



TBC CAPITAL



MACRO UPDATE

**WHAT DOES THE RECENT
DATA TELL US?**

17 JANUARY 2025

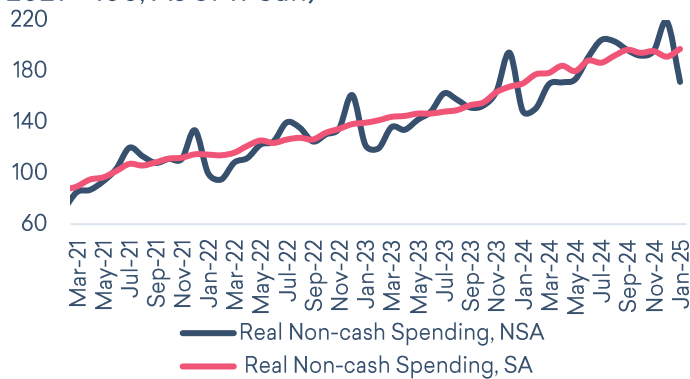
TBC Group Chief Economist Office

KEY TAKEAWAYS

- Non-cash spending of residents, non-residents and migrants through TBC channels slowed down simultaneously in December;
- In January, resident spending is on course to slightly overtake the November level, in seasonally adjusted terms, while non-resident and migrant expenses have recovered vs December but remain well below November levels thus far;
- Tourism revenues are most sensitive to tensions, though lower domestic demand and an up to 50% share of the import component in the hospitality sector would imply an adjustment in imports as well;
- The underlying current account deficit – if measured without reinvestments – has remained close to historical lows as of 3Q24;
- After initial signs of deposits switching back to the GEL in November, conversions accelerated again in December, albeit, with a substantial flight to FX assets having already occurred pre-election, the marginal effect was lower this time;
- As a result, the NBG switched to the buying side in November and likely so, though rather marginally, in December;
- Inflation has been somewhat elevated in the past two months, potentially an early warning indicator for emerging pressures, with the excise tax hike on cigarettes and fading last year's one-off effects set to push 2025 inflation upwards;
- Based on the TBC Capital three-pillar approach, our stance on the GEL in 2025 is broadly neutral around its current value, perhaps slightly tilted towards somewhat further weakening, also depending on the DXY internationally.

First, we begin with TBC coincident indicators. Non-cash spending through TBC channels, our proxy for economic activity, slowed down in the last quarter of 2024, particularly in December, when, in seasonally adjusted terms, it fell slightly below the level reached four months prior in August (Figure 1). Annual growth in non-cash spending declined accordingly throughout the quarter, as the slowdown became more pronounced with each successive month (Figure 2). With this, November economic growth came in at 7.5%, in line with our forecast of 7.6%. As December growth should be weaker, impacted by lower economic activity and also a high base effect a year ago, based on our nowcasting model, 2024 full year economic growth estimate stands at 9.3%.

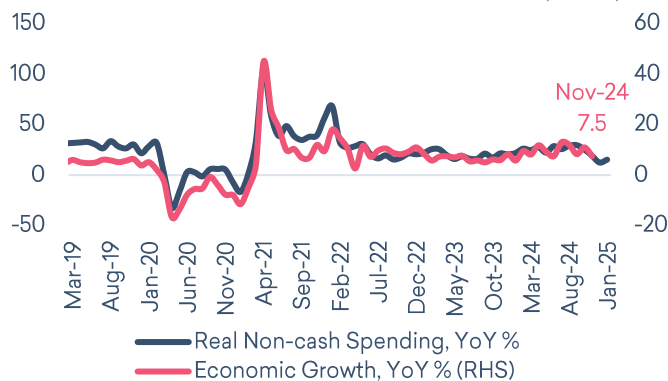
FIGURE 1: REAL NON-CASH SPENDING THROUGH TBC CHANNELS FELL IN DECEMBER BUT HAS BEEN STRONGER IN JANUARY (Index, 2021 = 100, As of 11-Jan)



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 2: THE GROWTH RATE OF REAL NON-CASH SPENDING THROUGH TBC CHANNELS HAS SLOWED SINCE 4Q24 (As of 11-Jan, YoY, %)

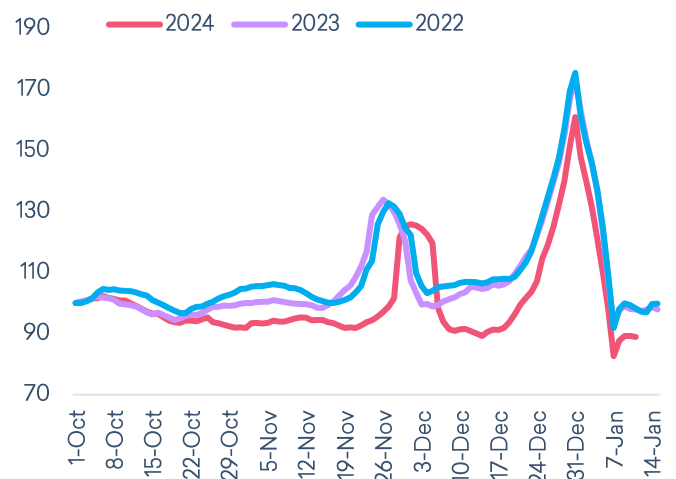


Source: Geostat, TBC Capital

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.

Delving into daily dynamics, Figure 3 plots total non-cash spending, in unadjusted nominal terms, across the past three years. The index is constructed so that, for each year, October 1 is set to 100, and the lines on Figure 3 indicate how non-cash spending changed compared to the beginning of October during the respective years. The humps in November correspond to expenses on Black Friday, which occurred a few days later in 2024. While the dynamics in 2022 and 2023 are very similar, it is evident that, prior to political unrest, November was already weaker in 2024, with the gap widening further in the first two weeks of December. In the 2nd half of December, as New Year-related expenses gained traction, total non-cash spending relatively recovered, albeit this growth was weaker compared to the previous two years. What can we say about January? In the first 11 days, thus far, non-cash spending has been closely following the trend in the prior years, yet remains relatively lower. If these dynamics persist during the rest of the month, spending will improve from December, in seasonally adjusted terms, and will slightly overtake the November level as well (Figure 1).

