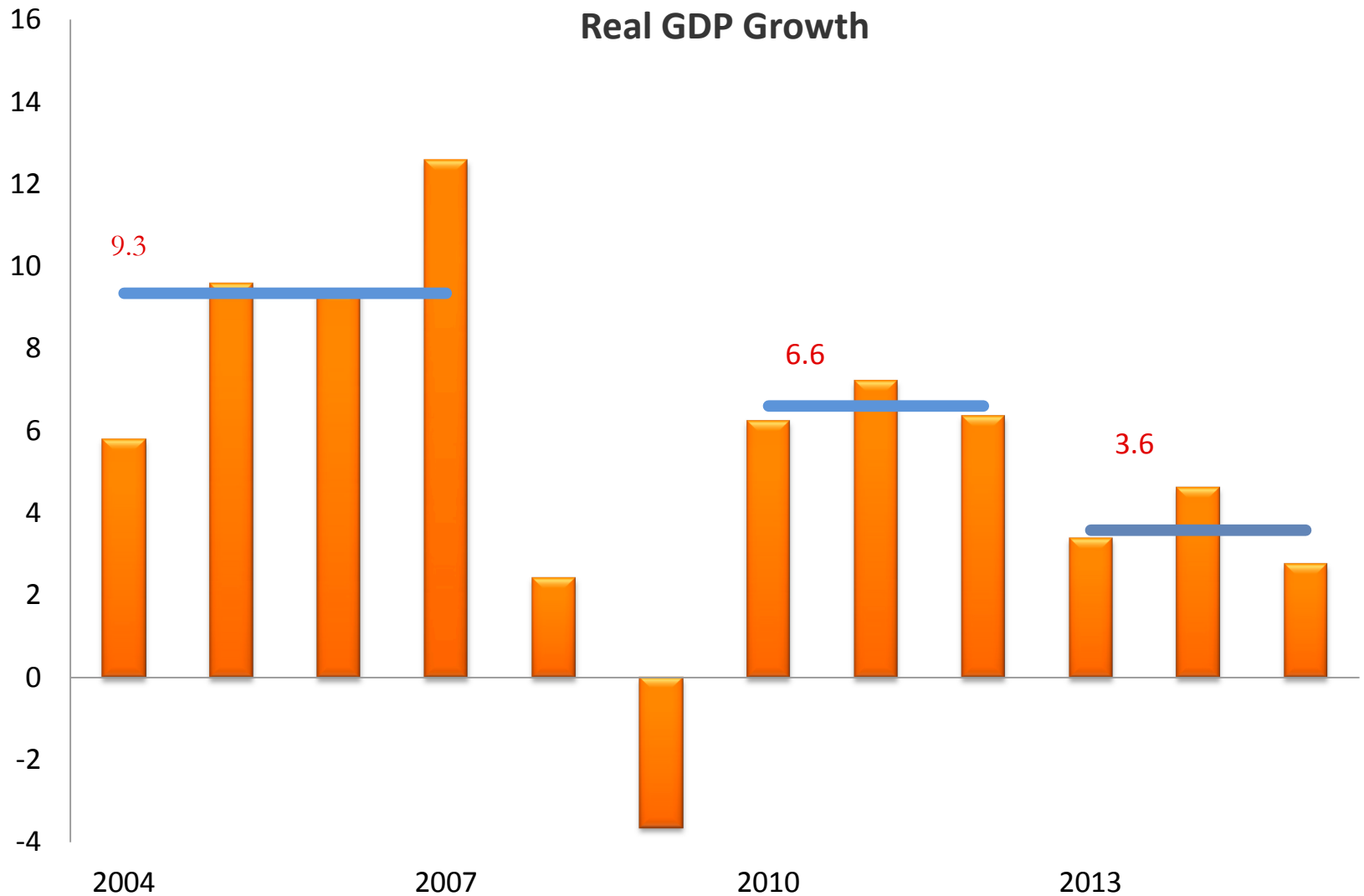


Georgia's Macro-Financial Challenges

Azim Sadikov
May 2016

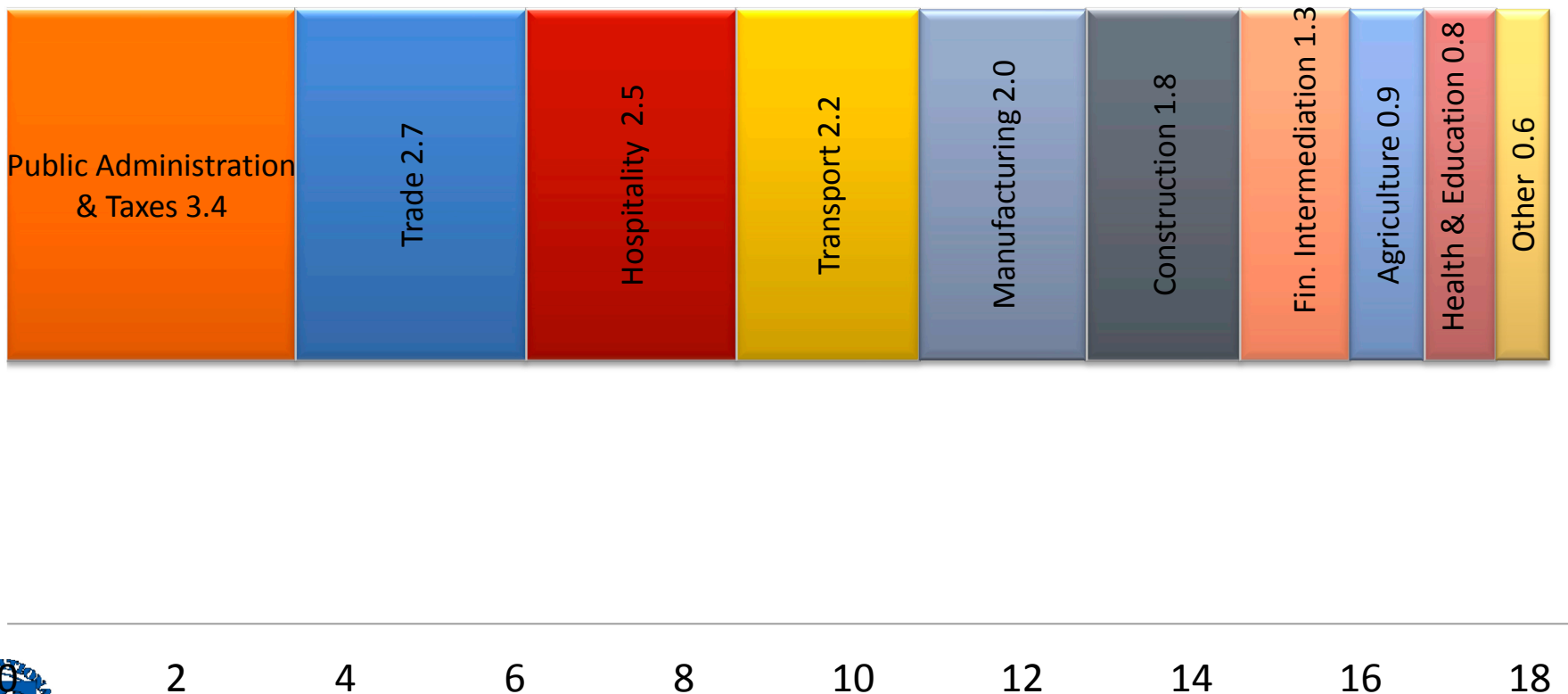


Growth has been respectable, but slowed since the 2008-09 crisis



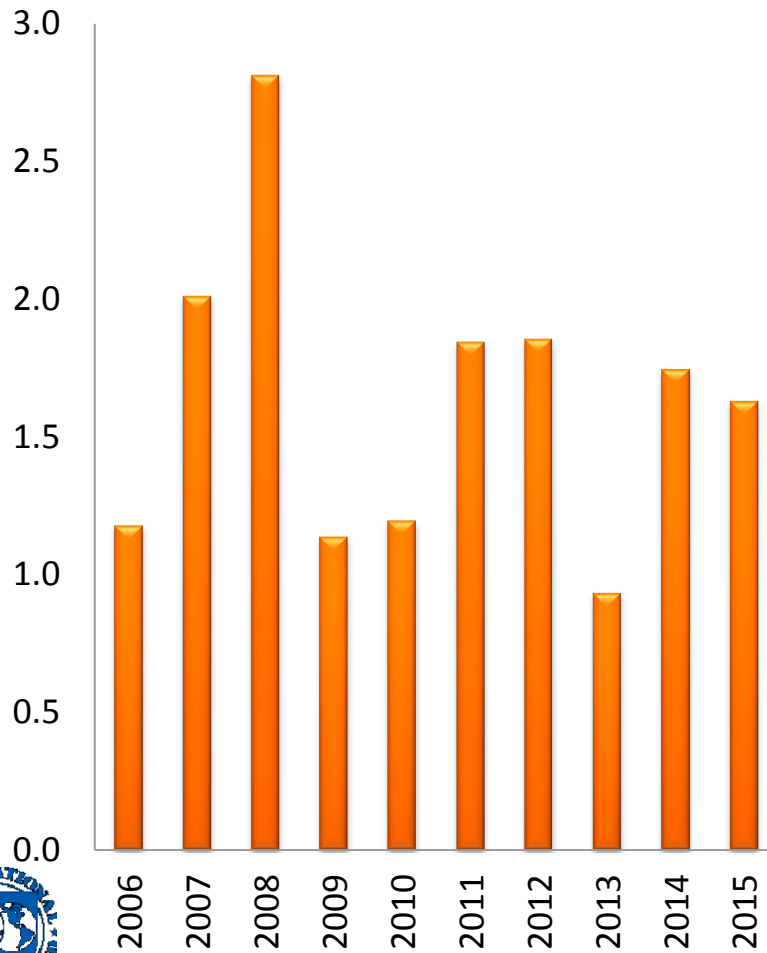
Growth has been mostly driven by services

Contribution to Real GDP Growth, 2011-15
(Real GDP grew by 18.2 percent)

