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# IS GEORGIA'S FOREIGN OFFICIAL RESERVES ADEQUATE TO WITHSTAND POLITICAL UNCERTAINTIES?

# ANSWER IS: PROBABLY NO

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*This note provides an overview of recent developments regarding Georgia's foreign exchange Gross International Reserves (GIR), offers insights into some aspects of reserve adequacy, and central bank's safeguards principles in the context of heightened political uncertainties. It appears that the GIR are likely inadequate to withstand prolonged political uncertainties. Furthermore, the National Bank of Georgia (NBG)'s governance and regulatory frameworks are not presently equipped to counter these challenges. Considering these findings, the need for reforms to enhance the NBG's financial autonomy and strengthen institutional credibility cannot be overstated.*

## CONTEXT: HEIGHTENED POLITICAL UNCERTAINTIES

For the past two years, Georgia has been experiencing persistent political instability triggered by various legislative and electoral actions of the ruling party and culminating in a deep political crisis of domestic and internation legitimacy of the ruling party presently (Chart 1.). Political turbulences have aggravated with the first attempted introduction of the law on transparency and foreign influence in 2023 which was followed by protests, resulting in its withdrawal, and a promise by the ruling party of its non-introduction in the future. Tensions scaled up significantly in spring 2024, when the ruling party broke its promise, re-initiated, and approved the highly controversial and widely protested **LAW ON TRANSPARENCY OF FOREIGN INFLUENCE**.

While the pre-Parliamentary election period in autumn 2024 remained relatively calm, demonstrations erupted once none of President, the opposition political parties, and international observers recognized the election results. Protest actions peaked in November 2024 when Georgian Dream announced its decision not to place the issue of opening accession negotiations with the EU on the agenda until the end of **2028**. Massive demonstrations were violently dispersed by the ruling party followed by arrests and repressive legislative actions.[1] Presently, demonstrations continue, reflecting the public's sustained dissatisfaction with the government's stance and actions.

The international legitimacy of the ruling party is also under scrutiny and its isolation is growing. Key strategic partners of Georgia have announced their financial disengagement plans and introduced sanctions against the ruling party. The **USA has halted its strategic partnership with Georgia**, while some EU countries have stopped cooperation with the Georgian government, redirecting their funds to support civil society in Georgia. In addition, the Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury recently **imposed sanctions on Bidzina Ivanishvili**. These measures, which include asset freezes and travel bans, aim to address democratic backsliding in Georgia and Ivanishvili's personal role in the country's perceived drift toward Russian influence. The United States has imposed Global **Magnitsky sanctions** on Georgia's Minister of Internal Affairs and Deputy Head of the Special Tasks Department, citing their roles in violent crackdowns on media, opposition, and protesters.[2]

[1] **MEDIA POLARIZATION INDEX** reached its historical maximum in November 2024 and remained at a high level in December 2024, reflecting the intensification of societal divisions and heightened tensions during this period.

[2] Also see ISET Policy Institute's policy brief on sanctions: https://iset-pi.ge/en/publications/policy-briefs/3540-recent-targeted-sanctions-immediate-economic-impacts-and-long-term-economic-risks-for-georgia

**CHART 1. KEY DATES: CALENDAR OF ACTIONS CONTRIBUTING TO POLITICAL UNCERTAINTIES**

| | |
|---|---|
| June 20, 2019 | Gavrilov night protests |
| July 4-5, 2021 | Anti-LGBT pogroms and death of the TV operator |
| February 2022 | Start of the Russia's war in Ukraine |
| March 2023 | Introduction and readings of the "Law on Transparency of Foreign Influence" |
| March 2023 | Withdrawal of the "Law on Transparency of Foreign Influence" (following protests and criticism from international partners) |
| April 2024 | Re-introduction of the "Law on Transparency of Foreign Influence" |
| May 2024 | Approval of the "Law on Transparency of Foreign Influence" (in parallel with large-scale protests and criticism from international partners) |
| April 2024 | Approval of the 'Offshore' law |
| June 2024 | Approval of the Changes to Pension Legislation |
| October 2024 | Parliamentary elections |
| November 2024 | Ruling party's announcement of EU path halting |
| December 2024 | January 2025 – Legislative changes in the "Law of Public Service" and introducing strict regulations and increasing penalties |

