

# **MACRO UPDATE – GEORGIA**

**Curious Duo: Current Account Deficit  
& Foreign Asset Purchase Surplus**

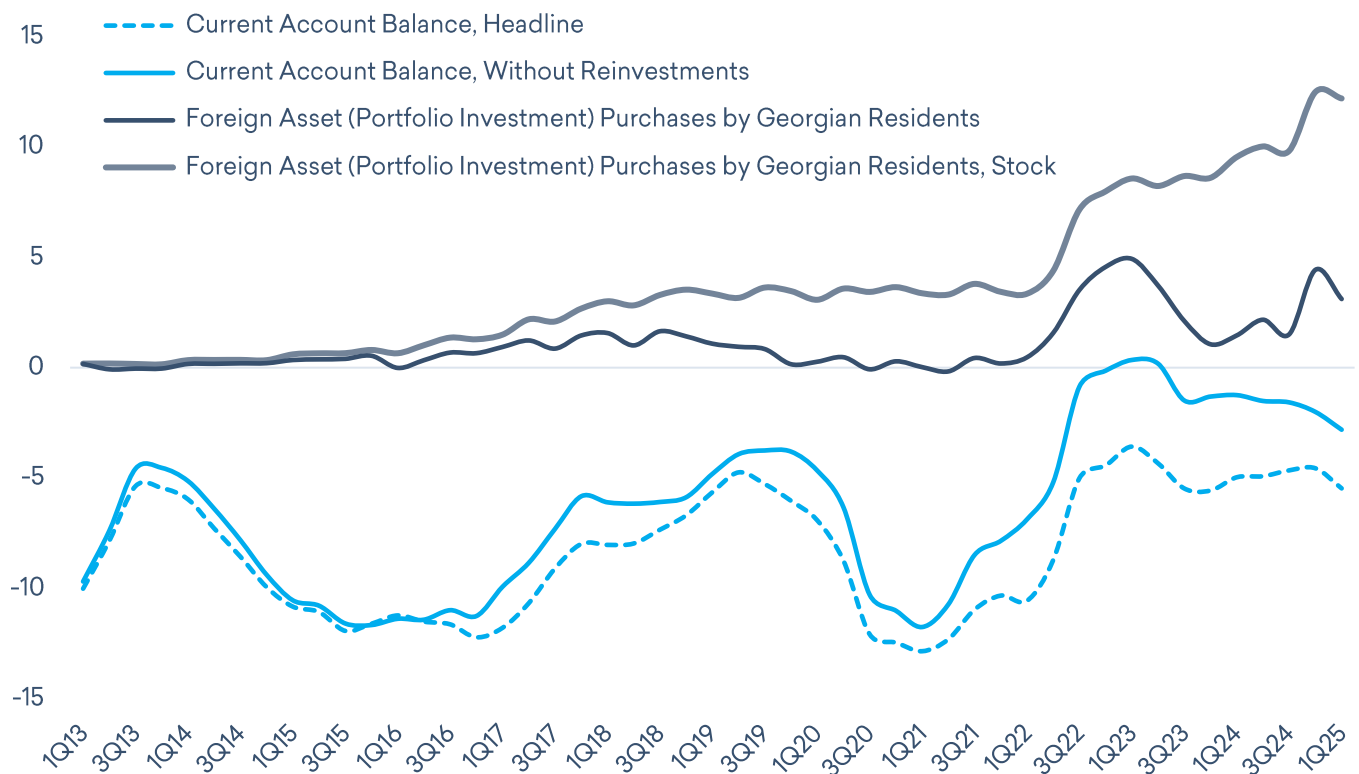
**16 JULY 2025**

**TBC Group Chief Economist Office**

# CHART IN FOCUS

Despite the post-2022 improvement in Georgia's external balance sheet, the current account, though narrower, remains in deficit. Against this backdrop, in light of excess FX liquidity since 2022, commercial banks, and to a lesser extent the other private sector, have turned into net creditors to the rest of the world with respect to portfolio investments, buying foreign bonds and executing buybacks of own bonds. Thus, a curious duo of the current account deficit and the foreign asset purchase surplus has emerged. In a sense, foreign asset holdings represent sort of a buffer in times of need. However, we also need to take into account that, during such periods, in fact, FX holdings of residents increase, a phenomenon that we call the “[good time buffer](#)” or, alternatively, the [shock amplifier](#). As for the drivers of the excess FX, based on our estimates, migrant deposits\* have contributed less than half to overall growth in foreign asset holdings\*\*. We also note that net portfolio outflows have been supported by the offshore-onshore USD rate differential.

