

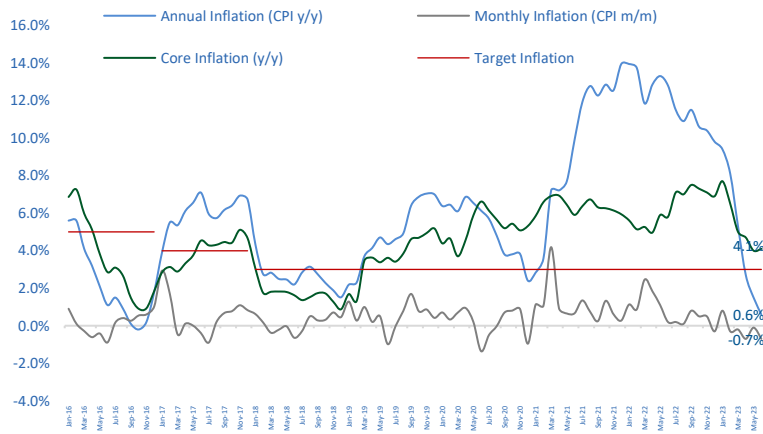
BasisBank Research

Economic Review

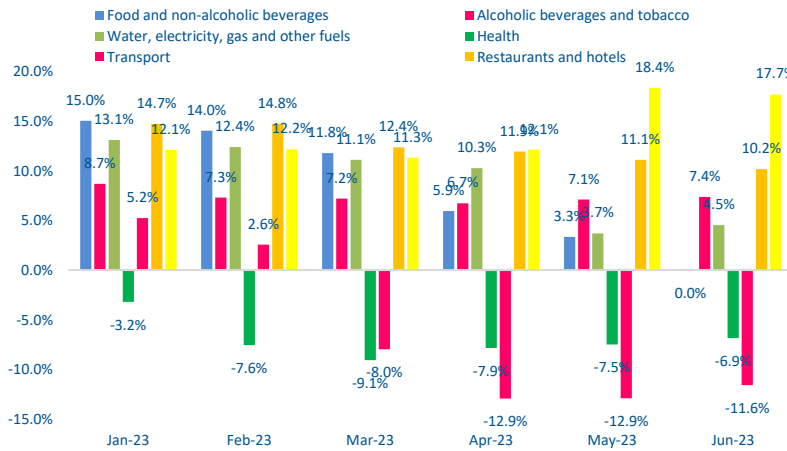
June 2023

July 25, 2023

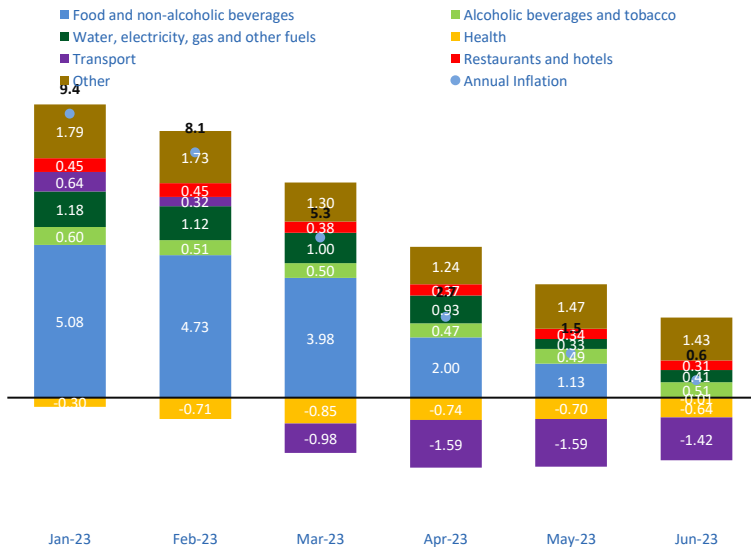
Inflation, Consumer Price Index



Y/Y changes of Groups (%)



Groups Shares in Annual Inflation



Inflation

The Georgian Consumer Price Index (CPI) increased by 0.6% y/y (-0.7% m/m) in June 2023, while core inflation¹ increased by 4.1% y/y in the same period. So the Consumer Price Index is lower already compared to the target inflation which is 3%, which is the result of Georgian currency appreciation, as well as decreased prices of international shipping costs, as well as decreasing commodity prices on the international market including oil and natural gas prices.

As a result of the above-mentioned reasons, *imported inflation decreased* so much that in June there was a 5.9% y/y deflation of imported products. *As for the inflation of locally produced products, it was still high despite 0.6pp decrease m/m and amounted to 8.5% y/y.* So, compared to imported inflation, domestic inflation has a relatively slow but still declining trend and this downward trend is expected to be kept throughout the year.

