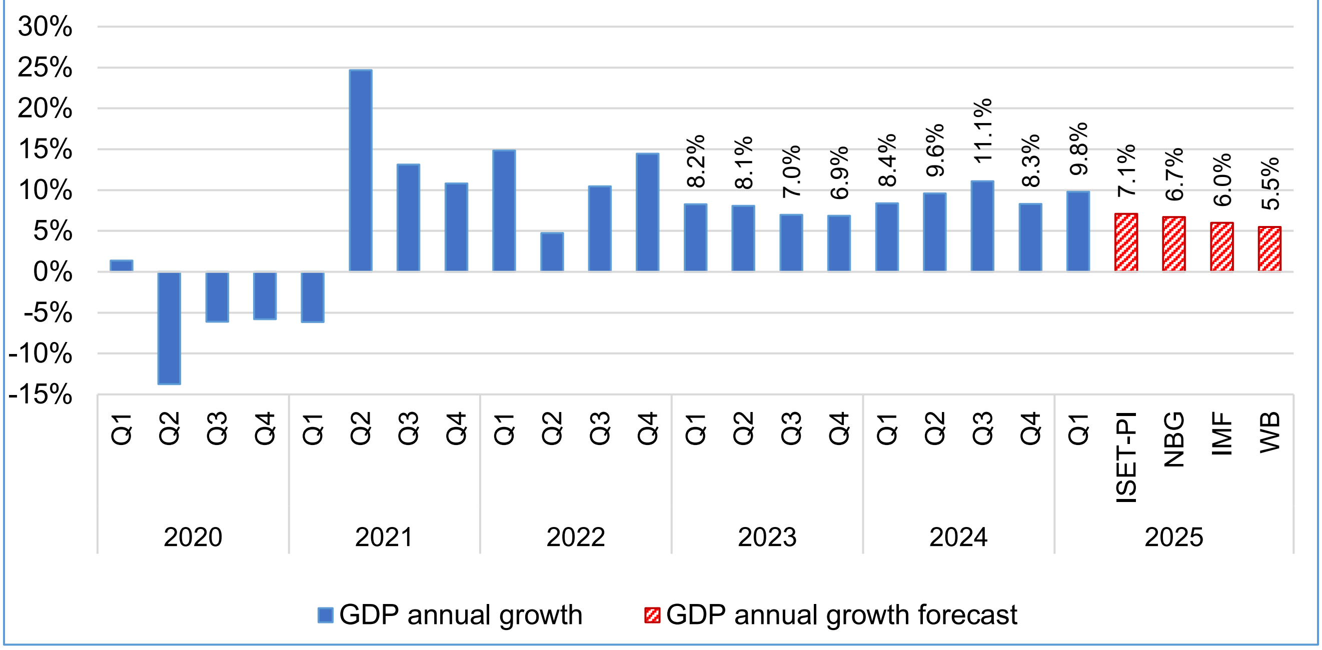
SUSTAINED GROWTH AND STABILITY IN AN UNCERTAIN GLOBAL LANDSCAPE

Figure 1 - Real GDP Annual Growth Rate.
Source: GeoStat, ISET-PI



SUMMARY

According to GeoStat's preliminary estimates in the first quarter of 2025, Georgia's nominal GDP reached GEL 21 798.2 million, with a year-over-year real GDP growth of 9.8% and a GDP deflator change of 3.4%. The economic expansion was largely driven by strong growth in several key sectors. The most notable increases were observed in Education (+27.7%), Information and communication (+28.5%), Administrative and support service activities (29.7%), Human health and social work activities (17.9%). These sectors played a major role in boosting overall economic activity. Conversely, the sharpest contractions were recorded in Activities of households as employers (-3.3%), Agriculture, forestry and fishing (-4.6%), and Electricity, gas, steam and air conditioning supply (-5.1%), slightly offsetting the broader gains. The projected real GDP growth for 2025 from NBG is 6,7%, which is above the WB projection of 5.5% y/y growth, and the IMF projection of 6% y/y growth (Figure 1).

In the first quarter of 2025, the Georgian Lari (GEL) showed divergent movements across trading partners. GEL appreciated notably against the US dollar, driven by the global weakening of the dollar, which helped reduce imported inflation pressures and improve external debt service conditions. In contrast, the GEL depreciated against the Euro and other major currencies, which had appreciated more strongly against the dollar. As a result, the **nominal effective exchange rate (NEER)** recorded a **slight quarterly depreciation**, while the **real effective exchange rate (REER)** depreciated by **1.3% on a quarterly basis**, but **appreciated 0.6% year-on-year**, primarily due to Georgia's lower inflation relative to its trading partners. This real appreciation was especially notable against the Russian Ruble, which continued to experience elevated inflation. Despite the nominal weakening of the GEL against certain partners, the REER trend helped maintain Georgia's international competitiveness. Overall, the exchange rate developments in Q1 2025 continued to support the disinflationary environment and contributed to a stable external position (NBG, May 2025).

