**Comparison of medium-term forecasts and compliance with the fiscal rules defined by the Organic Law of Georgia “On Economic Freedom”**

**Attached information on the Draft Law of Georgia “On the 2023 State Budget of Georgia” (Submission III)**

**November, 2022**

# **Key macroeconomic and fiscal parameters**

The information presented was prepared together with the draft law of Georgia "On the 2023 State Budget of Georgia" and represents a comparative analysis of the medium-term economic and fiscal parameters forecasts presented by the "2022-2025 Country Basic Data and Directions Document" attached to the 2022 State Budget Law at the end of 2021.

In 2021, the post-pandemic year, economic growth was 10.5 percent, which was also 3.0 percent higher than in 2019. Economic growth in 2022 was expected to be 6 percent in the 2021 forecast amid an improved macroeconomic environment and a rapid V-shaped recovery. After Russia's invasion of Ukraine in February 2022 and the start of a full-scale war, risks of realizing a number of negative shocks appeared in Georgia. Due to that, despite the high economic growth of the first quarter of 2022, the revision of the forecasts during 2022 was carried out only in September.

The year 2022 started with quite high economic growth, with economic growth of 15.0 percent in the first quarter, which was partly also due to a low base effect. During 2022, along with the realization of certain negative risks caused by the Russia-Ukraine war, the dynamics of positive economic growth continued in the economy, the tourism sector recovered at a rapid pace, exports increased significantly, and remittances also increased, which accelerated economic growth at the expense of private consumption. As a result, in January-October 2022, according to preliminary data, the real gross domestic product increased by 10.0 percent.

Taking into account the positive economic trends, in the preliminary forecasts of the main macroeconomic parameters for 2022-2025 presented to the Parliament of Georgia, the economic growth forecast for 2022 was updated, in the original document, it was 6.0%, which increased to 8.5% according to the projections of the 2022 state budget amendment project updated in September. Also, in the base scenario of the forecasts attached to the 2023 state budget law project, the real economic growth forecast for 2022 was 10.0%, while the economic growth forecast for 2023 was equal to 5.0%. Together with the base scenario, optimistic and pessimistic scenarios are also presented, which differ in the probability of realization of various risks, affecting the economy positively and negatively, respectively.

In the presented tables, the forecasts provided for the main directions of 2023-2026 are compared with the tables attached to the 2022 state budget law presented in December 2021. Considering the state of war caused by Russia's invasion of Ukraine and the current situation in the world, it is difficult to predict economic activities. Therefore, on the one hand, the risk of materialization of negative effects on the economy of Georgia is expected, however, at the same time, the current (January-October) economic development trends show higher than expected inflows from tourism and remittances and even more potential for economic growth than planned (January-October average growth 10.0 percent). Considering the current factors, medium-term forecasts of economic growth differ from the forecast presented in December 2021. In addition, against the background of various global events and based on the actual data of January-October, the forecast indicators of price growth have been increased and the indicators related to the foreign sector have been changed.

**ცხრილი №1. Basic Assumptions**

|  | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Actual** | **Expected** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
| **Real GDP Growth, %** |  |  |  |  |  |  |
| Previous Forecast (December 2021) | 10.0% | 6.0% | 5.5% | 5.2% | 5.2% |  |
| New Forecast | 10.5% | 10.0% | 5.0% | 5.2% | 5.2% | 5.0% |
| Difference | 0.5% | 4.0% | -0.5% | 0.0% | 0.0% |  |
| **The percentage change in the GDP deflator** |  |  |  |  |  |  |
| Previous forecast (December 2021) | 8.0% | 4.5% | 3.0% | 3.0% | 3.0% |  |
| New forecast | 10.3% | 9.5% | 5.0% | 3.0% | 3.0% | 3.0% |
| Difference | 2.3% | 5.0% | 2.0% | 0.0% | 0.0% |  |
| **Interest Rate on Loans, %** |  |  |  |  |  |  |
| Previous Forecast (December 2021) | 14.7% | 13.7% | 12.7% | 11.7% | 10.7% |  |
| New Forecast | 15.6% | 14.6% | 13.6% | 12.6% | 11.6% | 10.6% |
| Difference | 0.9% | 0.9% | 0.9% | 0.9% | 0.9% |  |
| **Interest rate on deposits, %** |  |  |  |  |  |  |
| Previous Forecast (December 2021) | 8.7% | 8.2% | 7.7% | 7.2% | 6.7% |  |
| New Forecast | 9.8% | 9.3% | 8.8% | 8.2% | 7.7% | 7.2% |
| Difference | 1.1% | 1.1% | 1.1% | 1.1% | 1.1% |  |

Table 1 shows the changes in key assumptions. The actual figures for 2021 are also included in the table in order to show more clearly the effect of the change caused by the refinement of the actual data. Economic growth in 2021 turned out to be 0.5 percentage points higher than forecast, partly due to higher-than-expected economic activity in the period after the lifting of restrictions due to the pandemic. The new forecast for 2022 is 10.0 percent, up from last December's forecast, driven by higher-than-expected foreign as well as overall economic activity. It should be noted that as of the first ten months of the current year, economic growth is characterized by a rapid recovery trend.

The GDP deflator, both actual for 2021 and forecast for 2022, has increased, which is the result of global inflationary trends. This is largely due to higher prices for oil and raw materials, which are accompanied by a higher impact on inflation compared to the baseline scenario due to disruptions in supply chains. Due to the current geopolitical situation, when it is impossible to supply products from Ukraine, and sanctions are imposed on Russia, all this affects prices. High inflationary expectations were also reflected in interest rates. As a result of the change in the general price level, including the GDP deflator, the nominal GDP forecasts were also revised accordingly.

