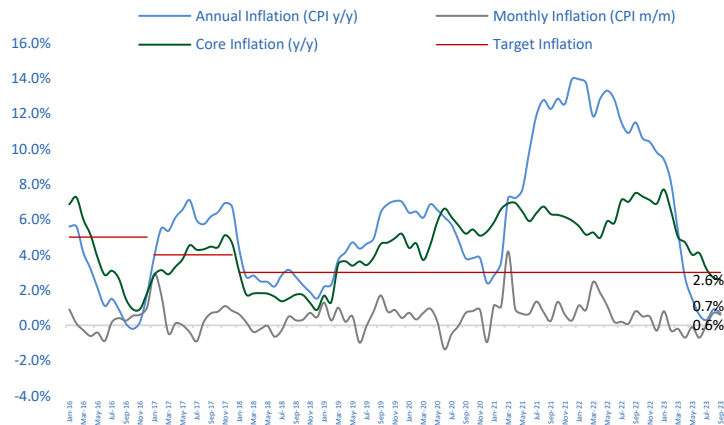


BasisBank Research

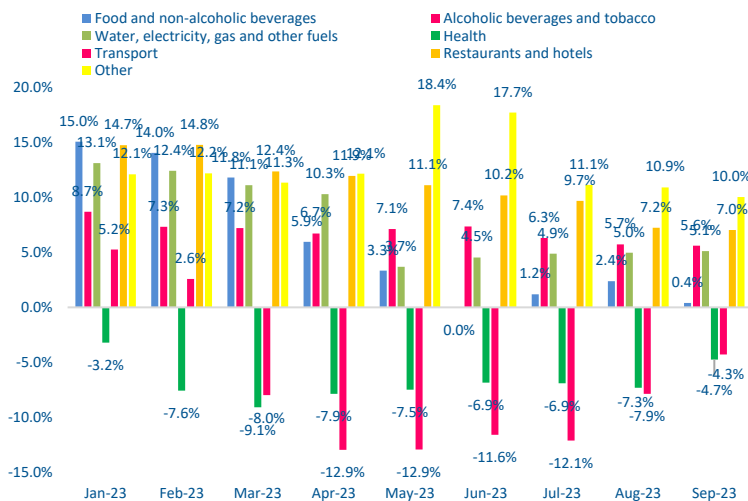
Economic Review

September 2023

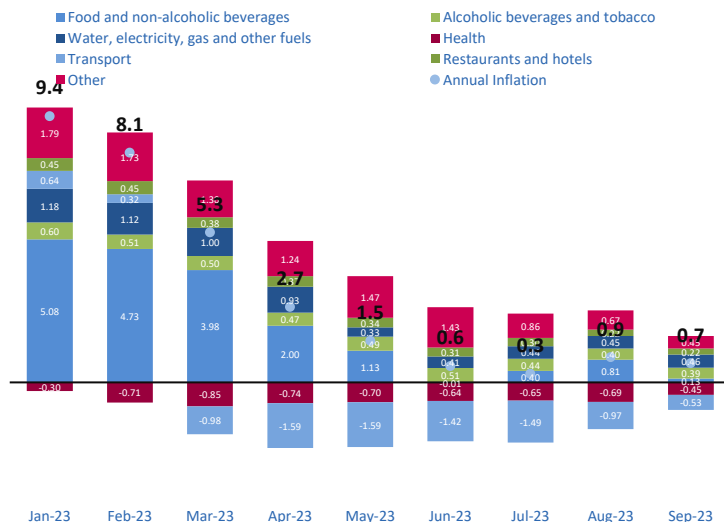
Inflation, Consumer Price Index



Y/Y changes of Groups (%)



Groups Shares in Annual Inflation



Inflation

The Georgian Consumer Price Index (CPI) increased by 0.7% y/y (+0.6% m/m) in September 2023, while core inflation¹ increased by 2.6% y/y in the same period. So the Consumer Price Index is lower already compared to the target inflation of 3%, which is the result of Georgian currency appreciation, decreased prices of international shipping costs, as well as lower commodity prices on the international market including oil and natural gas prices. However, global oil prices started to increase since Hamas launched its shock attack on Israeli civilians on October 7. Thus, oil markets are on edge due to a dramatic increase in geopolitical risk in the Middle East.

