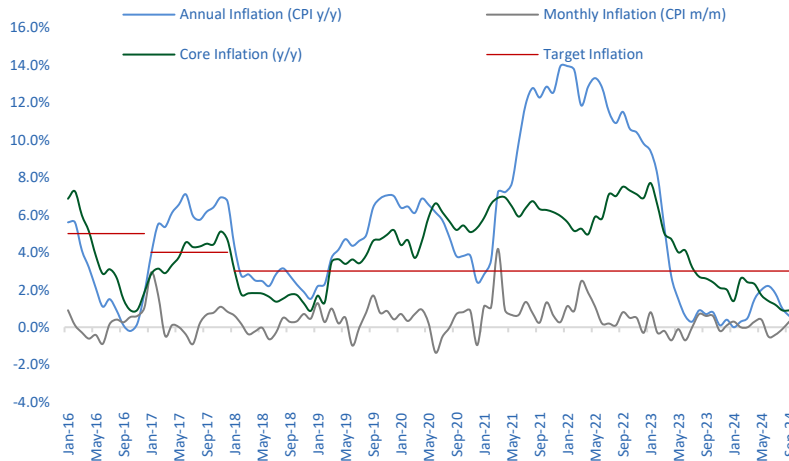


BasisBank Research

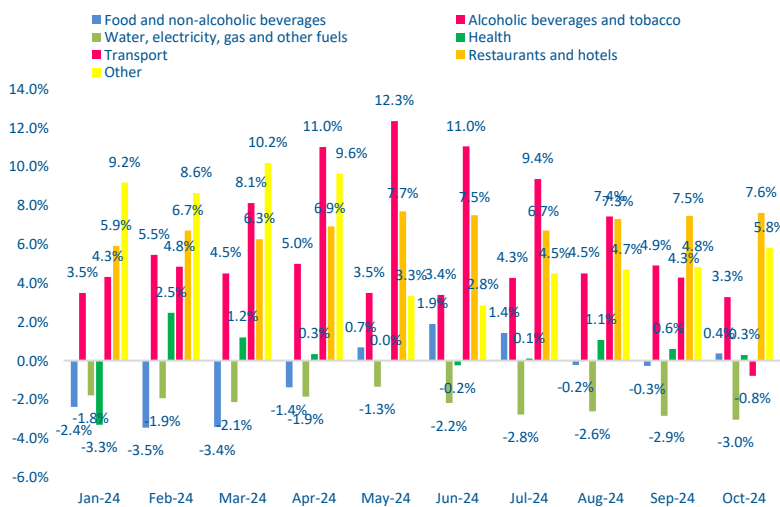
Economic Review

September 2024

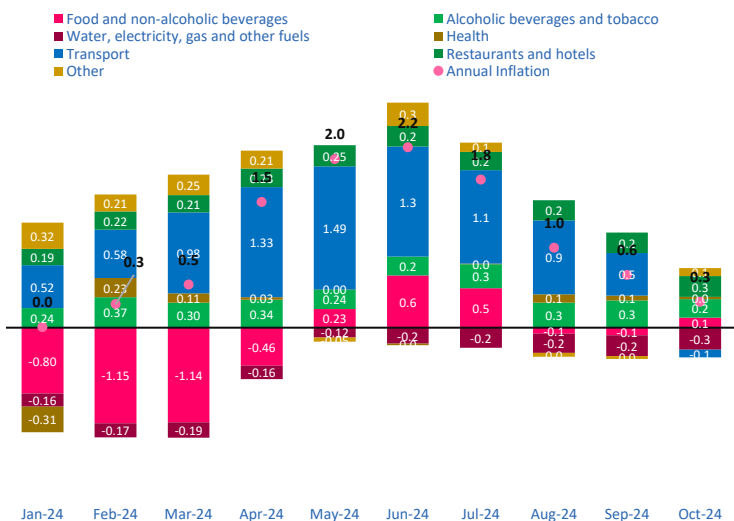
Inflation, Consumer Price Index



Inflation - Y/Y Changes of Groups (%)



Groups Shares in Annual Inflation



Inflation

Georgia continues to maintain a low-inflation environment. Since the start of 2023, inflation has consistently remained below the 3 percent target rate. In October 2024, annual inflation decreased again compared to the previous months and amounted to 0.3%. However, compared to September, the overall level of prices increased by 0.3%.

