Georgia: growth stays strong, but inflation and the NBG rate return to focus

Executive Summary

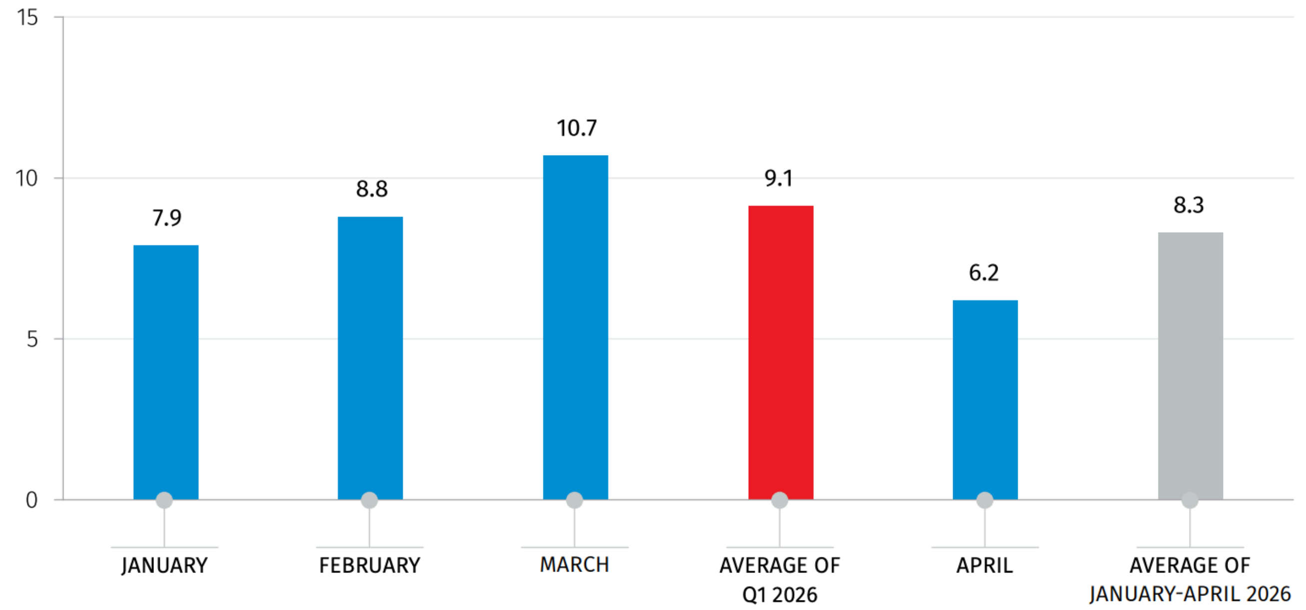
By mid-June, the macroeconomic picture in Georgia appears stronger than in many economies in the region, although it is no longer as comfortable as during the period of low inflation and rapid post-crisis recovery. Economic growth remains high, domestic activity is holding up firmly, the external sector does not yet appear weak, and the labor market is showing no signs of sharp deterioration. At the same time, inflation has once again risen above the target level, and the National Bank of Georgia was forced to send a more hawkish signal and raise the rate in May. In other words, the economy's base regime is still growth, but now in combination with a less favorable inflation environment and more cautious monetary policy.

Economic Growth: The pace remains high, but the peak is already behind

The latest Geostat data confirm that at the beginning of 2026 the Georgian economy maintained a high growth rate. The rapid estimate of real GDP for April showed growth of 6.2% y/y, while average growth for January–April amounted to 8.3%. This means that after a very strong first quarter, the economy did not move into a sharp slowdown and remains in a mode of confident expansion.

At the same time, the structure of such growth is more important than the numerical value. At this stage, the Georgian economy continues to benefit from the combination of domestic demand, resilient business activity, and the continuing inflow of external income. However, such a high pace of growth no longer looks like purely "easy" growth against the backdrop of weak inflation and a soft monetary environment. On the contrary, the current phase appears more mature: the economy continues to grow rapidly, but it is growing in conditions where inflation is once again becoming a constraint on policy.

