



საქართველოს ეროვნული ბანკი
National Bank of Georgia

Macroeconomic Scenarios for IFRS 9

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Within the International Financial Reporting Standards (IFRS9) framework, credit risk assessments should incorporate forward-looking analysis. In particular, when assessing expected credit losses, the analysis of macroeconomic and financial factors, expected risks and dynamics should all be taken into account. The National Bank of Georgia (NBG) believes this amendment will facilitate timely recognition of credit risks and will therefore have a positive impact on financial stability.

To ensure transparent, consistent and efficient implementation of IFRS9 by financial institutions, starting from 2018 the NBG regularly publishes macroeconomic and financial forecasts and risk scenarios. The purpose of these scenarios is to provide financial institutions with consistent quantitative estimates of key macroeconomic variables to use them for expected credit loss calculations.

The baseline scenario relies on the NBG's Forecasting and Policy Analysis System (FPAS), while the alternate scenarios are based on a macro-financial model for risk scenario analysis. Additional estimations (satellite models) are used for those variables that are not directly derived from the models. The scenarios also incorporate additional analysis and expert judgement.

The scenarios are based on the data available at the moment of analysis and use the appropriate assumptions on exogenous variables. Scenarios are thus very likely to change when new information becomes available. The dynamics of the variables presented in the scenarios should not be perceived as NBG objectives (e.g., the interest rate, the exchange rate, etc.).

The baseline scenario reflects the most probable state of the economy balanced by risks from both sides, while the alternative scenarios consider different types of shocks (both positive and negative). The shocks are selected based on their relevance to current circumstances and on expert judgement. It should be noted that

although the adverse scenarios reflect negative shocks, these scenarios are less severe than those used in stress testing.

In the current issue of the scenarios, the main drivers of the encompassing macroeconomic variables are the assumptions regarding the duration of the conflict in the Middle East, along with the speed of normalization of Georgia's economic potential. In the baseline scenario, in the short term, high-productivity sectors and external demand are considered the leading factors of economic growth, while their normalization will determine growth in the medium term. The upside scenario assumes a faster settlement of the conflict in the Middle East and a reduction in uncertainty compared to the baseline scenario. The adverse scenario encompasses the risks of global supply chain disruptions and tightening of global financial conditions, against the backdrop of more prolonged conflict than in the baseline scenario. It should be noted that uncertainty and risks regarding the future period are high.

The forecast horizon is three-four years and the scenarios are updated twice a year. In case of any significant changes in the macroeconomic environment, the scenarios will be updated more frequently. The scenarios describe the macroeconomic situation in the country and cover all of the main macroeconomic variables. However, not all of these variables are required to be included in the credit loss assessment model. The macroeconomic variables in the scenarios are provided at annual frequency. If an expected credit loss assessment model utilized by a financial institution is based on data of a higher frequency, the variables can be converted into the desired frequency by using linear interpolation. This way annual changes in the selected macroeconomic variables will be evenly distributed over the chosen higher frequency.

For credit loss assessment, 50% probability should be assigned to the baseline scenario, while the upside and adverse scenarios should both be given 25%-25% probabilities. It

should be noted that as Georgia is a small open economy it is highly vulnerable to shocks. Thus, it is essential to consider the non-linear relation between macroeconomic scenarios and credit risk. Therefore, it is necessary to evaluate the expected credit loss for each of the scenarios, and only then weight them with the corresponding probabilities.

It should also be noted that the macro scenarios published by the NBG should not be perceived as the only correct version. Financial institutions may add an alternative scenario and/or change it. However, in such cases it is necessary for the financial institution to understand the relevance of the corresponding scenario and the linkages between the different macroeconomic variables within each scenario. If necessary, the financial institution should be able to prove the reasonability of any changes made to a scenario and/or justify the introduction of new scenarios.

