



# Impact of Rising Food and Energy Prices



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**The decreasing poverty trend could be accelerated by increasing social transfers to the poor groups of population.**

**Inequality between poor and rich population could increase in the following years, while the growth is more towards the higher income groups of population. To decrease inequality, the social transfers or services should be increased even more.**

## **Main Findings**

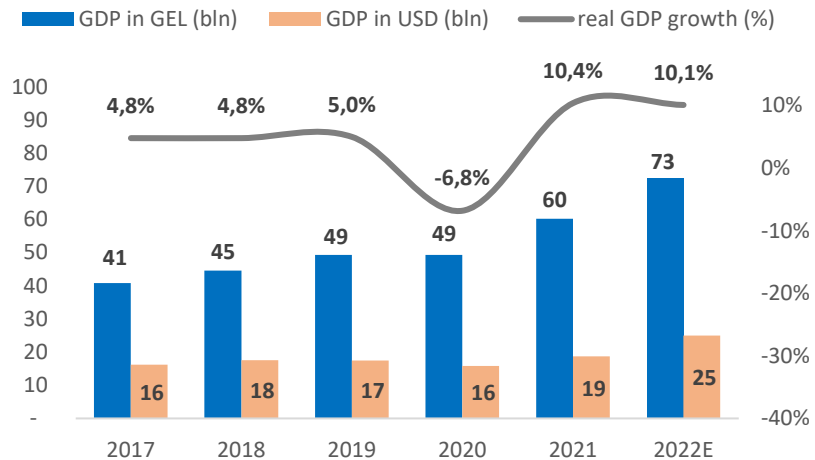


**Poor households are more vulnerable to Inflation and more accurate household survey statistics needs to be carried out to estimate the negative effect from inflation.**

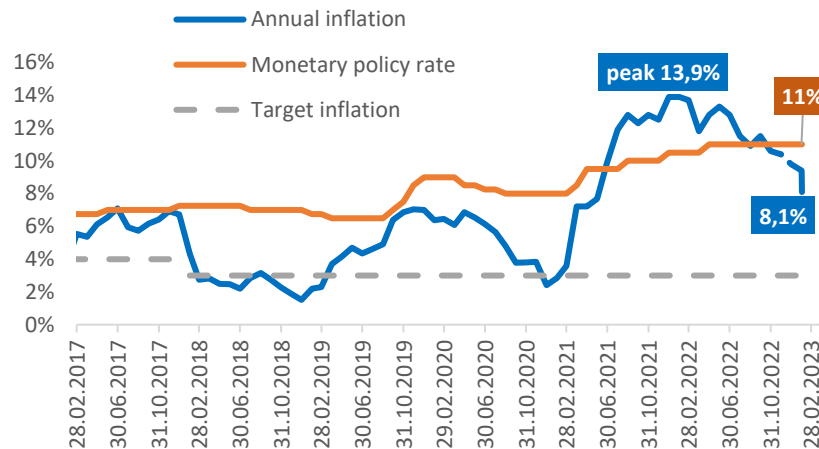
**Vulnerable groups need multidimensional support to overcome poverty trap, decrease dependency on the social assistance packages and achieve sustainable development in the medium-term.**

# Macro Overview – GDP, Inflation & Trade

## Nominal GDP (GEL, USD, bln) and growth rates (%)



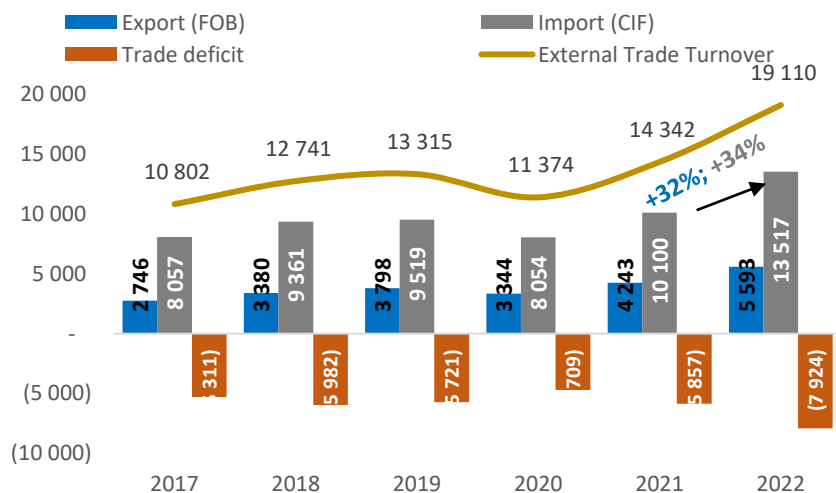
## Annual inflation, monetary policy rate & target inflation (%)



