

# Republic of Georgia

## Rating report

### Rating rationale

**Strong growth outlook:** After a robust post-pandemic recovery, with above-10% annual growth in both 2021 and 2022, the Georgian economy grew by an estimated 7% last year, benefitting from continued positive economic spill-over from the Russia-Ukraine war. Georgia is supported by strong medium-run economic-growth potential (estimated at 5%), driven by strong dynamics in private consumption, tourism-sector receipts and investment. Foreign direct investment (FDI) remains at this stage under pre-Covid crisis levels as a share of GDP.

**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 been suspended due to concerns around the independence of the central bank. The European Council recently granted Georgia EU membership “candidate” status on the understanding that a specific set of conditions for the country are taken, including reforms aimed at addressing governance challenges and political polarisation.

**Strong debt profile:** Georgian public debt is largely owed to official-sector creditors, and is on concessional terms. This results in long debt maturities, modest interest costs as well as reduced refinancing risks.

**Rating challenges:** i) sustained geopolitical risks after Russia’s escalation of war in Ukraine alongside domestic institutional risks; ii) vulnerability to external shocks due to the small size of the economy (nominal GDP of a forecast USD 32bn in 2024) alongside high reliance on external financing; and iii) financial-stability risks associated with the dollarisation of the economy.

### Foreign currency

Long-term issuer rating/Outlook

**BB/Stable**

Senior unsecured debt

**BB/Stable**

Short-term issuer rating/Outlook

**S-3/Stable**

### Local currency

Long-term issuer rating/Outlook

**BB/Stable**

Senior unsecured debt

**BB/Stable**

Short-term issuer rating/Outlook

**S-3/Stable**

### Lead Analyst

Dennis Shen  
+49 30 2218239-48  
[d.shen@scoperatings.com](mailto:d.shen@scoperatings.com)

### Team Leader

Alvise Lennkh-Yunus  
+49 69 667738985  
[a.lennkh@scoperatings.com](mailto:a.lennkh@scoperatings.com)

**Figure 1: Georgia’s sovereign rating drivers**

Risk pillars	Quantitative		Reserve currency*	Political risk**	Qualitative***	Final rating	
	Weight	Indicative rating	Notches	Notches	Notches		
Domestic economic risk	35%	bbb-	GEL	Georgia	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%	[+0]	[-1]	0		
	Social factors	7.5%			bbb-		0
	Governance factors	12.5%			a-		- 1/3
<b>Sovereign Quantitative Model</b>		<b>bbb-</b>		<b>-1</b>			
<b>Additional considerations</b>					<b>-1</b>		

\*The reserve-currency quantitative adjustment applies to currencies in the IMF’s Special Drawing Rights (SDR) basket.

\*\*The political-risk quantitative adjustment is based on the World Bank’s Political Stability & Absence of Violence/Terrorism index.

\*\*\*The qualitative scorecard analyst 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.

