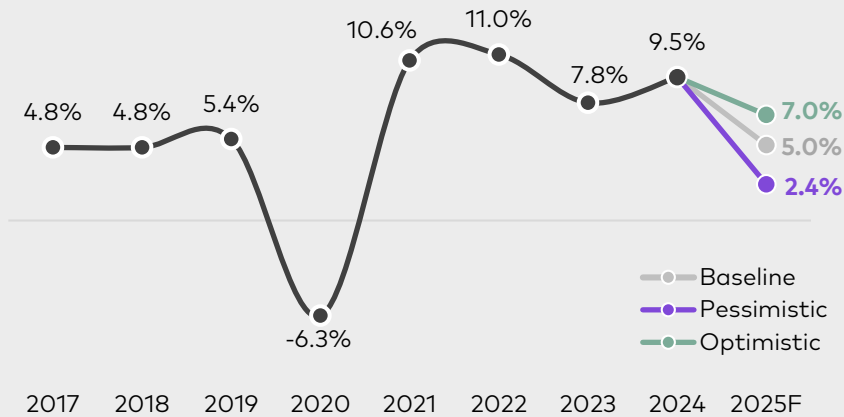




Chart of the month: GDP growth expected at 5.0% in 2025 under our baseline scenario



Source: Geostat, Galt & Taggart

For 2025:

- In baseline scenario, we forecast 5.0% growth, primarily driven by consumption, assuming that current uncertainty will persist.
- In pessimistic scenario, we forecast growth to slow to 2.4%, impacted largely by reduced investments.
- In optimistic scenario, we forecast 7.0% growth, assuming the resumption of relations with the West, boosting consumer and business confidence.

See details on page 2 of this document.

Economic summary

Growth: Georgia's economic growth was 6.7% y/y in Dec-24, following 7.5% y/y growth in previous month. This growth was mainly driven by increased activity in the financial & insurance, professional & scientific, transport, trade and ICT sectors, while the manufacturing sector contracted. Overall, Georgian economy grew by 9.5% in 2024, after a 7.8% posted in 2023. Nominal GDP increased by 13.5% to GEL 91.8bn (US\$ 33.7bn) and GDP per capita reached US\$ 9,124 (+10.1% y/y) in 2024.

Inflation: In Dec-24, annual inflation rose to 1.9%, from 1.3% posted in November, bringing the average annual inflation rate to 1.1% for 2024. This increase in December was mainly driven by an acceleration in mixed goods inflation to 3.9% y/y (+3.1% y/y in Nov-24), along with a rise in inflation for domestically produced goods and services to 2.2% y/y (+1.8% y/y in Nov-24). Meanwhile, imported inflation declined by -0.9% y/y (-1.7% y/y in the previous month). Notably, core inflation, excluding volatile food, energy and tobacco prices, rose further to 2.3% y/y in Dec-24 from 1.6% y/y in November. We expect average annual inflation at 3.9% in 2025.

Monetary policy: On January 29, 2025, the Monetary Policy Committee of the NBG decided to maintain its key interest rate at 8.0%. While 2024 saw robust economic growth and inflation below the 3.0% target, the NBG cited considerable uncertainty as the primary factor in maintaining the rate. This uncertainty stems from both domestic economic factors and ongoing geopolitical instability. The regulator is cautious about future rate adjustments, aiming for a gradual normalization toward a neutral rate of 7.0%, depending on upcoming economic data and risk assessments.

FX: In Jan-25, the GEL depreciated by 2.5% m/m against the USD, mainly driven by negative market sentiments. We anticipate continued GEL volatility throughout 2025, with average GEL rate at 2.88 vs dollar.

Activity

Trade: In Dec-24, Georgia's goods exports rose by 6.8% y/y to US\$ 549.4mn, after a 12.6% y/y growth in previous month. Goods imports increased by 20.9% y/y to US\$ 1.7bn, following a 14.2% growth y/y in previous month. Consequently, the trade deficit increased by 29.4% y/y to US\$ 1.1bn in Dec-24. Increased export demand for cars, precious metals, petroleum, nuts, fertilizers, and aerated waters fueled export growth, while exports of citrus fruit, wine, and spirits declined. Import growth was primarily driven by increased purchases of aircraft, cars, and gases, although telephone imports decreased significantly in December.

