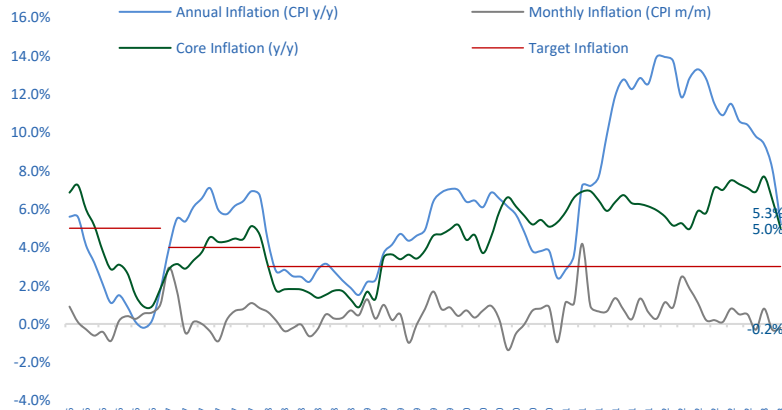


BasisBank Research

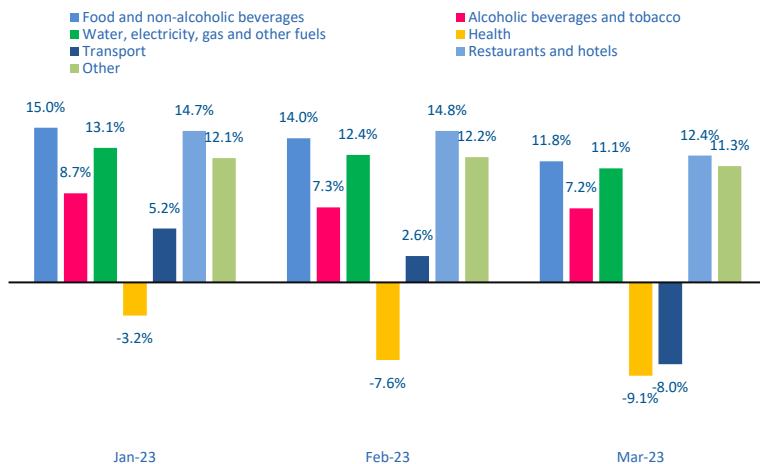
Economic Review

March 2023

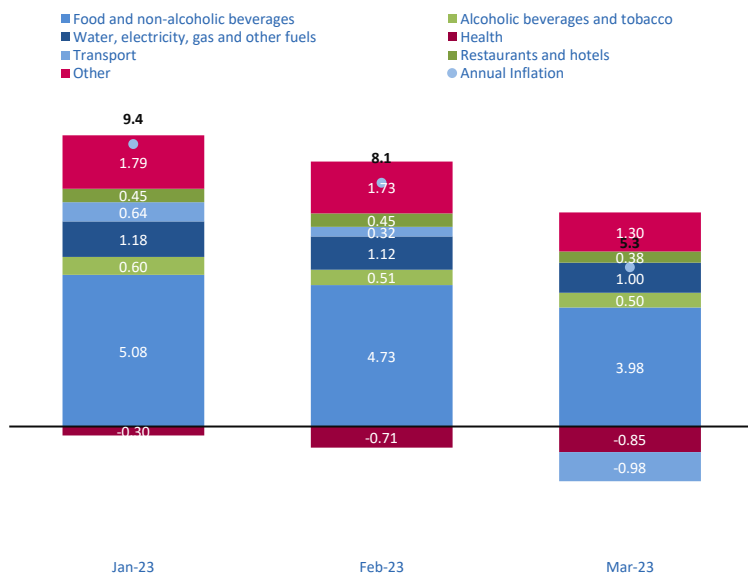
Inflation, Consumer Price Index



Y/Y changes of Groups (%)



Groups Shares in Annual Inflation



Inflation

The inflationary risks increased globally as a result of the Russian-Ukrainian war which slowed the projected pace of decline of high global inflation in the phase of post-pandemic recovery.

