MACRO UPDATE – GEORGIA

What's Left of the Good Time Buffer?

20 AUGUST 2025

TBC Group Chief Economist Office

KEY TAKEAWAYS

- While net inflows are still improving, GEL deposits are growing steadily in the banking system and the NBG continues reserve replenishment, we question how much of the “Good Time Buffer” i.e. deposits excessively converted to the FC and credit in LC, currently supporting the GEL, is left for now;

- Having in mind the number of other drivers such as net inflows, fiscal balance, the share of cash in monetary aggregates and corresponding effect on credit side as well we estimate the approximate volume using three different scenarios based on deposit larization dynamics;

- Based on various assumptions of deposit and credit trends, we estimate so called buffer initially to stand around $ 1 billion;

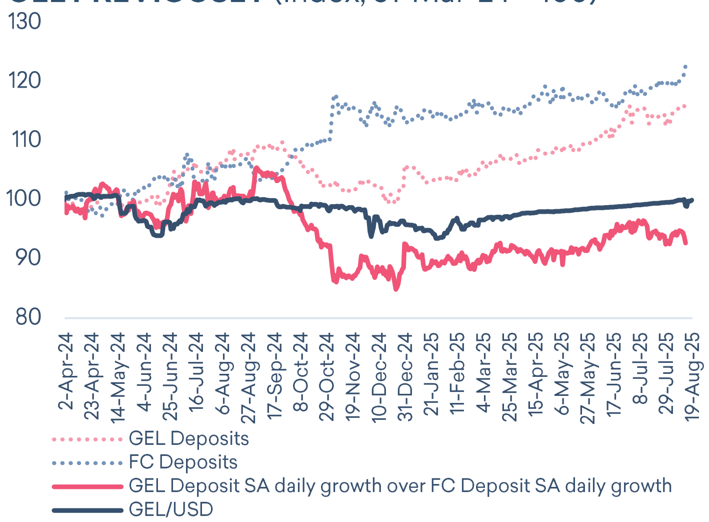
- Another proxy may be the NBG selling net $875 million from FX reserves in May-October 2024 and, thereafter, purchasing a modest $153 million in November-February, while scaling up to $1.5 billion net purchases since March up to date, per on our estimates, other drivers also being in play;

- Finally, we conclude that currently a substantial amount though less than half of total still appears to be left over from the buffer, set to continue supporting the GEL going forward unless sentiments deteriorate again.

Before we provide a reply to the title question, we'd like to offer a reminder. A buffer, of course, is a safeguard designed to mitigate the impact of adverse scenarios – something you rely on when the times are bad. So, what exactly do we mean by the "good time buffer" or, alternatively, the shock amplifier?

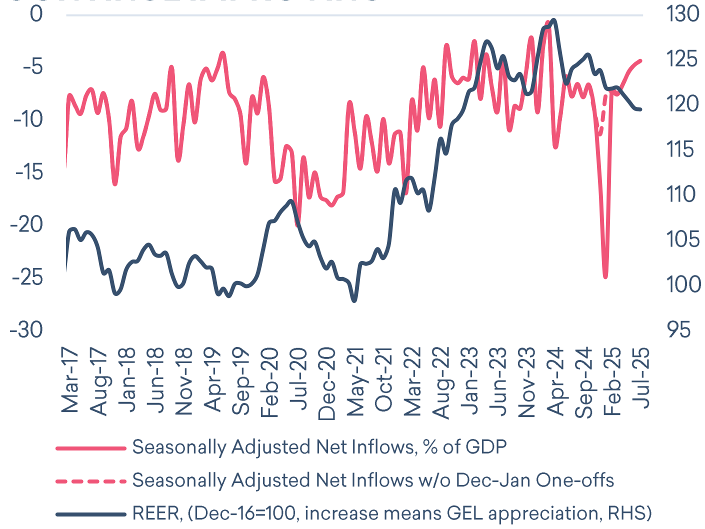
Our readers recall that the adverse shift in sentiments last year resulted in a flight to foreign currency (FX) assets, with net FX purchases by households and legal entities reaching record high levels, and GEL deposits converted into FX en masse. As we argued back then, sentiment deterioration, while resulting in concurrent drag, can also be seen as a form of a buffer for better times, if/when sentiments improve, subsequently aiding appreciation with the eventual drag reversal. This can be contrasted to central bank FX reserves, which tend to be used in bad times. Indeed, we have seen a normalization in net FX purchases and FX market turnover, as well as a gradual reversal in deposit conversions in 2025, particularly since the 2nd quarter, with the good time buffer thus emerging as one of the three major GEL-supportive drivers.

