TBC CAPITAL

MACRO UPDATE – GEORGIA

FX Market Back in Surplus in April-May; Deal to End Middle East War in Sight

25 May 2026

TBC Group Chief Economist Office

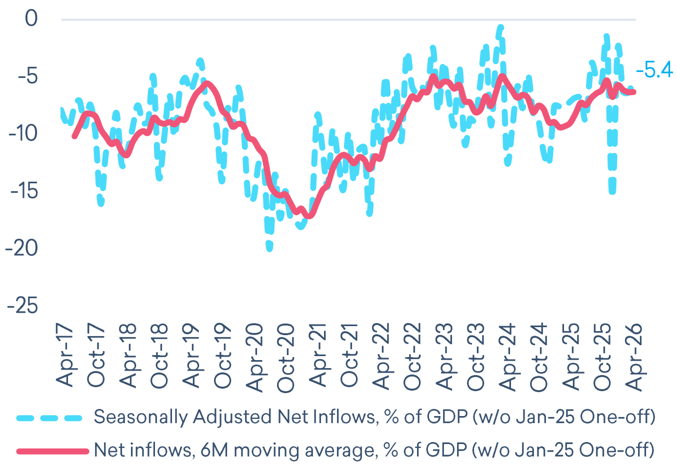
KEY TAKEAWAYS

- First of all, congratulations from our team on Georgia's Independence Day on May 26;
- Amid reports of an imminent deal between the US and Iran, we'd like to reiterate that we assess the overall impact of the conflict on Georgia's economic growth as broadly neutral, or, over the medium term, even slightly positive, considering potential migration flows;
- As for local developments, it appears that the foreign currency surplus on Georgia's FX market has restored in April-May, in line with our updated baseline;
- Higher net FX inflows have been driven by further narrowing of the goods trade deficit in April, evidently supported by gradual recovery in tourism revenues in May;
- Consequently, the NBG bought USD 333 million in April, after a net sale of USD 16 million in March, with May purchases expected to be even higher;
- Importantly, the surplus also supports FX deposit expansion, with knock-on implications for the banking system and the broader economy – something that deserves a separate note;
- We lower the USD/GEL forecast to 2.65 from 2.70 previously, as our "three pillars" approach now implies a GEL-positive balance;
- Regarding inflation, we maintain our end-year projection unchanged at 6.0%.

Most important news of the past few days: according to preliminary reports, including official statements, the US and Iran are set to imminently sign a deal to end hostilities. That said, this does not appear to be a final agreement, with negotiations still ongoing on several highly contentious issues. So far, developments remain consistent with [our baseline scenario]() of a relatively short-lived and contained conflict, reflecting the mainstream view on markets. [We assess]() the overall impact of the conflict on Georgia's economic growth as broadly neutral, or, over the medium term, even slightly positive, considering potential migration flows. This does not imply, however, no underlying shifts: export growth is likely to decelerate as commodity prices normalize, while the hospitality sector should rebound, albeit markets are likely to remain relatively cautious until the deal is finalized.

On local developments, net foreign currency inflows in Georgia increased in April, by our estimates (Figure 1), as the further narrowing of the goods trade deficit more than offset relative moderation in money transfers and continued weakness in tourism. These dynamics are in line with our expectations, supporting [last month's upward revision]() of the full-year economic growth forecast to 7.4%. In addition, based on real-time indicators, we anticipate net foreign currency inflows to rise further in May.

