**Explanatory Note Summarizing the information on the Medium-term Forecast Reconciliation and New Policy Directions reflected in the 2021 draft State Budget Law Package**

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

15 December 2020

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# **Medium-term Forecast Reconciliation**

# **Basic Macroeconomic and Fiscal Indicators**

The following forecast has been prepared as a part of 2021 budget draft law and it is the medium-term forecast reconciliation of economic and fiscal parameters for „2020-2023 Basic Data and Directions (BDD) document“ attached on the 2020 budget law and an updated version under „2021-2024 Basic Data and Directions (BDD) document“.

During the preparation of primary version of the 2021-2024 Basic Data and Directions (BDD) document, analysis of medium-term forecast reconciliation was submitted to the government of Georgia, where primary forecasts of 2021-2024 were compared to the attached tables of 2020 budget law[[1]](#footnote-1).

In July 2020, changes made during the updating forecasts were caused mainly by the spread of new coronavirus (COVID-19) all over the world, during the end of 2019, which changed global economic development tendency significantly. As for October, the International Monetary Fund decreased the global economic growth projection for 2020 to -4.4 percent in the updated “world economic outlook”. Hence, pandemic and the related economic recession affected on the budget revenue side, as well as the expenditure side. Moreover, there were included the actual data of 2019 instead of the expected values, which influenced on the medium-term.

The updated forecast represented in the tables is compared to the tables attached to the 2020 state budget law. Several factors contributed to the change in forecasts. One of them was to observe actual figures for the last year instead of estimations, which has an impact on the entire medium-term period. The most important impact on the forecasting indicators was coming from the coronavirus (COVID-19) pandemic, the closure of borders and the supply-chain disruptions, economic growth projections have decreased significantly around the world, and in Georgia as well. Based on an analysis of current trends, as a result of the consultations with various international organizations and discussions with the IMF missions, some key assumptions have also been revised.

| **Table 1. Basic Expectations and Assumptions** | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
| --- | --- | --- | --- | --- | --- | --- |
|  | Actual | Expected | Forecast | Forecast | Forecast | Forecast |
| **Growth of Real GDP, %** |  |  |  |  |  |  |
| Previous Forecast | 4.8% | 4.5% | 5.0% | 5.0% | 5.5% | - |
| Updated Forecast | 5.0% | -5.0% | 4.3% | 5.8% | 5.5% | 5.2% |
| Difference | 0.2% | -9.5% | -0.7% | 0.8% | 0.0% | 5.2% |
| **Percentage Change of GDP Deflator** |  |  |  |  |  |  |
| Previous Forecast | 5.0% | 3.5% | 3.0% | 3.0% | 3.0% | - |
| Updated Forecast | 5.2% | 5.5% | 3.8% | 3.0% | 3.0% | 3.0% |
| Difference | 0.2% | 2.0% | 0.8% | 0.0% | 0.0% | 3.0% |
| **Interest Rates on Loans, %** |  |  |  |  |  |  |
| Previous Forecast | 15.0% | 14.0% | 13.0% | 12.0% | 11.0% | - |
| Updated Forecast | 15.1% | 14.1% | 13.1% | 12.1% | 11.1% | 10.1% |
| Difference | 0.1% | 0.1% | 0.1% | 0.1% | 0.1% | 10.1% |
| **Interest Rates on Deposits, %** |  |  |  |  |  |  |
| Previous Forecast | 7.4% | 6.9% | 6.4% | 5.9% | 5.4% | - |
| Updated Forecast | 7.8% | 7.3% | 6.8% | 6.3% | 5.8% | 5.3% |
| Difference | 0.4% | 0.4% | 0.4% | 0.4% | 0.4% | 5.3% |

Table 1 reveals the differences in major underlying assumptions. The table also shows the actual values for 2019 in order to present the effect of the adjustments more clearly caused by the changes in the base year when indicating the actual values. As we can see, the expected value of the real GDP growth of 2020 has decreased significantly, to -5.0 percent. The main reason for this reduction was the decline of international travel due to the pandemic, as tourism-related sector contributes around 10-12 percent in the potential GDP of Georgia. Besides tourism, reduced domestic demand and mobility due to pandemic, had implications on the economy, which affected the supply negatively, and facilitated to increase prices, which is reflected in the higher forecast of GDP deflator.

It was clear at the beginning of the pandemic, that less international mobility would have a substantial impact on the Balance of Payment. Liquidity risk caused by the less external inflows was reflected in the growth of country risk premium during the spring, which has initiated the higher interest rates and a sharp depreciation of the currency. However, the successful negotiation with the IMF and other donors, which was continued by important growth in the financing, caused liquidity shock to decline. Interest rates increased by 0.4 percent overall, which was also due to the accommodative monetary policy. It is noteworthy to say that, unlike deposits, interest rates on loans have increased only marginal, due to the mortgage loan subsidies.

The Ministry of Finance of Georgia uses a macroeconomic forecasting model. Changes in the initial period data and adjustment of the initial variables affect the final results, as reflected in the macroeconomic forecasts.

| **Table 2. Change in Nominal GDP** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (Million GEL) | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
|  | Actual | Expected | Forecast | Forecast | Forecast | Forecast |
| **Forecast of Nominal GDP** **December 2019**  | 49,077.1 | 53,080.6 | 57,406.6 | 62,085.3 | 67,465.0 | - |
| **Total change in Nominal GDP** | 175.5 | -3,717.1 | -3,964.1 | -3,846.8 | -4,180.1 | 68,573.0 |
| **Forecast of Nominal GDP** **November 2020** | 49,252.7 | 49,363.5 | 53,442.6 | 58,238.5 | 63,284.9 | 68,573.0 |

Table 2 shows the previous and updated forecasts of nominal GDP, for the end of 2019 and November of 2020. As we can see, the forecast for nominal GDP is decreased due to the COVID-19. The reason will be faded by the reasons of real growth and change in prices explained in the previous paragraph.

| **Table 3. Change in Real GDP**  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (Million GEL) | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
|  | Actual | Expected | Forecast | Forecast | Forecast | Forecast |
| **Forecast of Real GDP December 2019**  | 40,228.0 | 42,038.3 | 44,140.2 | 46,347.2 | 48,896.3 | - |
| **Total change in Real GDP** | 70.0 | -3,754.8 | -4,210.6 | -4,101.7 | -4,327.3 | 46,886.6 |
| **Forecast of Real GDP November 2020**  | 40,298.0 | 38,283.4 | 39,929.6 | 42,245.5 | 44,569.0 | 46,886.6 |

| **Table 4. General Government Budget** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (Million GEL) | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
|  | Actual | Expected | Forecast | Forecast | Forecast | Forecast |
| **Forecasts of Revenues December 2019** | 12,705.0 | 13,612.0 | 14,751.0 | 15,805.0 | 17,056.0 | - |
| **Forecasts of Revenues November 2020**  | 12,907.3 | 12,626.0 | 13,402.0 | 14,969.0 | 16,331.0 | 17,827.0 |
| **Previous Forecast of Expenses and Acquisition of Non-financial Assets** | 13,912.0 | 15,099.0 | 16,194.0 | 17,420.0 | 18,782.0 | - |
| **Updated Forecast of Expenses and Acquisition of Non-financial Assets** | 14,465.9 | 16,976.0 | 17,643.0 | 17,618.0 | 18,394.0 | 19,723.0 |

The changes in the General Government Budget Forecasts are shown in Table 4. As we can see the updated forecasts of the General Government Budget revenues have been decreased, which is related to the economic reduction, on the one hand, and the tax concessions, on the other hand. In particular, concessions made in order to maintain the labor force, caused the reduction of income tax which could be mobilized, by GEL 295 million, while tourist facilities which were exempted of property tax, caused the reduction of tax which could be mobilized, by GEL 45.0 million. Moreover, the 2020 budget was planned considering the projection of macroeconomic and fiscal parameters at the end of 2019. According to these forecasts, consolidation policy would be continued in the current spending, during the medium-term. However, forecasts of mentioned parameters have been changed due to the new coronavirus (COVID-19) and spending as a percent of GDP will increase in 2020 and decrease gradually from 2021.

