Monthly Update

June 2019

Prepared by TBC Bank Economic Team

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Content:

Key Insights

Global growth projections have weakened and major central banks turned more dovish. At the same time, the USD stepped back and the appetite towards emerging markets increased.

Georgia's GDP growth came in at 4.7% in May. While primarily due to one-offs, exports and the construction sector were weak, the growth of tourism and remittances were solid. Also, fiscal was expansionary as expected coupled with some signs of stabilizing credit. Despite the expansionary fiscal stance, external balance continued to strengthen in May following the sizeable CA balance improvement in Q1 2019.

After a continued decline, the number of visitors from Turkey went up sharply YoY in June, reaffirming the growth projection of the tourism inflows even if the inflows from Russia are halved. In fact, before May 2019, when tourist arrivals spiked to 18% YoY with the key contribution of Russia, the growth of tourists was quite moderate during a couple of months.

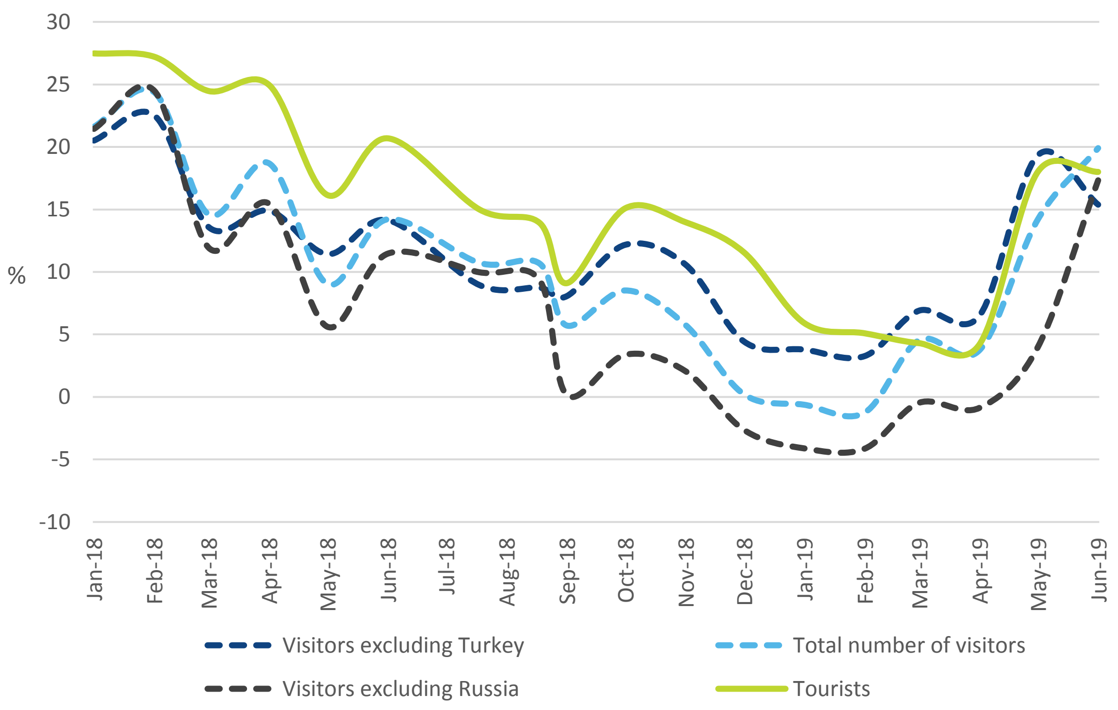
After the announcement of the restrictions on direct flights from Russia and some portion of wine exports, already undervalued GEL weakened further and later started to appreciate back. Going forward, we remain bullish on the GEL for three reasons. First, the assessed loss of net inflows at around 200 mln USD over the next year is not large enough to lead to the deterioration of the external balance. In fact, it is still expected to strengthen, though at a slower pace and also supported by less FX interventions by the NBG. The second, inflation is already above the target level and, in our view, is likely to pick up further unless the GEL strengthens. Assuming stable EUR and other regional currencies against the USD, and approximately the same commodity prices, inflation is expected to be up to 5% by the end of 2019 if the USD/GEL is somewhat below 2.7. And third, the NBG has already bought more than expected amount of reserves for the near term. While one should not bet on the central bank selling the reserves, the purchases at recent exchange rate are highly unlikely in our view. In addition, the probability of the rate hike has increased as exchange rate at current levels is likely to put upward pressure on inflation.

As for the GDP growth projections, even under the assumed decline of inflows from Russia, around 4% seems a reasonable target over the next 12 months with somewhat higher growth rates for FY 2019 and 2020.

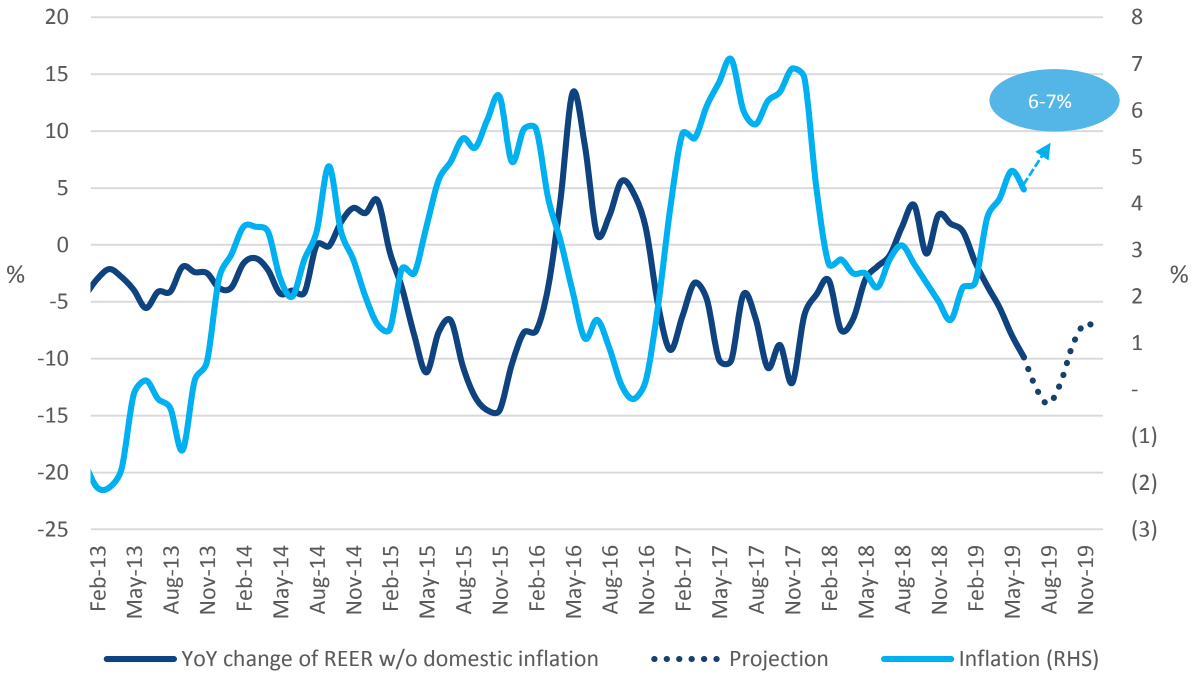
See TBC research thematic publication on the impact of Russian flight ban. As for the impact of restrictions of wine exports, the impact on net inflows should not exceed around 20 mln USD.

The charts of the month

Annual Growth of Number of Visitors
(including overnight trips)



Inflation and REER excluding domestic inflation*
YoY



*GEL REER projection is based on the assumption of the USD/GEL at 2.82 as of July 3rd and other trading partners' currencies to remain unchanged, also, trading partners' inflation is assumed to stay unchanged.

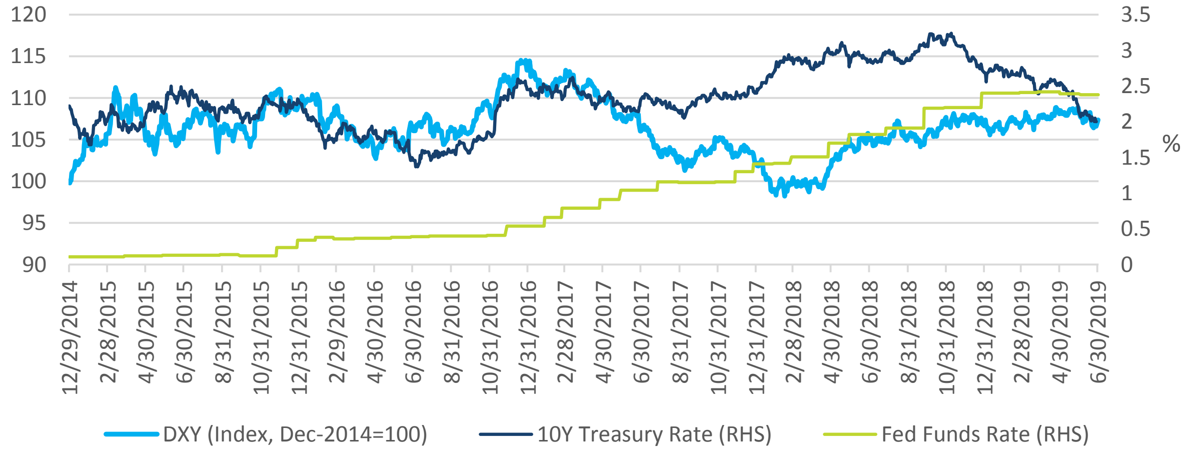
Source: GNTA, NBG, TBC Bank Economic Team estimates

External environment

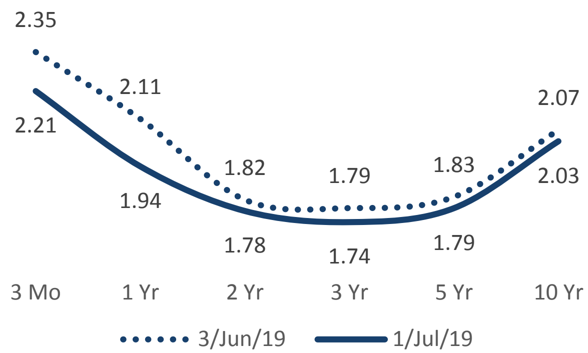
Global Outlook: The World Bank, in its latest Global Economic Prospects, released on the 4th of June 2019, projects the global economic growth slowing to 2.6% from the 2.9% projected previously. While emerging markets' growth was also revised downwards, the appetite towards emerging markets increased primarily due to the more dovish stance of leading central banks.

USA: At its monetary policy meeting in June, the Fed left its policy rate unchanged but switched to a more dovish tone, preparing the ground for the rate cuts later this year, in line with the market expectations. Significant revisions are observed in the statement and projections due to the trade war concerns and a weak inflation outlook. The data released in the US at the end of June supported the views that economic activity in the country has lost momentum. Following the Fed's dovish statement, yields on 10Y US treasuries continued to decline, USD exchange rate against major currencies has also weakened.

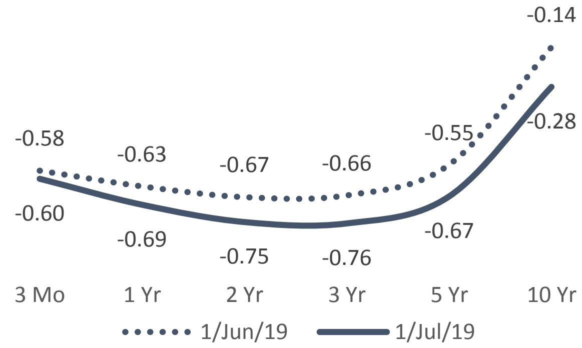
US Dollar Index, 10Y treasury rate and Fed funds rate
(as of the 1st of July 2019)



USD yield curve
(Constant maturity treasuries, %)



EUR yield curve
(AAA rated zero coupon bonds, %)



EA: At its June meeting, the European Central Bank kept interest rates unchanged and announced that interest rates are not planned to be changed until at least mid-2020. The ECB also pledged to continue reinvesting the maturing securities purchased under its asset purchase programs. Although Q1 proved slightly better in terms of economic growth than previously expected, over the coming years the ECB still expects some deterioration of the growth. According to the revised projections, GDP growth is expected at 1.4% both in 2020 and 2021, 0.2 PP and 0.1 PP lower compared to the March 2019 projections.

