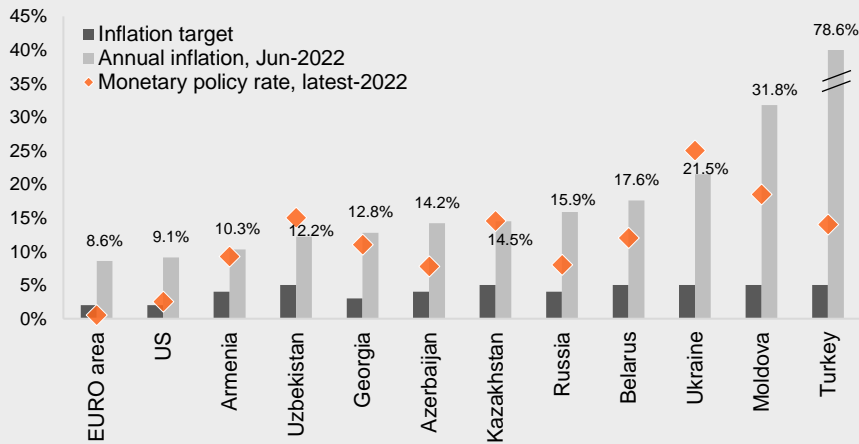




## Chart of the month: Inflation and policy rates



Source: Statistics offices and central banks

Increasing prices continue to squeeze living standards worldwide. The IMF has revised global inflation forecast up recently, due to food and energy prices as well as persistent supply-demand imbalances, and projects inflation at 6.6% in advanced economies and 9.5% in emerging market and developing economies this year. Inflationary pressures are also high in Georgia and regional economies; however, recent data show that Georgia is better managing inflationary pressures, supported by strong GEL amid double-digit growth.

### Economic summary

**Growth:** The economic growth remains strong, while it softened to 7.2% y/y in June, after growing by 11.6% y/y in previous month. Cumulatively, in 1H22, the real growth was 10.5% y/y. Considering strong 1H growth and ongoing data, we revise the 2022 baseline growth forecast up to 9.2% from 7.6%. In this forecast, we assume growth to moderate in 4Q22 reflecting global slowdown. However, if external inflows remain strong despite global slowdown in 2H, in optimistic scenario we expect 2022 growth at 10.6%. Growth in June was recorded in hospitality sector, mining, transport and communications, while it reduced in manufacturing, construction and real estate. On expenditure side, strong remittances and tourism receipts continued to support consumption.

**Inflation:** Headline CPI increased 12.8% y/y in June, moderating from May's reading of 13.3%, mostly reflecting last year's high base. Energy and food prices continued to be primary drivers, and the increased house rents limited deceleration, contributing 0.8ppts to the headline inflation. Going forward, we think inflation will moderate considering last year's high base and seasonal easing in food prices locally as well as on global markets, however expect inflationary pressures to last longer (end-22 inflation expected at 9.2%).

**Monetary policy:** The NBG kept its key rate unchanged at 11.0% on June meeting. On upcoming 3 August meeting NBG will release updated macroeconomic forecasts. As incoming data show better-than-expected growth and increased inflationary risks, we do not rule out introduction of new measures from NBG to tame inflation.

**FX:** The GEL continued appreciation since May, gaining 10.3% vs dollar year-to-date, reflecting strong external inflows coupled with tight monetary policy and improved sentiments. We expect GEL to remain strong in 3Q22 amid hot tourism season and there is a likelihood of seasonal weakness in 4Q22.

