საქართველოს ეროვნული ბანკი
National Bank of Georgia

Financial Stability Report 2025

Preface

The Financial Stability Report is an annual publication issued by the National Bank of Georgia (NBG). It presents an assessment of the vulnerabilities and risks in the financial system, with a focus on the long-term, structural features of the financial sector and the Georgian economy that are of importance for financial stability. It also analyses the domestic financial system's resilience and conveys the Financial Stability Committee's (FSC) view on the policies and measures necessary to preserve financial stability.

The financial system is considered stable when it can provide crucial services to market participants in both good and bad times. It is a cornerstone for the sustainable development of the economy. Given its mandate as defined by the Organic Law of Georgia, the National Bank of Georgia continuously aims to ensure that the financial system is safe and sound.

This analysis draws on data available up to 30 June 2025, unless otherwise stated.

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Financial Stability Report 2025

Executive Summary

Due to the macroprudential and microprudential measures adopted by the National Bank of Georgia (NBG), the financial sector remains resilient and continues smooth lending to the economy. As a result of strong economic activity, the appreciated local currency, and measures implemented by the National Bank of Georgia, the financial indicators of commercial banks have improved. The banking sector is well capitalized and maintains healthy liquidity indicators. The growth rate of loans is also healthy and is mainly driven by business loans. Against the backdrop of strong economic activity, the credit-to-GDP ratio remains below the trend, and there is therefore no need to change the cyclical component of the countercyclical capital buffer at this stage. At the same time, the banking system continues gradually accumulating the cycle-neutral countercyclical capital buffer (base rate), which was set last year by the Financial Stability Committee at 1percent. Currently, this buffer stands at 0.5 percent. The abovementioned indicates the healthiness of the country's financial system. Moreover, the non-banking sector, which must also meet prudential requirements, remains resilient.

Financial stability risks arising from the external sector remain significant. Georgia is a small open economy characterized by structural challenges, including a high level of dollarization, a current account deficit, and significant dependence on international financial inflows. This makes the financial system vulnerable to global economic and financial developments. Increased geopolitical and trade uncertainty and global stagflationary risks thus pose challenges to Georgia's economy. However, the expansion of high-productivity sectors and strong internal demand both support the maintenance of robust economic growth. Nevertheless, external factors, such as ongoing inflationary pressure, tightened financial conditions, lower economic growth forecasts, trade tensions, and geopolitical fragmentation all remain significant. These risks may materialize in developing countries through a decline in external demand, an increase in sovereign risk premia, capital outflows, a worsening of debt sustainability, and exchange rate volatility—all of which are noteworthy for Georgia as well.

The quality of loans remains good, while the distributions of the payment-to-income (PTI) and loan-to-value (LTV) ratios in households' credit portfolios remain healthy. In the event of macroeconomic shocks, households have sufficient buffers to cope with stress. Average wage growth is relatively low, albeit still in the double digits, while the unemployment rate—despite seeing a slight increase—remains low by historical standards. Lending to the household sector in Georgia continues to grow at a high pace, particularly for consumer loans, which are increasing rapidly. Although this reflects good access to credit in the sector, in a risky environment, a higher debt-servicing burden could pose financial stability risks. As a result of the macroprudential policies implemented by the NBG, the dollarization of household loans continues to decline, although the currency risk for unhedged borrowers remains a concern.

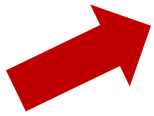
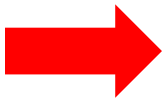
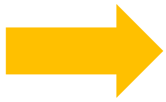
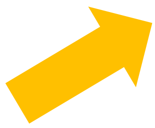
Despite the increased uncertainty caused by global geopolitical tensions and trade restrictions, non-financial companies continue to grow at a stable pace. Overall, the non-financial sector remains resilient, although in certain industries—such as hospitality, healthcare, and telecommunications—there are signs of a deterioration in loan quality indicators. The share of bank lending in corporate financing continues to rise. At the same time, due to a reduction in external financing, the dollarization of total debt in the non-financial sector has declined, while the dollarization of domestic debt has remained roughly unchanged. In the first half of the year, growth in bank loans to non-financial companies slowed somewhat, but still exceeds lending growth rates in other European countries. Amid strong economic growth in recent years, the debt burden of companies, measured as the ratio of loans to nominal GDP, remains below its long-term level. Increased regional uncertainty has been reflected in higher interest rates on newly issued loans. The rising share of variable-rate loans, in both domestic and foreign currencies, increases the non-financial sector's vulnerability. As of 2023, most non-financial companies maintained stable profitability, improved liquidity, and adequate solvency. Globally, elevated trade and financial uncertainty highlight the risks associated with high debt dollarization in the sector. However, analysis shows that under conditions of moderate stress, companies' ability to service their debt remains healthy, and their financial stability risks do not increase materially.

The real estate market remains resilient. As expected, following the tapering effect of migration and the normalization of economic growth, market activity has slowed slightly. The real estate price index continues to show positive annual growth that is broadly in line with overall economic activity. High economic growth between 2022 and 2024 increased demand in the real estate market, which, along with other fundamental factors, accelerated price growth. Over time, the slowdown in economic growth and the diminishing migration effect have contributed to a normalization of demand, which has been reflected in the dynamics of real estate prices. As anticipated, following sharp one-off increases, the rental price index also continued to decline this year, approaching its long-term level. This decrease has led to a reduction in the capitalization index, which measures the ratio of rental prices to sales prices and serves as an indicator of real estate investment attractiveness. Therefore, a prolonged trend of declining rental prices could affect the investment appeal of real estate. The normalization of demand was also supported by a slight decrease in the real estate affordability index compared to last year. On the supply side, supply levels remain elevated, driven by the significant increase in construction permits for multi-apartment buildings issued in previous years. The quality of loans to the construction and real estate sectors in bank portfolios is good, and the pace of mortgage loan growth remains stable. In 2024, loans to the real estate development sector grew rapidly, although that growth has now stabilized. Overall, the real estate sector remains vulnerable to macroeconomic shocks, and loans related to this sector constitute a significant share of banks' portfolios. Given the increased uncertainty and inherent riskiness of the real estate market, continuous monitoring of this sector is particularly important.

As a result of the financial stability policies implemented by the National Bank of Georgia, the financial sector remains resilient and continues smooth lending to the economy in 2025. Similar to the previous year, the banking system is well-capitalized, liquid, and profitable. The Financial Stress Index (FSI) remains at a low level. This is driven by both the healthy financial indicators of the banking sector and exchange rate stability, which partially offsets the impact of rising risk premia on the index. At the same time, the share of non-performing loans in total lending remains low. However, despite a decline, dollarization continues to pose a significant challenge for the financial sector. Nevertheless, considering the recent macroprudential measures, the downward trend of dollarization is expected to continue, which should help mitigate associated risks.

The NBG's efforts to improve the resilience of the financial system are a continuous work in progress. The National Bank is continuously monitoring the situation and will deploy all available tools at its disposal to ensure financial stability and reduce the impact of potential threats arising from the complex regional geopolitical landscape on the country's economy. In recent years, the banking system has successfully coped with various global and regional challenges. The banking sector is characterized by high-quality assets and sound financial indicators. However, it should be noted that elevated uncertainty persists, stemming from trade restrictions, unprecedentedly high tariffs, and geopolitical conflicts—all of which have the potential to affect the economy and the financial sector. The National Bank of Georgia continues to actively monitor the country's financial stability, to assess domestic and foreign risks, and to ensure financial stability by employing macroprudential and microprudential instruments.

The following table summarizes the major financial stability risks facing the Georgian economy:

The Main Risks to Financial Stability	Magnitude/ Change
Risks of prolonged and escalating geopolitical and trade tensions. The Georgian lari has maintained a strong position thanks to the depreciated US dollar amid high trade uncertainty in the United States and robust inflows. However, exchange rate risks stemming from various factors remain noteworthy. First, the turbulent geopolitical environment in the region could, in the event of escalating tensions, negatively affect investor sentiment and risk appetite, leading to a reassessment of the country's sovereign risk. Increased riskiness may trigger capital outflows, creating depreciation pressure on the local currency. At the same time, the gradual normalization of external inflows should be noted, which, given the current account deficit, could also exert pressure on the exchange rate. Considering the still-high level of dollarization, the realization of these risks would likely impact both inflation and the quality of the credit portfolio.	
Slowed normalization of monetary policy by leading central banks amid increased global uncertainty. Although the global trend of declining inflation continues, inflation-related risks remain significant in the context of elevated uncertainty, prompting major central banks to exercise caution and slow their pace of policy tightening. Heightened uncertainty, along with potential inflationary pressures arising from increased trade fragmentation, could lead to a further tightening of monetary policy or a prolonged tightened policy stance. This, in turn, would further slow global economic growth and increase risks to global financial stability. These factors may trigger a reassessment of risks in financial markets, resulting in tighter financial conditions. Consequently, emerging and developing economies could face restricted access to external financing and increased external debt burdens.	
Cyclical adjustment of real estate market activity. In recent years, the real estate market has experienced particularly strong activity. Initially, this reflected significantly increased demand due to higher migration, and, later, it mirrored the effects of strong economic growth. Prolonged periods of sustained high demand have also led to an increase in supply, as reflected in the growth of the number of construction permits issued. Maintaining a high level of supply under normalized demand conditions could pose risks of oversupply. Moreover, because much of this demand is cyclical, the materialization of macroeconomic risks—such as a significant decline in economic activity—could result in an overconcentration of labor and investment in these sectors. This, in turn, may trigger sharp increases in unemployment and difficulties in debt servicing, negatively affecting financial stability and the broader economy.	
Risks arising from global trade restrictions and tariffs. Uncertainty surrounding tariff policies poses new challenges for the global economy and creates risks of stagflation. Potential disruptions in supply chains and the imposition of tariffs put upward pressure on prices, while tighter financial conditions and trade restrictions amid uncertainty slow the pace of global economic growth. Trade tariffs and potential supply chain disruptions could generate inflationary pressures in Georgia's trading partner countries, necessitating tighter monetary policy and contributing to higher imported inflation in Georgia. Additionally, these developments could weaken the economic growth of Georgia's trading partners, which would, in turn, negatively affect external demand for Georgian goods and, consequently, impact the country's economic growth.	

1 = minor risk and 6 = major risk. The arrow indicates changes in the risk level from the previous year.

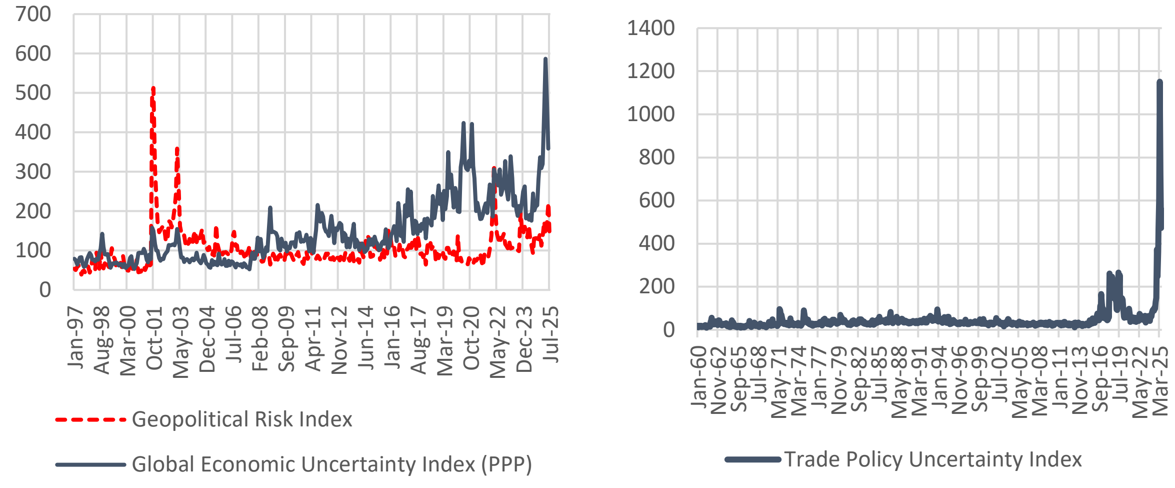
≥1	≥2	≥3	≥4	≥5	≥6

I. Macro-financial Environment and Outlook

The global economy in 2025 is characterized by high uncertainty. Against the backdrop of trade restrictions and new tariffs, geopolitical risks have increased, leading to volatility in financial markets, rising risk levels, and greater investor caution. Despite the postponement of certain tariffs and the smaller-than-expected scale of others, downside risks still dominate, weighing on global growth prospects. Although the disinflation trend continues, the persistence of service prices and trade tensions strengthen inflationary pressures and slow the pace of monetary policy easing. In addition, tighter financial conditions worsen the situation in highly indebted countries and increase fiscal and credit risks, posing significant challenges for central banks worldwide. Economic activity across countries in the region remains uneven and is characterized by high uncertainty. These factors pose risks to the local macro-financial environment. However, amid still-strong demand and improved economic potential, Georgia's economic growth is expected to remain at a high level.

Amid trade restrictions, unprecedentedly high tariffs, and geopolitical conflicts, the global economic environment in 2025 is marked by elevated uncertainty. The past five years have been defined by shocks of unprecedented scale and magnitude: the COVID-19 pandemic; the Russia-Ukraine war and the resulting surge in global inflation; disruptions to trade chains; and economic stagnation in certain major economies. While the global economy demonstrated resilience and started to recover in 2023–2024, the trade tariffs announced by the United States in April 2025 posed a new challenge. Although the implementation of some tariffs has been postponed, and the scale of some other tariffs turned out to be smaller than initially anticipated, the high level of uncertainty surrounding trade policy remains. Global risk indices, such as the geopolitical risk index and the trade and economic uncertainty indices, have reached historical highs (see Figure I.1), significantly worsening the economic environment and outlook. While both upside and downside risks exist, it is the negative risks that continue to dominate. Their escalation could have adverse effects on both global economic growth and inflation. Consequently, the risks present in the macroeconomic environment remain highly relevant.

Figure I.1. Global uncertainty indices

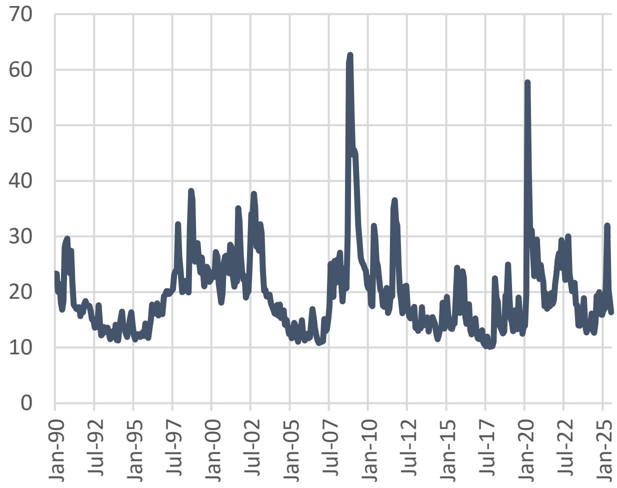


Source: Caldara et al.; Policy Uncertainty

The comprehensive tariffs announced by the United States at the beginning of the year were followed by increased volatility in financial markets, an immediate repricing of asset prices, and negative expectations regarding economic growth. In an effort to mitigate potential losses, investors began selling assets, which adversely affected their prices. Notably, part of the capital shifted from the U.S. to Europe, indicating changes in traditional investor behavior and preferences during periods of heightened risk. During this period, the VIX[1] index, which measures the expected volatility of U.S. asset prices, increased (see Figure I.2). This may indicate reduced risk appetite and greater caution on the part of investors. After the temporary postponement of the implementation of certain tariffs, asset prices quickly recovered; however, some remain overvalued, which carries risk. In the event of a deterioration in trade relations and economic growth forecasts, there is a risk of a renewed repricing of assets, which could trigger capital outflows from emerging markets and increase volatility in local currencies. The tightening of global financial conditions caused by market volatility could also increase credit risk. Moreover, it worsens the sentiment of households and corporations, which can negatively impact the economy through reduced spending and investment.

[1] Chicago Board Options Exchange Volatility Index (CBOE VIX)

Figure I.2. CBOE VIX index



Source: U.S. Federal Reserve Economic Data

Also noteworthy is the tightening of financial conditions that followed the market volatility and uncertainty caused by the tariffs. Tighter financial conditions represent a demand shock and negatively affect economic growth forecasts; moreover, they place additional pressure on economies already burdened with high debt, which is particularly concerning in the context of increased fiscal deficits and the already limited fiscal space. In many countries, fiscal spending, partly financed through borrowing, rose significantly to cope with macroeconomic and geopolitical shocks. With tighter financial conditions, the cost of servicing public debt increases, and debt refinancing becomes necessary to cover fiscal expenditures. Against this backdrop, financial stability risks are of particular concern.

Amid trade tariffs and heightened uncertainty, risks of a slowdown in global economic growth have emerged. In 2024, global economic growth was low but stable. However, the tariffs announced in April 2025 significantly worsened growth forecasts and created negative expectations. Moreover, in the event of escalating geopolitical fragmentation, there is a danger of a sharper global economic slowdown driven by both supply and demand factors.

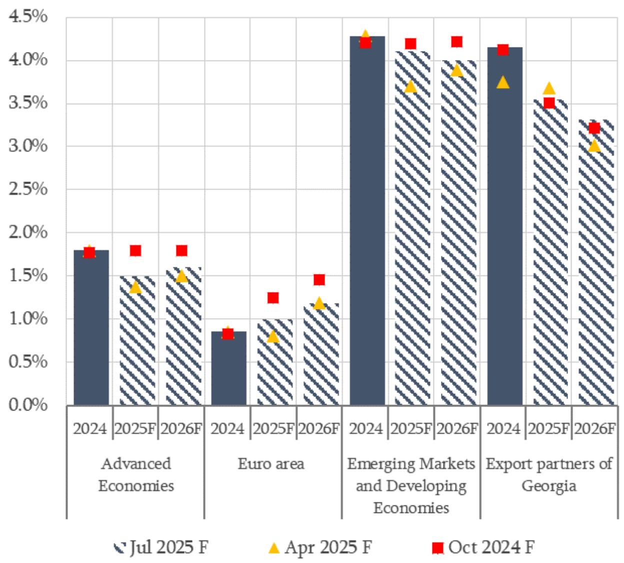
Trade tariffs increase production costs and reduce trade flows, leading to lower investment and production, which in turn negatively affects employment. Against the backdrop of recent developments, a weakening of the labor market—manifested in slower employment growth and declining productivity—has already been observed in several countries. Export-oriented sectors, including manufacturing, have proven particularly vulnerable to tariffs. In the case of a deeper slowdown in economic growth, slower wage growth and reduced corporate investment are also expected, which would further hinder economic expansion. Moreover, tariffs contribute to trade fragmentation and disruptions in supply chains, fostering trade delays and inflation, as was confirmed during the pandemic.

Tariffs also act as a shock to external demand, which, in the context of higher prices and worsened consumer sentiment, reduces demand for exports. All of this slows down economic growth through the channels of demand, investment, and exports. The inflationary pressure resulting from trade fragmentation and the expected increase in fiscal spending will, in some countries, lead to either a tightening of monetary policy or a slowdown in its easing, which will further restrain economic growth. Taking all of this into account, in April 2025, the International Monetary Fund revised its economic growth forecasts downward compared to those of January 2025. Specifically, its forecast for the global economic growth rate for 2025 was lowered from 3.3 percent to 2.8 percent and the 2026 forecast was also revised downward (Figure I.3). However, it is noteworthy that the growth forecast improved slightly in July, due to the average size of the imposed tariffs being lower than the originally announced levels; moreover, households' and companies' anticipation of price increases from the tariffs boosted the current economic activity and had a positive effect on the economy. The improvement in the growth rate was also supported by increased fiscal spending in some countries and the easing of financial conditions, which was facilitated by a relatively weak dollar. At the same time, the depreciation of the dollar, and consequently the reduction of inflationary pressures in developing countries, gave those countries more room to implement monetary policy.

In terms of individual countries, the IMF's economic growth forecasts for the U.S. deteriorated significantly in July, falling by 0.8 percentage points, as driven by trade tensions, worsening sentiment, and weakened demand. However, thanks to increased consumption and an improved trade balance, the latest forecasts have been revised upward. A similar pattern was observed in the European Union. Against the backdrop of weakened demand and rising savings, the growth forecast for the EU also deteriorated in April 2025 compared to the previous year. This decline was partly due to the energy shock resulting from the Russia-Ukraine war, which particularly affected economies dependent on industry. However, in July 2025, the expected growth forecast improved slightly due to increased investment and export growth. Meanwhile, in developing countries, the average economic growth forecast for 2025 was revised upward, largely driven by higher exports resulting from the currency depreciation in China. However, in the case of China, attention must also be paid to the potential future impact of tariffs, as well as problems in the real estate market and weak domestic demand.

Overall, high uncertainty related to global economic growth remains a challenge. The actual impact of the tariffs will ultimately depend on their enforcement, the policies implemented in response, and the extent of trade diversification. Increased fiscal spending will partially offset the slowdown in economic growth caused by the tariffs. However, if global financial conditions tighten, rising levels of government debt and debt-servicing costs will weigh heavily on countries with high debt levels. On the other hand, if tariff tensions ease and trade policies stabilize, growth forecasts could quickly be revised upward.

Figure I.3. Economic growth according to country groups[2]



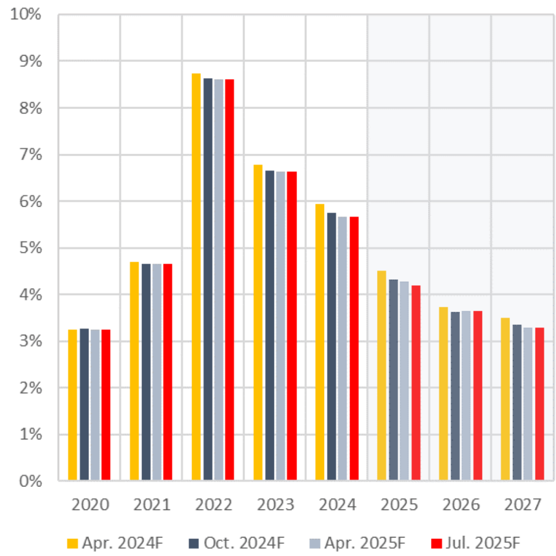
Source: World Economic Outlook (WEO)

Despite the continued reduction of inflation, risks related to inflation remain significant in the context of high uncertainty. Supported by tightened monetary policy, global inflation continued to decline in 2024; however, inflation still exceeds target levels in certain countries. Service prices have proven relatively rigid, while the prices of core consumer goods are slightly rising amid trade tensions. In the United States, price increases have been fueled by a sharp increase in consumption in response to tariffs, as well as the weakened dollar. Moreover, the prolonged inflation observed since the pandemic has altered the vulnerability of inflation expectations to shocks, making consumers more sensitive to price changes. Compared to 2024, consumers' inflation expectations have worsened, adding further pressure on price levels. Taking all of this into account, compared to January, the IMF's projected slowdown of inflation decreased in July, with inflation forecasts reaching

[2] Georgia's main export partners comprise eight countries (based on the 2024 data), but the IMF's July forecasts have only been updated for four of those countries. For the remaining four countries, the IMF's April forecasts are used.

4.2 percent for 2025, and falling to 3.6 percent for 2026 (see Figure I.4). Although the average inflation forecast has not changed significantly over the past year, median inflation has increased. Inflation forecasts have also been revised upward for individual countries, including the United States.

Figure I.4. Global inflation forecast



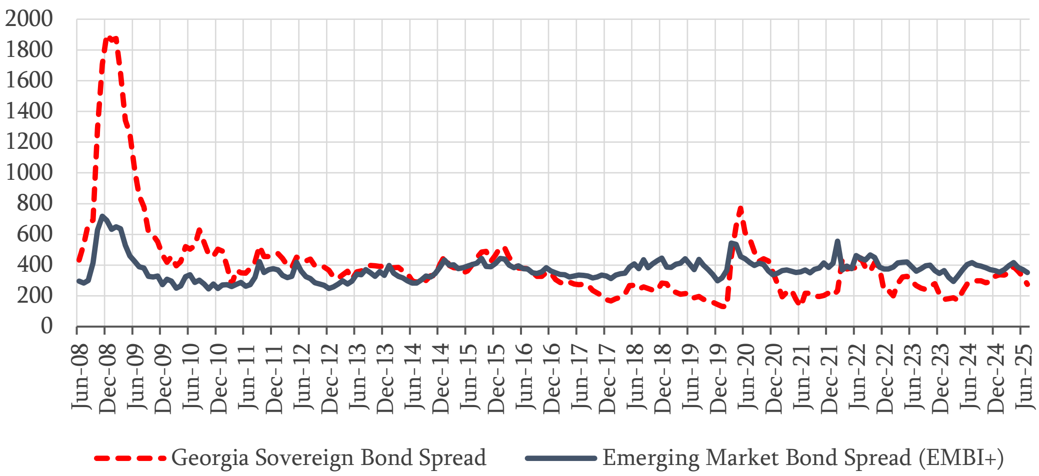
Source: World Economic Outlook (WEO)

Amid ongoing trade tensions, global inflation forecasts are characterized by a high margin of uncertainty. On the supply side, trade restrictions create inflationary pressure. Price rigidity in the services sector and expected increases in fiscal spending also contribute to rising prices. An increase in imported inflation is also expected if the U.S. dollar strengthens. However, at this stage, weakened consumption and sentiment, coupled with the weaker dollar, act in a disinflationary manner. The overall effect of the tariffs on inflation will depend on the duration of the shock and the extent to which increased costs are passed on to prices. After the postponement of certain tariffs and the easing of the initial shock, inflation expectations improved slightly, and are expected to normalize and converge to the target level in the medium term. However, as the COVID-19 pandemic demonstrated, global disruptions to supply chains can lead to unforeseen inflationary shocks.

Inflation forecasts differ across regions and countries, calling for the asynchronous adjustment of monetary policy. For example, disinflationary pressures dominate in China, while in the U.S. prices of certain products are on the rise. Asynchronous monetary policy changes across regions could lead to a tightening of financial conditions, capital movement, and exchange rate volatility, which would have a negative effect on developing economies.

The announcement of tariffs was followed by a tightening of global financial conditions, which could increase financial stability risks. Global financial conditions have been tightening since the end of 2024. This process was also influenced by the announcement of trade restrictions, leading to volatility in financial markets and asset revaluations, which were particularly noteworthy for developed economies. It should be noted that some assets were overvalued, and the decline of prices occurred quite abruptly. Although prices partially recovered following the postponement of certain tariffs, the uncertainty associated with trade tensions continues to pose risks to financial stability. Although the value of financial assets recovered in the second quarter of 2025 and financial conditions eased (see Figure I.5), risks remain significant. At the beginning of the year, the tightening of financial conditions led to a downward revision of economic growth forecasts. However, in the second quarter, financial conditions eased slightly along with the depreciation of the U.S. dollar. If this trend continues, it will support economic growth, reduce debt-servicing costs in developing countries, and provide them with more room to ease their monetary policies. Nevertheless, in the context of high uncertainty, no significant improvement in financial conditions is expected.

Figure I.5. Sovereign bond spread[3] (basis points)



Source: Bloomberg

In the event that these risks materialize, a deterioration of financial conditions could significantly harm the global macro-financial environment. Of particular concern is the transmission of existing risks to households and companies, which would also affect the

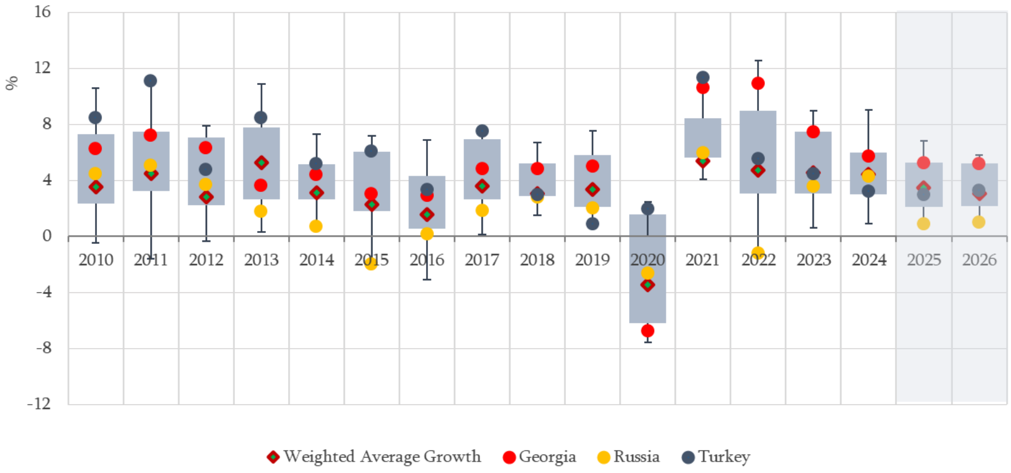
[3] This takes into account not only the yields on government bonds, but also the yields on securities issued by state corporations (railways, oil and gas companies). The latter may be characterized by individual risks that can change the sovereign risk assessment.

financial sector. A slowdown in trade flows would negatively impact the labor market and trade-related sectors, thereby increasing credit risk. If credit spreads widen, the terms of existing fixed-rate loans would be revised, raising refinancing costs. Moreover, a deteriorating macro-financial environment would negatively affect the sovereign risk premium, potentially leading to a downgrade of corporate and financial sector ratings and higher financing costs.

An increase in sovereign risk and a tightening of asset conditions would particularly burden high-debt economies and significantly constrain the ability of fiscal policy to support economic growth. In addition, there is a risk of higher yields on U.S. government bonds, which would increase the currency volatility of developing countries and encourage outflows of capital and foreign direct investment.

Although economic activity forecasts for regional countries are characterized by uncertainty, negative risks predominate. In the case of Russia, the 2025 economic growth forecast has been significantly revised downward, driven by additional sanctions and reduced inflows. Specifically, compared to the 2024 forecast, the 2025 growth forecast was lowered by 0.7 percentage points, to 0.9 percent. In 2024, growth reached 4.3 percent, partly supported by oil revenues (see Figure I.6). However, a decline in oil prices poses a significant risk to Russia’s economy. In Türkiye, the economic growth forecast has improved slightly, although inflationary risks have increased amid a currency depreciation and strong domestic demand. In Armenia, inflows from Russia have declined, which, following a period of high growth, will help the normalization of the economy. Successful negotiations between Armenia and Türkiye could increase Armenia’s transit role, positively affecting the country’s economy. Moreover, the initiation of negotiations between Armenia and Azerbaijan also has a positive impact on regional geopolitical stability and economic growth. In 2024, European demand for oil from Azerbaijan increased, although it was the country’s non-oil sectors that drove its economic growth. This dynamic is expected to continue in 2025–2026, although future forecasts will be heavily dependent on oil prices and external demand. The depreciation of the U.S. dollar had a positive impact on the currencies of Georgia’s main trading partners (excluding Türkiye). However, the slowdown in global economic activity in the wake of tariffs could negatively affect external demand in these countries.

Figure I.6. Growth distribution of the main trading partners of Georgia[4]



Source: WEO database, NBG

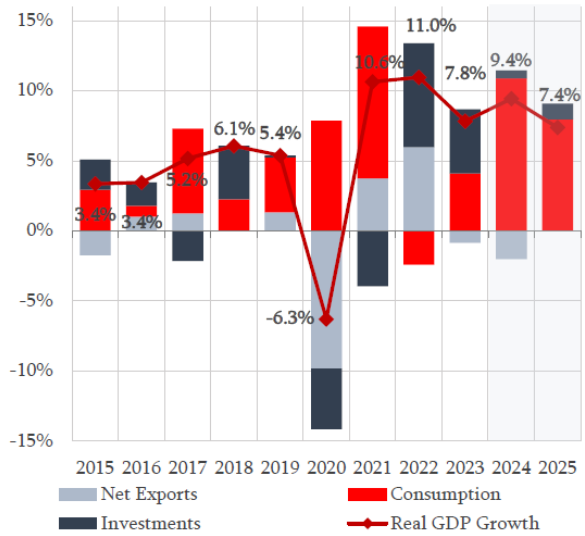
Despite global challenges, real GDP growth is expected to reach 7.4 percent in 2025, driven by a slower-than-expected normalization of demand and strong economic activity. Georgia's economy is expected to continue growing at a high pace in 2025, largely due to structural changes and strong domestic demand. In particular, the share of high-productivity sectors in economic activity has increased in recent years. According to preliminary data, average economic growth in January–July 2025 reached 8.3 percent compared to the same period of the previous year. However, signs of a normalization of economic activity are emerging. Specifically, alongside a slowdown in credit growth, there has been a normalization of aggregate demand. This also affects imports, in tandem with lower oil prices and the increased contribution of less import-intensive sectors of the economy to growth. At the same time, the expected slowdown in economic growth among trade partners may impact exports.

Global financial tightening is also noteworthy, as it poses risks of capital outflows from developing countries, including Georgia. The deterioration of financial conditions slows credit activity and increases the cost of raising loans and the credit risk premium, which negatively affects debt-servicing costs. However, these risks are partially offset by a weaker U.S. dollar. Overall, against the backdrop of strong domestic demand and increased production potential, expected growth in 2025 is 7.4 percent (see Figure I.7). Regarding inflation, the average rate in 2025 is expected to remain around 3.8 percent, and is expected

[4] The list of Georgia's main trading partner countries has been revised based on 2024 goods export data. The share of the top 10 trading partners for Georgia's exports was used to calculate the weighted average economic growth.

to approach the target of 3 percent in 2026. It should be noted that improvements in production potential help neutralize future inflationary pressures arising from strong aggregate demand.

Figure I.7. Decomposition of real GDP growth by expenditure, YoY



Source: NBG

Amid global challenges, the development of innovative technologies plays a special role in ensuring financial stability. In 2025, geopolitical risk reached its highest level in recent times (see Figure I.1). This negatively affects trade and financial transactions and may become a source of capital outflows. Geopolitical tensions also contribute to the escalation of conflicts and lead to increased military spending. Under limited budgets, funds allocated to defense reduce financing for social and other productive projects, hindering long-term development. Moreover, supply chain disruptions and climate-related adverse events pose risks to food security. In parallel with these global challenges, technologies are being actively developed to support the structural transformation and adaptation of economies. Artificial intelligence can play an important role in promoting economic growth and productivity. Collaboration and advancements in this area will foster innovation, allowing us to mitigate the negative impact of technologies on employment, thereby supporting financial stability. For the financial sector, another important process is tokenization, which, by digitizing assets, simplifies, reduces the cost of, and increases the flexibility of financial transactions. Additionally, due to its high reliability, transparency, and improved monitoring, tokenization will contribute to improving financial stability. For more information on the benefits of tokenized deposits and the regulatory sandbox developed by the National Bank of Georgia, see Box 7.

II. Vulnerabilities and Risks Affecting Financial Stability

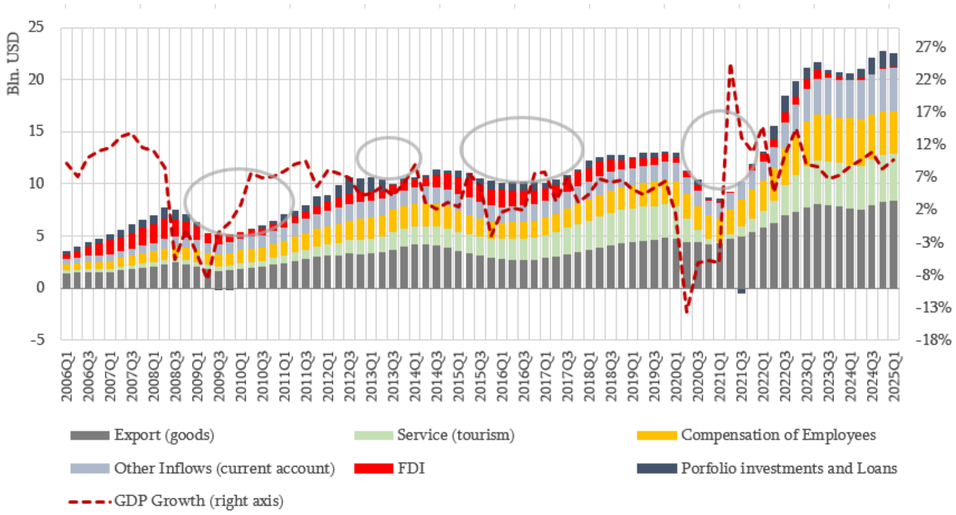
External Vulnerability

Georgia, as a small open economy, is characterized by vulnerability to global economic and financial developments. Increased geopolitical and trade uncertainty and stagflationary risks constitute challenges to the Georgian economy. However, the expansion of high-productivity sectors and strong domestic demand continue to sustain high economic growth. External sector risks, such as existing inflationary pressure and tightened financial conditions, the slowdown of projected economic growth, and rising trade tensions and geopolitical uncertainty, remain noteworthy. These factors could result in decreased external demand, rising sovereign risk premia, capital outflows, the worsening of debt sustainability and currency fluctuations for developing countries, which also carries important implications for Georgia.

