MACRO UPDATE

THE GEL RESISTING TAILWINDS

21 MAY 2025

TBC Group Chief Economist Office

KEY TAKEAWAYS

- Strengthening by only 2.7% YTD against the USD, the GEL has largely been resisting appreciation pressures from both external and domestic components in 2025;

- On the external side, two particular drivers – improving net foreign currency inflows and global USD weakness - have been supporting the GEL;

- The combination of rising interest rates and a depreciating currency, common for emerging markets and unusual for a developed economy, has been underscoring the ongoing USD weakness;

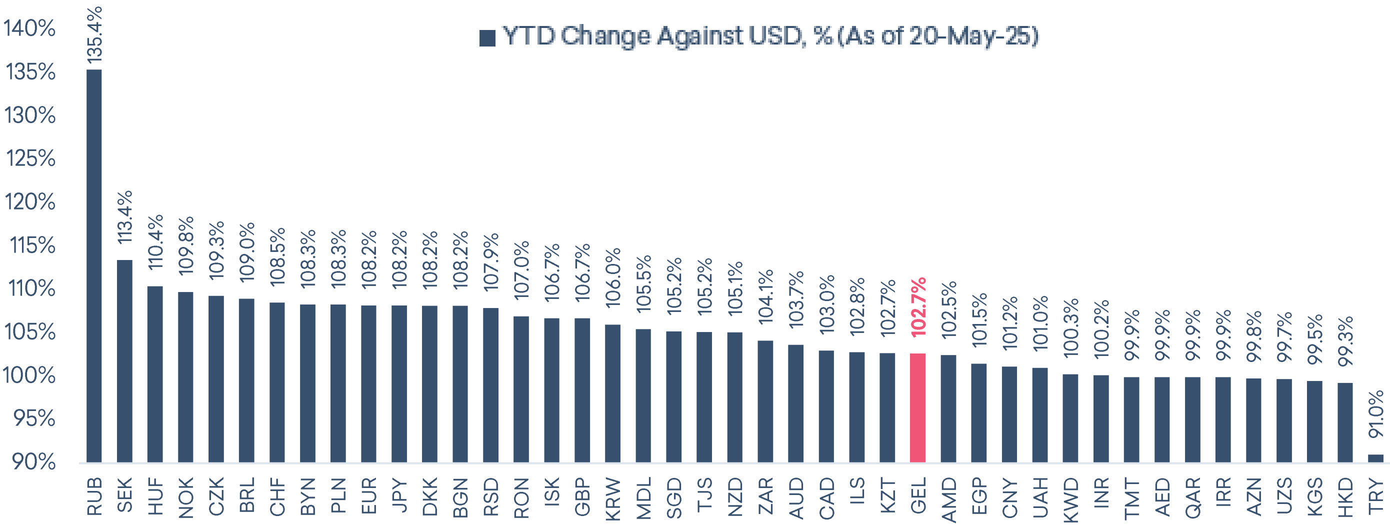
- Domestically, demand on foreign currency has relatively eased, with early signs of deposits gradually switching back to the GEL;

- On this backdrop, appreciation pressures have largely translated into the NBG replenishing foreign currency reserves, buying 102 mn in March and, per our estimates, only accelerating purchases since;

- As for other arguments going forward, while the pressure stemming from inflation dynamics seems relatively insignificant, the recent GEL REER undervaluation implies risks of higher imported inflation and thus possibly more pronounced GEL appreciation.

Significant appreciation pressures have gathered pace around the GEL. While external drivers have been playing the leading role, the domestic component has also somewhat improved. Nevertheless, the GEL has been resisting these tailwinds, appreciating by only 2.7% YTD against the USD, relatively uninspiring as compared to partner currencies (Figure 1).

FIGURE 1: THE VAST MAJORITY OF GEORGIA'S TRADING PARTNER CURRENCIES HAVE APPRECIATED AGAINST THE USD IN 2025, MANY MORE SO THAN THE GEL

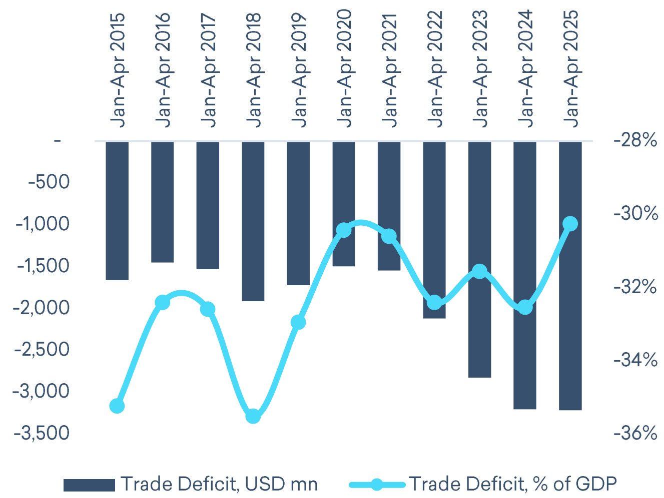


Source: NBG, TBC Capital

On the **external side**, there are two particular drivers that have been contributing to the rally in the underlying GEL strength – **improving net foreign currency inflows** and **global USD weakness.**

