TBC CAPITAL

WEEKLY MACRO UPDATE

NET INFLOWS UP IN JANUARY

24 FEBRUARY 2025

TBC Group Chief Economist Office

KEY TAKEAWAYS

- Excluding one-offs, net external inflows improved in January, in line with our expectations;

- Despite a surge in headline figures, trimmed imports, removing outliers in both directions, have decelerated in the past two months;

- Lower consumer durables have contributed heavily to the import slowdown, although February TBC data indicates relative acceleration in spending on durables;

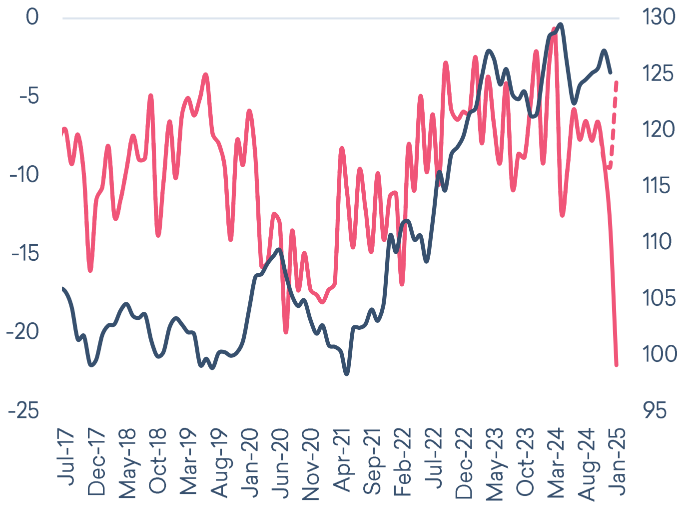
- Our proxies for tourism revenues and migrant expenses have also picked up in February, albeit remain relatively weak in annual growth terms;

- In case of relatively improved sentiments, stronger demand would imply higher imports, which will soften the GEL-positive pressure from this channel, although, in this scenario, the good time buffer, stronger FX credit and, likely, tourism inflows should also be considered;

- In light of recent preliminary negotiations aiming to resolve the Russia-Ukraine war, we would again like to highlight that, aside from obvious migration outflows, various passthrough channels should be considered.

According to our estimates, based on data for external trade, tourism revenues and remittances, net foreign currency inflows deteriorated significantly in January 2025, following up on the December decline (Figure 1). However, similar to the previous month, worsening net inflows were mainly driven by surging imports, which have become distorted by substantial one-offs. Therefore, we caution against direct interpretation of headline figures. These include c. $150 million in imports of aircraft and other goods not correlated with overall demand in December, and, furthermore, c. $500 million – one third of the total – in imported paintings and other works of art in January. Such transactions bear little relevance for the inflow-outflow balance from a supply-demand perspective. Excluding the one-offs, we estimate that net external inflows, in fact, improved in January. This has important implications for the GEL and is in line with our anticipation as argued in our previous notes in the past two months.

FIGURE 1: NET INFLOWS WITHOUT ONE-OFFS IMPROVED IN JANUARY



Note: Net inflows is a sum of net export of goods, gross tourism and remittances. Remittances from Russia are adjusted for double counting with tourism inflows and other issues; TBC Capital monthly tourism estimates based on assumptions of share of migrants counted as residents according to NBG and the estimate that migrants receiving international revenues based on TBC Bank client survey
Source: Geostat, NBG, TBC Capital