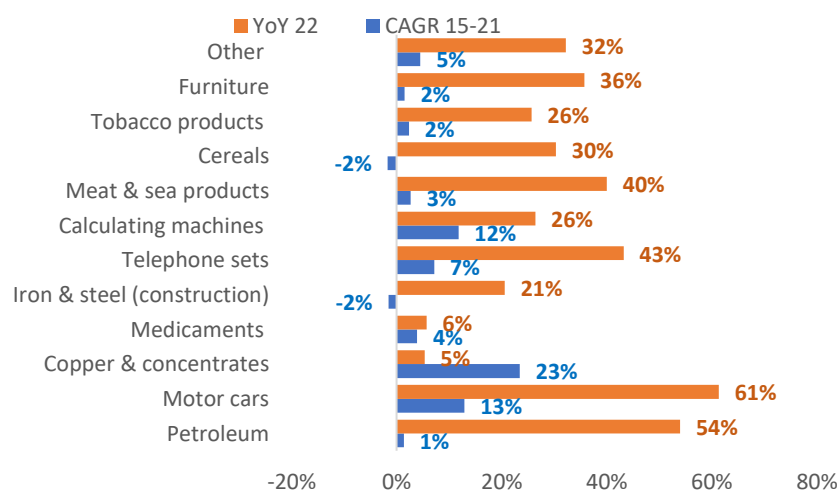
**Georgian economy sustained solid double-digit growth in 2022**, on the back of the increasing foreign currency inflow and the visitors from Russia.

**Inflation in Georgia is highly dependent on the global commodity prices.** Georgia is highly dependent on imported petroleum and food products, electronics and construction materials.

## External trade (USD bln)



## Growth rates of top imported products (%)

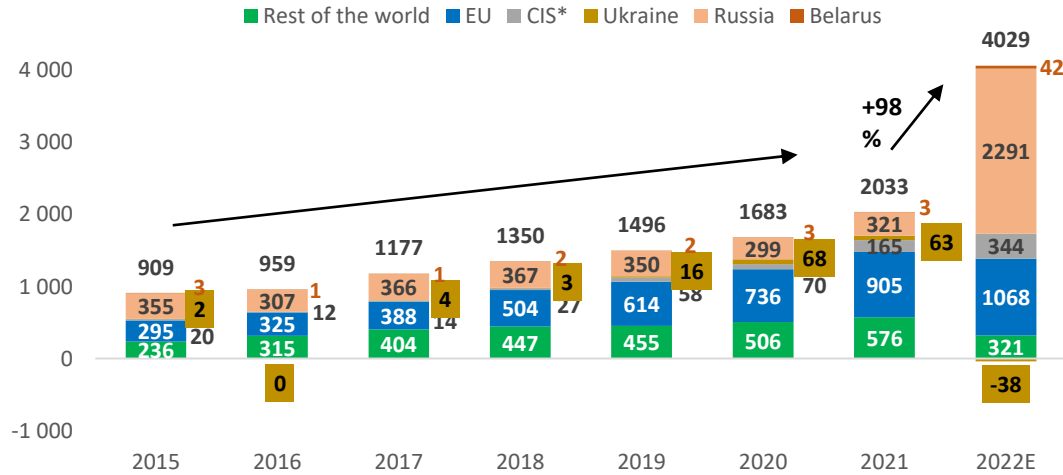


**Exports and imports were record high in Georgia in 2022.** High growth of imports in 2022 is driven from the increased domestic demand and re-export of this products.

