

# Republic of Georgia

## Rating Report



### Credit strengths

- Solid medium-run growth profile
- Strong debt structure
- Strengthened macroeconomic-policy framework and historical record of engagement with multilateral partners

### Credit challenges

- Heightened geopolitical risk
- Elevated vulnerability to external shock(s) and reliance upon external financing
- Elevated dollarisation
- Domestic institutional risks

### Rating rationale:

**Strong growth outlook:** After a robust post-pandemic recovery, with above-10% annual growth in both 2021 and 2022, the Georgian economy is estimated to grow 6.4% this year, continuing to benefit from consequences of the Russia-Ukraine war. Georgia is supported by strong medium-run economic-growth potential, driven by recovery in private consumption, tourism-sector receipts and investment. Foreign direct investment (FDI) is expected to edge back towards pre-crisis levels as a share of GDP and support growth.

**Improved fiscal and macroeconomic policy frameworks:** Georgia has an established record of engagement with its multilateral partners (such as with the IMF and the European Union), although the IMF programme has recently been delayed due to concerns around the independence of the central bank. The European Commission has recently recommended Georgia for EU candidate status subject to outstanding steps being fulfilled.

**Strong debt profile:** Georgian public debt is largely owed to official-sector creditors, on concessional terms. This allows the government to be helped by comparatively long debt maturities, modest interest costs as well as reduced refinancing risks.

**Rating challenges include:** i) heightened geopolitical risks after Russia's escalation of war in Ukraine alongside domestic institutional risk; ii) vulnerability to external shocks due to the small size of the economy (nominal GDP of an estimated USD 30bn in 2023) alongside high reliance on external financing; and iii) financial-stability risk associated with the dollarisation of the economy.

### Georgia's sovereign-rating drivers

Risk pillars	Quantitative		Reserve currency*	Qualitative**	Final rating	
	Weight	Indicative rating	Notches	Notches		
Domestic Economic Risk	35%	bb-	GEL [+0]	0	BB	
Public Finance Risk	20%	aa-		+1/3		
External Economic Risk	10%	c		-2/3		
Financial Stability Risk	10%	a+		0		
ESG Risk	Environmental Factors	5%		aa		0
	Social Factors	7.5%		bbb		0
	Governance Factors	12.5%		b+		-1/3
<b>Indicative outcome</b>	<b>bb+</b>		<b>-1</b>			
<b>Additional considerations</b>			<b>0</b>			

Note: \*The reserve-currency adjustment applies to currencies in the IMF's SDR basket. \*\*The qualitative-scorecard adjustments, capped at one notch per rating pillar, are weighted equally with an aggregate adjustment rounded to the nearest integer. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### Outlook and rating triggers

The Stable Outlook reflects our view that risks to the ratings are balanced.

#### Positive rating-change drivers

- Significant reduction in security risks
- Quality of institutions is re-anchored
- Reduction in external-sector risk
- Improvement in fiscal sustainability

#### Negative rating-change drivers

- Escalation of geopolitical risk
- Weakening of institutions
- Increase in external vulnerabilities
- Worsening of medium-run general government debt trajectory

### Ratings and Outlook

#### Foreign currency

Long-term issuer rating	BB/Stable
Senior unsecured debt	BB/Stable
Short-term issuer rating	S-3/Stable

#### Local currency

Long-term issuer rating	BB/Stable
Senior unsecured debt	BB/Stable
Short-term issuer rating	S-3/Stable

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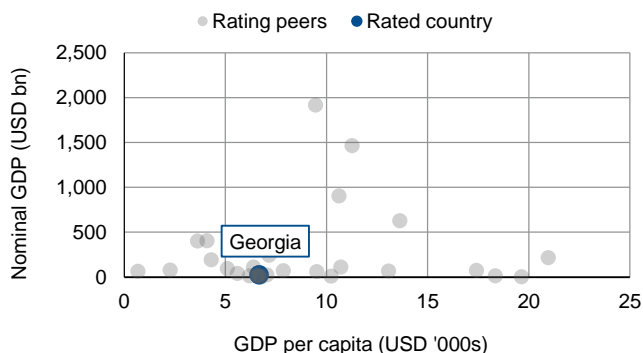
Bloomberg: RESP SCOP

### Domestic Economic Risk

Overview of Scope's qualitative assessments for Georgia's *Domestic Economic Risk*

