March 2010
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Georgia: Fifth Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria

The following documents have been released and are included in this package:

- The staff report, prepared by a staff team of the IMF, following discussions that ended on February 10, 2010, 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 March 2, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A supplement to the staff report.
- A Press Release.
- A statement by the Executive Director for Georgia.

The document(s) listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of Georgia*
Technical Memorandum of Understanding*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

GEORGIA

Fifth Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria

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

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

March 2, 2010

- **Background**. The Fourth Review under the Stand-By Arrangement (SBA) was concluded on December 11, 2009. In January 2010, the authorities drew the SDR 47.3 million that became available upon completion of the fourth review, bringing total disbursements under the SBA to SDR 429.8 million. Total access is SDR 747.1 million (497.1 percent of quota). The arrangement expires June 14, 2011.
- **Program Strategy.** Policy targets and macroeconomic objectives for 2010 are in line with those approved at the last review.
- **Team:** E. Gardner (head and Senior Resident Representative), D. Simard, A. Luca (all MCD), L. Eyraud (FAD), I. Halikias (SPR), and N. Sharashidze (Resident Representative Office).
- **Exchange Rate Regime:** The regime is classified as “other managed.” A multiple currency practice arises from the fact that the official exchange rate used by the government may differ by more than 2 percent from freely determined market rates.
- **Statistics:** Economic data are broadly adequate for surveillance and program monitoring. Georgia participates in the GDDS and plans to subscribe to the SDDS by mid-2010.

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Executive Summary

Economic activity picked up in the fourth quarter, but weak private capital inflows and sluggish credit growth continue to point to a slow recovery in 2010. Earlier real GDP growth projections of -4 percent for 2009 and 2 percent for 2010 are maintained, with downside and upside risks. Regional and domestic political developments may dampen confidence and investment, while the improved external economic environment may provide further momentum to recent positive trends. Policy performance is in line with program expectations and all quantitative performance criteria were met.

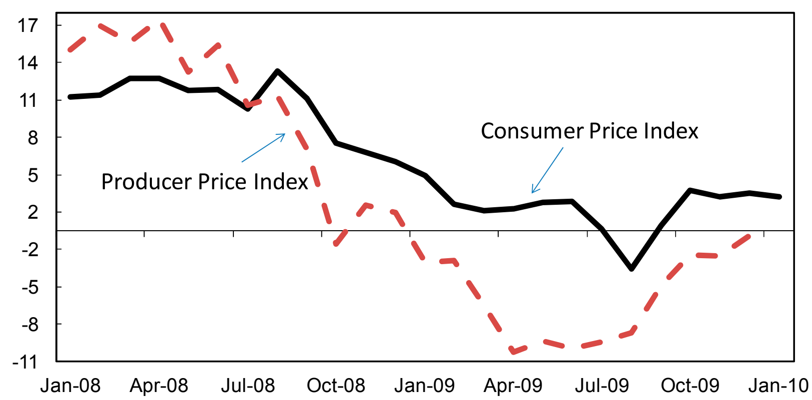
Given progress to date and no significant revisions to the macro-economic outlook, program objectives and targets remain roughly unchanged. The 2010 program sets out a viable exit strategy from official external support, permitting the Georgian authorities to return to capital markets ahead of their large debt rollover needs in 2013–14. Fiscal consolidation remains based on expenditure containment both in 2010 and over the medium term. Depending on the pace of the economic recovery, the fiscal deficit target may need to be adjusted later this year to avoid procyclicality. The authorities will not seek to counter persistent trends in the exchange rate that reflect fundamental imbalances. They are enhancing banking sector supervisory capacity and raising its efficiency. Reflecting improved liquidity conditions, deposit interest rates have decreased but remain high, and monetary policy has not been able to ease credit conditions.

I. Recent Economic and Political Developments

1. **Political conditions remain stable in the run up to the May 2010 municipal elections.** The Tbilisi mayorship is seen as a spring board for the 2013 presidential election. There are lingering tensions with Russia.

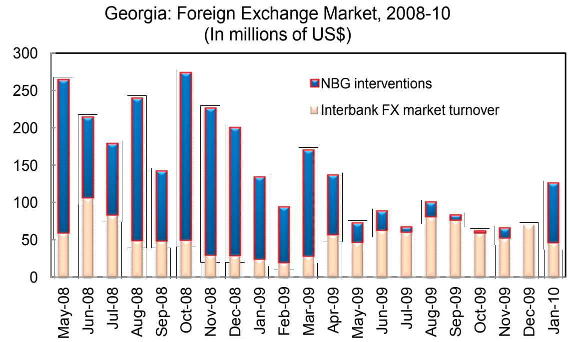
2. **The pick up of economic activity indicators in the fourth quarter is consistent with the earlier real GDP growth projection of -4 percent for 2009, but private capital inflows remained subdued.** The substantial fiscal impulse in 2009 helped put a floor on the economic downturn. The 2009 current account deficit is estimated at 12.2 percent of GDP, significantly below previous projections. Exports rose markedly in the second half of 2009, reflecting rising partner demand and higher metals prices, and workers' remittances also rebounded, while import volume growth was more moderate. Although FDI was roughly in line with projections, banking sector inflows, which had been substantial in the first half of 2009, reversed in the second half, as banks built up their net foreign asset positions. Despite some pick-up, inflation remains low at 2.7 percent at end-January.

Georgia: Inflation (year-on-year), January 2008 to January 2010
(In percent)

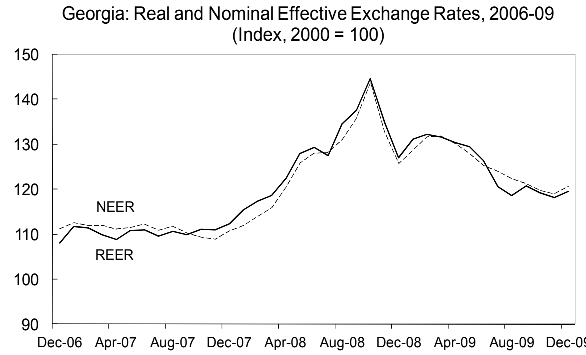


Source: Georgian authorities; and Fund staff estimates.

3. **A resumption of foreign exchange rate pressures starting in mid-December was met through a mix of depreciation (4 percent vis-à-vis the U.S. dollar though end-January) and intervention.** The pressures appeared to reflect the combined effects of economic recovery and seasonal factors. In the face of volatile foreign exchange (fx) market conditions at end-January, the authorities increased temporarily the volume and frequency of fx auctions to stabilize the market. Since then, the exchange rate has appreciated slightly.



Source: National Bank of Georgia.



Source: INS database.

4. **The 2009 fiscal deficit (9.2 percent of GDP) was well below the program ceiling.** Despite delays in the provision of budget grants in the fourth quarter, the fiscal PC was met by a wide margin (0.6 percent of GDP), owing mainly to under-execution of spending. The increase relative to the 2008 deficit (6.3 percent of GDP) reflects a fall in revenue. Government spending declined by 2 percent in real terms[1] in 2009, led by a contraction of defense spending by 43 percent.

Georgia: Quantitative Performance Criteria (PC), December 2009

	Cumulative Change from End-December 2008		
	PC	Adjusted PC	Actual
	(In millions of lari)		
Ceiling on cash deficit of the consolidated government	1,638		1,536
	(In millions of U.S. dollars)		
Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector	850		277
	(In millions of lari)		
Ceiling on net domestic assets (NDA) of the NBG 1/	456	442	95
	(In millions of U.S. dollars)		
Floor on net international reserves (NIR) of the NBG 1/	740	747	987
Ceiling on accumulation of external arrears 2/	0		0

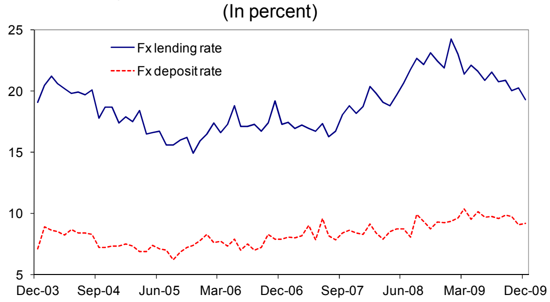
Source: Georgian authorities; and Fund staff estimates.

1/ Actual figures and quantitative targets are based on program exchange rates.
2/ The continuous performance criterion for external arrears is defined in paragraph 15 of the TMU.

[1] Excluding intra-government arrears clearance.

5. **Reflecting improved liquidity conditions, deposit rates have declined, albeit slowly, from relatively high levels.** With a steady increase in deposits since mid-2009, banks have reduced dollar deposit and lending rates by 0.7 and 1.6 percentage points, respectively, since September, but lending rates remain high—19 percent on average. Lari deposit and lending rates have remained roughly unchanged. The high level of interest rates reflects in large part the liquidity shock of 2008–09, and the resulting increased demand for precautionary balances on the part of banks (Box 1). With solid capitalization and provisioning, and a recent decline in nonperforming loans (NPLs), banks face fewer balance sheet constraints on their lending activity. However, high capitalization requirements, notably from the high risk weight on dollar lending, contribute to high intermediation margins. Moreover, banks remain exposed to substantial credit risk from high NPLs and currency-induced credit risk.

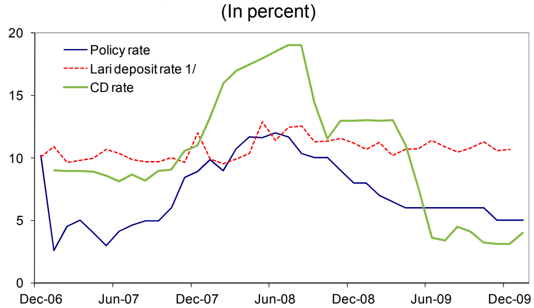
Georgia: Domestic Fx Interest Rates, 2003-09 1/
(In percent)



Source: National Bank of Georgia.

1/ Weighted-average fx rates on new loans/deposits.

Georgia: Lari Interest Rates, 2006-09
(In percent)



Source: National Bank of Georgia.

1/ Weighted-average lari rates on new deposits.

Georgia: Selected Monetary and Financial Soundness Indicators, 2008-10

	2008				2009				2010
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Jan.
Deposit dollarization (in percent)	60.9	60.0	61.7	75.7	75.2	73.2	72.6	73.2	74.3
Loan-to-deposit ratio (in percent)	129.4	135.7	147.0	155.9	165.3	165.4	143.0	124.2	124.3
Credit-to-GDP ratio (in percent) 1/	28.5	30.0	29.2	31.9	30.7	30.2	29.6	29.3	29.7
Capital adequacy ratio (in percent) 2/	17.5	15.7	17.0	13.9	15.2	17.6	20.2	19.1	18.7
Capital adequacy ratio (in percent) 3/				24.0	23.6	27.1	27.4	25.6	25.2
Liquidity ratio (in percent) 4/	36.8	33.3	30.4	28.3	30.8	31.4	40.6	39.1	41.7
Nonperforming loans (in percent of total loans) 5/	3.0	3.4	9.9	12.8	15.2	18.8	18.2	17.9	17.7
Nonperforming loans (in percent of total loans) 6/				4.1	5.4	7.1	8.3	6.3	6.8
Loans collateralized by real estate (in percent of total loans)	43.6	40.5	41.6	43.6	46.4	48.0	49.1	55.5	55.9
Loans in foreign exchange (in percent of total loans)	65.9	64.9	67.5	72.8	75.3	77.3	77.6	76.9	77.1
Specific provisions (in percent of total loans)	1.9	2.2	4.7	6.0	7.5	9.4	10.2	9.7	9.7
Net foreign assets (in percent of total assets)	-17.2	-20.2	-21.6	-19.6	-22.5	-24.4	-18.4	-14.9	-14.7
Net open foreign exchange position (in percent of regulatory capita	3.5	1.5	1.5	1.7	9.1	8.8	10.4	1.8	1.4
Return on equity (cumulative through the year, annualized)	10.2	8.9	-2.9	-12.6	-7.6	-8.4	-7.3	-4.3	-2.2

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

1/ Based on projected GDP for December 2009 and January 2010.
2/ National definition. Risk weight to forex loans was reduced from 200 to 175 percent in September 2008, and to 150 percent in August 2009.
3/ Basel I definition.
4/ Ratio of liquid assets to 6-month and shorter maturity liabilities.
5/ National definition: NPLs are defined as loans in substandard, doubtful, and loss loan categories.
6/ IMF definition.

Box 1. Georgia: An International Perspective on the Determinants of On-Shore Foreign Exchange Deposit Rates

In dollarized economies, liquidity shocks during the financial crisis could not easily be counteracted and appear to be a key explanatory factor of interest differential across countries. This proposition is borne out in a comparison of on-shore foreign exchange (fx) deposit rates across a number of emerging economies in Europe and Central Asia.[1] The domestic liquidity shock is measured by the change in domestic deposits, adjusted for valuation effects related to exchange rate changes.

Figure 1. Correlation between Interest Rates and Changes in Deposits

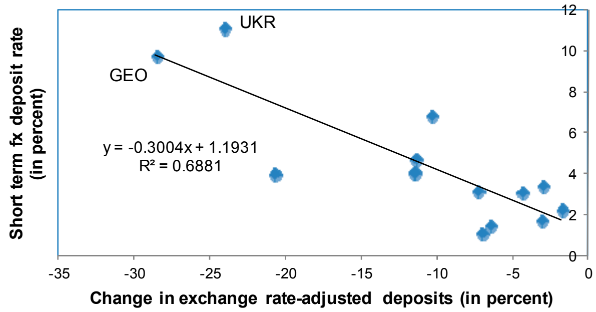
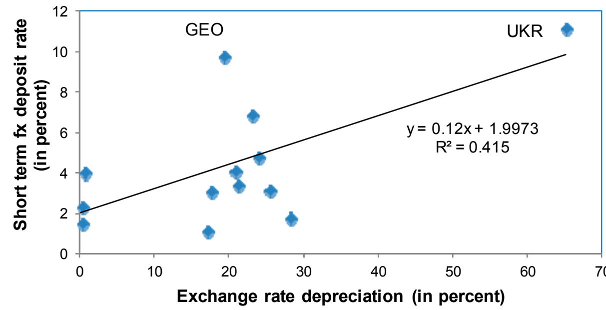


Figure 2. Correlation between Interest Rates and Changes in Exchange Rates



Multivariate analysis (controlling for other factors, including the external liquidity shock) suggests that a 10 percent decline in deposits raised the spread between on-shore fx deposit rates and off-shore rates by about 2 percentage points. A 20 percent currency depreciation, proxying for the external liquidity shock, increases the spread by about 1.5 percentage points. On-shore fx rates (within the sample) are the highest in Ukraine and Georgia, which also suffered the largest contractions in deposits from peak to trough, by 24 and 29 percent respectively.

[1] Armenia, Azerbaijan, Georgia, Hungary, Latvia, Lithuania, Kazakhstan, Pakistan, Romania, Russia, Serbia, Turkey, and Ukraine.

II. 2010 Outlook, Program Objectives, and Targets

6. **Based on progress to date, and in the absence of any significant revisions to the macroeconomic outlook, program objectives and targets remain roughly unchanged**. The main objectives are:

- Setting fiscal policy on a path of steady adjustment to preserve debt sustainability and macroeconomic stability.
- Facilitating external adjustment by allowing the exchange rate to respond flexibly to sustained balance of payments pressures.
- Monitoring closely banking sector risks and enhancing the efficiency of supervision.

A. Macroeconomic Outlook and Risks

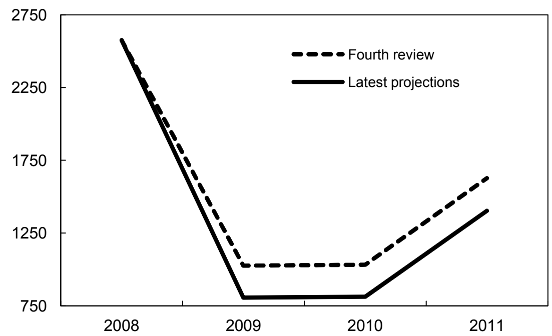
7. **Real GDP is projected to grow by 2 percent in 2010, with downside and upside risks.** This projection implies a near stabilization of economic activity relative to the level of the fourth quarter of 2009. The scenario is predicated on the view that the recent uptick in imports may reflect restocking rather than permanently higher investment, and that consumer demand will remain subdued in 2010.

- **Downside risks** lie mainly in the potential adverse impact of renewed domestic and regional tensions on confidence and investment. The slow easing of credit conditions also presents risks.

- **On the upside**, recent positive trends could gain momentum, sustained in part by the improved external economic environment—trading partner demand has been revised up by 4 percentage points relative to the Fall 2009 WEO.

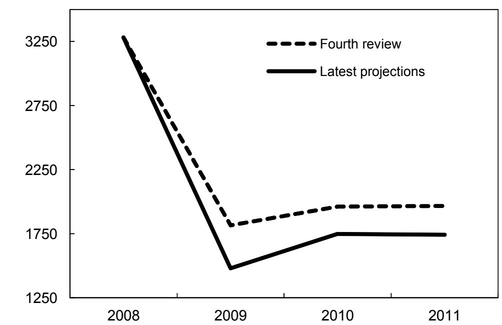
8. **The external outlook entails a moderate widening of the current account deficit in 2010 (to 14 percent of GDP) and continued weakness in private capital inflows.** While exports should continue to recover as partner demand gathers momentum, import volumes are projected to rebound more strongly. The program scenario assumes only a small increase in FDI relative to 2009, in line with global trends, although the government counts on a much stronger rebound. The private sector's "BOP gap" (the gap between the private current account deficit and net private capital inflows) is projected to widen temporarily to over 6 percent of GDP in 2010. The joint effects of the recovery of private capital inflows with a gradual narrowing of the current account deficit would close the gap over the medium term.

Georgia: Private Capital Inflows, 2008-11 1/
(In millions of US$)



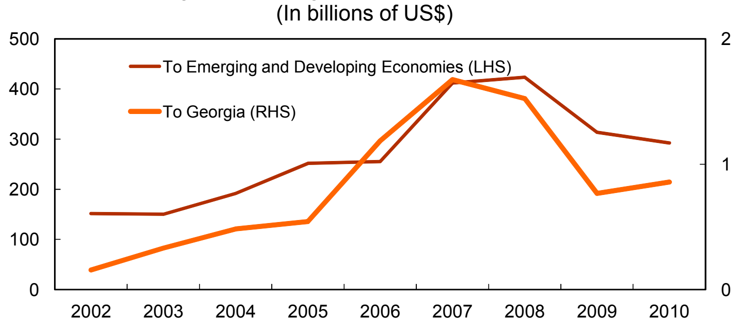
Source: National Bank of Georgia; and Fund staff projections.

Georgia: Current Account Deficit (excluding Official Transfers), 2008-11
(In millions of US$)



Source: National Bank of Georgia; and Fund staff projections.

Georgia: Net Foreign Direct Investment, 2002-10
(In billions of US$)

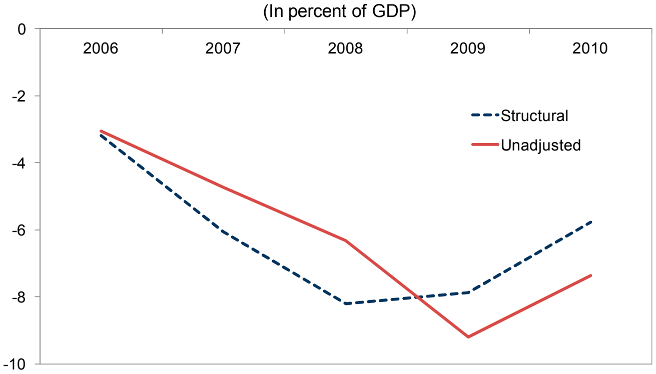


Source: World Economic Outlook; and Fund staff estimates.

B. Fiscal Policy

9. **The nominal fiscal deficit target for 2010 is unchanged relative to the fourth review, with a reduction (in terms of GDP) from 9.2 percent in 2009 to 7.4 percent in 2010.** The improvement in the structural balance (by 2.1 percent of GDP), is driven by current expenditure containment—a key element of successful fiscal consolidations (Box 2)—while protecting social spending (Letter of Intent (LOI) ¶19). There are no significant changes in revenue, spending and financing projections compared to the last review. IMF financing channeled through the budget remains unchanged but has been front loaded in 2010 by reallocating to that purpose the purchase made after the fourth review (drawn in January 2010),

Georgia: Overall Fiscal Balances, 2006-10
(In percent of GDP)



Source: Fund staff estimates.

Note: The calculation of the Structural Balance, which corrects for cyclical and one-off factors, is described in Box 2 of EBS/09/188.

Box 2. Georgia: International Evidence on Successful Fiscal Consolidations

Expenditure-based consolidations are more durable and conducive to economic growth.

- Successful adjustments (those that lower public debt for an extended period), and expansionary fiscal contractions rely mostly on cuts in primary current expenditures, especially government wages and transfers, rather than on tax increases or capital spending containment (Alesina and Perotti, 1996; Alesina and Ardagna, 1998; Tsibouris et al., 2006; Alesina and Ardagna, 2009). Tsibouris and others (2006) identify 66 episodes of large and sustained adjustments worldwide since 1971, where the primary fiscal balance improved by more than 6 percentage points of GDP; expenditure cuts constituted three-quarters of the total effort during these episodes.

- A breakdown by functional classification shows that reductions in defense spending have been an important element of adjustment among advanced economies and generated “a peace dividend” by freeing up resources for capital formation (Knight et al., 1996).

- However, measures aimed at increasing revenues may help in the early phase of adjustment before governments can cut current spending and switch from revenue to expenditure-based consolidation, especially when the revenue-to-GDP ratio is initially low (von Hagen et al., 2002; Gupta et al., 2003; Tsibouris et al., 2006; Guichard et al., 2007).

Public Financial Management reforms are essential to setting priorities and enforcing changes in expenditure composition. In industrialized countries, implementing fiscal rules and medium-term expenditure frameworks seems to be conducive to fiscal consolidation success. Multi-year budgeting helps to put fiscal consolidation into perspective, facilitating the adoption of other structural reforms and the communication of fiscal policy objectives to voters (Tsibouris et al., 2006; Guichard et al., 2007; Kumar et al., 2007).

Intense consolidation efforts are difficult to maintain over time. Duration studies (von Hagen et al., 2002; Tsibouris et al., 2006) point to the existence of “consolidation fatigue” in that longer adjustment periods increase the probability of ending the adjustment, emphasizing the need to avoid very lengthy adjustment periods.

The involvement of sub-central tiers of government is crucial to achieving cuts in expenditure, particularly when it comes to the wage bill. Central governments appear to exert a strong influence on the expenditures of subcentral tiers through their grant allocations; control of these allocations is therefore essential to “force the hand” of local governments to adjust expenditures (Darby et al., 2004)

Expenditure reform involves difficult choices and equity issues. A reduction of public spending of the magnitudes required will have substantial implications for the welfare of a large number of beneficiaries of public spending. Political support is needed for these reforms (Tsibouris et al., 2006). To build a consensus, it is important that expenditure reforms protect the poor and that adequate social safety nets be provided to those affected by reform.

against a commitment not to use the equivalent purchase at end-2010 for budgetary financing (LOI ¶20).

