CROSS-CUTTING SECTORS

(Period: January - June 2022)

The cross-cutting sector unites Information and Communications Technology (ICT), E-commerce and Transport and Logistics value chains.The pandemic and related-restrictions in 2020 and the economic rebound in 2021 had a different and less-straightforward impact on cross-cutting sectors compared to other sectors of the economy. ICT and e-commerce VCs got a slight boost from the pandemic-related restrictions and then continued to grow in 2021 despite loosening of restrictions. In the first half of 2022, almost all key indicators of the ICT and e-commerce value chain remained high or mostly even continued to grow faster, hinting at the permanent nature of the shift towards a digital economy. Meanwhile, the transports and logistics VC, experiencing a strong decline in 2020, saw a strong recovery during 2021 and boosted by the war in Ukraine maintained high growth in the first half of 2022 as well.

INFORMATION AND COMMUNICATIONS TECHNOLOGY (ICT)

In the first half of 2022, turnover of the ICT software showed record high YoY growth, 111.3% and 321.6%, respectively, in Q1 and Q2 of 2022. Meanwhile, turnover of ICT hardware also increased sharply in Q1 of 2022 (by YoY 138.9%) but decreased by YoY 65.6% in Q2 of 2022.

Chart 1: Turnover

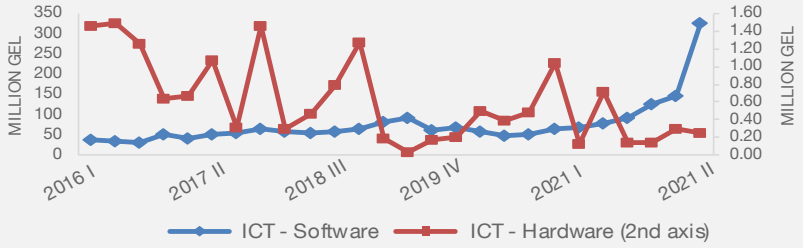
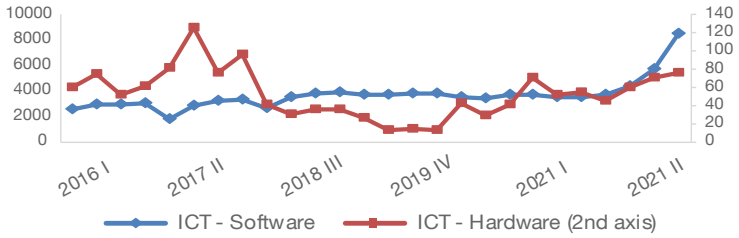


Chart 2: Employment

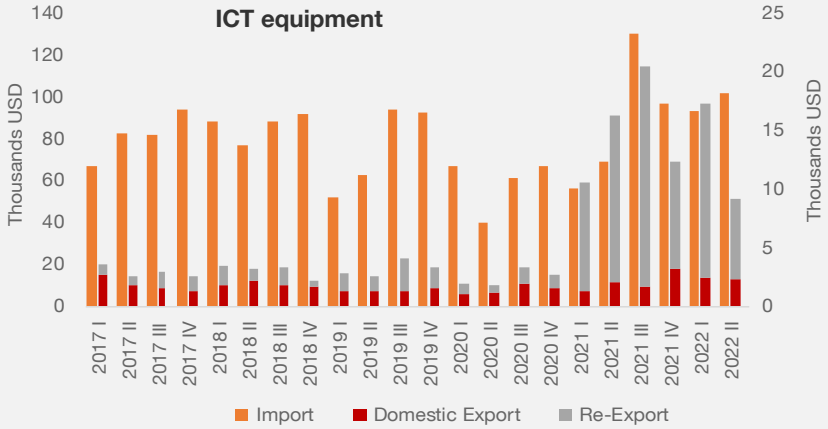


The ICT software VC employed 110 times more employees than the hardware VC, having employed 8,448 employees, compared to 76 in the hardware VC in Q2 of 2022. Employment in both VCs has increased in the first half of 2022 compared to the corresponding period of 2021.

The average monthly salary in ICT software has also picked at GEL 5,766 in Q2 of 2022, which is 9.0 times higher compared to the average monthly salary in ICT hardware (GEL 642.6). Moreover, GEL 5 766 is 3.7 higher compared to Georgia's average monthly salary (GEL 1 541) in Q2 of 2022. In Q1 of 2022, the average monthly salary in ICT software was considerably lower – GEL 3,014.

- In the first half of 2022, both imports and exports remained at high levels reached in 2021. Imports grew by 65.1% in Q1 of 2022 and by 47.5% in Q2 of 2022 compared to the corresponding periods of the previous year. Exports also increased by 62.9% in Q1 of 2022 so declined by 43.6% in the second quarter compared to 2021.
- Extraordinarily high increase in exports in 2021 was highly attributed to an abnormal increase in digital processing unit re-export from Georgia to Ukraine and Azerbaijan. Accordingly, slower growth of re-exports in Q2 2022 can be related to the war in Ukraine, as digital processing units might no longer be re-exported from Georgia to Ukraine.

