# Georgia: 2024 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Georgia

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IMF Country Report No. 24/135

# GEORGIA

May 2024

## 2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GEORGIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Georgia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its May 13, 2024 consideration of the staff report that concluded the Article IV consultation with Georgia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 13, 2024, following discussions that ended on March 18, 2024, with the officials of Georgia on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 29, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Georgia.

The documents listed below will be separately released.

Selected Issues

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PRESS RELEASE

PR 24/181

# IMF Executive Board Concludes 2024 Article IV Consultation with Georgia

FOR IMMEDIATE RELEASE

**Washington, DC** – **May 13, 2024:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Georgia.[1]

Financial inflows triggered by Russia's war in Ukraine continue to moderate but remain above pre-war levels, supporting a positive macroeconomic outlook. In 2024, growth is expected to ease but remain above trend, inflation is expected to pick-up as monetary policy continues to normalize, and the current account deficit is expected to widen from historic lows. Over the medium term, growth would converge to its potential rate of 5 percent, inflation to the National Bank of Georgia's (NBG) 3 percent target, and the current account deficit to 5.5 percent of GDP, supported by continued improvements in services exports.

Risks to the outlook are tilted to the downside. A reversal of war-related migrant and financial inflows and intensification of sanctions that affect Georgia and geo-economic fragmentation remain key downside risks. Replenished fiscal and reserve buffers, as well as abundant bank capital and FX liquidity would mitigate such risks. A loss of reform momentum before the October Parliamentary elections and growing concerns about governance also pose downside risks. On the upside, EU candidate status could send a positive signal, including for investments, if reforms gain impetus to move the accession process forward.

The authorities have pursued prudent policies to secure macroeconomic and financial stability. The NBG has maintained a tight monetary policy stance, normalizing the policy rate gradually, while using macroprudential measures to address systemic risks. Despite significant foreign exchange purchases, reserves fell below the IMF's adequacy metric. There remain gaps in the NBG Law regarding NBG governance and independence. Adequate buffers have been maintained under the fiscal rules and good progress has been achieved in evaluating tax expenditures and strengthening public investment management. Progress has been slow on developing a Medium-Term Revenue Strategy to build space for spending priorities and reforming the SOEs to limit their fiscal risks.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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The authorities have taken significant steps to address entrenched high unemployment and diversify the economy, including by pursuing trade agreements and infrastructure investments. Challenges remain in improving the quality of education and productivity, particularly in the agricultural sector, as well as in bolstering the judicial system and the anti-corruption authority to strengthen governance.

**Executive Board Assessment**[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Georgia's resilience in the face of multiple shocks. While noting the continued strong macroeconomic performance, Directors highlighted that the global environment is highly uncertain and that the outlook is subject to significant downside risks. They called for continued prudent policies to strengthen resilience and structural reforms to boost potential growth, support more inclusive, job rich growth, and ensure progress toward EU accession. Directors underscored the importance of continued Fund engagement to support these goals.

Directors supported the authorities' plans for continued modest medium term fiscal adjustment to ensure sufficient buffers under the fiscal rule, while creating room for social and infrastructure spending. They agreed that the adjustment should be underpinned by a medium-term revenue strategy focused on streamlined tax expenditures and improved revenue administration, along with enhanced spending prioritization and efficiency. Noting the importance of limiting fiscal risks, Directors urged the authorities to prioritize state owned enterprise reform, particularly to strengthen oversight and governance. They also encouraged steadfast implementation of renewable energy development strategies.

Directors commended the National Bank of Georgia's (NBG's) prudent approach to monetary policy, which has helped to maintain low and stable inflation. They recommended a gradual and cautious, data driven approach to further policy rate cuts and clear communication to anchor inflation expectations. Directors emphasized that strengthening the NBG's governance framework and independence is essential to safeguard monetary policy credibility. Noting the high exposure to external shocks, Directors called for continued exchange rate flexibility and reserve accumulation.

Directors welcomed the continued resilience of the banking system and commended the proactive use of macroprudential and prudential measures to manage financial sector risks. They highlight, however, that the banking system remains highly concentrated and dollarized and agreed that these risks can only be sustainably addressed by improving competition in the banking system and strengthening macroeconomic policy frameworks. Noting the high uncertainty around global financial conditions, Directors recommended maintaining adequate capital and liquidity buffers. Directors

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.



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urged continued vigilance against risks from capital inflows, virtual assets, and sanctions, and underscored the importance of strong AML/CFT controls.

Directors recognized the progress on tackling high unemployment and diversifying the economy. They nonetheless underscored the need for continued efforts to enhance infrastructure investments to foster regional connectivity and further diversify the economy. Enhancing the quality of education and improving agricultural productivity would help to address low rural labor force participation. Directors stressed the need to improve governance and anti-corruption frameworks and highlighted that reform of the judicial system and the anti-corruption authority is important to improve the business environment.

It is expected that the next Article IV consultation with Georgia will be held on the standard 12-month cycle.



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## Georgia: Selected Economic and Financial Indicators, 2022-2026

| | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|
| | Actual | | Projection | | |
| National accounts and prices | (annual percentage change; unless otherwise indicated) | | | | |
| Real GDP | 11.0 | 7.5 | 5.7 | 5.2 | 4.7 |
| Nominal GDP (in billion of laris) | 72.9 | 80.2 | 88.6 | 97.6 | 106.1 |
| Nominal GDP (in billion of U.S. dollars) | 25.0 | 30.5 | 32.9 | 35.6 | 38.2 |
| GDP per capita (in thousand of U.S. dollars) | 6.8 | 8.2 | 8.8 | 9.6 | 10.3 |
| GDP deflator, period average | 8.1 | 2.5 | 4.4 | 4.7 | 3.8 |
| CPI, period average | 11.9 | 2.5 | 2.6 | 4.2 | 3.4 |
| CPI, end-of-period | 9.8 | 0.4 | 4.0 | 3.7 | 3.0 |
| Consolidated government operations | (in percent of GDP) | | | | |
| Revenue and grants | 26.5 | 27.6 | 28.1 | 27.7 | 27.6 |
| o.w. Tax revenue | 23.7 | 24.6 | 25.5 | 25.4 | 25.4 |
| Total Expenditure | 29.0 | 29.9 | 30.7 | 29.9 | 29.8 |
| Current expenditures | 21.4 | 22.3 | 23.1 | 23.3 | 23.2 |
| Net acquisition of nonfinancial assets | 7.6 | 7.6 | 7.6 | 6.6 | 6.5 |
| Net lending/borrowing (GFSM 2001) | -2.6 | -2.3 | -2.5 | -2.2 | -2.2 |
| Augmented net lending/borrowing 1/ | -3.1 | -2.5 | -2.5 | -2.3 | -2.3 |
| Public debt | 39.2 | 39.2 | 38.8 | 37.8 | 37.5 |
| o.w. Foreign-currency denominated | 29.4 | 28.5 | 27.0 | 25.6 | 24.3 |
| Money and credit | (annual percentage change; unless otherwise indicated) | | | | |
| Credit to the private sector | 3.4 | 16.5 | 15.0 | 12.2 | 8.7 |
| In constant exchange rate | 12.1 | 17.1 | 16.4 | 11.6 | 8.2 |
| Broad money | 11.0 | 14.9 | 12.5 | 12.3 | 11.3 |
| Excluding FX deposits | 22.9 | 26.9 | 12.9 | 12.7 | 11.7 |
| Deposit dollarization (in percent of total) | 56.1 | 47.0 | 46.8 | 46.5 | 46.3 |
| Credit dollarization (in percent of total) | 45.0 | 44.5 | 44.1 | 43.7 | 43.3 |
| Credit to GDP (in percent) 2/ | 60.3 | 63.8 | 66.5 | 67.7 | 67.7 |
| External sector | (in percent of GDP; unless otherwise indicated) | | | | |
| Current account balance (in billions of US$) | -1.1 | -1.3 | -1.9 | -2.0 | -2.1 |
| Current account balance | -4.5 | -4.3 | -5.8 | -5.6 | -5.5 |
| Trade balance | -20.4 | -20.0 | -20.8 | -20.8 | -20.9 |
| Terms of trade (percent change) | -2.3 | 5.4 | 0.5 | -0.2 | 0.1 |
| Gross international reserves (in billions of US$) | 4.9 | 5.0 | 5.0 | 5.4 | 5.6 |
| In percent of IMF ARA metric 3/ | 102.2 | 95.5 | 94.8 | 97.8 | 99.7 |
| Gross external debt | 81.0 | 70.2 | 66.7 | 62.8 | 58.5 |

Sources: Georgian authorities; and Fund staff estimates.

1/ Augmented Net lending / borrowing = Net lending / borrowing - Budget lending.

2/ Banking sector credit to the private sector.

3/ IMF's adequacy metric for assessing reserves in emerging markets.



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# GEORGIA

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

April 29, 2024

## EXECUTIVE SUMMARY


**Context:** Georgia's economic performance remains robust. Growth has moderated from double digits but remains high, inflation is low, and fiscal and financial buffers are healthy. EU candidate status has boosted sentiment, but the global environment remains highly uncertain due to ongoing conflicts and shifting geo-economic patterns. Georgia should continue to strengthen its resilience to adverse shocks by maintaining prudent macroeconomic policies and boost its growth potential by addressing long-standing structural challenges, capitalizing on new economic opportunities, and making decisive progress towards EU accession.

**Key policy recommendations:**

- **Modest further fiscal adjustment is appropriate in the medium term,** to build sufficient buffers under the fiscal rule and create room for productive spending. A medium-term revenue strategy and improved public investment management should underpin the adjustment. SOE reform should seek to limit fiscal risks and enhance efficiency in line with EU principles.

- **Monetary policy normalization should proceed gradually and cautiously,** to ensure core inflation remains close to target. Continued exchange rate flexibility, reserve buildup, and financial sector vigilance are essential to guard against risks, including from capital inflows, virtual assets, and sanctions. Strengthening NBG governance and independence is essential to the credibility of monetary policy.

- **Structural reforms are needed to achieve stronger, more inclusive, and job-rich growth.** Priorities include infrastructure investments to foster economic diversification and regional connectivity; improvements in education and training, as well as agricultural productivity to help address entrenched high unemployment and low rural labor force participation; judicial and anti-corruption reforms to improve competitiveness and the business environment.



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

Discussions were held during March 6–19, 2024, in Tbilisi. The mission team comprised M. Gaertner (head), E. Ture, W. Abel (MCD), J. Yoo (FAD), J. Zhou (MCM), M. Omoev (SPR), A. Jewell (Resident Representative), and N. Sharashidze (Local Economist). The mission was assisted by M. Gaetskaya, S. Arzoumanian, C. Santana (MCD) and K. Danelia (IMF Tbilisi Office). S. Lall (MCD) joined the second half of the mission. V. Rashkovan and N. Steinberg (OED) attended some meetings.

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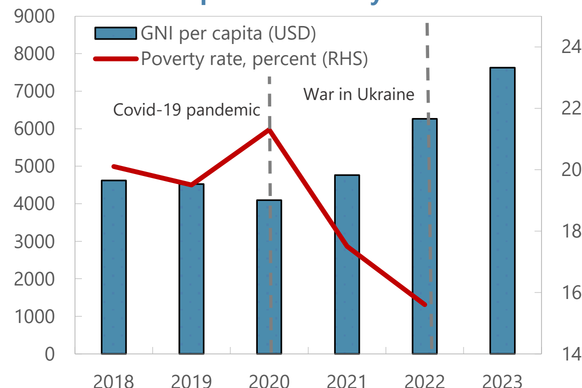
# CONTEXT

1. **The Georgian economy has performed strongly since the pandemic** (Annex I). A recovery in tourism since 2021 and a surge in immigration, financial inflows, and transit trade triggered by Russia's war in Ukraine have boosted GDP growth and fiscal revenues and strengthened the external balance and the lari. The authorities have taken advantage of these favorable conditions to rebuild foreign exchange (FX) reserves and reduce fiscal deficits. The strong lari has contributed to a sharp fall in inflation and public debt, while robust growth has helped lower unemployment and poverty.

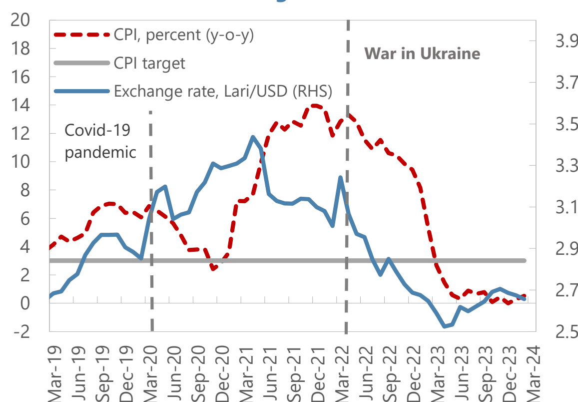
## Economic Performance Since the Pandemic

*Strong growth has helped lower the unemployment rate…*

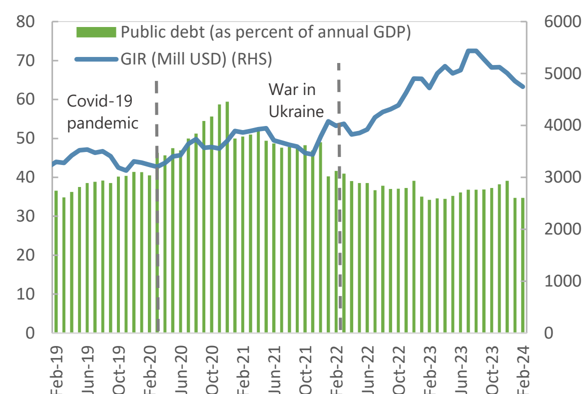
*…while raising incomes and lifting many out of poverty.*




*Inflation has declined below target helped by a stronger lari and restrictive monetary policy…*




*…while fiscal and external buffers have been strengthened.*




Sources: National Authorities, Haver (NBG, GeoStat), and IMF staff calculations.



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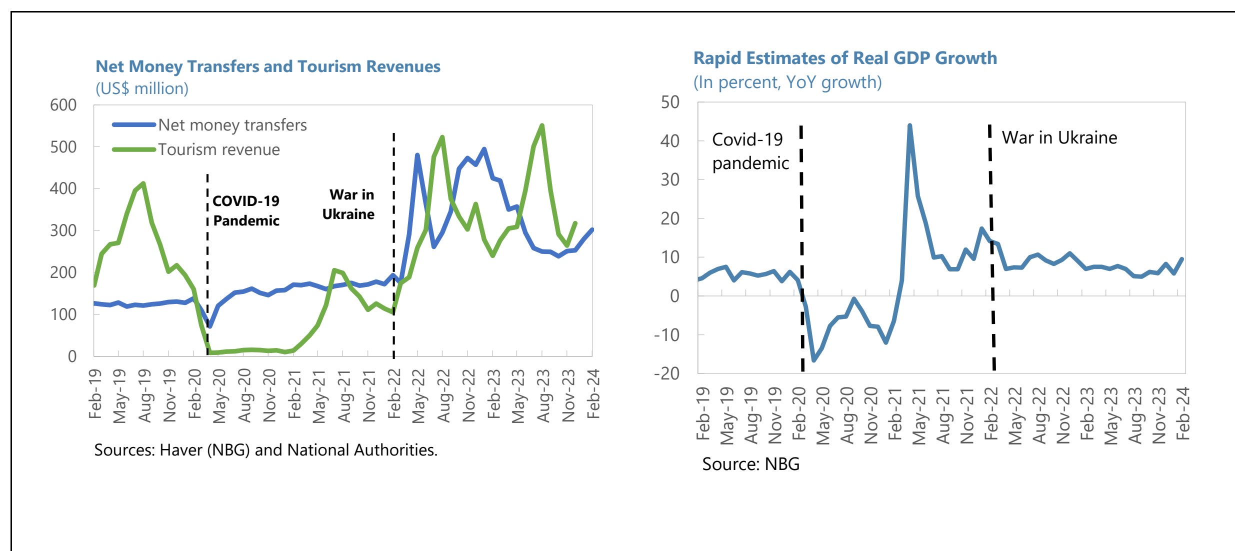
**2. Georgia earned EU candidate status in December 2023 against the backdrop of deep political divisions**. The EU has stated that the government will need to make progress in nine priority reform areas to start accession talks, including in sensitive areas like political polarization, judicial reform, de-oligarchization, institutional independence, and media freedom. Parliamentary elections are expected in October 2024.

**3. The reviews under the SBA have been on hold since June 2023 reflecting concerns about NBG independence and stalled SOE governance reform.** Amendments to the NBG law in June 2023 to create a new First Deputy and Acting Governor position—superseding the existing succession framework—contradicted IMF Safeguards recommendations and raised concerns about increased political influence. The revision in September 2023 of the NBG regulation regarding banks' compliance with international sanctions added to concerns about NBG independence and introduced regulatory ambiguity and potential financial sector risks. Implementation of the SOE reform strategy based on a centralized dual ownership model by the Ministries of Finance and Economy has also not moved forward as envisaged under the SBA.

# RECENT ECONOMIC DEVELOPMENTS

**4. Financial inflows have moderated but remain above pre-war levels, supporting continued favorable macroeconomic performance.** Growth remained above trend at 7.5 percent (y/y) in 2023 driven largely by services and investments (Table 1, Figure 1), and continues to show strength (the rapid estimate averaged 7.7 percent y/y during January-February 2024). A lower goods trade deficit as a share of GDP, helped by lower import prices, and higher transportation and IT services exports offset lower tourism and remittance inflows from Russia, keeping the current account deficit at 4.3 percent of GDP in 2023—a historical low (Table 2, Figure 2). Gross international reserves stood at $5 billion at end-2023 (95 percent of the ARA metric), following a drop in H2 reflecting FX sales in September-October to counter temporary outflows and a reduction at the end of November of reserve requirements on short term FX deposits.



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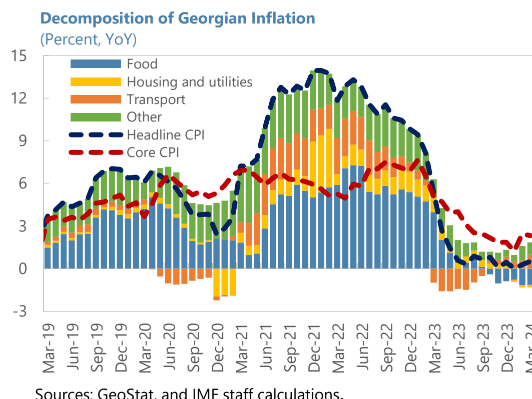
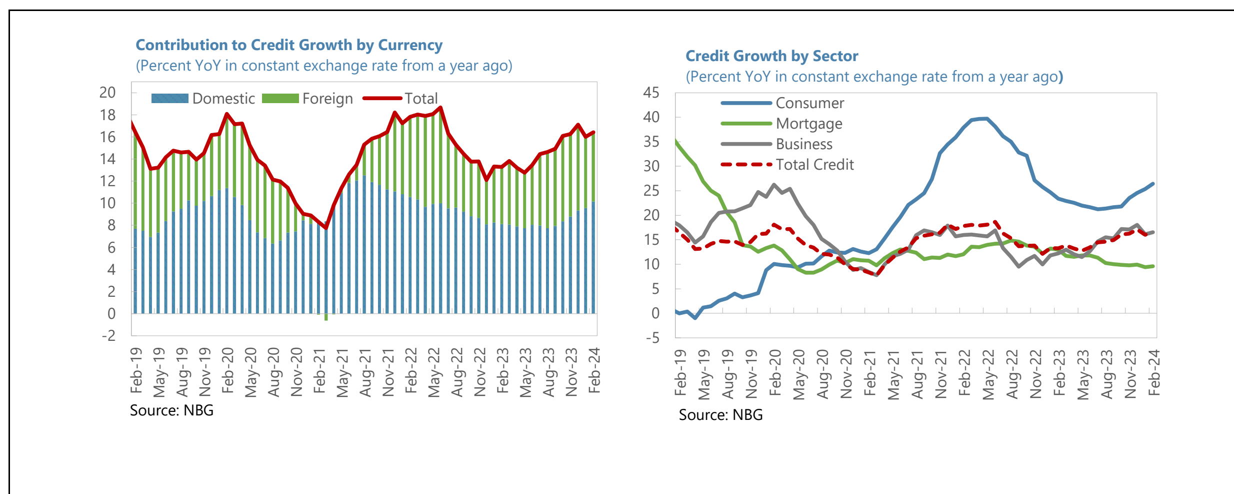
**5. Inflation fell sharply during 2023, helped by a strong lari, lower commodity prices, and a tight monetary policy stance** (Box 1)**.** Headline inflation was 0.5 percent (y/y) in March 2024, well below the NBG's 3 percent target, while core inflation was 2.4 percent (y/y), down from 5 percent a year ago. The NBG has lowered its policy rate by a cumulative 275 basis points since May 2023 to 8.25 percent in March 2024, reflecting easing inflationary pressures. Nevertheless, domestic demand pressures persist, driven largely by a tight labor market, with nominal wage growth at 15.3 percent y/y and the unemployment rate at 15.3 percent in Q4 2023—a historical low.




**6. The augmented fiscal deficit in 2023 was 2.5 percent of GDP, compared to a budgeted deficit of 2.8 percent** (Table 3, Figure 3). The overperformance reflected strong revenues, including VAT and income taxes, amid robust growth and an expansion of the formal economy. The authorities used part of the revenue windfall to raise social and capital spending, including on pensions, healthcare, schools, water supply, and flood rehabilitation programs, while keeping the deficit below target. Despite election related spending pressures, the 2024 budget targets an unchanged fiscal deficit of 2.5 percent of GDP. The deficit through March was just 0.1 percent of GDP, reflecting continued strong revenues, including from new measures (¶13).

**7. Private sector credit growth picked up in the second half of 2023, with private credit as share of GDP remaining near its pre-pandemic level.** (Table 4, Figure 4). Bank credit to the private sector grew by 16 percent (y/y, at constant exchange rates) in January-February, further reducing the negative credit gap. Local currency credit growth, driven by consumer credit, has reversed its declining trend—reflecting the recent easing in monetary and macro-prudential policies (Annex VII)—while foreign currency credit growth has accelerated until recently, driven by business loans. Nevertheless, strong growth and the lari appreciation in recent years have helped lower household and corporate debt-to-GDP.



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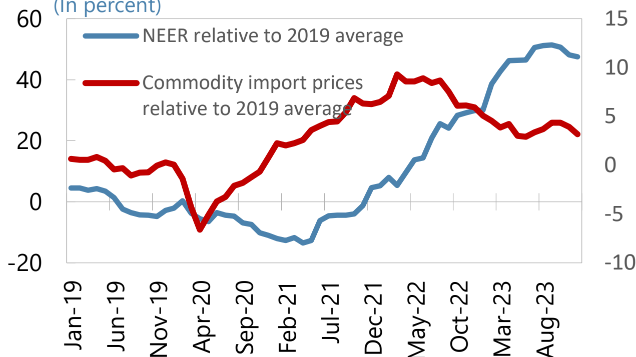
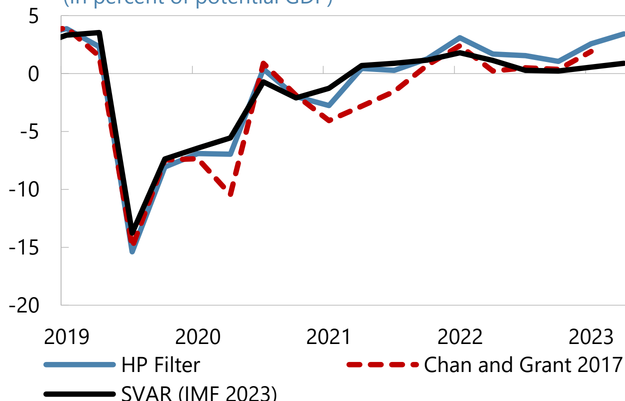
## Box 1. Inflation and Monetary Policy in Georgia[1]

**Inflation in Georgia has been volatile in recent years due to the large external shocks that have affected the economy.** After spiking in 2021-22, inflation has fallen from a peak of 13.9 percent in January 2022 to 0.5 percent (y/y) in March 2024, driven largely by exchange rate appreciation. Over half of this appreciation has occurred since the start of Russia's war in Ukraine, which resulted in over 100,000 migrants moving to Georgia in 2022,[2] and was accompanied by an 85 percent increase in money transfers into Georgia in 2022 compared to 2021. Staff estimates that, at its peak, this appreciation reduced inflation by 6 percentage points. Falling commodity prices, a tight monetary policy, and other idiosyncratic factors have also played a role.




Source: IMF IFS and Commodity Terms of Trade Database, and IMF staff calculations

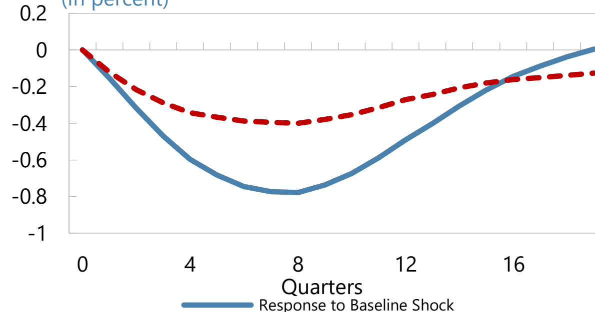
**Domestic cost pressures remain elevated and could play an increasingly important role in driving inflation going forward.** After several years of strong growth, unemployment was at a record low level of 15.3 percent in Q4 2023. Labor demand remains high with an elevated level of unfilled vacancies and almost half of the firms reporting labor shortages. This has led to high wage and unit labor cost growth. Using a range of models, staff estimates that the output gap is currently positive in Georgia.[3,4]




Source: IMF staff calculations

**Monetary policy is an effective tool in Georgia for targeting medium-term inflation.** Staff estimates that 100 basis points of monetary policy tightening by the NBG decreases inflation by 0.8 percentage points at its peak (after 2 years). Roughly half of this effect comes through the exchange rate channel – with higher interest rates pushing the exchange rate up and lowering the cost of imports.

**The policy rate in Georgia is now approaching the neutral rate.** Using two different models,[5,6] staff estimates that the current level of the neutral rate in Georgia ranges between 7.5 and 8.25 percent, albeit with large error bands. The models suggest that the current policy rate (8.25 percent in March 2024) is close to neutral.




Source: IMF staff calculations



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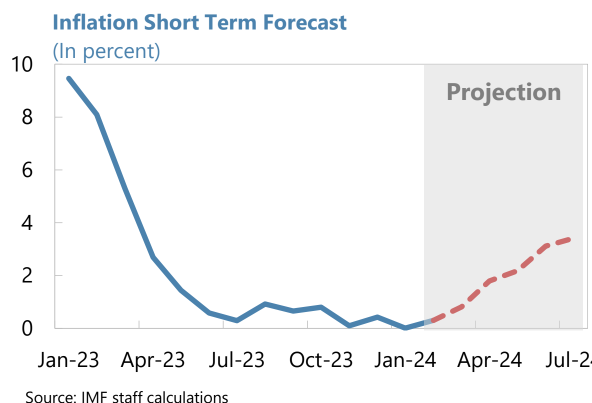
## Box 1. Inflation and Monetary Policy in Georgia (concluded)

**Inflation is projected to pick up from Q2 2024 as base effects and the impact of exchange rate pass through subside.** According to staff's model estimates, inflation should reach NBG's 3 percent target in the second half of 2024 and exceed 4½ percent by mid-2025, before converging back to target gradually.

**Further rate cuts should be gradual and cautious to anchor inflation around its target**, given rising inflation and a positive output gap, as well as high uncertainty and the lagged policy impact.

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1/ See the Selected Issues Paper, "Inflation and Monetary Policy in Georgia", accompanying this report for more details on the recent drivers of inflation, the effectiveness of monetary policy, and policy recommendations.

2/ German Economic Team, 2023. Relocation of people from Russia and Belarus to Georgia: results of 2nd survey and update of economic implications. Policy Study.

3/ Grant, A.L. and J.C.C. Chan, 2017. "Reconciling Output Gaps: Unobserved Components model and Hodrick-Prescott filter". Journal of Economic Dynamics and Control, 75: 114-121.

4/ International Monetary Fund, 2023. Safeguarding Macroeconomic Stability amid Continued Uncertainty in the Middle East and Central Asia. Regional Economic Outlook. Washington, DC, May.

5/ Laubach, T. and J. C. Williams, 2009. "Measuring the Natural Rate of Interest". The Review of Economics and Statistics, 91(2), 213-226.

6/ Lubik, T. A. and C. Matthes, 2015. "Time-Varying Parameter Vector Autoregressions: Specification, Estimation, and an Application". Economic Quarterly, 101(4), 323-352.

8. **The banking system is well capitalized, profitable, and liquid, providing resilience against shocks, but remains highly concentrated and dollarized** (Table 5, Figure 4). Rising profits, thanks to high interest income, and declining NPLs (1.6 percent by IMF measure at end-February) have helped strengthen bank capital. Stricter liquidity requirements placed on fast-growing Russian deposits were appropriately relaxed in February as these deposits have stabilized. Housing prices and rents, which surged following the influx of migrants, have also stabilized since mid-2023. The two largest banks account for about 80 percent of the banking system in terms of assets, but they are subject to higher Pillar 1 capital buffers, mitigating their systemic risk. Although loan dollarization has declined to around 45 percent, unhedged borrowers are still exposed to currency risks. To further mitigate such risks, the floor on FX lending to unhedged borrowers was raised to GEL 400,000 effective from May 2024, with a plan to further raise it gradually. (Annex VII).



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# OUTLOOK AND RISKS

**9. Growth is expected to moderate over the medium term towards potential.** Staff expects growth to slow to 5.7 percent in 2024, as war-related financial inflows continue to ease, and capacity constraints start to bind. Consumption is expected to play a larger role, supported by strong real wage growth and employment. The negative credit gap is expected to close this year, with higher consumer and SME credit. EU candidate status could send a positive signal, including for investments, but its near-term economic benefits are expected to be limited as Georgia already enjoys close ties with the EU through an Association Agreement and a Deep and Comprehensive Free Trade Agreement. Growth is expected to converge to its potential rate of around 5 percent in the medium term (Box 2).

**10. Inflation is expected to converge to target and the current account deficit to stabilize above its current level**. Staff expects headline inflation to reach 4 percent by the end of 2024, as the impact of lari appreciation dissipates and monetary policy eases, before converging to target over the medium term. The current account deficit is expected to widen in 2024 to 5.8 percent of GDP, as exceptional remittances continue to normalize and the goods trade deficit picks up. Over the medium term, it should stabilize at around 5½ percent of GDP, as the services trade balance continues to improve. Reserve coverage would remain below 100 percent of the ARA metric in 2024 amid a higher current account deficit, with a gradual improvement to around 103 percent by 2028.

**11. Risks to the outlook are tilted to the downside amid considerable uncertainty regarding the outlook for war-related inflows and shifting geo-economic patterns** (Annex II). While a large share of migrants appears to have settled in Georgia, a reversal of war-related migrant, FX, and tourism inflows, as well as an intensification of sanctions that affect Georgia and geo-economic fragmentation remain key downside risks. Such an adverse scenario could dampen growth and weaken the lari, resulting in higher inflation and debt given the high FX share. A sharp correction in real estate prices could diminish the quality of banks' assets. Replenished fiscal and reserve buffers, as well as abundant bank capital and FX liquidity, and borrower based macroprudential measures (Annex VII) would help cushion such risks. A loss of reform momentum in the context of this year's parliamentary elections also presents a downside risk, while EU candidate status could provide an impetus for institutional reform to move the accession process forward. Upside risks include further war-related migrant and FX inflows, and increased transit trade and investments due to shifting geo-economic patterns, including from further integration with the EU.

***Authorities' Views***

**12. The authorities broadly concurred with staff on the economic outlook and risks**. They expect growth to slow towards potential and inflation to reach the 3 percent target during 2024 as the impact of the favorable external factors from last year dissipates and monetary policy continues to normalize. Nevertheless, they see a lower risk of a reversal of war-related migrant and financial inflows and see a lower probability on inflation exceeding the target by the end of the year.



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# POLICY DISCUSSIONS

*Given the uncertain global outlook, Georgia needs to strengthen its resilience to adverse shocks by maintaining prudent macroeconomic policies and boost its growth potential by addressing long-standing structural challenges, capitalizing on new economic opportunities, and making decisive progress toward EU accession. Priorities include: (i) building sufficient fiscal buffers against risks and space for spending priorities, while managing fiscal risks, including from SOEs; (ii) anchoring inflation at the NBG's target, supported by greater exchange rate flexibility, reserve build-up, and NBG independence; (iii) remaining vigilant against financial sector risks; and (iv) implementing structural reforms to enhance inclusive growth.*

## A. Building Fiscal Space and Managing Fiscal Risks

**13. The 2024 budget target of 2.5 percent of GDP is appropriate and achievable.** The target would keep the deficit below the 3 percent of GDP fiscal rule deficit ceiling and help stabilize public debt at current levels (Annex III), comfortably below the fiscal rule ceiling of 60 percent of GDP. Increased revenues from the recent changes in the CIT regime for banks and new taxes on the gambling sector are expected to finance increased expenditures, including on higher wage bills, social benefits, and capital investments. Parliament adopted in April an amnesty for pre-2021 household tax arrears and a tax exemption for transferring offshore assets to Georgia. While the near-term revenue implications would be limited, concerns exist regarding the longer-term impact of these measures on tax compliance.

**14. For the medium term, modest further fiscal adjustment is appropriate to ensure sufficient buffers under the fiscal rule, along with prioritizing key infrastructure projects.** Based on Georgia's historical distribution of shocks and future fiscal risks, staff analysis suggests a target debt level of around 40 percent of GDP to ensure that public debt remains below the rule ceiling in the event of adverse shocks. This implies a corresponding fiscal deficit range of 2-2.5 percent of GDP, depending on long-term aging and climate costs (Annex VI). The envisaged adjustment over the medium term will be achieved by a reduction in capital expenditures as major road infrastructure projects have been completed. Going forward, the authorities should prioritize among the large infrastructure projects under consideration, which aim to expand international trade (e.g., Anaklia deep-water port and middle-corridor rehabilitation), energy independence (e.g., hydropower projects), and connectivity with Europe (e.g., a Black Sea cable).

**15. Continued efforts on revenue mobilization can create space for priority spending, including on infrastructure and education**. The authorities published a first tax expenditure report in late-2022, including their nature and costs. They also completed the evaluation of VAT expenditures in the key agricultural sector. Staff advocated for developing a medium-term revenue strategy with streamlined tax expenditures and continued improvement in tax administration. The latter includes expanding the large taxpayer office operations to include subsidiaries of large taxpayers, and improving taxpayer audit capability, enterprise risk management, and human resource development.



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**16. Improved public investment management (PIM) practices can help ensure high-quality capital spending.** The authorities have updated their PIM guidelines and should select all new investment projects above GEL 20 million in the 2024 budget accordingly. Developing a digital PIM module to track projects over their lifecycles and produce data for decision-making, in line with recent PIMA update recommendations, would further improve PIM. Requiring a competitive procurement process for all PPP projects including in the energy sector would enhance transparency and help identify the most effective and cost-efficient approaches. The authorities should also include assessments of the fiscal costs and risks of large infrastructure projects in Fiscal Risks Statements.

**17. Steadfast implementation of the SOE governance reform and renewable energy development strategies adopted in late-2022 is needed to enhance productivity and limit fiscal risks**.

- The authorities' draft SOE law is not in line with the reform strategy agreed with staff and approved by the government. It keeps the current decentralized ownership model, instead of the centralized dual ownership shared between ministries of finance (MoF) and economy (MoE). Staff stressed that the law should ensure that the MoF is appropriately empowered to have a strong oversight role to monitor and mitigate fiscal risks, and that there is a clear separation between the state's shareholder, regulatory, and policy functions to avoid conflicts of interests. Efforts to concretely reduce the footprint of the state in the economy need to be stepped up.

