June 2011
IMF Country Report No. 11/146

Georgia: Ninth Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criterion—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Georgia.

In the context of the Ninth Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criterion, the following documents have been released and are included in this package:

- The staff report for the Ninth Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on April 28, 2011, 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 May 24, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Press Release summarizing the views of the Executive Board as expressed during its June 8, 2011 discussion of the staff report that completed the request and/or review.

- A statement by the Executive Director for Georgia.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Georgia*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

GEORGIA

Ninth Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criterion

Prepared by the Middle East and Central Asia Department
(In consultation with other departments)

Approved by David Owen (MCD) and Dominique Desruelle (SPR)

May 24, 2011

- **Background:** The present review is the final review under the Stand-By Arrangement (SBA). The seventh and eighth reviews were concluded on January 12, 2011. Access under the SBA is SDR 747.1 million (497.1 percent of quota), of which SDR 577.1 million has been disbursed. Since the last drawing in July 2010, the authorities have treated the arrangement as precautionary. The arrangement expires June 14, 2011.
- **Strategy for the remainder of 2011:** The stabilization objectives supported by the current SBA have been largely achieved. A successful Eurobond issue has eased considerably the debt service hump of 2013. The authorities' policy targets for the remainder of 2011 are in line with those presented at the seventh and eight reviews. The authorities are elaborating a medium-term policy framework, in support of which they intend to request a successor Fund arrangement.
- **Team:** E. Gardner (head and Senior Resident Representative), E. Martin, A. Luca (all MCD), M. Gerard (FAD), I. Halikias (SPR), and N. Sharashidze (Resident Representative Office).
- **Exchange Rate Regime:** The regime is classified as "floating."
- **Statistics:** Economic data are broadly adequate for surveillance and program monitoring. Georgia participates in the GDDS and subscribed to the SDDS in May 2010.

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EXECUTIVE SUMMARY

Recent economic developments have been largely in line with program expectations. Economic activity indicators support the real GDP growth projection of 5½ percent in 2011. The inflation projection has been revised up (to 8½ percent by end-year) on the back of rising food and fuel prices, but core inflation remains subdued. Balance of payment developments have been more favorable than anticipated in the first quarter owing to higher private inflows, including tourism. The current account deficit is still projected to widen moderately in 2011 (to 10.8 percent of GDP) on account of higher import prices and to decline steadily thereafter. In April, the government issued a $500-million Eurobond at very favorable terms. The proceeds were used to redeem, through a voluntary exchange, $435 million of the $500-million Eurobond maturing in 2013, reducing significantly the external debt rollover hump of 2013.

Policy targets for 2011 have been strengthened. Reflecting the stronger balance of payments developments of the first quarter, NIR is now expected to increase by an additional $205 million (to $1.1 billion) relative to the previous review. The 2011 fiscal deficit is now projected at 3.6 percent of GDP (rather than 4.3 percent), while allowing for an increase in social spending to alleviate the social impact of higher fuel and food prices. Faster deficit reduction largely reflects one-off revenues, and the underlying structural adjustment remains as was envisaged at the time of the seventh and eighth reviews. The monetary policy stance remains consistent with a steady deceleration of inflation in the second half of the year.

All end-March performance criteria (PCs) were met with the exception of the ceiling on government expenditure. The expenditure overrun stems from faster execution of capital spending and increased social spending to mitigate the impact of rising food and energy prices. Staff supports the request for a waiver, given that most of the higher-than-expected revenues were saved (as reflected in the lower deficit target for 2011), and the underlying path of fiscal consolidation remains on track.

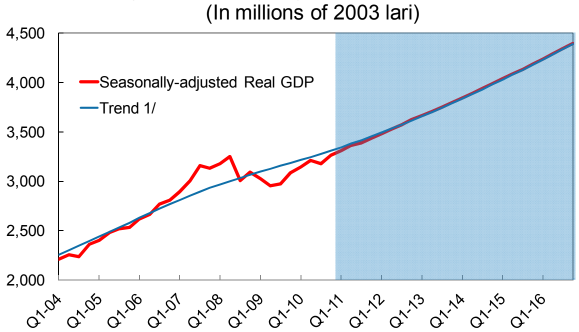
Challenges remain notwithstanding the significant progress made under the SBA in stabilizing the economy and restoring confidence. The large current account deficit remains a source of vulnerability, and additional fiscal adjustment is required to stabilize public debt, all the while meeting important social spending priorities. The authorities are in the process of designing a medium-term policy framework to address these challenges.

I. Recent Developments

1. **Economic and financial developments are largely in line with the outlook discussed in the staff report for the 2011 Article IV consultation (Country Report No. 11/87):**

- Strong first quarter economic activity indicators, including buoyant tax receipts, are consistent with the real GDP growth projection of 5½ percent in 2011.

Georgia: Seasonally-adjusted Real GDP, 2004-16
(In millions of 2003 lari)

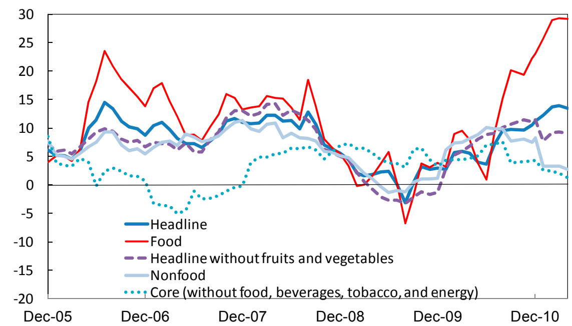


1/ Trend is calculated using the Hodrick-Prescott filter applied to 2004-16 data.

Sources: Georgian authorities; and Fund staff estimates.

- Year-on-year inflation peaked at 13.9 percent in March before edging down to 13.5 percent in April. Core inflation remained subdued, at 1.5 percent in April. High food and energy inflation reflects recent commodity price hikes and is expected to decline through the rest of the year.[1]

Georgia: Measures of Consumption Prices, 2005-11
(In percent, year-on-year inflation)



Sources: Georgian authorities; and Fund staff estimates.

- Balance of payment developments have been more favorable than anticipated. While higher import prices contributed to a sharp widening of the trade deficit in the first quarter, other inflows turned out stronger than projected, in particular tourism (40 percent growth year-on-year in the first quarter) and net private capital inflows.

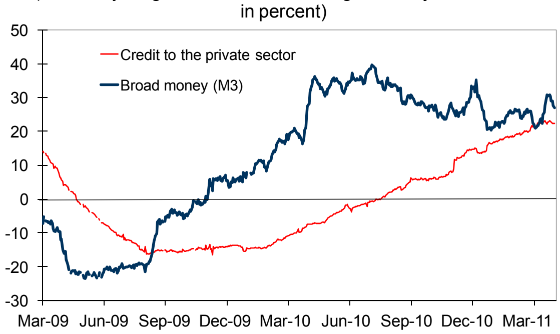
- Favorable external developments contributed to an appreciation of the lari against the dollar, while allowing the central bank to make net purchases on the foreign exchange market. During the first four months of the year, the lari appreciated by 7.6 percent against the dollar and by 3.3 percent in nominal effective terms. Depreciation pressures reemerged in May, in connection to large-scale private foreign exchange purchases by one bank (to finance a Eurobond buyback) and by non-financial corporates. The central bank sold dollars at auction to avoid excessive volatility, but also allowed the rate to depreciate. Since the beginning of the year, the central bank has purchased $20 million, on a net basis, on the foreign exchange market, and net international reserves have now reached their pre-crisis level.

[1] Food and energy prices make up 39 and 13 percent, respectively, of the total CPI basket.

- On April 7, the government issued a $500-million Eurobond at very favorable terms (10-year maturity and 7.125-percent yield). The issue was used to redeem, through a voluntary exchange, $435 million of the $500-million Eurobond maturing in 2013, reducing significantly the external debt rollover hump of 2013.

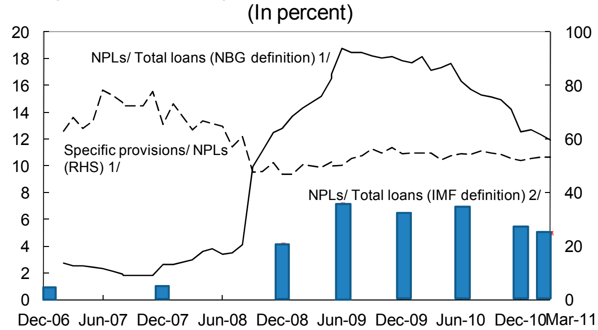
- Money growth has decelerated as expected after the post-crisis surge, while credit continues to grow at a healthy rate. Notwithstanding the improvement in banks' liquidity conditions, lari deposit and lending rates have remained stable, owing in part to steady monetary tightening since June 2010. The dollar lending rate has been declining slowly, after rising earlier this year in response to a tightening of foreign exchange reserve requirements. The banks' financial situation has strengthened further: NPLs have declined to 5 percent (IMF definition) in March, reflecting write-offs and an improved environment.

Georgia: Credit to the Private Sector and Broad Money, 2009-11
(Year-on-year growth rates for exchange rate-adjusted series, in percent)



Sources: Georgian authorities; and Fund staff estimates.

Georgia: Nonperforming Loans and Provisions Ratios, 2006-11
(In percent)



1/ NPLs are defined as loans in substandard, doubtful, and loss loan categories.
2/ NPLs are defined as loans with overdue payments (principle and/or interest) over 90 days.

Sources: Georgian authorities; and Fund staff estimates.

- In April, the government started issuing 5-year T-notes, a significant step in their strategy to lengthen government paper maturities.

II. Program Performance

2. **End-March 2011 PCs were met, with the exception of the general government expenditure ceiling:**

- The end-March PCs on **NIR and NDA** were observed by wide margins, owing to lower-than-programmed foreign exchange intervention, a large one-off tax payment in U.S. dollars by an exporter, and lower reserve money growth in the case of NDA.

- The end-March PC on the **government deficit** was observed by a wide margin (1.4 percent of annual GDP) as higher-than-projected revenues were only partly offset by higher spending.

- The end-March PC on **government expenditure** was missed by about 0.2 percent of annual GDP, owing to an accelerated implementation of investment projects and an increase in social spending (electricity and food vouchers) aimed at alleviating the impact of the hike in food prices.[2] Other current spending was lower than expected, but not enough to offset these two factors. **A waiver of nonobservance is requested** (LOI ¶10) because of corrective actions by the authorities, in the form of their commitment to reduce the overall 2011 fiscal deficit by more than envisaged at the time of the seventh and eighth reviews, and thereby to deliver the structural adjustment envisaged under the program.[3]

- The end-March indicative target on **the contracting and guaranteeing of external debt** was met.

3. **The end-December 2010 fiscal deficit and government expenditure, for which data were not available at the time of the seventh and eighth reviews, were below projected levels.** The corresponding PCs were missed by less than the amounts on the basis of which the waivers were granted.

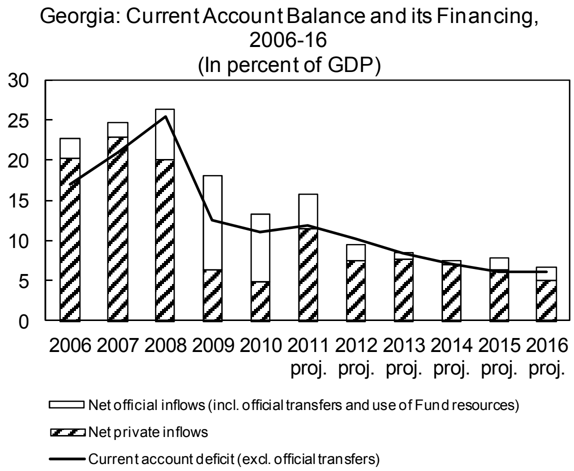
III. Macroeconomic Outlook and Policies for the Remainder of 2011

4. **Against an unchanged real GDP growth outlook, the inflation projection has been revised upward (to 8½ by end-year) on the back of higher food and fuel prices.** In the absence of second-round effects, headline inflation is now expected to decelerate steadily in the second half of the year, as food and energy prices stabilize.

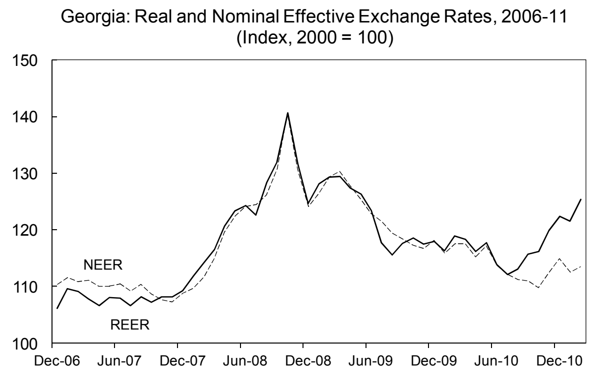
5. **Because of the adverse terms-of-trade shock, the current account deficit is projected to widen in 2011 (by about 1¼ percentage points of GDP), but by much less than envisaged at the time of the Article IV consultation (about 2½ percentage points of GDP).** This deterioration is expected to be temporary and masks an underlying improvement in the current account balance, measured at constant prices. With the expected stabilization of commodity prices, the current account deficit is projected to narrow steadily, driven by the improvement in the relative cyclical position of Georgia's trading partners, productivity gains, and the convergence of the real exchange rate toward its equilibrium level.

[2] Implementation of projects funded by the Millennium Challenge Georgia Fund was accelerated ahead of the expected end of the Millennium Challenge Compact in mid-2011.

