



# GEORGIA

## 2025 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

July 2025

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 2025 Article IV consultation with Georgia, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on June 4, 2025, 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 July 7, 2025.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or will be separately released.

### Selected Issues

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## IMF Executive Board Concludes 2025 Article IV Consultation with Georgia

FOR IMMEDIATE RELEASE

- *Georgia has shown remarkable resilience amid heightened domestic and geopolitical uncertainty, with strong growth, near target inflation, and moderate debt levels.*
- *Growth is expected to ease towards potential as domestic demand slows, while inflation and public debt would remain stable with continued prudent monetary and fiscal policy.*
- *Sustaining strong, inclusive, and job-rich growth will require building further reserve buffers, strengthening central bank and state-owned enterprise governance, and advancing structural reforms to improve labor market outcomes and expand economic opportunities.*

**Washington, DC – July 22, 2025:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Georgia on a lapse of time basis on July 21, 2025.<sup>1</sup> The authorities have consented to the publication of the Staff Report prepared for this consultation.<sup>2</sup>

The Georgian economy has performed remarkably well despite elevated domestic and geopolitical uncertainty. Annual growth has averaged over 9 percent since 2021, headline inflation has returned to target after undershooting for two years, and public debt declined to 36 percent of GDP in 2024.

Looking ahead, growth is projected to ease to 7.2 percent in 2025 and converge to its potential rate of 5 percent in the medium term as domestic demand decelerates. Inflation is expected to remain near target and public debt to stabilize near current levels with continued prudent monetary and fiscal policy.

Amid heightened domestic and global uncertainty, priorities are building further reserve buffers and advancing structural reforms to safeguard resilience to shocks and sustain strong, inclusive, and job-rich growth.

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<sup>1</sup> 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. The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

<sup>2</sup> Under the IMF's Articles of Agreement, publication of documents that pertain to member countries is voluntary and requires the member consent. The staff report will be shortly published on the [www.imf.org/en/Countries/GEO](http://www.imf.org/en/Countries/GEO) page.

### Executive Board Assessment<sup>3</sup>

Georgia's economy has demonstrated impressive resilience despite heightened domestic and geopolitical uncertainty. Since 2021, real GDP growth has averaged over 9 percent annually, driven by a strong post-pandemic recovery and sustained expansion in the information and communication technology (ICT) and transport services sectors, supported by immigration, financial inflows, and transit trade linked to the war in Ukraine. These trends have boosted per capita income and reduced unemployment and poverty. Inflation has remained low, aided by tight monetary policy and a strong lari, while public debt returned to pre-pandemic levels. However, challenges persist due to high structural unemployment, income inequality, outward migration, and informality.

Economic activity is projected to remain strong in the near term and gradually converge to potential. Real GDP growth is expected to reach 7.2 percent in 2025, driven by resilient domestic demand and continued strength in tourism, ICT, and transport—and converge to its medium-term potential of 5 percent. Inflation is projected to remain near the 3 percent target, and the current account deficit to stabilize around 5 percent of GDP. Reserves are projected to improve gradually, supported by opportunistic foreign exchange (FX) purchases and a recovery in foreign direct investment (FDI). The external position in 2024 was broadly in line with the level implied by fundamentals and desirable policies.

Risks to the outlook are broadly balanced, amid high global uncertainty and political tensions. A resolution of the war in Ukraine may reverse some gains from migration and transit trade, but greater regional stability and reconstruction could offset these effects. Direct exposure to global trade tensions is limited, given Georgia's low export share to the U.S. and exemptions for key products. However, indirect effects from weaker investor sentiment, slower trading partner growth, or supply chain disruptions could weigh on exports and raise import costs. Georgia might benefit from lower oil prices and increased trade diversion. Domestically, heightened political uncertainty and potential sanctions could dampen FDI, tourism, and pressure the lari. Georgia's fiscal and financial buffers would help cushion adverse shocks.

The National Bank of Georgia (NBG) should maintain a broadly neutral policy stance while remaining flexible and data driven. With inflation near target, the policy rate close to neutral, and demand pressures easing, the current stance is appropriate. However, heightened global uncertainty and rising domestic food prices warrant a cautious approach to further easing. Opportunistic reserve accumulation—while preserving exchange rate flexibility—should be prioritized. While recent FX interventions may have mitigated market disorder, the NBG should avoid actions that could undermine policy transmission and credibility, such as sustained

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<sup>3</sup> 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>.

deviations between interbank and policy rates. Clearer communication on the balance of risks and policy rationale would enhance transparency and reinforce the effectiveness of the monetary policy framework.

Strengthening NBG governance and independence remains an important priority. There has been progress on implementing past recommendations, including filling board vacancies and appointing a governor. However, proposed amendments to enhance governance and financial autonomy in the NBG Law remain outstanding. Reforms should ensure a non-executive board majority, limit discretionary financial transfers to the government, further clarify succession rules for the governor, and strengthen board member qualifications. Adopting a collegial decision-making model would further enhance governance.

Fiscal policy is well calibrated, and efforts should focus on strengthening revenue mobilization and improving spending efficiency. Public debt is at prudent levels, and a neutral medium-term fiscal stance—with deficits below 2.5 percent of GDP—would help stabilize the debt ratio well below the fiscal rule ceiling. Revenue mobilization should be advanced through tax policy and administration reforms that expand the tax base and streamline tax expenditures, based on a strengthened medium-term revenue strategy that clearly outlines planned reforms, implementation timelines, and expected yields. Spending efficiency can be enhanced through better implementation of public investment management processes and spending reviews. Social assistance should be better targeted to the most vulnerable households, alongside efforts to improve the public works program and employment incentives.

Advancing SOE reform is essential to enhance performance, governance, and oversight to contain fiscal risks. A strong oversight role of the Ministry of Finance must be ensured. The authorities should move expeditiously to develop and implement a reform roadmap. Key objectives should include separating the state's shareholder, regulatory, and policy functions to avoid conflicts of interest and strengthening corporate governance.

The financial sector is sound, and reforms have advanced, but further steps are needed to strengthen resilience and address evolving risks. Sustained efforts are needed to further reduce dollarization, along with continued monitoring of rapid consumer loan growth and lari funding pressures. Enhancing macroprudential and crisis management frameworks is essential to mitigate risks from systemic banks. Priority should be given to fully operationalizing the resolution framework and strengthening deposit insurance, including by resolving remaining legal and operational issues. Establishing an effective supervisory framework for virtual asset service providers and developing a consolidated supervision framework are key priorities, given the expansion of cross-border and nonbank activities. Competition in financial services should be improved, including through open banking.

Sustained structural reform is essential to support inclusive, job-rich growth and raise Georgia's growth potential. Key priorities include addressing high structural unemployment, low agricultural productivity, and skill gaps through improved vocational training, teacher quality, and targeted agricultural support. Harnessing the benefits of emigration will require

promoting return migration, leveraging remittances, and attracting foreign talent. Continued infrastructure investment and regional integration are needed to reduce transport and logistics costs and boost competitiveness. While Georgia outperforms peers on many governance indicators, recent backsliding underscores the need to reinforce judicial independence, empower the Anti-Corruption Bureau, and ensure effective enforcement of asset declaration reforms.

Table. Georgia: Selected Economic Indicators, 2024-30

	2024	2025	2026	2027	2028	2029	2030
	Actual	Projections					
National accounts and prices	(annual percentage change; unless otherwise indicated)						
Real GDP	9.4	7.2	5.3	5.0	5.0	5.0	5.0
Nominal GDP (in billions of laris)	91.9	102.5	111.7	121.5	131.9	143.4	155.9
Nominal GDP (in billions of U.S. dollars)	33.8	36.7	39.2	41.4	43.6	46.1	48.6
GDP per capita (in thousands of U.S. dollars)	9.1	9.9	10.6	11.2	11.8	12.5	13.2
GDP deflator, period average	3.8	4.1	3.5	3.5	3.5	3.5	3.5
CPI, period average	1.1	3.4	3.1	3.0	3.0	3.0	3.0
CPI, end-of-period	1.9	3.6	3.0	3.0	3.0	3.0	3.0
Consolidated government operations	(in percent of GDP)						
Revenue and grants	28.0	27.7	27.8	27.7	27.6	27.8	27.7
o.w. Tax revenue	25.3	25.0	25.6	25.6	25.6	25.8	25.8
Total Expenditure	30.3	30.0	30.1	29.9	29.8	29.9	29.9
Current expenditures	22.5	22.6	22.5	22.5	22.5	22.6	22.5
Net acquisition of nonfinancial assets	7.7	7.4	7.5	7.5	7.3	7.4	7.4
Net lending/borrowing (GFSM 2001)	-2.3	-2.3	-2.3	-2.3	-2.2	-2.2	-2.2
Augmented net lending/borrowing 1/	-2.4	-2.4	-2.4	-2.4	-2.3	-2.3	-2.3
Public debt	36.1	34.7	34.1	34.3	34.5	34.9	35.7
o.w. Foreign-currency denominated	25.2	23.1	22.0	21.7	20.9	20.0	18.9
Money and credit	(annual percentage change; unless otherwise indicated)						
Credit to the private sector	18.5	13.7	9.0	8.7	8.6	8.7	8.7
In constant exchange rate	17.0	15.5	8.5	7.4	7.3	7.4	7.4
Broad money	14.5	13.3	11.5	11.3	11.2	11.3	11.3
Excluding FX deposits	10.4	13.7	11.9	11.7	11.6	11.7	11.6
Deposit dollarization (in percent of total)	52.7	52.1	51.9	51.7	51.4	51.2	51.0
Credit dollarization (in percent of total)	42.9	42.5	42.1	41.7	41.3	40.9	40.5
Credit to GDP (in percent) 2/	66.0	67.4	67.4	67.4	67.4	67.4	67.4
External sector	(in percent of GDP; unless otherwise indicated)						
Current account balance (in billions of US\$)	-1.5	-1.6	-1.8	-2.0	-2.1	-2.2	-2.4
Current account balance	-4.4	-4.4	-4.6	-4.8	-4.8	-4.9	-5.0
Trade balance	-19.2	-18.9	-19.1	-19.2	-19.3	-19.3	-19.4
Terms of trade (percent change)	-2.8	-0.2	0.1	-0.3	0.5	-0.3	-0.6
Gross international reserves (in billions of US\$)	4.4	4.7	4.9	5.5	6.2	6.8	7.1
In percent of IMF ARA metric 3/	79.6	81.1	82.4	88.0	95.5	100.5	n.a.
In months of next year's imports	2.7	2.6	2.6	2.7	2.9	3.0	n.a.
Gross external debt	66.8	62.4	58.5	55.9	53.0	49.4	45.7

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.



# GEORGIA

## STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

July 7, 2025

### KEY ISSUES

**Context:** Despite heightened domestic and geopolitical uncertainty, Georgia's economy remains remarkably resilient, with robust growth, near-target inflation, and strong fiscal and financial sector buffers. Foreign exchange reserves have recently risen but remain below prudent levels. Potential growth is limited by high structural unemployment, low educational attainment, infrastructure bottlenecks, and low agricultural productivity, and challenges persist due to high income inequality, outward migration, and informality. To sustain strong growth and make it more inclusive and job-rich, policies should address long-standing issues and bolster the capacity to absorb future shocks.

#### Key policy recommendations:

- **Monetary policy should remain broadly neutral but flexible to ensure inflation expectations remain anchored.** Greater exchange rate flexibility, opportunistic reserve accumulation, and continued financial sector vigilance are essential to enhance resilience and mitigate risks, including from financial dollarization, capital flow volatility, and sanctions. Strengthening the NBG's governance and independence is critical to preserving macroeconomic and financial stability.
- **Fiscal policy should aim to preserve buffers under the fiscal rule and create room for productive investments in infrastructure and education.** The Medium-term Revenue Strategy should be strengthened to broaden the tax base and rationalize tax expenditures. Efforts to modernize revenue administration and improve public investment management should continue, along with targeted reviews to enhance spending efficiency. SOE governance reform should seek to limit fiscal risks and improve productivity.
- **Structural reforms are needed to sustain strong growth and make it more inclusive and job rich.** Efforts should focus on enhancing agricultural productivity, education, and training to tackle high structural unemployment, informality, and outward migration; policies to encourage return migration and attract foreign talent to expand the local labor pool; infrastructure investments to foster economic diversification and regional connectivity; and judicial and anti-corruption reforms to improve competitiveness and the business environment.

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

Discussions were held during May 21 – June 4, 2025, in Tbilisi. The mission team comprised A. Hajdenberg (head), E. Ture, W. Abel (MCD), J. Atsebi (FAD), J. Zhou (MCM), M. Cangul (SPR), A. Jewell (Resident Representative), and N. Sharashidze (Local Economist). The mission was assisted by D. Hineva, S. Wang (MCD) and K. Danelia (IMF Tbilisi Office). J. Clicq and N. Steinberg (OED) joined some discussions.

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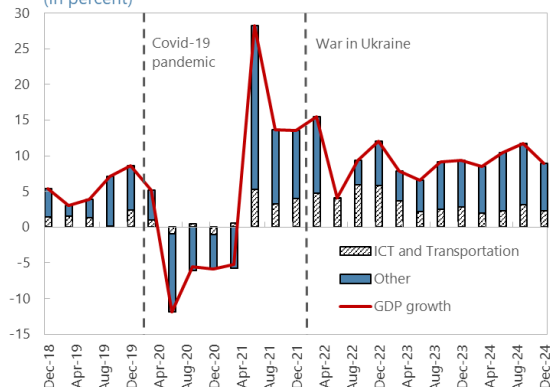
## CONTEXT

**1. Georgia's economy has performed remarkably well despite elevated domestic and geopolitical uncertainty.** Since 2021, GDP growth has averaged over 9 percent annually, driven by a strong post-pandemic recovery and expansion in information and communications technology (ICT) and transport services, supported by immigration, financial inflows, and transit trade spurred by the war in Ukraine. The fiscal deficit has declined and public debt has returned to pre-pandemic levels. Tight monetary policy and a strong lari have supported low inflation, while robust growth has helped lower overall unemployment and poverty. However, structural unemployment remains high (Figure 1), with youth unemployment at 30 percent and long-term unemployed (12+ months) making up 40 percent of the total. Potential growth remains constrained by low educational attainment, infrastructure bottlenecks, and low agricultural productivity, with challenges from high income inequality, outward migration (Box 4), and informality (Box 3).

**Text Figure 1. Georgia: Economic Performance**

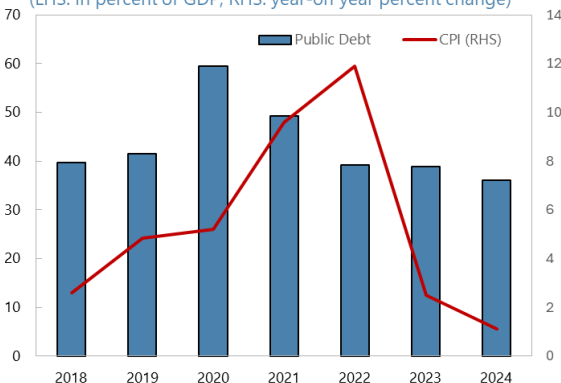
*Strong growth driven by the post pandemic recovery and the post-war surge in ICT and transport services...*

**Contribution to GDP Growth**  
(In percent)



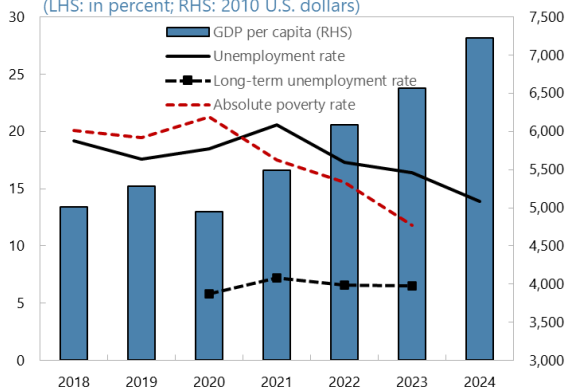
*Inflation has been contained, and public debt has returned to pre-pandemic levels...*

**Public Debt and Inflation**  
(LHS: in percent of GDP; RHS: year-on year percent change)



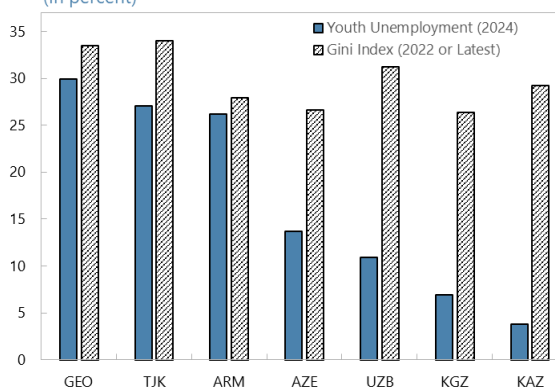
*...has contributed to a sharp rise in per capita GDP and a reduction in overall unemployment and poverty.*

**Unemployment and Poverty**  
(LHS: in percent; RHS: 2010 U.S. dollars)



*...but structural unemployment, especially among the youth, and income inequality remain high.*

**Youth Unemployment and Income Inequality**  
(In percent)



Note: Gini index for 2005 in AZE and 2015 in TJK.

Sources: National Authorities, Haver (NBG, GEOSTAT), World Bank (WDI), and IMF staff calculations.

**2. Political tensions escalated after the October 2024 parliamentary elections and the suspension of the EU accession process.** The ruling Georgian Dream Party (GD) declared victory, while the opposition called for new elections, citing irregularities. The European Parliament demanded a rerun and sanctions against GD leaders. In response, Georgia halted EU accession talks and declined further EU budget funding until 2028, triggering nationwide protests. The U.S. suspended its strategic partnership with Georgia, and several Western countries imposed sanctions on GD officials and reduced official engagement and assistance. Tensions have eased recently, with public protests becoming less intense.

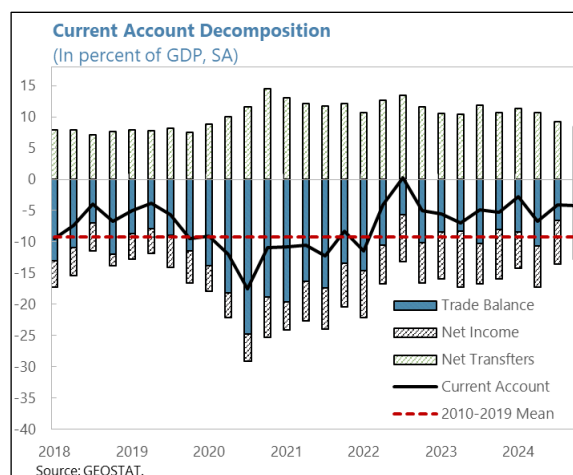
**3. The Stand-By Arrangement—approved in June 2022—expired in June 2025.** Reviews had been on hold since June 2023, reflecting concerns about National Bank of Georgia (NBG) governance and independence (¶14) and insufficient progress on SOE reform (¶20).<sup>1</sup>

## RECENT ECONOMIC DEVELOPMENTS

**4. Economic activity has remained robust.** Growth reached 9.4 percent in 2024, driven by consumption, marking a shift from recent years where investment and net exports were the main contributors (Table 1, Figure 1). Tourism recovered to pre-Covid levels, while the ICT and transport sectors remained key growth drivers. Rapid growth estimates for January-April (8.8 percent y/y) point to strong momentum continuing into 2025.

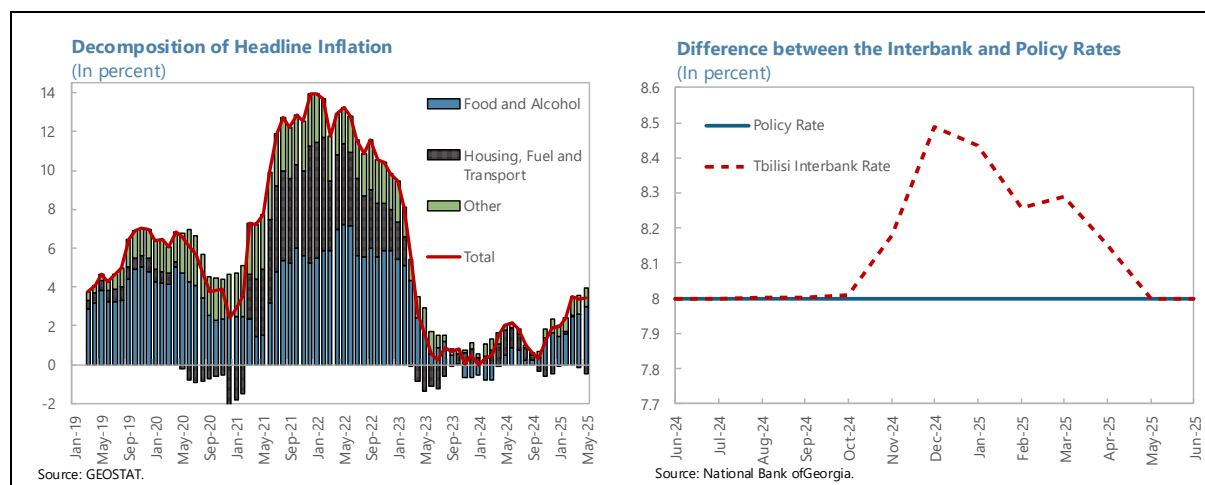
**5. The current account deficit narrowed in 2024 to 4.4 percent of GDP, but reserve coverage remains below adequate levels.** The

lower deficit was driven by lower goods imports and oil prices, despite a slowdown in net remittance inflows (Table 2, Figure 3). However, FDI has declined for the second consecutive year, partly reflecting the absence of new large greenfield projects. Gross international reserves fell from a peak of US\$5.4 billion in August 2023 to US\$4.5 billion in April 2025—equivalent to 80 percent of the Fund’s Assessment of Reserve Adequacy (ARA) metric. Recent favorable inflows have allowed the NBG to offset the sizeable foreign exchange (FX) sales made before the October parliamentary elections that supported the Iari. Georgia’s external position in 2024 was broadly in line with medium-term fundamentals and desirable policies (Annex IV).



<sup>1</sup> Amendments to the NBG law in June 2023 that changed the succession framework for the Governor contradicted IMF safeguards recommendations and raised concerns over political influence. Furthermore, the draft SOE law did not align with the agreed reform strategy, maintaining decentralized ownership and potential conflicts of interest.

**6. Inflation has returned to target after undershooting for two years.** Headline inflation averaged 1.8 percent over 2023-24 but rose to 3.5 percent y/y in May 2025—mainly due to rising food prices—while core inflation remained subdued at 2.1 percent. The NBG has kept the policy rate unchanged at 8 percent since May 2024, but effectively tightened the monetary policy stance between November and April, by limiting liquidity injections and allowing the interbank rate to exceed the policy rate by 20-50 bps.



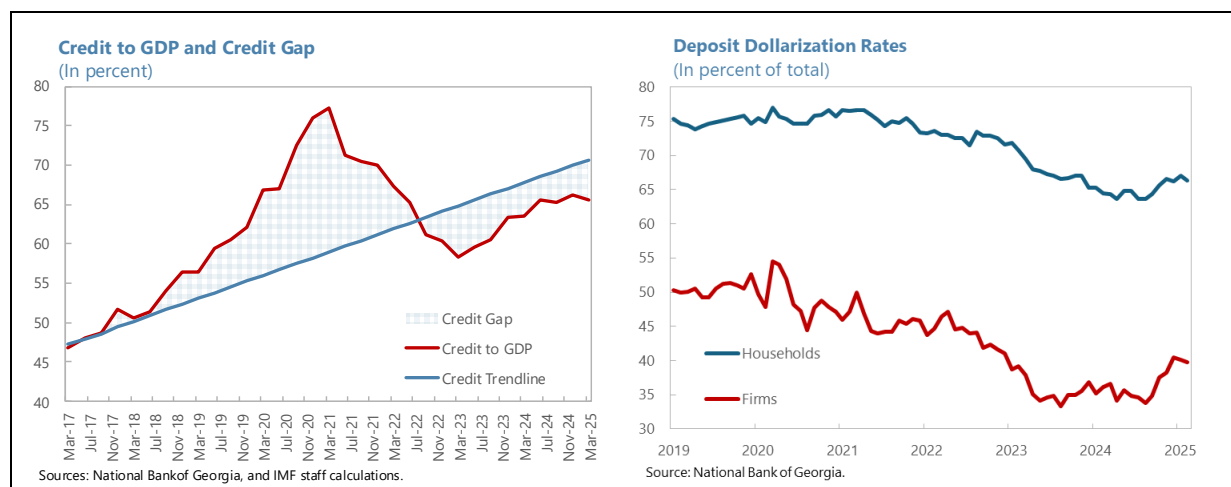
**7. The fiscal deficit held steady at 2.4 percent of GDP in 2024, slightly below the budgeted level despite it being an election year.** Strong tax revenues—supported by robust growth, tax policy measures in the financial and gambling sectors, and improved revenue administration—financed increased social and capital spending (Table 3, Figure 4). Public debt declined to 36 percent of GDP, with an increasing share denominated in local currency. The 2025 budget targets a deficit of 2.5 percent of GDP. The deficit through May was 0.3 percent of GDP (Text Table 1), with revenues boosted by new tax policy and administration measures (¶117) and higher NBG dividends.