FIGURE 3: NON-CASH SPENDING THROUGH TBC CHANNELS HAS PARTIALLY RECOVERED SINCE THE 2ND HALF OF DECEMBER BUT REMAINS WEAKER COMPARED TO THE TREND IN PREVIOUS YEARS (Index, 01-Oct = 100, As of 11-Jan)

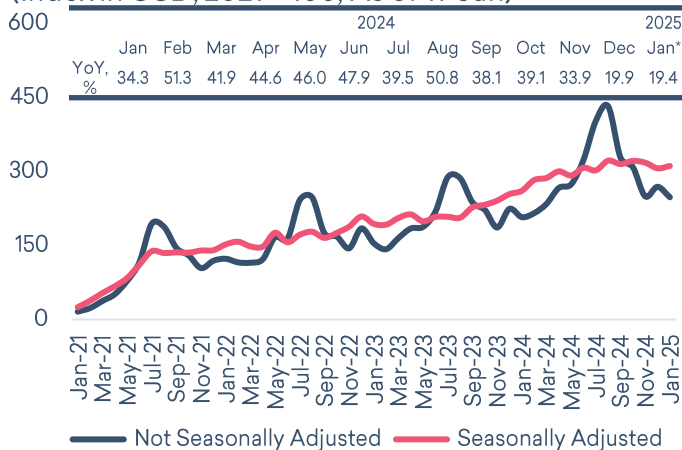


Source: TBC Capital

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.

The slowdown was also evident in non-cash spending of non-residents through TBC channels, our proxy for conventional tourism (Figure 4). What's more, apart from the fact that the December monthly fall (in seasonally adjusted terms) was more severe in case of non-residents, early dynamics indicate that, so far, non-resident spending in January is set to remain well below the November level, as opposed to the recovery observed in the spending of residents.

FIGURE 4: NON-CASH EXPENSES OF NON-RESIDENTS THROUGH TBC CHANNELS HAVE DECELERATED IN THE PAST TWO MONTHS (Index in USD, 2021 = 100, As of 11-Jan)



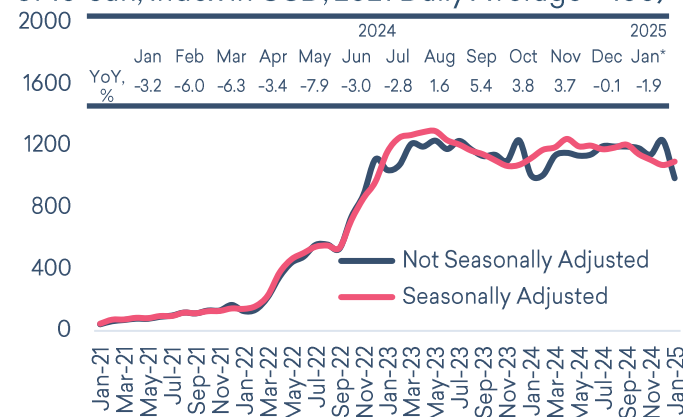
Source: TBC Capital

Note: The Data includes spending through Local POS and E-Com Payments with foreign cards; Estimates of tourism might be different from the NBG tourism data growth due to differences in methodology. Non-cash spending dynamics partially reflect the expenditure switching trend to digital channels as well as the growing number of available digital payment platforms.

The same is true for migration – seasonally adjusted migrant spending with TBC cards fell to the previous year level in December, with January on course to be stronger MoM but below November based on most recent data (Figure 5). However, shrinking migrant expenses are not necessarily driven by [outflows](#), but, rather, likely following the same pattern as resident spending. While a decline in tourism revenues is both GEL- and growth-negative, weaker domestic demand implies weaker demand for imports and therefore a twofold impact – growth-negative but GEL-positive. It follows that a recovery in demand will also have a twofold impact on the opposite side.

Additionally, there are two important things to consider: first, recovery in domestic demand coupled with remaining weakness in non-resident demand would be a more pronounced GEL-negative factor and second, flash data shows December imports widening considerably despite demand slowdown, with import resilience also a potential downside for the GEL. With this, net inflows declined in December (Figure 6). The detailed trade breakdown by categories will be available on January 20. However, going forward, assuming economic growth slows relatively, the demand for imports should be at least somewhat lower.

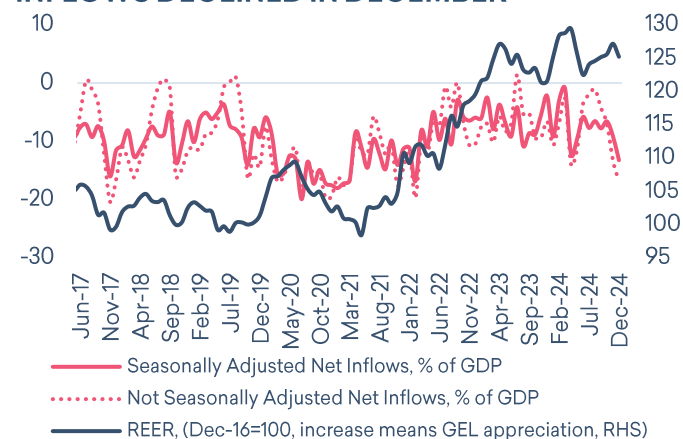
FIGURE 5: NON-CASH EXPENSES OF RUSSIANS, BELARUSSIANS AND UKRAINIANS WITH TBC CARDS HAVE ALSO DECLINED IN DEC-JAN (As of 10-Jan, Index in USD, 2021 Daily Average = 100)