Georgia: External Lending and Grants to the Public Sector, 2008-10
(Gross inflows in millions of U.S. dollars)

	2008	2009	2010
Total	1368	1025	1082
IMF 1/	257	340	470
Of which: through the budget	0	102	390
WB	126	274	191
Other Multilateral Institutions	135	237	189
Bilateral partners	350	172	231
Eurobond-2013	500	…	…
Memorandum items:			
Total excluding IMF	1111	685	613
by type:			
Grants	388	259	282
Loans 2/ 3/	723	426	331
by purpose:			
Budget support financing 3/	426	273	161
Project financing	185	412	452

Source: Georgian authorities; and Fund staff estimates.

1/ Includes augmentation of access in 2010-11.
2/ Includes Eurobond in 2008.
3/ Excludes SBA purchases.

Georgia: Social Expenditures (General Government), 2008-10

	2008	2009	2010
	(In percent of GDP)		
Health programs	1.2	1.6	1.8
Pensions	4.0	4.8	4.7
Social assistance 1/	1.1	1.4	1.3
Other	0.9	0.7	0.8
Total	7.2	8.4	8.5

Source: Ministry of Finance; and Fund staff estimates.

1/ Includes assistance to internally displaced persons (IDPs).

10. **In the event of higher-than-projected GDP growth, the mission recommended saving the resulting revenue overperformance.** This would facilitate meeting the authorities' ambitious medium-term deficit target. The authorities thought it premature to make such provisions, but indicated that they would consult with staff on the use of any revenue overpeformance.

11. **Expenditure containment remains the authorities' core instrument of adjustment over the medium term.** Expenditure plans and priorities will be spelled out in greater detail in the Medium-Term Expenditure Framework, to be discussed in parliament in

Georgia: Fiscal Adjustment, 2009-13

Measures	Change 2009-2010	Change 2010-2013	Comments
	(In percent of GDP)		
(1) Policy adjustment and automatic stabilizers	1.6	7.5	
Increase in revenues	-0.2	0.2	
Tax revenues 1/	0.4	0.2	Indirect tax increase (2010), improvement in revenue administration offset by possible tax cuts (2012-13)
Other revenues	-0.6	0.0	Impact of 2009 activity slowdown on dividends from public enterprises and interest from net lending (2010)
Decrease in expenditures	1.8	7.3	
Current spending 2/	1.3	4.9	
Compensation for employees	-0.2	0.8	Reduction in defense personnel costs offset by reclassification of legal entities of public law (LEPL) expenditures (2010), constant real wage bill (2011-13)
Use of goods and services	0.8	1.2	Administrative expenditure cuts of 15% cumulatively in real terms in 2010-2013 (except in ministries of education, health and agriculture)
Subsidies	0.3	0.6	Reclassification of LEPL expenditures from subsidies to other categories (2010), and cuts of 14% cumulatively in real terms (2011-13)
Social expenses	-0.1	0.9	Increase in pensions and social assistance, health reform 3/ (2010), efficiency gains and decrease in number of beneficiaries of subsistence minimum (2011-13)
Other expenses	0.6	1.4	Decrease in reserve funds (2010) and cofinancing of investment projects (2010-13), phasing out of house construction for IDPs (from 2011 on)
Capital spending	0.0	2.5	Completion of main city rehabilitation and infrastructure projects financed by donors; less reconstruction/renovation of public buildings (2010-13)
Net lending	0.5	-0.1	Termination of subsidized lending program (2010)
(2) Exogeneous factors	0.3	-2.5	
Increase in revenues	0.0	-2.4	
Tax arrears clearance	-0.6	-0.2	Belated VAT payment (2009) and penalty (2010) received from the Ministry of Defense
External grants	0.6	-2.2	Reduction in donor support (2010-13)
Decrease in expenditures	0.3	-0.1	
Tax arrears clearance	0.6	0.2	Belated VAT payment (2009) and penalty (2010) paid by the Ministry of Defense
Interest payments	-0.3	-0.3	Public debt increase (2010-13)
(1)+(2) = Total reduction in fiscal deficit	1.8	5.0	

Sources: Ministry of Finance; and Fund staff estimates.
Note: Figures may not add up due to rounding.

1/ Excluding intra-government tax arrears cleareance.
2/ Excluding interest payments and intra-government tax arrears clearance.
3/ Shift to insurance system and increase in the number of beneficiaries.

June, finalized by the government in July (structural benchmark), and then approved by parliament together with the 2011 budget in the Fall of 2010. The authorities remain committed to moving to programmatic budgeting by 2012 (LOI ¶22), and have requested Fund technical assistance to develop the necessary methodology (structural benchmark for end-September 2010).

12. **On the revenue front, the government is undertaking a number of initiatives to strengthen revenue administration**. These include the introduction of a new Tax Code merging the customs and tax codes, and the transformation of the revenue service into an independent entity, with the aim of increasing efficiency and modernizing tax enforcement methods (LOI ¶13 and 30). This new entity will have the power to levy its own service fees, but staff was assured that it would not charge for services relating to core tax administration functions. The plan to reduce the flat income tax rate from 20 to 15 percent remains on hold.

13. **The authorities have reconsidered elements of the Economic Freedom, Opportunity and Dignity Act.** The proposed referendum requirement for tax increases (described in Box 2 of Country Report No. 09/331) has been simplified and rendered more flexible. It will be included in a constitutional amendment that could be approved by parliament in March (LOI ¶29). It will subject increases in the top rates of the major national taxes (personal income, profit, VAT, and customs) to referendum, but preserves the government's discretion on excises, as well as on changes to the tax base or introduction of lower tax rates. The introduction of new taxes would also be subject to the referendum requirement, except if they replace other taxes without raising the overall tax burden (for instance a turnover tax in lieu of a profit tax).

14. **The other aspects of the Economic Freedom, Opportunity and Dignity Act discussed at the last review will be considered later, under a separate organic law.** Such a law would require a two-thirds majority to be revoked or amended. Under current plans, the fiscal deficit, debt and expenditure limits (to be enforced from 2012) would remain as they were in the original proposal.

C. Monetary and Exchange Rate Policy

15. **The monetary authorities acknowledged their limited powers to stimulate credit growth in the highly dollarized Georgian context.** Low refinancing (5 percent) and CD (5.4 percent) rates, as well as ample local currency liquidity, have had little impact on overall deposit and lending rates. Banks report that their ability to lend in local currency is constrained by the very short-term nature of lari resources, particularly given the large liquidity shocks suffered since August 2008.

16. **To address the problem of inadequate long term lari resources and promote dedollarization, the authorities plan to introduce a long-term refinancing facility.** The facility would make available to banks 3–5 year resources in an amount equivalent to about 6 percent of the current loan portfolio, at a floating rate linked to the policy rate (LOI ¶24).

To support this facility, the authorities are considering expanding the range of eligible collateral, and possibly seeking IFIs guarantees. The success of the scheme will ultimately depend on whether borrowers are willing to trade the exchange rate risk implied by their current dollar borrowing for the interest rate risk associated with a domestic floating rate loan. This scheme would replace the dollar swaps introduced for the same purpose in 2008, which had mixed results.

17. **Durable dedollarization of lending calls for a parallel dedollarization of bank liabilities, possibly requiring higher spreads in favor of local currency deposits.** The interest differential in favor of lari time deposits (about 1.5 percentage points) is presently insufficient to cover perceived risks. However, the monetary authorities consider that the degree of monetary tightening necessary to affect deposit dollarization would undermine the efforts to restart credit at this stage. The introduction of deposit insurance, limited to long-term lari deposits, could be an alternative instrument to rebalance incentives in favor of the local currency. Such a scheme is under consideration, but its introduction would require careful pricing to minimize moral hazard. To enhance the effectiveness of monetary policy going forward, the authorities are also considering raising the reserve requirement (while remunerating it) to make it more binding and extending it to external borrowing (LOI ¶23 and 25).

18. **The 2010 monetary program is built on the expectation of a 17 percent increase in broad money, and an 8 ½ percent increase in credit to the private sector.**[2] Credit growth has been revised down relative to the last review reflecting observed sluggishness. With deposit growth expected to outpace credit expansion (including the acquisition of T-bills), commercial banks are projected to increase substantially their net foreign assets.

19. **The central bank's gross international reserves are projected to increase to $2.3 billion by end-2010, $192 million higher than at the time of the fourth review.** The NIR target for end-2010 has also been revised up on account of higher expected official inflows, but it would still decline relative to the end-2009 level (by $281 million) to accommodate net auctions of foreign exchange to the private sector. Under the NIR target, the program allows for fx auctions of $370 million in 2010, of which $94.2 million was used through end-February.

[2] Excluding valuation effects due to depreciation in January 2010, broad money growth comes to 15 percent, and credit growth to 6 percent.

Georgia: Gross International Reserves, 2007-10

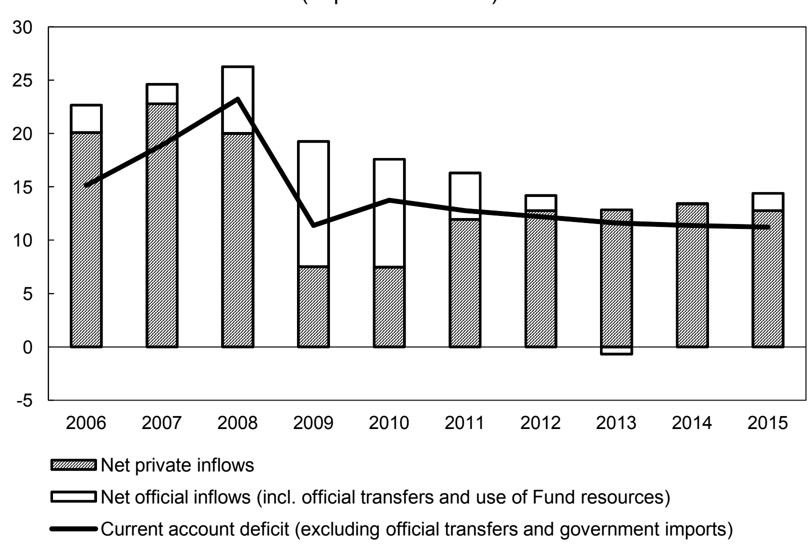
	Dec-07	Dec-08	Dec-09	Dec-10
In months of next year's imports of goods and services	2.2	3.4	4.3	4.3
In percent of short-term external debt (remaining maturity)	138.0	100.5	195.4	187.6
In percent of dollar deposits	117.2	102.6	144.0	137.5

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

20. **The NDA target is set with the objective of sterilizing part of the accumulation of bank free reserves through short-term CDs.** The authorities intend to continue using CDs to ensure that banks' free reserves remain within a range that limits the risk of sudden conversions into dollars.

21. **Foreign exchange auctions are intended to cover part of the (temporary) private sector external financing gap, while allowing the exchange rate to respond flexibly to sustained pressures.** Within the constraints of maintaining an adequate level of international reserves, the central bank's objective is to recycle part of the foreign exchange received by the public sector to the private sector so as to limit exchange rate overshooting stemming from a temporary balance of payment gap. The authorities consider it important to retain discretion over the timing and the amount of fx auctions to smooth market conditions in a very thin market. At the same time, they emphasized that they are not targeting a particular level of the exchange rate and will not seek to counter persistent trends in the exchange rate that reflect fundamental imbalances (LOI ¶26).

Georgia: Current Account Balance and its Financing, 2006-15
(In percent of GDP)



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

D. The Banking Sector

22. **The authorities are taking steps to enhance supervisory capacity and raise its efficiency.** With credit quality deterioration possibly spreading to consumer credit, NPLs could rise again, and supervisory capacity is being refocused on the retail loan portfolio. An ongoing reorganization of the supervisory authority will improve overall risk assessment capacity and better integrate macroeconomic risk factors in the analysis (LOI ¶6 and ¶11). Implementation of risk-based supervision will begin this year with the gradual move to differentiated capital requirements based on CAMEL ratings. Eventually, a better targeting of capital charges to actual risks would make intermediation more efficient. Plans to move to dynamic provisioning and fx-denominated capital and provisioning are on hold.

23. **The authorities consider that they have the necessary instruments for effective bank resolution.** The amended central bank organic law adopted in December 2009 expands the central bank's powers over banks under temporary administration, including on matters of mergers and recapitalization. At the same time, the draft Freedom Act would require the government to divest from any bank holding within a year, which staff noted could hamper the resolution strategy. The authorities are planning to refine further their stress testing framework, and to conduct an overall bank vulnerability assessment with World Bank assistance.

III. Program Issues

24. Proposed performance criteria on NIR, NDA, and the budget deficit for end-March and end-June 2010 have been revised to reflect some quarterly reallocation of spending, revenue, and external financing (LOI, Table 1).

25. It is proposed that the performance criterion on the contracting or guaranteeing of nonconcessional debt be changed to an indicative target, given Georgia's moderate debt vulnerabilities and strong management capacity.[3] The level for September and December 2010 is set at the level approved by the Board for June 2010.

[3] In the context of subsequent reviews and in line with the new Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, an even more flexible approach will be considered.

Georgia: Proposed Structural Benchmarks for 2010		
Proposed Structural Benchmark	Proposed Time Frame	Rationale
Cabinet approval of a new medium-term expenditure framework (Basic Data and Directions) that includes expenditure ceilings applicable to the 2011 budget.	July 31, 2010	Strengthen the efficiency of the adjustment strategy by improving linkages between the medium-term expenditure framework and annual budgets, and building the capacity for program budgeting.
Cabinet approval of the methodology to introduce a programmatic approach to budgeting, identifying the requirements in terms of budget preparation processes and information needs.	September 30, 2010	

26. **The 2008 safeguard assessment was updated and found that an agreement between the NBG and the Ministry of Finance clarifying their respective roles regarding disbursements for budgetary support was signed**. The authorities intend to implement the key recommendations within the recommended time frame. Discussions with staff are ongoing on the desirability of integrating into the national bank's organic law provisions already contained in other statutes regarding the independence of central bank Council Members, President, Vice-President, and Chief Internal Auditor.

IV. Staff Appraisal

27. **Policy performance has been good and the 2010 program sets out a viable exit strategy.** All quantitative performance criteria were met, exchange rate flexibility has increased, and significant reforms to reinforce macroeconomic management and address risks were implemented in 2009. Successful implementation of the 2010 program should help Georgia reduce its dependence on official support and regain access to capital markets ahead of the large debt rollover needs of 2013–14. The evolution of private capital inflows is critical to achieving external sustainability and will be monitored closely with a view to adjusting policies as needed.

28. **In view of the uncertain growth outlook, the authorities should stand ready to adjust the fiscal deficit target to avoid procyclicality.** In the event of faster GDP growth, revenue overperformance should be directed to faster deficit reduction. Similarly, some of the revenue shortfalls from lower GDP growth could be accommodated in a higher deficit.

29. **Proposed revisions to the referendum requirement for tax policy changes in the Economic Freedom Act are welcome.** While the referendum requirement is still unnecessarily binding, the new proposal strikes a better balance between the authorities' objective of entrenching liberal economic policy principles and that of preserving the government's discretion in tax policy matters. It would be similarly important that the Act not set arbitrary deadlines for government divestment from banks in the context of bank resolution.

30. **In the absence of effective means to ease credit conditions, an important objective should be to promote dedollarization.** The long-term refinancing facility under consideration could induce some dedollarization of loans, but it is unlikely to affect lending rates substantially. Dedollarization of the deposit base is key. While it ultimately depends on lessening exchange rate and macroeconomic uncertainties, it can be supported by regulatory means. In this regard, the authorities are encouraged to develop plans for targeted deposit insurance. They should also consider consumer protection legislation to reinforce confidence in the banking sector more generally.

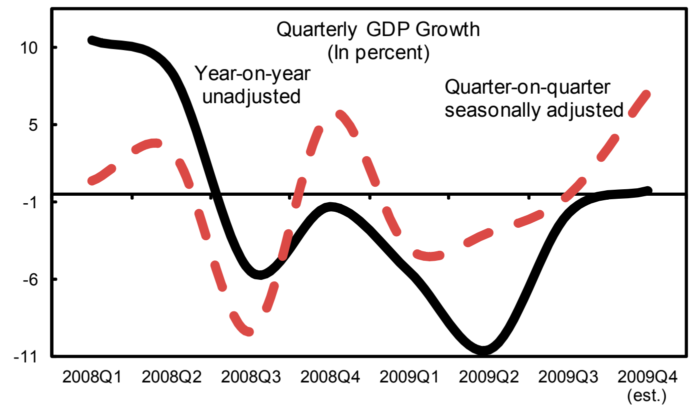
31. **As conditions stabilize and the recovery takes hold, the central bank should also stand ready to increase the refinancing rate and to allow the CD rate to rise to promote dedollarization and preserve disinflation gains.** To that end, the monetary policy framework should be strengthened, not least to achieve a better understanding of the inflation process and the monetary transmission mechanism. IMF technical assistance could be mobilized.

32. **Ongoing reforms and capacity building within the financial supervisory authority are key to the monitoring of banking sector risks.** Currency-induced credit risk remains a concern. Measures taken in 2009 to strengthen preparedness and supervision, and the move toward risk-based supervision in 2010 should make financial intermediation more efficient and less risky going forward. These improvements would minimize the risk of replicating the unsustainable credit growth of the pre-crisis period.

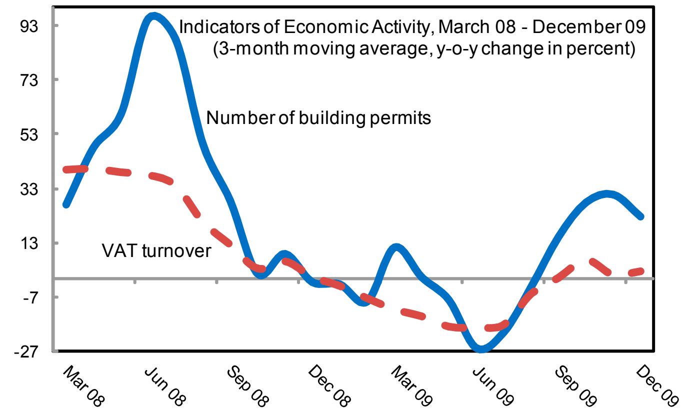
33. **On the basis of Georgia's performance under the SBA, staff supports the authorities' request for completing the fifth review**, and modifying program conditionality, as specified in the LOI (¶33, and Tables 1 and 2).

Figure 1. Georgia: Real Sector Developments and Outlook

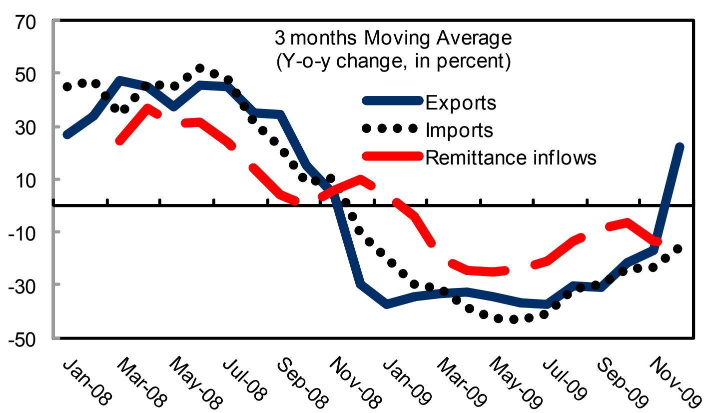
The economic recovery is under way...



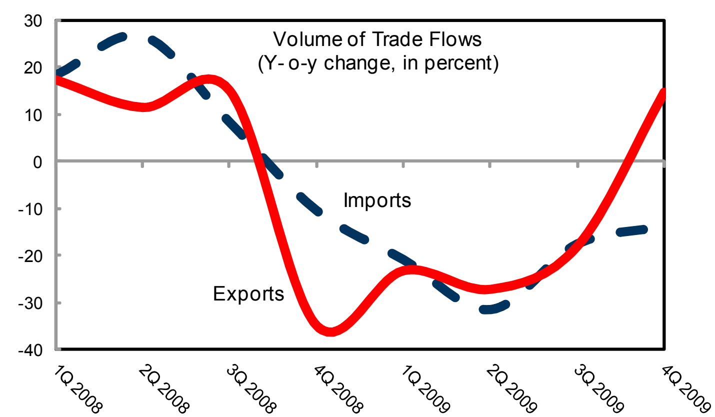
...led by a rebound in constuction and evidenced by buoyant VAT turnover.



Exports and remittances picked up in the second half of 2009...



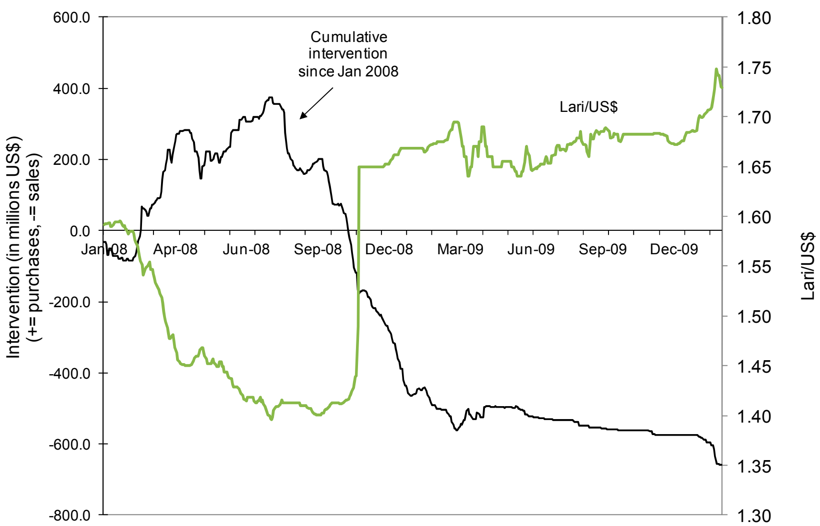
...while imports growth was more sluggish.



