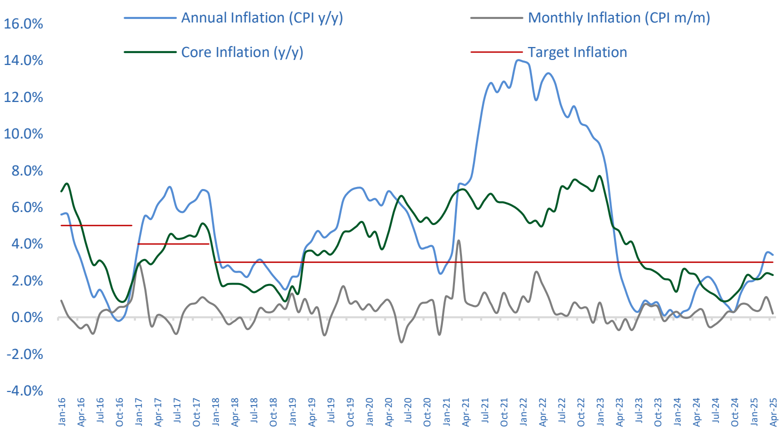
BasisBank Research

Economic Review

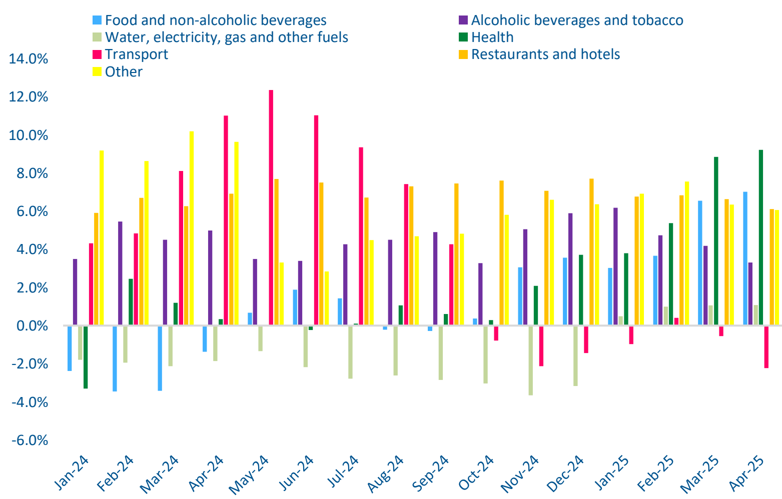
March 2025

May 14, 2025

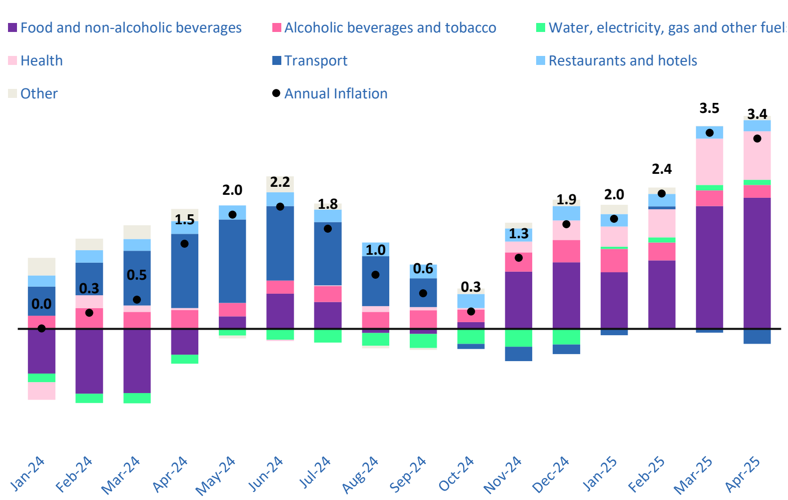
Inflation, Consumer Price Index



Inflation - Y/Y Changes of Groups (%)



Groups Shares in Annual Inflation



Global Economic Outlook

The global economy is facing renewed challenges, largely driven by shifts in the U.S. tariff policy, which have already significantly impacted global economic relations and have intensified trade policy uncertainty. Moreover, the U.S. fiscal risks like a high debt-to-GDP ratio relative to a sustainable level increases the riskiness of U.S. Treasury securities. These increased risk factors accelerate economic fragmentation, posing a threat of a global economic slowdown. Furthermore, tariff-driven policies disrupt supply chains and heighten the risk of stronger inflationary pressures.

