

# General Government Debt Management Strategy

2021



# Outline

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- The Scope of General Government Debt Management Strategy
- Risks Associated with Debt Portfolio
- Strategic Directions of General Government Debt Management



# The Scope of General Government Debt Management Strategy



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The Government Debt Management Strategy Document covers the debt indicator, which includes:

- General Government Debt of Georgia defined by the Organic Law of Georgia on Economic Freedom;
- The fair value of PPP liabilities.



# Risks Associated with Debt Portfolio



# Main Challenges

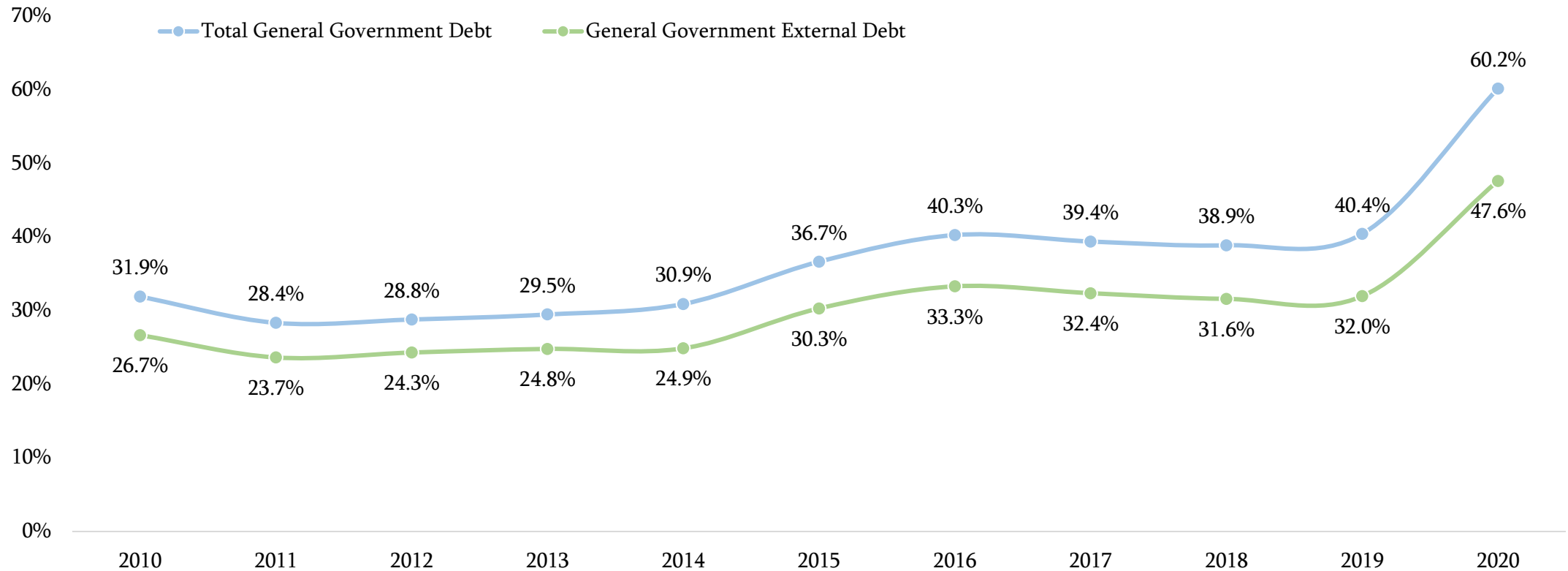
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- High level of debt to GDP ratio (60% by the end of 2020);
- High level of dollarization in debt portfolio (79% by the end of 2020);
- Absence of evaluation policy for projects funded by external loans;
- On-lending practices to non-profit state-owned enterprises;
- Underdevelopment of treasury securities market.