## GROSS INTERNATIONAL RESERVES: TRENDS, INTERVENTIONS, AND REGULATORY ACTIONS

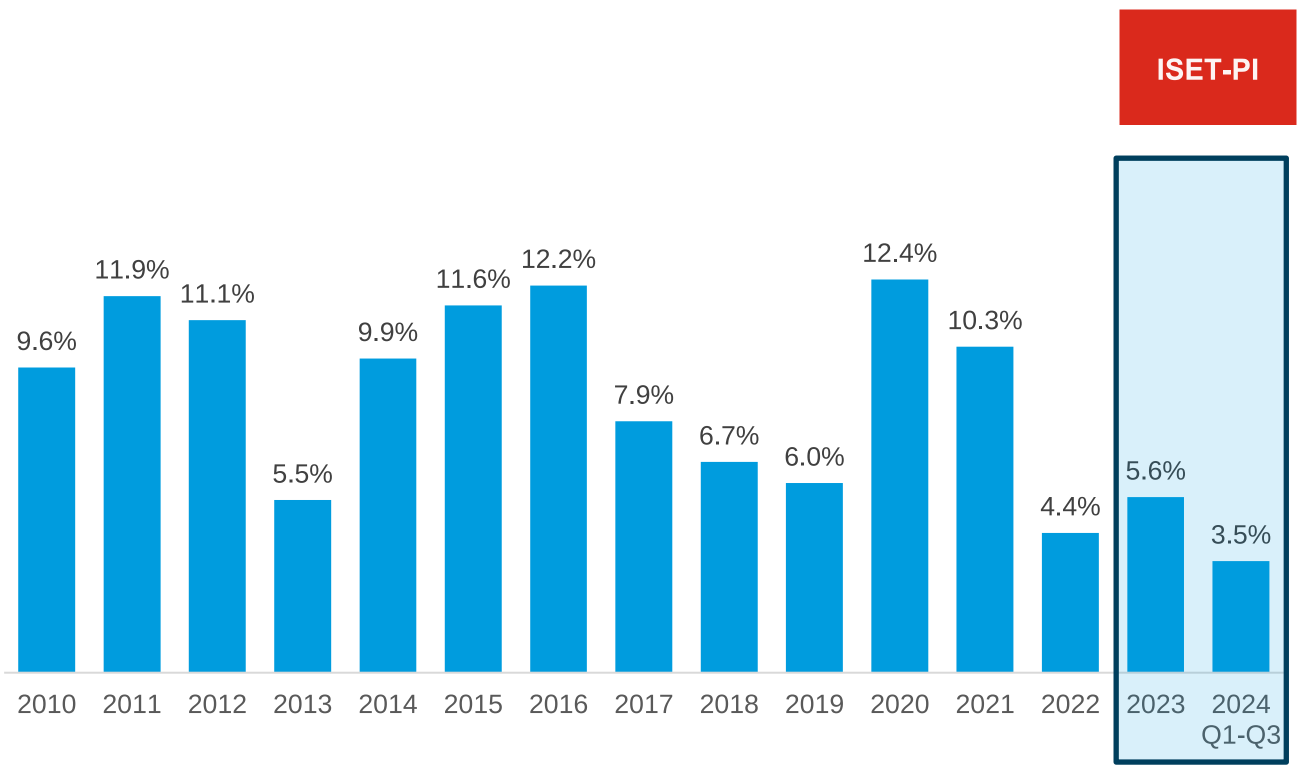
Amid heightened uncertainties, Gross International Reserves (GIR) declined in 2023-2024. In face of depreciation pressures, the NBG has heavily intervened to stabilize the currency in H2 2024. As reserves got depleted, the NBG increased reserve requirements for commercial banks and suspended foreign exchange market auction, as a signaling mechanism while maintaining other direct sales to commercial banks.

## Trends

Since the onset of the Russia's war in Ukraine in 2022, Georgia had a significant influx of war migrants[3], bringing with them a substantial inflow of foreign currency, alongside new re-export and transit opportunities to CIS countries NBG

while the EU share in exports continues to fall.[4] These external factors helped to temporarily reduce the current account deficit as a share of GDP to its lowest level since 2000 (see Figure 1.). In response to this external shock, the NBG actively accumulated foreign currency reserves as a buffer to safeguard against potential future crises and to also prevent excessive currency appreciation in the face of temporary inflows. As a result, the NBG purchased USD 824 million in 2022 and Georgia's GIR reached its peak of USD 5.4 billion in August 2023 (Figure 2.).