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 September 2023 the index was almost unchanged from August 2023, and it decreased by 10.7% compared to the level a year ago and 24% below the all-time high reached in March 2022.

As a result of the above-mentioned factors, imported inflation in Georgia decreased so much that in September 2023 there was a 4.1% y/y deflation of imported products. As for the inflation of locally produced products, it was still high despite 0.8 pp month-on-month decrease and amounted to 5.3% y/y (in which 4.4 pp was a contribution of local service inflation). Prices of service in Georgia increased by 8.2% y/y. In service inflation, two sectors contributed the most: banking service (1.6 pp) and residential real estate rent (0.9 pp). Compared to the imported inflation, domestic inflation has a relatively slow but still declining trend and this downward trend is expected to be kept throughout the year.

As a result of the above-mentioned reasons, the NBS decreased the monetary policy by 0.25% rate to 10% on September 13, 2023 and kept it at the same level by the decision of committee on October 25, 2023.

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 6.8% y/y in January-September 2023. The NBS has revised the growth forecast for Georgian economy up to 6% for 2023.

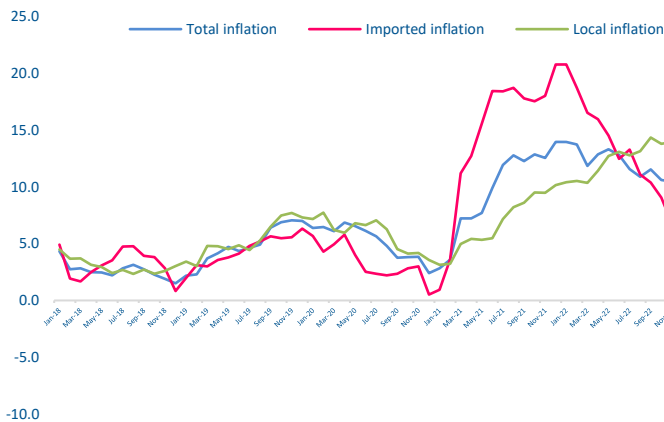
The annual inflation in September 2023 was mainly affected by price changes water electricity and other fuels (+5.1% y/y, +0.46 pp contribution), goods and services (+10% y/y, +0.45 pp contribution) including financial services (+27.9% y/y) and hygiene (+5.7% y/y), alcoholic beverages and tobacco (+5.6% y/y, +0.39 pp), transport (-4.3% y/y, -0.53 pp) and health sector (-4.7% y/y, -0.45 pp contribution).

As for the producer price index (PPI) for industrial products, it increased by 0.6% in September 2023 compared to the previous month, while compared to the previous year the index decreased by 3.3%.

Exchange Rate

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

In September 2023, the *lari nominal effective exchange rate* appreciated by 23.6% y/y and by 16.6% YTD (compared to December 2022) while the *real effective exchange rate* appreciated by 10% y/y and appreciated by 5.9% 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 33.6%, Chinese Yuan – 5.4%, Armenian Dram – 1.5%, Russian Ruble – 21.1%, EUR – 0.8%, while depreciated against the GBP by 0.6%, against the USD – 0.1%, Ukrainian hryvnia – 1.1%, while is unchanged against Azerbaijan Manat, as of October 31, 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 NBS is intervening on the currency exchange market. Starting 2023, the NBS sold \$166.75 million, while it purchased \$1.46 bln.

As for the international reserves, it amounted to \$5.27 billion by the end of September 2023.