Baseline Scenario

According to the baseline scenario, which reflects the central scenario published in the NBG's May 2026 issue of the Monetary Policy Report, despite some challenges, the Georgian economy continues to grow at a high rate in 2026. On the verge of a moderate decline in global inflation and the stabilization of global economic growth, the outbreak of another war in the Middle East has triggered a new supply shock. This conflict has caused significant disruptions in supply chains and led to increased uncertainty and rising commodity prices. The war has had a particularly substantial impact on energy prices, resulting in a significantly negative effect on transportation and intermediate costs. These circumstances are generating global inflationary pressures and causing a delay in the easing of financial conditions. Consequently, the Fed and the ECB will maintain the strict monetary policy stance in 2026.

Under the baseline scenario, delayed easing of

global financial conditions and high uncertainty are weighing on expectations. This environment triggers capital outflow risks, setting the stage for currency depreciation and slowed economic activity in emerging markets and developing economies. As a result, stagflation risks are rising. To mitigate these pressures alongside high inflationary expectations, these nations are expected to keep financial conditions tight.

In the baseline scenario, increased oil prices and supply chain disruptions resulting from the war in the Middle East have driven up inflation in Georgia as well. This has also led to an increase in intermediate costs. Furthermore, rising electricity and import tariffs in Georgia are creating additional inflationary pressures. However, the baseline scenario assumes that the hostilities in the Middle East will conclude in the short term, and the impact of the increased tariffs will fade starting next year. Consequently, the temporary nature of this significant supply shock, combined with the exhaustion of the base effect from increased taxes, will lead inflation back to its target level starting next year.

According to the baseline scenario, increased regional uncertainty lead to a significant tightening of global financial conditions, along with rising risks of capital flight toward safe-haven assets. However, Georgia's sovereign risk premium remains at a low level, reflecting the positive sentiment of investors. Furthermore, considering the weak impact of the war's direct effects on the current account balance, the GEL exchange rate both against the U.S. Dollar and in nominal effective terms is projected to maintain its current strong position.

In the baseline scenario, a powerful supply shock in Georgia increases the risks of second-round effects on inflation, which negatively impacts inflationary expectations. Monetary policy is specifically directed toward maintaining these expectations near the target level. Consequently, to mitigate the risks of these expectations transforming into widespread high-inflationary processes, a somewhat prolonged tightened stance of monetary policy is expected in the

short term. As transitory inflationary pressures subside, the exit from the tightened monetary policy will be implemented gradually, reaching a neutral level over the medium term.

According to the baseline scenario, the cancellation of international flights due to the state of war, rising regional uncertainty, and the slowdown of economic activity in the Middle East will exert downward pressure on Georgia's tourism revenues. Furthermore, the increase in oil prices will reduce household purchasing power which, coupled with the tightening of global and local financial conditions, will slow the growth rate of aggregate demand. On the other hand, the disruptions of supply chain caused by the escalation of the conflict in the Middle East will support growth in mining and metallurgical exports of Georgia. Moreover, rising oil prices will boost demand from the region's oil-exporting countries. The momentum from stronger-than-expected economic growth in the previous period will have a positive impact on economic growth in 2026. However, considering the negative effects caused by supply chain disruptions and tighter financial conditions resulting from the war, economic activity will normalize rather quickly. As a result, Georgia's economic growth will reach 6.5% in 2026, before returning to its long-term target of 5% in the subsequent period. Following the slowdown in economic activity, the unemployment rate will continue to normalize.

According to the baseline scenario, the tightening of financial conditions and increased inflation will also impact real estate demand. However, against the backdrop of continued strong economic activity, real estate prices will increase in line with nominal economic growth.

There is high uncertainty around the baseline scenario due to existing geopolitical conditions in the world. In particular, in the coming years, Georgia's economic activity will significantly depend on persisting uncertainty in global and local markets due to geopolitical tensions, along with disruptions in trade relations. This process has a significant impact on the expectations

of the global trade and financial markets and increases the pressure from the external sector on Georgia. The following alternative scenarios consider the sources of uncertainty and discuss the possible alternative developments of events.