Considering these shifts, expectations for the federal funds rate in the U.S. markets have undergone significant changes and have been revised downward since the beginning of the year, primarily reflecting weaker growth prospects, even when inflation remains above the Fed's target. Tariffs initially act as a supply-side shock, driving up prices, while broader uncertainty dampens demand, exerting a disinflationary effect. Beyond trade policy, restrictive immigration policies and an expansionary fiscal stance in the U.S. add to inflationary pressures. The resulting uncertainty has also been reflected in the volatility of international financial markets, particularly in the U.S. increased uncertainty has led to a weaker DXY globally, while the U.S. 10-year Treasury yields spiked. These risks pose uncertainties for Fed's monetary policy trajectory and are likely to place upward pressure on the neutral rate in the medium term.

The Federal Reserve (Fed) kept its benchmark interest rate unchanged in May 2025, holding the line at 4.25% to 4.5%.

The International Monetary Fund (IMF) revised its forecast of the growth of the global economy for 2025 and decreased it by 0.5 pp to 2.8%. Meanwhile, the 2026 forecast has been lowered by 0.3 pp to 3%. The IMF now projects the global inflation to decline at a slower pace than anticipated earlier in the year, reaching 4.3% in 2025 and 3.6% in 2026.

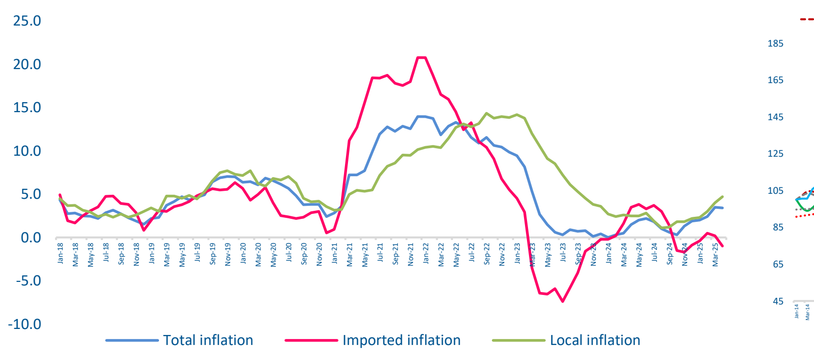
Inflation

Against the backdrop of global economic uncertainty, there are risks affecting inflation in both directions. Recent global developments highlight signs of economic fragmentation, which amplify stagflationary risks. This, in turn, creates risks for increased imported inflation in Georgia. On the other hand, the global weakening of the U.S. dollar index (DXY) has led to an improvement in the lari's position relative to the U.S. dollar. This reduces the debt burden of dollar-denominated loans and, consequently, alleviates inflationary pressures through this channel. Meanwhile, in the context of declining global demand and expectations of increased oil supply, international oil prices are falling. This, along with the lari's stable position against the U.S. dollar, has a disinflationary effect.

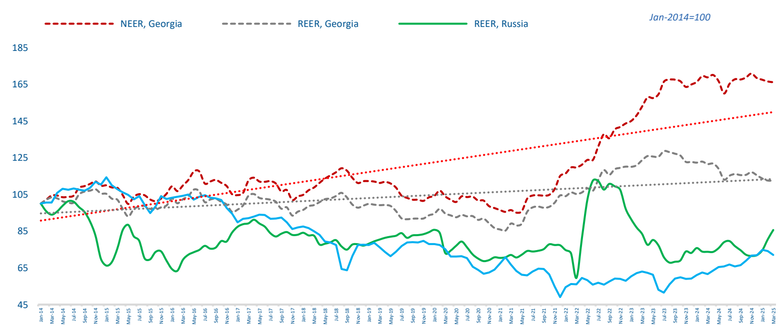
Inflation remains close to the target level of 3% in Georgia. NBG's prudent approach to monetary policy (gradual exit from tight monetary policy since May 2023) has helped to maintain low and stable inflation. The annual inflation amounted to 3.4% in April 2025. Core inflation (excluding food and energy prices) amounted to 2.3% y/y. In April, domestic inflation amounted to 4.7% y/y. Service inflation, which is the main component of domestic inflation, was at 2.4% y/y. Meanwhile, imported inflation remains low, amounting to -1% y/y.

