

# 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 7.5% last year, benefitting from continued positive economic spill-overs 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) inflows have recently weakened and remain below pre-Covid crisis levels as a share of GDP.

**Historical engagement with multilateral institutions:** Georgia has an established record of engagement with its multilateral partners (such as with the IMF and with the European Union), although the IMF programme has been suspended since the middle of last year due to concerns surrounding the independence of the central bank. The European Council had granted Georgia EU membership candidate status since December of last year on the understanding that a specific set of conditions for the country are undertaken, but this EU accession process has been suspended following passage of the 'foreign-agent' law in May 2024.

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

**Rating challenges:** i) sustained geopolitical risk following Russia's escalation of war on Ukraine alongside domestic institutional risks as divisive parliamentary elections approach later on this year; ii) vulnerability to external shocks due to the small size of the economy (nominal GDP of an estimated USD 32.5bn this year) alongside elevated reliance on external financing; and iii) financial-stability risks associated with the significant dollarisation of the economy.

### 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%	aaa			0	
ESG risk	Environmental factors	5%	bbb	[+0]	[-1]	0	
	Social factors	7.5%	bbb-			0	
	Governance factors	12.5%	a-			- 1/3	
<b>Sovereign Quantitative Model (SQM)****</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. \*\*\*\*The SQM indicative rating has been approved by a Rating Committee. \*\*\*\*\*Additional considerations reflect a negative one rating notch for extraordinary geopolitical risks. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

### 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**

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### Credit strengths and challenges

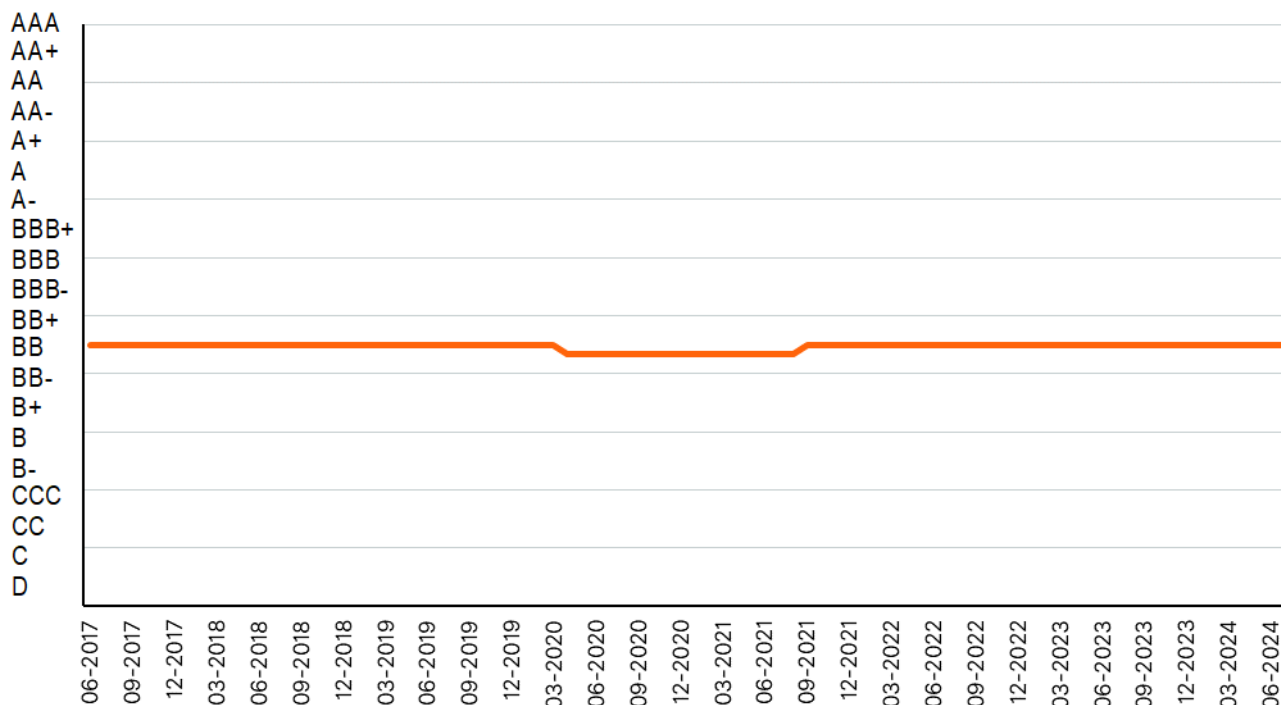
Credit strengths	Credit challenges
<ul style="list-style-type: none"> <li>Declining government debt and a strong government debt structure</li> <li>Solid medium-run growth potential and very-strong recent growth</li> <li>Strengthened macroeconomic-policy framework</li> </ul>	<ul style="list-style-type: none"> <li>Domestic institutional risks including risk from sanctions</li> <li>Heightened geopolitical risks</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 reductions in security risks</li> <li>Institutional risks are addressed and sanctions risks reduced</li> <li>Reduction in external-sector risk</li> <li>Improvement in fiscal sustainability</li> </ul>	<ul style="list-style-type: none"> <li>The further weakening of institutions and/or further sanctions</li> <li>Escalation of geopolitical risks</li> <li>Increases in external-sector vulnerabilities</li> <li>Weakening of the medium-run government debt trajectory</li> </ul>

