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September 13, 2021

**Statement by Ms. Shortino and Ms. Senich on Georgia
(Preliminary)
Executive Board Meeting
September 15, 2021**

We thank staff for their reports and Mr. Rashkovan and Mr. Tsur for their informative Buff statement. The Extended Fund Facility that concluded in April was highly successful, both in terms of stated objectives and in improving Georgia's resilience to shocks. Strong buffers prepared Georgia to face significant challenges over the last few years, including the pandemic and regional political instability. **We welcome the strength of the incipient recovery, but we agree with staff's analysis that uncertainty remains high and policy priorities should remain focused on pandemic response and on strengthening growth and resilience.**

The authorities' fiscal response has been largely appropriate, but medium-term fiscal consolidation will be needed to comply with the fiscal rule and maintain its credibility. While we appreciate that additional revenues from the higher-than-expected economic activity are largely going toward COVID-related spending, we agree with staff's suggestion that a greater savings of overperformance now could alleviate steep contractions later. We support the authorities' plans to comprehensively review tax expenditures by the end of this year, and we agree that IMF TA could assist the authorities to identify further options for revenue mobilization. We strongly agree with staff that the authorities should continue to manage and mitigate fiscal risks from state-owned enterprises through SOE reform, and welcome the authorities' commitment in this regard.

The current moderately tight monetary stance seems appropriate, and the National Bank of Georgia (NBG) should be prepared to act if inflation pressures accelerate. We also note that further saving of revenue overperformance could additionally help to moderate inflation. Gross international reserves remain at the appropriate ARA metric level. We believe the EFF's focus on meeting reserve targets produced a successful result which strongly benefited Georgia during the pandemic. We urge the authorities to continue to use

exchange rate flexibility as a primary shock absorber and limit FX intervention, while implementing existing de-dollarization tools rather than further expanding the toolkit. Further attention on deepening financial sector reforms could also decrease dollarization.

We welcome that the Financial Sector Assessment Program (FSAP) confirmed that the authorities' progress on regulatory reforms and policy actions for the pandemic have supported financial sector resilience. We commend the authorities for their excellent progress on completing most of the key recommendations from the 2015 FSAP, and we agree with the current FSAP recommendations to continue strengthening NBG's supervisory framework.

We agree with staff's recommendation to initiate a Post Financing Assessment given Georgia's outstanding credit to the Fund. While we welcome the authorities' request for a new IMF-supported program as described in the Buff statement, we note there is still uncertainty about the timing of a potential program. The report highlights both the benefits of participation in previous Fund programs and the continued positive trajectory of Georgia's economy, **and we urge the authorities to consent to publication of the Article IV.**