Chart 1. Rapid estimate of Georgia's economic growth, January – April 2026



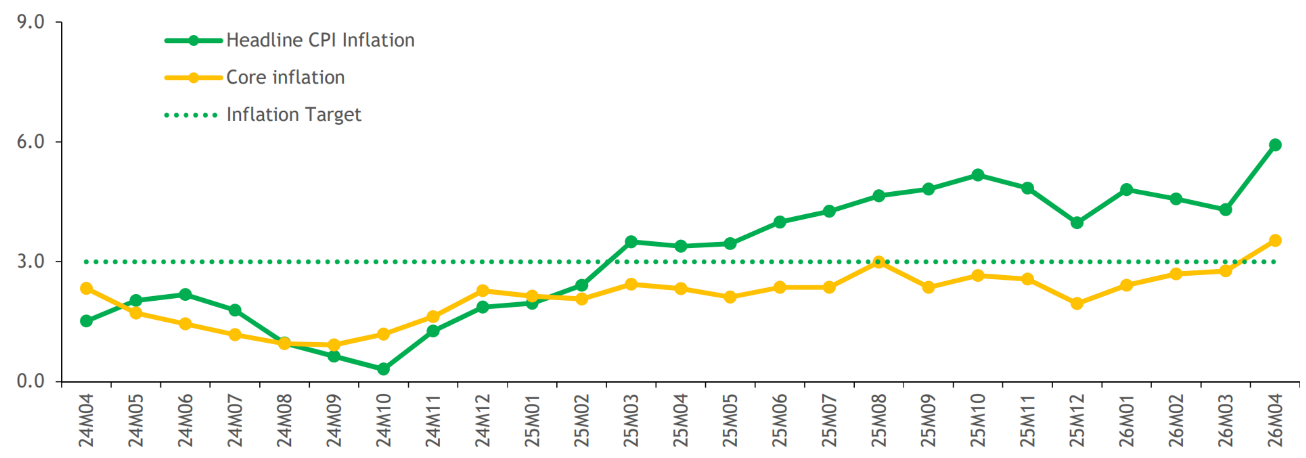
From a practical point of view, this means the following: the baseline scenario for Georgia now is neither recession nor a sharp slowdown, but a gradual transition from very strong growth to a more moderate, but still high pace.

Inflation: The main macro risk has strengthened again

If in 2024–2025 low inflation was one of the main arguments in favor of a more comfortable macro backdrop, in 2026 the situation changed. According to Geostat, in May consumer prices rose by 0.3% m/m, while annual inflation reached 5.7%. Core inflation stood at 3.8%, while core inflation excluding tobacco was 3.5%. This is already noticeably above the NBG's target level and means that the inflation episode has ceased to be a purely technical deviation.

It is especially important that at this stage the issue is not only one-off fluctuations, but also a broader inflation backdrop. That is, Georgia's macro story in mid-2026 is no longer simply a story of strong growth, but a story of strong growth with inflation that once again requires a policy response.

Chart 2. Annual inflation and core inflation in Georgia, May 2024 – May 2026



From the point of view of macro interpretation, this is a serious shift. As long as growth remains high, inflation does not look like an immediate threat to economic resilience. But it is precisely inflation that is becoming the factor limiting the room for policy easing and making the outlook for the second half of the year less comfortable than before.

Monetary Policy: The NBG is sending a hawkish signal

The reaction of the National Bank of Georgia to the current combination of growth and inflation looks logical. In February and March, the regulator kept the rate at 8.0%, but in May raised it by 0.25 pp to 8.25%. This is an important signal: the NBG does not consider the current inflation backdrop sufficiently safe to maintain the previous trajectory.