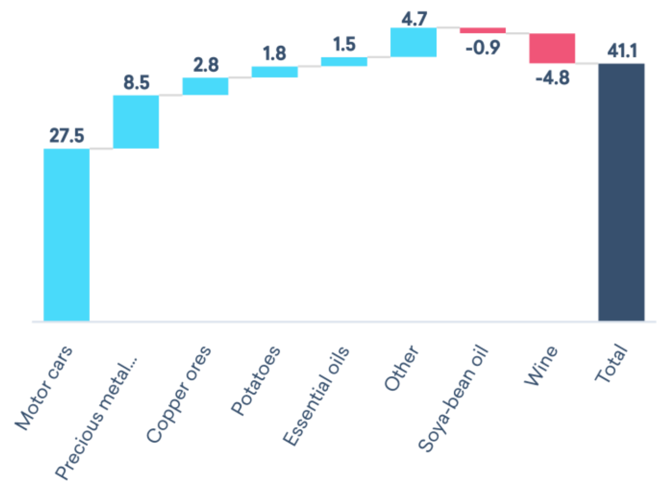
Regarding the first, exports of goods increased by 14.2% annually in the four months of 2025, while imports, excluding the January one-off, grew by 5.3%, helping narrow the merchandise trade deficit to the lowest point in the past decade (Figure 2). In April, exports surged by 41.1% compared to last year, while imports moderated by 3.6%. Strong improvement was evident on the domestic exports side, which increased by almost 20% YoY, with surging precious metal ore exports more than compensating for lower wine sales (Figure 3).

FIGURE 2: THE GOODS TRADE DEFICIT HAS NARROWED SIGNIFICANTLY IN 2025



Source: Geostat, TBC Capital

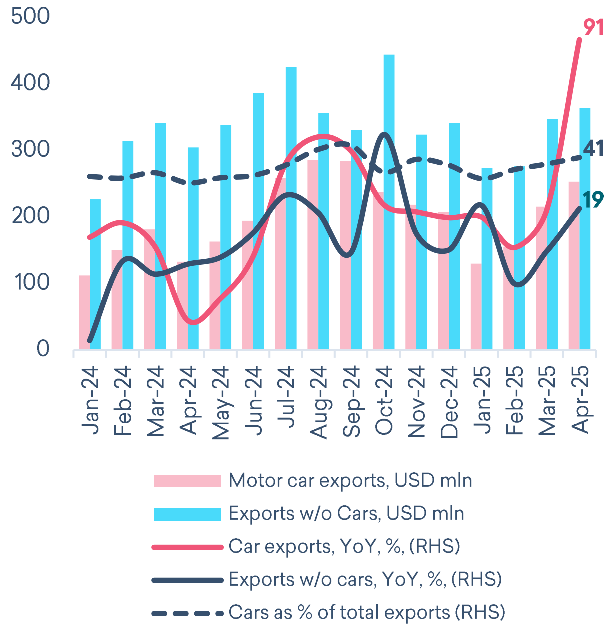
FIGURE 3: CARS AND PRECIOUS METALS CONTRIBUTED THE MOST IN THE APRIL EXPORT GROWTH



Source: Geostat, TBC Capital

However, an in-depth look into export dynamics reveals that motor cars remained the major driver of recent export strengthening, as the share of cars in total exports stood at 41% in April, compared to 32% in January 2025. That said, the impressive 91% annual increase in car export revenues was, in fact, driven by a low base effect in April 2024 (Figure 4), indicating that such strong dynamics should not be expected to continue in the coming months.