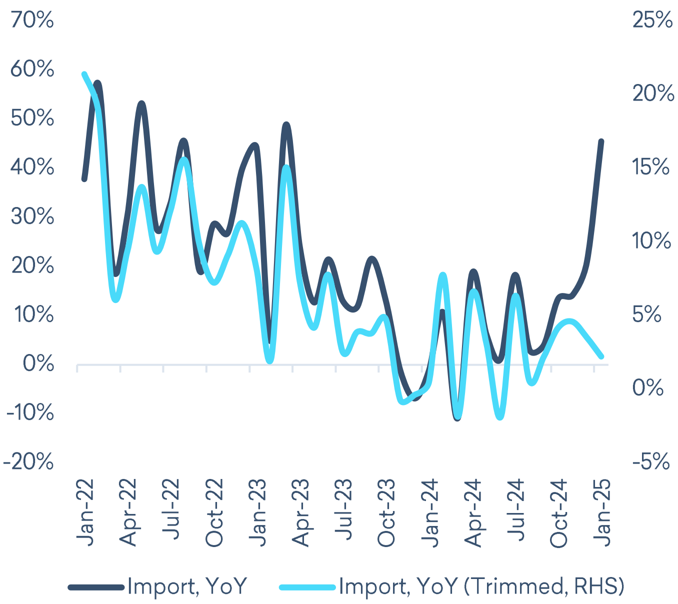
At the risk of repeating ourselves, in our view, there are two particularly important points to keep in mind within this context:

a) The ongoing confidence shock implies weaker demand for imports, particularly durables, which is growth-negative but GEL-positive;
b) Tourism revenues are highly vulnerable to internal tensions, but money transfers and exports are driven by exogenous factors and, therefore, by and large unaffected.

These conclusions conform with the newly released January data.

Let's get back to imports to examine it in more detail. As mentioned above, annual growth in overall imports has surged in the past two months, including a mammoth 45.5% growth in January. However, if we examine trimmed imports, removing outliers in either direction, we actually observe deceleration both in December and January (Figure 2). The annual growth rate of trimmed imports made up only 2.2% in January, a far cry from the headline figure.

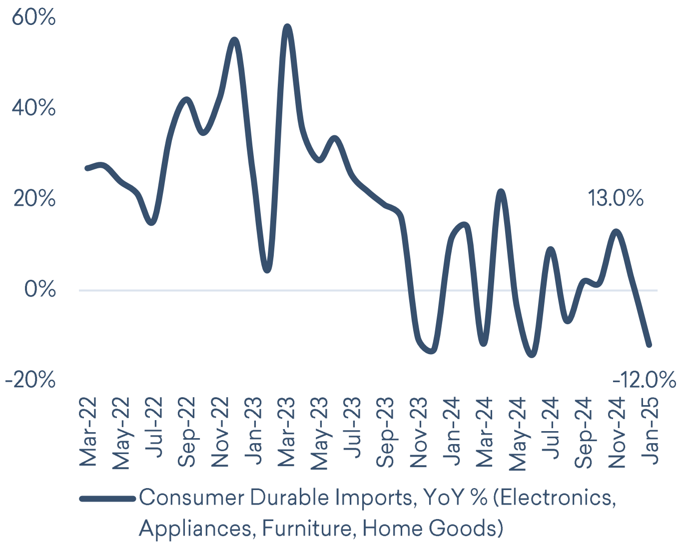
FIGURE 2: THOUGH OVERALL IMPORTS HAVE SURGED, THE GROWTH RATE OF TRIMMED IMPORTS HAS BEEN DECELERATING



Source: Geostat, TBC Capital
Note: 10 products with largest and smallest contributions to annual import growth are excluded from trimmed imports for each month.

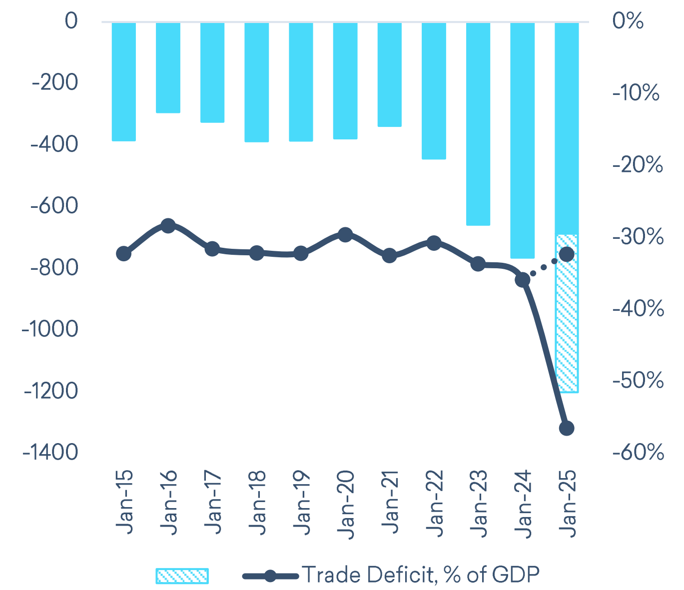
Consumer durables have made a sizeable contribution to this deceleration, with the annual growth rate plunging from 13% in November to -12% in January (Figure 3). At the same time, exports expanded by 19.3%, driven by car re-exports (+16%) but also domestic exports (+11.6%). Counting total imports, the trade deficit almost doubled in January as compared to previous years, but, excluding the one-off, it is fully in line with the historical trend (Figure 4).

