

## **Georgian economy in the first quarter of 2022**

**Georgian economy continued at a two-digit level growth thanks to easing of pandemic restrictions and stronger recovery in tourism-related sectors:**

- The rapid estimates of economic growth show that the overall economic activity is gaining pace, while Russia-Ukraine war induced uncertainty deteriorates the outlook. GDP growth accelerated to 14.4% in the first quarter of 2022 based on the preliminary estimates;
- Electricity, gas, steam and air conditioning supply, Transportation and storage, Hotels and restaurants, Construction, Arts, entertainment and recreation, Mining and quarrying and Manufacturing contributed positively to y-o-y economic growth in the first quarter of 2022. Taxpayers' turnover y-o-y growth was at 24.4% in March. This indicator is used in rapid estimates of economic growth suggesting the economy continues to progress on the recovery path from the pandemic.

## **Higher prices in international commodity markets is fuelling inflation:**

- Consumer prices increased by 2.5% m-o-m in March and annual inflation reached 11.8%, which is above the central bank target of 3%. Transmission of higher prices from international markets, Russia-Ukraine war driven restrictions, supply chain problems, and transportation costs were the main factors that fuelled inflation in the first quarter of 2022;
- Annual core inflation\* amounted to 5.3%, while the annual core inflation without tobacco\*\* stood at 6.0%, implying that the current level of annual headline inflation may subside in the medium-term;
- In the breakdown of annual inflation:
  - ✓ Food & non-alcoholic beverages turned out to be the major contributor to the overall annual inflation. The prices increased by 17.8%, adding 5.69 percentage points (p.p.). The rise in international food prices was the main driver;
  - ✓ Transport prices rose by 21.6%, contributing 2.60 percentage points to the annual inflation. Operation of personal transport equipment prices increased by 29.5%;
  - ✓ Prices of housing, utilities, and other fuels surged by 8.4%, pulling inflation up by 0.85 percentage points. The prices went up for electricity, gas & other fuels (11.3%), maintenance & repair of the dwelling (12.9%) and actual rentals for housing (2.4%);
- Meanwhile, the domestic PPI (DPPI) increased by 10.6% compared to March 2021. The DPPI for manufactured products increased by 15.3% compared to the same month of 2021, resulting in an 11.43 p.p. contribution to the overall annual DPPI change;
- Almost half of annual domestic PPI change comes from food products, which went up by 17.0% y-o-y;

- The Import Price Index (MPI) increased by 17.0% y-o-y. Import prices of coke & refined petroleum products surged by 70.3%, while chemical products' prices rose by 43.6%, putting upward pressure on 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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#### **Foreign trade activity improved as easing of lockdown restrictions stimulated the economy:**

- During the first quarter of 2022, the external merchandise trade turnover of Georgia expanded by 37.9% y-o-y amounting to \$3865.0 mln.;
- The exports equaled \$1171.8 mln. (43.3% increase), while the imports stood at \$2693.2 mln. (35.7% increase);
- The trade deficit rose by 30.3% and amounted to \$1521.4 mln. Its share in external trade turnover constituted 39.4% (2021 first quarter: 41.6%);
- The exports to the EU countries stood at \$208.6 mln. (33.2%↑ compared to the first quarter of 2021) and constituted 17.8% of total exports. Meanwhile, the imports equaled \$607.1 mln. (36.2% increase) with 22.1% share in total imports;
- The exports to the CIS countries amounted to \$435.6 mln. (19.6%↑) and constituted 37.2% of the total exports, while the imports amounted to \$749.6 mln. (22.7%↑) with a 27.3% share in total imports;
- The export market concentration is high: the share of the top five trading partners by exports in the total exports amounted to 55.4%. The top partners were China (18.8%), Azerbaijan (10.7%), and Russia (9.4%);
- The share of the top five trading partners by imports accounts for almost half of the total imports. The top partners were Turkey (17.2%), Russia (10.2%), and China (9.0%).

#### **Consumer loans grew<sup>\*\*\*</sup>, while corporate loans contracted<sup>\*\*\*</sup> in the first quarter of 2022:**

- As of March 2022, total assets of the commercial banks increased by approximately 2.0% compared to end-2021 and stood at GEL 61.8 bln.;
- The total loan portfolio grew by 0.6% in the first quarter of 2022 and amounted to GEL 42.4 bln. In y-t-d terms, consumer loans experienced a 6.1% growth and accounted for GEL 6.6 bln;

- The corporate loan portfolio fell by 1.8% y-o-y and stood at GEL 20.3 bln. The main drivers of the decrease were loans to trade (5.4% fall), industry (1.7%), and transport (13.7%);
- The share of non-performing loans in total loans realized as 5.0%, which is 0.1 percentage points lower compared to end-2021;
- The deposit portfolio of non-financial depositors (individuals & legal entities) slightly increased and stood at GEL 38.1 bln. The main drivers were time deposits of legal entities in NC and demand deposits of individuals in FC, growing by 14.9% and 5.3%, respectively. Time deposits of legal entities increased by 11.5% (FC: 1.7%), while time deposits of individuals contracted by 5.5% (FC: 9.2% fall);
- Dollarization of the total deposits stood at 60.2% (2021: 60.5%), while it was 73.0% (2021: 73.4%) for individuals' deposits and 46.4% (2021: 45.9%) for legal entities;
- During the reporting period, the Return on Assets ratio (ROA) of the sector stood at 3.1% (2021Q1: 2.8%), while Return on Equity ratio (ROE) was 24.8% (2021Q1: 27.8%).

\*\*\*In this section, loan and deposit growth rates exclude the effect of the exchange rate changes

**NBG raised the monetary policy rate by 0.5 p.p. to 11.0% in the latest MPC meeting (Mar 30, 2022):**

- National Bank of Georgia (NBG) decided to increase the refinancing rate to 11.0%, considering rising inflation. NBG has increased the policy rate by 3.0 percentage points since the beginning of 2021;
- NBG stated that inflation will start to slow down due to base effect;
- According to NBG, monetary policy will keep tightening until the risks of increasing inflation expectations are lowered;
- The NBG emphasized that geopolitical tensions and faster-than-expected tightening of global financial conditions are the main risks.



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