Overall, in 2024, the trade deficit rose by 8.4% y/y to US\$ 10.3bn, driven by a 7.8% y/y increase in exports, which reached a record high of US\$ 6.6bn, while imports grew by 8.1% y/y, totaling a record US\$ 16.9bn.

Tourism: In 4Q24, tourism revenues increased by 10.3% y/y to US\$ 963.7mn, according to NBG. Overall, in 2024 tourism revenues reached US\$ 4.4bn (+7.3% y/y), in line with our estimates. We forecast tourism revenues at US\$ 4.5bn for 2025 in our baseline scenario.

Banking sector: In Dec-24, the bank loan portfolio increased by 17.0% y/y (excl. FX effect) reaching GEL 62.2bn, after a 17.8% y/y growth in previous month. This growth was primarily driven by a 17.8% y/y rise in corporate loans, followed by a 16.3% y/y increase in retail loans. Bank deposits rose by 13.4% y/y (excl. FX effect) to GEL 58.3bn in Dec-24, after growing by 14.0% y/y in Nov-24. In Dec-24, the deposit dollarization rate increased to 52.8% (+1.1ppts m/m), reflecting conversions from GEL to FX deposits. Loan dollarization also increased, reaching 43.3% (+0.53ppts m/m) in December.

Outlook for 2025

Georgia is currently facing a political crisis that has intensified following the ruling Georgian Dream party's announcement on November 28, 2024, to suspend EU accession talks until 2028. This decision has sparked widespread protests, as about 85% of the population supports EU membership, and the government is constitutionally obligated to pursue this goal. Protests have been ongoing for over 60 days, and it remains uncertain how and when the situation will be resolved.

Scenarios for 2025

As Georgia's political situation continues to evolve, we examine key scenarios that could affect the country's economic outlook. The outcome of the political crisis and relations with Western countries are the primary uncertainties.

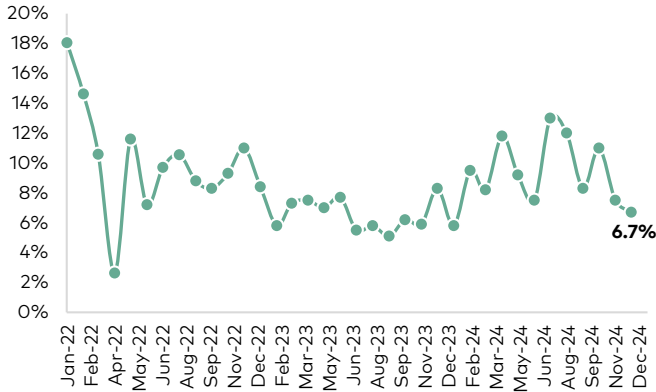
1. **Baseline Scenario:** We forecast 5.0% growth, primarily driven by consumption, assuming that current domestic uncertainty persists. We expect the lari to average GEL 2.88/\$, compared to GEL 2.72/\$ in 2024. Annual inflation is expected to rise to 3.9%, up from 1.1% in 2024, which could lead the central bank to maintain the current 8.0% policy rate throughout 2025. On the fiscal side, we expect the deficit and debt remaining manageable at below 3% of GDP and 40% of GDP, respectively.
2. **Pessimistic Scenario:** We forecast growth to slow to 2.4%, mainly due to reduced investments, assuming the political polarization deepens. Domestic instability and weak growth could cause significant volatility in the exchange rate, potentially weakening the lari to around GEL 3.1/\$. The depreciation will induce inflationary pressure, with average inflation of 5.7% and a rise in the monetary policy rate to 9.5%, up from the current 8.0%. In this scenario, we expect the fiscal deficit to remain below 3% of GDP, as the government will cut capital expenditures to preserve the 3% deficit cap in the face of reduced tax revenues.
3. **Optimistic Scenario:** We forecast 7.0% growth, assuming the resumption of relations with the West, which would boost consumer and business confidence and support continued EU integration. This growth would be driven by improved sentiment and pent-up demand. In this scenario, we expect a stronger lari (GEL 2.78/\$) and inflation at 3.1%.

