



Ministry of finance of Georgia

Government Debt Sustainability Analysis

For 2025-2035

November, 2025

Government Debt Sustainability Analysis

The primary goal of conducting the government debt sustainability analysis is to assess the government's ability to service its obligations both in the short and long term. Debt sustainability analysis is important in terms of budget transparency and effective public finance management. The analysis is based on the methodology of the International Monetary Fund (IMF) and is modified depending on the specifics of the country.¹

Government debt sustainability analysis, which encompasses the assessment of various possible risk factors and their impact on the government's debt portfolio, helps the government to identify possible consequences of negative factors in advance and develop an appropriate action plan.

In the government debt sustainability analysis, both baseline and alternative (negative) scenarios are used, and corresponding assumptions are made about various macroeconomic and fiscal variables. These include real GDP growth, inflation, exchange rate fluctuations, interest rates, government expenditures, fiscal deficit, and other factors.

In the given analysis, the baseline scenario represents the expected option of economic development, which has the highest probability of occurring in the medium term. Accordingly, the state budget is projected based on this scenario.

In alternative scenarios, stress tests are performed by considering various magnitudes of different economic and fiscal shocks (Real GDP growth shock², real interest rate shock³, government budget primary balance shock⁴, nominal exchange rate shock⁵, combined shock⁶ and contingent liabilities shock⁷) and the impact on the government debt sustainability is assessed.

¹ The methodology is given at the following link: <https://www.imf.org/external/np/pp/eng/2005/070105.pdf>

² The baseline scenario minus 1 standard deviation of the past 10 years data. Shocks are applied for the years 2026-2027, and the baseline scenario is taken for the years 2028-2035. A permanent shock is not used in this scenario because under a permanent shock to real GDP growth, government debt, like the government debt of almost all other countries, is not stable. Also, in the long run, the economy grows with potential growth. As of today, there is no reason to reduce the rate of long-term potential economic growth of Georgia

³ ½ standard deviation of the past 10 years of data added to the baseline scenario. Shocks are used for 2026-2029.

⁴ ½ standard deviation of the past 10 years of data added to the baseline scenario. Shocks are used for 2026-2029.

⁵ One-time depreciation of the nominal exchange rate of the GEL against the US dollar by 30% in 2026

⁶ In 2026, the deviation of the primary balance of the government budget, the real GDP growth rate and the real interest rate from the baseline scenario by 1 standard deviation.

⁷ Realization of 100% fiscal risk within the framework of the guaranteed Power Purchase Agreement (PPA) in the period of 2026-2029 (294 million GEL)

