



საქართველოს ეროვნული ბანკი  
National Bank of Georgia

# MONETARY POLICY REPORT

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JULY 2025

## PREFACE

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The primary objective of the National Bank of Georgia (NBG) is to ensure price stability, which, in turn, supports the country's long-term economic growth. In pursuit of this objective, the NBG operates within an inflation-targeting framework, which was formally adopted in 2009. Within this framework, the NBG conducts its monetary policy in a way that inflation approaches its target level of 3% in the medium term.

The primary tool of the NBG under its inflation-targeting framework is the monetary policy rate. When making decisions about the rate, the primary focus is on the inflation forecast, as the full economic impact of the decision takes time (4-6 quarters) to materialize. Therefore, macroeconomic forecasts are the key component in shaping monetary policy, and their effective communication is crucial for anchoring inflation expectations. Additionally, the communication of these forecasts plays an important role in the decision-making process of businesses and households.

In recent years, amid global developments, uncertainty has increased. Given the heightened unpredictability of future economic conditions and its broad scale, it is essential for central banks to make an optimal decision when conducting monetary policy to minimize economic losses in the event of any risk materializing. In a dynamic economic environment, a monetary policy approach focused on managing risks is critical for achieving optimal outcomes. This is evidenced by the experience of central banks in the post-pandemic period. Central banks, including the NBG, that made decisions based on the approach of minimizing the impact of risks, have managed the globally prevailing inflationary pressures with relatively greater success. Accordingly, policymakers are increasingly emphasizing the importance of a scenario-based approach, within which monetary policymakers make decisions based on the development of various relevant scenarios. This systematic assessment of scenarios and their impact enables policymakers to effectively navigate the inflation-output tradeoff.

The NBG adopted a new scenario-based approach to monetary policy communication, enhancing the transparency of its risk management and decision-making processes. This step marks another stage in the development of the NBG's monetary policy framework through which it improves the transparency and comprehensibility of the monetary policy reaction function, thereby strengthening the effectiveness of the policy transmission channels.

Under the scenario-based approach, the National Bank of Georgia publishes **three relevant scenarios**, given the existing uncertainty:

- **The Central Scenario**, which incorporates a broad set of current information, including assumptions on exogenous factors and economic transmission mechanisms. It reflects a monetary policy path that is calibrated by the policymaker through a careful assessment and balancing of heterogeneous risks.
- **The Higher-Inflation Risk Scenario**, which, compared to the central scenario, incorporates risks that are more inflationary over the monetary policy horizon.
- **The Lower-Inflation Risk Scenario**, which, compared to the central scenario, incorporates more disinflationary risks over the monetary policy horizon.

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## MONETARY POLICY DECISION

### **The National Bank of Georgia decided to keep the monetary policy rate unchanged at 8.0 percent.**

On July 30, 2025, the Monetary Policy Committee of the National Bank of Georgia (NBG) decided to keep the monetary policy rate (refinancing rate) unchanged. The monetary policy rate stands at 8%.

In June 2025, the overall price level in Georgia increased by 4% year-on-year. The moderate upward deviation of inflation from the 3% target is primarily driven by rising food prices, reflecting in part developments in international food markets and base effects from last year's low inflation. Notably, inflation expectations remain stable. Service sector inflation, which tends to be stickier and well reflects long-term inflation expectations, remained below the 3% target, standing at 2.3%. Core inflation has also remained below the target level for nearly two years. Meanwhile, prices for imported goods remained in deflationary territory, mainly driven by year-over-year declines in fuel prices. According to the NBG's central scenario, consistent with previous forecasts, inflation is expected to temporarily remain above the 3% target in 2025, averaging around 3.8%. This mainly reflects global tendencies and base effects from the previous year. Over the medium term, inflation is expected to stabilize close to the target.

Economic activity remains robust. According to the preliminary data, average economic growth for the first five months of the year stood at 8.8%. This performance is largely supported by the improved production capacity of the economy, which helps mitigate inflationary pressures stemming from excess aggregate demand. Given the gradual normalization of fundamental factors alongside strong growth in the first five months, the NBG's central scenario has revised the 2025 growth forecast upward, from 6.7 to 7.4%.

Global economic uncertainty remains elevated in the light of ongoing geopolitical tensions. Accordingly, inflation risks remain notable on both the upside and the downside. As a result, the Monetary Policy Committee considered both high-inflation and low-inflation risk-scenarios. On the one hand, the U.S. trade policy agenda has been revised multiple times, and a renewed escalation could lead to a faster-than-expected acceleration of global economic fragmentation. This could disrupt global supply chains and contribute to a stagflationary environment. Meanwhile, intensified geopolitical tension in the Middle East would elevate regional risk and exert upward pressure on global oil prices, amplifying supply-side inflationary pressures. At the same time, domestic economic dynamics remain noteworthy, particularly inflationary pressures stemming from robust aggregate demand. Should these risks materialize, a higher interest rate path than envisaged under the central scenario may be warranted.

On the other hand, the Monetary Policy Committee considered a low-inflation risk-scenario, where the realization of fundamental factors require a lower trajectory of the monetary policy rate compared to the central scenario. In particular, against the background of structural changes in the economy, productivity remains at a relatively high level. The scenario also assumes a globally weakened U.S. dollar index (DXY) and a rapid normalization of international food commodity prices. If these tendencies persist, a strengthened exchange rate combined with stable international food commodity prices is expected to exert downward pressure on headline inflation through lower imported inflation.

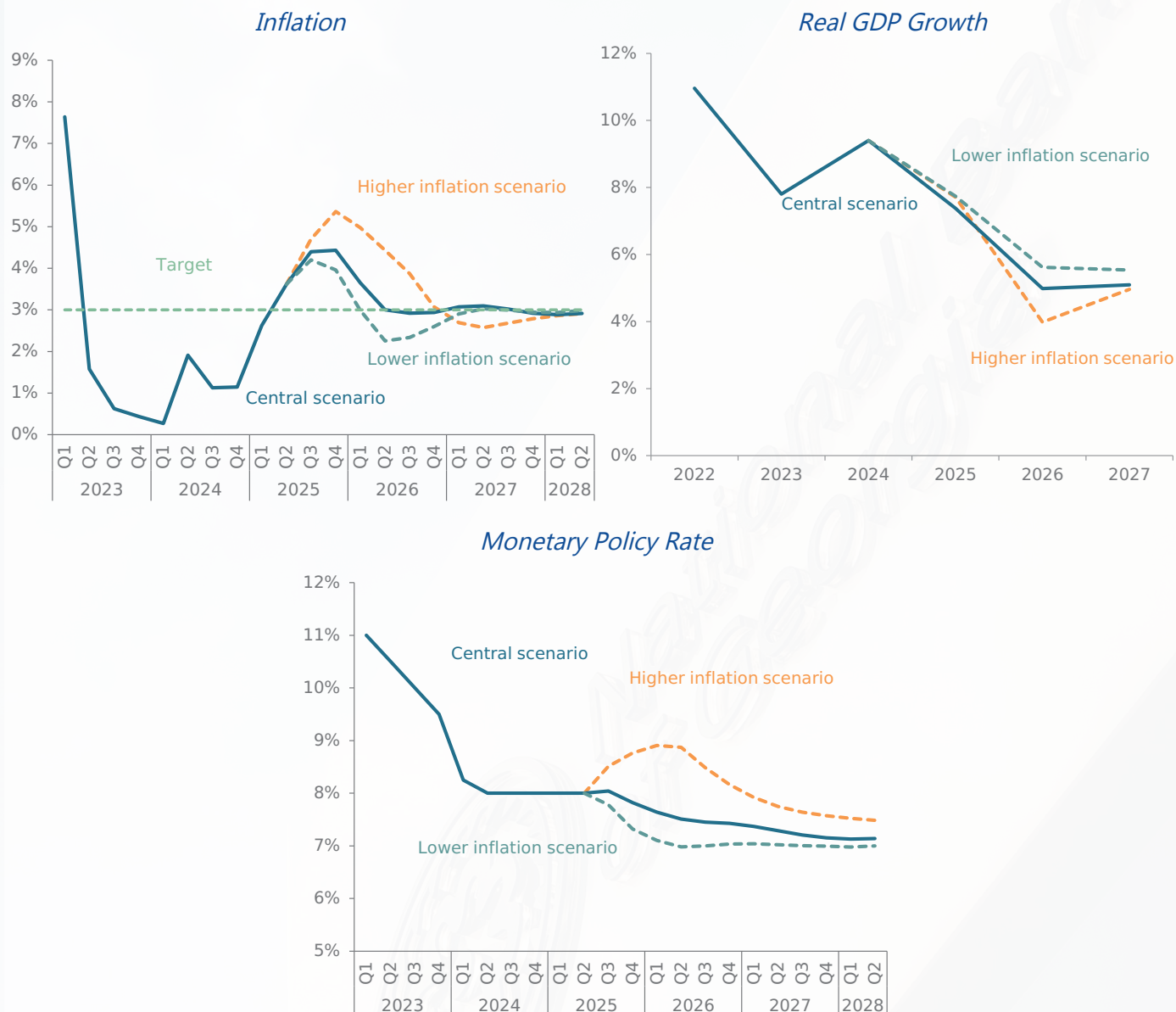
As a result of macroeconomic analysis and the assessment of existing risks, the Monetary Policy Committee has considered it optimal to adopt a cautious approach toward further normalizing the monetary policy rate, keeping it unchanged at 8%. Upcoming decisions on the monetary policy rate will depend on updated macroeconomic forecast scenarios and risk assessments.

The NBG will use all available instruments to maintain price stability. This means keeping the overall price level increase close to the 3% target over the medium term.

Following discussions on all of the above, the Monetary Policy Committee has considered it optimal to maintain a cautious approach toward the further normalization of the policy rate and decided to keep the monetary policy rate unchanged at 8%. Upcoming decisions on the policy rate will depend on the analysis of risks and resulting updated macroeconomic forecast scenarios.

The NBG will use all available instruments to maintain price stability. This means keeping the overall price level increase close to the 3% target over the medium term.

### NBG's Macroeconomic Forecast Scenarios



## 1. OVERVIEW OF THE GLOBAL MACROECONOMIC ENVIRONMENT

*The Global Economic Policy Uncertainty Index remains elevated, reflecting continued ambiguity in both U.S. economic policy and the broader geopolitical landscape. As a small open economy, Georgia is affected by the global economic developments through both direct and indirect channels.*

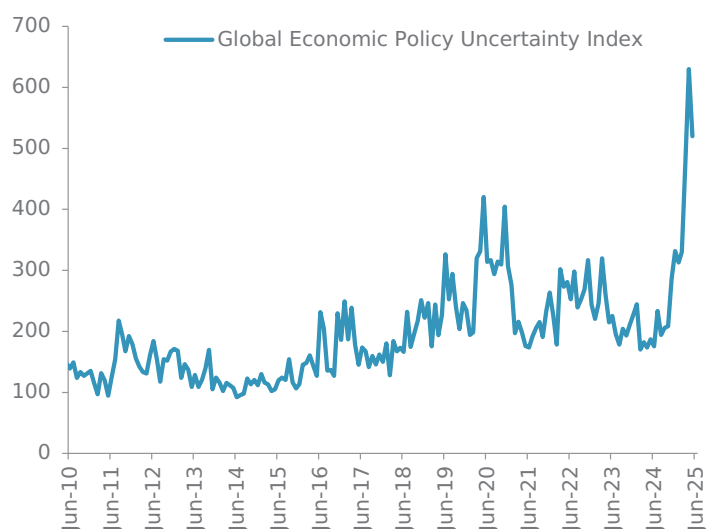


Figure 1.1. Global Economic Policy Uncertainty Index

Source: FRED.