### Credit strengths and challenges

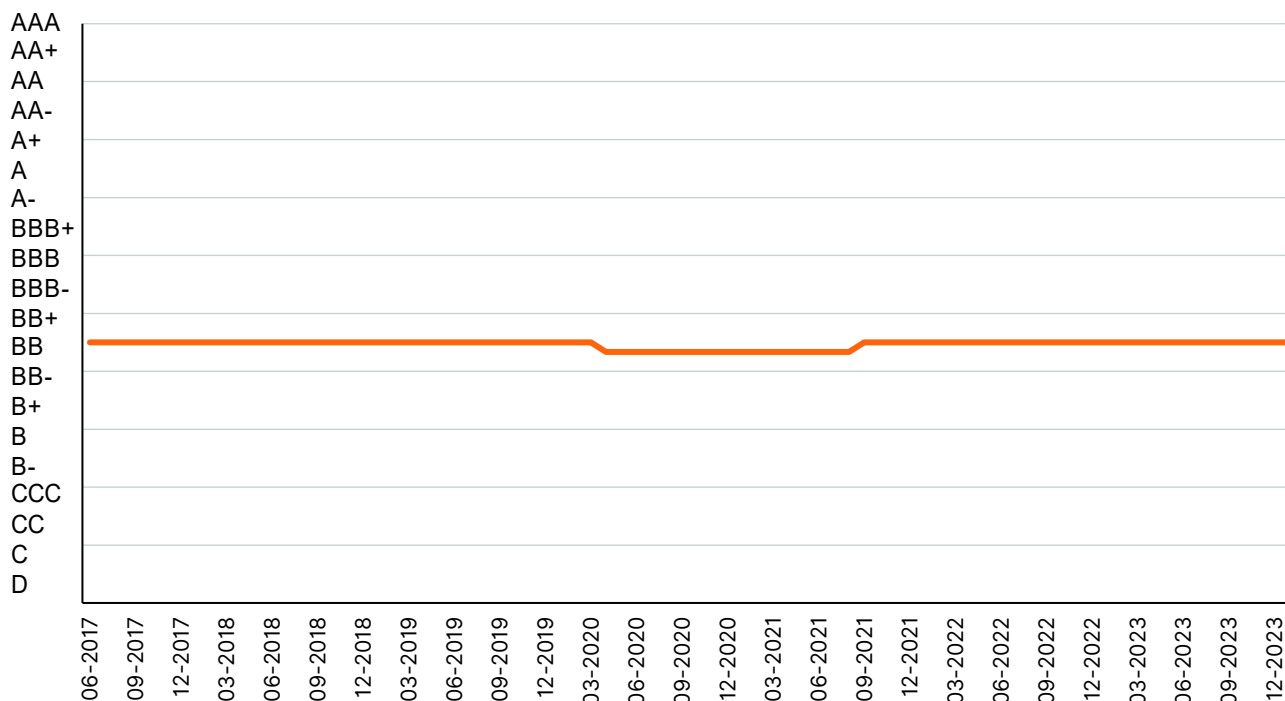
Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>• Solid medium-run growth potential</li> <li>• Strong government debt structure</li> <li>• Strengthened macroeconomic-policy framework and candidate status for the European Union</li> </ul>	<ul style="list-style-type: none"> <li>• Heightened geopolitical risks</li> <li>• Domestic institutional risk</li> <li>• Elevated vulnerability to external shock(s) and reliance upon external financing</li> <li>• Elevated dollarisation</li> </ul>

### Outlook and rating triggers

The Stable Outlook reflects Scope’s view that risks to the ratings are balanced.

Positive rating-change drivers	Negative rating-change drivers
<ul style="list-style-type: none"> <li>• Significant reduction in security risks</li> <li>• The quality of institutions is strengthened</li> <li>• Reduction in external-sector risk</li> <li>• Improvement in fiscal sustainability</li> </ul>	<ul style="list-style-type: none"> <li>• Escalation of geopolitical risk</li> <li>• Weakening of institutions</li> <li>• Increases in external vulnerabilities</li> <li>• Worsening of the medium-run government debt trajectory</li> </ul>

Figure 2: Rating history<sup>1</sup>



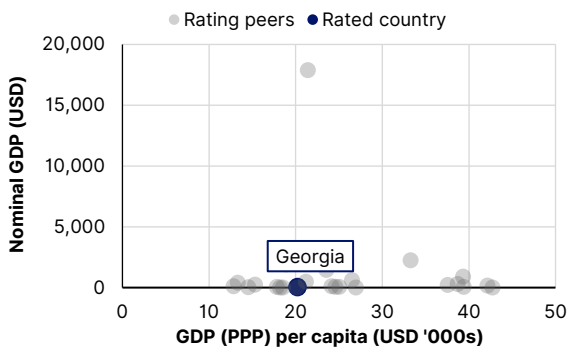
<sup>1</sup>Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

### Domestic economic risk

#### Overview of Scope's assessments of Georgia's Domestic Economic Risk

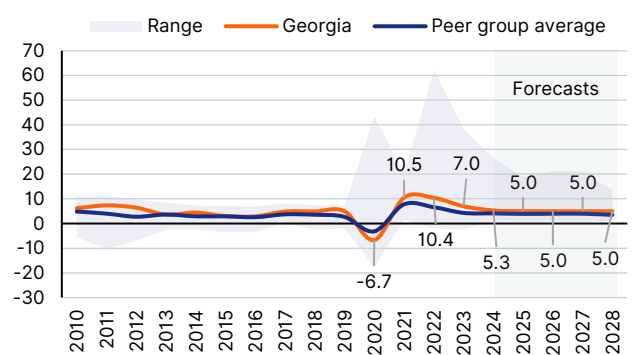
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb-	Growth potential and outlook	Strong	+1/3	Recent outperformance in economic recovery; strong medium-term growth potential of about 5% annually
	Monetary policy framework	Neutral	0	Track record of prudent management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