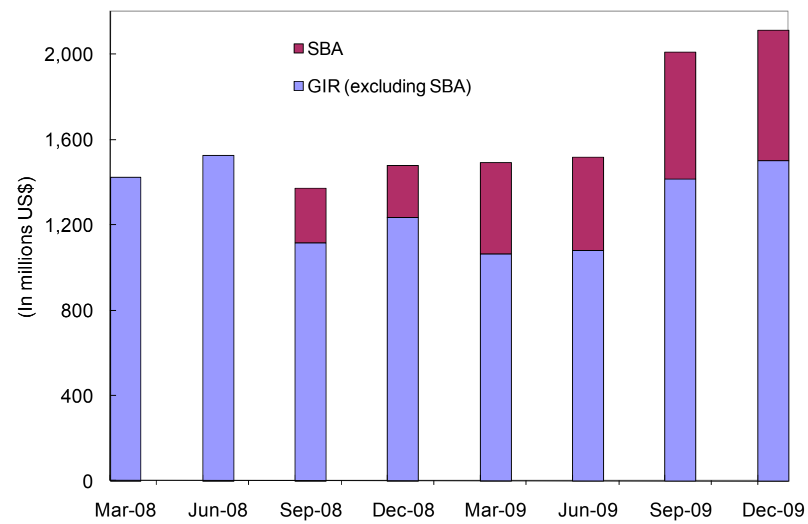
Sources: Georgian authorities; and Fund staff estimates.

Figure 2. Georgia: Exchange Rate Developments

The exchange rate has been more volatile recently…



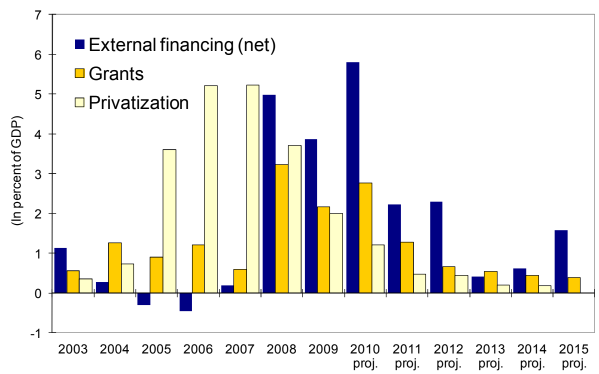
…and the reserve cushion remains at comfortable levels.



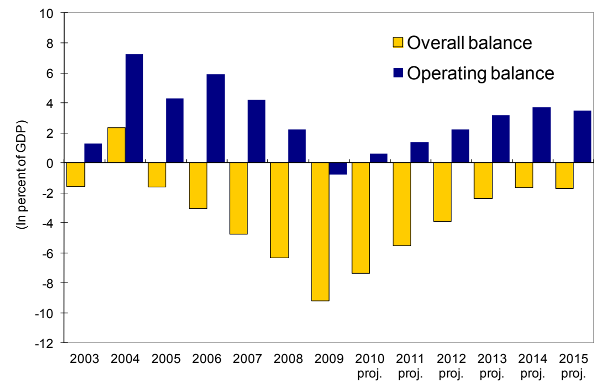
Source: National Bank of Georgia.

Figure 3. Georgia: Fiscal Sector Developments and Outlook

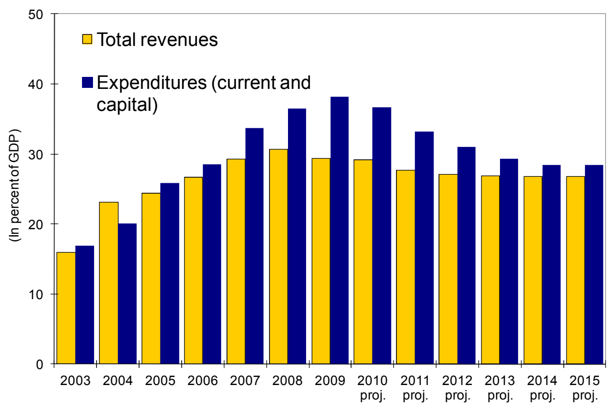
In 2008, external borrowing outstripped privatization proceeds as the main source of financing.



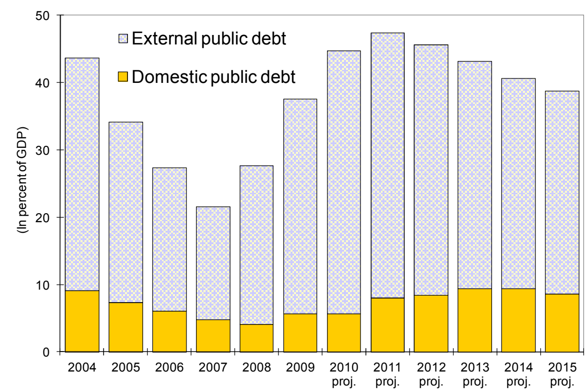
The fiscal deficit is expected to peak in 2009.



After 2009, public finances will be on a more sustainable path through expenditure reduction.



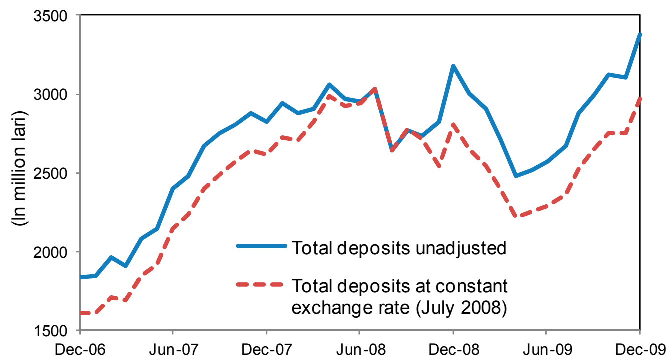
Owing to the accumulation of deficits, Georgia's public debt will increase through 2011.



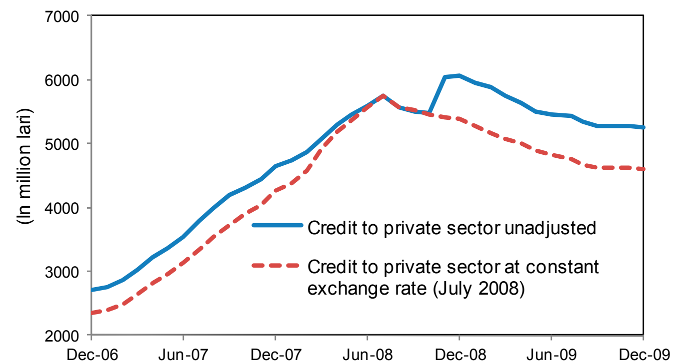
Sources: Georgian authorities; and Fund staff estimates.

Figure 4. Georgia: Monetary Sector Developments

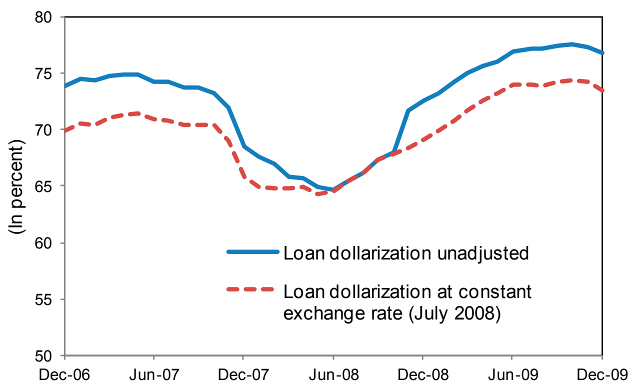
Deposits have been increasing since May 2009...



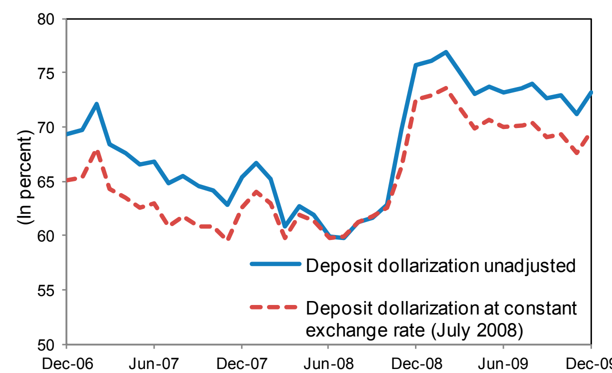
…while credit has only recently stabilized.



Credit dollarization has been trending upwards in 2009…



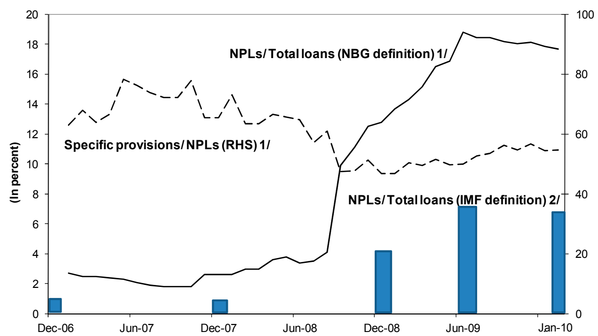
…contrary to deposit dollarization, which has declined.



Source: National Bank of Georgia.

Figure 5. Georgia: Banking Sector Developments

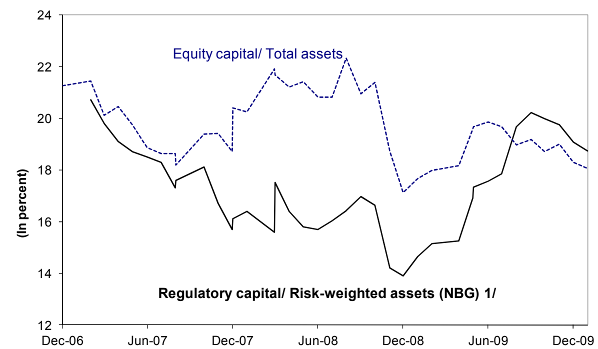
Nonperforming loans have started to decline recently, and the level of provisioning remains adequate.



1/ NPLs are defined as loans in substandard, doubtful, and loss loan categories.

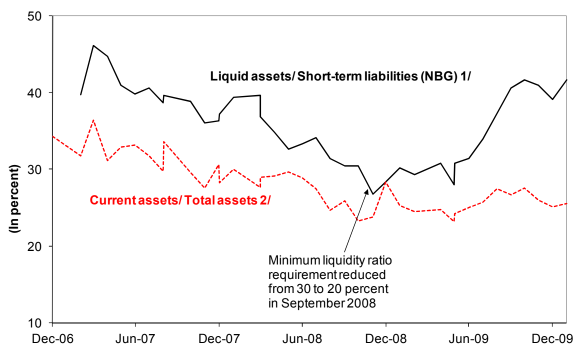
2/ NPLs are defined as loans with overdue payments (principle and/or interest) over 90 days.

Capitalization…



1/ National definition. Risk weight to forex loans was reduced from 200 to 175 percent in September 2008, and to 150 percent in August 2009.

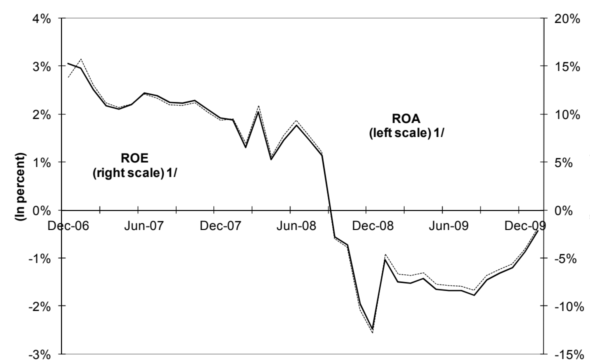
…and liquidity have recovered since end-2008.



1/ Ratio of liquid assets to six-month and shorter maturity liabilities.

2/ Current assets are assets of one-month and shorter maturity.

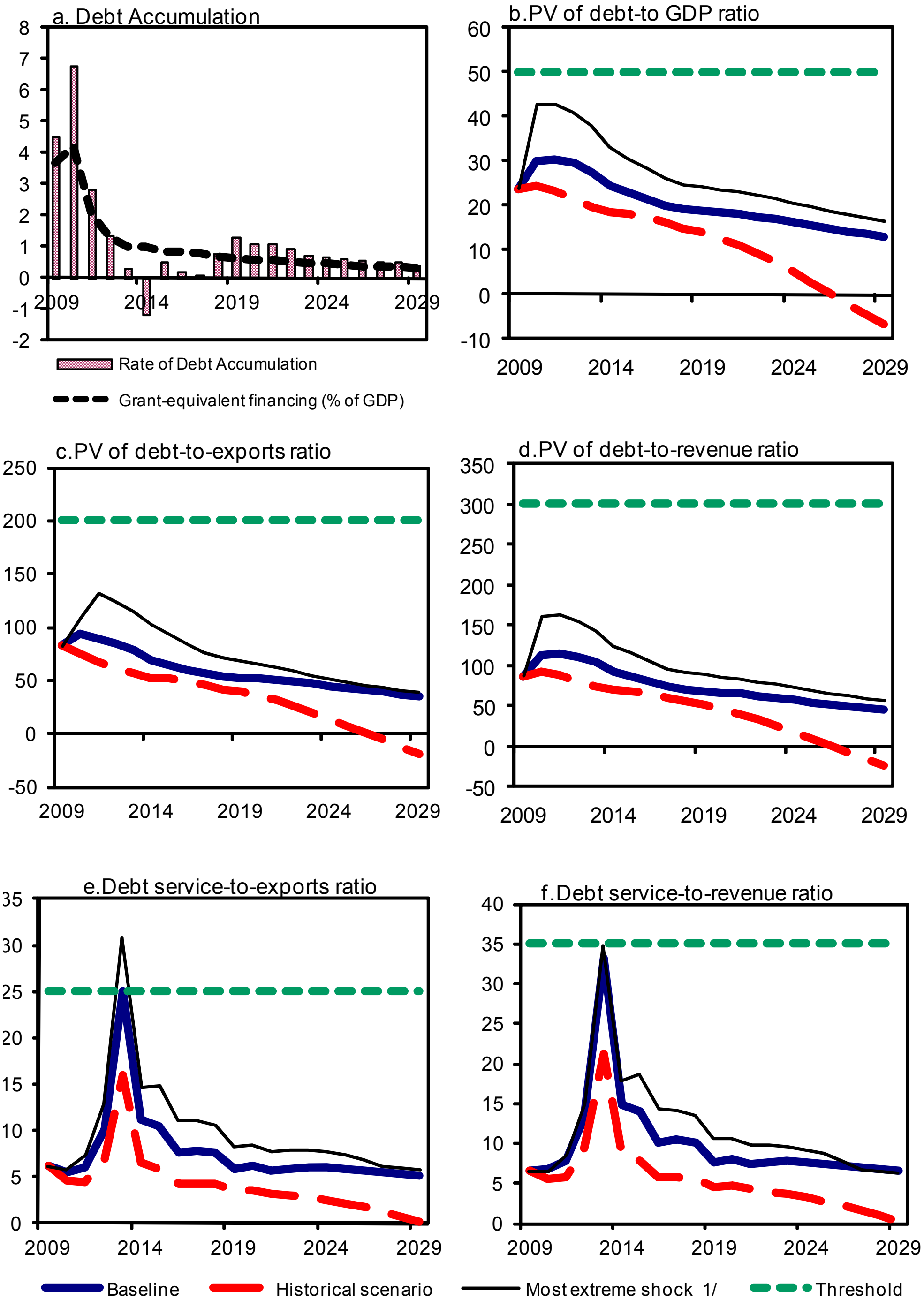
Profitability has been improving since September.



1/ Cumulative through the year and annualized.

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

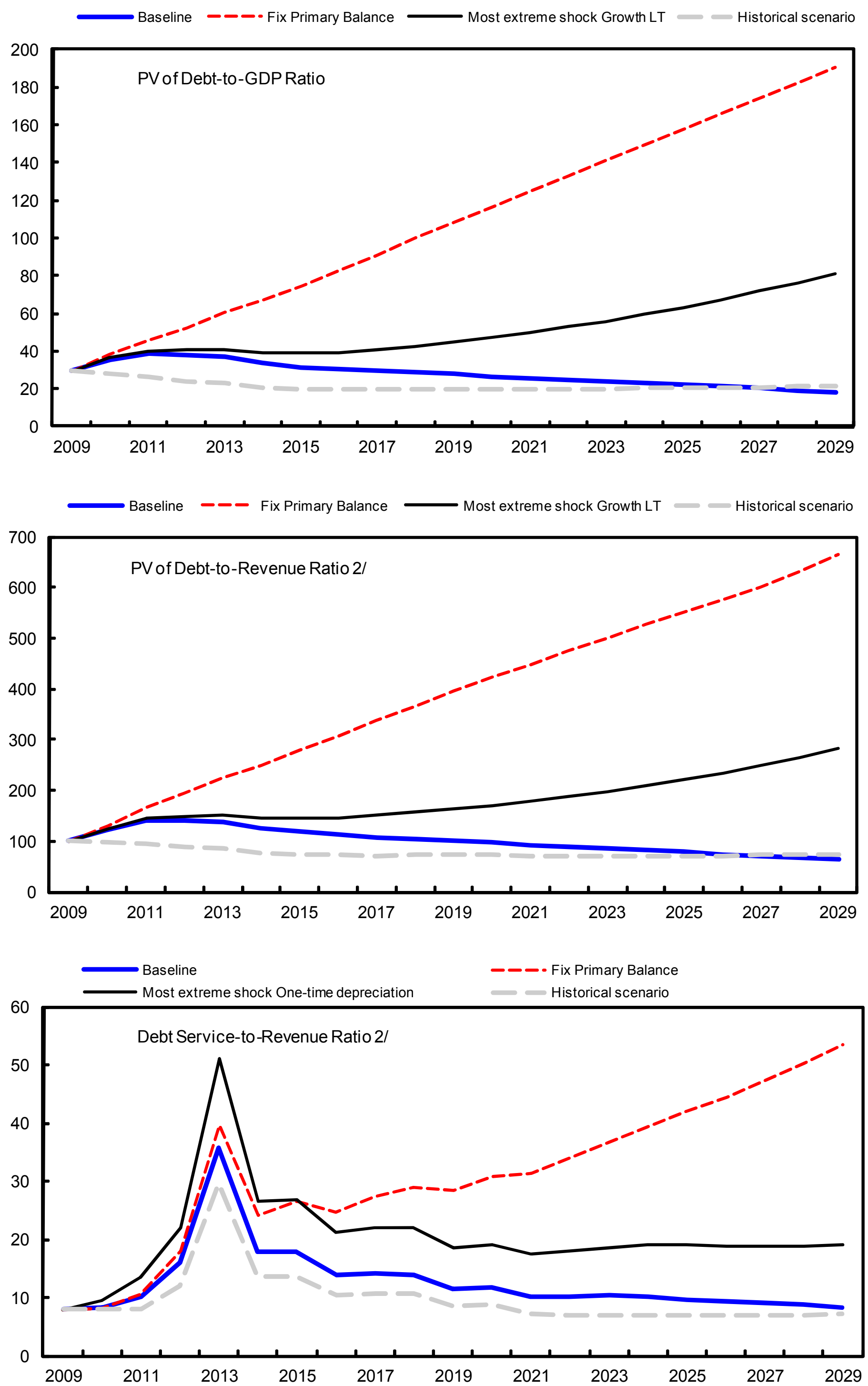
Figure 6a. Georgia: Indicators of Public and Publicly-Guaranteed External Debt under Alternatives Scenarios, 2009-2029 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2019. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in picture f. to a Non-debt flow s shock

Figure 6b. Georgia: Indicators of Public Debt Under Alternative Scenarios, 2009-2029 1/ 2/ 3/



Sources: Country authorities; and Fund staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Fix Primary balance scenario corresponds to the scenario that maintains the primary balance unchanged at 2009 level.

3/ Revenues are defined inclusive of grants.

Table 1. Georgia: Selected Macroeconomic Indicators, 2008–15

	2008 Act.	2009 Prel.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
	(Annual percentage change, unless otherwise indicated)							
National accounts								
Nominal GDP (in million lari)	19,075	17,935	18,934	20,675	22,795	25,131	27,707	30,547
Real GDP growth	2.3	-4.0	2.0	4.0	5.0	5.0	5.0	5.0
Population (in million) 1/	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
GDP deflator, period average	9.7	-2.1	3.5	5.0	5.0	5.0	5.0	5.0
Consumer price index, period average	10.0	1.7	4.9	5.0	5.0	5.0	5.0	5.0
Consumer price index, end-of-period	5.5	3.0	5.0	5.0	5.0	5.0	5.0	5.0
GDP per capita (in US$)	2,937	2,448	2,483	2,672	2,887	3,120	3,372	3,644
Unemployment rate (in percent)	16.5	...	...	...	...	...	...	...
	(In percent of GDP)							
Investment and saving								
Investment 2/	21.5	13.0	15.0	17.0	19.0	20.0	21.0	23.0
Public	4.3	6.9	6.9	6.4	5.7	5.4	5.2	5.2
Private	17.2	6.2	8.1	10.6	13.3	14.6	15.8	17.8
Gross national saving	-1.2	0.8	0.8	3.1	5.5	6.9	8.1	10.3
Public	2.2	-0.8	0.6	1.4	2.2	3.2	3.7	3.5
Private	-3.4	1.6	0.2	1.8	3.2	3.7	4.4	6.8
Saving-investment balance	-22.7	-12.2	-14.2	-13.9	-13.5	-13.1	-12.9	-12.7
Consolidated government operations								
Revenue 3/	30.7	29.4	29.1	27.7	27.0	26.9	26.8	26.8
Expenses	28.5	30.2	28.5	26.3	24.8	23.7	23.1	23.3
Operating balance	2.2	-0.8	0.6	1.4	2.2	3.2	3.7	3.5
Capital spending and net lending	8.6	8.4	8.0	6.9	6.1	5.6	5.4	5.2
Overall balance	-6.3	-9.2	-7.4	-5.5	-3.9	-2.4	-1.7	-1.7
Statistical discrepancy	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total financing	6.1	9.2	7.4	5.5	3.9	2.4	1.7	1.7
Domestic	-2.5	3.3	0.3	2.8	1.2	1.8	0.9	0.1
External	5.0	3.9	5.8	2.2	2.3	0.4	0.6	1.6
Privatization receipts	3.7	2.0	1.2	0.5	0.4	0.2	0.2	0.0
	(Annual percentage change, unless otherwise indicated)							
Monetary sector								
Reserve money	-4.5	21.8	5.0	…	…	…	…	…
Broad money (including fx deposits)	7.0	8.1	17.0	…	…	…	…	…
Bank credit to the private sector	31.0	-13.5	8.6	…	…	…	…	…
Deposit interest rate (annual weighted average on flows)	21.9	22.4	…	…	…	…	…	…
Lending interest rate (annual weighted average on flows)	9.5	9.8	…	…	…	…	…	…
External sector								
Exports of goods and services (percent of GDP)	28.7	28.9	32.3	34.2	34.6	34.9	35.0	35.3
Annual percentage change	15.9	-15.9	13.3	14.2	9.5	9.0	8.3	9.3
Imports of goods and services (percent of GDP)	58.3	48.9	54.2	54.8	54.3	53.6	53.3	53.3
Annual percentage change	26.7	-29.9	12.4	8.9	7.2	6.8	7.5	8.1
Net imports of oil (in US$)	762	555	668	749	809	867	923	984
Current account balance (in millions of US$)	-2,915	-1,312	-1,544	-1,626	-1,717	-1,800	-1,912	-2,046
In percent of GDP	-22.7	-12.2	-14.2	-13.9	-13.5	-13.1	-12.9	-12.7
Gross international reserves (in millions of US$)	1,480	2,110	2,278	2,450	2,460	2,286	2,326	2,551
In months of next year's imports of goods and services	3.4	4.3	4.3	4.3	4.0	3.5	3.3	3.3
Foreign direct investment (percent of GDP)	12.2	7.1	7.9	10.0	10.9	11.6	12.4	12.3
Average exchange rate (lari per US$)	1.48	1.67	…	…	…	…	…	…

Sources: Georgian authorities; and Fund staff estimates.