**Figure 1.** Current account deficit as a share of GDP




*Source: NBG, Geostat, Authors' Calculations*

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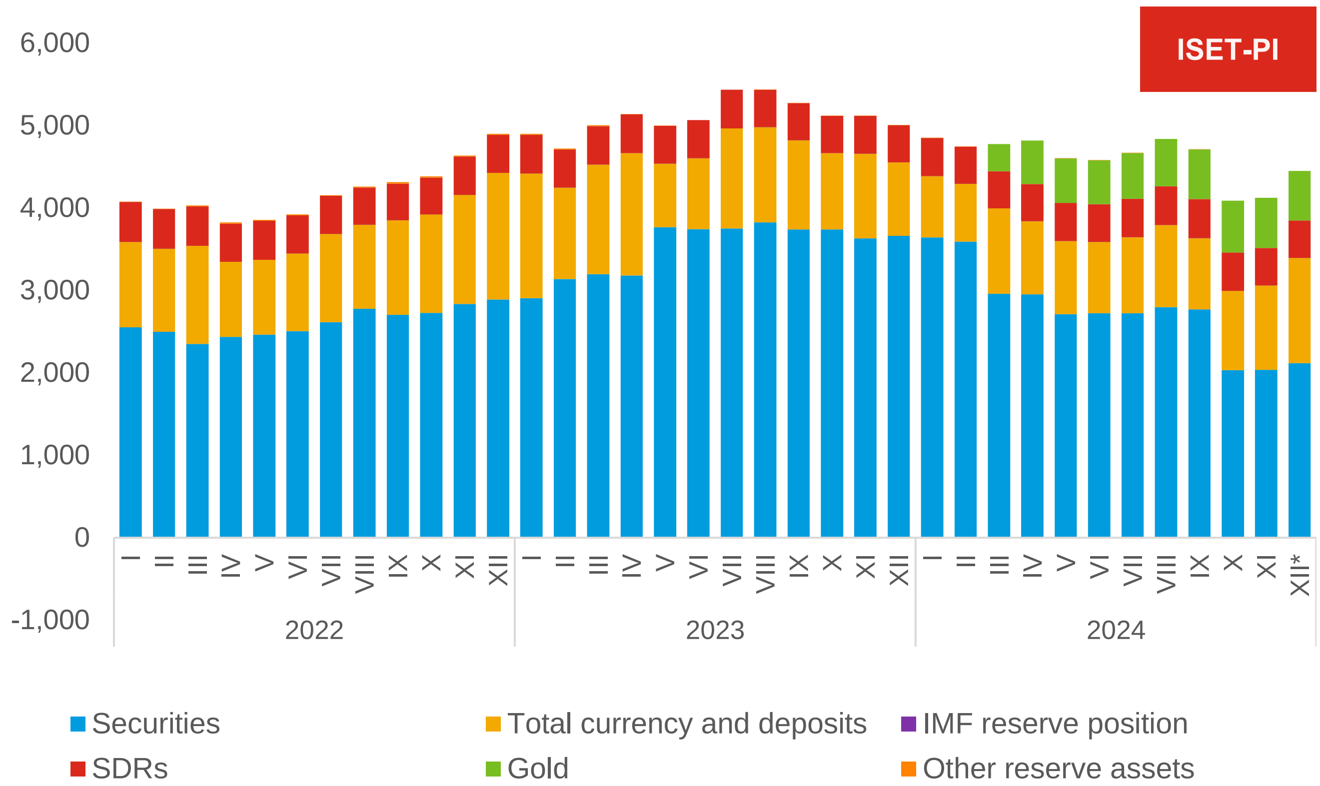
[3] In 2022, money inflows to Georgia rose by 86.1% compared to 2021, driven primarily by a 402.7% and 716.5% surge in transfers from Russia and Belarus respectively, largely attributed to Russian and Belarusian migrants transferring funds for current or future consumption. However, inflows declined by 5.2% in 2023 and 18.9% in 2024, with transfers from Russia decreasing sharply by 26.1% in 2023 and 64.6% in 2024.

[4] The share of the EU in Georgia's total exports fell from 21.1% in 2019 (pre-COVID) to 16.9% in 2021, 15.5% in 2022, and further to 11.6% in 2023. Similarly, Russia's share decreased from 14.4% in 2021 (13.1% in 2019) to 11.5% in 2022 and 10.8% in 2023. In contrast, the share of CIS countries significantly increased from 47.6% in 2021 (53.8% in 2019) to 66.0% in 2023, driven notably by rising exports to Kazakhstan and Kyrgyzstan, whose shares surged by 4.3% and 1.7% in 2022 to reach 11.6% and 11.4% in 2023, respectively. This trend underscores Georgia's growing reliance on CIS countries for exports, while the EU's share continues to decline.