Table 1: 2025 growth scenarios

	2024E	2025 Baseline	2025 Pessimistic	2025 Optimistic
Real GDP growth	9.5%	5.0%	2.4%	7.0%
Average GEL/US\$	2.72	2.88	3.10	2.78
Average annual inflation	1.1%	3.9%	5.7%	3.1%
Refinancing rate	8.0%	8.0%	9.5%	7.5%
Tourism revenues, US\$ bn	\$4.4	\$4.5	\$4.3	\$4.7
Fiscal deficit, % of GDP	2.5%	2.5%	2.8%	2.3%
Current account deficit, % of GDP	4.9%	5.5%	6.2%	4.5%

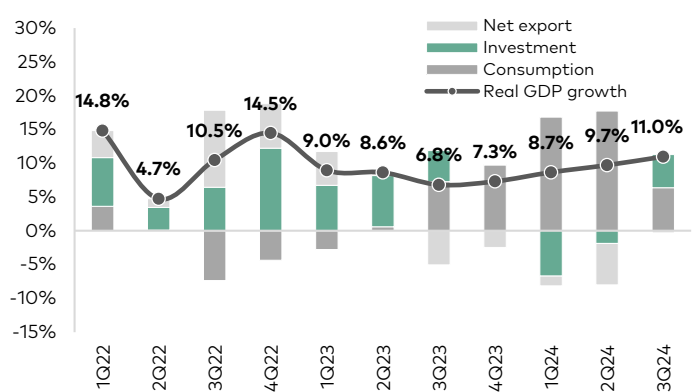


Real GDP growth, % change y/y



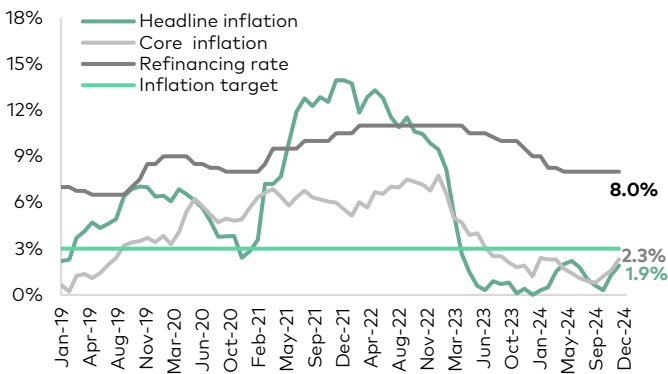