- The authorities completed the first auction under the agreed renewable energy support scheme in early-2023. While they have further postponed opening of the electricity market, the second round of auctions proceeded based on monthly prices set by the electricity market operator (ESCO) and with increased generation capacity. The authorities should proceed with the electricity market opening, and further support under the scheme should be determined competitively, based on updated demand and supply projections that net out legacy projects that are advancing under existing contracts. The legacy projects that are not advancing should be terminated to limit fiscal risks.

**18. Efforts should be stepped up to address other fiscal risks and further improve fiscal transparency.** The updated Fiscal Transparency Evaluation in April 2023 found significant improvements since 2016, including on fiscal reporting, forecasting, budgeting, and risk analysis. To further improve fiscal transparency, non-market SOEs should be included in general government fiscal statistics. The authorities amended the law on the Partnership Fund to create the Georgian Development Fund (GDF), eliminating government participation in its supervisory board, and clarifying the limits and conditions on its participations in new projects. It is critical that the GDF operate on a commercial basis and its board operate independent of the government not only in law but also in practice. The forthcoming SOE law should be applicable to the GDF, including a financial oversight role for the MoF.



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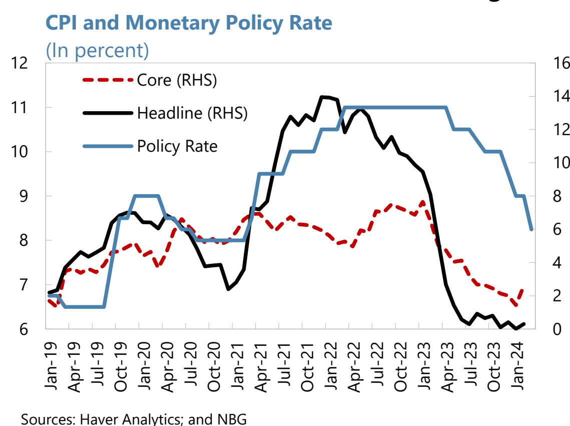
***Authorities' Views***

**19. The authorities broadly agreed with the medium-term fiscal adjustment path and recommendations.** They noted that based on revenue outturns in early months, including from new measures, the deficit target of 2.5 percent of GDP remains achievable, even as additional spending pressures arise ahead of elections. They consider that the safe debt level for Georgia is around 35-40 percent of GDP and agreed that fiscal deficits around 2-2.5 percent of GDP over the medium term would preserve adequate buffers within the fiscal rules. Regarding the SOE reform, the authorities believe that the centralized dual ownership shared between MoF and MoE is not feasible, and ensuring strong financial oversight by the MoF in the law would achieve the reform's objectives, including to limit fiscal risks. The authorities agreed on the need to open the electricity market as soon as feasible and are considering a voluntary-basis soft opening. They emphasized that there is an urgent need to enhance energy independence and provide further support for the sector given the shortages in some months, as well as potential for exports, including to Europe, as regional connectivity increases.

## B. Managing Inflation, Building Reserves, and Strengthening NBG Governance

**20. A gradual and cautious approach to further NBG policy rate cuts is needed to ensure core inflation remains close to target.** While both headline and core inflation are below target, domestic demand pressures remain in the context of a tight labor market and strong credit growth and there is considerable uncertainty regarding the prospects for commodity prices and the lari, arguing for a gradual policy normalization. As the policy rate is close to neutral, further rate cuts should be data-driven, and the decision-making process should be clearly communicated to anchor expectations about the pace of monetary easing. If inflation continues to surprise on the downside, monetary policy could be normalized more quickly to counter deflation risks. It is important to use the policy rate as the primary instrument of monetary policy to meet inflation objectives.

**CPI and Monetary Policy Rate**
(In percent)



Sources: Haver Analytics; and NBG

**21. Continued exchange rate flexibility and reserve build-up are necessary to guard against adverse external shocks.** Georgia's external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policies (Annex IV). With reserve coverage still lower than desired, staff encouraged continued reserve accumulation as market conditions allow to build buffers, while otherwise intervening in the FX market only to avoid disorderly market conditions. Staff underscored that exchange rate flexibility is an important cornerstone of the inflation targeting framework; with external inflows moderating, the NBG should refrain from defending the lari and depleting its reserves.



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**22. Upholding the NBG's independence is essential to the credibility of macroeconomic policy**. The NBG has implemented most of the recommendations in the 2022 Safeguards Assessment. The proposed amendments to strengthen governance and financial autonomy in the NBG Law and to fill vacancies at the NBG Board remain outstanding. In line with IMF TA, the NBG law should be amended to: (i) ensure a non-executive majority on the NBG's oversight board and limit discretionary transfers to the government, and (ii) clarify and strengthen the NBG succession framework and board member qualification criteria. Shifting from a presidential to a collegial decision-making model is also desirable. Staff will continue to engage with the authorities on these issues.

***Authorities' Views***

**23. The authorities agreed with the need to normalize the policy rate gradually and cautiously to anchor inflation at the NBG target.** Their terminal (neutral) rate estimates (6.5-7.5 percent), however, are lower than staff's (7.5-8.25 percent), which they attribute to a lower country risk premium following EU candidate status. While the authorities remain committed to a flexible exchange rate, they point to a lack of market liquidity to occasionally justify the NBG facilitating large FX purchases by SOEs and large banks for dividend payments to foreign shareholders. Going forward, they are committed to purchasing FX opportunistically as market conditions allow. They are open to strengthening the NBG governance but see limited room for reforms before the year end.

## C. Keeping the Financial Sector Resilient

**24. The authorities have introduced an array of macroprudential and regulatory measures in recent years to mitigate credit, currency, and concentration risks and reduce dollarization**. While these measures have contributed to the resilience of the banking system, they should be streamlined, and their choice and calibration should be better informed by impact assessments (Annex VII). Staff underscored that i) macroprudential measures are aimed at achieving financial stability objectives and not monetary policy objectives, where interest rates remain the primary instrument, and ii) over the long term, risks from concentration and dollarization can be sustainably addressed only by improving competition in the banking system and strengthening macroeconomic policy frameworks that would underpin stable growth and inflation.

**25. Good progress has been made in addressing the too-big-to-fail problem with a credible crisis management framework, including bank resolution tools and financial safety nets.** The NBG has developed new guidelines to improve the corrective action framework for banks and strengthened bank resolution tools, by developing a bridge bank playbook and ensuring that sufficient liabilities can be bailed in contractually. The NBG has introduced a minimum requirement for own funds and eligible liabilities (MREL) for domestic systemically important banks and increased the coverage of deposit insurance. Discussions are also underway to introduce an ex-ante resolution fund based on contributions from commercial banks. IMF TA recommended exploring alternative options, including legal amendments to enable the Deposit Insurance Fund to fund bank resolution.



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**26. Continued vigilance is needed against risks, including from capital inflows, virtual assets, and sanctions.** Amid high uncertainty around FX inflows and global financial conditions, banks should continue to maintain adequate loan loss reserves, liquidity, and capital buffers. An adequate framework for licensing, regulation, and supervision of virtual asset service providers (VASPs) and digital banks, with strong fit and proper requirements and AML/CFT controls, is needed to protect against financial integrity, reputational, and conduct risks given the large volume of cross border FX and crypto transactions. Progress is also needed in complying with the FATF recommendations, particularly on improving risk assessments, addressing politically exposed persons, adapting to new technologies, and implementing supervisory sanctions. All key recommendations of the 2021 FSSA were implemented or ongoing, except for setting a cash limit in certain transactions, which will be implemented in line with EU guidelines (Annex VIII).

***Authorities' Views***

**27. The authorities expect continued pro-active use of macroprudential policy tools to prevent excessive leverage and reduce dollarization.** The NBG noted that in view of geo-political risks, banks have restored conservation and currency induced credit risk (CICR) buffers. The NBG is committed to the implementation of a cycle-neutral positive countercyclical capital buffer (CCyB) at 1 percent, but the compliance requirement (initially set at March 2024) has been modified in view of difficulties small banks face, with an increment set at 0.25 percent each year, ultimately reaching 1 percent by March 2027. The NBG is also committed to gradually increasing the floor for FX lending to further limit FX lending to unhedged borrowers. The NBG has introduced legislative frameworks to register, regulate, and supervise VASPs, fully compliant with FATF standards and respective EU regulations.

## D. Enhancing Georgia's Inclusive Growth Potential

**28. Structural reforms are needed to support stronger, more inclusive, and job-rich growth in the face of a shifting geo-economic environment**. Potential growth continues to be constrained by an aging population and outward migration (especially by the youth), low educational attainment, infrastructure bottlenecks (transport and energy), low sectoral productivity growth (especially in agriculture), and limited competition (exacerbated by unequal access to finance) (Box 2). Addressing impediments to growth and taking advantage of economic opportunities that emerge from shifting geo-economic patterns will require:

- **Tackling entrenched high unemployment and low rural labor force participation**. Recent policy actions have aimed at supporting employment, including by developing vocational training for high demand skills and lowering disincentives to work while on targeted social assistance. These should be supported by efforts to enhance the quality of teaching and raise agricultural productivity, including by improving land registration and management of state land.

- **Diversifying the economy**. The authorities have sought to boost trade diversification and regional connectivity by pursuing trade agreements and investments in transport and energy



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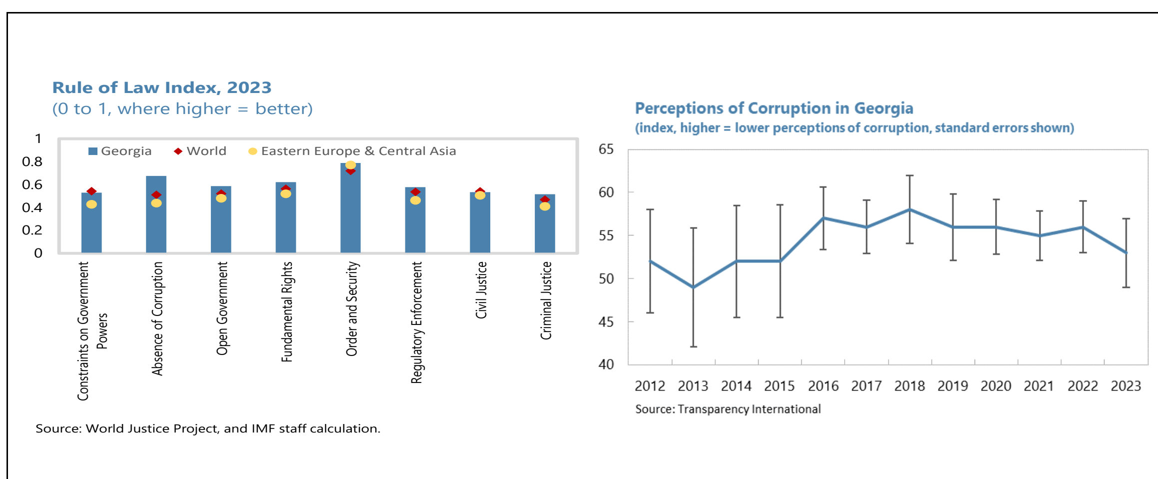
infrastructure (e.g., the East-West highway, Anaklia deep water port, and a Black Sea cable). However, Georgia still has high transport and logistics costs, underscoring the importance of prioritizing key infrastructure investments in these areas.

- **Improving governance**. While Georgia ranks high in the region and among EU candidates regarding the rule of law and absence of petty corruption in government, recent years have seen a deterioration in governance indicators. The European Commission's 2023 Enlargement Package report calls for greater efforts to tackle high-level corruption and address the challenge of large-scale vested interests and their influence in the political, judicial, and economic spheres. These concerns are amplified by Georgia's withdrawal from the OECD's anti-corruption monitoring network in 2023, and setbacks in NBG independence. To ensure that governance standards strengthen and support improved competitiveness, Georgia needs to bolster its judicial system and strengthen the anti-corruption authority. Improving the coverage and verification of asset declarations would also increase transparency and trust in the system.




### *Authorities' Views*

**29. The authorities emphasized that they have a strong reform program aimed at many of the structural issues identified by staff**. Ambitious educational reforms aim to improve teacher quality, especially in rural schools, and increase the provision of vocational education in Georgia. The State Employment Support Agency continues to work closely with the private sector to shape the vocational curriculum to better align the supply and demand for skills within the country. The National Agency of Public Registry is currently completing an ambitious program to register all land in Georgia, which should facilitate the development of rural credit markets and spur investment—furthering the process of structural transformation (out of agriculture) in Georgia. The authorities also expressed their desire to maintain public capital expenditure high at 8 percent of GDP, reflecting their recognition of Georgia's significant infrastructure needs. The authorities pointed to favorable comparisons to EU peers on various corruption metrics and the fact that anti-corruption is high on the newly reshuffled government's agenda as evidence of their continued vigilance on this issue. They also noted disagreements with the OECD's anti-corruption monitoring methodology and assessments.



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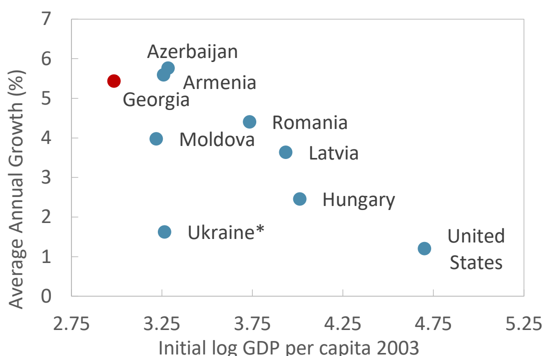
## Box 2. Growth in Georgia: Past and Potential[1]

**Georgia's growth has averaged 5.6 percent from 2003-2023, driven mainly by investment.** This growth is in line with neighboring countries that had a similar level of GDP per capita in 2003, such as Armenia and Azerbaijan. There has been a notable decline in trend growth over time, from above 7 percent in the early 2000s (before the global financial crisis of 2008-09) to below 5 percent prior to the pandemic. Growth has recently spiked due to migrant and FX inflows triggered by the war in Ukraine. Staff expects this to primarily raise the level of GDP, and have a limited impact on potential growth, supported by an expanding IT sector with high productivity.

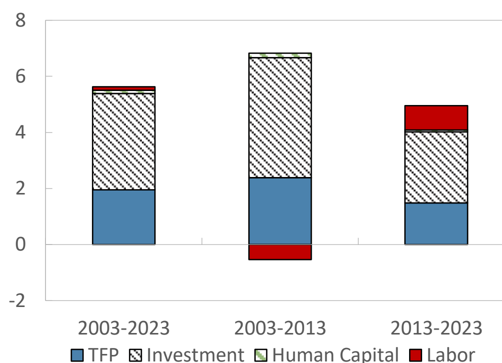
### Economic Convergence of Georgia and Peers, 2003-2022




* Ukraine average is calculated up to 2021

Source: World Development Indicators, IMF staff calculations

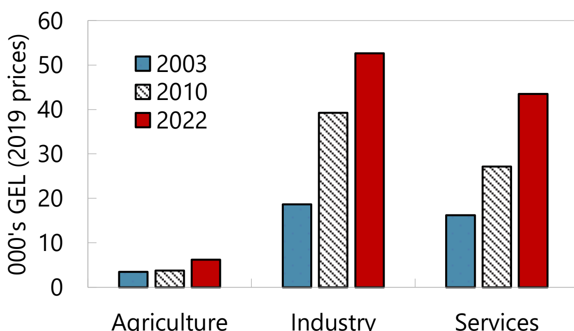
### Decomposition of Georgian Growth, 2003-2023 (percent)




Source: NBG, IMF staff calculations

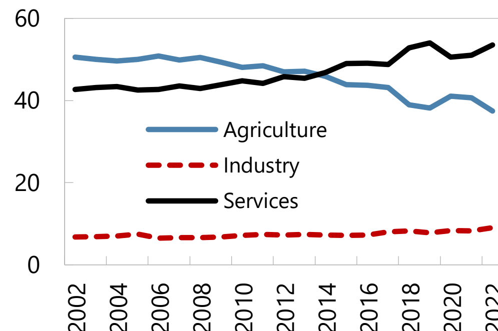
**Productivity growth, driven by a structural transformation away from agriculture, has also been a key driver of growth.** About one-third of growth in output per worker over this period can be attributed to a declining share of workers required in agriculture, which has freed up labor to move into higher productivity industry and services.

### Output per worker (productivity) by Sector




Source: GEOSTAT, IMF staff calculations

### Employment share by Sector (percent)




Source: GEOSTAT, IMF staff calculations



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## Box 2. Growth in Georgia: Past and Potential (concluded)

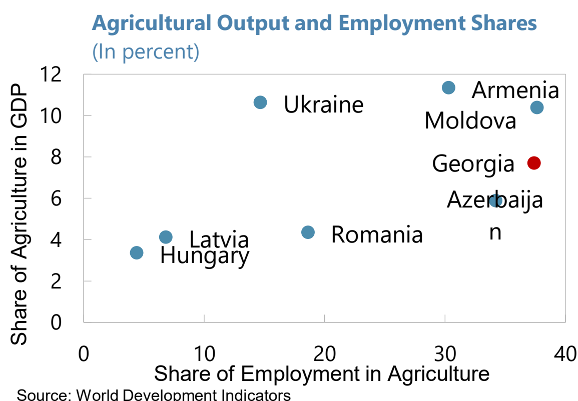
**Relative to peers, however, Georgia still has a large share of employment in agriculture.** This suggests that there is significant scope for further shifts of workers out of agriculture to more productive sectors; close to two-thirds of Georgia's agricultural workers, roughly 400,000 individuals, are subsistence farmers. To maintain the process of structural transformation, agricultural productivity in Georgia must continue to rise. Impressive progress has been made with land reform, but there is still substantial room to improve agricultural productivity through better irrigation and public land management, and efficient targeting of government support.

**As non-agricultural employment grows, productivity growth will need to come from raising in-sector efficiency, as opposed to pure reallocation across sectors.** Evidence from the World Bank suggests that employment growth is concentrated in low growth firms.[2] Improving access to finance, especially for SMEs and through promoting competition in financial services, and investing in key transport infrastructure should increase efficiency, and thus productivity.

**Labor supply will likely be a drag on growth.** Georgia's population is estimated to fall by 2.6 percent by 2030, driven largely by outward migration.[3] This will shrink the working age population and will also lower labor participation, as young workers emigrate from Georgia and immigrants are typically returning retirees.

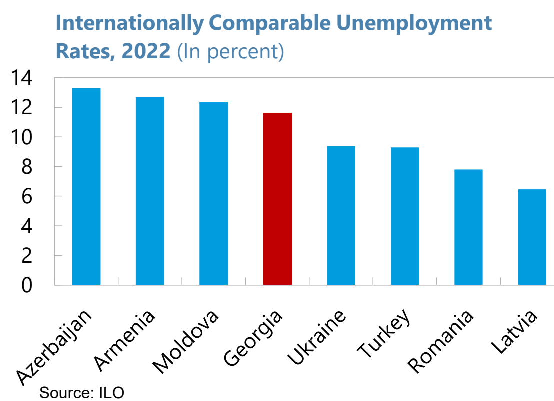
**Unemployment in Georgia is high and predominantly structural.** Unemployment in Georgia in 2022 was 17.3 percent. Around one third of unemployment is youth unemployment, with 30 percent of those in the labor force under thirty being unemployed. Two-thirds of these individuals report having no prior work experience, partly explained by low educational outcomes relative to schooling. Another fifth of Georgian unemployment is accounted for by those who report being out of work for over 4 years. Models of equilibrium unemployment suggest that there is little room for further, non-inflationary, falls in unemployment from its 2023 rate of 15.3 percent without structural reform to address these issues.

**Agricultural Output and Employment Shares**
(In percent)




Source: World Development Indicators

**Internationally Comparable Unemployment Rates, 2022** (In percent)




Source: ILO

**Using a model developed by Grant and Chan (2017), staff estimates that potential growth in Georgia is around 5 percent.** Structural reforms to raise this should focus on raising agricultural productivity, increasing access to finance, developing transport infrastructure, and education reform.

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1/ See the Selected Issues Paper, "Growth in Georgia: Past and Potential" accompanying this report for more details on the drivers of growth in Georgia over the past twenty years and of medium-term potential growth.

2/ World Bank, 2022. "Georgia - Country Economic Memorandum: Charting Georgia's Future". Washington, DC.

3/ United Nations, Department of Economic and Social Affairs, Population Division, 2022. World Population Prospects 2022.



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# STAFF APPRAISAL

**30. Georgia has weathered well multiple shocks since the Covid-19 pandemic**. Increased tourism, transit trade, immigration, and financial inflows linked to Russia's war in Ukraine have supported growth, fiscal and external balances, and the lari, along with swift policy responses. A strong lari has contributed to a sharp fall in inflation and public debt, while robust growth has helped lower unemployment and poverty.

**31. Financial inflows have moderated but remain above pre-war levels, supporting a favorable economic outlook.** Growth is projected to slow to 5.7 percent in 2024, before converging to its potential rate of 5 percent in the medium term. Inflation is expected to pick up during 2024, as the impact of lari appreciation dissipates and the restrictiveness of the monetary policy stance is unwound, and converge to the NBG's 3 percent target in the medium term. The current account deficit is expected to widen to 5.8 percent of GDP in 2024, as remittances continue to normalize and imports pick up, and stabilize at around 5.5 percent of GDP as the services trade balance continues to improve.

**32. The global environment remains highly uncertain due to ongoing wars and shifting geo-economic patterns, posing considerable downside risks.** While a large share of migrants appears to have settled in Georgia, supporting strong growth in IT services, a reversal of war-related migrant and financial inflows, as well as intensification of sanctions that affect Georgia remain key downside risks. A backsliding on reforms in the context of this year's parliamentary elections and the increased influence of powerful elites and growing concerns about governance also present downside risks. On the upside, EU candidate status could send a positive signal, including for investments, while providing an impetus for reforms to move the accession process forward.

**33. Georgia should continue to strengthen its resilience to adverse shocks by maintaining prudent macroeconomic policies and boosting its growth potential.** The latter requires addressing long-standing structural challenges, capitalizing on new economic opportunities, and making decisive progress towards EU accession.

**34. Modest further fiscal adjustment is appropriate in the medium term to build sufficient buffers under the fiscal rule and create room for productive spending.** Fiscal deficits in the range of 2-2.5 percent of GDP would help stabilize public debt at around 40 percent of GDP and ensure it remains below the fiscal rule ceiling in the event of adverse shocks. The adjustment should be underpinned by a medium-term revenue strategy with improved revenue administration and streamlined tax expenditures, and enhanced project prioritization and spending efficiency.

**35. Steadfast implementation of SOE reform and renewable energy development strategies adopted in late-2022 is needed to raise productivity and limit fiscal risks.** In line with the reform strategy agreed with the staff under the SBA and adopted in 2022, the SOE law should ensure that the MoF is appropriately empowered to have a strong oversight role to monitor and mitigate fiscal risks, and that there is a clear separation between the state's shareholder, regulatory,



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and policy functions to avoid conflicts of interests. The authorities should proceed with the electricity market's opening, and further support under the renewable energy support scheme should be determined competitively, based on updated demand and supply projections that net out legacy projects that are advancing under existing contracts.

**36. Anchoring inflation at the NBG's target will require a gradual and cautious approach to further policy rate cuts.** While headline inflation remains low, it is projected to reach the NBG's 3 percent target during 2024 and remain around target in the medium term. Further rate cuts should be data-driven, and the decision-making process should be clearly communicated to anchor expectations about the pace of monetary easing.

**37. Continued exchange rate flexibility and reserve build-up are necessary to guard against adverse external shocks.** With reserve coverage still lower than desired, continued opportunistic reserve accumulation is needed to build further buffers. The NBG should intervene in the FX market only to avoid disorderly market conditions and not to defend the lari.

**38. Strengthening the NBG's governance and independence is essential to the credibility of monetary policy.** In this regard, the NBG law should be amended to i) ensure a non-executive majority on the NBG's oversight board, ii) clarify and strengthen the succession framework and board member qualification criteria, and iii) move from a presidential to collegial decision-making model.

**39. The banking system is well capitalized, profitable, and liquid but remains highly concentrated and dollarized.** High uncertainty around FX inflows and global financial conditions calls for maintaining adequate loan loss reserves, liquidity, and capital buffers. While the NBG uses an array of macroprudential measures to mitigate concentration and dollarization risks, these can only be sustainably addressed by improving competition in the banking system and strengthening macroeconomic policy frameworks that would underpin stable growth and inflation.

**40. Continued vigilance is needed against financial sector risks, including from capital inflows, virtual assets, and sanctions.** Proper licensing, regulation, and supervision of VASPs and digital banks require strong AML/CFT controls to protect against financial integrity, reputational, and conduct risks given the large volume of cross border FX and crypto transactions.

**41. Stronger, more inclusive, and job-rich growth requires enhancing education, productivity, infrastructure, and governance.** Enhancing the quality of teaching and training and raising agricultural productivity, including by improving land registration and management, can help address entrenched high unemployment and low rural labor force participation. Prioritizing investments in transport, logistics, and energy can help lower trade costs, boost trade diversification, and enhance regional connectivity. Bolstering the judicial system and the anti-corruption authority can ensure that governance standards strengthen and support improved competitiveness.

**42. Staff recommends that the next Article IV consultation take place on the standard 12-month cycle.**



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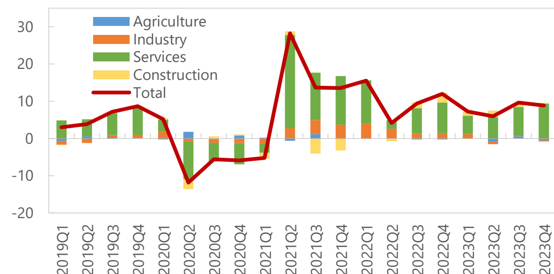
## Figure 1. Georgia: Real Sector Developments

*Growth remained strong in 2023, driven largely by services…*

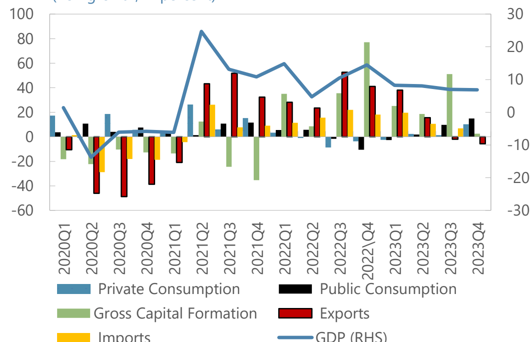
**Contribution to Real GDP Growth by Sector**
(Percent)




Note: Industry includes mining, manufacturing, energy & utilities, and others, whereas services include retail, accommodation and food, and others.

*…and a significant contribution from investment.*

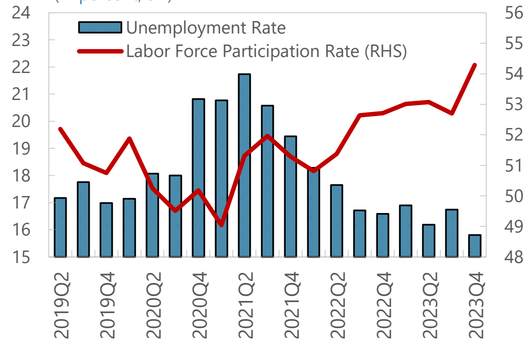
**Real GDP Growth by Expenditure**
(YoY growth, in percent)




Source: GeoStat.

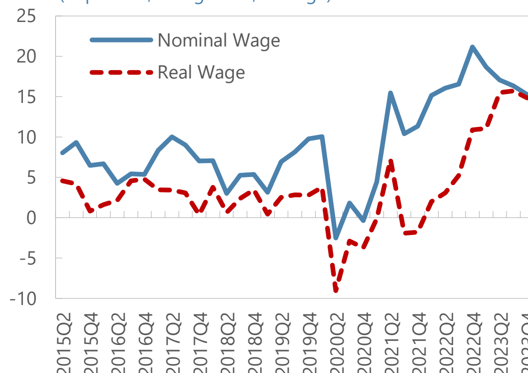
*The unemployment rate is near historic lows while labor force participation is above pre-pandemic levels.*

**Unemployment and Labor Force Participation Rate**
(In percent, SA)



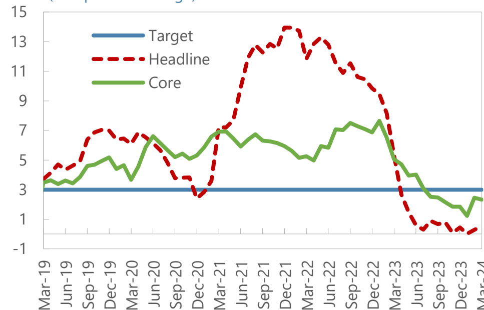

*Real wages increased significantly, driven by strong growth and a tight labor market.*

**Wages**
(In percent, YoY growth, average)



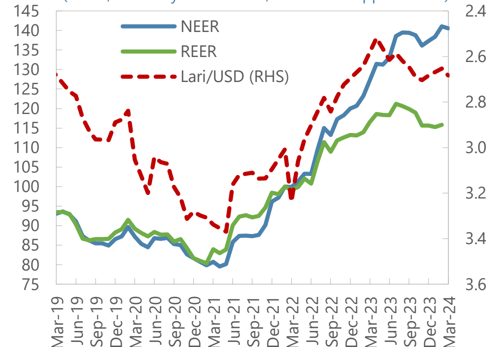

*Both headline and core inflation are below the NBG target.*

**Inflation: Headline and Core Inflation**
(YoY percent change)




*The lari appreciated in both nominal and real effective terms well above pre-war and pre-pandemic levels.*

**Nominal and Real Effective Exchange Rates**
(Index, February 2022 = 100, increase = appreciation)




Source: National authorities, Haver, GEOStat, and IMF staff calculations.



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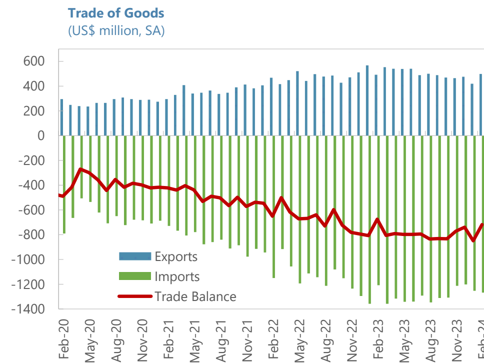
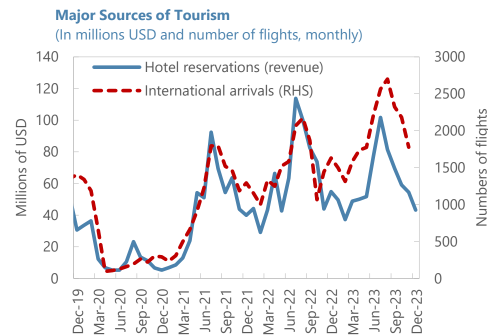
## Figure 2. Georgia: External Sector Developments

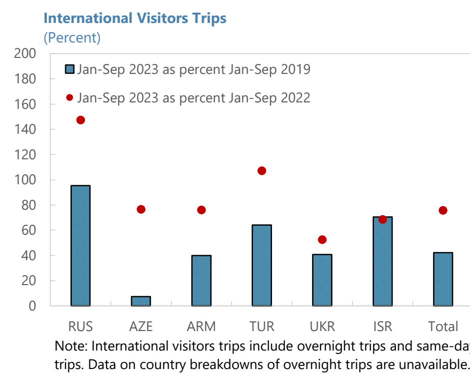
*The goods trade balance has improved recently with imports easing amid lower global prices.*




*Tourism revenues have bounced back and reflect seasonal patterns…*

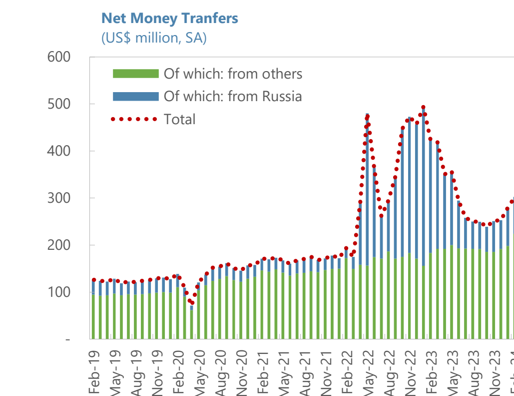



*…with the potential for a further recovery in the number of tourists towards pre-pandemic levels.*

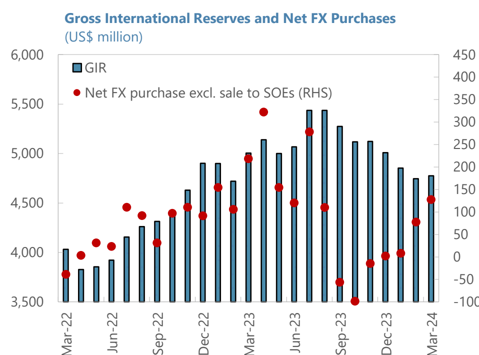



Note: International visitors trips include overnight trips and same-day trips. Data on country breakdowns of overnight trips are unavailable.

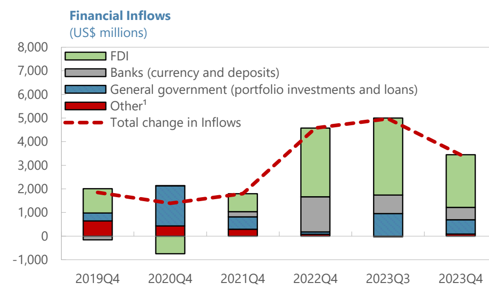
*Net money transfers have declined recently, reflecting lower inflows from Russia, while remaining elevated.*




*International reserves have risen until recently, as the NBG made lower purchases amid subsiding FX inflows…*




*…but strong FDI inflows have more than offset lower FX inflows.*




Note: [1] Other includes central bank, other sector (households and firms), bank non-deposit and currency liabilies, trade credit, and derivates.

Sources: National authorities, Haver, GeoStat, and IMF staff calculations.



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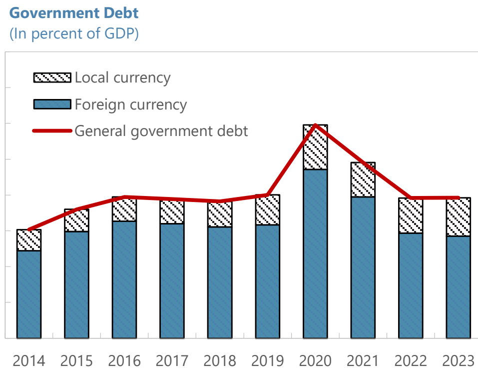
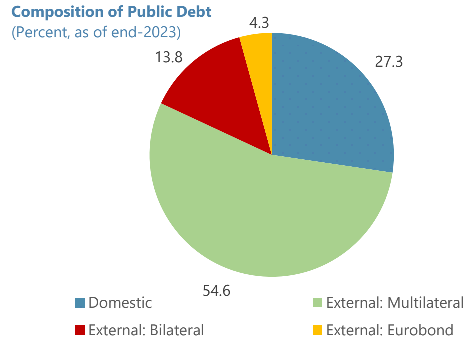
## Figure 3. Georgia: Fiscal Sector Developments

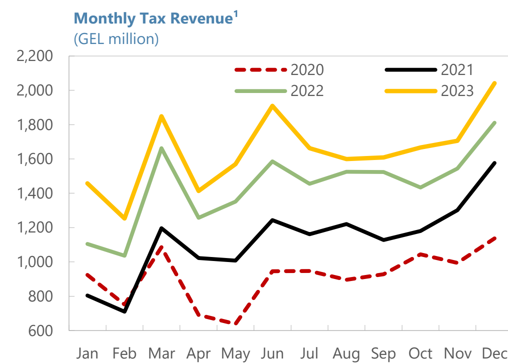
*Public debt has fallen to pre-pandemic levels amid strong growth and lari appreciation.*




*The share of external debt remains high at about 73 percent of the total, while most of it is owed to official creditors.*

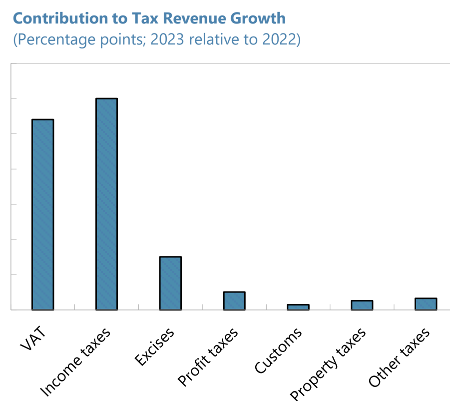



*Tax revenue increased by 18 percent in 2023, much faster than the estimated nominal GDP growth rate…*

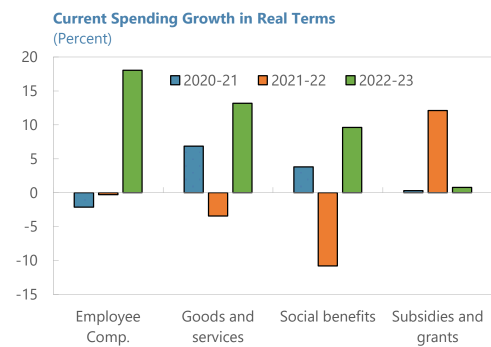



[1]Includes tax outflows due to tax credit refunds.

