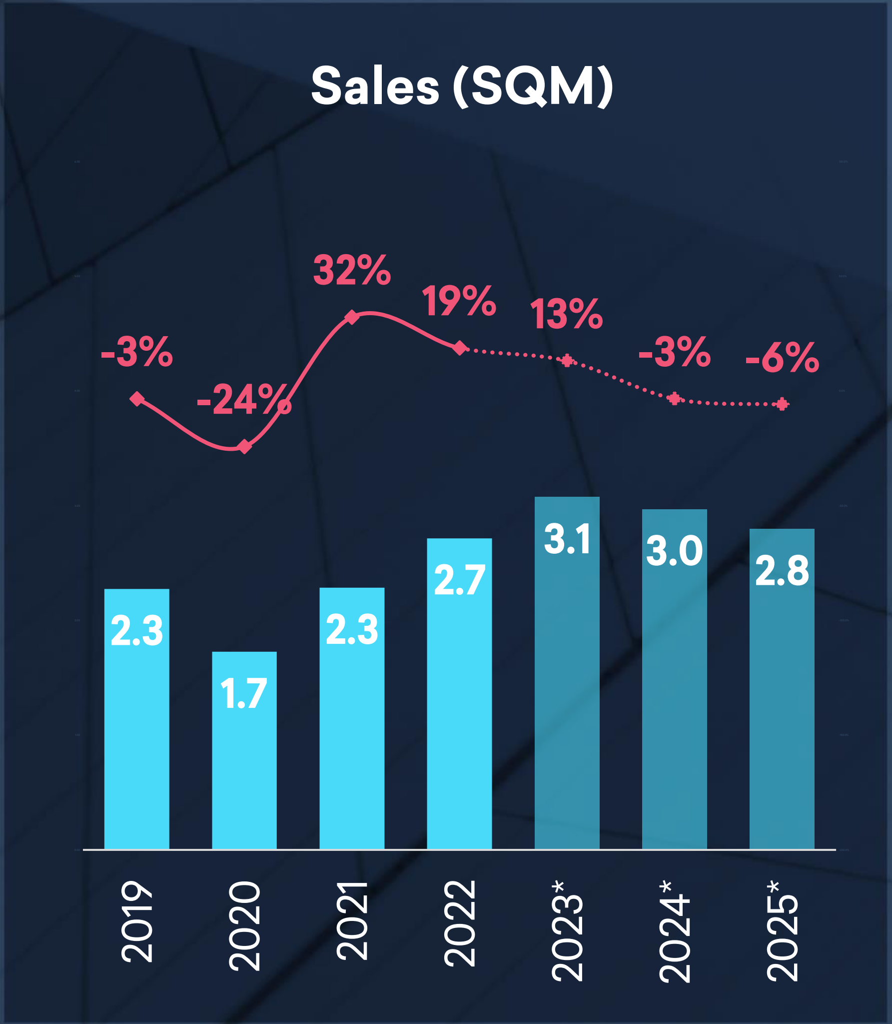
Rental yield in Georgia is the highest in the region

