



# GEORGIA

June 2026

## 2026 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GEORGIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2026 Article IV consultation with Georgia, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its June 8, 2026, consideration of the staff report that concluded the Article IV consultation with Georgia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 8, 2026, following discussions that ended on April 7, 2026, 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 19, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Georgia.

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

### Selected Issues

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

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## IMF Executive Board Concludes 2026 Article IV Consultation with Georgia

FOR IMMEDIATE RELEASE

- Despite elevated global uncertainty, including from the war in the Middle East, Georgia's economy remains resilient, supported by sound macroeconomic management and strong policy buffers.
- Growth is expected to remain strong, though moderating, while inflation would stay above target till mid-2027 and the current account deficit would widen temporarily. Public debt is expected to remain at prudent levels, while reserve coverage would strengthen further.
- Policy priorities include bringing inflation back to target, continuing to build reserve buffers, strengthening central bank and state-owned enterprise governance, and advancing reforms to support job creation and competitiveness.

**Washington, DC – June 8, 2026:** The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Georgia today.<sup>1</sup> The authorities have consented to the publication of the Staff Report prepared for this consultation.<sup>2</sup>

Georgia's economy has remained resilient amid heightened global uncertainty, including from the war in the Middle East. Real GDP expanded by 7.5 percent in 2025 and remained strong in early 2026, while inflation rose above target due to higher energy prices, reaching 5.9 percent in April 2026. Fiscal and external buffers have strengthened, with reserves reaching the IMF's adequacy threshold and public debt declining below 35 percent of GDP.

Assuming the Middle East war is resolved soon, growth is projected to moderate to 6.5 percent in 2026, gradually converging to its medium-term potential rate of 5 percent by 2028. Inflation is expected to return to target by mid-2027 and public debt to remain near current levels with continued prudent monetary and fiscal policies.

Amid elevated uncertainty and recurring external shocks, policy priorities include bringing inflation back to target, building further reserve buffers, and advancing structural reforms to sustain strong growth and create more jobs.

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

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

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

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for their good macroeconomic performance, underpinned by sound macroeconomic management, strong growth, improved fiscal and external buffers, and a sound financial sector. They, however, noted that inflation has risen above target, reflecting factors including the conflict in the Middle East, while structural challenges persist. Against the backdrop of elevated global uncertainty, Directors underscored the importance of preserving macroeconomic stability while advancing reforms to sustain growth and spur job creation.

Directors considered the recent policy rate hike appropriate and emphasized that monetary policy should remain appropriately tight and data-dependent to bring inflation durably back to target. They underscored the importance of preserving exchange rate flexibility as a shock absorber, and accumulating reserves as conditions allow. Directors supported further steps to strengthen the governance framework of the NBG to reinforce institutional credibility and policymaking, in line with international best practices.

Directors welcomed the authorities' commitment to fiscal discipline and agreed that medium-term fiscal plans remain appropriate to keep public debt at prudent levels. They emphasized the need to streamline tax expenditures, strengthen mining taxation and further improve tax administration, while enhancing spending efficiency to create room for priority spending. Directors concurred that targeted support should be provided to vulnerable groups if downside risks materialize. They also called for advancing state-owned enterprise governance reforms to reduce fiscal risks.

Directors welcomed the resilience of the banking system. They called for continued vigilance amid evolving risks, including rapid credit growth, unhedged foreign exchange exposures, non-bank financial activities, and digital assets. Directors encouraged further efforts on bank resolution and crisis management arrangements, consolidated supervision, and digital-asset oversight.

Directors emphasized the need to address longstanding structural constraints to sustained inclusive growth and job creation. They encouraged reforms to address high youth unemployment, persistent skills mismatches, and weak work incentives, including strengthening vocational education and public employment services, better aligning social assistance with work incentives, and supporting high-productivity sectors. Directors supported continued investment in logistics, trade facilitation, infrastructure, and deeper regional integration to strengthen competitiveness. They stressed the need to strengthen anti-corruption and judicial institutions, while maintaining a predictable market-friendly policy environment.

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

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<sup>3</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

**Table 1. Georgia: Selected Economic Indicators, 2025-31**

|                                                                                     | 2025   | 2026        | 2027  | 2028  | 2029  | 2030  | 2031  |
|-------------------------------------------------------------------------------------|--------|-------------|-------|-------|-------|-------|-------|
|                                                                                     | Actual | Projections |       |       |       |       |       |
| National accounts and prices (annual percentage change; unless otherwise indicated) |        |             |       |       |       |       |       |
| Real GDP                                                                            | 7.5    | 6.5         | 5.7   | 5.0   | 5.0   | 5.0   | 5.0   |
| Nominal GDP (in billion of laris)                                                   | 104.6  | 116.9       | 128.5 | 139.8 | 151.8 | 165.0 | 179.3 |
| Nominal GDP (in billion of U.S. dollars)                                            | 38.1   | 43.5        | 48.1  | 52.6  | 57.6  | 63.2  | 69.2  |
| GDP per capita (in thousand of U.S. dollars)                                        | 9.7    | 11.1        | 12.3  | 13.4  | 14.7  | 16.1  | 17.7  |
| GDP deflator, period average                                                        | 4.6    | 5.0         | 4.0   | 3.5   | 3.5   | 3.5   | 3.5   |
| CPI, period average                                                                 | 3.9    | 5.3         | 3.4   | 3.0   | 3.0   | 3.0   | 3.0   |
| CPI, end-of-period                                                                  | 4.0    | 5.4         | 3.0   | 3.0   | 3.0   | 3.0   | 3.0   |
| Consolidated government operations (in percent of GDP)                              |        |             |       |       |       |       |       |
| Revenue and grants                                                                  | 27.0   | 26.6        | 26.3  | 26.2  | 26.1  | 26.0  | 26.0  |
| o.w. Tax revenue                                                                    | 24.2   | 24.2        | 24.2  | 24.3  | 24.3  | 24.3  | 24.3  |
| Total Expenditure                                                                   | 28.4   | 28.9        | 28.6  | 28.5  | 28.3  | 28.2  | 28.2  |
| Current expenditures                                                                | 22.4   | 21.7        | 21.6  | 21.5  | 21.1  | 21.0  | 21.0  |
| Net acquisition of nonfinancial assets                                              | 6.0    | 7.2         | 7.0   | 7.0   | 7.2   | 7.2   | 7.2   |
| Net lending/borrowing (GFSM 2001)                                                   | -1.5   | -2.3        | -2.3  | -2.3  | -2.2  | -2.2  | -2.2  |
| Augmented net lending/borrowing 1/                                                  | -1.4   | -2.3        | -2.3  | -2.3  | -2.2  | -2.2  | -2.2  |
| Public debt                                                                         | 34.3   | 33.6        | 32.8  | 32.5  | 31.9  | 31.7  | 31.7  |
| o.w. Foreign-currency denominated                                                   | 23.2   | 21.0        | 19.6  | 18.1  | 16.6  | 15.0  | 13.7  |
| Money and credit (annual percentage change; unless otherwise indicated)             |        |             |       |       |       |       |       |
| Credit to the private sector                                                        | 13.1   | 13.8        | 10.9  | 8.7   | 8.7   | 8.7   | 8.7   |
| In constant exchange rate                                                           | 14.0   | ...         | ...   | ...   | ...   | ...   | ...   |
| Broad money                                                                         | 16.5   | 13.5        | 12.2  | 11.3  | 11.3  | 11.3  | 11.3  |
| Excluding FX deposits                                                               | 25.5   | ...         | ...   | ...   | ...   | ...   | ...   |
| Deposit dollarization (in percent of total)                                         | 47.7   | 47.4        | 47.2  | 47.0  | 46.8  | 46.5  | 46.3  |
| Credit dollarization (in percent of total)                                          | 42.4   | 42.2        | 42.0  | 41.8  | 41.6  | 41.4  | 41.2  |
| Credit to GDP (in percent) 2/                                                       | 65.9   | 67.0        | 67.7  | 67.7  | 67.7  | 67.7  | 67.7  |
| External sector (in percent of GDP; unless otherwise indicated)                     |        |             |       |       |       |       |       |
| Current account balance (in billions of US\$)                                       | -1.0   | -2.2        | -2.2  | -2.5  | -2.7  | -3.2  | -3.4  |
| Current account balance                                                             | -2.6   | -5.0        | -4.5  | -4.7  | -4.8  | -5.0  | -5.0  |
| Trade balance                                                                       | -17.9  | -19.0       | -18.7 | -18.9 | -19.0 | -19.0 | -19.1 |
| Terms of trade (percent change)                                                     | -0.2   | -4.5        | 0.0   | -0.2  | -0.5  | -0.6  | -0.7  |
| Gross international reserves (in billions of US\$)                                  | 6.2    | 6.3         | 6.9   | 7.5   | 8.3   | 8.8   | 9.2   |
| In percent of IMF ARA metric 3/                                                     | 100.0  | 100.0       | 104.9 | 108.9 | 115.4 | 117.9 | ...   |
| In months of next year's imports                                                    | 3.2    | 2.9         | 2.9   | 2.9   | 2.9   | 2.8   | ...   |
| Gross external debt                                                                 | 58.9   | 51.7        | 47.2  | 43.0  | 38.7  | 34.5  | 30.7  |

Sources: Georgian authorities; and Fund staff estimates.

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

2/ Banking sector credit to the private sector.

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



# GEORGIA

## STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION

May 19, 2026

### KEY ISSUES

**Context.** Georgia's economic performance remains strong, with spillovers from the war in the Middle East limited to tourism and commodity prices. Growth is robust but set to moderate toward potential. Headline inflation has risen above target, with a modest overshoot in core inflation. The external position has strengthened, fiscal policy remains disciplined, and the financial sector is sound. Despite recent improvements, structural challenges persist, notably high youth unemployment and income inequality. Thanks to strong fundamentals and policy buffers, Georgia is well-positioned to navigate external volatility. Policies should prioritize preserving macro-financial stability and hard-won credibility, while accelerating structural reforms to support job-rich growth.

#### Key policy recommendations:

- **Monetary policy should remain focused on bringing inflation back to target.**  
The National Bank of Georgia should stand ready to raise the policy rate further if inflation pressures persist or inflation expectations risk becoming de-anchored, while preserving exchange rate flexibility, continuing reserve buildup, and remaining vigilant to evolving financial sector risks, including from non-banks. Strengthening central bank governance is key to sustaining institutional credibility.
- **Fiscal policy should remain disciplined, preserving space for priority spending.**  
Deficits below 2.5 percent of GDP are appropriate, consistent with maintaining public debt at prudent levels. If the war's spillovers deepen, temporary and targeted support to the most vulnerable could be provided. There is scope to streamline tax expenditures and improve mining taxation, tax administration, and spending efficiency. Advancing SOE reforms remains crucial to containing fiscal risks.
- **Structural reforms are needed to sustain strong growth and create more jobs.**  
Efforts should focus on tackling high unemployment by strengthening vocational education and public employment services, and aligning social assistance with work incentives, while advancing infrastructure investments, regional integration, and judicial and anti-corruption reforms to boost competitiveness. Stakeholder consultation is important for effective reform design and implementation.

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

Discussions were held during March 25–April 7, 2026, in Tbilisi. The mission team comprised A. Hajdenberg (head), E. Ture, B. Baltabaev (MCD), J. Atsebi (FAD), M. Cangul (SPR), A. Jewell (Resident Representative), and N. Sharashidze (Local Economist). The mission was assisted by D. Hineva, S. Wang, N. Haider (MCD) and K. Danelia (IMF Tbilisi Office). J. Clicq and V. Sikharulishvili (OED) attended some discussions.

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## CONTEXT

**1. Georgia's economic performance remains robust, supported by sound macroeconomic management and policies, though structural challenges persist.** Real GDP grew by 7.5 percent in 2025, well above its pre-pandemic trend for a fifth consecutive year. Headline inflation has been above the National Bank of Georgia's (NBG) target since 2025 after two years of undershooting, with core inflation also picking up recently. Gross international reserves have reached the IMF's adequacy thresholds for the first time since 2022, while fiscal buffers and the financial sector remain healthy. Structural challenges persist, however, with elevated unemployment, particularly among youth, and significant income inequality (Figure 1). Macroeconomic policies have broadly aligned with Fund advice, though important structural reforms are outstanding (Annex I).

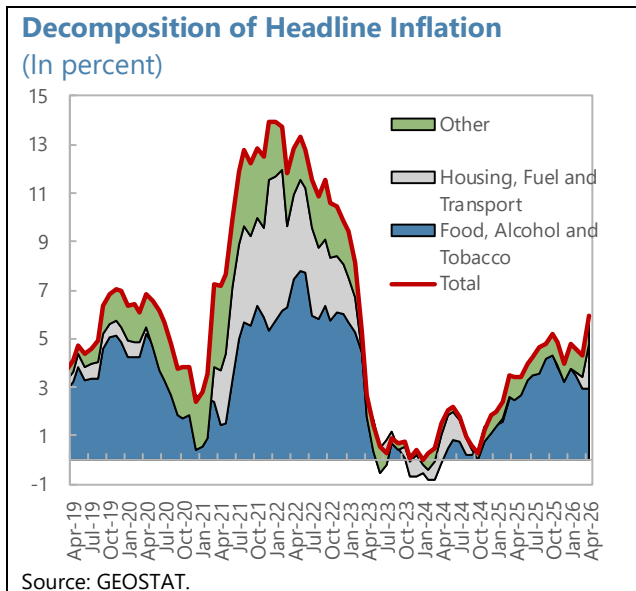
**2. Evolving regional and global dynamics are reshaping Georgia's external environment, while domestic political conditions have stabilized.** The ruling Georgian Dream party consolidated power after winning the 2025 local elections, which were boycotted by the opposition. Relations with the EU remain strained, with the EU's 2025 Enlargement Report indicating accession is on hold. External interest in the Middle Corridor has grown amid trade rerouting following the war in Ukraine and could strengthen further with the Middle East war. However, gaps in connectivity and cost-competitiveness continue to limit the corridor's potential, and some trade could bypass Georgia if the Azeri-Armenian peace deal takes hold. Against this backdrop, the authorities are deepening engagement with regional partners, Gulf countries, and China.

**3. Improved fiscal and reserve buffers have reduced the need for a Fund-supported program.** The 3-year precautionary stand-by arrangement expired in June 2025, with reviews suspended in June 2023 amid concerns over NBG governance and stalled state-owned enterprise (SOE) reform. Since then, improved reserve coverage has strengthened market confidence, as evidenced by the successful rollover of a USD 500 million Eurobond in January. Meanwhile, the authorities have expressed willingness to advance governance reforms at the NBG and in SOEs in line with recent Fund technical assistance (TA) recommendations (¶15, ¶20).

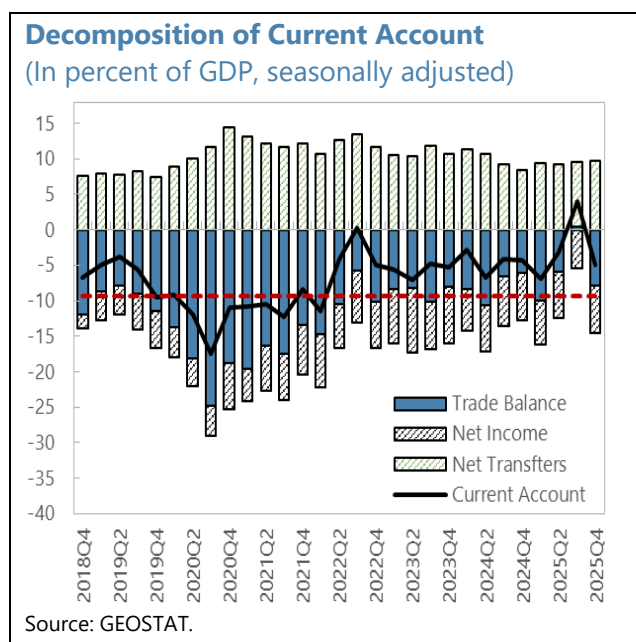
## RECENT ECONOMIC DEVELOPMENTS

**4. Growth momentum remained firm in early 2026, with limited adverse spillovers from the Middle East war.** Rapid estimates indicate that real GDP growth accelerated to 9.1 percent y/y in the first quarter of 2026. On the supply side, activity has been driven by continued strength in information and communication technology (ICT), transport, and education services, initially boosted by financial and migrant inflows and shifts in regional trade patterns following the war in Ukraine. On the demand side, private consumption remains the main driver (Table 1, Figure 2), supported by slowing but still-robust real wage and consumer credit growth. The impact of the Middle East war on economic activity has so far been largely confined to tourism.

**5. Inflationary pressures have intensified, prompting a tightening of the monetary policy stance.** Headline inflation ended 2025 at 4 percent—above the NBG’s 3 percent target—driven by higher imported food prices, and rose to 5.9 percent in April, reflecting higher fuel and electricity prices, while core inflation edged up to 3.5 percent. Natural gas prices are set under long-term import contracts with Azerbaijan, limiting their inflationary impulse. The authorities are examining pricing practices and potential competition measures. The NBG raised the policy rate by 25 basis points to 8.25 percent in May—after holding it steady for two years—implying a moderately tight stance.<sup>1</sup> At the same time, reserve requirements on FX liabilities were lowered, unwinding the prior temporary increase, to help mitigate tighter global financial conditions.



**6. The external position has strengthened, with the current account deficit narrowing and reserve coverage rising.** The deficit declined to a historic low of 2.6 percent of GDP in 2025, driven by strong service exports (particularly ICT and tourism) and lower goods imports reflecting softer oil prices (Table 2, Figure 3). Foreign direct investment (FDI) has picked up, although largely comprising reinvested earnings. Gross international reserves stood at USD 6.4 billion—102 percent of the IMF’s Assessing Reserve Adequacy (ARA) metric—at end-April 2026, reflecting net foreign exchange (FX) purchases of over USD 3 billion in the previous year—facilitated by strong de-dollarization and financial inflows—and gold valuation gains. Georgia’s external position in 2025 was stronger than implied by medium-term fundamentals and desirable policy settings based on the results of the IMF’s EBA-lite current account model (Annex IV).



<sup>1</sup> Staff estimate the neutral rate to be around 7½-8¼ percent (See the 2024 Selected Issues Paper “Inflation and Monetary Policy in Georgia”), while the authorities estimate it at 7 percent.

**7. The fiscal position remains strong, with a low deficit and declining public debt.** The overall deficit narrowed to 1.5 percent of GDP in 2025, well below the budgeted 2.5 percent, reflecting robust revenue and lower-than-planned capital spending due to procurement and implementation delays and the postponement of some large projects (Table 3, Figure 4). This was partly offset by higher current spending on health, agriculture, defense, and transfers to the water utility. Public debt fell below 35 percent of GDP and remains sustainable, with a low risk of sovereign distress, although two-thirds is denominated in foreign currency (Annex III). In January, the government successfully pre-financed a maturing USD 500 million Eurobond. The 2026 budget maintains a 2.5 percent deficit target, based on conservative revenue assumptions and a planned rebound in capital spending. Through April, the budget posted a surplus of 0.3 percent of GDP (Text Table 1).

**Text Table 1. Georgia: Budget Execution, January-April 2026**

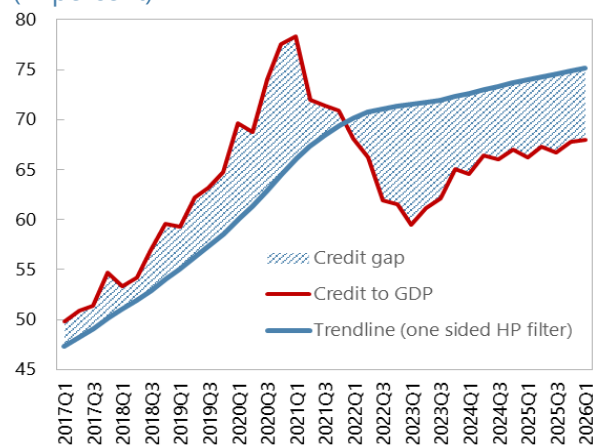
|                                                | Jan - Apr 2024 |      | Jan - Apr 2025 |      | Jan - Apr 2026 |      | 2026, full year |      |
|------------------------------------------------|----------------|------|----------------|------|----------------|------|-----------------|------|
|                                                | GEL mn         | %GDP | GEL mn         | %GDP | GEL mn         | %GDP | GEL mn          | %GDP |
| <b>Revenues and grants</b>                     | 8,054          | 8.7  | 8,120          | 7.8  | 9,209          | 7.9  | 31,077          | 26.6 |
| Taxes                                          | 7,362          | 7.9  | 7,522          | 7.2  | 8,431          | 7.2  | 28,275          | 24.2 |
| Grants                                         | 90             | 0.1  | 30             | 0.0  | 19             | 0.0  | 176             | 0.2  |
| Other revenues                                 | 602            | 0.6  | 568            | 0.5  | 759            | 0.6  | 2,625           | 2.2  |
| <b>Primary current spending</b>                | 6,037          | 6.5  | 6,729          | 6.4  | 7,248          | 6.2  | 23,409          | 20.0 |
| <b>Interest expense</b>                        | 553            | 0.6  | 678            | 0.6  | 726            | 0.6  | 1,976           | 1.7  |
| <b>Net acquisition of non-financial assets</b> | 1,817          | 2.0  | 1,630          | 1.6  | 913            | 0.8  | 8,412           | 7.2  |
| Capital spending                               | 1,940          | 2.1  | 1,844          | 1.8  | 1,053          | 0.9  | 8,712           | 7.5  |
| Privatization                                  | -123           | -0.1 | -214           | -0.2 | -140           | -0.1 | -300            | -0.3 |
| <b>Net lending/borrowing</b>                   | -353           | -0.4 | -917           | -0.9 | 323            | 0.3  | -2,720          | -2.3 |
| Net budget lending                             | -81            | -0.1 | -17            | 0.0  | -31            | 0.0  | -31             | 0.0  |
| <b>Augmented balance</b>                       | -271           | -0.3 | -901           | -0.9 | 359            | 0.3  | -2,690          | -2.3 |
| Nominal GDP                                    | 93,022         |      | 104,598        |      | 116,936        |      | 116,936         |      |

Source: National authorities and IMF staff estimates.

**8. Credit growth strengthened in early 2026, while the credit gap remains negative.**

After declining from mid-2024 through late 2025, private sector credit growth picked up modestly to 14.9 percent in March, from 14 percent in 2025, driven by stronger business and mortgage lending, while consumer lending remained robust despite some moderation (Table 4, Figure 5). Deposit dollarization has declined amid improved market confidence and a weaker U.S. dollar. Banks remain well-capitalized, liquid, and profitable, with low non-performing loans.

**Credit to GDP and Credit Gap**  
(In percent)



Source: National Bank of Georgia and IMF staff calculations.

## OUTLOOK AND RISKS

### 9. **Growth is expected to moderate over the next few years as external tailwinds fade.**

Assuming the Middle East war is resolved soon, growth is projected to ease to 6.5 percent in 2026, gradually converging to its medium-term potential rate of 5 percent by 2028. The current account deficit is projected to widen to 5 percent of GDP in 2026, reflecting higher oil prices and lower tourism receipts, and to remain around this level over the medium term as less import-intensive exports—such as ICT and education—continue expanding. Reserve coverage is expected to remain broadly stable in the near term, reflecting a reversal of earlier gold price gains and lower FX reserve requirements, and to strengthen to nearly 120 percent of ARA over the medium term, supported by a gradual pickup in FDI. Inflation is expected to peak by mid-2026, before converging to the 3 percent target by mid-2027, in line with moderating demand and a narrowing output gap.

**10. Risks to the outlook are broadly balanced amid elevated uncertainty.** Geopolitical developments remain a key source of risk. An escalation of the Middle East war could further disrupt tourism inflows from Israel and the Gulf region, raise inflation, and tighten financial conditions. If prolonged, the conflict could also redirect financial and tourism flows toward Georgia and boost transit trade along the Middle Corridor. The resolution of the Ukraine war could reverse some recent gains from migration, financial inflows, and transit trade, but would also support regional stability and longer-term investment. A peace agreement between Armenia and Azerbaijan could generate competing trade routes, while enhancing overall regional trade. Strained EU relations pose a downside risk to investor sentiment and FDI, while the planned USD 6.5 billion real estate project by a UAE investor—not yet in the baseline—provides a significant upside for growth.

**11. A downside scenario could arise from a combination of high-impact external shocks** (Annex II). These include heightened geopolitical tensions and stricter sanctions, a slowdown in major trading partners, and tighter global financial conditions alongside persistently higher commodity prices. Together, these shocks would reduce trade, tourism, investment, and financial inflows, raise risk premia, depreciation pressures, and dollarization, and worsen growth, inflation, and debt dynamics. The current account would deteriorate, putting pressure on reserves. Staff estimates suggest that a 10 percent increase in oil prices, all else equal, raises inflation by 0.4 percentage point, the current account deficit by 0.4 percentage point of GDP, and the fiscal deficit by 0.1 percentage point of GDP. Georgia is well positioned to absorb external shocks, supported by strong macroeconomic fundamentals and policy buffers.

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

**12. The authorities broadly agreed with staff's assessment of the economic outlook and risks.** They expect the Middle East war to have a modest economic impact on Georgia if it is resolved soon, with growth slowing toward its potential rate from 2026, the current account deficit widening toward its norm—in part due to lower tourist arrivals from Israel and the Gulf countries—and inflation peaking in mid-2026 due to higher energy prices. The authorities identified a more

protracted conflict, leading to persistently elevated energy prices and weaker tourism inflows from the Middle East, as the main downside risk to the external position and reserve management strategy. At the same time, they noted potential upside risks to growth and the current account from the diversion of tourism and financial flows from the Gulf region toward Georgia as a safe destination, as well as from increased transit trade along the Middle Corridor.

## POLICY DISCUSSIONS

*Amid a volatile external environment, policies should focus on preserving macro-financial stability and hard-won credibility, while accelerating structural reforms to sustain strong growth and create more jobs. Priorities include: i) data-driven monetary policy to manage inflation, combined with exchange rate flexibility, improved reserve coverage, and strengthened NBG governance; ii) preserving fiscal space to support spending priorities and managing risks, including from SOEs; iii) keeping the financial sector resilient; and iv) addressing labor market, infrastructure, and governance weaknesses.*

### A. Managing Inflation, Building Reserves, and Strengthening Governance

**13. Monetary policy should remain focused on bringing inflation sustainably back to target.** The policy rate hike in May was appropriate and the NBG should stand ready to tighten further if price pressures prove persistent or inflation expectations show signs of becoming de-anchored. This could arise from second-round effects from higher food and energy prices, broader supply disruptions, or a global risk-off episode. Policy easing should be considered only once inflation is clearly converging to target. Macprudential policy should also remain aligned with disinflation objectives. Concerns about anti-competitive practices should be addressed by the Georgian Competition and Consumer Agency, with prices determined by market conditions rather than administrative measures.

**14. There is scope for the NBG to build further reserve buffers to enhance resilience, while safeguarding exchange rate flexibility.** Staff analysis (Box 1) suggests a target range of 145-150 percent of the ARA metric for further reserve accumulation as market conditions allow. Higher reserves would strengthen market confidence and insure against external financing shocks amid high dollarization, while preserving the option to deploy FX interventions (FXI) when warranted. At the same time, the exchange rate should continue to play a shock-absorbing role, with interventions limited to smoothing excessive volatility driven by sentiment shocks.

