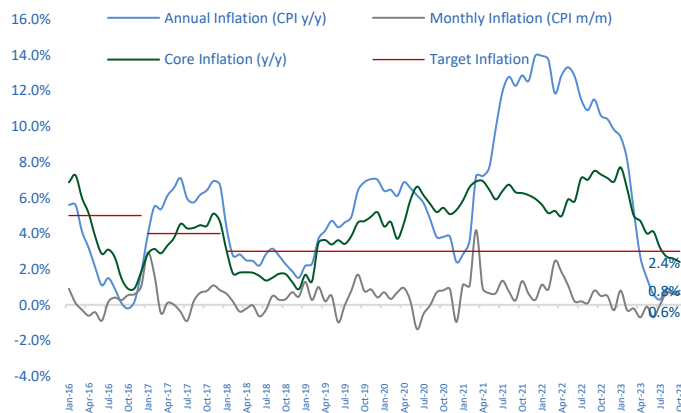


BasisBank Research

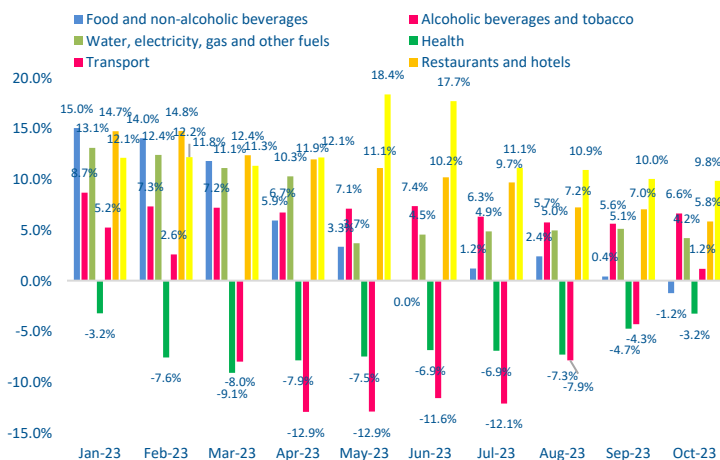
Economic Review

October 2023

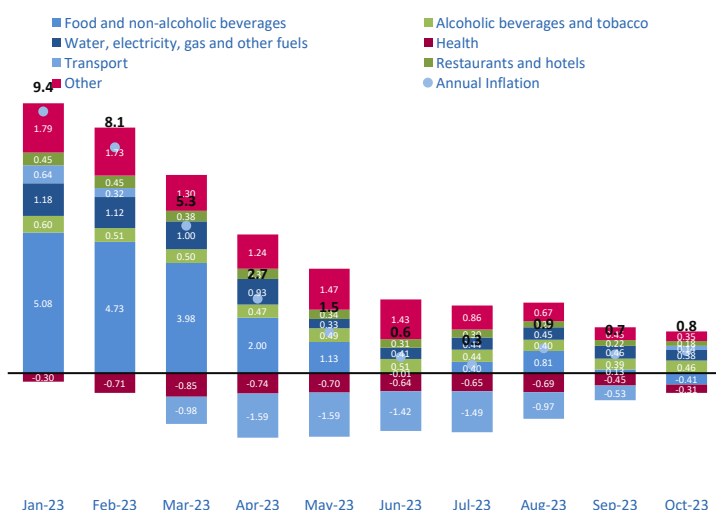
Inflation, Consumer Price Index



Y/Y changes of Groups (%)



Groups Shares in Annual Inflation



Inflation

The Georgian Consumer Price Index (CPI) increased by 0.8% y/y (+0.6% m/m) in October 2023, while core inflation¹ increased by 2.4% y/y in the same period. The Consumer Price Index is already lower, compared to the target inflation of 3%, which is the result of decreased international shipping costs, as well as lower commodity prices on the international markets. Moreover, despite the recent slight depreciation of lari, real effective exchange rate of lari is still strong. These factors with maintained tight monetary policy, keeps the inflation on a lower level.

