

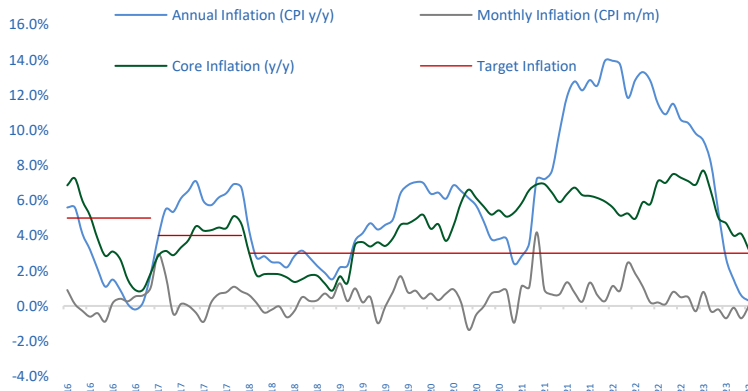
# **BasisBank Research**

## **Economic Review**

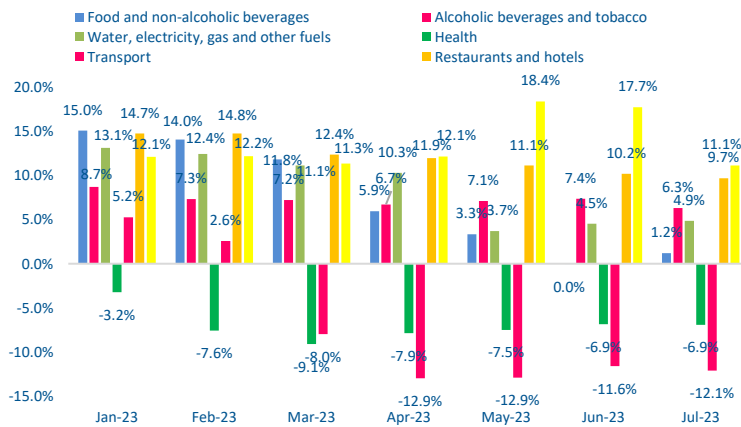
July 2023

**August 31, 2023**

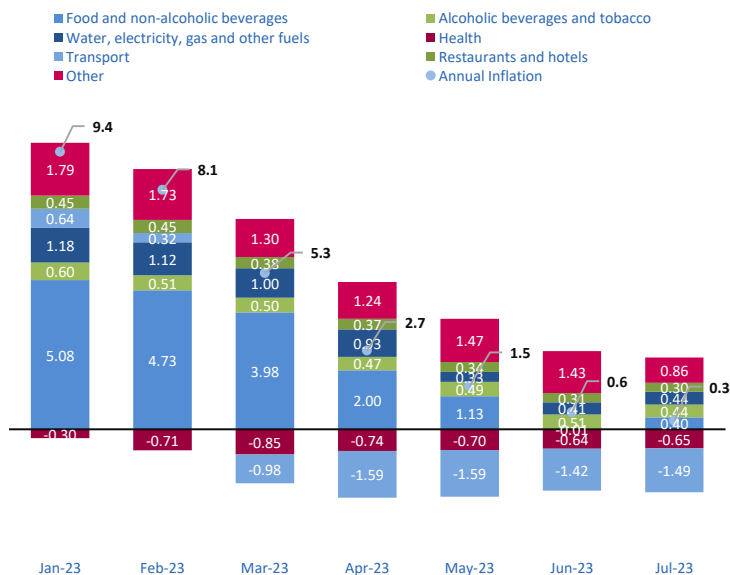
## Inflation, Consumer Price Index



## Y/Y changes of Groups (%)



## Groups Shares in Annual Inflation



## Inflation

*The Georgian Consumer Price Index (CPI) increased by 0.3% y/y (0% m/m) in July 2023, while core inflation<sup>1</sup> increased by 3.2% 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. However, in July 2023 the index went up a bit by 1.3% from June 2023, but it was still 11.8% below the index level a year ago.

