



GEORGIAN ECONOMY IN 2025 AND 2026

Underlying Current Account Surplus for the First Time on Record

22 January 2026

TBC Group Chief Economist Office

CONTENT

| | |
|------------------------------------|----|
| KEY TAKEAWAYS | 3 |
| CHART OF THE MONTH | 4 |
| ECONOMIC GROWTH | 5 |
| MEDIUM-TERM VIEW | 11 |
| THE GEL | 19 |
| EXTERNAL BALANCE | 27 |
| INFLATION | 44 |
| LABOUR MARKET | 52 |
| CREDIT | 56 |
| OPTIMAL FUNDING CURRENCY STRUCTURE | 60 |
| BASELINE SCENARIO FORECASTS | 65 |

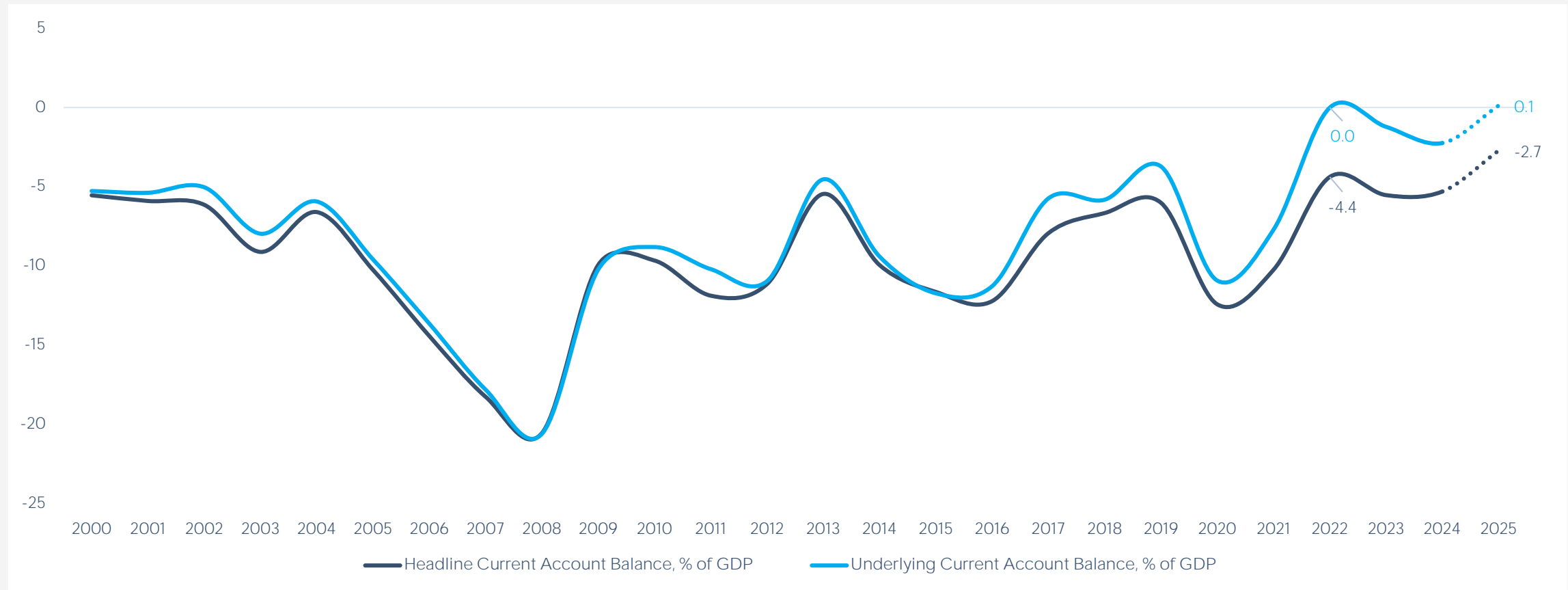
KEY TAKEAWAYS

- The underlying current account – excluding reinvestments – is projected to post a slight but still surplus in 2025, with Georgia therefore turning into a net creditor to the rest of the world for the first time on record, while the headline current account deficit is expected to decelerate to an also record-low 2.7%;
- Economic growth has normalized in the second half of 2025 and is expected to moderate slightly below trend at 4.5% in 2026, taking into account the higher probability of the conflict resolution in Ukraine, as the tragic outbreak of the war has boosted growth in Georgia and the wider region;
- While there is enduring great uncertainty regarding the terms and timing of the conflict resolution – our current bet is broadly similar to the market with a 40% probability, though with a higher likelihood of a frozen conflict rather than full resolution and lifting of all sanctions – we believe that the net impact of the conflict resolution scenario on the Georgian economy will be negative, perhaps contrary to the mainstream view;
- The GEL came under sustained appreciation pressure in 2025, driven by global USD weakness, higher net FX inflows, and, perhaps most importantly, lower domestic FX demand – evidenced through a reversal in last year's deposit dollarization and loan larization;
- These appreciation pressures have translated into the NBG replenishing reserves, purchasing c. USD 2.5 billion in 2025 per our estimates, with net reserves reaching USD 3.2 billion;
- On the one hand, the conflict resolution scenario, probably accompanied by a renewed flight to FX assets domestically, implies a downside for the GEL in the near term, although, on the other hand, higher reserves have positioned the NBG to counteract if necessary, while the economic nature of the pressures on the exchange rate also needs to be considered;
- With these in mind, we forecast the GEL to depreciate somewhat to USD/GEL 2.79 under our central projection by the end of the year, despite persistent undervaluation in 2025, which is GEL-positive on its own;
- Undervaluation carries inflationary risks, although we **don't** expect significant pressures from this channel in the baseline scenario as inflation has begun to decelerate, in line with our expectations, and, based on judgement on a number of drivers, is projected to average 3.5% in 2026;
- Last but not least, we are inspired by the fact that the TBC Capital exchange rate business strategy has been gaining traction lately, not surprising as we estimate an cumulative gain of GEL 6 billion in the corporate sector over the past five years – as compared to the average credit stock of GEL 16.9 billion-equivalent over the same period – arising from incorporating currency misalignment estimates in the decision-making process.

CHART OF THE MONTH – UNDERLYING CURRENT ACCOUNT SET FOR SURPLUS IN 2025

The third quarter of 2025 posted a second consecutive current account surplus, excluding reinvestments – only the third time on record in seasonally adjusted terms, the other one immediately following the start of the Russia-Ukraine war in 3Q22. Consequently, the underlying current account was in surplus in Jan-Sep 25 and, based on our real-time estimates, is expected to remain in surplus in the fourth quarter, with Georgia therefore turning into a net creditor to the rest of the world in 2025. The headline deficit is projected to total -2.7% of GDP, lowest on record. Growing service exports – particularly, ICT services – and sluggish imports have been driving the current account improvement, also aided by rising money transfers and tourism revenues.

HEADLINE AND UNDERLYING (EXCLUDING REINVESTMENTS) CURRENT ACCOUNT BALANCE, % of GDP





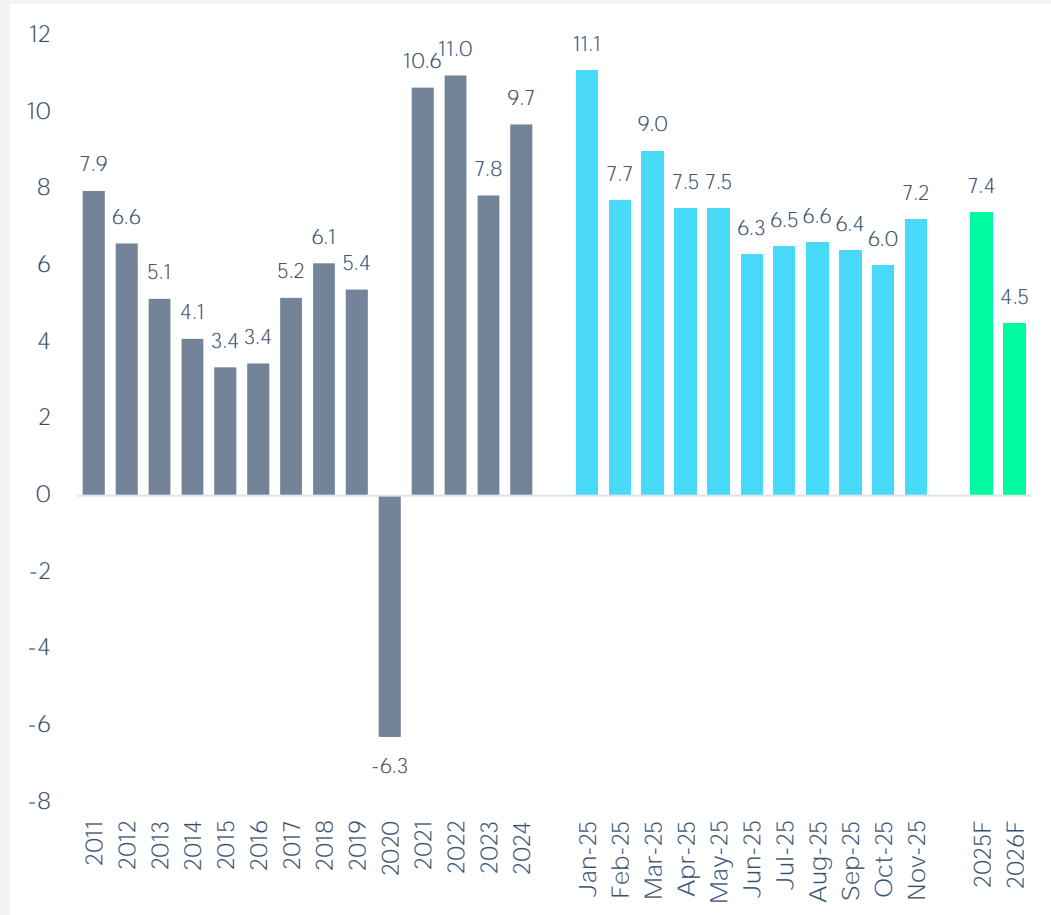
ECONOMIC GROWTH

- Economic growth has moderated in the second half of 2025, in line with our expectations, with normalization set to continue in 2026;
- Growth has been highly concentrated in 2025, with the information & communication and education sectors accounting for almost half of the total;
- On the expenditure side, consumption has emerged as the primary driver, contributing over 100% to economic growth in January-September 2025, following up on 99% in 2024 and projected at slightly higher than 100% again in 2026;
- As for latest data, our coincident indicators point to stronger spending in December and January, after largely flatlining over the four months prior, particularly in case of non-residents;
- We forecast growth to decelerate slightly below trend at 4.5% in 2026, taking into account the higher probability of the conflict resolution in Ukraine – in our view, the single most important variable for the outlook.

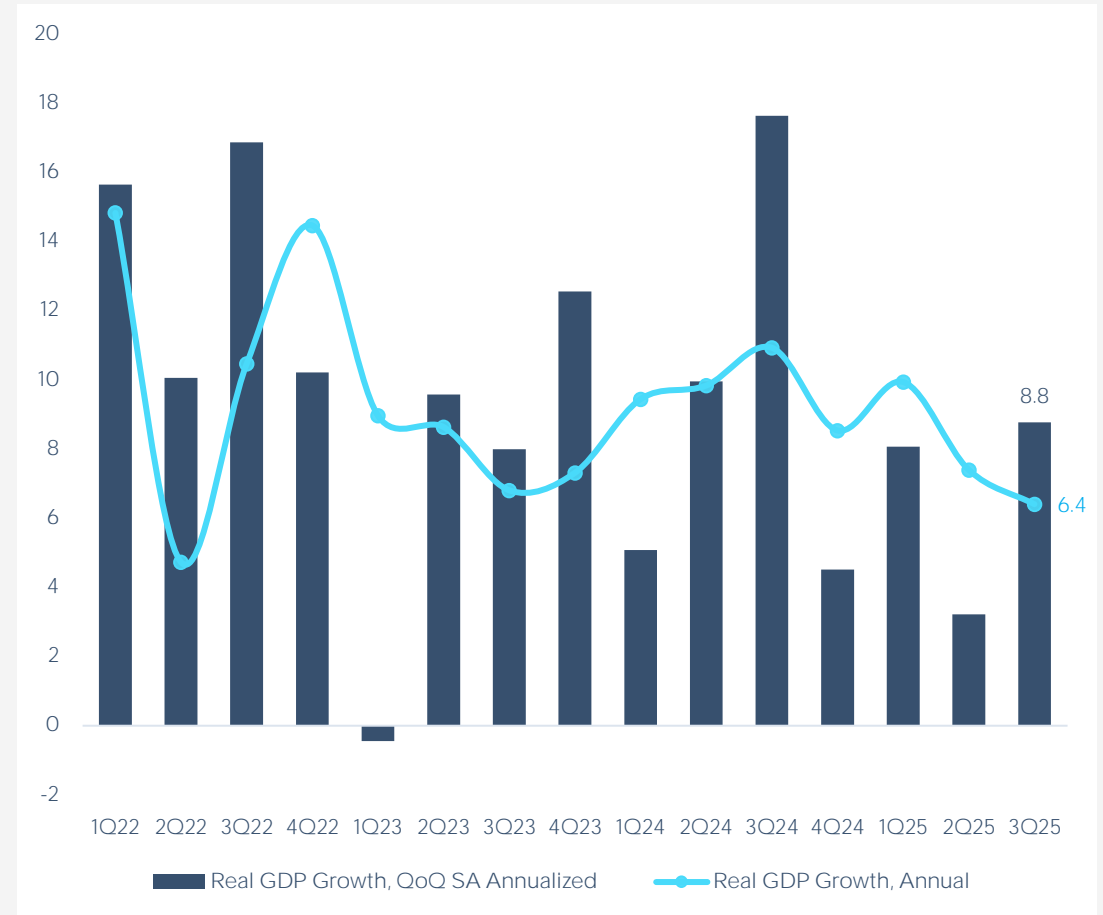
ECONOMIC GROWTH ON TRACK TOWARDS NORMALIZATION

Economic growth moderated in the second half of the year, [in line with our normalization scenario](#). At the same time, the third quarter GDP came in rather strong, as growth accelerated QoQ, per our estimates. We forecast growth to average 7.4% in 2025 and decelerate slightly below trend at 4.5% in 2026, taking into account the higher probability of the conflict resolution in Ukraine – [in our view, the single most important variable for the outlook](#).

REAL GDP GROWTH ESTIMATES (YoY, %)



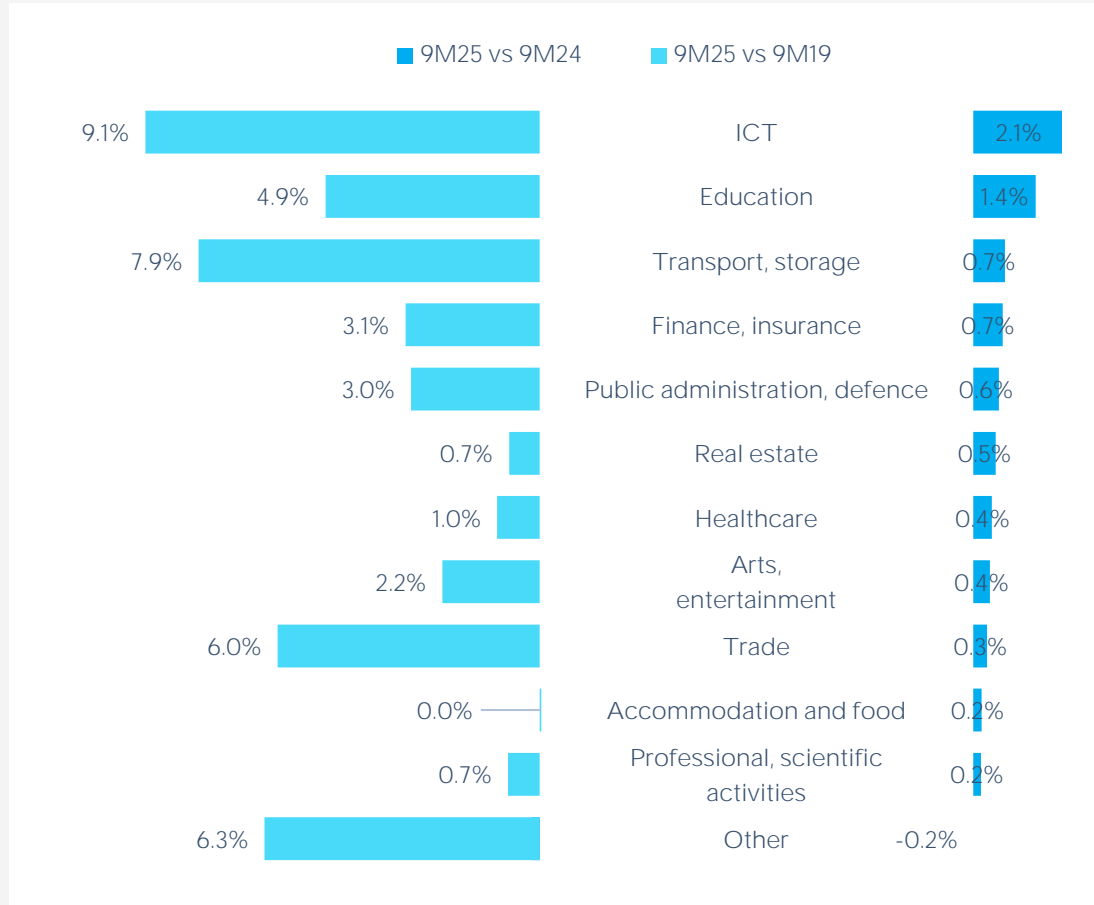
REAL GDP GROWTH, ANNUAL VS QUARTERLY ANNUALIZED (%)



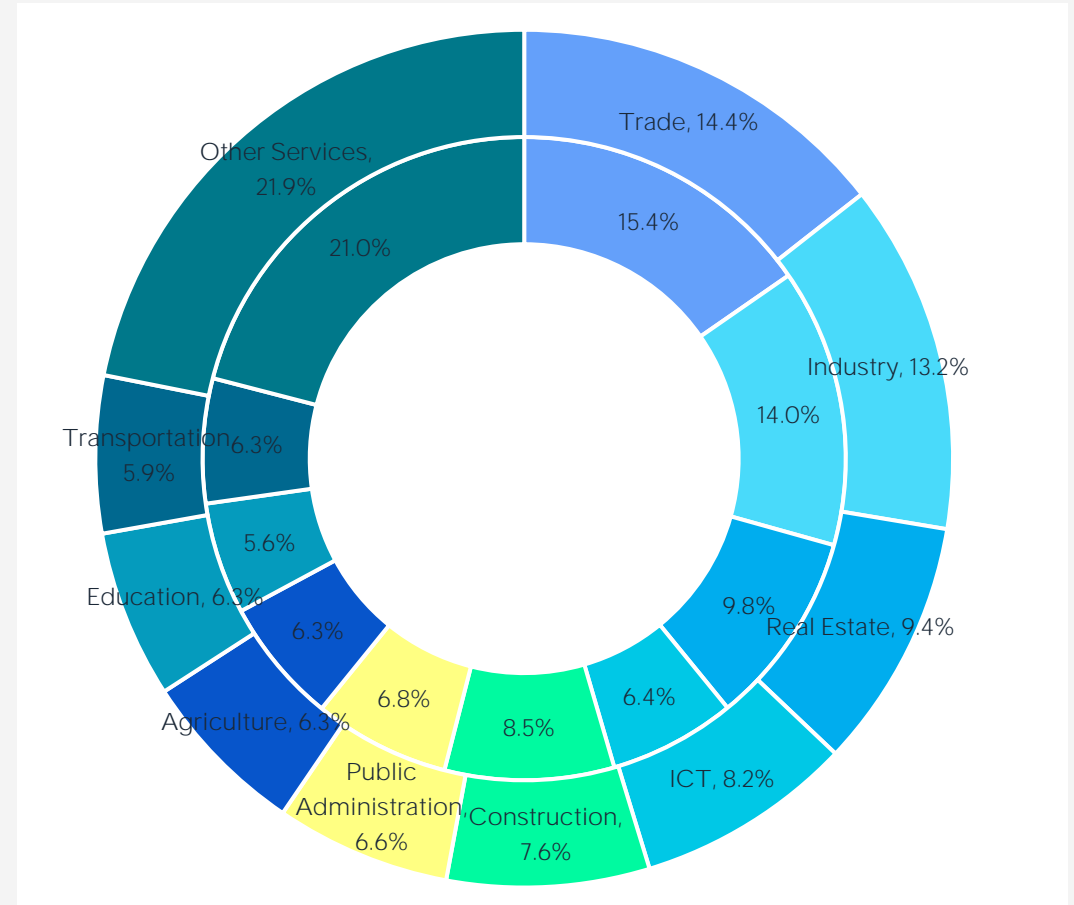
GROWTH HAS BEEN HIGHLY CONCENTRATED IN 2025

The information and communication (ICT) and education sectors accounted for almost half of overall economic growth in January-September 2025. Consequently, the share of ICT and education in GDP increased from 12% in 2024 to 14.5% in the nine months of 2025, while the share of all other major sectors (GDP share of 5% or larger) shrank. With respect to long-run economic growth – as compared to the pre-COVID period – ICT, transportation and trade remain the largest drivers, similar to the previous few years.

ECONOMIC GROWTH PER SECTORS (Contribution, Percentage Point)



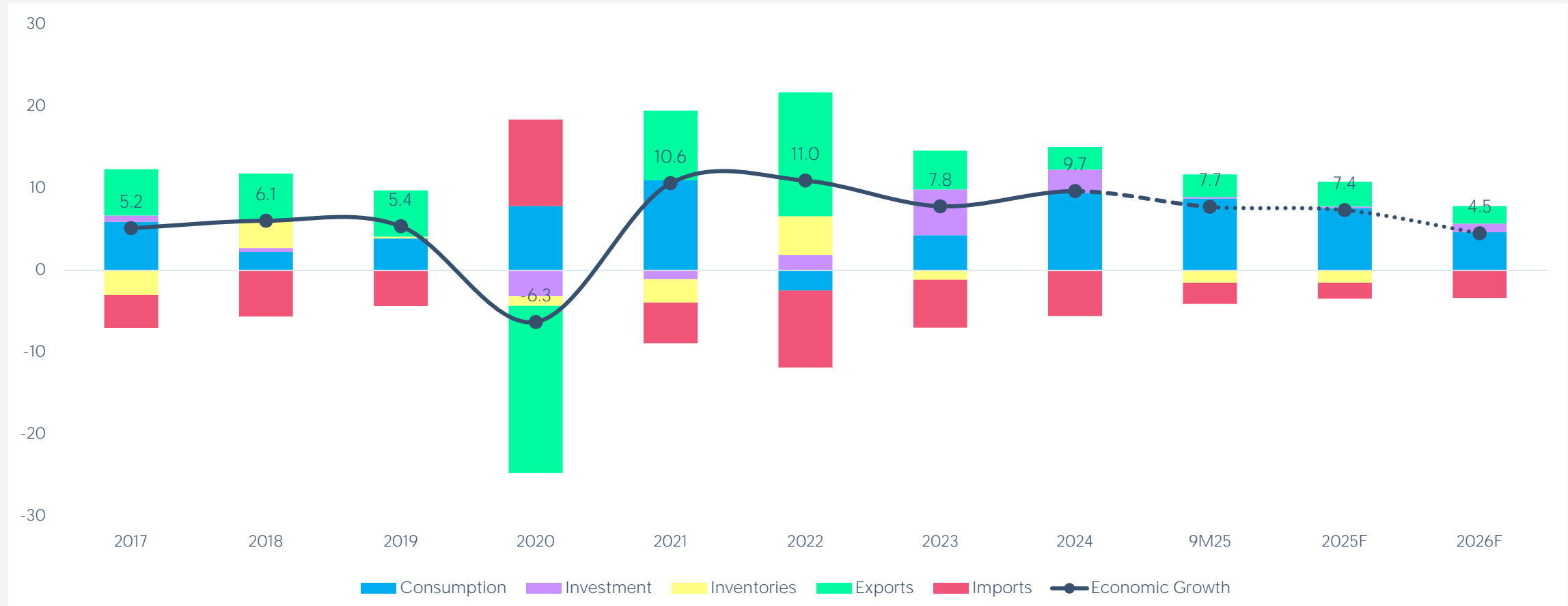
GDP BY SECTORS (% Share, 2024 (Inner Layer) vs 9M25 (Outer Layer))



CONSUMPTION HAS EMERGED AS THE PRIMARY GROWTH DRIVER

Consumption accounted for 113.5% of overall economic growth in January-September 2025, with the contribution of investments and net exports only marginally positive, and inventories significantly negative (-19.2%). Consumption was responsible for 99% of total economic growth in 2024, and is projected to contribute slightly more than 100% again in 2026. This marks three consecutive years of growth being primarily driven by consumption, something to keep an eye on going forward.

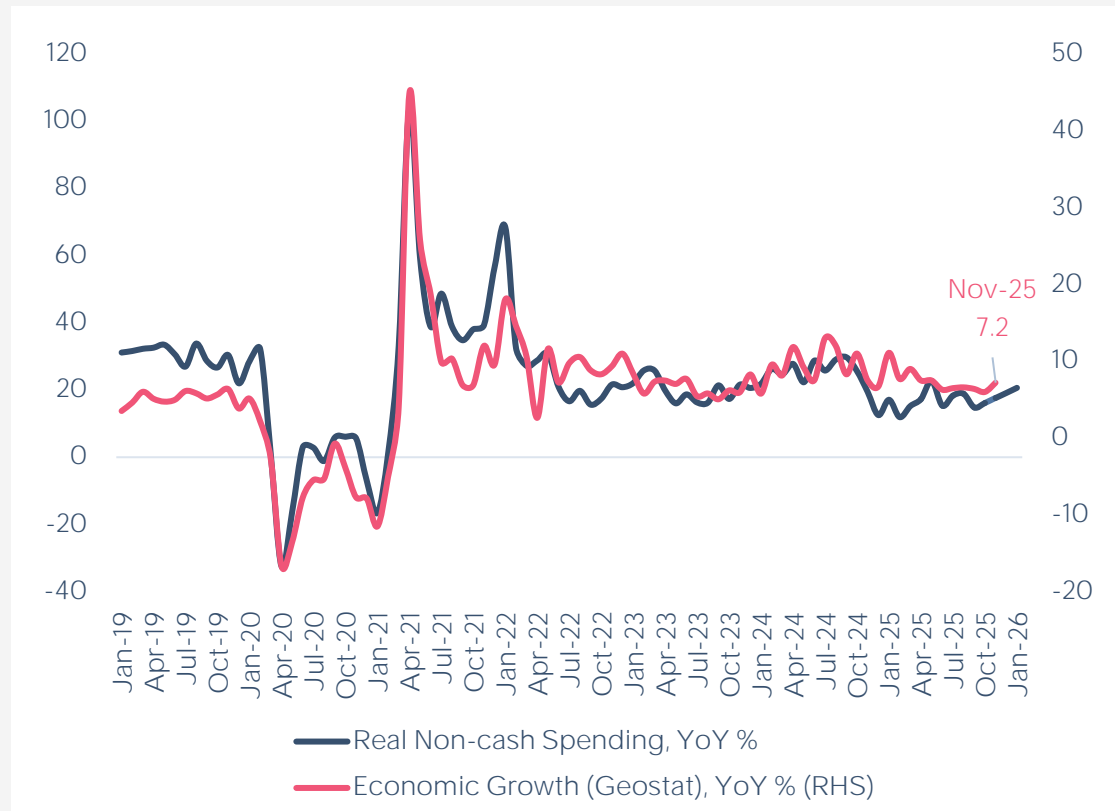
REAL GDP GROWTH (%) AND ITS EXPENDITURE-SIDE COMPONENTS (Contribution, Percentage Point)



LATEST DATA INDICATES STRONGER SPENDING IN DECEMBER AND JANUARY

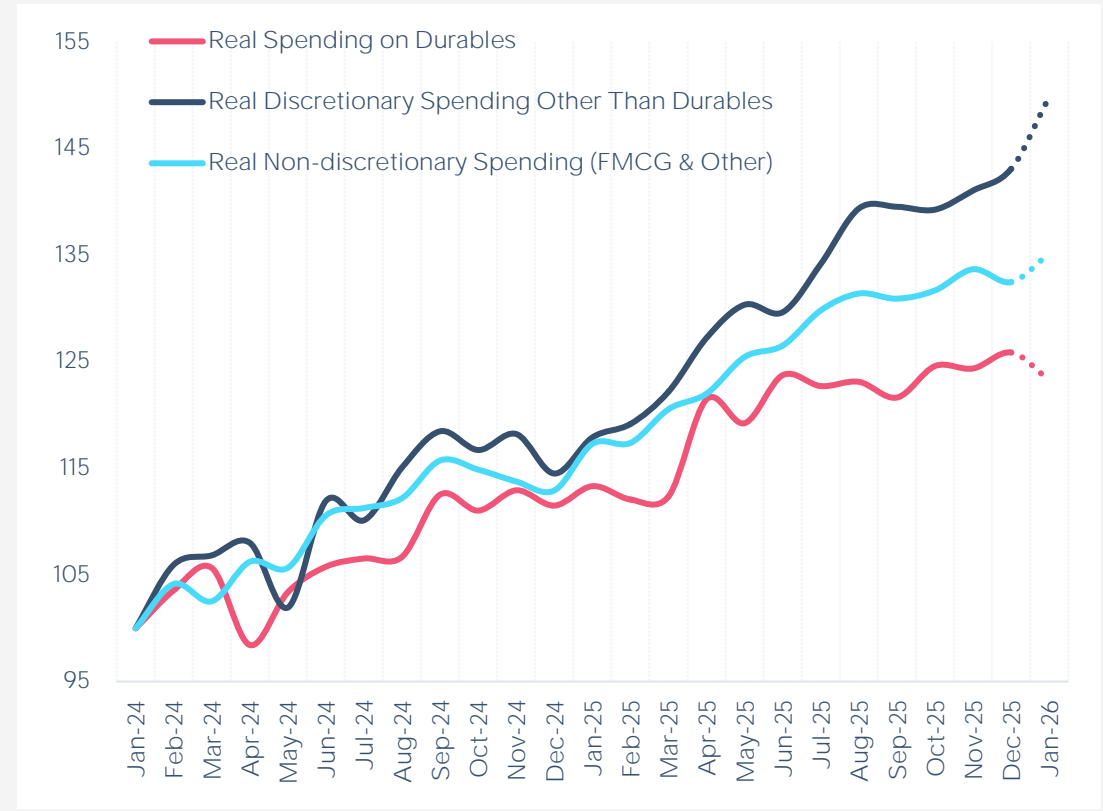
Our coincident indicators point to relatively stronger spending in December and January after largely flatlining in the four months prior. Real non-cash spending through TBC channels, our proxy for economic activity, grew by 19.1% in December, highest since May, and is on course to accelerate further in January 2026, including on a seasonally adjusted monthly basis. Per categories, higher activity is largely driven by discretionary spending other than durables, whereas non-discretionary spending is on course for a slight uptick in January and durables continue to lag behind.

REAL NON-CASH SPENDING THROUGH TBC CHANNELS AND ECONOMIC GROWTH (YoY % Change, As of 12-Jan-26)



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.

REAL NON-CASH SPENDING THROUGH TBC CHANNELS BY CATEGORIES (Index, Seasonally Adjusted, Jan-24 = 100, As of 12-Jan-26)

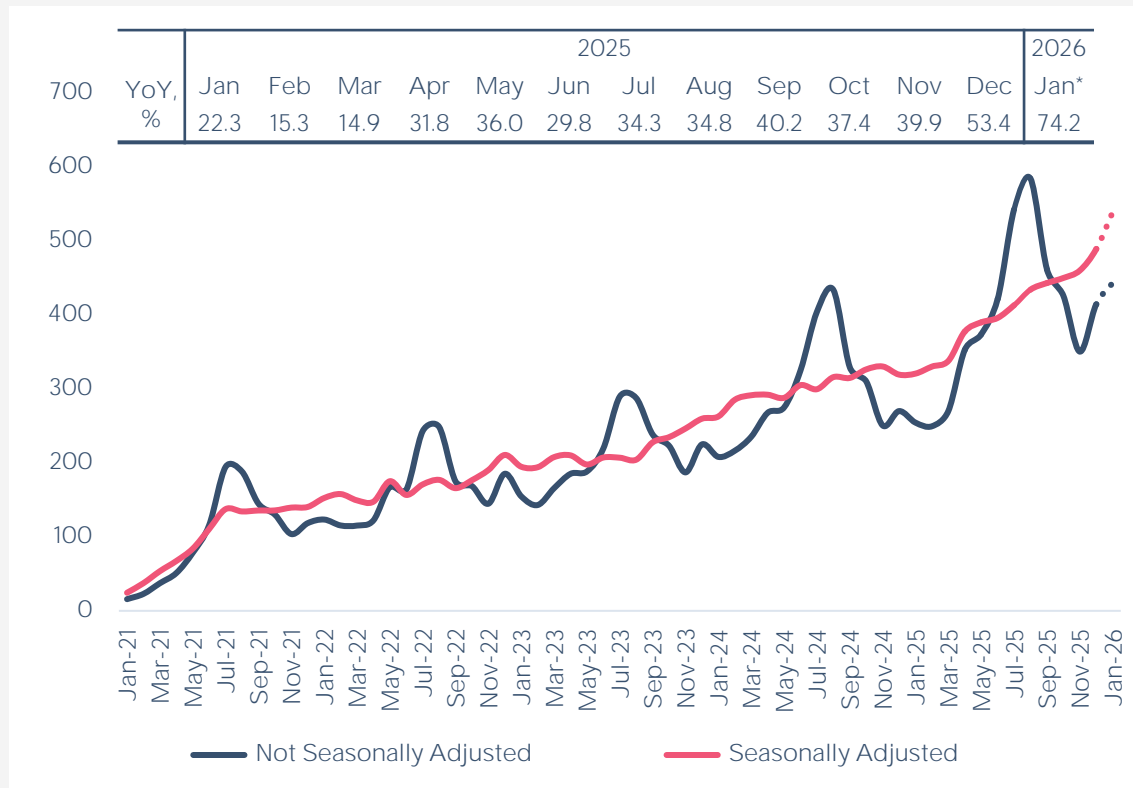


Note: Non-cash spending dynamics partially reflect the expenditure switching trend to digital channels as well as the growing number of available digital payment platforms.

NON-RESIDENT SPENDING UP BY A SIZEABLE MARGIN OVER THE PAST TWO MONTHS

Non-cash spending of non-residents through TBC channels, our proxy for tourism revenues, grew by a sizeable margin in December, both in annual and seasonally adjusted terms, and is on course to accelerate further in January, as of the first two weeks of the month. As for migrant expenses through TBC cards, they remain largely flat, though with a slight uptick in January thus far.

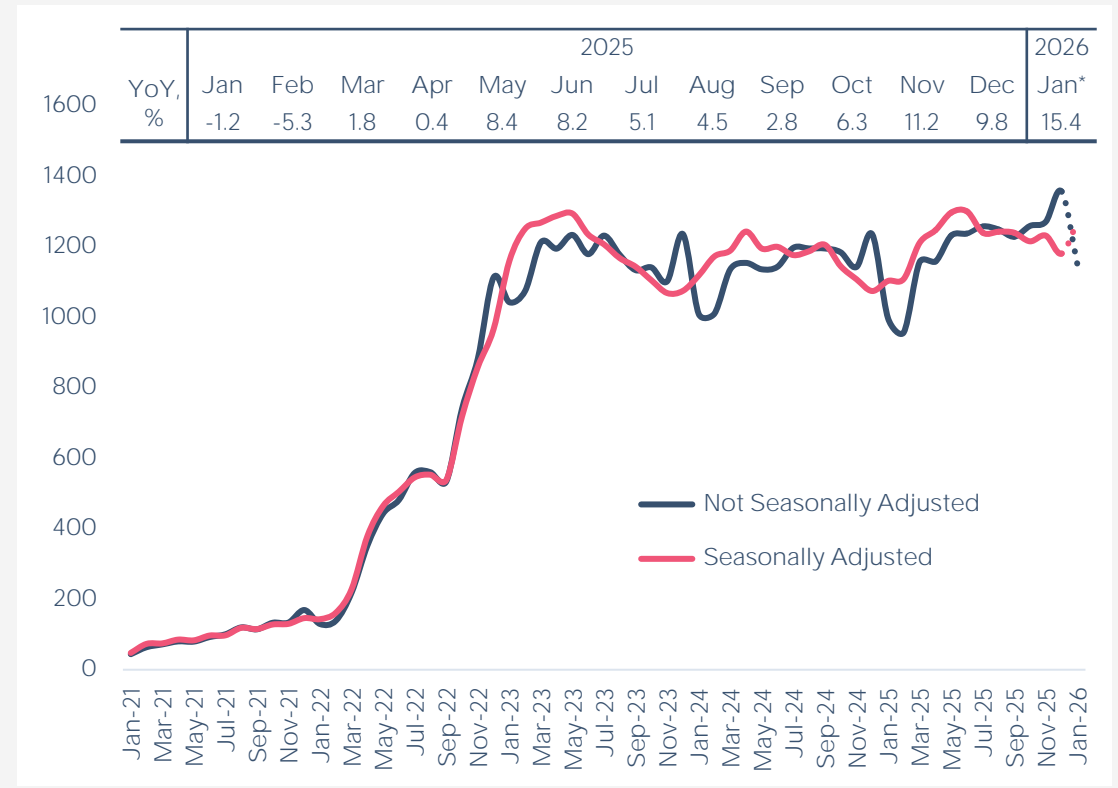
NON-CASH EXPENSES OF NON-RESIDENTS THROUGH TBC CHANNELS (Index in USD, 2021 = 100, As of 12-Jan-26)



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. At the same time, TBC dynamics is partially distorted due to the bank's higher market share recently. Namely, while TBC growth accumulated to 25.9% in the first half of 2025, the NBG tourism revenue estimates have posted only 3.8% annual growth

Source: TBC Capital

NON-CASH EXPENSES OF RUSSIANS, BELARUSSIANS AND UKRAINIANS THROUGH TBC CHANNELS (As of 11-Jan-26, Index in USD, 2021 Daily Average = 100)



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.

*Includes spending of Russians, Belarussians and Ukrainians through TBC cards.



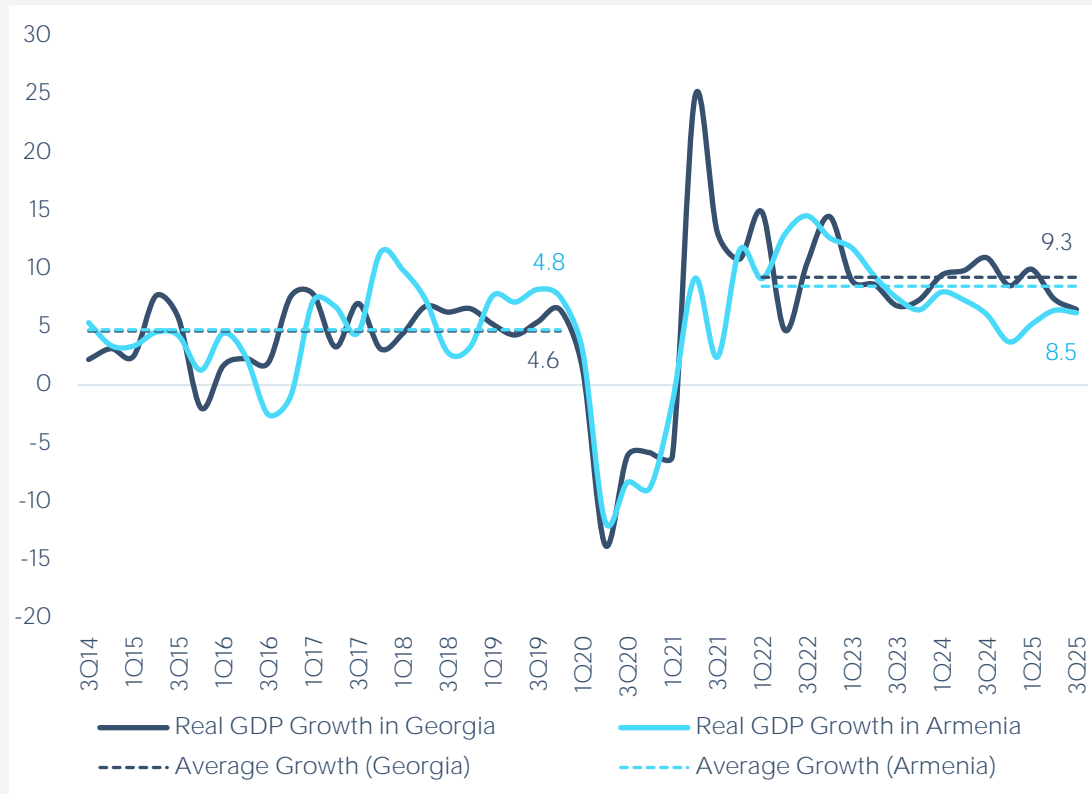
MEDIUM-TERM VIEW

- The tragic outbreak of the Russia-Ukraine war in 2022 resulted in a material reallocation of both human and financial capital, with some of these flows boosting economic growth in Georgia and the wider region;
- The main impact channels include direct migration, indirect spillovers stemming from catering to migrants, new and amplified trade and financial flows, rising real estate and broader investment demand;
- The conflict resolution scenario – now with a higher probability in 2026, though, unfortunately, still appearing some distance away – implies at least a partial adjustment of these flows, albeit there are many variables at play across a range of foreseeable outcomes, as well as substantial divergence in judgement regarding the speed and scale of potential reversal of war-related inflows;
- Regardless, we believe that the net impact of the conflict resolution scenario on the Georgian economy will be negative, perhaps contrary to the mainstream view;
- At the same time, part of the post-war impact is certainly expected to persist, with our latest survey indicating that migrants are now more likely to stay in the country over the medium term, albeit one should keep in mind that alternative surveys paint a rather different picture;
- Altogether, though a material slowdown is not expected in the medium term except for disorderly outflows – not the baseline scenario – recent elevated growth is also highly unlikely to continue, with deceleration anticipated somewhat below trend levels;
- Our baseline of 4.5% growth in 2026 incorporates conflict resolution with some probability, though it is not currently the resolution scenario.