## 4Q MOVING SUM, % OF GDP



\* Migrant deposits include deposits of Russians, Belarussians and Ukrainians. Estimates are based on the NBG BoP and banking system data.

\*\* With respect to foreign asset holdings, we illustrate only portfolio investments, as the dynamics of commercial banks' and other private sector's currency and deposits are in line with the historical trend.

A close look at the balance of payments (BoP) reveals important insights in both the current and financial accounts, in many cases representing significant departures from historical trends.

On the current account side:

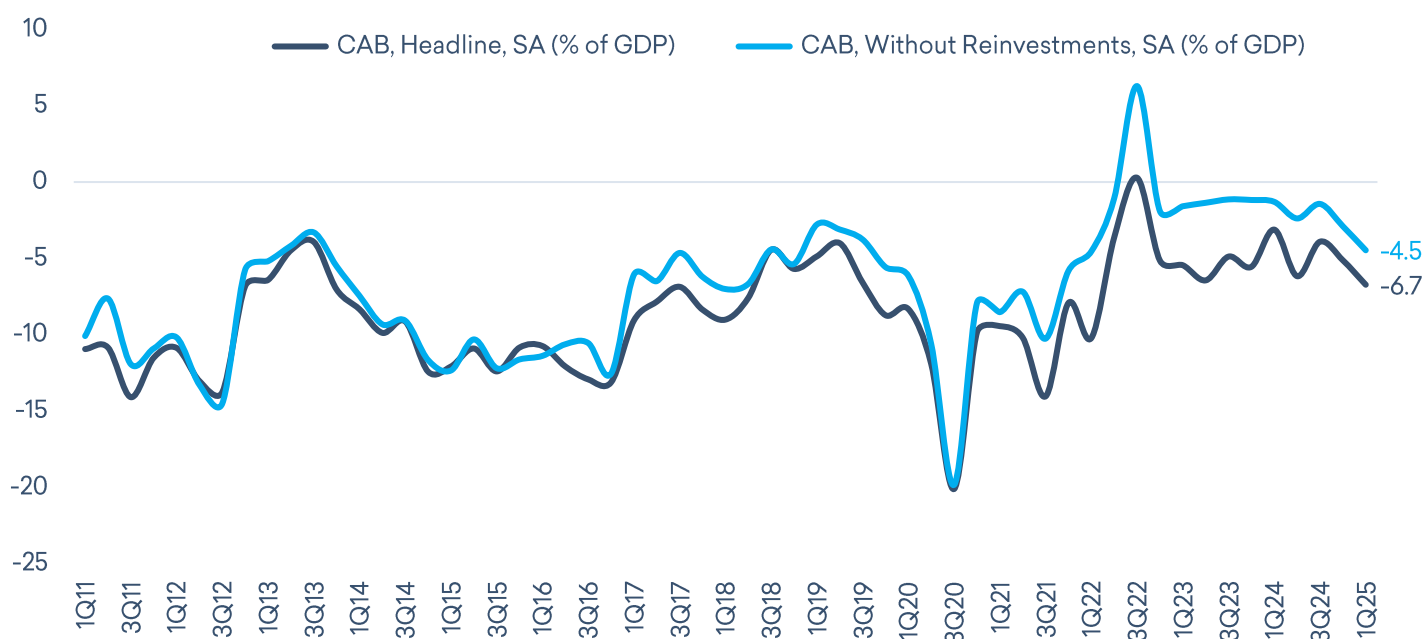
- While tourism revenues have been growing modestly, ICT and business service exports have surged to record highs, reshaping the service export landscape;
- The current account deficit, adjusted for reinvestments, remains significantly below the historical average;
- That said, the 1<sup>st</sup> quarter of 2025 saw a sizeable deterioration in Georgia's external position, albeit high-frequency indicators for 2Q25 signal a notable improvement.