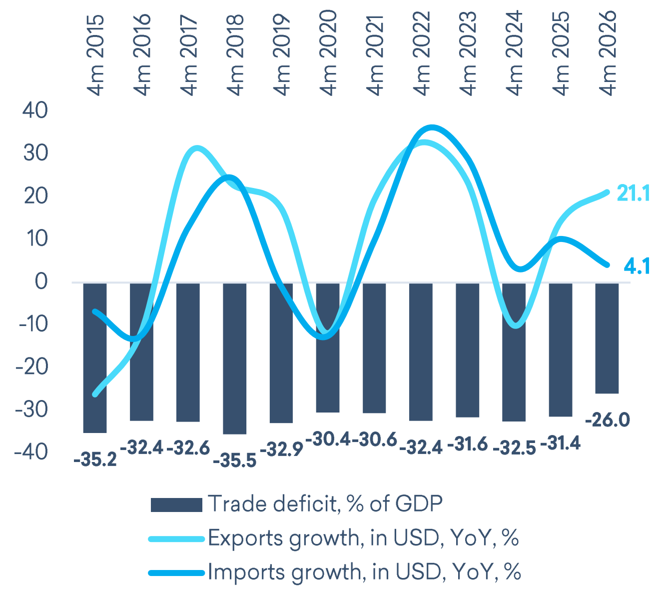
FIGURE 1: NET FOREIGN CURRENCY INFLOWS IMPROVED IN APRIL (SA, % of GDP)



Source: Geostat, TBC Capital

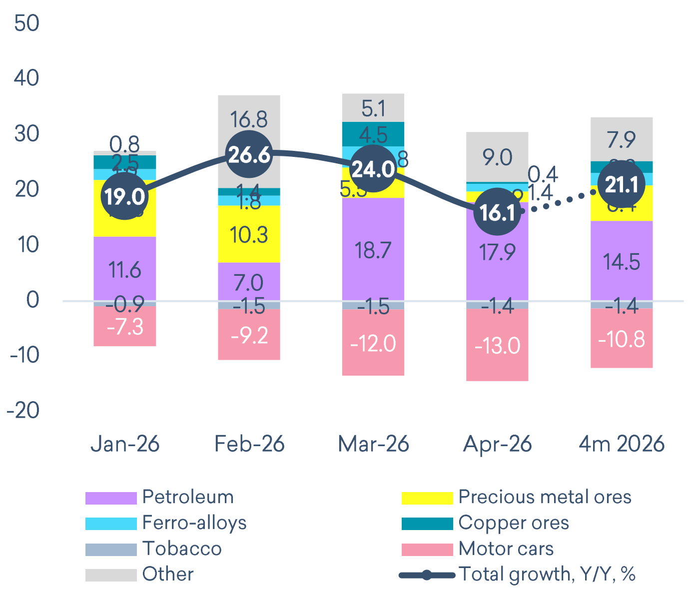
The goods trade deficit shrank to 26% of GDP in January-April, by our estimates, significantly below previous year levels (Figure 2). Exports grew by 16.1% y/y in April, again primarily driven by petroleum, gold, ferro-alloy and now, [as expected](), nitrogenous fertilizer exports (Figure 3).

FIGURE 2: THE GOODS TRADE DEFICIT CONTINUES SHRINKING



Note: 2025 adjusted for the January one-off.
Source: Geostat, TBC Capital

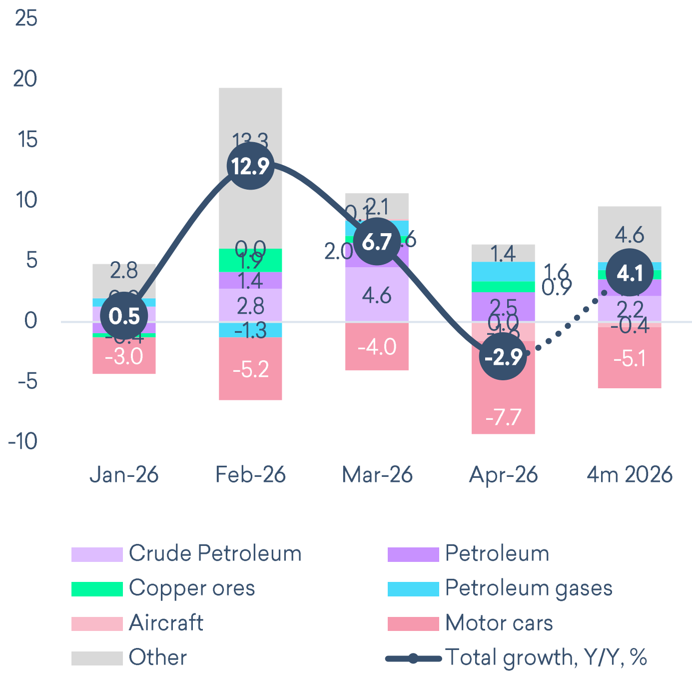
FIGURE 3: EXPORT SURGE DRIVEN BY PETROLEUM AND METALS AS CAR TRADE DROPS (Contribution to annual growth)