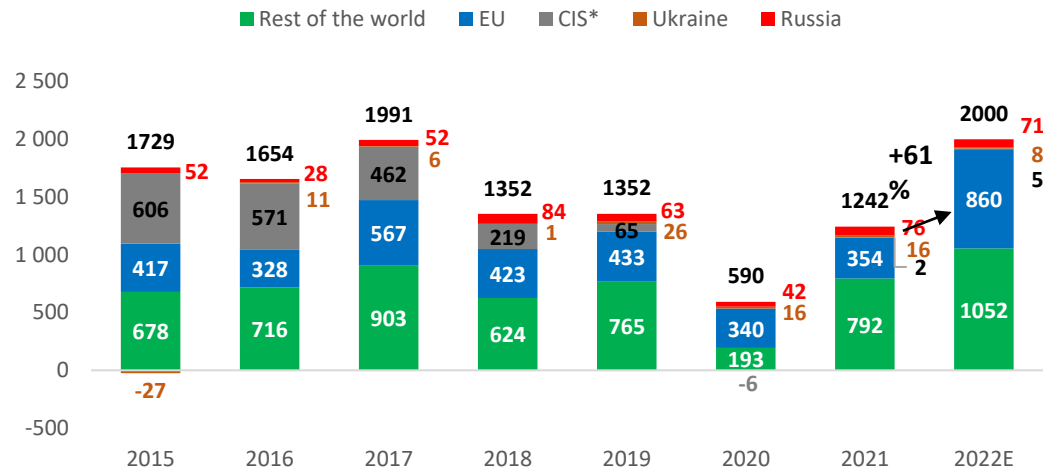


# Macro Overview – Remittances, FDI & Tourism

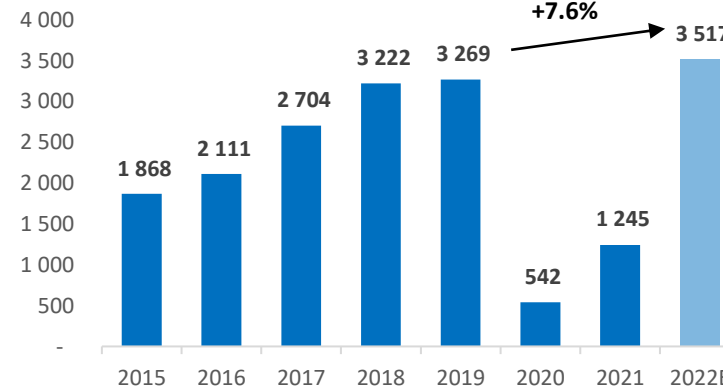
## Remittances (net inflow, USD mln) by countries



## FDI (USD bln) by countries



## Revenue from tourism (USD, mln)



**Migrants from Russia and restrictions on international bank transfers from Russian has led to the boom of remittances in Georgia.** The net inflow from Remittances was increasing at a 6-year 14% CAGR and reached USD 2 bln in 2021 but has doubled to USD 4 bln in 2022 (+98% YoY).

**Georgia's direct dependence on CIS countries (incl. Russia, Belarus, Ukraine) in terms of officially registered FDI is negligible,** compared to the EU and rest of the world. However, the country registration of FDI could be misleading and the investments could be through the intermediary countries.

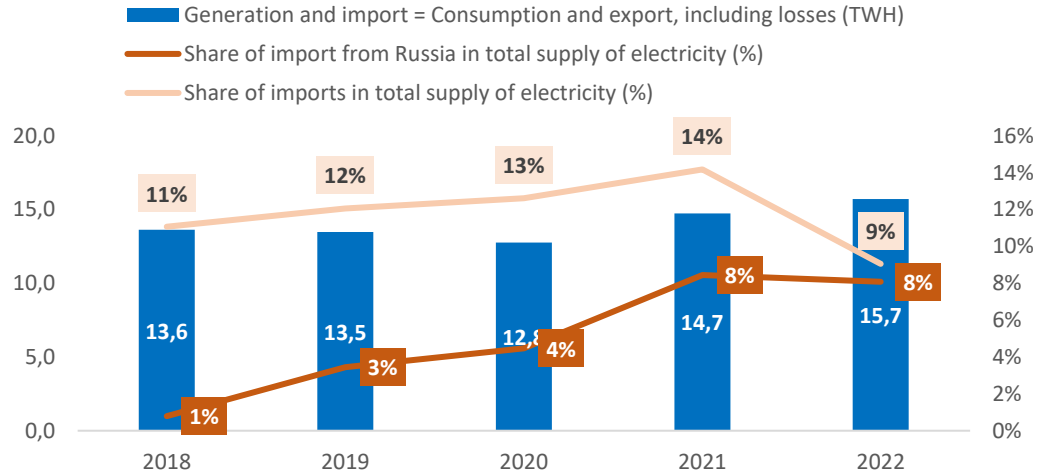
**Full recovery in revenues from tourism** in 2022 but the recovery of the visitor trips is ongoing. International visitor trips recovered to 4.7 mln in 2022, circa. 61% of the 7.7 mln international visitor trips in 2019.