International Trade

As for international trade, in the first nine months of 2023 the external trade of Georgia amounted to \$15.91 billion, which is 16.5% higher compared to the same period of 2022. The exports amounted to \$4.61 billion (+12.7% y/y), while the imports stood at \$11.3 billion (+18.2% y/y).

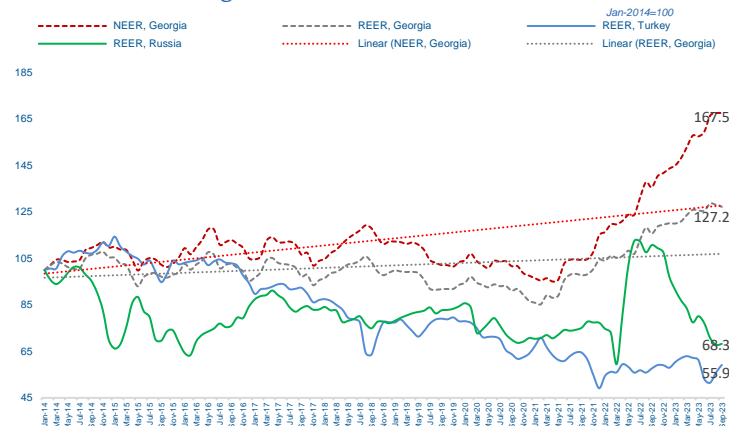
The negative trade balance expanded by 22.3% y/y (+\$1.22 bln) and amounted to \$6.7 billion in January-September 2023. The top partners by exports were Azerbaijan (\$632.7 million, 13.7% share, +29.5% y/y), Armenia (\$601.5 million, 13.1% share, +64.4% y/y) and Russia (511.8 million, 11.1% share, +10.3% y/y), while top partners by imports were Turkey (\$1.86 billion, +10.6% y/y, medicaments contributed 30.6% in growth), The USA (\$1.4 billion, +100.9% y/y) and Russia (\$1.36 billion, +9.7% y/y).

The exports in the EU decreased by 7.4% y/y in January-September 2023, while the share of the EU in the total exports amounted to 12.3%. Imports from the EU increased by 27.9% y/y and the share amounted to 24.1%.

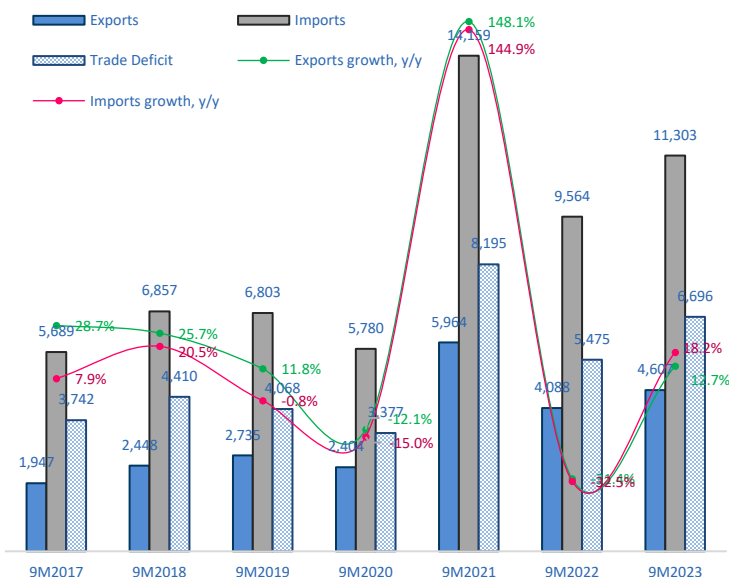
As for the CIS countries, the exports increased by 58.9% y/y and the share amounted to 64.4% of the total exports. Imports from the CIS countries decreased by 4.5% and the share amounted to 22.1%.