Inflation expectations have also been decelerating. As a result of the above-mentioned reasons, the NBG decreased the monetary policy rate to 10.5% in early May 2023 and it keeps the rate at this level so far (the next decision will be published on August 2, 2023).

The annual inflation in June 2023 was mainly affected by price changes in goods and services (+17.7%, +1.43 pp contribution) including financial services (+27.9%) and hygiene (+10.7%), followed by alcoholic beverages and tobacco (+7.4% y/y, +0.51 pp contribution), transport (-11.6% y/y, -1.42 pp contribution) and health (-6.9% y/y, -0.64 pp).

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 June the index was 1.4% down from May 2023, while it was 23.4% below the peak in March 2022.

As for *the producer price index (PPI)* for industrial products, it decreased by 0.3% in June 2023 compared to the previous month, while compared to the previous year the index decreased by 6%.

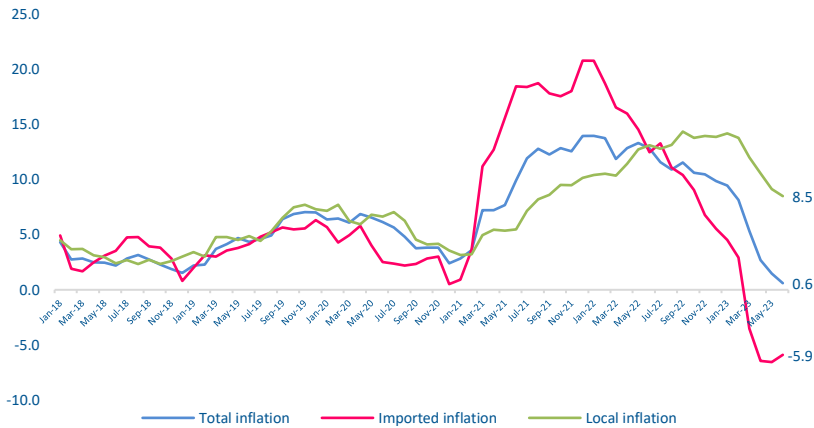
The annual producer inflation was mainly affected by price changes for the following products: products from mining and quarrying: -8.1%/y, contributing -0.58 ppts to the overall annual index change; manufactured products: -5.8% y/y, contributing -4.79 ppts to the overall annual index growth; electricity, gas, steam and air conditioning: -4% y/y, contributing -0.4 ppts to the annual index change; water supply, sewerage, waste management and remediation services: -8.5% y/y, contributing -0.23 ppts to the annual index growth.

Exchange Rate

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

In June 2023, the *lari nominal effective exchange rate appreciated by 28.9% y/y* and by 11.1% YTD (compared to December 2022) while *the real effective exchange rate appreciated by 17.4% y/y* and appreciated by 4.5% 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 the USD by 3.1%, against the EUR by 0.9%, GBP by 1.7%, Turkish lira by 30.4%, Chinese Yuan - 7.4%, Azerbaijan Manat - 3.2%, Ukrainian hryvnia - 3.6%, Armenian Dram - 1.3%, Russian Ruble - 18.2%.



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

Based on the chart, we can say that nominal effective exchange rate as well as the real effective exchange rate are above their long-term trends, so the exchange rate is somewhat appreciated even when the US dollar is very strong against all currencies. So, it is expected that in the long run lari will somewhat depreciate.

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-May 2023 the NBG purchased \$937.6 mln by Bmatch platform (in comparison, in 2022 NBG purchased \$580.1 mln by Bmatch).

International Trade

As for international trade, in the first half of 2023 the external trade of Georgia amounted to \$10.27 billion, which is 20.1% higher compared to the same period of 2022. The exports amounted to \$3.05 billion (+19.3%/y/y), while the imports stood at \$7.22 billion (+20.4%).