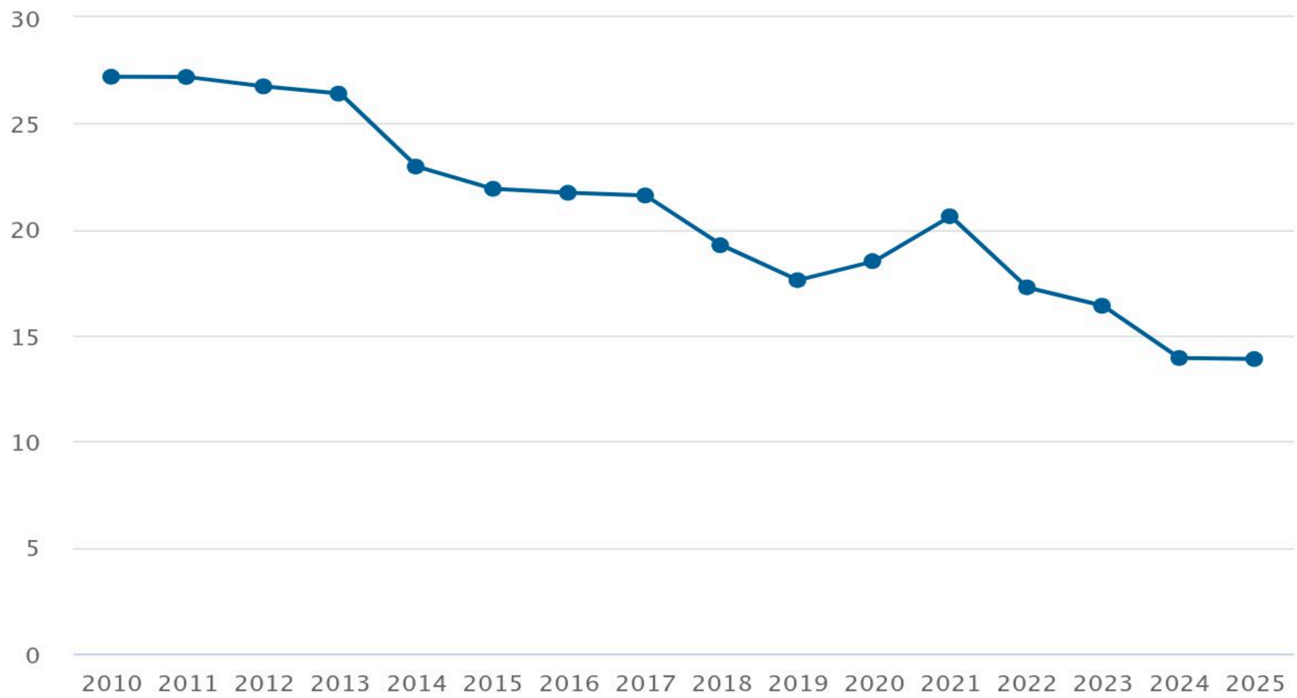
The meaning of this decision is not that the economy is overheated in the classical sense, but that the regulator needs to prevent inflation from becoming entrenched above target. As long as growth remains high and prices accelerate again, the NBG will likely remain in a cautious-hawkish mode. For the market, this means that monetary policy in Georgia is ceasing to be a factor of relief and is once again becoming a factor of discipline.

In practice, this also increases the sensitivity of the economy to the quality of domestic and external shocks. The longer inflation remains above target, the longer the rate may stay at an elevated level, even if overall growth begins to slow somewhat.

Labor Market and Incomes: The situation is resilient, without overheating.

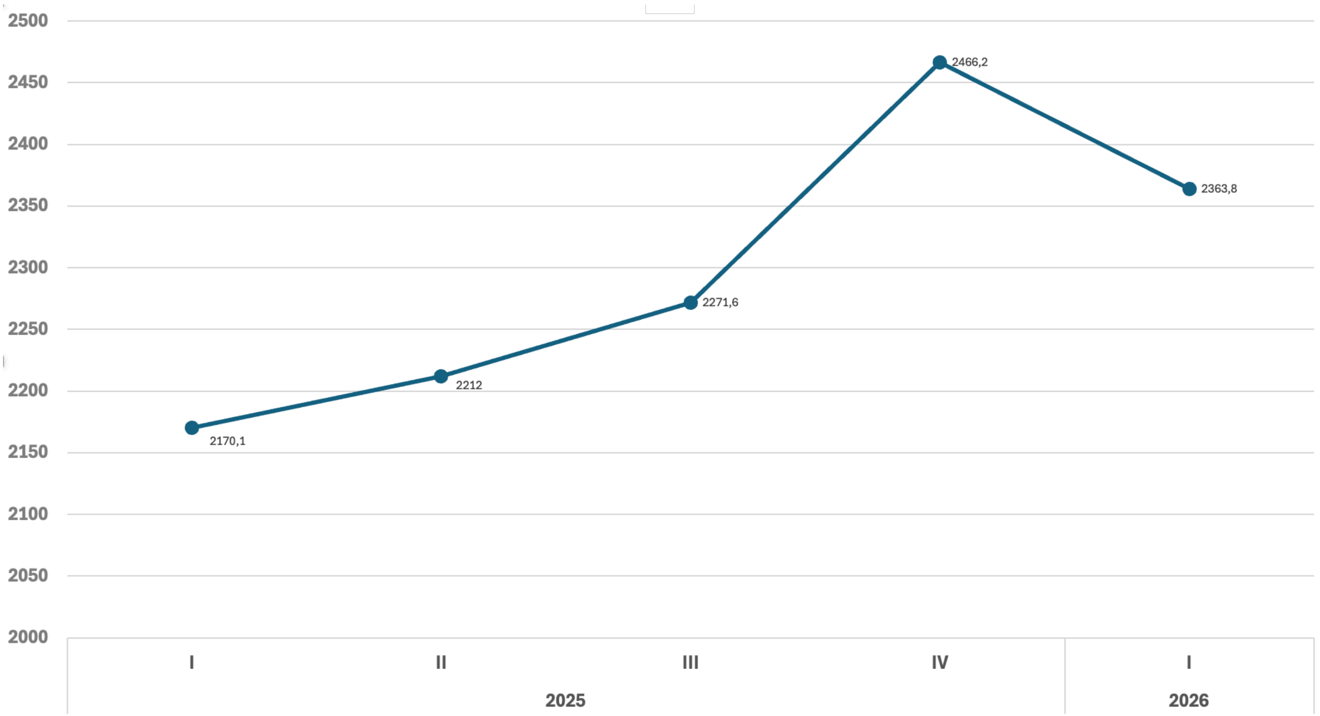
The labor market in Georgia does not yet indicate a deterioration in the macro situation. According to Geostat, the unemployment rate in the first quarter of 2026 stood at 14.4%. This is slightly higher than the average level of 2025, but so far does not look like the beginning of a pronounced deterioration. Rather, it is an indication that the labor market remains relatively stable, but already without obvious further acceleration.