However, the currently elevated level of economic growth bears inflationary risks, which are compounded by various supply-side factors and heightened uncertainty at the domestic, regional and global levels.

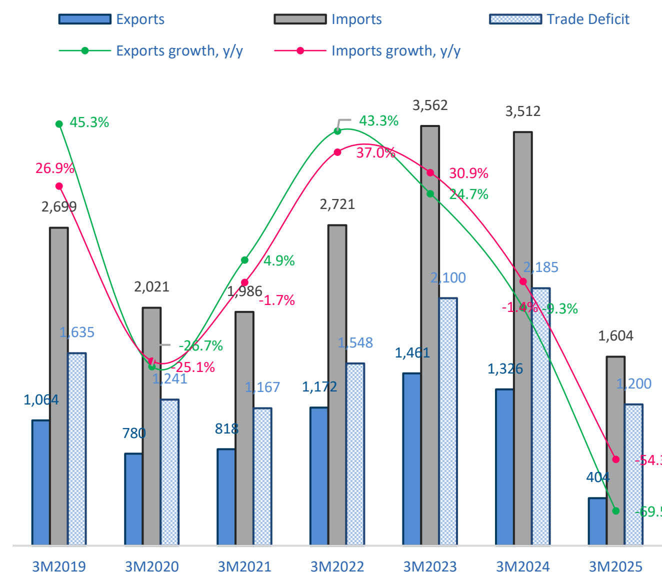
Total, Imported and Local Inflation



Effective Exchange Rate



International Trade, US$ Mln



Considering these factors, the NBG remains prudent to maintain a gradual pace of monetary policy normalization. Currently, the NBG keeps the refinancing rate at 8%.

This year, inflation dynamics are driven by the increasing international food prices, which, for now, are partially mitigated by the relatively stable exchange rate of the lari against U.S. dollar driven by the global depreciation of the U.S. dollar. In addition to international factors, the increase in food inflation has been partly attributed to the one-off rise in bread prices in the local market starting from March 2025. However, improved production capacity partially offsets the price pressures stemming from strong aggregate demand. At the same time, long-term inflation expectations remain stable.

Lari liquidity deficit in the sector in turn creates pressure on the GEL interest rates. This is evidenced by the fact that despite keeping the refinancing rate at 8% for a while, the 3M-TIBR remains within 8.3-8.4%.

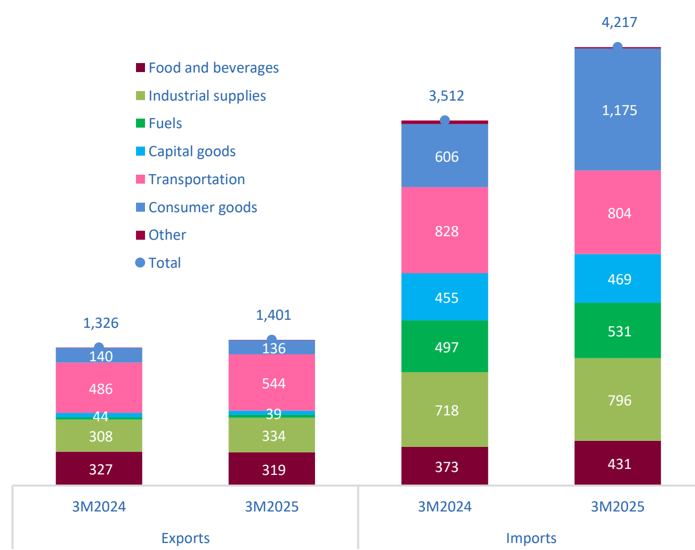
On the other hand, the lari liquidity deficit somewhat neutralizes the pressure on the GEL/USD exchange rate. As of May 5, 2025, lari appreciated by 2.1% YTD against the USD.