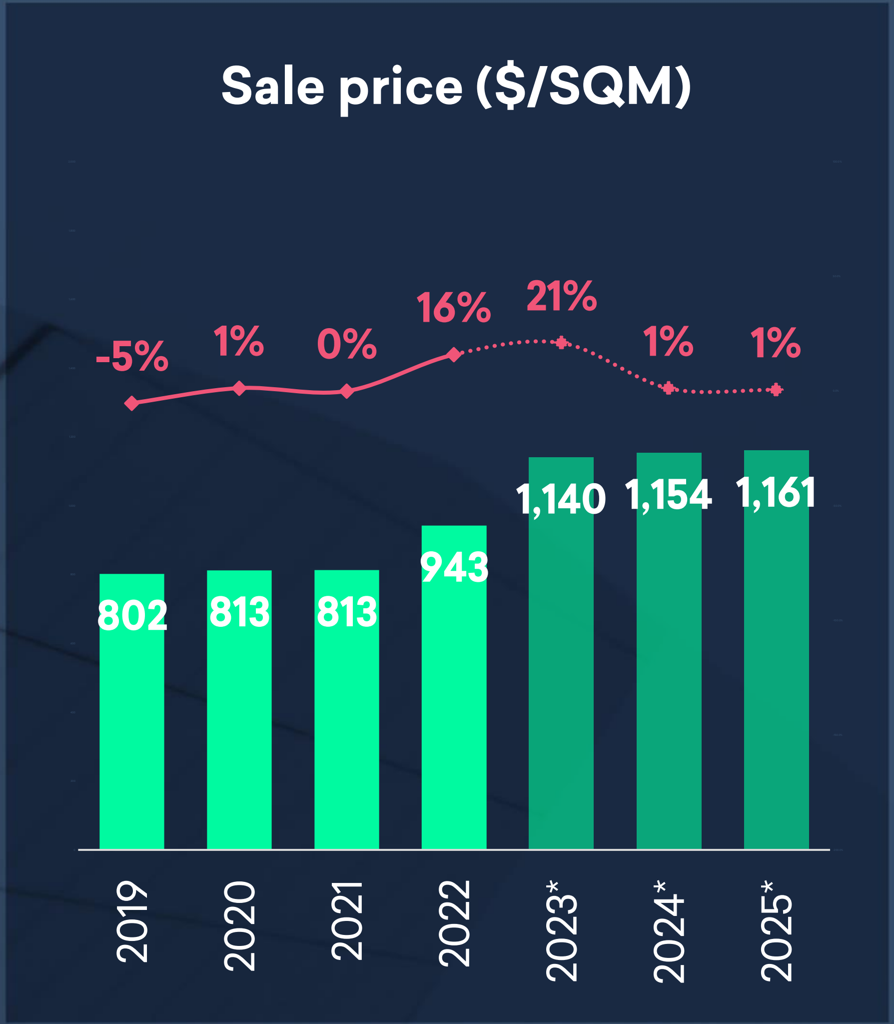


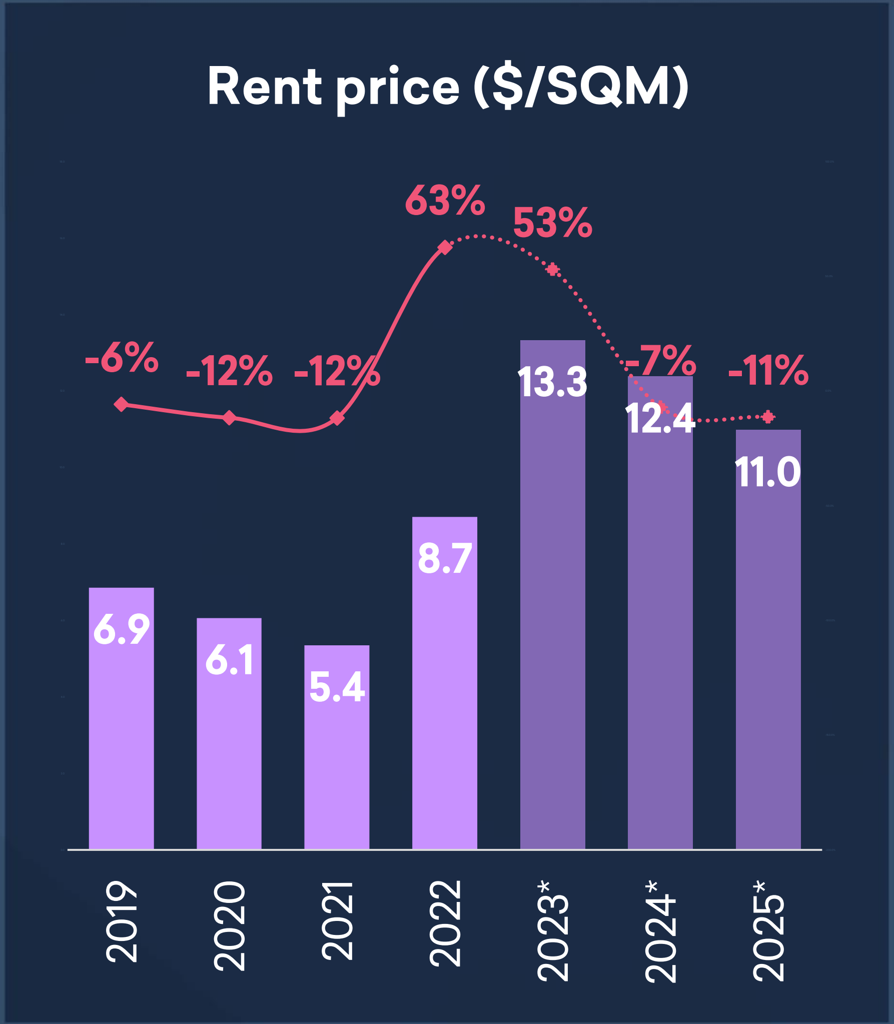
Source: Global Property Guide, TBC Capital

The beginning of 2023 was better than expected. Correction on the market, mainly regarding rent prices and the number of transactions, will start by the end of 2023.

Projections for residential real estate market indicators, Tbilisi
(YoY change)







Source: NAPR, NBG, TBC Capital

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