#### Box 1. The Optimal Level of Gross International Reserves for Georgia 1/

Emerging markets accumulate international reserves as self-insurance against external shocks, including sudden stops or reversals of capital flows. Building on [Jeanne and Rancière \(2011\)](#), staff assessed Georgia's optimal reserve level using a cost-benefit framework that weighs the opportunity cost of holding reserves in normal times against their consumption smoothing benefits during crises. The baseline model, calibrated to Georgia and assuming a 10 percent crisis probability, yields an optimal reserve level of about 130 percent of the ARA metric.

### Box 1. The Optimal Level of Gross International Reserves for Georgia (Concluded)

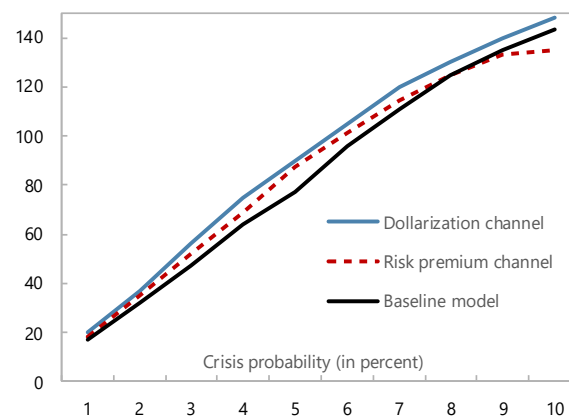
Several additional channels are considered for Georgia. First, higher reserves can lower sovereign risk premia by improving market perceptions of liquidity and rollover risks during crises, partially offsetting their cost. Empirical estimates suggest that a 10-percentage point increase in reserves-to-GDP can lower emerging market borrowing costs by 30-70 basis points. For Georgia, this channel modestly raises optimal reserves by about 5 percent of ARA at lower crisis probabilities, but the effect diminishes as borrowing-cost benefits exhibit decreasing returns.

Second, public reserves and private FX holdings act as substitutes: higher reserves reduce incentives for households and firms to self-insure in FX, lowering dollarization and associated balance sheet vulnerabilities. This mechanism both mitigates consumption losses during crises and reduces the opportunity cost of holding reserves. For Georgia, this channel materially increases optimal reserves, adding about 18 percent of ARA at a 10 percent crisis probability.

Third, reserve needs may also arise due to FXI aimed at smoothing excessive exchange rate volatility. In Georgia, a relatively shallow FX market and sensitivity to shifts in market sentiment can justify FXI even outside sudden stop episodes.<sup>2</sup> Based on Georgia's observed FXI patterns, this channel adds another 10 percent of ARA to its optimal reserve level.

Taken together, these extensions imply an optimal reserve range of about 145-150 percent of ARA at a 10 percent crisis probability, significantly above the baseline estimate. Georgia's current reserve coverage (about 102 percent of ARA) is adequate under moderate risk scenarios but below the level suggested in high-risk scenarios.

**Optimal Level of Gross International Reserves**  
(In percent of ARA)



Sources: National authorities and IMF staff estimates.

1/ See the Selected Issues Paper of the same title accompanying this report for more details.

2/ See the 2025 Selected Issues Paper on "FXI in Georgia: An Application of the IPF".

**15. Advancing NBG governance reform remains essential to reinforcing institutional credibility.** Most recommendations from the IMF's 2022 Safeguards Assessment have been implemented, including the recent elimination of the possibility of discretionary transfers to the government. IMF TA has taken stock of NBG governance recently. Welcome steps have been taken in line with recommendations, including reallocating responsibilities among executive members and strengthening the governor succession framework. Important reforms remain to further align governance arrangements with international good practices. Adopting a collegial decision-making model would enhance decisions through collective deliberation. Strengthening the independent oversight role of the board is also a key priority, including by (i) ensuring a non-executive majority by increasing the number of non-executive members, raising quorum requirements, and assigning the tie-breaking vote to a non-executive; (ii) enhancing board member qualification criteria; and (iii) prohibiting movements between executive and non-executive roles during a member's tenure.

**Authorities' Views**

**16. The authorities broadly concurred with staff's recommendations, while noting that some governance reforms would be implemented gradually.** They emphasized the NBG's readiness to further tighten the policy stance if warranted and reaffirmed their commitment to exchange rate flexibility. They maintained that higher and more diversified reserves are appropriate for strengthening Georgia's resilience to external shocks. Regarding NBG governance, the authorities intend to advance reforms related to collegial decision-making and board member qualification requirements in the near term, while considering additional measures to strengthen board oversight at a later stage. They noted that the board has a non-executive majority when fully staffed and that flexibility in moving between executive and non-executive roles has functioned effectively in Georgia's context.

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

**17. The 2026 budget deficit target of 2.5 percent of GDP is appropriate and achievable.** Staff project modest overperformance, given the authorities' conservative growth and tax revenue assumptions and larger-than-expected dividends from the NBG. Capital spending is expected to rebound as procurement backlogs clear, supported by new investments in large transport projects, education infrastructure, and rail modernization, although execution risks remain. As a result, the fiscal stance is expected to loosen modestly, with the cyclically adjusted primary balance weakening by 0.8 percent of GDP. If the Middle East conflict significantly affects activity and purchasing power, temporary and well-targeted support could be provided to the most vulnerable within the budget envelope, while avoiding broad-based subsidies or tax cuts.

**18. The medium-term fiscal framework with a broadly neutral fiscal stance remains appropriate.** Planned deficits of 2.3–2.5 percent of GDP in the coming years would keep debt stable and well below the fiscal rule ceiling (Annex III, and 2024 AIV SR Annex V). The Namakhvani hydropower plant arbitration is expected to generate fiscal costs of up to 1 percent of GDP once the legal proceedings are finalized, with the payout spread over time. The authorities are considering increasing local currency issuance and attracting non-resident investors to the domestic debt market, which over time would reduce the FX share of debt below the current target of 65 percent. While this would mitigate currency mismatch risks and smooth debt service during periods of exchange rate volatility, the transition should be managed carefully to avoid crowding out private credit and limit risks from higher borrowing costs and sovereign-bank exposures.

**19. Additional revenue and spending reforms could create room for policy priorities.** Key recommendations from the 2025 consultation remain relevant, including streamlining tax expenditures, improving mining taxation, strengthening tax administration and the medium-term revenue strategy, and enhancing spending efficiency.

- *Tax policy.* Increases in tobacco excises are appropriate; however, the differentiated excise rates introduced in 2026 to support domestic producers and curb smuggling risk functioning as quasi-customs duties and should be assessed for consistency with WTO rules. Excises on cars

older than six years were also raised to curb carbon emissions and are expected to be revenue neutral. Staff noted that a broader review of the vehicle taxation framework could be warranted, including consideration of feebate schemes to better target environmental objectives.<sup>2</sup>

- *Tax administration.* Staff welcome plans for a repeat TADAT assessment to evaluate progress and guide future reforms. Ongoing efforts by the Georgia Revenue Service to reorganize and digitalize operations, including the introduction of pre-filled tax returns, are expected to further improve efficiency.
- *Expenditure policy.* Staff continue to advocate education and health spending reviews, alongside stronger active labor market policies to address high youth unemployment and skill mismatches, including through enhanced public employment services. A new methodology to improve the targeting of social assistance, developed with World Bank support, is expected to be launched in the last quarter of 2026.

**20. Building on recent progress, advancing SOE governance reform remains essential to improve performance and contain fiscal risks.** In line with recent TA recommendations, the authorities should develop a clear reform strategy and advance supportive legislative changes aimed at (i) expanding Ministry of Finance (MOF) financial oversight and reinforcing risk-based monitoring; (ii) identifying, managing, and reporting quasi-fiscal activities; and (iii) strengthening ownership and governance arrangements. The latter includes clearer separation of the state's ownership, policy, and regulatory roles, more independent and merit-based board appointments, stronger performance management through Statements of Corporate Intent, and more transparent remuneration and accountability frameworks. Relatedly, the recently established Economic Development Corporation of Georgia within the general government, consolidating Enterprise Georgia and the Georgian Development Fund, should focus on addressing market failures in business access to finance, while avoiding crowding out commercial banks and creating fiscal risks.

### **Authorities' Views**

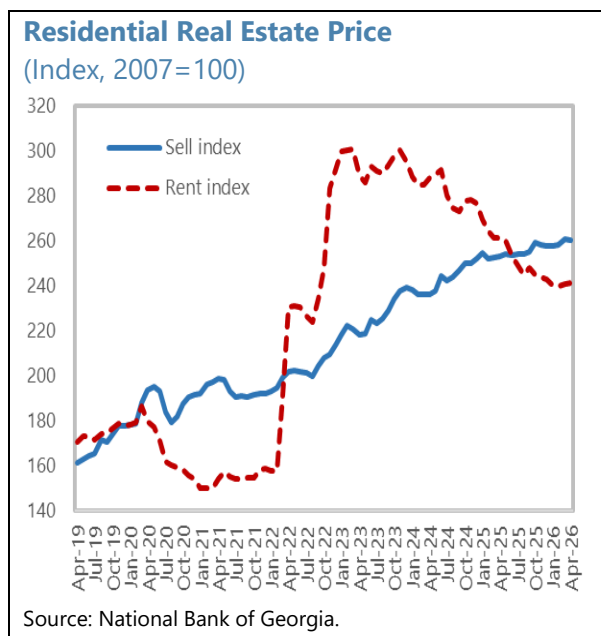
**21. The authorities reaffirmed their commitment to prudent fiscal policy and broadly agreed with staff's recommendations.** They stressed that conservative budgeting provides a buffer against potential downside risks, including from the Middle East war. While risks to capital spending execution remain, they were confident that recent reforms, including in procurement practices, would strengthen implementation. They indicated that any support related to the war would be targeted, temporary, and within the existing budget envelope. On SOEs, the authorities agreed with TA recommendations and are updating their 2026-27 action plan accordingly, including expanding MOF oversight to all corporations with annual turnover exceeding GEL 10 million and major general government SOEs. SOE law reform will follow at a later stage, with the action plans updated annually and fully implemented over the medium term. Potential risks from the new development corporation are contained by MOF oversight over SOEs, including veto powers over key decisions.

<sup>2</sup> See for example ["Fiscal Policies for Paris Climate Strategies-from Principle to Practice"](#), IMF, 2019.

## C. Keeping the Financial Sector Resilient

### 22. The financial sector remains healthy, but continued vigilance is essential to monitor and mitigate evolving risks.

- Dollarization.** Sound macroeconomic management and macroprudential policies have supported further de-dollarization (2024 AIV SR Annex VII), although about 80 percent of FX bank loans remain unhedged. In May, the NBG raised the FX lending eligibility threshold for unhedged borrowers from GEL 750,000 to GEL 1 million to further limit exposures of households and small firms, while also easing reserve requirements on FX liabilities.<sup>3</sup> Staff assess that explicit ceilings on FX lending to unhedged borrowers—including larger firms—would be more effective. Sustained de-dollarization will ultimately depend on continued sound macroeconomic and financial policies that strengthen confidence in the economy and the local currency.
- Non-bank financing.** Bank lending to real estate developers has stabilized, but FX bond issuance and quasi-mortgage lending by developers have expanded rapidly, although real estate prices have been stable. To redirect activity toward regulated bank credit, the NBG has temporarily lowered developer equity requirements for business loan and household mortgage eligibility. Given banks' internal exposure limits to developers, this is expected to mainly facilitate mortgage lending. Staff cautioned that looser mortgage standards could pose financial stability risks, especially in the event of a sharp house-price correction, and instead recommended expanding NBG oversight to developers to close regulatory gaps, if their activities qualify as financial intermediation.
- Consumer and variable-rate lending.** Consumer credit growth eased in early 2026 but remains elevated at around 21 percent y/y, driven largely by unsecured loans. While this raises concerns about debt service burdens, household leverage remains moderate and stable at around 40 percent of GDP. Variable-rate lending has also expanded rapidly (25 percent y/y), raising its share to over half of total loans and around 60 percent of mortgage and corporate lending. While risks are not systemic, they could create vulnerabilities in the non-financial sector and



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

warrant continued close monitoring, stress testing of borrowers' affordability at higher rates, and, if needed, tighter borrower-based macroprudential measures.

- *Virtual assets.* While crypto accounts held by Georgian virtual asset service providers (VASPs) remain small (GEL 111 million in 2025Q4), their rapid growth since 2023 warrants continued monitoring. The NBG has completed registering VASPs with IMF TA support and continued work to develop an effective regulatory and supervisory framework will be important.

**23. The authorities should continue efforts to fully operationalize the bank resolution framework.** Banks began contributing to the *ex-ante* resolution fund in 2025, which is expected to reach 3 percent of insured deposits by 2033, with interim contingent financing of around 1 percent provided by the World Bank. Further strengthening the crisis management framework requires securing an MOF backstop for the still-underfunded deposit insurance fund, in line with the 2021 Financial Sector Assessment Program (FSAP) recommendations.<sup>4</sup> The Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for domestic systemically important banks was raised to 15 percent of total loss-absorbing capacity at end-2025 and will increase to 20 percent by end-2027. Contractual bail-in clauses have been introduced for all MREL-eligible instruments, but creditor immunity issues for International Financial Institutions (IFIs) remain unresolved.

**24. Developing a consolidated supervision framework is an important priority.** Recent IMF TA highlighted evolving financial stability risks from large banks' expansion into non-bank activities and across borders and recommended that the NBG extend prudential and governance requirements from solo banks to banking groups on a consolidated basis, in line with Basel standards. Where group structures or foreign ownership limit effective oversight, the NBG should require intermediate holding companies in Georgia to capture group-wide risks. Strengthening risk-based supervision and cross-border cooperation will also be essential to manage emerging risks from non-bank and international expansion.

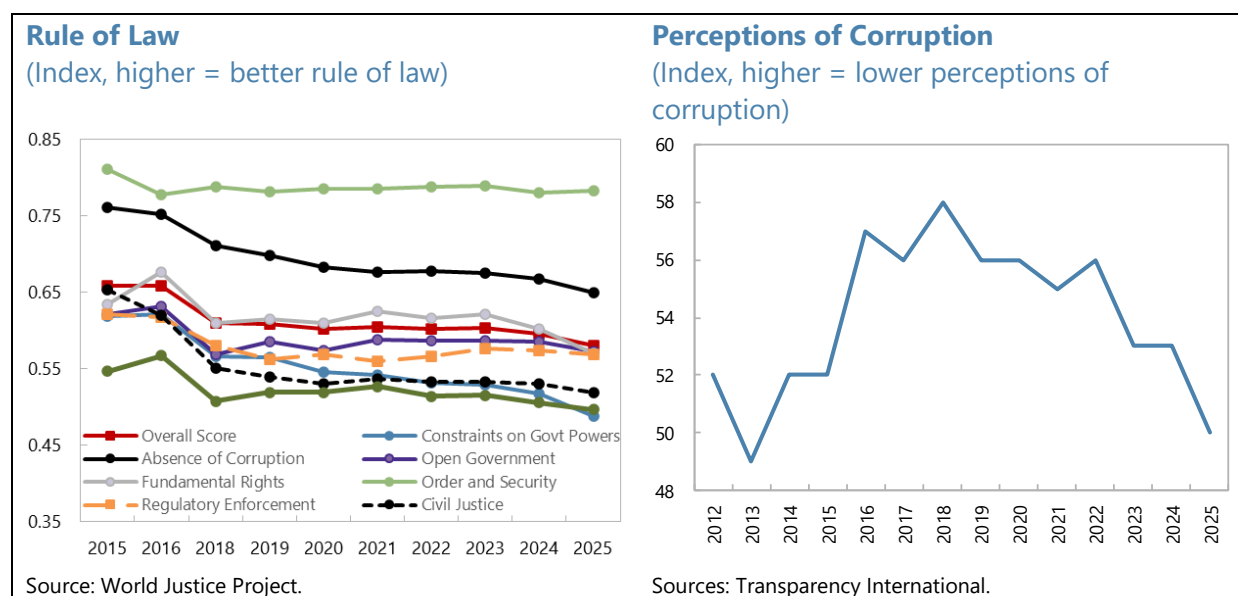
### **Authorities' Views**

**25. The authorities remain committed to reinforcing the financial sector policy framework.** They agreed on the need to continue monitoring the risks identified by staff and deploy additional mitigation measures as warranted. They noted operational challenges with some proposed measures, including explicit ceilings on FX lending to unhedged borrowers, and requested further Fund advice, including on the potential role of mixed-currency lending. They also emphasized that developers are not classified as financial intermediaries and that installment schemes do not technically qualify as loans, limiting the NBG's regulatory authority. On resolution, securing a backstop for the deposit insurance fund remains an outstanding step, with the MOF noting that banks may need to bear the cost. They added that IFI-related creditor-immunity issues under the MREL framework will be difficult to resolve given the lack of precedents. On consolidated supervision, the NBG noted that it is reviewing Fund TA recommendations to guide next steps.

<sup>4</sup> Implementation of the FSAP 2021 recommendations is nearly complete (2025 AIV SR Annex V).

## D. Fostering Job-Rich Growth

**26. Sustaining strong growth and expanding job creation will require addressing longstanding labor-market challenges.** Unemployment remains structurally high, particularly among youth (Figure 1), reflecting persistent skill mismatches and weak work incentives amid low wages (Box 2), and limited availability of productive jobs. These factors often push high-skilled workers into lower-skill positions and low-skilled workers into informality<sup>5</sup> or emigration<sup>6</sup>. Addressing these challenges will require coordinated efforts to: (i) strengthen vocational education, employer-led training, and public employment services to better align skills with labor market needs; (ii) better link social assistance benefits with work incentives through job search and training requirements; (iii) support the development of high-productivity sectors such as ICT and renewable energy that generate well-paid jobs; (iv) expand childcare, eldercare, and flexible work arrangements, particularly for women; (v) encourage the use of remittances and social transfers for productive purposes, including education; and (vi) promote return migration while selectively attracting foreign talent in sectors facing skill shortages. The authorities' education and labor market reforms, alongside new initiatives to support businesses in key sectors, aim to address some of these challenges. Maintaining close engagement with development partners is essential to ensuring well-designed reforms.



**27. Accelerating infrastructure investments and strengthening governance will be critical to improving competitiveness and the business environment.** Despite increased activity along the Middle Corridor, high costs continue to constrain the route's potential. Sustained investment in transport infrastructure and improvement in border procedures and logistics efficiency will be

<sup>5</sup> See the 2025 Selected Issues Paper "Informality in the Georgian Economy".

<sup>6</sup> See the 2025 Selected Issues Paper "Impact of Emigration on the Georgian Labor Market".

essential to lowering costs. Advancing power sector reforms under a comprehensive long-term strategy can support energy security and cross-border flows. Closer regional coordination will be critical to unlocking these gains and reinforcing Georgia's role as a regional trade and energy hub. On governance, worsening rule of law indicators and rising corruption perceptions underscore the need to strengthen the independence, capacity, and effectiveness of anti-corruption and judicial institutions. Advancing these reforms, alongside maintaining a predictable and market-friendly policy environment, will be key to sustaining business confidence and investment. Timely stakeholder consultation and rigorous cost-benefit analysis of policy changes would enhance predictability and support reform implementation.

### **Authorities' Views**

**28. The authorities concurred with the growth constraints identified by staff and are advancing targeted policy initiatives to address them.** On unemployment, they agreed that skill mismatches are a key driver and are prioritizing education and labor-market reforms, including better alignment of higher education with labor-market needs, expansion of vocational education and training, and strengthening the State Employment Promotion Agency's role in supporting job search and matching. They also noted plans to support local jobs via permit requirements for selected categories of foreign workers. On infrastructure, the authorities reiterated their commitment to strengthening connectivity through road and railway modernization, supported by development partners, and improving regional cooperation. On governance, they noted that the relocation of the anti-corruption agency under the Supreme Audit Office (SAO) would enhance its independence leveraging the SAO's constitutional protections and operational autonomy.

#### **Box 2. Labor Market Implications of Skills Mismatches and Non-Labor Income in Georgia<sup>1</sup>**

Georgia faces persistent labor market challenges, notably high youth unemployment and inactivity alongside growing reports of skill shortages by firms. Meanwhile, wages remain low relative to peers, while remittances and social benefits provide important income support to households (Figure 1). In this context, staff assessed how these factors affect job creation.

*Skill mismatches are large and persistent.* Labor force survey data point to widespread over-education alongside skill shortages. Using education, profession, and occupation as proxies for skills taught, possessed, and required, the analysis finds that (i) in 2024, 27 percent of prime-age workers and 36 percent of youth were overeducated for their jobs, with 40 percent of tertiary educated workers employed in mid-to-low-skilled roles; (ii) undereducation is concentrated in higher-skill-sectors and occupations, including ICT, finance, and managerial and professional roles; and (iii) field-of-study mismatch is also sizeable, with only about a third of prime-age workers employed in occupations aligned with their training. These patterns reflect a structural imbalance between general and tertiary education relative to job-relevant and technical skills, compounded by weak links between education/training and labor market demand, and limited absorption capacity in high-productivity sectors amid slow structural transformation.<sup>2</sup>

*Non-labor income weakens labor supply.* Low wages combined with sizable remittances and social transfers are estimated to reduce work incentives, particularly for women. While remittances amount to about 12 percent of GDP at the macro level (2024), only 6 percent of surveyed households report receiving them, compared with 34 percent receiving government transfers excluding pensions. For recipient households, both

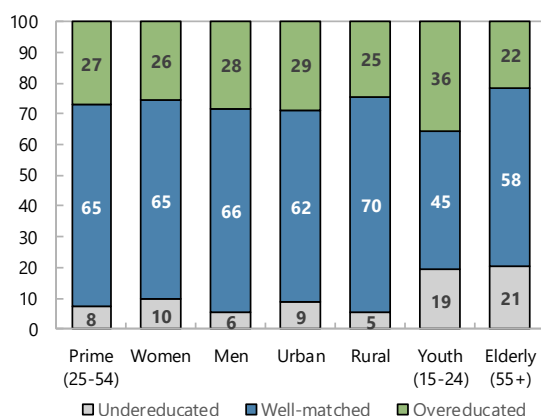
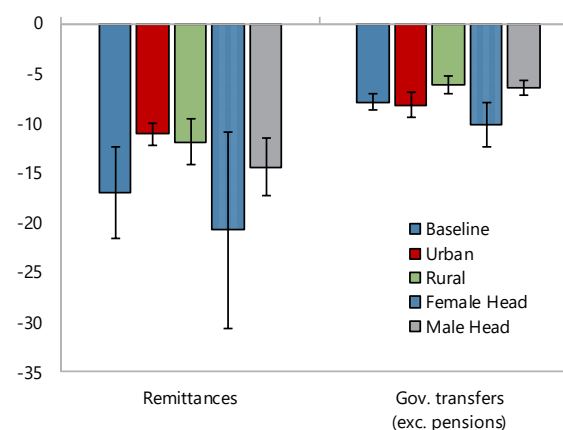
**Box 2. Labor Market Implications of Skills Mismatches and Non-Labor Income (Concluded)**

income sources are substantial and often exceed labor earnings, with magnitudes large enough to reshape the income distribution. Although primarily benefiting poorer households, a notable share accrues to higher income groups. Staff analysis—which addresses selection bias and reverse causality—finds that remittances and government transfers reduce household employment rates by roughly 17 and 8 percentage points, respectively. Effects are larger for female-headed households and concentrated among hired employment and secondary jobs, with self-employment largely unaffected. At the aggregate level, these effects translate into a reduction in employment of about 1 percentage point due to remittances and about 1¼ percentage points due to government transfers.

The findings point to two complementary priorities to support job creation: (i) reducing skill mismatches by improving the job relevance of education and training; and (ii) strengthening work incentives, while preserving adequate social protection.

**Education Mismatch by Sex, Region, and Age, 2024**

(In percent)

**Effects of Non-labor Income on Household Employment, 2017-24 (In percentage points)**

Sources: Georgian Labor Force and Household Income and Expenditure Surveys and IMF staff calculations.

Note: Over (Under)-education is defined as education more than one standard deviation above (below) the modal level for each occupation. Right panel shows average treatment effects using the Augmented Inverse Probability Weighting estimator.

<sup>1/</sup> See the Selected Issues Paper of the same title accompanying this report for more details.

<sup>2/</sup> See the 2024 Selected Issues Paper "Medium-Term Growth Prospects and Policies".

## STAFF APPRAISAL

**29. Despite global headwinds, Georgia's economy remains resilient, supported by sound macroeconomic policies.** Real GDP expanded by 7.5 percent in 2025, persistently above its pre-pandemic trend. Economic activity remained firm in early 2026, with the impact from the Middle East war largely confined to tourism. After two years of undershooting, headline inflation rose above the NBG's 3 percent target in 2025 amid higher imported food prices, and reached 5.9 percent in April 2026, reflecting higher energy costs, with a modest overshoot in core inflation. Fiscal and external buffers have strengthened, with reserves reaching the IMF's adequacy threshold and public

debt declining below 35 percent of GDP, while the financial sector remains sound. Despite recent improvements, however, structural challenges persist, notably high youth unemployment and significant income inequality.

**30. Growth is expected to moderate as external tailwinds fade.** It is expected to slow to 6.5 percent in 2026, gradually converging to its medium-term potential of 5 percent by 2028. Inflation is expected to peak in mid-2026, driven by higher energy costs, and return to target by mid-2027 as the output gap narrows. The external position in 2025 was stronger than implied by medium-term fundamentals and desirable policy settings, with the current account deficit expected to widen to 5 percent of GDP in 2026—reflecting higher oil prices and lower tourism receipts—and remain around this level over the medium term. Gross international reserves are expected to continue rising over the medium term, supported by a gradual pickup in FDI.

**31. Risks to the outlook are broadly balanced amid elevated uncertainty.** An escalation of the Middle East war could further reduce tourism from affected countries, raise inflation, and tighten financial conditions. Conversely, a more protracted conflict could divert financial and tourism flows from the Gulf region toward Georgia and increase transit along the Middle Corridor. An end to the war in Ukraine could unwind some of the recent gains but would also support broader regional stability and confidence. Similarly, a peace agreement between Azerbaijan and Armenia could lead to alternative trade routes that bypass Georgia, while also boosting regional activity. While dimmer EU accession prospects could weigh on some FDI inflows, investment from other sources—including a planned large-scale investment from the UAE—presents an upside risk.

**32. The NBG should closely monitor the inflationary impact of ongoing supply shocks while continuing to accumulate reserves as conditions allow.** The NBG has appropriately raised the policy rate in May and signaled readiness to further tighten if price pressures persist or inflation expectations risk becoming de-anchored. Easing should be considered only once inflation is clearly converging to target. Exchange rate flexibility should be preserved, alongside opportunistic reserve accumulation to strengthen market confidence and reinforce external buffers given Georgia's high dollarization.

**33. Advancing NBG governance reforms remains essential to strengthen institutional credibility.** Most recommendations from the 2022 Safeguards Assessment have been implemented, with further progress supported by recent IMF TA. This includes the reallocation of responsibilities among executive board members and strengthening the governor succession framework, alongside plans to adopt a collegial decision-making model and strengthen board member qualification requirements. Further enhancements to board oversight would help align the framework more closely with international best practices.