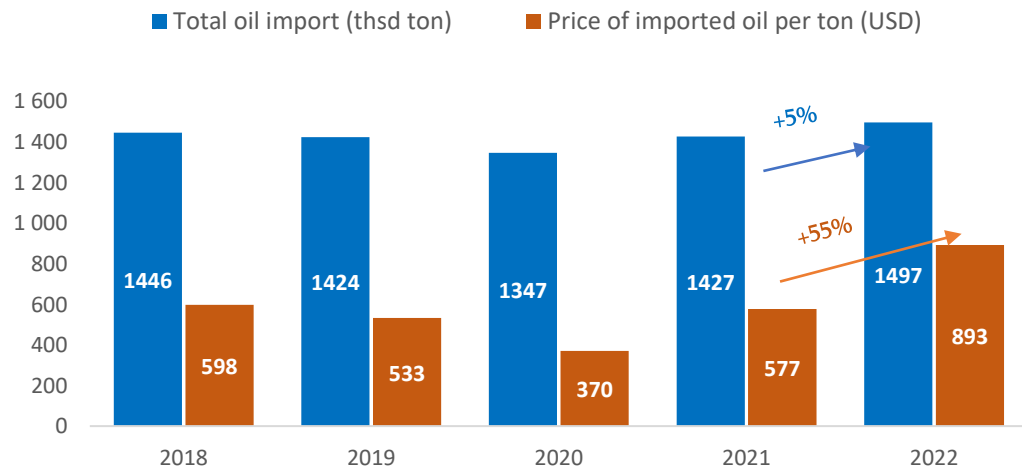


# Macro Overview - Energy

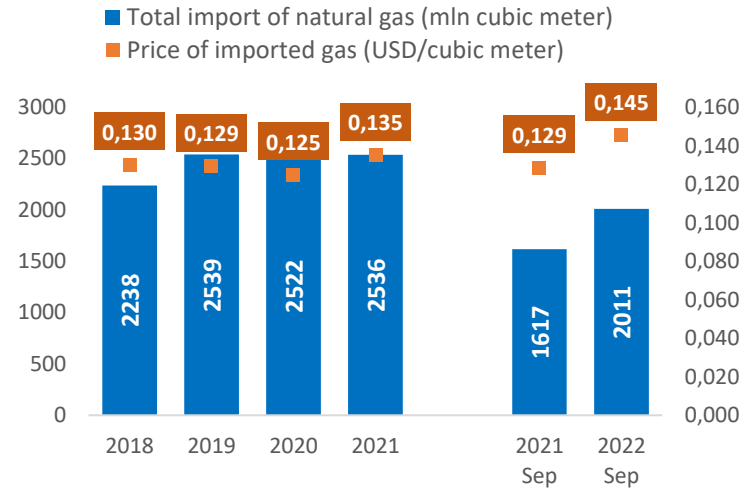
## Electricity balance of Georgia (TWh) and share of Russian imports (%)



## Oil import (000' ton) and price of imported oil per ton in Georgia



## Natural gas import (mln cubic meter) and price of imported gas (USD/cubic meter) in Georgia



**Price of balancing electricity was up by +25% YoY to GEL 19.6 tetri in 2022.** Share of imported electricity from Russia in total supply is still low (8%).

**Price of imported natural gas increased +13% YoY, reaching 0.145 USD/cubic meter, in 9m 2022.** The share of import from Russia accounted for 16%, in the same period.

**Import of oil from Russia accounted for 47% of the total imports in 2022.** Price of imported oil reached \$893 per ton in 2022 (+55% YoY), due to the increasing price of oil worldwide, caused from the war.

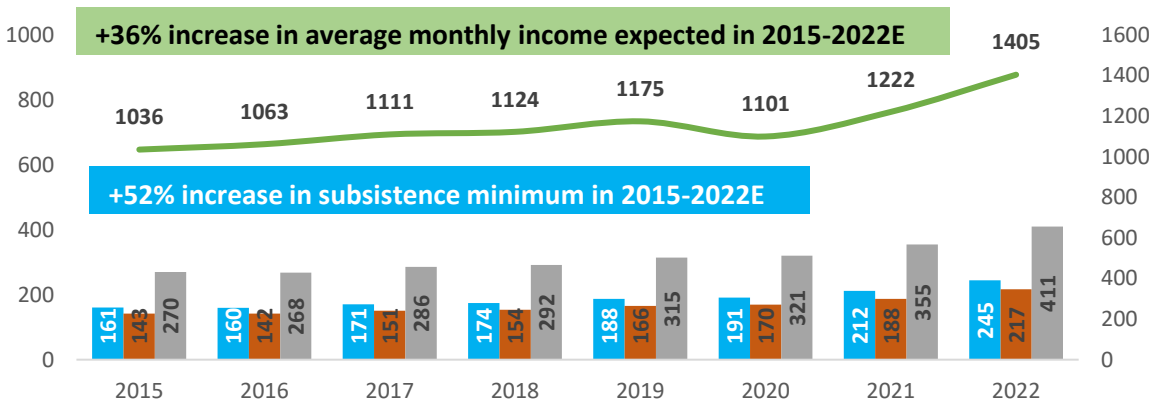




# Macro Overview - Poverty

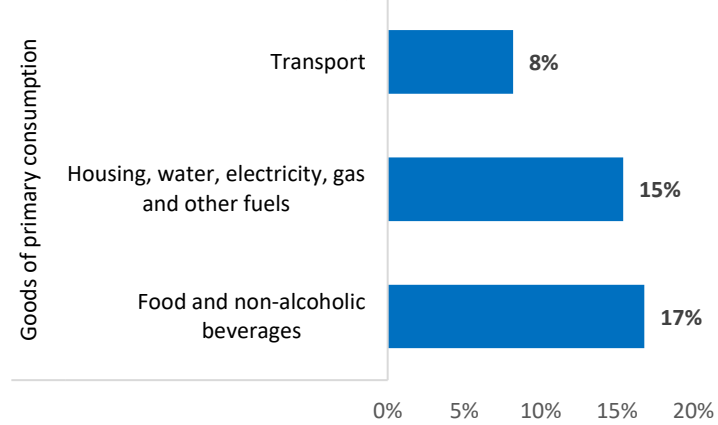
## Subsistence minimum and average monthly income (GEL) in Georgia