Figure 3: Nominal GDP and GDP per capita



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

Figure 4: Real GDP growth, %



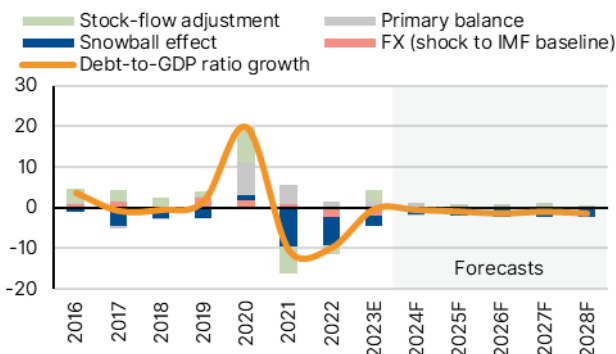
Source: IMF WEO, Scope Ratings forecasts

### Public Finance Risk

#### Overview of Scope's assessments of Georgia's Public Finance Risk

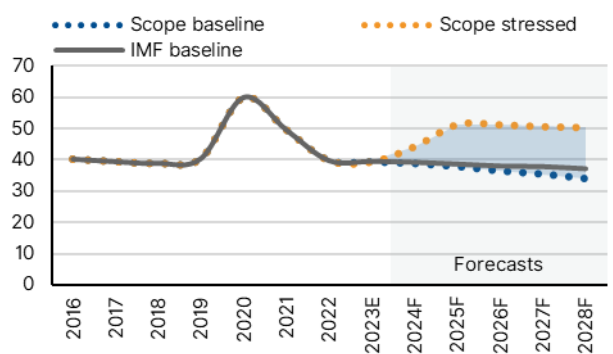
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Strong	+1/3	Track record of moderate fiscal deficits and fiscal prudence underpinned by historical engagement with the IMF; expectation of moderating deficits moving ahead
	Long-term debt trajectory	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 lenders on concessional terms; track record of sound access to concessional loan financing

Figure 5: Contributions to change in debt levels, pps of GDP



Source: IMF WEO, Scope Ratings forecasts

Figure 6: Debt-to-GDP forecasts, % of GDP



Source: IMF WEO, Scope Ratings forecasts

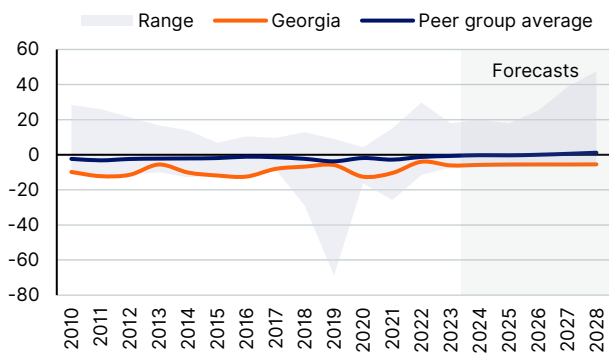
\*Sovereign Quantitative Model.

### External economic risk

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

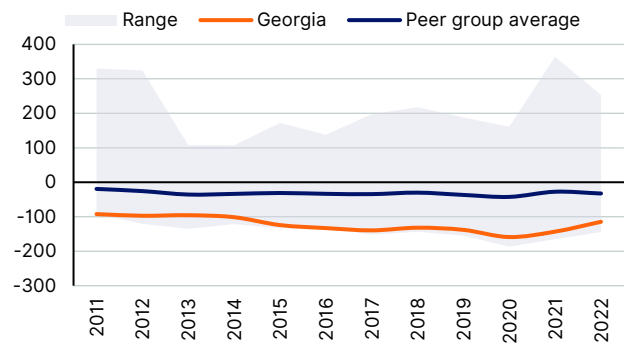
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
C	Current account resilience	Weak	-1/3	Structural current-account deficits, high reliance on tourism sector and remittances, significant FDI inflows, risk from secondary sanctions
	External debt structure	Neutral	0	Significant 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 the external sector, suspension of IMF Stand-by Arrangement