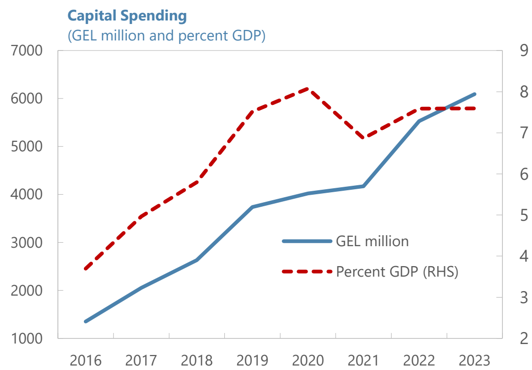
*… driven by buoyant VAT and income taxes amid strong activity and a growing formal economy.*




*Current spending has picked up in real terms in 2023, after a winding-down of pandemic-related outlays in 2022…*




*…while capital spending as a share of GDP has remained high, close to its historical peak in 2020.*




Sources: National authorities, and IMF staff estimates.



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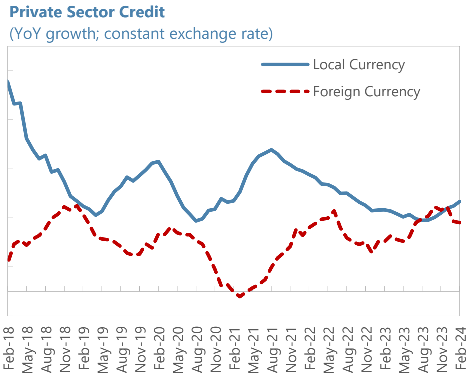
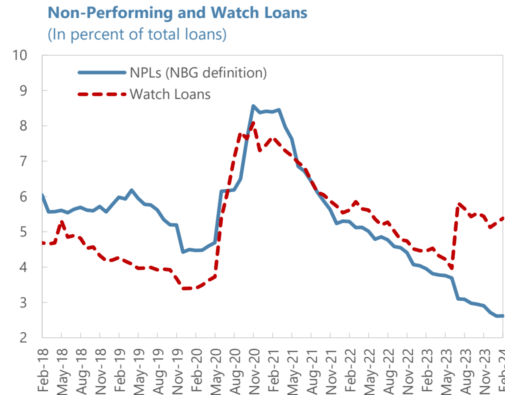
## Figure 4. Georgia: Financial Sector Developments

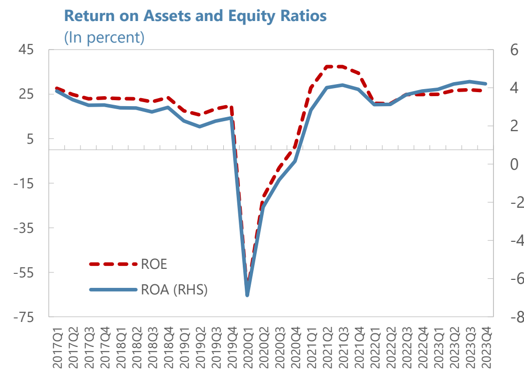
*Credit growth picked up in 2023, with lower GEL credit growth more than offset by higher FX credit growth.*



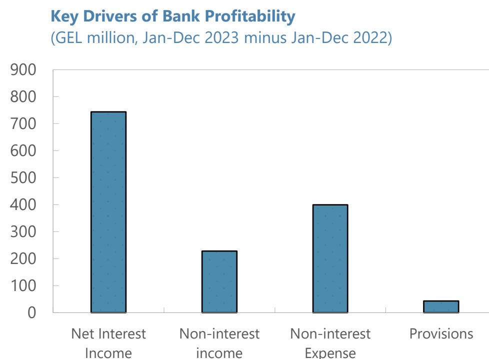

*NPLs have continued to decline, returning to their pre-pandemic low levels.*



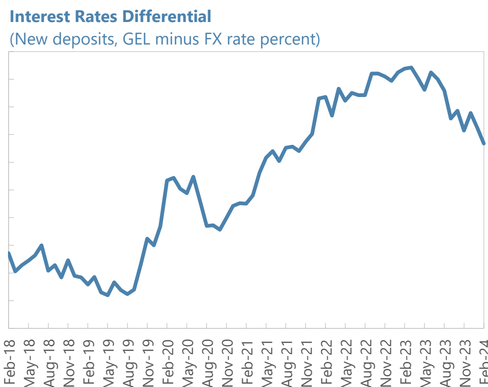

*Bank profitability has remained robust...*



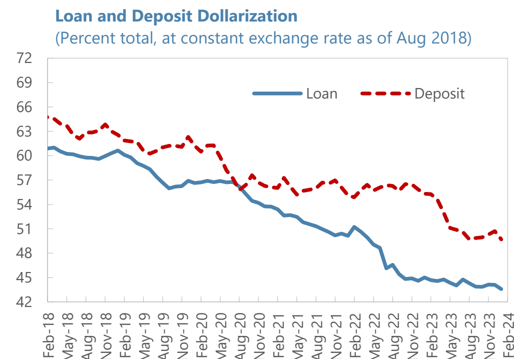

*...owing to higher net interest income compared to pre-pandemic levels.*




*The interest rate differential between lari and FX deposits remains high.*




*Both loan and deposit dollarization have stabilized after their post-pandemic decline.*




Sources: National Bank of Georgia, and IMF staff calculations.



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## Table 1. Georgia: Selected Economic and Financial Indicators, 2019–29

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Actual | | | | | Projection | | | |
| National accounts and prices | (annual percentage change; unless otherwise indicated) | | | | | | | | | | |
| Real GDP | 5.4 | -6.3 | 10.6 | 11.0 | 7.5 | 5.7 | 5.2 | 4.7 | 4.9 | 5.0 | 5.0 |
| Output Gap | 3.7 | -6.9 | -2.4 | 1.8 | 2.4 | 1.7 | 1.0 | 0.1 | 0.0 | 0.0 | 0.0 |
| Nominal GDP (in billion of laris) | 49.7 | 49.8 | 60.7 | 72.9 | 80.2 | 88.6 | 97.6 | 106.1 | 115.1 | 125.1 | 136.0 |
| Nominal GDP (in billion of U.S. dollars) | 17.6 | 16.0 | 18.8 | 25.0 | 30.5 | 32.9 | 35.6 | 38.2 | 41.1 | 43.8 | 47.5 |
| GDP per capita (in thousand of U.S. dollars) | 4.7 | 4.3 | 5.1 | 6.8 | 8.2 | 8.8 | 9.6 | 10.3 | 11.1 | 11.9 | 12.9 |
| GDP deflator, period average | 5.2 | 6.8 | 10.3 | 8.1 | 2.5 | 4.4 | 4.7 | 3.8 | 3.5 | 3.5 | 3.5 |
| CPI, Period average | 4.9 | 5.2 | 9.6 | 11.9 | 2.5 | 2.6 | 4.2 | 3.4 | 3.0 | 3.0 | 3.0 |
| CPI, End-of-period | 7.0 | 2.4 | 13.9 | 9.8 | 0.4 | 4.0 | 3.7 | 3.0 | 3.0 | 3.0 | 3.0 |
| Core CPI, End-of-period | 5.2 | 5.3 | 5.9 | 6.9 | 2.0 | ... | ... | ... | ... | ... | ... |
| Investment and saving | (in percent of GDP) | | | | | | | | | | |
| Gross national saving | 21.4 | 12.2 | 10.4 | 19.6 | 21.6 | 18.0 | 17.9 | 18.8 | 19.9 | 21.0 | 22.1 |
| Investment | 27.2 | 24.6 | 20.7 | 24.1 | 25.9 | 23.8 | 23.5 | 24.3 | 25.4 | 26.6 | 27.7 |
| Public | 7.9 | 8.5 | 7.6 | 8.2 | 8.1 | 7.9 | 7.0 | 6.8 | 6.9 | 6.9 | 6.9 |
| Private | 19.2 | 16.1 | 13.1 | 15.9 | 17.8 | 15.9 | 16.6 | 17.5 | 18.6 | 19.6 | 20.8 |
| Consolidated government operations | (in percent of GDP) | | | | | | | | | | |
| Revenue and grants | 26.8 | 24.9 | 25.2 | 26.5 | 27.6 | 28.1 | 27.7 | 27.6 | 27.6 | 27.6 | 27.6 |
| o.w. Tax revenue | 23.7 | 22.1 | 22.3 | 23.7 | 24.6 | 25.5 | 25.4 | 25.4 | 25.4 | 25.4 | 25.4 |
| Expenditures | 28.7 | 34.1 | 31.2 | 29.0 | 29.9 | 30.7 | 29.9 | 29.8 | 29.8 | 29.8 | 29.8 |
| Expense | 21.2 | 26.0 | 24.3 | 21.4 | 22.3 | 23.1 | 23.3 | 23.2 | 23.2 | 23.2 | 23.2 |
| Net acquisition of non-financial assets | 7.5 | 8.1 | 6.9 | 7.6 | 7.6 | 7.6 | 6.6 | 6.5 | 6.6 | 6.6 | 6.6 |
| Capital spending | 7.9 | 8.5 | 7.6 | 8.2 | 8.1 | 7.9 | 7.0 | 6.8 | 6.9 | 6.9 | 6.9 |
| Privatization proceeds | -0.4 | -0.4 | -0.7 | -0.6 | -0.5 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 |
| Net lending / borrowing | -1.8 | -9.2 | -6.0 | -2.6 | -2.3 | -2.5 | -2.2 | -2.2 | -2.2 | -2.2 | -2.2 |
| Net budget lending | 0.2 | 0.1 | 0.1 | 0.5 | 0.1 | -0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Augmented Net lending / borrowing (program definition) 1/ | -2.0 | -9.3 | -6.0 | -3.1 | -2.5 | -2.5 | -2.3 | -2.3 | -2.3 | -2.3 | -2.3 |
| General government debt 2/ | 40.0 | 59.6 | 49.1 | 39.2 | 39.2 | 38.8 | 37.8 | 37.5 | 36.8 | 36.7 | 36.2 |
| o.w. Foreign-currency denominated | 31.7 | 47.1 | 39.5 | 29.4 | 28.5 | 27.0 | 25.6 | 24.3 | 23.5 | 22.4 | 20.7 |
| Money and credit | (annual percentage change; unless otherwise indicated) | | | | | | | | | | |
| Credit to the private sector | 20.7 | 22.4 | 12.4 | 3.4 | 16.5 | 15.0 | 12.2 | 8.7 | 8.5 | 8.7 | 8.7 |
| In constant exchange rate (estimate) | 16.1 | 9.0 | 18.2 | 12.1 | 17.1 | 16.4 | 11.6 | 8.2 | 8.1 | 7.8 | 8.7 |
| Broad money | 17.6 | 24.6 | 11.4 | 11.0 | 14.9 | 12.5 | 12.3 | 11.3 | 11.1 | 11.3 | 11.3 |
| Excluding FX deposits | 18.8 | 18.8 | 17.9 | 22.9 | 26.9 | 12.9 | 12.7 | 11.7 | 11.5 | 11.6 | 11.6 |
| Deposit dollarization (percent of total) 3/ | 64.0 | 61.4 | 59.9 | 56.1 | 47.0 | 46.8 | 46.5 | 46.3 | 46.1 | 45.9 | 45.6 |
| Credit dollarization (percent of total) | 55.4 | 55.7 | 50.9 | 45.0 | 44.5 | 44.1 | 43.7 | 43.3 | 42.9 | 42.5 | 42.1 |
| Credit to the private sector (percent of GDP) | 62.2 | 76.0 | 70.0 | 60.3 | 63.8 | 66.5 | 67.7 | 67.7 | 67.7 | 67.7 | 67.7 |
| External sector | (in percent of GDP; unless otherwise indicated) | | | | | | | | | | |
| Current account balance (in billions of US$) | -1.0 | -2.0 | -1.9 | -1.1 | -1.3 | -1.9 | -2.0 | -2.1 | -2.3 | -2.4 | -2.6 |
| Current account balance | -5.8 | -12.4 | -10.3 | -4.5 | -4.3 | -5.8 | -5.6 | -5.5 | -5.5 | -5.5 | -5.5 |
| Trade balance (goods) | -21.5 | -19.8 | -20.1 | -20.4 | -20.0 | -20.8 | -20.8 | -20.9 | -21.1 | -21.1 | -21.1 |
| Terms of trade, goods (percent change) | -1.2 | 5.7 | 1.6 | -2.3 | 5.4 | 0.5 | -0.2 | 0.1 | -0.3 | 0.5 | -0.3 |
| Gross international reserves (in billions of US$) 4/ | 3.5 | 3.9 | 4.4 | 4.9 | 5.0 | 5.0 | 5.4 | 5.6 | 6.0 | 6.3 | 6.9 |
| In percent of ARA metric | 100.5 | 107.4 | 110.7 | 102.2 | 95.5 | 94.8 | 97.8 | 99.7 | 101.2 | 103.0 | ... |
| Gross external debt | 87.6 | 109.4 | 98.7 | 81.0 | 70.2 | 66.7 | 62.8 | 58.5 | 55.6 | 53.1 | 49.4 |
| Laris per U.S. dollar (period average) | 2.82 | 3.11 | 3.22 | 2.9 | 2.63 | ... | ... | ... | ... | ... | ... |
| Laris per euro (period average) | 3.15 | 3.55 | 3.82 | 3.1 | 2.8 | ... | ... | ... | ... | ... | ... |
| REER (period average; CPI based, Jan 2010=100) | 100.5 | 97.5 | 99.2 | 117.7 | 131.4 | ... | ... | ... | ... | ... | ... |

Sources: Georgian authorities; and Fund staff estimates.

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

2/ Excludes domestic legacy debt amounting to 1.2 percent of GDP.

3/ Includes nonresident deposits.

4/ Using current exchange rates; includes SDR allocations (SDR 144 million before 2021 and SDR 346 million since 2021).



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## Table 2. Georgia: Balance of Payments, 2019–29[1]

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Actual | | | | | Projection | | | |
| | (in millions of U.S. dollars) | | | | | | | | | | |
| Current account balance | -1,025 | -1,981 | -1,937 | -1,120 | -1,326 | -1,906 | -1,992 | -2,113 | -2,271 | -2,423 | -2,634 |
| Trade balance (goods) | -3,792 | -3,165 | -3,790 | -5,100 | -6,093 | -6,835 | -7,402 | -7,998 | -8,648 | -9,218 | -10,018 |
| Exports | 4,946 | 4,347 | 5,539 | 7,536 | 8,111 | 7,056 | 7,259 | 7,615 | 8,013 | 8,540 | 9,281 |
| Imports | 8,737 | 7,512 | 9,329 | 12,636 | 14,204 | 13,892 | 14,661 | 15,613 | 16,661 | 17,758 | 19,299 |
| Services | 2,176 | 124 | 725 | 2,674 | 3,462 | 3,916 | 4,324 | 4,794 | 5,270 | 5,661 | 6,152 |
| Services: credit | 4,600 | 1,580 | 2,547 | 5,703 | 7,050 | 7,530 | 7,700 | 8,243 | 9,178 | 9,826 | 10,679 |
| Of which: travel revenue 2/ | 3,269 | 542 | 1,245 | 3,517 | 4,125 | 4,593 | 4,967 | 5,358 | 5,711 | 6,131 | 6,663 |
| Services: debit | 2,425 | 1,456 | 1,822 | 3,029 | 3,588 | 3,615 | 3,377 | 3,449 | 3,908 | 4,165 | 4,527 |
| Primary income | -784 | -749 | -1,176 | -1,748 | -2,026 | -1,964 | -2,013 | -2,163 | -2,330 | -2,412 | -2,622 |
| Secondary income | 1,375 | 1,810 | 2,304 | 3,053 | 3,330 | 2,977 | 3,099 | 3,254 | 3,438 | 3,547 | 3,853 |
| *Of which*: remittances | 916 | 1,168 | 1,609 | 2,336 | 2,438 | 2,243 | 2,376 | 2,503 | 2,646 | 2,713 | 2,964 |
| Capital account | 47 | 41 | 38 | 41 | 37 | 37 | 37 | 37 | 37 | 37 | 37 |
| Financial account (- is inflow) | -1,187 | -2,024 | -2,266 | -1,886 | -1,325 | -1,915 | -2,423 | -2,398 | -2,711 | -2,851 | -3,266 |
| Direct investment (net) | -1,071 | -567 | -920 | -1,766 | -1,306 | -1,632 | -1,840 | -2,176 | -2,447 | -2,711 | -3,017 |
| Net acquisition of financial assets | 312 | -15 | 348 | 365 | 472 | 590 | 564 | 450 | 496 | 426 | 392 |
| Net incurrence of liabilities | 1,382 | 552 | 1,267 | 2,131 | 1,778 | 2,222 | 2,404 | 2,626 | 2,943 | 3,137 | 3,409 |
| Portfolio investment (net) | -829 | -75 | 311 | 1,608 | 735 | 287 | 172 | 151 | -12 | -123 | -168 |
| Net acquisition of financial assets | 29 | 47 | 37 | 1,152 | 328 | 186 | 64 | 42 | 168 | 276 | 229 |
| Net incurrence of liabilities | 858 | 122 | -274 | -456 | -408 | -101 | -107 | -109 | 180 | 399 | 397 |
| Financial derivatives (net) | -4 | -27 | -1 | -3 | 48 | 3 | 7 | 12 | 17 | 17 | 12 |
| Other investment (net) | 717 | -1,355 | -1,656 | -1,724 | -803 | -573 | -761 | -386 | -268 | -35 | -93 |
| Net acquisition of financial assets | 511 | -95 | -39 | 794 | 541 | 237 | -54 | 225 | 363 | 520 | 366 |
| *Of which*: currency and deposits (+ is outflow) 3/ | 433 | -44 | -128 | 738 | 122 | 150 | -150 | 100 | 200 | 370 | 200 |
| Net incurrence of liabilities 4/ | -206 | 1,260 | 1,617 | 2,518 | 1,344 | 810 | 708 | 611 | 631 | 554 | 459 |
| *Of which*: general government loans 5/ | 262 | 1,128 | 940 | 517 | 448 | 263 | 250 | -286 | 328 | 124 | 3 |
| SDR (allocations) | 0 | 0 | 286 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Errors and omissions | -90 | -94 | -21 | -24 | 103 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance (+ is surplus) | 120 | -10 | 345 | 782 | 139 | 46 | 468 | 323 | 478 | 466 | 669 |
| Financing | -120 | 10 | -345 | -782 | -139 | -46 | -468 | -323 | -478 | -466 | -669 |
| Change in gross international reserves (- is increase) | -202 | -305 | -453 | -765 | -109 | 14 | -367 | -215 | -373 | -374 | -591 |
| Use of Fund Resources (- is net repayment) | 83 | 315 | 108 | -17 | -30 | -60 | -101 | -108 | -105 | -91 | -78 |
| Disbursement | 83 | 315 | 111 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repayment (Principal) | 0 | 0 | 3 | 17 | 30 | 60 | 101 | 108 | 105 | 91 | 78 |
| Memorandum items: | (in percent of GDP) | | | | | | | | | | |
| Current account balance | -5.8 | -12.4 | -10.3 | -4.5 | -4.3 | -5.8 | -5.6 | -5.5 | -5.5 | -5.5 | -5.5 |
| Trade balance (goods) | -21.5 | -19.8 | -20.1 | -20.4 | -20.0 | -20.8 | -20.8 | -20.9 | -21.1 | -21.1 | -21.1 |
| Trade balance (goods and services) | -9.2 | -19.0 | -16.3 | -9.7 | -8.6 | -8.9 | -8.7 | -8.4 | -8.2 | -8.1 | -8.1 |
| Financial account (- is inflow) | -6.7 | -12.6 | -12.0 | -7.5 | -4.3 | -5.8 | -6.8 | -6.3 | -6.6 | -6.5 | -6.9 |
| Foreign direct investment (net) | -6.1 | -3.5 | -4.9 | -7.1 | -4.3 | -5.0 | -5.2 | -5.7 | -6.0 | -6.2 | -6.3 |
| Gross international reserves (in million of USD) 6/ | 3,506 | 3,911 | 4,363 | 4,901 | 5,010 | 4,996 | 5,363 | 5,577 | 5,950 | 6,325 | 6,916 |
| in percent of ARA metric | 100.5 | 107.4 | 110.7 | 102.2 | 95.5 | 94.8 | 97.8 | 99.7 | 101.2 | 103.0 | … |
| in months of next year GNFS imports | 4.7 | 4.2 | 3.3 | 3.3 | 3.4 | 3.3 | 3.4 | 3.3 | 3.3 | 3.2 | … |

Sources: National Bank of Georgia, Ministry of Finance; and IMF staff estimates.
1/ Balance of payments numbers are presented according the BPM6 manual.
2/ The majority of the travel revenue is tourism revenue.
3/ By deposit-taking corporations (except central bank) and other private sectors. This indicator partially reflects capital outflow.
4/ Excluding IMF loan disbursements (to both Ministry of Finance and NBG) and principal repayments.
5/ Excluding IMF loan disbursements to Ministry of Finance and the principal repayments.
6/ Using current exchange rates; includes SDR allocations (SDR 144 million before 2021 and SDR 346 million since 2021).



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## Table 3a. Georgia: General Government Operations, GFSM2001 2019–29

(In millions of GEL)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Actual | | | | | Projection | | | |
| Revenue | 13,350 | 12,422 | 15,313 | 19,280 | 22,125 | 24,939 | 27,073 | 29,273 | 31,784 | 34,550 | 37,483 |
| Taxes | 11,860 | 10,979 | 13,550 | 17,290 | 19,736 | 22,594 | 24,748 | 26,923 | 29,234 | 31,778 | 34,497 |
| Taxes on Income, profits and capital gains | 4,349 | 4,246 | 4,791 | 6,964 | 8,090 | 9,926 | 10,783 | 11,734 | 12,740 | 13,845 | 15,006 |
| Payable by individuals | 3,483 | 3,327 | 3,776 | 5,034 | 6,071 | 7,183 | 7,943 | 8,635 | 9,371 | 10,184 | 11,068 |
| Payable by corporations | 866 | 919 | 1,015 | 1,930 | 2,018 | 2,743 | 2,841 | 3,099 | 3,369 | 3,661 | 3,939 |
| Taxes on property | 474 | 434 | 511 | 604 | 648 | 682 | 751 | 817 | 886 | 963 | 1,047 |
| Taxes on goods and services | 6,746 | 6,457 | 7,898 | 9,463 | 10,658 | 11,705 | 12,893 | 14,017 | 15,212 | 16,532 | 17,967 |
| General taxes on goods and services (VAT) | 5,239 | 4,837 | 6,030 | 7,453 | 8,387 | 9,260 | 10,201 | 11,089 | 12,035 | 13,079 | 14,215 |
| Excises | 1,507 | 1,619 | 1,869 | 2,010 | 2,270 | 2,444 | 2,693 | 2,927 | 3,177 | 3,453 | 3,752 |
| Taxes on international trade | 79 | 74 | 86 | 126 | 151 | 167 | 184 | 200 | 217 | 236 | 256 |
| Other taxes 1/ | 212 | -232 | 263 | 133 | 189 | 114 | 136 | 156 | 178 | 202 | 220 |
| of which VAT Refunds | -615 | -1,040 | -1,930 | -2,266 | -2,332 | -2,669 | -2,930 | -3,177 | -3,439 | -3,729 | -4,052 |
| Grants | 422 | 405 | 344 | 286 | 328 | 400 | 350 | 350 | 380 | 413 | 449 |
| Other revenue | 1,067 | 1,038 | 1,419 | 1,704 | 2,061 | 1,945 | 1,975 | 2,000 | 2,171 | 2,359 | 2,538 |
| | | | | | | | | | | | |
| Total Expenditure | 14,257 | 16,981 | 18,939 | 21,145 | 24,003 | 27,160 | 29,187 | 31,584 | 34,298 | 37,282 | 40,461 |
| Expense | 10,518 | 12,960 | 14,770 | 15,615 | 17,910 | 20,443 | 22,701 | 24,659 | 26,667 | 28,985 | 31,516 |
| Compensation of employees | 1,785 | 1,851 | 1,984 | 2,214 | 2,679 | 3,188 | 3,512 | 3,818 | 4,143 | 4,533 | 4,956 |
| Use of goods and services | 1,659 | 1,881 | 2,203 | 2,380 | 2,760 | 3,048 | 3,357 | 3,650 | 3,961 | 4,299 | 4,692 |
| Interest | 611 | 769 | 800 | 761 | 1,195 | 1,558 | 1,802 | 1,939 | 2,010 | 2,135 | 2,196 |
| External | 324 | 337 | 284 | 236 | 517 | 716 | 871 | 885 | 870 | 891 | 880 |
| Domestic | 287 | 433 | 516 | 525 | 678 | 842 | 931 | 1,054 | 1,140 | 1,244 | 1,316 |
| Subsidies | 990 | 1,452 | 1,660 | 2,073 | 2,168 | 2,393 | 2,636 | 2,866 | 3,110 | 3,380 | 3,673 |
| Grants | 126 | 237 | 196 | 255 | 237 | 261 | 274 | 297 | 323 | 351 | 381 |
| Social benefits | 4,198 | 5,575 | 6,342 | 6,331 | 7,112 | 7,983 | 8,904 | 9,680 | 10,505 | 11,447 | 12,440 |
| Other expense 2/ | 1,150 | 1,196 | 1,586 | 1,602 | 1,759 | 2,012 | 2,216 | 2,409 | 2,615 | 2,842 | 3,178 |
| | | | | | | | | | | | |
| Net acquisition of nonfinancial assets | 3,739 | 4,022 | 4,169 | 5,530 | 6,093 | 6,717 | 6,486 | 6,925 | 7,630 | 8,296 | 8,945 |
| Increase (capital spending) | 3,945 | 4,229 | 4,591 | 5,966 | 6,527 | 7,017 | 6,786 | 7,225 | 7,930 | 8,672 | 9,353 |
| Decrease (privatization proceeds) | -206 | -208 | -422 | -436 | -434 | -300 | -300 | -300 | -300 | -375 | -408 |
| | | | | | | | | | | | |
| Net lending / borrowing | -908 | -4,562 | -3,627 | -1,865 | -1,878 | -2,221 | -2,115 | -2,310 | -2,513 | -2,732 | -2,978 |
| | | | | | | | | | | | |
| Change in net financial worth, transactions | -908 | -4,562 | -3,627 | -1,865 | -1,878 | -2,221 | -2,115 | -2,310 | -2,513 | -2,732 | -2,978 |
| Net acquisition of financial assets ("+": increase in assets) | 456 | 1,770 | -1,103 | 864 | 475 | 452 | 56 | 399 | -226 | 311 | 263 |
| Domestic | 456 | 1,770 | -1,103 | 864 | 475 | 452 | 56 | 399 | -226 | 311 | 263 |
| Budget lending (net) | 111 | 55 | 41 | 361 | 92 | -45 | 130 | 130 | 135 | 145 | 150 |
| Deposits (NBG and commercial banks) | 346 | 1,736 | -1,141 | 504 | 383 | 497 | -74 | 269 | -361 | 166 | 113 |
| Financial privatization | 0 | -21 | -3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net incurrence of liabilities ("+": increase in liabilities) | 1,364 | 6,332 | 2,524 | 2,729 | 2,353 | 2,673 | 2,170 | 2,709 | 2,287 | 3,043 | 3,241 |
| Domestic | 898 | 1,970 | -377 | 1,317 | 1,398 | 1,796 | 1,486 | 2,111 | 1,295 | 2,678 | 3,138 |
| Securities other than shares | 898 | 1,970 | -377 | 1,317 | 1,398 | 1,796 | 1,486 | 2,111 | 1,295 | 2,678 | 3,138 |
| Loans | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Foreign | 467 | 4,362 | 2,901 | 1,412 | 956 | 877 | 684 | 599 | 992 | 365 | 103 |
| Loans | 467 | 4,362 | 2,901 | 1,412 | 956 | 877 | 684 | 599 | 992 | 365 | 103 |
| | | | | | | | | | | | |
| Memorandum items: | | | | | | | | | | | |
| Nominal GDP | 49,726 | 49,789 | 60,724 | 72,860 | 80,246 | 88,600 | 97,595 | 106,099 | 115,147 | 125,136 | 135,991 |
| Government debt 3/ | 19,915 | 29,654 | 29,812 | 28,538 | 31,482 | 34,364 | 36,842 | 39,825 | 42,391 | 45,965 | 49,206 |
| End-year government deposits | 1,454 | 3,190 | 2,049 | 2,552 | 2,935 | 3,432 | 3,358 | 3,627 | 3,266 | 3,432 | 3,487 |
| Operating balance | 2,831 | -538 | 543 | 3,665 | 4,215 | 4,496 | 4,372 | 4,615 | 5,117 | 5,565 | 5,967 |
| Net lending / borrowing (excluding privatization) | -1,114 | -4,767 | -4,048 | -2,301 | -2,312 | -2,521 | -2,415 | -2,610 | -2,813 | -3,107 | -3,386 |
| Augmented Net lending / borrowing (program definition) 4/ | -1,019 | -4,596 | -3,665 | -2,226 | -1,970 | -2,176 | -2,245 | -2,440 | -2,648 | -2,877 | -3,128 |
| Cyclically-adjusted primary balance (program definition) | -412 | -3,837 | -2,864 | -1,468 | -781 | -623 | -446 | -502 | -638 | -742 | -932 |

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes cash outflows due to tax credit refunds.

2/ Includes wages and salaries in the education sector.

3/ Excludes domestic legacy debt amounting to 1.2 percent of GDP.

4/ Augmented Net lending / borrowing (program definition) = Net lending / borrowing - Budget lending (net).



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## Table 3b. Georgia: General Government Operations, GFSM2001 2019–29
(In percent GDP)

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | Actual | | | | | Projection | | | |
| Revenue | 26.8 | 24.9 | 25.2 | 26.5 | 27.6 | 28.1 | 27.7 | 27.6 | 27.6 | 27.6 | 27.6 |
| Taxes | 23.9 | 22.1 | 22.3 | 23.7 | 24.6 | 25.5 | 25.4 | 25.4 | 25.4 | 25.4 | 25.4 |
| Taxes on Income, profits and capital gains | 8.7 | 8.5 | 7.9 | 9.6 | 10.1 | 11.2 | 11.0 | 11.1 | 11.1 | 11.1 | 11.0 |
| Payable by individuals | 7.0 | 6.7 | 6.2 | 6.9 | 7.6 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 | 8.1 |
| Payable by corporations | 1.7 | 1.8 | 1.7 | 2.6 | 2.5 | 3.1 | 2.9 | 2.9 | 2.9 | 2.9 | 2.9 |
| Taxes on property | 1.0 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Taxes on goods and services | 13.6 | 13.0 | 13.0 | 13.0 | 13.3 | 13.2 | 13.2 | 13.2 | 13.2 | 13.2 | 13.2 |
| General taxes on goods and services (VAT) | 10.5 | 9.7 | 9.9 | 10.2 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 | 10.5 |
| Excises | 3.0 | 3.3 | 3.1 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| Taxes on international trade | 0.2 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Other taxes 1/ | 0.4 | -0.5 | 0.4 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.2 | 0.2 | 0.2 |
| of which VAT Refunds | -1.2 | -2.1 | -3.2 | -3.1 | -2.9 | -3.0 | -3.0 | -3.0 | -3.0 | -3.0 | -3.0 |
| Grants | 0.8 | 0.8 | 0.6 | 0.4 | 0.4 | 0.5 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Other revenue | 2.1 | 2.1 | 2.3 | 2.3 | 2.6 | 2.2 | 2.0 | 1.9 | 1.9 | 1.9 | 1.9 |
| Total Expenditure | 28.7 | 34.1 | 31.2 | 29.0 | 29.9 | 30.7 | 29.9 | 29.8 | 29.8 | 29.8 | 29.8 |
| Expense | 21.2 | 26.0 | 24.3 | 21.4 | 22.3 | 23.1 | 23.3 | 23.2 | 23.2 | 23.2 | 23.2 |
| Compensation of employees | 3.6 | 3.7 | 3.3 | 3.0 | 3.3 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Use of goods and services | 3.3 | 3.8 | 3.6 | 3.3 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 | 3.4 |
| Interest | 1.2 | 1.5 | 1.3 | 1.0 | 1.5 | 1.8 | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 |
| External | 0.7 | 0.7 | 0.5 | 0.3 | 0.6 | 0.8 | 0.9 | 0.8 | 0.8 | 0.7 | 0.6 |
| Domestic | 0.6 | 0.9 | 0.8 | 0.7 | 0.8 | 0.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Subsidies | 2.0 | 2.9 | 2.7 | 2.8 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 | 2.7 |
| Grants | 0.3 | 0.5 | 0.3 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Social benefits | 8.4 | 11.2 | 10.4 | 8.7 | 8.9 | 9.0 | 9.1 | 9.1 | 9.1 | 9.1 | 9.1 |
| Other expense 2/ | 2.3 | 2.4 | 2.6 | 2.2 | 2.2 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 |
| Net acquisition of nonfinancial assets | 7.5 | 8.1 | 6.9 | 7.6 | 7.6 | 7.6 | 6.6 | 6.5 | 6.6 | 6.6 | 6.6 |
| Increase (capital spending) | 7.9 | 8.5 | 7.6 | 8.2 | 8.1 | 7.9 | 7.0 | 6.8 | 6.9 | 6.9 | 6.9 |
| Decrease (privatization proceeds) | -0.4 | -0.4 | -0.7 | -0.6 | -0.5 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 | -0.3 |
| Net lending / borrowing | -1.8 | -9.2 | -6.0 | -2.6 | -2.3 | -2.5 | -2.2 | -2.2 | -2.2 | -2.2 | -2.2 |
| Change in net financial worth, transactions | -1.8 | -9.2 | -6.0 | -2.6 | -2.3 | -2.5 | -2.2 | -2.2 | -2.2 | -2.2 | -2.2 |
| Net acquisition of financial assets ("+": increase in assets) | 0.9 | 3.6 | -1.8 | 1.2 | 0.6 | 0.5 | 0.1 | 0.4 | -0.2 | 0.2 | 0.2 |
| Domestic | 0.9 | 3.6 | -1.8 | 1.2 | 0.6 | 0.5 | 0.1 | 0.4 | -0.2 | 0.2 | 0.2 |
| Budget lending (net) | 0.2 | 0.1 | 0.1 | 0.5 | 0.1 | -0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Deposits (NBG and commercial banks) | 0.7 | 3.5 | -1.9 | 0.7 | 0.5 | 0.6 | -0.1 | 0.3 | -0.3 | 0.1 | 0.1 |
| Financial privatization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net incurrence of liabilities ("+": increase in liabilities) | 2.7 | 12.7 | 4.2 | 3.7 | 2.9 | 3.0 | 2.2 | 2.6 | 2.0 | 2.4 | 2.4 |
| Domestic | 1.8 | 4.0 | -0.6 | 1.8 | 1.7 | 2.0 | 1.5 | 2.0 | 1.1 | 2.1 | 2.3 |
| Securities other than shares | 1.8 | 4.0 | -0.6 | 1.8 | 1.7 | 2.0 | 1.5 | 2.0 | 1.1 | 2.1 | 2.3 |
| Loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Foreign | 0.9 | 8.8 | 4.8 | 1.9 | 1.2 | 1.0 | 0.7 | 0.6 | 0.9 | 0.3 | 0.1 |
| Loans | 0.9 | 8.8 | 4.8 | 1.9 | 1.2 | 1.0 | 0.7 | 0.6 | 0.9 | 0.3 | 0.1 |
| Memorandum items: | | | | | | | | | | | |
| Nominal GDP (in millions of GEL) | 49,726 | 49,789 | 60,724 | 72,860 | 80,246 | 88,600 | 97,595 | 106,099 | 115,147 | 125,136 | 135,991 |
| General government debt 3/ | 40.0 | 59.6 | 49.1 | 39.2 | 39.2 | 38.8 | 37.8 | 37.5 | 36.8 | 36.7 | 36.2 |
| End-year government deposits | 2.9 | 6.4 | 3.4 | 3.5 | 3.7 | 3.9 | 3.4 | 3.4 | 2.8 | 2.7 | 2.6 |
| Operating balance (before adjustment) | 5.7 | -1.1 | 0.9 | 5.0 | 5.3 | 5.1 | 4.5 | 4.3 | 4.4 | 4.4 | 4.4 |
| Net lending / borrowing (excluding privatization) | -2.2 | -9.6 | -6.7 | -3.2 | -2.9 | -2.8 | -2.5 | -2.5 | -2.4 | -2.5 | -2.5 |
| Augmented Net lending / borrowing (program definition) 4/ | -2.0 | -9.3 | -6.0 | -3.1 | -2.5 | -2.5 | -2.3 | -2.3 | -2.3 | -2.3 | -2.3 |
| Cyclically-adjusted primary balance (program definition) | -0.8 | -7.7 | -4.7 | -2.0 | -1.0 | -0.7 | -0.5 | -0.5 | -0.6 | -0.6 | -0.7 |

Sources: Ministry of Finance; and Fund staff estimates.
1/ Includes cash outflows due to tax credit refunds.
2/ Includes wages and salaries in the education sector.
3/ Excludes domestic legacy debt amounting to 1.2 percent of GDP.
4/ Augmented Net lending / borrowing (program definition) = Net lending / borrowing - Budget lending (net).



