GEORGIA

ECONOMIC REFORM PROGRAMME 2024-2026

GOVERNMENT OF GEORGIA

Contents

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AFD	French Development Agency
ATM	Average Time to Maturity
BDD	Basic Data and Directions
CIT	Corporate Income Tax
CNY	Chinese Yuan
CPI	Consumer Price Index
DRG	Diagnosis Related Group
DSA	Debt Sustainability Analysis
EC	European Commission
ECB	European Central bank
ECM	Error-Correction Method
EIA	Energy Information Administration. USA
EIB	European Investment Bank
EIDSS	Electronic Integrated Disease Surveillance System
EUR	Euro
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FED	Federal Reserve System
FSAP	Financial Sector Assessment Program
FTE	Fiscal Transparency Evaluation
GEL	Georgian Lari
GFS	Government Finance Statistics
GGGD	General Government Gross Debt
GGR	Gross Gambling Revenue
GMP	Good manufacturing practice
GSE	Georgian State Electrosystem
HPP	Hydropower Plant Project
IDP	Internally Displaced People
IIP	International Investment Position
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
JPY	Japanese Yen
KWD	Kuwaiti Dinar

LEPL	Legal Entity of Public Law
MAC	Market Accesses Country
MEPA	Ministry of Environmental Protection and Agriculture
MLE	Maximum Likelihood Estimation
MOESD	Ministry of Economy and Sustainable Development
MOF	Ministry of Finance
MOJ	Ministry of Justice
MoESY	Ministry of Education, Science and Youth
MoLHSA	Ministry of internally Displayed Persons from the occupied Territories, Labour, Health and Social affairs
MRDI	Ministry of Regional Development And Infrastructure
MTBF	Medium-Term Budgetary Framework
MTRS	Medium Term Revenue Strategy
NAIRU	Non-Accelerating Inflation Rate of Unemployment
NBG	National Bank of Georgia
NCDC	National Centre For Disease Control And Public Health
NCU	National Currency Unit
NDC	Nationally Determined Contribution
NEER	Nominal Effective Exchange Rate
NSDI	National Spatial Data Infrastructure Development
OBS	Open Budget Survey
OECD	Organization for Economic Cooperation and Development
PBO	Parliamentary Budget Office
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIM	Public Investment Management
PISA	Programme for International Student Assessment
PIT	Personal Income Tax
PPP	Public-Private Partnership
REER	Real Effective Exchange Rate
USD	U. S. Dollar
SDG	Sustainable Development Goals
SOE	State-Owned Enterprise
SSP	Shared Socio-Economic Pathway
TADAT	Tax Administration Diagnostic Assessment Tool
TFP	Total Factor Productivity

VAT	Value Added Tax
WB	World Bank Group
WEO	World Economic Outlook

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

Georgia's first ERP Document in the context of the national procedures.

The Economic Reform Program (ERP) 2024-2026 of Georgia presents medium term macroeconomic and fiscal outlooks and includes information about the planned and ongoing structural reforms that are in the government's agenda. The document is prepared on the basis on Georgian medium term fiscal framework for 2024-2027 (Basic Data and Directions (BDD) document for 2024-2027)[1] and other strategic documents of Georgian government, most importantly the Development Strategy of Georgia – Vision 2030[2]. The ERP document is fully based on the documents and strategies approved and endorsed by the Government of Georgia (GoG) in line with the national regulations. The BDD Document 2024-2027 is also submitted to the Parliament as part of the annual budget package (The 2024 State Budget was approved by the parliament on December 15, 2023). The ERP 2024-2026 was also endorsed by the Government Decree #41 (15.01.2024) on "On endorsement of the Economic Reform Programme (2024-2026)".

It needs to be mentioned that this is the first time Georgia is invited to the ERP preparation process according to the European Commission's guidance of July 2023 (Guidance for the Economic Reform Programmes 2024-2026 of candidate countries and potential candidates. Ministry of Finance of Georgia (MOF) was identified as the key coordinator of the process. Considering the factors that this is the first time ever this document is being compiled and the country does not have an ERP document from previous years, to use as the baseline, the ERP for 2024-2026 is completely based on the medium-term budget process we have in place, envisaged in the Budget Code[3] and other related legislation.

The major medium-term budget framework document for Georgia's Fiscal Governance system is the Basic Data and Directions (BDD) document[4], which covers planning period of budget year (i.e. year 2024), and +3 years. The document includes data and analysis for the current year (i.e. year 2023), the past year 3 years. The document is updated annually on a rolling basis according to the Budget Calendar envisaged in the Budget Code of Georgia[5]. The most recent document, which was submitted to the Parliament of Georgia as part of the annual budget law package in November 2023 covers period of 2024-2027[6].

Georgia's aspiration to join EU has been guiding Georgia's policy framework for decades since regaining its independence in 1991. The goal of joining EU is envisaged in the Constitution of Georgia. EU and Georgia signed Association agreement in 2014 (into force since 2016) and visa-free access (90

[1] https://www.mof.ge/5653

[2] https://www.gov.ge/files/428_85680_321942_khedva-2030-saqarthvelos-ganvitharebis-strategia-1.pdf; https://www.gov.ge/files/428_85680_746459_logikuri-charcho_saqarthvelos-ganvitharebis-strategia-2030.pdf

[3] https://www.mof.ge/sabiujeto_kanonmdebloba

[4] Please see sub-section 4.9 about the MTBF arrangements in the Fiscal Governance Structure of Georgia

[5] https://www.mof.ge/sabiujeto_kalendari

[6] https://www.mof.ge/5653

days within the 180 day period) was granted to Georgia by EU in 2017. Although Georgia had defined plans to apply for EU candidacy for long, the process was speeded up as a response to global challenges in the region. Having the first-hand experience of the ongoing territory occupation by the Russian Federation and the 2008 war, the ongoing Russia's war of aggression against Ukraine requires particular attention due to Georgia's geopolitical position. **Georgia applied for the EU membership on March 3, 2022 alongside Ukraine and Moldova and submitted the fully completed questionnaire in May 2022. European Council recognized the European Perspective for Georgia on June 23, 2022 and granted candidate status on December 14, 2023.**

Based on the factors above, we used the country systems and MTBF process existing within Fiscal Governance framework to prepare the ERP 2024-2026. There were no specific stakeholder consultations for the ERP document as such but civil participation is the integral part of the Budget process and all the information provided in this document are based on the documents which had been prepared as part of the Georgia's budget process. According to PEFA, IMF FTE and Open Budget Index Georgia's Public Finance Management (PFM)/Fiscal Governance system has quite high standards very much in line with international best practices.

It needs to be mentioned that the EU's support to Georgia's Fiscal Governance system was of the utmost significance through the past two decades and the progress made is largely contributed to the EU funded Technical Assistances.

Georgia will continue to reform its Fiscal Governance/PFM system further as part of the PFM strategy 2023-2026.[7] EU continues its support to the Fiscal Governance reform including through Budget Support EU4SGR policy matrix. ERP process will also become integral part of the MTBF as a key macro-fiscal and policy planning document in future discussions with EU on Georgia's candidacy and economic planning.

Overall Policy Framework and Objectives

Georgia successfully demonstrated very strong growth performance and significant improvement in its external position pre-pandemic. 5 percent on average robust economic growth rate and reducing trend of external vulnerabilities were stopped by the pandemic-related economic crisis. As a result of the COVID-19 pandemic, the fiscal deficit widened to 9.1 percent of GDP in 2020. This reflected reduced revenues, record-high VAT refunds which supported the private sector, high capital spending, and 4.0 percent of GDP in COVID-19 related healthcare costs as well as support to households and businesses. As a result of the increased fiscal deficit and local currency depreciation,

[7] https://www.mof.ge/en/5659

the government debt to GDP ratio reached to 60.8 (fiscal rule definition, i.e. including PPP liabilities) by the end of 2020, marginally above the 60 percent threshold of the Fiscal Rule.

However, Georgian recovered sharply since 2021. Economic growth in 2021 was 10.5, which allowed General government deficit and General government debt to narrow to 6.3 and 50.1—down from 9.1 and 60.8—percent of GDP respectively. Effective stimulus package during the pandemic—designed with the help of our international partners—allowed economy to growth relative to pre-pandemic level in 2019, indicating "V-shaped" path of recovery.

Russia's invasion of Ukraine, threatened the outlook of 2022 and added huge uncertainty to the medium-term stance. With our international partners, we thought the crisis would lower our expected growth in 2022, while the government predicted 6%. Though due to factors such as shifting transit corridors, human and capital inflow, increased investment activities, change of value-chains and energy prices the economy has diverse impacts and real GDP grew by 10.4% in 2022.