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 6: ESTIMATED NET CURRENCY INFLOWS DECLINED IN DECEMBER



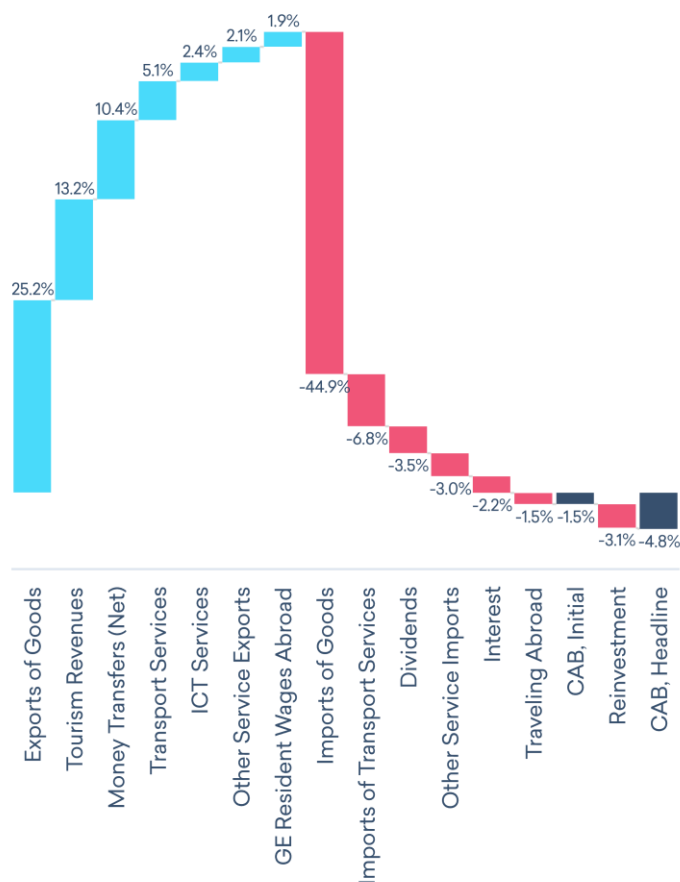
Note: Net inflows is a sum of net export of goods, gross tourism and remittances. Remittances from Russia are adjusted for double counting with tourism inflows and other issues; TBC Capital monthly tourism estimates based on assumptions of share of migrants counted as residents according to NBG and the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

Source: Geostat, NBG, TBC Capital

On the overall external balance, the headline current account deficit in the last four quarters (4Q23–3Q24) has totaled \$1.6 billion, or -4.7% of GDP, including a 0.6% surplus in 3Q24, though in NSA terms. However, reinvestments, which exaggerate the current account deficit, made up \$1 billion in the same period, leaving over an underlying current account deficit of just under \$500 million, or -1.5% of GDP (Figure 7). Since reinvestments are imputed in the balance of payments as an initial outflow in the current account and a subsequent inflow in the financial account, when no such outflow has taken place in reality, it is the underlying current account deficit that is more relevant from the inflow–outflow perspective keeping in mind that in case of higher dividend distribution, - lower reinvested earnings, certainly is an outflow. Nevertheless, the quarterly seasonally adjusted underlying current account deficit has averaged only -0.2% of GDP since 2Q22, and only -0.4% of GDP excluding the outsized surplus in 3Q22, reflecting the surge in inflows since the beginning of Russia’s invasion of Ukraine (Figure 8).

Regarding the current account components, exports of goods, tourism revenues and money transfers make up the bulk of total inflows (Figure 7). Out of these three, tourism revenues are the most sensitive to unrest and deteriorating sentiments in the short term, as already evident in the TBC coincident indicators. On the other hand, money transfers entirely and merchandise exports, at least to a large extent, ought to be unaffected.

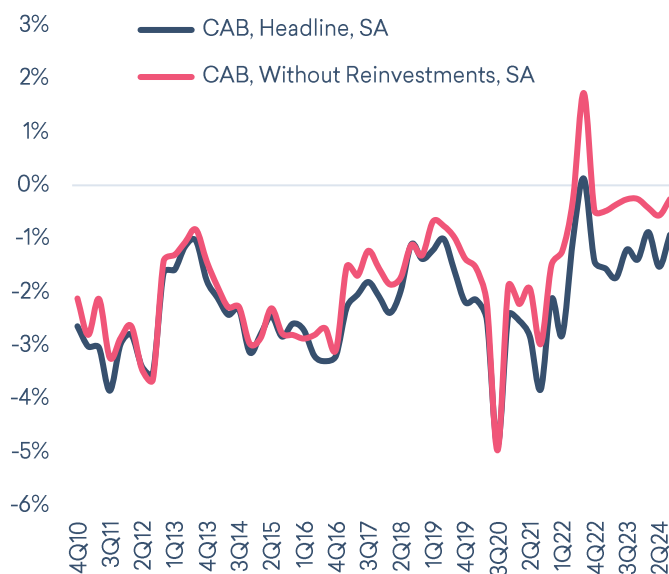
FIGURE 7: THE UNDERLYING CURRENT ACCOUNT DEFICIT IN THE LAST FOUR QUARTERS HAS TOTALLED -1.5% OF GDP (Current Account Balance By Components, % of GDP)



Source: NBG, TBC Capital

Note: We estimate the migration impact at around \$11 billion in 2024, c. 3.5% of GDP. Migration-related flows are included within several components of the current account shown above.

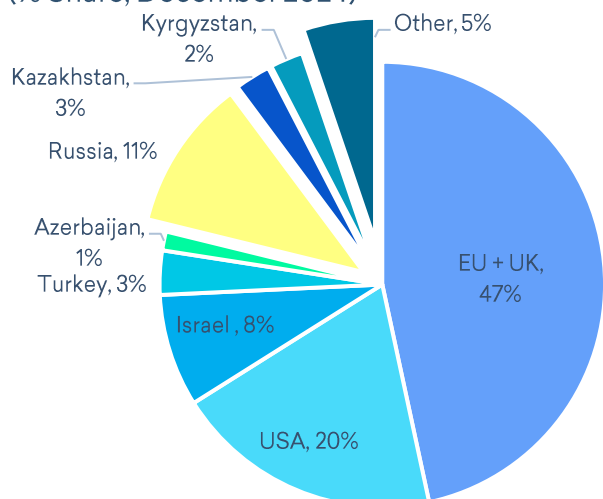
FIGURE 8: THE CURRENT ACCOUNT DEFICIT WITHOUT REINVESTMENTS HAS DECLINED SIGNIFICANTLY POST-WAR (Current Account Balance, Quarterly, Seasonally Adjusted, % of GDP)



Source: NBG, TBC Capital

With respect to instant money transfers, as of December 2024, traditional sources of transfers other than Russia were responsible for 84% of overall inflows, with almost half from the EU and UK, while Russia, Kazakhstan and Kyrgyzstan accounted for the remaining 16% (Figure 9). Despite transfers from the latter three countries and Belarus potentially suffering from double-counting and other methodological issues since the war, inflows from the traditional sources have remained robust and displayed sizeable growth throughout the past two years (Figure 10).

