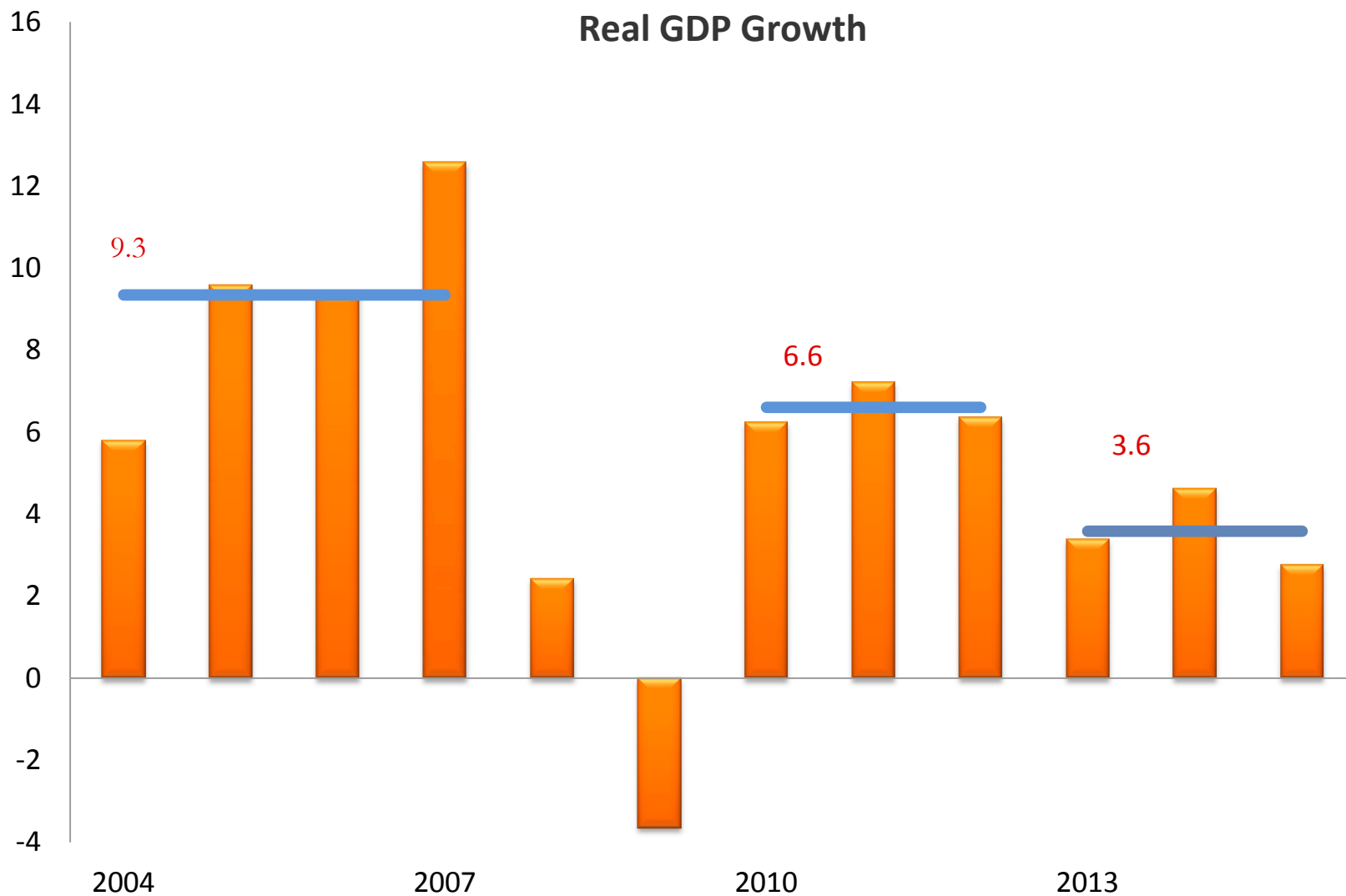


# Georgia's Macro-Financial Challenges

Azim Sadikov  
May 2016

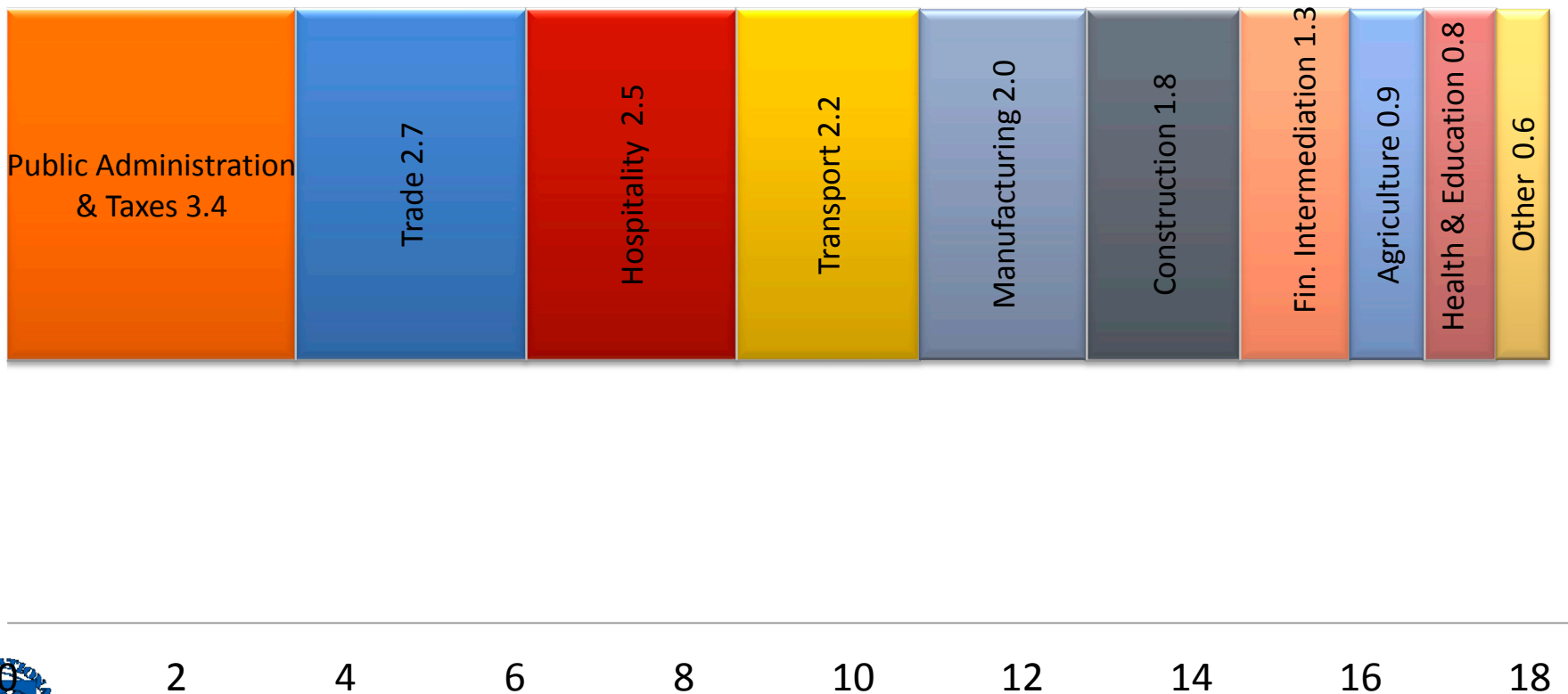


# Growth has been respectable, but slowed since the 2008-09 crisis



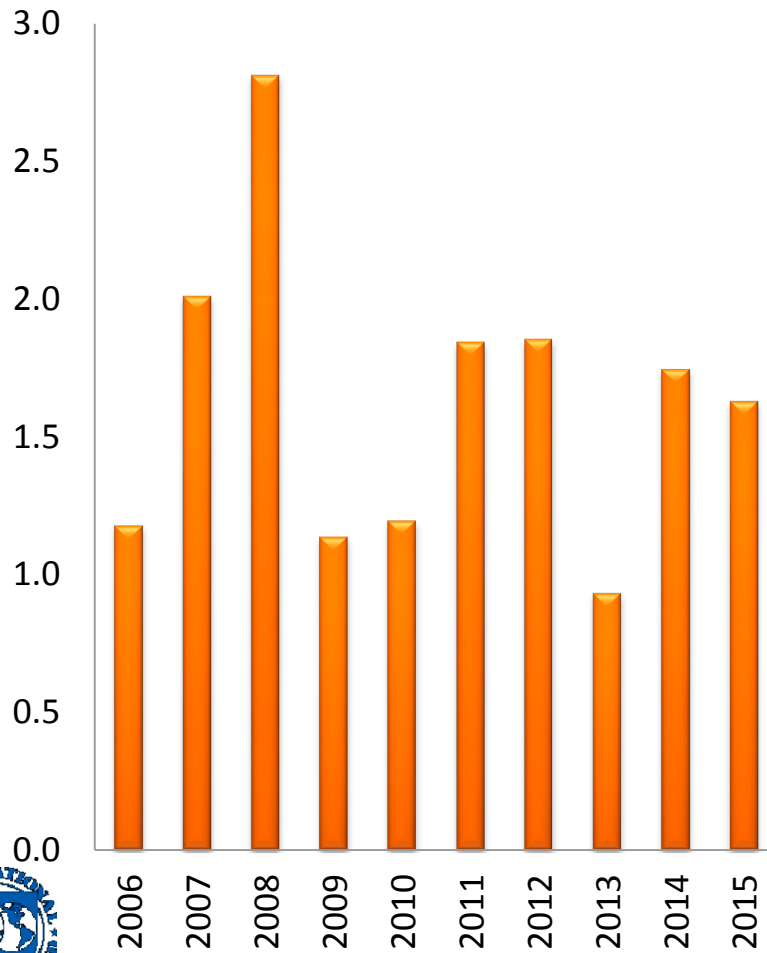
# Growth has been mostly driven by services