Amid structural changes and strong domestic demand, Georgia maintained robust economic growth in 2024. This was further supported by external inflows, particularly the export of services. The expansion of high-productivity sectors and still-elevated external inflows continue to drive growth, although geopolitical uncertainty remains a significant risk. Georgia's high growth momentum has been sustained over a prolonged period, underpinned by structural transformations, including the expansion of high-productivity sectors, and strong domestic demand. Particularly notable is the increase in revenues from service exports, which, alongside the export of ICT services, has been supported by the strengthening of Georgia's transit role in the Middle Corridor and revenues from international travel. Structural changes, driven by the growth of the ICT and transportation sectors, have improved potential GDP. Moreover, strong domestic demand, supported by high credit activity and wage growth, amid a gradual normalization of monetary policy, also plays an important role in supporting growth.

High growth continued in the first half of 2025; however, there has been a gradual normalization of both domestic demand and foreign inflows, which will slow down economic growth and bring it closer to its potential level. The weakening of domestic demand and a tightening of global financial conditions have resulted in a slowdown of credit growth, dampening investment and consumption. In addition, the growth rate of exports of goods and travel revenues also decreased in the first quarter of 2025 (see Figure II.1). External demand will be negatively affected by the expected slowdown in the economic growth of trading partner economies. All of this will have a negative impact on the current account, although a significant deepening of the deficit is not expected because of a number of factors. In particular, the decline in demand has also been reflected in imports, which have slowed down despite the stability of the exchange rate. In addition, the trade balance of goods and the growth in service exports will contribute to a reduction in the deficit. Money transfers have also increased in 2025. Overall, these developments point to a moderate widening of the account deficit, which will reach 5-5.5 percent in 2025.

Figure II.1. Balance of Payments inflows in Georgia[5]



Source: NBG, GeoStat

The stagflation risks and high uncertainty in the global economy are of concern to the Georgian economy and could be transmitted to local financial stability through several key channels. In 2024, the global economy demonstrated resilience to large-scale shocks, but the trade tariffs announced in April 2025 presented a new challenge. The geopolitical uncertainty index has risen to unprecedented levels, and despite the fact that the tariff policy turned out to be milder than expected, external sector risks are still important. Amid trade restrictions, global economic growth ended up being lower than expected in a number of countries, while inflation still exceeds the target level. The ongoing Russia-Ukraine war, combined with conflicts in the Middle East, have continued to stress supply chains, which creates inflationary pressures. All of these developments pose risks to the Georgian economy.

Some of these risks have already affected the local economy. Specifically, the globally tightened financial conditions have been reflected in rising domestic lending interest rates, which increases borrowing costs and credit risk premia, and makes debt servicing costs

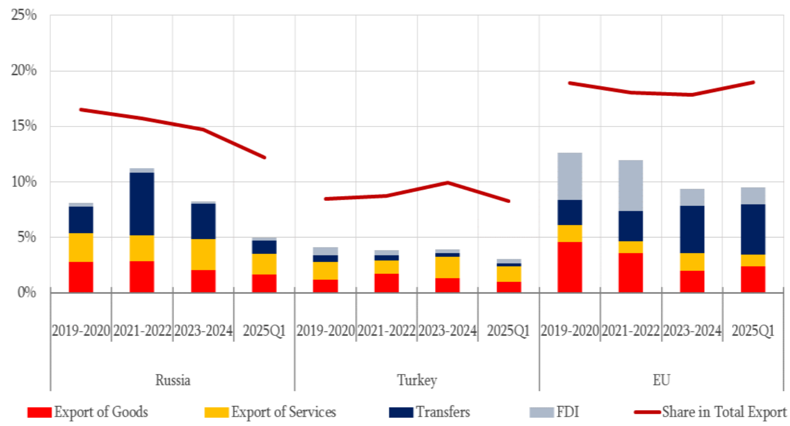
[5] Calculated as the ratio of the rolling sum of the past four quarters to nominal GDP.

more expensive. In addition, the difference between the yields of Georgian and U.S. 5-year government securities has increased, which may indicate a rise in the sovereign risk premium. Rising sovereign risk and tightened monetary policies in developed countries could support capital outflow from Georgia. However, these risks are partially offset by the weaker U.S. dollar and tightened monetary policy in Georgia. Also noteworthy are the weak economic outlooks of Georgia's trading partner countries and the slowdown of disinflation, which are expected to dampen Georgia's external demand and weigh on its economic growth.

The Georgian economy is highly dependent on the macro-financial environment in the EU, Russia, and Türkiye. Therefore, the slowing of global economic activity and tighter financial conditions might negatively affect Georgia's economy through the external sector. The post-pandemic recovery and the surge in inflows driven by migration following the Russia-Ukraine war are gradually normalizing. Specifically, since 2023 the growth rate of external inflows has slowed considerably and, in certain periods, even turned negative. According to data for the first quarter of 2025, the combined share of Türkiye, Russia, and the EU in total inflows stood at 42.5 percent, which is 4.6 percentage points lower than the 2020-2024 average. This decline primarily reflects a reduced share of inflows from the EU since 2020 and, more recently, from Russia.

Since the second half of 2023, the share of inflows from Russia in total inflows has been declining, returning to pre-war levels. Compared to the previous two years, inflows from Russia as a share of GDP have fallen markedly since 2024, by about 6.4 percentage points, reflecting a fading of the migration-related base effect. Much of the decline can be attributed to the normalization of transfers and travel-related revenues, which was further reinforced by the reclassification of some migrants as residents (see Figure II.2). The share of EU inflows has also declined, albeit for different reasons. Since the second quarter of 2022, the EU's share in total inflows has dropped by around 7 percentage points compared to the previous three years, currently standing at 19 percent. This decline can largely be explained by lower goods exports and reduced FDI. In contrast, Türkiye's share of inflows has remained stable, fluctuating within the range of 7.5-8 percent. Compared to previous years, revenues from goods and services exports have increased, while FDI has decreased.

Figure II.2. Exposure to major external markets[6] (flows expressed as a share of GDP)



Source: NBG, GeoStat

In recent years, inflows from other neighboring and trading partner countries, including the CIS[7] region, have also been on the rise. Since the onset of the Russia-Ukraine war, FDI and tourism revenues from Belarus, Kazakhstan, Kyrgyzstan, and Uzbekistan have increased. Remittances from CIS countries have gradually been increasing since the start of the pandemic, but their growth accelerated significantly from 2022. Although remittances are gradually normalizing, they remain at an elevated level. Goods exports have also increased since 2022. Although exports to Belarus and Moldova have declined compared to 2020-2021, exports to Kazakhstan and Kyrgyzstan have risen substantially. Although the expansion into new markets and diversification of inflows is a positive development, it raises questions regarding the sustainability of the growth in inflows from these countries and whether there is a risk of a sudden reversal.

Overall, in the first quarter of 2025, external inflows declined amid the fading of base effects and weaker economic growth in the context of heightened global uncertainty. The economic recovery in neighboring and trading partner countries has been uneven and, against the backdrop of tighter global financial conditions and rising trade tensions, weak external demand and subdued growth are expected in 2025. The inflation trajectory is also noteworthy, which will largely depend on the tariff policy. For Georgia, a potential decline in external inflows poses risks to the economy and, consequently, to financial stability.

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[6] Since Brexit, inflows from the EU no longer include flows from the UK. In order to exclude tourism revenues received from the UK from the total revenues from international travel, an assumption was made about the average expenditure of each tourist from the UK.

[7] In this analysis, CIS countries include Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan.

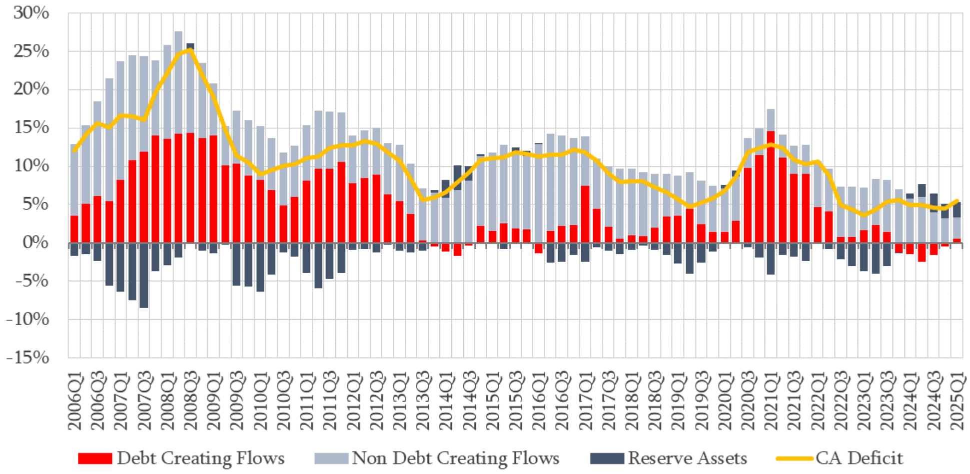
However, these risks are partly offset by strong domestic demand and continued economic growth.

Considering current external sector trends, the current account deficit is expected to widen moderately in 2025 and stabilize around its equilibrium. In 2024, the financing of the current account deficit was supported by strong growth in service export revenues, with the ICT and transportation sectors playing a particularly important role. Meanwhile, tourist revenues from Russia, Belarus, and Ukraine declined due to reduced migration from those countries. However, overall income from international travel still increased annually, largely driven by higher inflows from Asian countries. In addition, Georgia's trade deficit improved in 2024, supported by higher re-exports of light vehicles. Although imports also increased due to strong consumption, their growth slowed relative to the previous year, reflecting the base effect from large imports of automobiles in 2023, which positively contributed to the trade balance.

In the first quarter of 2025, the current account deficit widened slightly amid weakened external demand and slowed growth in goods exports and travel revenues. This widening was supported by slower growth in Georgia's trading partners, which weighed on goods exports. However, in the second quarter, the deficit declined, supported by the services and goods balance. Imports have decelerated in 2025, reflecting the less import-intensive nature of economic growth. At the same time, service exports remain strong, helping to keep the current account deficit moderate and close to its equilibrium level of around 5 percent of GDP. However, under a high-inflation scenario, higher risk premia and tighter monetary policy could trigger capital outflows, leading to a deterioration of the current account balance. By contrast, under a low-inflation scenario, stronger external demand and further growth in service exports would be expected to improve the current account deficit.

Over the past year, the main source for financing the current account has been inflows from non-debt-creating instruments (see Figure II.3). In particular, foreign direct investment has served as an important source of financing. Reserve assets have also played a positive role in covering the deficit, while the share of debt-creating instruments remains relatively low.

Figure II.3. CA deficit and sources of financing (% of GDP)

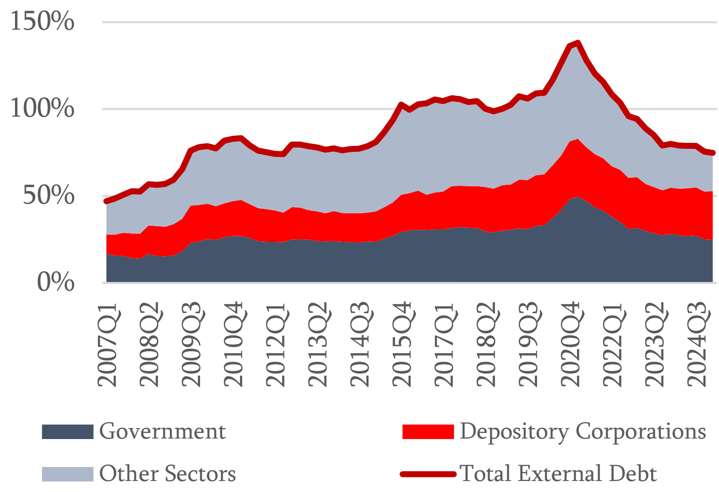


Source: NBG

Amid heightened uncertainty and rising risks, global financial conditions have tightened, negatively affecting debt servicing costs and debt levels. Against the backdrop of subdued growth forecasts, increased fiscal spending, and tightened monetary policy amid elevated inflation expectations, the matter of debt sustainability has once again gained attention. The announcement of new trade tariffs and the immediate repricing of assets further contributed to the tightening of financial conditions. In the second quarter of 2025, the depreciation of the US dollar contributed to a slight easing of financial conditions, though risks remain elevated. Deteriorating financial conditions hinder economic growth, with adverse effects for both households and corporations. A weaker macro-financial environment translates into higher sovereign risk premia and rising borrowing costs. To cope with the economic shocks caused by the pandemic and the Russia-Ukraine war, many countries resorted to financing fiscal expenditures using debt, which significantly increased their debt-to-GDP ratios. At the same time, debt service costs have been rising relative to government revenues. These risks are relevant for Georgia as well, as a weakened external sector could result in higher costs of foreign currency borrowing, an increased burden of short-term external debt, and refinancing challenges.

The external debt-to-GDP ratio in Georgia continues to decline, falling below 75 percent in the first quarter of 2025 (see Figure II.4). This was supported by high GDP growth and the appreciated national currency. While the public external debt-to-GDP ratio is also decreasing, it remains slightly above its pre-pandemic level. The share of foreign currency-denominated debt is also declining, but remains elevated. In the first quarter of 2025, the share of foreign currency debt was at 88.6 percent, which makes the economy vulnerable to exchange rate volatility and a tightening of global financial conditions. It should be noted that in recent years the share of short-term debt (of less than one year) has been increasing. Based on the updated data, in the first quarter of 2025, the share of short-term debt reached a 15-year high of 19.8 percent. While this is not particularly high compared to peer countries, the increase in short-term borrowing raises refinancing risks.

Figure II.4. External debt (% of GDP)

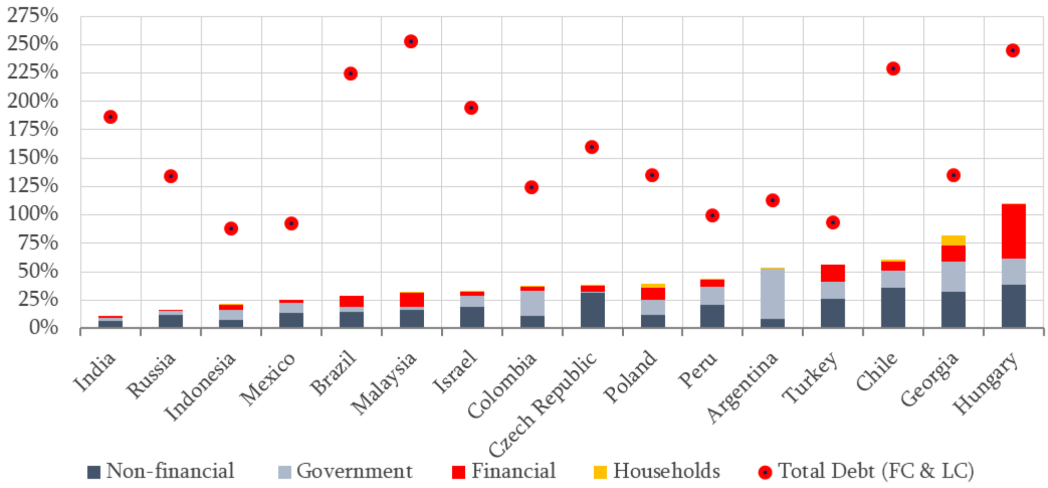


Source: NBG

In 2024, the total debt-to-GDP ratio rose in many developing countries, including Georgia. At the same time, the share of foreign currency-denominated debt in Georgia's external debt remains among the highest. In 2024, the global debt level increased by nearly USD 7 trillion, reaching a total of USD 318 trillion. However, this increase was significantly lower than the previous year's growth, which had been driven by monetary policy easing. The growth was particularly pronounced for developing countries and the public sector. The rise of the debt-to-GDP ratio reflected not only higher debt, but also subdued inflation and slower economic growth. Amid high uncertainty and persistently tight monetary policy, overall debt growth is expected to slow. However, with the anticipated increase in military spending and broader fiscal expenditures, public debt is likely to continue rising. Under a high-inflation scenario and increasing trade fragmentation, there is a risk of fiscal balance deterioration, which would increase dependence on external financing sources. Trade tensions and the U.S. restrictions on foreign aid have further highlighted the vulnerability associated with reliance on external financing.

In Georgia and a number of comparable countries, the debt-to-GDP ratio increased in 2024. While Georgia's debt level is not significantly higher than that of other emerging market economies, its share of foreign currency-denominated debt is one of the highest for almost all types of borrowers, particularly for households (see Figure II.5). However, a sizable share of Georgia's external debt is borrowed from international financial institutions on concessional terms, which implies a lower debt burden compared to the baseline. Maintaining a favorable debt structure is important for external debt sustainability.

Figure II.5. Foreign currency debt by type of borrower: cross-country comparison (% of GDP, as of 2024Q4)



Source: NBG, International Finance Institutions; Statistical data of selected countries

While some of Georgia's external vulnerability indicators have remained unchanged compared to 2023, Georgia's vulnerability remains high compared to the median of the region[8] and emerging market economies (EMEs). According to the 2024 data, Georgia's external vulnerability level remained mostly unchanged relative to the region and EMEs. However, riskiness has increased in certain areas. In the case of Georgia, indicators related to short-term and private sector debt have worsened. Short-term debt-related indicators have been deteriorating for two consecutive years. The rise in the short-term debt to reserves ratio is particularly noteworthy. In the event of worsened macro-financial conditions, rising sovereign risk premia, and tightened financial conditions, short-term debt servicing costs will increase, posing risks to financial stability.

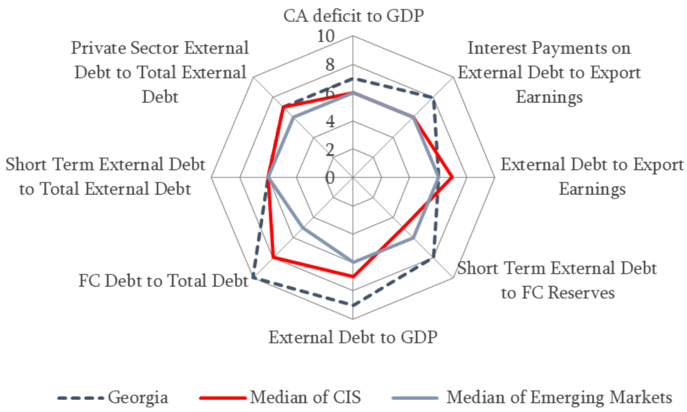
The situation has not changed significantly for EMEs: the share of private sector debt has increased slightly, while the share of short-term debt has improved. Other indicators remain unchanged compared to the previous year. In the case of regional countries, indicators related to short-term debt and to foreign-currency debt have both improved.

The majority of indicators of Georgia's vulnerability exceed the median value observed across these peer countries (see Figure II.6). In particular, Georgia exhibits elevated vulnerabilities related to the share of interest payment to export revenues, the share of

[8] The region includes CIS countries and Ukraine.

foreign-currency debt to total external debt, and the ratio of short-term debt to reserves. However, in 2024, the share of external debt to export earnings improved, driven by an improvement in the growth of exports.

Figure II.6. External vulnerability indicators relative to emerging markets and CIS countries (as of 2024)[9]



Source: NBG, IMF, WB

[9] These rankings are based on global distributions of the corresponding indicators. A higher rank corresponds to higher vulnerability.

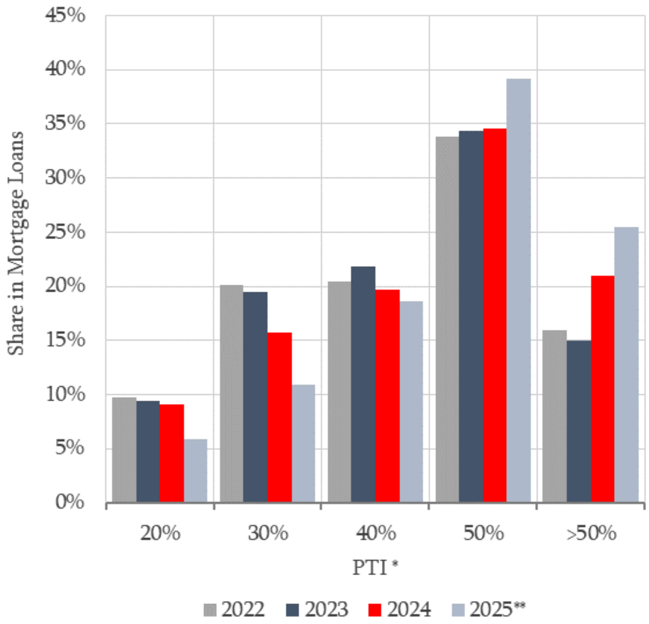
Household Sector Analysis

Household credit standards remain solid in Georgia, with healthy distributions of loan-to-value and payment-to-income ratios indicating that households have some financial buffers in place in the event of a macroeconomic shock. Furthermore, the average wage continues to rise, and unemployment remains low compared to historical levels. Moreover, household credit growth is high, reflecting strong credit accessibility. However, high interest rates and the cautious approach to monetary policy normalization, as driven by a high-risk environment, contribute to a higher debt service burden. In addition, household dollarization remains high, posing financial stability risks. Nonetheless, macroprudential measures introduced by the National Bank of Georgia have been effective in reducing household loan dollarization.

Household credit continues to exhibit healthy standards, as reflected by the current distributions of the loan-to-value (LTV) and payment-to-income (PTI) ratios. Similar to previous years, both PTI and LTV distributions currently remain sound (see Figures II.7 and II.8). In order to attain a more detailed assessment, the LTV distribution was analyzed for the outstanding loan stock of active borrowers, taking into account current liabilities and house prices. The analysis confirms the soundness of household loans (see Figure II.9). It should be noted that, in line with the normalization of economic activity, and to support stable conditions in the real estate market while improving mortgage loan affordability, the Financial Stability Committee temporarily increased the maximum LTV ratio.[10] On the loan-servicing side, a slight change of PTI distribution has been observed in recent years; however, borrowers maintain buffers to meet other financial obligations. It is noteworthy that the existing PTI requirement is set for loans with the maximum permissible maturity, whereas the presented PTI distribution is based on the contractual maturity of loans. This distinction implies that, if necessary, there remains an option to extend loan maturities, thereby easing potential repayment pressures. In parallel, the household non-performing loan (NPL) ratio remains low, which is primarily attributable to the macroprudential policies implemented by the National Bank of Georgia, indicating a good quality of household credit.

[10] The maximum loan-to-value (LTV) ratio was temporarily increased by 5 percentage points to 90 percent for local currency loans issued to natural persons and secured by real estate. Additionally, for individuals receiving income from abroad, the LTV ratio for mortgage loans will be raised by 10 percentage points to 80%.

Figure II.7. Distribution of the PTI ratio

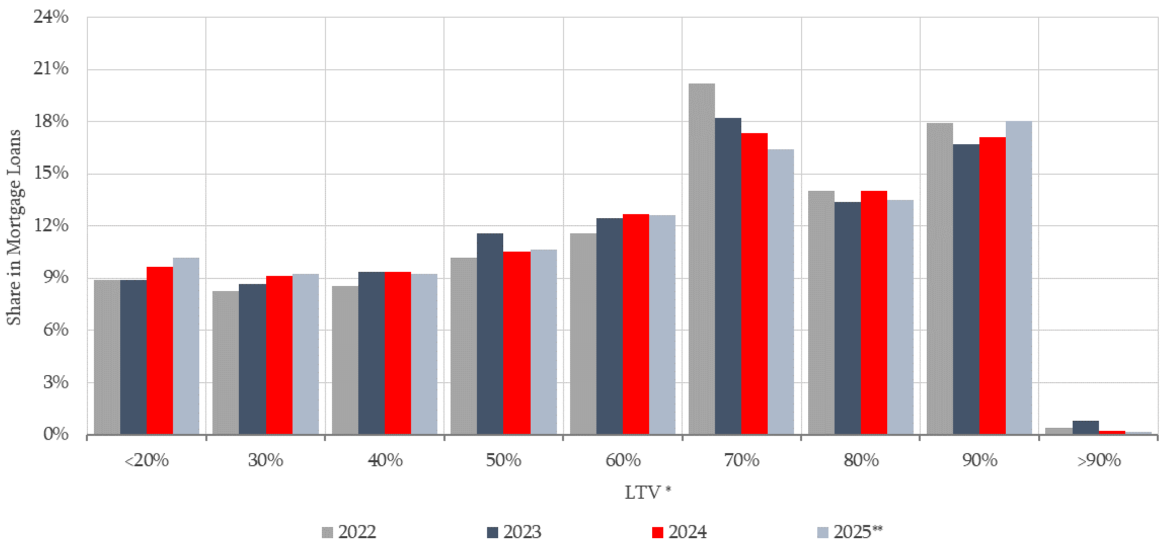


** Distribution of the PTI ratio is constructed based on the quantity of loans issued during the year.*

*** The value for 2025 includes mortgage loans issued in the first and second quarters of the year.*

Source: NBG

Figure II.8. Distribution of the LTV ratio

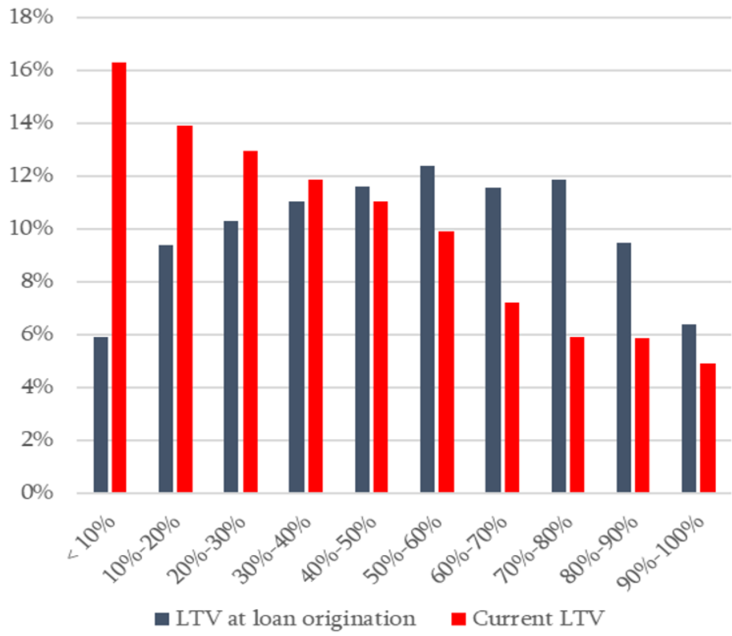


** Distribution of the LTV ratio is constructed based on the quantity of loans issued during the year.*

*** The value for 2025 includes mortgage loans issued in the first and second quarters of the year.*

Source: NBG

Figure II.9. Distribution of the LTV ratio (for currently active loans)

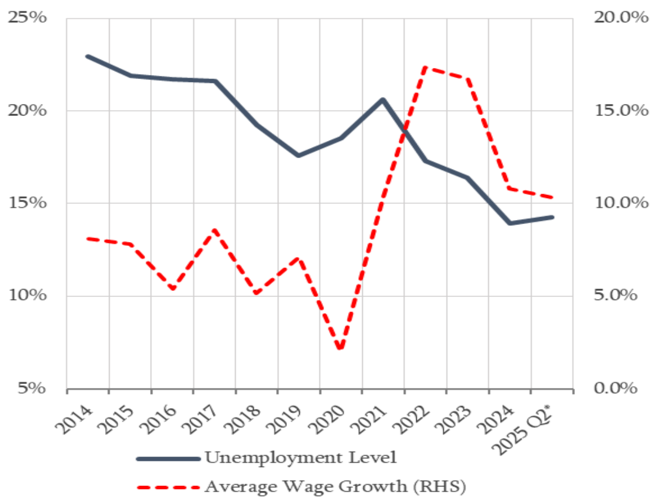


Source: NBG

Labor market indicators are gradually normalizing. The average wage is still rising, albeit at a slower pace, while the unemployment level has slightly increased (see Figure II.10). In the second quarter of 2025, the unemployment rate rose slightly from the historically low level of 2024, yet remains below the levels recorded in 2022-2023. Meanwhile, average income continues to grow at a more moderate pace, though it still maintains a double-digit rate of increase. Given the low inflation environment, real wage growth remains close to nominal growth, which supports overall economic well-being. Nevertheless, uneven income distribution limits the extent to which wage growth benefits lower-income households. This is reflected in the fact that, over the period 2018–2023, the average wage exceeded the median wage by around 50 percent[11], indicating significant income inequality within the labor market.

[11] Source: National Statistics Office of Georgia.

Figure II. 10. Labor market indicators: unemployment level and growth of the average wage (YoY)



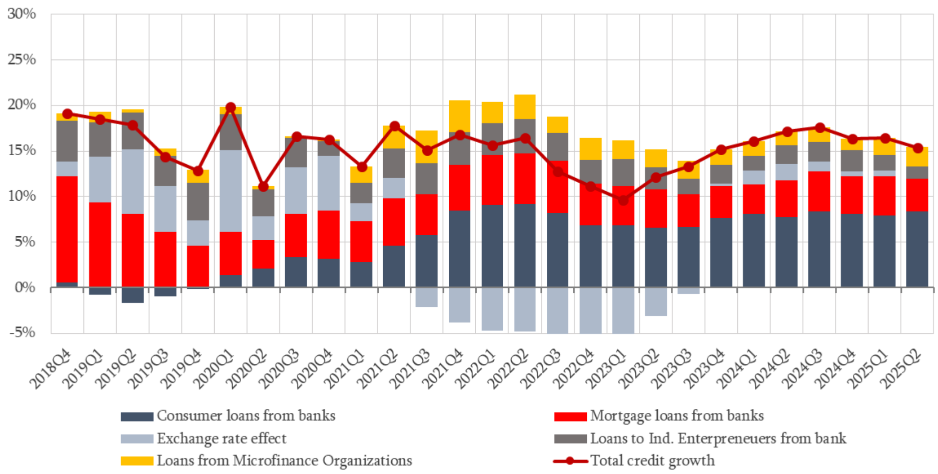
** For the second quarter of 2025, average wage growth is calculated compared to the corresponding level of the second quarter of 2024.*

Source: GeoStat

Amid ongoing risks and elevated uncertainty, the pace of monetary policy normalization has slowed, suggesting that the household debt service burden will remain relatively high. Following a sharp reduction at the beginning of 2024, the monetary policy rate has since been maintained at its current level. Given the prevailing risk environment, further policy normalization is expected to proceed cautiously. The policy rate has a direct impact on household debt servicing costs, as a large share of household loans is linked to variable interest rates. As of June 2025, around 90 percent of mortgage loans denominated in GEL are subject to variable rates, while 21 percent of these loans are currently affected by rate adjustments. Overall, variable-rate loans constitute approximately 45 percent of the total credit portfolio, underscoring the household sector's sensitivity to interest rate fluctuations. Furthermore, loan dollarization continues to expose households to foreign interest rate risks. Consequently, the cautious global approach to monetary policy normalization should also be taken into account when assessing potential vulnerabilities.

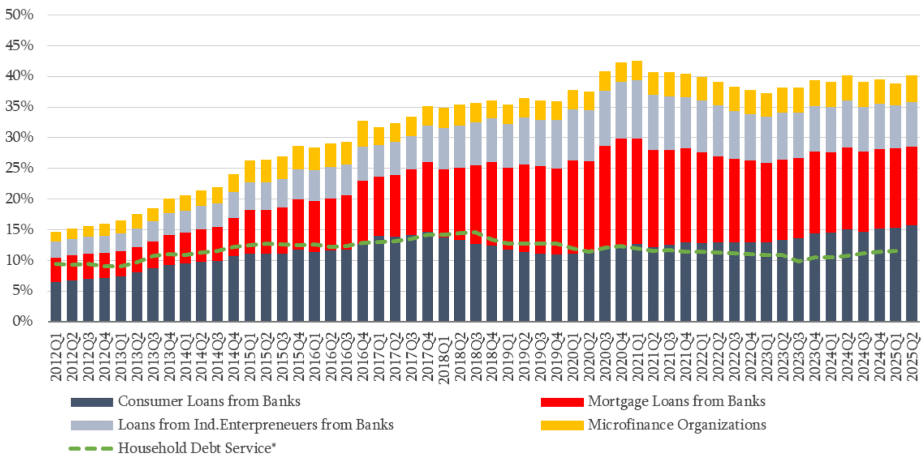
Household credit activity exhibits high and steady growth. In the second quarter of 2025, annual household credit growth remained strong at 15.4 percent (see Figure II.11). Both consumer and mortgage loans issued by commercial banks made substantial contributions to this growth. As of June 2025, annual consumer credit growth amounted to 22 percent, while the stock of mortgage loans increased by 10 percent. It is noteworthy that the growth rate of unsecured consumer loans remains particularly high, amounting to 28 percent as of June 2025. Meanwhile, the annual growth rate of secured consumer loans decreased by 3 percentage points to 17 percent. The National Bank of Georgia closely monitors financial stability risks and, if necessary, will employ available macroprudential instruments to mitigate an excessive growth in consumer credit. Overall household indebtedness remains stable, with the household debt-to-GDP ratio standing at around 40 percent (see Figure II.12). Consumer and mortgage loans account for large shares of total household liabilities.

Figure II.11. Decomposition of annual household credit growth[12]



Source: NBG

Figure II.12. Household debt to GDP ratio



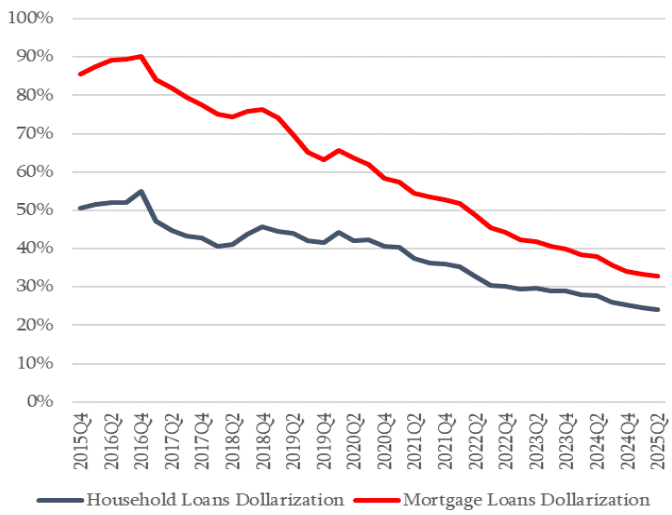
** Debt service payments (interest and principal payments) / household disposable income.*

Source: NBG

[12] Loans from microfinance organizations include loans issued by the microbank "Crystal".

Household loan dollarization continues to decline, thereby reducing households' exposure to currency risk. The National Bank of Georgia actively employs a range of instruments aimed at curbing dollarization, which in turn supports the reduction of household sector vulnerabilities to exchange rate fluctuations. In this regard, the gradual increase of the limit on foreign currency loans is important. According to the decision of the Financial Stability Committee, the limit for non-hedged foreign currency loans has gradually increased to GEL 750,000.[13] As a result of these measures, household loan dollarization decreased to 24 percent, while the distribution of FX borrowers shows a favorable shift compared to previous years. As of June 2025, the number of FX borrowers has significantly decreased, amounting to 28.8 thousand active borrowers (or groups of borrowers). Notably, 33 percent of FX borrowers have loans exceeding GEL 200,000, accounting for 81 percent of the total stock of FX loans. Because such large loans are typically extended to high-income borrowers, the currency risk concentrated among them is considered to be less acute.