The current medium-term fiscal forecasts are prepared under the consultations with the IMF and the spending related to the coronavirus pandemic is also considered.

| **Table 5. Balance of Payment** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Current Account | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
| **(Million US Dollar)** | Actual | Expected | Forecast | Forecast | Forecast | Forecast |
| **Forecast of Current Account December 2019**  | **-720.0** | **-627.2** | **-627.8** | **-659.3** | **-713.5** | **-** |
| **Total Changes** | **-240.5** | **-914.8** | **-752.1** | **-452.7** | **-460.9** | **-1,190.5** |
| Goods | -86.5 | 1,632.1 | 1,865.4 | 1,802.7 | 1,746.9 | -3,808.1 |
| Export of Goods | -46.9 | -1,422.8 | -1,805.7 | -2,209.5 | -2,526.1 | 5,636.8 |
| Import of Goods | 39.5 | -3,055.0 | -3,671.0 | -4,012.2 | -4,272.9 | 9,444.9 |
| Services | -139.3 | -2,420.4 | -2,285.8 | -1,959.4 | -1,907.4 | 1,603.9 |
| Export of Services | -155.8 | -3,574.2 | -3,763.8 | -3,412.8 | -3,165.0 | 4,579.8 |
| Import of Services | -16.5 | -1,153.9 | -1,478.0 | -1,453.4 | -1,257.6 | 2,975.9 |
| Primary Income | -84.6 | -98.0 | -192.3 | -171.1 | -167.0 | -464.4 |
| Secondary Income (Transfers) | 69.9 | -28.6 | -139.4 | -124.9 | -133.4 | 1,478.0 |
| **Forecast of Current Account November 2020**  | **-960.4** | **-1,542.0** | **-1,379.9** | **-1,112.0** | **-1,174.3** | **-1,190.5** |

As for the current account balance, it has improved significantly recently and according to the revealed trends, it was expected to improve the current account even more for 2020. Nevertheless, the export of goods and service, as well as remittances, decreased sharply due to the coronavirus (COVID-19) pandemic, when the closure of borders and the supply-chain imbalance had in place. Therefore, the current account deficit has increased meaningfully. Import projections have been decreased as well, but the reduction in exports is higher than in imports, which leads to the balance of goods and services to worsen. Changes in export and import forecasts depict recent pandemic trends.

Forecasts of factor income have been decreased. Income forecast are influenced by the higher debt with operational as well as exchange rate effects. Higher debt will cause more interest payments during the coming years. As a result of the new coronavirus (COVID-19) pandemic, economic growth declined around the world, which has resulted to drop in the primary as well as the secondary income.

The forecast of monetary indicators has also been adjusted. Given the current trends, it is likely that the broad money forecast for 2020 will be behind its initial forecast. It is caused by the possession of inflationary processes due to the slowing of economic activity. There are changes in the composition of the banking sector assets. Given the broad money forecast, achieving the inflation target will require managing domestic assets, which can only be done by adjusting the claims on the rest of the economy. Though, under the updated forecast, an adjustment of the claims on the private sector will not repress the private sector from the credit market and the banking sector will be able to lend to the private sector in order to provide it with enough financial resources, needed for economic development.

| **Table 6. Review of Depositary Corporations** |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| (Million GEL) | **2019** | **2020** | **2021** | **2022** | **2023** | **2024** |
|  | Actual | Expected | Forecast | Forecast | Forecast | Forecast |
| **Forecast of Broad Money M3 December 2019**  | **25,766.2** | **29,463.7** | **33,518.2** | **38,130.7** | **43,900.9** | **-** |
| **Changes** |  |  |  |  |  |  |
| Net Foreign Assets | -218.3 | 2,552.5 | 1,052.0 | 63.8 | -835.0 | 1,114.9 |
| Foreign Assets | -719.7 | -1,222.7 | -2,377.7 | -3,407.2 | -4,713.5 | 21,304.7 |
| Foreign Liabilities | -501.4 | -3,775.2 | -3,429.6 | -3,471.0 | -3,878.6 | 20,189.7 |
| Domestic Assets | -904.3 | -5,887.4 | -5,104.7 | -4,037.0 | -3,751.4 | 43,812.0 |
| Government Net Debt | -0.8 | -1,255.8 | 583.2 | 1,392.2 | 1,200.2 | -281.3 |
| Other Economic Sectors Debt | -680.0 | -4,110.1 | -5,004.5 | -4,561.4 | -3,883.5 | 59,007.6 |
| Other Components Net | -223.4 | -521.5 | -683.4 | -867.8 | -1,068.1 | -14,914.4 |
| **Broad Money M3** | **-1,122.5** | **-3,334.9** | **-4,052.7** | **-3,973.2** | **-4,586.4** | **44,926.9** |
| **Forecast of Broad Money M3 November 2020**  | **24,643.7** | **26,128.8** | **29,465.5** | **34,157.5** | **39,314.5** | **44,926.9** |

# **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. The main economic parameters have been improving during the last three years, which appeared in 2019. In particular, economic growth was observed more than expected, at 5.0 percent in 2019. Revenue from tourism amounted to USD 3.3 bln (18.4 percent of GDP), and revenue from export was USD 3.8 bln (21.2 percent of GDP), while net remittances amounted to USD 1.5 bln (8.4 percent of GDP). As a result, the current account deficit reached its minimum level at 5.1 percent of GDP. Budget revenues increased more than expected due to the higher economic growth than expected and improving the external sector data, which helped capital investments to exceed 8 percent of GDP and the budget deficit (defined by the IMF program) to decline from planned 2.7 percent to 2.0 percent.

Shrinking of the economy and more spending related to managing the pandemic, has directly reflected on the budget revenue, especially on the tax revenue, and on the expenditure side as well. As there was a state of emergency from the 21st of March to 22nd of May 2020, part of the economic activities have been restricted, while there was a necessity of spending on one hand, in order to treat and diagnose infected people, and several measures on the other hand, in order to make the social protection and the business support. Spreading the virus has made an additional burden for the economic activity as well as the fiscal policy from September 2020, as there was a need for the additional anti-crisis package.

**The 1st stage of COVID-19 Pandemic Spread in Georgia and Fiscal Policy Response**

New micro-fiscal framework was negotiated with IMF during the elaboration of anti-crisis measures to the 1st stage of COVID-19 pandemic spread in Georgia, which implied: (i) decline in revenues of GEL 1.7 Billion as a result of economic slow-down; (ii) mobilizing GEL600 million through cuts and savings in pre-COVID-19 Budget current and capital spending and (iii) mobilizing additional GEL 3.4 billion to finance COVID-19 anti-crisis plan. As a result the 2020 Budget deficit projection was increased to 8.5% and related amendment to 2020 Budget Law were prepared.

