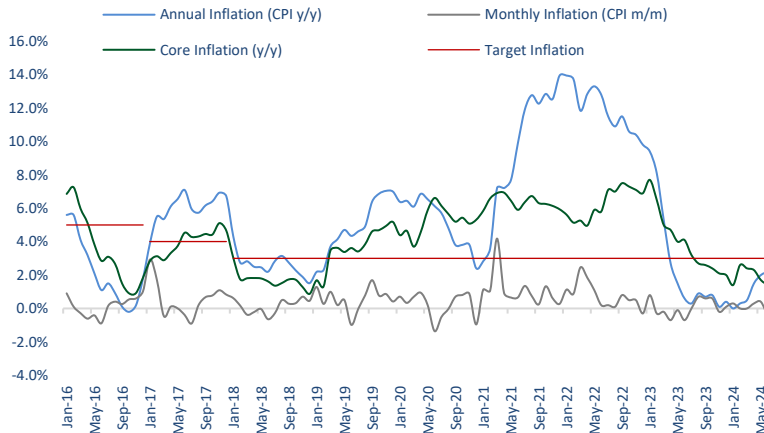


BasisBank Research

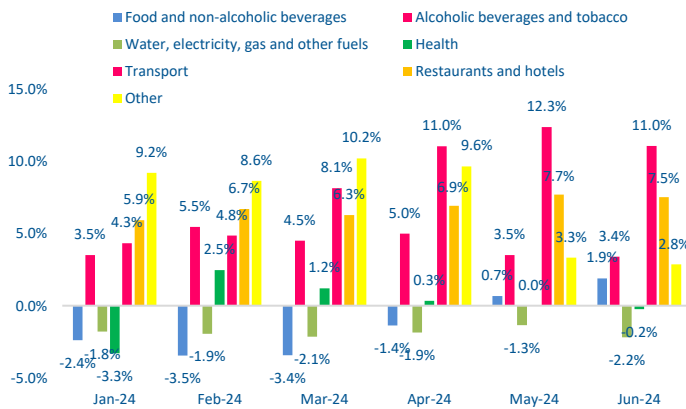
Economic Review

June 2024

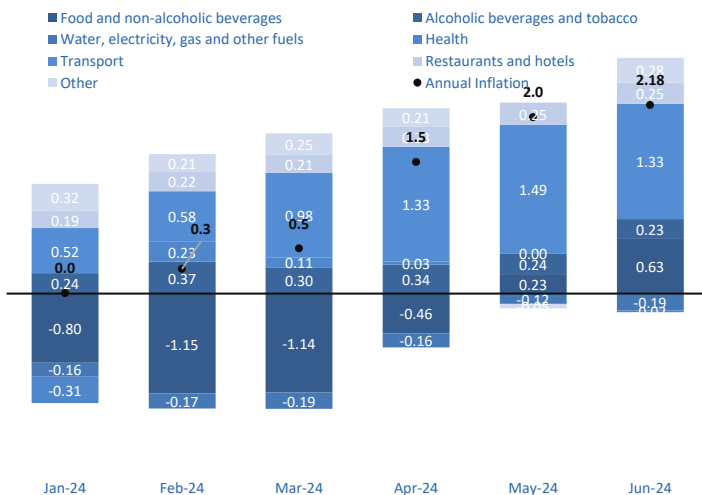
Inflation, Consumer Price Index



Inflation - Y/Y Changes of Groups (%)



Groups Shares in Annual Inflation



Inflation

The Georgian Consumer Price Index (CPI) increased by 2.2% y/y (-0.5% m/m) in June 2024, while core inflation¹ increased by 1.4% y/y in the same period.

The annual inflation has had an increasing trend in Georgia in recent months, which is the result of increased fuel prices, but the inflation is still maintained at a lower level as a result of gradual decrease of external shocks as well as maintained contractionary monetary policy. While reduced inflationary expectations somewhat accelerated the normalization of the monetary policy rate at the beginning of the year, amid increased risks from the demand side, it is expected that a further normalization will continue only at a moderate pace. This is also driven by increased uncertainty from both domestic and international geopolitical developments, which raises the risk of higher inflation. An elevated domestic demand presents an inflationary risk, as the rapid pace of lending accelerates consumption alongside investment, potentially exerting pressure on prices, especially considering the continued growth in the unit labor cost.