[3] The ceiling on government expenditure was intended to ensure that cyclical and one-off revenue windfalls would not be spent in ways that would weaken the underlying structural fiscal adjustment.



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



Sources: Georgian authorities; and Fund staff estimates.

6. **Consistent with the fiscal structural adjustment envisaged at the time of the last review, the authorities intend to reduce the government's deficit to 3.6 percent of GDP in 2011, compared with 4.3 percent of GDP previously.** This downward revision reflects an improvement in projected revenues (equivalent to 1.7 percentage point of GDP, of which 1.3 percentage point in tax revenues) owing to one-off factors (settlement of past tax arrears amounting to about 1 percentage point of GDP) and higher tax buoyancy already observed in the first quarter, and related in part to improved compliance owing to simplified tax procedures (e.g., web portal and online payment). So as to preserve the envisaged structural adjustment path, the one-off revenue would be used essentially to reduce the deficit and to finance additional one-off social outlays (food and electricity vouchers amounting to 0.2 percent of GDP) aimed at alleviating the impact of higher food and fuel prices. The structural component of the revenue increase and the residual one-off revenue would finance: a 25 percent increase in the basic pension to the equivalent of $60 per month (0.2 percentage point of GDP), which will become effective in September; an increase in capital spending (0.6 percentage point of GDP); and an inflation-related increase in spending on goods and services. The authorities consider that an even better revenue performance is possible relative to the program scenario, and have adopted a supplementary budget that allows for higher capital spending (by 0.2 percent of GDP) if these additional revenues materialize.

Georgia: Overall and Structural Fiscal Balances, 2009-11
(In percent of GDP)

	2009	2010		2011	
		7/8th Rev.	Proj.	7/8th Rev.	Proj.
Overall balance	-9.2	-6.8	-6.6	-4.3	-3.6
Structural balance	-8.5	-7.0	-6.8	-4.7	-4.7

Sources: Ministry of Finance; and Fund staff estimates.

7. **While the current fiscal projections do not factor in any revenue measures, the authorities retain the flexibility to introduce such measures should the need arise, notably if the expenditure containment objectives underpinning their fiscal consolidation strategy prove difficult to achieve.** The constitutional amendment adopted in December 2010 subjecting tax increases to referendum requirement will become effective only after the 2013 presidential election. Also, the authorities reiterated their commitment to adopt an escape clause in line with staff recommendations (see Box 4 of Country Report No. 11/87) before this requirement becomes effective. This clause could be included, along with fiscal rules (ceilings) on budget spending, the fiscal deficit, and the public debt, in an organic budget law that the authorities are considering submitting to parliament later this year.

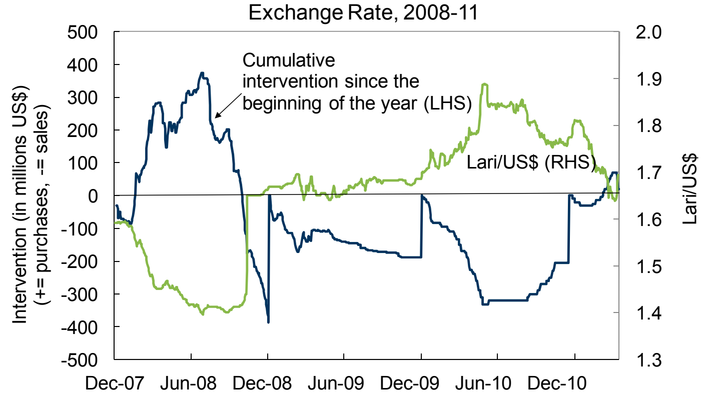
8. **The authorities indicated that a further substantial increase in pensions might be necessary, but recognized the need to structure and finance any such increase in a way that does not compromise fiscal adjustment objectives.** The current old-age pension system is not financed by contributions but by the state budget and provides a pension to all persons of pension age (65 for men and 60 for women) who are no longer working. It is part of a broader program that includes pensions for the disabled and war veterans, as well as targeted social assistance to the poor. Total benefits, including social assistance for nonpensioners, come to 4.6 percent of GDP, of which 4 percent of GDP is accounted by pensions. The basic pension is GEL80 per month (about $50) and will be raised to GEL100 in September, but the authorities are considering another substantial increase in 2012. The mission emphasized the importance of containing the net budgetary cost of such an increase during the fiscal consolidation period. Based on the recommendations of a Fund technical assistance mission on pension reform that was present in Tbilisi at the same time, it laid out a number of options, including limiting (or phasing in) any increase through means testing. The authorities also enquired about the merits of introducing a contributory pension scheme. The mission stressed that, while such a scheme could be envisaged as a supplemental plan to the existing state pension system, any move in that direction is both difficult and fraught with risks, and should therefore be carefully assessed beforehand, and not tied to short-term considerations such as the need to finance (through the introduction of social contributions) increases in the basic state pension.

9. **Given that headline inflation has started to decline earlier than projected and that core inflation remains subdued, the authorities consider the current monetary stance to be appropriate and consistent with a further deceleration of inflation in the second half of the year.** While headline inflation is still high, reflecting elevated food and fuel prices, there have been so far no signs of second-round effects. Also, CD and government securities rates have declined across the yield curve since the beginning of the year, which the central bank attributes to declining inflation expectations. Nonetheless, the authorities restated their readiness to tighten the monetary stance in response to any signs of more persistent inflation and/or excessive growth in monetary and credit aggregates. The authorities and staff agreed that, should more tightening be needed, it should rely on a mix of

policy rate adjustments and increases in reserve requirements on foreign currency liabilities, so as to avoid fueling further dollarization.[4]

10. **The authorities consider that a flexible exchange rate remains key to meeting external adjustment objectives, while increasing NIR.** The NBG's transactions on the foreign currency market this year have been guided by two considerations: opportunistic build-up of international reserves in the face of steady appreciation pressures; and the need to smooth out large-scale private transactions deemed as market disruptive. Based on an improved balance of payments outlook relative to the last review, the authorities have raised their NIR projection for 2011 by $205 million, to $1.1 billion. Looking ahead, the authorities and staff agreed that the foreign exchange policy should be guided by the objective of increasing NIR. Although a preannounced schedule of foreign currency purchases could achieve that objective while allowing the exchange rate to move freely, the authorities and the mission agreed that a move in this direction would be premature in view of the current shallowness of the market and thus potentially large volatility of the exchange rate.

Georgia: Foreign Exchange Intervention and Exchange Rate, 2008-11



Sources: Georgian authorities; and Fund staff estimates.

IV. Remaining Challenges

11. **Notwithstanding the significant progress made under the SBA in stabilizing the economy and restoring confidence, the authorities and staff agreed that a number of challenges remain:**

- The large current account deficit remains a source of vulnerability, especially when combined with rising external debt servicing obligations in 2013.
- A significant adjustment is still required to bring the primary fiscal deficit below its debt stabilizing level.
- Unemployment remains high and recent increases in the prices of basic foodstuff and oil have eroded real incomes, notably for the most vulnerable.

[4] The recent widening spread between lari and foreign currency deposit rates and appreciation of the lari against the U.S. dollar do not appear to have triggered a reallocation of savings toward the local currency.

- Banks have overcome the stress created by the financial crisis, but potential new risks need to be monitored closely.

12. **The authorities indicated their intention to tackle these challenges forcefully.** They are in the process of designing a medium-term policy framework, whose broad parameters were discussed with staff and are reflected in the attached medium-term projections. This framework will notably aim at: addressing remaining macroeconomic vulnerabilities, and in particular, ensuring the return to a viable external position; ensuring that social safety nets address the impact of the rise in food and fuel prices on the most vulnerable; strengthening incentives for private sector investment in the tradable sector through structural reforms and supportive public spending; and containing financial sector risks as access to capital and credit improves.

V. Program Issues

13. **The authorities reiterated their interest in a successor arrangement, but needed time to design their medium-term policy framework before submitting a formal request**. A successor arrangement would support the authorities' efforts to tackle the aforementioned medium-term challenges and provide a safety net against possible shocks. It would likely be precautionary, but may have to be a drawing arrangement if the unidentified external financing envisaged in 2012–13, which could take the form of additional financing from the IFIs or higher private capital flows, is not mobilized as expected. The exact modalities of the arrangement will be discussed in the coming weeks.

VI. Staff Appraisal

14. **The SBA program objectives have been largely achieved, and Georgia is exiting from the current Fund arrangement in a relatively strong position.** The economy is growing at a solid pace, enabling rapid fiscal consolidation; international reserves have been restored to the pre-crisis levels; and, with the normalization of financial sector conditions, bank lending has resumed at a healthy pace.

15. **The successful Eurobond issue of April 2011 marks a significant improvement in market confidence and eases considerably debt rollover risks.** The substantial downward repricing of Georgia risk embedded in the Eurobond issue is all the more remarkable as it came at a time of unsettled market conditions for sovereign paper.

16. **While external financing and growth prospects have improved, the adjustment process has not been fully completed.** Furthermore, the rise of external repayment obligations in 2012–13 creates vulnerabilities, owing to the uncertain external environment and possible political uncertainty around the elections of 2012 and 2013. The authorities' plan to mitigate such vulnerabilities by targeting a higher accumulation of international reserves in 2011 is welcome.

17. **The authorities' revised fiscal plan for 2011 targets a suitably ambitious adjustment.** While remaining consistent with the frontloaded fiscal consolidation objectives anchoring the program, they also allow for an increase in social spending aimed at alleviating the social impact of higher food and fuel prices.

18. **Sufficient flexibility to take revenue-enhancing measures should be preserved.** The authorities should consider and be able to take such measures if faced with adverse fiscal shocks and/or difficulties in implementing their expenditure-based fiscal consolidation strategy in the run-up to the 2012–13 elections.

19. **The monetary policy stance remains appropriate, given the absence of any evidence of second-round effects from the food and fuel price hikes.** The authorities' readiness to adjust the policy stance if signs of more persistent inflation emerge is welcome.

20. **The exchange rate has become demonstrably more flexible over the course of the SBA.** Over the medium term, NBG's participation in the foreign exchange market should be guided by the objective of increasing NIR. To the extent that the authorities consider that intervention is needed to smooth excess volatility, it will be important that they build an extra buffer over and beyond their NIR targets to achieve this objective.

21. **The banking sector is back on a relatively solid footing and banking supervision is moving appropriately to monitor the emergence of new vulnerabilities.** The supervisory authority has made considerable strides to strengthen its internal analytical capacity and responsiveness to emerging risks. Stocktaking of the regulatory and supervision frameworks would be helpful at this stage to identify potential gaps.

22. **Remaining challenges need to be addressed through a consistent set of fiscal, financial, and structural policies.** Fund staff stands ready to assist the authorities in the implementation of such a strategy.

23. **In light of the authorities' commitment to reduce the 2011 fiscal deficit by more than envisaged at the time of the seventh and eighth reviews, and thereby deliver the structural fiscal adjustment targeted under the program, staff supports the authorities' requests for completing the ninth Review and for a waiver of nonobservance of one performance criterion.**

