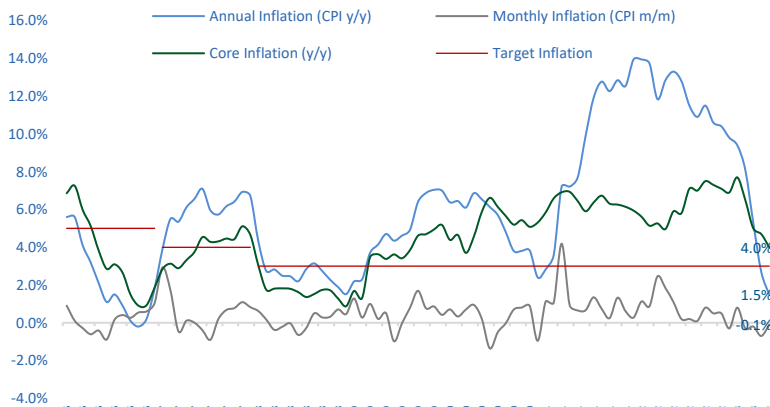


BasisBank Research

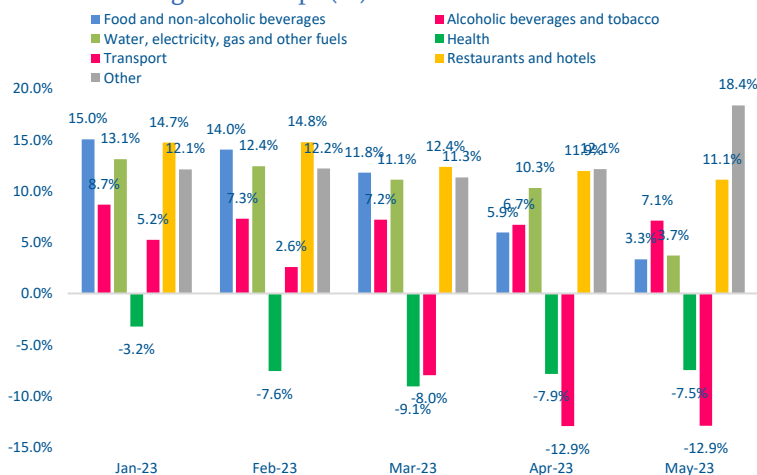
Economic Review

May 2023

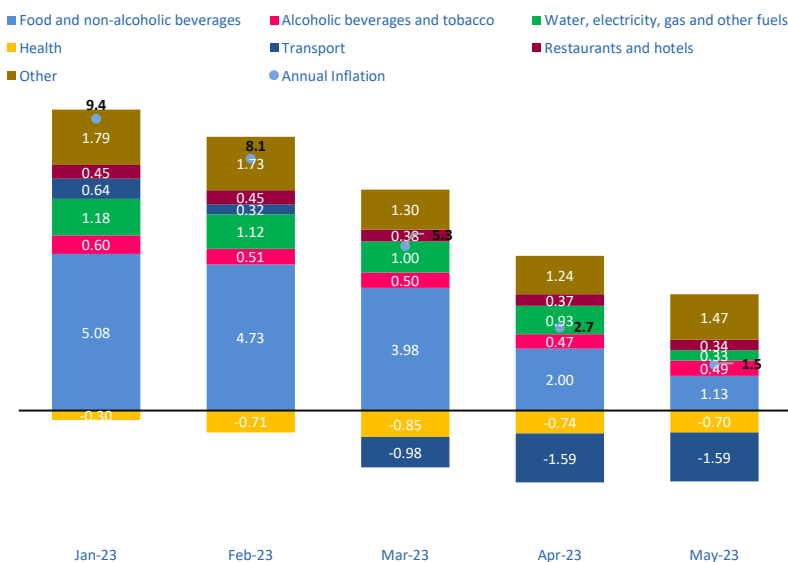
Inflation, Consumer Price Index



Y/Y changes of Groups (%)



Groups Shares in Annual Inflation



Inflation

The Georgian Consumer Price Index (CPI) increased by 1.5% y/y (-0.1% m/m) in May 2023, while core inflation¹ increased by 4% y/y in the same period. So the Consumer Price Index is a bit 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 May there was a 6.5% y/y deflation of imported products. *As for the inflation of locally produced products, it was still high despite 1.5pp decrease m/m and amounted to 9.1% 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.

