



Press Release No. 08/208  
FOR IMMEDIATE RELEASE  
September 15, 2008

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Executive Board Approves US\$750 Million Stand-By Arrangement for Georgia**

The Executive Board of the International Monetary Fund (IMF) today approved an 18-month Stand-By Arrangement (SBA), with total access equivalent to SDR 477.1 million (about US\$750 million) to support the Georgian authorities' macroeconomic policies, aiming to rebuild gross international reserves and bolster investor confidence.

The SBA involves exceptional access since it would exceed limits of 100 percent of Georgia's IMF quota annually and 300 percent of the quota (net of scheduled repurchases) cumulatively. An amount equivalent to SDR 161.7 million (US\$250 million) will be made available immediately, with the remaining balance distributed in six installments over the next 18 months.

Following the Executive Board's discussion on Georgia, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chairman, made the following statement:

“In the wake of the early-August armed conflict, Georgia has experienced pressures on the capital account of its balance of payments that have been reflected in a decline in international reserves, a fall in bank deposits, and increased Eurobond spreads. The Fund has approved an 18-month US\$750 million Stand-By Arrangement to make significant resources available to replenish international reserves and bolster investor confidence, with the aim of sustaining private capital inflows that have been critical to Georgia's economic growth in recent years. In addition to Fund resources, Georgia is expected to receive financial assistance from multilateral and bilateral donors and creditors in support of the reconstruction effort.

“The program supported by the Stand-By Arrangement aims to limit the deterioration in the external accounts by containing the fiscal deficit, maintaining a cautious monetary policy stance, and further strengthening the financial sector. The immediate focus will be on avoiding liquidity disruptions and accepting higher fiscal spending on reconstruction. Georgia's track record of adjustment and reform over recent years has strengthened the structure of the economy and its ability to deal with the economic consequences of the shock.

“On fiscal policy, the plan is to reduce current spending in order to free resources for relief and reconstruction. Concessional loans and grants are expected to be provided by multilateral and bilateral partners to supplement domestic resources in financing further reconstruction needs, and will be accommodated within the program’s fiscal targets.

“Monetary policy will focus on providing sufficient liquidity to the banking system while maintaining a stable exchange rate and an adequate level of international reserves. The program supports the authorities’ short-term policy of avoiding excessive volatility in the exchange rate but envisages a return to a flexible exchange rate regime.

“The banking system has been resilient to the current pressures, and the supervisory authorities are working with banks on plans to assess vulnerabilities and mitigate risks. The program envisages actions to improve the framework for managing liquidity. It also aims to strengthen the independence and capacity of the Financial Supervision Agency as well as cooperation between the Agency and the central bank,” Mr. Kato said.

## **Background and Program Summary**

Georgia's near-term growth prospects have been hit by the armed conflict in August 2008, but the economy is well placed to recover from the shock. The impressive record of adjustment and reform over recent years has strengthened the structure of the economy and its ability to deal with the economic consequences of the shock. Before the conflict, economic growth reached double digits, with inflation around 10 percent. The external current account deficit reached 20 percent of GDP in 2007 and was fully financed by private capital inflows, in particular foreign direct investment.

Recent events have led to pressures on Georgia's capital account, reflected in a decline in international reserves, a fall in bank deposits, and increased Eurobond spreads.

The program is designed to make significant resources available in order to replenish international reserves and bolster investor confidence, with the aim of sustaining private capital inflows that have been critical to Georgia's growth performance in recent years.

The authorities' program aims to limit the deterioration in the external accounts by containing the fiscal deficit, maintaining a cautious monetary stance, and further strengthening the financial sector.

On fiscal policy, the plan is to reduce current expenditures in order to free resources for relief and reconstruction. Currently available financing for 2008–09 comprises the proceeds of the \$500 million Eurobond issued this year, and privatization receipts that will be complemented by donors' support for the reconstruction effort.

Monetary policy will focus on providing sufficient liquidity to the banking system while maintaining a stable exchange rate and an adequate level of international reserves. The program envisages actions to strengthen the framework for providing liquidity to the banking system, build up the capacity of the Financial Supervision Agency (FSA), strengthen its independence, and enhance cooperation between the central bank and the FSA.

Georgia: Selected Macroeconomic Indicators, 2006–09				
	2006	2007	2008	2009
	Act.	Prel.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)				
<b>National accounts</b>				
Real GDP growth	9.4	12.4	3.5	4.0
Population (million) 1/	4.3	4.4	4.4	4.4
Consumer price index, period average	9.2	9.2	10.0	7.6
Consumer price index, end-of-period	8.8	11.0	8.0	8.0
GDP per capita (US\$)	1,800	2,324	2,895	3,167
Poverty rate (in percent)	31.0	...	...	...
Unemployment rate (in percent)	13.6	13.3	...	...
(In percent of GDP)				
<b>Investment and saving</b>				
Investment	25.6	28.1	23.7	22.2
Public	2.5	3.4	3.6	5.6
Private	23.0	24.7	20.1	16.6
Gross national saving	9.7	8.1	2.9	3.5
Public	5.9	4.2	1.0	2.9
Private	3.7	3.8	1.9	0.6
Saving-investment balance	-15.9	-20.0	-20.8	-18.7
(In percent of GDP)				
<b>Consolidated government operations</b>				
Revenue	26.7	29.2	27.7	26.0
Expenses	20.8	25.0	26.6	23.1
Operational balance	5.9	4.2	1.0	2.9
Capital spending and net lending	9.0	9.0	7.3	6.7
Total balance	-3.0	-4.7	-6.3	-3.8
Statistical discrepancy	0.0	0.2	0.3	0.0
Total financing (program definition)	3.0	4.5	5.9	3.8
Domestic	-1.7	-0.9	1.3	-0.3
External	-0.4	0.2	1.5	3.1
<i>Of which: use of Sovereign Wealth Fund resources</i>	0.0	0.0	-2.8	2.5
Privatization receipts	5.2	5.2	3.2	0.9
(Annual percentage change, unless otherwise indicated)				
<b>Monetary sector</b>				
Reserve money	19.2	25.6	19.0	12.0
Broad money (including foreign exch. deposits)	39.3	49.6	14.0	18.0
Private credit	53.4	68.9	21.2	15.2
<b>External sector</b>				
Exports of goods and services (percent of GDP)	33.1	31.7	27.6	29.2
Annual percentage change	17.6	26.1	13.1	11.5
Imports of goods and services (percent of GDP)	56.8	57.8	53.4	52.9
Annual percentage change	33.0	34.0	20.0	4.1
Current account balance (in millions of US\$)	-1,235	-2,047	-2,757	-2,618
In percent of GDP	-15.9	-20.0	-20.8	-18.7
Gross international reserves (in millions of US\$)	881	1,361	1,270	1,755
In months of next year's imports of goods and	1.8	2.3	2.1	2.6
Foreign direct investment (percent of GDP)	13.9	15.3	9.3	8.6
Sources: Georgian authorities; and Fund staff estimates.				
1/ Excludes Abkhazia residents.				