Following two years of strong double-digit economic growth 2023 continued to show impressive economic performance. Economic growth in the first three quarter of 2023 was 7.1 percent (6.9% in 11 months). Annual GDP growth is projected at 6.5 percent in 2023 and converging to long-term average—5 percent—in the medium-term, gradually.

Current account deficit in 2022 was record low, 4.5 percent of GDP—coming back to the pre-pandemic trend. Due to the structural improvement of domestic savings—triggered by several reforms, including new CIT regime, pension reform and de-dollarization reforms—Current Account Deficit is projected to maintain similar level in the medium-term.

Fiscal indicators went back, compliant with the fiscal rule targets according to the organic law of economic liberty, which requires fiscal parameters to go back inside the limits within the three years after enacting escape clauses. As of end-2022 GG debt to GDP ratio went back to bellow safe level. According to the Government Debt Management strategy 40 percent of GDP is considered as safe level of debt, as demonstrated by our resilience during the Covid-19 shock.

Georgia is running one the strictest Fiscal discipline and has always seen the key driver of the Economic Development to be the private sector. Thus, sovereign resources has been investing in reforms leading to better efficiency and ease of doing business as well as in infrastructural projects, which support the unlocking of the country's potential as transit, logistics, and tourism and business hub. Recent geopolitical shifts makes this even more important, with the increase of demand on middle corridor routes.

The Government Strategic Document, Development Strategy of Georgia – Vision 2030, endorses government's policy priorities[8]. Since this is the first time Georgia is invited to the ERP process, in

[8] https://www.gov.ge/files/428_85680_321942_khedva-2030-saqarthvelos-ganvitharebis-strategia-1.pdf; https://www.gov.ge/files/428_85680_746459_logikuri-charcho_saqarthvelos-ganvitharebis-strategia-2030.pdf

this document we present the structural reform areas based on the Vision 2030, BDD 2024-2027 and programme budget annex of 2024 State Budget Law.

In the document, all fiscal data are accounted for using the IMF Government Finance Statistics Manual (GFSM) 2014, national accounts are represented by the System of National Accounts (SNA) 2008, and external data in accordance with the Balance of Payments Manual (BPM) 5.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

Since this is the first time Georgia is invited to the ERP process and Georgia did not prepare the ERP for 2023-2025, Georgia was not part of the Economic and Financial Dialogue between EU and candidate countries of May, 2023, hence there are no specific policy guidance issued to respond to in this chapter.

In parallel, Georgia continues its regular reporting process through Association Agreement, Neighbourhood policy related initiative and most importantly on EU enlargement.

3. MACROECONOMIC FRAMEWORK

After Russia's invasion of Ukraine, the global growth prospects together with inflation have worsened. Global uncertainty was shaped by conflicts during recent years, from war in the middle of the Europe to Middle East. To fight rising cost of living, due to high inflation rates, most of the major economies started to rise policy rates to tame the inflation. As for the 2023 estimates, it is worth noting, that the data came weaker for global growth at 3.0 percent for the whole world, which reflects tight monetary conditions in advanced economies.

Growth was weak in EU too, per autumn forecast of the European Commission (EC), in 2023, growth rate of EU economy is expected to be 0.6%, which is lower than anticipated earlier times this year. Going forward prospects of EU growth rate increases and is projected to stand at 1.3%, but this is once again lower than it was expected from summer outlook. Inflation in turn is expected to decrease to 3.5% in 2025 and reaching 2.4% in 2025. Going forward, the shocks stemming from external sector is expected to stabilize, per IMF October WEO in 2024-2026, global economy excluding EU is expected to grow on average by 3.25%, while EUs growth rate will elevate to be around 2%, after the recent slack. Georgia's main trading partner countries' economies are also expected to show steady growth within this period of time.

The ECB monetary policy rate remains tight at 4.0%, amid decreasing inflation, policy rate will gradually decrease and per EC forecast will stand at 3% by the end of 2025. The trend of decreasing policy rate is already evident in Central and Eastern European countries. Decreasing inflation trend is evident in Georgia's main trading partner economies too, it is going to average 3.85% in 2024-2026, from 8.3% in recent years, per IMF WEO.

Despite high inflation and depreciation of Lira, Turkey's economy shows resilient growth after Covid-19, and is set to increase by 3.5% and 4.0% in 2024 and 2025 respectively. To battle the soaring inflation Turkey now is set to increase its policy rate, following hike in policy rate in July, now monetary policy rate stands at 42.5%. The main risk for neighbouring countries, stemming from Turkey is inflation, which may be imported, but since high inflation from Turkey is accompanied with depreciation, this risk can be diminished.

For Caucasus region, even though the situation remains tense between Armenia and Azerbaijan, both countries showed strong macroeconomic performance, inflation is decreasing followed by easing policy rates. Going forward uncertainty surrounding energy resource prices may benefit Azerbaijan, while increased migration flow from Russia to Armenia keeps its economic growth robust. GDP growth rates are expected at 5.0% and 4.5% for Armenia and 2.5% for Azerbaijan in 2024-2025.

Source of high inflation was increased global food prices and oil prices. In 2023 after it peaked in 2022, FAO food prices started to decrease steadily, while oil prices started to accelerate from the mid-summer, but shortly after started to decelerate. Going forward both food and oil prices are expected to stabilize, based on EIA and our projections, Brent oil price is expected to be around 82 USD per barrel in 2025, and 61 USD per barrel in 2025-2026.

The main risks for global economy remains armed conflicts, which yet may disrupt global supply chains and supply of commodities. But in baseline global economy is set to normalize.

Table 1. Basic assumptions on the external economic environment (annual average)

	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
Short-term interest rate	6.95%	6.35%	5.31%	4.03%	4.75%
Long-term interest rate	4.97%	4.85%	4.88%	5.08%	5.03%
USD/EUR exchange rate	1.06	1.08	1.08	1.08	1.08
Nominal effective exchange rate	321.1	391.6			
Exchange rate vis-à-vis the EUR	3.08	2.83	2.83	2.83	2.83
Global GDP growth, excluding EU	3.46	3.35	3.19	3.39	3.40
EU GDP growth	3.61	0.71	1.45	2.06	1.98
Growth of relevant foreign markets	2.42	3.33	2.73	2.83	2.79
World import volumes, excluding EU					
Oil prices (Brent, USD/barrel)		82.4	82.6	61.0	61.0

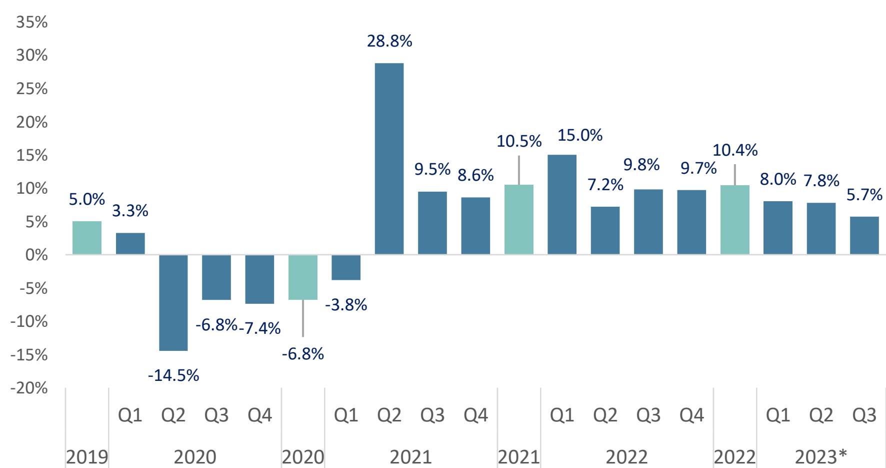
The primary source for forecasts of main foreign economic activity in the medium term is the IMF World Economic Outlook, which is published twice a year and encompasses a wide range of macroeconomic variables. For the medium-term macroeconomic framework, the Ministry of Finance of Georgia does not offer nominal exchange rate forecasts. Instead, these forecasts are derived from the latest official data and employed as unchanged projections for the medium term. To estimate long-term weighted average interest rates, Bloomberg's forecasts are utilized, while short-term rates are estimated by MOF.

3.1 Recent economic developments

Economic growth

In 2023, the Georgian economy demonstrated robust growth, building on the impressive economic performance of a 10.4 percent growth rate in 2022. The growth for the first three quarters of 2023 stood at 7.1 percent, with November growth rate of 5.9 percent. Consequently, the economic growth for the initial 11 months amounted to 6.9 percent. The projection of annual economic growth rate for the entire year is 6.5 percent.