In June 2024, the FAO international food price index (FFPI), measure of change in international prices of a basket of food commodities was down by 2.1% y/y (0% m/m) and down 24.8% compared to its peak in March 2022;

As for the inflation of locally produced products, it amounted to 2.8% y/y in June 2024 which is a decrease of 11.5 pp compared to its recent years highest, 14.3% in September 2022. In local inflation, local service inflation contributed 1.9 pp. As for the inflation of local service on its own, this amounted to 4.2% y/y.

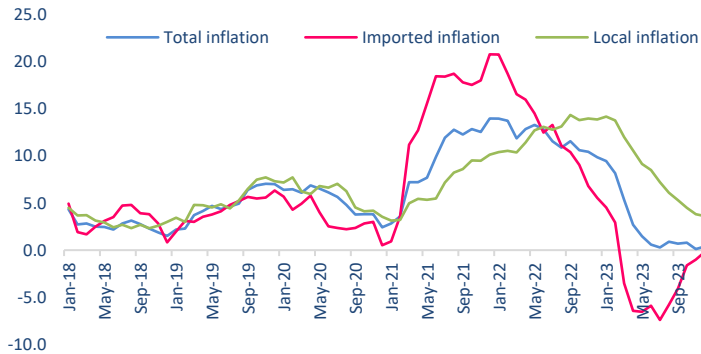
In average, the NBG forecasts 2.2% inflation for 2024. As a result of decreased inflationary expectations, the NBG decreased the monetary policy rate by 0.25% rate to 8% in late May 2024 and still maintains it at 8%. However, inflationary risks remain high taken into account current tense geopolitical situation, which increases uncertainty on the commodity markets. Moreover, higher-than expected demand (partly driven by increased credit activity) can also trigger inflationary risks.

The annual inflation in June 2024 was mainly affected by price changes in transport sector (+11% y/y, +1.33 pp contribution), food and non-alcoholic beverages (+1.9% y/y, +0.63 pp contribution), restaurants and hotels (+7.5% y/y, +0.25 pp contribution), alcoholic beverages and tobacco (+3.4% y/y, +0.23 pp contribution). Meanwhile, water, electricity, gas and other fuels contributed negatively (-2.2% y/y, -0.19 pp contribution) to the annual inflation.

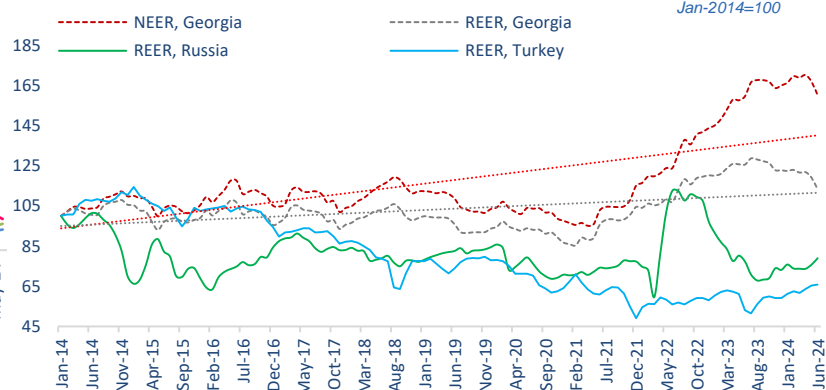
As for *the producer price index (PPI)* for industrial products, it increased by 2.1% in June 2024 compared to the previous month, while compared to the previous year the index increased by 9.3%.

As for the economic growth, *the average real GDP growth* amounted to 7.5% y/y in June 2024, while *in January-June it amounted to 9% y/y*. Given the stronger-than-expected economic activity, real GDP is projected to grow by 6.8% in 2024, while the growth forecast for 2025 remains around 5%.