**Figure 2.** Official reserve assets and other foreign currency assets (million USD)



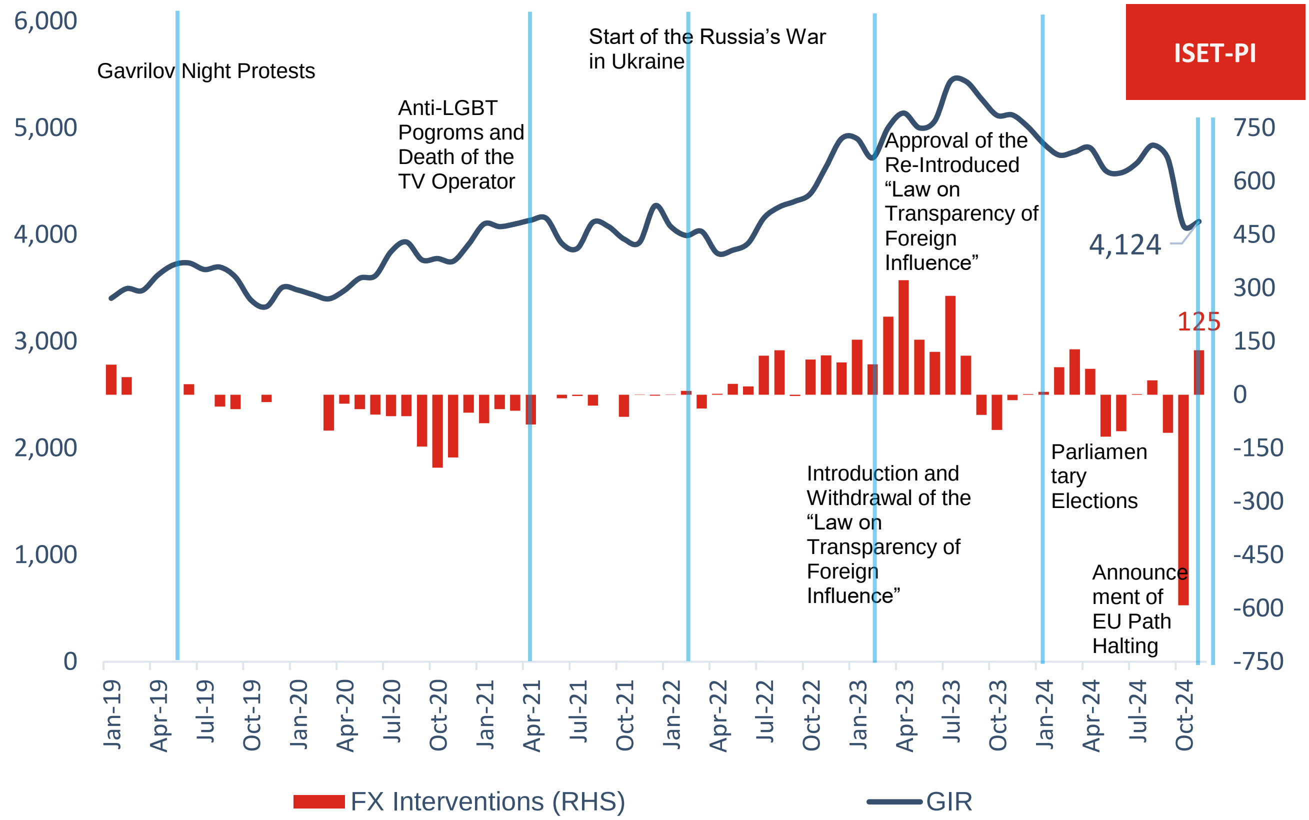

*Source: National Bank of Georgia*
*Note: * Preliminary Data*

## Interventions

In 2023–2024, the political turbulence brought significant volatility to Georgia's official reserve assets. GIR[5] have declined by USD 989 million to USD 4.5 billion by December 2024 from its 2023 peak. Only in October 2024 – the month of Parliamentary elections – GIR dropped by a dramatic USD 628 million. In face of depreciation pressures the decline in reserves is attributed to the NBG's interventions to stabilize the local currency, with net annual sales during foreign exchange auctions amounting to USD 167 million in 2023 and USD 382 million in 2024 (Figure 3.).