\* Uncertainty index measures the monthly share of newspaper articles discussing policy uncertainty-related terms (relative to the total number of articles), normalized so that a 1% share corresponds to an index value of 100.

Uncertainty in the global economy remains elevated (see Figure 1.1). Ongoing ambiguity surrounding the U.S. trade policy continues to be a key source of global instability and amplifies the risks of economic fragmentation. However, it should be noted that currently, the effects of the tariff policy have turned out to be less severe than expected. At the same time, the escalation of conflict in the Middle East poses a threat to global supply chains and further intensifies inflationary pressures.

In turn, heightened uncertainty is reflected in tighter global financial conditions, which keep the risks of a slowdown in economic activity elevated. According to the latest assessments by international organizations, stagflationary risks remain pronounced. In particular, in June, the World Bank<sup>1</sup> revised its global growth forecast downward from 2.7% to 2.3% compared to January, while raising its inflation forecast from 2.7% to 2.9%. According to the International Monetary Fund's (IMF) updated forecasts in July<sup>2</sup>, compared to April, real GDP growth was revised up by 0.2 percentage points (pp) to 3.0%, while inflation was revised down by 0.1 pp to 4.2%.

U.S. economic policy remains highly uncertain. In particular, trade policy remains ambiguous – the 90-day pause on tariffs has been extended until August. Following weak economic activity in the first quarter of 2025, primarily driven by front-loaded imports, aggregate demand rebounded strongly in the second quarter. According to the Atlanta Federal Reserve's current assessment, demand now exceeds its potential level, generating inflationary pressures.

The strong aggregate demand remains driven by robust household consumption, supported by solid household balance sheets and elevated asset prices in equity markets. These factors are accompanied by fiscal stimulus, which feeds into long-term inflation expectations. As a result, the pace of disinflation in sticky prices with high rigidity has been particularly slow in the U.S.

<sup>1</sup> 2025 June Global Economic Prospects, World Bank-Group.

<sup>2</sup> World Economic Outlook 2025 July edition, International Monetary Fund.

*Due to the slowdown in the disinflationary process, the expected trajectory of the Federal Reserve's policy rate has been revised upward in financial markets.*

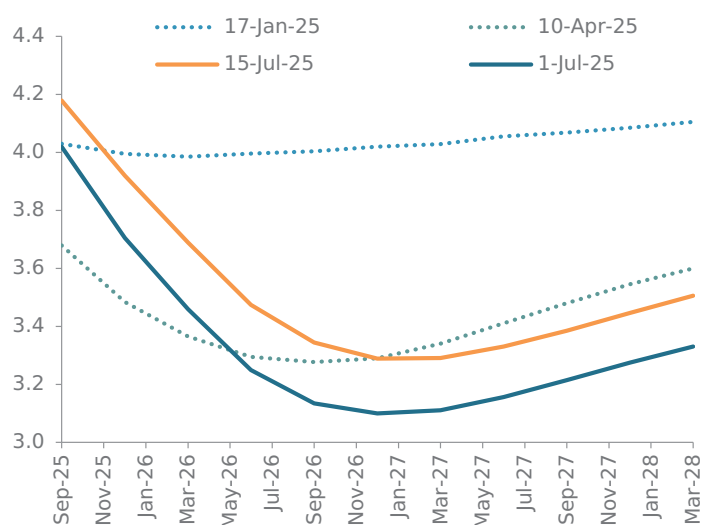


Figure 1.2. Market Expectations of Fed Funds Rate Path

Source: Atlanta Fed.

*The U.S. Dollar Index (DXY) has weakened significantly over the past few months. The sustained high yields on 10-year Treasury securities indicate rising financing costs and elevated inflation expectations, which pose risks of growing macroeconomic imbalances.*

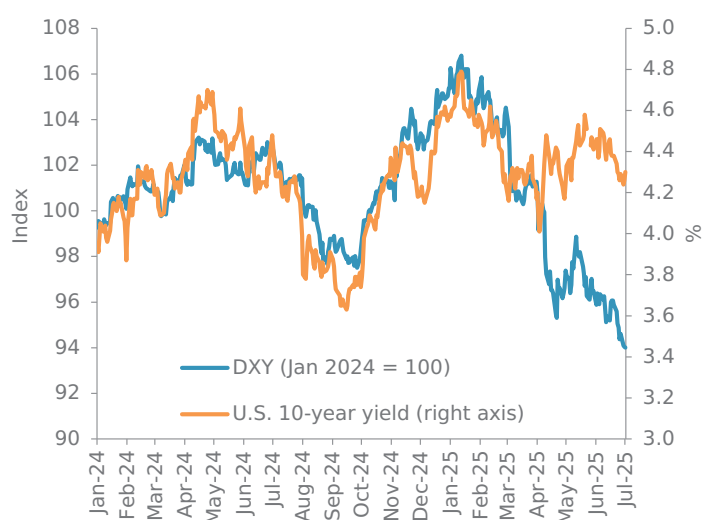


Figure 1.3. Dollar Index (DXY) and the yield of 10-year U.S. treasuries

Source: Bloomberg, FRED.

Alongside the announced tariff policy and persistent domestic demand, tighter immigration policies pose upside inflation risks by exerting upward pressure on wages. Against the backdrop of risks and ongoing developments, market expectations for the path of interest rates have shifted upwards compared to early July (see Figure 1.2). Meanwhile, yields on 10-year U.S. Treasury bonds remain elevated amid persistent inflationary risks (see Figure 1.3). In prevailing uncertainty, the U.S. dollar remains weak globally.

In the euro area, headline inflation has returned to the 2% target, although services inflation remains high, standing at 3.3% in June. This persistence is primarily driven by strong wage growth and continued tightness in labor markets. Against the backdrop of overall inflation dynamics, the European Central Bank (ECB) is proceeding with policy normalization at a slow pace.

Economic activity across the euro area member states remains heterogeneous. Following several years of contraction, Germany's economy recorded positive growth in the first quarter of 2025. In contrast, weak industrial performance continues to weigh on economic momentum in other member states. Moreover, the renewed escalation in global trade tensions, particularly with the U.S., poses risks to export competitiveness, increasing the likelihood of a broader economic slowdown in the euro area (see Figure 1.4).

In China, under a temporary tariff truce, stronger-than-expected economic growth of 5.2% was recorded, supported by robust industrial output and higher-than-anticipated exports in June. However, the long-term growth forecast for China stands at around 4.2%, which, all else being equal, implies a slowdown in the global economy's long-run growth trajectory. Notably, following several months of deflation, headline inflation turned positive in June 2025, reaching 0.1%.

Despite a slight reduction in the monetary policy rate in Russia, the central bank maintains a tight monetary stance in light of ongoing inflationary pressures. Structural challenges persist, including fiscal imbalances driven by elevated military expenditures, low investment in non-military sectors, and weakening external revenues. Geopolitical risks, alongside current and potential additional economic sanctions, continue to worsen Russia's medium-term growth outlook (see Figure 1.4).

Persistently weak economic expectations among key trading partners and the slow pace of disinflation are weighing on Georgia's external demand and imported inflation. These effects are further exacerbated by heightened geopolitical

*Economic growth expectations among Georgia's trading partner countries remain largely unchanged compared to previous forecasts. However, growth prospects for euro area countries have improved slightly, supported by planned fiscal stimulus measures and a more accommodative monetary policy stance.*

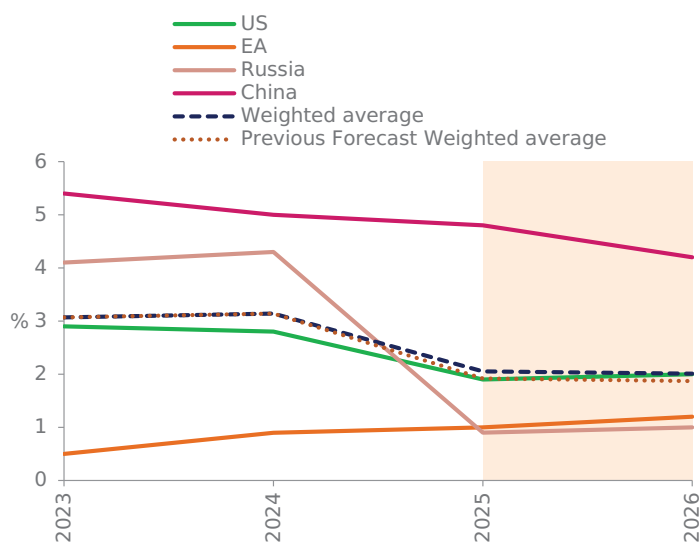


Figure 1.4. Real GDP Growth of Economic Partner Countries\*

Source: International Monetary Fund (IMF), NBG.

\*The weights for the **weighted average growth** are determined by the country's share in Georgia's foreign trade turnover.

*Due to developments in the Middle East, oil prices rose in June but subsequently stabilized within the \$68–\$70 range. The international food price index increased slightly, posing inflationary risks. Over the medium term, the outlook for commodity prices remains uncertain.*

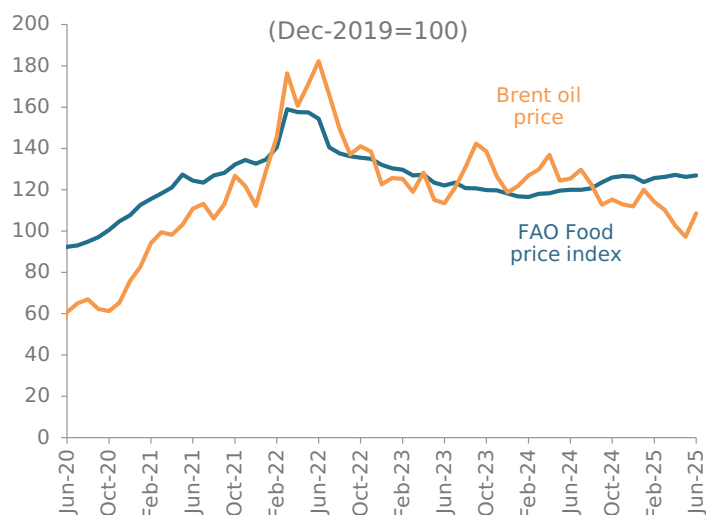


Figure 1.5. International Commodity Prices, Index, Dec-2019=100

Source: FAO, Bloomberg, NBG.

tensions, which amplify the risks of disruptions in global supply chains and high volatility in international commodity prices.

In June, the international food price index rose by 5.8% year-on-year (see Figure 1.5). Despite the global slowdown in demand, supply-side pressures, including disruptions caused by adverse weather conditions, continue to drive food prices upward on international markets. These dynamics have already partially passed through to the Georgian market, increasing domestic food prices.

Global oil prices exhibit high volatility, reflecting conflicting supply- and demand-side factors. In June, Brent oil price temporarily reached a five-month high, but later returned to the \$68–\$72 range following a ceasefire agreement in the Middle East. Despite the recent decline, risks of renewed escalation of the conflict in the region maintain elevated uncertainty in global oil markets.

On the other hand, adequate spare capacity and the gradual production increases by OPEC+ countries exert downward pressure on prices. Meanwhile, the slowdown in global economic activity is adding further disinflationary momentum. Currently, fuel prices in Georgia are disinflationary, although their future impact, other things being equal, will largely depend on developments in global oil markets and the exchange rate dynamics of the Georgian lari.