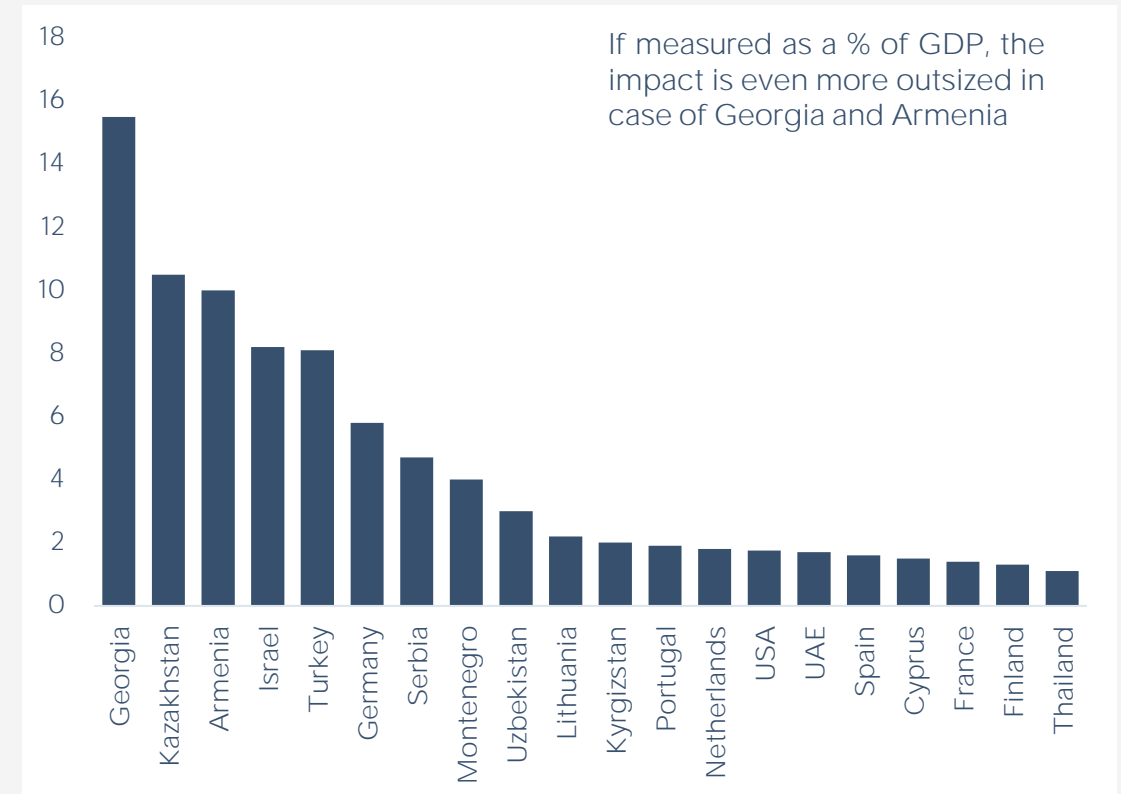
POST-WAR INFLOWS HAVE BOOSTED GROWTH IN GEORGIA AND THE WIDER REGION

The tragic outbreak of the Russia-Ukraine war in 2022 resulted in a material reallocation of both human and financial capital, among other economic effects. Some of these flows have been redirected to regional countries, boosting economic growth. The impact can readily be illustrated on the example of the Georgian and Armenian economies, nearly doubling growth compared to the pre-war average. The conflict resolution scenario, as we have highlighted many times, implies at least a partial adjustment of these flows, albeit there are [many variables at play](#) across a range of foreseeable outcomes, as well as substantial divergence in judgement regarding the speed and scale of potential reversal of war-related inflows. Regardless, we believe that the net impact of the conflict resolution scenario on the Georgian economy will be negative, perhaps contrary to the mainstream view.

ECONOMIC GROWTH IN GEORGIA AND ARMENIA
(YoY, %)



FIRST COUNTRY OF RELOCATION FOR RESPONDENTS, TOP 20 COUNTRIES (% of Total Number of Emigrants in 2022–2023)

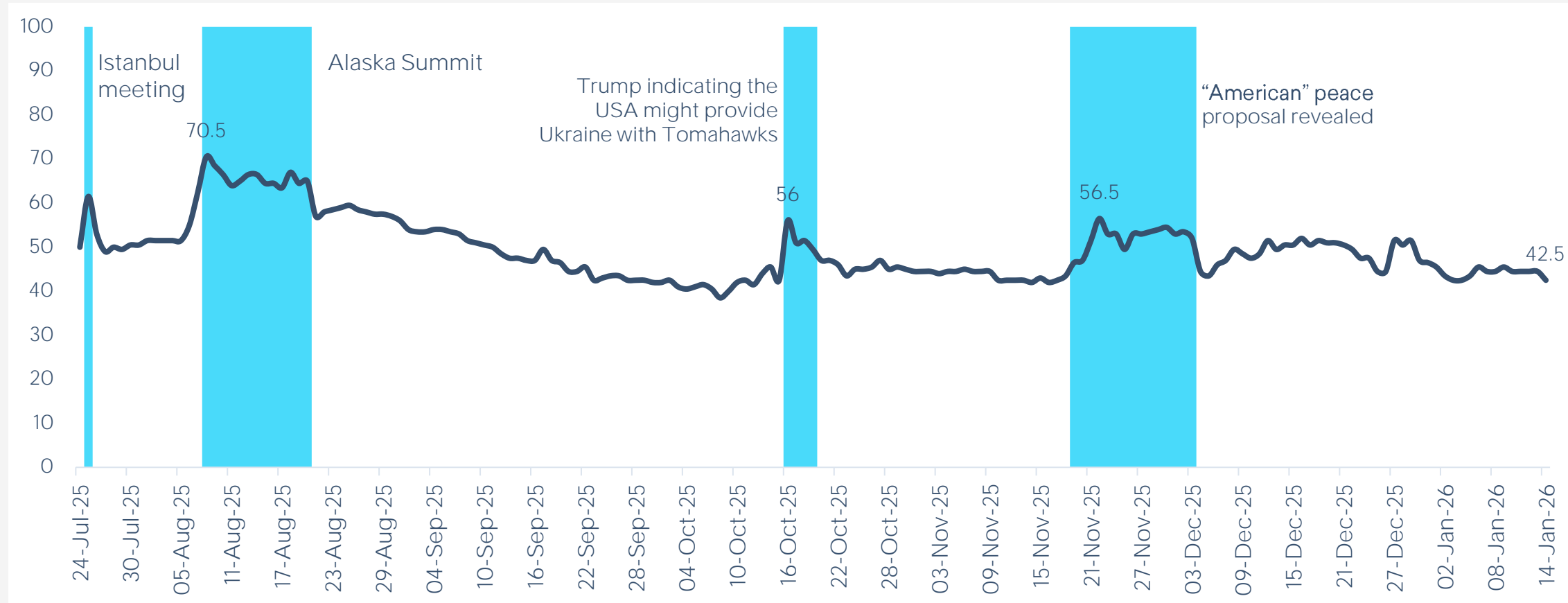


Source: Geostat, Armstat, Demoscope, TBC Capital

EVENTS SINCE THE SECOND HALF OF 2025 HAVE BOOSTED WAR RESOLUTION EXPECTATIONS, THOUGH PROSPECTS REMAIN AMBIGUOUS

While there seems to be a long distance yet from the final agreement, increased efforts for achieving peace or at least a ceasefire in Ukraine have resulted in higher expectations of war resolution during 2026 globally. Our current bet is broadly similar with a 40% probability, though with a higher likelihood of a frozen conflict rather than full resolution and lifting of all sanctions.

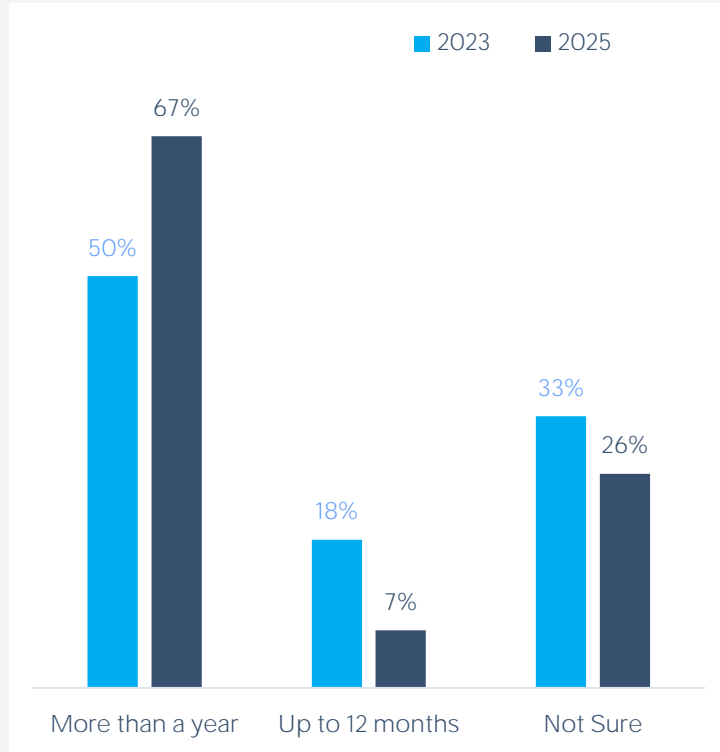
POLYMARKET (CRYPTO BETTING) NET PROBABILITY OF RUSSIA-UKRAINE CEASEFIRE IN 2026 (%)



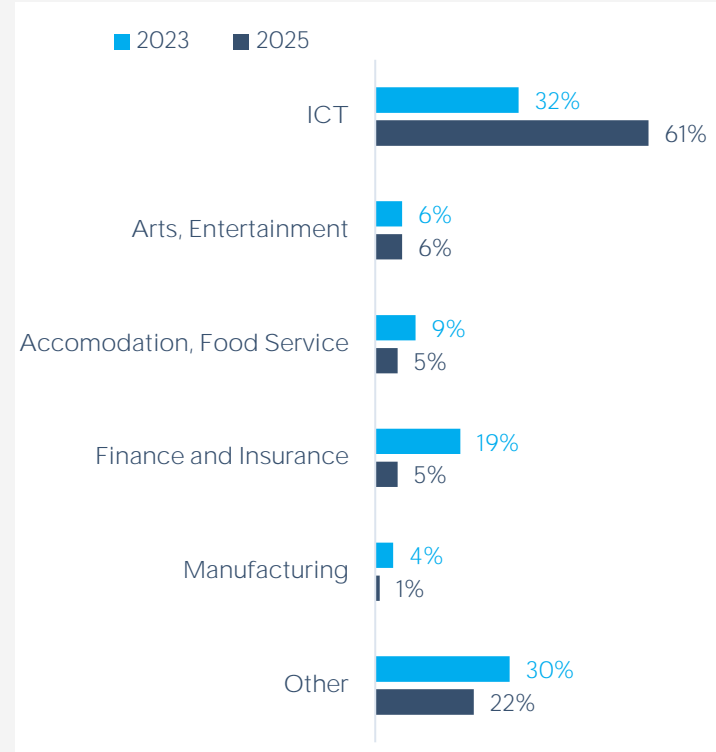
NEW SURVEY INDICATES LARGER PERSISTENCE FOR THE MIGRATION OUTLOOK

Our latest TBC bank client survey (Sep-Nov 25) indicates a more robust picture with respect to the migration outlook. In particular, 67% of respondents now plan to stay long-term in Georgia, as opposed to 50% in 2023 (15% for 1-2 years and 35% for more than 2 years), with 86% having already lived in the country for over 2 years. Furthermore, 40% of migrants currently work at Georgian-registered companies, as opposed to 29% in 2023, possibly supporting longer-term staying intentions. The next largest employers are US-registered companies with 17%, while the share of Russian-registered companies has shrunk significantly. With respect to employment by industry, the ICT sector dominates overwhelmingly with an over 60% share. However, one should keep in mind that alternative surveys paint a rather different picture. For example, a recent [Russian survey](#) (Feb-Mar 24) indicates that, though Georgia was the most popular first destination for Russian migrants, only c. 30% intended to stay in the country for over a year.

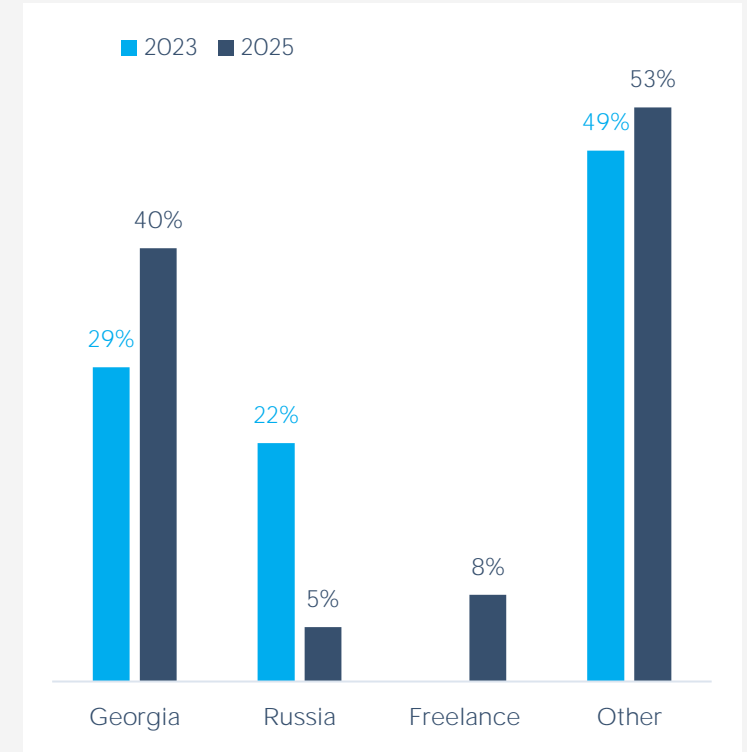
FOR HOW LONG DO YOU INTEND TO STAY IN GEORGIA?



WHICH INDUSTRY DOES YOUR EMPLOYER WORK AT?



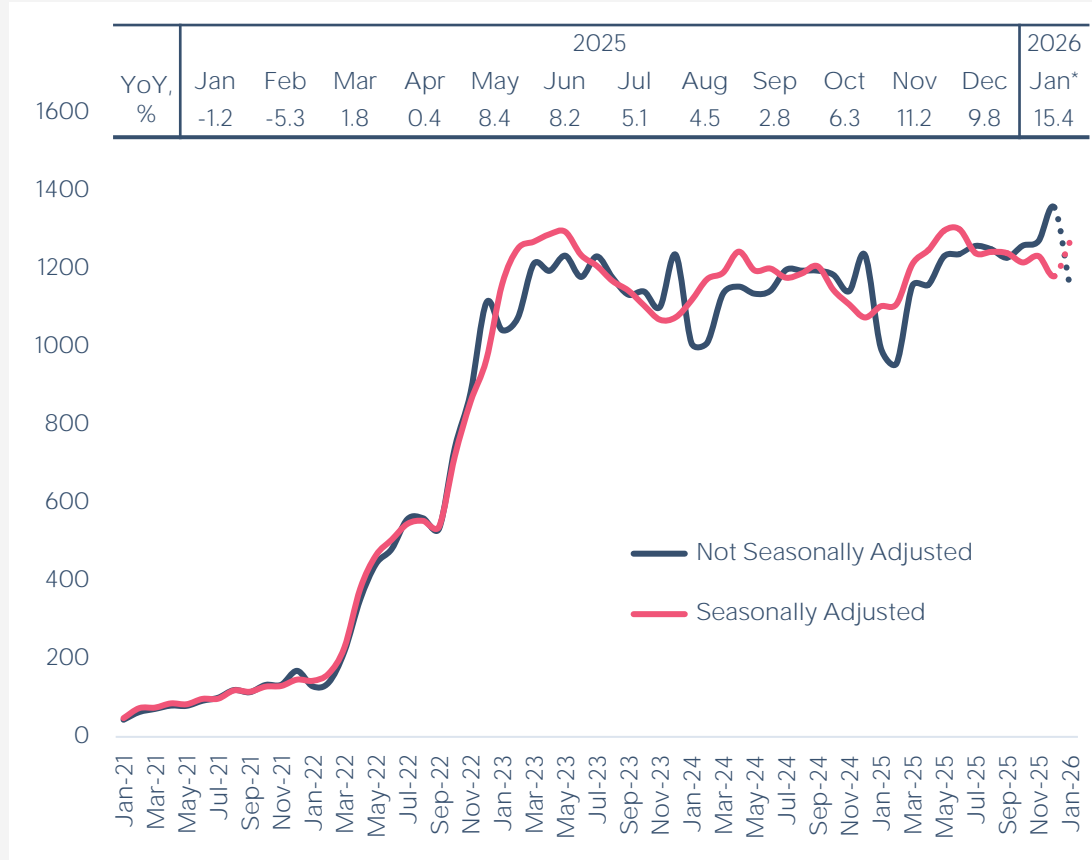
WHERE IS YOUR EMPLOYER REGISTERED?



DIRECT MIGRATION AND INCREASED TRADE FLOWS HAVE BOOSTED GROWTH

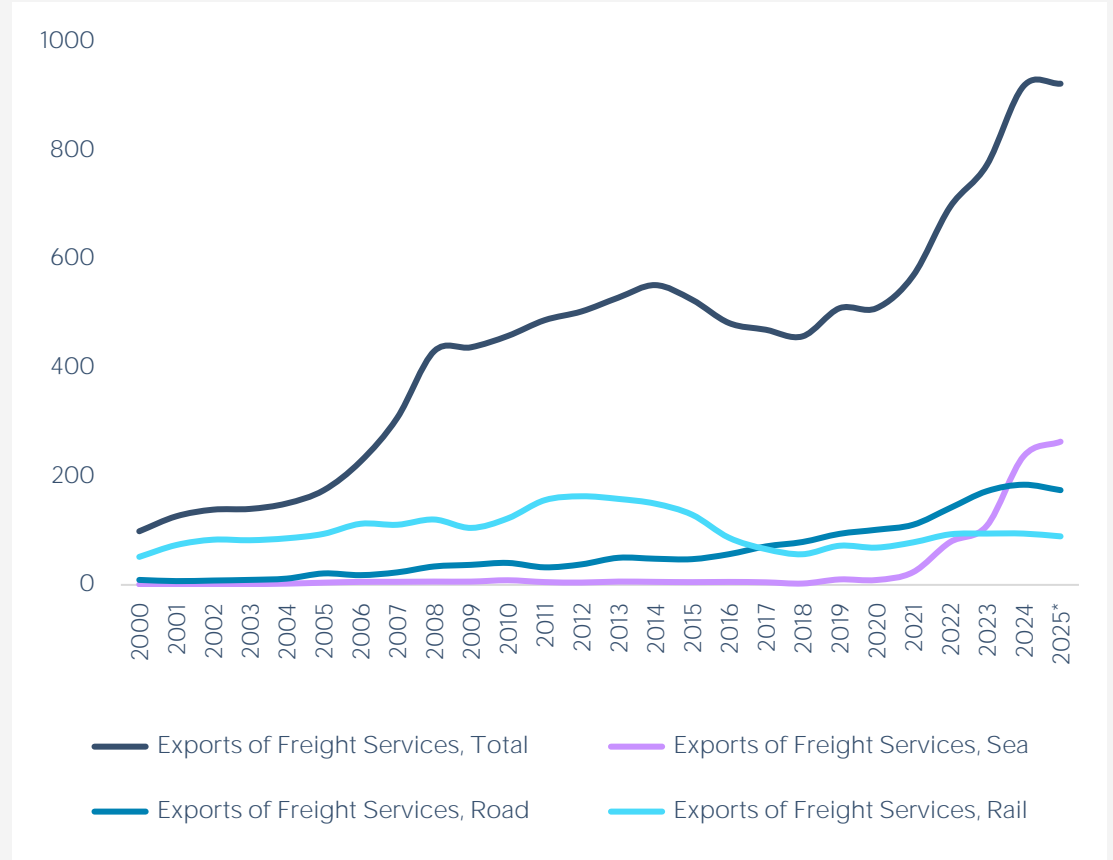
Major sources of war-related inflows towards Georgia include the direct migration impact with a large number of Russian, Belarussian and Ukrainian immigrants relocating to the country, as well as increased trade flows through Georgia and the middle corridor at large.

NON-CASH EXPENSES OF RUSSIANS, BELARUSSIANS AND UKRAINIANS THROUGH TBC CHANNELS (As of 11-Jan-26, Index in USD, 2021 Daily Average = 100)



Source: NBG, Geostat, TBC Capital

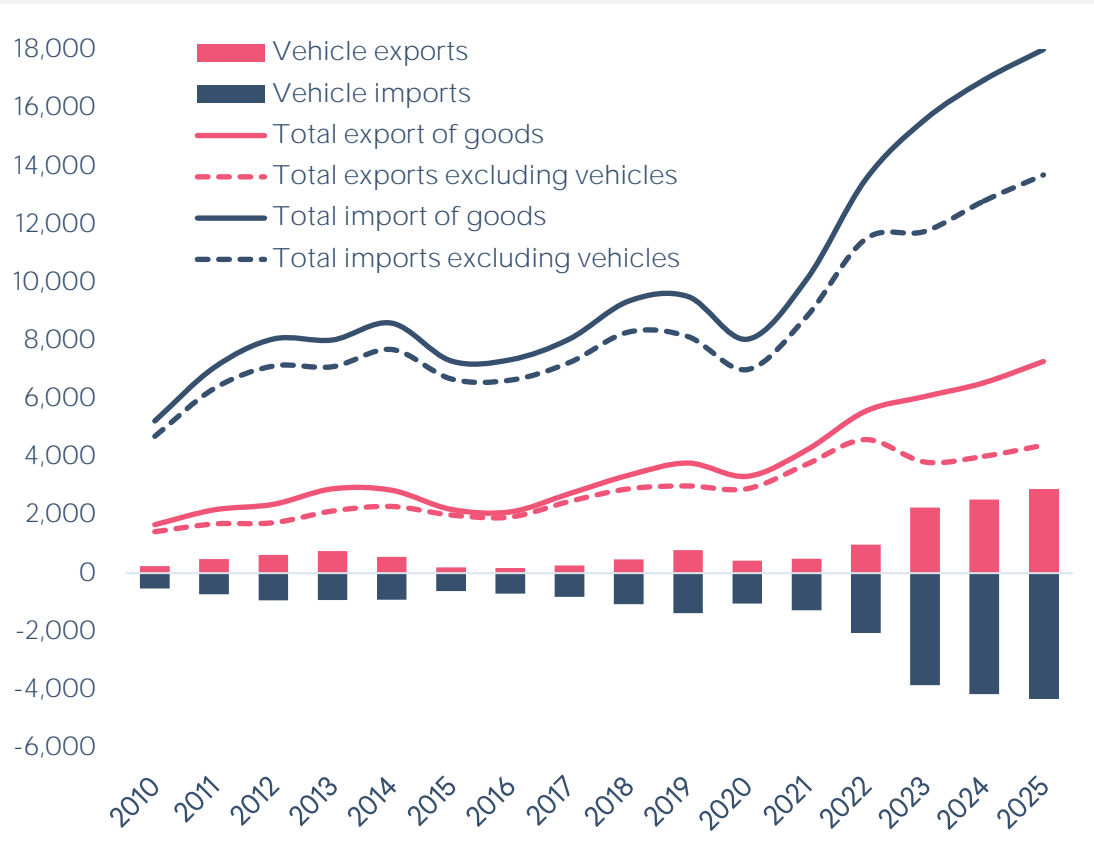
EXPORTS OF FREIGHT SERVICES BY MODE OF TRANSPORT (USD mn)



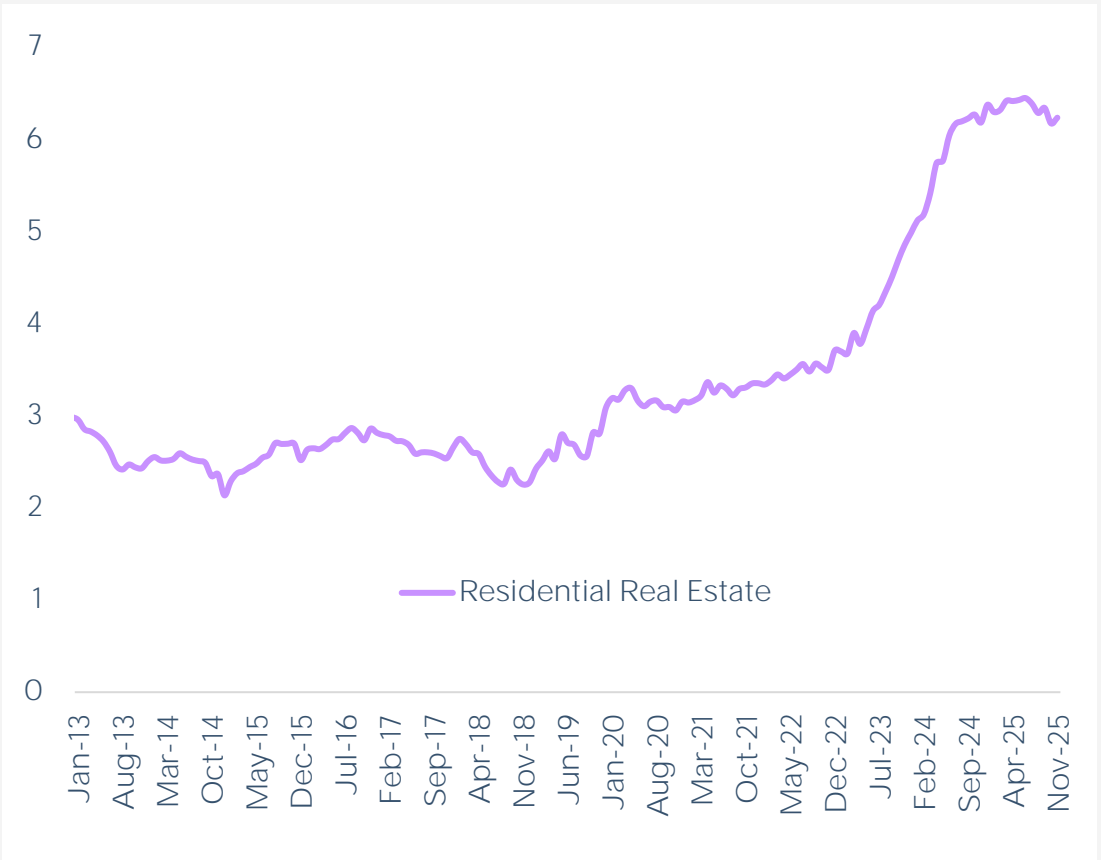
OTHER IMPACT CHANNELS INCLUDE CAR RE-EXPORTS AND REAL ESTATE DEMAND

At the same time, Georgia became an important re-export hub of primarily motor cars exported to Central Asian countries, while the influx of migrants has boosted demand on residential real estate for investment purposes, evident through the increased share of real estate loans in the credit portfolio.

MERCHANDISE TRADE WITH AND W/O MOTOR CARS
(USD mn)



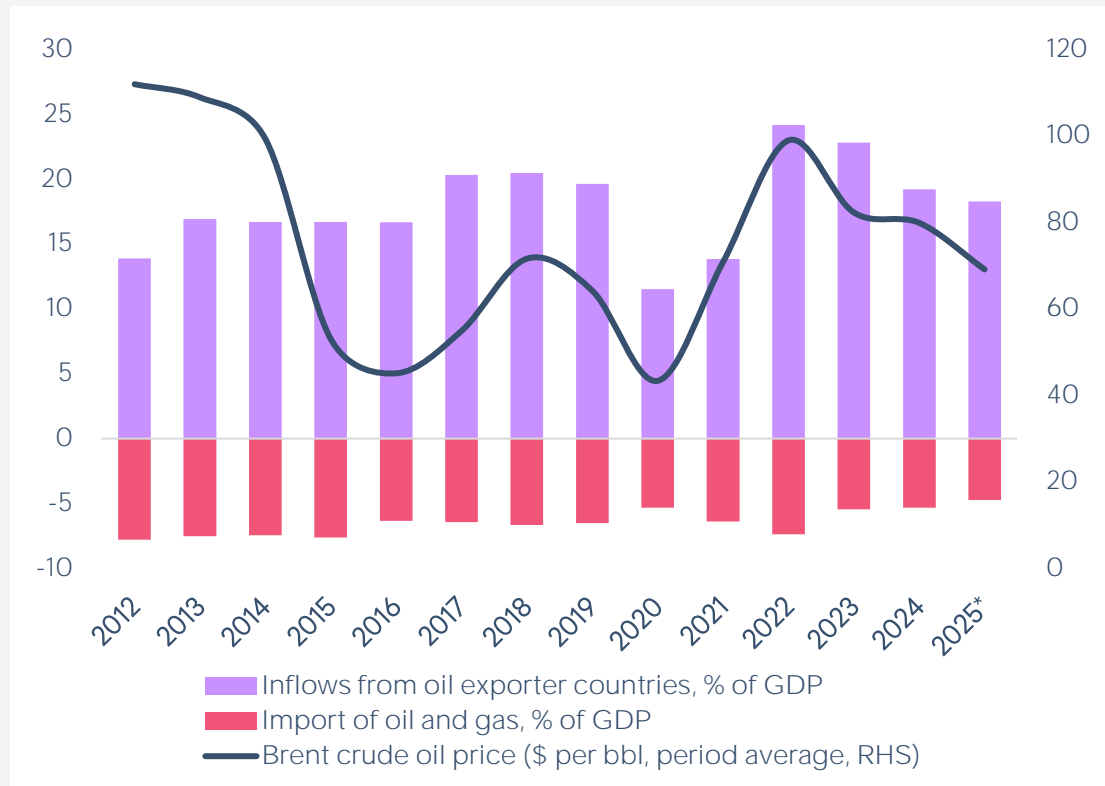
LOANS IN THE RESIDENTIAL REAL ESTATE SECTOR
(% of Total Loans)



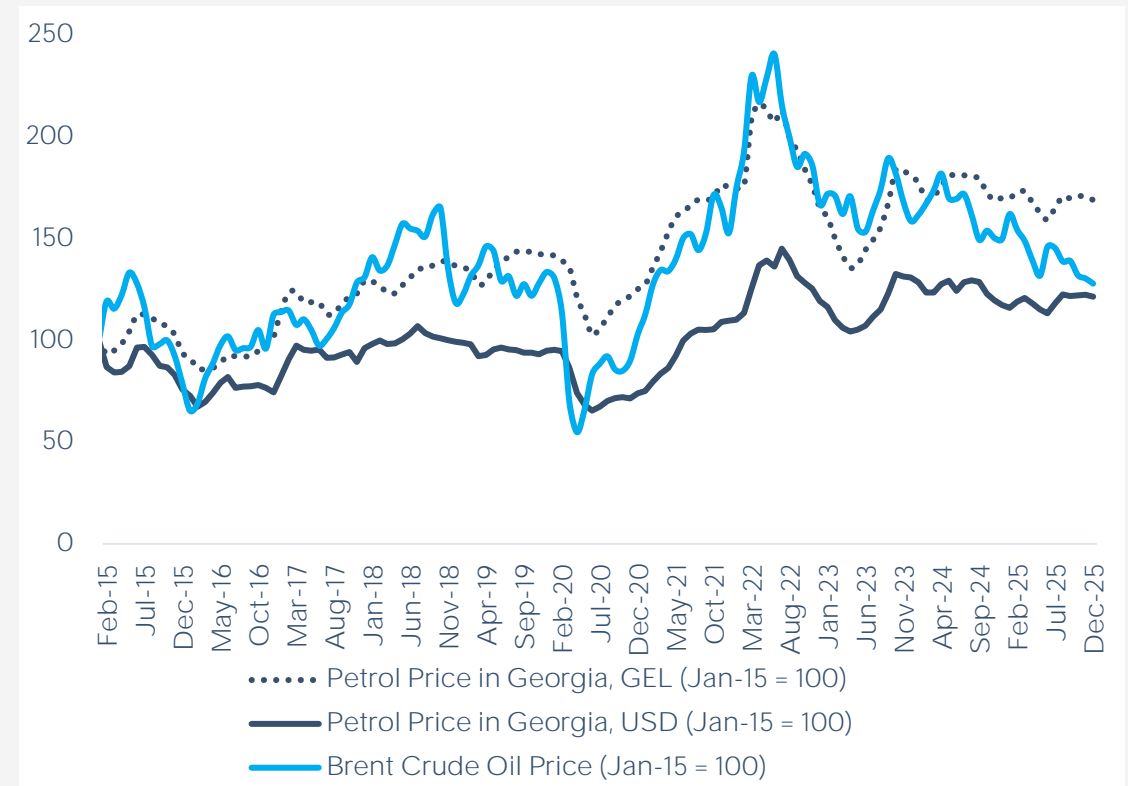
OIL EXPOSURE APPEARS BROADLY BALANCED

Though commodities will certainly be affected in the conflict resolution scenario, within the Georgian context, among many others, the direct and indirect exposure to oil prices should be taken into account. Namely, while Georgia is a net oil importer, the country receives substantial inflows from commodity-dependent economies, offsetting net exposure to commodity prices. Therefore, while not arguing that the Georgian economy is „[delta neutral](#)“, certainly, there are considerable upsides and downsides in many foreseeable scenarios.

INFLOWS FROM OIL EXPORTERS TO GEORGIA AND PETROLEUM IMPORTS



PETROL PRICES IN GEORGIA AND GLOBAL OIL PRICES (Index, Jan-15 = 100)



Note: Taking into account the different elasticities of currency inflows and imports of petroleum products against oil prices, the country's overall net exposure to oil prices appears to be reasonably balanced. For example, a possible drop in oil prices should have a greater proportional impact on petroleum imports than on tourism or export inflows. The impact also depends on the prices of oil, which is assumed in the state budgets of relevant countries

Source: NBG, Geostat, GNTA, FRED, TBC Capital

Source: Geostat, NBG, FRED, TBC Capital

PASSTHROUGH OF TWO POSSIBLE CONFLICT DEVELOPMENT SCENARIOS ON VARIOUS MACROECONOMIC VARIABLES

| | Resolution | No resolution |
|---------------------------------------|-----------------|------------------|
| Economic growth in the broader region | Stronger | Weaker |
| Migration impact | Deceleration | Prolongation |
| Conventional tourism* | Higher increase | Lower increase |
| Commodity prices, inflation and rates | Decrease | Increase |
| EUR | Appreciation | Depreciation |
| USD | Depreciation | Appreciation |
| Region countries' risk premium | Decrease | Increase |
| Cargo transits | Lower potential | Higher potential |

*The impact on conventional tourism is more ambiguous, as increased inflows from the rest of the world will be somewhat offset by likely fewer tourists from Russia due to relatively easier travel opportunities elsewhere as compared to now.



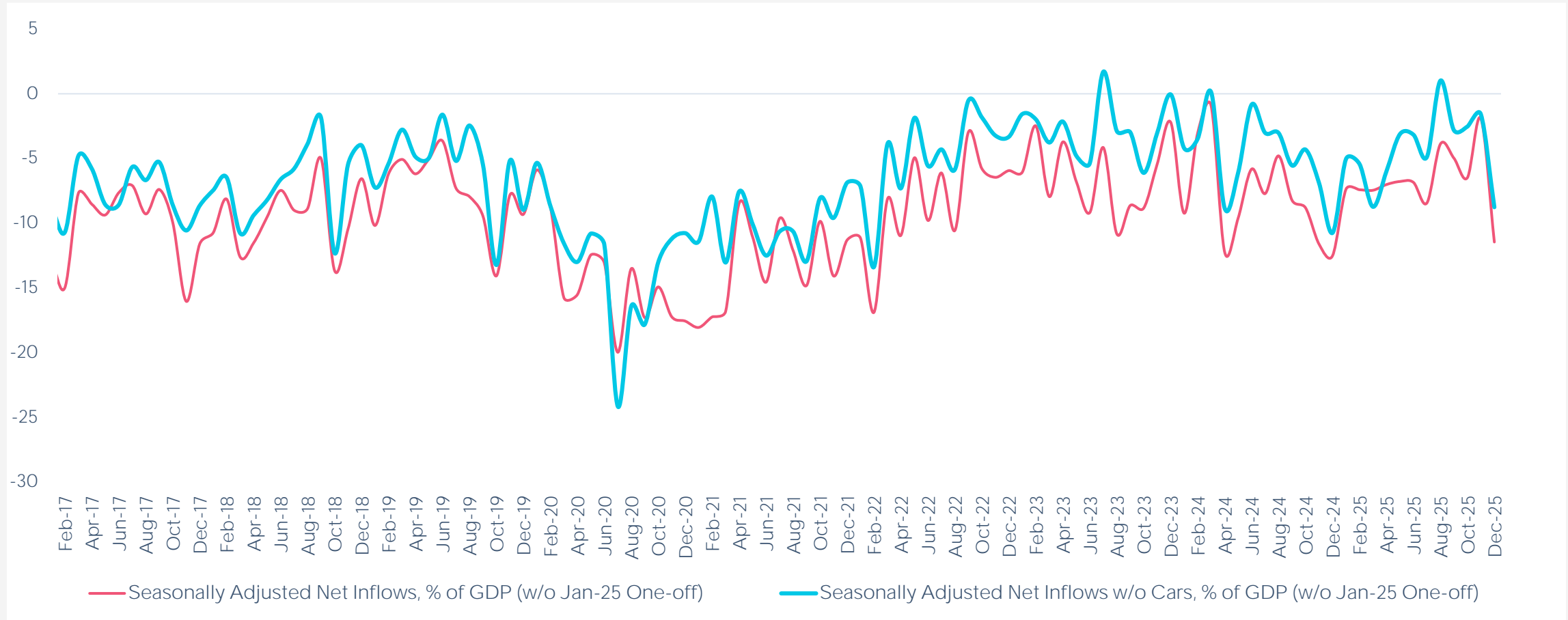
THE GEL

- Three major factors driving the GEL in 2025:
 - Rising net foreign currency inflows;
 - Global USD weakness;
 - Easing of domestic demand on foreign currency, evidenced through a reversal in last year's deposit dollarization and loan larization.
- At the same time, the GEL has largely resisted tailwinds against this supportive macro backdrop, strengthening only by a limited margin;
- Instead, appreciation pressures have translated into the NBG replenishing foreign currency reserves, purchasing c. USD 2.5 billion in 2025, per our estimates;
- Consequently, the GEL has been undervalued for the best part of 2025, both against the USD and from a longer-run perspective against trading partners;
- Despite this undervaluation, the Ukraine conflict resolution scenario – included in our baseline with only somewhat probability – implies a downside for the GEL in the near term, though reserve accumulation has placed the NBG in a position to counteract if necessary;
- With these in mind, we project the GEL to somewhat weaken around USD/GEL 2.80 by the end of 2026 in the baseline scenario.

NET FOREIGN CURRENCY INFLOWS UP IN 2025, THOUGH WITH A WEAK DECEMBER

Our monthly composite measure of net foreign currency inflows – combining merchandise trade, money transfers and tourism revenues – rose markedly in 2025, particularly in the second half of the year, though with a weak December on the back of the widening trade deficit. Subsequently, the improved external balance has resulted in a larger net supply of foreign currency, [supporting the GEL](#). Although [motor car net exports have played a substantial role](#) throughout the year, net FX inflows have risen with and without cars.