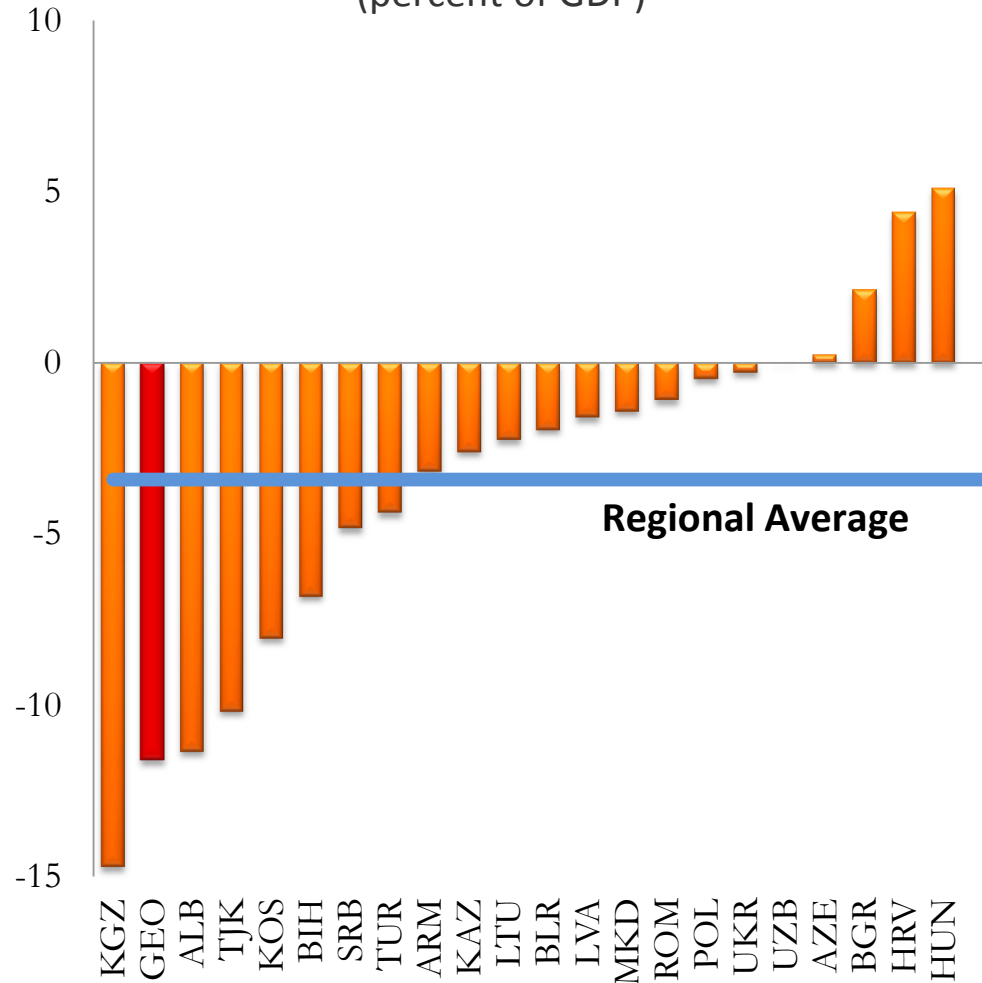


Georgia ran high current account deficits for many years

Current Account Deficit
(billions of US\$)

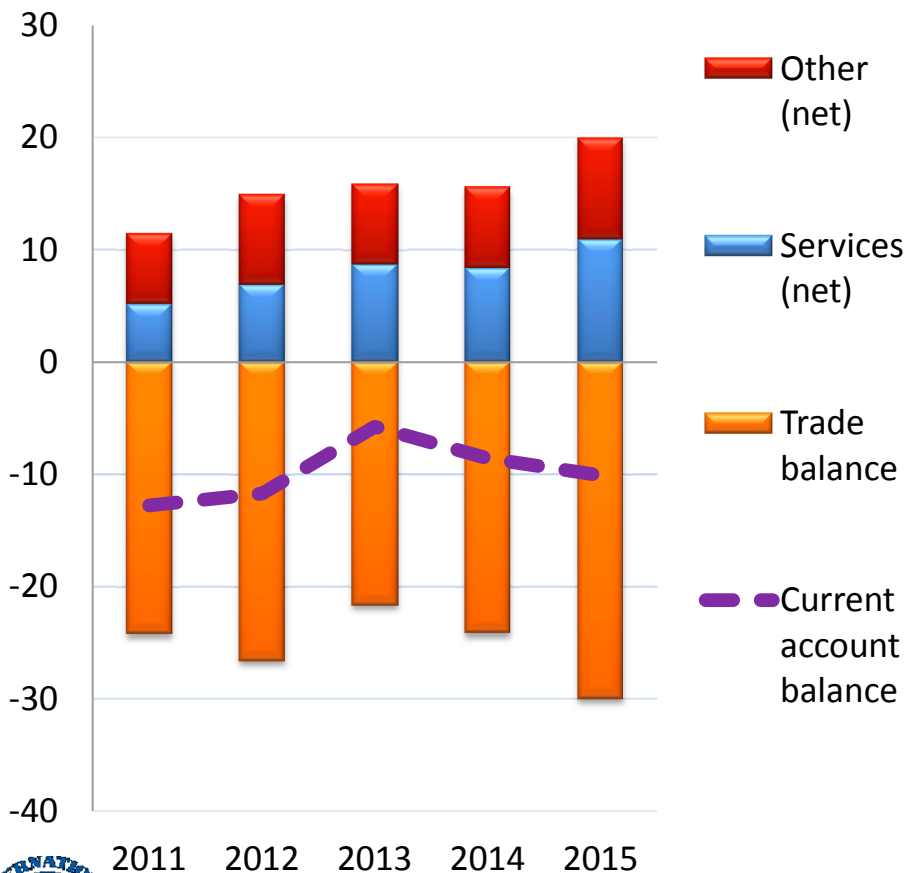


Current Account Deficit
(percent of GDP)