**Text Table 1. Budget Execution, January-May**

	Jan - May 2024		Jan - May 2025		2025, full year	
	GEL mn	%GDP	GEL mn	%GDP	GEL mn	%GDP
<b>Revenues and grants</b>	10,106	11.0	10,856	10.6	28,350	27.7
Taxes	9,281	10.1	9,447	9.2	25,660	25.0
Grants	98	0.1	83	0.1	290	0.3
Other revenues	726	0.8	1,325	1.3	2,400	2.3
<b>Primary current spending</b>	7,577	8.2	8,441	8.2	21,265	20.7
<b>Interest expense</b>	677	0.7	773	0.8	1,888	1.8
<b>Net acquisition of non-financial assets</b>	2,278	2.5	1,999	2.0	7,547	7.4
Capital spending	2,427	2.6	2,239	2.2	7,847	7.7
Privatization	-150	-0.2	-240	-0.2	-300	-0.3
<b>Net lending/borrowing</b>	-426	-0.5	-358	-0.3	-2,351	-2.3
Net budget lending	-72	-0.1	-27	0.0	130	0.1
<b>Augmented balance</b>	-354	-0.4	-331	-0.3	-2,481	-2.4
Nominal GDP	91,892		102,485		102,485	

Source: National authorities and IMF staff estimates

**8. The banking system remains well-capitalized, liquid, and profitable, supported by high net interest income and low non-performing loans.** Private sector credit expanded by 15 percent (y/y) in May. The credit-to-GDP ratio has risen above pre-pandemic levels but the credit gap remains negative (Table 4, Figure 5). The bank lending rate on lari loans has increased recently due to tighter monetary policy. The downward trend in deposit dollarization was temporarily halted amid election-related uncertainty, prompting large FX intervention by the NBG. The trend has recently resumed.



## OUTLOOK AND RISKS

**9. Growth is projected to moderate to 7.2 percent in 2025 and converge to its medium-term potential of 5 percent as domestic demand eases.** Inflation is projected to peak around 4 percent in mid-2025 as one-off base effects from 2024 dissipate, reach 3½ percent by end year, and decline further to the NBG's 3 percent target in 2026. The current account deficit is projected to stabilize around 5 percent of GDP (Annex IV) as the trade deficit rebounds from historic lows and the economy returns to potential. Reserve coverage is expected to improve to 100 percent of the ARA metric over the medium term supported by opportunistic FX purchases and higher FDI.

**10. Amid high uncertainty, risks to the outlook are broadly balanced** (Annex II). A resolution of the war in Ukraine could unwind recent gains from migration and transit trade but increased regional stability and reconstruction in Ukraine could create new opportunities. Direct exposure to global trade tensions is limited, as the U.S. accounts for only 2 percent of total exports, mainly ferroalloys, which are exempt. Supply chain disruptions could raise the cost of reexported cars, but domestic exports could benefit from lower tariffs compared to the EU. Indirectly, weaker investor confidence and slower trading partner growth pose downside risks, but Georgia could benefit from trade diversion through its territory. However, accelerating de-globalization could disrupt trade routes and call into question the benefits of Georgia's efforts to position itself as a logistics hub. Volatile oil prices present two-sided risks. Heightened domestic political uncertainty, strained

relations with the EU, and potential sanctions could dampen FDI and tourism, and pressure the lari. Healthy fiscal and financial sector buffers mitigate these risks.

### **Authorities' Views**

#### **11. The authorities largely concurred with staff's views on the economic outlook and risks.**

They assessed the outlook as favorable, with strong growth and contained inflation amid productivity gains. They noted recent growth in domestically produced exports and further potential in the tourism sector. They highlighted the geopolitical risks from a global slowdown and potential new sanctions but also benefits from easing financial conditions. They were more optimistic about the positive impact of an end to the war in Ukraine on Georgia's economy and expected trade through the Middle Corridor to continue, supported by significant investments.

## **POLICY DISCUSSIONS**

*Georgia needs to enhance resilience and address structural challenges to sustain strong, inclusive, and job-rich growth by: i) maintaining data-driven monetary policy to contain inflation, supported by exchange rate flexibility, reserve buildup, and strengthened NBG governance; ii) creating space for priority spending and managing fiscal risks, including from SOEs; iii) maintaining vigilance against financial sector risks, including from dollarization, capital flow volatility, and sanctions; and iv) advancing structural reforms to improve labor market outcomes and expand economic opportunities.*

### **A. Containing Inflation, Building Reserves, and Strengthening NBG Governance**

**12. The NBG should maintain a broadly neutral policy stance, while remaining flexible and data driven to keep inflation expectations anchored.** Inflation is near target, the policy rate is close to neutral,<sup>2</sup> and demand pressures are easing. Wage growth fell to 8 percent y/y in Q4 2024, while vacancy postings and employment growth have slowed. Business confidence weakened in Q1 2025 but picked up in Q2. However, heightened global uncertainty and rising domestic food prices call for a cautious approach to policy rate cuts. If persistent inflationary pressures emerge, tightening the policy stance would be warranted.

**13. Enhancing exchange rate flexibility, reserve accumulation, and policy communication would help reinforce monetary policy effectiveness.** While recent FX interventions by the NBG have likely prevented disorderly market conditions (Box 1), given low reserve coverage, the focus should remain on opportunistic FX purchases, while allowing the exchange rate to act as a shock absorber. The NBG should avoid actions that risk undermining monetary policy transmission, transparency, and credibility, such as allowing the interbank rate to exceed the policy rate—effectively tightening monetary policy without clear communication. Monetary policy

<sup>2</sup> See the 2024 Selected Issues Paper "Inflation and Monetary Policy in Georgia". Staff estimates the neutral rate to be around 7½-8¼ percent, while the authorities estimate it at 7 percent.

communication could be strengthened by clarifying the NBG's assessment of the balance of risks and how it informs policy decisions.

### Box 1. Recent Foreign Exchange Interventions in Georgia<sup>1</sup>

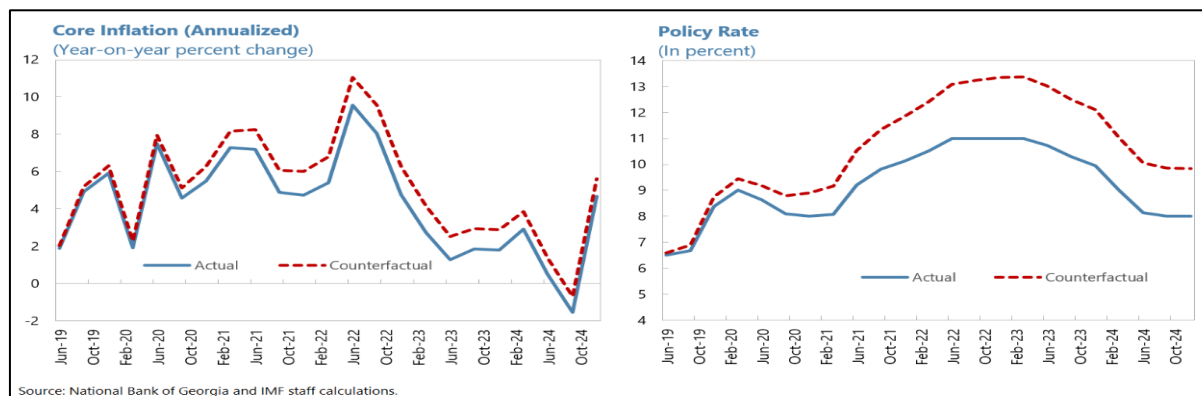
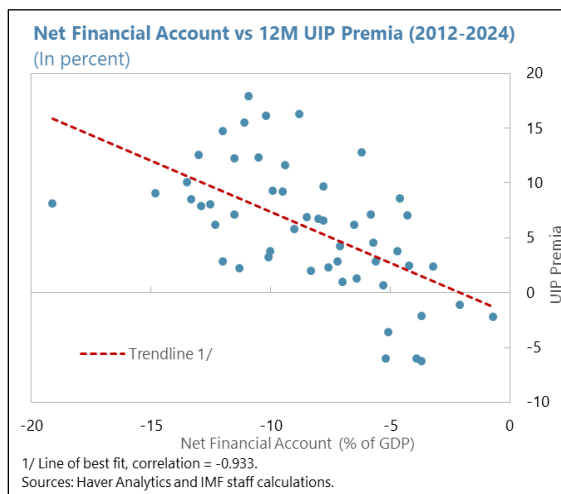
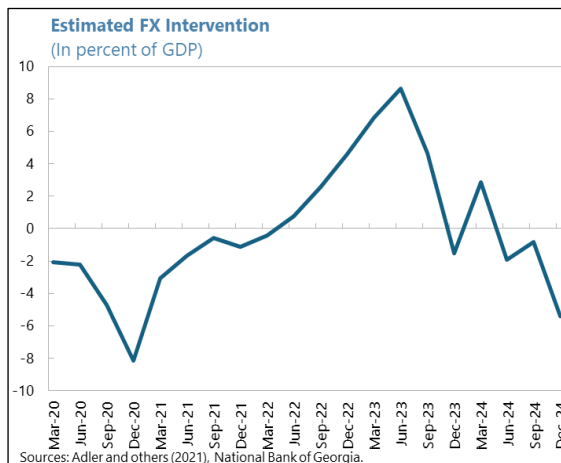
**From 2020 to 2024, the NBG actively intervened in the FX market to mitigate exchange rate pressures.**

A first round of interventions was prompted by pandemic-related outflows and a second round by uncertainty ahead of the October 2024 Parliamentary elections. The IMF's Integrated Policy Framework (IPF) helps assess the costs and benefits of such interventions based on country-specific characteristics. While flexible exchange rates should be the primary shock absorber under an inflation-targeting regime, FX intervention (FXI) can be appropriate in specific cases to mitigate large shocks.

**Georgia's shallow FX market increases vulnerability to external shocks, creating a case for FXI.** This

vulnerability is reflected in the country's high and volatile Uncovered Interest Parity (UIP) premia, which are highly sensitive to shifts in international capital flows. Consequently, changes in investor sentiment, unrelated to economic fundamentals, can pressure the exchange rate, increase funding costs, and generate distortions that monetary policy alone cannot address.

**Intervention by the NBG likely yielded short-term benefits by lowering inflation and interest rates, but the long run costs likely outweighed the benefits.** Using an estimated DSGE model for Georgia, we explore a counterfactual scenario without FXI (text charts). Model estimates suggest that without FXI during 2020-2024 inflation and interest rates would have been higher and GDP slightly lower. However, the model underestimates the costs of FXI, including its adverse impact on hedging market development, running down reserves to low levels, and potential implications for the credibility of the NBG's commitment to flexible exchange rates and inflation targeting.



**Box 1. Recent Foreign Exchange Interventions in Georgia (Concluded)**

**Several preparatory steps would be critical to effectively operationalize FXI in the future.** Given the high uncertainty surrounding the drivers of exchange rate pressure, low reserve levels, and concerns about the perceived independence of the NBG, a more measured approach would have been warranted. Steps to operationalize future FXI include (i) strengthening institutional independence (¶14); (ii) accumulating higher reserve buffers; and (iii) developing a clear and transparent framework for assessing the conditions under which FXI is justified, defining implementation modalities consistent with a prudent risk management approach, and effectively communicating the approach to the public.

1/ See the Selected Issues Paper, "Foreign Exchange Intervention in Georgia: An Application of the Integrated Policy Framework", accompanying this report for more details.

**14. Strengthening NBG governance and independence remains a priority.** The NBG has implemented most recommendations from the 2022 Safeguards Assessment, including filling the board vacancies and appointing a governor. However, proposed amendments to enhance governance and financial autonomy in the NBG Law remain outstanding (Annex I). In line with IMF TA, the NBG law should be amended to: (i) ensure a non-executive majority on the NBG's oversight board, (ii) clarify the NBG succession framework and strengthen board member qualification criteria, and (iii) limit the possibility of discretionary financial transfers to the government. Shifting from a presidential to a collegial decision-making model is also desirable.

**Authorities' Views**

**15. The authorities broadly agreed with staff advice.** The NBG viewed the current policy stance as mildly tight and appropriate in light of geopolitical uncertainty, while remaining flexible on future adjustments. They concurred on the need to continue building reserves—while diversifying their composition—and preserving exchange rate flexibility. They acknowledged the importance of managing liquidity adequately to maintain alignment between the policy and interbank rates going forward. They were open to enhancing NBG governance in line with Fund advice, preferring a gradual shift toward a collegial decision-making model, starting with monetary policy. They noted that the discretion to make transfers from the reserve fund has never been exercised and were open to eliminating it.

**B. Creating Space for Priorities and Managing Fiscal Risks**

**16. With public debt at prudent levels, maintaining a broadly neutral policy stance over the medium term is appropriate.** Given staff's stronger growth projection, a slight budget overperformance is expected in 2025. Planned deficits of 2.3–2.5 percent of GDP in the coming years will keep the debt ratio close to its current level, well below the fiscal rule ceiling (Annex III, and 2024 AIV SR Annex V). The emphasis on infrastructure projects to support regional connectivity is appropriate. The objective to increase the share of domestic debt should be managed carefully to avoid crowding out private credit and limit risks from higher borrowing costs and a stronger sovereign-bank nexus. The authorities plan to roll over the USD 500 million Eurobond maturing in April 2026.



**17. While notable progress has been made, further tax policy and administration reforms are needed to secure revenue for spending priorities.** Higher excises on cigarettes, gambling sector taxes, and measures to address tax avoidance and evasion, especially in construction, are expected to yield 0.3 percent of GDP from 2025 onwards (Text Table 2). The Medium-Term Revenue Strategy (MTRS) should be strengthened by clearly outlining planned reforms, implementation timelines, and expected revenue yields. Further actions should include: (i) streamlining tax expenditures, (ii) simplifying property taxation and strengthening mining taxation, (iii) improving access to third-party data, including from financial institutions, (iv) advancing compliance risk management in high-risk sectors, and (v) expanding Large Taxpayer Office (LTO) coverage to affiliates, subsidiaries, and high-net-worth individuals (Box 2).

**Text Table 2. Revenue Yields from Recent Tax Policy and Administration Measures**

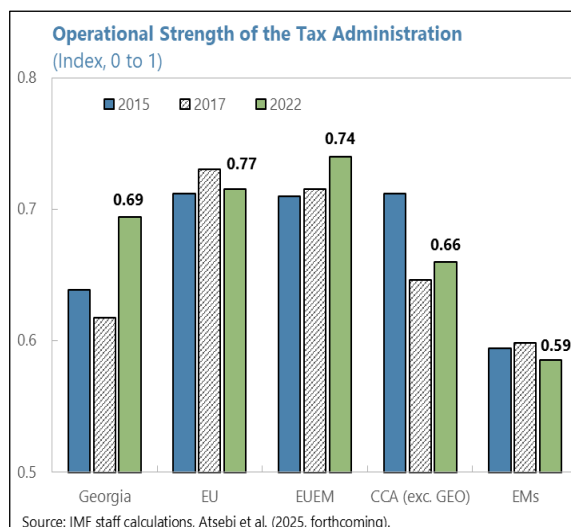
Tax Policy and Administration Measures	Revenue yields (percent of GDP)
<b>Tax Policy Measures</b>	
Higher excises on cigarettes	0.08
Higher CIT and PIT rates on gambling sector	0.15
<b>Tax Administration Measures</b>	
Addressing the misuse in the construction sector of contractual employment taxed at 1 percent	0.10
<b>Total</b>	<b>0.33</b>
Sources: Country authorities, and IMF staff calculations	

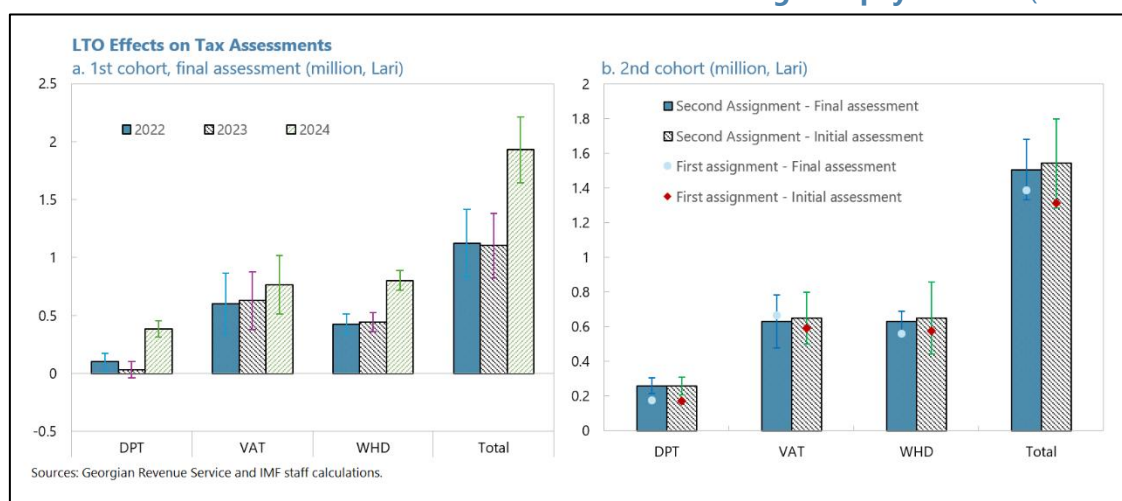
**Box 2. The Revenue Yield from the Reestablishment of the Large Taxpayer Office (LTO)<sup>1</sup>**

**Georgia has made significant improvements in tax administration over the past decade.** This was critical for strengthening revenue collection. As of 2022, Georgia ranked within the top 30 percent of tax administrations globally, with an operational strength index slightly below the EU average but above that of emerging market and CCA peers.

**The reestablishment of the LTO in 2021 further contributed to this strong performance.<sup>2</sup>** The success of the new LTO rests on pursuing two main objectives: (i) enhancing services for large taxpayers, and (ii) improving enforcement through data-driven risk analysis and compliance risk management. A new Risk Differentiation Framework was introduced to classify taxpayers by risk levels, supporting more targeted audits. Important features included the establishment of a Compliance Risk Committee and the creation of dedicated Service, Analysis, and Transfer Pricing divisions.

**The LTO's coverage has expanded significantly since its reestablishment, supported by a clear, multi-criteria classification system.** Initially, 203 taxpayers were identified in 2021 (first cohort), increasing to 264 by 2024 following revised thresholds (second cohort).



**Box 2. The Revenue Yield from the Establishment of the Large Taxpayer Office (Concluded)**

**The reintroduction of the LTO has boosted tax revenue by 0.4–0.7 percent of GDP through enhanced enforcement and taxpayer services, with increasing impact over time.**

- For the first cohort assigned in 2021, the LTO led to an annual increase of GEL 1.4 million in final tax assessments per taxpayer—mainly from VAT (GEL 670,000), withholding tax (WHD, GEL 560,000), and distributed profit tax (DPT, GEL 175,000). With operating costs of only GEL 645,000, the LTO has proven highly cost-effective. The impact grew over time, peaking in 2024. For the second cohort assigned in 2024, final tax assessments rose from GEL 1.4 to 1.5 million per taxpayer compared to the first cohort.
- A 2023 survey found that 98 percent of large taxpayers were satisfied with the LTO's services, and 80 percent reported improved understanding and compliance. On enforcement, the LTO identified 67 high-risk companies (mainly for under-reporting) flagging near GEL 260 million in potential tax losses.
- Higher accrual tax payments and more collection letters indicate stricter enforcement, while fewer audits and correction of initial tax assessments suggest better voluntary compliance and reporting. These gains come at lower administrative costs, with enforcement effectively focused on higher-risk taxpayers.

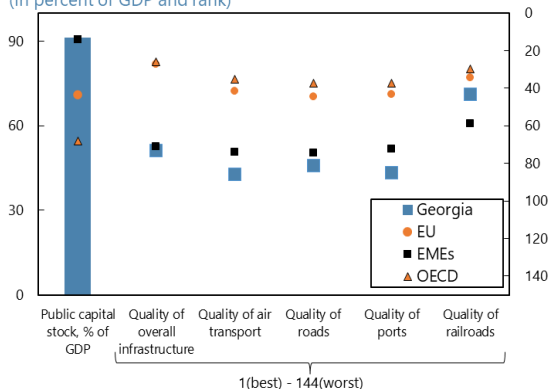
1/ See the Selected Issues Paper, "Georgia's Large Taxpayer Office (LTO): Revenue Yields and Taxpayers' Behavioral Changes" for more details.

2/ The first LTO was dismantled in 2011 due to concerns about its performance.

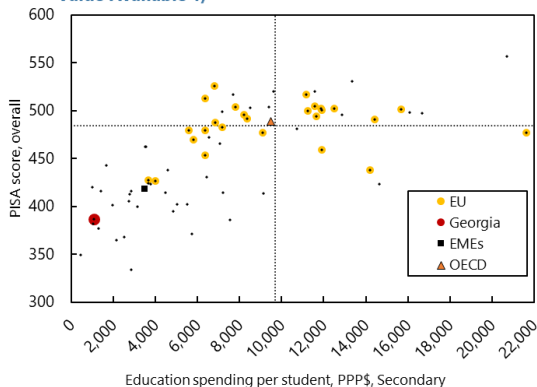
**18. There is scope to further strengthen public investment management (PIM) and enhance spending efficiency.** Despite high public investment, infrastructure quality remains below that of many emerging market peers, highlighting the need for continued and more effective implementation of improved PIM processes. A digital PIM module is being tested, with plans to integrate it into the 2026 budget. Spending reviews on education and health could improve outcomes at current expenditure levels. While social assistance is relatively generous, coverage and targeting—excluding social pensions—could be improved to prioritize the most vulnerable households. The planned pilot of an enhanced proxy means test formula—developed with World Bank support—for targeting social assistance beneficiaries, ahead of its full adoption next year, is a welcome step, along with continued efforts to assess and strengthen active labor market policies, including the public works program.

**Text Figure 2. Georgia: Efficiency of Public Spending**

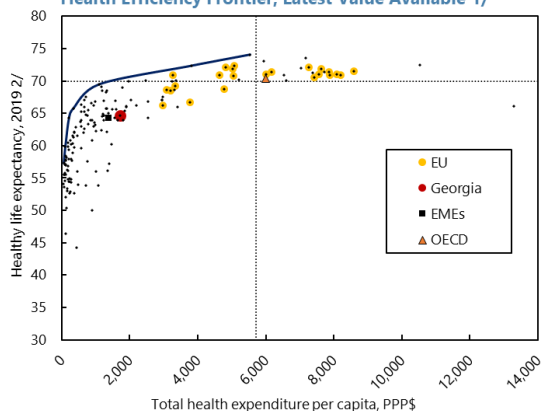
**Capital Stock and Infrastructure Quality, Latest Value Available**  
(In percent of GDP and rank)



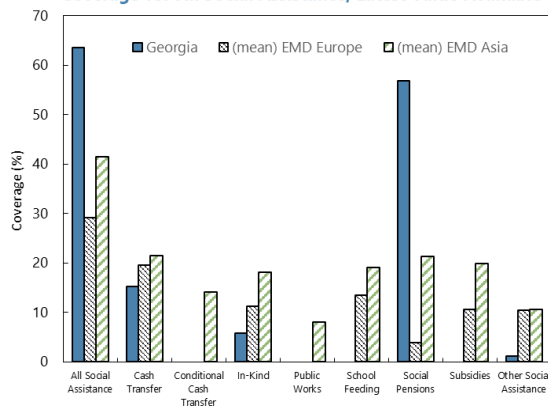
**Government Education Spending and Outcome, Latest Value Available 1/**



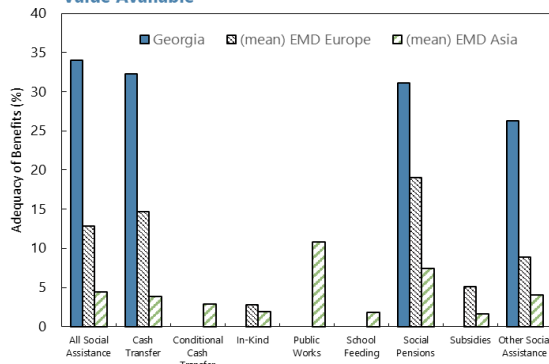
**Health Efficiency Frontier, Latest Value Available 1/**



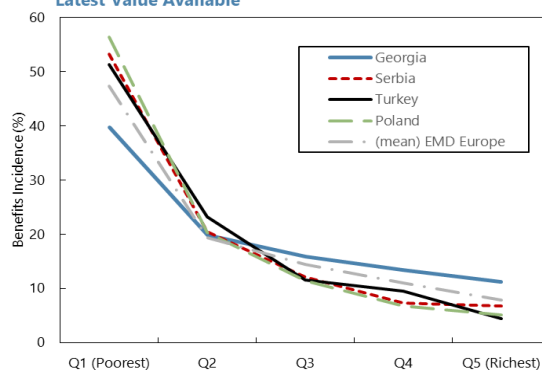
**Coverage for All Social Assistance, Latest Value Available**



**Adequacy of Benefits for All Social Assistance, Latest Value Available**



**Beneficiary Incidence by Quintile, All Social Assistance, Latest Value Available**



Sources: IMF FAD Expenditure Assessment Tool, the World Bank, World Health Organization.

Note: EME: Emerging Market Economies; EMD: Emerging Market Economies and Developing Countries.

1/ Dashed line is the average for the EU.

2/ Healthy life expectancy (HALE) is a measure that applies disability weights to health states to compute the equivalent number of years of life expected to be lived in full health.