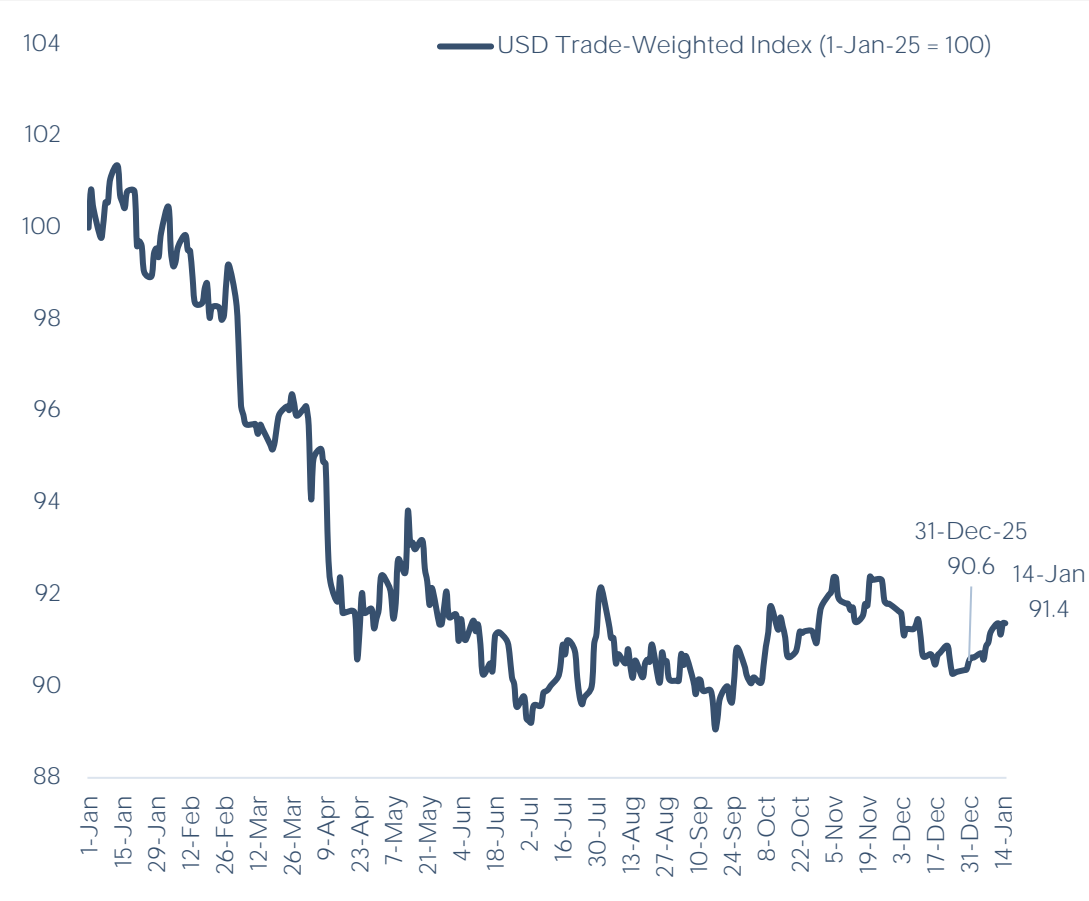
NET FOREIGN CURRENCY INFLOWS WITH AND WITHOUT CAR NET EXPORTS (% of GDP)



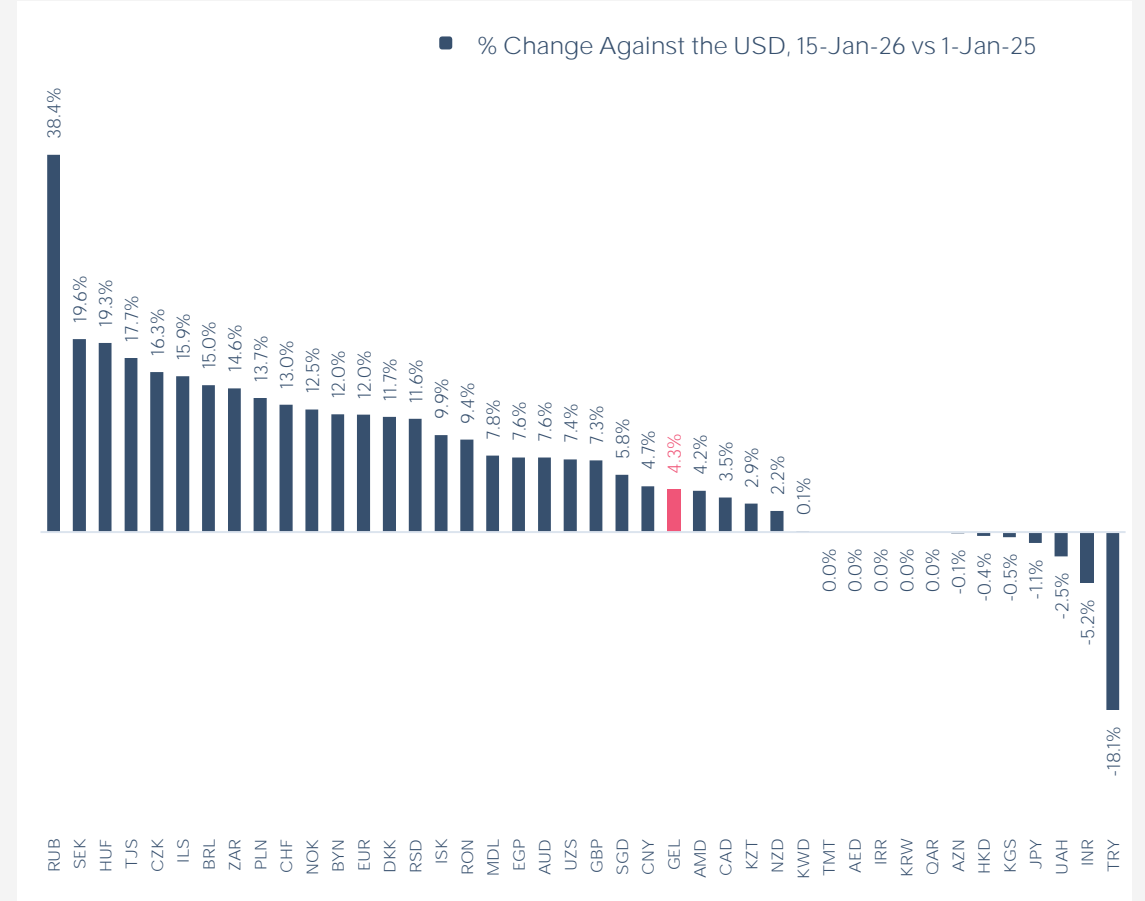
GLOBAL USD WEAKNESS, REFLECTING A RANGE OF FACTORS, HAS AIDED THE GEL

The trade weighted USD index [plunged in 2025](#), down by c. 9.5% YTD as of 31 December. Consequently, the vast majority of Georgia's trading partner currencies appreciated against the greenback, many more so than the GEL. Global USD weakness has been driven by a [multitude of factors](#), including concerns surrounding the US twin deficit, Fed independence, US tariff and economic policy at large, as well as the erosion of the USD safe-haven status and structural de-dollarization of central bank reserve assets. The weaker – though, from a long-run perspective, [still overvalued](#), per our estimates – greenback has been [another GEL-supportive driver in 2025](#).

TRADE-WEIGHTED USD INDEX (DXY, 1-Jan-25 = 100)



PARTNER CURRENCIES AND THE GEL AGAINST THE USD (% Change)

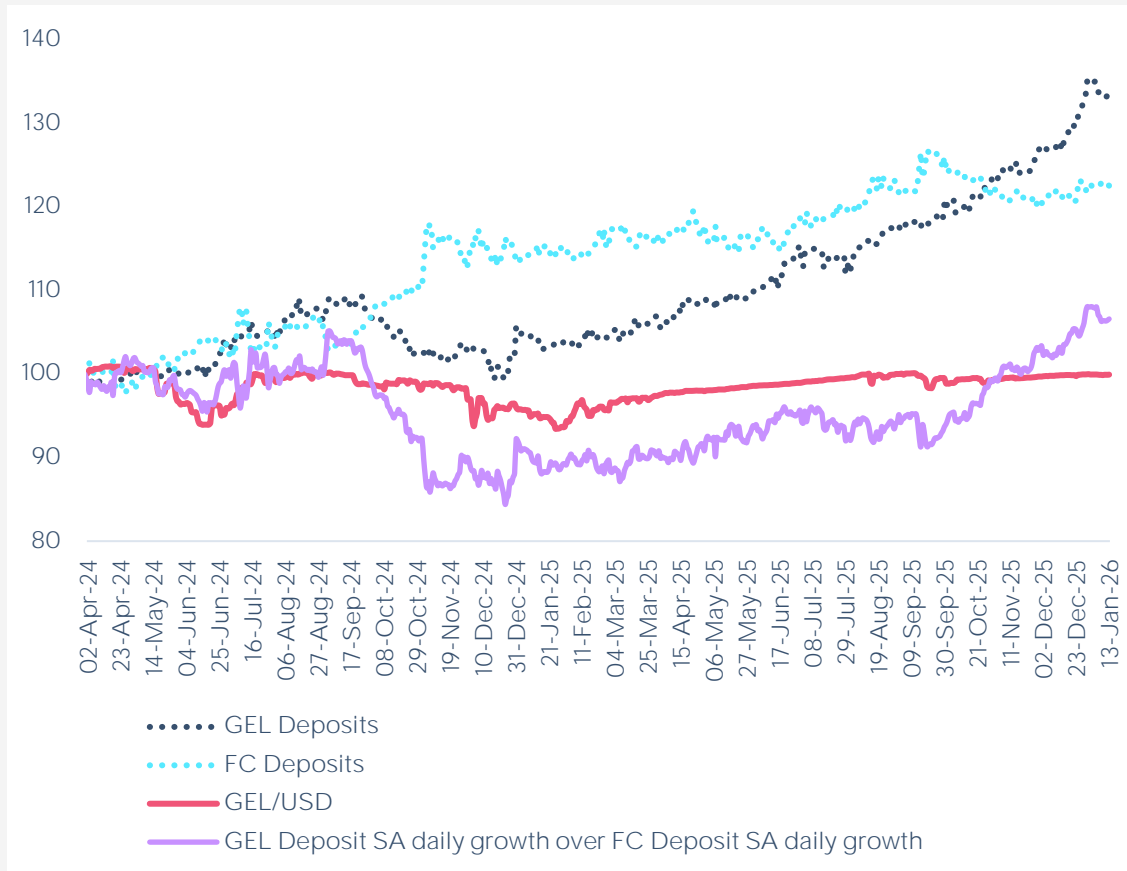


Source: Bloomberg, NBG, TBC Capital

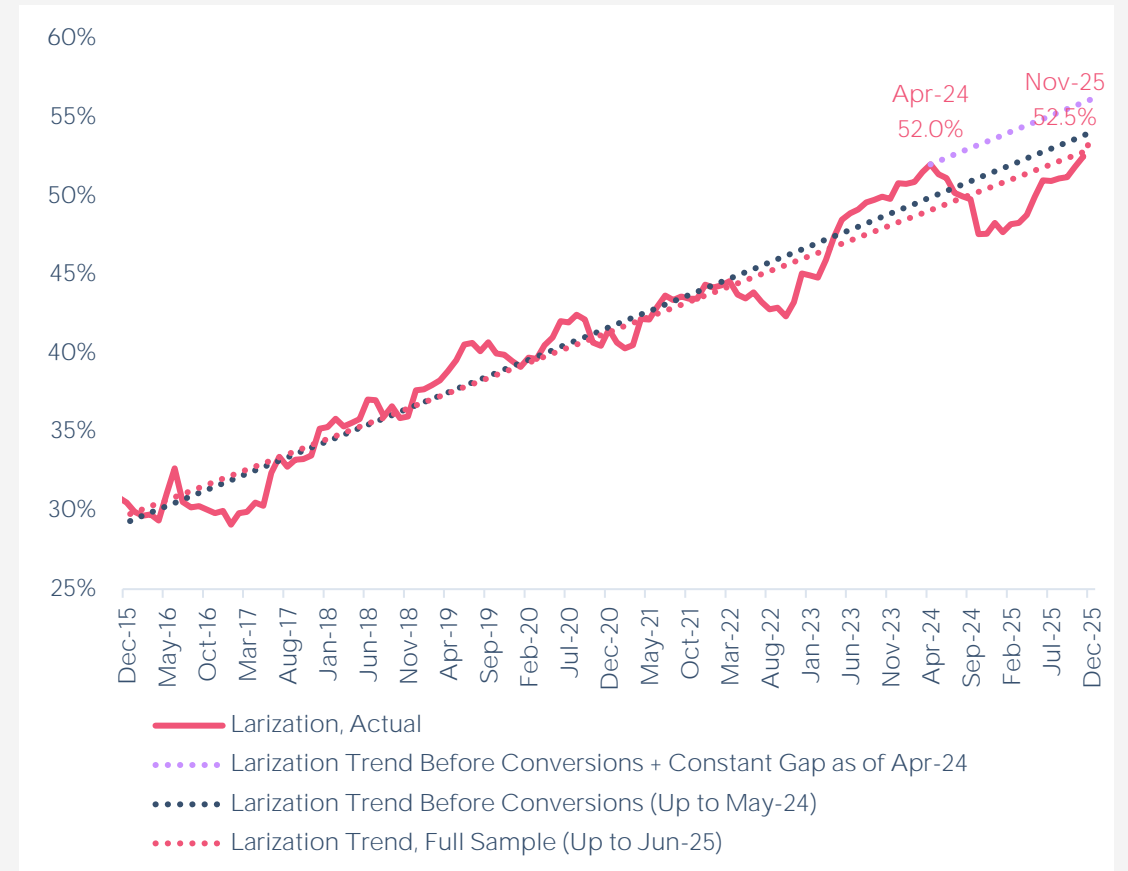
DEPOSIT DOLLARIZATION IN 2024 REVERSED IN 2025, SUPPORTING FX SUPPLY

The [adverse shift in sentiments](#) in 2024 resulted in a flight to foreign currency assets, with GEL deposits converted into FX en masse. While generating immediate depreciation pressures on the GEL, these conversions also created a form of a buffer for “better times”, with a [reversal expected](#) if/when sentiments relatively improved. Indeed, deposit larization increased significantly in 2025, overtaking the April 2024 peak in November 2025. With this, the bulk of the “good time buffer” – which we estimate at c. USD 1 billion, [based on various approaches](#) – has now been utilized, and the gap between actual larization and pre-conversion trend estimates has narrowed or even closed altogether. Though a particularly [important GEL-supportive driver in 2025](#), appreciation pressure from this channel will naturally fade going forward as the buffer continues to shrink.

DAILY DEPOSIT CONVERSION ESTIMATES (Index, 31-Mar-24 = 100)



DEPOSIT LARIZATION*, ACTUAL VS ESTIMATED TRENDS



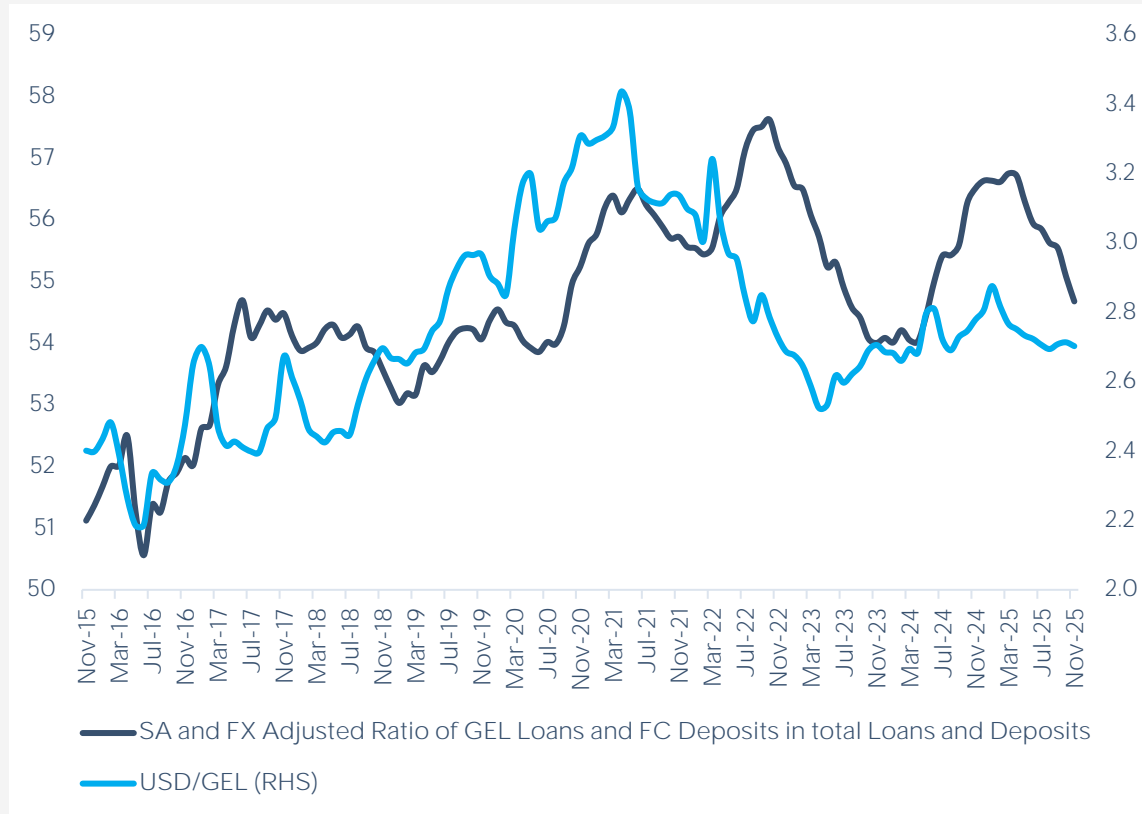
Source: NBS, TBC Capital

*Excluding non-residents.

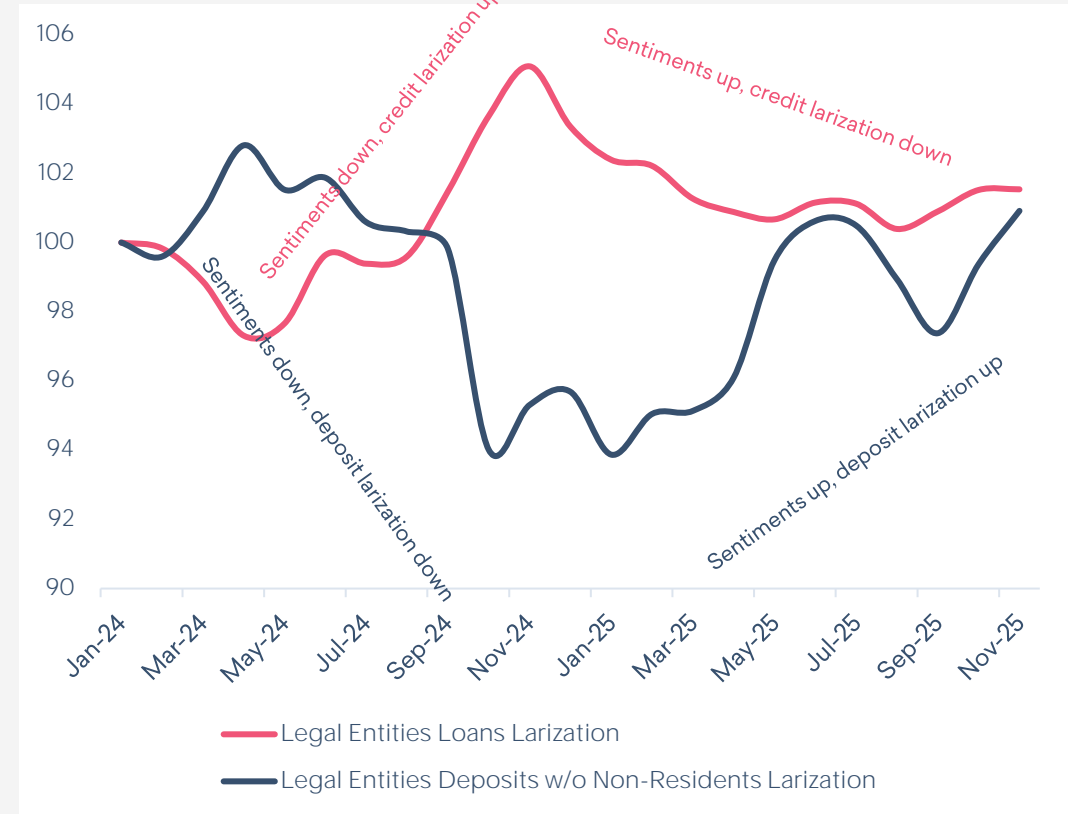
MIRRORING DEPOSIT DOLLARIZATION, LOAN LARIZATION HAS ALSO DECLINED

Deposit dollarization in 2024 was mirrored by loan larization, as the higher propensity to save in FX was matched by a higher propensity to borrow in the GEL, further [amplifying the shock](#) and thereby increasing depreciation pressures. All other things constant, a rise in the ratio of GEL loans and FX deposits is associated with a weaker currency, as economic agents try to shield themselves from depreciation expectations. This usually happens during periods of stress, when sentiments deteriorate – hence the “**shock amplifier**” – and could induce depreciation on its own, akin to [pre-election periods](#). Conversely, as market sentiments relatively improved in 2025, deposit larization was accompanied by loan dollarization, a GEL-supportive combination.

RATIO OF LOANS IN GEL AND DEPOSITS IN FX TO TOTAL LOANS AND DEPOSITS AND USD/GEL, Seasonally and FX Adjusted, %



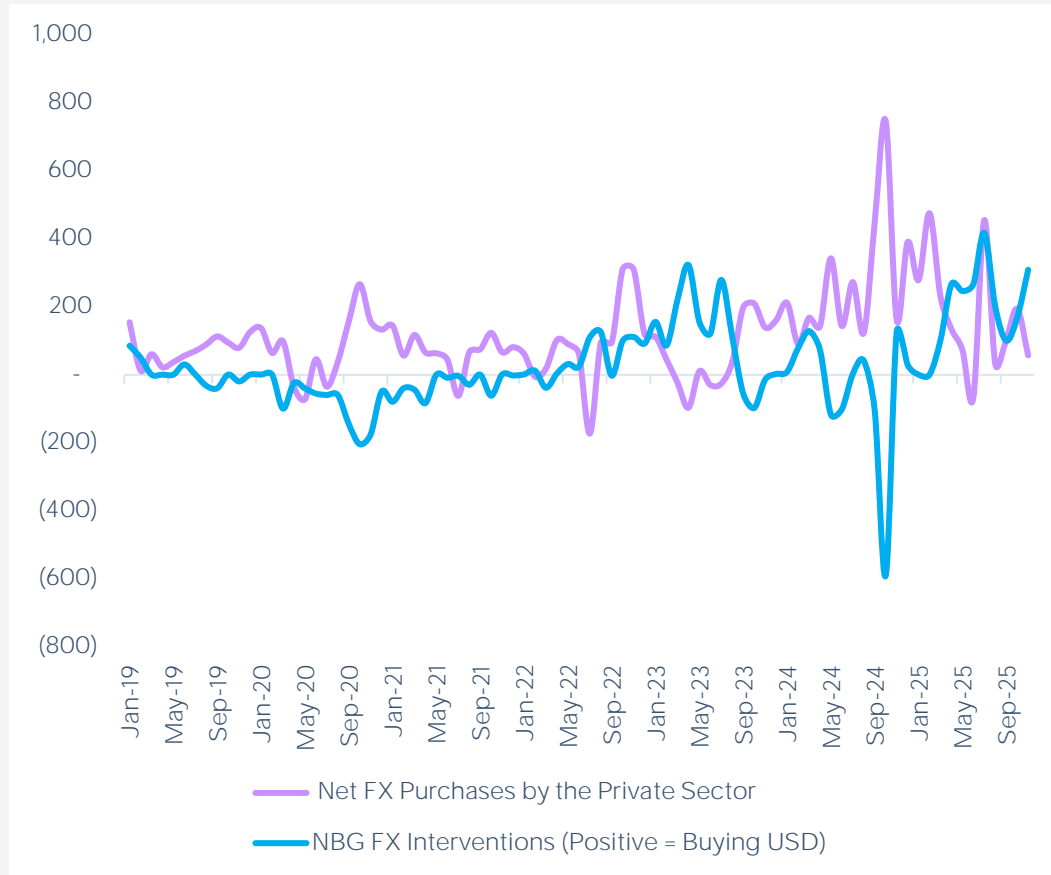
DEPOSIT AND LOAN LARIZATION, LEGAL ENTITIES (Index, Jan=24 = 100)



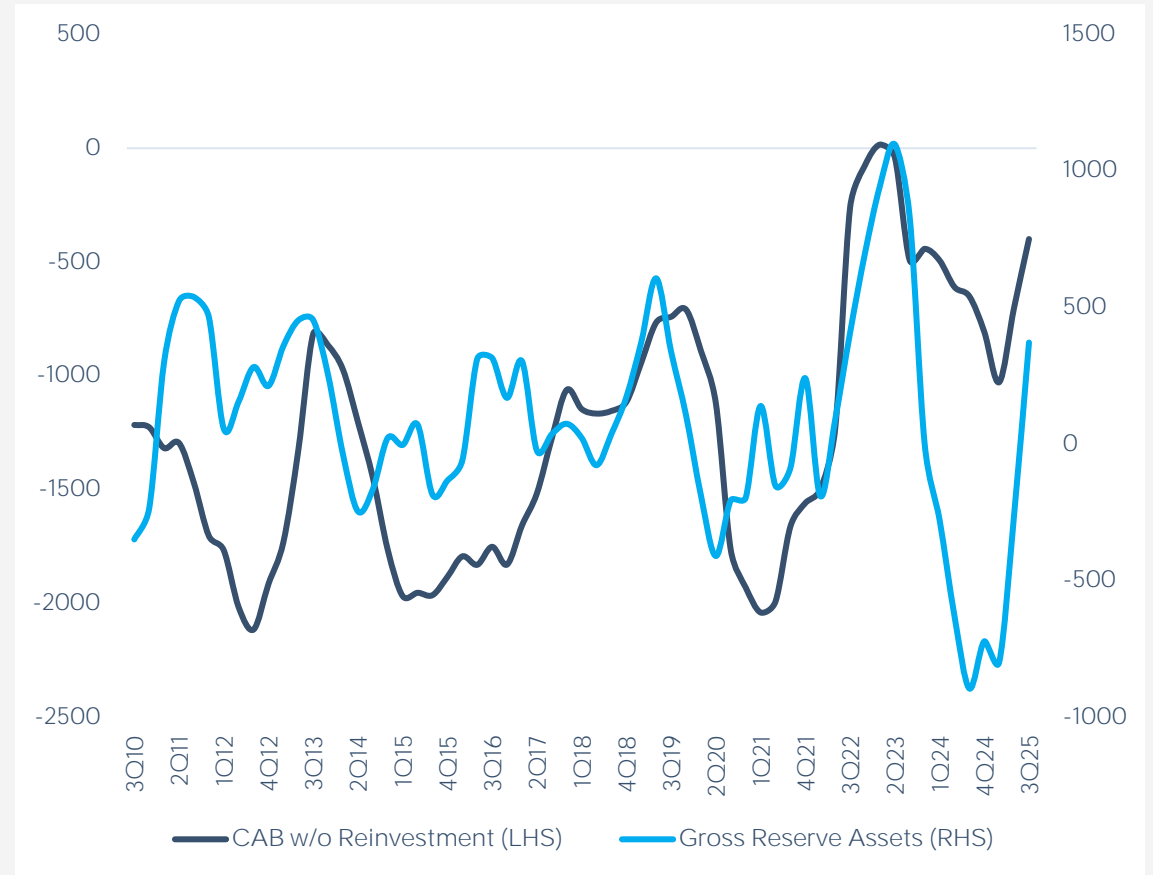
LOWER FX DEMAND AND IMPROVED EXTERNAL BALANCE BOOSTED RESERVES

Net foreign currency purchases by the private sector – households and legal entities – [spiked in 2024](#), pressuring the GEL amid the flight to FX assets and resulting in the NBG selling c. USD 700 million in September-October 2024 to avoid GEL weakening. As FX demand declined in 2025, so did depreciation pressures. Since these pressures were largely domestically-sourced, gross reserve assets shrank at a much larger scale than implied by the external balance. Nevertheless, the stronger external balance sheet has contributed to reserve accumulation in 2025.

NET FX PURCHASES BY THE PRIVATE SECTOR AND NBG INTERVENTIONS (USD mn)



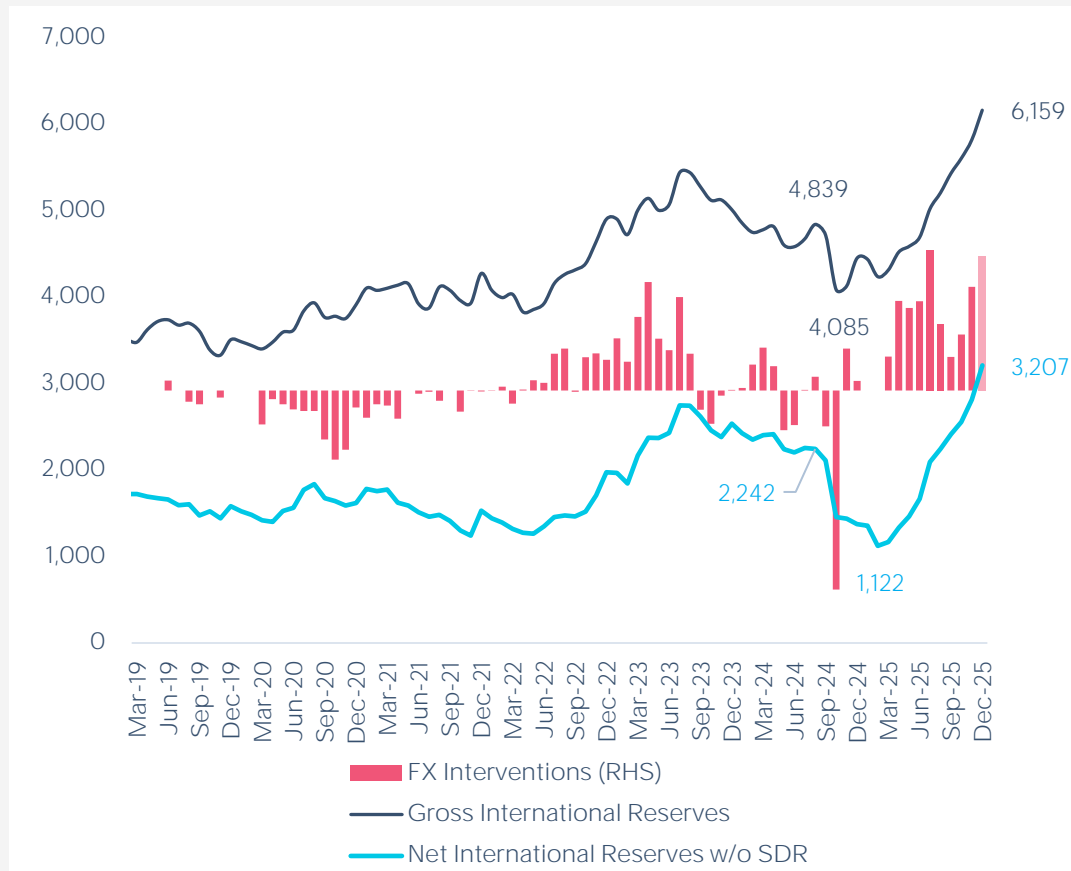
CURRENT ACCOUNT BALANCE WITHOUT REINVESTMENTS AND GROSS RESERVE ASSETS (Flows, 4Q Moving Sum, USD mn)



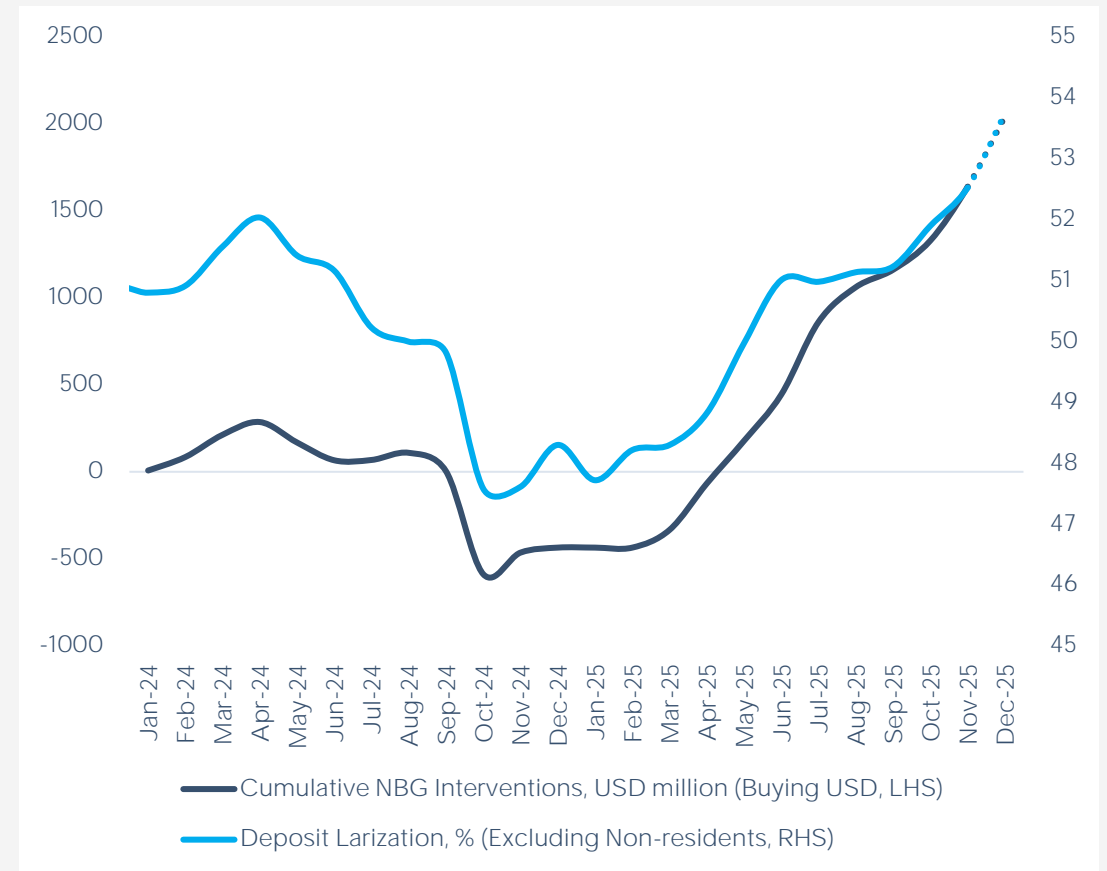
THE GEL-SUPPORTIVE ENVIRONMENT ALLOWED THE NBG TO PURCHASE C. USD 2.5 BN IN 2025

Against the GEL-supportive macroeconomic backdrop, the NBG accelerated FX purchases, buying a cumulative c. USD 2.5 billion in 2025, per our estimates. Deposit larization, [tightly linked with interventions](#), has been particularly instrumental in reversing the 2024 depreciation pressures. Consequently, gross reserve assets reached USD 6.2 billion, up by USD 1.7 bn (+38.5%) YTD as of 31 December 2025. Net reserve assets – without special drawing rights (SDR) worth an additional USD 470 million – totaled USD 3.2 billion, per our estimates, up almost three times as compared to the February 2025 low of USD 1.2 billion. We expect reserve accumulation to continue until the conflict resolution scenario materializes and/or inflationary pressures accelerate due to sustained GEL undervaluation, though the latter is not currently our baseline.

NBG INTERNATIONAL RESERVES AND FX INTERVENTIONS (USD mn)



DEPOSIT LARIZATION (%) AND NBG INTERVENTIONS (USD mn)

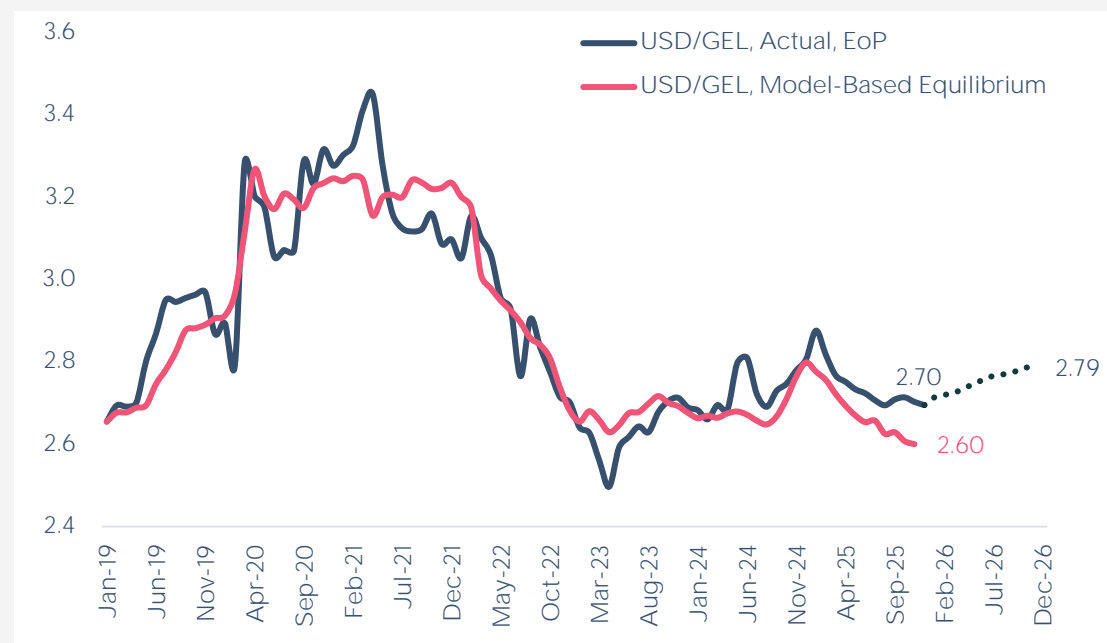


Source: NBG, TBC Capital

DESPITE UNDERVALUATION, THE GEL IS PROJECTED TO SOMEWHAT WEAKEN IN 2026

Our models indicate that the GEL has remained undervalued for the best part of 2025, both against the USD and from a longer-run perspective against trading partners. Instead of further strengthening, appreciation pressures have translated into the NBG replenishing foreign currency reserves. Despite this undervaluation, the Ukraine conflict resolution scenario – [included in our baseline with only somewhat probability](#) – implies an adjustment across the external balance sheet, a downside for the exchange rate outlook in the near term. Simultaneously, reserve accumulation has placed the NBG in a position to counteract if necessary, especially taking into account the [existing practice](#) of smoothing excess volatility. Though, as always, we need to keep in mind the so-called “[shock amplifier](#)”, or, more simply, conversions, as well as the economic nature of the pressures on the exchange rate, whether it’s related to permanent or temporary adjustments in net inflows. The latter, similar to conversions, often implies a stronger ground for interventions. With these in mind, we project the GEL to weaken around USD/GEL 2.79 by the end of 2026 in the baseline scenario.

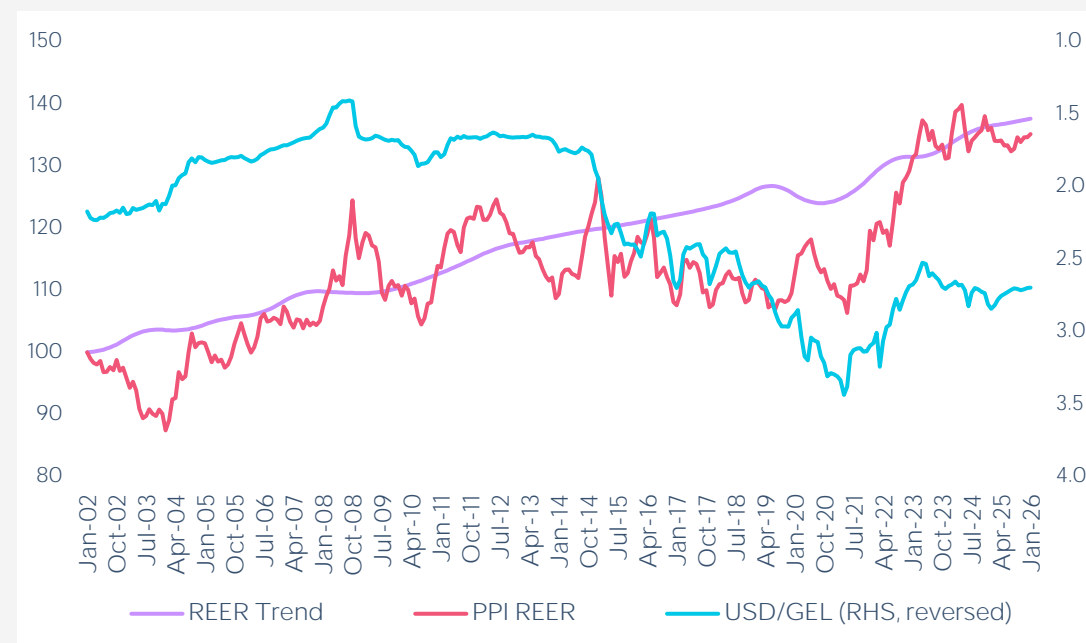
USD/GEL, ACTUAL VS MODEL-BASED EQUILIBRIUM



*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.