## 2. OVERVIEW OF THE CURRENT MACROECONOMIC ENVIRONMENT IN GEORGIA AND FORECAST SCENARIOS

*High productive sectors remain one of the main driving forces of economic growth.*

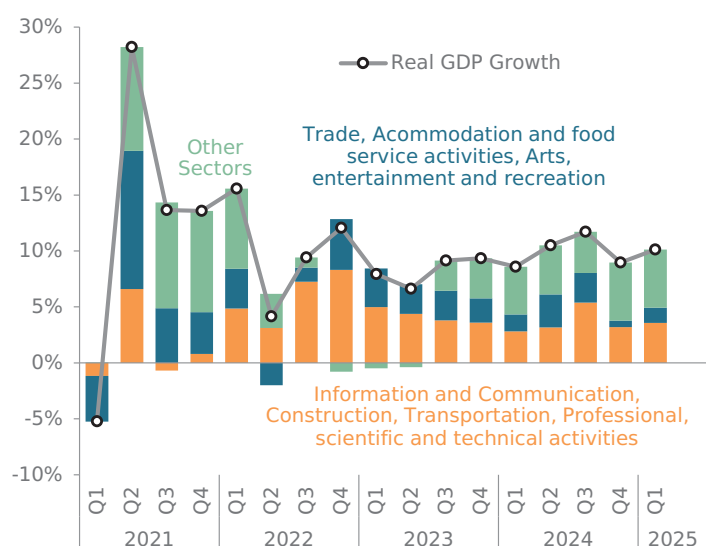


Figure 2.1.1. Sectoral Decomposition of Real GDP growth (Contribution to the Growth)

Source: NBG, Geostat.

*A large share of high-productivity sectors is service-oriented and relies less on imported inputs. Accordingly, economic growth is less import-intensive.*

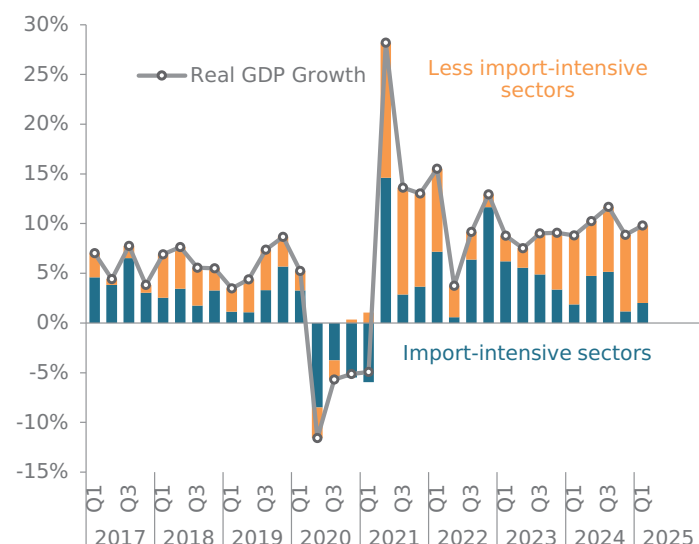


Figure 2.1.2. Sectoral composition of real GDP growth by degree of import dependence (contribution to growth)

Source: NBG, Geostat.

### 2.1. OVERVIEW OF THE CURRENT MACROECONOMIC ENVIRONMENT IN GEORGIA

In 2025, economic activity continues to gradually normalize toward its long-term growth trend, though at the current juncture, it remains elevated. Specifically, real GDP growth averaged 8.8% over January-May. Structural changes in the economy remain one of the principal drivers of sustained high growth. This is evidenced by the persistent strong contribution of high-productivity sectors to real GDP growth, including information and communication, construction, transportation, and professional, scientific, and technical activities (see Figure 2.1.1).

Notably, a large share of these high-productivity sectors is oriented toward services less dependent on imported inputs. As a result, these sectors generate relatively higher value added within the domestic economy, making overall economic growth less import-intensive (see Figure 2.1.2 and Box 1).

In addition to structural factors, strong domestic demand (both consumption and investment) also underpins high growth (see Figure 2.1.3). In recent quarters, investment has become one of the key contributors to economic expansion, primarily through capital formation. While this partially reflects a base effect from lower investment levels in the previous year, it positively contributes to capital accumulation and supports the economy's long-term growth dynamics.

Despite elevated economic activity, aggregate demand is showing signs of normalization. This is further underpinned by the pace of credit growth converging toward its optimal level. In particular, as of June 2025, the growth rate of total credit portfolio amounted to 15.6% (see Figure 2.1.4). It is worth noting that the normalization of the growth rate of loans is mainly due to the slow-down in the growth rate of GEL loans. This development, in turn, is linked to tighter financial conditions amid heightened global uncertainty, which has particularly impacted business lending. Notably, interest rates on business loans denominated in GEL have risen (see Figure 2.1.5). At the same time, maintaining tight financial conditions, especially in the US, is also reflected in the financial conditions of foreign currency loans in Georgia (see Figures 1.2 and 1.3).

Despite high domestic demand, imports have

*A large share of high-productivity sectors is service-oriented and relies less on imported inputs. Accordingly, economic growth is less import-intensive.*

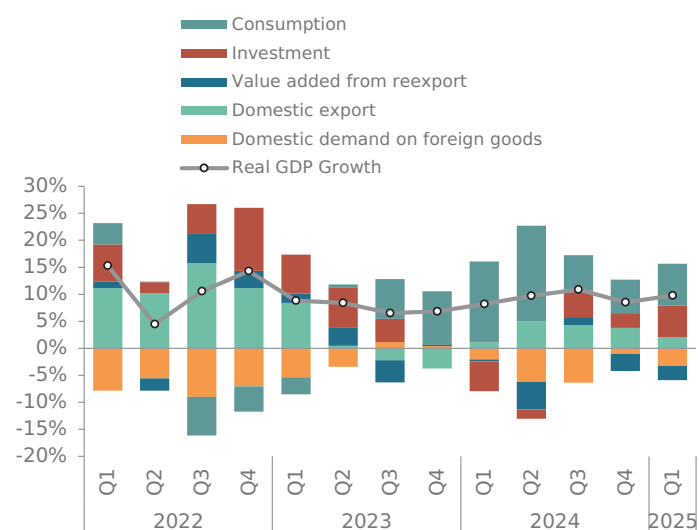


Figure 2.1.3. Decomposition of Real GDP Growth by Expenditures (Contribution to the Growth)

Source: NBG, Geostat.

\* The value added from re-export refers to the revenue generated from re-exports, excluding the imports intended for re-export.

Domestic demand on foreign goods includes imports, excluding products intended for re-export.

slowed in recent months. This dynamics, as noted, is primarily explained by the growth of the services sector, which is less import-intensive. In particular, in the first half of 2025, the domestic demand for foreign goods increased by 2.1% annually, while the annual growth rate of total imported goods amounted to 5.8%<sup>3</sup>. Over the same period, goods exports increased by 13.7% annually. However, the expected slowdown in economic growth in trading partners may negatively affect the dynamics of goods exports. Currently, the goods trade balance, especially in the second quarter of 2025, positively impacts the current account balance.

It is worth noting that service exports are an essential source of foreign inflows. Revenues from the information and communication sector (ICT) exports have recently increased. Among these, export revenues from the information and communication technology (ICT) sector have risen notably in recent quarters. In particular, the ICT export-to-GDP ratio reached its highest level in the past eight quarters, standing at 3.4%. The transportation sector's export-to-GDP ratio also remains at 5%. Accordingly, the sectors driving economic growth are also improving the current account deficit.

It is noteworthy that the dynamics of remittances are also increasing. In particular, the year-over-year growth rate in the second quarter of 2025 amounted to 10%. Given the current dynamics and the abovementioned global risks, the current account deficit in 2025 is expected to remain close to its equilibrium level of 5% (see Figure 2.1.6). Notably, strong foreign inflows, both through exports and remittances, contribute to maintaining the strengthened position of the GEL exchange rate.

The relative stability of the Georgian lari against the U.S. dollar has had a disinflationary effect through the balance sheet channel. Specifically, a stronger lari eases the burden of dollar-denominated liabilities for producers, reducing production costs and alleviating upward pressure on prices. In parallel with the lari's stable exchange rate, deposit dollarization has continued its downward dynamics. In June 2025, the deposit dollarization rate fell by 1.2 pp from the previous month, declining to 49.7% (see Figure 2.1.7).

It is also noteworthy that the global position of the U.S. dollar has had a favorable effect on the exchange rate dynamics of Georgia's major trading partners against the dollar, except Turkey.

<sup>3</sup> Excluding the one-off factors in January 2025, such as paintings and statues.

*Amid globally tight financial conditions, credit growth remains close to its optimal level, supporting the normalization of aggregate demand.*

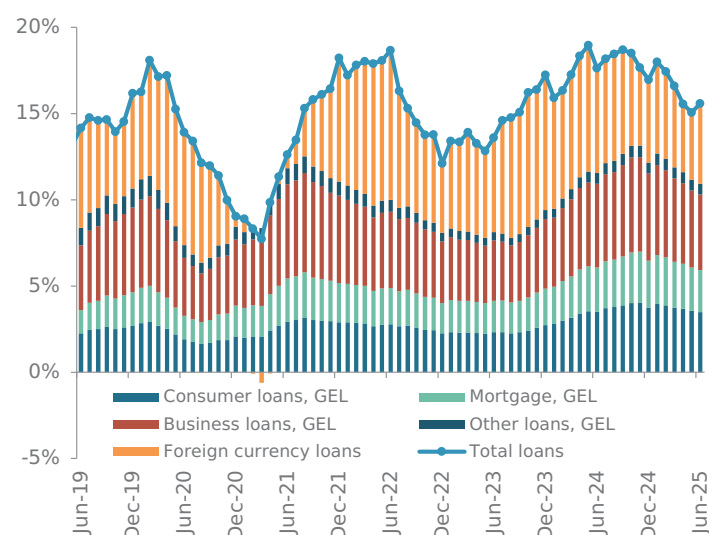


Figure 2.1.4. Year-over-year Growth Rate of Loans in Domestic and Foreign Currencies (Excluding Exchange Rate Effects)

Source: NBG.

*Financial conditions on GEL-denominated business loans have tightened.*

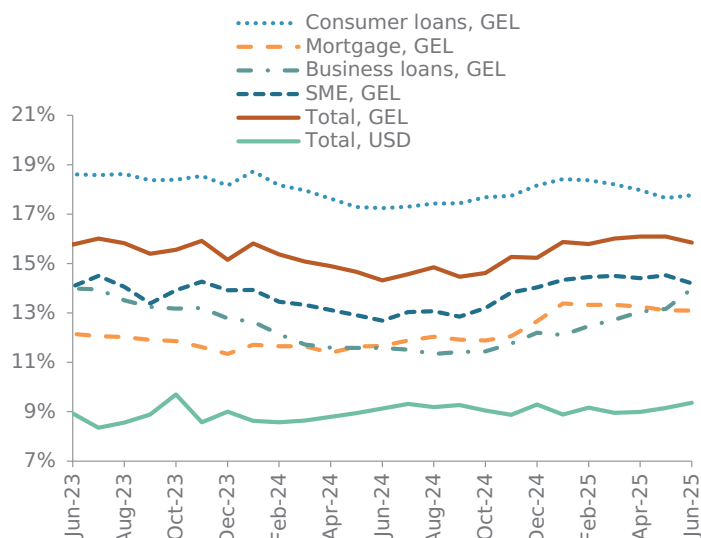


Figure 2.1.5. Interest Rates on Loan Flows in National and Foreign Currencies (Breakdown of GEL-denominated Loans by Purpose)

Source: NBG.