**19. Advancing SOE reform remains essential to improve operational efficiency, governance, and ensure adequate oversight and limit fiscal risks.** The authorities have partially implemented the reforms envisaged under the SBA, including piloting shared Ministry of Finance

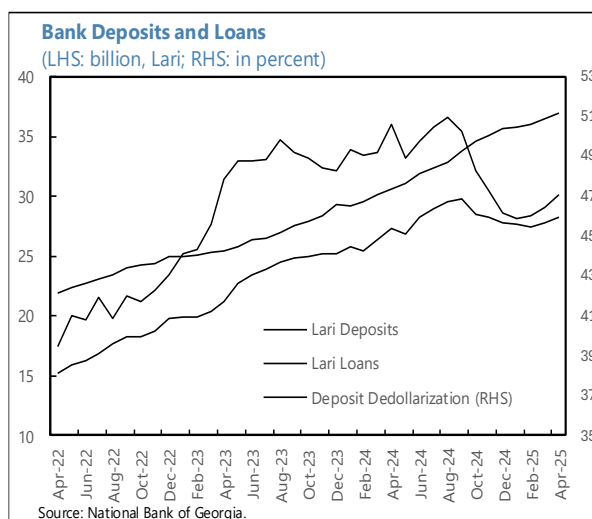
(MoF) and Ministry of Economy (MoE) ownership of three SOEs and enhancing MoF financial oversight over the seven largest SOEs. Drawing on the lessons from the pilots, the authorities will develop a reform roadmap to enhance SOE performance. While different modalities may be considered, completing key pending reforms remains crucial, including separating the state's shareholder, regulatory, and policy functions to avoid conflicts of interest—beyond the energy sector which has been recently unbundled—and strengthening corporate governance. IMF TA will assess recent actions and advise on alternative reform options.

### **Authorities' Views**

**20. The authorities plan to maintain prudent fiscal policy and broadly agreed with staff recommendations.** They intend to save revenue overperformance, though a budget revision could be considered later to support public investment. They agreed the MTRS could be further strengthened but cautioned against premature announcements of detailed changes that may distort taxpayers' behavior. They aim to build capacity and a framework to conduct spending reviews to improve efficiency. They acknowledged the need to improve targeting of social spending, while noting its political sensitivity. On SOE reform, the authorities stressed it is a top government priority and should entail strong oversight by the MoF without interfering in day-to-day SOE operational decisions.

## **C. Maintaining Financial Sector Resilience**

**21. The banking system remains sound, but continued vigilance is needed to address long-standing and emerging vulnerabilities.** While NBG policies have helped reduce both loan and deposit dollarization over the past decade, the share of unhedged FX bank loans remains high at around 80 percent. The NBG has recently raised the FX loan threshold for unhedged borrowers to GEL 750,000, targeting households and small businesses, assuming larger unhedged borrowers can better manage FX risks. However, an outright ban on FX borrowing by unhedged borrowers might be more effective. With shrinking lari deposits and rapidly expanding lari loans, especially consumer loans, banks—particularly smaller ones—have faced lari funding pressures and higher funding costs, potentially weighing on profitability. Meanwhile riskier nonbank financing—including FX bond issuance and lending by real estate developers—has risen considerably. Neither



risk is deemed systemic at this stage, but continued close monitoring is warranted, along with tighter borrower-based macroprudential measures if risks intensify.<sup>3</sup>

**22. Enhancing macroprudential and crisis management frameworks remains essential to mitigate risks from systemic banks.** The cycle-neutral countercyclical buffer will be gradually increased from ½ percent currently to 1 percent by March 2027. The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for domestic systemically important banks will be gradually raised from the current 10 percent to 20 percent of total loss-absorbing capacity by the end of 2027. All MREL-eligible capital instruments are now required to include a contractual bail-in clause; however, the NBG is currently revising the MREL framework to address creditor immunity issues. Banks have started contributing to the ex-ante resolution fund, expected to reach its target size by 2033, but key operational details are pending. Deposit guarantee coverage has been raised to GEL 30,000, sufficient to cover all small depositors, but securing back-up funding remains a key step, as the fund remains underfunded. The authorities should continue efforts to make the resolution framework fully operational.

**23. Additional reforms would help mitigate financial sector risks, including from virtual assets and cross-border activities, and improve competition in financial services.**

Implementation of the IMF's 2021 Financial Sector Assessment Program (FSAP) recommendations is nearly complete (Annex V). The NBG has begun registering virtual asset service providers (VASPs) with IMF TA support, and the next step is to establish an effective regulatory and supervisory framework for VASPs. Developing a consolidated supervision framework—with upcoming IMF TA support—is a priority, particularly in light of rising financial stability risks from large banks expanding into non-bank (insurance, asset management) and cross-border activities. Improving competition in financial services is also important, including by fostering innovation through open banking initiatives. The NBG's instant payment system, expected to launch in the second half of 2026, aims to promote competition and financial inclusion through real-time, around-the-clock transfers and reduced reliance on large-bank-dominated card networks.

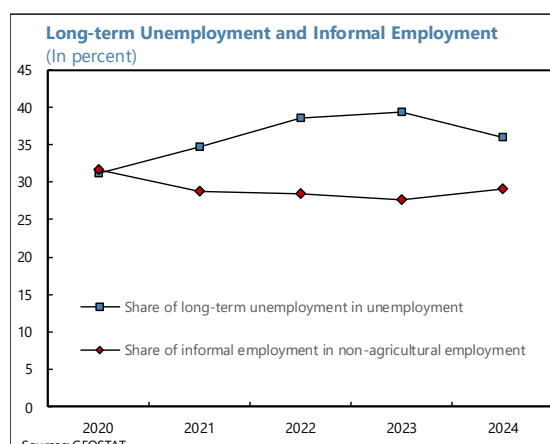
### ***Authorities' Views***

**24. The authorities remain committed to strengthening the financial sector policy framework.** They agreed on the need to monitor rapid growth in consumer lending and non-bank activity in the real estate sector and have requested Fund TA to help operationalize the resolution framework and enhance consolidated supervision of financial groups. Efforts to strengthen competition are ongoing, with planned measures in financial services supported by the World Bank. While agreeing on the merits of banning unhedged borrowing, they viewed the FX threshold as a more practicable alternative.

<sup>3</sup> The NBG introduced the Liquidity Coverage Ratio (LCR) in 2017 and the Net Stable Funding Ratio (NSFR) requirements in 2019, which are both capital flow management and macroprudential measures (CFM/MPMs) under the Fund's Institutional View on the Liberalization and Management of Capital Flows as their calibrations distinguish between residents and non-residents.

## D. Enhancing Inclusive Growth

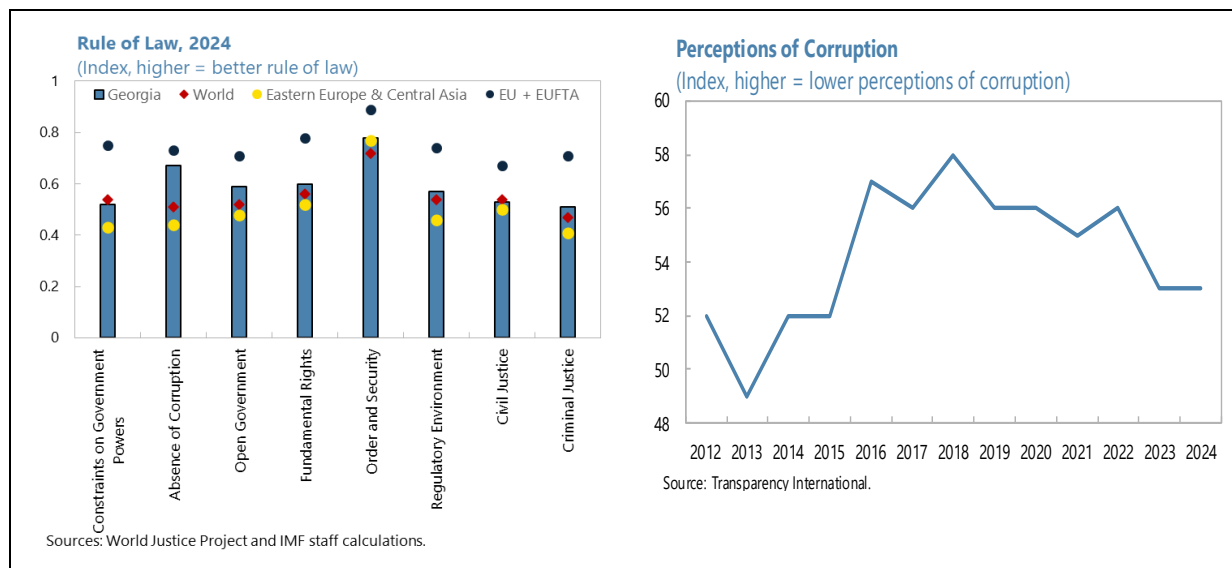
**25. Structural reforms are needed to sustain high growth and make it more inclusive and job rich.** Potential growth remains constrained by structurally high long-term and youth unemployment, low educational attainment, infrastructure bottlenecks in transport and logistics, and low agricultural productivity.<sup>4</sup> Income inequality remains elevated compared to peers, and outward migration and informality pose challenges for the labor market.



- Improving productivity and ensuring job-rich growth.** Informality remains significant in certain sectors (Box 3), weighing on tax revenue and labor productivity. Agricultural productivity and educational attainment also remain low relative to peers. Addressing these gaps—through better targeting agricultural support, improving teacher quality, and expanding vocational training—can help raise rural labor force participation and enhance skills to facilitate the transition into more productive, formal employment.
- Managing risks and opportunities from emigration.** While emigration has contributed to human capital loss, it also brings benefits through remittances and return migration, boosting incomes, foreign currency, and labor market skills (Box 4). Minimizing adverse impacts and harnessing benefits require: i) investing in vocational education, training, and career development of young professionals to develop and retain their skills; ii) promoting financial literacy and mobilizing the diaspora to channel remittances into physical and human capital investments; iii) encouraging return migration through reintegration programs and entrepreneurial support; and iv) attracting foreign talent through tailored immigration policies and international partnerships.
- Diversifying the economy and reducing infrastructure bottlenecks.** Georgia has benefitted from increased trade flows through the Middle Corridor, but high transport and logistics costs remain a constraint. Continued infrastructure investment—including in transport and logistics—and efforts to coordinate with regional partners to harmonize fees and procedures, will be important to support long-term competitiveness.
- Strengthening Governance.** Georgia continues to outperform regional peers on governance indicators like rule of law and corruption perception but has seen deterioration over the past five years. The [2024 European Commission Report](#) highlights the persistent influence of vested interests across political, judicial, and economic spheres. Reinforcing judicial independence and strengthening the Anti-Corruption Bureau’s autonomy are

<sup>4</sup> See the 2024 Selected Issues Paper “Medium-Term Growth Prospects and Policies”.

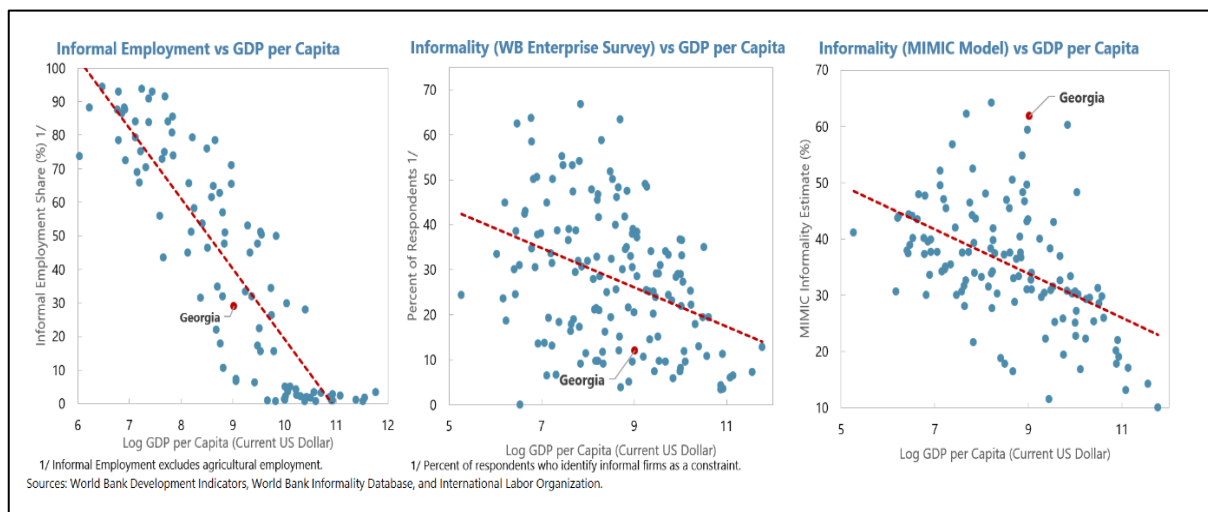
essential to improve the business environment. Asset declaration reforms adopted in May 2024 are a welcome step, but risk-based verification and effective sanctions remain essential.



### Box 3. Informality in the Georgian Economy<sup>1</sup>

**Informality, or activity outside of the formal regulated economy, has long been identified as a significant structural issue for Georgia.** The European Commission, for instance, identifies the “high level of informal employment” as one of the key barriers preventing Georgia from achieving a fully functioning market economy ([European Commission, 2023](#)).

**Survey estimates of informality for Georgia are low to moderate, while modelled estimates are significantly higher.** Surveys of workers and firms typically find lower informality compared to countries with similar economic development, while modelled estimates, using proxies such as electricity usage, are significantly higher. One popular model variant from the World Bank’s Informal Economy Database reports over 60 percent of Georgian GDP as informal—the third highest globally.

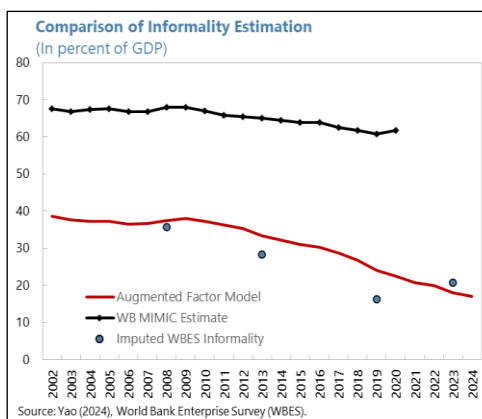




### Box 3. Informality in the Georgian Economy (Concluded)

**When methodological improvements are made to traditional modelling approaches, they also indicate moderate levels of informality in Georgia.**

These macro-models have well established shortcomings, and organizations such as the OECD have recommended avoiding relying on them and using direct measures as much as possible. A recent paper ([Yao, 2024](#)) addressed many of these issues, partly by incorporating direct survey measures into the model, resulting in substantially lower estimates (around 20 percent of GDP) and showing a pronounced decline over time, in line with various policy reforms implemented during this period.



**The cost of informality and appropriate policy response depend on its underlying causes.** If informality results from excessive or poorly designed regulation that discourages formal firm creation, the economic costs can be high, and regulatory reform is needed. If instead it reflects a lack of good formal jobs, the focus should be on job creation rather than preventing informal work. Evidence suggests the latter is predominant in Georgia. Since the mid-2000's, reforms have significantly reduced bureaucracy around firm registration, even compared to European counterparts, indicating limited informality due to regulation. Labor force surveys suggest most informal workers are in low paid, insecure jobs, either in micro firms or self-employment.

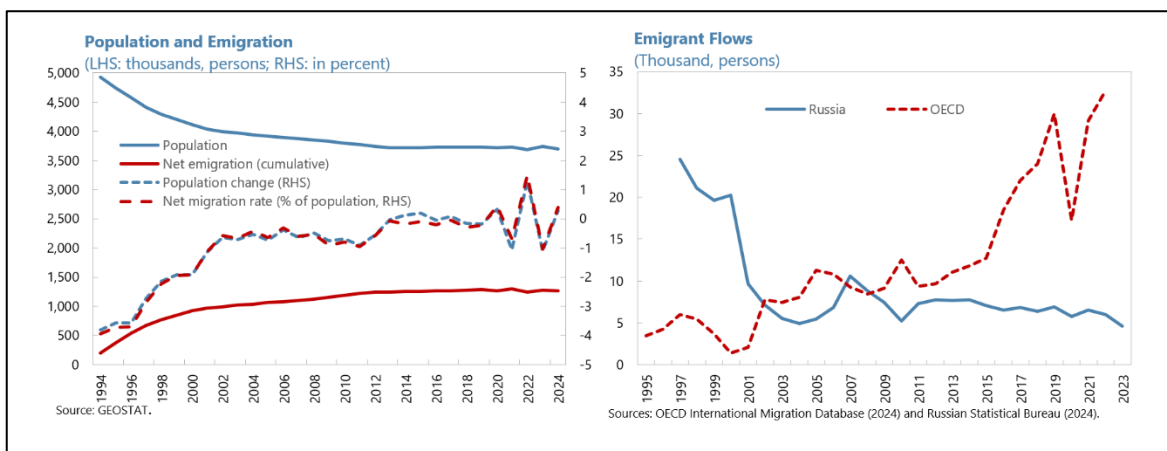
**Sustained growth should gradually reduce informality, but targeted actions can help.** Georgia has implemented many policy reforms recommended to address informality ([World Bank, 2022](#)), which likely explains why its informality measures are lower than those of its peers. Targeted policies in cash intensive and lightly regulated sectors like construction, food services, and childcare could further reduce informality. As Georgia continues to grow and provide greater opportunities for well-paying formal work, the informal sector is expected to shrink naturally—as seen in other countries.

1/ See the Selected Issues Paper, "Informality in the Georgian Economy", accompanying this report for more details.

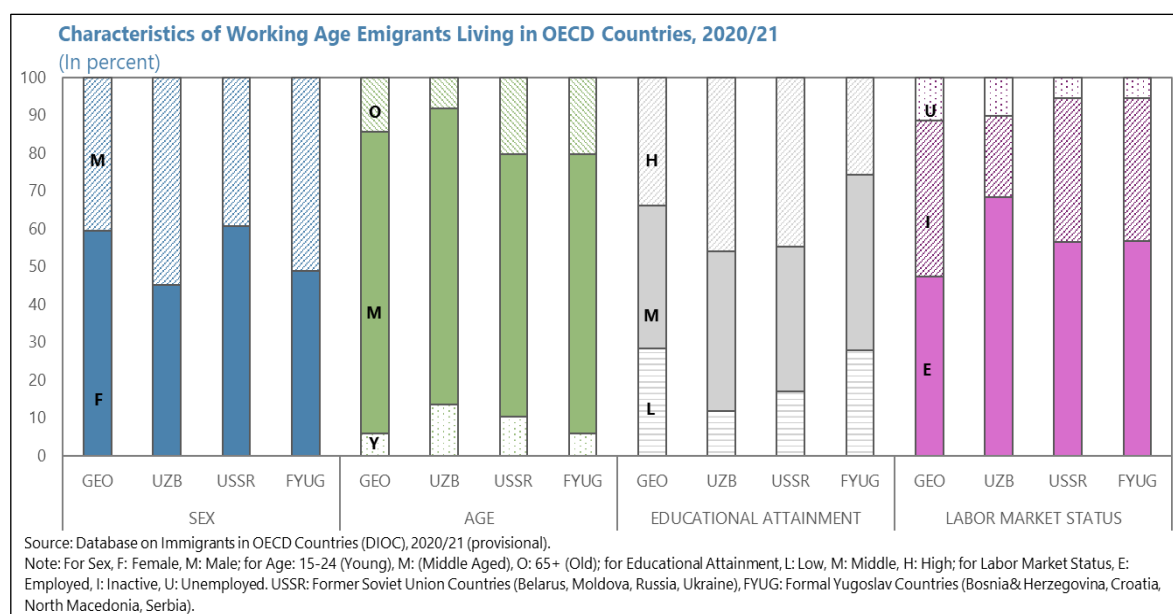


### Box 4. Impact of Emigration on the Georgian Labor Market<sup>1</sup>

**Emigration from Georgia has slowed but remains significant, with emigrants increasingly moving to OECD countries for employment purposes.** After the fall of the Soviet Union, emigration from Georgia surged, reaching 1 million people by 2001. Since then, it has slowed, but remained significant, averaging 100,000 people per year. Following an initial wave of migration to Russia in the 1990s, emigrants have increasingly moved to OECD countries mainly to seek jobs, with Western Europe (particularly Germany, Italy, Spain, France) receiving majority of migrants.



**Georgian emigrants in OECD countries are typically older and lower skilled, with higher unemployment and inactivity rates, indicating limited brain drain compared to peers.** Their educational attainment is also lower compared to Georgia's population. In 2020/21, 30 percent of working age Georgian emigrants had low and another 30 percent had high educational attainment, while in Georgia 5 percent had low and 40 percent had high educational attainment. In addition, Georgian emigrants have not experienced better labor market outcomes than non-migrants, with nearly 20 percent unemployed and over 40 percent inactive (not in the labor force) in 2020/21, similar to Georgia's labor force statistics during the same period.



**Box 4. Impact of Emigration on the Georgian Labor Market (Concluded)**

**Emigration has contributed to a declining workforce and an aging population, potentially hampering growth and budget finances.** Georgia's population has stabilized since 2014 around 3.7 million, but working-age population has declined by 5 percent, mainly due to outward migration, which could reduce labor supply and annual output by 2 percent. The old age dependency ratio has also risen in the past decade and is higher compared to peers. This will likely strain social welfare and pension systems, while the latest fiscal risks statement (2024) suggests aging costs remain manageable.

**Emigration has also led to large remittance inflows, boosting household incomes and FX funding.**

Remittances have averaged around 15 percent of GDP in the past decade, similar to CCA peers but significantly higher than that of developing countries. Since they tend to be countercyclical, they provide a financial buffer during downturns, as was the case in 2020. At the micro level, remittances make up 40-45 percent of monthly income for receiving households, who earn 25-30 percent more than others, but have a 20 percent lower probability of employment.

**Return migration has been significant, with potential gains from skill and knowledge transfers.** Since 2012, Georgian returnees have averaged two thirds of those emigrating. Following Russia's invasion of Ukraine, for instance, many ethnic Georgians living in Russia moved back to Georgia along with Russian immigrants, contributing to high economic activity.

**The net impact of emigration depends on policies** (¶25). Georgia's [Migration Strategy for 2021-30](#) aims to develop a comprehensive migration management system in line with EU standards and minimize negative and maximize positive effects of migration on its development. Regular progress and impact assessments would help ensure its effectiveness.

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1/ See the Selected Issues Paper, "Impact of Emigration on the Georgian Labor Market", accompanying this report for more details.

**Authorities' Views**

**26. The authorities recognized many of these constraints to growth and are addressing them through various programs.** They noted that infrastructure projects to enhance the competitiveness of the Middle Corridor are a key strategic priority. A nationwide school reauthorization program is underway to identify and address issues in the education sector. Substantial progress on land registration in recent years should help raise agricultural productivity over time. The authorities noted Georgia's strong performance on governance metrics relative to peers and stressed that fighting corruption remains a government priority.

**STAFF APPRAISAL**

**27. Georgia's economy has demonstrated impressive resilience despite heightened domestic and geopolitical uncertainty.** Since 2021, real GDP growth has averaged over 9 percent annually, driven by a strong post-pandemic recovery and sustained expansion in ICT and transport services, supported by immigration, financial inflows, and transit trade linked to the war in Ukraine. These trends have boosted per capita income and reduced unemployment and poverty. Inflation has remained low, aided by tight monetary policy and a strong lari, while public debt returned to pre-

pandemic levels. However, challenges persist due to high structural unemployment, income inequality, outward migration, and informality.

**28. Economic activity is projected to remain strong in the near term and gradually converge to potential.** Real GDP growth is expected to reach 7.2 percent in 2025—driven by resilient domestic demand and continued strength in tourism, ICT, and transport—and converge to its medium-term potential of 5 percent. Inflation is projected to remain near the 3 percent target, and the current account deficit to stabilize around 5 percent of GDP. Reserves are projected to improve gradually, supported by opportunistic FX purchases and a recovery in FDI. The external position in 2024 was broadly in line with the level implied by fundamentals and desirable policies.

**29. Risks to the outlook are broadly balanced, amid high global uncertainty and political tensions.** A resolution of the war in Ukraine may reverse some gains from migration and transit trade, but greater regional stability and reconstruction could offset these effects. Direct exposure to global trade tensions is limited, given Georgia's low export share to the U.S. and exemptions for key products. However, indirect effects from weaker investor sentiment, slower trading partner growth, or supply chain disruptions could weigh on exports and raise import costs. Georgia might benefit from lower oil prices and increased trade diversion. Domestically, heightened political uncertainty and potential sanctions could dampen FDI, tourism, and pressure the lari. Georgia's fiscal and financial buffers would help cushion adverse shocks.

**30. The NBG should maintain a broadly neutral policy stance while remaining flexible and data driven.** With inflation near target, the policy rate close to neutral, and demand pressures easing, the current stance is appropriate. However, heightened global uncertainty and rising domestic food prices warrant a cautious approach to further easing. Opportunistic reserve accumulation—while preserving exchange rate flexibility—should be prioritized. While recent FX interventions may have mitigated market disorder, the NBG should avoid actions that could undermine policy transmission and credibility, such as sustained deviations between interbank and policy rates. Clearer communication on the balance of risks and policy rationale would enhance transparency and reinforce the effectiveness of the monetary policy framework.

**31. Strengthening NBG governance and independence remains an important priority.** There has been progress on implementing past recommendations, including filling board vacancies and appointing a governor. However, proposed amendments to enhance governance and financial autonomy in the NBG Law remain outstanding. Reforms should ensure a non-executive board majority, limit discretionary financial transfers to the government, further clarify succession rules for the governor, and strengthen board member qualifications. Adopting a collegial decision-making model would further enhance governance.

**32. Fiscal policy is well calibrated, and efforts should focus on strengthening revenue mobilization and improving spending efficiency.** Public debt is at prudent levels, and a neutral medium-term fiscal stance—with deficits below 2.5 percent of GDP—would help stabilize the debt ratio well below the fiscal rule ceiling. Revenue mobilization should be advanced through tax policy and administration reforms that expand the tax base and streamline tax expenditures, based on a

strengthened medium-term revenue strategy that clearly outlines planned reforms, implementation timelines, and expected yields. Spending efficiency can be enhanced through better implementation of public investment management processes and spending reviews. Social assistance should be better targeted to the most vulnerable households, alongside efforts to improve the public works program and employment incentives.

