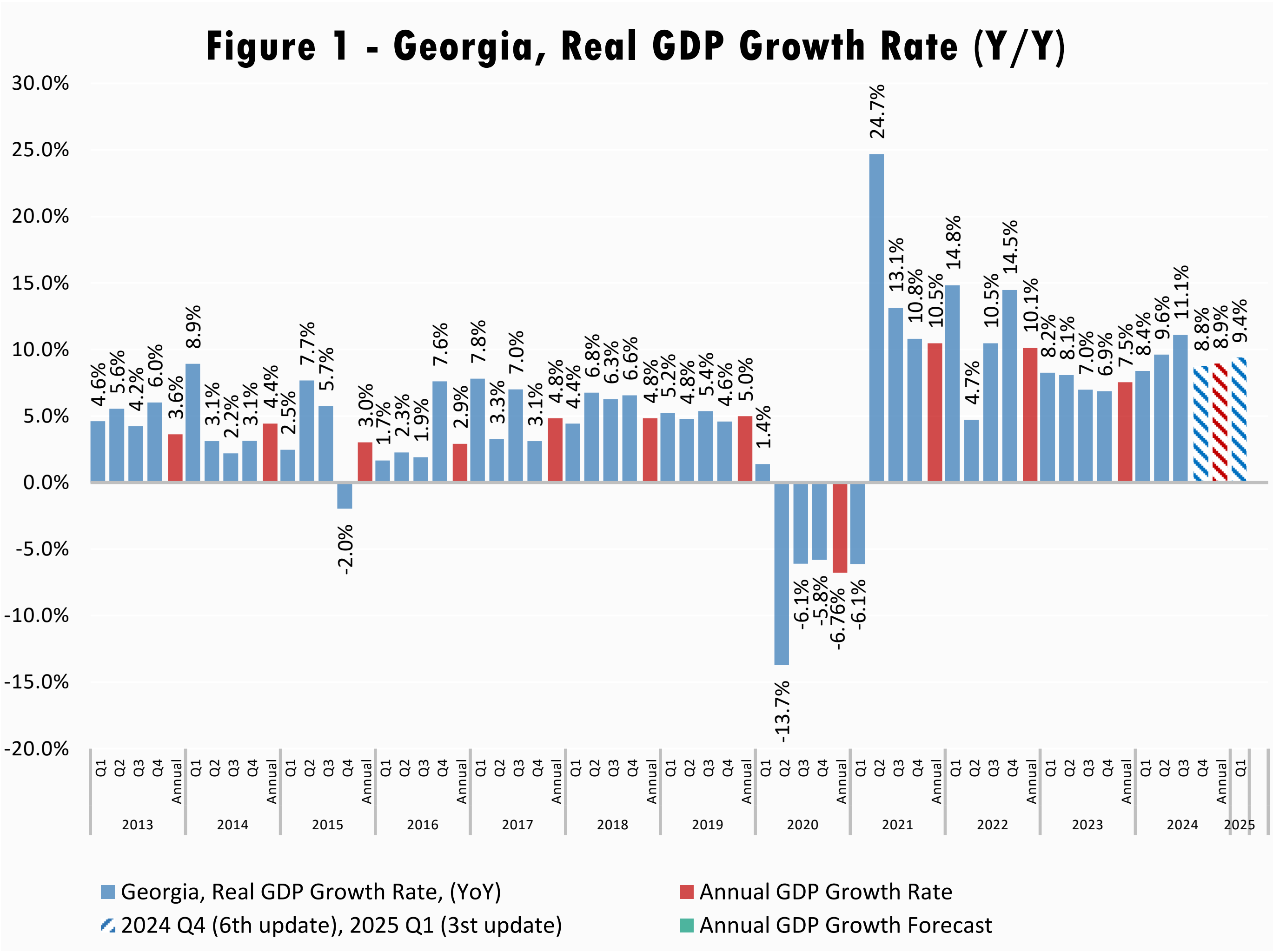
GEORGIA'S GDP FORECAST: TRADE GROWTH, RESERVES DECLINE, AND LENDING EXPANSION



ISET Policy Institute has updated its real GDP growth forecast for the fourth quarter of 2024 and first quarter of 2025. Here are the highlights of this month's release.

HIGHLIGHTS:

- Geostat has published its preliminary estimate of real GDP growth for November 2024, which stands at 7.5%. In addition, the estimated growth for the first, second, and third quarters of 2024 reached 8.7%, 9.7%, and 11%, respectively. Consequently, the average real GDP growth from January to November 2024 reached 9.4%.
- ISET Policy Institute forecasts Georgia's economy to grow by 8.8% in the fourth quarter of 2024 and 9.4% in the first quarter of 2025.
- Based on October data, the annual growth for 2024 is projected to be 8.9%.

VARIABLES INFLUENCING THE GDP GROWTH FORECAST BASED ON THE NOVEMBER DATA:

Merchandise Trade. In November, Georgia's exports experienced a 12.6% annual increase. This upsurge was primarily driven by a significant increase in the export/re-export of motor cars (increased by 18.2% YoY), undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages (increased by 21.9% YoY), wine of fresh grapes (increased by 9.9% YoY), medicaments put up in measured doses (increased by 33.9% YoY), hazelnuts and other nuts (increased by 25.1% YoY), and precious metal ores and concentrates (increased by 382.3% YoY),

During this period, the import of goods increased by 14.2% year-over-year, driven by an annual increase in the import/re-import of motor cars (increased by 23.1% YoY), mixed goods (increased by 281.9% YoY), and petroleum gases and other gaseous hydrocarbons (increased by 49% YoY). In contrast, there was a decrease in the import/re-import petroleum and petroleum oils (fell by 23.8% YoY). **Consequently, the trade deficit increased by 10% year-over-year, amounting to 938 million USD.**

Official Reserve Assets: In November, the Official Reserve Assets decreased by by 19.5% relative to the same month in the previous year. Reserve assets serve as a critical buffer for external shocks and play an important role in ensuring macroeconomic stability. Their contraction not only reflects reduced capacity to address external vulnerabilities but may also signal weakened investor confidence or challenges in managing balance-of-payments dynamics, contributing to the downward pressure on the GDP growth outlook.

Consumer Credit. In November**,** the total volume of commercial banks' consumer credit increased by 26.1% year-over-year, reflecting robust credit activity. Short-term consumer credit rose sharply by 73.5% annually, driven by significant increases in both domestic and foreign currency loans, which grew by 34.9% and 206%, respectively. In addition, the volume of long-term consumer credits provided by commercial banks increased by 24.8% annually. This surge in consumer credit activity suggests higher borrowing and spending capacity, which supported domestic demand and partially offset some of the negative factors impacting the GDP growth forecast.

Inflation. In November, **the annual inflation rate for consumer prices was 1.3%, which is significantly lower than the targeted 3%.** Stable international commodity prices have played a key role in mitigating inflationary pressures. It is expected that inflation will gradually realign with the medium-term target. It is also worth noting, that **oil prices on the global market (Euro Brent Spot Price) decreased by 10.4% year-over-year.**

Our forecasting model is based on the Leading Economic Indicator (LEI) methodology developed by the New Economic School, Moscow, Russia. We have constructed a dynamic model of the Georgian economy, which assumes that all economic variables, including GDP itself, are driven by a small number of factors that can be extracted from the data well before the GDP growth estimates are published. For each quarter, ISET-PI produces five consecutive monthly forecasts (or "vintages"), which increase in precision as time passes. Our first forecast (the 1st vintage) is available around five months before the end of the quarter in question. The last forecast (the 5th vintage) is published in the first month of the next quarter.