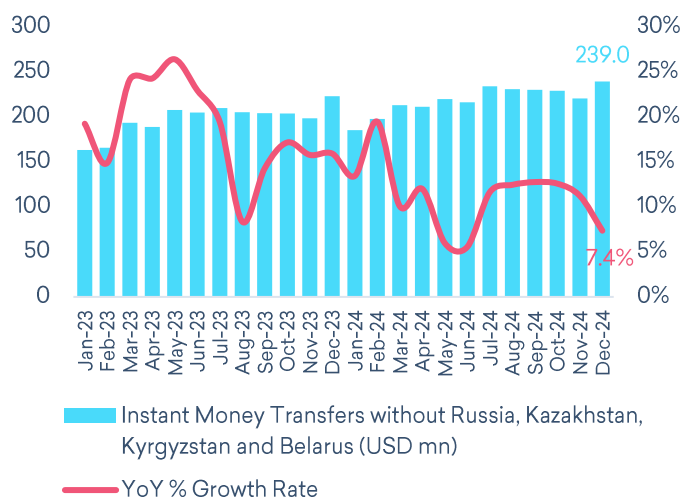
FIGURE 9: EU AND UK ACCOUNT FOR ALMOST HALF OF TOTAL INSTANT MONEY TRANSFERS (% Share, December 2024)



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.

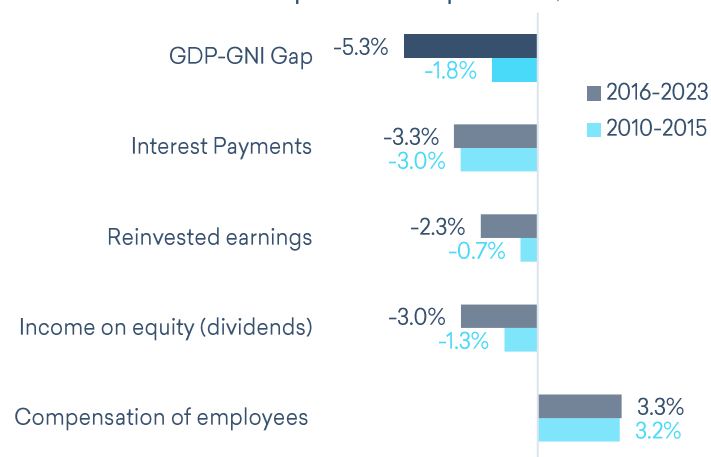
FIGURE 10: TRADITIONALLY-SOURCED MONEY TRANSFERS HAVE BEEN GROWING ROBUSTLY



Source:NBG, TBC Capital

As for outflows, we would once again like to emphasize that worsening business and consumer sentiments lower demand on both imports as well as domestic goods and services, which incorporate a sizeable import component in their own right; the latter is also true for exports, including tourism revenues. We would also like to highlight dividend outflows, which have accelerated in the past few years, and, together with reinvestment, have been driving the expanding gap between GDP and gross national income (GNI), which measures total income of Georgian residents, rather than income generated in Georgia (Figure 11). With the rising importance of these flows and the contrast between true outflows in dividends versus returning flows in reinvestment, as discussed above, the distribution of profits between dividends and reinvestment has been and will remain sizable for determining the FX inflow-outflow balance going forward.

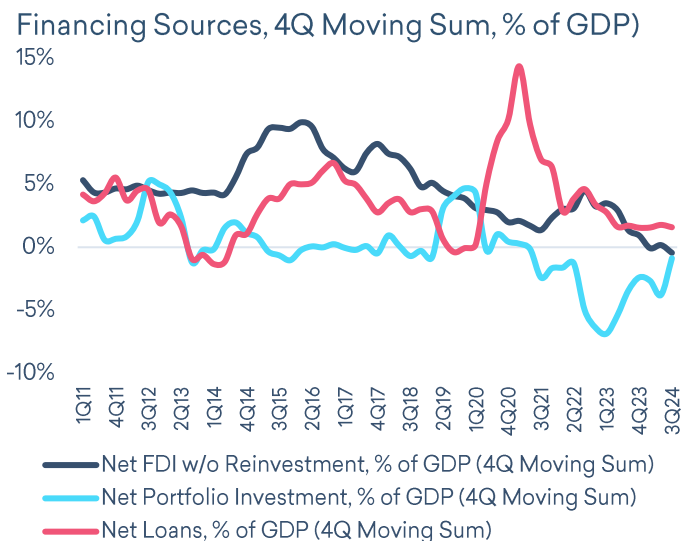
FIGURE 11: DIVIDEND OUTFLOWS AND REINVESTMENTS HAVE GROWN IN RECENT YEARS (GDP-GNI Gap with Components, % of GDP)