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

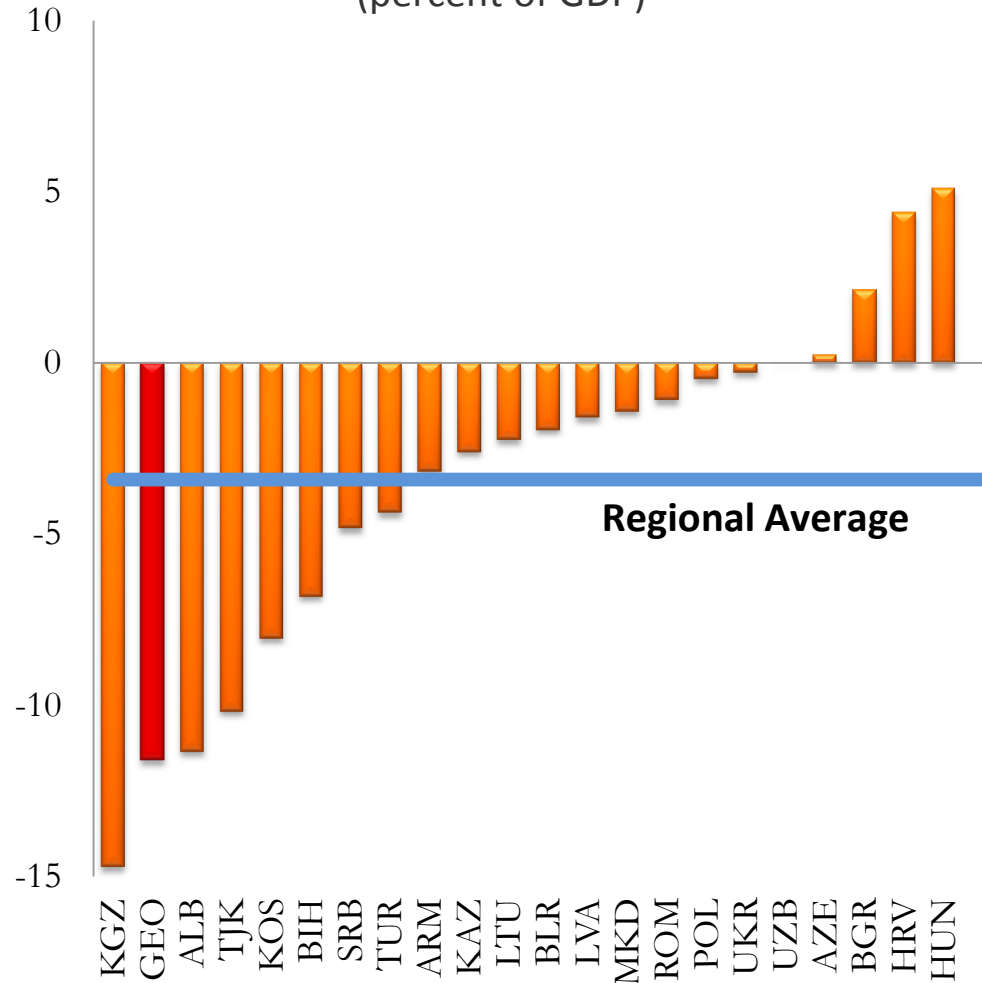


# Georgia ran high current account deficits for many years

**Current Account Deficit**  
(billions of US\$)

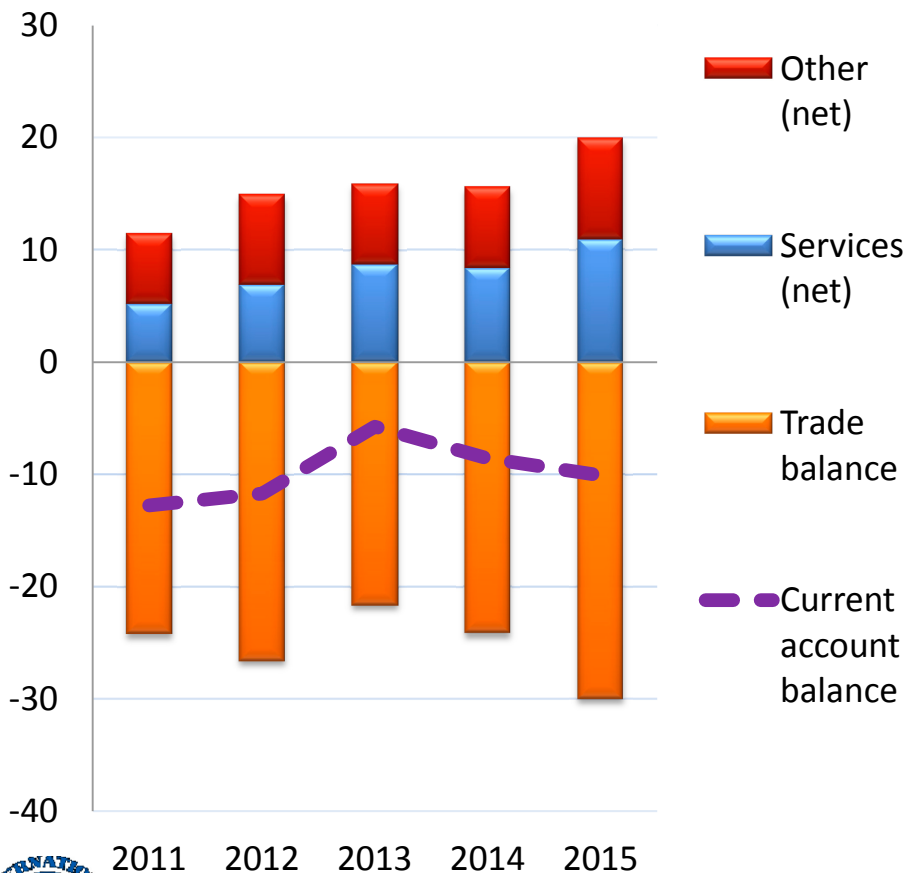


**Current Account Deficit**  
(percent of GDP)