In order to partially compensate for the increased deficit Government has limited spending within the original budget starting from March, 2020. Operational and representative costs as well as business trips (excluding special services) were limited, significant limitations were introduced for transportation costs and bonus payments, even filling in for vacant positions was paused. All the programs possible to delay or cancel without jeopardizing the sector were postponed and some were delayed naturally due to the physical constraints applied to limit the spread of the virus (e.g. cultural, sports events and tourism related events). Plans for the 2020 activities under Education Reform were also reviewed. Investment projects were also reviewed to delay the projects related to tourism infrastructure or the ones with intensive import components. As a result the total enveloped freed from spending of the pre-COVID-19 Budget amounted to GEL 600 million.

Since the spread of pandemic affected negatively the commercial sector as such and citizens in general resources had to be mobilized to provide Georgian citizens and private sector with direct assistance. Resources were needed to prevent extreme spread of pandemic and to cover the healthcare costs of Covid-19 case management. Total estimated cost for the anti-crisis measures amounted to GEL 3.4 billion and relevant allocations were envisaged in the Budget amendment:

* Healthcare and quarantine costs for COVID-19 case management;
* Social benefits for socially vulnerable people (including subsidizing utility bills and social benefits for children)
* Benefits for employees who lost jobs and employers supporting job retention;
* Subsidies and different financial instruments to support business activities.

**Table #7 - 2020 Consolidated Budget (excluding Public borrowing and donor grants)**

**(Million GEL)**

| **Title** | **Original Plan** | **Loss due to Economic Slow-down** | **Loss due anti-crisis measures** | **Additional Resources[[2]](#footnote-2)** | **Adjusted Projection** |
| --- | --- | --- | --- | --- | --- |
| Taxes | 12 305,0 | -1 545,0 | -250,0 |  | 10 510,0 |
| Grants (only from LEPLs) | 65,0 | -15,0 |  |  | 50,0 |
| Other Revenue | 990,0 | -137,0 |  | 187,0 | 1 040,0 |
| Privatization | 230,0 | -80,0 |  |  | 150,0 |
| Repayment | 115,0 | -40,0 |  |  | 75,0 |
| **Total** | **13 705,0** | **-1 817,0** | **-250,0** | **187,0** | **11 825,0** |

 As you can see from the table, as a result of economic slow-down the estimated revenue loss for 2020 amounted to GEL1,8 billion. In addition to that additional revenue loss came from the measure to support private sector as part of anti-crisis plan (tax exemptions). Though additional resources were mobilized through STOPCOV fund (charity contributions due to COVID-19 crisis).

To compensate for the loss of revenues and need for additional spending financing was mobilized from foreign and domestic borrowing:

* Net domestic borrowing amounted to GEL 1 850,0 million, including GEL 600,0 million for issued for commercial banks to support long GEL liquidity as deposit certificates;
* External borrowing amounts to GEL 6 187,6 million (Resources mobilized from Internationl Partners);

 Estimated costs for anti-crisis measures affected 2020 and medium-term expenditure forecasts.

**Table №8. Consolidated Primary Current Expenditure**

***/million GEL/***

| **Title** | **Original Forecast** | **Cut** | **Additional Spending Needs** | **Adjusted Forecast** |
| --- | --- | --- | --- | --- |
| Compensation of Employees | 1 896,0 | -57,0 | 0,0 | 1 839,0 |
| Goods and Services | 1 772,0 | -107,0 | 195,0 | 1 860,0 |
| Subsidies | 1 031,0 | -73,2 | 559,2 | 1 517,0 |
| Grants | 127,0 | -5,7 | 2,7 | 124,0 |
| Social Expenditure | 4 556,0 | -25,8 | 1 044,8 | 5 575,0 |
| Other Expenditure | 1 267,0 | -33,0 | 0,0 | 1 234,0 |
| **Total** | **10 649,0** | **-301,7** | 1. **801,7**
 | **12 149,0** |

 Original Capex of Consolidated Budget was planned as GEL 3 866,0 million, which was reduced by GEL 298 million to partially compensate for the increased budget deficit, though the additional capex was also estimated to be needed including for healthcare sector (GEL 108.8 million). As a result the adjusted capex amounted to GEL 3 686,0 million.

 **Second Stage of Pandemic Spread in Georgia and Fiscal Policy Response**

Spread of the virus has accelerated significantly in Georgia as well as across the world since September 2020 and many countries have launched another wave of restrictions.

Georgian Government has negotiated updated macro-fiscal parameters with IMF within the 7th program review.

During the elaboration of 2021 Budget parameters and analyzing the 2020 macro parameters it has become evident that the 2020 economic slow-down is more severe than anticipated initially, especially having in mind the deteriorated situation of the virus spread and additional 2 month long restrictions on certain sectors, starting from November 28, 2020. Need for Additional Social benefits package was also depicted in the fiscal framework of 2020-2021.

Updated 2021 State budget draft law is based on the assumption that economic slow-down of 2020 is (-5%). Updated projections for 2020 revenues are affected not only by the deeper economic slow-down but by the cost of additional tax exemptions as part of the new wave of anti-crisis measures, which led to further increase of deficit projection in 2020 up to 9%. Assumptions for 2021 Budget imply GDP growth of 4.3% and deficit of 7.6%.

Updated assumptions for 2020-2021 macro-fiscal framework parameters prove it even more challenging to bring down the major parameters within the limits set by the organic law on “Economic Liberty Act”.

**Medium-term forecasts**

The data of 2021-2024 is reflected by the updated forecast of 2020-2023 macroeconomic and fiscal variables coming from the actual 2019 data and the current situation. The new forecast is formed in light of the pandemic, and takes into account the revised indicators for 2020 parameters agreed with the IMF.

During developing the first draft of 2021-2024 Basic Data and Directions (BDD) document in July 2020, the forecasts of revenue of updated 2021-2024 have been reduced in nominal terms, compared to the 2020-2023 medium-term forecasts provided in December 2019. There is less loss of revenues in 2020 within the current updated medium-term forecasts of 2021-2024, than it was made in July 2020. However, the total loss for 2020 is GEL 986.0 mln compared to the forecast of December 2019, while forecasted loss for 2021 is higher than it was projected in 2019. This is due to the lower value of economic growth and the additional anti-crisis package, which considers the tax concessions.