# General Government Debt Portfolio Description

## General Government Debt Dynamics (% of GDP) for 2010-2020



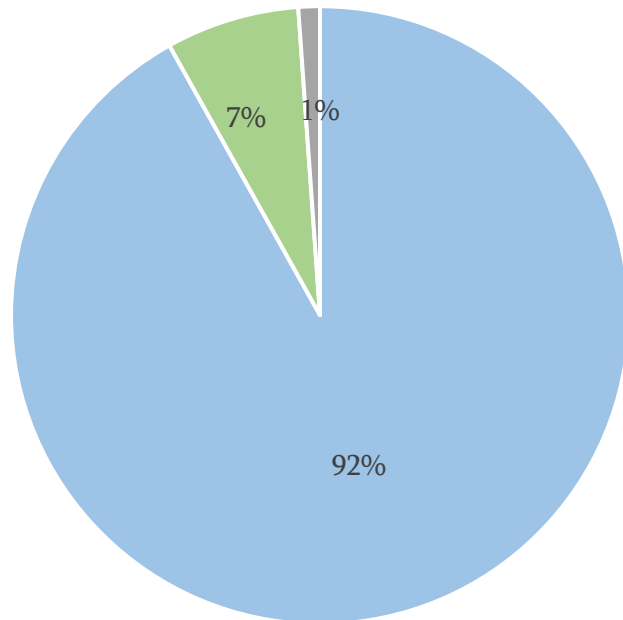
*The general government debt to GDP ratio, including the PPP liabilities, amounted to 61.0% by the end of 2020.*



# General Government Debt Portfolio Description

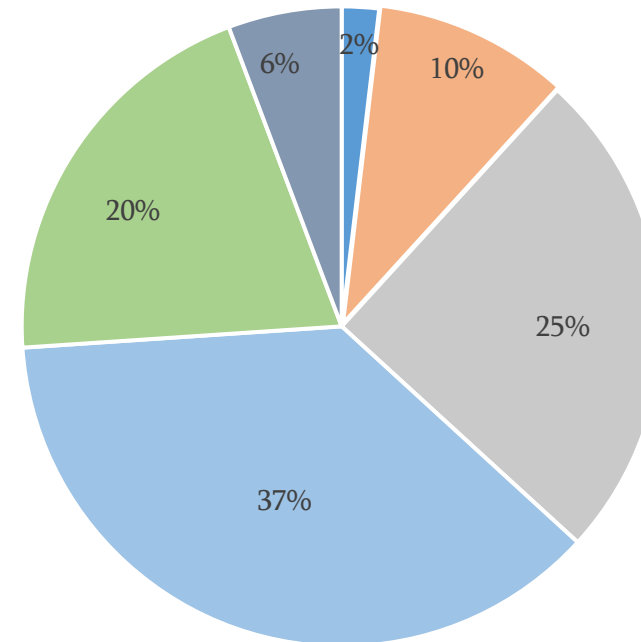
## External and Domestic Debt portfolio by types of Instruments as of 2020