The price stability is largely attributed to the NBG's effective monetary policy, which involved timely tightening followed by gradual normalization, stabilizing long-term inflation expectations. Domestic inflation, which reflects these expectations most accurately, is currently below the 3% target (the inflation of locally produced goods and services was 1.8% in October). Additionally, increased competition in the economy has reduced firms' profit margins, further supporting low inflation. Together, these factors have helped neutralize inflationary pressures from strong demand.

Moreover, the reduction of the total inflation was additionally supported by the reduction of the import inflation (in October it amounted to -1.5%, so there was a deflation). The recent decline in imported inflation is mainly a reflection of the gradual decrease of fuel prices.

According to the NBG's baseline forecast, average inflation will be 1.2% in 2024 and 2.9% in 2025.

Despite these positive developments, heightened uncertainty—both domestically and globally—continues to pose risks. Against the backdrop of ongoing hostilities in Ukraine and elevated geopolitical tensions in the Middle East, there may be, among other effects, a rise in regional risk premium, creating price pressures through various channels. Additionally, volatility in international oil and food prices has increased, while developments in the Red Sea region may raise shipping costs, further elevating risks to overall inflation through higher costs for imported goods. Beyond external factors, domestic economic activity is stronger than expected, which could also exert upward pressure on prices in the future.

On October 23, 2024, the NBG decided to keep the monetary policy rate at 8% in Georgia. If inflationary risks do not materialize and the severity of inflationary pressures diminishes, the NBG will continue to vigilantly reduce the policy rate to its neutral level. Conversely, if inflationary pressures resurface, tightening the policy stance or maintaining the current rate for a longer period may be necessary.

Economic Growth

The estimated real Gross Domestic Product (GDP) growth rate amounted to 8.3% for September 2024 compared to previous year.

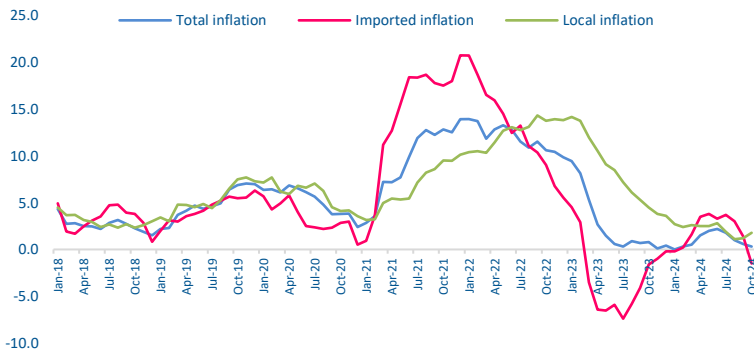
As for the economic growth, in January-September 2024 it amounted to 9.8%. According to the updated forecast of the NBG, the Georgian economy is anticipated to grow by 8.5% in 2024, largely due to an increase of its potential.

Meanwhile, the World Bank forecasts GDP growth for Georgia at 7.5% in 2024, the same level as it was in 2023, while it expects 5.2% in 2025 and 5% in 2026.

Exchange Rate

In September 2024, lari nominal effective exchange rate remained unchanged annually and appreciated by 1.7% in YTD terms. Appreciation of the nominal effective exchange rate worsens a country's competitiveness on the international markets but at the same time reduces imported inflation.

Total, Imported and Local Inflation



However, in the same period, the real effective exchange rate depreciated by 9.2% y/y and depreciated by 5.8% in YTD terms. In January-October 2024, lari depreciated against the USD by 2.1%, Azerbaijanian Manat by 2.3%, Armenian Dram by 6.7%, GBP by 4.1% and Chinese Yuan by 2%. In the same period, lari appreciated against Turkish lira by 12% and Ukrainian hryvnia by 5.9% and Russian Ruble by 5.4%. Compared to Euro, lari exchange rate is almost unchanged through the same period.

At the end of September 2024, international reserves amounted to \$3.64 billion which was a decrease of \$918.43 million YTD as the NBG was investing in the gold reserves (as of September 2024, the NBG purchased gold of \$603.52 million). Net sales by the NBG amounted to \$875.4 million (the NBG sold \$382.1 million through FX auctions), while net purchases amounted to \$278.4 million.

