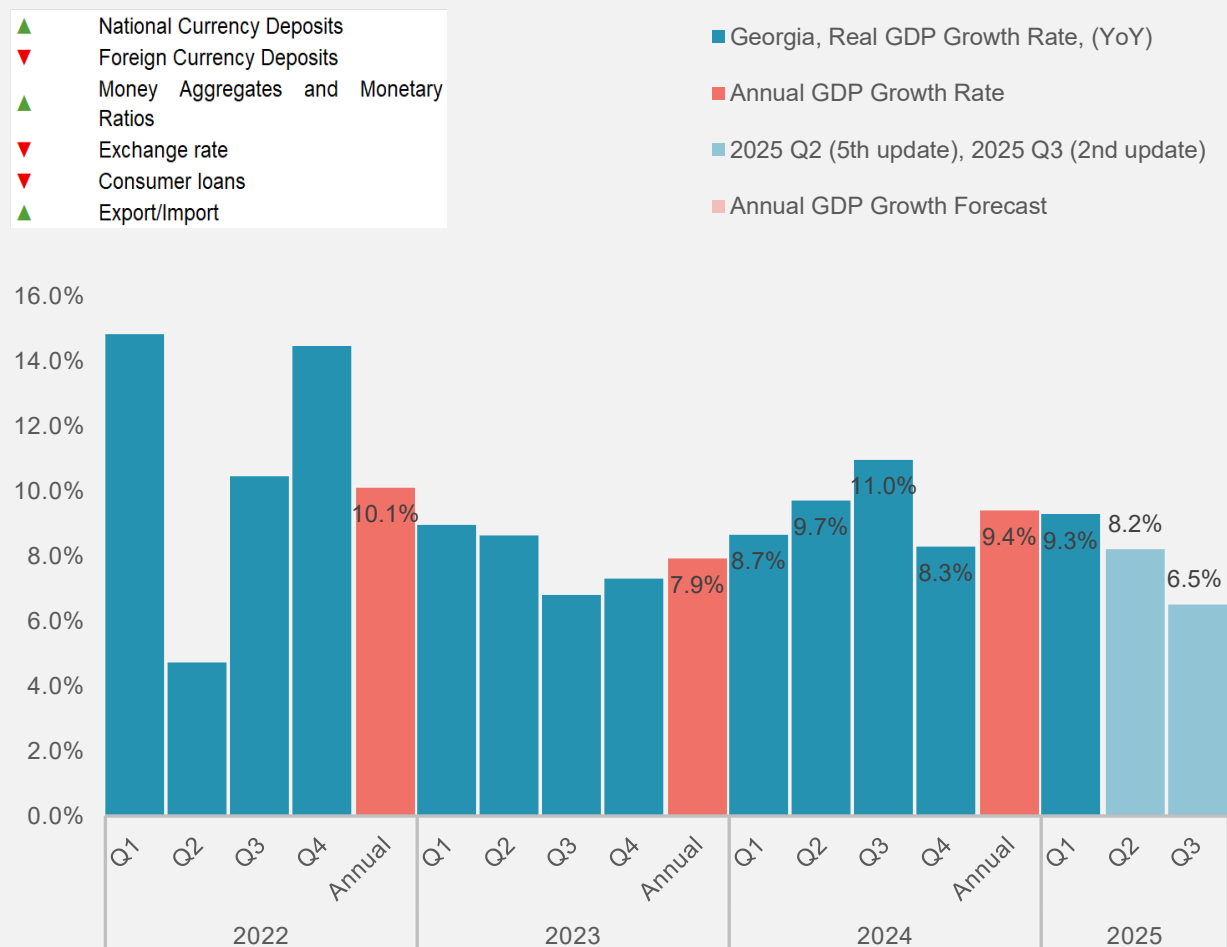


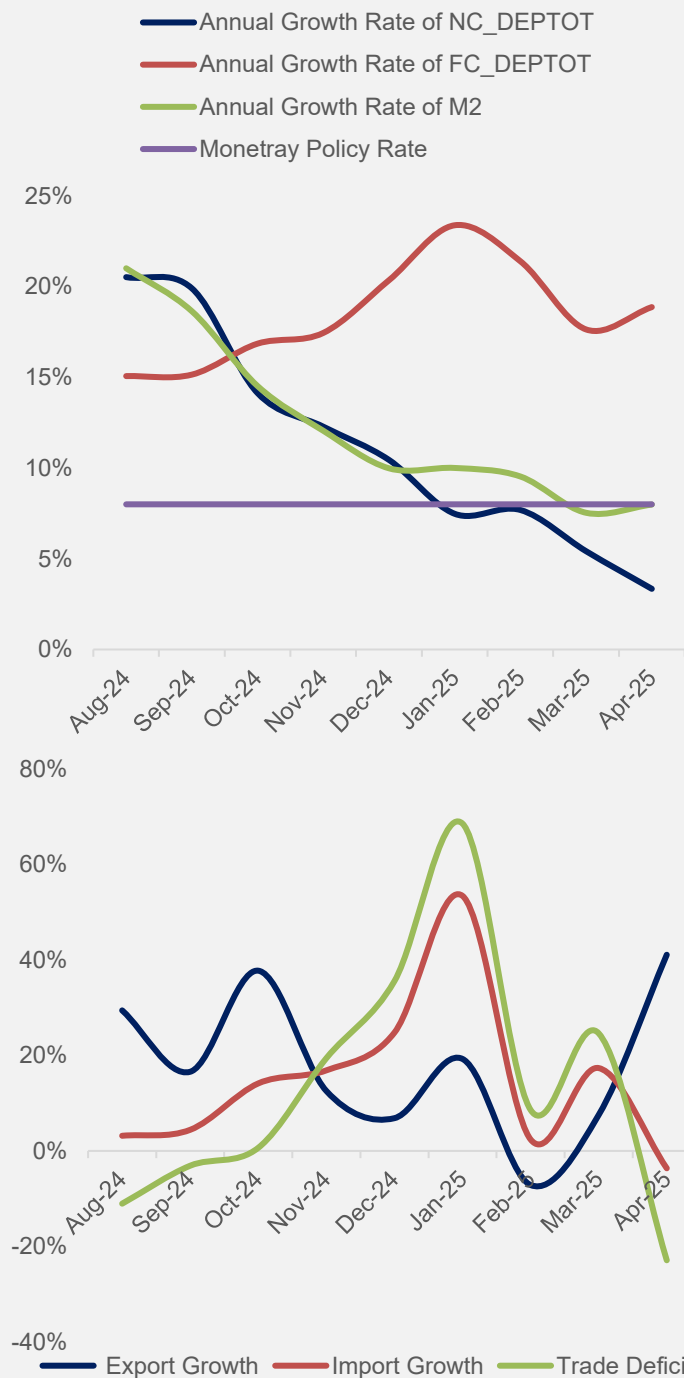
JUNE 2025 LEADING GDP FORECAST: STRONG GROWTH EXPECTATIONS DESPITE EXTERNAL AND DOMESTIC PRESSURES IN GEORGIA

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



According to the ISET Policy Institute's latest projections, based on April's data, Georgia's economy is expected to grow by **8.2% in the second quarter** and **6.5% in the third quarter of 2025**. The annual growth in 2025 is expected to be **6% in the worst-case scenario** and **7.6% 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 a **7.1% increase in real GDP**.

