MOODY'S
RATINGS

Rating Action: Moody's Ratings changes Georgia's outlook to negative from stable, affirms the Ba2 rating

24 Mar 2025

Singapore, March 24, 2025 -- Moody's Ratings (Moody's) has today changed the outlook to negative from stable on Georgia's government credit ratings. Concurrently, we have affirmed the local and foreign currency long-term issuer ratings and foreign currency senior unsecured rating at Ba2.

The decision to change the outlook to negative reflects our assessment that risks to Georgia's institutional and governance strength are rising, in the context of increasingly challenging domestic and geopolitical trade-offs. Institutions and governance may weaken further, following recent developments that have already negatively affected the strength of civil society, and risk weakening monetary and macroeconomic policy effectiveness. Furthermore, domestic political risk remains elevated, as evidenced by recent street protests, and further social polarization could result from higher tensions between the European Union and Russia. Geopolitical risks have also risen amid prospects of US disengagement from European security and NATO, which could create conditions for more intense Russian interventions, including in the region.

The affirmation of Georgia's Ba2 ratings reflects its strong economic and fiscal position. We expect Georgia's economic growth to remain strong. Georgia's fiscal strength has improved sharply over 2021-2023, and we expect the improved position to persist in the next few years, with a moderate government debt burden and strong debt affordability. Georgia's continued cooperation with its development partners such as the World Bank provides some support to its economic and fiscal resilience.

Georgia's local- and foreign-currency country ceilings are unchanged at Baa1 and Baa3, respectively. The four-notch gap between the local currency ceiling and the sovereign rating reflects a relatively small government footprint in the economy and strong institutions which are predictable and reliable in terms of policy action, notwithstanding a relatively high current account deficit and ongoing domestic political risks. The two-notch gap between the foreign currency ceiling and the local currency ceiling incorporates Georgia's external vulnerabilities including a relatively high current account deficit and still high levels of dollarization in the economy.

RATINGS RATIONALE

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects a heightened risk of further weakening of institutions and governance strength through a range of developments.

The passage of the "Law on Transparency of Foreign Influence" in May 2024, and the stalled EU accession bid raise uncertainty around the continuity of past reforms. The ongoing suspension of Georgia's IMF program indicates the persistence of questions related to central bank governance, which in our view, has already weakened the institutions and governance strength, and risks weakening the effectiveness of monetary and macroeconomic policy.

There remains risks of a further weakening in Georgia's institutional and governance strength, amplified by elevated political risks. While recent Georgia Dream policies and positions may reduce the risk of aggressive Russian interference, they will likely increase domestic political risk as a large fraction of the population supports greater integration with the European Union. These could intensify social polarization, which has already been aggravated by intense protest movements, following the disputed parliamentary elections in October 2024 and the stalled EU accession bid.

Geopolitical risks are also increasing, which could amplify domestic political volatility. Recent developments signal increased risk of US disengagement from European security and NATO, which could create conditions for more intense Russian interventions, for example in the form of increased attacks on key telecommunications, energy or financial infrastructure through cyberattacks or sabotage of physical infrastructure.

Georgia is vulnerable to risks of heightened tensions with Russia, given its border with the country, and the ongoing, albeit 'frozen', tensions over South Ossetia and Abkhazia. In addition, the unpredictability of Russia's strategic intentions in the region has increased the risk of Georgia being involved in military conflict despite the Georgian government's endeavors to minimize the potential for such military conflict.

RATIONALE FOR THE AFFIRMATION OF THE Ba2 RATING

Georgia's economic and fiscal position are strong, and have remained resilient to evolving political developments. Georgia's real GDP growth was very strong in 2022 and 2023, and we expect growth to remain solid. The economy expanded by 9.4% in 2024, and we project GDP growth to ease to about 6% in 2025, still above-trend, on the back of moderating labour and financial inflows from a high base.