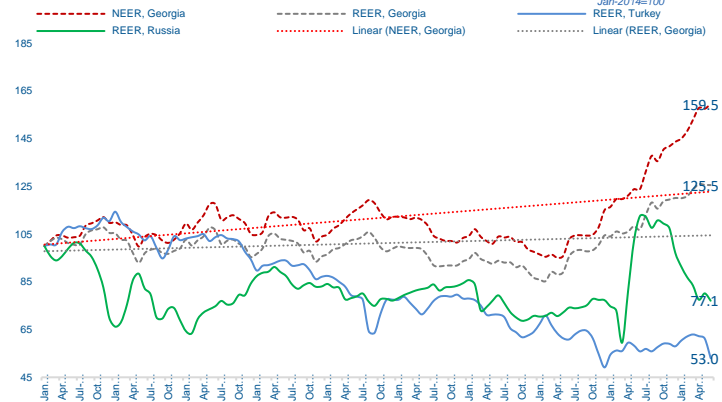
The negative trade balance expanded and amounted to \$4.16 billion (+21.2% y/y). In January-June 2023, the top partners by exports were Armenia (\$440.0 million, 14.4% share, +121.7% y/y), Azerbaijan (\$413.3 million, 13.5% share, +44% y/y) and Russia (\$343.9 million, 11.3% share, +34% y/y), while top partners by imports were Turkey (\$1.25 billion, 17.3% share, +19.5% y/y), Russia (\$927.3 million, 12.9% share, +31.2% y/y) and USA (\$775.2 million, 10.7% share, +73.8% y/y).

The exports in the EU decreased by 8% y/y in January-June 2023, while the share of the EU in the total exports amounted to 13%. Imports from the EU increased by 30.5% y/y and the share amounted to 24.1%.

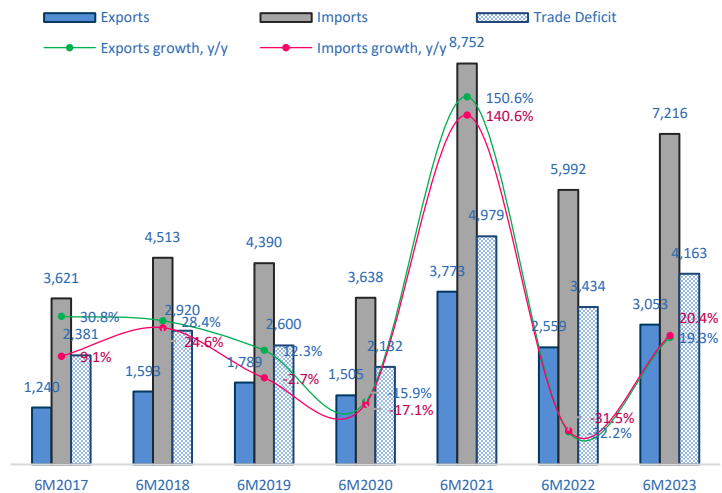
As for the CIS countries, the exports increased by 89% y/y and the share amounted to 63% of the total exports. Imports from the CIS countries increased by 4.7% and the share amounted to 23.8%.

In the reported period, **top import commodities** were motor cars (+94.6% y/y, 18.2% share), petroleum oils (-13.8% y/y, 6.9% share), and petroleum gases (+18.6% y/y, 3.8% share of the total imports).