FIGURE 3: CONSUMER DURABLE IMPORTS HAVE BEEN DECLINING SINCE NOVEMBER



Source: Geostat,TBC Capital

FIGURE 4: THE TRADE DEFICIT, WITHOUT ONE-OFFS, IMPROVED VS JAN-24



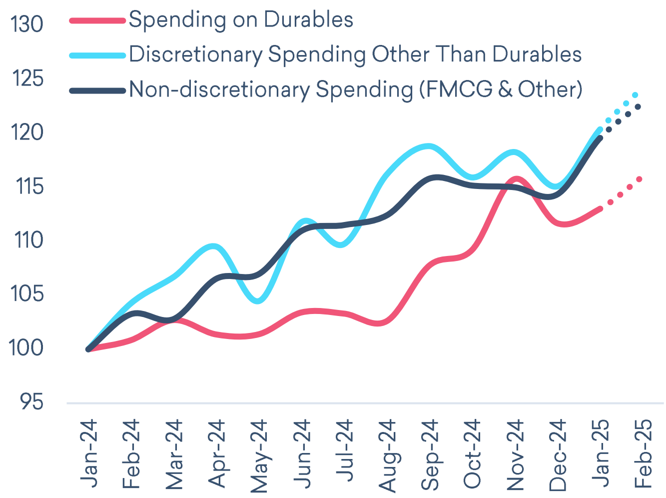
Source: Geostat,TBC Capital

We have been closely following the dynamics of non-cash spending by categories through TBC channels, which, our readers will recall, we have grouped in three:

- Non-discretionary spending (FMCG and other, e.g. utilities, pharmacy, etc.);
- Spending on durables (e.g. electronics, furniture);
- Discretionary spending other than durables (e.g. eating out, entertainment, delivery services, etc.).

Figure 5 plots spending in these categories in seasonally adjusted terms, with Jan-24 indexed to 100. The plunge in durables is clearly evident in December, followed by muted recovery in January, as opposed to the other two categories, which bounced back faster. However, as of mid-February, spending on durables appears to have accelerated and is on course to slightly overtake the November level.

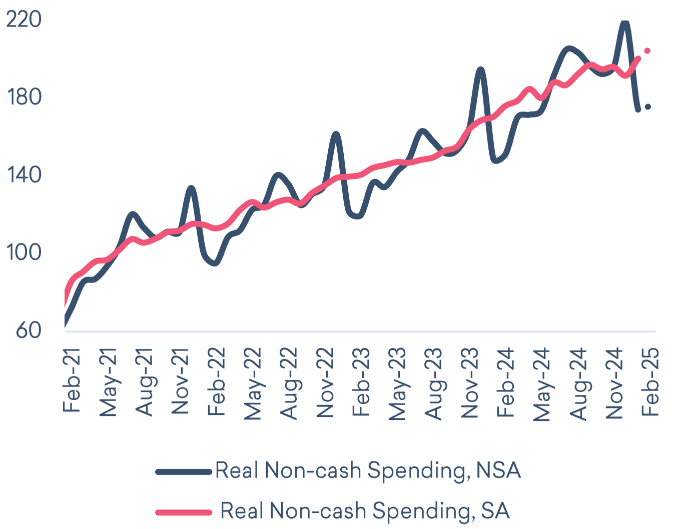
FIGURE 5: SPENDING ON DURABLES LOOKS SET FOR A STRONGER FEBRUARY (Index, Seasonally Adjusted, Jan-24 = 100, As of 16-Feb)



