



# General Government Debt Management Strategy

2025 - 2029

Ministry of Finance of Georgia

Tbilisi, 2025

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## Introduction

The General Government Debt Management Strategy document covers the main areas and objectives of government debt management for 2025-2029<sup>1</sup> years. The strategy reflects the plan of the Government of Georgia, which should ensure the implementation of efficient debt management policies and achieve the objectives of debt management. The document also outlines the measures taken by the Government of Georgia to achieve the goals of the 2024-2027 strategy. The Government Debt Management Strategy is a public document that ensures transparency of the government's debt management policy and increases awareness of this issue among creditors, investors, rating agencies, and the public.

According to the “Law on Public Debt” of Georgia, borrowing on behalf of Georgia and issuing state guarantees under other loan agreements are undertaken by the Ministry of Finance, with the consent of the Government of Georgia and in consultation with the National Bank of Georgia. The government of Georgia obtains funds from bilateral and multilateral creditors<sup>2</sup> as well as from the issuance of government securities on international and domestic financial markets.

It should be noted that according to the World Bank classification, Georgia is currently included in the group of upper middle-income countries<sup>3</sup>. Georgia is expected to have access to concessional funding<sup>4</sup> in the medium term, but in the long run, as the country's economy grows, access to concessional funding will gradually decline. In addition, it should be noted that in the background of global challenges, interest rates on foreign financing have increased significantly and it is expected to maintain the increased interest rates in the medium term. Accordingly, it is important to develop the local market so that, if necessary, foreign financing can be gradually replaced with local market instruments and, at the same time, to diversify the availability of financial resources and increase Georgia's visibility in the international capital market.

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<sup>1</sup> The General Government Debt Management Strategy 2025-2029 consolidates the debt management strategy documents for the periods 2025-2028 and 2026-2029.

<sup>2</sup> International Financial Institutions and Partner Countries.

<sup>3</sup> <https://data.worldbank.org/country/georgia>

<sup>4</sup> Concessional loans have lower interest rates compared to the market rates.

## Scope and Objectives of the Strategy

The Government Debt Management Strategy document applies to the debt indicator, which includes:

1. The debt of the Government of Georgia, as defined by the Organic Law of Georgia on Economic Freedom. It covers a) Public Debt, as defined by the Law of Georgia on Public Debt, except for liabilities undertaken by the National Bank of Georgia, and b) debt of Budgetary Organizations (including debt of state-owned enterprises belonging to the general government sector) except the debt undertaken from budgetary organizations.
2. Public-Private Partnership (PPP) liabilities, representing the present value of liabilities undertaken within the framework of projects that comply with the core principles and criteria of public-private partnerships, as defined by the Law of Georgia on Public-Private Partnerships<sup>5</sup>.

The strategic directions of the Government's Debt Management Strategy are the following:

- Maintaining the government debt to GDP ratio at a sustainable level;
- Maintaining the share of GEL-denominated debt in the government's debt portfolio at a healthy level;
- Increasing the focus on development-oriented external loans;
- Optimization of the cost and risk of the government debt portfolio;
- Development of the Treasury Securities Market.

The strategy focuses on the five directions listed above, defines the target indicators for each direction, and sets the plan to achieve them.

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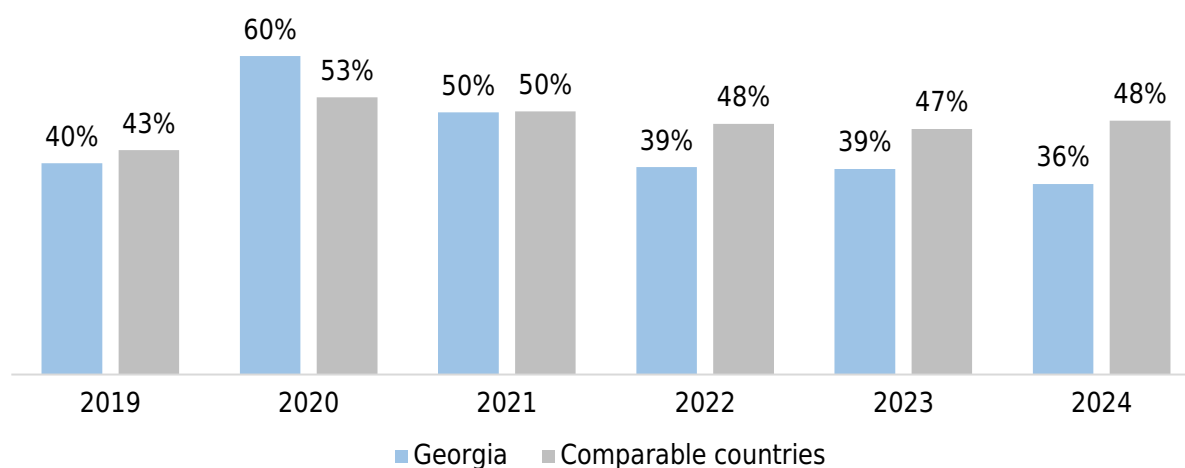
<sup>5</sup> This component is taken into consideration only in the calculation of the Debt to GDP ratio.

## Direction 1. Maintaining the government debt to GDP ratio at a sustainable level

Within this strategic direction, the safe level of the government debt to GDP ratio is defined as 40–45% (Annex 2).

As a result of the economic shock caused by the pandemic, by the end of 2020, most countries around the world, including Georgia, experienced a significant increase in their debt to GDP ratios. The subsequent economic recovery contributed to a downward trend in this indicator. While in 2020 the increase in the debt to GDP ratio was substantial (10 percentage points) for the group of comparable countries (Eastern European countries<sup>6</sup>), the pace of reduction in the following years showed divergent dynamics, with a decline of approximately 6 percentage points.

*Diagram 1. Debt to GDP Ratio Trends in Georgia and Comparable Countries, 2019–2024*



Source: International Monetary Fund - WEO

In 2020, the sharp increase in Georgia's government debt to GDP ratio (by 20 percentage points) was partly driven by negative developments in economic growth and the exchange rate. The subsequent decline (by 24 percentage points) was influenced not only by economic recovery and exchange rate appreciation but also by the government's implementation of a fiscal consolidation policy. It is noteworthy that prior to the pandemic, Georgia's debt to GDP ratio was slightly below the regional average; during the pandemic, it significantly exceeded it, while in the post-pandemic period, by the end of 2024, it fell well below the corresponding average of the region's countries.

<sup>6</sup> Comparable countries: Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Moldova, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovak Republic, Slovenia.