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



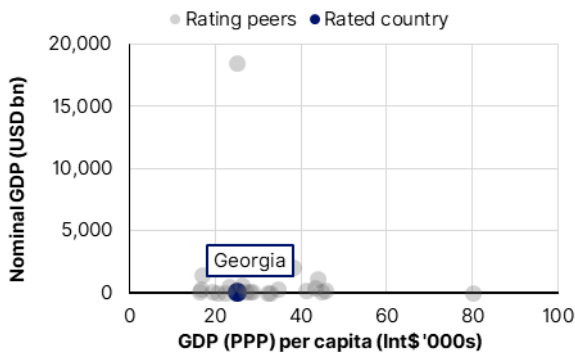
<sup>1</sup>Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

### Domestic economic risk

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

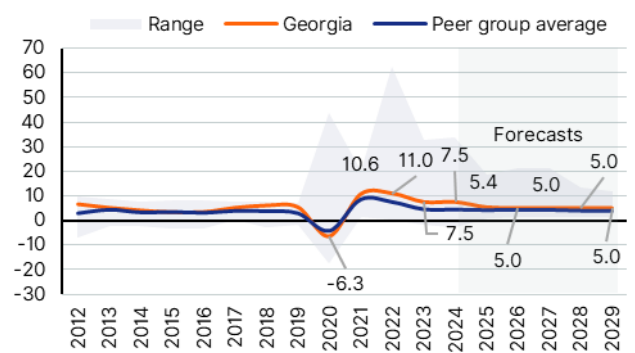
SQM* indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Growth potential and outlook	Strong	+1/3	Recent significant outperformance of economic growth; strong medium-run growth potential of about 5% annually
	Monetary policy framework	Neutral	0	Track record of prudent management 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, elevated unemployment, and labour-force concentration in low-productivity sectors

Figure 3: Nominal GDP and GDP per capita, 2024F



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

Figure 4: Real GDP growth, %



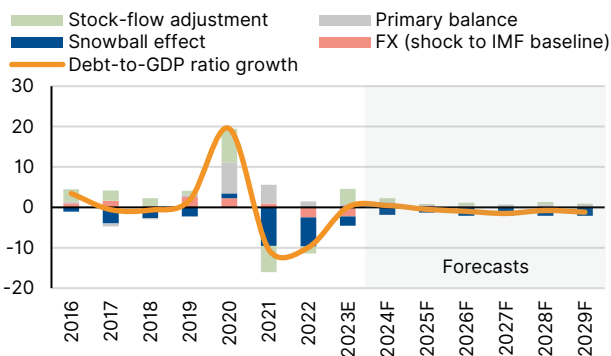
Source: IMF WEO, Scope Ratings forecasts

### Public finance risk

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

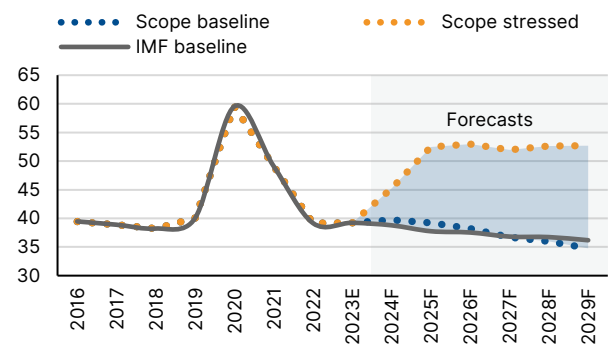
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aa	Fiscal policy framework	Strong	+1/3	Track record of moderate fiscal deficits and fiscal prudence underpinned by historical engagement with the IMF; expectation of moderate budget deficits moving ahead
	Long-term debt trajectory	Neutral	0	Expected decline in debt ratios medium run, but debt trajectory is exposed to significant exchange-rate risks
	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