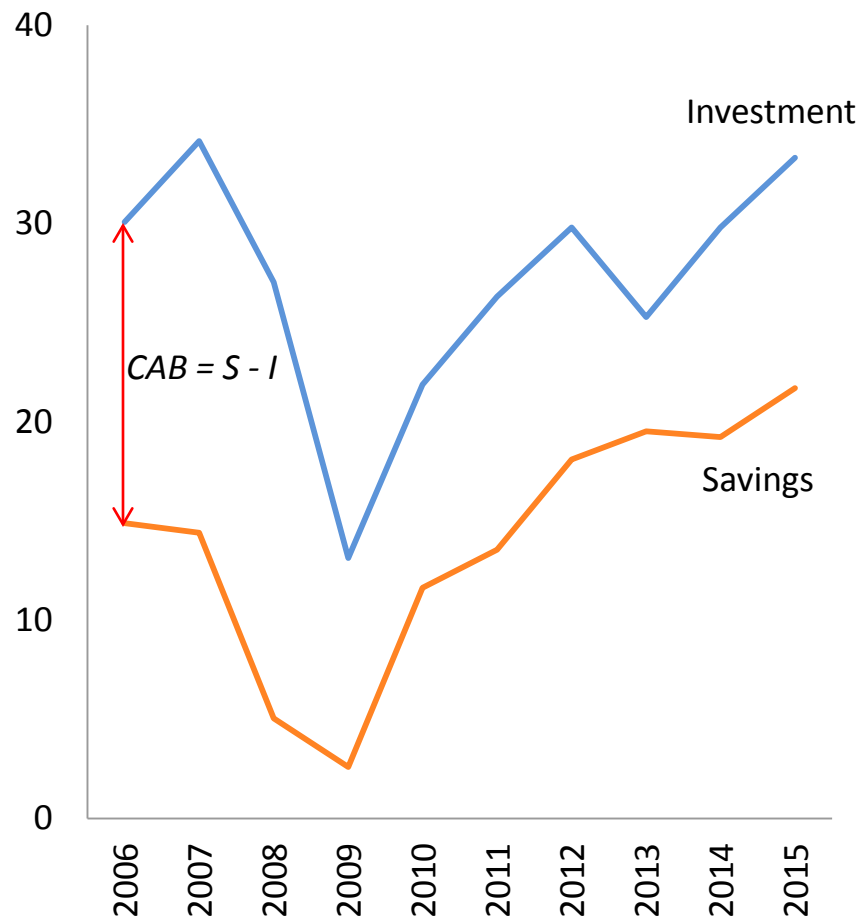


# Two ways to look at the causes of the current account deficit

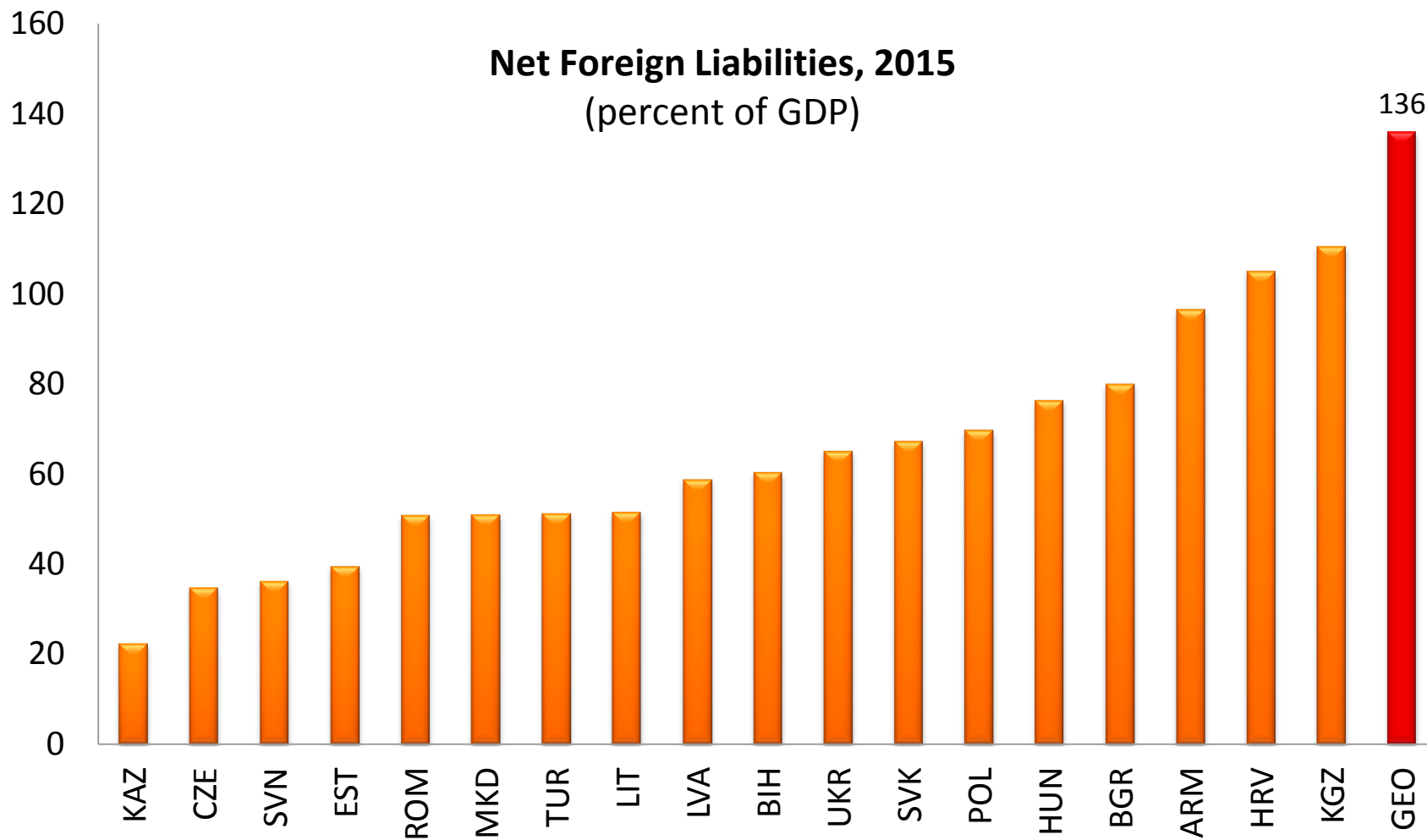
### Current Account Components (percent of GDP)



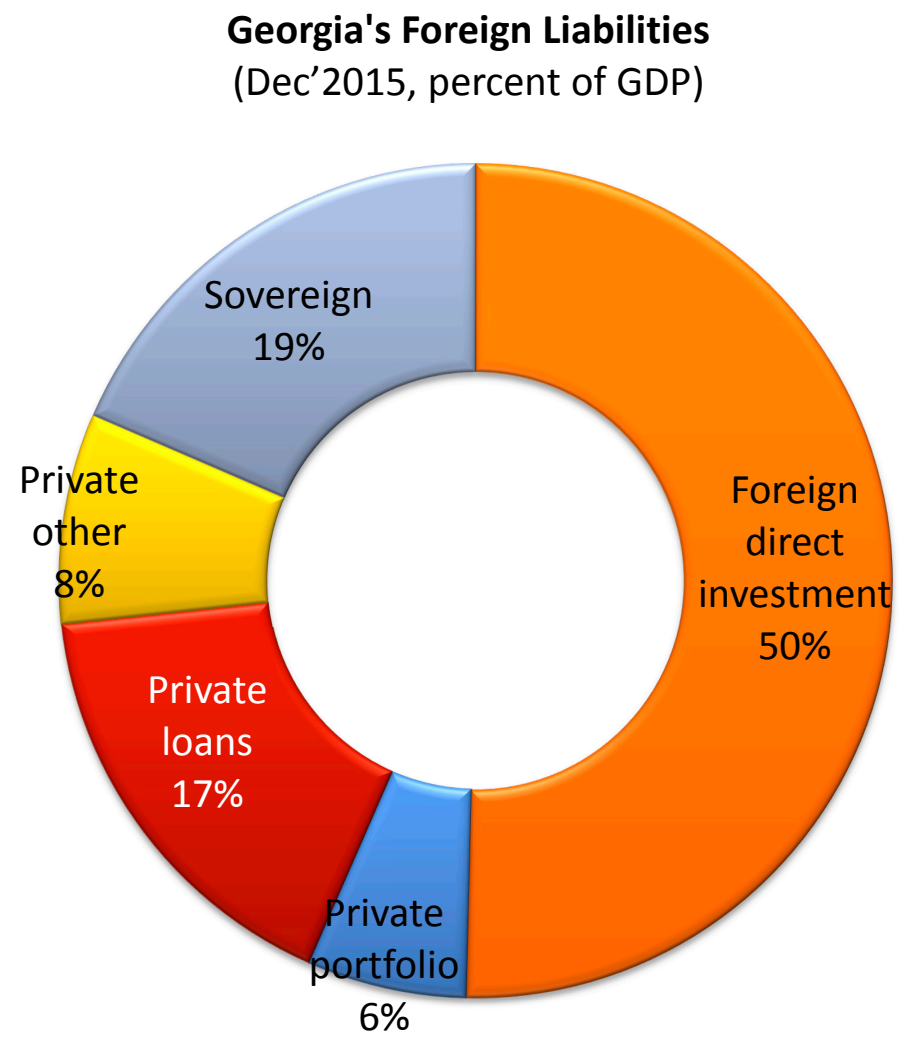
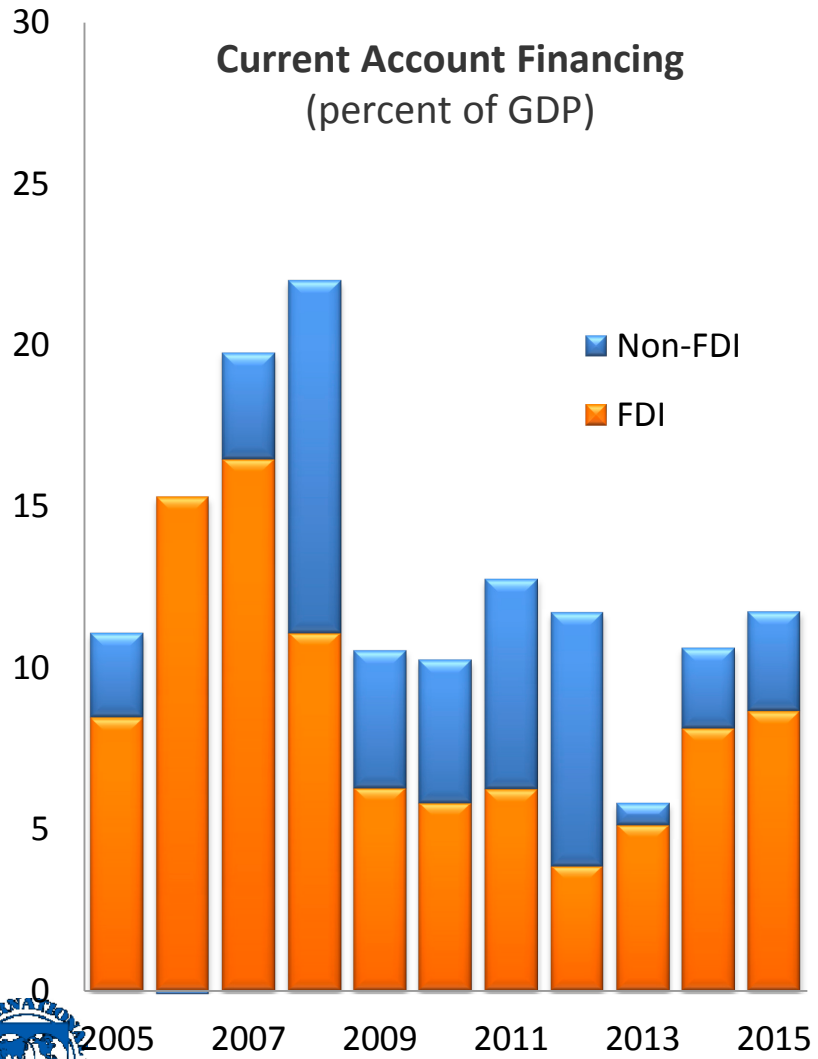
### Savings-Investment Balance (percent of GDP)