The annual inflation in May 2023 was mainly affected by price changes in food and non-alcoholic beverages (+3.3% y/y, +1.13 pp contribution), alcoholic beverages and tobacco (+7.1% y/y, +0.49 pp contribution), housing, water, electricity, gas and other fuels (+3.7% y/y, +0.33 pp contribution), transport (-12.9% y/y, -1.59 pp contribution) and health (-7.5% y/y, -0.7 pp).

Based on the Food and Agriculture Organization (FAO), *the international food price index (FFPI)* has been declining every month since April 2022 after the index hit the all-time high in March 2022. However, in *April 2023 the index was up 0.6% from March (down 19.7% y/y). In May 2023, the index continued its declining trend and was down 2.6% from April and 22.1% down from the all-time high in March 2022.*

As for *the producer price index (PPI)* for industrial products, it decreased by 1% in May 2023 compared to the previous month, while compared to the previous year the index decreased by 5.8%.

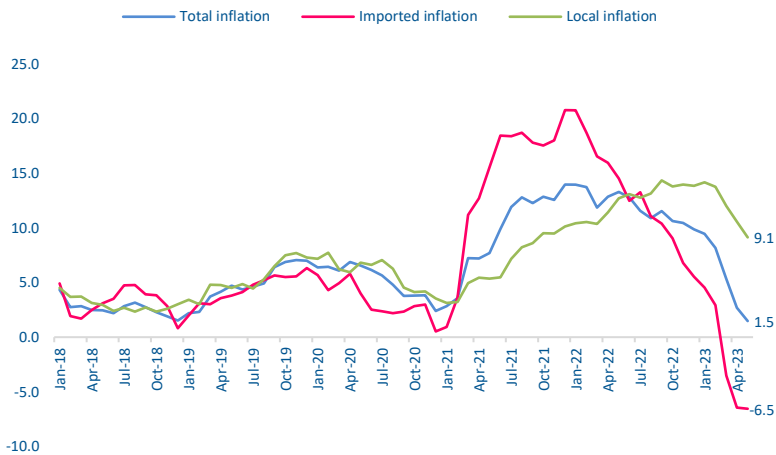
The annual producer inflation was mainly affected by price changes for the following products: products from mining and quarrying: -12.2%y/y, contributing -0.88 ppts to the overall annual index change; manufactured products: -4.8% y/y, contributing -3.92 ppts to the overall annual index growth; electricity, gas, steam and air conditioning: -7.2% y/y, contributing -0.69 ppts to the annual index change; water supply, sewerage, waste management and remediation services: -11.3% y/y, contributing -0.3 ppts to the annual index growth.

Exchange Rate

In May 2023, the *lari nominal effective exchange rate appreciated by 27.2% y/y* and by 9.6% YTD (compared to December 2022) while *the real effective exchange rate appreciated by 16% y/y* and appreciated by 4.6% in YTD terms.

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

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 4.1%, against the EUR by 3.5%, GBP by 1.2%, Turkish lira by 11.9%, Chinese Yuan - 6.2%, Azerbaijan Manat - 4.1%, Ukrainian hryvnia - 4.5%, Armenian Dram - 2%, Russian Ruble - 12.7%.



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-April 2023 the NBG purchased \$782.9 mln by Bmatch platform (in comparison, in 2022 NBG purchased \$580.1 mln by Bmatch).

International Trade

Georgian external trade turnover amounted to \$8.36 billion in the first five months of 2023, which is an 18.9% increase compared to the same period of last year.

The value of exports increased by 18.6% y/y and amounted to \$2.5 billion in the reported period, while imports also grew by 19.1% y/y, amounting to \$5.86 billion.

