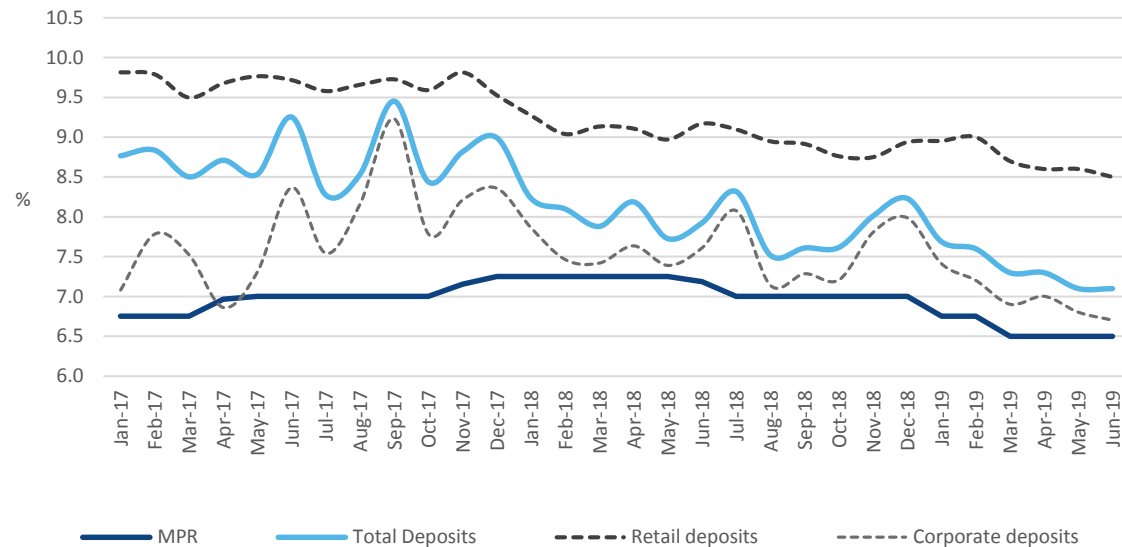


Declining GEL rates may reverse

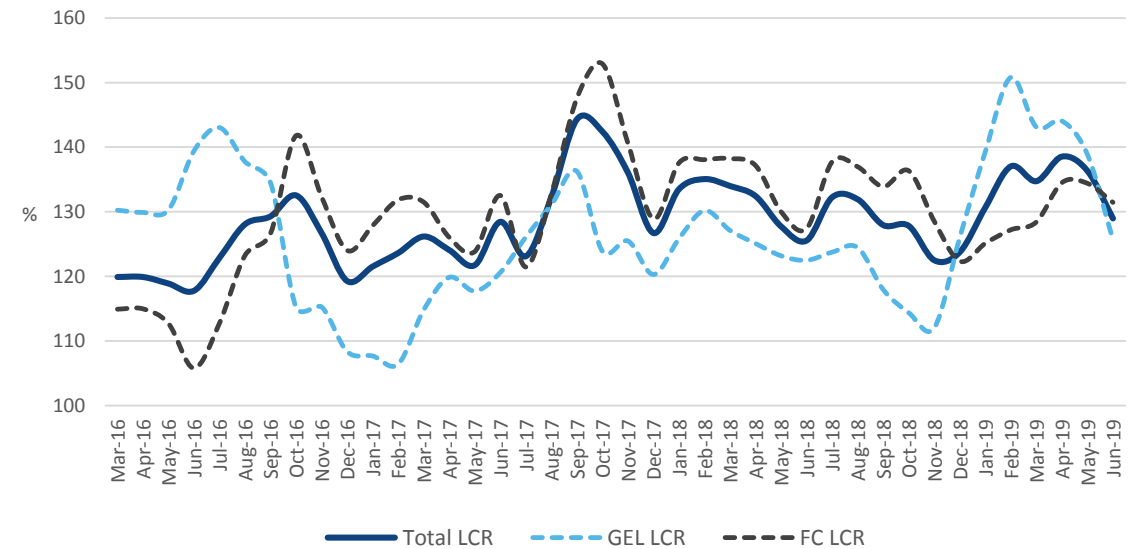
- ❑ After excessive GEL depreciation and the pressure on prices, the NBG turned more hawkish increasing the likelihood of rate hikes (see [note](#) on inflation and exchange rate).
- ❑ As a result of stronger GEL lending and lower GEL deposit growth, excessive levels of liquidity in the beginning of the year, mainly driven by the expansionary fiscal stance and NBG buying reserves, has started to normalize. This also increases the likelihood of unchanged or higher GEL rates.
- ❑ In addition, the elevated exchange rate volatility tends to increase the required risk premium for the GEL deposits.
- ❑ To curb currency depreciation the NBG sold 32.8 mln USD on the 1st of August, also reducing the GEL liquidity in the banking system.
- ❑ On the contrary, some recent conversions of the GEL deposits to FX are unlikely to continue and/or might even somewhat reverse.