■ For working age male (LS)      ■ For average consumer (LS)  
■ For average household\* (LS)      — Average monthly income per household (RS)



## Inflation on goods of primary consumption

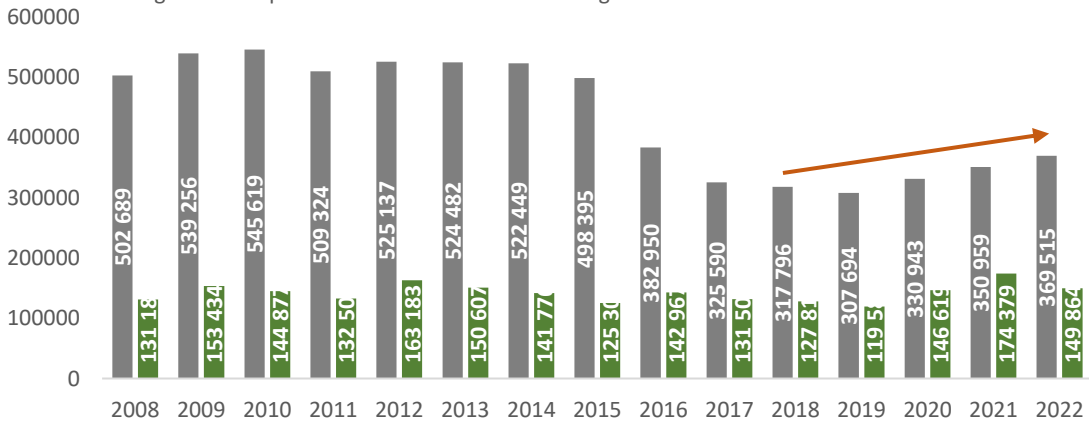
January 2023, YoY



**High inflation creates pressure on prices** and especially on the primary goods of consumption and offsets most of the growth for the population with low or medium income

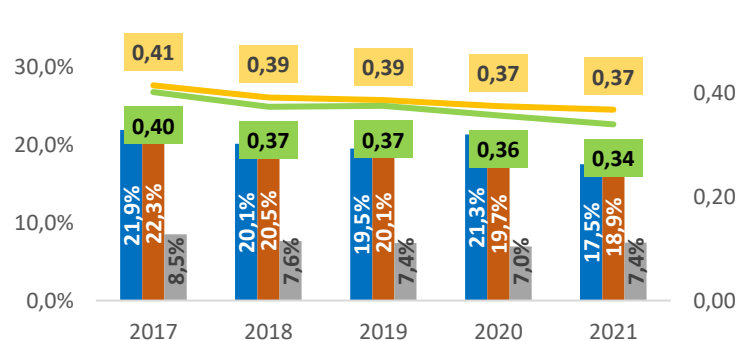
## The number of helpless families in Georgia

■ Registered helpless families      ■ Families receiving subsistence allowance



## Poverty and inequality indicators

■ Population under absolute poverty line (% LH)  
■ Population under 60% of the median consumption (% LH)  
■ Population under 40% of the median consumption (% LH)  
— The Gini coefficient (total income, RH)  
— The Gini coefficient (total consumption expenditure, RH)



**Average monthly income was increasing at a slower rate in Georgia, compared to the subsistence minimum in 2015-2022 years.** Average monthly income was increasing at a 4.5% seven-year CAGR and is expected to have reached GEL 1,405 by the end of 2022. The subsistence minimum was increasing at a 6.2% and is expected to reach GEL 411 for average household, over the same period.

**Inflation on goods of primary consumption is still high.**





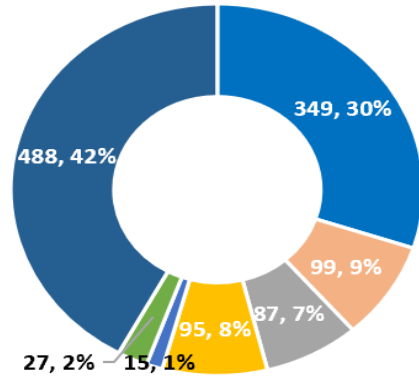
# Macro Overview - Poverty

## Household expenditures by different income groups and effect on inflation by different groups in 2021 in Georgia

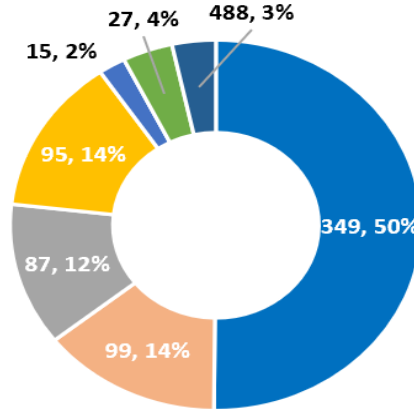
**Poor households are more vulnerable to Inflation** and more accurate household survey statistics needs to be carried out to estimate the negative effect from inflation.