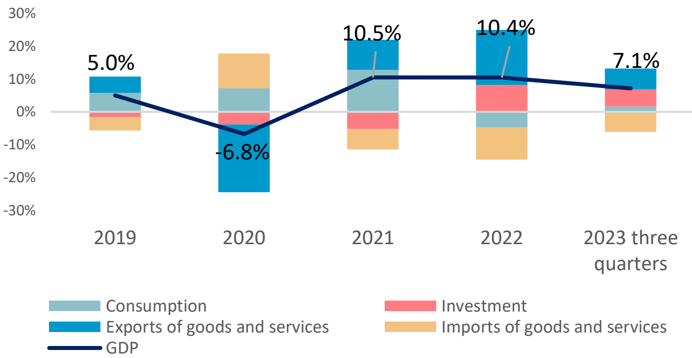
Figure 1. Real Economic Growth, % y/y



Source: National Statistics Office of Georgia (Geostat)

In the first three quarters of 2023, from the production approach, the Services sector emerged as the primary contributor to growth, expanding by 8.4 percent annually and contributing 6.5 percentage points to overall growth. In the Services sector, "Wholesale and retail trade; repair of motor vehicles and motorcycles" and "Information and communication" experienced accelerated growth, collectively contributing more than half of the sector's contribution, accounting for 3.3 percentage points of the total growth. Following closely, Construction exhibited the highest growth rate at 18.1 percent, contributing 0.9 percentage points to the overall growth. Regarding the Industrial sector, there was a decline of 1.9 percent, resulting in a negative contribution of 0.3 percentage points to the overall growth.

Figure 2. Real GDP growth, expenditure side (contribution to overall growth)



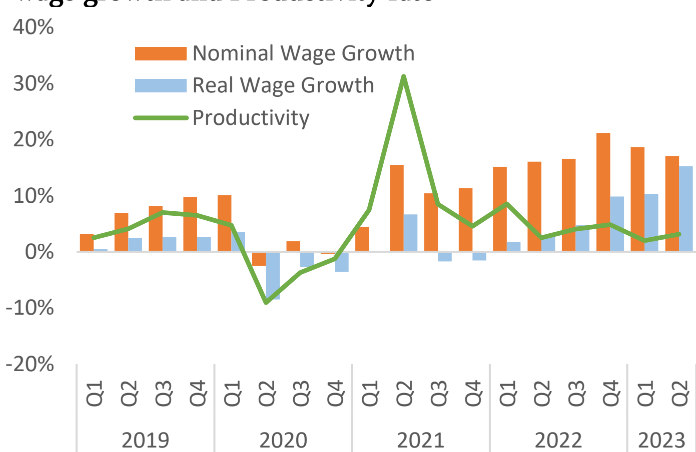
Source: Geostat

The Agricultural sector sustained its slowly growing trend observed since the pandemic. In the first three quarters of 2023, it increased by 1.5 percent compared to the same period of the previous year, exerting almost negligible impact of 0.1 percentage points on the overall economic growth. As from the expenditure side, investments continued to contribute positively following their significant role in 2022, with an average increase of 25.4 percent in the first three quarters of 2023 (contributed 5.3 percentage points to the overall growth). Consumption, while having relatively smallest contribution to GDP growth in the same period, still experienced a slight increase of 2.2 percent, contributing 1.6 percentage points to the overall growth mostly drive by private consumption. The net exports of goods and services contributed positively, accounting for 0.3 percentage points from the overall growth during the same period.

Labour Market

The unemployment rate in Georgia reduced by 0.9 percentage point on average within the first three quarters of 2023, while the unemployment rate was at 17.3 percent in 2022.

Figure 3. Labour Market Indicators: Nominal and real wage growth and Productivity rate



Source: Geostat, MOF calculations

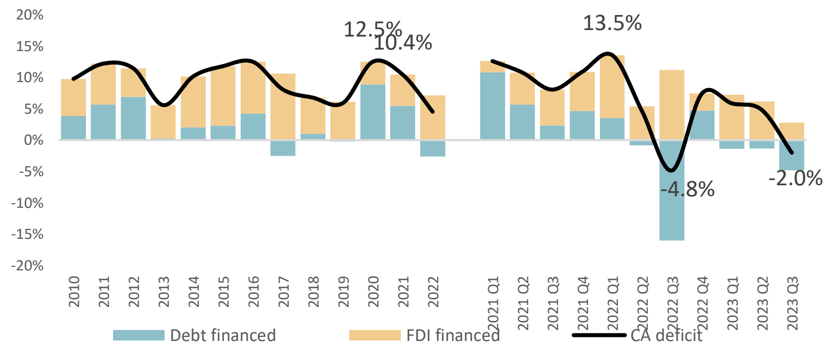
In the third quarter of 2023, unemployment rate stood at 15.6 percent, the labour force participation rate increased by 0.1 percentage points compared to the corresponding period of the previous year, reaching 53.6 percent. Notably, the labour force participation rate differs between genders. In the third quarter of 2023, the participation rate for women stood at 43.1 percent, while for men, it was notably higher at 66.0 percent. Comparing to the corresponding period of the previous year, the number of employees increased by 0.6 percent and the employment increased by 1.0 percentage points. Concurrently, the number of unemployed individuals increased by 0.6 percent annually.

Regarding productivity in the second quarter of 2023, measured as the ratio of real output to the number of employees, it demonstrated a 3.1 percent annual increase. Additionally, the average nominal salary of employees experienced a noteworthy 17.1 percent year-on-year rise, reaching 1,804.5 GEL (633 Euro).

External Sector

Current account. During the initial three quarters of 2023, the current account deficit amounted to approximately 574.9 USD million, equivalent to 2.6% of the GDP. It was financed by net foreign direct investments and net FDI was even higher than deficit, which led net external debt to reduce.

Figure 4. Financing of Current Account, percent of GDP



Source: National Bank of Georgia (NBG), Geostat

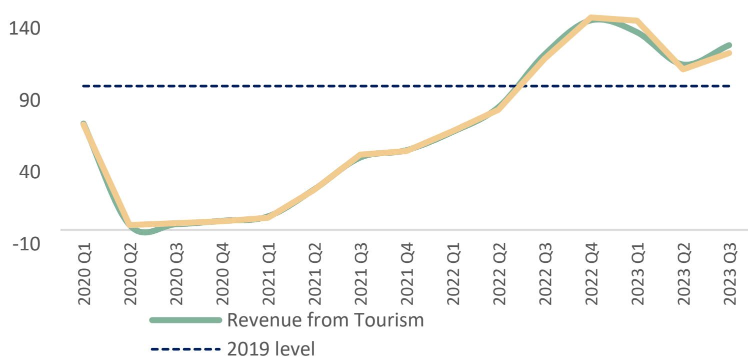
Examining individual components, the rise in the current account balance (though it continues to be persistently negative) is due to the trade balance. At the same time, the heightened commodity deficit, along with the expansion of the primary income deficit, was partially compensated by the increased growth in current transfers and services.

Foreign Direct Investment. As for 2023 Q3, foreign direct investments amounted to 316 Million USD (3.9 percent of GDP), that was 61.5 percent lower than in corresponding quarter of 2022. As of Q3 2023, USA is the top investor in terms of FDI with a 16.4 percent of share in totals. As for 2nd and 3rd places, UK, and Netherlands had 14.5 percent and 14.3 percent share, respectively.

International Investment Position and External Debt. At the end of third quarter of 2023, the net negative international investment position in nominal terms increased by 3.4% compared to the end of 2022. This uptick was driven by a relatively higher growth in nominal terms in international liabilities in comparison to the growth in international assets.

As for 2022, external debt stood at 95.7% of GDP, which shows the continuity of the debt reduction tendency. Reduction tendency was observed in first three quarters of 2023 and External Debt to GDP amounts 78.9% at the end of third quarter. After the pandemic, debt to GDP ratio decreased by 13.3 p.p. and 23.4 p.p. in 2021-2022, while this continued in 2023 and debt decreased from 95% to 78.9% and GDP mainly contributed to the reduction of external debt.

Figure 5. Income from Tourism



Source: NBG

Tourism. In the post-pandemic period, from 2021, the tourism sector has started gradual recover. From the second quarter of 2021, tourism revenues increased annually and from the third quarter tourism recovered by half. This trend was maintained in subsequent quarters as well. It should be noted that from the third quarter of 2022, the income from tourism exceeded the level of 2019, and this trend continues. In the third quarter of 2023, the income from tourism amounted to 1,447.1 million USD, which is 5.3 percent higher than the same period of the previous year, and 128.4 percent of the 2019 level.

