

- *Economic activity grew by 7.7 percent in June, driven by the construction and key services sectors.*
- *In July, headline inflation fell to 0.3 percent (yoy). In response, the National Bank of Georgia (NBG) decreased the monetary policy rate by 25 bps, to 10.25 percent.*
- *Merchandise exports continued to grow strongly, driven by re-exports.*
- *Although in decline, remittances, mainly from Russia, continued to bolster Georgia's external position and supported reserve accumulation.*
- *Growth in both deposits and loans was in the double digits in July, while banking sector indicators remained healthy.*
- *Fiscal accounts experienced a small deficit in June, and a surplus in H1.*

**The economy grew by 7.7 percent in June (yoy) and 7.6 percent (yoy) in H1 2023.** In June, growth was primarily driven by construction, trade, finance and insurance. Meanwhile, transportation and storage, and electricity and gas activities declined over the period.

**Entrepreneurial activity remained robust in June, driven by inflows of money and people.** The reported turnover of value-added taxpayers increased by 6.1 percent in nominal terms in June (yoy). Registration of new businesses exceeded 6,700 entities, similar to May and to the same period in 2022.

**Inflation continued to decline in July.** The annual headline inflation rate reached 0.3 percent in July, down from 0.6 percent in June. This was driven by a 12 percent (yoy) fall in transportation prices. In contrast, the price of utilities and miscellaneous goods and services, such as financial services and personal care, continued to exert upward inflationary pressures. Core inflation (excluding food and energy) fell from 4.1 percent in June to 3.2 percent (yoy) in July. The Residential Property Price Index<sup>1</sup> increased by 3.0 percent in Q2 (yoy) and rental prices increased by 10.3 percent (yoy) in July. Meanwhile, the Industrial Producer Price index (PPI) increased by 0.5 percent in July compared to June, while it declined by 2.8 percent in yoy terms. Given inflation's downward trajectory, NBG decreased the monetary policy rate by 25 bps in August, to 10.25 percent.

**Merchandise exports continued to grow strongly.** Merchandise exports increased by 22.6 percent (yoy) in June, partly driven by re-exports of used cars to neighboring countries. During the period from January to June, exports of used cars increased almost fourfold (yoy), amounting to USD 990 million or 32 percent of total exports. Imports saw a 9.6 percent

increase in June (yoy), driven by used cars, cell phones, and pharmaceutical products. Consequently, the trade deficit widened slightly in June (yoy).

**Tourism soared in Q2 2023, growing by 57.4 percent (yoy).** Almost 50 percent of visitors came from Türkiye and Russia, with accommodation and shopping forming the bulk of their expenditures. Spending was about 50 percent higher than in the same quarter of 2022.

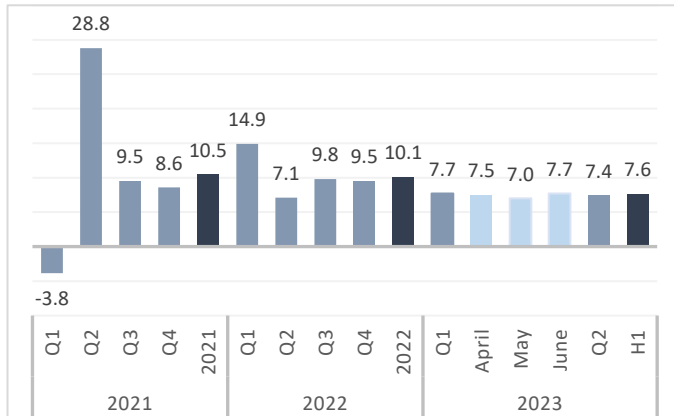
**Although in decline, money transfers, primarily from Russia, continued to support Georgia's external position.** In June, remittance inflows fell by 17.4 percent compared to the same period in 2022, although there was an increase of 4.7 percent compared to May. Russia remained the primary source country, accounting for 37 percent of total inflows. Official reserves amounted to USD 5.4 billion at end July, equivalent to 4.4 months of imports, continuing an upward trend. In July, the GEL appreciated 0.8 percent against the USD, compared to the June average.

**Annual growth in bank deposits remained robust in July, with total deposits increasing by 26 percent (yoy).** This growth was driven by significant increases in both local currency and foreign exchange deposits, which rose by 41 percent and 15 percent (yoy), respectively. Meanwhile, GEL loans increased by 15 percent in nominal terms (yoy) and foreign exchange loans by 14 percent (yoy). In June, the banking sector remained sound, with returns on assets and equity reaching 3.7 percent and 26.7 percent, respectively. Non-performing loans (NPLs) (90 days past due) stood at 1.5 percent by the end of June, 0.5 percentage points lower than in June 2022.

**The fiscal balance recorded a small deficit in June.** General government tax revenues saw an increase of 10 percent in nominal terms (yoy), supported by increases across the board, except for profit tax. Government current expenditure rose by 12.8 percent (yoy), driven by a rise in interest payments. Capital expenses also saw a similar increase of 11 percent (yoy) in June. Overall, Georgia experienced a small surplus in H1. Public debt remained contained at GEL 30 billion in June, equivalent to 38 percent of projected GDP.