International Trade

As for international trade, in the first nine months of 2024, the external trade turnover of Georgia amounted to \$16.78 billion, which is 3.7% less compared to the same period of 2023. The exports amounted to \$4.79 billion (+4.1% y/y), while the imports stood at \$11.99 billion (+3.6% y/y). The negative trade balance expanded by 3.3% y/y and amounted to \$7.2 billion.

The top partners by exports were Kyrgyzstan (\$907.9 million, +83.6% y/y), Kazakhstan (\$634.9 million, +26.1% y/y) and Azerbaijan (\$544.3 million, -14% y/y).

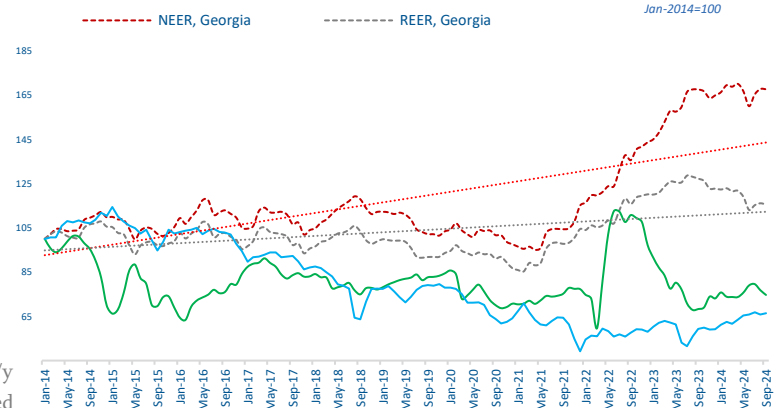
The top partners by imports were Turkey (\$1.99 billion, -4.8% y/y), the USA (\$1.38 billion, -20.3% y/y) and Russia (\$1.31 billion, -10.8% y/y).

The exports in the EU decreased by 32.2% y/y in January-September 2024, while the share of the EU in the total exports amounted to 8.2%. Imports from the EU increased by 15.8% y/y and the share amounted to 26.6%. As for the CIS countries, the exports increased by 11.8% y/y and the share amounted to 69.4% of the total exports. Imports from the CIS countries decreased by 5.7% y/y and the share amounted to 19.7%.

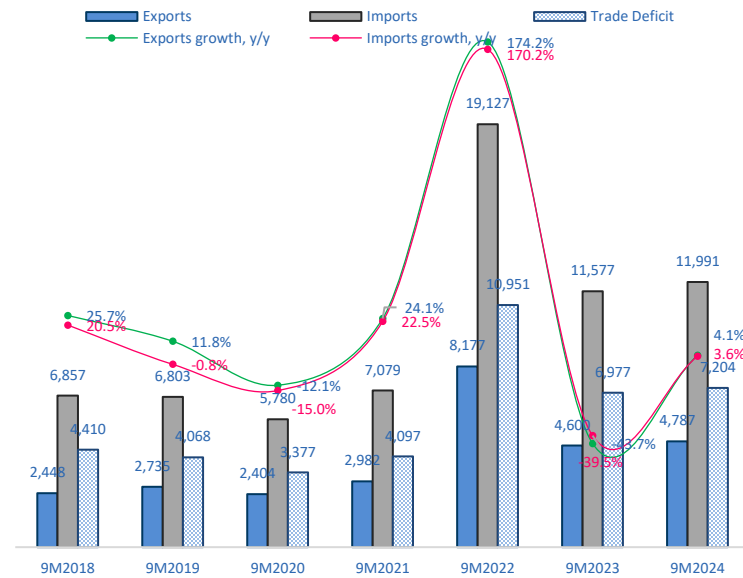
In 9M 2024, the Georgian trade was mostly dependent on the market of the Organization of Economic Cooperation and Development countries (OECD) with 45.2% share in total trade turnover, followed by the market of the Black Sea Economic Cooperation organization countries (BSEC) with 41.1% share in total trade turnover.

In the reported period, top import commodities were cars (-8.3% y/y, 19.5% share of the total imports), petroleum and petroleum oils (+20.3% y/y, 8.2% share) and medicaments (+17.8% y/y, 3.9% share).