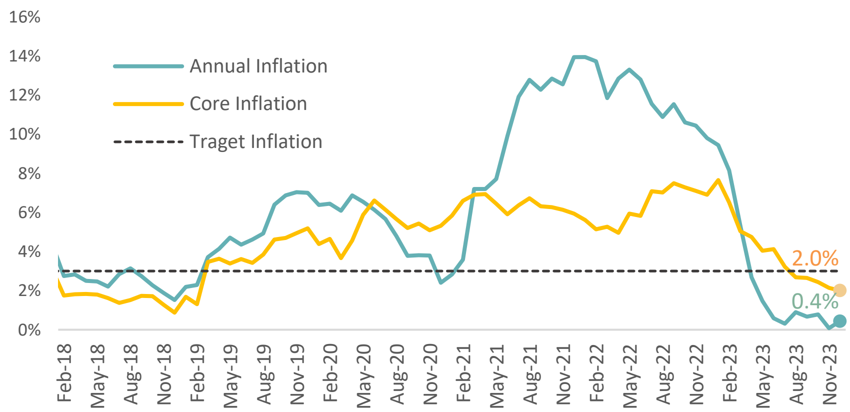
Remittances. During the first quarter of 2023, net remittances surged to 1,171.5 million USD, marking a significant increase of 148.6 percent compared to the previous year. However, in the subsequent quarter of 2023, net remittances amounted to 1,023.0 million USD, reflecting a decrease of 11.6 percent compared to the corresponding period in the previous year.

As for the third quarter of 2023, net remittances[9] accounted 785.4 million USD, which is by 16.3 percent less compared to the same period of the last year. Russia made the main contribution to the decrease by 20.6 p.p., Armenia (-3.2 p.p.), Kyrgyzstan (-3.1 p.p.), Belarus (-2.6 p.p.), Tajikistan (-0.8 p.p.) and Azerbaijan (-0.6 p.p.) also contributed negatively. Growth was recorded in net remittances from the USA of 43.1 percent, which contributed positively to overall growth by 3.8 p.p., as well as net remittances from Italy of 22.8 percent (2.6 p.p.) and Germany by 37.2 percent (1.7 p.p.). It should be noted that remittances from Russia was increased recently and had a positive contribution to the growth of net remittances. This dynamics changed in the second quarter of 2023, which is related to the high base effect.

Monetary Policy in Georgia - The National Bank of Georgia (NBG) is responsible for conducting the monetary policy in the country. The ultimate goal of the NBG is to ensure price stability in the economy. The NBG uses inflation targeting approach for implementing the monetary policy. It announces the target rate and within the coming year, the NBG attempts to reach it by the monetary policy instruments such as policy rate (refinancing loan rate), minimum reserve requirements, open market operations, money market interventions etc. At the initial stage of introducing inflation targeting in 2009, the target inflation was 6 percent. Since 2015, the target inflation has been reduced to 5 percent, and in 2017 to 4 percent. Since 2018, the target rate of inflation has been set at 3 percent.

[9] remittances refers to the instant money transfers disseminated by NBG monthly bases;

Figure 6. Inflation in Georgia, 2018-2023

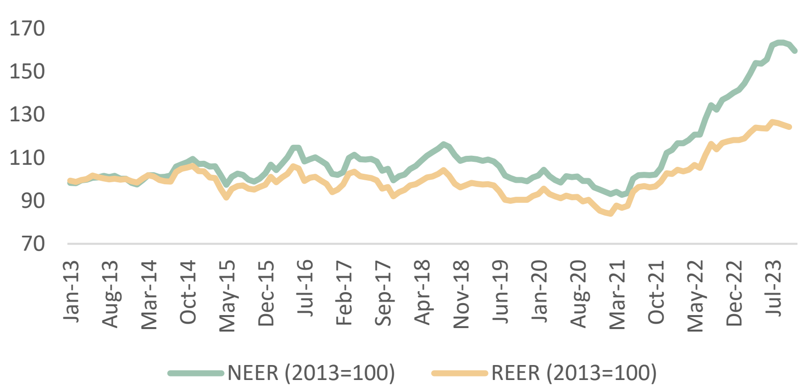


Source: Geostat, MOF

Inflation in Georgia - The CPI based average annual inflation in 2022 was 11.9 percent, still higher than the monetary policy target, that was mainly driven by an increase in international prices, supply chain disruptions and other global and regional events. In 2023, during last 7 months annual inflation was below 1%, the average annual inflation fell to 2.5% and it is expected to sustain at the target level in the short-term period. The core inflation in Georgia was relatively stable within the period of 2018-2023. It had an increasing tendency until 2022 and reached 6.9% level. However, the core inflation dropped to 2.0% level in 2023.

As for the GDP deflator, it had an increasing trend within the COVID pandemic. In 2021 and 2022, it amounted to 10.3% and 9.1% respectively. However, the GDP deflator also fell in 2023 and it is expected to reach at 3.1%. It is also worth noting that in the short-run period it is predicted the GDP deflator will be close to the monetary policy target.

Figure 7. REER[10] and NEER[11]



Source: NBG

Exchange Rates in Georgia – Georgia has a managed floating exchange rate regime. The exchange rate of Georgian Lari (GEL) is determined by the demand and supply forces in the currency market. Within the last 5 years, the exchange rates of GEL with respect to USD and Euro were volatile due to high dependence on tourism, FDI and remittances. Due to global pandemic and geopolitical turmoil, Georgia's economy experienced strong external shocks that caused the reductions in capital inflows and a depreciation of the national currency. The GEL was depreciated by approximately 24% during

[10] **Real Effective Exchange Rate** presents evolution of the REER index based on the CPI. It is computed as a weighted geometric average of the real exchange rates to the major trade partners' currencies (Eurozone, Turkey, Azerbaijan, Russia, Ukraine, China, Armenia, USA, Bulgaria, Poland)

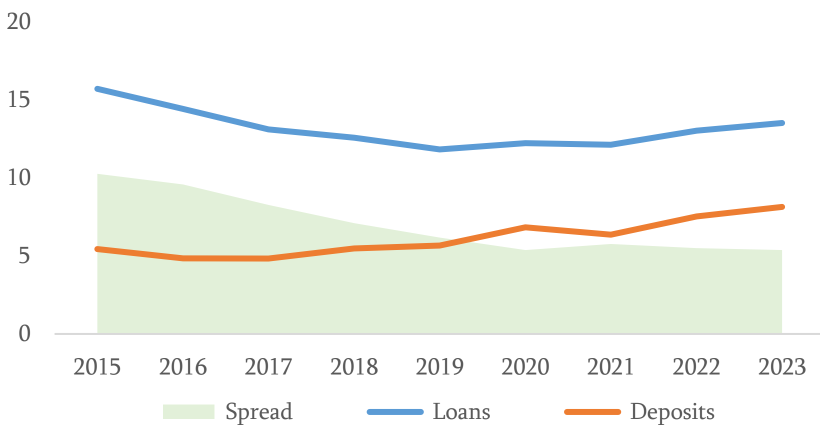
[11] **Nominal Effective Exchange Rate (NEER)** is calculated as a weighted geometric average of nominal exchange rates against main trade partner countries' currencies (see the REER)

the period of 2018-2021. However, from 2022 the value of national currency increases with respect to Euro and it was appreciated by 19% in 2022. The GEL continues to appreciate in 2023 too. It is expected that the GEL will be sustained at 2.8 level in regard to Euro in the short-run time horizon. The GEL depreciated by around 27% within the 2018-2021 period. The COVID-19 pandemic played a significant role in this process. In the consequent year, the GEL started appreciation. It was strengthened by 5% with respect to USD in 2022.

The nominal effective exchange rate (NEER) and the real effective exchange rate (REER) have similar tendencies in Georgia. Overall, they were characterized by a slight depreciating trend within the 2018-2021. From April 2021, the NEER and REER have been appreciated. The NEER and the REER have appreciated by 76% and 45%, respectively, from 2021 (April) to 2023 (August). These tendencies can have significant implications on the Georgian economy in terms of competitiveness of local production.

Interest Rates – the spread between market interest rates of deposits and loans narrowed in last 7 years, mostly driven by de-dollarization measures implemented since 2017 and introduction of deposit insurance scheme. General trend was downward before the pandemic, when tightening of monetary policy rate pushed rates to rise.

Figure 8. Market Interest Rates in Georgia, %



Source: NBG

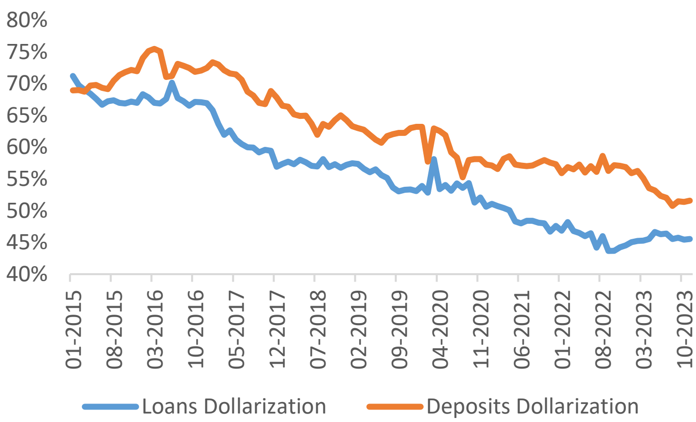
In October 2023, the interest rates of loans were 13.3% and the interest rates on deposits were at 8.2% level. The interest rate spread has been increasing since 2019 due to higher market risks, it raised by 1.7 p.p. during the 2019-2022 and amounted to 5.42% by the end of 2022. However, it started reducing in 2023.