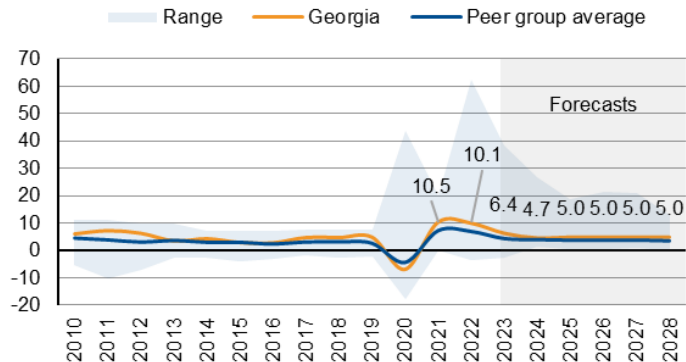
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb-	Growth potential of the economy	Strong	+1/3	Recent outperformance in recovery; strong medium-term growth potential of about 5% annually
	Monetary policy framework	Neutral	0	Track record of prudent management of inflation, but policy flexibility curtailed by dollarisation and concerns around central-bank independence
	Macro-economic stability and sustainability	Weak	-1/3	Strong FDI and domestic investment, but limited diversification, small, open economy, low domestic savings, high unemployment, and labour-force concentration in low-productivity sectors

#### Nominal GDP and GDP per capita



Source: IMF World Economic Outlook (WEO), Scope Ratings

#### Real GDP growth, %



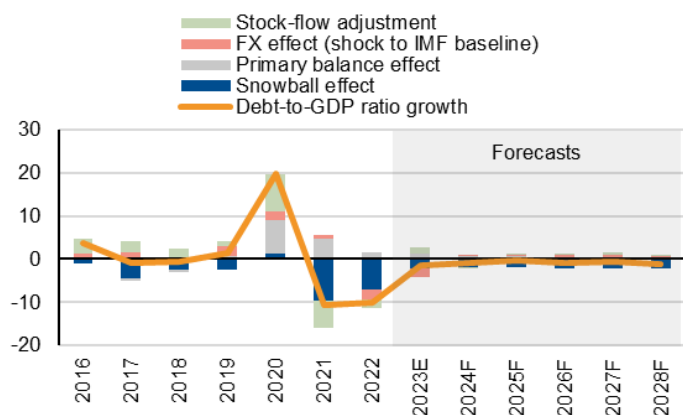
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

Overview of Scope's qualitative assessments for Georgia's *Public Finance Risk*

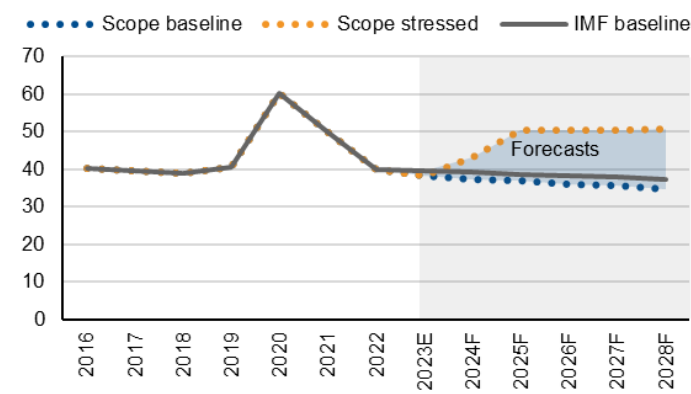
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb+	Fiscal policy framework	Strong	+1/3	Track record of moderate fiscal deficits and fiscal prudence underpinned by historical engagement with the IMF; expectation of moderating deficits moving ahead
	Debt sustainability	Neutral	0	Expected decline in debt ratios medium run, but debt trajectory is exposed to significant exchange-rate risk
	Debt profile and market access	Neutral	0	More than two thirds of debt owed to official-sector donors on concessional terms; track record of sound access to concessional loan financing