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## Table 4. Georgia: Monetary Survey, 2019–24

| | 2019 | 2020 | 2021 | 2022 | 2023 | | 2024 | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | Proj. | Proj. |
| | | | | | June | Dec | June | Dec |
| **Central Bank** | | | | (in billions of lari) | | | | |
| Net foreign assets | 8.8 | 10.9 | 10.3 | 10.8 | 10.9 | 11.1 | 11.3 | 11.5 |
| Gross international reserves | 10.1 | 12.8 | 13.2 | 13.2 | 13.3 | 13.5 | 13.5 | 13.5 |
| Foreign liabilities | 1.3 | 1.9 | 2.9 | 2.4 | 2.3 | 2.4 | 2.2 | 2.0 |
| *Of which* : use of Fund resources | 0.7 | 1.2 | 1.4 | 1.2 | 1.1 | 1.1 | 1.0 | 0.9 |
| Net domestic assets | 0.2 | -0.1 | 0.1 | 1.2 | -0.1 | 0.9 | 1.0 | 1.1 |
| Net claims on central government | -0.4 | -0.1 | 0.1 | 0.6 | 1.5 | 0.3 | 0.5 | 0.7 |
| Claims on general government (incl. T-bills) | 1.0 | 1.4 | 1.8 | 2.4 | 2.6 | 2.7 | 3.1 | 3.4 |
| Nontradable govt. debt | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Debt securities (tradable) | 0.8 | 1.2 | 1.6 | 2.3 | 2.6 | 2.7 | 3.0 | 3.3 |
| Deposits | 1.5 | 1.5 | 1.7 | 1.8 | 1.2 | 2.5 | 2.6 | 2.7 |
| Net claims on banks (excl. reserves) | 3.1 | 3.2 | 3.1 | 3.4 | 0.9 | 3.7 | 3.6 | 3.4 |
| Bank refinancing (incl. swap lines) | 3.1 | 3.2 | 3.1 | 3.5 | 0.9 | 3.7 | 3.6 | 3.5 |
| Certificates of deposits and bonds | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Other items, net | -2.5 | -3.2 | -3.1 | -2.9 | -2.5 | -3.1 | -3.1 | -3.1 |
| Reserve Money | 8.9 | 10.8 | 10.4 | 12.0 | 10.8 | 12.0 | 12.3 | 12.6 |
| **Banking System** | | | | (in billions of lari) | | | | |
| Net foreign assets | -0.4 | 0.9 | 0.0 | 2.9 | 2.2 | 2.7 | 5.0 | 7.3 |
| NBG | 8.8 | 10.9 | 10.3 | 10.8 | 10.9 | 11.1 | 11.3 | 11.5 |
| Commercial banks | -9.1 | -10.0 | -10.3 | -7.9 | -8.7 | -8.4 | -6.3 | -4.2 |
| Net domestic assets | 24.7 | 29.4 | 33.9 | 34.6 | 35.8 | 40.5 | 40.9 | 41.3 |
| Domestic credit | 33.3 | 40.2 | 45.4 | 47.3 | 49.2 | 55.1 | 59.7 | 64.3 |
| Net claims on central government | 1.6 | 1.5 | 1.9 | 2.2 | 1.8 | 2.6 | 3.2 | 3.9 |
| *Of which* : government deposits at NBG | -1.5 | -1.5 | -1.7 | -1.8 | -1.2 | -2.5 | -2.6 | -2.7 |
| *Of which* : T-bills at commercial banks | 2.8 | 4.4 | 3.4 | 4.1 | 4.3 | 4.9 | 5.5 | 6.0 |
| Claims on Other Sectors | 31.7 | 38.7 | 43.4 | 45.1 | 47.4 | 52.5 | 56.5 | 60.4 |
| Other items, net | -8.6 | -10.7 | -11.5 | -12.7 | -13.4 | -14.6 | -18.8 | -23.0 |
| Broad money (M3) | 24.4 | 30.4 | 33.8 | 37.6 | 38.0 | 43.2 | 45.9 | 48.6 |
| Lari Broad money (M2) | 11.5 | 13.7 | 16.1 | 19.8 | 21.6 | 25.1 | 26.0 | 28.3 |
| Currency held by the public | 3.2 | 3.7 | 3.5 | 3.9 | 4.1 | 4.7 | 5.0 | 5.3 |
| Lari resident deposits | 8.3 | 9.9 | 12.6 | 15.9 | 17.5 | 20.4 | 21.0 | 23.0 |
| Resident foreign exchange deposits | 12.9 | 16.7 | 17.7 | 17.9 | 16.4 | 18.1 | 19.9 | 20.2 |
| Sources of funds of commercial banks | 39.8 | 49.7 | 51.8 | 58.8 | 58.4 | 66.2 | 67.0 | 64.9 |
| Resident deposits | 22.0 | 29.7 | 32.3 | 36.6 | 38.6 | 41.7 | 44.3 | 46.8 |
| Non-resident deposits | 5.0 | 5.6 | 5.9 | 8.9 | 9.2 | 10.2 | 10.1 | 7.1 |
| Other resident liabilities | 3.7 | 3.9 | 3.7 | 4.0 | 1.5 | 4.4 | 4.3 | 4.2 |
| Other foreign liabilities | 9.1 | 10.4 | 9.9 | 9.3 | 9.0 | 9.8 | 8.3 | 6.8 |
| Uses of funds of commercial banks | 39.8 | 49.7 | 51.8 | 58.8 | 58.4 | 66.2 | 65.5 | 64.9 |
| Claims on Central Bank | 5.7 | 7.1 | 7.0 | 8.2 | 6.7 | 7.3 | 7.4 | 7.4 |
| Credit to the Economy | 31.7 | 38.7 | 43.4 | 45.1 | 47.4 | 52.5 | 56.5 | 60.4 |
| National currency | 14.3 | 17.5 | 21.7 | 25.1 | 26.2 | 29.2 | 31.4 | 33.8 |
| Foreign currency | 17.4 | 21.2 | 21.8 | 20.0 | 21.1 | 23.4 | 25.1 | 26.6 |
| Other foreign assets | 5.0 | 6.1 | 5.5 | 10.3 | 9.5 | 11.7 | 10.7 | 9.7 |
| Other items, net | -2.6 | -2.2 | -4.2 | -4.7 | -5.2 | -5.4 | -9.0 | -12.6 |
| | | | | (in percent of GDP) | | | | |
| Broad money (M3) | 49.0 | 61.0 | 55.7 | 51.6 | 47.4 | 53.8 | 51.8 | 54.8 |
| Lari Broad money (M2) | 23.1 | 27.4 | 26.5 | 27.2 | 26.9 | 31.3 | 29.4 | 32.0 |
| Currency held by the public | 6.5 | 7.5 | 5.8 | 5.3 | 5.2 | 5.9 | 5.7 | 6.0 |
| Non-resident deposits (percent of total deposits) | 18.5 | 16.0 | 15.5 | 19.5 | 19.3 | 19.6 | 16.4 | 13.2 |
| Credit to the Economy | 63.8 | 77.7 | 71.5 | 61.9 | 59.0 | 65.5 | 63.8 | 68.2 |
| Nominal GDP (billions of lari) | 49.7 | 49.8 | 60.7 | 72.9 | | 80.2 | | 88.6 |
| | | | | (year-on-year growth) | | | | |
| Reserve Money | 13.4 | 20.8 | -3.6 | 15.5 | 5.3 | 0.3 | 13.6 | 5.1 |
| Broad money (M3) | 17.6 | 24.6 | 11.4 | 11.0 | 12.9 | 14.9 | 20.7 | 12.5 |
| NBG Claims on Banks | 61.3 | 2.3 | -2.1 | 9.9 | -75.0 | 8.1 | 284.5 | -6.5 |
| Credit to the Economy | 19.7 | 22.0 | 12.3 | 3.7 | 7.8 | 16.6 | 19.3 | 15.0 |

Sources: National Bank of Georgia; and Fund staff estimates.



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## Table 5. Georgia: Financial Soundness Indicators, 2019–23

(In percent, unless otherwise indicated)

| | 2019 | 2020 | 2021 | 2022 | | | | 2023 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec | Dec | Dec | Mar | Jun | Sep | Dec | Mar | Jun | Sep | Dec |
| **Capital Adequacy** | | | | | | | | | | | |
| Capital to risk-weighted assets 1/ | 19.5 | 17.6 | 19.6 | 20.1 | 20.3 | 20.6 | 20.3 | 20.8 | 21.0 | 22.4 | 22.2 |
| Nonperforming loans net of provisions to capital | 5.2 | 7.3 | 5.1 | 4.8 | 5.0 | 4.8 | 4.2 | 4.3 | 4.2 | 4.0 | 3.8 |
| Leverage ratio 2/ | 19.0 | 16.3 | 19.2 | 19.6 | 19.1 | 18.7 | 18.6 | 19.8 | 19.6 | 20.4 | 20.6 |
| **Asset Quality** | | | | | | | | | | | |
| Nonperforming to total gross loans (IMF) 3/ | 1.9 | 2.3 | 1.9 | 1.8 | 1.9 | 1.9 | 1.7 | 1.7 | 1.7 | 1.7 | 1.6 |
| Nonperforming to total gross loans (NBG) 4/ | 4.4 | 8.2 | 5.2 | 5.0 | 4.7 | 4.5 | 4.0 | 3.8 | 3.6 | 3.0 | 2.7 |
| Restructured loans to total gross loans | 5.1 | 19.0 | 18.3 | 15.3 | 16.4 | 16.1 | 15.2 | 15.2 | 14.1 | 5.3 | 4.8 |
| Specific provisions to total loans | 1.9 | 3.2 | 2.2 | 2.1 | 2.0 | 1.9 | 1.7 | 1.6 | 1.6 | 1.1 | 1.1 |
| Sectoral distribution of loans to total loans | | | | | | | | | | | |
| Residents | 97.4 | 96.4 | 96.4 | 96.6 | 96.5 | 96.5 | 96.2 | 95.9 | 95.2 | | |
| Deposit-takers | 0.1 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.8 | 0.0 | 0.0 | | |
| Other financial corporations | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | |
| Nonfinancial corporations | 49.8 | 47.1 | 45.7 | 44.7 | 44.8 | 41.9 | 42.9 | 42.2 | 41.1 | | |
| Other domestic sectors 5/ | 47.5 | 49.1 | 49.9 | 51.2 | 51.8 | 53.5 | 52.4 | 53.7 | 53.2 | | |
| Non-residents | 2.6 | 3.6 | 3.6 | 3.4 | 3.5 | 3.5 | 3.8 | 4.1 | 4.8 | | |
| **Earnings and Profitability** | | | | | | | | | | | |
| Return on assets (ROA) | 2.4 | 0.1 | 3.9 | 3.1 | 3.1 | 3.6 | 3.8 | 3.9 | 4.2 | 4.3 | 4.2 |
| Return on equity (ROE) | 19.9 | 1.4 | 34.4 | 20.8 | 20.7 | 24.8 | 24.8 | 24.9 | 26.6 | 26.9 | 26.5 |
| Interest margin to gross income | 58.1 | 58.4 | 57.9 | 60.4 | 58.2 | 54.4 | 53.1 | 58.2 | 55.7 | 56.4 | 56.7 |
| Non-interest expenses to gross income | 52.9 | 54.3 | 48.1 | 53.8 | 51.8 | 47.5 | 46.9 | 45.4 | 44.0 | 44.9 | 46.0 |
| **Liquidity** | | | | | | | | | | | |
| Liquid assets to total assets ratio | 19.6 | 21.1 | 20.2 | 20.7 | 20.3 | 23.1 | 22.9 | 23.3 | 22.6 | 22.6 | 20.9 |
| Liquid assets to total short-term liabilities 6/ | 24.2 | 25.2 | 26.3 | 26.9 | 26.3 | 29.1 | 29.2 | 30.5 | 29.0 | | |
| Loan-to-deposit ratio (in percent) 7/ | 121.7 | 110.6 | 115.9 | 116.9 | 114.1 | 102.8 | 101.1 | 103.5 | 101.4 | 97.2 | 102.2 |
| Liquidity coverage ratio (GEL, percent) | 100.8 | 120.3 | 115.1 | 104.8 | 102.9 | 109.9 | 137.9 | 144.3 | 139.1 | 142.5 | 117.9 |
| Liquidity coverage ratio (FX, percent) | 154.0 | 154.6 | 132.9 | 129.3 | 131.6 | 144.4 | 143.4 | 138.8 | 139.2 | 131.1 | 127.4 |
| **Foreign Currency Position and Dollarization** | | | | | | | | | | | |
| Deposit dollarization (total non-bank deposits) | 64.0 | 61.4 | 59.9 | 59.4 | 57.9 | 57.0 | 56.1 | 53.5 | 50.8 | 51.8 | 52.8 |
| Loans in foreign exchange to total loans | 55.2 | 55.7 | 50.9 | 50.6 | 48.6 | 45.4 | 44.6 | 44.6 | 45.2 | 44.8 | 45.1 |
| Net foreign assets to total assets | -18.9 | -17.6 | -17.0 | -16.6 | -13.5 | -10.0 | -11.0 | -11.1 | -12.7 | -11.4 | -10.5 |
| Net open foreign exchange position to regulatory capital | 0.2 | 0.2 | 2.6 | 3.1 | 4.7 | 3.5 | 1.6 | 1.2 | 1.4 | 0.2 | 1.9 |
| Borrowed funds from abroad-to-GDP ratio 8/ | 19.1 | 18.0 | 17.0 | 14.3 | 14.5 | 14.5 | 14.3 | 11.0 | 11.5 | 11.4 | 12.1 |
| **Other** | | | | | | | | | | | |
| Loans collateralized by real estate to total loans | 64.9 | 53.5 | 64.0 | 61.0 | 62.1 | 61.7 | 62.2 | 62.6 | 64.1 | 70.3 | 68.8 |
| **Memorandum items** | | | | | | | | | | | |
| Georgia EMBIG Sovereign Spread | 157 | 407 | 206 | 294 | 379 | 397 | 345 | 240 | 315 | 253 | 244 |
| Georgia EMBIG Sovereign Yield | 3.2 | 4.2 | 3.3 | 4.8 | 6.7 | 7.2 | 7.5 | 6.3 | 7.0 | 7.0 | 6.9 |

Source: National authorities and IMF staff calculations.

1/ Basel III definition.

2/ Defined as the ratio of total capital to total liabilities; an increase in the ratio indicates an improvement.

3/ IMF definition for NPLs: includes loans in doubtful and loss categories (categories overdue 90 days or more).

4/ National definition: NPLs are defined as loans in substandard, doubtful, and loss loan categories.

5/ Includes households and individual entrepreneurs.

6/ Ratio of liquid assets to 6-month and shorter maturity liabilities.

7/ Loans and deposits from the banking sector.

8/ Borrowed funds include subordinated debt.



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# Annex I. Key Recommendations of the 2021 Article IV Consultation

*The 2021 Article IV consultation took place amid an ongoing recovery from the pandemic, with discussions focusing on policies to respond to the crisis and strengthen growth and resilience. The authorities have made good progress on implementing the recommendations, which focused on i) rebuilding fiscal buffers and managing risks, ii) achieving the inflation target, iii) ensuring a resilient financial sector, and iv) promoting a stronger and more inclusive recovery.*

| Key Recommendations | Status of Implementation |
|---|---|
| *Fiscal Policy* | |
| Rebuilding fiscal buffers: A mildly contractionary fiscal stance in 2021, consistent with the ongoing post-pandemic recovery, saving any further additional revenue. Medium term fiscal consolidation to comply with the fiscal rule, reviewing tax expenditures, improving tax administration, and strengthening public investment management, while avoiding further compression of current spending. | Implemented. The overall fiscal deficit and public debt have declined markedly since 2020, and currently comply with the fiscal rules. As part of the ongoing SBA, the authorities have i) published a first tax expenditure report and reviewed agricultural tax expenditures, ii) improved processing of unrefunded VAT credits and credit claims, and iii) updated the public investment management (PIM) guidelines and selected investment projects in the current budget accordingly. |
| Managing fiscal risks: Comprehensive SOE reform strategy to manage and mitigate fiscal risks. | Implemented. As part of the ongoing SBA, the authorities have developed an SOE governance reform strategy to enhance productivity and limit fiscal risks. |
| *Monetary and Exchange Rate Policy* | |
| Reducing inflation: Further tightening of monetary policy stance if there is evidence of entrenched high inflation expectations. | Implemented. The authorities tightened monetary policy and inflation has been brought under control, helped also by lower commodity prices, a stronger lari, and macroprudential policies. |
| *Financial Sector Policies* | |
| Ensuring financial sector resilience: Maintaining adequate buffers and provisions in the financial sector, preserving banking system capital and dealing with NPLs to restore balance sheet health and profitability as the recovery solidifies. | Implemented. Bank capital and liquidity buffers have been restored and profitability has improved. NPLs have been written down and fully provisioned, and returned to pre-pandemic lows. |



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| *Structural Policies* | |
|---|---|
| Promoting a stronger and more inclusive recovery: Comprehensive education reform complemented with cost-effective active labor market policies to deal with entrenched unemployment, as well as actions to diversify exports, attract FDI, and increase productivity. | Ongoing. The authorities have sought to i) support employment by developing vocational training for high demand skills and lowering disincentives to work while on targeted social assistance; ii) boost competitiveness and diversification by pursuing regional trade agreements and investing in transport and energy infrastructure. Georgia's 2030 development strategy has education as a core pillar, which should help increase productivity and lower unemployment. |



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# Annex II. Risk Assessment Matrix[1]

| Risks (Likelihood) | Impact If Risks Realized | Policy Response |
|---|---|---|
| **Conjunctural Risks** | | |
| **Intensification of regional conflict(s) (High).** Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows. | **High:** Although spillovers from the war in Ukraine have been contained so far, intensified war and sanctions could lower tourism, trade, remittances, and investments, while increasing depreciation pressures and inflation.<br>Sanctions may lead to regulatory risks for financial institutions including related to AML/CFT issues.<br>On the upside, capital and migrant inflows (workers and companies) from Russia, as well as trade rerouted through Georgia could also increase under intensified sanctions, boosting demand and the external balance. | Allow flexible exchange rate to act as a shock absorber.<br>Utilize foreign exchange reserves to prevent disorderly market conditions that could jeopardize financial stability.<br>Maintain tight monetary policy to keep inflation expectations anchored and avoid capital outflows.<br>Accelerate diversification of trade markets and routes. |
| **Commodity price volatility (High).** A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability. | **High:** Rising global commodity prices would increase inflationary pressures and diminish households' purchasing power. | Maintain tight monetary policy to keep inflation expectations anchored.<br>Reprioritize spending to provide targeted fiscal support to the most vulnerable. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.



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| Risks (Likelihood) | Impact If Risks Realized | Policy Response |
| --- | --- | --- |
| **Abrupt global slowdown (Medium).** Global and idiosyncratic risk factors cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. | **High:** A global recession scenario would lower tourism, trade, remittances, and investments, while increasing depreciation, inflation, and fiscal and external pressures. | Allow flexible exchange rate to act as a shock absorber.<br>Use existing policy space to support the economy and protect the most vulnerable, consistent with the inflation targeting framework and fiscal sustainability.<br>Utilize foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability. |
| **Monetary policy miscalibration (Medium).** Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks. | **Medium:** Persistently high inflation, including from a premature loosening in monetary policy in major central banks and rising global commodity prices could de-anchor inflation expectations and further diminish households' purchasing power. | Allow flexible exchange rate to act as a shock absorber.<br>Tighten monetary policy, communicating and signaling strong commitment to inflation targeting.<br>Reprioritize spending to provide targeted fiscal support to the most vulnerable. |
| **Systemic financial instability (Medium).** High interest rates and risk premia and asset repricing amid economic slowdowns and political uncertainty (e.g., from elections) trigger market dislocations, with cross-border spillovers and an adverse macro-financial feedback loop affecting weak banks and NBFIs. | **Medium:** Financial market disruptions could trigger a rapid exchange rate depreciation, undermining confidence in the currency and increasing inflation expectations. Depreciation in a highly dollarized economy could hurt growth and threaten financial stability as households and firms struggle to repay loans. Higher inflation and depreciation expectations could result in a vicious cycle of loan conversions putting further pressure on the currency. | Maintain tight monetary policy to ensure confidence in the currency and keep inflation expectations anchored.<br>Allow the exchange rate to adjust to new fundamentals.<br>Utilize foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability.<br>Use recently strengthened resolution framework and consider if further enhancements to the framework are needed to ensure that financial stability challenges can be addressed. |



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| Risks (Likelihood) | Impact If Risks Realized | Policy Response |
|---|---|---|
| | | Allow use of capital and liquidity buffers to cope with shocks.<br>Adjust macroprudential measures to avoid an undue tightening of financial conditions.<br>Enforce provisioning rules in line with international best practices. |
| **Sovereign debt distress (Medium).** Domino effects from high global interest rates, a growth slowdown in AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, and loss of market access. | **Medium:** While sovereign debt distress is a low probability event in Georgia given a moderate public debt level, a sharp depreciation amid high dollarization and higher borrowing costs could hurt growth, increase fiscal pressures, and threaten financial stability as households and firms struggle to repay loans. | Allow flexible exchange rate to act as a shock absorber.<br>Recalibrate fiscal policy to comply with the deficit and debt ceilings unless the escape clause is triggered. Reprioritize spending to support the most vulnerable.<br>Utilize foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability. |
| **Social discontent (Medium).** High inflation, real income loss, spillovers from conflicts (including migration), worsening inequality, and disputed elections cause social unrest and detrimental populist policies. This exacerbates imbalances, slows growth, and leads to policy uncertainty and market repricing. | **Medium:** Political polarization and social tensions could result in disorderly lari depreciation. Social tensions might undermine the ability of policymakers to implement structural reforms. They could also threaten external financing flows from international financial institutions on which Georgia relies. | Improve communication about economic policy – especially in terms of setting a medium-term reform agenda.<br>Maintain commitment and ownership of reforms.<br>Utilize foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability. |
| **Structural Risks** | | |
| **Deepening geo-economic fragmentation (High).** Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, | **Medium:** Accelerating de-globalization would put the merits of Georgia's efforts to become a logistics hub in doubt. The country would need to | Allow the exchange rate to adjust to reflect the new fundamentals.<br>If inflation is under control, utilize monetary policy space |



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| Risks (Likelihood) | Impact If Risks Realized | Policy Response |
|---|---|---|
| supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth. | find a new source of future growth that is less reliant on the external environment. | to ensure that the output gap does not stay negative for too long.<br>Extend targeted measures to support individuals and businesses by reprioritizing spending.<br>Implement structural reforms that allow the economy to move more flexibly to take advantage of emerging sources of growth. |
| **Country Specific Risks** | | |
| **Fiscal risks (Medium).** Materialization of contingent liabilities/fiscal risks could put pressure on the deficit. | **Medium:** The need to cover contingent liabilities could complicate efforts to comply with the fiscal rule or result in lower capital or current spending. | Continue improving SOE governance and fiscal risk management practices.<br>Strengthen revenue raising capacity.<br>Strengthen reform agenda and seek IFI support. |
| **Political risks (Medium).** Political instability and/or reform fatigue could undermine efforts to undertake structural reforms. | **Medium:** Policy uncertainty could undermine confidence and hurt investment and growth. | Maintain macroeconomic policy discipline.<br>Strengthen social safety nets to protect the most vulnerable segments of the population and ensure that growth is sufficiently inclusive. |



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# Annex III. Sovereign Risk and Public Debt Sustainability Assessment

## Table 1. Georgia: Risk of Sovereign Stress

| Horizon | Mechanical signal | Final assessment | Comments |
|---|---|---|---|
| **Overall** | ... | Low | The overall risk of sovereign stress is low, reflecting low levels of vulnerability in both the near and medium-term modules. The debt level is projected to be relatively low and stable under the baseline, supported by prudent fiscal policy and strong economic growth. |
| **Near term 1/** | Low | Low | The near-term stress signal is "low" in 2023 in line with the mechanical signal, given the reduced debt burden and the cyclical position of the economy including the low current account deficit. |
| **Medium term** | Low | Low | Medium-term risks are assessed as "low" in line with the aggregate medium-term mechanical signal on the basis of balanced risks around the debt baseline, and manageable gross financing needs. |
| Fanchart | Moderate | ... | |
| GFN | Low | ... | |
| Stress test | ... | ... | |
| **Long term** | ... | Low | Climate change mitigation and adaptation needs will lead to higher amortization than in the past, but under a baseline scenario, in line with the Georgia's climate change strategy, debt is likely to remain sustainable in the long-term. |
| **Sustainability assessment 2/** | Sustainable with high probability | Sustainable with high probability | The projected debt path is expected to stabilize and GFNs will remain at manageable levels. Debt is assessed as sustainable with high probability. |
| **Debt stabilization in the baseline** | | | Yes |

**DSA Summary Assessment**

Commentary: Georgia is at a low overall risk of sovereign stress, and public debt is sustainable. After a short-lived surge in 2020 to 60 percent of GDP, reaching the upper limit of the fiscal rule, general government debt declined below 40 percent of GDP in 2022, and has been stable since then. This was driven by strong growth and inflation, as well as lari appreciation especially since 2022. Debt is expected to remain stable below 40 percent of GDP in the medium term, as fiscal deficits remain modest in compliance with the fiscal rule. Over the longer run, reforms should continue to tackle risks arising from climate change mitigation and adaptation needs.

Source: Fund staff.
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.



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## Figure 1. Georgia: Debt Coverage and Disclosures

| | | | | | | Comments |
|---|---|---|---|---|---|---|
| **1. Debt coverage in the DSA: 1/** | CG | GG | NFPS | CPS | Other | |
| **1a. If central government, are non-central government entities insignificant?** | | | | | n.a. | |
| **2. Subsectors included in the chosen coverage in (1) above:** | | | | | | |

| Sector | # | Subsectors captured in the baseline | Inclusion | Comments |
|---|---|---|---|---|
| CPS / NFPS / GG: expected / CG | 1 | Budgetary central government | Yes | |
| CPS / NFPS / GG: expected / CG | 2 | Extra budgetary funds (EBFs) | No | |
| CPS / NFPS / GG: expected / CG | 3 | Social security funds (SSFs) | No | Not applicable |
| CPS / NFPS / GG: expected | 4 | State governments | Yes | |
| CPS / NFPS / GG: expected | 5 | Local governments | Yes | |
| CPS / NFPS | 6 | Public nonfinancial corporations | No | |
| CPS | 7 | Central bank | No | |
| CPS | 8 | Other public financial corporations | No | |

| | | | | | |
|---|---|---|---|---|---|
| **3. Instrument coverage:** | Currency & deposits | Loans | Debt securities | Oth acct. payable 2/ | **IPSGSs 3/** |

| | Basis of recording | | Valuation of debt stock | | |
|---|---|---|---|---|---|
| **4. Accounting principles:** | Non-cash basis 4/ | Cash basis | Nominal value 5/ | Face value 6/ | Market value 7/ |

| | | |
|---|---|---|
| **5. Debt consolidation across sectors:** | Consolidated | Non-consolidated |

**Color code:** chosen coverage; Missing from recommended coverage; Not applicable

### Reporting on intra-government debt holdings

| Issuer \ Holder | Budget. central govt | Extra-budget. funds | Social security funds | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|---|---|---|---|---|---|---|---|---|---|
| 1 Budget. central govt | | | | | | | | | 0 |
| 2 Extra-budget. funds | | | | | | | | | 0 |
| 3 Social security funds | | | | | | | | | 0 |
| 4 State govt. | | | | | | | | | 0 |
| 5 Local govt. | | | | | | | | | 0 |
| 6 Nonfin pub. corp. | | | | | | | | | 0 |
| 7 Central bank | | | | | | | | | 0 |
| Total | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.



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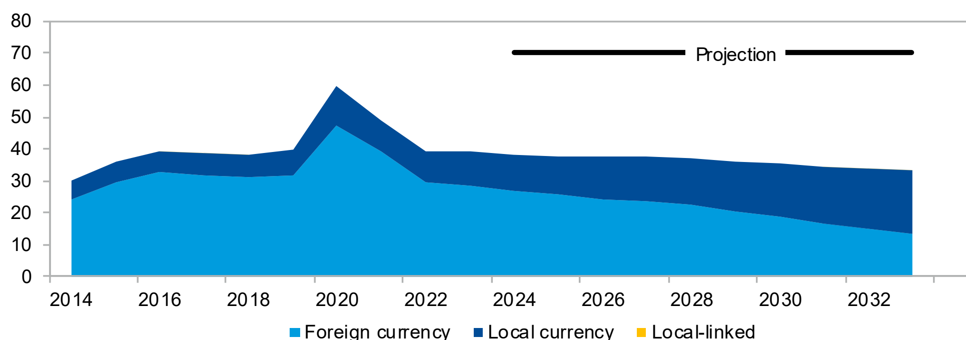
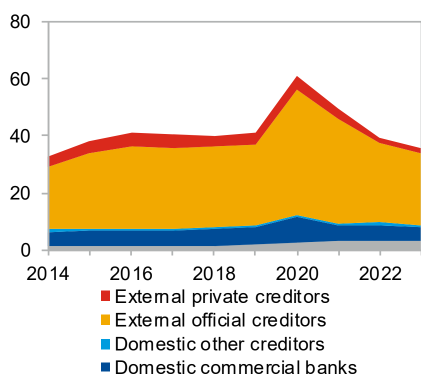
## Figure 2. Georgia: Public Debt Structure Indicators

**Debt by currency (percent of GDP)**



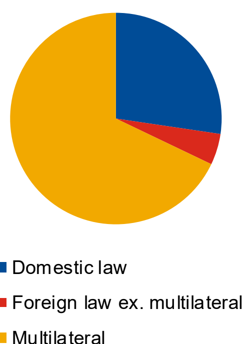

Note: The perimeter shown is general government.

**Public debt by holder (percent of GDP)**



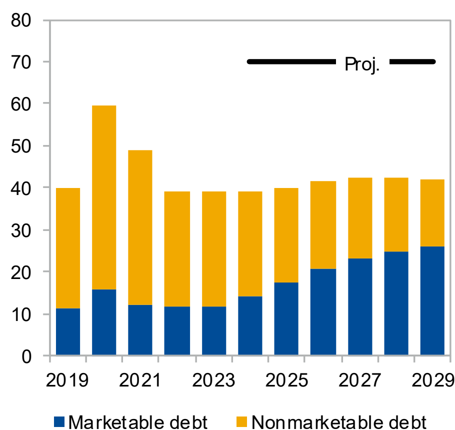

Note: The perimeter shown is general government.

**Public debt by governing law, 2023 (percent)**



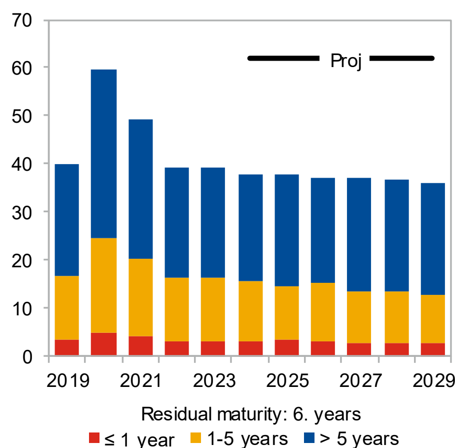

Note: The perimeter shown is general government.

**Debt by instruments (percent of GDP)**




Note: The perimeter shown is general government.

**Public debt by maturity (percent of GDP)**




Note: The perimeter shown is general government.

Commentary: The share of foreign currency debt is expected to decline below 65 percent by 2026, as per the authorities' debt management strategy to mitigate exchange rate risks.