Household with average exp of GEL 1160

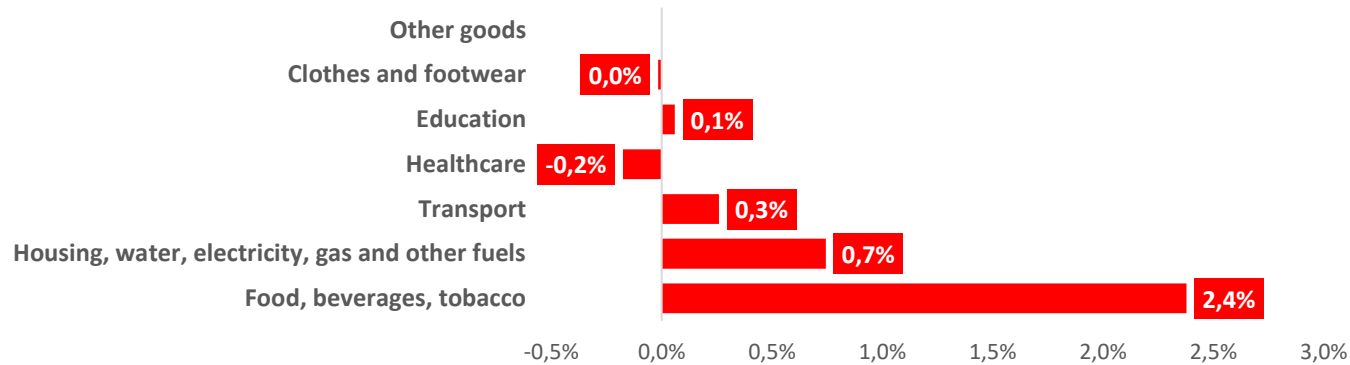
- Food, beverages, tobacco
- Housing, water, electricity, gas and other fuels
- Transport
- Healthcare
- Education
- Clothes and footwear
- Other goods



Households with average exp of GEL 696 (60% of the average cons)



