

Commodities Cut Both Ways

Macro Update – Georgia

10 September 2026

TBC Group Chief Economist Office

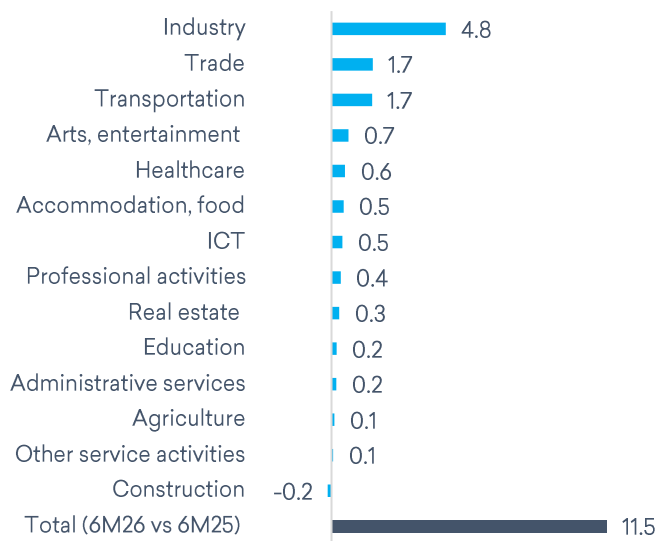
KEY TAKEAWAYS

- Industry led the business-sector output expansion in 1H26, contributing over 41% to total growth, while commodity-linked activities accounted for more than 90% of industrial growth;
- Trade data point in the same direction: petroleum, gold, ferro-alloys and copper accounted for more than the entire rise in merchandise exports in January-July, lifting their share to 29% from 12% a year earlier, with the overall value close to tripling in USD terms;
- Yet the real-growth payoff was relatively modest: industry accounted for 31.6% of gross output growth in 1Q26 but just 3.4% of real GDP growth, reflecting both high intermediate-input content and sizeable price effects;
- Commodity exports have supported FX inflows, though the parallel rise in the import bill absorbed most of the gain: the estimated improvement in the goods trade balance amounts to c. USD 10-100 mn, depending on benchmark prices, or under 2% of the deficit;
- Amid the broader FX market surplus, gross reserve assets reached USD 8.1 bn by the end of August, or 128.2% of the IMF ARA metric, with gold revaluation accounting for part of the monthly increase, though the YTD expansion has overwhelmingly been driven by FX purchases;
- The commodity shock has also lifted import prices: terms of trade have edged lower since February, and fuel-driven imported inflation more than accounted for the 1.0 pp rise in annual inflation over the same period, suggesting limited second-round effects so far;
- On 9 September, the NBS left the monetary policy rate unchanged at 8.25%, in line with our expectations. However, we reiterate that the case for tightening has strengthened on external developments, alongside broader shifting risks around the baseline.

The commodity story has remained just as relevant in the second quarter as it [did in the first](#). Commodity exports, [buoyed in part](#) by the surge in global prices that followed the escalation in the Middle East, have led the nominal expansion of the business sector, more than accounted for the entire rise in merchandise exports, and supported FX inflows and the GEL against the backdrop of the [existing FX market surplus](#). This does not come without caveats, however. Value added in commodities is relatively low, so the contribution to GDP growth is far more modest than the headline output figures suggest. A large part of export growth has also been offset by the accompanying rise in the import bill. Meanwhile, higher oil prices – and, to a lesser extent, food – have driven a sharp rise in imported inflation, with markets [increasingly pricing in](#) the supply shock as more persistent, more [in line with our view](#).