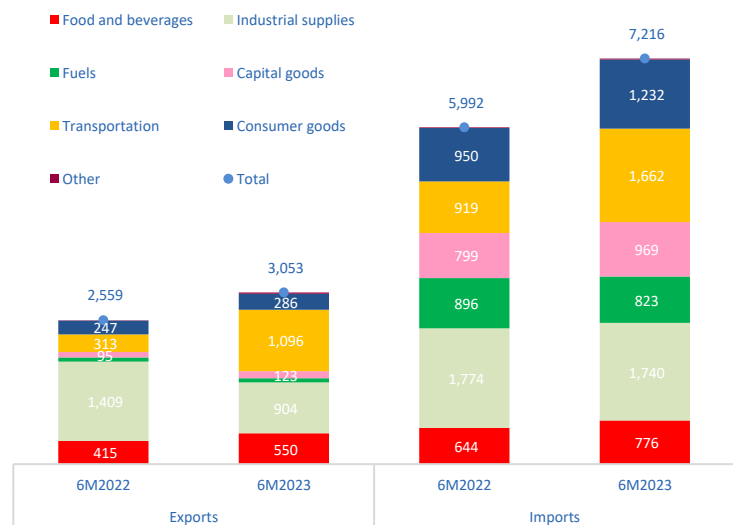
Effective Exchange Rate



International Trade, US\$ Mln



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



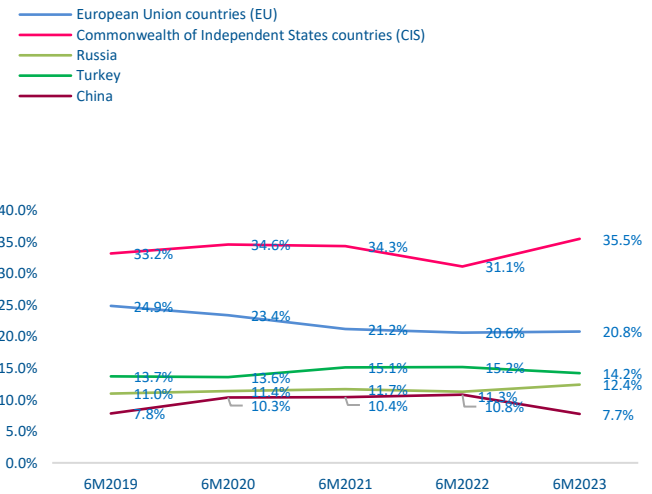
Furthermore, in the first half of 2023, motor cars reclaimed the first place in **the list of top export items** (+267.9% y/y, 32.5% share of the total exports) followed by copper ores and concentrates (-36% y/y, 11.2% share) and wine (+26.3% y/y, 4.1% share).

Share of the domestic³ exports in the total exports constituted 48.3% and amounted to \$1.47 billion in January-June 2023 which is 21.6% 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 five months of 2023, the share of CIS market in total trade turnover increased from 31.1% to 35.5% y/y, while the EU market and Turkey had almost the same shares as last year. As for Russia, dependency on the Russian market increased a bit as the share of the Russian market in total trade turnover increased from 11.3% last year to 12.4% this year. Moreover, dependency on the Chinese market decreased in January-June 2023 as the share decreased from 10.8% last year to 7.7% this year.

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



Export and Import Statistics, 6M 2023, US\$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
Total Exports	3,053		-32.2%	Total Exports	3,053		-32.2%
Armenia	440	14.4%	121.7%	Cars	991	32.5%	267.9%
Azerbaijan	413	13.5%	44.0%	Copper	341	11.2%	-36.0%
Russia	344	11.3%	34.0%	Wine	126	4.1%	26.3%
Kazakhstan	301	9.8%	280.4%	Ferro-alloys	110	3.6%	-63.6%
Kyrgyzstan	281	9.2%	1360.1%	Fertilizers	98	3.2%	-40.6%
China	220	7.2%	-45.0%	Spirituous beverages	84	2.7%	58.3%
Turkey	211	6.9%	-16.8%	Mineral waters	65	2.1%	46.1%
Bulgaria	146	4.8%	-35.3%	Waters, mineral and aera	59	1.9%	79.2%
Spain	53	1.8%	550.1%	Cigars, cheroots, cigarillo:	53	1.8%	169.0%
Ukraine	50	1.6%	-42.6%	Electrical energy	52	1.7%	-2.4%
Peru	48	1.6%	-44.2%	Medicaments	49	1.6%	-0.7%
Other	545	17.8%	-20.2%	Other	1,024	33.5%	8.9%

Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
Total Imports	7,216		-31.5%	Total Imports	7,216		-31.5%
Turkey	1,247	17.3%	19.5%	Cars	1,313	18.2%	94.6%
Russia	927	12.9%	31.2%	Oils	497	6.9%	-13.8%
United States	775	10.7%	73.8%	Gases	276	3.8%	18.6%
China	575	8.0%	9.9%	Medicaments	264	3.7%	35.1%
Germany	446	6.2%	63.4%	Telephones	181	2.5%	44.3%
Azerbaijan	318	4.4%	-8.1%	Copper	178	2.5%	-53.8%
Japan	236	3.3%	156.5%	Computers	87	1.2%	-9.3%
Armenia	208	2.9%	-25.8%	Tobacco	74	1.0%	80.8%
Italy	181	2.5%	47.3%	Motor vehicles	73	1.0%	62.9%
United Arab Emirates	174	2.4%	78.2%	Tractors	65	0.9%	64.9%
France	137	1.9%	44.0%	Steel parts	61	0.8%	66.0%
Other	1,991	27.6%	3.2%	Other	4,146	57.5%	17.5%

Remittances

The volume of money transfers from abroad constituted about \$353.2 million in June 2023, which is 17.4% (\$74.2 million) less than the amount in June, last year.

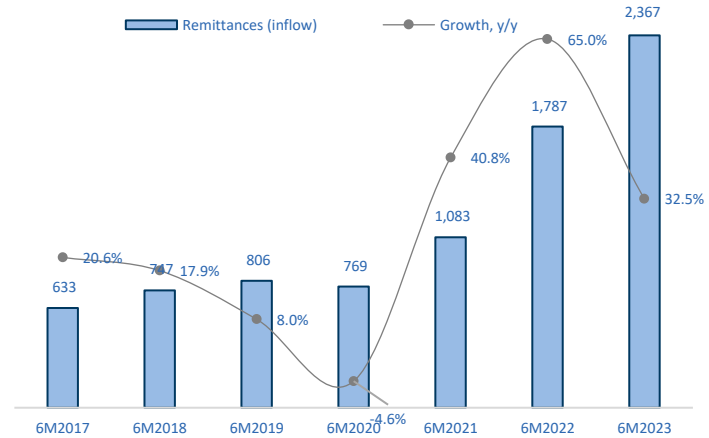
The top remittance senders in June 2023 were **Russia (36.4% of the total transfers, -44.1% y/y)**, Italy (12.1% share, +20.7% y/y) and the USA (10.9% share, +40% y/y).