Later, in his speech, Draghi suggested that additional monetary stimulus might be necessary if there is no improvement in the euro area's economic outlook and if inflation does not move towards the target.

Sources: Isbank research, Fed, ECB, St. Louis Fed

External environment cont'd

Russia: The growth of the Russian economy has slowed to 0.2% YoY in May, 1.5PP lower than in April. The deceleration was caused by slower oil production, likely related to the agreement with the OPEC+, according to which Russia has to limit the extraction.

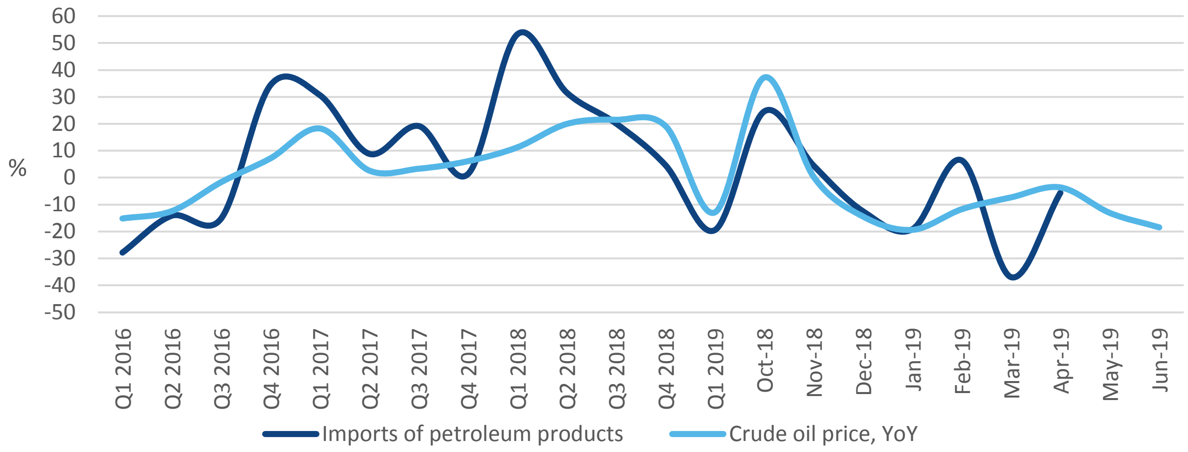
Turkey: After positive quarterly growth in Q1, released data suggest still continuing weakness of the economy. On the upside, Turkish Lira has demonstrated the appreciating tendency.

Oil: Increasing tensions between the US and Iran, as well as strengthening expectations that OPEC will continue the production cuts, put upward pressure on oil prices at the end of June, causing a 11.0% appreciation since the beginning of the month. Oil prices are still down YoY in USD terms.

Georgia has a reasonably balanced exposure to oil prices. However, at the moment, oil exporters in the region are better prepared to cope with a higher volatility as most of them have state budgets planned at relatively low level of oil prices. Therefore, Georgia is benefiting more from the lower oil prices as the decline in import bill likely outweighs the negative impact on inflows from oil exporters.

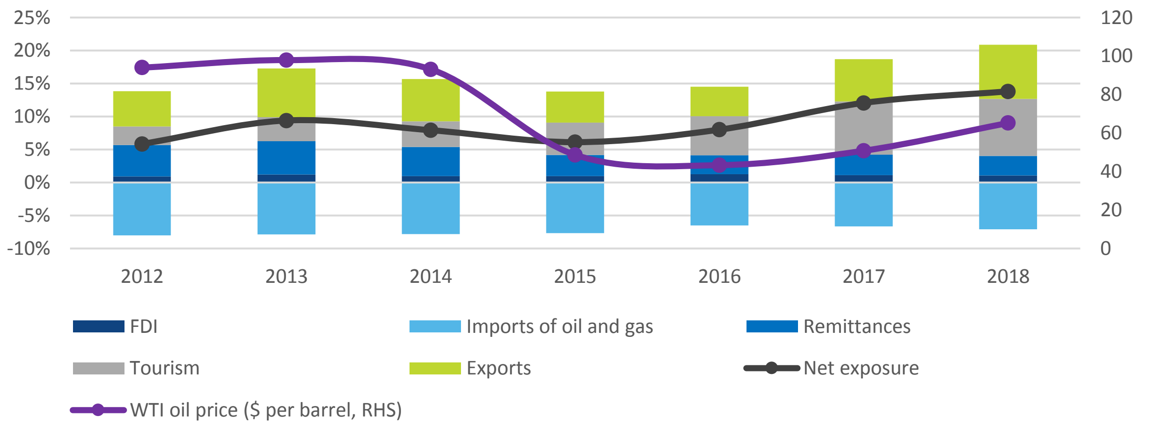
Growth of petroleum products imports in Georgia and oil prices

(YoY in USD)



Inflows from oil exporters vs the imports of oil and gas and oil prices*

(% of GDP)



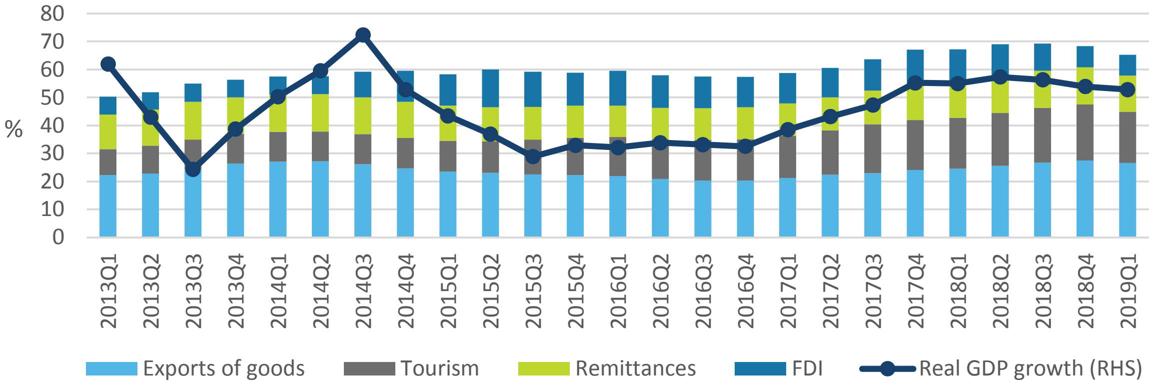
Sources: Isbank research, Ministry of Economy of Russia, St. Louis Fed, TBC Bank Economic Team estimates

**Currency inflows from oil exporters amounts to c. 20 of GDP, while petroleum imports of Georgia amounts to c. 8 of GDP. Taking into account different elasticities of currency inflows and imports of petroleum products against oil prices, overall net exposure to oil prices appears to be reasonably balanced. For example, possible drop in oil prices should have more proportional impact on petroleum imports rather than on tourism or export inflows.*

External environment cont'd

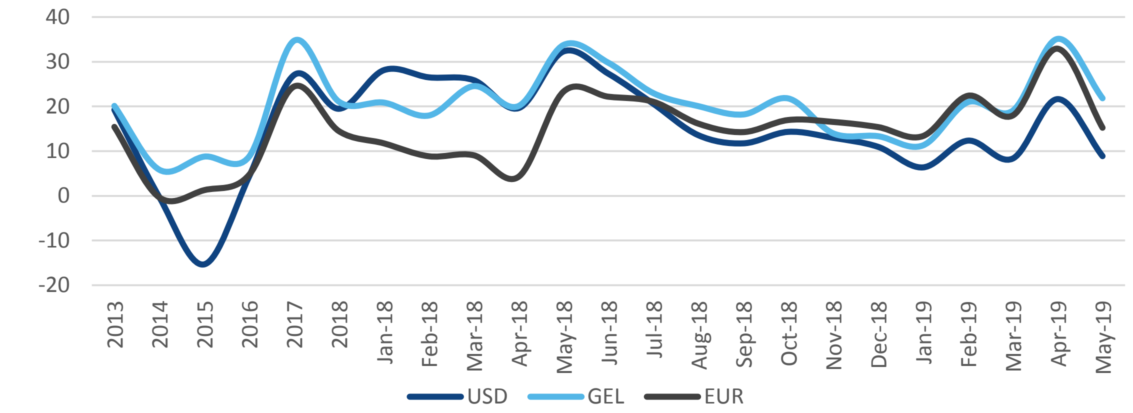
Inflows of exports, tourism, remittances and FDI to GDP and real GDP growth

(last 4 quarters)



Growth of inflows of exports, tourism and remittances in different currencies

(YoY)



Growth of inflows of exports, tourism and remittances to Georgia by countries/regions

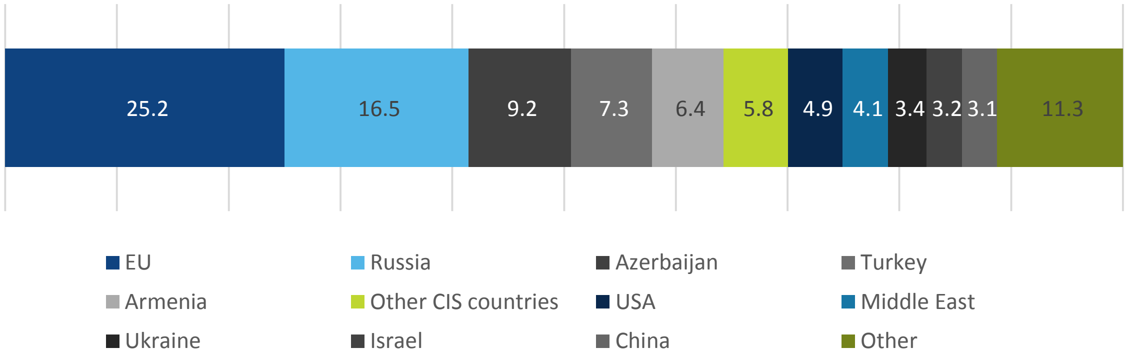
(%, YoY in USD)

Countries/regions	YoY in 2018	Contr. to growth in 2018	YoY in May 2019	Contr. to growth in May 2019
EU	24.1	22.8	19.8	39.8
Russia	18.5	17.7	25.0	52.8
Turkey	2.0	1.2	-35.2	-41.4
China	3.5	0.6	-25.7	-12.1
USA	21.7	4.8	-24.3	-11.7
Azerbaijan	52.8	20.1	0.7	0.6
Armenia	18.6	6.9	25.3	19.1
Ukraine	30.5	5.4	46.6	20.3
Other CIS countries	42.3	10.0	23.2	15.2
Israel	32.6	5.5	6.9	3.0
Middle East	3.2	0.9	-37.0	-14.8
Other	6.2	4.1	20.8	29.1
Total	19.5	100.0	8.9	100.0

Source: GeoStat, TBC Bank Economic Team estimates

Shares of different countries/regions in exports, tourism, remittance and FDI inflows

(%, 2018)



Source: NBG, GeoStat, TBC Bank Economic Team estimates

GDP growth at 4.7% in May 2019

According to the initial estimates of GeoStat, real GDP growth stood at 4.7% YoY in May 2019. The growth averaged 4.9% YoY in the first five months of 2019.

