**Explanatory Note Summarizing the information on the Medium-term Forecast Reconciliation and New Policy Directions reflected in the 2022 draft State Budget Law Package**

*(Indicator 1.1.2 – Governance and Accountability in Medium-term Budgeting EU 4 Economic Governance and Fiscal Accountability)*

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# **Medium-term Forecast Reconciliation**

# **Basic Macroeconomic and Fiscal Indicators**

The following forecast has been prepared as a part of 2022 budget draft law and it is the medium-term forecast reconciliation of economic and fiscal parameters for „2021-2024 Basic Data and Directions (BDD) document“ attached on the 2021 budget law and an updated version under „2022-2025 Basic Data and Directions (BDD) document“.

COVID-19 Pandemic spread in 2020 has caused a large scalve turbulence in global economy and respectively 2020-2024 marco-economic forecasts had been updated several times. Overall 2020 resutled in 6.8% GDP decline for Georgia. Last update for 2020 economic development was prepared in November 2020 based as a result of second wave of the pandemic which affected negatively Healthcare sector as well as Economic Development in general. As a measure to sustaine further spread of the virus additional restictions were introduce. Since the prospects of vaccine, availability was still unclear and the pace of second wave spread was more intense than the first wave globally, forecasts for 2021 economic recovery was projected as a low probability. Based on the developments by the end of 2020, there were no expectations for speedy recovery in 2021 and as a result 2021 Budget was prepared to manage and mitigate pandemic and the effects of the introduced restrictions.

The economic trends at the start of 2021 was also quite pessimistic, with GDP decline of 11.5% in January and 5.1% in February. First signs of positive trends has started to show in March, though Qu1 GDP was still negative 4.1%. Economic parameters have showed reversed trend from April, by increased exsport-import figures, VAT turnouts, economic growth of financial sector, increased remittances and other economic parameters. April GDP growth reached 44,8% and the trend continued in the following months and preliminary GDP growth for 9 months of 2021 amounted to 11.3%. It needs to mentioned that the GDP growth is significant compared to 2019 as well, as official figures for Qu2 2021 shows 10.2% growth compared to 2019 Qu2.

As a result of the positive economic trends, Macro-economic forecasts were updated when in May 2021 when submitting to the Parliament the 2022-2025 Macro-economic and Fiscal forecast in line with the Budget Code (Article 34.4) requirements[[1]](#footnote-1) and 2021 gwoth was increased to 6.5%. As postitive trends continued in May and June, further updated of 2021 GDP growth to 7.7% was disclosed when submitting the 2021 State Budget Amendments to the Parliament in July 2021. Postive trends continued further and when preparing the Budget package fo 2022 the GDP growth for 2021 was updated further to 9.5% in the baseline scenario. By the second submission to the parliament of 2022 State Budget Package, economic paamters were updated further and 2021 GDP growth was estimated at 10% for 2021, which is a result of the recent trends in trade and stronger than expected effected of the delayed demand. GDP growth for 2022 is expected around 6% in the baseline scenario. Budget package also includes optimistic and pessimistic scenarios which depict different risk scenario assumptions affecting economy negatively or postively.

The table below compares updated economic forecasts to the ones prepared as part of 2021 Budget Package submission. Major influence on the updated figures had had the speedy recovery starting from March-April, specifically 44.8% growth in April has led the forecasts even higher estimates than envisaged wihtoug pandemic. Despite the sharp revesed trends, it is not expected the growth to be maintained at the same high levels since the the sharp increase was influence by the one-time effect lifting the restrictions and positive expectations as vaccines became available.

**Table 1. Basic Expectations and Assumptions**

|  | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| --- | --- | --- | --- | --- | --- | --- |
|   | Actual | Expected | Forecast | Forecast | Forecast | Forecast |
| **Growth of Real GDP, %** |   |   |   |   |   |   |
| Previous Forecast | -5.0% | 4.3% | 5.8% | 5.5% | 5.2% |  |
| Updated Forecast | -6.8% | 10.0% | 6.0% | 5.5% | 5.2% | 5.2% |
| Difference | -1.8% | 5.7% | 0.2% | 0.0% | 0.0% |  |
| **Percentage Change of GDP Deflator** |   |   |   |   |   |  |
| Previous Forecast | 5.5% | 3.8% | 3.0% | 3.0% | 3.0% |  |
| Updated Forecast | 7.3% | 8.0% | 4.5% | 3.0% | 3.0% | 3.0% |
| Difference | 1.8% | 4.2% | 1.5% | 0.0% | 0.0% |  |
| **Interest Rates on Loans, %** |   |   |   |   |   |  |
| Previous Forecast | 14.1% | 13.1% | 12.1% | 11.1% | 10.1% |  |
| Updated Forecast | 15.7% | 14.7% | 13.7% | 12.7% | 11.7% | 10.7% |
| Difference | 1.6% | 1.6% | 1.6% | 1.6% | 1.6% |  |
| **Interest Rates on Deposits, %** |   |   |   |   |   |   |
| Previous Forecast | 7.3% | 6.8% | 6.3% | 5.8% | 5.3% |  |
| **Percentage Change of GDP Deflator** | 9.2% | 8.7% | 8.2% | 7.7% | 7.2% | 6.7% |
| Previous Forecast | 1.9% | 1.9% | 1.9% | 1.9% | 1.9% |  |

Table №1 shows changes in major assumptions. The table includes 2020 actual figures to disclose the effect of previous year adjustment. 2020 GDP growth has turned out 1.8% lower than the last forecast, mainly influenced by the pandemic second wave. 2021 forecast on the other hand has been significantly adusted upward, as a result of the lower base and faster than expected recovery, since some risks assumed in baseline and pessimistic scenario for post-pandemic period have not materialized, such as decreased demand. Though these risks still remain valid for the medium-term with lower probability.