Table 1. Georgia: Selected Macroeconomic Indicators, 2008–16

	2008 Act.	2009 Act.	2010 Act.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
	(Annual percentage change, unless otherwise indicated)								
National accounts									
Nominal GDP (in million lari)	19,075	17,986	20,791	23,577	26,428	29,345	32,430	35,839	39,607
Real GDP growth	2.4	-3.8	6.4	5.5	5.3	5.0	5.0	5.0	5.0
Population (in million) 1/	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
GDP deflator, period average	9.6	-2.0	8.7	7.5	6.5	5.8	5.3	5.3	5.3
Consumer price index, period average	10.0	1.7	7.1	11.6	7.2	6.0	5.8	5.5	5.4
Consumer price index, end-of-period	5.5	3.0	11.2	8.5	6.0	6.0	5.5	5.5	5.3
GDP per capita (in US$)	2,937	2,455	2,658	3,131	3,376	3,464	3,606	3,812	4,058
Unemployment rate (in percent)	16.5	16.9	...	...	...	...	...	...	...
	(In percent of GDP)								
Investment and saving									
Investment 2/	21.5	15.3	15.0	16.5	17.0	17.5	18.0	18.0	18.0
Public	4.3	6.9	7.1	6.5	5.7	5.8	5.4	5.6	5.4
Private	17.2	8.5	7.9	10.0	11.3	11.7	12.6	12.4	12.6
Gross national saving	-1.1	4.1	5.4	5.7	7.3	9.4	11.2	12.2	12.2
Public	2.2	-0.8	2.2	4.4	3.4	3.6	3.9	3.9	3.9
Private	-3.4	4.9	3.2	1.4	3.9	5.8	7.3	8.3	8.3
Saving-investment balance	-22.6	-11.2	-9.6	-10.8	-9.7	-8.1	-6.8	-5.8	-5.8
Consolidated government operations									
Total government debt	27.6	37.3	39.1	36.8	37.6	37.0	35.5	34.8	34.0
Of which : foreign-currency denominated	23.5	31.7	33.6	31.3	31.7	31.2	29.8	29.3	28.7
Revenue 3/	30.7	29.3	28.2	28.5	26.5	26.3	26.1	26.1	26.1
Current expenditures	28.5	30.1	26.0	24.1	23.0	22.7	22.2	22.2	22.2
Operating balance	2.2	-0.8	2.2	4.4	3.4	3.6	3.9	3.9	3.9
Capital spending and net lending	8.6	8.4	8.8	8.0	6.7	6.5	5.9	5.6	5.4
Overall balance	-6.3	-9.2	-6.6	-3.6	-3.3	-2.9	-2.0	-1.7	-1.5
Total financing	6.3	9.2	6.6	3.6	2.6	2.3	2.0	1.7	1.5
Domestic	-2.3	3.3	0.0	-0.3	0.3	1.0	1.5	0.6	0.3
External	5.0	3.9	5.5	3.0	1.9	1.1	0.4	1.1	1.2
Of which : unidentified	0.0	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.0
Privatization receipts	3.7	2.0	1.1	0.8	0.4	0.2	0.2	0.0	0.0
	(Annual percentage change, unless otherwise indicated)								
Monetary sector									
Reserve money	-4.5	21.8	4.5	7.0	10.0	9.3	9.3	9.3	9.3
Broad money (including fx deposits) 4/	7.0	8.1	28.5	20.0	21.0	19.0	19.0	19.0	19.0
Bank credit to the private sector	28.2	-13.5	20.5	15.8	18.3	15.0	13.8	13.4	18.5
Deposit interest rate (annual weighted average on flows)	9.5	9.4	7.9	…	…	…	…	…	…
Lending interest rate (annual weighted average on flows)	22.7	20.8	17.7	…	…	…	…	…	…
External sector									
Exports of goods and services (percent of GDP)	28.7	29.8	34.8	36.7	37.4	38.6	38.8	38.9	39.1
Annual percentage change	15.9	-13.0	26.6	24.2	10.0	6.0	4.7	6.2	7.0
Imports of goods and services (percent of GDP)	58.3	48.9	52.2	53.8	52.5	51.8	51.0	50.2	50.5
Annual percentage change	26.8	-29.8	15.7	21.5	5.2	1.4	2.5	4.1	7.2
Net imports of oil (in US$)	762	555	638	849	886	898	931	980	1039
Current account balance (in millions of US$)	-2,912	-1,210	-1,117	-1,481	-1,439	-1,228	-1,085	-970	-1,039
In percent of GDP	-22.6	-11.2	-9.6	-10.8	-9.7	-8.1	-6.8	-5.8	-5.8
Gross international reserves (in millions of US$)	1,480	2,111	2,263	2,795	2,669	2,669	2,715	3,005	3,097
In months of next year's imports of goods and services	3.4	4.2	3.7	4.3	4.1	4.0	3.9	4.0	3.9
Foreign direct investment (percent of GDP)	12.2	6.1	4.3	5.2	5.4	5.7	5.5	5.5	5.5
Average exchange rate (lari per US$)	1.48	1.67	1.78	…	…	…	…	…	…

Sources: Georgian authorities; and Fund staff estimates.

1/ Excludes Abkhazia residents.

2/ Investment is measured on a net basis (acquisitions minus disposals of nonfinancial assets).

3/ Includes grants.

4/ The proceeds of the Georgian Railway eurobond issuance from July 2010, which were deposited in accounts with Georgian commercial banks that placed them abroad are not included in broad money.

Table 2. Georgia: General Government Operations, 2010-16 1/

	2010	2011 Q1		2011 annual		2012	2013	2014	2015	2016	2010	2011		2012	2013	2014	2015	2016
		Proj.	Act.	7/8 Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.		7/8 Rev.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of lari)										(In percent of GDP)							
Revenues	5,866	1,383	1,765	6,315	6,713	6,998	7,718	8,470	9,350	10,321	28.2	27.4	28.5	26.5	26.3	26.1	26.1	26.1
Taxes	4,867	1,247	1,559	5,571	5,879	6,332	7,031	7,770	8,587	9,489	23.4	24.2	24.9	24.0	24.0	24.0	24.0	24.0
Other revenues	526	71	127	440	485	515	543	567	627	693	2.5	1.9	2.1	1.9	1.8	1.7	1.7	1.7
Grants	473	65	79	304	349	151.4	144	133	136	139	2.3	1.3	1.5	0.6	0.5	0.4	0.4	0.4
Current expenditures	5,399	1,254	1,241	5,550	5,681	6,091	6,650	7,211	7,959	8,785	26.0	24.1	24.1	23.0	22.7	22.2	22.2	22.2
Compensation of employees	1,138	270	265	1,208	1,150	1,251	1,390	1,460	1,613	1,783	5.5	5.2	4.9	4.7	4.7	4.5	4.5	4.5
Use of goods and services	1,086	202	239	1,016	1,077	1,150	1,250	1,350	1,492	1,649	5.2	4.4	4.6	4.4	4.3	4.2	4.2	4.2
Subsidies	372	90	94	380	381	380	390	400	442	489	1.8	1.6	1.6	1.4	1.3	1.2	1.2	1.2
Grants	13	3	6	12	14	15	17	20	22	24	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social expenses	1,612	408	412	1,631	1,700	1,940	2,130	2,350	2,597	2,870	7.8	7.1	7.2	7.3	7.3	7.2	7.2	7.2
Other expenses	972	225	182	1,013	1,037	1,050	1,100	1,230	1,359	1,502	4.7	4.4	4.4	4.0	3.7	3.8	3.8	3.8
Interest	206	56	43	292	322	305	373	401	433	468	1.0	1.3	1.4	1.2	1.3	1.2	1.2	1.2
To nonresidents	133	33	19	191	217	186	234	249	268	291	0.6	0.8	0.9	0.7	0.8	0.8	0.7	0.7
To residents	74	23	25	101	105	118	138	152	164	176	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.4
Operating balance	467	129	524	765	1,032	908	1,068	1,259	1,391	1,536	2.2	3.3	4.4	3.4	3.6	3.9	3.9	3.9
Capital spending and net lending	1,834	299	327	1,748	1,881	1,780	1,919	1,908	2,000	2,137	8.8	7.6	8.0	6.7	6.5	5.9	5.6	5.4
Capital	1,706	256	309	1,630	1,724	1,604	1,747	1,812	1,960	2,137	8.2	7.1	7.3	6.1	6.0	5.6	5.5	5.4
Net lending	128	43	19	118	157	176	172	96	40	0	0.6	0.5	0.7	0.7	0.6	0.3	0.1	0.0
Overall balance	-1,366	-170	197	-983	-849	-872	-851	-649	-609	-594	-6.6	-4.3	-3.6	-3.3	-2.9	-2.0	-1.7	-1.5
Statistical discrepancy	0	0	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total financing	1,366	170	-197	983	849	694	466	649	609	594	6.6	4.3	3.6	2.6	1.6	2.0	1.7	1.5
Domestic	-6	73	-289	209	-67	90	280	472	227	120	0.0	0.9	-0.3	0.3	1.0	1.5	0.6	0.3
Net T-bill issuance	172	9	12	100	200	300	175	175	150	150	0.8	0.4	0.8	1.1	0.6	0.5	0.4	0.4
Amortization 2/	-42	-5	-7	-35	-35	-35	-35	-35	-35	-35	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Use of deposits at the NBG and banks	-136	69	-294	144	-232	-175	140	332	112	5	-0.7	0.6	-1.0	-0.7	0.5	1.0	0.3	0.0
External	1,152	71	52	624	716	504	136	127	382	474	5.5	2.7	3.0	1.9	0.5	0.4	1.1	1.2
Borrowing	1,275	94	71	761	1,577	614	661	687	723	755	6.1	3.3	6.7	2.3	2.3	2.1	2.0	1.9
of which: IMF	523	0	0	0	0	0	0	0	0	0	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization	-123	-23	-19	-137	-861	-110	-525	-561	-341	-281	-0.6	-0.6	-3.7	-0.4	-1.8	-1.7	-1.0	-0.7
of which: IMF	0	0	0	0	0	-22	-283	-395	-111	0	0.0	0.0	0.0	-0.1	-1.0	-1.2	-0.3	0.0
Use of Sovereign Wealth Fund resources	0	0	0	0	0	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts	220	26	40	150	200	100	50	50	0	0	1.1	0.7	0.8	0.4	0.2	0.2	0.0	0.0
Unidentified external financing	0	0	0	0	0	178	385	0	0	0	0.0	0.0	0.0	0.7	1.3	0.0	0.0	0.0
Memorandum items:																		
Nominal GDP	20,791	4,831	4,987	23,018	23,577	26,428	29,345	32,430	35,839	39,607								
Fiscal deficit excluding grants	1,839			1,287	1,198	845	610	781	745	733	8.8	5.6	5.1	3.2	2.1	2.4	2.1	1.9
Total expenditures (current prices) 3/	7,232	1,553	1,568	7,298	7,561	7,870	8,568	9,118	9,959	10,921	34.8	31.7	32.1	29.8	29.2	28.1	27.8	27.6
Total expenditures (constant 2008 prices)	6,790			6,461	6,604	6,454	6,645	6,719	6,972	7,264								

Sources: Ministry of Finance; and Fund staff estimates.

1/ General government includes central and local governments and the Sovereign Wealth Funds.

2/ Excluding arrears clearance, provisions and T-bill repayment.

3/ Including net lending.

Table 3. Georgia: Summary Balance of Payments, 2008–16

(In millions of U.S. dollars)

	2008	2009	2010		2011		2012	2013	2014	2015	2016
			7th-8th Review	Act.	7th-8th Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-2,912	-1,210	-1,329	-1,117	-1,587	-1,481	-1,439	-1,228	-1,085	-970	-1,039
Trade balance	-3,833	-2,399	-2,630	-2,567	-2,847	-3,129	-3,158	-3,045	-3,019	-3,044	-3,225
Exports	2,428	1,894	2,339	2,460	2,592	3,008	3,296	3,478	3,629	3,865	4,162
Imports	-6,261	-4,293	-4,969	-5,027	-5,439	-6,137	-6,454	-6,522	-6,648	-6,908	-7,386
Services	21	340	402	534	501	772	917	1,024	1,078	1,148	1,183
Services: credit	1,260	1,314	1,455	1,602	1,638	2,036	2,250	2,399	2,524	2,668	2,828
Services: debit	-1,239	-974	-1,053	-1,067	-1,137	-1,264	-1,333	-1,375	-1,445	-1,520	-1,645
Income (net)	-161	-118	-177	-183	-282	-300	-347	-372	-358	-336	-306
Of which: interest payments	-249	-247	-311	-265	-383	-364	-418	-444	-436	-432	-399
Transfers (net)	1,060	967	1,075	1,099	1,041	1,176	1,149	1,165	1,214	1,262	1,309
Of which: public sector	365	140	187	175	128	149	80	54	53	53	52
Capital account	112	183	221	206	116	137	91	83	74	75	74
General government	87	170	203	189	91	117	60	50	40	39	38
Other sectors	25	13	18	16	25	20	31	33	34	36	36
Financial account	2,784	1,428	923	793	1,684	1,935	1,372	1,337	1,316	1,267	1,073
Direct investment (net)	1,494	659	603	493	835	712	806	865	877	928	989
Monetary authorities, net 1/	22	247	0	-1	0	0	0	0	0	0	0
General government	651	386	367	335	431	386	296	218	255	231	214
Portfolio investment (net)	501	0	0	0	0	65	0	-65	0	0	0
Long-term loans received	191	359	366	334	431	352	296	283	255	231	214
Drawing	227	428	440	401	506	421	345	343	336	339	341
Repayment	-36	-69	-74	-67	-75	-69	-49	-61	-81	-108	-127
Other, net	-41	27	1	1	0	-31	0	0	0	0	0
Private Sector, excl. FDI	617	136	-46	-34	417	837	270	254	184	108	-130
Banks	403	-65	-175	-217	315	563	125	200	95	104	70
Portfolio investment, net	109	8	52	5	5	5	2	13	12	12	13
Of which: equity liabilities	101	8	52	-7	5	5	7	10	12	13	14
Loans received (net)	596	-243	-51	6	-110	235	2	214	66	98	73
Other, net (currency and deposits)	-302	171	-176	-228	420	322	122	-27	17	-6	-16
Other sectors	214	201	129	183	102	274	145	54	88	4	-200
Portfolio investment, net	17	4	247	262	0	0	0	5	25	27	-221
Long-term loans received (net)	61	153	-91	-50	46	146	161	114	18	-40	-26
Other, net	137	44	-27	-29	56	128	-16	-65	46	17	47
Errors and omissions	-36	51	72	87	0	0	0	0	0	0	0
Overall balance	-52	451	-113	-30	213	591	23	192	306	371	108
Financing	52	-451	113	30	-213	-591	-123	-392	-306	-371	-108
Gross International Reserves (-increase)	-131	-616	-158	-208	-413	-531	126	0	-46	-290	-93
Use of Fund Resources	222	313	277	276	200	-60	-250	-392	-260	-81	-15
Purchases (SBA)	257	340	298	297	258	0	0	0	0	0	0
Of which: augmentation	…	…	303	305	258	0	…	…	…	…	…
Repayments (SBA and ECF 2/)	-35	-28	-21	-22	-58	-60	-250	-392	-260	-81	-15
Exceptional financing	-39	-148	-7	-37	0	0	0	0	0	0	0
Unidentified external financing (+ overfinancing)	0	0	0	0	0	0	-100	-200	0	0	0
Memorandum items:											
Nominal GDP	12,870	10,768	11,491	11,665	12,647	13,754	14,840	15,236	15,874	16,792	17,890
Current account balance (percent of GDP)	-22.6	-11.2	-11.6	-9.6	-12.6	-10.8	-9.7	-8.1	-6.8	-5.8	-5.8
excluding official transfers (percent of GDP)	-25.5	-12.5	-13.2	-11.1	-13.6	-11.8	-10.2	-8.4	-7.2	-6.1	-6.1
Trade balance (in percent of GDP)	-29.8	-22.3	-22.9	-22.0	-22.5	-22.7	-21.3	-20.0	-19.0	-18.1	-18.0
GNFS exports growth (percent)	15.9	-13.0	18.5	26.6	11.5	24.2	10.0	6.0	4.7	6.2	7.0
GNFS exports volume growth (percent)	-1.4	-0.6	5.0	6.4	8.7	5.8	9.3	8.6	6.8	6.2	5.4
GNFS imports growth (percent)	26.8	-29.8	14.3	15.7	9.2	21.5	5.2	1.4	2.5	4.1	7.2
GNFS imports volume growth (percent)	8.3	-18.6	3.6	0.6	7.5	3.1	5.5	4.0	5.1	5.4	7.0
Net capital inflows to private sector	2,111	796	556	459	1,253	1,549	1,076	1,120	1,061	1,036	859
(in percent of GDP)	16.4	7.4	4.8	3.9	9.9	11.3	7.2	7.3	6.7	6.2	4.8
Gross international reserves (end of period)	1,480	2,111	2,202	2,263	2,615	2,795	2,669	2,669	2,715	3,005	3,097
(in months of next year GNFS imports)	3.4	4.2	4.0	3.7	4.6	4.3	4.1	4.0	3.9	4.0	3.9
External debt (nominal)	5,664	6,250	7,397	7,825	8,238	8,524	8,891	8,922	8,717	8,814	8,680
(in percent of GDP)	44.0	58.0	64.4	67.1	65.1	62.0	59.9	58.6	54.9	52.5	48.5
MLT External debt service	591	758	758	698	881	1,356	1,327	1,367	1,227	1,121	1,070
(in percent of exports)	16.0	23.6	20.0	17.2	20.8	26.9	23.9	23.3	19.9	17.2	15.3
External public sector debt (nominal)	2,691	3,382	4,186	3,937	4,855	4,323	4,513	4,581	4,620	4,816	5,060
(in percent of GDP)	20.9	31.4	36.4	33.7	38.4	31.4	30.4	30.1	29.1	28.7	28.3
External public debt service	126	168	193	168	252	663	414	647	476	335	303
(in percent of exports)	3.4	5.2	5.1	4.1	6.0	13.1	7.5	11.0	7.7	5.1	4.3