Based on the Food and Agriculture Organization (FAO), the international food price index (FFPI) had the downward trend since April 2022 after the index hit the all-time high in March 2022. In October 2023, the index was down 0.5% from September 2023, while it decreased by 10.9% y/y. The slight drop in October reflects declines in the price indices for sugar, cereals, vegetable oils and meat, while the index for dairy products rebounded.

Due to the above-mentioned factors, imported inflation in Georgia has been decreasing since January 2022 when it hit 20.8%. The imported inflation was the lowest in July 2023 when it amounted to -7.4% y/y. The deflation trend continued but decreased after that and in October 2023, the deflation of imported products amounted to only 1.6% y/y. As for the inflation of locally produced products, it was still high despite 0.8 pp month-on-month decrease and amounted to 4.5% y/y (in which 3.2 pp was a contribution of local service inflation). Prices of service in Georgia increased by 7.4% y/y (two sectors contributed the most: banking service (1.5 pp) and residential real estate rent (0.8 pp)).

The NBG keeps the monetary policy rate unchanged at 10%.

It is expected the inflation to remain below the three percent target level in the coming months, and to stabilize around it in the medium term. However, inflationary risks remain high taken into account current tense geopolitical situation, which increases uncertainty on the commodity markets.

As for the economic growth, the average real GDP growth amounted to 6.9% y/y in January-October 2023. The NBG has revised the growth forecast for Georgian economy up to 6% for 2023.

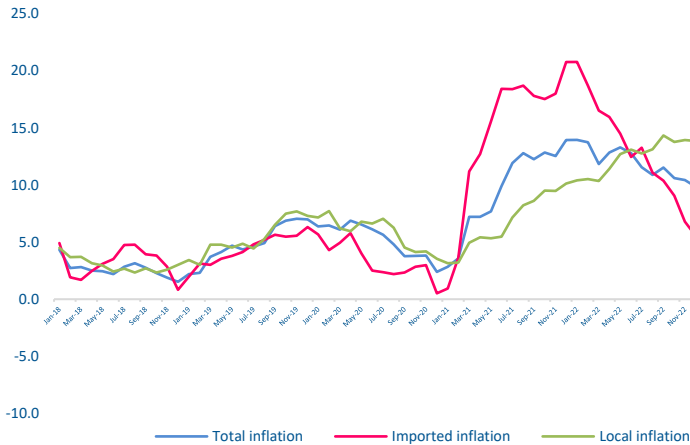
The annual inflation in October 2023 was positively affected, mainly by price changes in alcoholic beverages and tobacco (+6.6% y/y, +0.46 pp) and housing, water, electricity, gas and other fuels (+4.2% y/y, +0.38 pp contribution). Meanwhile, the annual inflation was negatively affected mainly by prices in food and alcoholic beverages (-1.2% y/y, -0.41pp) and health sector (-3.2% y/y, -0.31 pp).

As for the producer price index (PPI) for industrial products, it increased by 1.8% in October 2023 compared to the previous month, while compared to the previous year the index decreased by 0.8%.

Exchange Rate

The trend of appreciation of the nominal effective exchange rate in 2022 continued in 2023.

In October 2023, the lari nominal effective exchange rate appreciated by 18.7% y/y and by 16% YTD (compared to December 2022) while the real effective exchange rate appreciated by 6.3% y/y and appreciated by 5.1% in YTD terms.



The appreciation of the nominal effective exchange rate is driven by appreciation of lari against the main trading partners' currencies. In 2023², lari appreciated against Turkish lira by 35%, Chinese Yuan – 2.6%, Armenian Dram – 1.4%, Russian Ruble – 17%, while depreciated against EUR by 3.2%, the GBP – 5.6%, the USD – 0.4%, Ukrainian hryvnia – 1.5%, Azerbaijan Manat – 0.2%, as of November 30, 2023 compared to the end of December 2022.

