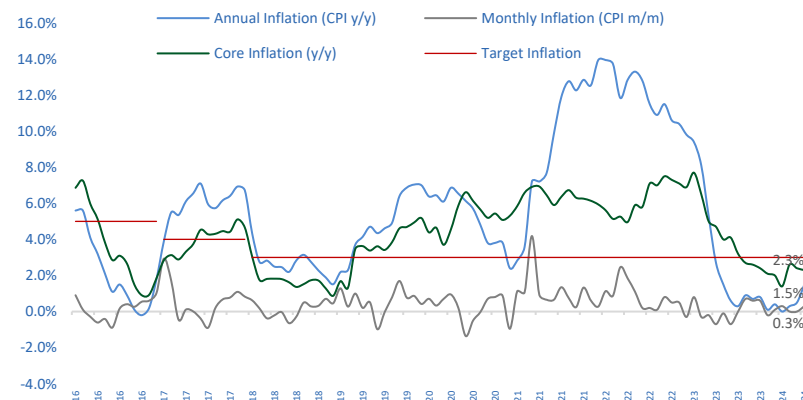


BasisBank Research

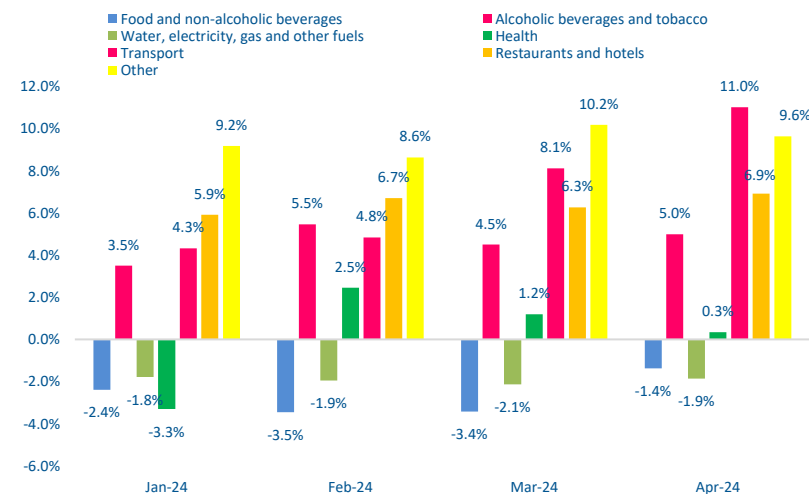
Economic Review

April 2024

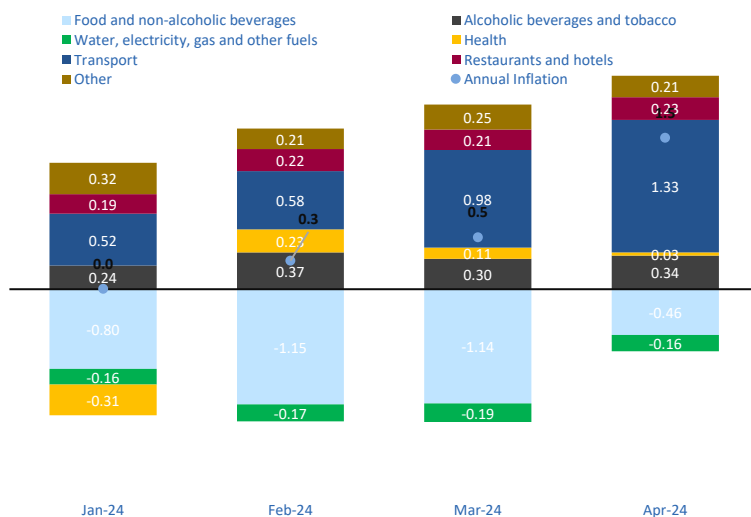
Inflation, Consumer Price Index



Inflation - Y/Y Changes of Groups (%)



Groups Shares in Annual Inflation



Inflation

The Georgian Consumer Price Index (CPI) increased by 1.5% y/y (0.3% m/m) in April 2024, while core inflation¹ increased by 2.3% y/y in the same period. The Consumer Price Index in Georgia remains at a lower level compared to the target inflation of 3%. The annual inflation has increased compared to recent months, which is the result of increased fuel prices, but it is still maintained at a lower level as a result of gradual decrease of external shocks as well as maintained contractionary monetary policy despite the recent decrease of the rate.