Values of variables used for the baseline scenario

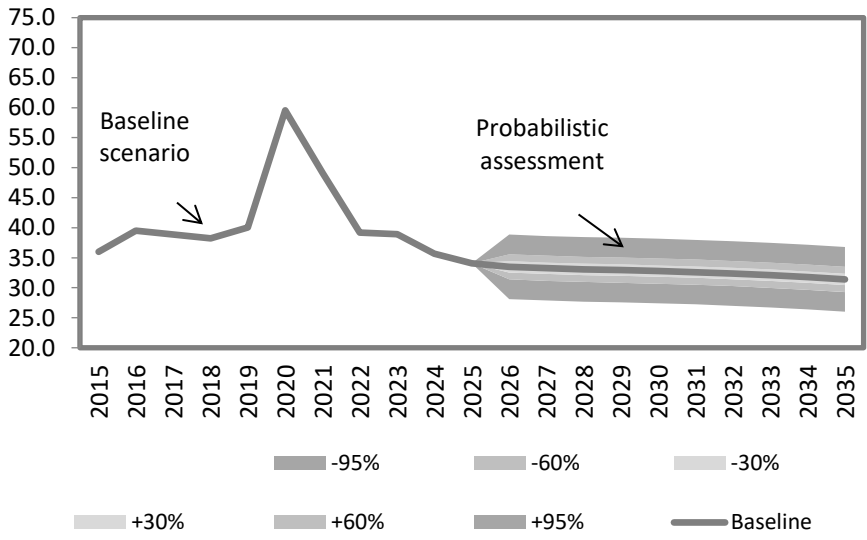
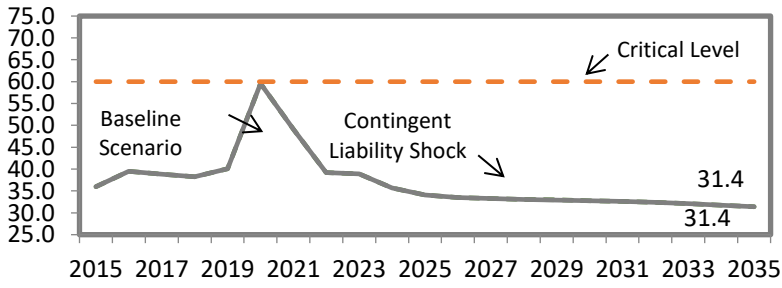
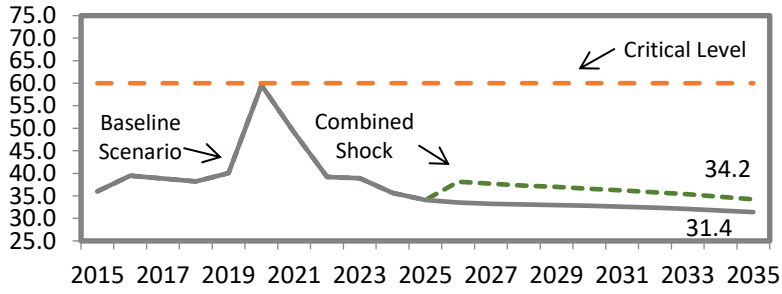
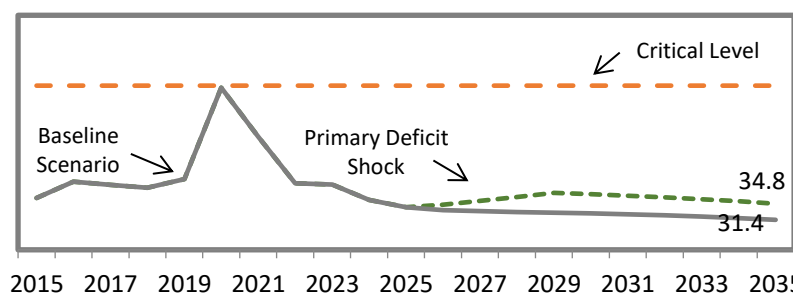
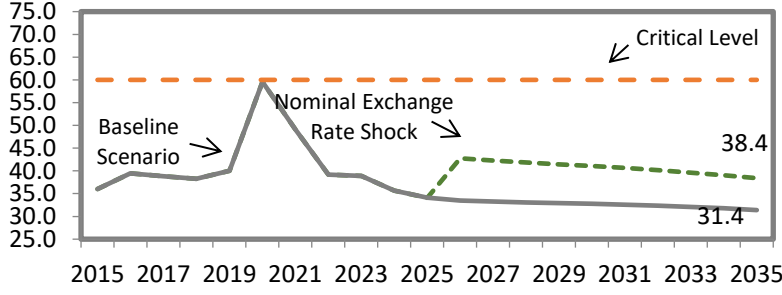
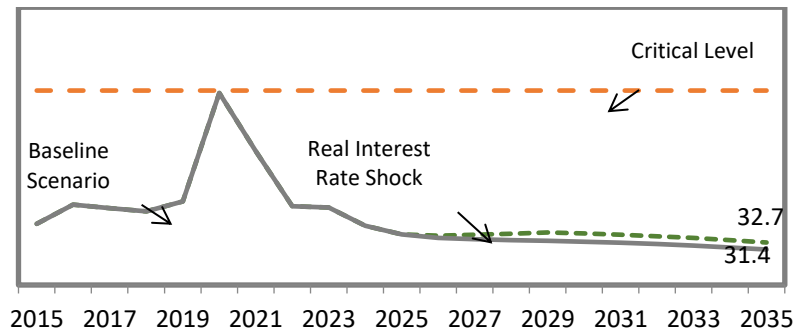
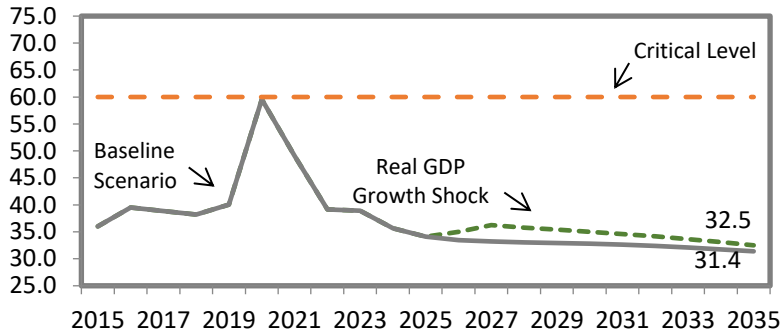
Variables	<u>Average of 10 years</u>	<u>Standard deviation</u>	2026	2027	2028	2029
Average real interest rate on government debt (nominal rate minus GDP deflator, %)	-1.9	2.7	1.0	2.2	2.1	2.4
Real GDP growth (%)	5.6	5.0	5.0	5.2	5.3	5.3
Primary deficit (% of GDP)	3.0	2.2	1.2	1.1	1.0	0.8
Nominal appreciation of the GEL (USD per GEL)			0.0	0.0	0.0	0.0
Contingent liability shock (as a percentage of GDP)			0.0	0.0	0.0	0.0