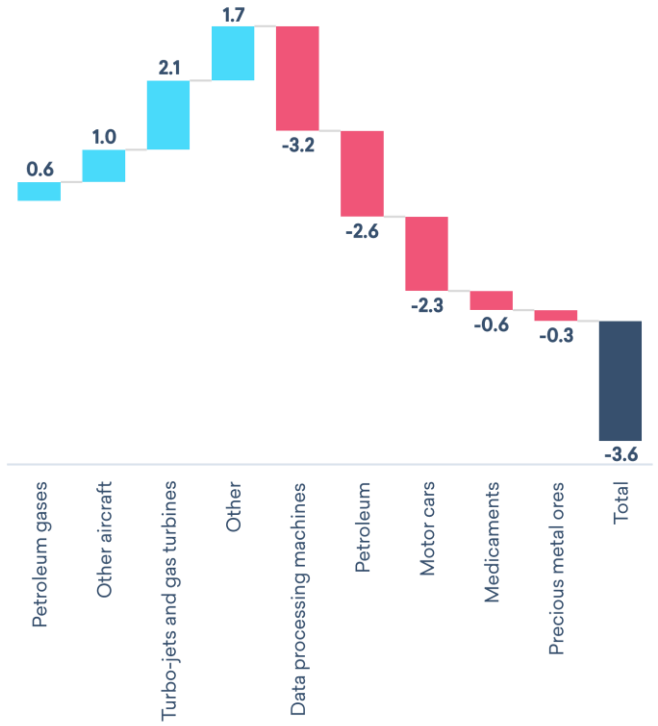
FIGURE 4: MOTOR CARS REMAINED THE MAJOR EXPORT GROWTH DRIVER IN APRIL



Source: Geostat, TBC Capital

As for imports, base effects played a significant role on this side as well. The major contributor in the annual decrease was lower imports of automatic data processing machines, dropping by 80% YoY. At the same time, petroleum and motor car imports also dropped compared to the previous year (Figure 5). In detail, the 29% decrease in petroleum imports was driven by both a lower unit price, reflecting the [latest global dynamics], and lower real imports, as the imported volume also decreased compared to Apr-24.

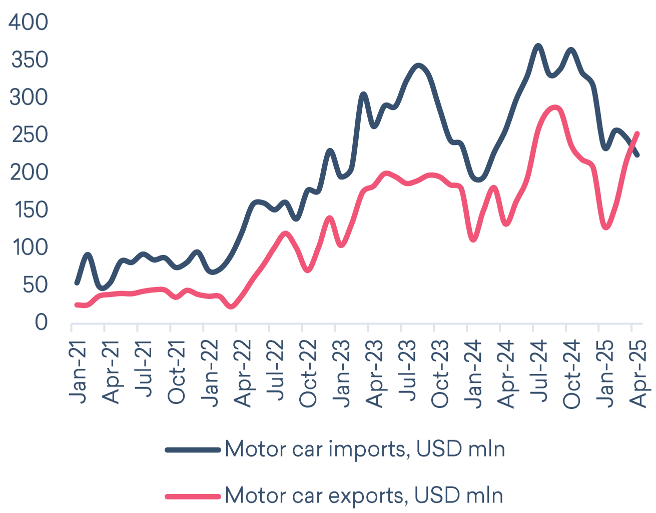
FIGURE 5: COMPUTERS, PETROLEUM AND CARS CONTRIBUTED TO LOWER IMPORTS



Source: Geostat, TBC Capital

Important to mention that decreasing dynamics in car imports appears to be a trend, as opposed to exports, possibly indicating an increased stock of export-ready vehicles in the country (Figure 6). Combining the latter trend with petroleum price dynamics, weaker annual growth figures might become more prevalent on the import side from this channel in 2025.

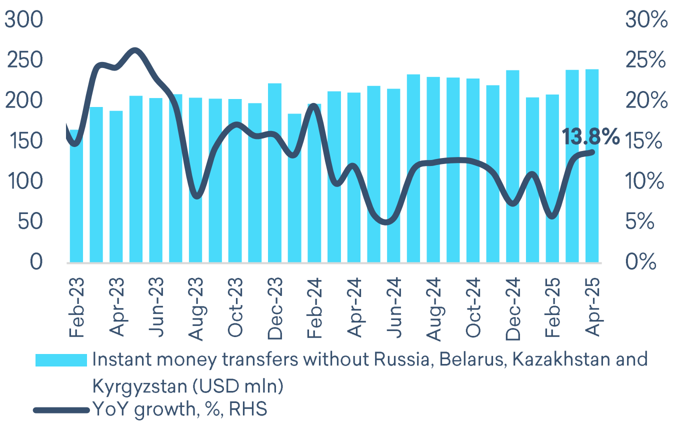
FIGURE 6: CAR EXPORT REVENUES EXCEEDED IMPORT EXPENSES IN APRIL



Source: Geostat, TBC Capital

At the same time, growth in instant money transfers has continued to be robust, with remittances from traditional sources (excluding Russia, Kazakhstan and Kyrgyzstan) rising by 13.8% annually in April and by 11% in the four months of 2025 (Figure 7). Traditional sources have accounted for 83% of overall remittances in 2025 so far, with the EU and the US alone responsible for 65%. Furthermore, whereas transfers from Russia have been distorting headline remittance figures due to base effects and other data issues such as double-counting, the growth rate of overall transfers – including Russia – has also turned positive in the past two months, for the first time since two years ago in April 2023.