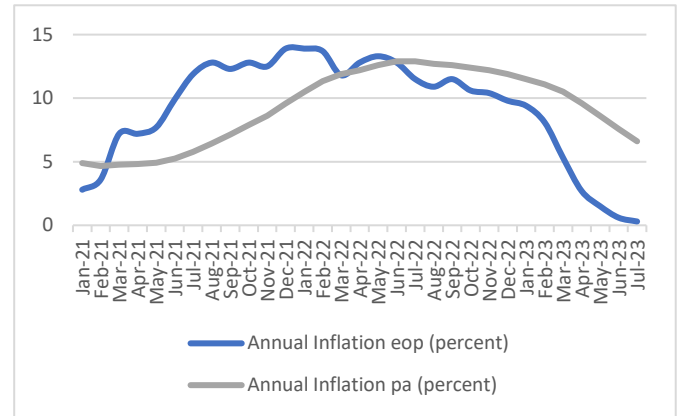
<sup>1</sup> The Residential Property Price Index covers Tbilisi's new residential property market, including apartments and detached houses.

**Figure 1. Economic growth remained strong in H1 2023**  
(yoy, %)



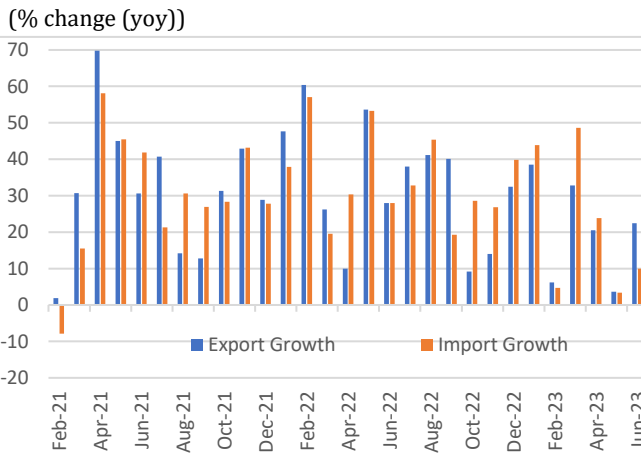
Source: Geostat

**Figure 2. Inflation continued to fall in July**  
(yoy, %)



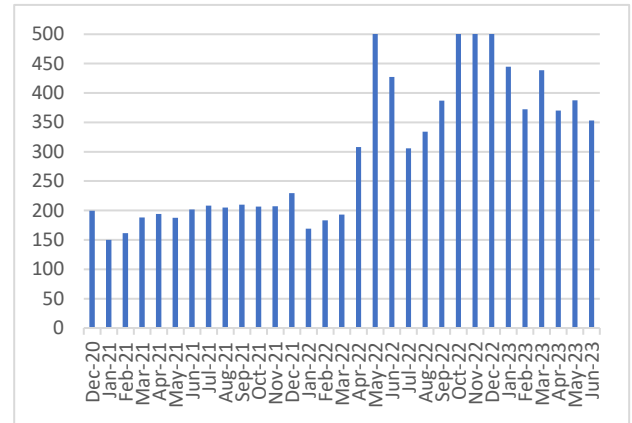
Source: Geostat

**Figure 3. Trade flows increased significantly in June**



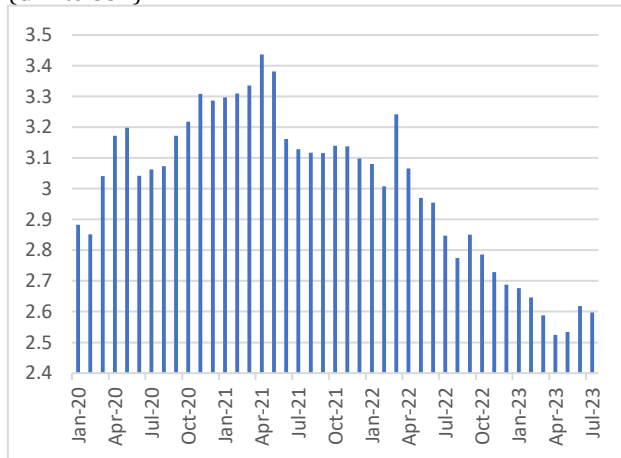
Source: Geostat

**Figure 4. Money transfers from abroad continued to ease (mom)**  
(USD million)



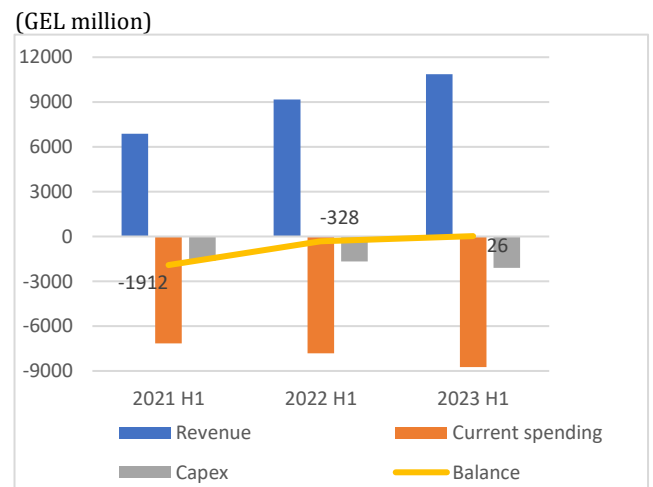
Source: NBG

**Figure 5. The GEL appreciated slightly against the USD (mom) in July**  
(GEL to USD)



Source: NBG

**Figure 6. Fiscal accounts were in surplus in H1 2023**



Source: Ministry of Finance