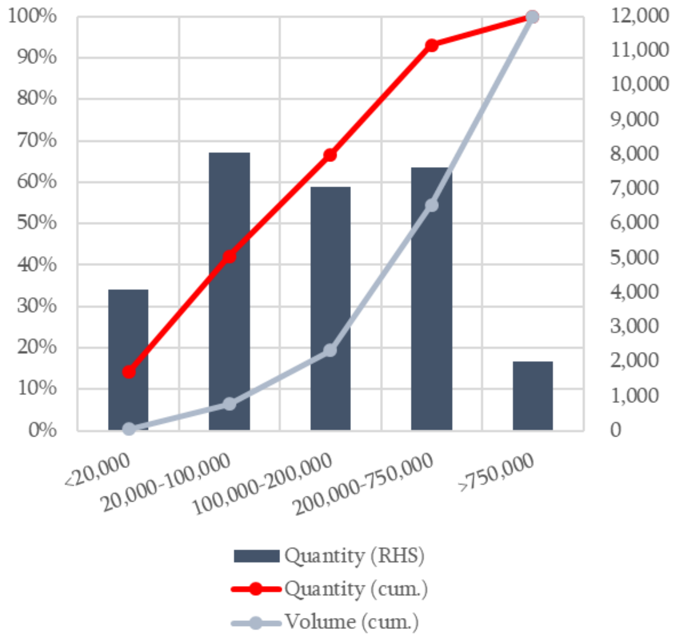
Figure II.13. Household loan dollarization



Source: NBG

Figure II.14. Distribution of the foreign currency loan portfolio, June 2025

[13] The limit for foreign currency loans was increased to GEL 500,000 from January 2025 before rising to GEL 750,000 from August 2025.

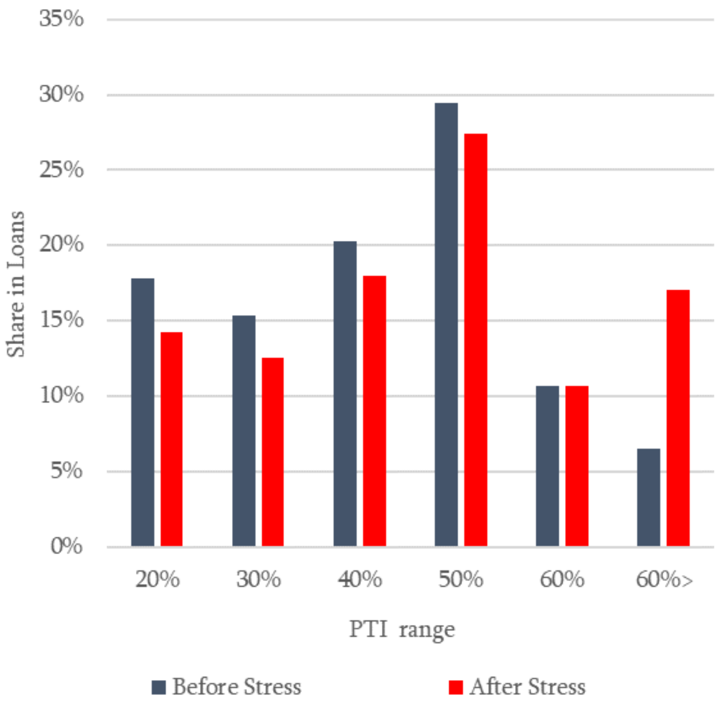

100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
12,000
11,000
10,000
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
<20,000
20,000-100,000
100,000-200,000
200,000-750,000
>750,000
Quantity (RHS)
Quantity (cum.)
Volume (cum.)

Source: NBG

Household Sensitivity Analysis

According to the sensitivity analysis, households are expected to continue servicing their loans even in the event of a severe macroeconomic shock. As a result of current macroprudential policy, risks to household creditworthiness have declined, and borrowers would still retain sufficient financial capacity to meet their debt obligations under the realization of a severe macroeconomic shock. The severe-risk scenario assumes a cumulative exchange rate depreciation of around 40 percent and a 6.6 percentage point increase in the unemployment rate. In this case, household buffers would shrink, and the share of borrowers with PTI ratios exceeding 60 percent would rise from 7 to 17 percent (see Figure II.15).

Figure II.15. Sensitivity of household PTI to macroeconomic stress



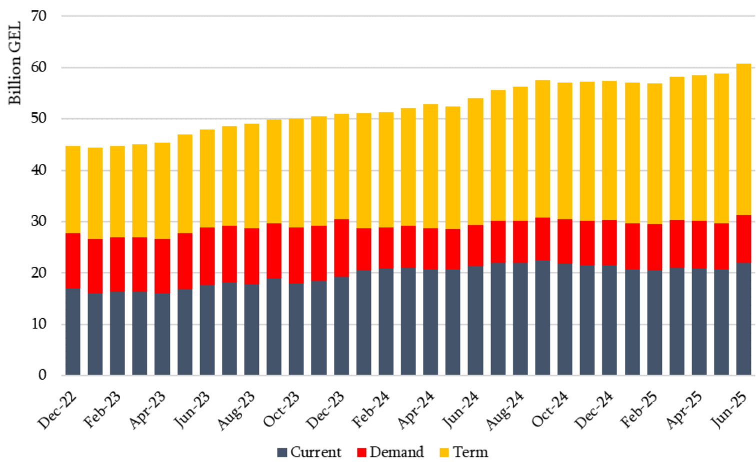
Source: NBG

Box 1. Diversification of Savings

Savings represent one of the most important factors for ensuring both the financial resilience of households and the sustainable economic development of the country. Household and corporate savings enhance financial security, reduce vulnerability to economic shocks, and support long-term financial stability. From a macroeconomic perspective, a high savings rate serves as a crucial source of domestic investment, which reduces dependence on external financing and supports the country's sustainable economic growth.

Recently, deposits have steadily been increasing.[14] In 2024, deposits increased by 12.7 percent, while the average annual growth rate of term deposits in the same period stood at 32.8 percent.

Figure B.1.1. Deposit volume (excluding the exchange rate effect)



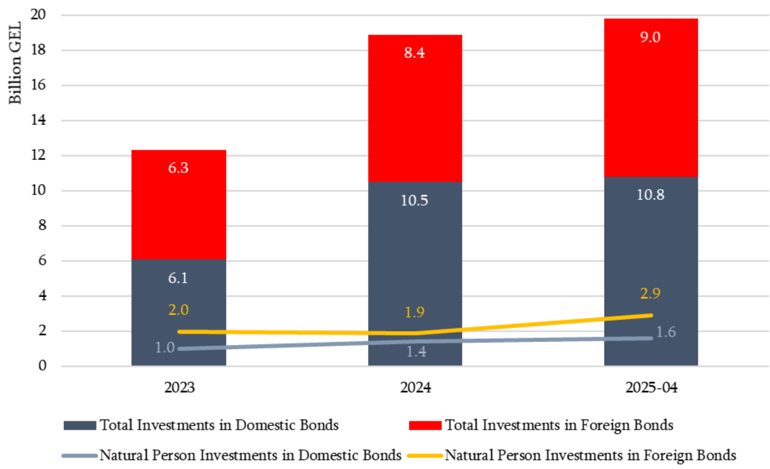
Source: NBG, Supervisory data

It should be noted that, as of April 2025, investments in capital markets constituted GEL 19.8 billion, which includes securities purchased by commercial banks. This reflects both growing confidence in financial markets and the development potential of the capital market. Moreover, thanks to capital markets, consumers have access to foreign securities, and 45 percent of investments are priced in foreign instruments. This supports the diversification of savings and further reduces consumer vulnerability.

There is rising interest in crypto assets as well. Although the total volume of investments in this segment remains relatively small (GEL 108 million, as of the first quarter of 2025), quarterly growth of 38 percent indicates high activity and the potential for quick growth.

[14] This does not include deposits placed by commercial banks in other commercial banks.

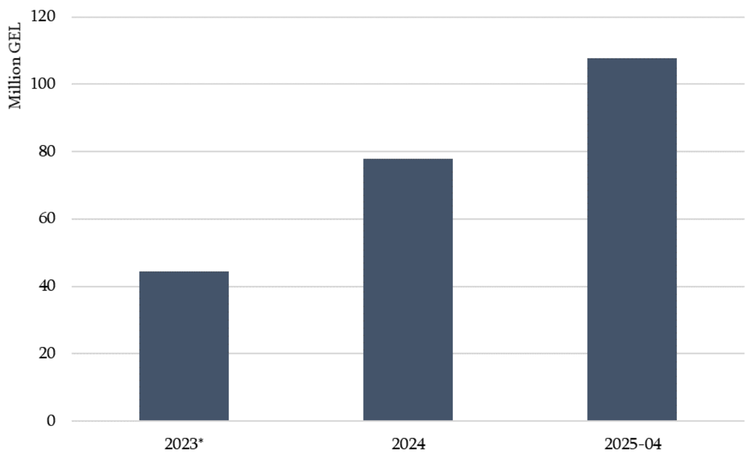
Figure B.1.2. Investment volume on capital markets[15]



Source: NBG

Overall, it is important to emphasize that the geographical and instrumental diversification of savings enhances the resilience of the financial system, reduces systemic risk concentration, and promotes the development of capital markets, which is a key component of stable economic development.

Figure B.1.3. Volume of crypto accounts held by Georgian VASPs[16] *(balance)*



Source: NBG

[15] Total investments include investments by commercial banks.

[16] VASP – Virtual Asset Service/Payment Provider.

Overview of Non-financial Companies

In the first half of 2025, despite increased uncertainty due to global geoeconomic tensions, non-financial companies continued to grow at a steady pace. Overall, the non-financial companies segment remains resilient, although some sectors, such as hospitality, healthcare, and telecom, are experiencing a deterioration in loan quality. The share of bank loans in the financing structure of companies continues to increase. In addition, due to the decrease in the share of foreign financing, the dollarization of the total debt of the non-financial companies segment decreased, while the dollarization of domestic debt remained at approximately the same level. In the first half of 2025, there was a slowdown in the growth rate of bank loans to non-financial companies, although it remains above the growth rate of loans in other European countries. Given the above, against the backdrop of high economic growth in recent years, the debt burden of companies, as a ratio of debt to nominal GDP, remains below its long-run level. However, heightened regional uncertainty has been reflected in rising interest rates on newly issued loans. Moreover, the increasing share of variable-rate loans held by Georgian non-financial companies, in both local and foreign currencies, increases their vulnerability to interest rate volatility.

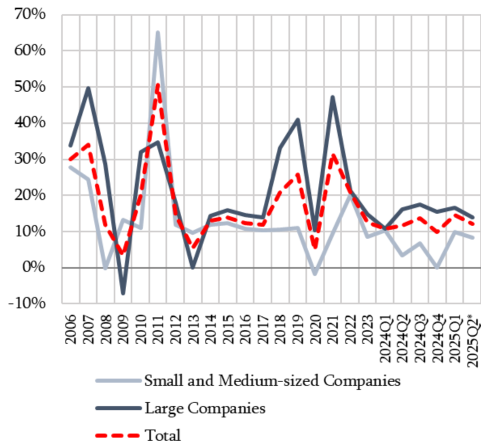
As of 2023, profitability remained stable in the majority of non-financial companies, liquidity improved, and solvency was adequate. Amid increased uncertainty regarding global trade and financial conditions, the high dollarization of companies' liabilities indicates the existence of certain risks in this segment. However, according to the sensitivity analysis of non-financial companies, under the moderate-stress scenario, the debt servicing capacities of companies remain at a healthy level, and the risks to their financial stability do not increase significantly.

During 2024, the turnover growth rate in the small- and medium-sized companies segment had a downward trend; however, turnover growth started accelerating at the beginning of 2025. In the fourth quarter of 2024, the annual growth rate of turnover in small- and medium-sized companies slowed to 0 percent; however, large companies continued to display high turnover growth (see Figure II.16). In the first quarter of 2025, the growth rate of turnover accelerated again, reaching 16.5 percent for large firms and 10 percent for small- and medium-sized companies. According to preliminary estimates for the second quarter of 2025, the turnover of non-financial companies is expected to slow slightly, although they will continue to exhibit steady growth, with growth of approximately 14 percent expected for large companies and 8.5 percent for small- and medium-sized companies.

At the beginning of 2025, turnover growth was observed in the majority of sectors (see Figure II.17). In the first half of 2025, solid growth was observed in the service, real estate, healthcare and telecom sectors. However, a slight decrease in turnover was observed in the real estate and energy sectors in the second quarter of 2025. The opposite dynamics were observed in the manufacturing sector: the first quarter was characterized by negative growth, while the second quarter saw an increase in turnover compared to 2024.

The share of rejected loans in the small- and medium-sized companies segment has increased significantly in the recent period (see Figure II.18). In particular, the number of loan rejections in the GEL portfolio significantly increased. Following a sharp initial increase in the share of rejected loans in this segment recorded in October 2023, the growth dynamics resumed in March 2024 and have continued through the current period.

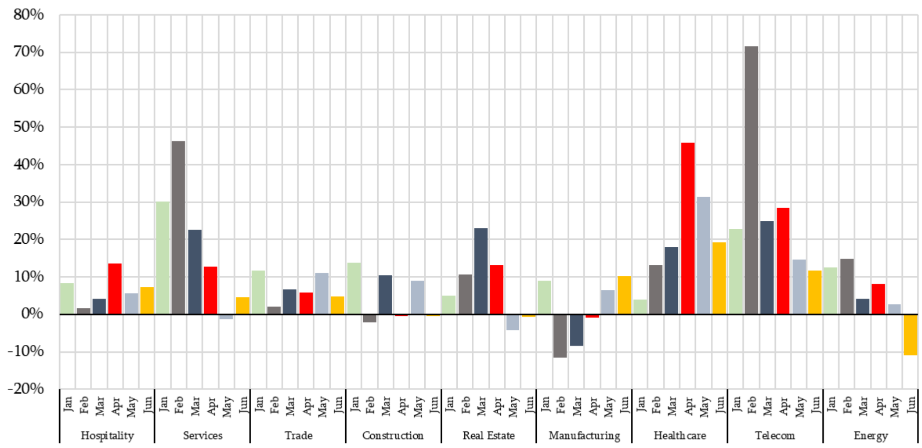
Figure II.16. Annual growth in turnover by company size



** Initial estimates*

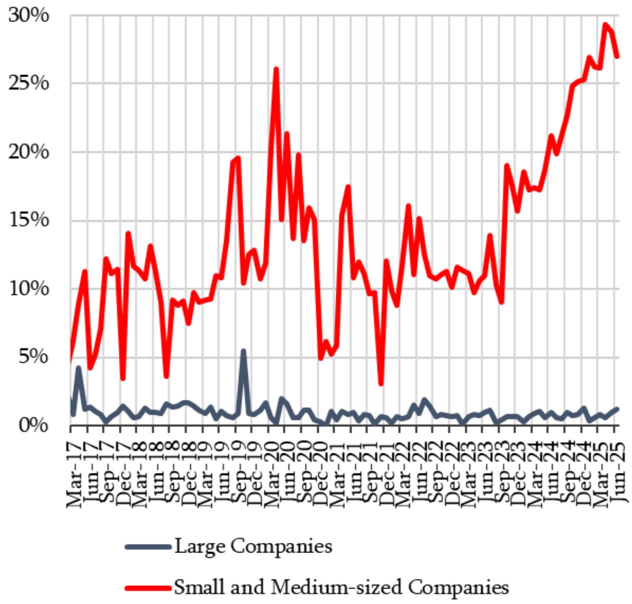
Source: GeoStat

Figure II.17. Annual growth in turnover in selected sectors (2025/2024)



Source: Revenue Service of Georgia

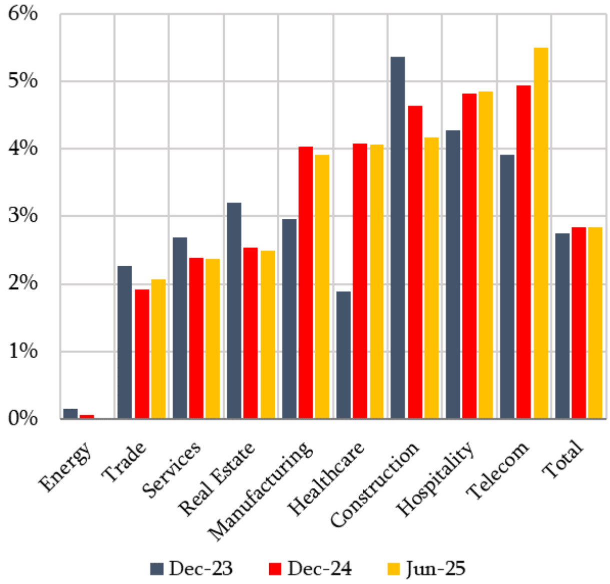
Figure II.18. Share of rejected non-financial company loan applications



Source: NBG

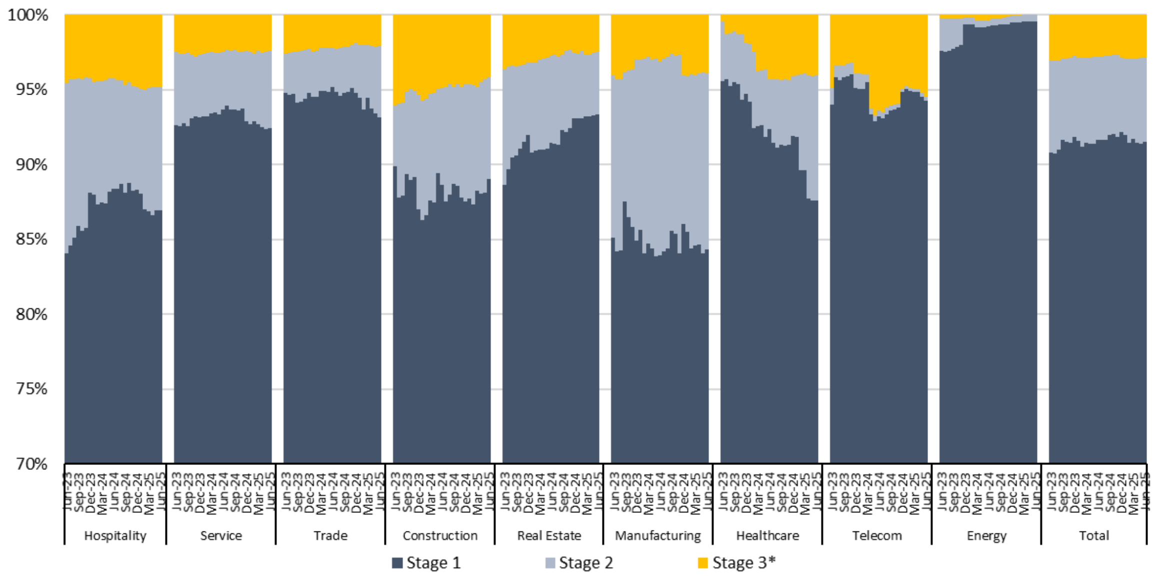
The share of non-performing loans remains low in almost all sectors of the economy, whereas their expected credit loss coverage ratio has been characterized by a slight increase. In terms of the share of non-performing loans, the situation in the second quarter of 2025 remains practically unchanged in all sectors of the economy compared to December 2024 (see Figure II.19). The share of non-performing loans slightly increased in the trade, hospitality, and telecom sectors, while a slight decrease was observed in the energy, manufacturing and construction sectors. Based on the loan quality indicators, according to which Stage 3 loans are classified as non-performing, there has been a recent increase in the share of Stage 2 loans in the hospitality, services, trade and healthcare sectors (see Figure II.20). Moreover, along with the increase in the share of Stage 2 loans, there has also been an increase in the amount of loans in this category, which indicates a deterioration in the quality of the financial instrument (see Figure II.21). Specifically, the reclassification of a loan as Stage 2 could be caused by a delay in the periodic payments of the financial instrument, an increase in riskiness compared to the initial level, or the restructuring of the financial instrument. The deteriorating tendency in the healthcare sector is particularly noticeable. It should be noted that new loans issued in each period are recorded as Stage 1 loans, therefore, an increase in the share of Stage 1 loans may not reflect an improvement in the quality of the financial instrument, but rather a new issuance. In the recent period, this is exactly what has been happening in the real estate sector.

Figure II.19. Share of non-performing loans in total non-financial company loans in selected sectors



Source: NBG

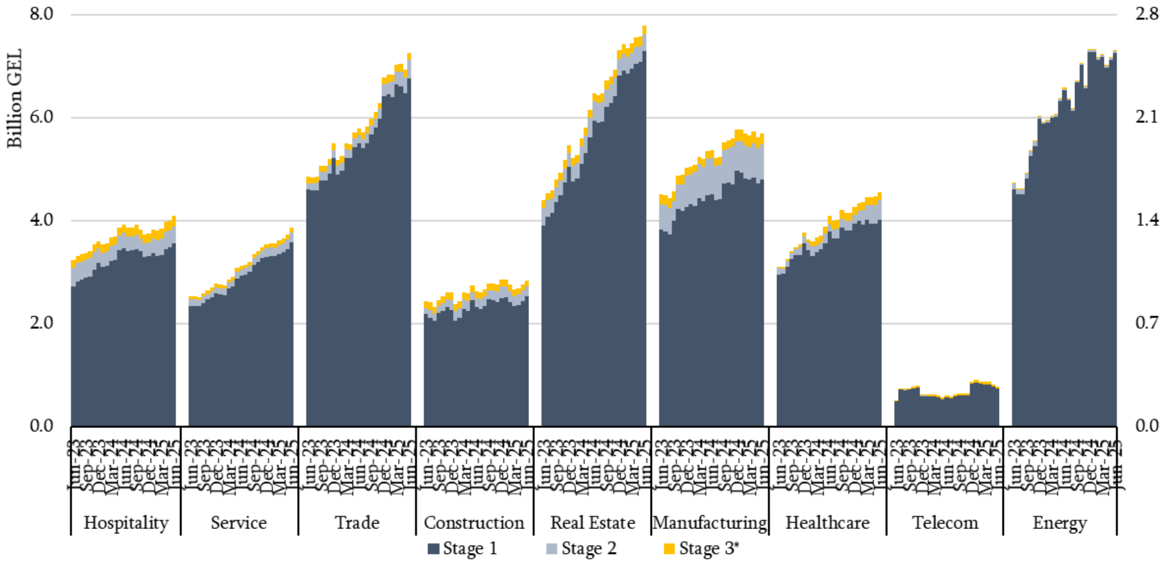
Figure II.20. Share of loans in selected sectors of non-financial companies by the credit risk levels of financial instruments



* Stage 3 also consists of purchased or originated financial instruments that were credit-impaired on initial recognition

Source: NBG

*Figure II.21. Amount of loans in selected sectors of non-financial companies by the credit risk levels of financial instruments***



* Stage 3 also consists of purchased or originated financial instruments that were credit-impaired on initial recognition

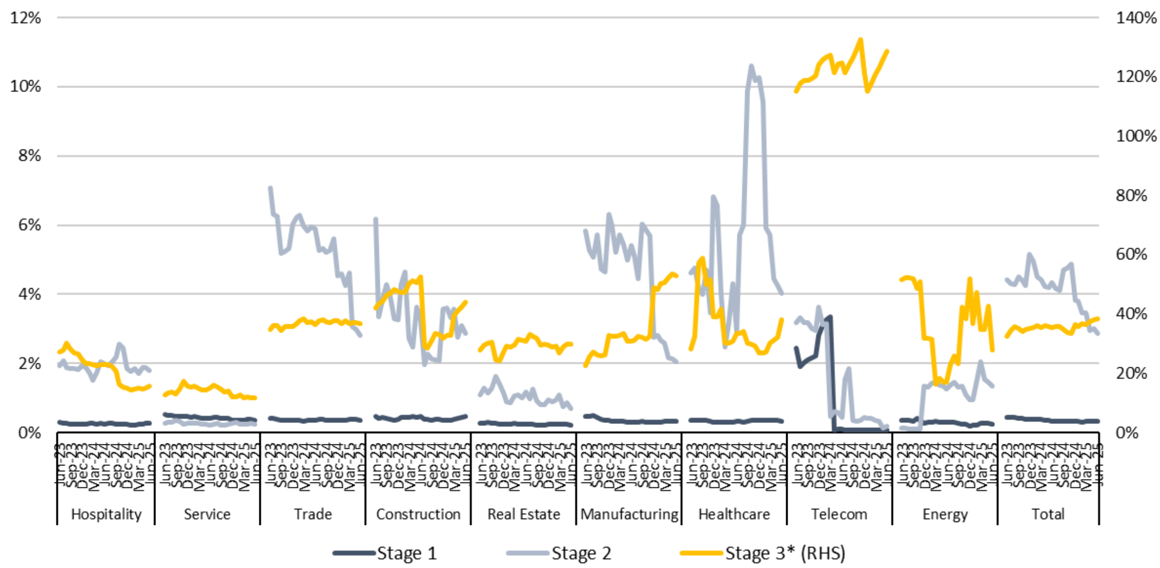
** The construction, healthcare, telecom and energy sectors are scaled according to the right axis

Source: NBG

Recently, the expected credit loss coverage ratio for Stage 3 loans has been increasing in most sectors, partially indicating cautiousness on the part of banks amid significantly increased uncertainty in the region (see Figure II.22). However, there has been a significant downward trend in the similar indicator for Stage 2 financial instruments, which signals increased optimism on the part of banks regarding expectations for this category of loans. The National Bank of Georgia continuously monitors banks' risk management practices and, if required, will use appropriate macro- and microprudential tools to ensure the resilience of the financial sector.

In the meantime, it should be noted that the share of restructured loans remains mostly unchanged (see Figure II.23). Since the beginning of 2024, as of June 2025, there has been a slight decrease in the share of restructured loans in the GEL portfolio.

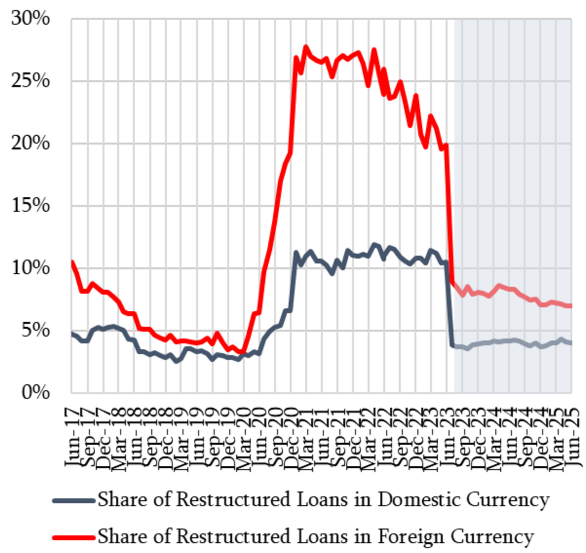
Figure II.22. Coverage ratio of non-performing loans by expected credit loss reserves of non-financial companies by selected sectors



* Stage 3 also consists of purchased or originated financial instruments that were credit-impaired on initial recognition

Source: NBG

Figure II.23. Share of restructured loans in total non-financial company loans issued by banks by currency



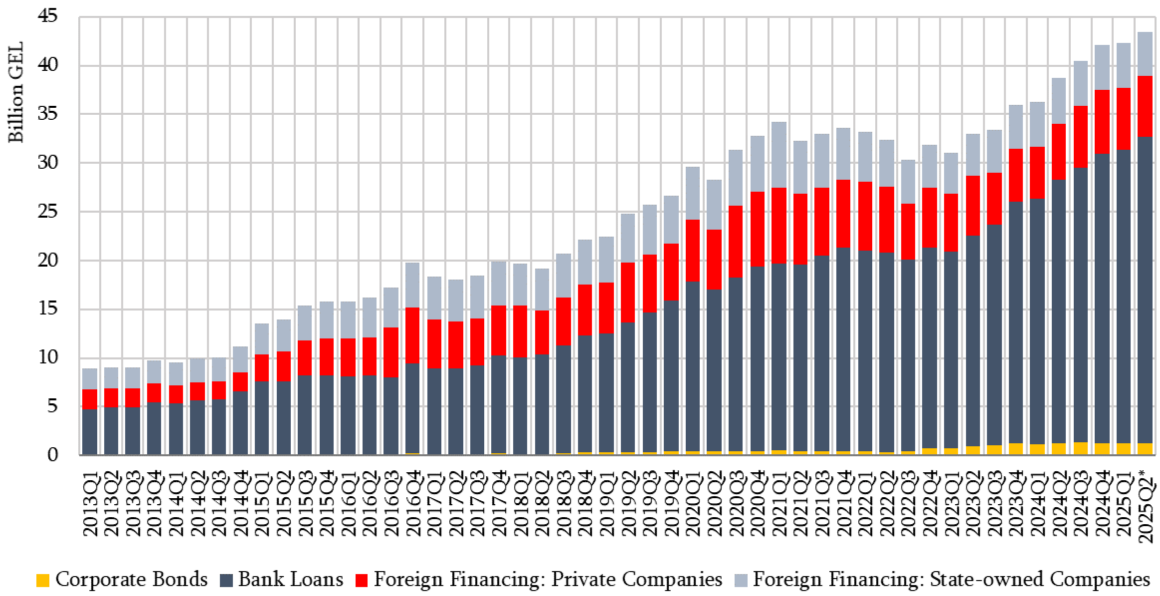
Source: NBG

The share of domestic bank loans in the financing structure of non-financial companies continues to grow. In addition, their dependence on external financing sources has decreased slightly, which was mainly due to a slowdown in the growth of external debt taken by state-

owned companies. By the second quarter of 2025, the total debt of companies exceeded GEL 43.5 billion (see Figure II.24). A significant contribution to debt growth was made by the growth of bank loans, the share of which also reached a historical maximum of approximately 72.3 percent of the total portfolio, which is 2.5 percentage points higher than in the second quarter of 2024. According to the data from the first quarter of 2025, the funds raised from external sources by non-financial companies increased by 10.4 percent annually, mainly due to the increase in the financing of private companies. In addition, the share of financing raised by companies from external sources in total debt continues to decrease and is 2.0 percentage points lower than the same period of the previous year.

Despite the small share of bonds issued in the local market in the total debt portfolio of non-financial companies (approximately 2.8 percent), the volume of bonds denominated in foreign currency remains noteworthy (see Figure II.25). The share of bonds denominated in foreign currency has remained stable recently and, as of the second quarter of 2025, the dollarization of bonds amounted to 69.4 percent. It should also be noted that the number of bond issuers in the local market is increasing, which reflects the gradual development of the capital market in Georgia.

*Figure II.24. Debt structure of non-financial companies***

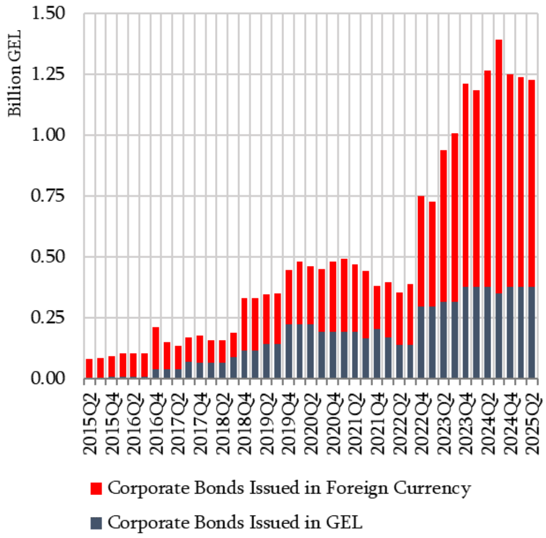


** Initial estimates*

*** The data do not include intercompany loans raised from abroad*

Source: NBG

Figure II.25. Bonds of non-financial corporations issued by public offering in the local market (stock)

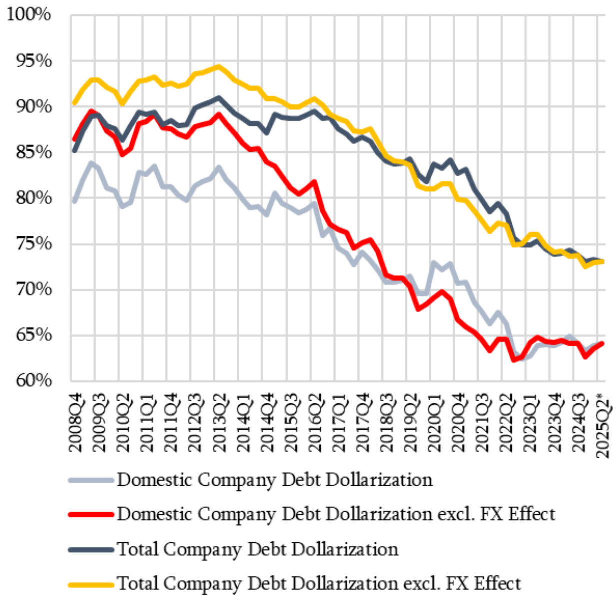


Source: NBG

Over the last four quarters, the dollarization of the total and domestic debt of non-financial companies has continued to decline at a slow pace. In the local debt portfolio, dollarization of bank loans and bonds has slightly decreased (see Figure II.26). Moreover, the reduction in the share of external debt in the total portfolio has led to an additional reduction in the level of dollarization of total debt. Accordingly, in the first half of 2025, compared to the same period of the previous year, the dollarization of the domestic debt of companies decreased by 0.7 percentage points (with no change after excluding the exchange rate effect), although it remains at a high level at 64 percent. Taking into consideration the external debt, the dollarization of the total debt of non-financial companies is at 73.1 percent, which is 1.2 percentage points less than the previous year (0.6 percentage points less, excluding the exchange rate effect). Consequently, the share of foreign currency-raised debt in the financing structure of companies is still high.

Against the background of globally tightened trade and financial conditions, the significant dependence of companies on external sources of financing and the high dollarization of liabilities underline the vulnerability of the sector. In the event of improper hedging of this risk, the debt burden of companies would become characterized by high sensitivity to exchange rate fluctuations – a pattern that has been highlighted many times over the last decade. A number of regulations have been introduced in response to such cases. In January and May 2024, the NBG made changes to one such regulation. In particular, according to the May update, starting from 1 August 2025, financial institutions can issue new foreign currency loans to individuals whose total debt (including the newly issued debt) is up to GEL 750,000 only under hedged currency risk conditions.[17]

Figure II.26. Non-financial company debt dollarization



** Initial estimates*

*** The data do not include intercompany loans raised from abroad*

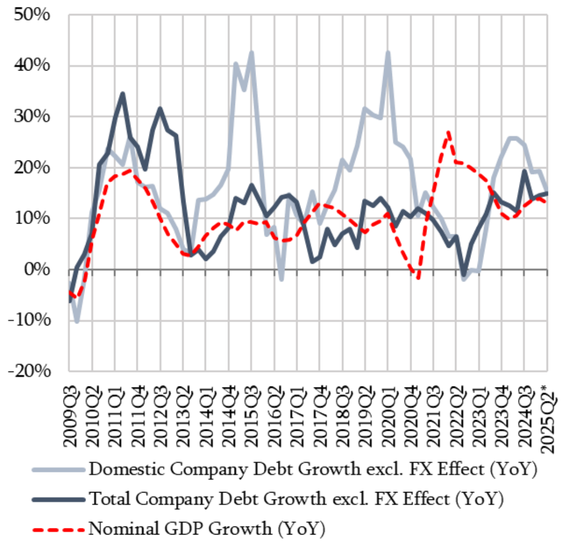
Source: NBG

Since the fourth quarter of 2024, as a result of the slowdown in the growth rate of bank loans to non-financial companies, domestic lending has also slowed, although it remains at a high level. Despite the significant reduction in inflation over the recent period, nominal GDP growth remains high amid high real economic growth. In addition, due to heightened uncertainty and tightened financial conditions, the growth rate of lending in the country has slowed down. Accordingly, the growth rate of the total debt of non-financial companies is approaching the growth rate of nominal GDP (see Figure II.27). In the second quarter of 2025, the total debt burden decreased annually by 0.3 percentage points. Credit activity continued to make a significant positive contribution to this change, although this effect was nearly completely offset by high nominal GDP growth and a slight strengthening of the national currency (see Figure II.28). It is also worth noting that, against the backdrop of the stability of the GEL exchange rate throughout the year, the impact of the exchange rate on the debt burden has been small in the current period. However, due to high dollarization, the potential impact of exchange rate fluctuations on the debt burden

[17] See https://nbg.gov.ge/fm/ფინანსური_სტაბილურობა/კომიტეტის_გადაწყვეტილებები/eng/2025/fsc-pressrelease-q2-2025-may-eng.pdf

remains significant and highlights the risks associated with foreign currency-denominated liabilities for unhedged corporate borrowers.

