

**Georgia: First Review Under the Stand-By Arrangement and Request for Modifications of Performance Criteria and Structural Benchmarks -Press Release; Staff Report; Staff Statement; and Statement by the Executive Director for Georgia**



# GEORGIA

December 2022

## FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA AND STRUCTURAL BENCHMARKS —PRESS RELEASE; STAFF REPORT; STAFF STATEMENT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GEORGIA

In the context of the First Review Under the Stand-By Arrangement and Request for Modifications of Performance Criteria and Structural Benchmarks, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board and summarizing the views of the Executive Board as expressed during its December 21, 2022 consideration of the staff report on issues related to the IMF arrangement.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 21, 2022, following discussions that ended on November 8, 2022 with the officials of Georgia on economic developments and policies underpinning the IMF arrangement under the Stand-By Arrangement. Based on information available at the time of these discussions, the staff report was completed on December 6, 2022.
- A **Staff Statement**
- A **Statement by the Executive Director** for Georgia.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
PO Box 92780 • Washington, D.C. 20090  
Telephone: (202) 623-7430 • Fax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) Web: <http://www.imf.org>  
Price: \$18.00 per printed copy

**International Monetary Fund**  
**Washington, D.C.**



PR22/443

## IMF Executive Board Completes First Review under the Stand-By Arrangement with Georgia

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the first review under the Stand-By Arrangement (SBA) with Georgia, providing the country with access to about US\$40 million.
- Strong growth of 10 percent is projected for 2022. Inflation has been slowing but remains elevated due to high commodity prices and strong domestic demand. Both growth and inflation are expected to moderate in 2023.
- Georgia's program continues to focus on reinforcing macroeconomic stability and maintaining reform momentum through prudent macroeconomic policies to reduce inflation and rebuild fiscal and external buffers, and structural reforms to foster more inclusive and job-rich growth.

**Washington, DC – December 21, 2022:** The Executive Board of the International Monetary Fund (IMF) completed the first review of the three-year Stand-By Arrangement (SBA) for Georgia. The completion of the review enables access of SDR 30 million (about US\$40 million). The Georgian authorities continue to treat the arrangement as precautionary.

Strong growth of 10 percent is projected for 2022. This reflects limited adverse spillovers from Russia's war in Ukraine, buoyant tourism revenues, a surge in war-related inbound migration and financial inflows, and a rise in transit trade through Georgia. These developments have lifted fiscal revenues and supported reserve accumulation. Inflation has been slowing but remains elevated at around 10½ percent due to high commodity prices and strong domestic demand.

Both growth and inflation are expected to moderate in 2023. A slowdown in global trade and tighter financial conditions should weigh on growth, which along with falling commodity prices, recent lari appreciation, and sufficiently tight monetary policy should help reduce inflation. Uncertainty and risks to the outlook remain high.

Following the Executive Board's discussion, Ms. Antoinette M. Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

The Georgian economy has performed strongly in 2022 and thus far adverse spillovers from Russia's war in Ukraine have had less impact than expected. The authorities have appropriately used recent positive outturns to rebuild fiscal and external buffers, and their performance under the program has been satisfactory. In the context of high uncertainty and risks to the global outlook, continued prudent policies are important to further entrench macroeconomic stability.

The authorities have used the revenue overperformance to achieve faster deficit reduction this year and committed to further deficit reduction to comply with their fiscal rule in 2023. Further progress on reducing tax expenditures, improving revenue administration, and strengthening

public investment management will be important to increase fiscal space for priority spending and improve the quality of capital spending. The authorities have taken important actions on state-owned enterprise governance reform and renewable energy development, areas in which implementation of the strategies remains important, including to guard against fiscal risks.

The National Bank of Georgia has appropriately taken advantage of favorable conditions this year to rebuild international reserves more quickly than programmed. Monetary policy will need to remain sufficiently tight to bring down inflation and policymakers will need to be ready to tighten monetary policy further if high inflation persists. Continued exchange rate flexibility and prudent accumulation of reserves will provide Georgia further resilience against external shocks.