GDP deflator figures are increased in actual as well as forecasted parameters, as a result of globally increasing inflation trends. These are influenced by higher prices on goods and material and distorted supply chains with stronger effects than originally projected in the baseline. High inflation expectations are also translated into higher interenst rates As a result of changes in real GDP growth and deflator, naturally nominal GDP figures have also been changed.

**Table 2. Change in Nominal GDP**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (Million GEL) | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
|   | Actual | Expected | Forecast | Forecast | Forecast | Forecast |
| **Forecast of Nominal GDP** **December 2020**  | 49,363.5 | 53,442.6 | 58,238.5 | 63,284.9 | 68,573.0 |  |
| **Total change in Nominal GDP** | 49,266.7 | 58,528.9 | 64,832.4 | 70,450.2 | 76,337.0 | 82,715.7 |

| **Table 3. General Government Budget** (Million GEL) | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| --- | --- | --- | --- | --- | --- | --- |
|   | **Actual** | **Expected** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
| **Forecasts of Revenues December 2020** | **12,626.0** | **13,402.0** | **14,969.0** | **16,331.0** | **17,827.0** |  |
| **Difference** | -219.0 | 1,526.0 | 2,236.0 | 1,897.0 | 1,905.0 |  |
| including Taxes | -85.6 | 1,226.0 | 2,098.0 | 1,948.0 | 1,981.0 |  |
| **Updated Revenue Forecast** | **12,407.0** | **14,928.0** | **17,205.0** | **18,228.0** | **19,732.0** | **21,266.0** |
| **Previous Forecast of Expenses and Acquisition of Non-financial Assets (2020 December)** | **16,976.0** | **17,643.0** | **17,618.0** | **18,394.0** | **19,723.0** |  |
| **Updated Forecast of Expenses and Acquisition of Non-financial Assets** | **17,189.1** | **19,376.0** | **20,432.0** | **20,437.0** | **21,911.0** | **23,445.0** |

Changes in the consolidated budget figures are disclosed in table №3. Revenue forecasts are adjusted upwards a result of higher tax revenue flows. Tax revenues of course are influence by updated GDP and inflation parameters.

It should also be taken into account that tax revenue estimates in 2020-2021 include the effect of tax reliefs introduced as part of anti-COVID-19-crisis support package. Overall this relief amounted to GEL 270 million in 2021.

Current and Capital spending are also increased in the projections, influenced by increased Healthcare spending, anti-crisis business and citizen support schemes and large infrastructureal projects’ needs.

**Table №4 Balance of Payment**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Current Account | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| **(Million US Dollar)** | **Actual** | **Expected** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
| **Forecast of Current Account December (2020 Decemeber)** | **-1,542.0** | **-1,379.9** | **-1,112.0** | **-1,174.3** | **-1,190.5** |  |
| **Total Changes** | **-423.0** | **-149.0** | **-468.0** | **-326.5** | **-330.1** |  |
| Net Export | -971.5 | -959.1 | -882.4 | -124.9 | 135.1 |  |
| Primary Income | -27.8 | -104.4 | -347.0 | -677.2 | -1,000.7 |  |
| Secondary Income (Transfers) | 576.3 | 914.4 | 761.3 | 475.7 | 535.5 |  |
| **Forecast of Current Account November - updated** | **-1,965.0** | **-1,529.0** | **-1,580.0** | **-1,500.8** | **-1,520.7** | **-1,351.5** |

As for BoP, forecasts are deteriorated, which is influenced by higher than expected domestic demand increase. Domestic demands increase imports. In the medium term we anticipate increased secondary income, based on recent trends of transfers.

Factor income projections are decreased, influenced by increased debt levels in the economy, with operational as well as exchange rate effects. Higher debt will cause more interest payments during the coming years.

# **Fiscal Framework and the Plan to Return to the Limits Provided by the Fiscal Rules**

## Comparing the Fiscal Framework

The medium-term parameters of 2020-2023 have been planned considering the forecasts of macroeconomic and fiscal parameters by the end of 2019. According to these forecasts, consolidation policy of the current spending would be continued in the medium-term and the resources were directed to the investment projects, educational reform and the social security measures. The forecasts of the current macroeconomic and fiscal parameters have been changed and corrected completely due to the new coronavirus (COVID-19) pandemic, and fiscal projections have been corrected for 2020, as well as 2021-2024. An updated forecast of 2021-2024 reflects post-crisis assumptions related the COVID-19, which considers measures for fiscal policy stabilization in order to maintain major reforms and fiscal parameters to return to the limits established by the law.

 As mentioned above, the negative shock caused by the coronavirus has an impact on the Georgian economy, which is highly depended on the external factors. Against the background of the global crisis caused by the COVID-19 pandemic in 2020, the economic downturn (6.8% of GDP) as well as the need to fund pandemic management measures were directly reflected in the volume of budget revenues, especially tax revenues, as well as expenditures and the medium-term forecasts for 2020-2024 have changed substantially.

 **Medium-Term Forecasts**

The data of 2022-2025 is reflected by the updated forecast of 2021-2024 macroeconomic and fiscal variables coming from the actual 2020 data and the current situation. The forecast of these indicators has been developed against the background of the current pandemic.