[5] These official reserve assets include foreign currency reserves, the IMF reserve position, special drawing rights (SDRS), gold, and other assets.

**Figure 3.** Foreign currency interventions and gross international reserves (GIR) (million USD)




*Source: National Bank of Georgia*
*Note: FX interventions include purchase/sale in the BMatch Platform*

## Regulatory Actions

In the last two months of 2024, reserves have rebounded by USD 401.4 million reaching USD 4.40 billion at end-December 2024. However, this recent recovery in reserves was driven by the NBG's regulatory action which increased minimum reserve requirements for commercial banks by 5 percentage points – the higher portion of commercial banks' reserves must be held in foreign currency with the NBG[6]. Since October 2024, the NBG also suspended foreign exchange market auctions, as a signaling mechanism, while maintaining other direct sales to commercial banks.

[6] **Financial Stability and Monetary Policy Committees' Decision,** November 27, 2024.

## GOLD: THE NBG’S BUY AND THE NBG’S SELL

The NBG's gold acquisition may align with economic motives; however, recent political turmoil, including the US sanctions on political figures and concerns over the NBG’s governance, sharpen questions about whether this gold purchase is also a strategic response to international sanctions and financial instability, rather than purely economic considerations.[7]

### Buy: Monetary Gold

In March 2024 just before the ruling party’s re-introduction of the controversial Law on Transparency of Foreign Influence to the Parliament, the NBG has acquired 7 tons of high-quality Monetary Gold valued at USD 529.4 million (April 2024)[8], which represents about 11 percent of its GIR, marking the first such acquisition since Georgia regained independence. This move aims to enhance diversification in light of increasing global geopolitical risks. Central banks, especially in emerging economies, typically pursue gold reserves for economic reasons, such as portfolio diversification and protection against inflation, or political motives, like reducing dependence on the US dollar and mitigating sanction risks.

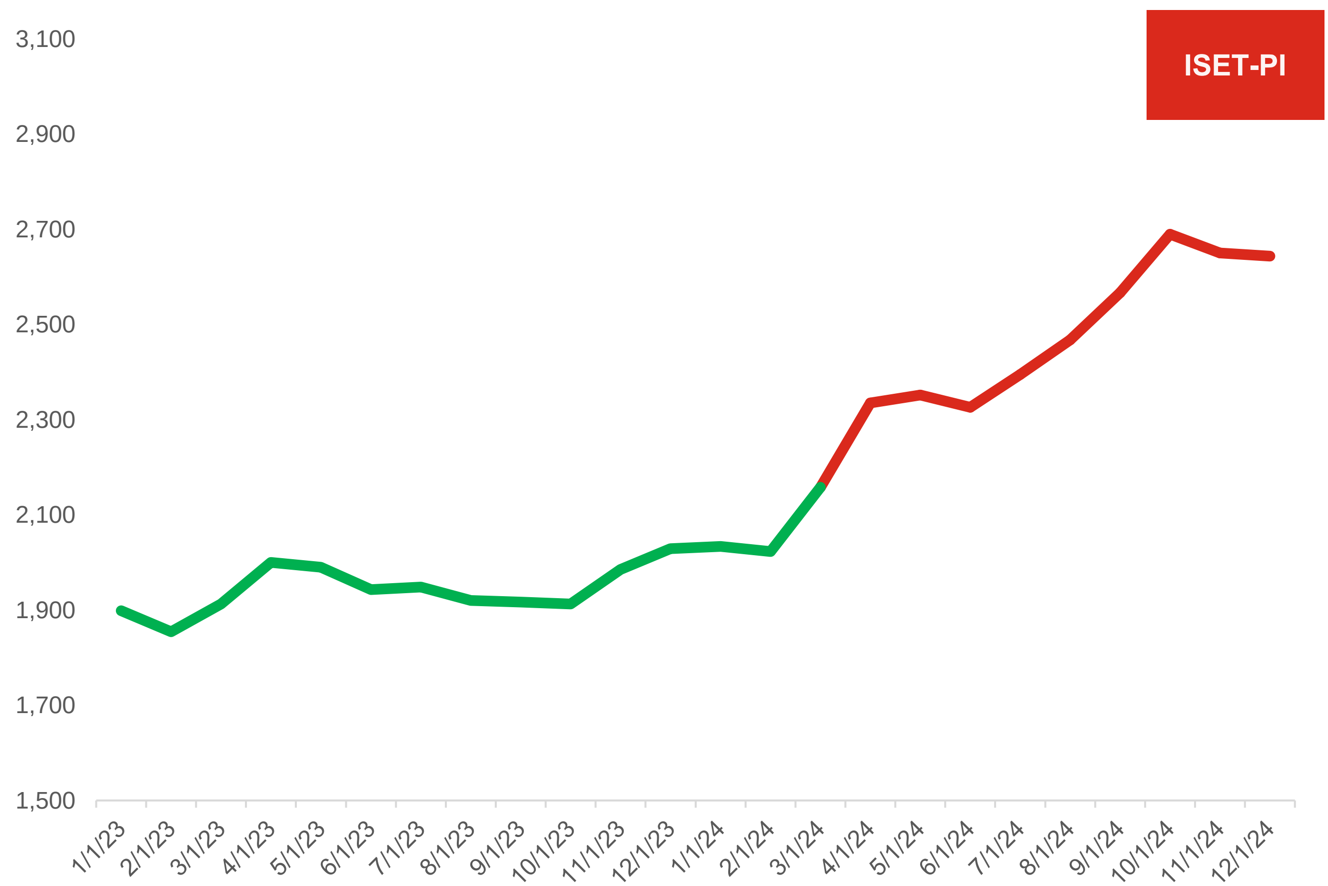
Valuation of Monetary **gold reserves** increased to USD 598.7 million in December 2024 from USD 529.4 million in April 2024 due to the significant rise in **global gold prices** during this period (Figure 4.).[9] This sharp rise in market gold prices likely reflects global economic uncertainties, as investors sought gold as a safe-haven asset amidst financial market volatility and geopolitical tensions. For Georgia, the increase in gold prices translated into a significant valuation gains of its Monetary Gold reserve holdings without increasing the physical quantity of Monetary Gold held at the NBG.