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



Source: NBG, MOF, TBC Bank Economic Team estimates

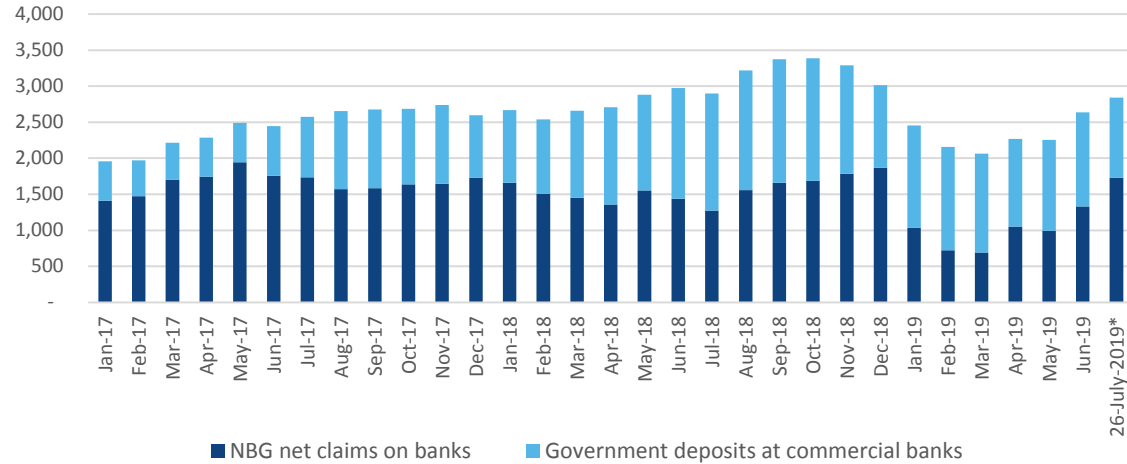
Banking system liquidity coverage ratio



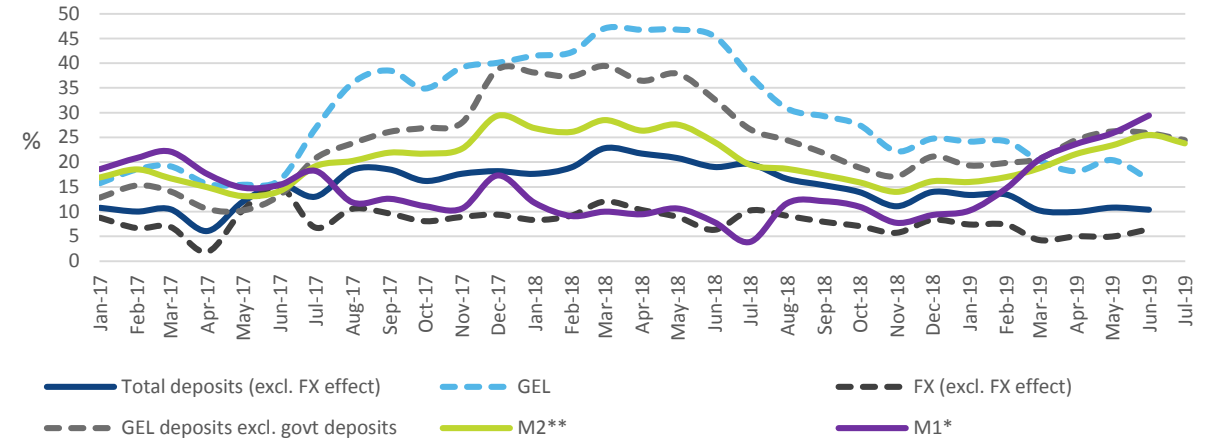
Source: NBG

Refinancing up as a result of stronger loan and lower deposit growth

Govt. deposits in banks and financing from the NBG
(1000 GEL)