Based on the Food and Agriculture Organization (FAO), the international food price index (FFPI) had mostly the downward trend since April 2022 after the index hit the all-time high in March 2022. Compared to all-time high March 2022 level, the index is decreased by 33.8% in April 2024. The index went up by 0.3% m/m as an increase in the price index for meat as well as smaller upticks of vegetable oil and cereal indices slightly more than offset decreases in those for sugar and dairy products. Although this monthly increase registered as a second monthly uptick, the index still decreased by 7.4% y/y.

Because of the above-mentioned factors, **imported inflation in Georgia amounted to 3.5% in April 2024**. The imported inflation had the decreasing trend for a long time since it hit 20.8% in December 2021. However, the trend started to increase since August 2023 after it hit the lowest, -7.4 in July 2023.

As for the inflation of locally produced products, it amounted to 2.5% y/y in April 2024 which is a decrease of 11.8 pp compared to its recent years highest, 14.3% in September 2022. In local inflation, local service inflation contributed 2.9 pp, which is higher than local inflation (2.5%) which means that excluding local service, there is actually a deflation for local products in Georgia. **As for the inflation of local service on its own, this amounted to 5.6% y/y, and banking service was the major contributor (1.3 pp) in it.**

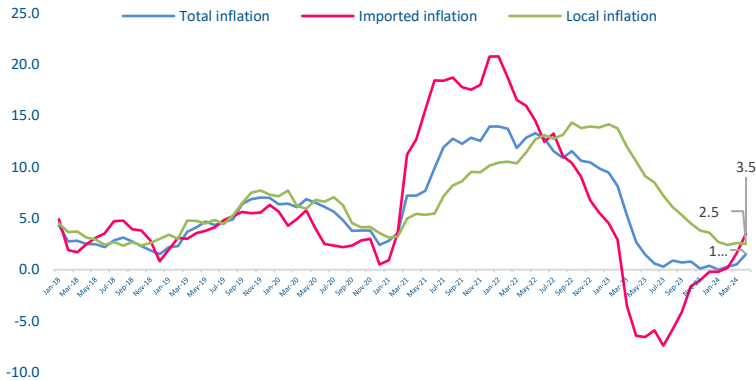
Based on the NBG forecast, in the first half of 2024, the inflation will be kept below the target level of 3% and then will stabilise around 3%. In average, the NBG forecasts 1.5% inflation for 2024. As a result of decreased inflationary expectations, the NBG decreased the monetary policy rate by 0.25% rate to 8% in late May 2024. 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 April 2024 was mainly affected by price changes in transport sector (+11% y/y, +1.33 pp contribution), alcoholic beverages and tobacco (+5% y/y, +0.34 pp contribution) and restaurants and hotels (+6.9% y/y, +0.23 pp contribution). Meanwhile, food and non-alcoholic beverages contributed negatively (-0.46 pp) to the annual inflation and the prices in sector decreased by 1.4% y/y in April 2024.

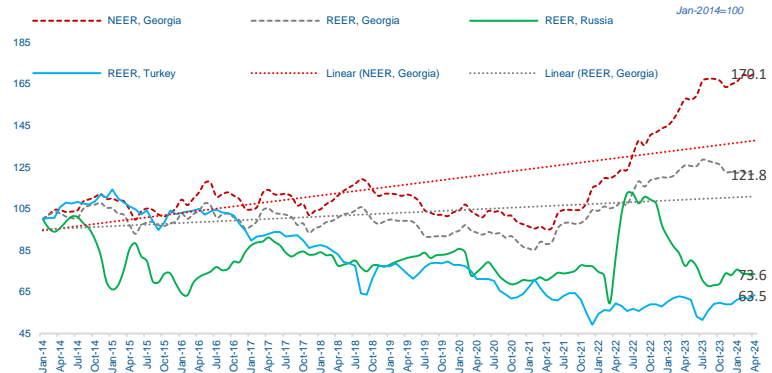
As for **the producer price index (PPI)** for industrial products, it increased by 0.8% in April 2024 compared to the previous month, while compared to the previous year the index increased by 5.9%.