The interest rates for the loans nominated in the national currency (GEL) are at 15.5% in 2023, while interest rates for the deposits nominated in the national currency (GEL) are at 10.8% in 2023. They both had an upturn trend within 2018-2022 and started to decrease after 2022.

Loans and Deposits Growth Rates in Georgia – Loans and deposits trajectories reflect economic business cycles. By November 2023, the total loans amounted to around 51.2 billion GEL. The total deposits were 51.9 billion GEL by the same date. In Georgia, the loans and deposits had an increasing trend within the last 5 years. The average growth rates of loans and deposits were 14.5% and 17.4%, respectively, during the 2019-2022 period.

Loans and Deposits De-dollarization in Georgia – Dollarization is a monetary problem that impedes monetary policy transmissions mechanisms' effectiveness. Georgia is characterized with a high dollarization level. However, it had a downturn trend since launching the so-called de-dollarization strategy from 2017. For instance, from 2018 to 2022 the dollarization rates of loans and deposits declined by 12.7 p.p. and 9.1 p.p. respectively. By November 2023, the dollarization level for the total loans was 45.5%. The same variable for the total deposits was 51.6% in 2023.

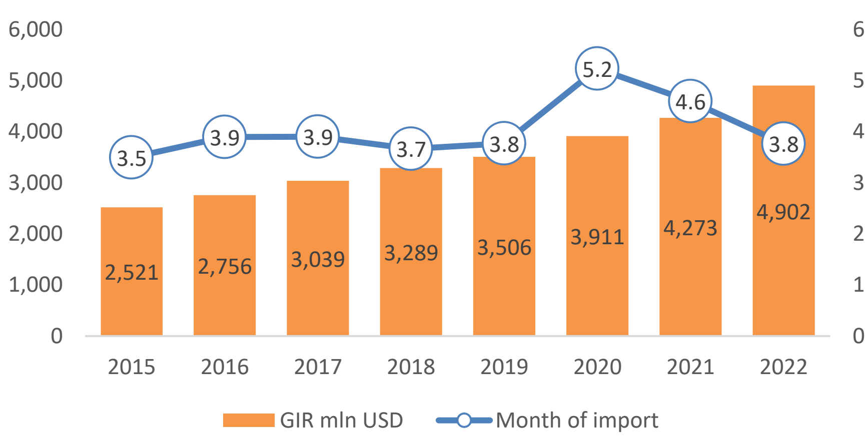
Figure 9. Dollarization Coefficients in Georgia, %



Source: NBG

FX Interventions in Georgia - To absorb very significant pressure of capital inflows from Russia, triggered by war in Ukraine, on the domestic foreign exchange market, NBG bought about USD 1.5 billion in 2022-2023, bringing gross official reserves back into the adequate range according to IMF ARA metric.

Figure 10. NBG Gross international reserves



Source: NBG

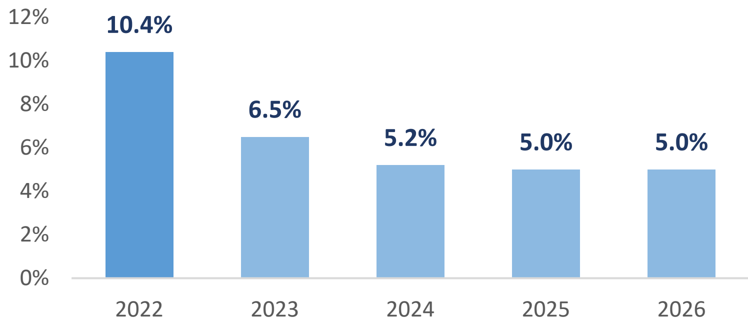
Gross International Reserves in Georgia - Georgia managed to increase the international reserves during the last 5 years. As of November 2023, international reserves totalled 5.1 billion USD, and there is an anticipation of further growth. By 2026, it is projected that the international reserves will reach approximately 6.9 billion USD. Over the period 2019-2022, the international reserves demonstrated an average annual growth rate of 10.5%.

3.2 Medium-term macroeconomic scenario

Three economic forecast scenarios have been outlined: basic, positive, and negative. These scenarios are constructed based on the varying degrees of influence posed by the risks identified in the following chapter, considering different probabilities of their materialization.

The post-pandemic rapid recovery of the global economy initially fuelled optimistic forecasts and a positive outlook for global indicators. However, the situation drastically shifted following Russia's invasion of Ukraine. Growth prospects took a hit, and heightened uncertainty emerged due to the ongoing war in Ukraine and the subsequent sanctions imposed on Russia.

Figure 11. Real GDP growth, medium-term macroeconomic scenario



Source: Geostat, MOF

Real Sector. After Russia's invasion of Ukraine in February 2022 and the onset of a full-scale war, concerns arose regarding several potential negative shocks, though only a portion of these materialized. Simultaneously, revenue from tourism saw a significant upturn because of migration, remittances surged, and a substantial resurgence occurred in domestic investment, culminating in a double-digit economic growth. This heightened economic activity resulted in growth rates of 8.0%, 7.8%, and 5.7% for the first, second, and third quarters of 2023, respectively, and 6.2 percent in October, averaging at 6.9% for the initial 10 months. Considering these factors, among others, a projected economic growth of 6.5% is anticipated for 2023 due to baseline scenario, assuming stable conditions prevail.

Table 2. Real GDP components in medium-term macroeconomic scenario

Components of real GDP, percent change					
	2022	**2023**	**2024**	**2025**	**2026**
Private consumption expenditure	-1,4	4,1	1,7	5,4	5,1
Government consumption expenditure	-1,9	16,5	8,0	4,2	5,3
Gross fixed capital formation	-24,4	43,2	15,7	2,7	2,6
Changes in inventories and net acquisition of valuables (% of GDP)	5,7	2,7	3,1	2,8	2,8
Exports of goods and services	35,9	1,3	8,0	5,6	5,5
Imports of goods and services	10,2	4,3	7,0	4,7	4,8

Source: Geostat, MOF

Labour Market. The labour market has exhibited resilience in the face of challenges, with positive trends anticipated to persist through 2023. Employment growth stood at 5.4 percent in 2022 and is forecasted to reach 2.0 percent in 2023. Projections indicate an average growth of 1.2 percent from 2024 to 2026. Meanwhile, the unemployment rate has showcased a declining trajectory. Expected to be at 16.6 percent in 2023, it is projected to gradually decrease to 15.7 percent by 2026.

Inflation. Since April 2023, the annual inflation rate has fallen below the targeted 3%, reaching an annual average of 2.5% by the end of the year. The 2023 inflation rate was mainly influenced by price changes for the food and non-alcoholic beverage, transportation and healthcare. At first, both changes were manly led by international price declining on the food and the oil products, while the decrease in healthcare prices was driven by the government's discretionary decision to increase citizens' access to cheaper medicines. In the medium term, it is expected that international food price changes will normalize. Moreover, the National Bank of Georgia is using its policy instruments (such as policy interest rate, open market operations etc.) to bring the inflation to the target level. Consequently, even with a slight increase in oil prices, headline inflation is projected to stabilize at the 3 percent target of National Bank of Georgia. Therefore, end-of period inflation is projected slightly above the target (Due to the base effect) level from 2024, while average inflation for 2024 is projected at 2.8 percent following 3.0 percent until 2027.

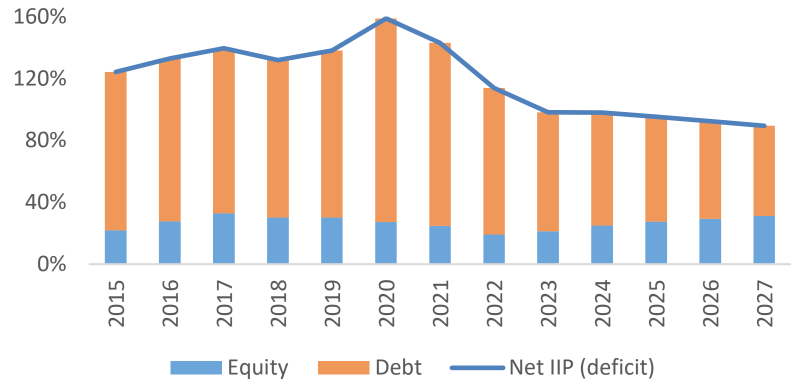
Considering the fact that Georgia is following the floating exchange rate regime, the Ministry of Finance is not making forecasts for the bilateral nominal exchange rates. For the calculation purposes, the medium-term projection for the exchange rate assumes it to be kept unchanged in the medium-term. Interest rates are projected to continue reduction and interest rate on loans is expected to decline by 1 p.p each year on average, reaching 11.4 percent by 2027, while interest rate on deposits will decline slower, leading further narrowing the spreads.