Source: TBC Capital

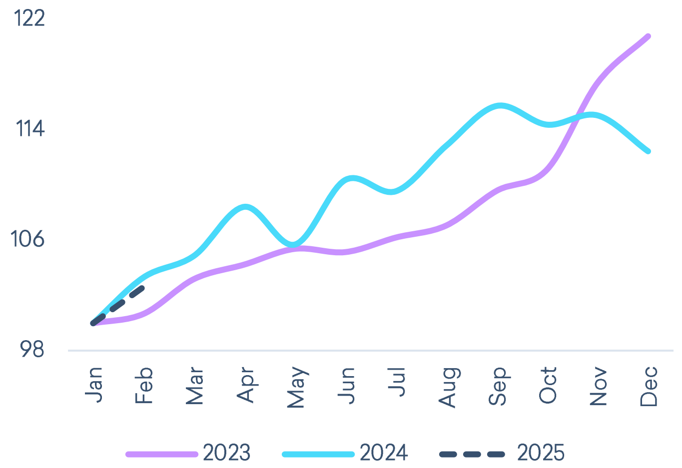
Since spending has increased across all three categories, total real non-cash expenses through TBC channels, our proxy for economic activity, is also set to expand in February (Figure 6). Moreover, should the dynamics in the 1st half of the month persist, spending in February vs January will almost be as strong as it was in 2024, and significantly stronger than in 2023 (Figure 7).

FIGURE 6: NON-CASH SPENDING THROUGH TBC CHANNELS HAS ACCELERATED IN THE 1ST HALF OF FEBRUARY (Index, 2021 = 100, As of 16-Feb)



Source: TBC Capital
Note: Non-cash spending dynamics partially reflect the expenditure switching trend to digital channels as well as the growing number of available digital payment platforms.

FIGURE 7: FEBRUARY GROWTH VS JANUARY IS IN LINE WITH 2024 DYNAMICS (Index, Jan = 100, As of 16-Feb)

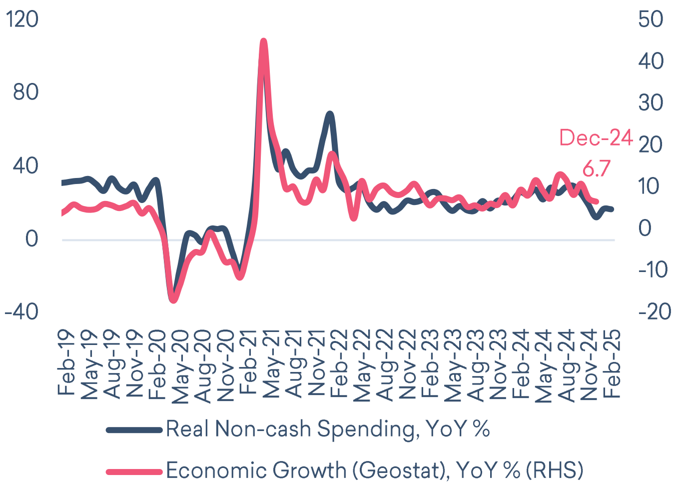


Source: TBC Capital
Note: Non-cash spending dynamics partially reflect the expenditure switching trend to digital channels as well as the growing number of available digital payment platforms.

Simultaneously, one should keep in mind that expenses in January were relatively weak, so full recovery would imply higher growth than previously. This can also be inferred from examining annual growth rates – despite picking up on a monthly basis, non-cash spending compared to the previous year remains low (Figure 8).

Nevertheless, if demand continues to increase going forward, imports are likely to follow suit, which will soften the GEL-positive pressure from this channel. On the other hand, should higher demand stem from relatively improved sentiments, one should also keep in mind what we call the good time buffer, i.e. GEL-supportive reversal in deposit conversions, stronger FX credit and, likely, tourism inflows too.

