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 macroeconomic variables are the assumptions regarding the duration of global tariff policies, along with the speed of normalization of Georgia's economic potential. In the baseline scenario, short-term economic growth is primarily driven by high-productivity sectors and external demand, while medium-term growth is determined by the normalization of these factors. The upside scenario assumes a faster easing of tariff policies imposed this year and a reduction in uncertainty related to trade flows compared to the baseline scenario. The adverse scenario highlights the risks of tighter global trade and financial conditions, against the backdrop of a more severe global tariff and migration policy stance than in the baseline scenario. It should be noted that uncertainty and risks regarding the outlook remain 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 November 2025 issue of the Monetary Policy Report, the Georgian economy continues to grow at a high rate in 2025. The tariff policy pursued by the U.S. will facilitate a 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 global financial conditions tight. However, the slowdown in global activity will ease the initial inflationary pressures and create the opportunity to pursue an accommodative monetary policy that stimulates economic activity. Accordingly, the Fed will continue to lower interest rates only from the second half of 2026, while the ECB will keep the rates within the neutral range.

In the baseline scenario, in the short term, as global uncertainty remains high, the delay in the easing of global financial conditions is deteriorating expectations, raising risks of capital outflows from less developed countries. 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, compared to the current high level.

According to the baseline scenario, in the short term, along with a possible slowdown in external demand, the increased economic potential of Georgia will start to normalize. Following the existing high potential growth and external inflows, the economic growth will remain high in 2025, with normalization in the following periods gradually approaching the 5% mark. In the wake of the slowdown in economic activity, the unemployment rate continues to normalize. Given the sustainable nature of economic activity, real estate prices will increase in line with nominal economic growth.

In the baseline scenario, despite the uncertainty surrounding the global tariff policy, the announced increase in supply of oil products by OPEC+ countries and the accumulation of inventories suggest a decline in oil prices. However, it should also be noted that recently, amid unfavorable climate conditions, the global production of food products has weakened, which has been reflected in an increase in prices. Therefore, it is expected that in the short term, prices will remain at current levels, and after the base effect wears off, food inflation will decrease. Therefore, the monetary policy rate will remain at the current level in early 2026, and will exit the tightening regime as inflationary pressures subside.

According to the baseline scenario, the uncertainty about the sustainability of global trade and financial flows persists. However, due to globally weak dollar, stable foreign inflows and economic activity, Georgia's sovereign risk premium, as well as the GEL exchange rate against both the US dollar and its trading partners will remain unchanged.

There is a 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 fragmentation, 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 the faster easing of tariffs that were set in 2025 and a reduction in uncertainty related to trade flows, whereas the adverse scenario focuses on the tightening global trade and financial conditions, amid tightening global tariff and migration policies. 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, tariffs imposed in 2025 will be considerably reduced from the beginning of 2026, and a consensus on trade relations between the countries will be reached in a relatively short period of time. Accordingly, trade flow disruptions will largely be eliminated and inflationary pressures stemming from tariffs will mostly be neutralized. This will reduce uncertainty in global markets, which will improve both trade and investment environments. In addition, the existing precedent accelerates the diversification of trade relations, which will create 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, OPEC+ countries will increase oil production, which will reduce oil prices and, consequently, transportation costs. Given the recovery in global growth potential and the decline in inflation expectations, the world’s leading central banks are easing monetary policy more rapidly than in the baseline scenario. In particular, the U.S. Fed will continue to reduce its monetary policy at an accelerated pace, while the European Central Bank will maintain its rate within the neutral range in the following 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 global financial conditions gradually ease, emerging and developing economies will see an improvement in market sentiment and a decrease in uncertainty, which will lead to increased investment flows. As a result, economic growth in these countries will also accelerate. As terms of trade improve further, the share of imported inflation will decrease and the monetary policy easing will continue. The reduction in tariffs will lead to an increase in U.S. imports, which will contribute to the weakening of the U.S. dollar. As a result, the share of imported inflation in less developed countries will decrease and the exit from the tight monetary policy regime will continue.

According to the upside scenario, Georgia's highly productive sectors will continue to contribute to maintaining the country's economic potential at a high level, which will keep Georgia's macroeconomic environment attractive to investments. In addition, the execution of new infrastructural projects will contribute to the growth of trade flows, which will lead to the creation of new jobs and a reduction in the unemployment rate, in the medium term. As a result, the economic potential increases, which ensures that the Georgian economy grows at a higher rate than in the baseline scenario.

