External Debt Growth Trends in Georgia

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Abstract. The article discusses the dynamics of foreign debt growth in Georgia. Relevant analysis is done by years. Conclusions are drawn in this regard. Problems caused by the increase of foreign debt and proposals for debt reduction are given.

Keywords: external debt, growth dynamics, problems.

The political stability and economic development of any country requires a sufficient amount of financial resources. To achieve these goals, various sources and means are considered for mobilization of resources. Although the state budget of the country is intended to fulfill the state obligations to the public, it is impossible to fully meet the public needs in the modern state only with the financial resources mobilized in the state budget. That is why the state government refers to various sources of mobilization of funds required to finance expenditures, both inside the country and abroad. Among them, it is essential to attract financial resources from external sources. In particular, the loans from partner countries, international organizations, financial corporations and various foundations. The loans received from foreign creditors are presented in a solid amount in many countries, including Georgia.

For instance, there are some international financial institutions that aim to stimulate the trade and financial activities of countries. Namely, the International Monetary Fund, the International Bank for Reconstruction and Development (the same World Bank), the European Bank for Reconstruction and Development, the Asian Development Bank and others, which pay close attention to changes in the economic and financial situation in the countries, the problems of economic stabilization and balance of payments, based on this, provide them with the necessary financial resources etc.

Among the international financial institutions, the most crucial is the participation of the International Monetary Fund in financing the countries. Georgia has been a member of the IMF since 1993. Fund resources are in the tens of billions of US dollars. The fund capital is created by the contributions of its member countries. After receiving the loans from the International Monetary Fund, the country undertakes a commitment to pursue an economic policy that will be able to accumulate foreign exchange reserves and repay the debt of creditors.

Another largest financial institution "... the World Bank, finances various investment projects in developing countries ... It provides loans for projects that meet a number of criteria and are aimed at the economic development of the country." ([1], pp. 272).

If the IMF aims to achieve and maintain macroeconomic stability in countries, to ensure the growing pace of economic development, the aim of the World Bank is to structurally transform the economies of its member countries to facilitate the development of individual sectors. Table №1 clearly shows the share of these organizations in financing the Georgian economy.

As mentioned above, the government, according to the necessity, borrows the financial resources both inside the country and abroad. Loans taken by the state collectively generate public debt (both domestic and foreign debts are combined here). Public debt is the sum of unpaid government loans with interest, that must be repaid over a period of time." ([2], pp. 147).

For reference, the unpaid volume of Georgia's domestic debt as of December 31, 2020 amounted to 6,201,177.4 thousand GEL. But, external debt as of December 31, 2020 amounted to 24,689,731.0 thousand GEL (that is, $ 7,535,168.0 thousand US dollars, 4 times more than the domestic debt). In total, the country's domestic and external debts as of December 31, 2020 amounted to 30,890,908.4 thousand GEL.

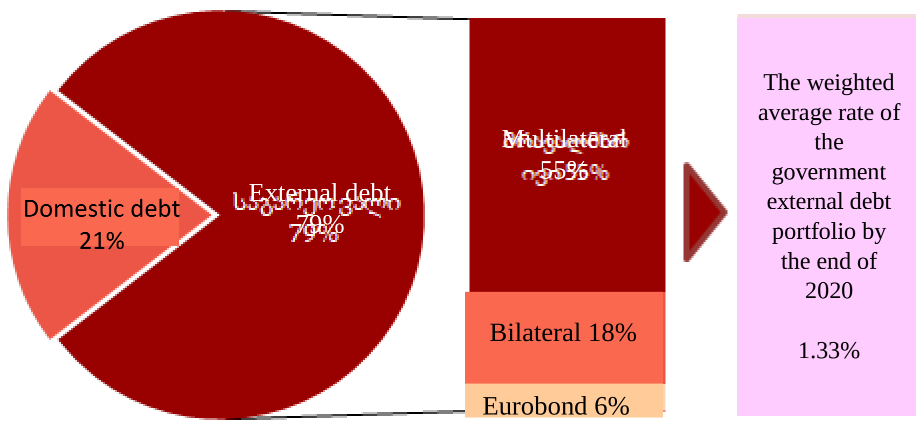
It should be noted that "the tendency of increasing public debt is not unique to Georgia. It characterizes even the developed countries such as the US and the UK. For example, if after World War II, in particular in 1950, US total public debt was up to 257 billion dollars, by the end of the 20th century, it amounted to $ 3 trillion (namely, $ 3.081 billion), in the same period, the debt in the UK rose from 26.8 billion pounds sterling to 185 billion, in France – the debt rose from 49.6 billion Frank to 1.035 billion, and in Germany – it reached 479 billion marks from 7.6 billion. ([2], pp. 148).

