

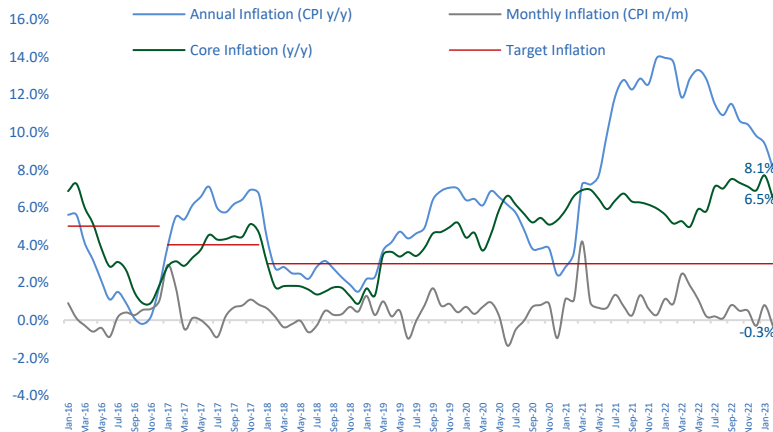
# **BasisBank Research**

## **Economic Review**

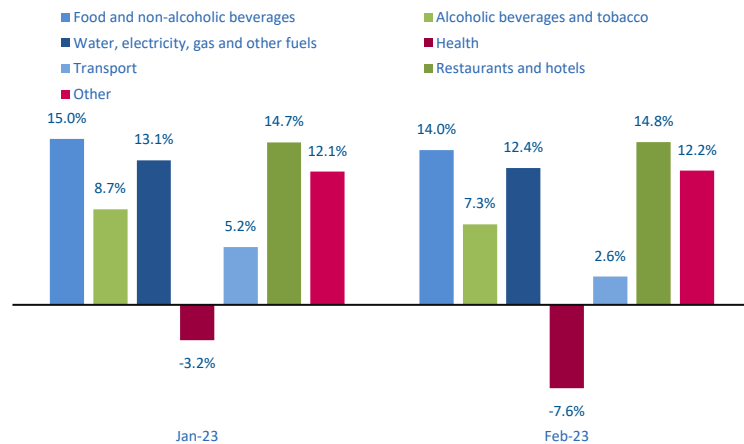
**February 2023**

**March 31, 2023**

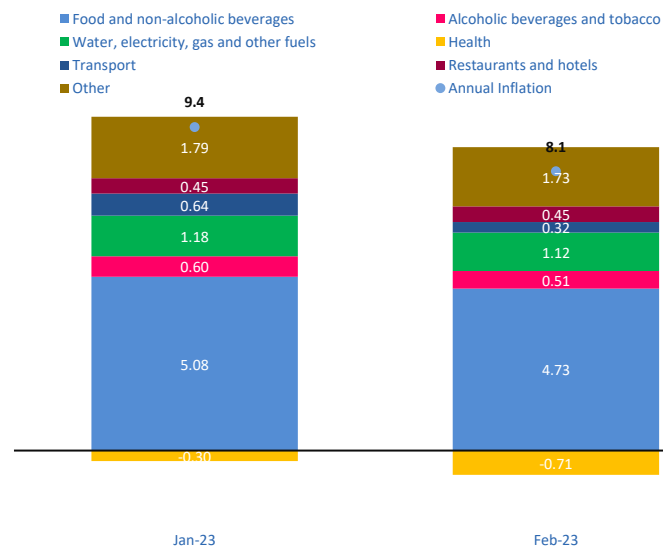
## Inflation, Consumer Price Index



## 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 8.1% y/y (-0.3% m/m) in February 2023*, while core inflation<sup>1</sup> increased by 6.5% y/y in the same period. So the Consumer Price Index is still high in Georgia compared to the target inflation (3%), but the peak has been overcome and the downward trend has been revealed.

The annual inflation in February 2023 was mainly affected by price changes in food and non-alcoholic beverages (+14% y/y, contribution +4.73 pp), housing, water, electricity, gas and other fuels (+12.4% y/y, contribution +1.12 pp) and health (-7.6%, -0.71 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, oil price as well as gas price have lowered globally.