**34. Planned medium-term fiscal deficits below 2.5 percent of GDP remain appropriate, consistent with maintaining public debt at prudent levels.** The projected modest loosening in 2026 reflects a rebound in capital spending following last year's under-execution, with timely project implementation remaining important. If the conflict materially weakens activity or purchasing power, temporary, well-targeted support to the most vulnerable could be provided within the budget, while

avoiding broad-based subsidies or tax cuts. Over the medium term, streamlining tax expenditures, strengthening mining taxation, further improving tax administration, and enhancing spending efficiency will be key to creating fiscal space for priorities.

**35. Advancing SOE governance reforms remains critical to improve performance and mitigate fiscal risks.** The authorities' plan to update their action plan in line with recent IMF TA is welcome, with an emphasis on expanding the MOF financial oversight over major SOEs and improving the identification and management of quasi-fiscal activities. The next step should be to strengthen corporate governance—including clearer ownership arrangements and more independent and merit-based boards—to deliver durable improvements in SOE performance.

**36. The banking system remains well capitalized, liquid, and profitable, though continued vigilance is needed as risks evolve.** Potential risks from rapid credit growth—including in consumer, variable-rate, and developer lending—warrant close monitoring. Efforts to further reduce unhedged FX exposures and address emerging risks from non-bank financial activities should continue. Completing the bank resolution and crisis management framework and advancing consolidated supervision in line with recent IMF TA remain essential. While digital asset exposures remain limited, their rapid growth points to potential risks, warranting continued strengthening of the regulatory and supervisory framework for VASPs.

**37. Sustaining strong growth and expanding job creation will require addressing long-standing structural constraints.** Unemployment remains high, particularly among youth, reflecting skill mismatches, weak work incentives, and limited availability of productive jobs. Staff encourage continued reforms to strengthen vocational education and training, improve public employment services, better align social assistance with work incentives, and support high-productivity sectors. Improving competitiveness will also require continued investment in transport, logistics, and trade facilitation, alongside advancing power sector reforms to strengthen energy security and cross-border flows, supported by deeper regional cooperation. Strengthening anti-corruption and judicial institutions, maintaining a predictable policy environment, and ensuring timely stakeholder consultation will be key to sustaining business confidence and effective reform implementation.

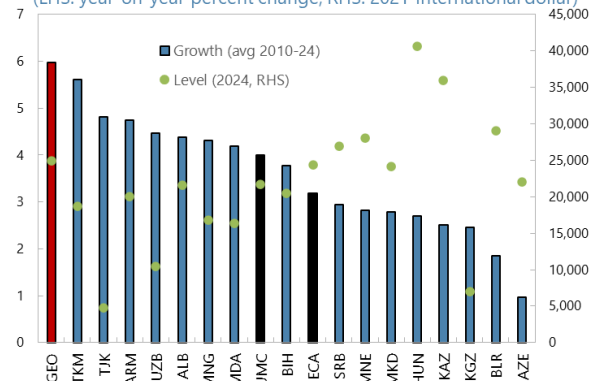
**38. Staff recommend that the next Article IV consultation take place on the standard 12-month cycle.**

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

Growth has outpaced peers since 2010, lifting real GDP per capita (PPP) above most comparators...

#### Real GDP per Capita PPP, 2010-24

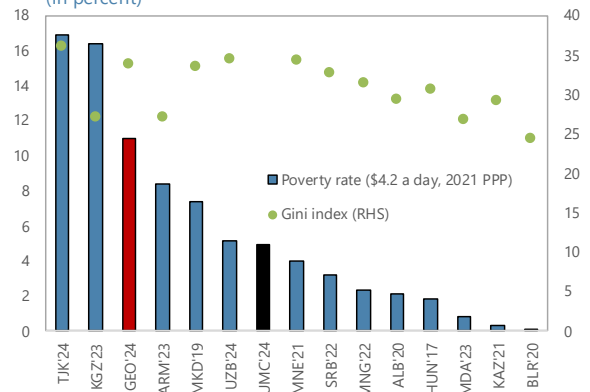
(LHS: year-on-year percent change; RHS: 2021 international dollar)



Yet, both poverty and inequality remain higher than in most peers...

#### Poverty and Inequality Latest

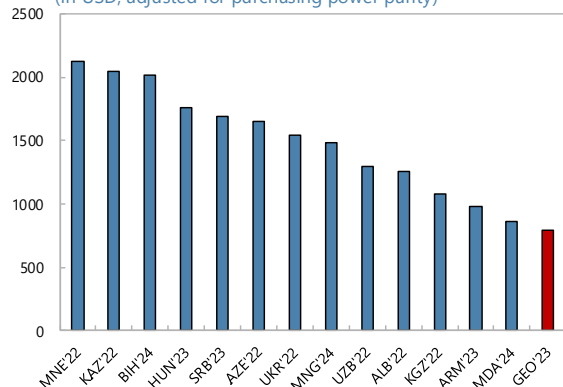
(In percent)



Wages lag behind peers, weakening incentives to search for or accept jobs...

#### Average Monthly Employee Earnings, Latest

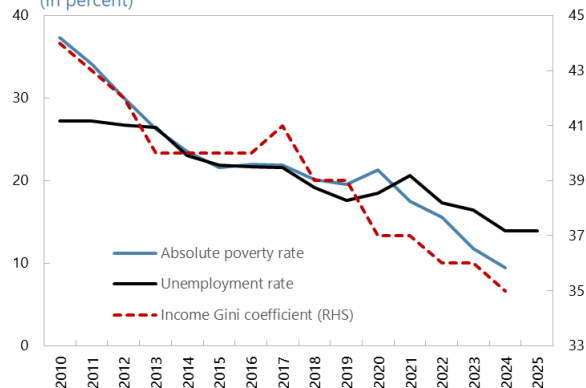
(In USD, adjusted for purchasing power parity)



...and reducing poverty, inequality, and unemployment to historic lows.

#### Social Indicators

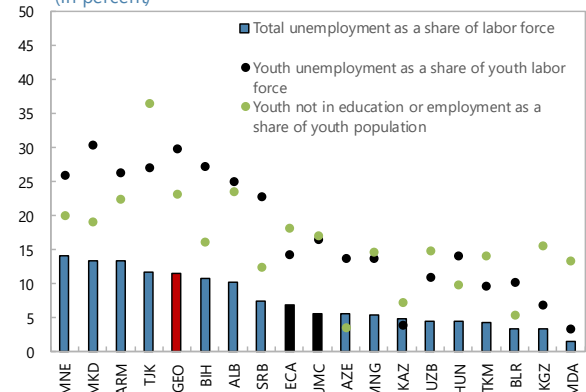
(In percent)



... along with unemployment, especially among youth, with a higher share neither in education nor in employment.

#### Unemployment and Inactivity, 2024

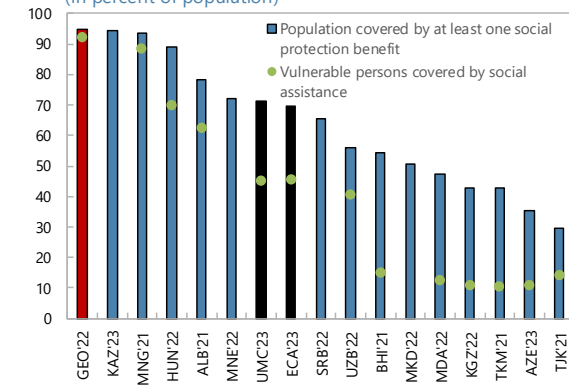
(In percent)



...while widespread social benefits provide crucial income support for households.

#### Coverage of Social Benefits, Latest

(In percent of population)



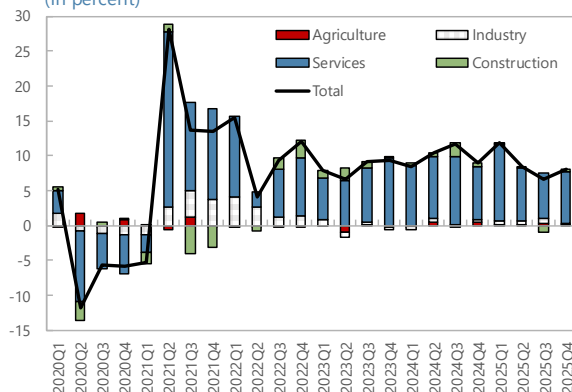
Sources: World Development Indicators, International Labor Organization, GEOSTAT, and IMF staff calculations.

Note: UMC: Upper middle-income countries; ECA: Europe and Central Asia (excluding high income) countries.

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

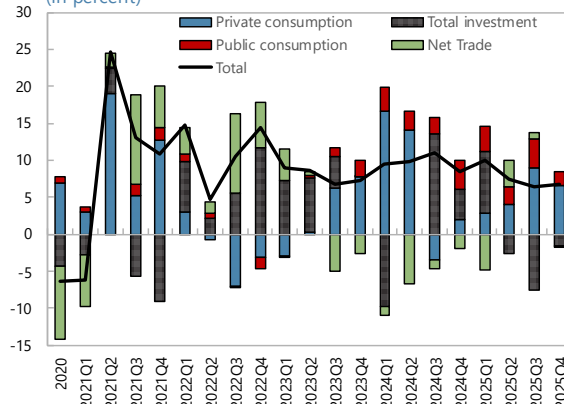
Growth remained strong in 2025, driven largely by ICT, education, and transport services...

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



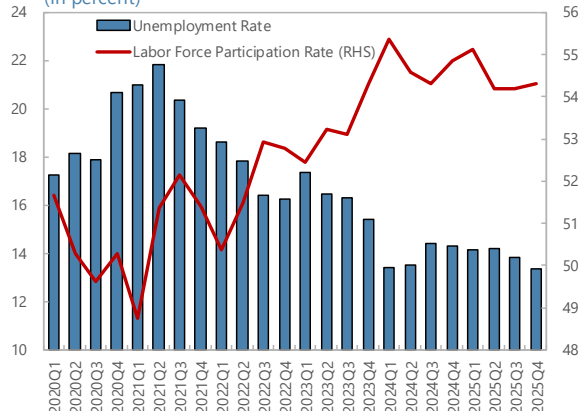
...and an increasing contribution from consumption.

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



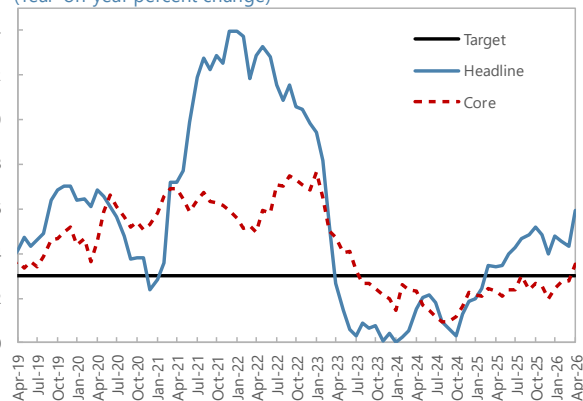
Unemployment remains at historic lows (though higher than in peers), while labor force participation has edged down.

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



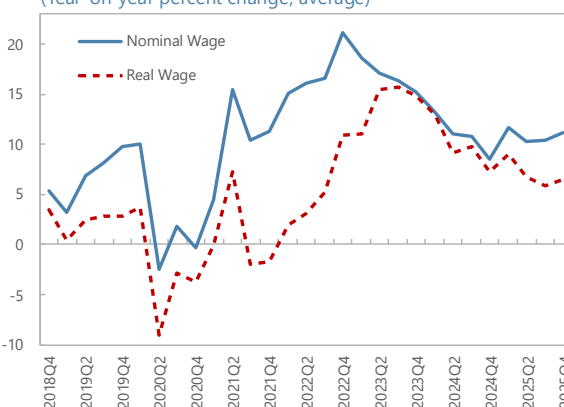
Headline inflation has risen above target, with a modest overshoot in core inflation.

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



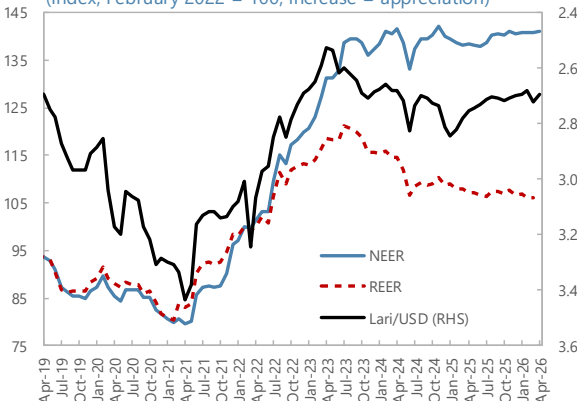
Real wage growth has slowed amid easing labor demand.

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



The lari has remained broadly stable in both nominal and real effective terms.

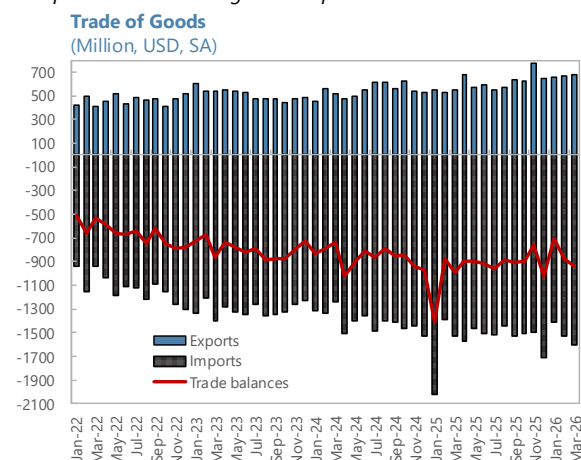
**Nominal and Real Effective Exchange Rates**  
(Index, February 2022 = 100, increase = appreciation)



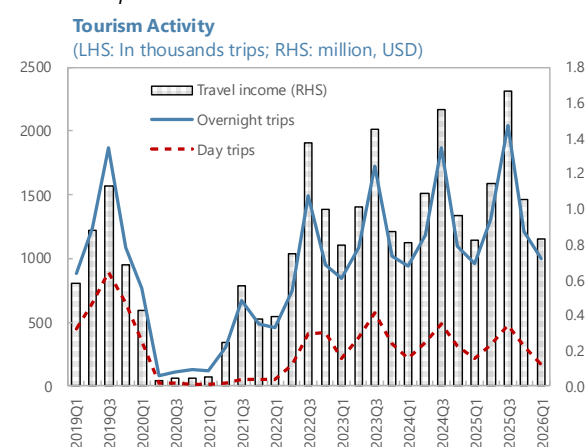
Sources: National authorities, Haver, GEOSTAT, and IMF staff calculations.

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

The goods trade balance has fluctuated recently, reflecting shifts in imports amid volatile global oil prices.



Tourism activity has bounced back, though it remains subject to seasonal patterns...

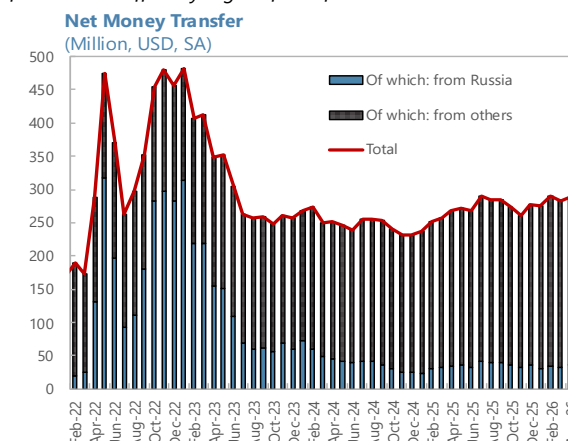


...with potential for further recovery in the number of tourists (e.g., from Azerbaijan) towards pre-pandemic levels.

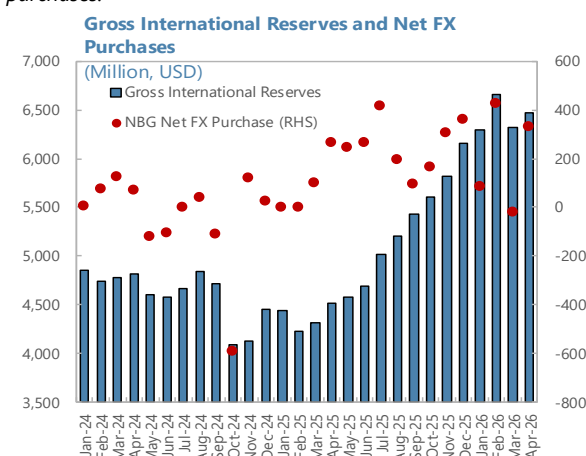


Note: International visitors trips include overnight trips and same-day trips. Data on country breakdowns of overnight trips are unavailable.

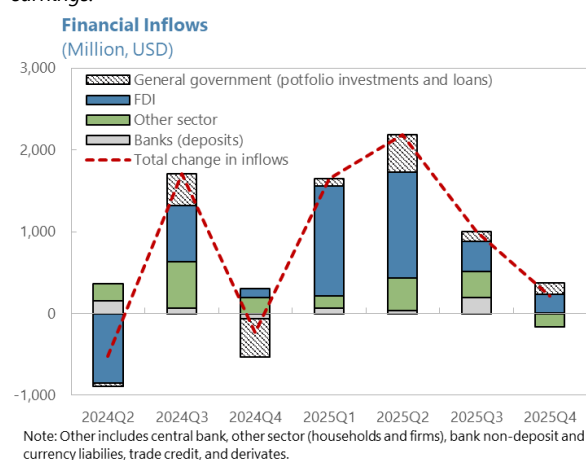
Net money transfers have largely stabilized, with lower flows from Russia offset by higher flows from other countries.



International reserves have surged, supported by strong net FX purchases.



FDI has picked up, though reflecting mostly reinvested earnings.



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

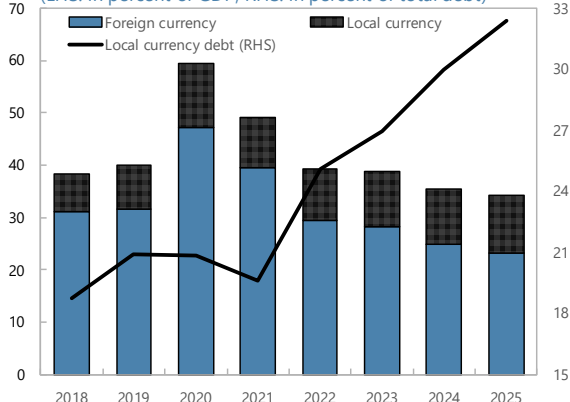
Sources: National authorities, Haver, GEOSTAT, and IMF staff calculations.

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

Public debt-to-GDP has declined, with an increasing share in domestic currency.

**Public Debt**

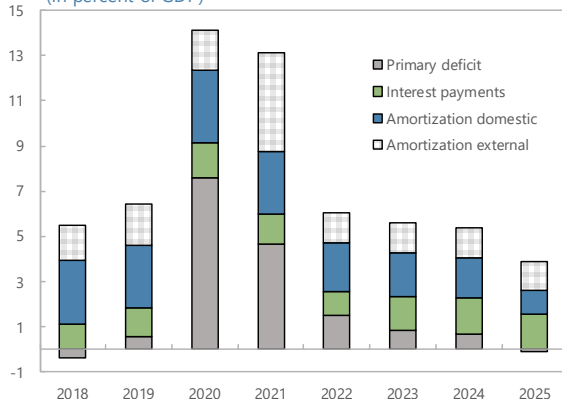
(LHS: in percent of GDP; RHS: in percent of total debt)



Financing needs have fallen, thanks to declining primary deficits.

**Gross Financing Needs**

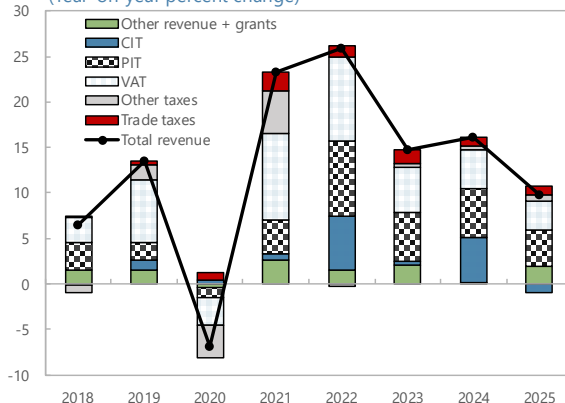
(In percent of GDP)



Tax revenue growth moderated in 2025 but remained robust...

**Total Revenue**

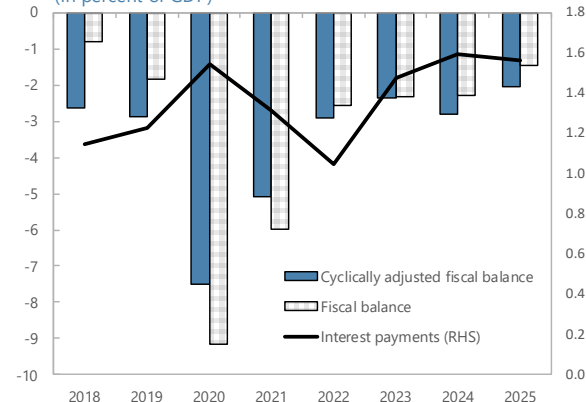
(Year-on-year percent change)



This was driven by low deficits, along with robust growth and a strong lari.

**Overall and Cyclically Adjusted Fiscal Balance**

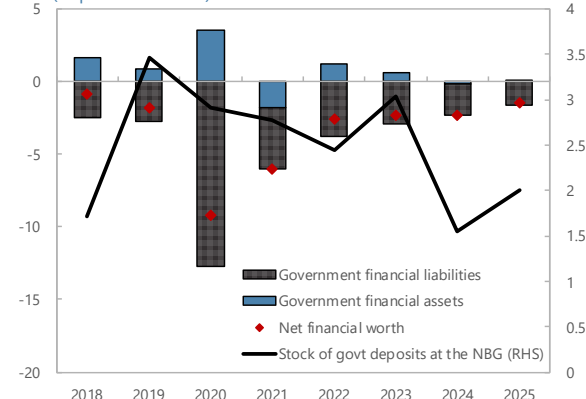
(In percent of GDP)



Net public financial worth has strengthened, despite a decline in deposits at the NBG.

**Change in Financial Position**

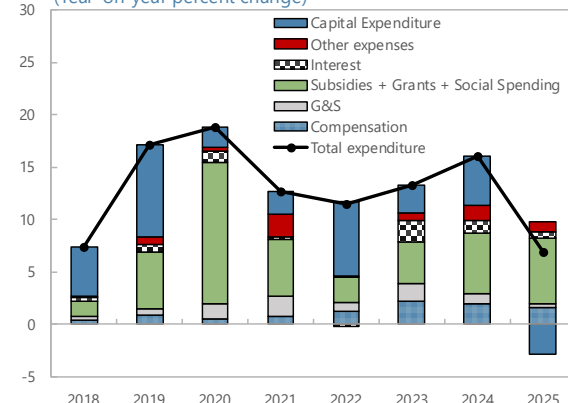
(In percent of GDP)



...while capital spending declined, partly offset by current spending on government transfers.

**Total Expenditure**

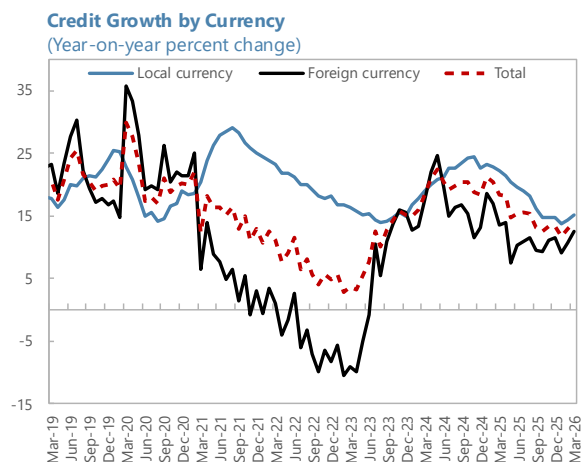
(Year-on-year percent change)



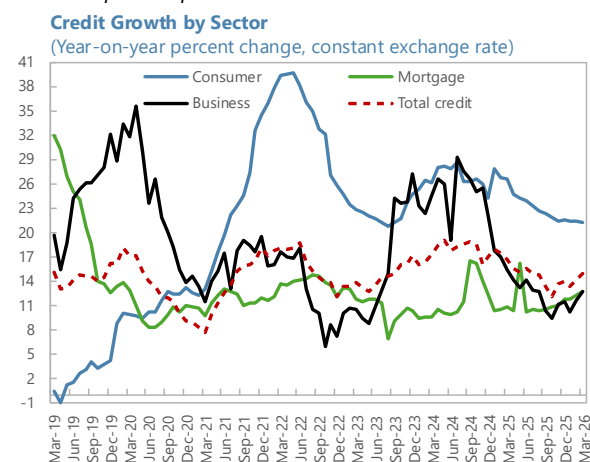
Sources: National authorities, and IMF staff estimates.

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

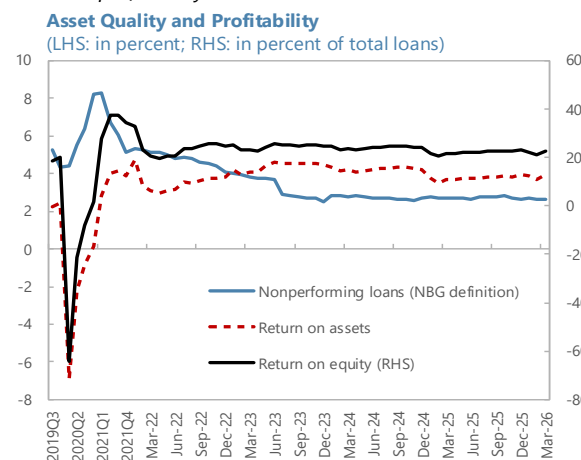
Credit growth has accelerated recently, reversing a downward trend since mid-2024.



Consumer credit has slowed, while business and mortgage credit has picked up.

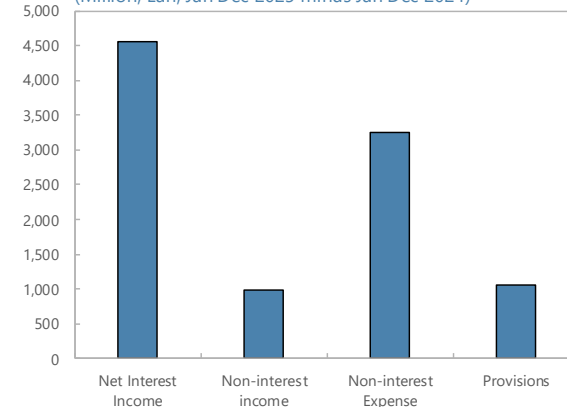


Nonperforming loans have remained below pre-pandemic levels and bank profitability has remained robust...

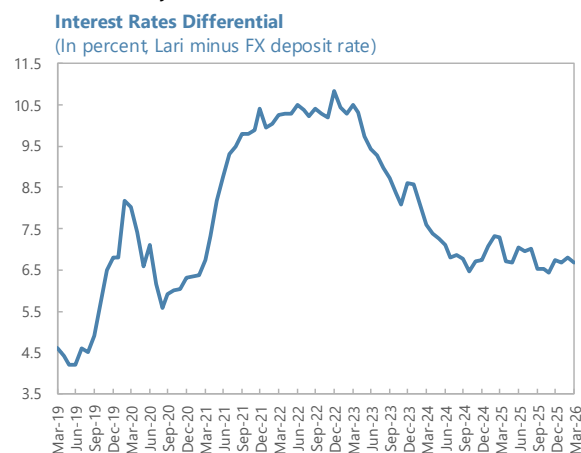


...owing to strong net interest income.