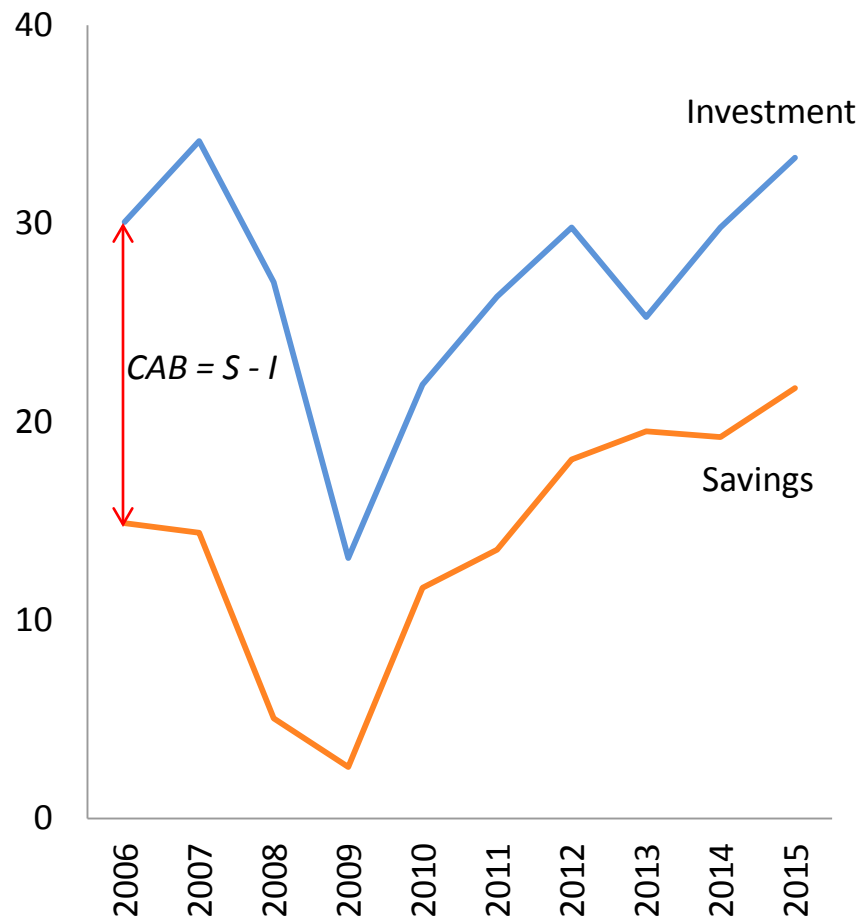


Two ways to look at the causes of the current account deficit

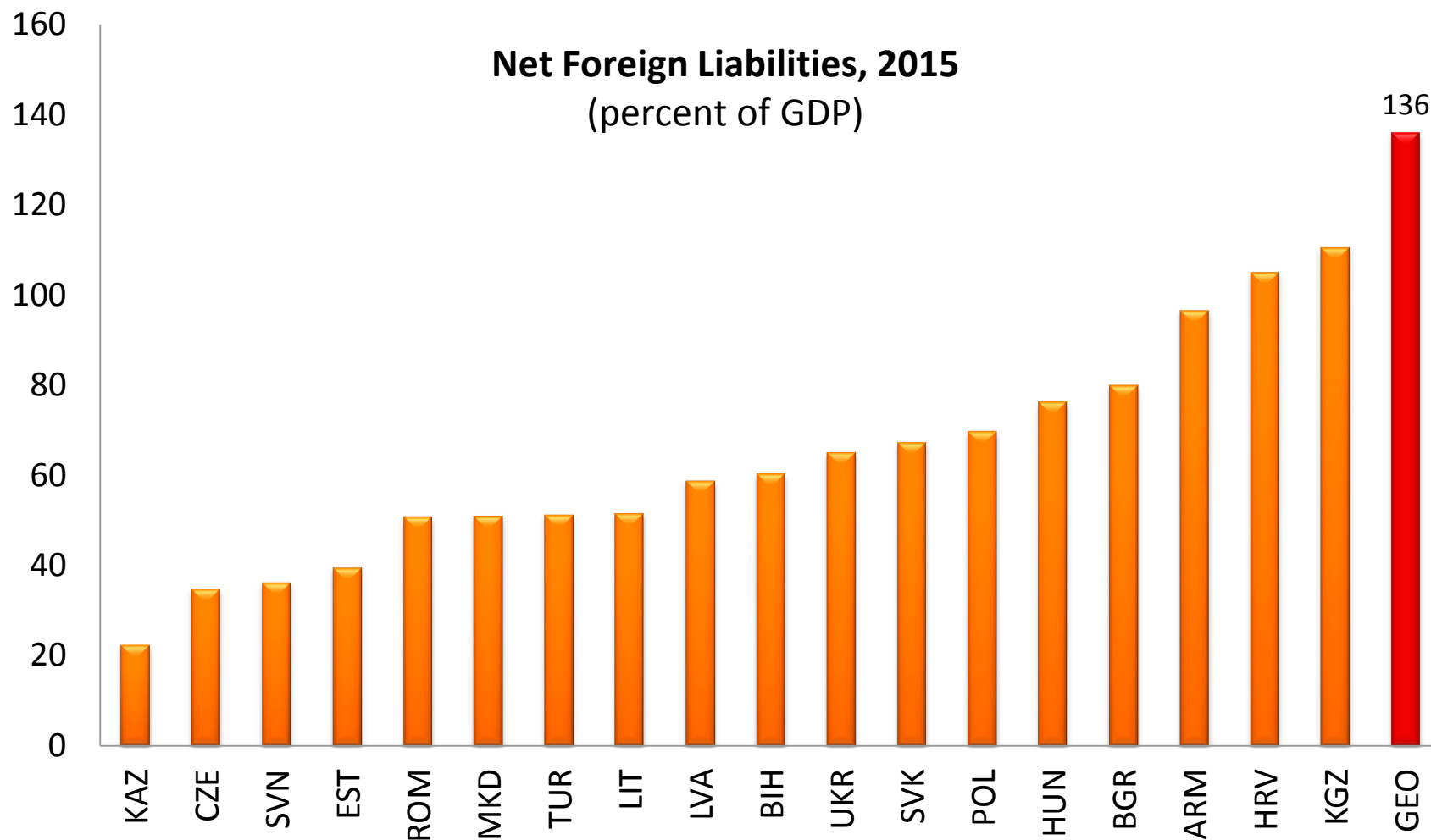
Current Account Components (percent of GDP)



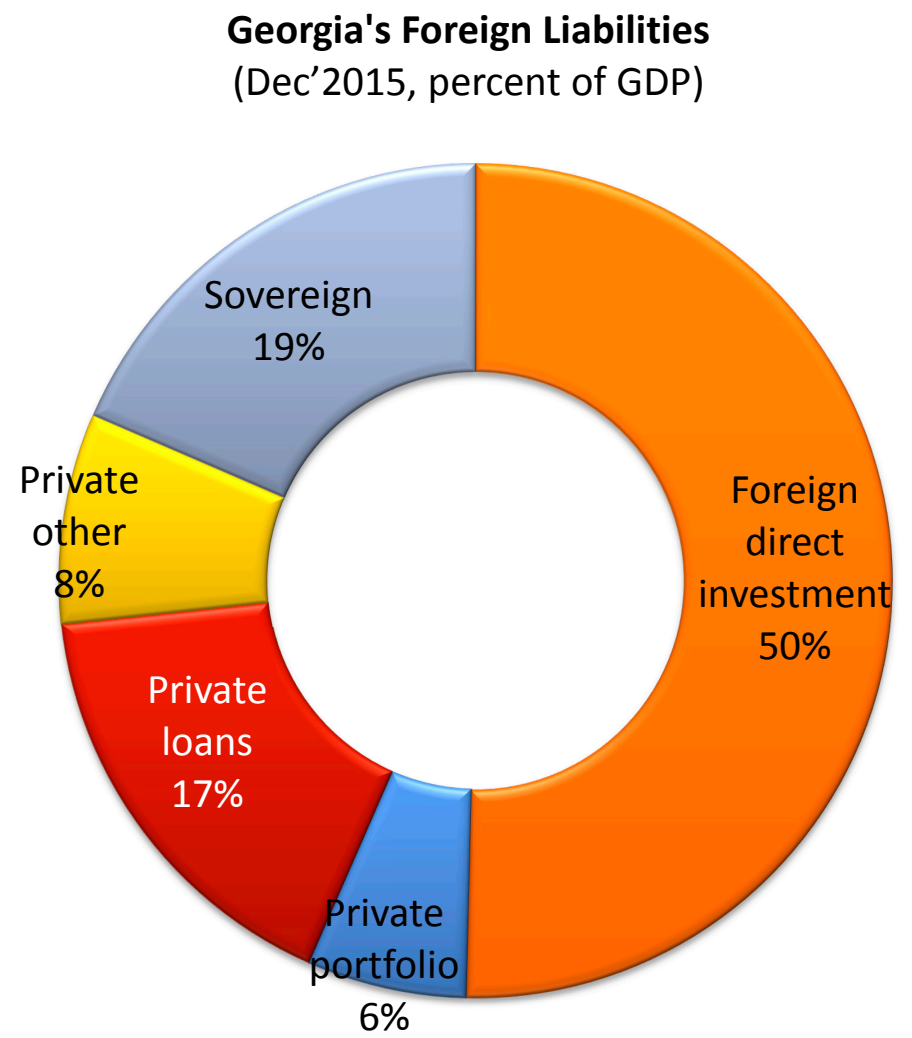
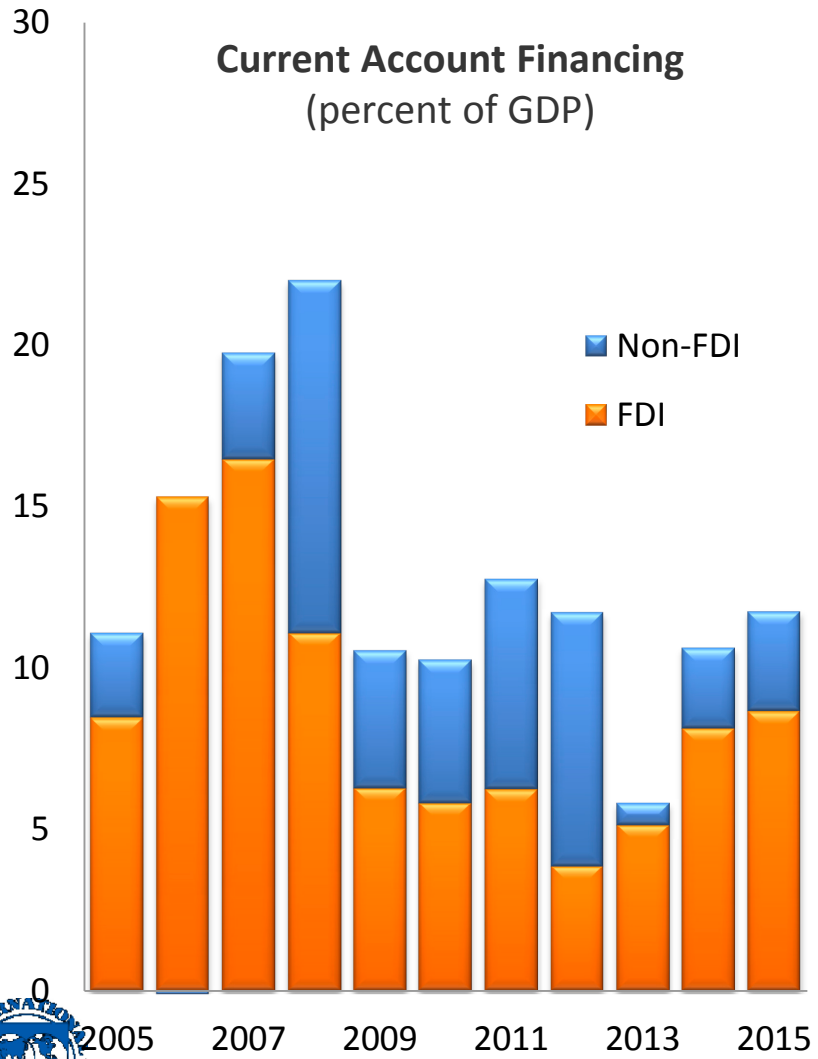
Savings-Investment Balance (percent of GDP)