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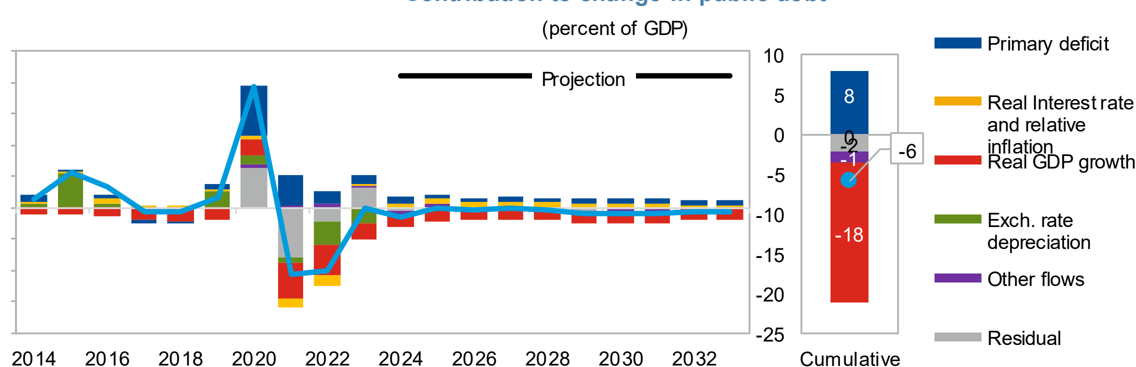
## Table 2. Georgia: Baseline Scenario

(Percent of GDP unless indicated otherwise)

| | Actual | Medium-term projection | | | | | | Extended projection | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 |
| Public debt | 39.2 | 37.9 | 37.8 | 37.4 | 37.4 | 37.1 | 36.2 | 35.4 | 34.5 | 34.0 | 33.4 |
| Change in public debt | 0.1 | -1.3 | -0.1 | -0.4 | 0.0 | -0.3 | -0.8 | -0.8 | -0.9 | -0.5 | -0.6 |
| Contribution of identified flows | -3.1 | -1.0 | 0.2 | -0.2 | 0.1 | -0.4 | -0.5 | -0.5 | -0.6 | -0.3 | -0.4 |
| Primary deficit | 1.2 | 1.1 | 0.6 | 0.6 | 0.7 | 0.7 | 0.8 | 0.9 | 0.9 | 0.9 | 0.8 |
| Noninterest revenues | 27.2 | 27.8 | 27.4 | 27.3 | 27.3 | 27.4 | 27.3 | 27.3 | 27.3 | 27.2 | 27.4 |
| Noninterest expenditures | 28.4 | 28.9 | 28.1 | 27.9 | 28.0 | 28.1 | 28.1 | 28.1 | 28.1 | 28.1 | 28.1 |
| Automatic debt dynamics | -4.9 | -1.4 | -1.1 | -0.8 | -0.8 | -0.9 | -1.0 | -1.0 | -1.1 | -1.1 | -1.2 |
| Real interest rate and relative inflation | 0.3 | 0.7 | 0.8 | 0.9 | 0.9 | 0.9 | 0.8 | 0.7 | 0.6 | 0.5 | 0.5 |
| Real interest rate | 0.5 | 0.3 | 0.2 | 0.5 | 0.6 | 0.5 | 0.4 | 0.4 | 0.3 | 0.3 | 0.2 |
| Relative inflation | -0.2 | 0.5 | 0.6 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 |
| Real growth rate | -2.7 | -2.1 | -1.9 | -1.7 | -1.7 | -1.8 | -1.8 . | -1.7 | -1.7 | -1.6 | -1.6 |
| Real exchange rate | -2.4 | … | … | … | … | … | … . | … | … | … | … |
| Other identified flows | 0.6 | -0.7 | 0.6 | -0.1 | 0.2 | -0.2 | -0.3 | -0.4 | -0.4 | -0.1 | 0.0 |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other transactions | 0.6 | -0.7 | 0.6 | -0.1 | 0.2 | -0.2 | -0.3 | -0.4 | -0.4 | -0.1 | 0.0 |
| Contribution of residual | 3.1 | -0.3 | -0.3 | -0.2 | -0.1 | 0.1 | -0.3 | -0.3 | -0.3 | -0.2 | -0.2 |
| Gross financing needs | 5.6 | 5.7 | 5.1 | 5.6 | 5.3 | 5.0 | 5.0 | 5.2 | 5.9 | 5.0 | 5.1 |
| of which: debt service | 4.8 | 4.9 | 4.7 | 5.2 | 4.8 | 4.5 | 4.4 | 4.6 | 5.2 | 4.3 | 4.5 |
| Local currency | 2.8 | 2.8 | 2.6 | 1.9 | 2.9 | 2.5 | 2.5 | 2.8 | 2.7 | 2.7 | 3.0 |
| Foreign currency | 2.0 | 2.2 | 2.1 | 3.3 | 1.9 | 2.0 | 1.9 | 1.8 | 2.5 | 1.6 | 1.5 |
| Memo: | | | | | | | | | | | |
| Real GDP growth (percent) | 7.5 | 5.7 | 5.2 | 4.7 | 4.9 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Inflation (GDP deflator; percent) | 2.8 | 4.1 | 4.7 | 3.8 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |
| Nominal GDP growth (percent) | 10.1 | 10.4 | 10.2 | 8.7 | 8.5 | 8.7 | 8.7 | 8.7 | 8.7 | 8.7 | 8.7 |
| Effective interest rate (percent) | 4.2 | 4.9 | 5.2 | 5.2 | 5.2 | 5.0 | 4.8 | 4.6 | 4.4 | 4.3 | 4.2 |

**Contribution to change in public debt**

(percent of GDP)




Commentary: Public debt is expected to decrease gradually from about 40 percent of GDP in 2022 to below 37 percent of GDP over the medium-term mostly due to favorable interest-growth differentials. Gross financing needs are expected to remain manageable at below 5.5 percent of GDP over the medium term. Residual contributions include changes in government deposits.



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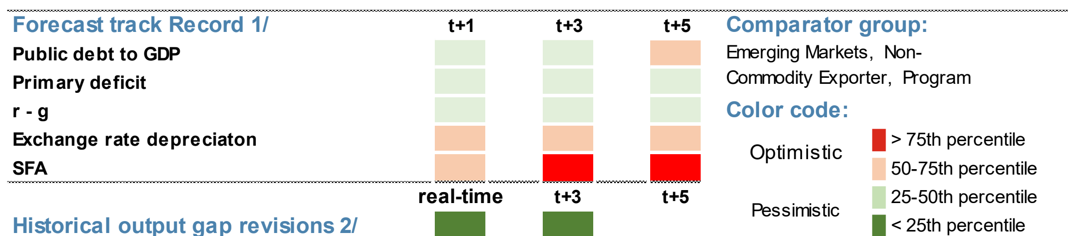
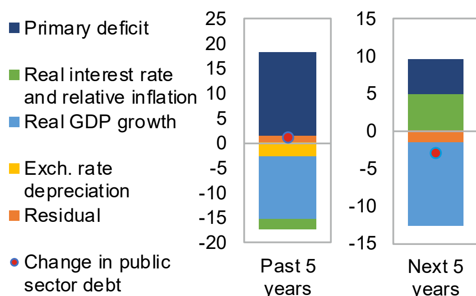
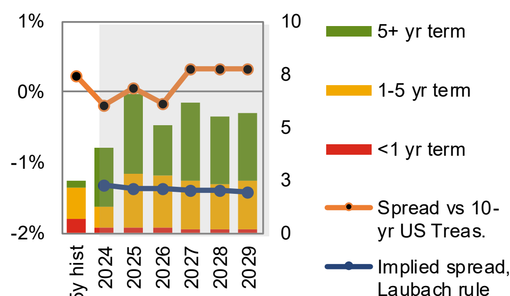
## Figure 3. Georgia: Realism of Baseline Assumptions



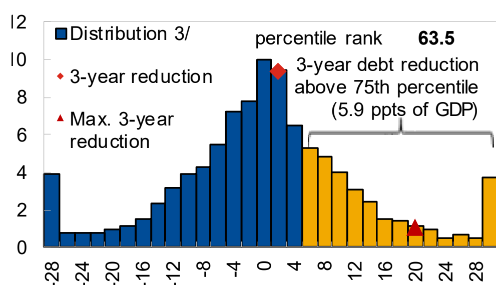

**Public Debt Creating Flows**
(Percent of GDP)



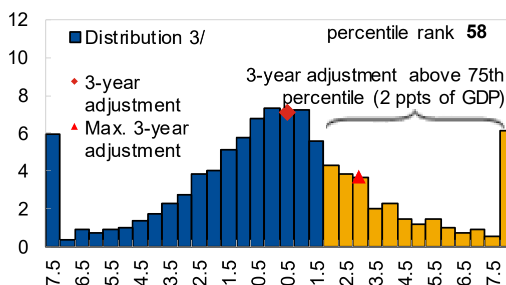

**Bond Issuances** (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))



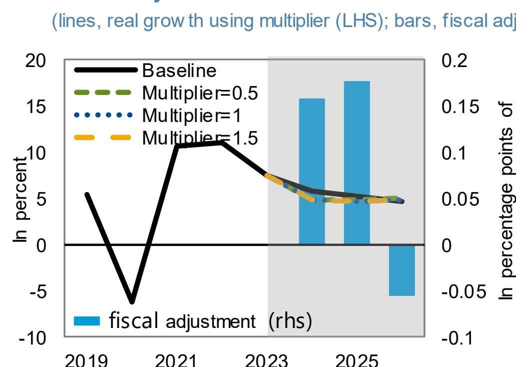

**3-Year Debt Reduction**
(Percent of GDP)



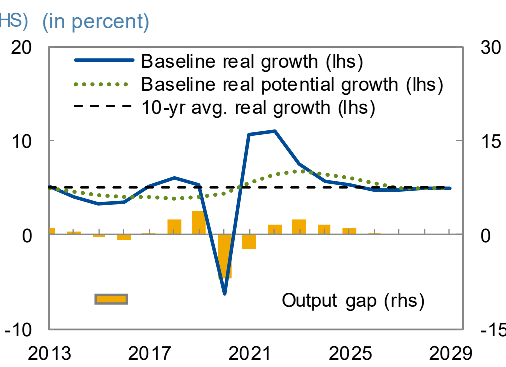

**3-Year Adjustment in Cyclically-Adjusted Primary Balance** (percent of GDP)




**Fiscal Adjustment and Possible Growth Paths**
(lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS)




**Real GDP Growth**
(in percent)




Commentary: Realism analysis does not point to major concerns. Past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

1/ Projections made in the October and April WEO vintages
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time and final estimates in the latest October WEO).
3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on the vertical axis.



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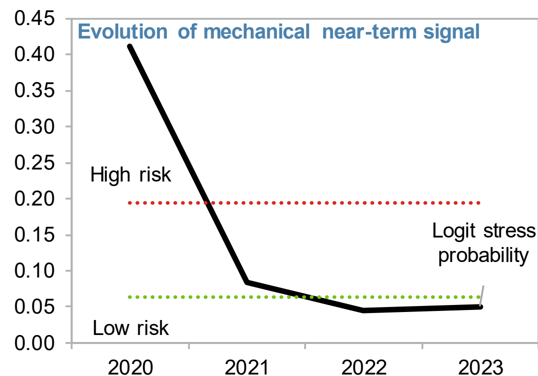
## Figure 4. Georgia: Near-Term Risk Analysis

| Year of data | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| *To predict stress in [t+1, t+2]* | *2021-22* | *2022-23* | *2023-24* | *2024-25* |
| Change in LSP | 0.343 | -0.328 | -0.039 | 0.005 |
| due to: | | | | |
| Institutional quality | 0.006 | 0.004 | 0.000 | 0.000 |
| Stress history | 0.000 | 0.000 | -0.003 | 0.000 |
| Cyclical position | 0.024 | 0.146 | -0.069 | 0.000 |
| Debt burden & buffers | 0.199 | -0.293 | -0.010 | 0.029 |
| Global conditions | 0.111 | -0.185 | 0.044 | -0.024 |

Prob. of false alarm, 2024-2025 (if stress predicted): 40.5 pct.




Commentary: The near-term mechanical stress signal remains "low" in 2023. Low debt burden and cyclical factors contributed to a low fitted probability in 2023. Continued prudent management of public finance management as projected over the near term would help reduce risks from the cyclical position and adverse global conditions.



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## Figure 5. Georgia: Medium-Term Risk Analysis

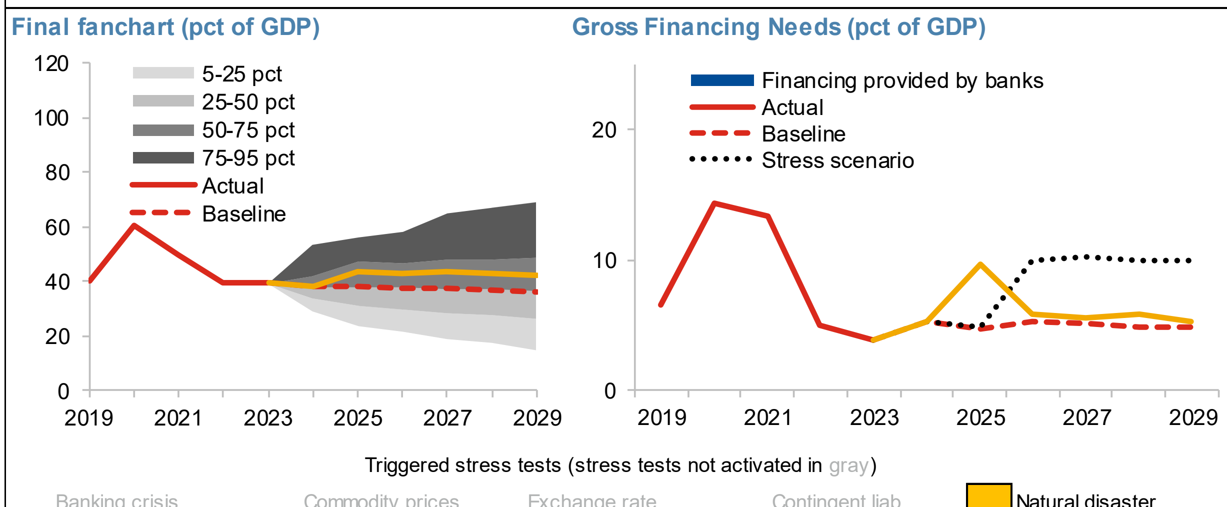
### Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

| Module | Indicator | Value | Risk index | Risk signal |
|---|---|---|---|---|
| Debt fanchart module | Fanchart width | 53.9 | 0.8 | … |
| | Probability of debt not stabilizing (pct) | 29.8 | 0.3 | … |
| | Terminal debt level x institutions index | 13.3 | 0.3 | … |
| | **Debt fanchart index** | **…** | **1.3** | **Moderate** |
| GFN finance-ability module | Average GFN in baseline | 5.0 | 1.7 | … |
| | Bank claims on government (pct bank assets) | 6.6 | 2.1 | … |
| | Chg. in claims on govt. in stress (pct bank assets) | 2.1 | 0.7 | … |
| | **GFN financeability index** | **…** | **4.6** | **Low** |

Emg. Econ., Non-Com. Exp, Program: 0, 25, 50, 75, 100

Legend: Interquartile range; Georgia




### Medium-term index

(index number)

Medium-term index
Low risk
High risk

### Medium-term risk analysis

| | Low risk threshold | High risk threshold | Weight in MTI | Normalized level |
|---|---|---|---|---|
| Debt fanchart index | 1.1 | 2.1 | 0.5 | 0.3 |
| GFN finaceability | 7.6 | 17.9 | 0.5 | 0.1 |
| Medium-term index (MTI) | 0.3 | 0.4 | … | 0.2, Low |

Prob. of missed crisis, 2024-2029 (if stress not predicted): 9.1 pct.

Prob. of false alarm, 2024-2029 (if stress predicted): 58.0 pct.

Commentary: Of the two medium-term tools, the GFN Finance-ability Module suggests a low level of risk, while the Debt Fanchart Module indicates medium level of risks. The latter is largely due to a relatively wide estimated fan width likely related to historical volatility.



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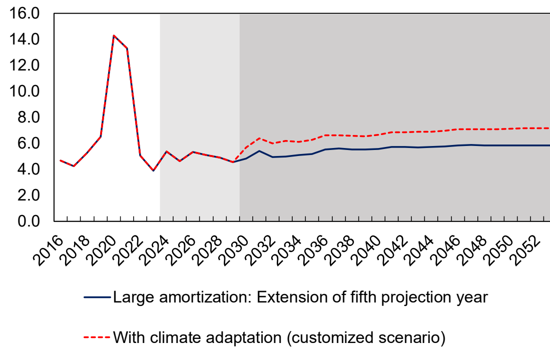
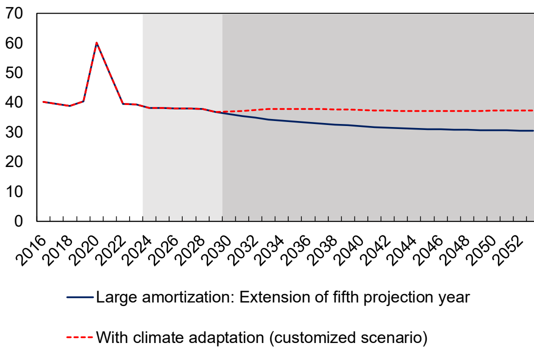
## Figure 6. Georgia: Long-Term Risk Analysis

**Climate Change: Adaptation**

**GFN-to-GDP ratio**

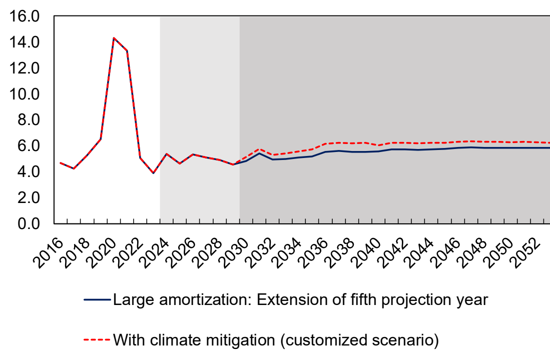



**Total public debt-to-GDP ratio**

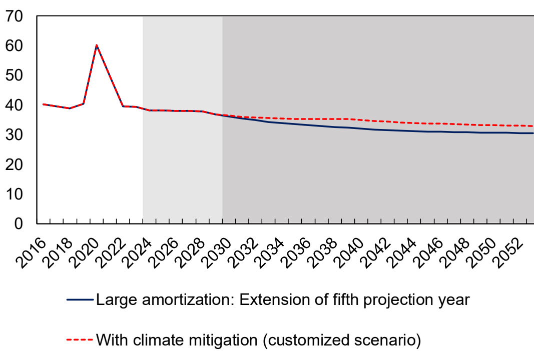



**Climate Change: Mitigation**

**GFN-to-GDP ratio**




**Total public debt-to-GDP ratio**




Commentary: Georgia's 2030 Climate Change Strategy estimates total budget of GEL 3.5 billion for the 10-year action plan. With such investment of a little over 0.3 percent of GDP, debt is likely to be sustainable in the long-term, with downside risks in case the investments are not sufficient to offset adverse effects on GDP growth. While climate actions are expected to increase the gross financing needs and debt levels, they are projected to remain stable over the medium term.



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# Annex IV. External Sector Assessment[1]

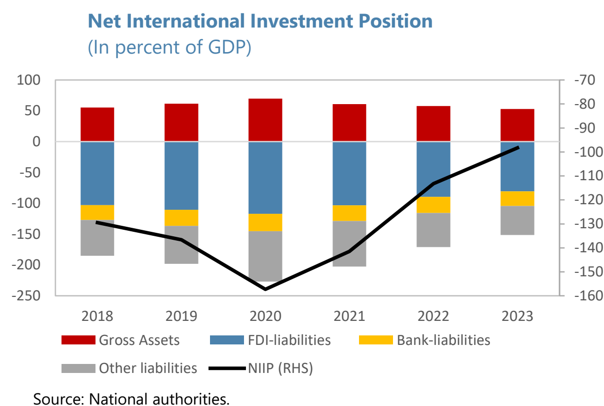
***Overall Assessment:*** *Georgia's external position in 2023 was broadly in line with the level implied by medium-term fundamentals and desirable policy settings based on the results of the IMF's EBA-lite current account model.[1] External vulnerabilities decreased relative to 2022 due to a continued strong recovery in services exports and moderating but still robust remittances, FDI, and migrant-related inflows. End-2023 gross international reserves (GIR) coverage is estimated below 100 percent of the ARA metric. If banks' external assets are considered, GIR coverage improves to 115 percent but remains well below the authorities' desirable range of 120-130 percent during the projection period.*

***Potential Policy Responses:*** *Continued prudent fiscal policy and greater exchange rate flexibility in the context of the inflation-targeting framework are essential to safeguard external sustainability over the medium term. Going forward, the NBG should continue FX purchases if market conditions allow, and conduct FX sales only to avoid disorderly market conditions. Further progress on structural reforms is also needed to support external sustainability. These include investments in transport and energy infrastructure to boost competitiveness, developing the IT services sector to diversify exports, and improving governance to attract foreign investors.*

**Foreign Assets and Liabilities: Position and Trajectory**

**Background.** Georgia's net international investment position (NIIP) narrowed to a negative 98.3 percent of GDP by the end of 2023 from a negative 136 percent in 2019, despite a deterioration in nominal terms by close to 6 billion over the same period, owing primarily to an increase in USD-valued GDP. A reduction in gross liabilities accounts for most of the improvement over the last five years. Furthermore, a combination of strong GDP growth and exchange rate appreciation led to a decline in the NIIP-to-GDP ratio by 43 percentage points since the end of 2021, supported by an improvement in the net portfolio position (9.5 percent of GDP) and a reduction in government other investment liabilities (12 percent of GDP). The composition of Georgia's NIIP continues to limit its vulnerability to shocks. FDI and loans accounted for more than 53 percent and close to 24 percent of gross liabilities at the end of 2023, respectively.

**Net International Investment Position**
(In percent of GDP)




Source: National authorities.

External general government debt declined by nearly 14 percentage points of GDP, from around 42 percent at the end of 2021 to around 28 percent by the end of 2023. Furthermore, the debt of the non-bank corporate sector also fell by around 10.5 percentage points of GDP since the end of 2021, driven by a reduction in debt securities. That said, bank debt liabilities increased by nearly $2.5 billion (8 percent of GDP), driven primarily by short-term currency and deposits.

[1] Prepared by Murad Omoev (SPR).



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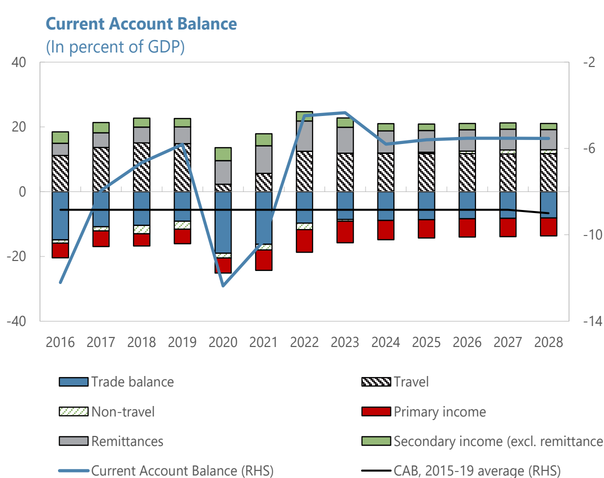
However, the increase in bank deposit liabilities is hedged by a similar rise in banks' external assets, largely in debt securities and short-term deposits with banks abroad. Over the medium term, the NIIP is expected to evolve with the projected current account deficits.

**Assessment.** The NIIP is expected to remain negative but evolve broadly in line with the projected current account deficits over the medium term. The still large negative NIIP remains a source of vulnerability, but its favorable composition tilted towards FDI and longer-term maturities mitigates risks.

| 2023 (% GDP) | NIIP: -98.3 | Gross Assets: 52.9 | Debt Assets: 9.7 | Gross Liab.: 151.2 | Debt Liab.: 54.5 |
|---|---|---|---|---|---|

**Current Account**

**Background.** After a significant improvement of 5.9 percentage points in 2022 to 4.5 percent of GDP, the current account (CA) deficit further narrowed by 0.2 percentage points to 4.3 percent. The modest improvement in 2023 reflects a continued significant improvement in the total trade balance (by 1.1 percentage point of GDP), supported by the improvement in goods trade balance due to temporary factors and increases in tourism revenues (17 percent y/y, reaching almost 126 percent of the 2019 level), as well as an improvement in the net investment income (by 0.6 percentage point of GDP), which largely offset a decline in remittances (by 1.3 percentage points of GDP). From the savings-investment balance perspective, the decrease in the 2023 CA deficit is due to weaker private investments and a reduction in the fiscal deficit, which more than offset the decrease in private savings.



Source: NBG, GeoStat and IMF staff calculations.

The CA deficit is expected to widen in 2024 before gradually declining in the medium term. The CA deficit in 2024 is expected to widen to 5.8 percent of GDP (still below historical average), as remittances continue to moderate and the goods trade balance deteriorates amid lower car re-exports and metal exports. Over the medium term, the CA deficit is expected to gradually improve to 5.5 percent of GDP, supported by a further recovery in tourism volumes, which remain below the 2019 level, and moderating imports as growth returns to potential and lari weakens.



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| Georgia: Model Estimates for 2023 (in percent of GDP) | | |
|---|---|---|
| | **CA model** 1/ | **REER model** 1/ |
| **CA-Actual** | **-4.3** | |
| Cyclical contributions (from model) (-) | -0.2 | |
| Additional temporary/statistical factors (-) 2/ | 0.6 | |
| Natural disasters and conflicts (-) | 0.0 | |
| **Adjusted CA** | **-4.7** | |
| **CA Norm** (from model) 3/ | **-5.5** | |
| **Adjusted CA Norm** | **-5.5** | |
| **CA Gap** | **0.8** | **-1.1** |
| o/w Relative policy gap | 3.7 | |
| Elasticity | -0.4 | |
| **REER Gap** (in percent) | **-2.2** | **3.0** |

1/ Based on the EBA-lite 3.0 methodology

2/ Additional cyclical adjustment to account for the impact of the temporary surge in remittances estimated as the difference between Januray 2023 WEO and curent projections with 70 percent of the shock to remittances assumed temporary times 0.35.

3/ Cyclically adjusted, including multilateral consistency adjustments.

**Assessment.** The CA approach of the IMF's EBA-lite methodology compares a cyclically adjusted value of the CA deficit in 2023 to a CA norm predicted by the regression model. The additional temporary adjustment reflects the temporary impact of the migrant-related flows on remittances (0.6 percent of GDP), in line with the updated EBA-lite Model 3 template. The adjustor is based on the shock to remittances (3.0 percent of GDP) calculated as the difference between January 2022 WEO and current projections, of which the temporary portion is around 70 percent. Reflecting the temporary adjustment to remittances and cyclical factors, the adjusted current account balance is -4.7 percent of GDP, which is slightly above the CA norm in 2023 of -5.5 percent of GDP and implies a positive gap of 0.8 percent of GDP, compared with a negative gap of 1.5 percent of GDP in 2021. Positive policy gaps play a significant role in driving the CA gap primarily due to the smaller fiscal adjustment needed in the medium term compared to the rest of the world and the accumulation of reserves in 2023. The 2023 CA gap corresponds to a small REER undervaluation with a negative REER gap of 2.2 percent of GDP.



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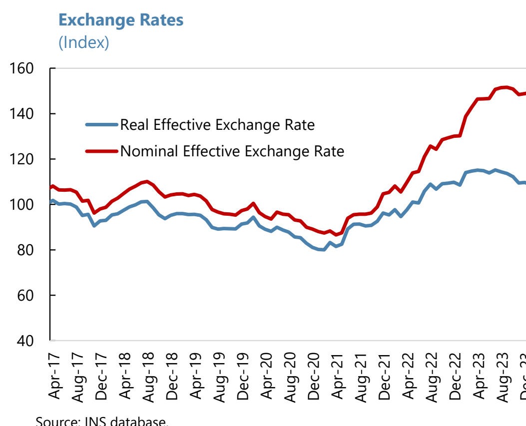
## Real Exchange Rate

**Background.** The lari has remained broadly stable in real terms over 2023, supported by continued strong tourism and war-related inflows and NBG FX interventions. Since its lowest level in February 2021 until the end of December 2023, the REER has appreciated by around 35.7 percent and the NEER by 70 percent. During 2023, however, declining NBG policy interest rates, FX inflows, and NBG FX purchases led to a weakening of the lari in real terms by 0.9 percent. In contrast, the NEER experienced an additional appreciation of around 14 percent over the same period, owing to a favorable inflation differential with trading partners. That said, the recent nominal appreciation episode should unwind as war-related remittances, tourism, and capital inflows return closer to the pre-war levels.



Source: INS database.

**Assessment.** The CA and REER index approaches suggest only small CA gaps in 2023. The CA approach of the EBA-lite model suggests a small REER undervaluation of 2.2 percent in 2023. However, the REER Index approach indicates a small overvaluation of 3.0 percent. Given the caveats of both approaches and the uncertainty related to the war in Ukraine, these results should be interpreted cautiously. The authorities are still advised to sustain their reform agenda to enhance external competitiveness and raise net private savings.

## Capital and Financial Accounts: Flows and Policy Measures

**Background.** The financial account surplus decreased further in 2023 due to smaller donor-related disbursements and continued accumulation of portfolio and other investment assets. The financial account surplus was 4.3 percent of GDP in 2023, about 3.2 percentage points smaller than in 2022. Despite smaller net portfolio outflows, other investment inflows and net FDI inflows were lower in 2023 than in 2022, significantly contributing to the improvement in the NIIP. Financial inflows are expected to moderately increase over the medium term, supported by medium- and long-term external borrowing and stable inflows of FDI.

**Assessment.** The smaller financial account surplus in 2023 reflects the net effect of strong gross financial inflows and asset accumulation, which improved banks' FX liquidity buffers and allowed significant FX purchases by the central bank. As war-related inflows normalize and the CA deficit widens in the near term, external financing will remain crucial.



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## FX Intervention and Reserves Level

**Background.** GIR increased by around $109 million in 2023 to $5 billion (16.4 percent of GDP). Large net FX purchases ($1,279 million) and significant donor financing supported the increase, which was mostly offset by the outflows from required reserves (RR) on short-term FX deposits[2] and higher FX conversions for the government, including for debt service. At the end of 2023, GIR coverage fell to 95 percent of the ARA metric, primarily due to increased non-resident deposits[3] with commercial banks and other liabilities. That said, the banks' non-resident deposits with commercial banks are covered mainly by banks' foreign assets, including short-term liquid assets that banks must hold to comply with macroprudential regulations (Annex VII). For example, banks' liquid assets ($2.2 billion) invested in foreign securities or placed as deposits with foreign banks broadly cover short-term obligations to non-residents ($3.1 billion). If the ARA metric includes only the uncovered part of the non-resident deposits ($1 billion), the GIR coverage increases to over 115 percent.

**Reserve Adequacy Assessment for Georgia 2019-2028**

| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|---|---|---|---|---|---|---|
| Exports (goods and Services) | 13,240 | 15,161 | 14,587 | 14,959 | 15,858 | 17,191 | 18,367 |
| Broad money (M2) | 7,324 | 9,349 | 10,459 | 11,638 | 12,854 | 14,183 | 15,528 |
| Short-term debt residual maturity | 4,811 | 5,282 | 4,610 | 5,006 | 4,673 | 4,955 | 4,990 |
| ST debt by original maturity | 3,678 | 4,017 | 3,438 | 3,654 | 4,134 | 4,201 | 4,299 |
| Ammortization on MLT debt | 1,133 | 1,265 | 1,345 | 1,623 | 1,155 | 1,180 | 1,228 |
| Other liabilities | 15,504 | 16,242 | 17,563 | 17,665 | 18,392 | 18,816 | 19,643 |
| ARA Metric | 4,797 | 5,246 | 5,270 | 5,481 | 5,596 | 5,878 | 6,138 |
| ARA Metric-Adjusted | 3,960 | 4,347 | 4,670 | 4,986 | 5,204 | 5,399 | 5,642 |
| Bank ST assets (deposits) | 1,889 | 2,122 | 2,172 | 1,922 | 1,922 | 2,022 | 2,192 |
| Bank ST liabilities (deposits) | 2,778 | 3,141 | 3,438 | 3,654 | 4,134 | 4,201 | 4,299 |
| Adjusted banks ST deposit liabilities | 889 | 1,019 | 1,266 | 1,731 | 2,212 | 2,179 | 2,107 |
| Gross international reserves (GIR) | | | | | | | |
| GIR | 4,901 | 5009.7 | 4,996 | 5,363 | 5,577 | 5,950 | 6,325 |
| **GIR (Percent of ARA metric)** | **102.2** | **95.5** | **94.8** | **97.8** | **99.7** | **101.2** | **103.0** |
| **GIR (Percent of adjusted ARA metric)** | **123.7** | **115.2** | **107.0** | **107.6** | **107.2** | **110.2** | **112.1** |
| GIR (Month of imports) | 3.3 | 3.4 | 3.3 | 3.4 | 3.3 | 3.3 | 3.2 |

**Assessment.** Staff projects GIR coverage at the end of 2024 to remain nearly 95 percent of the ARA metric (unadjusted) in the baseline scenario before gradually increasing to 103.0 percent by end-2028. GIR coverage of the ARA metric is expected to remain broadly stable but below 100 percent in 2024, reflecting a wider current account deficit and moderating financial net inflows, including lower but significant accumulation of investment assets by banks, and the government's strategic priority of reducing its share of external debt by developing local capital markets.

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| According to the IMF's ARA metric, Georgia's gross international reserves are below the recommended threshold of 100 percent in 2023 (without considering sizable external buffers of commercial banks due to self-insurance and macroprudential regulations). Furthermore, the reserve coverage based on the adjusted ARA metric is projected to stay below the authorities' desirable range of 120-130 percent, reflecting high uncertainty and downside risks. Going forward, the NBG should continue FX purchases if market conditions allow and conduct FX sales only to avoid disorderly market conditions. |
|---|
| 1/ The external sector assessment is based on staff's estimates.<br>2/ Two factors contributed to the outflow from RR: (i) reduction in the reserve requirements for short-term bank FX obligations from 25 to 20 percent, and (ii) continued de-dollarization of banks deposits.<br>3/ Non-resident deposits with commercial banks, which are considered as a part of the external short-term debt by the authorities. |



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# Annex V. External Debt Sustainability Analysis

**1. Under the baseline, external debt is expected to decline steadily through the projection horizon**. Having increased by more than 22 percentage points, external debt peaked in 2020 at more than 110 percent of GDP, driven by the government's large borrowings from IFIs to combat the COVID-19 pandemic and a sharp drop in USD-denominated GDP. However, in 2021, the external debt ratio decreased by more than 10 percentage points of GDP, helped by lower gross external financing needs (GEFN) and a rapid growth recovery. The external debt-to-GDP ratio further decreased sharply to just over 70 percent by 2023, mainly by low GEFN and higher nominal USD-denominated GDP. Under the baseline, external debt is expected to continue to steadily decline through the projection horizon to around 49 percent of GDP by 2029, reflecting the steady decline in GEFN and the government's efforts to reduce its dependence on external borrowing and develop domestic capital markets.

**2. Most stress tests under standard shock scenarios suggest that the external debt-to-GDP ratio would be near or below its 2023 level in the medium term**. The external debt-to-GDP ratio remains near or below its level in 2023 in standardized stress tests (Figure 1), considering individual shocks to the real interest rate, real GDP growth, and the non-interest current account balance (all with permanent ½ standard deviation shocks), as well as a combined shock (with permanent ¼ standard deviation shocks to these three variables). The external debt-to-GDP ratio would rise sharply following a one-time real depreciation of 30 percent in 2024, peaking at around 99 percent due to a high share of FX-denominated debt. However, this ratio would decline steadily to below 73 percent by 2029, although remaining above its 2023 level. Furthermore, external debt would remain steady under the historical scenario (with historical averages calculated over a ten-year period), but this scenario is deemed less relevant under the current policy framework.