|  **Table 9. Revenue Forecast** |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  **Million GEL**  | **2020** | **2021** | **2022** | **2023** | **2024** |
|  | Expected | Forecast | Forecast | Forecast | Forecast |
|   |
| **Revenue** |   |
| 2020-2023 forecast (December 2019) | 13 612,0 | 14 751,0 | 15 805,0 | 17 056,0 |   |
| 2021-2024 forecast (July 2020) | 12 163,0 | 13 466,0 | 14 931,0 | 16 469,0 | 17 927,0 |
| Difference | -1 449,0 | -1 285,0 | -874,0 | -587,0 |   |
| 2021-2024 forecast (November 2020) | 12 626,0 | 13 402,0 | 14 969,0 | 16 331,0 | 17 827,0 |
| Difference | -986,0 | -1 349,0 | -836,0 | -725,0 |   |
|    |
| **Decrease in Non-Financial Assets** |   |
| 2020-2023 forecast (December 2019) | 230,0 | 200,0 | 217,0 | 235,0 |   |
| 2021-2024 forecast (July 2020) | 150,0 | 250,0 | 250,0 | 250,0 | 250,0 |
| Difference | -80,0 | 50,0 | 33,0 | 15,0 |   |
| 2021-2024 forecast (November 2020) | 150,0 | 250,0 | 250,0 | 250,0 | 250,0 |
| Difference | -80,0 | 50,0 | 33,0 | 15,0 |   |
|   |
| **Decrease in Financial Assets** |   |
|
| 2020-2023 forecast (December 2019) | 115,0 | 105,0 | 90,0 | 90,0 |   |
| 2021-2024 forecast (July 2020) | 75,0 | 115,0 | 115,0 | 115,0 | 115,0 |
| Difference | -40,0 | 10,0 | 25,0 | 25,0 |   |
| 2021-2024 forecast (November 2020) | 130,0 | 150,0 | 115,0 | 115,0 | 115,0 |
| Difference | 15,0 | 45,0 | 25,0 | 25,0 |   |
|   |
| **% of GDP**  |
| **Revenue** |   |
| 2020-2023 forecast (December 2019) | 25,6% | 25,7% | 25,5% | 25,3% |   |
| 2021-2024 forecast (July 2020) | 24,2% | 24,7% | 25,1% | 25,4% | 25,5% |
| Difference | -1,5% | -1,0% | -0,4% | 0,1% |   |
| 2021-2024 forecast (November 2020) | 25,6% | 25,1% | 25,7% | 25,8% | 26,0% |
| Difference | -0,1% | -0,6% | 0,2% | 0,5% |   |
|    |
| **Decrease in Non-Financial Assets** |   |
|
| 2020-2023 forecast (December 2019) | 0,4% | 0,4% | 0,4% | 0,4% |   |
| 2021-2024 forecast (July 2020) | 0,3% | 0,5% | 0,4% | 0,4% | 0,4% |
| Difference | -0,1% | 0,1% | 0,1% | 0,0% |   |
| 2021-2024 forecast (November 2020) | 0,3% | 0,5% | 0,4% | 0,4% | 0,4% |
| Difference | -0,1% | 0,1% | 0,1% | 0,0% |   |
|    |
| **Decrease in Financial Assets** |   |
| 2020-2023 forecast (December 2019) | 0,2% | 0,2% | 0,1% | 0,1% |   |
| 2021-2024 forecast (July 2020) | 0,2% | 0,2% | 0,2% | 0,2% | 0,2% |
| Difference | -0,1% | 0,0% | 0,1% | 0,0% |   |
| 2021-2024 forecast (November 2020) | 0,3% | 0,3% | 0,2% | 0,2% | 0,2% |
| Difference | 0,0% | 0,1% | 0,1% | 0,1% |   |

Considering higher expenses due to the pandemic and lower revenue due to the economic slowdown, the forecast of budget deficit financing sources for 2021-2024 has been increased – in terms of the new domestic as well as external debt. Significant growth of external liabilities for 2021 is coming from the fact, that in order to finance the Eurobonds in 2021 it is planned to issue the new Eurobonds (around GEL 1,657.0 mln), in the represented version. The attracted fund to deal with the pandemic is indicated in the new 2020 and 2021 external debt. Moreover, there is no plan to take new loans in the domestic market and all necessity will be financed through external sources and accumulated deposits.

The table below shows the forecast for the liability growth for 2020-2024:

|  **Table 10. Liability Gwoth Forecast** |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  **Million GEL**  | **2020** | **2021** | **2022** | **2023** | **2024** |
|  | Expected | Forecast | Forecast | Forecast | Forecast |
|   |   |   |   |   |   |
| **Liability growth**  |   |   |   |   |   |
| 2020-2023 forecast (December 2019) | 3 067,0 | 3 835,0 | 2 941,0 | 3 135,0 |   |
| 2021-2024 forecast (July 2020) | 8 038,0 | 4 900,0 | 3 600,0 | 3 500,0 | 3 500,0 |
| Difference | 4 971,0 | 1 065,0 | 659,0 | 365,0 |   |
| 2021-2024 forecast (November 2020) | 7 175,0 | 5 279,0 | 3 145,0 | 3 675,0 | 4 140,0 |
| Difference | 4 108,0 | 1 444,0 | 204,0 | 540,0 |   |
|  **Domestic** |  |  |  |  |  |
| 2020-2023 forecast (December 2019) | 1 200,0 | 935,0 | 935,0 | 935,0 |   |
| 2021-2024 forecast (July 2020) | 1 850,0 | 1 500,0 | 1 500,0 | 1 500,0 | 1 500,0 |
| Difference | 650,0 | 565,0 | 565,0 | 565,0 |   |
| 2021-2024 forecast (November 2020) | 1 850,0 | 0,0 | 1 000,0 | 1 200,0 | 1 500,0 |
| Difference | 650,0 | -935,0 | 65,0 | 265,0 |   |
|  **External** |  |  |  |  |  |
| 2020-2023 forecast (December 2019) | 1 867,0 | 2 900,0 | 2 006,0 | 2 200,0 |   |
| 2021-2024 forecast (July 2020) | 6 188,0 | 3 400,0 | 2 100,0 | 2 000,0 | 2 000,0 |
| Difference | 4 321,0 | 500,0 | 94,0 | -200,0 |   |
| 2021-2024 forecast (November 2020) | 5 325,0 | 5 279,0 | 2 145,0 | 2 475,0 | 2 640,0 |
| Difference | 3 458,0 | 2 379,0 | 139,0 | 275,0 |   |
| **% of GDP** |   |   |   |   |   |
| **Liability growth** |   |   |   |   |   |
| 2020-2023 forecast (December 2019) | 5,8% | 6,7% | 4,7% | 4,6% |   |
| 2021-2024 forecast (July 2020) | 16,0% | 9,0% | 6,0% | 5,4% | 5,0% |
| Difference | 10,2% | 2,3% | 1,3% | 0,8% |   |
| 2021-2024 forecast (November 2020) | 14,5% | 9,9% | 5,4% | 5,8% | 6,0% |
| Difference | 8,7% | 3,2% | 0,7% | 1,2% |   |
|  **Domestic** |  |  |  |  |  |
| 2020-2023 forecast (December 2019) | 2,3% | 1,6% | 1,5% | 1,4% |   |
| 2021-2024 forecast (July 2020) | 3,7% | 2,8% | 2,5% | 2,3% | 2,1% |
| Difference | 1,4% | 1,1% | 1,0% | 0,9% |   |
| 2021-2024 forecast (November 2020) | 3,7% | 0,0% | 1,7% | 1,9% | 2,2% |
| Difference | 1,4% | -1,6% | 0,2% | 0,5% |   |
|  **External** |  |  |  |  |  |
| 2020-2023 forecast (December 2019) | 3,5% | 5,1% | 3,2% | 3,3% |   |
| 2021-2024 forecast (July 2020) | 12,3% | 6,2% | 3,5% | 3,1% | 2,8% |
| Difference | 8,8% | 1,2% | 0,3% | -0,2% |   |
| 2021-2024 forecast (November 2020) | 10,8% | 9,9% | 3,7% | 3,9% | 3,8% |
| Difference | 7,3% | 4,8% | 0,5% | 0,6% | 3,8% |

For 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 2021-2024 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.

