საქართველოს ეროვნული ბანკი
National Bank of Georgia

Macroeconomic Scenarios for IFRS 9

June

2025

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 ongoing conflict in the Middle East and the severity of global tariff policies. In the baseline scenario, in the short term, domestic demand is considered the leading factor of economic growth, while in the medium term, as the initial impact of tariffs diminishes, the normalization of external demand will be the main driver of growth. According to the upside scenario, economic activity is more sustainable compared to the baseline scenario, which is related to the expansion of the country's transit potential, along with the swift resolution of global trade flow problems, which will increase cargo turnover and reduce pressure on global food commodity prices. The adverse scenario encompasses the risks of tightening of trade and financial conditions due to the escalation of global tariff policy along with the conflict in the Middle East. It should be noted that uncertainty and risks regarding the future period are elevated.

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 May 2025 issue of the Monetary Policy Report, the Georgian economy continues to grow at a high rate in 2025. Due to the tariff policy pursued by the US, countries under direct or indirect influence are encouraged to form new trade channels. This will facilitate a new wave of geopolitical fragmentation. The disruption of existing trade flows and the re-negotiation of trade relations will lead to disruptions in supply chains, which will be reflected in a slowdown in global economic growth. These circumstances will generate inflationary pressures globally, which will warrant keeping interest rates at relatively high levels in developed countries. The slowdown in global activity will subsequently ease the initial inflationary pressures and create the opportunity to pursue an accommodative monetary policy that stimulates economic activity. Accordingly, during the current period, the Fed will continue to lower interest rates, while the ECB will keep them at a neutral level.

In the baseline scenario, in the short term, in the wake of deteriorating global expectations, risk increases and global financial conditions tighten, which creates capital outflow risks from less developed countries. Meanwhile, in response to the inflationary pressure arising from the supply chain disruptions, the central banks of emerging and developing countries may need to tighten monetary policy. This situation is also observed among Georgia's trading partners, which negatively affects their economic activity. This in turn leads to a decrease in external demand on Georgia's goods and services.

According to the baseline scenario, in the short term, despite a possible slowdown in external demand, domestic demand in Georgia remains strong, which supports economic growth. Following the increased potential and the high economic activity recorded in early 2025, growth will remain high this year. In the subsequent period, as the effects of tariff policy fade, external demand will accelerate, while domestic demand will normalize, bringing economic growth closer to the potential 5% mark. With high economic activity maintained this year, the unemployment rate continues to normalize. Given the sustainable nature of economic activity and the unemployment rate in the country, real estate prices will increase in line with nominal economic growth.

In the baseline scenario, despite increased prices in trading partners, imported inflation pressures will be largely neutralized by the weakening of US dollar and the appreciated state of GEL. Moreover, due to the strong position of the GEL, there will be no additional inflationary pressures stemming from companies that are servicing foreign currency-denominated loans. It is also noteworthy that, in the medium term, the inflationary pressures are a reflection of globally increased inflationary expectations and uncertainty. Accordingly, inflationary pressures from both domestic and external factors are low, and will subside as excess domestic demand normalizes and global uncertainty dissipates. Therefore, the monetary policy rate will remain at the current level throughout 2025, and will exit the tightened stance as inflationary pressures subside.

According to the baseline scenario, amid uncertainty about the sustainability of trade and financial flows resulting from deepening geopolitical fragmentation, there is a pressure for Georgia's sovereign risk premium to increase. However, due to the country's persistently high economic growth and the current global weakening of the US dollar, Georgia's sovereign risk premium will increase only slightly in the short term, while the GEL exchange rate remains unchanged against both the US dollar and its trading partners.

There is a high uncertainty around the baseline scenario due to existing geopolitical conditions in the region. In particular, in the coming years, Georgia's economic activity will significantly depend on the disruptions of trade relations on the global and local markets due to the geopolitical fragmentation. 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 the reduction of tariff-related uncertainty in trade flows, along with the expansion of Georgia's trade potential, whereas the adverse scenario focuses on the tightening global trade and financial conditions, amid escalation of global tariff policies and prolongation of conflicts in the Middle East. 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, a consensus between the countries involved in the tariff policy will be reached in a relatively short period of time, and the disruptions to trade flows will only be short-term. Accordingly, the inflationary pressure arising from tariffs will be lower compared to the baseline scenario. In addition, the existing precedent accelerates the diversification of trade relations, which creates new treaties and channels. As a result of structural reforms, deeper integration of financial, labor, and product markets among trading partners will encourage increased production scale and innovation, which will accelerate productivity growth and increase the potential of the countries.