According to the baseline scenario, the **current account** deficit for the entire year of 2023 is expected to be 4.6% of GDP. This figure remains consistent with the deficit recorded in 2022 and is notably lower than the deficit observed in 2021 by 5.8 percentage points. Looking ahead, projections suggest a slight increase in the current account deficit in 2024, followed by a subsequent decrease, reaching 4% of the GDP in 2027. As for the year 2023, **revenue from tourism, as percent of GDP,** is anticipated to exceed the levels observed in 2019. Moreover, in the medium term, there is an expectation for a sustained upward trend in tourism revenue. Concurrently, projections suggest an increase in **exports** by 15.8% in USD for the year 2023, followed by a 7.9% growth in 2024.

External finances is considered as one of the main vulnerabilities for Georgian economy. Balance of goods and services (negative net export) remains the main source for the negative current account balance, even though current transfers will still be high - around 10 percent of GDP. Primary current account balance[12] is projected to decline in 2023, following slight increase and decline onwards, mainly due to the change in investment income. Another important thing to consider is how the International Investment Position (IIP) of the country is expected to change over time.

[12] Current account balance excluding investment income;

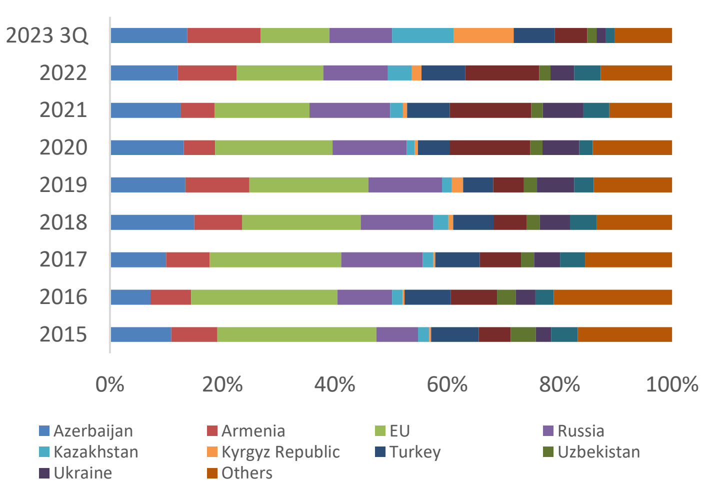
Figure 12. Net IIP (deficit), % of GDP



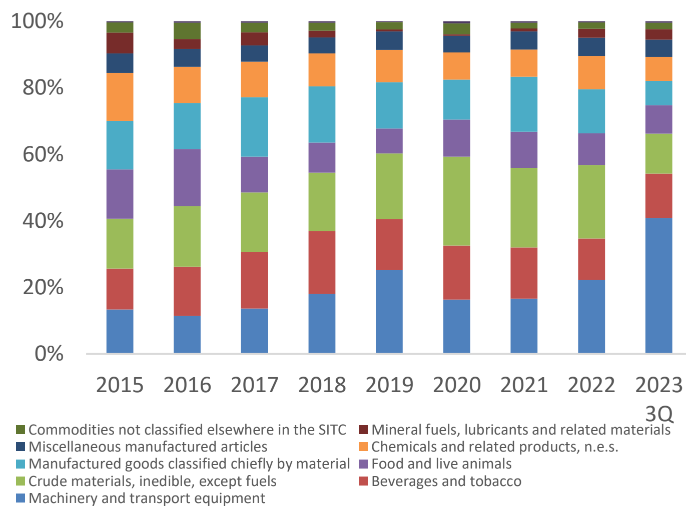
Source: NBG, Geostat, MOF

Net IIP to GDP ratio is projected to increase (reduce negative net IIP). Notably, this reduction will be predominantly contributed by reduction of net external debt as a percent of GDP. Therefore, the proportion of debt in the total IIP will be lower than in previous years. While the debt component remains relatively stable, there is an increase in both the nominal terms and the share of equity in total IIP financing. This shift suggests a changing composition in the sources of financing for the International Investment Position, with a greater reliance on equity financing.

Figure 13. Export by countries and products, share in total export, %



Source: Geostat



Source: Geostat

From the external sector perspective, it should be noted that the balance of goods poses a significant challenge, historically contributing to the Georgian Current Account deficit. Therefore, the analysis and monitoring of exports are deemed crucial for assessing external vulnerabilities. As the export performance shows some kind of diversification, but the main several export partner countries have the highest share in total export, and the main export products also continue to have the major share in export. Azerbaijan, Armenia and Russia are the main export destination countries together with the EU countries and they contributed around 50 percent of total export of Georgia. As for the products, Motor cars, Copper ores, Wine of fresh grapes, spirituous beverages, and Ferro-alloys contributed more than 50 percent of total Georgian export recently. Copper ores, Motor cars, and

Ferro-alloys are the main export products contributing around 40 percent in total export during 2018-2022.

Challenges exist for domestic exports, which started declining early in the year due to both real and price effects. Figure 13 reveals that the changes are mainly attributed to decreases in copper ores and Ferro-alloys, constituting a significant part of the Crude Materials component. In the first 11 months of 2023, domestic exports decreased by 24%, with these two products contributing 23 percentage points to the decline. This reduction is largely linked to reduced exports to Russia and China. Despite the challenges in 2023, there's an anticipation of a shift in export destinations from 2024, leading to the export of these products to different countries.

As a small open economy, international trade plays a crucial role in the ongoing development of Georgia, and the degree of trade openness accurately reflects the progress of this component. Starting at 94% in 2010, it increased to 135% in 2019. Despite a slowdown in 2020 due to the pandemic, there has been a recovery, and international trade is once again on an upward trajectory, soon expected to surpass pre-pandemic levels.

3.3 Alternative scenarios and risks

Considering the economic and geopolitical uncertainties in the region and globally, two alternative scenarios - “optimistic” and “pessimistic” are created together with the baseline scenario. Alternative scenarios differ from each other by the assumptions of probabilities of the risks explained below. Even though baseline scenario has the highest chance to materialize, there are some upside and downside risks which should be considered as well during the budget planning process.

Assessing risk factors is crucial given the continuing uncertainty resulting from the Russia-Ukraine war and the geopolitical tensions in the region. This significance arises from Georgia's economic dependence with Russia and Ukraine in trade, remittances, and tourism. On the other hand, the pressure on inflation in 2022, triggered by escalating international oil prices, remains a significant factor influencing the probabilities associated with these risks. It is crucial to note that these factors can exert both direct and indirect impacts on the likelihood of materialization of various risks. The analysis of these risk probabilities is rooted in the assumptions of the Ministry of Finance's economic forecasting model. These assumptions serve as the foundation for the development of alternative scenarios, allowing for a comprehensive evaluation of potential outcomes.

The risks include: Decrease in remittances; Worsening of global sentiments of tourism; A decrease in global trade turnover; Regional risks; Maintaining a tight monetary policy; Expected decline in world economic growth.

Decrease in remittances. After the pandemic and war, there was a significant boost in income from tourism and remittances. Together with general improvement, this increase was also caused by the migrants from Russia, Ukraine, and Belarus, and the money they spend. However, in a scenario where risks materialize, this positive trend is not expected to continue. There's an anticipation of a decline in the medium term, likely because migrants might leave, leading to a drop in their incomes. Additionally, a global economic slowdown is expected to contribute to this overall decrease.

Worsening of global sentiments of tourism. While there is a positive trend in the tourism sector, several risk factors appear in the medium term:

- A slowdown in global economic growth is expected to contribute to negative effects in tourism.
- Tourism is intricately connected to globalization, and a prevailing trend of delocalization is emerging as a constraining factor for the tourism industry.

A decrease in global trade turnover. The anticipated disruption of supply chains—combined with globally restricted monetary policies and inflation expectations—is expected to result in a decrease in the supply and exert an impact on exchange rates. In 2023-2024, world trade growth is expected to be slower than in 2022 and also below the pre-pandemic trade growth rate. In addition, the deterioration of the terms of trade and the increase in the price of food imports increase the risks of social insecurity and postpone the prospects of economic recovery.