Alternative Scenarios

In contrast to the baseline scenario, which is balanced by risks from both sides, the alternative scenarios examine various exogenous shocks that are chosen based on their relevance to current circumstances and expert judgement. In particular, the upside scenario considers a rapid resolution of the ongoing 2026 conflict in the Middle East compared to the baseline scenario, a swift decline in oil product prices following the restoration of energy supplies, and a reduction in market uncertainty. Whereas, the adverse scenario focuses on a significant degradation of the production capacity of critical energy facilities in the region as a result of a prolonged conflict, alongside a long-term tightening of financial conditions. It should also be noted that the alternative scenarios do not consider risks associated with fiscal and other macroeconomic policies.

Upside Scenario

According to the upside scenario, The de-escalation of existing geopolitical tensions in the Middle East will occur more rapidly than in the baseline scenario, followed by a normalization of energy prices. A swift resolution of the conflict will reduce the risks of trade fragmentation. Consequently, uncertainty in global markets will diminish, disruptions to international trade flows will prove to be short-term, and from the second half of 2026, inflationary expectations will stabilize.

According to the upside scenario, the volume of global investments directed toward the development of artificial intelligence will increase. Deeper integration of AI into

production processes by companies will stimulate growth in the scale of production and encourage innovation, which will accelerate productivity growth and make it sustainable. Given the acceleration of global potential growth and the decline in inflationary expectations, the world's leading central banks are easing monetary policy more rapidly compared to the baseline scenario. Specifically, by the beginning of 2027, the U.S. Fed and the European Central Bank will start to cut interest rates. This will lead to the easing of global financial conditions, which will contribute to a faster recovery of global economic activity.

In the upside scenario, the easing of global trade and financial conditions will improve market sentiment and reduce uncertainty in emerging markets and developing economies, thereby driving an increase in investment flows. As a result, economic growth in these countries will also accelerate. Following the stabilization of oil prices and the recovery of trade flows, the share of imported inflation in less developed countries will decrease, and the transition away from a tightened monetary policy stance will continue.

According to the upside scenario, the easing of geopolitical tensions in the Middle East will reduce risk premium in the region, which, along with improved financial conditions, will also contribute to the growth of investment activity. The development of infrastructure projects aimed at strengthening the role of the Middle Corridor will increase the turnover of cargo passing through Georgia, which will improve the current account. These factors will be reflected in a slight appreciation of the GEL exchange rate. Along with the strong position of GEL and the growth of the country's trade potential, the inflationary pressure stemming from the increase in foreign demand will be largely offset. Along with this, the decline in oil prices will further reduce imported inflation. The rapid normalization of external conditions will contribute to the reduction of inflationary expectations. As a result, along with the exhaustion of the base effect of increased tariffs on electricity and the import of certain goods,

inflation will return to its target level from 2027. Consequently, the easing of the monetary policy rate and its decline to the neutral level will occur faster compared to the baseline scenario.

In the upside scenario, the promotion of infrastructure projects and the growth of trade in Georgia will lead to the creation of new jobs in these sectors and, consequently, a reduction in the unemployment rate. As unemployment declines, domestic demand will remain robust. Driven by strong domestic and external demand, economic activity is expected to be more vigorous compared to the baseline scenario. Furthermore, amid reduced unemployment, increased investment, and enhanced trade potential, Georgia's potential economic growth will remain at a high level.

According to the upside scenario, against the background of growth in trade flows, new financial inflows, and the existing macroeconomic stability in the country, Georgia's sovereign risk premium will stabilize at a lower level compared to the baseline scenario. Considering the improved expectations of macroeconomic sustainability and economic growth in the country, the attractiveness of Georgia's real estate as an investment asset will increase. As a result, real estate prices, expressed both in GEL and in U.S. Dollars, will increase at a higher rate compared to the baseline scenario.

Adverse Scenario

According to the adverse scenario, geopolitical tensions in the Middle East are escalating further and lasting longer than expected. Supply disruptions through the Strait of Hormuz will be prolonged, significantly increasing energy and transportation costs. As a result, oil and food prices remain at high levels for an extended period, triggering a new wave of supply-side inflationary pressures globally. At the same time, growing uncertainty and prolonged high inflation are pushing the world's leading central banks to tighten monetary conditions.