#### Contributions to changes in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

#### Debt-to-GDP forecasts, % of GDP



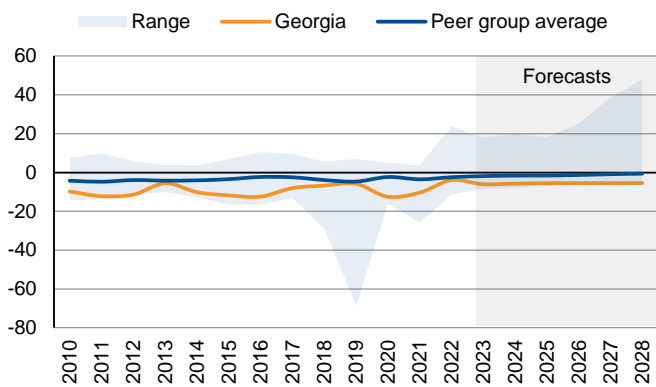
Source: IMF WEO, Scope Ratings forecasts

### External Economic Risk

#### Overview of Scope's qualitative assessments for Georgia's External Economic Risk

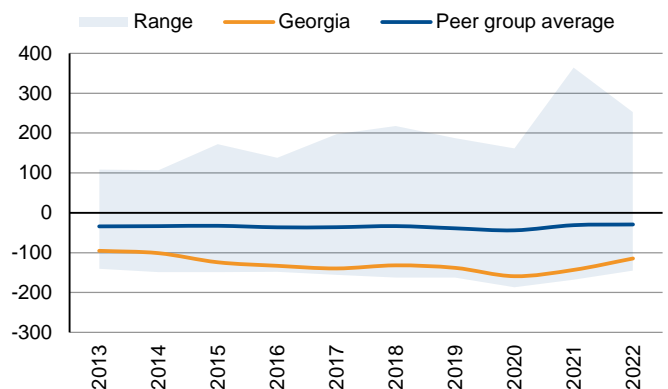
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
cc	Current account resilience	Weak	-1/3	Structural current-account deficits, high reliance on tourism sector and remittances, significant FDI inflows, risk from secondary sanctions
	External debt structure	Neutral	0	Significant net international liability position mitigated by a sound record of concessional donor financing
	Resilience to short-term external shocks	Weak	-1/3	Dollarisation, significant external financing requirements and elevated exchange-rate volatility weigh on the resilience of external sector, suspension of IMF Stand-By Arrangement

#### Current-account balance, % of GDP



Source: IMF WEO, Scope Ratings

#### Net international investment position (NIIP), % of GDP



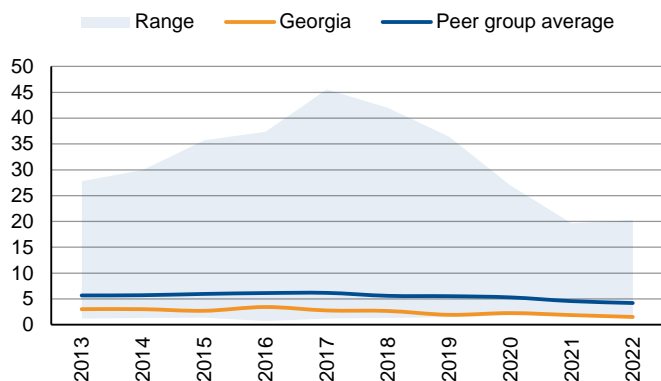
Source: IMF, Scope Ratings

### Financial Stability Risk

#### Overview of Scope's qualitative assessments for Georgia's Financial Stability Risk

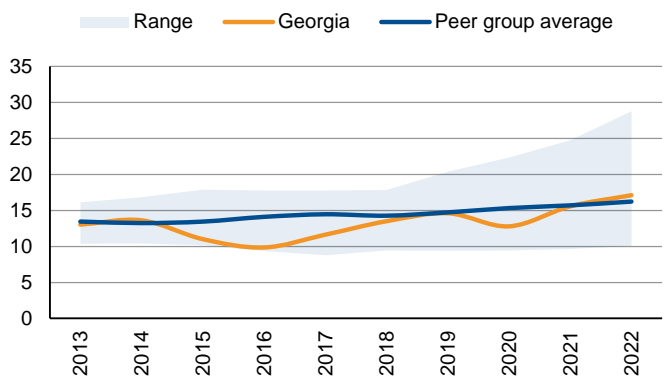
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Adequate liquidity and strong capitalisation of the banking system with strong profitability
	Banking sector oversight	Neutral	0	Strengthened financial-sector supervision and regulatory framework including via application of IMF Financial Sector Assessment Program
	Financial imbalances	Neutral	0	Elevated dollarisation with about half of banking-system loans and deposits denominated in foreign currency – although dollarisation has declined