Source: Geostat

Contributions to real GDP growth, ppts



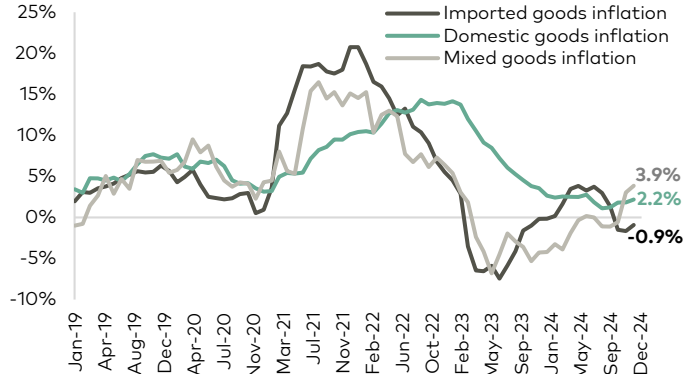
Source: Geostat, Galt & Taggart

Annual inflation and monetary policy rate



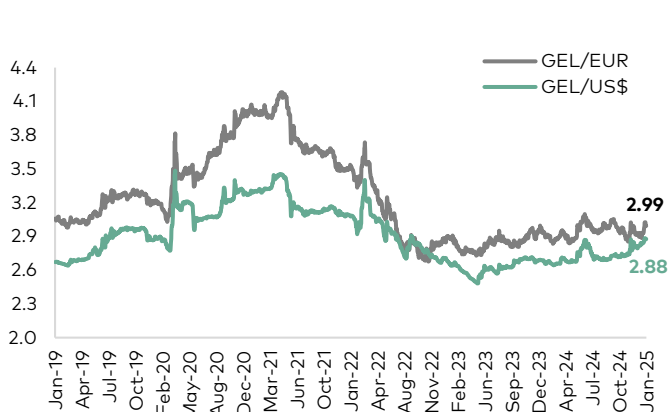
Source: Geostat, NBG

Imported and domestic inflation dynamics



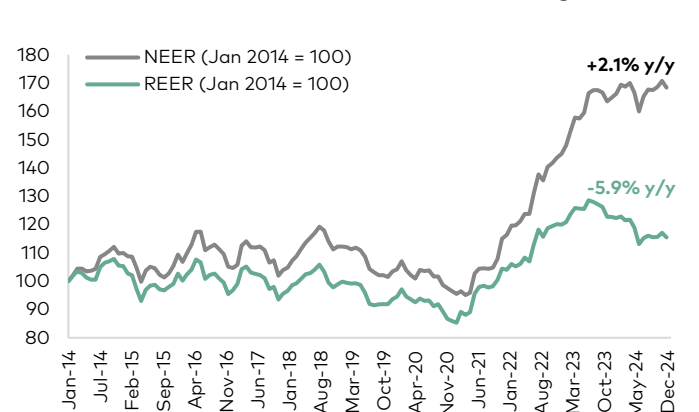
Source: Geostat

GEL/US\$ and GEL/EUR



Source: NBG

GEL's nominal and real effective exchange rates

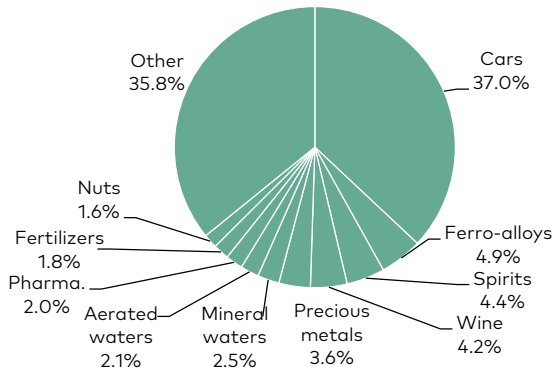


Source: NBG

