



**TBC CAPITAL**

# **UPDATE FROM THE CHIEF ECONOMIST**

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The GEL appreciation pressures continued throughout the week, now coupled with the sizable NBG interventions, in line with [our expectations](#). Through 1 to 12 August, via FX auctions, the NBG bought 70 million USD. At the same time, as disclosed by the NBG, in July the central bank bought around 110 million USD w/o auctions<sup>1</sup>. We at least do not rule out that similar types of interventions have been taking place also in the beginning of August and therefore the actual amount bought is likely exceeding 70 million USD.

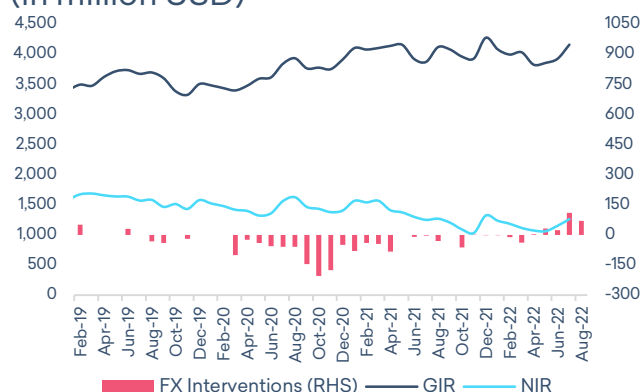
[As judged earlier](#), unlike the [first intervention in the recent period](#), the market sentiments have not worsened, however, only until the very end of the week when the GEL lost its value with the USD/GEL at around 2.77 at the end of Friday according to Bloomberg. What can we say? Based on [TBC Capital 3 pillar approach](#), we are still bullish on the first one, broadly neutral on the second and now are [turning bearish on the third](#) as we project inflation to cool down already starting from August which based on our estimates on a monthly basis should be deflationary even in the seasonally adjusted terms.

Another important driver of the GEL to consider is its seasonality. Though also here [our approach](#) is broadly unchanged. In particular, while the net inflows seasonality supports the GEL seasonality argument, again, if market participants are aware of that pattern, which broadly appears to be the case, going forward we won't see the well-established GEL seasonal movements. In fact, we believe, the Friday reversal, together with the perception that the GEL probably has strengthened already somewhat beyond the current sustainable levels and the NBG will be even more active in buying the FX, has also at least something to do with the seasonal depreciation expectations in the 4th quarter enabling to argue that the seasonality is to large extent already priced in.

1. NBG's FX interventions without an auction for July-2022 will be released later

## NBG'S INTERNATIONAL RESERVES AND FX INTERVENTIONS

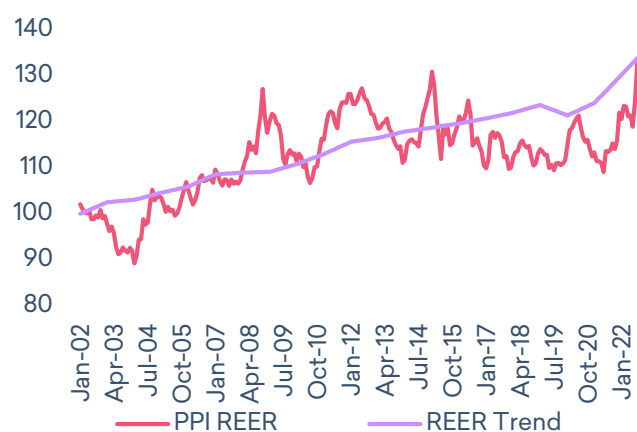
(in million USD)



**Note:** NIR level for Jul-2022 is calculated based on the assumed values for FX swap operations between the NBG and commercial banks and MoF liabilities to the IMF. The actual data as well as NBG's FX interventions without an auction for July-2022 will be released later. FX intervention as of 12 Aug through FX auction in case of august data.  
**Source:** NBG, MoF, TBC Capital

## GEL REER ACTUAL AND FITTED REER

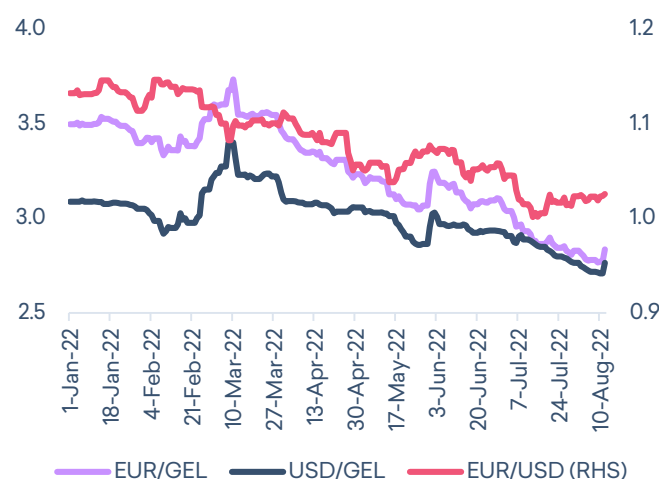
(As of 12-Aug-22, increase means GEL appreciation)



**Note:** PPI REER data is estimated from January 2013  
REER Trend is estimated based on GDP per capita growth differential between Georgia and its main trading partners using relative trade weights and adjusted for the share of non-tradable sector  
**Source:** NBG, IMF, WB, TBC Capital

## GEL EXCHANGE RATE AND EUR/USD

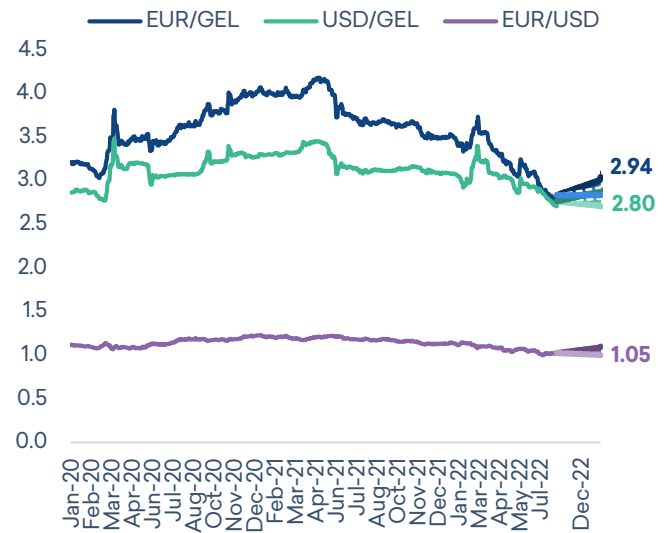
(As of 12-Aug-22)



**Note:** 12 Aug FX according to an end of day Bloomberg data  
**Source:** NBG

As for the TBC Capital model based outlook, the estimates point to end of year USD/GEL at around 2.80 with the EUR/USD at around 1.05 and other regional currencies being broadly at the same level relative to greenback. In 2023 we would bet on the stronger EUR/USD and with the GEL somewhat weakening against the EUR, but not necessarily or even probably vice versa against the USD.

## GEL EXCHANGE RATE EXPECTATIONS



Source: NBG, TBC Capital

### Data releases to watch this week:

- August 15 – External Trade Express Data, July 2022;
- August 15 – Remittances, July 2022;
- August 15 – Tourism, July 2022;
- August 19 – Labour Force Indicators, II Quarter 2022;
- August 19 – Producer Price Index, July 2022;
- August 19 – External Trade detailed Statistics, July 2022.

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