*The Georgian Consumer Price Index (CPI) increased by 5.3% y/y (-0.2% m/m) in March 2023, while core inflation¹ increased by 5% y/y in the same period. So the Consumer Price Index is still higher than the target inflation which is 3%, but the peak has been overcome and **the central bank expects the inflation to return to its target in the second half of the year, while expects average inflation of 5.4% in 2023.***

The annual inflation in March 2023 was mainly affected by price changes in food and non-alcoholic beverages (+11.8% y/y, +3.98 pp contribution), housing, water, electricity, gas and other fuels (+11.1% y/y, +1 pp contribution), transport (-8% y/y, -0.98 pp contribution) and health (-9.1% y/y, -0.85 pp).

The decrease of the annual inflation was partially affected by the decrease of imported inflation which is a result of decreased international shipping costs and commodity prices on a global level as well as the appreciation of Georgian currency. Moreover, energy prices lowered globally. The oil price as well as natural gas price have decreased to the lower level compared pre Russian-Ukrainian war period.

Based on the Food and Agriculture Organization (FAO), *the international food price index (FFPI)* has been declining since April 2022 after the index hit the all-time high in March 2022. The index has fallen 20.5% after the peak in March 2022. **In March 2023 the index was down 2.1% from February, marking the twelfth consecutive monthly decline.** The drop in the index in March was driven by drops in the cereal, vegetable oil and dairy price indices, while those of sugar and meat increased.

Despite some positive global trends, inflationary risks remain high and with cautious optimism future dynamics is still characterized by high uncertainty.

It should be noted that the high inflation in Georgia is driven by demand side pressure promoted by migrated individuals amid the Russian-Ukrainian war, so the effect of the tight monetary policy followed by the NBG (coupled with the increased interest rates on USD and EUR funds) intended to mitigate demand side pressure on the price level is fair. On the contrary, higher interest rates increase the cost of funds for businesses while aggregate demand is not affected, which could further propagate the inflation.

Moreover, in Georgia, market wages are rising faster than productivity, so there is a significant increase of personnel costs per unit of production which further pressures the inflation from the labor market.

As for *the producer price index (PPI)* for industrial products, it decreased by 0.7% in March 2023 compared to the previous month, while compared to the previous year the index decreased by 5.2%.

The annual producer inflation was mainly affected by price changes for the following products: products from mining and quarrying: -22.5%y/y, contributing -1.82 ppts to the overall annual index change; manufactured products: -3.2% y/y, contributing -2.6 ppts to the overall annual index growth; electricity, gas, steam and air conditioning: -6.6% y/y, contributing -0.57 ppts to the annual index change; water supply, sewerage, waste management and remediation services: -9.7% y/y, contributing -0.24 ppts to the annual index growth.

As for the GDP growth, the economy grew by 7.3% in March 2023 y/y while in Q1 2023 the average real GDP growth amounted to 7.2%.

Exchange Rate

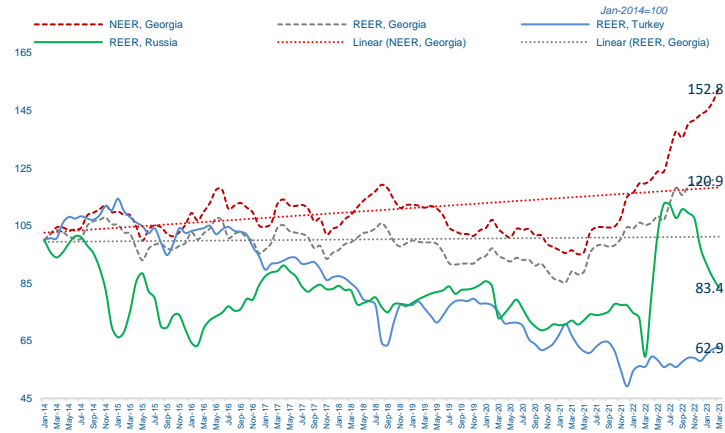
In March 2023, the **lari nominal effective exchange rate appreciated by 27.7% y/y** and by 6.4% YTD (compared to December 2022) while **the real effective exchange rate appreciated by 17.5% y/y** and appreciated by 2.9% in YTD terms.