Total, Imported and Local Inflation



Effective Exchange Rate



Exchange Rate

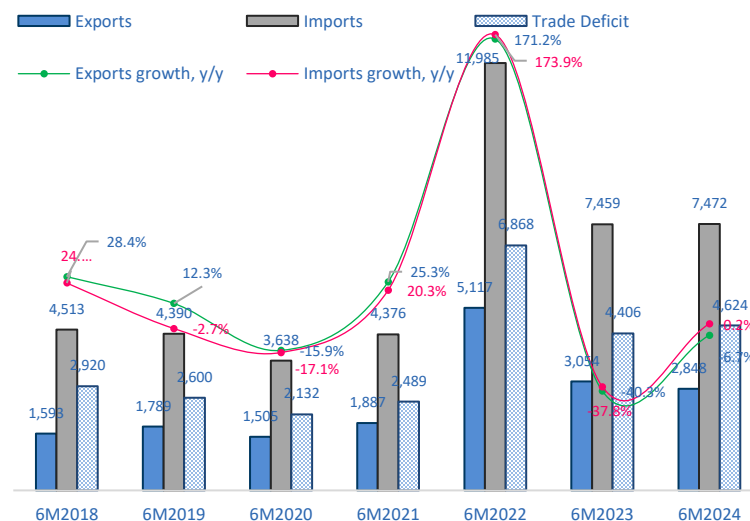
In June 2024, the *lari nominal effective exchange rate appreciated by 0.3% y/y* and depreciated by 3% YTD. Appreciation of the nominal effective exchange rate worsens a country's competitiveness on the international markets but at the same time reduces imported inflation. However, in the same period, *the real effective exchange rate depreciated by 9.9% y/y* and depreciated by 7.8% in YTD terms.

In 2024², Lari depreciated against USD by 0.9%, Azerbaijanian Manat by 1%, Armenian Dram by 5.2%, Russian Ruble by 4.8% and GBP by 1.9%.

Lari appreciated against Euro by 1.1%, Chinese Yuan by 1.1%, Turkish lira by 9.7% and Ukrainian hryvnia by 6.4%.

In 2024, international reserves decreased by \$428.64 million as the NBG was investing in the gold reserves (purchased gold of \$1.935 billion). International reserves amounted to \$4.58 billion by the end of June 2024 (decreased by \$855.88 million compared to its peak \$5.44 billion at the end of August 2023). Meanwhile, in the first six months of 2024, the net sold amount by the NBG amounted to \$66.9 million

International Trade, US\$ Mln



International Trade

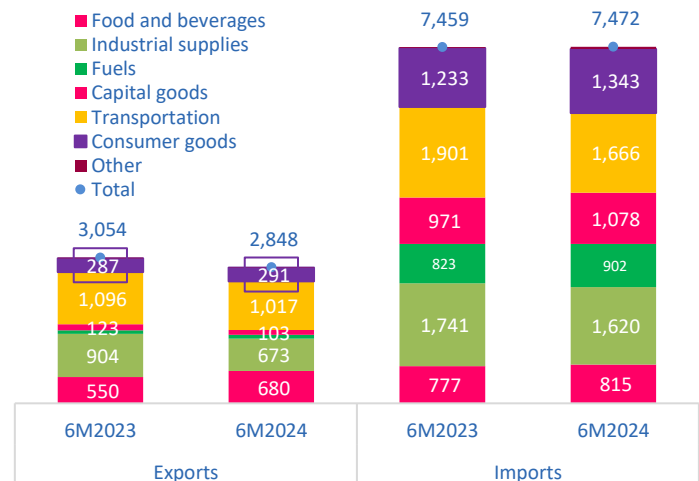
As for international trade, in the first six months of 2024, the external trade turnover of Georgia amounted to 10.32 billion, which is 1.8% less compared to the same period of 2023. The exports amounted to \$2.85 billion (-6.7% y/y), while the imports stood at \$7.47 billion (+0.2% y/y).

The negative trade balance expanded by 5% y/y and amounted to \$4.62 billion in January-June 2024.

The top partners by exports were Kyrgyzstan (\$453.4 million, +61.2% y/y), Kazakhstan (\$354.3 million, +17.9% y/y) and Russia (\$340.1 million, -1.1% y/y).