**Key Drivers of Bank Profitability**  
(Million, Lari, Jan-Dec 2025 minus Jan-Dec 2024)

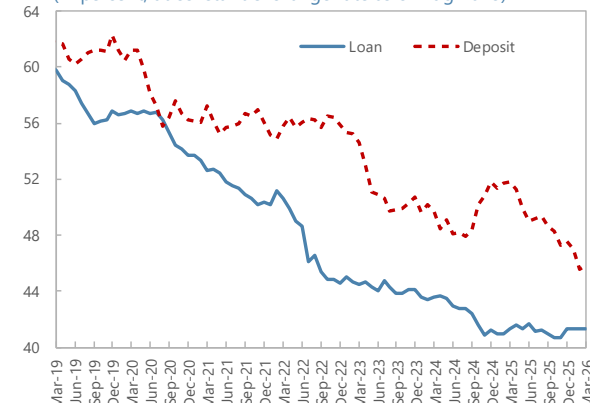


The interest rate differential between lari and FX deposits has stabilized recently...



...with deposit dollarization resuming its downward trend, while loan dollarization remaining broadly stable.

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



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

**Table 1. Georgia: Selected Economic and Financial Indicators, 2021–31**

|                                                       | 2021                                                   | 2022  | 2023  | 2024  | 2025  | 2026       | 2027  | 2028  | 2029  | 2030  | 2031  |  |
|-------------------------------------------------------|--------------------------------------------------------|-------|-------|-------|-------|------------|-------|-------|-------|-------|-------|--|
|                                                       | Actual                                                 |       |       |       |       | Projection |       |       |       |       |       |  |
| National accounts and prices                          | (annual percentage change; unless otherwise indicated) |       |       |       |       |            |       |       |       |       |       |  |
| Real GDP                                              | 10.6                                                   | 11.0  | 7.8   | 9.7   | 7.5   | 6.5        | 5.7   | 5.0   | 5.0   | 5.0   | 5.0   |  |
| Output Gap                                            | -3.1                                                   | 0.0   | 0.5   | 1.2   | 1.1   | 1.1        | 0.7   | 0.0   | 0.0   | 0.0   | 0.0   |  |
| Nominal GDP (in billion of laris)                     | 60.7                                                   | 72.9  | 80.9  | 93.0  | 104.6 | 116.9      | 128.5 | 139.8 | 151.8 | 165.0 | 179.3 |  |
| Nominal GDP (in billion of U.S. dollars)              | 18.8                                                   | 25.0  | 30.8  | 34.2  | 38.1  | 43.5       | 48.1  | 52.6  | 57.6  | 63.2  | 69.2  |  |
| GDP per capita (in thousand of U.S. dollars)          | 5.1                                                    | 6.8   | 8.2   | 8.7   | 9.7   | 11.1       | 12.3  | 13.4  | 14.7  | 16.1  | 17.7  |  |
| GDP deflator, period average                          | 10.3                                                   | 8.1   | 2.9   | 4.9   | 4.6   | 5.0        | 4.0   | 3.5   | 3.5   | 3.5   | 3.5   |  |
| CPI, Period average                                   | 9.6                                                    | 11.9  | 2.5   | 1.1   | 3.9   | 5.3        | 3.4   | 3.0   | 3.0   | 3.0   | 3.0   |  |
| CPI, End-of-period                                    | 13.9                                                   | 9.8   | 0.4   | 1.9   | 4.0   | 5.4        | 3.0   | 3.0   | 3.0   | 3.0   | 3.0   |  |
| Core CPI, End-of-period                               | 5.9                                                    | 6.9   | 2.0   | 2.3   | 2.0   | ...        | ...   | ...   | ...   | ...   | ...   |  |
| Investment and saving                                 | (in percent of GDP)                                    |       |       |       |       |            |       |       |       |       |       |  |
| Gross national saving                                 | 10.4                                                   | 19.6  | 19.5  | 19.2  | 20.0  | 18.6       | 19.0  | 18.8  | 18.9  | 18.8  | 18.9  |  |
| Investment                                            | 20.7                                                   | 24.1  | 25.0  | 24.5  | 22.6  | 23.5       | 23.5  | 23.5  | 23.7  | 23.8  | 23.9  |  |
| Public                                                | 7.6                                                    | 8.2   | 8.1   | 8.2   | 6.5   | 7.5        | 7.2   | 7.2   | 7.4   | 7.5   | 7.5   |  |
| Private                                               | 13.1                                                   | 15.9  | 16.9  | 16.3  | 16.1  | 16.1       | 16.3  | 16.3  | 16.3  | 16.3  | 16.4  |  |
| Consolidated government operations                    | (in percent of GDP)                                    |       |       |       |       |            |       |       |       |       |       |  |
| Revenue and grants                                    | 25.2                                                   | 26.5  | 27.4  | 27.6  | 27.0  | 26.6       | 26.3  | 26.2  | 26.1  | 26.0  | 26.0  |  |
| o.w. Tax revenue                                      | 22.3                                                   | 23.7  | 24.4  | 25.0  | 24.2  | 24.2       | 24.2  | 24.3  | 24.3  | 24.3  | 24.3  |  |
| Expenditures                                          | 31.2                                                   | 29.0  | 29.7  | 29.9  | 28.4  | 28.9       | 28.6  | 28.5  | 28.3  | 28.2  | 28.2  |  |
| Expense                                               | 24.3                                                   | 21.4  | 22.1  | 22.3  | 22.4  | 21.7       | 21.6  | 21.5  | 21.1  | 21.0  | 21.0  |  |
| Net acquisition of non-financial assets               | 6.9                                                    | 7.6   | 7.5   | 7.6   | 6.0   | 7.2        | 7.0   | 7.0   | 7.2   | 7.2   | 7.2   |  |
| Capital spending                                      | 7.6                                                    | 8.2   | 8.1   | 8.2   | 6.5   | 7.5        | 7.2   | 7.2   | 7.4   | 7.5   | 7.5   |  |
| Privatization proceeds                                | -0.7                                                   | -0.6  | -0.5  | -0.6  | -0.6  | -0.3       | -0.2  | -0.2  | -0.2  | -0.3  | -0.3  |  |
| Net lending / borrowing                               | -6.0                                                   | -2.6  | -2.3  | -2.3  | -1.5  | -2.3       | -2.3  | -2.3  | -2.2  | -2.2  | -2.2  |  |
| Net budget lending                                    | 0.1                                                    | 0.5   | 0.1   | 0.1   | 0.0   | 0.0        | 0.0   | 0.0   | 0.0   | 0.0   | 0.0   |  |
| Augmented Net lending / borrowing 1/                  | -6.0                                                   | -3.1  | -2.4  | -2.3  | -1.4  | -2.3       | -2.3  | -2.3  | -2.2  | -2.2  | -2.2  |  |
| General government debt 2/                            | 49.1                                                   | 39.2  | 38.7  | 35.5  | 34.3  | 33.6       | 32.8  | 32.5  | 31.9  | 31.7  | 31.7  |  |
| o.w. Foreign-currency denominated                     | 39.5                                                   | 29.4  | 28.3  | 24.9  | 23.2  | 21.0       | 19.6  | 18.1  | 16.6  | 15.0  | 13.7  |  |
| Money and credit                                      | (annual percentage change; unless otherwise indicated) |       |       |       |       |            |       |       |       |       |       |  |
| Credit to the private sector                          | 12.4                                                   | 3.4   | 17.1  | 18.4  | 13.1  | 13.8       | 10.9  | 8.7   | 8.7   | 8.7   | 8.7   |  |
| In constant exchange rate from a year ago             | 18.2                                                   | 12.1  | 17.2  | 17.0  | 14.0  | ...        | ...   | ...   | ...   | ...   | ...   |  |
| Broad money                                           | 11.4                                                   | 11.0  | 15.4  | 14.1  | 16.5  | 13.5       | 12.2  | 11.3  | 11.3  | 11.3  | 11.3  |  |
| Excluding FX deposits                                 | 17.9                                                   | 22.7  | 27.6  | 10.1  | 25.5  | ...        | ...   | ...   | ...   | ...   | ...   |  |
| Deposit dollarization (percent of total) 3/           | 59.9                                                   | 56.1  | 50.7  | 52.7  | 47.7  | 47.4       | 47.2  | 47.0  | 46.8  | 46.5  | 46.3  |  |
| Credit dollarization (percent of total)               | 50.9                                                   | 45.0  | 45.2  | 43.4  | 42.4  | 42.2       | 42.0  | 41.8  | 41.6  | 41.4  | 41.2  |  |
| Credit to the private sector (percent of GDP)         | 70.0                                                   | 60.3  | 63.6  | 65.5  | 65.9  | 67.0       | 67.7  | 67.7  | 67.7  | 67.7  | 67.7  |  |
| External sector                                       | (in percent of GDP; unless otherwise indicated)        |       |       |       |       |            |       |       |       |       |       |  |
| Current account balance (in billions of US\$)         | -1.9                                                   | -1.1  | -1.7  | -1.8  | -1.0  | -2.2       | -2.2  | -2.5  | -2.7  | -3.2  | -3.4  |  |
| Current account balance                               | -10.3                                                  | -4.4  | -5.5  | -5.3  | -2.6  | -5.0       | -4.5  | -4.7  | -4.8  | -5.0  | -5.0  |  |
| Trade balance (goods)                                 | -20.1                                                  | -20.4 | -19.7 | -19.2 | -17.9 | -19.0      | -18.7 | -18.9 | -19.0 | -19.0 | -19.1 |  |
| Terms of trade, goods (percent change)                | -2.4                                                   | 0.3   | -7.0  | -2.8  | -0.2  | -4.5       | 0.0   | -0.2  | -0.5  | -0.6  | -0.7  |  |
| Gross international reserves (in billions of US\$) 4/ | 4.3                                                    | 4.9   | 5.0   | 4.4   | 6.2   | 6.3        | 6.9   | 7.5   | 8.3   | 8.8   | 9.2   |  |
| In percent of ARA metric                              | 108.6                                                  | 102.1 | 95.2  | 79.3  | 100.0 | 100.0      | 104.9 | 108.9 | 115.4 | 117.9 | ...   |  |
| In months of next year GNFS imports                   | 3.3                                                    | 3.3   | 3.2   | 2.6   | 3.2   | 2.9        | 2.9   | 2.9   | 2.9   | 2.8   | ...   |  |
| Gross external debt                                   | 98.4                                                   | 81.1  | 69.7  | 67.1  | 58.9  | 51.7       | 47.2  | 43.0  | 38.7  | 34.5  | 30.7  |  |
| Laris per U.S. dollar (period average)                | 3.2                                                    | 2.9   | 2.6   | 2.7   | 2.7   | ...        | ...   | ...   | ...   | ...   | ...   |  |
| Laris per euro (period average)                       | 3.8                                                    | 3.1   | 2.8   | 2.9   | 3.1   | ...        | ...   | ...   | ...   | ...   | ...   |  |
| REER (period average; CPI based, Jan 2010=100)        | 99.2                                                   | 117.7 | 131.4 | 124.2 | 119.1 | ...        | ...   | ...   | ...   | ...   | ...   |  |

Sources: Georgian authorities; and Fund staff estimates.

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

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

3/ Includes nonresident deposits.

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

Table 2. Georgia: Balance of Payments, 2021-31 1/

|                                                        | 2021                          | 2022   | 2023   | 2024   | 2025   | 2026       | 2027   | 2028   | 2029    | 2030    | 2031    |
|--------------------------------------------------------|-------------------------------|--------|--------|--------|--------|------------|--------|--------|---------|---------|---------|
|                                                        | Actual                        |        |        |        |        | Projection |        |        |         |         |         |
|                                                        | (in millions of U.S. dollars) |        |        |        |        |            |        |        |         |         |         |
| Current account balance                                | -1,939                        | -1,105 | -1,702 | -1,812 | -1,011 | -2,154     | -2,175 | -2,492 | -2,744  | -3,173  | -3,446  |
| Trade balance (goods)                                  | -3,790                        | -5,100 | -6,078 | -6,563 | -6,841 | -8,253     | -9,013 | -9,958 | -10,963 | -12,000 | -13,205 |
| Exports                                                | 5,539                         | 7,536  | 8,119  | 8,630  | 9,632  | 11,072     | 11,946 | 13,110 | 14,359  | 16,089  | 18,169  |
| Imports                                                | 9,329                         | 12,636 | 14,197 | 15,194 | 16,473 | 19,325     | 20,958 | 23,068 | 25,322  | 28,088  | 31,374  |
| Services                                               | 728                           | 2,676  | 3,443  | 3,891  | 4,641  | 5,166      | 5,755  | 6,299  | 6,904   | 7,480   | 8,203   |
| Services: credit                                       | 2,550                         | 5,705  | 7,062  | 7,706  | 8,494  | 9,418      | 10,454 | 11,442 | 12,537  | 13,392  | 14,137  |
| Of which: travel revenue 2/                            | 1,245                         | 3,517  | 4,125  | 4,425  | 4,690  | 5,220      | 6,922  | 7,682  | 8,413   | 9,220   | 10,103  |
| Services: debit                                        | 1,822                         | 3,029  | 3,619  | 3,815  | 3,853  | 4,253      | 4,699  | 5,144  | 5,634   | 5,913   | 5,934   |
| Primary income                                         | -1,182                        | -1,735 | -2,396 | -2,513 | -2,373 | -3,090     | -3,390 | -3,713 | -4,067  | -4,468  | -4,867  |
| Secondary income                                       | 2,304                         | 3,053  | 3,329  | 3,373  | 3,563  | 4,024      | 4,473  | 4,880  | 5,382   | 5,816   | 6,424   |
| Of which: remittances                                  | 1,609                         | 2,336  | 2,438  | 2,189  | 2,333  | 2,610      | 2,932  | 3,262  | 3,573   | 3,915   | 4,290   |
| Capital account                                        | 40                            | 41     | 39     | 28     | 27     | 27         | 27     | 27     | 27      | 27      | 27      |
| Financial account (- is inflow)                        | -2,248                        | -1,861 | -1,750 | -1,147 | -2,214 | -2,324     | -2,893 | -3,143 | -3,582  | -3,646  | -3,892  |
| Direct investment (net)                                | -924                          | -1,922 | -1,615 | -1,141 | -1,389 | -1,438     | -1,681 | -1,897 | -2,222  | -2,435  | -2,656  |
| Net acquisition of financial assets                    | 347                           | 365    | 473    | 462    | 266    | 450        | 550    | 544    | 452     | 515     | 516     |
| Net incurrence of liabilities                          | 1,271                         | 2,287  | 2,087  | 1,603  | 1,655  | 1,888      | 2,231  | 2,442  | 2,674   | 2,951   | 3,173   |
| Portfolio investment (net)                             | 311                           | 1,608  | 731    | 1,092  | -54    | 0          | -213   | -165   | -126    | -147    | -102    |
| Net acquisition of financial assets                    | 37                            | 1,152  | 328    | 1,495  | 369    | 298        | 379    | 410    | 551     | 475     | 420     |
| Net incurrence of liabilities                          | -274                          | -456   | -404   | 403    | 423    | 298        | 592    | 574    | 677     | 622     | 521     |
| Financial derivatives (net)                            | -1                            | -3     | 48     | 34     | 78     | 34         | 43     | 49     | 48      | 43      | 30      |
| Other investment (net)                                 | -1,634                        | -1,544 | -915   | -1,131 | -849   | -920       | -1,043 | -1,131 | -1,282  | -1,106  | -1,164  |
| Net acquisition of financial assets                    | -39                           | 876    | 484    | 170    | -521   | -709       | -760   | -1,100 | -1,489  | -1,556  | -1,619  |
| Of which: currency and deposits (+ is outflow) 3/      | -128                          | 819    | 64     | 67     | -756   | -856       | -949   | -1,279 | -1,698  | -1,767  | -1,776  |
| Net incurrence of liabilities 4/                       | 1,595                         | 2,420  | 1,399  | 1,301  | 328    | 211        | 283    | 31     | -207    | -450    | -455    |
| Of which: general government loans (+ is inflow) 5/    | 940                           | 517    | 448    | 96     | 65     | -281       | 360    | 149    | 29      | -65     | -26     |
| SDR (allocations)                                      | 286                           | 0      | 0      | 0      | 0      | 0          | 0      | 0      | 0       | 0       | 0       |
| Errors and omissions                                   | -3                            | -15    | -10    | 73     | 76     | 0          | 0      | 0      | 0       | 0       | 0       |
| Overall balance (+ is surplus)                         | 345                           | 782    | 77     | -563   | 1,305  | 197        | 745    | 677    | 864     | 499     | 473     |
| Financing                                              | -345                          | -782   | -77    | 563    | -1,305 | -197       | -745   | -677   | -864    | -499    | -473    |
| Change in gross international reserves (- is increase) | -453                          | -765   | -47    | 619    | -1,208 | -92        | -643   | -588   | -788    | -449    | -423    |
| Use of Fund Resources (- is net repayment)             | 108                           | -17    | -30    | -56    | -98    | -105       | -102   | -89    | -76     | -50     | -50     |
| Disbursement                                           | 111                           | 0      | 0      | 0      | 0      | 0          | 0      | 0      | 0       | 0       | 0       |
| Repayment (Principal)                                  | 3                             | 17     | 30     | 56     | 98     | 105        | 102    | 89     | 76      | 50      | 50      |
| Memorandum items:                                      | (in percent of GDP)           |        |        |        |        |            |        |        |         |         |         |
| Current account balance                                | -10.3                         | -4.4   | -5.5   | -5.3   | -2.6   | -5.0       | -4.5   | -4.7   | -4.8    | -5.0    | -5.0    |
| Trade balance (goods)                                  | -20.1                         | -20.4  | -19.7  | -19.2  | -17.9  | -19.0      | -18.7  | -18.9  | -19.0   | -19.0   | -19.1   |
| Exports (goods)                                        | 29.4                          | 30.2   | 26.4   | 25.2   | 25.3   | 25.5       | 24.9   | 24.9   | 24.9    | 25.5    | 26.3    |
| Imports (goods)                                        | 49.5                          | 50.6   | 46.1   | 44.4   | 43.2   | 44.4       | 43.6   | 43.8   | 43.9    | 44.5    | 45.3    |
| Services balance                                       | 3.9                           | 10.7   | 11.2   | 11.4   | 12.2   | 11.9       | 12.0   | 12.0   | 12.0    | 11.8    | 11.9    |
| of which travel revenue                                | 6.6                           | 14.1   | 13.4   | 12.9   | 12.3   | 12.0       | 14.4   | 14.6   | 14.6    | 14.6    | 14.6    |
| Trade balance (goods and services)                     | -16.2                         | -9.7   | -8.6   | -7.8   | -5.8   | -7.1       | -6.8   | -7.0   | -7.0    | -7.2    | -7.2    |
| Remittances                                            | 8.5                           | 9.4    | 7.9    | 6.4    | 6.1    | 6.0        | 6.1    | 6.2    | 6.2     | 6.2     | 6.2     |
| Financial account (- is inflow)                        | -11.9                         | -7.4   | -5.7   | -3.4   | -5.8   | -5.3       | -6.0   | -6.0   | -6.2    | -5.8    | -5.6    |
| Foreign direct investment (net)                        | -4.9                          | -7.7   | -5.2   | -3.3   | -3.6   | -3.3       | -3.5   | -3.6   | -3.9    | -3.9    | -3.8    |
| Portfolio investment (net)                             | 1.7                           | 6.4    | 2.4    | 3.2    | -0.1   | 0.0        | -0.4   | -0.3   | -0.2    | -0.2    | -0.1    |
| Other investment (net)                                 | -8.7                          | -6.2   | -3.0   | -3.3   | -2.2   | -2.1       | -2.2   | -2.1   | -2.2    | -1.8    | -1.7    |
| of which general government loans (+ is inflow)        | 5.0                           | 2.1    | 1.5    | 0.3    | 0.2    | -0.6       | 0.7    | 0.3    | 0.1     | -0.1    | 0.0     |
| of which currency and deposits (+ is outflow)          | -0.7                          | 3.3    | 0.2    | 0.2    | -2.0   | -2.0       | -2.0   | -2.4   | -2.9    | -2.8    | -2.6    |
| Gross international reserves (in million of USD) 6/    | 4,273                         | 4,902  | 5,010  | 4,449  | 6,198  | 6,290      | 6,933  | 7,521  | 8,309   | 8,759   | 9,181   |
| in percent of ARA metric                               | 108.6                         | 102.1  | 95.2   | 79.3   | 100.0  | 100.0      | 104.9  | 108.9  | 115.4   | 117.9   | ...     |
| in months of next year GNFS imports                    | 3.3                           | 3.3    | 3.2    | 2.6    | 3.2    | 2.9        | 2.9    | 2.9    | 2.9     | 2.8     | ...     |

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

1/ Balance of payments numbers are presented according to the BPM6 manual.

2/ The majority of the travel revenue is tourism revenue.

3/ By deposit-taking corporations (except central bank) and other private sectors. This indicator partially reflects capital outflow.

4/ Excluding IMF loan disbursements (to both Ministry of Finance and NBG) and principal repayments.

5/ Excluding IMF loan disbursements to Ministry of Finance and the principal repayments.

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

**Table 3a. Georgia: General Government Operations, GFSM 2001, 2021-31**  
(In millions of GEL)

|                                                                | 2021   | 2022   | 2023   | 2024   | 2025    | 2026       | 2027    | 2028    | 2029    | 2030    | 2031   |
|----------------------------------------------------------------|--------|--------|--------|--------|---------|------------|---------|---------|---------|---------|--------|
|                                                                | Actual |        |        |        |         | Projection |         |         |         |         |        |
| Revenue                                                        | 15,313 | 19,280 | 22,125 | 25,695 | 28,215  | 31,077     | 33,750  | 36,565  | 39,560  | 42,913  | 46,552 |
| Taxes                                                          | 13,550 | 17,290 | 19,736 | 23,263 | 25,285  | 28,275     | 31,150  | 33,915  | 36,860  | 40,048  | 43,513 |
| Taxes on Income, profits and capital gains                     | 4,791  | 6,964  | 8,090  | 10,368 | 11,143  | 12,276     | 13,551  | 14,774  | 16,054  | 17,443  | 18,952 |
| Payable by individuals                                         | 3,776  | 5,034  | 6,071  | 7,250  | 8,261   | 9,236      | 10,153  | 11,038  | 11,992  | 13,030  | 14,157 |
| Payable by corporations                                        | 1,015  | 1,930  | 2,018  | 3,118  | 2,881   | 3,040      | 3,398   | 3,736   | 4,062   | 4,413   | 4,795  |
| Taxes on property                                              | 511    | 604    | 648    | 698    | 801     | 896        | 985     | 1,070   | 1,163   | 1,264   | 1,373  |
| Taxes on goods and services                                    | 7,898  | 9,463  | 10,658 | 11,820 | 12,887  | 14,577     | 16,025  | 17,422  | 18,929  | 20,566  | 22,345 |
| General taxes on goods and services (VAT)                      | 6,030  | 7,453  | 8,387  | 9,332  | 10,158  | 11,527     | 12,671  | 13,776  | 14,968  | 16,262  | 17,669 |
| Excises                                                        | 1,869  | 2,010  | 2,270  | 2,488  | 2,729   | 3,050      | 3,353   | 3,646   | 3,961   | 4,304   | 4,676  |
| Taxes on international trade                                   | 86     | 126    | 151    | 139    | 147     | 164        | 180     | 196     | 213     | 231     | 251    |
| Other taxes 1/                                                 | 263    | 133    | 189    | 239    | 308     | 363        | 409     | 454     | 501     | 545     | 592    |
| of which VAT Refunds                                           | -1,930 | -2,266 | -2,332 | -2,547 | -2,721  | -3,023     | -3,314  | -3,594  | -3,896  | -4,233  | -4,600 |
| Grants                                                         | 344    | 286    | 198    | 198    | 161     | 176        | 155     | 160     | 165     | 165     | 165    |
| Other revenue                                                  | 1,419  | 1,704  | 2,191  | 2,234  | 2,769   | 2,625      | 2,445   | 2,490   | 2,535   | 2,699   | 2,874  |
| Total Expenditure                                              | 18,939 | 21,145 | 24,008 | 27,804 | 29,741  | 33,797     | 36,732  | 39,805  | 42,926  | 46,563  | 50,517 |
| Expense                                                        | 14,770 | 15,615 | 17,915 | 20,698 | 23,477  | 25,385     | 27,765  | 30,026  | 32,049  | 34,660  | 37,578 |
| Compensation of employees                                      | 1,984  | 2,214  | 2,679  | 3,150  | 3,599   | 4,187      | 4,600   | 5,060   | 5,560   | 6,041   | 6,564  |
| Use of goods and services                                      | 2,203  | 2,380  | 2,760  | 2,988  | 3,100   | 3,587      | 3,880   | 4,170   | 4,460   | 4,846   | 5,265  |
| Interest                                                       | 800    | 761    | 1,195  | 1,484  | 1,638   | 1,976      | 2,235   | 2,341   | 2,479   | 2,532   | 2,671  |
| External                                                       | 284    | 236    | 517    | 718    | 719     | 780        | 757     | 760     | 749     | 730     | 730    |
| Domestic                                                       | 516    | 525    | 678    | 766    | 919     | 1,196      | 1,478   | 1,581   | 1,730   | 1,802   | 1,941  |
| Subsidies                                                      | 1,660  | 2,073  | 2,168  | 2,560  | 3,319   | 2,957      | 3,330   | 3,580   | 3,860   | 4,194   | 4,557  |
| Grants                                                         | 196    | 255    | 237    | 249    | 285     | 267        | 285     | 295     | 305     | 331     | 360    |
| Social benefits                                                | 6,342  | 6,331  | 7,112  | 8,145  | 9,122   | 9,754      | 10,550  | 11,420  | 11,940  | 12,973  | 14,095 |
| Other expense 2/                                               | 1,586  | 1,602  | 1,764  | 2,123  | 2,413   | 2,657      | 2,885   | 3,160   | 3,445   | 3,743   | 4,067  |
| Net acquisition of nonfinancial assets                         | 4,169  | 5,530  | 6,093  | 7,106  | 6,264   | 8,412      | 8,967   | 9,779   | 10,877  | 11,903  | 12,939 |
| Increase (capital spending)                                    | 4,591  | 5,966  | 6,527  | 7,665  | 6,846   | 8,712      | 9,267   | 10,079  | 11,177  | 12,398  | 13,476 |
| Decrease (privatization proceeds)                              | -422   | -436   | -434   | -559   | -582    | -300       | -300    | -300    | -300    | -495    | -538   |
| Net lending / borrowing                                        | -3,627 | -1,865 | -1,885 | -2,109 | -1,526  | -2,720     | -2,982  | -3,240  | -3,366  | -3,651  | -3,965 |
| Change in net financial worth, transactions                    | -3,627 | -1,865 | -1,885 | -2,109 | -1,526  | -2,720     | -2,982  | -3,240  | -3,366  | -3,651  | -3,965 |
| Net acquisition of financial assets ("+" : increase in assets) | -1,103 | 864    | 474    | -140   | 124     | 852        | 64      | 164     | -32     | 448     | 633    |
| Domestic                                                       | -1,103 | 864    | 474    | -140   | 124     | 852        | 64      | 164     | -32     | 448     | 633    |
| Budget lending (net)                                           | 41     | 361    | 92     | 68     | -37     | -31        | -26     | -26     | -26     | -21     | -21    |
| Deposits (NBG and commercial banks)                            | -1,141 | 504    | 382    | -208   | 161     | 883        | 90      | 190     | -6      | 469     | 654    |
| Financial privatization                                        | -3     | 0      | 0      | 0      | 0       | 0          | 0       | 0       | 0       | 0       | 0      |
| Net incurrence of liabilities ("+" : increase in liabilities)  | 2,524  | 2,729  | 2,359  | 1,969  | 1,649   | 3,572      | 3,046   | 3,404   | 3,335   | 4,098   | 4,598  |
| Domestic                                                       | -377   | 1,317  | 1,398  | 1,473  | 1,515   | 3,163      | 2,246   | 3,087   | 3,229   | 4,219   | 4,771  |
| Securities other than shares                                   | -377   | 1,317  | 1,398  | 1,473  | 1,515   | 3,163      | 2,246   | 3,087   | 3,229   | 4,219   | 4,771  |
| Loans                                                          | 0      | 0      | 0      | 0      | 0       | 0          | 0       | 0       | 0       | 0       | 0      |
| Foreign                                                        | 2,901  | 1,412  | 961    | 496    | 135     | 410        | 801     | 317     | 105     | -121    | -173   |
| Loans                                                          | 2,901  | 1,412  | 961    | 496    | 135     | 410        | 801     | 317     | 105     | -121    | -173   |
| Memorandum items:                                              |        |        |        |        |         |            |         |         |         |         |        |
| Nominal GDP                                                    | 60,724 | 72,860 | 80,883 | 93,022 | 104,598 | 116,936    | 128,548 | 139,752 | 151,841 | 164,982 | ####   |
| Government debt 3/                                             | 29,812 | 28,561 | 31,329 | 33,020 | 35,842  | 39,281     | 42,165  | 45,377  | 48,509  | 52,376  | 56,844 |
| End-year government deposits                                   | 2,049  | 2,552  | 2,934  | 2,726  | 2,887   | 3,770      | 3,859   | 4,049   | 4,043   | 4,512   | 5,166  |
| Operating balance                                              | 543    | 3,665  | 4,210  | 4,997  | 4,738   | 5,692      | 5,985   | 6,539   | 7,510   | 8,253   | 8,974  |
| Net lending / borrowing (excluding privatization)              | -4,048 | -2,301 | -2,317 | -2,668 | -2,108  | -3,020     | -3,282  | -3,540  | -3,666  | -4,145  | -4,502 |
| Augmented Net lending / borrowing 4/                           | -3,665 | -2,226 | -1,977 | -2,177 | -1,489  | -2,690     | -2,957  | -3,214  | -3,341  | -3,630  | -3,944 |
| Cyclically-adjusted primary balance                            | -2,377 | -1,457 | -890   | -985   | -147    | -1,056     | -961    | -873    | -861    | -1,098  | -1,273 |

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes cash outflows due to tax credit refunds.