Based on the Food and Agriculture Organization (FAO), *the international food price index (FFPI)* has been declining since April after the index hit the all-time high in March 2022. The index has fallen 18.7% after the peak in March 2022. *In February 2023 the index was down 0.6% from January, marking the eleventh consecutive monthly decline.* The drop in the index in February was driven by declines in price indices of vegetable oils and dairy, together with fractionally lower cereals and meat indices, more than offsetting a steep rise in the sugar price index.

*The NBG expects that the inflation will average 5.4% in 2023 and will return to its target in the second half of the year* (until then, the NBG keeps the monetary policy rate high, at 11%). Even though there are 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 1.3% in February 2023 compared to the previous month, while compared to the previous year the index decreased by 1%.

The annual producer inflation was mainly affected by price changes for the following products: products from mining and quarrying: -13.4%y/y, contributing -1.02 ppts to the overall annual index change; manufactured products: +0.4% y/y, contributing 0.34 ppts to the overall annual index growth; electricity, gas, steam and air conditioning: -1.9% y/y, contributing -0.16 ppts to the annual index change; water supply, sewerage, waste management and remediation services: -6.4% y/y, contributing -0.16 ppts to the annual index growth.

## Exchange Rate

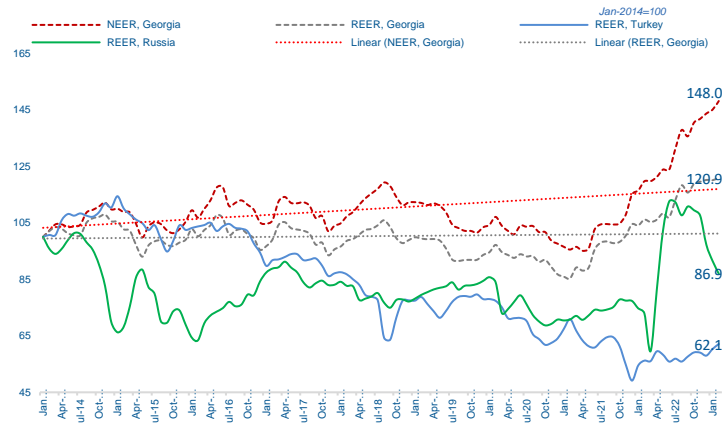
In February 2023, the **lari nominal effective exchange rate appreciated by 23.7% y/y** and by 3.1% YTD (compared to December 2022) while **the real effective exchange rate appreciated by 13.9% y/y** and appreciated by 0.6% in YTD terms.

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 2023<sup>2</sup>, lari appreciated against the USD by 5.2%, against the EUR by 3.4%, GBP by 2.9%, Turkish lira by 7.4%, Chinese Yuan – 4.8%, Azerbaijan Manat – 5.4%, Ukrainian hryvnia – 5.5%, Armenian Dram – 4%, Russian Ruble – 9.8%.

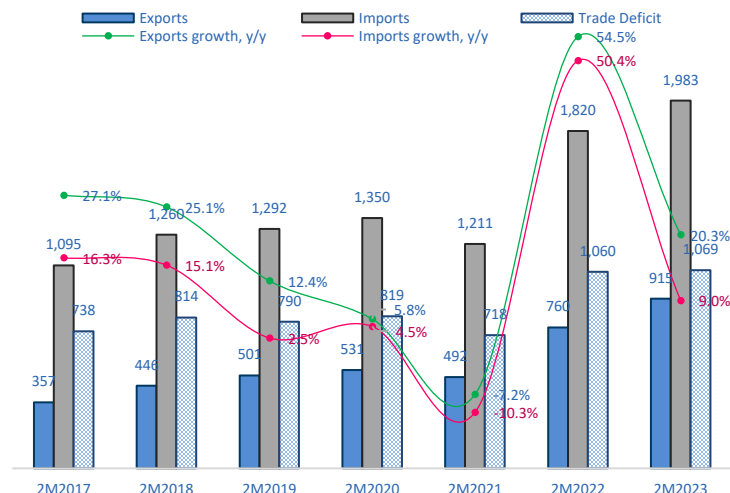
Appreciation of the nominal effective exchange rate worsens a country's competitiveness on the international markets but at the same time reduces imported inflation.