Values of variables used for alternative scenarios

Variables	<u>Average of 10 years</u>	<u>Standard deviation</u>	2026	2027	2028	2029
Average real interest rate on government debt (nominal rate minus GDP deflator, %)	-1.9	2.7	2.4	3.5	3.4	3.8
Real GDP growth (%)	5.6	5.0	0.0	0.2	5.3	5.3
Primary deficit (% of GDP)	3.0	2.2	2.3	2.2	2.1	1.9
Nominal appreciation of the GEL (USD per GEL)			-30.0	0.0	0.0	0.0
Contingent liability shock (as a percentage of GDP)			0.001	0.001	0.001	0.000

According to all the scenarios considered in the assessment of the government debt sustainability analysis (see diagrams), the government debt to GDP ratio increases, but starts to decrease as the assumed shock is neutralized. In lieu of the increase in the government debt-to-GDP ratio in 2020, driven by the deterioration of economic conditions caused by the global pandemic and the resulting rise in financing needs, the debt-to-GDP ratio declined to 35.7 percent by the end of 2024 and is expected to further decrease to 34.1 percent by the end of 2025.

Government Debt Sustainability Analysis Charts (Government Debt as a % of GDP)



Government Debt Sustainability Analysis, 2025-2035
(as a percentage of GDP unless otherwise stated)