The fiscal framework of 2021 also reflects the anti-crisis package due to the new coronavirus (COVID-19), which has been introduced in November 2020.

Consolidated budget expenses as a percent of GDP increased to 26.2 percent in 2020 instead of 21.5 percent, which was the initial plan for 2020. Thus, spending increased to 25.1 percent of GDP for 2021. In light of declining GDP, spending decreased to around 23 percent from 2022 and reaches 22.5 percent during 2023-2024.

| **Impact of anti-crisis plan**  | **I stage** | **Resources from the I stage** | **II stage** |
| --- | --- | --- | --- |
| **Initial calculations**  | **Current plan/ forecast** | **Actual 30.11.20** |  | **Difference between the spending and resources of II stage 2020**  | **2020** | **2021** | **Total** |
| Revenue loss  | 0,6% | 0,6% | 0,6% | 0,0% | -0,1% | 0,1% | 0,5% | 0,6% |
| Additional spending  | 3,9% | 3,3% | 2,3% | 0,6% | 0,1% | 0,5% | 1,6% | 2,0% |
| GEL extension and VAT refund  | 2,4% | 2,4% | 2,4% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| **Total**  | **6,9%** | **6,3%** | **5,4%** | **0,6%** | **0,0%** | **0,6%** | **2,1%** | **2,6%** |
|  |  |  |  |  |  |  |  |  |

Capital expenditure for 2021 has been increased according to December 2019, as well as July 2020 forecasts, which is due to East-West highway and other complex infrastructural projects to enter active phase, and amounted to 7.9 percent. However, together with declining the deficit, maintaining the capital spending around 8 percent will be challenging during the following years.

The table below shows the forecast for the current and capital spending during 2020-2024:

|  **Table 11. Current and Capital Spending Forecast**  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  **Million GEL**  | **2020** | **2021** | **2022** | **2023** | **2024** |
|  | Expected | Forecast | Forecast | Forecast | Forecast |
| **Expenditures** |   |
| 2020-2023 forecast (December 2019) | 11 410,0 | 12 394,0 | 13 430,0 | 14 622,0 |   |
| 2021-2024 forecast (July 2020) | 12 956,0 | 12 609,0 | 13 828,0 | 14 916,0 | 15 964,0 |
| Difference | 1 546,0 | 215,0 | 398,0 | 294,0 |   |
| 2021-2024 forecast (October 2020) | 12 921,0 | 13 407,0 | 13 518,0 | 14 434,0 | 15 243,0 |
| Difference | 1 511,0 | 1 013,0 | 88,0 | -188,0 |   |
|   |
| **Capital Expenditures** |   |
| **Increase in Non-Financial Assets** |   |
| 2020-2023 forecast (December 2019) | 3 689,0 | 3 800,0 | 3 990,0 | 4 160,0 |   |
| 2021-2024 forecast (July 2020) | 3 521,0 | 3 700,0 | 3 750,0 | 3 750,0 | 3 900,0 |
| Difference | -168,0 | -100,0 | -240,0 | -410,0 |   |
| 2021-2024 forecast (October 2020) | 4 055,0 | 4 236,0 | 4 100,0 | 3 960,0 | 4 480,0 |
| Difference | 366,0 | 436,0 | 110,0 | -200,0 |   |
| **Increase in Financial Assets** |   |
| 2020-2023 forecast (December 2019) | 177,0 | 360,0 | 360,0 | 340,0 |   |
| 2021-2024 forecast (July 2020) | 165,0 | 300,0 | 250,0 | 250,0 | 250,0 |
| Difference | -12,0 | -60,0 | -110,0 | -90,0 |   |
| 2021-2024 forecast (October 2020) | 190,0 | 241,0 | 250,0 | 250,0 | 250,0 |
| Difference | 13,0 | -119,0 | -110,0 | -90,0 |   |
|   |
| **% of GDP** |
| **Expenditures** |   |
| 2020-2023 forecast (December 2019) | 21,5% | 21,6% | 21,6% | 21,7% |   |
| 2021-2024 forecast (July 2020) | 25,8% | 23,1% | 23,2% | 23,0% | 22,7% |
| Difference | 4,3% | 1,5% | 1,6% | 1,3% |   |
| 2021-2024 forecast (October 2020) | 26,2% | 25,1% | 23,2% | 22,8% | 22,2% |
| Difference | 4,7% | 3,5% | 1,6% | 1,1% |   |
|   |
| **Capital Expenditures** |   |
| **Increase in Non-Financial Assets** |   |
| 2020-2023 forecast (December 2019) | 6,9% | 6,6% | 6,4% | 6,2% |   |
| 2021-2024 forecast (July 2020) | 7,0% | 6,8% | 6,3% | 5,8% | 5,5% |
| Difference | 0,0% | 0,2% | -0,1% | -0,4% |   |
| 2021-2024 forecast (October 2020) | 8,2% | 7,9% | 7,0% | 6,3% | 6,5% |
| Difference | 1,3% | 1,3% | 0,6% | 0,1% |   |
|  |
| **Increase in Financial Assets** |   |
| 2020-2023 forecast (December 2019) | 0,3% | 0,6% | 0,6% | 0,5% |   |
| 2021-2024 forecast (July 2020) | 0,3% | 0,6% | 0,4% | 0,4% | 0,4% |
| Difference | 0,0% | 0,0% | -0,2% | -0,1% |   |
| 2021-2024 forecast (October 2020) | 0,4% | 0,5% | 0,4% | 0,4% | 0,4% |
| Difference | 0,1% | -0,1% | -0,2% | -0,1% |   |

## 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 GDP data declined during the forecasting period, while the current expenses increased due to the measures needed for pandemic responses, the budget deficit has increased up to 8.5 percent of GDP under the 2020 forecast, and will decrease to 2.9 percent for 2023, which is provided by the organic law of Georgia “the economic liberty act”.

It is noteworthy that there are several reasons for increasing the budget deficit from 2.5 percent to 8.5 percent of GDP (by 6 p.p) in 2020:

1. Declining of GDP – 0.2 percentage points;
2. Loss in non-deficit revenue – 2.3 percentage points, among them 0.7 p.p is due to the one-time tax concessions provided under the anti-crisis plan, while 1.6 p.p is due to the slowdown of economic growth;
3. The necessity of the additional spending to response the new coronavirus and relief its impacts – 3.5 percentage points;

Among these factors, declining of GDP base and loss in the revenue (1.8 p.p in total) will have an impact on the medium-term forecasts. Most of the necessary additional spending (treatment, quarantine, 3-6 months social benefits and one-time packages) and tax concessions (4.2 p.p in total) will have one-time impact and will affect less on the medium-term.

