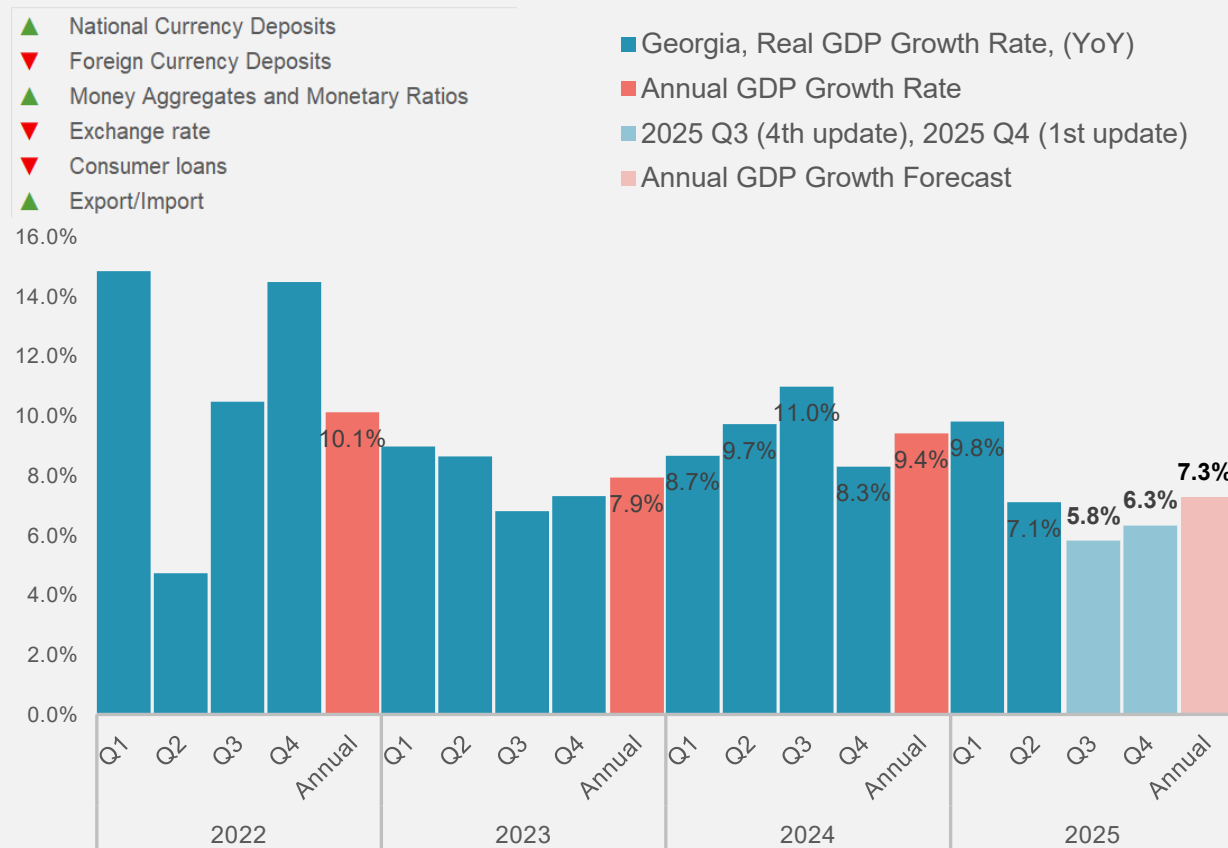


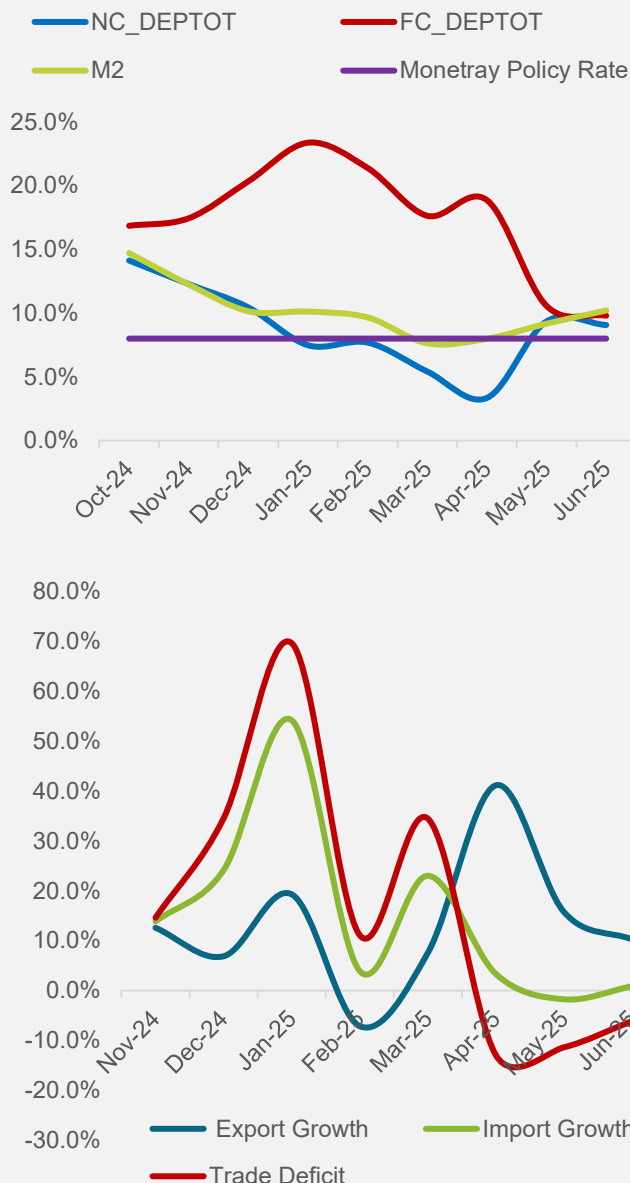
GEORGIA'S 2025 OUTLOOK: SOLID GROWTH, TIGHT POLICY, AND GLOBAL UNCERTAINTY

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



According to the ISET Policy Institute's latest projections, based on June's data, Georgia's economy is expected to grow by **5.8% in the third quarter** and **6.3% in the fourth quarter of 2025**. The annual growth in 2025 is expected to be **7.3%**.

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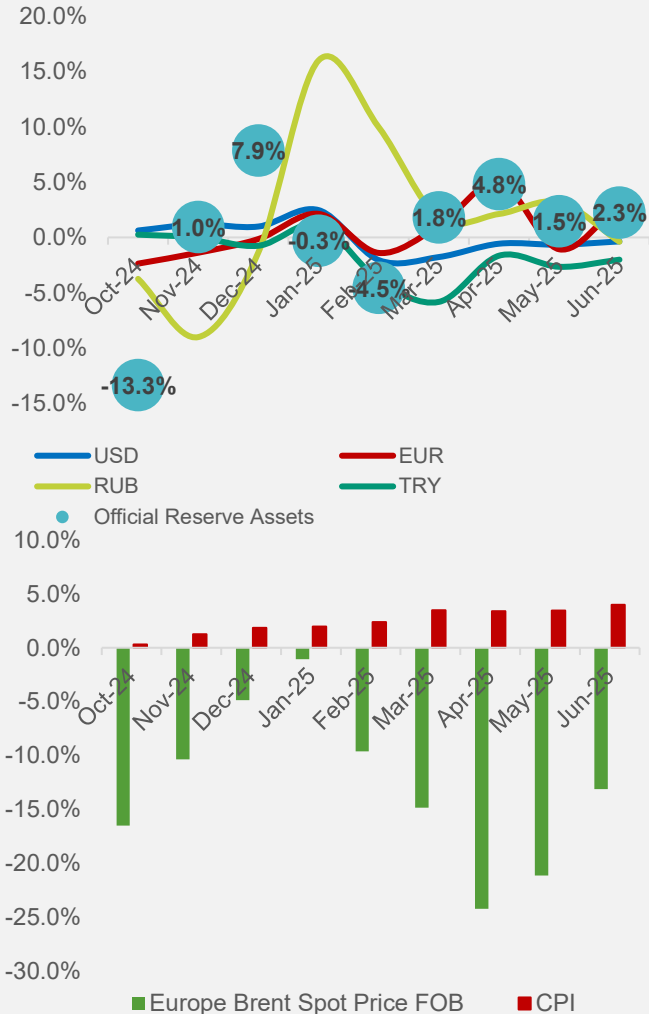
Among monetary indicators, in June 2025, the annual **9.8% rise in foreign currency deposits (FC_DEPTOT)** signaled growing dollarization and **negatively** influencing the outlook. In contrast, the **M2 aggregate** grew by **10.2% YoY**, contributing **positively** to the forecast by indicating more active monetary conditions and stronger demand-side dynamics. The **National Bank of Georgia** maintained the monetary policy rate at 8%, signaling a cautious stance amid rising inflationary pressures and elevated macroeconomic uncertainty.

In June, **exports grew by 10.4%**, while **imports increased moderately by 0.9%**, leading to a **6.1% reduction in the trade deficit**. This improvement in net exports (largely driven by increased re-exports of motor cars) had a positive influence on the GDP forecast. The stronger trade balance provided a tangible short-term boost to economic activity, even though its long-term contribution to sustainable growth remains modest due to the composition of exports.

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In June, on a monthly basis, the **USD, RUB, and TRY depreciated against the lari by 0.4%, 0.4%, and 2%, respectively**, while the **EUR appreciated by 2.9%**. These exchange rate developments had a negative effect on the GDP growth forecast, as the stronger lari reduces export competitiveness. Meanwhile, official reserve assets increased by 103 million USD (2.3%) MoM, indicating improved external liquidity conditions.

As of June 2025, **annual inflation stood at 4%**, slightly above the **National Bank's 3% target**, but still reflecting a relatively stable price environment. Meanwhile, the **Euro Brent spot price declined by 13.1%** year-on-year, easing global cost pressures. While oil prices are an important input cost factor, inflation had a positive effect on the 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.