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 7.4%, against the EUR by 4.1%, GBP by 4.2%, Turkish lira by 10.7%, Chinese Yuan – 7.5%, Azerbaijan Manat – 7.6%, Ukrainian hryvnia – 7.9%, Armenian Dram – 5.4%, Russian Ruble – 16.8%.

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.

Effective Exchange Rate



International Trade

Georgian external trade turnover amounted to \$4.78 billion in the first three months of 2023, which is a 22.1% increase compared to the same period of last year.

The value of exports increased by 24.7% y/y and amounted to \$1.46 billion in the reported period, while imports also grew by 21% y/y, amounting to \$3.32 billion.

The negative trade balance widened to \$1.86 billion (+\$286 mln y/y, +18.2% y/y) in January-March 2023.

In the first three months of 2023 **Georgia's top partners by exports** were Armenia (\$216.9 million, +189% y/y), Azerbaijan (\$180.7 million, +44.1% y/y) and Russia (\$176.9 million, +61.1% y/y), while the top markets by imports were Turkey (\$568.7 million, +22.1% y/y), Russia (\$490 million, +78.8% y/y) and the USA (\$261.8 million, 61.4% y/y).

The exports in the EU increased by 2.5% y/y in January-March 2023, while the share of the EU in the total exports amounted to 14.6%. **Imports from the EU** increased by 34.3% y/y and the share amounted to 24.6%.

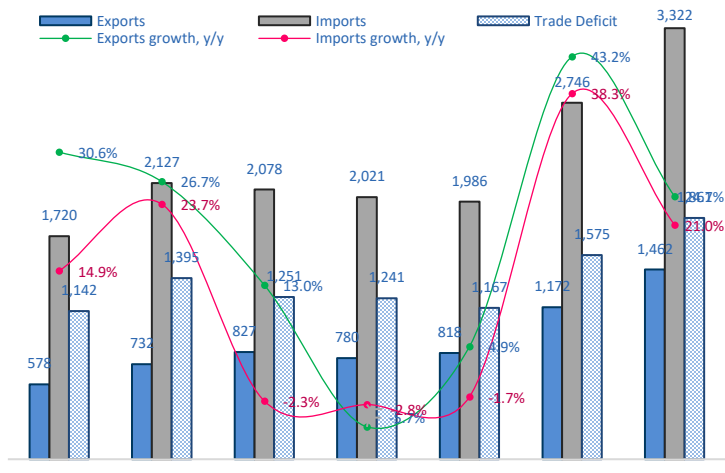
As for the CIS countries, the exports increased by 96.3% y/y and amounted to 58.5% of the total exports. **Imports from the CIS countries** increased by 21.2% and the share amounted to 27.4%.

In the reported period, **top import commodities** were motor cars (+82.4% y/y, 14.3% share), petroleum oils (2.7% y/y, 7.6% share), and petroleum gases (+22.1% y/y, 6.8% share of the total imports).

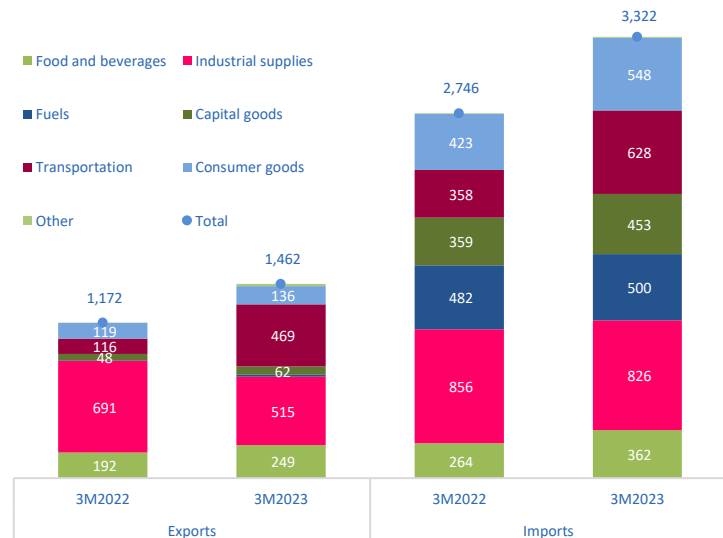
Furthermore, in January-March 2023, motor cars reclaimed the first place in **the list of top export items** (+333.9% y/y, 28.2% share of the total exports) followed by copper ores and concentrates (-24.1% y/y, 14.1% share) and the export of ferro-alloys (-48.9% y/y, 5.6% share).