In January-June 2023, the total amount of money transfers amounted to \$2.37 billion which is 32.5% more compared to the same period of the previous year. In the first half of 2023, the largest share of remittances (47.5%) came from Russia (+50.1% y/y), followed by Italy (10.6% share, +20.1% y/y) and the USA (8.7% share, +39.9% y/y).

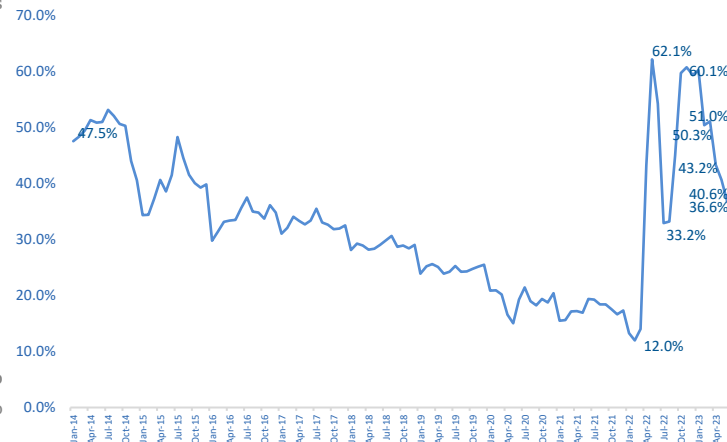
Russia was the major remittance sender to Georgia for years but the share had been decreasing over time. However, the volume of remittances from Russia increased significantly from April 2022. We see that the share of Russia in total remittances started to increase as well starting April 2022 and reached its peak at 62.1% in May, while for June 2023 it decreased to 36.6%.

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, 6M 2023, US\$ Mln



Share of Russia in total remittances



State Budget

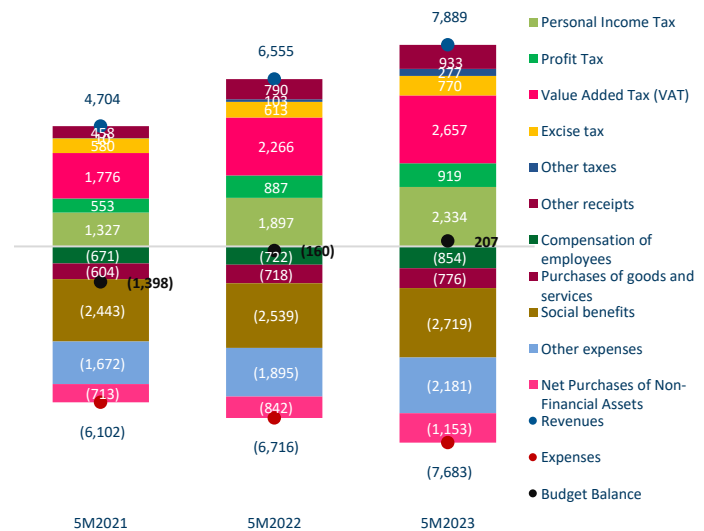
In January-May 2023, the state budget revenues increased by 20.3% y/y to 7.9 bln GEL, while the total expenses increased by 14.4% y/y to 7.7 bln GEL.

In the first five months of 2023, the revenues from value added tax increased by 17.3% y/y to 33.7% of budget revenues, while revenues from excise and income taxes increased by 25.6% y/y to 9.8% of the total revenues and by 23% y/y to 29.6% of the total revenues, respectively. Meanwhile, revenues from profit tax increased by 3.6% y/y and amounted to 11.6% of the total revenues.

On the spending side, social benefits increased by 7.1% y/y to 35.4% of the total budget expenses in January-May 2023, while compensation of employees increased by 18.3% y/y to 11.1% of the total expenses and purchases of goods and services increased by 8% y/y to 10.1% of the total expenses.

As a result, there was a budget surplus of about 206.8 million GEL in January-May 2023 which is 367.2 million GEL improvement after it amounted to about 160.4 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 – 30.06.2023

³Exports excluding re-exports



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