### External Debt (79%)



■ Donor Financing ■ Eurobond ■ Legacy Debt

### Domestic Debt (21%)



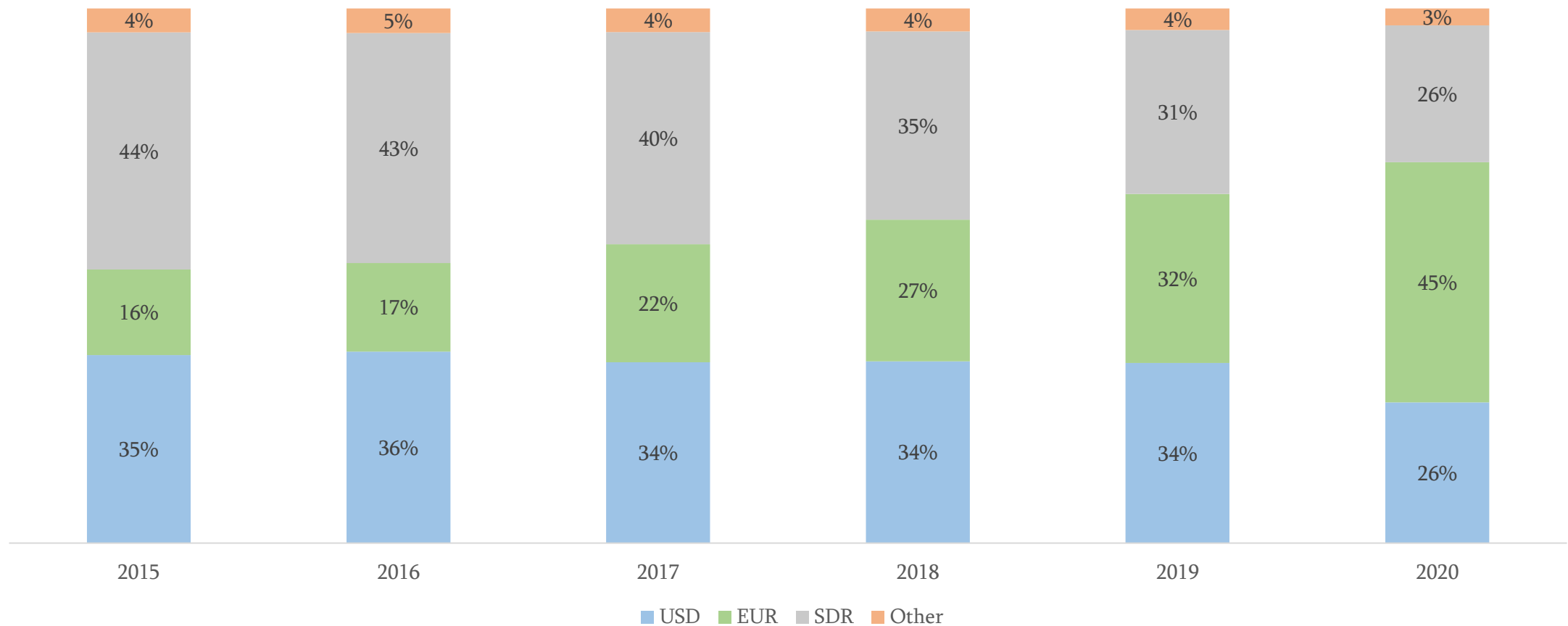
■ 6-month ■ 12-month ■ 2-year ■ 5-year ■ 10-year ■ Government bonds





# General Government Debt Portfolio Description

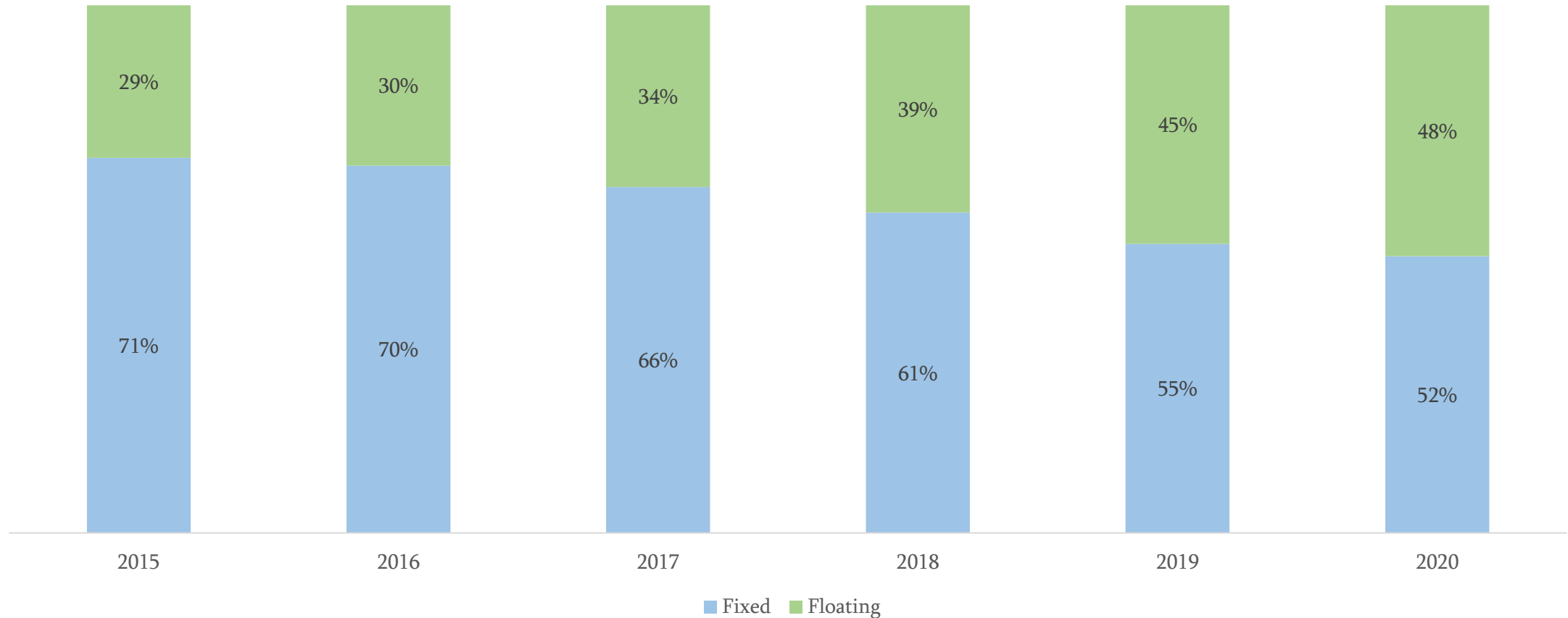
## Currency Composition of the External Debt Portfolio for 2015-2020





