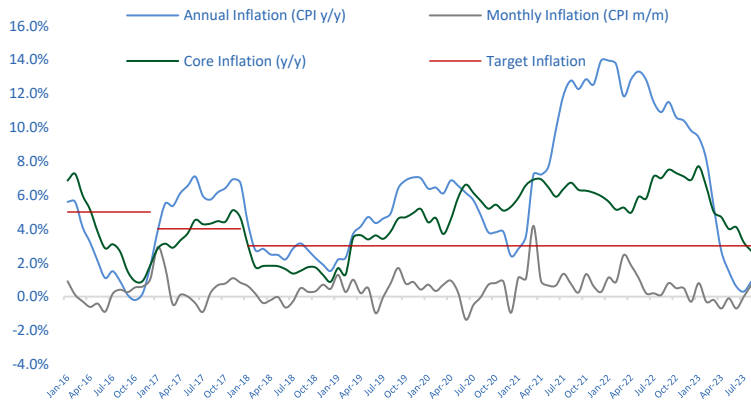


BasisBank Research

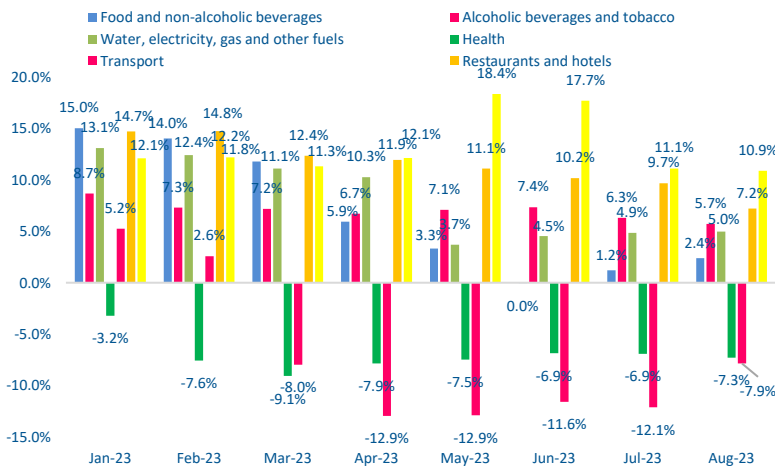
Economic Review

August 2023

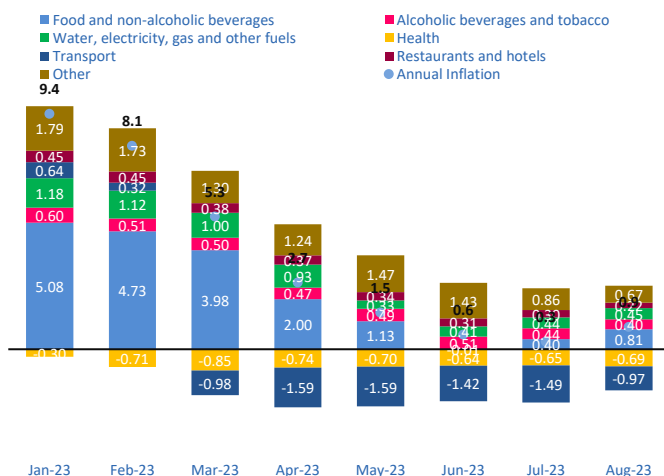
Inflation, Consumer Price Index



Y/Y changes of Groups (%)



Groups Shares in Annual Inflation



Inflation

The Georgian Consumer Price Index (CPI) increased by 0.9% y/y (0% m/m) in August 2023, while core inflation¹ increased by 2.7% 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.

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 August 2023 the index went down 2.1% from July 2023, and it decreased by 24% compared to the level a year ago.