*Current positive tendencies in the external sector support the maintenance of the current account deficit within its equilibrium level (5–5.5% of GDP).*

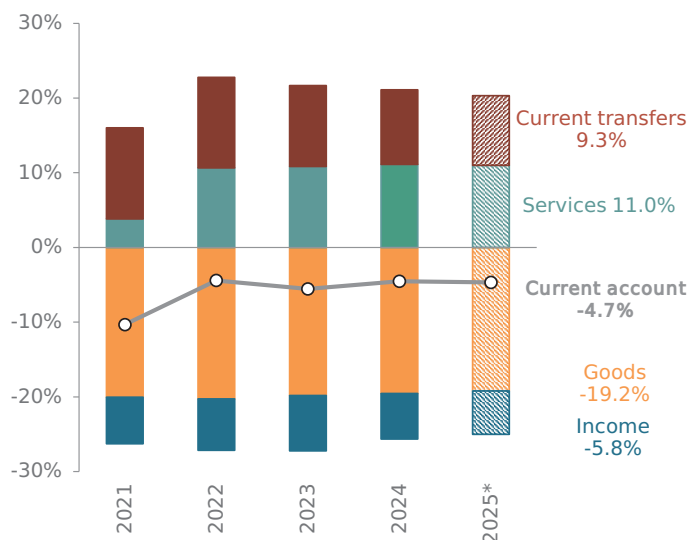


Figure 2.1.6. Current Account Balance Decomposition (% of GDP, according to BPM5)

Source: NBG.

As a result, the lari's nominal effective exchange rate (NEER) has remained broadly stable, mainly due to its appreciation against the Turkish lira and the U.S. dollar. Meanwhile, the real effective exchange rate has continued to converge towards its equilibrium level in recent months, driven by the inflation differential channel (see Figure 2.1.8). While the year-on-year depreciation of the REER supports the competitiveness of domestically traded goods, but it also exerts upward pressure on imported inflation.

Deflation in imported goods is primarily driven by the year-on-year decline in global oil prices (see Figures 1.5 and 2.1.9). On the other hand, the materialization of certain risks in international markets has partially transmitted to inflation, leading to an increase in flexible price inflation. The upward tendency in international food prices, particularly the increase in vegetable oil prices, has pushed mixed inflation higher in the domestic market (see Figure 2.1.10). However, in June, the price of sunflower oil on international markets declined on a monthly basis. Similarly, the downward trend in international sugar prices continues and is being transmitted to the local market as well. Consequently, international food markets are currently sending mixed signals.

Notably, the uptick in domestic inflation reflects rising costs in specific service categories, particularly in the healthcare sector, alongside a one-off increase in bread prices. However, overall services inflation remained below the 3% target in June 2025, at 2.3%. Given the relatively sticky nature of service prices, this outcome signals the stability of long-term inflation expectations. Importantly, sticky price inflation, which serves as a reliable proxy for long-term inflation expectations, has also remained close to the target level, excluding the one-off effect of the bread price adjustment.

Labor market pressures on inflation remain contained. Productivity growth is robust and broadly aligned with wage increases, keeping unit labor cost growth below the 3% inflation target. As a result, inflationary pressures stemming from the labor market remain subdued (see Figure 2.1.11).

Against the aforementioned tendencies, developments in food price inflation are noteworthy. Although recent increases largely reflect one-off price hikes in specific products, the persistence of elevated food prices could pose upside risks to inflation expectations. It is also important to note that the disinflationary effect from internet service fee reductions will fully fade out from August 2025, which is expected to raise headline inflation

by at least 0.4 pp over the following year. However, contrary to the abovementioned, underlying domestic economic fundamentals support inflation stability. Specifically, improvements in production potential help offset price pressures from strong aggregate demand. At the same time, the relatively stable position of nominal exchange rate also mitigates inflationary pressures.

*The deposit dollarization rate is decreasing following a significant increase in the previous period, supported by the sustained stable position of the lari.*

*The real effective exchange rate has been gradually converging toward its equilibrium level, supported by lower inflation in Georgia compared to its trading partners. Concurrently, the nominal effective exchange rate tendencies have also contributed to the alignment of the real exchange rate with its equilibrium level.*



Figure 2.1.7. Total Deposit Dollarization (Excluding Exchange Rate Effects)

Source: NBG.

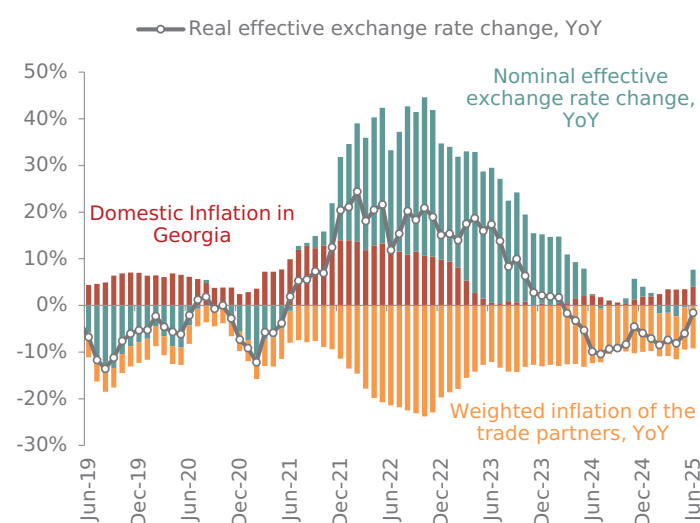


Figure 2.1.8. Decomposition of the Year-over-Year Change in the Real Effective Exchange Rate of the Georgian lari\*

Source: NBG, Geostat.

\* The Real effective exchange rate and its components are presented in logarithmic terms, and, accordingly, their year-over-year changes are a first-order approximation of percentage changes.

Compared to previous months, prices of food commodities on international markets continue to exert moderate upward pressure on inflation.

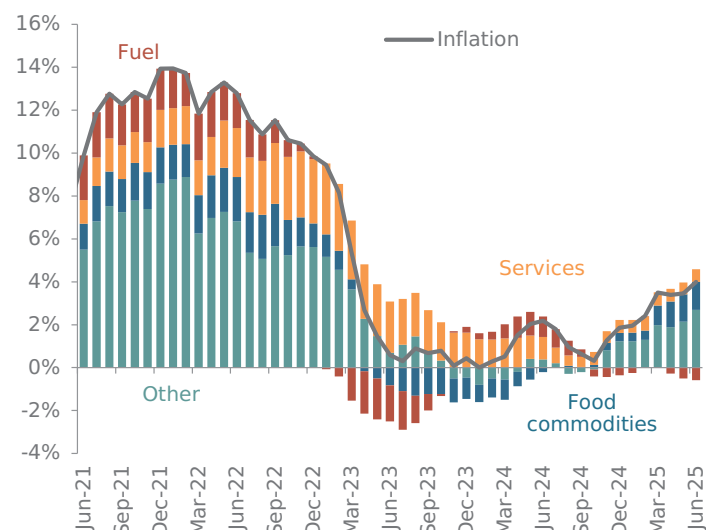


Figure 2.1.9. Inflation by Components

Source: Geostat, NBG.

In recent months, increases in both domestic and international food prices have led to a rise in mixed and domestic inflation. However, the imported inflation component continues to reduce headline inflation.

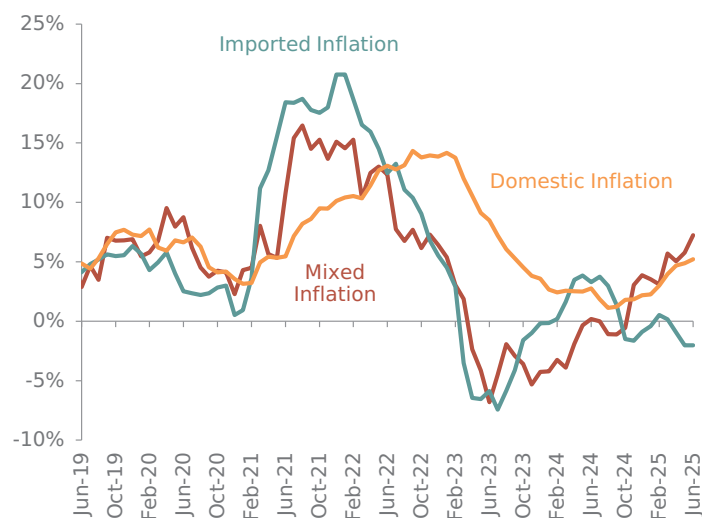


Figure 2.1.10. Mixed, Domestic, and Imported Year-over-year Inflation

Source: Geostat.

On the one hand, the moderation in wage growth, and on the other, the normalization in the unit labor cost, are helping to contain inflationary pressures from the labor market.

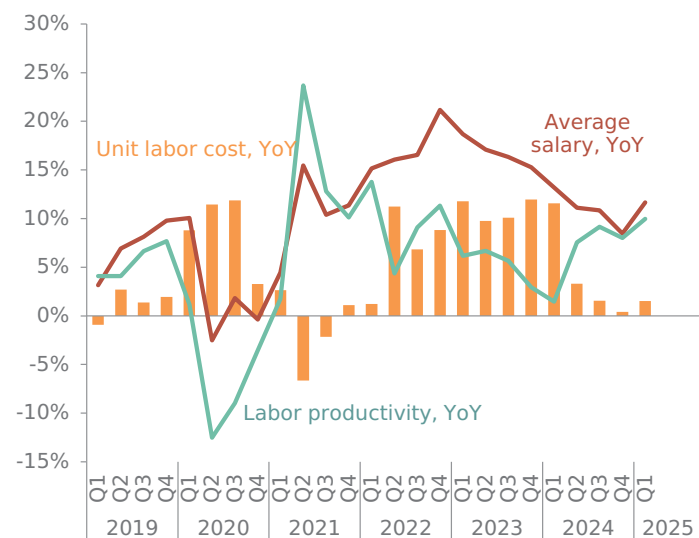


Figure 2.1.11. Average wage, labor productivity, and unit labor cost, y-o-y growth rate

Source: Geostat, NBG.

## 2.2. CENTRAL SCENARIO

The degree of uncertainty in the global economy remains elevated. The fragmentation of the global economy and regional geopolitical turbulence continue to pose significant risks. Moreover, the dynamics of the domestic economy are also noteworthy, particularly the inflationary pressures driven by elevated food prices and strong aggregate demand. Amid these tendencies and uncertainties, the National Bank of Georgia's (NBG) central scenario incorporates a broad range of current information, including assumptions about exogenous factors, transmission mechanisms of the economy, and monetary policy response preferences<sup>4</sup>.

In recent periods, one of the main sources of global uncertainty has remained the fragmentation of the global economy, driven by U.S. tariff policy (see "Overview of the Global Macroeconomic Environment"). According to the central scenario, the direct effects of tariff policy on the Georgian economy are limited, and its impact is largely indirect - reflected through a slowdown in global economic activity and heightened uncertainty. At the international level, the tariff policy agenda has been revised multiple times, and its final configuration has yet to be determined. A more severe-than-expected tariff policy could push the Georgian economy toward a high-inflation scenario. This, in the central scenario, under the risk-minimization approach, necessitates additional caution towards monetary policy normalization.

On the one hand, tariff policies have proven to be less severe. However, on the other hand, high-inflationary risk has materialized due to the escalation of the Iran-Israel conflict in the Middle East. This, in turn, has led to a deterioration in regional sentiment and a temporary increase in international oil prices. The central scenario assumes that this risk has already been fully realized and incorporates the maintenance of the ceasefire in the Middle East, along with the gradual normalization of geopolitical risks in the region.