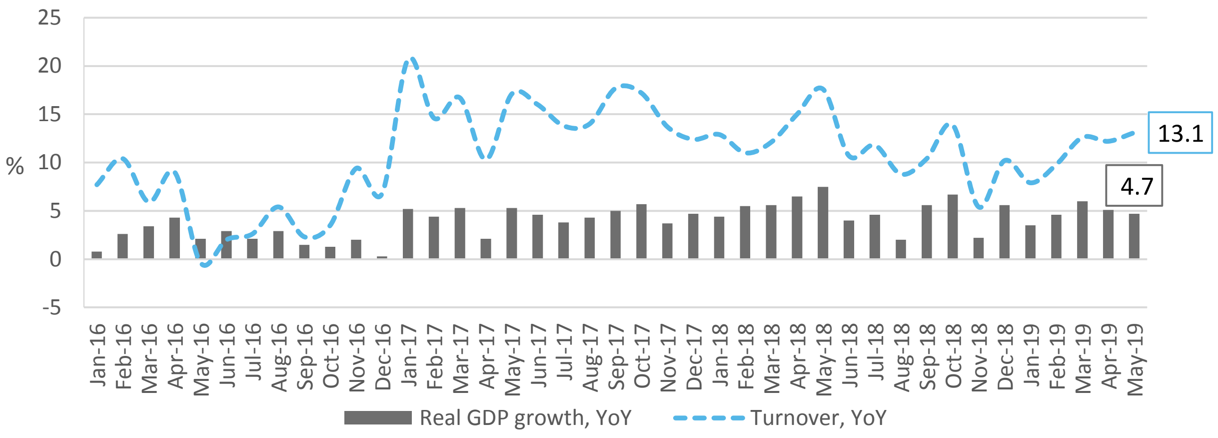
In terms of sectors, trade, renting and business activities, real estate and hotels and restaurants were predominantly driving the higher economic activity.

The decline in the construction sector persisted also in May, mostly explained by the finalization of the BP's SCPX project, as well as likely impact of the stricter housing construction permits and retail lending regulations. A decrease was also registered in manufacturing sector, probably driven by the volatile exports of ferro-alloys and drop in production of fertilizers and spirits.

Overall exports, especially with higher share of domestic value added, were weak partially explained by the base effect. However, tourism and remittance inflows were supportive, increasing at higher rates as compared with the tendency over the previous months.

Together with the stronger remittances, the continued expansionary fiscal stance had a positive impact on the domestic demand. Also, after months of continued slowdown, the credit growth has somewhat stabilized. Still, imports growth remained weak probably even when adjusted for the high base effect. The NBG did not intervene on the FX market in May.

Real GDP growth estimates* and turnover of companies**

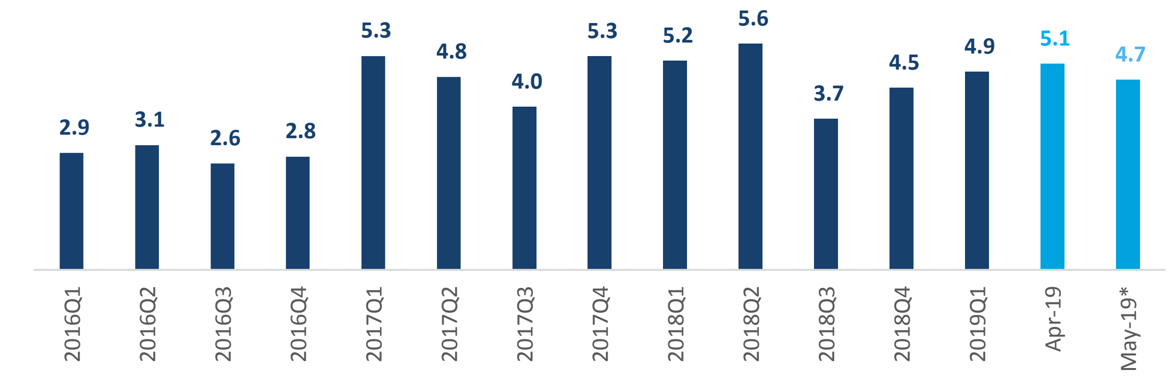


*Initial estimates of Geostat

**Turnover of companies paying VAT

Real GDP growth

(%, YoY)



*Initial estimates of Geostat

Source: Geostat

GDP growth - quarterly release

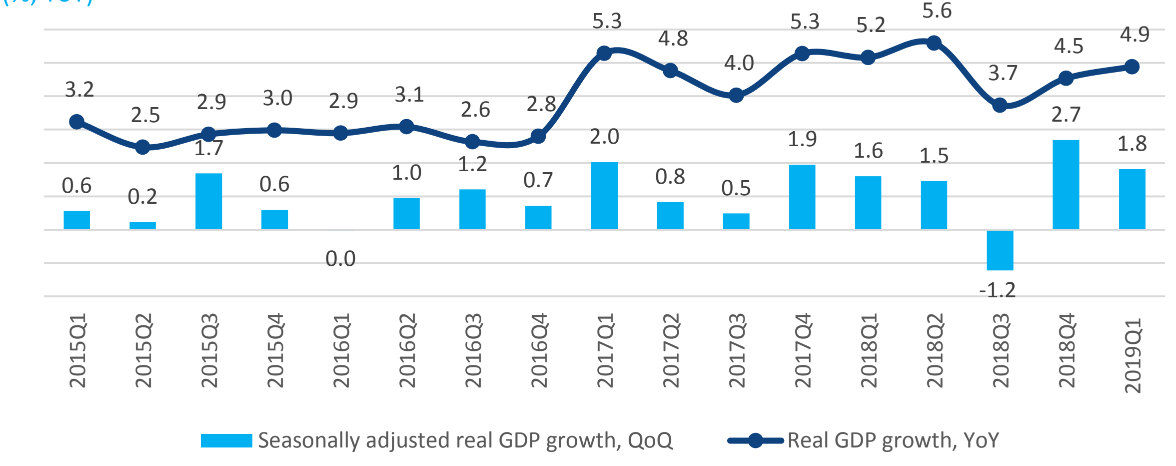
GDP increased by 4.9% YoY and by 1.8% QoQ on seasonally adjusted terms in Q1 2019 – a strong growth performance especially on a quarterly basis bolstered by the expansionary fiscal policy and supportive external inflows compensating for the relatively lower credit growth. Nominal GDP went up by 7.4% YoY.

Transport and communications (+12.7% YoY), as well as trade and repairs sector (+6.7% YoY), contributed most to the growth. At the same time, education (+15.7% YoY) and healthcare sectors (+11.4% YoY) increased substantially mainly due to the higher budget spending on education (+57.7% YoY) and healthcare (+14.4% YoY) in Q1 2019.

Similarly, strong growth was observed in hotels and restaurants (+13.1% YoY), and real estate (+11.1% YoY). All other major sectors also increased with the exception of construction (-9.6% YoY), agriculture (-0.3% YoY), and manufacturing (-1.3% YoY).

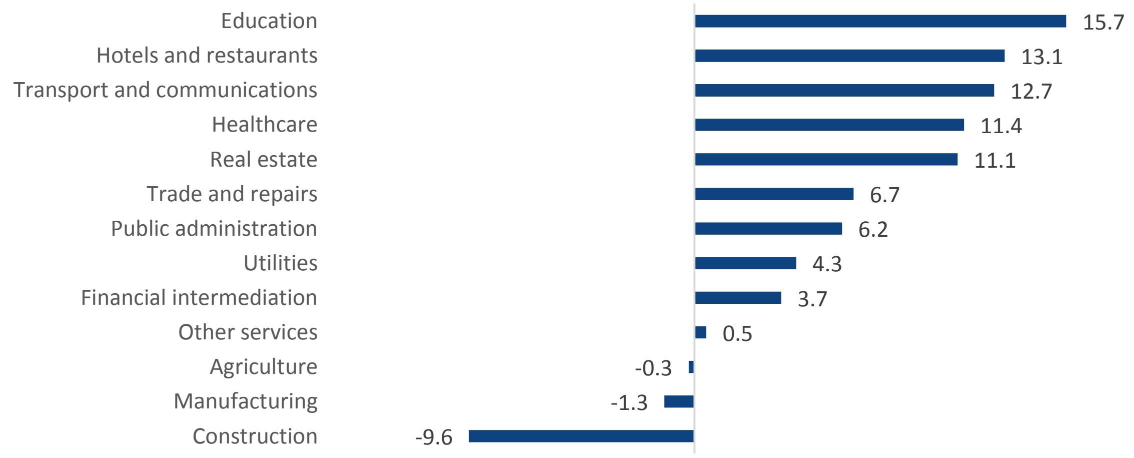
As expected, construction sector declined by 9.6% YoY, mostly due to the finalization of BP's pipeline construction project. Also, the decline of construction sector was aggravated by the weakness of residential buildings construction related to the slower mortgage growth and tighter construction permit regulations. On the other hand, strong government capital expenditures partly offset the decline.

Real GDP growth
(%, YoY)



Source: Geostat, TBC Bank Economic Team estimates

Real GDP growth by sectors in Q1 2019
(%, YoY)



Source: Geostat

Fiscal sector

The budget tax revenues increased by 7.3% YoY in May 2019 with the VAT up by 5.2% YoY. Turnover of VAT payers remained strong increasing by 13.1% YoY. Over the same period, total expenditures went up by 24.5% YoY reflecting higher capital (+70.7% YoY) as well as current spending (+16.7% YoY).

Consolidated budget posted a deficit of 77.1 mln GEL in May, mostly financed by government debt (107.9 mln GEL), while the share of drawdown of treasury deposits and the privatization receipts in the deficit financing were negligible.

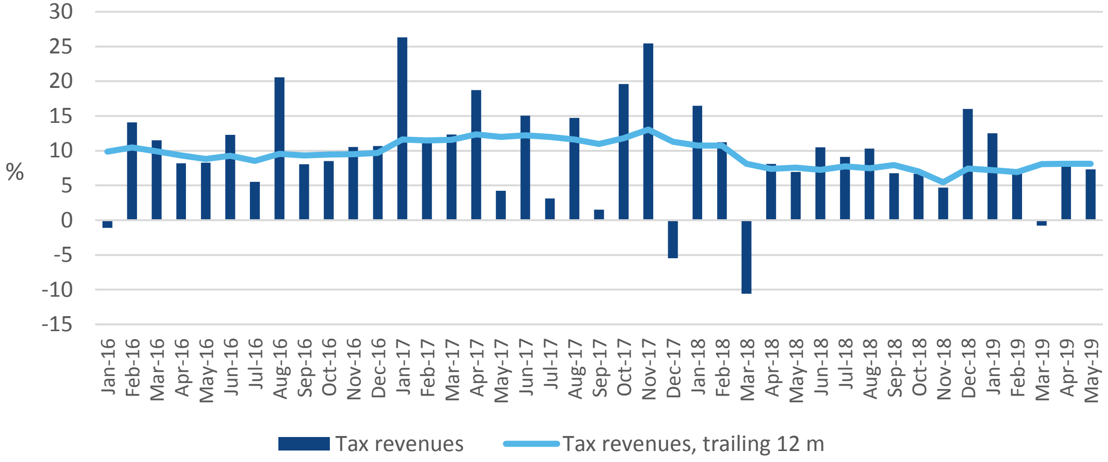
The budget deficit in the first five months of 2019 stood at around 233.6 mln GEL compared to the surplus of 116.3 mln GEL in the same period of the previous year.

The wider budget deficit continues to support growth in 2019 together with the advance payments made at the very end of 2018 (see more in TBC Economic Review, Insights #5, 6 and 10).

Despite expansionary fiscal stance, the trade balance continued to have improving dynamics in May as well.