As a result of the above-mentioned factors, imported inflation in Georgia decreased so much that in August 2023 there was a 5.8% y/y deflation of imported products. As for the inflation of locally produced products, it was still high despite 1.1 pp month-on-month decrease and amounted to 6.1% y/y (in which 4.6 pp was a contribution of local service inflation). Prices of service in Georgia increased by 8.4% y/y. In service inflation two sectors contributed the most, banking service (1.6 pp) and residential real estate rent (0.8 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 NBG decreased the monetary policy by 0.25% rate to 10% in on September 13, 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 7% y/y in January-August 2023). The NBG has revised the growth forecast for Georgian economy up to 6% for 2023.

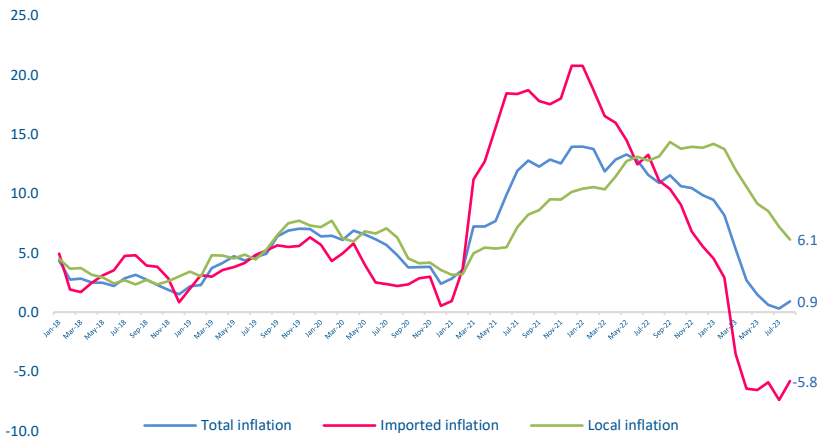
The annual inflation in August 2023 was mainly affected by price changes in food and non-alcoholic beverages (+2.4% y/y, 0.81 contribution), goods and services (+10.9% y/y, +0.67 pp contribution) including financial services (+27.9% y/y) and hygiene (+7.9% y/y), followed by housing, water electricity and other fuels (+5% y/y, +0.45 pp contribution), transport (-7.9% y/y, -0.97 pp) and health sector (-7.3% y/y, -0.69 pp contribution).

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

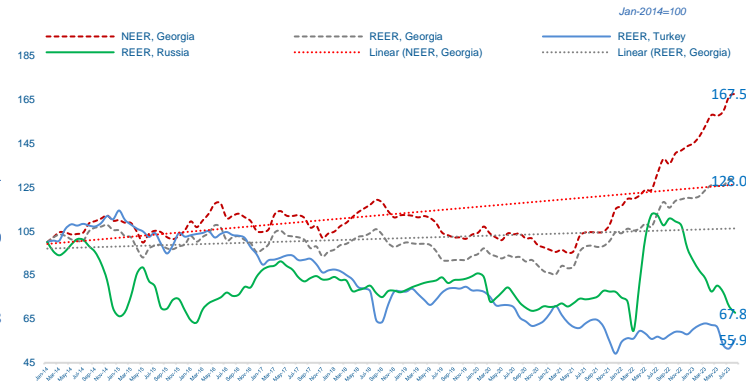
Exchange Rate

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

In August 2023, the lari nominal effective exchange rate appreciated by 21.6% y/y and by 16.6% YTD (compared to December 2022) while the real effective exchange rate appreciated by 8.3% y/y and appreciated by 6.6% in YTD terms.



Effective Exchange Rate



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 the USD by 0.9%, Turkish lira by 32.3%, Chinese Yuan – 6.1%, Azerbaijan Manat – 1.1%, Ukrainian hryvnia – 1.4%, Armenian Dram – 1.6%, Russian Ruble – 25.4%, EUR – 1.5% and depreciated against the GBP by 0.8% since the end of December 2022 through the end of September 2023.

