

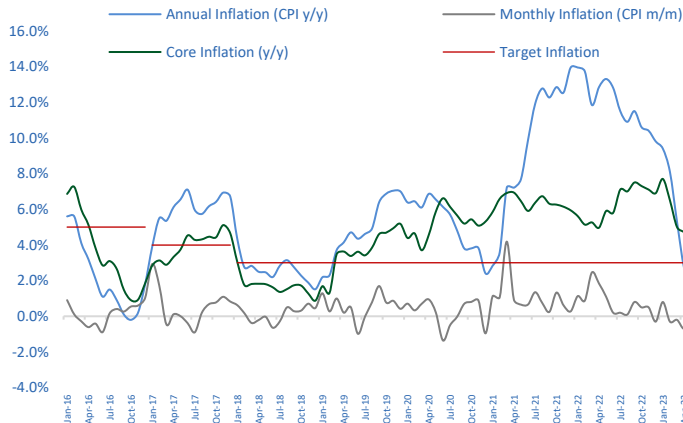
BasisBank Research

Economic Review

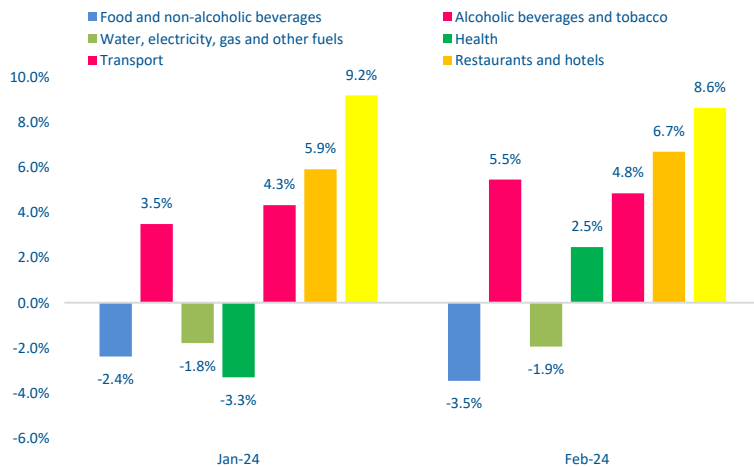
February 2024

March 31, 2024

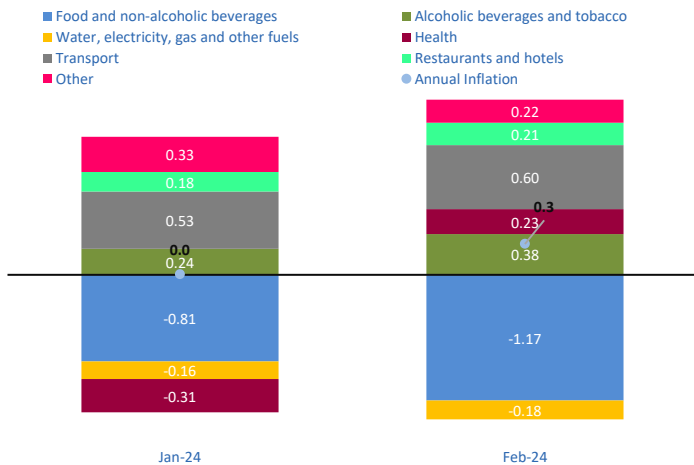
Inflation, Consumer Price Index



Y/Y changes of Groups (%)



Groups Shares in Annual Inflation



Inflation

The Georgian Consumer Price Index (CPI) increased by 0.3% y/y (0% m/m) in February 2024, while core inflation¹ increased by 2.6% y/y in the same period. So, the Consumer Price Index is lower already compared to the target inflation of 3%. Low inflation, on the one hand, is caused by the downward trend of local inflation, which is a result of tightened monetary policy. On the other hand, the trend of world food prices is decreasing. Moreover, real effective exchange rate of GEL maintains a strong position, which keeps the imported inflation at a low level.

Based on the Food and Agriculture Organization (FAO), *the international food price index (FFPI)* had the downward trend since April 2022 after the index hit the all-time high in March 2022. In February 2024, the index went down 0.7% m/m and down 10.5% y/y.