[7] ISET Policy Institute, **Why the National Bank of Georgia is Ditching Dollars for Gold**, May 2024.

[8] In March 2024, gold accounted for USD 332.1 million, representing 7% of Georgia's official reserve assets.

[9] An analysis of gold price trends reveals that prices steadily climbed from USD 2,158 per ounce at the end of March 2024 to USD 2,644 per ounce by December 2024.

**Figure 4.** Gold price per troy ounce – USD




*Source: Bloomberg, Datastream, ICE Benchmark Administration, World Gold Council*

## Sell: Investment Gold

In face of valuation gains on Monetary Gold, in November 2024, the NBG sold USD 43 million worth of gold[10] which was classified as **investment gold,** not Monetary Gold which is part of the country's Official Reserve Assets discussed above. According to the NBG, Investment Gold was stored separately under the category of "other assets", further details regarding the specifics of this sale have not been disclosed. The NBG started to sell investment gold since December 2023 to capitalize on higher global demand for gold amid rising inflation and geopolitical tensions.

[10] BMG, According to SEB, **They Sold Gold in the Form of Bars and Certificates**. December 2024.

## ARE FOREIGN OFFICIAL RESERVES ADEQUATE TO WITHSTAND PROLONGED UNCERTAINTIES?

**(Answer: Probably No)**

For nearly all economies—whether developed, emerging, or developing—holding prudent reserves, along with sound policies and fundamentals, can yield significant benefits. These reserves reduce the likelihood of balance-of-payments crises, help preserve economic and financial stability against pressures on exchange rates and disorderly market conditions and create room for policy autonomy. Assessing the appropriate level of reserves is challenging due to the complexity of quantifying external risks and vulnerabilities, as well as the opportunity costs that each country faces. Thus, this assessment should consider specific characteristics, such as economic flexibility, financial integration, and maturity, along with vulnerabilities. International Monetary Fund (IMF) has utilized several traditional approaches, including import and short-term debt coverage, typically capturing individual risks.[11]