Persistent current account deficits led to the build-up of foreign liabilities

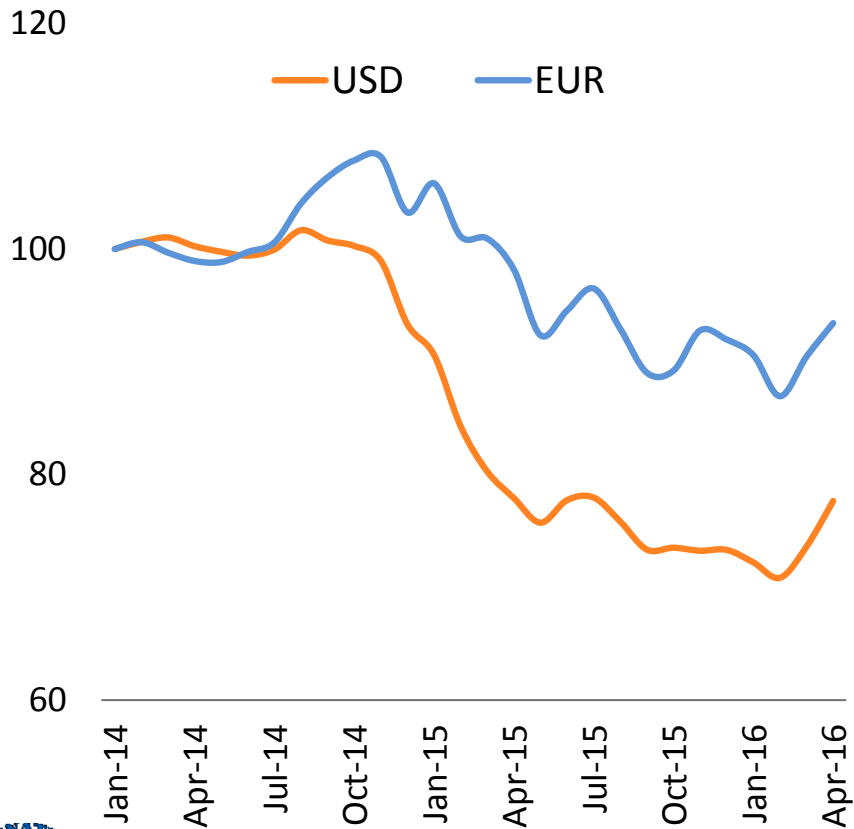


But, large part of the deficit is financed by Foreign Direct Investment

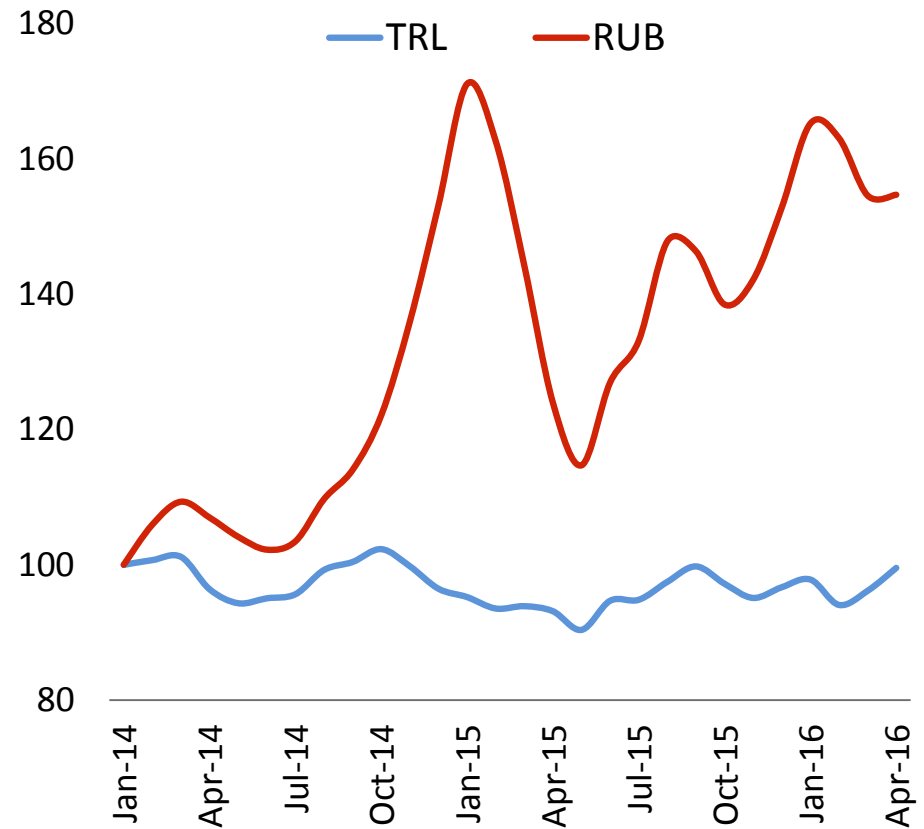


Lari depreciated against the US Dollar and Euro since 2013... ...but stable or appreciated against some trading partner currencies

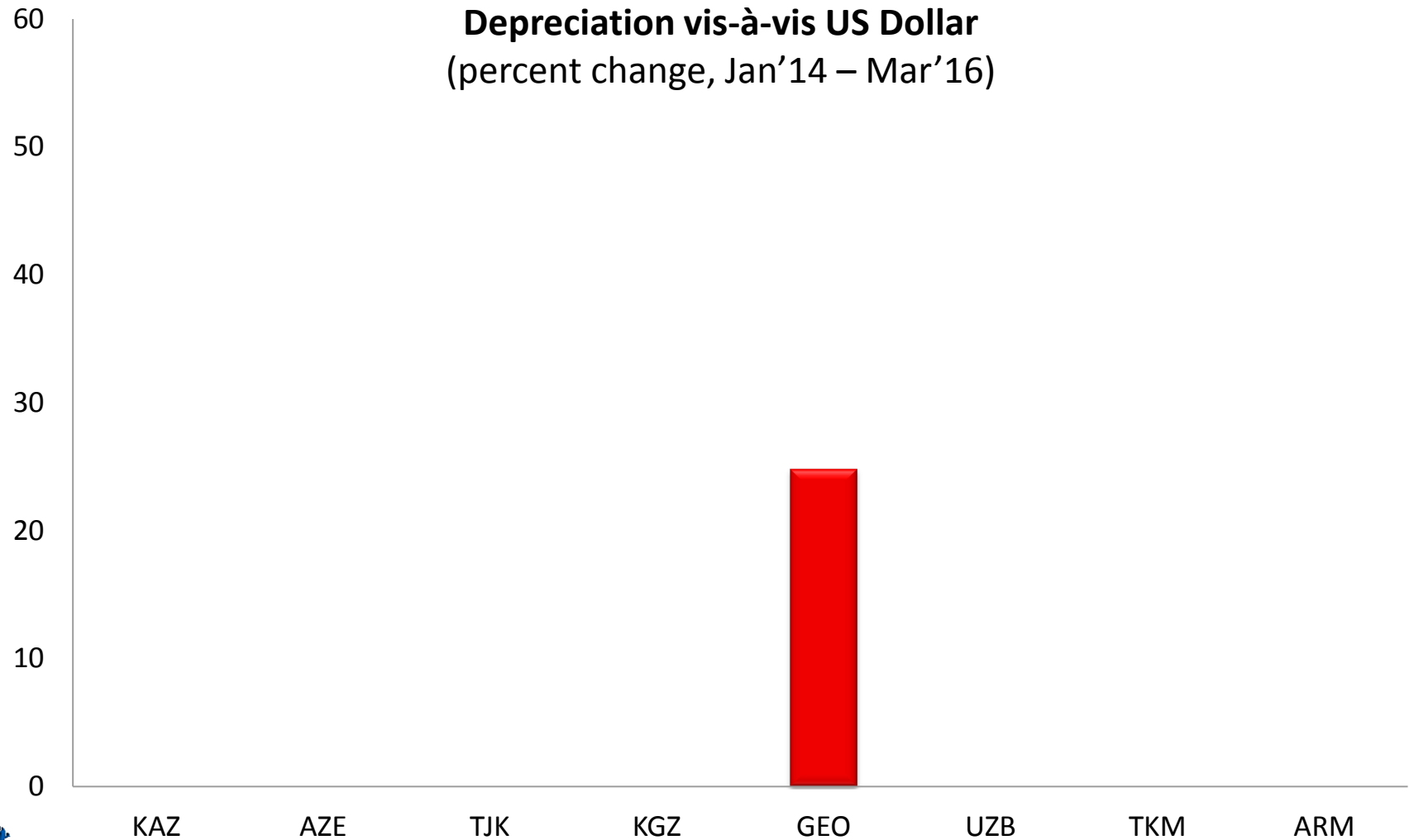
Exchange Rates
(Jan'14=100. Decrease means GEL depreciation)



Exchange Rates
(Jan'14=100. Increase means GEL appreciation)