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

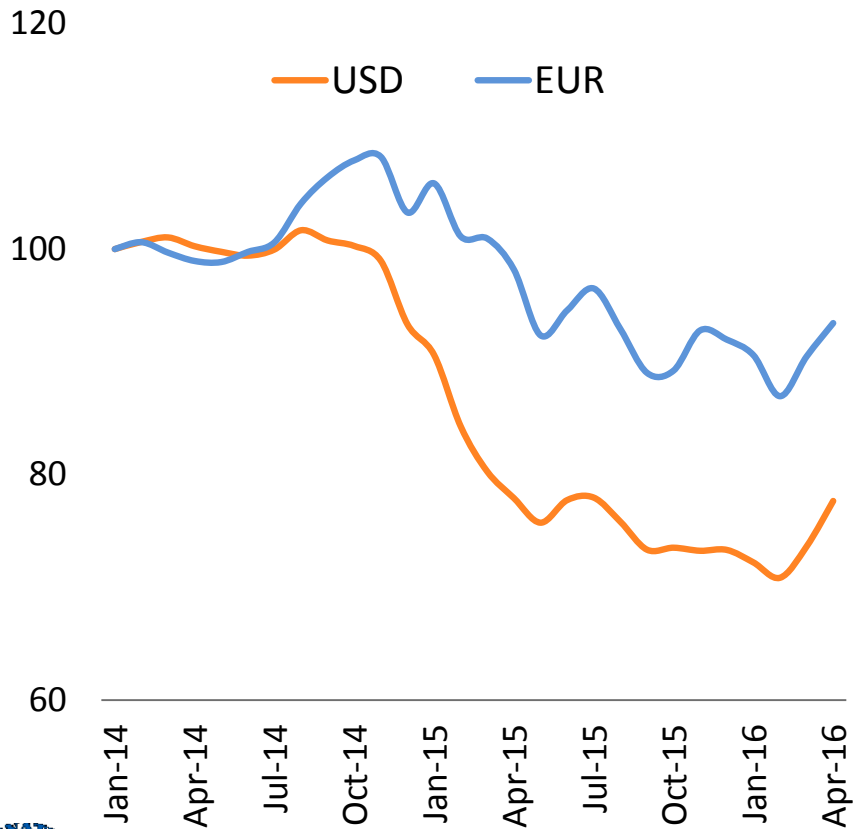


# But, large part of the deficit is financed by Foreign Direct Investment

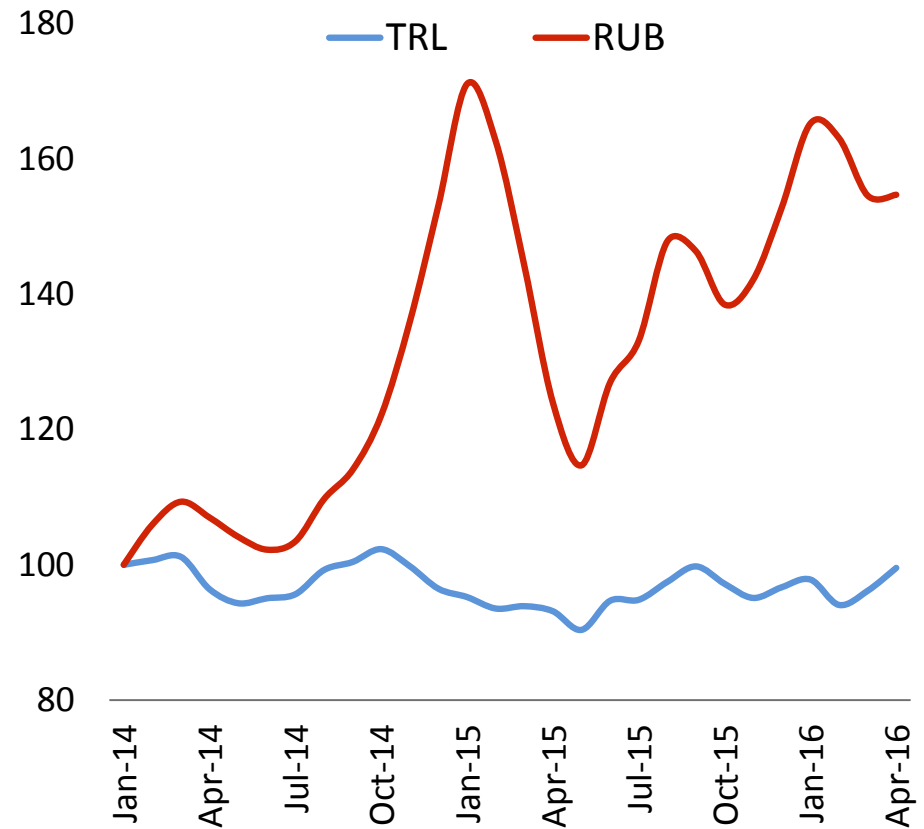


# Lari depreciated against the US Dollar and Euro since 2013... ...but stable or appreciated against some trading partner currencies