Source:Geostat, TBC Capital

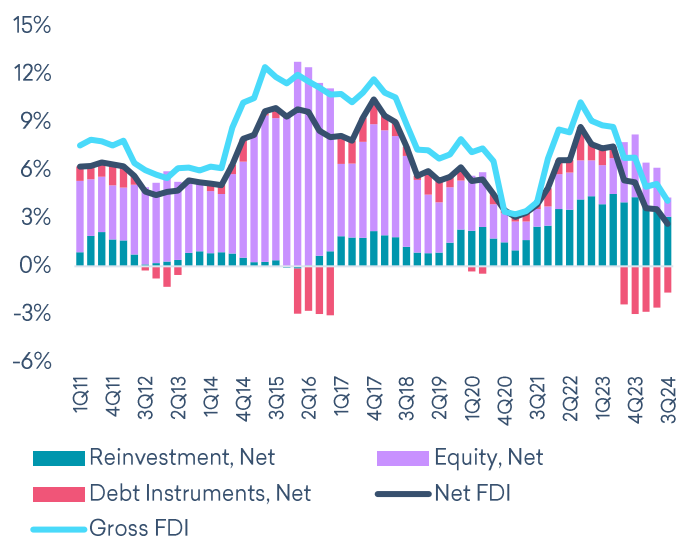
What about the deficit financing? Out of the three major funding sources – FDI, portfolio investments and loans – only the latter has been used to finance the current account deficit in 2024 as well as the best part of 2023, while investment inflows have been lacking (Figure 12). In the last 1.5 years, since 2Q23, net FDI inflows have equaled \$1.7 billion, of which reinvested earnings made up \$1.8 billion, 105.5% of the total. Regarding the remaining two components, net equity inflows totaled \$1 billion, while net debt instrument inflows – negative \$1.2 billion in the same period (Figure 13).

FIGURE 12: LOANS HAVE PROVIDED THE BULK OF FINANCING IN RECENT YEARS (Selected Financing Sources, 4Q Moving Sum, % of GDP)



Source: TBC Capital

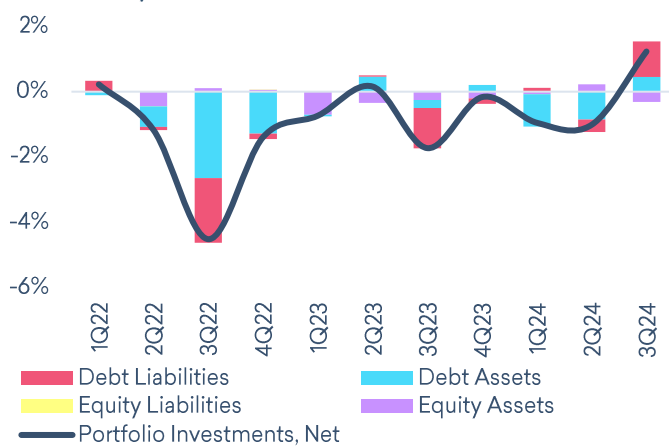
FIGURE 13: REINVESTMENT HAS BEEN THE DRIVING FORCE BEHIND FDI IN 2024 (FDI Inflows, 4Q Moving Sum, % of GDP)



Source: TBC Capital

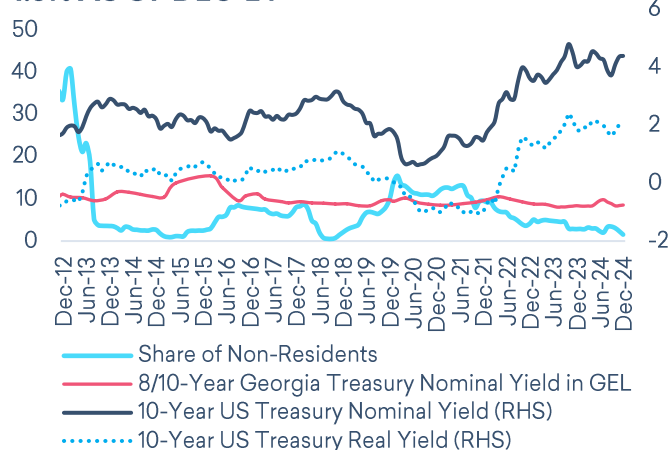
As for portfolio investments, negative flows have largely been caused by resident commercial banks purchasing foreign debt securities (US treasuries) following the post-war liquidity surplus, but also by a reduction of liabilities – sales of Georgian debt securities by non-residents – mostly due to repurchases of existing bonds, i.e. one-off operations; once again, reflecting high FX liquidity levels (Figure 14). On the other hand, the jump in 3Q24 was due to partly commercial banks selling foreign debt securities and partly a private green bond issuance in July 2024. We also note that the share of non-resident holders of Georgian treasuries fell to 1.6% in December 2024, lowest since late 2018 (Figure 15).

FIGURE 14: HIGH FX LIQUIDITY HAS ALLOWED BANKS TO ACCUMULATE FOREIGN DEBT SECURITIES (Net Portfolio Investments, Quarterly, % of GDP)



Source: TBC Capital

FIGURE 15: SHARE OF TREASURY SECURITIES HELD BY NON-RESIDENTS HAS DECLINED TO 1.6% AS OF DEC-24

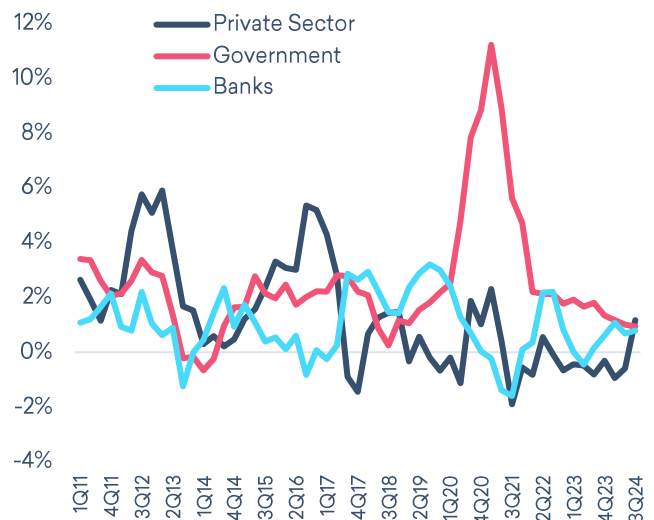


Source: NBG, FRED

Examining financing sources by sector, Figure 16 plots gross inflows from portfolio investment, loans and other investment (mostly trade credits, without currency and deposits) for the private sector, government and commercial banks. Note that gross inflow here is defined as an increase in liabilities, without subtracting an increase in assets. I.e., gross inflows include, e.g., loan repayment or bond repurchases (reduction of liabilities), but do not include lending or foreign bond purchases (growth of assets). It is evident that, since the COVID crisis and particularly after the war, it is the public sector where the inflows have been concentrated, almost entirely made up of loans. In the last ten years (2015-9M24), average annual gross inflows from these sources have totaled \$120 million for the private sector, \$190 million for banks and \$515 million for the government. On top of this, annual gross FDI inflows have averaged \$1.5 billion, while FDI without reinvestment – \$810 million. Coupled with a historically low underlying current account deficit, at the moment, the recent lack of investment inflows as a funding source and weaker flows into the private sector indicate little contemporaneous pressure on financing; however, one must also take into account the historically large structural current account deficit and the external debt stock, especially in times of financing needs, as evident on Figures 11 and 15. As of 3Q24, the general government external debt made up only 26.9% of GDP, though with an additional 39.2% of GDP from the private sector. Furthermore, FDI-related external debt totaled 8.3% of GDP, which, together with NBG’s debt of 2.6%, brought total external debt to just over 77% of GDP.