Note: Index growth/decline means appreciation/depreciation of GEL

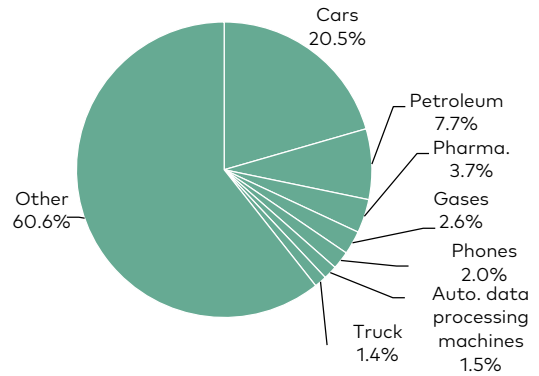


Exports by product, 2024



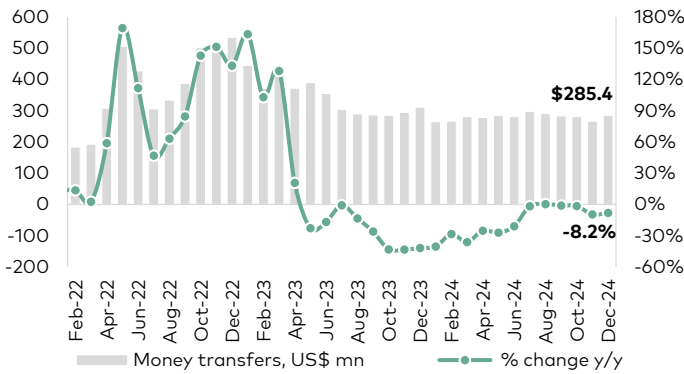
Source: Geostat

Imports by product, 2024



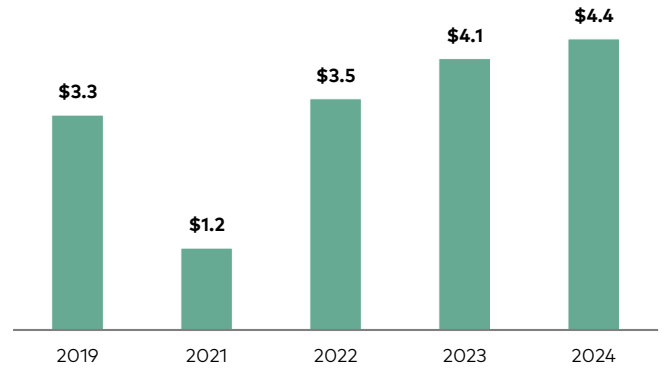
Source: Geostat

Money transfers to Georgia



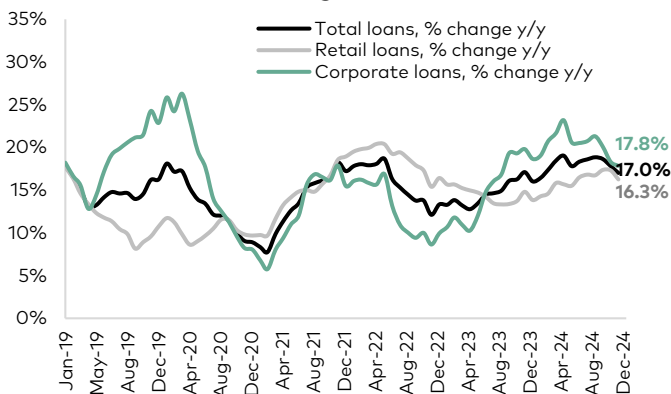
Source: NBG

Tourism revenues, US\$ bn



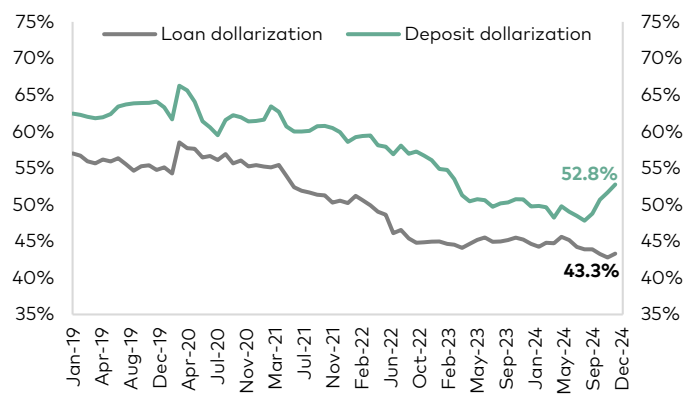
Source: NBG

Banking sector loan portfolio growth by sector, (excluding FX effect)