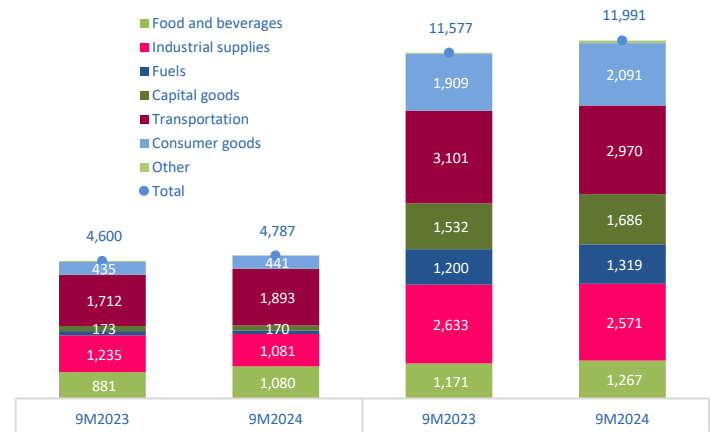
Effective Exchange Rate



International Trade, US\$ Mln



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



Top countries and Top commodities in Export and Import, 9M 2024, US\$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
Total Exports	4,787		-43.7%	Total Exports	2,845		-43.7%
Kyrgyzstan	908	19.0%	83.6%	Cars	934	32.8%	-5.7%
Kazakhstan	635	13.3%	26.1%	Wine	157	5.5%	24.2%
Azerbaijan	544	11.4%	-14.0%	Ferro-alloys	143	5.0%	30.4%
Russia	523	10.9%	2.2%	Spirituous beverages	132	4.7%	58.8%
Armenia	462	9.7%	-23.2%	Precious metals	102	3.6%	239.1%
Turkey	347	7.2%	6.2%	Mineral waters	81	2.8%	23.4%
China	234	4.9%	-12.7%	Fertilizers	61	2.1%	-38.2%
Uzbekistan	99	2.1%	27.1%	Waters, mineral and aerat	58	2.0%	-0.6%
United States	96	2.0%	32.0%	Medicaments	54	1.9%	9.5%
Switzerland	82	1.7%	19.8%	Gold	50	1.8%	10.4%
Ukraine	79	1.7%	7.5%	T-shirts	49	1.7%	27.7%
Other	779	16.3%	-68.8%	Other	1,026	36.0%	-23.1%

Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
Total Imports	11,991		-39.5%	Total Imports	7,726		-39.5%
Turkey	1,987	16.6%	-4.8%	Cars	1,496	19.4%	-3.6%
United States	1,377	11.5%	-20.3%	Oils	632	8.2%	27.3%
Russia	1,313	11.0%	-10.8%	Medicaments	319	4.1%	20.5%
China	1,194	10.0%	9.0%	Gases	227	2.9%	-17.8%
Germany	902	7.5%	12.4%	Computers	162	2.1%	85.0%
Azerbaijan	413	3.4%	-20.4%	Telephones	146	1.9%	-19.7%
Japan	390	3.3%	-24.0%	Motor vehicles	101	1.3%	36.5%
Italy	304	2.5%	-1.4%	Other bars and rods of iron	76	1.0%	36.6%
France	227	1.9%	-0.4%	Tobacco	73	0.9%	-0.4%
United Arab Emirates	225	1.9%	-27.5%	Steel parts	65	0.8%	7.2%
Poland	220	1.8%	1.7%	Self-propelled bulldozers, etc	54	0.7%	-3.9%
Other	3,439	28.7%	0.0%	Other	4,375	56.6%	2.1%

Furthermore, in January-September 2024, motor cars reclaimed the first place in the list of top export items (+12.5% y/y, 36.8% share) followed by ferro-alloys (+62.1% y/y, 4.7% share) and wine (+10.9% y/y, 4.5% share).

Remittances

This year remittances showed a significant decrease as well. In January-September 2024, the total amount of money transfers amounted to \$2.53 billion which is 22.3% less compared to the same period of the previous year.

In January-September 2024, the largest share of remittances came from Russia (17.6% share, -66.2% y/y), Italy (16.8% share, +9.6% y/y) and the USA (16.5% share, +26.1% y/y).