Compared to the increasing unemployment in Q1 of 2024 (14 %), the unemployment rate in Q1 of 2025

rose to 14.7 (Geostat). Average annual labor force participation has also decreased by 0.2pp, reaching 54.8%. Based on Geostat's preliminary estimate, in the first quarter of 2025, average monthly nominal earnings amounted 2170.5 GEL.

INFLATION

Since the start of 2025, Georgia's inflation has remained close to its target level, standing at 3.4% as of April, slightly above the 3% target set by the National Bank of Georgia (GeoStat). Core inflation, excluding volatile items such as food, energy products, and cigarettes, registered at a stable 2.3%. Inflation dynamics have been driven primarily by international food price increases and a notable one-off rise in local bread prices since March 2025. Nevertheless, domestic economic fundamentals – including improved production capacities – have partially offset these inflationary pressures, keeping long-term inflation expectations anchored near the target.

Economic activity remained robust in Q1 2025, with real GDP growth significantly outperforming previous expectations at 9.3%, driven by structural changes and sustained domestic demand. This growth, alongside stable domestic inflation conditions, indicates strong economic resilience. Consequently, the NBG has kept its monetary policy rate unchanged at 8.0% as of May 2025, adopting a cautious approach given global uncertainties and potential inflationary risks (NBG, May 2025).

In terms of the exchange rate, the Georgian Lari (GEL) has strengthened against the US dollar, benefiting from the global depreciation of the dollar. This appreciation helped mitigate potential imported inflation. Conversely, the GEL experienced slight depreciation against the currencies of other key trading partners, especially the Eurozone, due to their stronger appreciation against the US dollar. Overall, the nominal effective exchange rate (NEER) depreciated slightly, yet Georgia's comparatively low inflation rate maintained its international competitiveness.

Interest rates on domestic currency loans have risen slightly, reflecting tighter global financial conditions driven by elevated global uncertainty and higher sovereign risk premiums. Deposit interest rates in local currency stabilized around previous levels, whereas lending rates experienced upward pressure, reflecting market expectations of persistent risks.

Georgia's current account deficit is projected to moderately widen toward its equilibrium range of 5–5.5% of GDP in 2025, reflecting slower external demand growth due to global economic conditions. Foreign direct investments (FDI) continue as the primary source of financing, cushioning the impact on the GEL's exchange rate stability (NBG, May 2025).

Inflationary risks remain balanced with a slight upward bias due to international food price volatility, geopolitical uncertainties, and potential global economic fragmentation resulting from aggressive international tariff policies. Meanwhile, declining global oil prices and sustained productivity improvements provide a disinflationary counterbalance. The NBG anticipates inflation to temporarily exceed its 3% target, averaging approximately 3.8% for the year before stabilizing back to the target level by the medium term.

In conclusion, the NBG maintains a cautious yet flexible monetary policy stance, prepared to adjust based on evolving economic and geopolitical developments. The central scenario forecasts robust GDP growth at around 6.7% for the full year of 2025, driven by strong domestic demand and structural economic improvements, despite external uncertainties and moderate inflationary pressures (NBG, May 2025).

EXTERNAL SECTOR: TRADE, TOURISM, REMITTANCES, FDI

At the beginning of 2025, Georgia experienced moderate external demand growth, despite increased global economic uncertainties and tightening financial conditions. In Q1 2025, exports of goods increased at a relatively modest rate of 5.7% year-on-year, reflecting slower growth in external demand. This moderation in export growth was primarily due to a deceleration in additional revenues generated from re-exports, which had previously contributed significantly to real economic activity (GeoStat). Service exports also faced slower growth, with travel revenues rising only by 2.3% year-on-year in the first quarter of 2025. This slowdown was largely due to declining revenue streams from Russian travelers. However, structural economic transformations continued to bolster the current account balance, particularly through sustained contributions from high productivity sectors such as information and communication, transportation, and professional, scientific, and technical activities. Despite the slowdown in both goods and services exports, imports intended for domestic consumption also showed reduced growth, expanding by only 3.6% year-on-year. Consequently, the current account deficit experienced moderate widening toward its equilibrium range of 5–5.5% of GDP in the first quarter of 2025. This level of deficit remains sustainable and balanced by ongoing robust inflows of foreign direct investment (FDI), which remain a primary source of external financing. Additionally, the Georgian Lari (GEL) strengthened against the US dollar due to global dollar depreciation, positively impacting Georgia's external financial position by reducing dollar-denominated debt service costs. This currency strength, however, was slightly offset by depreciation against other major trading partner currencies, mainly those in the Eurozone. The overall moderate depreciation in the nominal effective exchange rate (NEER) and comparatively lower inflation rates relative to trade partners continued to maintain Georgia's competitive advantage internationally (NBG, May 2025).