Regional Risks. Russia's invasion of Ukraine in 2022 has significantly exacerbated the situation for vulnerable economies, intensifying the likelihood of unrealized risks. Additionally, the wide-ranging sanctions imposed on Russia also wield economic impacts on countries linked to its economy. Moreover, the escalated tensions between Armenia and Azerbaijan and in the Middle East further compound the potential effects of regional risks. These heightened tensions have prompted investor caution, leading to a reluctance in making new investments. Looking into the medium-term prospects, economic risks within our region stem from the following circumstances: Heavy reliance on oil and other raw materials in several countries; Substantial scarcity of food raw materials; Limited economic diversification; internal political issues and instability; prolonged adverse effects resulting from sanctions; Persisting frozen conflicts.

Maintaining a tight monetary policy. The Russia-Ukraine conflict and ensuing sanctions have spiked oil and food prices, disrupting supply chains reliant on these nations for agricultural goods and energy. This has led to global inflation surges. Despite recent stabilization efforts, ongoing conflict suggests continued inflation pressures in the medium term. The FED and ECB responded by raising interest rates to counter high inflation, impacting both developed and developing nations with increased inflation rates.

Expected decline in world economic growth. Even with a relative decrease in prices, global inflation remains elevated, potentially leading to social challenges worldwide. Anticipated economic growth reduction globally stems from decreased demand and negative supply shocks, posing the risk of both price hikes and economic slowdown. However, maintaining or raising interest rates by central banks to counter inflation might further dampen economic activity. Considering these factors, 2023 is expected to witness slight improvements in economic growth in developed countries, while some nations may experience a decline.

The heat map below shows the probability and impact of each abovementioned risks.

Table 3. Heat map for the expected risks

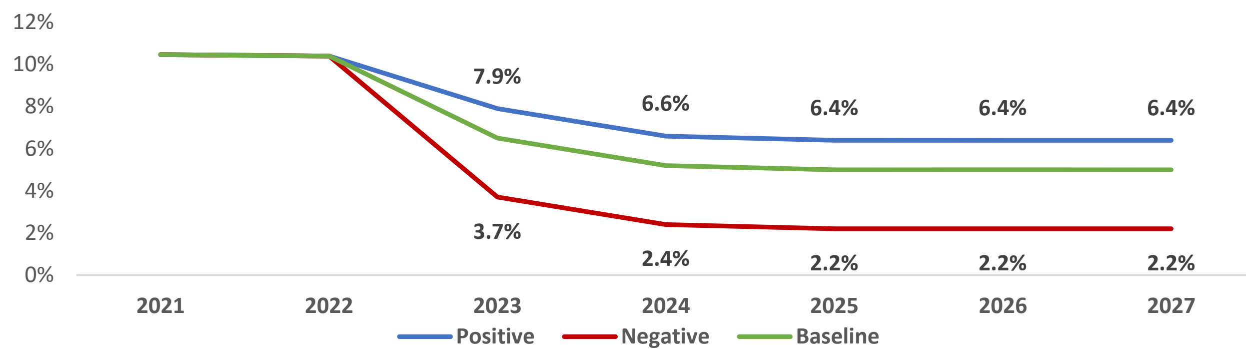
		Pobability of occurrence		
Impact		Low	Medium	High
	Low			
	Medium	Worsening of global sentiments of tourism	Reduction in global trade turnover; Maintaining a right monetary policy; Decrease in remittances	
	High		Possible global recession; Regional risks	

Source: MOF

In the **positive or optimistic scenario**, it is assumed that the geopolitical and regional risks outlined above will not materialize further. Furthermore, enhanced economic activity is expected to persist, sustained growth in the tourism sector is anticipated, and positive impacts from remittances are foreseen. In this scenario, economic growth for 2023 is projected at 7.9%, followed by a growth rate of 6.6% in 2024. Looking ahead to the medium-term, the average growth during 2024-2027 is estimated to be 6.4%. Moreover, due to lower oil prices, inflation is expected to reach the target level and other macroeconomic variables will improve too.

In the **negative or pessimistic scenario**, there is a high probability of the identified risks materializing. This scenario anticipates slower recovery in aggregate demand compared to the baseline, with a heightened realization of the risks discussed in this chapter. Additionally, the negative scenario projects sustained weakness in tourism demand in the upcoming years alongside a decrease in international cash inflows. Predictions for 2023 estimate economic growth at 3.7% - lower than in the baseline scenario, followed by a further decline to 2.4% in 2024. Looking at the medium-term outlook, the economy is expected to grow at an average rate of only 2.2% between 2024 and 2027. This prolonged decline in economic growth is attributed to the ongoing uncertainties stemming from the Russia-Ukraine war, contributing to an unstable economic forecast in the region. Monetary policy will be contractionary and even in the case of increasing remittances and income from tourism, the positive effects are expected to be comparatively lower.

Figure 14. Real GDP growth in baseline, positive and negative scenarios



Source: MOF

The positive and negative scenarios for the medium-term are created in a way that positive scenario reflects the positive shock on the GDP as well as the inflation, while pessimistic scenario includes negative shocks on both indicators. It shows that alternative scenarios are created from the demand side shocks. For example, under the baseline scenario, GDP growth is expected to be 6.5 percent and inflation will be at 2.6 percent. As GDP growth is projected at 7.9 percent on positive scenario, inflation is at 3.8 percent for 2023, while for the negative scenario, GDP growth is projected at 3.7 percent and inflation is at 1.4 percent. Inflation reaches to the target level on the baseline scenario, but is higher on optimistic (4.2 percent) and lower on pessimistic (1.8 percent) scenarios.

Regarding other key indicators, such as the budget deficit, it is projected to be below 3 percent, reaching 2.8 percent in 2023 and 2.2 percent in 2027. In the positive scenario, the deficit is expected to be 2.5 percent in 2023, declining further to 1.9 percent by 2027. Under the negative scenario, the budget deficit is forecasted to be 2.8 percent in 2023, decreasing to 2.7 percent by 2027. Notably, even in these alternative scenarios, the budget deficit remains below 3 percent, demonstrating the government's commitment to fiscal rules. In the medium term, the budget deficit is projected to be maintained below the 3 percent limit.

As for general government debt, it is anticipated to decrease from 38.2 percent to 37.1 percent from 2023 to 2027 under the baseline scenario. In the optimistic scenario, government debt is expected to decrease from 37.2 percent to 32.8 percent during the same period. Conversely, under the pessimistic scenario, there is an upward trend in debt, increasing from 39.7 percent to 45 percent.

4. FISCAL FRAMEWORK

4.1. Policy strategy and medium-term objectives

Fiscal Objectives

Main Fiscal objectives are formulated as part of the regular medium-term and annual budget planning through active discussions between different government entities (MOF, MOESD, Government Administration, line ministries), NBG and Parliament, based on the analysis of the past and current global, regional and country specific macroeconomic and fiscal indicators. The Medium-term Budget Framework (Basic Data and Directions (BDD) document) is updated annually on a rolling basis and includes series of updates during the year starting from updates of the aggregate baselines early in the budget cycle up to the updates of program level estimates to be implemented by line ministries and other spending units as part of the budget package submitted to the parliament.

Fiscal Objectives are defined based on the fiscal space available as a result of the Macro-fiscal analysis and policy priorities defined by the Government in different sectors. Implementation of Medium-term planning of the Expenditure Framework, started in 2005 with the objective of presenting the state budget revenue and expenses in a multi-year perspective (planned year and + next 3 years) and related them to the strategic goals and objectives of the country.

General limitations for Fiscal objectives are set by the Fiscal rules defined by the organic law "Economic Liberty Act". Within the specific medium-term time frame, the Government agrees on fiscal objectives (Deficit and Debt parameters) based on the needs of macro-fiscal sustainability whether to expand or consolidate while planning expenditure and revenue policies.
The government's long-term strategy envisions a fiscal policy designed to sustain a high rate of economic growth and macroeconomic stability. The objectives of this fiscal policy include:

- ✓ Directing investments towards the development of infrastructure and employment of the population, as well as financing priority areas such as pensions, the social security, healthcare, education, agriculture etc.
- ✓ Maintaining the budget deficit and government debt within the limits, aiming to contribute to the economic stability of the country.
- ✓ Further strengthening Public Finance Management for enhanced efficiency and effectiveness.

This strategic fiscal approach highlights the government's dedication to promoting economic growth, maintaining stability in macroeconomic factors, and properly distributing resources to key sectors for the holistic development and well-being of the citizens.

4.2. Budget implementation in 2023

The 2023 budget was initially planned with a 5% real economic growth forecast, encompassing the tax revenue of 18.9 billion GEL, and a budget deficit set at 2.9% of GDP (Table 4) However, in the first half of the year, the economic trends were higher than predicted: Exports increased by 19.3% reaching 3.1 billion dollars; Tourism revenues increased by 57.9% surpassing 1.8 billion dollars, a 23.9% increase from the first half of 2019 (before the pandemic); Foreign direct investments grew by over 10% and amounted 1.1 billion dollars; These positive indicators led to a 7.6% real economic growth for Georgia in the first half of 2023

Despite a conservative economic growth projection for the second half of the year, the updated forecast for 2023 was adjusted to 6.5%, exceeding the initial 5% projection. It is not only helped in funding additional identified needs in 2023 but also enabled a decrease in government debt borrowing. However, the change in the stock of cash has been utilized.