1/ Excludes Abkhazia residents.

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

3/ Includes grants.

Table 2. Georgia: Annual General Government Operations, 2008-15 1/

	2008	2009		2010 3/		2011	2012	2013	2014	2015	2008	2009		2010 3/		2011	2012	2013	2014	2015
		4 Rev.	Act.	4 Rev.	Proj.							4 Rev.	Act.	4 Rev.	Proj.					
	(In millions of lari)										(In percent of GDP)									
Revenues	5,854	5,308	5,264	5,429	5,518	5,720	6,166	6,767	7,430	8,180	30.7	29.4	29.4	28.5	29.1	27.7	27.0	26.9	26.8	26.8
Taxes	4,753	4,412	4,389	4,601	4,598	5,021	5,535	6,103	6,728	7,418	24.9	24.5	24.5	24.2	24.3	24.3	24.3	24.3	24.3	24.3
Other revenues	484	421	487	360	397	433	478	527	581	640	2.5	2.3	2.7	1.9	2.1	2.1	2.1	2.1	2.1	2.1
Grants	617	475	389	468	524	266	153	137	121	121	3.2	2.6	2.2	2.5	2.8	1.3	0.7	0.5	0.4	0.4
Current expenditures	5,427	5,405	5,407	5,322	5,404	5,433	5,658	5,963	6,400	7,117	28.5	30.0	30.2	27.9	28.5	26.3	24.8	23.7	23.1	23.3
Compensation for employees	1,008	1,088	1,048	1,141	1,151	1,209	1,269	1,333	1,442	1,589	5.3	6.0	5.8	6.0	6.1	5.8	5.6	5.3	5.2	5.2
Use of goods and services	1,607	981	1,105	1,055	1,062	1,000	1,000	1,050	1,130	1,246	8.4	5.4	6.2	5.5	5.6	4.8	4.4	4.2	4.1	4.1
Subsidies	512	465	420	384	384	380	370	360	369	407	2.7	2.6	2.3	2.0	2.0	1.8	1.6	1.4	1.3	1.3
Grants	12	16	14	12	12	14	16	18	20	22	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social expenses	1,379	1,499	1,506	1,611	1,611	1,700	1,800	1,900	2,067	2,279	7.2	8.3	8.4	8.5	8.5	8.2	7.9	7.6	7.5	7.5
Other expenses	789	1,174	1,142	934	941	850	875	900	965	1,063	4.1	6.5	6.4	4.9	5.0	4.1	3.8	3.6	3.5	3.5
Of which: arrears clearance and provisions	22	220	198	29	29	0	0	0	0	0	0.1	1.2	1.1	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Interest	121	183	171	185	243	280	328	402	408	510	0.6	1.0	1.0	1.0	1.3	1.4	1.4	1.6	1.5	1.7
To nonresidents	64	124	113	160	162	171	185	231	210	250	0.3	0.7	0.6	0.8	0.9	0.8	0.8	0.9	0.8	0.8
To residents	56	60	58	25	81	109	143	171	198	261	0.3	0.3	0.3	0.1	0.4	0.5	0.6	0.7	0.7	0.9
Operating balance	427	-97	-143	107	114	287	507	804	1,030	1,063	2.2	-0.5	-0.8	0.6	0.6	1.4	2.2	3.2	3.7	3.5
Capital spending and net lending	1,636	1,629	1,506	1,501	1,507	1,425	1,400	1,400	1,488	1,580	8.6	9.0	8.4	7.9	8.0	6.9	6.1	5.6	5.4	5.2
Capital	1,524	1,537	1,444	1,526	1,532	1,425	1,400	1,400	1,488	1,580	8.0	8.5	8.0	8.0	8.1	6.9	6.1	5.6	5.4	5.2
Net lending	111	92	62	-25	-25	0	0	0	0	0	0.6	0.5	0.3	-0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Overall balance	-1,208	-1,726	-1,648	-1,393	-1,393	-1,138	-893	-596	-458	-517	-6.3	-9.6	-9.2	-7.3	-7.4	-5.5	-3.9	-2.4	-1.7	-1.7
Statistical discrepancy	36	0	0	0	0	0	0	0	0	0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total financing	1,173	1,726	1,648	1,393	1,393	1,138	893	596	458	517	6.1	9.6	9.2	7.3	7.4	5.5	3.9	2.4	1.7	1.7
Domestic	-483	636	596	65	65	575	266	441	240	36	-2.5	3.5	3.3	0.3	0.3	2.8	1.2	1.8	0.9	0.1
Net T-bill issuance	0	258	260	100	100	615	311	490	294	95	0.0	1.4	1.4	0.5	0.5	3.0	1.4	1.9	1.1	0.3
Amortization 2/	-33	-37	-37	-35	-35	-40	-44	-49	-54	-60	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Use of deposits at the NBG and banks	-450	415	373	0	0	0	0	0	0	0	-2.4	2.3	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External	950	737	694	1,098	1,097	464	526	105	168	481	5.0	4.1	3.9	5.8	5.8	2.2	2.3	0.4	0.6	1.6
Borrowing	1,073	839	787	1,236	1,236	576	620	1,544	628	1,120	5.6	4.7	4.4	6.5	6.5	2.8	2.7	6.1	2.3	3.7
Of which: IMF		169	171	665	674							0.9	1.0	3.5	3.6					
Amortization	-66	-143	-133	-138	-139	-112	-93	-1,439	-460	-639	-0.3	-0.8	-0.7	-0.7	-0.7	-0.5	-0.4	-5.7	-1.7	-2.1
Use of Sovereign Wealth Fund resources	-57	40	40	0	0	0	0	0	0	0	-0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts	706	353	358	230	230	100	100	50	50	0	3.7	2.0	2.0	1.2	1.2	0.5	0.4	0.2	0.2	0.0
Memorandum items:																				
Nominal GDP	19,075	18,028	17,935	19,042	18,934	20,675	22,795	25,131	27,707	30,547										
Fiscal deficit excluding grants	1,790	2,201	2,037	1,862	1,916	1,404	1,045	733	579	638	9.4	12.2	11.4	9.8	10.1	6.8	4.6	2.9	2.1	2.1
Total expenditures (current prices)	6,951	6,942	6,851	6,848	6,936	6,858	7,058	7,363	7,888	8,696	36.4	38.5	38.2	36.0	36.6	33.2	31.0	29.3	28.5	28.5
Total expenditures (constant 2008 prices)	6,951	7,049	6,995	6,715	6,843	6,443	6,316	6,274	6,402	6,722										

Sources: Ministry of Finance; and Fund staff estimates.

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

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

3/ Domestic interest and other revenues projections are higher than in the 4th review by about an equivalent amount, reflecting an agreement between the ministry of finance and the central bank on the payment of interest on government obligations and the transfer of central bank profits to the budget.

Table 3. Georgia: Quarterly General Government Operations, 2009-10 1/

	2009					2010				
	Q1 Act.	Q2 Act.	Q3 Act.	Q4 Act.	Annual Act.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Annual Proj.
	(In millions of lari)									
Revenues	1,267	1,118	1,292	1,588	5,264	1,210	1,281	1,403	1,624	5,518
Taxes	1,139	996	1,094	1,159	4,389	1,038	1,136	1,197	1,226	4,598
Direct	458	452	475	473	1,858	459	509	504	488	1,959
Indirect	681	544	619	687	2,531	579	627	694	739	2,639
Other revenues	79	84	107	217	487	59	63	80	194	397
Grants	48	38	90	212	389	113	82	126	203	524
Current expenditures	1,296	1,300	1,282	1,529	5,407	1,281	1,338	1,333	1,452	5,404
Compensation for employees	248	260	251	289	1,048	275	290	275	311	1,151
Use of goods and services	207	273	260	365	1,105	260	260	260	282	1,062
Subsidies	87	105	104	125	420	80	95	105	104	384
Grants	7	3	2	3	14	7	3	2	0	12
Social expenses	352	377	377	400	1,506	400	400	400	411	1,611
Other expenses	370	226	259	288	1,142	216	219	245	262	941
Of which: arrears clearance and provisions	171	5	19	3	198	6	4	5	15	29
Interest	26	56	30	59	171	43	72	46	82	243
To nonresidents	13	40	16	45	113	28	53	26	55	162
To residents	13	16	14	15	58	16	18	20	27	81
Operating balance	-30	-182	9	59	-143	-72	-57	70	172	114
Capital spending and net lending	199	338	474	495	1,506	262	348	422	476	1,507
Capital	169	333	452	490	1444	275	350	420	487	1,532
Net lending	30	5	22	5	62	-14	-3	2	-12	-25
Overall balance	-228	-520	-464	-436	-1,648	-333	-404	-352	-304	-1,393
Statistical discrepancy	0	0	0	0	0	0	0	0	0	0
Total financing	228	520	464	436	1,648	333	404	352	304	1,393
Domestic	63	375	103	55	596	-143	177	-46	77	65
Net T-Bill issuance	0	0	68	192	260	59	41	0	0	100
Amortization 2/	-9	-11	-12	-5	-37	-12	-10	-6	-7	-35
Use of deposits at the NBG and banks	72	386	48	-132	373	-190	146	-40	84	0
External	64	40	301	289	694	461	198	327	111	1,097
Borrowing	37	60	377	313	787	476	221	401	137	1,236
Of which: IMF	0	0	0	171	171	396	139	139	0	674
Amortization	-13	-20	-76	-24	-133	-15	-23	-74	-26	-139
Use of Sovereign Wealth Fund resources	40	0	0	0	40	0	0	0	0	0
Privatization receipts	101	106	60	91	358	15	30	70	115	230
Memorandum items:										
Nominal GDP	3,889	4,247	4,578	5,220	17,935	4,054	4,696	5,017	5,167	18,934

Sources: Ministry of Finance; and Fund staff estimates.

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

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

Table 4. Georgia: Summary Balance of Payments, 2008-15

(In millions of U.S. dollars)

	2008	2009		2010		2011	2012	2013	2014	2015
		4th Review		4th Review	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-2,915	-1,626	-1,312	-1,765	-1,544	-1,626	-1,717	-1,800	-1,912	-2,046
Trade balance	-3,833	-2,656	-2,415	-2,898	-2,664	-2,767	-2,903	-3,043	-3,262	-3,506
Exports	2,428	1,770	1,844	1,855	2,124	2,428	2,659	2,892	3,125	3,410
Imports	-6,261	-4,426	-4,260	-4,752	-4,789	-5,195	-5,561	-5,934	-6,386	-6,916
Services	23	222	262	291	274	351	406	475	538	623
Services: credit	1,260	1,229	1,258	1,382	1,391	1,586	1,737	1,900	2,065	2,261
Services: debit	-1,238	-1,007	-996	-1,091	-1,117	-1,235	-1,331	-1,425	-1,527	-1,638
Income (net)	-165	-74	-86	-103	-111	-130	-148	-181	-179	-192
Of which : interest payments	-248	-266	-261	-309	-306	-327	-345	-378	-370	-394
Transfers (net)	1,060	882	928	945	957	920	927	949	991	1,028
Of which : public sector	365	189	167	196	204	115	77	51	50	49
Capital account	105	198	170	206	209	91	78	69	60	60
Financial account	2,808	1696	1,555	1,277	1,056	1,657	1,903	2,024	2,234	2,400
Direct investment (net)	1,523	700	767	817	858	1,170	1,379	1,596	1,822	1,940
Monetary authorities, net 1/	21	241	239	0	0	0	0	0	0	0
General government	651	353	385	251	251	263	299	273	252	362
Private Sector, excl. FDI	612	401	163	209	-53	223	225	155	160	99
Banks	403	97	1	97	-76	183	231	188	208	92
Portfolio investment, net	109	7	7	10	18	95	100	105	95	72
Of which : equity liabilities	101	7	7	0	18	30	30	30	30	32
Loans received (net)	596	-127	-206	-53	-73	73	111	58	83	-11
Other, net (currency and deposits)	-302	217	200	140	-20	15	20	25	30	32
Other sectors	209	304	162	112	23	41	-6	-33	-48	7
Portfolio investment, net	14	13	14	48	33	14	26	28	41	44
Long-term loans received (net)	59	100	53	26	26	27	-1	-11	-36	-71
Other, net	137	192	96	38	-36	-1	-31	-50	-53	33
Errors and omissions	-49	69	19	0	0	0	0	0	0	0
Overall balance	-51	337	431	-282	-280	122	264	293	382	414
Financing	51	-337	-431	282	280	-122	-264	-293	-382	-414
Gross International Reserves (-increase)	-131	-503	-619	-81	-168	-173	-9	174	-40	-225
Use of Fund Resources	222	311	313	363	447	51	-255	-467	-342	-189
Purchases (SBA)	257	338	340	385	470	111	0	0	0	0
Of which: augmentation	...	...	...	311	319	111	...	...	...	...
Repayments (SBA and ECF 2/)	-35	-27	-28	-22	-22	-61	-255	-467	-342	-189
Exceptional financing	-39	-145	-124	0	0	0	0	0	0	0
Memorandum items:										
Nominal GDP	12,870	10,759	10,737	11,023	10,896	11,734	12,691	13,725	14,844	16,053
Current account balance (percent of GDP)	-22.7	-15.1	-12.2	-16.0	-14.2	-13.9	-13.5	-13.1	-12.9	-12.7
excluding official transfers (percent of GDP)	-25.5	-16.9	-13.8	-17.8	-16.0	-14.8	-14.1	-13.5	-13.2	-13.1
Trade balance (in percent of GDP)	-29.8	-24.7	-22.5	-26.3	-24.5	-23.6	-22.9	-22.2	-22.0	-21.8
GNFS exports growth (percent)	15.9	-18.7	-15.9	7.9	13.3	14.2	9.5	9.0	8.3	9.3
GNFS exports volume growth (percent)	-1.1	-9.1	-2.6	5.4	6.3	10.0	8.1	8.2	7.8	6.6
GNFS imports growth (percent)	26.7	-27.6	-29.9	7.6	12.4	8.9	7.2	6.8	7.5	8.1
GNFS imports volume growth (percent)	8.2	-15.5	-17.4	1.6	4.6	5.3	5.9	6.1	6.1	6.0
Net capital inflows to private sector	2,135	1,102	931	1,026	805	1,394	1,604	1,751	1,982	2,039
(in percent of GDP)	16.6	10.2	8.7	9.3	7.4	11.9	12.6	12.8	13.4	12.7
Gross international reserves (end of period)	1,480	2,005	2,110	2,086	2,278	2,450	2,460	2,286	2,326	2,551
(in months of next year GNFS imports)	3.4	4.1	4.3	4.0	4.3	4.3	4.0	3.5	3.3	3.3
External debt (nominal)	5,401	5,926	5,945	6,729	6,830	7,334	7,530	7,602	7,751	7,962
(in percent of GDP)	42.0	55.1	55.4	61.0	62.7	62.5	59.3	55.4	52.2	49.6
MLT External debt service	590	713	758	808	766	934	1,172	2,127	1,411	1,514
(in percent of exports)	16.0	23.8	24.4	25.0	21.8	23.3	26.7	44.4	27.2	26.7
External public sector debt (nominal)	2,691	3,394	3,413	4,150	4,253	4,590	4,692	4,609	4,601	4,799
(in percent of GDP)	20.9	31.5	31.8	37.6	39.0	39.1	37.0	33.6	31.0	29.9
External public debt service	125	186	192	207	205	242	443	1,204	581	597
(in percent of exports)	3.4	6.2	6.2	6.4	5.8	6.0	10.1	25.1	11.2	10.5

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

1/ SDR allocation included under monetary authorities' long-term liabilities.
2/ Following the Low Income Countries (LIC) reforms, effective January 7 2010, the PRGF arrangements were renamed Extended Credit Facility (ECF) arrangements.

Table 5. Georgia: Accounts of the National Bank of Georgia, 2008–10

	2008				2009				2010			
	Mar.	Jun.	Sep.	Dec.	Mar. Act.	Jun. Act.	Sep. Act.	Dec. Act.	Mar. Proj.	Jun. Proj.	Sep. Proj.	Dec. Proj.
	(In millions of lari)											
Net foreign exchange position	1,500	1,594	1,266	1,528	1,313	1,303	1,489	1,842	1,920	1,888	2,137	2,114
Gross International Reserves	2,099	2,164	1,930	2,467	2,493	2,517	3,371	3,558	3,721	3,655	3,862	3,975
Other foreign assets	76	70	87	41	35	14	15	5	6	6	6	6
Foreign liabilities	-675	-640	-750	-981	-1,215	-1,228	-1,896	-1,722	-1,807	-1,772	-1,730	-1,866
Of which: use of Fund resources	-361	-342	-655	-769	-1,040	-1,068	-1,330	-1,149	-1,204	-1,196	-1,181	-1,313
Of which: compulsory reserves in USD	-282	-296	-88	-121	-125	-109	-122	-127	-134	-140	-146	-149
Of which: swap liabilities	0	0	0	0	0	-30	-61	-61	-63	-32	0	0
Net domestic assets	-87	6	468	-96	-47	226	201	-98	-197	-138	-345	-283
Net claims on general government	315	149	400	-103	-34	398	441	173	-18	60	-17	172
Claims on general government (incl. T-bills)	776	776	778	777	777	778	764	758	746	736	730	723
Nontradable govt. debt	689	689	689	689	641	641	641	641	593	593	593	593
Securitized debt (marketable)	87	87	89	88	136	137	123	118	154	144	138	131
Deposits	-461	-627	-377	-880	-812	-380	-323	-585	-764	-677	-748	-552
Claims on rest of economy	3	3	3	4	4	4	4	3	3	3	3	3
Claims on banks	-392	-180	-18	132	90	-17	-41	-114	64	-4	-134	-261
Bank refinancing	75	0	125	209	204	102	45	45	145	145	245	245
Certificates of deposits and bonds	-467	-180	-143	-77	-114	-148	-146	-219	-141	-179	-379	-506
Other items, net	-13	34	82	-129	-106	-160	-203	-160	-247	-197	-197	-197
Reserve money	1,414	1,600	1,734	1,432	1,267	1,529	1,691	1,744	1,723	1,750	1,792	1,831
Currency in circulation	1,287	1,413	1,399	1,291	1,141	1,201	1,286	1,458	1,458	1,514	1,529	1,600
Bank lari reserves 1/	126	187	335	141	126	328	405	286	264	236	263	231
	(Percent contribution, compared to reserve money at the end of previous year)											
Net foreign assets	2.7	8.9	-13.0	4.5	-15.0	-15.7	-2.7	21.9	4.5	2.7	16.9	15.6
Net domestic assets	-8.3	-2.2	28.7	-8.9	3.4	22.5	20.8	-0.1	-5.7	-2.3	-14.2	-10.6
Net claims on general government	-0.9	-12.0	4.8	-28.8	4.8	35.0	38.0	19.3	-10.9	-6.5	-10.9	-0.1
Claims on rest of economy	-6.6	-6.6	-6.6	-6.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on banks	-5.9	8.2	19.1	29.1	-2.9	-10.4	-12.1	-17.2	10.2	6.3	-1.1	-8.4
Other items, net	5.1	8.2	11.5	-2.6	1.6	-2.2	-5.1	-2.2	-5.0	-2.1	-2.1	-2.1
	(Percentage change, relative to end of previous year)											
Reserve money	-5.7	6.8	15.7	-4.5	-11.5	6.8	18.1	21.8	-1.2	0.4	2.8	5.0
Currency in circulation	-1.8	7.8	6.8	-1.5	-11.6	-6.9	-0.4	13.0	0.0	3.8	4.9	9.7
Bank lari reserves 1/	-32.4	0.0	79.3	-24.5	-11.0	132.0	186.9	102.5	-7.6	-17.3	-8.2	-19.2
Memorandum items:												
Net international reserves												
(in millions of USD, at prog. exchange rates) 2/	747	1,055	848	909	777	775	876	987	781	685	733	706
Net domestic assets (in millions of lari, at prog. exchange rate) 2/	-87	6	452	116	-66	189	228	95	418	606	568	653
Reserve money (in percent, 12-month growth)	22.6	22.4	25.7	-4.5	-10.4	-4.5	-2.5	21.8	36.0	14.5	6.0	5.0