The negative trade balance widened to \$3.36 billion (+\$546.8 mln y/y, +19.5% y/y) in January-May 2023.

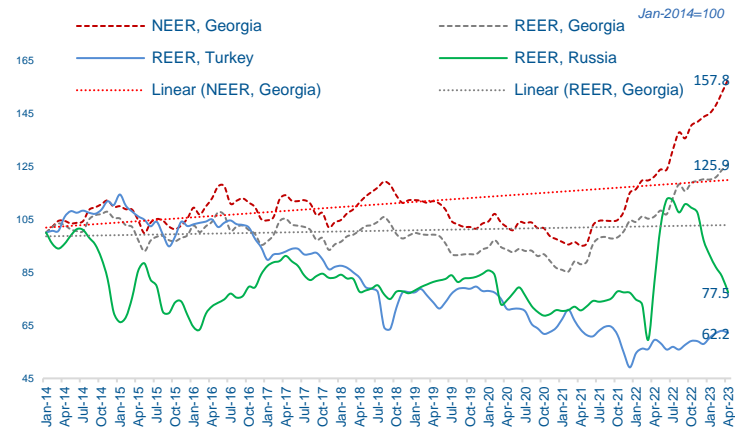
In the first five months of 2023 **Georgia's top partners by exports** were Armenia (\$360 million, +141.8% y/y), Azerbaijan (\$336.5 million, +50.2% y/y) and Russia (\$281.3 million, +33.8% y/y), while the top markets by imports were Turkey (\$1.02 billion, +21.7% y/y), Russia (\$778.6 million, +40.2% y/y) and the USA (\$589.7 million, 66% y/y).

The exports in the EU increased by 0.6% y/y in January-May 2023, while the share of the EU in the total exports amounted to 14.1%. *Imports from the EU* increased by 30.6% y/y and the share amounted to 24.2%.

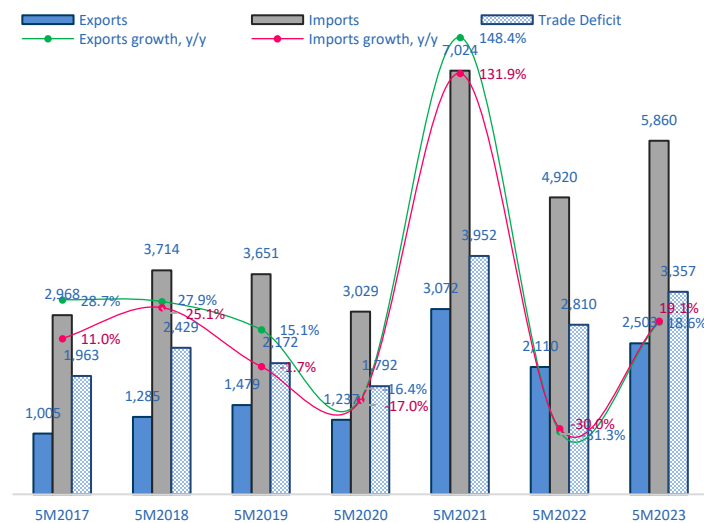
As for the CIS countries, the exports increased by 94.5% y/y and the share amounted to 61.8% of the total exports. *Imports from the CIS countries* increased by 6.5% and the share amounted to 24.9%.

In the reported period, **top import commodities** were motor cars (+85.4% y/y, 17.3% share), petroleum oils (-13.4% y/y, 6.8% share), and petroleum gases (+19.6% y/y, 4.5% share of the total imports).