On the financial account side:

- FDI without reinvestments has dwindled in the past couple of years, playing little role in either economic growth or financing the current account deficit;
- Georgia has turned into a net creditor to the rest of the world with respect to portfolio investments since 2022, buying foreign bonds and executing buybacks of own bonds;
- Loans, in both the public and private sectors, have been an important contributor in financing the current account deficit over the past few years;
- A drawdown in reserve assets has also been used as a funding source in the past 1.5 years, though set to be halted in 2Q25 on the back of USD-buying interventions.

Let's examine the recent – including latest – developments in detail. The current account deficit deteriorated to 8.5% of GDP in 1Q25, almost doubling compared to 1Q24 (4.4%). In seasonally adjusted terms, the deficit was highest since back in 1Q22, both [with and without reinvestments](#) (Figure 1).

**FIGURE 1: THE CURRENT ACCOUNT DEFICIT, WITH AND WITHOUT REINVESTMENTS, DETERIORATED IN 1Q25 BUT REMAINS WELL BELOW THE HISTORICAL AVERAGE**



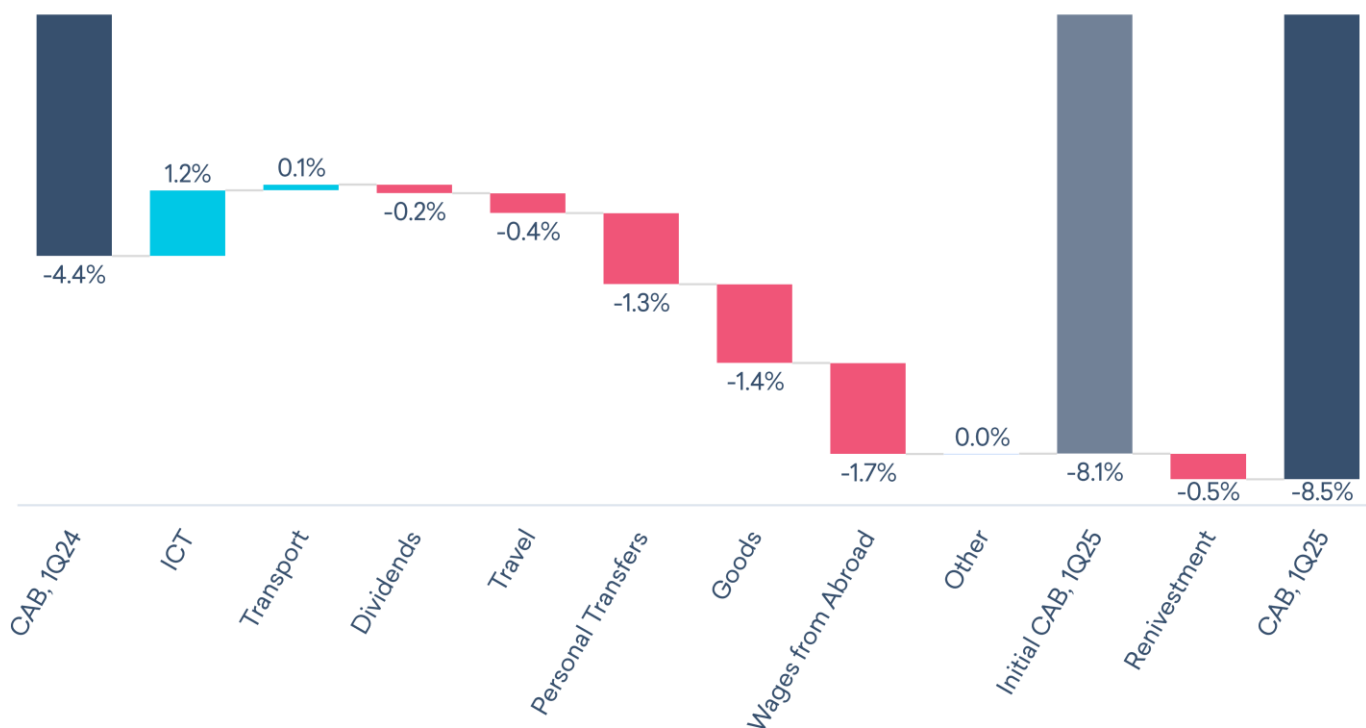
The deficit widening was broad-based, with all three major components contributing in a broadly similar manner (Figure 2):

- **Net wages of residents from abroad** (*primary income*) fell by 1.7% of GDP annually in 1Q25. Income of Georgian residents abroad fell by 36.7%, while non-resident income earned in Georgia grew by 40.2%.
- **Net exports of goods** (*trade balance*) decreased by 1.4% of GDP. Exports declined by 0.4 percentage points (pp), while imports increased by 1 pp\*.
- **Net personal transfers** (*secondary income*) contracted by 1.3% of GDP. The deceleration was broadly in line with instant money transfer dynamics, although partially exacerbated by last year's base effect.
- Additionally, **reinvested earnings** contributed another 0.5 percentage points to the higher deficit, albeit we have noted multiple times that reinvestment exaggerates the headline deficit and bears little to no relevance for assessing the inflow-outflow balance for analytical purposes.