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 NBBG is intervening on the currency exchange market. In 2023, it sold \$81.85 million at the foreign exchange auctions. Meanwhile, in January-August 2023 the NBBG purchased \$1.46 bln by Bmatch platform (in comparison, in 2022 NBBG purchased \$580.1 mln by Bmatch).

As for the international reserves, it amounted to \$5.44 billion by the end of August 2023.

International Trade

As for international trade, in the first eight months of 2023 the external trade of Georgia amounted to \$14 billion, which is 16.8% higher compared to the same period of 2022. The exports amounted to \$4.08 billion (+14.4% y/y), while the imports stood at \$9.93 billion (+17.8% y/y).

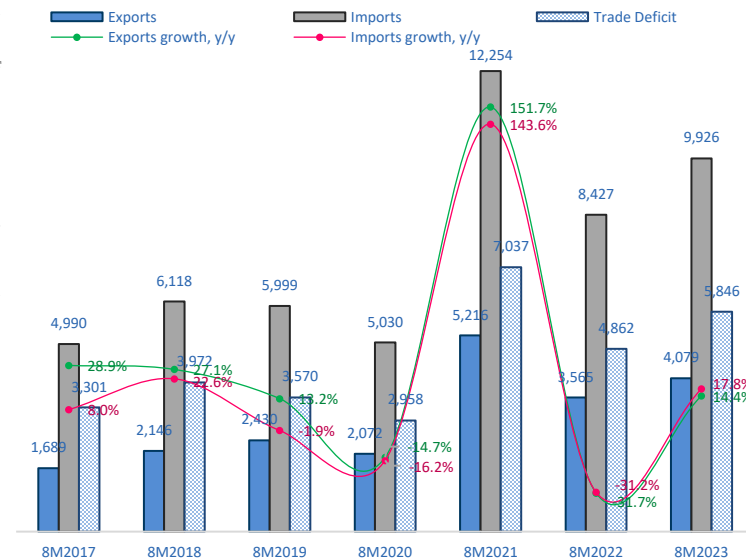
The negative trade balance expanded by 20.2% y/y and amounted to \$5.85 billion in January-August 2023. The top partners by exports were Azerbaijan (\$567.8 million, 13.9% share, +34.7% y/y), Armenia (\$552.3 million, 13.5% share, +82.8% y/y) and Russia (461.4 million, 11.3% share, +15.3% y/y), while top partners by imports were Turkey (\$1.64 billion, 16.6% share, +11.9% y/y), Russia (\$1.23 billion, 12.3% share, 14.7% y/y) and USA (\$1.19 billion, 12% share, +92.7% y/y).

The exports in the EU decreased by 10.9% y/y in January-August 2023, while the share of the EU in the total exports amounted to 12.4%. Imports from the EU increased by 27.8% y/y and the share amounted to 24.1%.

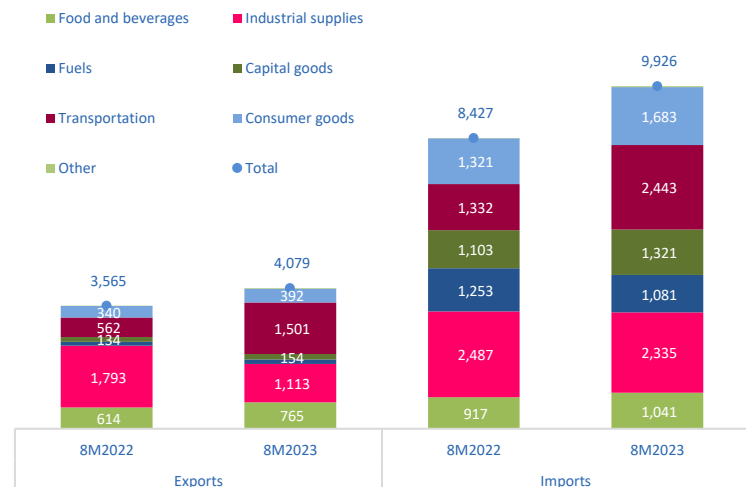
As for the CIS countries, the exports increased by 65.2% y/y and the share amounted to 64.3% of the total exports. Imports from the CIS countries decreased by 2% and the share amounted to 22.7%.