**Table №2. Change in nominal GDP**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (Million GEL) | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| **Actual** | **Expected** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
| **Previous Forecast of Nominal GDP (December 2021)** | 58,528.9 | 64,832.4 | 70,450.2 | 76,337.0 | 82,715.7 |  |
| **A New Forecast of Nominal GDP** | 60,003.3 | 72,276.3 | 79,684.6 | 86,343.0 | 93,557.8 | 101,182.8 |

Table N 2 shows changes in nominal GDP forecasts in the medium term. The actual value of nominal GDP in 2021 exceeds the previous GDP forecast (December 2021). On the one hand, this is due to higher-than-expected real GDP growth, as well as a higher-than-expected percentage change in the GDP deflator. In addition, as a result of the increase in the general price level, the GDP deflator forecast in 2022 has increased compared to the December 2021 forecast. Also, given the current trends and the observed high economic activity, the new forecast for real GDP growth in 2022 is higher than the forecast for 2021. Taking this into account, the nominal GDP forecast has been increased, both for 2022 and for the medium-term period.

**Table №3. Combined Budget**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **(Million GEL)** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| **Actual** | **Expected** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
| Old Revenue Forecast (December, 2021) | 14 928,0 | 17 205,0 | 18 228,0 | 19 732,0 | 21 266,0 |  |
| New Revenue Forecast | 15 142,7 | 19 217,0 | 20 805,0 | 22 076,0 | 23 794,0 | 25 704,0 |
| Change | 214,7 | 2 012,0 | 2 577,0 | 2 344,0 | 2 528,0 |  |
| including taxes | 109,0 | 1 792,0 | 2 152,0 | 2 054,0 | 2 218,0 |  |
| Expenditure and Non-Financial Assets Old Forecast (December 2021) | 19 376,0 | 20 432,0 | 20 437,0 | 21 911,0 | 23 445,0 |  |
| Expenses and a new forecast of non-financial assets | 19 358,2 | 21 678,0 | 23 536,0 | 24 274,0 | 26 142,0 | 28 047,0 |
| Change | -17,8 | 1 246,0 | 3 099,0 | 2 363,0 | 2 697,0 |  |

The change in the forecast indicators of the combined budget is given in Table N 3. As we can see, the updated forecast indicators of the combined budget revenues have increased, which is mainly due to the increase in tax revenues. The increase in income from taxes is mainly related to the revision of the nominal GDP forecast in the direction of growth, as well as to the improvement of administration.

As for the rate of growth of expenses and non-financial assets, its forecasts have also increased compared to December 2021 forecasts, which envisages an increase in social assistance to vulnerable groups (children) along with the financing of infrastructure projects, agriculture and manufacturing sectors in order to promote economic recovery.

**Table №4** **Modified deficit under the program with the International Monetary Fund:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **% to GDP** | **2020 Actual** | **2021 Actual** | **2022 Actual** | **2023 Forecast** | **2024 Forecast** | **2025 Forecast** | **2026**  **Forecast** |
| Previous forecast for 2022-2025 | -9,3% | -6,7% | -4,4% | -3,0% | -2,7% | -2,5% |  |
| New forecast for 2022-2026 | -9,3% | -6,1% | -3,1% | -2,8% | -2,3% | -2,3% | -2,2% |

**Table №5 Current account balance**

| Current account | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| --- | --- | --- | --- | --- | --- | --- |
| **(million USD)** | **Actual** | **Expected** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
| **Current Account - Old Forecast (December 2021)** | **-1,529.0** | **-1,580.0** | **-1,500.8** | **-1,520.7** | **-1,351.5** |  |
| **Changes in total** | **-408.5** | **177.0** | **-386.2** | **-254.2** | **-331.2** |  |
| Net exports | -261.3 | -202.5 | -1216.9 | -1,305.2 | -1,621.4 |  |
| primary income | -327.2 | -24.8 | 128.3 | 333.8 | 519.1 |  |
| Secondary income (transfers) | 180.0 | 404.4 | 702.4 | 717.3 | 771.1 |  |
| **Current account - new forecast** | **-1,937.4** | **-1,403.0** | **-1,887.0** | **-1,774.8** | **-1,682.7** | **-1,546.4** |

In the medium term, secondary incomes have increased, the basis of which is the recent dynamics of transfers.

The change in the current account is mainly caused by net exports on the one hand, which is mainly related to the increase in the negative balance of trade in goods, and on the other hand, the forecast indicators of transfers are higher compared to December forecasts.

# **Fiscal Framework and Compliance with Fiscal Rules**

## 2.1 Fiscal Framework Comparison

The new coronavirus pandemic had a significant impact on the economy of Georgia in 2020, and as a result, the real economy contracted by 6.8%. The economic downturn has led to a decrease in revenues, and at the same time, it has been necessary to incur additional costs for response measures to the pandemic. Based on the above, the government debt increased significantly in 2020 and exceeded 60% of GDP, while the combined budget deficit amounted to 9.3% of GDP.

The economic recession continued in the first quarter of 2021 and the real economy decreased by 4.1%, however, the recovery process of the Georgian economy started from the second quarter. During this period, export-import, turnover of VAT-paying enterprises, growth of the financial sector, net remittances and other economic indicators increased significantly, as a result of which the real growth of the economy in 2021 amounted to 10.5%, which means that it was possible to completely recover the loss received in 2020 and compared to 2019, the level of the economy increased by 3%.