■ difference in infl

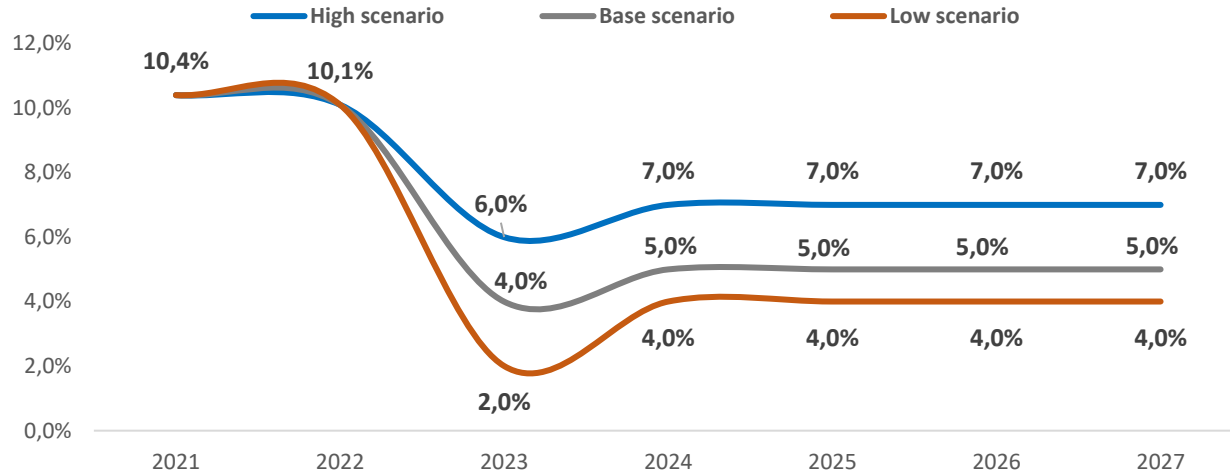






# Expected Development – Poverty Decreases

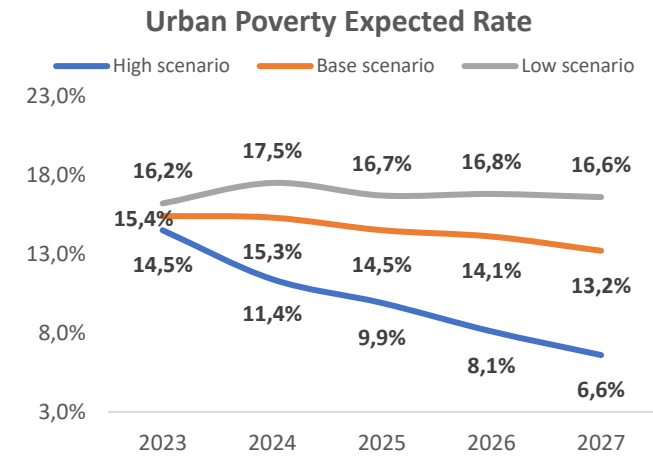
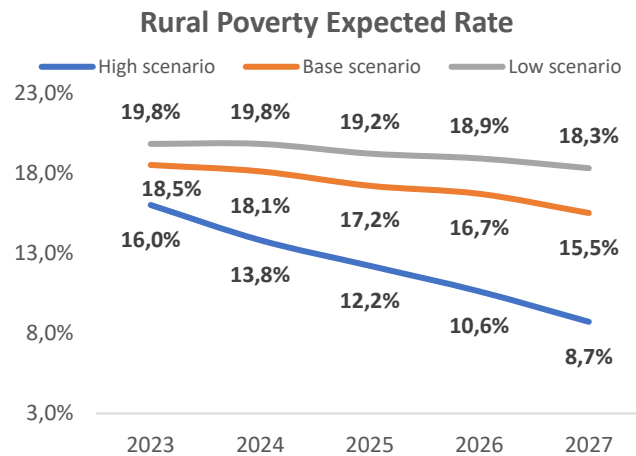
Real GDP growth scenarios (%)



Risks of lower growth could include lower FDI, dropped remittance inflows and exports, and contraction in tourism revenues.

Poverty is expected to decrease in Georgia, both in Urban and Rural areas by 3.3 p.p. and 1.2 p.p. respectively, in 2023-2027 years. Head count poverty rate was 17.5% in Georgia in 2021. According to the SAM 2021 and poverty model estimates, Under the base scenario, rural poverty rate declines to 15.5% in 2027 from 18.8% in 2022 and urban poverty rate declines to 13.2%, from 15.6%, over the same period.

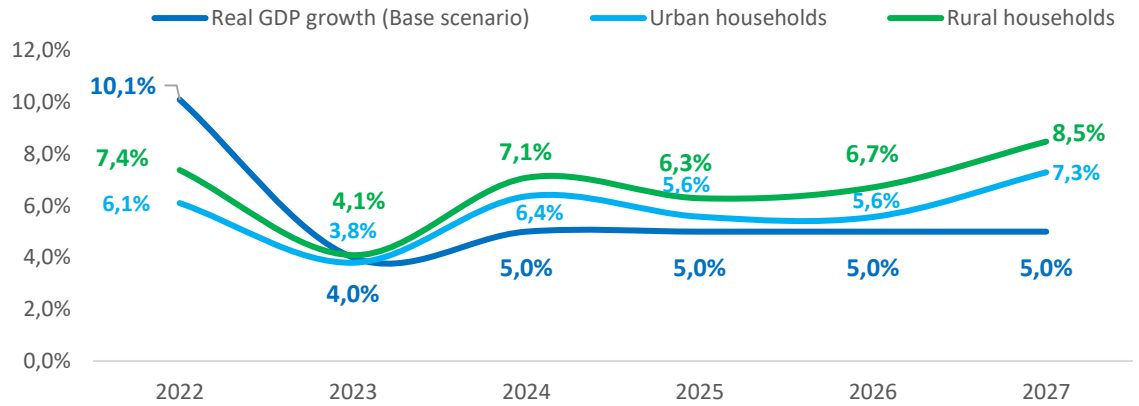
Simulated poverty rates (%)



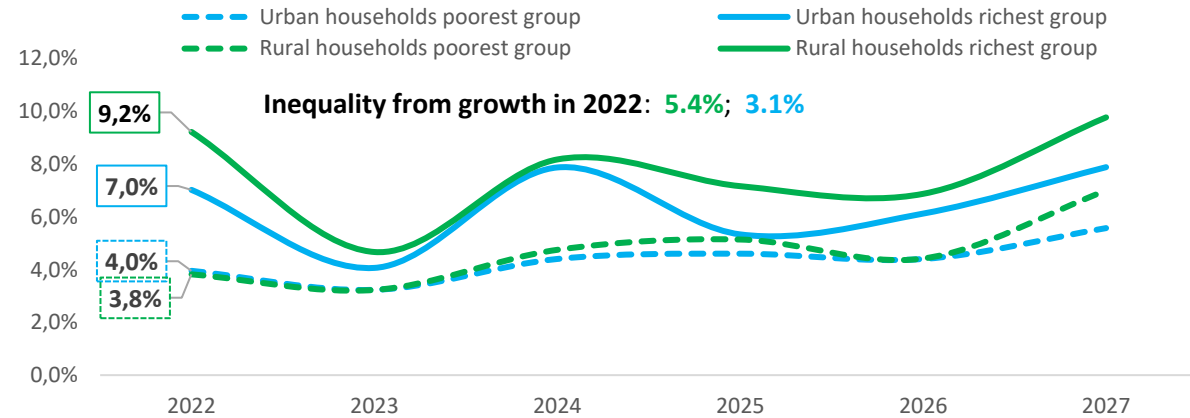


# Expected Development – Inequality could increase

Expected real GDP growth in Georgia (%)



Expected real GDP growth by different household groups (%)



**High Real GDP growth is translated into consumption growth of rural and urban households.** 10.1% real GDP growth in 2022 is expected to have translated into 7.4% consumption growth of rural and 6.1% consumption growth of urban households.