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.

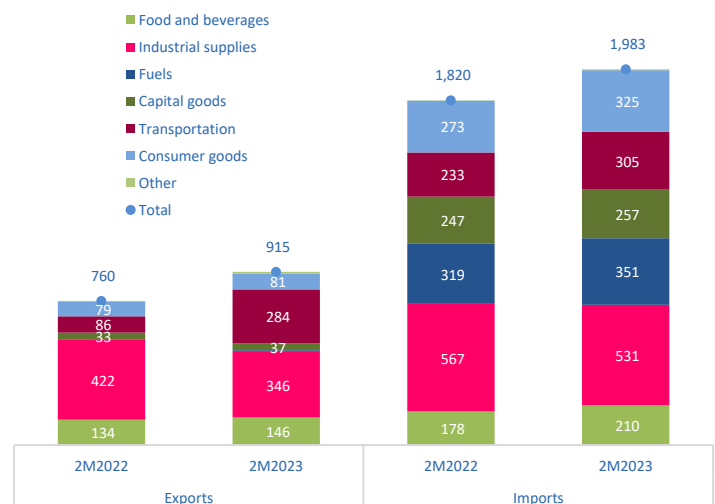
## Effective Exchange Rate



## International Trade, US\$ Mln



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



## International Trade

Georgian external trade turnover amounted to \$2.89 billion in the first two months of 2023, which is a 12.3% increase compared to the same period of last year.

**The value of exports increased by 20.3% y/y and amounted to \$914.8 million in the reported period, while imports also grew by 9% y/y, amounting to \$1.98 billion.**

**The negative trade balance widened to \$1.07 billion (+\$8.7 mln, +0.8% y/y) in January-February 2023.**

In the first two months of 2023 **Georgia's top partners by exports** were Armenia (\$133.1 million, +191.7% y/y), Russia (\$128.2 million, +38.1% y/y) and China (\$112.4 million, +17.8% y/y), while the top markets by imports were Russia (\$338.8 million, +86.3% y/y), Turkey (\$322.2 million, +8.6% y/y) and China (\$134 million, -6.3% y/y).

**The exports in the EU** decreased by 27.2% y/y in January-February 2023, while the share of the EU in the total exports amounted to 12.7%. **Imports from the EU** increased by 21.9% y/y and the share amounted to 23.9%.

**As for the CIS countries, the exports** increased by 61.3% y/y and amounted to 58.2% of the total exports. **Imports from the CIS countries** increased by 17.6% and the share amounted to 30.6%.

In the reported period, **top import commodities** were motor cars (+22.4% y/y, 10.5% share), petroleum gases (+47.1% y/y, 8.8% share of the total imports) and petroleum oils (-2.7% y/y, 8% share).

Furthermore, in January-February 2023, motor cars reclaimed the first place in **the list of top export items** (+226.4% y/y, 25.9% share of the total exports) followed by copper ores and concentrates (-8.2% y/y, 15.7% share) and the export of ferro-alloys (-28.6% y/y, 7.8% share).

Share of the domestic<sup>3</sup> exports in the total exports constituted 54.3% and amounted to \$497.2 million in January-February 2023 which is 10.6% less compared to the same period of 2022.

## Export and Import Statistics, 2M 2023, US\$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
<b>Total Exports</b>	<b>915</b>		<b>54.5%</b>	<b>Total Exports</b>	<b>915</b>		<b>54.5%</b>
Armenia	133	14.5%	191.7%	Cars	237	25.9%	226.4%
Russia	128	14.0%	38.1%	Copper	143	15.7%	-8.2%
China	112	12.3%	17.8%	Ferro-alloys	72	7.8%	-28.6%
Azerbaijan	111	12.2%	20.5%	Wine	34	3.8%	3.9%
Kazakhstan	78	8.5%	393.5%	Spirituous beverages	24	2.6%	37.4%
Turkey	65	7.1%	10.2%	Fertilizers	21	2.3%	-63.8%
Kyrgyzstan	45	4.9%	993.8%	Motor vehicles for the tra	20	2.2%	93507.0%
Bulgaria	35	3.8%	-58.7%	Gold	16	1.8%	21.7%
Spain	22	2.4%	658.0%	Nuts	16	1.8%	23.0%
Peru	17	1.9%	-6.3%	Cigars, cheroots, cigarillos	16	1.8%	214.8%
Switzerland	14	1.5%	-6.1%	Mineral waters	15	1.7%	-35.0%
Other	155	16.9%	-32.6%	Other	299	32.7%	8.3%

Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
<b>Total Imports</b>	<b>1,983</b>		<b>50.4%</b>	<b>Total Imports</b>	<b>1,983</b>		<b>50.4%</b>
Russia	339	17.1%	86.3%	Cars	208	10.5%	22.4%
Turkey	322	16.2%	8.6%	Gases	176	8.8%	47.1%
China	134	6.8%	-6.3%	Oils	158	8.0%	-2.7%
Azerbaijan	131	6.6%	-16.5%	Copper	108	5.5%	-26.8%
Germany	118	6.0%	64.3%	Medicaments	71	3.6%	35.6%
United States	114	5.7%	21.5%	Telephones	52	2.6%	10.5%
Armenia	70	3.5%	16.8%	Computers	23	1.1%	-29.6%
United Arab Emirates	45	2.3%	58.1%	Vehicles for transport	18	0.9%	3784.4%
Italy	43	2.2%	32.5%	Tractors	18	0.9%	32.0%
Japan	41	2.1%	-3.3%	Tobacco	17	0.8%	75.1%
France	39	2.0%	43.8%	Motor vehicles	16	0.8%	32.5%
Other	587	29.6%	-12.1%	Other	1,119	56.4%	6.6%

## Remittance Statistics, 2M 2023, US\$ Mln

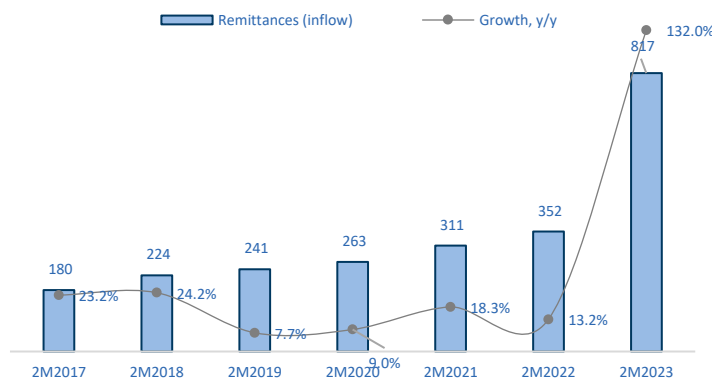
## Remittances

The volume of money transfers from abroad constituted about \$372.3 million in February 2023, which is 103% (\$188.9 million) more than the amount in February, last year.

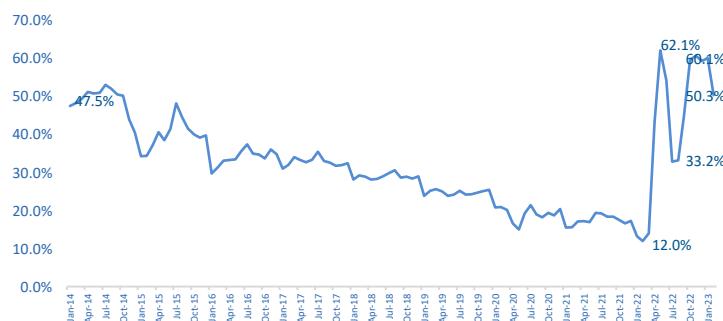
The top remittance senders in February 2023 were **Russia (50.3% of the total transfers, +753.7% y/y)**, Italy (10.4% share, +18% y/y) and the USA (8.2% share, +44.3% y/y).

**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 February it decreased to 50.3%.

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.



## Share of Russia in total remittances



## State Budget

*In January-February 2023, the state budget revenues increased by 22.6% y/y to 3 bln GEL, while the total expenses increased by 13.9% y/y to 2.84 bln GEL.*

The revenues from value added tax increased by 17.5% y/y to 34.6% of budget revenues, while revenues from excise and income taxes increased by 25.5% y/y to 9.1% of the total revenues and by 27.9% y/y to 31.8% of the total revenues, respectively. Meanwhile, revenues from profit tax increased by 19.4% y/y and amounted to 9.5% of the total revenues.