Economic Growth

In Georgia, political and social polarization sharply increased after parliamentary elections in October 2024. However, despite political tensions, economic growth remains robust. Strong services sector performance (notably tourism and information and communications technology), construction as well as strong exports were key drivers of solid economic growth for Georgia. Strong credit expansion and economic activity have exceeded expectations, leading to 9.5% economic growth in 2024. Georgia proved its resilience to multiple shocks.

In Q1 2025, economic activity in Georgia remains robust with maintained price stability. In the first quarter of 2025, real GDP growth averaged 9.3% y/y. This is largely driven by structural changes in the economy, as reflected in the sustained strong contribution of productive sectors to GDP growth. At the same time, strong domestic demand also plays a key role in supporting high economic growth. This leaves demand-side price pressure as a noteworthy factor to consider.

Exports/Imports (Broad Economic Categories), US$ Mln



Top countries and Top commodities in Export and Import, 3M 2025, US$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
Total Exports	**1,401**		-9.3%	**Total Exports**	**1,401**		-9.3%
Kyrgyzstan	299	21.3%	26.6%	Cars	501	35.7%	12.8%
Kazakhstan	176	12.6%	19.8%	Spirituous beverages	55	3.9%	-3.6%
Azerbaijan	140	10.0%	4.3%	Precious metals	53	3.8%	33.9%
Russia	130	9.3%	-19.2%	Wine	50	3.6%	-40.4%
Armenia	114	8.1%	-10.2%	Mineral waters	43	3.1%	17.4%
Turkey	76	5.4%	-21.8%	Ferro-alloys	39	2.8%	-46.1%
China	54	3.8%	-16.2%	Fertilizers	36	2.6%	7.4%
Bulgaria	46	3.3%	203.4%	Waters, mineral and aerat	31	2.2%	29.6%
Uzbekistan	34	2.4%	21.9%	Nuts	30	2.1%	45.1%
Switzerland	27	1.9%	15.7%	Gold	28	2.0%	29.3%
Ukraine	25	1.8%	-8.7%	Petroleum and petroleum	26	1.9%	43.4%
Other	281	20.1%	127.8%	Other	510	36.4%	8.6%

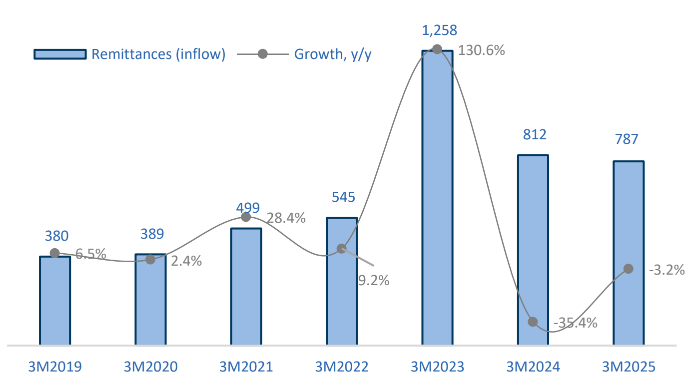
Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
Total Imports	**4,217**		-1.4%	**Total Imports**	**4,217**		-1.4%
United States	654	15.5%	66.9%	Cars	622	14.8%	0.3%
Turkey	587	13.9%	-6.3%	Paintings, drawings and pa	481	11.4%	348613.7%
Russia	513	12.2%	11.8%	Oils	301	7.1%	4.0%
China	390	9.2%	46.1%	Gases	191	4.5%	3.8%
United Kingdom	292	6.9%	733.9%	Medicaments	164	3.9%	6.9%
Germany	239	5.7%	-1.2%	Telephones	64	1.5%	-18.9%
Azerbaijan	165	3.9%	0.1%	Motor vehicles	46	1.1%	-6.4%
Italy	87	2.1%	-8.0%	Other bars and rods of iror	38	0.9%	-7.1%
Japan	79	1.9%	5.5%	Original sculptures and sta	33	0.8%	58336.6%
Bulgaria	79	1.9%	39.7%	Tobacco	32	0.8%	38.8%
Netherlands	73	1.7%	17.2%	Computers	30	0.7%	-21.4%
Other	1,059	25.1%	0.0%	Other	2,214	52.5%	8.3%