Amid elevated global uncertainty, financial conditions in advanced economies remain tight (see "Overview of the Global Macroeconomic Environment", Figures 1.2–1.3). This, all else being equal, increases pressure for capital outflows from emerging economies, including Georgia. However, the global weakening of the U.S. dollar, along with the domestically maintained tight pol-

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<sup>4</sup> The National Bank's priorities to anchor inflation expectations around the inflation target, which may include, among other measures, delayed policy normalization.

*Amid the relatively slow normalization of fundamental factors and the current strong economic activity, the economic growth forecast for 2025 has been revised from 6.7% to 7.4%. In addition, the average financial market expectation for economic growth has improved from 6.4% to 7.4%.*

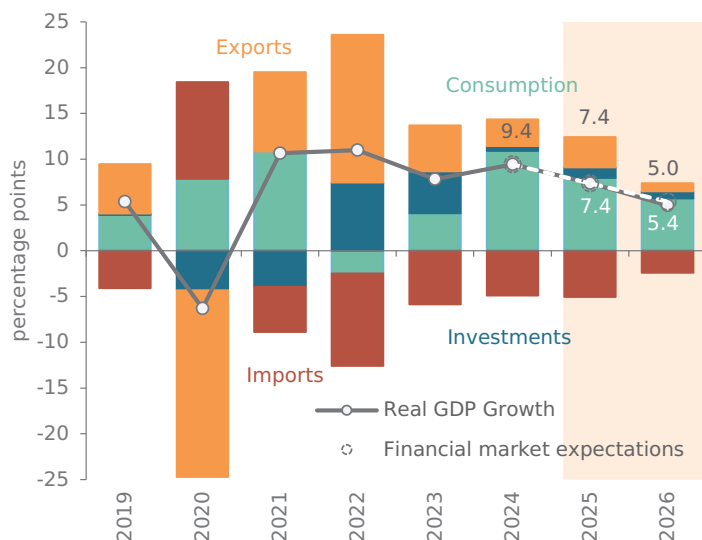


Figure 2.2.1. Central Scenario for Real GDP Growth and Financial Market Participants' Expectations of Economic Activity

Source: NBG, Financial Market Participants, Geostat.

*According to the central scenario, inflation will temporarily remain above 3% in 2025, averaging 3.8%, amid imported inflation from trading partners, the base effect of the previous year, and declining global oil prices. In 2026, it will stabilize near the target level, averaging 3.1%.*

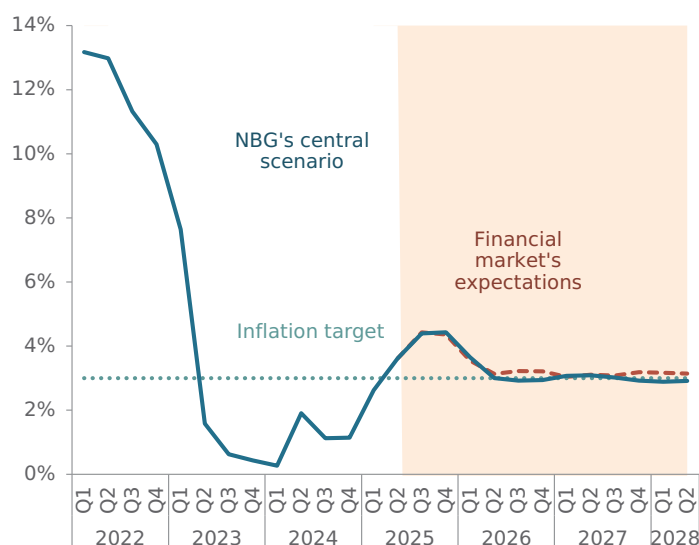


Figure 2.2.2. Central scenario of annual inflation and inflation expectations of financial market participants

Source: NBG, Financial Market Participants.

icy stance, offsetting this pressure. The tightening of global financial conditions has also affected the Georgian economy, reflected in higher funding costs and an increased credit risk premium. This is particularly evident in the rise of interest rates on business loans. In the short term, the central scenario assumes that these tight financial conditions will persist. This, in turn, will support the maintenance of tight monetary conditions, keep credit activity close to its optimal level (15%), and facilitate the normalization of the economy to its long-term potential.

Despite global turbulence and tight financial conditions, economic growth remains elevated over a prolonged period. This, alongside structural shifts in the economy, is explained by strong aggregate demand and the slower-than-expected normalization of elevated production capacity. While assessing aggregate demand, strengthened consumption is particularly noteworthy, especially the increase in household spending. In turn, strong external demand - especially the export of information and communication (ICT) services - alongside solid performance in other relatively productive sectors and elevated capital formation, points to the sustained strength of potential output growth. **Especially given the relatively slow normalization of fundamental factors and strong economic growth in the first five months of the year, real GDP growth for 2025 in the NBG's central scenario has increased from 6.7% to 7.4% (see Figure 2.2.1).**

It is noteworthy that financial market expectations regarding economic growth align with the NBG's central scenario. Market participants' macroeconomic forecasts have improved significantly, with the average expectation for 2025 revised upward from 6.4% to 7.4% (see Figure 2.2.1).

According to the central scenario, the slow normalization of high potential growth in highly productive, export-oriented, and less import-intensive sectors softens inflationary pressures stemming from strong demand. Additionally, this, amid strong external inflows, other things being equal, exerts pressure on the lari exchange rate to appreciate and helps reduce imported inflation. Notably, in addition to the positive dynamics of the current account, the strong position of the GEL's effective exchange rate is also attributed to the global weakening of the Turkish lira and the U.S. dollar. In turn, the strength of the lari's exchange rate compared to USD - through both real and financial dollarization channels - significantly reduces inflationary pressures and supports the stability of inflation expectations.

The central scenario also incorporates assumptions regarding international commodity markets.

*The eventual normalization of inflation to the target level will be driven by the mutual balancing and gradual dissipation of the inflationary effects of strong aggregate demand, on the one hand, and the effects of low oil prices and a weak dollar, on the other.*

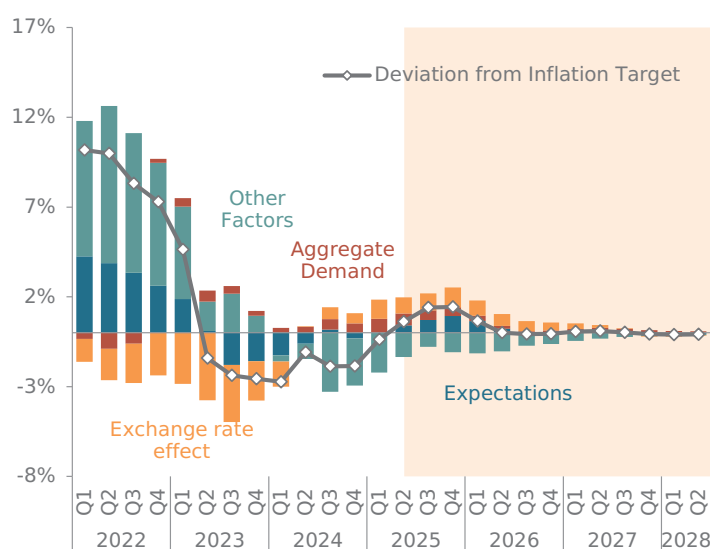


Figure 2.2.3. Decomposition of the deviation from the annual inflation target under the central scenario

Source: NBG, Geostat.

*According to the central scenario, despite the downward revision of the medium-term inflation forecast, given the presence of inflationary risks, following a risk-minimization approach, the monetary policy rate will be maintained at its current level in the short term.*

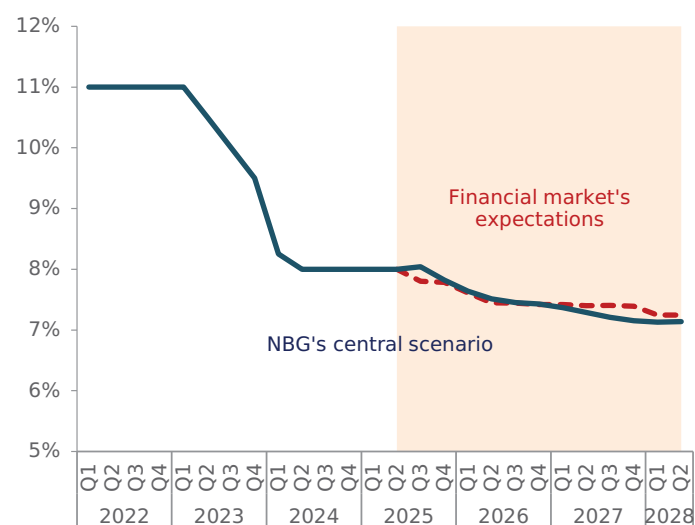


Figure 2.2.4. Central scenario of the monetary policy rate and expectations of financial market participants.

Source: NBG, Financial Market Participants.

According to the U.S. Energy Information Administration's (EIA) July forecast, despite price increases driven by geopolitical risks in the Middle East, amid global inventory levels and planned supply increases, the average price of Brent crude oil will amount to 69 USD per barrel in 2025 and decline to 58 USD in 2026. It is worth noting that this forecast does not account for the decision by OPEC+ on July 5 to increase production more than expected, which could reinforce the downward trajectory of oil prices within this year.

Regarding the international food price index (FAO), the central scenario anticipates its slight increase, considering climatic and geopolitical conditions. However, its impact on inflation is expected to remain limited. Notably, increased domestic food prices - largely driven by unfavorable climatic conditions - has made a significant contribution to elevated inflation. In general, central banks do not respond to exogenous, transitory supply shocks caused by climate conditions, unless such shocks have an undesirable impact on medium- and long-term inflation expectations. The central scenario assumes that inflationary pressures stemming from food prices will gradually fade and not trigger second-round effects. It is important to note that the materialization of this risk could push the economy toward a high-inflation scenario. This, in the central scenario, under the risk-minimization approach, leads to additional caution towards the normalization of monetary policy.

According to the central scenario, considering imported inflation from trading partners, previous year's base effect, and other aforementioned factors, **inflation in 2025 will temporarily remain above the 3% target, averaging around 3.8%. In 2026, it will stabilize around the target rate and average 3.1%.** The eventual normalization of inflation to the target level will be driven, on the one hand, by the fading inflationary effects of strong aggregate demand, and on the other, by the offsetting influences of low oil prices and a weak U.S. dollar, along with their gradual dissipation over time (see Figures 2.2.2–2.2.3).

The inflation forecast for 2025 has not changed compared to the previous central scenario. The realization of the high-inflation scenario risks - a temporary escalation of the Iran-Israel conflict in the Middle East and higher-than-expected food prices - was balanced by the realization of the low-inflation scenario risks - high production capacity and a stronger-than-expected position of the GEL. Notably, the inflation forecast for 2026 has been revised down by 0.4 pp, reflecting improved inflation expectations, a stronger-than-expected position of the GEL exchange

*The high-inflation scenario is based on strong domestic demand and prolonged maintenance of high food inflation, coupled with renewed escalation of geopolitical situation and tariff policies, and increased inflationary pressures from commodity markets.*













High-Inflation Risks	
<ul style="list-style-type: none"> <li>Higher-than-anticipated acceleration of global economic fragmentation – renewed escalation of tariff policies</li> <li>Renewed escalation of geopolitical situation in the Middle East</li> <li>Prolonged strong domestic demand</li> </ul>	
Indicators of risk realization	Impact on inflation
Deterioration in inflation expectations	
Economic growth above potential	
Weak foreign inflows and worsening of current account balance	
Increase in country risk premium and globally high interest rates	
High commodity prices in both international and domestic markets	
Impact size	
   	
<div>Neutral</div> <div>Low</div> <div>Medium</div> <div>High</div>	
	Upward Pressure on Inflation
	Same Level of Inflation
	Downward Pressure on Inflation

Table 2.3.1. Taxonomy of Risks in High-inflation Scenario

Source: NBG.

rate, and less severe tariff policies.