Share of the domestic³ exports in the total exports constituted 52.4% and amounted to \$766.3 million in January-March 2023 which is 13.5% less compared to the same period of 2022.

International Trade, US\$ Mln



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



Export and Import Statistics, 3M 2023, US\$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
Total Exports	1,462		43.2%	Total Exports	1,462		43.2%
Armenia	217	14.8%	189.0%	Cars	412	28.2%	333.9%
Azerbaijan	181	12.4%	44.1%	Copper	206	14.1%	-24.1%
Russia	177	12.1%	61.1%	Ferro-alloys	82	5.6%	-48.9%
China	133	9.1%	-39.4%	Wine	56	3.9%	23.3%
Kazakhstan	122	8.4%	415.3%	Fertilizers	55	3.8%	-27.9%
Turkey	105	7.2%	5.8%	Spirituous beverages	40	2.7%	72.7%
Kyrgyzstan	96	6.6%	1457.0%	Nuts	27	1.8%	34.3%
Bulgaria	86	5.9%	-9.1%	Mineral waters	26	1.8%	-20.2%
Peru	40	2.7%	118.5%	Gold	24	1.6%	12.7%
Spain	25	1.7%	391.1%	Cigars, cheroots, cigarillos	23	1.6%	241.3%
Ukraine	23	1.5%	-54.3%	T-shirts	21	1.4%	1.1%
Other	257	17.6%	-29.2%	Other	490	33.5%	21.8%

Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
Total Imports	3,322		38.3%	Total Imports	3,322		38.3%
Turkey	569	17.1%	22.1%	Cars	475	14.3%	82.4%
Russia	490	14.7%	78.8%	Oils	251	7.6%	2.7%
United States	262	7.9%	61.4%	Gases	225	6.8%	22.1%
China	243	7.3%	0.3%	Copper	131	3.9%	-38.3%
Germany	205	6.2%	75.6%	Medicaments	115	3.5%	34.6%
Azerbaijan	193	5.8%	-16.0%	Telephones	87	2.6%	36.7%
Armenia	105	3.1%	9.6%	Computers	47	1.4%	8.1%
Japan	85	2.5%	70.4%	Tobacco	29	0.9%	139.6%
Italy	79	2.4%	44.3%	Motor vehicles	29	0.9%	46.9%
United Arab Emirates	76	2.3%	87.8%	Steel parts	28	0.8%	55.8%
France	66	2.0%	54.6%	Tractors	28	0.8%	39.4%
Other	950	28.6%	0.1%	Other	1,878	56.5%	18.9%

Remittances

The volume of money transfers from abroad constituted about \$438.4 million in March 2023, which is 127.1% (\$245.3 million) more than the amount in March, last year.