On the spending side, social benefits increased by 4.1% y/y to 36.1% of the total budget expenses in January-February 2023, while compensation of employees increased by 13.6% y/y to 11.5% of the total expenses and purchases of goods and services increased by 10.3% y/y to 9.3% of the total expenses.

*As a result, there was a budget surplus of 165 million GEL in January-February 2023 which is a 500.5% improvement after it amounted to 41 million GEL deficit in the same period of last year.*

## GDP growth

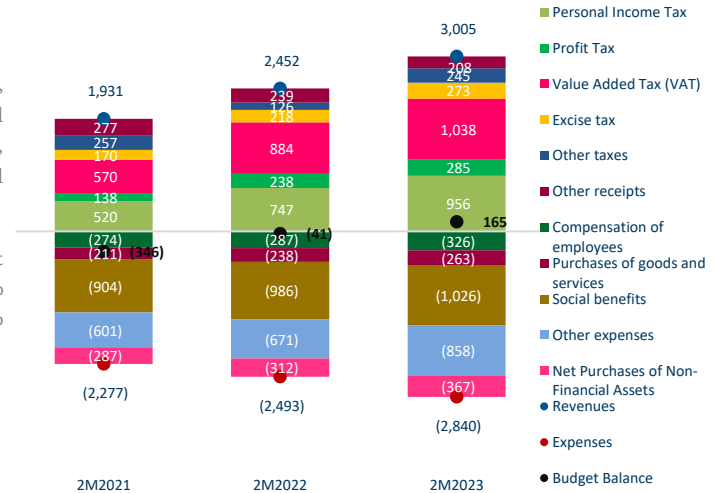
The nominal Gross Domestic Product (GDP) amounted to 71.75 billion GEL in 2022. In the same period, GDP per capita amounted to about 19,453 GEL. The real GDP increased by 9.7% in the last quarter of 2022, while in total, in 2022 it increased by 10.1% year-on-year.

Trade was the largest part of the nominal GDP structure (15.2%) followed by manufacturing (11.1%), real estate activities (9.9%), construction (8%), agriculture, forestry and fishing (7%), transportation and storage (6.5%), public administration (6.4%), and financial and insurance activities (4.9%).

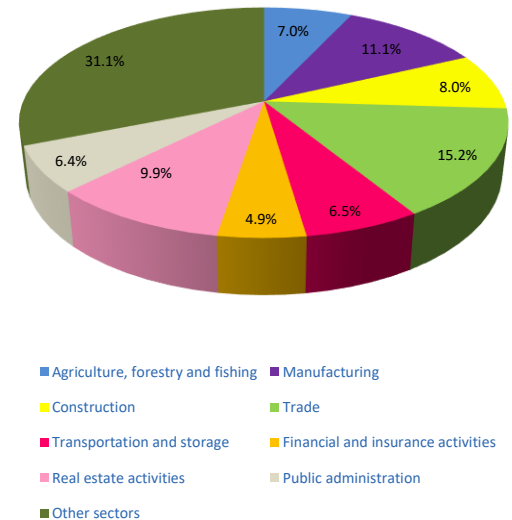
In 2022, information and communication contributed the major share, 21.3% in GDP growth with +49.3% year-on-year increase on its own, followed by transportation and storage (16.3% contribution in annual economic growth, +28.4% y/y), electricity, gas, steam and air conditioning supply (10.7% contribution, +40.2% y/y), wholesale and retail trade, repair of motor vehicles and motorcycles (8.4% contribution, +5.9% y/y).

As for the latest rapid estimates of economic growth, the estimated real Gross Domestic Product (GDP) growth rate in February 2023 amounted to 5.8% y/y and 7.1% in January-February 2023.

## Budget Statistics, Mln GEL



## GDP structure in 2022



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

<sup>2</sup>Estimated period: 31/12/2022 – 31.03.2023

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



**BASISBANK**  
Hualing Group Member

1, Ketevan Tsamebuli Ave., Tbilisi, Georgia

Tel.: +995 322 922 922

[www.basisbank.ge](http://www.basisbank.ge)