*Figure II.27. Annual growth rates of nominal GDP** and non-financial company debt*

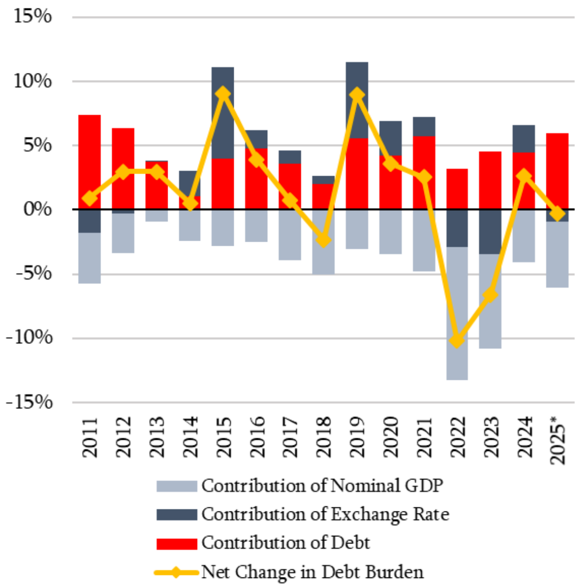


** Initial estimates*

*** Nominal GDP of the last four quarters*

Source: NBG, GeoStat

Figure II.28. Decomposition of the annual change in the total company debt-to-GDP ratio (as a percentage of the last four quarters' nominal GDP)

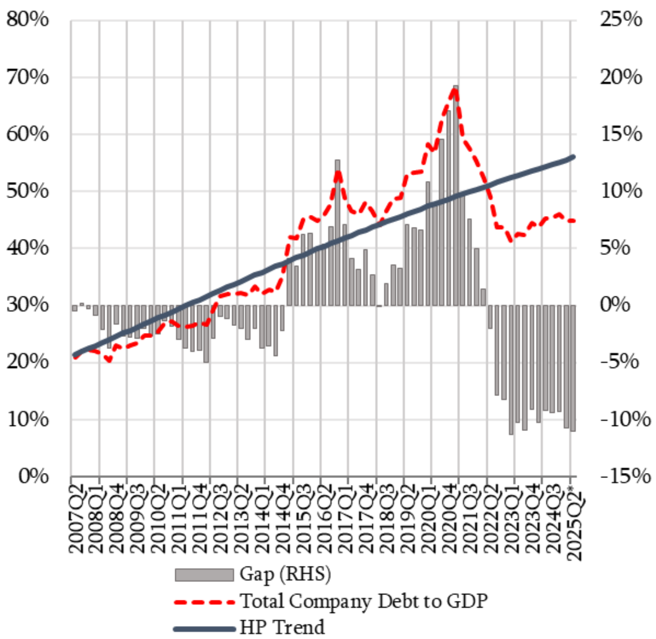


** Initial estimates for the first half of the year*

Source: NBG, GeoStat

As real economic growth remains higher than expected, the total debt burden of non-financial companies falls below its long-term trend. However, the bank loans to nominal GDP ratio in Georgia exceeds that of most other European countries. For the third consecutive year, the ratio of total company debt to nominal GDP, which is a common measure of the debt burden, has been below its long-term trend (see Figure II.29). The existing gap has increased further in the current period, although its closure is expected in the medium term as economic growth normalizes. Despite the negative credit-to-GDP gap, the growth rate of lending to non-financial companies remains high. As of the first quarter of 2025, the average growth rate of bank loans to non-financial companies in Georgia over the last four quarters, compared to the same period of the previous year, exceeded the growth rate of loans in other European countries (see Figure II.30). Moreover, despite the high economic growth in the country, the ratio of bank loans of non-financial companies to nominal GDP also exceeds that of most European countries (see Figure II.31). This indicates the importance of the banking sector's increasing role in the financing structure of non-financial companies in Georgia, compared to other European countries.

Figure II.29. Total company debt to GDP ratio, its long-term trend[18] and gap

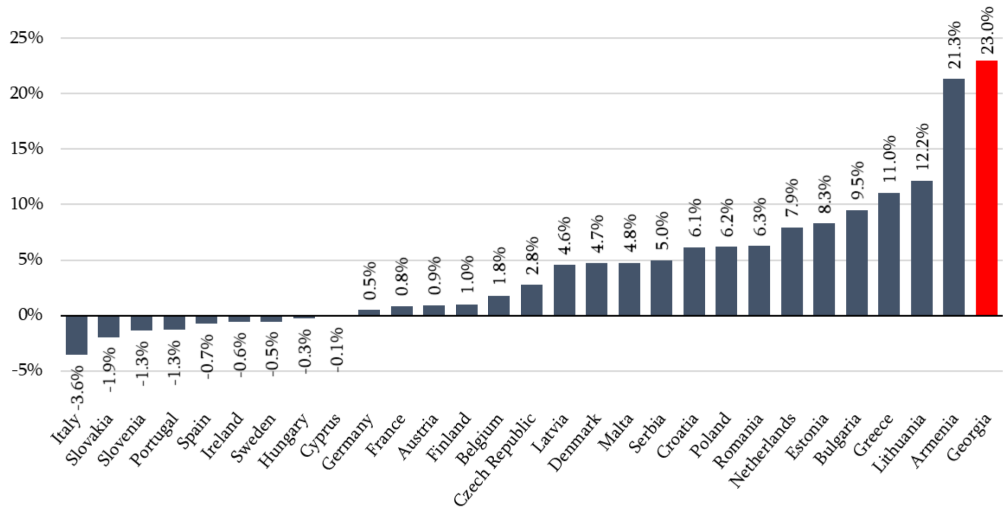


** Initial estimates*

Source: NBG, GeoStat

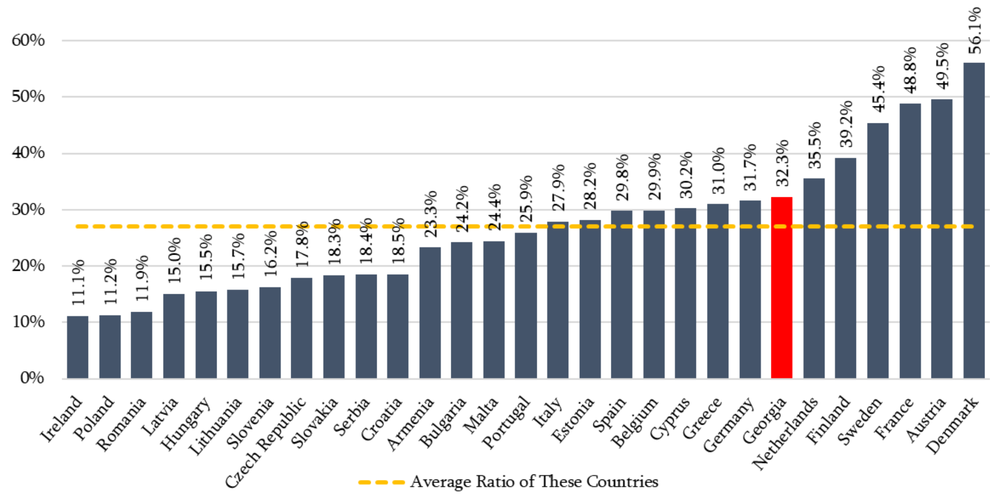
[18] The long-term trend of the total company debt to GDP ratio is estimated using a two-sided HP filter with a smoothing parameter of 400,000.

Figure II.30. Average annual growth rate of bank loans of non-financial companies in the last four quarters (2024 Q1 - 2025 Q1)



Source: NBG, Eurostat

Figure II.31. Non-financial company bank loans to GDP ratio (2025 Q1)*

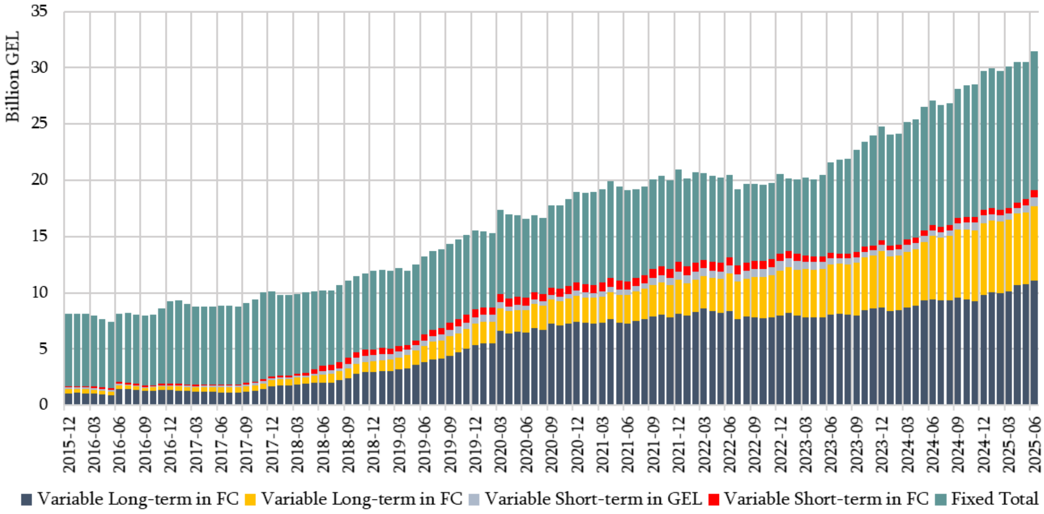


** The last four quarters' nominal GDP*

Source: NBG, Eurostat

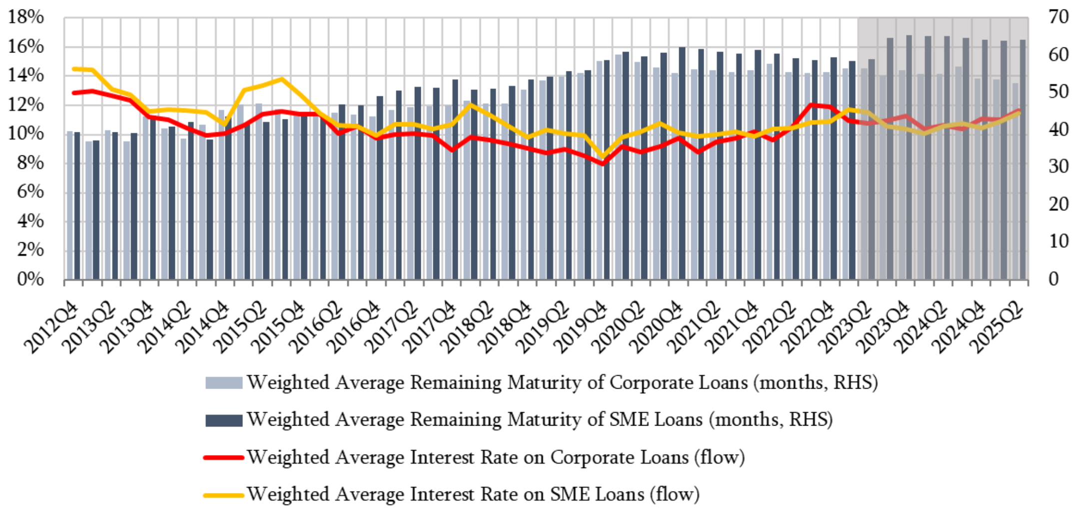
The share of long-term (above one year) variable interest loans in the domestic loan portfolio of non-financial companies remains high. As of June 2025, the share of such loans reached 56.3 percent (see Figure II.32). The solvency of companies with variable-rate loans significantly depends on the level of interest rates. In recent years, a number of instances of the tightening of financial conditions have taken place in both domestic and international markets. Currently, the U.S. Federal Reserve System (the Fed) holds a tightened monetary policy stance. Local monetary policy also remains tight, although it is relatively close to the neutral level. Regardless of these developments, uncertainty has increased both globally and in the region, leading to a rise in risk premia and a tightening of financial conditions, which have been partially translated into an increase of weighted average interest rates on newly issued loans by non-financial companies (see Figure II.33). Foreign currency-denominated variable interest loans are particularly noteworthy, as their interest expense component is largely determined in foreign financial markets and, in addition, is characterized by vulnerability to exchange rate fluctuations. In the event of solvency issues in non-financial companies, the amount and number of non-performing loans and restructurings will increase. Accordingly, in the backdrop of increased uncertainty and a volatile financial environment, the large share of variable-rate loans poses a risk to the financial sector.

Figure II.32. Decomposition of the amount of loans issued to non-financial companies by interest rate type



Source: NBG

Figure II.33. Weighted average interest rates and remaining maturity of company loans from banks

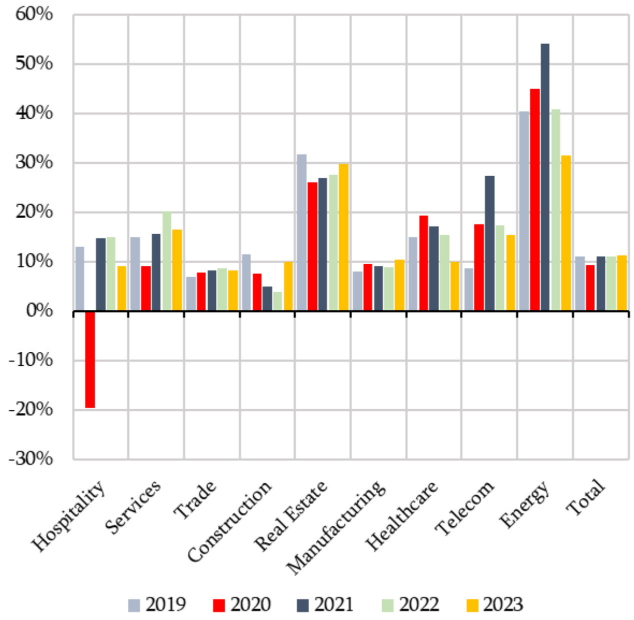


** The highlighted area reflects the transition to the IFRS methodology for financial reporting*

Source: NBG

Similar to 2022, in 2023, non-financial companies maintained a healthy level of profitability, however this was characterized by some degree of heterogeneity throughout different sectors. A company's EBITDA[19] margin represents the share of revenue that is used to service its financial obligations and serves as an indicator of profitability. Based on the median values of this indicator, in 2023, compared to the previous year, an increase in profitability was observed in the construction, real estate, and manufacturing sectors (see Figure II.34). In other sectors, profitability declined, especially in the hospitality, healthcare, and energy sectors. Overall, the median profitability rate of non-financial companies in 2023 reached 11 percent. Meanwhile, the share of loss-making companies barely changed, and amounted to 19 percent as a whole (see Figure II.35). In sectoral terms, the lowest share of loss-making companies was recorded in the energy sector at 7.1 percent; whereas the highest share was recorded in the construction sector at 32.4 percent, even though the latter significantly decreased compared to previous years.

Figure II.34. Median EBITDA margin of companies by sector



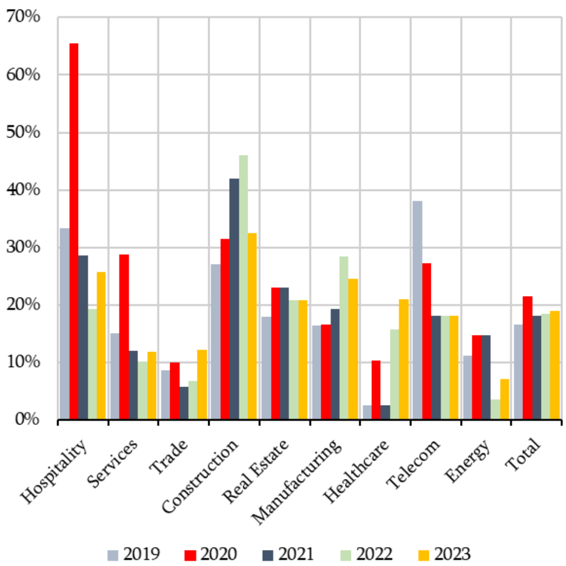
** The sample of companies used for the calculation of the indicator remains unchanged over the years*

Source: SARAS[20], authors' calculations

[19] EBITDA refers to earnings before interest, taxes, depreciation and amortization.

[20] Service for Accounting, Reporting and Auditing Supervision of Georgia.

Figure II.35. Share of loss-making companies by sector

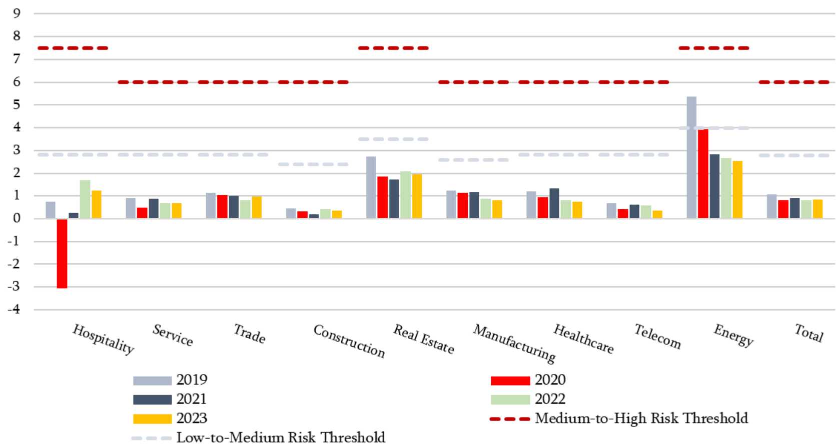


** The sample of companies used for the calculation of the indicator remains unchanged over the years*

Source: SARAS, authors' calculations

In 2023, the majority of non-financial companies maintained adequate solvency ratios, and the share of short-term debt in their financing structures remained at a stable low level. The ratio of a company's total debt to EBITDA shows how many periods it will take for the company to pay off its debt, assuming its debt and profitability remain unchanged. Accordingly, low values for this measure indicate a high level of solvency for a company. In 2023, companies operating in Georgia, both at the aggregated and the sectoral level, did not face debt servicing difficulties (see Figure II.36). In 2023, compared to the previous year, the share of short-term debt in the majority of non-financial companies decreased (see Figure II.37). Particularly large decreases were recorded in the services, construction, and telecom sectors, while significant growth was observed in the healthcare sector. For the healthcare sector, the increase in the share of short-term debt, coupled with declining profitability may pose refinancing risks.

Figure II.36. Median debt burden of non-financial companies by sector

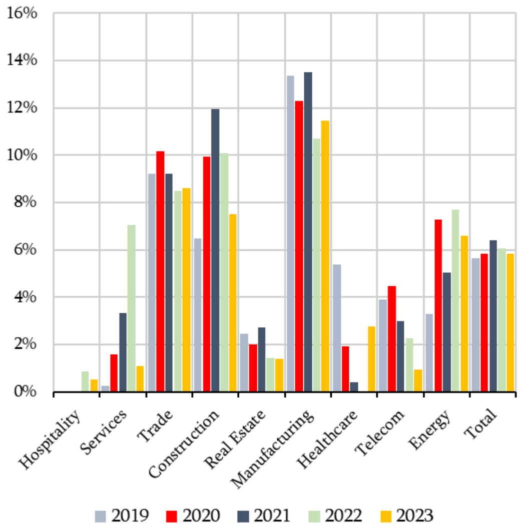


** The risk thresholds are determined according to the Credit Risk Management Rule[21] and the Methodology of Financial Instruments Expected Credit Losses Assessment and Credit Risk Category Determination[22]*

*** The sample of companies used for the calculation of the indicator remains unchanged over the years*

Source: SARAS, authors' calculations

*Figure II.37. Median share of non-financial company short-term debt in total debt by sector**



** Short-term debt consists of a company's borrowings with maturities of less than a year*

*** The sample of companies used for the calculation of the indicator remains unchanged over the years*

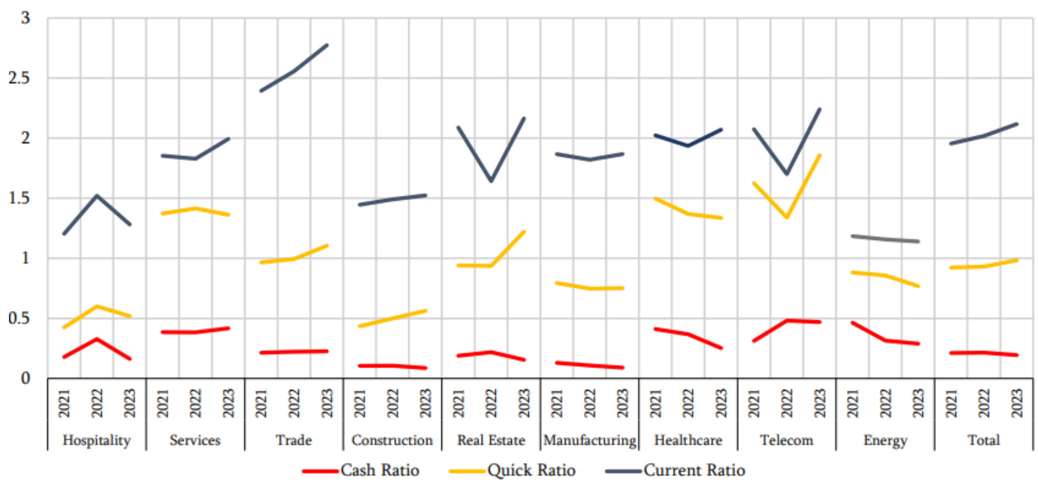
Source: SARAS, authors' calculations

[21] See https://nbg.gov.ge/fm/ინდივიდუალურ_სამართლებრივი_აქტები/ნორმატიული_აქტები/საზანკო/2023/284-04.pdf

[22] See https://nbg.gov.ge/fm/ინდივიდუალურ_სამართლებრივი_აქტები/ნორმატიული_აქტები/საზანკო/2024/ifrs-9-eng-0807.pdf

In 2023, liquidity indicators in most of the sectors of non-financial companies improved (see Figure II.38). Liquidity determines a company's ability to meet its existing short-term liabilities. Three main indicators are used to evaluate the liquidity of a company: the cash ratio, quick ratio and current ratio.[23] Of these three, the cash ratio is the most stringent measure of liquidity. As of 2023, a deterioration in the cash ratio was observed in the hospitality, healthcare, and real estate sectors, while the situation in other sectors was practically unchanged. According to the quick ratio, liquidity has deteriorated in the hospitality, services, healthcare, and energy sectors; while liquidity improved in the trade, construction, real estate, and telecom sectors, and remained unchanged in the rest of the sectors. A deterioration in the current ratio was only observed in the hospitality sector. There was a slight decrease in the energy sector, while liquidity improved in the remaining sectors.

Figure II.38. Median liquidity ratios of non-financial companies by sector



** The sample of companies used for the calculation of the indicators remains unchanged over the years.*

Source: SARAS, authors' calculations

Sensitivity Analysis of Non-financial Companies

In the case of a deterioration of the macro-financial environment, the debt-servicing capacity of companies will remain at a healthy level, while the risks to their financial stability would not increase substantially. The impact of macro-financial shocks on non-financial companies related to tightened global trade and financial conditions can already be felt to

[23] The cash ratio is calculated as the ratio of the sum of a company's cash, cash equivalents and marketable securities to its current liabilities. The quick ratio consists of trade and other short-term receivables, along with the variables included in the cash ratio. The current ratio is calculated as the ratio of a company's current assets to its current liabilities; it includes a company's inventories in the numerator, along with the variables included in the quick ratio.

some extent. Under these conditions, it is especially important to assess the financial stability of companies in case of a possible additional deterioration of the macroeconomic environment. The expected impact of selected shocks on companies' debt-servicing abilities was estimated using sensitivity analysis (see Table II.1). The magnitudes of the shocks correspond to the moderate-stress scenario (as discussed in the Macro-financial Risk Scenarios section of this report).

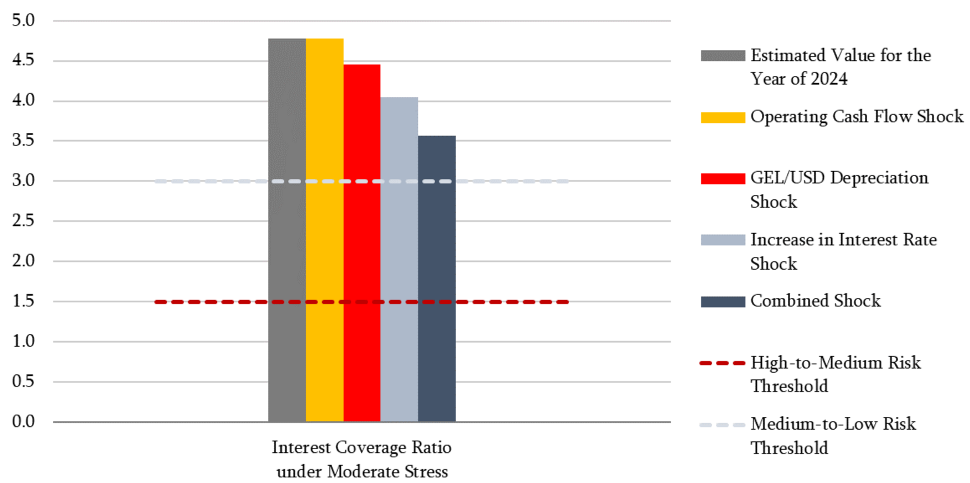
Table II.1. Macro-financial shocks for the sensitivity analysis of companies

	Increase in Market Interest Rate Shock	GEL/USD Exchange Rate Depreciation Shock	Drop in Operating Cash Flows Shock*
Moderate stress	2.0%	10%	0%

** In the sensitivity analysis, operating cash flows are proxied by EBITDA.*

Figure II.39 shows the median interest coverage ratio[24] (ICR) estimates for companies at the 2024 level, the stressed ratios under each selected shock, as well as the combined impact of all the shocks. The median interest coverage ratio, as of 2024, is estimated at 4.8, which falls within the low-risk category according to Standard & Poor's corporate methodology.[25] The sensitivity analysis reveals that an increase in the market interest rate would have the highest impact among the selected individual shocks. Regardless, the impact of the shock was not only determined to be negligible, but the interest coverage ratio still falls into the low-risk category, even under the combined impact of the selected shocks; however, it does come close to the medium-risk threshold.

Figure II.39. Sensitivity analysis: the impact of selected shocks on the median interest coverage ratio

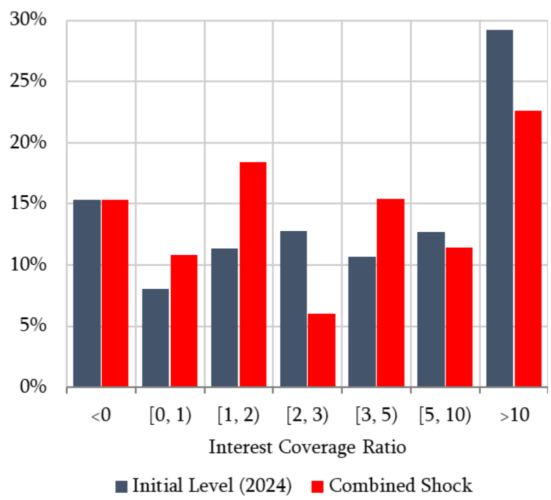


Source: SARAS, authors' calculations

[24] The interest coverage ratio is calculated as the ratio of EBITDA to gross interest expenses.
[25] S&P Global Ratings: Global Nonfinancial Corporate Medians History And Outlook Midyear 2024: https://www.spglobal.com/_assets/documents/ratings/research/101599648.pdf

It is also important to consider the distributional effects caused by the selected shocks under the moderate-risk scenario on companies' interest coverage ratios. As companies migrate from higher to lower interest coverage ratio ranges, as a result of the realization of the selected combined shock, their debt-servicing abilities deteriorate. If their coverage ratio falls below one, companies can no longer service their debt using the cash inflows generated from their operational activities – a situation commonly known as debt at risk. When companies enter this zone, their credit risk surges. This can induce systemic issues since commercial banks have sizable exposure to the liabilities of non-financial companies. The sensitivity analysis shows that, when assessing the initial 2024 level, the share of assets of companies facing debt service difficulties was 23.3 percent. Under the moderate-stress scenario, given the combined impact of the selected shocks, the deterioration of macro-financial factors, and the realization of vulnerabilities related to debt characteristics, the share of companies facing debt service difficulties increases by 2.8 percentage points (see Figure II.40). In particular, considering the size of assets, the share of companies with an interest coverage ratio of less than one increases to 26.1 percent. Furthermore, as a result of the shock, the share of assets located near the debt-at-risk threshold increases significantly. All of this indicates the vulnerability of non-financial companies to the aforementioned shock. It should be noted here that part of companies' debts are in the form of inter-company loans, which are raised on favored terms and, in certain cases, can represent de-facto equity. Consequently, the results of the sensitivity analysis somewhat overestimate the impact of the stress; however, given the limited data available, a more reliable assessment cannot be obtained.

Figure II.40. Asset-weighted distribution of company interest coverage ratios



Source: SARAS, authors' calculations

Box 2. Analyzing the Cash Conversion Cycle of Non-financial Companies

The Cash Conversion Cycle (CCC) is a financial metric that measures the number of days it takes for a company to convert its inventory and receivables into cash, after accounting for the time it takes to pay suppliers. It offers insight into how efficiently a business manages its working capital and short-term liquidity. Investors can use the cash conversion cycle to evaluate a company's operational efficiency and financial stability, and it is thus frequently considered a key metric for investment decision-making.[26] Analyzing the cash conversion cycle allows businesses to benchmark their performance against industry peers. For instance, a company with a shorter CCC than its competitors may operate more efficiently, potentially gaining a competitive advantage. Whereas a company with a long CCC may encounter liquidity risks. This occurs when a company's cash remains tied up for extended periods, as inventory or accounts receivable cannot be converted into cash, while the existing short-term liabilities come due, which translates into cash outflow. Such a risk can materialize if unexpected expenses occur or if sales decline. A company with a long cash conversion cycle may require additional short-term financing to sustain its operations, potentially resulting in higher interest expenses. By improving its CCC, a company can reduce its reliance on external financing, lower financial costs, and enhance profitability. During times of economic uncertainty or downturns, companies with long CCCs may face greater challenges than those with shorter cycles, as they are more vulnerable to cash flow disruptions.

Regularly measuring and tracking the cash conversion cycle over time enables a company to evaluate whether its operational efficiency is improving or deteriorating. It serves as an effective tool for monitoring performance and identifying areas that may require adjustment. A thorough analysis of the cash conversion cycle can lead to operational improvements by identifying opportunities such as renegotiating supplier payment terms, accelerating receivable collections, or minimizing inventory holding periods to enhance overall efficiency. Moreover, analyzing the CCC can help a company's investors identify potential sources of risk. It is generally recommended to compare a company's CCC to that of their peers to assess its operational efficiency and cash-generating ability.

A long CCC could indicate several potential issues, including 1) excessive inventory, meaning that the company may be holding more inventory than necessary, resulting in higher storage costs and an increased risk of obsolescence; 2) slow collections, meaning the company may have inefficient procedures for receivable collections, causing delays in collecting dues from customers; and 3) tighter payment deadlines by suppliers, which

[26] Brealey, R. A., Myers, S. C., & Allen, F. (2020). *Principles of Corporate Finance* (13th ed.). McGraw-Hill Education.

causes faster cash outlays, resulting in a deterioration of cash flow. To summarize, a long cash conversion cycle suggests a company may need to rely on short-term borrowing or external financing to support its operations, leading to higher financial costs and increased liquidity risk.

A negative cash conversion cycle is generally a positive indicator of business efficiency, indicating that a company can generate cash from operations faster than it needs to pay its suppliers. This often leads to improved liquidity, more efficient working capital management, and increased profitability. However, a very low or negative CCC may be due to companies consistently delaying payments or failing to meet deadlines, which can damage their relationships with suppliers. Similarly, enforcing short and strict deadlines for receivable collections may damage relationships with customers. Consequently, this could result in operational or financial risks over time.

The cash conversion cycle consists of three components: days of sales outstanding (DSO), days of inventory outstanding (DIO) and days of payables outstanding (DPO). Days of sales outstanding measures how long it takes to collect payment after a sale:

$$DSO = \frac{Average\ Receivables}{Revenues} \times 365$$

Days of inventory outstanding measures how long it takes to sell inventory:

$$DIO = \frac{Average\ Inventory}{Cost\ of\ Goods\ Sold} \times 365$$

While days of payables outstanding measures how long the company takes to pay its suppliers:

$$DPO = \frac{Average\ Payables}{Purchases} \times 365$$

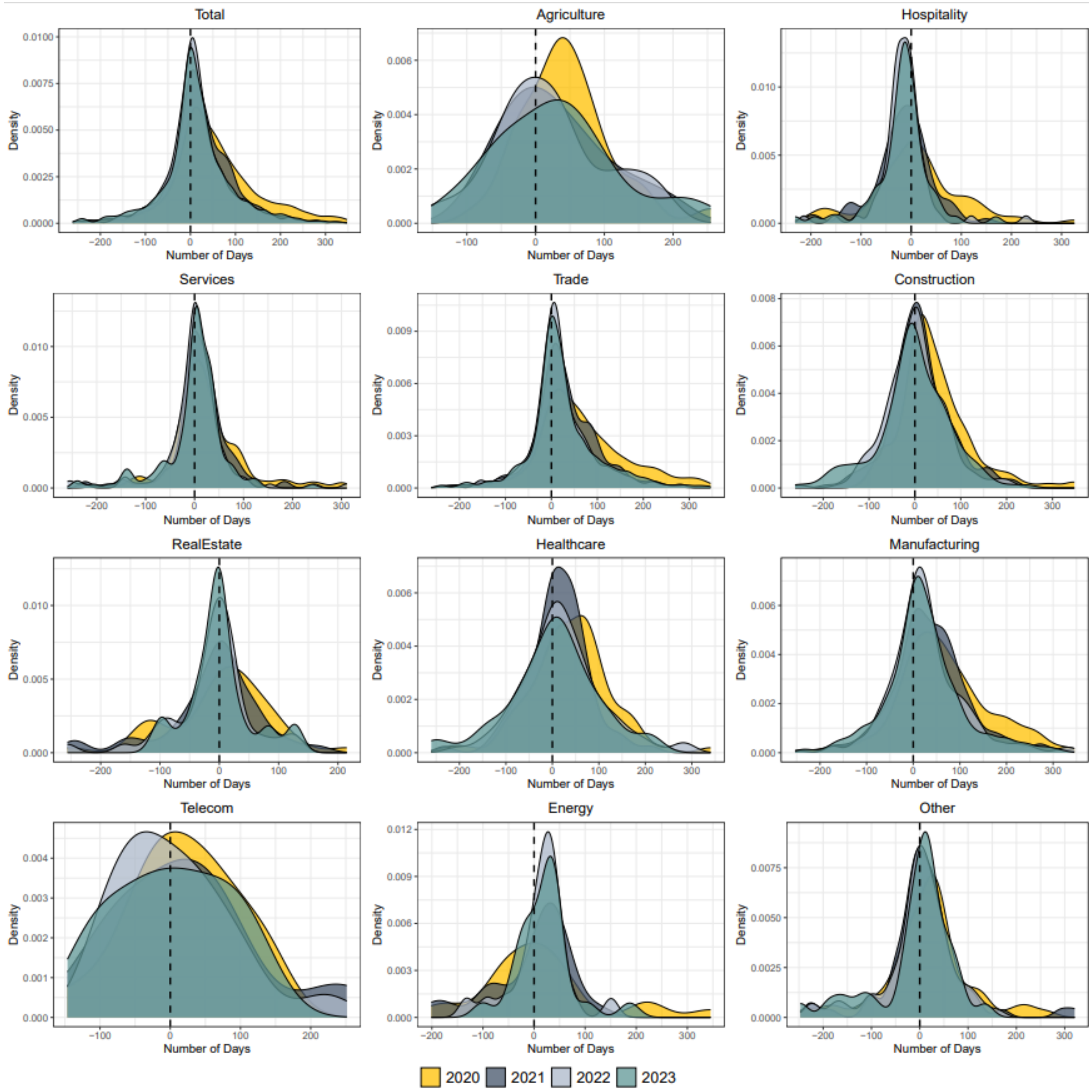
In the numerators the averages are calculated using the beginning- and end-of-year values. Whereas, the end-of-year values are taken in the denominators.