Similar to expectations for economic growth, inflation expectations among financial market participants are largely aligned with the NBG's central scenario. In particular, according to the financial market forecast, average inflation for 2025 increased by 0.3 pp to 3.8% compared to the previous survey. It is worth noting that, according to their expectations, inflation will stabilize around its target level in 2026 and average 3.3% (see Figure 2.2.2).

According to the central scenario, **despite the downward revision of the medium-term inflation forecast, given the presence of both domestic and global inflationary risks, following a risk-minimization approach, the monetary policy rate will be maintained at its current level in the short term.** Amid the subsidence of inflationary risks, the NBG will continue to normalize the monetary policy rate, which largely aligns with expectations in the financial market (see Figure 2.2.4).

### 2.3. HIGH-INFLATION SCENARIO

Amid high uncertainty, the **High-Inflation Scenario** is as relevant as the central scenario and considers the realization of the identified risks that would result in a higher inflation than in the central scenario. Accordingly, if these risks materialize, fundamental processes would require a higher interest rate path compared to the central scenario. In particular, the scenario assumes a more pronounced materialization of both geopolitical and domestic inflationary risks identified in the current data, relative to the central scenario, and also takes into account additional inflationary pressures stemming from commodity markets.

The U.S. tariff policy agenda has been revised several times (see "Overview of the Global Macroeconomic Environment"), and its renewed escalation would accelerate global economic fragmentation more than anticipated, creating a stagflationary environment and further increasing uncertainty in the global economy (see Figure 1.1). As a result, interest rates would remain at an elevated level, which could create risks of capital outflow from emerging to advanced economies. In turn, the high uncertainty stemming from tariff policy and the stagflationary environment would lead to an increase in the neutral interest rate in the U.S.

This scenario also assumes a renewed escalation of the geopolitical situation in the Middle East. The latter, compared to the central scenario, will increase the riskiness of the region and dampen

*On the one hand, strong demand in the short term, and on the other, tighter monetary policy in response to inflationary pressures, along with a slowdown in global economic activity, will result in 7.7% economic growth in 2025, followed by a deceleration to 4% in 2026.*

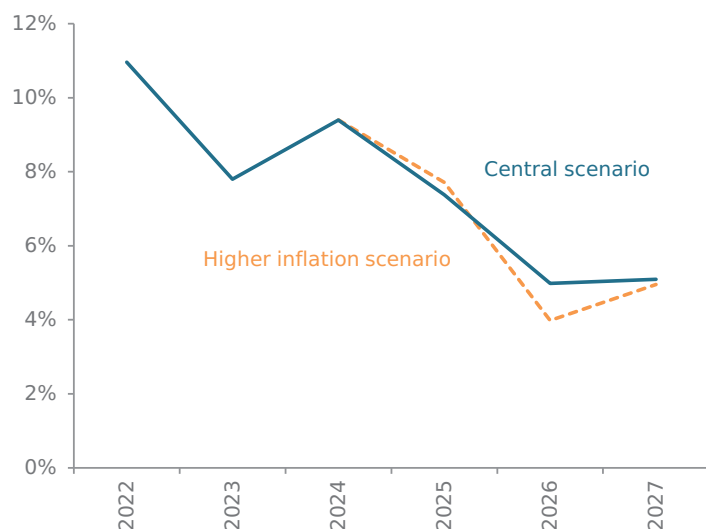


Figure 2.3.1. Real GDP Growth Under Central and High-Inflation Scenarios

Source: NBG, Geostat.

*Strong demand in the short term, prolonged high food inflation, and rising commodity prices will significantly increase inflationary pressures over the monetary policy horizon.*

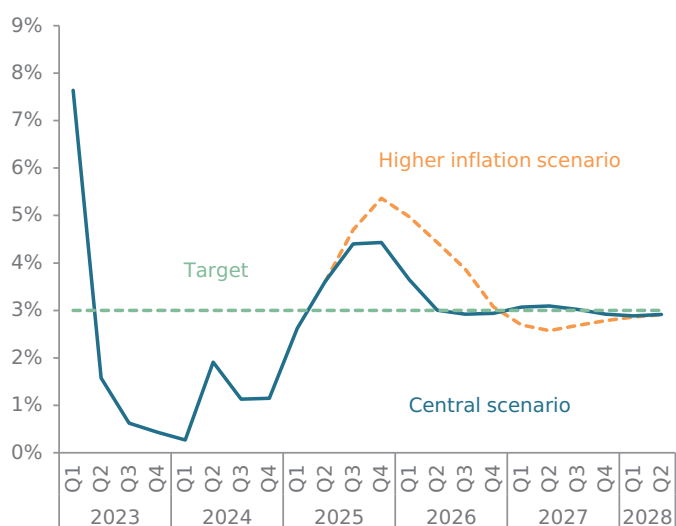


Figure 2.3.2. Year-over-year Headline Inflation Under Central and High-Inflation Scenarios

Source: NBG, Geostat.

investor expectations, which will also be reflected in a reduction in investment spending. These developments would also exert significant pressure on the global oil markets, potentially leading to a substantial reduction in global oil supply and, consequently, an increase in oil prices.

Notably, alongside the challenges in the global economy, the high-inflation scenario also considers the realization of domestic risks. In particular, it assumes that amid the normalization of the economy's potential, strong demand will persist (see Figure 2.1.3). This, in turn, amidst excess capacity utilization, would lead to high economic activity and demand-driven inflationary pressures in 2025. In addition, the prolonged maintenance of elevated food prices resulted from the adverse climatic conditions in the previous period (see Figure 2.1.10) increases the risks of second-round effects.

It is noteworthy that the NBG is particularly intolerant of demand-driven inflation. Food inflation, however, gains critical importance only when it influences inflation expectations and undermines the credibility of the inflation target, which necessitates additional policy tightening.

Ultimately, in 2026, as demand-side pressures are neutralized and amid worsening global economic outlook, economic growth will decelerate. Accordingly, in the high-inflation scenario, **real GDP growth will be 7.7% in 2025 and 4% in 2026** (see Figure 2.3.1).

Elevated risk premiums and globally high interest rates will increase the risk of capital outflow and further reduce foreign inflows. This, compared to the central scenario, will worsen the current account deficit and exert depreciation pressure on the exchange rate. In addition, the increase in international commodity prices, amid escalation of the situation in the Middle East will also transmit to headline inflation through the imported inflation channel.

In turn, the pressure from strong demand and the maintenance of high food inflation will also contribute to higher domestic inflation and pose a threat to inflation expectations. Accordingly, under the high-inflation scenario, **in 2025 inflation is projected to be 0.3 pp higher**, compared to the central scenario, **averaging 4.1%, while in 2026 it will be higher by 1 pp and will average 4.1%** (see Figure 2.3.2).

The NBG exhibits a low tolerance against rising inflation expectations. Consequently, the above-mentioned developments would lead to a tightening of monetary policy. In addition, the increase in the U.S. neutral interest rate, coupled with the deterioration of domestic fundamentals,

*The National Bank of Georgia has a low tolerance against inflation and/or the rise in inflation expectations. Consequently, the high inflationary environment in this scenario, compared to the central scenario, will lead to a tightening of monetary policy and its normalization will begin at a gradual pace, contingent on the stabilization of the inflationary environment.*

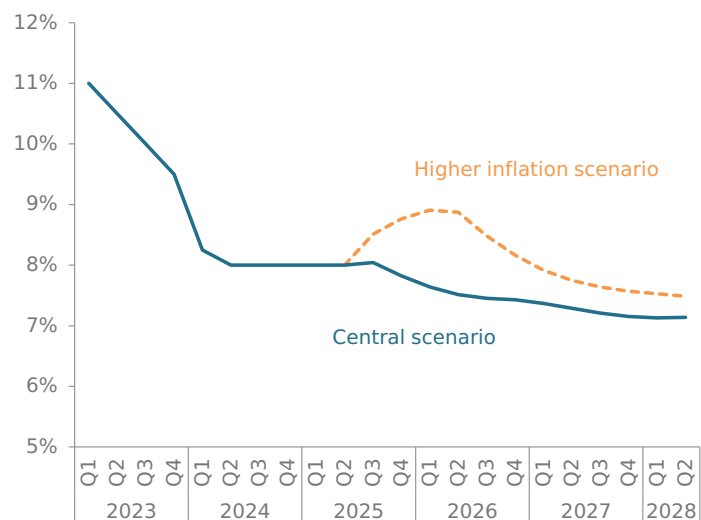


Figure 2.3.3. Monetary Policy Rate Under Central and High-Inflation Scenarios

Source: NBG.

will also **transmit to the domestic neutral interest rate over the medium term and lead to its revision to 7.5%**. Ultimately, the **monetary policy rate will be higher** compared to the central scenario **by 0.4 pp in 2025 and by 1.1 pp in 2026** and its normalization will begin at a gradual pace toward the 7.5% level, contingent on the stabilization of the inflationary environment (see Figure 2.3.3).

## 2.4. LOW-INFLATION SCENARIO

Given the high uncertainty, it is also relevant to consider **Low-Inflation Scenario**. This scenario envisions the realization of identified risks that, compared to the central scenario, would lead to a lower inflationary environment (see Table 2.4.1) and, accordingly, require a lower trajectory of the monetary policy rate.

Particularly, under the low-inflation scenario, amid structural changes, productivity will remain at a relatively high level, which, in turn will prolong the disinflationary effect stemming from the labor market. In addition, rapid normalization of food prices will reduce inflationary pressure. The scenario also considers a globally weak position of U.S. dollar and a swift normalization of global uncertainty.

In recent years, high economic growth was driven by structural shifts in the economy. Specifically, in the post-covid period, the growth rate of highly productive sectors, such as the ICT sector, has accelerated. Meanwhile, as a result of ongoing geopolitical developments, Georgia's role as a Middle Corridor has increased, further enhancing the economy's potential output through this channel. The central scenario assumes that this factor accelerated potential economic growth only in the short term, while long-term sustainable growth remains at 5%. However, there are certain signs that growth of highly productive sectors may continue at a rapid pace.

Thus, supply-side factors in sectors such as information, transportation, communication, and education will remain key drivers of economic growth.

As a result, high contribution of capital and total factor productivity in economic growth will gradually normalize, and the latter will be sustained at a relatively high level in the long term. This, in turn, will offset the inflationary pressure stemming from strong demand. The low-inflation scenario, among other factors, envisions an increasing role for the Middle Corridor, which - amid the recent fragmentation of global trade - contributes to strengthening Georgia's economic potential. Ultimately, under the low-inflation sce-

*The low-inflation scenario, amid prolonged strong growth in highly productive sectors resulting from structural shifts, projects productivity normalizing at a higher level compared with the central scenario.*












Low-Inflation Risks	
<ul style="list-style-type: none"> <li>Amid structural shifts in the domestic economy, sustained high productivity growth</li> <li>The dissipation of uncertainty around geopolitical and tariff policies</li> <li>The rapid normalization of food prices</li> <li>The longer-than-expected weak position of the U.S. dollar</li> </ul>	
Indicators of risk realization	Impact on inflation
High potential growth	
The improvement of services exports and the reduction of the current account deficit	
Lower-than-expected prices in international commodity markets	
The disinflationary pressure stemming from the labor market	
Impact size	
   	
Neutral      Low      Medium      High	
	Upward Pressure on Inflation
	Same Level of Inflation
	Downward Pressure on Inflation

Table 2.4.1. Taxonomy of Risks in Low-inflation Scenario

Source: NBG.

nario, **economic growth is projected to be averaging 7.7% in 2025 and 5.6% in 2026, remaining around 5.5% over the long term** (see Figure 2.4.1).

