

Reasoned opinion**Domestic and external debts, ways and mechanisms to overcome them
(using the example of Georgia)***Khatuna Jokhadze*

University of Geomedi, 0114, Tbilisi, Georgia

Email: khatuna.jokhadze@geomedi.edu.ge

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15, 2025**Abstract**

Public debt in Georgia is one of the most important challenges for the state budget, which is of particular importance in implementing the country's long-term economic stability and development plan. State debt is divided into internal and external debts, which differ by employer, currency and risk. Internal debt is a liability that the government assumes within Georgia, in GEL. Georgia's internal debt mainly arises to cover the budget deficit. The process of taking on domestic debt is regulated by the Law "On the Budget System" (Parliament of Georgia, 2005). This allows the government to protect the fiscal balance and reduce the risk of external crises. It mainly involves: bonds and state loans with local banks and financial institutions; covering the budget deficit; financing domestic infrastructure projects. Domestic debt reached approximately 10.9% of GDP after 2024. The main advantage of domestic debt is that it is less sensitive to exchange rate fluctuations, but its servicing requires regular financial resources from the budget. External debt includes credits and loans received from international organizations and foreign banks. External debt is related to international loans and affects the exchange rate and economic stability. According to historical data, excessive growth of external debt has created the most severe financial crises for many countries. In the example of Georgia, according to the National Bank, the structure of external debt is mainly loans taken in foreign currencies. External debt is particularly important because: it increases debt service risks when the exchange rate of the lari changes in foreign currencies; determines international economic dependence; is important for foreign investment and development when financing projects. Domestic and external debts represent a significant challenge for the Georgian economy, however, structural reforms, promoting economic growth, fiscal discipline and prudent debt management allow the country to maintain stability and reduce the debt burden in the coming years.

Keywords: Domestic debt, external debt, refinancing, risks, regulatory mechanisms, Debt management.

Introduction

Public debt in Georgia is one of the most
Important challenges for the state budget,

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economic stability and development plan. Public debt is divided into internal and external debts, which differ by employer, currency, and risks.

Domestic debt is a liability that the government incurs within Georgia, in GEL. Domestic debt of Georgia mainly arises for the purpose of covering the budget deficit. The process of taking on domestic debt is regulated by the Law “On the Budget System” (Parliament of Georgia, 2005). This allows the government to maintain fiscal balance and reduce the risk of external crises. It mainly includes:

- Bonds and state loans with local banks and financial institutions;
- Covering the budget deficit;
- Financing domestic infrastructure projects.

Domestic debt reached approximately 10.9% of GDP after 2024.

The main advantage of domestic debt is that it is less sensitive to exchange rate fluctuations, but its servicing requires regular financial resources from the budget.

External debt includes credits and loans received from international organizations and foreign banks. External debt is related to international loans and affects the exchange

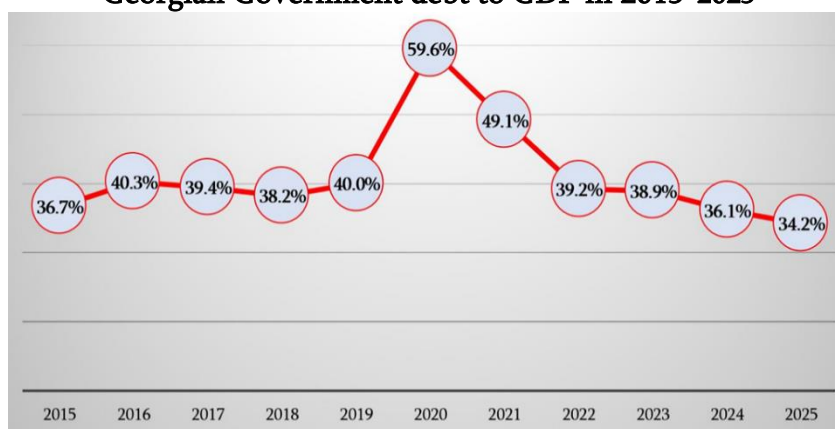
rate and economic stability. According to historical data, excessive growth of external debt has created severe financial crises for many countries. In the example of Georgia, according to the National Bank, the structure of external debt is mainly loans taken in foreign currencies. External debt is particularly important because:

- Increases debt service risks when the exchange rate of the lari in foreign currencies changes;
- Determines international economic dependence;
- Is important for foreign investments and development when financing projects.