Source: Geostat, TBC Capital

This comes against a notably weaker showing on the import side, down by 2.9% y/y in April, despite more expensive petroleum purchases as a result of higher global prices (Figure 4). The April contraction was primarily driven by lower motor car imports, which fell by almost 34% y/y, while car re-exports also shrank. We had anticipated these developments after an exceptionally strong 2025 in terms of car net exports, though the magnitude has certainly been amplified by the excise tax rate hike on vehicles older than 6 years. Weaker imports also reflect relatively slower domestic demand, as evident in resident non-cash spending.

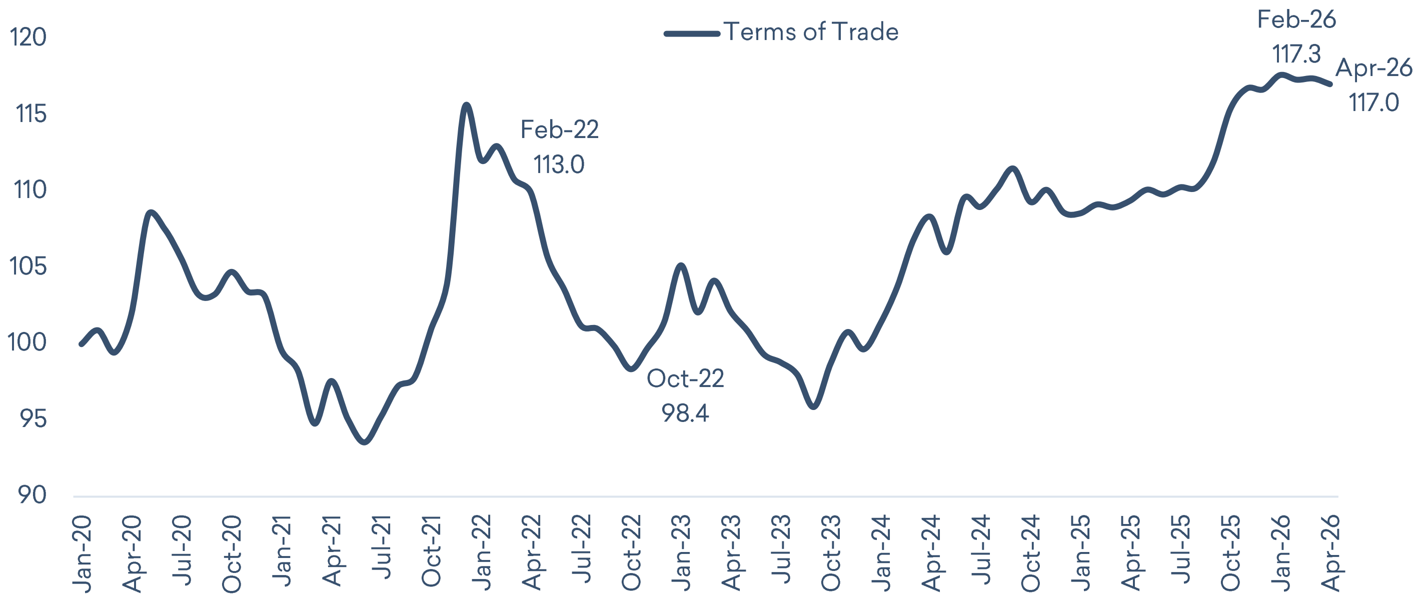
FIGURE 4: PETROLEUM EMERGES AS THE PRIMARY IMPORT GROWTH DRIVER, WHILE CARS FALL (Contribution to annual growth)