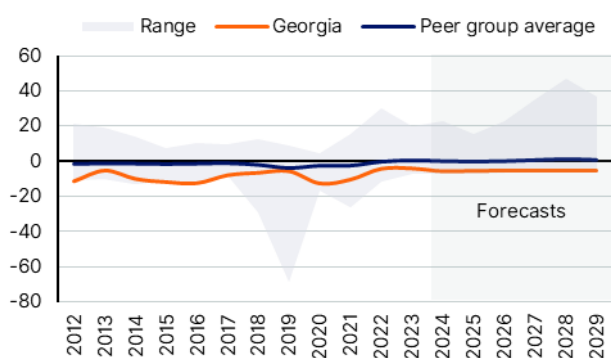
\*Sovereign Quantitative Model.

## External economic risk

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

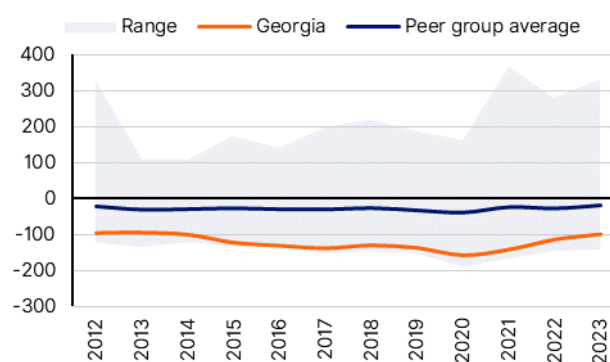
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
C	Current account resilience	Weak	-1/3	Structural current-account deficits, significant reliance on tourism sector and remittances, slowdown of FDI inflows, risk from further sanctions
	External debt structure	Neutral	0	Significant although improving net international liability position but a sound historical record of concessional donor financing and declining levels of gross external debt
	Resilience to short-term external shocks	Weak	-1/3	Dollarisation, significant external financing requirements and declining levels of reserves 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



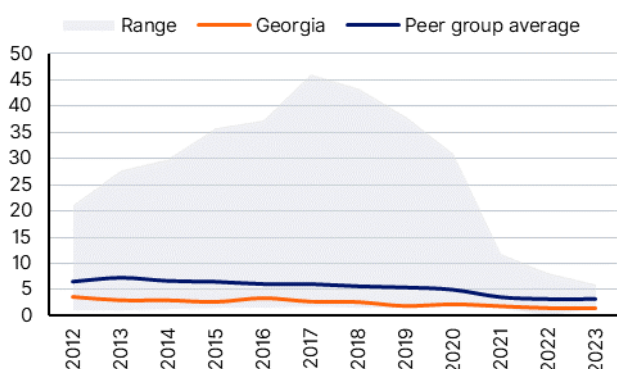
Source: IMF, Scope Ratings

## Financial stability risk

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

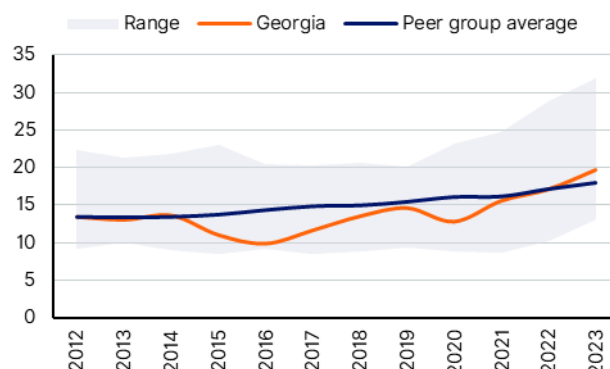
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
aaa	Banking sector performance	Neutral	0	Reduced non-performing loans (NPLs) and strengthened capitalisation of the banking system with strengthened profitability
	Financial sector oversight and governance	Neutral	0	Past strengthening of financial-system supervision and regulatory framework including via application of the IMF Financial Sector Assessment Program recommendations; but recent questions around central-bank independence and suspension of IMF programme
	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: NPLs, % of total loans