State Budget

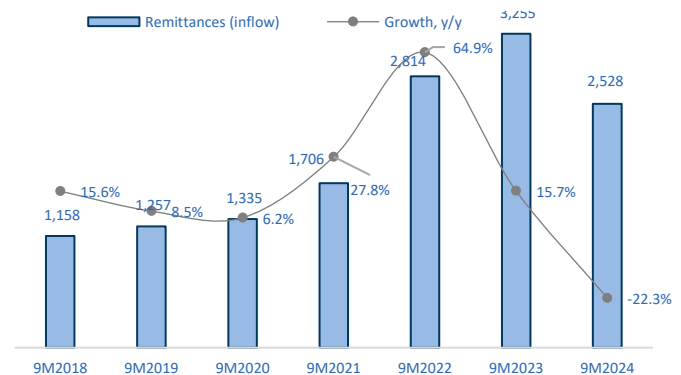
In January-September 2024, the state budget revenues increased by 18.1% y/y to 16.21 bln GEL, while the total expenses increased by 15.8% y/y to 16.95 bln GEL.

In the first nine months of 2024, the revenues from value added tax increased by 12.1% y/y to 34.5% of budget revenues, while revenues from excise and income taxes increased by 14.8% y/y to 11.3% of the total revenues and by 18.3% y/y to 30.5% of the total revenues, respectively. Meanwhile, revenues from profit tax increased by 57.3% y/y and amounted to 15.4% of the total revenues.

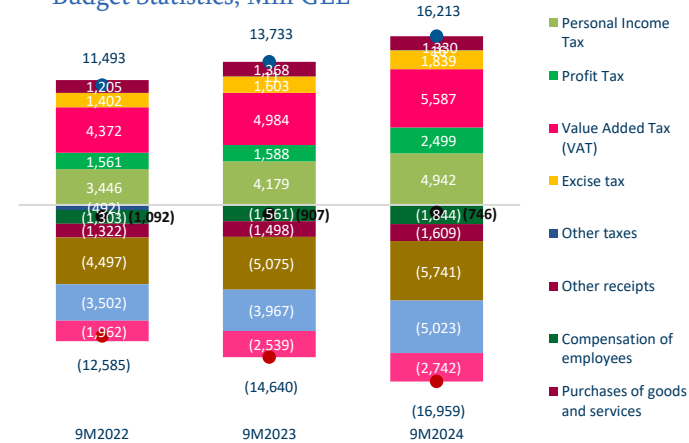
On the spending side, social benefits increased by 13.1% y/y to 33.8% of the total budget expenses in January-September 2024, while compensation of employees increased by 18.1% y/y to 10.9% of the total expenses and purchases of goods and services increased by 7.4% y/y to 9.5% of the total expenses.

As a result, a budget deficit amounted to 746 million GEL in January-September 2024 which is a 17.7% y/y decrease (-161 million GEL y/y; a budget deficit amounted to 907 million GEL in 9M 2023).

Remittance Statistics, US\$ Mln



Budget Statistics, Mln GEL



Tourism

The tourism income amounted to \$3.46 billion (+6% y/y, 134% recovery compared to the same period of 2019) in 9M 2024. Most of the income in this period came from Russia (19.5%), Turkey (13.8%) and Israel (9.3%).

In the first 9M of 2024, the number of international visitor trips amounted to 5.04 million (+4.5% y/y, 84.3% recovery of 2019 pre-pandemic level) out of which tourism type visits were 3.99 million (+9.2% y/y, 100.1% recovery of 2019).

The top countries from which most international visits were carried out to Georgia were Russia – 1.12 million (-2.5% y/y, 92.9% recovery), Turkey– 1.06 million (-2.3% y/y, 116.5% recovery) and Armenia – 0.75 million (+2% y/y, 75.6% recovery).

If we calculate costs on a visit, mostly the visitors from Israel spent the highest sums (\$1,521) on a visit in 9M 2024 followed by visitors from Saudi Arabia (\$1,500), Ukraine (\$1,139), Iran (\$1,074), Azerbaijan (\$792), Belarus (\$661), Russia (\$603) and Turkey (\$452).

FDI

Investments have contributed negatively to the economic growth in 6M 2024, as annually FDI decreased by 34.1%. Total amount of FDIs in this period amounted to \$768.6 million.

Reinvestment of earnings (67.7% of the total FDIs in 6M 2024) which is the difference between profit/loss and dividends decreased by 32.5% y/y and amounted to \$520.6 million. Meanwhile, there was also a decrease in equity (24.5% of total FDIs) by 55% y/y and it amounted to \$188.2 million.

Three top countries from where FDIs came in Georgia in 6M 2024 were the UK (22.2%), Japan (10.2%) and Turkey (8.1%).

Financial and insurance activities made the highest contribution (33.3%) to the total foreign direct investments, followed energy sector (14%) and trade (12.2%).