Georgia has sustained fiscal strength, with moderate government debt burden and strong debt affordability. The debt burden has declined from recent cycle peak of

59.6% of GDP in 2020 to 38.9% in 2023 and 36.1% in 2024, on the back of high nominal growth and sustained fiscal discipline. We expect the government debt burden to remain stable at around 35-36% of GDP over 2025 to 2026. Government debt affordability has remained strong, with government interest payments amounting to about 5% of government revenue in 2023, and which we expect to remain at around this level for the next two to three years.

Georgia's low levels of domestic savings fosters a reliance on external financing, in turn making the economy vulnerable to a tightening in external financing conditions. However, this is partly mitigated by Georgia's ability to consistently access concessional financing from development partners. Meanwhile, Georgia's banking sector's performance has been sustained, with strong profitability, good capital and liquidity providing buffers to shocks.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

Georgia's CIS-3 Credit Impact Score reflects Georgia's exposure to demographic and employment challenges and, to a lesser extent, environmental, largely physical climate, risks. However, risks are mitigated by Georgia's institutional and governance strengths which have contributed to ongoing increases in incomes and, together, support a capacity to respond to social and environmental challenges.

Georgia's E-3 issuer profile score for environmental risks is driven by its moderate exposure to physical climate risks, notably heat stress, exacerbated by relatively high sensitivity related to the large size of the agriculture sector as employer; a low proportion of the population with access to safe water also points to environmental risks.

Georgia's S-4 issuer profile score for social risk reflects Georgia's ageing population, high rates of youth unemployment and only modest spending on health and education, although life expectancy is relatively high. These negative risks contrast with solid enrollment rates in education and a relatively high level of access to basic services.

Georgia's G-2 issuer profile score for governance risk reflects our assessment that Georgia has achieved some success in building institutional capacity and implementing economic reforms which have supported flexibility in labour and product markets, supporting moves towards higher value added activities in sectors like agriculture and increasing access to a broader range of export markets. The score also takes into account our assessment of the sovereign's weakening institutions and governance strength.

GDP per capita (PPP basis, US$): 24,849 (2023) (also known as Per Capita Income)

Real GDP growth (% change): 7.8% (2023) (also known as GDP Growth)

Inflation Rate (CPI, % change Dec/Dec): 0.4% (2023)

Gen. Gov. Financial Balance/GDP: -2.3% (2023) (also known as Fiscal Balance)

Current Account Balance/GDP: -5.6% (2023) (also known as External Balance)

External debt/GDP: 79.6% (2023)

Economic resiliency: baa2

Default history: No default events (on bonds or loans) have been recorded since 1983.

On 20 March 2025, a rating committee was called to discuss the rating of the Georgia, Government of. The main points raised during the discussion were: The issuer's economic fundamentals, including its economic strength, have not materially changed. The issuer's institutions and governance strength, have materially decreased. The issuer's fiscal or financial strength, including its debt profile, has not materially changed. The issuer's susceptibility to event risks has not materially changed.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

FACTORS THAT COULD LEAD TO AN UPGRADE

Given the negative outlook on the rating, it is unlikely that the rating would be upgraded in the near-term. The outlook would likely be changed to stable if geopolitical and domestic political risks eased materially, which could pave the way for durable improvements to Georgia's institutions and governance.

FACTORS THAT COULD LEAD TO A DOWNGRADE

The rating would likely be downgraded if it becomes increasingly clear that institutional and governance strength has weakened further, which could, together with political risks also weigh on Georgia's economic and fiscal strength. For instance, signs that executive and legislative institutions are weaker than currently assessed, or a further weakening of monetary and macroeconomic policy effectiveness, financial or external stability would also put downward pressure on the rating.

The principal methodology used in these ratings was Sovereigns published in November 2022 and available at https://ratings.moodys.com/rmc-documents/395819 . Alternatively, please see the Rating Methodologies page on https://ratings.moodys.com for a copy of this methodology.

The weighting of all rating factors is described in the methodology used in this credit rating action, if applicable.

The net effect of any adjustments applied to rating factor scores or scorecard outputs under the primary methodology(ies), if any, was not material to the ratings addressed in this announcement.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on https://ratings.moodys.com/rating-definitions .

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At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://ratings.moodys.com/rmc-documents/435880 .

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