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## Table 1. Georgia: External Debt Sustainability Framework, 2018–29
(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | | | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| **Baseline: External debt 1/** | 81.7 | 87.6 | 109.4 | 98.7 | 81.0 | 70.2 | | | **66.7** | **62.8** | **58.5** | **55.6** | **53.1** | **49.4** |
| Change in external debt | -2.7 | 5.9 | 21.8 | -10.7 | -17.7 | -10.8 | | | -14.3 | -3.9 | -4.3 | -2.9 | -2.6 | -3.6 |
| Identified external debt-creating flows (4+8+9) | -5.8 | 1.2 | 17.6 | -11.0 | -10.7 | -4.9 | | | -1.9 | -2.2 | -2.0 | -2.4 | -2.7 | -2.6 |
| Current account deficit, excluding interest payments | 2.8 | 1.5 | 7.9 | 7.9 | 2.7 | 2.4 | | | 3.5 | 3.2 | 3.4 | 3.6 | 3.7 | 3.8 |
| Deficit in balance of goods and services | 10.5 | 9.2 | 19.0 | 16.3 | 9.7 | 8.6 | | | 8.9 | 8.2 | 8.1 | 7.8 | 7.7 | 7.5 |
| Exports | 49.7 | 54.1 | 37.0 | 42.9 | 53.0 | 49.6 | | | 44.4 | 41.0 | 39.1 | 38.6 | 39.3 | 38.6 |
| Imports | 60.1 | 63.3 | 56.0 | 59.2 | 62.7 | 58.3 | | | 53.3 | 49.2 | 47.2 | 46.4 | 47.0 | 46.1 |
| Net non-debt creating capital inflows (negative) | -5.7 | -6.0 | -3.5 | -4.9 | -7.1 | -4.3 | | | -4.0 | -4.6 | -4.8 | -5.3 | -5.6 | -5.7 |
| Automatic debt dynamics 2/ | -3.0 | 5.8 | 13.3 | -14.0 | -6.4 | -3.0 | | | -1.4 | -0.9 | -0.7 | -0.7 | -0.8 | -0.7 |
| Contribution from nominal interest rate | 3.8 | 4.3 | 4.5 | 2.4 | 1.8 | 2.0 | | | 2.3 | 2.4 | 2.1 | 1.9 | 1.8 | 1.7 |
| Contribution from real GDP growth | -4.7 | -4.5 | 6.1 | -9.9 | -8.2 | -4.9 | | | -3.8 | -3.2 | -2.7 | -2.6 | -2.6 | -2.4 |
| Contribution from price and exchange rate changes 3/ | -2.1 | 5.9 | 2.8 | -6.5 | -16.1 | -9.9 | | | ... | ... | ... | ... | ... | ... |
| Residual, incl. change in gross foreign assets (2-3) 4/ | 3.2 | 4.7 | 4.2 | 0.3 | -6.9 | -5.9 | | | -1.6 | -1.7 | -2.3 | -0.4 | 0.1 | -1.0 |
| External debt-to-exports ratio (in percent) | 164.4 | 161.9 | 295.6 | 230.0 | 152.9 | 141.4 | | | 150.2 | 153.1 | 149.5 | 144.0 | 135.0 | 128.0 |
| **Gross external financing need (in billions of US dollars) 5/** | 4.5 | 4.5 | 5.3 | 5.3 | 4.3 | 6.1 | | | 6.1 | 7.2 | 6.6 | 7.2 | 7.0 | 7.4 |
| in percent of GDP | 25.1 | 25.5 | 32.9 | 28.3 | 17.4 | 20.1 | | | 18.7 | 20.3 | 17.4 | 17.4 | 15.9 | 15.6 |
| **Scenario with key variables at their historical averages 6/** | | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | **66.6** | **63.9** | **60.8** | **59.0** | **57.2** | **55.3** |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 6.1 | 5.4 | -6.3 | 10.6 | 11.0 | 7.5 | 5.0 | 4.8 | 5.7 | 5.7 | 5.2 | 4.7 | 4.9 | 5.0 |
| GDP deflator in US dollars (change in percent) | 2.6 | -6.7 | -3.1 | 6.3 | 19.6 | 14.1 | 1.3 | 10.5 | 1.5 | 2.8 | 2.7 | 2.4 | 1.5 | 3.5 |
| Nominal external interest rate (in percent) | 4.9 | 5.2 | 4.6 | 2.6 | 2.4 | 3.0 | 4.4 | 1.2 | 3.6 | 3.8 | 3.6 | 3.5 | 3.5 | 3.5 |
| Growth of exports (US dollar terms, in percent) | 17.7 | 7.3 | -37.9 | 36.4 | 63.7 | 14.5 | 11.0 | 27.6 | -3.8 | 2.6 | 6.0 | 8.4 | 6.8 | 8.7 |
| Growth of imports (US dollar terms, in percent) | 15.2 | 3.7 | -19.7 | 24.4 | 40.5 | 13.6 | 8.0 | 17.5 | -1.6 | 3.0 | 5.7 | 7.9 | 6.6 | 8.7 |
| Current account balance, excluding interest payments | -2.8 | -1.5 | -7.9 | -7.9 | -2.7 | -2.4 | -5.2 | 2.7 | -3.5 | -3.2 | -3.4 | -3.6 | -3.7 | -3.8 |
| Net non-debt creating capital inflows | 5.7 | 6.0 | 3.5 | 4.9 | 7.1 | 4.3 | 6.8 | 2.3 | 4.0 | 4.6 | 4.8 | 5.3 | 5.6 | 5.7 |

1/ Excludes intercompany loans.

2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

4/ For projection, line includes the impact of price and exchange rate changes.

5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.



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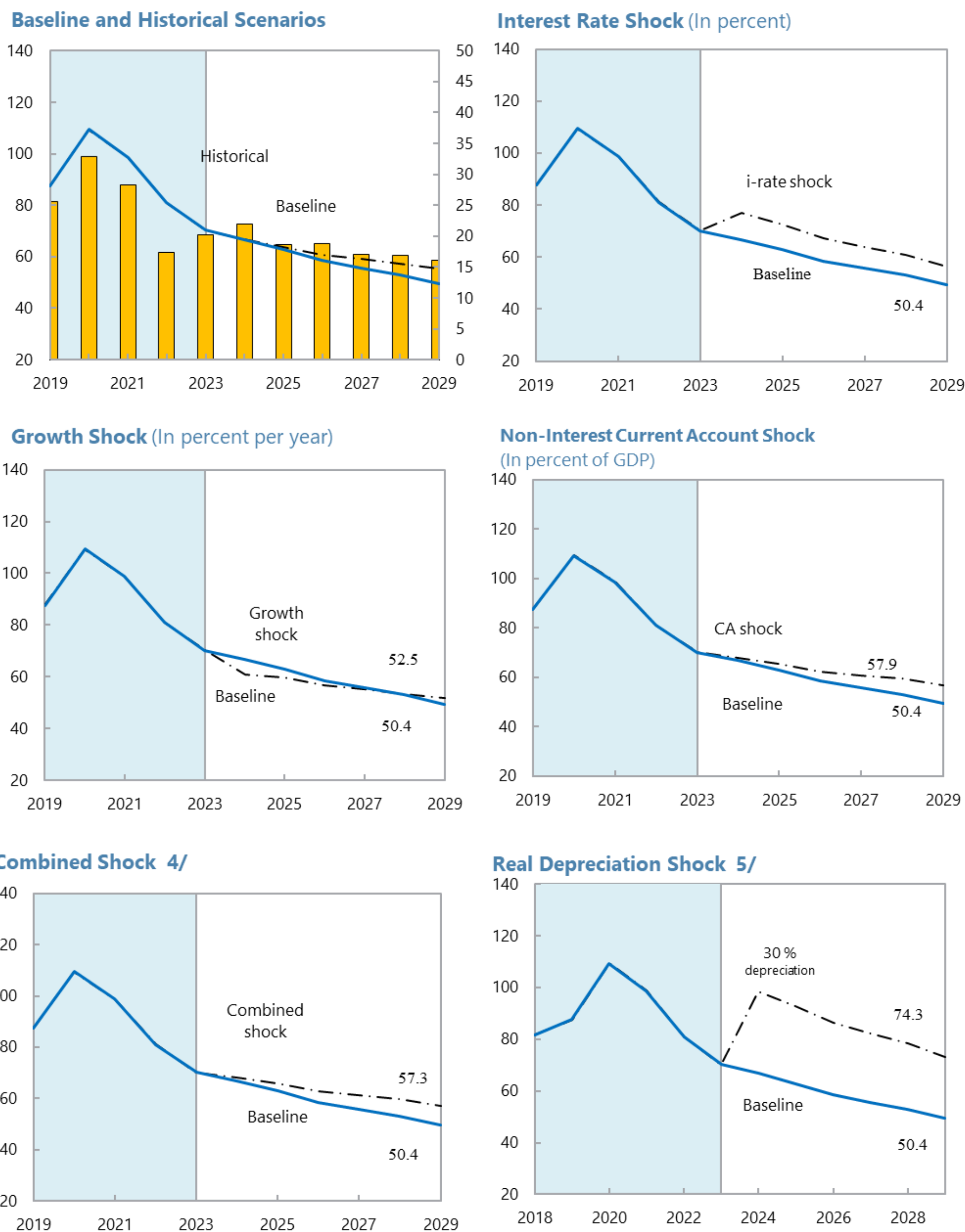
## Figure 1. Georgia: External Debt Sustainability: Bound Tests 1/ 2/ 3/

(External debt in percent of GDP)




Sources: International Monetary Fund, Country desk data, and staff estimates.

1/The analysis excludes inter-company loans, which are part of FDI and accounted for 17.6 percent of GDP as of 2021Q2.

2/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

3/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

4/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

5/ One-time real depreciation of 30 percent occurs in 2020.



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# Annex VI. A Fiscal Anchor Beyond the Fiscal Rule[1]

*The current fiscal rules have provided a strong anchor for prudent fiscal policy in Georgia, but they should be complemented by medium-term fiscal targets that maintain appropriate buffers under the rules' ceilings considering potential shocks. This note reviews the current fiscal rules in Georgia, assesses a "safe" debt level to ensure that public debt remains below the debt ceiling with a high probability, and derives a consistent "safe" medium-term deficit target. Based on Georgia's historical distribution of shocks and future fiscal risks, it finds a safe debt level ("anchor") of around 40 percent of GDP, with a corresponding safe deficit range of 2-2.5 percent of GDP depending on aging costs.*

**1. Georgia enshrined numerical fiscal rules in its constitution in 2011 to promote prudent and responsible fiscal governance as well as limited government.** The Economic Liberty Act (ELA, 2011), which came into effect in 2013: i) stipulated that the introduction of new state taxes or increases in top marginal state tax rates except for excise taxes require a nationwide referendum,[2] and ii) introduced fiscal rule ceilings for state debt (60 percent of GDP), the consolidated budget deficit (3 percent of GDP), and expenditures (30 percent of GDP).

**2. The fiscal rule framework was strengthened in 2018 in line with IMF TA recommendations.[3]** The December 2018 amendment to the ELA eliminated the 30 percent of GDP expenditure ceiling; clarified the coverage of the debt ceiling, widened it to include PPP commitments, and widened the coverage of debt and deficit ceilings to general government;[4] stipulated that both budget plans and outturns should comply with the rules; required government reporting on rule compliance and reasons for noncompliance along with the effects on future budgets and measures to mitigate future risks; clarified the circumstances under which fiscal rules could be suspended (escape clauses);[5] and mandated a plan to return to compliance with the fiscal rules within three years of noncompliance.

**3. A decade of experience, including during the pandemic, has shown that the current fiscal rules have served Georgia well.** Fiscal rules in Georgia are: closely linked to the primary objective of fiscal sustainability; simple, transparent, relatively easy to monitor and communicate; consistent with EU fiscal rules; and, flexible to allow a fiscal response to economic shocks when

[1] Prepared by Jiae Yoo (FAD) and Elif Ture (MCD).

[2] Changes in local (municipal) taxes such as the property tax and state tax rates below the top marginal rate, and alternation or substitution of state taxes without increasing the tax burden do not require a referendum; neither do temporary tax increases of up to three years (a provision that has yet to be used). An amendment to the ELA in September 2018 stipulated that Article 1 governing the participation of Georgian citizens in determining state taxes will be in force for the subsequent 12 years (2018-29).

[3] A structural benchmark for December 2018 (fourth review) of the EFF arrangement approved in 2017. Detailed recommendations are available in IMF (2016, 2017).

[4] The coverage was widened to include legal entities of public law (LEPLs).

[5] Fiscal rules can be suspended i) in case of an extraordinary or a military state of affairs and ii) during an economic slowdown or recession, defined as two consecutive quarters of y/y real growth that is 2 percentage points lower than the average real growth of the past 10 years. A parliamentary majority is needed to suspend the rules.



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combined with the escape clause. The rules have provided a strong anchor for fiscal policy, strengthening policy credibility and predictability. The government has complied with the debt and deficit rule ceilings and reporting requirements since their adoption. Debt and deficit outturns have been below the rule ceilings except for 2020-21 when the rules were suspended due to the pandemic (Table 1), and a return to compliance was required for 2023. The Ministry of Finance has reported annually on compliance and plans to return to compliance since 2018.[6]

**Table 1. Georgia: Compliance with Fiscal Rules**

| Outturns (in percent of GDP) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Budget Deficit** | 1.8 | 1.3 | 1.4 | 0.5 | 0.7 | 2.6 | 9.0 | 6.3 | 2.2 | 2.2 |
| **Public Debt** | 31.0 | 37.0 | 40.7 | 40.2 | 39.8 | 40.8 | 60.4 | 49.7 | 39.3 | 39.3 |

Sources: Ministry of Finance.
Note that the coverage of fiscal rules and ex-ante/ex-post compliance requirements were changed in 2018.

**4. An update of the Fiscal Transparency Evaluation (IMF, 2023) found generally good practices but also some room for further improvement in fiscal rule reporting, compliance, and communication.** While fiscal rules are precisely defined in the ELA, compliance cannot be measured accurately as budget execution reports do not include non-market SOEs.[7] In addition, budget expenditure reports show expenditures exceeding appropriations by small margins during 2017-21 due to donor payments exceeding budget estimates. There is also no requirement for the government to explicitly declare and justify its intention to invoke the escape clause, and how long the exemption from the rules is expected to last.

**5. To enhance the fiscal framework, medium-term fiscal targets should maintain appropriate buffers within the fiscal rules that take into account potential adverse shocks.** In a volatile economic environment with high exposure to external shocks and fiscal risks, the government should maintain fiscal buffers by aiming for "safe" debt and deficit levels that can withstand unexpected shocks and long-term trends such as aging populations and climate change. A safe debt level ("anchor") for Georgia should ensure that public debt remains below the debt ceiling with a high probability even under adverse shocks, and a consistent safe deficit level should consider rising spending needs.[8]

[6] The Parliamentary Budget Office (PBO) has also reported on rule compliance independently since 2016.

[7] Non-market SOEs reported a small fiscal surplus of 0.1 percent of GDP in 2021.

[8] Note that the debt "ceiling" under the fiscal rule, which should not be breached to maintain fiscal policy credibility, is not a debt "limit", beyond which debt would risk becoming unsustainable.



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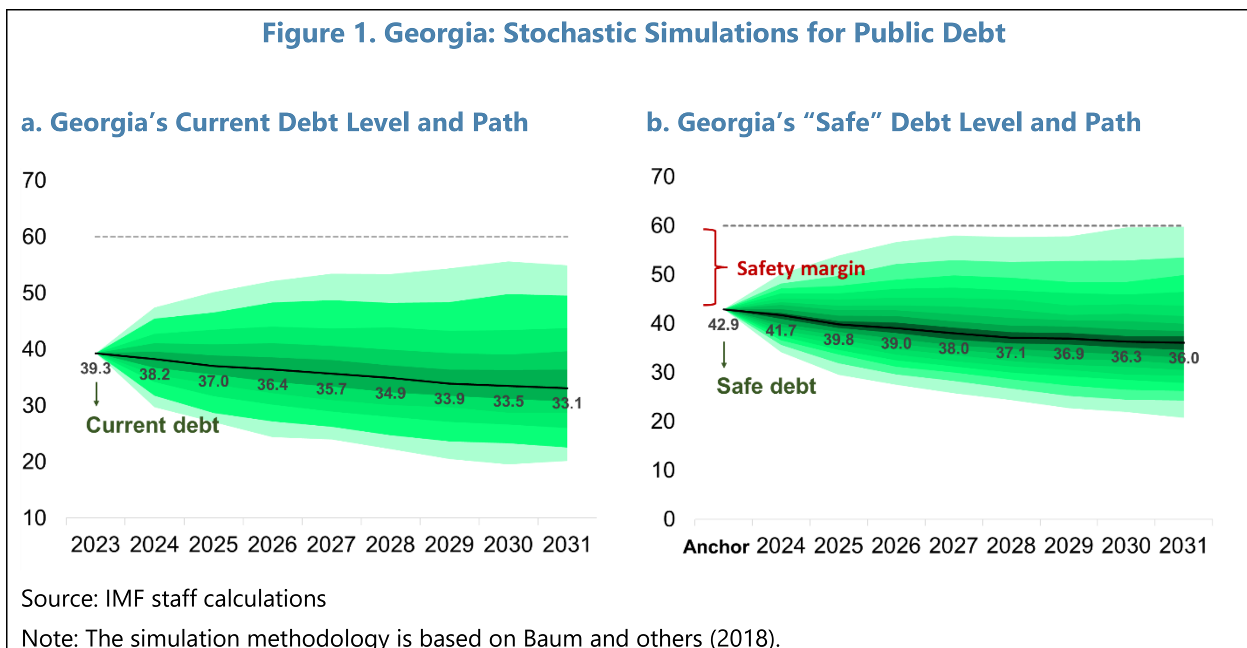
**Figure 1. Georgia: Stochastic Simulations for Public Debt**




Source: IMF staff calculations

Note: The simulation methodology is based on Baum and others (2018).

6. **Simulation results reaffirm that the current public debt level is well within the "safe" range under the debt ceiling.** The debt trajectory is projected to trend down over the medium term given the favorable interest-growth rate differentials, considering relatively low interest rates that Georgia has historically enjoyed amid stable sources of affordable (largely external and concessional) financing. Assuming that macroeconomic shocks follow a normal distribution around the real GDP growth and primary balance paths under staff's medium-term projections, and accounting for the government's planned FX debt share profile[9] as well as stock-flow adjustments that largely reflect historical contingent liability realizations, simulations show that Georgia's current public debt (at about 39 percent of GDP) is safe and sustainable. Public debt is likely to remain below the debt ceiling of 60 percent of GDP with a high (more than 95 percent) probability (Figure 1.a).

7. **The safe debt level ('anchor") is likely to be around 40 percent of GDP depending on the historical distribution of macroeconomic shocks and future risks.**[10] Simulations point to a "safe" debt level of 43 percent of GDP for Georgia, with the likelihood of exceeding the debt ceiling at around 5 percent probability (Figure 1.b). This, however, is likely to be optimistic for various reasons. A normal distribution likely underestimates the impact of large adverse shocks that Georgia has experienced.[11] The experience during the pandemic, where general government debt surged from 40 percent of GDP in 2019 to just above 60 percent of GDP in 2020, breaching the debt limit, also suggests that debt levels can rise significantly against a large adverse shock. Fiscal risks and

[9] The government plans to reduce the share of FX debt from 73 percent currently to 62 percent by 2026.

[10] See IMF (2018) for methodological details. Using the same methodology, IMF (2017) estimated a "safe" debt range of 35-40 percent of GDP, consistent with an overall deficit range of 2.3-2.7 percent of GDP. The updated analysis here uses a longer time series and considers the impact of exchange rate depreciation, FX debt share, and aging costs on the deficit estimates.

[11] Simulation results assuming a Student t-distribution with fatter tails point to much lower safe debt levels.



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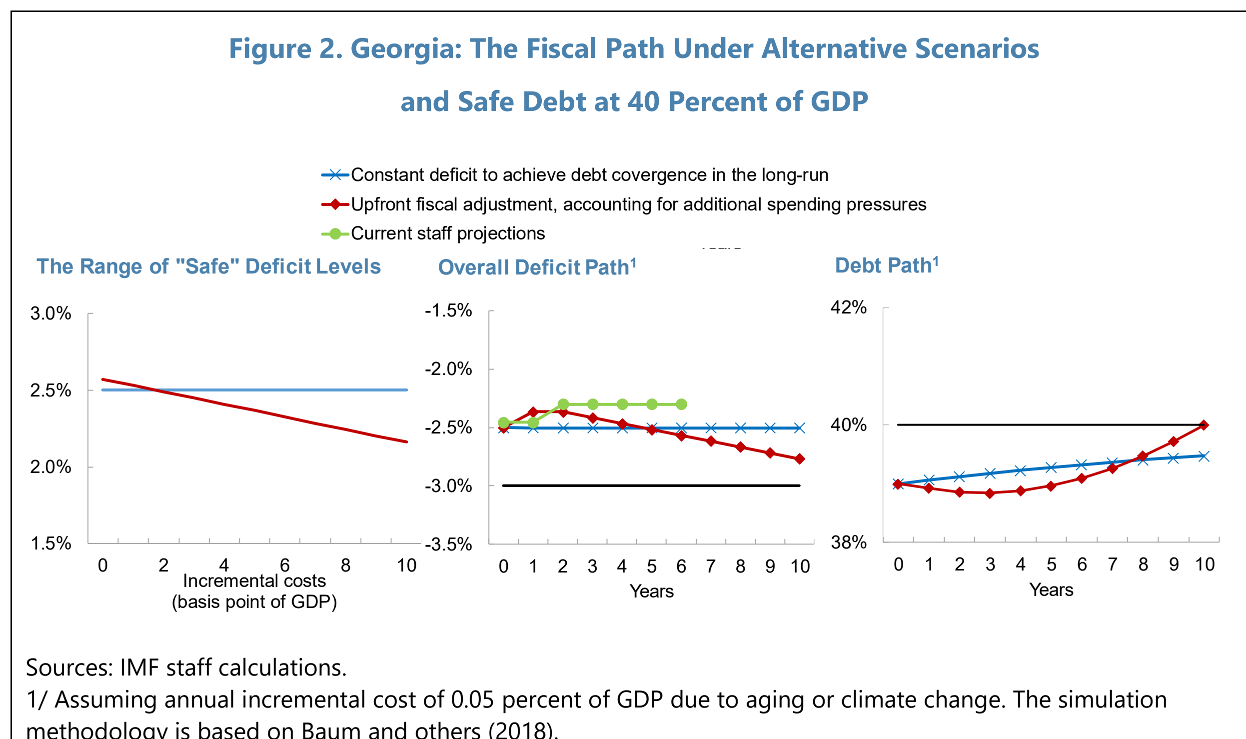
contingent liability realizations may rise in the future, for instance from the power purchase agreements in the energy sector, rising costs from extreme weather events, and given the sizeable liabilities of SOEs and their quasi-fiscal activities. Further, PPP commitments, which are part of the state debt covered in the fiscal rules, could also potentially push up debt levels. Given all these considerations, a prudent safe debt level would be around 40 percent of GDP.

**Figure 2. Georgia: The Fiscal Path Under Alternative Scenarios and Safe Debt at 40 Percent of GDP**




Sources: IMF staff calculations.

1/ Assuming annual incremental cost of 0.05 percent of GDP due to aging or climate change. The simulation methodology is based on Baum and others (2018).

**8. A safe debt level of 40 percent of GDP would be consistent with a safe deficit range of 2-2.5 percent of GDP depending on the size of additional spending pressures.** Under plausible macroeconomic assumptions,[12] an overall deficit of 2.5 percent of GDP would need to be maintained in the long run to stabilize the public debt-to-GDP at the "safe" 40 percent level. This assumes, however, no additional spending pressures related to aging, including health and pension spending, or climate challenges. Accounting for such additional spending pressures would require some upfront fiscal effort to build buffers to absorb those pressures when they arise, while still observing the deficit rule ceiling. Considering the next 10 years only, and depending on the size of incremental costs (e.g., between zero and 0.1 percent of GDP increase per year in additional age-related spending),[13] the required initial deficit level would range between 2.2 and 2.5 percent of GDP to

[12] A potential growth rate of 5 percent (Box 2), an inflation rate at the 3 percent target, an average effective interest rate of 6 percent for external and domestic debt in line with the past 10 years, and an annual USD/GEL depreciation of 2 percent in line with the past 10 years.

[13] A conservative estimate would be about 0.5 percent of GDP increase over the coming decade for aging-related health expenditure (2022 Fiscal Risk Statement), and staff estimates about 0.6 percent of GDP increase for the same period for the basic pension spending.



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maintain a debt level below 40 percent of GDP and the same level of public service delivery within the deficit ceiling of 3 percent of GDP. Including climate related additional costs of 0.5 percent of GDP in the next decade would reduce the required deficit level further to 2 percent of GDP. [14]

**9. Further revenue mobilization will be needed to create room to accommodate additional spending needs including for planned infrastructure investments.** Staff's current medium term fiscal projections envisage modest further fiscal adjustment to build buffers under the fiscal rule deficit ceiling, which will deliver a gradual decline in debt levels. The analysis suggests that this would leave some margin to accommodate additional spending needs. However, this margin would be insufficient to accommodate the planned large public investments and potentially significant contingent liabilities associated with them, without making additional adjustments in necessary current spending, for instance, on social benefits. Staff's current projections assume a gradual winding down of capital spending and do not incorporate any financial implications of various large-scale infrastructure projects that are currently being considered. While those are difficult to quantify at this stage, they pose significant risks to the medium-term fiscal path, calling for further revenue mobilization.

[14] According to Georgia's 2030 climate strategy, an annual investment of about 0.3 percent of GDP is needed to achieve the country's climate adaptation and mitigation goals, part of which has already been included in the budget.



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# Annex VII. An Overview of Macroprudential Policies[1]

*The National Bank of Georgia (NBG) has been a proactive user of macroprudential policy (MPP) tools. This annex reviews the MPP measures introduced in recent years in Georgia and assesses their effectiveness in meeting their objectives. While these measures have contributed to the resilience of the banking system, they should be streamlined, and their choice and calibration should be better informed by impact assessments. Over the long term, structural financial stability risks, including from high concentration and dollarization, can be sustainably addressed only through strengthening competition in the banking sector and macroeconomic policy frameworks that would underpin stable growth and low inflation.*

## A. Macroprudential Policy in Georgia: Objectives and Tools

**1. The NBG has a legal mandate to safeguard financial stability.** This mandate is fulfilled by the Financial Stability Committee (FSC). Established in October 2014, the FSC consists of senior NBG staff,[2] and is supported by a dedicated financial stability department (FSD), which is tasked with formulating and analyzing MPP proposals. The FSD prepares and publishes comprehensive annual financial stability reports (FSRs). The FSC convenes quarterly and publishes its decisions and underlying reasons on the NBG website following each meeting. The governor has the hard powers to take policy actions.

**2. The NBG published its MPP strategy in 2019.**[3] The strategy, developed with support from IMF Technical Assistance (TA), outlined the NBG's operational framework for macroprudential regulation. The strategy paper aimed at improving communication, transparency, and predictability of MPP for market participants. The NBG's approach to MPP generally aligns with guidance from the Basel Committee and the European Systemic Risk Board (ESRB). Within this framework, the NBG identified the following five intermediate objectives for MPP implementation in Georgia:

- Mitigate and prevent excessive credit growth and leverage.
- Mitigate and prevent excessive maturity mismatch and market illiquidity.
- Limit direct and indirect exposure concentrations.
- Limit the impact of moral hazard resulting from explicit and implicit government guarantees.
- Reduce dollarization of the financial system.

**3. These MPP objectives in Georgia stem from structural and cyclical factors that pose key systemic risks to the country's financial system** (Figure 1). Georgia's banking sector (close to 100 percent of GDP) is the largest as a share of the economy in the Caucasus and Central Asia (CCA)

[1] Prepared by Jianping Zhou (MCM).

[2] The members of the FSC also serve the Monetary Policy Committee (MPC). They include the Governor and the Vice Governors of the NBG, and heads of corresponding departments and divisions. Both committees are chaired by the governor of the NBG, who has the decision-making power.

[3] https://nbg.gov.ge/en/page/macroprudential-policy-strategy.



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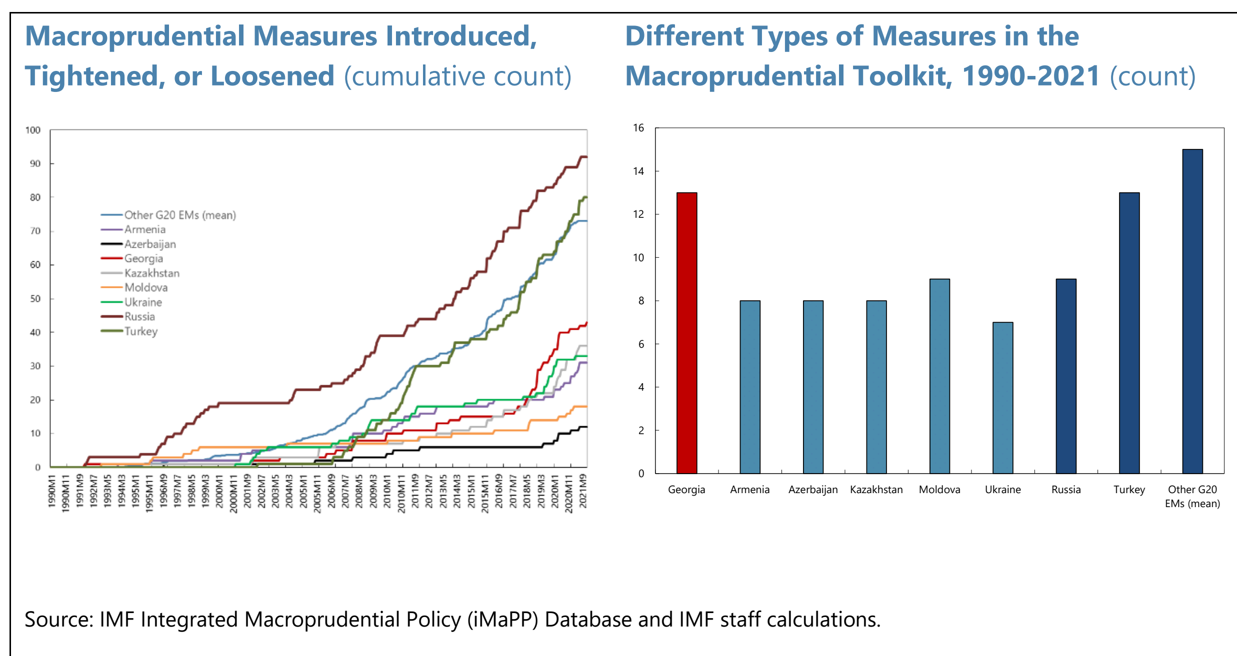
region and larger than European emerging market average (about 50 percent of GDP).[4] Notably, this sector is dominated by two banks, collectively accounting for about 80 percent of banking system assets. Banks in Georgia also have substantial exposures to a small number of corporate borrowers and to the residential and commercial real estate sector, alongside with a high degree of dollarization in both assets and liabilities. On the cyclical front, the banking system is vulnerable to external shocks, related to volatile remittances, tourism, and other capital inflows. Dollarization further exacerbates these external vulnerabilities, potentially undermining financial stability. Since early 2022, the influx of Russian migrants and surging FX deposits from non-residents, coupled with a high uncertainty surrounding the nature and persistence of these inflows, have contributed to additional vulnerabilities.[5]

**4. The NBG has developed a comprehensive MPP toolkit to achieve its objectives** (Table 1)**.** Most of the MPP instruments were introduced after the Global Financial Crisis, including the revised Basel capital and liquidity rules for banks. From a structural risk perspective, these MPP instruments were designed to reduce systemic risks, by limiting excessive corporate and household credit growth (leverage) and banks' large exposures, ensuring bank stable funding and liquidity, and reducing FX vulnerabilities. More recently, additional measures have been introduced to guarantee loss absorbency of systemic banks.




**Macroprudential Measures Introduced, Tightened, or Loosened** (cumulative count)

**Different Types of Measures in the Macroprudential Toolkit, 1990-2021** (count)

Source: IMF Integrated Macroprudential Policy (iMaPP) Database and IMF staff calculations.

[4] IMF DP/2022/006.

[5] Under Georgian immigration laws, Russian citizens are allowed to spend up to a year in Georgia without a visa. Analyzing the economic effects of the Russian influx is challenging, as it's difficult to distinguish the figures for migrants from those for tourists.



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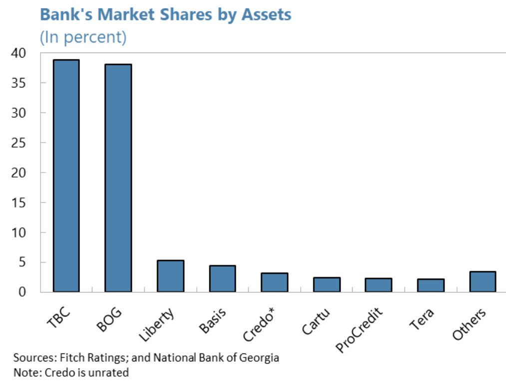
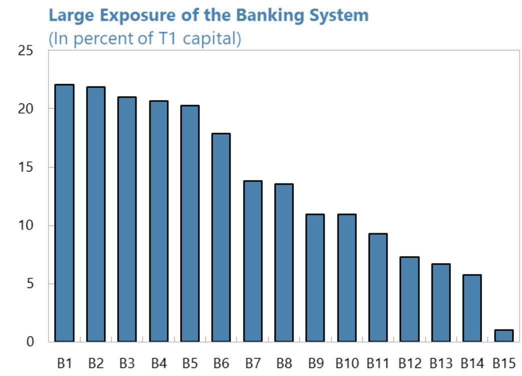
## Figure 1. Georgia: Structural and Cyclical Vulnerabilities in the Banking System

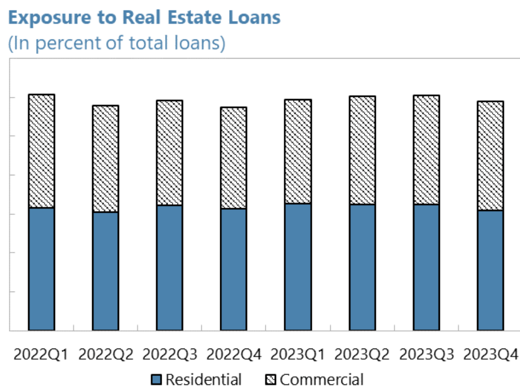
*The two largest banks account for 80 percent of the banking system assets and liabilities (90 percent of GDP) …*



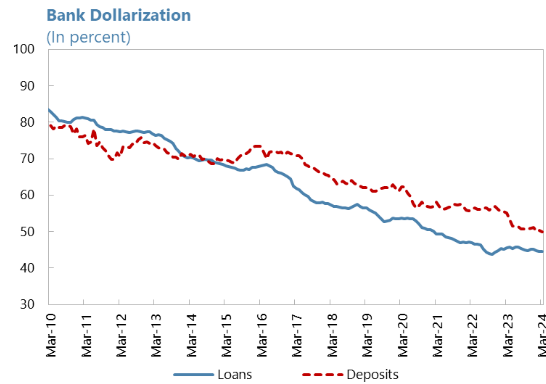

*… while also having large exposures to a few corporate borrowers…*



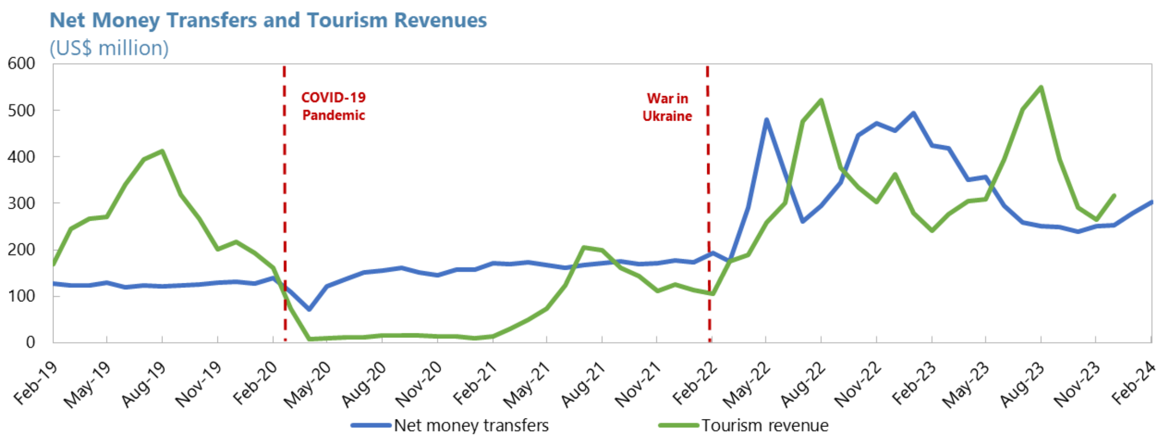

*…and the real estate sector.*




*Dollarization in the banking system has been declining steadily since 2010 but remains significant.*




*The economy is subject to volatile tourism and money inflows.*




Sources: Haver (NBG) and National Authorities



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**Table 1. Georgia: Mapping Instruments and Intermediate Objectives**

| Intermediate Objectives | Key Instruments |
|---|---|
| Mitigate and prevent excessive credit growth and leverage | |
| Aggregate | ▪ Countercyclical Capital Buffer;<br>▪ Other Capital Requirements (e.g based on stress tests; for systemic banks);<br>▪ Leverage Ratio;<br>▪ Reserve requirements;<br>▪ Other Instruments. |
| Households | ▪ Limits on PTI (new loans);<br>▪ Limits on LTV (new loans);<br>▪ Risk weights. |
| Non-financial Corporates | ▪ Risk weights;<br>▪ Lending limits. |
| Financial Sector | |
| Real Estate | ▪ Limits on PTI (new mortgages);<br>▪ Limits on LTV (new mortgages);<br>▪ Risk weights. |
| Mitigate and prevent excessive maturity mismatch and market illiquidity | ▪ Liquidity coverage ratio, LCR;<br>▪ Net Stable Funding Ratio, NSFR;<br>▪ Reserve Requirements. |
| Limit direct and indirect exposure concentrations | ▪ Limits on the concentration of large exposures;<br>▪ Name and sectoral concentration buffers;<br>▪ The Stress Test buffer. |
| Limit the systemic impact of misaligned incentives with a view to reducing moral hazard | ▪ Systemic buffers;<br>▪ GRAPE risk buffer;<br>▪ Other Instruments. |
| Reduce dollarization of the financial system | ▪ The currency induced credit risk (CICR) buffer;<br>▪ The Stress Test buffers;<br>▪ LCR requirement in foreign currency;<br>▪ Limits on open foreign currency positions;<br>▪ Reserve requirement;<br>▪ Differentiated LTV and PTI Requirements;<br>▪ Restriction on FX borrowing under 200 000 GEL. |

Source: National Bank of Georgia: Macroprudential Policy Strategy for Georgia, 2019.