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

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

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

Table 6. Georgia: Monetary Survey, 2008–10

	2008				2009				2010			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
					Act.	Act.	Act.	Act.	Proj.	Proj.	Proj.	Proj.
	(In millions of lari)											
Net foreign assets	481	256	-306	79	-356	-357	240	789	957	953	1,197	1,141
NBG	1,783	1,890	1,355	1,649	1,438	1,442	1,672	2,030	2,118	2,059	2,282	2,263
Commercial banks	-1,301	-1,634	-1,660	-1,570	-1,794	-1,800	-1,432	-1,241	-1,161	-1,106	-1,086	-1,122
Of which: liabilities	-2,096	-2,538	-2,504	-2,901	-2,760	-2,446	-2,319	-2,229	-2,193	-2,147	-2,135	-2,180
Net domestic assets	3,545	3,932	4,272	4,179	4,031	3,952	3,852	3,814	3,821	4,043	4,000	4,244
Domestic credit	5,336	5,682	5,846	5,921	5,644	5,733	5,676	5,539	5,698	5,889	5,846	6,090
Net claims on general government	265	85	339	-155	-114	270	387	280	148	267	190	379
Of which: government deposits at NBG	-461	-627	-377	-880	-812	-380	-323	-585	-764	-677	-748	-552
Of which: T-bills at commercial banks							68	260	319	360	360	360
Credit to the rest of the economy	5,071	5,598	5,507	6,076	5,758	5,462	5,289	5,259	5,550	5,622	5,656	5,712
Other items, net	-1,791	-1,750	-1,574	-1,742	-1,613	-1,781	-1,824	-1,725	-1,878	-1,846	-1,846	-1,846
Broad money (M3)	4,027	4,188	3,966	4,258	3,675	3,594	4,092	4,603	4,777	4,996	5,197	5,385
Broad money, excl. forex deposits (M2)	2,259	2,417	2,257	1,854	1,634	1,709	1,914	2,133	2,170	2,287	2,372	2,495
Currency held by the public	1,123	1,235	1,196	1,083	960	1,020	1,093	1,229	1,230	1,285	1,301	1,371
Total deposit liabilities	2,904	2,952	2,769	3,176	2,715	2,574	2,999	3,373	3,547	3,711	3,896	4,014
	(Percent contribution, compared to broad money at the end of previous year)											
Net foreign assets	5.2	-0.5	-14.6	-4.9	-10.2	-10.3	3.8	16.7	3.6	3.6	8.9	7.7
Net domestic assets	-4.0	5.7	14.2	11.9	-3.5	-5.3	-7.7	-8.6	0.1	5.0	4.0	9.3
Domestic credit	7.6	16.3	20.4	22.3	-6.5	-4.4	-5.8	-9.0	3.5	7.6	6.7	12.0
Net claims on general government	-0.7	-5.2	1.1	-11.3	1.0	10.0	12.7	10.2	-2.9	-0.3	-2.0	2.1
Credit to the rest of the economy	8.3	21.6	19.3	33.6	-7.5	-14.4	-18.5	-19.2	6.3	7.9	8.6	9.8
Other items, net	-11.7	-10.7	-6.2	-10.5	3.0	-0.9	-1.9	0.4	-3.3	-2.6	-2.6	-2.6
	(Percentage change, relative to end of previous year)											
Broad money (M3)	1.2	5.2	-0.4	7.0	-13.7	-15.6	-3.9	8.1	3.8	8.5	12.9	17.0
Broad money, excl. forex deposits (M2)	6.0	13.4	5.9	-13.0	-11.9	-7.8	3.2	15.0	1.8	7.3	11.2	17.0
Currency held by the public	-2.5	7.2	3.9	-6.0	-11.3	-5.7	1.0	13.6	0.0	4.6	5.8	11.6
Total deposit liabilities	2.7	4.4	-2.1	12.3	-14.5	-19.0	-5.6	6.2	5.2	10.0	15.5	19.0
Credit to the rest of the economy	7.0	18.1	16.2	28.2	-5.2	-10.1	-13.0	-13.5	5.5	6.9	7.6	8.6
Memorandum items:												
M3 (in percent, 12-month growth)	50.6	28.9	6.9	7.0	-8.7	-14.2	3.2	8.1	30.0	39.0	27.0	17.0
M2 (in percent, 12-month growth)	65.4	46.8	17.1	-13.0	-27.7	-29.3	-15.2	15.0	32.8	33.8	24.0	17.0
Credit to the economy (in percent, 12-month growth)	62.4	53.9	28.3	28.2	13.6	-2.4	-4.0	-13.5	-3.6	2.9	6.9	8.6
Ratio of bank lari reserves to M2	5.59	7.74	14.85	7.61	7.69	19.17	21.17	13.41	12.18	10.34	11.07	9.26
M3 multiplier	2.20	2.07	2.13	2.61	2.49	2.10	2.16	2.35	2.44	2.51	2.54	2.58
M3 velocity	4.41	4.45	4.76	4.48	5.11	5.03	4.37	3.90	3.79	3.71	3.65	3.52
Foreign exchange deposits in percent of total deposits	60.9	60.0	61.7	75.7	75.2	73.2	72.6	73.2	73.5	73.0	72.5	72.0

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

Table 7. Georgia: External Vulnerability Indicators, 2008-15

	2008 Act.	2009 Proj.	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.
Value of exports of goods and services, percent change	15.9	-15.9	13.3	14.2	9.5	9.0	8.3	9.3
Value of imports of goods and services, percent change	26.7	-29.9	12.4	8.9	7.2	6.8	7.5	8.1
Terms of trade (deterioration -)	0.0	1.7	-0.7	0.4	0.1	0.1	-0.9	0.5
Current account balance (percent of GDP)	-22.7	-12.2	-14.2	-13.9	-13.5	-13.1	-12.9	-12.7
Capital and financial account (percent of GDP)	22.6	16.1	11.6	14.9	15.6	15.2	15.5	15.3
External public debt (percent of GDP)	20.9	31.8	39.0	39.1	37.0	33.6	31.0	29.9
in percent of exports of goods and services	73.0	110.0	121.0	114.4	106.7	96.2	88.7	84.6
Debt service on external public debt								
(in percent of exports of goods and services)	3.4	6.2	5.8	6.0	10.1	25.1	11.2	10.5
External debt (percent of GDP)	42.0	55.4	62.7	62.5	59.3	55.4	52.2	49.6
in percent of exports of goods and services	146.4	191.7	194.3	182.7	171.3	158.6	149.4	140.4
Debt service on MLT external debt								
(in percent of exports of goods and services)	16.0	24.4	21.8	23.3	26.7	44.4	27.2	26.7
Gross international reserves								
in millions of USD	1,480	2,110	2,278	2,450	2,460	2,286	2,326	2,551
in months of next year's imports of goods and servces	3.4	4.3	4.3	4.3	4.0	3.5	3.3	3.3
in percent of external debt	27.4	35.5	33.4	33.4	32.7	30.1	30.0	32.0
in percent of short-term external debt (remaining maturity)	100	195	188	157	97	119	117	142

Source: Fund staff estimates and projections.

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

(In millions of SDR)

	2008	2009	2010 Proj.	2011 Proj.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Existing Fund credit										
Stock 1/	298.8	501.6	487.5	449.4	289.5	98.9	29.4	14.0	4.2	0.0
ECF 2/	137.1	119.1	105.0	87.1	67.2	47.6	29.4	14.0	4.2	0.0
SBA	161.7	382.5	382.5	362.3	222.3	51.3	0.0	0.0	0.0	0.0
Obligations	23.3	22.5	19.4	43.4	164.5	193.2	70.1	15.5	9.8	4.2
ECF 2/	22.8	18.6	14.7	18.4	20.3	19.9	18.4	15.5	9.8	4.2
SBA 3/	0.5	3.9	3.8	25.0	144.2	173.3	51.7	0.0	0.0	0.0
Prospective purchases under the SBA										
Disbursements	…	…	294.6	70.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock 1/	…	…	294.6	364.6	364.6	262.1	211.1	13.1	0.0	0.0
Obligations 4/	…	…	3.1	4.6	4.6	106.9	148.5	104.3	13.2	0.0
Principal (repurchases)	…	…	0.0	0.0	0.0	102.5	145.5	103.4	13.1	0.0
GRA charges	…	…	3.1	4.6	4.6	4.4	2.9	0.9	0.1	0.0
Surcharges	…	…	1.8	5.3	5.0	2.0	0.0	0.0	0.0	0.0
Stock of existing and prospective Fund credit 1/	298.8	501.6	782.1	814.0	654.1	360.9	240.5	27.1	4.2	0.0
In percent of quota	198.8	333.7	520.4	541.6	435.2	240.1	160.0	18.0	2.8	0.0
In percent of GDP	3.7	7.2	11.4	11.0	8.2	4.2	2.6	0.3	0.0	0.0
In percent of exports of goods and nonfactor services	12.8	25.0	35.5	32.3	23.7	12.0	7.4	0.8	0.1	0.0
In percent of gross reserves	31.9	36.7	54.7	52.9	42.4	25.2	16.5	1.7	0.2	0.0
In percent of public external debt	17.5	22.7	29.3	28.2	22.2	12.5	8.3	0.9	0.1	0.0
Obligations to the Fund from existing and prospective Fund credit 3/	23.3	22.5	24.3	53.3	174.2	302.1	218.5	119.8	23.0	4.2
In percent of quota	15.5	15.0	16.2	35.4	115.9	201.0	145.4	79.7	15.3	2.8
In percent of GDP	0.3	0.3	0.4	0.7	2.2	3.5	2.3	1.2	0.2	0.0
In percent of exports of goods and nonfactor services	1.0	1.1	1.1	2.1	6.3	10.0	6.7	3.4	0.6	0.1
In percent of gross reserves	2.5	1.6	1.7	3.5	11.3	21.1	15.0	7.5	1.3	0.2
In percent of public external debt service	29.4	18.1	18.9	35.1	62.6	40.0	59.9	31.9	7.8	1.3

Source: Fund staff estimates and projections.

1/ End of period.

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

3/ Projected obligations under the ECF do not take into account the temporary waiver of interest payments and new interest rate structure.

4/ Repayment schedule based on repurchase obligations and GRA charges. Excludes service charges and surcharges.

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

Availability Date	Condition	Available Purchases (in millions of SDR)	(in percent of quota)
15-Sep-08	Approve the 18-month arrangement	161.7	107.6
15-Dec-08	Complete the first review based on end-September 2008 performance criteria and other relevant performance criteria 2/	63.1	42.0
23-Mar-09	Complete the second review based on end-December 2008 performance criteria and other relevant performance criteria 2/	63.1	42.0
6-Aug-09	Complete the third review based on end-June 2009 performance criteria and other relevant performance criteria	94.6	62.9
15-Nov-09	Complete the fourth review based on end-September 2009 performance criteria and other relevant performance criteria	47.3	31.5
15-Feb-10	Complete the fifth review based on end-December 2009 performance criteria and other relevant performance criteria	97.3	64.7
15-May-10	Complete the sixth review based on end-March 2010 performance criteria and other relevant performance criteria	50.0	33.3
15-Aug-10	Complete the seventh review based on end-June 2010 performance criteria and other relevant performance criteria	50.0	33.3
15-Nov-10	Complete the eighth review based on end-September 2010 performance criteria and other relevant performance criteria	50.0	33.3
15-Feb-11	Complete the ninth review based on end-December 2010 performance criteria and other relevant performance criteria	35.0	23.3
15-May-11	Complete the tenth review based on end-March 2011 performance criteria and other relevant performance criteria	35.0	23.3
Total available		747.1	497.1

1/ Reflects the authorities' request to augment the access by SDR270 million and extend the arrangement through June 2011.

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

Table 10. Georgia: External Financing Requirements and Sources, 2008–15

(In millions of U.S. dollars)

	2008	2009	2010	2011	2012	2013	2014	2015
Total requirements	-3,278	-1,830	-2,017	-2,250	-2,567	-3,576	-2,984	-3,194
Current account deficit	-2,915	-1,312	-1,544	-1,626	-1,717	-1,800	-1,912	-2,046
Capital outflows: Repayments of MLT loans	-362	-518	-473	-624	-850	-1,776	-1,072	-1,148
Total sources	3,278	1,830	2,017	2,250	2,567	3,576	2,984	3,194
Capital flows	3,191	2,234	1,715	2,311	2,576	3,402	3,024	3,419
Public sector	795	859	532	409	405	893	376	628
Project grants	87	159	201	83	60	50	40	39
Long-term loan disbursements to public sector	227	426	331	327	345	343	336	339
Other 1/	482	274	0	0	0	500	0	250
Private sector	2,396	1,376	1,184	1,902	2,171	2,509	2,648	2,792
Foreign direct investment in Georgia	1,564	767	858	1,170	1,379	1,596	1,847	1,967
Long-term loan disbursements to private sector	757	490	366	500	594	717	715	746
Other net inflows 2/	75	119	-40	231	198	197	86	78
Financing	217	216	470	111	0	0	0	0
IMF 3/	257	340	470	111	0	0	0	0
Change in arrears, net (- decrease)	-10	30	0	0	0	0	0	0
Advance Repayments	-29	-157	0	0	0	0	0	0
Change in reserves (- increase)	-131	-619	-168	-173	-9	174	-40	-225
Memorandum items (in percent of GDP):								
Total financing requirements	-25.5	-17.0	-18.5	-19.2	-20.2	-26.1	-20.1	-19.9
Total sources	25.5	17.0	18.5	19.2	20.2	26.1	20.1	19.9
Capital inflows	24.8	20.8	15.7	19.7	20.3	24.8	20.4	21.3
Exceptional financing	1.7	2.0	4.3	0.9	0.0	0.0	0.0	0.0
Change in reserves (- increase)	-1.0	-5.8	-1.5	-1.5	-0.1	1.3	-0.3	-1.4

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

1/ Including the receipts and the repayment of the Eurobond-2013.

2/ Including errors and omissions.

3/ ECF (formerly known as PRGF) disbursements in 2006 and 2007, SBA purchases from 2008 on, including requested augmentation in 2010-11.

Table 11. Georgia: Public External Debt, 2008-09

	Dec-08	Jun-09	Dec-09	Dec-08	Jun-09	Dec-09
	(In millions of U.S. dollars)			(In percent of GDP)		
Total	2,691	2,925	3,413	20.9	27.2	31.8
Multilateral	1,648	1,879	2,351	12.8	17.5	21.9
WB - IDA	988	1,016	1,247	7.7	9.5	11.6
IMF	465	647	791	3.6	6.0	7.4
Other	195	216	314	1.5	2.0	2.9
Bilateral	535	538	553	4.2	5.0	5.2
Paris Club	446	412	458	3.5	3.8	4.3
Non-Paris Club	89	127	95	0.7	1.2	0.9
Commercial	508	508	508	3.9	4.7	4.7

Source: Ministry of Finance of Georgia.

Table 12. Georgia: Private External Debt, 2008-09

	Dec-08	Mar-09	Jun-09	Sep-09	Dec-08	Mar-09	Jun-09	Sep-09
	(In millions of U.S. dollars)				(In percent of GDP)			
Total Private debt 1/	2,829	2,757	2,763	2,763	22.0	21.4	21.5	21.5
Banks	1,684	1,656	1,621	1,549	13.1	12.9	12.6	12.0
Short-term	566	404	390	361	4.4	3.1	3.0	2.8
Of which : Loans	355	214	200	140	2.8	1.7	1.6	1.1
Of which : Currency and deposits 2/	209	187	186	220	1.6	1.5	1.4	1.7
Long-term	1,308	1,332	1,231	1,189	10.2	10.4	9.6	9.2
Of which : Loans	1,308	1,332	1,231	1,189	10.2	10.4	9.6	9.2
Other Sectors	1,146	1,102	1,142	1,214	8.9	8.6	8.9	9.4
Short-term	389	361	403	434	3.0	2.8	3.1	3.4
Of which : Trade credits	324	292	315	324	2.5	2.3	2.4	2.5
Long-term	757	740	739	780	5.9	5.8	5.7	6.1
Of which : Loans	757	740	739	780	5.9	5.8	5.7	6.1
Direct Investment: Intercompany Lending	1,992	2,019	2,044	2,049	15.5	15.7	15.9	15.9

Source: National Bank of Georgia.

1/ Excluding intercompany debt from foreign direct investors.

2/ In line with the recommendations of the Debt Statistics Manual that all currency and deposits be included in the short-term category unless detailed information is available to make short-term/long-term attribution.

Table 13a. Georgia: External Debt Sustainability Framework, Baseline Scenario, 2006-2029 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2006	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 1/	**34.6**	**35.7**	**42.0**			**55.4**	**62.7**	**62.5**	**59.3**	**55.4**	**52.2**		**41.1**	**28.5**	
Of which: public and publicly guaranteed (PPG)	21.9	17.5	20.9			31.8	39.0	39.1	37.0	33.6	31.0		23.6	15.2	
Change in external debt	1.9	1.1	6.2			13.4	7.3	-0.2	-3.2	-3.9	-3.2		-1.1	-1.2	
Identified net debt-creating flows	-5.8	-4.8	3.9			7.7	5.6	1.8	0.1	-0.9	-1.6		0.4	4.6	
Non-interest current account deficit	**14.3**	**18.2**	**20.4**	**10.6**	**5.7**	**9.4**	**11.1**	**10.8**	**10.6**	**10.1**	**10.2**		**11.1**	**13.1**	11.6
Deficit in balance of goods and services	24.0	26.7	29.6			20.1	21.9	20.6	19.7	18.7	18.4		17.4	16.8	
Exports	32.8	31.1	28.7			28.9	32.3	34.2	34.6	34.9	35.0		35.7	36.5	
Imports	56.8	57.9	58.3			48.9	54.2	54.8	54.3	53.6	53.3		53.1	53.4	
Net current transfers (negative = inflow)	-6.7	-6.7	-8.2	-6.5	1.3	-8.6	-8.8	-7.8	-7.3	-6.9	-6.7		-5.4	-3.6	-4.9
Of which: official	-1.8	-1.4	-2.8			-1.6	-1.9	-1.0	-0.6	-0.4	-0.3		-0.2	-0.1	
Other current account flows (negative = net inflow)	-2.9	-1.9	-1.0			-2.0	-2.1	-1.9	-1.8	-1.7	-1.5		-0.9	-0.2	
Net FDI (negative = inflow)	**-15.3**	**-16.4**	**-11.8**	**-9.1**	**4.7**	**-7.1**	**-7.9**	**-10.0**	**-10.9**	**-11.6**	**-12.3**		**-11.1**	**-9.0**	-10.5
Endogenous debt dynamics 2/	**-4.8**	**-6.5**	**-4.6**			**5.4**	**2.4**	**1.0**	**0.4**	**0.6**	**0.5**		**0.5**	**0.5**	
Contribution from nominal interest rate	0.9	1.8	2.7			3.4	3.4	3.3	3.3	3.3	3.0		2.4	1.9	
Contribution from real GDP growth	-2.5	-3.2	-0.7			2.0	-1.1	-2.3	-2.9	-2.7	-2.6		-2.0	-1.4	
Contribution from price and exchange rate changes	-3.2	-5.1	-6.7			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**7.7**	**5.9**	**2.3**			**5.7**	**1.8**	**-2.0**	**-3.3**	**-3.0**	**-1.6**		**-1.6**	**-5.7**	
Of which: exceptional financing	1.0	0.3	0.3			1.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	36.4			47.4	53.7	53.9	51.9	49.4	45.6		36.4	26.3	
In percent of exports	...	...	127.0			163.9	166.5	157.7	149.7	141.4	130.5		101.8	72.0	
PV of PPG external debt	**...**	**...**	**15.3**			**23.8**	**30.1**	**30.5**	**29.5**	**27.6**	**24.4**		**18.9**	**13.0**	
In percent of exports	**...**	**...**	**53.5**			**82.3**	**93.2**	**89.3**	**85.2**	**78.9**	**69.8**		**52.8**	**35.5**	
In percent of government revenues	**...**	**...**	**55.8**			**87.4**	**114.0**	**115.8**	**111.8**	**104.5**	**92.5**		**69.4**	**45.5**	
Debt service-to-exports ratio (in percent)	**11.8**	**13.2**	**17.7**			**26.5**	**22.7**	**24.5**	**27.9**	**45.6**	**28.4**		**21.0**	**16.8**	
PPG debt service-to-exports ratio (in percent)	**8.0**	**3.5**	**3.4**			**6.2**	**5.5**	**6.0**	**10.1**	**25.1**	**11.2**		**5.8**	**5.2**	
PPG debt service-to-revenue ratio (in percent)	**10.3**	**3.8**	**3.6**			**6.6**	**6.7**	**7.8**	**13.2**	**33.2**	**14.8**		**7.7**	**6.6**	
Total gross financing need (Billions of U.S. dollars)	0.4	1.0	2.4			2.0	1.8	1.7	1.9	2.7	2.0		2.5	6.0	
Non-interest current account deficit that stabilizes debt ratio	12.4	17.1	14.1			-4.0	3.8	11.0	13.7	14.1	13.3		12.2	14.2	
Key macroeconomic assumptions															
Real GDP growth (in percent)	9.4	12.3	2.3	6.6	3.8	-4.0	2.0	4.0	5.0	5.0	5.0	2.8	5.0	5.0	5.0
GDP deflator in US dollar terms (change in percent)	10.8	17.2	23.0	11.7	8.8	-13.1	-0.5	3.5	3.0	3.0	3.0	-0.2	3.0	3.0	3.0
Effective interest rate (percent) 5/	3.3	6.7	9.6	3.3	3.1	6.8	6.3	5.7	5.7	6.1	5.9	6.1	6.3	6.9	6.4
Growth of exports of G&S (US dollar terms, in percent)	16.6	24.7	15.9	18.6	14.8	-15.9	13.3	14.2	9.5	9.0	8.3	6.4	8.5	8.4	8.5
Growth of imports of G&S (US dollar terms, in percent)	33.0	34.1	26.7	19.1	17.0	-29.9	12.4	8.9	7.2	6.8	7.5	2.1	8.1	8.3	8.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	20.0	17.0	19.8	21.4	6.9	20.4	17.6	14.2	11.4	13.7
Government revenues (excluding grants, in percent of GDP)	25.5	28.7	27.5			27.2	26.4	26.4	26.4	26.4	26.4		27.2	28.5	27.7
Aid flows (in Billions of US dollars) 7/	0.2	0.2	0.6			0.7	0.6	0.5	0.4	0.4	0.4		0.4	0.4	
Of which: Grants	0.1	0.1	0.4			0.2	0.3	0.2	0.1	0.1	0.1		0.1	0.1	
Of which: Concessional loans	0.1	0.2	0.2			0.4	0.3	0.3	0.3	0.3	0.3		0.3	0.4	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			3.7	4.2	2.1	1.3	1.0	1.0		0.6	0.3	0.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			37.9	37.3	39.5	35.3	14.1	31.6		22.1	16.1	20.8
Memorandum items:															
Nominal GDP (Billions of US dollars)	7.8	10.2	12.9			10.7	10.9	11.7	12.7	13.7	14.8		22.0	48.1	
Nominal dollar GDP growth	21.2	31.6	25.9			-16.6	1.5	7.7	8.1	8.2	8.2	2.8	8.2	8.2	8.2
PV of PPG external debt (in Billions of US dollars)			2.0			2.6	3.3	3.6	3.7	3.8	3.6		4.1	6.2	
(PVt-PVt-1)/GDPt-1 (in percent)						4.5	**6.8**	2.8	1.4	0.3	-1.2	2.4	1.3	0.4	0.7

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table13b. Georgia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	**2019**	2029
PV of debt-to GDP ratio								
Baseline	24	30	31	30	28	24	**19**	13
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	24	25	23	21	20	18	**14**	-7
A2. New public sector loans on less favorable terms in 2009-2029 2/	24	31	32	31	27	25	**22**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	24	30	30	29	27	23	**17**	11
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	24	32	37	36	33	30	**20**	12
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	24	29	29	28	26	22	**17**	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	24	36	43	42	39	35	**23**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	24	30	32	31	29	25	**18**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	24	43	43	41	38	33	**24**	16
PV of debt-to-exports ratio								
Baseline	82	93	89	85	79	70	**53**	36
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	82	76	68	62	57	53	**39**	-19
A2. New public sector loans on less favorable terms in 2009-2029 2/	82	96	94	88	78	73	**62**	51
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	82	92	88	83	76	66	**48**	31
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	82	109	132	124	115	102	**68**	39
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	82	92	88	83	76	66	**48**	31
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	82	112	127	120	112	99	**64**	33
B5. Combination of B1-B4 using one-half standard deviation shocks	82	103	114	108	99	88	**59**	34
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	82	92	88	83	76	66	**48**	31
PV of debt-to-revenue ratio								
Baseline	87	114	116	112	104	92	**69**	45
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	87	93	88	81	75	70	**52**	-24
A2. New public sector loans on less favorable terms in 2009-2029 2/	87	118	121	116	104	97	**82**	65
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	87	112	114	109	101	88	**63**	40
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	87	122	142	136	127	112	**75**	41
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	87	109	111	106	98	85	**61**	39
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	87	137	165	158	148	132	**84**	42
B5. Combination of B1-B4 using one-half standard deviation shocks	87	112	122	117	109	96	**64**	36
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	87	162	163	156	144	125	**89**	57