Because of the above-mentioned factors, *imported inflation in Georgia decreased to 0.2% in February 2024. The inflation of locally produced products decreased to 2.4% y/y (in which 2.7 pp was a contribution of local service inflation). Prices of service in Georgia increased by 5.3% y/y. In service inflation, banking service contributed the most (1.5 pp).*

Because of the above-mentioned reasons, the NBG decreased the monetary policy by 0.75% rate to 8.25% in on March 13, 2024.

It is expected the inflation to remain below the three percent target level in the coming months, and to stabilize around it in the medium term. However, inflationary risks remain high taken into account current tense geopolitical situation, which increases uncertainty on the commodity markets.

As for the economic growth, the average real GDP growth amounted to 9.5% y/y in February 2024, while in January-February it amounted to 7.7% y/y. The National Statistics Office of Georgia has revised the growth forecast for Georgian economy up to 7.5% for 2023. Meanwhile, the IMF forecasts 4.8% real GDP growth for Georgia in 2024 and 5.2% in the following years.

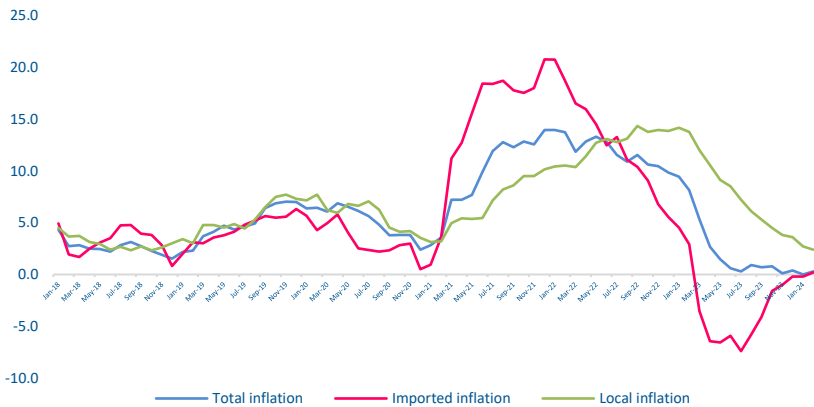
The annual inflation in February 2024 was mainly affected by price changes in transport sector (+4.8% y/y, +0.6 pp contribution), alcoholic beverages and tobacco (+5.5% y/y, +0.38 pp contribution) and health sector (+2.5% y/y, +0.23 pp contribution). Meanwhile, food and non-alcoholic beverages contributed negatively (-1.17 pp) to the annual inflation and the prices in sector decreased by 3.5% y/y in February 2024.

As for *the producer price index (PPI)* for industrial products, it increased by 1.4% in February 2024 compared to the previous month, while compared to the previous year the index increased by 2%.

Exchange Rate

The trend of appreciation of the nominal effective exchange rate in 2022-2023 continued in 2024.

In February 2024, the *lari nominal effective exchange rate appreciated by 14.4% y/y* and by 2.8% YTD (compared to December 2023) while *the real effective exchange rate appreciated by 1.7% y/y* and appreciated by 0.1% in YTD terms.



The appreciation of the nominal effective exchange rate is driven by appreciation of lari against the main trading partners' currencies. In 2024², Lari appreciated against Euro by 2.2%, Turkish lira by 8.4%, Chinese Yuan by 1.3%, Ukrainian Hryvnia by 2.8%, Russian Ruble by 2.5%, GBP by 0.6% and depreciated against the USD BY 0.3%, Azerbaijanian Manat by 0.4% and Armenian Dram by 2.9% since the end of December 2023 through the end of March 2024.

Appreciation of the nominal effective exchange rate worsens a country's competitiveness on the international markets but at the same time reduces imported inflation.

To mitigate amplified exchange rate fluctuations the NBG is intervening on the currency exchange market. In January 2024, it purchased \$8.1 million by Bmatch platform (no interactions were carried out at the foreign exchange auctions yet).

As for the international reserves, it amounted to \$4.75 billion by the end of February 2024.

International Trade

As for international trade, in the first two months of 2024 the external trade turnover of Georgia amounted to \$2.95 billion, which is 4.8% less compared to the same period of 2023. The exports amounted to \$803.3 million (-12.2% y/y), while the imports stood at \$2.15 billion (-1.6% y/y).

