

The contents of this document are preliminary and subject to change.

GRAY/21/2632

September 13, 2021

**Statement by Mr. Zhang and Mr. Law on Georgia
(Preliminary)
Executive Board Meeting
September 15, 2021**

We thank staff for the insightful report and Mr. Rashkovan and Mr. Tsur for the helpful Buff statement. Like many other countries, Georgia was hit hard by the COVID-19 crisis, with the economic contraction last year being the most severe in the past three decades. While we are encouraged to note that there are signs of a V-shape recovery, the possibility of a protracted global pandemic still poses major downside risks and the recent surge of COVID-19 cases in Georgia is a major concern. We call on the authorities to step up their efforts in advancing vaccination and put in place necessary resources in the healthcare system. We broadly agree with the thrust of staff's policy appraisal and would offer the following additional comments.

Looking ahead, if the pandemic abates, fiscal policy should shift toward unwinding crisis support measures and bringing down the deficit and debt. We welcome the commitment to the fiscal rule, which is essential as an anchor for the credibility of fiscal policy and macroeconomic stability. The authorities should work to expand the fiscal space and further strengthen the fiscal framework to address rising spending pressures. Building on substantial progress in disclosing SOE fiscal risks, the authorities should continue to advance efforts to manage and mitigate them through comprehensive SOE reforms.

Monetary policy needs to be flexible to ensure that inflation expectations stay anchored. The recent high inflation is somewhat concerning. In response to rising inflation, the National Bank of Georgia (NBG) has raised the policy rate by 200 bps cumulatively between March and August 2021. While we broadly agree with staff's recommendation to hike rates further if high inflation risks become entrenched, this should be conducted in a gradual manner and be well communicated to the public in advance.

Dollarization remains a major risk for the Georgian economy. We welcome the focus of the FSAP on de-dollarization and the commitment by the authorities to address this risk. We

support staff's recommendations to tighten de-dollarization measures gradually in the medium term. Further technical assistance by the Fund could assist the authorities to implement the recommendations in a timely manner. We take positive note that the NBG is moving ahead with its central bank digital currency project (CBDC). We wonder, however, whether and how the CBDC project could help address dollarization. *Staff's views are welcome.*

We concur with staff that continued investment in infrastructure is essential to improve Georgia's connectivity. We take positive note that the authorities are committed to expanding Georgia's road and transportation infrastructure and have made substantial progress on the key East-West highway. This will help transform the country into a transport and logistics hub connecting Europe with Asia and support regional development.

Lastly, **we support initiation of a Post Financing Assessment (PFA).** We take note that the authorities have indicated interest in a new Fund-supported program, but the timing of a potential program is unclear. *Could staff elaborate on the key considerations by the authorities in deciding on when to request a new program?*

With these comments, we wish Georgia and its people success in their future endeavors.