FIGURE 7: REMITTANCES HAVE CONTINUED TO GROW ROBUSTLY IN 2025

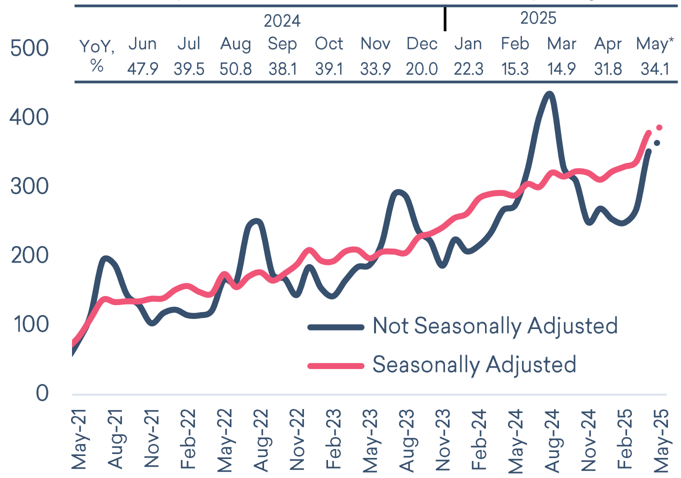


Source: NBG, TBC Capital

Our readers recall our reasoning back in our February update [Behind the GEL Strengthening](#) that, due to the confidence shock nature of the ongoing domestic tensions, the net impact was unlikely to be GEL-negative. The reason for this was a dampening effect on imports, mostly durables, on the one hand, and the exogenous nature of merchandise exports and money transfers on the other hand. Thus far, this is exactly what has been happening and so we stand by our judgement. At the same time, tourism revenues, which we had highlighted as most vulnerable, have indeed decelerated, growing by merely 2.3% in annual terms in the first quarter of 2025.

We don't expect major acceleration in this regard throughout the rest of the year. That said, based on TBC data for non-cash expenses, some recovery can be inferred in non-resident spending in April as well as the first half of May (Figure 8).

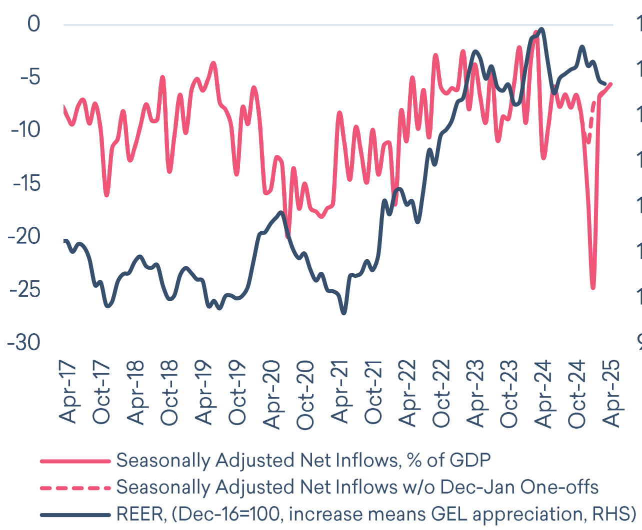
FIGURE 8: NON-RESIDENT NON-CASH EXPENSES THROUGH TBC CHANNELS HAVE ACCELERATED RELATIVELY IN APRIL-MAY
(As of 16-May, Index in USD, Seasonally Adjusted)



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. Namely, while TBC growth averaged to 17.3% in the first quarter, the NBG tourism revenue estimates have posted only 2.3% annual growth
Source: TBC

Overall, our estimates of **net foreign currency inflows**, combining merchandise trade, net money transfers and net tourism revenues, have therefore been on the rise in 2025, an important GEL-positive driver (Figure 9).