Finally, the cash conversion cycle is derived as:

$$CCC = DSO + DIO - DPO$$

The distribution of the cash conversion cycle in Figure B.2.1 shows that, over the given period, companies in all sectors had the highest CCC in 2020 during the COVID-19 pandemic; indicating increased inefficiencies in generating cash and larger liquidity issues in that year. Although companies in every sector saw an improvement in their CCCs over time, some sectors reached their lowest CCC value in 2022. The majority of companies in the agriculture, hospitality, services, real estate, telecom and energy sectors, showed a deterioration of their cash conversion cycles to some extent in 2023 compared to 2022, implying higher liquidity concerns. On aggregate, non-financial companies showed an overall improvement in liquidity in 2023 compared to previous years. The distribution also seems symmetric, with the mean value being near zero, indicating that the majority of companies have low values for their cash conversion cycles, are fairly liquid and do not require immediate short-term financing needs.

Figure B.2.1. Distribution of the cash conversion cycle by sector

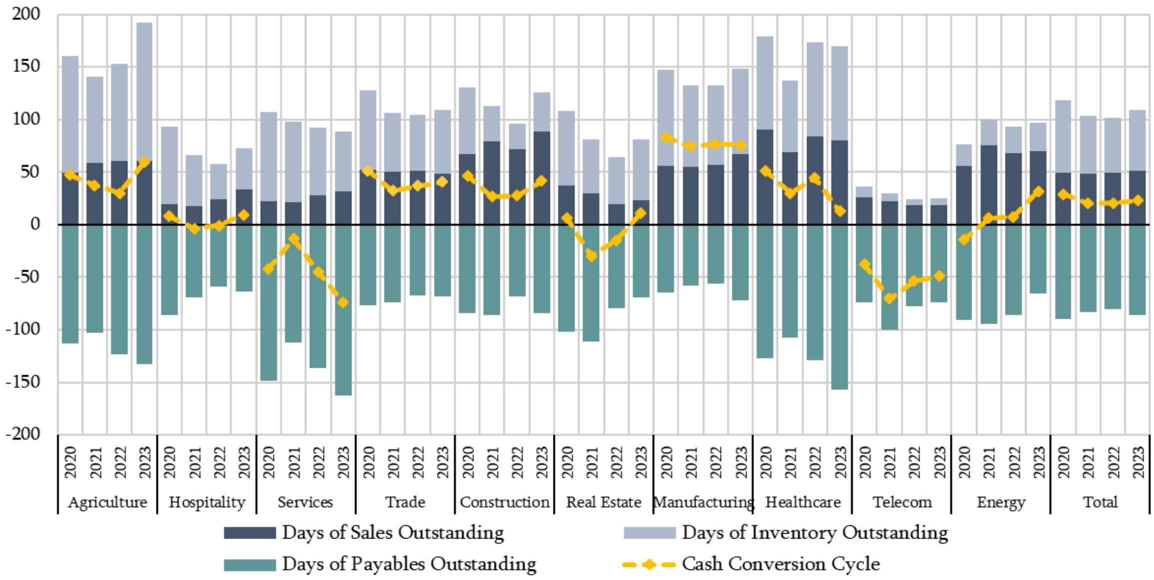


Source: SARAS, authors' calculations

According to Figure B.2.2, on an economy-wide level, the asset-weighted mean of the cash conversion cycle remained at a similar level in 2023 as in previous years. However, on a sectoral basis, the dynamics are more heterogeneous. The asset-weighted CCC increased in the agriculture, hospitality, construction, real estate, telecom, and energy sectors in 2023, compared to 2022. The primary contributor to the growth in CCC in the agriculture sector was the large increase in days of inventory outstanding, implying the presence of obsolete inventory, which can increase storage costs. It is worth noting that an increase in DIO in the agriculture sector can cause liquidity issues as its inventories, consisting mainly of food products, may quickly become obsolete as they are sensitive to storage conditions and have a low preservation period. The real estate sector also saw an increase in DIO, along with the decline in days of payables outstanding; both of which contributed to the surge in the cash conversion cycle. Meanwhile, both the hospitality and construction sectors saw an increase in both DSO and DIO, more than an increase in DPO, resulting in an increase in their respective CCCs; however, the level of CCC remains low for the hospitality sector. As for the telecom and energy sectors, the main driver of the increase in CCC was the decline in DPO, especially in the energy sector.

On the other hand, the cash conversion cycle improved (i.e. declined), in the service and healthcare sectors. In both sectors, the key contributor to the decline in CCC was the increase in DPO, implying stretched time limits for paying their obligations. The CCC in the trade and manufacturing sectors remained unchanged, although there was a slight increase in DSO and DIO in the manufacturing sector; the effect of which was fully offset by the increase in DPO.

Figure B.2.2. Decomposition of the asset-weighted mean cash conversion cycle by sector



Source: SARAS, authors' calculations

Box 3. Gender-Disaggregated MSME Financing Insights

Granular, gender-disaggregated data are fundamental for designing evidence-based policies that close gender gaps in financial access. Without detailed data collection, decision makers and market participants cannot assess the challenges faced by women-owned and women-led micro, small, and medium enterprises (WMSMEs). This can lead to misguided interventions, the misallocation of credit, and the reinforcement of structural inequities.

Access to gender-disaggregated financial data remains limited, undermining evidence-based decision-making. Collecting, standardizing, and using these data effectively is essential not only to track progress but also to design policies that expand women entrepreneurs' access to finance. This requires a multi-stakeholder effort—including regulators, financial institutions, development partners, and industry associations—to improve the collection, consistency, and granularity of sex-disaggregated MSME data and, crucially, to promote its active use in designing gender-responsive entrepreneurship policies. Such policies should work for both women and men, enabling entrepreneurs to access appropriate financial products, scale their businesses, and contribute more fully to their economies and communities.

Globally, central banks and financial regulators increasingly view sex-disaggregated MSME finance data as a cornerstone for promoting inclusive growth.

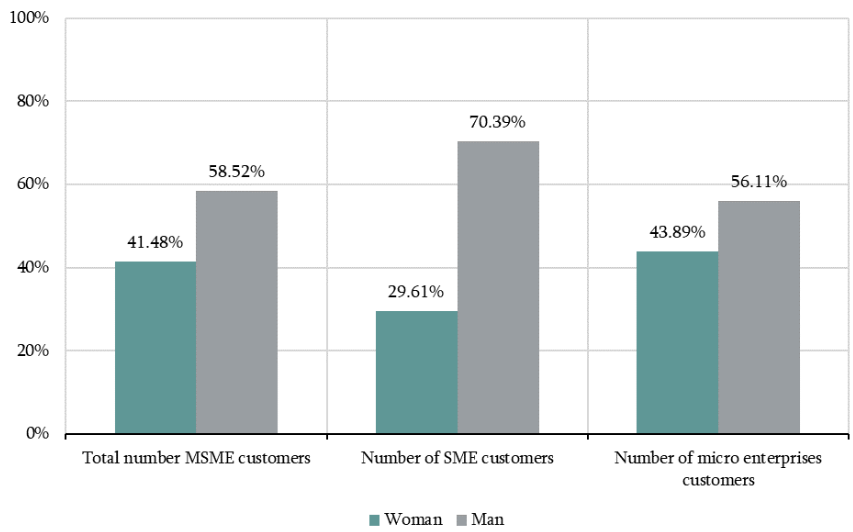
To address this issue and systematically capture data on women-owned and women-led MSMEs, the National Bank of Georgia (NBG)—in collaboration with the Investor Council, the Banking Association, and commercial banks—introduced an official definition of WMSME and developed a standardized reporting template requiring commercial banks to submit MSME finance data disaggregated by gender. Specifically, for reporting purposes, a woman entrepreneur is defined as (i) a woman registered as an individual entrepreneur; (ii) a business entity owned by a woman/women in which women hold ownership rights to 50% or more of the equity (shares/stock); or (iii) a business entity managed by a woman/women in which the head (chief executive) and/or 50% or more of the members of the governing body are women. This reporting template was developed to collect gender-disaggregated data from commercial banks on the financing of enterprises. This initiative addresses the challenge of limited access to gender-disaggregated financial data.

Banks submitted their first comprehensive reports for 2024, establishing a baseline. Quarterly reporting will commence in 2026, ensuring the continuous monitoring and availability of gender-disaggregated MSME data. The analysis below presents key gender-disaggregated indicators from the MSME portfolios of Georgian commercial banks for the year 2024.[27] The reporting template specifies the following indicators: (i) number of MSME customers; (ii) loan applications and approvals; (iii) outstanding loans and deposit accounts; (iv) interest rates; and (v) non-performing loans (NPLs).

Client Base Composition by Gender. In the Georgian banking sector, women comprise roughly 41.5% of total MSME clients (see Figure B.3.1). Their representation is notably higher among microenterprises—around 44%—but drops to about 30% among SMEs. There are also significant differences across banks, with the female share of MSME clients ranging from 21% to 51%.

This pattern highlights that women are especially active in the microenterprise segment of the MSME market, whereas their presence diminishes as firm size increases. This finding suggests potential structural or market barriers that may hinder women-owned businesses from scaling into the SME segment.

Figure B.3.1 MSME client base composition by gender, December 2024



Source: NBG

Loan Demand by Gender. Women demonstrate strong participation in credit markets relative to their representation in the MSME client base. In 2024, women accounted for 48% of total MSME loan applications, slightly exceeding their share of MSME clients. However, demand is concentrated in the microenterprise segment. Among SMEs, women submitted only 25% of loan applications, indicating lower participation in larger-scale financing. When measured by value, women accounted for just 29% of total MSME loan

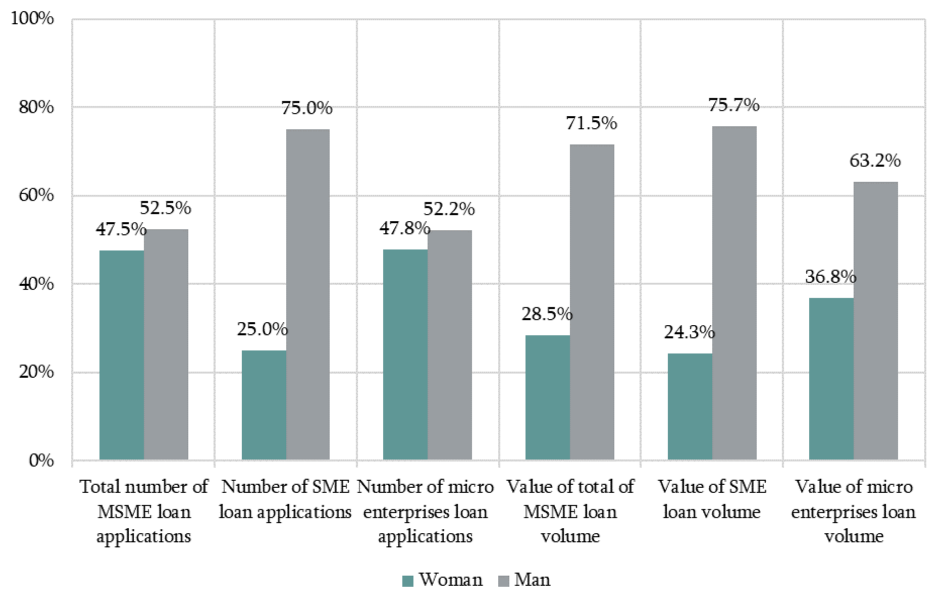
[27] The presented estimates are derived from preliminary submissions and are subject to revision following data validation and subsequent submissions.

application amounts, suggesting that women-owned businesses request smaller loan sizes on average, which is consistent with their smaller average business scale (see Figure B.3.2).

Loan Approval Rates. Women's loan applications generally enjoy higher approval rates than those of men. In 2024, 50.6% of WMSME applications were approved, compared to 45.0% for male-owned MSME applications (see Figure B.3.2). Approval patterns differ by segment. Among SMEs, approval rates are significantly higher overall—78% for women and 80% for men—reflecting the stronger credit profiles and larger scale of these businesses. In the microenterprise segment, approval rates are lower for both groups but still slightly higher for women (50% vs. 44% for men).

Despite relatively high approval rates, women account for only 28% of the total value of MSME loans disbursed. This indicates that, even when approved, women tend to receive smaller loan amounts, as is consistent with their smaller application amounts and business scale.

Figure B.3.2. MSME share by number and volume of loan applications, December 2024

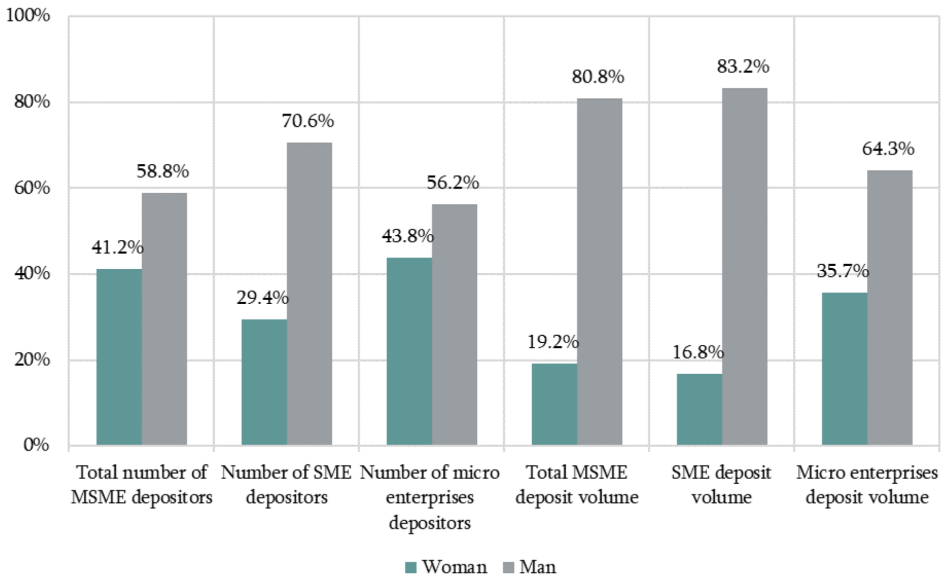


Source: NBG

Deposits and Loan Balances. Women represent about 41% of MSME business depositors but hold only 19% of total MSME deposit balances (see Figure B.3.3), indicating a smaller average deposit size and suggesting lower capital accumulation or a smaller business scale. The disparity is even more pronounced in the SME segment, where women account for only 29% of business depositors and just 17% of total deposit value.

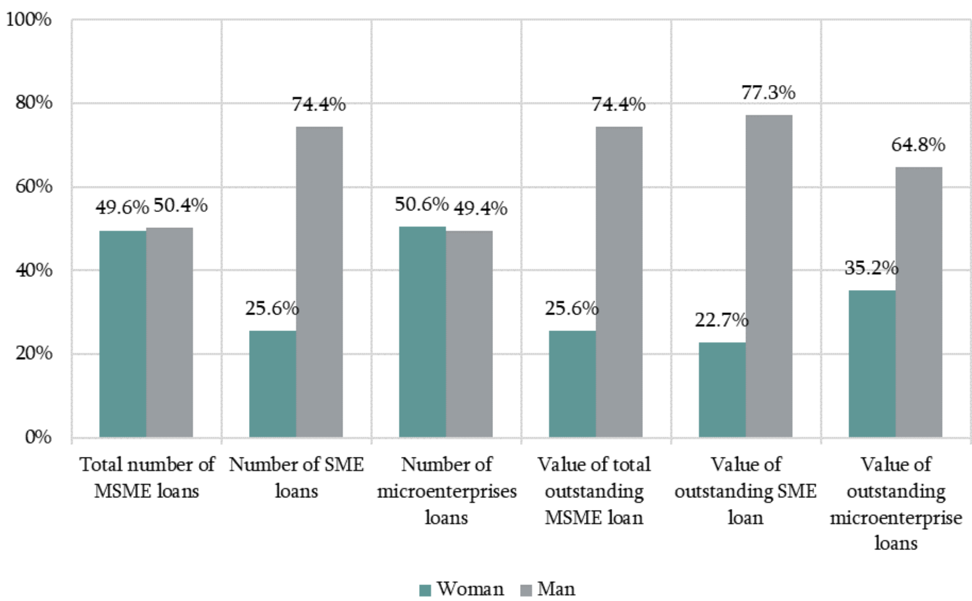
A similar pattern emerges on the lending side. While 50% of MSME loans by number are issued to women-owned businesses, these loans represent only 25.6% of the total MSME loan portfolio by value (see Figure B.3.4). This confirms that women-owned MSMEs typically borrow smaller amounts, consistent with their smaller average business size and lower collateral capacity.

Figure B.3.3. MSME share by number of depositors and deposit volume, December 2024



Source: NBG

Figure B.3.4. MSME share by loan count and outstanding amount, December 2024



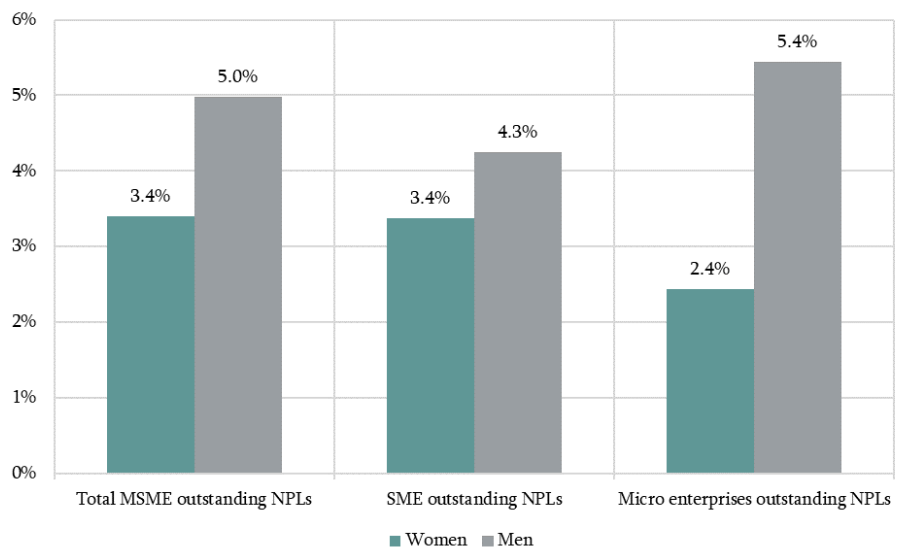
Source: NBG

Lending Conditions. Interest rate analysis confirms that pricing is effectively gender neutral. Average annual interest rates are almost identical across genders—around 10% for SME-sized loans and 11.6% for microloans—with no systematic evidence suggesting that women pay higher rates than men or vice versa.

Loan Portfolio Quality (NPLs). A key finding of the 2024 analysis is that women-led MSMEs exhibit stronger portfolio quality than their male counterparts. The average NPL ratio for women-owned MSMEs stands at 3.4%, compared to 5.0% for men-owned enterprises (see Figure B.3.5).

The difference is even more pronounced in the microenterprise segment, where women's NPL ratio is just 2.4%, while men's rises to 5.4%. This pattern is consistent across most banks in the sample and highlights that, despite typically operating at a smaller scale and with less collateral, women entrepreneurs represent a lower credit risk for financial institutions.

Figure B.3.5. NPL ratios, December 2024



Source: NBG

The 2024 gender-disaggregated MSME finance data provide a clearer picture of women entrepreneurs' participation in Georgia's financial sector. The findings show that WMSMEs actively engage with banks, receive loan approvals at comparable or higher rates than men, and demonstrate stronger portfolio quality. At the same time, women-owned businesses remain concentrated in smaller-scale activities and account for a smaller share of total loan volumes and deposit balances, suggesting structural challenges that limit their growth potential.

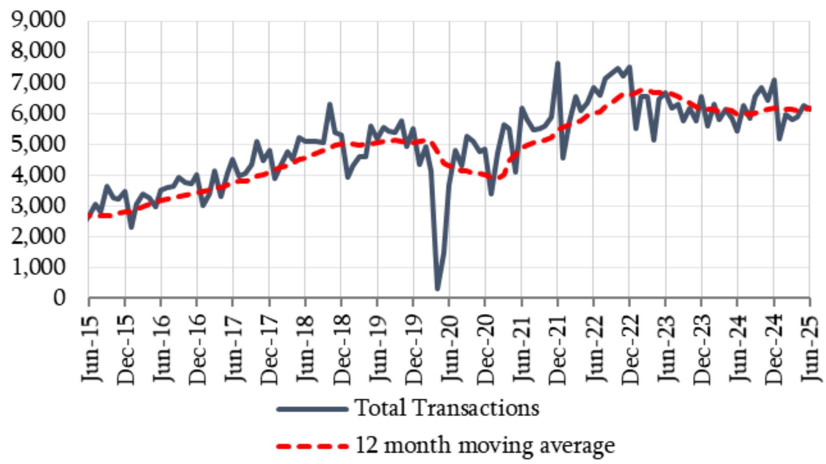
These results underscore the importance of sustained, sex-disaggregated data collection and its use to inform gender-responsive financial policies. They make a strong business case for banks to further expand lending to women entrepreneurs, while also highlighting the need for targeted measures—such as tailored financial products, alternative collateral mechanisms, and capacity-building programs—to help women-owned businesses scale up. A coordinated, multi-stakeholder approach will be essential to address existing challenges, close remaining gaps, ensure risk-consistent lending, and enable women and men entrepreneurs to contribute fully to economic growth and societal development.

Real Estate Sector Analysis

The real estate market remains resilient. It is characterized by stable market activity with no signs of significant shifts; meanwhile, the growth of the construction cost index has slowed down, indicating stability on both the demand and supply sides. Additionally, the supply side of the real estate market is strong, driven by the sharply increased issuance of construction permits in previous years. Demand for rentals of residential property has stabilized, which has contributed to the normalization of rental prices. However, in general, the real estate sector is vulnerable to macroeconomic shocks and the share of loans associated with real estate in the total banking portfolio is significant. Therefore, given the increased uncertainty and riskiness of the real estate market, the sector requires continuous monitoring.

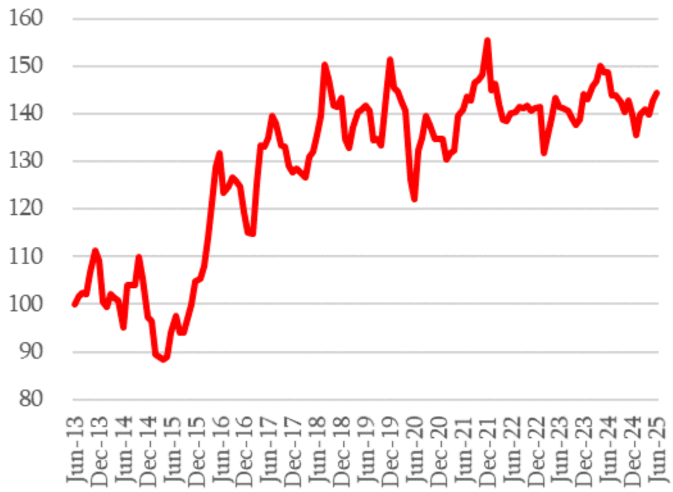
In the first half of 2025, real estate market activity slightly slowed compared to the corresponding indicator of the previous year; however, the market remains resilient. In Georgia, 60 percent of residential real estate market activity is concentrated in Tbilisi, where around 90 percent of demand is formed by Georgian residents. Therefore, the real estate market in Tbilisi is not characterized by high external vulnerability. Real estate market activity is stable, with Tbilisi recording a slight 0.6 percent annual increase in the number of transactions in the first half of 2025, indicating the healthy functioning of the market. Similar dynamics are observed nationwide, with an annual 0.3 percent increase recorded and the number of total transactions standing at around its annual average (see Figure II.41). Additionally, it should be noted that the rise in real estate prices and interest rates have been reflected on the house affordability index, which has shown a slight deterioration compared to the corresponding level of 2024 (see Figure II.42).

Figure II.41. Number of housing transactions



Source: National Agency of Public Registry

Figure II.42. House affordability index (2013=100)[28]

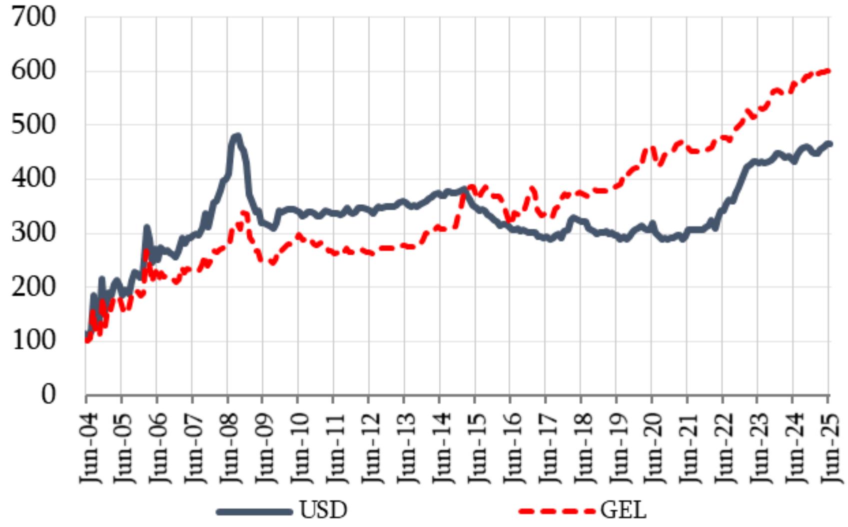


Source: NBG; authors' calculations

The real estate price index exhibits positive annual growth, although this has moderated compared to previous years. The high level of economic activity in the country during 2022–2024 led to increased demand in the real estate market, which, along with other fundamental factors, accelerated the rise in prices. Over time, as economic growth slowed and the effects of migration faded, demand began to normalize, which was also reflected on real estate price dynamics. Compared to previous years, the increase in housing prices has also gradually stabilized. As of June 2025, the annual growth rate of the real estate price index in lari stood at 4 percent (see Figures II.43 and II.44). The share of transactions in the primary market increased significantly throughout 2024, and in the first half of 2025 nearly half of all sales were recorded in the primary market, which has been supported by intensified construction activity in recent years. However, it is noteworthy that the registration of newly built apartments in the public registry occurs with a certain time lag, thus primary market transactions include sales completed in previous periods. When analyzing real estate prices, it is also important to consider supply-side factors, such as the dynamics of construction costs and the issuance of building permits. As of June 2025, the construction cost index increased by 6.1 percent year on year, which is lower than previously recorded rates, and indicates reduced upward pressure on prices from the supply side. Moreover, the dynamics of building permit issuance observed in recent years also support the supply side.

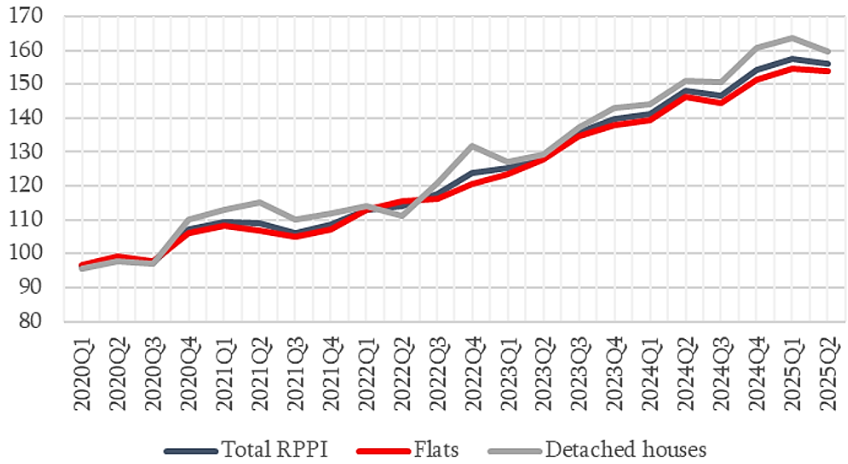
[28] The house affordability index is based on the wage-to-payment ratio, which takes into account property prices, the maturity of mortgage loans, interest rates, and average wages.

Figure II.43. Residential real estate price index



Source: NBG

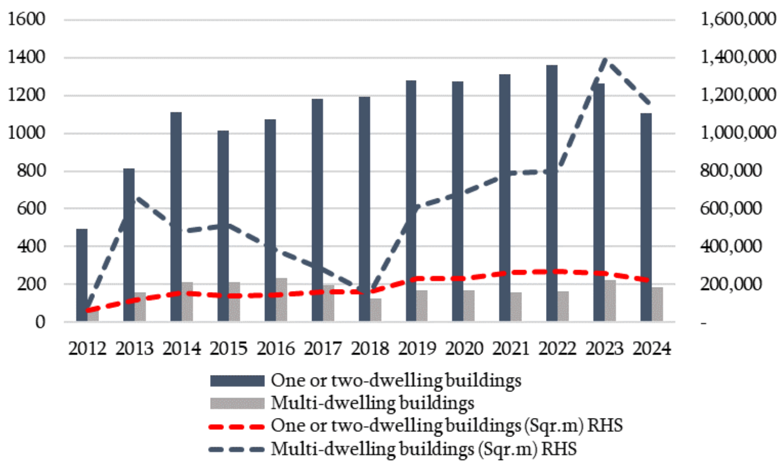
Figure II.44. Residential property price index (RPPI) for new dwellings (2020=100)



Source: GeoStat

The real estate market is characterized by a strong supply side; however, the pace of building permit issuance has moderated. In 2024, both the number and total area of permits issued for multi-dwelling buildings declined relative to 2023 (see Figure II.45). This decrease, however, can largely be attributed to a strong base effect, as 2023 was marked by a sharp increase in both the number and volume of such permits issued. In addition, the number of permits issued for the construction of private residential houses in Tbilisi also recorded a slight decline.

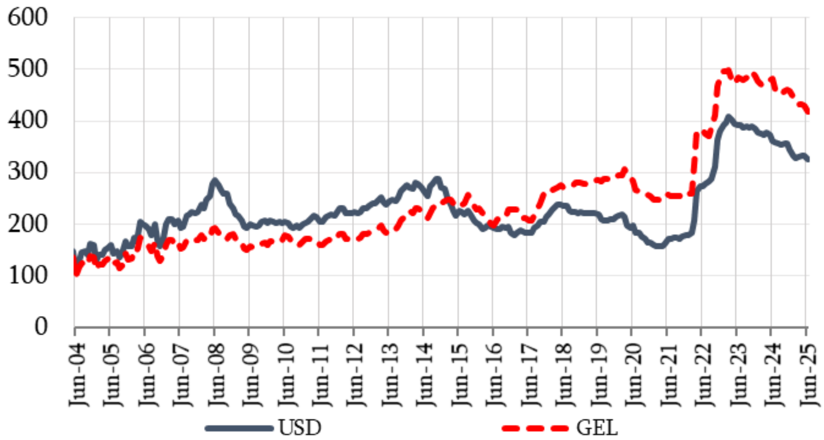
Figure II.45. Number and volume of construction permits issued[29]



Source: Tbilisi City Hall

Rental prices in the real estate market have gradually converged toward their long-term trend, indicating a normalization of market conditions. In 2022, rental prices rose sharply due to migration pressures driven by external factors. However, as expected, demand for rental properties began to moderate over time, leading to a normalization of rental prices (see Figure II.46). The decline in rental prices, in turn, has been reflected in a reduction of the capitalization index (see Figure II.47), which serves as a measure of the attractiveness of real estate as an investment asset. Nevertheless, real estate continues to represent an appealing investment option, particularly given that the interest rate differential between U.S. dollar deposit returns and the capitalization index remains around 6 percent.

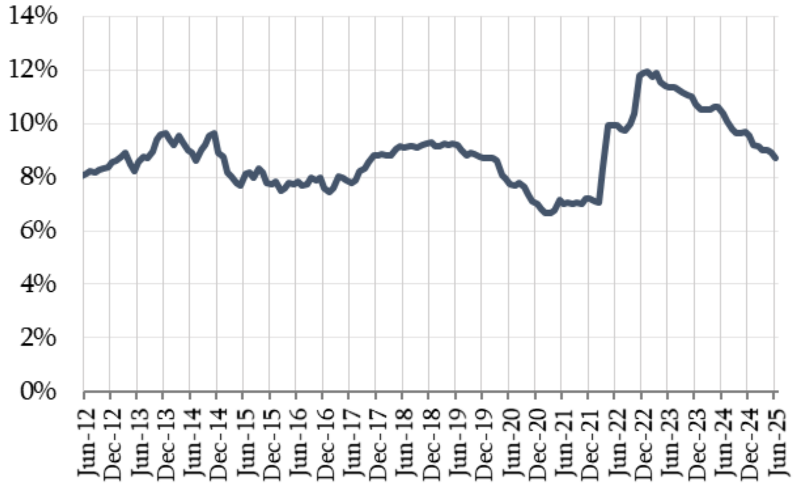
Figure II.46. Residential real estate rent price index



Source: NBG

[29] Detached houses include class I, II and III one- or two-dwelling buildings, as determined by Resolution N255.

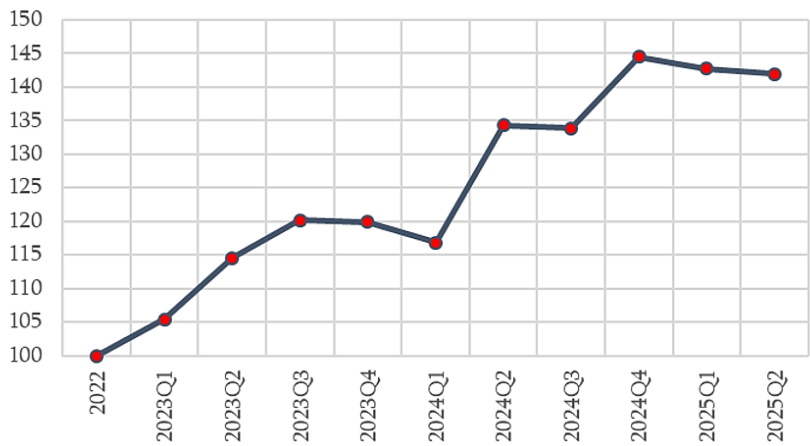
Figure II.47. Capitalization index (rent-to-price ratio)



Source: NBG

Activity in the Batumi real estate market increased slightly compared to the same period of the previous year. According to public registry data, a positive annual growth in transactions was recorded in the first half of 2025. However, it should be noted that residential real estate sales in Batumi in 2024 declined by approximately 4 percent compared to the same period in 2023. The reduction in market activity in 2023–2024 is likely attributable to the strong base effect from 2022, which largely reflected increased demand from non-residents. As of June 2025, nearly 40 percent of demand for residential real estate in Batumi originates from non-residents, indicating a high degree of vulnerability to external demand. The commercial real estate market in Batumi remains resilient, exhibiting positive dynamics that are reflected in a rising long-term price trend (see Figure II.48).