**33. Advancing SOE reform is essential to enhance performance, governance, and oversight to contain fiscal risks.** A strong oversight role of the Ministry of Finance must be ensured. The authorities should move expeditiously to develop and implement a reform roadmap. Key objectives should include separating the state's shareholder, regulatory, and policy functions to avoid conflicts of interest and strengthening corporate governance.

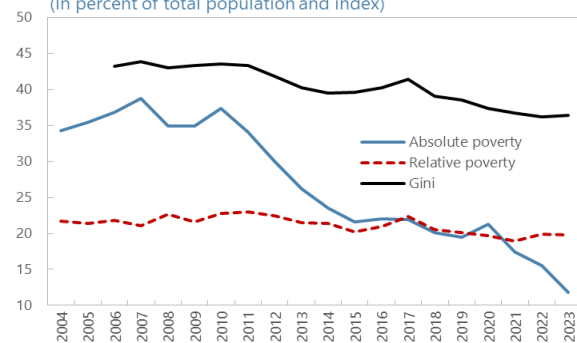
**34. The financial sector is sound and reforms have advanced, but further steps are needed to strengthen resilience and address evolving risks.** Sustained efforts are needed to further reduce dollarization, along with continued monitoring of rapid consumer loan growth and lari funding pressures. Enhancing macroprudential and crisis management frameworks is essential to mitigate risks from systemic banks. Priority should be given to fully operationalizing the resolution framework and strengthening deposit insurance, including by resolving remaining legal and operational issues. Establishing an effective supervisory framework for VASPs and developing a consolidated supervision framework are key priorities, given the expansion of cross-border and nonbank activities. Competition in financial services should be improved—including through open banking.

**35. Sustained structural reform is essential to support inclusive, job-rich growth and raise Georgia's growth potential.** Key priorities include addressing high structural unemployment, low agricultural productivity, and skill gaps through improved vocational training, teacher quality, and targeted agricultural support. Harnessing the benefits of emigration will require promoting return migration, leveraging remittances, and attracting foreign talent. Continued infrastructure investment and regional integration are needed to reduce transport and logistics costs and boost competitiveness. While Georgia outperforms peers on many governance indicators, recent backsliding underscores the need to reinforce judicial independence, empower the Anti-Corruption Bureau, and ensure effective enforcement of asset declaration reforms.

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

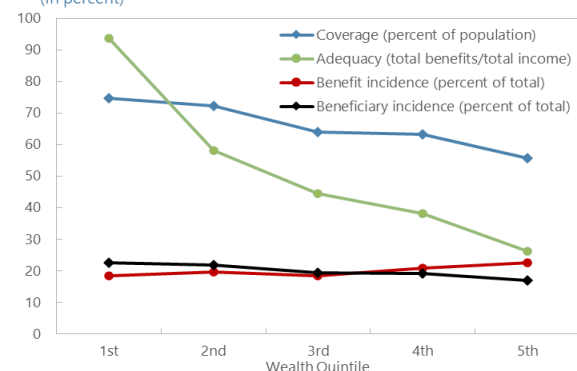
**Figure 1. Georgia: Selected Social Indicators**

*Absolute poverty has fallen in Georgia since the global financial crisis, while inequality has been more persistent.*

**Georgia: Poverty and Income Inequality, 2004-23**  
(In percent of total population and index)

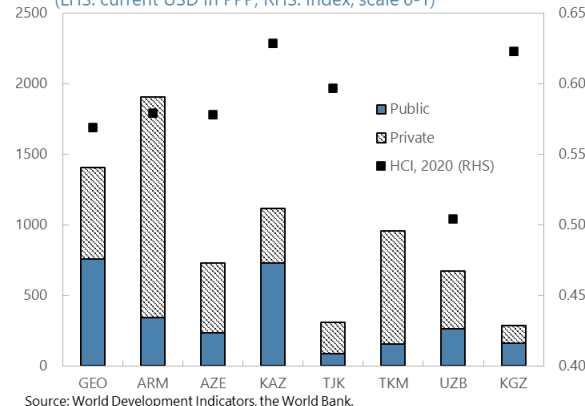
Source: GEOSTAT.  
Note: Absolute (relative) poverty refers to the percentage of population living under the national poverty line (60 percent of the median consumption).

*While social assistance coverage is adequate, driven by non-contributory pensions, incidence is low among poorer segments pointing to spending inefficiencies.*

**Georgia: Social Assistance Coverage and Adequacy by Quintile, 2021**  
(In percent)

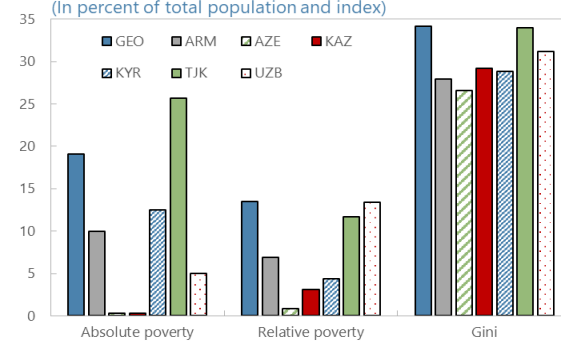
Source: The Atlas of Social Protection - Indicators of Resilience and Equity (ASPIRE).

*While Georgia has higher public health spending per capita, it lags in human capital development compared to most peers.*

**CCA: Public and Private Health Expenditure per Capita, 2021**  
(LHS: current USD in PPP; RHS: index, scale 0-1)

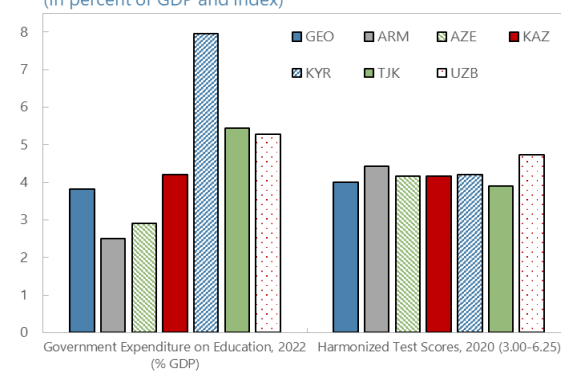
Source: World Development Indicators, the World Bank.

*Yet, both poverty and inequality in Georgia remain higher than in CCA peers.*

**CCA: Poverty and Income Inequality, Latest Value Available**  
(In percent of total population and index)

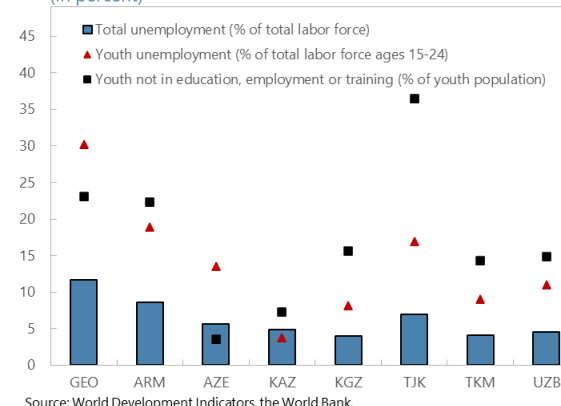
Sources: World Development Indicators, the World Bank.  
Note: Absolute (relative) poverty refers to the percentage of population living under \$3.65 a day [2017 PPP] (50 percent of the median income).

*Georgia lags many of its CCA peers on both education spending and outturns.*

**CCA: Education Spending and Outturns**  
(In percent of GDP and index)

Source: World Development Indicators, the World Bank.

*Georgia has the highest total and youth unemployment rate in the CCA, and a large share of youth that remains inactive.*

**CCA: Unemployment, 2023**  
(In percent)

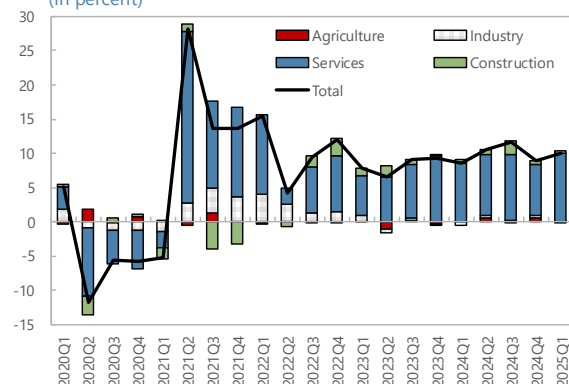
Source: World Development Indicators, the World Bank.

**Figure 2. Georgia: Real Sector Developments**

Growth remained strong in 2024, driven largely by ICT and transport services...

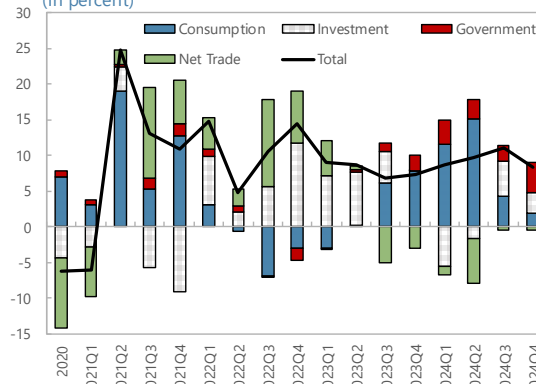
...and an increasing contribution from consumption.

**Contribution to Real GDP Growth by Sector**  
(In percent)



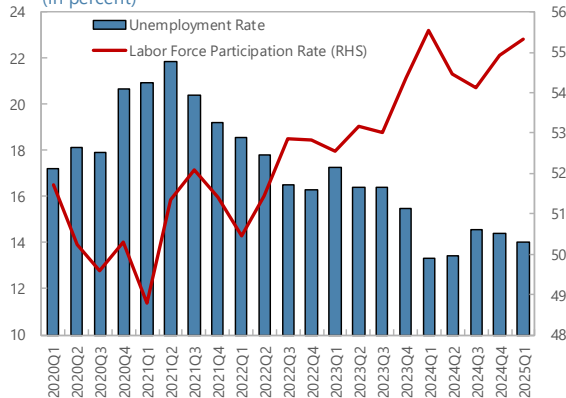
Note: Industry includes mining, manufacturing, energy & utilities, and others.

**Contribution to Real GDP Growth by Expenditure**  
(In percent)



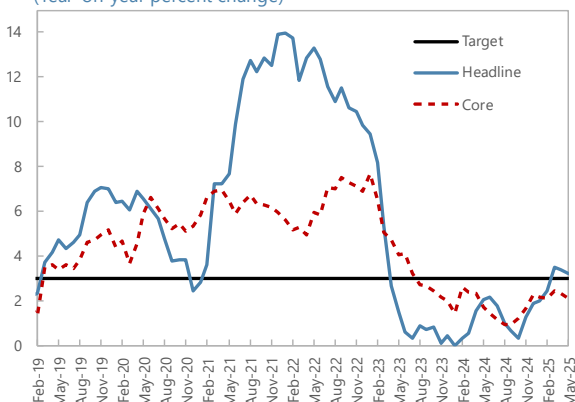
The unemployment rate is below and labor force participation is above pre-pandemic levels.

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



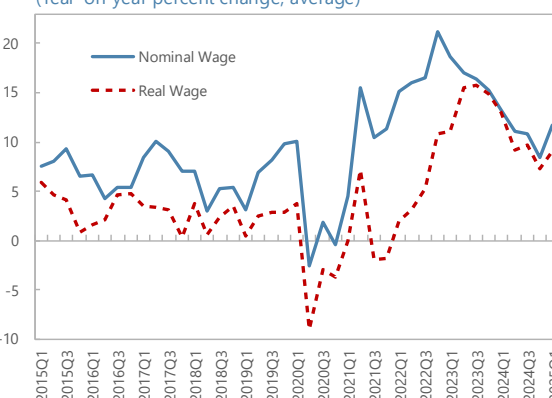
Headline has inflation increased above the NBG's target, but core inflation remains at a lower level.

**Inflation: Headline and Core Inflation**  
(Year-on-year percent change)



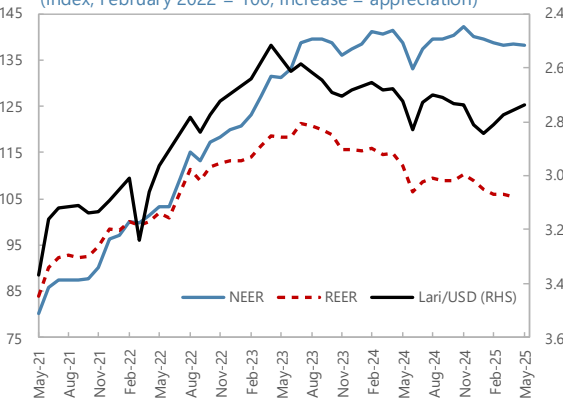
Real wage growth has slowed recently as labor demand eased toward the end of 2024.

**Wages**  
(Year-on-year percent change, average)



The lari been broadly stable 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)

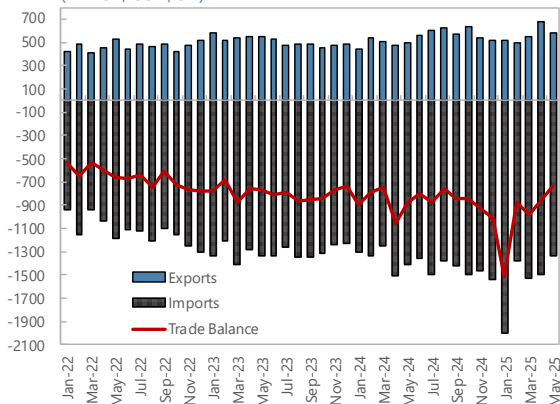


Source: National authorities, Haver, GEOSTAT, and IMF staff calculations.

**Figure 3. Georgia: External Sector Developments**

The goods trade balance has improved recently with imports receding amid lower global oil prices.

**Trade of Goods**  
(Million, USD, SA)

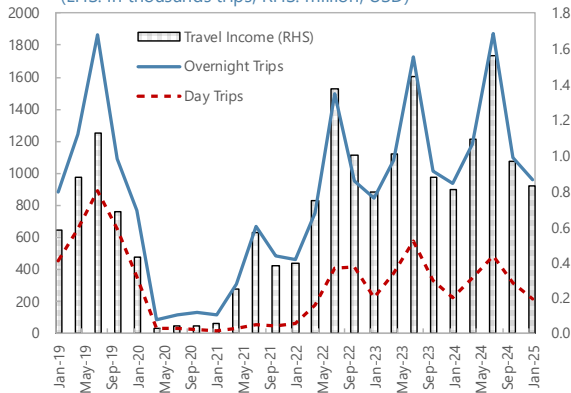


...with the potential for further recovery in the number of tourists towards pre-pandemic levels.

Tourism revenue has rebounded in recent years...

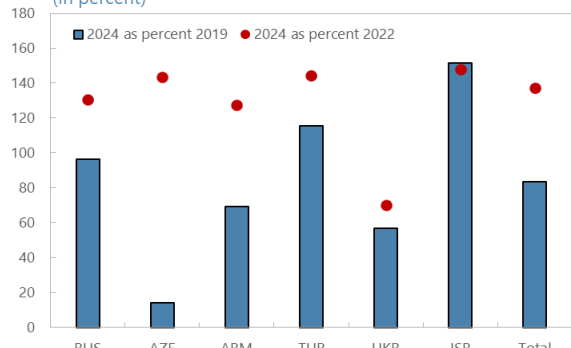
**Tourism Activity**

(LHS: In thousands trips; RHS: million, USD)



Net money transfers have stabilized, with lower flows from Russia offset by higher flows from other countries.

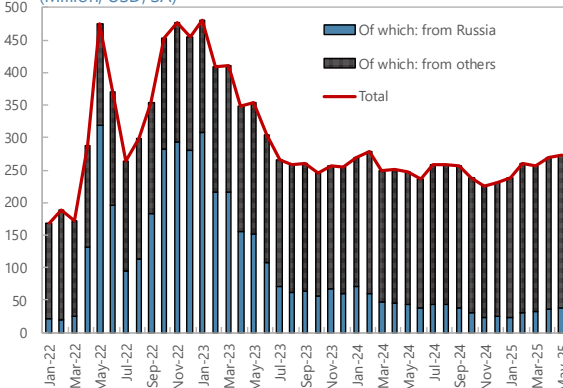
**International Visitors Trips**  
(In percent)



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

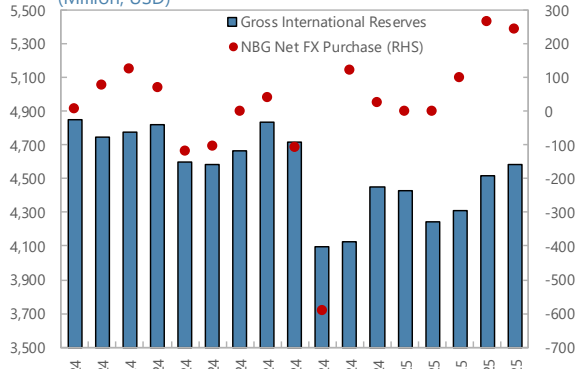
International reserves declined last year amid large FX sales, but the NBS has resumed FX purchases recently.

**Net Money Transfer**  
(Million, USD, SA)

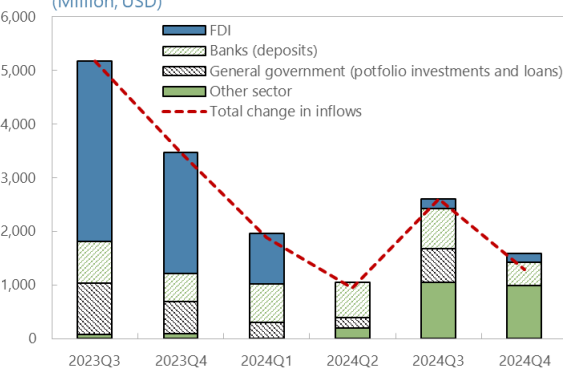


FDI and official flows have declined, partly offset by private inflows.

**Gross International Reserves and Net FX Purchases**  
(Million, USD)



**Financial Inflows**  
(Million, USD)



Note: Other includes central bank, other sector (households and firms), bank non-deposit and currency liabilities, trade credit, and derivatives.

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

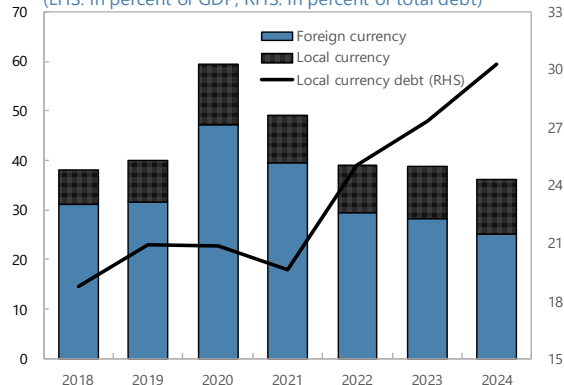


**Figure 4. Georgia: Fiscal Sector Developments**

Public debt has declined rapidly and now stands below pre-pandemic levels, with an increasing share in local currency.

**Public Debt**

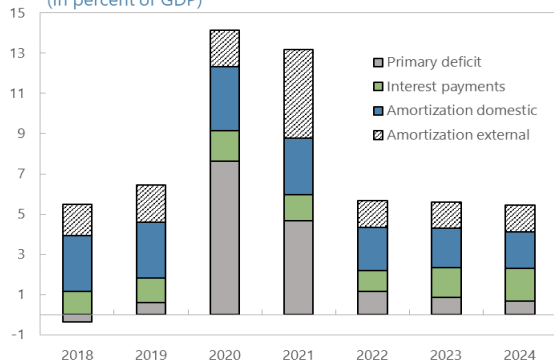
(LHS: in percent of GDP; RHS: in percent of total debt)



Financing needs have fallen below pre-pandemic levels, but the interest bill has risen amid tighter financial conditions.

**Gross Financing Needs**

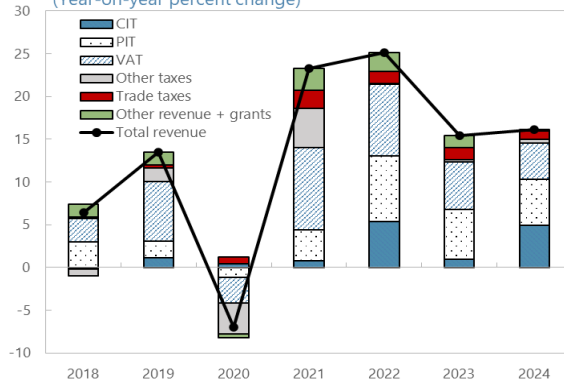
(In percent of GDP)



Tax revenues have increased across all major categories, which has enabled the government to lower the deficit...

**Total Revenue**

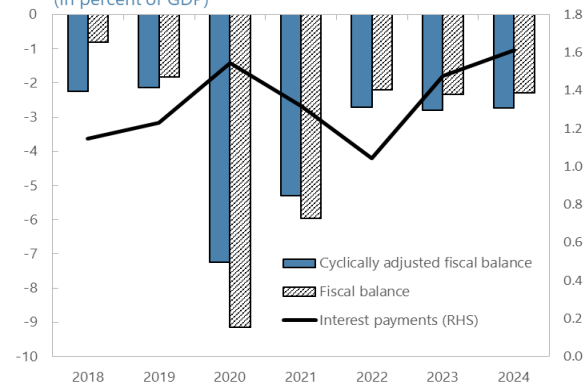
(Year-on-year percent change)



This decline was driven by significant fiscal consolidation, along with robust growth and a strong lari.

**Overall and Cyclically Adjusted Fiscal Balance**

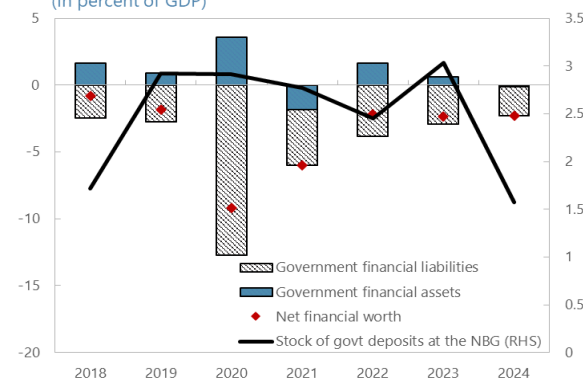
(In percent of GDP)



Net public financial worth has improved due to reduced liabilities, despite a decline in deposits at the NBG.

**Change in Financial Position**

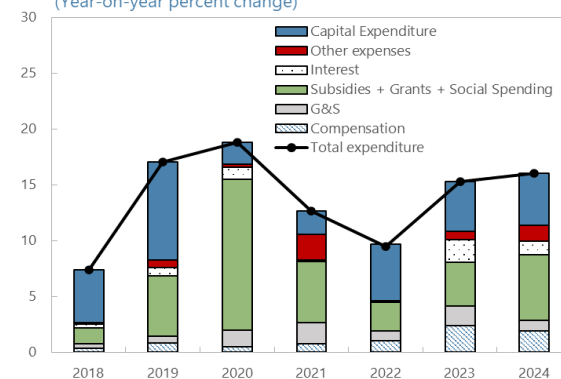
(In percent of GDP)



...while maintaining growth in social and capital expenditures, as well as in wages and spending on goods and services.

**Total Expenditure**

(Year-on-year percent change)



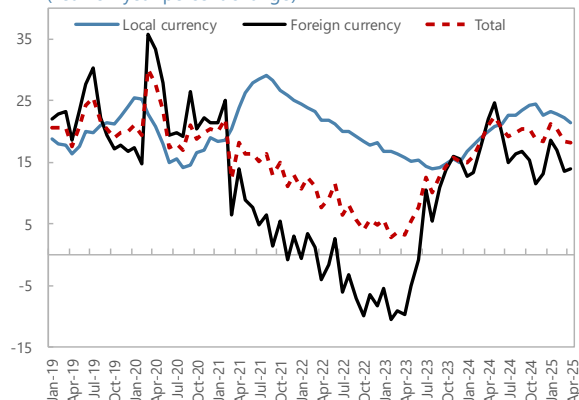
Sources: National authorities, and IMF staff estimates.



**Figure 5. Georgia: Financial Sector Developments**

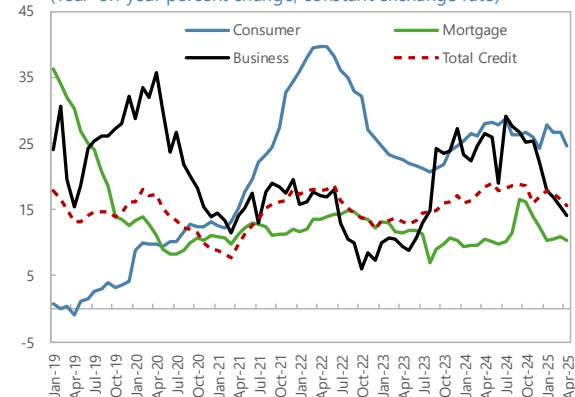
Credit growth has stabilized since mid-2024, with higher GEL credit growth offset by lower FX credit growth.

**Credit Growth by Currency**  
(Year-on-year percent change)



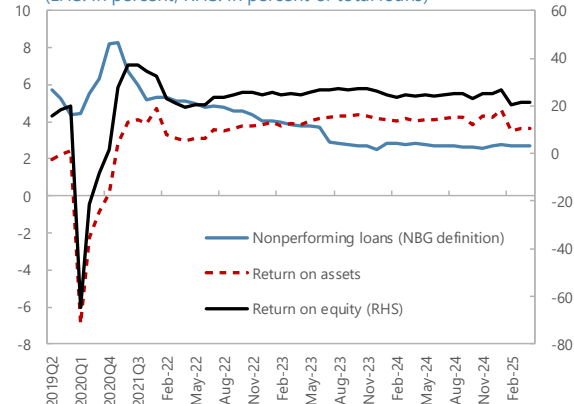
While consumer and business credit has slowed, mortgage credit has picked up.