In the first quarter of 2025, Georgia's tourism sector continued to contribute positively to the external balance, although growth momentum moderated compared to previous periods. Travel revenues – comprising the bulk of tourism-related inflows – increased by 2.3% year-on-year, reflecting a deceleration in service export growth. This slowdown was largely driven by declining receipts from Russian visitors, who had previously accounted for a significant share of travel income. Despite the moderation, tourism remained a key pillar of Georgia's service exports, helping to partially offset weaker performance in goods exports and supporting the overall current account position. Structural improvements in transport connectivity and regional mobility continued to underpin the sector's resilience, while Georgia's role as a transit and investment destination in the Middle Corridor remained a source of medium-term potential. Looking ahead, the recovery of external demand and normalization of regional geopolitical conditions are expected to reinvigorate tourism inflows. Under the low-inflation scenario presented by the National Bank of Georgia, tourism – along with other service exports – is anticipated to strengthen further, reinforcing its contribution to external sustainability and economic growth (GNTA, 2025).

In the first quarter of 2025, remittance inflows to Georgia totaled approximately 786.6 million USD, marking a 3.18% decline compared to the same period in 2024 (NBG). While the United States, Italy, and Russia remained the top sources, only U.S. transfers showed notable growth in March. Inflows from countries like Kazakhstan, Ireland, and France increased steadily, whereas others such as Germany, Turkey, and the UK remained relatively flat. Despite the decline, remittances continued to play an important role in supporting household consumption and foreign exchange inflows, though with a slightly reduced contribution compared to the previous year.

In the first quarter of 2025, Georgia's current account position showed signs of moderate deterioration, moving closer to its estimated equilibrium level of 5–5.5% of GDP (GeoStat). This shift was primarily driven by a slowdown in external demand, which translated into weaker growth in both goods and services exports. Specifically, goods exports increased by only 5.7% year-on-year, a deceleration relative to previous periods. The moderation was particularly visible in the declining contribution of re-export revenues to real economic activity, which had previously played a significant role in supporting the current account. Service exports, notably travel revenues, also showed a decelerating trend, growing by just 2.3% annually in Q1 2025. This was largely due to a continued decline in tourism-related income from Russia. Meanwhile, imports for domestic consumption grew at a similarly subdued pace of 3.6% year-on-year. The relatively slower import growth helped contain the widening of the current account deficit, thereby cushioning the negative effects of weaker export performance (NBG, May 2025).

Despite the short-term deterioration, the current account deficit remains at a sustainable level, supported by ongoing structural changes and resilient inflows of foreign direct investment (FDI). In 2024, the current account deficit had improved to 4.4% of GDP, primarily financed by FDI inflows amounting to 3.9% of GDP. These trends continued into early 2025, helping to stabilize Georgia's external financing needs and mitigate depreciation pressures on the exchange rate.

From a compositional perspective, the widening of the current account was driven by a larger deficit in the goods and income accounts, partially offset by positive balances in services and current transfers. Transport services, a key component of Georgia's positioning as a Middle Corridor hub, continued to support the external balance, though at a slower pace than in previous quarters. Additionally, the GEL's appreciation against the US dollar – stemming from the global weakening of the dollar – helped reduce the cost of external debt servicing and limited the inflationary impact of imported goods (NBG, May 2025).

Foreign direct investment remained a key source of external financing in Q1 2025, continuing the stable trend observed in 2024, when FDI inflows amounted to 3.9% of GDP. Despite rising global uncertainty and tighter financial conditions, investor confidence in Georgia's macroeconomic fundamentals remained strong. FDI inflows were concentrated in high-productivity sectors, notably transport and logistics, reflecting Georgia's growing strategic role in the Middle Corridor. This trend supported both the current account balance and GEL's exchange rate stability, helping to offset pressures from slower export growth. Although official Q1 2025 FDI figures are pending, the inflow level can be taken as adequate to finance the current account deficit. The quality and composition of investment remain favorable, reinforcing Georgia's external resilience and long-term growth prospects (GeoStat).

PUBLIC FINANCES

According to the Ministry of Finance, current governmental expenditures amounted to 5,254 million GEL in the first quarter of 2025, showing a 16.4% y/y increase compared with the same period of previous year. This growth was mainly driven by higher spending on social benefits (+16.6% y/y) and grants (23.4%). Also remarkable was interest payments growth (+29.7.2% y/y), however subsidies declined by 1.4% y/y.

At the same time, total revenues to the general budget amounted to 6,543.4 million GEL, a 1.6% y/y increase. The latter was driven by the increased volume of profit Tax collection (32.2% y/y), taxes from income (16.9%). However, revenues Excise has declines by 4.8% y/y. Overall, the budget surplus in Q4 of 2024 amounted -1,210.9 million GEL (Ministry of Finance of Georgia, 2025).

Central Government debt liabilities (which includes both domestic and foreign debt) increased by 7.5% y/y and amounted to 34,742.3 million GEL in Q1, 2025. Furthermore, the share of foreign debt in total debt stood at 69.4%, slightly maintaining the country's exposure to exchange rate risk.