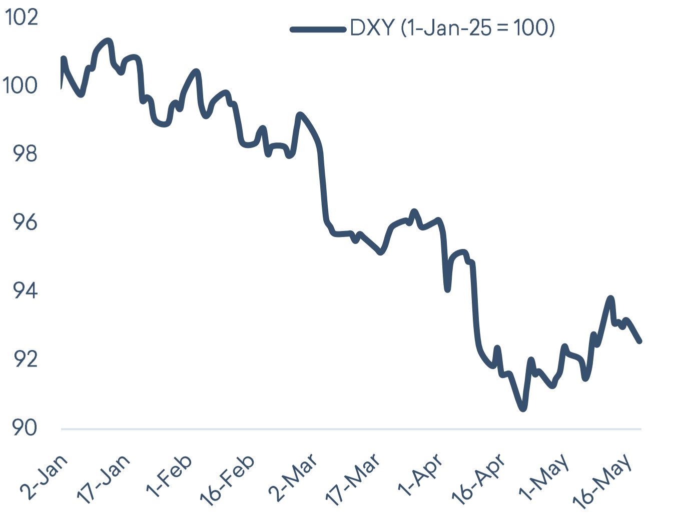
FIGURE 9: NET FOREIGN CURRENCY INFLOWS HAVE BEEN ON THE RISE IN 2025



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

The second key factor supporting the GEL is **USD weakness on the global market**, with the greenback losing ground against the vast majority of world currencies lately. Compared to the beginning of the year, the trade-weighted USD index (DXY) has plunged by 7.5% as of 16 May (Figure 10).

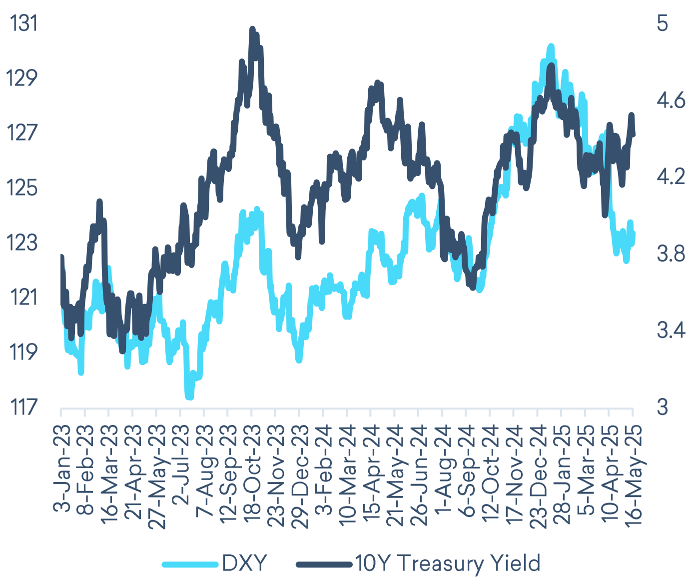
FIGURE 10: THE TRADE-WEIGHTED USD INDEX HAS PLUNGED SINCE MARCH



Source: FRED, TBC Capital

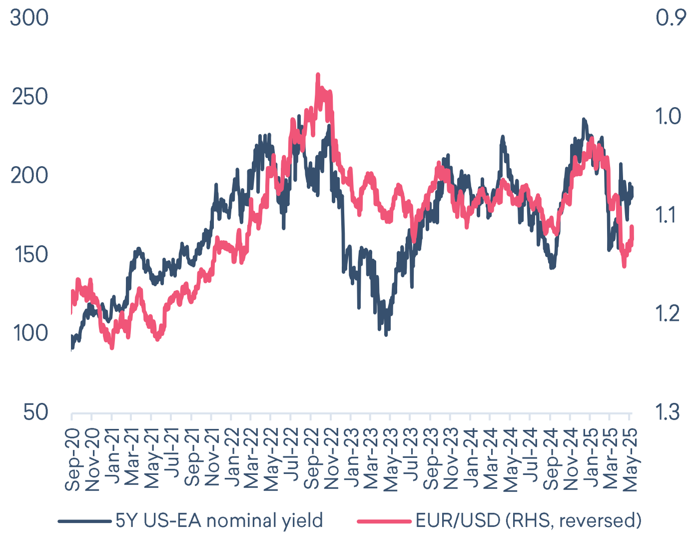
USD depreciation has been fueled by negative sentiments gaining prominence regarding the ongoing uncertainty about the US tariff policy and the US economy at large, as well as concerns about political influence on the Fed. Going off on a tangent, we note that it is particularly interesting that the US has recently been experiencing a feature most commonly associated with emerging markets – a combination of rising interest rates and a depreciating currency. That is, despite climbing yields, triggered by a sell-off of US treasuries in light of the deteriorating US economy outlook, the USD has been falling, contravening the regular state of affairs, as it no longer benefits from safe haven flows (Figure 11). On the example of the EUR, despite a widening interest rate differential, the USD has been unable to reverse the losses incurred in 2025, with the EUR remaining particularly strong (Figure 12).