External public debt has fluctuated between 24-33% of GDP over the years. Georgia's total public debt is estimated at 36 billion GEL as of 2025, with external debt being the most important. Problems with internal and external debt include:

- High external debt increases the economy's sensitivity to international shocks;
 - Internal debt increases budget expenditures, despite being less sensitive to exchange rate changes;
 - Increases currency and financial risks.
- Excessive debt-to-GDP ratio.

Georgian Government debt to GDP in 2015-2025



Source: International Monetary FundSource



1. Long-term strategy for public debt - the upper limit of debt (in % of GDP), e.g., the 60% limit, exceeding which will automatically activate correction mechanisms.

- Debt structure - including (what part should be fixed, what share should be long-term, how to distribute debt in foreign and national currencies, risk management plan - strategy for responding to the impact of exchange rate, interest rate risks, global financial changes).

- Risk management plan - strategy for responding to the impact of exchange rate, interest rate risks, global financial changes.

2. Refinancing mechanism with favorable terms - Georgia should create an active debt refinancing program, which includes:

- Refinancing old, high-interest debt with cheap resources, this reduces budget spending annually.

- Strategic agreements with international financial institutions - IMF, World Bank, EBRD, and ADB - so that the country can attract cheap and long-term resources during a crisis.

3. Automatic risk containment mechanism - this mechanism works successfully in Europe. In Georgia, if the debt/GDP ratio increases sharply, then automatic restrictions are activated:

- Temporary suspension of new debt;
- Cessation of non-vital expenses;
- Adjustment of interest and tax policy.

This mechanism prevents the deepening of the crisis and acts as a “signaling system”.

4. Mechanism for regulating debt and high-interest loans Many families in Georgia are under a heavy credit burden. The DOI: 10.56580/GEOMEDI73

mechanisms necessary for its elimination are: “Modern Restructuring Program”, a model developed together with banks and microfinance institutions, which includes:

- Reduction of interest rates;
 - Extension of the payment schedule;
 - Gradual abolition of fines and penalties;
 - Tightening of responsible lending standards.
- To prevent citizens from being offered loans that do not match their income level.

5. Mechanism for stimulating economic growth, the basis of debt management Debt reduction is impossible without economic growth. Needed:

- Export development strategy
- Agriculture, wine, IT services, manufacturing industry, tourism.

- Mechanism for supporting local production

When a country imports less, it needs less foreign debt;

- Attracting investments through the principle of a single window.

Fast permit system, less bureaucracy, protected judicial environment.

6. Protective mechanisms against external shocks - the mechanism should have safety buffers:

- Increase in foreign exchange reserves - this reduces fluctuations in the lari and, accordingly, debt service costs.

- Fiscal Risk Fund - finances emergency situations. (pandemic, war, energy shocks).

7. Debt transparency mechanism - public control is necessary:

- Full transparency of all debt agreements - all information published on the website (term, interest, creditor).

- Timely monitoring and public reporting, twice a year – to the Parliament and the



public. This increases trust and reduces corruption risks.

Impact of domestic debt

Domestic debt in Georgia is mainly borne by the government, which is financed by the domestic budget and through banks. DSGE model simulations show that the increase in domestic debt:

- Increases future tax risk;
- Makes monetary policy more difficult, as inflation control and debt service become intertwined;
- Increases the economy's drain on resources through a reallocation of resources, often referred to as the "crowding out" effect.

Impact of external debt

Georgia's external debt is owed primarily to foreign creditors. DSGE analysis highlights that rising external debt:

- Increases sensitivity to external shocks, particularly foreign capital shocks;
- Increases the risk of currency fluctuations, which directly impacts the volume of economic activity;
- Creates dependency on international financial institutions, which requires greater precision and consistency in fiscal and monetary policies.

Policy Recommendations:

DSGE¹ simulations in the Georgian context indicate the following:

1. Effective management of domestic debt: It is recommended to optimize the debt service structure and stimulate investment growth.
2. Ensuring external debt sustainability: It is important to manage currency risks, use the

currency regime of sanctions flexibly, and diversify foreign investment.

3. Coordination of monetary and fiscal policies: DSGE models show that a combined policy reduces the negative impact of shocks on the economy. By switching to loans; controlling the allocation of currency.

External debt includes both the state (government + state organizations), and the private and banking sectors — that is, all debt that the country receives in foreign currency. In the 2nd quarter of 2025, it was \$ 26.5 billion.