Note: 2025 adjusted for the January one-off.
Source: Geostat, TBC Capital

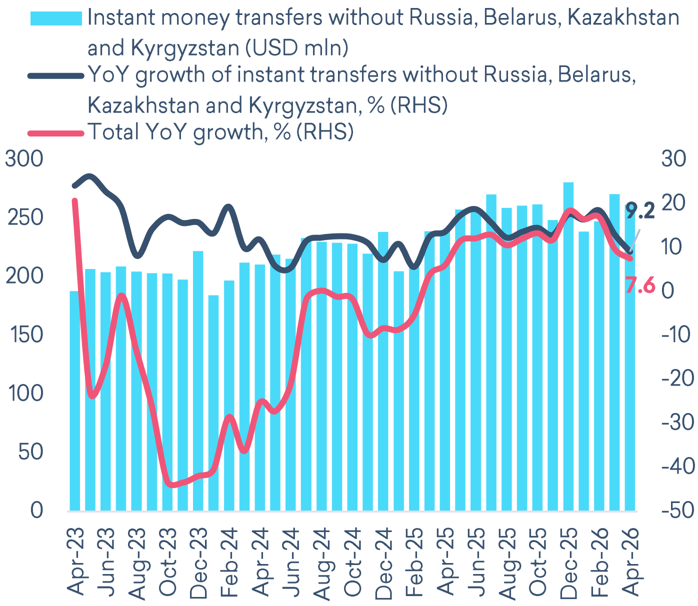
As export prices have been buoyed by commodities, the terms of trade (export prices over import prices) have barely moved, declining by just 0.3% between February and April. It is worth noting, however, that Geostat excludes petroleum exports from its export price index, suggesting that the actual terms of trade have likely improved. This contrasts sharply with 2022, when the Russian invasion of Ukraine also triggered a surge in commodity prices and boosted Georgian exports, but was accompanied by a 13% deterioration in the terms of trade over the subsequent eight months (Figure 5). While higher price levels across both exports and imports would, all else equal, widen the deficit in USD terms, exports have grown in volume as well, reducing the deficit (Figure 2).

FIGURE 5: TERMS OF TRADE HAVE BARELY MOVED SINCE THE CONFLICT ESCALATION (Index, Jan-20 = 100)



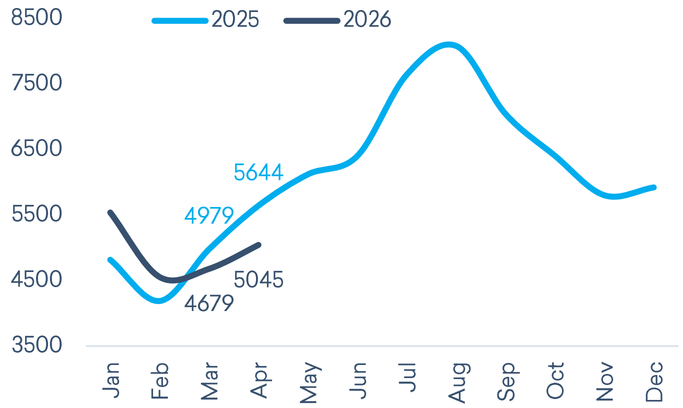
Source: Geostat, TBC Capital

FIGURE 6: REMITTANCE GROWTH RELATIVELY MODERATES



Source: NBG, TBC Capital

FIGURE 7: NON-TRANSIT FLIGHTS IN GEORGIAN AIRPORTS DECLINED FURTHER IN ANNUAL TERMS IN APRIL



Source: AirNav

Meanwhile, instant money transfers grew by 7.6% y/y in April, with the growth rate relatively moderating since the beginning of the year (Figure 6). The EU and the US remain by far the largest sources of transfers, accounting for over 64% of the total as of April.

April was particularly weak for tourism revenues, more so than March. The number of flights (arrivals/departures) in Georgian airports fell by 10.6% y/y in April, as opposed to a 6% decline in March, extending the downtrend since the outbreak of the Middle East conflict (Figure 7). Furthermore, non-cash spending of non-residents, our proxy for tourism revenues, [registered only marginal positive annual growth in April](#).