In the upside scenario, driven by increased trade flows, new financial inflows, and a weakening of the U.S. dollar due to the reduction in tariffs, the GEL exchange rate will strengthen slightly, whereas the sovereign risk premium of Georgia will stabilize at a lower level compared to the baseline scenario. Inflationary pressures stemming from increased external demand will be largely offset by increased trade potential and investment inflows. In addition, the decline in oil prices will reduce imported inflation, and as the economy maintains high potential growth, inflationary pressures stemming from domestic factors will be negligible. As a result, the inflation rate will approach the target more quickly than in the baseline scenario. Accordingly, the monetary policy rate will be eased and the rate will reach the neutral rate faster.

In the upside scenario, given the macroeconomic stability and improved expectations for economic growth, the attractiveness of Georgian real estate as an investment asset will increase. As a result, real estate prices, both expressed in GEL and in USD, will increase at a higher rate compared to the baseline scenario.

Adverse Scenario

According to the adverse scenario, the global tariff policy will move into a more active phase, particularly, future tariffs will come into effect immediately upon announcement and all the tariffs will be extended indefinitely. It is also worth noting that countries proactively settled trade agreements immediately after the tariffs were announced, before they came into effect, thereby postponing the initial effects of the tariffs. Accordingly, under the current scenario, with the expiration of contracts concluded before the tariffs were implemented, the front-loading resource of international trade flows will be exhausted by early 2026, and the full effect of existing tariffs will be reflected on the global economy. The prolongation of the current trade policy uncertainty and the tightening of protectionist trade measures will affect the growth prospects of companies, which will be reflected in a decrease in both trade flows and investments. As a result, global economic activity will be lower than in the baseline scenario.

In the adverse scenario, amid high uncertainty regarding terms of trade, prices on international markets will be characterized by high volatility and inflationary risks will start emerging. In addition, the full implementation of tariffs will lead to a decrease in U.S. imports, which will improve the current account and strengthen the U.S dollar; this, in turn, will create additional inflationary pressures for the rest of the countries. Furthermore, developed countries start tightening their immigration policies, which poses risks of labor shortages. The tightness of the labor market will reduce the activity in the service sector and aggravate inflationary pressures.

Given the above, based on the adverse scenario, the U.S. Federal Reserve (Fed) will raise interest rates in 2026. In the meantime, the European Central Bank (ECB), along with the central banks of less developed countries will have to tighten their monetary policies more compared to the U.S. As a result, global financial conditions will remain tight for longer and will stabilize at a slow pace at a new, higher neutral level in the medium term.

According to the adverse scenario, tighter trade and financial conditions, along with reduced migration will negatively impact global economic growth potential in the long term. This will have a particularly severe impact on emerging and developing market countries, including Georgia. Amid the slowdown in global economic growth, demand for energy carriers will decrease, which will partially mitigate inflationary pressures, although it will not be able to completely offset the increased prices resulting from global tariffs. Accordingly, inflation in Georgia will increase, the National Bank of Georgia will have to tighten monetary policy and keep it tight in the medium term.

In the current scenario, a decrease in both external and domestic demand may lead to a decrease in the activity of some businesses. Less diversified companies will be particularly vulnerable. As a result, unemployment in the country will increase and, with reduced incomes, households will also face difficulties in servicing their debt. Rising credit risk will worsen access to loans and hamper economic activity. As a result of the tightening of immigration policy globally, unemployment among Georgian migrants will increase, which will be reflected in a decrease in remittance inflows to Georgia. This will further weaken domestic demand.

According to the adverse scenario, in the backdrop of the strengthened U.S. dollar, the decrease in the purchasing power of the national currency, increased unemployment and inflation, in the background of weakened economic activity, will worsen Georgia's macroeconomic environment. This, in turn, will lead to capital outflows as investors reassess risks and will be reflected in additional exchange rate depreciation. Both the disruption of trade and financial flows will increase the risks related to the sustainability of foreign inflows, which will lead to an increase in Georgia's risk premium. Moreover, 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, will lead to a slowdown in real estate price growth.