Appreciation of the nominal effective exchange rate worsens a country's competitiveness on the international markets but at the same time reduces imported inflation.

To mitigate amplified exchange rate fluctuations the NBG is intervening on the currency exchange market. Starting 2023, the NBG sold \$166.75 million, while it purchased \$1.47 bln.

As for the international reserves, it amounted to \$5.12 billion by the end of October 2023.

International Trade

As for international trade, in the first 10 months of 2023, the external trade of Georgia amounted to \$17.79 billion, which is 16.2% higher compared to the same period of 2022. The exports amounted to \$5.1 billion (+12.5% y/y), while the imports stood at \$12.68 billion (+17.8% y/y).

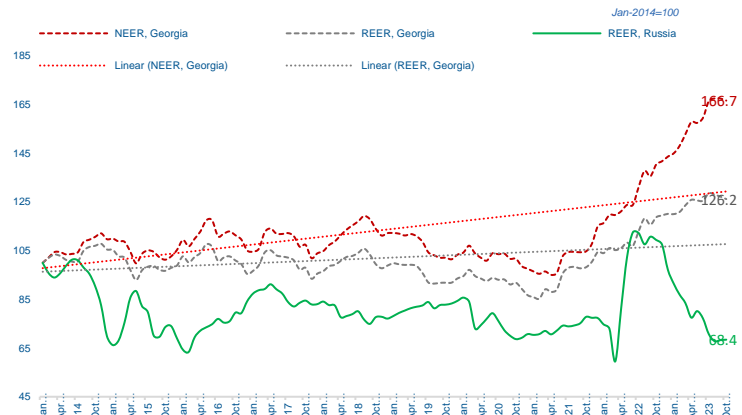
The negative trade balance expanded by 21.7% y/y (+\$1.35 bln) and amounted to \$7.58 billion in January–October 2023. The top partners by exports were Azerbaijan (\$713.5 million, 14% share, +31.7% y/y), Armenia (\$657.5 million, 12.9% share, +56.1% y/y) and Kazakhstan (\$579.9 million, 11.4% share, +240.1% y/y). The top partners by imports were Turkey (\$2.1 billion, 16.6% share, +9.5% y/y), the USA (\$1.59 billion, 12.5% share, +101.2% y/y) and Russia (\$1.48 billion, 11.7% share, +4.6% y/y).

The exports in the EU decreased by 14.4% y/y in January–October 2023, while the share of the EU in the total exports amounted to 12%. Imports from the EU increased by 26.5% y/y and the share amounted to 24.1%.

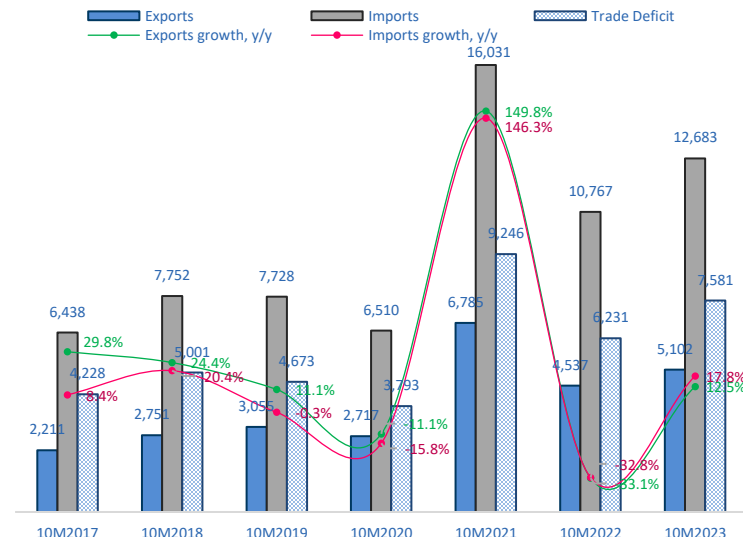
As for the CIS countries, the exports increased by 58.7% y/y and the share amounted to 65.2% of the total exports. Imports from the CIS countries decreased by 7.4% and the share amounted to 21.6%.