It should be noted that the National Statistics Office of Georgia is updating the economic growth data of the previous year (2020) in November, which also affected the nominal GDP in 2022 (defined at 64832.4 million GEL, instead of 65016.0 million GEL), the GDP forecasts for the following years were also calculated accordingly, despite the fact that, the real growth forecast has not changed. The relevant change was reflected in the submitted draft compared to the previously revised version of the draft Law of Georgia on the State Budget of Georgia for 2022.

Medium-term forecasts for 2021-2024 prepared in December 2020 were updated in July 2021 and in the updated forecasts for 2022-2025, the forecasts for 2021 are updated. This is due to the fact that the economic growth rate was higher than expected this year and the real economic growth was 11.3% according to the 9-month preliminary figures. Accordingly, the updated economic growth forecast for 2021 was set at 10.0%. Taking into account the actual indicators of the past period and the current trends, the forecast of the GDP deflator in 2021 is 8.0%. Due to the increase in the forecasts of economic parameters, the forecast of nominal GDP has also increased and instead of the forecast of 57.2 billion GEL in July of the current year, the updated macroeconomic scenario is projected at 58.5 billion GEL.

The 2021 forecast predicts positive economic growth trends in the first half of the year and significantly increased revenues by the end of 2020 compared to the projected figures. At the same time, despite the increase in the share of taxes in 2021, the deficit of the unified state budget is decreasing, both in nominal terms and in relation to GDP (Compared to the December 2020 forecast, it drops from 7.7% in the updated forecast to 6.8%).

According to the updated forecasts, the non-deficit revenues of the consolidated budget have increased in nominal terms and from 2022 non-deficit revenues of the consolidated budget in relation to GDP practically return to the pre-pandemic forecast.

Also, as a result of the active privatization initiated by the Government of Georgia, the updated forecasts for 2022 maintain a high rate of non-financial assets receivables.

**Table №5 - Revenue Forecast**

**/** **Million GEL /**

| **Name** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| --- | --- | --- | --- | --- | --- | --- |
| **Fact** | **Forecast** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
| **Million GEL** |
| **Revenue** |   |
| 2021-2024 Forecast (December 2020) | 12 626,0 | 13 402,0 | 14 969,0 | 16 331,0 | 17 827,0 |   |
| 2022-2025 Forecast (July 2021) | 12 407,0 | 14 579,0 | 16 490,0 | 18 052,0 | 19 530,0 | 21 114,0 |
| *Difference* | *-219,0* | *1 177,0* | *1 521,0* | *1 721,0* | *1 703,0* |  |
| 2022-2025 Forecast (Draft Budget 2022) | 12 407,0 | 14 928,0 | 17 205,0 | 18 228,0 | 19 732,0 | 21 266,0 |
| *Difference* | *0,0* | *349,0* | *715,0* | *176,0* | *202,0* | *152,0* |
|    |
| **Decrease in Non-Financial Assets** |   |
| 2021-2024 Forecast (December 2020) | 150,0 | 250,0 | 250,0 | 250,0 | 250,0 |   |
| 2022-2025 Forecast (July 2021) | 207,9 | 480,0 | 250,0 | 250,0 | 250,0 | 250,0 |
| *Difference* | *57,9* | *230,0* | *0,0* | *0,0* | *0,0* |  |
| 2022-2025 Forecast (Draft Budget 2022) | -207,9 | -480,0 | -450,0 | -250,0 | -250,0 | -250,0 |
| *Difference* | *-415,8* | *-960,0* | *-700,0* | *-500,0* | *-500,0* | *-500,0* |
| **Decrease in Financial Assets** |   |
| 2021-2024 Forecast (December 2020) | 130,0 | 150,0 | 115,0 | 115,0 | 115,0 |   |
| 2022-2025 Forecast (July 2021) | 167,4 | 210,0 | 115,0 | 115,0 | 115,0 | 115,0 |
| *Difference* | *37,4* | *60,0* | *0,0* | *0,0* | *0,0* |  |
| 2022-2025 Forecast (Draft Budget 2022) | -167,4 | -210,0 | -130,0 | -130,0 | -130,0 | -130,0 |
| *Difference* | *-334,8* | *-420,0* | *-245,0* | *-245,0* | *-245,0* | *-245,0* |
|   |
| **% of GDP** |
| **Revenue** |   |
| 2021-2024 Forecast (December 2020) | 25,6% | 25,1% | 25,7% | 25,8% | 26,0% |   |
| 2022-2025 Forecast (July 2021) | 25,1% | 25,5% | 26,0% | 25,8% | 25,7% | 25,7% |
| *Difference* | *-0,5%* | *0,4%* | *0,2%* | *0,0%* | *-0,3%* |  |
| 2022-2025 Forecast (Draft Budget 2022) | 25,2% | 25,5% | 26,5% | 25,9% | 25,8% | 25,7% |
| *Difference* | *0,1%* | *0,0%* | *0,6%* | *0,0%* | *0,1%* | *0,0%* |
| **Decrease in Non-Financial Assets** |   |
| 2021-2024 Forecast (December 2020) | 0,3% | 0,5% | 0,4% | 0,4% | 0,4% |   |
| 2022-2025 Forecast (July 2021) | 0,4% | 0,8% | 0,4% | 0,4% | 0,3% | 0,3% |
| *Difference* | *0,1%* | *0,4%* | *0,0%* | *0,0%* | *0,0%* |  |
| 2022-2025 Forecast (Draft Budget2022) | -0,4% | -0,8% | -0,7% | -0,4% | -0,3% | -0,3% |
| *Difference* | *-0,8%* | *-1,7%* | *-1,1%* | *-0,7%* | *-0,7%* | *-0,6%* |
| **Decrease in Financial Assets** |   |
| 2021-2024 Forecast (December 2020) | 0,3% | 0,3% | 0,2% | 0,2% | 0,2% |   |
| 2022-2025 Forecast (July 2021) | 0,3% | 0,4% | 0,2% | 0,2% | 0,2% | 0,1% |
| *Difference* | *0,1%* | *0,1%* | *0,0%* | *0,0%* | *0,0%* |  |
| 2022-2025 Forecast (Draft Budget2022) | -0,3% | -0,4% | -0,2% | -0,2% | -0,2% | -0,2% |
| *Difference* | *-0,7%* | *-0,7%* | *-0,4%* | *-0,3%* | *-0,3%* | *-0,3%* |