In 2021, in parallel with the recovery of the economy, significant fiscal consolidation has become possible, in particular, the combined budget deficit has decreased to 6.1% of GDP, and the government debt ratio has fallen below the 50% of GDP mark.

The 2022 budget was planned with a forecast of 6% real economic growth, and the forecast of gross domestic product in nominal terms was 64.8 billion GEL. At the same time, the combined budget deficit was still high and amounted to 4.4% of GDP.

High economic growth continued in 2022. In August, the economic growth was 10.5%, and according to the data of 9 months, the real economic growth is still double-digit and amounts to 10.2%.

Due to the high economic growth, an amendment was made to the 2022 state budget law, according to which the forecast rate of real economic growth was 8.5%. High economic indicators made it possible to take a debt reduced by more than 700.0 million GEL compared to the planned one, as a result, the combined budget deficit decreased to 3.2% of GDP, and the government debt rate fell below 40% of GDP.

According to the presented project, the real economic growth forecast is determined by 10% instead of 8.5%, the nominal gross domestic product is 72.3 billion GEL, and the budget deficit is 3.1% of GDP.

These indicators show that in the two-year period, significant fiscal consolidation was carried out, which made it possible to reduce the debt ratio to the pre-pandemic level.

By 2023, the main macroeconomic indicators are still planned relatively conservatively, and at the same time fiscal consolidation continues, namely:

* real economic growth is planned within 5%. The mentioned indicator is maintained during the medium-term period;
* the forecast of the GDP deflator is also 5%, and in the following years it is predicted within 3%;
* the nominal GDP forecast is set at 79.7 billion GEL, and the gross domestic product calculated per capita is almost 7,900 US dollars (compared to the previous forecast, it is mainly increased due to the effect of the strengthening of the exchange rate). By 2026, nominal gross domestic product is predicted to increase by more than 101.0 billion GEL, which will reach 10,000 USD per capita;
* tax revenues of the combined budget are determined in the amount of 18.9 billion GEL, which is 23.7% of the GDP;
* the combined budget deficit is 2.8% of GDP, and the government's debt ratio is below 39% of GDP.

Medium Term Forecasts

Taking into account the positive economic trends during 2021, macroeconomic and fiscal forecasts were updated during the year. In 2021, the law on the annual state budget was amended twice. In parallel with the minimization of the economic constraints associated with the pandemic and the low rate of vaccination, the spread of the virus remained at a fairly high rate, which put on the agenda the costs of treating the sick, mobilizing beds, as well as tests, the costs related to the purchase of the vaccine and the prevention of the spread, the reimbursement of the allowances of the medical personnel involved in the management of the pandemic, also, the additional funds needed to finance the incentive program for increasing vaccination coverage. Also, due to the pandemic, funds needed to finance social support and business promotion measures were taken into account.

The 2022-2025 projections, which were prepared at the end of 2021, were partially re-planned in light of the pandemic, taking into account the effect of the actual revenue shortfall in 2020. Despite the increase in the part of payments in 2021, the deficit of the unified budget of the state decreased both in nominal terms and in relation to GDP, and the actual figure for 2021 amounted to 6.2%.

In the 2022-2025 forecast (December 2021), combined budget revenues in 2022 in relation to GDP amounted to 26.5%. Income forecasts in 2020 and 2021 were planned with a smaller volume under the conditions of the pandemic, however, due to the existing positive trends, in the updated forecasts during the preparation of the country's main data and directions document in July of this year, the revenues and expenses for 2022 increased in nominal terms. The updated forecasts were reflected in the 2022 state budget law change in October of this year.

According to the updated forecast for 2023, the revenue of the consolidated budget in nominal terms amounts to 20,805.0 million GEL, which is 26.1% in relation to the GDP, and in the medium-term forecasts, it is maintained within the same percentage.

Comparison of revenue forecasts and percentage changes to GDP are given in Table N6:

**Table №6 – Revenue Forecasts**

**Million GEL/**

| **Title** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Actual** | **Actual** | **Forecast** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
| **Revenues** |  |  |  |  |  |  |  |
| 2022-2025 Forecast (July 2021) | 12 407,0 | 14 579,0 | 16 490,0 | 18 052,0 | 19 530,0 | 21 114,0 |  |
| 2022-2025 Forecast (December 2021) | 12 407,0 | 14 928,0 | 17 205,0 | 18 228,0 | 19 732,0 | 21 266,0 |  |
| *Change* | *0,0* | *349,0* | *715,0* | *176,0* | *202,0* | *152,0* |  |
| 2023-2026 Forecast (July 2022) | 12 407,0 | 15 142,7 | 17 923,0 | 19 149,0 | 20 566,0 | 22 167,0 | 23 867,0 |
| 2023-2026 Forecast (November 2022) | 12 407,0 | 15 142,7 | 19 217,0 | 20 805,0 | 22 076,0 | 23 794,0 | 25 704,0 |
| *Change* | *0,0* | *0,0* | *1 294,0* | *1 656,0* | *1 510,0* | *1 627,0* | *1 837,0* |
| **Decrease in non-financial assets** |  |  |  |  |  |  |  |
| 2022-2025 Forecast (July 2021) | 207,9 | 480,0 | 250,0 | 250,0 | 250,0 | 250,0 |  |
| 2022-2025 Forecast (December 2021) | 207,9 | 480,0 | 450,0 | 250,0 | 250,0 | 250,0 |  |
| *Change* | *0,0* | *0,0* | *200,0* | *0,0* | *0,0* | *0,0* |  |
| 2023-2026 Forecast (July 2022) | 207,9 | 421,7 | 450,0 | 250,0 | 250,0 | 250,0 | 250,0 |
| 2023-2026 Forecast (November 2022) | 207,9 | 421,7 | 450,0 | 350,0 | 300,0 | 300,0 | 250,0 |
| *Change* | *0,0* | *0,0* | *0,0* | *100,0* | *50,0* | *50,0* | *0,0* |
| **Decrease in financial assets** |  |  |  |  |  |  |  |
| 2022-2025 Forecast (July 2021) | 167,4 | 210,0 | 115,0 | 115,0 | 115,0 | 115,0 |  |
| 2022-2025 forecast (December 2021) | 167,4 | 210,0 | 130,0 | 130,0 | 130,0 | 130,0 |  |
| *Change* | *0,0* | *0,0* | *15,0* | *15,0* | *15,0* | *15,0* |  |
| 2023-2026 Forecast (July 2022) | 167,4 | 142,2 | 130,0 | 130,0 | 130,0 | 130,0 | 130,0 |
| 2023-2026 Forecast (November 2022) | 167,4 | 142,2 | 150,0 | 440,0 | 130,0 | 130,0 | 130,0 |
| *Change* | *0,0* | *0,0* | *20,0* | *310,0* | *0,0* | *0,0* | *0,0* |
| **% to GDP** | | | | | | | |
| **Revenues** |  |  |  |  |  |  |  |
| 2022-2025 Forecast (July 2021) | 25,1% | 25,5% | 26,0% | 25,8% | 25,7% | 25,7% |  |
| 2022-2025 Forecast (December 2021) | 25,2% | 25,5% | 26,5% | 25,9% | 25,8% | 25,7% |  |
| *Change* | *0,1%* | *0,0%* | *0,6%* | *0,0%* | *0,1%* | *0,0%* |  |
| 2023-2026 Forecast (July 2022) | 25,2% | 25,1% | 25,8% | 25,3% | 25,1% | 25,0% | 24,9% |
| 2023-2026 Forecast (November 2022) | 25,2% | 25,2% | 26,6% | 26,1% | 25,6% | 25,4% | 25,4% |
| *Change* | *0,0%* | *0,1%* | *0,8%* | *0,8%* | *0,5%* | *0,5%* | *0,5%* |
| **Decrease in non-financial assets** |  |  |  |  |  |  |  |
| 2022-2025 Forecast (July 2021) | 0,4% | 0,8% | 0,4% | 0,4% | 0,3% | 0,3% |  |
| 2022-2025 Forecast (December 2021) | 0,4% | 0,8% | 0,7% | 0,4% | 0,3% | 0,3% |  |
| change | *0,0%* | *0,0%* | *0,3%* | *0,0%* | *0,0%* | *0,0%* |  |
| 2023-2026 Forecast (July 2022) | 0,4% | 0,7% | 0,6% | 0,3% | 0,3% | 0,3% | 0,3% |
| 2023-2026 Forecast (November 2022) | 0,4% | 0,7% | 0,6% | 0,4% | 0,3% | 0,3% | 0,2% |
| Change | *0,0%* | *0,0%* | *0,0%* | *0,1%* | *0,0%* | *0,0%* | *0,0%* |
| **Decrease in financial assets** |  | | | | | |  |
| 2022-2025 Forecast (July 2021) | 0,3% | 0,4% | 0,2% | 0,2% | 0,2% | 0,1% |  |
| 2022-2025 Forecast (December 2021) | 0,3% | 0,4% | 0,2% | 0,2% | 0,2% | 0,2% |  |
| *Change* | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* |  |
| 2023-2026 Forecast (July 2022) | 0,3% | 0,2% | 0,2% | 0,2% | 0,2% | 0,1% | 0,1% |
| 2023-2026 Forecast (November 2022) | 0,3% | 0,2% | 0,2% | 0,6% | 0,2% | 0,1% | 0,1% |
| *Change* | *0,0%* | *0,0%* | *0,0%* | *0,4%* | *0,0%* | *0,0%* | *0,0%* |

In 2020 and 2021, foreign debt reflects the funds raised to deal with the pandemic. In addition, the reduction of foreign liabilities in 2022 compared to 2021 is related to the fact that 1.7 billion GEL of new Eurobonds were issued in 2021 to cover Eurobonds, and the increased volume of foreign liabilities in 2021 was caused by this. Accordingly, this indicator has decreased in subsequent years. At the same time, the increase in total liabilities in 2023 has slightly increased compared to the July forecast.

The table below (Table N 7) presents the forecasts of growth of liabilities for the years 2020-2026:

**Table №7 - Forecasts of growth of liabilities**

***(Million GEL)***

| **Title** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Actual** | **Forecast** | **Forecast** | **Forecast** | **forecast** | **Forecast** | **Forecast** |
| **Increase in liabilities** |  |  |  |  |  |  |  |
| 2022-2025 Forecast (July 2021) | 7 274,4 | 5 094,0 | 3 965,0 | 3 485,0 | 3 485,0 | 3 485,0 |  |
| 2022-2025 Forecast (December 2021) | 7 274,3 | 4 955,0 | 4 337,0 | 3 485,0 | 3 485,0 | 3 485,0 |  |
| *Change* | *-0,1* | *-139,0* | *372,0* | *0,0* | *0,0* | *0,0* |  |
| 2023-2026 Forecast (July 2022) | 7 274,3 | 5 216,9 | 4 337,0 | 3 485,0 | 3 485,0 | 3 485,0 | 3 935,0 |
| 2023-2026 Forecast (November 2022) | 7 274,3 | 5 216,9 | 3 582,0 | 3 584,0 | 3 560,0 | 3 660,0 | 5 020,0 |
| *Change* | *0,0* | *0,0* | *-755,0* | *99,0* | *75,0* | *175,0* | *1 085,0* |
| **Including Domestic** |  |  |  |  |  |  |  |
| 2022-2025 Forecast (July 2021) | 2 010,0 | -180,0 | 1 285,0 | 1 385,0 | 1 485,0 | 1 485,0 |  |
| 2022-2025 Forecast (December 2021) | 2 010,0 | -335,0 | 1 285,0 | 1 385,0 | 1 485,0 | 1 485,0 |  |
| *Change* | *0,0* | *-155,0* | *0,0* | *0,0* | *0,0* | *0,0* |  |
| 2023-2026 Forecast (July 2022) | 2 010,0 | -336,7 | 1 285,0 | 1 385,0 | 1 485,0 | 1 485,0 | 1 485,0 |
| 2023-2026 Forecast (November 2022) | 2 010,0 | -336,7 | 1 240,0 | 1 340,0 | 1 460,0 | 1 560,0 | 1 620,0 |
| *Change* | *0,0* | *0,0* | *-45,0* | *-45,0* | *-25,0* | *75,0* | *135,0* |
| **Including External** |  |  |  |  |  |  |  |
| 2022-2025 Forecast (July 2021) | 5 264,3 | 5 274,0 | 2 680,0 | 2 100,0 | 2 000,0 | 2 000,0 |  |
| 2022-2025 Forecast (December 2021) | 5 264,3 | 5 290,0 | 3 052,0 | 2 100,0 | 2 000,0 | 2 000,0 |  |
| *Change* | *0,0* | *16,0* | *372,0* | *0,0* | *0,0* | *0,0* |  |
| 2023-2026 Forecast (July 2022) | 5 264,3 | 5 553,6 | 3 052,0 | 2 100,0 | 2 000,0 | 2 000,0 | 2 450,0 |
| 2023-2026 Forecast (November 2022) | 5 264,3 | 5 553,6 | 2 342,0 | 2 244,0 | 2 100,0 | 2 100,0 | 3 400,0 |
| *Change* | *0,0* | *0,0* | *-710,0* | *144,0* | *100,0* | *100,0* | *950,0* |
| **% to GDP** | | | | | | |  |
| **Increase in liabilities** |  | | | | | |  |
| 2022-2025 Forecast (July 2021) | 14,7% | 8,9% | 6,2% | 5,0% | 4,6% | 4,2% |  |
| 2022-2025 Forecast (December 2021) | 14,8% | 8,5% | 6,7% | 4,9% | 4,6% | 4,2% |  |
| *Change* | *0,0%* | *-0,4%* | *0,4%* | *0,0%* | *0,0%* | *0,0%* |  |
| 2023-2026 Forecast (July 2022) | 14,8% | 8,7% | 6,2% | 4,6% | 4,3% | 3,9% | 4,1% |
| 2023-2026 Forecast (November 2022) | 14,8% | 8,7% | 5,0% | 4,5% | 4,1% | 3,9% | 5,0% |
| *Change* | *0,0%* | *0,0%* | *-1,3%* | *-0,1%* | *-0,1%* | *0,0%* | *0,9%* |
| ***Including Domestic*** |  |  |  |  |  |  |  |
| 2022-2025 Forecast (July 2021) | 4,1% | -0,3% | 2,0% | 2,0% | 2,0% | 1,8% |  |
| 2022-2025 forecast (December 2021) | 4,1% | -0,6% | 2,0% | 2,0% | 1,9% | 1,8% |  |
| *Change* | *0,0%* | *-0,3%* | *0,0%* | *0,0%* | *0,0%* | *0,0%* |  |
| 2023-2026 Forecast (July 2022) | 4,1% | -0,6% | 1,8% | 1,8% | 1,8% | 1,7% | 1,5% |
| 2023-2026 Forecast (November 2022) | 4,1% | -0,6% | 1,7% | 1,7% | 1,7% | 1,7% | 1,6% |
| *Change* | *0,0%* | *0,0%* | *-0,1%* | *-0,1%* | *-0,1%* | *0,0%* | *0,1%* |
| ***Including External*** |  |  |  |  |  |  |  |
| 2022-2025 Forecast (July 2021) | 10,7% | 9,2% | 4,2% | 3,0% | 2,6% | 2,4% |  |
| 2022-2025 forecast (December 2021) | 10,7% | 9,0% | 4,7% | 3,0% | 2,6% | 2,4% |  |
| *Change* | *0,0%* | *-0,2%* | *0,5%* | *0,0%* | *0,0%* | *0,0%* |  |
| 2023-2026 Forecast (July 2022) | 10,7% | 9,2% | 4,4% | 2,8% | 2,4% | 2,3% | 2,6% |
| 2023-2026 Forecast (November 2022) | 10,7% | 9,3% | 3,2% | 2,8% | 2,4% | 2,2% | 3,4% |
| *Change* | *0,0%* | *0,0%* | *-1,1%* | *0,0%* | *0,0%* | *0,0%* | *0,8%* |

The actual data of 2020-2021 and partially the forecasts of the spending part of 2022 reflect the resources needed by the Government of Georgia to finance measures against the spread of the new coronavirus (COVID 19). By 2023, costs related to the pandemic have been significantly reduced.