Here we also note that stronger than budgeted economic growth across the past few years has [allowed the government to accumulate cash](#).

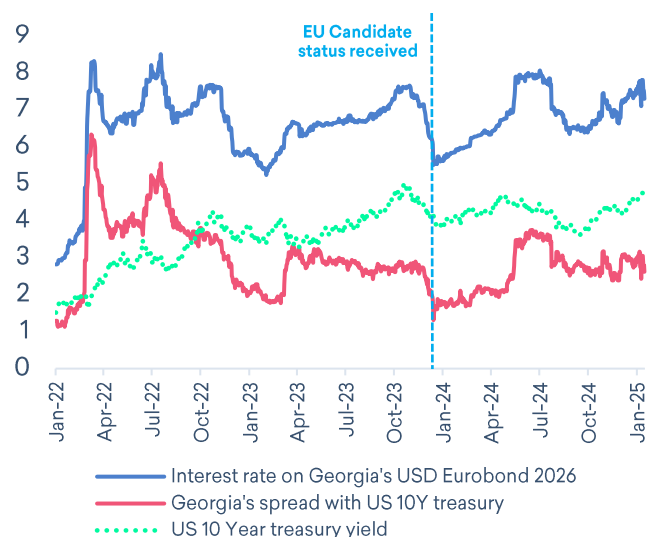
FIGURE 16: INFLOWS OTHER THAN FDI HAVE LARGELY BEEN CONCENTRATED IN THE PUBLIC SECTOR IN RECENT YEARS (Selected Financing Sources, 4Q Moving Sum, % of GDP)



Source: TBC Capital

As for the Georgian sovereign Eurobond, the yield has spiked since late November, although the 10Y US treasury yield has also risen somewhat in the same period, with the widening of the yield spread between Georgia’s and US bonds thus relatively milder (Figure 17).

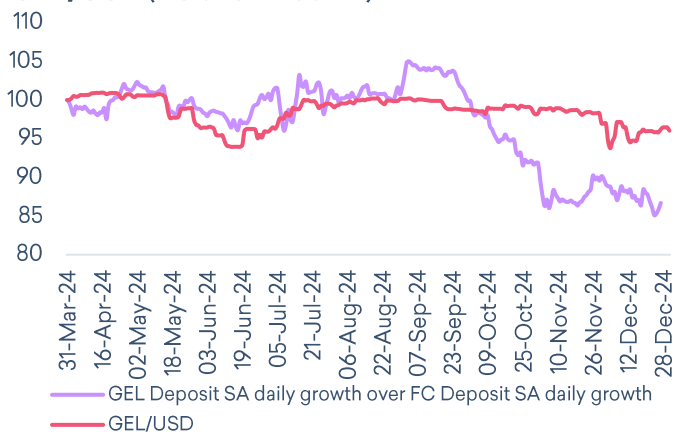
FIGURE 17: YIELDS ON GEORGIA’S SOVEREIGN EUROBOND AND THE 10Y US TREASURY HAVE INCREASED (PP, as of 15-Jan)



Source: Bloomberg

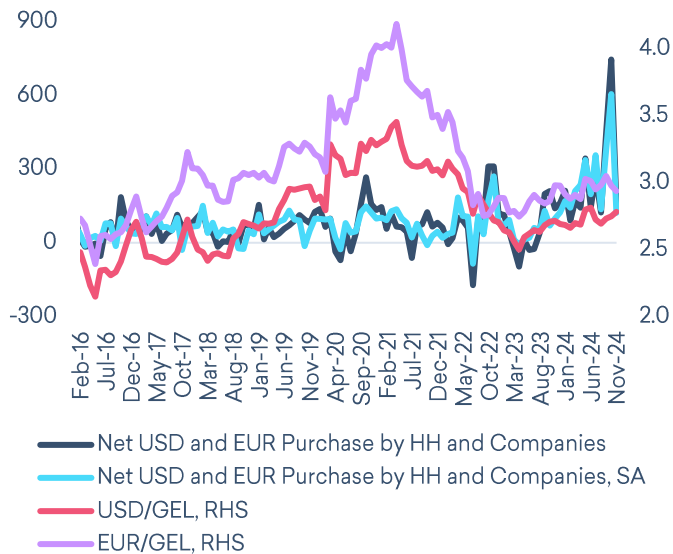
Moving on to the GEL, we argued in our [previous update](#) that, as of early November, depreciation pressures stemming from worsening sentiments had largely topped out and, absent material shifts, the marginal effect of sentiments had faded, with the market switching from an active foreign currency buying phase to a passive waiting phase. The political unrest since late November represents such a shift. GEL deposit growth in excess of foreign currency deposit growth, our preferred measure of sentiments, accelerated in the 2nd half of November, as early signs of switching back to the GEL – materialization of the “[good time buffer](#)” – gained momentum (Figure 18). Additionally, while October foreign currency market data confirmed the [flight to FX assets](#) at record high levels, November figures indicated normalization in both net FX purchases and overall turnover (Figures 19 and 20). However, as political tensions increased in December, so did deposit conversions again. Naturally, with a significant amount of FX accumulation by corporates and households, [more than a billion USD per our estimates](#), having already taken place pre-election, the marginal effect of deposit switching was lower this time, albeit the gap between GEL and FX deposits widened further.