The top partners by imports were Turkey (\$1.29 billion, +2.8% y/y), Russia (\$857.5 million, -7.5% y/y) and the USA (\$771.3 million, -18.5% y/y).

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



The exports in the EU decreased by 35.8% y/y in January-June 2024, while the share of the EU in the total exports amounted to 9.1%. Imports from the EU increased by 12.3% y/y and the share amounted to 26.5%.

As for the CIS countries, the exports decreased by 1.5% y/y and the share amounted to 66.5% of the total exports. Imports from the CIS countries decreased by 10.3% y/y and the share amounted to 20.7%.

In the reported period, **top import commodities** were cars (-19.7% y/y, 16.7% share of the total imports), petroleum and petroleum oils (+27.3% y/y, 8.5% share) and medicaments (+20.5% y/y, 4.3% share; Imports from Turkey contributed 45.1% in total growth).

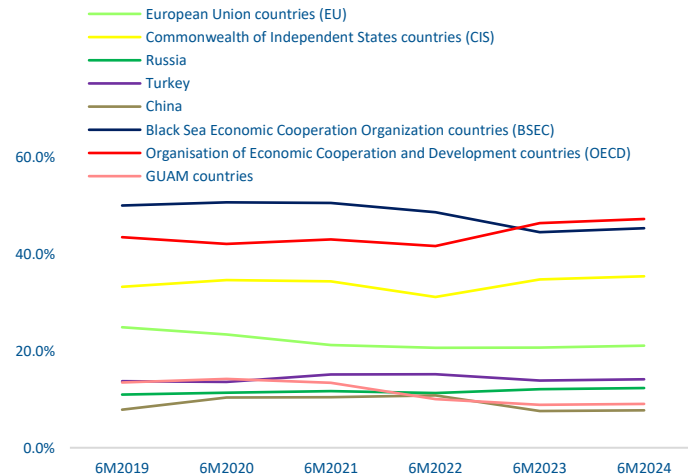
Furthermore, in January-June 2024, motor cars reclaimed the first place in **the list of top export items** (-5.7% y/y, 32.8% share) followed by wine (+24.2% y/y, 5.5% share) and ferro-alloys (+30.4% y/y, 5% share).

Share of the domestic³ exports in the total exports constituted 45.4% and amounted to \$1.29 billion in January-June 2024, which is 11.5% less, compared to the same period of 2023.

In 6M 2024, the Georgian trade was mostly dependent on the market of the Organization of Economic Cooperation and Development countries (OECD) with 47.2% share in total trade turnover, followed by the market of the Black Sea Economic Cooperation organization countries (BSEC) with 45.3% share in total trade turnover.

As for the Commonwealth and Independent State (CIS) Countries, those had the share of 35.4% in total trade turnover, while the share of European Union Countries (EU) amounted to 21%.

Dependency of Georgia on international markets by countries (shares in total trade turnover)