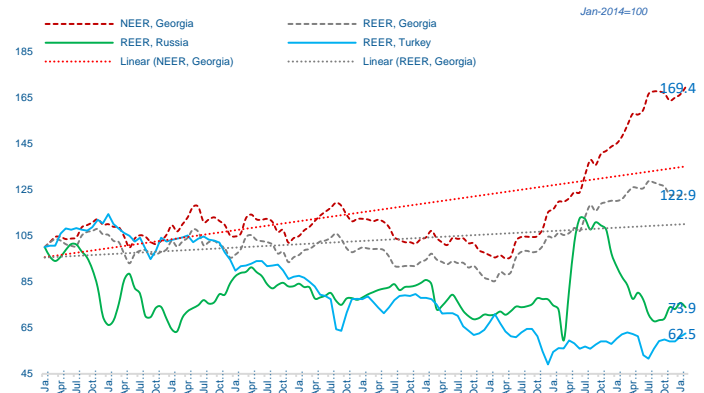
The negative trade balance expanded by 5.9% y/y and amounted to \$1.34 billion in January-February 2024. The top partners by exports were Kyrgyzstan (\$125.6 million, 15.6% share, +179.5% y/y), Azerbaijan (\$99.5 million, 12.4% share, -10.6% y/y) and Russia (\$96.8 million, 12.1% share, -24.5% y/y). The top partners by imports were Turkey (\$408.2 million, 19% share, +25.3% y/y), Russia (\$313.8 million, 14.6% share, -7.4% y/y) and China (\$173.5 million, 8.1% share, +29% y/y).

The exports in the EU decreased by 33.5% y/y in January-February 2024, while the share of the EU in the total exports amounted to 9.6%. Imports from the EU increased by 9.2% y/y and the share amounted to 25.8%.

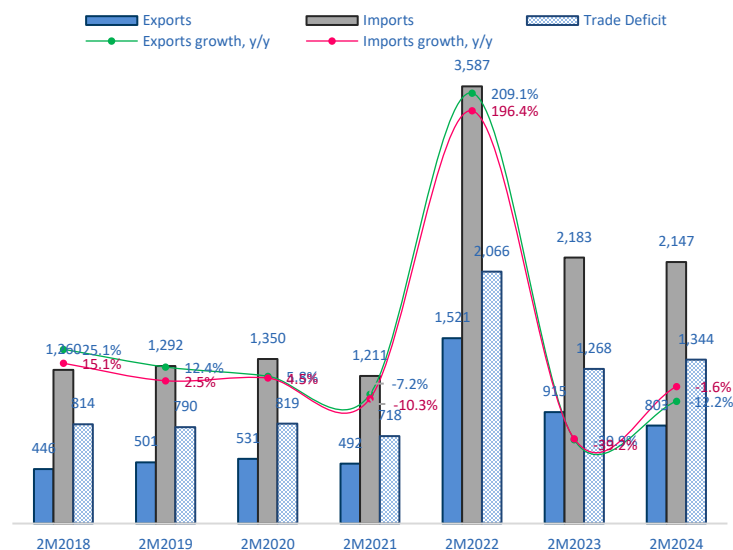
As for the CIS countries, the exports increased by 0.2% y/y and the share amounted to 66.4% of the total exports. Imports from the CIS countries decreased by 17.7% y/y and the share amounted to 24.1%.

In the reported period, **top import commodities** were motor cars (-35.9% y/y, 12% share), petroleum oils (+18% y/y, 8.7% share), and gases (-27.7% y/y, 5.9% share of the total imports).

