

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 7.5% in 2023 and an estimated 9.6% last year, benefitting from continued positive economic spill-over from the Russia-Ukraine war. The economy is furthermore 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 under pre-Covid crisis levels as a share of GDP.

Historical engagement with multilateral institutions. Georgia has historically engaged with its multilateral partners (such as the IMF and the European Union), but the IMF programme has been suspended since the middle of 2023 due to concerns surrounding the independence of the central bank. The European Council had granted Georgia EU candidate status on the understanding that a specific set of conditions for the country are undertaken, but this EU accession process has since been suspended after the 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 sovereign debt maturities, modest interest costs and reduced refinancing risks.

Rating challenges: i) domestic institutional risks as October-2024 parliamentary elections have further divided the nation; ii) sustained geopolitical risks after Russia's escalation of war on Ukraine; iii) vulnerability to external shocks due to the small size of the economy (nominal GDP of an estimated USD 36.0bn this year) alongside the elevated reliance on external financing; and iv) 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 | | | 0 | |
| External economic risk | 10% | c | | | - 2/3 | |
| Financial stability risk | 10% | aaa | | | 0 | |
| ESG risk | Environmental factors | 5% | [+0] | [-1] | 0 | |
| | Social factors | 7.5% | | | 0 | |
| | Governance factors | 12.5% | a- | | | |
| Sovereign Quantitative Model | bbb | | | | -1 | |
| Additional considerations**** | | | | | -2 | |

*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.

****Additional considerations represent minus one rating notch for extraordinary geopolitical risk(s) and one negative notch for domestic institutional risks including the risk of escalation of sanctions. For details, please see Scope's [Sovereign Rating Methodology](#). Source: Scope Ratings.

Foreign currency

Long-term issuer rating/Outlook

BB/Negative

Senior unsecured debt

BB/Negative

Short-term issuer rating/Outlook

S-3/Stable

Local currency

Long-term issuer rating/Outlook

BB/Negative

Senior unsecured debt

BB/Negative

Short-term issuer rating/Outlook

S-3/Stable

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Credit strengths and challenges

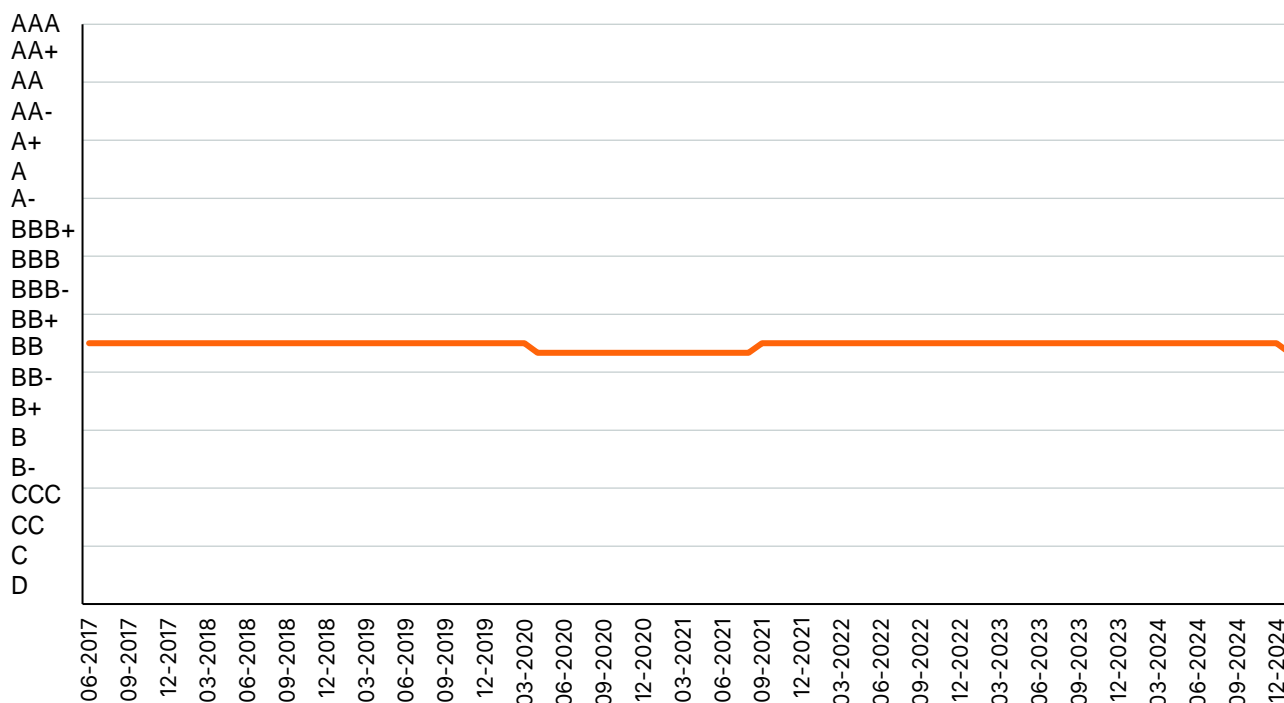
| Credit strengths | Credit challenges |
|---|---|
| <ul style="list-style-type: none"> Declining government debt and strong public debt structure Solid medium-run economic growth potential Strengthened macroeconomic-policy framework | <ul style="list-style-type: none"> Domestic institutional risks, including escalating sanctions Heightened geopolitical risks Elevated vulnerability to external shock(s) and a reliance upon external financing The elevated dollarisation |