In the reported period, **top import commodities** were motor cars (+98.3% y/y, 20.4% share), petroleum oils (–18.2% y/y, 7.3% share), and medicaments (+35.1% y/y, 3.5% share of the total imports).

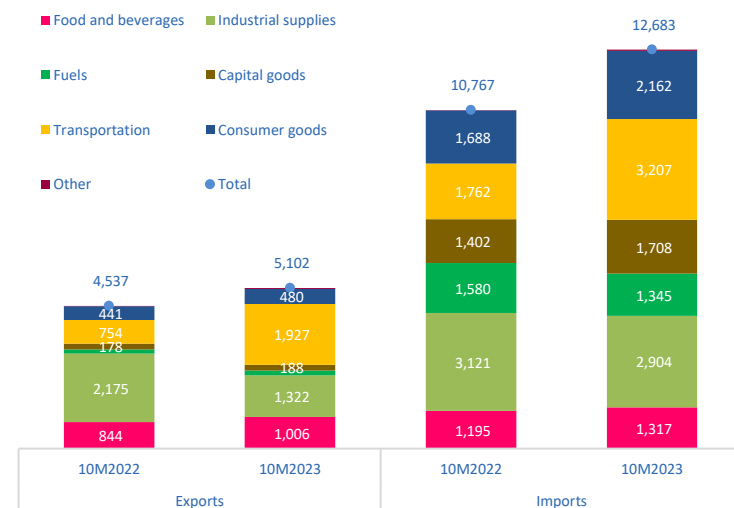
Effective Exchange Rate



International Trade, US\$ Mln



Exports/Imports (Broad Economic Categories), US\$ Mln



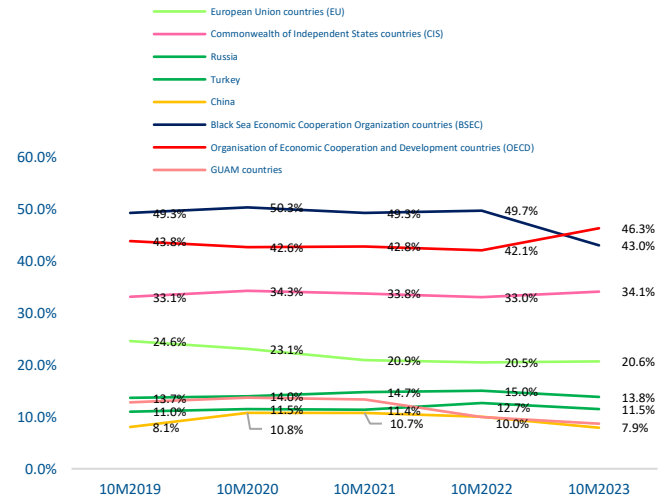
Furthermore, in January–October 2023, motor cars reclaimed the first place in *the list of top export items* (+165.7% y/y, 34.5% share of the total exports) followed by copper ores and concentrates (-46.4% y/y, 8.8% share) and wine (+8.2% y/y, 4.3% share).

Share of the domestic³ exports in the total exports constituted 46.5% and amounted to \$2.37 billion in January–October 2023, which is 23.3% less, compared to the same period of 2022.

In 10M 2023, the Georgian trade was mostly dependent on the market of Organisation of Economic Co-operation and Development countries (OECD) with 46.3% share in total trade turnover, followed by Black Sea Economic Cooperation organization countries (BSEC) with 43% share in total trade turnover.

As for the Commonwealth and Independent State (CIS) Countries, those had the share of 34.1% in total trade turnover, while the share of European Union Countries (EU) amounted to 20.6%.