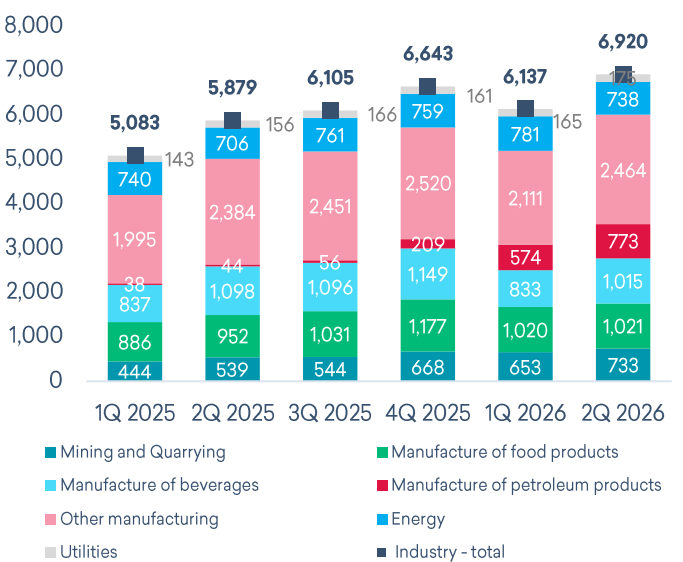
On to the details: business sector output, measured in current prices, increased by 10.7% in the second quarter, bringing 1H26 annual growth to 11.5%. [Unlike last year](#), when ICT was by far the largest contributor to output growth, the 1H26 expansion was led by industry, which accounted for 4.8 percentage points (pp), or over 41% of the total, followed by trade and transportation at 1.7 pp each (Figure 1). Meanwhile, construction output was the only sector that contributed negatively, largely reflecting a 38.6% y/y decline in road-building. Within industry itself, manufacturing of petroleum and basic metals (ferro-alloys) and mining of metal ores (gold and possibly copper) contributed 17.3 pp to overall 19.1% annual growth in January-June, i.e. more than 90% of the total (Figures 2 and 3). Petroleum-product manufacturing alone rose from GEL 81 mn in 1H25 to GEL 1.4 bn in 1H26, reflecting mostly refining volumes but also, in part, price effects.

FIGURE 1: BUSINESS SECTOR OUTPUT GROWTH WAS LED BY INDUSTRY IN 1H26
(Contribution, PP)



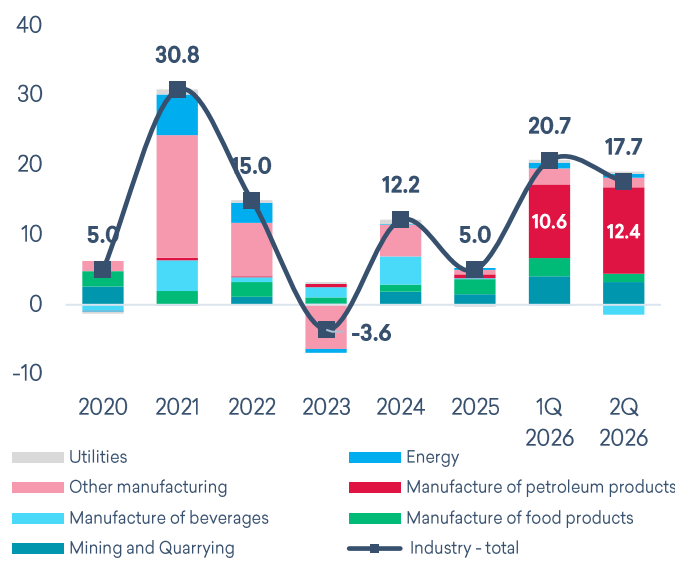
Source: Geostat, TBC Capital

FIGURE 2: PETROLEUM MANUFACTURING SURGED AGAIN IN 2Q26 (GEL million)



Source: Geostat, TBC Capital

FIGURE 3: COMMODITIES CONTRIBUTED OVER 90% TO INDUSTRIAL OUTPUT GROWTH (%)



Source: Geostat, TBC Capital

Trade data point in the same direction: petroleum, gold, ferro-alloys and copper accounted for 29% of total merchandise exports in January-July 2026, up from 12% in the same period of 2025, with their combined value close to tripling in USD terms.

That said, the impact of commodity exports on economic growth [has been relatively muted](#). Industry* was responsible for 31.6% of gross output growth in 1Q26 – a wider measure than the business sector figures above, covering the whole economy – but for only 10% of nominal GDP growth and just 3.4% of real GDP growth (Figure 4).