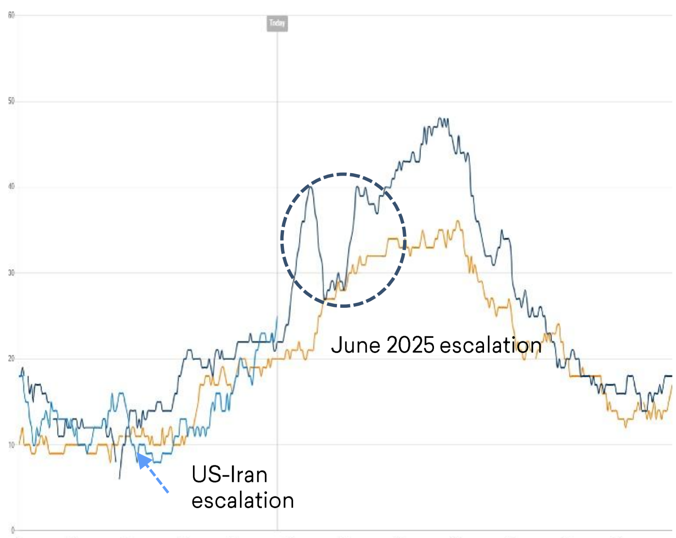
Per our estimates, the tourism shortfall has totaled around USD 170 million in March-April compared to the no-conflict scenario. However, this has almost fully been offset by higher commodity exports (c. USD 160 million above the counterfactual).

At the same time, latest data suggest that air traffic has been gradually recovering in May, both in Tbilisi and Batumi. Flights have now overtaken respective 2025 levels for the first time in over two months (Figures 8 and 9).

FIGURE 8: MAY HAS SEEN A SIGNIFICANT REBOUND IN THE TBILISI AIRPORT (25-May-2026)

Source: FlightAware

FIGURE 9: SIMILAR DYNAMICS CAN BE OBSERVED IN BATUMI (25-May-2026)

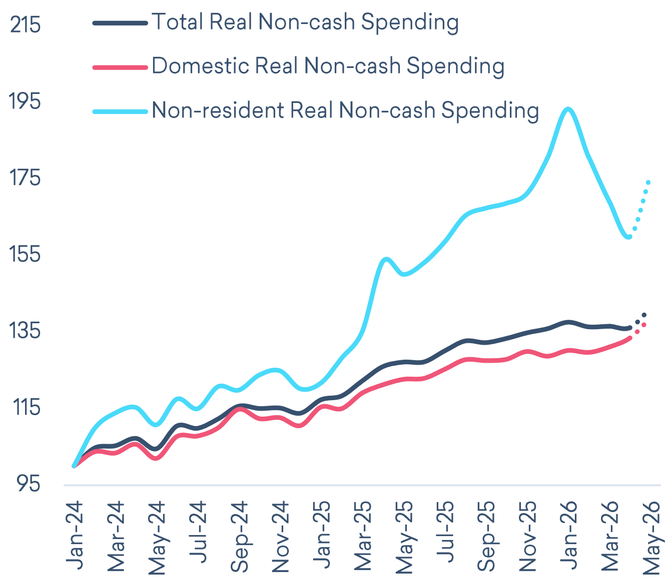


Source: FlightAware

These dynamics are in line with non-resident non-cash spending, which is on course to rise in May, as of the first three weeks of the month (Figure 10). Furthermore, the agreement between Georgia and Azerbaijan to resume rail service from 26 May after a 6-year hiatus is set to support tourism revenues, with Azerbaijan Railways announcing that more than 1,000 tickets were sold in the first 24 hours, including more than 400 originating from Baku.

Meanwhile, real non-cash spending of residents, our proxy for domestic economic activity, has been broadly flat over the past few months, limiting the contraction in overall spending (Figure 10). This has been the main reason behind our assertion that exports have likely been the single largest driver of economic growth over the past few months, unlike in 2025. That said, resident spending shows notable acceleration in May, including in annual terms.