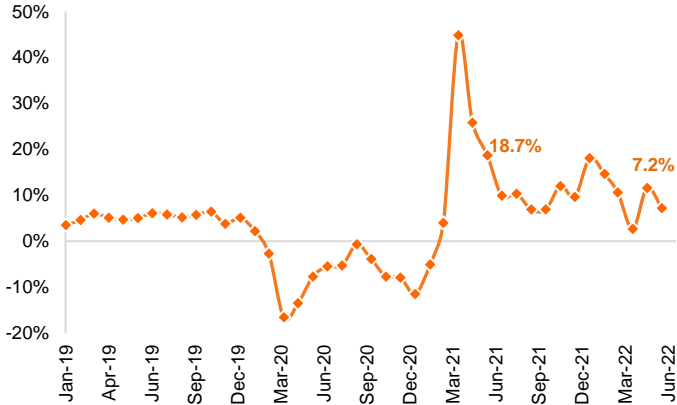
### Activity

**Trade:** In June, both exports and imports growth softened compared to May, but still grew strongly up 27.9% y/y and 21.2% y/y, respectively. Car re-exports and electricity exports contributed most to export growth in June, while higher oil prices continue to driver imports. The trade deficit growth also softened as exports growth outpaced imports. Meanwhile, robust remittances and tourism inflows continue to offset trade deficit, and external balance (goods trade, remittances and tourism) remained positive for the 2<sup>nd</sup> consecutive month.

**Tourism:** Tourism recovery strengthened further in June, with international visitors standing at 387,781 persons and tourism revenues at US\$ 301.7mn (recovering at 88.7% of Jun-19 level). Considering strong ongoing figures and migrants' impact, full recovery of tourism in 2022 is likely (see [here](#)).

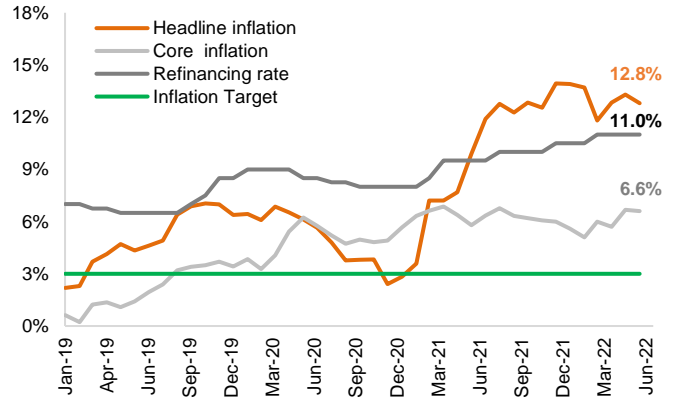
**Banking sector:** Credit and deposit growth remained robust in June, increasing by 18.7% y/y and 17.4% y/y, respectively, excluding FX effect. Credit growth was driven by both retail (+20.4% y/y) and business loans (+16.9% y/y). GEL appreciation and improved sentiments supported dollarization ratios to reduce further, with loan dollarization at all-time low 48.3% and deposit dollarization at 57.9% (24-year low). Banking sector performance indicators remained healthy in June.