FIGURE 1: DEPOSIT CONVERSION ESTIMATES INDICATE MIXED PICTURE IN JULY & AUGUST FOLLOWING THE GRADUAL SWITCTO THE GEL PREVIOUSLY (Index, 31-Mar-24 = 100)



Source: NBG, TBC Capital

FIGURE 2: NET CURRENCY INFLOWS CONTINUE IMPROVING

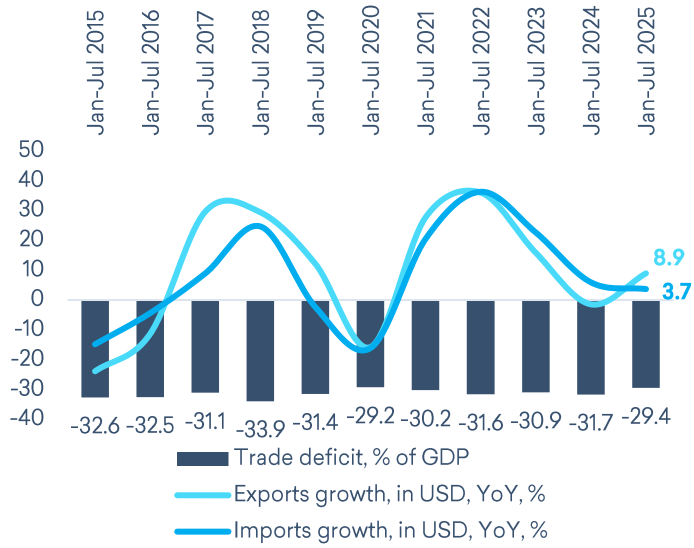


Note: Net inflows is a sum of net export of goods, gross tourism and remittances. Remittances from Russia are adjusted for double counting with tourism inflows and other issues; TBC Capital monthly tourism estimates based on assumptions of share of migrants counted as residents according to NBG and the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

At the same time, even though daily cumulative proxy of deposit conversions indicate a mixed picture in July and August, the gradual switch to the GEL was evident in previous months, while GEL deposit growth continues (Figure 1).

Furthermore, per our best guess regarding the NBG FX interventions, July and August volumes even exceed previous months' USD purchases. Here, having in mind the number of drivers such as fiscal balance and the share of cash in monetary aggregates, we once again note that definitely it is not only about conversions, but net inflows as well. In particular for the currency composition of deposits as strong net inflows generally lead to a higher accumulation of FC deposits in the banking system. In fact, our estimates for July point to the further improvement of the proxy for the BoP current account driven by robust exports, strengthening remittances and improving tourism as opposed to subdued growth in imports of goods. Seasonally adjusted net inflows have again strengthened in July (Figure 2) despite the weakened exports in annual terms, as the

FIGURE 3: WEAKER IMPORTS AND STRONGER EXPORTS HAVE NARROWED THE TRADE OF GOODS DEFICIT SIGNIFICANTLY IN 2025



Note: Imports adjusted for a one-off in January 2025
Source: NBG, Geostat, TBC Capital

drop in imports outweighed the decrease in exports in USD volume, maintaining the trade deficit still at the lowest point in the last decade (Figure 3).