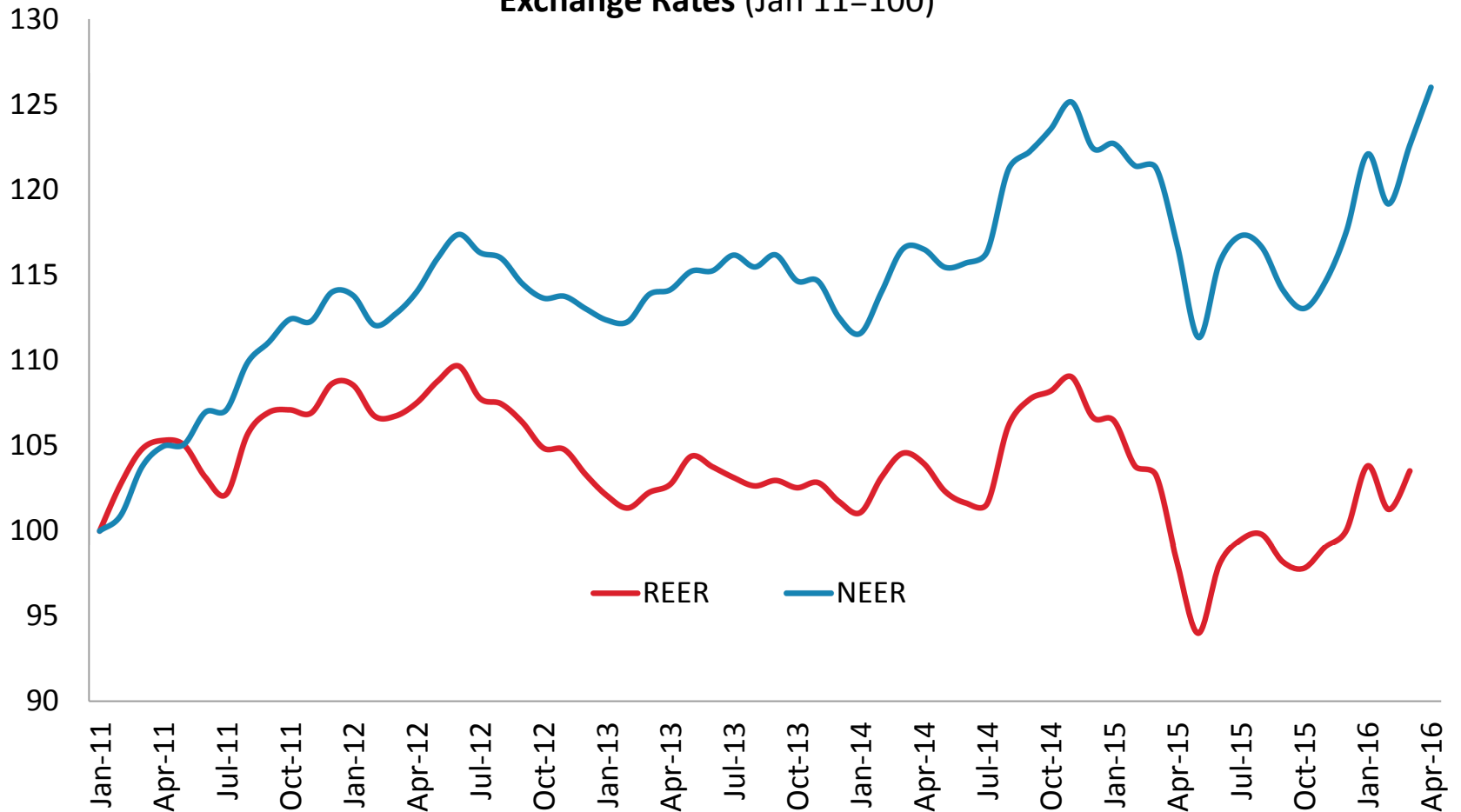


In fact, all currencies in the CCA region depreciated against the US\$



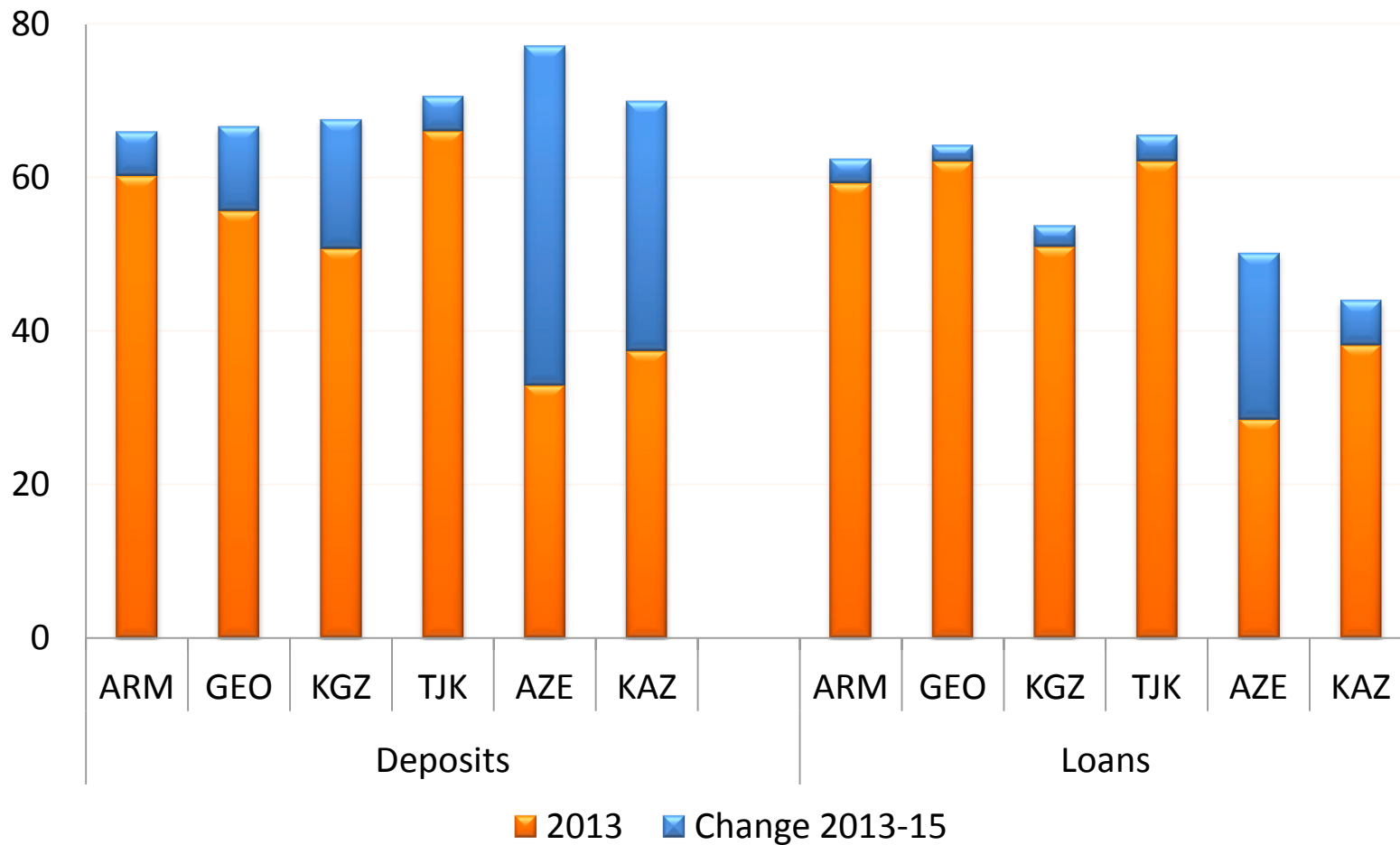
Despite depreciating vs. US\$/Euro, the Lari did not gain competitiveness

Lari Real Effective and Nominal Effective Exchange Rates (Jan'11=100)



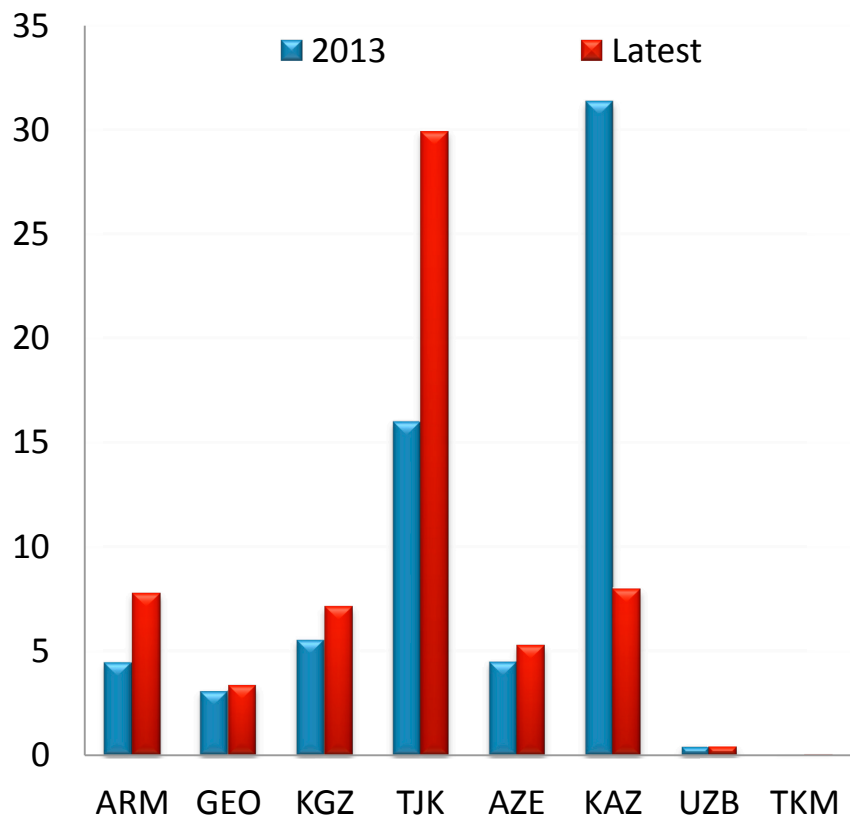
Depreciation vs. US\$ exposed dollarization as a key macro-financial vulnerability in the region

Dollarization (percent)

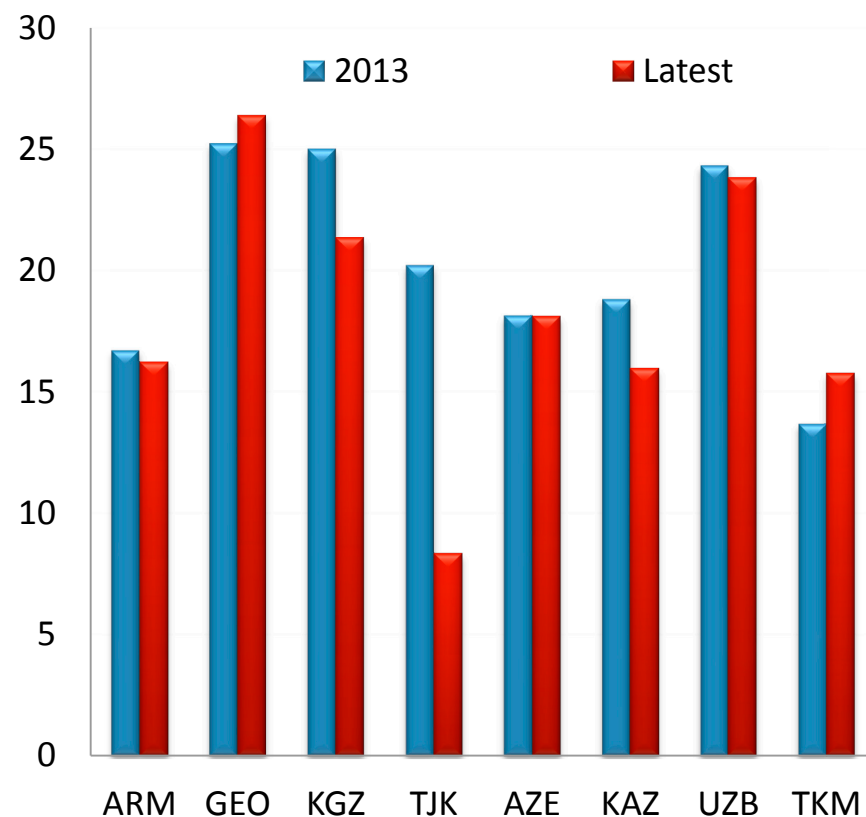


Georgian banks have so far coped well with the depreciation better than their regional peers