### Real GDP growth, % change y/y



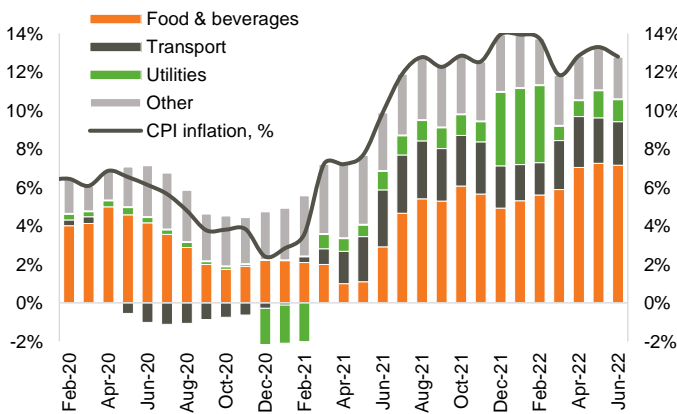
Source: Geostat

### Annual inflation and monetary policy rate



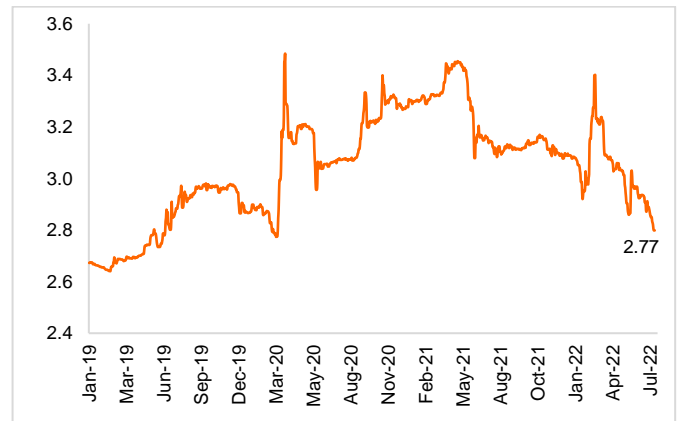
Source: Geostat, NBG

### Contributions to annual inflation



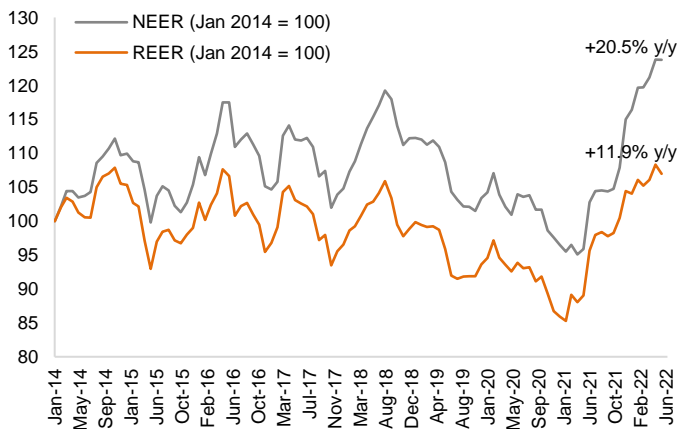
Source: Geostat

### GEL vs USD



Source: NBG

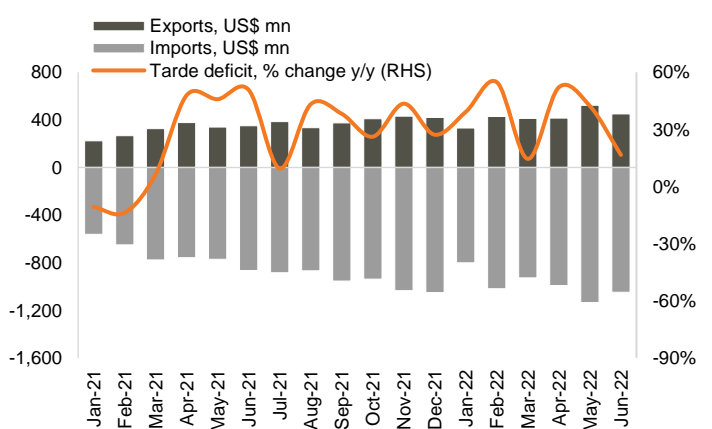
### GEL's nominal effective exchange rate (NEER) and real effective exchange rate (REER)



Source: NBG

Note: Index growth/decline means appreciation/depreciation of GEL

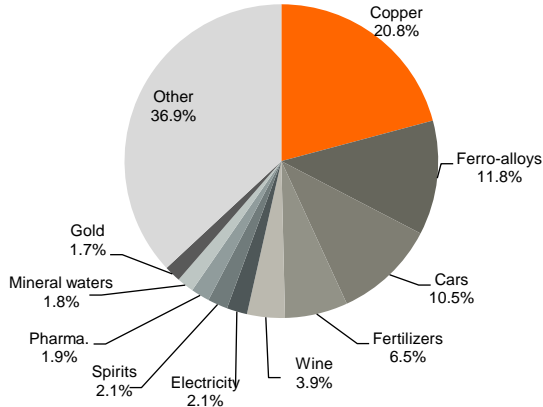
### Goods exports, imports and trade deficit