#### Non-performing loans (NPLs), % of total loans



Source: World Bank, Scope Ratings

#### Tier 1 capital, % of risk-weighted assets



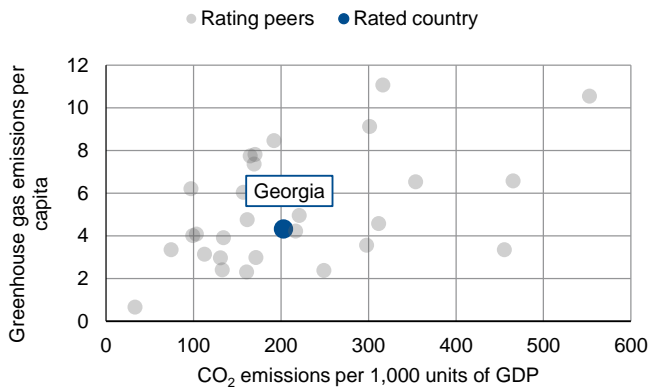
Source: IMF, Scope Ratings

### Environmental, Social and Governance (ESG) Risk

#### Overview of Scope's qualitative assessments for Georgia's ESG Risk

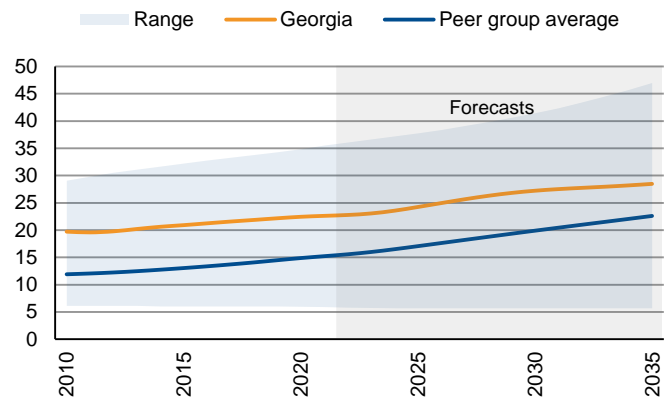
CVS indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bb	Environmental factors	Neutral	0	Substantive environmental risk such as with relation to air pollution and transition from fossil-fuel dependence, but mitigated by coordinated policy countermeasures
	Social factors	Neutral	0	High, although gradually declining, rates of poverty, adverse demographics but recent significant immigration, high unemployment
	Governance factors	Weak	-1/3	Track record of high-quality and effective public administration, but domestic political risks as well as elevated geopolitical risk after Russia's full-scale war in Ukraine

CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



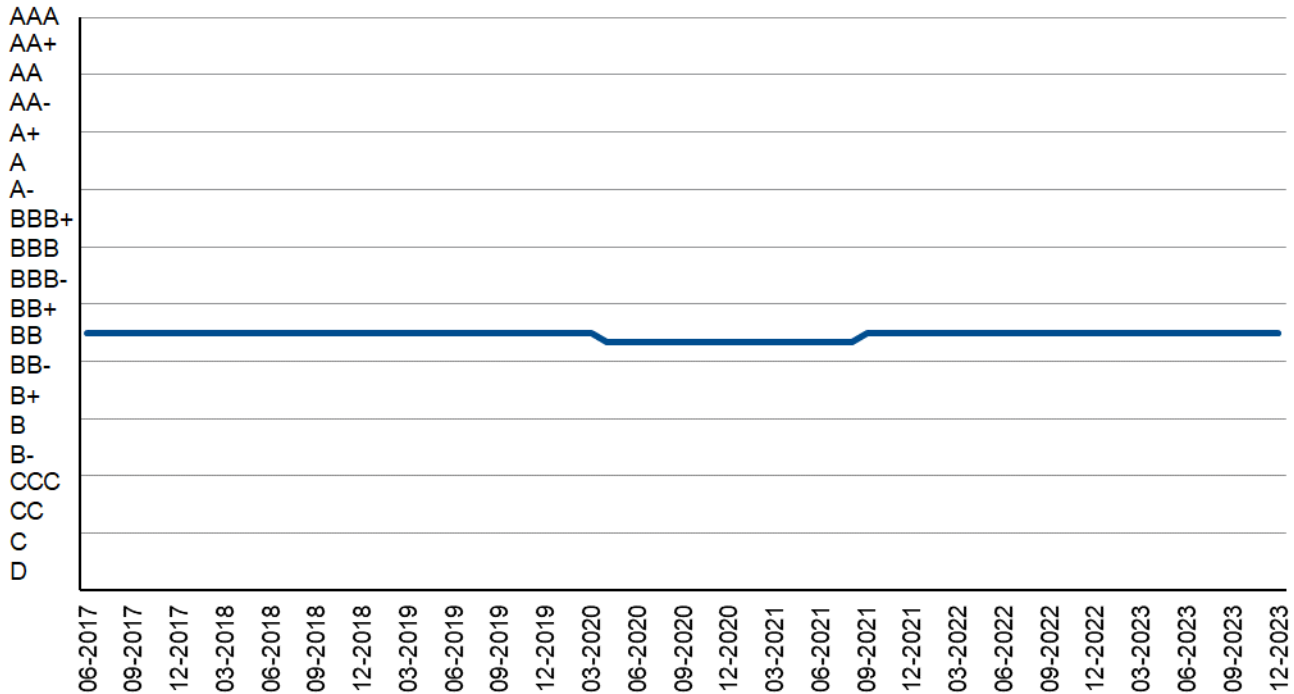
Source: European Commission, Scope Ratings