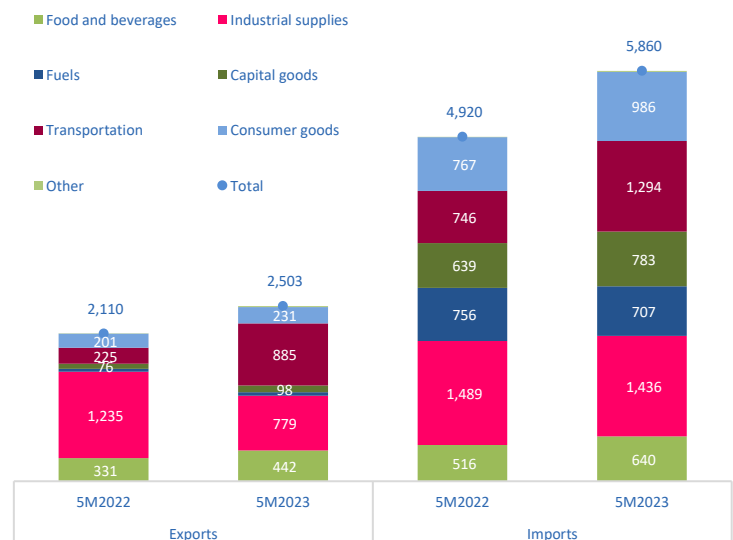
Effective Exchange Rate



International Trade, US\$ Mln



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



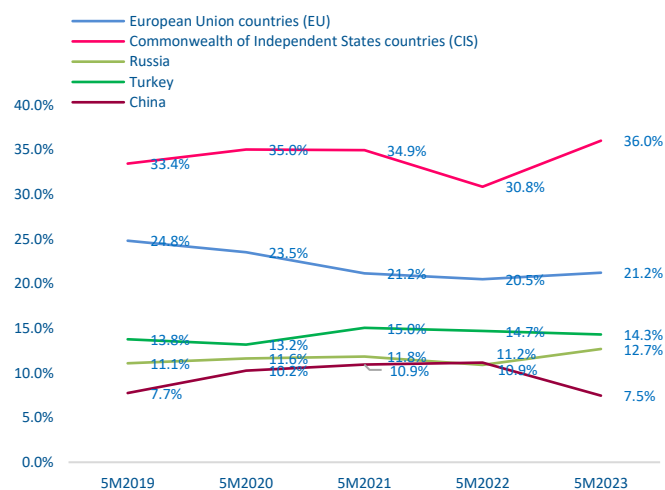
Furthermore, in January-May 2023, motor cars reclaimed the first place in *the list of top export items* (+316.2% y/y, 31.8% share of the total exports) followed by copper ores and concentrates (-32.2% y/y, 12.6% share) and wine (+29.7% y/y, 4.1% share).

Share of the domestic³ exports in the total exports constituted 49.2% and amounted to \$1.23 billion in January-May 2023 which is 22.9% 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 30.8% to 36% 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 10.9% last year to 12.7% this year. Moreover, dependency on the Chinese market decreased in January-May 2023 as the share decreased from 11.2% last year to 7.5% this year.

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



Export and Import Statistics, 5M 2023, US\$ Mln

| Countries | Exports | Share | Change, y/y | Products | Exports | Share | Change, y/y |
|----------------------|--------------|-------|-------------|------------------------------|--------------|-------|-------------|
| Total Exports | 2,503 | | -31.3% | Total Exports | 2,503 | | -31.3% |
| Armenia | 360 | 14.4% | 141.8% | Cars | 795 | 31.8% | 316.2% |
| Azerbaijan | 337 | 13.4% | 50.2% | Copper | 316 | 12.6% | -32.2% |
| Russia | 281 | 11.2% | 33.8% | Wine | 104 | 4.1% | 29.7% |
| Kazakhstan | 242 | 9.7% | 278.6% | Ferro-alloys | 86 | 3.5% | -69.7% |
| Kyrgyzstan | 211 | 8.4% | 1431.9% | Fertilizers | 86 | 3.4% | -44.0% |
| China | 193 | 7.7% | -46.7% | Spirituous beverages | 69 | 2.7% | 71.0% |
| Turkey | 173 | 6.9% | -10.2% | Mineral waters | 52 | 2.1% | 26.8% |
| Bulgaria | 133 | 5.3% | -24.4% | Waters, mineral and aerat | 46 | 1.8% | 96.2% |
| Spain | 52 | 2.1% | 654.3% | Medicaments | 41 | 1.7% | -4.0% |
| Ukraine | 40 | 1.6% | -38.2% | Gold | 38 | 1.5% | 8.9% |
| Peru | 40 | 1.6% | -54.3% | Cigars, cheroots, cigarillos | 38 | 1.5% | 158.8% |
| Other | 442 | 17.7% | -25.5% | Other | 832 | 33.3% | 15.7% |