Source: Geostat

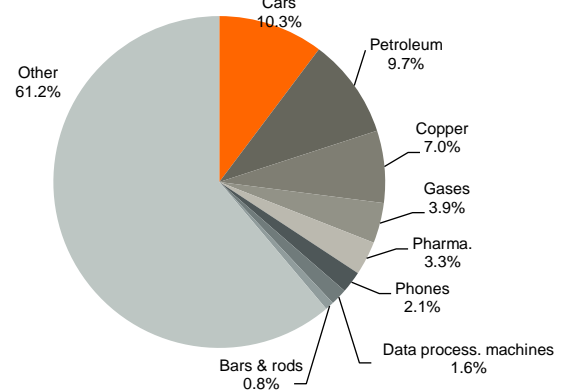


**Exports by product, 1H22**



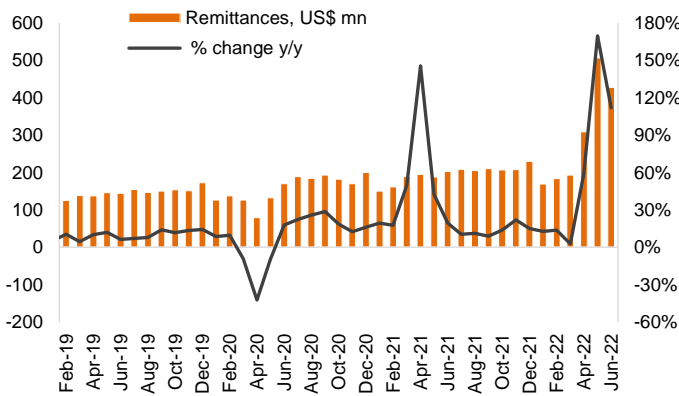
Source: Geostat

**Imports by product, 1H22**



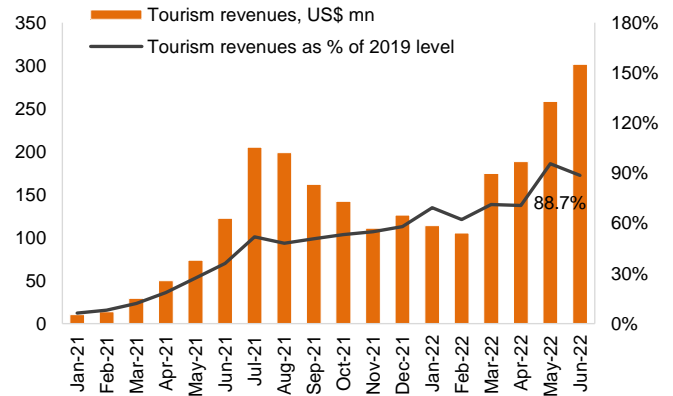
Source: Geostat

**Remittances**



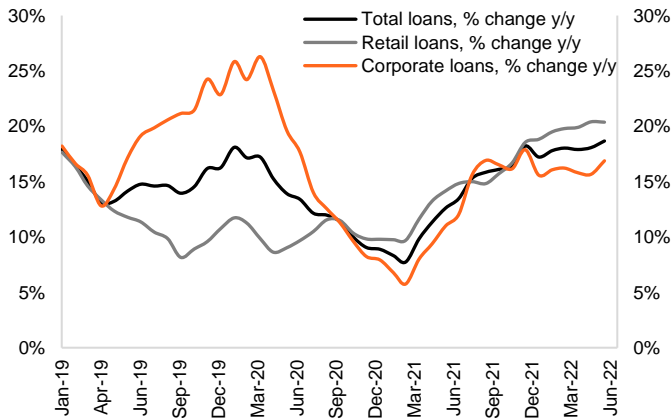
Source: NBG

**Tourism revenues**



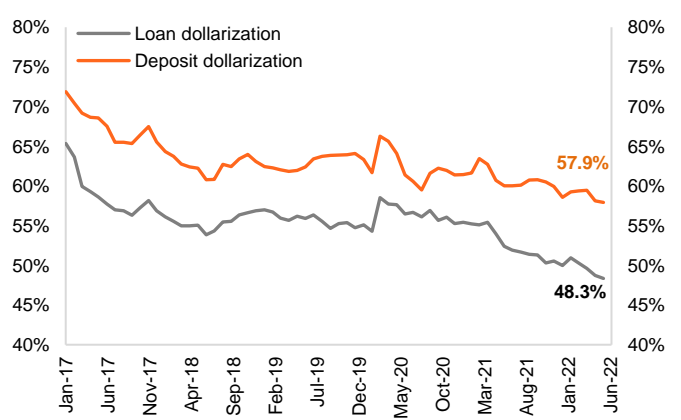
Source: NBG

**Banking sector loan portfolio growth by sector, (excluding FX effect)**



Source: NBG

**Banking sector loan and deposit dollarization**



Source: NBG

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