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

1/ SDR allocation included under monetary authorities' long-term liabilities.

2/ Following the Low Income Countries (LIC) reforms, effective January 7 2010, the PRGF arrangements were renamed Extended Credit Facility (ECF) arrangements.

Table 4. Georgia: Accounts of the National Bank of Georgia, 2010–16

	2010				2011				2012	2013	2014	2015	2016
	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Act.	Mar. Act.	Jun. Proj.	Sep. Proj.	Dec. Proj	Proj.	Proj.	Proj.	Proj.	Proj.
	(In millions of lari)												
Net foreign exchange position	2,117	1,698	1,961	2,218	2,354	2,470	2,479	2,469	2,796	3,331	3,565	4,214	4,375
Gross International Reserves	3,847	3,438	3,812	4,013	4,636	4,773	4,794	4,768	4,952	5,327	5,673	6,546	6,966
Other foreign assets	6	5	5	8	3	3	3	7	8	9	9	9	10
Foreign currency liabilities	-1,736	-1,746	-1,856	-1,803	-2,285	-2,307	-2,319	-2,307	-2,164	-2,004	-2,117	-2,342	-2,601
Of which: use of Fund resources	-1,143	-1,165	-1,186	-1,150	-1,116	-1,106	-1,093	-1,027	-674	-236	-107	-47	-15
Of which: compulsory reserves in USD	-142	-148	-242	-245	-771	-806	-831	-885	-1,062	-1,309	-1,528	-1,793	-2,070
Of which: swap liabilities	-63	-33	0	0	0	0	0	0	0	0	0	0	0
Net domestic assets	-484	-37	-265	-396	-821	-693	-664	-519	-651	-987	-1,003	-1,414	-1,315
Net claims on general government	-194	52	-73	-95	-368	-258	-266	-305	-515	-410	-113	-36	-66
Claims on general government (incl. T-bills)	746	733	718	714	709	704	692	682	647	612	577	542	507
Nontradable govt. debt	601	601	601	601	561	561	561	561	521	481	441	401	361
Securitized debt (marketable)	146	132	117	113	148	143	131	121	126	131	136	141	146
Deposits	-940	-681	-790	-809	-1,078	-962	-958	-987	-1,162	-1,022	-690	-578	-573
Claims on rest of economy	3	3	2	2	2	2	2	2	2	2	2	2	2
Claims on banks	-89	57	-7	-165	-354	-336	-300	-115	208	-8	-170	-505	-248
Bank refinancing	45	217	185	190	95	95	95	95	308	95	95	95	95
Certificates of deposits and bonds	-194	-190	-192	-355	-449	-431	-395	-210	-100	-103	-265	-600	-343
Other items, net	-204	-149	-188	-138	-100	-100	-100	-100	-346	-571	-722	-874	-1,003
Reserve money	1,633	1,661	1,696	1,822	1,533	1,776.9	1,814.2	1,949.8	2,145	2,344	2,562	2,801	3,060
Currency in circulation	1,399	1,460	1,501	1,618	1,395	1,625	1,650	1,775	1,925	2,075	2,225	2,375	2,525
Bank lari reserves 1/	235	127	150	144	128	140	151	168	210	257	328	419	534
Overnight deposits	0	74	45	60	10	12	13	7	10	12	10	7	1
	(Percent contribution, compared to reserve money at the end of previous year)												
Net foreign exchange position	15.8	-8.2	6.8	21.6	7.4	13.8	14.3	13.7	16.8	24.9	10.0	25.3	5.7
Net domestic assets	-22.2	3.5	-9.6	-17.1	-23.3	-16.3	-14.7	-6.7	-6.8	-15.6	-0.7	-16.0	3.5
Net claims on general government	-21.1	-7.0	-14.1	-15.4	-15.0	-9.0	-9.4	-11.5	-10.8	4.9	12.7	3.0	-1.1
Claims on rest of economy	0.0	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on banks	1.4	9.8	6.1	-2.9	-10.4	-9.4	-7.4	2.7	16.6	-10.1	-6.9	-13.1	9.2
Other items, net	-2.5	0.7	-1.6	1.2	2.1	2.1	2.1	2.1	-12.6	-10.5	-6.4	-6.0	-4.6
	(Percentage change, relative to end of previous year)												
Reserve money	-6.3	-4.8	-2.8	4.5	-15.9	-2.5	-0.4	7.0	10.0	9.3	9.3	9.3	9.3
Currency in circulation	-4.1	0.2	2.9	11.0	-13.8	0.4	2.0	9.7	8.5	7.8	7.2	6.7	6.3
Bank lari reserves 1/	-18.0	-55.8	-47.7	-49.7	-11.4	-2.9	5.1	16.5	25.2	22.5	27.4	27.9	27.3
Memorandum items:													
Net international reserves													
(in millions of USD, at prog. exchange rates) 2/	897	647	708	882	994	1,063	1,085	1,090	1,161	1,472	1,693	1,952	1,927
Net domestic assets (in millions of lari, at prog. exchange rate) 2/	135	579	513	349	-126	1	3	130	206	-114	-264	-459	-158
Reserve money (in percent, 12-month growth)	28.9	8.6	0.3	4.5	-6.1	5.0	9.2	7.0	10.0	9.3	9.3	9.3	9.3

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

1/ Comprises required and excess reserves on lari-denominated deposits.

2/ Based on program definition as defined in the TMU.

Table 5. Georgia: Monetary Survey, 2010–16

	2010				2011				2012	2013	2014	2015	2016
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Proj.	Proj.	Proj.	Proj.	Proj.
	Act.	Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.					
	(In millions of lari)												
Net foreign assets	1,067	800	1,249	1,394	1,574	1,620	1,740	1,776	2,189	2,578	2,911	3,657	4,057
NBG	2,323	1,880	2,203	2,463	3,125	3,275	3,309	3,353	3,858	4,640	5,094	6,008	6,445
Commercial banks 1/	-1,256	-1,079	-954	-1,069	-1,552	-1,656	-1,569	-1,577	-1,669	-2,062	-2,182	-2,350	-2,388
Of which: liabilities	-2,197	-2,303	-2,157	-2,315	-2,448	-2,562	-2,497	-2,552	-2,780	-3,378	-3,673	-4,041	-4,296
Net domestic assets	3,669	4,242	4,139	4,523	4,163	4,532	4,779	5,324	6,401	7,645	9,254	10,819	13,170
Domestic credit	5,418	6,041	6,125	6,512	6,262	6,631	6,878	7,422	8,809	10,340	12,134	13,884	16,386
Net claims on general government	-5	230	206	173	-169	-9	45	82	128	360	781	1,008	1,128
Of which: government deposits at NBG	-940	-681	-790	-809	-1,078	-962	-958	-987	-1,162	-1,022	-690	-578	-573
Of which: T-bills at commercial banks	335	397	457	456	468	518	579	656	936	1,088	1,237	1,387	1,537
Credit to the rest of the economy	5,423	5,811	5,919	6,339	6,431	6,639	6,833	7,340	8,681	9,980	11,354	12,877	15,259
Other items, net	-1,749	-1,799	-1,986	-1,989	-2,099	-2,099	-2,099	-2,099	-2,407	-2,695	-2,880	-3,065	-3,217
Broad money (M3) 1/	4,736	5,042	5,388	5,916	5,737	6,152	6,519	7,100	8,591	10,223	12,165	14,476	17,227
Broad money, excl. forex deposits (M2)	2,215	2,347	2,458	2,731	2,512	2,810	2,951	3,240	3,813	4,436	5,290	6,353	7,650
Currency held by the public	1,187	1,269	1,307	1,373	1,183	1,413	1,438	1,563	1,713	1,863	2,013	2,163	2,313
Total deposit liabilities	3,549	3,773	4,081	4,543	4,554	4,739	5,081	5,537	6,878	8,360	10,152	12,314	14,914
	(Percent contribution, compared to broad money at the end of previous year)												
Net foreign assets	6.0	0.3	10.0	13.1	3.0	3.8	5.9	6.5	5.8	4.5	3.3	6.1	2.8
Net domestic assets	-3.1	9.3	7.1	15.4	-6.1	0.2	4.3	13.5	15.2	14.5	15.7	12.9	16.2
Domestic credit	-2.6	10.9	12.7	21.1	-4.2	2.0	6.2	15.4	19.5	17.8	17.6	14.4	17.3
Net claims on general government	-6.2	-1.1	-1.6	-2.3	-5.8	-3.1	-2.2	-1.5	0.6	2.7	4.1	1.9	0.8
Credit to the rest of the economy	3.6	12.0	14.3	23.5	1.5	5.1	8.3	16.9	18.9	15.1	13.4	12.5	16.5
Other items, net	-0.5	-1.6	-5.7	-5.7	-1.8	-1.8	-1.8	-1.8	-4.4	-3.4	-1.8	-1.5	-1.0
	(Percentage change, relative to end of previous year)												
Broad money (M3)	2.9	9.6	17.1	28.5	-3.0	4.0	10.2	20.0	21.0	19.0	19.0	19.0	19.0
Broad money, excl. forex deposits (M2)	3.9	10.1	15.3	28.1	-8.0	2.9	8.1	18.6	17.7	16.4	19.3	20.1	20.4
Currency held by the public	-3.5	3.3	6.3	11.7	-13.8	2.9	4.7	13.8	9.6	8.8	8.1	7.5	6.9
Total deposit liabilities	5.2	11.8	21.0	34.7	0.2	4.3	11.8	21.9	24.2	21.6	21.4	21.3	21.1
Credit to the rest of the economy	3.1	10.5	12.5	20.5	1.4	4.7	7.8	15.8	18.3	15.0	13.8	13.4	18.5
Memorandum items:													
M3 (in percent, 12-month growth)	28.9	40.3	31.7	28.5	21.1	22.0	21.0	20.0	21.0	19.0	19.0	19.0	19.0
M2 (in percent, 12-month growth)	35.6	37.3	28.5	28.1	13.4	19.7	20.0	18.6	17.7	16.4	19.3	20.1	20.4
Credit to the economy (in percent, 12-month growth)	-5.8	6.4	11.9	20.5	18.6	14.3	15.4	15.8	18.3	15.0	13.8	13.4	18.5
Ratio of bank lari reserves to lari deposits 2/	22.8	18.6	16.9	15.0	10.4	10.9	10.8	10.4	10.5	10.5	10.3	10.2	10.0
M3 multiplier	2.67	2.79	2.89	2.98	2.82	2.68	2.76	2.79	2.99	3.17	3.37	3.59	3.82
M3 velocity	3.92	3.90	3.81	3.68	3.94	3.74	3.62	3.46	3.37	3.12	2.90	2.69	2.50
Foreign exchange deposits in percent of total deposits	71.0	71.4	71.8	70.1	70.8	70.5	70.2	69.7	69.5	69.2	67.7	66.0	64.2

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

1/ The proceeds of the Georgian Railway eurobond issuance from July 2010, which were deposited in accounts with Georgian commercial banks that placed them abroad, are subtracted from commercial banks' foreign assets and domestic fx deposits.

2/ Comprises required and excess reserves on lari-denominated deposits (excess reserves include overnight deposits with NBG).