Export and Import Statistics, 6M 2024, US\$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
Total Exports	2,848		-40.3%	Total Exports	2,848		-40.3%
Kyrgyzstan	453	15.9%	61.2%	Cars	934	32.8%	-5.7%
Kazakhstan	354	12.4%	17.9%	Wine	157	5.5%	24.2%
Russia	340	11.9%	-1.1%	Ferro-alloys	143	5.0%	30.4%
Azerbaijan	318	11.2%	-23.3%	Spirituos beverages	132	4.7%	58.8%
Armenia	278	9.8%	-36.8%	Precious metals	102	3.6%	239.1%
Turkey	244	8.6%	16.0%	Mineral waters	81	2.8%	23.4%
China	146	5.1%	-33.6%	Fertilizers	61	2.1%	-38.2%
Ukraine	55	1.9%	10.6%	Waters, mineral and aerat	58	2.0%	-0.6%
Switzerland	53	1.9%	25.1%	Medicaments	54	1.9%	9.5%
Uzbekistan	51	1.8%	12.7%	Gold	50	1.8%	10.4%
United States	44	1.6%	-3.4%	T-shirts	49	1.7%	27.7%
Other	511	17.9%	-72.6%	Other	1,028	36.1%	-22.9%
Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
Total Imports	7,472		-37.8%	Total Imports	7,472		-37.8%
Turkey	1,285	17.2%	2.8%	Cars	1,247	16.7%	-19.7%
Russia	858	11.5%	-7.5%	Oils	632	8.5%	27.3%
United States	771	10.3%	-18.5%	Medicaments	319	4.3%	20.5%
China	709	9.5%	23.1%	Gases	227	3.0%	-17.8%
Germany	499	6.7%	6.3%	Computers	162	2.2%	85.0%
Azerbaijan	280	3.7%	-12.5%	Telephones	146	2.0%	-19.7%
Japan	208	2.8%	-20.0%	Motor vehicles	99	1.3%	34.5%
Italy	200	2.7%	10.5%	Other bars and rods of iron	76	1.0%	36.6%
France	151	2.0%	9.5%	Tobacco	73	1.0%	-0.8%
Hong Kong, SAR of China	144	1.9%	181.8%	Steel parts	65	0.9%	7.2%
United Arab Emirates	141	1.9%	-19.8%	Self-propelled bulldozers, etc.	54	0.7%	-3.9%
Other	2,227	29.8%	0.0%	Other	4,372	58.5%	2.0%

Remittances

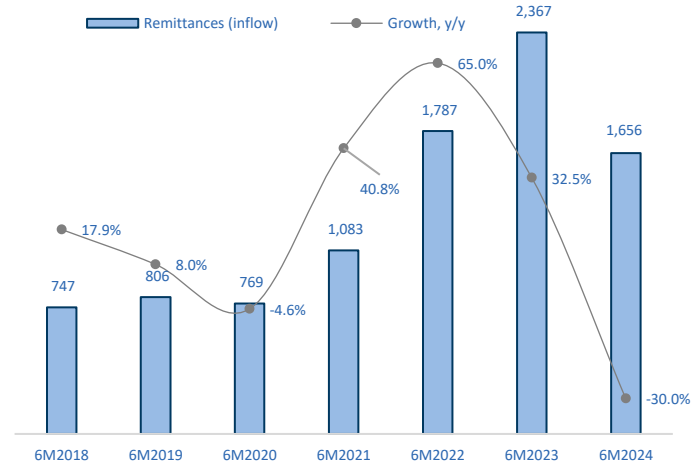
In January-June 2024, the total amount of money transfers amounted to \$1.66 billion which is 30% less compared to the same period of the previous year. In January-June 2024, the largest share of remittances came from Russia (19.4% share, -71.4% y/y), Italy (16.7% share, +10.4% y/y) and the USA (16.1% share, +29.2% y/y).

Russia was the major remittance sender to Georgia for years but the share had been decreasing over time. However, the volume of remittances from Russia increased significantly from April 2022. We see that the share of Russia in total remittances started to increase as well starting April 2022 and reached its peak at 62.1% in May.

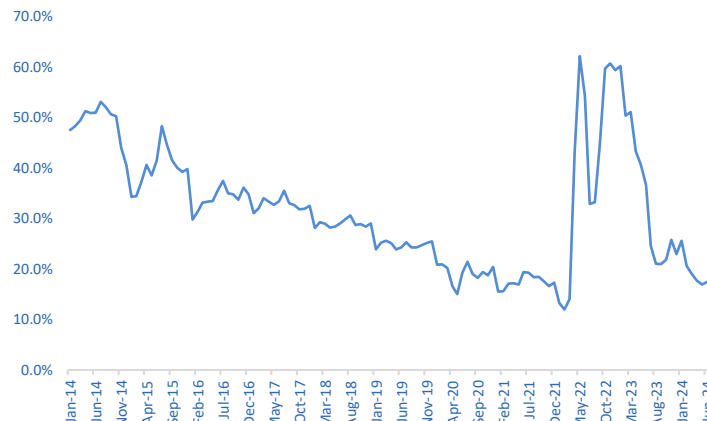
The increase of remittances from Russia was related to the migrants who entered Georgia due to the Russia-Ukraine war as their family members might send money transfers to them to cover their living expenses in Georgia. In addition, Georgians living in Russia might send more money as they were thinking about returning home.