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

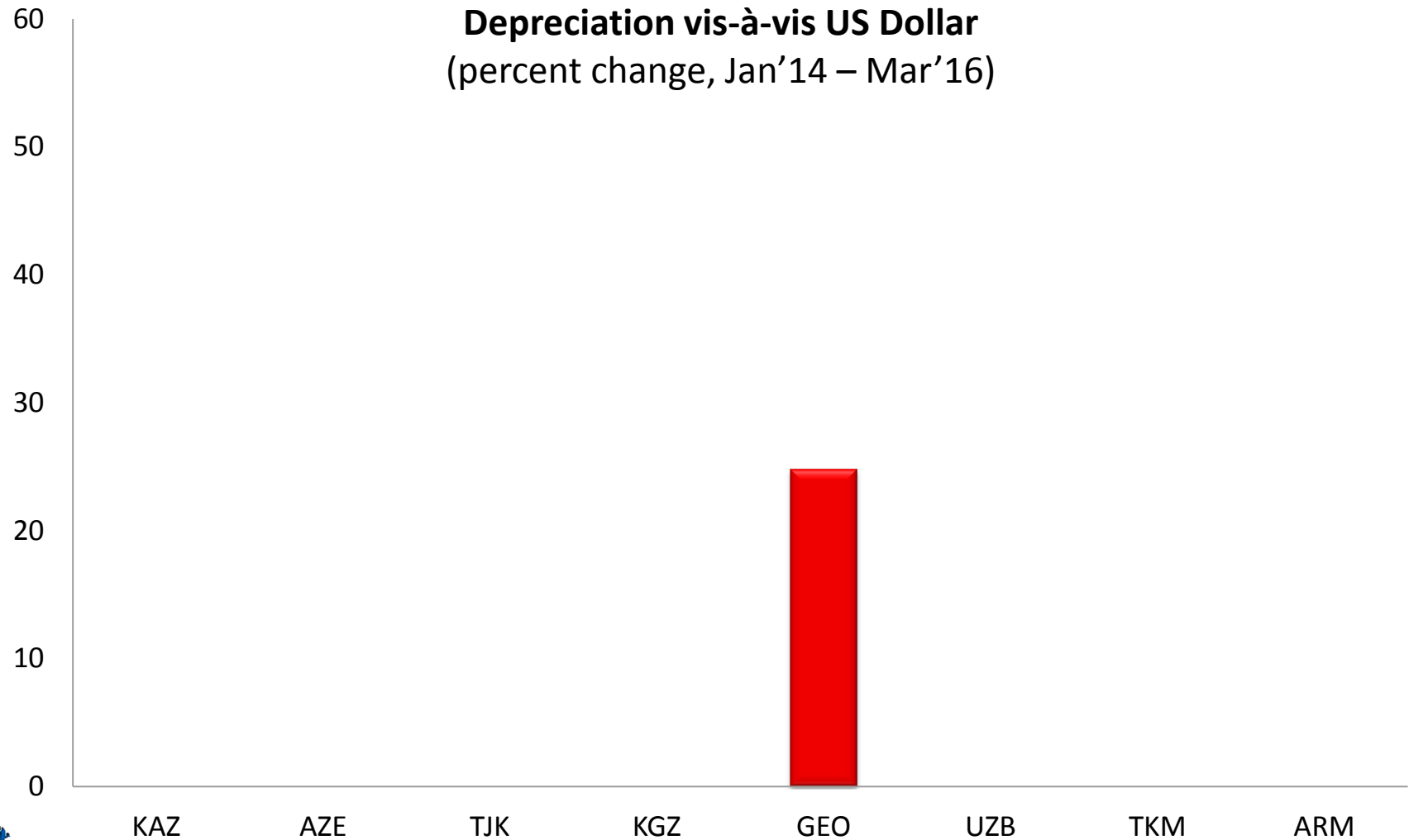


**Exchange Rates**  
(Jan'14=100. Increase means GEL appreciation)



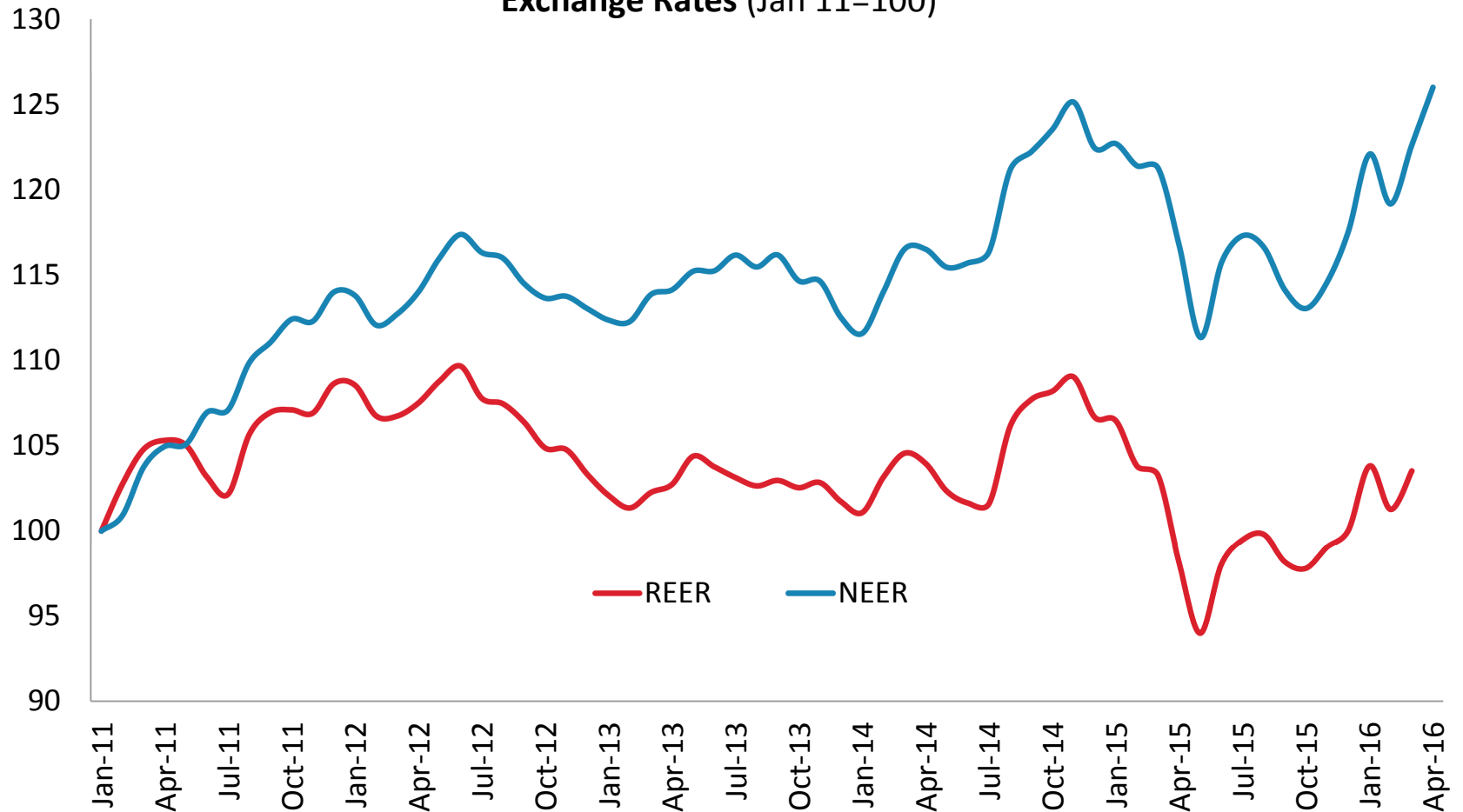


# In fact, all currencies in the CCA region depreciated against the US\$



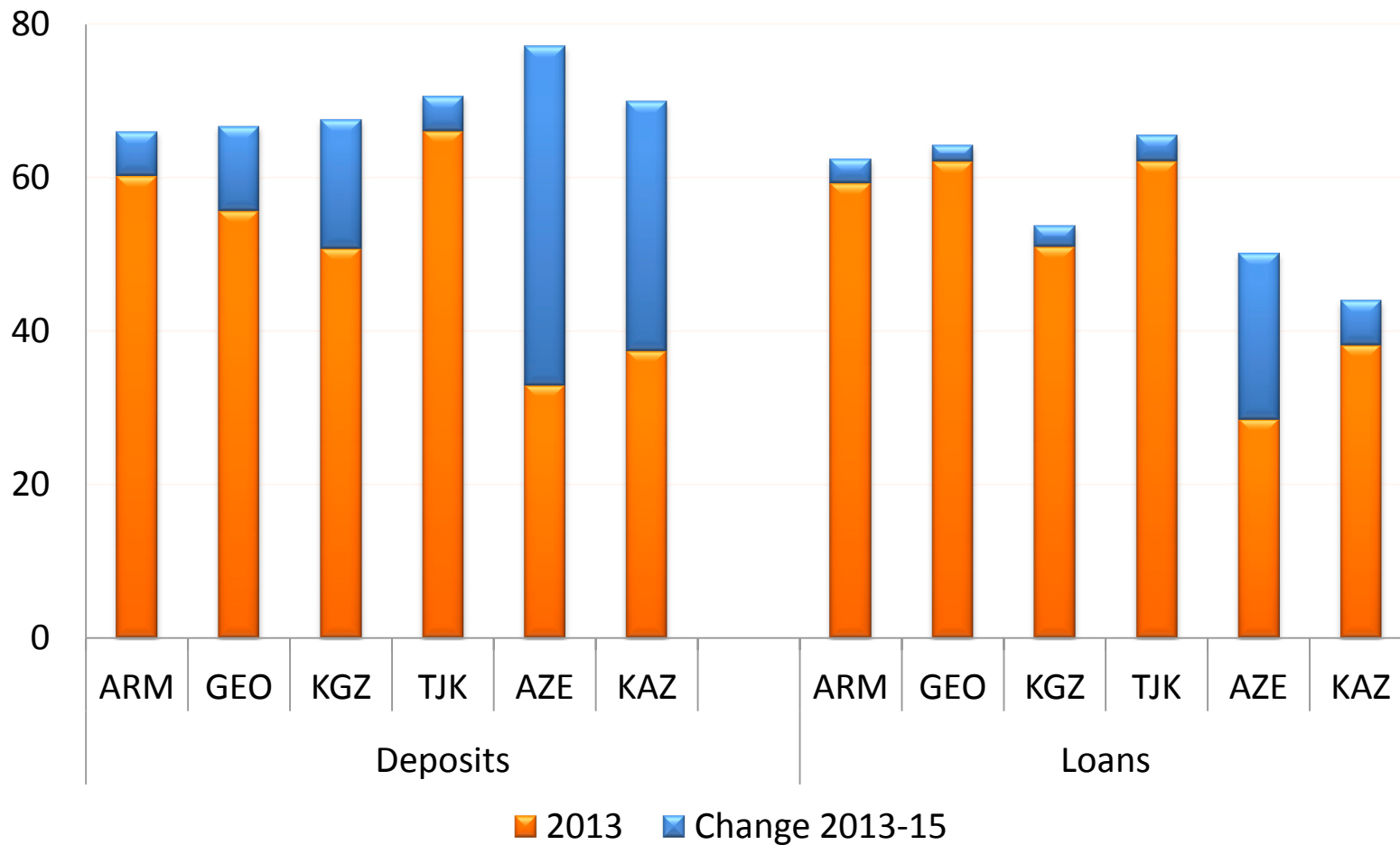
# Despite depreciating vs. US\$/Euro, the Lari did not gain competitiveness

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



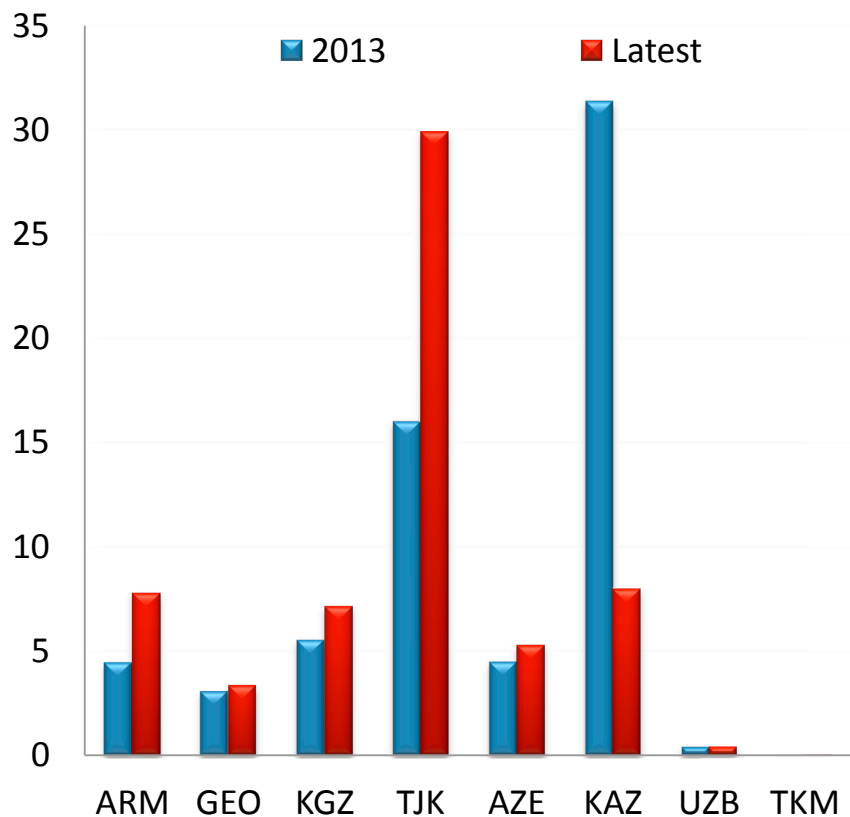
# Depreciation vs. US\$ exposed dollarization as a key macro-financial vulnerability in the region