On the opposite side, the only major improvement could be observed in **exports of ICT services**, which expanded by 1.2% of GDP in annual terms. Conversely, the share of **tourism revenues** in GDP declined by 0.4 pp. Altogether, the **services balance** improved by 0.5 pp, driven entirely by higher ICT exports.

\*Geostat revised preliminary estimates of imports in 1Q25 upwards by \$218 million, of 5.2%.

**FIGURE 2: SMALLER WAGES, LOWER TRANSFERS AND A WEAKER TRADE BALANCE DROVE DETERIORATION IN THE CURRENT ACCOUNT DEFICIT, PARTIALLY OFFSET BY ICT EXPORTS**  
(% of GDP)

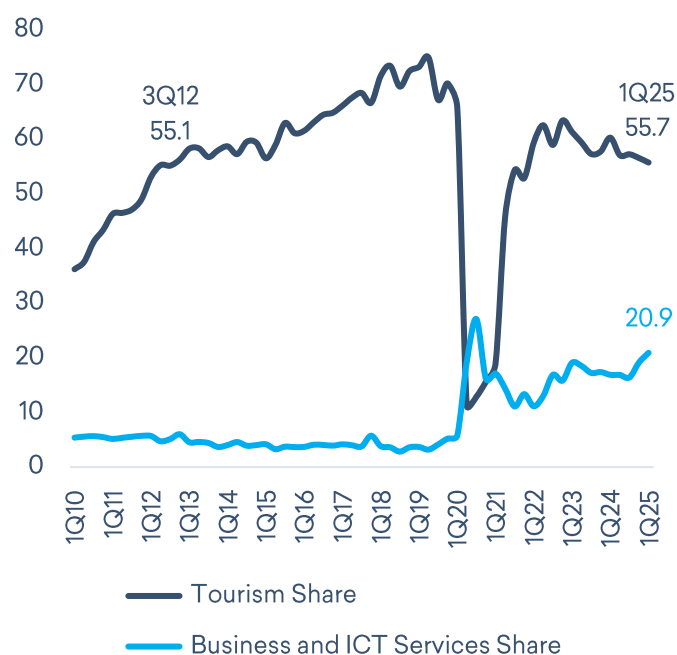


At the same time, the 2<sup>nd</sup> quarter is poised to post a sizeable improvement in at least two out of the three major drivers of the widening current account deficit, based on high-frequency indicators. Namely, per customs data, whereas the goods trade deficit increased by 16.2% annually in 1Q25, [adjusting for the January one-off](#), the deficit has now shrunk by 10.5% in 2Q25, as exports have grown by 21% while imports have been largely flat. Furthermore, instant money transfers grew by 10% annually in 2Q25, as opposed to a 3.2% decline in 1Q25. Though the BoP methodology adjusts customs trade data for coverage and price differences (CIF-FOB), as well as applies a slightly different approach from instant remittances in order to calculate money transfers, these developments will be reflected in the BoP which is scheduled for the next release at the end of September.

Before examining how the expanded deficit was financed, we'd like to highlight a few other insights of note within the current account:

- First, the share of tourism revenues in service exports continued its downward trend and reached 55.7% in 1Q25 in seasonally adjusted terms, lowest in over 12 years, disregarding the COVID-related period (2020-2021). The declining tourism share follows the **rise in business and ICT service exports** (computer, information, telecommunication, financial and business services), which have surged since 2022 and now account for 20.9% of overall service exports, a record-high by a sizeable margin, again disregarding the COVID-related period (Figure 3).