2/ Includes wages and salaries in the education sector.

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

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

**Table 3b. Georgia: General Government Operations, GFSM 2001, 2021-31**  
(In percent of GDP)

|                                                                | 2021   | 2022   | 2023   | 2024   | 2025    | 2026       | 2027    | 2028    | 2029    | 2030    | 2031    |
|----------------------------------------------------------------|--------|--------|--------|--------|---------|------------|---------|---------|---------|---------|---------|
|                                                                | Actual |        |        |        |         | Projection |         |         |         |         |         |
| Revenue                                                        | 25.2   | 26.5   | 27.4   | 27.6   | 27.0    | 26.6       | 26.3    | 26.2    | 26.1    | 26.0    | 26.0    |
| Taxes                                                          | 22.3   | 23.7   | 24.4   | 25.0   | 24.2    | 24.2       | 24.2    | 24.3    | 24.3    | 24.3    | 24.3    |
| Taxes on Income, profits and capital gains                     | 7.9    | 9.6    | 10.0   | 11.1   | 10.7    | 10.5       | 10.5    | 10.6    | 10.6    | 10.6    | 10.6    |
| Payable by individuals                                         | 6.2    | 6.9    | 7.5    | 7.8    | 7.9     | 7.9        | 7.9     | 7.9     | 7.9     | 7.9     | 7.9     |
| Payable by corporations                                        | 1.7    | 2.6    | 2.5    | 3.4    | 2.8     | 2.6        | 2.6     | 2.7     | 2.7     | 2.7     | 2.7     |
| Taxes on property                                              | 0.8    | 0.8    | 0.8    | 0.8    | 0.8     | 0.8        | 0.8     | 0.8     | 0.8     | 0.8     | 0.8     |
| Taxes on goods and services                                    | 13.0   | 13.0   | 13.2   | 12.7   | 12.3    | 12.5       | 12.5    | 12.5    | 12.5    | 12.5    | 12.5    |
| General taxes on goods and services (VAT)                      | 9.9    | 10.2   | 10.4   | 10.0   | 9.7     | 9.9        | 9.9     | 9.9     | 9.9     | 9.9     | 9.9     |
| Excises                                                        | 3.1    | 2.8    | 2.8    | 2.7    | 2.6     | 2.6        | 2.6     | 2.6     | 2.6     | 2.6     | 2.6     |
| Taxes on international trade                                   | 0.1    | 0.2    | 0.2    | 0.1    | 0.1     | 0.1        | 0.1     | 0.1     | 0.1     | 0.1     | 0.1     |
| Other taxes 1/                                                 | 0.4    | 0.2    | 0.2    | 0.3    | 0.3     | 0.3        | 0.3     | 0.3     | 0.3     | 0.3     | 0.3     |
| of which VAT Refunds                                           | -3.2   | -3.1   | -2.9   | -2.7   | -2.6    | -2.6       | -2.6    | -2.6    | -2.6    | -2.6    | -2.6    |
| Grants                                                         | 0.6    | 0.4    | 0.2    | 0.2    | 0.2     | 0.2        | 0.1     | 0.1     | 0.1     | 0.1     | 0.1     |
| Other revenue                                                  | 2.3    | 2.3    | 2.7    | 2.4    | 2.6     | 2.2        | 1.9     | 1.8     | 1.7     | 1.6     | 1.6     |
| Total Expenditure                                              | 31.2   | 29.0   | 29.7   | 29.9   | 28.4    | 28.9       | 28.6    | 28.5    | 28.3    | 28.2    | 28.2    |
| Expense                                                        | 24.3   | 21.4   | 22.1   | 22.3   | 22.4    | 21.7       | 21.6    | 21.5    | 21.1    | 21.0    | 21.0    |
| Compensation of employees                                      | 3.3    | 3.0    | 3.3    | 3.4    | 3.4     | 3.6        | 3.6     | 3.6     | 3.7     | 3.7     | 3.7     |
| Use of goods and services                                      | 3.6    | 3.3    | 3.4    | 3.2    | 3.0     | 3.1        | 3.0     | 3.0     | 2.9     | 2.9     | 2.9     |
| Interest                                                       | 1.3    | 1.0    | 1.5    | 1.6    | 1.6     | 1.7        | 1.7     | 1.7     | 1.6     | 1.5     | 1.5     |
| External                                                       | 0.5    | 0.3    | 0.6    | 0.8    | 0.7     | 0.7        | 0.6     | 0.5     | 0.5     | 0.4     | 0.4     |
| Domestic                                                       | 0.8    | 0.7    | 0.8    | 0.8    | 0.9     | 1.0        | 1.1     | 1.1     | 1.1     | 1.1     | 1.1     |
| Subsidies                                                      | 2.7    | 2.8    | 2.7    | 2.8    | 3.2     | 2.5        | 2.6     | 2.6     | 2.5     | 2.5     | 2.5     |
| Grants                                                         | 0.3    | 0.4    | 0.3    | 0.3    | 0.3     | 0.2        | 0.2     | 0.2     | 0.2     | 0.2     | 0.2     |
| Social benefits                                                | 10.4   | 8.7    | 8.8    | 8.8    | 8.7     | 8.3        | 8.2     | 8.2     | 7.9     | 7.9     | 7.9     |
| Other expense 2/                                               | 2.6    | 2.2    | 2.2    | 2.3    | 2.3     | 2.3        | 2.2     | 2.3     | 2.3     | 2.3     | 2.3     |
| Net acquisition of nonfinancial assets                         | 6.9    | 7.6    | 7.5    | 7.6    | 6.0     | 7.2        | 7.0     | 7.0     | 7.2     | 7.2     | 7.2     |
| Increase (capital spending)                                    | 7.6    | 8.2    | 8.1    | 8.2    | 6.5     | 7.5        | 7.2     | 7.2     | 7.4     | 7.5     | 7.5     |
| Decrease (privatization proceeds)                              | -0.7   | -0.6   | -0.5   | -0.6   | -0.6    | -0.3       | -0.2    | -0.2    | -0.2    | -0.3    | -0.3    |
| Net lending / borrowing before adjustment                      | -6.0   | -2.6   | -2.3   | -2.3   | -1.5    | -2.3       | -2.3    | -2.3    | -2.2    | -2.2    | -2.2    |
| Unidentified measures                                          | 0.0    | 0.0    | 0.0    | 0.0    | 0.0     | 0.0        | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Net lending / borrowing                                        | -6.0   | -2.6   | -2.3   | -2.3   | -1.5    | -2.3       | -2.3    | -2.3    | -2.2    | -2.2    | -2.2    |
| Change in net financial worth, transactions                    | -6.0   | -2.6   | -2.3   | -2.3   | -1.5    | -2.3       | -2.3    | -2.3    | -2.2    | -2.2    | -2.2    |
| Net acquisition of financial assets ("+" : increase in assets) | -1.8   | 1.2    | 0.6    | -0.2   | 0.1     | 0.7        | 0.0     | 0.1     | 0.0     | 0.3     | 0.4     |
| Domestic                                                       | -1.8   | 1.2    | 0.6    | -0.2   | 0.1     | 0.7        | 0.0     | 0.1     | 0.0     | 0.3     | 0.4     |
| Budget lending (net)                                           | 0.1    | 0.5    | 0.1    | 0.1    | 0.0     | 0.0        | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Deposits (NBG and commercial banks)                            | -1.9   | 0.7    | 0.5    | -0.2   | 0.2     | 0.8        | 0.1     | 0.1     | 0.0     | 0.3     | 0.4     |
| Financial privatization                                        | 0.0    | 0.0    | 0.0    | 0.0    | 0.0     | 0.0        | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Net incurrence of liabilities ("+" : increase in liabilities)  | 4.2    | 3.7    | 2.9    | 2.1    | 1.6     | 3.1        | 2.4     | 2.4     | 2.2     | 2.5     | 2.6     |
| Domestic                                                       | -0.6   | 1.8    | 1.7    | 1.6    | 1.4     | 2.7        | 1.7     | 2.2     | 2.1     | 2.6     | 2.7     |
| Securities other than shares                                   | -0.6   | 1.8    | 1.7    | 1.6    | 1.4     | 2.7        | 1.7     | 2.2     | 2.1     | 2.6     | 2.7     |
| Loans                                                          | 0.0    | 0.0    | 0.0    | 0.0    | 0.0     | 0.0        | 0.0     | 0.0     | 0.0     | 0.0     | 0.0     |
| Foreign                                                        | 4.8    | 1.9    | 1.2    | 0.5    | 0.1     | 0.4        | 0.6     | 0.2     | 0.1     | -0.1    | -0.1    |
| Loans                                                          | 4.8    | 1.9    | 1.2    | 0.5    | 0.1     | 0.4        | 0.6     | 0.2     | 0.1     | -0.1    | -0.1    |
| Memorandum items:                                              |        |        |        |        |         |            |         |         |         |         |         |
| Nominal GDP (in millions of GEL)                               | 60,724 | 72,860 | 80,883 | 93,022 | 104,598 | 116,936    | 128,548 | 139,752 | 151,841 | 164,982 | 179,264 |
| General government debt 3/                                     | 49.1   | 39.2   | 38.7   | 35.5   | 34.3    | 33.6       | 32.8    | 32.5    | 31.9    | 31.7    | 31.7    |
| End-year government deposits                                   | 3.4    | 3.5    | 3.6    | 2.9    | 2.8     | 3.2        | 3.0     | 2.9     | 2.7     | 2.7     | 2.9     |
| Operating balance (before adjustment)                          | 0.9    | 5.0    | 5.2    | 5.4    | 4.5     | 4.9        | 4.7     | 4.7     | 4.9     | 5.0     | 5.0     |
| Net lending / borrowing (excluding privatization)              | -6.7   | -3.2   | -2.9   | -2.9   | -2.0    | -2.6       | -2.6    | -2.5    | -2.4    | -2.5    | -2.5    |
| Augmented Net lending / borrowing 4/                           | -6.0   | -3.1   | -2.4   | -2.3   | -1.4    | -2.3       | -2.3    | -2.3    | -2.2    | -2.2    | -2.2    |
| Cyclically-adjusted primary balance                            | -3.9   | -2.0   | -1.1   | -1.1   | -0.1    | -0.9       | -0.7    | -0.6    | -0.6    | -0.7    | -0.7    |

Sources: Ministry of Finance; and Fund staff estimates.

1/ Includes cash outflows due to tax credit refunds.

2/ Includes wages and salaries in the education sector.

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

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

Table 4. Georgia: Monetary Survey, 2021-26

|                                                   | 2021  | 2022  | 2023  | 2024  |       | 2025  |       | 2026       |           |
|---------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|------------|-----------|
|                                                   |       |       |       | June  | Dec   | June  | Dec   | Proj. June | Proj. Dec |
| <b>Central Bank</b>                               |       |       |       |       |       |       |       |            |           |
| (in billions of lari)                             |       |       |       |       |       |       |       |            |           |
| Net foreign assets                                | 10.3  | 10.8  | 11.1  | 10.5  | 10.2  | 10.5  | 14.4  | 14.8       | 15.1      |
| Gross international reserves                      | 13.2  | 13.2  | 13.5  | 12.9  | 12.5  | 12.8  | 16.6  | 16.7       | 16.9      |
| Foreign liabilities                               | 2.9   | 2.4   | 2.4   | 2.4   | 2.3   | 2.3   | 2.2   | 2.0        | 1.7       |
| Of which: use of Fund resources                   | 1.4   | 1.2   | 1.1   | 1.1   | 1.0   | 0.9   | 0.8   | 0.6        | 0.4       |
| Net domestic assets                               | 0.1   | 1.2   | 0.9   | 0.9   | 3.5   | 3.0   | 0.6   | 0.7        | 0.9       |
| Net claims on central government                  | 0.1   | 0.6   | 0.3   | 0.7   | 0.5   | 0.6   | -0.6  | -0.6       | -0.5      |
| Claims on general government (incl. T-bills)      | 1.8   | 2.4   | 2.7   | 2.0   | 1.9   | 1.5   | 1.5   | 1.7        | 2.0       |
| Nontradable govt. debt                            | 0.2   | 0.1   | 0.1   | 0.0   | 0.0   | 0.0   | 0.0   | 0.0        | 0.0       |
| Debt securities (tradable)                        | 1.6   | 2.3   | 2.7   | 2.0   | 1.9   | 1.5   | 1.5   | 1.7        | 2.0       |
| Deposits                                          | 1.7   | 1.8   | 2.5   | 1.3   | 1.4   | 0.9   | 2.1   | 2.3        | 2.5       |
| Net claims on banks (excl. reserves)              | 3.1   | 3.4   | 3.7   | 3.5   | 6.9   | 6.3   | 6.1   | 6.2        | 6.2       |
| Bank refinancing (incl. swap lines)               | 3.1   | 3.5   | 3.7   | 3.6   | 7.0   | 6.4   | 6.2   | 6.2        | 6.3       |
| Certificates of deposits and bonds                | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1        | 0.1       |
| Other items, net                                  | -3.1  | -2.9  | -3.1  | -3.3  | -3.9  | -3.9  | -4.9  | -4.9       | -4.9      |
| Reserve Money                                     | 10.4  | 12.0  | 12.0  | 11.4  | 13.7  | 13.4  | 15.1  | 15.5       | 16.0      |
| <b>Banking System</b>                             |       |       |       |       |       |       |       |            |           |
| (in billions of lari)                             |       |       |       |       |       |       |       |            |           |
| Net foreign assets                                | 0.0   | 2.9   | 2.8   | 1.2   | -0.1  | -1.2  | 1.5   | 3.3        | 5.0       |
| NBG                                               | 10.3  | 10.8  | 11.1  | 10.5  | 10.2  | 10.5  | 14.4  | 14.8       | 15.1      |
| Commercial banks                                  | -10.3 | -7.9  | -8.3  | -9.3  | -10.2 | -11.6 | -12.9 | -11.5      | -10.2     |
| Net domestic assets                               | 33.9  | 34.6  | 40.5  | 44.0  | 49.5  | 51.5  | 56.1  | 58.3       | 60.4      |
| Domestic credit                                   | 45.6  | 47.4  | 55.6  | 60.5  | 67.2  | 70.8  | 76.0  | 82.0       | 88.0      |
| Net claims on central government                  | 2.2   | 2.4   | 2.8   | 2.8   | 4.8   | 4.7   | 5.4   | 6.5        | 7.6       |
| Of which: government deposits at NBG              | -1.7  | -1.8  | -2.5  | -1.3  | -1.4  | -0.9  | -2.1  | -2.3       | -2.5      |
| Of which: T-bills at commercial banks             | 3.4   | 4.0   | 4.9   | 6.0   | 7.2   | 8.1   | 8.7   | 10.1       | 11.4      |
| Claims on Other Sectors                           | 43.4  | 45.1  | 52.8  | 57.7  | 62.4  | 66.1  | 70.7  | 75.5       | 80.4      |
| Other items, net                                  | -11.8 | -12.8 | -15.1 | -16.5 | -17.7 | -19.2 | -19.9 | -23.7      | -27.6     |
| Broad money (M3)                                  | 33.8  | 37.6  | 43.4  | 45.2  | 49.5  | 50.4  | 57.7  | 61.5       | 65.4      |
| Lari Broad money (M2)                             | 16.1  | 19.8  | 25.2  | 26.5  | 27.8  | 29.2  | 34.9  | 37.4       | 39.7      |
| Currency held by the public                       | 3.5   | 3.9   | 4.7   | 5.2   | 5.4   | 5.6   | 6.1   | 6.5        | 6.9       |
| Lari resident deposits                            | 12.6  | 15.9  | 20.5  | 21.3  | 22.4  | 23.6  | 28.8  | 30.8       | 32.8      |
| Resident foreign exchange deposits                | 17.7  | 17.8  | 18.1  | 18.7  | 21.7  | 21.2  | 22.8  | 24.2       | 25.7      |
| Sources of funds of commercial banks              | 51.6  | 58.6  | 65.9  | 71.9  | 79.8  | 82.2  | 88.8  | 88.8       | 88.8      |
| Resident deposits                                 | 32.0  | 36.4  | 41.6  | 44.8  | 47.6  | 49.7  | 55.2  | 59.0       | 62.7      |
| Non-resident deposits                             | 5.9   | 8.9   | 10.1  | 11.8  | 12.2  | 12.3  | 12.6  | 10.8       | 9.0       |
| Other resident liabilities                        | 3.7   | 4.0   | 4.4   | 4.3   | 7.8   | 7.2   | 7.1   | 7.2        | 7.2       |
| Other foreign liabilities                         | 9.9   | 9.3   | 9.9   | 11.1  | 12.2  | 13.0  | 13.9  | 11.9       | 9.9       |
| Uses of funds of commercial banks                 | 51.6  | 58.6  | 65.9  | 71.9  | 79.8  | 82.2  | 88.8  | 88.8       | 88.8      |
| Claims on Central Bank                            | 6.9   | 8.2   | 7.3   | 6.2   | 8.3   | 7.8   | 9.0   | 9.1        | 9.1       |
| Credit to the Economy                             | 43.4  | 45.1  | 52.8  | 57.7  | 62.4  | 66.1  | 70.7  | 75.5       | 80.4      |
| Other foreign assets                              | 5.5   | 10.3  | 11.7  | 13.6  | 14.1  | 13.6  | 13.5  | 11.1       | 8.7       |
| Other items, net                                  | -4.3  | -4.9  | -5.9  | -5.6  | -5.1  | -5.4  | -4.4  | -6.9       | -9.5      |
| (in percent of GDP)                               |       |       |       |       |       |       |       |            |           |
| Broad money (M3)                                  | 55.7  | 51.6  | 53.6  | 48.6  | 53.2  | 48.1  | 55.1  | 52.6       | 56.0      |
| Lari Broad money (M2)                             | 26.5  | 27.1  | 31.2  | 28.5  | 29.9  | 27.9  | 33.4  | 31.9       | 34.0      |
| Currency held by the public                       | 5.8   | 5.3   | 5.9   | 5.6   | 5.8   | 5.4   | 5.8   | 5.6        | 5.9       |
| Non-resident deposits (percent of total deposits) | 15.6  | 19.6  | 19.5  | 20.8  | 20.4  | 19.8  | 18.6  | 15.5       | 12.5      |
| Credit to the Economy                             | 71.5  | 61.9  | 65.3  | 62.0  | 67.1  | 63.2  | 67.6  | 64.6       | 68.8      |
| Nominal GDP (billions of lari)                    | 60.7  | 72.9  | 80.9  |       | 93.0  |       | 104.6 |            | 116.9     |
| (year-on-year growth)                             |       |       |       |       |       |       |       |            |           |
| Reserve Money                                     | -3.6  | 15.5  | 0.3   | 4.7   | 14.0  | 18.3  | 9.9   | 15.6       | 6.3       |
| Broad money (M3)                                  | 11.4  | 11.0  | 15.4  | 18.0  | 14.1  | 11.5  | 16.5  | 22.2       | 13.5      |
| NBG Claims on Banks                               | -2.1  | 9.8   | 8.1   | 278.8 | 87.4  | 78.7  | -11.9 | -2.4       | 1.9       |
| Credit to the Economy                             | 12.3  | 3.7   | 17.1  | 21.0  | 18.2  | 14.5  | 13.2  | 14.3       | 13.8      |

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

**Table 5. Georgia: Financial Soundness Indicators, 2022–26 1/**  
(In percent, unless otherwise indicated)

|                                                          | 2022  | 2023  | 2024  |       |       |       | 2025  |       |       |       | 2026  |
|----------------------------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                                                          | Dec   | Dec   | Mar   | Jun   | Sep   | Dec   | Mar   | Jun   | Sep   | Dec   | Mar   |
| <b>Capital Adequacy</b>                                  |       |       |       |       |       |       |       |       |       |       |       |
| Regulatory capital to risk-weighted assets               | 20.3  | 22.1  | 21.8  | 24.2  | 23.5  | 22.7  | 22.1  | 22.3  | 22.5  | 22.2  | 22.4  |
| Tier 1 capital to risk-weighted assets                   | 17.1  | 19.7  | 19.1  | 21.2  | 20.5  | 20.2  | 19.7  | 19.9  | 20.1  | 19.9  | 20.0  |
| Leverage ratio 2/                                        | 18.7  | 20.5  | 20.3  | 22.1  | 21.4  | 21.1  | 20.7  | 21.0  | 20.4  | 20.8  | 21.2  |
| <b>Asset Quality</b>                                     |       |       |       |       |       |       |       |       |       |       |       |
| Nonperforming loans to total gross loans                 | 1.5   | 2.5   | 2.6   | 2.5   | 2.4   | 2.5   | 2.6   | 2.5   | 2.6   | 2.5   | 2.5   |
| Restructured loans to total gross loans                  | 15.2  | 4.8   | 4.9   | 4.9   | 4.6   | 4.3   | 4.4   | 4.3   | 4.3   | 4.5   | 5.5   |
| Provisions to total non-performing loans                 | 49.0  | 37.9  | 37.5  | 37.3  | 36.7  | 36.4  | 36.3  | 37.8  | 36.8  | 32.8  | 32.0  |
| <b>Earnings and Profitability</b>                        |       |       |       |       |       |       |       |       |       |       |       |
| Return on assets (ROA)                                   | 3.8   | 4.5   | 4.2   | 4.2   | 4.3   | 4.2   | 3.7   | 3.8   | 3.8   | 3.9   | 4.0   |
| Return on equity (ROE)                                   | 24.8  | 24.7  | 23.9  | 24.0  | 24.6  | 24.4  | 21.7  | 22.1  | 22.6  | 23.1  | 22.8  |
| Interest margin to gross income                          | 53.0  | 60.1  | 62.8  | 61.5  | 60.5  | 59.9  | 64.3  | 63.7  | 62.8  | 62.6  | 65.2  |
| Non-interest expenses to gross income                    | 46.9  | 42.9  | 42.7  | 43.4  | 43.3  | 43.8  | 44.7  | 45.0  | 44.9  | 45.5  | 44.7  |
| <b>Liquidity</b>                                         |       |       |       |       |       |       |       |       |       |       |       |
| Liquid assets to total assets                            | 22.8  | 17.0  | 16.7  | 17.8  | 18.1  | 17.7  | 16.2  | 15.2  | 16.0  | 15.9  | 14.6  |
| Liquid assets to total short-term liabilities 3/         | 42.0  | 31.3  | 31.1  | 33.1  | 33.4  | 32.8  | 30.5  | 28.6  | 29.8  | 31.0  | 28.9  |
| Loan-to-deposit ratio (in percent) 4/                    | 102.2 | 105.4 | 105.1 | 105.9 | 104.2 | 108.0 | 109.7 | 110.3 | 104.2 | 107.1 | 106.0 |
| In local currency                                        | 128.5 | 117.4 | 115.5 | 114.2 | 114.4 | 129.5 | 132.3 | 124.9 | 118.7 | 118.1 | 114.3 |
| In foreign currency                                      | 81.6  | 93.8  | 94.6  | 97.3  | 93.5  | 88.7  | 89.4  | 95.4  | 89.2  | 95.1  | 96.5  |
| Liquidity coverage ratio 5/                              | 141.7 | 125.1 | 123.8 | 126.5 | 128.0 | 135.7 | 131.1 | 127.9 | 138.4 | 145.7 | 138.9 |
| <b>Foreign Currency Position and Dollarization</b>       |       |       |       |       |       |       |       |       |       |       |       |
| Deposits in foreign exchange to total deposits 4/        | 56.1  | 50.7  | 49.7  | 49.1  | 48.8  | 52.7  | 52.8  | 49.7  | 49.2  | 47.7  | 46.6  |
| Loans in foreign exchange to total loans 4/              | 44.8  | 45.1  | 44.7  | 45.1  | 43.8  | 43.3  | 43.0  | 43.0  | 42.1  | 42.4  | 42.4  |
| Net foreign assets to total assets                       | -11.0 | -10.5 | -10.9 | -10.7 | -9.6  | -10.2 | -11.3 | -11.6 | -9.8  | -11.0 | -12.3 |
| Net open foreign exchange position to regulatory capital | 1.6   | 2.7   | 1.8   | 1.8   | 2.1   | 1.7   | -2.5  | 2.6   | 2.1   | 2.4   | -2.3  |
| Borrowed funds from abroad-to-GDP 6/                     | 14.3  | 12.1  | 12.1  | 12.9  | 13.1  | 14.3  | 12.1  | 12.6  | 12.8  | 12.6  | 12.2  |
| <b>Other</b>                                             |       |       |       |       |       |       |       |       |       |       |       |
| Loans collateralized by real estate to total loans       | 63.7  | 65.4  | 65.7  | 66.1  | 66.0  | 64.2  | 64.4  | 65.4  | 65.5  | 64.7  | 64.6  |
| Real estate average price index (Jan 2010=100)           | 180.8 | 204.9 | 205.5 | 207.5 | 212.0 | 217.7 | 220.0 | 220.3 | 220.8 | 223.5 | 222.9 |
| Household debt to GDP ratio                              | 36.8  | 38.1  | 38.0  | 38.8  | 38.4  | 38.6  | 37.9  | 38.5  | 38.8  | 38.8  | 39.1  |
| <b>Memorandum items</b>                                  |       |       |       |       |       |       |       |       |       |       |       |
| Georgia EMBIG Sovereign Spread                           | 345   | 245   | 182   | 226   | 298   | 301   | 341   | 358   | 272   | 285   | 210   |
| Georgia EMBIG Sovereign Yield                            | 7.5   | 6.9   | 6.1   | 6.9   | 6.9   | 7.1   | 7.6   | 7.5   | 6.5   | 6.4   | 5.8   |

Source: National authorities and IMF staff calculations.