Outlook and rating triggers

The Negative Outlook reflects Scope's view that risks for the ratings are skewed on the downside.

| Positive rating-change drivers | Negative rating-change drivers |
|--|--|
| <ul style="list-style-type: none"> Institutional risks are addressed and sanctions risks reduced A significant reduction of security risks Reduction in external-sector risks | <ul style="list-style-type: none"> Further weakening of institutions and/or additional sanctions Escalation of geopolitical risks Increases in external-sector vulnerabilities Rise of medium-run government debt trajectory |

Figure 2: Rating history



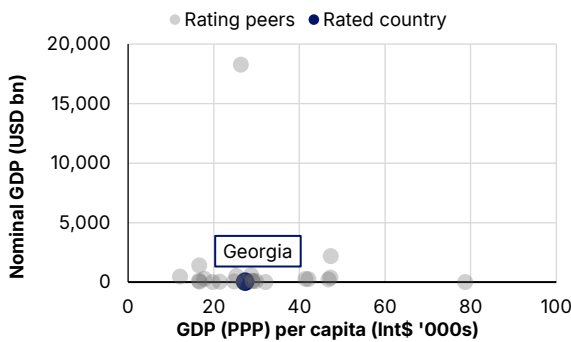
Foreign-currency long-term issuer rating. Positive/Negative Outlooks are treated with a +/-0.33-notch adjustment. Credit Watch positive/negative with a +/-0.67-notch adjustment. Source: Scope Ratings.

Domestic economic risk

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

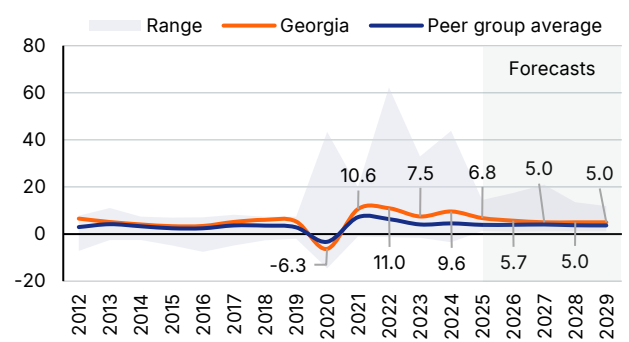
| SQM ¹ indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|------------------------------------|--|------------|------------------|--|
| bbb+ | Growth potential and outlook | Strong | +1/3 | Recent significant outperformance of economic growth; strong medium-run growth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

Figure 3: Nominal GDP and GDP per capita (2024E)



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

Figure 4: Real GDP growth, %



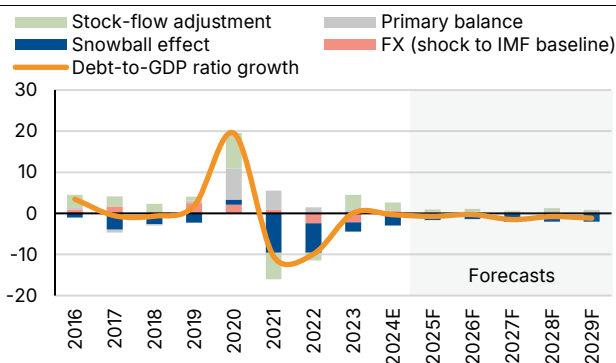
Source: IMF WEO, Scope Ratings forecasts

