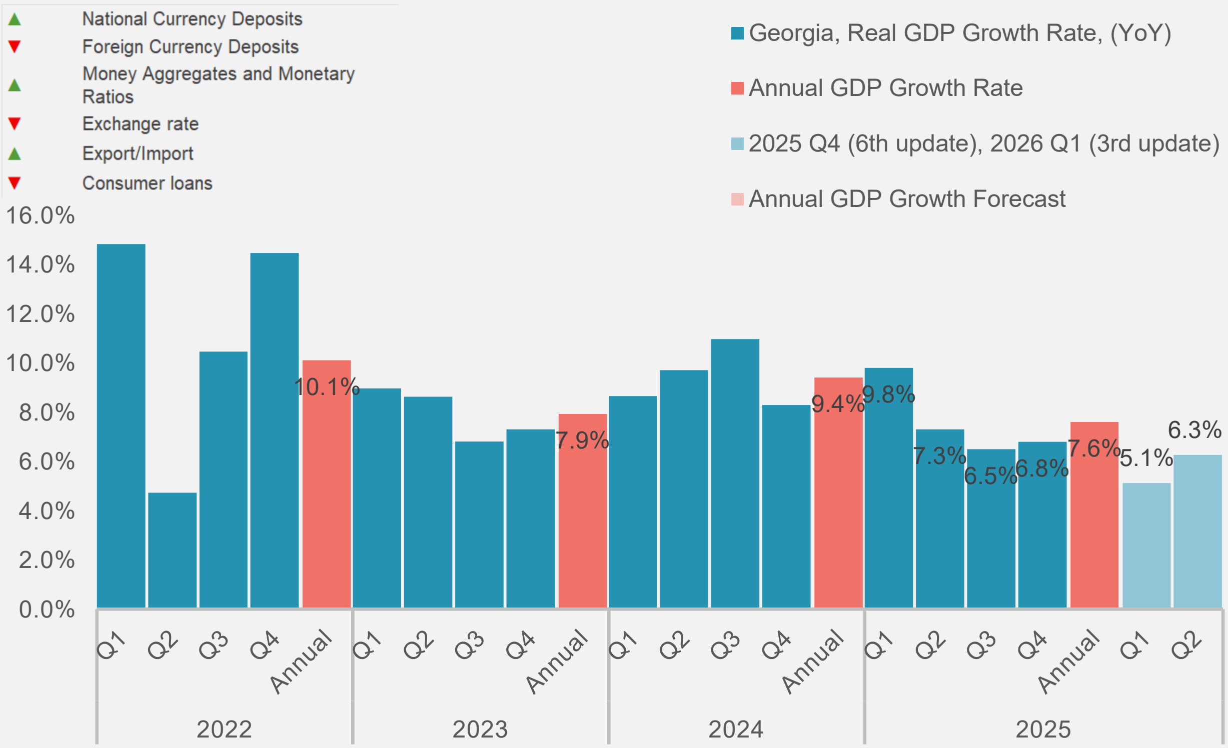
GEORGIA 2026: GROWTH MOMENTUM UNDER TIGHT MONETARY CONDITIONS AND EXTERNAL VOLATILITY

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



According to the ISET Policy Institute's latest projections, Based on December's data, Georgia's economy is expected to grow by **5.1% in the first quarter of 2026 and 6.3% in the second quarter of 2026**. The annual growth in 2026 is expected to be 4.9% in the worst-case scenario, and 6.3% 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 6.1% increase in real GDP.

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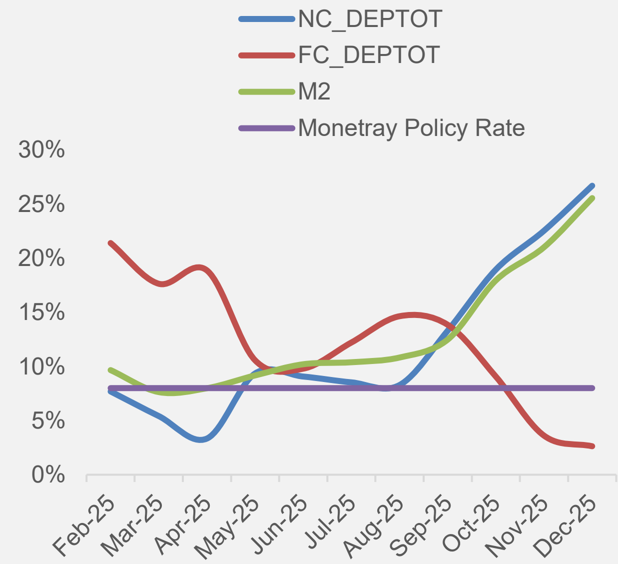