As a result of the above-mentioned factors, *imported inflation in Georgia decreased* so much that in July there was a 7.4% y/y deflation of imported products. *As for the inflation of locally produced products, it was still high despite 1.3 pp month-on-month decrease and amounted to 7.2% y/y.* 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 rate to 10.25% in early August 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. Moreover, economic growth is still high this year (in average, 7.6% real GDP growth in H1 2023). The NBG has revised the growth forecast for Georgian economy up to 6% for 2023 which is noteworthy in terms of inflationary pressure. If the stronger aggregate demand due to increased migrants amid Russian-Ukrainian war influences the growth even more than expected, the economic growth will be higher which can pressure the inflation.

The annual inflation in July 2023 was mainly affected by price changes in goods and services (+11.1%, +0.86 pp contribution) including financial services (+27.9%) and hygiene (+9%), followed by housing, water electricity and other fuels (+4.9% y/y, +0.44 pp contribution) and alcoholic beverages and tobacco (+6.3% y/y, +0.44 contribution). Prices significantly decreased in the transport sector (-12.1% y/y, -1.49 pp contribution) followed by health sector (-6.9% y/y, -0.65 pp contribution).

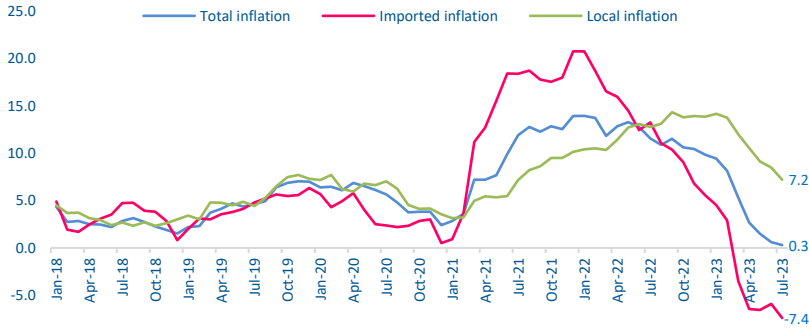
As for *the producer price index (PPI)* for industrial products, it increased by 0.5% in July 2023 compared to the previous month, while compared to the previous year the index decreased by 2.8%.

As for the latest rapid estimates of economic growth, the estimated real Gross Domestic Product (GDP) growth rate in July 2023 amounted to 5.5% y/y and 7.2% in January-July 2023.

## Exchange Rate

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

In July 2023, the *lari nominal effective exchange rate appreciated by 26.9% y/y* and by 15.9% YTD (compared to December 2022) while *the real effective exchange rate appreciated by 13.8% y/y* and appreciated by 7% in YTD terms.



The appreciation of the nominal effective exchange rate is driven by appreciation of lari against the main trading partners' currencies. In 2023<sup>2</sup>, lari appreciated against the USD by 2.2%, Turkish lira by 32%, Chinese Yuan – 5.5%, Azerbaijan Manat – 2.2%, Ukrainian hryvnia – 2.7%, Armenian Dram – 0.1%, Russian Ruble – 20.9%. Meanwhile, lari depreciated against the EUR by 0.7% and against the GBP by 4.2% since December 2022 through July 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 NBG is intervening on the currency exchange market. In June 2023, it sold \$17.1 million at the foreign exchange auctions. Meanwhile, in January-June 2023 the NBG purchased \$1.08 bln by Bmatch platform (in comparison, in 2022 NBG purchased \$580.1 mln by Bmatch).

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

## International Trade

*As for international trade, in the first seven months of 2023 the external trade of Georgia amounted to \$12.1 billion, which is 18% higher compared to the same period of 2022. The exports amounted to \$3.58 billion (+15.9%y/y), while the imports stood at \$8.52 billion (+19% y/y).*