## Dollarization (percent)

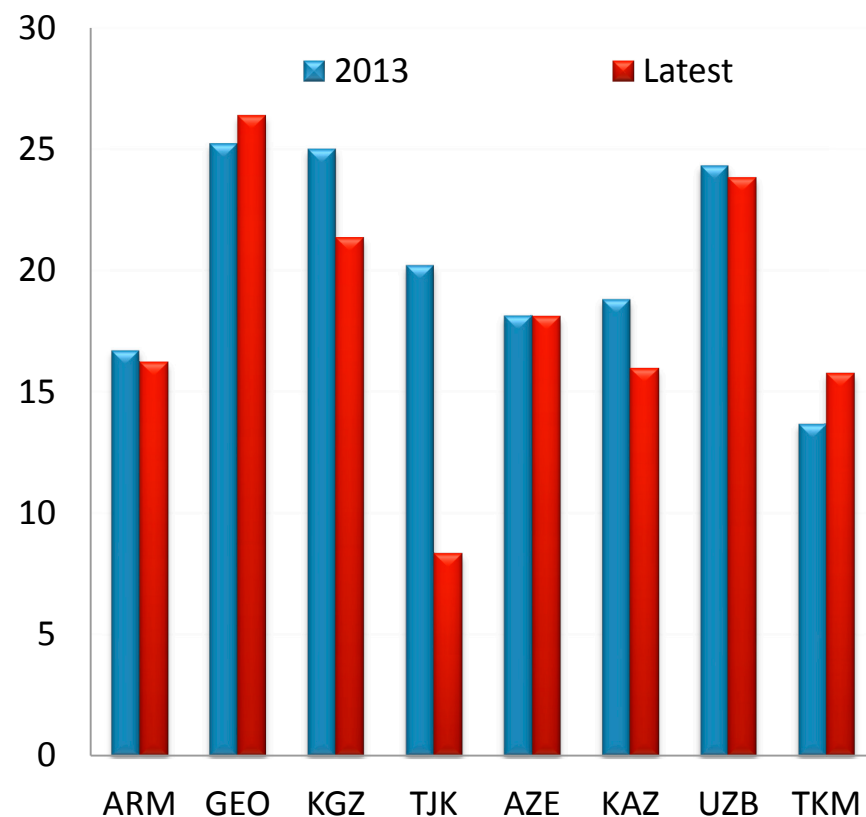


# Georgian banks have so far coped well with the depreciation better than their regional peers

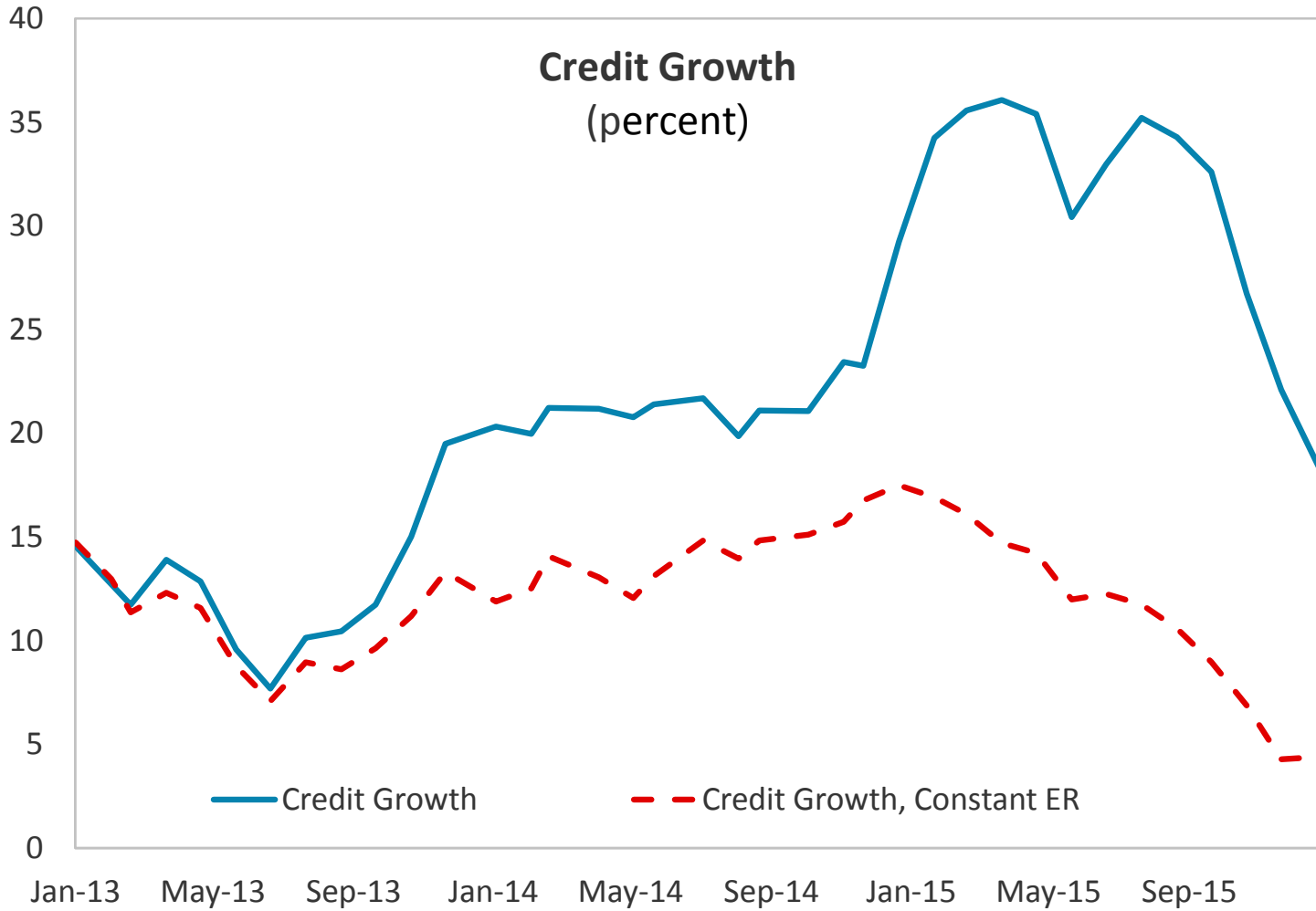
## Non-Performing Loans (in percent of total loans)



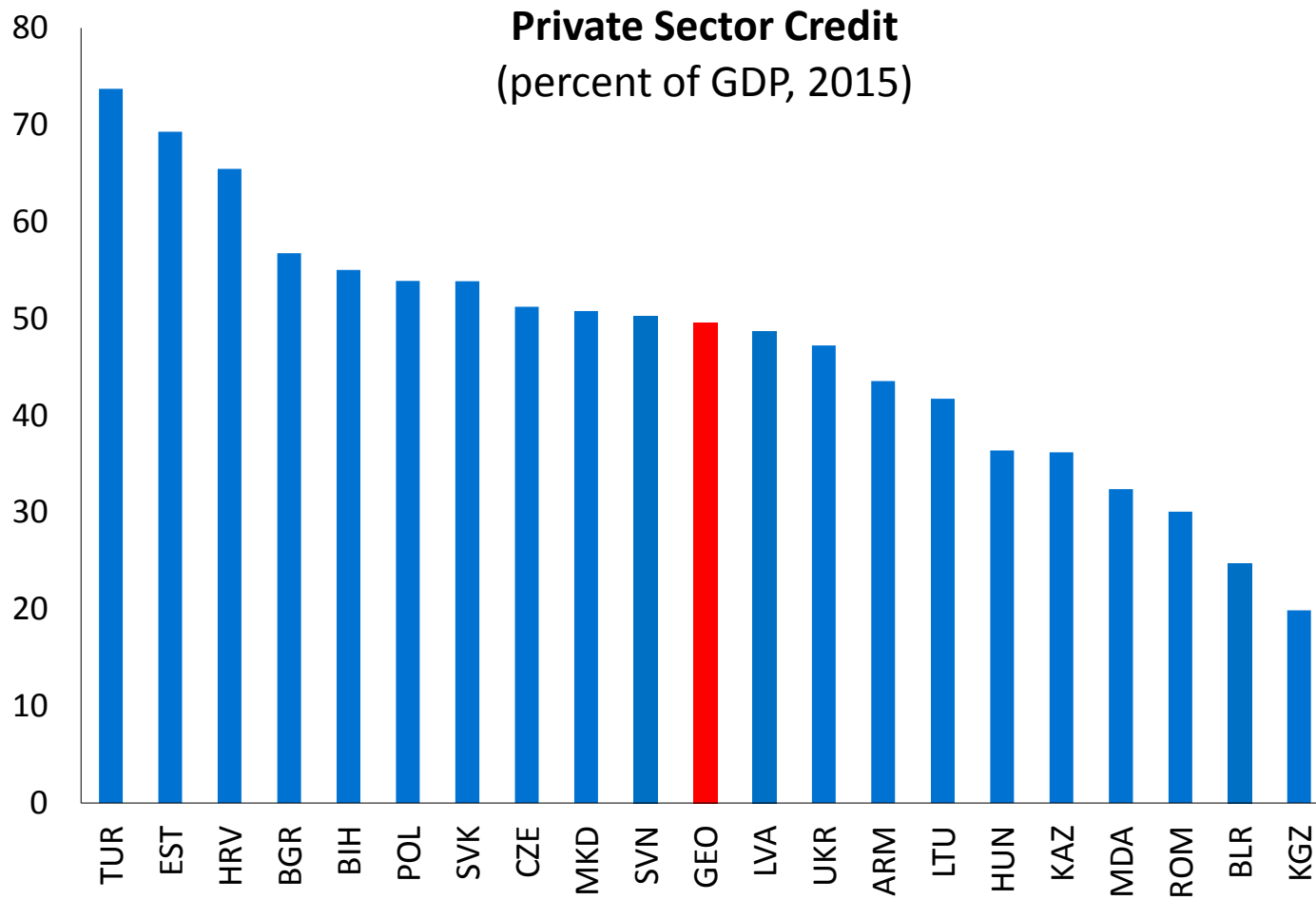
## Capital Adequacy Ratios (in percent of total loans)