Consequently, the Fed and the ECB are entering a new phase of monetary policy tightening and will increase interest rates starting from the end of 2026. The increase in interest rates will continue into 2027 and will only begin to decline from 2028, leading to a long-term tightening of global financial conditions and a weakening of aggregate demand.

In the adverse scenario, amid the ongoing war in the Middle East, prolonged uncertainty regarding trade and financial conditions and increased transportation costs will be reflected in a reduction of trade turnover and lower investments in less developed countries. Against the background of increased risk and uncertainty in the region resulting from geopolitical tensions, investors start reassessing risks, which will lead to redirecting of funds into safe-haven assets. All of this will strengthen the U.S. Dollar and the Euro against the currencies of other countries. Both the disruption of supply chains and the interruption of financial flows increase risks related to the sustainability of foreign inflows in emerging markets and developing economies, such as Georgia. This will lead to an increase in Georgia's risk premium and facilitate capital outflows. As a result, the nominal exchange rate of the GEL will depreciate.

According to the adverse scenario, a prolonged external shock deteriorates Georgia's macroeconomic environment. High global energy and transportation costs increase imported inflation. Given the longevity of the supply shock, the purchasing power of households decreases. As a result, the demand for wage increases within society rises, which increases intermediate costs for firms. These circumstances create additional pressure on the prices of products and services in the local market, which further increases inflation compared to the baseline scenario and reduces domestic demand. In response to heightened

inflationary expectations, an additional tightening of the monetary policy rate becomes necessary, which further restricts domestic activity. At the same time, weak tourism inflows and external demand negatively affect export revenues. Consequently, economic activity will decline significantly.

In the adverse scenario, a decrease in both foreign and domestic demand may lead to a reduction in activity for some businesses. Less diversified companies are particularly vulnerable. As a result, unemployment in the country rises, and in the face of reduced incomes, households also face difficulties in servicing their debt. Increasing credit risk worsens access to loans and hinders economic activity. As a result of the tightening of immigration policies worldwide, unemployment among Georgian migrants increases, which is reflected in a decrease in remittance inflows to Georgia. This, in turn, will further weaken domestic demand.

According to the adverse scenario, against the backdrop of depreciated GEL, increased unemployment and inflation, under conditions of weakened economic activity, will worsen Georgia's macroeconomic environment. Additionally, the attractiveness of Georgian real estate as an investment asset is declining, which will increase the supply-demand imbalance in the real estate market and, in the medium term, lead to a slowdown in real estate price growth.

According to the adverse scenario, due to the still high dollarization of loans, as a result of exchange rate volatility and increased risks related to international trade, the debt burden and credit risk of foreign currency borrowers will increase, while solvency will decline. Against the backdrop of a deteriorated macroeconomic environment, the Georgian economy will grow below potential in 2027 and will begin to normalize from the end of 2027.