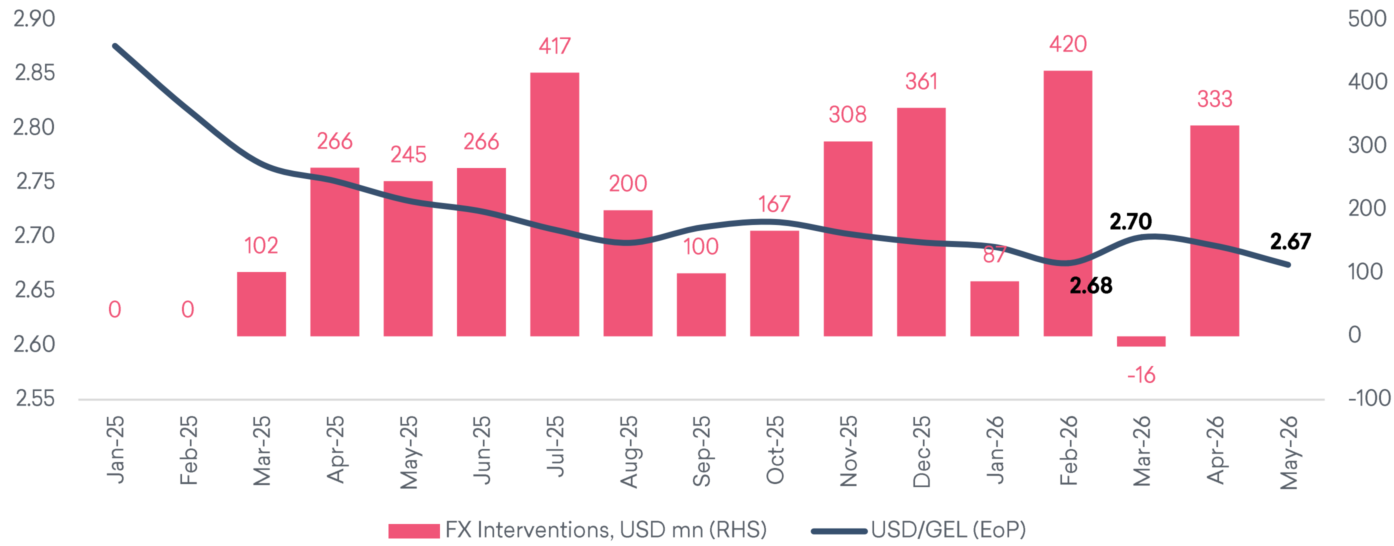
FIGURE 10: NON-CASH SPENDING SET TO RISE IN MAY FOR BOTH RESIDENTS AND NON-RESIDENTS (As of 21-May-26, Index, Jan-24 = 100)



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.
Source: TBC Capital

Against this backdrop, it appears that the foreign currency surplus on Georgia's FX market has restored, or even strengthened compared to February, prior to the Middle East escalation, when the NBG purchased a record-high USD 420 million. In April, the NBG bought USD 333 million, after a net sale of USD 16 million in March (Figure 11). We would bet on May purchases to be even higher. Importantly, the surplus also supports FX deposit expansion, with knock-on implications for the banking system and the broader economy – something that deserves a separate note.