Table 6. Georgia: Selected Monetary and Financial Soundness Indicators, 2008–11

	2008				2009				2010				2011
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.
Deposit dollarization (in percent)	60.9	60.0	61.7	75.7	75.2	73.2	72.6	73.2	71.0	71.4	71.8	70.1	70.8
Loan-to-deposit ratio (in percent)	129.4	135.7	147.0	155.9	165.3	165.4	143.0	124.2	124.7	122.2	108.7	107.6	106.9
Credit-to-GDP ratio (in percent)	28.5	30.0	29.2	31.9	30.5	30.0	29.3	29.2	29.6	30.5	29.8	30.5	29.9
Capital adequacy ratio (in percent) 1/	17.5	15.7	17.0	13.9	15.2	17.6	20.2	19.1	18.3	17.4	18.2	17.4	17.3
Capital adequacy ratio (in percent) 2/	…	…	…	24.0	23.6	27.1	27.4	25.6	24.6	23.3	24.4	23.6	27.5
Liquidity ratio (in percent) 3/	36.8	33.3	30.4	28.3	30.8	31.4	40.6	39.1	41.6	37.5	37.3	38.7	42.3
Nonperforming loans (in percent of total loans) 4/	3.0	3.4	9.9	12.8	15.2	18.8	18.2	17.9	17.1	16.3	15.1	12.5	11.9
Nonperforming loans (in percent of total loans) 5/	…	…	…	4.1	5.4	7.1	8.3	6.3	6.6	6.9	7.8	5.4	5.0
Loans collateralized by real estate (in percent of total loans)	43.6	40.5	41.6	43.6	46.4	48.0	49.1	55.5	55.5	54.1	52.3	47.5	46.7
Loans in foreign exchange (in percent of total loans)	65.9	64.9	67.5	72.8	75.3	77.3	77.6	76.9	75.9	73.7	72.8	74.0	73.4
Specific provisions (in percent of total loans)	1.9	2.2	4.7	6.0	7.5	9.4	10.2	9.7	9.4	8.9	8.3	6.5	6.3
Net foreign assets (in percent of total assets)	-17.2	-20.2	-21.6	-19.6	-22.5	-24.4	-18.4	-14.9	-15.1	-12.4	-6.2	-8.2	-13.2
Net open foreign exchange position (in percent of regulatory capital)	3.5	1.5	1.5	1.7	9.1	8.8	10.4	1.8	4.3	5.3	3.3	8.1	1.9
Return on equity (cumulative through the year, annualized) 6/	10.2	8.9	-2.9	-12.6	-7.6	-8.4	-7.3	-4.3	4.0	4.8	8.0	9.6	10.0

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

1/ National definition. Risk weight to forex loans was reduced from 200 to 175 percent in September 2008, and to 150 percent in August 2009, and raised to 175 percent in January 2011.
2/ Basel I definition.
3/ Ratio of liquid assets to 6-month and shorter maturity liabilities.
4/ National definition: NPLs are defined as loans in substandard, doubtful, and loss loan categories.
5/ IMF definition.
6/ Pre tax.

Table 7. Georgia: External Vulnerability Indicators, 2008-16

	2008 Act.	2009 Act.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.
Value of exports of goods and services, percent change	15.9	-13.0	26.6	24.2	10.0	6.0	4.7	6.2	7.0
Value of imports of goods and services, percent change	26.8	-29.8	15.7	21.5	5.2	1.4	2.5	4.1	7.2
Terms of trade (deterioration -)	0.4	1.3	3.4	-0.3	0.9	0.1	0.5	1.1	1.4
Current account balance (percent of GDP)	-22.6	-11.2	-9.6	-10.8	-9.7	-8.1	-6.8	-5.8	-5.8
Capital and financial account (percent of GDP)	22.5	15.0	8.6	15.1	10.5	10.6	8.8	8.0	6.4
External public debt (percent of GDP)	20.9	31.4	33.7	31.4	30.4	30.1	29.1	28.7	28.3
in percent of exports of goods and services	73.0	105.4	96.9	85.7	81.4	78.0	75.1	73.7	72.4
Debt service on external public debt									
(in percent of exports of goods and services)	3.4	5.2	4.1	13.1	7.5	11.0	7.7	5.1	4.3
External debt (percent of GDP)	44.0	58.0	67.1	62.0	59.9	58.6	54.9	52.5	48.5
in percent of exports of goods and services	153.6	194.9	192.7	169.0	160.3	151.8	141.7	134.9	124.2
Debt service on MLT external debt									
(in percent of exports of goods and services)	16.0	23.6	17.2	26.9	23.9	23.3	19.9	17.2	15.3
Gross international reserves									
in millions of USD	1,480	2,111	2,263	2,795	2,669	2,669	2,715	3,005	3,097
in months of next year's imports of goods and servces	3.4	4.2	3.7	4.3	4.1	4.0	3.9	4.0	3.9
in percent of external debt	26.1	33.8	28.9	32.8	30.0	29.9	31.1	34.1	35.7
in percent of short-term external debt (remaining maturity)	101	165	111	133	129	141	151	168	165

Source: Fund staff estimates and projections.

Table 8. Georgia: Indicators of Fund Credit, 2008-17

(In millions of SDR)

	2008	2009	2010	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Existing Fund credit										
Stock 1/	298.8	501.6	682.1	644.0	484.1	233.0	66.2	14.0	4.2	0.0
ECF 2/	137.1	119.1	105.0	87.1	67.2	47.6	29.4	14.0	4.2	0.0
SBA	161.7	382.5	577.1	556.9	416.9	185.4	36.8	0.0	0.0	0.0
Obligations	23.3	22.5	21.6	44.4	168.3	256.9	169.0	52.5	9.8	4.2
ECF 2/	22.8	18.6	14.1	17.9	20.1	19.7	18.3	15.5	9.8	4.2
SBA 3/	0.5	3.9	7.5	26.5	148.3	237.2	150.7	37.1	0.0	0.0
Prospective purchases under the SBA										
Disbursements	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock 1/	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Obligations 3/	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal (repurchases)	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GRA charges	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Surcharges	…	…	1.4	1.9	1.6	0.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit 1/	298.8	501.6	682.1	644.0	484.1	233.0	66.2	14.0	4.2	0.0
In percent of quota	198.8	333.7	453.8	428.5	322.1	155.0	44.1	9.3	2.8	0.0
In percent of GDP	3.7	7.2	8.9	7.3	5.1	2.4	0.7	0.1	0.0	0.0
In percent of exports of goods and nonfactor services	12.8	24.1	25.6	20.0	13.6	6.2	1.7	0.3	0.1	0.0
In percent of gross reserves	31.9	36.7	46.0	36.1	28.3	13.6	3.8	0.7	0.2	0.0
In percent of public external debt	17.5	22.9	26.4	23.3	16.8	7.9	2.2	0.5	0.1	0.0
Obligations to the Fund from existing and prospective Fund credit 3/	23.3	22.5	23.0	46.3	170.0	256.9	169.0	52.5	9.8	4.2
In percent of quota	15.5	15.0	15.3	30.8	113.1	170.9	112.4	35.0	6.5	2.8
In percent of GDP	0.3	0.3	0.3	0.5	1.8	2.6	1.7	0.5	0.1	0.0
In percent of exports of goods and nonfactor services	1.0	1.1	0.9	1.4	4.8	6.8	4.3	1.3	0.2	0.1
In percent of gross reserves	2.5	1.6	1.5	2.6	10.0	15.0	9.7	2.7	0.5	0.2
In percent of public external debt service	29.3	20.7	20.9	10.9	64.1	61.9	55.3	24.4	5.0	1.8

Source: Fund staff estimates and projections.

1/ End of period.

2/ Following the Low Income Countries (LIC) reforms, effective January 7 2010, the PRGF arrangements were renamed Extended Credit Facility (ECF) arrangements.

3/ Repayment schedule based on repurchase obligations and GRA charges.

Table 9. Georgia: Schedule of Prospective Reviews and Purchases 1/

Availability Date	Condition	Available Purchases (In millions of SDR)	(In percent of quota)
15-Sep-08	Approve the 18-month arrangement	161.7	107.6
15-Dec-08	Complete the first review based on end-September 2008 performance criteria and other relevant performance criteria 2/	63.1	42.0
23-Mar-09	Complete the second review based on end-December 2008 performance criteria and other relevant performance criteria 2/	63.1	42.0
6-Aug-09	Complete the third review based on end-June 2009 performance criteria and other relevant performance criteria	94.6	62.9
15-Nov-09	Complete the fourth review based on end-September 2009 performance criteria and other relevant performance criteria	47.3	31.5
15-Feb-10	Complete the fifth review based on end-December 2009 performance criteria and other relevant performance criteria	97.3	64.7
9-Jul-10	Complete the sixth review based on end-June 2010 performance criteria and other relevant performance criteria	50.0	33.3
15-Nov-10	Complete the seventh and eighth reviews based on end-December 2010 performance criteria and other relevant performance criteria	100.0	66.5
15-May-11	Complete the ninth review based on end-March 2011 performance criteria and other relevant performance criteria	70.0	46.6
Total available		747.1	497.1

1/ Reflects the augmentation of access by SDR270 million and the extended arrangement through June 2011.

2/ As the authorities did not draw the purchase that became available at the time of the first review, SDR 126.2 million were available and purchased at the second review.

Table 10. Georgia: External Financing Requirements and Sources, 2008–16

(In millions of U.S. dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total requirements	-3,275	-1,721	-1,550	-2,491	-2,371	-2,169	-1,892	-1,677	-1,727
Current account deficit	-2,912	-1,210	-1,117	-1,481	-1,439	-1,228	-1,085	-970	-1,039
Capital outflows: Repayments of MLT loans	-363	-511	-434	-1,010	-931	-941	-808	-707	-688
Total sources	3,275	1,721	1,550	2,491	2,371	2,169	1,892	1,677	1,727
Capital flows	3,188	2,145	1,498	3,022	2,244	2,169	1,938	1,967	1,819
Public sector	795	872	592	1,007	505	593	376	378	379
Project grants	87	170	189	117	60	50	40	39	38
Long-term loan disbursements to public sector	227	428	401	421	345	343	336	339	341
Other	482	274	1	469	100	200	0	0	0
Of which: unidentified	0	0	0	0	100	200	0	0	0
Private sector	2,392	1,273	906	2,015	1,739	1,576	1,562	1,589	1,441
Foreign direct investment in Georgia	1,564	658	499	712	806	865	877	928	989
Long-term loan disbursements to private sector	759	575	301	781	795	711	571	579	584
Other net inflows 1/	69	40	107	523	139	-1	113	82	-132
Financing	218	192	260	0	0	0	0	0	0
IMF 2/	257	340	297	0	0	0	0	0	0
Change in arrears, net (- decrease)	-9	27	15	0	0	0	0	0	0
Advance Repayments	-29	-186	-63	0	0	0	0	0	0
Change in reserves (- increase)	-131	-616	-208	-531	126	0	-46	-290	-93
Memorandum items (in percent of GDP):									
Total financing requirements	-25.4	-16.0	-13.3	-18.1	-16.0	-14.2	-11.9	-10.0	-9.7
Total sources	25.4	16.0	13.3	18.1	16.0	14.2	11.9	10.0	9.7
Capital inflows	24.8	19.9	12.8	22.0	15.1	14.2	12.2	11.7	10.2
Exceptional financing	1.7	1.8	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves (- increase)	-1.0	-5.7	-1.8	-3.9	0.9	0.0	-0.3	-1.7	-0.5

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

1/ Including errors and omissions.

2/ SBA, including augmentation in 2010-11.

Table 11. Georgia: External Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing non-interest current account 6/**
Baseline: External debt	37.8	38.5	44.0	58.0	67.1	**62.0**	**59.9**	**58.6**	**54.9**	**52.5**	**48.5**	**-6.1**
Change in external debt	5.1	0.7	5.5	14.0	9.0	-5.1	-2.1	-1.4	-3.6	-2.4	-4.0	
Identified external debt-creating flows (4+8+9)	-5.8	-5.7	3.1	13.7	0.9	2.5	1.3	-0.5	-1.5	-2.3	-2.2	
Current account deficit, excluding interest payments	14.3	18.2	20.4	8.3	6.8	7.7	6.5	4.7	3.7	2.8	3.2	
Deficit in balance of goods and services	24.0	26.7	29.6	19.1	17.4	17.1	15.1	13.3	12.2	11.3	11.4	
Exports	32.8	31.1	28.7	29.8	34.8	36.7	37.4	38.6	38.8	38.9	39.1	
Imports	56.8	57.9	58.3	48.9	52.2	53.8	52.5	51.8	51.0	50.2	50.5	
Net non-debt creating capital inflows (negative)	-15.2	-16.3	-11.6	-6.1	-4.2	-5.2	-5.4	-5.7	-5.5	-5.5	-5.5	
Automatic debt dynamics 1/	-4.9	-7.6	-5.7	11.6	-1.7	0.0	0.2	0.4	0.3	0.4	0.1	
Contribution from nominal interest rate	0.8	1.5	2.3	3.0	2.8	3.1	3.2	3.3	3.2	3.0	2.6	
Contribution from real GDP growth	-2.5	-3.5	-0.7	2.0	-3.4	-3.1	-3.0	-2.9	-2.8	-2.6	-2.5	
Contribution from price and exchange rate changes 2/	-3.2	-5.5	-7.2	6.6	-1.0	…	…	…	…	…	…	
Residual, incl. change in gross foreign assets (2-3) 3/	10.9	6.4	2.4	0.3	8.1	-7.6	-3.3	-0.8	-2.1	-0.1	-1.8	
External debt-to-exports ratio (in percent)	115.1	123.7	153.6	194.9	192.7	169.0	160.3	151.8	141.7	134.9	124.2	
Gross external financing need (in billions of US dollars) 4/	1.5	2.7	3.9	2.7	2.4	3.5	3.5	3.3	3.0	2.8	2.8	
in percent of GDP	19.9	26.6	30.3	24.9	20.5	25.6	23.9	21.6	18.7	16.5	15.8	
Scenario with key variables at their historical averages 5/						**62.0**	**55.9**	**50.3**	**45.1**	**42.6**	**39.4**	**-12.6**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	9.4	12.3	2.4	-3.8	6.4	5.5	5.3	5.0	5.0	5.0	5.0	
GDP deflator in US dollars (change in percent)	10.8	17.2	22.9	-13.0	1.8	11.8	2.5	-2.2	-0.8	0.7	1.5	
Nominal external interest rate (in percent)	3.1	5.2	7.4	5.6	5.3	5.5	5.6	5.7	5.6	5.7	5.3	
Growth of exports (US dollar terms, in percent)	16.6	24.7	15.9	-13.0	26.6	24.2	10.0	6.0	4.7	6.2	7.0	
Growth of imports (US dollar terms, in percent)	33.0	34.1	26.8	-29.8	15.7	21.5	5.2	1.4	2.5	4.1	7.2	
Current account balance, excluding interest payments	-14.3	-18.2	-20.4	-8.3	-6.8	-7.7	-6.5	-4.7	-3.7	-2.8	-3.2	
Net non-debt creating capital inflows	15.2	16.3	11.6	6.1	4.2	5.2	5.4	5.7	5.5	5.5	5.5	

1/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock, with r = nominal effective interest rate on external debt; ρ = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, ε = nominal appreciation (increase in dollar value of domestic currency), and α = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\varepsilon > 0$) and rising inflation (based on GDP deflator).