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

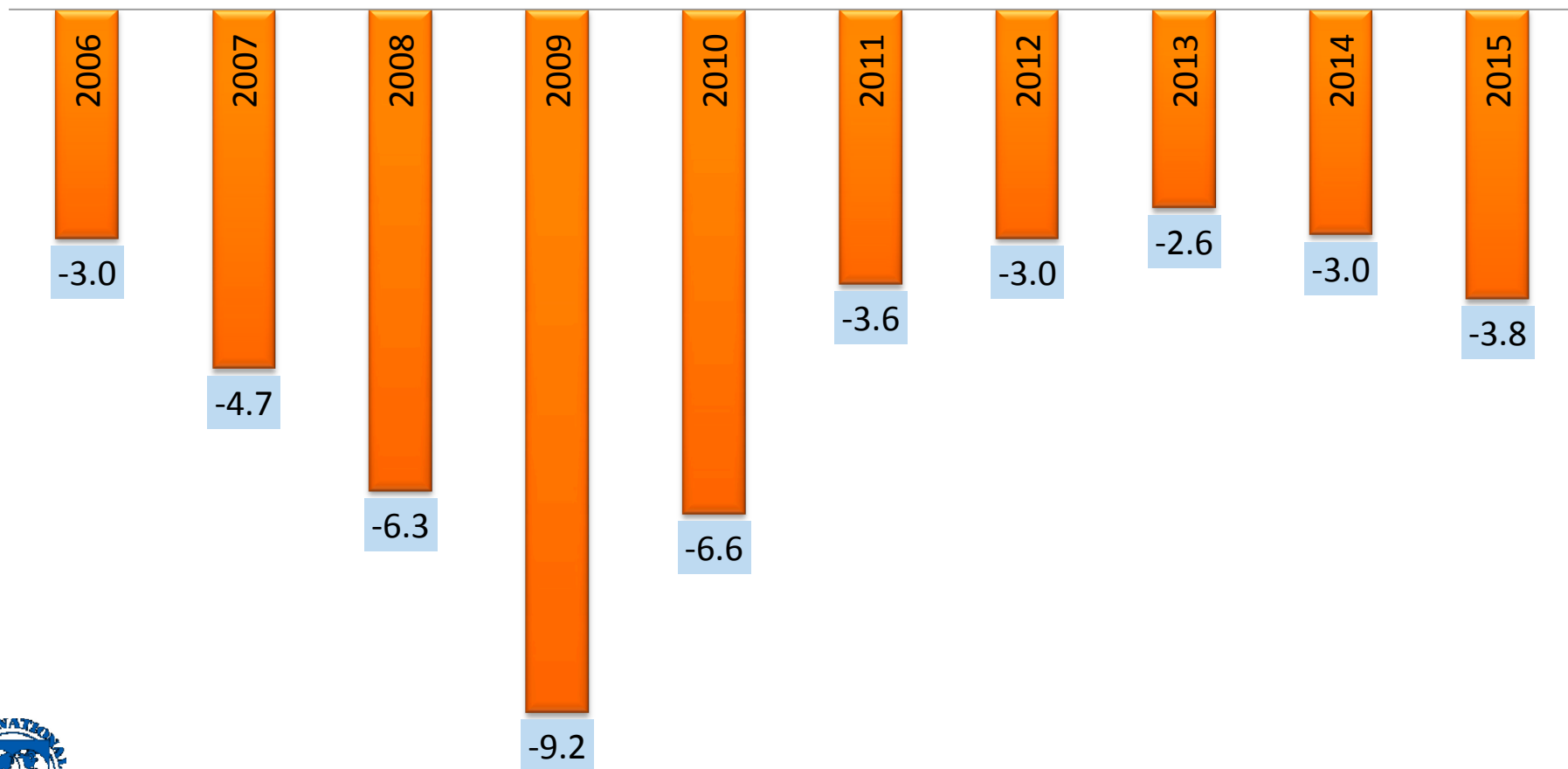


...led to higher leverage, raising questions about sources of future growth

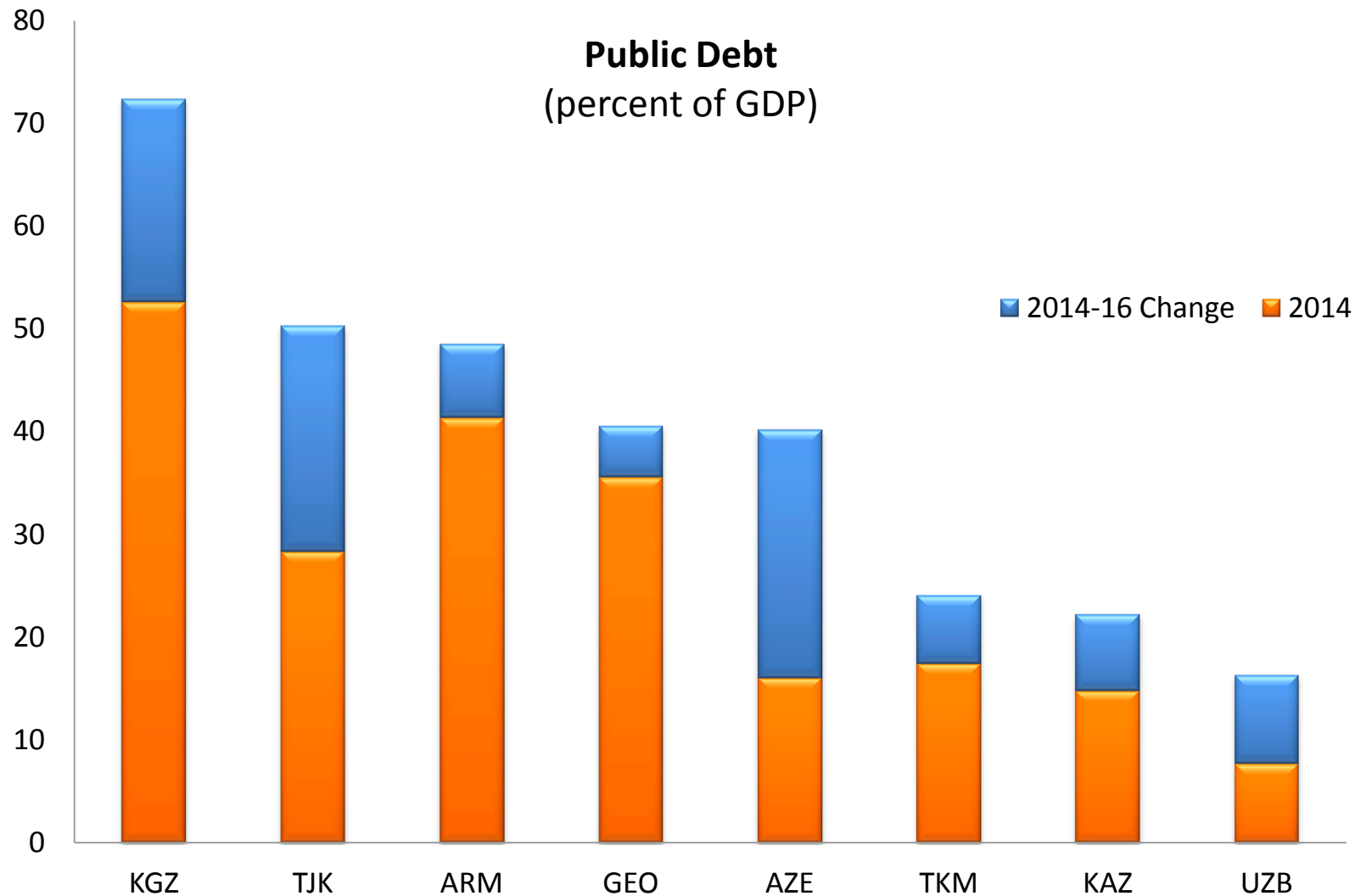


Overall, Georgia has pursued prudent fiscal policy,  
but should be vigilant about contingent liabilities