In 2020 and 2021, foreign debt collection reflects the funds raised to deal with the pandemic. However, the decrease in foreign liabilities in 2022 compared to 2021 is related to the fact that, in 2021, a new Eurobond of GEL 1.7 billion was issued to cover the Eurobonds and significant growth of external liabilities for 2021 is coming from the fact. Consequently, this figure is reduced in the following years.

The table below (Table №6) shows the forecast for the liability growth for 2020-2025:

**Table №6 - Liability Gwoth Forecast**

***(Million GEL)***

| **Name** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| --- | --- | --- | --- | --- | --- | --- |
| **Fact** | **Forecast** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
|   |   |   |   |   |   |   |
| **Liability growth** |   |
| 2021-2024 Forecast (December 2020) | 7 175,0 | 5 279,0 | 3 145,0 | 3 675,0 | 4 140,0 |   |
| 2022-2025 Forecast (July 2021) | 7 274,4 | 5 094,0 | 3 965,0 | 3 485,0 | 3 485,0 | 3 485,0 |
| *Difference* | *99,4* | *-185,0* | *820,0* | *-190,0* | *-655,0* |  |
| 2022-2025 Forecast (Draft Budget2022) | 6 332,4 | 2 236,0 | 3 103,0 | 2 225,0 | 2 065,0 | 2 004,0 |
| *Difference* | *-941,9* | *-2 858,0* | *-862,0* | *-1 260,0* | *-1 420,0* | *-1 481,0* |
| **Domestic** |  |  |  |  |  |  |
| 2021-2024 Forecast (December 2020) | 1 850,0 | 0,0 | 1 000,0 | 1 200,0 | 1 500,0 |   |
| 2022-2025 Forecast (July 2021) | 2 010,0 | -180,0 | 1 285,0 | 1 385,0 | 1 485,0 | 1 485,0 |
| *Difference* | *160,0* | *-180,0* | *285,0* | *185,0* | *-15,0* |  |
| 2022-2025 Forecast (Draft Budget2022) | 1 970,0 | -375,0 | 1 245,0 | 1 345,0 | 1 445,0 | 1 445,0 |
| *Difference* | *-40,0* | *-195,0* | *-40,0* | *-40,0* | *-40,0* | *-40,0* |
| **External** |  |  |  |  |  |  |
| 2021-2024 Forecast (December 2020) | 5 325,0 | 5 279,0 | 2 145,0 | 2 475,0 | 2 640,0 |   |
| 2022-2025 Forecast (July 2021) | 5 264,3 | 5 274,0 | 2 680,0 | 2 100,0 | 2 000,0 | 2 000,0 |
| *Difference* | *-60,7* | *-5,0* | *535,0* | *-375,0* | *-640,0* |  |
| 2022-2025 Forecast (Draft Budget2022) | 4 362,4 | 2 611,0 | 1 858,0 | 880,0 | 620,0 | 559,0 |
| *Difference* | *-901,9* | *-2 663,0* | *-822,0* | *-1 220,0* | *-1 380,0* | *-1 441,0* |
| **% of GDP** |
| **Liability growth** |   |
| 2021-2024 Forecast (December 2020) | 14,5% | 9,9% | 5,4% | 5,8% | 6,0% |   |
| 2022-2025 Forecast (July 2021) | 14,7% | 8,9% | 6,2% | 5,0% | 4,6% | 4,2% |
| *Difference* | *0,2%* | *-1,0%* | *0,8%* | *-0,8%* | *-1,4%* |  |
| 2022-2025 Forecast (Draft Budget2022) | 12,9% | 3,8% | 4,8% | 3,2% | 2,7% | 2,4% |
| *Difference* | *-1,9%* | *-5,1%* | *-1,5%* | *-1,8%* | *-1,9%* | *-1,8%* |
| ***Domestic*** |  |  |  |  |  |  |
| 2021-2024 Forecast (December 2020) | 3,7% | 0,0% | 1,7% | 1,9% | 2,2% | 0,0 |
| 2022-2025 Forecast (July 2021) | 4,1% | -0,3% | 2,0% | 2,0% | 2,0% | 1,8% |
| *Difference* | *0,3%* | *-0,3%* | *0,3%* | *0,1%* | *-0,2%* |  |
| 2022-2025 Forecast (Draft Budget2022) | 4,0% | -0,6% | 1,9% | 1,9% | 1,9% | 1,7% |
| *Difference* | *-0,1%* | *-0,3%* | *-0,1%* | *-0,1%* | *-0,1%* | *-0,1%* |
| ***External*** |  |  |  |  |  |  |
| 2021-2024 Forecast (December 2020) | 10,8% | 9,9% | 3,7% | 3,9% | 3,8% |   |
| 2022-2025 Forecast (July 2021) | 10,7% | 9,2% | 4,2% | 3,0% | 2,6% | 2,4% |
| *Difference* | *-0,1%* | *-0,7%* | *0,5%* | *-0,9%* | *-1,2%* |  |
| 2022-2025 Forecast (Draft Budget2022) | 8,9% | 4,5% | 2,9% | 1,2% | 0,8% | 0,7% |
| *Difference* | *-1,8%* | *-4,8%* | *-1,4%* | *-1,8%* | *-1,8%* | *-1,8%* |