Chart 3: Georgian Import and Export of ICT equipment



Challenges and Opportunities:

- The high outflow of employees from local market-oriented companies;
- The impact of the Ukraine war: increased demand from migrants for announced vacancies; a decrease in investment due to the political situation in the country and neighborhood;
- Establishment of Sectoral Skills Organization for ICT Sector;
- Financial Technology (Fintech) - the new opportunity for growth;

E-COMMERCE

Chart 4: Number of transactions

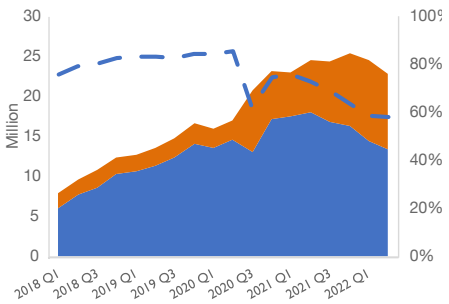
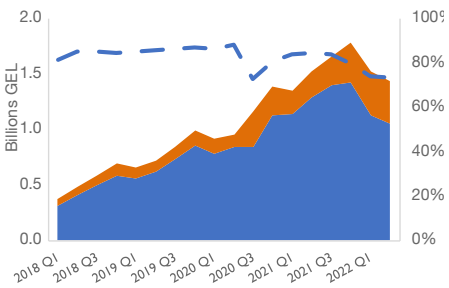


Chart 5: Total value of transactions



Gambling | E-commerce | % Gambling (2nd axis)

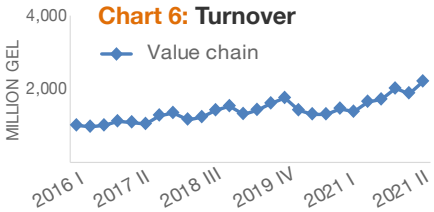
- In Q1 of 2022, the total number of e-commerce transactions increased by 6.5% and the total value by 12.1% compared to Q1 of 2021. In Q2 of 2022, the total number of e-commerce transactions decreased by 6.5%, and the total value decreased by 5.7% compared to Q1 of 2021.
- Following the new gambling restrictions approved by the Parliament of Georgia in December 2021, the share of gambling transactions in all online transactions decreased considerably in the first half of 2022.
- The share of transactions made via cards issued by foreign banks in online transactions made in Georgian e-commerce terminals has considerably increased in Q1 of 2022 and reached 9.7 which is related to the inflow of immigrants from Russia, Ukraine, and Belarus to Georgia after the beginning of the war in Ukraine. The share of foreign cards has decreased (compared to Q1 of 2022) to 4.0% in Q2 of 2022, which can be related to the economic sanctions imposed on Russia restricting the use of cards issued by Russian banks in Georgia.

Challenges and Opportunities:

- Information management (insufficient or outdated information uploaded on the ecommerce websites), inefficient user experience (UX) and logistical problems (high delivery time), coupled with failures in return policy, are leading to trust issues of customers, which later translates into fewer orders via Georgian e-commerce platforms;
- Concerns around the Law on the Protection of Consumer Rights Competition, specifically 14-day return policy being applied to all products, including hygienic, medicine, and technical equipment, among others;
- Trademark Project and E-Commerce Day- increasing the trust toward the E-Commerce Platforms;
- Establishment of E-Commerce Academy to provide skills demanded in the industry;

TRANSPORT AND LOGISTICS

Chart 6: Turnover

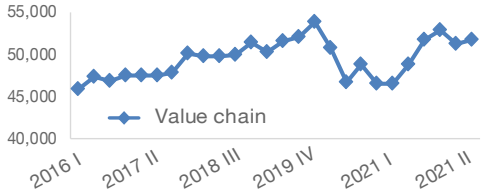


The VC's turnover grew by 36.9% in Q1 and 33.5% in Q2 of 2022 year-on-year. The high growth in 2022, no longer attributed to the low base effect, can be explained by Russia's war in Ukraine. As international transport routes through Ukraine and Russia have been disrupted, Georgia has become a popular alternative, and the demand for transportation and logistics services has been boosted. As a result, the turnover of the value chain picked to GEL 2.2 billion in Q2 2022.

Employment in the VC also increased in the first half of 2022, though the rate of growth was much lower compared to the growth of turnover. In Q1 of 2022, employment growth was 10.3%, and in Q2 of 2022, 5.8% compared to the corresponding quarters of 2021.

The average monthly salary for the transport and logistics VC increased by 11.3% in Q1 of 2022 and 10% by Q2 of 2022 year-on-year. The average monthly salary in the first half of 2022 was much higher than pre-pandemic salaries.

Chart 7: Employment



Challenges and Opportunities:

- Overload of Logistics - the immediate result of the war in Ukraine was overload in all directions of transportation as goods being transported to Ukraine were redirected to Georgia;
- The war in Ukraine also led to increased freight turnover translating into more income for companies;
- Increased transportation fees, mainly steaming from war-related spike in energy prices;
- Opportunity to continue turnover growth even after the end of the war in Ukraine, in case of introduction of efficient transport policy aimed at capturing new opportunities.

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