Summary of Macroeconomic Scenarios

Scenario	Baseline	Upside (Improved Domestic and International Environments)	Adverse (Escalation of the conflict in the Middle East)
Fed Funds Rate	2026*: +0.25 pp (compared to the current level) 2027: -0.25 pp 2028: -0.25 pp	2026*: +0.0 pp (compared to the current level) 2027: -0.5 pp 2028: -0.25 pp	2026*: +0.5 pp (compared to the current level) 2027: +0.25 pp 2028: -0.5 pp
ECB Policy Rate	2026*: +0.25 pp (compared to the current level) 2027: -0.25 pp 2028: +0.0 pp	2026*: +0.0 pp (compared to the current level) 2027: -0.25 pp 2028: +0.0 pp	2026*: +0.5 pp (compared to the current level) 2027: +0.5 pp 2028: -0.25 pp
Change in Country Sovereign Risk Premium**	2026*: -0.6 pp (compared to 2025) 2027: -0.25 pp 2028: +0.0 pp	2026*: +0.85 pp (compared to 2025) 2027: -0.25 pp 2028: -0.25 pp	2026*: -0.1 pp (compared to 2025) 2027: +1.5 pp 2028: -0.5 pp
GEL/USD Nominal Exchange Rate	2026*†: Unchanged 2027††: Unchanged 2028: Unchanged	2026*†: Appreciation 2% 2027††: Appreciation 3% 2028: Unchanged	2026*†: Depreciation 5% 2027††: Depreciation 20% 2028: Appreciation 5%
Nominal Effective Exchange Rate (NEER)	2026*†: Unchanged 2027††: Unchanged 2028: Unchanged	2026*†: Appreciation 1.5% 2027††: Appreciation 2% 2028: Unchanged	2026*†: Depreciation 3% 2027††: Depreciation 12% 2028: Appreciation 3%
Real GDP Growth (YoY)	2026: 6.5% 2027: 5.0% 2028: 5.0%	2026: 7.5% 2027: 6.5% 2028: 5.5%	2026: 5.0% 2027: 2.0% 2028: 4.0%
Change in Unemployment Rate	2026: +0.1 პპ 2027: +0.0 პპ 2028: -0.25 პპ	2026: -0.15 პპ 2027: -0.5 პპ 2028: +0.0 პპ	2026: +1.1 პპ 2027: +2.0 პპ 2028: +0.5 პპ
CPI Inflation (YoY)	2026: 4.9% 2027: 2.5% 2028: 3.0%	2026: 4.0% 2027: 2.7% 2028: 3.0%	2026: 7.0% 2027: 8.0% 2028: 6.0%
Change in Real Estate Prices (expressed in GEL, YoY)	2026: 7.5% 2027: 5.0% 2028: 5.5%	2026: 8.0% 2027: 6.0% 2028: 5.5%	2026: 6.5% 2027: 5.0% 2028: 5.25%
Monetary Policy Rate (%)†††	2026*: +0.0 pp (compared to the current level) 2027: -1.25 pp 2028: +0.0 pp	2026*: -0.25 pp (compared to the current level) 2027: -1.0 pp 2028: -0.5 pp	2026*: +0.5 pp (compared to the current level) 2027: +0.75 pp 2028: -0.5 pp

Note: Current levels correspond to the publication date of these scenarios. The numbers represent annual average changes, unless otherwise specified.

* The assumption is made for the remaining period of the year.

** JPMorgan EMBI Global Georgia Sovereign Spread; Source: Bloomberg.

† Average level prevailing in the two-week period ending on the cut-off date of 22 June 2026.

†† Compared to the December average of the previous year.

††† The assumption shows the change over the course of the year.

Appendix

Dynamics of Main Domestic Variables

Figure 1. CPI Inflation (YoY, %)

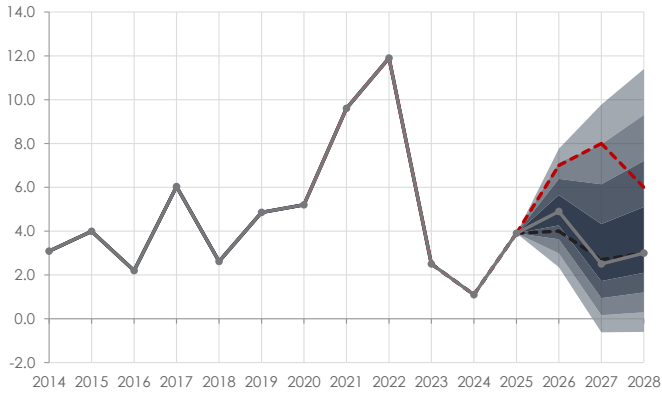


Figure 2. Real GDP Growth (YoY, %)