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

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

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

4/ Loans and deposits from commercial banks.

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

6/ Borrowed funds include subordinated debt.

## Annex I. Key Recommendations of the 2025 Article IV Consultation

| <i>The 2025 Article IV consultation focused on sustaining strong growth and making it more inclusive and job-rich, including by bolstering the capacity to absorb future shocks and addressing long-standing structural issues.</i>                                                                                                                        |                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Key Recommendations                                                                                                                                                                                                                                                                                                                                        | Status of Implementation                                                                                                                                                                                                                                                                                                            |
| <i>Fiscal Policy</i>                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                     |
| <u>Preserve buffers under the fiscal rule:</u> Maintain a broadly neutral fiscal stance over the short and medium term, keeping deficits around 2.3-2.5 percent of GDP.                                                                                                                                                                                    | Partial – 2025 budget overperformed due to under-execution of capital expenditures, reducing the debt ratio. Medium term budget plans remain unchanged.                                                                                                                                                                             |
| <u>Create room for productive investments:</u> Strengthen the Medium-Term Revenue Strategy (MTRS); broaden the tax base and rationalize tax expenditures; continue to modernize revenue administration and improve public investment management; conduct targeted reviews to enhance spending efficiency.                                                  | Partial – The MTRS has not yet been revised. No expenditure rationalization has been undertaken. Revenue administration reforms are ongoing, the PIM framework has been improved, and the authorities are in the process of developing spending reviews.                                                                            |
| <u>Manage fiscal risks, including from SOEs:</u> Improve MOF financial oversight, SOE operational efficiency, and separation of state's ownership, regulatory, and policy functions to limit conflicts of interest.                                                                                                                                        | Partial – Pilots of dual MoE-MoF ownership continue, along with strengthened MoF financial oversight. Risk management (oversight and conflict of interest) and corporate governance should be further improved in line with recent IMF TA recommendations.                                                                          |
| <i>Monetary and Exchange Rate Policy</i>                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                     |
| <u>Keep inflation expectations anchored:</u> Maintain a neutral policy stance while remaining flexible and data driven to manage inflation, supported by exchange rate flexibility and reserve buildup to guard against risks.                                                                                                                             | Implemented – The NBG maintained a broadly neutral policy stance with unchanged policy rate and raised reserve coverage to above 100 percent of ARA.                                                                                                                                                                                |
| <u>Strengthen NBG Governance:</u> In line with IMF TA, amend NBG law to: (i) ensure a non-executive majority on the NBG's oversight board and limit discretionary transfers to the government, and (ii) clarify and strengthen the NBG succession framework and board member qualification criteria. Consider moving to a collegial decision-making model. | Partial – The vacant board positions have been filled, restoring a non-executive majority on the NBG's oversight board, the succession framework has been strengthened, and discretionary transfers have been ruled out. Other key NBG law amendments are pending and should be enacted in line with recent IMF TA recommendations. |
| <i>Financial Sector Policies</i>                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                     |
| <u>Keep financial sector resilient:</u> Maintain financial buffers and vigilance to guard against risks, including from dollarization, non-bank and cross border activities, and virtual assets. Enhance macroprudential and crisis management frameworks to mitigate risks from systemic banks. Improve competition in financial services.                | Partial – NBG policies have ensured adequate bank capital, liquidity, and loan loss reserves, mitigated concentration and dollarization risks, and addressed developer lending. VASP registration is complete, but regulation and supervision are pending. Further efforts are needed to enhance bank competition, the              |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | resolution framework, and consolidated supervision in line with recent IMF TA.                                                                                                                                                                                                                                                                                      |
| <i>Structural Policies</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                     |
| <u>Sustain high growth and make it more inclusive and job-rich:</u> Improve education, training, and job counselling, as well as agricultural productivity to help address high structural unemployment, low rural labor force participation, outward migration, and informality; invest in transport and logistics infrastructure and improve regional cooperation to foster economic diversification and connectivity; undertake judicial and anti-corruption reforms to improve competitiveness and the business environment. | Partial – Land and education reforms are ongoing, so are infrastructure investments, although there have been some setbacks in public investment execution in 2025. Tackling corruption has been high on the government’s agenda. However, there are no substantial initiatives to improve active labor market policies and address judicial issues in the country. |

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

| Global Risks (Likelihood)                                                                                                                                                                                                                                                                                                                                                                                   | Impact If Risks Realized                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Policy Response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Conjunctural Risks</b>                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Geopolitical Tensions and Intensification of Conflicts (High).</b> Rising geopolitical tensions, and a weakening of multilateralism, raise the risk of an escalation in military conflicts, accompanied by damage to key physical and financial infrastructure, disruptions in major transit routes and supply chains, higher migration pressures, additional financial frictions and market volatility. | <b>High:</b> The war in the Middle East could affect Georgia mainly through higher commodity prices and heightened global uncertainty, though a prolonged conflict could also redirect some trade, tourism, and investment flows toward Georgia. Spillovers from the war in Ukraine have mostly benefited the Georgian economy so far. However, intensified war and related sanctions could lower tourism, trade, remittances, and investments, while increasing depreciation pressures and inflation. Sanctions may lead to regulatory risks for financial institutions including related to AML/CFT issues. On the upside, capital and migrant inflows from Russia, as well as trade rerouted through Georgia could also increase under intensified war and sanctions, boosting demand and the external balance (unless sanctions are implemented on Georgian businesses). | <p>Allow the exchange rate to act as a shock absorber, while utilizing foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability.</p> <p>Tighten monetary policy if faced with heightened price pressures that risk de-anchoring expectations, while providing temporary and targeted support to the most vulnerable. If inflation is under control, utilize monetary policy space to ensure that the output gap does not stay negative for too long.</p> <p>Accelerate structural reforms to strengthen competitiveness and build resilience. Intensify efforts to diversify trading partners.</p> |
| <b>Trade-related Risks</b><br><b>Protectionism and Trade Disruptions (High).</b> Tariff and nontariff measures disrupt global supply chains, weighing on activity while increasing inflation.                                                                                                                                                                                                               | <b>Medium:</b> Higher trade barriers would have minimal direct impact on the Georgian economy, as exports to the US are low and mostly exempt from tariffs. Trade policy shocks would have an indirect effect through                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | <p>Allow the exchange rate to act as a shock absorber, while utilizing foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                               |

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

| Global Risks (Likelihood)                                                                                                                                                                                                                                                                                                        | Impact If Risks Realized                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Policy Response                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Trade diversion triggers broader protectionism.</p> <p><b>New Trade Agreements (Low).</b> Tangible progress in trade talks reduces uncertainty and trade barriers. Wider cooperation on services, FDI, and taxation boosts investment and bolsters public finances.</p>                                                       | <p>global channels, such as investor confidence, trading partner growth, commodity price volatility, exchange rate movements, and trade diversion. Thus, the net impact would be ambiguous. A negative impact would be expected if dollar appreciates, sovereign spreads widen, growth in major export destinations (e.g., the EU and China) slows, or global oil and food prices increase.</p>                                                                                                                                                             | <p>Tighten monetary policy if faced with heightened price pressures that risk de-anchoring expectations, while providing temporary and targeted support to the most vulnerable. If inflation is under control, utilize monetary policy space to ensure that the output gap does not stay negative for too long.</p> <p>Accelerate structural reforms to strengthen competitiveness and build resilience. Intensify efforts to diversify trading partners.</p>             |
| <p><b>Commodity Price Volatility (High).</b> Supply and demand imbalances—triggered by geopolitical tensions, coordinated production decisions, shifts in investor preferences, or structural changes in demand—fuel commodity price swings, amplifying external and fiscal pressures, social unrest, and macro instability.</p> | <p><b>High:</b> Rising global commodity prices, including due to the ongoing war in the Middle East, would increase inflationary pressures and diminish households' purchasing power.</p>                                                                                                                                                                                                                                                                                                                                                                   | <p>Tighten monetary policy if faced with heightened price pressures that risk de-anchoring expectations, while providing temporary and targeted support to the most vulnerable.</p>                                                                                                                                                                                                                                                                                       |
| <p><b>Disorderly AI Correction (High).</b> An abrupt revision in expectations of strong AI-led productivity gains causes a sharp market correction, investment decline, and wealth loss, which suppress demand and tighten financial conditions globally.</p>                                                                    | <p><b>Medium:</b> Banks are well capitalized and liquid and appear resilient to tighter global financial conditions and interest and exchange rate shocks. But, amid high dollarization, financial disruptions that cause a rapid exchange rate depreciation could increase inflation expectations, hurt growth, and threaten financial stability as households and firms struggle to repay loans. Higher inflation and depreciation expectations could result in a vicious cycle of deposit and loan conversions putting further pressure on the lari.</p> | <p>Allow the exchange rate to act as a shock absorber, while utilizing foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability.</p> <p>Maintain tight monetary policy to keep inflation expectations anchored.</p> <p>Reprioritize spending to provide targeted fiscal support to the most vulnerable.</p> <p>Tighten monetary policy to avoid disruptive capital outflows and keep inflation expectations anchored.</p> |

| Global Risks (Likelihood)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Impact If Risks Realized                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Policy Response                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <p>Allow use of capital and liquidity buffers to cope with shocks; adjust macroprudential measures to avoid an undue tightening of financial conditions; enforce provisioning rules in line with international best practices.</p> <p>Use the recently strengthened bank resolution framework as necessary.</p>                                                                                                                                |
| <p><b>Fiscal Vulnerabilities and Higher Interest Rates (High).</b> Higher public debt and deficit levels put further upward pressure on long-term interest rates, sharply tightening global financial conditions, amplifying currency volatility, and reducing consumption and investment that exacerbate adverse debt dynamics. Disruptions are amplified by increased role of price-sensitive investors and leveraged NBFIs in sovereign debt markets, limited market absorption capacity when NBFIs offload debt securities, higher roll-over needs on shorter sovereign debt maturities, and strong sovereign-financial nexus. Concurrently, capital outflows from emerging and developing economies elicit a sharp increase in short-term rates.</p> | <p><b>Low:</b> While sovereign debt distress is a low probability event in Georgia given a moderate public debt level, a sharp depreciation amid high dollarization and higher borrowing costs could hurt growth, increase fiscal pressures, and threaten financial stability as households and firms struggle to repay loans.</p> <p>Materialization of contingent liabilities, for instance from SOEs could also put pressure on the deficit or complicate efforts to comply with the fiscal rule or result in lower capital or current spending.</p> | <p>Allow the exchange rate to act as a shock absorber, while utilizing foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability.</p> <p>Recalibrate fiscal policy to comply with the deficit and debt ceilings unless the escape clause is triggered. Reprioritize spending to support the most vulnerable.</p> <p>Continue improving SOE governance and fiscal risk management practices.</p> |
| <p><b>Policy Uncertainty (High).</b> Elevated and wide-ranging policy uncertainty weighs on sentiment and holds back consumption and investment. Political interference in independent economic institutions erodes public confidence and trust and raises the risk of policy mistakes.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <p><b>Medium:</b> Domestic policy uncertainty could undermine confidence and hurt investment and growth, while political interference in independent economic institutions could undermine policy credibility.</p>                                                                                                                                                                                                                                                                                                                                      | <p>Maintain macroeconomic policy discipline, in line with inflation targeting and fiscal rules.</p> <p>Improve communication about economic policy—especially in terms of setting a medium-term reform agenda; maintain commitment to and ownership of reforms.</p>                                                                                                                                                                            |

| Global Risks (Likelihood)                                                                                                                                                                                                                                                                                            | Impact If Risks Realized                                                                                                                                                                                                                                                                                                                                | Policy Response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Social Discontent (Medium).</b><br>Persistently high living costs, youth unemployment and inequality, amid an erosion in governance standards and pressures from geoeconomic realignments, trigger social unrest, political repression and instability, affecting countries' capacity to pursue economic reforms. | <b>Medium:</b> Political polarization and social tensions could hurt economic activity, including tourism, and lead to disorderly lari depreciation.<br><br>Social tensions could undermine the ability of policymakers to implement structural reforms. They could also threaten external financing flows (FDI, loans etc.) from development partners. | Allow the exchange rate to act as a shock absorber, while utilizing foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability.<br><br>Improve communication about economic policy—especially in terms of setting a medium-term reform agenda; maintain commitment to and ownership of reforms.<br><br>Strengthen social safety nets to protect the most vulnerable and ensure that growth is inclusive.                                         |
| <b>Structural Risks</b>                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Cyberthreats (High).</b><br>Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.                                                                                                                                | <b>Medium:</b> While AI-enabled cyber-incidents have been limited in Georgia, coordinated cyberattacks could fuel political polarization and social tensions, interrupt business continuity (power, telecom, payment, logistics outages), hurt economic confidence and activity, and lead to liquidity shortages and disorderly lari depreciation.      | Allow the exchange rate to act as a shock absorber, while utilizing foreign exchange reserves to prevent a disorderly depreciation that would jeopardize financial stability.<br><br>Allow use of bank capital and liquidity buffers and adjust macroprudential measures to cope with shocks.<br><br>Address testing, supervision, and coordination gaps in cybersecurity, especially in the financial sector and critical state infrastructure, including through international partnerships. |
| <b>Labor Shortages and Remittances (High).</b> Tighter immigration policies exacerbate labor shortages in aging destination economies, reducing potential output, fueling inflation, and straining fiscal balances through lower revenues. Origin countries see depressed remittances and incomes, and               | <b>Medium:</b> Tighter immigration policies (at home and abroad) that reduce labor mobility could exacerbate labor shortages in Georgia, for instance in construction and services, and lower remittances (although remittance sources are diversified in Georgia), raising wage pressures and lowering                                                 | Minimize adverse impacts and harness benefits of migration by: <ul style="list-style-type: none"> <li>i) investing in vocational education, training, and career development of young professionals to develop and retain their skills;</li> <li>ii) promoting financial literacy and mobilizing the diaspora to</li> </ul>                                                                                                                                                                    |

| Global Risks (Likelihood)                                                                                                                                                                                                                                                                 | Impact If Risks Realized                                                                                                                                                                                                                                                                                                                                                                                                           | Policy Response                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| worsening external balances, though a larger labor force could partly offset the remittance decline over the medium term.                                                                                                                                                                 | household consumption, respectively.                                                                                                                                                                                                                                                                                                                                                                                               | channel remittances into physical and human capital investments;<br><br>iii) encouraging return migration through reintegration programs and entrepreneurial support; and<br><br>iv) attracting foreign talent through tailored immigration policies and international partnerships.                                                                                                                                                                                                                                                      |
| <b>Climate Change (Medium).</b><br>Extreme climate events and rising temperatures could cause loss of life, damage to infrastructure, food insecurity, supply disruptions, and heighten economic and financial instability.                                                               | <b>Medium:</b> Higher temperatures and more frequent droughts in the east, floods and landslides in the west, and glacier retreat and coastal erosion along the Black Sea could adversely impact agriculture and livestock, hydropower generation, transport infrastructure, tourism, and labor productivity. The World Bank finds climate risks could lead to GDP losses of up to 5 percent by mid-century in a hot/dry scenario. | Although three quarters of Georgia's electricity comes from hydropower and per capita emissions are two-thirds of the EU average, achieving net zero by 2050 remains crucial through investments (with the private sector) in electric transport, energy efficiency, and renewable energy, along with efficient carbon pricing.<br><br>Targeted adaptation policies—notably climate-smart irrigation and agriculture, flood-resilient transport and energy infrastructure, and enhanced water storage—can mitigate damages and raise GDP. |
| <b>AI Acceleration (Medium).</b><br>Rapid AI adoption significantly improves productivity, boosts growth, and revives business dynamism. Realizing these gains requires complementary policies to manage energy constraints, scale critical inputs, and support labor market transitions. | <b>Low:</b> If AI diffusion accelerates, supported by upgrades in skills and data and management practices, it could raise firm-level efficiency, total productivity (e.g., in digital services, logistics, trade, and public administration), and medium-term growth.                                                                                                                                                             | Remove bottlenecks for AI adoption and absorption by addressing gaps in advanced and digital skills, data ecosystems, firm capabilities (given the prevalence of small, informally managed firms), and access to finance, along with digitalization of public services.                                                                                                                                                                                                                                                                   |

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

*Georgia's debt is assessed to be sustainable with a low overall risk of sovereign distress. Public debt is expected to remain broadly stable around 32 percent of GDP over the medium-term with prudent fiscal policy and robust economic growth under the baseline scenario, substantially below Georgia's debt ceiling of 60 percent of GDP under the fiscal rule. The share of FX-denominated debt should continue to decline in line with the authorities' objective of a 65/35 external-to-domestic ratio. No major realism concerns are flagged. Both the medium-term risk and long-term risk from climate mitigation and adaptation needs are assessed to be low.*

**1. The overall risk of sovereign debt distress is assessed to be low and government debt to be sustainable (Table 1).** After peaking at around 60 percent of GDP in the aftermath of the COVID-19 pandemic, public debt declined rapidly to 34.3 percent of GDP at end 2025. Under the baseline scenario, it is projected to decline further to about 32 percent of GDP by 2030. The fiscal deficit is projected to remain modest at around 2.2 percent of GDP in the medium-term, consistent with the fiscal rule and a neutral stance. In January, the government successfully rolled over a USD 500 million Eurobond with a five-year maturity and a 5.125 percent coupon. It was priced at a 152-basis-point spread over U.S. Treasuries—more than 50 bps below the previous issuance—underscoring strengthened macroeconomic stability. S&P affirmed Georgia's 'BB/B' ratings with a stable outlook in February 2026, while Moody's maintained its Ba2 rating with a negative outlook in April 2026, citing political and geopolitical risks.

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

Table 1. Georgia: Risk of Sovereign Stress

| Horizon                                   | Mechanical signal | Final assessment | Comments                                                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------|-------------------|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Overall</b>                            | ...               | <b>Low</b>       | Georgia's overall risk of sovereign stress is assessed as "low", reflecting low levels of vulnerability in both the near and medium-term modules. The debt level is projected to be relatively low and stable under the baseline, supported by prudent fiscal policy and strong economic growth.                                                                                     |
| <b>Near term 1/</b>                       |                   |                  |                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Medium term</b>                        | <b>Low</b>        | <b>Low</b>       | Medium-term risk is assessed as "low" in line with the aggregate medium-term mechanical signal on the basis of balanced risks around the debt baseline, and manageable gross financing needs. The mechanical signal for the fan chart is moderate due to large volatility of key economic indicators in external shocks in the past five years, mostly due to the Covid-19 pandemic. |
| Fanchart                                  | <b>Moderate</b>   | <b>Moderate</b>  |                                                                                                                                                                                                                                                                                                                                                                                      |
| GFN                                       | <b>Low</b>        | <b>Low</b>       |                                                                                                                                                                                                                                                                                                                                                                                      |
| Stress test                               | ...               | ...              |                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Long term</b>                          | ...               | <b>Low</b>       | Climate change mitigation and adaptation needs will lead to higher amortization than in the future, but under a baseline scenario, in line with the Georgia's climate change strategy, debt is likely to remain sustainable in the long-term.                                                                                                                                        |
| <b>Sustainability assessment 2/</b>       | ...               | Sustainable      | Debt is assessed as sustainable. Debt is expected to remain stable over the projection period with GFNs remaining at manageable levels.                                                                                                                                                                                                                                              |
| <b>Debt stabilization in the baseline</b> |                   |                  | Yes                                                                                                                                                                                                                                                                                                                                                                                  |

### DSA Summary Assessment

Commentary: Georgia is at a low overall risk of sovereign stress, and public debt is sustainable. After a short-lived surge in 2020 to 60 percent of GDP, reaching the upper limit of the fiscal rule, general government debt declined below 40 percent of GDP in 2022 and stood at 34.3 percent of GDP in 2025. This was driven by strong growth and high inflation, lari appreciation especially during 2021-23, and fiscal consolidation. Debt is expected to remain below 40 percent of GDP in the medium term, as fiscal deficits remain modest in compliance with the fiscal rule. Over the longer run, reforms should continue to tackle risks arising from climate change mitigation and adaptation needs.

Sources: Fund staff.

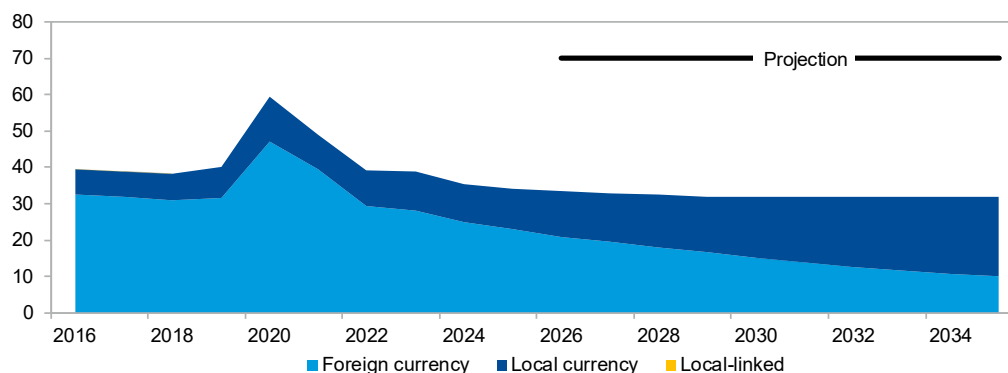
Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

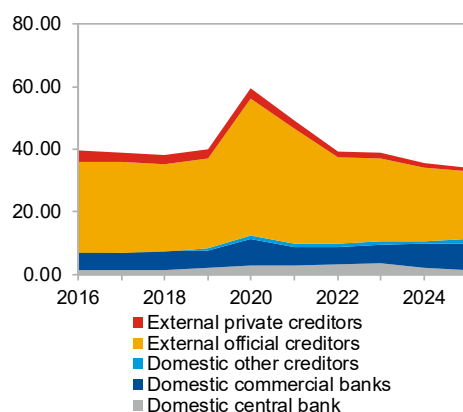
2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 1. Georgia: Debt Coverage and Disclosures

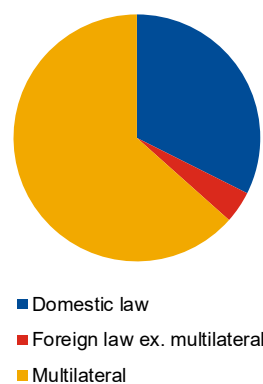
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     |                       |                                     | Comments    |                    |              |                     |       |   |   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------------------|---------------------|-----------------------|-------------------------------------|-------------|--------------------|--------------|---------------------|-------|---|---|
| 1. Debt coverage in the DSA: 1/                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     |                       |                                     |             |                    |              |                     |       |   |   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | CG                  | GG                      | NFPS                | CPS                   | Other                               |             |                    |              |                     |       |   |   |
| 1a. If central government, are non-central government entities insignificant?                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                     |                         |                     |                       |                                     | n.a.        |                    |              |                     |       |   |   |
| 2. Subsectors included in the chosen coverage in (1) above:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                     |                         |                     |                       |                                     |             |                    |              |                     |       |   |   |
| Subsectors captured in the baseline                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                     |                         |                     |                       |                                     | Inclusion   |                    |              |                     |       |   |   |
| CPS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | NFPS                | GG: expected            | CG                  | 1                     | Budgetary central government        | Yes         |                    |              |                     |       |   |   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 2                     | Extra budgetary funds (EBFs)        | No          |                    |              |                     |       |   |   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 3                     | Social security funds (SSFs)        | No          |                    |              |                     |       |   |   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 4                     | State governments                   | Yes         |                    |              |                     |       |   |   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 5                     | Local governments                   | Yes         |                    |              |                     |       |   |   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 6                     | Public nonfinancial corporations    | No          |                    |              |                     |       |   |   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 7                     | Central bank                        | No          |                    |              |                     |       |   |   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 8                     | Other public financial corporations | No          |                    |              |                     |       |   |   |
| 3. Instrument coverage:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                     |                         |                     |                       |                                     |             |                    |              |                     |       |   |   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Currency & deposits | Loans                   | Debt securities     | Oth acct. payable 2/  | IPSGSs 3/                           |             |                    |              |                     |       |   |   |
| 4. Accounting principles:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                     |                         |                     |                       |                                     |             |                    |              |                     |       |   |   |
| Basis of recording                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                     | Valuation of debt stock |                     |                       |                                     |             |                    |              |                     |       |   |   |
| Non-cash basis 4/                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Cash basis          | Nominal value 5/        | Face value 6/       | Market value 7/       |                                     |             |                    |              |                     |       |   |   |
| 5. Debt consolidation across sectors:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                     |                         |                     |                       |                                     |             |                    |              |                     |       |   |   |
| Consolidated                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                     | Non-consolidated        |                     |                       |                                     |             |                    |              |                     |       |   |   |
| Color code: <span style="background-color: #90EE90;"> </span> chosen coverage <span style="background-color: #FF0000;"> </span> Missing from recommended coverage <span style="background-color: #D3D3D3;"> </span> Not applicable                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                     |                         |                     |                       |                                     |             |                    |              |                     |       |   |   |
| Reporting on Intra-Government Debt Holdings                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                     |                         |                     |                       |                                     |             |                    |              |                     |       |   |   |
| Holder                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                     | Budget. central govt    | Extra-budget. funds | Social security funds | State govt.                         | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin. corp | Total |   |   |
| Issuer                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                     |                         |                     |                       |                                     |             |                    |              |                     |       |   |   |
| CPS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | NFPS                | GG: expected            | CG                  | 1                     | Budget. central govt                |             |                    |              |                     |       | 0 |   |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 2                     | Extra-budget. funds                 |             |                    |              |                     |       |   | 0 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 3                     | Social security funds               |             |                    |              |                     |       |   | 0 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 4                     | State govt.                         |             |                    |              |                     |       |   | 0 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 5                     | Local govt.                         |             |                    |              |                     |       |   | 0 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 6                     | Nonfin pub. corp.                   |             |                    |              |                     |       |   | 0 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 7                     | Central bank                        |             |                    |              |                     |       |   | 0 |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                     |                         |                     | 8                     | Oth. pub. fin. corp                 |             |                    |              |                     |       |   | 0 |
| Total                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                     | 0                       | 0                   | 0                     | 0                                   | 0           | 0                  | 0            | 0                   | 0     |   |   |
| <p>1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.</p> <p>2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.</p> <p>3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.</p> <p>4/ Includes accrual recording, commitment basis, due for payment, etc.</p> <p>5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).</p> <p>6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.</p> <p>7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.</p> |                     |                         |                     |                       |                                     |             |                    |              |                     |       |   |   |
| <p>Commentary: Gross debt covers the General Government (GG) and includes debt incurred by the central government, as well as state and local governments. There are no extra-budgetary units, as all agencies (LEPLs and NLEs) affiliated with ministries are included in the budget. There are no social security funds.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                     |                         |                     |                       |                                     |             |                    |              |                     |       |   |   |

**Figure 2. Georgia: Public Debt Structure Indicators****Debt by Currency (Percent of GDP)**

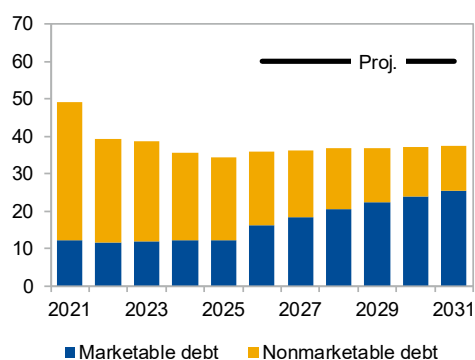
Note: The perimeter shown is general government.