In the adverse scenario, due to the high dollarization of loans, the debt burden and credit risk for foreign currency borrowers will increase, while solvency will decline, as a result of exchange rate fluctuations and increased risks associated with international trade. Against the backdrop of a deteriorating macroeconomic environment, the Georgian economy will grow below potential in 2026 and will begin to normalize in the second half of 2027.

Summary of Macroeconomic Scenarios

Scenario	Baseline	Upside (Improved Domestic and International Environments)	Adverse (Rigid Tariff and Migration Policies)
Fed Funds Rate	2025*: +0.0 pp (compared to the current level) 2026: -0.25 pp 2027: -0.25 pp 2028: -0.25 pp	2025*: +0.0 pp (compared to the current level) 2026: -0.5 pp 2027: -0.5 pp 2028: -0.25 pp	2025*: +0.0 pp (compared to the current level) 2026: +0.75 pp 2027: -0.25 pp 2028: -0.5 pp
ECB Policy Rate	2025*: +0.0 pp (compared to the current level) 2026: -0.25 pp 2027: +0.0 pp 2028: +0.25 pp	2025*: +0.0 pp (compared to the current level) 2026: -0.25 pp 2027: +0.0 pp 2028: +0.0 pp	2025*: +0.0 pp (compared to the current level) 2026: +1.0 pp 2027: -0.5 pp 2028: +0.0 pp
Change in Country Sovereign Risk Premuim**	2025*: +0.6 pp (compared to 2024) 2026: -0.1 pp 2027: +0.0 pp 2028: +0.0 pp	2025*: +0.6 pp (compared to 2024) 2026: -0.1 pp 2027: -0.25 pp 2028: +0.0 pp	2025*: +0.6 pp (compared to 2024) 2026: +1.4 pp 2027: -0.5 pp 2028: -0.5 pp
GEL/USD Nominal Exchange Rate	2025*†: Unchanged 2026††: Unchanged 2027: Unchanged 2028: Unchanged	2025*†: Unchanged 2026††: Appreciation 2% 2027: Appreciation 3% 2028: Unchanged	2025*†: Unchanged 2026††: Depreciation 20% 2027: Depreciation 10% 2028: Appreciation 5%
Nominal Effective Exchange Rate (NEER)	2025*†: Unchanged 2026††: Unchanged 2027: Unchanged 2028: Unchanged	2025*†: Unchanged 2026††: Appreciation 1% 2027: Appreciation 1.5% 2028: Unchanged	2025*†: Unchanged 2026††: Depreciation 12% 2027: Depreciation 6% 2028: Appreciation 3%
Real GDP Growth (YoY)	2025: 7.4% 2026: 4.9% 2027: 5.1% 2028: 5.0%	2025: 7.4% 2026: 6.0% 2027: 5.5% 2028: 5.0%	2025: 7.4% 2026: 2.0% 2027: 4.0% 2028: 5.0%
Change in Unemployment Rate	2025: +0.1 pp 2026: +0.0 pp 2027: -0.25 pp 2028: +0.0 pp	2025: +0.1 pp 2026: -0.25 pp 2027: -0.25 pp 2028: +0.0 pp	2025: +0.1 pp 2026: +2.0 pp 2027: +1.0 pp 2028: -0.5 pp
CPI Inflation (YoY)	2025: 4.0% 2026: 3.5% 2027: 2.8% 2028: 3.0%	2025: 4.0% 2026: 3.0% 2027: 2.5% 2028: 3.0%	2025: 4.0% 2026: 8.0% 2027: 5.5% 2028: 3.0%
Change in Real Estate Prices (expressed in GEL, YoY)	2025: 7.5% 2026: 6.0% 2027: 5.5% 2028: 5.5%	2025: 7.5% 2026: 7.25% 2027: 5.5% 2028: 5.5%	2025: 7.5% 2026: 5.5% 2027: 5.0% 2028: 5.0%
Monetary Policy Rate (%)†††	2025*: +0.0 pp (compared to the current level) 2026: -0.6 pp 2027: -0.3 pp 2028: -0.1 pp	2025*: +0.0 pp (compared to the current level) 2026: -1.0 pp 2027: -0.5 pp 2028: +0.5 pp	2025*: +0.0 pp (compared to the current level) 2026: +1.5 pp 2027: -0.5 pp 2028: -1.0 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 December 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, %)