FIGURE 11: CONCERNS REGARDING THE US ECONOMY HAVE LED TO A RARE DOUBLE PRESSURE ON BOTH US BONDS AND THE USD



Source: FRED, TBC Capital

FIGURE 12: THE EUR HAS REMAINED STRONG DESPITE THE RISING US-EA YIELD DIFFERENTIAL (As of 15-May-2025)

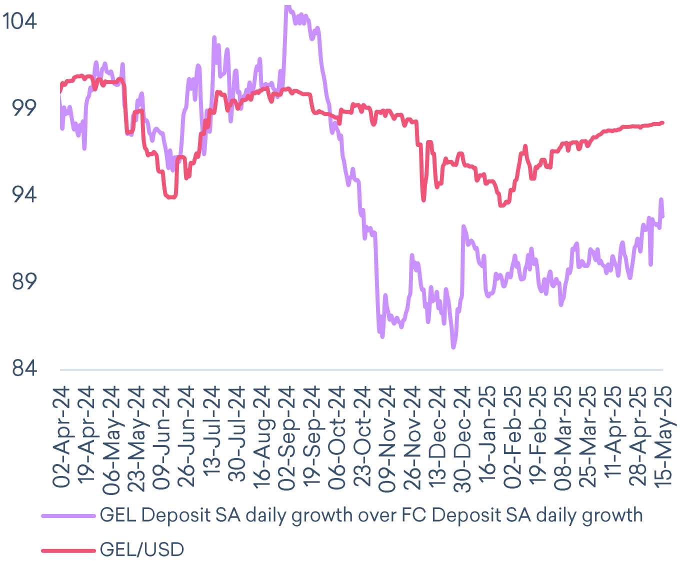


Source: FED, ECB, TBC Capital

We have explored the developments around the USD in more detail in our previous note. On that matter, for those interested in our GEL/EUR/USD business strategy framework, the current volatile environment all the more underscores the benefits of leaning on underlying, medium-to-long term macro indicators when deciding on the optimal currency funding structure, an approach that has historically yielded vast potential gains.

Going back to the GEL, we mentioned in the beginning that, apart from external drivers, somewhat improvement can be identified in the **domestic component** as well. In this regard, we note relative normalization on FX asset demand by corporates and households, for which we only have data as of March right now but we expect no significant shifts in April either. Furthermore, some evidence is emerging of potential early gradual switching back to the GEL following significant deposit conversions into foreign currency in the pre-election period. GEL deposit growth in excess of foreign currency deposit growth, our preferred measure of daily deposit conversions, has somewhat recovered compared to the December 2024 trough, but, at the same time, remains below the peak in September (Figure 13). Should the potential reversal materialize going forward, what we call the "good time buffer" would further add to the GEL-positive drivers, although it is still too early to speak of a structural shift in sentiments as of now.

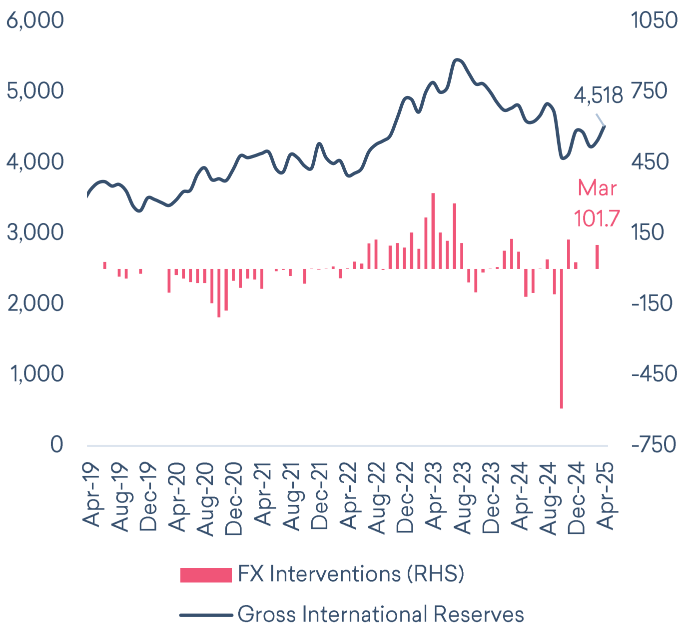
FIGURE 13: SOME EVIDENCE IS EMERGING OF EARLY GRADUAL DEPOSIT SWITCHING BACK TO THE GEL (31-Mar = 100, seasonally & fc-adjusted, as of 15-May-25)



Source: NBG, TBC Capital

Why, then, after all this, has the GEL not appreciated further? The tailwinds have largely been kept in check by considerable USD-buying interventions from the NBG, taking advantage of excess foreign currency supply and USD weakness. Gross reserve assets reached USD 4.5 billion by the end of April, c. USD 300 million higher as compared to end-February (Figure 14). Data for interventions, though, is only available up to March, during which we know the NBG bought USD 102 million. According to our estimates, interventions are likely to be rather higher than that both in April and May. These dynamics are in line with our expectations as argued back in November, when we highlighted our stance of no pronounced GEL strengthening even in case of strong appreciation pressures, based on **three main arguments**. **The first and foremost** was the pressing need to replenish reserves after substantial selling-side interventions in the pre-election period, which is what we are seeing at the moment.