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

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

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

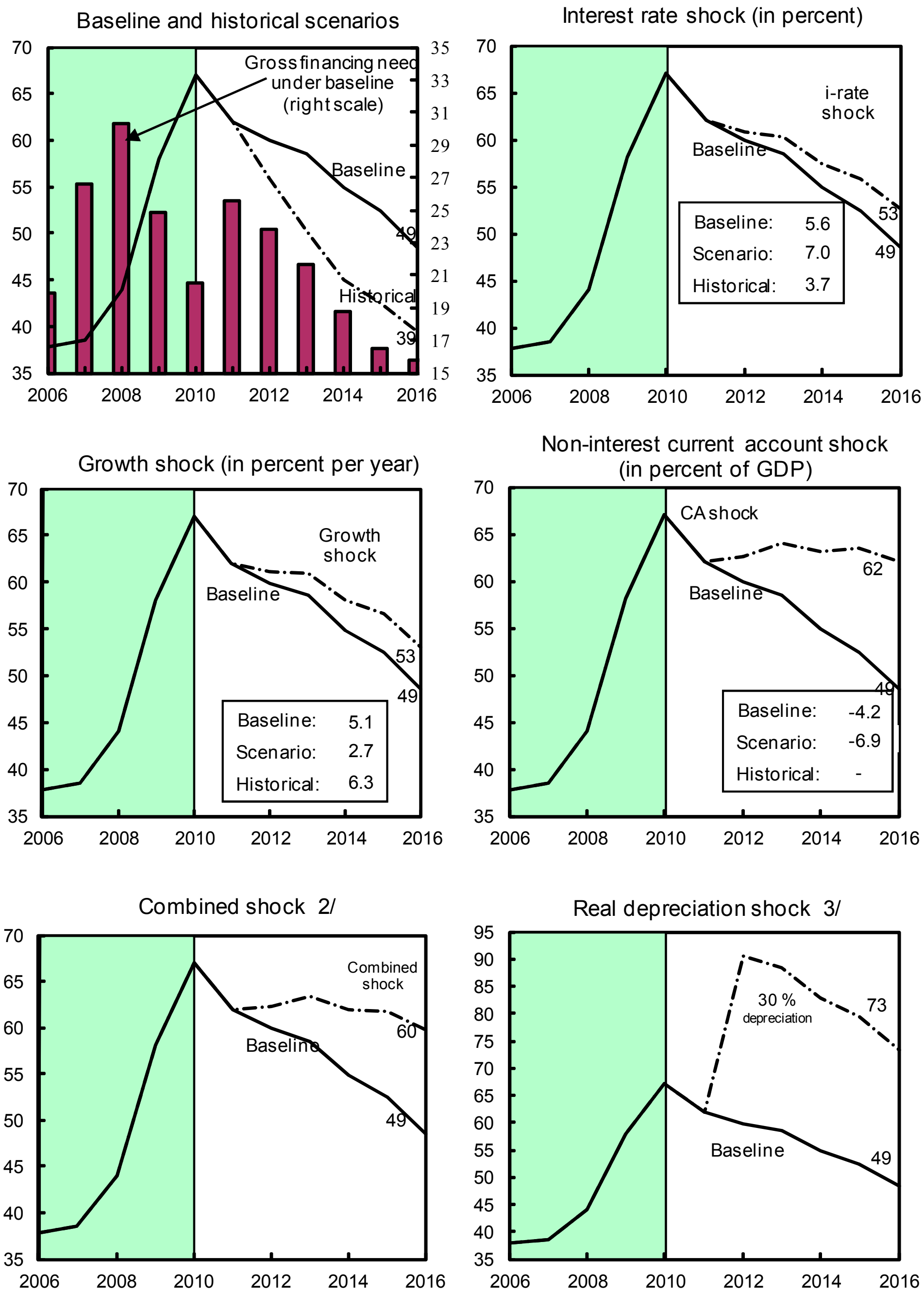
6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 12. Georgia: Public Sector Debt Sustainability Framework, 2006-2016
(In percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	**Debt-stabilizing primary balance 9/**
Baseline: Public sector debt 1/	27.3	21.5	27.6	37.3	39.1	**36.8**	**37.6**	**37.0**	**35.5**	**34.8**	**34.0**	**-1.1**
o/w foreign-currency denominated	21.3	16.8	23.5	31.7	33.6	31.3	31.7	31.2	29.8	29.3	28.7	
Change in public sector debt	-6.8	-5.8	6.1	9.7	1.8	-2.2	0.8	-0.6	-1.5	-0.7	-0.8	
Identified debt-creating flows (4+7+12)	-8.3	-7.0	1.0	9.1	1.9	-1.9	-1.1	-1.0	-1.7	-1.7	-1.8	
Primary deficit	2.3	4.2	5.7	8.2	5.6	2.2	2.1	1.6	0.8	0.5	0.3	
Revenue and grants	26.7	29.3	30.7	29.3	28.2	28.5	26.5	26.3	26.1	26.1	26.1	
Primary (noninterest) expenditure	29.0	33.4	36.4	37.5	33.8	30.7	28.6	27.9	26.9	26.6	26.4	
Automatic debt dynamics 2/	-5.4	-6.0	-1.0	2.9	-2.6	-3.2	-2.8	-2.5	-2.3	-2.2	-2.1	
Contribution from interest rate/growth differential 3/	-4.6	-4.6	-1.7	2.6	-4.0	-3.2	-2.8	-2.5	-2.3	-2.2	-2.1	
Of which contribution from real interest rate	-1.9	-1.8	-1.3	1.5	-2.0	-1.4	-1.1	-0.8	-0.6	-0.6	-0.6	
Of which contribution from real GDP growth	-2.7	-2.7	-0.5	1.1	-2.1	-1.9	-1.7	-1.7	-1.7	-1.6	-1.6	
Contribution from exchange rate depreciation 4/	-0.8	-1.4	0.7	0.3	1.4	...	...	...	...	...	...	
Other identified debt-creating flows	-5.2	-5.2	-3.7	-2.0	-1.1	-0.8	-0.4	-0.2	-0.2	0.0	0.0	
Privatization receipts (negative)	-5.2	-5.2	-3.7	-2.0	-1.1	-0.8	-0.4	-0.2	-0.2	0.0	0.0	
Recognition of implicit or 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 (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3) 5/	1.5	1.3	5.1	0.5	-0.2	-0.4	1.9	0.4	0.2	1.0	1.0	
Public sector debt-to-revenue ratio 1/	102.5	73.6	90.0	127.4	138.5	129.4	142.2	140.7	135.9	133.3	130.5	
Gross financing need 6/	5.2	5.7	6.9	10.1	8.6	9.2	6.2	8.0	7.2	6.3	5.9	
in billions of U.S. dollars	0.4	0.6	0.9	1.1	1.0	1.3	0.9	1.2	1.2	1.1	1.1	
Scenario with key variables at their historical averages 7/						**36.8**	**37.5**	**36.9**	**36.1**	**36.4**	**36.7**	**-2.5**
Scenario with no policy change (constant primary balance) in 2011-2016						**36.8**	**37.7**	**37.7**	**37.6**	**38.6**	**39.6**	**-1.3**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	9.4	12.3	2.4	-3.8	6.4	5.5	5.3	5.0	5.0	5.0	5.0	
Average nominal interest rate on public debt (in percent) 8/	2.6	2.6	3.3	3.2	3.1	4.0	3.5	3.7	3.7	3.8	3.8	
Average real interest rate (nominal rate minus change in GDP deflator, in perce	-5.9	-7.1	-6.3	5.2	-5.6	-3.5	-3.0	-2.0	-1.6	-1.5	-1.5	
Nominal appreciation (increase in US dollar value of local currency, in percent)	3.6	8.7	-4.5	-1.1	-4.9	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	8.5	9.7	9.6	-2.0	8.7	7.5	6.5	5.7	5.3	5.3	5.2	
Growth of real primary spending (deflated by GDP deflator, in percent)	26.7	29.7	11.5	-0.9	-4.1	-4.2	-1.9	2.4	1.1	3.8	4.3	
Primary deficit	2.3	4.2	5.7	8.2	5.6	2.2	2.1	1.6	0.8	0.5	0.3	

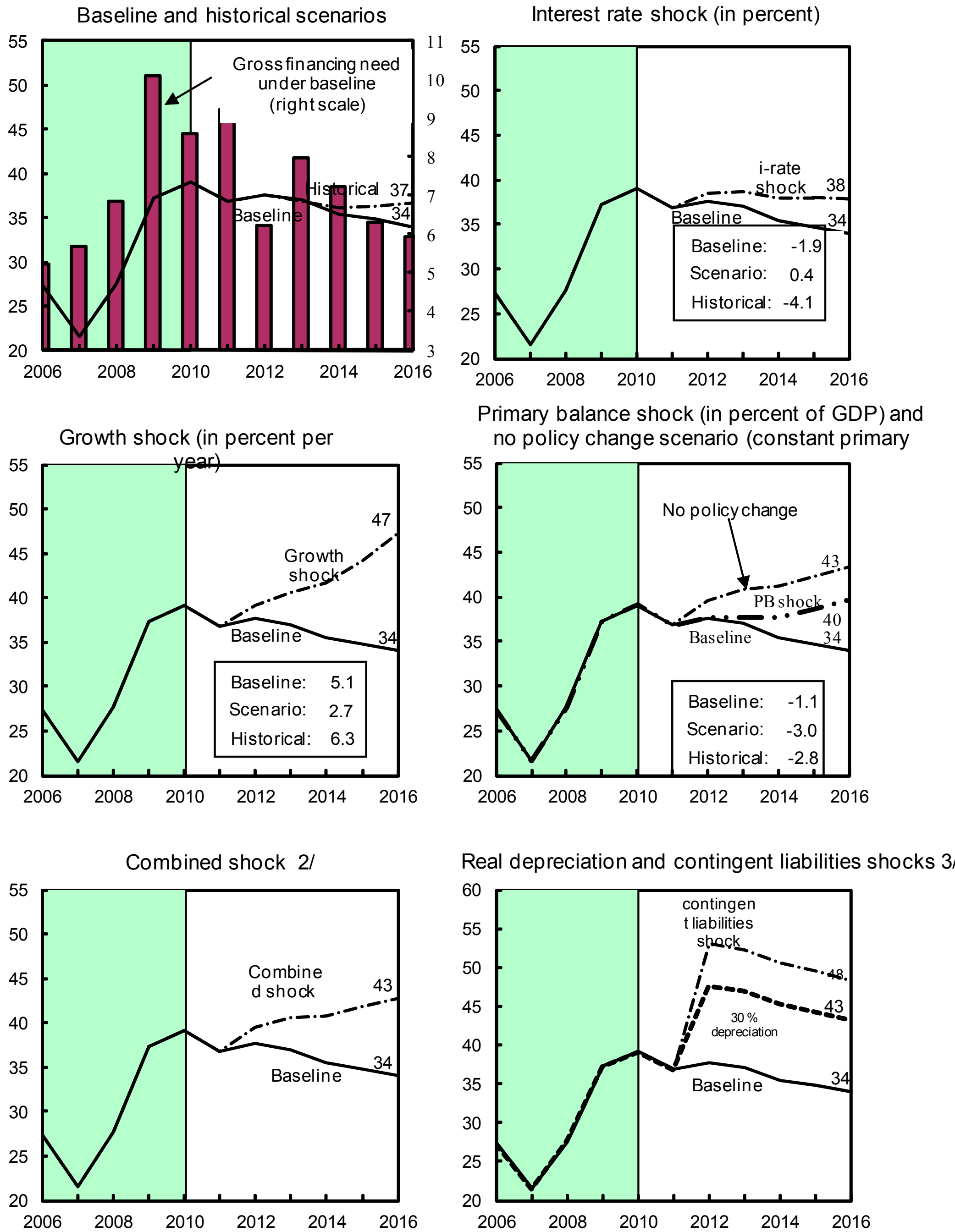
1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ For projections, this line includes exchange rate changes.
6/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7/ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8/ Derived as nominal interest expenditure divided by previous period debt stock.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 1. Georgia: External Debt Sustainability: Bound Tests 1/
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2010.