Table 13b. Georgia:Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-2029 (continued)
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
Debt service-to-exports ratio								
Baseline	6	6	6	10	25	11	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	6	5	4	7	16	7	**4**	0
A2. New public sector loans on less favorable terms in 2009-2029 2/	6	5	6	7	18	6	**6**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	6	5	6	10	25	11	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	6	6	7	13	31	15	**8**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	6	5	6	10	25	11	**5**	5
B4. Net non-debt creating flow s at historical average minus one standard deviation in 2010-2011 4/	6	5	7	11	26	13	**8**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	6	5	7	11	27	13	**7**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	6	5	6	10	25	11	**5**	5
Debt service-to-revenue ratio								
Baseline	7	7	8	13	33	15	**8**	7
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	7	6	6	9	21	9	**5**	0
A2. New public sector loans on less favorable terms in 2009-2029 2/	7	7	7	9	24	8	**8**	7
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	7	7	8	13	33	15	**7**	6
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	7	7	8	14	34	16	**9**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	7	6	7	13	32	14	**7**	6
B4. Net non-debt creating flow s at historical average minus one standard deviation in 2010-2011 4/	7	7	9	15	35	18	**11**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	7	6	7	12	29	14	**8**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	7	9	11	19	47	21	**10**	8
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	11	11	11	11	11	11	**11**	11

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline. However, the baseline is based on the Debt Sustainability Analysis (DSA) template, which does not capture the accumulation in debt in 2010.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 14a. Georgia:Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-2029
(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2006	2007	2008	Average 5/	Standard Deviation 5/	2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	27.9	22.3	25.0			37.4	44.7	47.1	45.4	43.0	40.4		32.3	20.3	
Of Which: foreign-currency denominated	21.9	17.5	20.9			31.8	39.0	39.1	37.0	33.6	31.0		23.6	15.2	
Change in public sector debt	-6.5	-5.6	2.7			12.4	7.3	2.4	-1.7	-2.4	-2.6		-1.2	-1.2	
Identified debt-creating flows	-8.0	-6.9	-1.5			11.6	5.4	1.8	-0.2	-1.4	-1.9		-1.2	-1.2	
Primary deficit	2.2	4.1	5.6	0.8	2.8	8.1	6.0	4.0	2.4	0.7	0.1	3.5	-0.1	-0.5	-0.2
Revenue and grants	26.7	29.3	30.7			29.4	29.1	27.7	27.0	26.9	26.8		27.4	28.6	
Of which: grants	1.2	0.6	3.2			2.2	2.8	1.3	0.7	0.5	0.4		0.3	0.1	
Primary (noninterest) expenditure	28.8	33.4	36.3			37.4	35.2	31.7	29.4	27.6	27.0		27.4	28.1	
Automatic debt dynamics	-5.0	-5.8	-3.4			5.5	0.6	-1.8	-2.1	-1.9	-1.9		-1.2	-0.7	
Contribution from interest rate/growth differential	-3.3	-3.4	-0.7			2.2	-0.2	-1.2	-1.9	-1.6	-1.6		-0.8	-0.4	
Of which: contribution from average real interest rate	-0.4	-0.4	-0.2			1.2	0.6	0.5	0.4	0.5	0.4		0.8	0.6	
Of which: contribution from real GDP growth	-3.0	-3.1	-0.5			1.0	-0.7	-1.7	-2.2	-2.2	-2.0		-1.6	-1.0	
Contribution from real exchange rate depreciation	-1.7	-2.3	-2.7			3.3	0.8	-0.6	-0.3	-0.3	-0.2		...	...	
Other identified debt-creating flows	-5.2	-5.2	-3.7			-2.0	-1.2	-0.5	-0.4	-0.2	-0.2		0.0	0.0	
Privatization receipts (negative)	-5.2	-5.2	-3.7			-2.0	-1.2	-0.5	-0.4	-0.2	-0.2		0.0	0.0	
Residual, including asset changes	1.5	1.3	4.2			0.8	1.9	0.6	-1.5	-1.0	-0.7		0.1	0.0	
Other Sustainability Indicators															
PV of public sector debt	6.0	4.8	19.4			29.4	35.7	38.5	37.9	36.9	33.8		27.6	18.1	
Of which: foreign-currency denominated	0.0	0.0	15.3			23.8	30.1	30.5	29.5	27.6	24.4		18.9	13.0	
Of which: external	...	...	15.3			23.8	30.1	30.5	29.5	27.6	24.4		18.9	13.0	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.6	5.7	7.1			10.4	8.4	6.8	6.7	10.3	5.0		3.1	1.9	
PV of public sector debt-to-revenue and grants ratio (in percent)	22.6	16.3	63.3			100.1	122.6	139.2	140.2	137.2	125.9		100.7	63.2	
PV of public sector debt-to-revenue ratio (in percent)	23.7	16.7	70.8			108.1	135.5	146.0	143.7	140.0	128.0		101.7	63.4	
Of which: external 3/	…	…	55.8			87.4	114.0	115.8	111.8	104.5	92.5		69.4	45.5	
Debt service-to-revenue and grants ratio (in percent) 4/	12.8	5.5	4.7			7.9	8.2	10.1	16.0	35.8	18.0		11.4	8.4	
Debt service-to-revenue ratio (in percent) 4/	13.4	5.6	5.3			8.5	9.1	10.5	16.4	36.6	18.3		11.6	8.4	
Primary deficit that stabilizes the debt-to-GDP ratio	8.7	9.7	2.9			-4.3	-1.3	1.6	4.1	3.1	2.7		1.1	0.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	9.4	12.3	2.3	6.6	3.8	-4.0	2.0	4.0	5.0	5.0	5.0	2.8	5.0	5.0	5.0
Average nominal interest rate on forex debt (in percent)	1.8	1.6	3.0	1.6	1.2	3.2	2.9	2.6	2.6	2.9	2.6	2.8	2.9	3.5	3.1
Average real interest rate on domestic debt (in percent)	-0.5	-2.4	-2.5	-0.5	2.0	9.7	4.4	4.9	3.5	3.7	3.2	4.9	4.9	4.9	5.0
Real exchange rate depreciation (in percent, + indicates depreciatio	-6.8	-12.2	-15.6	-7.4	7.0	14.6	...	...	...	...	...	…	…	…	...
Inflation rate (GDP deflator, in percent)	8.5	9.7	9.7	7.4	2.2	-2.1	3.5	5.0	5.0	5.0	5.0	3.6	5.0	5.0	5.0
Growth of real primary spending (deflated by GDP deflator, in percen	0.3	0.3	0.1	0.3	0.1	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	20.0	17.0	19.8	21.4	6.9	20.4	17.6	14.2	11.4	...

Sources: Country authorities; and Fund staff estimates and projections.

1/ General government or government guaranteed public debt. In gross terms.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 14b. Georgia:Sensitivity Analysis for Key Indicators of Public Debt 2009-2029

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	29	36	39	38	37	34	28	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	28	26	24	23	21	20	21
A2. Primary balance is unchanged from 2009	29	38	46	52	60	67	108	190
A3. Permanently lower GDP growth 1/	29	36	40	40	41	39	45	81
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-20'	29	35	39	38	37	34	29	20
B2. Primary balance is at historical average minus one standard deviations in 2010-201'	29	33	35	35	34	31	25	15
B3. Combination of B1-B2 using one half standard deviation shocks	29	30	31	29	27	23	13	-6
B4. One-time 30 percent real depreciation in 2010	29	47	49	49	49	46	43	41
B5. 10 percent of GDP increase in other debt-creating flows in 2010	29	48	51	50	49	46	39	29
PV of Debt-to-Revenue Ratio 2/								
Baseline	100	123	139	140	137	126	101	63
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	100	97	96	88	85	78	72	75
A2. Primary balance is unchanged from 2009	100	131	166	194	225	250	395	665
A3. Permanently lower GDP growth 1/	100	124	144	149	151	146	163	284
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-20'	100	121	139	141	138	127	104	71
B2. Primary balance is at historical average minus one standard deviations in 2010-201'	100	113	127	128	125	114	90	53
B3. Combination of B1-B2 using one half standard deviation shocks	100	105	112	108	101	87	46	-22
B4. One-time 30 percent real depreciation in 2010	100	160	178	181	183	172	157	142
B5. 10 percent of GDP increase in other debt-creating flows in 2010	100	165	184	186	183	171	142	101
Debt Service-to-Revenue Ratio 2/								
Baseline	8	8	10	16	36	18	11	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	8	8	8	12	30	14	9	7
A2. Primary balance is unchanged from 2009	8	8	11	18	40	24	29	54
A3. Permanently lower GDP growth 1/	8	8	10	17	37	19	15	24
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-20'	8	8	10	16	36	18	12	9
B2. Primary balance is at historical average minus one standard deviations in 2010-201'	8	8	9	15	35	17	11	7
B3. Combination of B1-B2 using one half standard deviation shocks	8	8	9	13	33	15	8	1
B4. One-time 30 percent real depreciation in 2010	8	9	13	22	51	26	19	19
B5. 10 percent of GDP increase in other debt-creating flows in 2010	8	8	13	20	39	21	14	12

Sources: Country authorities; and Fund staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

ATTACHMENT I. GEORGIA: LETTER OF INTENT

February 25, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C.

Dear Mr. Strauss-Kahn:

1. In September 2008, the International Monetary Fund (IMF) approved a Stand-By Arrangement (SBA) for Georgia, which was further augmented in August 2009. On December 11, 2009 the IMF's Executive Board completed the fourth review of the SBA allowing for an immediate purchase of an amount equivalent to SDR 47.3 million. We are grateful for the assistance which the IMF provides to Georgia.

2. This letter of intent describes the economic policies that we plan to implement during 2010. As always, we are committed to policies that will maintain macroeconomic stability, protect the economy from shocks associated with the global economic crisis and facilitate the process of macroeconomic adjustment. We, of course, remain committed to implementing the measures contained in previous letters of intent, i.e. those dated September 9, 2008, November 28, 2008, March 10, 2009, July 30, 2009 and November 25, 2009.

Recent Economic Developments

3. Growth in the three quarters of 2009 amounted to minus 5.5 percent, showing signs of economic improvement in the third quarter. As most sectors contracted, positive year-on-year growth in the third quarter was achieved in such important sectors as construction, transport, and financial intermediation.

4. As a result of a broad decline in economic activity and falling global commodity prices, inflationary pressures have declined. Inflation as of end-June 2009 was 2.3 percent but picked up to 3.0 percent by the end of 2009. Taking into account the recent increase of global commodity prices and signs of improvement in economic activity, we expect inflation to reach 5 percent in 2010.

5. Fiscal performance has been affected by the recent economic decline. Tax collection in 2009 declined by 7.7 percent in nominal terms. Expenditures in 2009 were contained at GEL 6851.0 million (general government, including capital expenditures), or 1.4 percent lower than in 2008. In all, the preliminary estimate of fiscal deficit reached 9.2 percent of the projected annual GDP, in line with program projections.

6. On December 1, 2009, the new Organic Law of Georgia "On the National Bank of Georgia" came into force. According to this new law, the Financial Supervision Agency (FSA) has been merged with the NBG, giving the central bank authority to supervise the entire financial sector. The merger will improve coordination between macro and supervisory teams of the NBG and will increase the effectiveness of macro-prudential oversight. In the new law, the NBG is given responsibility for maintaining price stability over the medium term. This change allows for introduction of a soft inflation targeting regime.

7. Consistent with our commitment to increase exchange rate flexibility, starting from May 25, 2009, the NBG foreign exchange interventions are conducted only through the foreign exchange auctions. Along with the weak demand for foreign currency, foreign exchange auctions allowed for less NBG intervention. Starting from October, the NBG expanded the deviation band for auction bids from 0.5 percent to 1 percent of the official exchange rate. In the last two months of 2009 the NBG's net FX sales totaled USD 13 million with no sales taking places in December. In January, the NBG resumed interventions in the FX market to counter seasonal pressures and limit excess volatility.

8. Balance of payments data for the third quarter of 2009 show that exports and imports of goods and services declined year-on-year by 15.3 percent and 31.5 percent, respectively, which reflects both a drop in commodity prices and lower demand for imports. Worker remittances increased 36.6 percent, and FDI inflows grew by 69.4 percent year-on-year. As a result, the current account deficit dropped to 8.4 percent of GDP in the third quarter of 2009, showing an improvement of 11.8 percentage points from the previous year (20.2 percent in Q3 2008).

9. The banking sector continued its positive performance in the last quarter of 2009. Commercial banks' net profit in the fourth quarter equaled GEL 17 million. Starting from May, the volume of deposits has been growing steadily, posting a 33 percent growth in lari terms by end-year. The average capital adequacy at the end-year equaled 19.1 percent.

10. In order to enhance the safety and efficiency of the international reserves management process, the NBG is implementing a new portfolio management system. The system will cover front-middle-back office and accounting functionality based on Straight Through Processing (STP) principles. The system will be IFRS compliant and will allow NBG to introduce new, more sophisticated financial instruments and investment techniques in its reserves management process. The new system will help NBG bring its reserves management procedures in line with international best practices. NBG has signed the contract on system supply and implementation with WallstreetSystems, leading portfolio management system supplier who has over 30 central banks clients around the world. The system is expected to become fully operational by the end of 2010.

11. We continue to refine our Contingency Plan (CP) which provides a framework for policy makers to coordinate their policies and actions to mitigate systemic risks to the

financial sector and, in case of realization of such risks, to reduce the social cost of any ensuing financial distress. Recently, we have updated the CP by inclusion of the principles that should guide exit strategy. Although the banking system is adequately capitalized, the NBG continues to conduct regular stress tests on system wide and bank by bank level. In line with changes in legislation, which enable the supervisor to conduct risk-based supervision, a reorganization process is under way to enable the NBG to use more effectively its resources for risk based supervision. The move toward a risk based framework is done gradually, to minimize regulatory risk for the industry and enable smooth transition towards the new regulatory framework.

12. We continue to improve the efficiency and effectiveness of public finances. The Ministry of Finance is broadly on track in implementing the Public Finance Management Reform Policy Vision 2009-2013. The Reform Action Plan for 2009 has been successfully implemented. The draft budget code was one of our key priorities in 2009. The new budget code was adopted in December 2009, providing a sound framework for fiscal planning and efficiency gains in the area. The new budget code seeks to consolidate all legislation related to the budget process into a single law, to better integrate the medium-term economic and fiscal framework (BDD) and the public investment program into the annual budget cycle, and to prepare the ground for results-oriented budgets.

13. Furthermore, in 2009 we progressed significantly in ensuring functionality of the risk assessment tax audit system, streamlining tax and customs codes and developing necessary sub-legislation, establishing electronic information exchange system between banks and the Revenues Service, improving capital budget document forms, establishing a customs audit and progressing towards risk-based customs control, fostering full functionality of the electronic treasury system and inclusion of all taxes into the e-filing system. The implementation of these reforms has enhanced efficiency and effectiveness in the use of public financial resources and shall contribute to the overall resilience of the economy both now, in a time of stress, and over the medium term.

Macroeconomic Policies for 2010

14. Our major macroeconomic challenge continues to be the restoration of economic growth. This will, of course, require the resumption of private capital inflows and domestic lending in support of investment projects. We recognize that many of the extraordinary actions undertaken in response to the economic crisis are not sustainable in the medium term. Hence, our efforts to enhance macroeconomic stability will concentrate on intensifying economic reforms, and achieving a sustainable fiscal and external balance as quickly as possible.

15. Based on available economic data, the annual rates of economic contraction started improving from the third quarter of 2009, due to recovery of certain economic activity as well as the base year effect. The 7.8 percent contraction of real GDP in the first half of 2009

decreased in the third quarter to 1.2 percent, pointing to approximately 4.0 percent real GDP contraction in 2009. In 2010, we anticipate economic recovery with real GDP growth projected at 2 percent and we target inflation rate of 5 percent per annum.

16. The current account deficit for 2009 is expected to moderate to around 12 percent of GDP from a record high level of nearly 23 percent in 2008. Exports and imports of goods and services are projected to decline by 16 percent and 30 percent, respectively. Worker remittances are expected to increase by around 2 percent for the year. We project FDI inflows in the amount of around US$767 million for 2009, which is 51 percent lower than in 2008 and deprives the economy of an important source of growth. Overall, gross reserves increased in 2009 by about US$630 million. The current account deficit for 2010 is expected to stand at 14.2 percent of GDP, which is 2 percentage points higher than in 2009. Exports and imports of goods and services are projected to increase by 13.3 percent and 12.4 percent, respectively. Worker remittances are expected to increase by around 3 percent for the year. We project FDI inflows in the amount of around US$858 million for 2010, which is 12 percent higher than in 2009 and gives the economy of an important source of growth. Overall, we expect an accumulation of gross reserves in 2010 of about US$165 million.

17. In 2010–11, we expect a recovery in private capital inflows to begin. Despite considerable fiscal adjustment, the current account deficit is expected to widen marginally in 2010, owing to adverse terms of trade developments, and to narrow again in 2011. In view of the continued high uncertainty in the external environment, there is a need to increase the reserve buffer to more comfortable levels. Accordingly, we have sought the Fund's continued support in covering a balance of payments gap of around $500 million in 2010.

18. Our fiscal stance for the 2010 will continue to sustain demand in a fiscally-prudent manner, with a significant continuing contribution from donor-financed spending. The overall deficit shall be sustained in line with the program targets, through continued efforts to contain spending within prudent limits.

19. We realize that the fiscal stimulus measures currently deployed by the Government are essential for minimizing the impact of the global financial downturn on Georgia; we also believe that this stimulus must not jeopardize Georgia's longer-term fiscal sustainability. We consider that restoring a sound fiscal position is also critical in view of external debt repayment obligations falling due in 2013–14. Starting in 2010, we are therefore committed to an ambitious program of deficit reduction. Our target is to reduce the deficit to 7.4 percent of GDP in 2010 (SBA definition). The 2010 budget envisages sustainment of social expenditures as a share of GDP while tapping the donor funding for the bulk of infrastructure spending. Based on further expenditure containment, as well as an expected recovery of tax revenues and expected rebound in the GDP growth, we are committed to steady reductions in the deficit to 2–3 percent of GDP by 2013.

20. In the third quarter of 2009, domestic debt instruments (treasury bills) were introduced. T-bill issuance responds to a market development need—not least so as to provide the NBG with another monetary policy tool and allow the banks to diversify their portfolio to include an important class of risk-free assets. The cost of financing from this source has been prevailingly low. The NBG has supported the development of a secondary market for T-Bills by introducing an electronic trading platform. Issuance of T-Bills in 2009 amounted to GEL 260 million. Due to limits in the capacity of the banking sector to absorb additional T-Bills, we will need to rely on external balance of payments support to finance a portion of our budgetary needs in 2010. Having channeled the January IMF drawing (SDR 47.3 million) through the budget, we do not intend to use the last prospective IMF drawing of 2010 (SDR 50 million) for budget support purposes. In the context of sustaining the agreed cap on the fiscal deficit, we expect to be able to mobilize additional budgetary support in 2010, and the Government's use of IMF resources for deficit financing will be reduced as such commitments are finalized. We intend to continue the issuance of T-Bills in 2010. Treasury Bills issued in 2009 will be entirely rolled over in 2010 and, depending on interest rates and other market conditions, approximately GEL 100 million of T-Bills will be issued in addition. In 2010 Ministry of Finance of Georgia plans to introduce 2-year Treasury Notes.

21. We continue to implement our public finance reform program, which we view as an important prerequisite to ensuring transparency, discipline, efficiency and accountability in the public finance area. We progressed significantly in implementing our public finance reform action plan for 2009, which implies implementation of actions in a large number of areas, including developing liquidity management guidelines, preparing the functional and technical specification for the PFMS, developing a new format of the medium-term framework (Basic Data and Directions) document, improving the format of local budgets.

22. We are currently working to devise set of reform directions for 2010. By end-September 2010 we intend to seek cabinet approval of a methodology to introduce a programmatic approach to budgeting by 2012 (structural benchmark).

23. The monetary policy transmission channel has weakened due to the crises and remains inefficient under current excess liquidity conditions. NBG considers possibility of increasing reserve requirements to the level to become binding for commercial banks, remuneration of the Lari required reserves and activation of standing facilities (Overnight loan and deposits). NBG will increase issuance of CDs with due attention not to increase interest rates to a contractionary stance.

24. In order to increase confidence in the NBG's refinancing loans and promote efficiency of the monetary policy, the NBG intends to provide commercial banks with long-term credit lines against collateral at the interest linked to the NBG's key policy rate. This new instrument is expected to increase lending in local currency and lower market interest rates.

25. As market conditions allow, the NBG will take further measures (including the extension of reserve requirements to external loans) to restore monetary policy transmission channel and promote dedollarization. We project end-period inflation to be 5 percent in 2010. This projection is, of course, sensitive to assumptions regarding the money multiplier and, in turn, commercial bank lending to the private sector, as well as international commodity price developments.

26. We remain fully committed to a flexible exchange rate policy. Continuation with the foreign exchange auctions will further contribute to determining the exchange rate through market forces, and all efforts are made to make this process as efficient as possible. The NBG does not target any exchange rate and will intervene only to smooth extreme volatility, to counter speculative pressures and if too fast and too large depreciation threatens financial stability.

27. Enhancing the competitiveness of the Georgian economy is, of course, of primary importance to us and is a key to reducing Georgia's external current account deficit to more sustainable levels over the medium term. Georgia's extremely favorable business environment and geographic advantages put it in a good position to benefit from a generalized recovery of FDI flows to emerging markets. We expect that additional structural reforms will be at the root of future competitiveness gains. These include further privatization and reductions of the state's role in the economy.

28. To bring our official statistics in line with international standards, we improved legal framework and are now in the process of reorganizing the State Department of Statistics (new title—Geostat). New Law on State Statistics strengthens the independence of the Geostat and ensures the sustainable production of official statistics. To enhance the availability of timely and comprehensive statistics provided to the public, in H1 of 2010 we intend to become a subscriber of the IMF's Special Data Dissemination Standard (SDDS).

29. In order to ensure stable, long-term private sector-led economic growth, we have initiated a constitutional amendment whereby introduction of new state taxes or increases of top tax rates, except for excise tax and alternative and/or substitute taxes, will be allowed exclusively by way of referendum, which can be initiated solely by the President of Georgia. We believe that this will provide for stable business environment and for further assurance as to the economic reforms agenda pursued by the Government,

30. In pursuance of our reforms aimed at fostering a culture of compliance and streamlining tax and customs administration procedures, we are in the process of discussing legal amendments to achieve cost-efficiency and effectiveness gains within the Revenue Service of the Ministry of Finance. These reforms would enhance the business-friendliness of tax and customs legislation with a view of further promoting private sector-led growth.