**Credit Growth by Sector**  
(Year-on-year percent change, constant exchange rate)



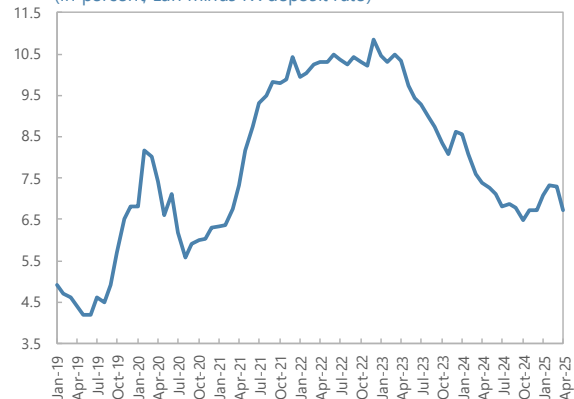
NPLs have remained below pre-pandemic levels and bank profitability has remained robust...

**Asset Quality and Profitability**  
(LHS: in percent; RHS: in percent of total loans)



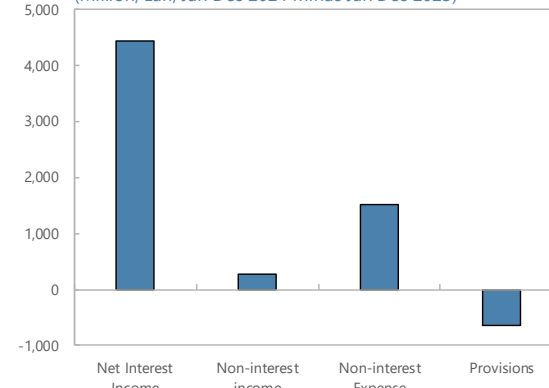
The interest rate differential between lari and FX deposits has picked up recently...

**Interest Rates Differential**  
(In percent, Lari minus FX deposit rate)



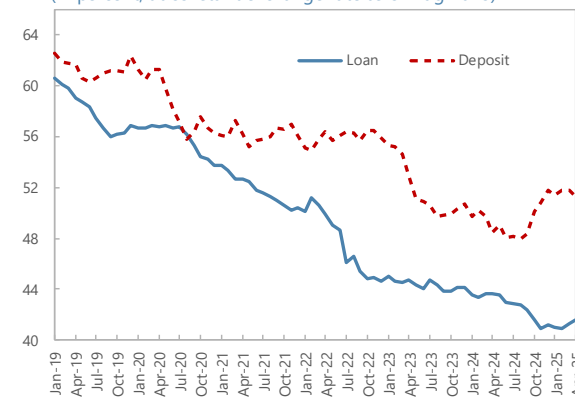
...owing to strong net interest income.

**Key Drivers of Bank Profitability**  
(Million, Lari, Jan-Dec 2024 minus Jan-Dec 2023)



...as deposit dollarization has recently reversed, while loan dollarization has continued to decline.

**Loan and Deposit Dollarization**  
(In percent, at constant exchange rate as of Aug 2018)



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

**Table 1. Georgia: Selected Economic and Financial Indicators, 2020–30**

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual					Projection					
National accounts and prices	(annual percentage change; unless otherwise indicated)										
Real GDP	-6.3	10.6	11.0	7.8	9.4	7.2	5.3	5.0	5.0	5.0	5.0
Output Gap	-6.9	-2.7	0.8	0.8	2.3	2.3	1.3	0.0	0.0	0.0	0.0
Nominal GDP (in billion of laris)	49.8	60.7	72.9	80.9	91.9	102.5	111.7	121.5	131.9	143.4	155.9
Nominal GDP (in billion of U.S. dollars)	16.0	18.8	25.0	30.8	33.8	36.7	39.2	41.4	43.6	46.1	48.6
GDP per capita (in thousand of U.S. dollars)	4.3	5.1	6.8	8.2	9.1	9.9	10.6	11.2	11.8	12.5	13.2
GDP deflator, period average	6.8	10.3	8.1	2.9	3.8	4.1	3.5	3.5	3.5	3.5	3.5
CPI, Period average	5.2	9.6	11.9	2.5	1.1	3.4	3.1	3.0	3.0	3.0	3.0
CPI, End-of-period	2.4	13.9	9.8	0.4	1.9	3.6	3.0	3.0	3.0	3.0	3.0
Core CPI, End-of-period	5.3	5.9	6.9	2.0	2.3	...	...	...	...	...	...
Investment and saving	(in percent of GDP)										
Gross national saving	12.2	10.4	19.6	19.4	18.4	17.9	18.5	18.9	18.8	19.1	19.1
Investment	24.6	20.7	24.1	25.0	22.8	22.4	23.1	23.6	23.7	23.9	24.1
Public	8.5	7.6	7.6	8.1	8.3	7.7	7.8	7.7	7.6	7.7	7.7
Private	16.1	13.1	16.4	16.9	14.5	14.7	15.3	15.9	16.1	16.2	16.4
Consolidated government operations	(in percent of GDP)										
Revenue and grants	24.9	25.2	26.3	27.4	28.0	27.7	27.8	27.7	27.6	27.8	27.7
o.w. Tax revenue	22.1	22.3	23.4	24.4	25.3	25.0	25.6	25.6	25.6	25.8	25.8
Expenditures	34.1	31.2	28.5	29.7	30.3	30.0	30.1	29.9	29.8	29.9	29.9
Expense	26.0	24.3	21.4	22.1	22.5	22.6	22.5	22.5	22.5	22.6	22.5
Net acquisition of non-financial assets	8.1	6.9	7.1	7.5	7.7	7.4	7.5	7.5	7.3	7.4	7.4
Capital spending	8.5	7.6	7.6	8.1	8.3	7.7	7.8	7.7	7.6	7.7	7.7
Privatization proceeds	-0.4	-0.7	-0.6	-0.5	-0.6	-0.3	-0.3	-0.2	-0.3	-0.3	-0.3
Net lending / borrowing	-9.2	-6.0	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3	-2.2	-2.2	-2.2
Net budget lending	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Augmented Net lending / borrowing (program definition) 1/	-9.3	-6.0	-2.3	-2.4	-2.4	-2.4	-2.4	-2.4	-2.3	-2.3	-2.3
General government debt 2/	59.6	49.1	39.2	38.9	36.1	34.7	34.1	34.3	34.5	34.9	35.7
o.w. Foreign-currency denominated	47.1	39.5	29.4	28.3	25.2	23.1	22.0	21.7	20.9	20.0	18.9
Money and credit	(annual percentage change; unless otherwise indicated)										
Credit to the private sector	22.4	12.4	3.4	16.5	18.5	13.7	9.0	8.7	8.6	8.7	8.7
In constant exchange rate (estimate)	9.0	18.2	12.1	17.1	17.0	15.5	8.5	7.4	7.3	7.4	7.4
Broad money	24.6	11.4	11.0	14.9	14.5	13.3	11.5	11.3	11.2	11.3	11.3
Excluding FX deposits	18.8	17.9	22.9	26.9	10.4	13.7	11.9	11.7	11.6	11.7	11.6
Deposit dollarization (percent of total) 3/	61.4	59.9	56.1	50.7	52.7	52.1	51.9	51.7	51.4	51.2	51.0
Credit dollarization (percent of total)	55.7	50.9	45.0	44.5	42.9	42.5	42.1	41.7	41.3	40.9	40.5
Credit to the private sector (percent of GDP)	76.0	70.0	60.3	63.3	66.0	67.4	67.4	67.4	67.4	67.4	67.4
External sector	(in percent of GDP; unless otherwise indicated)										
Current account balance (in billions of US\$)	-2.0	-1.9	-1.1	-1.7	-1.5	-1.6	-1.8	-2.0	-2.1	-2.2	-2.4
Current account balance	-12.4	-10.3	-4.4	-5.6	-4.4	-4.4	-4.6	-4.8	-4.8	-4.9	-5.0
Trade balance (goods)	-19.8	-20.1	-20.4	-19.7	-19.2	-18.9	-19.1	-19.2	-19.3	-19.3	-19.4
Terms of trade, goods (percent change)	5.6	-2.4	0.3	-7.0	-2.8	-0.2	0.1	-0.3	0.5	-0.3	-0.6
Gross international reserves (in billions of US\$) 4/	3.9	4.3	4.9	5.0	4.4	4.7	4.9	5.5	6.2	6.8	7.1
In percent of ARA metric	107.4	108.6	102.1	95.5	79.6	81.1	82.4	88.0	95.5	100.5	...
In months of next year GNFS imports	4.2	3.3	3.3	3.2	2.7	2.6	2.6	2.7	2.9	3.0	...
Gross external debt	109.4	98.7	81.0	69.7	66.8	62.4	58.5	55.9	53.0	49.4	45.7
Laris per U.S. dollar (period average)	3.1	3.2	2.9	2.6	2.7	...	...	...	...	...	...
Laris per euro (period average)	3.6	3.8	3.1	2.8	2.9	...	...	...	...	...	...
REER (period average; CPI based, Jan 2010=100)	97.5	99.2	117.7	131.4	124.2	...	...	...	...	...	...

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).

Table 2. Georgia: Balance of Payments, 2020-30<sup>1</sup>

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual					Projection					
	(in millions of U.S. dollars)										
Current account balance	-1,991	-1,943	-1,105	-1,709	-1,491	-1,630	-1,812	-1,975	-2,109	-2,238	-2,414
Trade balance (goods)	-3,165	-3,790	-5,100	-6,078	-6,470	-6,926	-7,473	-7,930	-8,406	-8,872	-9,427
Exports	4,347	5,539	7,536	8,119	8,622	8,999	9,613	10,105	10,657	11,248	11,830
Imports	7,512	9,329	12,636	14,197	15,092	15,926	17,086	18,035	19,063	20,120	21,257
Services	124	725	2,674	3,435	3,877	4,105	4,384	4,628	4,881	5,151	5,456
Services: credit	1,580	2,547	5,703	7,054	7,700	8,275	8,839	9,330	9,839	10,385	11,093
Of which: travel revenue 2/	542	1,245	3,517	4,125	4,425	5,138	5,488	6,206	6,982	7,829	8,746
Services: debit	1,456	1,822	3,029	3,619	3,823	4,170	4,455	4,702	4,959	5,233	5,637
Primary income	-760	-1,181	-1,732	-2,394	-2,204	-2,503	-2,724	-2,885	-3,017	-3,184	-3,356
Secondary income	1,810	2,304	3,053	3,329	3,306	3,694	4,001	4,211	4,433	4,667	4,914
Of which : remittances	1,168	1,609	2,336	2,438	2,134	2,312	2,430	2,565	2,705	2,855	3,013
Capital account	41	40	41	39	28	28	28	28	28	28	28
Financial account (- is inflow)	-2,017	-2,248	-1,829	-1,761	-921	-1,929	-2,115	-2,616	-2,908	-2,868	-2,741
Direct investment (net)	-560	-924	-1,922	-1,615	-906	-1,117	-1,179	-1,445	-1,551	-1,599	-1,694
Net acquisition of financial assets	-16	347	365	473	462	370	450	399	393	452	515
Net incurrence of liabilities	544	1,271	2,287	2,087	1,368	1,486	1,629	1,843	1,944	2,052	2,209
Portfolio investment (net)	-75	311	1,608	731	1,113	74	-337	-555	-726	-615	-432
Net acquisition of financial assets	47	37	1,152	328	1,495	126	66	196	310	475	319
Net incurrence of liabilities	122	-274	-456	-404	382	351	403	751	1,036	1,091	750
Financial derivatives (net)	-27	-1	-3	48	34	14	20	27	29	23	23
Other investment (net)	-1,355	-1,634	-1,512	-926	-1,162	-900	-620	-643	-659	-676	-638
Net acquisition of financial assets	-95	-39	906	484	172	-311	-324	-262	-486	-775	-1,044
Of which : currency and deposits (+ is outflow) 3/	-44	-128	849	64	67	-410	-451	-425	-635	-947	-1,221
Net incurrence of liabilities 4/	1,260	1,595	2,418	1,410	1,334	589	296	382	173	-98	-405
Of which : general government loans (+ is inflow) 5/	1,128	940	517	448	96	102	-281	360	149	29	-65
SDR (allocations)	0	286	0	0	0	0	0	0	0	0	0
Errors and omissions	-77	0	16	-15	-21	0	0	0	0	0	0
Overall balance (+ is surplus)	-10	345	782	77	-563	327	332	669	826	658	355
Financing	10	-345	-782	-77	563	-327	-332	-669	-826	-658	-355
Change in gross international reserves (- is increase)	-305	-453	-765	-47	619	-229	-226	-567	-737	-582	-305
Use of Fund Resources (- is net repayment)	315	108	-17	-30	-56	-98	-105	-102	-89	-76	-50
Disbursement	315	111	0	0	0	0	0	0	0	0	0
Repayment (Principal)	0	3	17	30	56	98	105	102	89	76	50
Memorandum items:	(in percent of GDP)										
Current account balance	-12.4	-10.3	-4.4	-5.6	-4.4	-4.4	-4.6	-4.8	-4.8	-4.9	-5.0
Trade balance (goods)	-19.8	-20.1	-20.4	-19.7	-19.2	-18.9	-19.1	-19.2	-19.3	-19.3	-19.4
Exports (goods)	27.1	29.4	30.2	26.4	25.5	24.5	24.5	24.4	24.4	24.4	24.3
Imports (goods)	46.9	49.5	50.6	46.1	44.7	43.4	43.6	43.6	43.7	43.7	43.7
Services balance	0.8	3.8	10.7	11.2	11.5	11.2	11.2	11.2	11.2	11.2	11.2
of which travel revenue	3.4	6.6	14.1	13.4	13.1	14.0	14.0	15.0	16.0	17.0	18.0
Trade balance (goods and services)	-19.0	-16.3	-9.7	-8.6	-7.7	-7.7	-7.9	-8.0	-8.1	-8.1	-8.2
Remittances	7.3	8.5	9.4	7.9	6.3	6.3	6.2	6.2	6.2	6.2	6.2
Financial account (- is inflow)	-12.6	-11.9	-7.3	-5.7	-2.7	-5.3	-5.4	-6.3	-6.7	-6.2	-5.6
Foreign direct investment (net)	-3.5	-4.9	-7.7	-5.2	-2.7	-3.0	-3.0	-3.5	-3.6	-3.5	-3.5
Portfolio investment (net)	-0.5	1.7	6.4	2.4	3.3	0.2	-0.9	-1.3	-1.7	-1.3	-0.9
Other investment (net)	-8.5	-8.7	-6.1	-3.0	-3.4	-2.5	-1.6	-1.6	-1.5	-1.5	-1.3
of which general government loans (+ is inflow)	7.0	5.0	2.1	1.5	0.3	0.3	-0.7	0.9	0.3	0.1	-0.1
of which currency and deposits (+ is outflow)	-0.3	-0.7	3.4	0.2	0.2	-1.1	-1.2	-1.0	-1.5	-2.1	-2.5
Gross international reserves (in million of USD) 6/	3,911	4,273	4,902	5,010	4,449	4,678	4,904	5,472	6,209	6,791	7,096
in percent of ARA metric	107.4	108.6	102.1	95.5	79.6	81.1	82.4	88.0	95.5	100.5	...
in months of next year GNFS imports	4.2	3.3	3.3	3.2	2.7	2.6	2.6	2.7	2.9	3.0	...

Sources: National Bank of Georgia, Ministry of Finance; and IMF staff estimates.

1/ Balance of payments numbers are presented according to 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 NBS) 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).

**Table 3a. Georgia: General Government Operations, GFSM2001 2020-30**  
(In millions of GEL)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual					Projection					
Revenue	12,422	15,313	19,168	22,125	25,695	28,350	31,035	33,623	36,391	39,826	43,187
Taxes	10,979	13,550	17,056	19,736	23,263	25,660	28,585	31,097	33,787	37,019	40,189
Taxes on Income, profits and capital gains	4,246	4,791	6,795	8,090	10,368	11,488	12,904	14,040	15,250	16,535	17,975
Payable by individuals	3,327	3,776	4,955	6,071	7,250	8,286	9,305	10,117	10,989	11,946	12,987
Payable by corporations	919	1,015	1,840	2,018	3,118	3,202	3,599	3,923	4,261	4,589	4,988
Taxes on property	434	511	596	648	698	778	848	922	1,002	1,089	1,184
Taxes on goods and services	6,457	7,898	9,358	10,658	11,820	13,204	14,394	15,649	16,998	18,812	20,396
General taxes on goods and services (VAT)	4,837	6,030	7,313	8,387	9,332	10,408	11,345	12,335	13,398	14,898	16,141
Excises	1,619	1,869	2,045	2,270	2,488	2,796	3,048	3,314	3,600	3,914	4,254
Taxes on international trade	74	86	119	151	139	155	169	184	199	217	236
Other taxes 1/	-232	263	187	189	239	35	270	302	337	366	398
of which VAT Refunds	-1,040	-1,930	-2,220	-2,332	-2,547	-3,072	-3,116	-3,379	-3,662	-3,981	-4,328
Grants	405	344	266	198	198	290	300	326	354	385	419
Other revenue	1,038	1,419	1,846	2,191	2,234	2,400	2,150	2,200	2,250	2,422	2,580
Total Expenditure	16,981	18,939	20,770	24,008	27,804	30,701	33,587	36,374	39,251	42,945	46,601
Expense	12,960	14,770	15,625	17,915	20,698	23,153	25,166	27,320	29,663	32,361	35,025
Compensation of employees	1,851	1,984	2,176	2,679	3,150	3,695	4,028	4,379	4,787	5,234	5,689
Use of goods and services	1,881	2,203	2,382	2,760	2,988	3,355	3,657	3,976	4,323	4,719	5,130
Interest	769	800	761	1,195	1,484	1,888	1,985	2,117	2,224	2,392	2,446
External	337	284	235	517	718	891	827	831	865	886	870
Domestic	433	516	526	678	766	997	1,157	1,286	1,359	1,506	1,576
Subsidies	1,452	1,660	2,019	2,168	2,560	2,791	3,034	3,296	3,583	3,895	4,194
Grants	237	196	235	237	249	325	354	385	418	455	494
Social benefits	5,575	6,342	6,438	7,112	8,145	8,830	9,626	10,465	11,397	12,390	13,469
Other expense 2/	1,196	1,586	1,614	1,764	2,123	2,500	2,725	2,963	3,218	3,589	3,901
Net acquisition of nonfinancial assets	4,022	4,169	5,146	6,093	7,106	7,547	8,421	9,054	9,588	10,584	11,575
Increase (capital spending)	4,229	4,591	5,573	6,527	7,665	7,847	8,721	9,354	9,984	11,014	12,043
Decrease (privatization proceeds)	-208	-422	-427	-434	-559	-300	-300	-300	-396	-430	-468
Net lending / borrowing	-4,562	-3,627	-1,601	-1,885	-2,109	-2,351	-2,551	-2,750	-2,870	-3,127	-3,421
Change in net financial worth, transactions	-4,562	-3,627	-1,601	-1,885	-2,109	-2,351	-2,551	-2,750	-2,870	-3,127	-3,421
Net acquisition of financial assets ("+" : increase in assets)	1,770	-1,103	1,174	474	-140	-9	-332	57	306	590	1,290
Domestic	1,770	-1,103	1,174	474	-140	-9	-332	57	306	590	1,290
Budget lending (net)	55	41	56	92	68	130	130	135	145	150	140
Deposits (NBS and commercial banks)	1,736	-1,141	1,118	382	-208	-139	-462	-78	161	440	1,150
Financial privatization	-21	-3	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities ("+" : increase in liabilities)	6,332	2,524	2,775	2,359	1,969	2,342	2,220	2,808	3,177	3,717	4,711
Domestic	1,970	-377	1,153	1,398	1,473	1,847	1,654	1,787	2,678	3,486	4,794
Securities other than shares	1,970	-377	1,153	1,398	1,473	1,847	1,654	1,787	2,678	3,486	4,794
Loans	0	0	0	0	0	0	0	0	0	0	0
Foreign	4,362	2,901	1,622	961	496	495	565	1,020	499	232	-83
Loans	4,362	2,901	1,622	961	496	495	565	1,020	499	232	-83
Memorandum items:											
Nominal GDP	49,789	60,724	72,860	80,883	91,892	102,485	111,719	121,460	131,933	143,423	155,865
Government debt 3/	29,654	29,812	28,538	31,482	33,168	35,545	38,064	41,608	45,574	50,119	55,690
End-year government deposits	3,190	2,049	3,167	3,548	3,340	3,201	2,740	2,662	2,848	3,289	4,439
Operating balance	-538	543	3,544	4,210	4,997	5,197	5,869	6,303	6,728	7,465	8,162
Net lending / borrowing (excluding privatization)	-4,767	-4,048	-2,029	-2,317	-2,668	-2,651	-2,851	-3,050	-3,256	-3,549	-3,881
Augmented Net lending / borrowing (program definition) 4/	-4,596	-3,665	-1,657	-1,977	-2,177	-2,481	-2,681	-2,885	-3,015	-3,277	-3,561
Cyclically-adjusted primary balance (program definition)	-2,963	-2,443	-1,043	-949	-1,274	-1,232	-1,094	-768	-781	-877	-1,107

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).

**Table 3b. Georgia: General Government Operations, GFSM2001 2020-30**  
(In percent GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Actual					Projection					
Revenue	24.9	25.2	26.3	27.4	28.0	27.7	27.8	27.7	27.6	27.8	27.7
Taxes	22.1	22.3	23.4	24.4	25.3	25.0	25.6	25.6	25.6	25.8	25.8
Taxes on Income, profits and capital gains	8.5	7.9	9.3	10.0	11.3	11.2	11.6	11.6	11.6	11.5	11.5
Payable by individuals	6.7	6.2	6.8	7.5	7.9	8.1	8.3	8.3	8.3	8.3	8.3
Payable by corporations	1.8	1.7	2.5	2.5	3.4	3.1	3.2	3.2	3.2	3.2	3.2
Taxes on property	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Taxes on goods and services	13.0	13.0	12.8	13.2	12.9	12.9	12.9	12.9	12.9	13.1	13.1
General taxes on goods and services (VAT)	9.7	9.9	10.0	10.4	10.2	10.2	10.2	10.2	10.2	10.4	10.4
Excises	3.3	3.1	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Taxes on international trade	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other taxes 1/	-0.5	0.4	0.3	0.2	0.3	0.0	0.2	0.2	0.3	0.3	0.3
of which VAT Refunds	-2.1	-3.2	-3.0	-2.9	-2.8	-3.0	-2.8	-2.8	-2.8	-2.8	-2.8
Grants	0.8	0.6	0.4	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Other revenue	2.1	2.3	2.5	2.7	2.4	2.3	1.9	1.8	1.7	1.7	1.7
Total Expenditure	34.1	31.2	28.5	29.7	30.3	30.0	30.1	29.9	29.8	29.9	29.9
Expense	26.0	24.3	21.4	22.1	22.5	22.6	22.5	22.5	22.5	22.6	22.5
Compensation of employees	3.7	3.3	3.0	3.3	3.4	3.6	3.6	3.6	3.6	3.6	3.7
Use of goods and services	3.8	3.6	3.3	3.4	3.3	3.3	3.3	3.3	3.3	3.3	3.3
Interest	1.5	1.3	1.0	1.5	1.6	1.8	1.8	1.7	1.7	1.7	1.6
External	0.7	0.5	0.3	0.6	0.8	0.9	0.7	0.7	0.7	0.6	0.6
Domestic	0.9	0.8	0.7	0.8	0.8	1.0	1.0	1.1	1.0	1.1	1.0
Subsidies	2.9	2.7	2.8	2.7	2.8	2.5	2.5	2.5	2.5	2.5	2.5
Grants	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social benefits	11.2	10.4	8.8	8.8	8.9	8.6	8.6	8.6	8.6	8.6	8.6
Other expense 2/	2.4	2.6	2.2	2.2	2.3	2.4	2.4	2.4	2.4	2.5	2.5
Net acquisition of nonfinancial assets	8.1	6.9	7.1	7.5	7.7	7.4	7.5	7.5	7.3	7.4	7.4
Increase (capital spending)	8.5	7.6	7.6	8.1	8.3	7.7	7.8	7.7	7.6	7.7	7.7
Decrease (privatization proceeds)	-0.4	-0.7	-0.6	-0.5	-0.6	-0.3	-0.3	-0.2	-0.3	-0.3	-0.3
Net lending / borrowing	-9.2	-6.0	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3	-2.2	-2.2	-2.2
Change in net financial worth, transactions	-9.2	-6.0	-2.2	-2.3	-2.3	-2.3	-2.3	-2.3	-2.2	-2.2	-2.2
Net acquisition of financial assets ("+" : increase in assets)	3.6	-1.8	1.6	0.6	-0.2	0.0	-0.3	0.0	0.2	0.4	0.8
Domestic	3.6	-1.8	1.6	0.6	-0.2	0.0	-0.3	0.0	0.2	0.4	0.8
Budget lending (net)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Deposits (NBS and commercial banks)	3.5	-1.9	1.5	0.5	-0.2	-0.1	-0.4	-0.1	0.1	0.3	0.7
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)	12.7	4.2	3.8	2.9	2.1	2.3	2.0	2.3	2.4	2.6	3.0
Domestic	4.0	-0.6	1.6	1.7	1.6	1.8	1.5	1.5	2.0	2.4	3.1
Securities other than shares	4.0	-0.6	1.6	1.7	1.6	1.8	1.5	1.5	2.0	2.4	3.1
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	8.8	4.8	2.2	1.2	0.5	0.5	0.5	0.8	0.4	0.2	-0.1
Loans	8.8	4.8	2.2	1.2	0.5	0.5	0.5	0.8	0.4	0.2	-0.1
Memorandum items:											
Nominal GDP (in millions of GEL)	49,789	60,724	72,860	80,883	91,892	102,485	111,719	121,460	131,933	143,423	155,865
General government debt 3/	59.6	49.1	39.2	38.9	36.1	34.7	34.1	34.3	34.5	34.9	35.7
End-year government deposits	6.4	3.4	4.3	4.4	3.6	3.1	2.5	2.2	2.2	2.3	2.8
Operating balance (before adjustment)	-1.1	0.9	4.9	5.2	5.4	5.1	5.3	5.2	5.1	5.2	5.2
Net lending / borrowing (excluding privatization)	-9.6	-6.7	-2.8	-2.9	-2.9	-2.6	-2.6	-2.5	-2.5	-2.5	-2.5
Augmented Net lending / borrowing (program definition) 4/	-9.3	-6.0	-2.3	-2.4	-2.4	-2.4	-2.4	-2.4	-2.3	-2.3	-2.3
Cyclically-adjusted primary balance (program definition)	-6.0	-4.0	-1.4	-1.2	-1.4	-1.2	-1.0	-0.6	-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).