Figure 7: Current-account balance, % of GDP



Source: IMF WEO forecasts, Scope Ratings

Figure 8: Net international investment position (NIIP), % GDP



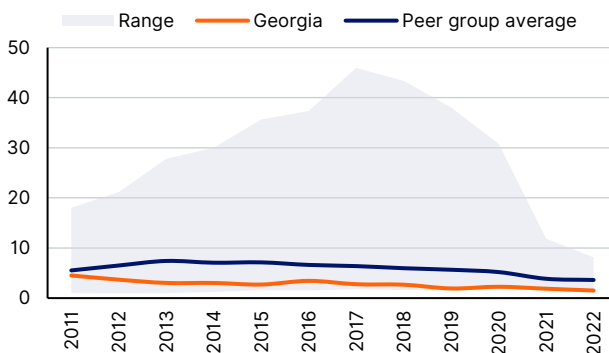
Source: IMF, Scope Ratings

### Financial stability risk

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

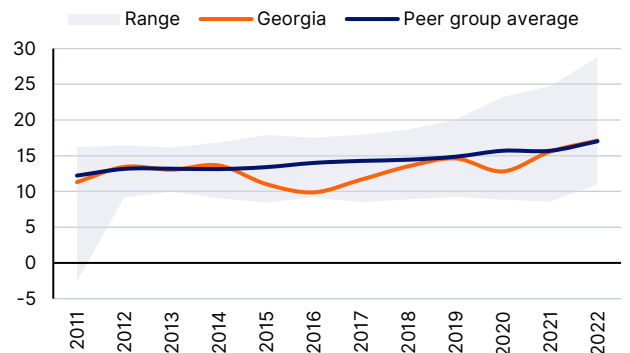
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
a+	Banking sector performance	Neutral	0	Adequate liquidity and strong capitalisation of the banking system with strong profitability
	Financial sector oversight and governance	Neutral	0	Strengthened financial-sector supervision 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; low private-sector debt

Figure 9: Non-performing loans, % of total loans



Source: World Bank (WB), Scope Ratings

Figure 10: Tier 1 capital, % of risk-weighted assets



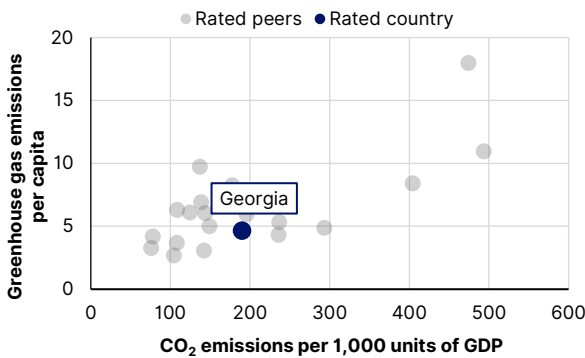
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

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

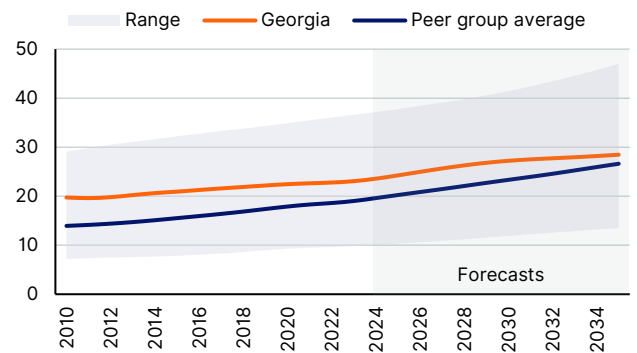
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Environmental factors	Neutral	0	Substantive environmental risk such as with relation to air pollution and transition from fossil-fuel dependence, but mitigated by coordinated policy countermeasures
	Social factors	Neutral	0	High, although gradually declining, rates of poverty, adverse demographics but recent significant immigration, elevated unemployment
	Governance factors	Weak	-1/3	Track record of high-quality and effective public administration, but domestic political risks and polarisation adversely affect quality of policy making and strength of democratic institutions