Source: Geostat, NBG, TBC Capital

THE GEL REER AND ITS ESTIMATED LONG-RUN TREND (as of 20-Jan-26, increase means GEL appreciation)



Note: The 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



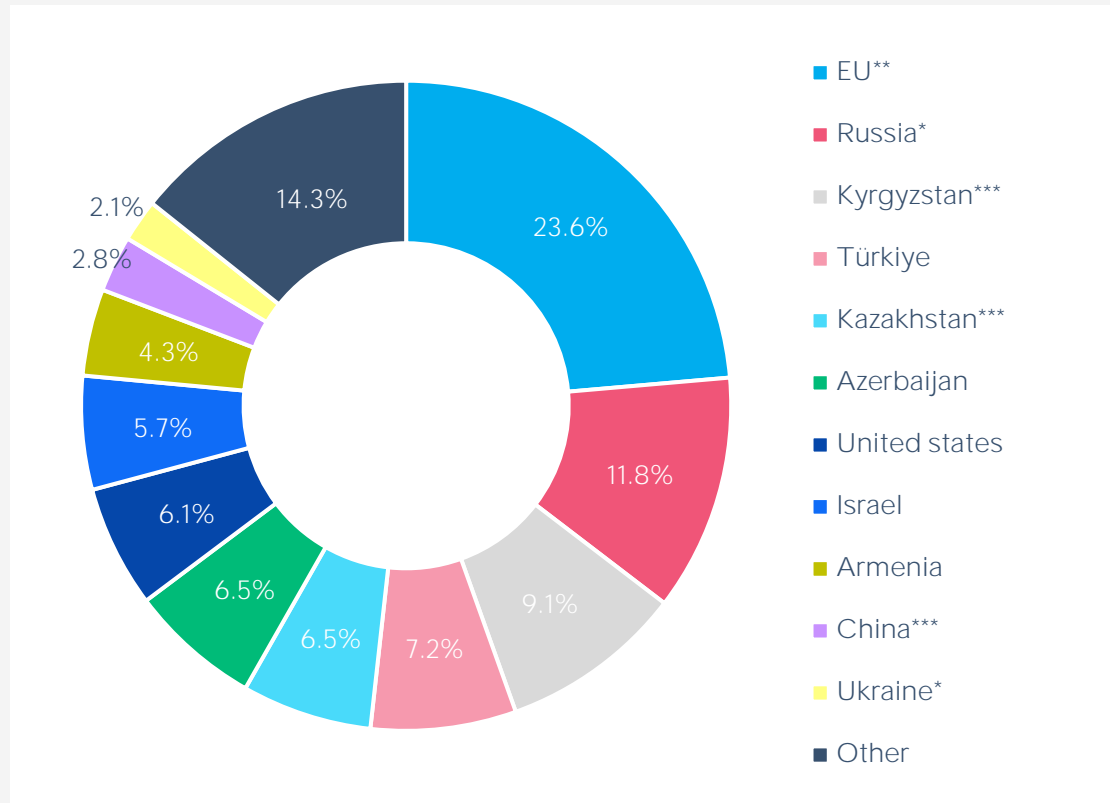
EXTERNAL BALANCE

- The third quarter posted a second consecutive current account surplus, excluding reinvestments – only the third time on record in seasonally adjusted terms, the other one immediately following the start of the Russia-Ukraine war in 3Q22;
- Consequently, the underlying current account was in surplus in Jan-Sep 25 and, based on our real-time estimates, is expected to remain in surplus in the fourth quarter, with Georgia therefore turning into a net creditor to the rest of the world in 2025;
- Growing service exports – particularly, ICT services – and sluggish imports have been driving the current account improvement, also aided by rising money transfers and tourism revenues;
- At the same time, Georgian residents continue to accumulate foreign assets in the form of portfolio investments, holding \$4.6 billion by the end of Sep-25, equivalent to 12.6% of GDP, up from 3.4% of GDP in 1Q22;
- Amid the strengthening external balance sheet, following six consecutive quarters of reserve drawdown in 4Q23-1Q25, reserves have switched back to accumulation over the remainder of 2025;
- That said, the external balance in 2025 has benefitted from a rise in car net exports and surging gold prices on the one hand, and a decline in oil prices and imports at large on the other hand, which is a combination unlikely to be sustained over the medium term. Therefore, the deficit is expected to widen slightly from 2.7% in 2025 to c. 4.5% of GDP in 2026.

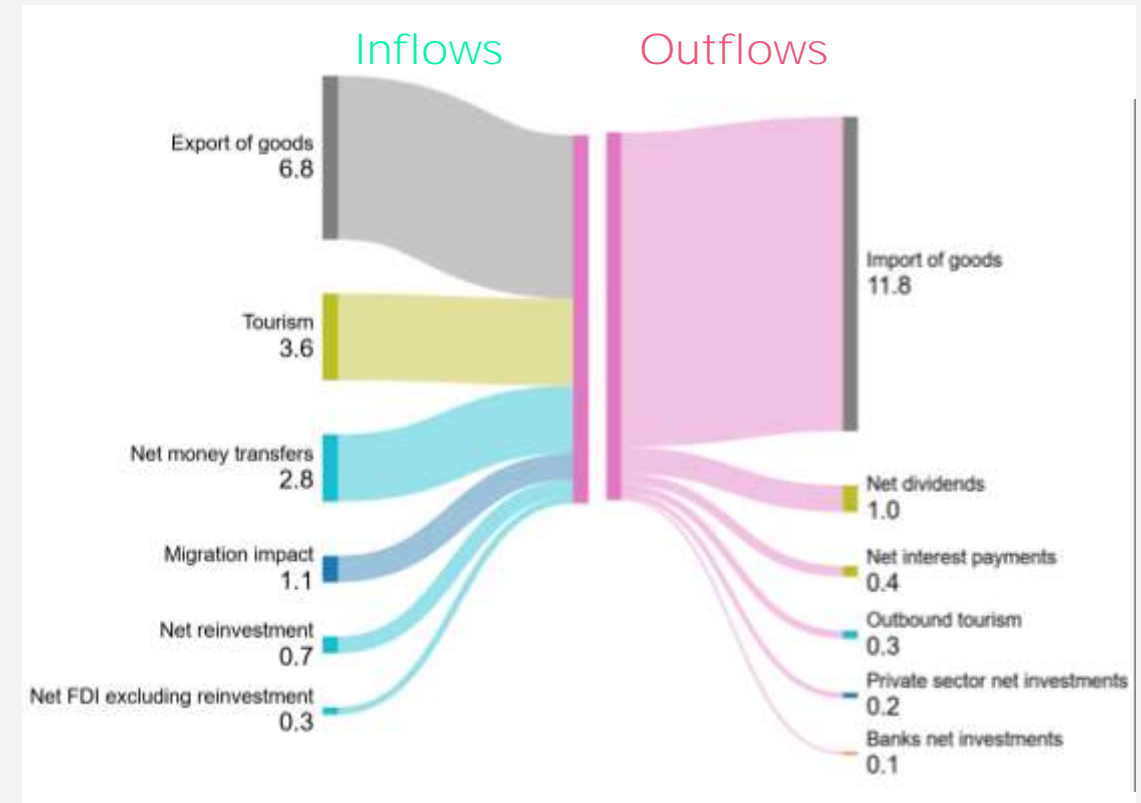
THE EU REMAINS THE LARGEST SOURCE OF FX INFLOWS

The EU has [maintained its position](#) as the largest source of foreign currency inflows in Georgia, accounting for 22.9% of the total over the nine months of 2025. At the same time, if increasing motor car re-exports (accounting for c. 40% of total merchandise exports) have made Kyrgyzstan and Kazakhstan the largest export destinations for Georgia, domestic exports are mainly steered towards the European Union and immediate neighbors.

FOREIGN CURRENCY INFLOWS IN GEORGIA BY SOURCES (Jan-Sep 2025, Sum of Exports, Tourism, Remittances and FDI)



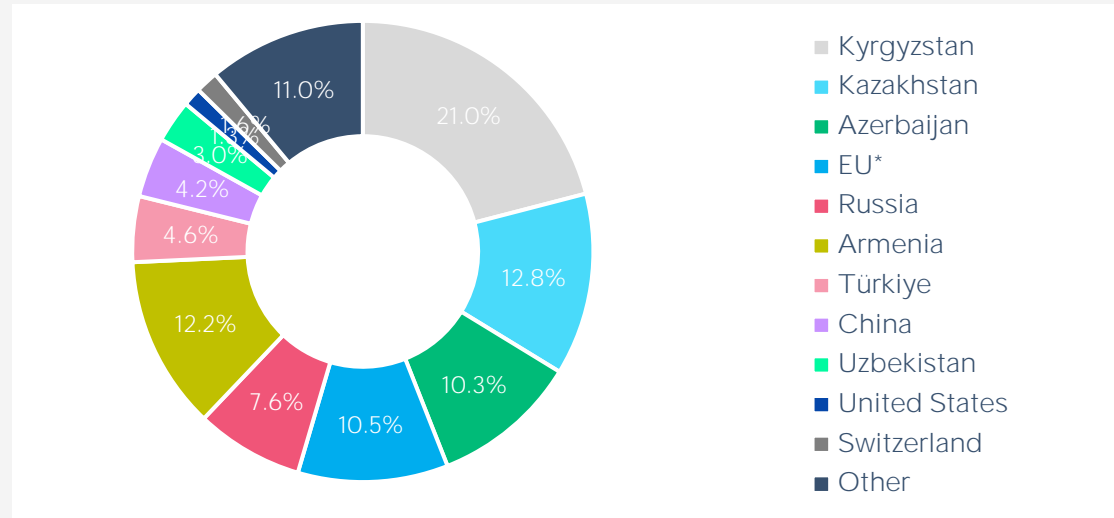
MAIN STREAMS OF FOREIGN CURRENCY INFLOWS AND OUTFLOWS (USD Billion, Jan-Sep 25)



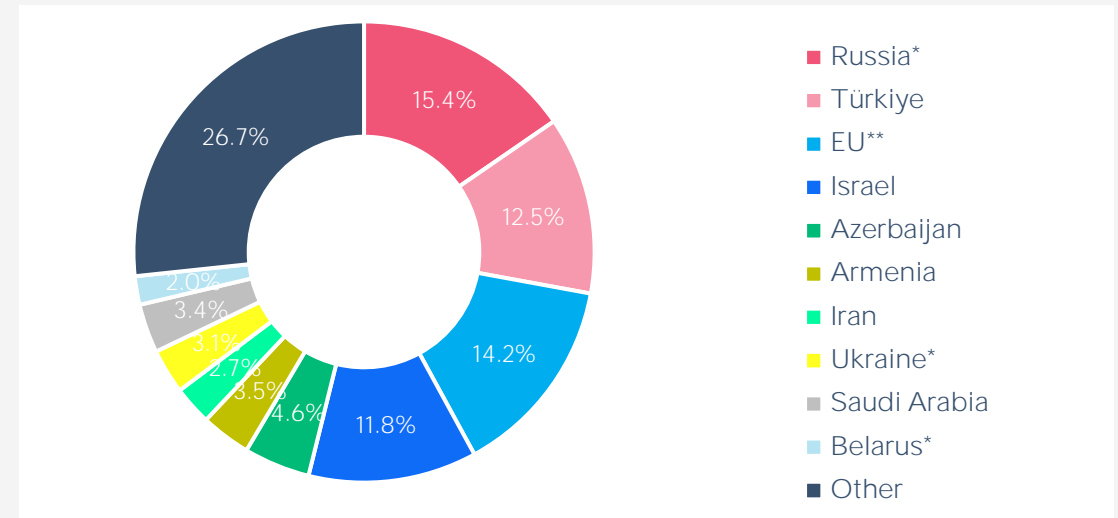
Note: *Tourism revenues from Russia, Belarus and Ukraine adjusted for migration effect by NBG; **EU includes the UK; ***Tourism revenues for China, Kyrgyzstan and Kazakhstan estimated by TBC Capital
Sum of inflows does not account for the migration impact. In case of including the inflows related to migrants, assuming that the NBG fully adjusts tourism statistics and based on TBC client survey, indicating that 70% of migrants from Russia do not receive income from Russia, Russia's share in total inflows would increase from 11.8% to 12.2%, while the EU share would decrease from 23.6% to 23.3%

STRUCTURE OF FX INFLOWS IN 9M25

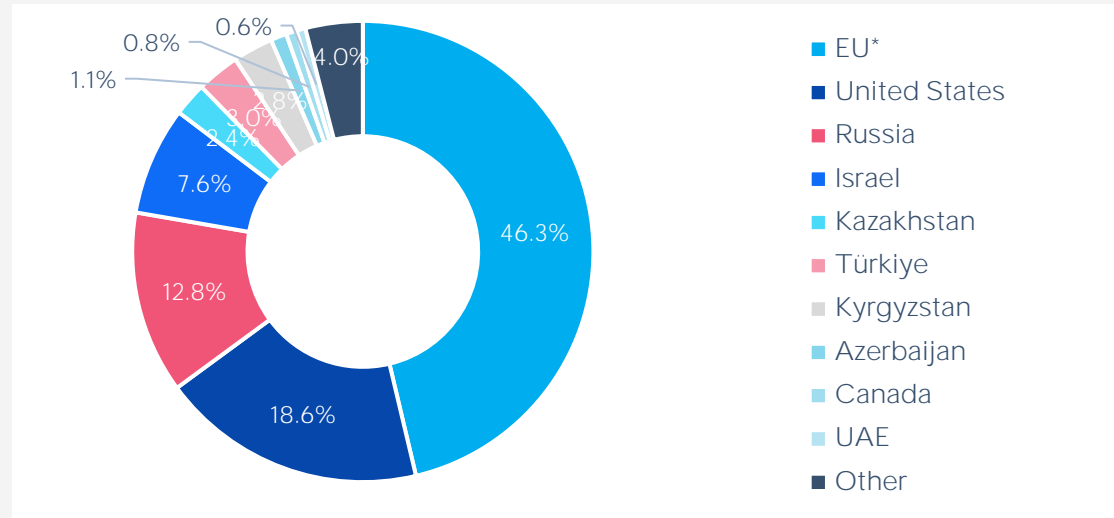
SHARES IN MERCHANDISE EXPORTS



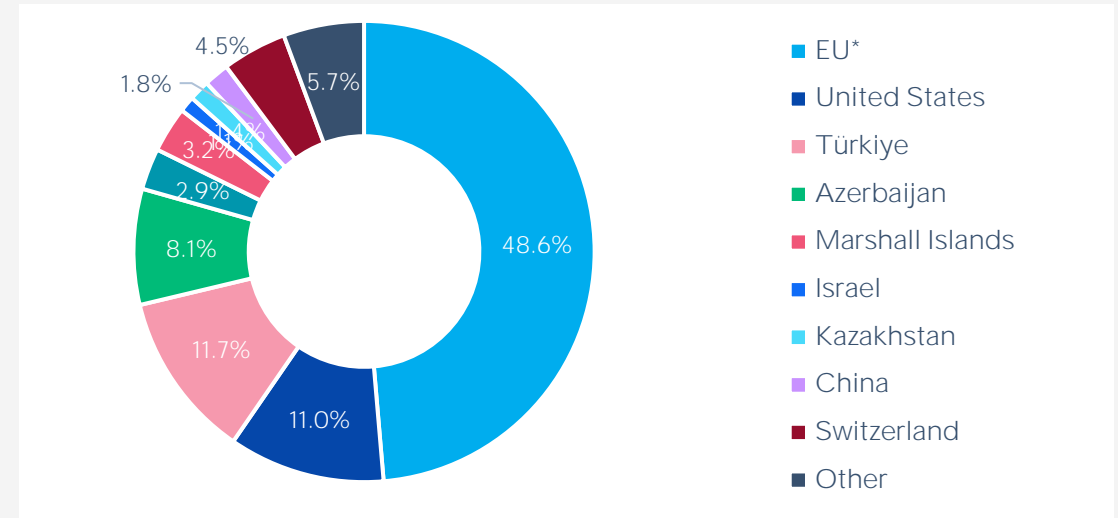
SHARES IN TOURISM INFLOWS



SHARES IN INSTANT MONEY TRANSFERS



SHARES IN FDIS

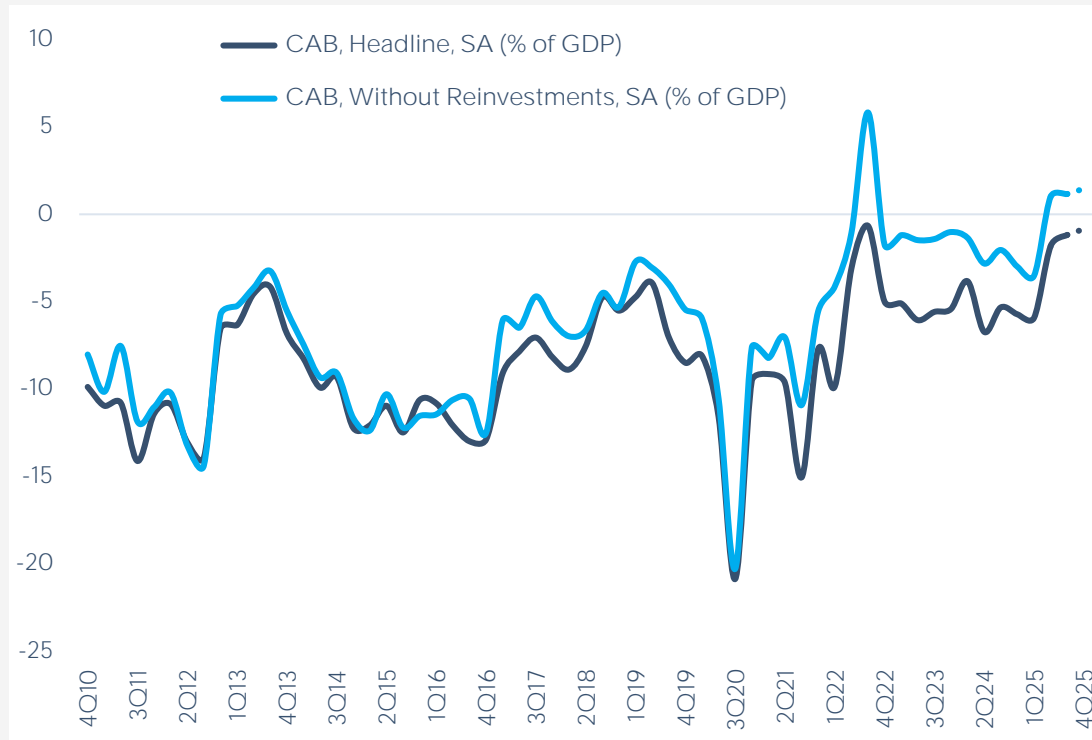


*Tourism revenues from Russia, Belarus and Ukraine adjusted for migration effect by NBG; **EU includes the UK; ***Tourism revenues for the USA, China, Kyrgyzstan and Kazakhstan estimated by TBC Capital.

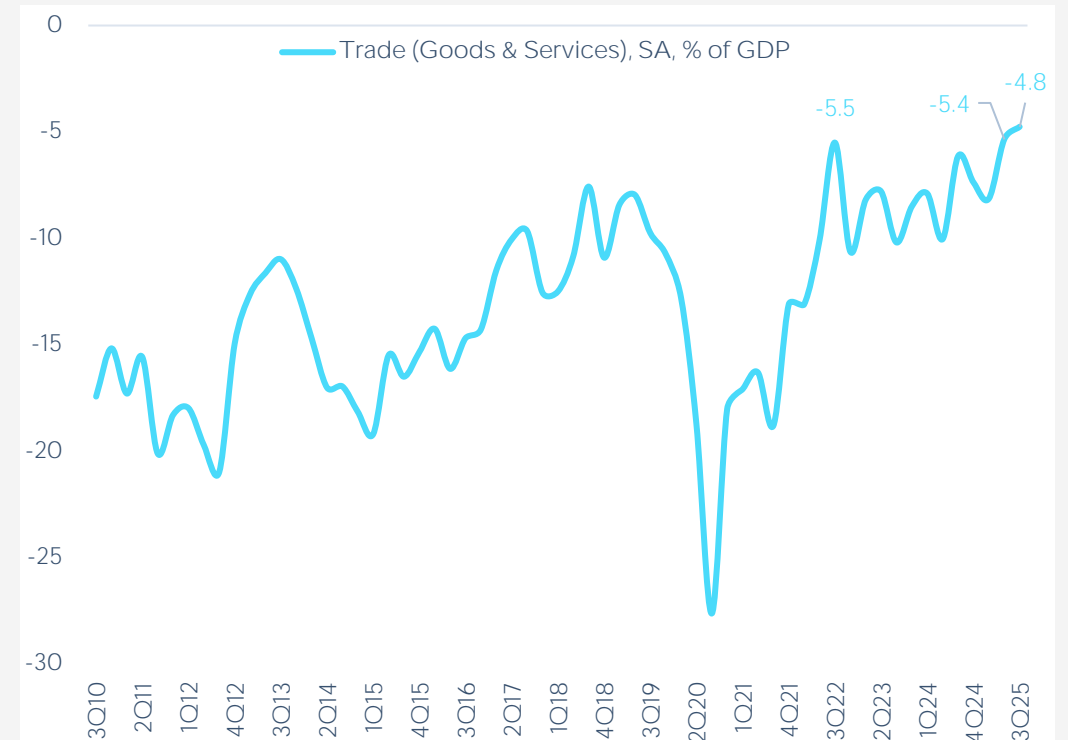
GEORGIA: RECENTLY, A NET CREDITOR TO THE REST OF THE WORLD

The current account, [excluding reinvestments](#), posted a [second consecutive surplus](#) in 3Q25 – only the third time on record in seasonally adjusted terms, the other one immediately following the start of the Russia-Ukraine war in 3Q22. Based on our real-time estimates, the underlying current account is expected to remain in surplus in the fourth quarter, capping a significant improvement in the 2025 external balance sheet. In fact, unless there are revisions of previous data and/or methodological adjustments, we anticipate that the underlying current account balance will end up in surplus for the full year of 2025. As for the headline deficit, high frequency indicators point to a further upside to our [previous already bullish forecast](#) of -3.5% of GDP, which would now require that the deficit in 4Q25 be equal to the deficit in 4Q24 in nominal terms, too conservative of an estimate – again, assuming no significant revisions of prior data. Therefore, we lower the headline deficit forecast to -2.7% of GDP in 2025. At the same time, the external balance in 2025 has benefitted from a surge in car net exports and gold prices on the one hand, and a decline in oil prices and imports at large on the other hand, which is a combination unlikely to be sustained over the medium term. Therefore, the deficit is expected to widen slightly to c. 4.5% of GDP in 2026.

CURRENT ACCOUNT BALANCE, % of GDP (Seasonally Adjusted)



EXTERNAL TRADE BALANCE, % of GDP (Seasonally Adjusted)

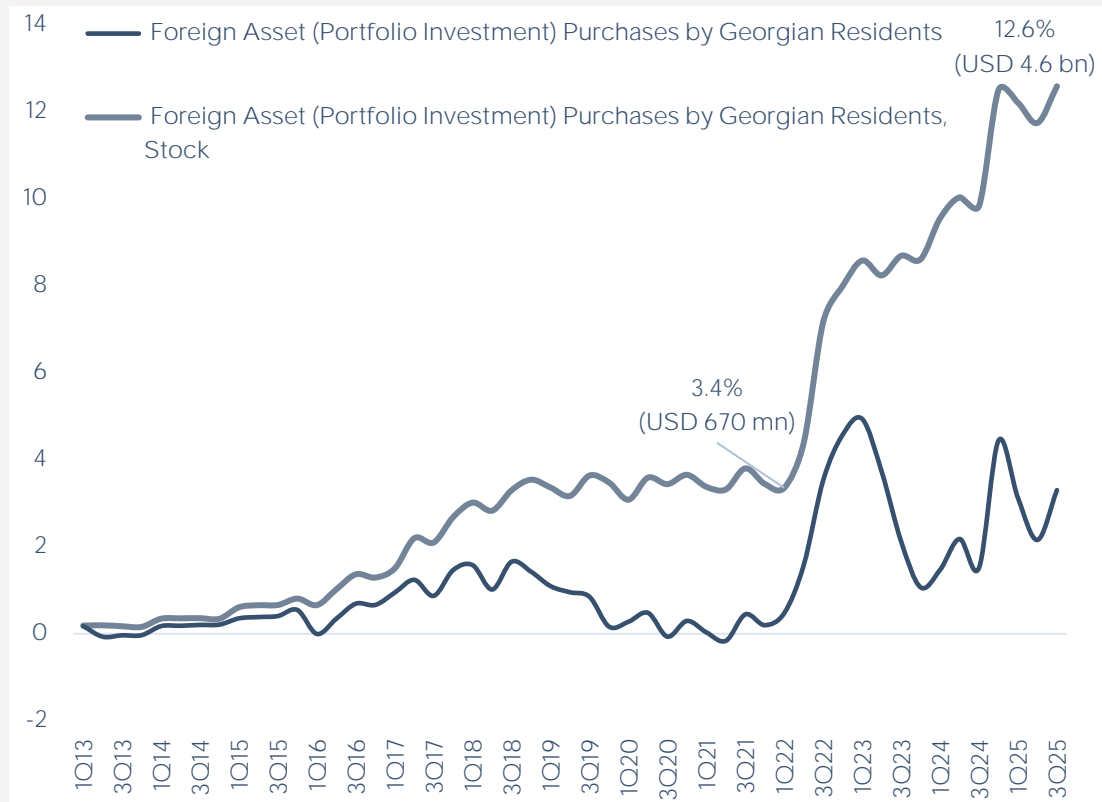


Source: Geostat, NBG, TBC Capital

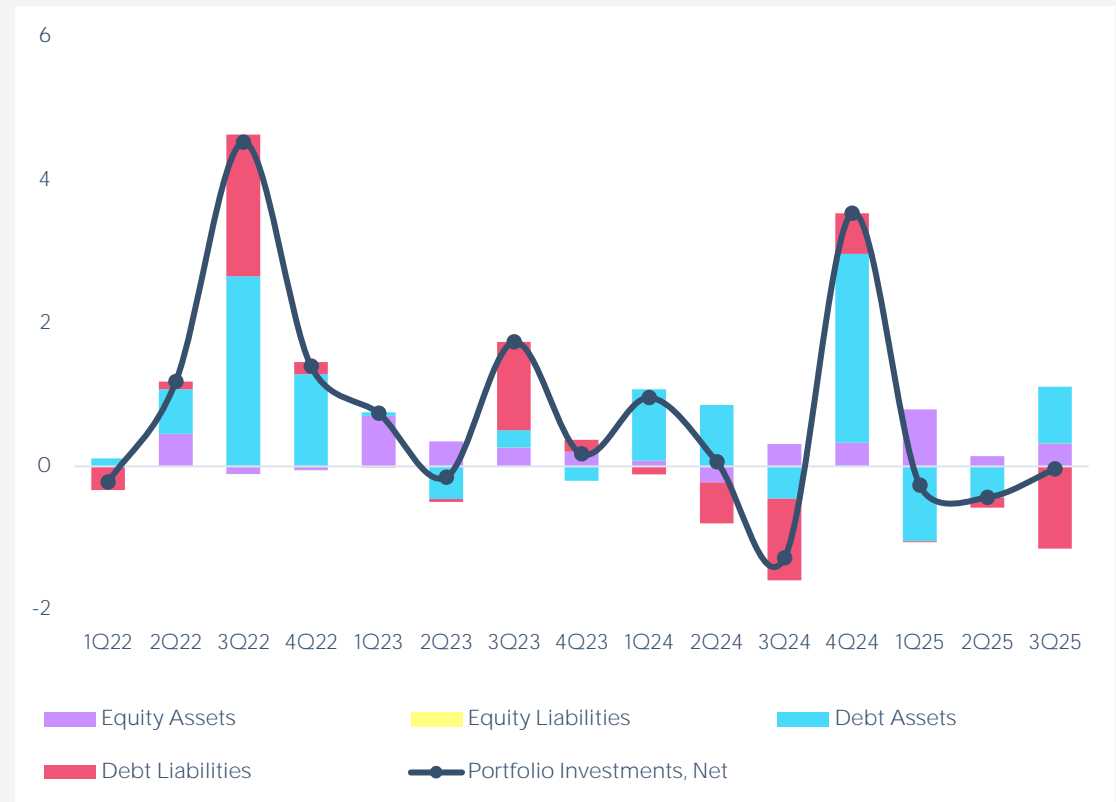
NET CREDITOR IN FOREIGN ASSET PURCHASES AS WELL

In parallel with the improvement in the current account balance, against the backdrop 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. As of September 2025, Georgian residents held USD 4.6 billion in foreign assets, equivalent to 12.6% of GDP in the last four quarters, up from 3.4% in 1Q22. In a sense, foreign asset holdings represent a 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.

FOREIGN ASSET PURCHASES BY GEORGIAN RESIDENTS (% of GDP)



NET PORTFOLIO INVESTMENTS BY COMPONENTS, % of GDP

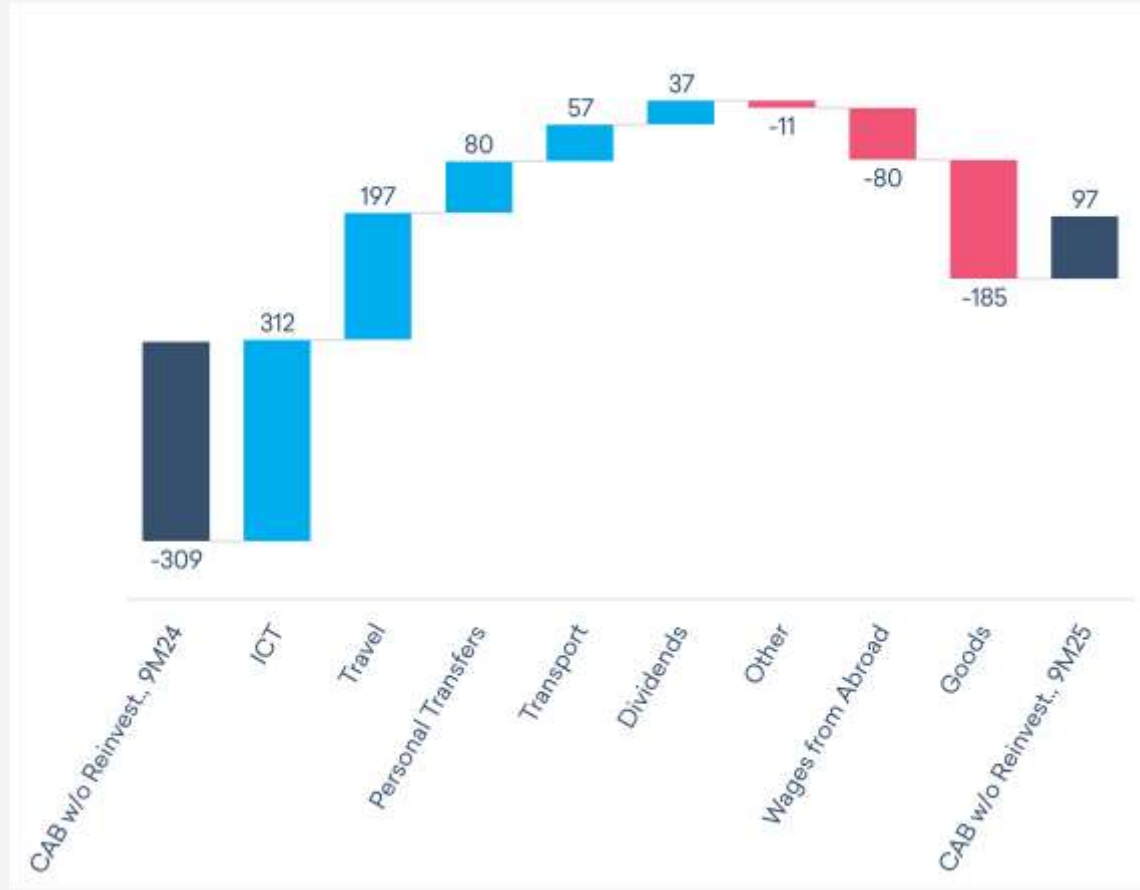


Note: A positive sign in assets means purchase of assets. A positive sign in liabilities means a reduction of liabilities.

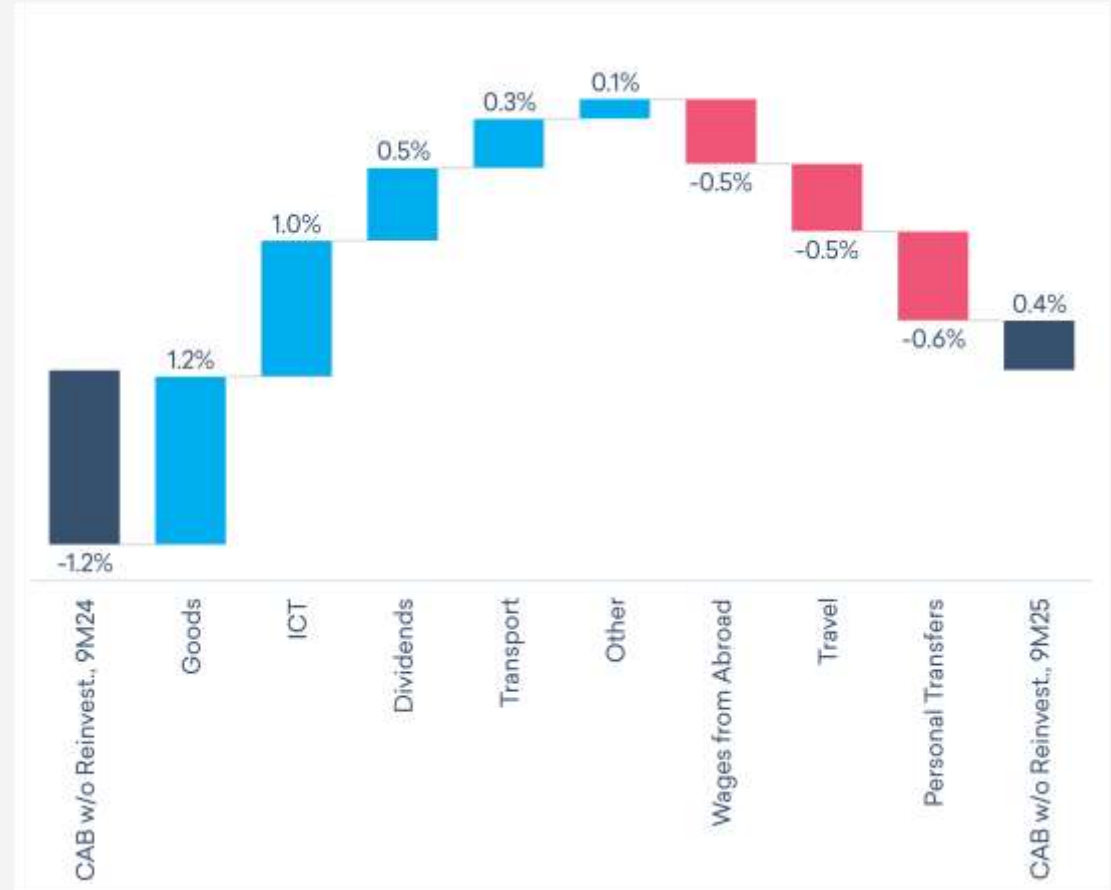
GROWING SERVICE EXPORTS AND SLUGGISH IMPORTS DRIVING CAB IMPROVEMENT

The underlying current account balance (CAB) improved by USD 515 million in January-September 2025 compared to the nine-month period in 2024, ending up in a USD 97 million surplus. Much of this improvement – USD 484 million – can be attributed to service exports, with ICT, tourism and transport services leading the way. On the other hand, while the goods trade deficit widened in nominal terms by USD 185 million, due to its magnitude – by far the largest component of the current account – it, in fact, shrank by 1.2 percentage points as a % of GDP, contributing the most to the improvement in relative terms.

UNDERLYING CURRENT ACCOUNT BALANCE, 9M25 VS 9M24 (USD mn)



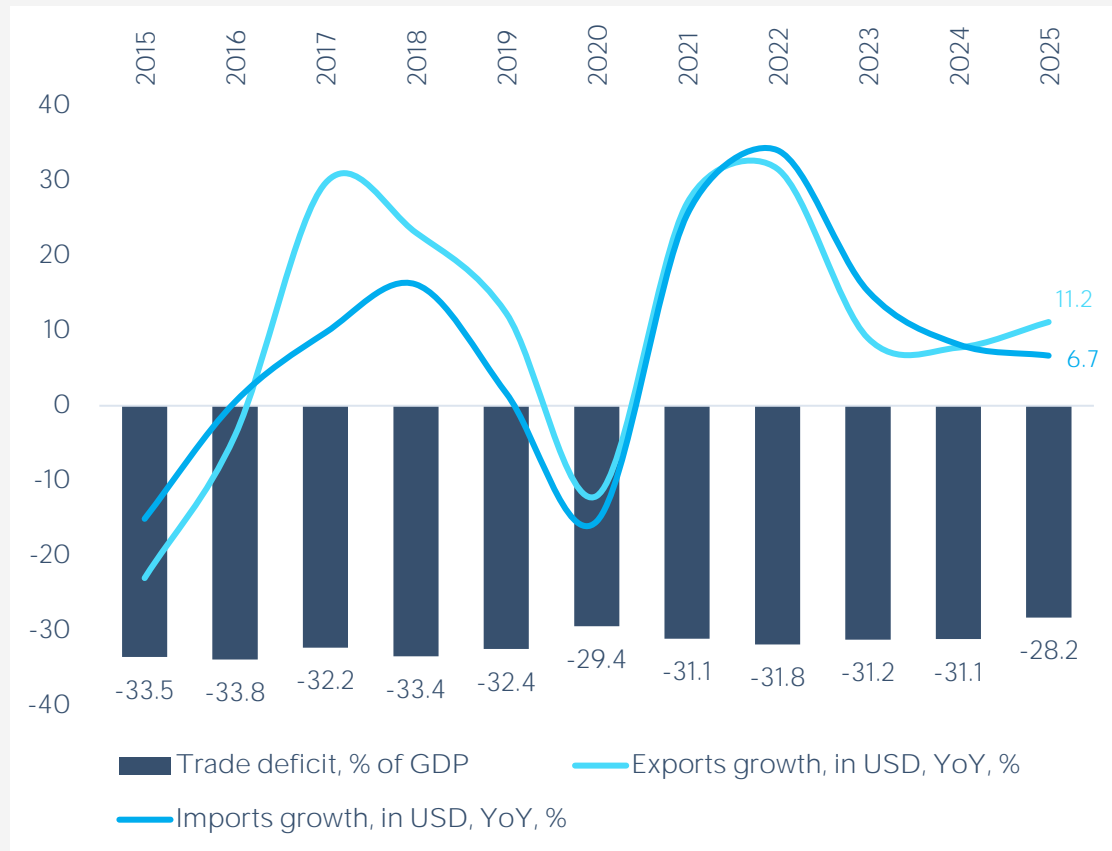
UNDERLYING CURRENT ACCOUNT BALANCE, 9M25 VS 9M24 (% of GDP)



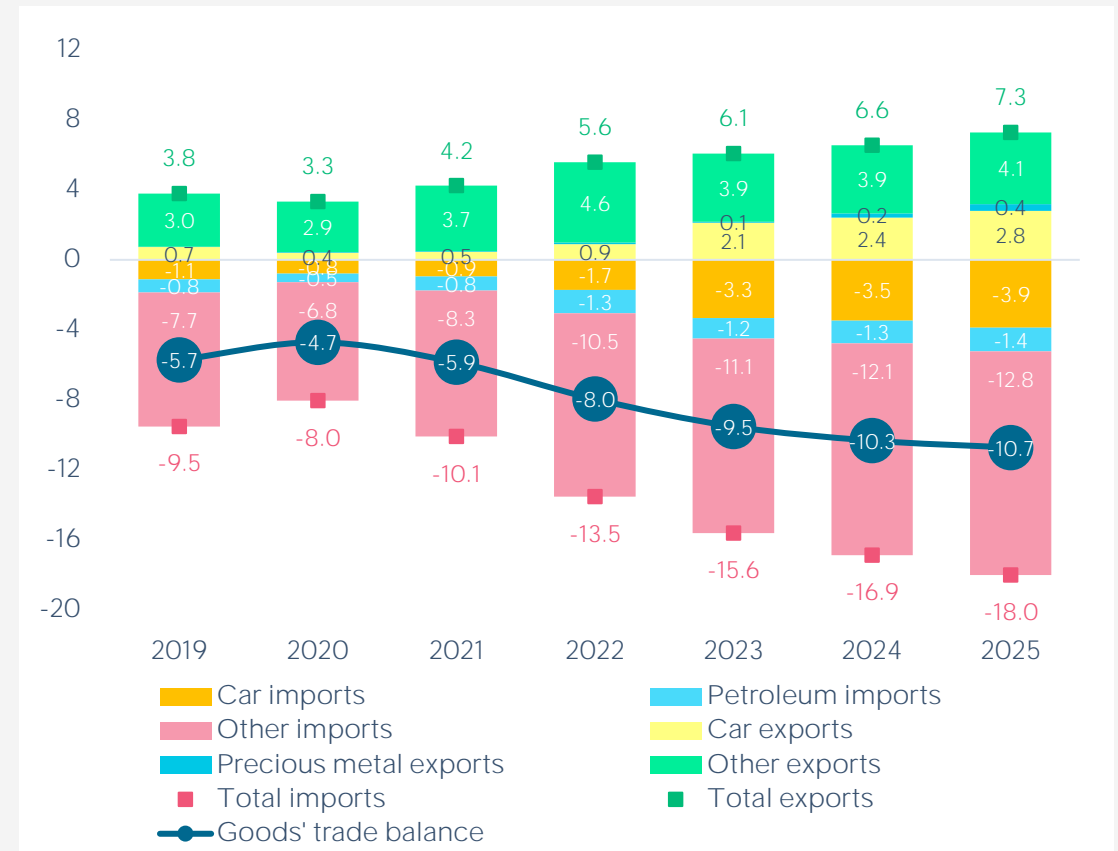
TRADE DEFICIT REMAINS AT RECORD LOWS, AIDED BY CAR NET EXPORTS

Merchandise exports grew by an annual 11.2% in 2025, with imports up by 6.7% (adjusted for the Jan-25 one-off), bringing the overall trade deficit down to 28.2% of GDP, significantly lower compared to previous years. Car re-exports have been the primary driver of rising exports, providing 39% of the total, with precious metal exports also expanding notably on the back of [a surge in gold prices](#) globally. As for imports, cars and petroleum products have increased the most, while over 45% of import categories have declined, led by some commodities and durable goods, with some effect of around 4% GEL appreciation also to be noted.