For today, as of June 2021, the US external debt amounts to $ 25,332,960.9 million, China - $ 18,138,334.8 million, UK - $ 2,803,507.4 million, Germany - $ 2,423,407.9 million, while in France - $ 3,071,880.5 million etc.

It is obvious that the trend of increasing external debt is typical for modern highly developed countries as well and in other equal conditions, for a developing country like Georgia, it should not be considered as an impediment to economic growth and a disadvantage. In Georgia, “as of December

31, 2020, the government's external debt portfolio accounts for 79% of total debt. Much of this credit resource is received from multilateral and bilateral donors and is mostly preferential. ... the weighted average interest rate is 1.33% per annum.” (See diagram.1) [4].

Diagram.1



It is interesting, what is the dynamics of Georgia's external debt according to different creditors over the last few years? In particular, in 2017-2020. (See Table.1)

Table.1

Georgia External Debt Indicators in 2017-2020 [4] (Million dollars)

#	Creditors	2017	2018	2019	2020
1.	**The USA**	22,6	20,2	17,8	15,5
2.	**Russia**	70,6	61,4	51,4	40,5
3.	**Armenia**	10,0	8,6	7,1	5,4
4.	**Azerbaijan**	8,9	7,8	6,7	5,5
5.	**Kazakhstan**	21,7	17,6	13,3	8,8
6.	**Turkmenistan**	0,2	0,2	0,2	0,2
7.	**Uzbekistan**	0,2	0,1	0,9	0,05
8.	**Ukraine**	0,2	0,1	0,9	0,05
9.	**Austria**	15,2	20,6	18,8	19,2
10.	**China**	2,3	1,7	1,3	0,9
11.	**Germany**	286,5	324,9	375,4	731,5
12.	**Germany** (Guaranteed credits)	2,0	1,8	1,7	1,7
13.	**France**	138,9	215,8	330,9	580,5