As for the economic growth, **the average real GDP growth** amounted to 11.8% y/y in April 2024, while **in January-April it amounted to 9% y/y**. **The NBG forecasts 5.6% real GDP growth for Georgia in 2024 and 5% in the following two years.**

Total, Imported and Local Inflation



Effective Exchange Rate



Exchange Rate

The trend of appreciation of the nominal effective exchange rate in 2022-2023 continued in 2024. In April 2024, the *lari nominal effective exchange rate appreciated by 7.8% y/y* and by 3.2% YTD (compared to December 2023). 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 April 2024, the real effective exchange rate depreciated by 3.3% y/y and depreciated by -0.8% in YTD terms. It is already the second consecutive month that it has a decreasing trend.

As a result of tense situation in the country amid protests against approving the Law on Transparency of Foreign Influence, GEL started to depreciate against the USD. The NBG sold \$108.7 million in May to stabilise the exc

change rate, saying that fluctuations are not driven by fundamental macroeconomic factors and therefore are short term. In parallel, the NBG purchased \$213.5 million through BMatch platform.

In 2024², Lari depreciated against Euro by 1.8%, USD by 3.5%, Chinese Yuan by 1.6%, Azerbaijanian Manat by 3.7%, Armenian Dram by 8.1%, Russian Ruble by 5.3%, GBP by 3.9%. Lari appreciated only against Turkish lira by 4.9% and Ukrainian hryvnia by 2.5% since the end of December 2023 through the end of May 2024.

As for the international reserves, it amounted to \$4.81 billion by the end of April 2024.

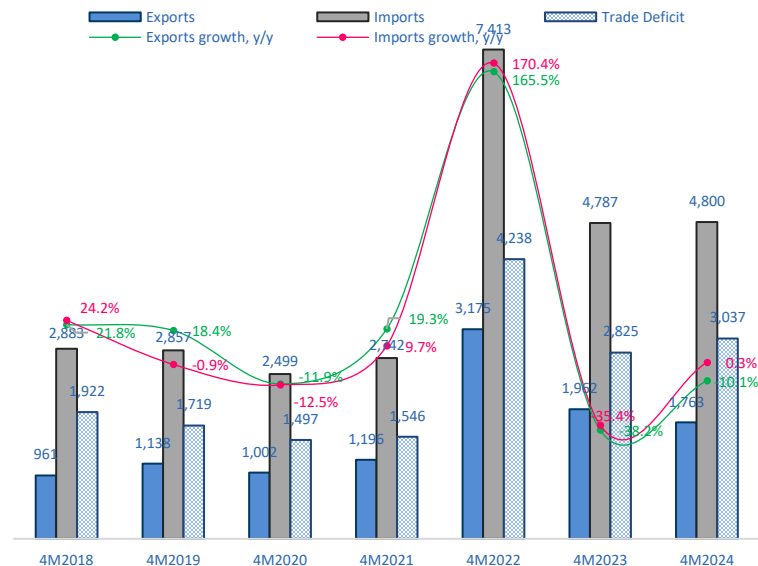
International Trade

As for international trade, in the first four months of 2024 the external trade turnover of Georgia amounted to 6.56 billion, which is 2.7% less compared to the same period of 2023. The exports amounted to \$1.76 billion (-10.1% y/y), while the imports stood at \$4.8 billion (+0.3% y/y).