Source: World Bank (WB), Scope Ratings

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



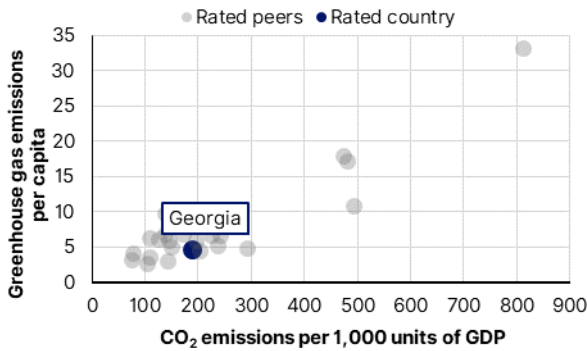
Source: IMF, Scope Ratings

## Environmental, Social and Governance (ESG) risk

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

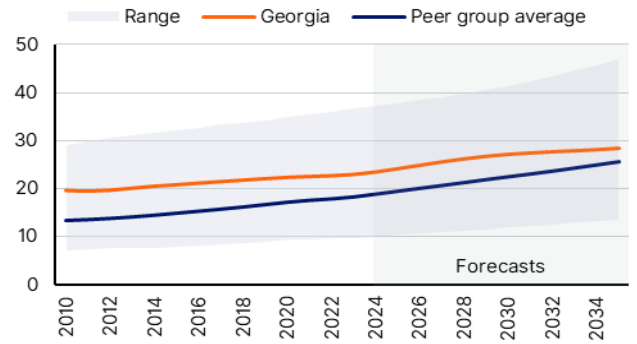
SQM indicative rating	Analytical component	Assessment	Notch adjustment	Rationale
bbb	Environmental factors	Neutral	0	Substantive environmental risk such as with relation to air pollution and transition from fossil-fuel dependence, but mitigated by coordinated policy counter-measures
	Social factors	Neutral	0	High, although rapidly declining, rates of poverty, adverse demographics but recent significant immigration, elevated although declining unemployment
	Governance factors	Weak	-1/3	Domestic political risks and polarisation adversely affect quality of policy making and strength of democratic institutions; divisive parliamentary elections approaching; increasing Russian influence in policy symbolised by foreign-agent bill; risk from sanctions; EU accession has been suspended

Figure 11: CO<sub>2</sub> emissions per capita/GDP, 2022, 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

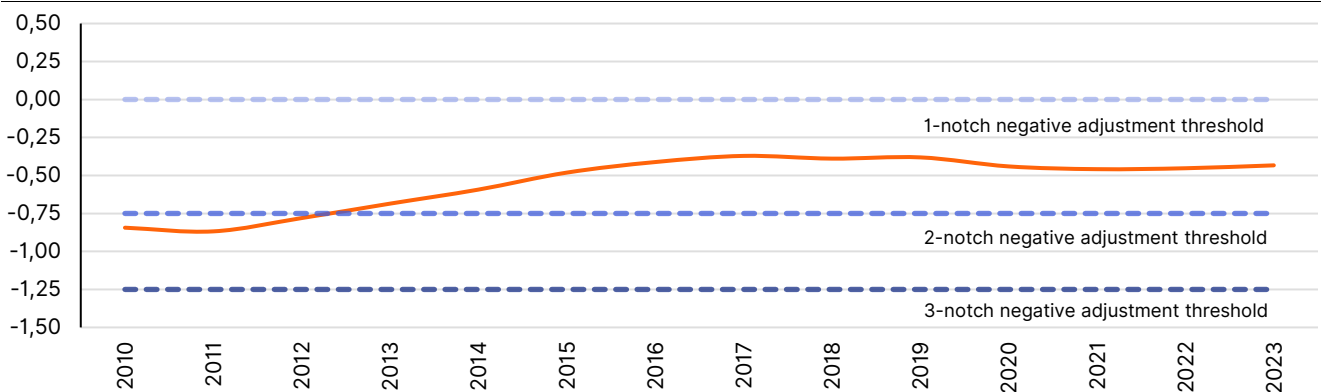
Figure 13: IMF SDR basket and Scope reserve-currency adjustment