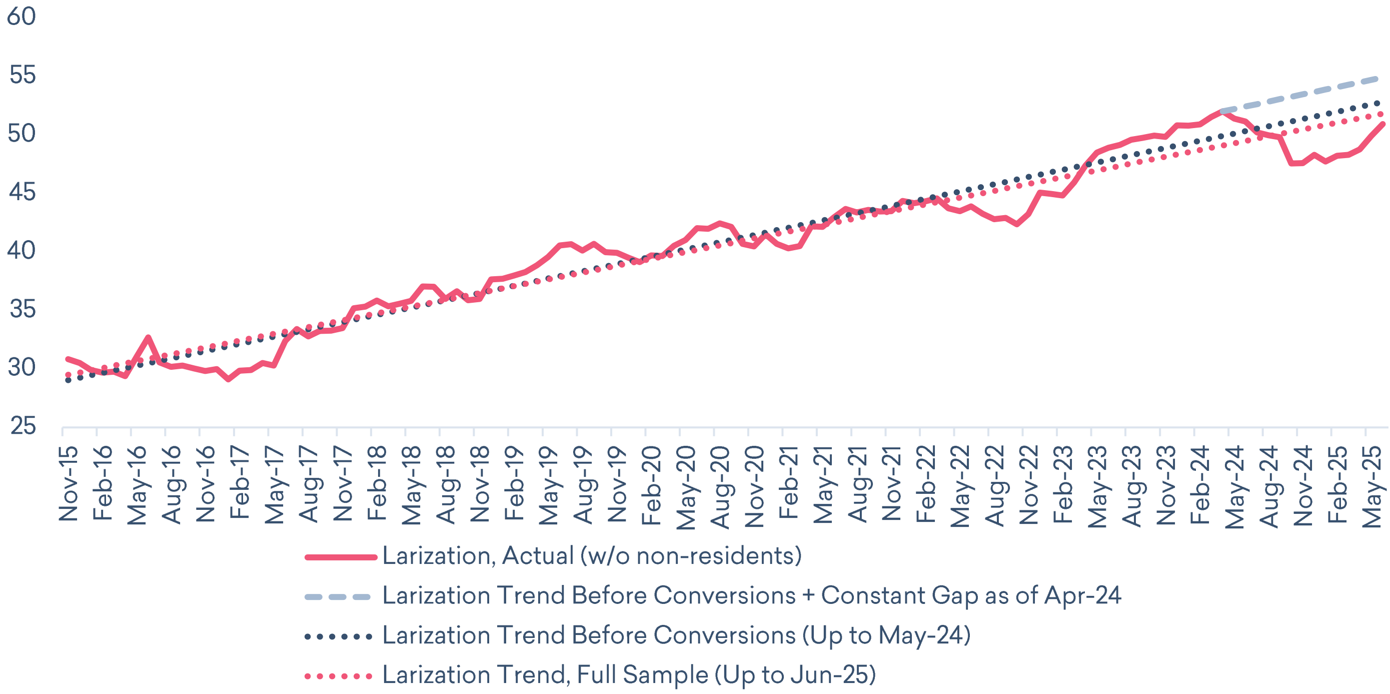
As it is well known to our readers, inflows, currency composition of credit and deposits and the greenback value internationally – are inputs for our short-term USD/GEL equilibrium model, which works quite well when back tested.

Reflecting latest trends, the model indicates that the equilibrium GEL estimate has been appreciating continuously in 2025, thanks to contributions of all these major drivers.

With this introduction, let's go back to the original question. Our real-time estimates suggested that FX accumulation by households and corporates had totaled more than a billion USD. Can we corroborate this number and, if so, considering the ongoing gradual reversal, how much more is left of the good time buffer?

As evident from Figure 4, deposit larization (excluding non-residents as those deposits are mostly denominated in FC) reached its highest level of 52% in April 2024, followed by a continuous decline till October, when it plateaued at 47.6%. Larization began to increase again in 2025, particularly picking up pace in the 2nd quarter, totaling 50.9% as of June. In order to estimate the impact of these conversions – i.e. the size of the good time buffer – we need to construct counterfactual scenarios. To do this, we present **three scenarios:**

FIGURE 4: DEPOSIT LARIZATION COMPARED TO THE TREND COULD BE INDICATIVE OF POTENTIAL "GOOD TIME BUFFER" SIZE (%)