Dependency of Georgia on international markets by countries (shares in total trade turnover)



Export and Import Statistics, 10M 2023, US\$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
Total Exports	5,102		-33.1%	Total Exports	5,102		-33.1%
Azerbaijan	714	14.0%	31.7%	Cars	1,762	34.5%	165.7%
Armenia	658	12.9%	56.1%	Copper	451	8.8%	-46.4%
Kazakhstan	580	11.4%	240.1%	Wine	217	4.3%	8.2%
Kyrgyzstan	564	11.0%	882.3%	Spirituous beverages	154	3.0%	38.1%
Russia	559	11.0%	7.3%	Ferro-alloys	143	2.8%	-68.0%
Turkey	359	7.0%	-5.1%	Fertilizers	137	2.7%	-38.4%
China	274	5.4%	-54.9%	Mineral waters	115	2.2%	24.3%
Bulgaria	227	4.4%	-34.7%	Electrical energy	103	2.0%	22.5%
Uzbekistan	91	1.8%	7.8%	Medicaments	98	1.9%	7.1%
Ukraine	84	1.6%	-60.8%	Waters, mineral and aerat	94	1.8%	40.7%
Switzerland	76	1.5%	-6.9%	Cigars, cheroots, cigarillos	75	1.5%	56.2%
Other	919	18.0%	-16.7%	Other	1,754	34.4%	6.6%

Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
Total Imports	12,683		-32.8%	Total Imports	12,683		-32.8%
Turkey	2,104	16.6%	9.5%	Cars	2,590	20.4%	98.3%
United States	1,591	12.5%	101.2%	Oils	929	7.3%	-18.2%
Russia	1,481	11.7%	4.6%	Medicaments	445	3.5%	35.1%
China	1,132	8.9%	22.8%	Gases	352	2.8%	11.1%
Germany	767	6.0%	49.7%	Telephones	298	2.3%	31.0%
Azerbaijan	517	4.1%	0.0%	Copper	219	1.7%	-64.8%
Japan	486	3.8%	127.4%	Motor vehicles	137	1.1%	63.3%
Italy	306	2.4%	39.3%	Computers	132	1.0%	-9.5%
United Arab Emirates	305	2.4%	55.2%	Tobacco	132	1.0%	35.2%
Armenia	295	2.3%	-41.1%	Tractors	118	0.9%	72.4%
Netherlands	236	1.9%	52.2%	Steel parts	108	0.8%	58.7%
Other	3,463	27.3%	4.0%	Other	7,224	57.0%	14.0%

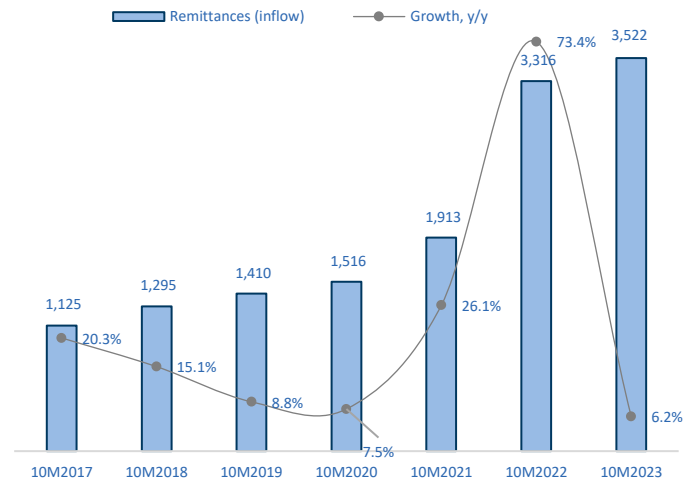
Remittances

In January-October 2023, the total amount of money transfers amounted to \$3.52 billion which is 6.2% more compared to the same period of the previous year. In January-October 2023, the largest share of remittances came from Russia (39.2% share, -3.7% y/y), followed by Italy (12.1% share, +20.8% y/y) and the USA (10.5% share, +40% y/y).