2020-2021 and partly 2022 or the spending side, forecast reflects the necessary resources and expenses related to financing the anti-crisis plan provided by the Georgian government due to the new coronavirus (COVID-19). The medium-term plan for 2022-2025 considers continuing the current programs and sub-programs of different ministries and financing the necessary spending of partial recovery of traditional programs by the government.

Consolidated budget expenditures for GDP in 2020 have been maintained at 26.3 percent in the updated forecasts. Also, current expenditures in the 2021 budget was projected at 25.1 percent, taking into account the increased health and economic support measures related to COVID-19. Funding for pandemic response measures significantly increases current expenditure in 2020-2021 and it was 26.2% of GDP in 2020 and 24.7% in 2021. The total expenditure in 2022 is projected at a total of GEL 14.8 billion, which is 22.8% of GDP. This figure is maintained in the forecasts for the coming years. Expenditures reflect expenditures required for existing pension indexation, education reform, and social programs. Also, the increase of the base salary to GEL 1,100 (increased by GEL 100) is provided.

Despite the pandemic, the amount of capital expenditures did not decrease in 2020-2021 (sum of growth of non-financial assets and growth of financial assets) and it was 9.0% of GDP in 2020 and 8.3% in 2021. In the updated forecasts, the volume of capital expenditures in nominal terms will increase significantly in 2022 and will amount to GEL 5.9 billion, which is due to the entry into the active phase of the East-West Expressway and other major infrastructure projects. In particular, in 2022, compared to 2021, capital expenditures (increase in non-financial assets) increased by 1.6 billion GEL compared to the December 2020 forecast. In the coming years, as a result of fiscal consolidation, capital expenditures will be reduced to below 7% of GDP, which is a rather large reduction and it will be necessary to find additional non-deficit resources.

The table below (Table №7) shows the forecast for the current and capital spending during 2020-2025:

**Table №7- Current and Capital Spending Forecast**

***Million GEL***

| **Name** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
| --- | --- | --- | --- | --- | --- | --- |
| **Fact** | **Forecast** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
|  **Expenditures** |   |
| 2021-2024 Forecast (December 2020) | 12 921,0 | 13 407,0 | 13 518,0 | 14 434,0 | 15 243,0 |   |
| 2022-2025 Forecast (July 2021) | 12 959,6 | 14 419,0 | 14 626,0 | 15 468,0 | 16 427,0 | 17 551,0 |
| *Difference* | *38,6* | *1 012,0* | *1 108,0* | *1 034,0* | *1 184,0* |  |
| 2022-2025 Forecast (Draft Budget2022) | 12 959,6 | 14 688,0 | 14 753,0 | 15 768,0 | 16 887,0 | 18 071,0 |
| *Difference* | *0,0* | *269,0* | *127,0* | *300,0* | *460,0* | *520,0* |
|   |   |
| **Capital Expenditures** |   |
| **Increase in Non-Financial Assets** |   |
| 2021-2024 Forecast (December 2020) | 4 055,0 | 4 236,0 | 4 100,0 | 3 960,0 | 4 480,0 |   |
| 2022-2025 Forecast (July 2021) | 4 229,4 | 4 620,0 | 4 775,0 | 4 792,0 | 5 267,0 | 5 727,0 |
| *Difference* | 174,4 | 384,0 | 675,0 | 832,0 | 787,0 |   |
| 2022-2025 Forecast (Draft Budget2022) | 4 229,4 | 4 688,0 | 5 679,0 | 4 669,0 | 5 024,0 | 5 374,0 |
| *Difference* | *0,0* | *68,0* | *904,0* | *-123,0* | *-243,0* | *-353,0* |
| **Increase in Financial Assets** |   |
| 2021-2024 Forecast (December 2020) | 190,0 | 241,0 | 250,0 | 250,0 | 250,0 |   |
| 2022-2025 Forecast (July 2021) | 204,0 | 155,0 | 250,0 | 250,0 | 250,0 | 250,0 |
| *Difference* | 14,0 | -86,0 | 0,0 | 0,0 | 0,0 |   |
| 2022-2025 Forecast (Draft Budget2022) | 204,0 | 155,0 | 205,0 | 250,0 | 250,0 | 250,0 |
| *Difference* | *0,0* | *0,0* | *-45,0* | *0,0* | *0,0* | *0,0* |
|   |   |
| **% of GDP** |
| **Expenditures** |   |
| 2021-2024 Forecast (December 2020) | 26,2% | 25,1% | 23,2% | 22,8% | 22,2% |   |
| 2022-2025 Forecast (July 2021) | 26,2% | 25,2% | 23,0% | 22,1% | 21,6% | 21% |
| *Difference* | 0,1% | 0,1% | -0,2% | -0,7% | -0,6% |   |
| 2022-2025 Forecast (Draft Budget2022) | 26,3% | 25,1% | 22,8% | 22,4% | 22,1% | 21,8% |
| *Difference* | *0,1%* | *-0,1%* | *-0,3%* | *0,2%* | *0,5%* | *0,4%* |
|   |
| **Capital Expenditures** |   |
| **Increase in Non-Financial Assets** |   |
| 2021-2024 Forecast (December 2020) | 8,2% | 7,9% | 7,0% | 6,3% | 6,5% |   |
| 2022-2025 Forecast (July 2021) | 8,6% | 8,1% | 7,5% | 6,9% | 6,9% | 7% |
| *Difference* | 0,3% | 0,2% | 0,5% | 0,6% | 0,4% |   |
| 2022-2025 Forecast (Draft Budget2022) | 8,6% | 8,0% | 8,8% | 6,6% | 6,6% | 6,5% |
| *Difference* | *0,0%* | *-0,1%* | *1,2%* | *-0,2%* | *-0,4%* | *-0,5%* |
|  |
| **Increase in Financial Assets** |   |
| 2021-2024 Forecast (December 2020) | 0,4% | 0,5% | 0,4% | 0,4% | 0,4% |   |
| 2022-2025 Forecast (July 2021) | 0,4% | 0,3% | 0,4% | 0,4% | 0,3% | 0,3% |
| *Difference* | 0,0% | -0,2% | 0,0% | 0,0% | 0,0% |   |
| 2022-2025 Forecast (Draft Budget2022) | 0,4% | 0,3% | 0,3% | 0,4% | 0,3% | 0,3% |
| *Difference* | *0,0%* | *0,0%* | *-0,1%* | *0,0%* | *0,0%* | *0,0%* |