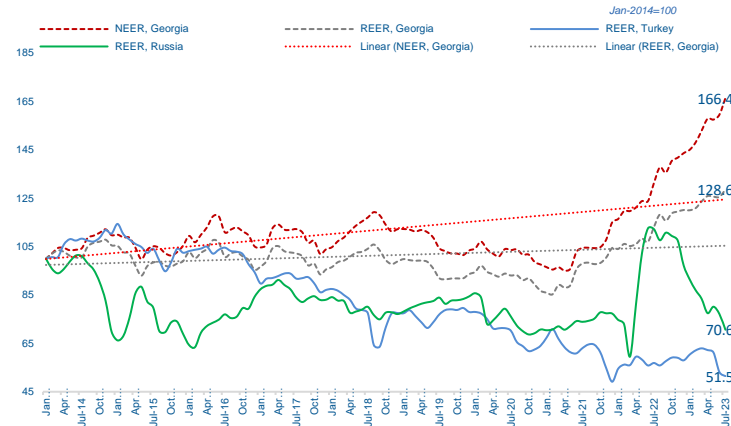
*The negative trade balance expanded by 21.3% y/y and amounted to \$4.93 billion in January-July 2023. The top partners by exports were Armenia (\$495 million, 13.8% share, +96.7% y/y), Azerbaijan (\$485.3 million, 13.5% share, +38.1% y/y) and Russia (416.2 million, 11.6% share, +26.2% y/y), while top partners by imports were Turkey (\$1.42 billion, 16.7% share, +15.6% y/y), Russia (\$1.09 billion, 12.8% share, 24.2% y/y) and USA (\$975.3 million, 11.4% share, +81.9% y/y).*

The exports in the EU decreased by 7.6% y/y in January-July 2023, while the share of the EU in the total exports amounted to 12.5%. Imports from the EU increased by 28.4% y/y and the share amounted to 24%.

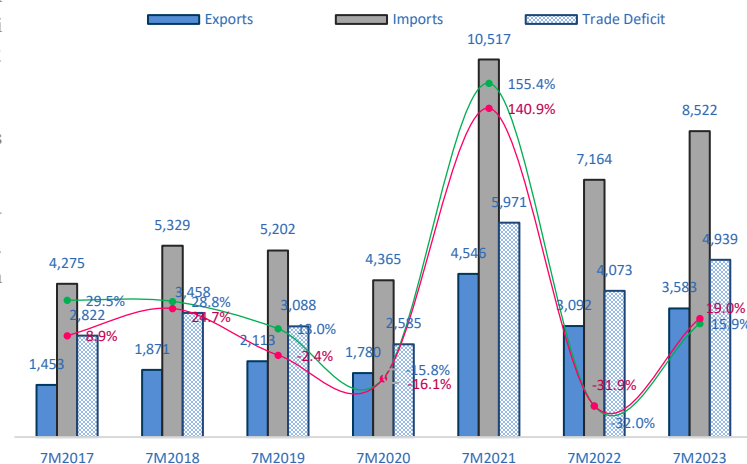
As for the CIS countries, the exports increased by 75.1% y/y and the share amounted to 63.4% of the total exports. Imports from the CIS countries increased by 1.5% and the share amounted to 23.4%.

In the reported period, *top import commodities* were motor cars (+95.9% y/y, 19% share), petroleum oils (-15.2% y/y, 7.1% share), and medicaments (+31.3% y/y, 3.6% share of the total imports).