Drawing from the most recent IMF article IV consultation report's reserve adequacy assessment and adding ISET PI estimates using the latest gross international reserves data (all else equal), possibly indicate worrisome decline of official reserve coverage metric to inadequate levels. Over the past six months, the international reserve position has significantly deteriorated, falling below reserve adequacy thresholds, which has been further impaired by substantial interventions during the election period. **Gross International Reserves (GIR)** have fallen below the IMF's adequacy threshold, after previously standing at 102.2% of the Assessing Reserve Adequacy (**ARA) Metric**[12] in 2022. GIR dropping to 95.5% and further declined to estimated 84.4% of the ARA metric in 2023 and 2024, respectively. Similarly, GIR as a percentage of the **Adjusted ARA Metric** stood at 123.7% in 2022 but declined sharply to 115.2% in 2023 and further declined to estimated 95.2% in 2024. **Gross International Reserves** were sufficient to cover 3.4 **Months of Imports** in 2023; however, this indicator could have dropped to estimated 3.2 months of import cover in 2024 (Table 1.). Considering the risks associated with a potential further deterioration of the external balance amid a severe political crisis, the adequacy of reserves could decline even further, raising serious concerns about Georgia's ability to withstand future economic shocks.

[11] IMF, **Assessing Reserve Adequacy – ARA,** October 2024.

[12] P48, 2024 Georgia IMF Article IV Consultation Report

**Table 1.** Georgia: Reserve Adequacy Assessment 2022-2024

| | 2022 IMF Article IV | 2023 IMF Article IV | 2024 IMF Article IV | 2024 ISET Est. |
|---|---|---|---|---|
| Exports (goods and services) | 13 240 | 15 161 | 14 587 | 14 587 |
| Broad Money (M2) | 7 324 | 9 349 | 10 459 | 10 459 |
| Short-term debt residual maturity | 4 811 | 5 282 | 4 610 | 4 610 |
| ST debt by original maturity | 3 678 | 4 017 | 3 438 | 3 438 |
| Ammortization on MLT debt | 1 133 | 1 265 | 1 345 | 1 345 |
| Other liabilities | 15 504 | 16 242 | 17 563 | 17 563 |
| ARA Metric | 4 797 | 5 246 | 5 270 | 5 270 |
| ARA Metric-Adjusted | 3 960 | 4 347 | 4 670 | 4 670 |
| Bank ST assets (deposits) | 1 889 | 2 122 | 2 172 | 2 172 |
| Bank ST liabilities (deposits) | 2 778 | 3 141 | 3 488 | 3 488 |
| Adjusted banks ST deposit liabilities | 889 | 1 019 | 1 266 | 1 266 |
| Gross International Reserves (GIR) | | | | |
| GIR | 4 901 | 5 010 | 4 996 | 4 447 |
| **GIR (Percent of ARA Metric)** | **102,2** | **95,5** | **94,8** | **84,4** |
| **GIR (Percent of Adjusted ARA metric)** | **123,7** | **115,2** | **107** | **95,2** |
| GIR (Month of Import) | 3,3 | 3,4 | 3,3 | 3,2 |

Source: 2024 Georgia IMF Article IV Consultation Report and ISET PI estimates

## ARE CENTRAL BANK’S SAFEGUARDS ADEQUATE TO NAVIGATE PROLONGED UNCERTAINTIES?

**(Answer: No)**

The governance-related safeguards of the NBG are currently inadequate. For the National Bank of Georgia, strengthening these safeguards is vital to maintain credibility and address challenges posed by declining reserves and political instability. According to the latest IMF Article IV assessment report on Georgia, the proposed amendments to strengthen governance and financial autonomy in the NBG Law and to fill vacancies at the NBG Board remain outstanding. The NBG Law should be amended to: (i) ensure a non-executive majority on the NBG’s oversight board and limit discretionary transfers to the government, and (ii) clarify and strengthen the NBG succession framework and board member qualification criteria; iii) ensure a non-executive majority on the NBG’s oversight board and limit discretionary transfers to the government. Shifting from a presidential to a collegial decision-making model is also desirable.[13] See box 1 for key indicators of central banks safeguards assessments, in general.

Also, 2024 Central Banker Report Cards, Global Finance Magazine assigned a "D" grade to the Acting President of the NBG, the lowest rating among central bank governors. The rating reflects widespread concerns about her management of inflation control, economic growth, currency stability, and interest rate policies. Critics have also pointed to her failure to enforce international sanctions against individuals linked to Russia, which has led to high-profile resignations within the NBG and public criticism from Georgia’s President. Her interventions to stabilize the Georgian Lari amid ongoing political turmoil have further fueled controversy. Fitch Ratings has warned that perceived threats to the independence of the NBG could erode its policy credibility, exacerbating uncertainty in an already volatile economic environment. This combination of factors has cast a shadow over her tenure, amplifying concerns about the institution's ability to navigate the current challenges effectively.