## 2.2 Medium-term Fiscal Framework Compliance with Fiscal Rules Considered by the Organic Law of Georgia “The Economic Liberty Act”

According to the organic law of Georgia “the economic liberty act”, based on the state of emergency, Georgian government had an opportunity to operate beyond the limits of fiscal parameters defined by the legislation, in order to finance the abovementioned measures smoothly.

Considering that, due to the pandemic, the economy will decline in 2020, while current expenditures have increased due to pandemic response measures, the state budget deficit in 2020 was 8.5% of GDP, and 2021 is projected at 7.7%. The forecasts attached to the draft law on the state budget for 2021 envisaged reaching the mark (3%) provided for by the Organic Law of Georgia on Economic Freedom by 2023 and was set at 2.9%.

Due to the faster recovery than the projected economic growth from 2021, it became possible to reach the limits set by the deficit legislation at a more equal pace. In 2021, the unified state budget deficit will decrease from 7.7% to 6.8%, and by 2023 it will drop to 2.9%.

**Table №8 - Forecast of Return to the Limits Considered by the Legislation (Percentage to GDP)**

|   | **2020 Year** | **2021 Year** | **2022 Year** | **2023 Year** | **2024 Year** | **2025 Year** |
| --- | --- | --- | --- | --- | --- | --- |
| **Non-deficit revenues (revenues + decrease in non-financial assets)** | 24,8% | 24,7% | 25,8% | 25,5% | 25,5% | 25,4% |
| *+/- difference with previous year* |   | -0,1% | 1,2% | -0,3% | 0,0% | -0,1% |
|   |   |   |   |   |   |   |
| **Expenditure** | 26,3% | 25,1% | 22,8% | 22,4% | 22,1% | 21,8% |
| *+/- difference with previous year* |   | -1,2% | -2,3% | -0,4% | -0,3% | -0,3% |
|   |   |   |   |   |   |   |
| **Increase in non-financial Assets** | 8,6% | 8,0% | 8,8% | 6,6% | 6,6% | 6,5% |
| *+/- difference with previous year* |   | -0,6% | 0,7% | -2,1% | 0,0% | -0,1% |
|   |   |   |   |   |   |   |
| **Negative total balance** | -9,3% | -6,8% | -4,3% | -2,8% | -2,5% | -2,3% |
| *+/- difference with previous year* |   | 2,5% | 2,5% | 1,5% | 0,3% | 0,2% |
|   |   | 4,2% | 5,2% | 3,7% | 0,6% |   |

Despite of the fact that economic recovery has been started from 2021 and based on the updated projections real GDP growth amounts 10% and during the medium term period will maintain at average on 5.5%, in response to the pandemic taking into account the existing tax examptions, the share of non-deficit revenues to GDP is slightely increasing compared to priveous year by 0.1 percentage poing and by the end of the medium term period is maintained to 25.4%. Despite the pension indexation reform, in 2022 the share of Consolidated budget current spending to GDP is 22.8% and during the medium term period decreases to 21.8%. also, to maintain the share of the increase of non-financial assets to GDP at 7% gives opportunity to reduce General Government budget defitic to 2.8% and reach the limits defined in the organic law of Georgia “On economic Freedom.” However, in parallel to reducing budget deficit, meintainin capital spending at 8% of GDP during the next medium term period is an important challenge, at the same time maintaining current spending within 23%, considering ongoing reforms including pension indexation, education reform and other structural reforms imply a more restrictive fiscal policy in the medium term period.

Table №9 shows the forecast of the total balance of consolidated and general government budget for 2020-2025 and the deficit defined by the IMF program, and their comparison to the previous period forecasts.