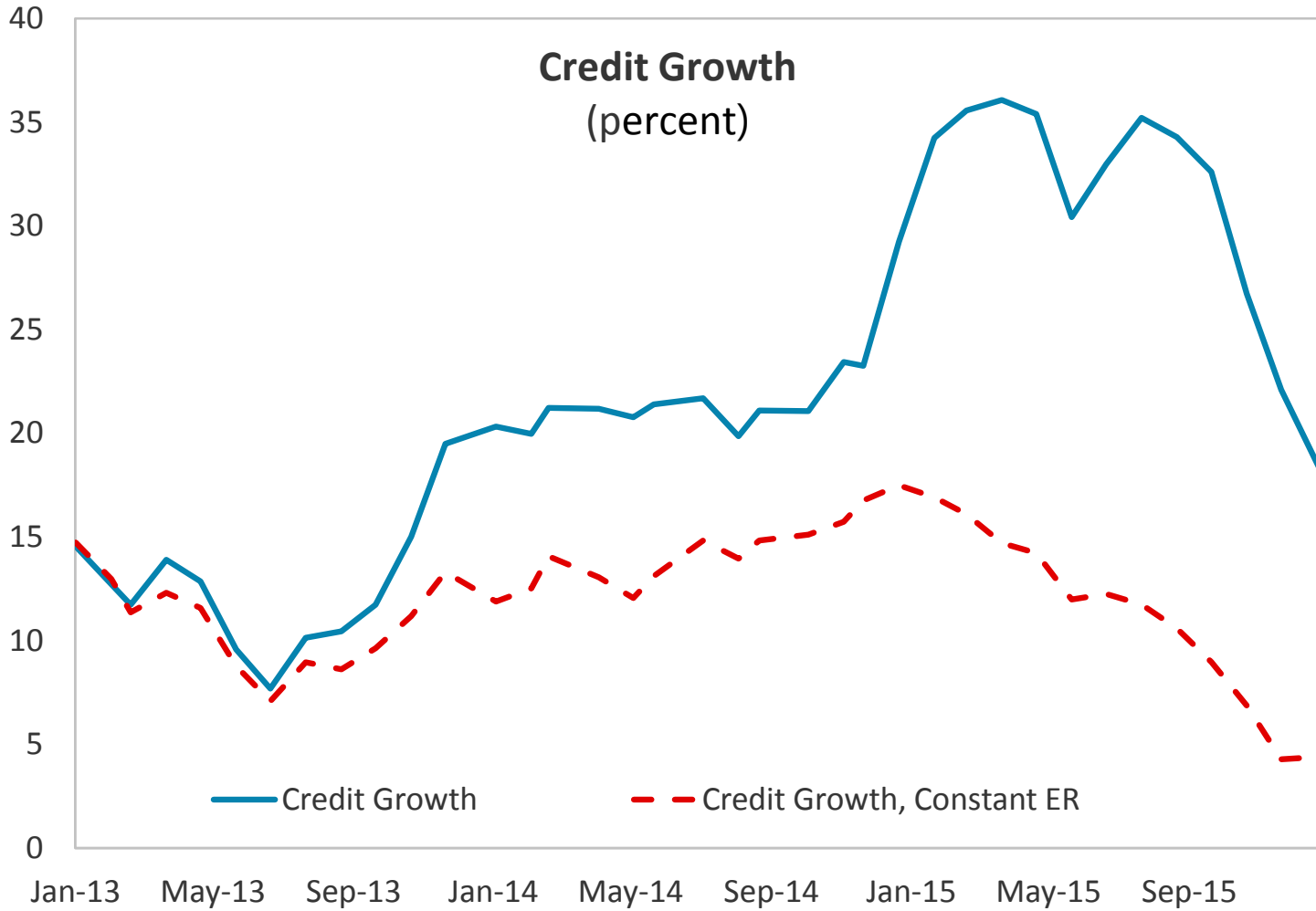
Non-Performing Loans (in percent of total loans)



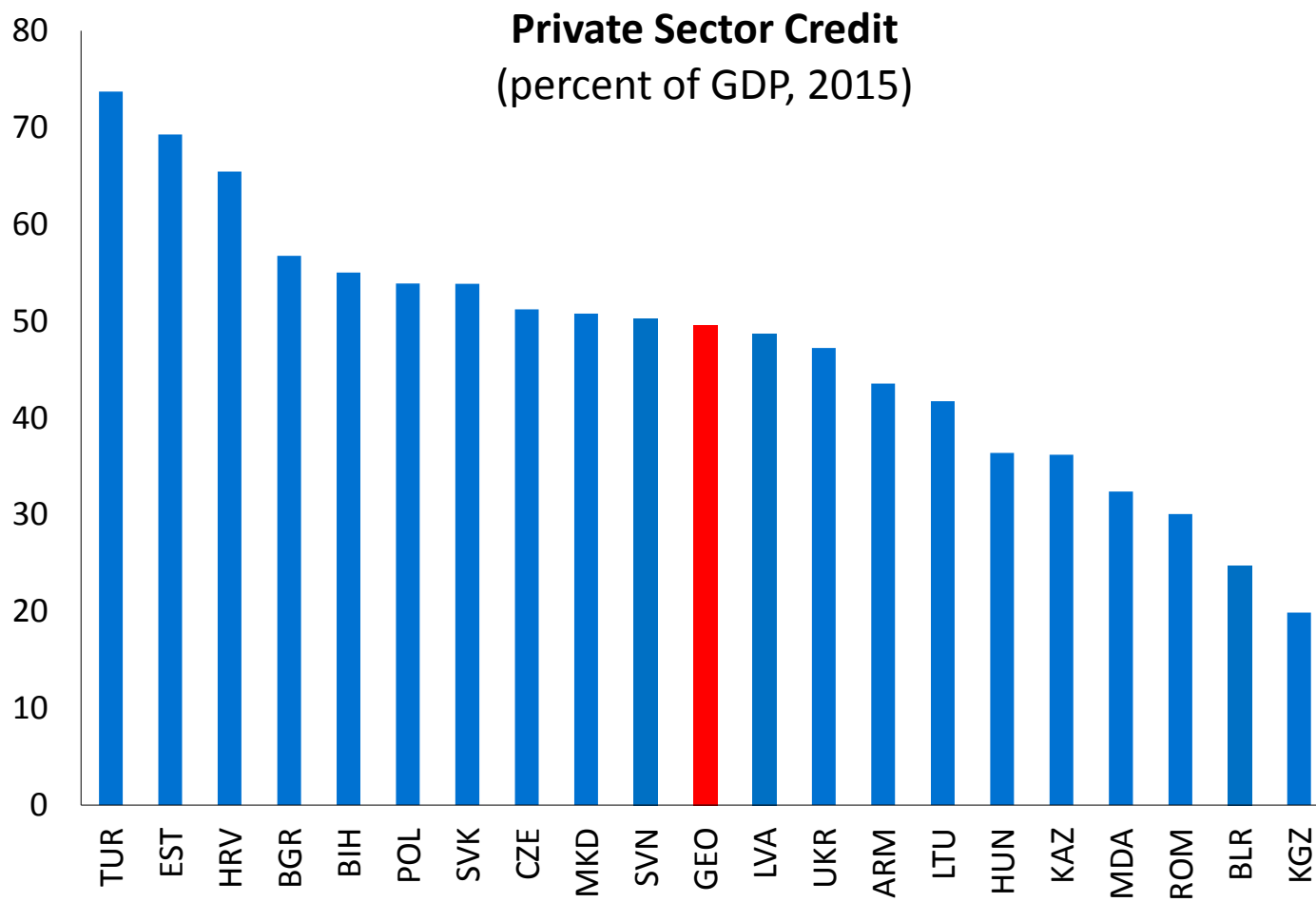
Capital Adequacy Ratios (in percent of total loans)



Strong credit growth before the 2014-15 shock and depreciation...