Within the framework of this strategic direction, a comparative analysis of alternative budget deficit financing strategies for 2025–2029 was conducted (Annex 1). Based on the selected scenario, the budget deficit will be financed through a combination of fiscal buffers<sup>7</sup> and net financial resources mobilized from both domestic and external sources, as follows:

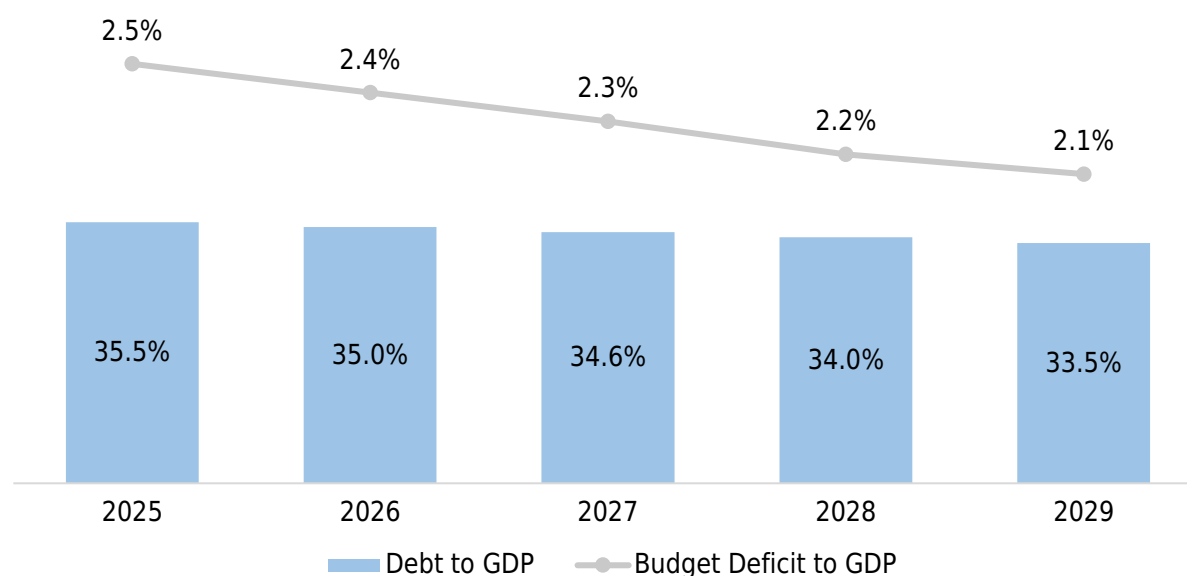
*Table 1. Breakdown of Financial Sources of Budget Deficit Financing, 2025–2029*

	2025	2026	2027	2028	2029
Net increase in domestic debt	1 530	1 570	1 665	1 760	1 855
Net increase in external debt	456	790	900	940	980
Reduction in Deposit Balances and Other Financial Assets	508	185	85	90	100

Source: Ministry of Finance of Georgia

As a result, the dynamics of the government debt to GDP and budget deficit to GDP ratios for 2025–2029 are as follows:

*Diagram 2. Projected Dynamics of Government Debt<sup>8</sup> and Budget Deficit to GDP Ratios, 2025–2029*



Source: Ministry of Finance of Georgia

<sup>7</sup> Fiscal buffer – sum of net change in stock of cash (– increase) and net change in financial assets (– increase) of consolidated budget.

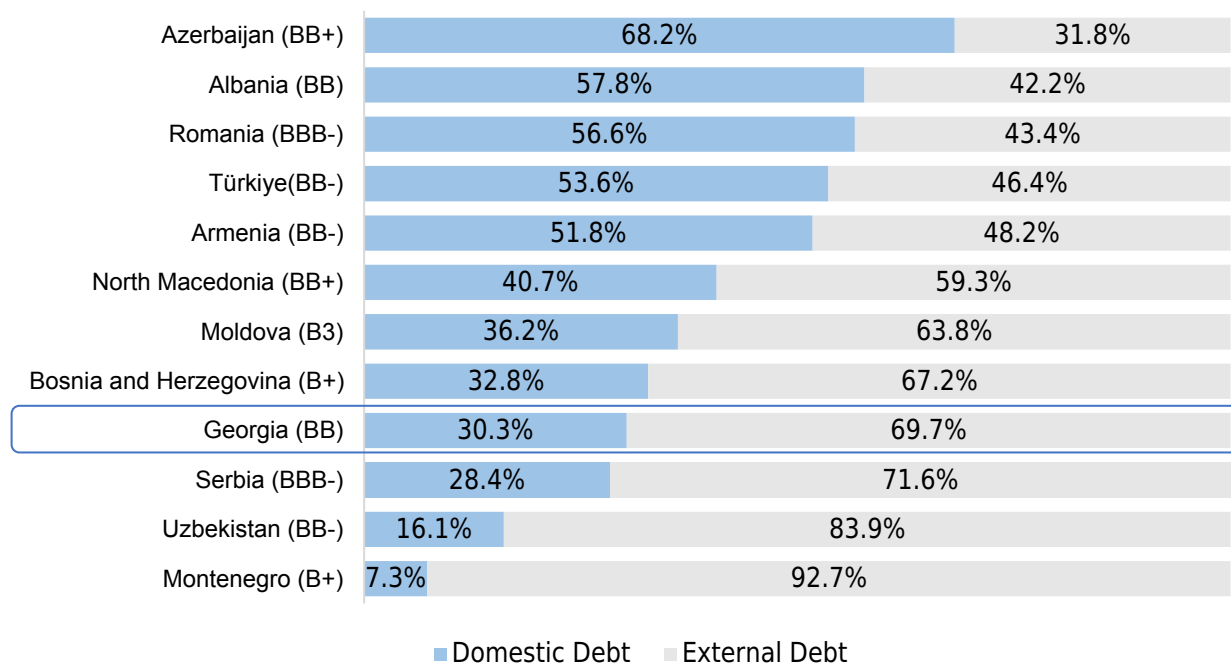
<sup>8</sup> The expected balance of government debt is calculated taking into account the PPP obligations.

## Direction 2. Maintaining the share of GEL-denominated debt in the government's debt portfolio at a healthy level

Under this strategic direction, the medium-term objective is to reduce the share of foreign currency-denominated debt in the government debt portfolio to below 65%.

The share of foreign currency-denominated debt remains a key challenge for Georgia's public debt management. It should be noted that over the past three years, the dollarization level of the portfolio has decreased by 10 percentage points, reaching a historical low of 69.7%. However, compared to peer countries in the region, the share of foreign currency-denominated debt in Georgia's total government debt portfolio remains high, and its reduction continues to be one of the core challenges in public debt management (see Diagram 3).