| Countries | Imports | Share | Change, y/y | Products | Imports | Share | Change, y/y |
|----------------------|--------------|-------|-------------|----------------------|--------------|-------|-------------|
| Total Imports | 5,860 | | -30.0% | Total Imports | 5,860 | | -30.0% |
| Turkey | 1,022 | 17.4% | 21.7% | Cars | 1,015 | 17.3% | 85.4% |
| Russia | 779 | 13.3% | 40.2% | Oils | 400 | 6.8% | -13.4% |
| United States | 590 | 10.1% | 66.0% | Gases | 265 | 4.5% | 19.6% |
| China | 430 | 7.3% | 2.1% | Medicaments | 216 | 3.7% | 38.6% |
| Germany | 366 | 6.3% | 64.5% | Copper | 176 | 3.0% | -49.0% |
| Azerbaijan | 276 | 4.7% | -13.0% | Telephones | 149 | 2.5% | 45.8% |
| Armenia | 193 | 3.3% | -19.2% | Computers | 71 | 1.2% | -7.5% |
| Japan | 182 | 3.1% | 110.2% | Motor vehicles | 57 | 1.0% | 60.5% |
| Italy | 148 | 2.5% | 49.5% | Tobacco | 54 | 0.9% | 78.3% |
| United Arab Emirates | 140 | 2.4% | 86.6% | Tractors | 54 | 0.9% | 59.3% |
| France | 112 | 1.9% | 46.3% | Steel parts | 49 | 0.8% | 56.3% |
| Other | 1,622 | 27.7% | 1.4% | Other | 3,353 | 57.2% | 16.9% |

Remittances

The volume of money transfers from abroad constituted about \$384.9 million in May 2023, which is 23.9% (\$120.8 million) less than the amount in May, last year.

The top remittance senders in April 2023 were **Russia (40.2% of the total transfers, -50.7% y/y)**, Italy (11.5% share, +20% y/y) and the USA (10% share, +37.9% y/y).

In January-May 2023, the total amount of money transfers amounted to \$2.01 billion which is 47.9% more compared to the same period of the previous year. In the first five months of 2023, the largest share of remittances (49.4%) came from Russia (+91.6% y/y), followed by Italy (10.3% share, +19.9% y/y) and the USA (8.3% share, +39.8% 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 May 2023 it decreased to 40.2%.

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.

State Budget

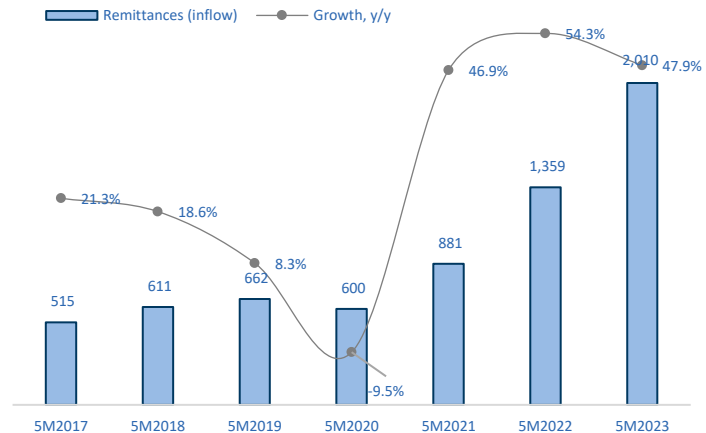
In January-April 2023, the state budget revenues increased by 25.9% y/y to 6.35 bln GEL, while the total expenses increased by 13% y/y to 5.98 bln GEL.