# General Government Debt Portfolio Description

## External Debt Portfolio Structure by Interest Rate Type for 2015-2020





# Strategic Directions of General Government Debt Management



## Five Strategic Directions

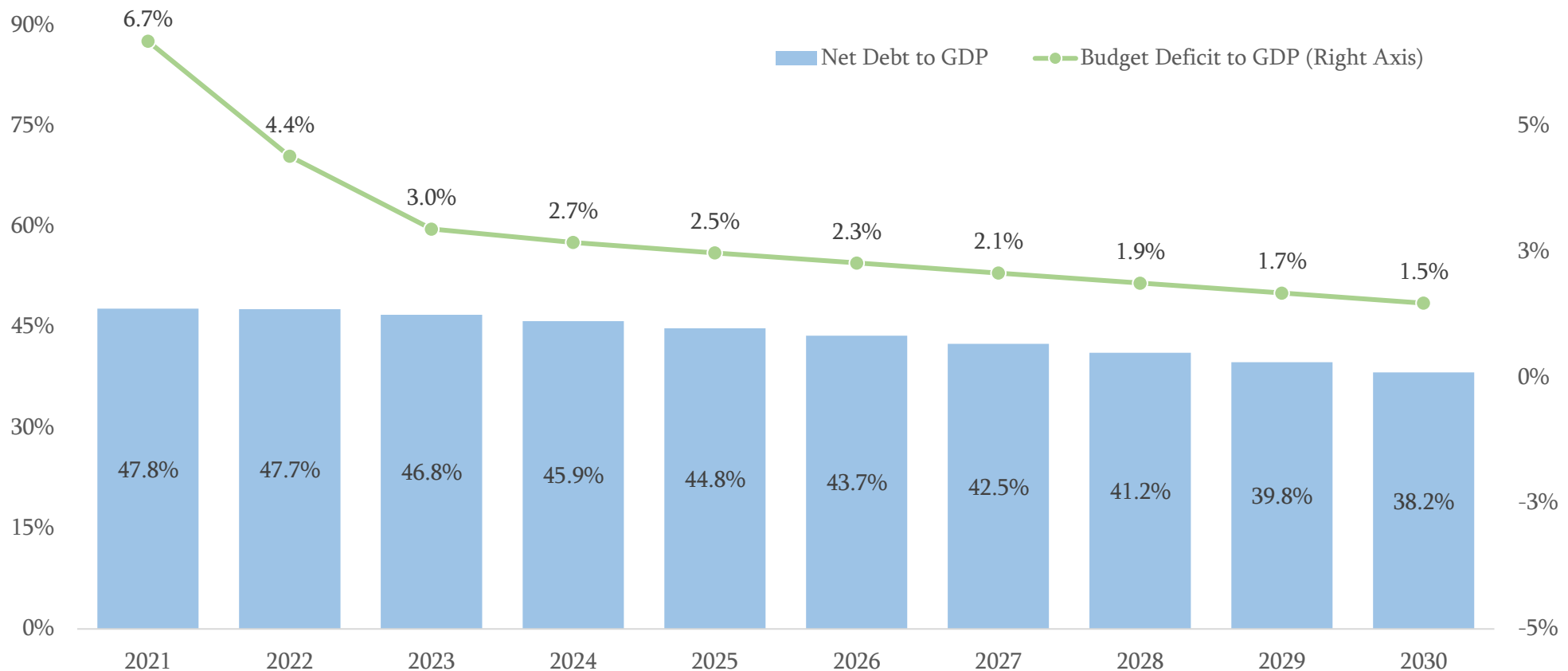
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1. Reducing the government net debt to GDP ratio;
2. Increasing GEL-denominated debt share in the government debt portfolio;
3. Increasing the focus on the development-oriented external loans;
4. Cost and risk optimization of the government total debt portfolio;
5. Treasury securities' market development.