**Public Debt by Holder (Percent of GDP)**

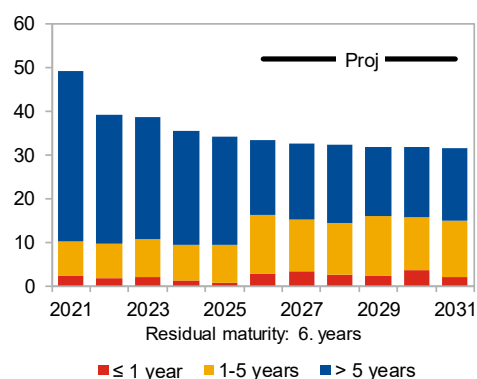
Note: The perimeter shown is general government.

**Public Debt by Governing Law, 2025 (Percent)**

Note: The perimeter shown is general government.

**Debt by Instruments (Percent of GDP)**

Note: The perimeter shown is general government.

**Public Debt by Maturity (Percent of GDP)**

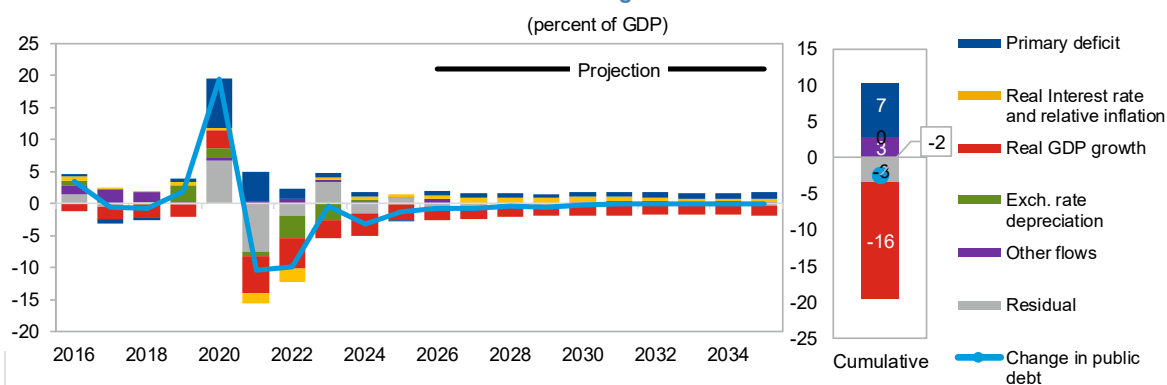
Note: The perimeter shown is general government.

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

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

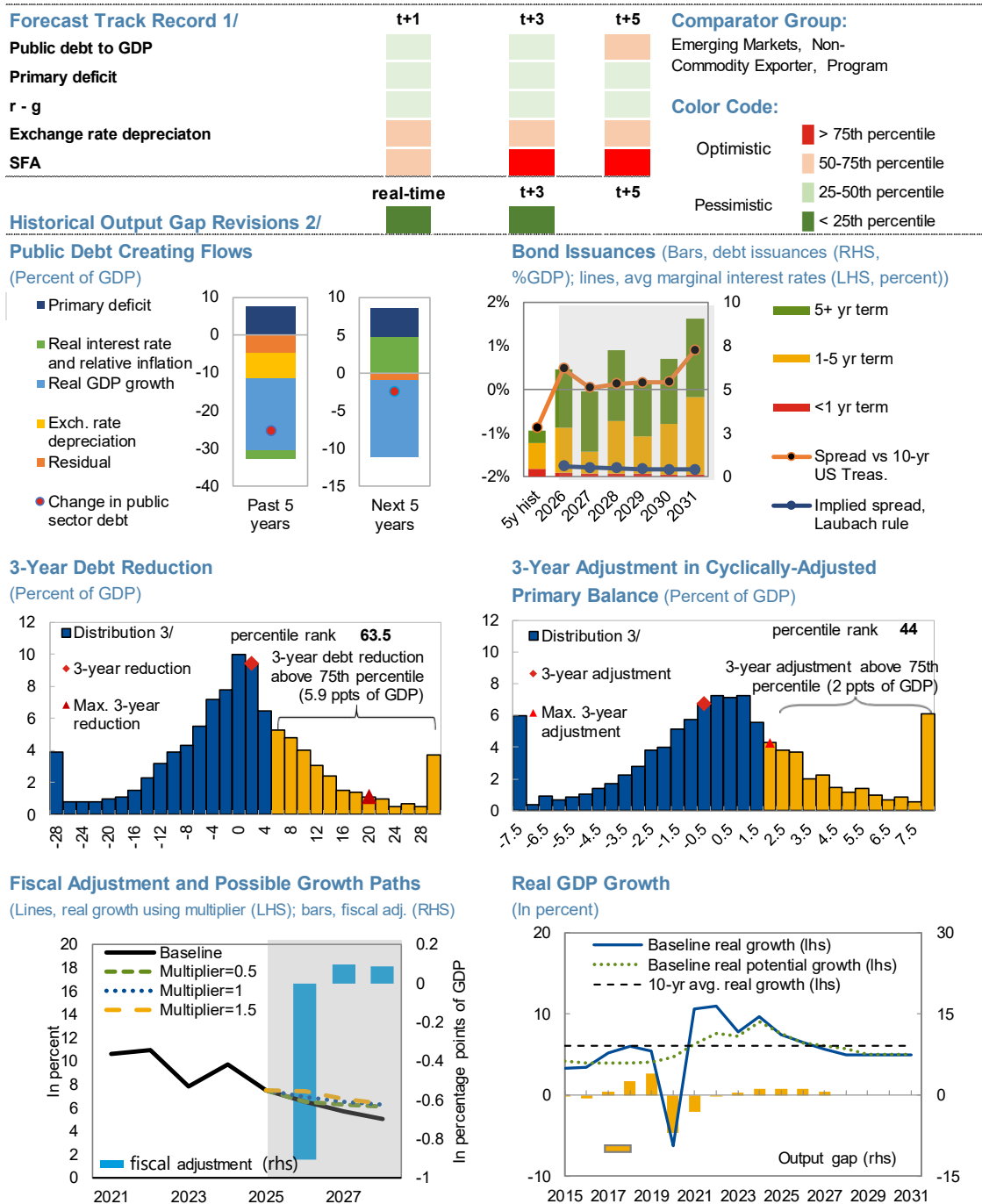
|                                           | Actual | Medium-term projection |      |      |      |      |      | Extended projection |      |      |      |
|-------------------------------------------|--------|------------------------|------|------|------|------|------|---------------------|------|------|------|
|                                           | 2025   | 2026                   | 2027 | 2028 | 2029 | 2030 | 2031 | 2032                | 2033 | 2034 | 2035 |
| Public debt                               | 34.3   | 33.6                   | 32.8 | 32.5 | 32.0 | 31.8 | 31.8 | 31.9                | 31.8 | 31.8 | 31.8 |
| Change in public debt                     | -1.2   | -0.7                   | -0.8 | -0.3 | -0.5 | -0.2 | 0.0  | 0.0                 | -0.1 | 0.0  | -0.1 |
| Contribution of identified flows          | -2.1   | -0.1                   | -0.2 | 0.1  | -0.1 | 0.2  | 0.3  | 0.2                 | 0.1  | 0.2  | 0.3  |
| Primary deficit                           | -0.1   | 0.6                    | 0.6  | 0.6  | 0.6  | 0.7  | 0.7  | 0.8                 | 0.8  | 0.9  | 1.1  |
| Noninterest revenues                      | 27.0   | 26.6                   | 26.3 | 26.2 | 26.1 | 26.0 | 26.0 | 25.9                | 25.9 | 25.8 | 25.8 |
| Noninterest expenditures                  | 26.9   | 27.2                   | 26.8 | 26.8 | 26.6 | 26.7 | 26.7 | 26.7                | 26.7 | 26.8 | 26.9 |
| Automatic debt dynamics                   | -2.1   | -1.6                   | -0.9 | -0.7 | -0.7 | -0.7 | -0.8 | -0.9                | -1.0 | -1.1 | -1.1 |
| Real interest rate and relative inflation | 0.5    | 0.5                    | 0.9  | 0.9  | 0.9  | 0.8  | 0.7  | 0.6                 | 0.5  | 0.4  | 0.5  |
| Real interest rate                        | 0.1    | -0.4                   | 0.5  | 0.6  | 0.6  | 0.5  | 0.5  | 0.4                 | 0.3  | 0.3  | 0.1  |
| Relative inflation                        | 0.4    | 1.0                    | 0.4  | 0.3  | 0.3  | 0.2  | 0.2  | 0.2                 | 0.2  | 0.2  | 0.3  |
| Real growth rate                          | -2.5   | -2.1                   | -1.8 | -1.6 | -1.5 | -1.5 | -1.5 | -1.5                | -1.5 | -1.5 | -1.5 |
| Real exchange rate                        | -0.2   | ...                    | ...  | ...  | ...  | ...  | ...  | ...                 | ...  | ...  | ...  |
| Other identified flows                    | 0.1    | 0.8                    | 0.1  | 0.1  | 0.0  | 0.3  | 0.3  | 0.4                 | 0.3  | 0.4  | 0.3  |
| Contingent liabilities                    | 0.0    | 0.0                    | 0.0  | 0.0  | 0.0  | 0.0  | 0.0  | 0.0                 | 0.0  | 0.0  | 0.0  |
| Other transactions                        | 0.1    | 0.8                    | 0.1  | 0.1  | 0.0  | 0.3  | 0.3  | 0.4                 | 0.3  | 0.4  | 0.3  |
| Contribution of residual                  | 0.9    | -0.5                   | -0.5 | -0.4 | -0.4 | -0.4 | -0.3 | -0.2                | -0.2 | -0.2 | -0.3 |
| Gross financing needs                     | 3.8    | 5.6                    | 5.0  | 5.8  | 4.8  | 5.0  | 6.3  | 5.1                 | 6.1  | 6.3  | 5.9  |
| of which: debt service                    | 3.9    | 4.9                    | 4.4  | 5.1  | 4.2  | 4.3  | 5.5  | 4.3                 | 5.2  | 5.4  | 4.8  |
| Local currency                            | 1.9    | 2.0                    | 2.8  | 3.6  | 2.8  | 3.0  | 3.6  | 3.1                 | 4.0  | 4.3  | 3.8  |
| Foreign currency                          | 2.0    | 2.9                    | 1.6  | 1.6  | 1.4  | 1.3  | 2.0  | 1.2                 | 1.2  | 1.1  | 1.1  |
| Memo:                                     |        |                        |      |      |      |      |      |                     |      |      |      |
| Real GDP growth (percent)                 | 7.5    | 6.5                    | 5.7  | 5.0  | 5.0  | 5.0  | 5.0  | 5.0                 | 5.0  | 5.0  | 5.0  |
| Inflation (GDP deflator; percent)         | 4.5    | 6.8                    | 4.0  | 3.6  | 3.5  | 3.5  | 3.5  | 3.5                 | 3.5  | 3.5  | 3.5  |
| Nominal GDP growth (percent)              | 12.4   | 11.8                   | 9.9  | 8.7  | 8.7  | 8.7  | 8.7  | 8.7                 | 8.7  | 8.7  | 8.7  |
| Effective interest rate (percent)         | 5.0    | 5.3                    | 5.6  | 5.5  | 5.5  | 5.3  | 5.2  | 4.9                 | 4.6  | 4.3  | 3.8  |

#### Contribution to Change in Public Debt



Staff commentary: Public debt is expected to hover around 32 percent of GDP over the medium-term mostly due to favorable interest-growth differentials and prudent fiscal policy. Gross financing needs are expected to increase to 5.4 percent of GDP, on average, over the medium term, but will remain manageable. Large other transactions in 2026 are due to drawdown of government deposits accumulated in 2025. Residual reflects both exchange rate movements and stock-flow adjustments. The increase in gross financing needs in 2026 is driven by the Eurobond amortization. The increase in the effective interest rate over 2026–31 is driven by (i) a rising share of domestic debt, which carries higher borrowing costs, and (ii) higher interest rates on domestic debt.

Figure 3. Georgia: Realism of Baseline Assumptions



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

1/ Projections made in the October and April WEO vintage.

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

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

Figure 4. Georgia: Medium Term Risk Analysis

## Debt Fanchart and GFN Financeability Indexes

(percent of GDP unless otherwise indicated)

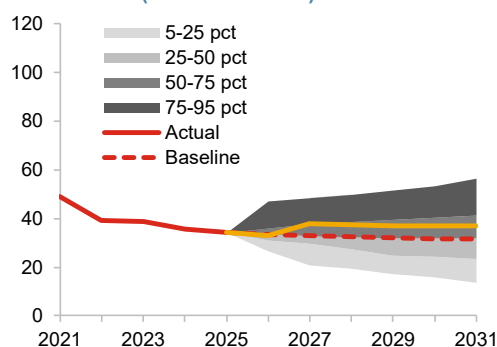
| Module                    | Indicator                                           | Value | Risk index | Risk signal     | Emg. Econ., Non-Com. Exp. Program |    |    |    |     |
|---------------------------|-----------------------------------------------------|-------|------------|-----------------|-----------------------------------|----|----|----|-----|
|                           |                                                     |       |            |                 | 0                                 | 25 | 50 | 75 | 100 |
| Debt fanchart module      | Fanchart width                                      | 42.8  | 0.6        | ...             |                                   |    |    |    |     |
|                           | Probability of debt not stabilizing (pct)           | 62.8  | 0.5        | ...             |                                   |    |    |    |     |
|                           | Terminal debt level x institutions index            | 11.6  | 0.3        | ...             |                                   |    |    |    |     |
|                           | <b>Debt fanchart index</b>                          | ...   | <b>1.4</b> | <b>Moderate</b> |                                   |    |    |    |     |
| GFN financeability module | Average GFN in baseline                             | 5.4   | 1.8        | ...             |                                   |    |    |    |     |
|                           | Bank claims on government (pct bank assets)         | 7.9   | 2.6        | ...             |                                   |    |    |    |     |
|                           | Chg. in claims on govt. in stress (pct bank assets) | 0.0   | 0.0        | ...             |                                   |    |    |    |     |
|                           | <b>GFN financeability index</b>                     | ...   | <b>4.4</b> | <b>Low</b>      |                                   |    |    |    |     |

Legend:

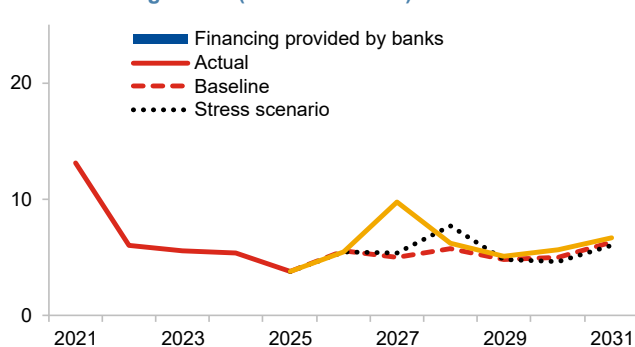
Interquartile range

Georgia

## Final Fanchart (Percent of GDP)



## Gross Financing Needs (Percent of GDP)



Triggered stress tests (stress tests not activated in gray)

Banking crisis

Commodity prices

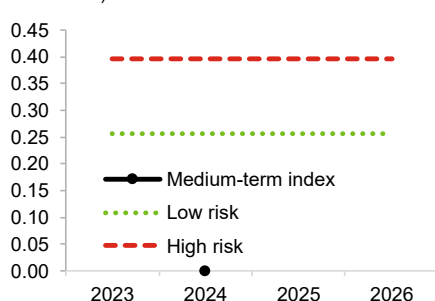
Exchange rate

Contingent liab.

Natural disaster

## Medium-Term Index

(index number)



## Medium-Term Risk Analysis

|                                                                       | Low risk threshold | High risk threshold | Weight in MTI | Normalized level |
|-----------------------------------------------------------------------|--------------------|---------------------|---------------|------------------|
| Debt fanchart index                                                   | 1.1                | 2.1                 | 0.5           | 0.3              |
| GFN financeability index                                              | 7.6                | 17.9                | 0.5           | 0.1              |
| Medium-term index (MTI)                                               | 0.3                | 0.4                 | ...           | 0.2, Low         |
| Prob. of missed crisis, 2026-2031 (if stress not predicted): 9.1 pct. |                    |                     |               |                  |
| Prob. of false alarm, 2026-2031 (if stress predicted): 55.7 pct.      |                    |                     |               |                  |

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

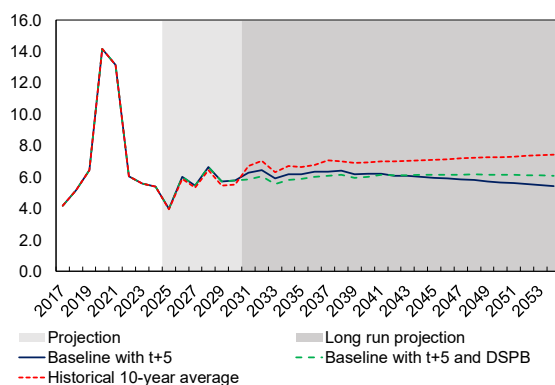
Figure 5a. Georgia: Long Term Risk Analysis

## Large Amortization Trigger

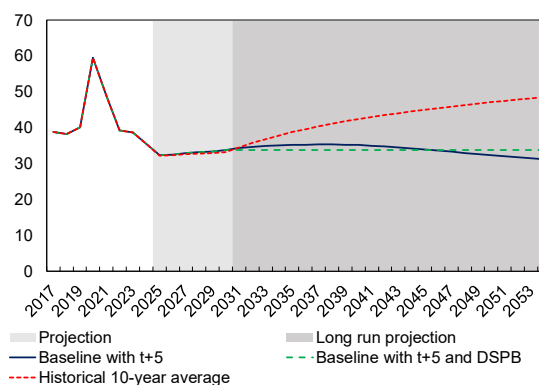
| Projection                                                      | Variable                  | Risk Indication |
|-----------------------------------------------------------------|---------------------------|-----------------|
| Medium-term extrapolation                                       | GFN-to-GDP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

## Alternative Baseline Long-Term Projections

## GFN-to-GDP Ratio



## Total Public Debt-to-GDP Ratio

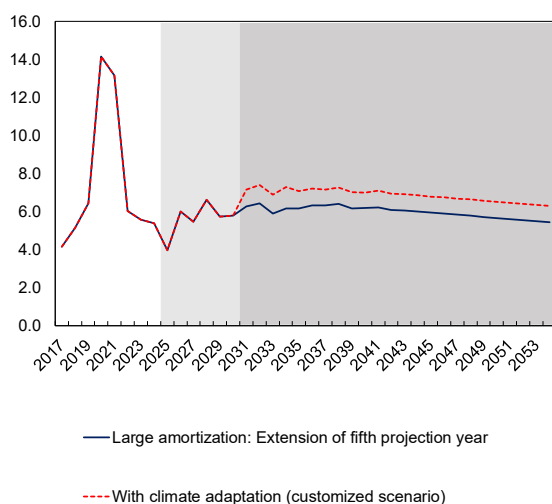


Commentary: Over the long term, there are no significant risks associated with large amortizations for Georgia. Amortization payments are projected to peak in 2031 due to the Eurobond rollover in 2026 with a five-year maturity. In the event of a large amortization, gross financing needs (GFN) and public debt would remain at comfortable levels. In such an event, staff have taken into account the country's capacity to engage in proactive debt management. Refinancing risks are mitigated by a strong investor base (particularly multilateral loans), a growing domestic debt market, and liquid assets held by the treasury. The historical scenario simulation may not be fully representative, as it reflects elevated deficits and debt levels, including the impact of the COVID-19 pandemic. Nonetheless, it underscores the importance of maintaining prudent fiscal policy and sound debt management.

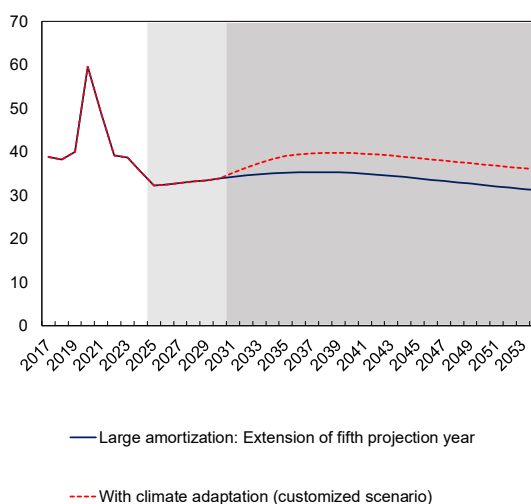
Figure 5b. Georgia: Long Term Risk Analysis

## Climate Change: Adaptation

## GFN-to-GDP Ratio

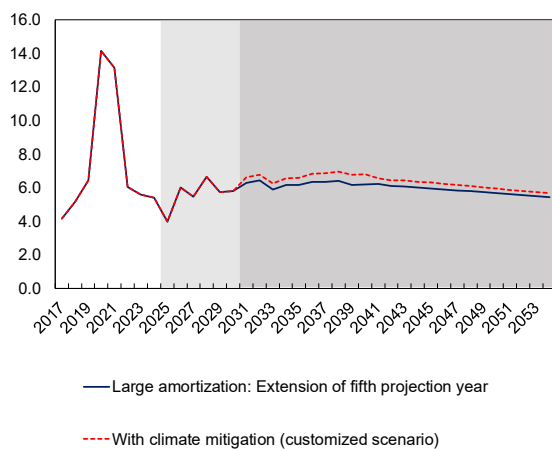


## Total Public Debt-to-GDP Ratio

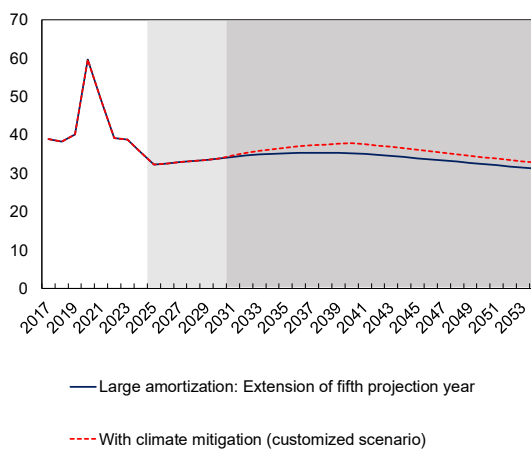


## Climate Change: Mitigation

## GFN-to-GDP Ratio



## Total Public Debt-to-GDP Ratio



Commentary: The standardized climate adaption module adds costs of investment associated with climate change adaptation of 0.8 percent of GDP per year in the medium term and declining thereafter. It suggests that long-term debt sustainability is generally robust to additional spending related to climate adaptation. The standardized mitigation module assumes frontloading of 5.7 percent of GDP per year until 2038 and zero thereafter, which are default values set according to the Staff Guidance Note on the SRDSF (2022). Such large upfront investments are not likely in Georgia. Georgia's 2030 Climate Change Strategy estimates total budget of GEL 3.5 billion for the 10-year action plan. With such investment of a little over 0.3 percent of GDP, debt is likely to be sustainable in the long-term, with downside risks in case the investments are not sufficient to offset adverse effects on GDP growth. While climate actions are expected to increase the gross financing needs and debt levels, they are projected to remain stable over the medium term.

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

**Overall Assessment:** Georgia's external position in 2025 was stronger than the level implied by medium-term fundamentals and desirable policy settings based on the results of the IMF's EBA-lite current account model. The current account deficit narrowed to a historically low level, supported by (i) the continued strength of service exports (ii) robust remittance receipts; and (iii) favorable terms of trade. Financial inflows increased to a historic high reflecting decreasing external assets for commercial banks mirroring declining dollarization. Significant reserve accumulation and valuation gains on gold assets contributed to the continued improvement of the net international investment position (NIIP). Official reserves rose by more than a third y-o-y to 100 percent of the ARA metric or USD 6.2 billion in 2025.

**Potential Policy Responses:** Given that reserves were below the ARA metric in 2024, reserve accumulation that was enabled by a stronger current account (than the estimated norm) was appropriate. Although reserves have now reached the ARA threshold, staff analysis finds that continued opportunistic FX purchases by the NBG would help build precautionary buffers given Georgia's external borrowing needs, exposure to external shocks, and relatively high dollarization (Box 1). FX sales should remain limited to addressing disorderly market conditions. At the same time, the authorities should enhance competitiveness by sustaining structural reforms, including targeted infrastructure investments and continued institutional reforms.

### Foreign Assets and Liabilities: Position and Trajectory

**Background.** Georgia's NIIP continued to improve in 2025, narrowing to -86 percent of GDP at end-2025 from -89 percent in 2024. The improvement largely reflects reserve accumulation, exchange rate appreciation and GDP growth outpacing the nominal increase in external liabilities. The net portfolio position declined somewhat from last year as banks reduced their FX assets in line with declining domestic dollarization. The government's prudent fiscal stance contributed to a reduction in external debt from 67.1 to 65.8 percent of GDP. The composition of Georgia's NIIP continues to moderate its vulnerability to shocks. As of end-2025, FDI accounted for more than half of gross external liabilities while the share of debt in total liabilities decreased from nearly 50 to 42 percent over the past five years, reflecting fiscal prudence, a shift toward domestic debt issuance, and a sharp decline in private external debt as percent of GDP (by nearly 60 percentage points over the same period) supported by lari appreciation, tighter macroprudential measures and strong GDP growth.