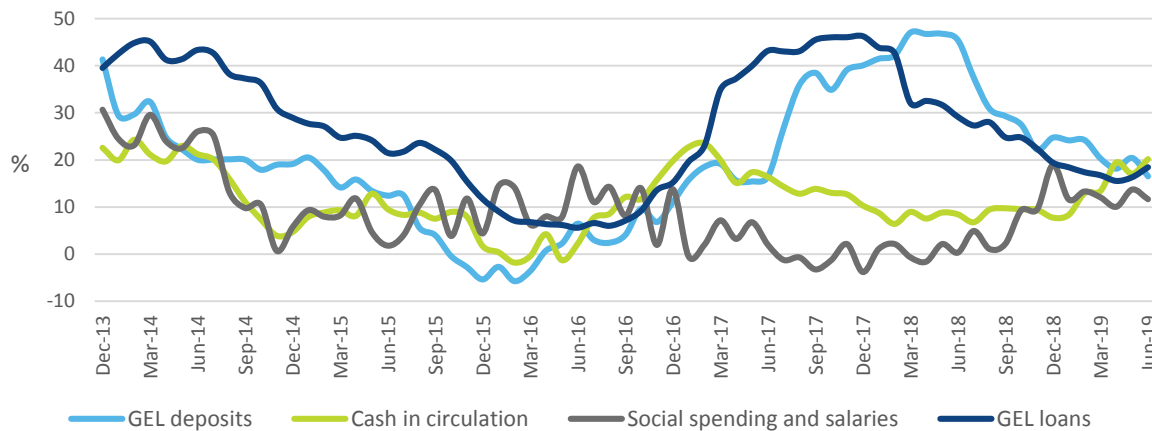


GEL monetary aggregates and deposits by currencies
(YoY, excl. FX effect)

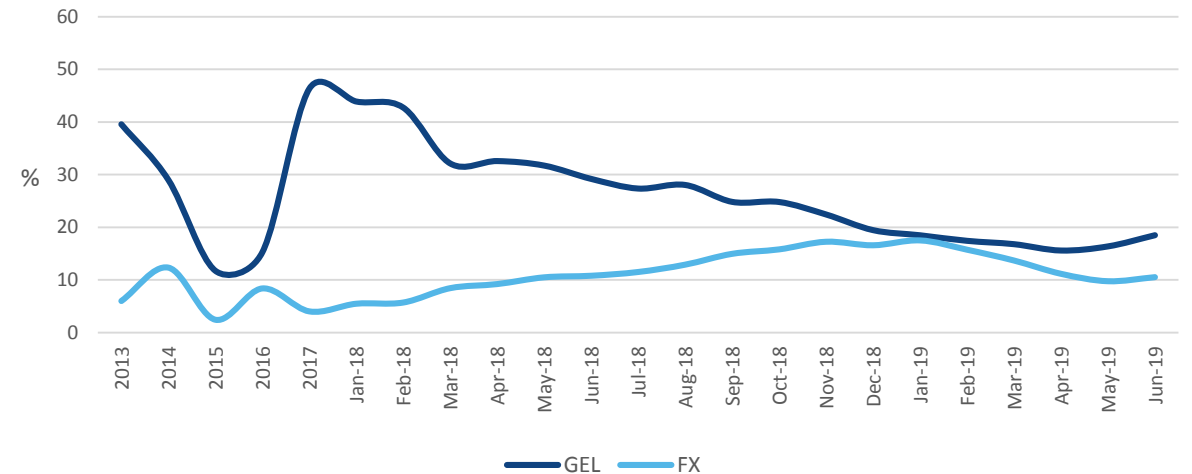


*M1 includes currency in circulation, resident demand NC deposits and excludes banking and government sector deposits at commercial banks. ** M2 includes M1 and resident term NC deposits

GEL loans, deposits, cash and budget social spending and salaries
(YoY)



Loans by currencies
(YoY, excl. FX effect)



Source: NBG, MOF, TBC Bank Economic Team estimates

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