In the upside scenario, the countries involved in the conflict in the Middle East will be able to de-escalate in the short term, which will, in turn, lower oil prices. Given the acceleration in potential growth and the decline in global inflation expectations, central banks are exiting tight monetary policy stance relatively quickly compared to the baseline scenario. In particular, the US Fed will continue to ease monetary policy at a faster pace, while the European Central Bank will reduce its monetary policy rate in the current period and keep it at the neutral level in the coming years. This will lead to an easing of global financial conditions, which will contribute to a faster recovery of global economic activity in the medium term.

As new trade relations develop and global financial conditions gradually ease, emerging and developing economies will see a decrease in risks, which will improve market sentiment and lead to increased investment flows. As a result, economic growth in these countries will also accelerate. A terms of trade improve further, the share of imported inflation will decrease and the monetary policy easing will continue.

According to the upside scenario, starting from the following year, Georgia's role as a "middle corridor" will be strengthened as a result of deepening trade relations and further integration of trade policies with partner countries. As a result, cargo turnover, local exports, and investments will increase. The execution of relevant infrastructure projects will contribute to the growth of trade flows, which will lead to the creation of new jobs and reduce the unemployment level. As a result, the economic potential increases, which ensures that the Georgian economy grows at a higher rate than in the baseline scenario.

Due to the increased role in the region, accompanied by growth of investments, Georgia's sovereign risk premium will fall to a lower level compared to the baseline scenario, in the medium term. The inflow of new capital into the country becomes a prerequisite for the strengthening of the GEL exchange rate, both nominal effective and against the US dollar. Given the existing macroeconomic stability and improved expectations for economic growth, the attractiveness of Georgian real estate as an investment asset will increase. Consequently, the real estate prices expressed both in GEL, and in the US dollars, are rising faster than in the baseline scenario.

In the upside scenario, inflationary pressures stemming from the growth in external demand will be largely neutralized by the growth in trade potential and investment inflows. Since employment growth in the country is following the increase in potential, inflationary pressures caused by domestic factors are also minimal. Accordingly, given the recovery in global economic activity, stable macroeconomic conditions in the country, and balanced inflation expectations, monetary policy is exiting the tightening regime more quickly than in the baseline scenario.

Adverse Scenario

According to the adverse scenario, the transition to a more active phase of tariff policy globally could further hinder trade flows, leading to an increase in the prices of both food commodities, as well as intermediate materials, and consequently, production costs. For importing countries, price changes caused by tariffs will lead to higher inflation and limit the scope for monetary policy easing by central banks.

Amid the geopolitical fragmentation, the reversal of global economic integration may lead to a suboptimal allocation of production resources and widen technological development gap among countries. In addition, the prolonged uncertainty over tariff policy could also hamper investment, which would negatively impact global economic growth potential in the long term. This will place a particularly heavy burden on less developed countries.

In the adverse scenario, amid a slowdown in global economic growth, demand for energy carriers decreases, however, a possible prolongation of the conflict in the Middle East creates risks of prices increases of oil products. This will aggravate the effect of increased costs on intermediate materials as a result of tariffs. As a result of deteriorating expectations regarding economic growth, along with increased uncertainty in the global markets, the Fed and ECB act more cautiously. In particular, the Fed will keep the monetary policy rate unchanged in 2025, while the ECB will slightly increase it above the current neutral level. Developed countries will begin to ease their tight monetary policy stance only from the second half of 2026.

In the background of increased uncertainty, investors prefer to invest capital in relatively safe assets, which increases the risks of capital outflows from emerging markets and developing economies. This could lead to a balance of payments crisis in countries with relatively limited access to financial markets. Accordingly, both the disruption of trade and financial flows increase the risks related to the sustainability of foreign inflows, which leads to an increase in the risk premium in less developed countries and a significant depreciation of local currencies.

According to the adverse scenario, given the deterioration of economic activity in trading partners and hindered trade flows, the demand for Georgia’s export products is expected to decrease. In addition, amid the weakening of global economies, unemployment is increasing, including among Georgian migrants, which is reflected in a decrease in remittance inflows to Georgia. Rising prices for imported goods, particularly intermediate materials, will increase Georgia's current account deficit in the short term. Declining trade inflows, along with fundamental changes in global trade and financial linkages amid high global uncertainty, will lead to capital outflows from Georgia next year. As a result, Georgia's sovereign risk premium will increase and the local currency will depreciate. Due to the still high dollarization of loans, and as a result of exchange rate fluctuations and increased risks associated with international trade, the debt burden and credit risk for foreign currency borrowers are increasing, while solvency is declining.