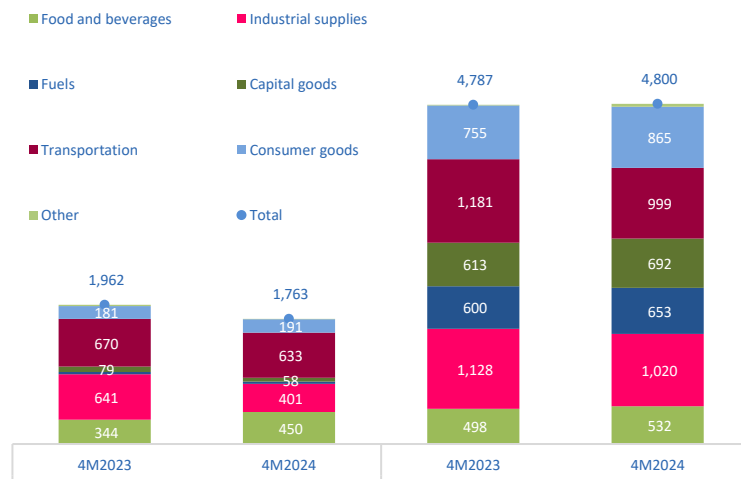
The negative trade balance expanded by 7.5% y/y and amounted to \$3.04 billion in January-April 2024. The top partners by exports were Kyrgyzstan (\$291.6 million, 16.5% share, +102.4% y/y), Russia (\$230.4 million, 13.1% share, +1.9% y/y) and Kazakhstan (\$208.3 million, 11.8% share, +15.4% y/y).

The top partners by imports were Turkey (\$839.7 million, 17.5% share, +6% y/y), Russia (\$606.4 million, 12.6% share, -2.7% y/y) and the US (\$445.5 million, 9.3% share, -23.2% y/y).

International Trade, US\$ Mln



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



The exports in the EU decreased by 43.5% y/y in January-April 2024, while the share of the EU in the total exports amounted to 9.3%. Imports from the EU increased by 14.4% y/y and the share amounted to 27.1%.

As for the CIS countries, the exports increased by 1.2% y/y and the share amounted to 67.9% of the total exports. Imports from the CIS countries decreased by 11.7% y/y and the share amounted to 22.1%.

In the reported period, *top import commodities* were motor cars (-25.7% y/y, 15% share), petroleum oils (+32.8% y/y, 8.8% share), and medicaments (+39.6% y/y, 4.5% share of the total imports).

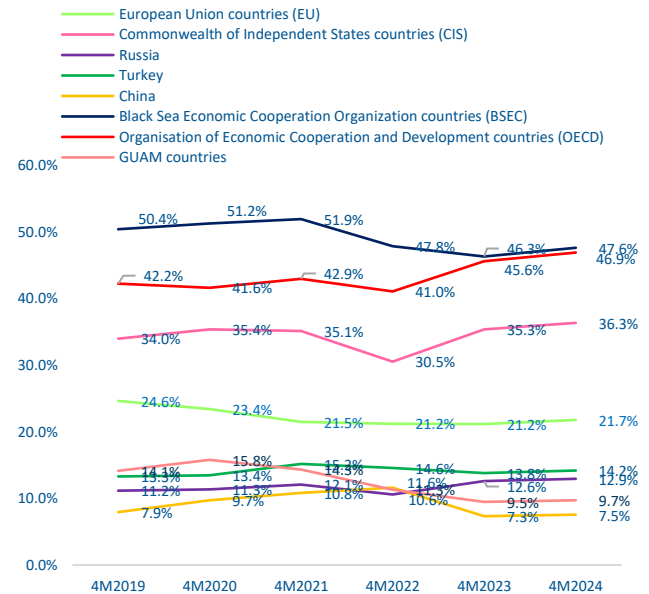
Furthermore, in January-April 2024, motor cars reclaimed the first place in *the list of top export items* (-3.1% y/y, 32.7% share of the total exports) followed by wine (+61% y/y, 7.2% share) and ferro-alloys (-2.4% y/y, 4.7% share).