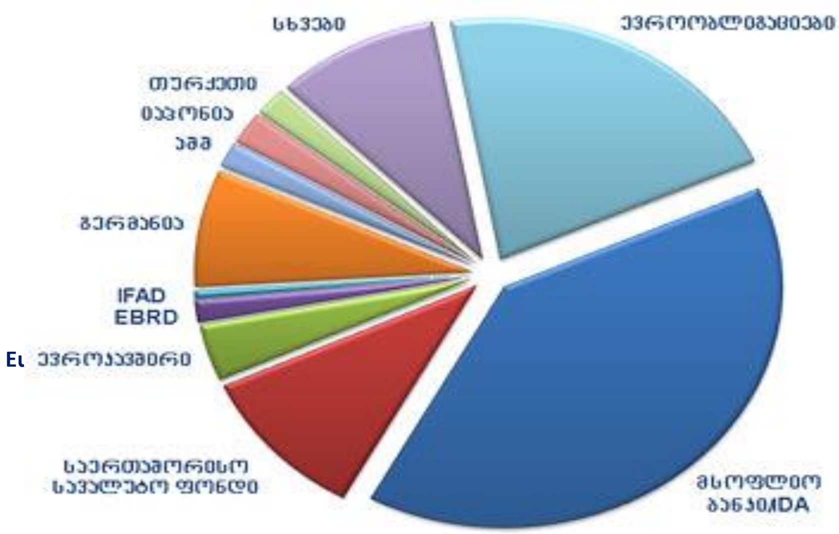
14.	**Turkey**	16,9	15,0	12,9	10,6
15.	**Iran**	6,8	6,0	5,0	4,1
16.	**International Monetary Fund (IMF)**	192,2	215,6	248,9	584,7
17.	**World Bank, International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD)**	1,851,7	1,849,8	1,874,1	2,051,2
18.	**European Union (EU)**	27,5	43,6	42,5	163,3
19.	**European Bank for Reconstruction and Development (EBRD)**	134,3	124,2	131,5	199,2
20.	**Council of Europe Development Bank (CEB)**	-	-	1,0	3,3
21.	**Asian Development Bank (ADB)**	1,058,6	1,142,7	1,249,7	1,443,5
22.	**Asian Infrastructure Investment Bank (AIIB)**	9,3	14,4	26,7	159,5
23.	**European Investment Bank (EIB)**	378,6	479,7	568,0	740,3
24.	**International Fund for Agricultural Development (IFAD)**	-	30,3	32,9	35,8
25.	**Nordic Environment Finance Corporation (NEFCO)**	-	-	0,8	2,6
26.	**Japan**	210,3	214,9	212,3	217,5
27.	**Kuwait**	12,3	10,6	9,1	9,3
28.	**Eurobonds**	500,0	500,0	500,0	500,0
29.	**Netherlands**	1, 1	0,8	0,6	0,4
30.	**Total:**	4,978,9	5,328,4	5,742,4	7,535,1

As can be seen from the data presented in the table, the external debt in dynamics is growing every year. "The more debt the country has, the weaker it is to deal with the expected shocks in the future. For example, Georgia was able to take on additional debts during the pandemic, since before the pandemic it was a country with medium debt. In the future, whether the economic crisis is caused by a pandemic or some other reason, Georgia will not be able to borrow more than 8 billion GEL a year. Donors will also limit funding. In addition, it should be taken into consideration that … the annual debt service is already a pretty big burden. In 2020, Georgia will pay a total of 1.8 billion GEL to cover the principal and interest. For example, this amount is 3 times more than Georgia pays for police and state protection services. It also exceeds funding for health and education taken separately. Another indicator of the debt burden how much debt falls per capita in the country. In 2014, Georgia owed a debt of about 2,800 GEL per person, which doubled by the end of 2019 and reached 5,700 GEL. By the end of 2020, the government's debt per capita **will be up to 7,400 GEL**. " [5].

External debt growth in 2020 compared to 2019 was **$ 1,792.7 million**. Dollars. One of the key factors in this was the economic crisis caused by the Covid-19 pandemic. However, it is also important that in 2020, the state budget revenues of Georgia were reduced by one billion GEL. While the costs increased by GEL 1.5 billion (Mostly, health and social assistance costs).

The major part of Georgia's external debt is presented in the form of preferential loans provided by the international financial institutions to finance infrastructure projects. Germany takes the first place among the creditor countries [5], towards which, as of 2020, Georgian public sector owes, $ 731 million. (See Diagram.2)

Diagram.2



The number of loans received from large creditors **only in 2020** is as follows: (See Table.2)

Table.2

The number of loans received from large creditors (Million dollars)

№	Large Creditors of Georgia	The total amount of debt 31/12/2020 From a specific creditor	Credit balance for 2019	Credit received in 2020	Increase in % compared to the previous year
1	**Germany**	**731,5**	**375,4**	**356,1**	**94,8**

2	**France**	**580,5**	**330,9**	**249,6**	**75,4**
3	**International Monetary Fund**	**584,7**	**248,9**	**335,8**	**134,9**
4	**World Bank, International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD)**	**2,051,2**	**1,874,1**	**177,1**	**9,4**
5	**European Bank for Reconstruction and Development**	**199,2**	**131,5**	**67,7**	**51,5**
6	**European Union (EU)**	**163,3**	**42,5**	**120,8**	**280,0**
7	**Asian Development Bank (ADB)**	**1,443,5**	**1.249,7**	**193,8**	**15,5**
8	**Asian Infrastructure Investment Bank (AIIB)**	**159,5**	**26,7**	**132,8**	**497,0**
9	**European Investment Bank (EIB)**	**740,3**	**568,0**	**172,3**	**30,3**