There are two separate reasons for this:

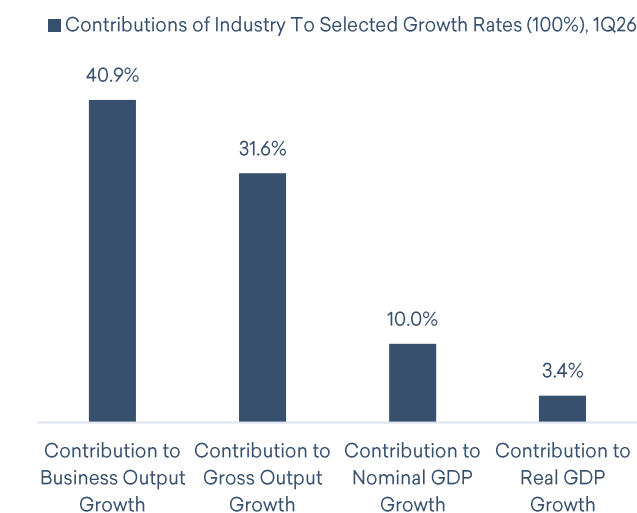
- High intermediate-input content explains much of the gap between gross output and nominal value added: these activities process large volumes of purchased inputs relative to the value they add, so even a large increase in gross output converts into a far smaller increase in GDP. This applies particularly to petroleum, which explains why the contribution to economic growth was marginal despite a significant rise in real volumes.
- Higher prices then account for a large portion of what remains, i.e. much of the expansion has come through prices rather than production.

This pattern is expected to have held in the second quarter, with the GDP breakdown due later this month.

On the other hand, commodity exports – [together with](#) surging ICT exports, steady growth in remittances, recovering tourism revenues, and renewed non-resident purchases of Georgian treasuries – have helped strengthen FX inflows. These commodities (petroleum, gold, ferro-alloys and copper) more than accounted for the entire rise in merchandise exports in January-July, contributing 23.2 pp to overall 21.6% annual growth, fully offsetting the drag from declining car re-exports. The import leg has risen alongside, however, with more expensive oil imports particularly notable, so the net FX contribution is considerably smaller than the gross figures imply.

Per our estimates, stronger exports have largely served to offset the increase in the import bill, leaving the net effect on the goods trade balance within 2% of the deficit. Using January-July quantities and holding the prices of the main traded commodities at their February levels, we estimate that exports and imports would have been around USD 250 mn and USD 240 mn lower, respectively, implying only marginal impact on net exports. Fixing prices at 2025 levels raises the estimated improvement to around USD 100 mn, with petroleum accounting for most of the difference in both cases. The results remain highly sensitive to the benchmark.

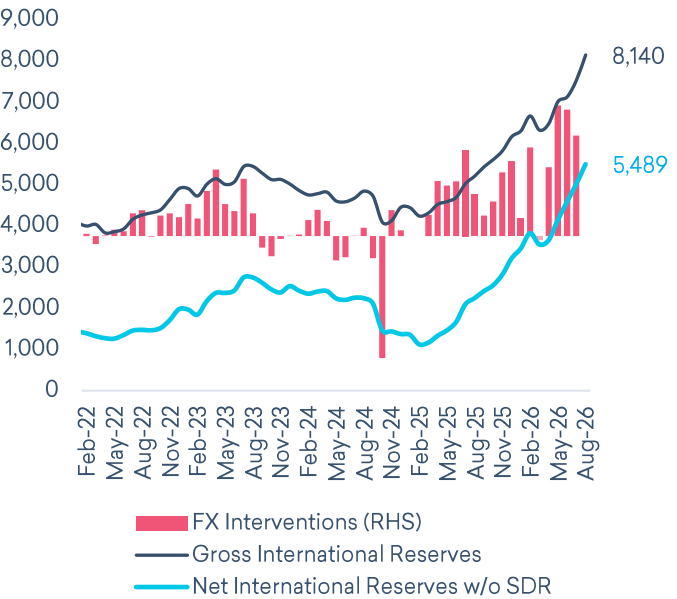
FIGURE 4: ONLY A SMALL PART OF INDUSTRIAL OUTPUT GROWTH TRANSLATED INTO ECONOMIC GROWTH (Contribution, %)



*Industry includes mining, manufacturing, electricity, gas, steam.
Source: Geostat, TBC Capital

Against this backdrop, gross reserve assets reached USD 8.1 bn by the end of August, up by USD 613 mn compared to the previous month and by almost USD 2.0 bn YTD, amid the broader sustained [surplus in the underlying current account](#) (Figure 5). Around USD 135 mn of the monthly increase came from the revaluation of monetary gold, now 14.1% of gross reserves – commodities lifting reserves through the NBG’s own balance sheet as well as through the FX market. Across the year to date, however, the gold contribution has been marginal, with the expansion in reserves overwhelmingly driven by net FX purchases, which exceeded USD 3.0 bn in January-August, per our estimates, [partly offset by other flows](#). According to the NBG, gross reserves stood at 128.2% of the IMF’s Assessing Reserve Adequacy (ARA) metric, up from 118.7% in July (Figure 6), while the implied adequacy benchmark remained broadly unchanged at around USD 6.35 bn.