Public finance risk

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

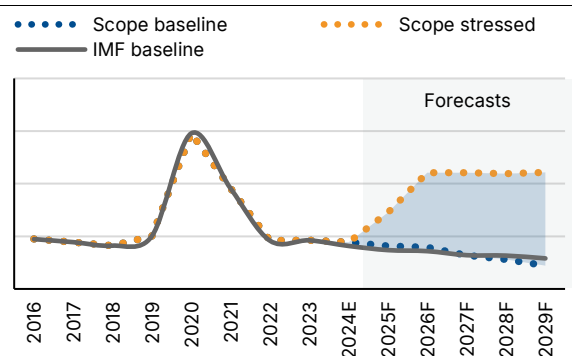
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|--------------------------------|------------|------------------|--|
| aa | Fiscal policy framework | Neutral | 0 | A track record of moderate fiscal deficits; reduced cooperation with the IMF may affect fiscal prudence |
| | Long-term debt trajectory | Neutral | 0 | Expected decline in sovereign 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 government debt owed to official-sector lenders on concessional terms; a track record of sound access to concessional loan financing but this access is increasingly in jeopardy |

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

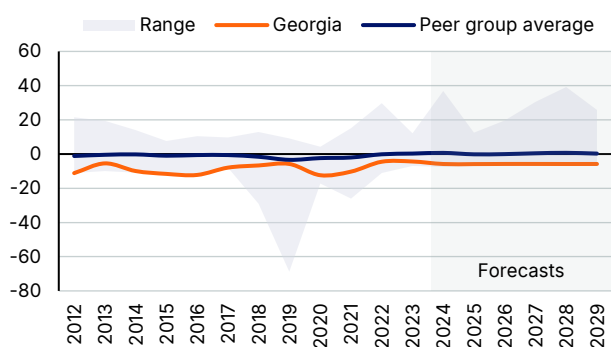
¹ Sovereign Quantitative Model

External economic risk

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

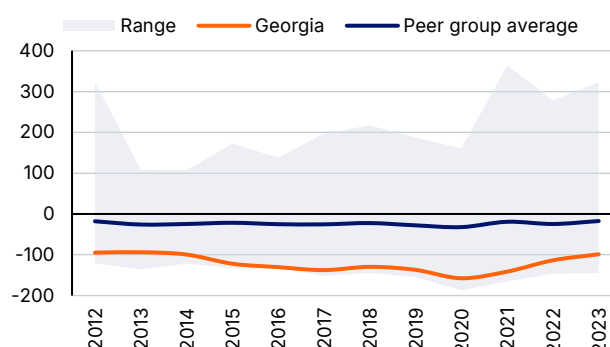
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|--|------------|------------------|--|
| C | Current account resilience | Weak | -1/3 | Structural current-account deficits, significant reliance on tourism-sector revenues and remittances, slowdown of FDI inflows, risk from escalation of sanctions |
| | External debt structure | Neutral | 0 | Significant although improving net international liability position; an historical record of concessional donor financing; 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 the 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



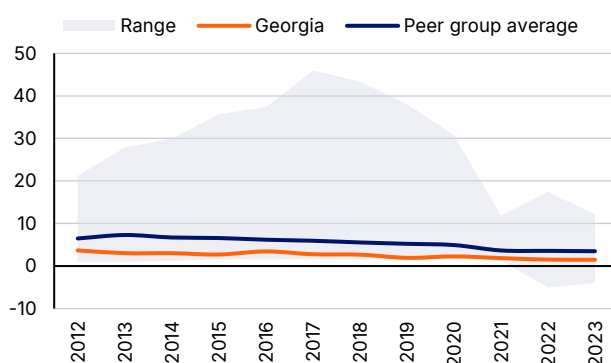
Source: IMF, Scope Ratings

Financial stability risk

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

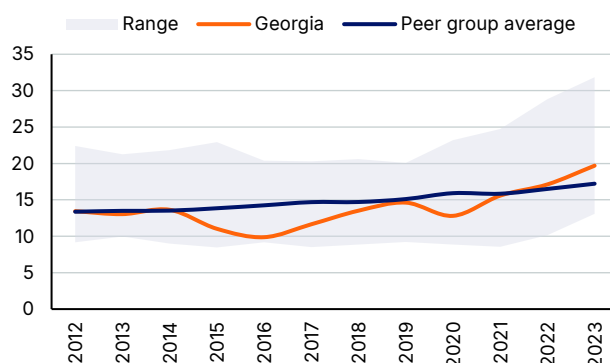
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|---|------------|------------------|--|
| aaa | Banking sector performance | Neutral | 0 | Reduced non-performing loans (NPLs) and strengthened capitalisation of the banking system with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