Figure 11: CO<sub>2</sub> emissions per GDP, mtCO<sub>2</sub>e



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

## Reserve-currency adjustment

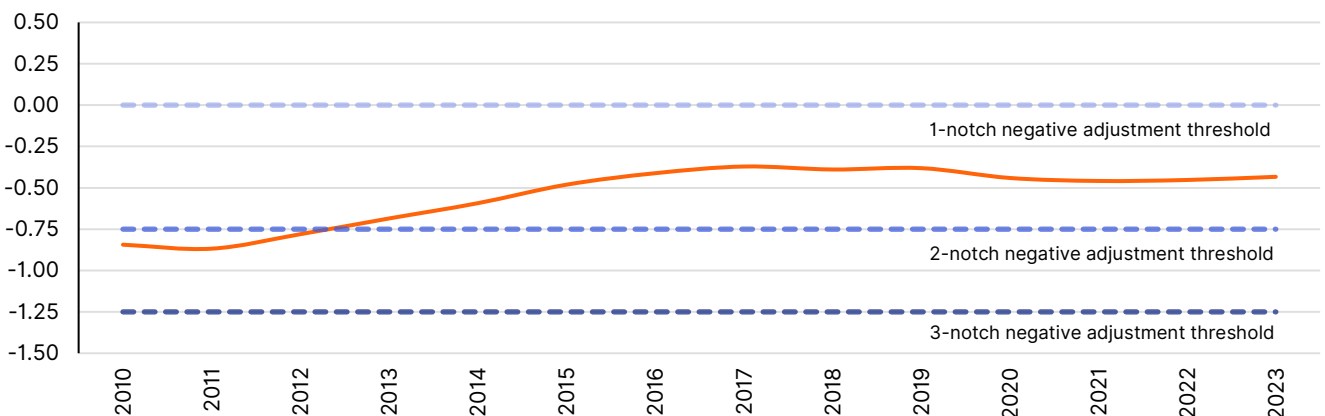
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

Currency	U.S. dollar	Euro	Chinese yuan	Japanese yen	Pound sterling	Other
IMF SDR basket weights, %	43.4	29.3	12.3	7.6	7.4	0.0
Positive adjustment, notches	3	1	1	1	1	0

Source: IMF, Scope Ratings

## Political-risk adjustment

Figure 14: WB Political Stability & Absence of Violence/Terrorism index, Georgia, 3-year moving average



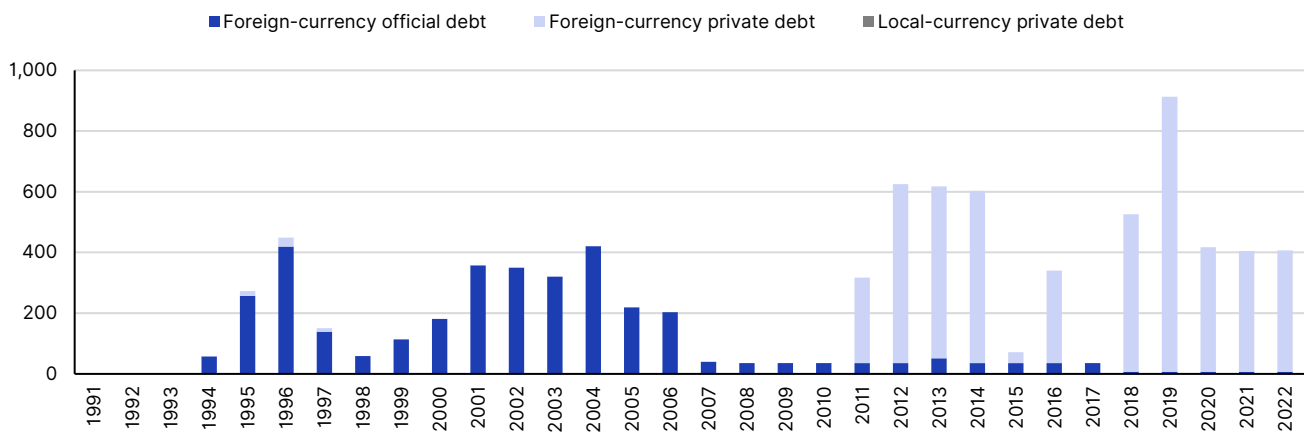
Source: WB, Scope Ratings

### Additional considerations

A one-notch extraordinary downside adjustment is applied to the long-term ratings, reflecting elevated geopolitical risks faced by Georgia given geographical proximity with and a history of aggression from Russia alongside unsettled disputes over separatist regions of South Ossetia and Abkhazia. These geopolitical risks also affect domestic politics and policy making.