GOODS TRADE GROWTH (YoY %) AND BALANCE (% of GDP)



TRADE FLOWS BY MAJOR PRODUCTS (USD billion)



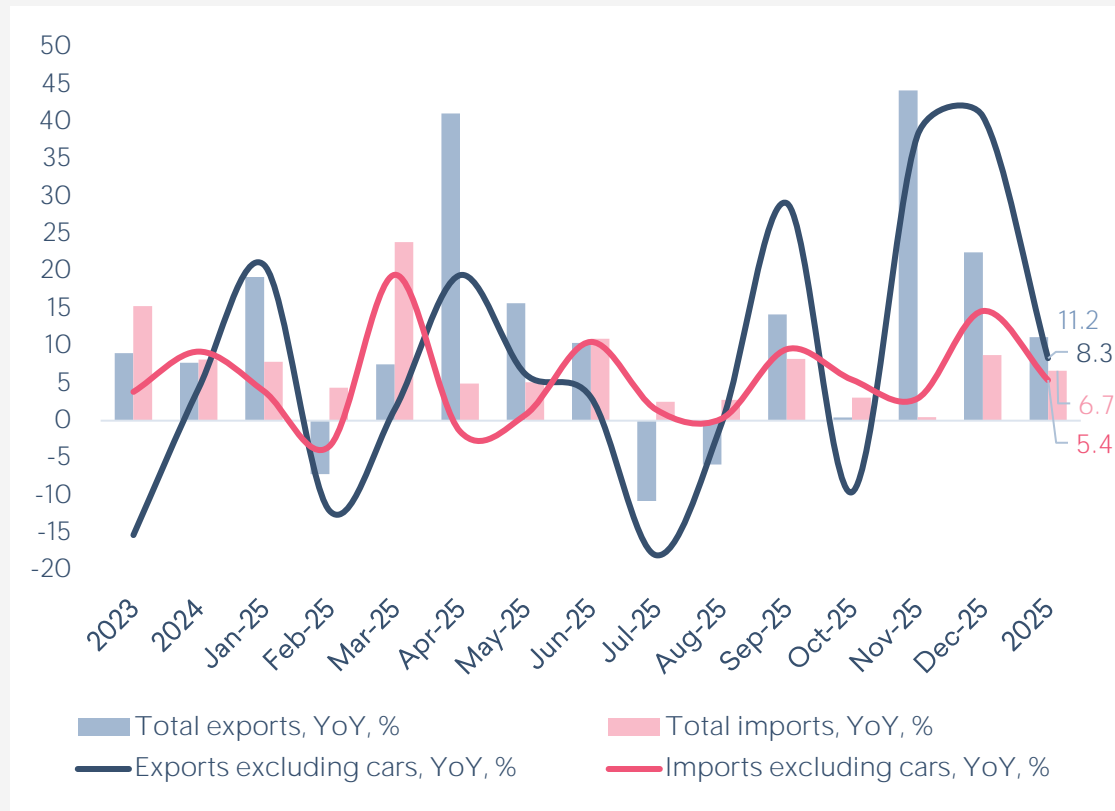
Note: Imports adjusted for a one-off in January

Source: NBS, Geostat, TBC Capital

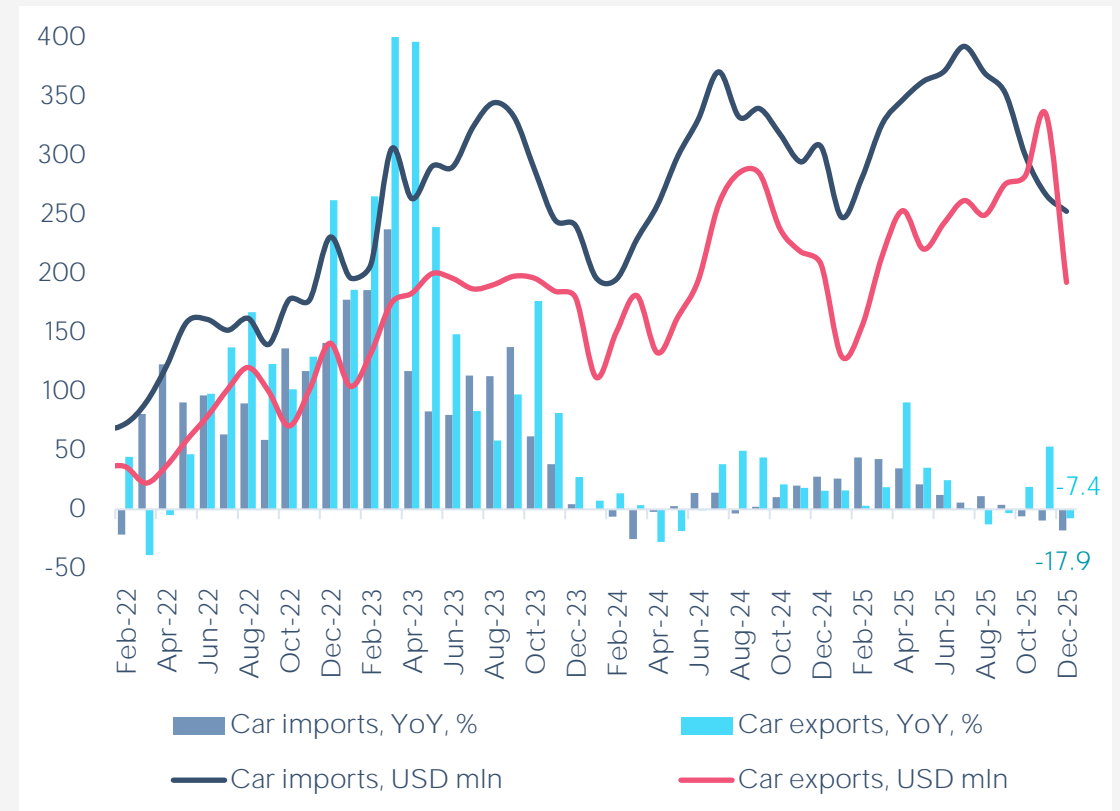
GEORGIA – NET EXPORTER OF CARS?

Disparity between export and import growth in 2025 was primarily driven by strong motor car exports. While vehicle imports were stronger than exports in the first half of the year, imports have fallen so much in the second, as opposed to strengthening exports, that Georgia became a net car exporter in September-November. [We deemed this development as unsustainable](#) for a fully import-dependent industry and expected the negative balance in car trade to be restored in 2026, either through revision of past data or subsequent adjustments in trade flows – estimating around USD 300 million downside correction in net exports of cars (equivalent to c. 0.9% of this year's GDP). In line with expectations, car exports retracted strongly already in December, with Geostat also revising import data upwards for past months. This leaves November as the only remaining month with positive car net exports, largely closing the previously estimated gap. Still, car exports contributed more to export growth than that of imports in 2025.

EXPORT AND IMPORT GROWTH – TOTAL AND EXCLUDING CARS (YoY, %)



CAR TRADE (USD million) AND ANNUAL GROWTH OF FLOWS (%)

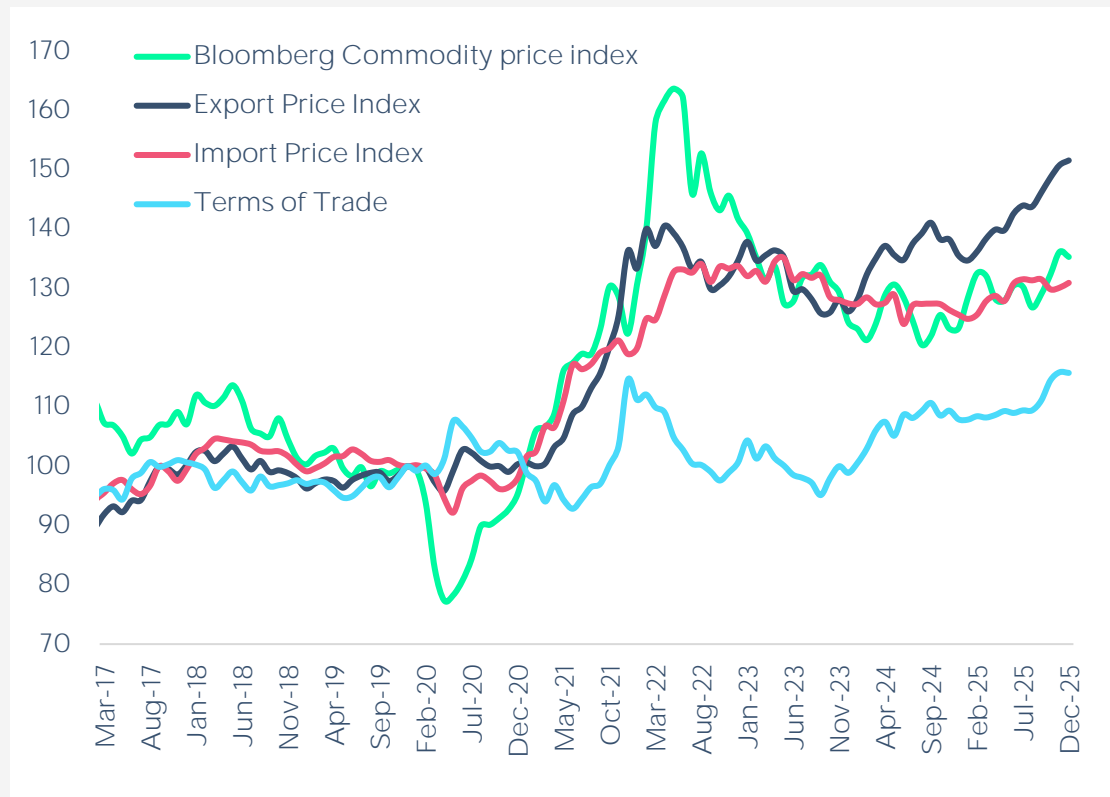


Source: Geostat, TBC Capital

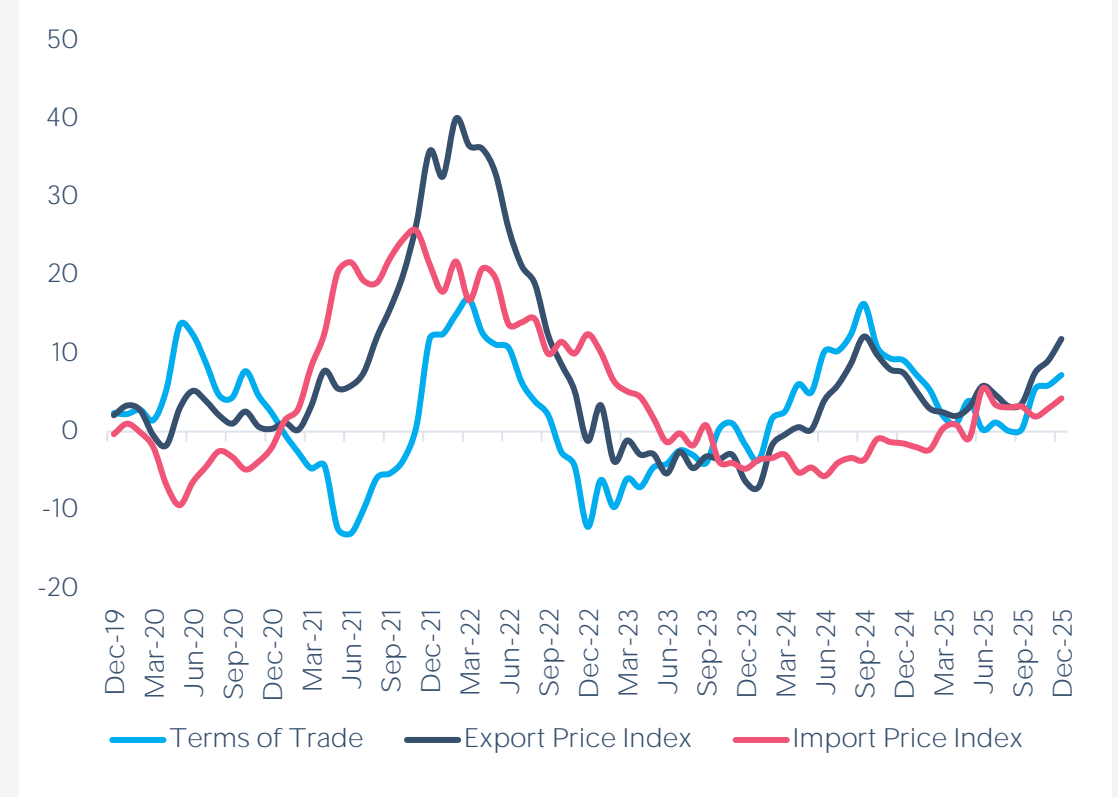
TERMS OF TRADE RISING LATELY, BROADLY STABLE OVER THE LONG TERM

The terms of trade (ToT) index – export prices over import prices – has risen since September after a prolonged period of flattening over the past year, largely supported by [surging gold prices](#). On a longer-term basis, ToT have been broadly stable, though volatility has relatively increased since 2020, driven by significant swings in global commodity prices. Excess volatility in ToT could have [broad implications](#) on the overall macroeconomic environment. In this sense, stable ToT – a rather rare feature – serve as an important source of resilience. ToT in Georgia have remained largely flat since 2010 after improving beforehand, averaging 102.9 in 2010-2024. International comparisons indicate that these dynamics fall somewhat in the middle of the spectrum, similar to e.g. Armenia – not quite as stable as, for example, the EU or Turkiye, but far from as volatile as oil exporters such as Azerbaijan or Russia. At the same time, Georgia’s and Armenia’s ToT dynamics appear to be at the “higher end” of commodity importers.

TERMS OF TRADE AND PRICE INDICES
(Index in USD, Dec-19 = 100)



ANNUAL GROWTH OF PRICE INDICES
(in USD, YoY, %)

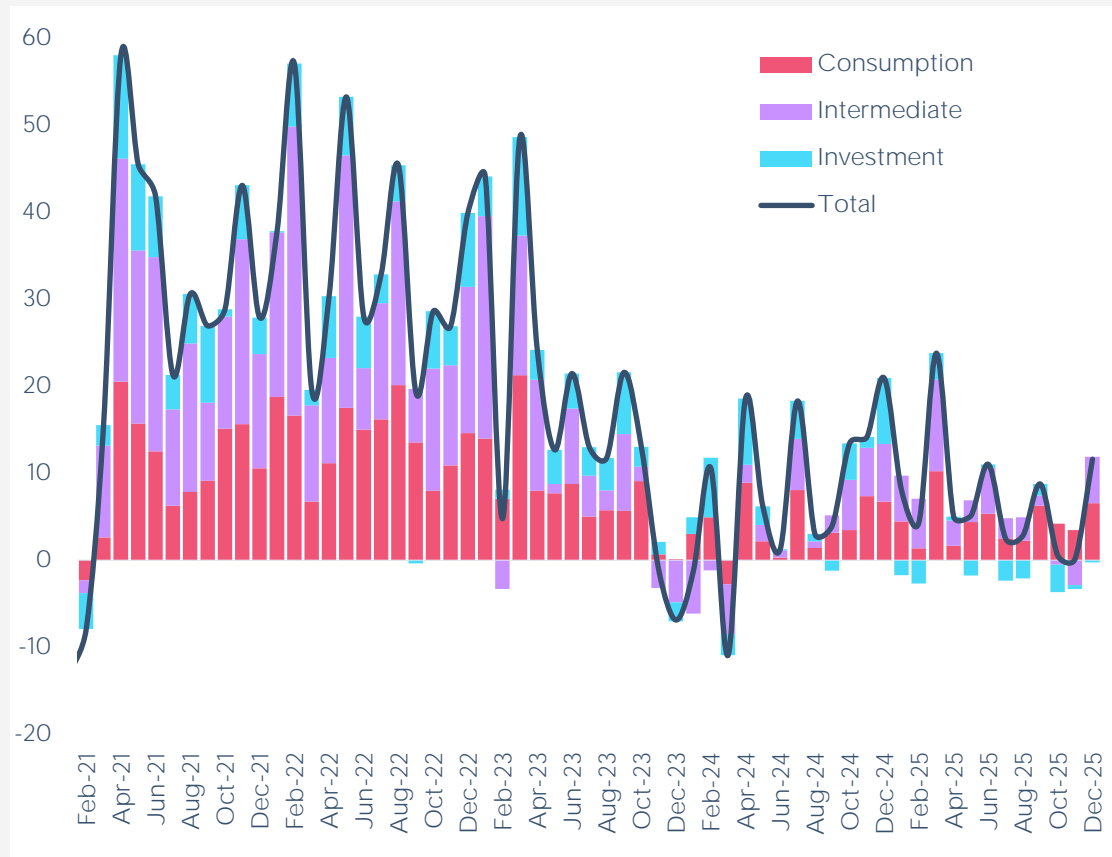


Source: Geostat, Bloomberg, TBC Capital

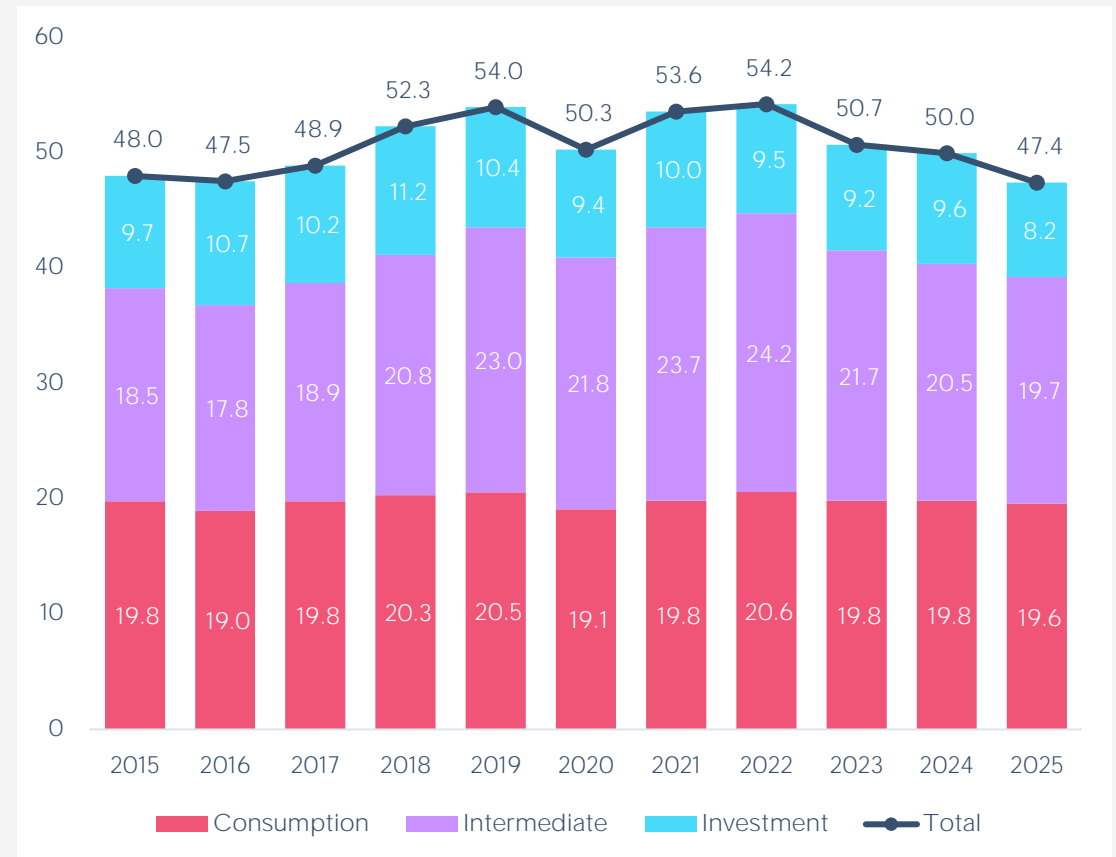
IMPORT GROWTH WEAKENING IN 2025 WAS BROAD-BASED, LED BY INVESTMENT IMPORTS

As discussed above, import growth weakening was widespread in 2025, with almost half of the imported product categories moderating in volume. However, if we group those products according to their broader economic purpose – import growth was negatively affected by investment products, encompassing equipment and capital goods, which decreased by over 4% in 2025, while import of consumption and intermediate products posted slightly stronger growth than in 2024, though still much weaker than in previous years.

IMPORT GROWTH BY COMPONENTS (YoY, PP)



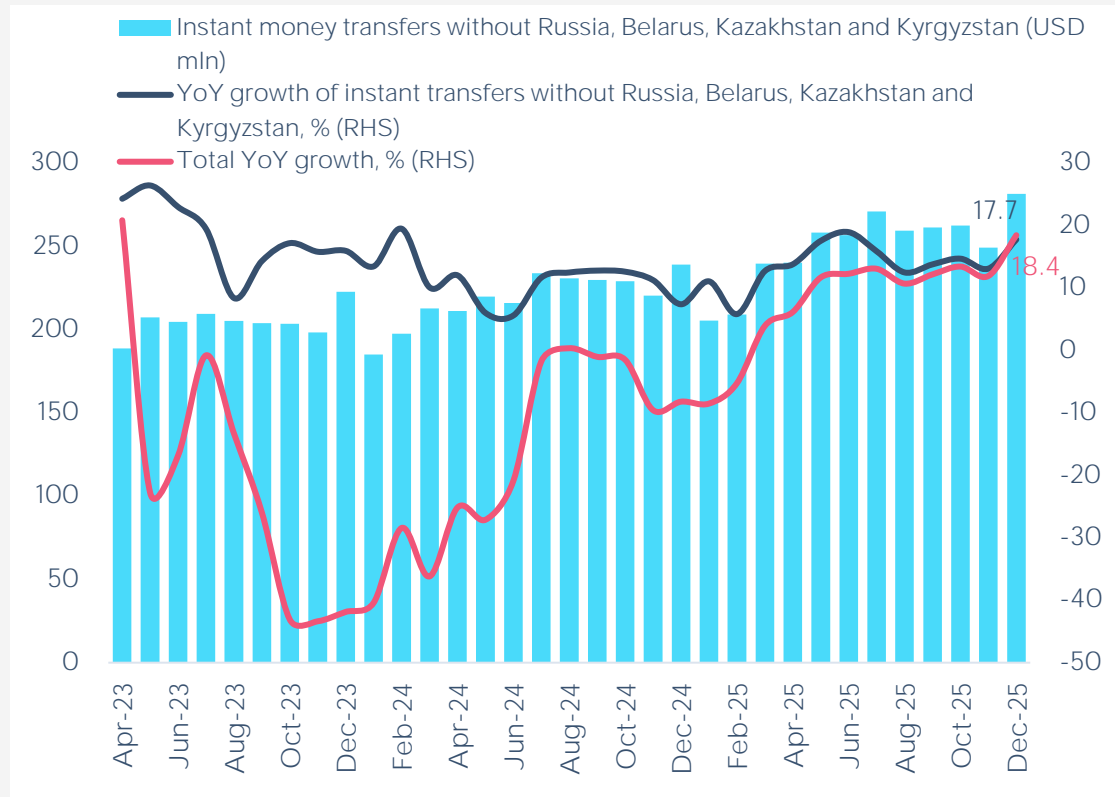
IMPORT BY COMPONENTS (% of GDP)



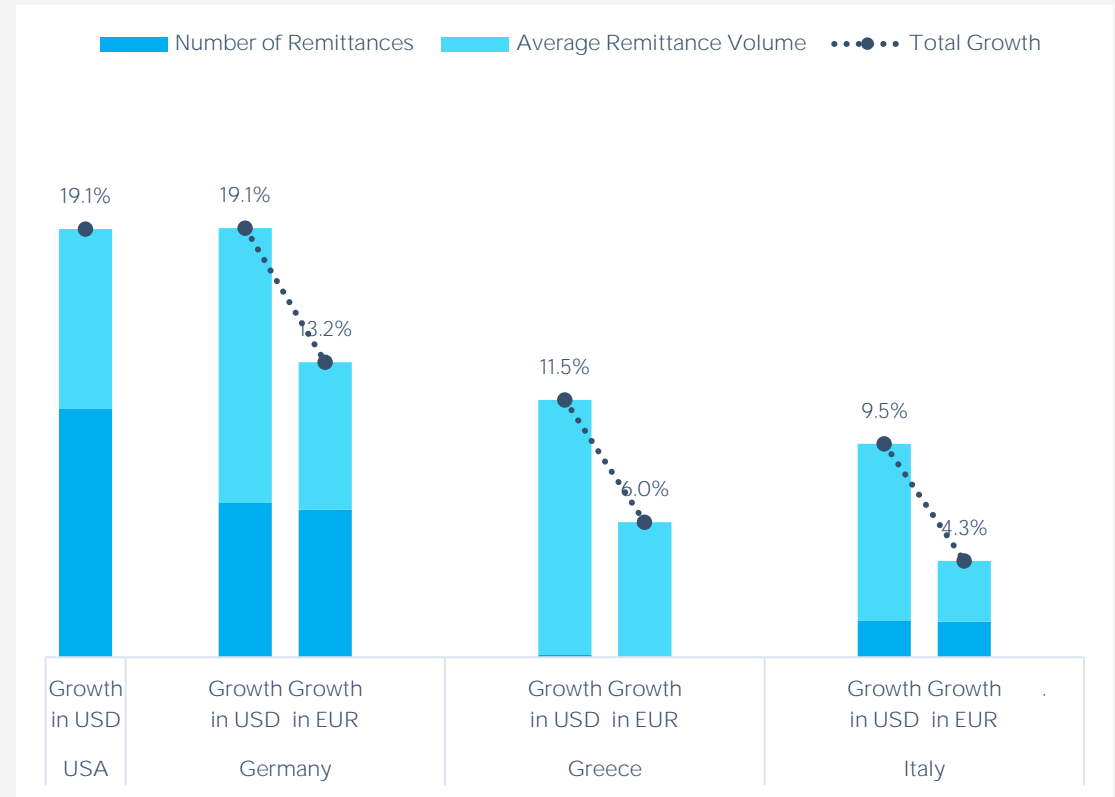
MONEY TRANSFERS WERE ROBUST IN 2025, DOMINATED BY THE EU AND THE US

Money transfers grew by 8.5% annually in 2025, reaching USD 3.6 billion. Annual growth in total remittances turned positive for the first time in almost two years in March 2025, owing to the high base effect of post-war money transfers from Russia. Since then, growth has accelerated to double digits, averaging 13.3% in the second half of the year as opposed to 3.5% in January-June. At the same time, instant money transfers from traditional sources – not affected by post-war inflows – have kept growing robustly throughout the past few years, averaging 13.9% in 2025. The drivers of higher remittances this year differ by country. In particular, in case of the US, both the number of money transfers and the average volume per transfer rose in 2025. For European countries, however, such as Italy, Greece and Germany, a large chunk of growth has been driven by EUR appreciation, shaving off c. 5.5 percentage points from annual growth rates if compared in the EUR rather than in the USD.

INSTANT MONEY TRANSFERS (USD million) AND GROWTH BY SOURCES (YoY, %)



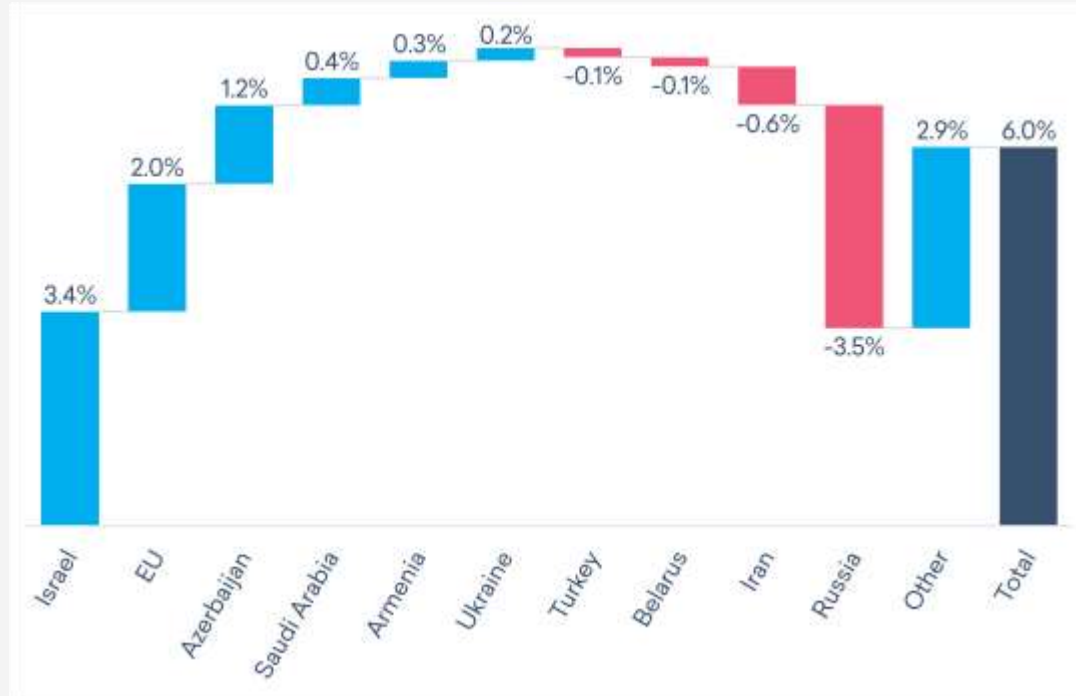
GROWTH IN MONEY TRANSFERS (%) BY COMPONENTS (Percentage Point, Contribution) IN SELECTED COUNTRIES, 2025 VS 2024



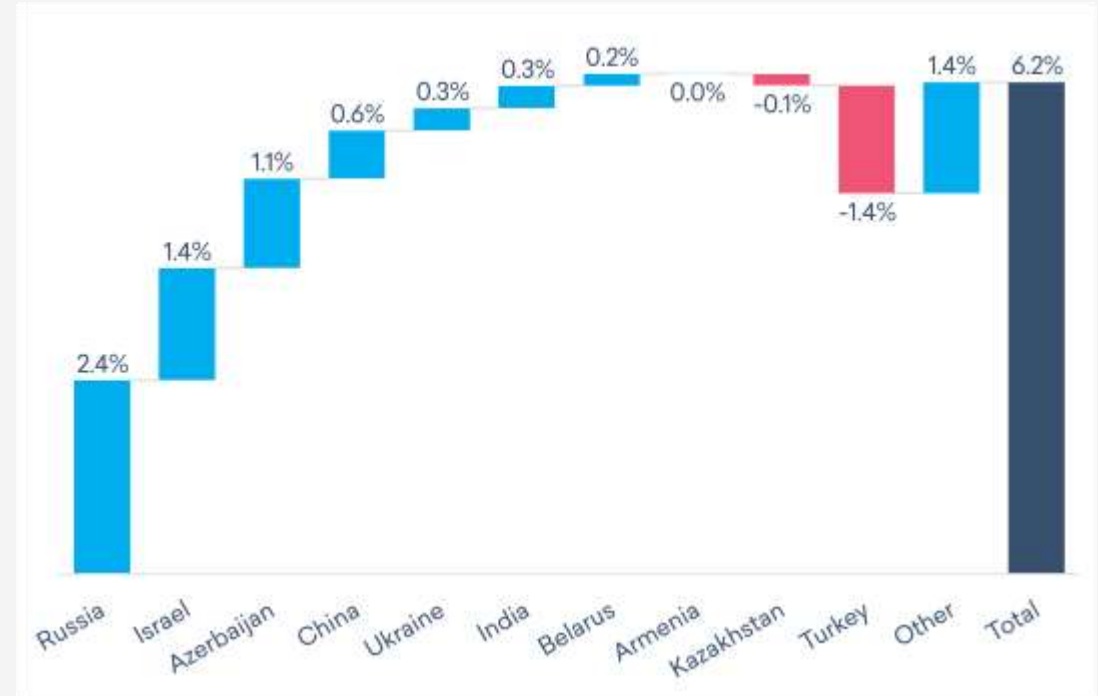
TOURISM GROWTH THIS YEAR SUPPORTED BY RELATIVELY NEW MARKETS

Tourism revenues made up USD 4.7 billion in 2025, up by c. 6% compared to 2024. Together with Israel and the EU, growth in 2025 was largely driven by relatively new markets, which contributed 2.9 percentage points to overall growth, i.e. almost half of the total. Here we note that education service exports – which are classified as part of tourism revenues (travel exports) per the balance of payments methodology – appear to be significantly underestimated in Georgia, making up only USD 14 million in the nine months of 2025. Per our estimates based on the official number of foreign students, only education fees should total c. USD 200 million in 2025. While these flows might be still included in tourism revenues currently – though as a residual rather than part of education-related exports – one needs to keep in mind how overall tourism revenue estimates might change if/when this data is revised. As for the number of visitors, growth in 2025 made up 6.2%, reaching 6.9 million persons. Russian tourists were responsible for over 39% of growth, followed by Israel (23%) and Azerbaijan (18%). In light of recent events, [we'd like to reiterate that exposure to the Middle East is relatively mild](#), largely centered on Israel, while net exposure to commodity prices remains balanced. We project tourism revenues at USD 5.0 billion in 2026.

TOURISM REVENUE GROWTH BY MARKETS, 2025 VS 2024
(PP Contribution)



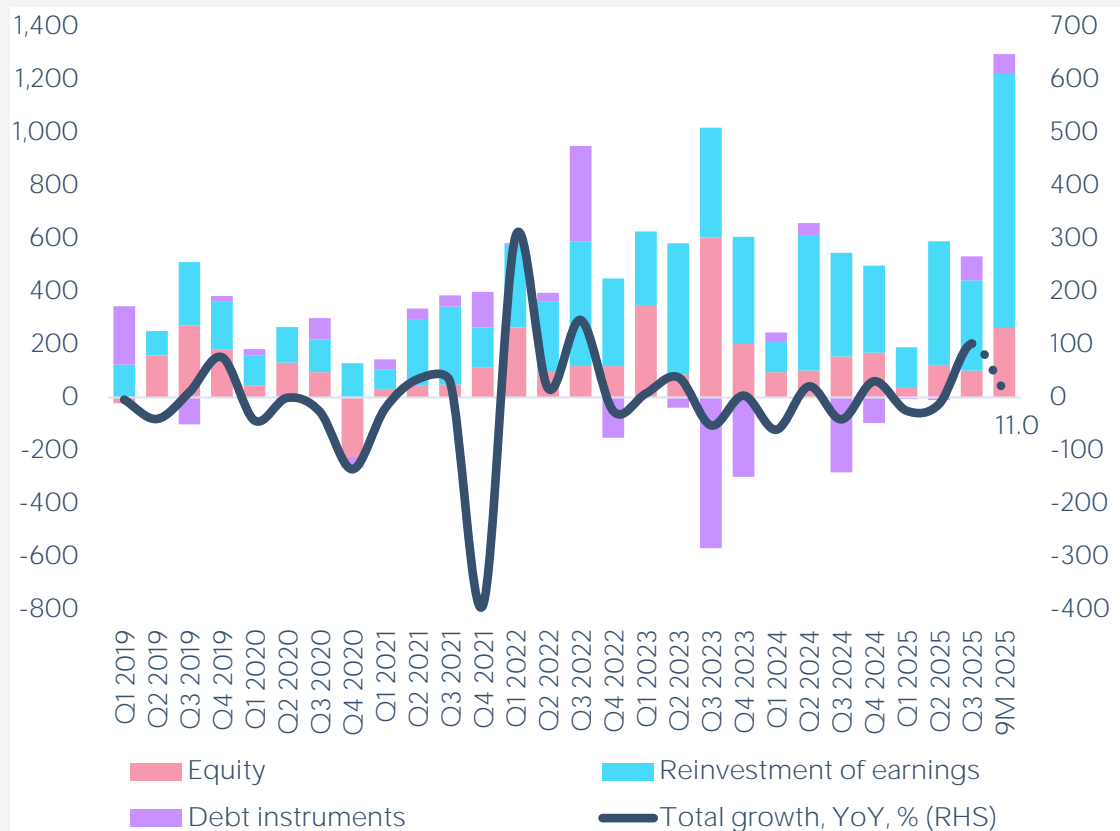
TOURIST NUMBER GROWTH BY MARKETS, 2025 VS 2024
(PP Contribution)



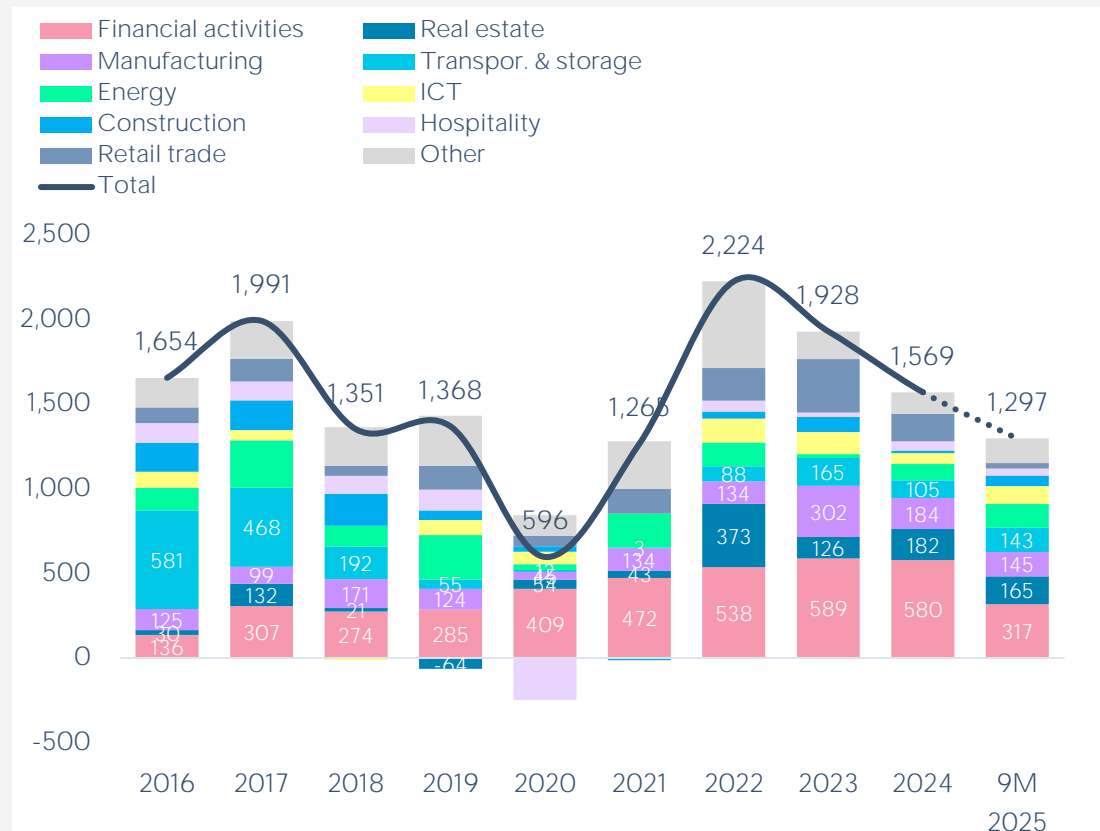
FDI REMAINS WEAK IN 2025

As of the first nine months, 2025 remained a relatively weak year with respect to foreign direct investments (FDI) in Georgia, which continued to moderate from historic highs in 2022-2023. While total foreign investments still posted a positive 11.0% annual growth in January-September, the increase was fully driven by lower debt instruments, while the sum of equity investments and reinvestments went down by 10.8%.