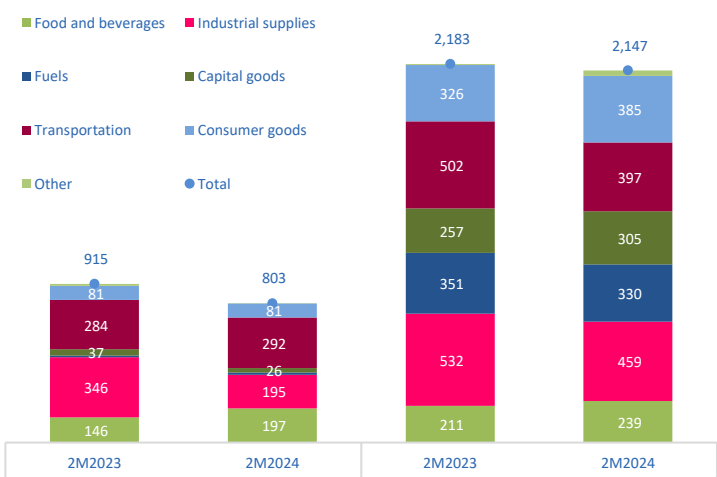
Effective Exchange Rate



International Trade, US\$ Mln



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



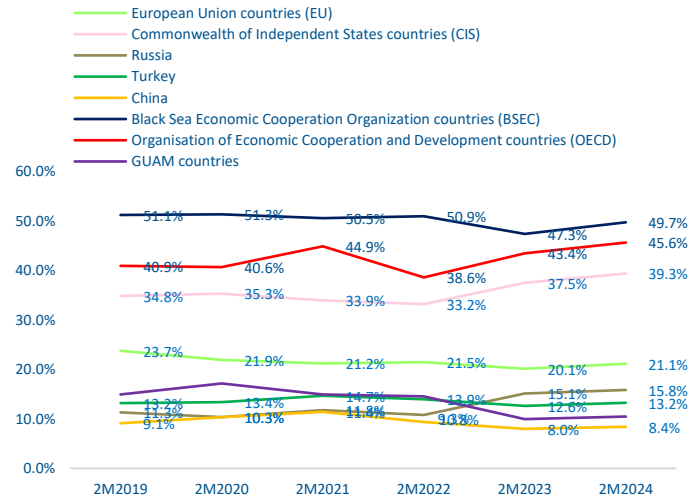
Furthermore, in January-February 2024, motor cars reclaimed the first place in *the list of top export items* (+10.9% y/y, 32.7% share of the total exports) followed by wine (+38% y/y, 5.9% share) and ferro-alloys (-41.3% y/y, 5.2% share).

Share of the domestic³ exports in the total exports constituted 46.4% and amounted to \$372.4 million in January-February 2024, which is 25.1% less, compared to the same period of 2023.

In 2M 2024, the Georgian trade was mostly dependent on the market of the Black Sea Economic Cooperation organization countries (BSEC) with 49.7% share in total trade turnover, followed by the Organization of Economic Cooperation and Development countries (OECD) with 45.6% share in total trade turnover.

As for the Commonwealth and Independent State (CIS) Countries, those had the share of 39.3% in total trade turnover, while the share of European Union Countries (EU) amounted to 21.1%.

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



Export and Import Statistics, 2M 2024, US\$ Mln

Countries	Exports	Share	Change, y/y	Products	Exports	Share	Change, y/y
Total Exports	803		-39.9%	Total Exports	803		-39.9%
Kyrgyzstan	126	15.6%	179.5%	Cars	263	32.7%	10.9%
Azerbaijan	99	12.4%	-10.6%	Wine	48	5.9%	38.0%
Russia	97	12.1%	-24.5%	Ferro-alloys	42	5.2%	-41.3%
Kazakhstan	85	10.5%	8.6%	Spirituous beverages	35	4.4%	45.2%
Armenia	79	9.8%	-40.8%	Precious metals	34	4.2%	169.7%
Turkey	64	7.9%	-1.7%	Mineral waters	22	2.7%	43.2%
China	48	6.0%	-57.0%	Fertilizers	21	2.7%	1.9%
Ukraine	19	2.3%	38.8%	Medicaments	18	2.2%	99.6%
Uzbekistan	17	2.1%	82.7%	Waters, mineral and aerat	14	1.8%	34.6%
Switzerland	14	1.8%	0.0%	Gold	14	1.7%	-14.2%
Egypt	11	1.3%	4847.4%	T-shirts	13	1.6%	23.8%
Other	146	18.2%	-23.7%	Other	280	34.8%	-36.7%

Countries	Imports	Share	Change, y/y	Products	Imports	Share	Change, y/y
Total Imports	2,147		-39.2%	Total Imports	2,147		-39.2%
Turkey	408	19.0%	25.3%	Cars	258	12.0%	-35.9%
Russia	314	14.6%	-7.4%	Oils	187	8.7%	18.0%
China	173	8.1%	29.0%	Gases	127	5.9%	-27.7%
United States	171	8.0%	-26.7%	Medicaments	103	4.8%	44.0%
Germany	119	5.6%	-14.1%	Telephones	59	2.7%	12.3%
Azerbaijan	108	5.0%	-20.5%	Other bars and rods of iron	33	1.5%	137.5%
Italy	54	2.5%	26.0%	Motor vehicles	32	1.5%	93.7%
United Arab Emirates	45	2.1%	-2.9%	Mixed goods	31	1.5%	566.5%
Poland	42	2.0%	22.8%	Computers	25	1.2%	10.0%
France	42	2.0%	3.3%	Other aircraft; spacecraft	22	1.0%	470.3%
Netherlands	42	2.0%	16.0%	Steel parts	19	0.9%	39.4%
Other	627	29.2%	-5.9%	Other	1,251	58.3%	0.7%