*Diagram 3. Share of Government Debt Denominated in Local and Foreign Currency in Total Portfolio Across Countries, as of End-2024*



Source: Ministries of Finance of respective countries

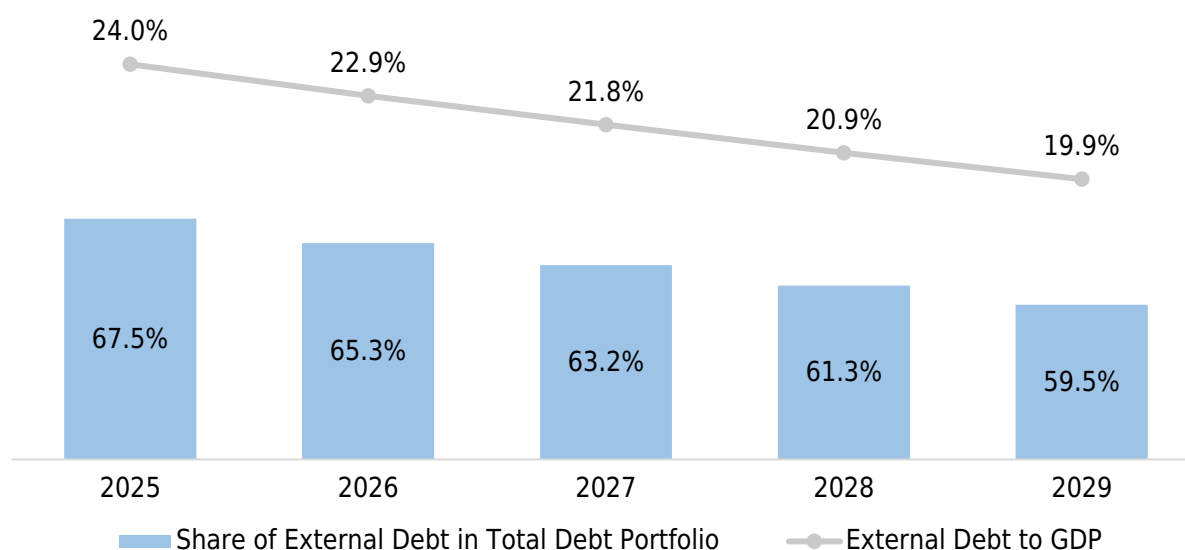
The government debt to GDP ratio is one of the key indicators of a country's creditworthiness. While most developed countries have high debt to GDP ratios, this does not raise concerns about their credit standing due to a significant portion of their debt being denominated in local currency and/or the use of hedging instruments to mitigate risks arising from foreign currency denominated debt. A high share of foreign currency denominated debt in the government debt portfolio negatively affects the country's sovereign credit rating and simultaneously undermines the effectiveness of debt management policy.

Foreign currency-denominated loans are generally characterized by lower interest rates<sup>9</sup> compared to commercial borrowing. However, as the country's economy develops, access to such concessional financing is expected to gradually decline. Therefore, it is important to make the most of the current access to concessional funding and to mobilize financial resources from bilateral and multilateral creditors for the financing of investment and infrastructure projects, as well as to support various structural reforms.

At the same time, it is essential to enhance efforts aimed at exploring potential opportunities for a gradual and consistent transition to commercial financing. This requires advance preparation and raising the country's visibility on international markets. To this end, the Ministry of Finance will explore opportunities on international capital markets, which in turn will contribute to both geographic and currency diversification.

Considering the macroeconomic assumptions of the strategy (Table 3), the projected dynamics of the share of external debt in the portfolio and the external debt to GDP ratio are presented in the chart.

*Diagram 4. Share of External Debt in the Debt Portfolio and in Relation to GDP, 2025-2029*



Source: Ministry of Finance of Georgia

Both target indicators largely depend on exchange rate fluctuations. In addition to this 'natural' process of larization, the Ministry of Finance of Georgia is considering the use of foreign exchange risk hedging to support the reduction of the share of external debt in the government debt portfolio and to accelerate larization through this approach.

<sup>9</sup> However, the risks arising from exchange rate fluctuations of the respective loans should be taken into consideration



### Direction 3. Increasing the focus on development-oriented external loans

This direction includes the assessment of the effectiveness and relevance of new projects, as well as the practice of refinancing.

Georgia receives two types of loans from international financial institutions and bilateral development partners: first, investment loans; and second, program loans, which are budget support loans aimed at financing reforms.

Given the high share of foreign currency-denominated loans in the portfolio and the objective of increasing lari-denominated debt, the goal of the debt management strategy in this direction is to maintain a focus solely on loans with high transformational impact. Despite this approach, in the medium term, foreign currency-denominated loans will remain a significant source for covering overall financing needs. However, the Ministry of Finance of Georgia is considering attracting lari-denominated loans from international development partners. Considering that the lari lacks liquidity on international markets, such instruments will be available at relatively higher interest rates; nonetheless, they will make an important contribution to reducing foreign exchange risks.

To achieve this strategic objective, borrowing will be carried out in accordance with the following key principles

#### For investment loans:

- **Investment loans will primarily be used for large and complex projects.** These are projects that require the involvement of development partners to ensure the implementation of works in accordance with high standards, and which are accompanied by technical expertise and knowledge sharing. The key benefit of attracting investment loans lies not only in the mobilization of financial resources but also in the support that facilitates the implementation of projects in line with relevant standards. The government will seek to minimize the use of external borrowing for new investment projects that can be implemented with the same level of success and efficiency using the state budget's own resources.
- **It is essential that each project financed under an investment loan is supported by a positive efficiency evaluation.** The initiation of borrowing for new investment projects is generally acceptable for those projects that have undergone the preliminary appraisal stage in accordance with the investment/capital project management

methodology<sup>10</sup> and have received a positive decision from the Economic Council<sup>11</sup>. Accordingly, a necessary precondition for initiating an investment loan is that the beneficiary ministry or municipality has an institutionalized public investment management system in place. Additionally, the selection of investment projects that are not subject to review under the procedures defined by the investment/capital project management methodology shall be carried out in accordance with the rules established by law and in coordination with the senior management of the Ministry of Finance.

- **When on-lending to state-owned enterprises (SOEs), consideration will be given to the enterprise's demonstrated commitment to the ongoing state-owned enterprise reform.** The policy on on-lending to SOEs will be determined in parallel with the progress of the SOE reform.
- **In the long term, the government will gradually phase out the practice of on-lending to creditworthy enterprises.** This will encourage companies to access private capital markets and finance their investments independently. It is important that the investments required by such companies are not part of the budgetary process and remain independent of fiscal constraints. This, in turn, will stimulate greater investment in the national economy. At the same time, for state-owned enterprises that have an impact on the domestic market, the government will convert on-lent loans into market-based instruments. This will enhance the liquidity of instruments issued by these companies and free up fiscal space.

#### **For Program Loans:**

- **Since 2022, borrowing has been primarily directed toward major transformational reforms.** Under such programs, substantial technical assistance is also provided to support the implementation of reforms in line with international best practices. It is important to place emphasis on and carry out reforms that have a high transformational impact.

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<sup>10</sup> <https://matsne.gov.ge/ka/document/view/5724007?publication=0> Resolution №65 of the Government of Georgia of February 16, 2023 "On the Approval of the Investment/Capital Project Management Methodology".

<sup>11</sup> The Commission established by the Government of Georgia's resolution, which makes decisions at various stages of an investment project according to the Resolution №65 of the Government of Georgia of February 16, 2023 "On the Approval of the Investment/Capital Project Management Methodology".