# 1. Reducing the Government Net Debt to GDP Ratio

## Projected dynamics of government net debt and budget deficit to GDP ratios for 2021-2030





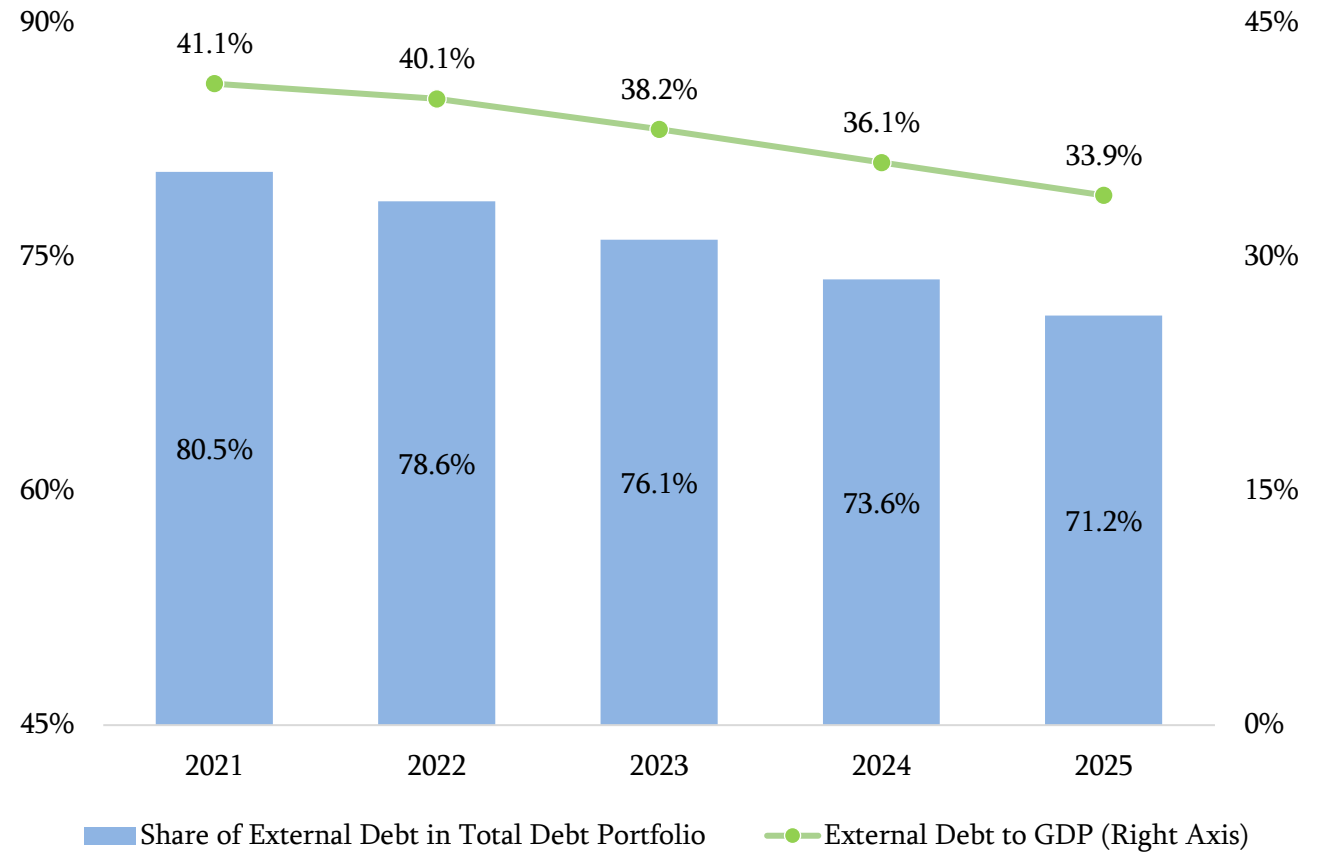
## 2. Increasing GEL-denominated Debt Share in the Government Debt Portfolio

Target indicators by 2025:

a) Reduction of the external debt to GDP ratio to 35 percent;

b) Reduction of the external debt share in total debt below 72 percent.