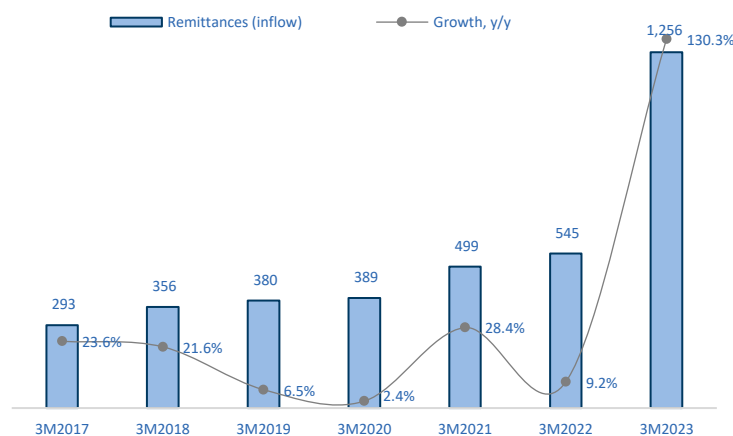
The top remittance senders in March 2023 were **Russia (51% of the total transfers, +728% y/y)**, Italy (9.9% share, +20.4% y/y) and the USA (8.2% share, +40.4% y/y).

In January-March 2023, the total amount of money transfers amounted to \$1.26 billion which is 130.3% more compared to the same period of the previous year. In the first three months of 2023, the largest share of remittances (54%) came from Russia (+851.3% y/y), followed by Italy (9.7% share, +19.1% y/y) and the USA (7.6% share, +41.8% y/y).

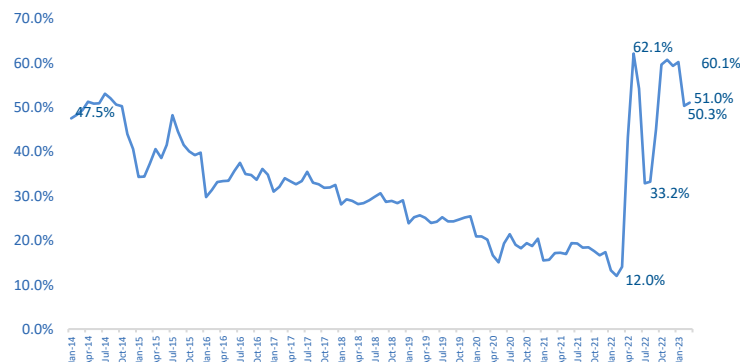
Russia was the major remittance sender to Georgia for years but the share had been decreasing over time. However, the volume of remittances from Russia increased significantly from April 2022. We see that the share of Russia started to increase as well starting April 2022 and reached its peak at 62.1% in May, while in March it decreased to 51%.

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, 3M 2023, US\$ Mln



Share of Russia in total remittances



State Budget

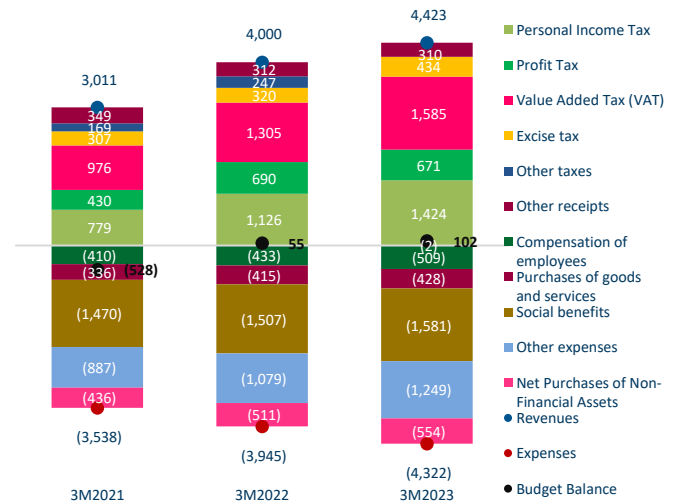
In January-March 2023, the state budget revenues increased by 10.6% y/y to 4.42 bln GEL, while the total expenses increased by 9.5% y/y to 4.32 bln GEL.

In Q1 2023, the revenues from value added tax increased by 21.5% y/y to 35.8% of budget revenues, while revenues from excise and income taxes increased by 35.7% y/y to 9.8% of the total revenues and by 26.4% y/y to 32.2% of the total revenues, respectively. Meanwhile, revenues from profit tax decreased by 2.7% y/y and amounted to 15.2% of the total revenues.