- Credit from Germany amounted to **$ 356.1 mill**ion, which is **94.8%** of the 2019 credit balance ($ 375.4 million);
- Credit from France amounted to **$ 249.6 million**. That is, **75.4%** of the 2019 credit balance ($ 330.9 million);
- Credit from the International Monetary Fund amounted to **$ 335.8 million**. That is, **134.9%** of the 2019 credit balance ($ 248.9 million). The total debt of the IMF is $ 584.7 million;
- Credit from the World Bank, the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD) amounted to **$ 177.1 million,** which is **9.4%** of the 2019 credit balance ($ 1,874.1 million). To date, total debt from the World Bank is $ 2,051.2 million. Dollars;
- Credit from the European Bank for Reconstruction and Development (EBRD) amounted to $ 67.7 million, which is 51.5% of the 2019 credit balance ($ 131.5 million).
- Credit provided by the European Union (EU) in 2020 amounted to $ 120.8 million; This is almost 3 times more (280%) compared to the 2019 credit balance ($ 42.5 million).
- $ 193.8 million is received from the Asian Development Bank (ADB) in 2020 alone, which is 15.5% of the 2019 credit balance ($ 1,249.7 million).

- From the Asian Infrastructure Investment Bank (AIIB) - $ 132.8 million, which is almost 5 times more (497%) compared to the 2019 credit balance ($ 26.7 million).
- From the European Investment Bank (EIB) - $ 172.3 million, which is 30.3% of the 2019 credit balance ($ 568.0 million).

According to the current law on "Economic Freedom" in Georgia, **the government's debt to GDP cannot be more than 60%.** During a state of emergency, the government can borrow more than 60% of GDP, but it must present a plan on how to return the debt ratio below 60% over the next 3 years”. [5]

“The Public Debt Statistical Bulletin of Georgia” published by the Public Debt Management Department of the Ministry of Finance of Georgia states that the public external debt to GDP ratio in 2013 was 25.5%; In 2014 - 25.1%; In 2015 - 30.5%; In 2016 - 33.4%; In 2017 - 32.9%; In 2018 - 32.6%; In 2019 - 33.4% and in 2020 - 50.0%." ([7], pp. 34)

It should be noted that if the GDP in 2020 was 49.4 billion GEL, and external debt - 24.6 billion GEL, then it is gradually approaching the extreme mark. When the Ministry of Finance makes the financial results of 2021 public, then we will see the real picture even more clearly.

Judging objectively, the country will find it difficult to cope with the current difficulties and the implementation of promising projects without the help of foreign creditors. However, **here are some important issues**:

- How will it be able to pay off a huge debt in fragile economy conditions?
- Will the payment of billions of GEL (even on preferential terms) lead to a weakening of the revenue part of the state budget?
- Will the above mentioned provoke the issuance of extra money to cover costs and this in turn will further accelerate the rate of inflation?
- And finally, will all this aggravate the economic situation complicated by the pandemic and many other factors?

Of course, it is difficult to give unequivocally correct answers to the given questions, but we can **formulate some directions** that we think need to be implemented:

1. While making a decision to increase foreign debt, the benefits and expected negative consequences that the country may receive must be carefully considered;

2. When some private companies take the external credits, the Georgian state should become less of a guarantor (unless it is a project with state interests), this will increase the motivation of private companies, as they will be fully responsible;
3. Every borrowed cent is a burden on the country's population, therefore, in accordance with the principles of a democratic state, the decision to implement important projects must be made through public discussion;
4. The targeted use of the external credits taken by the government for some specific projects should be strictly controlled at any stage of the work to be performed, etc.

Naturally, this is a very small list of measures that may be taken to attract and manage external credits. However, Maintaining such a high growth trend of public debt without the consequences of economic recovery will further complicate not only the economic but also the political situation in Georgia.

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