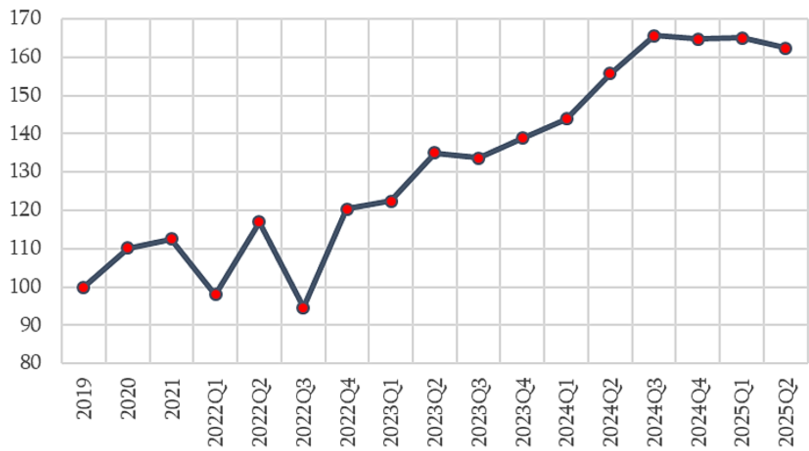
Figure II.48. Commercial real estate price index for Batumi



Source: NBG

The commercial real estate market in Tbilisi remains stable. According to public registry data, sales of commercial properties remain resilient. Notably, strong economic activity continues to have a significant positive impact on both commercial property values and rental prices. Consequently, as of the second quarter of 2025, the Tbilisi Commercial Real Estate Index has remained stable.[30]

Figure II.49. Commercial real estate price index for Tbilisi



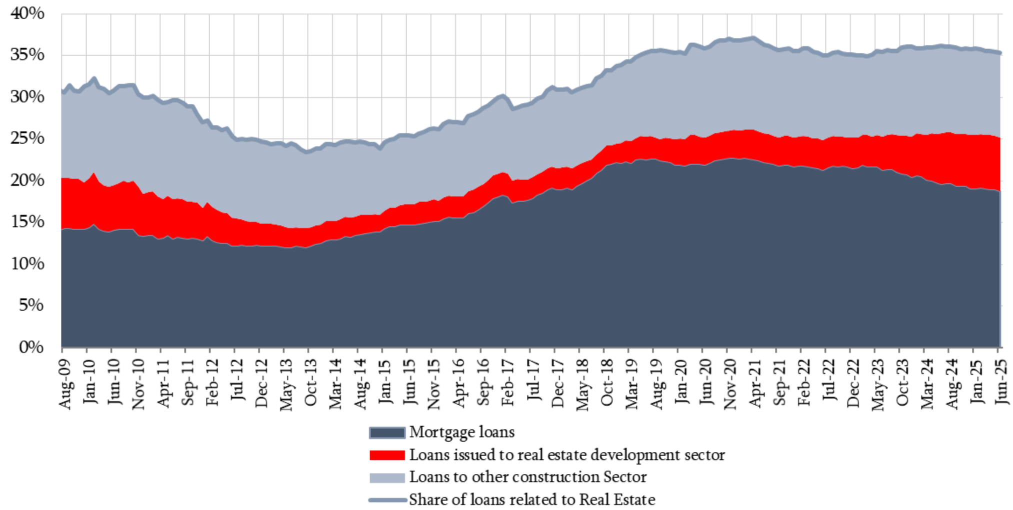
Source: NBG

Given the significance of the real estate market and its vulnerability to macroeconomic shocks, coupled with rising uncertainty and risk, the real estate sector requires continuous monitoring. Loans issued to the construction and real estate sectors constitute a substantial share of bank portfolios (see Figure II.50), exposing the banking sector to risks from the real estate sector. Throughout 2024, loans to the real estate development sector grew at a high pace; however, this growth has moderated under current conditions, reaching 25 percent as of June 2025 (see Figure II.51). In view of the sector's importance, the National Bank has developed principles to guide banks in issuing mortgage loans for unfinished or under-construction properties and in financing development projects.[31] It is also notable that mortgage loans represent a significant portion of loans issued to the real estate sector; however, these loans are granular and carry lower risk. The growth rate of mortgage loans remains stable, and the quality of these loans is sound.

[30] For information on the methodology used to calculate the index, see the *Financial Stability Report 2024*, Box 2: Commercial Real Estate Price Index for Tbilisi.

[31] Principles to finance real estate developers and issue mortgage loans for properties that are unfulfilled or under construction.

Figure II.50. Share of loans related to the real estate sector in total loans



Source: NBG

Figure II.51. Annual growth of loans issued to the real estate development sector (excluding the FX effect)

Source: NBG

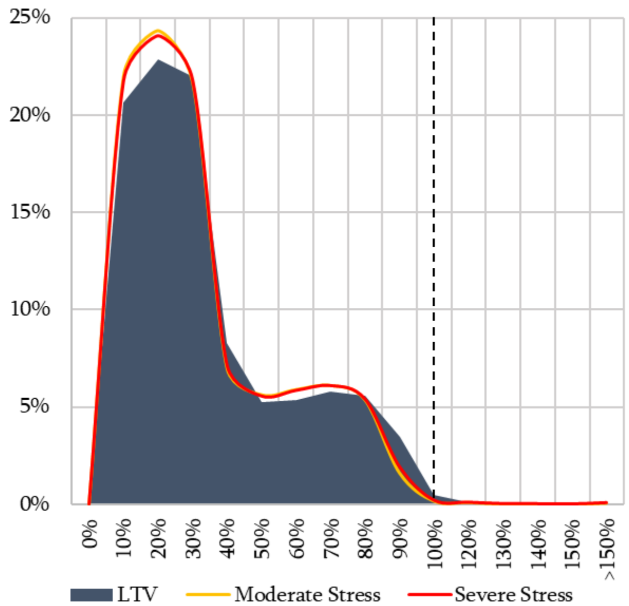
Sensitivity Analysis of the Real Estate Sector

Under the moderate-risk scenario, the loan-to-value (LTV) ratio distribution does not change significantly, while under the severe scenario, the share of mortgage loans with a loan-to-value ratio exceeding 100 percent increases up to 1.8 percent.[32] Currency-wise, in the case of either moderate- or severe- stress, the distribution of the loan-to-value ratio for mortgage loans issued in the national currency does not change significantly (see Figure II.52). However, under the severe-risk scenario, if the national currency depreciates by 40

[32] For more details on these scenarios, see the "Macro-financial Risk Scenarios" section of this report.

percent against the U.S. dollar and the euro and real estate prices expressed in the national currency increase by 4 percent, then around 8.7 percent of mortgage loans issued in a foreign currency will have a loan-to-value ratio of more than 100 percent, which is 7.9 percentage points higher than under the baseline scenario (see Figure II.53).[33] It should be noted that in the case of the moderate-risk scenario, around 2 percent of mortgage loans issued in foreign currency will exceed 100 percent of the LTV ratio. It is also worth mentioning that a sharp decrease in demand for residential real estate may worsen the quality of banks' real estate portfolios and contribute to the accumulation of systemic risks. Loans issued in foreign currency carry a relatively higher risk. In order to reduce that risk, since 2019, the National Bank of Georgia determined a maximum LTV ratio of 70 percent for mortgage loans issued in foreign currency. In February 2025, the Financial Stability Committee decided to increase this maximum LTV ratio up to 90 percent for mortgages issued in the national currency.[34] However, according to the principles of the responsible lending regulation, collateral only serves as an additional protection against risks, and the borrower's solvency remains the main prerequisite for loan repayment.

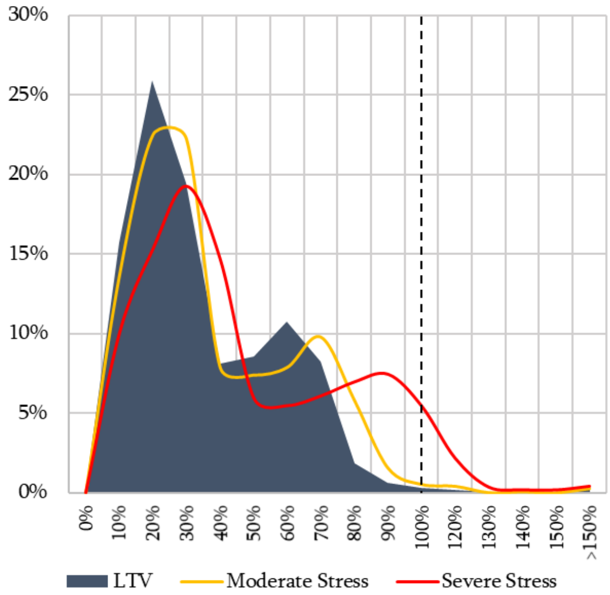
Figure II.52. Distribution of the LTV ratio for mortgage loans issued in the national currency according to the risk scenarios



Source: NBG

[33] The calculation uses the loan-to-value ratio (LTV) recorded in the current period.
[34] See https://nbg.gov.ge/fm/ფინანსური_სტაბილურობა/კომიტეტის_გადაწყვეტილებები/eng/2025/fsc-pressrelease-q1-2025-feb-eng.pdf

Figure II.53. Distribution of the LTV ratio for mortgage loans issued in foreign currency according to the risk scenarios



Source: NBG

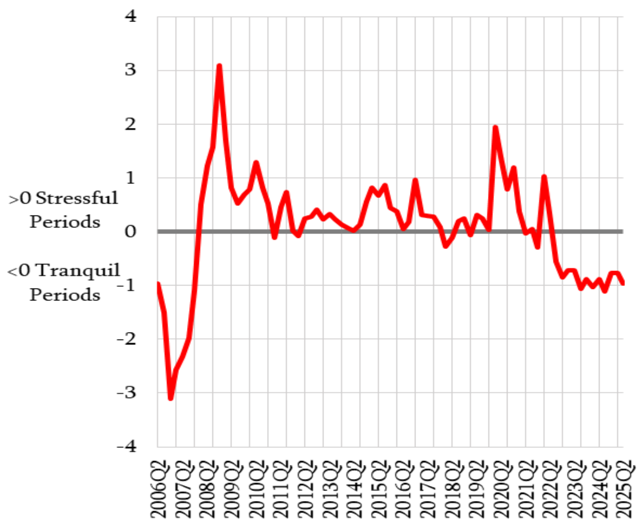
III. Financial Sector

Financial Sector Review

The Georgian financial system is sound. The banking sector remains well capitalized, liquid and profitable, and the NPL ratio remains at a low level. Despite a decrease, dollarization remains a significant challenge for the financial sector. However, the recently implemented macroprudential measures should support continued de-dollarization, and a gradual mitigation of related risks.

The Georgian banking system remains resilient and is prepared to address potential risks stemming from the global geopolitical environment. As in the past two years, the Financial Stress Index (FSI)[35] remains at a low level. This reflects both healthy capital adequacy, liquidity and asset-quality metrics in the banking sector and exchange-rate stability, which partly offsets the upward impact of a higher risk premium in the index (see Figure III.1). Although risks originating from the global geopolitical environment persist, creating uncertainty around macroeconomic trends, the Georgian banking system remains resilient and is positioned to withstand potential stress.

Figure III.1. Financial stress index (deviation from the average)

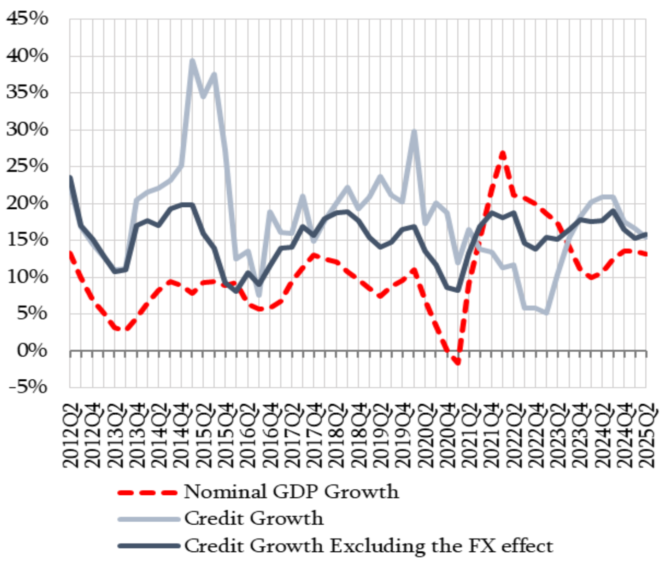


Source: NBG

[35] Considering that the banking system accounts for more than 90 percent of the Georgian financial sector, the index mainly combines the profitability, interest rate spread, capital and asset quality indicators of the banking sector. In addition, the index combines exchange rate and risk premium indicators. The index is constructed by standardizing the variables and then weighting them.

Credit activity is broadly in line with nominal economic growth. Since the second half of 2024, the growth rate of total loans (excluding FX effects) has converged toward the pace of nominal GDP growth (see Figure III.2). In June 2025, bank credit grew by 15.7 percent year on year, and, as economic growth normalizes, this is expected to move toward its long-term rate. Business lending provided the largest contribution to aggregate loan growth, accounting for 8.7 percentage points (see Figure III.3). Despite some moderation, consumer-loan growth remains elevated (see Figure III.4). Approximately 25 percent of domestic currency-denominated consumer loans carry variable rates, and around 80 per cent of these are secured, which materially reduces credit risk amid heightened uncertainty. The share of FX-denominated variable-rate consumer loans is up to 50 per cent, of which more than 95 percent are secured. In addition, effective as of 1 August 2025, the Financial Stability Committee's decision to raise the threshold for unhedged FX loans from GEL 500,000 to GEL 750,000 further supports a reduction in credit risk. Taking current credit dynamics and the normalization of economic growth into account, other things being equal, loan growth is expected to be around 15 percent by the end of 2025.

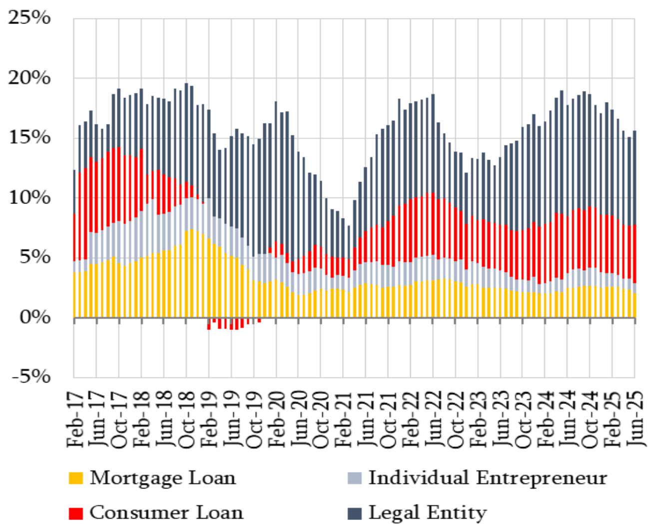
Figure III.2 Annual growth of nominal GDP[36] and credit[37]



Source: NBG

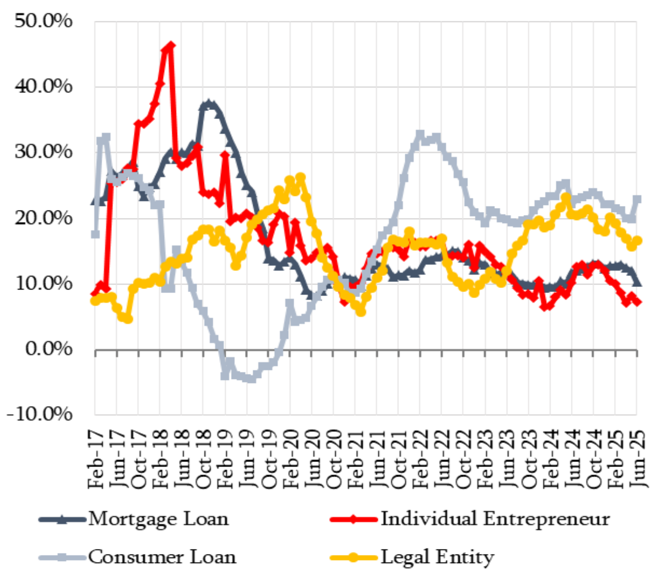
[36] Nominal GDP is calculated using the data of four consecutive quarters.
[37] Credit includes loans directly issued by commercial banks and microfinance institutions as well as bonds issued domestically by the non-financial sector.

Figure III.3. Decomposition of the annual growth rate of bank loans (excluding FX impact)



Source: NBG

Figure III.4. Annual growth rate of bank loans (excluding FX impact)



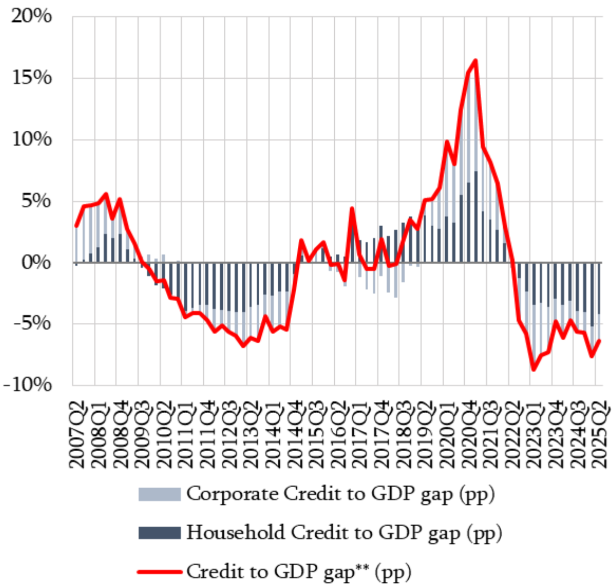
Source: NBG

The credit-to-GDP ratio remains below its trend,[38] and no adjustment to the cyclical component of the countercyclical capital buffer (CCyB) is warranted at this stage. The credit-to-GDP ratio remained below its trend through the second half of 2024 (see Figure III.5). In second quarter of 2025, robust economic growth, alongside the normalization of credit activity, caused a widening of the negative credit-to-GDP gap. On a year-on-year basis, the

[38] The credit-to-GDP trend is estimated using an HP filter in line with the Basel recommendations (λ=400 000).

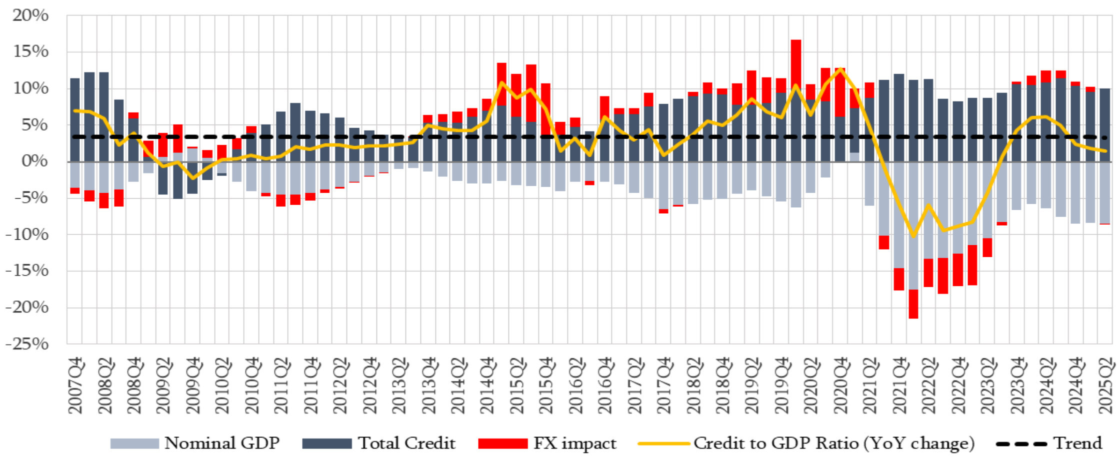
increase in the ratio was primarily driven by loan growth (see Figure III.6). Assuming that current credit dynamics persist and economic growth gradually normalizes, the negative gap is expected to close during 2025. Accordingly, no change to the cyclical CCyB component is indicated at this time.[39] Banks continue to accumulate the neutral component of the CCyB, which currently stands at 0.5 percent and is expected to reach 1 percent by 2027.

Figure III.5. Credit-to-GDP gap



Source: NBG

Figure III.6. Decomposition of the YoY change in the Credit-to-GDP ratio

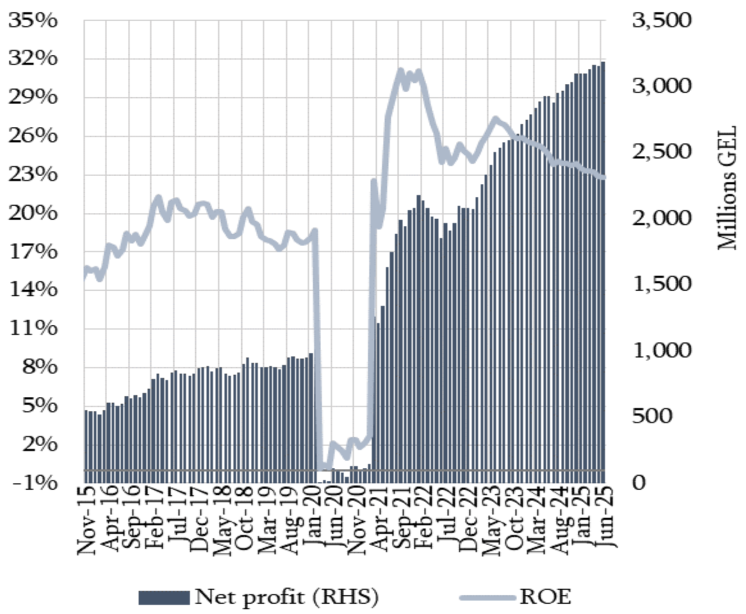


[39] It should be noted that decisions on activating the cyclical component of the countercyclical capital buffer (CCyB) are not based solely on the loans-to-GDP gap. A range of complementary indicators is also considered, including the pace of loan growth across sectors, developments in real estate prices, and other measures of the financial sector's cyclical position.

Source: NBG

The banking system's financial position remains resilient, and profitability indicators are stable. This performance has mainly been driven by low credit losses and rising net interest income (see Figure III.8). The increase in interest income reflects both wider interest spreads and the strong credit activity in the previous year. If the year-to-date profitability trend persists, return on equity (ROE) is expected to be around 23 percent in 2025 (see Figure III.7). Strong profitability is the primary source of capital accumulation for banks and provides a material buffer against potential shocks. However, it remains important that financial institutions avoid accumulating excessive risk in pursuit of short-term returns. The share of non-interest income in total operating income has been broadly stable in recent years.[40] However, in second quarter of 2025, this declined to 25 percent. This decrease was driven mainly by lower income from foreign-exchange dealings and revaluation gains (see Figure III.9).

Figure III.7. Profitability[41] in the banking sector

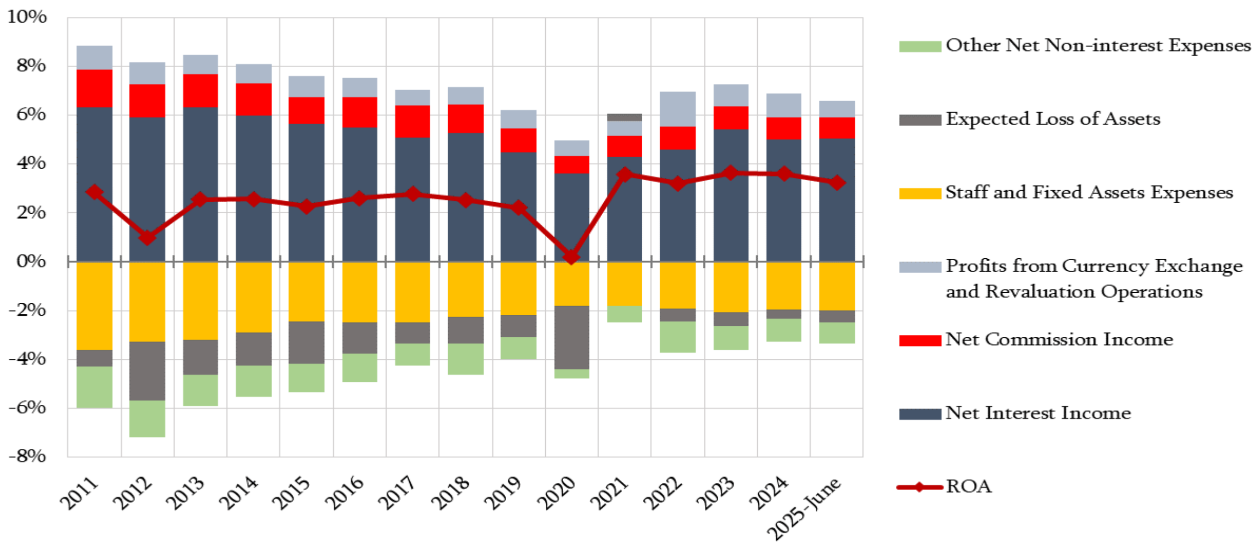


Source: NBG

[40] Net interest income + non-interest income.

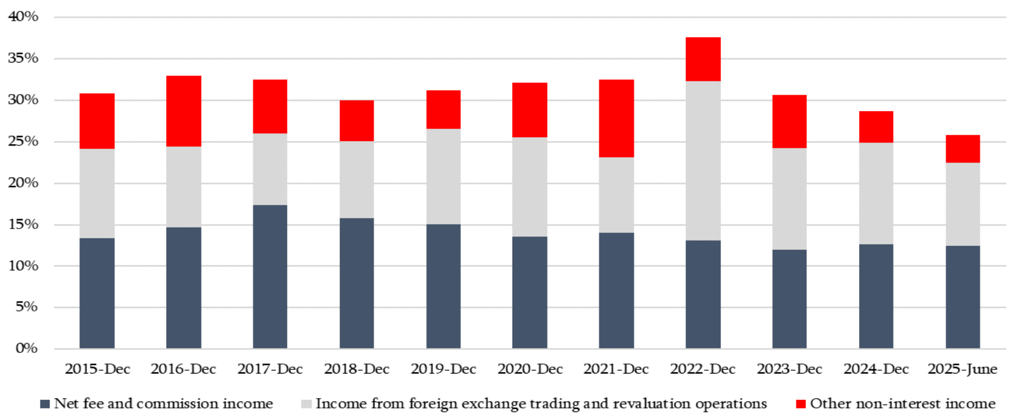
[41] This calculation is based on the data of the last 12 months.

Figure III.8. ROA decomposition for the banking sector



Source: NBG

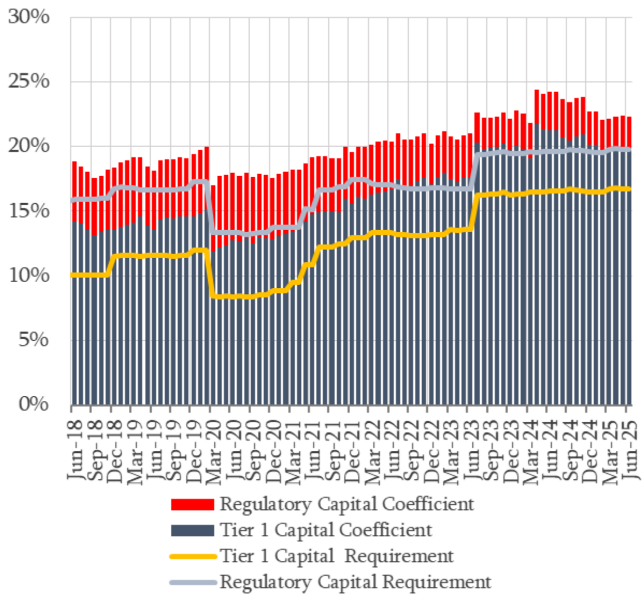
Figure III.9. The structure of non-interest income for the banking sector



Source: NBG

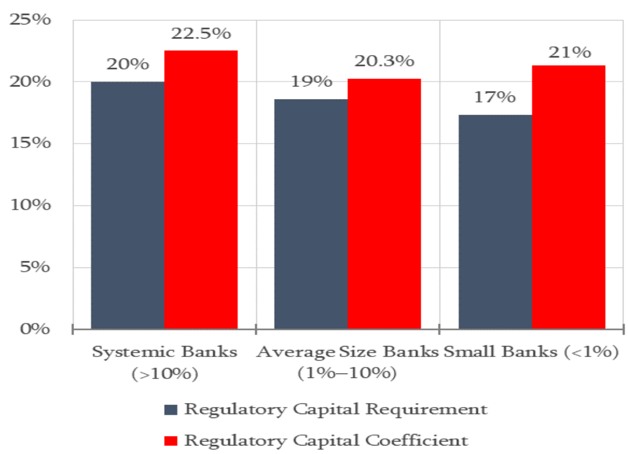
As a result of historically stable profitability and the early implementation of supervisory requirements, the banking system remains well capitalized. The capital ratios of the banking system remain at a solid level (see Figure III.10). The accumulation of capital is a result of both historically stable profitability and the established requirements for additional supervisory capital. In addition to minimal capital requirements, banks are required to hold combined buffers (conservation, countercyclical and systemic buffers) and the buffers under Pillar 2 (the unhedged currency-induced credit risk buffer, the credit portfolio concentration risk buffer, the net stress test buffer, the net GRAPE buffer, and the credit risk adjustment buffer (CRA)). Notably, five banks issued Additional Tier 1 (AT1) instruments during 2024. System-wide, the regulatory capital ratio rose sharply in April 2024, reflecting the issuance of sizeable AT1 instruments. As the loan portfolio expanded, the earlier rise in this ratio gradually stabilized. In the first half of 2025, the majority of commercial banks maintained solid capital buffers (see Figure III.11).

Figure III.10. Capital adequacy in the banking sector (Basel III)[42]



Source: NBG

Figure III.2. Distribution of capital adequacy in the banking sector



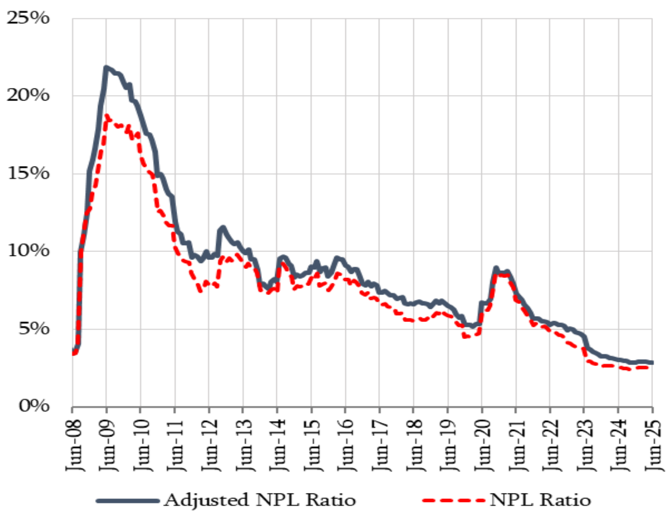
Source: NBG

The share of non-performing loans (NPLs) remains low. Recently, the NPL ratio has been at the lowest level since 2009. Accordingly, the pace of its decline has slowed, with the ratio currently standing at 2.5 percent (see Figure III.12). The year-on-year reduction in the share of NPLs is entirely attributable to the denominator effect of loan growth (see

[42] Capital adequacy ratios were calculated using the local approach until June 2023, and according to IFRS-9 thereafter.

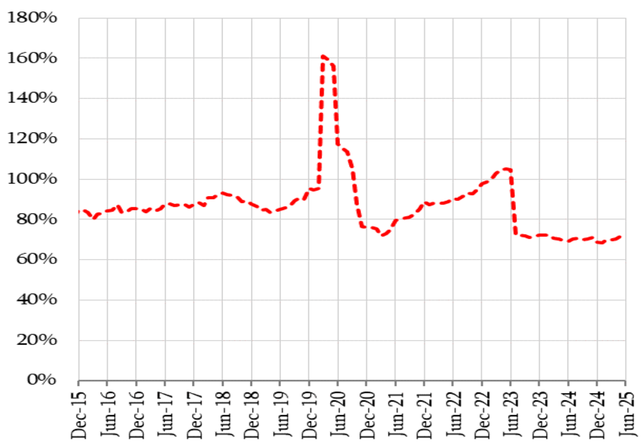
Figure III.14). The NPL ratio is a de facto measure of asset quality and is thus not forward-looking (for an analysis of the leading indicators of credit risk, see Box 4). Given the cyclical nature of this metric, the ratio is expected to edge up slightly as the economy normalizes. Nevertheless, the NPL coverage ratio remains adequate: in June 2025, expected credit loss (ECL) reserves amounted to 70 percent of NPLs (see Figure III.13).

Figure III.12. NPL ratio for bank loans[43]



Source: NBG

Figure III.13. NPL coverage[44] *in the banking sector*

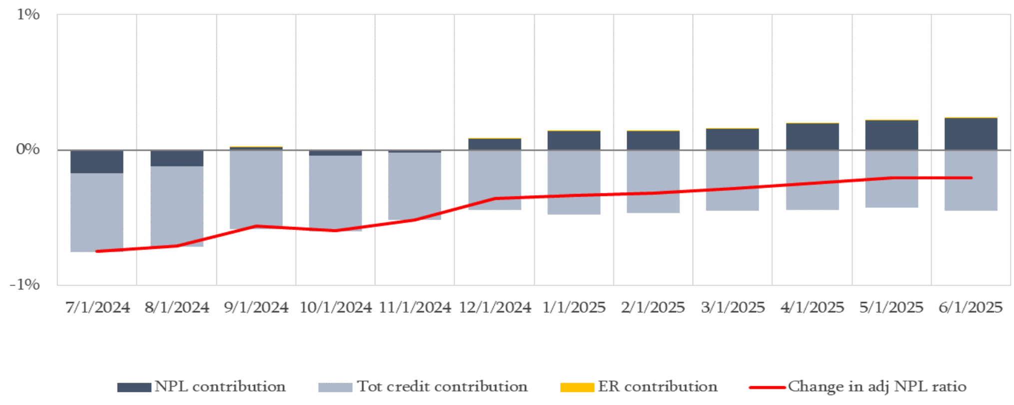


Source: NBG

[43] Until June 2023, the calculations were made according to the NBG's methodology, which includes non-standard, doubtful, and loss loan categories. However, from July 2023 onward, this indicator has been calculated according to IFRS 9.

[44] Until June 2023, the calculations were made according to the NBG's methodology, as the ratio of the loan loss reserves to non-performing loans. However, from July 2023, calculations have been made according to the IFRS 9 methodology, as the ratio of expected credit loss reserves to non-performing loans.

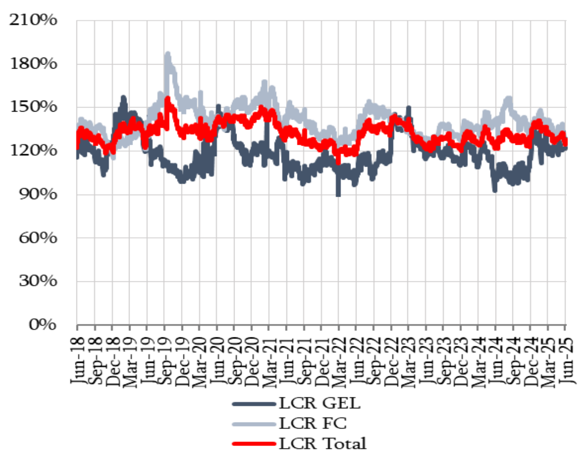
Figure III.14. Decomposition of the annual change in the adjusted NPL ratio[45]



Source: NBG

The banking sector maintains adequate liquidity, which ensures banks' resilience in times of short-term liquidity shocks. The LCR ratios for the banking system in both domestic and foreign currencies significantly exceed the minimal requirements (see Figure III.15). Over the past year, the NSFR has consistently remained near 130 percent, significantly surpassing the minimum requirement of 100 percent. Moreover, it is noteworthy that, compared to the previous year, the share of non-resident deposits has increased moderately, amounting to 18.5 percent as of June 2025 (see Figure III.16). To reduce liquidity risks, the National Bank of Georgia maintains higher liquidity requirements for deposits of non-resident natural and legal persons, as compared to residents' deposits.

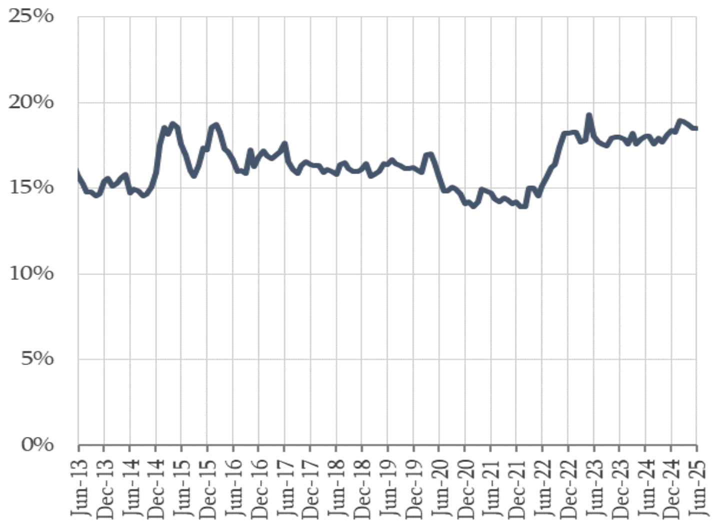
Figure III.15. Liquidity coverage ratio (LCR) for the banking sector[46]



Source: NBG

[45] The adjusted NPL ratio accounts for loan write-offs and recoveries during the last 12 months.
[46] The minimal requirement of the LCR in GEL amounts to 75 percent, while for FX and in total it amounts to 100 percent.