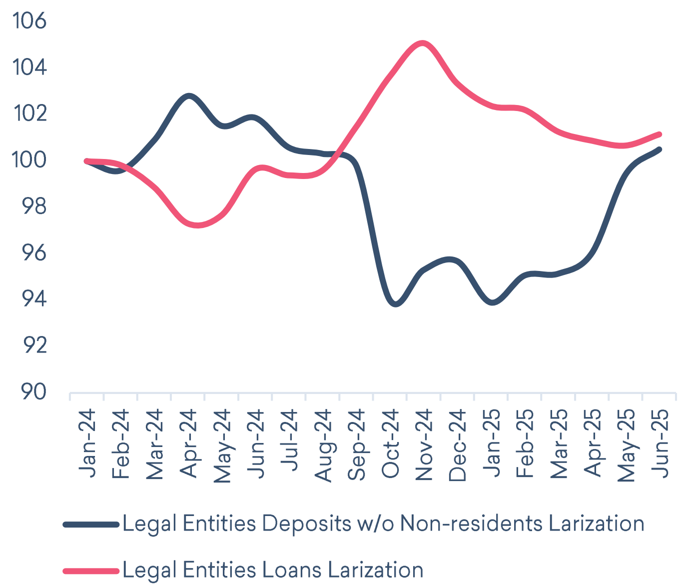
Source: NBG, TBC Capital

- **Scenario one:** the conversions represent a temporary shift in larization and, without the sentiment deterioration, larization would have converged to its pre-conversion trend (dotted blue line). Compared to this counterfactual scenario, deposit conversions resulted in a c. $650 million equivalent decrease in GEL deposits. Of this, we estimate that c. $330 million remains outstanding for trend convergence as of June.
- **Scenario two:** the conversions resulted in a permanent shift in the larization trend (dotted red line), with sentiments remaining structurally worse-off than they would have been without last year's deterioration. Compared to this scenario, deposit conversions resulted in a c. $500 million equivalent decrease in GEL deposits, although this number certainly underestimates the size of the good time buffer as it compares larization not to a counterfactual scenario but to a new existing one. Nevertheless, this scenario is important to assess the potential outstanding volume in deposit reversal, assuming a shift in the trend has in fact occurred. This lower bound estimate stands at c. $160 million as of June.
- **Scenario three:** larization had been above the trend for almost a year as of April 2024, and it is not unlikely to assume that it would have remained so without the adverse shift in sentiments. This would not have been without precedent, as larization was higher than the trend for almost two years in 2019-2020. Had larization maintained a constant gap (as of Apr-24) compared to the trend (light blue dashed line), this counterfactual scenario implies a c. $1 billion equivalent decrease in GEL deposits, of which c. $700 million remains outstanding as of June. This provides the upper bound estimate.

Having a proxy regarding deposits, we should not forget about the corresponding effect on credit side. Namely, when driven by sentiments, often, if not always, the credit dynamics are opposite of deposits' as currency depreciation expectations stimulate switching to the FC deposits and LC credit, while the vice versa typically happens when sentiments improve. In this regard, again, alike deposits, keeping in mind number of other drivers determining the currency composition of the credit, Figure 5 demonstrates exactly the story we are highlighting. Namely, while retail credit larization is already structurally high, business credit and deposits clearly demonstrate abovementioned opposite dynamics that were driven by worsened and then improving expectations regarding the GEL prior and following the end of 2024.

FIGURE 5: CURRENCY COMPOSITIONS OF LEGAL ENTITIES' CREDIT AND DEPOSITS WERE LARGELY DRIVEN BY SENTIMENTS LATELY

(Index, Jan-2024 = 100)

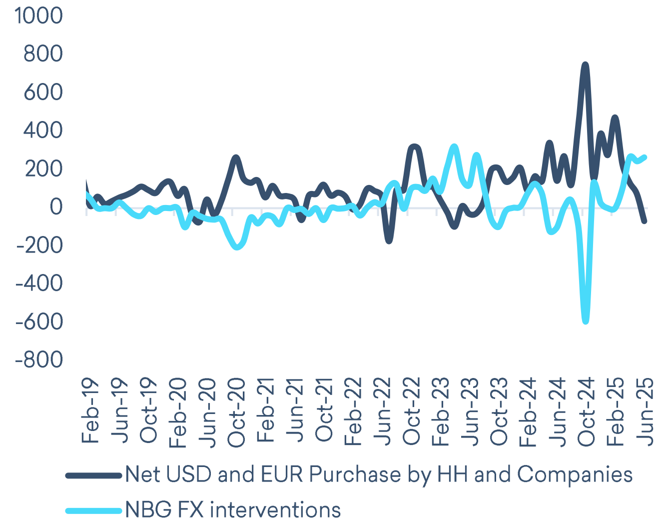


Source: NBG, TBC Capital

Furthermore, estimating excess FX demand in 2024, had net USD and EUR purchases by households and corporates remained at (seasonally adjusted) Jan-Apr 2024 average levels during the rest of the year, net FX purchases would've been c. $1 billion lower (Figure 6). Of course, it is not only sentiments that affect FX purchases but other factors as well, such as net FX inflows, but large swings in sentiments certainly represented the principal driver during our period of interest. As noted above, FX demand has decelerated significantly since the October 2024 peak, with net purchases turning negative in June (Figure 7).