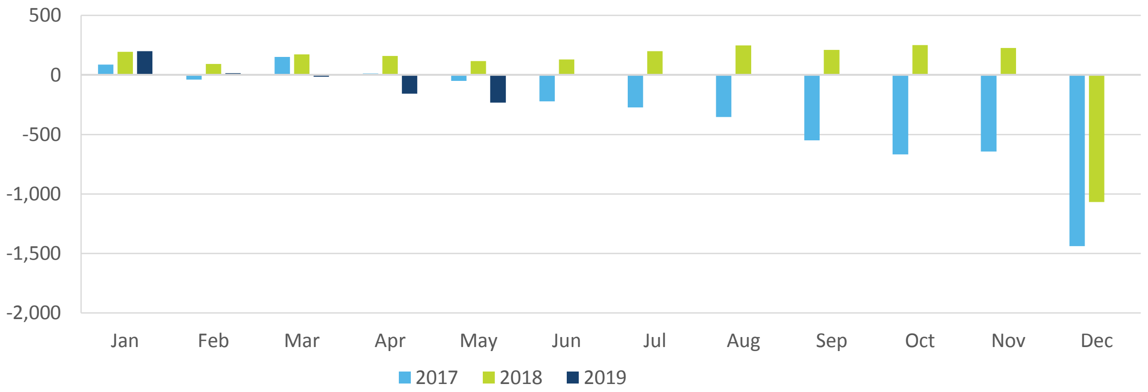
Growth of tax revenues

YoY



Consolidated budget balance

(mln GEL, cumulative)



Source: MOF, TBC Bank Economic Team estimates, ISET-PI

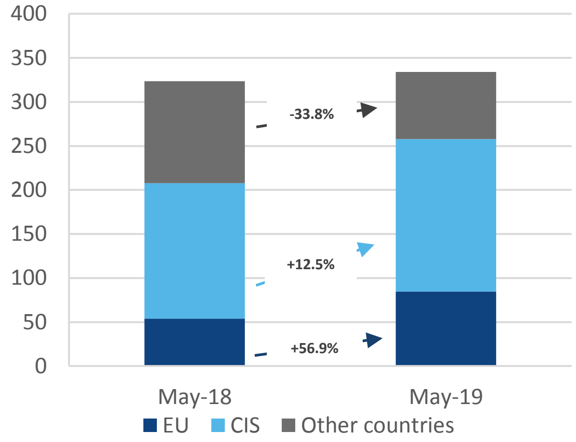
Exports of goods up by 3.5% in May

Exports increased by a modest 3.5% YoY in May when expressed in USD. In EUR and GEL growth stood at 9.6% and 15.8%, respectively. The weak exports growth in May 2019 is partly explained by the high base effect, stronger dollar as well as likely one-off decline in some major commodity exports, such as ferro-alloys. In real terms exports went up by 10.9% as exports prices in GEL were 4.4% higher over the same period.

Despite reasonably strong real growth, the impact on GDP might be restrained as re-exported items drove the increase, with copper ores (+41.3% YoY), cars (+72.8% YoY), and medicaments (+22.0% YoY) being up solidly in USD terms. At the same time, a sharp decline was observed in several major export categories with higher domestic value added, such as fertilizers (-75.3% YoY), ferro-alloys (-47.4% YoY) as well as nuts (-78.6% YoY) and spirits (-22.9% YoY). Other traditional categories, namely wines (+9.5% YoY) and mineral waters (+10.8% YoY) maintained a growth tendency.

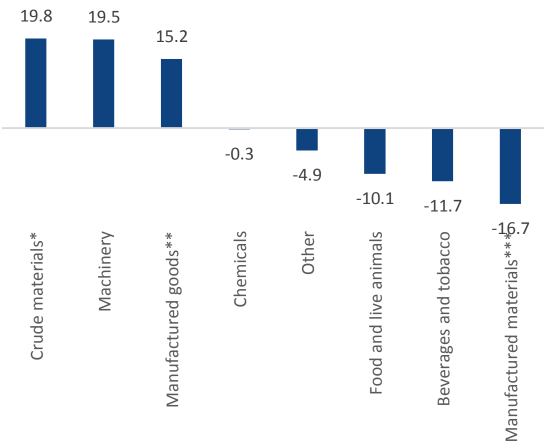
In terms of regions, the increase of exports to the EU was the highest (+56.9% YoY). Exports also went up to the CIS (+15.5% YoY), while a decline was observed in case of other countries (-33.8% YoY).

Exports of goods by regions



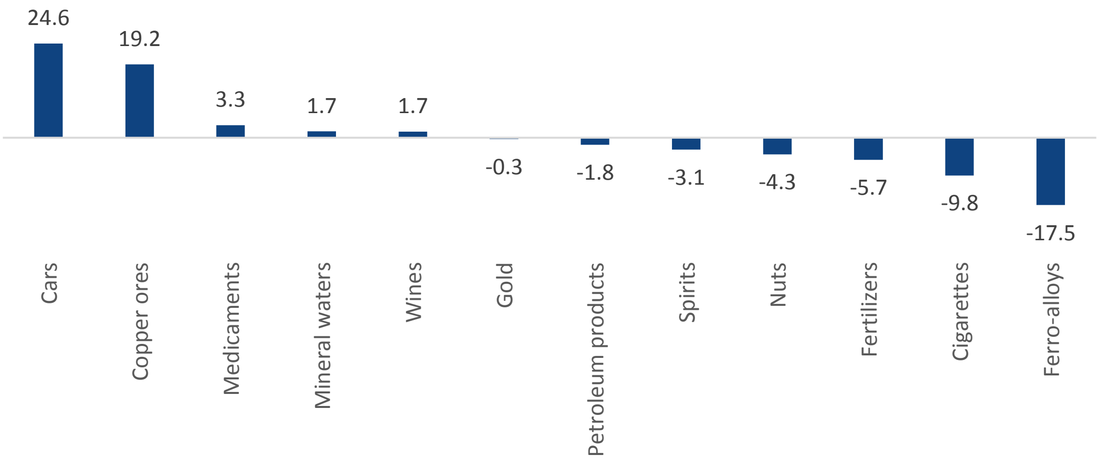
Exports by goods in May 2019

(SITC classification, mln USD, YoY)



Top 10 exported goods**** in May 2019

(mln USD, YoY)

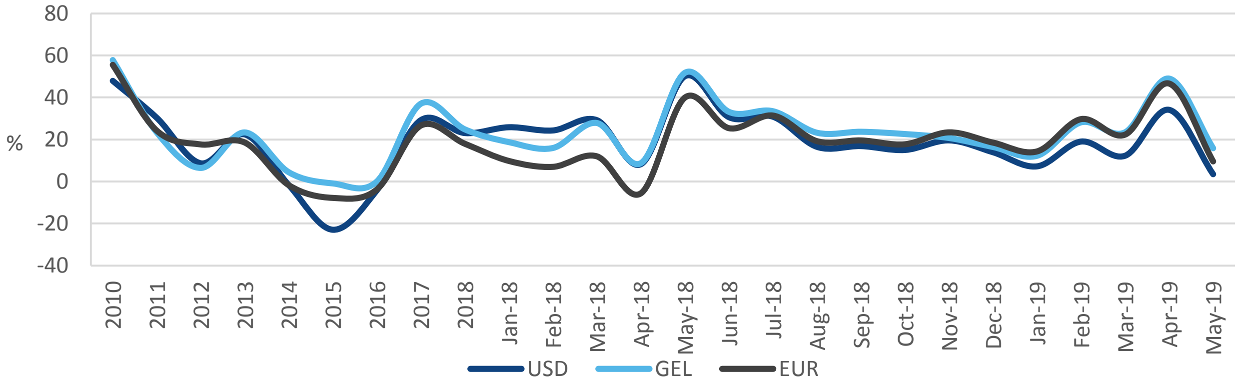


** mostly metal and rubber manufacture ** mostly textile, prefabricated buildings, lighting and heating devices*
****mostly metal ores **** based on the share in exports over the last 12 months*

Source: GeoStat, TBC Bank economic Team estimates

Growth of exports in different currencies

(YoY)



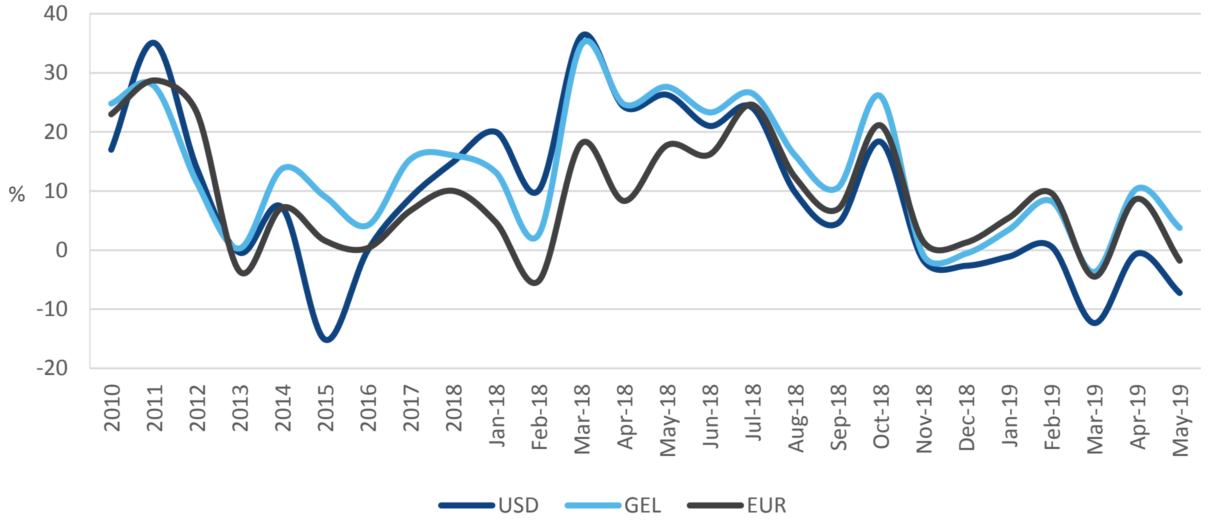
Source: GeoStat

Imports of goods decreased by 7.3% in May

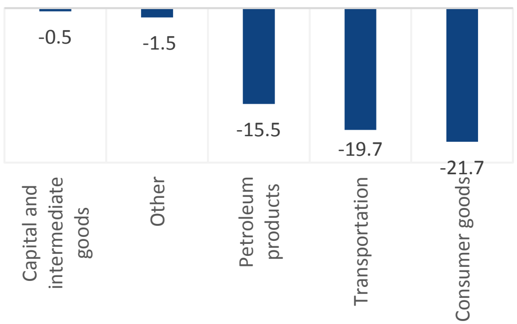
Over the same period, imports of goods fell by 7.3% YoY when expressed in USD. In EUR and GEL growth stood at -1.8% and 3.8%, respectively. Import prices went up by 9.2%. The decline of imports was broad-based across all major product categories. In particular, imports of transport equipment (-15.7% YoY), consumer goods (-8.7% YoY), petroleum products (-14.7% YoY), as well as capital and intermediate goods (-0.2% YoY), have all went down. The decline in transportation mainly reflects lower imports of industrial machinery probably related to the finalization of the BP's pipeline construction project. Lower oil prices impacted the imports of petroleum products, while the fall in consumer goods, particularly that of the consumer durables can be attributed to stricter retail lending regulations. In addition, construction materials imports also declined, mirroring the slower growth of mortgage lending and construction activity.

Together with the stronger dollar, high base effect also played a role in weak imports growth. At the same rime, re-exported goods affected imports positively, especially the capital and intermediate goods category.

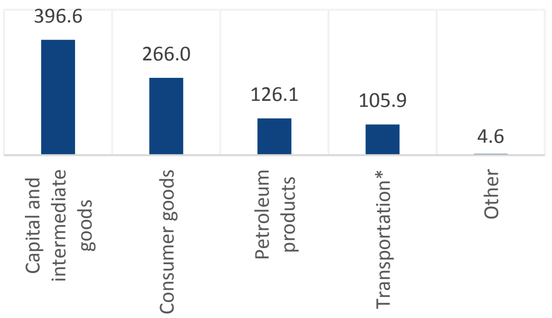
Growth of imports in different currencies
YoY



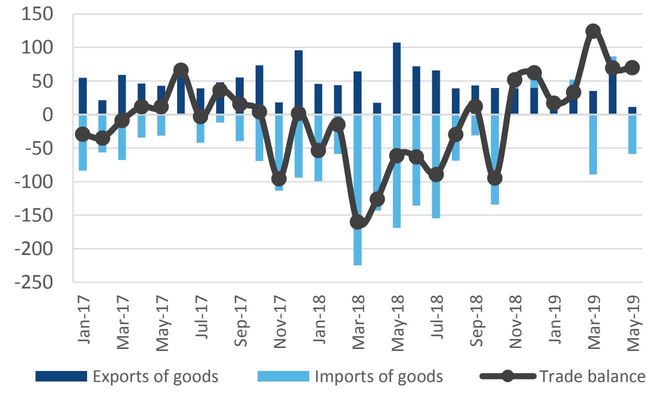
Growth of major categories of imports in May 2019
(mln USD, YoY)



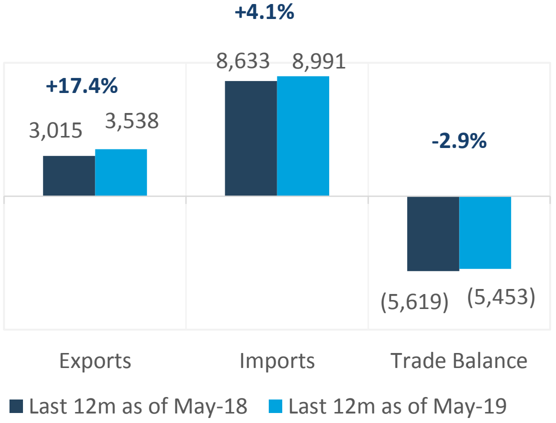
Growth of major categories of imports over the trailing 12m as of May 2019
(mln USD, YoY)



Change of exports, imports and trade Balance
(mln USD, YoY)



Exports, imports and trade balance
(mln USD)



** Durable goods exclude cars due to the difficulty to estimate the share of re-exports on a monthly basis*
Source: GeoStat

Source: GeoStat

Number of tourists increased by 18.0% in June

The total number of visitors went up by a solid 19.9% YoY in June, while the number of same day trips and tourists posted high growth rates of +23.6% YoY and 18.0% YoY, respectively.