Source: NBG

Banking sector loan and deposit dollarization



Source: NBG

Macro data and baseline forecasts

Georgia	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024E	2025F
GDP and Prices											
Nominal GDP, GEL bn	34.5	36.6	41.3	45.4	49.7	49.8	60.7	72.9	80.9	91.8	100.7
Nominal GDP, US\$ bn	15.2	15.4	16.5	17.9	17.6	16.0	18.9	25.0	30.8	33.7	35.0
Nominal GDP per capita, US\$	4,085	4,143	4,420	4,804	4,741	4,301	5,084	6,731	8,284	9,124	9,466
Real GDP, % change y/y	3.4%	3.4%	5.2%	6.1%	5.4%	-6.3%	10.6%	11.0%	7.8%	9.5%	5.0%
CPI Inflation, ave	4.0%	2.1%	6.0%	2.6%	4.9%	5.2%	9.6%	11.9%	2.5%	1.1%	3.9%
CPI Inflation, eop	4.9%	1.8%	6.7%	1.5%	7.0%	2.4%	13.9%	9.8%	0.4%	1.9%	3.5%
GEL per US\$, ave	2.27	2.37	2.51	2.53	2.82	3.11	3.22	2.92	2.63	2.72	2.88
GEL per US\$, eop	2.39	2.65	2.59	2.68	2.87	3.28	3.10	2.70	2.69	2.81	2.90
GEL per EUR, ave	2.52	2.62	2.83	2.99	3.15	3.55	3.82	3.08	2.84	2.94	3.08
GEL per EUR, eop	2.62	2.79	3.10	3.07	3.21	4.02	3.50	2.88	2.98	2.93	3.10
GEL per GBP, ave	3.47	3.21	3.23	3.38	3.60	3.99	4.43	3.62	3.27	3.48	3.63
GEL per GBP, eop	3.55	3.26	3.50	3.40	3.76	4.45	4.17	3.26	3.42	3.53	3.68
Population, mn	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Government Finances											
Budget revenues, % of GDP	27.0%	27.5%	27.0%	26.5%	26.4%	25.3%	25.6%	27.2%	27.9%	28.7%	28.4%
Budget expenses, % of GDP	28.1%	28.9%	27.8%	27.2%	29.1%	34.5%	31.9%	29.6%	30.2%	31.3%	30.9%
Fiscal balance (-deficit), % of GDP	-2.4%	-2.7%	-2.7%	-2.2%	-2.1%	-9.2%	-6.0%	-3.0%	-2.4%	-2.5%	-2.5%
Public debt, % of GDP	36.0%	39.5%	38.9%	38.2%	40.0%	59.6%	49.1%	39.2%	38.9%	36.8%	37.0%
External Sector											
Current account, US\$ bn	-1.8	-1.9	-1.3	-1.2	-1.1	-2.0	-1.9	-1.1	-1.7	-1.6	-1.9
Current account, % of GDP	-11.6%	-12.2%	-8.0%	-6.7%	-6.0%	-12.4%	-10.3%	-4.4%	-5.6%	-4.9%	-5.5%
Exports, US\$ bn	6.2	6.2	7.6	8.9	9.6	5.9	8.1	13.2	15.0	16.1	16.6
Imports, US\$ bn	8.7	8.5	9.4	10.8	11.2	9.0	11.2	15.6	17.8	19.0	19.7
Net current transfers, US\$ bn	1.1	1.1	1.3	1.4	1.4	1.8	2.3	3.1	3.3	3.3	3.3
Net FDI, US\$ bn	1.4	1.2	1.7	1.0	1.1	0.6	0.9	1.9	1.6	0.7	0.7
Net FDI, % of GDP	9.3%	8.1%	10.4%	5.6%	6.2%	3.5%	4.9%	7.7%	5.2%	2.1%	2.0%
Gross international reserves, US\$ bn	2.5	2.8	3.0	3.3	3.5	3.9	4.3	4.9	5.0	4.4	4.2
Financial sector											
Bank loan portfolio, US\$ bn	6.7	7.1	8.6	9.9	11.1	11.7	13.9	16.6	19.6	22.2	24.5
Bank loan portfolio, % of GDP	46.4%	51.7%	53.9%	58.6%	64.2%	76.8%	71.0%	61.5%	65.1%	67.8%	70.4%
Monetary policy rate, %	8.0%	6.5%	7.3%	7.0%	9.0%	8.0%	10.5%	11.0%	9.50%	8.00%	8.00%

Source: NBG, MOF, Geostat, Galt & Taggart

Note 1: Fiscal balance according to IMF Program Definition

Note 2: Exports and imports include both – goods and services

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