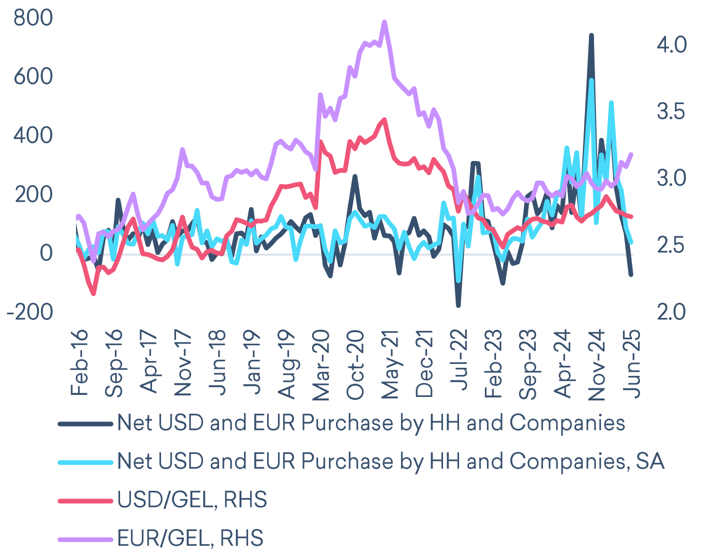
We also need to consider the net $875 million sold from [FX reserves] by the NBG in May-October 2024 (Figure 8), which, in a way, may provide another approximation to the estimate, keeping in mind other drivers. Altogether, backtesting our real-time figures results in a broadly similar assessment of the size of the good time buffer. Finally, whichever scenario might be more plausible than the other, currently a substantial amount though less than half of total still appears to be left over from the buffer, set to continue supporting the GEL going forward unless sentiments deteriorate again.

FIGURE 8: NBG INTERVENTIONS AND NET FC PURCHASES ON FX MARKET HAVE AN INVERSE RELATIONSHIP



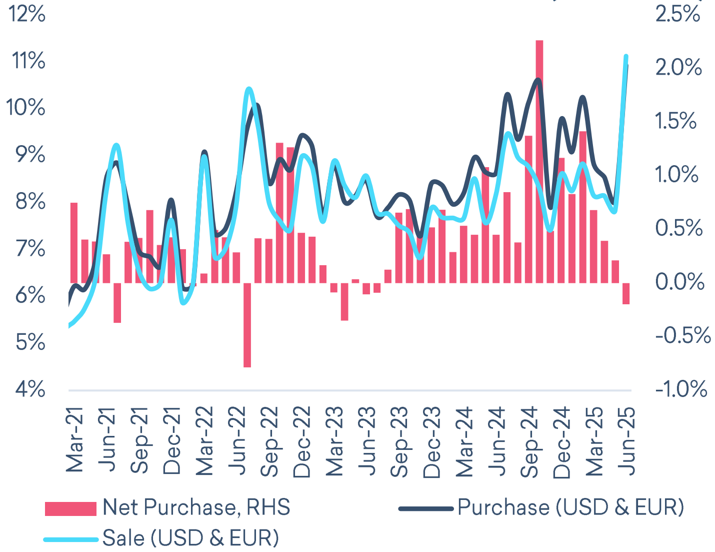
Note: Positive amounts indicate net purchases of foreign currency
Source: NBG, TBC Capital

FIGURE 6: NET USD AND EUR PURCHASE BY HOUSEHOLDS AND LEGAL ENTITIES RETURN TO THE 2023 LEVELS



Source: NBG, TBC Capital

FIGURE 7: NET FC PURCHAES BECOMES NEGATIVE FOR THE FIRST TIME SINCE 2023, THOUGH TRADE REMAINS ELEVATED (% OF GDP)



Source: NBG, TBC Capital

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TBC Group Chief Economist Office

Otar Nadaraia
Chief Economist

Tsotne Marghia
Head of Macro-Financial Analysis Division

Nikoloz Zurabishvili
Senior Macroeconomist

Mamia Intskirveli
Business Economist

Darejan Kavelashvili
Intern

TBC CAPITAL

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