Advancing the structural reform agenda will support stronger and more inclusive growth. It will be important to improve competitiveness by strengthening the business environment and enhancing governance. The authorities' plans for education reform and training programs will also help reduce unemployment and enhance inclusion. Finally, it will be important to prioritize among key infrastructure projects.

Table 1. Georgia: Selected Economic and Financial Indicators, 2020–24

	2020	2021	2022	2023	2024
	Actual		Projections		
National accounts and prices	(annual percentage change; unless otherwise indicated)				
Real GDP	-6.8	10.5	10.0	4.0	5.2
Nominal GDP (in billion of laris)	49.3	60.0	72.5	80.1	86.9
Nominal GDP (in billion of U.S. dollars)	15.8	18.6	24.7	27.1	29.7
GDP per capita (in thousand of U.S. dollars)	4.3	5.0	6.7	7.3	8.0
GDP deflator, period average	7.2	10.3	10.0	6.5	3.0
CPI, Period average	5.2	9.6	12.0	6.0	3.0
CPI, End-of-period	2.4	13.9	10.5	3.8	3.0
Consolidated government operations	(in percent of GDP)				
Revenue and grants	25.2	25.5	26.5	25.9	25.8
o.w. Tax revenue	22.3	22.6	23.9	23.6	23.6
Total Expenditure	34.5	31.6	29.3	28.9	28.0
Current expenditures	26.3	24.6	21.7	21.9	22.1
Net acquisition of nonfinancial assets	8.2	6.9	7.6	7.0	5.9
Net Lending/Borrowing (GFSM 2001)	-9.3	-6.0	-2.8	-2.9	-2.2
Augmented Net lending / borrowing (Program definition) 1/	-9.4	-6.1	-3.1	-2.8	-2.3
Public debt	60.2	49.7	41.2	42.0	41.4
o.w. Foreign-currency denominated	47.6	39.9	31.4	31.5	29.7
Money and credit	(in percent; unless otherwise indicated)				
Credit to the private sector (annual percentage change)	22.4	12.4	5.2	10.5	8.5
In constant exchange rate	9.0	18.2	10.9	7.6	8.8
Broad money (annual percentage change)	24.6	11.4	7.4	12.6	11.1
Broad money (excl. fx deposits, annual percentage change)	18.8	17.9	12.8	13.7	12.2
External sector	(in percent of GDP; unless otherwise indicated)				
Current account balance	-12.5	-10.4	-5.6	-6.6	-5.7
Trade balance	-20.0	-20.3	-22.0	-22.2	-18.4
Terms of trade (percent change)	5.7	-13.6	2.5	3.5	1.5
Gross international reserves (in billions of US\$)	3.9	4.3	4.3	3.8	3.9
In percent of IMF Composite measure (floating)	107.4	106.9	98.6	83.3	81.4
Gross external debt	110.5	99.8	77.7	73.1	68.4

Sources: Georgian authorities; and Fund staff estimates.

1/ Augmented Net lending / borrowing (Program definition) = Net lending / borrowing - Budget lending.



# GEORGIA

December 6, 2022

## STAFF REPORT FOR THE FIRST REVIEW UNDER THE STAND-BY ARRANGEMENT AND REQUEST FOR MODIFICATIONS OF PERFORMANCE CRITERIA AND STRUCTURAL BENCHMARKS

### EXECUTIVE SUMMARY

**Context.** The Georgian economy has performed strongly in 2022 as adverse spillovers expected from the war in Ukraine have not materialized thus far. Buoyant tourism revenues, a surge in war-related immigration and financial inflows, and a rise in transit trade through Georgia have lifted growth and fiscal revenues, strengthened the current account balance and the lari, and supported reserve accumulation. Inflation remains elevated, reflecting still high commodity prices and strong domestic demand. Growth and inflation are expected to moderate in 2023 with subsiding external inflows, less favorable global economic and financial conditions, smaller fiscal deficits, and a sufficiently tight monetary policy stance. In 2024, growth is projected to converge to its potential rate and inflation is forecast to fall to the NBG's target.