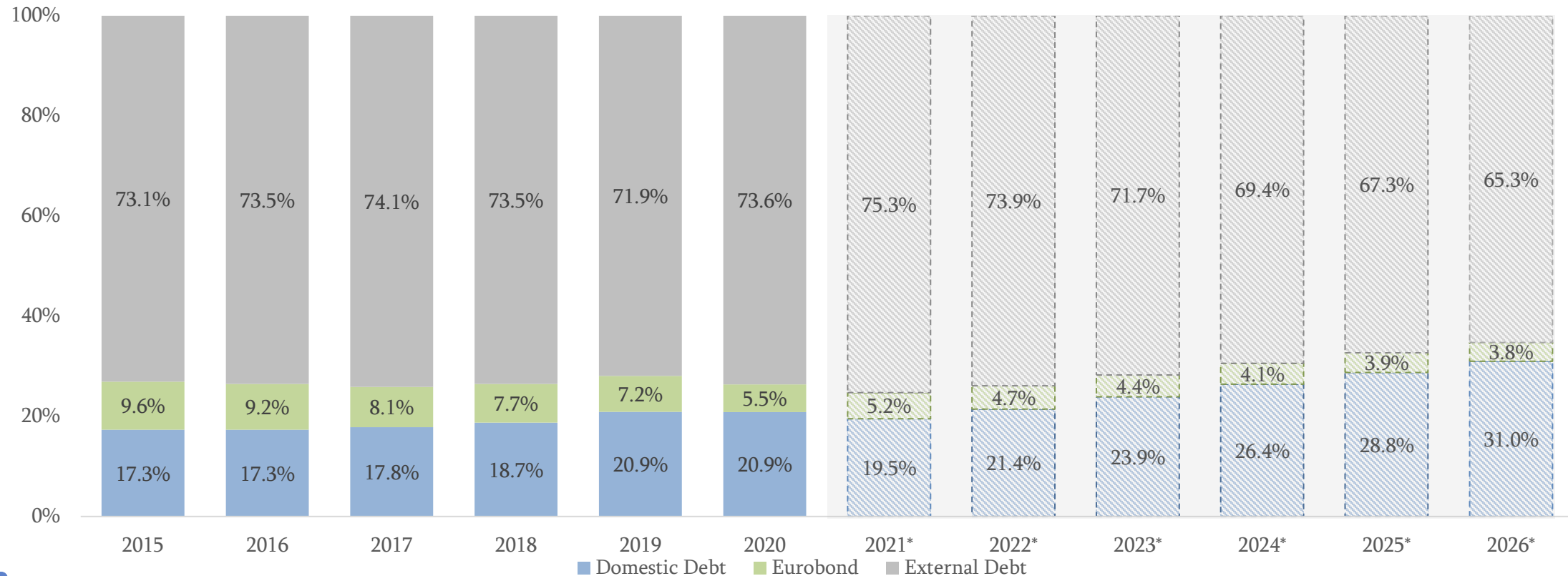
De-dollarization of the portfolio will significantly reduce the risk premium of the country and will increase the likelihood of credit rating improvement.





## 2. Increasing GEL-denominated Debt Share in the Government Debt Portfolio

Refinancing Georgia's \$500 million Eurobond (2026) with GEL-denominated debt will allow the country to reduce the external debt share in the government debt portfolio to 65 percent.