In the reported period, **top import commodities** were motor cars (+102.2% y/y, 20.2% share), petroleum oils (-20.1% y/y, 7.2% share), and medicaments (+32.5% y/y, 3.5% share of the total imports).

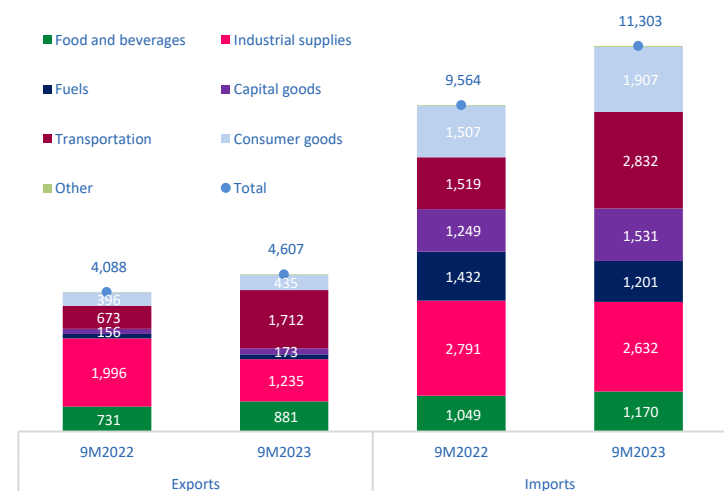
Effective Exchange Rate



International Trade, US\$ Mln



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



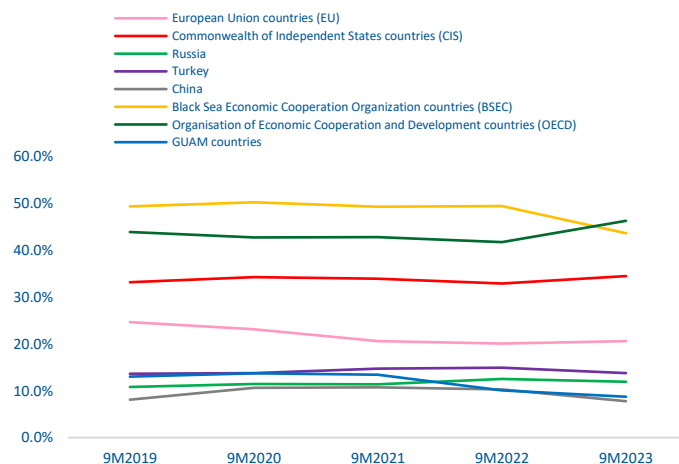
Furthermore, in January-September 2023, motor cars reclaimed the first place in *the list of top export items* (+164.4% y/y, 34% share of the total exports) followed by copper ores and concentrates (-41.8% y/y, 9.5% share) and wine (+11.7% y/y, 4.2% share).

Share of the domestic³ exports in the total exports constituted 47.2% and amounted to \$2.17 billion in January-September 2023, which is 22.5% less, compared to the same period of 2022.

In 9M 2023, the Georgian trade was mostly dependent on the market of Organization of Economic Cooperation and Development countries (OECD) with 46.1% share in total trade turnover, followed by Black Sea Economic Cooperation organization countries (BSEC) with 43.4% share in total trade turnover.

As for the Commonwealth and Independent State (CIS) Countries, those had the share of 34.4% in total trade turnover, while the share of European Union Countries (EU) amounted to 20.7%.