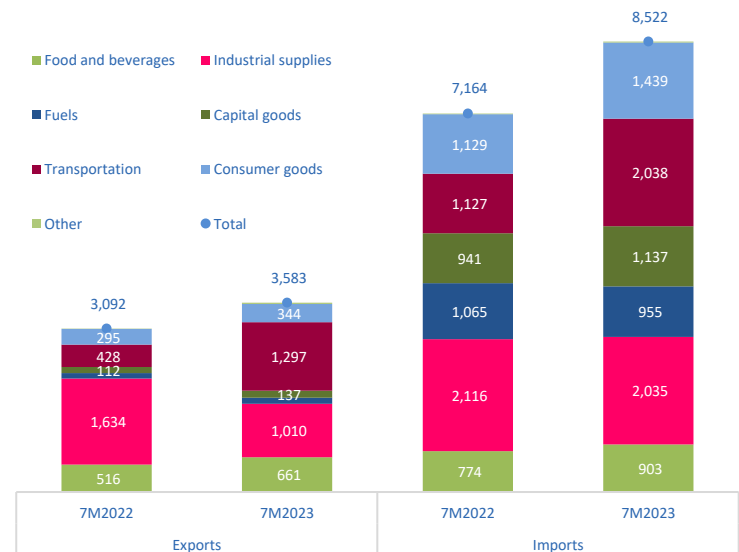
## Effective Exchange Rate



## International Trade, US\$ Mln



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



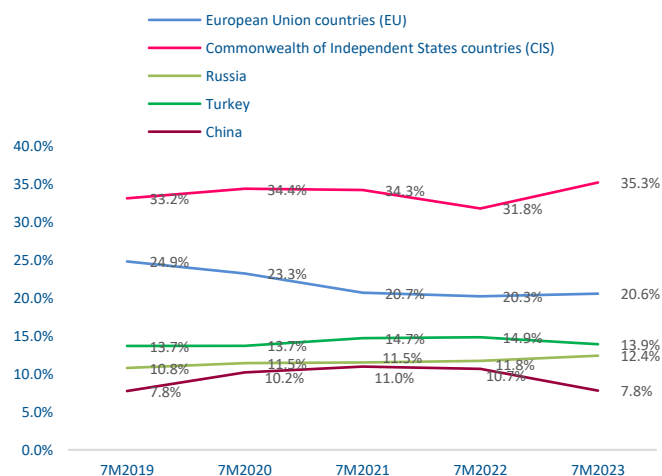
Furthermore, in January-July 2023, motor cars reclaimed the first place in *the list of top export items* (+217.7% y/y, 32.9% share of the total exports) followed by copper ores and concentrates (-38.7% y/y, 10.6% share) and wine (+24.1% y/y, 4.2% share).

Share of the domestic<sup>3</sup> exports in the total exports constituted 48.2% and amounted to \$1.73 billion in January-July 2023 which is 22% less compared to the same period of 2022.

Georgian trade is mostly dependent on the market of Commonwealth and Independent State (CIS) Countries as it has the highest share in total trade turnover. The second largest market for Georgian trade is European Union Countries (EU).

In the first seven months of 2023, the share of CIS market in total trade turnover increased from 31.8% to 35.3% y/y, while the EU market had almost the same shares as last year (up 0.3%). There was a little increase of share in the total trade turnover for Russia (0.6%), while there was 1% decrease of the dependency on the Turkish market. Moreover, dependency on the Chinese market decreased as well as the share of China in the total trade turnover decreased from 10.7% to 7.8% year-on-year.

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



### Export and Import Statistics, 7M 2023, US\$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
<b>Total Exports</b>	<b>3,583</b>		-32.0%	<b>Total Exports</b>	<b>3,583</b>		-32.0%
Armenia	495	13.8%	96.7%	Cars	1,178	32.9%	217.7%
Azerbaijan	485	13.5%	38.1%	Copper	381	10.6%	-38.7%
Russia	416	11.6%	26.2%	Wine	150	4.2%	24.1%
Kazakhstan	355	9.9%	266.2%	Ferro-alloys	111	3.1%	-68.6%
Kyrgyzstan	351	9.8%	1157.9%	Fertilizers	107	3.0%	-41.5%
Turkey	267	7.5%	-9.3%	Spirituous beverages	99	2.8%	28.2%
China	243	6.8%	-48.9%	Electrical energy	80	2.2%	23.7%
Bulgaria	154	4.3%	-34.4%	Mineral waters	77	2.2%	38.2%
Spain	72	2.0%	162.2%	Waters, mineral and aera	67	1.9%	62.4%
Ukraine	57	1.6%	-56.7%	Medicaments	63	1.8%	7.5%
Uzbekistan	56	1.6%	7.8%	Cigars, cheroots, cigarillo	60	1.7%	123.6%
Other	633	17.7%	-20.8%	Other	1,211	33.8%	10.2%

Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
<b>Total Imports</b>	<b>8,522</b>		-31.9%	<b>Total Imports</b>	<b>8,522</b>		-31.9%
Turkey	1,421	16.7%	15.6%	Cars	1,620	19.0%	95.9%
Russia	1,088	12.8%	24.2%	Oils	608	7.1%	-15.2%
United States	975	11.4%	81.9%	Medicaments	308	3.6%	31.3%
China	701	8.2%	13.0%	Gases	291	3.4%	18.0%
Germany	521	6.1%	59.6%	Telephones	211	2.5%	44.2%
Azerbaijan	363	4.3%	-6.0%	Copper	197	2.3%	-57.0%
Japan	288	3.4%	137.4%	Computers	94	1.1%	-16.1%
Armenia	239	2.8%	-30.0%	Motor vehicles	88	1.0%	63.9%
United Arab Emirates	217	2.5%	81.3%	Tobacco	88	1.0%	65.8%
Italy	215	2.5%	45.0%	Tractors	80	0.9%	75.9%
France	158	1.9%	42.1%	Steel parts	72	0.8%	67.0%
Other	2,337	27.4%	1.4%	Other	4,865	57.1%	15.6%