	Fact										Forecast										
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
	Baseline scenario*																				
Government debt	36.0	39.5	38.9	38.2	40.1	59.6	49.1	39.2	38.9	35.7	34.1	33.5	33.2	33.1	32.9	32.8	32.6	32.4	32.1	31.8	31.4
o/w foreign currency denominated	29.8	32.7	31.9	31.1	31.7	47.1	39.5	29.4	28.3	24.9	23.0	21.7	20.8	19.9	19.1	18.4	17.8	17.2	16.7	16.3	15.9
Change in government debt	5.6	3.5	-0.6	-0.6	1.8	19.5	-10.5	-9.9	-0.2	-3.3	-1.6	-0.6	-0.2	-0.2	-0.1	-0.2	-0.2	-0.2	-0.3	-0.3	-0.4
Identified debt-creating flows (4+7+12)	6.4	4.0	-2.3	-0.1	1.4	17.2	-8.7	-8.7	-1.1	-1.9	-3.0	-1.0	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.3	-0.4
<i>Primary deficit</i>	2.5	2.7	2.5	1.4	2.1	8.1	5.7	2.5	1.5	1.3	1.0	1.2	1.1	1.0	0.8	0.9	0.9	1.0	1.1	1.2	1.2
Revenue and grants	25.9	26.5	26.4	26.1	26.0	24.9	24.9	26.6	27.4	27.7	27.1	26.0	26.0	25.9	25.8	25.8	25.8	25.8	25.8	25.8	25.8
Primary (noninterest) expenditure	28.4	29.1	28.9	27.4	28.1	33.1	30.6	29.0	28.9	29.0	28.0	27.2	27.1	26.9	26.5	26.6	26.7	26.8	26.9	26.9	27.0
<i>Automatic debt dynamics 1/</i>	4.5	2.0	-4.0	-1.4	-0.1	6.0	-11.5	-11.3	-2.5	-2.4	-3.1	-1.3	-1.0	-1.0	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2
Contribution to real interest rate/real GDP growth 2/	-1.6	-0.8	-3.4	-2.3	-2.2	1.4	-9.4	-7.1	-2.4	-3.5	-2.3	-1.3	-1.0	-1.0	-0.9	-0.9	-1.0	-1.0	-1.1	-1.1	-1.2
Contribution to real interest rate	-0.6	0.4	-1.6	-0.2	-0.3	-1.1	-4.2	-2.6	0.4	-0.2	0.0	0.3	0.6	0.6	0.7	0.6	0.5	0.5	0.4	0.3	0.3
Contribution to real GDP growth	-0.9	-1.2	-1.8	-2.1	-1.9	2.5	-5.2	-4.5	-2.8	-3.3	-2.3	-1.6	-1.6	-1.6	-1.6	-1.5	-1.5	-1.5	-1.5	-1.5	-1.5
Contribution to exchange rate depreciation 3/	6.1	2.9	-0.6	1.0	2.1	4.6	-2.1	-4.2	-0.1	1.1	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Denominator = 1+g+p+gp	1.1	1.1	1.1	1.1	1.1	1.0	1.2	1.2	1.1	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
<i>Other identified debt-creating flows</i>	-0.6	-0.8	-0.8	-0.1	-0.6	3.0	-2.9	0.2	-0.1	-0.8	-0.9	-0.9	-0.4	-0.2	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3	-0.4
Privatization receipts (negative) and use of other resources	-0.6	-0.8	-0.8	-0.1	-0.6	3.0	-2.9	0.2	-0.1	-0.8	-0.9	-0.9	-0.4	-0.2	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3	-0.4
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual (2-3)	-0.8	-0.5	1.7	-0.5	0.4	2.3	-1.8	-1.3	0.8	-1.4	1.4	0.4	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Scenario 1. Real interest rate shock	36.0	39.5	38.9	38.2	40.1	59.6	49.1	39.2	38.9	35.7	34.1	33.9	34.0	34.2	34.5	34.3	34.1	33.8	33.5	33.1	32.7
Scenario 2. Real GDP growth shock	36.0	39.5	38.9	38.2	40.1	59.6	49.1	39.2	38.9	35.7	34.1	35.0	36.3	35.8	35.4	35.0	34.6	34.1	33.6	33.1	32.5
Scenario 3. Primary deficit shock	36.0	39.5	38.9	38.2	40.1	59.6	49.1	39.2	38.9	35.7	34.1	34.6	35.4	36.2	37.1	36.9	36.6	36.2	35.8	35.3	34.8
Scenario 4. Nominal exchange rate shock	36.0	39.5	38.9	38.2	40.1	59.6	49.1	39.2	38.9	35.7	34.1	42.8	42.3	41.8	41.5	41.1	40.6	40.2	39.6	39.0	38.4
Scenario 5. Combined shock	36.0	39.5	38.9	38.2	40.1	59.6	49.1	39.2	38.9	35.7	34.1	38.2	37.7	37.3	37.0	36.6	36.2	35.8	35.3	34.8	34.2
Scenario 6. Contingent liabilities shock	36.0	39.5	38.9	38.2	40.1	59.6	49.1	39.2	38.9	35.7	34.1	33.5	33.3	33.1	32.9	32.8	32.6	32.4	32.1	31.8	31.4
Key macroeconomic and fiscal assumptions																					
Real GDP growth (%)	3.4	3.4	5.2	6.1	5.4	-6.3	10.6	11.0	7.8	9.7	7.2	5.0	5.2	5.3	5.3	5.0	5.0	5.0	5.0	5.0	5.0
Average nominal interest rate on government debt (%) 4/	3.4	3.4	3.4	3.2	3.4	3.7	2.8	2.7	4.2	4.6	5.1	5.2	5.2	5.1	5.5	5.2	5.0	4.7	4.5	4.3	4.1
Average nominal interest rate on government external debt (%) 4/	1.8	1.7	2.0	2.0	2.1	1.9	1.3	1.1	2.4	3.0	3.2	3.2	3.1	3.2	3.3	3.2	3.1	3.1	3.0	2.9	2.8
Average real interest rate on government debt (average nominal interest rate minus GDP deflator)	-1.9	1.1	-3.9	-0.3	-0.6	-3.0	-6.8	-5.1	1.2	-0.2	0.4	1.0	2.2	2.1	2.4	2.1	1.9	1.7	1.4	1.2	1.1
Exchange rate (GEL per USD)	2.4	2.6	2.6	2.7	2.9	3.3	3.1	2.7	2.7	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Nominal depreciation of local currency (GEL per USD)	28.5	10.5	-2.1	3.3	7.1	14.3	-5.5	-12.8	-0.5	4.4	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exchange rate (USD per GEL)	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Nominal appreciation of local currency (USD per GEL)	-22.2	-9.5	2.1	-3.2	-6.7	-12.5	5.8	14.6	0.5	-4.2	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation (GDP deflator)	5.4	2.3	7.5	3.5	4.0	6.8	10.2	8.1	2.9	4.9	4.7	4.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0

1/ It is taken as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ multiplied by the previous period debt to GDP ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

2/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real GDP growth contribution as $-g$.

3/ The exchange rate contribution is derived from the denominator in footnote 2/ as $ae(1+r)$.

4/ Derived as nominal interest expenditure divided by previous period debt stock.

* The baseline scenario used in the government debt sustainability analysis is consistent with the baseline scenario used in the development of the macroeconomic risk analysis of the fiscal sector.

Factors affecting changes in government debt (as % of GDP), baseline scenario