**FIGURE 3: THE TOURISM SHARE IN SERVICE EXPORTS HAS BEEN DECLINING IN FAVOUR OF BUSINESS AND ICT SERVICES (% Share)**



**Note:** The difference between accruing migrant-related flows in tourism revenues and ICT services concerns the residency status.  
**Source:** NBG, TBC Capital

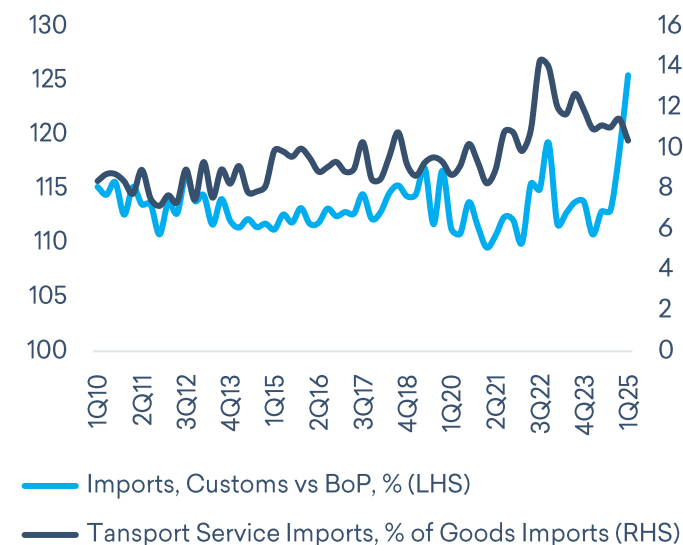
- Second, **freight service exports have somewhat decelerated in the past two quarters**, joining freight imports which have already flatlined for the past two years (Figure 4). We'd like to note that the negative trade balance in freight services should be interpreted cautiously, as part of freight imports ought to be explained by the fact that customs data reports goods imports in CIF terms, while the BoP reports goods imports in FOB terms, meaning that the cost of shipping and insurance associated with imports of goods is shifted to imports of services in the BoP (Figure 5). Another part ought to be explained by increased demand on shipping from exporters. Therefore, it is not straightforward to identify the surplus generated by the post-2022 surge in freight exports.

**FIGURE 4: FREIGHT EXPORTS AND IMPORTS SURGED SINCE 2022 BUT HAVE DECELERATED LATELY(USD mn)**



Source: NBG, TBC Capital

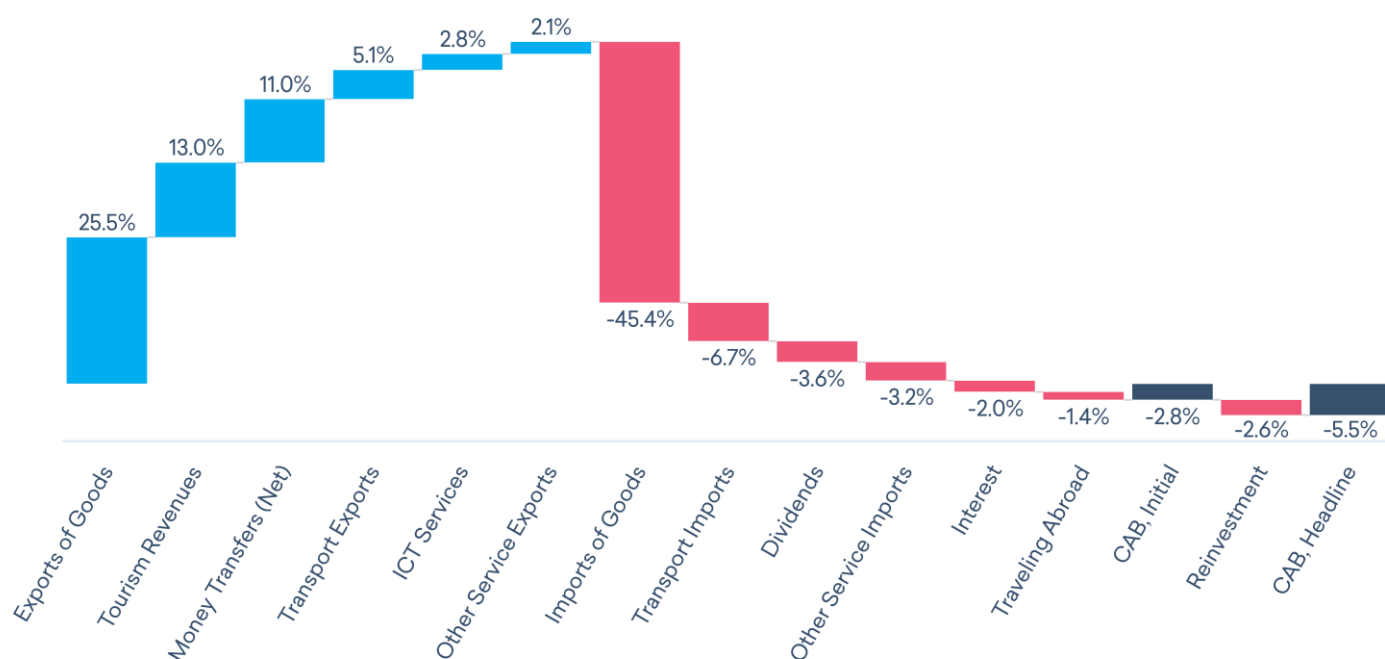
**FIGURE 5: PART OF FREIGHT SERVICE IMPORTS STEMS FROM DIFFERENT TREATMENT IN CUSTOMS AND BOP DATA**