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



Export and Import Statistics, 9M 2023, US\$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
Total Exports	4,607		-31.4%	Total Exports	4,607		-31.4%
Azerbaijan	633	13.7%	29.5%	Cars	1,566	34.0%	164.4%
Armenia	602	13.1%	64.4%	Copper	438	9.5%	-41.8%
Russia	512	11.1%	10.3%	Wine	194	4.2%	11.7%
Kazakhstan	504	10.9%	229.8%	Ferro-alloys	140	3.0%	-67.6%
Kyrgyzstan	495	10.7%	896.8%	Spirituous beverages	131	2.9%	36.6%
Turkey	335	7.3%	-5.1%	Fertilizers	123	2.7%	-40.6%
China	267	5.8%	-53.5%	Electrical energy	103	2.2%	22.5%
Bulgaria	213	4.6%	-28.0%	Mineral waters	102	2.2%	27.6%
Uzbekistan	78	1.7%	9.4%	Waters, mineral and aerat	85	1.8%	41.0%
Ukraine	74	1.6%	-62.9%	Medicaments	82	1.8%	7.4%
Spain	73	1.6%	140.1%	Cigars, cheroots, cigarillos	73	1.6%	55.0%
Other	824	17.9%	-16.5%	Other	1,570	34.1%	7.1%

Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
Total Imports	11,303		-32.5%	Total Imports	11,303		-32.5%
Turkey	1,861	16.5%	10.6%	Cars	2,283	20.2%	102.2%
United States	1,399	12.4%	100.9%	Oils	816	7.2%	-20.1%
Russia	1,364	12.1%	9.7%	Medicaments	392	3.5%	32.5%
China	990	8.8%	19.2%	Gases	321	2.8%	10.0%
Germany	685	6.1%	54.1%	Telephones	269	2.4%	35.5%
Azerbaijan	451	4.0%	-4.3%	Copper	219	1.9%	-61.4%
Japan	414	3.7%	122.3%	Computers	121	1.1%	-12.0%
Armenia	287	2.5%	-33.8%	Tobacco	121	1.1%	38.3%
United Arab Emirates	277	2.5%	65.0%	Motor vehicles	120	1.1%	63.2%
Italy	276	2.4%	40.0%	Tractors	107	0.9%	78.9%
Netherlands	211	1.9%	53.5%	Steel parts	98	0.9%	65.8%
Other	3,087	27.3%	2.8%	Other	6,437	56.9%	14.6%

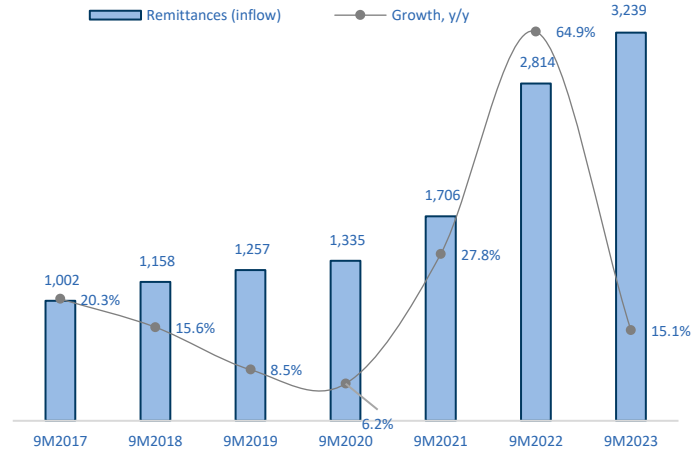
Remittances

In January-September 2023, the total amount of money transfers amounted to \$3.24 billion which is 15.1% more compared to the same period of the previous year. In January-September 2023, the largest share of remittances came from Russia (40.7% share, +16.2% y/y), followed by Italy (11.8% share, +21% y/y) and the USA (10.1% share, +40.1% 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 September 2023 it decreased to 20.9%.

