GEORGIA'S 2025 GDP OUTLOOK: GROWTH AMID TRADE GAINS, CREDIT SURGES, AND RESERVE PRESSURES

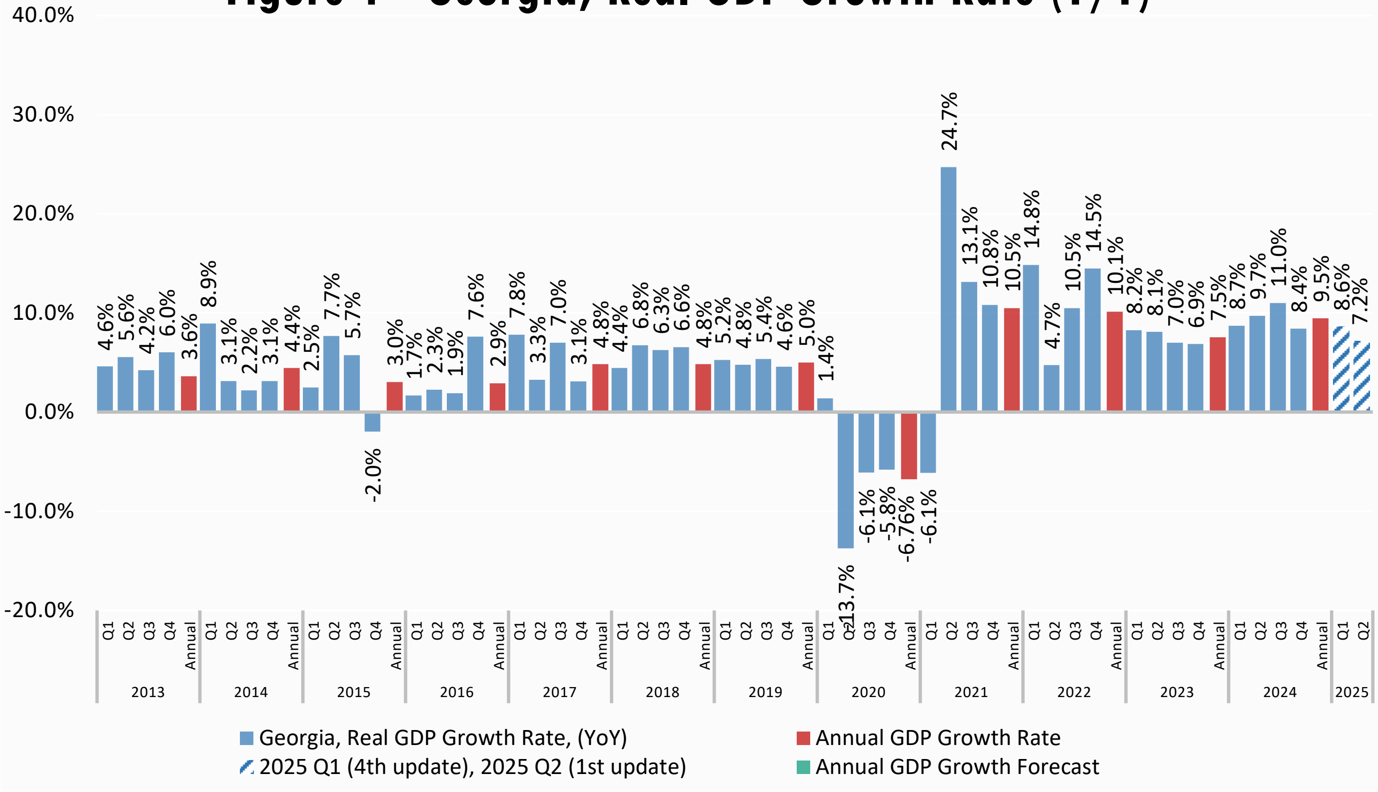

Figure 1 - Georgia, Real GDP Growth Rate (Y/Y)

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

HIGHLIGHTS:

- Geostat has published its preliminary estimate of real GDP growth for December 2024, which stands at 6.7%, while the average annual real GDP growth reached 9.5%.
- ISET-PI forecasts Georgia's economy to grow by 8.6% in Q1 and 7.2% in Q2 of 2025. However, this forecast might be overestimating growth, as the ongoing political tensions and turmoil have not yet been reflected in the data. The model relies on data up to December 2025, capturing only the first two months of the political crisis.
- Based on December data, the annual growth in 2025 is expected to be 4.1% in the worst-case scenario, and 6.8% in the best-case or an average long-term growth scenario. Our middle-of-the-road scenario (based on the average growth in the last four quarters) predicts an 5.9% increase in real GDP.

Variables influencing the GDP growth forecast based on the December data:

National and Foreign Currency Deposits. The first set of variables with a moderate impact on our forecast pertains to national and foreign currency deposits in commercial banks. Almost all major categories of national currency deposits showed annual growth. Specifically, national currency demand deposits increased by 1% year-over-year, while time deposits rose by 37.6% annually. As a result, total national currency deposits grew by 10.4% on an annual basis. At the same time, the current account decreased by 16% year-over-year. *Taken together, these factors had a negative effect on the GDP forecast.*

Total foreign currency deposits increased by 20.7% compared to the same month of the previous year. In the same period, foreign currency current accounts and demand deposits increased by 14.3% and 10.1%, respectively, in annual terms. Furthermore, foreign currency time deposits saw a significant annual increase of 35.4%. *However, according to our model, variables related to the foreign currency deposits still had a negative contribution to the real GDP growth forecast.*

Merchandise Trade. In December, Georgia's exports experienced a 6.9% annual increase. This upsurge was primarily driven by an increase in the export/re-export of motor cars (increased by 16% YoY), undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages (increased by 10% YoY), and waters, natural or artificial mineral and aerated waters, not containing added sugar (increased by 47% YoY).

During this period, the import of goods increased by 20.9% year-over-year, driven by an annual increase in the import/re-import of paintings, drawings and pastels, executed entirely by hand (increased by 2,004,058% YoY), petroleum and petroleum oils (increased by 33% YoY), and petroleum gases and other gaseous hydrocarbons (increased by 9% YoY). **Consequently, the trade deficit increased by 45% year-over-year, amounting to 1,106 million USD** (the increase in the trade deficit is primarily driven by the one-time import of paintings, drawings, and pastels, an effect that is not expected to persist). *Overall, trade-related variables had a negative influence on the GDP growth forecast.*

Official Reserve Assets: In December, the Official Reserve Assets decreased by 11.2% relative to the same month in the previous year, but recorded a 7.9% increase on an monthly basis. 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 December**,** the total volume of commercial banks' consumer credit increased by 24.5% year-over-year, reflecting robust credit activity. Short-term consumer credit rose sharply by 58.8% annually, driven by significant increases in both domestic and foreign currency loans, which grew by 31.8% and 129.5%, respectively. In addition, the volume of long-term consumer credits provided by commercial banks increased by 23.5% 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 December, **the annual inflation rate for consumer prices was 2%, 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 4.9% year-over-year.** *Overall, CPI-related variables have had a positive impact on the GDP forecast.*

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.