Source: NBG, TBC Capital

- Third, looking beyond the last quarter, goods exports, tourism revenues and money transfers remain by far the most important sources of foreign currency inflows as of the past four quarters, despite the rise in business and ICT service exports (Figure 6). Almost the entirety of inflows from these three sources have in turn been used up for imports of goods, which dwarf other outflows. **The current account deficit without reinvestments has totaled 2.8% of GDP in the 1-year period ending with 1Q25**, still well below the historical average but somewhat worsening recently. We expect the headline deficit to reach up to 5% of GDP in 2025.

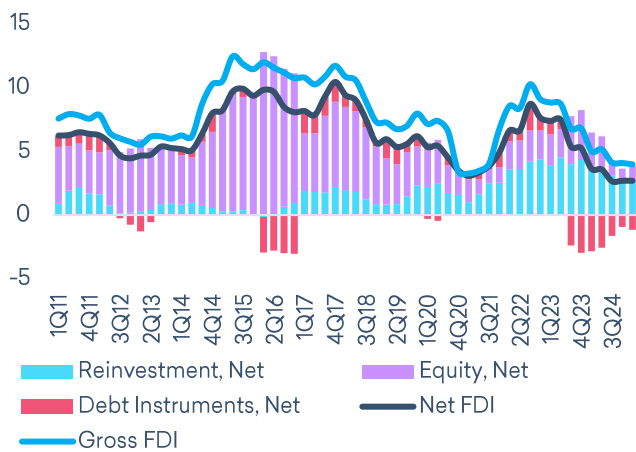
**FIGURE 6: THE UNDERLYING CURRENT ACCOUNT DEFICIT IN THE LAST FOUR QUARTERS REMAINS WELL BELOW THE HISTORICAL AVERAGE, THOUGH SOMEWHAT WORSENING LATELY (% of GDP, Last Four Quarters – 2Q24-1Q25)**



Note: We estimate the migration impact from Russia, Ukraine and Belarus amounting to c.\$1.1 billion in the past four quarters.  
Source: NBG, TBC Capital

Now for the financing sources. **Foreign direct investments (FDI)**, as in recent times, played no role as a financing source in 1Q25, as net FDI without reinvestments accounted for only 3.7% of the current account deficit. Our readers are well-aware that FDI has been almost entirely driven by reinvestments in the past two years. In the period of 1Q23-1Q25, net reinvestments have contributed \$2.2 billion to \$2.5 billion overall net FDI, or 86.5% of the total (Figure 7). Reinvested earnings enter both the current account and the financial account and thus play no role in deficit financing.