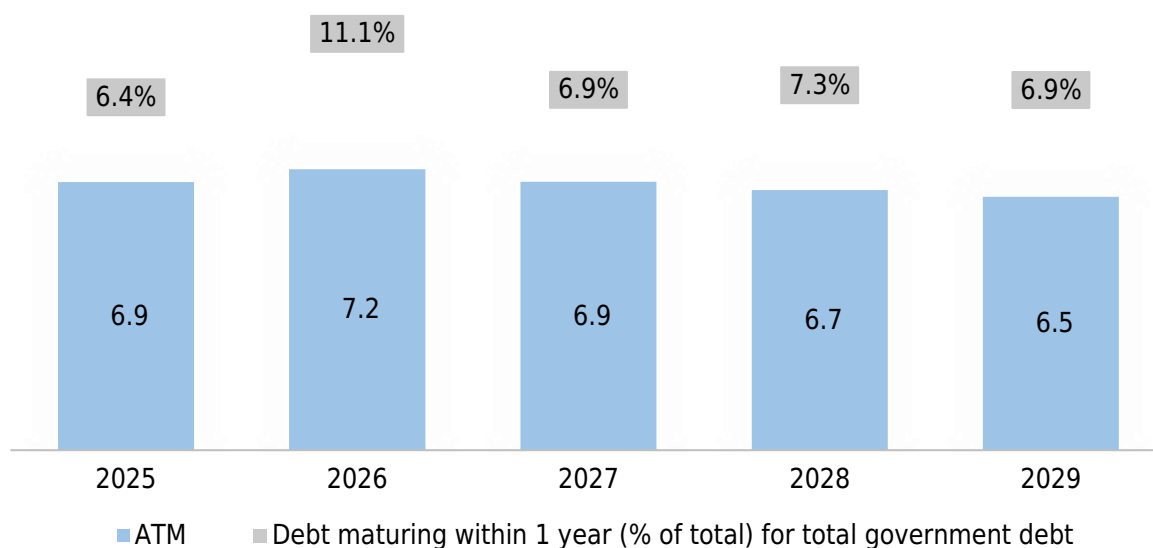
#### Direction 4. Optimization of the cost and risk of the government debt portfolio

This direction covers issues related to the management of refinancing risk of the overall debt portfolio, the selection of financial terms for external loans, and the introduction of analytical models in government debt management.

**Refinancing Risk.** To manage refinancing risk, it is important to monitor the Average Time to Maturity (ATM) of the debt portfolio and the volume of debt maturing within one year relative to the total portfolio. Accordingly, in the medium term, effective management of this risk requires that:

- **The ATM of the government's total debt portfolio** should not fall below 6.5 years, and for the domestic debt portfolio, should not fall below 3 years;
- **The share of debt maturing within one year** should not exceed 15.0% of the total debt portfolio.

*Diagram 5. Projected Indicators of ATM and the Share of Debt Maturing Within One Year, 2025-2029<sup>12</sup>*



Source: Ministry of Finance of Georgia

<sup>12</sup> Refinancing of the outstanding Eurobond is considered for 2026

**Selection of Financial Terms for External Loans.** When selecting the financial terms of external loans, attention is given to the following parameters:

- **Loan Maturity.** One of the key advantages offered by external loans is their maturity. Loans provided by international donors typically have maturities of 15 to 20 years on average, with an initial grace period of 5 to 7 years. This means that during the first 5 to 7 years, only interest payments are made, followed by the amortization of the loan principal. It is also important to note that as the average time to maturity increases, the interest rate tends to rise due to the realization of a maturity premium. Therefore, when selecting loan maturity, it is important to choose an option that does not generate refinancing risk and remains within an acceptable range of the maturity premium.
- **Loan Currency.** In recent years, the share of euro-denominated loans in the external debt portfolio has increased significantly. In this regard, it is advisable to maintain a substantial share of the main currencies (Euro and US dollar) in the portfolio, while also considering opportunities to attract financing in other currencies for the purpose of portfolio diversification. Additionally, according to the portfolio variance minimization model, the exchange rate of the Euro against the Georgian Lari demonstrates greater long-term stability compared to the US dollar.
- **Interest Rate Type.** The choice between fixed and variable interest rates involves a trade-off between minimizing cost and refinancing risk. From the perspective of interest rate risk management, the government debt management strategy sets a minimum threshold of 50% for the share of fixed-rate loans in the total external debt portfolio. However, by the end of 2024, this ratio fell below the target threshold, largely due to the repayment of a relatively higher share of fixed-rate loans and the contracting of new loans with variable interest rates. It is worth noting that many bilateral and multilateral creditors offer the option to convert the interest rate type of existing loans. Under the current global interest rate environment, where tight monetary policy is still partially in place, a gradual shift toward more accommodative monetary policy in the future may create opportunities to fix interest rates at levels lower than current ones. Therefore, it is important to carefully determine the appropriate timing for fixing the interest rate on new or existing loans.

**Strengthening the Analytical Component of Government Debt Management.** This direction involves the development of analytical models for government debt and adherence to international standards. Specifically:

- Partial integration of the Sovereign Risk and Debt Sustainability Framework (SRDSF) developed by the International Monetary Fund into the debt sustainability analysis model of the government debt portfolio, which is prepared by the Public Debt Management Department;
- Application of the World Bank's methodology when comparing alternative scenarios for financing total funding needs (Annex 1);
- Development of a model to define a safe debt level indicator for government debt (Annex 2);
- Introduction of additional analytical models.

## Direction 5. Development of the Treasury Securities Market

This direction includes increasing local market liquidity and diversifying the investor base.

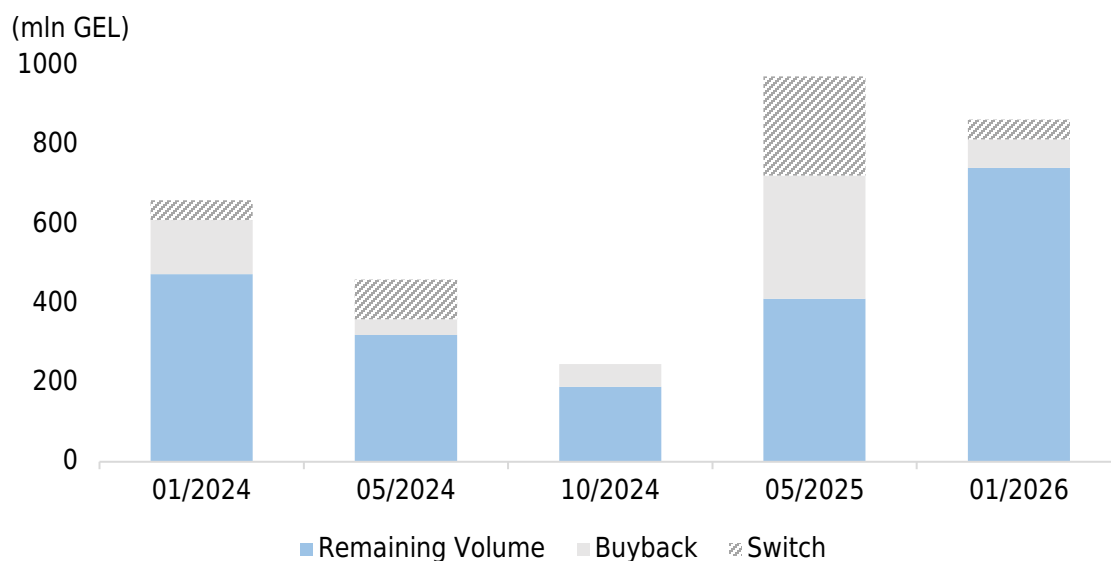
A developed government securities market serves as the foundation of the capital market in the country and plays a key role in the shaping and broadening of the investor base. A government security functions as a benchmark for other corporate securities ultimately being a critical pillar in the price formation process for corporate issuers. In this regard, the existence of a benchmark provides a precondition of reliability for investors and facilitates more efficient access to financial resources for corporations.

