Georgia—Program Note
April 4, 2016

IMF-Supported Program: The IMF's Executive Board approved a 36-month Stand-By Arrangement (SBA) on July 30, 2014. Under the program, Georgia has access to IMF credits of up to SDR 100 million (47.5 percent of quota), of which SDR 80 million have already been disbursed. Performance under the program is monitored through semi-annual reviews. The First Review under the program was approved by the Executive Board on December 19, 2014; discussions for the Second and Third Reviews are ongoing. The Georgia country page of the IMF website contains the latest information on Georgia and the IMF:
https://www.imf.org/external/country/GEO/index.htm

Background

Georgia made a peaceful transition of power following the 2012 and 2013 parliamentary and presidential elections, further demonstrating its commitment to a democratic process. Corruption and ease of doing business indices continue to be favorable. An Association Agreement and a Deep and Comprehensive Free Trade Area agreement was signed with the European Union in June 2014. Trade with Russia opened up in 2013 and has since grown significantly.

Since 2014, Georgia has been facing a large and persistent external shock. Lower oil and commodity prices have reduced growth in the region, and with it the demand for Georgia's exports. The strength of the US dollar and depreciation in partner countries has put pressure on Georgia's currency. Demonstrating its commitment to the floating exchange rate regime, the lari was allowed to adjust to exchange rate pressures, with the National Bank of Georgia making only limited interventions. Georgia's current account deficit has increased to close to 12 percent of GDP and external debt now exceeds 100 percent of GDP. After falling to less than 3 percent of GDP, the budget deficit in 2015 increased to 3.8 percent of GDP. Inflation has remained relatively low since 2012, at 5 percent or lower.

Role of the IMF

The key objectives of the authorities' IMF-supported program are to ensure fiscal sustainability, reduce external vulnerabilities, build reserves, strengthen resilience to external shocks, further develop the inflation targeting regime, improve competitiveness and make growth more inclusive. Consistent with these objectives the IMF-supported program sets targets for central policy parameters and benchmarks for key policy reforms. The program also includes an inflation consultation clause, to make sure that inflation stays within a 3 percent range around the National Bank's inflation target. Semi-annual reviews make sure that policies are in line with the program.

The IMF also provides technical assistance to Georgia on a wide range of topics. These include National Accounts Statistics, Public Financial Management, Revenue Administration, Tax Policy, and Inflation Targeting.

The IMF regularly makes broader assessments of the economy under its Article IV consultations. The latest such consultation took place in July 2013, and an update is planned for July 2016. In 2014, the IMF also updated its Financial System Stability Assessment (FSAP) of Georgia.

Challenges Ahead

Faced by a regional slow-down and currency depreciations, Georgia is experiencing lower exports and remittances, a widening current account deficit, weaker growth, lower fiscal revenues, and depreciation against the dollar (which hurts those that have borrowed in dollars but whose income is in domestic currency). The challenge is how to contain external vulnerabilities, while providing support to the economy and ensuring continued financial sector stability. Guaranteeing social assistance to the poor and vulnerable during the slowdown is essential.