As noted above, the high economic growth in recent years was explained by highly productive sectors, which tends to be less import-intensive (see Overview of the Current Macroeconomic Environment, Figure 2.1.2). Under the low-inflation scenario, aforementioned development is expected to continue. Consequently, on the one hand, amid sustained growth in services exports (especially IT services) and on the other, following the already subdued imports, the current account deficit will decrease. In turn, strong external inflows and high productivity, will improve business and consumer sentiment, which amid a strengthening real effective exchange rate trend, will further intensify de-dollarization tendencies (see Figure 2.1.7).

Along with the appreciation of the exchange rate, the dissipation of uncertainty around geopolitical and tariff policies will improve expectations in the commodity markets, ultimately, significantly reducing overall inflation through the imported inflation channel.

Meanwhile, amid high productivity and reduced inflation expectations, unit labor costs will remain at a low level and the disinflationary tendency stemming from the labor market will persist, further reducing domestic inflation. Thus, under the realization of the given scenario, **headline inflation will be lower** compared to the central scenario **by 0.2 pp in 2025 and by 0.6 pp in 2026 – averaging 3.6% and 2.5%, respectively** (see Figure 2.4.2).

Amid subsiding inflationary risks and maintenance of strong fundamental factors, monetary policy normalization will proceed at a faster pace relative to the central scenario. Consequently, **the monetary policy rate will average 7.8% in 2025 and 7% in 2026** (see Figure 2.4.3).

*In the low-inflation scenario, amid increasing external inflows and the maintenance of strong fundamental factors, real GDP growth will amount to 7.7% in 2025 and 5.6% in 2026, respectively.*

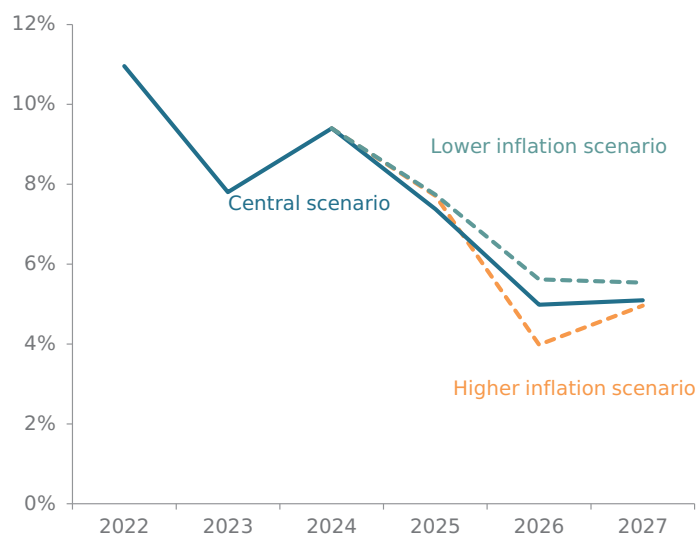


Figure 2.4.1. Real GDP Growth Under Central, High-Inflation, and Low-Inflation Scenarios

Source: NBG, Geostat.

*Amid strong fundamental factors, monetary policy will normalize toward its neutral level of 7% more swiftly than in the central scenario.*

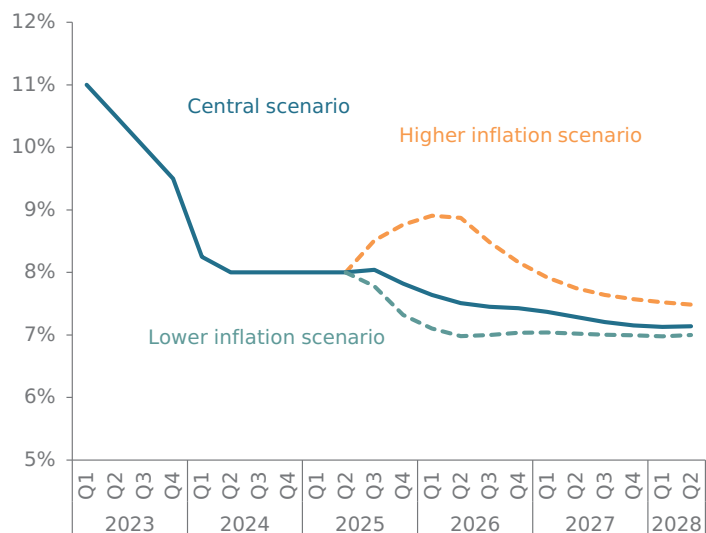


Figure 2.4.3. Monetary Policy Rate Under Central, High-Inflation, and Low-Inflation Scenarios

Source: NBG.

*Amid the prolonged maintenance of high productivity, the disinflationary pressure stemming from the labor market, and lower-than-expected international commodity prices, inflation will be 3.6% in 2025 and 2.5% in 2026, respectively and, over the long term, will stabilize around its target level.*

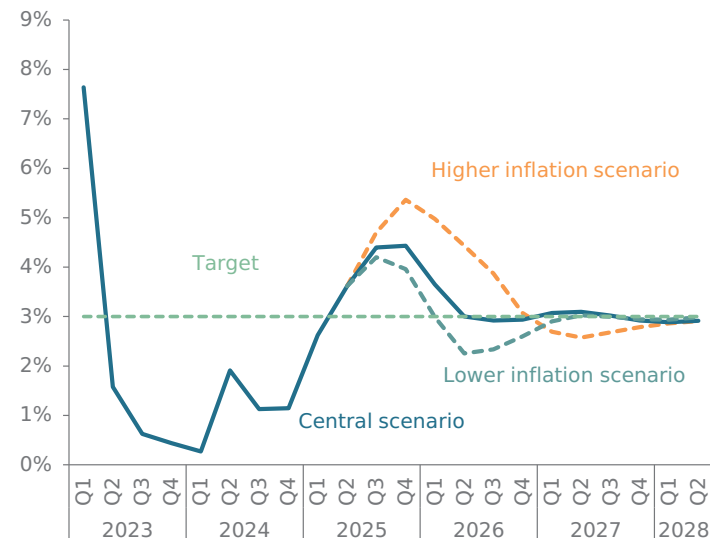


Figure 2.4.2. Year-over-year Headline Inflation Under Central, High-Inflation, and Low-Inflation Scenarios

Source: NBG, Geostat.

### 3. SPECIAL TOPICS

#### BOX 1. CYCLICAL AND STRUCTURAL DRIVERS IN THE IMPORT GROWTH

In the post-covid period, structural changes in the economy have become particularly noticeable, including in terms of domestic demand and production structure. The declining share of imports relative to gross domestic product (GDP) is one of the important tendency. This, on the one hand, contributes to maintaining the current account deficit at a low level. On the other hand, it also indicates acceleration in the pace of growth of economy's production potential. Other things being equal, in the times of high economic growth, demand for imported goods typically increases proportionally. However, as noted, in recent years income growth has consistently outpaced growth in import expenditure. This tendency persisted in 2025 as well. A relatively low import growth is observed in the first two quarters of 2025. Specifically, in June 2025, import of goods increased by 0.9% year-on-year (in nominal terms, U.S. dollars), while in the first half of the year growth amounted to only 6.2%<sup>5</sup>.

The slowdown in import growth amid robust increase in output may be attributed to a range of factors, such as structural, cyclical, or one-off in nature. Distinction of these factors is important to assess whether the moderation in demand for imported goods is temporary in nature or reflects structural changes in the economy associated with longer-term economic tendency.

When analysing these factors, it is essential to evaluate import in real terms, since in recent periods the decline in nominal imports has been partly driven by price changes. For instance, currently, the decline in oil prices is slowing the pace of import growth. Similarly, the increase in oil prices was one of the driver of high import growth in 2022. Since the product exhibits low demand elasticity, price changes lead to changes in import expenditure. Moreover, in this analysis, those identifiable goods, that may not be related to cyclical and structural factors affecting the economy, are excluded from the various components of import. For example, the import of vehicles, as well as large one-off import components, are excluded from the consumer goods import.

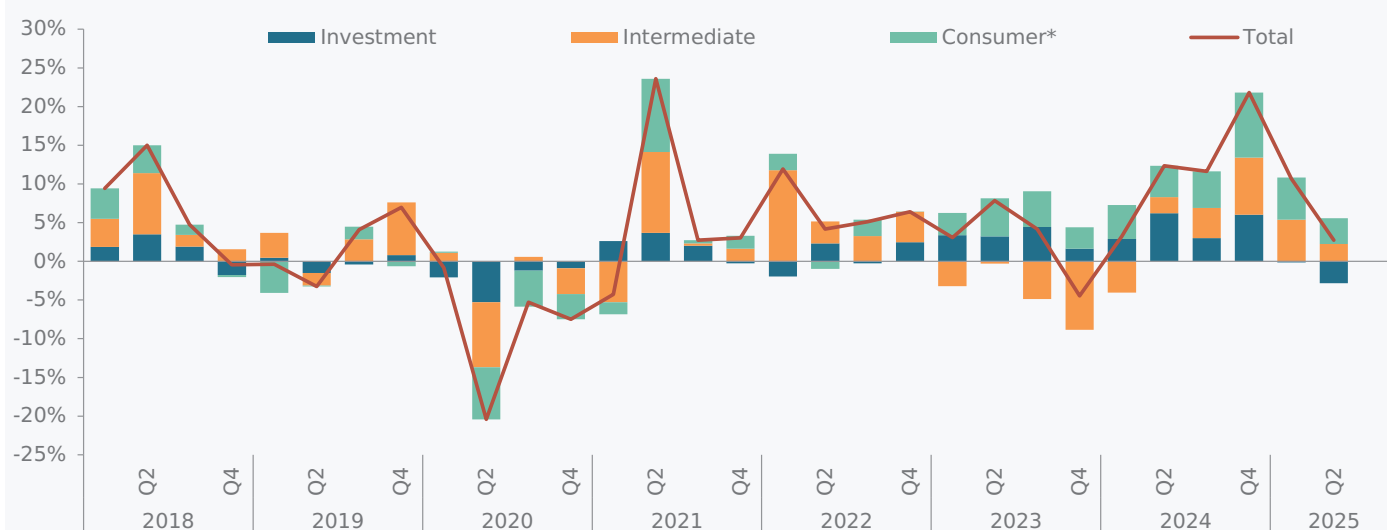


Figure 3.1.1. Real Import Growth Decomposition

Source: NBG, Geostat.

\* By excluding one-off components in import

In recent quarters, the slowdown in real import growth has been primarily driven by imports of investment goods (see Figure 3.1.1)<sup>6</sup>. However, it should also be noted that the real import growth of this component was particularly high last year, which may partly reflect its cyclical nature. In particular, firms accumulate inventories during favourable times, followed by a slowdown in import activity as they draw down these stocks. This is notable, for example, in figure 3.1.2, that shows the ratio of import components to GDP, according to which the level of investment goods imports was quite elevated last year (year-on-year 26%).

<sup>5</sup> By excluding one-off components in import

<sup>6</sup> To measure real import, imported price component of the Consumer Price Index was used as a deflator, in the case of consumer goods, while the real values of other import components have been calculated using the overall import price index.

Thus, we can consider this as a cyclical movement, and low growth in investment goods imports is expected this year due to the base effect. Meanwhile, consumer goods imports, although showing some slowdown, remain robust and increased by 9.6% year-on-year in the second quarter of 2025. Alongside raising incomes, an increase in savings is also observed, which in turn supports the declining tendency of the import-to-GDP ratio over the long term.