31. We commit to implementing the recommendations provided in the recent update of the Safeguards Assessment Report according to deadlines. In particular, we agree with the

statements related to strengthening oversight function of the audit committee. After putting into operation the new systems of RTGS, Reserve Management and Banking, internal audit of the systems will be conducted.

Program Monitoring

32. All end-December performance criteria under the Stand-By Arrangement were met. We, therefore, request the completion of the Fifth Review. We will maintain our usual close policy dialogue with the Fund and are ready to take additional measures as appropriate to ensure that we meet program objectives. In particular, if the pressures on Georgia stemming from the global economic crisis are greater than anticipated, the Government would adjust its fiscal and exchange rate policies to maintain external stability.

33. We request a modification of the end-March and end-June PCs on the fiscal deficit, NIR and NDA according to the attached Table 1, which also establishes end-September 2010 PCs, as well as indicative targets for December 2010. The sixth review will be based on end-March 2010 performance criteria and is scheduled for completion by end-June 2010; the seventh review will be based on end-June 2010 performance criteria and is scheduled for completion by end-September 2010; and the eighth review will be based on end-September 2010 performance criteria and is scheduled for completion by end-December 2010. The revised Technical Memorandum of Understanding clarifies the measurement of NDA. Structural benchmarks under the program are described in Table 2.

34. We authorize the IMF to publish this Letter of Intent and its attachments as well as the accompanying staff report.

Sincerely yours,

/s/
Nika Gilauri
Prime Minister of Georgia

/s/
Kakha Baindurashvili
Minister of Finance

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

Table 1. Georgia: Quantitative Performance Criteria (PC) and Indicative Targets, 2009-10

	Cumulative Change from End-December 2008			Cumulative Change from End-December 2009							
	Dec-09			Mar-10		Jun-10		Sep-10		Dec-10	
	PC	Adjusted PC	Actual	PC	Proposed PC	Ind. Target	Proposed PC	Ind. Target	Proposed PC	Ind. Target	Prop. Ind. Target
						(In millions of lari)					
Ceiling on cash deficit of the consolidated government	1,638		1,536	368	333	745	737	1,060	1,089	1,393	1,393
						(In millions of U.S. dollars)					
Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector 1/	850		277	850	…	…	…	…	…	…	…
						(In millions of lari)					
Ceiling on net domestic assets (NDA) of the NBG 2/	456	442	95	515	418	642	606	631	568	641	653
						(In millions of U.S. dollars)					
Floor on net international reserves (NIR) of the NBG 2/	740	747	987	713	781	587	685	605	733	609	706
Ceiling on accumulation of external arrears 3/	0		0	0	0	0	0	0	0	0	0
				PC	Prop. Ind. Target	Ind. Target	Prop. Ind. Target	Ind. Target	Prop. Ind. Target	Ind. Target	Prop. Ind. Target
						(In millions of U.S. dollars)					
Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector 1/				850	850	850	850	850	850	850	850

Sources: Georgian authorities; and Fund staff estimates.

1/ It is proposed to convert the nonconcessional debt PCs into indicative targets from the end-March test date on.
2/ Actual figures and quantitative targets are based on program exchange rates.
3/ The continuous performance criterion for external arrears is defined in paragraph 15 of the TMU.

Table 2. Georgia: Structural Benchmarks

Action	Proposed Time Frame	Type of Conditionality	Status
FSA and NBG to sign and implement a memorandum of understanding to strengthen cooperation.	End-Oct-08	Structural Benchmark	Observed
NBG to introduce revised LOLR facility.	End-Dec-08	Structural Performance Criterion	Observed
Submission to parliament of a state budget for 2009 with an overall fiscal deficit of no more than 3¾ percent of projected GDP (subject to an adjustor of at most 3 percent of GDP as set out in the TMU).	End-Dec-08	Structural Benchmark	Observed
NBG to develop and publish a liquidity management framework, including the introduction of a refinancing mechanism as the main instrument to provide liquidity.	End-Mar-09	Structural Benchmark	Not observed. Implemented with delay
The NBG, the FSA, and the government to develop a financial stability plan that will contain policy actions to respond to potential situations of stress by defining the roles and responsibilities of the different players—the NBG, the FSA and the government—under each circumstance.	End-Jun-09	Structural Performance Criterion	Observed
Appointment of the remaining members to the FSA board.	End-Jun-09	Structural Benchmark	Not observed, became redundant with elimination of FSA board
Submission of a new budget code to the cabinet to make the budget preparation process more inclusive, enhance the budget execution monitoring process, and move to performance driven policy by improving strategic planning.	End-Jul-09	Structural Benchmark	Observed
Status report on the implementation of the action plan described in the Financial Stability Plan, including bank-by-bank contingency measures based on stress test results and assurances of support from foreign shareholders.	End-Sep-09	Structural Benchmark	Observed

Submission to parliament of the Law on Internal Audit.	End-Sep-09	Structural Benchmark	Observed
Submission to parliament of a state budget for 2010 that: (i) is consistent with the program targets and assumptions, and an overall deficit of no more than 7.3 percent of GDP (program definition); (ii) contains a medium-term fiscal framework consistent with the program's medium-term deficit reduction targets; and (iii) describes the medium-term policies underlying the fiscal deficit objectives through 2013.	October 1, 2009	Structural Benchmark	Observed
Cabinet approval of a new medium-term expenditure framework (Basic Data and Directions) that includes expenditure ceilings applicable to the 2011 budget.	July 31, 2010	Structural Benchmark	
Cabinet approval of the methodology to introduce a programmatic approach to budgeting, identifying the requirements in terms of budget preparation processes and information needs.	September 30, 2010	Structural Benchmark	

ATTACHMENT II. GEORGIA: REVISED TECHNICAL MEMORANDUM OF UNDERSTANDING

February 25, 2010

1. This memorandum sets out the understandings between the Georgian authorities and the IMF staff regarding the definitions of quantitative performance criteria and indicative targets, as well as respective reporting requirements for the Stand-By Arrangement (SBA). It replaces the technical memorandum of understanding dated November 25, 2009.

2. These performance criteria and indicative targets are reported in Tables 1 and 2 attached to the Letter of Intent dated February 25, 2010. The exchange rate for the purposes of the program of the Georgian lari to the U.S. dollar is set at GEL 1.67 = $1. The corresponding cross exchange rates are provided in Table 1.

Consolidated Government and the Public Sector

3. **Definition:** The consolidated government is defined as the central government, local governments, extrabudgetary funds, and LEPLs (Legal Entities of Public Law) that provide general government services. In case the government establishes extrabudgetary funds, they will be consolidated within the consolidated government. The public sector consists of the consolidated government and the National Bank of Georgia (NBG).

4. **Supporting material:** The Treasury Department of the Ministry of Finance (MOF) will provide to the IMF detailed information on monthly revenues, expenditures, and arrears of the consolidated government. In addition, data will be provided on the cash balances in the accounts of the Ministry of Finance.

Quantitative Performance Criteria, Indicative Targets, and Continuous Performance Criteria: Definitions and Reporting Standards

I. Ceiling on the Cash Deficit of the Consolidated Government

5. **Definition:** The cash deficit of the consolidated government will be measured from the financing side at current exchange rates, and will be defined as equal to total financing. Total financing will be defined as the sum of (i) net domestic financing from banks and nonbanks, (ii) net external financing, and (iii) privatization receipts.

- Net domestic financing consists of bank and nonbank net financing to the consolidated government which will be defined as follows:

  (i) Net lending (borrowing net of repayments) provided by commercial banks to the consolidated government plus the use of deposits held by the consolidated government at commercial banks. Monitoring of net lending and government accounts will be based on the NBG's monetary survey and Treasury data. The change in cash balances of the local government at commercial banks for budget financing purposes will be monitored based on the “budget of territorial unit” account data provided by the Treasury Department. Any securities issued by the consolidated government and purchased by commercial banks (for example, T-Bills) are also included in domestic financing.

(ii) Net lending (borrowing net of repayments) provided by the NBG to the consolidated government plus the use of deposits of the consolidated government held at the NBG. Monitoring of net lending and government accounts will be based on the Central Bank survey and Treasury data. The change in cash balances of the central government at the NBG for budget financing purposes will be monitored based on the “GEL TSA state budget” account data provided by the Treasury Department. Any securities issued by the consolidated government and purchased by the NBG (for example, T-Bills) are also included in domestic financing.

(iii) Any securities issued by the consolidated government and purchased by the nonbanks (for example, T-Bills or securitized claims on the government sold by the NBG) are also included in domestic financing.

- Net external financing is defined as the total of loans disbursed to the consolidated government for budget support (including from the IMF), and project financing (capital expenditure and net lending), net change in external arrears, change in the accounts of the consolidated government abroad, minus amortization. Amortization includes all external debt-related payments of principal by the consolidated government.

- Privatization receipts consist of all transfers of monies received by the central and local governments in connection with the sale of central or local government assets. This includes receipts from the sale of shares, the sale of non-financial assets as well as leases and the sale of licenses with duration of 10 years and longer.

6. **Supporting material:**

- Data on domestic bank and nonbank financing will be provided to the IMF by the NBG and the Treasury Department of the MOF within four weeks after the end of the month.

- Data on external project financing as well as other external borrowing will be provided to the IMF monthly by the Debt Unit at the MOF (specifying projects by creditor) within two weeks of the end of each month.

- Data will be provided at the actual exchange rates.

- Data on privatization receipts will be provided by the Treasury Department of the MOF to the IMF on a monthly basis within two weeks of the end of each month. The data will be consistent with the revenue account(s) in the NBG.

- Data on securitized debt sold by the NBG, including the securities that have been purchased by nonbanks, will be reported by the NBG on a monthly basis within two weeks of the end of each month.

II. Floor on the Net International Reserves of the NBG

7. **Definition:** For the program purposes, net international reserves (NIR) of the NBG in U.S. dollars are defined as foreign assets of the NBG minus the sum of foreign liabilities of the NBG. Foreign assets of the NBG include gold, gross foreign exchange reserves, Georgia's SDR holdings, and the reserve position in the IMF. Gross foreign exchange reserves of the NBG are defined as liquid, convertible currency claims of the NBG on nonresidents, including cash holdings of foreign exchange that are readily available. Pledged or otherwise encumbered assets, including (but not limited to) assets used as collateral (or guarantee for third party external liabilities) are excluded from foreign assets. Foreign liabilities of the NBG shall be defined as the sum of Georgia's outstanding liabilities to the IMF, Georgia's SDR allocation, and any other liabilities of the NBG, excluding the foreign exchange balances in the government's account with the NBG. Thus defined, the definition of NIR excludes foreign assets stemming from foreign currency deposits of financial institutions at the NBG and foreign assets arising from the currency swaps with financial institutions. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the NBG shall be valued at program exchange rates as described on paragraph 2 above. The stock of NIR amounted to $879.8 million as of December 31, 2008 (at the program exchange rate).

8. **Adjustors:**

The floor on the NIR of the NBG will be adjusted:

- (a) upward/downward by 50 percent for any excess/shortfall in the balance-of-payments support loans and balance-of-payments support grants relative to the projected amounts presented in Table 2.
- (b) upward/downward by 50 percent for any excess/shortfall in the disbursements of the project loans and project grants to the Treasury Single account at the NBG relative to the projected amounts presented in Table 2.
- (c) upward 100 percent for any shortfall in the amount of conversion for government imports relative to the projected amounts presented in Table 2.

9. **Supporting material:** Data on net international reserves (both at actual and program exchange rates); net foreign financing (balance of payments support loans, cash grants to the consolidated government, amortization (excluding repayments to the IMF), interest payments on external debt by the MOF and the NBG); conversions for government imports and transfers of receipts from the Sovereign Wealth Funds will be provided to the IMF in a table on the NBG's foreign exchange flows (which include details of inflows, outflows, and net international reserves) on a weekly basis within three working days following the end of the week.

III. Ceiling on Net Domestic Assets of the NBG

10. **Definition:** Net domestic assets of the NBG are defined as the difference between reserve money and NIR as defined above in paragraph 7. Therefore, the ceiling on NDA is defined as projected reserve money (as defined in Table 3) minus the target NIR.

11. **Adjustors:**

The ceiling on the NDA of the NBG will be adjusted:

- (a) upward/downward by 50 percent for any shortfall/excess in the balance-of-payments support loans and balance-of-payments support grants relative to the projected amounts presented in Table 2.
- (b) upward/downward by 50 percent for any shortfall/excess in the disbursements of the project loans and project grants to the Treasury Single account at the NBG relative to the projected amounts presented in Table 2.
- (c) downward 100 percent for any shortfall in the amount of conversion for government imports relative to the projected amounts presented in Table 2.

12. **Supporting material**: The NBG will provide to the IMF its balance sheet, which includes data on its net domestic assets, on a monthly basis within two weeks of the end of each month. Data will be provided using both actual and program exchange rates.

IV. Ceiling on Contracting or Guaranteeing of New Nonconcessional External Debt by the Public Sector

13. **Definition:** Nonconcessional external loans are defined as loans from lenders other than the IMF with a grant element of less than 35 percent of the value of the loan. The grant element is to be calculated by using currency-specific discount rates reported by the OECD (CIRRs).[4] For maturities of less than 15 years, the grant element will be calculated based on

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[1] An electronic spreadsheet file that shows the relevant discount rates reported by the OECD (CIRRs) will be provided on a periodic basis by IMF staff. A web-based grant element calculator is available at http://www.imf.org/concessionality.

six-month averages of commercial interest rates. For maturities longer than 15 years, the grant element will be calculated based on 10-year averages. This performance criterion applies not only to debt as defined in point No. 9 of the IMF's Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements (Decision No. 12274, as revised on August 31, 2009 (Decision No. 14416-(09/91) but also to commitments contracted or guaranteed for which value has not been received.[5] Previously contracted nonconcessional external debt that has been rescheduled will be excluded from the definition of "new debt" for the purposes of this performance criterion.

14. **Supporting material:** Details of all new commitments and government guarantees for external borrowing, with detailed explanations, will be provided by the MOF to the IMF on a monthly basis within two weeks of the end of each month. Data will be provided using actual exchange rates.

V. Continuous Performance Criterion on Nonaccumulation of External Arrears

15. **Definition:** During the period of the arrangement, the consolidated government and the NBG will not accumulate any new external payment arrears on debt service obligations to official creditors. Official external payment arrears are defined as unpaid debt service by the consolidated government and the NBG beyond 30 days after the due date. The performance criterion on nonaccumulation of external debt is continuous.

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[2] Point No. 9 of the IMF's guidelines reads as follows: "(a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the leaser retains the title to the property. For the purpose of the Guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property. (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt."

16. **Supporting material:** Details of official arrears accumulated on interest and principal payments to creditors will be reported to the IMF within one week from the date of the missed payment. Data will be provided using actual exchange rates.

Table 1. Program Exchange Rates		
	Currency Name	Currency/US$
SDR	Special Drawing Rights	0.65
GEL	Georgian lari	1.67
EUR	Euro	0.72

Table 2. Projected Balance-of-Payments Support Financing 1/ (In million U.S. dollars)			
	Balance-of-payments support loans and balance-of-payments support grants	Project loans and project grants	Conversion for government imports
March 31, 2010	19.2	45.9	55.0
June 30, 2010	19.2	117.4	115.0
September 30, 2010	115.5	198.8	180.0
December 31, 2010	161.0	218.8	250.0
1/ Cumulative from the beginning of the calendar year.			

Table 3. Projected Reserve Money (End of period stock in million lari)	
March 31, 2010	1,722.8
June 30, 2010	1,750.4
September 30, 2010	1,792.1
December 31, 2010	1,831.1

INTERNATIONAL MONETARY FUND

GEORGIA

Fifth Review Under the Stand-By Arrangement and Request for Modification of Performance Criteria

Informational Annex

Prepared by the Middle East and Central Asia Department

March 2, 2010

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ANNEX I. GEORGIA: RELATIONS WITH THE FUND

(As of January 31, 2010)

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

II. **General Resources Account:**	**SDR Million**	**Percent of Quota**
Quota	150.30	100.00
Fund holdings of currency	580.10	385.96
Reserve position in Fund	0.01	0.01

III. **SDR Department:**	**SDR Million**	**Percent of Allocation**
Holdings	145.22	100.88

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
Stand-by Arrangements	429.80	285.96
ECF [1]	115.95	77.15

V. **Latest Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn SDR Million)
Stand-By	9/15/08	6/14/11	747.10	429.80
ECF	6/4/04	9/30/07	98.00	98.00
ECF	1/12/01	1/11/04	108.00	49.50

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

	Forthcoming				
	2010	**2011**	**2012**	**2013**	**2014**
Principal	10.95	38.11	159.90	208.38	93.10
Charges/interest	5.18	5.30	4.94	2.89	0.77
Total	16.13	43.41	164.84	211.27	93.87

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

VII. **Safeguard Assessments:**

An update of the December 2008 safeguards assessment of the National Bank of Georgia (NBG) was completed on January 21, 2010 in conjunction with an augmentation of access under the SBA approved on August 6, 2009. The NBG continues to publish financial statements that comply with International Financial Reporting Standards, and are externally audited by an international firm in accordance with International Standards on Auditing. In response to the safeguards assessment, the authorities have agreed to a multi-year appointment of an external audit firm, beginning with financial year 2010. Audit Committee arrangements require further strengthening, however, by restricting membership to non-executive directors.

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

Not Applicable.

IX. **Implementation of HIPC Initiative:**

Not Applicable.

X. **Exchange Arrangements:**

(a) Since April 29, 1993, the Tbilisi Interbank Currency Exchange (TICEX), established by the NBG and a group of commercial banks, has conducted periodic auctions to determine the exchange rate of the domestic currency vis-à-vis the U.S. dollar. These auctions are conducted daily. Foreign exchange bureaus are allowed to buy and sell foreign currency bank notes. A temporary de facto exchange rate peg to the U.S. dollar was introduced in the wake of the early August armed conflict. During the second week of November, the authorities allowed a 17 percent depreciation of the lari. In March 2009, the authorities introduced an auction-based system for the foreign exchange market. This mechanism is intended to allow more flexibility and give market forces a greater role in setting the price, with a view to reaching faster and smoother convergence toward equilibrium in the foreign exchange market and giving the market greater clarity about the authorities' policies. In end-May 2009, the authorities officially ended foreign exchange market interventions on TICEX.

(b) The government uses the official exchange rate for budget and tax accounting purposes as well as for all payments between the government and enterprises and other legal entities. The official rate may differ by more than two percent from freely determined market rates, which gives rise to a multiple currency practice.

XI. **Article IV Consultation:**

The 2009 Article IV consultation was concluded on March 23, 2009.

XII. **FSAP Participation:**

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

XIII. **Technical Assistance:**

See Table 1 of this Annex.

XIV. **Resident Representative:**

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

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

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

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

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

Table 1. Georgia: Fund Technical Assistance Missions, 2004–09

Subject	Type of Mission	Timing	Counterpart
	Fiscal Affairs Department (FAD)		
Tax Policy	Review of tax policy	Jun. 8–21, 2004	Ministry of Finance
Public Expenditure Management	Assessment of Treasury system.	Nov. 8–23, 2004	Ministry of Finance
Public Financial Management	Expert assistance (Zohrab)	Mar. 2005–Nov. 2006	Ministry of Finance
Tax Administration	Mission—review of modernization program	Nov. 8-21, 2005	Ministry of Finance
Tax Administration	Expert assistance	Jul. 9–14, 2006	Ministry of Finance
Tax Administration	Expert assistance (Bosch)	Oct. 9–25, 2006	Ministry of Finance
Tax Administration	Follow-up mission	Jan. 17–30, 2007	Ministry of Finance
Tax Administration	Expert assistance (Woodley)	Jan/Feb and Apr/May 2008	Ministry of Finance
Budget Classification and Accounting Reforms	Expert assistance (Swarap)	Jun. 11-22, 2007	Ministry of Finance
Budget Classification and Accounting Reforms	Expert assistance (Swarap)	Oct. 8-19, 2007	Ministry of Finance
	Monetary and Capital Markets Department (MCM)		
Government Securities Market, Deposit Insurance, Anti-Money Laundering	Advisory	Apr. 20–30, 2004	National Bank of Georgia
Monetary Operations, Banking Sector Competition	Advisory	Oct. 24–Nov. 5, 2004	National Bank of Georgia
Liquidity Management; Trends in Securities and Insurance Sectors	Advisory	Apr. 18–29, 2005	National Bank of Georgia
FSAP Update	Assessment	Feb. 15–28, 2006	National Bank of Georgia
Monetary Operations/Monetary Policy/Foreign Exchange	Advisory	Feb. 16–Mar. 2, 2007	National Bank of Georgia

Table 1. Georgia: Fund Technical Assistance Missions, 2004–09

Subject	Type of Mission	Timing	Counterpart
Consolidated Supervision	Advisory	Dec. 4–14, 2007	National Bank of Georgia
Lender of Last Resort Framework	Advisory	Dec. 11-17, 2008	National Bank of Georgia
Stress Testing and Foreign Exchange Market	Advisory	Apr. 21-30, 2009	Financial Supervisory Agency; National Bank of Georgia
	Statistics Department (STA)		
National Accounts	Follow-up assistance	Apr. 26–May 7, 2004	State Department of Statistics
National Accounts	Follow-up assistance	Apr. 18–29, 2005	State Department of Statistics
Price Statistics	Follow-up assistance	May 23–Jun. 3, 2005	State Department of Statistics
Balance of Payments Statistics/International Investment Position	Follow-up assistance	Jun. 15–28, 2005	State Department of Statistics and National Bank of Georgia
Price Statistics	Follow-up assistance	Jun. 20–Jul. 13, 2006	State Department of Statistics
Balance of Payments	Follow-up assistance	Sep. 6–19, 2006	National Bank of Georgia
GDDS/Government Finance Statistics	Follow-up assistance	Nov. 8–22, 2006	State Department of Statistics, National Bank of Georgia, Ministry of Finance
Balance of Payments	Follow-up assistance	Jul. 9-20, 2007	National Bank of Georgia
Monetary and Financial Statistics	Advisory	Mar. 18-31, 2009	National Bank of Georgia
	Legal Department (LEG)		
Tax Code	Follow-up assistance	Jan. 28–Feb. 9, 2001	Ministry of Finance, Tax Inspectorate of Georgia
Tax Code	Follow-up assistance	Jul. 13–24, 2001	Ministry of Finance, Tax Inspectorate of Georgia

ANNEX II. GEORGIA: RELATIONS WITH THE WORLD BANK

(As of February 17, 2010)

1. Georgia has been a member of the World Bank since 1992 and the International Development Association (IDA) since 1993. Georgia has borrowed $1,125 million for 52 operations to date. Up until FY09, all borrowings were IDA, but in FY09, Georgia became eligible for IBRD borrowings as well and is now a "blend" country. Georgia became a shareholder and member of the IFC in 1995.