Exchange Rate

In April 2025, lari nominal effective exchange rate depreciated annually by 2.3%, while it depreciated by 1.4% in YTD terms. Depreciation of the nominal effective exchange rate improves a country's competitiveness in the international markets but at the same time increases imported inflation. As of May 5, 2025, lari depreciated against Euro by 6.3%, Russian Ruble by 30.5%, and GBP by 3.3% y/y. In the same period, lari appreciated against Turkish lira by 10.3% y/y, Ukrainian hryvnia by 1.4% y/y, the USD by 2.1% y/y, Chinese Yuan by 1.7%, Azerbaijanian Manat by 2.1% y/y, Armenian Dram by 0.5% y/y. As for the real effective exchange rate, in March 2025, it depreciated by 7.4% y/y, while it depreciated by 2.5% in YTD terms.

As of March 2025, the foreign currency reserves stand at $3.13 billion (decreased by $263.2 million YTD, while $116.1 million invested in gold YTD). Meanwhile, interventions by NBG have not been carried out yet.

Remittance Statistics, US$ Mln



International Trade

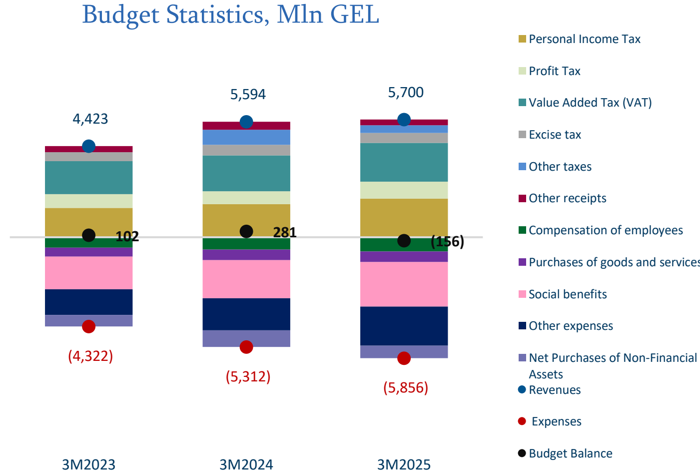
In Q1 2025, the external trade turnover of Georgia amounted to $5.62 billion, which is 16.1% more compared to the same period of 2024. The exports amounted to $1.4 billion (+5.7% y/y), while the imports stood at $4.2 billion (+20.1% y/y). The negative trade balance expanded by 28.9% y/y and amounted to $2.8 billion.

The top partners by exports were Kyrgyzstan ($298.6 million, +26.6% y/y), Kazakhstan ($176.2 million, +19.8% y/y) and Azerbaijan ($140.3 million, +4.3% y/y).

The top partners by imports were USA ($654.4 million, +66.9% y/y), Turkey ($587.3 million, -6.3% y/y) and Russia ($512.9 million, +11.8% y/y).

The exports in the EU increased by 41.8% y/y in Q1 2025, while the share of the EU in the total exports amounted to 13.5%. Imports from the EU increased by 2.1% y/y and the share amounted to 22.8%.

Budget Statistics, Mln GEL



As for the CIS countries, the exports increased by 7.1% y/y and the share amounted to 67.2% of the total exports. Imports from the CIS countries increased by 9% y/y and the share amounted to 20.4%.

In Q1 2025, the Georgian trade was mostly dependent on the market of the Organization of Economic Cooperation and Development countries (OECD) with 49.4% share in total trade turnover, followed by the market of the Black Sea Economic Cooperation organization countries (BSEC) with 37.3% share in total trade turnover.

In the reported period, top import commodities were cars (+0.3% y/y, 14.8% share), paintings (+348.6 thousand % y/y, 11.4% share of the total imports), petroleum and petroleum oils (+4% y/y, 7.1% share). Furthermore, in January-March 2025, motor cars reclaimed the first place in the list of top export items (+12.8% y/y, 35.7% share) followed by spirituous beverages (-3.6% y/y, 3.9% share) and precious metals (+33.9 y/y, 3.8% share).