Chart 3. Unemployment rate in Georgia, 2010 – 2025



At the same time, wage dynamics remain strong. Average monthly nominal wages in the first quarter of 2026 rose by 8.9% y/y and amounted to 2,363.8 GEL. This is an important point for the overall review: household incomes continue to grow, which means that domestic demand is still receiving support not only from overall economic growth, but also from the labor market.

Chart 4. Average nominal monthly wages in Georgia, Q1 2024 – Q1 2026



It is precisely here that a typical crossroads for the current cycle emerges. On the one hand, wage growth supports consumption and is positive for domestic activity. On the other hand, it is a factor that may complicate a faster return of inflation to the target level. Therefore, the labor market in Georgia now does not look weak, but rather neutral-resilient: it supports growth, but at the same time does not ease the NBG's inflation task.

External Sector: For now, more support than restraint.

Georgia's external sector at this stage gives no grounds to speak of a sharp deterioration in the macroeconomic backdrop. According to Geostat, foreign trade in January–May 2026 remained sufficiently active, while the NBG separately noted that international reserves in May rose to USD 7.0 bn. This is an important indicator of resilience: the reserve buffer remains strong and reduces the economy's sensitivity to short-term external shocks.

Chart 5. Georgia's external trade: imports, April 2024 – April 2026

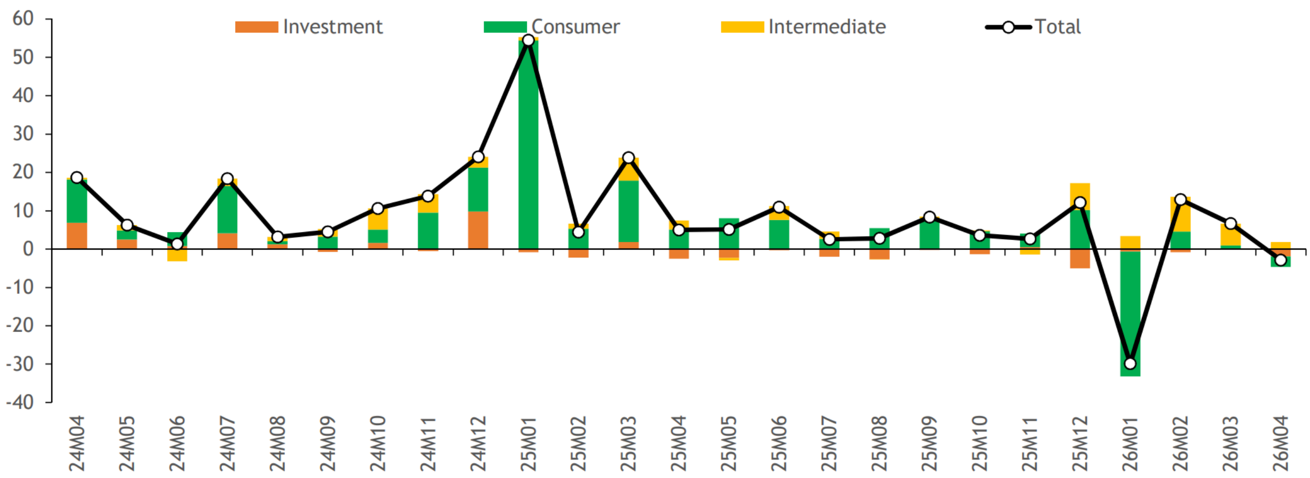
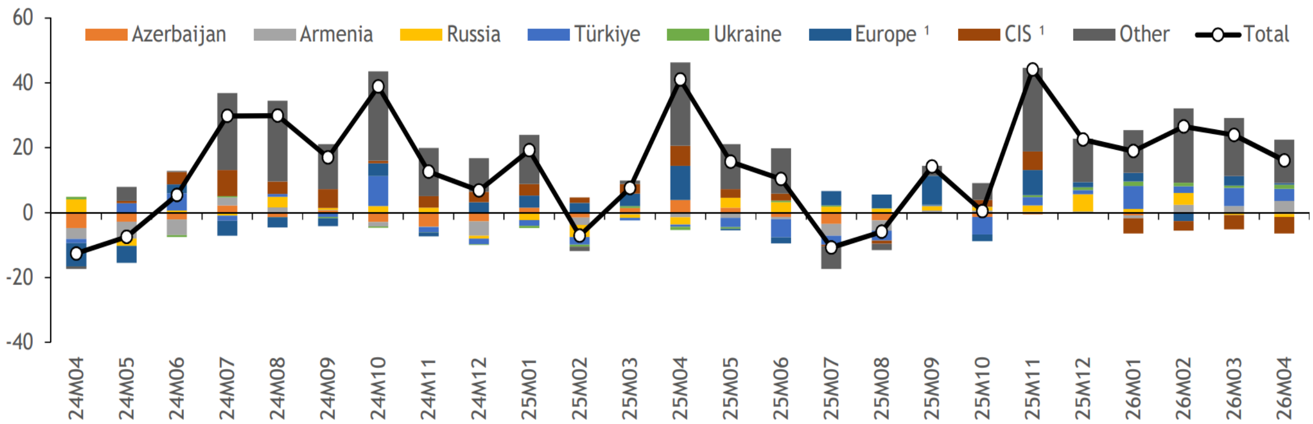


Chart 6. Georgia's external trade: exports, April 2024 – April 2026



For a country with an open economy and a high dependence on external flows, this is especially important. As long as reserves remain at a high level and external activity does not show a breakdown, the macroeconomic picture retains an additional pillar of support. This does not eliminate risks related to the current account, imports, or external demand, but it does mean that in mid-2026 the external sector is more likely to stabilize the overall picture than to unsettle it.

That is precisely why Georgia's macro backdrop now looks more resilient than one might have expected based only on inflation data. The weak spot is prices — but not reserves, not overall growth, and not immediate external vulnerability.