In the reported period, *top import commodities* were motor cars (+98% y/y, 19.7% share), petroleum oils (-17.9% y/y, 7.2% share), and medicaments (+31.9% y/y, 3.6% share of the total imports).

International Trade, US\$ Mln



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



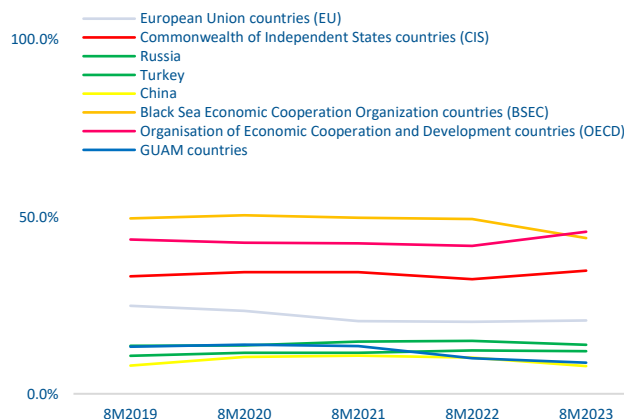
Furthermore, in January-August 2023, motor cars reclaimed the first place in *the list of top export items* (+178.1% y/y, 33.5% share of the total exports) followed by copper ores and concentrates (-39.8% y/y, 10.1% share) and wine (+15.6% y/y, 4.2% share).

Share of the domestic³ exports in the total exports constituted 47.3% and amounted to \$1.93 billion in January-August 2023 which is 22.1% less compared to the same period of 2022.

In 8M 2023, the Georgian trade was mostly dependent on the market of Organization of Economic Cooperation and Development countries (OECD) with 45.8% share in total trade turnover, followed by Black Sea Economic Cooperation organization countries (BSEC) with 44% share in total trade turnover.

As for the Commonwealth and Independent State (CIS) Countries, those had the share of 34.8% 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, 8M 2023, US\$ Mln

| Countries | Exports | Share | Change, y/y | Products | Exports | Share | Change, y/y |
|----------------------|--------------|-------|-------------|------------------------------|--------------|-------|-------------|
| Total Exports | 4,079 | | -31.7% | Total Exports | 4,079 | | -31.7% |
| Azerbaijan | 568 | 13.9% | 34.7% | Cars | 1,368 | 33.5% | 178.1% |
| Armenia | 552 | 13.5% | 82.8% | Copper | 412 | 10.1% | -39.8% |
| Russia | 461 | 11.3% | 15.3% | Wine | 169 | 4.2% | 15.6% |
| Kazakhstan | 428 | 10.5% | 236.2% | Spirituous beverages | 115 | 2.8% | 40.0% |
| Kyrgyzstan | 414 | 10.1% | 949.3% | Ferro-alloys | 115 | 2.8% | -69.1% |
| Turkey | 299 | 7.3% | -7.5% | Fertilizers | 113 | 2.8% | -41.2% |
| China | 253 | 6.2% | -49.6% | Electrical energy | 94 | 2.3% | 22.7% |
| Bulgaria | 186 | 4.6% | -35.1% | Mineral waters | 89 | 2.2% | 33.2% |
| Spain | 72 | 1.8% | 149.6% | Waters, mineral and aerat | 76 | 1.9% | 49.3% |
| Uzbekistan | 69 | 1.7% | 15.4% | Medicaments | 74 | 1.8% | 10.1% |
| Ukraine | 65 | 1.6% | -61.5% | Cigars, cheroots, cigarillos | 64 | 1.6% | 72.2% |
| Other | 710 | 17.4% | -27.7% | Other | 1,390 | 34.1% | 8.9% |