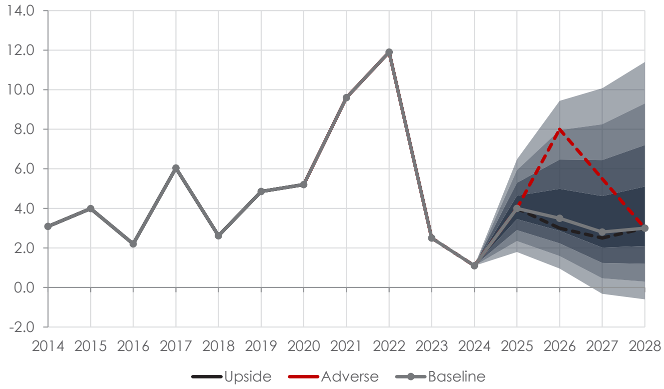


Figure 2. Real GDP Growth (YoY, %)

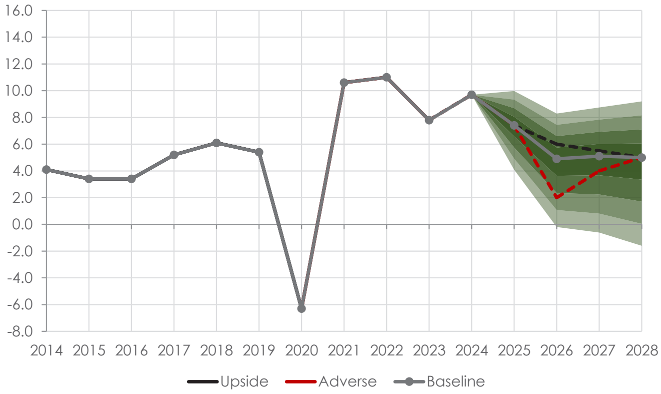
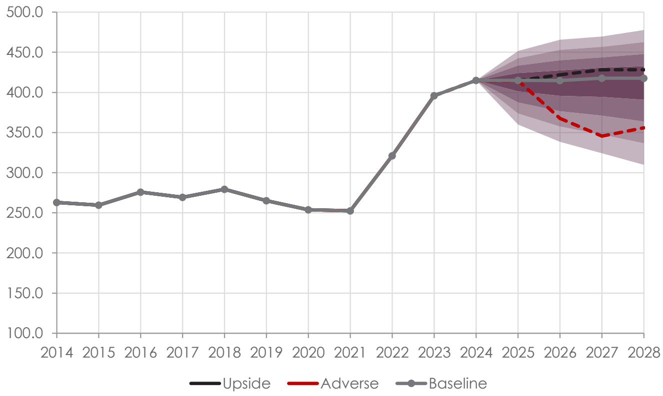
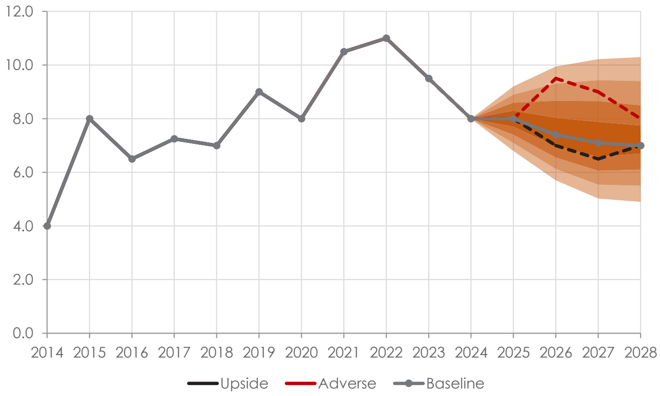


Figure 3. Nominal Effective Exchange Rate, NEER**



** 1995=100; Increase means appreciation

Figure 4. Monetary Policy Rate* (%)



	Hystory													Scenario											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Baseline				Upside				Adverse			
														2025	2026	2027	2028	2025	2026	2027	2028	2025	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	4.0	3.5	2.8	3.0	4.0	3.00	2.50	3.00	4.0	8.0	5.5	3.0
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	7.4	7.1	7.0	8.00	7.0	6.5	7.0	8.00	9.5	9.0	8.0
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	7.4	4.9	5.1	5.0	7.4	6.0	5.5	5.0	7.4	2.0	4.0	5.0
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	417.7	417.7	417.7	414.7	421.9	428.2	428.2	414.7	367.6	345.5	355.9

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.