"Domestic debt" is debt that the government incurs within the country, in GEL (for example, government bonds, domestic loans, etc.).

As of October 2025, the volume of domestic debt was 11.26 billion lari.

"Total state debt" = domestic + external — that is, all debt owed to the state: this amounted to 36.2 billion lari at the end of 2025.

Main ways to manage and overcome debt

- Promoting economic growth, where domestic production will be developed, exports will be expanded, and innovations will be introduced.
- Fiscal discipline, where budget deficit will be controlled, and government spending will be optimized.
- Improving the debt structure, focusing on domestic debt to reduce external debt; optimizing debt financing terms and interest rates.

¹ National Bank of Georgia (NBG) sources, NBG uses DSGE models for monetary policy and inflation forecasts:



• International support, grants, and development assistance that do not have the characteristics of a loan.

• Refinancing and risk management, reducing expensive debts.

Georgia's Public Debt Forecast (2025–2030)

(Realistic Option)

Year	Domestic Debt (billion L)	External Debt (\$ billion)	Total Debt (to GDP)
2025	11.2	8.9	40-41%
2026	11.6	9.1	40%
2027	12.1	9.2	40-41%
2028	12.6	9.3	41%
2029	13.1	9.4	40-41%
2030	14	9.5	42%

Georgia's Public Debt Forecast (2025–2030)

(Optimistic Scenario, Rapid Economic Growth)

Year	Domestic Debt (billion L)	External Debt (\$ billion)	Total Debt (to GDP)
2025	11.2	8.9	40%
2026	11.4	8.8	38%
2027	11.6	8.7	37%
2028	11.9	8.6	36-37%
2029	12.1	8.5	36%
2030	12.3-12.7	8.3-8.4	35-36%

Georgia's Public Debt Forecast (2025–2030)

(Risks, Negative Developments)

Year	Domestic Debt (billion L)	External Debt (\$ billion)	Total Debt (to GDP)
2025	11.2	8.9	41%
2026	12	9.8	45%
2027	13	10.4	48%
2028	14	10.9	50%
2029	15	11.2	51-52%
2030	15.5-16	11.5	52-53%

What does this forecast mean in practice?

1. Georgia will not be able to move to a sharp reduction in debt, but it can slow down the growth rate and shift the burden to domestic

debt.

2. The most critical factor is the GEL exchange rate, external debt is in foreign currency, which makes exchange rate



fluctuations very significant.

3. The next 5 years depend on:

- economic growth;
- geopolitical stability;
- development of ports and corridors;
- attraction of investments;
- the quality of fiscal discipline.

The above tables show that the realistic option indicates a stable but slowly growing debt. The optimistic option indicates a decrease in debt relative to GDP, which means a healthy trajectory, and the risks are a sharp increase in debt (especially foreign debt) in the event of external shocks. Has the greatest impact on: lari exchange rate, economic growth, foreign investments, budget deficit.

Conclusion

Domestic and external debt pose a significant challenge for the Georgian economy, but structural reforms, promoting economic growth, fiscal discipline, and prudent debt management allow the country to maintain stability and reduce its debt burden in the coming years.

DSGE models are a powerful tool for analyzing Georgia's domestic and external debt. Their use makes it possible to accurately assess how the economy will respond to various shocks and to develop structural policies to ensure debt sustainability. Such an approach significantly increases the predictability of economic decisions and contributes to strengthening the country's financial stability.

The most effective for Georgia is a combination of fiscal discipline, monetary stability, structural reforms and investments.

This allows the country to reduce the debt burden, increase economic activity and restore financial stability, despite the crisis. Georgia's debt has increased over the past 10 years, both in total and in the volume of external debt, and there is also a significant increase in domestic debt. The increase observed in the past is partly manageable and is part of the economic growth strategy, but there are clear risks - especially in terms of currency and refinancing. It is important for the country to continue and timely manage its debt - policies that ensure uninterrupted debt service, optimization of maturities and diversification of debt should remain a top priority. "Domestic debt" - this is debt that the government incurs within the country, in GEL (for example, government bonds, domestic loans, etc.). As of October 2025, the volume of domestic debt was ₾ 11.26 billion. Government debt — According to CEIC data, government debt to GDP was approximately 37.2% in the third quarter of 2024. The Public Debt Management Strategy (2024-2027) states that their goal is to maintain debt at approximately 40% of GDP. Gross external debt: According to the National Bank, at the end of 2024, Georgia's external debt amounted to \$ 25.2 billion, which is approximately 74.5% of GDP based on the six-month indicator. Net external debt (assets less expenses) at the end of 2024 was \$ 12.3 billion, which is approximately 36.4% of GDP. The total amount of state debt (domestic + external) according to the Ministry of Finance, as of October, is 36.17 billion. with and financing.