As a result of the financing of response measures to the pandemic, the amount of current expenses increased significantly in 2020-2021 and in relation to the GDP, it amounted to 26.3% in 2020, and 24.6% in 2021. The expected volume of current expenses in 2022 is planned to be 15.7 billion GEL, which is 21.8% of GDP. 2023 The expected amount of current expenses this year is planned to be 17.4 billion GEL, which is 21.9% of the GDP, and in 2024-2026 it will gradually decrease to 21.1%.

Despite the pandemic, in 2020-2021, the volume of financing of capital projects did not decrease significantly, and in relation to GDP, it amounted to 9.0% in 2020, and 8% in 2021. The planned expected amount of capital expenditures in 2022 is 6.1 billion GEL, which is 8.4% of GDP. The planned expected amount of capital expenditures in 2023 is also determined by the amount of 6.1 billion GEL, which is 8.1% of GDP. In the following years, in parallel with the fiscal consolidation, the financing of capital projects in relation to GDP decreases and remains within 7.0%.

The table below (Table №8) presents current and capital expenditure forecasts for 2020-2026:

**Table №8 – Current and Capital Expenditure Forecasts**

***Million GEL***

| **Title** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Actual** | **Actual** | **Forecast** | **Forecast** | **Forecast** | **Forecast** | **Forecast** |
| **Expenditure** |  | | | | | |  |
| 2022-2025 Forecast (July 2021) | 12 959,6 | 14 419,0 | 14 626,0 | 15 468,0 | 16 427,0 | 17 551,0 |  |
| 2022-2025 Forecast (December 2021) | 12 959,6 | 14 688,0 | 14 753,0 | 15 768,0 | 16 887,0 | 18 071,0 |  |
| *Change* | *0,0* | *269,0* | *127,0* | *300,0* | *460,0* | *520,0* |  |
| 2023-2026 Forecast (July 2022) | 12 959,6 | 14 767,2 | 14 979,0 | 16 012,0 | 17 317,0 | 18 611,0 | 19 971,0 |
| 2023-2026 Forecast (November 2022) | 12 959,6 | 14 767,2 | 15 743,0 | 17 416,0 | 18 364,0 | 19 832,0 | 21 357,0 |
| *Change* | *0,0* | *0,0* | *764,0* | *1 404,0* | *1 047,0* | *1 221,0* | *1 386,0* |
| **Capital Expenditure** |  | | | | | |  |
| **Increase in non-financial assets** |  | | | | | |  |
| 2022-2025 Forecast (July 2021) | 4 229,4 | 4 620,0 | 4 775,0 | 4 792,0 | 5 267,0 | 5 727,0 |  |
| 2022-2025 Forecast (December 2021) | 4 229,4 | 4 688,0 | 5 679,0 | 4 669,0 | 5 024,0 | 5 374,0 |  |
| *Change* | *0,0* | *68,0* | *904,0* | *-123,0* | *-243,0* | *-353,0* |  |
| 2023-2026 Forecast (July 2022) | 4 229,4 | 4 591,0 | 5 799,0 | 5 384,0 | 5 264,0 | 5 729,0 | 6 139,0 |
| 2023-2026 Forecast (November 2022) | 4 229,4 | 4 591,0 | 5 935,0 | 6 120,0 | 5 910,0 | 6 310,0 | 6 690,0 |
| *Change* | *0,0* | *0,0* | *136,0* | *736,0* | *646,0* | *581,0* | *551,0* |
| **Increase in Financial Assets** |  | | | | | |  |
| 2022-2025 Forecast (July 2021) | 204,0 | 155,0 | 250,0 | 250,0 | 250,0 | 250,0 |  |
| 2022-2025 Forecast (December 2022) | 204,0 | 155,0 | 205,0 | 250,0 | 250,0 | 250,0 |  |
| Change | *0,0* | *0,0* | *-45,0* | *0,0* | *0,0* | *0,0* |  |
| 2023-2026 Forecast (July 2022) | 204,0 | 180,4 | 205,0 | 250,0 | 250,0 | 250,0 | 250,0 |
| 2023-2026 Forecast (November 2022) | 204,0 | 180,4 | 390,0 | 320,0 | 250,0 | 250,0 | 250,0 |
| *Change* | *0,0* | *0,0* | *185,0* | *70,0* | *0,0* | *0,0* | *0,0* |
| **% to GDP** | | | | | | | |
| **Expenditure** |  | | | | | |  |
| 2022-2025 Forecast (July 2021) | 26,2% | 25,2% | 23,0% | 22,1% | 21,6% | 21,4% |  |
| 2022-2025 Forecast (December 2021) | 26,3% | 25,1% | 22,8% | 22,4% | 22,1% | 21,8% |  |
| Change | 0,1% | -0,1% | -0,3% | 0,2% | 0,5% | *0,4%* |  |
| 2023-2026 Forecast (July 2022) | 26,3% | 24,5% | 21,5% | 21,2% | 21,1% | 21,0% | 20,8% |
| 2023-2026 Forecast (November 2022) | 26,3% | 24,6% | 21,8% | 21,9% | 21,3% | 21,2% | 21,1% |
| *Change* | 0,0% | 0,1% | 0,3% | 0,7% | 0,1% | 0,2% | 0,3% |
| **Capital Expenditure** |  | | | | | |  |
| Increase in non-financial assets |  | | | | | |  |
| 2022-2025 Forecast (July 2021) | 8,6% | 8,1% | 7,5% | 6,9% | 6,9% | 7,0% |  |
| 2022-2025 Forecast (December 2022) | 8,6% | 8,0% | 8,8% | 6,6% | 6,6% | 6,5% |  |
| Change | 0,0% | -0,1% | 1,2% | -0,2% | -0,4% | *-0,5%* |  |
| 2023-2026 Forecast (July 2022) | 8,6% | 7,6% | 8,3% | 7,1% | 6,4% | 6,5% | 6,4% |
| 2023-2026 Forecast (November 2022) | 8,6% | 7,7% | 8,2% | 7,7% | 6,8% | 6,7% | 6,6% |
| *Change* | 0,0% | 0,0% | -0,1% | 0,6% | 0,4% | *0,3%* | *0,2%* |
| Increase in financial assets |  | | | | | |  |
| 2022-2025 Forecast (July 2021) | 0,4% | 0,3% | 0,4% | 0,4% | 0,3% | 0,3% |  |
| 2022-2025 Forecast (December 2021) | 0,4% | 0,3% | 0,3% | 0,4% | 0,3% | 0,3% |  |
| *Change* | 0,0% | 0,0% | -0,1% | 0,0% | 0,0% | *0,0%* |  |
| 2023-2026 Forecast (July 2022) | 0,4% | 0,3% | 0,3% | 0,3% | 0,3% | 0,3% | 0,3% |
| 2023-2026 Forecast (November 2022) | 0,4% | 0,3% | 0,5% | 0,4% | 0,3% | 0,3% | 0,2% |
| *Change* | 0,0% | 0,0% | 0,2% | 0,1% | 0,0% | *0,0%* | *0,0%* |