As of June 2024 the remittance share from Russia decreased to 17.4%, less than pre-pandemic level (as of June 2019 it amounted to 24.2%).

Remittance Statistics, US\$ Mln



Share of Russia in total remittances



State Budget

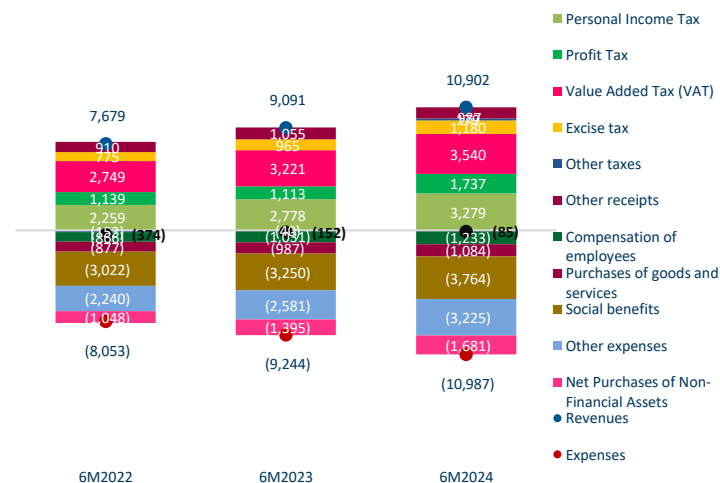
In January-June 2024, the state budget revenues increased by 19.9% y/y to 10.90 bln GEL, while the total expenses increased by 18.9% y/y to 10.99 bln GEL.

In the first six months of 2024, the revenues from value added tax increased by 9.9% y/y to 32.5% of budget revenues, while revenues from excise and income taxes increased by 22.4% y/y to 10.8% of the total revenues and by 18% y/y to 30.1% of the total revenues, respectively. Meanwhile, revenues from profit tax increased by 56.1% y/y and amounted to 15.9% of the total revenues.

On the spending side, social benefits increased by 15.8% y/y to 34.3% of the total budget expenses in January-June 2024, while compensation of employees increased by 19.6% y/y to 11.2% of the total expenses and purchases of goods and services increased by 9.8% y/y to 9.9% of the total expenses.

As a result, a budget deficit amounted to 84.6 million GEL in January-June 2024 which is a 44.5% y/y decrease (-67.9 million GEL y/y; a budget deficit amounted to 152.5 million GEL in 6M 2023.).

Budget Statistics, Mln GEL



Tourism

In the first 6M of 2024, the number of *international visitor⁴ trips* amounted to **2.69 million** (+6.3 y/y, **83.2% recovery of 2019 pre-pandemic level**) out of which *tourism type visits* were 2.12 million (+10% y/y, 99.8% recovery of 2019).

The top countries from which most international visits were carried out to Georgia were: Turkey- 620.7 thousand (+6.6% y/y, 124.2% recovery compared to 2019), Russia – 536.3 thousand (-7.2% y/y, 77.5% recovery) and Armenia – 406.4 thousand (+2.3% y/y, 76.5% recovery).

Most of the visitors came from land (61.3% of visits) while 38% came from air and the rest 0.7% came through the sea and the railway;

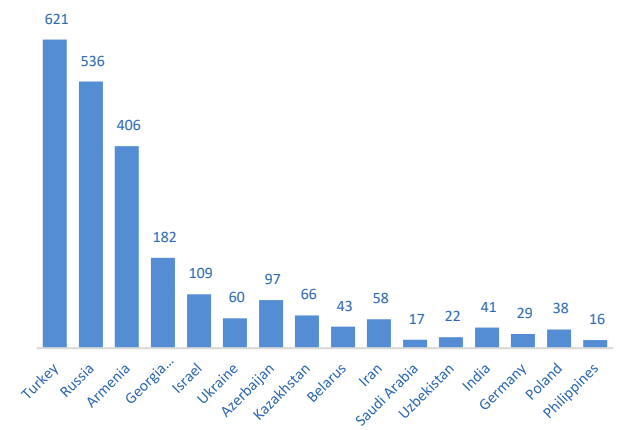
Most of the visitors (49.1%) were in the 31-50 age group and the majority (65.3%) of total visitors were male visitors.