FIGURE 14: THE NBG BOUGHT USD 120 MILLION IN MARCH, AND WE EXPECT HIGHER INTERVENTIONS IN APRIL-MAY



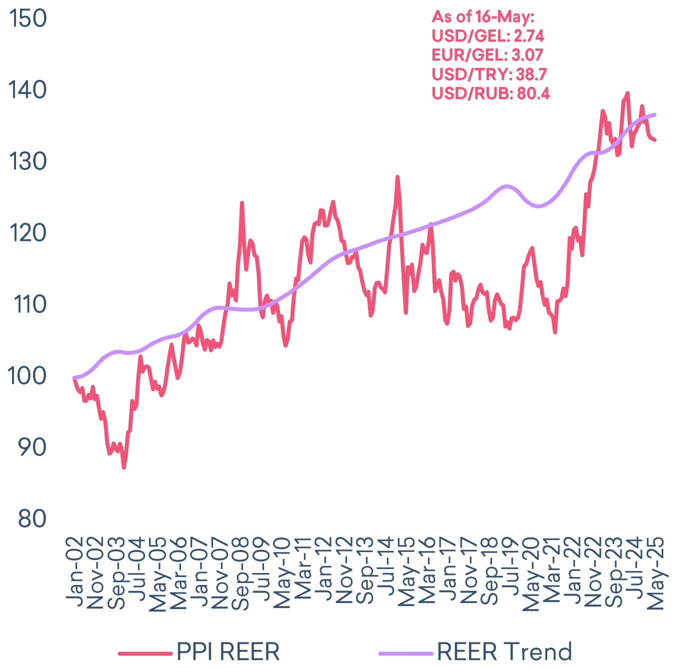
Source: NBG, TBC Capital

The second argument concerned inflation, which remained significantly below the target, with underlying measures also suggesting weak inflationary pressures. In this environment, material GEL appreciation would have generated unwelcome sizeable disinflationary – or even deflationary – forces. That said, inflation has somewhat accelerated in the past few months, with our previous note providing a deep-dive as to the main drivers and components. Domestic and service inflation have been on the rise lately, an important development to keep an eye on in the context of underlying trends. Nevertheless, while we expect inflation to rise further throughout the year, assuming a broadly neutral stance on the GEL, we don't expect material acceleration, with our end-2025 forecast standing at c. 4% from the current 3.4%. Therefore, current dynamics do not necessitate inflation-curbing taking precedence over reserve replenishment. However, there is an important caveat – undervaluation of the GEL and the subsequent risk of rising imported inflation, which brings us to the **third argument: GEL equilibrium estimates.**

As opposed to largely idiosyncratic factors, there is a strong exogenous driver affecting the GEL currently, as argued above – global USD weakness. Had the appreciation pressures been purely domestically sourced, the argument would have been centered on limiting the exchange rate strengthening so as to avoid overvaluation, although there is mixed evidence of a strong GEL on a macro level being detrimental for competitiveness. This was the channel we focused on in the November note.

Nonetheless, what has happened is that a weak greenback has pushed Georgia's trading partner currencies upwards, more so than the GEL, which has resulted in the GEL real effective exchange rate (REER) falling below the long-run trend, indicating undervaluation (Figure 15).

FIGURE 15: THE GEL REER HAS FALLEN BELOW THE LONG-RUN TREND, INDICATING UNDERVALUATION (As of 16-May-25, increase means GEL appreciation)

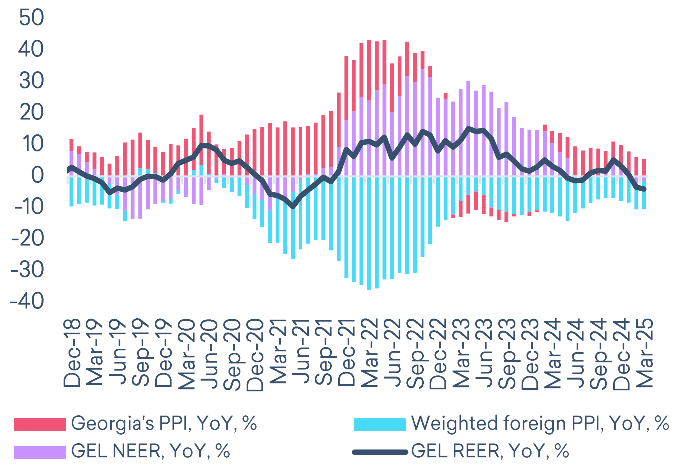


Note: PPI REER data is estimated from January 2013
REER Trend is estimated based on GDP per capita growth differential between Georgia and its main trading partners using relative trade weights and adjusted for the share of non-tradable sector
Source: NBG, IMF, WB, TBC Capital

This is an important development, as, from a macro perspective, it is mainly the REER, rather than the bilateral exchange rate against the USD, that is closely linked with imported inflation. Therefore, stronger trading partner currencies imply pricier imported goods and services from this channel.