Table 4. Georgia: Monetary Survey, 2020-25

	2020	2021	2022	2023		2024		2025	
				June	Dec	June	Dec	Proj. June	Proj. Dec
<b>Central Bank</b>									
(in billions of lari)									
Net foreign assets	10.9	10.3	10.8	10.9	11.1	10.5	10.2	10.7	11.1
Gross international reserves	12.8	13.2	13.2	13.3	13.5	12.9	12.5	12.8	13.2
Foreign liabilities	1.9	2.9	2.4	2.3	2.4	2.4	2.3	2.2	2.0
Of which: use of Fund resources	1.2	1.4	1.2	1.1	1.1	1.1	1.0	0.8	0.7
Net domestic assets	-0.1	0.1	1.2	-0.1	0.9	0.9	3.5	3.6	3.6
Net claims on central government	-0.1	0.1	0.6	1.5	0.3	0.7	0.5	0.7	0.9
Claims on general government (incl. T-bills)	1.4	1.8	2.4	2.6	2.7	2.0	1.9	2.1	2.3
Nontradable govt. debt	0.2	0.2	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Debt securities (tradable)	1.2	1.6	2.3	2.6	2.7	2.0	1.9	2.1	2.3
Deposits	1.5	1.7	1.8	1.2	2.5	1.3	1.4	1.4	1.4
Net claims on banks (excl. reserves)	3.2	3.1	3.4	0.9	3.7	3.5	6.9	6.8	6.6
Bank refinancing (incl. swap lines)	3.2	3.1	3.5	0.9	3.7	3.6	7.0	6.8	6.7
Certificates of deposits and bonds	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other items, net	-3.2	-3.1	-2.9	-2.5	-3.1	-3.3	-3.9	-3.9	-3.9
Reserve Money	10.8	10.4	12.0	10.8	12.0	11.4	13.7	14.2	14.8
<b>Banking System</b>									
(in billions of lari)									
Net foreign assets	0.9	0.0	2.9	2.2	2.7	1.2	0.4	5.5	10.5
NBG	10.9	10.3	10.8	10.9	11.1	10.5	10.2	10.7	11.1
Commercial banks	-10.0	-10.3	-7.9	-8.7	-8.4	-9.3	-9.8	-5.2	-0.6
Net domestic assets	29.4	33.9	34.6	35.8	40.5	43.9	49.0	47.3	45.5
Domestic credit	40.2	45.4	47.3	49.2	55.1	60.3	66.8	72.0	77.2
Net claims on central government	1.5	1.9	2.2	1.8	2.6	2.7	4.5	5.5	6.5
Of which: government deposits at NBG	-1.5	-1.7	-1.8	-1.2	-2.5	-1.3	-1.4	-1.4	-1.4
Of which: T-bills at commercial banks	4.4	3.4	4.1	4.3	4.9	6.0	7.1	7.9	8.6
Claims on Other Sectors	38.7	43.4	45.1	47.4	52.5	57.6	62.3	66.5	70.7
Other items, net	-10.7	-11.5	-12.7	-13.4	-14.6	-16.4	-17.8	-24.7	-31.7
Broad money (M3)	30.4	33.8	37.6	38.0	43.2	45.1	49.5	52.7	56.0
Lari Broad money (M2)	13.7	16.1	19.8	21.6	25.1	26.5	27.7	29.7	31.5
Currency held by the public	3.7	3.5	3.9	4.1	4.7	5.2	5.4	5.8	6.1
Lari resident deposits	9.9	12.6	15.9	17.5	20.4	21.3	22.3	23.9	25.4
Resident foreign exchange deposits	16.7	17.7	17.9	16.4	18.1	18.6	21.7	23.1	24.5
Sources of funds of commercial banks	49.7	51.8	58.8	58.4	66.2	72.1	80.0	77.0	74.0
Resident deposits	29.7	32.3	36.6	38.6	41.7	44.9	47.7	50.6	53.5
Non-resident deposits	5.6	5.9	8.9	9.2	10.2	11.8	12.2	11.6	11.0
Other resident liabilities	3.9	3.7	4.0	1.5	4.4	4.3	7.8	7.7	7.5
Other foreign liabilities	10.4	9.9	9.3	9.0	9.8	11.1	12.2	7.1	2.0
Uses of funds of commercial banks	49.7	51.8	58.8	58.4	66.2	72.1	80.0	77.0	74.0
Claims on Central Bank	7.1	7.0	8.2	6.7	7.3	6.2	8.2	8.5	8.7
Credit to the Economy	38.7	43.4	45.1	47.4	52.5	57.6	62.3	66.5	70.7
National currency	17.5	21.7	25.1	26.2	29.2	31.9	35.5	38.2	40.6
Foreign currency	21.2	21.8	20.0	21.1	23.4	25.7	26.7	28.3	30.1
Other foreign assets	6.1	5.5	10.3	9.5	11.7	13.6	14.7	13.5	12.4
Other items, net	-2.2	-4.2	-4.7	-5.2	-5.4	-5.4	-5.2	-11.5	-17.8
(in percent of GDP)									
Broad money (M3)	61.0	55.7	51.6	47.0	53.4	49.1	53.8	51.5	54.7
Lari Broad money (M2)	27.4	26.5	27.2	26.7	31.0	28.8	30.2	29.0	30.8
Currency held by the public	7.5	5.8	5.3	5.1	5.8	5.6	5.9	5.6	6.0
Non-resident deposits (percent of total deposits)	16.0	15.5	19.5	19.3	19.6	20.8	20.4	18.6	17.0
Credit to the Economy	77.7	71.5	61.9	58.6	65.0	62.7	67.8	64.9	69.0
Nominal GDP (billions of lari)	49.8	60.7	72.9		80.9		91.9		102.5
(year-on-year growth)									
Reserve Money	20.8	-3.6	15.5	5.3	0.3	4.7	14.0	25.3	7.9
Broad money (M3)	24.6	11.4	11.0	12.9	14.9	18.6	14.5	16.9	13.3
NBG Claims on Banks	2.3	-2.1	9.9	-75.0	8.1	278.8	87.4	92.1	-4.6
Credit to the Economy	22.0	12.3	3.7	7.8	16.6	21.6	18.5	15.4	13.5

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

**Table 5. Georgia: Financial Soundness Indicators, 2022–25 1/**  
(In percent, unless otherwise indicated)

	2022				2023				2024				2025
	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Sep	Dec	Mar
<b>Capital Adequacy</b>													
Regulatory capital to risk-weighted assets	20.1	20.4	20.6	20.3	21.0	22.4	22.1	21.8	23.5	22.7	22.1	22.7	22.1
Tier 1 capital to risk-weighted assets	16.2	16.7	17.0	17.1	17.6	19.9	19.7	19.1	20.5	20.2	19.7	20.2	19.7
Leverage ratio 2/	19.7	19.2	18.7	18.7	19.7	20.3	20.5	20.3	21.4	21.1	20.7	21.1	20.7
<b>Asset Quality</b>													
Nonperforming loans to total gross loans	1.7	1.7	1.8	1.5	1.6	1.6	1.5	1.6	1.5	1.5	1.5	1.5	1.5
Restructured loans to total gross loans	15.3	16.4	16.1	15.2	15.2	14.1	5.3	4.8	4.9	4.9	4.6	4.3	4.5
Provisions to total non-performing loans	51.1	50.3	50.6	49.0	50.3	40.1	38.7	38.0	38.4	37.8	39.2	37.8	39.2
<b>Earnings and Profitability</b>													
Return on assets (ROA)	3.1	3.1	3.6	3.8	4.2	4.3	4.2	4.2	4.3	4.3	3.7	4.3	3.7
Return on equity (ROE)	20.8	20.7	24.8	24.8	26.6	26.9	26.5	24.9	25.1	25.2	21.8	25.2	21.8
Interest margin to gross income	57.5	57.5	54.3	53.0	55.7	56.4	56.7	61.7	60.4	59.8	64.3	59.8	64.3
Non-interest expenses to gross income	51.3	51.2	47.4	46.9	44.0	44.9	46.1	43.4	43.4	43.6	44.7	43.6	44.7
<b>Liquidity</b>													
Liquid assets to total assets	20.6	20.1	22.8	22.8	22.4	22.6	20.9	20.5	19.0	18.3	18.8	18.3	18.8
Liquid assets to total short-term liabilities 3/	41.0	38.9	42.1	42.0	40.9	41.1	38.5	38.3	35.1	34.0	35.4	34.0	35.4
Loan-to-deposit ratio (in percent) 4/	118.0	115.4	103.9	102.2	102.6	101.1	105.4	105.1	104.2	108.0	109.7	108.0	109.7
In local currency	144.1	141.4	132.4	128.5	114.6	112.0	117.4	115.5	114.3	129.5	132.3	129.5	132.3
In foreign currency	100.2	96.5	82.4	81.6	91.1	90.3	93.7	94.6	93.5	88.7	89.4	88.7	89.4
Liquidity coverage ratio 5/	120.1	122.4	134.3	141.7	123.3	128.9	125.1	123.8	128.0	135.7	131.1	135.7	131.1
<b>Foreign Currency Position and Dollarization</b>													
Deposits in foreign exchange to total deposits 4/	59.4	57.9	57.0	56.1	50.8	50.2	50.7	49.7	48.8	52.7	52.8	52.7	52.8
Loans in foreign exchange to total loans 4/	50.4	48.4	45.2	44.8	45.0	44.8	45.1	44.7	43.8	43.3	43.0	43.3	43.0
Net foreign assets to total assets	-16.6	-13.5	-10.0	-11.0	-11.1	-12.7	-11.4	-10.5	-10.9	-10.7	-9.6	-10.2	-11.0
Net open foreign exchange position to regulatory capital	3.1	4.7	3.5	1.6	1.4	-0.9	2.7	1.8	2.1	1.7	-2.5	1.7	-2.5
Borrowed funds from abroad-to-GDP 6/	14.3	14.5	14.5	14.3	11.0	11.5	11.4	12.1	12.1	12.9	13.1	14.3	
<b>Other</b>													
Loans collateralized by real estate to total loans	64.5	63.8	63.7	63.7	64.6	65.1	65.4	65.7	66.0	64.2	64.4	64.2	64.4
Real estate average price index (Jan 2010=100)	168.2	174.1	173.6	180.8	190.1	194.9	204.9	205.5	212.0	217.7	220.0	217.7	220.0
Household debt to GDP ratio	39.4	38.8	37.5	36.8	36.1	36.9	37.0	38.1	38.2	39.1	38.8	39.0	
<b>Memorandum items</b>													
Georgia EMBIG Sovereign Spread	294	379	397	345	240	315	253	245	182	226	298	301	339
Georgia EMBIG Sovereign Yield	4.8	6.7	7.2	7.5	6.3	7.0	7.0	6.9	6.1	6.9	6.9	7.1	7.7

Source: National authorities and IMF staff calculations.

1/ Data are calculated according to the 2019 FSI Methodology starting in 2022.

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

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

4/ Loans and deposits from commercial banks.

5/ Ratio of high quality liquid assets to total net cash outflows.

6/ Borrowed funds include subordinated debt.

## Annex I. Key Recommendations of the 2024 Article IV Consultation

<i>The 2024 Article IV consultation focused on strengthening Georgia's resilience to adverse shocks by maintaining prudent macroeconomic policies and boosting its growth potential by addressing long-standing structural challenges and capitalizing on new economic opportunities.</i>	
Key Recommendations	Status of Implementation
<b>Fiscal Policy</b>	
<u>Rebuilding fiscal buffers:</u> 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.	Partial – The authorities have accumulated additional fiscal buffers. The fiscal deficit remained unchanged in 2024 compared to 2023, and public debt declined, with both indicators remaining below the fiscal rule limits. The authorities published a Medium-Term Revenue Strategy in December 2024, but it requires further strengthening.
<u>Managing fiscal risks:</u> SOE reform should seek to limit fiscal risks and enhance efficiency in line with EU principles.	Partial – The SOE reform is ongoing. Pilots of dual MoE-MoF ownership have continued. However, the draft SOE law is not aligned with the agreed reform strategy. The MoF's financial oversight should continue to be strengthened. A diagnostic technical assistance mission is planned to assess the performance of the pilot and the authorities' alternative reform proposals.
<b>Monetary and Exchange Rate Policy</b>	
<u>Returning inflation to target:</u> Monetary policy normalization should proceed gradually and cautiously, to ensure core inflation remains close to target. Continued exchange rate flexibility and reserve buildup are essential to guard against risks, including from capital inflows and sanctions.	Partial – The NBG maintained an appropriate policy rate. However, in response to exchange rate pressures, it employed extensive FXI and then allowed the TIBR to deviate from the targeted policy rate. The exchange rate was not allowed to act as an appropriate shock absorber.
<u>Strengthening NBG Governance:</u> 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.	Not implemented – The acting governor has been confirmed as governor, and the vacant board positions have been filled with qualified members, restoring a non-executive majority on the NBG's oversight board. However, a fundamental reform of the NBG law is needed to improve NBG governance in line with Fund TA recommendations.



<b>Financial Sector Policies</b>	
<p><u>Ensuring financial sector resilience:</u> Maintaining financial buffers and vigilance is essential to guard against financial sector risks, including from capital inflows, virtual assets, and sanctions. Concentration and dollarization risks can only be sustainably addressed by improving competition in the banking system and strengthening macroeconomic policy frameworks that would underpin stable growth and inflation.</p>	<p>Partial – NBG policies have ensured that banks are well capitalized and liquid, with adequate loan loss reserves. The NBG has started registering virtual asset providers, but regulation and supervision are pending. Deposit dollarization has risen amid political uncertainty. While macroprudential measures continue to mitigate concentration and dollarization risks, further efforts are needed to enhance bank competition and policy frameworks.</p>
<b>Structural Policies</b>	
<p><u>Promoting stronger, more inclusive, job-rich growth:</u> 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.</p>	<p>Partial – The implementation and pace of land registration in Georgia is an impressive achievement. This is still ongoing, as are educational reform through the governments Vision 2030 program. However, in contrast, there are no substantial initiatives to address judicial or corruption issues in the country.</p>

## Annex II. Risk Assessment Matrix<sup>1</sup>

Risks (Likelihood)	Impact If Risks Realized	Policy Response
<b>Conjunctural Risks</b>		
<b>Trade policy and investment shocks (High).</b> Higher trade barriers or sanctions reduce external trade, disrupt FDI and supply chains, and trigger further U.S. dollar appreciation, tighter financial conditions, and higher inflation.	<b>Medium:</b> Higher trade barriers would have minimal direct impact on the Georgian economy, as exports to the US are low and mostly exempt from tariffs. Trade policy and investment shocks would have an indirect effect through global channels, such as investor confidence, trading partner growth, commodity price volatility, exchange rate movements, and trade diversion. Thus, the net impact would be ambiguous. A negative impact would be expected if dollar appreciates, sovereign spreads widen, growth in major export destinations (e.g., the EU and China) slows, global oil and food prices increase, or further sanctions are implemented on Georgian businesses.	<p>Allow flexible exchange rate to act as a shock absorber. Maintain prudent monetary and fiscal policies to preserve buffers.</p> <p>Tighten monetary policy if faced with heightened price pressures.</p> <p>Allow automatic fiscal stabilizers to operate and provide temporary and targeted support to the most vulnerable, if affected by higher prices.</p> <p>Utilize foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability. Accelerate structural reforms to strengthen competitiveness and build resilience.</p>
<b>Sovereign debt distress (High).</b> Higher interest rates, stronger U.S. dollar, and shrinking development aid amplified by sovereign-bank feedback result in capital outflows, rising risk premia, loss of market access, abrupt expenditure cuts, and lower growth in highly indebted countries.	<b>Medium:</b> 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.	<p>Allow flexible exchange rate to act as a shock absorber. Recalibrate fiscal policy to comply with the deficit and debt ceilings unless the escape clause is triggered. Reprioritize spending to support the most vulnerable.</p> <p>Utilize foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability.</p>

<sup>1</sup> 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.

Risks (Likelihood)	Impact If Risks Realized	Policy Response
	Materialization of contingent liabilities, for instance from SOEs could also put pressure on the deficit or 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.
<b>Tighter financial conditions and systemic instability (Medium).</b> Higher-for-longer interest rates and term premia amid looser financial regulation, rising investments in cryptocurrencies, and higher trade barriers trigger asset repricing, market dislocations, weak bank and NBFIs in distress, and further U.S. dollar appreciation, which widens global imbalances, worsens debt affordability, and increases capital outflow from EMDEs.	<b>Medium:</b> Banks are well capitalized and liquid and appear resilient to interest and exchange rate shocks. But, amid high dollarization, financial disruptions that cause a rapid exchange rate depreciation could increase inflation expectations, 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 lari.	<p>Allow flexible exchange rate to act as a shock absorber. Tighten monetary policy and communicate strong commitment to inflation targeting to ensure confidence in the currency and keep inflation expectations anchored.</p> <p>Utilize foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability. Reprioritize spending to provide targeted fiscal support to the most vulnerable.</p> <p>Allow use of capital and liquidity buffers to cope with shocks. Adjust macroprudential measures to avoid an undue tightening of financial conditions.</p> <p>Enforce provisioning rules in line with international best practices.</p> <p>Use the recently strengthened resolution framework and consider if further enhancements are needed to ensure financial stability.</p>
<b>Regional conflict(s) (Medium).</b> Intensification of conflicts (e.g., in the Middle East, Ukraine, Sahel, and East Africa) or terrorism disrupt trade in energy and food, tourism, supply chains, remittances, FDI and financial flows, payment systems, and increase refugee flows.	<b>High:</b> Although spillovers from the war in Ukraine have greatly benefited the Georgian economy so far, intensified war and related sanctions could lower tourism, trade, remittances, and investments, while increasing depreciation pressures and inflation.	<p>Allow flexible exchange rate to act as a shock absorber.</p> <p>Utilize foreign exchange reserves to prevent disorderly market conditions that could jeopardize financial stability.</p> <p>Maintain tight monetary policy to keep inflation expectations</p>

Risks (Likelihood)	Impact If Risks Realized	Policy Response
	<p>Sanctions may lead to regulatory risks for financial institutions including related to AML/CFT issues.</p> <p>On the upside, capital and migrant inflows from Russia, as well as trade rerouted through Georgia could also increase under intensified sanctions, boosting demand and the external balance.</p>	<p>anchored and avoid capital outflows.</p> <p>Accelerate diversification of trade markets and routes.</p>
<p><b>Commodity price volatility (Medium).</b> Supply and demand volatility (due to conflicts, trade restrictions, OPEC+ decisions, AE energy policies, or green transition) increases commodity price volatility, external and fiscal pressures, social discontent, and economic instability.</p>	<p><b>High:</b> Rising global commodity prices would increase inflationary pressures and diminish households' purchasing power.</p>	<p>Maintain tight monetary policy to keep inflation expectations anchored.</p> <p>Reprioritize spending to provide targeted fiscal support to the most vulnerable.</p>
<b>Structural Risks</b>		
<p><b>Deepening geo-economic fragmentation (High).</b> Persistent conflicts, inward-oriented policies, protectionism, weaker international cooperation, labor mobility curbs, and fracturing technological and payments systems lead to higher input costs, hinder green transition, and lower trade and potential growth.</p>	<p><b>Medium:</b> Accelerating de-globalization could disrupt trade routes and call into question the benefits of Georgia's efforts to position itself as a logistics hub.</p>	<p>Allow the exchange rate to adjust to reflect the new fundamentals. If inflation is under control, utilize monetary policy space to ensure that the output gap does not stay negative for too long.</p> <p>Extend targeted measures to support individuals and businesses by reprioritizing spending.</p> <p>Intensify efforts to diversify trading partners.</p>
<p><b>Social discontent (Medium).</b> Real income loss, spillovers from conflicts, dissatisfaction with migration, and worsening inequality ignite social unrest, populism, polarization, and resistance to reforms or suboptimal policies. This weakens growth and leads to policy uncertainty and market repricing.</p>	<p><b>Medium:</b> 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.</p>	<p>Improve communication about economic policy – especially in terms of setting a medium-term reform agenda.</p> <p>Maintain commitment and ownership of reforms.</p> <p>Utilize foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability.</p>

Risks (Likelihood)	Impact If Risks Realized	Policy Response
<b>Country Specific Risks</b>		
<b>Political risks (Medium).</b> Political instability and/or reform fatigue could undermine efforts to undertake structural reforms.	<b>Medium:</b> Policy uncertainty could undermine confidence and hurt investment and growth.	Maintain macroeconomic policy discipline. Strengthen social safety nets to protect the most vulnerable segments of the population and ensure that growth is sufficiently inclusive.

## Annex III. Sovereign Risk and Public Debt Sustainability Assessment

*Georgia's debt is assessed to be sustainable with a low overall risk of sovereign distress. Public debt is expected to remain broadly stable around 34–36 percent of GDP with prudent fiscal policy and robust economic growth under the baseline scenario, substantially below Georgia's debt ceiling of 60 percent of GDP under the fiscal rules. The share of FX-denominated debt should continue to decline in line with the authorities' objective of a 65/35 external-to-domestic ratio. No major realism concerns are flagged. Both the medium-term risk and long-term risk from climate mitigation and adaptation needs are assessed to be low.*

**1. The overall risk of sovereign debt distress is assessed to be low and government debt to be sustainable (Table 1).** After peaking at around 60 percent of GDP in the aftermath of the COVID-19 pandemic, public debt declined rapidly to 36 percent of GDP at end 2024. It is projected to remain around that level throughout the projection period ending in 2030 under the baseline scenario. The fiscal deficit is projected to remain modest at around 2.3 percent of GDP in the medium-term, consistent with the fiscal rule and a neutral stance. S&P affirmed Georgia's 'BB/B' ratings with a stable outlook, while Moody's maintained its Ba2 rating but revised the outlook to negative due to recent political developments.

**2. The authorities are pursuing prudent debt management policies aimed at reducing exchange rate risk, managing borrowing costs, and ensuring long-term sustainability.** Efforts to shift the government debt portfolio toward a 65/35 external-to-domestic ratio—temporarily paused in 2020 due to the pandemic—have resumed since 2022. Given benign liquidity conditions in the domestic market, this strategy is not expected to materially affect borrowing costs. The authorities plan to continue financing upcoming infrastructure projects equally through domestic and external sources, supporting the development of the domestic debt market while maintaining access to diverse funding. In parallel, they are focused on lengthening the maturity of the debt portfolio, targeting an average time to maturity of at least 5.5 years. To that end, new domestic debt instruments—such as 3-, 5-, and 7-year treasury bonds—have been introduced, with strong demand for longer maturities. Since 2019, buyback operations have supported this strategy and are expected to continue alongside switch operations to improve the maturity profile and reduce reliance on FX-denominated debt.

Table 1. Georgia: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
<b>Overall</b>	...	<b>Low</b>	Georgia's overall risk of sovereign stress is assessed as "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.
<b>Near term 1/</b>			
<b>Medium term</b>	<b>Low</b>	<b>Low</b>	Medium-term risk is 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. The mechanical signal for the fan chart is moderate due to large volatility of key economic indicators in external shocks in the past five years, mostly due to the Covid-19 pandemic.
Fanchart	<b>Moderate</b>	<b>Moderate</b>	
GFN	<b>Low</b>	<b>Low</b>	
Stress test	...	...	
<b>Long term</b>	...	<b>Low</b>	Climate change mitigation and adaptation needs will lead to higher amortization than in the future, but under a baseline scenario, in line with the Georgia's climate change strategy, debt is likely to remain sustainable in the long-term.
<b>Sustainability assessment 2/</b>	...	Sustainable	Debt is assessed as sustainable. Debt is expected to remain stable over the projection period with GFNs remaining at manageable levels.
<b>Debt stabilization in the baseline</b>			No

### 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 stood at 36.1 percent of GDP in 2024. This was driven by strong growth and high inflation, lari appreciation especially during 2021-23, and fiscal consolidation. Debt is expected to remain 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.