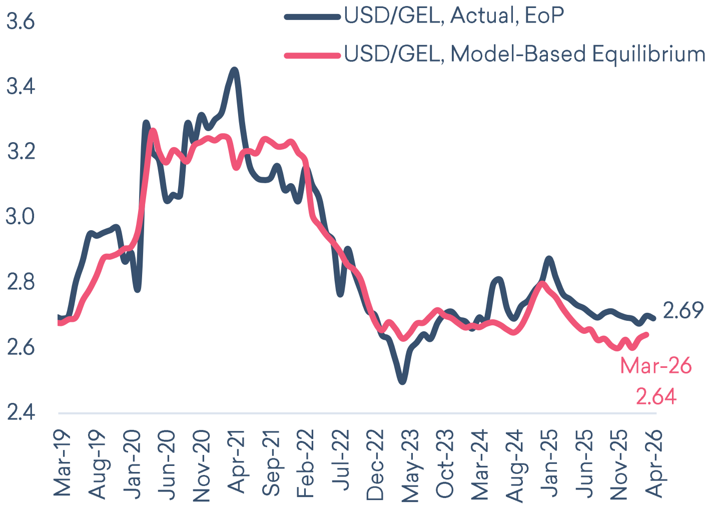
FIGURE 11: THE NBG HAS RESUMED PURCHASES IN APRIL AND, LIKELY, MAY



Source: NBG

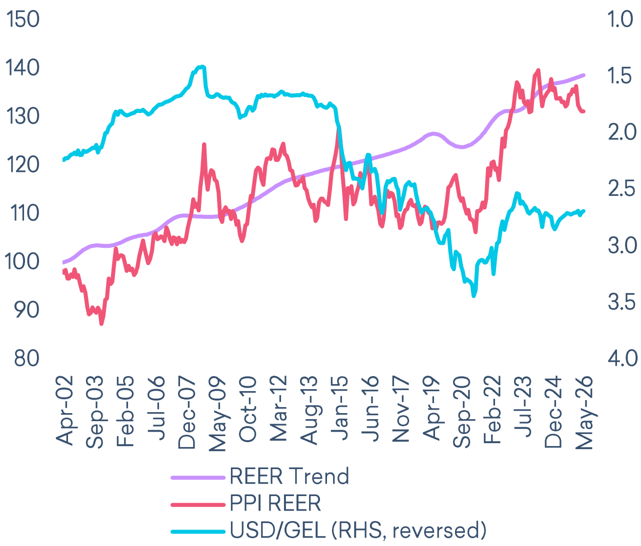
At the same time, as the GEL-supportive environment appears strong, the national currency remains undervalued according to both our short- and long-term indicators (Figures 12 and 13).

FIGURE 12: OUR EQUILIBRIUM MODEL INDICATES THAT THE GEL IS STILL UNDERVALUED AGAINST THE USD…



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: NBG, TBC Capital

FIGURE 13: …AS WELL AS MORE BROADLY AGAINST TRADING PARTNERS (As of 25-May-26, increase means GEL appreciation)



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

What does this imply for the GEL outlook? We lower the USD/GEL forecast to 2.65 from 2.70 previously, as our "three pillars" approach now implies a GEL-positive balance:

- We expect the **external balance** to remain relatively stable. While the resolution of the Middle East conflict is likely to be accompanied by at least relative moderation in commodity prices and therefore in exports, this scenario also implies higher tourism revenues and lower imports, thus keeping net inflows broadly unchanged.
- The **GEL REER** remains below its long-term trend, indicating GEL undervaluation. In fact, the gap from the trend-implied level has widened recently, as average producer price inflation in Georgia's major trade partners has been consistently higher than in Georgia over the past couple of months. This also implies potential pass-through of trade partners' inflation onto local prices going forward, given that Georgia's consumer basket remains import-dependent.
- This underpins our view regarding the third pillar – **inflation**. Higher inflation supports the GEL through two channels:

a) The monetary policy rate. Whereas we had previously expected the rate to remain unchanged, we now project it at 8.5% by the end of the year, considering our inflation forecast of 6% by Dec-26 and the fact that the central bank has adopted a notably hawkish tone, clearly signaling to the market that it stands ready to tighten further.

b) FX interventions. GEL appreciation is set to become relatively more attractive for the NBG as imported prices rise, since inflation is tightly linked with GEL dynamics (Figure 14). The central bank could therefore take advantage of the persistent undervaluation to reduce or halt USD purchases on the FX market, thereby supporting GEL strengthening.