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**5. The NBG has been a proactive user of MPP tools.** Most of the MPP tools in Georgia are linked to capital and liquidity requirements for deposit taking institutions (i.e., banks). The NBG started to use some of these tools back in 1992 when a minimum reserve requirement ratio was introduced. At the initial stage, MPP tools focused on liquidity and capital requirements, and since 2017 they have also focused on de-dollarization. In recent years, borrower-based tools, mainly payment to income (PTI) and loan to value (LTV) limits, have been increasingly used to slow credit growth. When differentiating local currency and foreign currency, and more recently residency, these tools have also been used to reduce dollarization.

## B. Macroprudential Policy in Georgia – Recent Developments

**6. Like many other CCA countries, the NBG actively used MPP to mitigate the impact of the COVID-19 pandemic (Table 2).** By mid-2020, systemic buffers that had been built up just before the pandemic were partly released. The capital conservation buffer (CCB) was lowered from 2.5 to 0 percent, part of the Pillar 2 buffer (2/3 of the currency induced credit risk (CICR) buffer) was eliminated, with an implied capital release of about 1.4 percent.[6] The planned tightening of capital requirements for concentration risks was postponed. In addition, the liquidity coverage ratio (LCR) requirement for local currency was suspended on May 1, 2020, for one year. Reserve requirements on foreign currency were also relaxed, but banks were not allowed to pay out dividends and bonuses or buy back shares.

**7. Since 2022, macroprudential policy has focused on rebuilding systemic buffers, mitigating the effect of tight monetary policy on dollarization, and reducing the risks associated with the surging migrant and financial inflows following the war in Ukraine and their potential reversal.**

### Rebuilding Systemic Buffers

**8. Banks have fully restored the pre-pandemic capital buffers and are required to build up an additional neutral counter-cyclical buffer (CCyB) (Table 2).** In line with the recommendations of the 2021 FSAP, banks were required to restore conservation buffers by January 1, 2024. Thanks to the strong rebound in bank profits, all 15 banks met the requirement by September 2023. Similarly, banks were required to restore CICR buffers by January 1, 2023, and all have complied with the requirement. In March 2023, the NBG announced a cycle-neutral positive CCyB at 1 percent. However, citing the difficulties small banks face, the compliance requirement (initially set at one year) has been modified (announced on November 29, 2023), with an increment set at 0.25 percent each year, ultimately reaching 1 percent by March 2027.

[6] See "Macroprudential Policies to Enhance Financial Stability in the Caucasus and Central Asia", IMF, DP/2022/006.



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## Table 2. Georgia: Capital Requirements in Georgia (2024)

### Minimum Capital Requirements set by NBG

| (%) | 2023 | 2024 |
|---|---|---|
| CET1 ratio | 4.5 | 4.5 |
| Tier 1 ratio | 6.0 | 6.0 |
| Total CAR ratio | 8.0 | 8.0 |
| **Pillar 1 buffers** | | |
| Conservation buffer | 0.0[a]/2.5 | 2.5 |
| Systemic buffer | | |
| *TBC, BOG* | 2.5 | 2.5 |
| *Liberty* | 1.0 | 1.0 |
| Countercyclical buffer | 0.0 | 1.0 |

| **Pillar 2 buffers (set individually for each bank)** | |
|---|---|
| Credit risk concentration buffer | Risks arising from specific sectors/borrowers |
| CICR buffer | Systemic risks caused by dollarisation |
| Net stress test buffer | Based on supervisory stress-test results |
| Credit risk adjustment buffer | Credit risks from the insufficient expected credit losses after transition to IFRS |
| Net GRAPE buffer | Risks not addressed in other Pillar 2 buffers |

[a] 0% for Liberty and HBG at end-1H23
Source: Fitch Ratings, NBG

**The two largest banks are subject to higher Pillar 1 capital buffers:**

- Capital conservation buffer: 2.5%

- Systemic bank buffer: 2.5%

**Banks are subject to neutral countercyclical buffer**: 1% announced; 0.25% in place as of March 2024

**Banks are subject to Pillar 2 buffers** (Q4, 2023): [5.1% - 18.1%]

**Before June 2014, there was a two-tier capital framework and the following capital requirements:**

- 8% of total risk weighted assets (RWA) for Tier 1 capital

- 12% of RWA for total regulatory capital

**From June 2014, Pillar 1 capital requirements (minimum requirement + combined capital buffer requirement) came into force:**

- 7% (4.5%+2.5%) of RWA for CET 1 capital

- 8.5% (6%+2.5%) of RWA for Tier 1 capital

- 10.5% (8%+2.5%) of RWA for total regulatory capital

**From December 2017, Pillar 2 capital requirements were implemented, with several phase-ins for Pillar 2 capital buffers and systemic risk buffers.**

**From March 2020, supervisory measures were made due to COVID 19:**

-Conservation capital buffer (2.5%) and part of Pillar 2 capital requirements (around 1.5%) were released as supervisory measures by the NBG

**From January 2023, banking sector has transitioned to IFRS from local GAAP and a new capital requirement under Pillar 2 was introduced:**

- Credit Risk Adjustment buffer around 2.7%

**Besides capital adequacy requirements, there is a requirement for minimum regulatory capital.**

Sources: the NBG and IMF staff.



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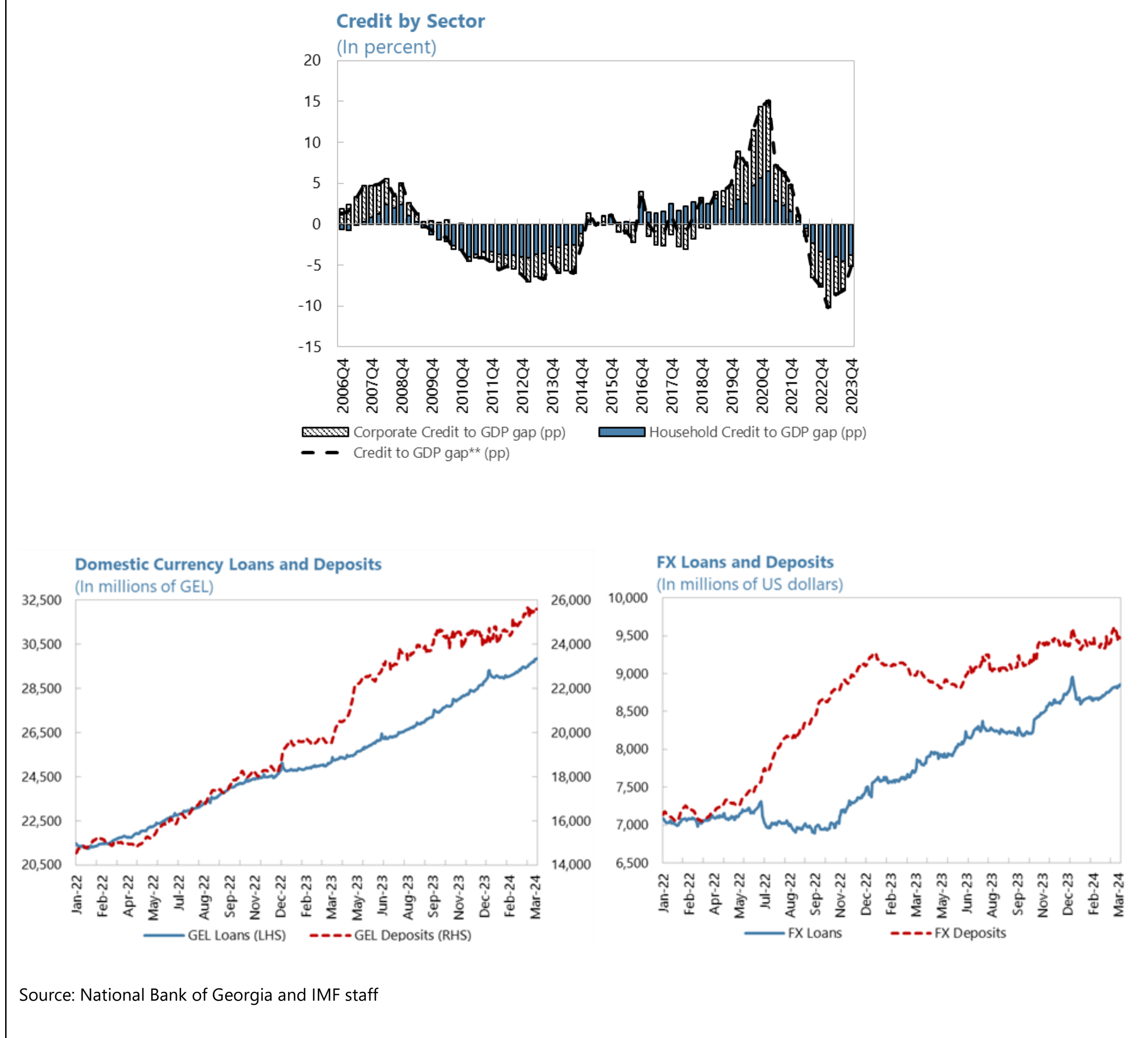
## Figure 2. Georgia: Bank Loans and Deposits




Source: National Bank of Georgia and IMF staff

**9. After declining steadily in 2022, reflecting post-pandemic normalization and high growth, the credit-to-GDP ratio rose in 2023, and currently stands just above its pre-pandemic level** (Figure 2)**.** Following the war in Ukraine, both the nominal and real exchange rates have appreciated sharply, while banks were flooded with surging deposits, mainly from non-residents migrating to Georgia and also returning Georgians. The demand for housing increased, leading to rising housing prices and rents. Moreover, credit growth had been largely driven by consumer loans. Consequently, in addition to restoring capital buffers, macroprudential policy since the war has focused on continuing de-dollarization, building up liquidity buffers, limiting risks in the booming housing sector, and preventing a further increase in household debt vulnerabilities.



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## Continuing De-dollarization

**10. The NBG has continued to actively use a large range of time-varying MPP tools to reduce dollarization of both bank assets and liabilities.** These include:

- an outright ban on FX lending for unhedged borrowers, for any amounts below the equivalent of 400,000 GEL (raised from GEL 200,000 to GEL 300,000 effective from January 1, 2024 and further to GEL 400,000 from May 1, 2024). The NBG will further limit FX lending for unhedged borrowers by increasing this floor gradually.

- higher capital charges on unhedged FX lending (CICRs for unhedged foreign currency loans were recalibrated and increased on January 1, 2024, for more dollarized loan portfolios)

- currency-differentiated borrower-based measures:

  a. payment-to-income (PTI) limit:
     i. If monthly income < GEL 1000: PTI is 20% for FX loans; and 25% for GEL loans, or if the loan and income are in the same currency.
     ii. If monthly income > GEL 1000: PTI is 30% for FX loans; and 50% for GEL loans, or if the loan and income are in the same currency.
     iii. The income threshold was increased from GEL 1000 to GEL 1500 on April 1, 2022.
  b. loan-to-value (LTV) limit: 85% for GEL loans and 75% for FX loans

- limits on loan maturity:

  c. 20 years for mortgage loan in GEL or FX mortgage loans of fully hedged borrowers
  d. 10 years for FX mortgage loans of unhedged borrowers (lowered from 15 years on January 1, 2022)
  e. 10 years for consumer loans secured by the real estate.
  f. 6 years for transport loans (except business loan)
  g. 4 years for all other consumer loans (reduced from 4 to 3 years on August 15, 2022, and increased back to 4 years on November 1, 2023).

- higher reserve requirements (RR) and penalty rates of remuneration on FX versus GEL deposits, as well as differentiation of RR by individual banks' deposit dollarization. RR for macroprudential purposes (10%–15% effective July 16, 2021, previously 15%) based on deposit dollarization is applied to borrowed funds in foreign exchange with remaining maturity from one to two years. Particularly, if deposit dollarization is 70% or above, RR is 15%, if deposit dollarization is 40% or below – RR is 10% and in between it changes linearly based on dollarization.

- a zero-remuneration rate on banks' required reserves at the NBG for their foreign currency liabilities (introduced in 2022)

- differentiated liquidity coverage requirements for FX and GEL deposits.



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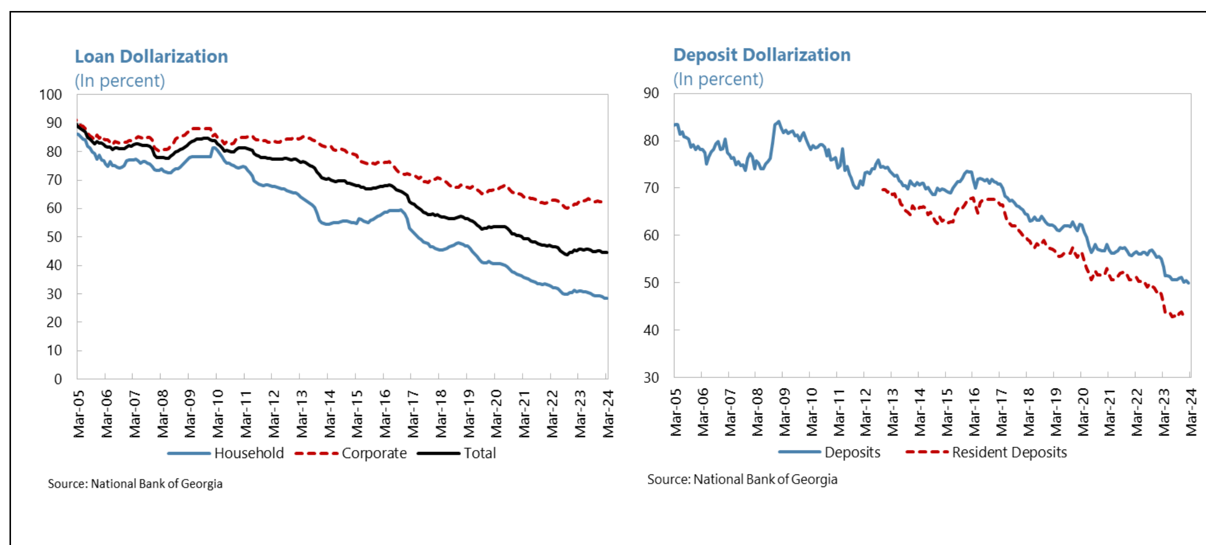
**11. In addition, the NBG has also differentiated liquidity coverage requirements based on nationalities.** For example, the NBG introduced higher liquidity requirements for sharply rising non-resident Russian deposits, effective on September 1, 2022, by assuming higher outflow rates than other non-resident deposits. This measure was reversed in February 2024, after the share of these deposits in total non-resident deposits stabilized in 2023.

**12. While MPP has clearly helped strengthen resilience against large exchange rate shocks, its contribution to de-dollarization could be hard to measure.** Dollarization has been on a declining trend since 2010, which likely has been driven by structural changes. Moreover, among the large range of MPP measures used to achieve the de-dollarization objective, some also aimed at achieving other objectives, such as limiting leverage, ensuring liquidity, and reducing balance sheet FX risks. This makes it challenging to empirically assess the contribution of individual measures. International country experiences have demonstrated that dollarization can only be sustainably addressed by strengthening macroeconomic policy frameworks that support stable growth and low inflation.




## Limiting Large Exposures and Concentration Risks

**13. To limit direct and indirect exposure concentrations, the NBG enacted amendments in the "Regulation on the Concentration of Exposures and Large Exposures in Commercial Banks" in September 2022[7], in line with FSAP recommendations**. Specifically, the NBG has set

[7] https://nbg.gov.ge/en/legal-acts/acts.



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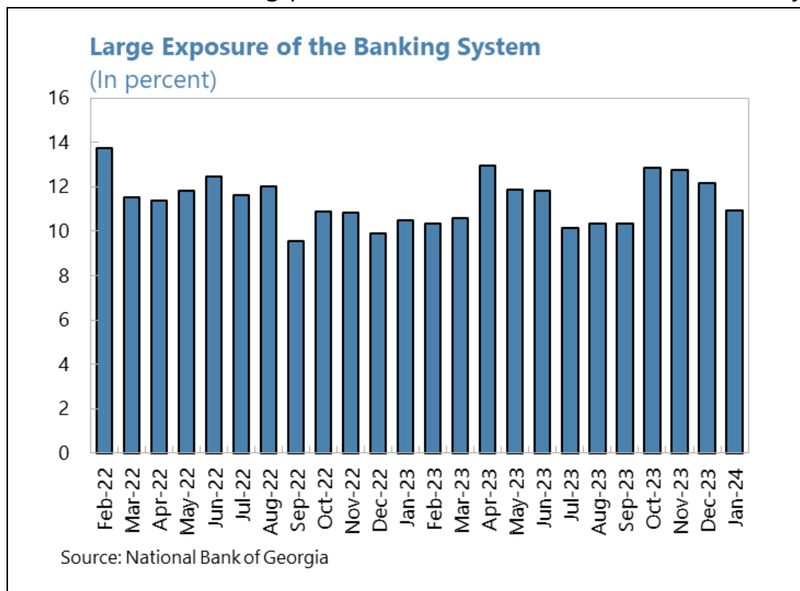
the limits that commercial banks shall adhere to (see Article 4 "Limits and Restrictions on Exposures") and developed a guideline on the identification of a group of connected clients.

**14. All banks currently comply with NBG requirements and have large exposures below the regulatory limit of 25 percent of CET capital** (Figure 1). The NBG has been closely monitoring banks' compliance and assessing the effectives of these measures. It has collected consistent data for the recent two years to assess the changes of bank large exposures. The following chart suggests no significant changes over time (mainly due to the large banks, which drive the results for the banking system). The NBG attributed this to the following possible reasons: some banks had already adjusted their exposures when the NBG was discussing the introduction of the regulation, most banks have had a prudent approach set by internal limits, and a few banks have no large corporate business lending at all. Despite the absence of a significant impact in the time series thus far following the implementation of the regulation, the new regulation plays a crucial role in preventing potential risk build-up in the future.




## Reducing Household Sector Risks

**15. High indebtedness and the significant exchange rate risk of unhedged borrowers still represent key vulnerabilities in the household sector (Figure 3).** The overall household debt-to-GDP ratio has fallen slightly since 2021, thanks to the strong GDP growth and the large appreciation of the lari, but the level (close to 40 percent of GDP) is still high. Consumer lending, which tends to be subject to higher lending rates, has continued to drive the overall household credit growth. While household credit dollarization has declined steadily since 2017, a significant share of borrowers is unhedged and exposed to currency risk. The large appreciation of the lari, driven by the surging inflows following the war in Ukraine, underlines considerable risks should these inflows reverse suddenly.



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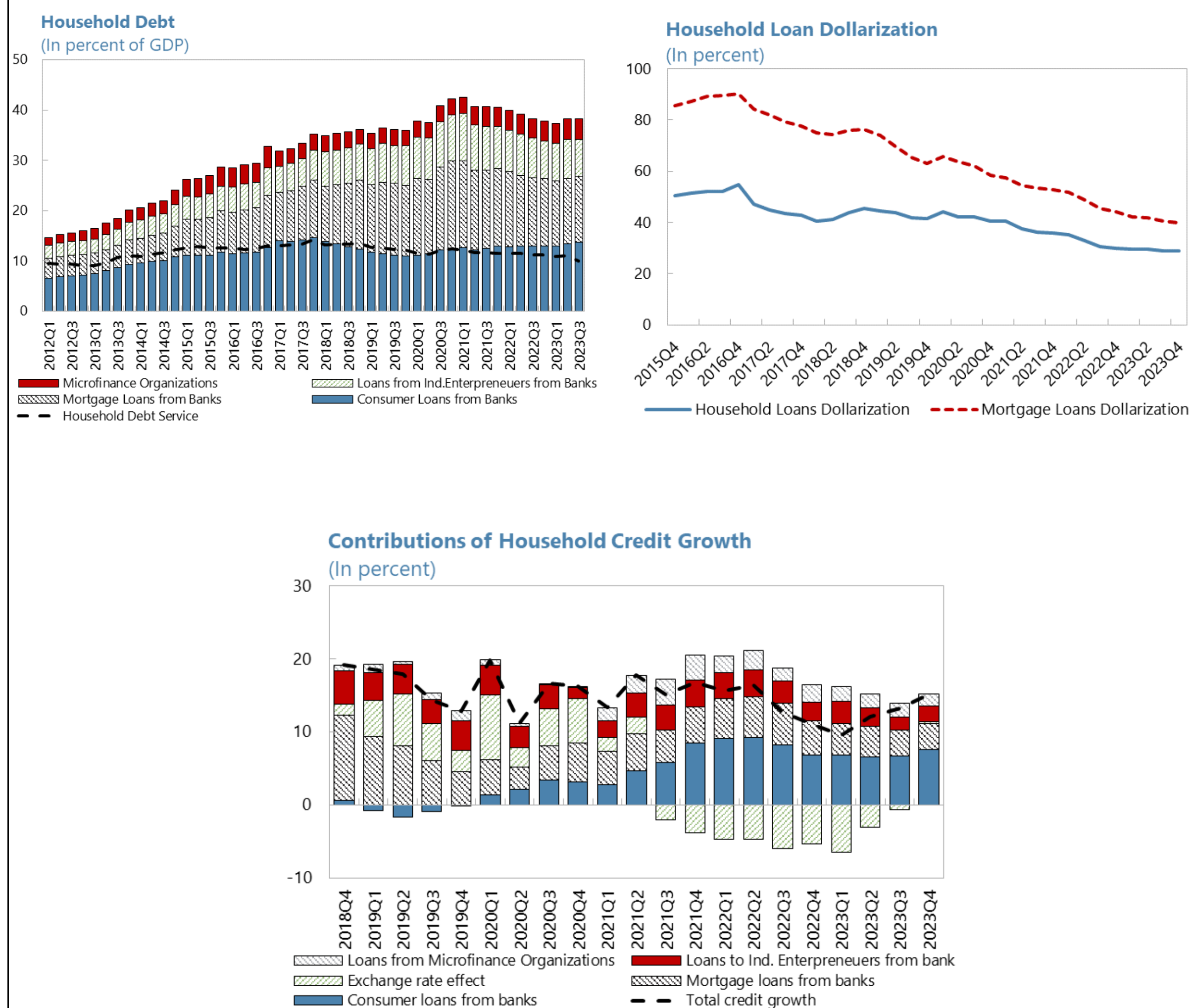
**Figure 3. Georgia: Household Sector Indicators**




Source: National Bank of Georgia.
*Debt-service=interest and principal payments/household disposable income

**16. The MPP implemented by the NBG has aimed at preventing additional accumulation of such risks.** A key measure has been a ban on FC lending to unhedged low-income borrowers. As households' income has risen rapidly in recent years, the ban for any amounts below the equivalent of GEL 200,000 was raised to GEL 300,000 on January 1, 2024, and further to GEL 400,000 on May 1, 2024, to further limit FC lending to households. The NBG has announced that this floor will be gradually increased. Other measures include (i) lowering the maximum maturity of mortgage loans to from 15 to 10 years; (ii) imposing stricter PTI requirement (20% for FC loans; and 25% for GEL loans) for larger group of borrowers by raising the monthly income threshold from GEL1000 to GEL1500, and (iii) tightening the lending standards and increased risk weights on FC lending. To limit the leakages of PTI and LTV measures, the NBG has considered tools to differentiate the maximum maturity of consumer lending based on verifiable income, as well as to widen the perimeter of NBG's supervisory and regulatory powers to cover all credit activities, including by real estate developers.



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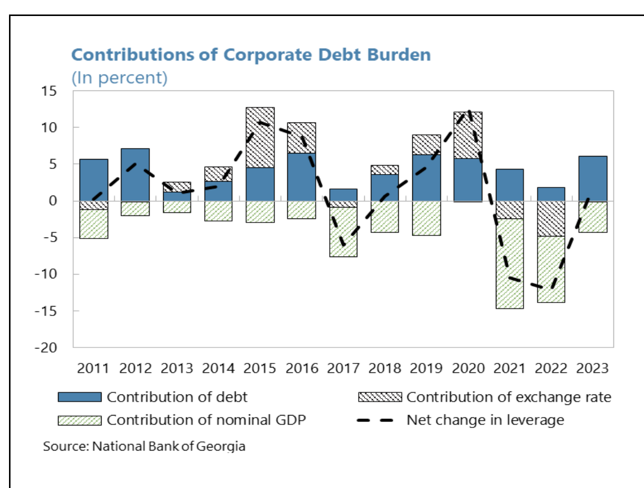
**17. These MPP measures have contributed to loan de-dollarization and strengthen resilience of the household sector against future currency risks.** Based on NBG estimates, the issuance of mortgage loans in FC has declined and the number of borrowers of FC loans in the banking system portfolio has declined from 140,000 at end-2016 to about 37,000 currently, with loans amounting to GEL 7.2 billion (about 10% of 2022 nominal GDP). Sensitivity analysis conducted by the NBG found that in the event of severe shocks—that include a cumulative depreciation of 40 percent over two years and a real income shock similar to what happened in 2020—households on average would still be able to serve debt but low-income borrowers would be very vulnerable to such shocks as the share of households with a PTI ratio at and above 50 percent would increase sharply from 44 to 54 percent.

### Monitoring Corporate Sector Risks

**18. Similar to the development in the households' sector, the debt-to-GDP ratio of the non-financial companies in Georgia has improved considerably during the last two years**, largely due to the strong nominal GDP growth and the appreciation of the lari. Bond financing remains fairly small relative to bank financing, while foreign financing has been stable in recent years.



Source: National Bank of Georgia

**19. Unlike for the households' sector, the MPP tools targeting the corporate sector in Georgia are few** and there are no tools targeting FC exposures or industry/sectoral concentrations. Since 2019, banks have been required to maintain 30 percent equity on loans to real estate developers. The NBG also conducts stress tests regularly to monitor the debt servicing capacity of companies and assesses risks to financial stability.



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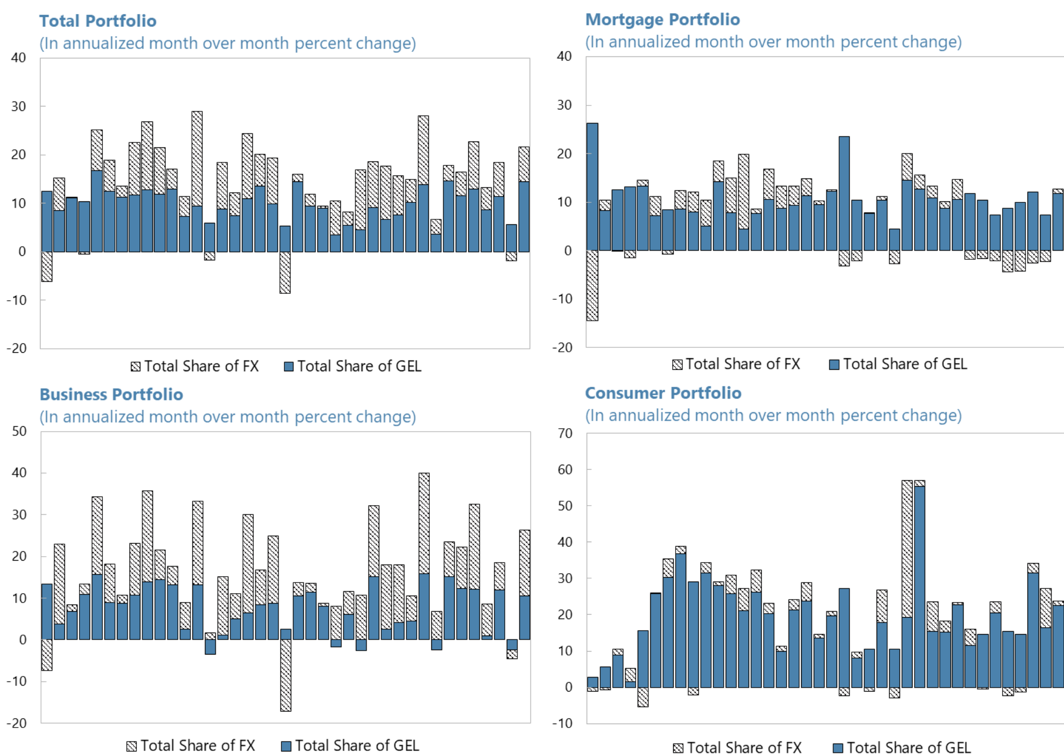
**Figure 4. Georgia: Corporate Sector Indicators**




Source: National Bank of Georgia

## Mitigating Housing Sector Risks

**20. Housing prices and rents went up sharply following the influx of Russian migrants and returning Georgians, along with a surge in money transfers**. There is some early evidence that the housing "boom", supported by the surge in money transfers, could have ended, as both resident and non-resident deposits have stabilized. Recently, the growth of housing prices has slowed, and real estate transactions has been lower than a year ago. Housing rents, while still above historical trend, have declined modestly since mid-2023. To the extent this was a housing "boom" without a credit boom—as credit gap remains negative—the direct impact on the banking system should be limited.



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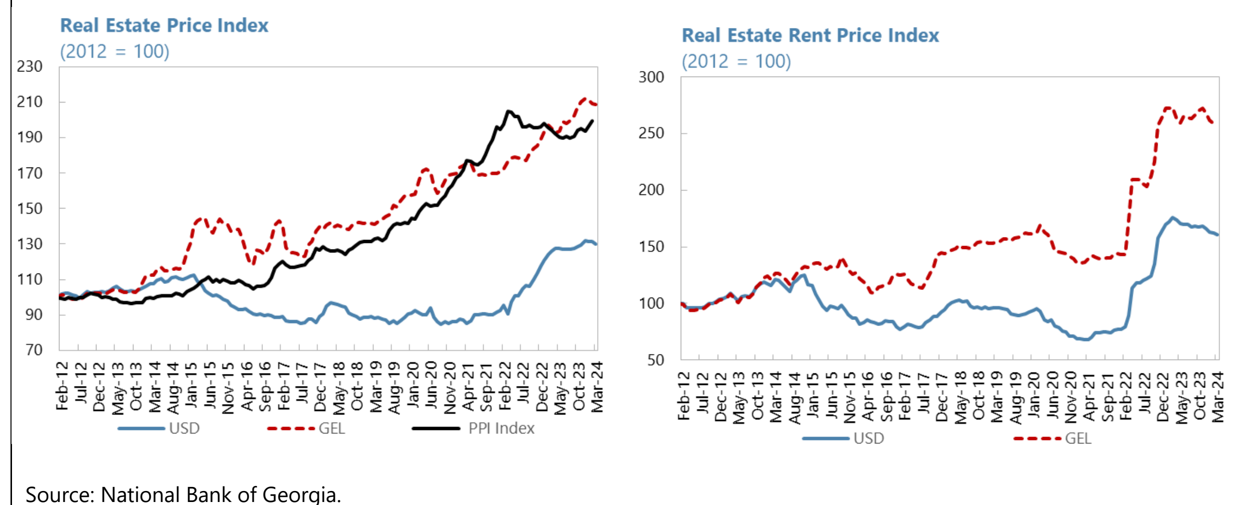
**Figure 5. Georgia: Housing Market Developments**




Source: National Bank of Georgia.

**21. Nonetheless, the NBG has rightly remained vigilant against housing sector risks, given the banking system's large exposure to the real estate sector.** In 2022, NBG developed a real estate heat map based on the methodology developed by the ESRB to monitor potential financial stability risks in the housing sector. Using the data for the second quarter of 2023, the risk map indicated that risks related to the growth of mortgages have decreased relative to Q1 2022.

### Managing Potential Policy Leakages

**22. As the NBG tightened the macroprudential measures against mortgage lending, especially FC loans, some activities apparently have moved outside the banking system**. For example, real estate developers have conducted pre-sales directly with buyers. These buyers often may not qualify for bank loans, and they would sign a contract with the developer to pay in instalments. Financial terms of these contracts are often nontransparent, for example, without specifying the interest rates, and these contracts are commonly in FC. As these contracts are not considered as loans, developers do not share the information with the credit information bureau, so banks and other lenders may underestimate borrowers' actual financial burden and indebtedness when they apply for bank loans.

**23. The NBG is monitoring the situation and deemed the direct risk for banking sector to be limited.** Although the NBG currently does not yet have good data on those "quasi mortgage" products, it has started regularly collecting information directly from the largest developers and indirectly from banks who lend to those developers. Most of those contracts are short term and must be paid in full before the construction completes. For the developers applying for bank loans, the NBG requires 30 percent equity participation and close monitoring by the banks of the construction phases. Moreover, the NBG has monitored the bond issuances and the size of other non-bank funding received by developers, which so far has been found to be limited. While the NBG has not decided yet how to regulate this emerging non-bank sector, it is working on initiatives on how to efficiently collect data for regular monitoring of this part of shadow banking.



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**24. The NBG is also monitoring the following non-banking financing activities, which currently are not regulated or covered by MPP measures**. None of them are considered systemic but bringing them within the regulatory perimeter is under consideration.

- **Leasing**, especially of cars. In practice, banking groups are the owners of major leasing companies, so the NBG indirectly pressures them not to use any loopholes. Also, leasing companies do share information with the credit information bureau, so the NBG has a database on their market size and information on borrowers' debt obligations towards leasing companies. Overall, the share of leasing in total financing of private sector is 0.4 percent.

- **Unregistered private money lenders**, who engage in real estate backed lending. Their "sale and buy-back" agreements can circumvent regulations. As each agreement is registered, the NBG has collected data and followed the development in this sector. Annually, there are around 4,000 agreements, amounting to around 8 percent of all bank mortgages. The NBG noticed that activities in this sector picked up recently after the tightening of PTI/LTV requirements, suggesting high-risk borrowers have moved from banks to this market. The NBG is looking for efficient ways to deal with this problem (public awareness, financial literacy), which is also addressed as a consumer protection problem rather than a material shadow banking, building systemic risks.