| **Table 12. Forecast of Return to the Limits Considered by the Legislation**  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | **2020** | **2021** | **2022** | **2023** | **2024** |
| Non-deficit revenues (revenues + decrease in non-financial assets)  | 25,9% | 25,5% | 26,1% | 26,2% | 26,4% |
| *+/- difference with previous year*  |   | -0,3% | 0,6% | 0,1% | 0,2% |
|   |   |   |   |   |   |
| Expenditure  | 26,2% | 25,1% | 23,2% | 22,8% | 22,2% |
| *+/- difference with previous year* |   | -1,1% | -1,9% | -0,4% | -0,6% |
|   |   |   |   |   |   |
| Increase in non-financial Assets | 8,2% | 7,9% | 7,0% | 6,3% | 6,5% |
| *+/- difference with previous year* |   | -0,3% | -0,9% | -0,8% | 0,3% |
|   |   |   |   |   |   |
| Negative total balance  | -8,5% | -7,5% | -4,1% | -2,9% | -2,4% |
| *+/- difference with previous year* |   | 1,0% | 3,3% | 1,3% | 0,5% |
|   |   | 2,1% | 6,7% | 2,5% | 0,9% |

Even though that economic recovery will start from 2021 and economic growth will reach 4.3 percent in 2021, and 5.5 percent in the medium-term, non-deficit revenue as a percent of GDP will still decline by 0.3 p.p compared the previous year, considering the planned anti-crisis package. Tax base and non-deficit revenue will recover as a percent of GDP gradually from 2022. Recovery of economic growth will cause an increase of non-deficit revenue as a percent of GDP. Despite the pension indexation, retaining the current spending of the consolidated budget at around 25.1 percent of GDP from 2021, and in the medium-term around 23 percent, while an increase of non-financial assets remaining on average 6.5 percent, helps the deficit to decrease to 3 percent by 2023 and to return the deficit limit considered by the organic law of Georgia “the economic liberty act”. However, maintaining capital spending at around 8 percent is also a significant challenge together with the declining of the deficit. Moreover, the current spending at around 23 percent means quite contractionary fiscal policy in light of the pension indexation, education reform, and other major structural reforms. It is noteworthy that there will be an obligation to finance education using about 6 percent of GDP, from 2022. Such obligations make fiscal policy more difficult during the post-crisis time with a limited fiscal framework, which might cause the need for revision of those norms.

| **Consolidated Budget** | **2020** | **2021** | **2023** | **2023-2021** |
| --- | --- | --- | --- | --- |
| Taxes  | 11 050,0 | 12 045,0 | 14 790,0 | 2 745,0 |
| Other non-deficit revenues  | 12 776,0 | 13 652,0 | 16 581,0 | 2 929,0 |
|   |   |   |   |   |
| Current spending | 12 921,0 | 13 407,0 | 14 434,0 | 1 027,0 |
| Capital spending  | 4 055,0 | 4 236,0 | 3 960,0 | -276,0 |
|   |   |   |   |   |
| **Total balance**  | -4 200,0 | -3 991,0 | -1 813,0 | 2 178,0 |
|   |   |   |   |   |
| Taxes  | 22,4% | 22,5% | 23,4% | 0,8% |
| Other non-deficit revenues  | 25,9% | 25,5% | 26,2% | 0,7% |
|   |   |   |   |   |
| Current spending | 26,2% | 25,1% | 22,8% | -2,3% |
| Capital spending  | 8,2% | 7,9% | 6,3% | -1,7% |
|   |   |   |   |   |
| **Total balance** | -8,5% | -7,5% | -2,9% | 4,6% |

Table 13 shows the forecast of the total balance of consolidated and general government budget and the deficit defined by the IMF program, and their comparison to the previous period forecasts.

| **Table 13. Comparison of Budget Deficit Forecasts**  | **Consolidated Budget** | **General Government Budget** |
| --- | --- | --- |
|   | **2020** | **2021** | **2022** | **2023** | **2024** | **2020** | **2021** | **2022** | **2023** | **2024** |
|   |
| **Total balance** |   |
| 2020-2023 forecast (December 2019) | -1 257,0 | -1 243,0 | -1 398,0 | -1 491,0 |   | -1 333,0 | -1 324,0 | -1 481,0 | -1 577,0 |   |
| 2021-2024 forecast (July 2020) | -4 164,0 | -2 593,0 | -2 397,0 | -1 947,0 | -1 687,0 | -4 153,0 | -2 602,0 | -2 388,0 | -1 919,0 | -1 657,0 |
| 2021-2024 forecast (October 2020) | -4 200,0 | -3 991,0 | -2 399,0 | -1 813,0 | -1 646,0 | -4 188,7 | -4 131,9 | -2 342,6 | -1 819,0 | -1 649,0 |
|   |
| **Modified deficit (IMF program)**  |   |
| 2020-2023 forecast (December 2019) | -1 319,0 | -1 498,0 | -1 668,0 | -1 741,0 |   | -1 396,0 | -1 579,0 | -1 751,0 | -1 827,0 |   |
| 2021-2024 forecast (July 2020) | -4 254,0 | -2 778,0 | -2 532,0 | -2 082,0 | -1 822,0 | -4 253,0 | -2 797,0 | -2 533,0 | -2 064,0 | -1 802,0 |
| 2021-2024 forecast (October 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 |
|   |
| **% of GDP** |
| **Total balance** |   |
| 2020-2023 forecast (December 2019) | -2,4% | -2,2% | -2,3% | -2,2% |   | -2,5% | -2,3% | -2,4% | -2,3% |   |
| 2021-2024 forecast (July 2020) | -8,3% | -4,8% | -4,0% | -3,0% | -2,4% | -8,3% | -4,8% | -4,0% | -3,0% | -2,4% |
| 2021-2024 forecast (October 2020) | -8,5% | -7,5% | -4,1% | -2,9% | -2,4% | -8,5% | -7,7% | -4,0% | -2,9% | -2,4% |
|   |
| **Modified deficit (IMF program)**  |   |
| 2020-2023 forecast (December 2019) | -2,5% | -2,6% | -2,7% | -2,6% |   | -2,6% | -2,8% | -2,8% | -2,7% |   |
| 2021-2024 forecast (July 2020) | -8,5% | -5,1% | -4,3% | -3,2% | -2,6% | -8,5% | -5,1% | -4,3% | -3,2% | -2,6% |
| 2021-2024 forecast (October 2020) | -9,1% | -7,6% | -4,4% | -3,1% | -2,6% | -9,1% | -7,9% | -4,3% | -3,1% | -2,6% |

# **Government Debt**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Government Debt (million GEL)** | **2020** | **2021** | **2022** | **2023** | **2024** |
| 2020-2023 Forecast | 22,579.0 | 24,274.0 | 26,225.0 | 28,315.0 |  |
| % of GDP | 42.5% | 42.3% | 42.2% | 42.0% |  |
| 2020-2024 Forecast |  29,569.1  |  32,111.5  |  34,119.5  |  36,608.5  |  39,504.5  |
| % of GDP | 59.9% | 60.1% | 58.6% | 57.8% | 57.6% |

Changes in Government Debt as defined in the Organic Law on “Economic Liberty Act” compared to the precious forecast is mostly caused by the Pandemic of Covid-19 spread by the end of 2019 and affecting negatively to the Economic Developments of the World, including Georgia. As a result of the above mentioned economic shock the Budget Deficit was increased due to lower revenues and higher spending needs. Exchange rate has also affected the foreign currency denominated debt as well as the pace of performance in the donor financed investment projects have affected the Debt forecast. To finance the 2020 Budget needs the borrowing has increased significantly and the Government Debt stock by the end of 2020 is expected to exceed 60% of GDP. The elevated level of Debt will be retained by end 2021 as the need for higher deficit as a result of pandemic spread remains in 2021 as well.