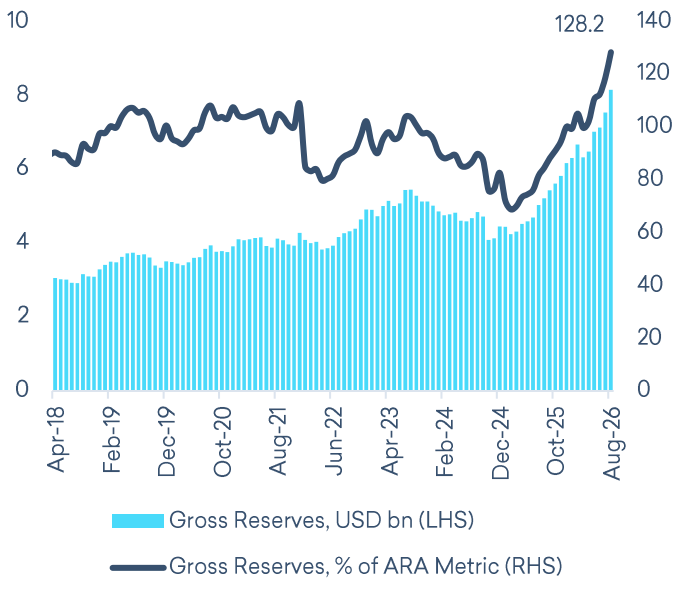
FIGURE 5: GROSS RESERVE ASSETS REACHED USD 8.1 BN BY THE END OF AUGUST (USD mn)



Source: NBG, TBC Capital

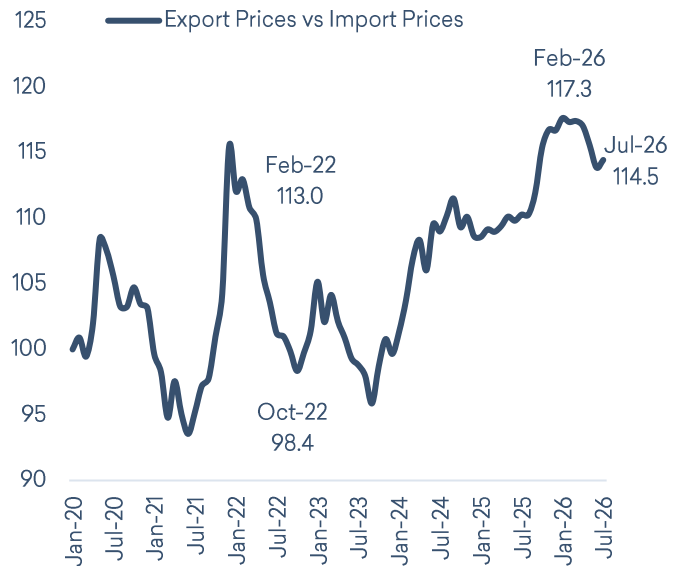
The other side of the same story is, of course, inflation. Commodities have lifted not only export but also import prices. The terms of trade (export prices over import prices), [historically broadly stable in Georgia on a longer-term basis](#), have edged lower since the escalation in the Middle East, implying that import prices have risen slightly faster (Figure 7). Imported inflation has therefore been increasingly shaping the headline, despite the ongoing GEL appreciation.