As a result of the depreciation of the GEL and increased prices for imported goods, including oil products, inflation in Georgia will increase significantly in 2025-2027 compared to the baseline scenario. Inflationary expectations increase amid the delay in the adjustment of new trade relations, along with the prolongation of the conflict in the Middle East. Accordingly, the National Bank of Georgia will have to tighten monetary policy by the end of 2025 and it will remain tightened in the medium term.

In the adverse scenario, with increased uncertainty related to trade tariffs and deteriorating expectations in the medium term, a large share of the Georgian population reduces consumption and increases savings. Moreover, the prolonged conflict in the Middle East will also negatively affect tourist inflows to Georgia, which will further reduce foreign demand. The decline in domestic demand, coupled with the decline in external demand, will significantly hamper economic activity. Due to reduced demand and increased operating costs, the production scale is decreasing. Companies that are less diversified are particularly vulnerable. In the short term, the risk of investment disruptions and, in the medium term, capital flight risks significantly dampen the potential for economic activity. The deteriorated economic environment for businesses is leading to an increase in unemployment rate in the country. This further reduces domestic demand and worsens expectations for the recovery of the business sector in the medium term.

Consequently, a large portion of households and companies will find it difficult to service their existing debt, further increasing credit risk. This will have a negative impact on the stability of the local financial system. Against the background of existing risks and deteriorating expectations of economic recovery in the medium term, financial institutions will tighten credit conditions, which will limit the issuance of new credit, compared to the baseline scenario, and further limit demand. As a result, economic growth potential will decrease, and the recovery will be delayed.

According to the pessimistic scenario, real estate prices will tend to increase by the end of 2025, amid rising intermediate costs. However, given the deteriorating expectations for economic recovery, increased unemployment, and tighter credit conditions, real estate activity is expected to decline in the medium term. Furthermore, 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.

Summary of Macroeconomic Scenarios

Scenario	Baseline	Upside (Tightly Integrated Global Markets)	Adverse (Escalation of Geopolitical Tensions)
Fed Funds Rate	2025*: -0.5 pp (compared to the current level) 2026: -0.25 pp 2027: -0.25 pp	2025*: -0.5 pp (compared to the current level) 2026: -1.0 pp 2027: -0.75 pp	2025*: +0.0 pp (compared to the current level) 2026: -0.25 pp 2027: -0.5 pp
ECB Policy Rate	2025*: +0.0 pp (compared to the current level) 2026: +0.0 pp 2027: -0.25 pp	2025*: -0.25 pp (compared to the current level) 2026: +0.0 pp 2027: +0.0 pp	2025*: +0.5 pp (compared to the current level) 2026: -0.25 pp 2027: -0.25 pp
Change in Country Sovereign Risk Premuim**	2025: +1.0 pp (compared to 2024) 2026: +0.25 pp 2027: -0.75 pp	2025: +0.75 pp (compared to 2024) 2026: -0.25 pp 2027: -0.5 pp	2025: +1.5 pp (compared to 2024) 2026: +1.0 pp 2027: -1.5 pp
GEL/USD Nominal Exchange Rate	2025*†: Unchanged 2026††: Unchanged 2027: Unchanged	2025*†: Appreciation 2% 2026††: Appreciation 3% 2027: Unchanged	2025*†: Depreciation 5% 2026††: Depreciation 15% 2027: Appreciation 5%
Nominal Effective Exchange Rate (NEER)	2025*†: Unchanged 2026††: Unchanged 2027: Unchanged	2025*†: Appreciation 1% 2026††: Appreciation 2% 2027: Unchanged	2025*†: Depreciation 3% 2026††: Depreciation 10% 2027: Appreciation 3%
Real GDP Growth (YoY)	2025: 6.7% 2026: 5.0% 2027: 5.0%	2025: 7.5% 2026: 6.0% 2027: 5.5%	2025: 6.0% 2026: 2.0% 2027: 4.0%
Change in Unemployment Rate	2025: +1.1 pp 2026: -0.5 pp 2027: +0.0 pp	2025: +0.6 pp 2026: -0.5 pp 2027: +0.0 pp	2025: +1.6 pp 2026: +1.5 pp 2027: +0.5 pp
CPI Inflation (YoY)	2025: 3.8% 2026: 3.5% 2027: 2.8%	2025: 3.5% 2026: 2.75% 2027: 3.0%	2025: 4.5% 2026: 8.0% 2027: 5.0%
Change in Real Estate Prices (expressed in GEL, YoY)	2025: 7.0% 2026: 6.0% 2027: 5.5%	2025: 7.5% 2026: 7.0% 2027: 6.0%	2025: 7.0% 2026: 5.5% 2027: 5.5%
Monetary Policy Rate (%)†††	2025*: +0.1 pp (compared to the current level) 2026: -0.4 pp 2027: -0.5 pp	2025*: -0.25 pp (compared to the current level) 2026: -0.75 pp 2027: -0.5 pp	2025*: +0.75 pp (compared to the current level) 2026: +0.75 pp 2027: -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 14 June 2025.
†† 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, %)

