Growth has been respectable, but slowed since the 2008-09 crisis.
Growth has been mostly driven by services

Contribution to Real GDP Growth, 2011-15
(Real GDP grew by 18.2 percent)
Georgia ran high current account deficits for many years.
Two ways to look at the causes of the current account deficit

Current Account Components
(percent of GDP)

- Other (net)
- Services (net)
- Trade balance
- Current account balance

Savings-Investment Balance
(percent of GDP)

\[ \text{CAB} = S - I \]
Persistent current account deficits led to the build-up of foreign liabilities

Net Foreign Liabilities, 2015
(percent of GDP)
But, large part of the deficit is financed by Foreign Direct Investment.
Lari depreciated against the US Dollar and Euro since 2013...
...but stable or appreciated against some trading partner currencies.

Exchange Rates
(Jan'14=100. Decrease means GEL depreciation)

Exchange Rates
(Jan'14=100. Increase means GEL appreciation)
In fact, all currencies in the CCA region depreciated against the US$.

Depreciation vis-à-vis US Dollar
(percent change, Jan’14 – Mar’16)
Despite depreciating vs. US$/Euro, the Lari did not gain competitiveness
Depreciation vs. US$ exposed dollarization as a key macro-financial vulnerability in the region
Georgian banks have so far coped well with the depreciation better than their regional peers.
Strong credit growth before the 2014-15 shock and depreciation...
...led to higher leverage, raising questions about sources of future growth
Overall, Georgia has pursued prudent fiscal policy, but should be vigilant about contingent liabilities.

General Government Deficit
(in percent of GDP)

- 2006: -3.0
- 2007: -4.7
- 2008: -6.3
- 2009: -9.2
- 2010: -6.6
- 2011: -3.6
- 2012: -3.0
- 2013: -2.6
- 2014: -3.0
- 2015: -3.8
Government debt remains sustainable, but buffers are eroding
Most government debt is external, but domestic debt has grown recently

Government Debt
Domestic: $2.2 bln; External: $4.4 bln

- Eurobond 8%
- BILATERAL 11%
- IMF 2%
- EIB 4%
- ADB 12%
- EBRD 1%
- Other 9%
- 1Y Tbills 6%
- 2Y Tbonds 8%
- 5Y Tbonds 9%
- 10Y Tbonds 2%
- WB 28%
- EBRD 1%
Following a depreciation-induced rise, inflation has fallen recently in part thanks to NBG policy actions.

Inflation and Policy Rate

- Headline
- Food
- Policy rate
Bond spreads edged up reflecting higher risks and lower buffers

Sovereign Bond Spreads
(Basis Points)

Armenia
Georgia
Kazakhstan
Azerbaijan
Structural Reforms Are Needed To Boost Long-Term Growth

**Structural Reform Indicators**
*(in Global Percent Rank)*

Thank You!

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