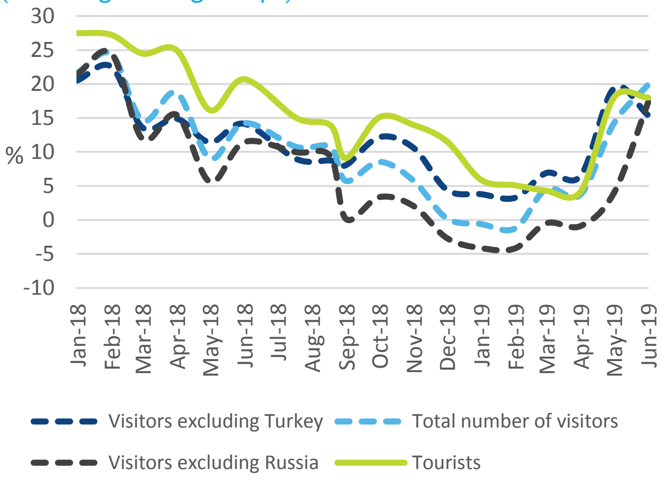
The estimated tourism inflows grew by 16.0% YoY in USD terms in June. When expressed in the EUR and the GEL, the growth of inflows stood at 20.1% YoY and 31.1% YoY, respectively.

In terms of regions, the number of visitors from the EU maintained a high growth rate of 19.9% YoY. At the same time, the number of visitors from the CIS countries increased by 18.8% YoY, mostly on the back of the solid growth from Russia (+30.8% YoY), Kazakhstan (+78.4% YoY) and Ukraine (+24.8% YoY). Visitors from the other countries went up by a strong 20.0% YoY, mostly due to a sharp pick up from Turkey (45.8% YoY).

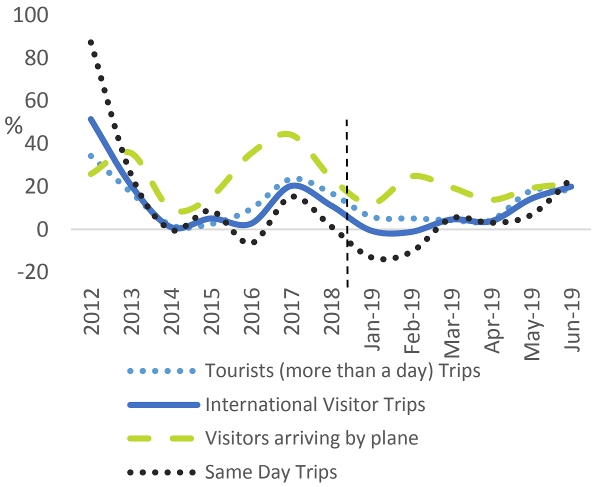
After a continued decline, the number of visitors from Turkey went up sharply YoY in June, reaffirming the growth projection of the tourism inflows even if the inflows from Russia are halved. In fact, before May 2019, when tourist arrivals spiked to 18% YoY with the key contribution of Russia, the growth of tourists was quite moderate during a couple of months.

Georgia's recognition as a tourist destination is growing globally. On the 8th of June, 2019 World Awards (WTA) Europe Gala Ceremony held in Madeira, Portugal, Batumi earned the title of "Europe's Leading Emerging Tourism Destination."

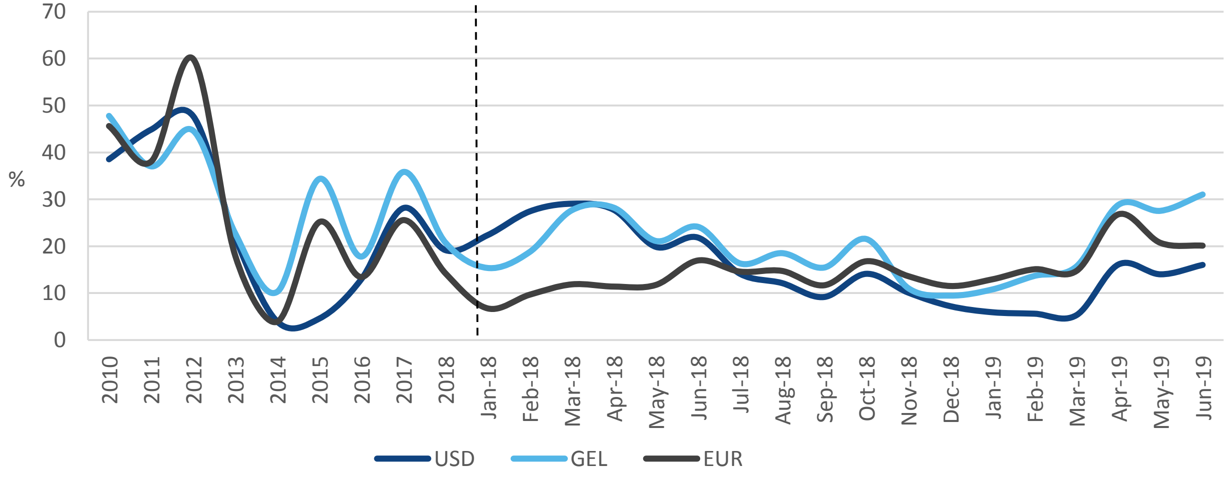
Annual Growth of Number of Visitors (including overnight trips)



growth of visitors by types of visits (YoY)



Growth of tourism inflows* in different currencies (YoY)



*Estimates of inflows are periodically revised as updated information is available.

Source: GNTA, NBG, TBC bank economic team estimates

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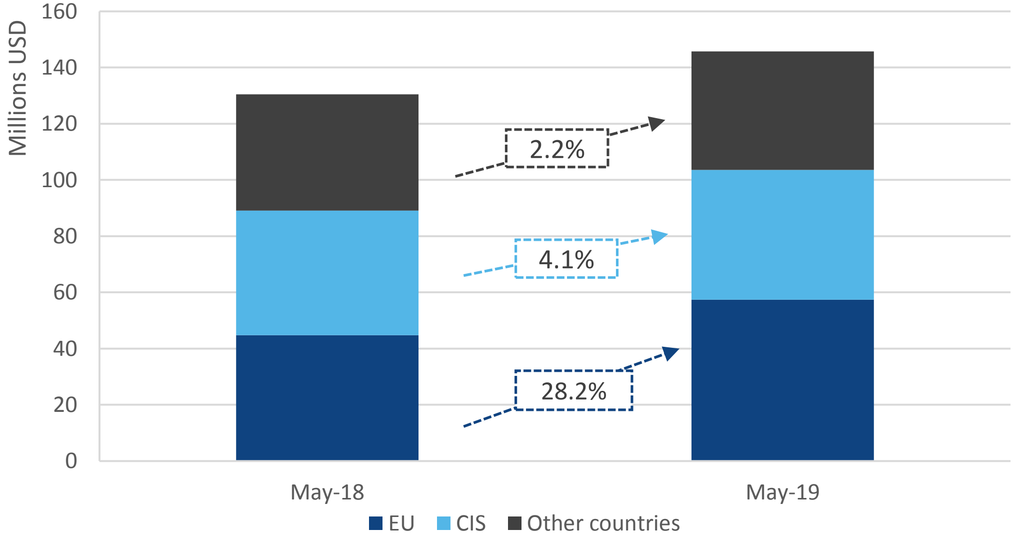
Remittances up by 11.8% in May

After the 10.1% YoY growth in April, remittance inflows increased by 11.8% YoY in May 2019 in USD terms. When expressed in EUR and GEL, the yearly growth rates stood at solid 18.3% and 25.1%, respectively.

In terms of regions, inflows remained strong from the EU (+28.2% YoY in USD). Remittances also increased from the CIS (+4.1% YoY in USD) and other countries (+2.2% YoY in USD), albeit more moderately.

As for countries, Italy (+28.4% YoY in USD) contributed most to the overall growth, followed by Greece (+24.6% YoY in USD) and the USA (+13.9% YoY in USD). Similar to the previous months, the inflows from Turkey continued to decline (-20.0% YoY in USD). Recently, Turkey's share in remittance inflows has been shrinking gradually and the negative contribution to the overall growth was limited to -1.5 PP. Remittances decreased from Russia as well (-5.8% YoY in USD).

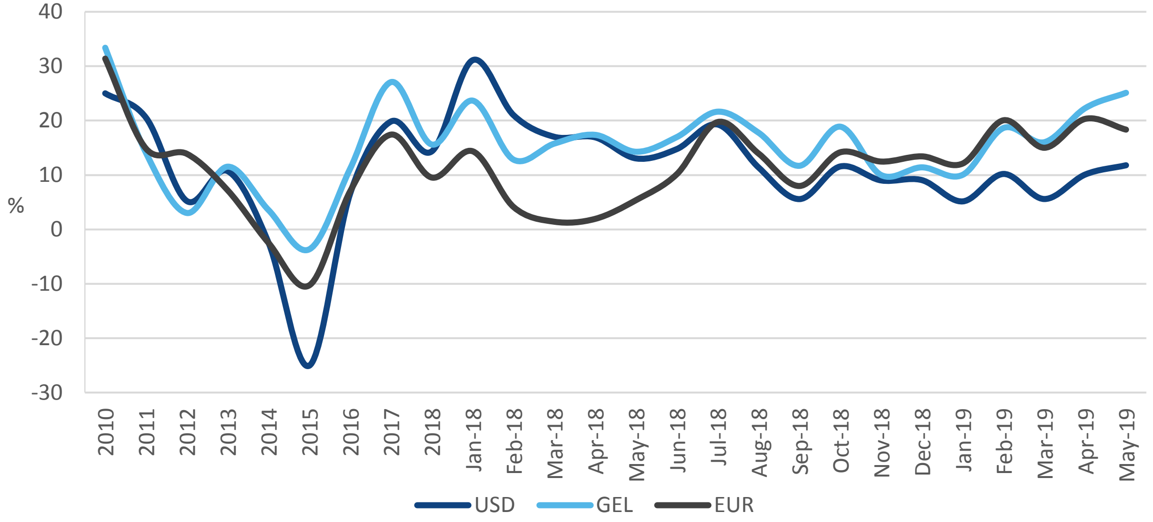
Remittances by regions



Source: NBG

Growth of remittances in different currencies

YoY



Summary of some sources of currency flows*

(mln USD)	m/m change in May	y/y change in May	y/y change in last 12m
Trade Balance	5.4	70.1	194.2
Exports of goods	26.8	11.3	523.2
Imports of goods	21.4	-58.8	328.9
Remittances	8.7	15.4	147.4
Tourism inflows	49.0	48.0	356.4
Total	**63.1**	**133.5**	**698.0**

**Data given in the table are not exactly comparable to BOP figures*

Compared to the same period of the previous year, the balance of trade in goods, remittances, and tourism revenues improved by 133.5 mln USD YoY in May 2019. In the last 12 months, balance of inflows from these sources also improved by 698.0 mln USD.

