PASHA Holding

Georgian Economy in Q1

Economic growth decelerated due to the pandemic & containment measures:

- The estimated average real Gross Domestic Product (GDP) growth rate of the first quarter of 2020 equaled 1.5% y-o-y, while it was 5.0% for the same period of 2019. The pandemic had a significant impact on Georgia's economy in March, as the economy contracted by -2.7% y-o-y, interrupting a positive economic trajectory of past years;
- Compared to March of the previous year, the real growth was recorded in the construction and information & communication sectors.

The deceleration has been continuing in core & headline inflation since December 2019:

- Consumer prices increased by 0.7% m-o-m in March and annual inflation stood at 6.1%, which is above the central bank target of 3%. The overshooting the target was caused by the pass-through from the nominal exchange rate depreciation to inflation in recent periods;
- Annual core inflation* rose by 3.7%, while the annual core inflation without tobacco** stood at 3.3%, implying that the annual headline inflation is partially persistent;
- In the breakdown of annual inflation:
    - o Food & non-alcoholic beverages turned out to be the major contributor to the overall 6.1% annual inflation. The prices increased by 13.4%, adding 4.18 percentage points (p.p.);
    - o Restaurants & hotels pulled inflation up by 0.4 p.p. in March driven by the increase in catering services (10.3%);
- On the flip side,
    - o Recreation & culture dragged the headline down by 0.16 p.p.;
- Meanwhile, the domestic PPI for manufactured products increased by 5.5% compared to March of 2019, resulting in a 4.89 percentage points (78% of total) contribution to the overall annual DPPI change;
- 39% of annual domestic PPI change comes from food products, which went up by 8.1% y-o-y. The Import Price Index (MPI) for food products increased by 15.1% y-o-y, which implies that there is strong cost pressure on the consumer food inflation, and subsequently on the headline inflation.

**The core inflation is calculated by excluding food and non-alcoholic beverages, energy, regulated tariffs, and transport (specific tariffs) from the consumer basket.*

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Trade deficit worsened mainly driven by decreasing exports:

- In the first quarter of 2020, the external merchandise trade turnover of Georgia shrank by 2.7% y-o-y and amounted to USD 2773.9 mln.;

- The exports equaled USD 778.2 mln. (5.9% decrease)***, while the imports stood at USD 1995.8 mln. (1.4% decline);

- The trade deficit worsened by 1.7% and amounted to USD 1217.6 mln. Its share in external trade turnover constituted 43.9%;

- The exports to the EU countries stood at USD 165.4 mln. (16% lower compared to the first quarter of 2019) and reached nearly a fifth of total exports. Meanwhile, the imports equaled USD 477.9 mln. (3.5% drop) with 24% share in total imports;

- The exports to the CIS countries amounted to USD 351.9 mln. (16% decrease) and constituted about half of the total exports, while the imports amounted to USD 625.4 mln. (8.5% increase) with a 31% share in total imports;

- The export market concentration is higher: the share of the top five trading partners by exports in the total exports amounted to 57.8%. The top partners were Azerbaijan (15.7% in total), China (12.8%), and Russia (11.7%);

- The share of the top five trading partners by imports in the total imports account for 52.2%. The top partners were Turkey (17.4%), Russia (10.5%), and Azerbaijan (9.2%).

****The exports excluding re-exports contracted by 1.7% y-o-y and amounted to USD 539.5 mln.*

Consumer loans grew sluggishly, while the corporate side expanded considerably:

- As of March 2020, total assets of the commercial banks increased by 27.2% compared to the same month of 2019 (YTD 6.2%↑) and stood at GEL 50.1 bln.;

- The total loan portfolio rose by 30% and amounted to GEL 34 bln. In YoY terms, loans to households (exc. individual entrepreneurs) went up by 19% (GEL 14.8 bln.), while the consumer loans experienced a 12.3% growth and accounted for GEL 4.2 bln;

- The corporate loan portfolio (inc. individual entrepreneurs) grew by 40% and stood at GEL 19.2 bln. The main drivers of the growth were loans to industry (26% of the growth), construction (17%), and transactions in real Estates (16%);

● The share of non-performing loans (NBG methodology) in total loans realized as 4.4%, which is 1.5 percentage points lower comparing to March 2019;

● Deposit portfolio of non-financial borrowers (individuals & legal entities) expanded by 24% y-o-y to GEL 29.7 bln. The main drivers were time deposits of individuals & legal entities, constituting 38% and 14% of the growth, respectively. While 28% of the total deposit growth was driven by individuals' demand deposits, demand deposits of legal entities comprised 20% of the total growth;

● Dollarization of the total deposits stood at 67%, while it was 77% for individuals' deposits and 55% for legal entities;

● During the reporting period, the Return on Assets ratio (ROA) of the sector stood at -7.1%, while Return on Equity ratio (ROE) was -64.4%. The negative returns are driven by significantly higher loan loss provisions.

The NBG announced the start of the gradual exit from the tightened policy in April meeting:

● National Bank of Georgia (NBG) maintained the policy rate at 9% in the first quarter of 2020, however, the Monetary Policy Committee (MPC) met on April 29, 2020, and decided to cut the refinancing rate by 0.50 percentage points to 8.5%;

● According to the NBG, supply factors triggered by logistical constraints will delay the decrease in inflation over the coming months, however, a sharp drop in external & domestic demand due to the pandemic will put downward pressure on inflation over the year;

● Given the expected reduction in the demand, the MPC announced the start of ● gradual exit from the tightened policy;

● To ensure that liquidity risk arose from the current level of uncertainty does not limit credit to the economy, the NBG introduced additional instrument - swaps operations to provide liquidity for both commercial banks & microfinance organizations.