In the first four months of 2023, the revenues from value added tax increased by 18.1% y/y to 32.7% of budget revenues, while revenues from excise and income taxes increased by 35.1% y/y to 9.2% of the total revenues and by 25.1% y/y to 29.5% of the total revenues, respectively. Meanwhile, revenues from profit tax decreased by 0.3% y/y and amounted to 12.2% of the total revenues.

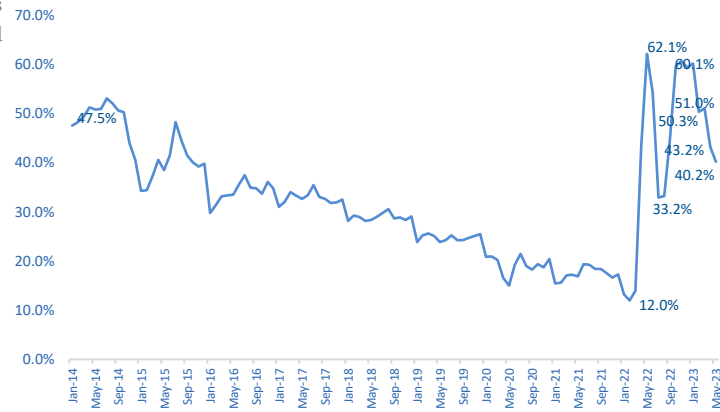
On the spending side, social benefits increased by 5% y/y to 35.8% of the total budget expenses in January-April 2023, while compensation of employees increased by 17.5% y/y to 11.4% of the total expenses and purchases of goods and services increased by 5.8% y/y to 10.1% of the total expenses.

As a result, there was a budget surplus of about 370.6 million GEL in January-April 2023 which is a 249.4% improvement after it amounted to about 248.1 million GEL deficit in the same period of last year.

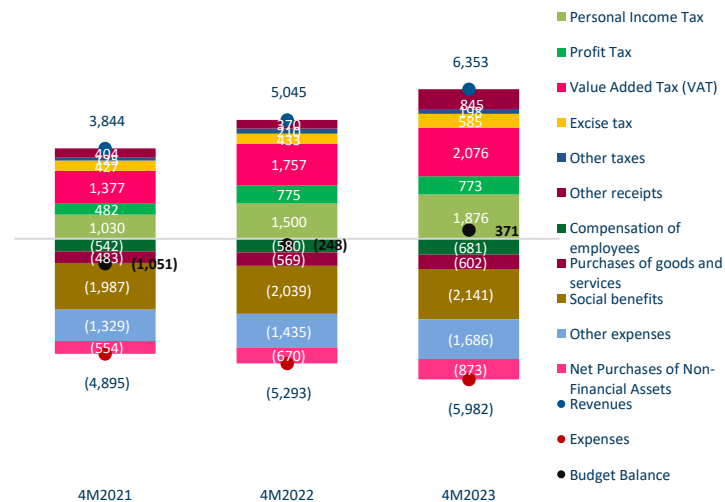
Remittance Statistics, 5M 2023, US\$ Mln



Share of Russia in total remittances



Budget Statistics, Mln GEL



Foreign Direct Investments

Foreign direct investments (FDI) in Georgia amounted to \$496.6 million in the first quarter of 2023 which is 13.7% less compared to the same period of last year.

Reinvestment of earnings (38.2% of the total FDIs in Q1 2023) which is the difference between profit/loss and dividends decreased by 39.5% y/y and amounted to \$189.6 million. Meanwhile, there was an increase of equity (60.5% of total FDIs) by 17% y/y.