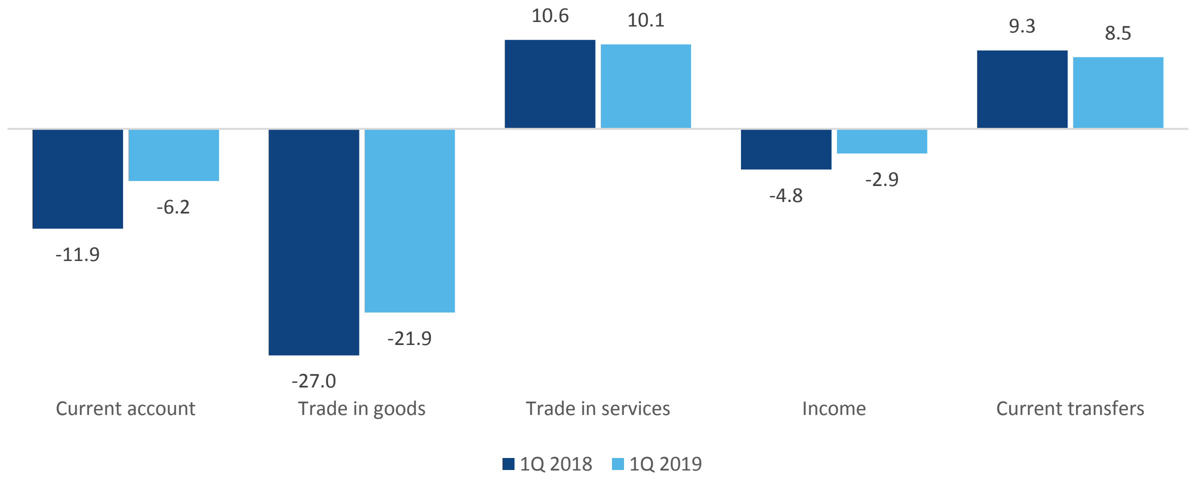
Source: NBG

The CA deficit improved

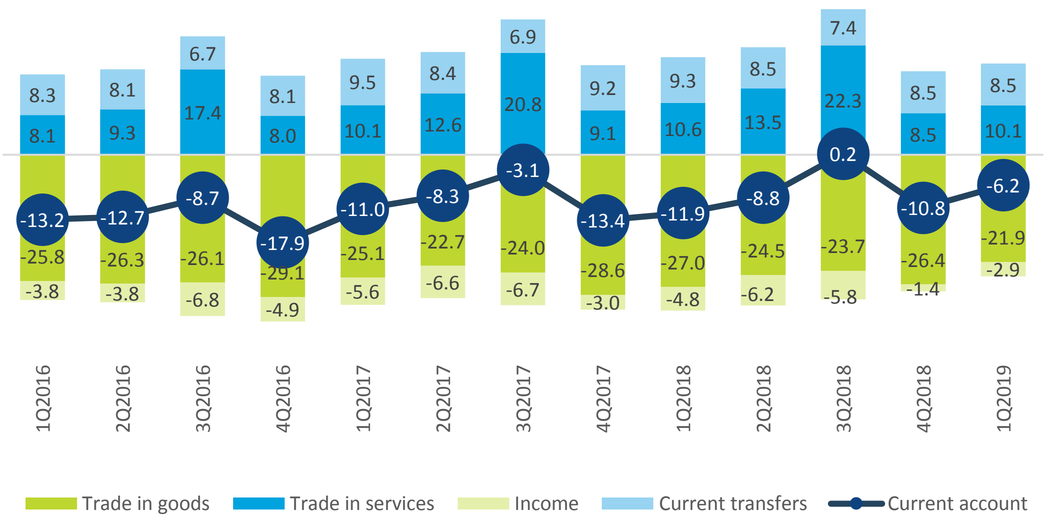
The CA balance improvement trend continued also in Q1 2019 with the deficit to same quarter GDP ratio at 6.2% - being historically low with an improvement of 5.7 percentage points YoY and with the strongest contribution of the trade in goods. The positive tendency has likely sustained in Q2 as well judging from the trade balance, tourism and remittances inflows. Q1 FDI inflows, when adjusted for one-offs, remained reasonably strong (see note on FDI inflows).

Over the last 4 quarters, the current account deficit to GDP ratio stood at 6.4%, also improving by 1.3 percentage points compared to the previous quarter. When adjusted for the reinvested earnings, the deficit equaled 5.0%.

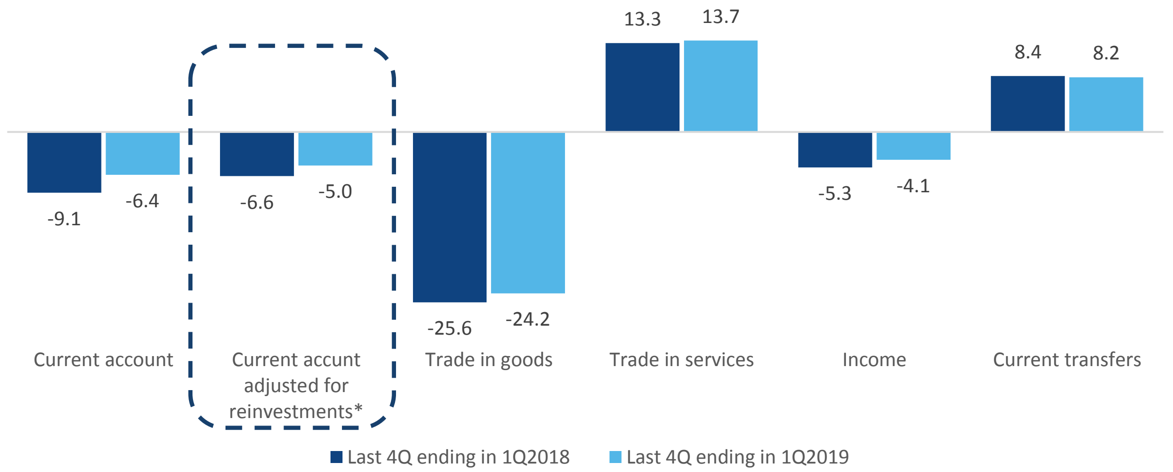
Current account components
(% of GDP)



Current account components
(% of GDP)



Current account components
(% of GDP)



** CA deficit adjusted for reinvested earnings. Reinvested earnings enter both the current (income) as well as the financial accounts (FDI).*

Source: NBG

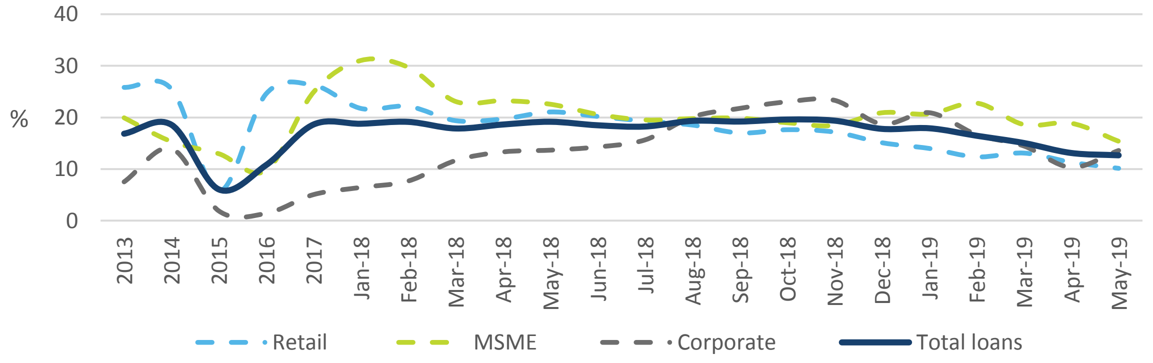
Bank credit growth at 12.7% in May

After the deceleration tendency from the beginning of the year, bank credit growth has stabilized at 12.7%* in May, only 0.4 percentage points lower as compared with the previous month. Corporate lending** has strengthened to 13.6%, while MSME somewhat slowed to 15.5%, however still maintaining the highest growth rate.

As for the retail credit, mortgage debt growth continued to normalize and stood at 27.7% YoY. Non-mortgage*** retail loan portfolio contracted by 5.4% YoY, almost unchanged from the previous months. Seasonally adjusted monthly growth figures of the non-mortgage credit gave some signs of bottoming out. At the same time, as the low base effect gradually comes into play, annual growth figures may strengthen going forward. Furthermore, there are ongoing discussions on a possible revision of the retail credit regulatory framework. Also, around 13% credit growth is assessed by the NBG as being moderate.

Growth of loans by segments

(YoY, excl. FX effect)



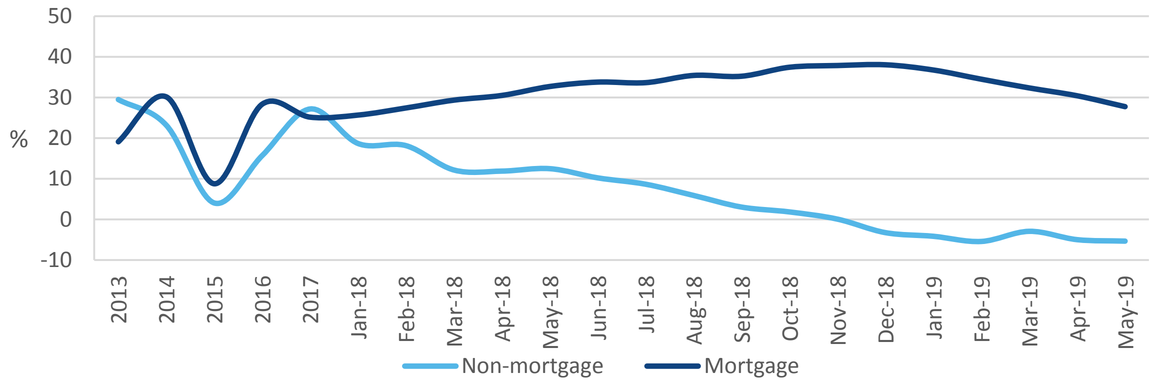
Source: National Bank of Georgia, TBC Bank Economic Team estimates

**FX adjusted growth figures slightly differ from previous publications as a different FX adjustment method is used for calculations. In particular, current FX adjustment assumes the unchanged exchange rate from the same month of the previous year, while figures in previous publications were based on the constant exchange rate of the latest period. The FX adjustment also takes into account loans issued in the EUR.*

***Segments data is adjusted to take into account the re-segmentation impact based on available information. Still, it may not reflect some re-segmentation of MSME credit to corporate segment in May 2019.*

Growth of retail loans by segments

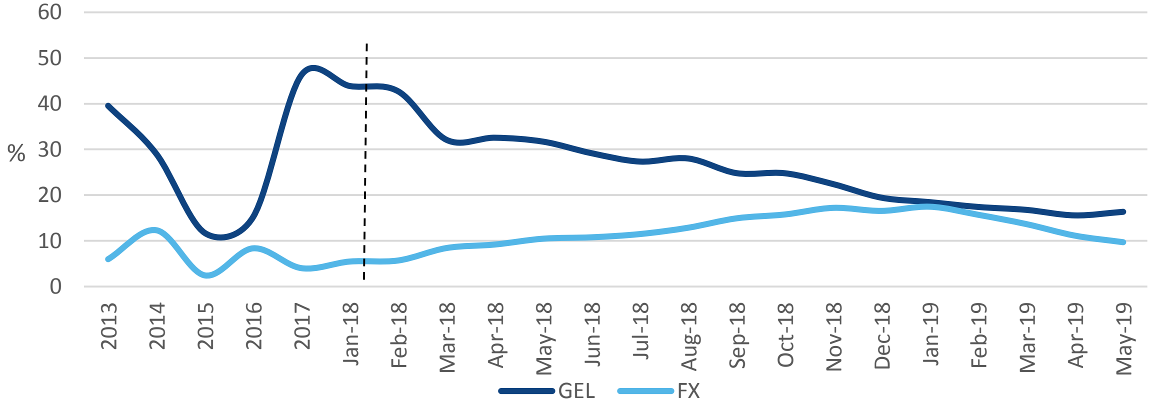
(YoY excl. FX effect)



Gel loan growth came in at 16.3% YoY while FX loans went up by 9.7% when adjusted for the FX effect. As a result, credit dollarization declined by 0.3 PP MoM to 56.7%. On an annual basis, credit dollarization went down by 1.6 PP.