FDI GROWTH (%) AND DECOMPOSITION BY COMPONENTS (USD million)



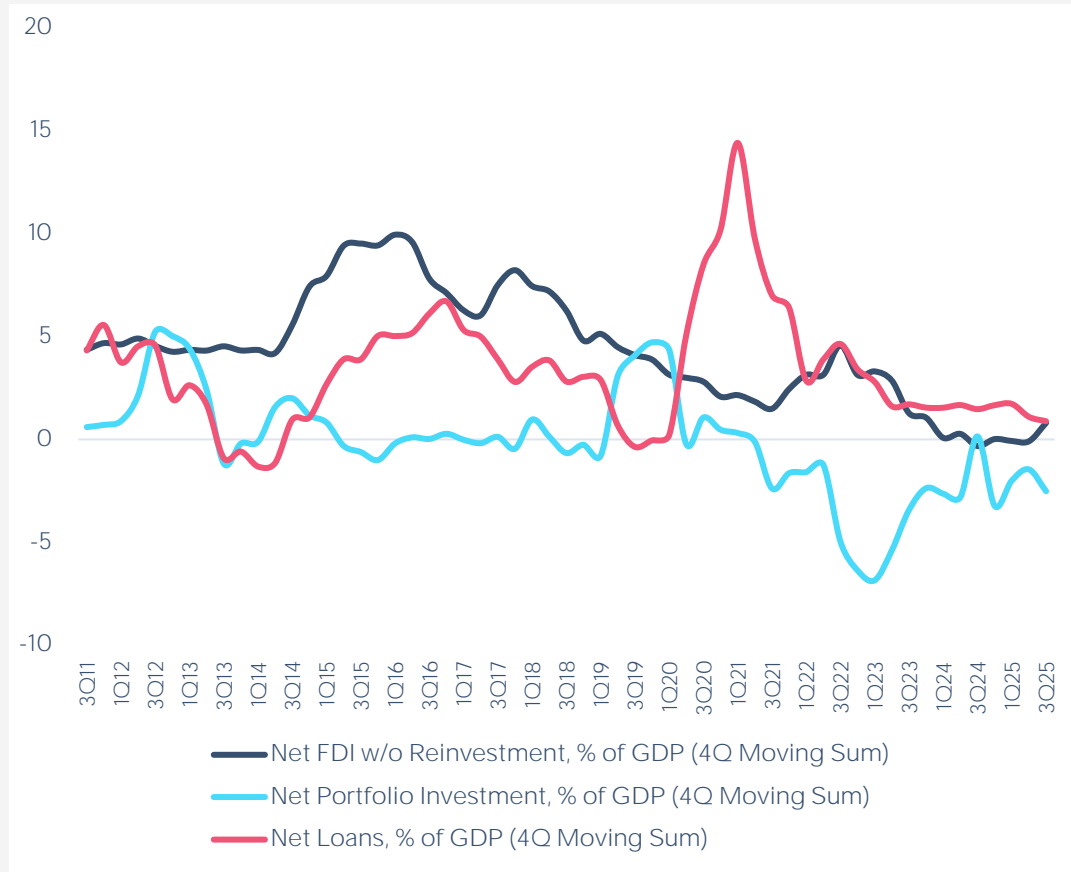
FDI BY SECTORS (USD million)



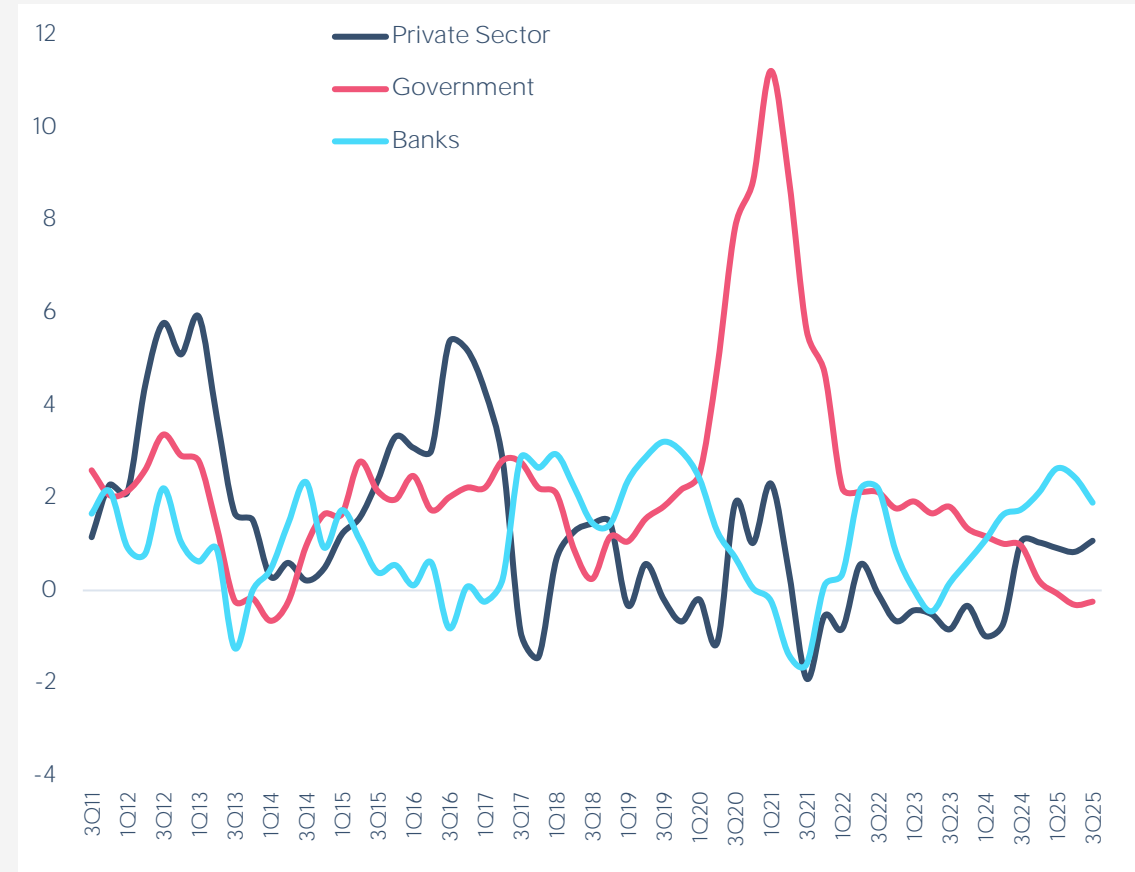
THE PRIVATE SECTOR HAS TAKEN OVER AS THE PRIMARY SOURCE OF FINANCING

With respect to the financing sources of the current account deficit, loans have provided the majority 2023-onwards, while FDI without reinvestments decelerated to negligible levels – though relatively higher over the past two quarters – and portfolio investments turned negative, in light of Georgian residents accumulating foreign assets. As for the sectoral decomposition, whereas the government used to generate 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.

SELECTED FINANCING FLOWS, % of GDP, 4Q Moving Sum



SELECTED FINANCING FLOWS BY SECTOR, % of GDP, 4Q Moving Sum

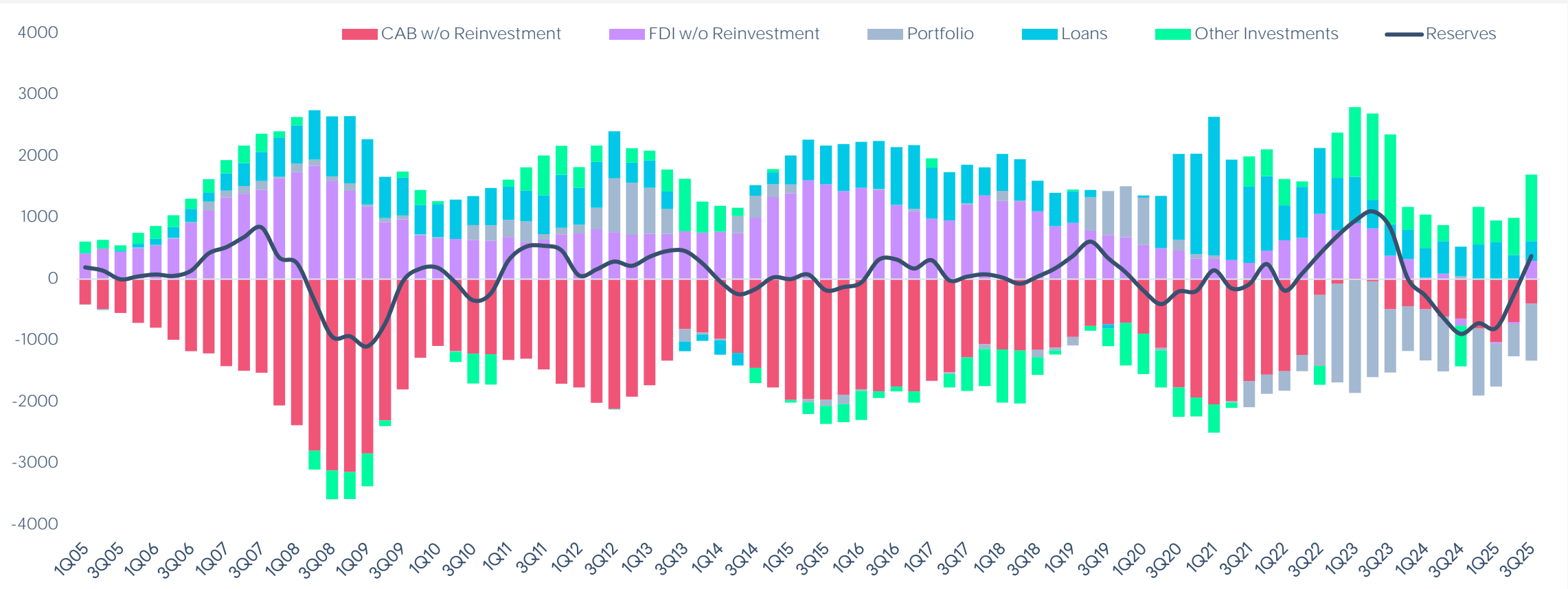


Note: Portfolio investment, FDI and other investment flows, w/o currency and deposits.

BACK TO RESERVE ACCUMULATION AMID A STRONGER EXTERNAL BALANCE SHEET

Five consecutive quarters of reserve accumulation in 3Q22-3Q23 (USD 1.3 billion) was followed by six consecutive quarters of reserve drawdown in 4Q23-1Q25 (USD 1.4 billion), with reserves switching to accumulation again in 2Q25-3Q25 worth USD 883 million, reflecting the improvement in the external balance sheet. High frequency data indicates another USD 730 million added to reserves in 4Q25. Expansion in reserves continues to be supported by a significant narrowing of the underlying current account deficit and steady inflows from loans, while portfolio investments remain negative as Georgian residents keep purchasing foreign assets, and FDI without reinvestments has marginally increased from near-zero levels over the past two years.

BALANCE OF PAYMENTS OF GEORGIA, USD mn, 4Q Moving Sum

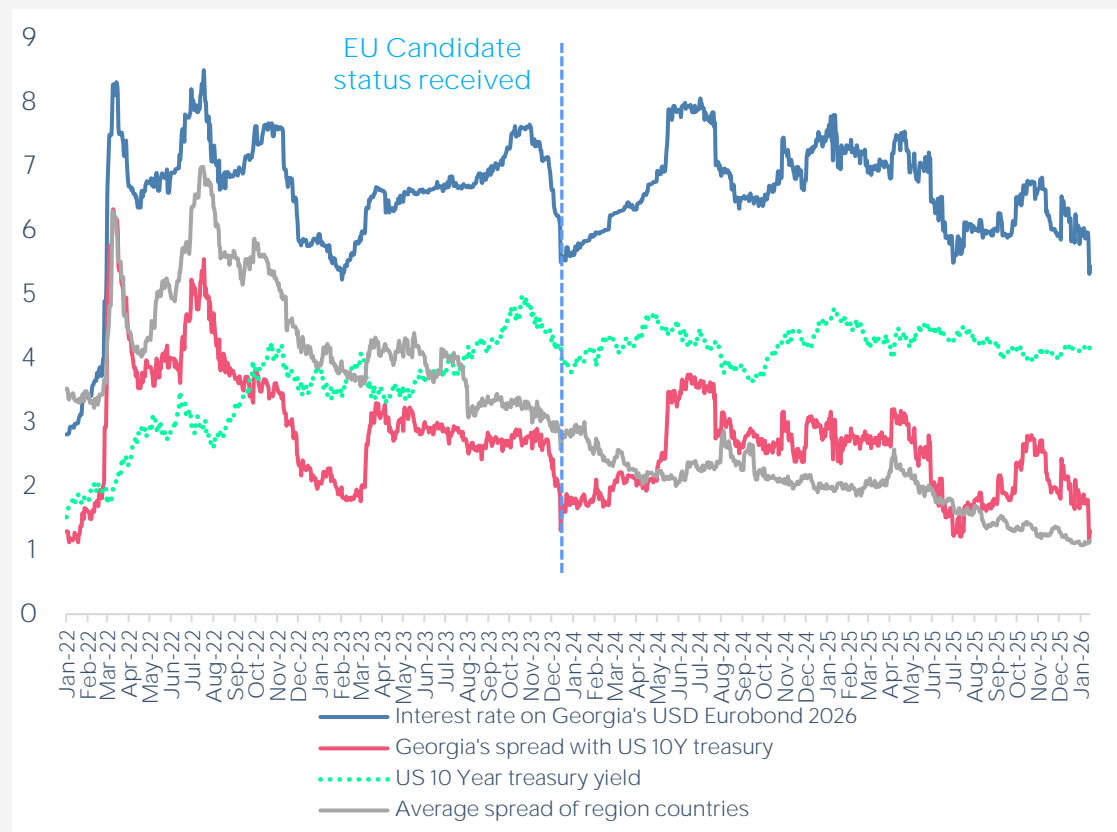


GEORGIA'S RISK PREMIUM MODERATES, WHILE THE SHARE OF NON-RESIDENTS IN TREASURY HOLDINGS SLIGHTLY UP RECENTLY AFTER A WEAK YEAR

Georgia's risk premium, which we estimate as a difference between the yields of the US 10Y treasury bond and Georgia's 2026 USD Eurobond, has closely reflected recent developments. Rising in a politically tense 2024, the estimated risk premium remained volatile, before moderating notably over 2025, though one needs to keep the approaching maturity in mind. At the same time, the share of non-residents' holding Georgia's treasury securities slightly increased by the end of the year after hitting a five-year low at the start of 2025.

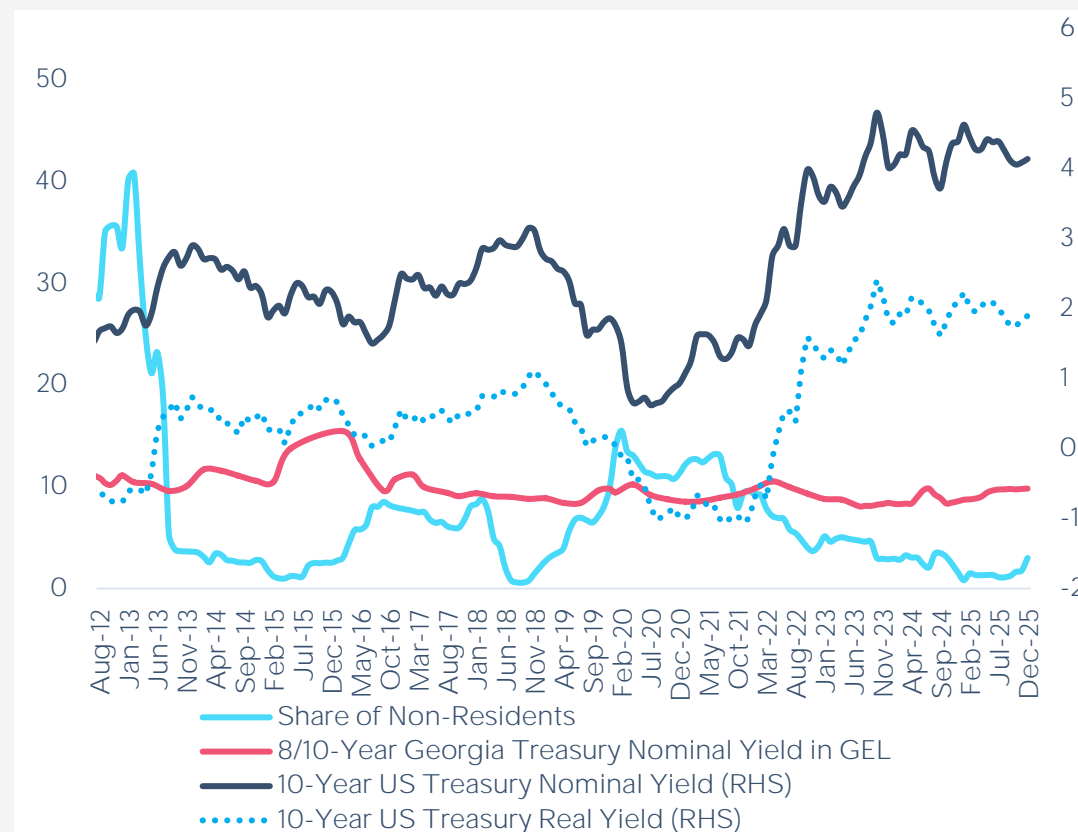
GEORGIA'S ESTIMATED RISK PREMIUM

(pp, as of 14-Jan-2026)



Note: Region countries include Türkiye, Armenia, Azerbaijan, Uzbekistan, Kazakhstan and Tajikistan

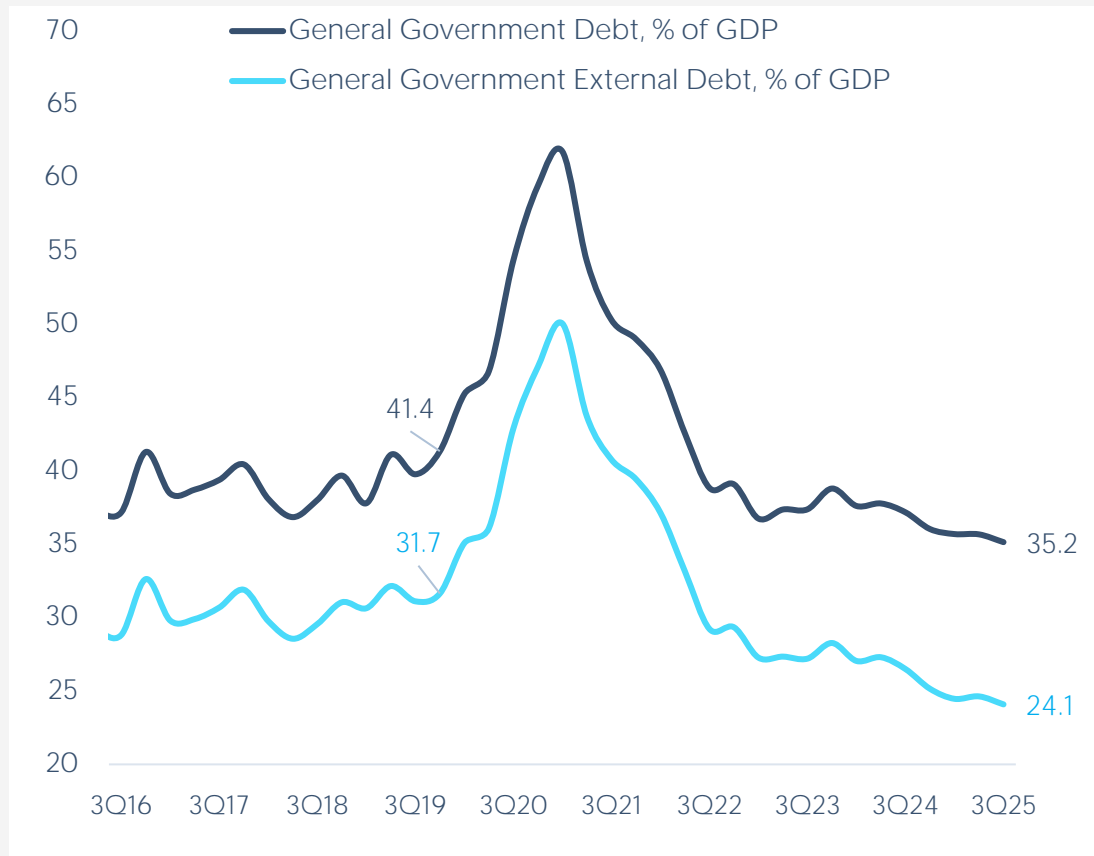
SHARE OF TREASURY SECURITIES HELD BY NON-RESIDENTS (%)



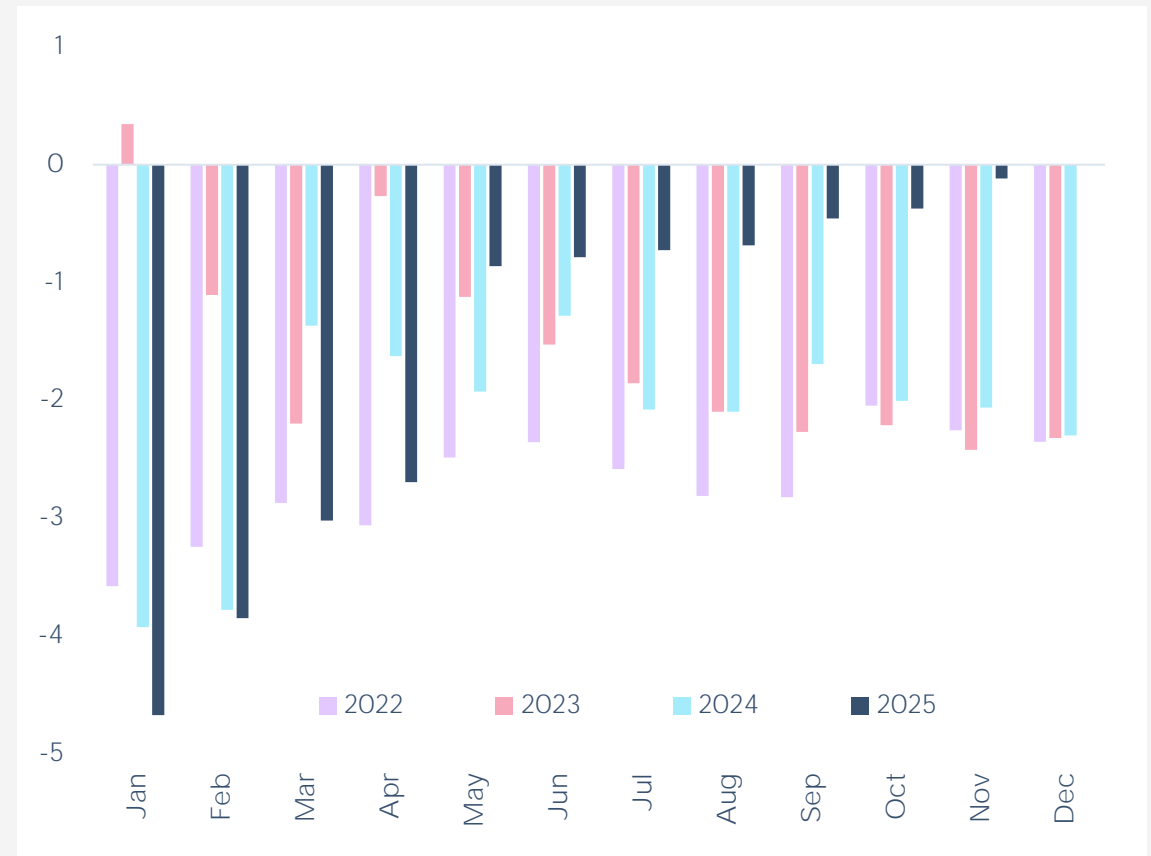
GOVERNMENT EXTERNAL DEBT CONTINUES TO DECLINE

General government external debt has continued to decline, now down to 24.1% of GDP as of September 2025, 7.6 percentage points (pp) lower compared to end-2019, aided by strong GDP growth and GEL appreciation. Total government debt is down to 35.2% of GDP by the end of Sep-25, 6.2 pp lower. Meanwhile, the consolidated budget deficit has lagged behind the plan in 2025, standing at the lowest level in recent years as of November, with the fiscal impulse accordingly contractionary.

GENERAL GOVERNMENT DEBT HAS BEEN DECLINING LATELY (% of GDP, Last Four Quarters)



SEASONALLY ADJUSTED CONSOLIDATED BUDGET DEFICIT (% of GDP, Cumulative)



Source: Geostat, MOF, TBC Capital



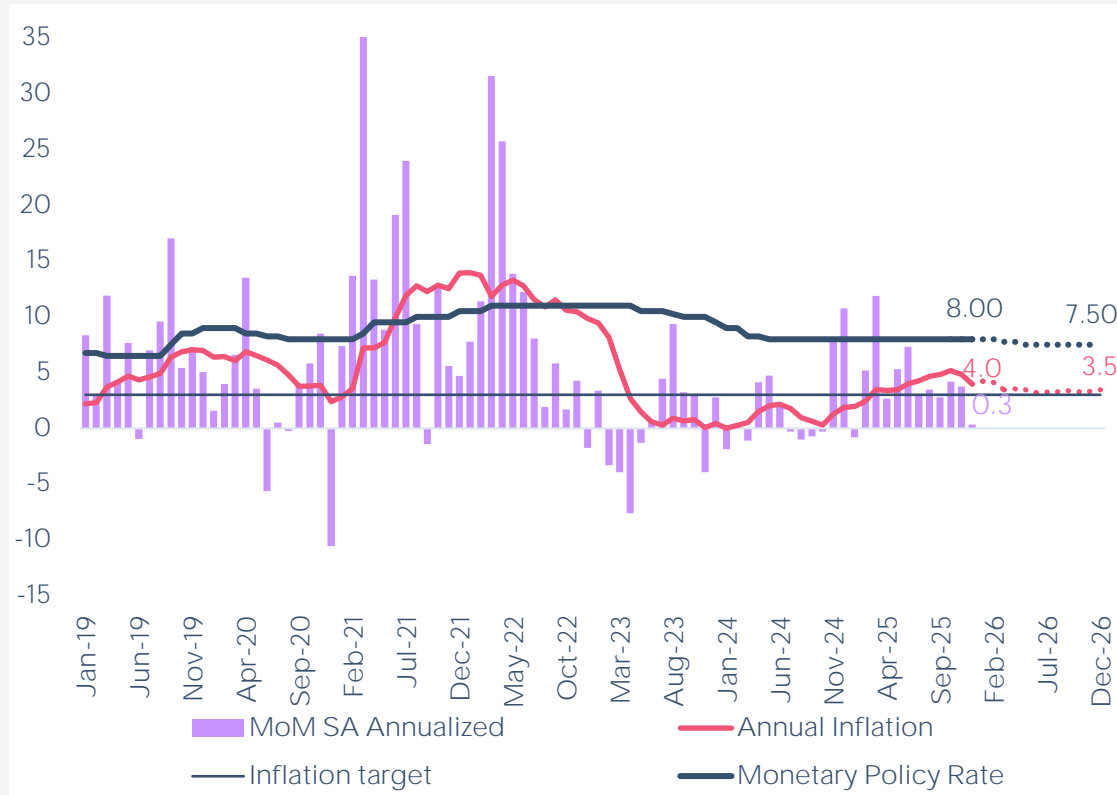
INFLATION

- Annual inflation averaged 3.9% in 2025, rising to a peak of 5.2% in October before decelerating to 4% in December, though, with monthly inflation dynamics pointing to stabilization around the target for six consecutive months now, inflationary pressures appear muted;
- The rise in inflation in 2025 was caused by higher prices on mixed (mainly food) and domestic (predominantly food but more broad-based) goods, while imported inflation was negative, as a result of plunging fuel prices;
- Simultaneously, one-offs have continued to play a major role in inflation dynamics, with a range of one-time price shifts in products introducing base effects that have both lowered and boosted inflation by c. 1 percentage point at peak levels in 2024-2025;
- Service inflation, which we consider the most accurate measure of underlying pressures due to its stronger persistence and a low import component, remains below the target in annual terms, though significantly aided by base effects from one-offs;
- At the same time, persistent GEL undervaluation carries inflationary risks, as the GEL weighted average exchange rate is tightly linked with imported inflation. Should price pressures from this channel emerge, we would expect the NBG to tilt towards GEL strengthening;
- We project inflation to average 3.5% in 2026, initially rising above 4% before decelerating from March, as base effects begin to kick in, with the Dec-25 forecast standing at 3.5%.

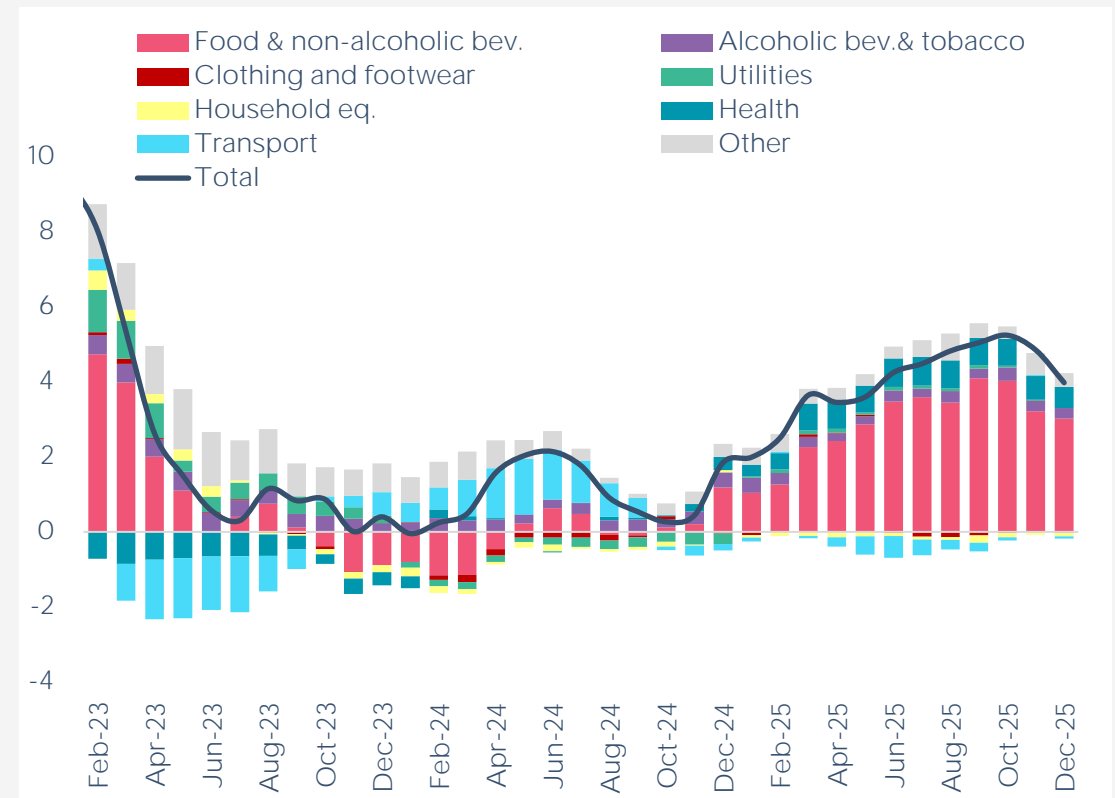
INFLATION TO KEEP MODERATING IN 2026, THOUGH STILL ABOVE THE TARGET

Annual inflation averaged 3.9% in 2025, rising to a peak of 5.2% in October before decelerating to 4% in December. Inflation dynamics throughout the year have been [fully in line with our projections](#), though the December print came in lower than our latest forecast of 4.5% and closer to the [beginning of the year forecast of 4.1%](#). Seasonally adjusted monthly inflation was almost zero in December, lowest since Jan-25. With annualized monthly inflation close to or below the 3% target for six consecutive months now, averaging 2.9% in the second half of the year, inflationary pressures appear muted. We project inflation to average 3.5% in 2026, initially rising above 4% before decelerating from March, as bread price-related base effects begin to kick in. We revise the Dec-26 forecast upwards to 3.5%, in light of the base effect related to lower-than-expected inflation in Dec-25. Our forecast does not currently comprise the possible hike in the electricity fee from March, as well as potential regulations and/or agreements with respect to food prices.

MONETARY POLICY RATE, ANNUAL AND ANNUALIZED MONTHLY INFLATION (%)



ANNUAL INFLATION (% YoY) AND ITS COMPONENTS (PP)

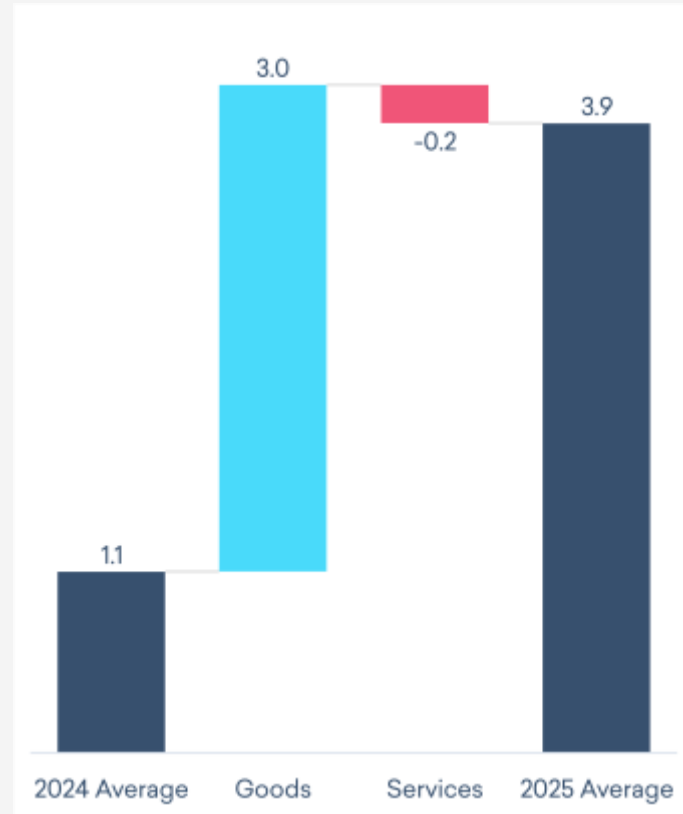
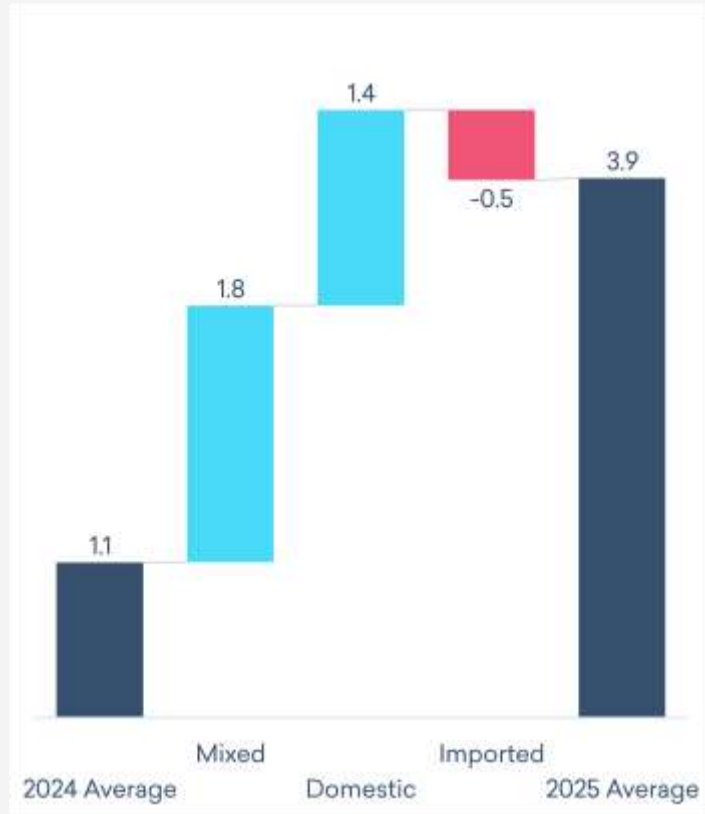


Source: Geostat, NBG, TBC Capital

RISING INFLATION CAUSED BY MIXED AND DOMESTIC GOODS, MAINLY FOOD PRICES

Average annual inflation accelerated by 2.8 percentage points (pp) from 1.1% in 2024 to 3.9% in 2025. With respect to product origin, the acceleration was driven by mixed (+1.8 pp) and domestic (+1.4 pp) inflation, whereas prices on imported goods decreased (-0.5 pp). Per product type, rising inflation was entirely caused by rising prices on goods (+3.0 pp), while services recorded a deflation (-0.2 pp). As for categories, food and non-alcoholic beverages contributed 2.8 pp – by far the largest – to the increase in inflation, due to a surge in food prices (up by 8.9% y/y in Dec-25), followed by healthcare (+0.7 pp), while prices in the transport subgroup declined as a result of falling fuel prices.

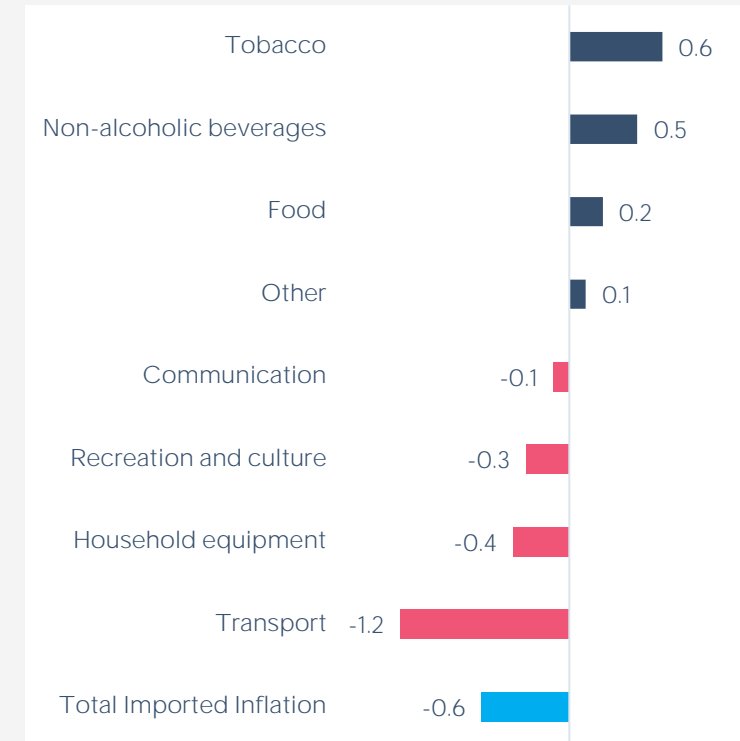
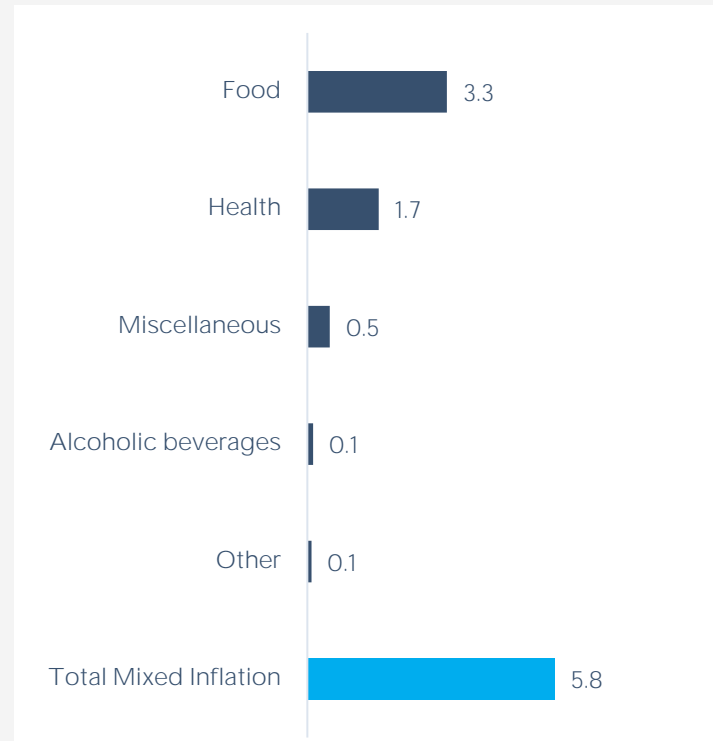
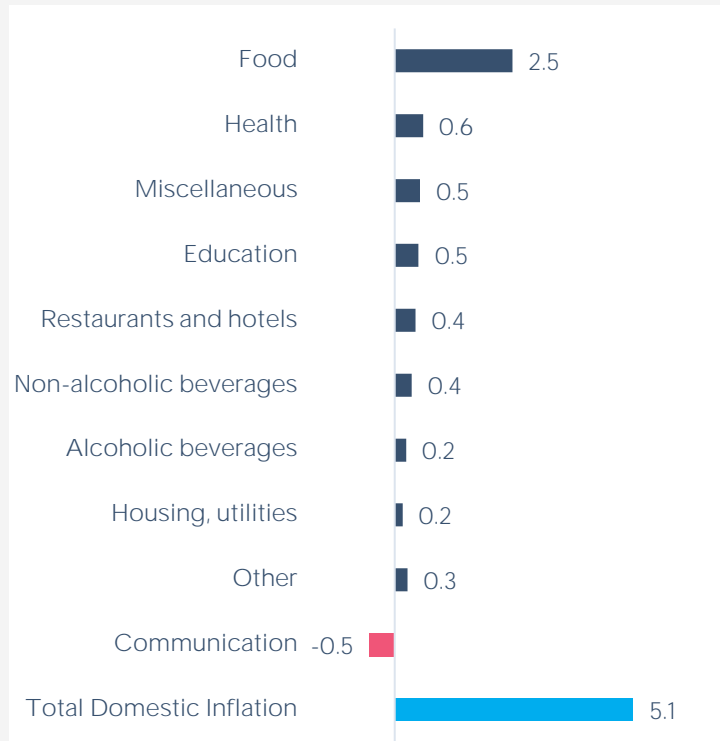
CHANGE IN ANNUAL INFLATION (%) BY CATEGORIES (Percentage Point, Contribution)



DEFLATION IN IMPORTED GOODS A RESULT OF PLUNGING FUEL PRICES

Inflation on domestic goods and services averaged 5.1% in 2025, with food prices responsible for almost half of the total – 2.5 percentage points (pp). Of this, bread prices alone – up by 22.5% y/y as of Dec-25 – contributed 1 pp. On the other hand, lower internet fees lowered domestic inflation by 0.5 pp. At the same time, though lower in magnitude, domestic inflation was rather broad-based, with prices increasing across various categories. Mixed product inflation made up 5.8%, with food prices contributing over half (3.3 pp). Prices on medications also increased by a sizeable margin, adding 1.7 pp to mixed inflation. As for imported prices, which declined by 0.6% on average compared to 2024, the excise tax rate hike on cigarettes was the largest positive contributor (+0.6 pp), while plunging fuel prices – due to lower oil prices globally – lowered imported inflation by 1.2 pp, resulting in an overall deflation in imported products. In this regard, we note that recent events in Venezuela and Iran could potentially have a significant effect on oil prices, albeit, as the impact is in opposite directions, the market has remained relatively calm thus far, with no substantial swings in prices. Therefore, we currently expect no sizeable change in oil prices that could materially alter the inflation outlook.