Share of the domestic³ exports in the total exports constituted 45.7% and amounted to \$805.9 million in January-April 2024, which is 18.3% less, compared to the same period of 2023.

In 4M 2024, the Georgian trade was mostly dependent on the market of the Black Sea Economic Cooperation organization countries (BSEC) with 47.6% share in total trade turnover, followed by the Organization of Economic Cooperation and Development countries (OECD) with 46.9% share in total trade turnover.

As for the Commonwealth and Independent State (CIS) Countries, those had the share of 36.3% in total trade turnover, while the share of European Union Countries (EU) amounted to 21.7%.

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



Export and Import Statistics, 4M 2024, US\$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
Total Exports	1,763		-38.2%	Total Exports	1,763		-38.2%
Kyrgyzstan	292	16.5%	102.4%	Cars	577	32.7%	-3.1%
Russia	230	13.1%	1.9%	Wine	127	7.2%	61.0%
Kazakhstan	208	11.8%	15.4%	Ferro-alloys	82	4.7%	-2.4%
Azerbaijan	192	10.9%	-26.7%	Spirituos beverages	80	4.5%	48.5%
Armenia	174	9.9%	-38.1%	Mineral waters	51	2.9%	30.8%
Turkey	124	7.1%	-10.2%	Precious metals	46	2.6%	119.1%
China	79	4.5%	-51.2%	Fertilizers	45	2.6%	-35.2%
Ukraine	39	2.2%	27.5%	Medicaments	37	2.1%	23.7%
United States	34	1.9%	86.9%	Waters, mineral and aerate	36	2.0%	14.4%
Uzbekistan	34	1.9%	22.9%	Gold	31	1.8%	-0.3%
Switzerland	33	1.9%	18.8%	T-shirts	31	1.8%	11.3%
Other	323	18.3%	-27.5%	Other	621	35.2%	-29.8%

Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
Total Imports	4,800		-35.4%	Total Imports	4,800		-35.4%
Turkey	840	17.5%	6.0%	Cars	722	15.0%	-25.7%
Russia	606	12.6%	-2.7%	Oils	423	8.8%	32.8%
United States	445	9.3%	-23.2%	Medicaments	217	4.5%	39.6%
China	419	8.7%	25.5%	Gases	202	4.2%	-19.5%
Germany	320	6.7%	6.1%	Telephones	103	2.1%	-9.4%
Azerbaijan	209	4.4%	-14.5%	Computers	96	2.0%	50.9%
Italy	135	2.8%	19.5%	Motor vehicles	66	1.4%	59.2%
Japan	109	2.3%	-30.5%	Other bars and rods of iron	46	1.0%	51.8%
France	96	2.0%	9.7%	Steel parts	41	0.9%	6.7%
Poland	94	2.0%	13.8%	Mixed goods	40	0.8%	233.0%
United Arab Emirates	92	1.9%	-14.1%	Other aircraft; spacecraft a	36	0.8%	649.2%
Other	1,434	29.9%	3.7%	Other	2,809	58.5%	1.9%

Remittances

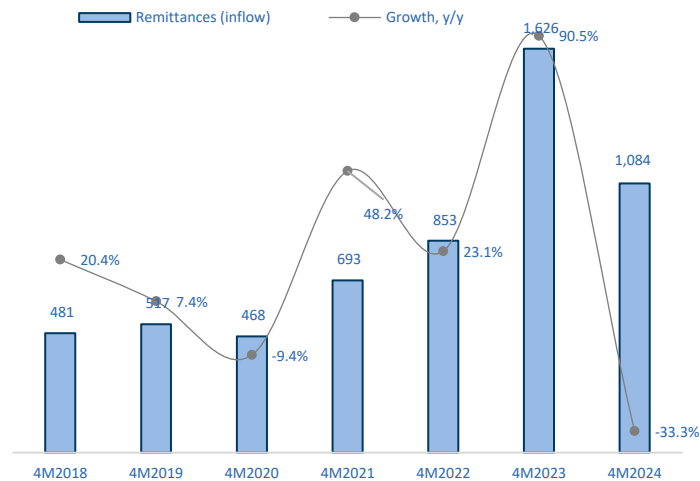
In January-April 2024, the total amount of money transfers amounted to \$1.08 billion which is 33.3% less compared to the same period of the previous year. In January-April 2024, the largest share of remittances came from Russia (20.7% share, -73.2% y/y), followed by Italy (16.7% share, +10.9% y/y) and the USA (15.7% share, +31.8% 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 April 2024 the remittance share from Russia decreased to 17.6%, less than pre-pandemic level (as of April 2019 it amounted to 25%).

