

Which Currencies to Borrow in?

Recommendations for Businesses in Georgia

Now one-pager, by popular demand

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TBC Group Chief Economist Office

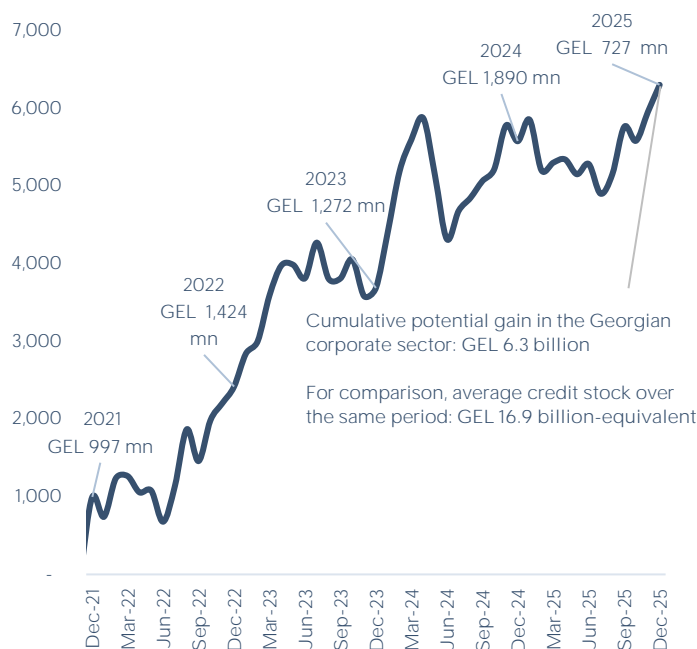
We are not particularly fond of one-pagers – hardly surprising, given that we are researchers. However, following repeated requests and aiming for a more practical application of the TBC Capital Optimal Currency Funding Structure, we provide one here.

Recommended borrowing structure, selected episodes
 Mean reversion-style strategy mainly for project financing
 For illustrative purposes, other than for exporters

<i>BUY LOW, SELL HIGH*</i>	May-2014	April-2021	October-2022	May-2023	24-March-2026
USD/GEL	1.76	3.45	2.80	2.48	2.72
EUR/USD	1.39	1.21	0.97	1.10	1.16
GEL Share (%)	44.1	18.3	40.4	53.3	44.2
EUR Share (%)	53.3	44.1	9.2	15.1	17.7
USD Share (%)	9.6	37.6	50.4	31.6	38.1

- [Weights of currencies of main economic partners](#)
- Business cyclicity
 - [Unlike existing practices, cyclical sectors should have a higher GEL share](#)
- [Sales elasticity to the exchange rate](#)
 - Likewise in case of higher elasticity in durables
- [FX risk decreases more than the GEL share would imply due to the passthrough nonlinearity](#)
- Interest rate differential
 - [Four percentage point differential over four years “equals” 16% average and 8% one-off depreciation](#)
- Conversion fees
 - [Revenue and expenditure invoicing currencies](#)
- Export markets
 - [Same logic as in case of the GEL in Georgia](#)
- GEL short- and long-term outlook
 - [Where is the GEL headed and what’s the adjustment path?](#)
 - [Including GEL overvaluation episodes](#)

THE FRAMEWORK HAS GENERATED ENORMOUS VALUE OVER THE PAST YEARS**



*The selection of optimal weights is a multi-step process that incorporates all factors listed under key judgement above. USD/GEL and EUR/USD exchange rates selected for illustrative purposes. Namely, keep in mind that if TRY and RUB weaken, that implies an also weaker equilibrium level of the GEL against the USD. For example, USD/GEL 1.76 in May 2014 is not directly comparable to current USD/GEL levels.

**Potential gain compared to the actual portfolio calculated only from the last step of the framework – currency misalignment estimates. Calculations incorporate the existing trends on the market and only real-time information at any given moment. [See here](#) for more details.

KEY JUDGEMENT

- As always, first and most important – [in which currencies is the business hedged?](#)
 - Exchange rates having no material impact on key financial metrics
 - E.g., [residential real estate is 62% in GEL](#)
- Diversification is always a value
 - [More number of FC – lower GEL share](#)
 - [EUR-USD-CNY “equals” 40% real GEL – with much lower costs](#)
- Is multicurrency exposure better even without a stress scenario?
 - [A hedged funding structure implies higher leverage for businesses and banks and, therefore, higher profitability](#)
- EUR/USD outlook and equilibrium exchange rate
 - [Long term estimates at around 1.28](#)
 - [USD as a safe haven](#) – borrow in a currency that strengthens during downturns?
 - Recent USD strength – does it signal a resurgence of safe haven flows and/or US being a net oil exporter and/or yield spikes?
 - How does the [“dollar smile” or historical relationship with commodities](#) hold up?
- EUR/USD equilibrium exchange rate in the Georgian context
 - [Against which is the GEL and the growth in Georgia more stable – the EUR or the USD?](#)
 - Businesses recall 2017, when EUR appreciated against the GEL, but sales also went up
 - However, [the Ukraine conflict resolution scenario might imply divergent outcomes for the EUR-GEL pair](#)

“The stock market is a device for transferring money from the impatient to the patient” – Warren Buffet

A one-pager is a one-pager, though, we hope, still useful. We continue individual, company-tailored assessments, being inspired that the framework – [the idea first published back in 2019](#) – [has been gaining traction](#).

We also note that, since the framework is quite complex, we mainly focus on the corporate sector. However, it is just as applicable for small and medium enterprises (estimated gains of GEL 3.7 bn over the same period) and individuals, as well as from an investment perspective – as always, under the risk appetite umbrella or, differently, ambition.

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