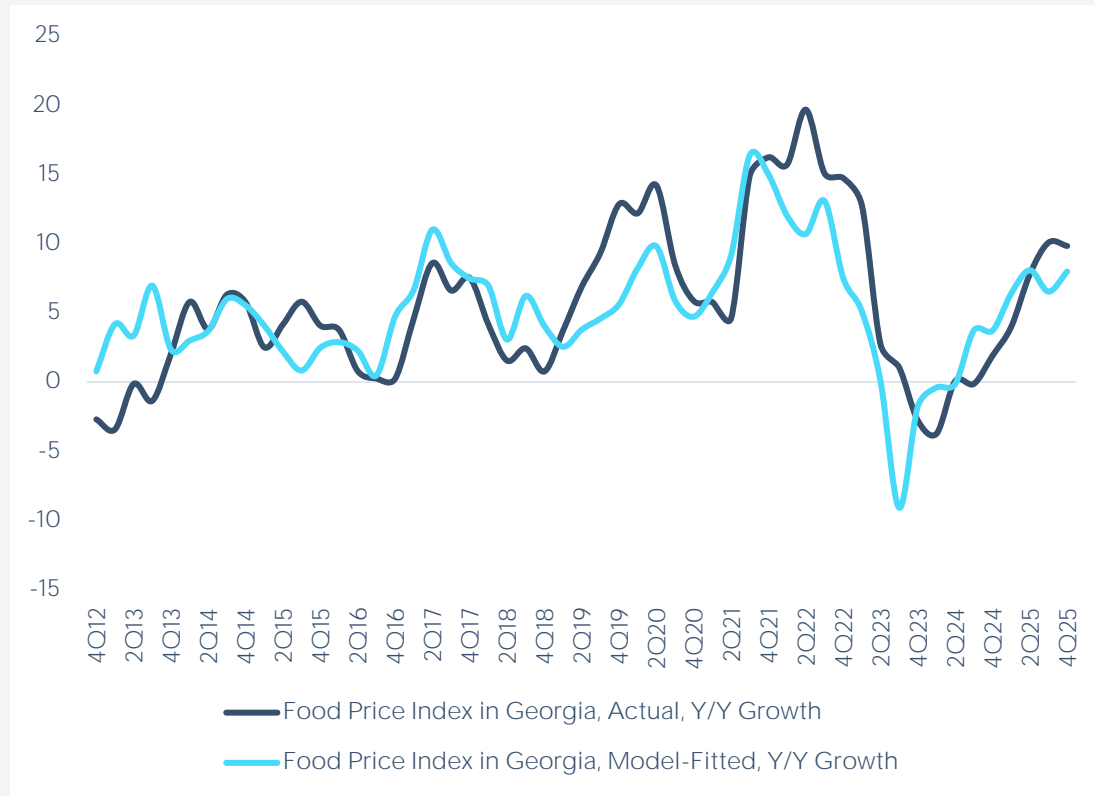
2025 AVERAGE INFLATION BY PRODUCT ORIGIN (Percentage Point, Contribution)



PETROL AND, TO A LESSEr EXTENT, FOOD INFLATION LARGELY ALIGNED WITH GLOBAL TRENDS

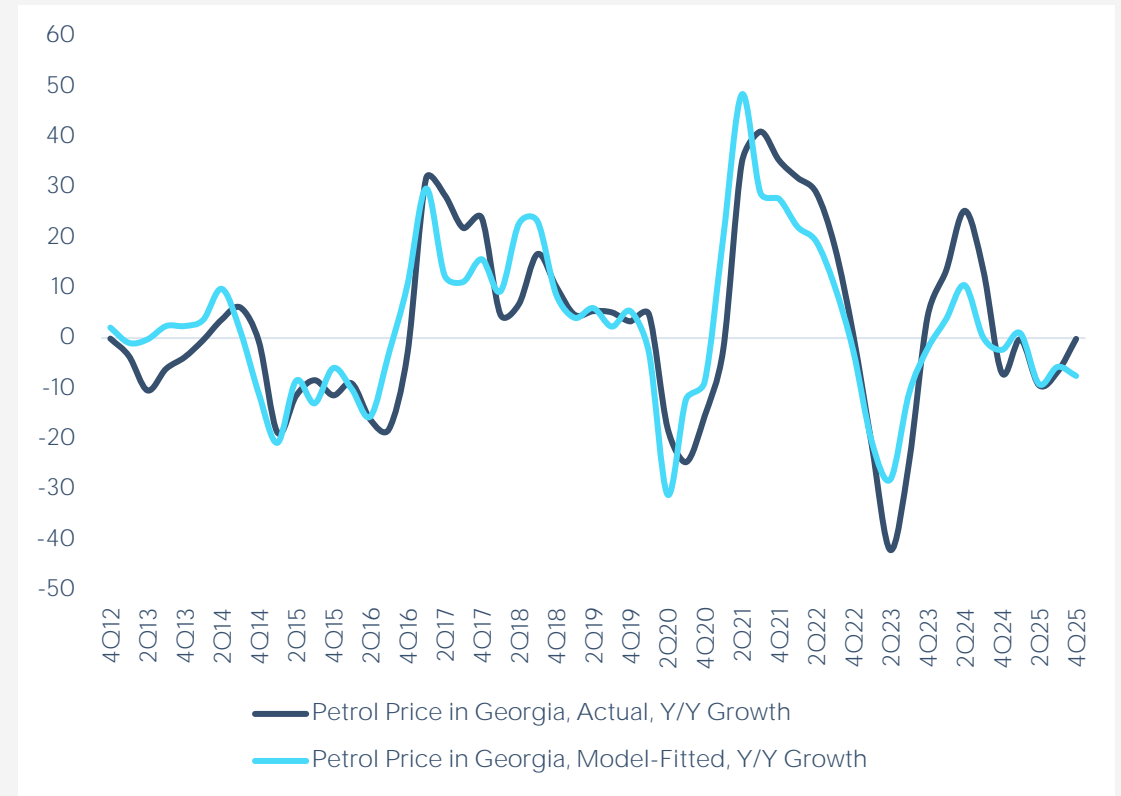
The upswing in food inflation in 2025 reflects both global and domestic dynamics, including rising global prices and a relatively poor local harvest. Although the majority of food products in the consumer basket are classified as domestically produced, many, by virtue of incorporating a sizeable amount of imported inputs, are closer to mixed rather than purely domestic. Fitting domestic food prices as a function of world prices and the exchange rate, the two variables, within a **quarter's** lag, explain over 50% of overall domestic food inflation. Naturally, the passthrough for individual food products is higher, and, of course, is even more pronounced for purely imported products, such as petrol, for which the world price and the exchange rate explain c. 75% of inflation within the same quarter. Overall, we find that the common driver behind Georgia's and the wider region's inflation rates [explains c. 75% of the total variance in Georgia's inflation](#) in the past ten years, highlighting the importance of exogenous factors.

FOOD INFLATION IN GEORGIA, ACTUAL VS MODEL-FITTED* (%)



*Food inflation in Georgia as a function of global food prices (FAO) index and the USD/GEL exchange rate.

PETROL INFLATION IN GEORGIA, ACTUAL VS MODEL-FITTED* (%)

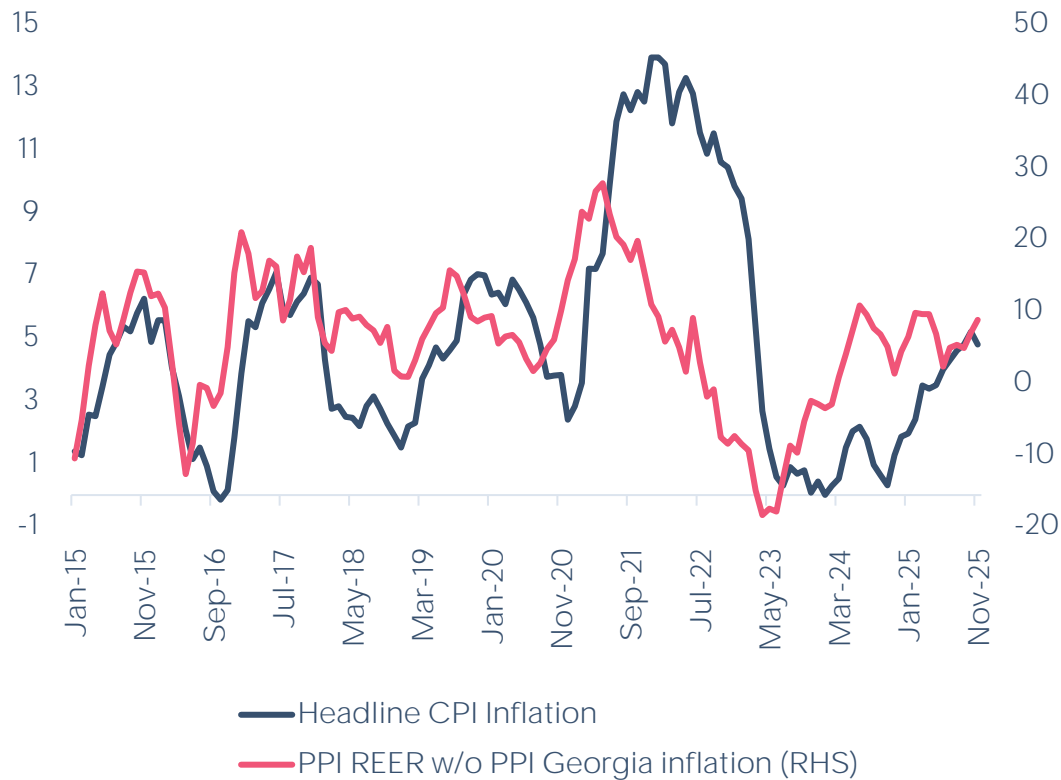


*Petrol inflation in Georgia as a function of global Brent crude oil prices and the USD/GEL exchange rate.

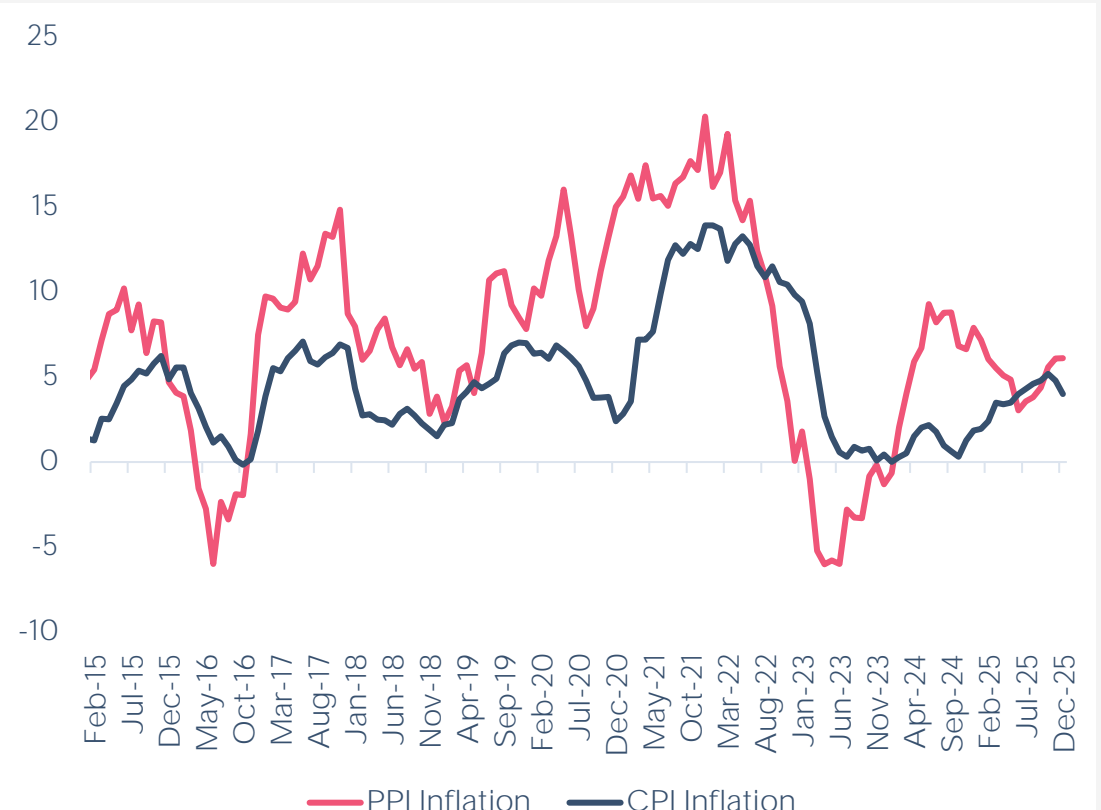
PERSISTENT GEL UNDERVALUATION CARRIES INFLATIONARY RISKS

Recent dynamics of the PPI real effective exchange rate (REER), excluding domestic inflation, indicates that the combination of the GEL exchange rate and producer price dynamics in **Georgia's** trade partners has been resulting in higher inflationary pressures lately. This is particularly important as, [per our research](#), around 75% of total variance in **Georgia's** inflation is explained by a common regional – i.e. exogenous – factor. Persistent GEL undervaluation carries inflationary risks, as the GEL weighted average exchange rate is tightly linked with imported inflation. Should price pressures from this channel emerge – not our baseline scenario – we would expect the NBG to tilt towards GEL strengthening.

INFLATION (YoY, %) AND PPI REER EXCLUDING DOMESTIC INFLATION (YoY, %, increase means GEL depreciation)



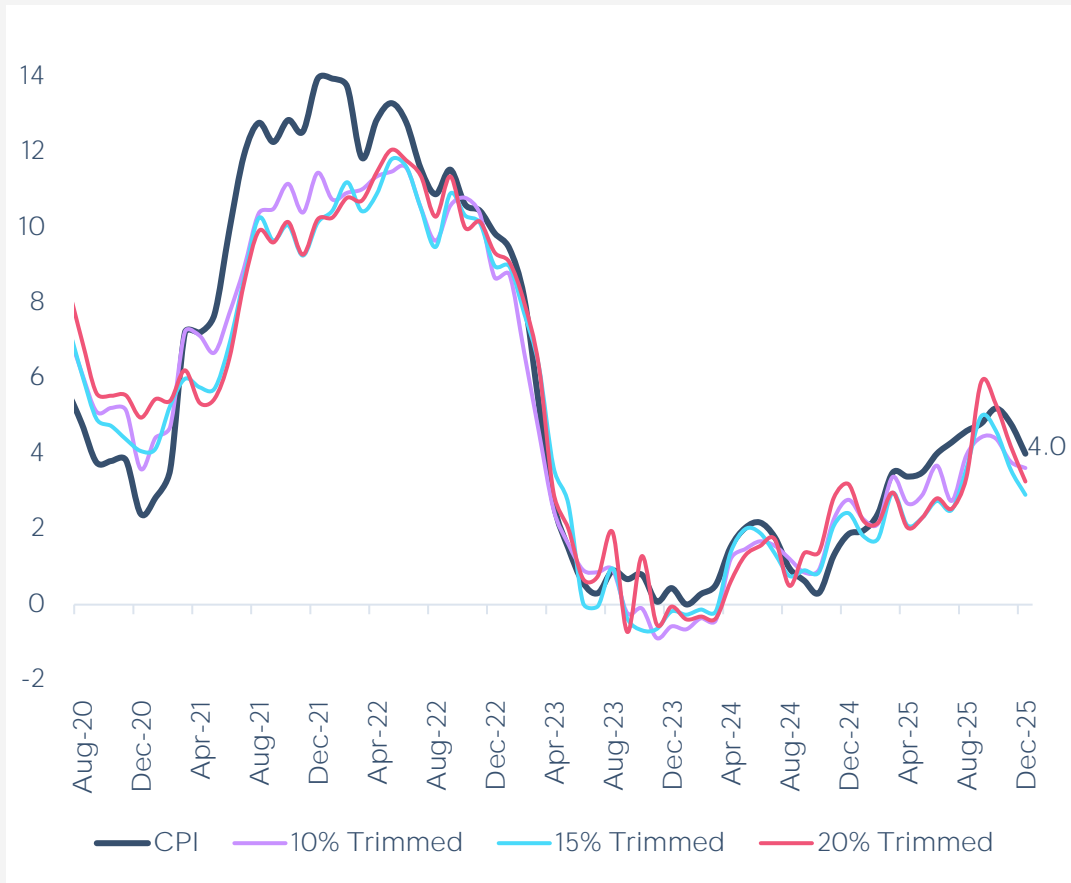
PPI AND CPI INFLATION (YoY, %)



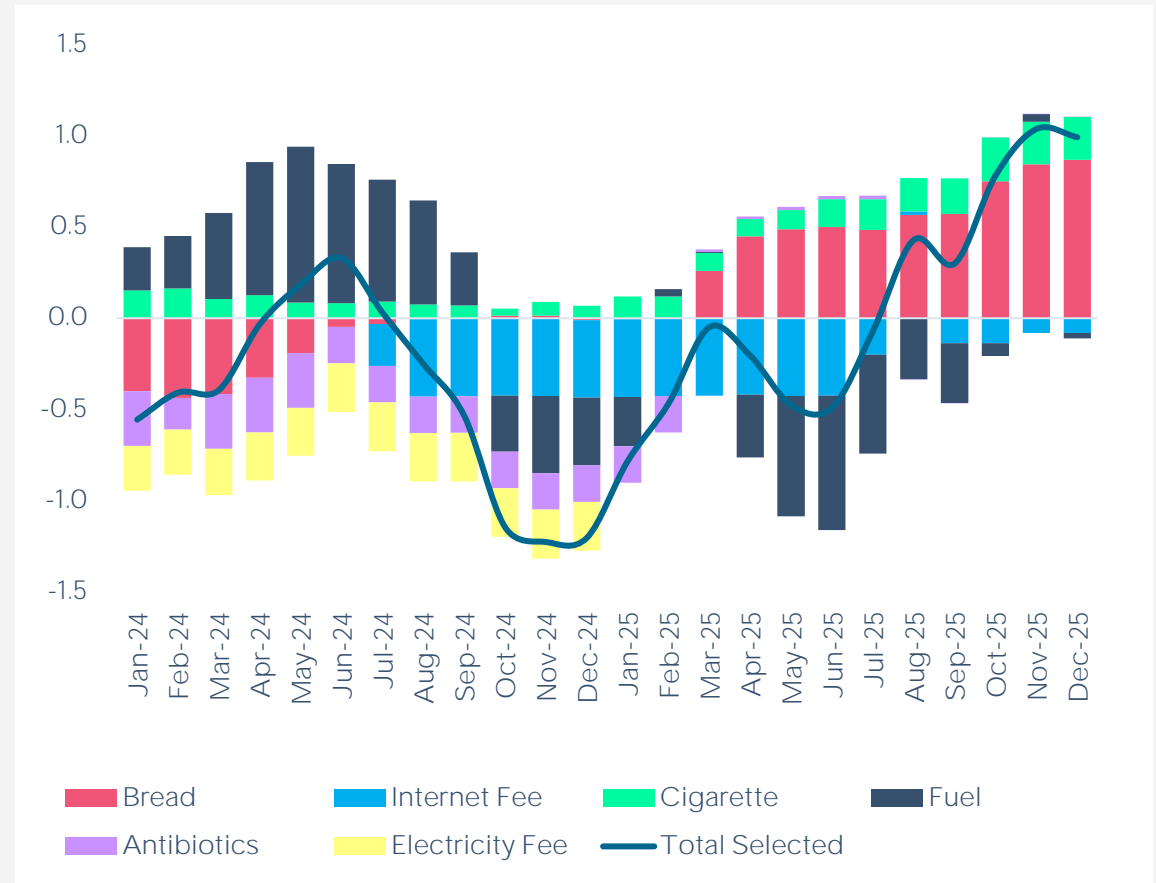
ONE-OFFS HAVE PLAYED A SIGNIFICANT ROLE IN INFLATION IN 2024-2025

One-offs have been playing a significant role in annual inflation over the past two years, with a range of one-time price shifts in products introducing base effects that lowered inflation in 2024 by as much as 1 percentage point at peak levels, and, conversely, boosted inflation by the same amount by the end of 2025. Subsequently, while trimmed inflation was higher than the headline in 2024, the opposite is true now in 2025. These effects are set to gradually expire in 2026, beginning from March, with inflation accordingly expected to decelerate.

TRIMMED HEADLINE CPI INFLATION (YoY, %)



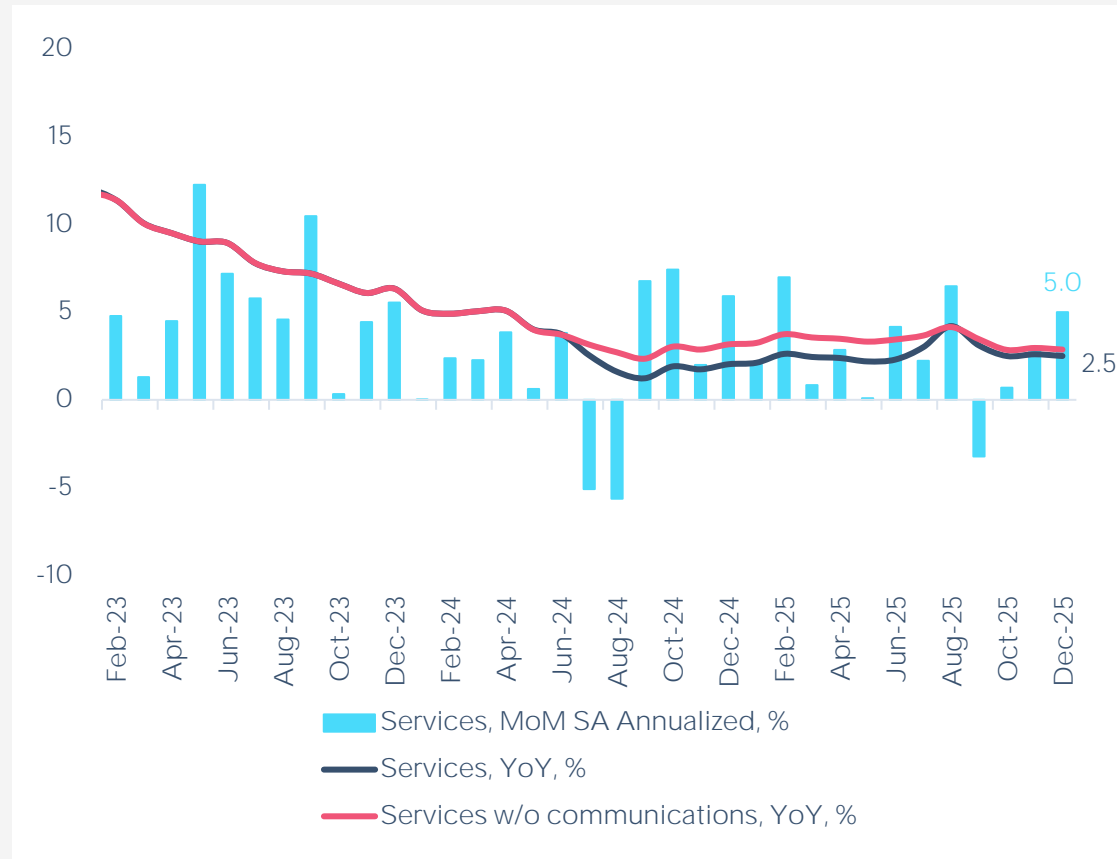
CONTRIBUTION OF SELECTED PRODUCTS AND SERVICES IN ANNUAL INFLATION (PP)



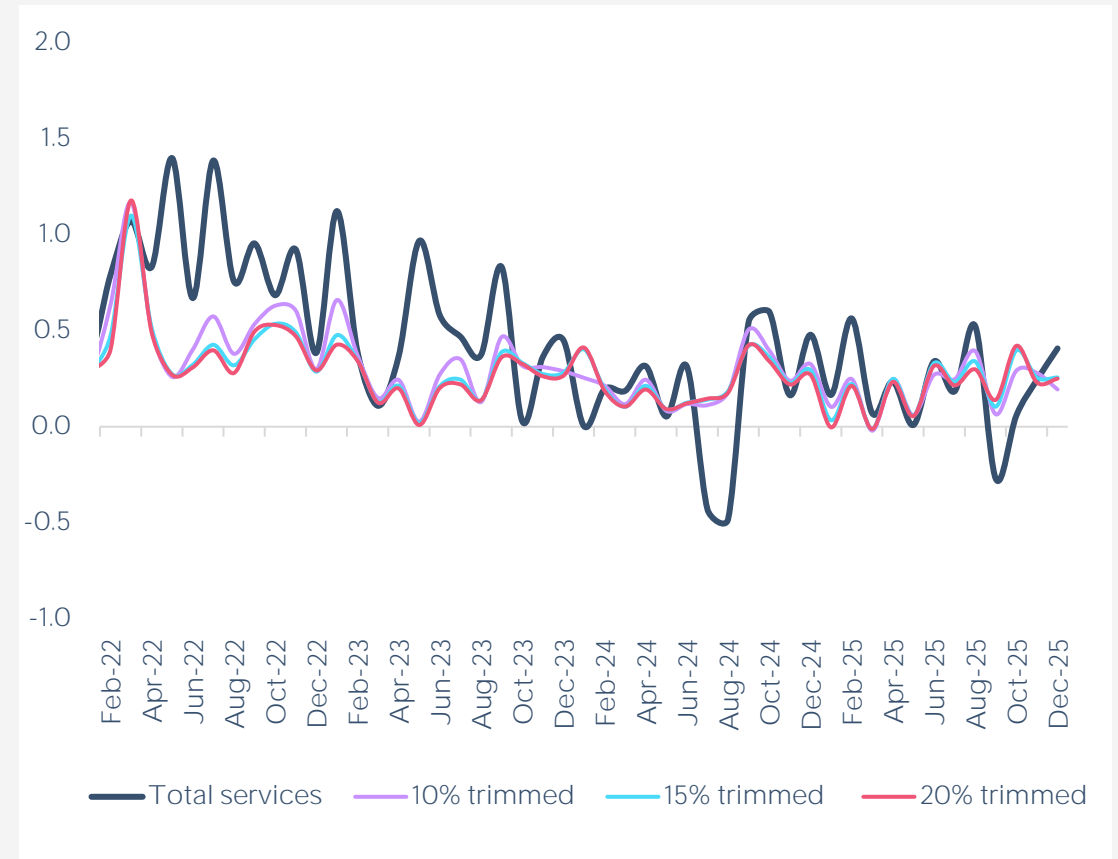
SERVICE INFLATION REMAINS WEAK, AIDED BY ONE-OFFS

Service inflation, which we consider the most accurate measure of underlying pressures due to its stronger persistence and a low import component, made up 2.5% annually in December, lower than the target, though strengthened on a monthly basis. Weak service inflation has been significantly aided by one-offs, particularly the internet fee, the impact of which was evident both in 2024 and 2025. Trimmed seasonally adjusted monthly service inflation has been relatively stickier throughout 2025, indicating that base effects continue to play a sizeable role on both sides.

ANNUALIZED MONTHLY SEASONALLY ADJUSTED INFLATION (%)



TRIMMED MONTHLY SEASONALLY ADJUSTED INFLATION (%)





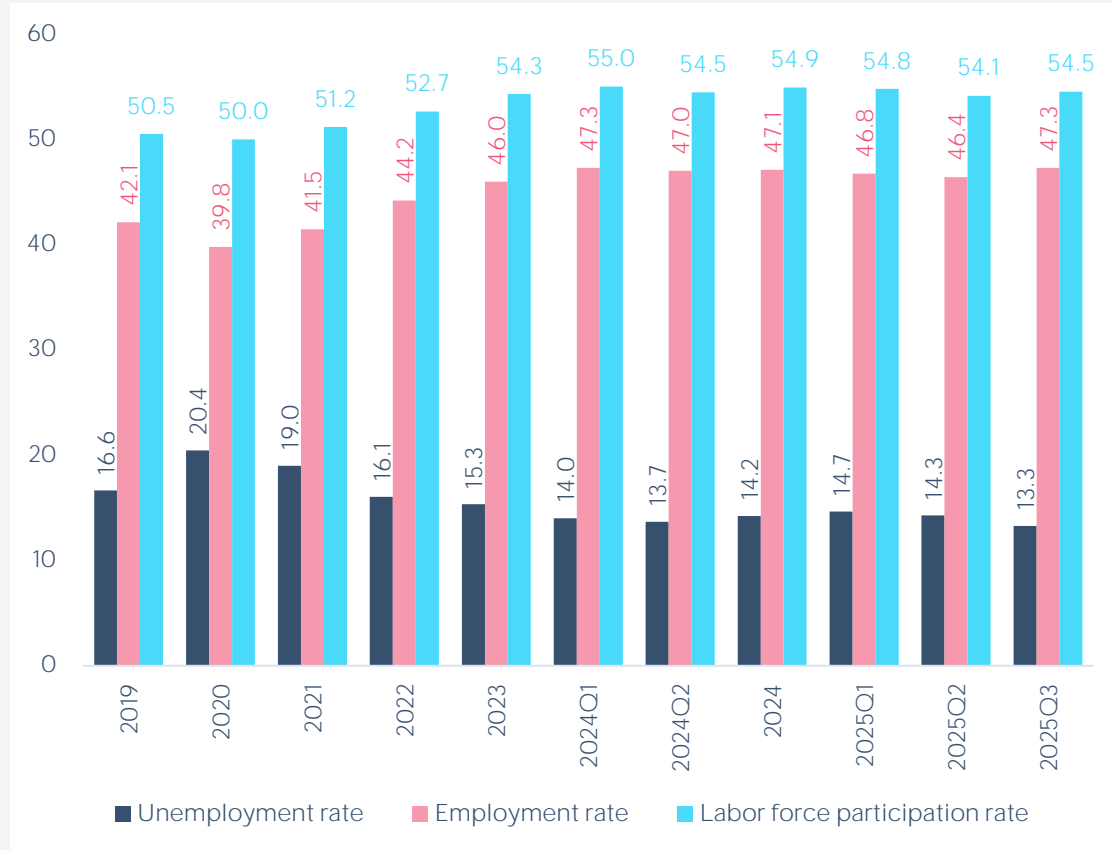
LABOUR MARKET

- The labour market looks to have peaked in early 2024, due to a likely temporary surge in the number of self-employed, and has been gradually weakening since;
- As opposed to employment, wage growth remained robust in 2025;
- At the same time, while 2025 statistics are not available yet, growth of median wage in Georgia lagged behind average wages in 2024, pointing that wage growth has been primarily driven by higher salary brackets;
- Inflationary pressures from the labour market do not appear strong, despite a continued rise in wages;
- In particular, the growth rate of nominal unit labour costs has remained close to or below 3% since 2Q24, while real unit labour costs have, in fact, declined in 2025;
- Real unit labour costs – in our view, best suited for assessing future inflationary pressures from the labour market – now stand close to 2019 levels. Therefore, a further sustained increase in real wages would be necessary to generate pressures from this channel.

LABOUR MARKET LOOKS WEAKER IN 2025

The labour market looks to have peaked in early 2024, due to a likely temporary surge in the number of self-employed, and has been gradually weakening since. Though employment indicators worsened in the first half of the year, the unemployment rate fell to a historically low 13.3% in the third quarter of 2025, while labour force participation and employment rates slightly went up. However, a closer look into the data reveals that these dynamics reflect a lower estimated labour force in the country, as the number of employed people actually decreased in all three quarters of 2025 compared to the previous year.

LABOR FORCE INDICATORS (%)



NUMBER OF EMPLOYED (Index, SA, 2019Q4 = 100)

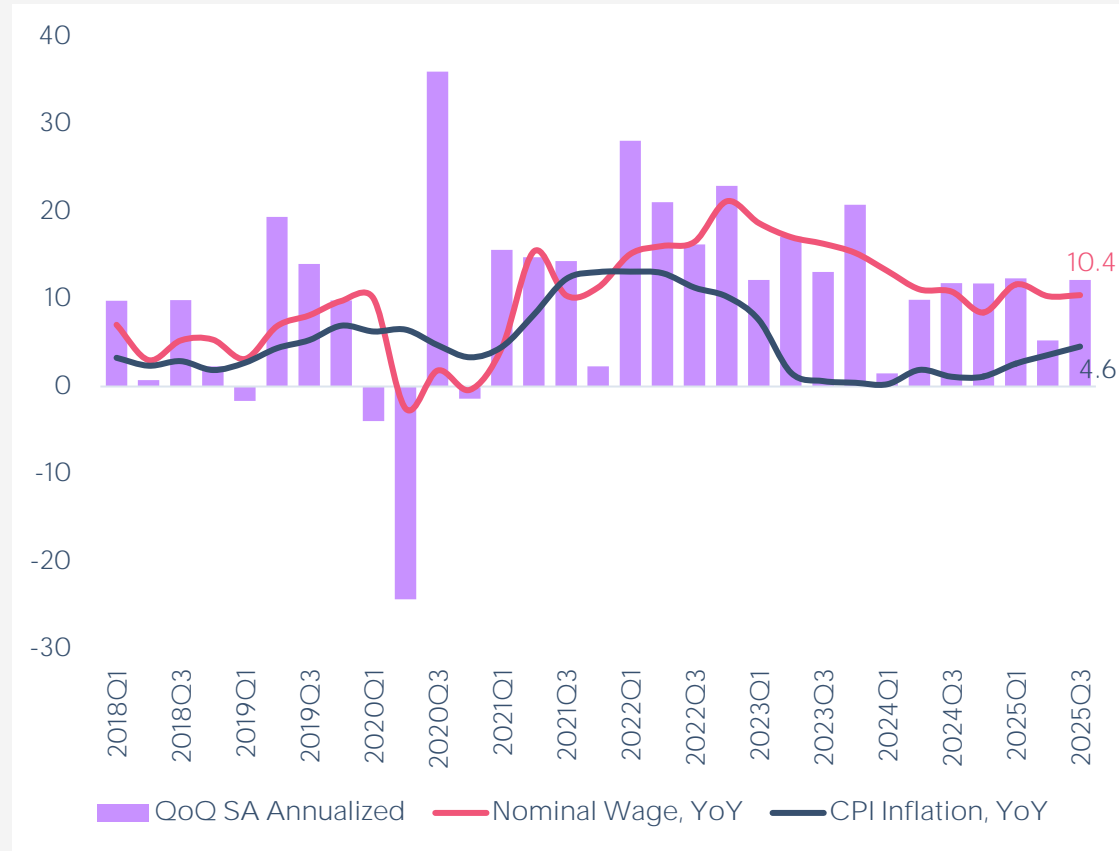


Note: employment data only partially includes migration effect

WAGE GROWTH BROADLY STABLE IN 2025

As opposed to employment, wage growth remained robust in 2025, despite observed weakening in the second quarter that recovered to around annualized 12% level in the third quarter, keeping the average wage annual growth around 10%. At the same time, while 2025 statistics are not available yet, growth of median wage in Georgia lagged behind average wages in 2024, pointing that wage growth has been primarily driven by higher salary brackets.

WAGE GROWTH AND INFLATION (%)



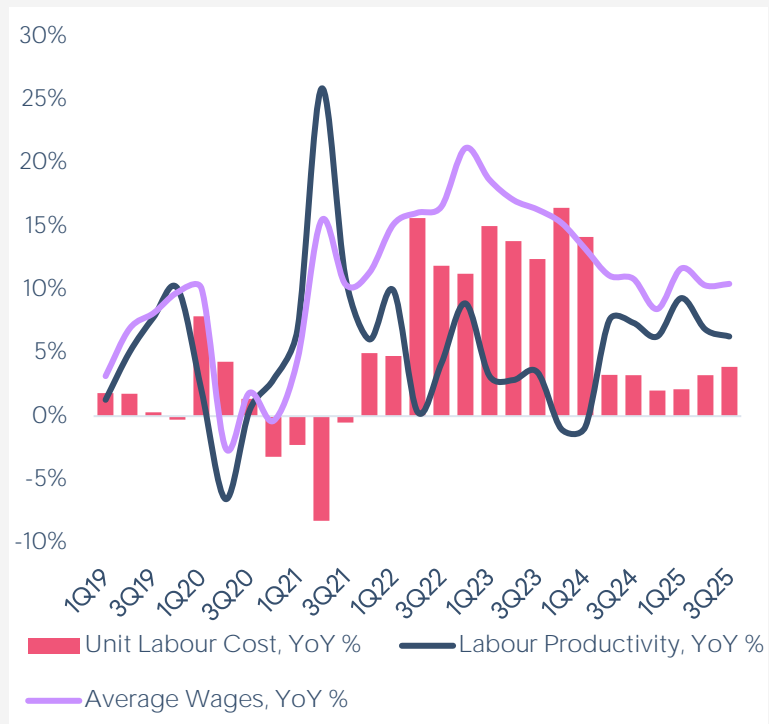
MEDIAN AND AVERAGE WAGE



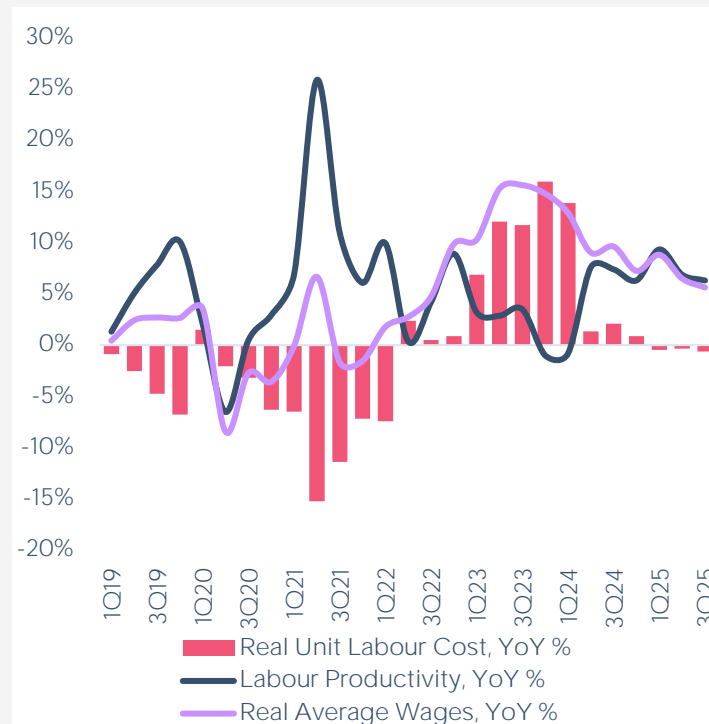
NO PRESSURE ON INFLATION FROM THE LABOUR MARKET

Inflationary pressures from the labour market do not appear strong, despite a continued rise in wages. Unit labour costs (ULC), measuring wage growth in excess of productivity (real output per hired worker), have been increasing relatively more slowly since the second quarter of 2024, as wage growth has moderated and productivity has accelerated. In general, we'd argue that, holding all other things constant, ULC growth even somewhat above the 3% target would not imply inflationary pressures, due to the Balassa-Samuelson hypothesis. At the same time, real ULC, contrasting productivity with real – rather than nominal – wages, indicate declining ULC in 2025. This is of particular importance, because, in our view, what matters for assessing future inflationary pressures is real, not nominal ULC. In other words, wages need to be adjusted for both productivity gains and past price increases before providing an indication about the direction of impact on future prices. While real wages have kept rising since 2022, they have only just overtaken productivity gains. Therefore, real ULC now stand close to 2019 levels, a far cry from the substantial increase in nominal terms. A further sustained increase in real wages would be necessary to generate inflation pressures from this channel.