FIGURE 18: DAILY CUMMULATIVE ESTIMATES OF DEPOSIT CONVERSIONS (31-Mar = 100, seasonally & fc-adjusted, as of 27-Dec-24) **AND GEL/USD** (As of 31-Dec-24)



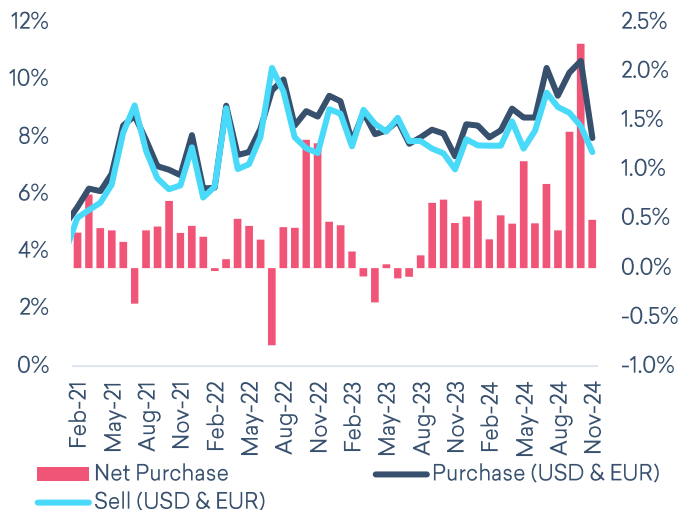
Source:NBG, TBC Capital

FIGURE 19: NET USD AND EUR PURCHASE BY HOUSEHOLDS AND LEGAL ENTITIES ON THE FX MARKET NORMALIZED IN NOVEMBER (USD mn)



Source:NBG, TBC Capital

FIGURE 20: APART FROM NET PURCHASES, OVERALL TURNOVER ON THE FX MARKET ALSO MODERATED IN NOVEMBER (% of GDP)



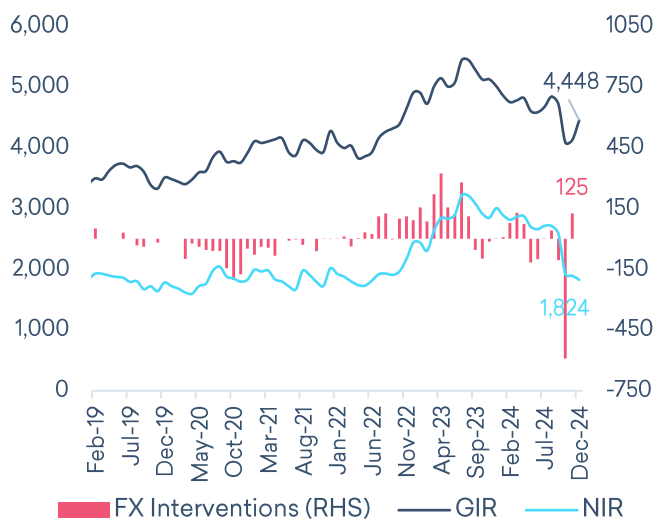
Source:NBG, TBC Capital

Whereas the built-up stress on the GEL was initially financed by record-high foreign currency inflows and, in September-October, substantial GEL-supportive interventions from the NBG, the waning marginal effect of sentiments allowed for a partial replenishment of reserves by \$125 million in November. As for December, the data for which will become available towards the end of the month, best to our judgement, GEL stability was not driven by further support from interventions.

We estimate the NBG remained marginally on the buying side, and no significant interventions have taken place in January 2025 either thus far, keeping in mind the growth-negative but GEL-positive impact of overall likely lower domestic and import demand. With respect to the impact of so-called sentiments, while, at least to a large extent, the [pricing-in phenomenon](#) needs to be taken into account, further worsening is certainly not ruled out.

As for gross reserve assets, reserves increased by \$323 million on a monthly basis to \$4.4 billion by the end of December, although this reflects a \$408 million rise in required reserves, following the hike of the reserve ratio by 5 percentage points. On the net side, according to our estimates, net reserves stood at around \$1.8 billion as of December 2024 (Figure 21).

FIGURE 21: NET INTERNATIONAL RESERVES TOTALED \$1.8 BN AS OF DEC-24 (USD mn)

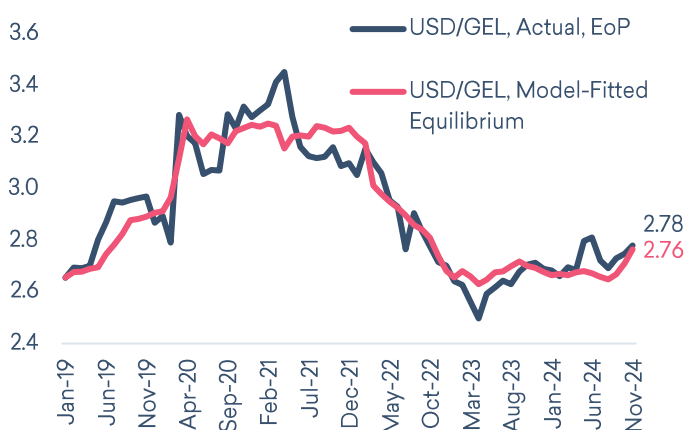


Source: NBG, TBC Capital

Regarding the GEL outlook, our short-run equilibrium GEL estimate, [incorporating sentiments with macroeconomic drivers](#), weakened to USD/GEL 2.76 as of November 2024 (Figure 22), and we expect it to weaken further somewhat once December data becomes available.

The weakening in the equilibrium estimate in recent months has been caused by worse external terms, including lower inflows and a globally stronger USD, as well as rising deposit dollarization and loan larization, which are GEL-negative (Figure 23). However, we do not bet on a rather large adjustment in the December equilibrium estimate as compared with November.