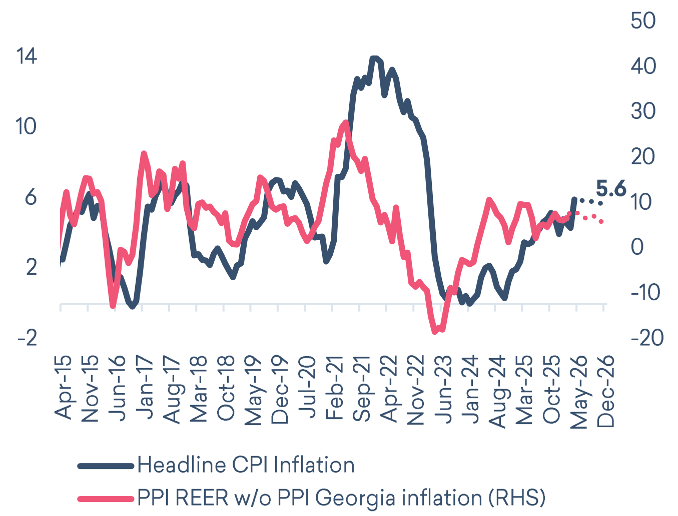
Notably, holding the policy rate flat would itself have implied 50 bps of tightening relative to the counterfactual of 7.5% in the no-conflict scenario – one of the key arguments why we had expected the policy rate to remain unchanged, together with the fact that inflation is not driven by demand-side factors. However, the NBG has elected to be even more hawkish, and appears to favor the policy rate instrument directly over more indirect tightening through the exchange rate, citing risks of second-round effects. Going forward, the rate trajectory depends on how the central bank perceives developments on global markets, with the hawkish tilt nudging our forecast to 8.5% rather than a similarly plausible 8.25%.

Regarding inflation, we keep the end-year forecast unchanged at 6%, despite the prospective US-Iran deal, as significant damages to supply chains and production facilities imply relatively sticky commodity prices going forward, even if they are certainly set to decline. The benchmark brent crude oil price plunged by 5.5% to under USD 100 in the early hours of Monday. Our baseline scenario sees crude at c. USD 80-85 by the end of the year – a further decline from current levels, though still above the pre-escalation level of USD 72.

Other commodities are also likely to follow similar trajectories. Prices on food, fertilizers, metals and minerals have risen alongside energy products, though by less than in 2022 in all cases (Figure 15). Accordingly, we don't bet on material acceleration in inflationary pressures going forward. Underlying indicators also point to limited pressures so far. Median annual inflation reached 2.7% in April, core inflation (excluding groceries, energy, tariffs and tobacco) was 3.2%, while service inflation – best suited to assess underlying trends – 3.7%, only slightly above target.

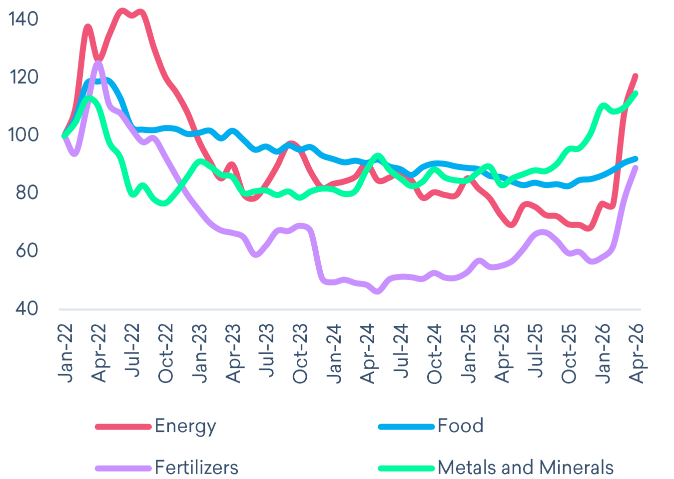
At the same time, we do not expect significant disinflation either, as food prices are likely to remain relatively elevated, with a lagged pass-through from higher fertilizer and energy prices. The latter will also lift broader inflation through higher intermediate costs. By our estimates, petrol prices contributed 1 percentage point to overall inflation in April, of which only around half came from the direct fuel-price impact, with the remainder reflecting second-round effects that tend to be stickier and more broad-based. We expect inflation to rise slightly before easing to around 5.5%, partly due to bread-price effects, finally reaching c. 6% by the end of the year.

FIGURE 14: INFLATION (YoY, %) **AND PPI REER EXCLUDING DOMESTIC INFLATION** (YoY, %, increase means GEL depreciation)



Source: Geostat, NBG, TBC Capital

FIGURE 15: COMMODITY PRICES HAVE SURGED SINCE FEBRUARY, THOUGH REMAIN BELOW 2022 LEVELS (Index, Jan-22 = 100)



Source: World Bank

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