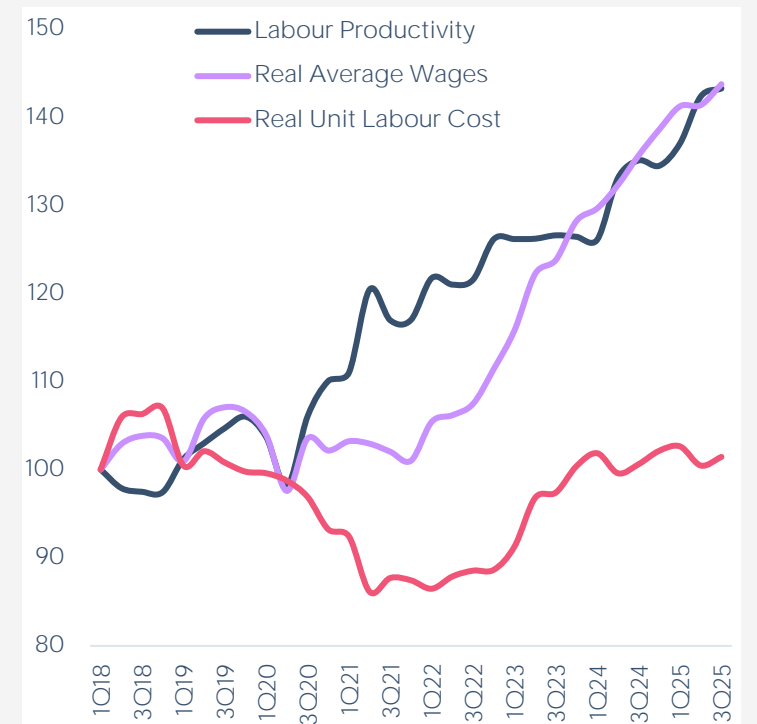
UNIT LABOUR COST, NOMINAL (YoY Change, %)



UNIT LABOUR COST, REAL (YoY Change, %)



UNIT LABOUR COST, INDICES (1Q18 = 100, SA)





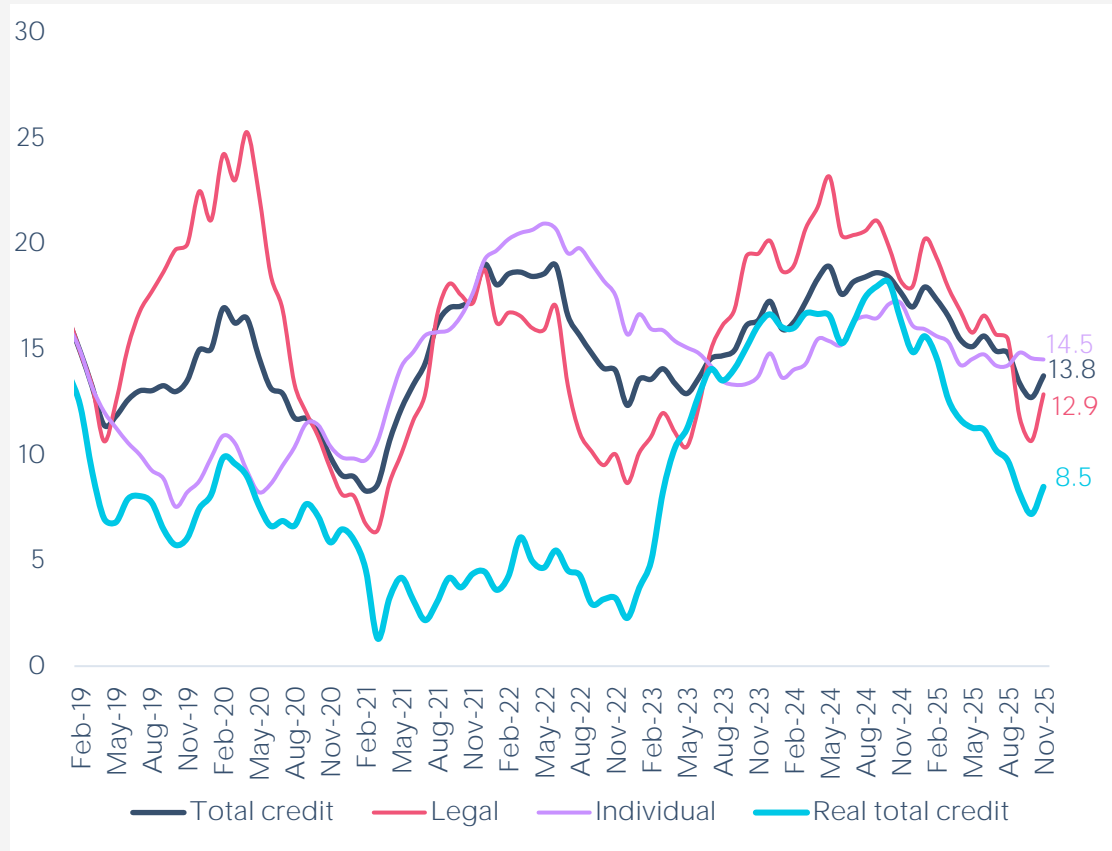
CREDIT

- Annual credit growth has been moderating throughout 2025, largely driven by deceleration in the legal segment;
- Consequently, real credit growth, one of the primary drivers of economic growth – particularly recently, in light of the growing contribution of consumption – has also slowed down, though remains higher as compared to recent years;
- At the same time, the decline in retail credit annual growth is largely caused by last year's base effects, as credit has, in fact, accelerated on a monthly basis;
- Stronger retail credit growth in the second half of 2025 has been due to acceleration in mortgage credit;
- The same can't be said about legal entities, for which growth has decelerated in both annual and monthly terms;
- We project annual credit growth to stand at 12.0% by the end of 2026.

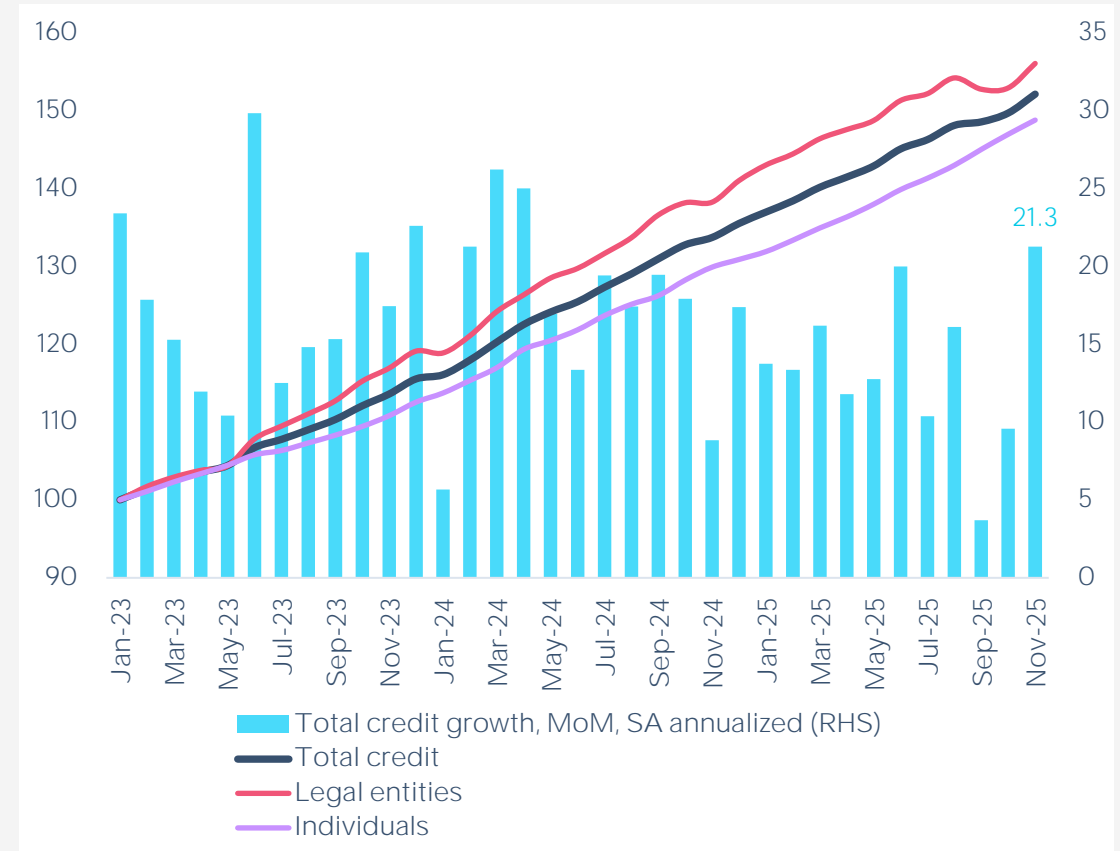
CREDIT GROWTH HAS MODERATED IN 2025

Annual credit growth has been moderating throughout 2025, largely driven by deceleration in the legal segment. Consequently, real credit growth, one of the primary drivers of economic growth – particularly recently, in light of the growing contribution of consumption – has also slowed down, though remains higher as compared to recent years. Against this background, credit growth strengthened notably in November, making it the strongest month of the year. We project annual credit growth to stand at 12% by the end of 2026.

CREDIT GROWTH BY SEGMENTS AND REAL CREDIT GROWTH (YoY, FX-adjusted, %)



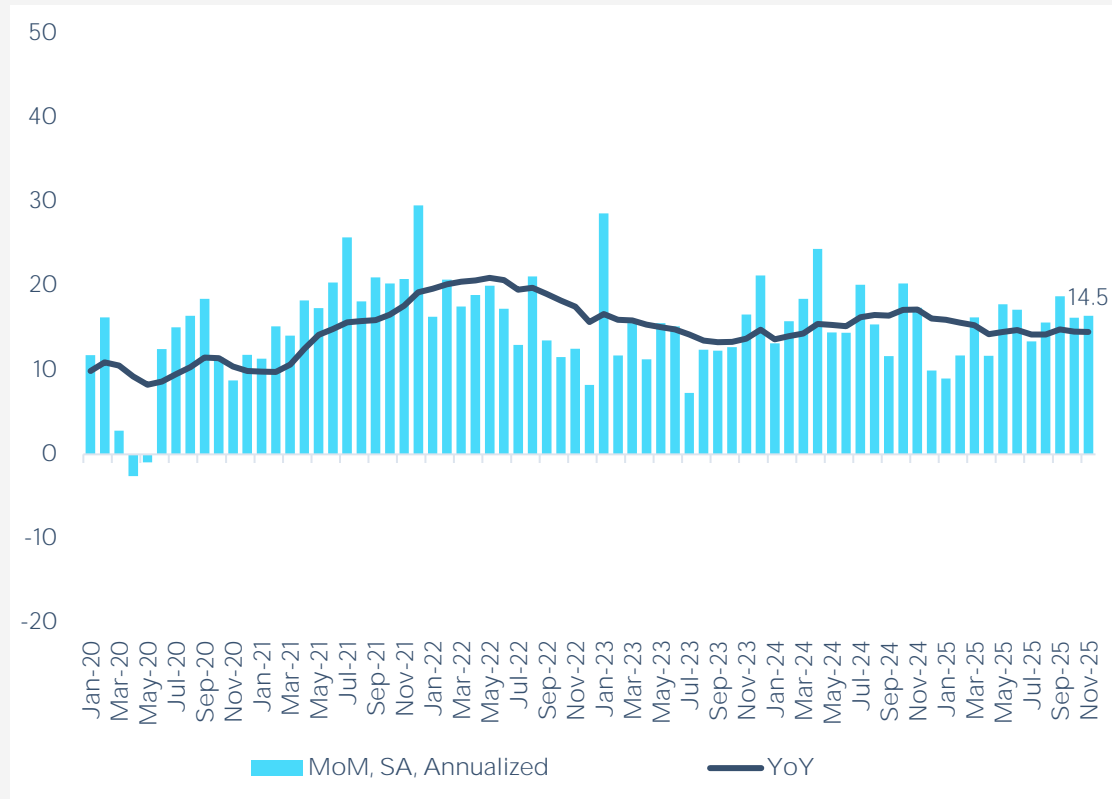
CREDIT VOLUMES (Index, Seasonally Adjusted, Jan-23 = 100) AND MONTHLY ANNUALIZED GROWTH (%)



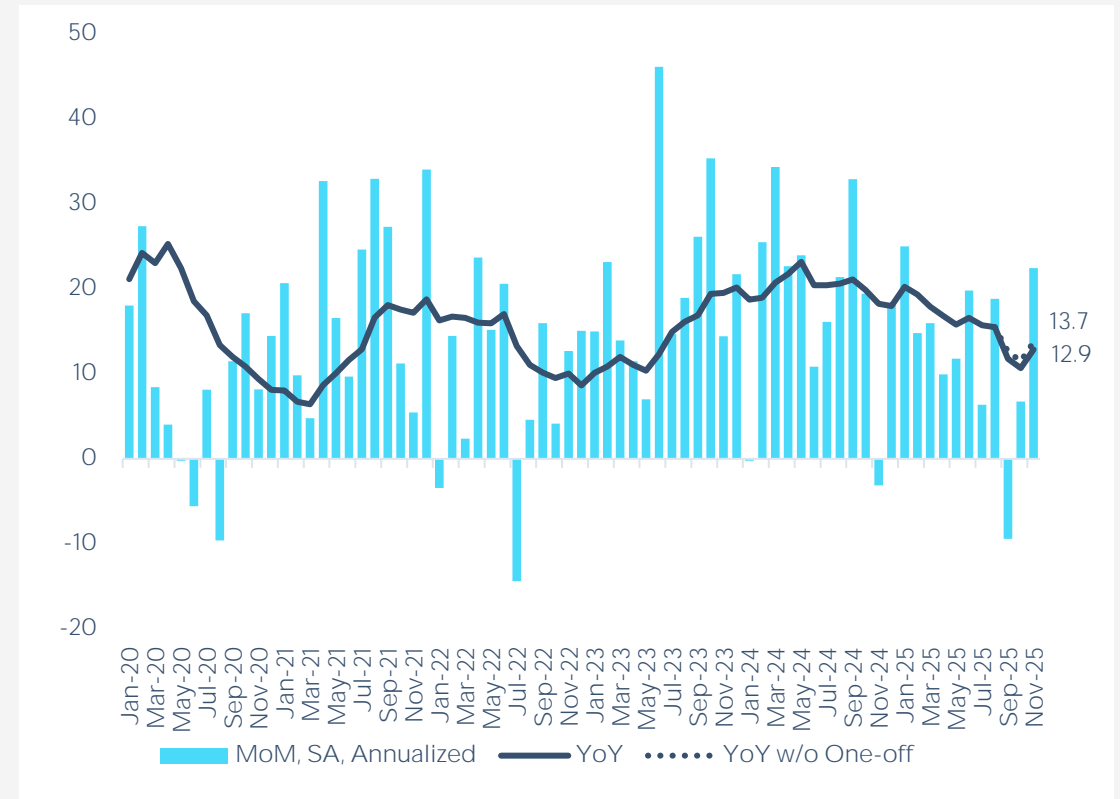
RETAIL CREDIT HAS BEEN PICKING UP ON A MONTHLY BASIS IN 2H25

Annual growth in retail credit has averaged 14.5% in the second half of 2025, as compared to 15.1% in January-June. However, in the same period, seasonally adjusted and annualized monthly growth has expanded to 16.1% from 14% in 1H25. Therefore, the decline in annual growth is largely caused by last year's base effects, as credit has, in fact, accelerated on a monthly basis. The same can't be said about legal entities, for which annual growth has slowed down from 17.8% to 13.3%, while seasonally adjusted annualized monthly growth has shrunk from 16.2% to 9%. At the same time, we note that a single transaction in Sep-25 related to repaying loans through bond issuance proceeds had an outsized impact on the credit portfolio for legal entities. Excluding this one-off, the annual growth rate would have been c. 0.8 percentage points higher, though the broad picture remains unchanged.

RETAIL CREDIT GROWTH, Annual vs Monthly Annualized (FX-adjusted, %)



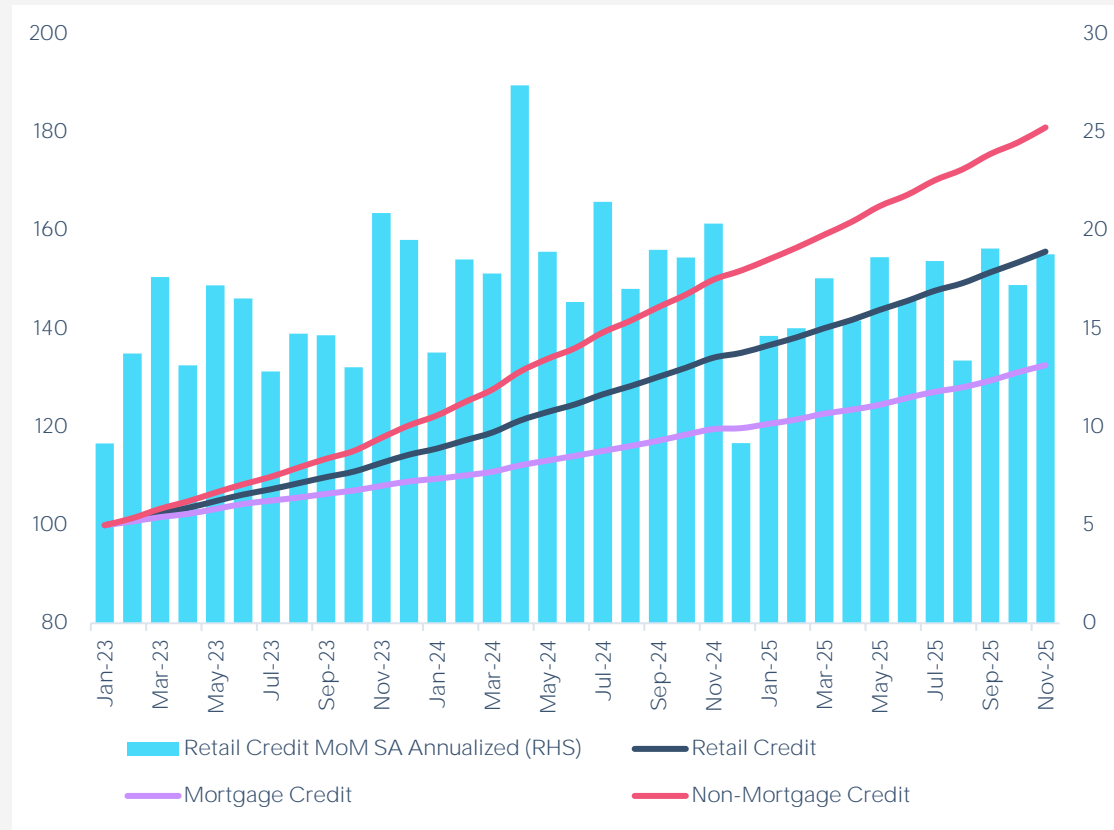
LEGAL ENTITIES CREDIT GROWTH, Annual vs Monthly Annualized (FX-adjusted, %)



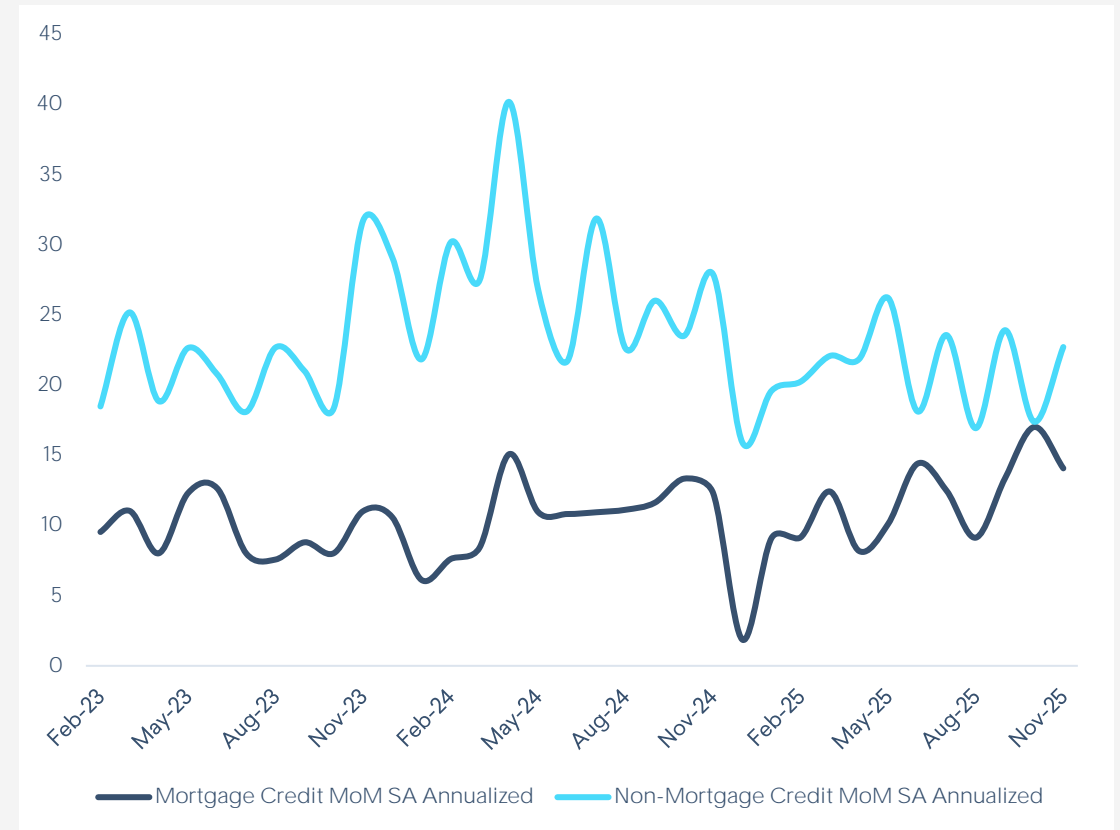
MORTGAGE CREDIT BEHIND ACCELERATION IN RETAIL CREDIT GROWTH

Stronger retail credit growth in the second half of 2025 has been caused by acceleration in mortgage credit, with seasonally adjusted annualized monthly growth averaging 13.2% in July-November 2025, as opposed to 10.6% in the first half of the year. Meanwhile, non-mortgage credit growth has been largely flat, totaling 20.9% in July-November compared to 21.4% in 1H25.

RETAIL CREDIT VOLUMES (Index, Seasonally Adjusted, Jan-23 = 100) AND MONTHLY ANNUALIZED GROWTH (%)



MORTGAGE AND NON-MORTGAGE CREDIT, Seasonally Adjusted and Annualized Monthly Growth (%)





OPTIMAL FUNDING CURRENCY STRUCTURE

- The TBC Capital optimal funding currency structure aims to illustrate how businesses, banks, and financial institutions can better manage risks and opportunities in multicurrency economies, as well as to integrate macroeconomic analysis within the strategic business decision-making process;
- The big idea – focus mostly on the medium-to-long term indicators, rather than short term volatile sentiments, though certainly consider the latter;
- Notably, incorporating recommendations from only the last step of the framework – currency misalignment estimates – which was first published back in 2019, the Georgian corporate sector would have accrued a substantial gain of GEL 6 billion over the last five years;
- Our latest recommendation – based on the analysis of the implications of the recent surge in gold prices for the EUR-USD outlook on the one hand, and estimating GEL misalignment on the other hand – is to a) borrow relatively more in the USD, even if to a lesser extent due to smaller EUR misalignment, and b) risk appetite permitting, consider increasing the FX share in borrowing;
- Of course, the framework is applicable for small and medium enterprises as well as for individuals and, also, from an investment perspective, although, naturally, at the very least, different forms of communication are required in these instances.

OPTIMAL FUNDING CURRENCY STRUCTURE – TBC CAPITAL DECISION-MAKING FRAMEWORK

The TBC Capital optimal funding currency structure aims to illustrate how businesses, banks, and financial institutions can better manage risks and opportunities in multicurrency economies, as well as to integrate macroeconomic analysis within the strategic business decision-making process. In this regard, we have published the detailed framework tailored for the [residential real estate sector](#), as well as more generally within [multicurrency economies](#). In particular, drawing on global case studies from the Caucasus, Central Asia, Eastern Europe, Latin America, and Africa, a new framework for hedging strategies tailored to industry-specific realities is presented per the following step-by-step approach:

1. What would be the optimal liability FX funding composition for the firm to be hedged?

Being hedged implies exchange rate(s) movements having no material impact on a company's key financial metrics, such as:

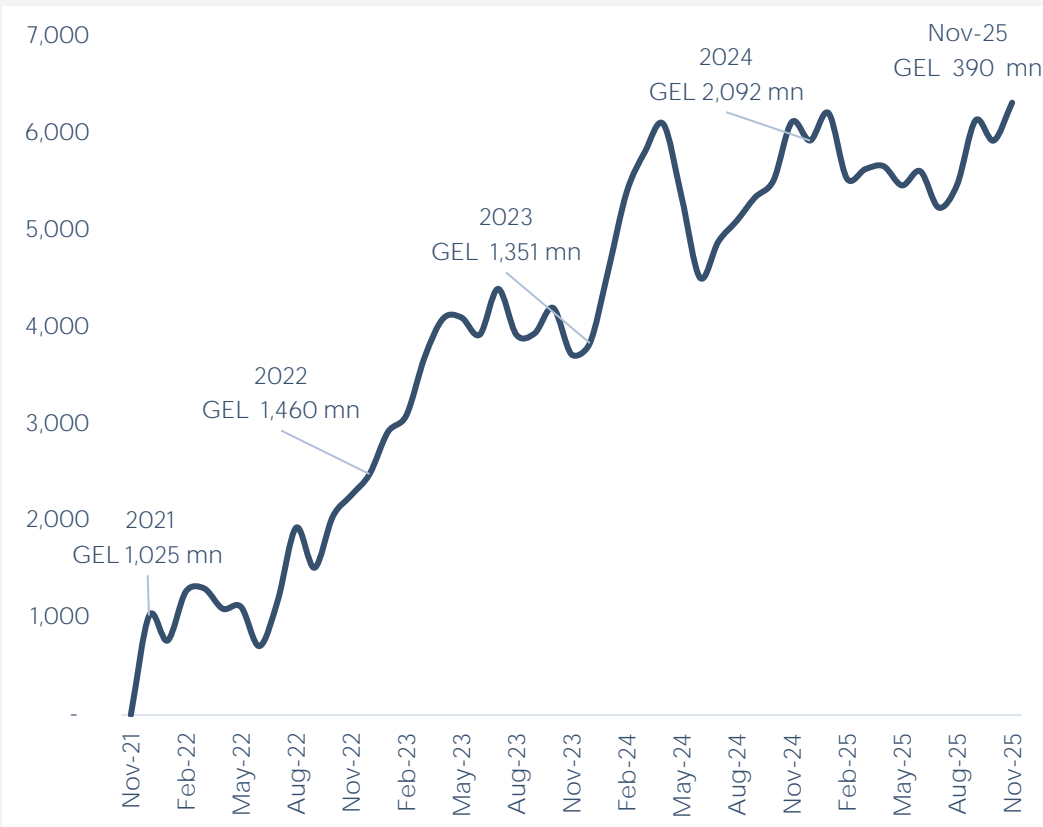
- Debt-to-EBITDA, IRR, assets-to-liabilities, etc.

2. Business cyclicity, price elasticity of sales
3. Expenditure – interest rates, currency conversions
4. Currency deviation/variation from equilibrium, or how to apply exchange rate projections

VAST POTENTIAL GAINS FROM THE OPTIMAL GEL/EUR/USD STRATEGY

According to our estimates, on the example of the business sector, applying the TBC capital [GEL/EUR/USD framework](#) would have yielded GEL 6 bn in gains since 2021, as compared to the total corporate loan stock of GEL 24.6 billion-equivalent as of Nov-25, possible not because of borrowing less, but thanks to optimal currency rebalancing of the loan portfolio based on our medium-to-long run equilibrium estimates of USD/GEL and EUR/USD. Of course, the framework is applicable for small and medium enterprises as well as for individuals and, also, from an investment perspective, although, naturally, at the very least, different forms of communication are required in these instances.

CUMULATIVE POTENTIAL GAIN IN THE GEORGIAN CORPORATE SECTOR, Recommended vs Actual Portfolio (GEL mn)

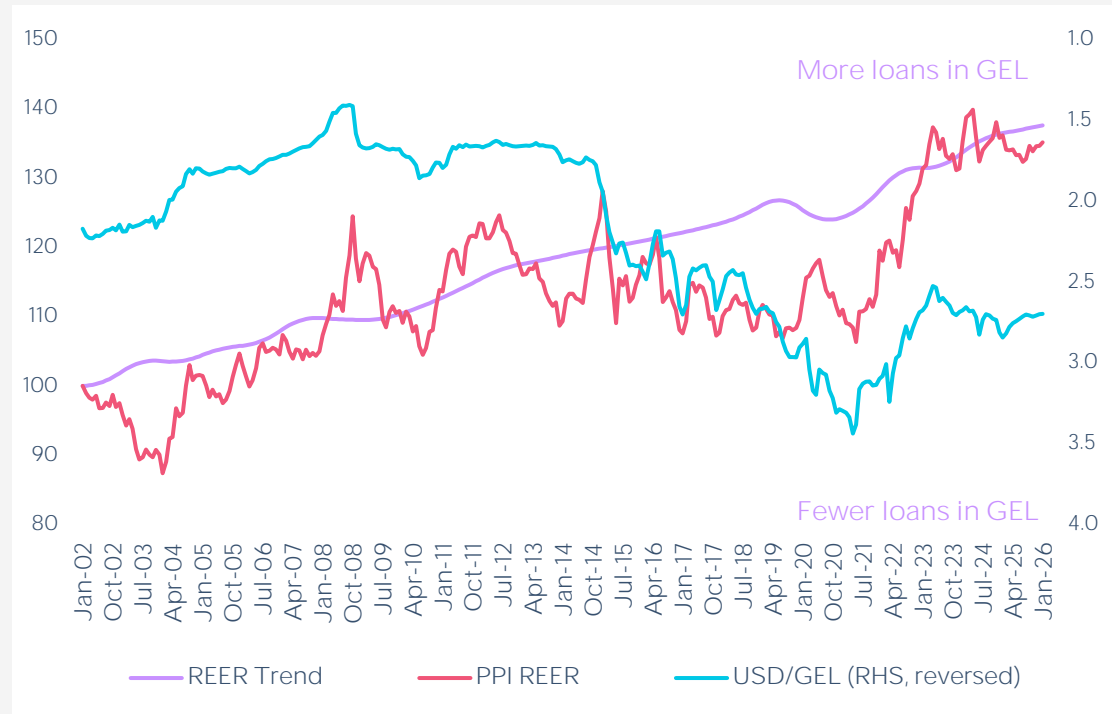


- Within our framework, when calculating the GEL 6 bn potential gain since 2021, we assume only reasonable adjustments to the GEL/EUR/USD weights;
- That is, if a company is hedged with, say, a 30% foreign currency loan, even if the GEL is highly undervalued compared to its equilibrium estimate, the framework does not imply fully switching to foreign currency loans, but rather a relative increase in the FX share;
- Moreover, when calculating the gain, we consider existing trends on the market regarding larization and only real-time information at any given moment, so as to ensure that the estimates are practical and closely aligned with real-life market conditions;
- In case of more aggressive fine-tuning of the currency structure, the potential gains would be much greater.

SOURCE OF THE GAIN – COMBINING SHORT- AND MEDIUM-TERM DRIVERS

The idea behind the optimal funding structure is simple – when the exchange rate is overvalued, it is optimal to borrow more in the stronger currency, as the probability for it to depreciate is higher, and vice versa. For the GEL, we estimate the real effective exchange rate (REER) trend, based on the Balassa-Samuelson hypothesis, postulating that real exchange rates in countries with relatively higher productivity compared to their trading partners tend to appreciate over time. The REER deviation from its trend represents the degree of misalignment. For EUR/USD we adjust the purchasing power parity (PPP) estimate with respect to the productivity differential and fiscal deficits (by extension, public debt). The step-by-step process of choosing between the EUR and the USD is explained in detail [here](#). Furthermore, we incorporate a range of short-run measures in order to account for near-term divergence, such as the short-run equilibrium USD/GEL estimate, yield differentials, terms of trade, net speculative positions, inflation differential, etc.

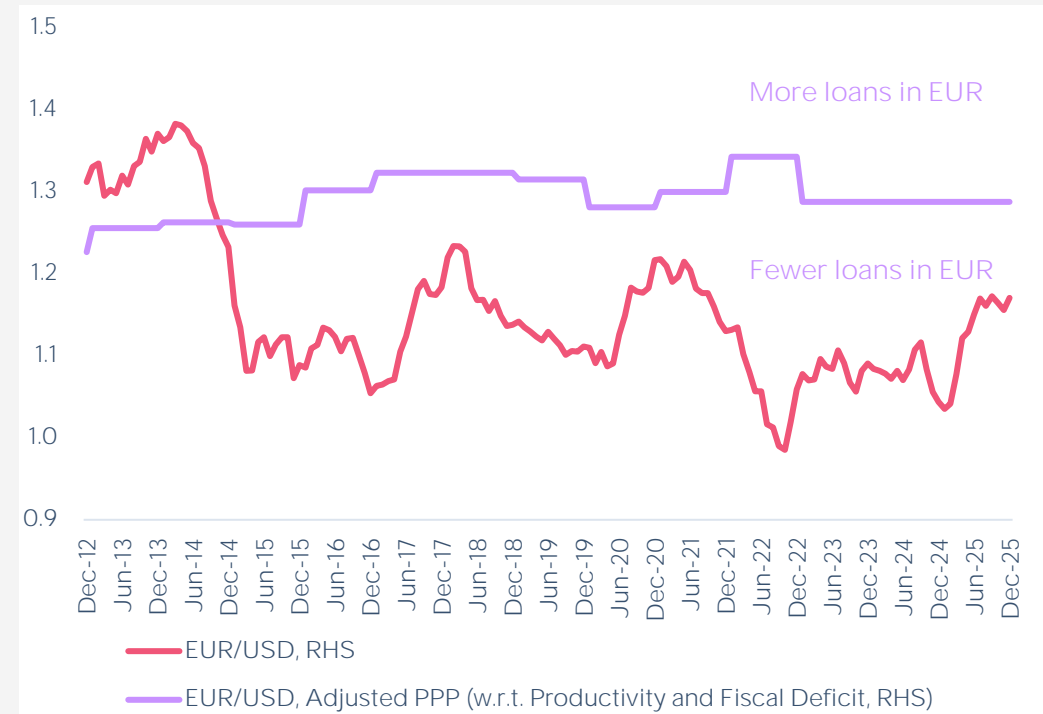
THE GEL REER AND ITS ESTIMATED LONG-RUN TREND
(as of 20-Jan-26, increase means GEL appreciation)



Note: The 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: Geostat, NBG, Bloomberg, TBC Capital

EUR/USD, ACTUAL VS EQUILIBRIUM ESTIMATE*



*The PPP exchange rate is adjusted with the productivity differential, defined here as real GDP (constant PPP dollars) per hour worked, per the Balassa-Samuelson theory, [explained here by the Czech National Bank](#). The derived exchange rate is then adjusted with the fiscal balance (general government net lending/borrowing) differential, in order to account for debt-driven GDP growth, with cumulative long-run multipliers of 1.2 and 1.6 for the Euro Area and USA respectively, based on estimates of IMF and the Richmond FED.

INTEGRATING MACRO AND BUSINESS DECISIONS IN PRACTICE

We have demonstrated how to translate macro insights into strategic business decisions, regularly exploring and following up on the impact of both local and global major macroeconomic developments on the optimal GEL/EUR/USD strategy.





BASELINE SCENARIO FORECASTS

BASELINE SCENARIO – KEY MACRO VARIABLES

| | 2021 | 2022 | 2023 | 2024 | 2025F | 2026F |
|-----------------------------------|-------|------|------|------|-------|-------|
| GDP Growth, YoY, % | 10.6 | 11.0 | 7.8 | 9.7 | 7.4 | 4.5 |
| GDP, current USD, USD billion | 18.9 | 25.0 | 30.8 | 34.2 | 38.0 | 40.7 |
| Inflation (EOP), YoY, % | 13.9 | 9.8 | 0.4 | 1.9 | 4.0 | 3.5 |
| Monetary Policy Rate (EOP), % | 10.5 | 11.0 | 9.5 | 8.0 | 8.0 | 7.5 |
| Current account Balance, % of GDP | -10.3 | -4.4 | -5.5 | -5.4 | -2.7 | -4.5 |
| Budget Balance, % of GDP | -6.0 | -3.0 | -2.5 | -2.3 | -1.9 | -2.3 |
| Government Debt, % of GDP | 49.1 | 39.2 | 38.7 | 37.1 | 35.5 | 34.9 |
| EUR/USD (EOP) | 1.13 | 1.07 | 1.11 | 1.04 | 1.17 | 1.20 |
| USD/GEL (EOP) | 3.10 | 2.70 | 2.69 | 2.81 | 2.69 | 2.79 |
| EUR/GEL (EOP) | 3.50 | 2.88 | 2.98 | 2.93 | 3.16 | 3.35 |

BASELINE SCENARIO – TBC CAPITAL GROWTH MODEL

| YoY, % | 2021 Actual | 2022 Actual | 2023 Actual | 2024 Actual | 2025 Baseline | 2026 Baseline |
|-----------------------------------|-------------|-------------|-------------|-------------|---------------|---------------|
| EXPORTS* | +26.5 | +31.8 | +9.1 | +7.7 | +11.2 | +6.5 |
| TOURISM (incl. migration impact)* | +129.8 | +209.2 | +23.1 | +9.8 | +5.3 | +3.6 |
| TOURISM (excl. migration impact)* | | +136.9 | +26.9 | +17.5 | +6.0 | +6.6 |
| TOURISM (migration impact)* | | | +12.7 | -0.5 | 0.0 | -9.0 |
| REMITTANCES* | +27.1 | +35.7 | +14.8 | +2.6 | +8.5 | +9.1 |
| FDI (incl. reinvested earnings)* | +42.7 | +67.5 | -24.0 | -29.9 | +1.7 | +10.0 |
| IMPORT OF GOODS AND SERVICES* | +24.4 | +39.9 | +13.7 | +1.3 | +5.3 | +4.1 |
| FISCAL DEFICIT** | 6.0 | 2.4 | 2.3 | 2.5 | 1.9 | 2.4 |
| BANK CREDIT*** | +18.3 | +12.4 | +17.0 | +16.9 | +14.7 | +12.0 |
| GDP GROWTH | +10.6% | +11.0% | +7.8% | +9.4% | +7.4% | +4.5% |

*Growth in USD;** Ratio to GDP, as planned by the MoF, IMF methodology ***Year-end

For GDP estimation inflation adjusted period credit growth is used. Also, the calculation is based on the estimation of inflows in real terms in GEL, not in USD. Moreover, various other assumptions are used in terms of the impact of key macroeconomic variables on economic growth

Legal Notice

This publication (the “Publication”) has been prepared and distributed by TBC Capital LLC (“TBC Capital”) member of TBC Bank Group PLC (“Group”) for informational purposes only and independently of the respective companies mentioned herein. Nothing in this Document shall constitute an offer or invitation to treat to solicit buying or selling any assets and/or securities and/or offering the approval/disbursement of loan facilities and nothing herein shall form the basis of any contract or commitment whatsoever or shall be considered as a recommendation to take any such actions. Since distribution of this Publication may be restricted by law in certain jurisdictions, persons into whose possession this Publication comes are required by TBC Capital to inform themselves about and to observe any and all restrictions applicable to them. As this Publication is not directed to or intended for distribution, directly or indirectly, to or use by any person or entity in any jurisdiction where such distribution, publication, availability or use would be contrary to the applicable law or which would require any registration or licensing within such jurisdiction, neither TBC Capital nor any member of the Group nor any of their respective director(s), partner(s), employee(s), affiliates, adviser(s) or agent(s) (“Representatives”) accept any direct or indirect liability to any person in relation to the publication, distribution, possession or usage of this Publication in or from any jurisdiction. This Document is neither intended to provide any investment, business, tax and/or legal advice, nor financial, tax, legal and/or any other type of due diligence. Each recipient of the document should be aware that in the event this research is used, TBC Capital is not responsible for the results associated with the use of the research, and it is recommended that each recipient conduct independent research and a detailed assessment regarding the issues discussed in the document. Any decision should be made under consideration and sole discretion of the recipient of this Document. Any and all data and/or information contained in this Document is obtained from the third party sources and TBC Capital disclaims any direct or indirect liability arising in connection with accuracy and/or completeness of information/data therein. Specifically, any financial data, projections, or models included in this Document are based on information provided by third parties. TBC Capital makes no representation or warranty, express or implied, as to their accuracy, completeness, or reasonableness. Therefore, this information should not be considered a definitive analysis or the basis for any decision. Such information may be subject to change independently from and without notice of TBC Capital, and neither TBC Capital nor any member of the Group nor any of their Representatives are under any obligation to update or keep information contained in this Document. Distribution of this Publication, at any time, does not imply that information herein is correct, accurate and/or complete as of any time after its preparation date or that there has been no change in business, financial condition, prospects, credit worthiness, status or affairs of the respective companies or anyone else since that date. Accordingly, this Publication should not be considered as a complete description of the markets, industries and/or companies referred to herein and no reliance should be placed on it. TBC Capital does not undertake to update this Publication or to correct any inaccuracies therein which may become apparent. The Publication may include forward-looking statements, but not limited to, statements as to future operating results. Any “forward-looking statements”, which include all statements other than statements of historical facts, involve known and unknown risks, uncertainties and other important factors beyond TBC Capital’s control that could cause the actual results, performance or achievements to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding present and future business strategies and the environment operating in the future. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. No assurances can be given that the forward-looking statements in this document will be realized. TBC Capital does not intend to update such forward-looking statements. Opinions, forecasts, estimates and/or statements relating to expectations regarding future events or the possible future performance of investments represent TBC Capital’s own assessment and interpretation of information available to it currently from third party sources. Information obtained from the third party sources believed to be reliable, but that there is no guarantee of the accuracy and/or completeness of such information. TBC Capital or any member of the Group may have a business relationship with, or seek to establish a business relationship with, the companies discussed in this publication. Consequently, there may be a potential conflict of interest that could affect the objectivity of the information contained herein; however, in compliance with best standards, TBC Capital has established appropriate practices and procedures that effectively ensure the independence and impartiality of the information provided. This Document is strictly confidential, may not be reproduced, redistributed or published, in whole or in part, in any form for any purpose, without the written permission of TBC Capital, and neither TBC Capital nor any member of the Group nor any of their Representatives accept any liability whatsoever for the actions of third parties in this respect. TBC Capital makes no expressed or implied representation or warranty of usefulness in predicting the future performance or in estimating the current or future value of any security or asset, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this Publication. Without limiting any of the foregoing and to the extent permitted by law, TBC Capital or any member of the Group or any of their Representatives expressly disclaim all liability whatsoever (in negligence or otherwise) for any loss or damages however arising, directly or indirectly, from any use of this Publication or its contents (including without limitation to the accuracy and/or completeness of information therein) or otherwise arising in connection with this Publication or for any act or failure to act by any party on the basis of this Publication.

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

www.tbccapital.ge