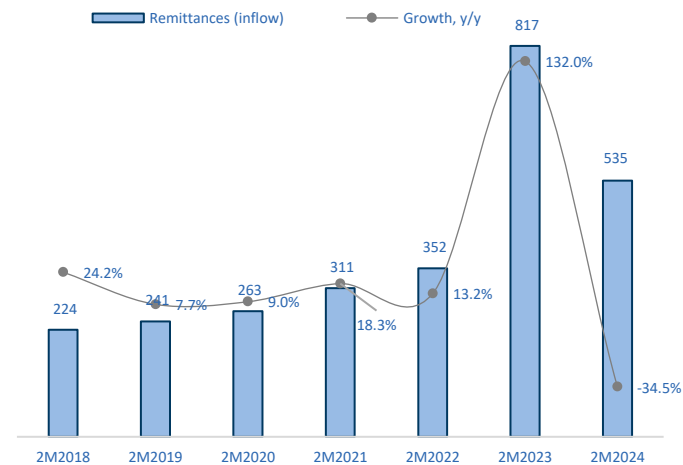
Remittances

In January-February 2024, the total amount of money transfers amounted to \$535.5 million which is 34.5% less compared to the same period of the previous year. In January-February 2024, the largest share of remittances came from Russia (24.2% share, -71.5% y/y), followed by Italy (16.5% share, +12.2% y/y) and the USA (14.8% share, +34.2% 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, while for February 2024 it decreased to 22.8%.

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.

Remittance Statistics, US\$ Mln



Share of Russia in total remittances



State Budget

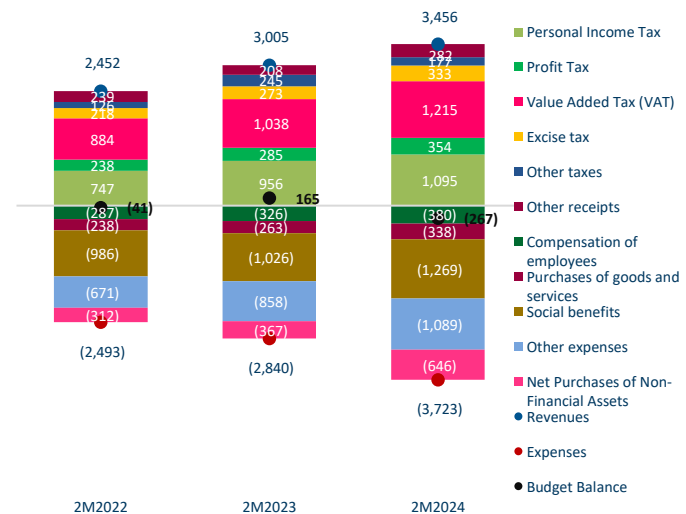
In January-February 2024, the state budget revenues increased by 15% y/y to 3.46 bln GEL, while the total expenses increased by 31.1% y/y to 3.72 bln GEL.

In the first two months of 2024, the revenues from value added tax increased by 17% y/y to 35.2% of budget revenues, while revenues from excise and income taxes increased by 21.9% y/y to 9.6% of the total revenues and by 14.5% y/y to 31.7% of the total revenues, respectively. Meanwhile, revenues from profit tax increased by 24.4% y/y and amounted to 10.2% of the total revenues.

On the spending side, social benefits increased by 23.7% y/y to 34.1% of the total budget expenses in January-February 2024, while compensation of employees increased by 16.7% y/y to 10.2% of the total expenses and purchases of goods and services increased by 28.8% y/y to 9.1% of the total expenses.

As a result, there was a budget deficit of about 266.8 million GEL in January-February 2024 which deteriorated by 432.2 million GEL y/y (in 2M 2023, there was a budget surplus of 165.4 million GEL).

Budget Statistics, Mln GEL



¹Net of food and energy prices

²Estimated period: 31/12/2023 –29.03.2024

³Exports excluding re-exports



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