### 3. Increasing the Focus on the Development-oriented External Loans

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#### Principles for investment loans:

- **Large and complex projects** – Only large and complex projects will be implemented that are accompanied with expertise and knowledge sharing. The government will not take (submit a new application) investment loans for projects that can be implemented with the same success and efficiency using budget resources;
- **Implementation of PIM Methodology** - Investment loans can be initiated only for projects that have passed the pre-selection stage according to the Public Investment Management Methodology (PIM) and have received a positive decision from the Interagency Commission;
- **State-owned enterprises' reform** – On-lending takes place only in case when state-owned enterprise implements corporate governance practices and undergoes the reform according to the standard agreed with the International Monetary Fund and approved by the Minister of Finance of Georgia;
- **Limiting on-lending practices** - For fully corporatized enterprises, the government will stop on-lending practices. By 2025, loans of up to GEL 900 million will be converted into marketable instruments.

#### Principles for program loans:

- **Significant transformational reforms** - Program loans will be taken only for significant transformational government reforms. The degree of transformability of the reform will be assessed by the Fiscal Board of the Ministry of Finance of Georgia. For the program loans, an annual limit of \$ 250 million will be set for 2022-2025.





## 4. Cost and Risk Optimization of the Government Total Debt Portfolio

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To manage refinancing risk, it is important that:

- **The average time to maturity (ATM)** of the government total debt portfolio should not fall below 5.5 years, while this indicator for the domestic debt portfolio should be maintained above 3 years;
- **The share of the debt maturing within 1 year** should not exceed 15.0% of the total debt portfolio.

Key parameters considered while taking a new loan are:

- **Grant Element:** The higher the grant element the more preferable the loan. When selecting the loan terms, priority is given to the option with a higher grant element, which in most cases is achieved by selecting the maximum maturity and grace period;
- **Loan currency:** Ongoing economic and political convergence with the Euro area, and relatively low volatility of GEL-EUR exchange rate EUR-denominated loans are prioritized;
- **Type of interest rate:** While taking a new loan, the focus is on loans with fixed interest rates, which is mainly due to the historically low interest rates.



## 5. Government Securities' Market Development

Measures to increase the market liquidity:

- **Increase the securities volume:** Large volume market reduces the risks for investors to enter in and exit from the market;
- **Secondary market development:** It is important to make the transition from this pilot program to the fully-fledged system, according to market readiness;
- **Strong benchmark:** Currently, the volume of the largest benchmark is GEL 972 million, which is quite a significant achievement. Benchmark size is one of the main criteria for Georgia to be included in JP Morgan's GBI-EM index, which will significantly increase the liquidity of government securities. By 2025, it is planned to meet the inclusion requirements of JP Morgan's GBI-EM Index.

Measures to diversify the investor base:

- **Increase the share of non-resident investors:** Increasing the share of non-resident investors will diversify the investor base, which will reduce the cost of GEL-denominated debt and increase the currency inflows into the country;
- **Introduction of EuroClear to the local securities market:** This step will significantly simplify international transactions and reduce transaction costs for investors; at the same time credibility by foreign investors;
- **Create a market for retail investors:** This step will increase public awareness of financial markets and improve the level of financial education.

Measures to increase the supply, transparency, and predictability of securities:

- Publishment of treasury securities annual issuance plan;
- Projecting gross issuance on the local market and presenting it to investors.



# Strategic Target Indicators

Types of Risk	Indicators	2020 (Actual)	2025 (Target)
Refinancing Risk	Debt maturing within 1 year (% of total) for total government debt	14.8%	Max. 15.0%
	ATM for total government debt	7.5	Min. 5.5
	ATM for government domestic debt	3.1	Min. 3.0
Interest Rate Risk	Share of fixed-interest external debt in government external debt	52.5%	Min. 50.0%
Exchange Rate Risk	Share of government domestic debt into total government debt	20.9%	Min. 28.0%
Default Risk	Government net debt to GDP ratio	52.8%	Max. 45.0%



# Operational Target Indicators

Indicators	2020 (Actual)	2025 (Target)
Limit on External Program Loans*	-	250 mln USD
Conversion of on-lent resources into market instruments	-	900 mln GEL
PIM-based investment loans*	-	100%
Program loans approved by the Fiscal Board of the Ministry of Finance	-	100%
Non-resident investors participation in the local market	11.3%	25%
Compliance with JP Morgan GBI-EM index inclusion requirements	18.6%	100%

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

Thank You!