### General Government Deficit (in percent of GDP)



# Government debt remains sustainable, but buffers are eroding

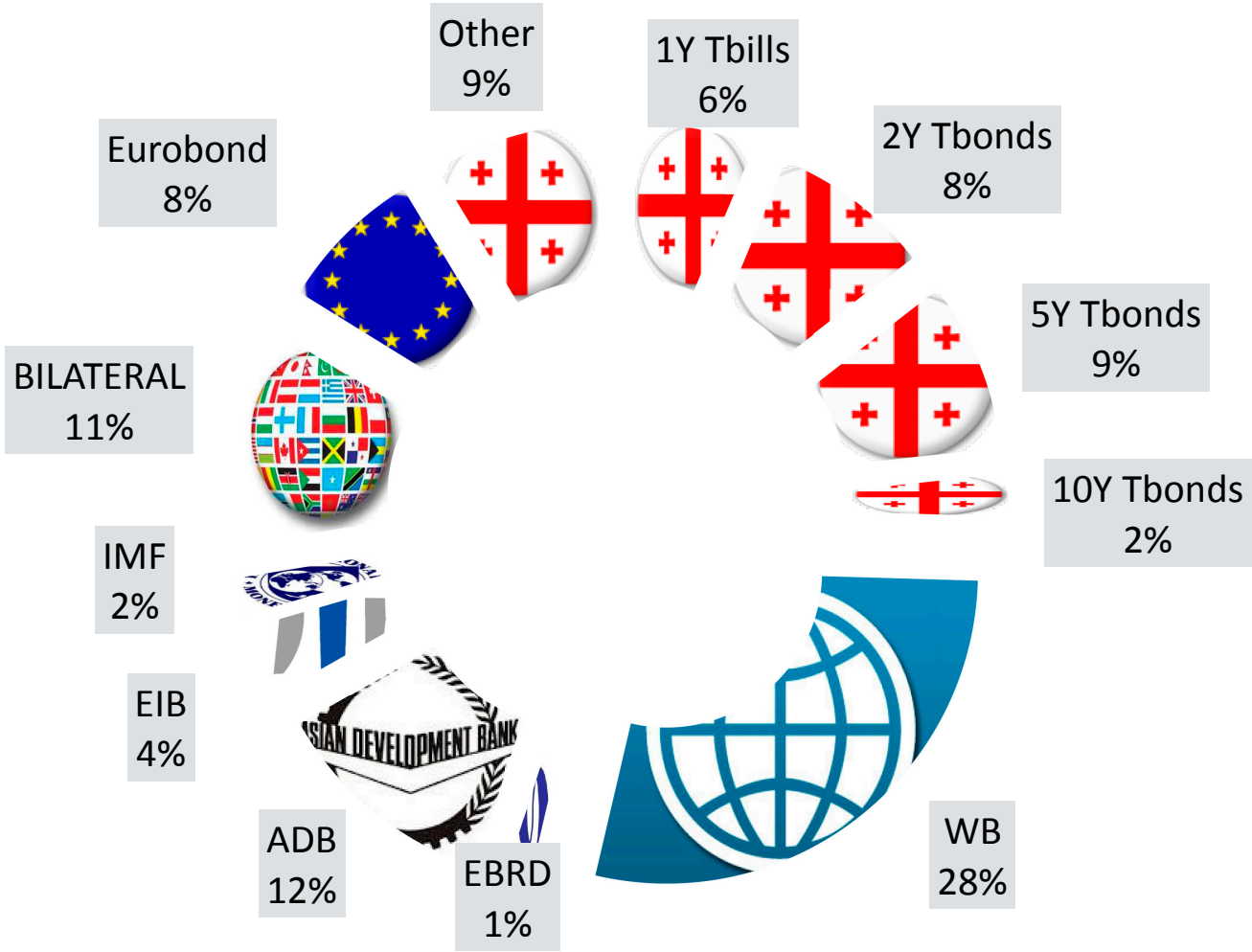




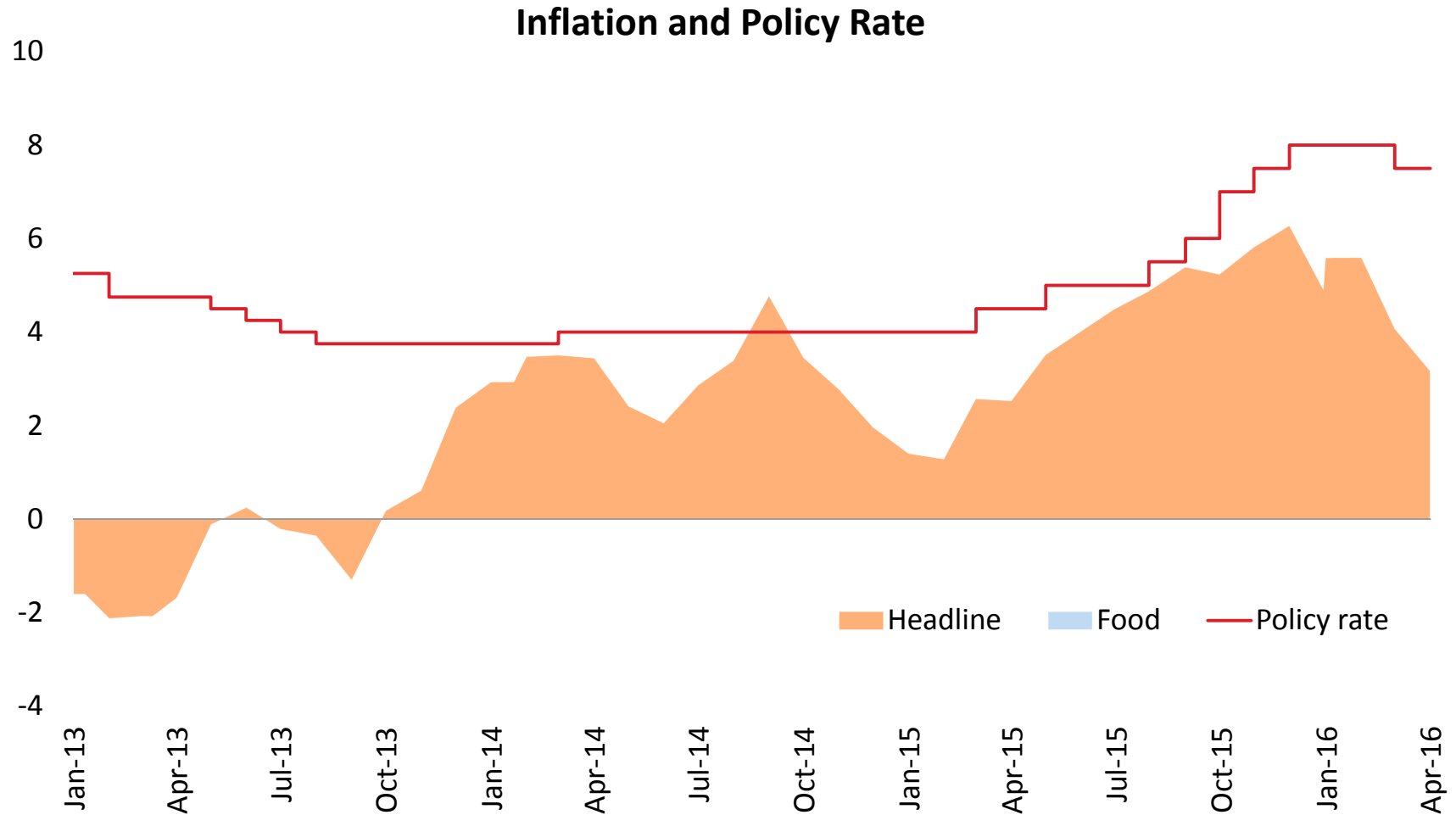
# Most government debt is external, but domestic debt has grown recently

## Government Debt

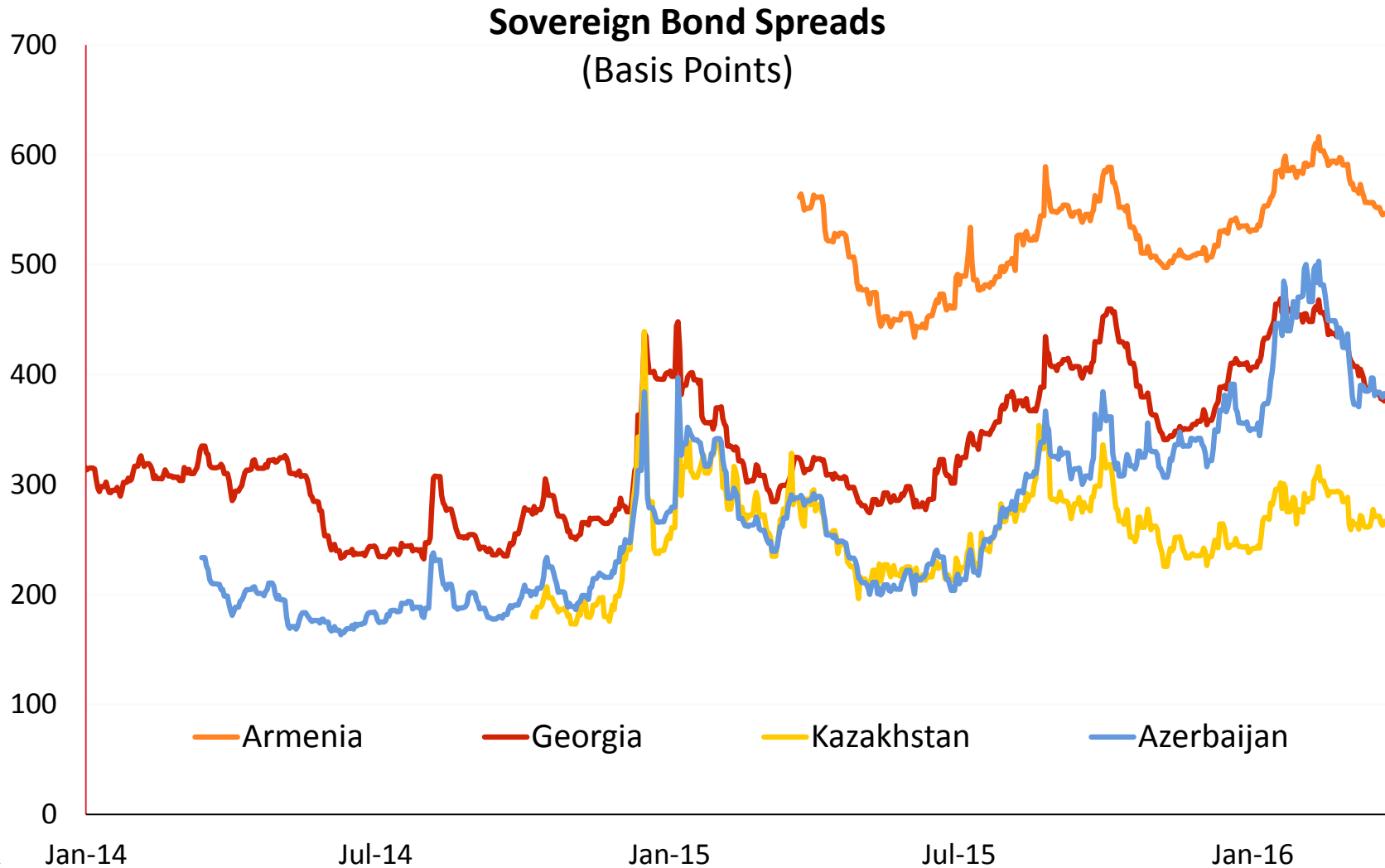
Domestic: \$2.2 bln; External: \$4.4 bln



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

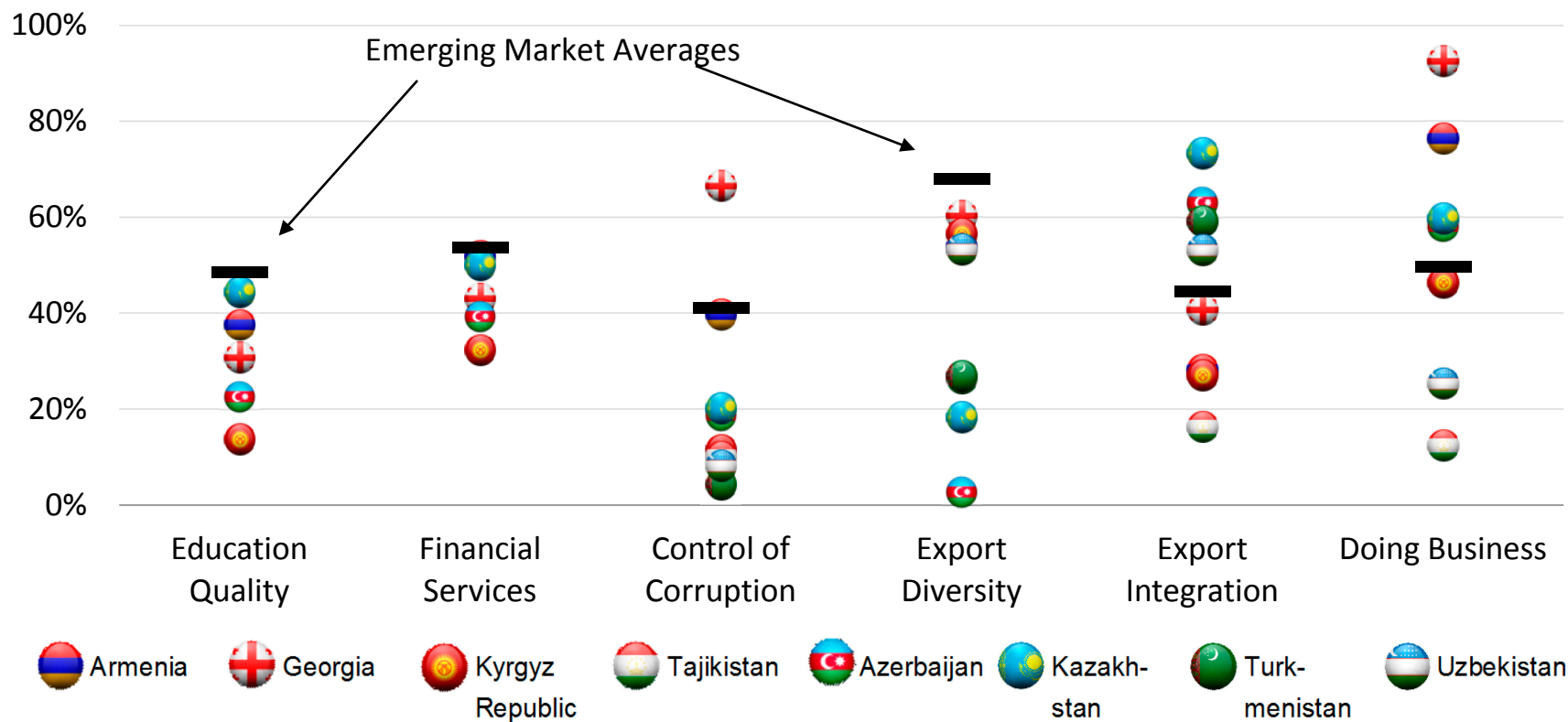


# Bond spreads edged up reflecting higher risks and lower buffers



# Structural Reforms Are Needed To Boost Long-Term Growth

## Structural Reform Indicators (in Global Percent Rank)



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

# Thank You!

for more on IMF reports and its activities in Georgia

please visit

<http://www.imf.org/external/country/GEO/rr/index.htm>