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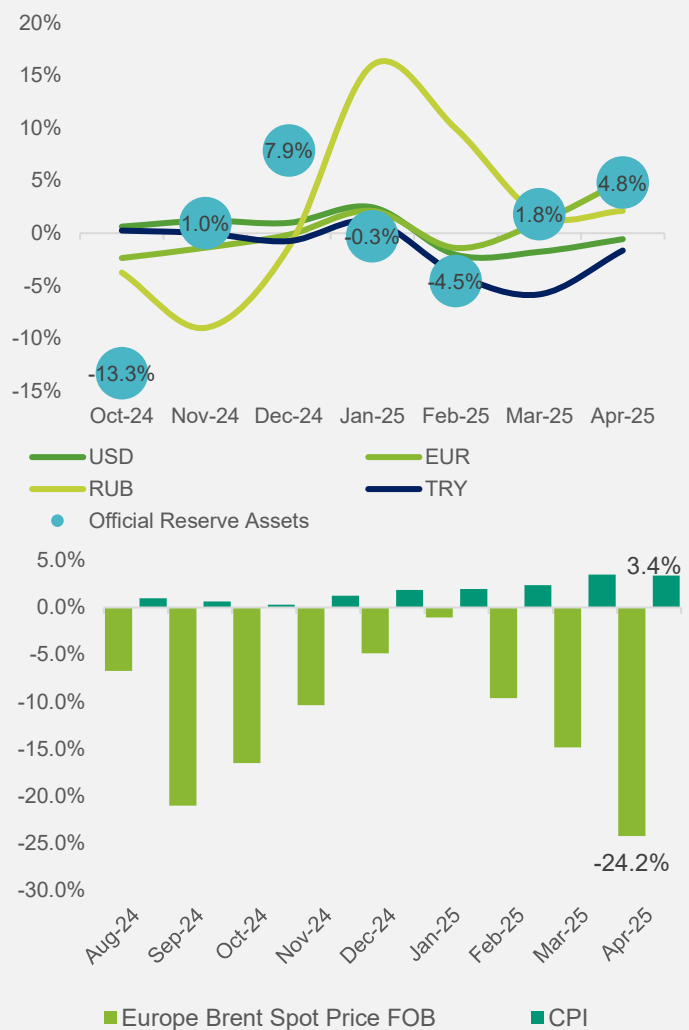
Among monetary indicators, in April, **national currency deposits (NC_DEPTOT)** increased by **3.3% YoY**, supporting the forecast through improved liquidity in the domestic financial sector. In contrast, the **18.9% rise in foreign currency deposits (FC_DEPTOT)** had a negative effect, pointing to rising deposit dollarization. The **M2 aggregate** grew by **8% YoY**, contributing positively to the forecast by reflecting more active monetary conditions and stronger demand-side dynamics (while growth rates have a negative trend). On **May 7, 2025**, the **NBG** maintained the monetary policy rate at 8%, signaling a cautious stance despite rising inflationary pressures and heightened macroeconomic uncertainty.

In April, **exports grew by 41.1%**, while **imports decreased by 3.6%**, leading to a **23% reduction in the trade deficit**. The improvement, largely driven by higher motor car re-exports, positively affected the GDP growth forecast by boosting net exports — a direct contributor to economic output. However, reliance on re-exports offers limited value-added and may not support sustainable growth in the long run.

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In April, the **euro (EUR)** and **Russian ruble (RUB)** appreciated against the **Georgian lari (GEL)** by **5.0%** and **2.1%**, respectively, whereas the **US dollar (USD)** and **Turkish lira (TRY)** weakened by **0.6%** and **1.6%**. Despite these mixed movements, the model estimates that exchange rate developments had a negative impact on the GDP growth forecast. Meanwhile, **official reserve assets increased by 207 million USD (4.8%)**, indicating improved external liquidity conditions.

As of **April 2025**, annual inflation stood at **3.4%**, remaining close to the National Bank's **3% target** and reflecting a relatively stable price environment. Meanwhile, the **Euro Brent spot price declined by 24.2% year-on-year**, easing global cost pressures. While oil prices are an important input cost factor, inflation had no significant effect on the current GDP forecast.



GDP FORECAST METHODOLOGY

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.