A developed market allows the government to respond quickly to financial needs and manage cash efficiently. A well-functioning securities market plays a crucial role for achieving the goal of increasing the lari-denominated share of the debt portfolio. To achieve these strategic objectives, it is important to take the following steps:

### In terms of improving market liquidity:

- **Increasing the volume of securities.** An increased volume of securities in circulation rises investor interest. A larger market reduces the risks investors face when entering or exiting the market. Moreover, the size of the securities market is one of the key criteria for inclusion of local currency-denominated securities in international indices.
- **Establishing strong benchmarks.** This direction implies the gradual building of large volume benchmark securities. The Ministry of Finance of Georgia started the issuance of benchmark securities in 2018, with an initial target volume of 240 million GEL. By the end of 2024, the volumes of the three largest benchmarks amount to GEL 2,577 million, GEL 1,619 million, and GEL 1,096 million, respectively together accounting for 54.7% of the Treasury securities portfolio. Concentrating the portfolio on a few strong benchmarks is essential for the soundness of the portfolio. Both, market size and benchmark volume are among the key criteria for Georgia's inclusion in international indices for local currency-denominated government securities (such as the JP Morgan GBI-EM and the FTSE Frontier Emerging Markets Government Bond Index). Accordingly, through strengthening the portfolio, it will be possible to meet these criteria over the medium term.
- **Active use of liability management operations.** Building large benchmarks, in turn, leads to peaks in redemption profile, thus increases refinancing risk. Therefore, it is important to actively utilize liability management operations (buybacks and switches). In this regard, since the second half of 2023, the Ministry of Finance has been regularly conducting liability management operations - both buybacks and switches.

*Diagram 6. Effect of Liability Management Operations on Redemption Profile of Treasury Bonds (07.2023 – 04.2025)*



Source: Ministry of Finance of Georgia

- **Development of the Secondary Market.** A well-functioning secondary market is an important factor for investors. To support its development, in November 2020 the Ministry of Finance, in consultation with the International Monetary Fund and the World Bank, launched the Primary Dealer Pilot Program. As of now, the program includes one “on-the-run” and four “off-the-run” benchmark bonds. Based on market readiness, assessed through a composite analysis of various criteria (including primary market activity, secondary market turnover, frequency of quote publications in the secondary market, bid-ask spread size, and awareness-raising activities related to Treasury securities), the Primary Dealer Pilot Program is expected to gradually transition into a full-fledged system over the medium term.

#### **In terms of investor base diversification:**

- **Increasing the share of non-resident investors.** Focusing on increasing the share of non-resident investors supports the diversification of the investor base, which in turn helps reduce the cost of local currency-denominated debt and increases foreign currency inflows into the country. Since 2024, the Ministry of Finance of Georgia developed the Investor Relations Strategy, which outlines the key principles of engagement with investors. This strategy, through regular communication and periodic investor meetings (roadshows), promotes interest among non-resident investors in the local capital market. At the same time, inclusion in an international index is expected to boost non-resident investor activity in the local market. The actual share of securities held by non-resident investors during a given period depends on

market conditions. Currently, the difference between local currency interest rates and interest rates of major foreign currencies in international markets is small, making investments in GEL-denominated instruments less attractive at this stage. It is also worth noting that maintaining a healthy balance of holdings between resident and non-resident investors is essential. Over the medium term, a target threshold may be established, as an excessively high share of non-resident investors could pose a risk to the stability of the domestic market.

- **Development of a government retail securities market.** The creation of a retail securities market will help to raise public awareness of financial markets and improve the financial literacy. To achieve this goal, the Ministry of Finance of Georgia will develop a strategy, which will outline the key actions to be undertaken for the creation and advancement of the retail securities market.



## Strategic Objectives and Macroeconomic Indicators Forecast for 2025–2029

*Table 2. Strategic Targets for 2029<sup>13</sup>*

Risk Category	Indicator	2024 Value	2029 Target
Refinancing Risk	Debt maturing within 1 year (% of total government debt)	7.8%	Max. 15.0%
	ATM for total government debt	7.1 years	Min. 6.5 years
	ATM for government domestic debt	3.5 years	Min. 3.0 years
Interest Rate Risk	Share of fixed-rate debt in government external debt	47.4%	Min. 50.0%
	ATR for total government debt	3.5 years	Min. 2.0 years
	Interest payments as % of GDP	1.6%	Max. 2.0%
Exchange Rate Risk	Share of government domestic debt into total government debt	30.3%	Min. 35.0%
Solvency Risk	Government debt to GDP ratio	36.1%	Max. 40.0%–45.0%
Limit on External Program Loans*		117 mln USD	250 mln USD
Conversion of on-lent resources into market instruments		-	500 mln GEL
PIM-based investment loans*		100%	100%
Compliance Rate with Quantitative Criteria of International Indices		68.9%	100%

\* - Indicators are based on the operations carried out within a year

<sup>13</sup> The presented strategic directions are based on the assumption that, during the strategy period, no domestic or external shocks will occur that would significantly alter the macroeconomic environment, and they do not apply in cases provided for under Article 2, Paragraph 7 of Georgia's Organic Law on Economic Freedom.

*Table 3. Projected Data of Macroeconomic Indicators for 2025-2029*

Indicators (mln GEL)	2025	2026	2027	2028	2029
Consolidated General Budget Revenues	27,665	29,850	32,100	34,750	37,651
Consolidated General Budget Expenditures	23,030	25,345	27,250	29,440	31,838
Net Acquisition of Non-Financial Assets	7,129	7,050	7,500	8,100	8,748
Net Acquisition of Financial Assets	-19	30	30	-20	-20
Modified Deficit	-2,475	-2,575	-2,680	-2,770	-2,915
Gross Financing Needs	-5,072	-6,112	-5,724	-6,757	-5,453
Net Issuance of Treasury Securities	1,600	1,600	1,700	1,800	1,900
Net Growth of External Debt	456	790	900	940	980
Disbursement	1,826	3,450	2,200	2,300	2,400
Repayment	-1,370	-2,660	-1,300	-1,360	-1,420
Government Debt	35,648	38,021	40,636	43,402	46,302
Nominal GDP	100,330	108,507	117,574	127,520	138,307
Real GDP Growth	6.00%	5.00%	5.20%	5.30%	5.30%
Change in GDP Deflator	3.00%	3.00%	3.00%	3.00%	3.00%
Percent of GDP					
Modified Deficit	-2.5%	-2.4%	-2.3%	-2.2%	-2.1%
Gross Financing Needs	-5.1%	-5.6%	-4.9%	-5.3%	-3.9%
Government Debt	35.5%	35.0%	34.6%	34.0%	33.5%