### Appendix I. Sovereign default history

Figure 15: Sovereign default history, USD m



Depicted private-debt defaults may not always constitute a credit event under [Scope's credit-rating definitions](#). Source: [Bank of Canada-Bank of England Sovereign Default Database](#), Scope Ratings.

### 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 sovereign quantitative model after accounting for methodological reserve-currency and political-risk adjustments.

Peer group*
China
Greece
Hungary
Romania
Serbia
Türkiye

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

### Appendix III. Economic development and default indicators

IMF Development Classification	Emerging market and developing economy
5y USD CDS spread (bps)	n/a

## Appendix IV. Statistical table for selected SQM indicators

This table presents a selection of the indicators (24 out of 30 – with the governance indicator reflecting a composite of five indicators) used in Scope’s quantitative model, 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	2023E
Domestic Economic	<b>GDP per capita (PPP), USD '000s</b>	IMF	14.6	15.6	14.8	17.0	20.2	22.4
	<b>Nominal GDP, USD bn</b>	IMF	17.6	17.5	15.8	18.6	24.6	30.0
	<b>Real growth, %</b>	IMF	4.8	5.0	-6.8	10.5	10.1	6.2
	<b>CPI inflation, %</b>	IMF	2.6	4.9	5.2	9.6	11.9	2.4
	<b>Unemployment rate, %</b>	WB	12.7	11.6	11.7	12.2	11.3	-
Public Finance	<b>Public debt, % of GDP</b>	IMF	38.9	40.4	60.2	49.7	39.8	39.6
	<b>Net interest payments, % of government revenue</b>	IMF	4.4	4.6	6.2	5.2	3.9	5.3
	<b>Primary balance, % of GDP</b>	IMF	0.4	-0.6	-7.7	-4.7	-1.5	-1.5
External Economic	<b>Current-account balance, % of GDP</b>	IMF	-6.8	-5.9	-12.5	-10.4	-4.0	-6.1
	<b>Total reserves, months of imports</b>	IMF	3.1	3.2	4.4	3.8	-	-
	<b>NIIP, % of GDP</b>	IMF	-131.8	-138.1	-158.9	-143.2	-114.7	-
Financial Stability	<b>NPL ratio, % of total loans</b>	IMF	2.7	1.9	2.3	1.9	1.5	-
	<b>Tier 1 ratio, % of risk-weighted assets</b>	IMF	14.2	14.1	11.8	13.4	16.2	17.5
	<b>Credit to the private sector, % of GDP</b>	WB	60.5	65.6	79.9	73.8	64.0	-
ESG	<b>CO<sub>2</sub> per EUR 1,000 of GDP, mtCO<sub>2</sub>e</b>	EC	203.5	209.2	216.2	203.0	-	-
	<b>Income share of bottom 50%, %</b>	WID	13.8	13.9	13.9	14.5	-	-
	<b>Labour-force participation rate, %</b>	WB	69.7	68.4	68.7	69.1	-	-
	<b>Old-age dependency ratio, %</b>	UN	21.9	22.2	22.5	22.6	22.8	23.1
	<b>Composite governance indicators*</b>	WB	0.6	0.6	0.5	0.5	0.5	-
	<b>Political stability, index</b>	WB	-0.4	-0.5	-0.4	-0.4	-0.4	-

\*Average of the following five World Bank Worldwide Governance Indicators: *Control of Corruption, Voice and Accountability, Rule of Law, Government Effectiveness, Regulatory Quality.*

## Scope Ratings GmbH

Lennéstraße 5  
D-10785 Berlin  
[scoperatings.com](https://www.scoperatings.com)

Phone: +49 30 27891-0  
Fax: +49 30 27891-100  
[info@scoperatings.com](mailto:info@scoperatings.com)

 Bloomberg: RESP SCOP  
[Scope contacts](#)

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