Figure 1. Georgia: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/						Comments						
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:												
Subsectors captured in the baseline						Inclusion						
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes						
				2	Extra budgetary funds (EBFs)	No						
				3	Social security funds (SSFs)	No						
				4	State governments	Yes						
				5	Local governments	Yes						
				6	Public nonfinancial corporations	No						
				7	Central bank	No						
				8	Other public financial corporations	No						
3. Instrument coverage:												
Currency & deposits		Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/							
4. Accounting principles:												
Basis of recording			Valuation of debt stock									
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: <span style="background-color: #90EE90;"> </span> chosen coverage <span style="background-color: #FF0000;"> </span> Missing from recommended coverage <span style="background-color: #D3D3D3;"> </span> 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	
CPS	NFPS	GG: expected	CG	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
				8	Oth. pub. fin. corp							0
Total			0	0	0	0	0	0	0	0		

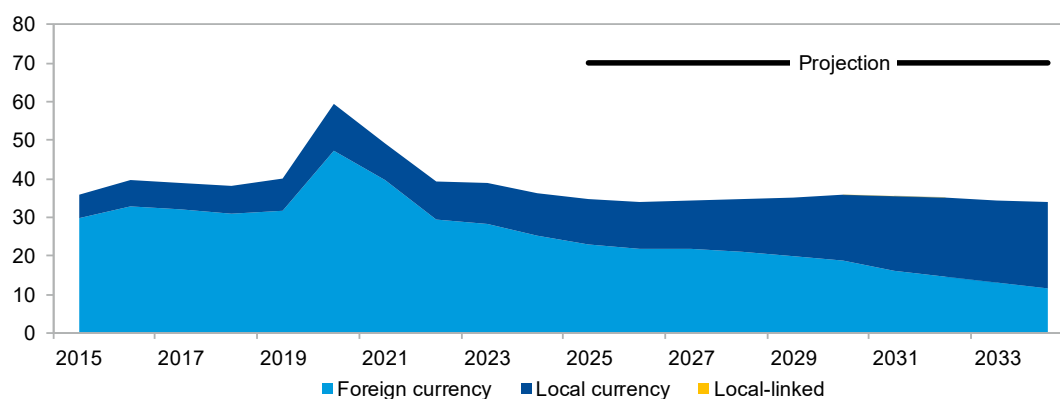
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.  
 2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.  
 3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee 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.

Commentary: Gross debt covers the General Government (GG) and includes debt incurred by the central government, as well as state and local governments. There are no extra-budgetary units, as all agencies (LEPLs and NLEs) affiliated with ministries are included in the budget. There are no social security funds.

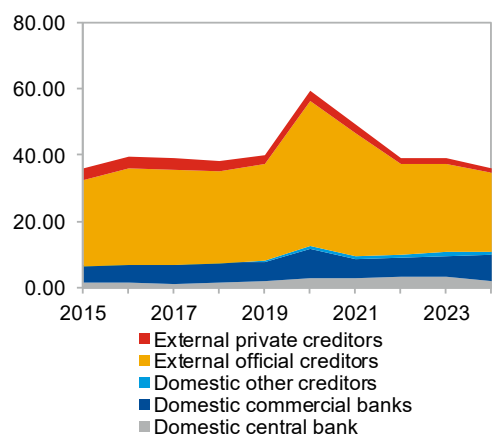


Figure 2. Georgia: Public Debt Structure Indicators

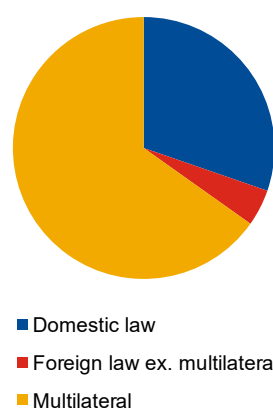
## Debt by currency (percent of GDP)



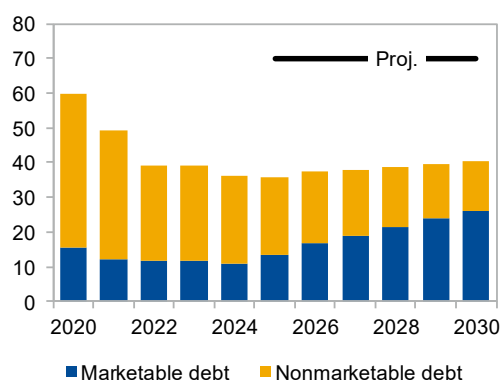
## Public debt by holder (percent of GDP)



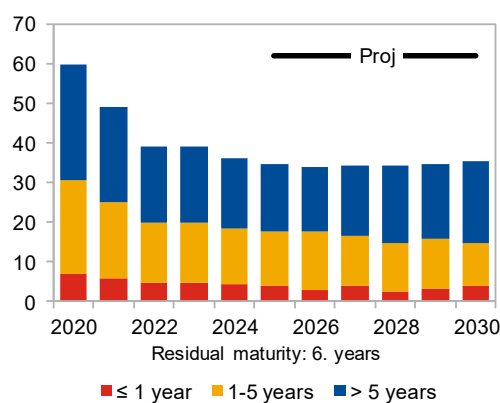
## Public debt by governing law, 2024 (percent)



## Debt by instruments (percent of GDP)



## Public debt by maturity (percent of GDP)



Note: The perimeter shown is general government.

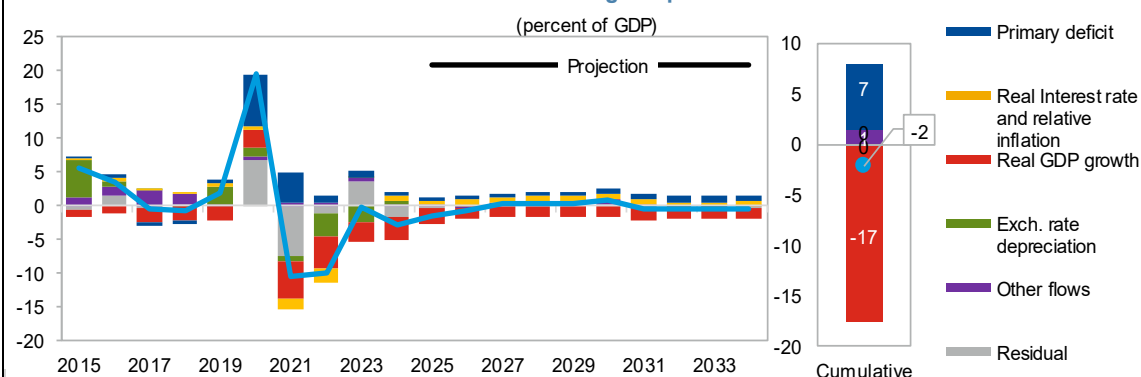
Note: The perimeter shown is general government.

Commentary: The share of foreign currency debt is expected to decline to below 65 percent of GDP by 2027, in line with the authorities' debt management strategy to mitigate exchange rate risks.

**Table 2. Georgia: Baseline Scenario**  
(percent of GDP unless indicated otherwise)

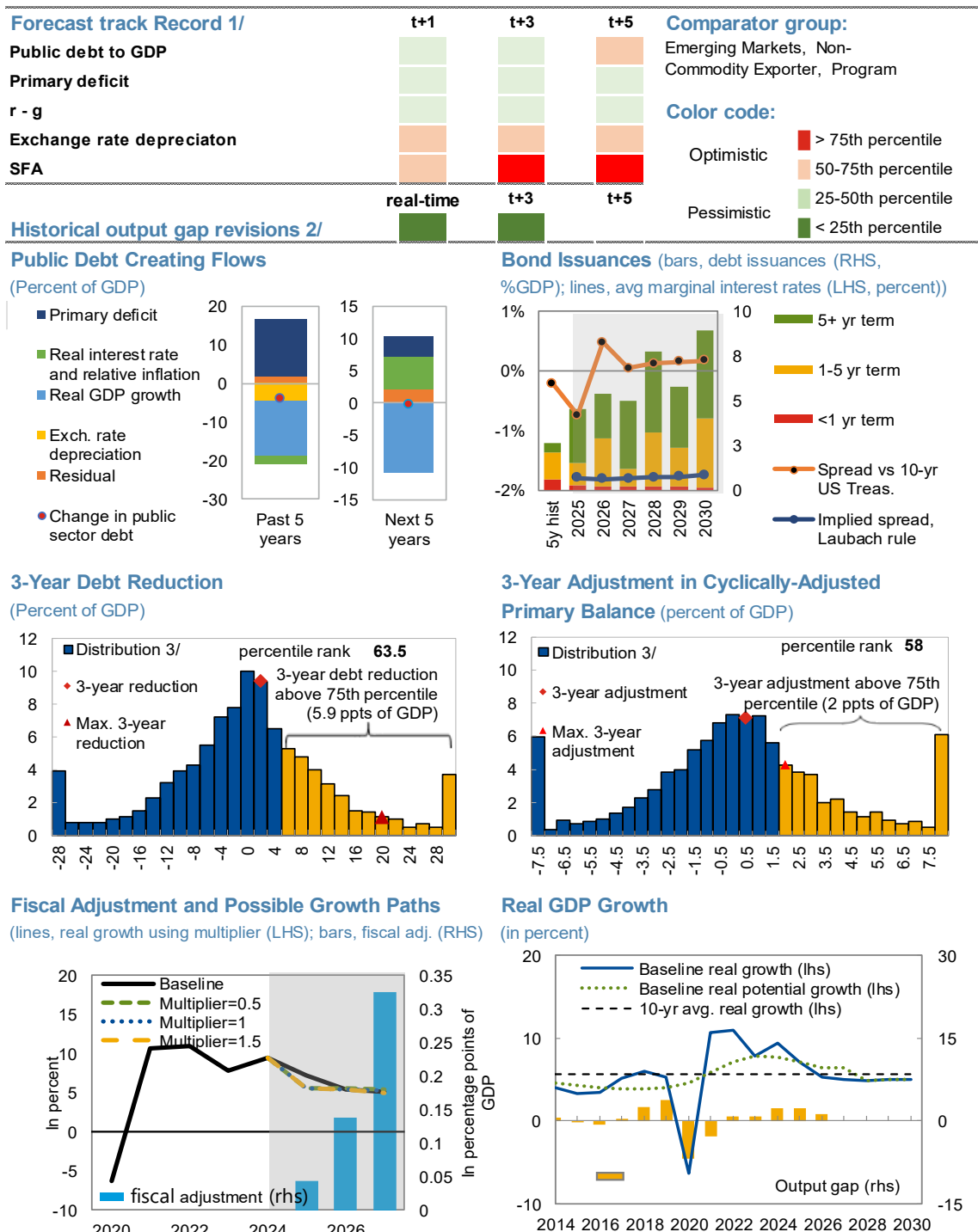
	Actual	Medium-term projection							Extended projection			
	2024	2025	2026	2027	2028	2029	2030		2031	2032	2033	2034
Public debt	36.1	34.7	34.1	34.3	34.5	34.9	35.7		35.3	34.9	34.4	34.0
Change in public debt	-2.8	-1.4	-0.6	0.2	0.3	0.4	0.8		-0.4	-0.4	-0.5	-0.5
Contribution of identified flows	-1.2	-1.2	-0.6	-0.1	-0.1	0.1	0.5		0.0	-0.2	-0.3	-0.1
Primary deficit	0.7	0.5	0.5	0.5	0.5	0.5	0.6		0.8	0.9	0.9	0.9
Noninterest revenues	28.0	27.7	27.8	27.7	27.6	27.8	27.7		27.5	27.5	27.6	27.6
Noninterest expenditures	28.6	28.1	28.3	28.2	28.1	28.3	28.3		28.3	28.4	28.5	28.5
Automatic debt dynamics	-2.2	-1.8	-0.9	-0.7	-0.7	-0.7	-0.8		-1.0	-1.1	-1.2	-1.0
Real interest rate and relative inflation	0.7	0.7	0.9	1.0	0.9	0.9	0.8		0.7	0.6	0.5	0.7
Real interest rate	0.3	0.3	0.6	0.6	0.6	0.6	0.5		0.4	0.3	0.3	0.3
Relative inflation	0.3	0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.2	0.2	0.4
Real growth rate	-3.4	-2.4	-1.8	-1.6	-1.6	-1.7	-1.7		-1.7	-1.7	-1.7	-1.6
Real exchange rate	0.5	...	...	...	...	...	...		...	...	...	...
Other identified flows	0.3	0.1	-0.3	0.0	0.2	0.3	0.7		0.2	0.0	0.0	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	0.3	0.1	-0.3	0.0	0.2	0.3	0.7		0.2	0.0	0.0	0.0
Contribution of residual	-1.6	-0.3	0.0	0.3	0.4	0.3	0.3		-0.4	-0.2	-0.2	-0.4
Gross financing needs	5.5	4.7	6.0	5.2	6.2	4.8	5.7		6.5	5.5	5.9	6.3
of which: debt service	4.8	4.2	5.4	4.7	5.7	4.3	5.1		5.9	4.7	5.2	5.6
Local currency	2.6	2.2	2.3	2.9	3.9	2.5	3.4		3.3	3.2	3.7	4.2
Foreign currency	2.1	2.0	3.1	1.8	1.8	1.8	1.8		2.6	1.5	1.5	1.4
Memo:												
Real GDP growth (percent)	9.4	7.2	5.3	5.0	5.0	5.0	5.0		5.0	5.0	5.0	5.0
Inflation (GDP deflator; percent)	3.8	4.1	3.5	3.5	3.5	3.5	3.5		3.5	3.5	3.5	3.5
Nominal GDP growth (percent)	13.6	11.5	9.0	8.7	8.6	8.7	8.7		8.7	8.7	8.7	8.7
Effective interest rate (percent)	4.7	5.1	5.4	5.6	5.4	5.4	5.2		4.8	4.5	4.4	4.3

**Contribution to change in public debt**



Staff commentary: Public debt is expected to hover around 35 percent of GDP over the medium-term mostly due to favorable interest-growth differentials and prudent fiscal policy. Gross financing needs are expected to increase to 6 percent of GDP, on average, over the medium term, but will remain manageable.

Figure 3. Georgia: Realism of Baseline Assumptions



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 vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

Figure 4. Georgia: Medium-Term Risk Analysis

## Debt fanchart and GFN financeability indexes

(percent of GDP unless otherwise indicated)

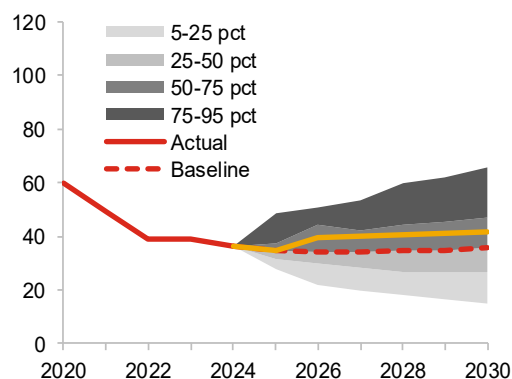
Module	Indicator	Value	Risk index	Risk signal	Emg. Econ., Non-Com. Exp. Program				
					0	25	50	75	100
Debt fanchart module	Fanchart width	50.6	0.7	...					
	Probability of debt not stabilizing (pct)	47.1	0.4	...					
	Terminal debt level x institutions index	13.0	0.3	...					
	<b>Debt fanchart index</b>	...	<b>1.4</b>	<b>Moderate</b>					
GFN financeability module	Average GFN in baseline	5.4	1.9	...					
	Bank claims on government (pct bank assets)	7.2	2.3	...					
	Chg. in claims on govt. in stress (pct bank assets)	0.2	0.1	...					
	<b>GFN financeability index</b>	...	<b>4.3</b>	<b>Low</b>					

Legend:

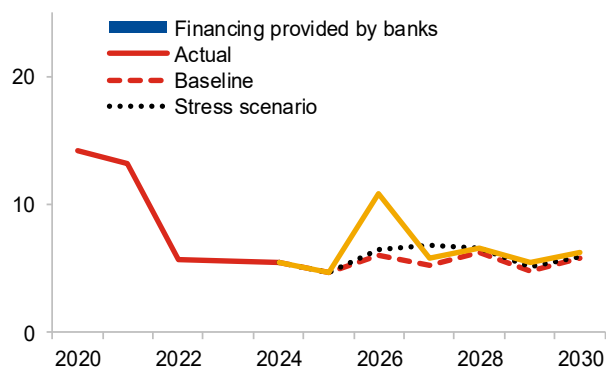
Interquartile range

Georgia

## Final fanchart (pct of GDP)



## Gross Financing Needs (pct of GDP)



Triggered stress tests (stress tests not activated in gray)

Banking crisis

Commodity prices

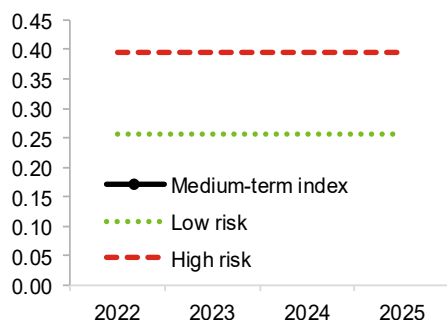
Exchange rate

Contingent liab.

Natural disaster

## Medium-term index

(index number)



## 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 financeability index	7.6	17.9	0.5	0.1
Medium-term index (MTI)	0.3	0.4	...	0.2, Low
Prob. of missed crisis, 2025-2030 (if stress not predicted): 9.1 pct.				
Prob. of false alarm, 2025-2030 (if stress predicted): 55.7 pct.				

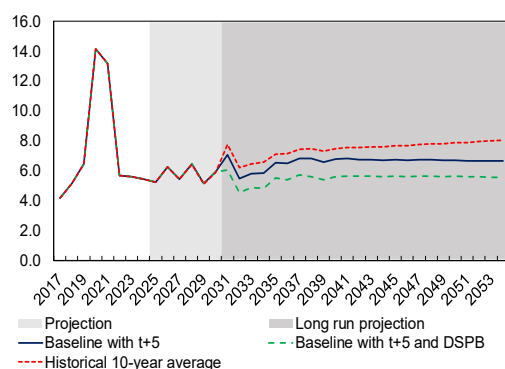
Commentary: Of the two medium-term tools, the GFN Financeability Module suggests a low level of risk, while the Debt Fanchart Module indicates moderate level of risks. The latter is larger due to a relatively wide estimated fan width likely related to historical volatility.

Figure 5a. Georgia: Long-Term Risk Analysis

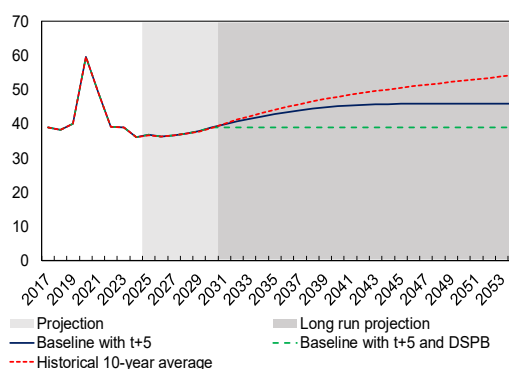
## Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Red
	Amortization	Red
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Red
	Amortization	Red
Historical average assumptions	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Red
	Amortization	Red
Overall Risk Indication		Green

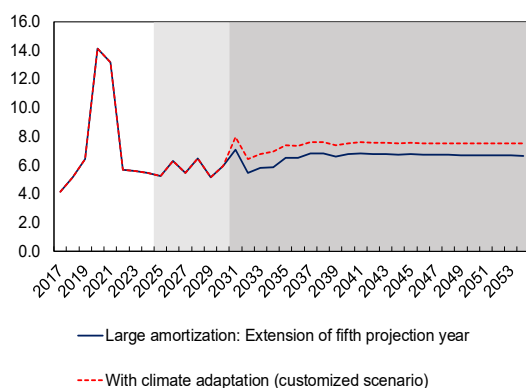
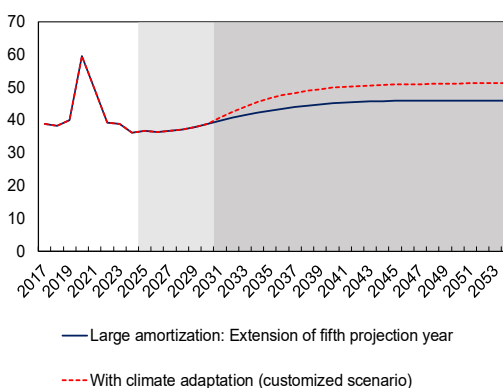
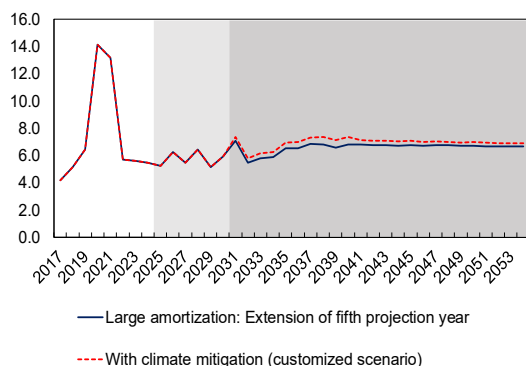
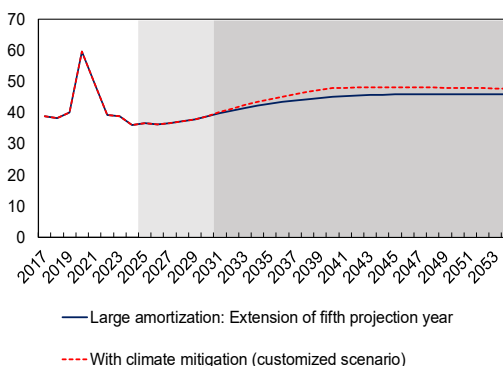
## GFN-to-GDP ratio



## Total public debt-to-GDP ratio



Commentary: Over the long term, there are no significant risks associated with large amortizations for Georgia. Amortization payments are projected to peak in 2031 due to the assumed rollover of the Eurobond in 2025 with a five-year maturity. In the event of a large amortization, gross financing needs (GFN) and public debt would remain at comfortable levels. In such an event, staff have taken into account the country's capacity to engage in proactive debt management. Refinancing risks are mitigated by a strong investor base (particularly multilateral loans), a growing domestic market, and liquid assets held by the treasury. The historical scenario simulation may not be fully representative, as it reflects elevated deficits and debt levels, including the impact of the COVID-19 pandemic. Nonetheless, it underscores the importance of maintaining prudent fiscal policy and sound debt management.

**Figure 5b. 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: The standardized climate adaption module adds costs of investment associated with climate change adaptation of 0.8 percent of GDP per year in the medium term and declining thereafter. It suggests that long-term debt sustainability is generally robust to additional spending related to climate adaptation. The standardized mitigation module assumes frontloading of 5.7 percent of GDP per year until 2038 and zero thereafter, which are default values set according to the Staff Guidance Note on the SRDSF (2022). Such large upfront investments are not likely in Georgia. 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.

## Annex IV. External Sector Assessment<sup>1</sup>

**Overall Assessment:** Georgia's external position in 2024 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. The current account deficit narrowed to a historically low level, supported by the continued strong performance of tourism and other services exports, prudent fiscal policy and energy diversification, even as remittances continued decreasing below pre-war trends. Financial flows moderated with the completion of large FDI projects, while banks increased external assets holdings to offset short-term liabilities. These developments, along with the authorities' strategic decision to reduce the FX share of government debt, contributed to an improvement of the NIIP to - 89 percent of GDP from -157 percent of GDP in 2020. Official reserves declined to 77.3 percent of the ARA metric (USD 4.3 billion in 2024) from 95.5 percent (USD 5 billion) in 2023, despite the improvement in the current account. Adjusting for the net liability position of banks, the ARA metric improves to 83.5 percent but remains below the authorities' desirable range of 120-130 percent during the projection period.

**Potential Policy Responses:** While the CA approach indicates a broadly in-line assessment, the REER approach suggests some overvaluation given the still sizeable negative NIIP at 89 percent of GDP. With reserves below the ARA threshold-- even when adjusting for banks' external assets-- continued fiscal and strategic FX purchases by the NBG are warranted alongside limited FX sales to avoid disorderly market conditions.<sup>2</sup> The authorities should sustain structural reforms, including export and energy diversification, to enhance competitiveness through targeted infrastructure and institutional reforms.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** Georgia's net international investment position (NIIP) improved significantly, narrowing to -89 percent of GDP by the end of 2024 from - 157.5 percent in 2020, despite a deterioration in nominal terms of nearly USD 5 billion over the same period. Most of the improvement reflects the combined effects of exchange rate appreciation and GDP growth outpacing the accumulation of liabilities, supported by a stronger net portfolio position, which increased to 5.2 percent of GDP, reflecting a doubling of debt security assets and a decline in government's other investment liabilities from 68 to 23 percent of GDP. The composition of Georgia's NIIP continues to limit its vulnerability to shocks. As of end-2024, FDI and loans accounted for 52 percent and 34 percent of gross liabilities, respectively. The share of debt in total liabilities declined from nearly 50 to 37 percent over the past five years, reflecting fiscal prudence, a shift toward domestic debt issuance, and a sharp decline in private external debt (from 66.5 percent of GDP to 27.1 percent of GDP), reflecting lari appreciation, tighter macroprudential limits on FX lending, and strong GDP growth. External general government debt declined by nearly 20 percentage points of GDP over the period, reaching 25.2 percent by end-2024. In the non-bank corporate sector, external debt decreased further as FDI composition shifted increasingly toward equity, with only 11 percent of gross FDI now in the form of debt. In contrast, bank external debt increased by nearly US\$3.7 billion, mostly in short-term currency and

deposits. However, this was offset by a faster accumulation of external assets, largely in debt securities and short-term deposits abroad.

**Assessment.** The NIIP is expected to remain negative in line with the financing needs of the current account deficit, which is expected to be covered by longer-term flows over the medium-term. While the sizeable negative NIIP remains a source of vulnerability and underscores the need for continued accumulation of reserves, its favorable composition—dominated by FDI, equity and longer-term debt--maturities help mitigate associated risks.