Financial Conditions: The macro backdrop is strong, but there is less comfort.

If all the signals are brought together, the following picture emerges. Georgia's economy continues to grow rapidly. Inflation is once again above target. The NBG rate has been raised. Wages are growing, the labor market is generally holding up, and the external sector and international reserves still appear resilient. This is no longer the macro backdrop that could have been described as "rapid growth with low inflation." But neither is it a scenario of overheating with an immediate risk of a sharp correction.

Rather, it is a transition to a less comfortable, but still strong combination of indicators: high growth remains, but it is now accompanied by tighter monetary policy and a greater inflation burden. For the domestic market, this means that the fundamentals remain strong, but the room for further improvement has narrowed.

Conclusion

The baseline assessment for mid-June is as follows: Georgia maintains a strong pace of growth and has not yet shown signs of a sharp macroeconomic deterioration. Domestic demand, the labor market, and the external sector continue to support the economy, while international reserves remain at a high level. The problem is not weak growth, but the fact that inflation has once again moved to the forefront and is forcing the NBG to adhere to a more hawkish line.

The final analytical assessment is as follows: the macroeconomic situation in Georgia is now a story not about slowing to crisis levels, but about a transition from a very comfortable phase to a more complex and less unambiguous one. Growth remains strong, but already requires greater caution in assessing sustainability. Inflation is above target, the rate has been raised, and this means that the quality of the second half of 2026 will largely depend on whether price pressure can be kept under control without noticeable damage to economic activity. For now, the combination of signals points rather to a strong, but already less comfortable, macro environment than to the beginning of a downward turn.

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