**Table №9 - Comparison of Budget Deficit Forecasts**

**/** **Million GEL/**

| **Name** | **Consolidated Budget** | **General Government Budget** |
| --- | --- | --- |
| **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** |
|   |
| **Total balance** |   |
| 2021-2024 Forecast (December 2020) | -4 200,0 | -3 991,0 | -2 399,0 | -1 813,0 | -1 646,0 |   | -4 188,70 | -4 131,90 | -2 342,60 | -1 819,00 | -1 649,00 |   |
| 2022-2025 Forecast (July 2021) | -4 574,2 | -3 980,0 | -2 661,0 | -1 958,0 | -1 914,0 | -1 914,0 | -4 450,9 | -3 971,1 | -2 632,0 | -1 952,0 | -1 863,0 | -1 858,0 |
| 2022-2025 Forecast (Draft Budget2022) | -4 574,2 | -3 968,0 | -2 777,0 | -1 959,0 | -1 929,0 | -1 929,0 | -4 450,9 | -3 928,0 | -2 750,0 | -1 940,0 | -1 923,0 | -1 959,0 |
|   |
| **Modified deficit (IMF program)** |   |
| 2021-2024 Forecast (December 2020) | -4 470,0 | -4 082,0 | -2 534,0 | -1 948,0 | -1 781,0 |   | -4 498,9 | -4 228,8 | -2 487,6 | -1 964,0 | -1 794,0 |   |
| 2022-2025 Forecast (July 2021) | -4 595,9 | -3 925,0 | -2 796,0 | -2 093,0 | -2 049,0 | -2 049,0 | -4 520,3 | -3 922,1 | -2 792,0 | -2 112,0 | -2 023,0 | -2 018,0 |
| 2022-2025 Forecast (Draft Budget2022) | -4 595,9 | -3 913,0 | -2 852,0 | -2 079,0 | -2 049,0 | -2 049,0 | -4 525,7 | -3 879,5 | -2 835,4 | -2 070,0 | -2 038,0 | -2 064,0 |
|   |
| **% of GDP** |
| **Total balance** |   |
| 2021-2024 Forecast (December 2020) | -8,5% | -7,5% | -4,1% | -2,9% | -2,4% |   | -8,5% | -7,7% | -4,0% | -2,9% | -2,4% |   |
| 2022-2025 Forecast (July 2021) | -9,3% | -7,0% | -4,2% | -2,8% | -2,5% | -2,3% | -9,0% | -6,9% | -4,1% | -2,8% | -2,5% | -2,3% |
| 2022-2025 Forecast (Draft Budget2022) | -9,3% | -6,8% | -4,3% | -2,8% | -2,5% | -2,3% | -9,0% | -6,7% | -4,2% | -2,8% | -2,5% | -2,4% |
|   |
| **Modified deficit (IMF program)** |   |
| 2021-2024 Forecast (December 2020) | -9,1% | -7,6% | -4,4% | -3,1% | -2,6% |   | -9,1% | -7,9% | -4,3% | -3,1% | -2,6% |   |
| 2022-2025 Forecast (July 2021) | -9,3% | -6,9% | -4,4% | -3,0% | -2,7% | -2,5% | -9,1% | -6,9% | -4,4% | -3,0% | -2,7% | -2,5% |
| 2022-2025 Forecast (Draft Budget2022) | -9,3% | -6,7% | -4,4% | -3,0% | -2,7% | -2,5% | -9,2% | -6,6% | -4,4% | -2,9% | -2,7% | -2,5% |

# **Government Debt**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Government Debt (million GEL)** | **2020 Year** | **2021 Year** | **2022 Year** | **2023 Year** | **2024 Year** | **2025 Year** |
| 2021-2024 Forecast (December 2020) | 29,569 | 32,111 | 34,119 | 36,608 | 39,504 |   |
| *% of GDP* | *59.9%* | *60.1%* | *58.6%* | *57.8%* | *57.6%* |  |
| 2022-2025 Forecast (July 2021) | 29,654 | 30,808 | 33,598 | 35,818 | 37,878 | 39,877 |
| *% of GDP* | *60.0%* | *53.8%* | *52.9%* | *51.3%* | *49.9%* | *48.6%* |
| 2022-2025 years (December 2021) | 29,654 | 29,905 | 33,123 | 35,348 | 37,413 | 39,417 |
| *% of GDP* | *60.2%* | *51.1%* | *51.1%* | *50.2%* | *49.0%* | *47.7%* |

Changes in Government Debt as defined in the Organic Law on “Economic Liberty Act” compared to the precious forecast is mostly caused due to the improvement of economic indicators during 2021. It should be noted that at the end of 2021, the real growth of the economy is expected to be around 10.0%. Also, a change in the GDP deflator is expected at the level of 8.0%. In addition, by the end of 2021, compared to the end of December 2020, the Georgian GEL is expected to strengthen against the currencies in the debt portfolio. It should be noted that the government's foreign net loan for 2021 is planned at 2.611 million GEL. Due to the strengthening of the GEL exchange rate, the foreign debt decreased by GEL 2,017 million during this period, which increases the foreign debt by GEL 594 (2,611-7,017 = 594) instead of GEL 2,611 million. All of the above has a positive impact on reducing the ratio of government debt to GDP. As a result, the debt-to-GDP ratio is expected to decline to 51.1% by the end of 2021. The debt-to-GDP ratio is projected to decline in the coming years as well, reaching 47.7% by the end of 2025.