Remittance Statistics, US\$ Mln



Share of Russia in total remittances



State Budget

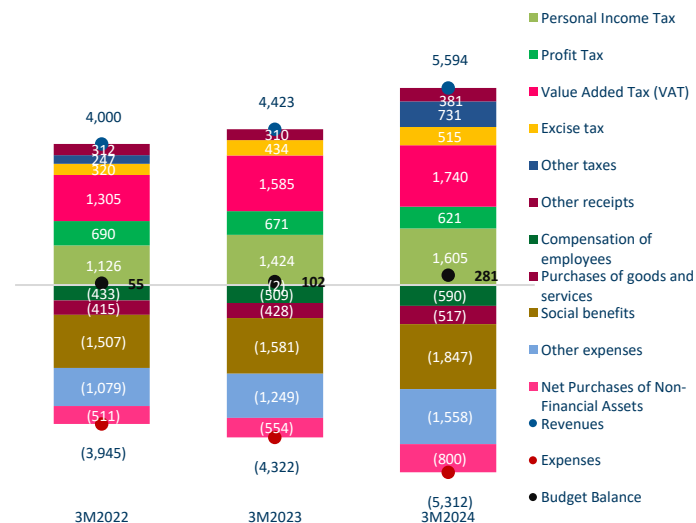
In January-March 2024, the state budget revenues increased by 26.5% y/y to 5.59 bln GEL, while the total expenses increased by 22.9% y/y to 5.31 bln GEL.

In the first three months of 2024, the revenues from value added tax increased by 9.7% y/y to 31.1% of budget revenues, while revenues from excise and income taxes increased by 18.7% y/y to 9.2% of the total revenues and by 12.7% y/y to 28.7% of the total revenues, respectively. Meanwhile, revenues from profit tax decreased by 7.5% y/y and amounted to 11.1% of the total revenues.

On the spending side, social benefits increased by 16.8% y/y to 34.8% of the total budget expenses in January-March 2024, while compensation of employees increased by 15.9% y/y to 11.1% of the total expenses and purchases of goods and services increased by 20.8% y/y to 9.7% of the total expenses.

As a result, there was a budget deficit of about 281.2 million GEL in January-March 2024 which deteriorated by 179.6 million GEL y/y (in 3M 2023, there was a budget deficit of 101.6 million GEL).

Budget Statistics, Mln GEL



Tourism

In the first 3M of 2024, the number of *international visitor⁴ trips* amounted to **1.16 million** (+8.6% y/y, 86.8% recovery of 2019 pre-pandemic level) out of which *tourism type visits* were 938.6 thousand (+11% y/y, 106.4% recovery of 2019).

The top countries from which most international visits were carried out to Georgia were: Turkey- 254,6 thousand (+17.6% y/y, 126.5% recovery compared to 2019), Russia – 215.5 thousand (-16.1% y/y, 84.8% recovery), Armenia – 191.8 thousand (+5.1% y/y, 82.5% recovery), Georgia, nonresident – 100.5 thousand (+15.7% y/y, 85.3% recovery), Azerbaijan– 51.5 thousand (+27.5% y/y, 17.6% recovery), Israel – 46.8 thousand (+4.5% y/y, 187.2% recovery) and Iran- 28.8 thousand (+35.1% y/y, 94.6% recovery).