It should be noted that the net domestic borrowing for 2021 is expected to equal 0 and all the financing needs will be covered through foreign borrowing and using the deposits accumulated on treasury account by end-2020. Deposits accumulated on Treasury Accounts will also be used to finance 2022 budget Deficit. Government Debt as % of GDP will start declining gradually from 2022.

# **New Policy Directions reflected in the 2021 draft State Budget law Package**

Within the framework of the Public Finance Management reform the Medium-term Expenditure Framework (Basic Data and Direction document – BDD) has been further strengthened for the last few years. Additional template[[3]](#footnote-3) was developed for the preparation of the Basic Data and Direction (BDD) document for 2021-2024, where the allocations required to finance the activities to be implemented within the existing policy (baseline policy) were separated from the new policies envisaged in Georgian Legislation and demand for new policy initiatives not yet envisaged in the legislation for the medium-term period. It was the first time in 2020, when the relevant information (new policy directions in different areas and the allocation within the relevant program) about baseline and new policy directions has been reflected in the 2021 draft State Budget Law package[[4]](#footnote-4) submitted to the Parliament of Georgia (in the Basic Data and Direction (BDD) document[[5]](#footnote-5) and the Program Budget Annex[[6]](#footnote-6)).

This explanatory note summarizes the new policy directions, which has been identified during the preparation of 2021 draft State Budget Law package and reflected in different documents (Basic Data and Direction document, program budget annex) 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.

## **2.1 New Policy Directions**

### Credit Guarantee Scheme

**Ministry** - Ministry of Economy and Sustainable Development of Georgia

**Program name** – Entrepreneurship Development program

**Program code** – 24 07

The program was developed in response to the crisis caused by the new coronavirus (COVID-19) to improve access to finance for small and medium-sized businesses and to facilitate additional lending to the economy. The Credit Guarantee Scheme is an important component of economic support package as policy responses to COVID-19 spread in many countries, for viable small and medium-sized enterprises (with a turnover of less than 20 million GEL) to restructure a loan or new borrowing. The scheme includes financing of working capital in order to improve accessibility of those enterprises, which do not have sufficient guarantee to borrow under existing credit policies or operate in a sector or market that is subject to particularly high risk in the banking sector.

### Support for the Development Sector

**Ministry** - Ministry of Economy and Sustainable Development of Georgia

**Program name** – Entrepreneurship Development program

**Program code** – 24 07

The program was developed to response the New Coronavirus (COVID-19) crisis as part of the plan for Supporting Development/Construction Sector. The program involves the mortgage subsidies and implementation guarantee programs to address challenges in the sector, which in turn include declined sales of residential units, increased risks regarding construction completion, potential price fluctuations on residential units and reduce access to finance by development companies. The state will subsidize 4% of interest accrued on mortgage loans for 5 years from the disbursement of the loan in June-December 2020. The state will underwrite 20% of the loan disbursed in June-December 2020 for 5 years with a co-participation of no less than 10%.

### New policy Direction in pension policy – Pension Indexation

**Ministry** - Ministry of Internally Displaced Persons, Labour, Health and Social Affairs of Georgia

**Program name** – Social Security of the population

**Program code** – 27 02

In order to ensure adequate financing of social guarantees for the population of retirement age and at the same time fiscal policy sustainability, according to the law on “Accumulative Pensions” and the law on “State Pensions”, pension indexation has been introduced. The pensions of all pensioners will increase by no less than the rate of inflation from January 1, 2021. Pension growth will be no less than 20 GEL for pensioners under 70 and averaging 80% of the average GDP growth rate for the last 12 months and real GDP growth in the last 6 quarters, but not less than 25 GEL for pensioners aged 70 and older.

By the end of the medium-term period, the state pension is determined:

* No less than 300 GEL for pensioners under 70 years of age;
* No less than 350 GEL for pensioners aged 70 and older.

### New direction in the provision of primary and emergency medical care

**Ministry** - Ministry of Internally Displaced Persons, Labour, Health and Social Affairs

**Program name** – Health Care of the Population

**Program code** – 27 03

From 2021, co-financing of medical insurance for emergency crews (4,500 employees) and rural doctors/nurses (3,000 village doctors/nurses) will start (in the amount of 25 GEL).

### New direction of Safety working conditions policy

**Ministry** - Ministry of Internally Displaced Persons, Labour, Health and Social Affairs

**Program name** – Labor and Employment System Reform Program

**Program code** – 27 05

Taking into account the changes made in the labor legislation (the Organic Law of Georgia “on Labor Safety” and the Labor Code of Georgia), the Labor Inspection Agency of Georgia is being established to fully perform the functions of labor inspection. The agency ensures the effectiveness of a wide range of labour rights and improves the existing enforcement mechanism. Labour inspection system will be strengthened with establishing the independent and comprehensive labour inspection mechanism and from 2021; the quality of protection of labour rights will be significantly strengthened as well. Relevant inspections will be carried out to prevent discrimination, sexual harassment, labour force exploitation and to ensure gender equality. In the medium term period, it is planned to inspect up to 4,500 facilities in the field of labour safety.

### New direction of Employment Policy

**Ministry** - Ministry of Internally Displaced Persons, Labour, Health and Social Affairs

**Program name** – Labor and Employment System Reform Program

**Program code** – 27 05

In order to ensure the effective implementation of the Government policy in the area of labour and employment and active labor market policy and employment promotion service mechanisms in the country, the State Agency for Employment Support is being established.The agency will ensure the connection between the job seeker and the business on the one hand and on the other hand will actively support the matching of business requirements in the country and the qualification of job seekers. This will support to increase the number of people employed and the quality of business as well as creation of new jobs. The agency will take employment-promoting activities to effectively stimulate the labor market, which has a positive impact on the well-being of citizens and the pace of economic growth.

### Scheme for professional development and career advancement of teachers and an increase of remuneration

**Ministry** - Ministry of Education, Science, Culture and Sport of Georgia

**Program name** – Primary and Secondary Education

**Program code** – 32 02

As part of the education reform, the next stage of teachers’ professional development and career advancement is planned for 2021. Within the framework of the current education reform, the professional development of practitioner teachers will be promoted, motivating them to increase their status in the career scheme, and gradually replace them with the status of head, leading and mentor teachers in the scheme. From 2021, at the new stage of the reform, it is planned to increase the supplements of the teachers with the status of head, leading and mentor (more than 39 thousands of teachers) by 100 GEL. As a result, from January 2021, the supplement of a senior teacher will be 570 GEL, Leading teacher - 950 GEL, and mentor teacher - 1250 GEL.