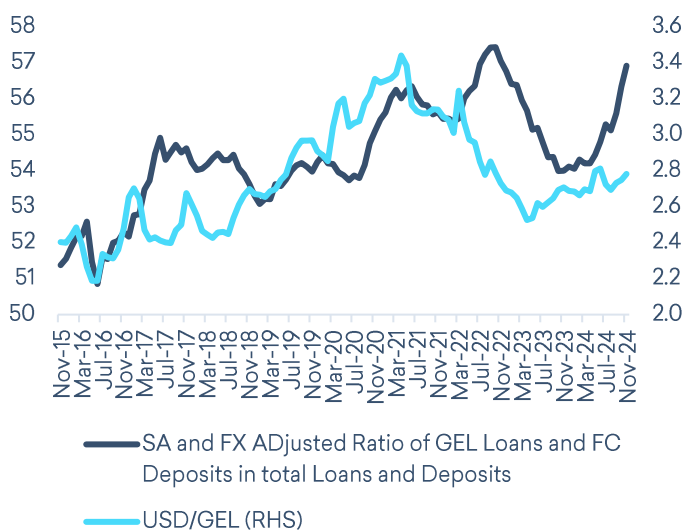
FIGURE 22: THE GEL EQUILIBRIUM ESTIMATE CONTINUES TO WEAKEN DUE TO WEAKER EXTERNAL TERMS AS WELL AS RISING DEPOSIT DOLLARIZATION AND LOAN LARIZATION



Source: TBC Capital

Note: We estimate the USD/GEL exchange rate as a function of GEL and FX deposits and loans, foreign currency inflows (sum of merchandise exports, tourism revenues and remittances) and global USD dynamics (proxied by the DXY index, measuring the value of USD against a basket of global currencies). The model is estimated in log form by the seemingly unrelated regression (SUR) method, allowing error terms to be correlated across the equations.

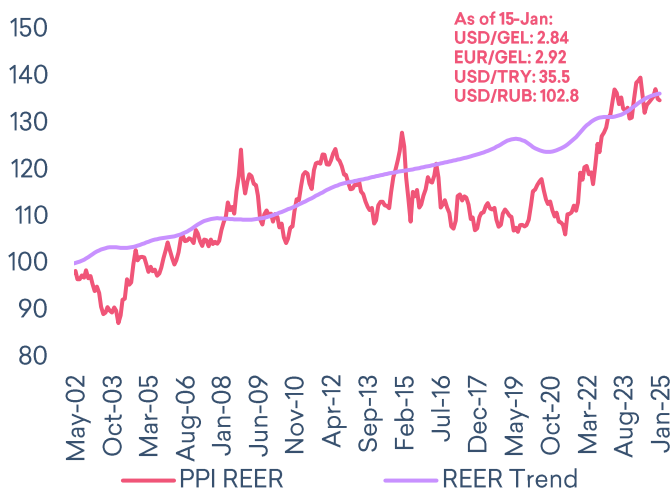
FIGURE 23: THE RATIO OF GEL LOANS AND FC DEPOSITS TO TOTAL LOANS AND DEPOSITS HAS BEEN GROWING (%)



Source: NBG, TBC Capital

From a longer-run perspective, the GEL real effective exchange rate (REER) is also broadly in line with its long-term trend, if slightly weaker (Figure 24).

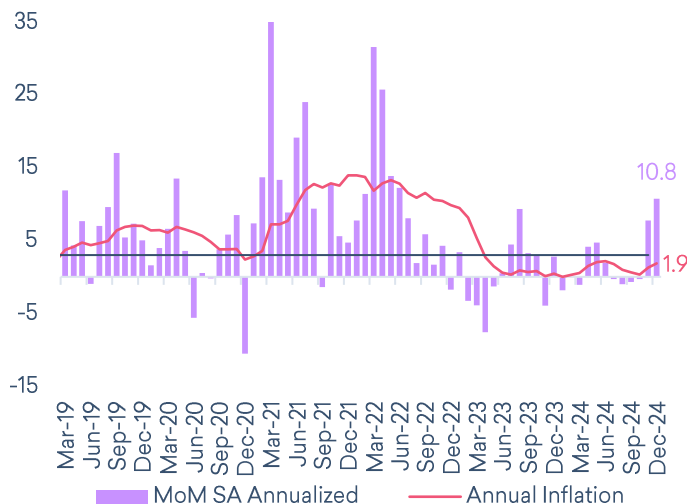
FIGURE 24: GEL REER IS IN LINE WITH ITS LONG-RUN TREND (As of 15-Jan, Increase Means GEL Appreciation)



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

Per the TBC Capital [three-pillar approach](#), inflation dynamics also play a key role in the GEL outlook. Annual inflation came in at 1.9% in December, slightly higher than our estimate, a potential source of concern following a second consecutive month of elevated price growth on a seasonally adjusted monthly basis (Figure 25). Trimmed monthly inflation measures increased to 0.3% in November-December 2024, compared to 0.2% and 0.1% in the two months prior. Moreover, the share of items in the consumer basket with annual inflation over 3% rose from 34.4% in October to 39% and 40% in Nov-Dec 2024 respectively. In November, the share of items in the consumer basket that became more expensive compared to the previous month increased to 53.4%, highest since January 2023, although decelerated to 43.9% in December.

FIGURE 25: SEASONALLY ADJUSTED INFLATION HAS BEEN ELEVATED IN THE PAST TWO MONTHS (%)



Source: Geostat, TBC Capital

While not alarming, altogether these dynamics could be seen as early warning indicators for potential emerging inflationary pressures. We estimate that the excise tax rate hike on cigarettes will raise annual inflation by 0.4 percentage points throughout 2025 and we expect inflation to approach the target in the 1st quarter of the year, followed by subsequent slight overshooting. We also estimate that without one-off effects – prices for antibiotics, electricity and internet fees – annual inflation would have been 0.8 percentage points higher at 2.7% in December. The impact of these one-off shifts will expire gradually during 2025, beginning from January (electricity fee). Assessing the three pillars together, worsening net inflows and the weakening short-run equilibrium estimate are GEL-negative, although the GEL remains broadly in line with its short- and long-run trends, while inflation gaining pace is GEL-positive in the short run. Therefore, our stance on the GEL in 2025 is broadly neutral around its current value, perhaps slightly tilted towards somewhat further weakening; once again, keeping in mind [where the Greenback is likely to stand going forward](#).

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