Among monetary indicators, in December 2025, the annual only **2.6% rise in foreign currency deposits (FC_DEPTOT)** signaled declining dollarization[1]. At the same time, **national currency deposits increased (NC_DEPTOT) by 26.7%** ear-on-year, while the **M2 aggregate expanded by 25.5%** YoY, indicating more active monetary conditions and stronger demand-side dynamics. Overall, monetary indicators positively contributed to the forecast.

In December, **exports increased by 22.5%**, while **imports increased by 8.8%**, leading to a **2.2% increase in the trade deficit[2]**. Despite the widening deficit, the relative improvement in net exports had a positive effect on the GDP forecast. The stronger trade dynamics provided a tangible short-term boost to economic activity, although their long-term contribution to sustainable growth remains limited due to the composition of exports.

[1] Total deposit dollarization fell from 53.9% in December 2024 to 48.6% in December 2025, marking a 5.3 percentage-point decline over the year.

[2] Geostat, 18.02.2026.

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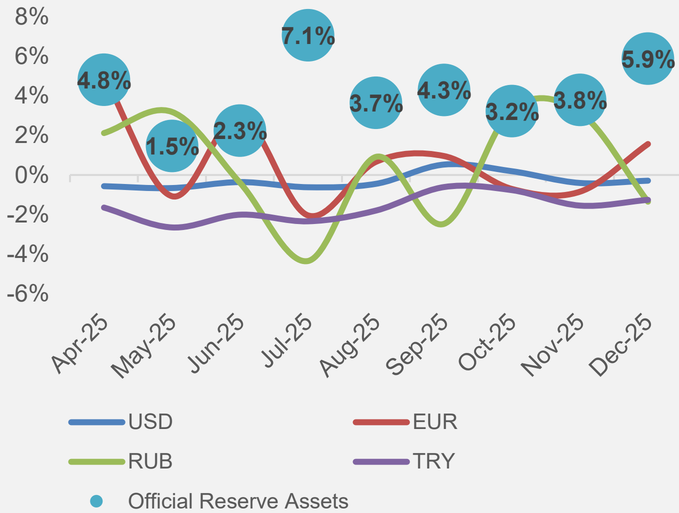
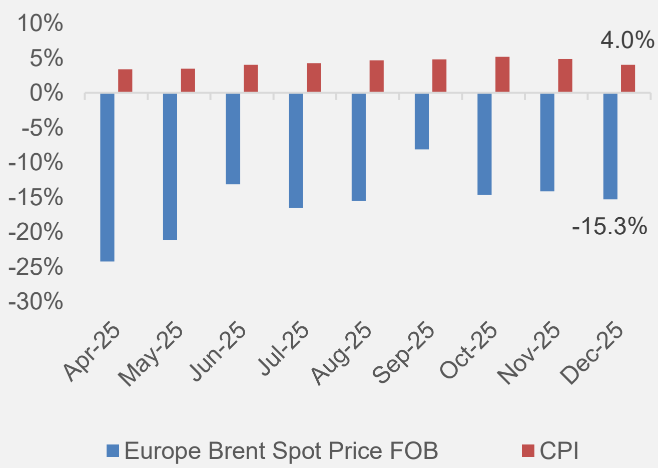
In December, the **USD, TRY, and RUB depreciated against GEL by 0.3%, 1.3%, and 1.4%**, while the **EUR appreciated by 1.6% monthly**. The overall impact of these exchange rate developments on the GDP growth forecast was negative. Meanwhile, official reserve assets **increased by 5.9%** month-on-month, indicating improved external liquidity conditions.



As of December, **annual inflation stood at 4%, above the National Bank's 3% target.** Meanwhile, the **Euro Brent spot price declined by 15.3%** 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.