Global growth remains lackluster

<table>
<thead>
<tr>
<th></th>
<th>World</th>
<th>U.S.</th>
<th>Euro Area</th>
<th>Emerging markets</th>
<th>China</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>3.2</td>
<td>2.6</td>
<td>2.0</td>
<td>4.0</td>
<td>6.9</td>
<td>-3.7</td>
</tr>
<tr>
<td>2016</td>
<td>3.1</td>
<td>1.6</td>
<td>1.7</td>
<td>4.2</td>
<td>6.6</td>
<td>-0.8</td>
</tr>
<tr>
<td>2017</td>
<td>3.4</td>
<td>2.2</td>
<td>1.5</td>
<td>4.6</td>
<td>6.2</td>
<td>1.1</td>
</tr>
</tbody>
</table>
Risks are to the downside

**World GDP Growth**

*(Percent change)*

- 50 percent confidence interval
- 70 percent confidence interval
- 90 percent confidence interval

Source: World Economic Outlook.

**Global Financial Stability:**

*Conditions and Risks*

- Emerging market risks
- Credit risks
- Macroeconomic risks
- Monetary and financial conditions
- Market and liquidity risks

Away from center signifies higher risks, easier monetary and financial conditions, or higher risk appetite.

Source: IMF GFSR report.
Commodity prices are expected to remain weak

Brent Crude Oil Price
(U.S. dollars per barrel)

WEO Baseline Average Oil Price:
2016: $43
2017: $51
2020: $56

Sources: Bloomberg; and IMF staff calculations.
Outlook for Georgia’s and CCA’s key export markets remains weak

Real GDP Growth (Percent)

-6  -4  -2  0  2  4  6  8  10  12

Euro area  Russia  China  Turkey  U.S.  Azerbaijan  Armenia

2001-14 average  2015  2016  2017-21 average
Policy Priorities

Outlook and Policy Actions

Global and Regional Environment
Regional growth sharply weakening, with a modest recovery projected for 2017

Real GDP Growth (Percent)

Georgia: Real GDP Growth (Percent)

- CCA
- Oil Exporters
- Oil Importers
Exports and remittances are key channels through which external conditions affect regional growth.
Growth has been supported by fiscal policy

**Oil Exporters: Government Expenditure**
(Percent of Non-oil GDP)

- AZE
- KAZ
- TKM

**Oil Importers: Government Expenditure**
(Percent of GDP)

- ARM
- GEO
- KGZ
- TJK

- 2014
- 2015
- 2016
- Non-oil fiscal balance (RHS)
- Overall fiscal balance (RHS)
External shocks have led to significant exchange rate movements within the CCA

**Oil Exporters**
(U.S. dollars per national currency, January 2010 = 100)

- AZE
- KAZ
- TKM
- UZB

**Oil Importers**
(U.S. dollars per national currency, January 2010 = 100)

- ARM
- GEO
- KGZ
- TJK
Currency adjustment has helped unwind previous real appreciations, but temporarily increased inflation.

### Real Effective Exchange Rates
*(Percent Change, Trough to Peak or vice versa)*

<table>
<thead>
<tr>
<th>Country</th>
<th>Real Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ARM</td>
<td>-50</td>
</tr>
<tr>
<td>GEO</td>
<td>-40</td>
</tr>
<tr>
<td>KGZ</td>
<td>-30</td>
</tr>
<tr>
<td>TJK</td>
<td>-20</td>
</tr>
<tr>
<td>AZE</td>
<td>-10</td>
</tr>
<tr>
<td>KAZ</td>
<td>0</td>
</tr>
<tr>
<td>TKM</td>
<td>10</td>
</tr>
<tr>
<td>UZB</td>
<td>20</td>
</tr>
</tbody>
</table>

### Nominal Effective Exchange Rates and Inflation
*(Percent)*

- **Post-shock Depreciation**
- **Pre-shock Appreciation**

### Inflation in 2016
- **Nominal effective exchange depreciation**
- **Inflation in 2016**

- **ARM**
- **GEO**
- **KGZ**
- **TJK**
- **UZB**
- **TKM**
- **TJK**
- **KAZ**
- **AZE**

45 degree line

- **real appreciation**
- **real depreciation**
Fiscal and external vulnerabilities have increased...