| Countries | Imports | Share | Change, y/y | Products | Imports | Share | Change, y/y |
|----------------------|--------------|-------|-------------|----------------------|--------------|-------|-------------|
| Total Imports | 9,926 | | -31.2% | Total Imports | 9,926 | | -31.2% |
| Turkey | 1,645 | 16.6% | 11.9% | Cars | 1,958 | 19.7% | 98.0% |
| Russia | 1,226 | 12.3% | 14.7% | Oils | 716 | 7.2% | -17.9% |
| United States | 1,190 | 12.0% | 92.7% | Medicaments | 354 | 3.6% | 31.9% |
| China | 843 | 8.5% | 15.9% | Gases | 305 | 3.1% | 14.4% |
| Germany | 608 | 6.1% | 58.2% | Telephones | 240 | 2.4% | 39.9% |
| Azerbaijan | 412 | 4.1% | -3.8% | Copper | 204 | 2.1% | -61.6% |
| Japan | 349 | 3.5% | 111.0% | Computers | 108 | 1.1% | -15.0% |
| Armenia | 259 | 2.6% | -32.5% | Motor vehicles | 105 | 1.1% | 67.2% |
| Italy | 249 | 2.5% | 42.5% | Tobacco | 102 | 1.0% | 40.3% |
| United Arab Emirates | 244 | 2.5% | 71.0% | Tractors | 92 | 0.9% | 73.1% |
| France | 183 | 1.8% | 37.5% | Steel parts | 85 | 0.9% | 62.6% |
| Other | 2,718 | 27.4% | 1.3% | Other | 5,656 | 57.0% | 14.6% |

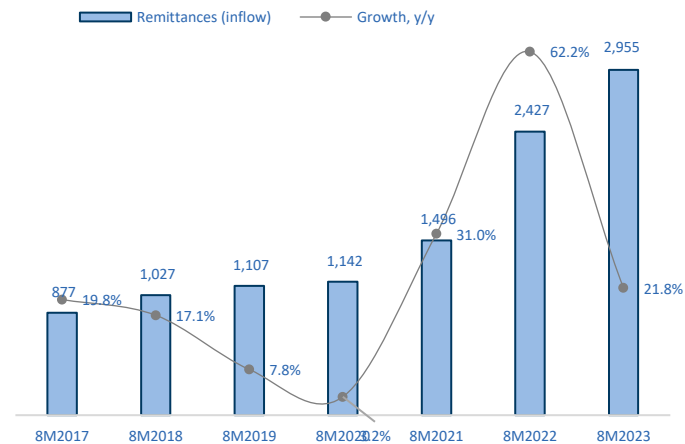
Remittances

In January-August 2023, the total amount of money transfers amounted to \$2.96 billion which is 21.8% more compared to the same period of the previous year. In January-August 2023, the largest share of remittances came from Russia (42.6% share, +31.1% y/y), followed by Italy (11.5% share, +21.2% y/y) and the USA (9.7% share, +39.6% y/y).

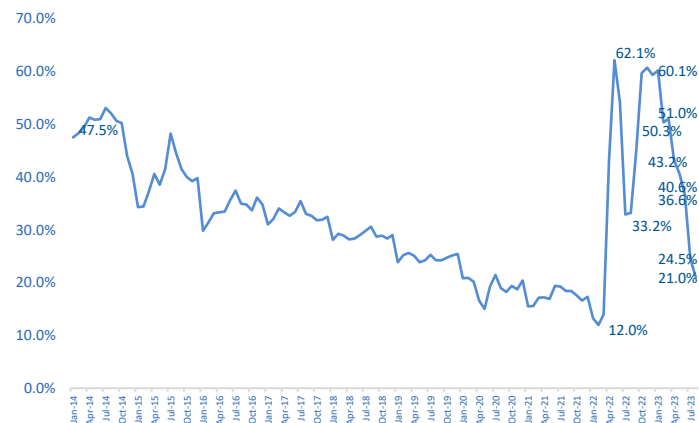
Russia was the major remittance sender to Georgia for years but the share had been decreasing over time. However, the volume of remittances from Russia increased significantly from April 2022. We see that the share of Russia in total remittances started to increase as well starting April 2022 and reached its peak at 62.1% in May, while for August 2023 it decreased to 21%.