FIGURE 8: IN ANNUAL GROWTH TERMS, REAL NON-CASH SPENDING REMAINS RELATIVELY WEAK (As of 16-Feb, YoY, %)



Source: Geostat, TBC Capital

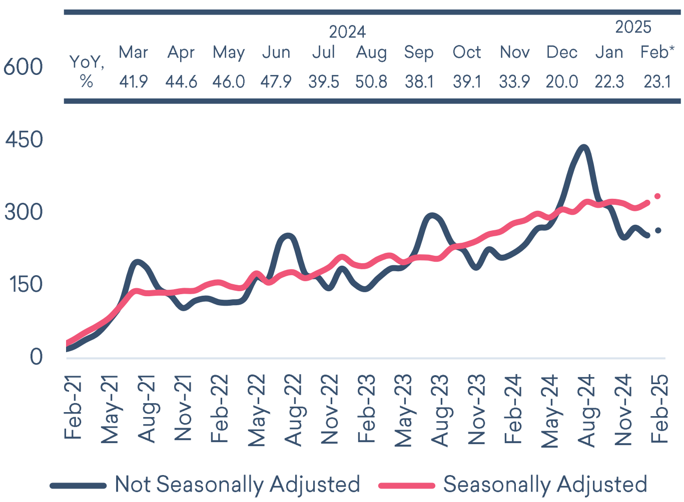
At the same time, TBC coincident indicators do not capture exports. In this regard, we note that, as the global price for ferro-alloys has somewhat increased recently, this, coupled with strong demand, provides a potential upside for exports going forward. Ferro-alloys, owing to a strong domestic component, are historically an important contributor to domestic exports and overall value added.

Non-cash spending of non-residents, our proxy for conventional tourism, looks to be posting a strong February as well (Figure 9). Although non-resident expenses only recovered to slightly below the November level in January, the acceleration is evident as of mid-February, possibly linked with the European Youth Olympic Festival, which was held during February 6-16. Annual growth, however, remains relatively low, set to rise marginally to 23.1% from 22.3% in January.

Exactly the same is true for non-cash expenses of Russians, Ukrainians and Belarussians with TBC cards, our proxy for migration – spending in January fell short of the November level, but has been growing robustly in February thus far (Figure 10).

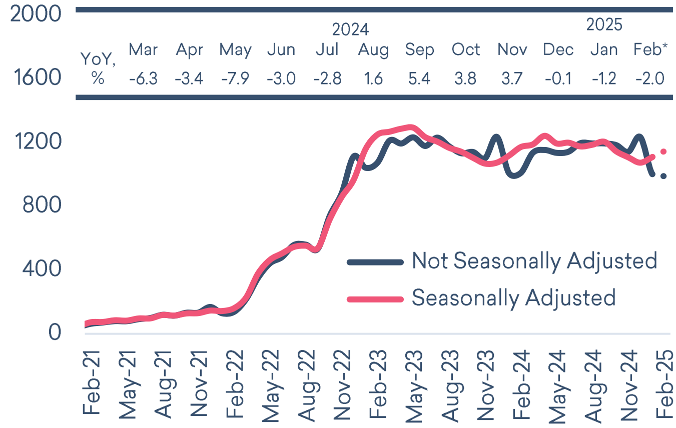
What about instant money transfers? In January, traditional sources of transfers other than Russia accounted for 85% of total inflows. The EU, the UK and the US took over two thirds (67%), while the share of Russia was only 10% (Figure 11). Transfers from traditional sources grew by 11% annually, up from 7.4% in December (Figure 12).

FIGURE 9: NON-RESIDENT NON-CASH EXPENSES HAVE INCREASED COMPARED TO THE PREVIOUS MONTH (Index in USD, 2021 = 100, As of 16-Feb)



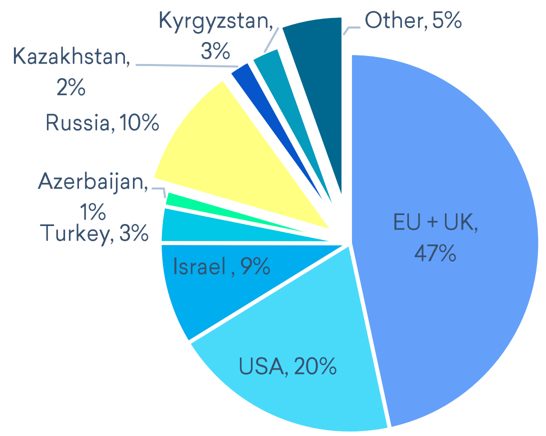
Source: TBC Capital
Note: Non-cash spending dynamics partially reflect the expenditure switching trend to digital channels as well as the growing number of available digital payment platforms.