During 2020, due to the global pandemic and the preparation for a negative economic scenario, donor funding was mobilized for the anti-crisis needs of 2020-2021. As a result, by the end of 2020, the unified account of the Treasury had accumulated a significant volume of balance fiscal buffer - 1722 million GEL). The accumulated balance will be used during 2021 (1677 million GEL). Net issuance of treasury securities in the local market is planned at the level of (-300) million GEL, which additionally helps to reduce the amount of government debt.

One of the most important challenges for the government debt portfolio is the high level of external debt share in the debt portfolio (79% by 2020), which makes debt ratios vulnerable to negative exchange rate shocks. Accordingly, the government's debt management policy (in line with the updated public debt strategy being worked on) in the medium to long term, with a reduction in the debt-to-GDP ratio, will focus on reducing the share of external debt in total debt.

# **New Policy Directions**

Basic Data and Direction (BDD) document attached to the 2022 state budget law and the program budget annex includes new policy directions, which has been identified during the preparation of 2021 and 2022 draft State Budget Law package under the Ministry of Economy and Sustainable Development, Ministry of Internally Displaced Persons, Labour, Health and Social Affairs, Ministry of Education, Science, Culture and Sport.

| **Ministry/Program/New Policy direction** | **2022 plan** | **2023 forecast** | **2024 forecast** | **2025 forecast** | **comment** |
| --- | --- | --- | --- | --- | --- |
| **Minitsry of Economy and Sustainable Development** | **1,037,792.9** | **990,436.0** | **877,838.0** | **768,878.8** |  |
| **Entrepreneurship Development program** | **273,486.0** | **292,630.0** | **293,263.0** | **295,297.0** |   |
| To support development sector to response the New Coronavirus (COVID-19) pandemic | 30,000.0 | 30,000.0 | 30,000.0 | 30,000.0 | New policy directions reflected in 2021-2024 BDD document |
| New policy direction to support entreprenership  | 185,000.0 | 208,950.0 | 218,920.0 | 260,720.0 | New policy directions reflected in 2022-2025 BDD document |
| **Ministry of Internaly displaced people, Labour, Health and Social affairs**  | **6,029,145.8** | **6,043,741.0** | **6,354,223.0** | **6,771,208.0** |  |
| **Social Protection program** | **4,021,210.0** | **4,300,000.0** | **4,600,000.0** | **4,900,000.0** |  |
| Incl: Pension Indexation | 500,000.0 | 800,000.0 | 1,100,000.0 | 1,400,000.0 | New policy directions reflected in 2021-2024 BDD document |
| Incl: Improving social conditions of children and families with children | 150,000.0 | 150,000.0 | 150,000.0 | 150,000.0 |
| **Health care program** | **1,791,204.0** | **1,510,000.0** | **1,510,000.0** | **1,610,000.0** |   |
| Incl: Co-financing medical insurence | 2,250.0 | 2,250.0 | 2,250.0 | 2,250.0 | New policy directions reflected in 2021-2024 BDD document |
| Incl: Organ transplantation | 5,000.0 | 5,150.0 | 5,300.0 | 5,500.0 | New policy directions reflected in 2022-2025 BDD document |
| Incl: Spinal-muscular atrophy | 5,000.0 | 6,000.0 | 7,000.0 | 8,000.0 |
| Incl: Continuous monitoring of glucose | 5,100.0 | 6,000.0 | 6,500.0 | 7,000.0 |
| **Labour and employment system reform program** | **9,195.0** | **9,922.0** | **10,439.0** | **12,018.0** |  |
| Inlc: Safety working conditions policy | 4,000.0 | 4,000.0 | 4,000.0 | 4,000.0 | New policy directions reflected in 2021-2024 BDD document |
| Incl: new direction of employment policy  | 1,500.0 | 1,500.0 | 1,500.0 | 1,500.0 |
| **Ministry of Education and Sciency** | **2,076,085.9** | **2,501,670.0** | **2,564,918.0** | **2,671,252.0** |  |
| **Primary and secondary Education program**  | **1,157,826.8** | **1,393,433.0** | **1,484,807.0** | **1,576,533.0** |   |
| Incl: Scheme for professional development and career advancement of teachers and an increase of remuneration | 250,000.0 | 350,000.0 | 450,000.0 | 550,000.0 | New policy directions reflected in 2021-2024 BDD document |
| Incl: implementation of “New School” model |
| **Sum of New policy directions reflected in 2021-2024 BDD document** | ***937,750.0*** | ***1,337,750.0*** | ***1,737,750.0*** | ***2,137,750.0*** |  |
| **Sum of New policy directions reflected in 2022-2025 BDD document** | ***200,100.0*** | ***226,100.0*** | ***237,720.0*** | ***281,220.0*** |  |
| **Total spending**  | **17,023,409.6** | **18,666,826.5** | **18,736,829.7** | **18,790,528.3** |  |
|  |  |  |  |  |  |
| **Share of the Sum of New policy directions reflected in 2021-2024 BDD document % to total spending** | **5.5%** | **7.2%** | **9.3%** | **11.4%** |  |
| **Share of the Sum of New policy directions reflected in 2022-2025 BDD document % to total spending** | **1.2%** | **1.2%** | **1.3%** | **1.5%** |  |
| **Share of the Sum of New policy directions % to total spending**  | **6.7%** | **8.4%** | **10.5%** | **12.9%** |  |

1. https://mof.ge/5439 [↑](#footnote-ref-1)