Source: Ministry of Finance of Georgia

## Measures Implemented Under the 2024–2027 General Government Debt Management Strategy

The following key actions were undertaken to achieve the objectives of the 2024–2027 Government Debt Management Strategy

- **Development-oriented loans:** In 2024, a total of 10 loan agreements were signed. Of these, three were budget support loans, while the remaining seven were investment loans. Among the investment loans, four projects were evaluated using the Public Investment Management (PIM) methodology. Of the remaining three, one was a continuation of an existing project, and two were intended for the technical and financial feasibility studies of anticipated projects, which do not require PIM evaluation.
- **Increase in the share of lari-denominated debt in the government debt portfolio:** In 2024, a lari-denominated loan agreement was signed with the Asian Development Bank (ADB).
- **Enhancement of the Primary Dealer Pilot Program:** The pilot program, which initially included 5-year Treasury bonds, was expanded in November 2022 to include 2-year Treasury bonds. Additionally, as of January 1, 2023, the program was further extended to cover the 10-year Treasury bonds issued in January 2018.
- **Investor Relations:** Over the past year, the Ministry of Finance of Georgia participated in the Central and Eastern Europe (CEE) Conference organized by Euromoney, during which meetings were held with major international investors and investment banks. In addition, regular communication, and periodic meetings with both domestic and international investors were carried out throughout the year.
- **Establishment of the Retail Securities Market:** To support the creation of a retail securities market, international best practices are currently being studied. In 2024, representatives of the Ministry of Finance of Georgia and the National Bank of Georgia conducted study visits to the Philippines and Thailand to exchange experience on government retail securities.
- **Strengthening the Government Debt Management Analytics:** Over the past year, significant progress was made in enhancing the analytical capacity of government debt management. Specifically:

- ▶ A new government debt sustainability analysis document was developed, which partially integrates the new methodology of the Sovereign Risk and Debt Sustainability Framework (SRDSF) introduced by the International Monetary Fund (IMF);
- ▶ A model for determining the safe level of debt was developed (Annex 2);
- ▶ A simulation model for assessing the impact of local currency conversion (larization) of foreign currency-denominated loans was created.

## Annex 1: Scenario Analysis

As part of the Government Debt Management Strategy, four alternative strategies for financing the total funding needs were analyzed with the objective of assessing the associated costs and risks:

- Strategy 1 (S1): Maintain net issuance levels of the domestic debt and finance the remaining portion of the total financing needs through external sources.
- Strategy 2 (S2): Finance 50% of the total financing needs from domestic sources and 50% from external sources.
- Strategy 3 (S3): Finance 100% of the total financing needs from domestic sources.
- Strategy 4 (S4): Finance 100% of the total financing needs from external sources.

The analysis of the above-mentioned strategies was conducted using the framework of the 'Medium-Term Debt Management Strategy' developed by the World Bank and the International Monetary Fund, and was based on the macroeconomic projections presented in Table 3.

The simulations incorporated interest rate and exchange rate shocks, under which cost and risk indicators were projected for the end of 2029 based on three key metrics: the debt to GDP ratio, the interest payment to GDP ratio, and the interest payment to budget revenue ratio. For the purposes of this analysis, cost and risk are defined as follows:

- **Cost:** The expected value of the indicator at the end of the projection period under the baseline scenario.
- **Risk:** The maximum deviation of the indicator from the baseline scenario during the projection period, under interest rate and exchange rate shock scenarios.

As a result of the simulation, a cost-risk distribution was obtained for various fiscal indicators. The analysis showed that financing total needs entirely through domestic resources (S3) is associated with high costs and low risk, whereas financing the total needs entirely through external sources (S4) entails lower costs but higher risks. These results suggest that selecting an optimal strategy requires a trade-off - either accepting a certain level of risk to reduce costs or incurring higher costs to mitigate risks. For Strategies S1 and S2, the coefficient of variation was calculated, which identified S1 as the strategy with the lowest value, indicating the most favorable cost-risk balance among the two.

Alongside the quantitative analysis conducted, it should be noted that, at the current stage, the level of development of the domestic market does not allow for the full financing of total needs from domestic sources (S3). Furthermore, in the medium term, it is planned to implement projects funded by external sources, for which the involvement of development partner organizations is essential to ensure their effective and successful implementation.

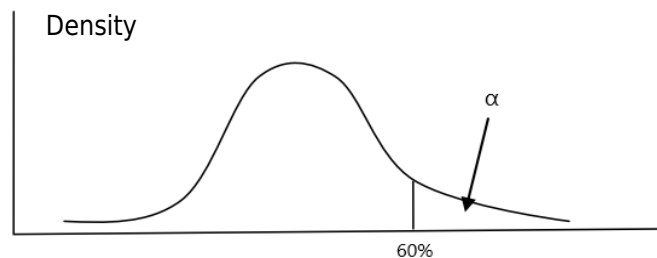
Considering the above-mentioned quantitative and judgment-based analysis, Strategy S1 was selected. This strategy entails maintaining net issuance levels in the domestic market, among other reasons, to avoid the crowding-out effect on private investment, and covering the remaining financing needs through concessional external sources.

## Annex 2: Safe Level of General Government Debt

To determine the safe level of General Government debt, a simulation-based model<sup>14</sup> was developed by the Public Debt Management Department. This model utilizes both the baseline and a set of simulated projections (10,000 Monte Carlo simulations) generated by the Ministry of Finance's Quarterly Projection Model (QPM). Based on these 10,000 simulations, the debt management model in turn performs an additional 10,000 simulations, enabling the analysis of the distribution of various debt-related parameters and their assessment in line with policy objectives.

In the analysis, the **safe level of debt**<sup>15</sup> is defined as the debt to GDP ratio that ensures debt sustainability under various simulations. Specifically, it is the level at which, ten years from now, the debt to GDP ratio remains below the 60% threshold with a probability of  $(1-\alpha)$ , where the parameter  $\alpha$  reflects the level of risk tolerance.

*Figure 2.1. Theoretical Probability Density Function of the Debt to GDP Ratio After 10 Years*

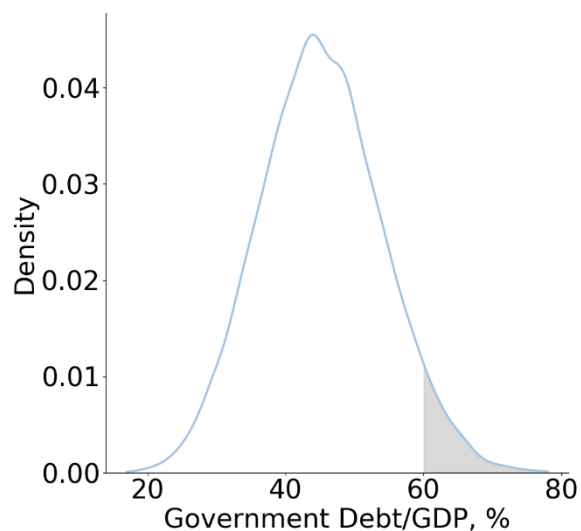


The analysis using this model was conducted assuming a value of 0.05 for the  $\alpha$  parameter. Naturally, the higher the level of risk tolerance, the greater the corresponding safe level of debt.