Figure 2. Georgia: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2010, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

ATTACHMENT I. GEORGIA: LETTER OF INTENT

May 24, 2011

The Acting Managing Director
International Monetary Fund
Washington, D.C.

Dear Mr. Lipsky:

1. In September 2008, the International Monetary Fund (IMF) approved a Stand-By Arrangement (SBA) for Georgia, which was further augmented in August 2009. On January 12, 2011, the IMF's Executive Board completed the seventh and eighth reviews under the SBA. We are grateful for the assistance which the IMF has been providing to Georgia.

2. This letter of intent describes the economic policies that we plan to implement during the remainder of 2011, consistent with our commitment to maintain macroeconomic stability and facilitate the process of macroeconomic adjustment.

3. Policies beyond 2011 will be guided by the same objectives of attaining sound fiscal and balance of payments positions, and maintaining low inflation. We are presently elaborating a comprehensive economic plan to reach these objectives, and we will request Fund support for this plan through a successor arrangement in the near future.

Recent Economic Developments

4. Recent economic developments have been broadly in line with program projections:

- Positive developments for the first quarter economic indicators are consistent with an annual real GDP growth projection of 5.5 percent in 2011.

- CPI inflation peaked at 13.9 percent in March under the impetus of rising food and fuel prices, and has since begun to come down. Core inflation (defined as the CPI excluding food, beverages, tobacco, and energy) remains subdued, and has recently declined below 2 percent, pointing to the absence of second-round price effects. Based on an expected stabilization of commodity prices, we project CPI inflation to decelerate in the second half of the year to around 8.5 percent by year-end.

- Balance-of-payment developments in the first quarter of the year were more favorable than anticipated. Despite higher import prices, which resulted in a widening of the trade deficit in the first quarter by almost 50 percent year-on-year, other inflows turned out stronger than projected, notably tourism receipts, which grew by over 40 percent year-on-year. Also, net financial inflows to the private sector are estimated to have risen sharply, as banks had to meet higher reserve requirements and reflecting inflows to meet the spending needs of key corporate clients, notably the railway company.

- On April 12, Georgia successfully issued a $500-million Eurobond at very favorable terms (10-year maturity and 7.125-percent yield), reducing significantly medium-term debt rollover risks and establishing an excellent sovereign benchmark in the international capital markets. The proceeds of the issue were used to buy back most of the $500 million Eurobond maturing in 2013.

- Better-than-expected external developments contributed to an appreciation of the lari and also enabled the central bank to accumulate net international reserves in excess of program targets. Since the beginning of the year the lari has appreciated by 5.7 percent against the dollar, and by 0.1 percent against the euro. Over the same period, the central bank has purchased $20 million, on a net basis, on the foreign exchange market. As a result, net international reserves have reached their pre-crisis level.

- The growth rates of monetary and credit aggregates are currently at levels consistent with projected GDP growth and inflation. Broad money increased by 21 percent year-on year in March (down from 40 percent in mid-2010), while credit grew by 19 percent.

- Banking sector balance sheets remain sound. NPLs have declined further to 5 percent of the loan portfolio in March 2011 (by the IMF definition). Capitalization, provisioning, and liquidity ratios are within comfortable margins, bank profitability has increased, and reliance on external wholesale funding has declined significantly relative to the pre-crisis level.

Policies for 2011

5. Notwithstanding the achievements made under the program, additional efforts will be needed to ensure macroeconomic stability over the medium term. To that end, we intend to maintain the broad policy objectives to which we committed at the time of the seventh and eighth reviews.

6. The recently adopted supplementary budget for 2011 targets a larger reduction in the deficit that envisaged at the time of the seventh and eighth reviews, as higher tax revenue would largely be saved and would be only partly used to finance additional social and capital outlays. Social spending was increased by the one-off distribution of food and electricity vouchers and a 25 percent increase in basic pensions scheduled for September. The budgeted increase in capital spending reflects infrastructure upgrades across a number of sectors. Overall, we stand ready to keep spending below budgeted levels in order to achieve the desired adjustment, given the uncertainty about the recurrent component of the revenue gain. On that basis, we are committed to reducing the government fiscal deficit by 3 percentage points of GDP, from 6.6 percent in 2010 to 3.6 percent in 2011.

7. We remain committed to a flexible exchange rate. Intervention, in either direction, will be motivated by the need to dampen excess volatility in the very thin Georgian foreign exchange market. At the same time, based on the results of the first quarter, we have also revised up our annual target for net international reserves (NIR), which we now project to reach $1.1 billion by year-end.

8. We consider that the monetary policy stance is consistent with the projected deceleration of inflation. We will continue to monitor closely developments in headline and core inflation and credit growth, and stand ready to adjust our monetary policy stance in the event these indicators deviate from current projections.

Completion of the Review

9. All but one of the end-March 2011 performance criteria (PCs) were met. The end-March PC on general government expenditure was missed owing to the distribution of food and electricity vouchers (aimed at alleviating the social impact of the hike in food and fuel prices) and an accelerated pace of project implementation under the Millennium Challenge Georgia Fund. At the same time, other current spending was lower than expected. We consider that the nonobservance of this PC does not compromise the program objectives and that it is more than offset by our revised (and tighter) deficit target for the year.

10. Based on our performance under the program and the explanations provided in this letter, we request a waiver of nonobservance of the end-March PC on general government expenditures and completion of the ninth review. We will maintain our usual close policy dialogue with the Fund.

11. We authorize the IMF to publish this Letter of Intent as well as the accompanying staff report.

Sincerely yours,

/s/
Nika Gilauri
Prime Minister of Georgia

/s/
Kakha Baindurashvili
Minister of Finance

/s/
Giorgi Kadagidze
President of the National Bank of Georgia

Table 1. Georgia: Quantitative Performance Criteria (PC) and Indicative Targets, 2010-11

	Dec-10			Mar-11		
Performance Criteria	PC	Adjusted PC	Actual	PC	Adjusted PC	Actual
	(Cumulative change since the beginning of the year, in millions of lari)					
Ceiling on cash deficit of the general government	1,241	…	1,366	170	138	-197
Ceiling on the general government expenditures	7,106	…	7,232	1,553	1,521	1,568
	(End-period stock, in millions of lari)					
Ceiling on net domestic assets (NDA) of the NBG 1/	714	689	349	516	543	-126
	(End-period stock, in millions of U.S. dollars)					
Floor on net international reserves (NIR) of the NBG 1/	721	736	882	757	741	994
	(Cumulative change since the beginning of the year, in millions of U.S. dollars)					
Ceiling on accumulation of external arrears 2/	0	…	0	0	…	0
Indicative target	Ind. Target	Adjusted Target	Actual	Ind. Target	Adjusted Target	Proj.
	(Cumulative change since the beginning of the year, in millions of U.S. dollars)					
Ceiling on contracting or guaranteeing of new total external debt by the public sector	1,000	…	718	500	500	209

Sources: Georgian authorities; and Fund staff estimates.

1/ Actual figures and quantitative targets are based on program exchange rates.
2/ The continuous performance criterion for external arrears is defined in paragraph 21 of the TMU (Country Report No. 11/31).

INTERNATIONAL MONETARY FUND

GEORGIA

Ninth Review Under the Stand-By Arrangement and Request for Waiver of Nonobservance of Performance Criterion

Informational Annex

Prepared by the Middle East and Central Asia Department

May 24, 2011

Contents — Page

ANNEX I. GEORGIA: RELATIONS WITH THE FUND

(As of March 31, 2011)

I. **Membership Status:** Georgia joined the Fund on May 5, 1992.

II. **General Resources Account:**	**SDR Million**	**Percent of Quota**
Quota	150.30	100.00
Fund holdings of currency	727.40	483.97
Reserve position in Fund	0.01	0.01

III. **SDR Department:**	**SDR Million**	**Percent of Allocation**
Holdings	147.56	102.50

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
Stand-by Arrangements	577.10	383.97
ECF [1]	98.15	65.30

V. **Latest Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR Million)
Stand-By	9/15/08	6/14/11	747.10	577.10
ECF [1]	6/4/04	9/30/07	98.00	98.00
ECF [1]	1/12/01	1/11/04	108.00	49.50

VI. **Projected Payments to Fund (Expectation Basis):**
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2011	**2012**	**2013**	**2014**	**2015**
Principal	31.26	159.90	251.11	166.75	52.23
Charges/interest	8.20	9.65	5.53	2.10	0.29
Total	39.46	169.55	256.64	168.85	52.52

VII. **Safeguard Assessments:**

An update of the December 2008 safeguards assessment of the National Bank of Georgia (NBG) was completed on January 21, 2010 in conjunction with an augmentation of access

[1] Following the Low Income Countries (LIC) reforms, effective January 7, 2010, the PRGF arrangements were renamed the Extended Credit Facility (ECF) Arrangements.

under the SBA approved on August 6, 2009. The NBG continues to publish financial statements that comply with International Financial Reporting Standards, and are externally audited by an international firm in accordance with International Standards on Auditing. In response to the safeguards assessment, the authorities have agreed to a multi-year appointment of an external audit firm, beginning with financial year 2010.

VIII. **Implementation of Multilateral Debt Relief Initiative (MDRI):**

Not Applicable.

IX. **Implementation of HIPC Initiative:**

Not Applicable.

X. **Exchange Arrangements:**

(a) From 1993 to 2009, the National Bank of Georgia conducted foreign exchange market interventions through daily fixing sessions at the Tbilisi Interbank Currency Exchange (TICEX). A temporary de facto exchange rate peg to the U.S. dollar was introduced in the wake of the early August armed conflict. During the second week of November, the authorities allowed a 17 percent depreciation of the lari. In March 2009, the authorities introduced an auction-based system for the foreign exchange market. This mechanism is intended to allow more flexibility and give market forces a greater role in setting the price, with a view to reaching faster and smoother convergence toward equilibrium in the foreign exchange market and giving the market greater clarity about the authorities' policies. In end-May 2009, the authorities officially ended foreign exchange market interventions on TICEX.

(b) The government uses the official exchange rate for budget and tax accounting purposes as well as for all payments between the government and enterprises and other legal entities. The official rate may differ by more than two percent from freely determined market rates, which gives rise to a multiple currency practice. In practice, the official and market rates have never differed by more than 2 percent since the introduction of foreign exchange auctions in March 2009.

XI. **Article IV Consultation:**

The 2011 Article IV consultation was concluded on March 23, 2011.

XII. **FSAP Participation:**

Two FSAP missions visited Tbilisi during May 1–15, and July 24–August 7, 2001. An FSAP update mission visited Tbilisi during February 15–28, 2006.

XIII. **Technical Assistance:**

See Table 1 of this Annex.

XIV. **Resident Representative:**

The sixth resident representative, Mr. Edward Gardner, took up his post on March 15, 2009.

XV. **National Bank of Georgia Resident Advisors:**

Ms. Vance, MAE peripatetic banking supervision advisor to the NBG, commenced a series of visits to Tbilisi in September 1997. Mr. Nielsen, an MAE advisor, provided technical assistance to the NBG in May 1998. Mr. Viksnins was an MAE peripatetic advisor to the NBG president starting in October 1999. Mr. Fish was resident advisor on banking supervision from August 10, 1999 to January 31, 2002. Mr. Bernard Thompson provided peripatetic technical assistance in accounting and internal audit in March and August 2000. Mr. Wellwood Mason provided technical assistance on payment system issues on a peripatetic basis in 2002 and 2003. Mr. Howard C. Edmonds served from September 2004 to October 2007 as a resident advisor on banking supervision issues.

XVI. **Ministry of Finance Resident Advisors:**

Mr. Sharma was an FAD resident advisor and assisted the authorities in the development of a Treasury beginning in May 1997. Mr. Sainsbury, an FAD advisor, assisted the ministry of finance from June 1998 to November 1999. Mr. Chaturvedi was FAD resident advisor in 2001 and 2002 to assist the authorities in continuing the development of the Treasury and the Treasury Single Account, in revising the legislative framework, expenditure control systems, and budgeting issues. Between 2001 and 2003, Mr. Welling was an FAD peripatetic advisor to assist the State Customs Department in preparing and introducing measures for the custom reform and modernization program. In March 2005, Mr. Zohrab started advising the authorities on treasury-related reforms, and his term ended in November 2006.