## 2.2 In the medium term, the compliance of the fiscal framework with the fiscal rules stipulated by the Organic Law of Georgia "On Economic Freedom"

According to the Organic Law of Georgia "On Economic Freedom", due to the declaration of a state of emergency in the country, which was caused by the spread of the new coronavirus (COVID-19), the Government of Georgia was given the opportunity to act outside the limits of the fiscal parameters defined by the legislation.

Taking into account that the economy decreased in 2020 due to the pandemic, and current expenses increased due to the response measures to the pandemic, in 2020 the state's unified budget deficit amounted to 8.5% of GDP, and 2021 was planned to be within 7.7%. In the forecasts attached to the draft of the 2021 state budget law, in accordance with the plan to return to the fiscal limits, by 2023 it was envisaged to reach the mark determined by the Organic Law of Georgia on "Economic Freedom" (3%) and it was planned to be within 2.9%. Medium-term forecasts on the return to the marginal parameters of the fiscal rules established by the Organic Law of Georgia "On Economic Freedom" were prepared together with the state budget projects for 2021-2022. ასევე, 2020-2021 Also, during the preparation of quarterly and annual reports in 2020-2021, additional information was submitted to the Government of Georgia and the Parliament of Georgia in the form of an annex "The spread of the new coronavirus (COVID-19) in Georgia and the fiscal policy response to it". The mentioned annexes accompany the state budget laws and quarterly and annual reports of the relevant year and are published on the website of the Ministry of Finance of Georgia.

Based on the faster-than-forecasted recovery of economic growth from 2021, at the end of the year, the actual indicator of the state's unified budget deficit amounted to 6.2%, compared to the planned indicator (7.7%). Accordingly, compared to the planned, it was possible to reach the limits of the deficit established by the legislation at a more equal pace. In 2022, the state's unified budget deficit was planned to be 4.2 percent, and by 2023, it was expected to be below 3 percent. According to the updated forecast, the deficit of the unified budget of the state in 2022 is predicted to be within 3.1 percent, and in 2023, as planned, it will fall below the limit set by the legislation and is predicted to be 2.9 percent.

Despite the fact that the recovery of economic growth began in 2021 and the real GDP growth according to the updated forecast is 10.4%, in 2022, looking at the updated forecast, it is planned to grow by 8.5%, and then in 2023-2026, an average growth of 5%.

Taking into account Article 2, Paragraph 7 of the Organic Law of Georgia "On Economic Freedom" with updated forecasts, the forecast indicators of the threshold parameters established by the first paragraph of the same Article are determined as follows:

* in 2023, the negative total balance of the unified budget of the state is defined as 2,261.0 million GEL, which is 2.8% of the projected gross domestic product (GDP) (the established limit is 3% of GDP);
* by the end of 2023, the limit of the debt of the Government of Georgia is 38.3% of the gross domestic product (GDP), and the reference estimate of the current value of the obligations undertaken within the framework of public and private cooperation projects (as of January 1, 2022)- 0.5% of the gross

As for the modified deficit of the combined budget calculated by the program of the International Monetary Fund, its volume is 2,261.0 million GEL and is 2.8% of the GDP.

In 2020-2026, the forecast of the total balance of the combined budget and the unified budget of the state and the deficit provided by the International Monetary Fund program and their comparison with the forecasts of the previous period are given in table No 9.