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, 9M 2023, US\$ Mln



Share of Russia in total remittances



State Budget

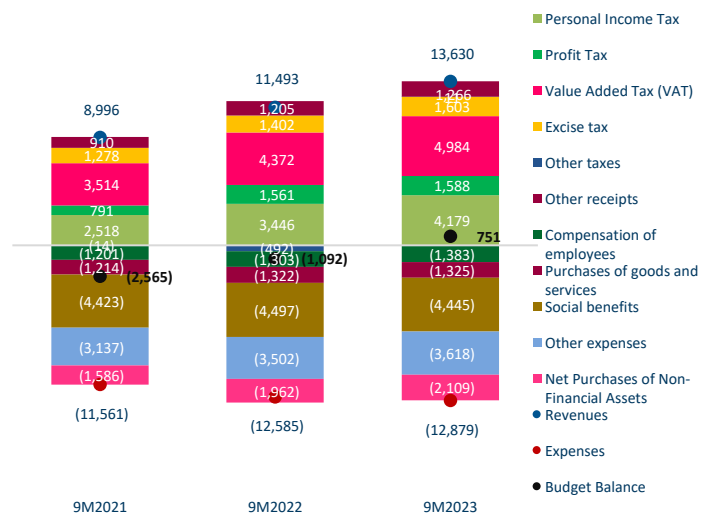
In January-September 2023, the state budget revenues increased by 19.5% y/y to 13.73 bln GEL, while the total expenses increased by 16.3% y/y to 14.64 bln GEL.

In 9M 2023, the revenues from value added tax increased by 14% y/y to 36.3% of budget revenues, while revenues from excise and income taxes increased by 14.4% y/y to 11.7% of the total revenues and by 21.3% y/y to 30.4% of the total revenues, respectively. Meanwhile, revenues from profit tax increased by 1.8% y/y and amounted to 11.6% of the total revenues.

On the spending side, social benefits increased by 12.9% y/y to 34.7% of the total budget expenses in 9M 2023, while compensation of employees increased by 19.8% y/y to 10.7% of the total expenses and purchases of goods and services increased by 13.3% y/y to 10.2% of the total expenses.

As a result, there was a budget deficit of about 907.4 million GEL in January-September 2023, which is 184.6 million GEL improvement (16.9%) after it amounted to 1.09 billion GEL deficit in the same period of last year.

Budget Statistics, Mln GEL



Tourism

In the first 9M of 2023, the number of *international visitor⁴ trips* amounted to **4.83 million** (+45% y/y, 81% recovery of 2019 pre-pandemic level) out of which *tourism type visits* were 3.66 million (+35% y/y, 92% recovery of 2019).

The top countries from which most international visits were carried out to Georgia were: Russia- 1.15 mln (+47% y/y, 95% recovery compared to 2019), Turkey – 1.08 mln (+99% y/y, 119% recovery), Armenia – 736.1 thousand (+41% y/y, 74% recovery), Israel – 182.7 thousand (+18% y/y, 121% recovery), Azerbaijan – 147.2 thousand (+31% y/y, 13% recovery) and Kazakhstan- 129.9 thousand (+31% y/y, 174% recovery).

Most of the visitors came from land (68.6% of visits) while 30.5% came from air and the rest 1% came through the sea and the railway.

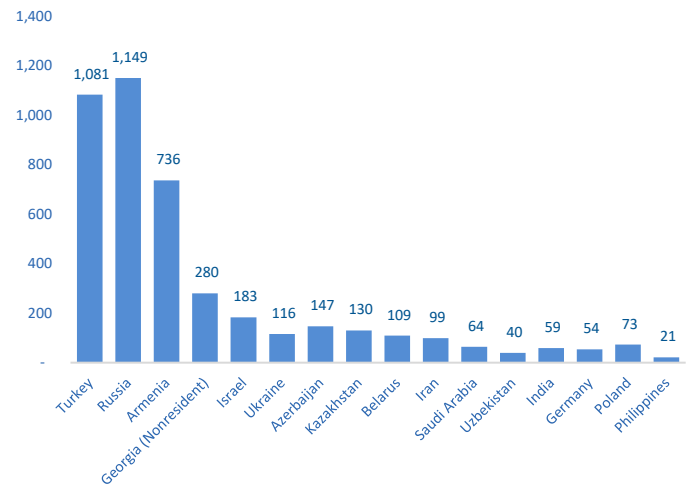
Most of the visitors (48.8%) were in the 31-50 age group and the majority (62.4%) of total visitors were male visitors.