Furthermore, *international travelers spent \$1.9 billion in 6M 2024* in Georgia, which is a **5% increase** compared to the same period of the previous year and a **130% recovery** of tourism revenue compared to 6M 2019.

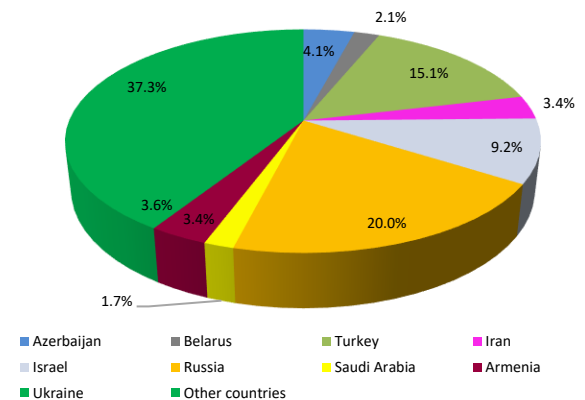
Most of the tourism income⁵ (20%) in 6M 2024 came from Russian visitors, followed by Turkish visitors (15.1%) and the visitors from Israel (9.2%).

If we calculate costs on a visit⁶, mostly the visitors from Saudi Arabia spent the highest sums (\$1,944) on a visit in 6M 2024 followed by visitors from Israel (\$1,616), Ukraine (\$1,153), Iran (\$1,099), Belarus (\$898), Azerbaijan (\$810), Russia (\$709) and Turkey (\$462).

Int'l visits by top visitor countries ('000), 6M 2024

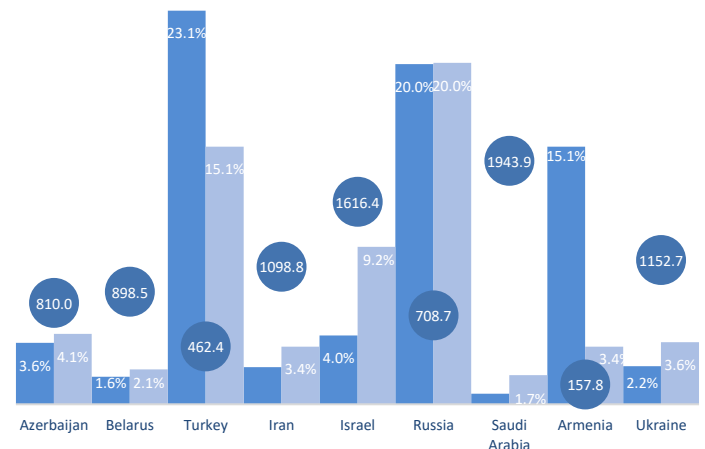


Country shares by tourism income (%), 6M 2024



Tourism Statistics, 6M 2024

■ Share of visitor trips (%) ■ Revenues (%) ● Income per visit (US \$)



¹Net of food and energy prices;

²Estimated period: 31/12/2023 – 30.06.2024;

³Exports excluding re-exports;

⁴Visitor is a traveler aged 15 or above, non-resident of Georgia, took a trip outside his/her usual environment to Georgia for less than a year (except following categories: employment, diplomatic or consular officers accredited to Georgia, Armed Forces servants and their dependants and persons who frequently cross borders); International visitor trips include tourist (overnight visitor) trips and same day trips (same-day visitors);

⁵By June 30, 2024, 16.5% of Belarusian citizens, 17% of Russian citizens and 24.3% of Ukrainian citizens residing in Georgia are estimated as living here for 1 year or intending to stay more than 1 year. According to IMF methodology, they are Georgian residents and their expenses are not included in travel income;

⁶Total income in 6M 2024 over total number of visits from the country in the same period.



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