<sup>14</sup> The further development of the model is currently ongoing

<sup>15</sup> <https://www.imf.org/en/Publications/Fiscal-Affairs-Department-How-To-Notes/Issues/2018/03/15/How-to-Calibrate-Fiscal-Rules-A-Primer-45551>

*Figure 2.2. Estimated probability density function (via Kernel Density Estimation) of the debt to GDP ratio in 10 years, based on 10,000 simulations*

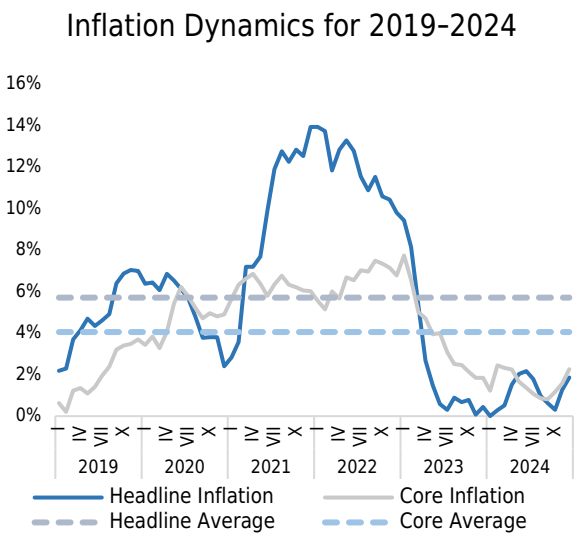
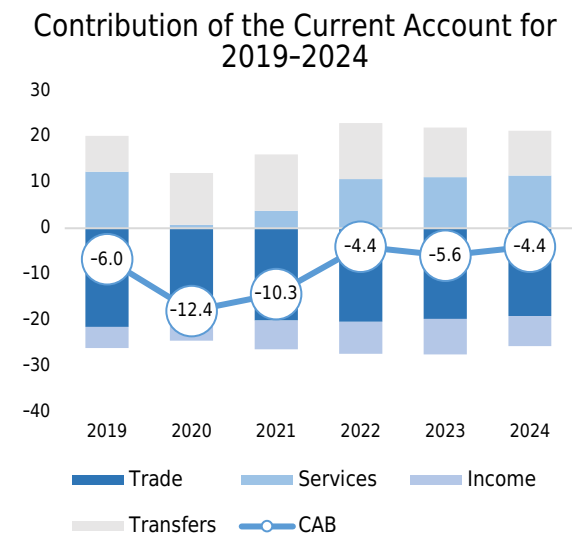
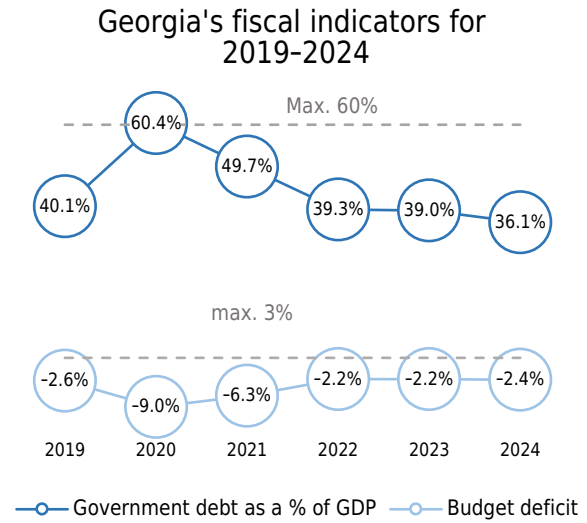
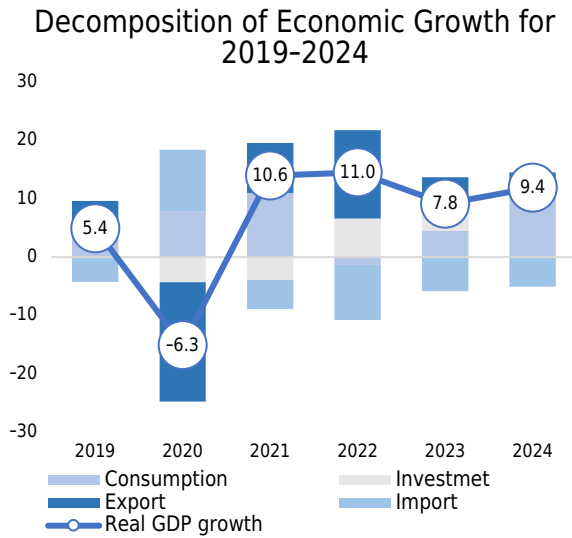


Source: Ministry of Finance of Georgia

The simulation results indicate that the safe level of debt amounts to 47% of GDP. Within the framework of the first strategic direction, the selected debt safety threshold of 40–45% of GDP reflects a relatively conservative approach, where the risk tolerance parameter falls within the 0.02–0.04 range. Accordingly, if the government debt portfolio remains within 40–45% of GDP, the probability that the debt to GDP ratio will not exceed 60% in ten years is estimated at 96–98%.



## Annex 3: Macroeconomic Overview



### Georgia's Credit Rating

Rating Agency	Rating	Outlook	Date
Moody's	Ba2	Negative	March 2025
S&P Global	BB	Stable	February 2025
Fitch Ratings	BB	Negative	May 2025

Source: Geostat, NBG, Ministry of Finance of Georgia

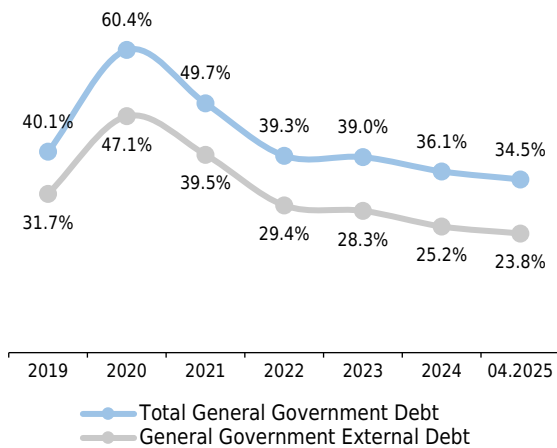
## Annex 4: General Government Debt Portfolio Description

As a result of the economic recovery in 2022–2023, the debt to GDP ratio remains within the safe threshold of 40%–45%. By the end of 2024, the volume of government debt amounted to GEL 33,169 million, representing 36.1% of Gross Domestic Product. Within the government debt portfolio, debt denominated in foreign currency totaled GEL 23,121 million, while debt denominated in local currency amounted to GEL 10,048 million. The volume of obligations under public-private partnerships (PPPs), which constitute one of the components of the fiscal rule related to debt, stood at GEL 43.1 million as of the end of 2024.