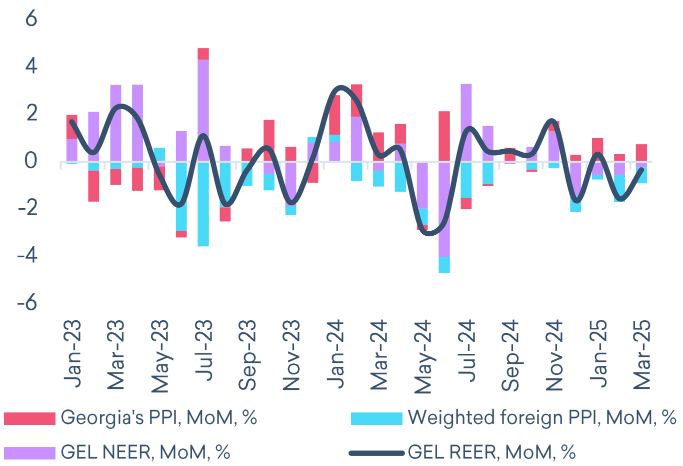
Decomposing the REER by components, it is evident that, together with foreign inflation, the nominal effective exchange rate (NEER) has also been contributing negatively to REER growth in 2025, as the GEL has weakened against partner currencies (Figure 16). This can be inferred from examining the monthly REER dynamics as well, with the GEL NEER contributing negatively for the past consecutive four months (Figure 17). On a side note, there is an argument that higher-than-potential economic growth in recent years has been somewhat overestimating the REER trend, and a more accurate measure to assess future misalignment would be focusing on underlying/potential growth, something we intend to explore in our forthcoming publications.

FIGURE 16: THE NOMINAL EXCHANGE RATE WEAKENING HAS BEEN CONTRIBUTING TO RECENT REAL ANNUAL DEPRECIATION



Source: NBG, TBC Capital

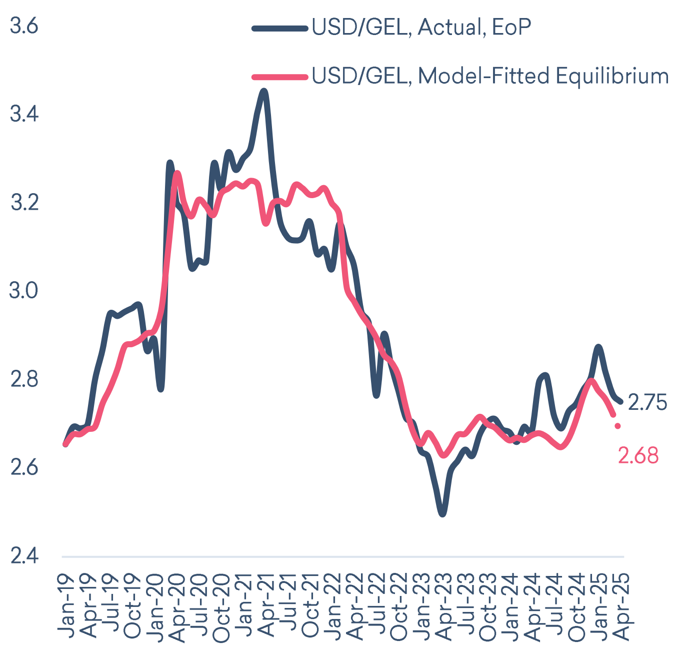
FIGURE 17: THE GEL NEER HAS BEEN WEAKENING IN THE PAST FOUR MONTHS



Source: NBG, TBC Capital

The GEL undervaluation is also evident from the short-run perspective, with our [short-run equilibrium GEL estimate]() set to strengthen further in April to c. USD/GEL 2.68, per our initial estimates (Figure 18). While we already have data for the external component of our model – net FX inflows and global USD dynamics – the data for domestic deposit and loan currency composition will be released later this month. The current initial estimate thus assumes the domestic component keeping in line with the previous month's trend, and will be refined once relevant figures become available. Summing up on this point, with the recent GEL undervaluation in mind, should the current external environment persist and inflationary pressures accelerate, we would expect a relatively more pronounced GEL/USD appreciation taking precedence over the ongoing reserve accumulation.

FIGURE 18: THE GEL EQUILIBRIUM ESTIMATE IS SET TO STRENGTHEN IN APRIL



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.

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