**FIGURE 7: REINVESTMENTS HAVE PROVIDED THE BULK OF FDI INFLOWS IN THE PAST COUPLE OF YEARS (% of GDP)**

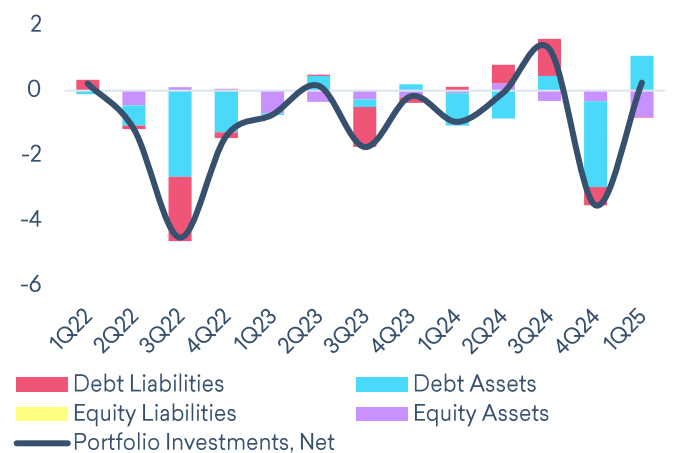


Source: NBG, TBC Capital

**Portfolio investments** were also muted in 1Q25, providing 12.7% of the current account deficit. 1Q25 again saw commercial banks offloading short-term debt securities. In the past three quarters, banks have purchased long-term bonds worth \$1 billion whilst selling \$800 million in short-term bonds. In light of the post-2022 excess FX liquidity, banks, and to a lesser extent other private sector companies, have turned into net creditors with respect to portfolio investments, buying foreign bonds and executing buybacks of own bonds (Figures 8 and 9). Net portfolio investment outflows have totaled \$3.3 billion in the period of 1Q22-1Q25.

Of this, foreign bond purchases have made up \$2 billion (o/w \$1.7 billion by banks), while purchase of listed equities reached \$728 million and bond buybacks – \$468 million. In a sense, foreign asset holdings represent sort of a buffer in times of need. However, we also need to take into account that, during such periods, in fact, FX holdings of residents increase, a phenomenon that we call the “[good time buffer](#)” or, alternatively, the [shock amplifier](#). As for the drivers of the excess FX, based on our estimates, migrant deposits have contributed less than half to overall growth in foreign asset holdings. We also note that net portfolio outflows have been supported by the offshore-onshore USD rate differential.

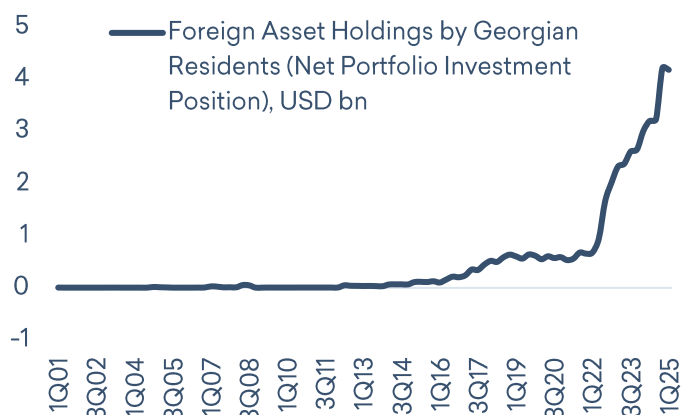
**FIGURE 8: FOREIGN BOND PURCHASES AND OWN BOND REPURCHASES HAVE DRIVEN NET PORTFOLIO OUTFLOWS (% of GDP)**



Note: A negative sign in assets means purchase of assets. A negative sign in liabilities means a reduction of liabilities.