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

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

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                |                       |                      |                       |                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-----------------------|----------------------|-----------------------|---------------------|
| 2025 (% GDP)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | NIIP:<br>-85.5 | Gross Assets:<br>51.9 | Debt Assets:<br>12.4 | Gross Liab.:<br>137.5 | Debt Liab.:<br>57.9 |
| <b>Current Account</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |                |                       |                      |                       |                     |
| <p><b>Background.</b></p> <p>The narrowing of the CA deficit in 2025 to a record low of 2.65 percent of GDP reflects lower import costs (partly due to the weakness in energy prices), and a significant improvement in services exports supported by a surge in tourism, ICT and higher education.<sup>2</sup> The CA deficit is projected to widen to 5.0 percent of GDP in 2026 with energy prices rising significantly and tourism declining due to the war in the Middle East, with the whose eventual impact depending on the duration and intensity of the conflict. The potential start of the Eagle Hills real estate project could increase FDI but will also raise imports, their level depending on the domestic content of project spending.<sup>3</sup></p> <p>Over the medium-term, the CA deficit is expected to stabilize at around 5.0 percent of GDP, underpinned by continued fiscal prudence, resilient services exports, and economic growth reverting to potential.</p> <p><b>Assessment.</b> The CA approach of the IMF's EBA-lite methodology compares the cyclically adjusted CA deficit in 2025 with the model-estimated CA norm. The cyclically adjusted CA balance is estimated at -2.0 percent of GDP, implying a positive gap of 2.3 percent of GDP against the 2025 norm of -4.3 percent of GDP. Model fundamentals, including the per capita output gap with advanced economies, the growth differential with the rest of the world and the sizeable negative NIIP as a percent of GDP, imply a norm that is about 7 percentage points of GDP weaker than the observed cyclically adjusted CA balance. A moderate positive policy gap emerges due to the tighter cyclically adjusted fiscal stance compared to the rest of the world. On net, the estimated CA gap corresponds to a REER undervaluation of 6.4 percent.</p> |                |                       |                      |                       |                     |

<sup>2</sup> As in previous years, this estimate will likely be revised upward by about 1 percent of GDP, with the actual current account deficit reaching closer to 4.0 percent of GDP due to higher reinvested earnings (typically subject to large fluctuations and subsequent revisions) in FDI that is mirrored in additional negative income in the current account.

<sup>3</sup> The project has not yet been incorporated into the baseline projections. It is expected to bring in approximately USD 6.5 billion in FDI over the next decade.

**Georgia: Model Estimates for 2025**  
(in percent of GDP)

|                                                                         | CA model 1/         | REER model 1/ |
|-------------------------------------------------------------------------|---------------------|---------------|
|                                                                         | (in percent of GDP) |               |
| <b>CA-Actual</b>                                                        | <b>-2.7</b>         |               |
| Cyclical contributions (from model) (-)                                 | -0.4                |               |
| Natural disasters and conflicts (-)                                     | -0.3                |               |
| <b>Adjusted CA</b>                                                      | <b>-2.0</b>         |               |
| <b>CA Norm</b> (from model) 2/                                          | <b>-4.3</b>         |               |
| Adjustments to the norm (+)                                             | 0.0                 |               |
| <b>Adjusted CA Norm</b>                                                 | <b>-4.3</b>         |               |
| <b>CA Gap</b>                                                           | <b>2.3</b>          | <b>-2.5</b>   |
| o/w Relative policy gap                                                 | 0.9                 |               |
| Elasticity                                                              | -0.4                |               |
| <b>REER Gap</b> (in percent)                                            | <b>-6.4</b>         | <b>6.9</b>    |
| 1/ Based on the EBA-lite 3.0 methodology                                |                     |               |
| 2/ Cyclically adjusted, including multilateral consistency adjustments. |                     |               |

### Real Exchange Rate

**Background.** The recent appreciation trend reversed in 2024 amid heightened exchange rate volatility, with the REER depreciating by about 10 percent from its peak in mid-2023 to end-2025. Movements were more pronounced in nominal terms due to the inflation differential, with the NEER appreciating nearly 78 percent between 2021 and 2024 and stabilizing in 2024–25. Nominal appreciation resumed in 2025 as the current account improved markedly and the election-related volatility subsided.

**Assessment.** The REER approach suggests an overvaluation of 7.1 percent. Although the CA approach (suggesting *an undervaluation*) is preferred in the bottom-line assessment, the results from the REER approach provide a complementary perspective. While the sizeable negative NIIP position is consistent with a higher CA deficit under the CA approach, the REER model implies a need for a more depreciated REER for countries with a large negative NIIP. Therefore, given the caveats of both approaches and the high uncertainty in the global economy, the continued reserve accumulation remains appropriate, alongside maintaining exchange rate flexibility and advancing structural reforms to enhance competitiveness.

### Capital and Financial Accounts: Flows and Policy Measures

**Background.** With uncertainty easing in 2025 and the current account strengthening, dollarization declined and banks reduced their foreign portfolio positions, resulting in net portfolio inflows of 0.5 percent of GDP, a swing of nearly 4 percentage points of GDP relative to 2024. Together with robust private external borrowing and a recovery in FDI of 3.6 percent of

GDP, the financial account registered net inflows of 5.8 percent of GDP. This more than financed the current account deficit and contributed to the significant reserve accumulation in 2025. Financial flows in 2026 will likely be marked by higher uncertainty due to the war in the Middle East. They will be affected by potentially tighter financial conditions but also upside risks, including due to funds diverted from the Gulf and elsewhere seeking safer havens. In the medium-term, financial flows are expected to stabilize in line with CA financing needs, supported by portfolio inflows, external borrowing, and FDI.

**Assessment.** The overall balance of payments surplus in 2025 reflects the narrowing CA deficit, the reversal of portfolio outflows and a modest improvement in FDI. Going forward, maintaining exchange rate flexibility and enhancing external competitiveness will be key to mitigating risks from potential capital outflows.

### FX Intervention and Reserves Level

**Background.** Gross international reserves (GIR) rose to a historic high of USD 6.2 billion in 2025 (100 percent of the ARA metric), up from USD 4.4 billion in 2024. The rise in reserves reflects three main factors: (i) a marked narrowing of the current account deficit; (ii) strong financial inflows; and (iii) valuation gains of USD 463 million, primarily reflecting higher gold prices which boosted the value of NBG's gold reserve assets to about 16.3 percent of reserves at end-2025.

**Assessment.** Subject to the severity and duration of the current volatility in commodity prices, staff projects GIR to remain stable at USD 6.2 billion in 2026 (100 percent of the ARA metric), assuming that commercial banks would largely provide the additional external financing needed for the central bank to at least retain reserves at the 100 percent of ARA threshold despite a higher current account deficit. Over the medium term, reserve coverage is projected to increase to around 120 percent of ARA, in line with the authorities' objective to strengthen FX buffers and assuming continued resilience in external receipts from emerging sectors and FDI to support infrastructure spending. The NBG should continue opportunistic FX purchases and limit FX sales to addressing disorderly market conditions, consistent with IPF guidance and staff analysis (Box 1).

## Annex V. Data Issues

| Table 1. Georgia: Data Adequacy Assessment for Surveillance                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                 |        |                               |                            |                                   |                           |               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|--------|-------------------------------|----------------------------|-----------------------------------|---------------------------|---------------|
| Data Adequacy Assessment Rating <sup>1</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                 |        |                               |                            |                                   |                           |               |
| A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                 |        |                               |                            |                                   |                           |               |
| Questionnaire Results <sup>2</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                 |        |                               |                            |                                   |                           |               |
| Assessment                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | National Accounts                                                                               | Prices | Government Finance Statistics | External Sector Statistics | Monetary and Financial Statistics | Intersectoral Consistency | Median Rating |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | A                                                                                               | A      | A                             | A                          | A                                 | A                         | A             |
| Detailed Questionnaire Results                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                 |        |                               |                            |                                   |                           |               |
| Data Quality Characteristics                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                 |        |                               |                            |                                   |                           |               |
| Coverage                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | A                                                                                               | A      | A                             | A                          | A                                 |                           |               |
| Granularity <sup>3</sup>                                                                                                                                                                                                                                                                                                                                                                                                                                                            | A                                                                                               |        | A                             | A                          | A                                 |                           |               |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                 |        | A                             |                            | A                                 |                           |               |
| Consistency                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                 |        | A                             | A                          |                                   | A                         |               |
| Frequency and Timeliness                                                                                                                                                                                                                                                                                                                                                                                                                                                            | A                                                                                               | A      | A                             | A                          | A                                 |                           |               |
| Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.                                                                                                                                                                                                                                                                                                                                     |                                                                                                 |        |                               |                            |                                   |                           |               |
| <sup>1</sup> The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.                                                                                                                                                                                                                                        |                                                                                                 |        |                               |                            |                                   |                           |               |
| <sup>2</sup> The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF <i>Review of the Framework for Data Adequacy Assessment for Surveillance</i> , January 2024, Appendix I).                                                                                                                                                                                |                                                                                                 |        |                               |                            |                                   |                           |               |
| <sup>3</sup> The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.    |                                                                                                 |        |                               |                            |                                   |                           |               |
| A                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | The data provided to the Fund are adequate for surveillance.                                    |        |                               |                            |                                   |                           |               |
| B                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | The data provided to the Fund have some shortcomings but are broadly adequate for surveillance. |        |                               |                            |                                   |                           |               |
| C                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | The data provided to the Fund have some shortcomings that somewhat hamper surveillance.         |        |                               |                            |                                   |                           |               |
| D                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | The data provided to the Fund have serious shortcomings that significantly hamper surveillance. |        |                               |                            |                                   |                           |               |
| <b>Rationale for staff assessment.</b> The data available in all sectors are of high quality and timely. Some minor shortcomings remain in real and external sector monitoring: national accounts data could provide seasonally adjusted GDP at source and a breakdown of investment into public and private sectors; and external trade volume and price data could be provided at a monthly frequency (currently available quarterly).                                            |                                                                                                 |        |                               |                            |                                   |                           |               |
| <b>Changes since the last Article IV consultation</b> Aggregate ratings remain unchanged from the previous AIV Consultation (2025).                                                                                                                                                                                                                                                                                                                                                 |                                                                                                 |        |                               |                            |                                   |                           |               |
| <b>Corrective actions and capacity development priorities</b> Planned CD support for Georgia includes residential property statistics and expanding the institutional coverage of government finance statistics.                                                                                                                                                                                                                                                                    |                                                                                                 |        |                               |                            |                                   |                           |               |
| <b>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff.</b> Social and labor indicators compared to peers, including per capita GDP (PPP), poverty, inequality, unemployment, wages, and coverage of social benefits are sourced from World Bank (WDI) and International Labor Organization (ILO). Data on the rule of law and corruption perceptions are sourced from World Justice Project and Transparency International. |                                                                                                 |        |                               |                            |                                   |                           |               |
| <b>Other data gaps.</b> Staff do not see any key data gaps outside of those identified in the questionnaire.                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                 |        |                               |                            |                                   |                           |               |

| Table 2. Georgia: Data Standards Initiatives                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Georgia subscribes to the Special Data Dissemination Standard (SDDS) since May 2010 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board ( <a href="https://dsbb.imf.org/">https://dsbb.imf.org/</a> ). |

**Table 3. Georgia: Table of Common Indicators Required for Surveillance***As of May 15, 2026*

|                                                                                                          | Data Provision to the Fund |               |                                |                                     | Publication under the Data Standards Initiatives through the National Summary Data Page |                                  |                                    |                                   |
|----------------------------------------------------------------------------------------------------------|----------------------------|---------------|--------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------|----------------------------------|------------------------------------|-----------------------------------|
|                                                                                                          | Date of Latest Observation | Date Received | Frequency of Data <sup>7</sup> | Frequency of Reporting <sup>7</sup> | Expected Frequency <sup>7,8</sup>                                                       | Announced Frequency <sup>9</sup> | Expected Timeliness <sup>7,8</sup> | Announced Timeliness <sup>9</sup> |
| Exchange Rates                                                                                           | 2026-05-13                 | 2026-05-14    | D                              | D                                   | D                                                                                       | ...                              | ...                                | ...                               |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities <sup>1</sup>            | 2026-04                    | 2026-05       | M                              | M                                   | M                                                                                       | M                                | 1W                                 | 7D                                |
| Reserve/Base Money                                                                                       | 2026-03                    | 2026-04       | M                              | M                                   | M                                                                                       | M                                | 2W                                 | 7D                                |
| Broad Money                                                                                              | 2026-03                    | 2026-04       | M                              | M                                   | M                                                                                       | M                                | 1M                                 | 20D                               |
| Central Bank Balance Sheet                                                                               | 2026-03                    | 2026-04       | M                              | M                                   | M                                                                                       | M                                | 2W                                 | 7D                                |
| Consolidated Balance Sheet of the Banking System                                                         | 2026-03                    | 2026-04       | M                              | M                                   | M                                                                                       | M                                | 1M                                 | 20D                               |
| Total assets of other depository corporations <sup>2</sup>                                               | 2026-03                    | 2026-04       | M                              | M                                   | M                                                                                       | M                                | 1M                                 | 20D                               |
| Total credit from other depository corporations <sup>2</sup>                                             | 2026-03                    | 2026-04       | M                              | M                                   | M                                                                                       | M                                | 1M                                 | 20D                               |
| Interest Rates <sup>3</sup>                                                                              | 2026-05-13                 | 2026-05-14    | D                              | D                                   | D                                                                                       | ...                              | ...                                | ...                               |
| Consumer Price Index                                                                                     | 2026-04                    | 2026-05       | M                              | M                                   | M                                                                                       | M                                | 1M                                 | 5D                                |
| Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> -General Government <sup>5</sup> | 2026-04                    | 2026-05       | M                              | M                                   | A                                                                                       | Q                                | 2Q                                 | NLT 2M                            |
| Revenue, Expenditure, Balance and Composition of Financing <sup>4</sup> -Central Government              | 2026-04                    | 2026-05       | M                              | M                                   | M                                                                                       | M                                | 1M                                 | NLT 1M                            |
| Stocks of Central Government and Central Government-Guaranteed Debt <sup>6</sup>                         | 2026-03                    | 2026-04       | M                              | M                                   | Q                                                                                       | Q                                | 1Q                                 | NLT 1M                            |
| Total stock of General Government Debt <sup>5</sup>                                                      | 2026-03                    | 2026-04       | M                              | M                                   | Q                                                                                       | ...                              | 4M                                 | ...                               |
| External Current Account Balance                                                                         | 2025-12                    | 2026-03       | Q                              | Q                                   | Q                                                                                       | Q                                | 1Q                                 | 1Q                                |
| Exports and Imports of Goods and Services                                                                | 2026-03                    | 2026-04       | M                              | M                                   | M                                                                                       | M                                | 8W                                 | 19D                               |
| GDP/GNP                                                                                                  | 2025-12                    | 2026-03       | Q                              | Q                                   | Q                                                                                       | Q                                | 1Q                                 | 80D                               |
| Gross External Debt                                                                                      | 2025-12                    | 2026-03       | Q                              | Q                                   | Q                                                                                       | Q                                | 1Q                                 | 1Q                                |
| International Investment Position                                                                        | 2025-12                    | 2026-03       | Q                              | Q                                   | Q                                                                                       | Q                                | 1Q                                 | 1Q                                |

<sup>1</sup> Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

<sup>2</sup> Other depository corporations include all deposit-taking corporations (except for the central bank) and money market funds.

<sup>3</sup> Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

<sup>4</sup> Foreign, domestic bank, and domestic non-bank financing.

<sup>5</sup> The general government consists of the central government (budgetary funds, extra-budgetary funds, and social security funds) and state and local governments. The total stock of general government debt is required for SDDS Plus countries and encouraged for SDDS and e-GDDS countries.

<sup>6</sup> Including currency and maturity composition.

<sup>7</sup> Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semi-annual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

<sup>8</sup> Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan. Indicators that are not in the IMF Data Standards Initiatives are shown as "...".

<sup>9</sup> Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



# GEORGIA

May 19, 2026

## STAFF REPORT FOR THE 2026 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

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## RELATIONS WITH THE FUND

(As of April 30, 2026)

### Membership Status

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

### General Resources Account

|                           | SDR Million | Percent of Quota |
|---------------------------|-------------|------------------|
| Quota                     | 210.40      | 100.00           |
| Fund Holdings of Currency | 533.96      | 253.79           |
| Reserve Tranche Position  | 0.02        | 0.01             |

### SDR Department

|                           | SDR Million | Percent Allocation |
|---------------------------|-------------|--------------------|
| Net Cumulative Allocation | 345.62      | 100.00             |
| Holdings                  | 343.90      | 99.50              |

### Outstanding Purchases and Loans

|                       | SDR Million | Percent of Quota |
|-----------------------|-------------|------------------|
| Extended Arrangements | 323.58      | 153.79           |

### Latest Financial Arrangements

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

### Projected Payments to the Fund

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

|                  | Forthcoming  |              |              |              |              |
|------------------|--------------|--------------|--------------|--------------|--------------|
|                  | 2026         | 2027         | 2028         | 2029         | 2030         |
| Principal        | 76.17        | 78.17        | 68.17        | 58.17        | 38.42        |
| Charges/Interest | 7.63         | 7.84         | 5.31         | 3.07         | 1.17         |
| <b>Total</b>     | <b>81.80</b> | <b>86.00</b> | <b>73.47</b> | <b>61.23</b> | <b>39.59</b> |

## **Safeguards Assessments**

The most recent safeguards assessment was conducted in 2022. The assessment found the safeguards framework of the NBG generally strong, but independent oversight by the board has been constrained by an executive majority owing to vacancies in non-executive positions. The NBG has implemented most of the recommendations of the 2022 assessment, including strengthening financial autonomy in the NBG Law by removing the possibility of discretionary transfers to the government. The proposed amendments to strengthen independent board oversight in the NBG Law remain outstanding.

## **Implementation of Multilateral Debt Relief Initiative (MDRI)**

Not applicable.

## **Implementation of HIPC Initiative**

Not applicable.

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

Not applicable.

## **Exchange Rate Arrangements**

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

## **Program Engagement**

A 3-year SBA was approved on June 15, 2022, with a total access to SDR 210.4 million (100 percent of quota). The Georgian authorities treated the SBA as precautionary. The first (and only) review of the SBA was completed on December 21, 2022. The program expired on June 14, 2025.

## Article IV Consultation

The 2025 Article IV consultation was concluded on July 21, 2025. The published Staff Report is available at <https://www.imf.org/-/media/files/publications/cr/2025/english/1geoea2025001-source-pdf.pdf>

## FSAP Participation

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

## Technical Assistance

The IMF provided considerable technical assistance (TA) to Georgia in FY2026. Specific areas of TA included:

- **Fiscal:** SOE reform (progress, challenges, and next steps); strengthening SOE financial oversight, fiscal risks management and implementation; IPSAS implementation support and training; modernizing the tax monitoring department; taxation of capital markets; assessing progress in tax administration reforms (e.g., MTRS, tax monitoring, TADAT); enhancing treasury functions (follow up on treasury digitalization)
- **Monetary/Financial:** enhancing supervisory processes (credit risk standardized approach); managing operational risk (developing internal supervisory procedures and capacity); developing a consolidated supervision framework (review and updates to existing regulations); enhancing monetary policy modeling; Central Bank governance law reform; strengthening systemic liquidity (modernizing collateral framework and repo market development)
- **Legal:** Central Bank governance law reform; legal foundations for local capital market development
- **Statistics:** extending the scope and coverage of residential property price indices; expanding institutional coverage of government finance statistics

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

## Resident Representative

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

## RELATIONS WITH THE WORLD BANK GROUP AND OTHER IFIS

(As of April 30, 2026)

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

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

**Statement by Jeroen Clicq, Executive Director,  
and Vakhtang Sikharulishvili, Advisor for Georgia  
June 8, 2026**

*On behalf of the Georgian authorities, we thank Mr. Alejandro Hajdenberg and his team for their dedicated and constructive engagement during the Article IV consultation and for the comprehensive set of reports. **The authorities broadly share staff's views on recent developments and risks and value the Fund's continued engagement.** Despite heightened regional and global uncertainty, Georgia has demonstrated solid macroeconomic performance, with robust growth exceeding that of most regional peers, resulting from the implementation of prudent macroeconomic policies, including well-sequenced structural reforms over recent years. Reflecting this progress, dollarization is gradually receding, alongside rising confidence in the lari. Georgia's geographical position, linking Europe and Asia via the Caucasus, is strategically vital and offers a safe and reliable alternative to established routes that have become increasingly vulnerable to geopolitical tensions and supply chain disruptions.*

The authorities remain firmly committed to maintaining prudent macroeconomic policies and to advancing reforms to support inclusive and long-term growth. The Fund's close engagement with Georgia through a wide spectrum of technical assistance (TA) provides a valuable anchor for the ongoing reform process, ensuring continuity in policy implementation and a strong focus on macroeconomic and institutional resilience.

### **Recent Developments and Outlook**

**Macroeconomic buffers and policy outcomes have strengthened markedly across several dimensions.** Real GDP growth reached 7.5 percent in 2025, and early estimates for the first quarter of 2026 indicate an acceleration to 9.1 percent. Average growth over the past five years, 2021-2025, was 9.3 percent, and growth is expected to remain above 5 percent in the coming years. The economy's potential has increased, with economic activity shifting toward more productive sectors that are less import sensitive, including ICT, education, and transportation. The current account deficit narrowed to a historic low of 2.6 percent of GDP in 2025. The augmented fiscal deficit in 2025 was at a record low of 1.4 percent of GDP, while public debt declined to below 35 percent of GDP. International reserves reached a historic high of USD 6.2 billion, fully covering the IMF's ARA metric, underscoring Georgia's strong external position, and solid macroeconomic fundamentals.

**The war in the Middle East is not expected to have a significant effect on Georgia's current account through the goods trade channel,** given the relatively small share of Middle Eastern countries in exports (4.9 percent) and imports (3.9 percent) as of January 2026. With fixed-term contracts for natural gas purchases, and locally produced hydropower-based electricity, which accounts for nearly 80 percent of total electricity generation, pressures from the energy channel are expected to remain contained. However, the tourism channel is more material, as the Middle East accounts for around 20-21 percent of tourism revenues as of January 2026. While a potential decline in tourism from this region would weigh on the current account, the overall impact is expected to remain moderate and largely confined to the tourism industry. Any policy response to Middle East war-related spillovers would be carefully calibrated, targeted, temporary, and fully accommodated within the existing budget envelope, ensuring that fiscal discipline and macroeconomic stability are preserved.

## **Fiscal Policy**

**The fiscal policy remains disciplined, and the authorities reaffirm their strong commitment to continuing prudent fiscal policy.** Conservative budgeting and prudent fiscal planning, anchored by safe level of deficit and debt levels, provides a robust buffer against downside risks, including those stemming from the Middle East war. The 2026 budget maintains a 2.5 percent deficit target, based on conservative revenue assumptions and a planned rebound in capital spending. While risks to capital spending execution remain, the authorities are confident that recent reforms, particularly in procurement, will materially strengthen execution.

Sustained public investment in transport infrastructure over nearly two decades, with capital spending on highways alone averaging about 7–8 percent of GDP, has ensured that the East–West Highway is now largely complete and fully operational. The authorities are shifting their focus to last-mile connectivity, with current investments targeting improved links to the Turkish, Armenian, and Azerbaijani borders, alongside upgrades to the railway network and the development of new ports and airports, thereby further enhancing Georgia's role as a regional transit hub.

## **Monetary and Financial Sector Policies**

**In 2025, inflation on average slightly exceeded the 3 percent target, reaching 3.9 percent.** This increase was largely driven by a low base effect from the previous year, particularly in the food sector. After reaching a peak of 5.2 percent in October 2025, headline inflation gradually declined to 4.3 percent by March 2026. However, the persistent disruptions to shipping through the Strait of Hormuz are feeding a renewed supply-side inflation shock. In Georgia, fuel prices have already increased, and headline inflation rose to 5.9 percent in April 2026, moving further above target. In response to these developments, on May 6, 2026, the Monetary Policy Committee (MPC) of the National Bank of Georgia (NBG) raised the monetary policy (refinancing) rate by 25 basis points to 8.25 percent. The NBG remains fully committed to maintaining price stability as well as a prudent policy stance and stands ready to pursue a tighter policy stance if needed, to ensure that inflation returns to target in a timely and sustained manner.

**The NBG remains firmly committed to building FX reserves whenever market conditions permit.** The strong reserve position has been a key factor underpinning positive assessments by rating agencies. Fitch recently revised Georgia's outlook from **negative to stable (Fitch BB / stable)**, with the continued accumulation of reserve assets cited as a key driver.

**The financial sector remains sound and resilient. The banking sector is well capitalized and maintains strong liquidity buffers.** Credit activity is broadly in line with economic growth, and the ratio of total credit to GDP is gradually converging toward its long-term trend. The banking sector continues to demonstrate robust financial performance, including high asset quality. Household credit standards are sound, the distribution of LTV and PTI ratios is well contained, and the share of non-performing loans remains low at 2.6 percent as of April 2026, further underscoring the sector's resilience.

**The NBG continues to actively address systemic challenges, with dollarization declining following policy measures.** The NBG increased the threshold for unhedged foreign-currency loans from 750,000 to 1,000,000 GEL, effective July 1, 2026, further incentivizing local currency lending.

**Institutional governance has been significantly strengthened, reinforcing credibility and accountability, as also noted by staff.** The NBG has almost fully implemented most recommendations from the IMF's 2022 Safeguards Assessment, including the elimination of discretionary transfers to the government. The authorities will continue close cooperation with the Fund to further enhance central bank governance in line with international best practices.

**The supervisory framework is being actively modernized and strengthened to align evolving risks and proactively address emerging challenges.** These efforts aim to contain the buildup of systemic risks while fostering competition. To enhance consolidated supervision of banking groups and more actively manage cross-border activities, work has commenced on developing a dedicated framework in close cooperation with international partners. Building on the NBG expertise, Parliament adopted the Law of Georgia on Factoring, bringing factoring companies under the NBG's regulatory and supervisory oversight, effective January 1, 2027. The NBG also introduced dedicated stablecoin regulations in March 2026 and is preparing a comprehensive prudential supervision framework for all virtual asset activities by September 2026. In support of building a sustainable finance framework, the NBG has developed a sustainable finance taxonomy and an accompanying regulatory framework. In addition, various initiatives have been launched to raise awareness, enhance transparency, and strengthen ESG risk management practices within the banking sector.

### **Structural Reforms and governance**

Structural reforms remain ongoing, including in land and education, alongside continued infrastructure investments. Combatting corruption remains firmly at the front of the government's agenda. **On SOEs, the authorities have fully embraced the TA recommendations and are decisively updating the 2026–27 action plan accordingly.** Planned measures include expanding Ministry of Finance oversight to all corporations with annual turnover above GEL 10 million, as well as to major general government SOEs, thereby strengthening fiscal risk management and transparency. SOE law reform is firmly envisaged, with action plans updated annually and implemented over the medium-term. Risks from the new development corporation are effectively mitigated by strengthened Ministry of Finance oversight, including veto powers over key decisions.

### **Engagement with Fund**

**The Georgian authorities are grateful to the Fund for the extensive, well-targeted TAs provided in FY2026, which has been instrumental in advancing key reforms and strengthening institutional capacity.** The authorities remain fully committed to close engagement with the Fund in these areas of cooperation to further support macroeconomic stability and sustainable long-term growth.

In line with their commitment to transparency, the Georgian authorities agree with the publication of the staff report and the accompanying documents.