### Implementation of "New School" Model

**Ministry** - Ministry of Education, Science, Culture and Sport of Georgia

**Program name** – Primary and Secondary Education

**Program code** – 32 02

In the medium term, the "new school" model is planned to be implemented in all public schools across the country, which includes the promotion of third generation national curricula, as well as the functioning of schools and Teacher Support Groups throughout the country, which include: experts in all subjects as well as experts in primary education, technology, Inclusive Education, Leadership and National Curriculum Implementation Coordinators. As part of the reform, the following activities will be implemented in schools based on coaching principles:

* Development of school curricula based on constructivist principles of teaching-learning;
* Establishing a system of internal and external evaluation focused on support and assistance;
* Introduce the use of technology including the creation of digital programs "Learning through play", "Digitalization of the learning process", Georgian LLMS, to improve the communication and teaching-learning process;
* Establishing the self-assessment system - Schools are informed about the requirements of the National Curriculum, they receive updated results of the Progress Assessment and School Culture Survey each year, based on which they study their needs to meet the requirements of the National Curriculum.

# **2.2. Financial Resources provided for new policy directions in the Basic Data and Directions (BDD) document (in thousands GEL)**

| **New policy directions by Ministries and programs** | **2021 Budget** | **2022 Forecast** | **2023 Forecast** | **2024 Forecast** |
| --- | --- | --- | --- | --- |
| **Ministry of Economy and Sustainable Development of Georgia** |  |  |  |  |
| **Entrepreneurship Development program (24 07)** | **157,160.0** | **127,550.0** | **127,550.0** | **130,000.0** |
| *including: Credit Guarantee Scheme*  | *50,000.0* | *0.0* | *0.0* | *0.0* |
| *including: Supporting Developers* | *35,000.0* | *0.0* | *0.0* | *0.0* |
| **Ministry of Internally Displaced Persons, Labour, Health and Social Affairs of Georgia** |  |  |  |  |
| **Social Security of the population (program code - 27 02)** | **3,839,900.0** | **3,750,000.0** | **3,920,000.0** | **4,200,000.0** |
| *including: New policy Direction in pension policy – Pension Indexation* | *210,000.0* | *215,000.0* | *220,000.0* | *225,000.0* |
| **Health Care of the Population (program code - 27 03)** | **1,548,582.0** | **1,193,782.0** | **1,220,156.0** | **1,241,552.0** |
| *including: New direction in the provision of Primary and Emergency medical care* | *2,250.0* | *2,250.0* | *2,250.0* | *2,250.0* |
| **Labour and Employment System Reform Program (program code - 27 05)** | **8,860.0** | **9,000.0** | **9,000.0** | **9,000.0** |
| *including: New direction of Safety working conditions policy* | *3,800.0* | *4,000.0* | *4,000.0* | *4,000.0* |
| *including: New direction of Employment Policy* | *1,213.0* | *1,500.0* | *1,500.0* | *1,500.0* |
| **Ministry of Education, Science, Culture and Sport of Georgia** |  |  |  |  |
| **Primary and Secondary Education (program code - 32 02)** | **1,030,147.0** | **1,301,550.0** | **1,880,250.0** | **2,236,250.0** |
| *including: scheme for professional development and career advancement of teachers and an increase in remuneration* | *150,000.0* | *370,000.0* | *920,000.0* | *1,220,000.0* |
|  *including: Implementation of "New School" Model* |
| **Sum of programs** | **6,584,649.0** | **6,381,882.0** | **7,156,956.0** | **7,816,802.0** |
| ***including: Sum of the New Policy Directions*** | ***452,263.0*** | ***592,750.0*** | ***1,147,750.0*** | ***1,452,750.0*** |

# **Annex N1 - New Template for the preparation of the Basic Data and Direction (BDD) document**

| **Program code** | **Title[[7]](#footnote-7)** | **Request for number of employees** | **Request for Budget Allocation (thousand GEL)[[8]](#footnote-8)** | **Comment/ Legislative Requirement[[9]](#footnote-9)** |
| --- | --- | --- | --- | --- |
| 2021  | 2022  | 2023  | 2024  | 2021  | 2022  | 2023  | 2024  |
|  | **First Level Budget Organization (spending unit)** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |  |
|   | Program 1 |   |   |   |   |   |   |   |   |   |
|   | Program 2 |   |   |   |   |   |   |   |   |   |
|   | Program 3 |   |   |   |   |   |   |   |   |   |
|   | Program --- |   |   |   |   |   |   |   |   |   |
|  |   |   |   |   |   |   |   |   |   |   |
|  | **Among which needed for Existing Policies[[10]](#footnote-10)** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |  |
|   |   |   |   |   |   |   |   |   |   |   |
|   | Program 2 |   |   |   |   |   |   |   |   |   |
|   | Program 3 |   |   |   |   |   |   |   |   |   |
|   | Program --- |   |   |   |   |   |   |   |   |   |
|   |   |   |   |   |   |   |   |   |   |   |
|  | **Among which, New Policies envisaged in Georgian Legislation for 2021-2024 (if any )[[11]](#footnote-11)** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |  |
|    | Program 1 |   |   |   |   |   |   |   |   |   |
|   | Program 2 |   |   |   |   |   |   |   |   |   |
|   | Program 3 |   |   |   |   |   |   |   |   |   |
|   | Program --- |   |   |   |   |   |   |   |   |   |
|   |   |   |   |   |   |   |   |   |   |   |
|  | **Among which demand for New policies not yet envisaged in the legislation for 2021-2024[[12]](#footnote-12)** | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |  |
|   | Program 1 |   |   |   |   |   |   |   |   |   |
|   | Program 2 |   |   |   |   |   |   |   |   |   |
|   | Program 3 |   |   |   |   |   |   |   |   |   |
|   | Program --- |   |   |   |   |   |   |   |   |   |
|   |   |   |   |   |   |   |   |   |   |   |

1. [https://www.mof.ge/images/File/2020-monacemebi-mimartulebebi/13-07-2020/3.%20prognozebis%20shedareba%20(1).docx](https://www.mof.ge/images/File/2020-monacemebi-mimartulebebi/13-07-2020/3.%20prognozebis%20shedareba%20%281%29.docx) [↑](#footnote-ref-1)
2. Includes resources accumulated in STOPCOV Fund – GEL 133.5 million. [↑](#footnote-ref-2)
3. Annex to the Explanatory Note [↑](#footnote-ref-3)
4. <https://www.mof.ge/5355> [↑](#footnote-ref-4)
5. https://www.mof.ge/images/File/2021-biujeti/30-11-2020/danartebi/12.%202021-2024%20BDD.docx%2029.11.2020.docx [↑](#footnote-ref-5)
6. https://www.mof.ge/images/File/2021-biujeti/30-11-2020/danartebi/14.%20programuli%2028.11.2020.doc [↑](#footnote-ref-6)
7. Information should be filled in for 4 digit Program Code, i.e. for Programs only; [↑](#footnote-ref-7)
8. Request of appropriations ceilings does not include projects unde Investment Grants and Credits; [↑](#footnote-ref-8)
9. Should provide information and credentials of the Legislative Acts already enacted by the respective period of 2020 which implies setting up new policies or policy changes. Additional Information should be provided about the details of the “New Policy”, including preliminary costing; [↑](#footnote-ref-9)
10. Includes Appropriation request for the programs existing by the respective period of 2020, need to run business as usual; [↑](#footnote-ref-10)
11. Includes appropriation request for the programs related to setting up new policy or policy change, which has already been envisaged in the legislation and deadline for enforcement fall under the coming 4 year period. [↑](#footnote-ref-11)
12. Includes Appropriation request for the new policies the Spending Units are working on as part of sector strategies or reform agendas, but there is no already existing deadline for their implementation. [↑](#footnote-ref-12)