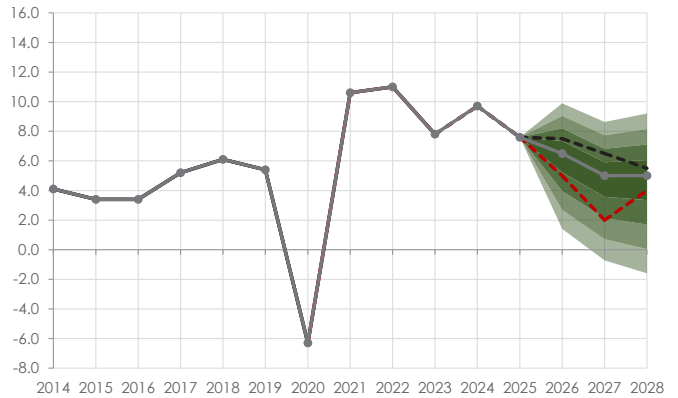
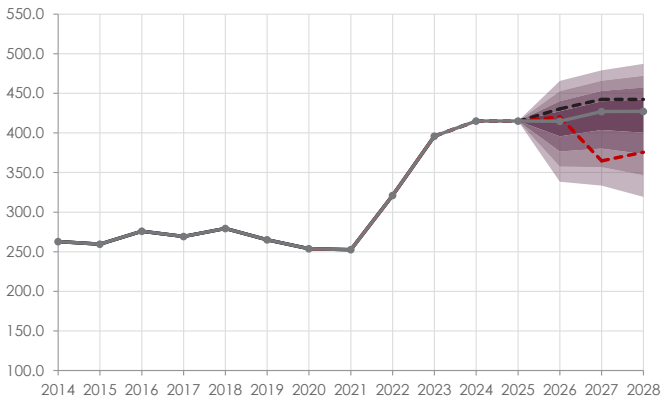
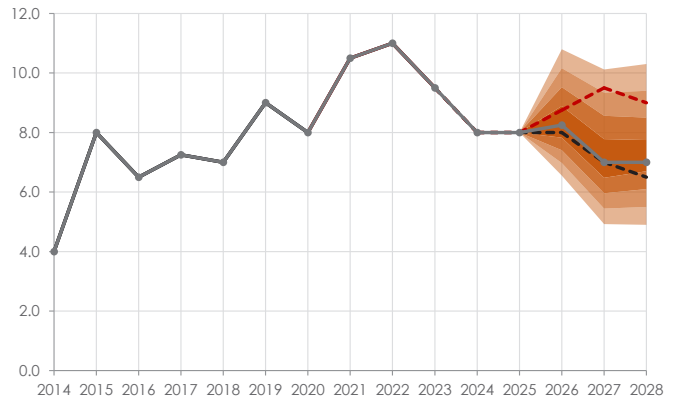


Figure 3. Nominal Effective Exchange Rate, NEER**



** 1995=100; Increase means appreciation

Figure 4. Monetary Policy Rate* (%)



	History														Scenario								
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Baseline			Upside			Adverse		
															2026	2027	2028	2026	2027	2028	2026	2027	2028
CPI Inflation (YoY, %)	-0.9	-0.5	3.1	4.0	2.2	6.0	2.6	4.9	5.2	9.6	11.9	2.5	1.1	3.9	4.9	2.5	3.0	4.0	2.7	3.0	7.0	8.0	6.0
Monetary Policy Rate (%) *	5.25	3.75	4.0	8.00	6.5	7.25	7.0	9.0	8.0	10.5	11.0	9.5	8.0	8.0	8.25	7.0	7.0	8.0	7.0	6.5	8.75	9.5	9.0
Real GDP Growth (YoY, %)	6.6	5.1	4.1	3.4	3.4	5.2	6.1	5.4	-6.3	10.6	11.0	7.8	9.7	7.6	6.5	5.0	5.0	7.5	6.5	5.5	5.0	2.0	4.0
Nominal Effective Exchange Rate, NEER (1995=100)	254.1	254.0	262.9	259.5	275.9	269.3	279.4	265.0	253.8	252.6	321.1	395.9	415.0	414.7	427.0	427.3	427.3	430.4	442.4	442.4	420.3	364.8	375.7

Note: Data is annual average unless otherwise indicated.

The scenarios are based on the latest available data and the corresponding assumptions on exogenous variables. Thus, during each update, as new information becomes available scenarios are expected to change. The dynamics of the variables presented in the scenarios should not be perceived as the target of the National Bank of Georgia (e.g., the interest rate, the exchange rate, etc.).

* The numbers show the end-of-year values.

