ISET POLICY INSTITUTE PREDICTS 5.9% REAL GDP GROWTH FOR GEORGIA IN 2025 UNDER BASELINE SCENARIO

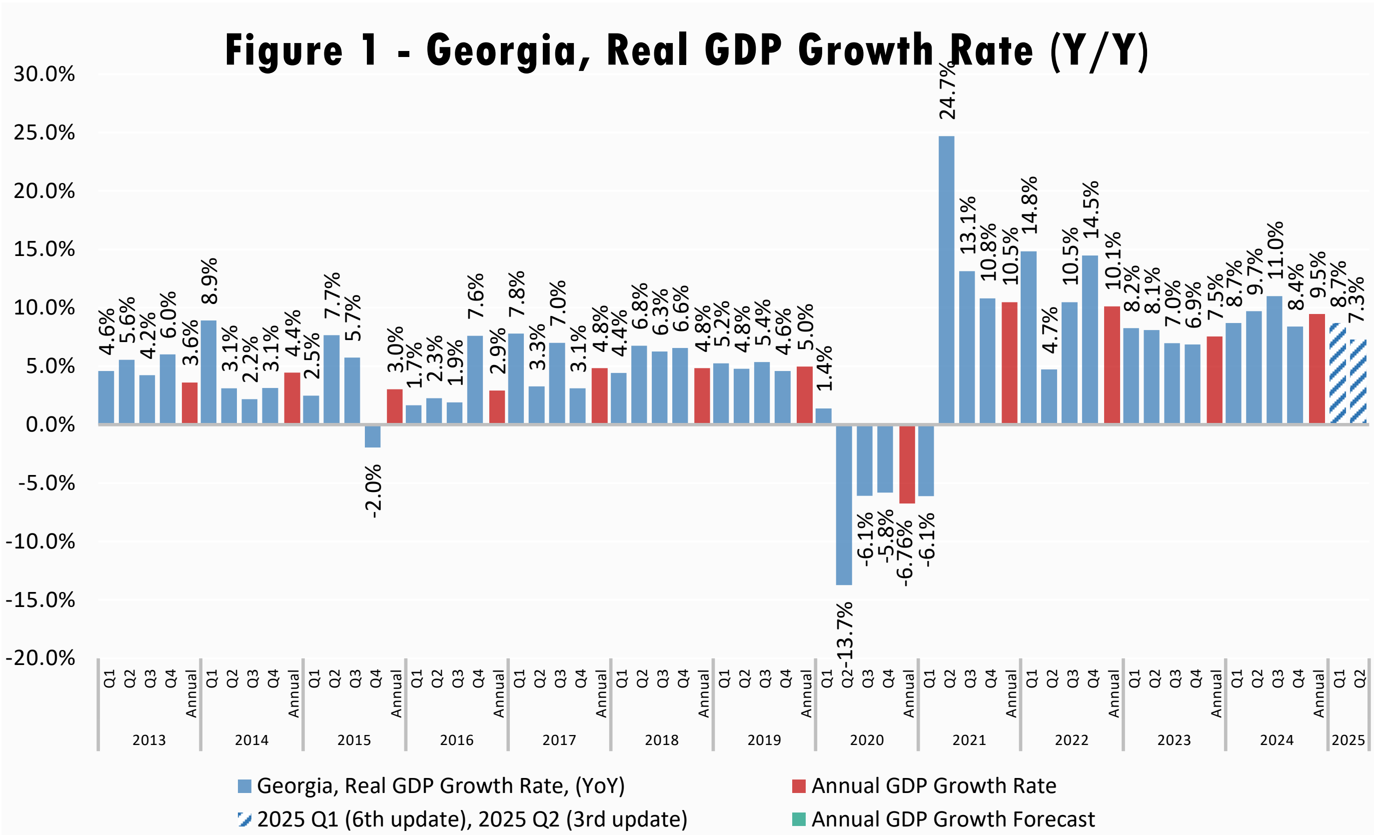

Figure 1 - Georgia, Real GDP Growth Rate (Y/Y)

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 February 2025, which stands at 7.7%.
- ISET Policy Institute's forecasts Georgia's economy to grow by 8.7% in Q1 and 7.3% in Q2 of 2025.
- Based on February 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 February 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 4.4% year-over-year, while time deposits rose by 21.4% annually. As a result, total national currency deposits grew by 7.7% on an annual basis. However, the current account decreased by 12.5% year-over-year. *Taken together, these factors had a positive effect on the GDP forecast.*

Total foreign currency deposits increased by 21.4% compared to the same month of the previous year. In the same period, foreign currency current accounts and demand deposits increased by 10.7% and 16.5%, respectively, in annual terms. Furthermore, foreign currency time deposits saw a significant annual increase of 33.5%. *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 February, Georgia's exports experienced a 7.1% annual decrease. This was primarily driven by a decrease in the export of wine of fresh grapes (decreased by 44.6% YoY) and undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages (decreased by 31.7% YoY). During this period, the import of goods decrease by 3.9% year-over-year, Consequently, the trade deficit decreased by 1.8% year-over-year, amounting to around 704 million USD.

Consumer Credit. In February**,** the total volume of commercial banks' consumer credit increased by 27.3% year-over-year, reflecting robust credit activity. Short-term consumer credit rose sharply by 45.4% annually, driven by significant increases in both domestic and foreign currency loans, which grew by 34% and 74.3%, respectively. In addition, the volume of long-term consumer credits provided by commercial banks increased by 26.8% 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 February, the annual inflation rate for consumer prices was 2.4%, which is 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. Nevertheless, oil prices on the global market (Euro Brent Spot Price) decreased by 9.6% year-over-year. *Overall, CPI-related variables have had a negative 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.