Figure III.16. Share of non-resident deposits in total deposits

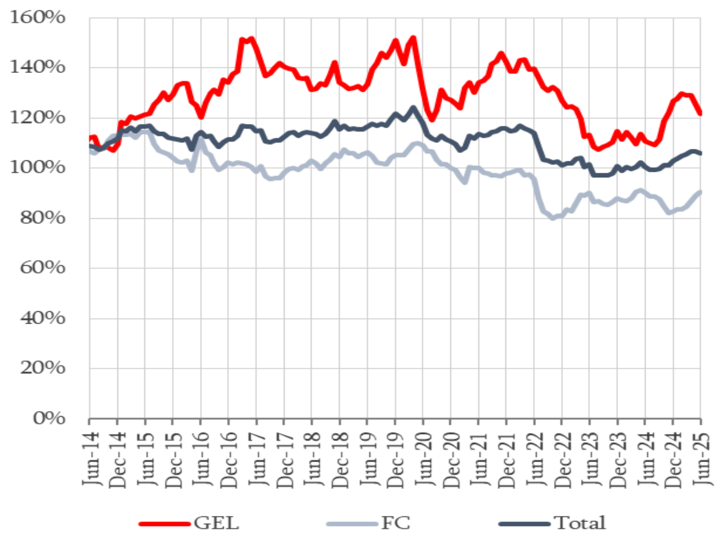


Source: NBG

In order to maintain sustainable growth in domestic currency lending, the banking system needs to attract more deposits in the domestic currency. The GEL loan-to-deposit ratio has increased materially, reaching 122 percent as of June 2025, reflecting loan growth outpacing deposit growth (see Figure III.17).[47] Although wholesale funding is generally less stable than deposits, the wholesale funding of Georgian banks is largely long-term and well diversified by both creditor type and residual maturity, and a significant share is provided by parent institutions or international financial institutions (IFIs), which mitigates liquidity risks. It is also noteworthy that, in order to further diversify funding sources, a greater increase in the share of covered bonds in wholesale funding is necessary. For foreign currency, the loans-to-deposits ratio is around 85 percent. Accordingly, these loans are financed by relatively resilient sources, and FX liquidity risks are limited. Given the central bank's greater flexibility to supply liquidity in GEL, the stability of FX funding remains important.

[47] It should be noted that equity capital is denominated in GEL. Therefore, the loan-to-deposit ratio will be naturally higher in the domestic currency as compared to foreign currency.

Figure III.17. Loan-to-deposit ratio

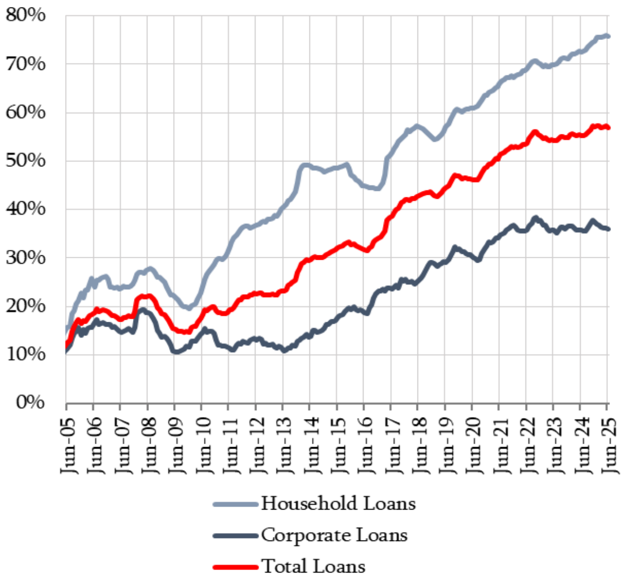


Source: NBG

Despite a significant decline in recent years, dollarization is still high and remains one of the main challenges facing the financial sector. In recent years, the share of loans issued in the local currency has been increasing, and amounted to 57 percent in June 2025 (see Figure III.18). Despite a significant decline in recent years, dollarization remains at a high level (see Figure III.19) and thereby increases credit risk more for foreign currency than for local currency loans. This is due both to the high proportion of variable-rate loans in foreign currency and to the fact that a large proportion of borrowers in foreign currency are still unhedged. Against this backdrop, the Financial Stability Committee raised the cap on unhedged foreign-currency loans from GEL 500,000 to GEL 750,000, effective as of 1 August 2025.[48] It should also be noted that, to partly mitigate exchange-rate–related credit risk, commercial banks are required to maintain an additional foreign-currency credit risk buffer. Deposit dollarization remains elevated at around 50 percent. To support the larization of liabilities, the National Bank applies more favorable liquidity and minimum reserve requirements to liabilities in GEL. Recently, the minimum reserve requirements (MRR) on GEL-denominated funds have been left unchanged. For foreign-currency liabilities, the MRR stood at 10–20 percent until December 2024 and was subsequently set at 10–25 percent, depending on each bank's deposit dollarization ratio.

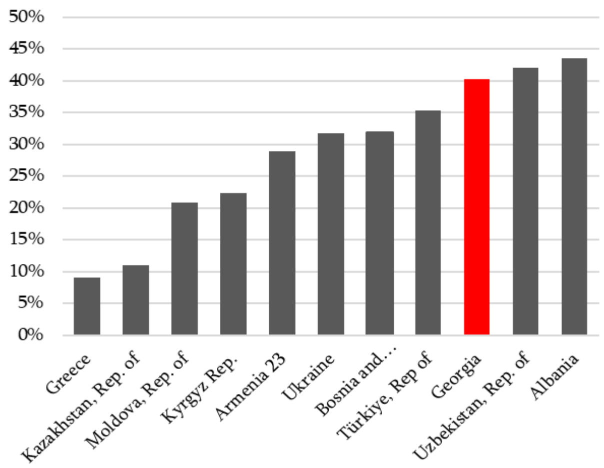
[48] See https://nbg.gov.ge/financial-stability/committee.

Figure III.18. Larization at a fixed exchange rate



Source: NBG

Figure III.19. Loan dollarization by country (2024)[49]



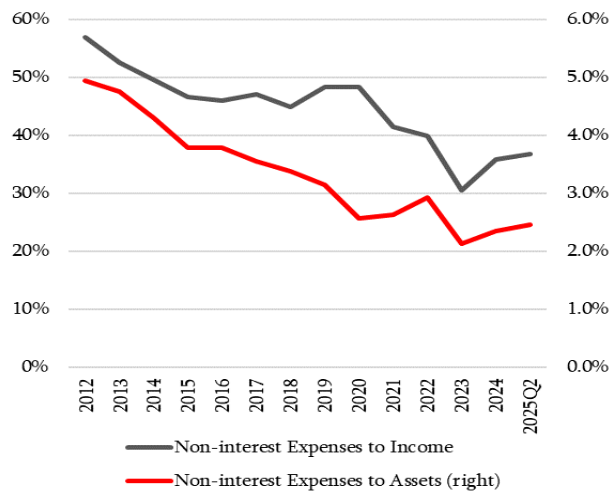
Source: IMF

Market concentration in the banking sector remains high, but the entry of new banks should foster greater competition among participants. Following their licensing in 2024, two additional digital banks were authorized to conduct banking activities in the live market. In addition, two micro bank licenses were issued at the end of 2024 and in early 2025, with combined assets of GEL 700 million. Licensing enables new banks to access funding at lower cost, both domestically and internationally, which should support stronger competition. It is also noteworthy that the fourth-largest bank in Georgia has publicly expressed interest in acquiring the third-largest bank; if this is completed, this would

[49] The data for Armenia are presented for 2023.

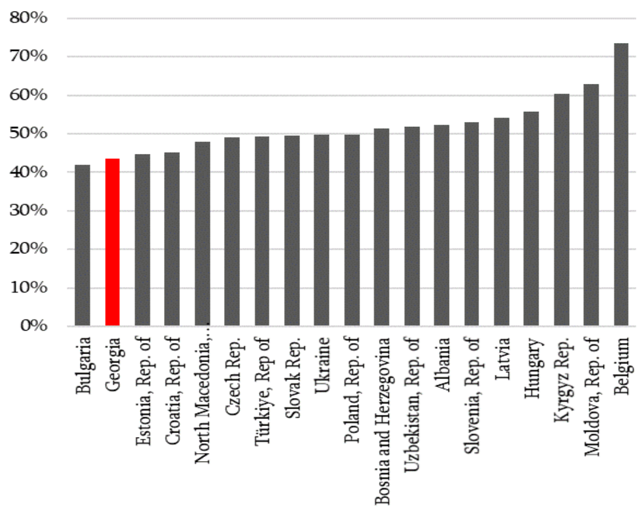
increase concentration, while potentially intensifying competition among systemic banks. Sector efficiency has improved, as evidenced by the long-term decline in the ratio of total non-interest expenses to assets, which is another indicator of the competitive environment (see Figure III.20). Moreover, this indicator for Georgia is lower than that for many peer countries (see Figure III.21).

Figure III.20. The ratio of non-interest expenses to income for commercial banks



Source: NBG

Figure III.21. The ratio of non-interest expenses to income for commercial banks by country (2024)[50]



Source: IMF

[50] In the indicator calculated by the IMF's methodology, "commission and other expenses received from services" are included in non-interest expenses, while in Figure III.21 these expenses are deducted from non-interest income.

Promoting the development of cost-efficient, customer-centric financial innovations will foster competition in the financial sector. To encourage sound ideas in responsible innovative technologies, the National Bank continues to engage actively with the fintech community through its Financial Innovation Office.[51] In 2024, the office assisted and advised roughly one hundred applicants and held substantive meetings with proponents of innovative projects. Throughout the year, it also maintained close contact with international financial institutions to stay abreast of emerging developments and supervisory approaches in financial innovation. To further these efforts, the National Bank has developed a regulatory sandbox framework (the "Regulatory Laboratory") that enables live-environment testing of innovative products and services.[52] Last year, three new entities advanced to the live-testing phase with diverse projects, including crypto-collateralized lending, a credit-information platform, and an online currency-exchange service. These initiatives are currently being monitored and evaluated, including an analysis of their practical outcomes and potential market impact. In 2024, particular attention was devoted to launching targeted sandbox initiatives in the areas of tokenized deposits and crowdfunding. The work included research, a review of international practice, and an analysis of the legislative and technological framework, all of which will help to build a well-regulated and innovative ecosystem. To promote the adoption of new financial technologies, enhance payment-system efficiency, and improve financial inclusion, work is also underway on the digital lari, a central bank digital currency project.

The banking sector has not experienced significant cybersecurity threats over the period. Over the past year, incidents were predominantly phishing and distributed denial-of-service (DDoS) attacks aimed, respectively, at stealing customers' confidential and sensitive information and at disrupting banks' services for limited periods. In 2024, the cyber-risk supervision team conducted cyclical assessments of commercial banks' compliance with the cybersecurity management framework, mostly through on-site inspections. Identified deficiencies resulted in binding remedial actions as well as recommendations. Beyond supervisory requirements, banks are also obliged to conduct audits of information systems and penetration testing, which helps address vulnerabilities and reduce cyber risks. The National Bank places strong emphasis on the execution and quality control of these sector-wide tests and audits. In 2024, Georgian commercial banks' total operational losses amounted to GEL 31.1 million, which was 6 percent higher than in 2023. As in 2023, operational losses were mainly recorded in retail banking and, to a lesser extent, in commercial banking.

[51] See https://www.nbg.gov.ge/index.php?m=742.

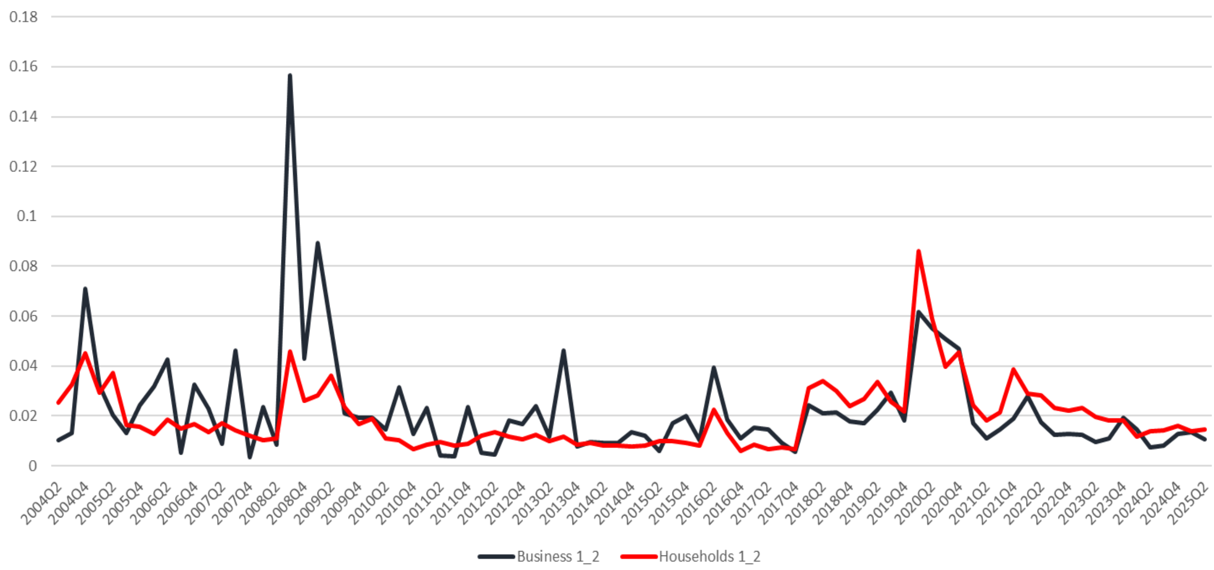
[52] See https://nbg.gov.ge/en/page/regulatory-laboratory.

The non-banking financial sector has solid capital and liquidity buffers. As of 2024, sector assets stood at around GEL 2.9 billion (which is about 3.0 percent of total financial-sector assets). Microfinance organizations (MFIs) account for the largest share of such assets. The number of registered MFIs fell from 34 to 31 during 2024. By the end of the year, one institution became registered as the first microbank on the Georgian market, while two institutions continued to operate as lending entities. Despite the decline in the number of MFIs, the branch network expanded. By June 2025, compared with the same period a year earlier, the loan-portfolio quality had improved, with the NPL ratio standing at 3.9 percent. Loan dollarization in the MFI portfolio remains very low, at around 1.0 percent. The sector remains highly capitalized and the capital adequacy ratio currently stands at 39 percent, providing a substantial buffer amid heightened uncertainty.

Box 4. Analysis of Transitions Between Loan Stages

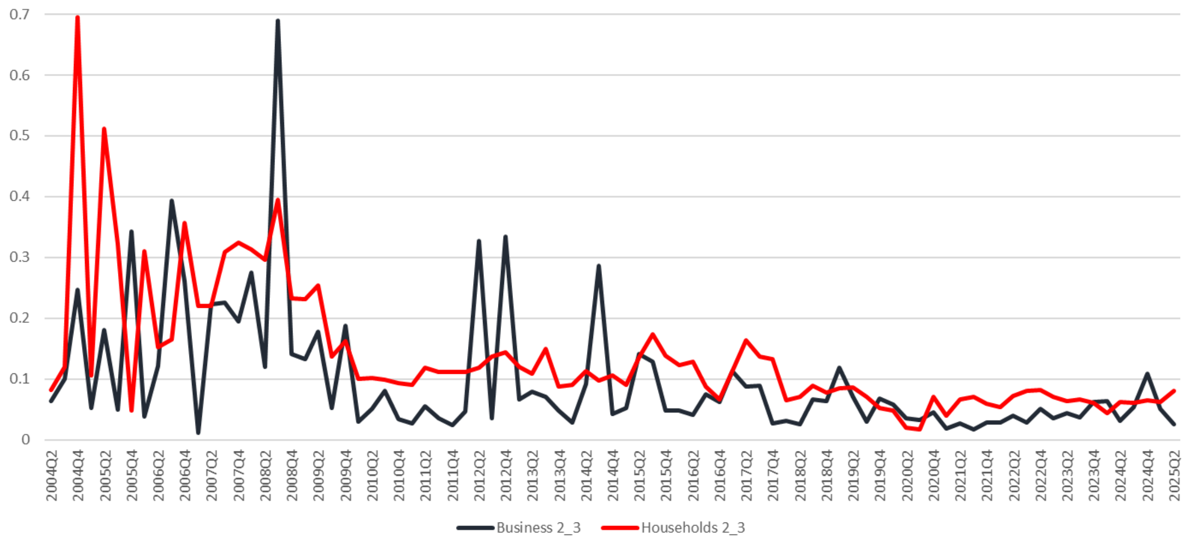
With the transition to IFRS 9, banks assess credit risk using forward-looking information. Under IFRS 9, loans are classified into three stages, and financial instruments are allocated to each of the stages according to how their probability of default has changed, as of the reporting date, relative to the risk at initial recognition. Stage 1 consists of loans for which credit risk has not increased significantly relative to initial recognition; Stage 2 includes loans for which credit risk has increased significantly relative to initial recognition; and Stage 3 consists of credit-impaired loans with past-due instalments. This Box analyses transitions (migrations) between these stages. Most banks adopted IFRS 9 from 2018. Accordingly, data for the three stages are available mainly from this period (and from 2017 for some banks). For earlier periods, available data follow the previous supervisory classification of standard, watch, substandard, doubtful, and loss loans. To ensure comparability between the IFRS-based stages and the previous categories, we mapped the sum of the last three categories (substandard, doubtful, and loss) to Stage 3, while standard and watch loans were mapped to Stages 1 and 2 respectively.

Figure B.4.1. Transition rate from Stage 1 to Stage 2



Source: NBG

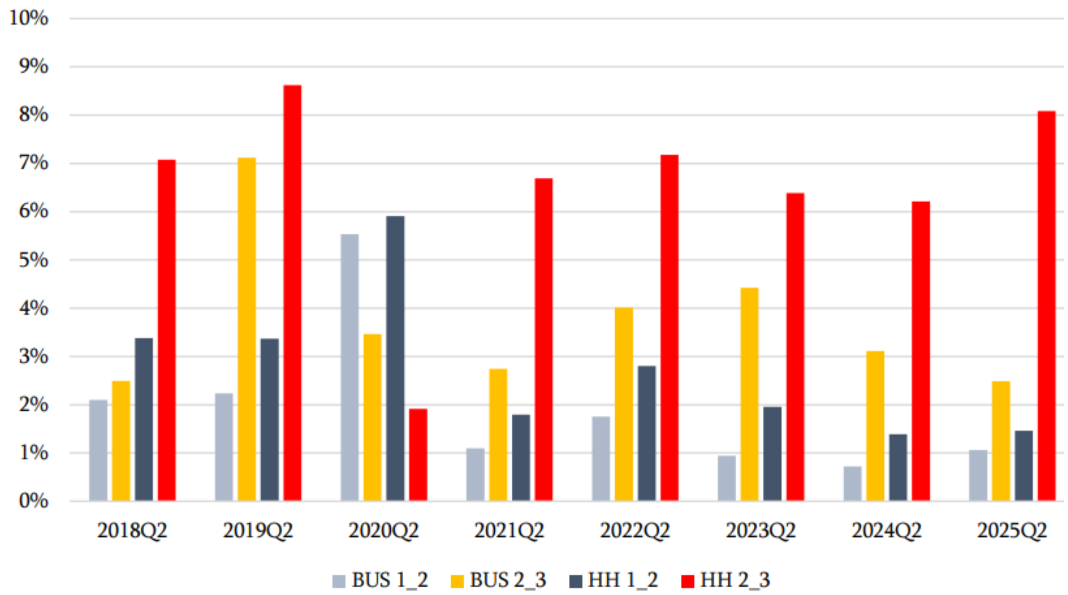
Figure B.4.2. Transition rate from Stage 2 to Stage 3



Source: NBG

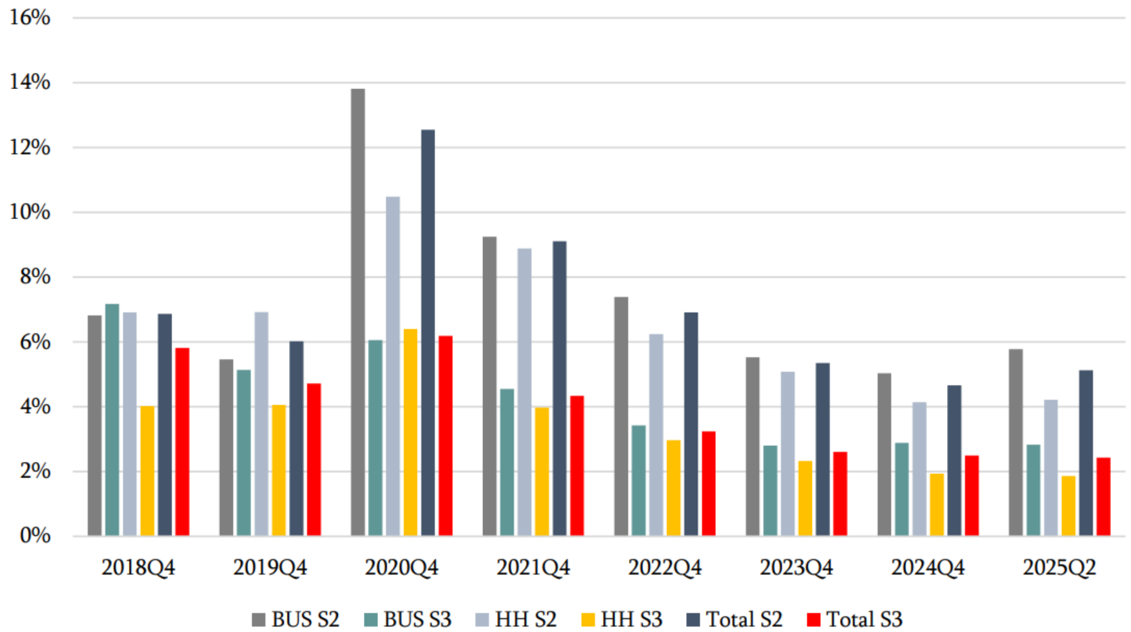
It is worth highlighting several periods in the data. At the onset of the COVID-19 pandemic, the Stage 1 to Stage 2 transition rate rose markedly for loans to households and firms alike, while Stage 2 to Stage 3 transitions did not increase over the same period (in contrast to late 2008, when both indicators rose significantly) (see Figures B.4.1 and B.4.2, respectively). This pattern likely reflects the policy measures adopted during COVID-19. Currently, Stage 1 to Stage 2 transition rates remain low, and the credit risk for these exposures has eased (see Figure B.4.1). However, in the second quarter of 2025, the Stage 2 to Stage 3 transition rate for household loans increased relative to recent periods, although the share of Stage 2 loans remains comparatively low (see Figures B.4.3 and B.4.4 respectively). By contrast, for business loans, the share of Stage 2 loans has risen relative to the past two years, thereby increasing credit risk. At the same time, the NPL ratio remains low (see Figure III.12). At first glance, this is a positive sign; however, examination of stage-migration indicators, when considered alongside the NPL ratio, provide a more complete view of credit risk.

Figure B.4.3. Transition rates



Source: NBG

Figure B.4.4. Share of loans in corresponding stages



Source: NBG

Box 5. Systemic Buffer

The main goal of identifying systemic banks and imposing a capital buffer on them is to reduce the probability of bankruptcy and thereby promote the country's financial stability and resilience. To do so, the National Bank of Georgia uses the existing approach of the European Banking Authority (EBA) to define systemically important banks, while taking into account the specificities of the country. In 2024, certain changes were made to the methodology for identifying systemic banks and setting their corresponding capital buffers. The purpose of this change was further alignment with the methodology of the European Banking Authority, which will both contribute to the country's financial stability and base the NBG's approaches on best international practices.

This change affected the weights of the criteria and indicators established for determining the systemic buffer of a commercial bank. In particular, the weight of the commercial bank size criterion was reduced from 55 to 50 percent; the weight of interconnectedness increased from 15 to 20 percent; the weight of substitutability decreased from 25 to 20 percent; and the weight of complexity increased from 5 to 10 percent. Furthermore, the weights of indicators within all criteria were equalized. Additionally, based on compliance with the EBA, as well as the requirements of the Georgian banking system, indicators under the criteria have also been changed. In particular, from the bank size criterion, the total income and total risk position indicators were replaced with total assets; the transaction volume was added to the substitutability criterion, the number of borrowers was replaced by the loan volume; and the indicator of derivatives placed on the unorganized market was added to the complexity criterion (see Table B.5.1). Additionally, the systemic significance threshold was reduced from 8 to 6.5 percent.

In addition, to promote competition in the market, for non-bank deposits exceeding a 40 percent share, with every additional 2 percentage point increase, the upper limit of the relevant commercial bank's systemic buffer will increase by 0.5 percent from the following month. Compliance with this buffer will be mandatory after 12 months, and the upper limit of the systemic buffer will be set at 5%.

As of September 2025, there are three systemic banks in the Georgian banking sector: Bank of Georgia, TBC, and Liberty Bank, and the buffers imposed on them are 3, 2.5, and 0.5 percent, respectively.

Table B.5.1. Criteria and indicator weights established for determining the systemic buffer of a commercial bank

Criterion	Indicator	Weight
Size (50%)	Total Assets	25%
	Client Deposits	25%
Interconnectedness (20%)	Interbank System Assets	6.7%
	Interbank System Liabilities	6.7%
	Wholesale Financing	6.7%
Substitutability (20%)	Number of Branches	5%
	Number of Deposits	5%
	Loan Volume	5%
	Transaction Volume	5%
Complexity (10%)	Investment in Equity	5%
	Over the Counter Derivatives	5%

Macro-financial Risk Scenarios

A quantitative assessment of financial sector resilience under various macro-financial risk scenarios is an important part of financial stability analysis. The macro-financial risk scenarios are based on the risks and vulnerabilities that have been discussed in the previous chapters of this report. In order to inform macroprudential policy about existing trade-offs and the impact of adverse external developments on the domestic economy and financial system, different risk scenarios are assessed over a three-year horizon.

Two risk scenarios are considered in order to capture the downside risks originating from adverse global and regional developments in the macro-financial environment. One scenario reflects reasonably likely and moderately adverse outcomes, while the other replicates unlikely, but still plausible, instances of severe stress. This approach permits an examination of how the domestic economy would perform under varying degrees of stress and reveals the possible nonlinear effects of external shocks. The risk scenarios are benchmarked against a baseline based on the NBG's macroeconomic forecast, as published in the July 2025 Monetary Policy Report.[53]

The moderate-risk scenario considers a tightening of global trade conditions and the prolongation of geopolitical tensions in the region. The shift to a more active phase of tariff policy could further hinder trade flows globally, leading to an increase in both the cost of commodities and intermediate materials, and consequently, production costs. Amid high uncertainty regarding the geopolitical situation, prices on international markets are highly volatile and inflationary risks persist. The world's leading central banks, such as the U.S. Fed and the ECB, are more cautious in response to emerging inflationary pressures and inflationary expectations, which results in them maintaining monetary policy rates at their current levels.

Amid high uncertainty, maintaining tight global financial conditions poses risks of capital outflows from emerging markets and developing economies, including Georgia's trading partners. Due to such a risk, it becomes necessary to postpone monetary policy easing in these countries to mitigate the depreciation of local currencies and the accompanying additional inflationary pressures. As a result, global financial conditions would remain tightened for longer. Against the backdrop of already prolonged unfavorable economic conditions and increased interest costs in these countries, these developments will put

[53] See https://nbg.gov.ge/fm/პუბლიკაციები/ანგარიშები/მონეტარული_პოლიტიკის_ანგარიში/2025/2025q3-eng-n.pdf

additional pressure on households and companies, hinder economic growth, and negatively affect market sentiment.

According to the moderate-risk scenario, as a result of the aforementioned risks in partner countries, and in parallel with the decline in trade revenues in Georgia, capital outflow risks emerge against the backdrop of high uncertainty regarding the normalization of trade terms. Given the global challenges and Georgia's high dependence on the external sector, Georgia's sovereign risk premium increases and will only begin to decline from the end of 2026. Moreover, as the deteriorating external balance and tightening global financial conditions persist, increased risks of capital outflows are reflected in a further increase in the country's risk premium and exchange rate depreciation. Consequently, due to the still-high dollarization of loans, the debt burden for foreign currency borrowers increases and solvency declines.

Under this scenario, a decrease in both external and domestic demand may lead to a decline in the activity of some businesses. Less diversified companies are particularly vulnerable. As a result, unemployment in the country increases and, facing reduced incomes, households also face difficulties in servicing their debt. Rising credit risk worsens access to loans and hinders economic activity. Against the backdrop of this deteriorating macroeconomic environment, the Georgian economy will grow below its potential in 2026 before starting to normalize in 2027.

Under the moderate-risk scenario, the disinflationary effect of weak demand will be offset by inflationary pressures arising from a depreciated local currency and shortages in various goods resulting from trade restrictions. As a result, inflation in Georgia will be above the target by the end of 2025. With the U.S. maintaining high interest rates, along with the uncertainty surrounding the duration of trade restrictions, pressure on inflation expectations will be high. Amid rising inflation expectations, the National Bank would have to tighten monetary policy by the end of 2025, continue this tightening the following year, and keep the policy tight over the medium term.

According to the moderate-risk scenario, real estate prices will increase in the short term, amid rising intermediate costs. However, given the volatile environment in the country, high unemployment levels, and the prolongation of tight credit conditions, real estate activity will decline in the medium term. In addition, the attractiveness of Georgian real estate as an investment asset will decrease, which will increase the supply-demand imbalance in the real estate market and, in the medium term, lead to a slowdown in price growth. In the coming years, the increase in real estate prices will be primarily driven by improving expectations and a recovery in aggregate demand. In the moderate-risk scenario, the total decline in GDP growth over the three-year period, as compared to the baseline scenario, is equal to approximately 7.0 percentage points.

According to the severe-risk scenario, the ongoing geoeconomic fragmentation is more widespread than under the moderate scenario and is exacerbated by the escalation of regional conflicts around the world. In this hypothetical scenario, the escalation of conflicts around the world and tightening trade conditions lead to fundamental changes in global markets. The escalation of existing conflicts will put immediate pressure on the prices of commodities, including oil products, while uncertainty related to the duration of the conflicts will further increase inflationary expectations.

Tighter tariff policies and increased uncertainty would lead to a review of existing trade agreements and would see countries resort to protectionist policies. This could affect existing and new trade relationships among firms, impairing their production potential. In addition, if the uncertainty surrounding tariff policy is not resolved and demand for goods does not increase in a timely manner, the risk of inventory obsolescence will emerge. This will lead to increased storage costs for firms and, in some cases, losses, especially for producers of short-lived commodities. As a result, the risk of global stagflation will arise, which will put central banks in front of a dilemma: to either tighten monetary policy to curb inflationary expectations, which would further limit reduced demand, or to ease policy (or leave the rate unchanged) in order to stimulate the economy and insure against recession risks.

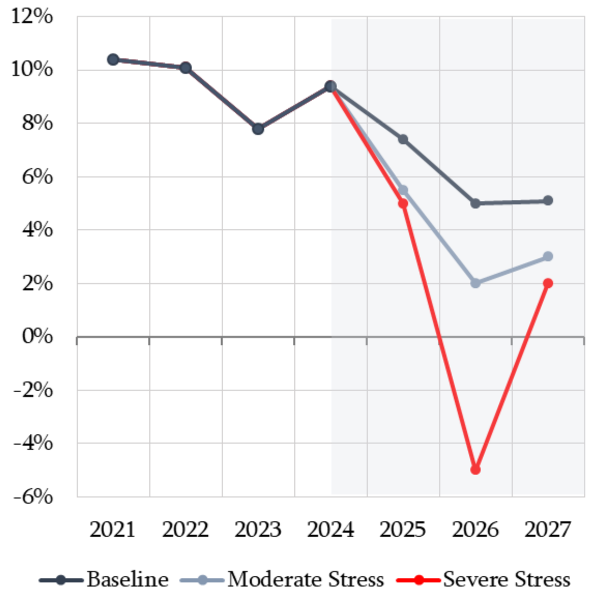
According to the severe-risk scenario, the world's leading central banks respond to globally rising inflationary pressures by tightening their monetary policies. A prolonged period of tight global financial conditions will result in the so-called neutral monetary policy rate rising to a relatively high level. Worsened expectations and high uncertainty lead to a repricing of risks in global financial markets, leading to a further tightening of financial conditions and a sharp decline in the value of investment assets. Amid ongoing structural changes and increased uncertainty in international markets, investors become more cautious, leading to capital outflows from emerging markets and developing economies. Overall, such fundamental shifts will lead to significant changes in the potential for global economic growth, which will be reflected in a delay in the recovery of global activity over the medium term.

Under the severe-risk scenario, amid deteriorating economic activity among Georgia's trading partners, geo-economic fragmentation, and the obstacles to trade flows, a decline in external demand and a reduction in Georgia's exports are expected, which would increase the country's current account deficit. Moreover, amid the escalation of existing conflicts, the risk premia in the region would increase, which, in the short term, would be reflected in the outflow of capital and, subsequently, in the delay of inflows of new investments. Under these circumstances and a global tightening of financial conditions, the Georgian national currency depreciates and will only begin to strengthen in the second half of 2027. In this scenario, weak external demand in Georgia is accompanied by a significant decline in domestic demand, driven by sharply deteriorating expectations of households and companies. Given the high dollarization of loans, the sharp tightening of financial conditions and the depreciation of the national currency lead to a significant increase in the debt burden, which will also pull down domestic demand. Given the sharply deteriorating financial state of borrowers and the increased debt burden, the financial system will tighten credit conditions to insure itself against expected losses, which will further worsen the economic environment. Against the backdrop of high uncertainty, deteriorating financial conditions, and increased operating costs, some businesses facing solvency problems would reduce the scale of their production, while others cease operations. All this significantly increases the unemployment rate in the country and further reduces domestic demand. In parallel with the outflow of capital, and against the backdrop of a sharp increase in the unemployment rate, the country's production potential significantly deteriorates, which, in the medium term, worsens the likelihood of a rapid recovery of the business sector and the economy as a whole.

In the severe-risk scenario, production in the domestic market decreases, which creates a shortage of certain types of goods and, consequently, leads to an increase in prices. In addition, due to the significant depreciation of the exchange rate, the contributions of both the imported component of inflation and intermediate costs also increase. As a result, inflation will be higher than in the moderate-risk scenario and its decrease is only expected from 2027. In the wake of increased inflationary pressures due to fundamental changes, the neutral level of monetary policy also increases. Accordingly, to contain inflationary expectations, there would be a need for a more restrictive monetary policy than under the moderate-risk scenario, and the return to the neutral level would take place at a relatively slow pace.

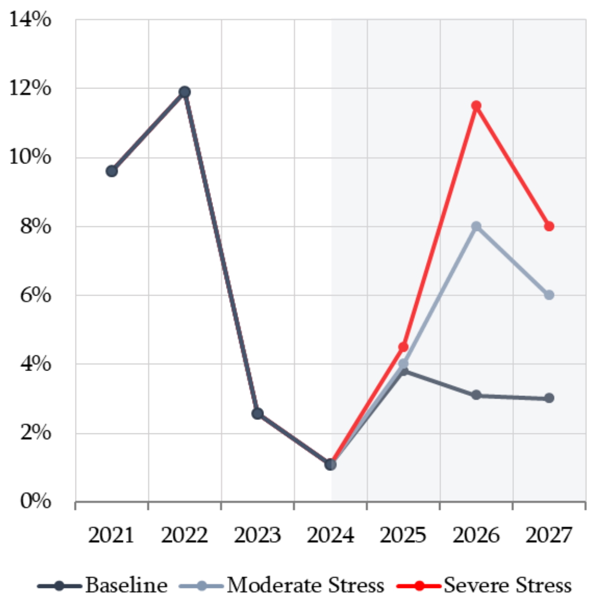
Given the deteriorating economic potential resulting from fundamental factors, risks of a prolonged economic recovery also emerge in the medium term, in addition to recessionary risks stemming from the deteriorating macro-financial environment. This significantly reduces activity in the real estate market. The depreciation of the GEL and increased costs for labor and construction materials initially push up real estate prices. However, as a result of increased risk and deteriorating macroeconomic conditions in the country, Georgian real estate loses its attractiveness for investors. As a result of excess supply and low demand for real estate, there is downward pressure on real estate prices, which will negatively affect the balance sheets of financial institutions and further hinder the recovery of the economy. In the severe-risk scenario, the total decline in GDP growth over the three-year period, compared to the baseline scenario, is equal to approximately 15.5 percentage points.