Furthermore, *international travelers spent \$3.25 billion in 9M 2023* in Georgia, which is a **29% increase** compared to the same period of the previous year and a **126% recovery** of tourism revenue compared to 9M 2019.

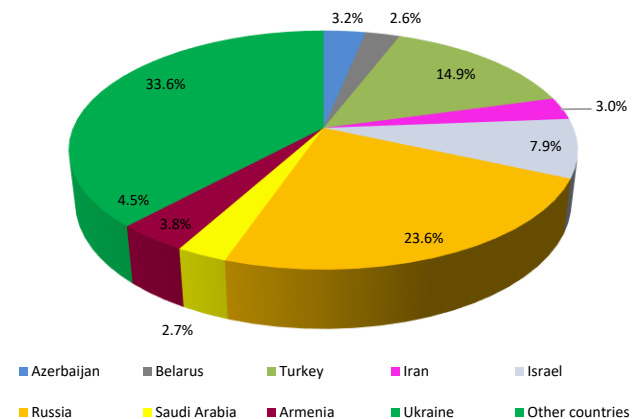
Most of the tourism income⁵ (23.6%) in 9M 2023 came from Russian visitors, followed by Turkish visitors (14.9%) and the visitors from Israel (7.9%).

If we calculate costs on a visit⁶, mostly the visitors from Israel spent the highest sums (\$1,413) on a visit in 9M 2023 followed by visitors from Saudi Arabia (\$1,396), Ukraine (\$1,274), Iran (\$1,002), Belarus (\$779), Azerbaijan (\$701), Russia (\$668) and Turkey (\$448).

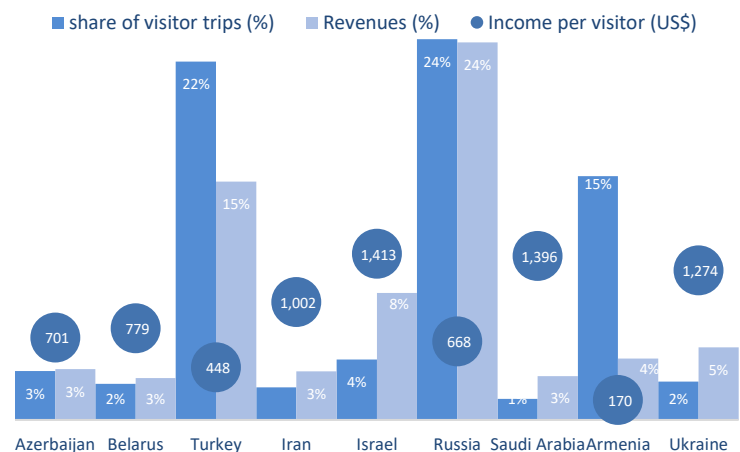
Int'l visits by top visitor countries ('000), 9M 2023



Country shares by tourism income (%), 9M 2023



Tourism Statistics, 9M 2023



¹Net of food and energy prices;

²Estimated period: 31/12/2022 –31.10.2023;

³Exports excluding re-exports;

⁴Visitor is a traveler aged 15 or above, non-resident of Georgia, took a trip outside his/her usual environment to Georgia for less than a year (except following categories: employment, diplomatic or consular officers accredited to Georgia, Armed Forces servants and their dependants and persons who frequently cross borders); International visitor trips include tourist (overnight visitor) trips and same day trips (same-day visitors);

⁵By September 30, 2023, 45.1% of Belarusian citizens, 42.5% of Russian citizens and 30.1% of Ukrainian citizens residing in Georgia are estimated as living here for 1 year or intending to stay more than 1 year. According to IMF methodology, they are Georgian residents and their expenses are not included in travel income;

⁶Total income in 9M 2023 over total number of visits from the country in the same period.



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