Old age dependency ratio, %



Source: United Nations, Scope Ratings

### Appendix I. Rating history (foreign-currency long-term issuer rating)



NB. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment.

### Appendix II. Rating peers

Rating peers are related to sovereigns with an indicative rating in the same rating category or adjacent categories, as assigned by Scope's core variable scorecard after accounting for a methodological reserve-currency adjustment.

Peer group*
Greece
Serbia
South Africa
Türkiye

Publicly-rated sovereigns only; the full sample of sovereign-rating peers may be larger.

### Appendix III. Statistical table for selected CVS indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of six indicators) used in Scope's quantitative model, the core variable scorecard, in line with Scope's [Sovereign Rating Methodology](#). The metrics and sources for the data presented here ensure comparability across global country peers and may therefore differ from data from national and other select international statistical series.

Pillar	Core variable	Source	2018	2019	2020	2021	2022
Domestic Economic	GDP per capita, USD '000s	IMF	4.7	4.7	4.3	5.0	6.7
	Nominal GDP, USD bn	IMF	17.6	17.5	15.8	18.6	24.6
	Real growth, %	IMF	4.8	5.0	-6.8	10.5	10.1
	CPI inflation, %	IMF	2.6	4.9	5.2	9.6	11.9
	Unemployment rate, %	WB	12.7	11.6	11.7	12.2	11.3
Public Finance	Public debt, % of GDP	IMF	38.9	40.4	60.2	49.7	39.8
	Net interest payment, % of revenue	IMF	4.4	4.6	6.2	5.2	3.9
	Primary balance, % of GDP	IMF	0.4	-0.6	-7.7	-4.7	-1.5
External Economic	Current-account balance, % of GDP	IMF	-6.8	-5.9	-12.5	-10.4	-4.0
	Total reserves, months of imports	WB	3.1	3.2	4.4	3.8	-
	NIIP, % of GDP	IMF	-131.8	-138.1	-158.9	-143.2	-114.7
Financial Stability	NPL ratio, % of total loans	IMF	2.7	1.9	2.3	1.9	1.5
	Tier 1 ratio, % of risk-weighted assets	IMF	14.2	14.1	11.8	13.4	16.2
	Credit to the private sector, % of GDP	WB	60.5	65.6	79.9	73.8	64.0
ESG	CO <sub>2</sub> per EUR 1,000 of GDP, mtCO <sub>2</sub> e	EC	203.5	209.2	216.2	203.0	-
	Income share of bottom 50%, %	WID	13.8	13.9	13.9	14.5	-
	Labour-force participation rate, %	WB	69.7	68.4	68.7	69.1	-
	Old-age dependency ratio, %	UN	21.9	22.2	22.5	22.6	22.8
	Composite governance indicators*	WB	0.4	0.4	0.4	0.3	0.3

\* Average of the six World Bank Worldwide Governance Indicators.

### Appendix IV. Economic development and default indicators

IMF Development Classification

5y USD CDS spread (bps)

Emerging market and developing economy

n/a



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