Most of the visitors came from land (60.5% of visits) while 38.7% came from air and the rest 0.8% came through the sea and the railway.

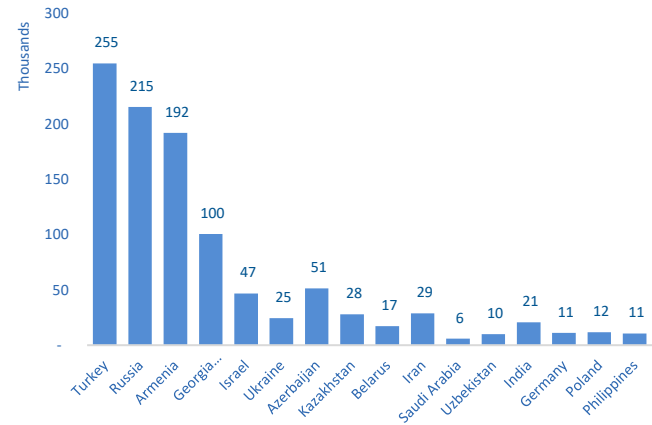
Most of the visitors (50.8%) were in the 31-50 age group and the majority (68.1%) of total visitors were male visitors.

Furthermore, *international travelers spent \$807.7 million in 3M 2024* in Georgia, which is only a **2% increase** compared to the same period of the previous year and a **140% recovery** of tourism revenue compared to 3M 2019.

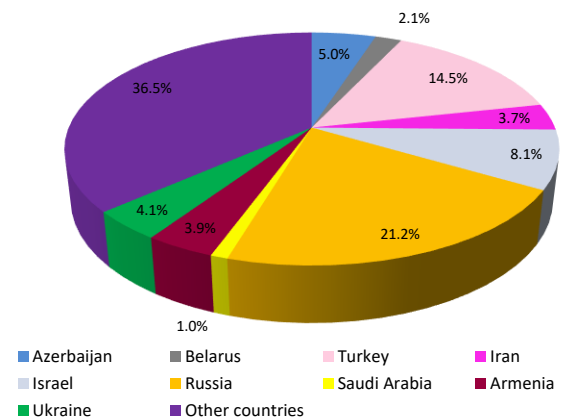
Most of the tourism income⁵ (21.2%) in 3M 2024 came from Russian visitors, followed by Turkish visitors (14.5%) and the visitors from Israel (8.1%).

If we calculate costs on a visit⁶, mostly the visitors from Israel spent the highest sums (\$1,405) on a visit in 3M 2024 followed by visitors from Ukraine (\$1,348), Saudi Arabia (\$1,292), Iran (\$1,025), Belarus (\$962), Azerbaijan (\$788), Russia (\$794) and Turkey (\$461).

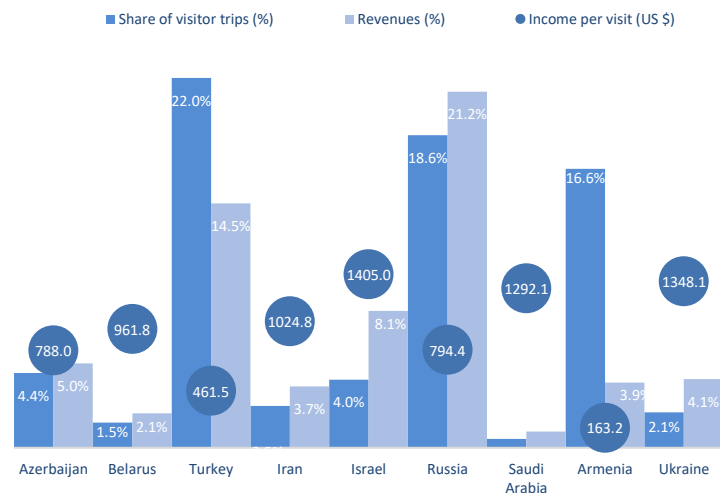
Int'l visits by top visitor countries ('000), Q1 2024



Country shares by tourism income (%), Q1 2024



Tourism Statistics, Q1 2024



Foreign Direct Investments

Foreign direct investments (FDI) in Georgia amounted to \$201.4 million in the first quarter of 2024 which is 64.4% less compared to the same period of last year.