შიდა და გარე ვალები, მათი დაძლევის გზები და მექანიზმები (საქართველოს მაგალითზე)

ხათუნა ჯოხაძე

უნივერსიტეტი გეომედი, 0114, თბილისი, საქართველო

ელფოსტა: khatuna.jokhadze@geomedi.edu.ge

აბსტრაქტი

საქართველოში საჯარო ვალი წარმოადგენს სახელმწიფო ბიუჯეტის ერთ-ერთ მნიშვნელოვან გამოწვევას, რომელსაც განსაკუთრებული მნიშვნელობა ენიჭება ქვეყნის ეკონომიკური სტაბილურობისა და განვითარების გრძელვადიანი გეგმის შესრულებაში. სახელმწიფო ვალი იყოფა შიდა და გარე ვალებად, რომლებიც განსხვავდებიან დამსაქმებლების, ვალუტისა და რისკების მიხედვით. შიდა ვალია ვალდებულება, რომელსაც მთავრობა იღებს საქართველოს შიგნით, ლარში. საქართველოს შიდა ვალი ძირითადად წარმოიშობა ბიუჯეტის დეფიციტის დაფარვის მიზნით. შიდა ვალის აღების პროცესი რეგულირდება კანონით „ბიუჯეტის სისტემის შესახებ (საქართველოს პარლამენტი, 2005). ეს საშუალებას აძლევს მთავრობას დაიცვას ფისკალური ბალანსი და შეამციროს საგარეო კრიზისების რისკი. იგი ძირითადად კი გულისხმობს: ობლიგაციებს და სახელმწიფო სესხებს ადგილობრივ ბანკებთან და ფინანსურ ინსტიტუტებთან; ბიუჯეტის დეფიციტის დაფარვას; შიდა ინფრასტრუქტურული პროექტების დაფინანსებას. შიდა ვალმა 2024 წლის შემდეგ მიაღწია დაახლოებით 10.9% მშპ-ს. შიდა ვალის მთავარი უპირატესობაა ის, რომ იგი ნაკლებად მგრძნობიარეა ვალუტის კურსის რყევებზე, მაგრამ მისი მომსახურება ითხოვს რეგულარულ ფინანსურ რესურსებს ბიუჯეტიდან. გარე ვალი მოიცავს კრედიტებსა და სესხებს, რომლებიც მიღებულია საერთაშორისო ორგანიზაციებისა და უცხოური ბანკებისგან. გარე ვალი დაკავშირებულია საერთაშორისო სესხებთან და ზემოქმედებს ვალუტის კურსსა და ეკონომიკურ სტაბილურობაზე. ისტორიული მონაცემებით, ბევრ ქვეყანას გარე ვალის ზედმეტი ზრდა უმწვავეს ფინანსურ კრიზისებს უქმნიდა. საქართველოს მაგალითში, ეროვნული ბანკის მონაცემებით, საგარეო ვალის სტრუქტურა ძირითადად უცხოური ვალუტებით აღებული სესხებია. გარე ვალი განსაკუთრებით მნიშვნელოვანია, რადგან: ვალის მომსახურების რისკებს ზრდის უცხოურ ვალუტაში ლარის კურსის ცვლილებისას; განაპირობებს საერთაშორისო ეკონომიკურ დამოკიდებულებას; პროექტების დაფინანსებისას მნიშვნელოვანია უცხოური ინვესტიციებისა და განვითარებისათვის. შიდა და გარე ვალები მნიშვნელოვან გამოწვევას წარმოადგენს საქართველოს ეკონომიკისთვის, თუმცა სტრუქტურული რეფორმები, ეკონომიკური ზრდის ხელშეწყობა, ფისკალური დისციპლინა და გონივრული ვალის მართვა საშუალებას აძლევს ქვეყანას შეინარჩუნოს სტაბილურობა და შემცირდეს ვალის ტვირთი მომავალი წლების განმავლობაში.

საკვანძო სიტყვები: შიდა ვალი, გარე ვალი, რეფინანსირება, რისკები, ვალის დაძლევა, რეგულირების მექანიზმები.

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