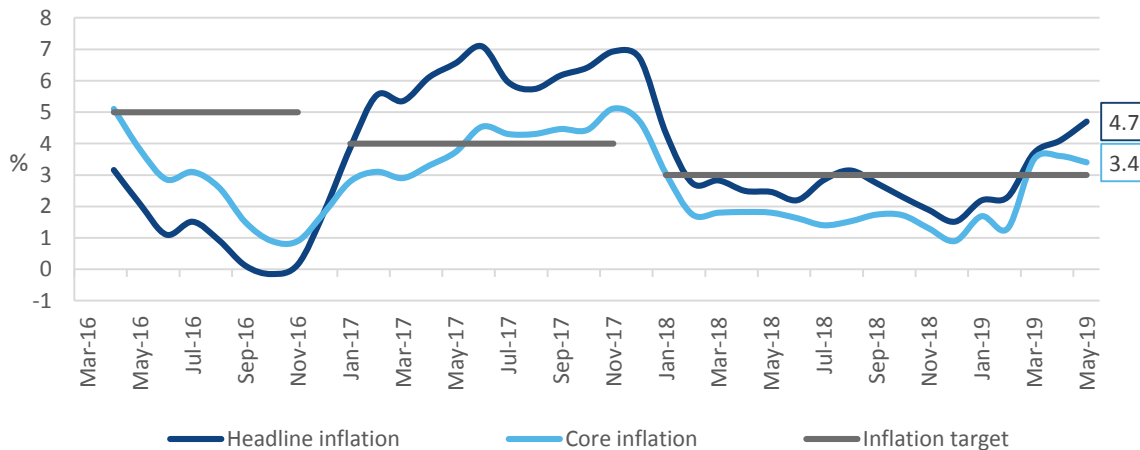
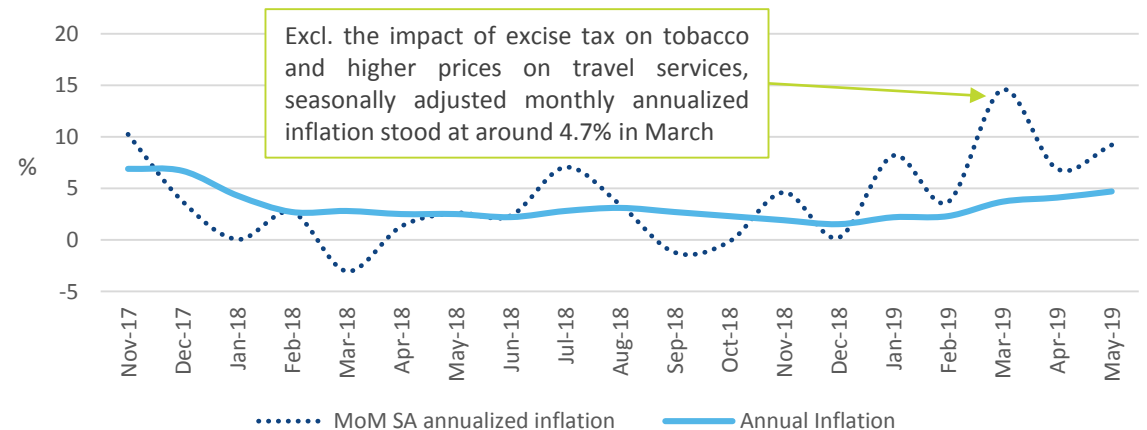


- ❑ The annual inflation edged up to 4.7% YoY in May 2019 compared to 4.1% in the previous month. A higher excise tax on tobacco explains around 1.4 percentage points out of the annual price increase excluding which inflation stood just above the central bank’s target. Over the same period, estimated core inflation* came in at 3.4%.
- ❑ In terms of products, higher prices on food and non-alcoholic beverages (+7.9% YoY), alcoholic beverages and tobacco (+21.1% YoY) and transport (+3.2% YoY) contributed most to the annual inflation. At the same time, prices went down on clothing and footwear (-7.0% YoY). A more moderate price decrease was observed in communication (-2.8% YoY).
- ❑ Seasonally adjusted annualized inflation, even ignoring the one-off effects of tobacco price, continues to creep upwards since the beginning of 2019, indicating that the inflation pressures are somewhat building up. An important driver can be the weaker GEL real effective exchange rate coupled with the strong GDP growth.
- ❑ Going forward, as exchange rate is expected to have a much less seasonal pattern, even after assuming appreciation in the baseline scenario, it will still remain weaker than a year ago for the next couple of months likely causing the higher inflation. The increase in cereal prices on the international markets would also add to the domestic price growth, while on the contrary, the recent drop in prices of oil and several other commodities coupled with the expected GEL appreciation should soften the inflationary pressures (see note on [exchange rate and FX interventions](#)).

Inflation target, headline and core* inflation



Annual and seasonally adjusted monthly annualized Inflation



Source: Geostat

*CPI inflation excluding the prices of food and beverages, energy, transport and administered prices

Source: Geostat, TBC Bank Economic Team estimates

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