Reinvestment of earnings (45.9% of the total FDIs in Q1 2024) which is the difference between profit/loss and dividends decreased by 51.5% y/y and amounted to \$92.5 million. Meanwhile, there was also a decrease in equity (37.7% of total FDIs) by 77.7% y/y and it amounted to \$75.9 million.

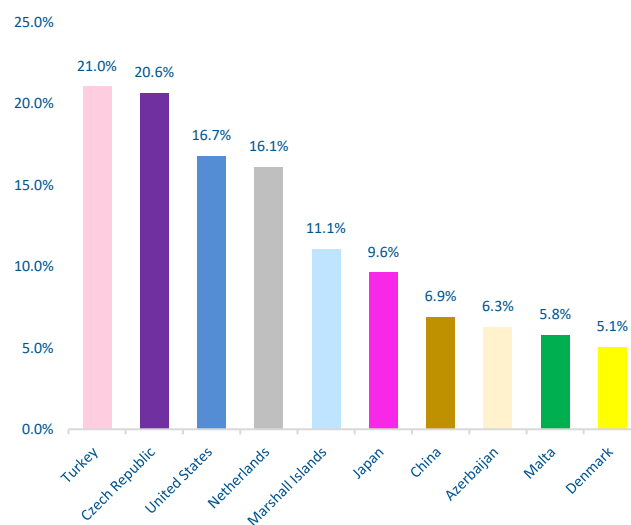
Energy sector made the highest contribution to (39.1%) the total foreign direct investments, followed by trade (19.6%) and transport sector (19.3%).

There was a significant decrease in the sectors of manufacturing (-88.8% y/y; -\$201 mln y/y), trade (-56.5% y/y; \$51.3 million), information and communication (-55.7% y/y; \$23.6 million y/y) and tourism (-68.7% y/y; -\$20.7 million).

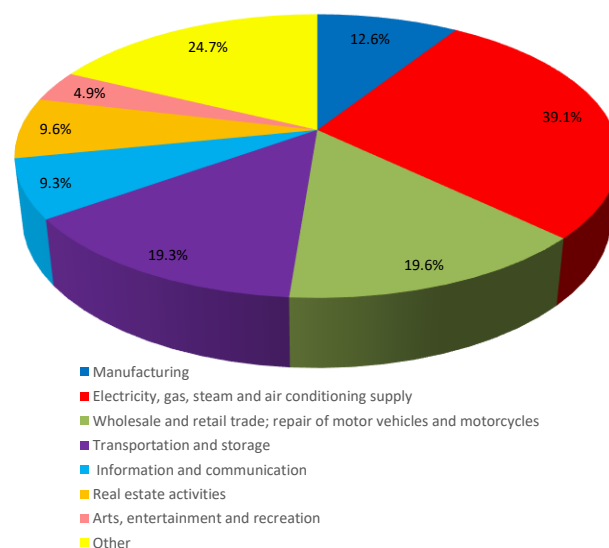
Out of the total FDIs, the share of large companies was 47.2%, while the share of small companies was 35.4% followed by medium-size companies with the least share of 17.4%.

As for the top countries FDI came to Georgia, these were the following: Turkey (\$42.4 million, -41.1% y/y), Czech Republic (\$41.5 million, -627.1% y/y) and the United States (\$33.7 million, -39.7% y/y).

Shares of top countries in total FDIs in Q1 2024



Shares of sectors in total FDIs in Q1 2024



¹Net of food and energy prices;

²Estimated period: 31/12/2023 –29.05.2024;

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 March 31, 2024, 34.3% of Belarusian citizens, 26.8% of Russian citizens and 30% 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 3M 2024 over total number of visits from the country in the same period.



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