Growth of loans by currencies

(YoY, excl. FX effect)

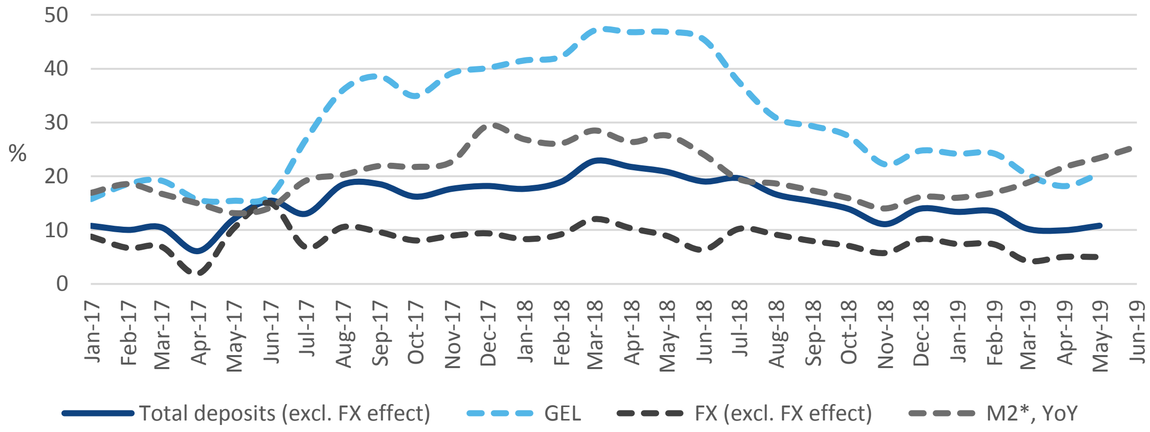


Source: National Bank of Georgia, TBC Bank Economic Team estimates

The GEL liquidity remains favorable

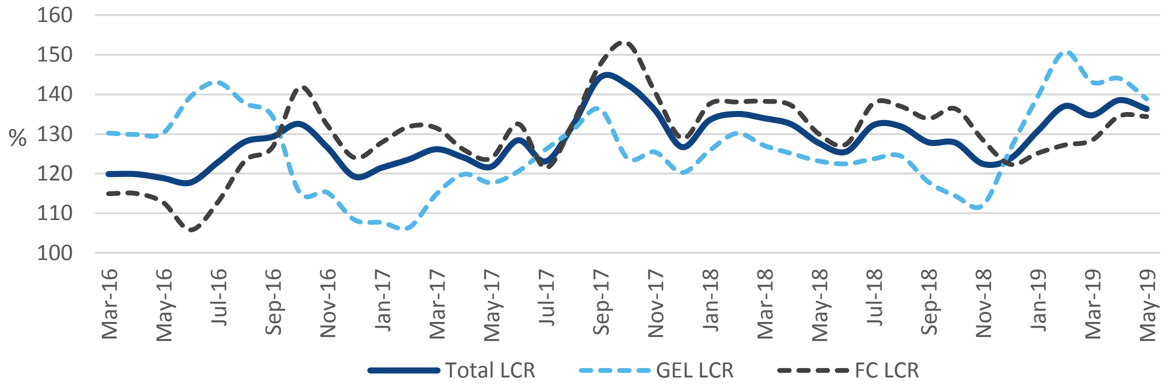
The GEL deposits growth accelerated to 20.4% YoY in May, when excluding government GEL deposits in banks, the growth stood at a higher 26.0% YoY. Over the same period, FC deposits increased by 5.0% YoY excl. the currency effect, broadly unchanged from the previous month. Consequently, the deposit dollarization declined by 0.7 PP MoM and by 3.2 PP YoY when adjusted for the currency effect.

Growth of deposits by currencies
(YoY, excl. FX effect)



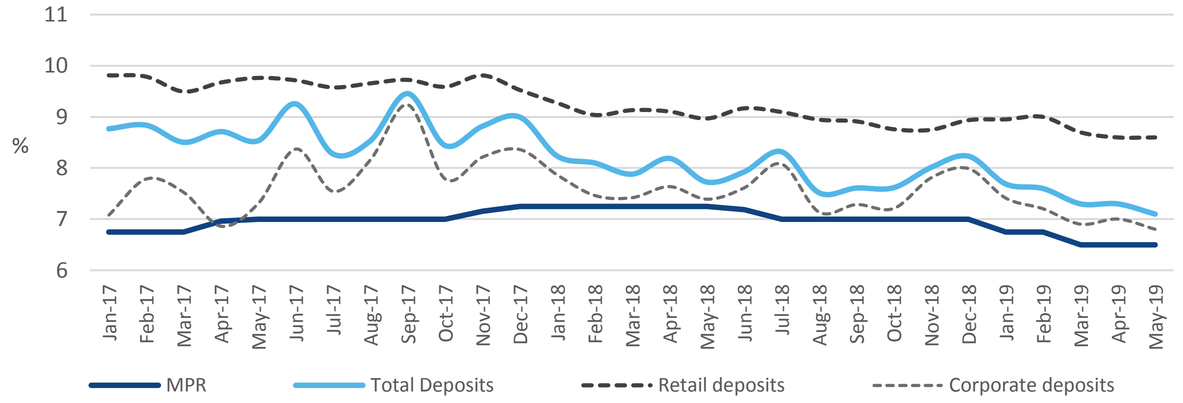
Bank liquidity, as measured by the liquidity coverage ratio, somewhat declined compared to the beginning of 2019, but remains well above the minimum requirement of the central bank. Domestic currency liquidity in the banking sector remains supported by the expansionary fiscal stance**, strong growth in GEL deposits as well as still more moderate growth in national currency lending.

Liquidity coverage ratio



Owing to the favorable liquidity conditions, interest rates on GEL deposits continued to decline. The decline is more pronounced in case of legal entity GEL deposits.

Interest rates on GEL deposits (flows) and monetary policy rate



Source: NBG

** M2 includes currency in circulation, resident term and demand NC deposits and excludes banking and government sector deposits at commercial banks.*

***Similar to expenses from the treasury account at central bank, spending of government deposits at commercial banks backed by securities also leads to higher bank client deposits and at the same time frees up collateral for borrowing from the central bank.*

Source: NBG, TBC Bank Economic Team estimates

Inflation stood at 4.3% in June 2019

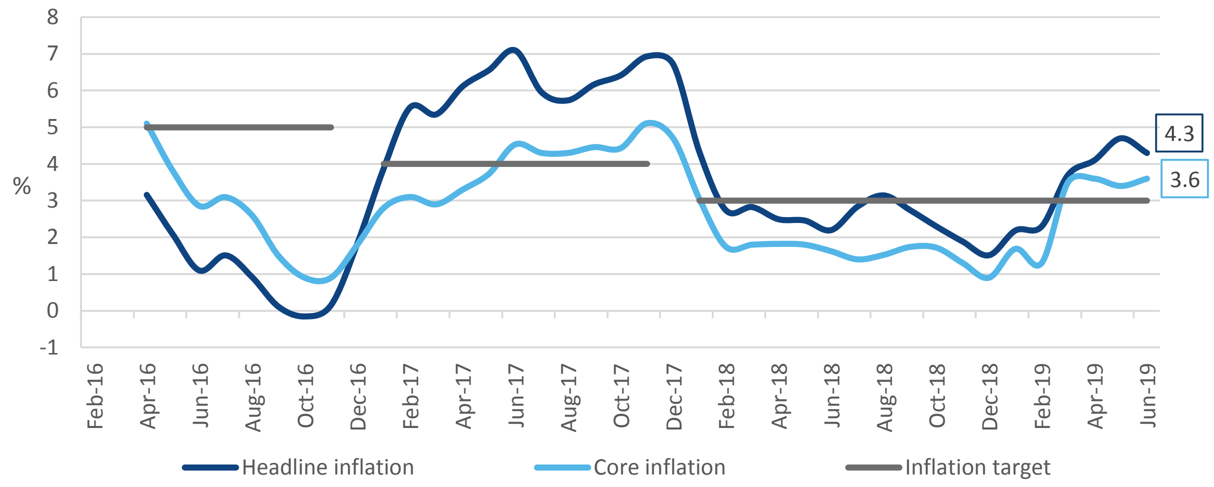
The annual inflation stood at 4.3% in June 2019, 0.4 PP lower compared to the 4.7% in the previous month. The seasonally adjusted annualized inflation stood at a negative 1.5%, mostly explained by lower prices on food and non-alcoholic beverages, particularly on fruits and vegetables subgroup.

Over the same period, estimated core inflation* came in at 3.6%, somewhat higher compared to the previous month.

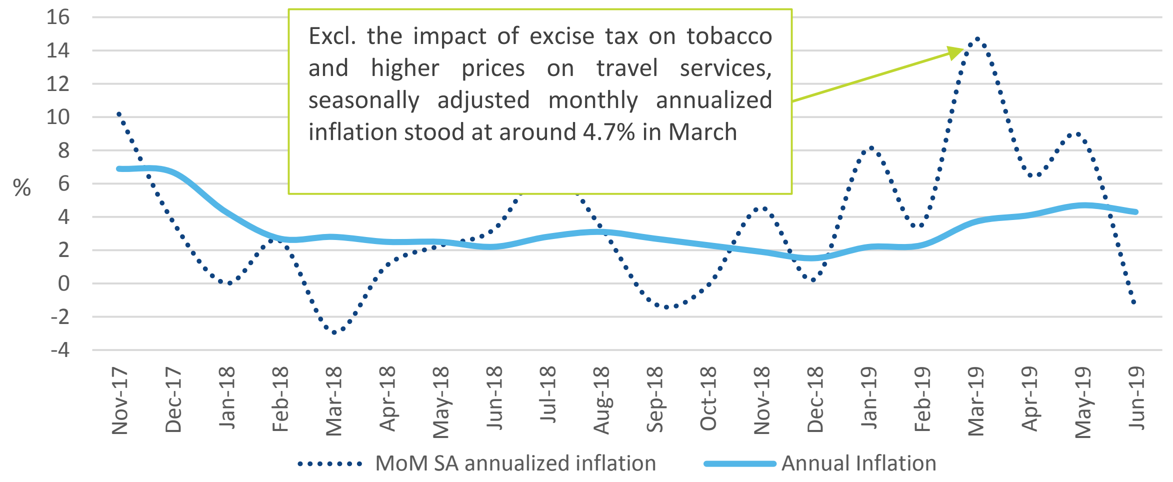
In terms of products, higher prices on food and non-alcoholic beverages (+6.5% YoY), alcoholic beverages and tobacco (+20.1% YoY), and transport (+3.2% YoY) contributed the most to the annual inflation. At the same time, prices went down on clothing and footwear (-6.9% YoY). A more moderate price decrease was observed in communication (-2.6% YoY).

Although the latest print of inflation was lower than expected, cost-push inflation pressures are likely building up amidst the undervalued currency (see exchange rate section below). We expect higher core inflation in the coming months. While the more volatile components of the headline inflation, like prices on food and transportation are hard to predict, our headline inflation projection in the baseline scenario stands at around 5% for the end of 2019. At the same time, if the effective exchange rate of GEL remains at current levels for a prolonged period of time, there is a risk of inflation exceeding our baseline scenario by a significant margin.