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. Also, Georgians living in Russia might send more as they think about returning home.

Remittance Statistics, 8M 2023, US\$ Mln



Share of Russia in total remittances



State Budget

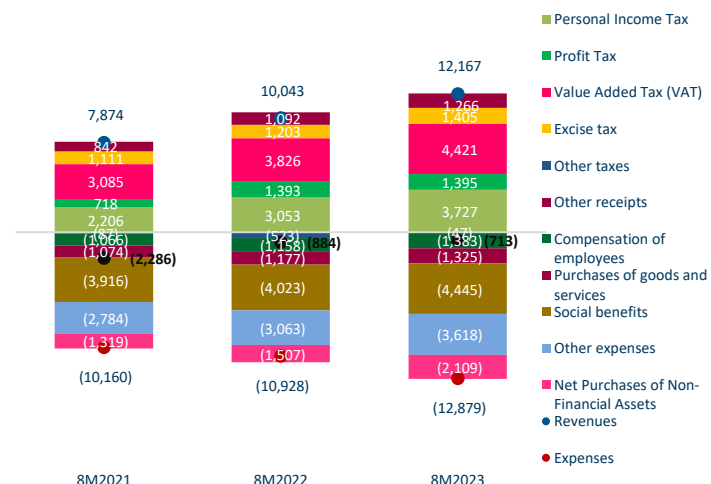
In January-August 2023, the state budget revenues increased by 21.1% y/y to 12.17 bln GEL, while the total expenses increased by 17.9% y/y to 12.88 bln GEL.

In the first eight months of 2023, the revenues from value added tax increased by 15.6% y/y to 36.3% of budget revenues, while revenues from excise and income taxes increased by 16.8% y/y to 11.5% of the total revenues and by 22.1% y/y to 30.6% of the total revenues, respectively. Meanwhile, revenues from profit tax increased by 0.2% y/y and amounted to 11.5% of the total revenues.

On the spending side, social benefits increased by 10.5% y/y to 34.5% of the total budget expenses in January-August 2023, while compensation of employees increased by 19.4% y/y to 10.7% of the total expenses and purchases of goods and services increased by 12.5% y/y to 10.3% of the total expenses.

As a result, there was a budget deficit of about 712.7 million GEL in January-August 2023 which is 171.7 million GEL improvement after it amounted to 884.4 million GEL deficit in the same period of last year.

Budget Statistics, Mln GEL



¹Net of food and energy prices

²Estimated period: 31/12/2022 – 30.09.2023

³Exports excluding re-exports

Foreign Direct Investments

Foreign direct investments (FDI) in Georgia amounted to \$1.07 billion in the first half of 2023 which is 10.9% more compared to the same period of last year.

Reinvestment of earnings (57.2% of the total FDIs in H1 2023) which is the difference between profit/loss and dividends increased by 5.9% y/y and amounted to \$613.1 million. Meanwhile, there was an increase of equity (38.5% of total FDIs) by 15.7% y/y and it amounted to \$413.1 million.

Manufacturing sector made the highest contribution to (24.4%) the total foreign direct investments, followed by financial sector (24.1%) and the energy sector (18.8%).

