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IMF Completes First Review Under the Stand-By Arrangement for Georgia

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Georgia's performance under an 18-month SDR 477.1 million (about US$726 million) Stand-By Arrangement, which was approved on September 15, 2008 (see Press Release No. 08/208) to support the Georgian authorities' macroeconomic policies, rebuild gross international reserves, and bolster investor confidence.

The Georgian authorities expressed their intention not to draw the amount available at the completion of this review. The first review also satisfies the review prescribed under the Emergency Financing Mechanism in relation to the initial policy response and the reaction of markets to these policies.

After the Executive Board's discussion, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, said:

"Georgia's Stand-By Arrangement (SBA) in support of the authorities' strong actions to stabilize financial markets has produced positive initial results. It has helped to boost international reserves, ease pressures in financial markets, and mobilize significant donor assistance in support of reconstruction and infrastructure spending.

"Looking ahead, the authorities' program will focus on addressing the challenges posed by the international financial turmoil and the global economic slowdown. Sustaining economic growth and maintaining confidence in the currency and the financial system, within the constraints of available external financing, are the program's main priorities until access to international markets is restored and confidence regained.

"Market uneasiness resumed in late September as the global financial crisis spread, adding to the post-conflict uncertainties. In response, the lari depreciated against the U.S. dollar in November. Since then, the National Bank of Georgia has intervened moderately in the market to stabilize the exchange rate. The authorities remain committed to a flexible exchange rate regime and to maintaining an adequate level of international reserves.

"Fiscal policy is aimed at supporting economic activity while addressing key social and reconstruction needs. Aided by generous support from development partners in the form of grants and concessional financing, the authorities intend to boost capital spending while minimizing unproductive outlays. Monetary policy will focus on achieving the inflation objective by assigning a more active role to interest rate adjustments in the context of exchange rate flexibility.

"Financial assistance from international financial institutions is expected to help banks meet their maturing external obligations. The authorities are planning to enhance bank regulation and supervision capacity, and to work with banks to mitigate liquidity risks and avoid a deterioration of bank asset quality. The recently signed memorandum of understanding between the National Bank of Georgia and the Financial Supervisory Agency provides an important instrument for enhancing policy coordination between both institutions.

"The authorities' readiness to act quickly to strengthen policies if needed will be key to ensure continued successful economic performance in the face of the difficult and uncertain external environment," Mr. Kato said.