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

**/Million GEL/**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Title** | **Combiend Budget** | | | | | | | **Unified State Budget** | | | | | | | |
| **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | **2020** | **2021** | **2022** | **2023** | **2024** | **2025** | **2026** | |
| Total Balance |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| 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 (December 2021) | -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 |  | |
| 2023-2026 Forecast (July 2022) | -4 574,2 | -3 793,9 | -2 405,0 | -1 997,0 | -1 765,0 | -1 923,0 | -1 993,0 | -4 450,9 | -3 731,5 | -2 378,0 | -1 978,0 | -1 759,0 | -1 953,0 | -2 020,0 | |
| 2023-2026 Forecast (November 2022) | -4 574,2 | -3 793,9 | -2 011,0 | -2 381,0 | -1 898,0 | -2 048,0 | -2 093,0 | -4 450,9 | -3 731,5 | -1 963,0 | -2 261,0 | -1 868,0 | -2 083,0 | -2 153,0 | |
| Modified Deficit (IMF program) |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| 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 | -4 020,5 | -2 792,0 | -2 112,0 | -2 023,0 | -2 018,0 |  | |
| 2022-2025 forecast (December 2021) | -4 610,8 | -3 832,1 | -2 328,0 | -2 252,0 | -2 018,0 | -2 178,0 |  | -4 525,7 | -3 879,5 | -2 835,4 | -2 070,0 | -2 038,0 | -2 064,0 |  | |
| 2023-2026 Forecast (July 2022) | -4 595,9 | -3 662,2 | -2 480,0 | -2 117,0 | -1 885,0 | -2 043,0 | -2 113,0 | -4 505,4 | -3 598,3 | -2 463,0 | -2 108,0 | -1 874,0 | -2 058,0 | -2 125,0 | |
| 2023-2026 Forecast (November 2022) | -4 595,9 | -3 662,2 | -2 251,0 | -2 261,0 | -2 018,0 | -2 168,0 | -2 213,0 | -4 505,4 | -3 598,3 | -2 178,0 | -2 131,0 | -1 978,0 | -2 193,0 | -2 263,0 | |
| **% to GDP** | | | | | | | | | | | | | | |  |
| Total Balance |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| 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 (December 2021) | -9,3% | -6,8% | -4,3% | -2,8% | -2,5% | -2,3% |  | -9,0% | -6,7% | -4,2% | -2,8% | -2,5% | -2,4% |  | |
| 2023-2026 Forecast (July 2022) | -9,3% | -6,3% | -3,5% | -2,6% | -2,2% | -2,2% | -2,1% | -9,1% | -6,2% | -3,4% | -2,6% | -2,1% | -2,2% | -2,1% | |
| 2023-2026 Forecast (September 2022) | -9,3% | -6,3% | -2,8% | -3,0% | -2,2% | -2,2% | -2,1% | -9,1% | -6,2% | -2,7% | -2,8% | -2,2% | -2,2% | -2,1% | |
| Modified Deficit (IMF program |  |  |  |  |  |  |  |  |  |  |  |  |  |  | |
| 2022-2025 Forecast (July 2021) | -9,3% | -6,9% | -4,4% | -3,0% | -2,7% | -2,5% |  | -9,1% | -7,0% | -4,4% | -3,0% | -2,7% | -2,5% |  | |
| 2022-2025 Forecast (December 2021) | -9,4% | -6,5% | -3,6% | -3,2% | -2,6% | -2,6% |  | -9,2% | -6,6% | -4,4% | -2,9% | -2,7% | -2,5% |  | |
| 2023-2026 Forecast (July 2022) | -9,3% | -6,1% | -3,6% | -2,8% | -2,3% | -2,3% | -2,2% | -9,1% | -6,0% | -3,5% | -2,8% | -2,3% | -2,3% | -2,2% | |
| 2023-2026 Forecast (September 2022) | -9,3% | -6,1% | -3,1% | -2,8% | -2,3% | -2,3% | -2,2% | -9,1% | -6,0% | -3,0% | -2,7% | -2,3% | -2,3% | -2,2% | |

# **Government Debt**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Government Debt (Million GEL)** | **Year of 2020** | **Year of 2021** | **Year of 2022** | **Year of 2023** | **Year of 2024** | **Year of 2025** | **Year of 2026** |
| Forecast of 2021-2024 (December 2020 ) | 27,365 | 29,543 | 32,017 | 34,355 | 36,557 |  |  |
| *% to GDP* | *54.4%* | *54.2%* | *53.8%* | *53.0%* | *51.9%* |  |  |
| 2022-2025 წლები (December 2021) | 29,654 | 29,905 | 33,123 | 35,348 | 37,413 | 39,417 |  |
| *% to GDP* | *60.2%* | *51.1%* | *51.1%* | *50.2%* | *49.0%* | *47.7%* |  |
| 2023-2026 წლები (November 2022) | 29,654 | 29,812 | 28,609 | 30,539 | 32,679 | 34,799 | 36,819 |
| *% to GDP* | *60.2%* | *49.7%* | *39.6%* | *38.3%* | *37.8%* | *37.2%* | *36.4%* |

The change in the forecast indicators of the government's debt determined by the organic law of Georgia "On Economic Freedom" compared to the forecasts prepared last year is mainly due to the growth of the real economy and GDP deflator in 2022, as well as the strengthening of the GEL debt against the currencies in the portfolio. As of the end of 2022, the real growth of the economy is expected at the mark of 10.0% and the growth of the GDP deflator at the level of 9.5%, the latter exceeding the forecast prepared last year. By the end of 2022, compared to the end of December 2021, the strengthening of the GEL against the currencies in the debt portfolio is expected again, which, together with the increased nominal economic growth, will have a positive impact in the direction of reducing the ratio of government debt to GDP. Accordingly, at the end of 2022, the ratio of debt to GDP is expected to decrease to 39.6%. The reduction of the ratio of debt to GDP is predicted in the following years as well, at the end of 2026 the mentioned figure will drop to 36.4%.

One of the most important challenges of the government's debt portfolio is the high level of the share of foreign debt in the debt portfolio (by 2021 - 80%), as a result of which debt indicators are vulnerable to negative exchange rate shocks. Accordingly, the updated government debt management strategy 2022-2025 (https://mof.ge/5231) is focused on reducing the share of external debt in the total debt, along with reducing the ratio of debt to GDP.