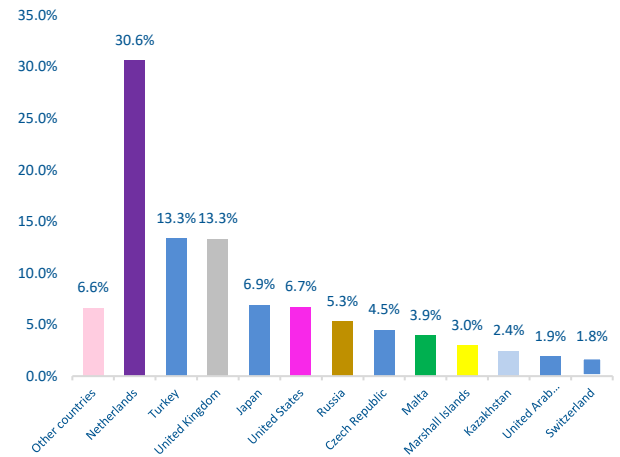
Out of the total FDIs, the share of large companies was 60.4%, while the share of small companies was 26.9% followed by medium-size companies with the least share of 12.7%.

As for the top countries FDI came to Georgia, these were the following: Netherlands (\$327.8 million, +205.5% y/y), Turkey (\$142.9 million, +101.4% y/y) and the United Kingdom (\$142.5 million, -9.2% y/y).

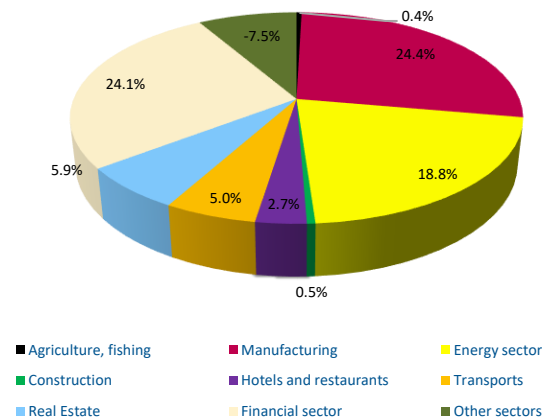
Netherlands had the highest share in FDIs in H1 2023 because Excelus Holdings LLC (Indorama Corporation) acquired 100% shares of JSC Rustavi Azot (producer of fertilizers and industrial chemical products) through its Dutch subsidiary company Indorama Holdings B.V. on January 10, 2023.

In H1 2023, FDI's share in GDP amounted to 7.8%.

Shares of top countries in total FDIs in H1 2023



Shares of sectors in total FDIs in H1 2023



Economic growth

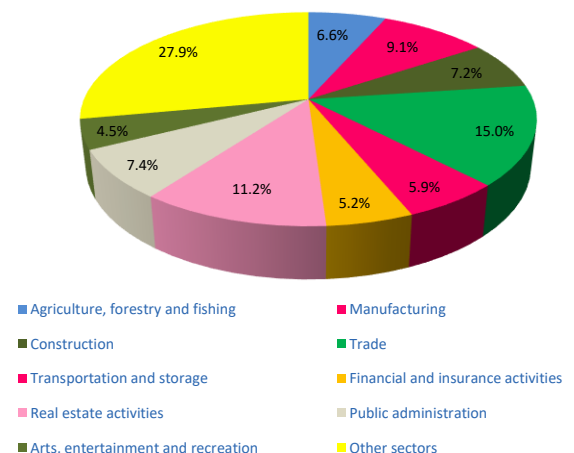
The nominal Gross Domestic Product (GDP) amounted to 35.75 billion GEL in the first half of 2023.

Trade was the largest part of the GDP structure (15% share, +14.3% y/y) in H1 2023, followed by real estate activities (11.2% share, +1.2% y/y), manufacturing (9.1% share, -4.6% y/y), public administration (7.4% share, +10.8% y/y), construction (7.2% share, +19% y/y), agriculture, forestry and fishing (6.6% share, -5.4% y/y), transportation and storage (5.9% share, +5.3% y/y), education (5.5% share, +16.4% y/y).

As for the GDP growth, the economy grew by 5.8% in August 2023 y/y, while in the first eight months of 2023 the average real GDP growth amounted to 7% y/y.

Based on the NBG's forecast, economic growth in 2023 is expected at 6%.

GDP structure in H1 2023





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