## Remittances

The volume of money transfers from abroad constituted about \$303.6 million in July 2023, which is 0.8% (\$2.5 million) less than the amount in July, last year.

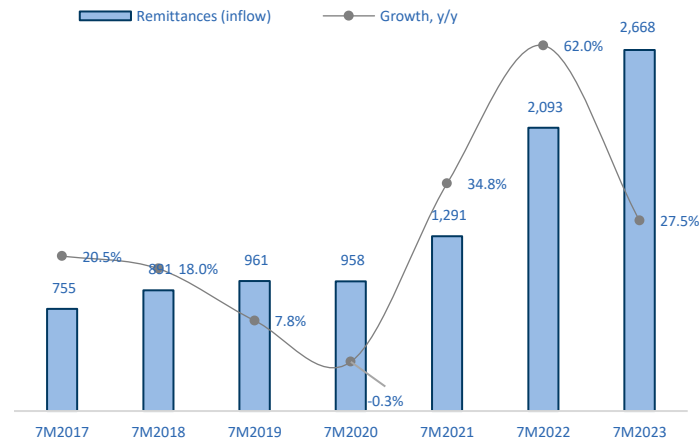
The top remittance senders in June 2023 were **Russia (24.3% of the total transfers, -26.6% y/y)**, Italy (14.9% share, +26.1% y/y) and the USA (13.2% share, +40.1% y/y).

**In January-July 2023, the total amount of money transfers amounted to \$2.67 billion which is 27.5% more compared to the same period of the previous year.** In January-July, 2023, the largest share of remittances came from Russia (44.9% share, +41.1% y/y), followed by Italy (11.1% share, +21% y/y) and the USA (9.2% share, +39.9% 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 July 2023 it decreased to 24.5%.

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, 7M 2023, US\$ Mln



## Share of Russia in total remittances



## State Budget

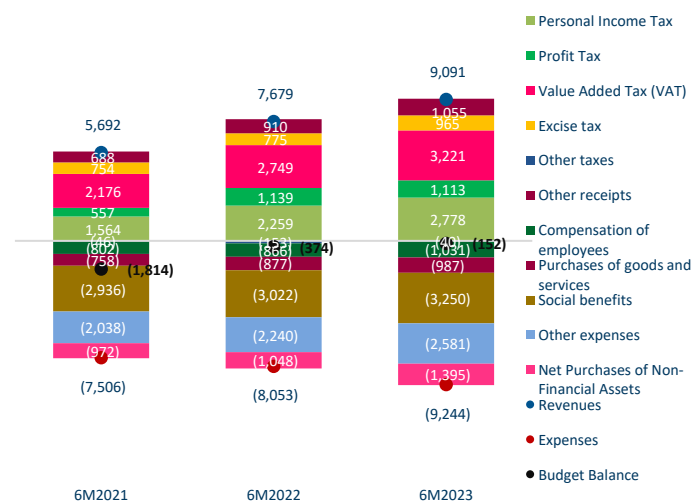
**In January-June 2023, the state budget revenues increased by 18.4% y/y to 9.09 bln GEL, while the total expenses increased by 14.8% y/y to 9.24 bln GEL.**

In the first half of 2023, the revenues from value added tax increased by 17.2% y/y to 35.4% of budget revenues, while revenues from excise and income taxes increased by 24.5% y/y to 10.6% of the total revenues and by 23% y/y to 30.6% of the total revenues, respectively. Meanwhile, revenues from profit tax decreased by 2.3% y/y and amounted to 12.2% of the total revenues.

On the spending side, social benefits increased by 7.6% y/y to 35.2% of the total budget expenses in January-June 2023, while compensation of employees increased by 19% y/y to 11.1% of the total expenses and purchases of goods and services increased by 12.5% y/y to 10.7% of the total expenses.