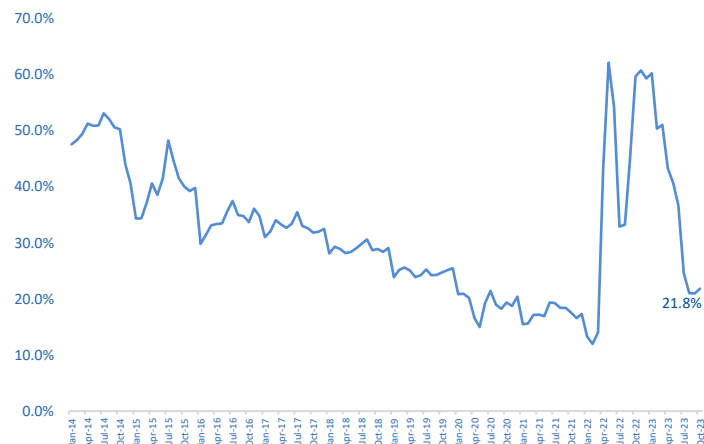
Russia was the major remittance sender to Georgia for years but the share had been decreasing over time. However, the volume of remittances from Russia increased significantly from April 2022. We see that the share of Russia in total remittances started to increase as well starting April 2022 and reached its peak at 62.1% in May, while for October 2023 it decreased to 21.8%.

The increase of remittances from Russia might be related to the migrants who entered Georgia due to the Russia-Ukraine war as their family members might send money transfers to them to cover their living expenses in Georgia. In addition, Georgians living in Russia might send more money as they thought about returning home.

Remittance Statistics, 10M 2023, US\$ Mln



Share of Russia in total remittances



State Budget

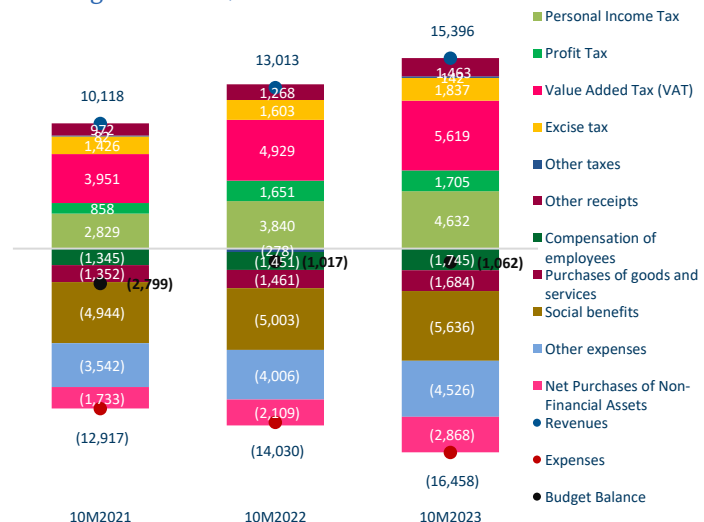
In January-October 2023, the state budget revenues increased by 18.3% y/y to 15.39 bln GEL, while the total expenses increased by 14% y/y to 13.59 bln GEL.

In 10M 2023, the revenues from value added tax increased by 14% y/y to 36.5% of budget revenues, while revenues from excise and income taxes increased by 14.6% y/y to 11.9% of the total revenues and by 20.6% y/y to 30.1% of the total revenues, respectively. Meanwhile, revenues from profit tax increased by 3.2% y/y and amounted to 11.1% of the total revenues.

On the spending side, social benefits increased by 12.6% y/y to 34.2% of the total budget expenses in 10M 2023, while compensation of employees increased by 20.3% y/y to 10.6% of the total expenses and purchases of goods and services increased by 15.3% y/y to 10.2% of the total expenses.

As a result, there was a budget deficit of about 1.06 billion GEL in January-October 2023, which is 45.6 million GEL (+4.5% y/y) more after it amounted to 1.02 billion GEL in the same period of last year.

Budget Statistics, Mln GEL



¹Net of food and energy prices;

²Estimated period: 31/12/2022 – 30.11.2023;

³Exports excluding re-exports.



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