Source: NBG, TBC Capital

**FIGURE 9: THE STOCK OF PORTFOLIO ASSET HOLDINGS BY GEORGIAN RESIDENTS HAS SKYROCKETED (USD bn)**

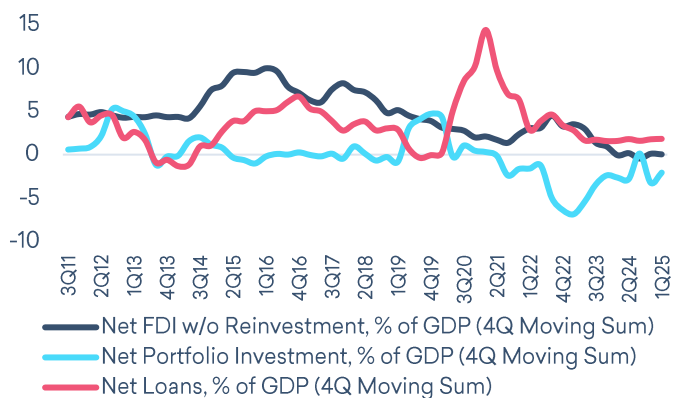


Source: NBG, TBC Capital

**Loans** were weak too, bringing in only 1% of the current account deficit in 1Q25. On a longer-term basis, loans have been the single major financing source of the deficit over the past 2 years, as FDI without reinvestments decelerated to negligible amounts and portfolio investments turned negative (Figure 10). Since 1Q23 up to 1Q25, overall new debt in the form of loans has made up c. \$1.1 billion, of which banks borrowed \$500 million, the government borrowed \$450 million and the other private sector borrowed \$200 million. **With respect to sectors**, whereas the government used to provide the bulk of inflows in the form of loans up to and including 1H24, the private sector has become the primary source of inflows since, with both banks and other private companies emerging as providers (Figure 11).

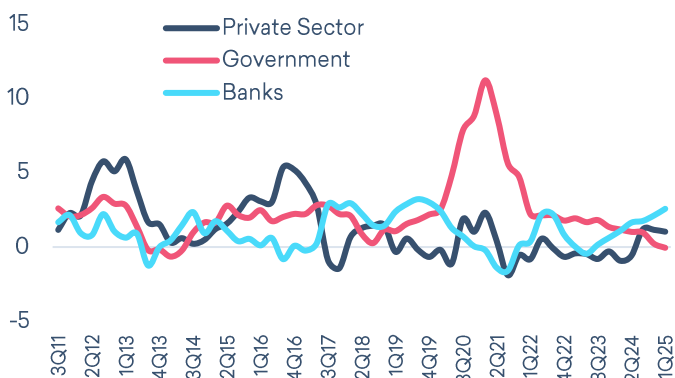
This leaves over **other investments (33%) and reserve assets (44%) as the main sources of financing the current account deficit in 1Q25**, accounting for a combined 77% of the total. Changes in currency and deposits accounted for almost 4/5 of other investments. As for reserves, gross reserve assets have been used to partially finance the current account deficit for six consecutive quarters now, with an overall drawdown of \$1.3 billion in the period of 4Q23-1Q25, funding 45% of the deficit in the same period. Of this, \$300 million has been offset due to exchange rate movements and price changes, resulting in a final decline of \$962 million in reserves. However, this decline is set to be halted in 2Q25, as high frequency data indicates reserves expanding by \$377 million QoQ, on the back of sizeable USD-buying interventions. The NBG has bought \$613 million in March-May, taking advantage of [the GEL tailwinds](#). We expect another c. \$200 million to have been bought in June, for which the data will be available next week, and, per our estimates, interventions have continued at pace in July (Figure 12).

**FIGURE 10: LOANS HAVE PROVED AN IMPORTANT FINANCING SOURCE (% of GDP)**



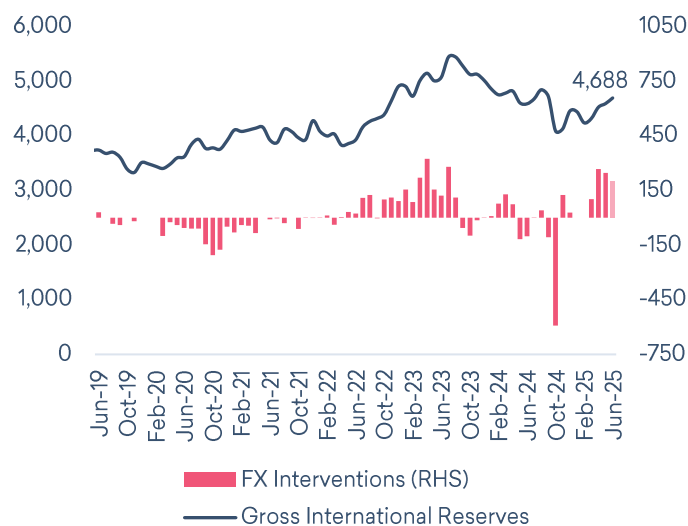
Source: NBG, TBC Capital

**FIGURE 11: THE PRIVATE SECTOR HAS OVERTAKEN THE GOVERNMENT AS THE DEFICIT FUNDING SOURCE (% of GDP)**



Note: Portfolio investment, FDI and other investment flows, w/o currency and deposits.  
 Source: NBG, TBC Capital

**FIGURE 12: GROSS RESERVE ASSETS HAVE SOMEWHAT RECOVERED LATELY (USD mn)**



Source: NBG, TBC Capital

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