**As a result, there was a budget deficit of about 152.5 million GEL in January-June 2023 which is 221.5 million GEL improvement after it amounted to about 374 million GEL deficit in the same period of last year.**

## Budget Statistics, Mln GEL



<sup>1</sup>Net of food and energy prices

<sup>2</sup>Estimated period: 31/12/2022 – 31.07.2023

<sup>3</sup>Exports excluding re-exports

## Tourism

In the first half of 2023, the number of *international visitor<sup>4</sup> trips* amounted to **2.53 million** (+76% y/y, 78% recovery of 2019 pre-pandemic level) out of which *tourism type visits* were 1.93 million (+60% y/y, 91% recovery of 2019).

*The top countries most international visits were carried out to Georgia* in the first six months of 2023 were: **Turkey – 582.5 thousand** (+122% y/y, 117% recovery), Russia – 577.6 thousand (+134% y/y, 84% recovery), Armenia – 397.1 thousand (+103% y/y, 75% recovery), Israel – 106.5 thousand (+26% y/y, 138% recovery), Azerbaijan – 85.5 thousand (+29% y/y, 14% recovery) and Ukraine – 67 thousand (-5% y/y, 81% recovery).

*Most of the visitors came from land (68.1% of visits)* while 31.1% came from air and the rest 0.9% came through the sea and the railway.

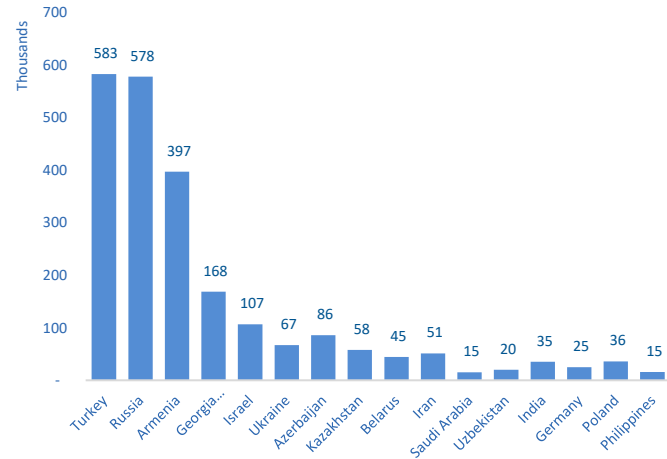
*Most of the visitors (49.9%) were in the 31-50 age group* and the majority (67%) of total visitors were male visitors.

Furthermore, *international travelers spent \$1.8 billion in H1 2023* in Georgia which is a **58% increase** compared to the same period of the previous year and a **124% recovery** of tourism revenue compared to the first half of 2019.

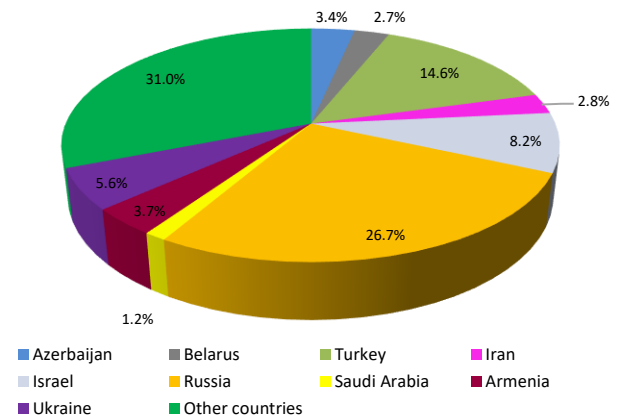
Most of the tourism income<sup>5</sup> (26.7%) in H1 2023 came from Russian visitors, followed by Turkish visitors (14.6%) and the visitors from Israel (8.2%).

If we calculate costs on a visit<sup>6</sup>, mostly the visitors from Ukraine spent the highest sums (\$1,519) on a visit in H1 2023 followed by visitors from Saudi Arabia (\$1,433), Israel (\$1,392) and visitors from Belarus (\$1,088) and Iran (\$982).

Int'l visits by top visitor countries ('000), 6M 2023



Country shares by tourism income (%), 6M 2023





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