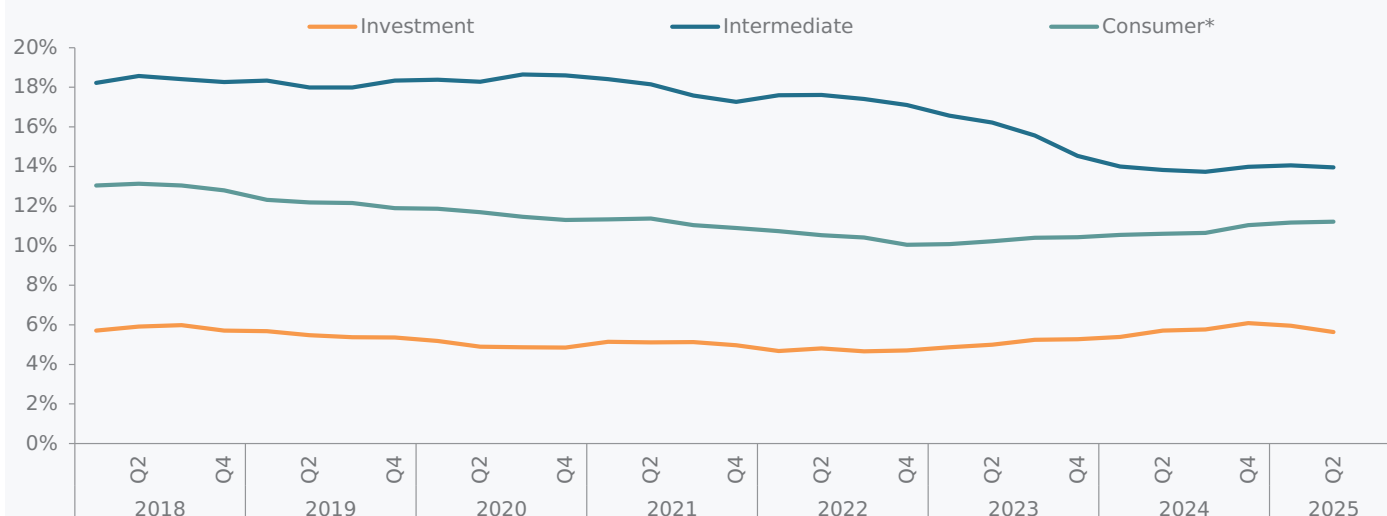


Figure 3.1.2. The Ratio of Real Import Components to GDP

Source: NBG, Geostat.

\* By excluding one-off components in import

Against this background, the tendency of slowdown in import of intermediate goods is noticeable, which may reflect the ongoing structural changes in the economy. A marked reduction in intermediate goods import has been observed since 2022. Over the same period, a reduction in the contribution of import-intensive sectors to GDP growth has also been observed in post pandemic period (see figure 3.1.3), indicating that the economy is expanding increasingly as a result of activity in less import-intensive sectors. This is consistent with the fact that economic growth in post-pandemic period has largely been led by the services sector. This, in turn, relies more on the intensive use of labor compared to imported material resources. For instance, the information and communication sector is one of the least import-intensive sectors, which mainly relies on labor in the service delivery process.

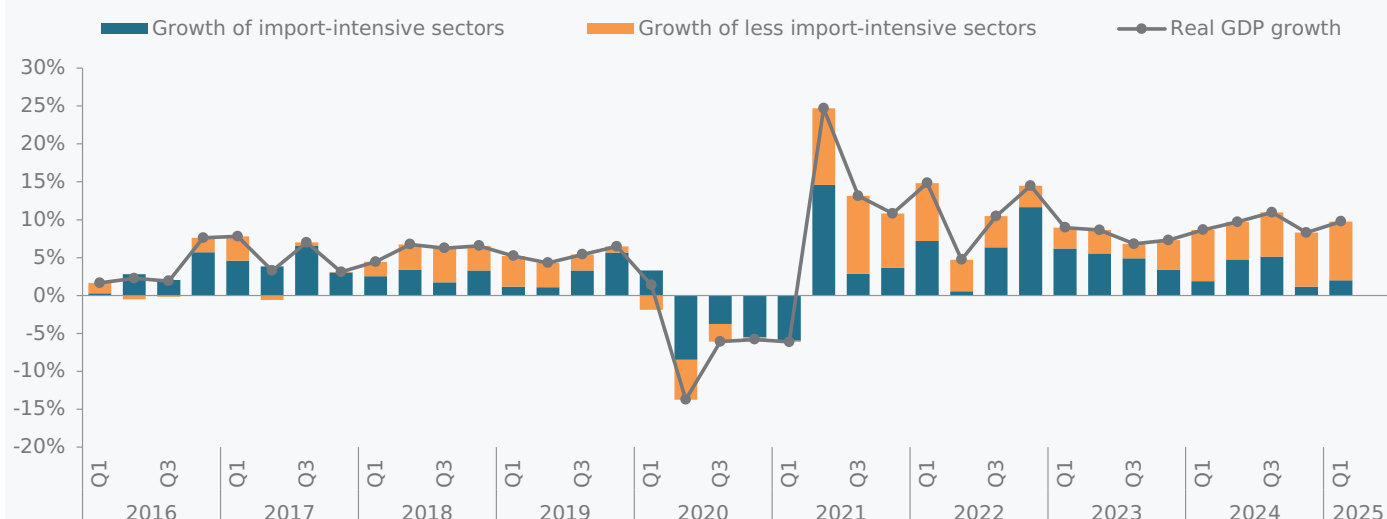


Figure 3.1.3. Decomposition of Economic Growth by the Contribution of Import-Intensive and Less Import-Intensive Sectors

Source: Geostat.

Finally, on the one hand, a notable change in the level of intermediate goods import is observed, which may be associated with existing structural shifts in the economy and the growth acceleration in less import-intensive sectors. This, in turn, reflects long-term economic trends. On the other hand, the recent reduction in investment goods imports – currently primary driver of relatively subdued import growth – is largely result of base effect and may be of a relatively temporary in nature. In this context, the growth of consumer goods imports is robust and in line with its long-term dynamics.

## 4. SUMMARY OF THE MACROECONOMIC FORECASTS OF THE NBG AND FINANCIAL MARKET PARTICIPANTS

### SUMMARY OF THE MACROECONOMIC FORECASTS OF THE NATIONAL BANK OF GEORGIA

	Fact	Central Scenario			Higher-Inflation Scenario			Lower-Inflation Scenario		
	2024	2025	2026	2027	2025	2026	2027	2025	2026	2027
Inflation (%)	1.1	3.8	3.1	3.0	4.1	4.1	2.7	3.6	2.5	3.0
Real GDP Growth (%)	9.4	7.4	5.0	5.1	7.7	4.0	5.0	7.7	5.6	5.5
Monetary Policy Rate (%)	8.0	8.0	7.5	7.3	8.3	8.6	7.7	7.8	7.0	7.0

Table 4.1. Summary of the Macroeconomic Scenarios of the National Bank of Georgia

Source: NBG, Geostat.

\* The table displays the average annual changes of the variables

### FORECASTS OF FINANCIAL MARKET PARTICIPANTS

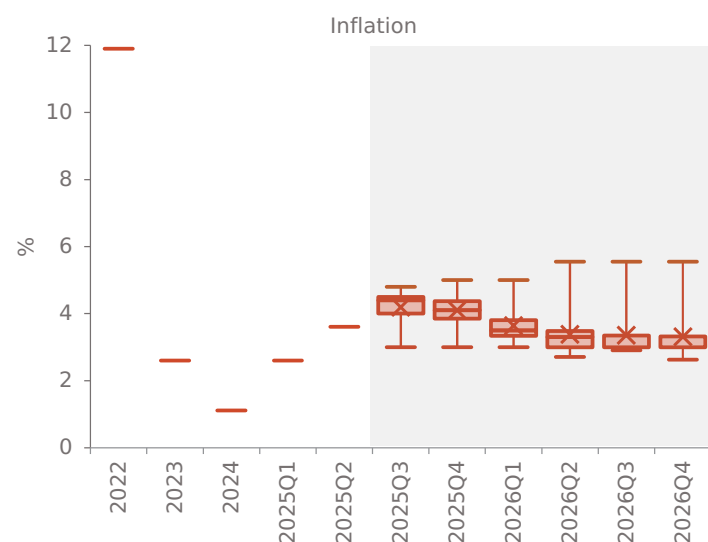


Figure 4.1. Actual average inflation and the distribution of market participants' forecasts

Source: NBG, financial market participants, Geostat.

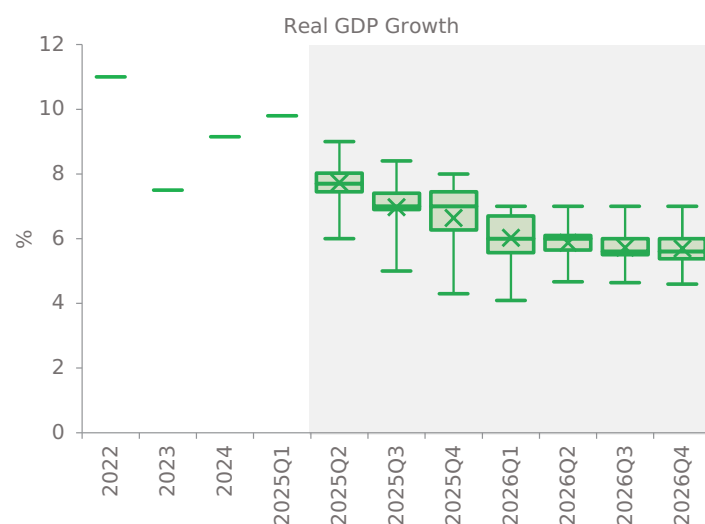


Figure 4.2. Actual real GDP growth and the distribution of market participants' forecasts

Source: NBG, financial market participants, Geostat.

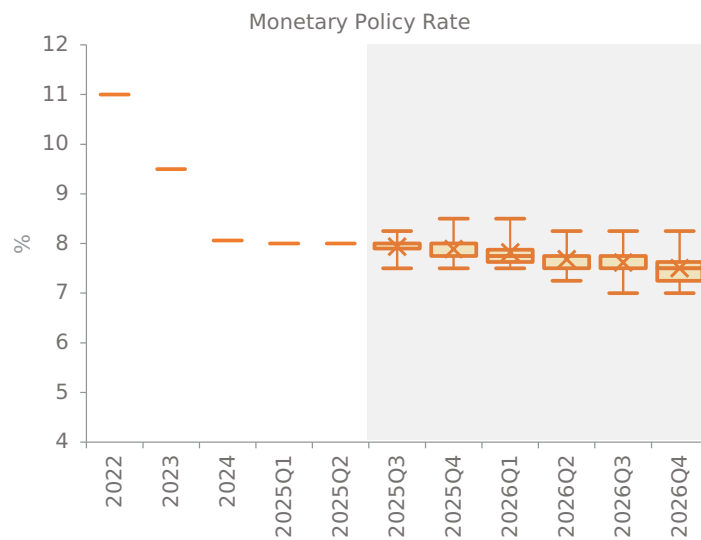


Figure 4.3. Actual monetary policy rate and the distribution of market participants' forecasts

Source: NBG, financial market participants.

1, Zviad Gamsakhurdia Embankment, Tbilisi 0114, Georgia  
Tel.: (995 32) 240 6480; Fax: (995 32) 240 6571; Hot line: (995 32) 240 6406  
E-mail: [info@nbg.ge](mailto:info@nbg.ge); [www.nbg.ge](http://www.nbg.ge)



საქართველოს ეროვნული ბანკი  
National Bank of Georgia