**Economic growth widens inequality of the poorest and richest groups of households in rural and urban areas,** but the inequality increase is smaller in urban areas.

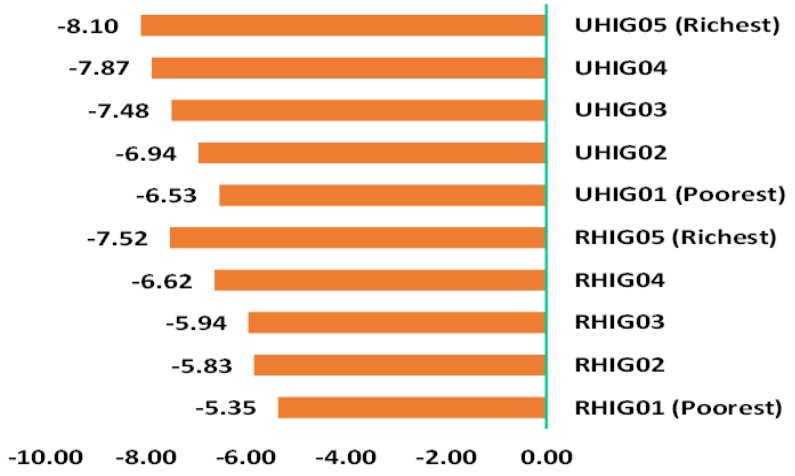
**The inequality from consumption growth of richest and poorest groups of rural and urban population is estimated at 5.4% and 3.1% in 2022,** driven from the 9.2% and 7.0% consumption growth of the richest groups in rural and urban areas, respectively and the lower 3.8% and 4.0% consumption growth of the poorest groups in rural and urban areas, respectively.





# Impact of higher prices – CGE model

Impact on household consumption by income groups (%)



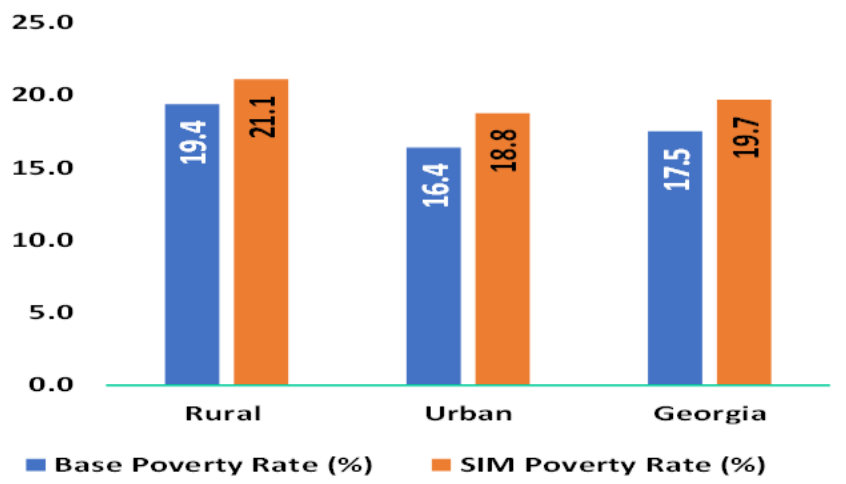
Price increase on commodities (%)

Commodities	Price Increase
Agriculture products	10.6%
Processed food products	10.6%
Energy (utilities)	7.6%
Petroleum	15.1%

A Static CGE model calibrated to SAM 2021 used to assess prices impacts. Impact patterns and sizes mostly reflect impact channels and economic structure.

Incomes of the urban HHs and richer HHs declined more through the more capital-intensive structure of income generation, compared to their counterparts, where labor factor dominates.

Simulated poverty with price increase (%)



Household groups and simulated poverty rates (%)

Household Groups	Base Poverty Rate (%)	Sim Poverty Rate (%)	Percentage point rise
Rural	19.4	21.1	1.7
RHIG01 (Poorest)	62.3	65.3	2.9
RHIG02	23.6	26.5	2.9
RHIG03	8.6	9.6	1.0
RHIG04	2.3	3.2	1.0
RHIG05 (Richest)	0.5	1.6	1.1
Urban	16.4	18.8	2.4
UHIG01 (Poorest)	53.7	58.1	4.4
UHIG02	19.5	23.8	4.3
UHIG03	6.8	9.9	3.1
UHIG04	2.5	2.8	0.3
UHIG05 (Richest)	0.16	0.19	0.0
Georgia	17.5	19.7	2.2

Poor groups are more vulnerable to price increase due to the lower "safety threshold".





**Thank you**