Remittances

In Q1 2025, the total amount of money transfers amounted to $786.6 million which is a 3.2% decrease compared to the same period of the previous year.

The largest share of remittances came from the USA (19% share, +19.6% y/y), Italy (17.9% share, +3.6% y/y) and the Russian Federation (11.9% share, -46.8% y/y).

Remittance share from Russia has stabilized in 2024, amounting 13% in March 2025 (in May 2022 it was at its peak, at 62.1%).

State Budget

In Q1 2025, the state budget revenues increased by 1.9% y/y to 5.7 bln GEL, while the total expenses increased by 10.2% y/y to 5.9 bln GEL.

In the same period the revenues from value added tax increased by 7.6% y/y to 32.9% of budget revenues, while revenues from excise tax decreased by 4.8% y/y and amounted to 8.6% share in revenue. As for the income tax, it increased by 16.7% y/y to 32.9% of the total revenues. Meanwhile, revenues from profit tax increased by 32.2% y/y and amounted to 14.4% of the total revenues. On the spending side, social benefits increased by 16.6% y/y to 36.8% of the total budget expenses in Q1 2025, while compensation of employees increased by 16.2% y/y to 11.7% of the total expenses and purchases of goods and services increased by 0.7% y/y to 8.9% of the total expenses.

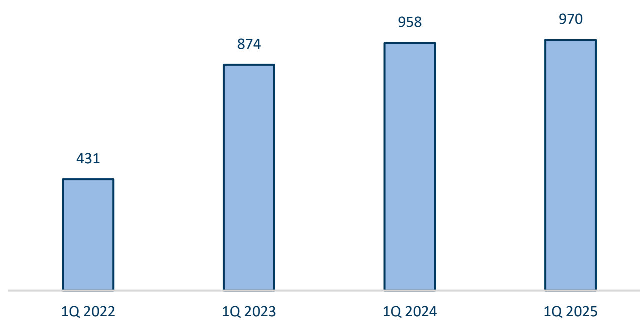
As a result, a budget deficit amounted to 156 million GEL in Q1 2025 which is a 155.4% decrease as in Q1 2024 there was a budget proficit of 281 million GEL.

Tourism

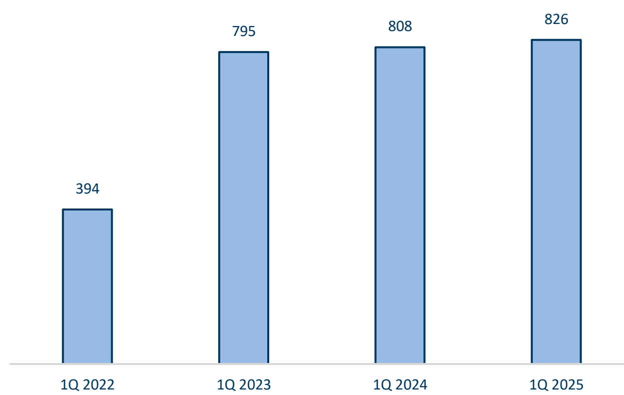
In Q1 2025, tourism revenues amounted to $826 million, which is a 2.3% annual increase, and a 42.8% increase compared to the pre-pandemic 2019 level. As for the international visits, in Q1 2025, the number amounted to 970 thousand which is 1.3% more compared to last year and a 93.1% recovery compared to Q1 2019.

Most of the tourism income came to Georgia from Russia ($141.8 million, 17.2% share). However, tourism income from Russia decreased by 17.2% compared to the first quarter of 2024 and decreased significantly – by 46.8% compared to the first quarter of 2023. Other countries from where significant amount of tourism income came to Georgia were Israel ($114.2 million, 13.8% share), Turkey ($107.1 million, 13% share) and the EU ($103.2 million, 12.5% share). Tourism income is significantly increased from Israel, reaching 73.7% increase y/y, and 87.8% increase compared to the 2023 level.

International Visitor Trips, Thousand



Tourism Revenues, US$ Million



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