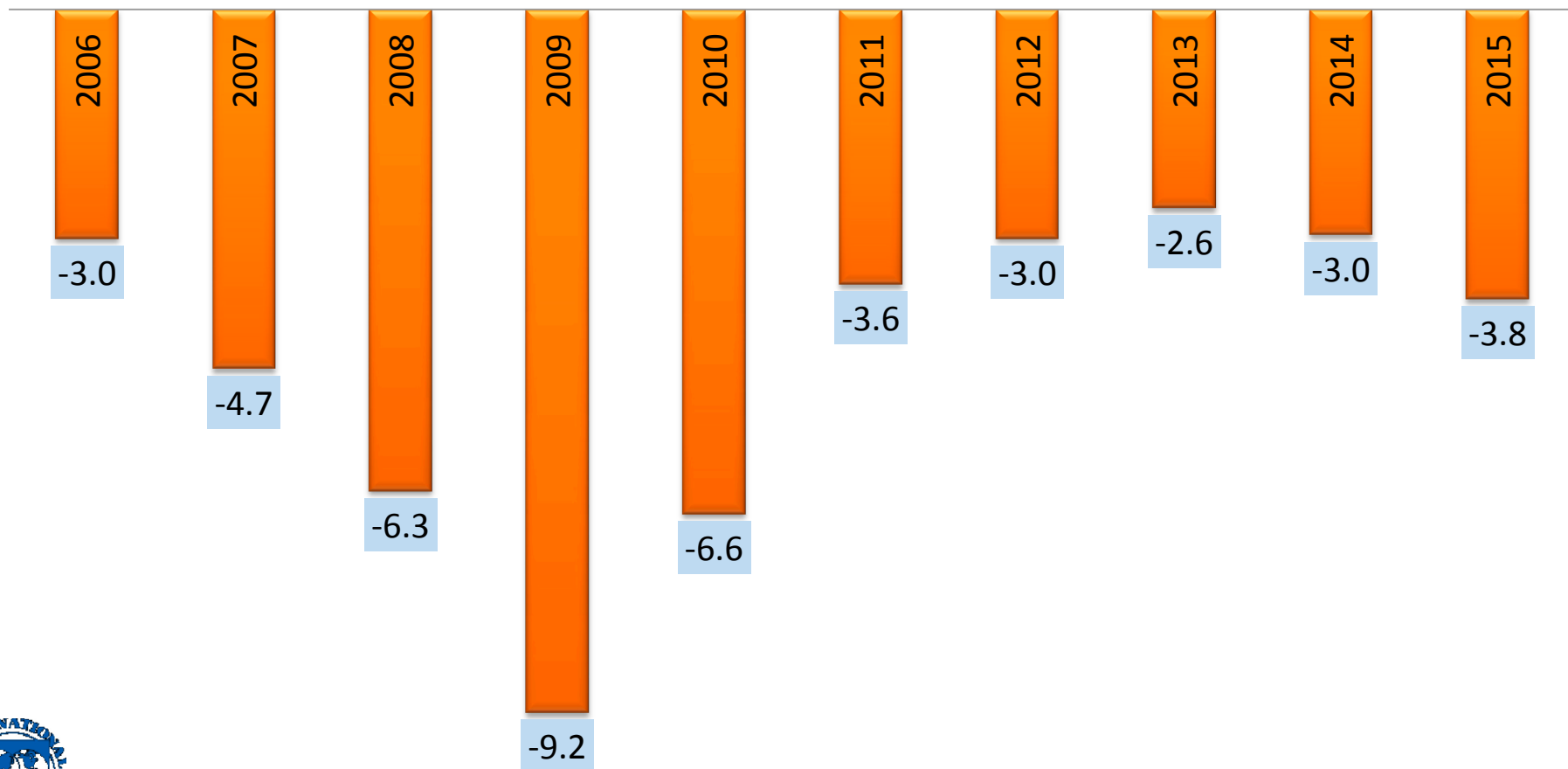


...led to higher leverage, raising questions about sources of future growth

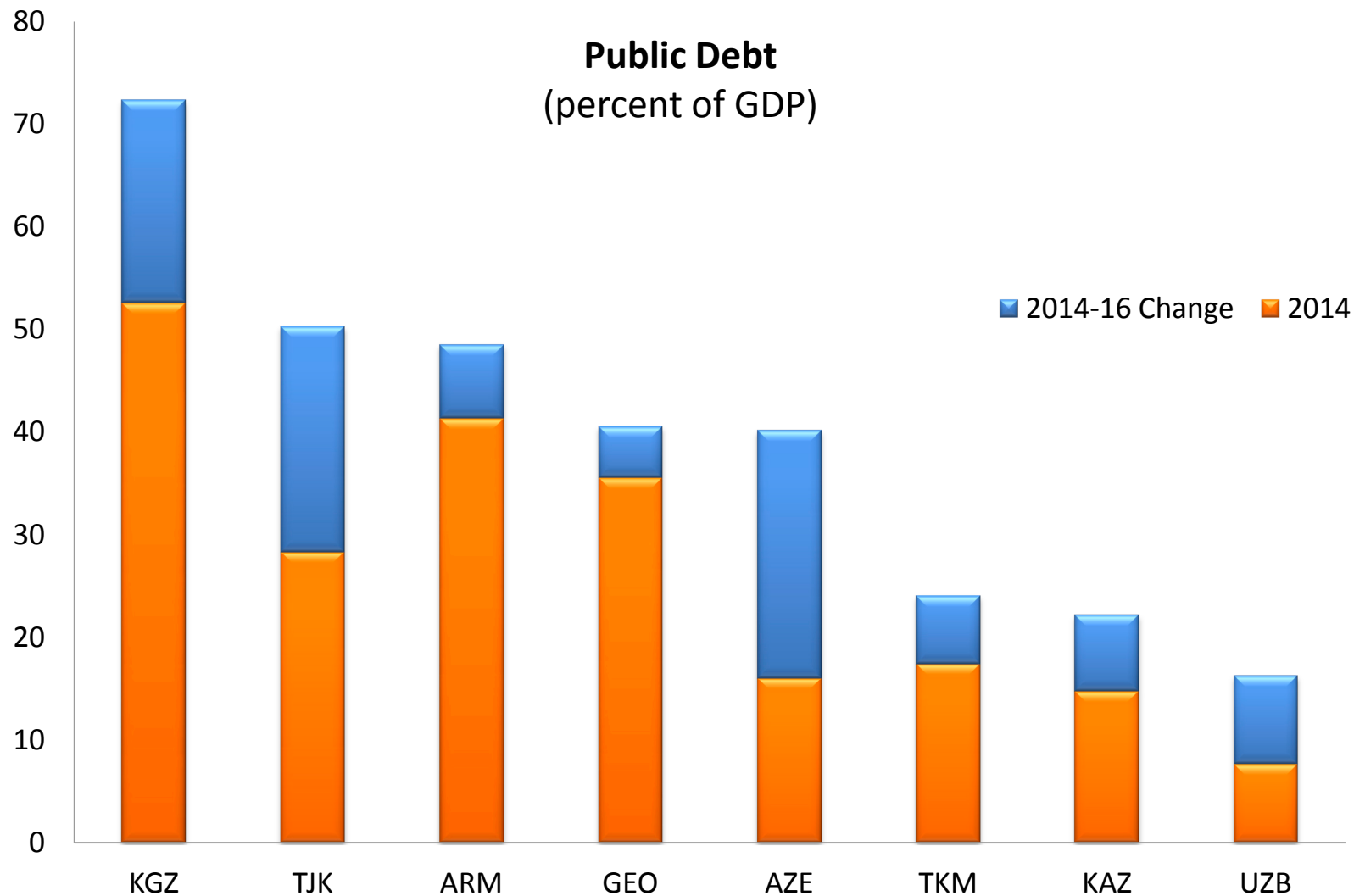


Overall, Georgia has pursued prudent fiscal policy,
but should be vigilant about contingent liabilities

General Government Deficit (in percent of GDP)



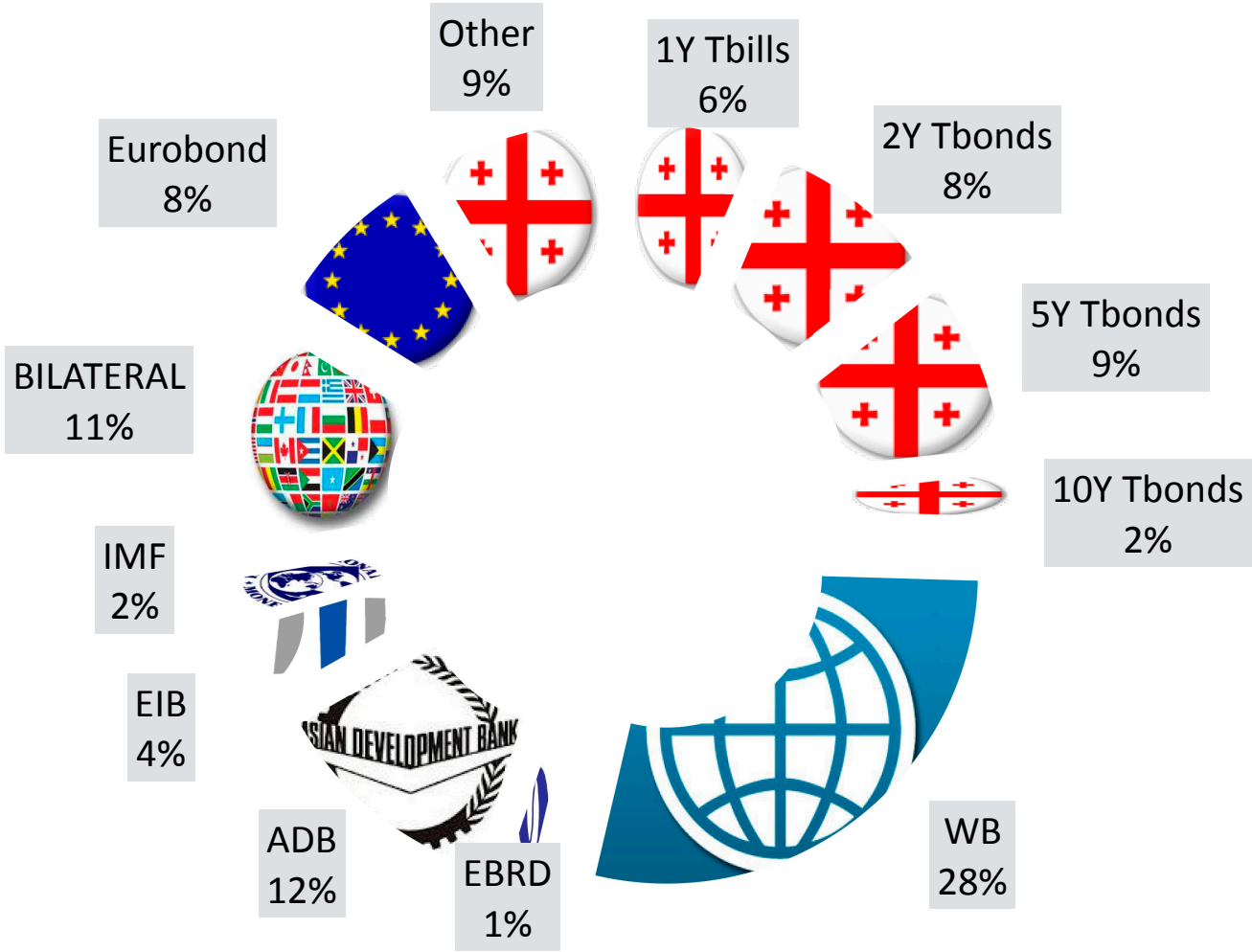
Government debt remains sustainable, but buffers are eroding