FIGURE 6: RESERVE COVERAGE UP TO 128% IN AUGUST, STANDING AT MULTI-YEAR HIGHS



Source: NBG, TBC Capital

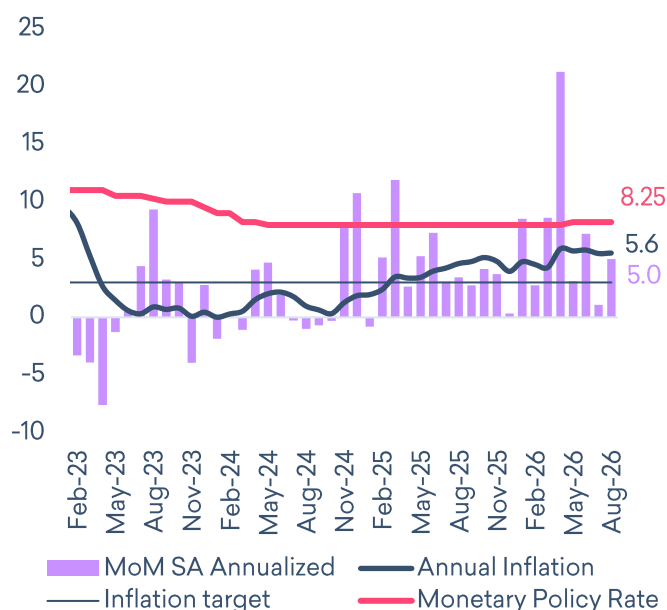
FIGURE 7: TERMS OF TRADE HAVE DECLINED SLIGHTLY SINCE FEB-26 (Index, Jan-20 = 100)



Source: Geostat, TBC Capital

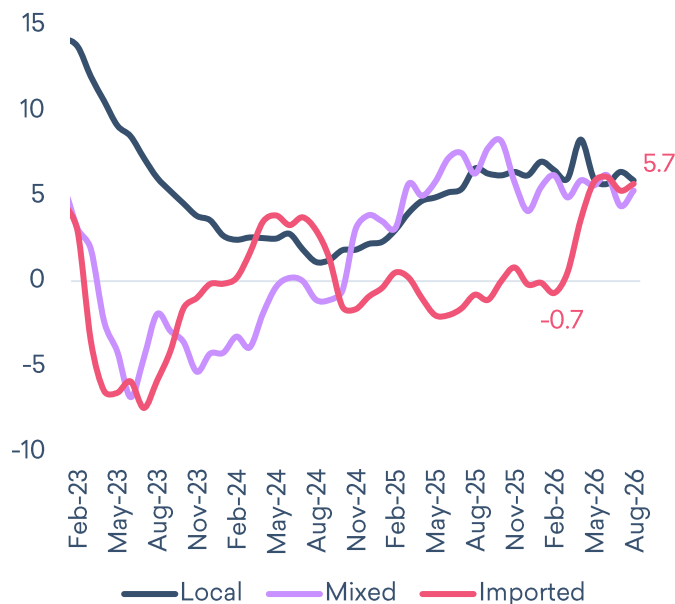
Annual inflation reached 5.6% in August, accelerating in monthly terms amid higher fuel prices, [in line with our expectations](#) (Figure 8). Compared to the pre-escalation February print of 4.6%, annual inflation has increased by 1.0 pp; of this, the imported component's contribution was 1.6 pp, per our estimates, while locally produced and mixed goods and services each subtracted 0.3 pp. This suggests limited second-round effects thus far, with underlying indicators also [pointing to largely contained pressures](#). Annual imported inflation itself rose from -0.7% in February to 5.7% in August, with petrol and diesel accounting for over 80% of the August print (Figure 9).

FIGURE 8: MONTHLY INFLATION MOMENTUM INCREASED IN AUGUST AMID FUEL PRICES (%)



Source: Geostat, TBC Capital

FIGURE 9: IMPORTED INFLATION HAS RISEN SHARPLY SINCE FEBRUARY (%)



Source: Geostat, TBC Capital

On 9 September, the NBG left the monetary policy rate unchanged at 8.25%, in line with our expectations. However, we reiterate that the case for tightening [has strengthened on external developments, alongside broader shifting risks](#) around the baseline. [As we have consistently argued](#), higher inflation – and higher imported inflation in particular – makes GEL appreciation relatively more attractive for the NBG, thereby supporting the GEL outlook. We nevertheless expect reserve accumulation to remain the priority in the near term, thus maintaining a broadly neutral stance on the GEL. As for commodities, [we anticipate no notable shortfall](#) in overall FX inflows absent further material escalation in the Middle East conflict, owing to [offsetting channels](#) among many – but not all – scenarios.

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