Inflation target, headline and core* inflation



Annual and seasonally adjusted monthly annualized Inflation



Source: Geostat, TBC Bank Economic Team estimates

**CPI inflation excluding the prices of food and beverages, energy, transport and administered prices*

No NBG interventions in FX market in June

The NBG made two buy-side interventions on the 6th and the 7th of June, purchasing 30 mln USD in total. The decision may be explained by the aim to smooth the sharp appreciation of the GEL against the USD, also possibly supported by falling oil prices and lower expected inflation at that time. The year-to-date FX interventions amounted to 216 mln USD or an estimated 3% of the same period GDP.

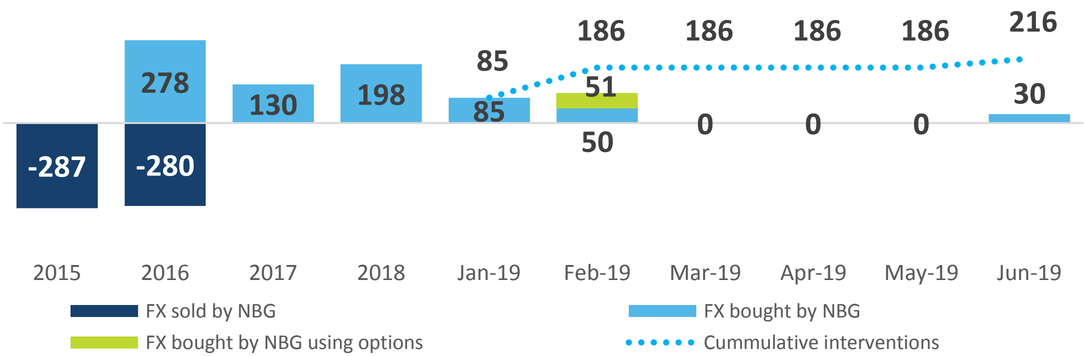
As of the 2nd of July, the GEL REER is strongly undervalued and is likely to strengthen going forward.

No GEL call options* are sold by the central bank, implying no automatic interventions if the GEL appreciates below its 20 day moving average.

Considering that the NBG has already bought a substantial amount of reserves and the GEL has significantly weakened posing inflationary risks, it is highly unlikely that the NBG will buy reserves if the GEL strengthens in coming weeks.

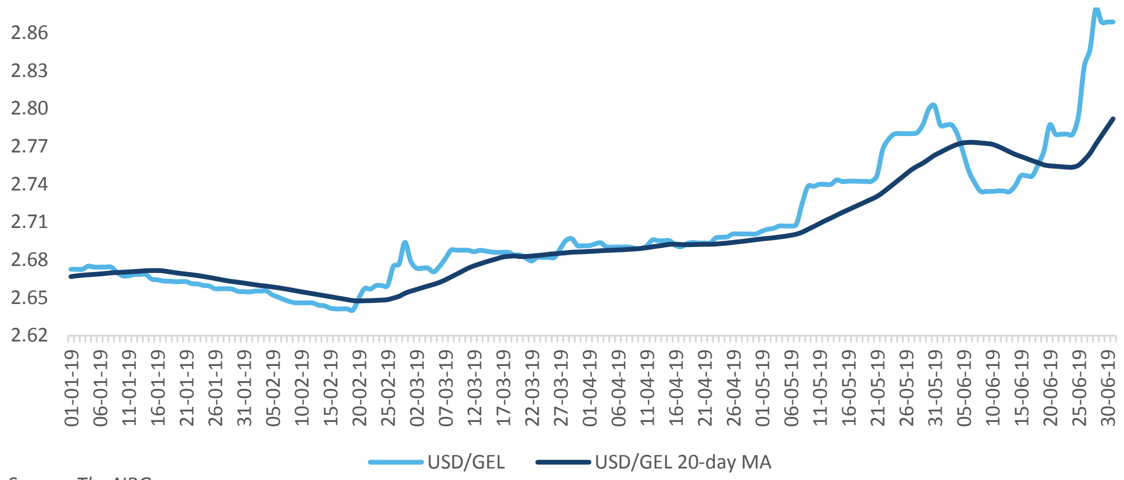
FX interventions (as of the 1st of July)

(mln USD)



Source: The NBG

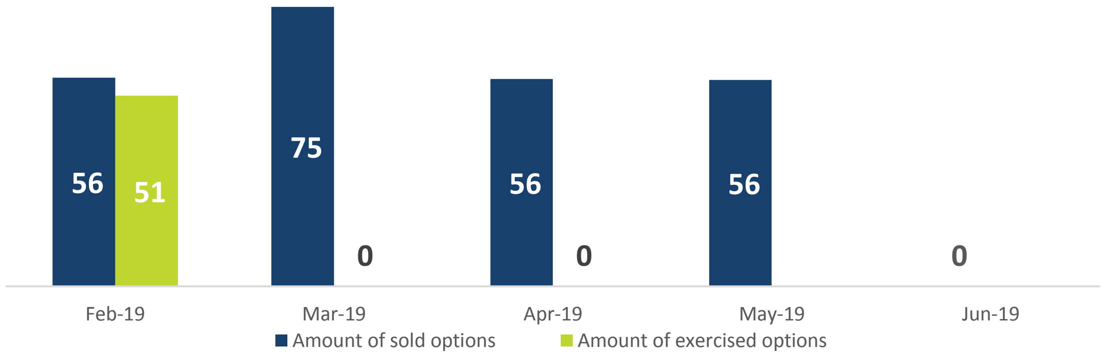
USD/GEL exchange rate and its 20-day moving average



Source: The NBG

Amount of sold options**

(mln USD)



***GEL amounts converted to USD using average exchange rates.*

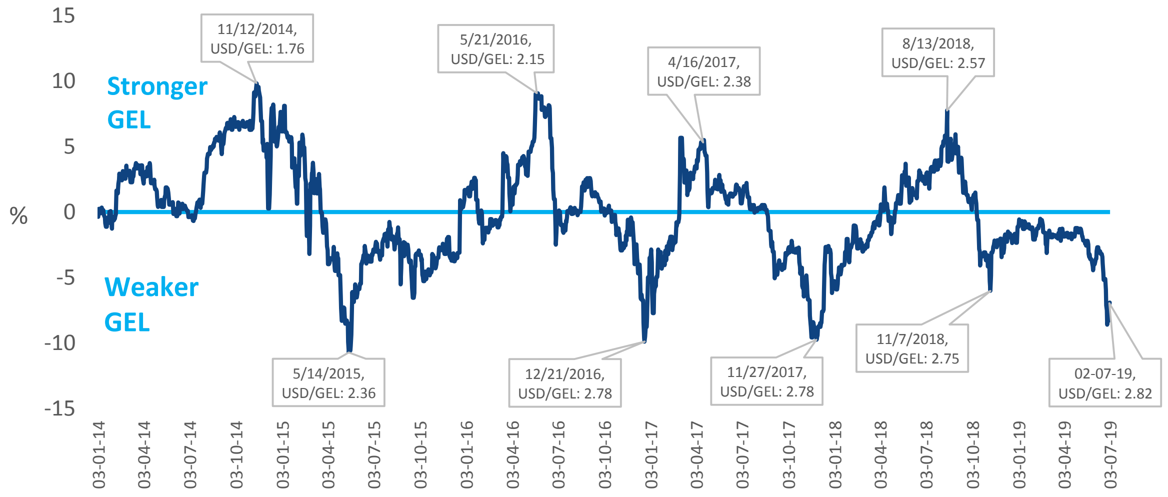
Source: The NBG

**Banks are able to exercise GEL call options whenever GEL exchange rate against USD appreciates more than the moving average for the last 20 days.*

The GEL weakened substantially against trading partner currencies

The USD/GEL exchange rate depreciated by 1.3% over the last month, the weakness of GEL coupled with the stronger trading partner currencies against the USD has translated into a significantly depreciated real effective exchange rate.
As of July 2 daily estimates of REER stood at around 7% below its medium term average.

Deviation of estimated REER* from its medium term average

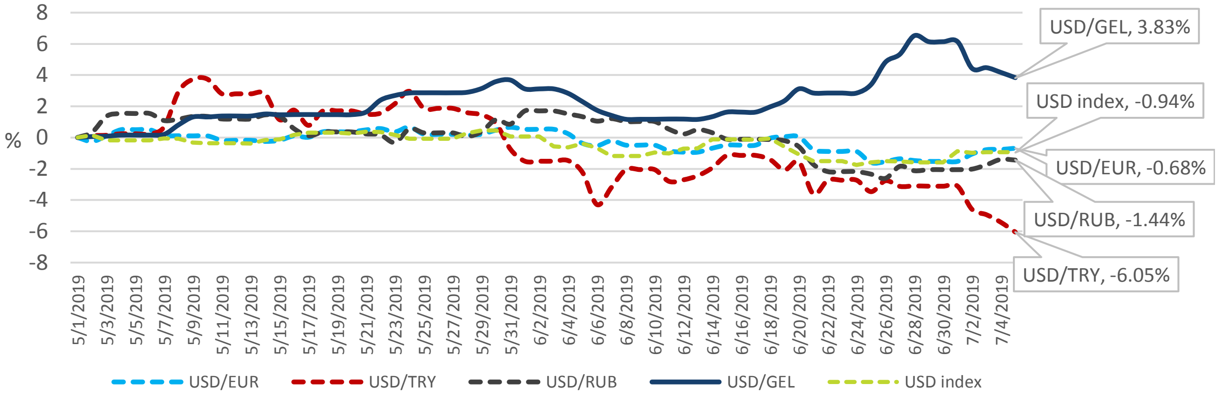


Real effective exchange rate (REER) represents weighted average exchange rate of GEL against Georgia's major trading partner currencies, adjusted for inflation differential. Increase of REER means appreciation. REER below average indicates that the USD/GEL exchange rate might be undervalued and vice versa. Daily estimates of REER are calculated by using nominal effective exchange rate published daily by the National Bank of Georgia and monthly inflation differential. As Inflation data for major trading partners and Georgia is published with lag, latest inflation differential represent the estimates of the TBC Bank Economic team.
Latest day exchange rate represents the results of the same day FX trading.

Source: NBG, TBC Bank Economic Team estimates

Change of selected currencies against USD and USD index* relative to 1st of May, 2019

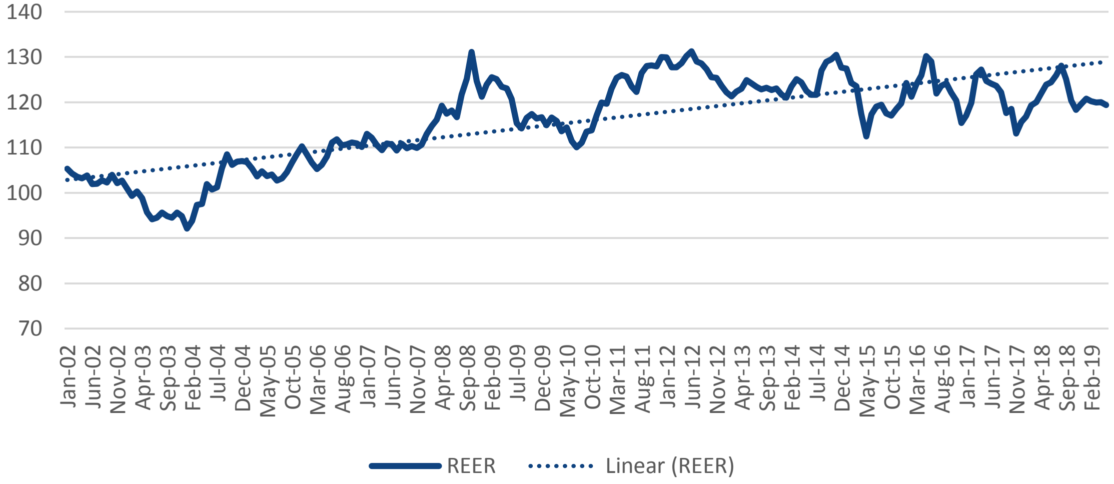
(as of 5th of July 2019)



**USD exchange rate index against major currencies; decrease indicates USD depreciation*

Real Effective Exchange Rate as of May 2019

(Index, 2002=100)



Source: NBG, Refinitiv

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