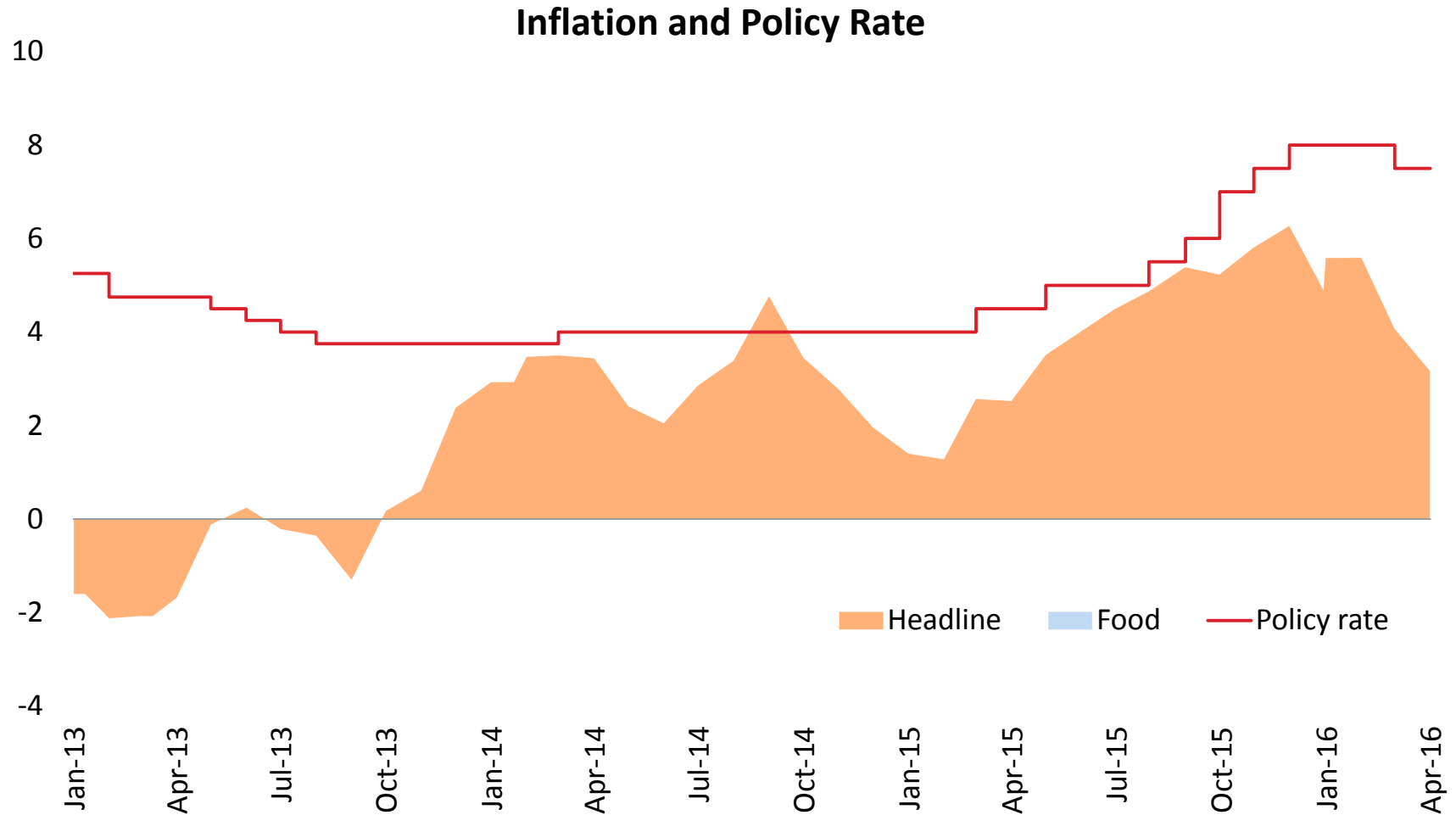
Most government debt is external, but domestic debt has grown recently

Government Debt

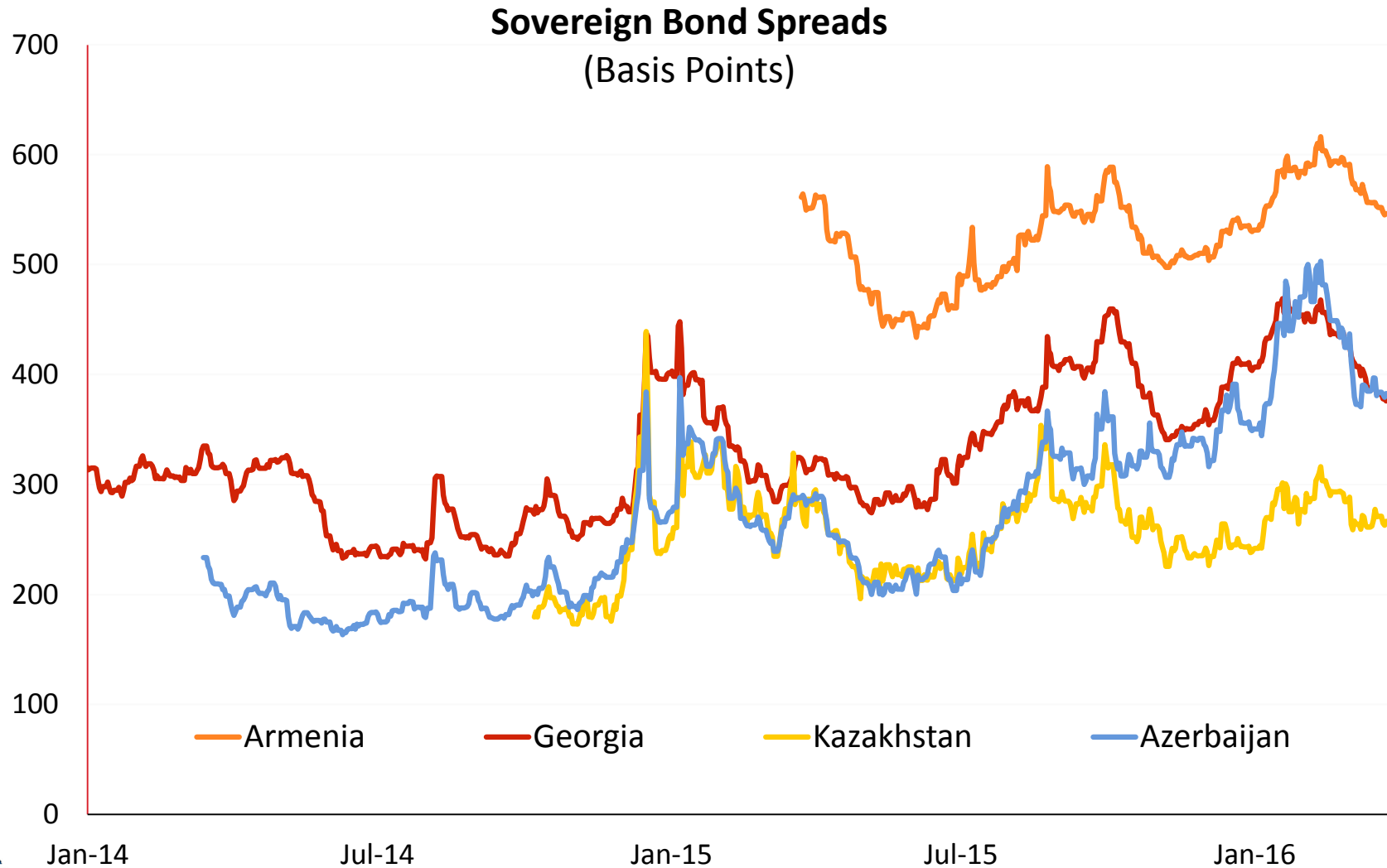
Domestic: \$2.2 bln; External: \$4.4 bln



Following a depreciation-induced rise, inflation has fallen recently in part thanks to NBSG policy actions

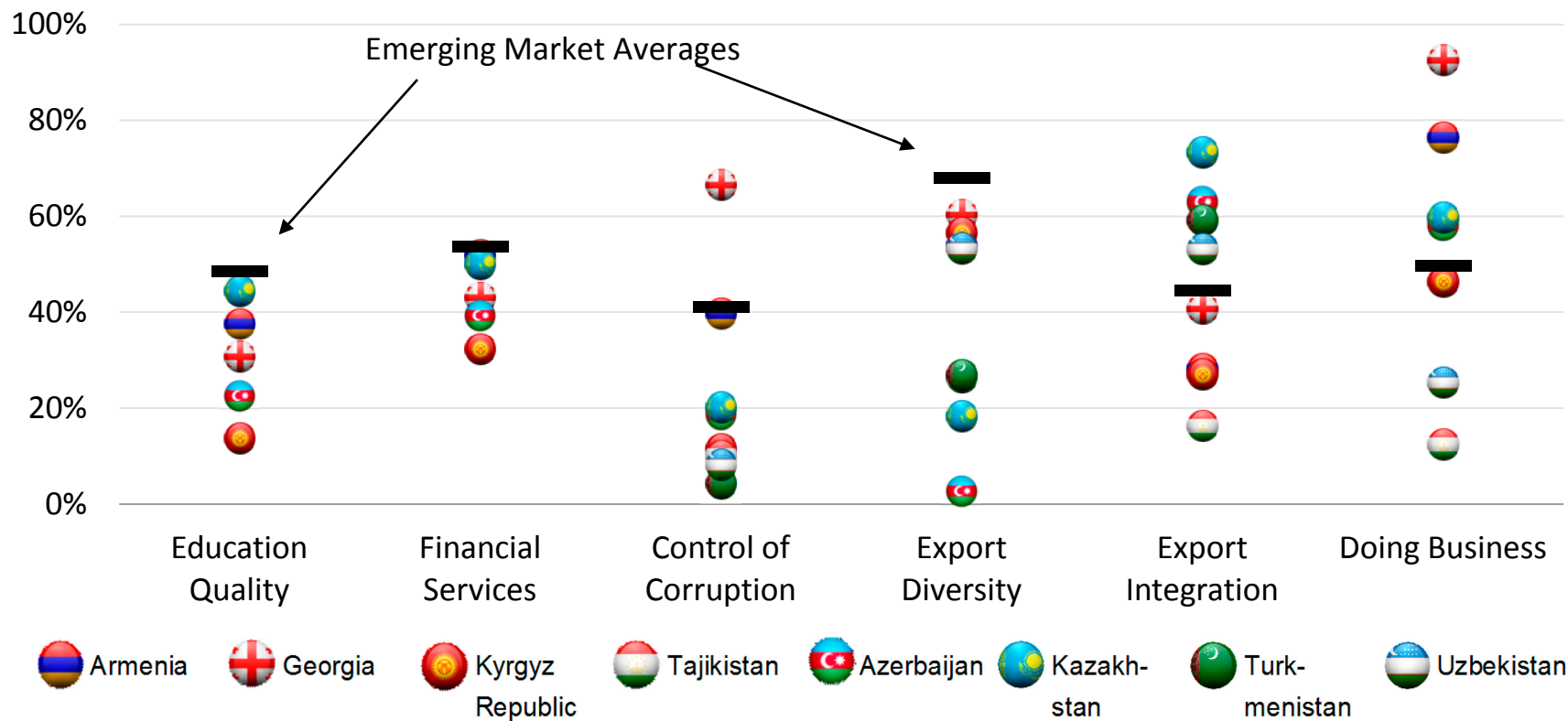


Bond spreads edged up reflecting higher risks and lower buffers



Structural Reforms Are Needed To Boost Long-Term Growth

Structural Reform Indicators (in Global Percent Rank)



Sources: Education Quality: Global Competitiveness Report; Financial Services: Global Competitiveness Report and Doing Business; Control of Corruption: Worldwide Governance Indicators; Export Diversity: IMF/DFID Export Diversity Index; Export Integration: World Economic Outlook; and Doing Business: Doing Business Report.

Thank You!

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