On the spending side, social benefits increased by 4.9% y/y to 36.6% of the total budget expenses in January-March 2023, while compensation of employees increased by 17.5% y/y to 11.8% of the total expenses and purchases of goods and services increased by 3.2% y/y to 9.9% of the total expenses.

As a result, there was a budget surplus of about 102 million GEL in January-March 2023 which is an 83.7% improvement after it amounted to about 55 million GEL surplus in the same period of last year.

Budget Statistics, Mln GEL



Tourism

In the first quarter of 2023, the number of *international visitor⁴ trips* amounted to **1.07 million (+106% y/y, 20% decrease compared to 2019)** out of which *tourism type visits* were **845 thousand (+84% y/y, 4% decrease compared to 2019)**.

The top countries most international visits were carried out to Georgia in the first three months of 2023 were: **Russia – 257 thousand (+258% y/y)**, Turkey - 216 thousand (108% y/y), Armenia - 183 thousand (+210% y/y), Israel – 45 thousand (+53% y/y), Azerbaijan – 40 thousand (+38% y/y) and Ukraine - 32 thousand (+15% y/y).

Most of the visitors came from land (67% of visits) while 32.1% came from air, while the rest 1% came through the sea and the railway.

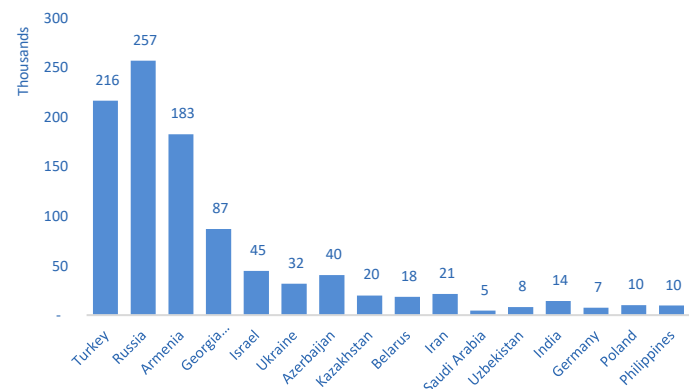
Most of the visitors (51%) were in the 31-50 age group and the majority (70%) of total visitors were male visitors.

Furthermore, *international travelers spent \$795.4 million in Q1 2023* in Georgia which is a **102% increase** compared to the same period of the previous year and a **137.5% recovery** of tourism revenue compared to the first quarter of 2019.

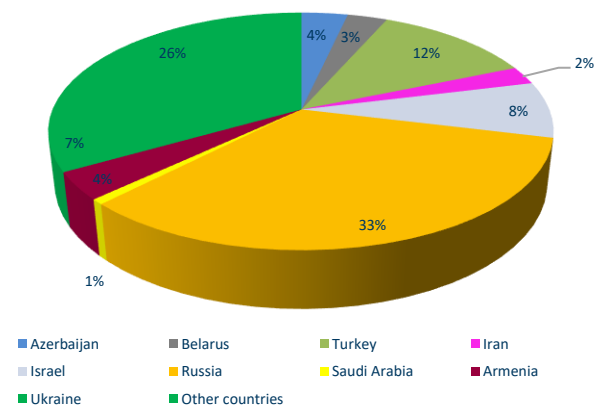
Most of the tourism income⁵ (33%) in Q1 2023 came from Russian visitors, followed by Turkish visitors (12%) and the visitors from Israel (8%).

If we calculate costs on a visit⁶, mostly the visitors from Ukraine spent the highest sums (\$1,774) on a visit in Q1 2023 followed by visitors from Israel (\$1,358), Belarusians (\$1,312) and visitors from Saudi Arabia (\$1,206) and Russians (\$1,037).

Int'l visits by top visitor countries ('000), Q1 2023



Country shares by tourism income (%), Q1 2023



¹Net of food and energy prices

²Estimated period: 31/12/2022 – 27.04.2023

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).

⁵By March 31, 2023, 44% of Belarusian citizens, 35.5% of Russian citizens and 23.7% of Ukrainian citizens residing in Georgia are estimates 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 Q1 2023 over total amount of visits from the country in the same period.



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