2. A new CPS for Georgia for FY10-13 was endorsed by the World Bank Board in September 2009 against the backdrop of twin crises – the August conflict followed by the global economic downturn. As a result, the joint World Bank/IFC strategy focuses on key post-conflict and vulnerability issues in the near term, as well as strengthening the foundations for medium term competitiveness and growth. The CPS envisages Bank Group financing of about $740-900 million over the four year period underpinned by a strong program of knowledge services. The financing envelope includes full use of the remaining IDA-15 envelope (projected at about $130 million), indicative IBRD lending (of about $266 million), disbursements under ongoing IDA/IBRD projects (of about $135 million), and IFC investments and lending (of about $210-360 million).

3. In response to the August conflict—and at the request of the Government—the World Bank in collaboration with other development partners prepared a *Joint Needs Assessment* (JNA) which was presented at the October 2008 Donors' Conference. The international community responded positively by pledging financial support totaling $4.5 billion over the period of 2008–2010. This was meant to provide financial assistance to the country in the light of increased spending needs (on infrastructure, social sectors, banking, and general budgetary support), and a decline in capital inflows. To date, donors are on track to fulfilling their commitments.

4. The World Bank and the IMF have a strong track record of coordinated assistance to Georgia. The IMF has taken a lead on issues of macroeconomic policy, and the Bank and the Fund work together on financial sector strengthening. The World Bank has led the policy dialogue on social and structural policy issues, focusing on strengthening public expenditure policies and management, improving performance in the social sectors; poverty targeting and social assistance delivery, deepening and diversifying sources of growth; and rehabilitating infrastructure. The recent economic downturn has resulted in intensified collaboration on monitoring of macroeconomic developments and policy options.

5. Development policy lending has been a core element of Bank strategy and will continue to be so in the new CPS. Following past successful reform track record under the Poverty Reduction Support Operations, a programmatic series of three Development Policy

Operations (DPOs) is planned under the new CPS. The first DPO in amount of USD 85 million was approved on July 2, 2009. The DPO program aims at (i) mitigating the economic downturn; and (ii) facilitating recovery and preparing Georgia for post-crisis growth. It promotes policy and institutional reforms in (i) public finances, including improving efficiency and effectiveness of public expenditures, and public investment strengthening; (ii) social protection strengthening, including targeting and scaling up of the safety net system, pensions, and improving health coverage for the poor, and (iii) on specific measures to further improve the investment climate, including actions to modernize tax and customs administration.

6. The Bank's program also includes strong support to strengthen connectivity, essential for Georgia's prospects as a transit corridor and spatially inclusive growth. This is primarily in the area of roads, through the Secondary and Local Roads Project and the East-West Highway Improvement Projects. In FY10, the Bank continued to support the East-West Highway program and as well as provide support on Kakheti regional roads. Donor coordination has been central to Bank strategy, especially in the context of the roads program where different donors are working together on a common platform of assistance.

7. Ongoing Bank-financed projects will continue to support progress in health, education, public sector, municipal development, and rural development. These include:

- In **education,** IDA credits are supporting education system realignment and strengthening which address a broad spectrum of educational reform issues, aimed at improving learning outcomes of primary and secondary students, and in rehabilitating schools.
- In **health,** an IDA-financed project is supporting the government in improving provision of primary health care services through the new Medical Insurance Program (MIP), providing training and equipment, and supporting the health information system as well as management capacity building.
- In **rural development**, IDA credits have supported development of private sector farming and agro-processing improvements, agricultural credit, irrigation and drainage, and agricultural research. IDA credits have also been supporting creation of local institutions, such as rural credit unions and water users associations.
- In **public financial management**, an IDA grant is pooled together with resources from other donors under the Public Sector Financial Management Reform Support Project to provide technical assistance and the necessary investments to support budget planning, execution, and overall management within the Ministry of Finance and line ministries. It also aims to strengthen public accountability and oversight of public financial management.
- In **municipal development,** IDA is supporting the government to rehabilitate priority municipal infrastructure, support IDP housing, and strengthen intergovernmental fiscal arrangements.

8. **Analytical and advisory activities** across a broad spectrum of areas have been a central part of the Bank strategy. Significant pieces include the Progress Report on the JNA, a Poverty Assessment, an IFC Competitiveness study, a Country Procurement Assessment in 2007, and a joint WB-EU Public Expenditure and Financial Assessment in 2008. Ongoing work includes analysis of expenditure policy choices, work on regional trade integration, financial sector monitoring and risk assessment, programmatic poverty monitoring and analysis, a social sector review, continuing progress reports on the JNA, and energy sector work.

9. A key part of the Bank Group assistance has been to the private sector where IFC has financed projects in banking, infrastructure, oil and gas, and manufacturing sectors. IFC's committed portfolio in Georgia as of December 2009 stood at about $280 million, of which $252 million was disbursed. The portfolio includes 8 clients, primarily in the banking sector but also including several real sector clients. In the financial sector, IFC has focused on providing investment and technical assistance to three leading banks—TBC Bank, the Bank of Georgia, and Bank Republic. To reach small and medium enterprises, IFC helped to establish ProCredit Bank of Georgia, the country's first bank specializing in lending to micro and small enterprises. IFC has also provided a credit line to TBC Leasing to support the rapid growth of their portfolio of SME clients.

10. In the wake of the global financial crisis, IFC provided debt and equity investments to systemically important banks which enabled them to establish liquidity and capital cushions. In the real sector, IFC continues to look for opportunities to support the growth of the private sector, particularly in export-oriented companies or those that support overall private sector development. Sectors of interest include agrobusiness, infrastructure, manufacturing, and renewable energy. IFC has also provided technical assistance to strengthen its client banks and introduce new financial products (including leasing, housing finance and risk management products), and to improve the business climate and corporate governance practices. The World Bank-IFC Doing Business report has ranked Georgia as a top reformer in its Doing Business report, and the government is actively engaged with IFC to make further progress on reforms to improve the business environment.

Questions may be referred to Mr. A. Cholst (202-458-0324).

ANNEX III. GEORGIA: RELATIONS WITH THE EBRD

(As of January 31, 2010)

1. As of January 31, 2010 the European Bank for Reconstruction and Development (EBRD) had signed 128 investments in Georgia with cumulative commitments totaling \$976.3 million.[2] Current Portfolio Stock equals to \$652.9 million. The EBRD's first operation, a power rehabilitation project, was signed in December 1994. Since then, the pace and composition of portfolio growth has varied significantly from year to year.

2. During 2007 the Bank had signed 24 transactions in Georgia totaling \$282.4 million[3]. The Bank provided a syndicated loan to ProCreditBank Georgia (\$8 million); increased its equity participation in Republic Bank, introduced a medium size co-financing facility (MCFF) in Republic Bank and signed three sub operations under the facility in agriculture and health sectors (total \$9.35 million). MCFF has been successfully working for several years in one of the country's largest Bank TBC, with which the Bank signed six additional projects under the MCFF in agriculture (\$26 million), general industry (\$1 million) and natural resources (\$3 million) sectors. The Bank financed mortgage lines to TBC Bank (\$12 million) and Republic Bank (\$4 million) and provided loans to the Republic Bank (\$10 million), Cartu Bank (\$7 million) and Basis Bank (\$6 million) for on-lending purposes to medium, small and micro enterprises. The Bank introduced Energy Efficiency facility in two Georgian Banks: TBC Bank (\$10 million) and Cartu Bank (\$5 million).

3. The Bank's annual business volume in 2008 reached \$302.6 million through its 24 transactions. The project examples include: \$7.5 million loan to TBC Bank for development of SMEs, additional mortgage loan (\$20 million) to Republic Bank, the equity investment in Basis Bank, equity increase and subordinated debt (\$5 million) to Republic Bank. In 2008 the Bank signed three operations in municipal and environmental infrastructure development sector, namely: Batumi Public transport (\$3.5 million), Kobuleti (\$2.1 million) and Borjomi (\$2.1 million) water supply improvement projects. In October 2008 the Bank provided \$14 million loan to the company Geo Steel to finance construction and operation of 175 k ton capacity steel mini-mill. In December 2008 the EBRD, along with the IFC provided Bank of Georgia, the largest bank in the country, with \$200 million loan facilities comprising of convertible subordinated, non-convertible subordinated and senior loans intended to support Bank of Georgia during a post-war period.

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[2] EUR/USD rate at end of January 2010: 1.3904.

[3] EUR/USD rate at end of period: 1.4716 (Dec 2007); 1.4058 (Dec 2008); 1.4419 (Dec 2009)

4. In 2009 the Bank has signed fifteen projects in private sector arriving at the business volume of $116.2 million. As a response to the global financial crisis, EBRD, IFC and FMO joined forces to provide TBC Bank, with a funding package of $161 million in loans and equity investment. The EBRD contribution is worth up to $70 million and includes the acquisition of an equity stake for $36.8 million and the provision of an $18.5 million subordinated loan and a $14.7 million senior loan. In addition, the EBRD provided $5 million loan to Cartu bank for on lending to small and medium sized enterprises. The Bank signed six projects of $16.1 million in agribusiness sector and four projects - in telecoms, general industry, property and tourism and infrastructure sectors.

5. The ratio of private sector projects in the portfolio now stands at 93.6 percent. The Bank plans to focus primarily on private sector financing, but may also consider selected public sector projects. The Bank will give preference to non-sovereign operations although, where sovereign guarantees are required, donor co-funding on a grant basis will be sought.

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

Table 1. Georgia: EBRD Portfolio for Georgia (In millions of US$)
(As of January 31, 2010)

Project Name	Date of Agreement	Outstanding Amount
Bank Republic - MSE Loan	27-Apr-06	1.3
Bank Republic - MSME	12-Dec-08	10.0
Bank Republic Equity	15-Sep-06	8.2
Bank Republic Equity (Capital Increase)	23-Apr-08	1.4
Bank Republic Mortgage Loan	20-Dec-06	6.8
Bank Republic Mortgage Loan II	22-Aug-08	14.0
Bank Republic Subordinated Debt	07-Jul-08	5.0
Bank of Georgia - convertible subordinated debt	30-Dec-08	26.0
Bank of Georgia - subordinated debt	30-Dec-08	24.0
Bank of Georgia Senior Loan	30-Dec-08	50.0
Basis Bank Equity Investment - Georgian Financial Sector F/W	19-May-08	4.1
Batumi Public Transport Project	02-Sep-08	3.4
Borjomi Water Project	01-Dec-08	2.1
CEEP - Bank Republic	19-Dec-08	5.0
CEEP - Cartu Bank	20-Dec-07	4.9
CEEP - TBC	30-Nov-07	4.5
Cartu Bank SME Loan II	30-Mar-09	5.0
DIF - Alfapet	08-Dec-07	0.1
DIF - Delidor	17-Jun-05	1.5
DIF - Georgian Hazelnut Production Ltd.	26-Oct-06	0.8
DIF - Iberia Refreshments	25-Sep-03	3.3
DIF - Imedi L	30-Dec-06	1.6
DLF - BIH Castel	23-Dec-09	2.6
DLF - BTM TEKSTIL	21-Dec-06	1.6
DLF - Georgian Hazelnut Production Ltd	26-Oct-06	2.6
DLF- Populi	31-Dec-08	13.1
DLF-Margebeli	23-Dec-09	5.6
DLF-Marneuli	24-Dec-09	6.0
ETC Non-Bank Framework III - Crystal	17-Dec-09	0.5
ETC Non-Bank MFI Framework II - Constanta	28-Nov-06	1.8
ETC Non-Bank MFI Framework II - WV Credo	07-Mar-08	1.1
Enguri Hydro power Plant Rehabilitation project	22-Dec-98	20.6
Geo Steel	20-Oct-08	14.0
Georgia: Trans-Caucasian Rail Link Project	22-Dec-98	2.2
Georgian Financial Sector F/W - Basis Bank (MSME Loan)	21-Sep-07	6.0
Georgian Financial Sector F/W-Bank Republic MSE Loan	21-Dec-07	12.0
Georgian Financial Sector F/W-Cartu Bank SME Loan	20-Dec-07	6.0
Georgian Financial Sector FW-TBC Bank Mortgage Line II	21-Dec-07	11.3
Georgian Property	29-Aug-07	15.0
Georgian Property Debt FW - Tbilisi Central Train Station	28-Dec-07	8.5
Georgian Property Debt Facility - Green Building	19-Mar-07	2.4
Georgian Wines & Spirits Ltd.	10-Mar-05	4.8
JSC Channel Energy Poti Port	19-Mar-02	2.3
Kobuleti Water	27-Jun-08	2.1
Kutaisi Water Project	15-Sep-06	4.1
MCFF Bank Republic - Rusmetali	31-Dec-09	2.5
MCFF - Bank Republic - Begi L/C and restructured loan	10-Aug-09	8.4

MCFF - Bank Republic - Full Recourse	05-Dec-08	10.0
MCFF - Bank of Georgia Full Recourse Portion	14-Jun-05	3.6
MCFF - BoG Iberia Refreshments Sub-Loan (NRP)	27-Sep-06	2.6
MCFF - TBC - Goodwill II	22-Dec-09	0.9
MCFF - TBC - Tsiskvilkombinati II	21-Nov-07	2.3
MCFF - TBC Bank - Jaokeni Company JSC	04-Aug-08	2.4
MCFF - TBC Bank EMBAWOOD Sub Loan	13-Jun-07	0.6
MCFF - TBC Bank JSC Full Recourse Portion	13-Jun-05	1.4
MCFF - TBC Bank Tegeta Motors	01-Apr-08	6.5
MCFF - TBC Bank Wissol Sub-Loan (NRP)	10-Oct-07	4.1
MCFF - TBC Coca Cola Ltd. sub-loan	02-Feb-07	3.8
MCFF - TBC Tsiskvilkombinati	21-Nov-07	1.6
MCFF BOG - Renewable Energy Programme - Okami SHPP NRP	21-Dec-06	0.1
MCFF BOG - Renewable Energy Programme Lopota SHPP NRP	21-Dec-06	0.2
MCFF Bank Republic - Mediclub Georgia	30-Oct-07	2.5
MCFF TBC Bank - Goodwill	31-Oct-07	6.6
MCFF-Bank Republic - BCFS	18-May-09	1.5
Poti Water Supply Project	15-Sep-06	3.3
Regional TFP Basisbank (Guarantee & Pre-export)	06-Nov-07	1.1
Regional TFP: Bank Republic (Guarantee & Pre-export)	15-Feb-06	0.0
Regional TFP: Bank of Georgia (Guarantee & Pre-export)	29-Jul-99	9.0
Regional TFP: Cartu Bank	28-Apr-06	2.2
Regional TFP: TBC Bank (guarantee & pre-export)	17-Aug-99	6.4
Regional TFP: VTB Bank Georgia	24-Dec-00	0.0
Rustavi Solid Waste Management Project	02-Jun-09	2.2
TBC Bank	07-Apr-09	38.4
TBC Bank - Senior Loan	14-Apr-09	14.7
TBC Bank Mortgage Loan	29-Jun-06	8.3
TBC Bank SME Credit Line III	26-Sep-05	1.3
TBC Bank SME Line	29-Jul-08	7.5
TBC Bank: Subordinated Loan	14-Apr-09	18.5
TBC Leasing - Equity Investment	01-Mar-06	0.1
TBC Leasing, Senior Debt	21-Dec-05	0.9
Tbilisi International Airport	17-May-06	22.3
Tbilisi Public Transport Project	29-Jul-05	1.1
VTB Bank Georgia	09-Oct-06	6.7
VTB Bank Georgia (debt, equity)	20-Nov-97	2.5
VTB Bank Georgia Capital Increase	09-Oct-06	2.4
TOTAL		**539.8**

Aureos Central Asia Fund LLC	01-Dec-08	0.8
BIH	18-Dec-06	0.0
BSR Europe Co-Investment Facility	14-Aug-06	9.7
Baku-Tbilisi-Ceyhan (BTC) Pipeline	03-Feb-04	45.1
Baring Vostok Private Equity Fund	13-Dec-00	0.0
Caucasus Online	22-Dec-08	30.6
Caucasus Online	09-Oct-09	0.9
Lukoil Overseas : South Caucasus Gas Pipeline	28-Jul-05	25.9
TOTAL REGIONAL		**113.1**
GRAND TOTAL		**652.9**

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 10/101
FOR IMMEDIATE RELEASE
March 19, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review under the Stand-by Arrangement for Georgia and Modifies Performance Criteria

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Georgia's economic performance under an 18-month Stand-By Arrangement (SBA) for an amount equivalent to SDR 477.1 million (about US$ 729.2 million) approved on September 15, 2008 (see Press Release No. 08/208). On August 6, 2009, the Executive Board approved an augmentation of access under the SBA to an amount equivalent to SDR 747.1 million (about US$1,141.8 million) and an extension of the SBA until June 14, 2011 (see Press Release No. 09/277). The completion of the fifth review allows for the immediate purchase of an amount equivalent to SDR 97.3 million (about US$148.7 million).

The Executive Board also modified the end-March and end-June 2010 performance criteria with regard to the ceiling on net domestic assets, floor on net international reserves, and the budget deficit to reflect some quarterly reallocation of spending, revenue, and external financing. The Executive Board changed performance criterion on the contracting or guaranteeing of nonconcessional debt to an indicative target given Georgia's moderate debt vulnerabilities and strong management capacity.

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

"Signs of an economic recovery are becoming more evident, sustained by an improved external environment and supportive macroeconomic policies. To gain momentum, recent positive trends will require a pickup of FDI and credit growth.

"The authorities' economic program has helped to restore confidence and limit the contraction of economic activity in 2009 by allowing for a marked widening of the fiscal deficit. With the economy now recovering, the 2010 economic program focuses on fiscal retrenchment, which is aimed at preserving debt sustainability and macroeconomic stability and facilitating the exit from IMF balance of payments support. The containment of public expenditures should lead to a reduction of the fiscal deficit to 7.4 percent of GDP in 2010, down from 9.2 percent in 2009, while protecting social spending.

“High dollarization severely constrains monetary policy and, despite considerable monetary easing, credit conditions remain tight. In the short term, the authorities are pursuing various initiatives to restart credit growth. However, once the economic recovery firms up and lending resumes, some monetary tightening will become necessary to promote dedollarization and preserve disinflation gains.

“With solid capitalization and provisioning and a recent decline in nonperforming loans (NPLs), banks’ balance sheet constraints on lending have eased recently. However, banks remain exposed to substantial credit risk from high NPLs and currency-induced credit risk. Recent measures to strengthen preparedness and supervision and the gradual move toward risk-based supervision will enhance the efficiency of financial intermediation.”

Statement by Age Bakker, Executive Director for Georgia
March 19, 2010

Latest developments

Georgia is gradually recovering from the global financial and economic crisis. Growth is likely to have contracted by 4 percent in 2009, but the economy is showing signs of improvement as illustrated by a pickup in exports remittances and value added turnover. The authorities' countercyclical fiscal policies have also helped to cushion the impact of the crisis. The 2009 fiscal deficit is expected to rise to 9.2 percent of GDP, well below the agreed program ceiling. Spending was contained due to under-execution. Despite a pickup in inflation, price pressures going forward appear subdued in the face of a substantial negative output gap. The balance of payments has also improved markedly. The 2009 current account deficit is expected to have declined by more than 10 percentage points compared to 2008. International reserves have also been increased to more comfortable levels relative to imports and short-term external debt payments. This partly reflects the authorities' commitment to greater exchange rate flexibility, as observed in much lower intervention activity.

In line with the previous review, GDP growth is forecast to grow by 2 percent in 2010, mostly due to a smaller base in 2009. The authorities consider this forecast to be conservative, given that they expect a stronger rebound in foreign direct investments arising from the more stable macro-financial environment, large-scale energy projects and reinvestments in the banking sector. External demand could also be more buoyant than currently projected. Demand for borrowing is also expected to rise, reflecting the improved economic outlook and the anticipated decline in real lending rates. While there are downside risks to the growth outlook, the risk of domestic political tensions seems contained in light of the fragmented opposition. Headline inflation for 2010 is projected to rise to 5 percent, mainly due to rising commodity prices. As a result of deterioration in Georgia's terms of trade and firms' inventory buildup, higher import growth is expected to produce only a temporary worsening in the current account. In the subsequent years, the current account deficit is projected to continue its downward trajectory.

Policies

As stressed in the LOI, the authorities' main challenge will be to restore growth. However, with the economy now slowly recovering, attention in fiscal policy is shifting from cushioning the impact of the crisis to securing medium-term sustainability. The authorities consider deficit reduction as key to restore market access by 2012, which will help them to address the peak in debt services in 2013. They have therefore committed themselves to an ambitious expenditure-driven consolidation strategy that aims to reduce the overall fiscal deficit from 9.2 percent of GDP in 2009 to under 3 percent by 2013. In line with the program, the authorities will cut spending this year by almost 2 percent of GDP through mainly lower administrative expenditures and subsidies. In the years thereafter, the improvement in the fiscal balance will be largely driven by the phasing out of capital spending, a real wage freeze and lower social spending, as the economy gathering momentum. As recommended by the Fund in the previous review, the authorities are making some parts of the Economic Freedom Act less restrictive. Most importantly, it is now proposed not to subject changes in the tax base to a referendum. At the same time, the authorities are making progress in strengthening revenue administration and implementing their public action reform action plan. The latter enhances transparency, efficiency and accountability of public finances.

The authorities acknowledge that monetary policy loosening has had little impact until now on stimulating credit growth. Excess liquidity did not help either, although banks' ample access to liquidity initially helped somewhat to prevent banks from curtailing credit even more aggressively. To enhance monetary policy effectiveness, the authorities are increasing the issuance of CDs and consider raising reserve requirements. They also plan to offer collateralized long-term credit with interest rates linked to the policy rate. The authorities remain fully committed to a flexible exchange rate policy. Interventions will be limited to smooth only excess volatility, such as temporarily seen earlier this year. No particular exchange rate level will be targeted.

The banking sector is emerging from the crisis in better shape. Banks' balance sheets have improved, considering the healthier loans-to-deposit levels, and stronger liquidity and capital buffers. Since mid-2009, non-performing loans are slowly coming down from their elevated levels. This downward trend is expected to continue, predicated on the economic recovery. Although the banking sector has proved to be resilient, the authorities continue to further strengthen their prudential awareness, including by regularly conducting stress tests – on sector and individual bank level – and by introducing risk-based supervision. The move to a risk-based framework, including differentiated capital requirements, will be implemented gradually in line with improvements in risk assessment capacity.

Request

The authorities' commitment to the program continues to be strong. All end-December quantitative performance criteria were met by a wide margin. To secure external stability, the authorities stand ready to adjust their fiscal policy and exchange rate policies if the impact of the crisis would be larger and more protracted than currently expected. Against the backdrop of the strong performance under the SBA and the commitment to further policy adjustments, the authorities request the Board's approval of the completion of the 5th review, and modified program conditionality.