[13] P13, 2024 Georgia IMF Article IV Consultation Report

## CONCLUSION

In assessing Georgia's ability to withstand ongoing political uncertainties, it appears that the nation's foreign official reserves are likely inadequate. Over the past two years, a series of political crises have destabilized the country's governance, resulting in a significant erosion of public and international trust in the ruling party. This instability has been exacerbated by controversial legislative actions and the subsequent civil unrest, which have raised serious concerns about the government's legitimacy and its capacity to maintain economic stability. As a result, the NBG has faced considerable pressures to intervene in foreign exchange markets, leading to a substantial decline in GIR.

The data presented indicates a worrying trend of dwindling reserves, falling below the IMF adequacy thresholds. The GIR has seen a decline from 102.2% of the ARA metric in 2022 to a mere estimated 84.4% in 2024. This deterioration is alarming, particularly in light of the potential for further economic shocks arising from a protracted political crisis. With reserves dropping to levels that could only cover approximately 3.2 months of imports in 2024, the situation raises serious questions about Georgia's capacity to navigate forthcoming external pressures effectively.

Furthermore, the NBG's governance and regulatory frameworks are not presently equipped to respond to these challenges. The need for reforms to enhance financial autonomy and strengthen institutional credibility cannot be overstated. Without decisive action to bolster these safeguards, the risks associated with Georgia's insufficient foreign official reserves will likely increase, leaving the country vulnerable to both economic and geopolitical instability. In summary, while the challenges are significant, the pathway to recovery hinges on effective governance, strategic reserve management, and the restoration of international confidence in Georgia's political landscape.

**Box 1. IMF: Safeguards Assessments of Central Banks**[14]

Safeguards assessments of central banks are critical for ensuring governance, transparency, and resilience in managing public resources, particularly during economic uncertainty. When the IMF lends to a country, it seeks assurances that the country's central bank can manage the funds it receives and provide reliable information. IMF safeguards assessments are a due diligence exercise to fulfill this objective. The IMF's Articles of Agreement require "adequate safeguards" for the use of its resources. This is to ensure that loans to member countries are repaid as they fall due, making those funds available to other members in need. Safeguards include limits on how much can be borrowed, conditions on the loans, measures to deal with misreporting and arrears, and safeguards assessments of central banks.

**What do safeguards assessments of central banks entail?**

A safeguards assessment is a diagnostic review of a central bank's governance and control framework. Six key areas denoted by the acronym **GELRIC** are assessed to help safeguard IMF disbursements and minimize the risk of inaccurate reporting of key data to the IMF (misreporting).

**Governance arrangements:** Are governance bodies established to provide appropriate structures and systems for close independent oversight of the central bank' operations? Do key decision-making bodies, such as the board, audit committee, governor and his/her deputies, exercise strong professional diligence in the execution of their fiduciary duties to the central bank? What is the composition of the key governance bodies and how are they appointed? Do they have the requisite capacity to discharge their mandate?

**External audit mechanism:** Does the central bank publish its annual financial statements that are independently audited in accordance with international standards? What is the process for selecting and rotating external auditors? Are audits subject to robust internal processes to ensure audit quality? Do external auditor's communicate with those charged with oversight (for example, the central bank board and audit committee)?

**Legal structure and autonomy:** Does the legal framework provide the central bank with an appropriate level of autonomy and does it support the other five GELRIC areas? Does the central bank law provide for strong governance arrangements, including autonomy and transparency? Are internal and external checks and balances in place? Is the central bank safeguarded from government interference or override?

**Financial Reporting:** Does the central bank adhere to international good practices for transparent accounting and financial reporting? Are financial statements published in a timely manner? Is monetary data reported under IMF programs consistent with the published financial information and the underlying accounting data?

**Internal audit mechanism:** Does the central bank's internal audit function comply with international standards? Does the function have sufficient capacity and organizational independence to evaluate the effectiveness of the bank's risk management, control, and governance processes? Are the monitoring and reporting mechanisms well established?

**Internal Controls:** Is the central bank committed to building and maintaining a robust control environment? Are operational and financial risks well managed? Are controls in place for foreign reserves management, lending, currency and banking operations, and cybersecurity and business continuity arrangements? Do internal processes support accurate and timely reporting of monetary program data to the Fund?

[14] See: https://www.imf.org/en/About/Factsheets/Sheets/2023/Protecting-IMF-resources-safeguards-assessments-of-central-banks