Figure III.22. Risk scenarios: average annual real GDP growth (YoY)



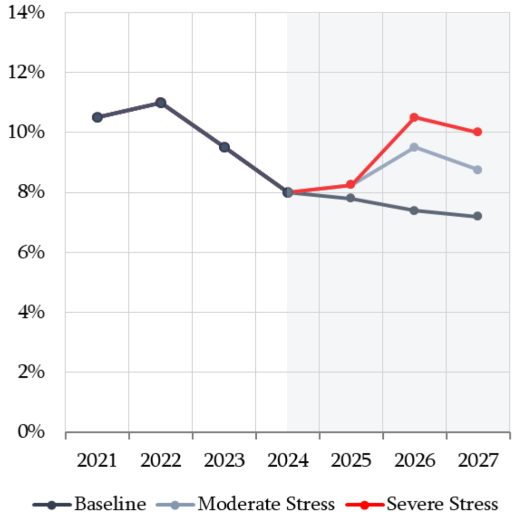
Source: NBG staff estimates

Figure III.23. Risk scenarios: average annual CPI inflation (YoY)



Source: NBG staff estimates

Figure III.24. Risk scenarios: annual monetary policy rate (end-of-period)



Source: NBG staff estimates

Table III.1. Macro-financial risk scenarios

Scenario / Variable	Current value*	Baseline scenario			Moderate-risk scenario			Severe-risk scenario		
		2025	2026	2027	2025	2026	2027	2025	2026	2027
Fed Funds Rate	4.5%	-0.5 pp	-0.5 pp	-0.5 pp	+0.0 pp	+0.75 pp	-0.5 pp	+0.25 pp	+1.25 pp	-0.5 pp
ECB Policy Rate	2.25%	-0.25 pp	-0.25 pp	+0.0 pp	+0.0 pp	+1.0 pp	-0.25 pp	+0.25 pp	+1.5 pp	+0.0 pp
Country Risk Premium	2.5% (2024)	+0.75 pp	-0.25 pp	+0.0 pp	+1.0 pp	+1.0 pp	-0.75 pp	+1.5 pp	+1.5 pp	-1.0 pp
GEL/USD Nominal Exchange Rate**	2.71	Appr. 0%	Appr. 0%	Appr. 0%	Depr. 10%	Depr. 10%	Appr. 5%	Depr. 15%	Depr. 25%	Appr. 5%
Nominal Effective Exchange Rate Index (1995=100)**	403.9	Appr. 0%	Appr. 0%	Appr. 0%	Depr. 6%	Depr. 6%	Appr. 3%	Depr. 9%	Depr. 15%	Appr. 3%
Change in Real Estate Prices (in GEL, YoY)	11.6% (2024)	7.5%	5.5%	5.5%	6.5%	5.5%	6.0%	6.5%	4.0%	5.0%
Real GDP Growth (YoY)	9.4% (2024)	7.4%	5.0%	5.1%	5.5%	2.0%	3.0%	5.0%	-5.0%	2.0%
Unemployment Rate	13.9% (2024)	+0.6 pp	+0.0 pp	-0.25 pp	+1.1 pp	+1.5 pp	+1.0 pp	+1.1 pp	+4.0 pp	+1.5 pp
CPI Inflation (YoY)	1.1% (2024)	3.8%	3.1%	3.0%	4.0%	8.0%	6.0%	4.5%	11.5%	8.0%
Monetary Policy Rate***	8.0%	-0.2 pp	-0.4 pp	-0.3 pp	+0.0 pp	+1.25 pp	-0.5 pp	+0.25 pp	+2.25 pp	-0.5 pp

* The values under each scenario display the average change in the corresponding macro-financial indicators compared to the previous period. The numbers for 2025 show changes relative to the current values (corresponding to 31 July 2025, unless otherwise stated).

** In the scenarios, the change of exchange rates in the current year refers to the remaining period until the end of the year. The exchange rate change in the following year reflects the change compared to the December average rate of the current year.

*** The current value of the monetary policy rate reflects the Monetary Policy Committee's decision made on 30 July 2025. In the scenarios, the change in the monetary policy rate corresponds to the change in the value of the rate of the given year. The current year assumption in the scenarios refers to the remaining period until the end of the year.

Financial Sector Resilience

The results of the new stress-testing methodology indicate that the banking sector would remain stable even under the realization of the most severe scenario. Although expected credit losses increase sharply and net interest income declines in the severe-risk scenario, existing buffers enable the system to absorb shocks and maintain capital at adequate levels. It should, of course, be recognized that these stress-test outcomes are based on hypothetical risk scenarios and are therefore conditional.

With support of the IMF technical mission, the National Bank of Georgia has updated its top-down stress-testing model. During 2024–2025, a new approach to credit-risk modelling for IFRS 9 expected credit losses (ECL) was introduced. The methodology models transitions across loan stages following the method of Belkin et al. (1998), as presented in an IMF Working Paper.[54] To briefly summarize this methodology, the first step includes an estimation of transition matrices between loan stages and parameterizing each matrix with a single summary factor. The second step builds a satellite model that links macro-financial variables to the estimated transition parameters. The final step generates transition matrices under macro-financial risk scenarios using the satellite model. Separate models are developed for household and corporate loans, in both domestic and foreign currency.

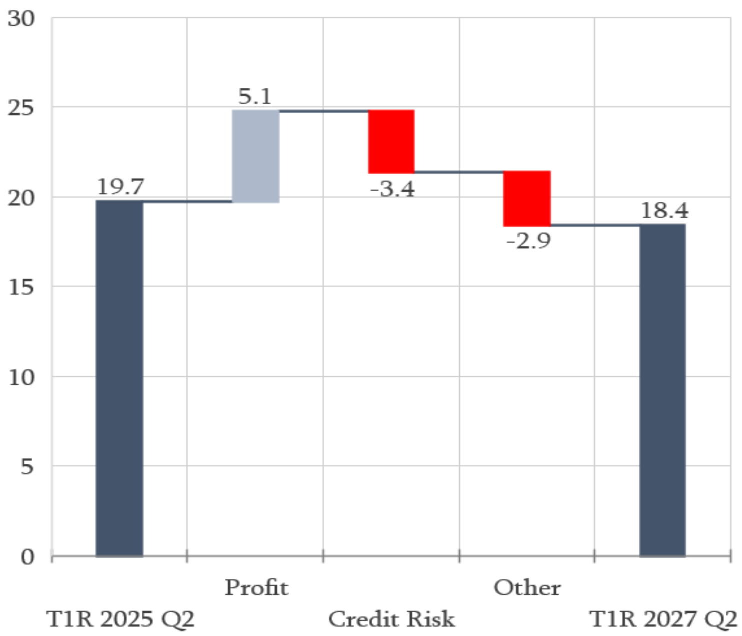
The banking sector maintains a capital ratio well above the regulatory threshold in the baseline scenario. According to the baseline scenario, exchange-rate stability and the gradual normalization of unemployment and real economic growth in a declining interest-rate environment improve the debt-servicing capacity of households and firms. Consequently, credit risk declines. In addition, banks maintain solid profitability and the banking sector's Tier 1 capital ratio remains around 23 percent over the three-year horizon, which is well above the regulatory minimum. Under the baseline scenario, each bank individually maintains an adequate level of the Tier 1 capital ratio.

The severe-risk scenario would impose significant losses on the banking sector, but the sector's overall Tier 1 capital ratio would remain above the regulatory threshold. Based on this scenario, in 2026, economic activity declines significantly, the risk premium increases, the exchange rate fluctuates considerably, and interest rates increase. Banks thus face sizeable credit losses and their net profits decline. The revenue generated over the first two years increases the capital coefficient by 5.1 percentage points, which is not enough to compensate for the -6.3 percentage points drop in the capital ratio caused by the credit

[54] See https://www.imf.org/-/media/Files/Publications/ WP/2020/English/wpiea2020111-print-pdf.ashx.

losses and other factors (see Figure III.25).[55] Therefore, under this scenario, the capital ratio significantly deteriorates. However, it should be noted that, even under the severe-risk scenario, the existing capital buffers would ensure a mitigation of potential losses. According to the scenario, at the end of 2026, some banks would need additional capital to maintain the minimum Tier 1 capital adequacy ratio. However, according to current estimates, the ownership structure of the banks would enable them to attract additional capital. Therefore, the capital losses identified under this scenario are not significant enough to constitute a risk to the sector's stability or resilience. It should also be noted that, starting from 2026, the capital adequacy of banks would start to gradually recover as a result of improved asset quality and stable operating profits (see Figure III.26).

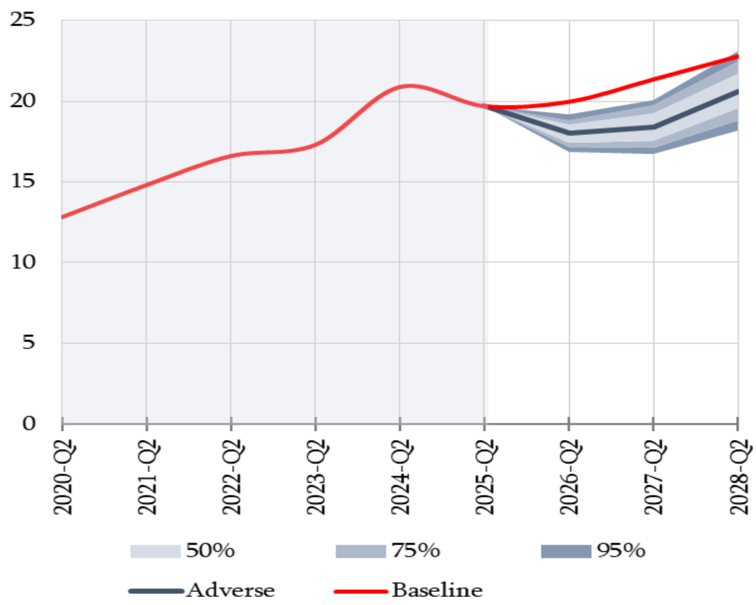
Figure III.25. Decomposition of the change in the Tier 1 capital ratio of the banking sector in the severe-risk scenario (%)



Source: NBG

[55] "Other" factors include the sum of the revaluation effects of assets and additional capital due to exchange rate volatility. Also, it should be noted that the total capital requirement for medium banks is in the 14.1 - 29.4 percent range, and for large banks is in the 14.4 - 20.4 percent range.

Figure III.26. The Tier 1 ratio under the baseline and severe-risk scenarios (%)



Source: NBG

According to the results of "reverse stress testing", the banking sector is able to mitigate an additional GEL 7.9 billion of credit losses. The goal of reverse stress testing is to assess the level of economic shocks and the increased losses under which capital buffers, on top of minimum capital requirements (the sum of minimal and combined requirements[56]), fully deplete. Considering the current level of capital adequacy, a 9.2 percent decline of capital buffers was analyzed, which would equal to credit losses of around GEL 7.9 billion. These losses could be incurred through different scenarios. However, in aggregate, real economic growth would need to decline by 7 percent in 2025 and by 15 percent in 2026; additionally, there would need to be a significant depreciation of the exchange rate. It should be noted that reverse stress testing, similarly to "top-down" stress tests, does not assume any active response from banks to the shocks nor any change to their business models that might help them mitigate losses.

It should be noted that the National Bank of Georgia compares the results of both "top-down" and supervisory "bottom-up" stress tests and, based on the results of the latter, sets additional stress test buffers for individual banks. Unlike "top-down" stress tests, which are conducted by the NBG, "bottom-up" stress tests are carried out by commercial banks following the scenarios and detailed methodology provided by the NBG. The results of these convey important information for analyzing financial sector vulnerability and are actively used in

[56] The combined buffer requirement includes the capital conservation, countercyclical and systemic risk buffers.

the supervisory process, including in the formation of Pillar 2 buffers. In addition to macroeconomic parameters, these scenarios include the distribution of shocks according to different sectors of the economy, allowing banks to assess the creditworthiness of specific borrowers and to generalize the obtained results for groups of borrowers with similar characteristics. While this approach is distinguished by its simplicity, it is the best option when there are no long historical data series available and statistical modeling thus remains highly risky. The results presented in Box 6 and the top-down stress-testing outcomes discussed in this subsection are broadly comparable when mapped to similar scenarios. However, because the top-down exercise assumes a three-year hypothetical horizon, whereas the bottom-up approach covers a shorter period, and because the starting balance-sheet and other financial inputs differ, the two sets of results need not coincide. Moreover, in the top-down stress test, the change in the CRA buffer is reflected within expected credit losses.

Box 6. Results of Supervisory 'Bottom-Up' Stress Tests[57]

Supervisory "bottom-up" stress tests are an important part of financial stability analysis frameworks. Based on the results of these stress tests, a net stress-test buffer is determined, which sets the amount of additional capital required to ensure that, even if the scenarios and risk factors identified in the supervisory stress tests materialize, a bank would remain protected from supervisory default regardless of potential losses. Moreover, these tests support the resilience of the banking sector, enabling the uninterrupted provision of financial services.

The stress-test buffer is determined for each commercial bank individually, based on the results of its supervisory stress tests. Use of such standardized stress scenarios makes macroprudential policy forward-looking, reduces dependence on historical data, and improves comparability across banks. In 2025, based on the NBG's methodology, commercial banks presented the results of a stress test that showed that the banking sector has sufficient buffers to withstand economic shocks and maintain credit activity during the downturn phase of the business cycle. The results demonstrated that the resilience of the system would not be compromised under stress.

According to the stress test scenario, global economic activity slows due to shock and there is a recession in the region. At the same time, the local currency depreciates, and interest rates increase due to the rising risk premium. The main assumptions of the stress test include the following: a 40 percent depreciation of the local currency against major trade partners' currencies; a decrease in real estate prices amounting to 30 percent for USD-denominated properties and 2 percent for GEL-denominated properties; an increase in interest rates at 3 percentage points for domestic currency assets and 5 percentage points for liabilities; an increase in interest rates for foreign currency assets and liabilities at 2 and 4 percent respectively; reduction of non-interest income and expenses by 5 percent; reduction in employment and income by 5 percent each; and a decrease in sectoral turnover according to 3 scenarios (baseline, moderate and severe), considering the cyclicality of the sectors. The final result is based on the weighting of all three scenarios, where the baseline scenario is weighted at 50 percent, and the moderate and severe scenarios are weighted at 25-25 percent (see Table B.6.1.).

Preliminary results indicate that, as a result of credit portfolio stress, the expected credit losses for the system reach GEL 4.5 billion, while the share of expected credit losses in the total portfolio increases from 0.5 to 6.1 percent (see Figure B.6.1.).

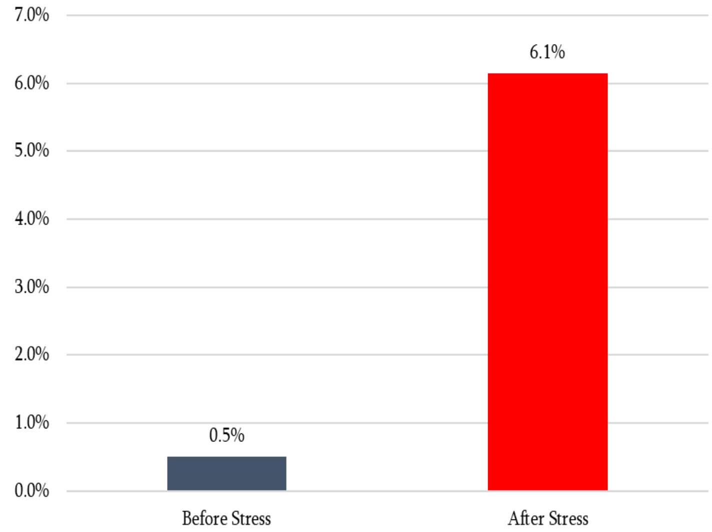
[57] These are not the final results of the 2025 stress test and may thus be subject to adjustment.

Table B.6.1. Sectoral turnover dynamics based on stress scenarios

Risk Sector	Decline in Turnover		
	Baseline stress scenario	Moderate stress scenario	Severe stress scenario
State organizations	5.0%	2.5%	10.0%
Financial institutions	10.0%	5.0%	20.0%
Pawnshop loans (gold price reduction stress)	20.0%	15.0%	25.0%
Real estate development	40.0%	20.0%	60.0%
Real estate management	30.0%	20.0%	40.0%
Construction companies (non-developers)	25.0%	15.0%	35.0%
Extraction and trade of building materials	25.0%	15.0%	35.0%
Trade in consumer goods	5.0%	2.5%	10.0%
Manufacture of consumer goods	5.0%	2.5%	10.0%
Manufacture and trade of long-term consumption products	35.0%	25.0%	45.0%
Manufacture and trade of footwear, clothing and textiles	5.0%	2.5%	10.0%
Trade (other means)	5.0%	2.5%	10.0%
Production/Manufacturing (other means)	10.0%	5.0%	20.0%
Hotels and tourism	30.0%	20.0%	40.0%
Restaurants, bars, cafes and fast-food venues	15.0%	7.5%	30.0%
Heavy industry	5.0%	2.5%	10.0%
Loans for gas stations and gasoline imports	5.0%	2.5%	10.0%
Energy	5.0%	2.5%	10.0%
Car dealers	35.0%	25.0%	45.0%
Healthcare	5.0%	2.5%	10.0%
Pharmaceuticals	5.0%	2.5%	10.0%
Telecommunications	5.0%	2.5%	10.0%
Service	5.0%	2.5%	10.0%
Agricultural sector	5.0%	2.5%	10.0%
Other (scrap business and others)	5.0%	2.5%	10.0%
Accounts receivable of real estate development companies	30.0%	20.0%	40.0%

Source: NBG

Figure B.6.1. Share of expected credit loss in the portfolio



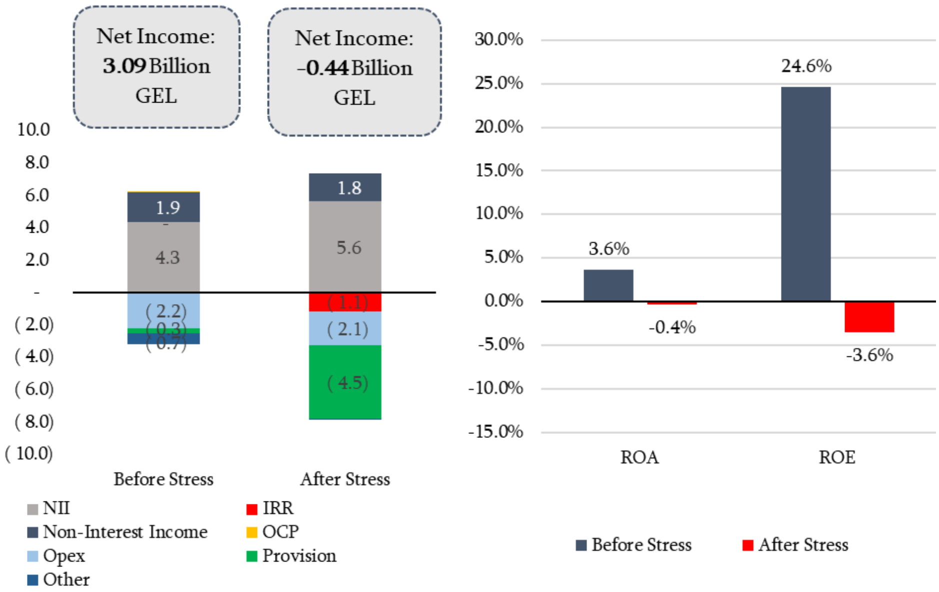
Source: NBG

In addition, profit/loss is affected by various scenario-driven effects:

- The currency depreciation effect: based on the assumed exchange rate depreciation, banks' foreign currency positions are revalued. As of the stress test date, the banking system operated with a small short position. Consequently, a 40 percent depreciation of the exchange rate resulted in a loss of GEL 34 million.
- The interest rate margin effect: a 2 percentage points deterioration in the interest rate margin was assumed. Profit/loss was calculated based on the revaluation of the interest rate gap over a one-year horizon due to rising interest rates. Increased interest income and expenses are calculated for both floating- and fixed-rate assets and liabilities, taking into account the hedging effect on the portion of the interest rate gap affected by the stress. As a result, the banking sector incurs a total loss of GEL 1.1 billion in this component.
- The non-interest income and expense effect: non-interest income and expenses are assumed to decline by 5 percent according to the scenario. Additionally, the stress from a decline in real estate prices impacts the value of immovable property and repossessed assets held by banks.

After summing up all losses, banking profitability decreases significantly in the post-stress scenario. The system's losses the year after the stress reach GEL 0.47 billion, while before stress, the system operated with a GEL 3 billion net profit. After stress, the net interest margin also decreases from 5.1 to 4 percent.

*Figure B.6.2. Profit decomposition and profitability indicators**



Source: NBG

The assessment of a stress test's impact on bank capital aims to ensure that the banking sector is fully prepared to withstand severe—but still plausible—stress without violating capital adequacy requirements. The primary purpose of capital conservation and countercyclical buffers is to maintain a sufficient level of capital in the banking system, helping banks absorb systemic losses that may arise under stress. Additionally, the unhedged foreign currency credit risk buffer assists the system in reducing systemic risks associated with dollarization.

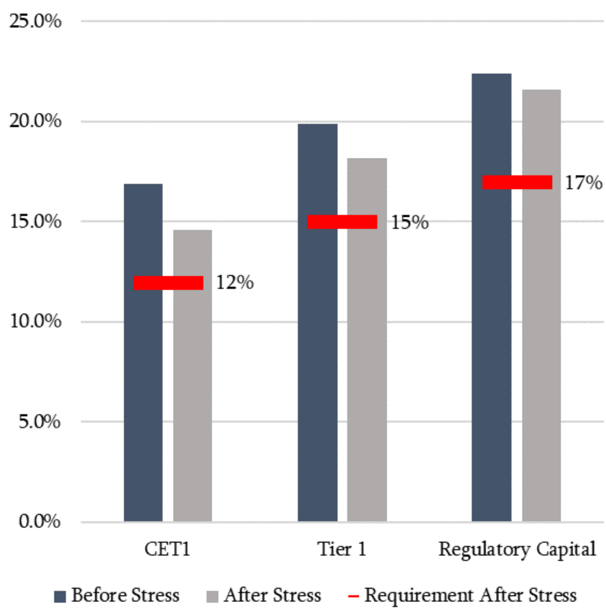
The capital required by a bank to withstand stress is thus already partially accounted for through the countercyclical and conservation buffers, as well as the unhedged foreign currency credit risk buffer. To avoid a double counting of capital requirements, when calculating the net stress-test buffer, the capital needed under stress conditions is reduced by the countercyclical and conservation buffers, as well as by one-third of the non-hedged foreign currency induced credit risk buffer.

Under this scenario, the core Tier 1 capital ratio declines significantly, and the lending capacity of individual banks may be constrained. However, as of the stress test date, the system operates with sufficient capital buffers, meaning that the existing buffers—along with the conservation and countercyclical buffers potentially released under stress, and one-third of the non-hedged foreign currency induced credit risk buffer—would be sufficient to cover losses arising from the stress scenario.[58] Accordingly, the hypothetical

[58] These calculations are based on core Tier 1 capital data.

capital losses under the scenario do not pose a threat to the stability or resilience of the system.

*Figure B.6.3. Capital ratios**



* The conservation, countercyclical and one-third of the currency-induced credit risk buffers are deducted.

Source: NBG

IV. Financial Stability Policy Measures and Recommendations

Ensuring the sustainable functioning of the financial sector in Georgia and fostering financial stability are among the key responsibilities of the National Bank of Georgia. As a result of supervisory measures taken over time and improved financial indicators, the financial sector remains resilient and is prepared to address potential risks stemming from the global geopolitical environment. Credit activity is broadly in line with nominal economic growth, and no adjustment to the cyclical component of the countercyclical capital buffer (CCyB) appears necessary at this stage. Pursuant to the Financial Stability Committee's 2023 decision, commercial banks continue the gradual accumulation of the neutral component of the countercyclical capital buffer. At present, this buffer stands at 0.5 percent, and by 2027 the neutral component is expected to reach 1 percent. To further reduce credit risks in retail lending, the Financial Stability Committee's decision to raise the cap on unhedged foreign-currency loans from GEL 500,000 to GEL 750,000 took came into effect on 1 August 2025. The National Bank of Georgia is continuously monitoring the situation and actively continues its efforts to support the resilience of the financial system.

As a result of the supervisory measures implemented over time and improved financial indicators, the financial sector remains resilient and is prepared to address potential risks stemming from the global geopolitical environment. As of June 2025, banks maintain healthy capital and liquidity indicators, while the NPL ratio remains low. The profitability indicators of the banking system remain stable, primarily supported by low expected credit losses and increased net interest income. The rise in interest income reflects both wider interest spreads and the strong credit activity of the previous year. The results from the updated top-down stress test also point to the resilience of the financial sector. Under the severe-risk scenario, expected credit losses sharply increase; nevertheless, over a three-year horizon the banking system maintains capital at adequate levels and continues lending activity supported by substantial capital buffers.

In June 2025, annual loan growth moved closer to its long-term sustainable level, reaching 15.7 percent, excluding exchange-rate effects. Business lending again made the largest contribution to aggregate loan growth, at 8.7 percentage points. However, since September 2023, the consumer loan growth rate has increased and, despite subsequent moderation, remains elevated. This has been supported in part by an increase in loan maturities from three to four years. Against a backdrop of robust economic activity, the loans-to-GDP ratio remains below its long-term trend, and no need to adjust the cyclical component of the countercyclical capital buffer (CCyB) is indicated at this stage. As regards the neutral component of the countercyclical capital buffer, banks continue its gradual accumulation and the buffer stands at 0.5 percent at present. By 2027, the neutral component is expected to reach 1 percent.

The NBG continues to actively work on reducing structural risks arising from the high level of financial dollarization. Despite the positive trends in recent years, dollarization and its associated risks remain significant challenges for the financial sector. Loans denominated in foreign currency, mostly with variable interest rates, carry interest rate and exchange rate risks, which are particularly concerning given the high share of unhedged borrowers with foreign currency loans, the increased exchange rate volatility of regional currencies, and the globally tightened financial conditions. To mitigate these risks, in 2025 the National Bank of Georgia—considering the macroeconomic environment and associated risks, and consulting with the private sector—raised the cap on unhedged foreign-currency loans in line with its pre-announced policy path: first to GEL 500,000 and then to GEL 750,000. The NBG continues to actively work on reducing structural risks arising from the high level of dollarization.

To promote financial stability, and in accordance with the legislative amendments developed by the National Bank, commercial banks started contributing to the resolution fund in 2025. According to the legislative amendments regarding the resolution fund approved by the Parliament of Georgia in December 2023, commercial banks are required to make ex-ante contributions to the fund to reach a legally defined target level, which amounts to 3 percent of insured deposits. Banks started contributing to the fund in 2025, and have been given an 8-year period to reach the target. This period may be adjusted if the fund's resources are used or if the deposit insurance coverage limit is increased. Contributions by commercial banks are proportional to their share of assets in the system, taking into account their individual risk profiles. The ex-ante fund is administered by the National Bank of Georgia, which, under law, has the authority to delegate its administration to the Deposit Insurance Agency.

To promote financial stability, the National Bank has established a Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for systemic banks. The purpose of the requirement is to ensure that banks pre-structure their balance sheets in such a way that facilitates their recapitalization and supports their resilience in times of stress. For systemic commercial banks, the MREL requirement has been set at the following amounts and terms: 10 percent from 1 January 2024, 15 percent from 31 December 2025, and 20 percent from 31 December 2027. Starting from 2024, systemic banks became required to submit monthly MREL reports to the National Bank. Additionally, in 2024, the National Bank prepared amendments to the "Regulation on Disclosure Requirements for Commercial

Banks Within Pillar 3", which stipulates that, starting from 1 January 2025, banks must disclose information regarding their compliance with the MREL requirement in their Pillar 3 reports. This information must be published on a quarterly and annual basis.

Against the backdrop of normalizing economic activity, and to support sustainable activity in the real estate market, the National Bank updated certain requirements of the Responsible Lending Regulation. Specifically, the NBG increased the maximum loan-to-value (LTV) ratio by 5 percentage points to 90 percent for GEL-denominated, real estate-secured loans to individual borrowers. In addition, the LTV cap for mortgage loans to borrowers whose income is earned outside of Georgia was raised by 10 percentage points to 80 percent. These changes will support access to mortgage credit during the transition phase as economic activity normalizes.

In line with existing practice, the NBG has published the 2025 edition of its Supervisory Strategy for 2023-2025. The new strategy document sets out the action plan for delivering the supervisory priorities for the next 12 months, including related activities and timelines, and presents the 2024 report on the implementation of the supervisory strategy. As in 2023–2024, the NBG's work in 2025 will remain anchored in the same priorities: enhancing the financial sector's risk-management framework and responding proactively to outcomes; promoting competition in the financial sector; encouraging financial innovation and the development of supervisory technologies; ensuring further alignment with international standards; strengthening the NBG's supervisory functions; and enhancing transparency.

The National Bank of Georgia continues to work to support the resilience of the financial system. The NBG continues its ongoing monitoring of the country's financial stability, assessing domestic and external risks, and will utilize all available instruments as necessary to minimize potential risks. In the recent period, the quality and profitability indicators of the banking sector's assets have improved and are characterized by stability. Banks maintain capital at adequate levels and have healthy liquidity ratios. As economic activity normalizes, loan growth is gradually converging toward its long-term level. However, the growth rate of consumer lending remains elevated. If this growth rate persists, risks could emerge and regulatory measures may need to be considered. Uncertainty persists amid heightened geopolitical tensions. However, stress-test results indicate that the banking system would remain resilient even under the severe scenario. The NBG continues to monitor financial stability, assess domestic and external risks, and safeguard the sector's resilience through employing a range of macroprudential and microprudential tools (see Table IV.1). The non-bank financial sector also remains resilient and is subject to prudential requirements.

Table IV.1. Macroprudential measures of the NBG

Instrument	Rate	From
Counter-cyclical buffer[59]	1%	15.03. 2027
Systemic Buffers		
JSC "TBC Bank"	2.5%	30.09. 2021
JSC "Bank of Georgia"	3.0%	30.09.2024
JSC "Liberty Bank"	0.5%	31.12.2024
Conservation buffer	2.5%	01.01. 2024
Pillar 2 buffers		
CET1 Pillar 2 Requirement		
Consolidated	4.85%	As of 30.06. 2025
Range	3.0% - 14.1%	As of 30.06. 2025
Tier 1 Pillar 2 Requirement		
Consolidated	5.8%	As of 30.06. 2025
Range	3.8% - 15.6%	As of 30.06. 2025
Regulatory capital Pillar 2 Requirement		
Consolidated	6.9%	As of 30.06. 2025
Range	4.8% - 17.5%	As of 30.06. 2025
Total Regulatory Capital Requirements (including buffers)	11.0% - 30.0%	As of 30.06. 2025
Common Equity Tier 1 (CET1) requirements (including buffers)	7.5% - 23.2%	
Leverage ratio	5%	26.09. 2018
Payment-to-Income limit (PTI)		
For loans in foreign currency (unless income is in the same currency)		
Monthly net income <GEL 1,500	20%	01.04. 2022
Monthly net income >=GEL 1,500	30%	
For loans in GEL (or in foreign currency if the borrower's income is in the same currency)		
Monthly net income <GEL 1,500	25%	01.04. 2022
Monthly net income >=GEL 1,500	50%	
Loan-to-Value limit (LTV)		
for GEL loans	90%	26.02. 2025
for foreign currency loans	80%	26.02. 2025
Liquidity coverage ratio (LCR) requirements in		
All currencies (Cumulative)	100%	01.09. 2017
GEL	75%	01.09. 2017
Foreign currency	100%	01.09. 2017
Net Stable Funding Ratio (NSFR)	100%	01.09. 2019
Limits on open foreign exchange positions	20% of regulatory capital	20.07. 2006
Reserve requirements for		
National currency		
for liabilities with a remaining maturity of up to 1 year	5%	25.07. 2018
Foreign currency		
for liabilities with a remaining maturity of up to 1 year	10-25%	05.12. 2024
for liabilities with a remaining maturity of between 1-2 years	10-20%	05.12. 2021
Restrictions on foreign currency loans	Below GEL 750,000	01.08. 2025

[59] Currently, the accumulated neutral component of the countercyclical capital buffer stands at 0.5 percent. This is expected to reach 1 percent by March 2027.

Box 7. Tokenized Deposits and the Regulatory Sandbox

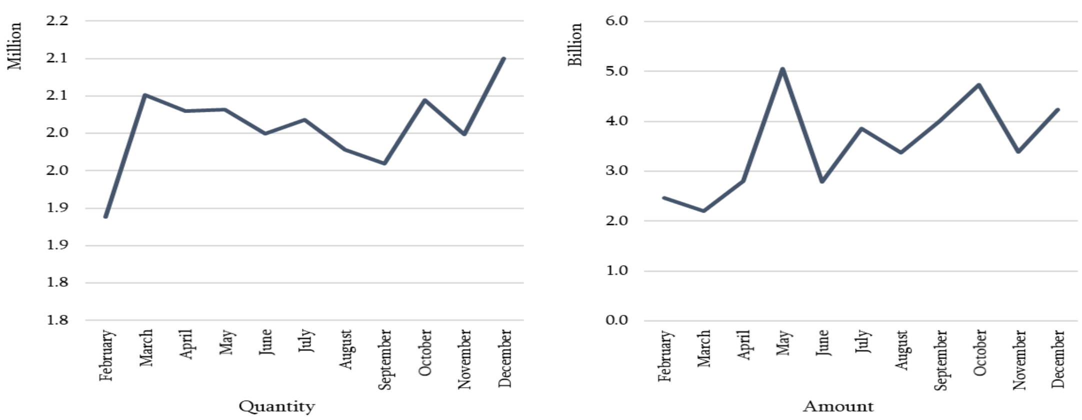
What is a tokenized deposit/certificate of deposit and what are the expected benefits of the product?

A tokenized deposit is a traditional bank deposit that is represented in a digital form through technology—in the form of a so-called “token”. The same principle applies to certificates of deposit. A token can be thought of as a digital “coin” or digital proof that verifies that the owner has a specific amount of money deposited in a bank. These digital tokens are stored on a special secure digital network called a blockchain. A blockchain is a technology that provides information security, transparency, and simplified transactions without intermediaries, which significantly reduces the risk of human error, as well as lowering transaction costs and saving time. Tokenized deposits/certificates of deposit create new opportunities for increased liquidity and a more flexible mobilization of financial resources. The ability to diversify will make deposit products more liquid and flexible. The development of tokenized deposits will also contribute to the expansion of the financial ecosystem and product diversity, bringing new players and innovative services into the market, which will ultimately mean increased benefits for consumers and will aid the technological advancement of the banking sector.

Why do we need such products?

Traditional deposits are often characterized by low flexibility and limited liquidity, especially in the case of certificates of deposit, for which a secondary market is practically nonexistent in Georgia. An analysis conducted by the National Bank revealed that a large portion of consumers often terminate their deposits early, which indicates a systemic need to create products that are more flexible and also available on secondary markets.

Figure B.7.1. Requests for early termination of term deposits and certificates of deposit by customers during 2024



Source: NBG

Regulatory Sandbox

The National Bank of Georgia officially expressed interest in testing tokenized deposits in a sandbox format in February 2025. The regulatory sandbox is a framework established by the National Bank that provides a unique opportunity for interested entities regulated by the NBG to test, within defined limits and restrictions, innovative financial products in a safe and regulated environment on real consumers. The main goals of the project are as follows:

- Encourage the creation of legally compliant tokenized product models on the market.
- Encourage the formation of a secondary market for certificates of deposit.
- Develop a regulatory framework for blockchain-based instruments.
- Promote product diversity in the financial market.

International practices:

- **Singapore – Project Guardian**
  The Monetary Authority of Singapore launched Project Guardian in 2022, aiming to test digital assets and tokenized securities in a regulated environment. The project monitored various technological and legal components, including the liquidity of tokenized assets, service provision, and payment processing. The project is based on the open Ethereum blockchain and is gradually expanding its scope of use. Although its final results have not yet been made fully public, current assessments indicate that all components have been positively assessed.

- **JPMorgan – JPM Coin and Onyx**
  JPMorgan's tokenized internal transfer system was launched in 2019. JPM Coin uses a "permissioned blockchain", which means it has limited access. The project has significantly simplified the payment process, reduced costs by 80%, and increased security. More than 65,000 simultaneous transactions can be processed per second and just one year after the project's launch, the total transaction volume exceeded 300 million dollars, and the number of users is constantly growing.

Conclusion and expectations

The tokenized deposits project is not only a technological innovation but is also a manifestation of a new role for the regulator—as a development-oriented partner. The success of the project will create prerequisites for the modernization of the financial market, the development of new products, and the introduction of customer-oriented services. Through this initiative, banks and fintech companies registered in Georgia will have the opportunity to participate in creating the financial infrastructure of the future.