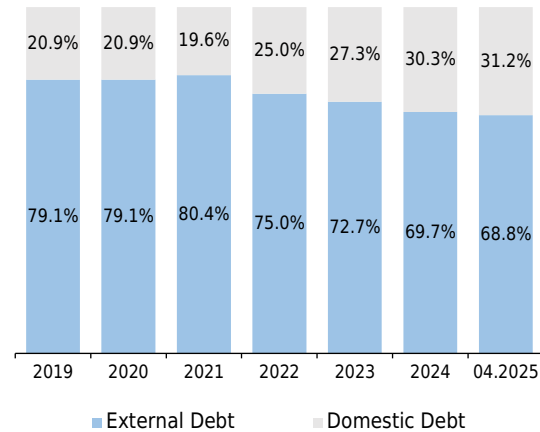
Throughout 2024, as in 2023, international markets continued to be characterized by tight monetary policy. Against the backdrop of expectations for gradual policy easing, borrowing at fixed interest rates became less attractive. Accordingly, in 2024, the share of loans with variable interest rates exceeded that of fixed-rate loans, diverging from the balanced position observed in 2023. The sharp increase in interest rates in international markets, and the resulting rise in domestic interest rates, contributed to an increase in budgetary interest expenditures.

Alongside the development of the Treasury Securities Market, both the share of domestic debt in the government debt portfolio and the nominal volume of the Treasury Securities portfolio have increased significantly. The demand to supply ratio at Treasury Securities auctions fluctuates around 2, which is one of the key indicators of the soundness of the primary market.

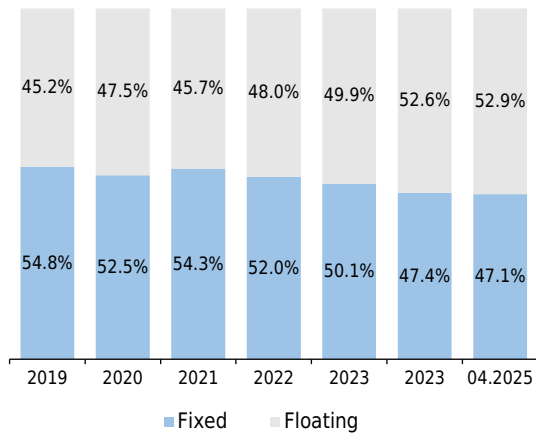
General Government Debt Dynamics (% of GDP) for 2019-2024



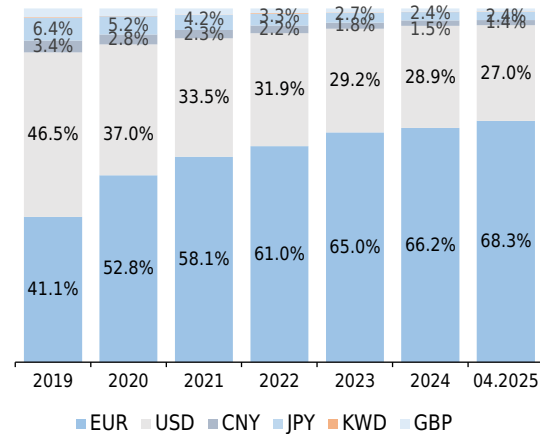
General Government Debt Portfolio Structure for 2019-2024



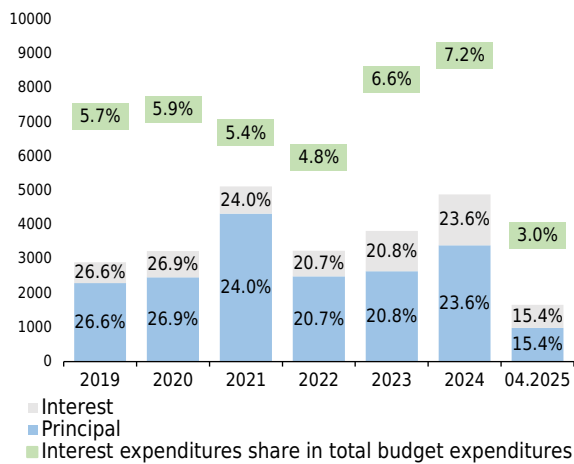
General Government External Debt Portfolio Structure by Interest Rate Type for 2019-2025



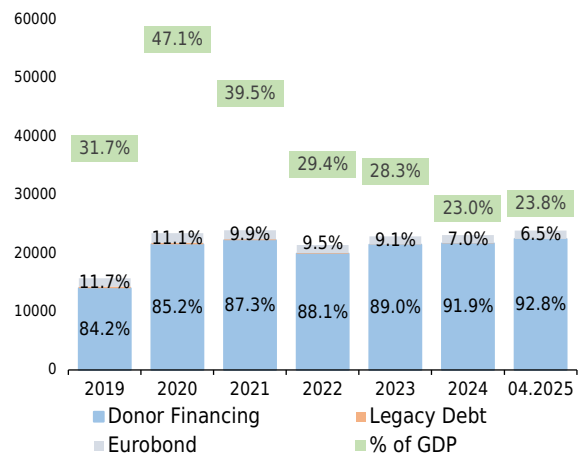
Currency Composition of the General Government External Debt Portfolio for 2019-2025



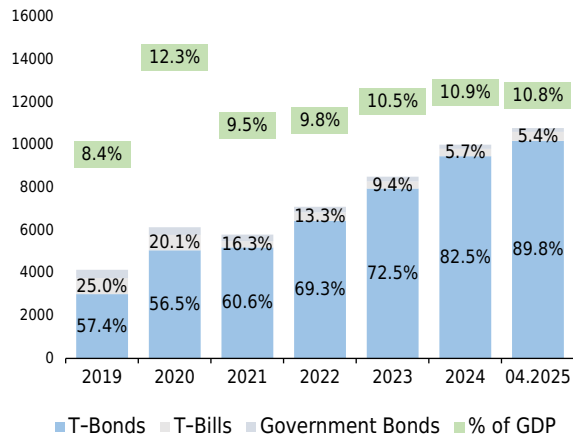
General Government Debt Service for 2019-2024 (mln GEL)



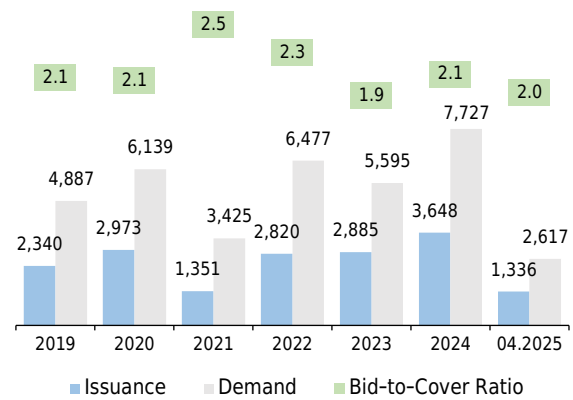
General Government External Debt Structure for 2019-2024 (mln GEL)



### General Government Domestic Debt Portfolio Structure for 2019-2024



### Domestic Debt Issuance and Demand for 2019-2024 (mln GEL)



### Weighted Average Interest Rates on the Government's Domestic and External Debt Portfolio