2024 (% GDP)	NIIP: -89.0	Gross Assets: 52.3	Debt Assets: 20.8	Gross Liab.: 141.2	Debt Liab.: 51.8
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### Current Account

**Background.** The current account deficit has narrowed significantly from its COVID-era peak of 12.4 percent of GDP to a range of 4.5 to 5.5 percent of GDP over the past five years. The improvement reflects a near doubling of exports, driven by a surge in re-exports of goods since the start of the war in Ukraine, a strong recovery in tourism and other services (especially in the ICT and including in the financial sectors) and a pick-up in remittances from abroad since the start of the conflict. From the saving-investment perspective, the improvement in the external balance is reflected by higher savings and a prudent fiscal stance that has shifted investment toward the private sector.

The CA deficit narrowed to 4.4 percent of GDP in 2024 from 5.6 percent of GDP in 2023 on account of lower import cost (partly due to lower energy costs), and an improvement in primary income supported by easing short-term obligations and lower interest rates. The CA deficit is expected to remain broadly stable at 4.4 percent of GDP in 2025 supported by stable energy prices and continued strength in exports, supported by tourism and favorable dynamics in Georgia's commodity exports, including gold. . However, significant uncertainty persists regarding global trade tariffs, and their potential impact on Georgia.

Over the medium-term, the CA deficit is expected to stabilize around 5 percent of GDP on the back of continued prudence in the fiscal stance, resilience of tourism receipts, further gains in services exports, and economic growth reverting to potential.

**Assessment.** The CA approach of the IMF's EBA-lite methodology compares the cyclically adjusted CA deficit in 2024 to a model-estimated CA norm. With remittances normalizing, the temporary adjustment applied in previous years has been removed. The cyclically-adjusted CA balance stands at -4.1 percent of GDP, implying a positive gap of 0.8 percent of GDP against the 2024 norm of -4.9 percent of GDP. The growth differential with the rest of the world and the sizeable NIIP as percent of GDP implies about a 2 percent of GDP wider cyclically adjusted CA deficit norm than observed. A moderate positive policy gap emerges due to the smaller fiscal adjustment needed in the medium-term compared to the rest of the world. On the net, the CA gap corresponds to a modest REER undervaluation of 2.1 percent.



Georgia: Model Estimates for 2024 (in percent of GDP)		
	CA model 1/ (in percent of GDP)	REER model
<b>CA-Actual</b>	<b>-4.4</b>	
Cyclical contributions (from model) (-)	-0.3	
Natural disasters and conflicts (-)	0.0	
<b>Adjusted CA</b>	<b>-4.1</b>	
<b>CA Norm</b> (from model) 2/	<b>-4.9</b>	
Adjustments to the norm (+)	0.0	
<b>Adjusted CA Norm</b>	<b>-4.9</b>	
<b>CA Gap</b>	<b>0.8</b>	<b>-2.8</b>
o/w Relative policy gap	0.7	
Elasticity	-0.4	
<b>REER Gap</b> (in percent)	<b>-2.1</b>	<b>7.7</b>
1/ Based on the EBA-lite 3.0 methodology		
2/ Cyclically adjusted, including multilateral consistency adjustments.		
<b>Real Exchange Rate</b>		
<p><b>Background.</b> Since 2020, the lari has been appreciating steadily in real terms by about 27.4 percent (nominally by 13 percent) on account of higher export proceeds, a surge in war-related financial inflows, and inflation differentials. This trend somewhat reversed in 2024 as the lari depreciated in real terms by 5.3 percent as remittances and net financial flows dropped markedly, amid deteriorating sentiment.</p> <p><b>Assessment.</b> The REER approach suggests an overvaluation of 7.7 percent. Although the CA approach (suggesting a <i>modest undervaluation</i>) is preferred in the bottom-line assessment, the results from the REER approach should not be dismissed. While the sizeable NIIP position is consistent with a higher CA deficit as used in the CA approach, the REER model requires a more depreciated REER for countries with large negative NIIP that need to improve competitiveness and accumulate precautionary buffers. Therefore, given the caveats of both approaches and the high uncertainty related of the current environment, the authorities are advised to sustain their reform agenda to enhance competitiveness, raise net private savings, accumulate further buffers and maintain exchange rate flexibility.</p>		
<b>Capital and Financial Accounts: Flows and Policy Measures</b>		
<p><b>Background.</b> From 2020 to 2022, Georgia recorded strong financial inflows, with the financial account surplus peaking at 7.7 percent of GDP in 2022, more than covering the CA deficit and supporting reserve accumulation. These inflows were driven by donor loans, FDI in key infrastructure projects, and a surge in non-resident FX deposits. However, this trend has since reversed. In 2024 the financial account registered a deficit of 1.7 percent of GDP, reflecting a sharp drop in FDI (to 2.7 percent of GDP from 5.2 percent of GDP in 2023) as large projects wound down and a significant increase in FX asset accumulation (from 1.1 to 4.4 percent of GDP)</p>		

reflecting increasing FX conversion of deposits due to uncertainty. NBG's raising of reserve requirements on foreign currency liabilities by 5 percentage points (aimed at preventing excessive FX credit growth) contributed to a further FX asset accumulation by commercial banks. Going forward, financial flows are expected to stabilize in line with CA financing needs, supported by FDI, external borrowing and the continued reversal of dollarization, especially as peak uncertainty from 2024 is normalizing in support of de-dollarization. .

**Assessment.** The negative overall balance in 2024 reflects the normalization of FDI and the sharp increase in the accumulation of financial assets, partly to improve banks' FX liquidity and the buffers of the private sector (reflected in the improvement of the NIIP) even as remittances and non-resident deposits declined. Going forward, maintaining exchange rate flexibility while enhancing external competitiveness will be key to mitigate risks from potential capital outflows and moderation of FDI, while also easing financing pressures by lowering the import demand typically associated with FDI.

### FX Intervention and Reserves Level

**Background** Gross international reserves (GIR) fell to US\$4.4 billion in 2024, down from a peak of US\$5.0 billion in 2023 after several years of steady growth. The drop reflects slowing remittances and higher net payment by commercial banks—which also substantially increased their debt securities abroad—government debt repayments, and net FX sales by the NBG of USD475 million. The continued drop in bilateral and IFI inflows, down 79 percent to USD 95.5 million--the lowest level in 5 years—also weighed on reserves. As a result, ARA metric coverage decreased from 95.5 percent in 2023 to 77.3 percent in 2024, also partly reflecting an increase in non-resident short-term FX deposits which raised the stock of short-term debt considered under the ARA framework. These deposits are, however, backed by banks' foreign assets, including liquid instruments held to comply with macroprudential regulations and for self-insurance. Banks' FX assets grew over 50 percentage points faster than short-term obligations. If the ARA metric were adjusted to reflect net short-term liabilities (instead of gross), the coverage would increase to 83.5, though still below the 120-130 targeted by the authorities as a prudent level. In terms of import cover, reserves have dropped from 3.2 to 2.6 months.

**Assessment.** Staff projects GIR to rise to USD 4.68 billion in 2025, reaching 81 percent of the ARA metric supported by a stable current account deficit and sustained financial flows, as financial asset accumulation slows with moderating short-term deposit inflows and dollarization pressures. Over the medium-term, reserve coverage is projected to increase to around 100 percent in line with the authorities' objective to increase FX buffers and the assumption of resilient external receipts from emerging sectors, including tourism and sources of new investments and borrowing in planned infrastructure expenditure. The NBG should continue strategic FX purchases and limit FX sales only to prevent disorderly market conditions, consistent with IPF guidance.

<sup>1</sup> Prepared by Mehmet Cangul (SPR).

<sup>2</sup> Please see a detailed analysis of FX interventions in the Annex X discussing IPF.

## Annex V. Key Recommendations of the 2021 FSSA

No.	Recommendations	Time <sup>1</sup>	Authorities' Status Update (as of May 2025) <sup>2</sup>
<b>Financial Stability Analysis</b>			
1	Encourage banks to retain earnings until pandemic-related uncertainties subside and pre-pandemic capital buffers are restored.	ST	<p>NBG introduced related macroprudential measures. During the COVID period, banks received relief on capital requirements with a reduction of the capital conservation buffer (CCoB—to 2.5% of the RWAs) and a portion of the Pillar 2 buffer (two-thirds of the currency-induced credit risk (CICR) buffer).</p> <p>Banks were required not to use the relief on capital requirements for dividends, share buybacks, equity investments, increasing variable remuneration for management or other types of distributions and payments. All banks have restored these buffers since the beginning of 2024.</p> <p><a href="http://www.nbg.gov.ge/en/media/news/supervisory-plan-of-the-national-bank-of-georgia-with-regard-to-covid-19">www.nbg.gov.ge/en/media/news/supervisory-plan-of-the-national-bank-of-georgia-with-regard-to-covid-19</a></p> <p><a href="http://www.nbg.gov.ge/uploads/legalacts/fts/eng/100_04_270720.pdf">www.nbg.gov.ge/uploads/legalacts/fts/eng/100_04_270720.pdf</a></p>
2	Implement Basel regulation on banks' large exposures as planned.	ST	<p>The following orders of the President of the NBG have been introduced to implement the Basel regulation on banks' large exposures:</p> <p><a href="https://matsne.gov.ge/ka/document/view/4709356?publication=0">https://matsne.gov.ge/ka/document/view/4709356?publication=0</a></p> <p><a href="https://matsne.gov.ge/ka/document/view/5577584?publication=0">https://matsne.gov.ge/ka/document/view/5577584?publication=0</a></p> <p>Maximum requirements for risk exposures to disburse to a single borrower or an interconnected group of borrowers were set for commercial banks to avoid the concentration of credit risk and to promote the stability and sound functioning of the financial sector.</p> <p>Large risk requirements are based on the framework established by the Basel Committee on Banking Supervision and European Parliament and Council Regulation 575/2013 and Directive 2013/36 of 26 June 2013 on the prudential requirements for credit institutions and investment firms.</p>
<b>Macroprudential Policy and Dollarization</b>			
3	Review calibration of macroprudential tools aimed at reducing	ST	The methodology for calculating the risk weight was changed in March 2023. The risk weight requirements for the unhedged risk exposures now depend on the level of loan dollarization.

No.	Recommendations	Time <sup>1</sup>	Authorities' Status Update (as of May 2025) <sup>2</sup>
	dollarization, including via impact assessments.		
4	Strengthen communication of the impact and rationale of macroprudential policy decisions to stakeholders.	ST	After each meeting of the Financial Stability Committee, the decisions of the committee are published on the website of the National Bank of Georgia, which explain the reasons for the decisions and the determining factors. Also, financial stability report is published annually, which provides a detailed overview of macroprudential measures focused on the entire banking system and microprudential measures aimed at increasing the resilience of individual financial institutions.
5	Enhance public communication to clarify the objectives of foreign exchange interventions.	I	The NBG has adopted and published the FXI strategy.
<b>Banking Supervisory Oversight</b>			
6	Formalize and enhance the governance of key internal processes for supervisory operations and decisions.	I	<p>The NBG has introduced the <a href="#">GRAPE handbook</a> and GRAPE procedure (internal act) that cover assessment criteria and processes, communication protocols, decision-making frameworks, supervisory plan development, implementation monitoring, non-compliance measures, and other relevant aspects.</p> <p>The NBG has elaborated a guide outlining rules and procedures for staff access, acquisition, creation, storage, and exchange of information pertaining to commercial banks and microbanks under the banking supervision framework. This guide encompasses information-sharing principles and the transfer of knowledge and materials between staff members.</p> <p>A guideline for the development and implementation of policies on significant issues regulated by the National Bank of Georgia (internal act) has been adopted to describe the policy-making process.</p> <p>The "Rule of Decision-Making on Key Issues of Banking and Non-Banking Institutions' Supervision" was enacted by Presidential Decree N235/04 of the National Bank of Georgia on September 16,</p>

No.	Recommendations	Time <sup>1</sup>	Authorities' Status Update (as of May 2025) <sup>2</sup>
			<p>2024 (internal act), establishing the decision-making process for key issues related to the supervision of banking and non-banking institutions</p> <p>NBG is working on a procedure regarding onsite supervision.</p>
7	Review the internal GRAPE scoring and weighting methodology.	ST	Grape handbook has been updated and grape procedure has been adopted. Need the link to the new handbook, NBG will provide internal procedure covering communications etc.
8	Carry out regular in-depth assessments of banks' governance and risk management practices.	ST	<p><a href="#">NBG 2023-2025 supervisory strategy</a> laid out plans to conduct qualitative evaluations of risk management and internal control functions (including internal audit) at commercial banks, and to implement necessary measures to address identified gaps and weaknesses.</p> <p>Corporate governance of commercial banks is assessed on an ongoing basis and is considered within GRAPE process.</p> <p>The NBG has established Score cards for assessing compliance with the Corporate Governance Code for Commercial Banks and those scorecards were filled by commercial banks and assessed by NBG. During 2023-2024, the NBG also reviewed the assessments and the internal audit function to ensure its independence and proper functioning. Furthermore, GRAPE findings are communicated to internal audit and NBG requires bank's recovery plan to be analyzed and assessed by an internal audit and risk management unit of a bank.</p>
9	Require systemic banks and encourage others to incorporate internal stress testing in capital and liquidity planning.	ST	All commercial banks were required to submit ICAAP and ILAAP to NBG. In case of ILAAP, submitted documents were reviewed by NBG and findings and results of the review were shared with banks. In case of ICAAP, review of submitted documents has been started and is in process. Stress testing is done each year by all banks under recovery planning process. In addition, supervisory stress testing was conducted in 2023 by all banks in order to set net stress test capital buffer under Pillar 2.
<b>Anti-Money Laundering / Countering Financing of Terrorism (AML / CFT) Supervision</b>			

No.	Recommendations	Time <sup>1</sup>	Authorities' Status Update (as of May 2025) <sup>2</sup>
10	Strengthen regulation / supervision for gaming sector, virtual asset service providers, and real estate agents. (MoF)	MT	<p>The NBG supervises Virtual Asset Service Providers (VASPs), however, the NBG does not supervise the gaming sector or real estate agents.</p> <p>In September 2022, the Parliament of Georgia passed the amendments in several laws introducing legislative framework for Virtual Assets (VAs) and for 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 Virtual Asset and Virtual Asset Service Providers.</p> <p>In June 2023, "The Rule for the Virtual Asset Service Provider's (VASP's) Registration at the National Bank of Georgia, Registration Cancellation, and Regulation" was approved by the decree N94/04 of the governor of the National Bank of Georgia introducing robust entry requirements for the VASPs, including fit and proper checks, examination of the products and AML/CFT policies and systems in place. Subsequently, the National Bank of Georgia started accepting applications from the VASPs.</p> <p>In December 2023, amendments were implemented in the "Rule on Information Accompanying Transfers of Funds and Virtual assets", approved by the decree N253/04 defining information that should accompany virtual asset transfers. Amendments are fully compliant with FATF standards and respective EU Regulation.</p>
11	Consider setting maximum thresholds for use of cash in certain transactions.	ST	Currently, there is no legislative requirement imposing a maximum limit on cash usage, although some financial institutions have adopted such limits within their internal policies. [partially covered in AML framework]
<b>Capital Markets Oversight</b>			
12	Continue to develop and implement risk-based supervision for all market participants.	ST	NBG has elaborated risk-based supervision methodology for securities market in 2024 and approved a risk-based supervisory plan for 2025, used by the capital market supervision department in day-to-day supervision process.

No.	Recommendations	Time <sup>1</sup>	Authorities' Status Update (as of May 2025) <sup>2</sup>
13	Ensure that sanctions for market abuse are sufficiently punitive.	I	<p>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.</p> <p>Furthermore, a <a href="#">new regulation</a> regarding the publication of sanctions imposed on individuals or entities on the official website of the National Bank of Georgia has been adopted.</p>
<b>Financial Safety Nets</b>			
14	Implement a prompt corrective action framework for banks.	I	Guidelines are in place on the application of supervisory measures, early intervention measures, and the interpretation of certain grounds for revoking a banking license for a commercial bank. (NBG President's Order N22/04 of February 2, 2023 - internal act).
15	Take steps to be able to implement a bridge bank swiftly when needed. (MoF, NBG)	I	<p>In 2024, the NBG updated the "Rule on the Issuance of Temporary State Funding by the Ministry of Finance of Georgia, the Administration and Investment of Contributions Made to the Resolution Fund for the Subsequent Reimbursement of Funds Used Within the Temporary State Funding Framework".</p> <p>Additionally, together with the Ministry of Finance (MoF), NBG developed the Bridge Bank Playbook, which was approved in 2023.</p>
16	Prepare crisis contingency plans for banks and adopt regular testing programs. (IFSC, NBG)	ST	Working groups consisting of 10-15 members from four organizations (NBG, MoF, DIA, and ISSA) have been established. In 2024, RLD of NBG developed the initial draft of the Contingency Plan, which was shared with the working group members and presented to the committee. The development of this document will continue in the coming years.
<b>Financial Market Infrastructure</b>			
17	Develop detailed procedures for oversight of payment systems	I	<p>In November 2023, the NBG adopted two legal acts:</p> <p>a) <a href="#">"The rules on oversight of payment systems and payment system operators"</a>, which implements the CPSS-IOSCO principles for financial market infrastructures in Georgian legislation.</p>

No.	Recommendations	Time <sup>1</sup>	Authorities' Status Update (as of May 2025) <sup>2</sup>
			b) <a href="#">"The rules on the determination of sub-categories on important payment systems and the designation of important payment systems"</a> , 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	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.
<b>Financial Sector Competition</b>			
19	Develop institutional capacity for competition enforcement and advocacy as a separate function within NBG.	I	Following the amendments granting the NBG power to enforce competition law in its respective sector, a separate structural unit, Competition Division, has been established within the NBG's Legal Department. The Division commenced its actual functioning in October 2023. The Division is entrusted with various responsibilities, including the examination of cases related to Article 6 (Abuse of Dominant Position) and Article 7 (Restrictive Agreements) of the Law of Georgia "On Competition". It is also responsible for reviewing concentration notifications and making decisions on structural and behavioral remedies proposed by involved undertakings during the concentration process.
20	Carry out impact assessments of laws and regulations in the financial sector from a competition perspective.	ST	NBG is working on the elaboration of Regulatory Impact Assessment methodology. The working draft is underway and to be agreed internally within the NBG management.
<b>Capital Markets Development</b>			
21	Commit to a predictable schedule of issuance for benchmark	I	The MoF website publishes a <a href="#">calendar</a> for bond issuance, as well as <a href="#">information</a> on debt statistics



No.	Recommendations	Time <sup>1</sup>	Authorities' Status Update (as of May 2025) <sup>2</sup>
	government bonds in sizable amounts. (MoF)		
22	Enact relevant legislation for covered bonds as planned. (MoF, NBG)	I	<p>The Law 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.</p> <p><a href="https://nbg.gov.ge/en/media/news/new-financial-instrument-on-the-capital-market">https://nbg.gov.ge/en/media/news/new-financial-instrument-on-the-capital-market</a></p>
<b>Access to Finance</b>			
23	Define a roadmap for the development of fintech and a National Financial Inclusion Strategy.	ST	<p>The first strategy was adopted in 2016, and <a href="#">the latest update</a> was introduced in 2023, setting out plans for the next five years.</p> <p>NBG has also drafted "Fintech Development Strategy of Georgia" in cooperation with the World Bank, which is expected to be adopted soon.</p>
24	Establish an online collateral registry and strengthen the legal framework for secured transactions. (NBG, MoJ)	ST	<p>MOESD is leading the work on the legal framework of the Secured Transactions.</p> <p>There is an online collateral registry at the national public register website (available only in Georgian): <a href="https://my.gov.ge">my.gov.ge</a></p>
<p><sup>1</sup> I: Immediate (within one year); ST: short-term (1–3 years); MT: medium-term (3–5 years).</p> <p><sup>2</sup> Authority responsible for implementation is NBG unless indicated otherwise.</p> <p>Sources: Fund staff and the authorities' self-assessment.</p>			

## Annex VI. Data Issues

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

A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral	Median Rating
	A	A	A	A	A	A	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A (MFS)		
			A		A (FSI)		
Consistency			A	B	B (FSI)	A	
Frequency and Timeliness	A	A	A	A	A		
<p>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.</p> <p>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.</p> <p>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 <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>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.</p>							
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						
<p><b>Rationale for staff assessment.</b> The data available in all sectors are of high quality and timely. Some minor shortcomings remain in external and financial sector monitoring. Here trade volume and price data could be</p>							

provided at a monthly frequency, and consistency across financial sector data sources and FSI metadata could be further improved.

**Changes since the last Article IV consultation.** Aggregate ratings remain unchanged from the previous AIV (2024), except for an upgrade in monetary and financial sector data, particularly FSI granularity, which has improved following an IMF TA on FSI data and metadata in FY2025. Granularity of national accounts data has also improved with the timely publication of chain linked quarterly GDP by expenditure components.

**Corrective actions and capacity development priorities.** Institutional sector accounts still need to be improved, including by developing annual non-financial sector accounts and estimating the non-observed economy, with ongoing STA CD support. Similarly, volumes and price external trade data at a monthly frequency would also be beneficial, while these are available on a quarterly frequency.

**Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.** Data on corruption perceptions were sourced from transparency international. Measures of the rule of law were sourced from the World Justice Project. Vacancy data were sourced from an online jobs board (jobs.ge). Data from the World Bank Informal Economy Database was used for measures of informality. Social indicators compared to CCA peers, including poverty, inequality, unemployment, and social spending are sourced from World Bank (WDI, ASPIRE) and World Health Organization. Some data on emigration are sourced from OECD Emigration Database and the Russian Statistical Bureau.

**Other data gaps.** Staff do not see any key data gaps outside of those identified in the questionnaire.

**Table 2. 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/>).

**Table 3. Georgia: Table of Common Indicators Required for Surveillance**  
As of June, 2025

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data <sup>6</sup>	Frequency of Reporting <sup>6</sup>	Expected Frequency <sup>6,7</sup>	Georgia <sup>8</sup>	Expected Timeliness <sup>6,7</sup>	Georgia <sup>8</sup>
Exchange Rates	31-May-25	1-Jun-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>	May-25	Jun-25	M	M	M	M	1W	7D
Reserve/Base Money	May-25	Jun-25	M	M	M	M	2W	7D
Broad Money	Apr-25	May-25	M	M	M	M	1M	20D
Central Bank Balance Sheet	May-25	Jun-25	M	M	M	M	2W	7D
Consolidated Balance Sheet of the Banking System	Apr-25	May-25	M	M	M	M	1M	20D
Interest Rates <sup>2</sup>	31-May-25	1-Jun-25	D	D	D	...	...	...
Consumer Price Index	May-25	Jun-25	M	M	M	M	1M	5D
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —General Government <sup>4</sup>	Apr-25	May-25	M	M	A	Q	2Q	NLT 2M
Revenue, Expenditure, Balance and Composition of Financing <sup>3</sup> —Central Government	Apr-25	May-25	M	M	M	M	1M	NLT 1M
Stocks of Central Government and Central Government-Guaranteed Debt <sup>5</sup>	Apr-25	May-25	M	M	Q	Q	1Q	NLT 1M
External Current Account Balance	Dec-24	Mar-25	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	May-25	Jun-25	Q	Q	M	M	8W	19D
GDP/GNP	Dec-24	Mar-25	Q	Q	Q	Q	1Q	80D
Gross External Debt	Dec-24	Mar-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	Dec-24	Mar-25	Q	Q	Q	Q	1Q	1Q

<sup>1</sup> Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

<sup>2</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>3</sup> Foreign, domestic bank, and domestic nonbank financing.

<sup>4</sup> The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

<sup>5</sup> Including currency and maturity composition.

<sup>6</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

<sup>7</sup> Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

<sup>8</sup> Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



# GEORGIA

July 7, 2025

## STAFF REPORT FOR THE 2025 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 May 31, 2025)

### 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	599.88	285.11
Reserve Tranche Position	0.02	0.01

### SDR Department

	SDR Million	Percent Allocation
Net Cumulative Allocation	345.62	100.00
Holdings	346.34	100.21

### Outstanding Purchases and Loans

	SDR Million	Percent of Quota
Extended Arrangements	389.50	185.12

### 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				
	2025	2026	2027	2028	2029
Principal	59.42	80.67	78.17	68.17	58.17
Charges/Interest	6.79	11.29	8.40	5.67	3.25
<b>Total</b>	<b>66.20</b>	<b>91.95</b>	<b>86.56</b>	<b>73.83</b>	<b>61.42</b>

## Safeguards Assessments

The most recent safeguards 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, including filling vacancies at the NBG Board. The proposed amendments to strengthen governance and financial autonomy in the NBG Law remain outstanding. Staff continue to engage with the authorities on these issues. The NBG's latest audited financial statements are published for the year ending December 31, 2024.

## 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 Rate Arrangements

Georgia's de-jure and de-facto exchange rate arrangement is classified as 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, 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 treated the SBA as precautionary. The first (and only) review of the SBA was completed on December 21, 2022. The program expired on June 14, 2025.

## Article IV Consultation

The 2024 Article IV consultation was concluded on May 13, 2024. The published Staff Report is available at <https://www.imf.org/-/media/Files/Publications/CR/2024/English/1GEOEA2024001.ashx>

## 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:** enhancing treasury functions; 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:** operational risk management; government debt and liquidity management operations; interest rate risk in the banking book; large exposures and concentrations; the move of 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:** systemic risk analysis; 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.



## RELATIONS WITH THE WORLD BANK GROUP AND OTHER IFIS

(As of April 30, 2025)

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

<b>The World Bank Group</b>	<a href="https://www.worldbank.org/en/country/georgia/overview#2">https://www.worldbank.org/en/country/georgia/overview#2</a>
<b>European Bank for Reconstruction and Development</b>	<a href="https://www.ebrd.com/georgia.html">https://www.ebrd.com/georgia.html</a>
<b>Asian Development Bank</b>	<a href="https://www.adb.org/countries/georgia/main">https://www.adb.org/countries/georgia/main</a>