There was a significant decrease in the sectors of manufacturing (-68.9% y/y; -\$184.7 mln y/y), trade (-57.3% y/y; \$126.4 million), information and communication (-59.8% y/y; -\$41.5 million y/y).

Out of the total FDIs, the share of large companies was 60.5%, while the share of small companies was 27.4% followed by medium-size companies with the least share of 12.2%.

FDI over GDP amounted to 5.1% in 6M 2024 which is a 3.2 pp decrease compared to the same period of 2024.

Current Account

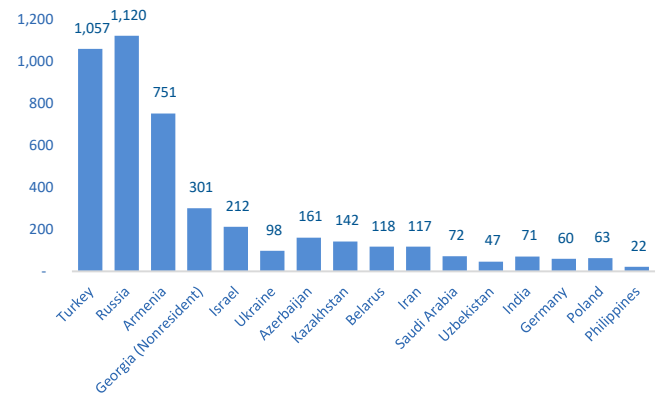
In 6M 2024, the current account deficit decreased by 13.64% and amounted to \$912.48 million.

The trade of goods and income account made negative contribution to current account, while services account and current transfers - positive. Balance of goods was the major contributor to the current account.

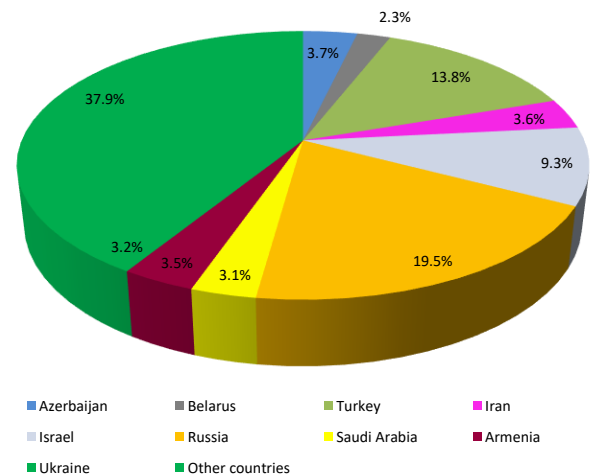
Trade of goods deficit increased by 16.98% y/y and amounted to \$3.33 billion in H1 2024.

A current account deficit to GDP ratio changed from -7.49% in 6M 2023 to -6.02% in 6M 2024.

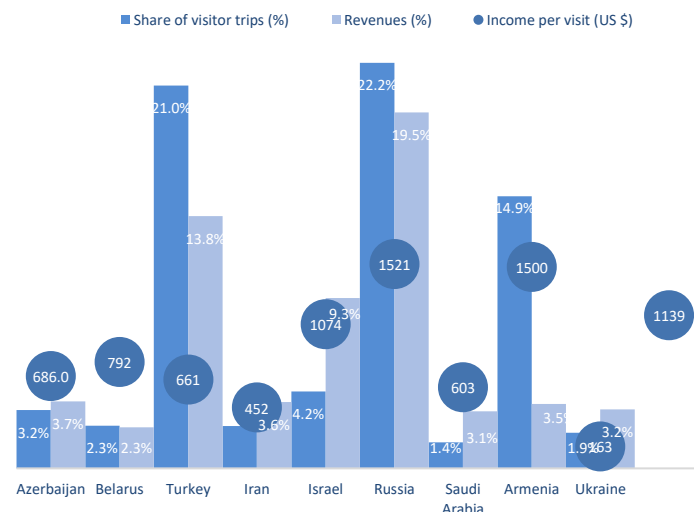
Int'l visits by top visitor countries ('000), 9M 2024



Country shares by tourism income (%), 9M 2024



Tourism Statistics, 9M 2024





BASISBANK
Hualing Group Member

1, Ketevan Tsamebuli Ave., Tbilisi, Georgia

Tel.: +995 322 922 922

www.basisbank.ge