FIGURE 10: NON-CASH EXPENSES OF RUSSIANS, BELARUSSIANS AND UKRAINIANS WITH TBC CARDS HAVE PICKED UP IN FEBRUARY (As of 14-Feb, Index in USD, 2021 Daily Average = 100)



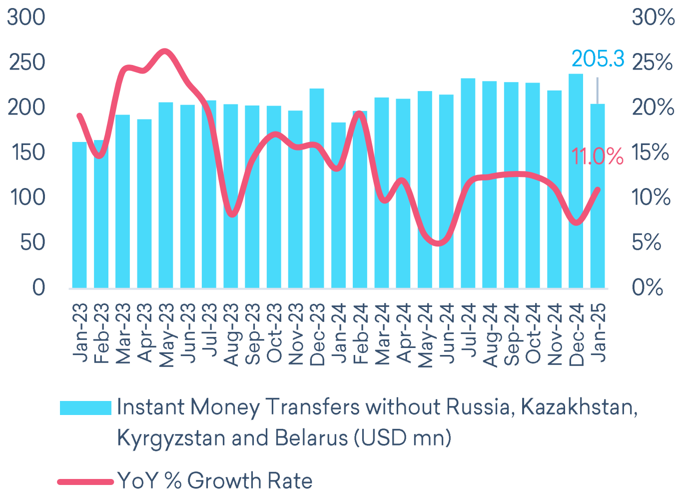
Source: TBC Capital
Note: The Data includes Local POS and E-Com Payments, Payments outside Georgia are excluded. Non-cash spending dynamics partially reflect the expenditure switching trend to digital channels as well as the growing number of available digital payment platforms.

FIGURE 11: EU AND UK ACCOUNT FOR ALMOST HALF OF TOTAL INSTANT MONEY TRANSFERS (% Share, January 2025)



Source: NBG, TBC Capital
Note: Remittances from instant money transfers and those included in the balance of payments have diverged since the war due to methodological issues, although have gotten relatively close again in the past several quarters.

FIGURE 12: MONEY TRANSFERS FROM TRADITIONAL SOURCES HAVE BEEN GROWING ROBUSTLY



Source: NBG, TBC Capital

In the context of external flows, it is, of course, clear that the timing and terms of the Russia-Ukraine war resolution will be playing a key role in shaping the external environment. Preliminary negotiations have begun on laying ground for future discussions. We have explored the major passthrough channels in our post-election note, analyzing the impact of the US election outcome on the GEL/EUR/USD strategy. Should a relatively amicable solution be reached, aside from obvious migration outflows, this would imply lower risk premiums and higher economic growth in the region, with conventional tourism recovery partially compensating for the diminishing migration impact as well. All other things constant, commodity prices would fall, resulting in lower inflation and thus lower interest rates. From a safe haven perspective, this would be negative for the USD and, on the contrary, positive for the EUR, which is more aligned with Georgian economic cycles. We have already seen the EUR slightly appreciate from post-election lows in recent days.

Simultaneously, divergence between the US and the EU-Ukraine positions appears to be growing, which might imply different approaches to e.g. sanctions. If this ultimately ends up to be the case, from an economic perspective, the positive spillovers will be more limited.

Regarding commodities, among many others, the broadly balanced terms of trade and the direct and indirect exposure to oil prices should be taken into account. Namely, despite high volatility in international markets, the terms of trade (export prices over import prices) for Georgia have remained broadly stable, an important source of resilience. Moreover, while Georgia is a net oil importer, the country receives substantial inflows from commodity-dependent economies, offsetting net exposure to commodity prices. Therefore, while not arguing that the Georgian economy is „delta neutral“, certainly, there are considerable upsides and downsides in many foreseeable scenarios. At the same time, definitely, there will be heterogeneity across industries, even if the overall impact is less pronounced on a macro level.

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