**Public Debt**  
*Percent of GDP*

**External Debt**  
*Percent of GDP*
Financial vulnerabilities have also risen

Non-performing Loans
(Percent of Total Loans)

Private Credit and Deposits
(Percent Change)

Note: NPLs in Azerbaijan include only the overdue portion of the loans. In Kazakhstan, the reduction reflects the de-licensing of a bank with significant NPLs and legislation changes allowing banks to move NPLs to a Special Purpose Vehicle. Turkmenistan's data are not available.

Note: Adjusted for exchange rate effects. Data not available for Turkmenistan and Uzbekistan.
NBG responded well to the external shocks
For Georgia, large individual exchange rate variations masks limited effective exchange rate movements
Lari depreciation against USD has supported exports and remittances (in Lari)

Exports and Remittances in USD
(2012Q1 = 100)

Exports and Remittances in GEL, and Tourist Arrivals
Despite dollarization, banking system remains healthy after the depreciation against USD

Credit and Deposit Dollarization (Percent)

Credit Dollarization
Deposit Dollarization

Non-Performing and Watch Loans (Percent of Total Loans)

NPLs (NBG Definition)
NPLs (Standard 90 day overdue definition)
Watch Loans
Georgia’s external position remains relatively weak

**Current Account Balance**

\( \text{Percent of GDP} \)

**External Debt**

\( \text{Percent of GDP} \)

Regional Average

<table>
<thead>
<tr>
<th>Country</th>
<th>Current Account Balance</th>
<th>External Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>GEO</td>
<td>-14</td>
<td>160</td>
</tr>
<tr>
<td>ALB</td>
<td>-12</td>
<td>150</td>
</tr>
<tr>
<td>KGZ</td>
<td>-10</td>
<td>140</td>
</tr>
<tr>
<td>TKM</td>
<td>-8</td>
<td>130</td>
</tr>
<tr>
<td>KOS</td>
<td>-6</td>
<td>120</td>
</tr>
<tr>
<td>TJK</td>
<td>-4</td>
<td>110</td>
</tr>
<tr>
<td>BHR</td>
<td>-2</td>
<td>100</td>
</tr>
<tr>
<td>SRB</td>
<td>0</td>
<td>90</td>
</tr>
<tr>
<td>TUR</td>
<td>2</td>
<td>80</td>
</tr>
<tr>
<td>BLR</td>
<td>4</td>
<td>70</td>
</tr>
<tr>
<td>ARM</td>
<td>6</td>
<td>60</td>
</tr>
<tr>
<td>KAZ</td>
<td>8</td>
<td>50</td>
</tr>
<tr>
<td>LTU</td>
<td>10</td>
<td>40</td>
</tr>
<tr>
<td>ROM</td>
<td>12</td>
<td>30</td>
</tr>
<tr>
<td>AZE</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>UKR</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>BGR</td>
<td>18</td>
<td>0</td>
</tr>
<tr>
<td>HUN</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>HRV</td>
<td>22</td>
<td></td>
</tr>
</tbody>
</table>
Risks to the outlook are tilted to the downside

- Weaker growth in trading partners (Russia, China, Europe)
- Further weakening of prices for oil and other commodities
- Increase in global risk aversion and financing costs
- Increase in global protectionism and/or Slower domestic reforms
Global and Regional Environment

Outlook and Policy Actions

Policy Priorities
Macroeconomic and Financial Policy Priorities

Fiscal
• Continue to support growth in the near term if budget space and buffers allow
• Develop credible medium-term consolidation plans to ensure sustainability

Monetary
• Focus on inflationary pressures taking into account growth and financial stability
• Strengthen monetary and exchange rate frameworks

Financial Sector
• Improve supervision, macro-prudential policies, and crisis management frameworks
Accelerating structural reforms remains key to unlocking growth potential

Structural Reform Indicators
(In Global Percent Rank)

Key Takeaways

• Commodity prices and growth in key trading partners are set to remain low in the coming years.

• A weak and fragile recovery is projected, amid subdued external environment, rising vulnerabilities, and lower policy space.

• Countries with buffers can support growth in the short run, but multi-year fiscal consolidation plans are needed to ensure debt sustainability.

• Stronger monetary policy frameworks and improved financial supervision can support more flexible exchange rates and reduce risks to inflation and financial sector stability.

• Structural reforms are needed to boost medium-term growth prospects, improve living standards, and create jobs.
Thank you!

To download this REO publication and presentation, please visit