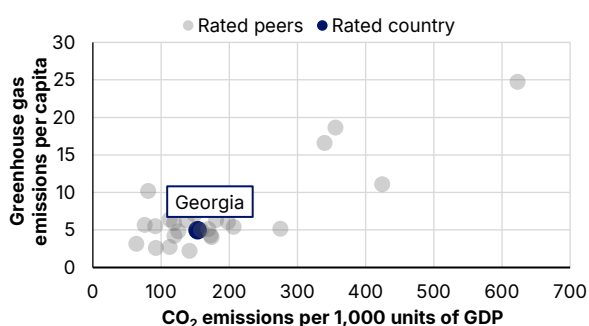
Source: IMF, Scope Ratings

Environmental, Social and Governance (ESG) risk

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

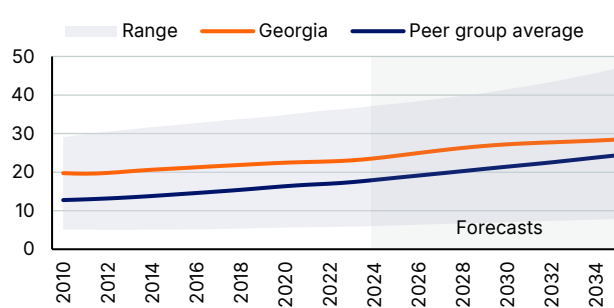
| SQM indicative rating | Analytical component | Assessment | Notch adjustment | Rationale |
|-----------------------|-----------------------|------------|------------------|--|
| bbb+ | Environmental factors | Neutral | 0 | Substantive environmental risks such as concerning air pollution and the transition 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 the quality of policy making and the strength of democratic institutions; 2024 elections have increased divisions; increasing Russian influence in policy symbolised by the passage of the foreign-agent law; risk of escalating sanctions against Georgia; EU accession suspended by the EU and accession talks postponed most recently by the government until 2028 |

Figure 11: CO₂ emissions per GDP, mtCO₂e (2023)



Source: European Commission (EC), Scope Ratings

Figure 12: Old-age dependency ratio, %



Source: United Nations (UN), Scope Ratings

Reserve-currency adjustment

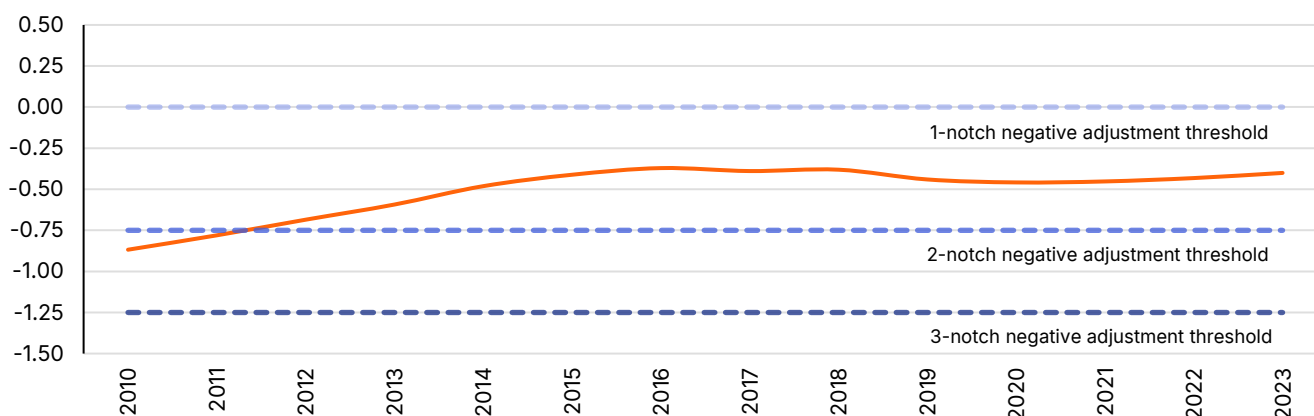
IMF SDR basket and Scope reserve-currency adjustment

| 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 13: WB Political Stability & Absence of Violence/Terrorism index, Georgia, three-year moving average