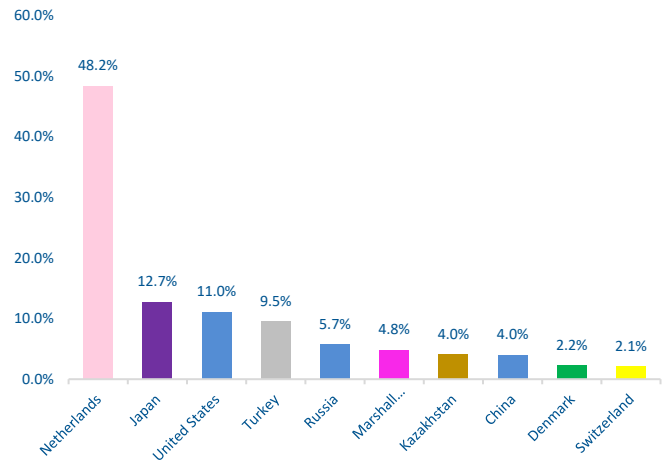
Manufacturing sector made the highest contribution to (45.5%) the total foreign direct investments, followed by transports and communications (14.5%) and energy sector (7.9%).

Out of the total FDIs, the share of large companies was 76.9%, while the share of small companies was 19.8% followed by medium-size companies with the least share of 3.3%.

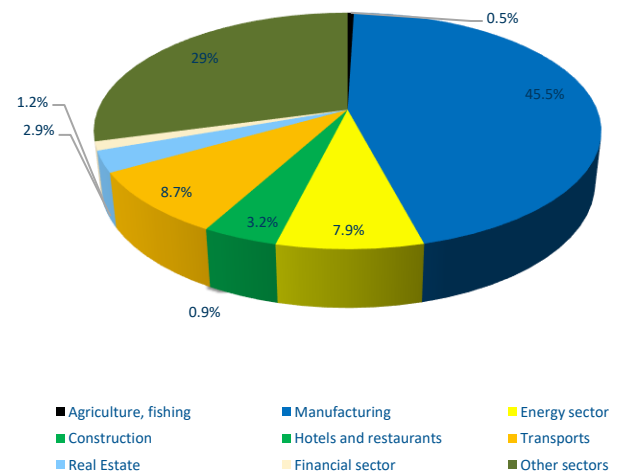
As for the top countries FDI came to Georgia, these were the following: Netherlands (239.6 million, +631% y/y), Japan (\$63.2 million, +696% y/y) and the United States (\$54.7, +70% y/y).

In Q1 2023, FDI's share in GDP amounted to 8%.

Shares of top countries in total FDIs in Q1 2023



Shares of sectors in total FDIs in Q1 2023



Economic growth

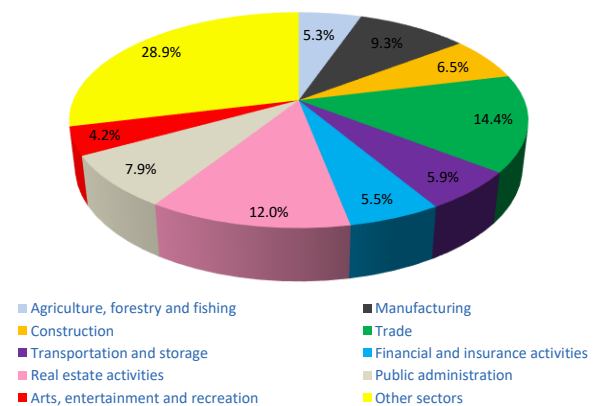
The nominal Gross Domestic Product (GDP) amounted to 16.47 billion GEL in the first quarter of 2022.

Trade was the largest part of the GDP structure (14.4% share, +14% y/y) in Q1 2023, followed by real estate activities (12% share, -0.3% y/y), manufacturing (9.3% share, -6.6% y/y), public administration (7.9% share, +10.5% y/y), construction (6.5% share, +15.1% y/y), transportation and storage (5.9% share, +3.3% y/y), financial and insurance activities (5.5% share, +6.9% y/y) and agriculture, forestry and fishing (5.3% share, -2.3% y/y).

As for the GDP growth, the economy grew by 7% in May 2023 y/y while in the first five months of 2023 the average real GDP growth amounted to 7.5% y/y.

Based on the NBG's forecast, economic growth this year will be close to the potential level, at around 5%.

GDP structure in Q1 2023



¹Net of food and energy prices

²Estimated period: 31/12/2022 –31.05.2023

³Exports excluding re-exports



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