## C. Interactions between Macroprudential Policy and Monetary Policy

**25. In general, the NBG macroprudential policy aims to play a complementary role and address spillovers from monetary policy.** Measures were introduced to reduce the growth of FC loans when the monetary policy was tightened, and the local currency appreciated. For example, the maturity of FC mortgage loans was reduced from 15 to 10 years. The NBG analysis suggests that this measure lowered the annualized monthly growth of FC mortgage loans by 4 percentage points, although the overall impact on credit growth might be smaller (0.2 percent), as borrowers switched to GEL loans.

**26. However, in some cases, macroprudential policy has been used for monetary policy purposes.** This was justified by the presumption that monetary policy transmission is not fully effective due to high dollarization (e.g., a policy rate hike may lead borrowers to switch from domestic to foreign currency loans, thus undermining the monetary policy objective). Macroprudential tools were used to reduce overall credit demand, with mixed results. For example, the NBG was able to slow down the growth of unsecured consumer loans by reducing the maturity of consumer credit. However, when NBG tightened the lending requirements for floating loans in 2022 (by requiring banks to include a 3-percentage point interest rate shock when assessing PTI requirements), the impact on credit growth was negligible. While macroprudential policy tools may have had some countercyclical effects, they should primarily be used to build up resilience against systemic risks.



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## D. Conclusions and Policy Recommendations

**27. The macroprudential policy stance has been appropriately tightened to rebuild the systemic buffers released during the COVID pandemic.** A large range of measures have been used to manage surging inflows from Russia and reduce dollarization, but their effectiveness is less clear when lending took place outside the banking system. In general, the macroprudential toolkit could be streamlined to enhance effectiveness, with the choice and calibration of measures more informed by impact assessments. While extensive measures used to reduce dollarization of the banking system have helped strengthen resilience against large currency risks, sustained de-dollarization can only be achieved by strong macroeconomic policies that ensure stable growth and low inflation. In addition, MPP measures should aim at achieving financial stability and take care not to substitute for monetary policy.



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# Annex VIII. Key Recommendations of the 2021 FSSA

| No. | Recommendations | Time* | Authorities' Status Update (as of February 2024)** |
|---|---|---|---|
| ***Financial Stability Analysis*** | | | |
| 1 | Encourage banks to retain earnings until pandemic-related uncertainties subside and pre-pandemic capital buffers are restored. | ST | **Implemented.** Bank profits rebounded more strongly than expected, and as of end-2023, total capital adequacy ratio is higher at 22.1% than it was before Covid 19.<br>During early 2020, the NBG required banks to make forward-looking general provisions against expected credit losses based on macro scenarios under the pandemic, restricted capital distributions, and released some of banks' capital buffers. These regulatory measures, combined with significant fiscal and monetary support to the economy, have helped to support the resilience of the banking sector, which is confirmed by the FSAP solvency and liquidity stress testing.<br>According to the decision of the Financial Stability Committee of the NBG, in June, 2021, banks were given more than 2 years to recover from capital releases related to the pandemic. Specifically, from 2024 all banks are obliged to restore all capital buffers. |
| 2 | Implement Basel regulation on banks' large exposures as planned. | ST | **Implemented.** Please see the order of the President of the NBG:<br>https://matsne.gov.ge/ka/document/view/4709356?publication=0<br>https://matsne.gov.ge/ka/document/view/5577584?publication=0 |
| ***Macroprudential Policy and Dollarization*** | | | |
| 3 | Review calibration of macroprudential tools aimed at reducing dollarization, including via impact assessments. | ST | **Ongoing.** The currency induced credit risk (CICR) buffer under Pillar 2 is a macroprudential buffer that aims to reduce systemic risks caused by dollarization. The CICR buffer is created for risk positions that are denominated in a currency different from the currency used to cover those positions. From March 2023, the methodology for calculating the CICR buffer was changed. Now, the additional risk weight requirements for the unhedged risk exposures depend on the level of loan dollarization, instead of fixed 75% additional risk weight under the |



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| No. | Recommendations | Time* | Authorities' Status Update (as of February 2024)** |
|---|---|---|---|
| | | | previous methodology. If the dollarization is 40% or below, the weight will be set at 40% and each 1 percentage point increase in dollarization will result in the rise of risk weight by 3 percentage points, up to 100%.<br><br>In order to mitigate the structural risks caused by dollarization the NBG increased the limit to unhedged foreign currency loans from 200 000 GEL to 300,000 GEL starting from January 1, 2024 (Link to Regulation), and further to GEL 400,000 starting from May 1, 2024. For continuous reduction of the dollarization and related structural risks, the NBG in coordination with commercial banks will gradually increase this limit considering the macroeconomic environment and risks.<br><br>Each decision was made with a thorough impact assessment, consulted with the industry, discussed publicly and reviewed in the financial stability reports. |
| 4 | Strengthen communication of the impact and rationale of macroprudential policy decisions to stakeholders. | ST | **Ongoing.** The macroprudential policy decisions are made by the Financial Stability Committee of the NBG. The decisions and relevant press releases are published on the NBG website on the day a committee meeting was held.<br><br>The NBG publishes a Financial Stability Report on annual basis. The report presents an assessment of vulnerabilities and risks to the financial system, and reviews macroprudential policies and measures implemented by NBG to address those vulnerabilities and ensure financial stability, as well as the rationale and expected outcome of these measures.<br><br>All major decisions are pre-consulted with the industry, as well as include public consultations, where customers might be materially affected in some ways. |
| 5 | Enhance public communication to clarify the objectives of foreign exchange interventions. | I | **Ongoing**. The NBG team has developed a Foreign Exchange Intervention (FXI) Strategy, in line with IMF advice. The final draft is being reviewed by NBG management for adoption. |



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| No. | Recommendations | Time* | Authorities' Status Update (as of February 2024)** |
|---|---|---|---|
| ***Banking Supervisory Oversight*** | | | |
| 6 | Formalize and enhance the governance of key internal processes for supervisory operations and decisions. | I | **Ongoing.** Work is underway on drafting the rules for decision-making over key issues regarding the supervision of banks and non-banks. The draft defines several levels of decision-making and identifies decisions that would be delegated to relevant levels.<br><br>The draft was prepared with support from IMF TA and is currently under internal review. |
| 7 | Review the internal GRAPE scoring and weighting methodology. | ST | **Implemented** The NBG evaluates the risks of commercial banks, as well as their ability to manage these risks, as part of the General Risk Assessment Program (GRAPE). GRAPE handbook was reviewed, updated, and re-published in 2022.<br><br>While the NBG's internal procedure on the GRAPE process was adopted in 2022, NBG considers further refining the procedure. |
| 8 | Carry out regular in-depth assessments of banks' governance and risk management practices. | ST | **Ongoing.** Under the GRAPE, corporate governance of commercial banks is assessed on an ongoing basis, including the composition of and fit & proper of the supervisory board, the remuneration policies, and the internal audit procedures. In addition, the NBG has established scorecards for assessing compliance with the Corporate Governance Code for Commercial Banks. Those scorecards have been filled by commercial banks and will be assessed by the NBG. |
| 9 | Require systemic banks and encourage others to incorporate internal stress testing in capital and liquidity planning. | ST | **Implemented.** In December 2022, official letters were sent to the four largest banks, including systemic banks, to submit their ICAAP and ILAAP documents to the NBG by July 2023; and these documents are being assessed by the NBG.<br><br>Stress testing is conducted each year by all banks under the recovery planning process. In addition, in 2023, supervisory stress testing was conducted by all banks to determine the stress capital buffer requirement under Pillar 2. |



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| No. | Recommendations | Time* | Authorities' Status Update (as of February 2024)** |
|---|---|---|---|
| ***Anti-Money Laundering / Countering Financing of Terrorism (AML / CFT) Supervision*** | | | |
| 10 | Strengthen regulation / supervision for gaming sector, virtual asset service providers, and real estate agents. (MoF) | MT | **Ongoing.** In September 2022, the Parliament of Georgia passed amendments in several laws introducing a legislative framework for Virtual Assets (VAs) and Virtual Asset Service Providers (VASPs), which became effective on January 1, 2023. Among others, the amendments covered the "Organic Law of Georgia on the National Bank of Georgia" and the "Law of Georgia on Facilitating the Prevention of Money Laundering and the Financing of Terrorism". The amendments are fully compliant with the FATF recommendations and Guidance on VA and VASPs.<br><br>In accordance with the legislative framework, the NBG has the authority to supervise VASPs. The supervision framework includes mandatory registration regime of VASPs (including fit and proper assessment of owners and management) at the NBG as well as for Anti-Money Laundering/Combatting the Financing of Terrorism (AML/CFT) supervision. In accordance with the abovementioned "Law of Georgia on Facilitating the Prevention of Money Laundering and the Financing of Terrorism", VASPs are considered 'obliged entities' who are liable to comply with full AML/CFT requirements as defined in this law.<br><br>In June 2023, **"**The rule for the VASP's registration at the NBG, registration cancellation, and regulation" was approved by the decree N94/04 of the governor of the NBG, introducing robust entry requirements for VASPs, including fit and proper checks, examination of the products, and AML/CFT policies and systems in place. Subsequently, the NBG started accepting VASP applications.<br><br>In December 2023, significant amendments were implemented in "the rule on information accompanying transfers of funds and VAs" approved by the decree N253/04, defining information that should accompany VA transfers. Amendments are fully compliant with FATF standards and the respective EU Regulation. |



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| No. | Recommendations | Time* | Authorities' Status Update (as of February 2024)** |
|---|---|---|---|
| 11 | Consider setting maximum thresholds for use of cash in certain transactions. | ST | **Not implemented**. The NBG carefully monitors the international practice, which remains mixed. Also, such an initiative would require Parliamentary approval. |
| ***Capital Markets Oversight*** | | | |
| 12 | Continue to develop and implement risk-based supervision for all market participants. | ST | **Ongoing.** The NBG is working on developing guidelines for off-site supervision and a manual for on-site inspections for market participants in line with IOSCO principles. These should provide formal risk assessment and scoring for supervised entities. |
| 13 | Ensure that sanctions for market abuse are sufficiently punitive. | I | **Ongoing.** An updated draft sanctions rule has been developed. This rule aims to enhance appropriate penalties on individuals or entities found in violation of regulations, including market abuse. Importantly, when determining the severity of these sanctions, factors such as the size and the scale of operations of companies/persons involved are taken into consideration.<br><br>Furthermore, a new regulation regarding the publication of sanctions imposed on individuals or entities on the official website of the NBG has been developed and is expected to be adopted shortly. By publicly disclosing sanctions on the bank's website, it facilitates transparency and accountability. Moreover, this public exposure can act as a deterrent to potential violators, as they risk reputational damage through what is commonly referred to as the "naming and shaming" mechanism. |
| ***Financial Safety Nets*** | | | |
| 14 | Implement a prompt corrective action framework for banks. | I | **Ongoing.** NBG created "Guidelines on the definition of certain grounds for supervisory measures, application of early intervention measures, and revocation of a banking license for a commercial bank" which was signed by its Governor on 2/2/2023.<br><br>NBG's supervision and resolution departments are actively pursuing enhancements to prompt corrective actions. |



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| No. | Recommendations | Time* | Authorities' Status Update (as of February 2024)** |
|---|---|---|---|
| 15 | Take steps to be able to implement a bridge bank swiftly when needed. (MoF, NBG) | I | **Ongoing.** MoF and NBG collaborated to create a Bridge Bank playbook along with all the relevant annexes. It was officially signed by the Minister of Finance on 3/3/2023 (Decree N118)<br><br>NBG and MoF are committed to further enhancing playbooks within the IFSC committee and its associated working groups. |
| 16 | Prepare crisis contingency plans for banks and adopt regular testing programs. (IFSC, NBG) | ST | **Ongoing.** NBG created an IFSC working group to establish system-wide contingency plans. The working group meets at least quarterly to exchange knowledge and is working on a first draft of contingency plans. NBG will also put more emphasis on crisis communication.<br><br>The most recent annual IFSC committee meeting was held in June 2023.<br><br>The World Bank organized a resolution simulation in 2022-2023, in which all the safety net player organizations participated. |
| ***Financial Market Infrastructure*** | | | |
| 17 | Develop detailed procedures for oversight of payment systems | I | **Implemented**. In November 2023, the NBG adopted two legal acts:<br><br>a) "The rules on oversight of payment systems and payment system operators", which implements the CPSS-IOSCO principles for financial market infrastructures in Georgian legislation.<br><br>b) "The rules on the determination of sub-categories on important payment systems and the designation of important payment systems", which determines the criteria of designation of important payment systems and procedures of designation and oversight of the payment systems. |
| 18 | Complete self-assessments of the two Central Securities Depositories. (NBG, GCSD) | I | **Implemented.** The self-assessment of both central securities depositories (the NBG CSD and GCSD) was completed in 2022. Currently, the NBG is overseeing implementation of the recommendations based on the completed self-assessment. |



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| No. | Recommendations | Time* | Authorities' Status Update (as of February 2024)** |
|---|---|---|---|
| ***Financial Sector Competition*** | | | |
| 19 | Develop institutional capacity for competition enforcement and advocacy as a separate function within NBG. | I | **Ongoing.** A separate structural unit—competition division—has been created under the Legal Department. The NBG has also created a working group consisting of members from different related departments, which has already started to working on relevant topics. |
| 20 | Carry out impact assessments of laws and regulations in the financial sector from a competition perspective. | ST | **Ongoing**. The NBG is currently working on its Regulatory Impact Assessment (RIA) methodology, which is not limited to covering assessments of laws and regulations related to competition in the financial sector, but other normative acts as well.<br>RIA is part of the process of developing and implementing policies on key issues under the regulatory mandate of the NBG. |
| ***Capital Markets Development*** | | | |
| 21 | Commit to a predictable schedule of issuance for benchmark government bonds in sizable amounts. (MoF) | I | **Implemented.** On the MoF website, there is a calendar for bond issuance, as well as information on debt statistics |
| 22 | Enact relevant legislation for covered bonds as planned. (MoF, NBG) | I | **Implemented.** Law of Georgia on Mortgage Covered Bonds was adopted by the Parliament of Georgia on November 29, 2022. The secondary regulation under the mentioned law was also adopted by the NBG on March 15, 2023.<br>Georgia's new covered bond law is a solid foundation to develop the market. The law has strong safeguards for investors, similar to rules in other European countries, including provisions to preserve cover pool quality, and overcollateralization requirements that are higher than in some other established covered bond markets. |



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| | | | https://nbg.gov.ge/en/media/news/new-financial-instrument-on-the-capital-market |
|---|---|---|---|
| **No.** | **Recommendations** | **Time*** | **Authorities' Status Update (as of February 2024)**** |
| ***Access to Finance*** | | | |
| 23 | Define a roadmap for the development of fintech and a National Financial Inclusion Strategy. | ST | **Ongoing.** The roadmap for fintech strategy is in progress and is expected to be ready by 2024H2.<br>In January 2023, NBG published "financial education national strategy". |
| 24 | Establish an online collateral registry and strengthen the legal framework for secured transactions. (NBG, MoJ) | ST | **Ongoing**. There is an online collateral registry at the national public register website (available only in Georgian):<br>https://www.my.gov.ge/ka-ge/services/5/service/181 |

* I: Immediate (within one year); ST: short-term (1–3 years); MT: medium-term (3–5 years).

** Authority responsible for implementation is NBG unless indicated otherwise.

Sources: Fund staff and the authorities' self-assessment.



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# Annex IX. Data Issues

**Georgia: Data Adequacy Assessment Rating 1/**

| Assessment | | | | | | | |
|---|---|---|---|---|---|---|---|
| Overall rating | A | | | | | | |
| Questionnaire Results 2/ | National Accounts | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Inter-sectoral | Median Rating |
| **Assessment** | A | A | A | A | B | A | A |
| **Detailed Questionnaire Results** | | | | | | | |
| **Data Quality Characteristics** | | | | | | | |
| Coverage | A | A | A | A | B | | |
| Granularity 3/ | B | | A (GO) | B | A (MFS) | | |
| | | | A (Debt) | | B (FSI) | | |
| Consistency | | | A | A | | A | |
| Frequency & Timeliness | A | A | A | A | A | | |

Notes: GO: Government Operations; Debt: Government Debt; MFS: Monetary and Financial Statistics; FSI: Financial Soundness Indicators. When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is color-coded in gray.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

| Rating | Description |
|---|---|
| A | The data provided to the Fund is adequate for surveillance |
| B | The data provided to the Fund has some shortcomings but is broadly adequate for surveillance |
| C | The data provided to the Fund has shortcomings that somewhat hamper surveillance |
| D | The data provided to the Fund has serious shortcomings that significantly hamper surveillance |



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| |
|---|
| **Rationale for the assessment**. In general, the data available are of high quality and timely. The rating on data quality has been upgraded since the 2021 Article IV consultation, given the extensive TA provided to help upgrade national accounts (consistent chain linking of quarterly and annual estimates, better accounting for FISIM) and price statistics. The greatest shortcoming is in the area of monetary and financial sector monitoring. Here more granular data are provided on financial sector asset breakdowns by instrument as well as banking sector large exposures upon request, but consistency across financial sector data sources and FSI metadata could be improved. |
| **Changes since the last Article IV Consultation**. Data quality is broadly in line with the previous AIV consultation in 2021 and remain high. Improvements have been made in national accounts (e.g., improved methodologies for calculating FISIM, consistent quarterly and annual chain linking of GDP), and price statistics. |
| **Identify corrective actions and prioritize capacity development**. There are two major areas for improvement regarding national accounts: institutional sector accounts and GDP by expenditure at constant prices (both annual and quarterly). IMF staff and Eurostat are expected to provide extensive TA in this area. IMF TA is also underway for improving FSI data and metadata. |
| **Explain if data used in the Article IV consultation staff report is different from official statistics**. Data on corruption perceptions were sourced from transparency international. Vacancy data were sourced from an online jobs board (jobs.ge). |
| **Identify any remaining data gaps**. Staff do not see any key data gaps outside of those identified in the questionnaire. |

| **Georgia: Data Standards Initiatives** |
|---|
| Georgia subscribes to the Special Data Dissemination Standard (SDDS) since May 2010 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/). |



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## Georgia: Table of Common Indicators Required for Surveillance
(As of April 2024)

| | Data Provision to the Fund | | | | Publication under the Data Standards Initiatives via the National Summary Data Page (NSDP)[6] | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Frequency | | Timeliness | |
| | Date of Latest Observation | Date Received | Frequency of Data[6] | Frequency of Reporting[6] | Expectation[7] | Current Practice | Expectation[7] | Current Practice |
| Exchange Rates | 29-Mar-24 | 1-Apr-24 | D | D | D | D | ... | 1D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | Feb-24 | Mar-24 | M | M | M | M | 1M | 1M |
| Reserve/Base Money | Feb-24 | Mar-24 | M | M | M | Q | 2M | 1Q |
| Broad Money | Feb-24 | Mar-24 | M | M | M | Q | 1Q | 1Q |
| Central Bank Balance Sheet | Feb-24 | Mar-24 | M | M | M | Q | 2M | 1Q |
| Consolidated Balance Sheet of the Banking System | Feb-24 | Mar-24 | M | M | M | Q | 1Q | 1Q |
| Interest Rates[2] | 29-Mar-24 | 1-Apr-24 | D | D | D | D | ... | 1D |
| Consumer Price Index | Mar-24 | Apr-24 | M | M | M | M | 2M | 1M |
| Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4] | Mar-24 | Apr-24 | M | M | A | Q | 3Q | 1M |
| Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government | Mar-24 | Apr-24 | M | M | Q | Q | 1Q | 1M |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | Mar-24 | Apr-24 | M | M | Q | Q | 2Q | 1M |
| External Current Account Balance | Dec-23 | Mar-24 | Q | Q | Q | Q | 1Q | 1Q |
| Exports and Imports of Goods and Services | Dec-23 | Mar-24 | Q | Q | M | Q | 12W | 1Q |
| GDP/GNP | Dec-23 | Mar-24 | Q | Q | Q | Q | 1Q | 2M |
| Gross External Debt | Dec-23 | Mar-24 | Q | Q | Q | Q | 2Q | 1Q |
| International Investment Position | Dec-23 | Mar-24 | Q | Q | A | Q | 3Q | 1Q |

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

[7] Recommended frequency and timeliness under the e-GDDS and required frequency and timeliness under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are reflected.



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INTERNATIONAL MONETARY FUND

# GEORGIA

April 29, 2024

## STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department (In Consultation with Other Departments)

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# RELATIONS WITH THE FUND

(As of March 31, 2024)

### Membership Status

Date of membership: May 5, 1992, Article VIII.

### General Resources Account

| | SDR Million | Percent of Quota |
|---|---|---|
| Quota | 210.40 | 100.00 |
| Fund Holdings of Currency | 656.88 | 312.21 |
| Reserve Tranche Position | 0.02 | 0.01 |

### SDR Department

| | SDR Million | Percent Allocation |
|---|---|---|
| Net Cumulative Allocation | 345.62 | 100.00 |
| Holdings | 338.12 | 97.83 |

### Outstanding Purchases and Loans

| | SDR Million | Percent of Quota |
|---|---|---|
| Extended Arrangements | 446.50 | 212.21 |

### Latest Financial Arrangements

| Type | Approval Date | Expiration Date | Amount Approved (SDR million) | Amount Drawn (SDR million) |
|---|---|---|---|---|
| Stand-By | June 15, 2022 | June 14, 2025 | 210.40 | 0.00 |
| EFF | April 12, 2017 | April 11, 2021 | 484.00 | 484.00 |
| Stand-By | July 30, 2014 | April 11, 2017 | 100.00 | 80.00 |

### Projected Payments to the Fund

(SDR million; based on existing use of resources and present holdings of SDRs)

| | Forthcoming | | | | |
|---|---|---|---|---|---|
| | **2024** | **2025** | **2026** | **2027** | **2028** |
| Principal | 42.25 | 74.17 | 80.67 | 78.17 | 68.17 |
| Charges/Interest | 17.68 | 20.46 | 16.39 | 12.27 | 8.38 |
| **Total** | **59.93** | **94.63** | **97.06** | **90.44** | **76.55** |



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## Safeguard Assessments

The most recent safeguard assessment was conducted in 2022. The assessment found the safeguards framework of the NBG generally strong, but independent oversight by the board has been constrained by an executive majority owing to vacancies in non-executive positions. The NBG has implemented most of the recommendations of the 2022 assessment. The proposed amendments to strengthen governance and financial autonomy in the NBG Law and to fill vacancies at the NBG Board remain outstanding. Staff will continue to engage with the authorities on these issues. The NBG's latest audited financial statements are published for the year ending December 31, 2022.

## Implementation of Multilateral Debt Relief Initiative (MDRI)

Not applicable.

## Implementation of HIPC Initiative

Not applicable.

## Implementation of Catastrophe Containment and Relief Initiative (CCR)

Not applicable.

## Exchange Arrangements

The exchange rate arrangements of Georgia is floating. The National Bank of Georgia (NBG) intervenes in the foreign exchange market through foreign exchange auctions and Bloomberg's BMatch platform, but does not make any explicit or implicit commitment with respect to an exchange rate target or path. Considering market conditions, interventions are aimed at accumulating international reserves or smoothing excessive volatility to avoid inflationary expectations. The amount bought/sold at NBG foreign exchange auctions and the average exchange rates are posted on the NBG website the same day, shortly after each auction. Interventions through BMatch are rules based and the results are posted on the NBG website with a one-month delay. The NBG has used the BMatch platform primarily for foreign exchange acquisitions. Georgia accepted the obligations under Article VIII Sections 2(a), 3, and 4 of the IMF's Articles of Agreement and maintains an exchange system free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions.

## Program Engagement

A 3-year SBA was approved on June 15, 2022, with a total access to SDR 210.4 million (100 percent of quota). The Georgian authorities have been treating the SBA as precautionary. The first (and latest) review of the SBA was completed on December 21, 2022.

## Article IV Consultation

The 2021 Article IV consultation was concluded on September 21, 2021. The published Staff Report is available at https://www.imf.org/-/media/Files/Publications/CR/2021/English/1GEOEA2021002.ashx



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## FSAP Participation

The 2021 FSAP took place during virtual missions in January-February and May-June 2021. The Financial Sector Stability Assessment was considered by the Board in combination with the 2021 Article IV.

## Technical Assistance

The IMF has provided considerable technical assistance (TA) including to support the objectives of the SBA program. Specific areas of TA included:

- **Fiscal**: public investment management assessment (PIMA) and update of PIM guidelines; public financial management (SOE reform; renewable energy support scheme; fiscal risk assessment and management; fiscal transparency, risk accounting, and reporting); tax policy, including tax expenditure evaluation and reporting; revenue administration, including tax audit, risk analysis, and debt management; developing a medium-term revenue strategy (MTRS).

- **Monetary/Financial**: government debt and liquidity management operations; interest rate risk in the banking book; large exposures and concentrations; the move the financial institutions accounting to international financial reporting standards (IFRS9), counterparty credit risk, enhancing cyber resilience; bank recovery and resolution; supervisory decision making; hedging market development; de-dollarization; monetary policy modeling; central bank governance including the central bank law.

- **Legal**: AML/CFT assistance for virtual assets and virtual asset service providers; designing, drafting, and implementing domestic and international tax law; the central bank law.

- **Statistics**: government finance statistics and public sector debt statistics (expanding the coverage of fiscal reporting to include non-market SOEs); improving quarterly and high frequency indicators of national accounts; modernization and improved coverage of price statistics (price scanner data for CPI, producer price index, residential property price index); international trade and external sector statistics.

- **Training**: macroeconomic programming and analysis; fiscal policy analysis at the Ministry of Finance's Academy.

The JVI and CCAMTAC are also instrumental in capacity development and providing additional TA and training, including regional and peer learning workshops on fiscal and monetary policy.

## Resident Representative

The resident representative, Mr. Andrew Jewell, took up his post in August 2023.



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# RELATIONS WITH THE WORLD BANK GROUP AND OTHER IFIS

(As of March 31, 2024)

Information about Georgia's relations with the World Bank Group and other international financial institutions can be obtained from the following webpages.

| | |
|---|---|
| **The World Bank Group** | https://www.worldbank.org/en/country/georgia/overview#2 |
| **European Bank for Reconstruction and Development** | https://www.ebrd.com/georgia.html |
| **Asian Development Bank** | https://www.adb.org/countries/georgia/main |



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**Statement by Mr. Rashkovan and Mr. Steinberg on Georgia**
**Executive Board Meeting**
**May 13, 2024**

*The Georgian authorities thank staff for their dedicated and constructive engagement during the Article IV discussions, and the well-written set of reports. Georgia continues to enjoy strong economic performance, supported by prudent macroeconomic decisions and years of well-founded structural reforms. High growth and historically low unemployment served to lift many out of poverty, while subsiding inflation and a historically low current account deficit supported stability. The authorities' prudent macro-economic policies resulted in significant buffers and continue to provide a strong anchor during this period of heightened global and regional uncertainty. EU candidate status reflects the advancement achieved by Georgia and has boosted sentiment.*

**Growth following COVID-19 has been strong, supporting a decline in unemployment.**
Real GDP growth rate amounted to 10.6 and 11 percent in 2021 and 2022, respectively. Despite somewhat subsided but still high growth of 7.5 percent in 2023, a recent preliminary assessment by Geostat shows y/y growth of 7.8 percent in the first quarter of 2024 and as high as 8.2 percent in March 2024. The authorities broadly concur with staff's estimate of 5.7 percent growth in 2024. Importantly, this strong growth also manifested itself in reduced unemployment, higher real wages, and a lower poverty rate. A lower goods trade deficit as a share of GDP and higher transportation and IT services exports contributed to a further decrease in the current account deficit to a historical low. Tourism revenues show potential for a recovery towards pre-pandemic levels. Recent Geostat data shows that the number of tourists increased by 7.6 percent y/y in the first quarter of 2024.

**The government leveraged the strong growth to rebuild fiscal buffers.**
After peaking at 60 percent in 2020, debt-to-GDP stabilized below the pre-pandemic level of 40 percent. The 2024 budget target is 2.5 percent, below the 3 percent fiscal rule deficit ceiling. This level of deficit should suffice to stabilize public debt at current levels, absent additional spending pressure, and thus keep debt below the fiscal rule ceiling of 60 percent of GDP even in the event of adverse shocks. To reduce fiscal risks, the authorities concur with staff that it is key to ensure strong financial oversight of State-Owned Enterprises (SOEs) by the Ministry of Finance (MoF). The authorities believe that the dual ownership of SOEs by the MoF and Ministry of Economy and Sustainable Development is neither a feasible nor an efficient way to achieve such oversight, but they would welcome Fund TA to look for other internationally accepted means to ensure proper oversight by the MOF and mitigate SOEs' fiscal risks.

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**Tight monetary policy contributed to reducing inflation below the central bank target.** Inflation peaked in January 2022 and fell rapidly to 0.5 percent in March 2024, supported by declining commodity prices and the appreciation of the lari. Notably, core inflation also declined to 2.4 percent, down from 5 percent a year ago. The authorities expect inflation to reach the National Bank of Georgia (NBG) 3 percent target during the current year. The NBG acted decisively in response to the spike in inflation following COVID-19, increasing its policy rate as early as March 2021 and reaching a level of 11 percent a year later. The authorities take note of staff's finding that—notwithstanding high dollarization in the economy—monetary policy is an effective tool in Georgia for targeting medium-term inflation, and of its estimation that the NBG's rate hikes lowered the peak of inflation by at least 1.6 percentage points. Following the decline in inflation, the NBG began normalizing monetary policy, but at 8.25 the interest rate is still somewhat above the NBG's estimation of the neutral interest rate. The NBG remains committed to purchasing FX opportunistically, while limiting its FX interventions to specific occasions in which the market liquidity is insufficient to absorb specific large FX purchases by SOEs or the large banks. The NBG intends to follow a gradual and data-driven approach to further policy rate cuts. The NBG has implemented most of the recommendations in the 2022 Safeguards Assessment and the authorities are open to further strengthening governance, in accordance with staff's recommendations, following the October elections.

**Stringent macroprudential measures support a highly resilient financial sector.** The banking system is well capitalized, profitable, and liquid with low Non-Performing Loans. Banks have restored conservation and currency-induced credit risk buffers and are gradually implementing a countercyclical capital buffer. The two largest banks are listed on the London Stock Exchange, and their shares have peaked recently, following a rapid surge in the last couple of years. Notwithstanding its expansion as of the second half of 2023, private sector debt to GDP is well below its 2020 peak and near its pre-pandemic level due to strong growth and the lari appreciation. The NBG has introduced an array of macroprudential and regulatory measures to mitigate credit-, currency-, and concentration risks. The NBG's proactive approach supported a secular decline in dollarization and the NBG remains committed to taking steps to reduce it further while mitigating FX risks to lenders and borrowers. Finally, all but one of the key recommendations of the 2021 Financial System Stability Assessment were implemented or are ongoing.

**The authorities continue to develop the local financial markets for government-issued and private securities.** The amount of locally traded government bonds has rapidly increased over the last decade, while their maturity has lengthened. Bank loans continue to serve as the main source of financing for corporates, but the maturity of these loans has also increased significantly over the last decade. In addition, the amount of locally traded corporate bonds has increased and so has the share of lari-denominated bonds among them. Since the adoption of the state pension fund (pillar II) regulatory and supervisory framework in 2018, the assets under management of the local pension funds have grown almost tenfold, just as their coverage has increased from 25 to 40 percent of the population, and their allocation has become much more diverse. Since 2021, Georgia is an ordinary member of the International Organization of Securities Commissions (IOSCO) and the authorities continue to adopt advanced regulation, in line with international standards and EU Directives, to develop efficient, liquid, and fair capital markets.

**The authorities acknowledge the need for more reforms and investments to fulfill Georgia's medium-term growth potential.** The authorities take note of staff's finding that—while workers'

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move from agriculture to more productive sectors explains about a third of output growth in the last 20 years—Georgia still has a large share of employment in agriculture relative to peers. Therefore, they concur with staff that going forward, raising agricultural productivity is the best way to raise medium-term growth in Georgia. Agriculture in the country is dominated by small, low-productivity farms and close to two-thirds of the agricultural workers sell less than half of their produce on the market. Productivity gains have been stalled by low land registration and weak rural land markets. However, the last couple of years have seen a marked progress in land registration. The National Agency of the Public Registry is working to conclude all land registration by the end of the year, thus enabling trade as well as collateral-based credit. More broadly, infrastructure bottlenecks hamper growth across many sectors, as Georgia suffers from high transport and logistics costs reflected in high non-tariff trade barriers. The authorities are determined to tackle these bottlenecks and boost trade through significant investments, dedicating about 8 percent of annual GDP to capital spending. Specifically, they work to improve regional and international connectivity through large infrastructure projects, including the East-West highway, the middle corridor, Anaklia deepwater port, and a Black Sea cable. The authorities emphasize their ambition to develop Georgia as a regional data exchange hub and as a reliable connectivity corridor, given its favorable geographical location, including through large investments and trade agreements.

**Educational and green reforms will support inclusive and sustainable long-term growth.** In the longer-term, low educational achievements are an impediment to growth, especially for the professional services industry, and to further reducing the still-high unemployment. In accordance, the authorities have taken ambitious steps to improve teachers' quality, especially in rural schools, as well as to improve the standardization and supervision of kindergartens and schools. The authorities are also putting efforts into increasing the provision of vocational training, collaborating with the private sector to better align its curriculum with the required skills. Georgia's natural environment provides ample renewable energy production potential, while its location offers it the opportunity to become a major regional energy exporter, including to Europe. However, the country must increase its hydropower generation capacity to enhance energy independence and reduce its carbon footprint. To this end, the authorities use auctions within a renewable energy support scheme. At the same time, they concur with staff on the need to open the electricity market as soon as feasible.

**Georgia has a strong track record and positive experience with Fund engagements, including through Fund programs, and it remains committed to most of the reforms agreed-upon in the current precautionary SBA program.** The authorities valued the engagement with staff during the Article IV mission. They remain committed to most of the reforms agreed-upon as part of the program and appreciate staff's recommendations in the Article IV reports. Consultations between staff and the authorities continue over NBG governance issues and the nature of the required financial supervision of SOEs. While the authorities acknowledge some discrepancies with respect to implementation, they concur with staff both on the importance of the central bank's independence and adequate governance and on the necessity of rigorous MOF financial supervision of SOEs to mitigate fiscal risks. Given the political constraints brought about by the election-cycle, the authorities believe both these issues could be successfully addressed following the October elections.

**Georgia is a major beneficiary of Fund Capacity Development, and in turn, it contributes to global and regional knowledge sharing.** In the last five years, Georgia has benefitted from a total of 163 Fund Technical Assistance (TA) missions. Sixty percent of these TA missions were led by FAD, facilitating major fiscal reforms by the MOF. Georgian officials have also leveraged the

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knowledge they gained to serve as experts in Fund TA missions to other countries, in the region and beyond. The MOF has established LEPL—the academy of the ministry of finance—to provide training in fields such as finance, budgeting, accounting, tax, etc. to MOF employees, other government employees, and the private sector as well as to regional peers. The academy signed a memorandum of understanding (MOU) with the Fund through which representatives of Ministries of Finance, Ministries of Economy, and Central Banks of countries of the Caucasus and Central Asia visit Tbilisi for courses led by top experts from the IMF and Joint Vienna Institute. Lately the Fund Institute for Capacity Development (ICD) has decided not to extend the MOU due to budget considerations. The Georgian authorities hope the ICD will reconsider this decision, given the relatively low cost to the Fund versus the large benefits to many countries in the region from capacity development, knowledge-sharing and enhanced collaboration at a time of heightened global and regional conflicts.

**The Georgian authorities highly value their close collaboration with the Article IV team, the continuous learning from Technical Assistance teams, and the engagement with IMF Management and staff in a broader context. They look forward to continuing to work with the Fund including within the SBA.**

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