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



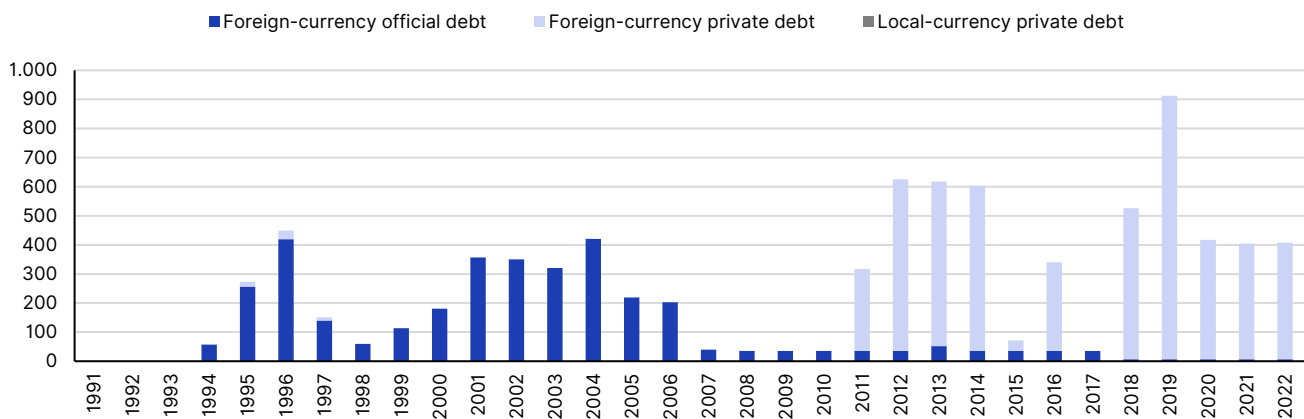
Source: WB, Scope Ratings

### Additional considerations

A one-notch extraordinary downside adjustment is applied to the long-term issuer ratings, reflecting elevated geopolitical risks faced by Georgia given geographical proximity with and a history of aggression from the Russian Federation alongside unsettled disputes over the separatist regions of South Ossetia and Abkhazia. Such 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

\*Select 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)</b> , Int\$ '000s	IMF	14.9	16.0	15.3	17.6	21.1	23.2
	<b>Nominal GDP</b> , USD bn	IMF	18	18	16	19	25	31
	<b>Real growth</b> , %	IMF	6.1	5.4	-6.3	10.6	11.0	7.5
	<b>CPI inflation</b> , %	IMF	2.6	4.9	5.2	9.6	11.9	2.5
	<b>Unemployment rate</b> , %	WB	12.7	11.6	11.7	11.8	11.7	11.6
Public Finance	<b>Public debt</b> , % of GDP	IMF	38.2	40.0	59.6	49.1	39.2	39.2
	<b>Net interest payments</b> , % of government revenue	IMF	4.4	4.6	6.2	5.2	3.9	5.4
	<b>Primary balance</b> , % of GDP	IMF	0.3	-0.6	-7.6	-4.7	-1.5	-0.9
External Economic	<b>Current-account balance</b> , % of GDP	IMF	-6.7	-5.8	-12.4	-10.3	-4.5	-4.3
	<b>Total reserves</b> , months of imports	WB	3.1	3.2	4.4	3.8	3.1	2.8
	<b>NIIP</b> , % of GDP	IMF	-129.6	-136.8	-157.3	-141.5	-113.2	-
Financial Stability	<b>NPL ratio</b> , % of total loans	IMF	2.7	1.9	2.3	1.9	1.5	1.5
	<b>Tier 1 ratio</b> , % of risk-weighted assets	IMF	14.2	14.1	11.8	13.4	16.2	17.5
	<b>Credit to the private sector</b> , % of GDP	WB	59.5	65.0	79.0	72.9	63.1	66.6
ESG	<b>CO<sub>2</sub> per EUR 1,000 of GDP</b> , mtCO <sub>2</sub> e	EC	205.5	210.4	218.5	207.7	190.0	-
	<b>Income share of bottom 50%</b> , %	WID	13.8	13.9	13.9	14.5	14.5	-
	<b>Labour-force participation rate</b> , %	WB	69.7	68.4	68.7	69.3	68.6	-
	<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</b> , index	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.*

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