**Program status.** All quantitative performance criteria (QPCs) for the first review were met. Fiscal and reserve balance targets were met with substantial margins and June inflation was within the inner bands of the consultation target. Steady progress was made on structural benchmarks (SBs) with four met (reporting tax expenditures, processing VAT credits, improving financial risk supervision, and subjecting large investments to the public investment management framework), and four being implemented as prior actions (three on SOE reform and one on a renewable energy support scheme) given their importance in limiting fiscal risks.

**Program priorities.** Policies should focus firmly on reinforcing macroeconomic stability and maintaining reform momentum through: a sufficiently tight monetary policy stance to bring down high inflation, continued exchange rate flexibility and a build-up of international reserves, and further strengthening of financial sector resilience; further fiscal consolidation to comply with the fiscal rule in 2023, strengthening public investment management, and limiting fiscal risks including from state-owned enterprises and the energy sector; and fostering more inclusive growth to reduce high unemployment.

**Staff views.** Given the authorities' strong program performance, ownership, and reform commitments, staff supports completion of the first review and modifications to quantitative and structural targets. The authorities continue to treat the program as precautionary and will only consider making purchases if the balance of payments deteriorates materially.

Approved By  
**Subir Lall (MCD)**  
**Natalia Tamirisa (SPR)**

Discussions were held during October 26 - November 8, 2022, in Tbilisi. The mission team comprised J. John (head), E. Ture, M. Al Taj, W. Abel, N. Reyes (MCD), J. Yoo (FAD), M. Leika (MCM), Y. Zhao (SPR), S. Cakir (Resident Representative), and N. Sharashidze (Local Economist). The mission was assisted by S. Zolotareva (MCD) and K. Danelia (IMF Tbilisi Office). S. Tsur (OED) attended some meetings.

## CONTENTS

<b>CONTEXT AND RECENT ECONOMIC DEVELOPMENTS</b>	<b>4</b>
<b>OUTLOOK AND RISKS</b>	<b>7</b>
<b>PROGRAM PERFORMANCE</b>	<b>8</b>
<b>POLICY DISCUSSIONS</b>	<b>9</b>
A. Rebuilding Fiscal Buffers and Managing Risks	9
B. Achieving The Inflation Target and Building Reserves	13
C. Keeping The Financial Sector Resilient	13
D. Enhancing Growth and Inclusion	15
<b>PROGRAM MODALITIES</b>	<b>15</b>
<b>STAFF APPRAISAL</b>	<b>16</b>
<b>FIGURES</b>	
1. Real Sector Developments	18
2. External Sector Developments	19
3. Fiscal Sector Developments	20
4. Financial Sector Developments	21
<b>TABLES</b>	
1. Selected Economic and Financial Indicators, 2019–27	22
2. Balance of Payments, 2019–27	23
3a. General Government Operations, GFSM2001 2019–27 (In millions of GEL)	24
3b. General Government Operations, GFSM2001 2019–27 (In percent GDP)	25
4. Monetary Survey, 2019–22	26
5. Financial Soundness Indicators, 2019–22Q3	27
6. Schedule of Reviews and Available Purchases	28
7. Indicators of Fund Credit, 2019–27	28

**ANNEXES**

I. Risk Assessment Matrix	<a href="#">29</a>
II. Downside Scenario	<a href="#">34</a>

**APPENDICES**

I. Letter of Intent	<a href="#">36</a>
Attachment I. Memorandum of Economic and Financial Policies	<a href="#">38</a>
Attachment II. Technical Memorandum of Understanding	<a href="#">52</a>