Table 1. Georgia: Fund Technical Assistance Missions, 2007–11

Subject	Type of Mission	Timing	Counterpart
Fiscal Affairs Department (FAD)			
Tax Administration	Follow-up mission	Jan. 17–30, 2007	Ministry of Finance
Tax Administration	Expert assistance (Woodley)	Jan/Feb and Apr/May 2008	Ministry of Finance
Budget Classification and Accounting Reforms	Expert assistance (Swarap)	Jun. 11-22, 2007	Ministry of Finance
Budget Classification and Accounting Reforms	Expert assistance (Swarap)	Jun. 11-22, 2007	Ministry of Finance
Public Financial Management	Expert assistance	Apr. 6-19, 2010	Ministry of Finance
Pension Reform	Expert assistance	Apr. 21-27, 2011	Ministry of Finance
Monetary and Capital Markets Department (MCM)			
Monetary Operations/Monetary Policy/Foreign Exchange	Advisory	Feb. 16–Mar. 2, 2007	National Bank of Georgia
Consolidated Supervision	Advisory	Dec. 4–14, 2007	National Bank of Georgia
Lender of Last Resort Framework	Advisory	Dec. 11-17, 2008	National Bank of Georgia
Stress Testing and Foreign Exchange Market	Advisory	Apr. 21-30, 2009	Financial Supervisory Agency; National Bank of Georgia
Macroeconomic Modeling for Monetary Policy Formulation	Advisory	June 2-10, 2010	National Bank of Georgia
Macroeconomic Modeling for Monetary Policy Formulation	Advisory	October 4-13, 2010	National Bank of Georgia
Payment Systems Oversight	Advisory	May 3–12, 2011	National Bank of Georgia
Statistics Department (STA)			
Balance of Payments	Follow-up assistance	Jul. 9-20, 2007	National Bank of Georgia
Monetary and Financial Statistics	Advisory	Mar. 18-31, 2009	National Bank of Georgia
Evaluation of Technical Assistance	Follow-up assistance	Jul. 14–16, 2010	National Statistics Office, National Bank of Georgia, Ministry of Finance
External Sector Statistics	Follow-up assistance	Oct. 4–15, 2010	National Bank of Georgia

Table 1. Georgia: Fund Technical Assistance Missions, 2007–11

Subject	Type of Mission	Timing	Counterpart
	Legal Department (LEG)		
Payment Systems	Advisory	May 25–Jun. 5, 2010	National Bank of Georgia
Payment Systems	Follow-up assistance	Nov. 8–14, 2010	National Bank of Georgia
Legislative Drafting	Advisory	Feb. 28–Mar. 7, 2011	National Bank of Georgia

ANNEX II. GEORGIA: RELATIONS WITH THE WORLD BANK

(As of May 10, 2011)

Title	Product	Tentative Timing of Mission	Expected Delivery of Report
Bank	*Operations*		
	DPO program, including ongoing policy dialogue on:	Quarterly	July 2011
	public investment management program budgeting social safety nets tax and customs reforms trade-related reforms		
	Public Sector Financial Management Project	Ongoing	Ongoing
	Analytical Work		
	Programmatic PER	Quarterly	End-2010/Mid-2011
	Trade Dialogue / Technical Assistance	Ongoing	Ongoing
	Programmatic Poverty Assessment	Periodic	Periodic
Fund	*Missions and Technical Assistance:*		
	Staff visit on 2011 budget and macroeconomic framework update	Sept.8-16, 2010	Sept.20, 2010
	SBA 7th and 8th Reviews	Oct.27-Nov.10, 2010	Nov.15 (draft)
	Art. IV Consultation	Feb.2-17, 2011	Feb.22 (draft)
	SBA 9th Review	Apr.12-28, 2011	May 5 (draft)
	TA: payments system legal framework, follow up	January 2011	February 2011
	TA: payments system oversight	May 3-12, 2011	June 2011
	TA: macroeconomic model for monetary policy analysis	Oct.4-14, 2010 Jun.13-23, 2011	November 2010 July 2011
	TA: pensions	Apr.21-27, 2011	May 2011
	Analytical work		
	DSGE model for monetary policy analysis Inflation process and forecast Equilibrium exchange rate assessment International reserve adequacy assessment		
Joint Bank-Fund	Joint Debt Sustainability Analysis	Ongoing collaboration	May 2011

ANNEX III. GEORGIA: RELATIONS WITH THE EBRD

(As of April 30, 2011)

Since 1994, the EBRD has been active in supporting Georgia's transformation toward a market economy. The Bank's current country strategy for Georgia, approved in February 2010, outlines the following main strategic directions:

- Supporting stabilization and restructuring of the financial sector, strengthening risk and portfolio management practices and increasing the share of local currency operations;
- Helping rehabilitate and modernize the country's road, energy and municipal infrastructure to strengthen energy security and promote energy efficiency, help Georgia benefit from its potential as a transit country and improve efficiency and long-term financial sustainability of its municipal services;
- Provide financing to the enterprise sector with the view of supporting innovation, competition and export potential, in particular in manufacturing and agribusiness.

As of end of first quarter of 2011, the Bank had signed 131 investments in Georgia with the cumulative commitment totaling €1 billion. Its outstanding portfolio stood at €692 million. The majority of the portfolio is in the financial sector (40 percent), energy sector and infrastructure (25 percent and 21 percent, respectively). The ratio of private sector projects in the portfolio currently stands at 82 percent. The Bank gives preference to non-sovereign operations. Where sovereign guarantees are required, donor co-funding on a grant basis is sought.

In 2008-9, the Bank played an important role in stabilizing Georgia's financial system that had suffered from the August 2008 conflict and the global financial crisis. Along with the IFC, the EBRD provided Bank of Georgia and TBC Bank, the two largest systemic banks, with equity, quasi equity and loan facilities totaling $170 million.

In 2010, the EBRD's operations focused on the infrastructure sector. The Bank signed several large projects, including Tbilisi Railway By-Pass (€112 million), a sovereign guaranteed loan to finance the Black Sea Transmission Line (€80 million), the second stage of the rehabilitation of the Enghuri hydro power plant (€20 million) as well as a berth rehabilitation project at the Poti port (€8 million) and Adjara solid waste landfill project (€3 million).

The Bank also signed a number of smaller projects in the financial and industrial sectors. The Bank increased its equity investment in Bank Republic and provided SME credit lines to TBC Bank and Bank of Georgia (€5.6 million and €15 million, respectively). It enhanced its Medium size Co-Financing Facility (MCFF) and signed four sub-projects in the manufacturing, agriculture and health sectors (totaling €16 million). MCFF has been working successfully for several years. The Bank also expanded the efforts in promoting its Energy Efficiency Initiative by providing €3.7 million facility for residential and industrial on-lending to Bank of Georgia.

Georgia is part of the 'Early Transition Countries' (ETC) initiative. Launched in April 2004, the initiative aims to increase investments in the Bank's then seven poorest countries. The initiative builds on international efforts to address poverty in these countries. Through this initiative, the EBRD focuses its efforts on private sector business development and selected public sector interventions. It aims to stimulate market activity by using a streamlined approach to financing, focusing on smaller projects, mobilizing more investment, and encouraging ongoing economic reform. The Bank accepts higher risk in the projects it finances in the ETCs, while respecting the principles of sound banking. Since the launch of the ETC initiative, the Bank's annual business volume in Georgia has increased five-fold.

Going forward, the EBRD is actively engaged in promoting local currency lending and de-dollarization of the Georgian banking system. Georgia is one of the first countries to undergo a joint EBRD-IMF-World Bank assessment of the economic policy, regulatory and legal frameworks for development of the local currency capital markets. On April 26 the Ministry of Finance and the National Bank of Georgia signed a Memorandum on Understanding with the EBRD in respect of macroeconomic and regulatory reforms to support dedollarization, paving the way for the expansion of EBRD lending in lari and technical assistance activities.

Press Release No. 11/224
FOR IMMEDIATE RELEASE
June 9, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Ninth and Final Review Under Stand-By Arrangement for Georgia

On June 8, 2011, the Executive Board of the International Monetary Fund (IMF) completed the ninth and final review of Georgia's performance under the economic program supported by a Stand-By Arrangement.

Georgia's Stand-By Arrangement was approved by the Board on September 15, 2008 (see Press Release No. 08/208) for an amount equivalent to SDR 477.1 million (about US$ 770 million[1]). On August 6, 2009, the Executive Board approved an augmentation of access under the SBA to an amount equivalent to SDR 747.1 million (about US$ 1.2 billion) and an extension of the SBA until June 14, 2011 (see Press Release No. 09/277). Between 2008 and July 2010, an amount equivalent to SDR 577.1 million (about US$ 930 million) was disbursed under the SBA. Since then, the authorities have treated the arrangement as precautionary. The arrangement expires June 14, 2011.

In completing the review, the Board approved a waiver for the nonobservance of the performance criterion related to government expenditure.

Following the Executive Board's discussion on Georgia, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, said:

"The Georgian authorities are to be commended for successfully implementing the SBA-supported program. The program objectives have been largely achieved, evidenced by the rebound in economic activity, improved market confidence, and the recovery of international reserves to their pre-crisis level. At the same time, the external adjustment process is not yet complete; public debt should be reduced further; and growth needs to be sustained to reduce unemployment. It will be important for the authorities' medium-term policy framework to address decisively these challenges.

[1] The amounts in U.S. dollars are calculated based on the SDR/US$ exchange rate on June 7, 2011, with one U.S. dollar equal to SDR 0.61974.

"The authorities are firmly committed to fiscal consolidation. It will be important to preserve sufficient flexibility to introduce revenue-enhancing measures, should the need arise. Moreover, the planned increase in pensions should be structured and financed in a way that does not compromise the fiscal objectives.

"The authorities' current monetary policy stance is appropriate in the absence of second-round effects from the food and fuel price hikes. The authorities stand ready to adjust this stance promptly if signs of more persistent inflation emerge. The enhanced exchange rate flexibility achieved over the course of the program is commendable and should remain an anchor of the authorities' economic strategy.

"The banking sector has largely overcome the stress from the 2008 conflict and global financial crisis. Close monitoring for any signs of emerging new vulnerabilities in the sector will be important. The steps taken by the supervisory authority to strengthen its internal analytical capacity and responsiveness to risks are welcome."

**Statement by Mr. Bakker, Executive Director for Georgia
and Mr. Lezhava, Advisor to Executive Director
June 8, 2011**

On behalf of my authorities, I would like to thank staff for the concise final report under the SBA that expires on June 14, 2011, and consistently constructive cooperation during the program period. The program allowed Georgia to provide an adequate response to the negative external shocks and to restore macroeconomic stability and confidence. Macroeconomic indicators in general give reason for optimism; however, there still is a need for further adjustment.

To address the remaining challenges, the authorities are committed to their strategic principles of fiscal consolidation, flexible exchange rate, and inflation targeting regime. Fiscal consolidation will be achieved by keeping expenditure focused on targeted capital spending and allowing reasonable social outlays. The National Bank will remain committed to a flexible exchange rate and will aim at improving the transmission mechanism for inflation targeting. For monetary policy to be efficient, money market development, local currency credibility, lower dollarization, and improved modeling/forecasting capabilities are necessary. The National Bank is exploring opportunities for technical assistance in these areas with IFIs including the Fund.

Economic Development

Growth has returned to a positive path in almost all sectors, adding up to a 6.4 percent growth rate in 2010. Economic recovery was accompanied by some reduction in the unemployment rate to 16.3 percent in 2010 against 16.9 in 2009.

In 2010, the current account deficit declined to 9.6 percent of GDP, down from 22.6 percent in 2008. Part of this adjustment happened automatically, due to the reduced FDI related imports. As the staff report notices, further adjustment of the current account deficit is desirable. The main instrument for achieving greater competitiveness will be allowing adjustment of the exchange rate.

Exchange rate policy increasingly became more flexible during the program. In 2011 the National Bank intervened only occasionally in the foreign exchange market, mostly to purchase foreign exchange in line with the commitment to accumulate net international reserves.

Inflation is in the double digits and the authorities remain alert. Annual inflation has increased steadily from June 2010 onward, however, forecasts point to a substantial reduction in the second half of the year. As in many countries around the world, inflation is driven by high food and fuel prices, but core inflation remains subdued and no second-round effects have been observed so far.

The banking sector looks healthy with a gradually reducing trend of non-performing loans, increasing profits, comfortable liquidity, provisioning and capital levels, and a reasonable pace of credit growth.

The fiscal deficit was reduced from 9.2 in 2009 to 6.6 in 2010 and is expected to be lowered to 3.6 in 2011. A larger deficit reduction than previously envisaged seems to be possible, thanks to higher revenue collections.

Future plans

The authorities are facing the dilemma of needing to increase social spending and to reduce the fiscal deficit. In particular, the modalities of a pension increase are now under consideration. While the proposed increase of pension to the equivalent of USD 100 per month will likely impact overall budget outlays, the authorities remain committed to a steady and incremental path of budget deficit reduction.

Georgia has taken proactive steps to improve its debt sustainability. On April 7, 2011, Georgia successfully priced its 10-year benchmark Eurobond transaction, thereby achieving several important milestones for the country, in terms of the impressive pricing, very large oversubscription ratio, exceptionally low yield, and broadened investor base. Georgia was able to increase the maturity from 5 to 10 years, while lowering the yield from 7.5 to 7.125. As a result, the authorities successfully addressed the challenge of a public debt service spike in 2013. The Ministry of Finance remains active also in the local market, by gradually increasing the maturity of government papers. It is committed to a conservative public debt management vision, to preclude shrinkage of the fiscal space and secure sustainable debt dynamics. This is of the essence given the timeline for redemptions under the current Stand-By Arrangement with the IMF, which come due in 2011-2015.

In order to maintain market confidence, secure access to Fund resources in the event of external financing needs, and be able to benefit from continuous advice, the authorities are looking forward to further engagement with the Fund. Therefore, Georgia will request a successor program once the specific details of the medium-term policy framework have been formulated.

The Georgian authorities are thankful to the IMF board members for their comments and suggestions expressed during the program discussions. These inputs received serious attention and were reflected in policy decisions taken during the program. Commitment to the above mentioned fiscal and monetary strategic principles will continue to guide policy decisions going forward.