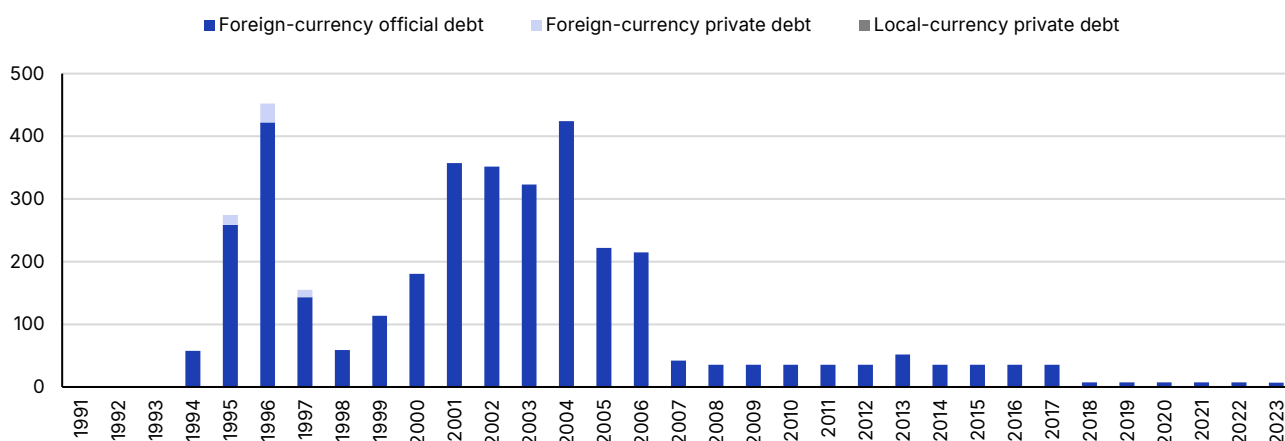
Source: WB, Scope Ratings

Additional considerations

A two-notch extraordinary downside adjustment is applied to the long-term issuer ratings, reflecting one notch for: 1) elevated geopolitical risks faced by the nation given the geographical proximity with and a history of aggression from the Russian Federation alongside unsettled disputes over the separatist regions of South Ossetia and Abkhazia; and one notch for: 2) heightened domestic institutional risks and the associated risks of escalation of sanctions from Western partners, following the slippage in democratic norms, disputed elections late last year and heavy-handed responses against peaceful protestors.

Appendix 1. Sovereign default history

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 2. 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* |
|-------------|
| Greece |
| Hungary |
| Romania |
| Serbia |
| Türkiye |

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

Appendix 3. Economic development and default indicators

IMF Development Classification

Emerging market and developing economy

5y USD CDS spread (bps)

n/a

Appendix 4. 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 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024E |
|---------------------|---|--------|--------|--------|--------|--------|-------|-------|
| Domestic Economic | GDP per capita (PPP), Int\$ '000s | IMF | 16.8 | 16.8 | 18.8 | 22.6 | 24.8 | 27.4 |
| | Nominal GDP, USD bn | IMF | 18 | 16 | 19 | 25 | 31 | 33 |
| | Real growth, % | IMF | 5.4 | -6.3 | 10.6 | 11.0 | 7.5 | 7.6 |
| | CPI inflation, % | IMF | 4.9 | 5.2 | 9.6 | 11.9 | 2.5 | 1.1 |
| | Unemployment rate, % | WB | 11.6 | 11.7 | 11.8 | 11.7 | 11.6 | - |
| Public Finance | Public debt, % of GDP | IMF | 40.0 | 59.6 | 49.1 | 39.2 | 39.2 | 38.2 |
| | Net interest payments, % of government revenue | IMF | 4.6 | 6.2 | 5.2 | 3.9 | 5.4 | 6.2 |
| | Primary balance, % of GDP | IMF | -0.6 | -7.6 | -4.7 | -1.5 | -0.9 | -0.8 |
| External Economic | Current-account balance, % of GDP | IMF | -5.8 | -12.4 | -10.3 | -4.5 | -4.3 | -5.8 |
| | Total reserves, months of imports | WB | 3.2 | 4.4 | 3.8 | 3.1 | - | - |
| | NIIP, % of GDP | IMF | -137.0 | -157.5 | -141.3 | -113.6 | - | - |
| Financial Stability | NPL ratio, % of total loans | IMF | 1.9 | 2.3 | 1.9 | 1.5 | 1.5 | - |
| | Tier 1 ratio, % of risk-weighted assets | IMF | 14.1 | 11.8 | 13.4 | 16.2 | 17.5 | 19.1 |
| | Credit to the private sector, % of GDP | WB | 65.0 | 79.0 | 72.9 | 63.1 | 66.6 | - |
| ESG | CO ₂ per EUR 1,000 of GDP, mtCO ₂ e | EC | 176.2 | 182.1 | 173.2 | 162.3 | 153.8 | - |
| | Income share of bottom 50%, % | WID | 13.9 | 13.9 | 14.5 | 14.5 | - | - |
| | Labour-force participation rate, % | WB | 68.4 | 68.7 | 69.3 | 68.6 | - | - |
| | Old-age dependency ratio, % | UN | 22.2 | 22.5 | 22.6 | 22.8 | 23.1 | 23.6 |
| | Composite governance indicators* | WB | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | - |
| | Political stability, index | WB | -0.4 | -0.4 | -0.5 | -0.5 | -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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Applied methodologies

[Sovereign Rating Methodology](#), January 2024

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