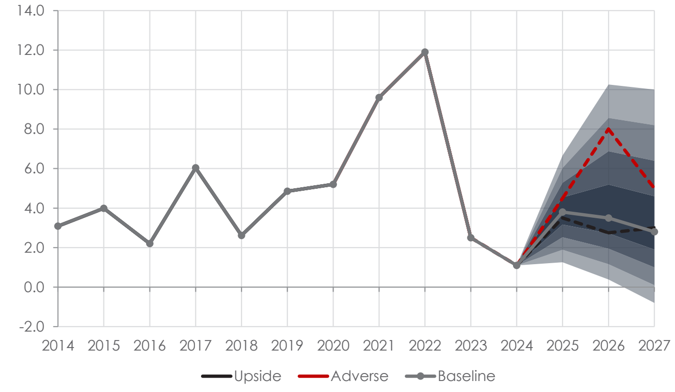


Figure 2. Real GDP Growth (YoY, %)

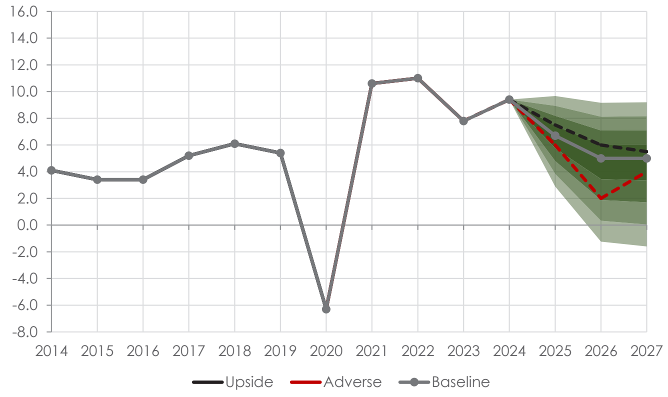
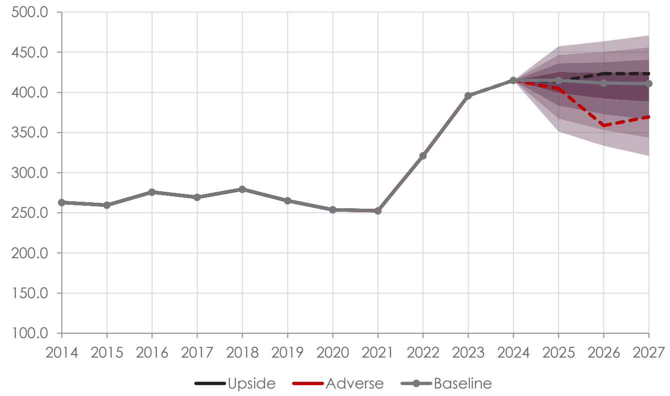
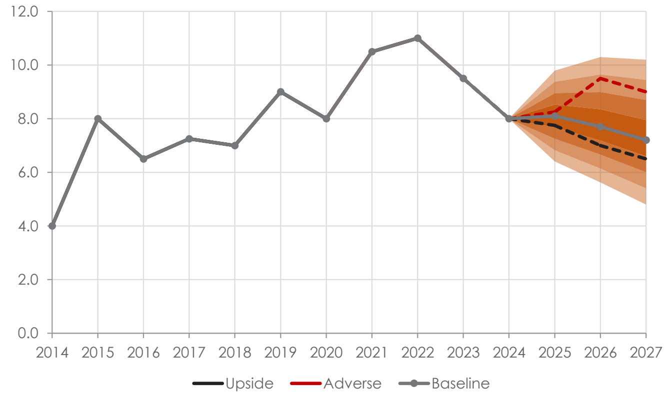


Figure 3. Nominal Effective Exchange Rate, NEER**



** 1995=100; Increase means appreciation

Figure 4. Monetary Policy Rate* (%)



	Hystory													Scenario								
														Baseline			Upside			Adverse		
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2025	2026	2027	2025	2026	2027
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	3.8	3.5	2.8	3.5	2.75	3.0	4.5	8.0	5.0
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	8.1	7.7	7.2	7.75	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	9.4	6.7	5.0	5.0	7.5	6.0	5.5	6.0	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	411.6	411.0	411.0	413.8	423.4	423.4	404.9	358.8	369.5

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.