According to revised projections: The real economic growth forecast for 2023 has been raised to 6.5%; The GDP deflator forecast has been reduced to 3.1%; The inflation rate has decreased amounting 2.6%; The nominal GDP stands at 78.8 billion GEL; Tax revenues of the general government budget have reached 19.4 billion GEL.

According to the Organic Law of Georgia "On Economic Freedom", the **Budget Deficit** was planned at 2,346 million GEL, constituting 3.0% of the projected GDP. However, according to preliminary data, the actual deficit in 2023 amounts to 2.0% of GDP. The Government debt limit has been set at 38.4% of GDP, while PPP liabilities, as of December 31, 2022, are estimated to be 0.1% of GDP. Overall, the projected Government debt level is 38.5% of GDP in 2023.

Table 5. Initially approved and amended budget plans for 2023

	2023 Approved (Dec, 2022)[13]	2023 Plan (Amended)	(+/-)
Revenues	24 086	24 951	865
incl. Taxes	18 890	19 410	520
Expenses	20 121	20 701	580
Operational Balance	3 965	4 250	285
Net acquisition of nonfinancial assets	6 277	6 596	319
Net Lending/borrowing	-2 312	-2 346	-34
Change in Financial Assets	-172	-182	-10
Change in Liabilities	2 363	2 086	-277
Balance	223	-78	-301
GDP nominal (million GEL)	79 685	78 787	-897
Deficit (% to GDP)	-2.9	-3.0	-0.1

Source: MOF

[13] https://mof.ge/en/5594 (for consistency of data, General Government State-own enterprises' data are added to the official data prepared in 2022 as according to the Budget Code of Georgia parameters of State-Owned Enterprises have been integrated into the General Government fiscal framework since 2023).

It is noteworthy that, in recent years, the Georgian government, with support from IMF TA, has consistently worked towards enhancing fiscal transparency and discipline. As part of these efforts, since 2023, General Government coverage has been expanded by incorporating State-owned enterprises classified under General Government into the Government Finance Statistics; therefore, all information about General Government numbers includes SOEs data as well. Beginning in 2023, according to the Budget Code of Georgia (Article 114[6]) the Ministry of Finance has been collecting information from these State-Owned Enterprises on a quarterly basis. Furthermore, as of January 2026, there will be full integration of State-Owned Enterprises into the treasury account, ensuring a continuous source of permanent and accurate data.

The allocation of total spending across different areas, classified by functional classification (GOFOG), is as follows: General public services – 8.4%; Defence – 5.2%; Public order and safety – 7.6%; Economic affairs – 30%; Environmental protection – 2.6%; Housing and community – 4.1%; Health – 6.7%; Recreation, culture and religion – 3.5%; Education – 10.8%; Social protection – 21.2%.

In parallel with the increase in revenues, additional funding have been allocated in almost every direction during 2023, including:

- ✓ Financing social protection and health care increased by 250.0 million GEL, incorporating enhanced allocations for pensions and social assistance for children;
- ✓ Education funding increased by more than 47.0 million GEL, including additional funding for construction-rehabilitation of public schools;
- ✓ Culture and Sport financing increased by 34 million Gel;
- ✓ Additional 20 million GEL was earmarked to initiate the construction of the required water facility for the Anaklia port;
- ✓ About than 100 million GEL was additionally allocated to fund infrastructure projects in the municipalities as well as to finance the liquidation of consequences of natural disaster. Etc.

2023 State Budget Law Packages are available on the Ministry of Finance webpage[14]. Budget execution reports (3, 6 and 9 months)[15] are available on the MOF webpage; Citizens Guides on draft state budget and state budget law are prepared and available on the MOF webpage. In addition, small brochures on state budget law, execution reports and the Basic Data and Direction document are available on the MOF webpage[16].

[14] https://mof.ge/5603

[15] https://mof.ge/5645

[16] https://mof.ge/mokalakis_gzamkvlevi

4.3. Budget plans for the ERP submission year - 2024

The Main Economic Parameters

The anticipated economic growth for 2024 is set at 5.2%. The projected GDP per capita is over 8,500 USD, with an expected increase to nearly 10,000 USD by 2026. The average inflation rate is projected at 2.8%. The planned budget deficit is 2.5% of GDP, and the government debt is expected to be 38.1% (including PPP liabilities - 0.1% of GDP).

Considering the above-mentioned parameters, total revenue (Taxes, grants, other revenues and privatization proceeds) of general government for 2024 is projected as 28.3 billion GEL. Taxes, constituting the main revenue source, are projected to amount to 22.1 billion GEL, reflecting a 2.6 billion GEL increase from 2023. Additionally, grants are expected to total 400.0 million GEL, other revenues at 5.5 billion GEL and privatization proceeds at 359.0 million GEL. The nominal budget deficit is calculated at (-2,177.0) million GEL, equivalent to 2.5% of GDP.

It worth to mention that for 2024 revenue measures out of robust economic growth, will be effected by different revenue related discretionally policy changes as well.

- ✓ In the financial sector, the corporate income tax (CIT) structure has undergone a change, with the merging of corporate income tax (15%) and distributed dividends tax (5%) into a single 20% CIT rate starting from 2023. This restructuring is projected to result in an additional approximately 110 million GEL in 2023, and the impact is expected to be permanent.
- ✓ Starting from 2023, we have made a slight adjustment to the profit tax calculation mechanism for the banking sector. The loss reserve, which decreases the tax base, will now be calculated using the IFRS methodology instead of the NBG methodology. This alteration is expected to impact the budget revenue for 2024, considering the specific nature of Georgia's profit tax. The estimated temporary effect on budget revenue is approximately 170 million GEL, and there is an anticipation of mobilizing an additional permanent amount of about 40 million GEL starting from 2024.
- ✓ Additionally, starting in 2024, there have been changes in the rates related to the gambling sector: the Gross Gambling Revenue (GGR) rate has increased from 10% to 15%, and the withdrawal fee has risen from 2% to 5%. It is estimated that these adjustments will mobilize an additional 400 million GEL in 2024, and this impact on the budget revenue is expected to be permanent.

Allocation of funds for key areas

Consolidated General Government spending is anticipated to reach 32.2 billion GEL, comprising the following components: Current spending – 23.2 billion GEL (27% of GDP); Increase of non-financial assets[17] - 6.7 billion GEL (7.8% of GDP).

Nearly 30% of the total spending, equivalent to 8.6 billion GEL, is earmarked for financing social and healthcare programmes. An allocation of 13% or 3.6 billion GEL is designated for the funding of Education and Science, while 10%, representing 2.9 billion GEL, is allocated for defence and security. An equal amount is projected for financing state debt service and repayment. Additionally, 1.2 billion GEL is designated for environmental protection and agriculture programmes, and 940 million GEL is allocated for culture, sports and youth financing.

In total, over 7 billion GEL is earmarked for infrastructure projects. Among these, 2.1 billion GEL is allocated for projects focusing on the development of the abovementioned areas, and 4.9 billion GEL, constituting 17% of total spending, is dedicated to financing other directions such as road construction, municipal water supply, and other capital expenditures.

Social spending for 2024 is allocated around 6.5 billion GEL (7.6% of GDP), covering pensions and state compensations amounting to 3.9 billion GEL. Pension indexation has been in effect since 2021, with the State Pension Law determining the annual calculation based on inflation and real economic growth. Notably, state pensions have seen an increase of over 65% for pensioners aged 70 and above, reaching 415 GEL (500 GEL in high mountain areas) and over 40% for pensioners under the age of 70, reaching 315 GEL (378 GEL in high mountain areas) since 2021. About 1.5 billion GEL is allocated to the Social Assistance programme (social assistance of under poverty line, disabled, survivors, housing of homeless, large families, war veterans etc.); more than 76.0 million GEL will be used to finance Social rehabilitation and child care programme, 430.0 million GEL is allocated for co-financing pension fund, etc.

Health care programmes receive approximately 1.8 billion GEL, with more than half of this amount (1.3 billion GEL) directed towards financing the Universal Health Care programme.

For housing for internally displaced people (IDPs), around 235.0 million GEL is allocated in 2024. The plan encompasses building/ purchasing houses for 13,000 displaced families over the next three years.

Education and Science - Over 3.5 billion GEL (4.0% of GDP) has been allocated for financing various programs, including secondary education (through school vouchers), high and vocational education programs, as well as infrastructure development. In 2024, over 450 million GEL is earmarked for financing school construction/rehabilitation, 267.0 million GEL for kindergarten

[17] It considers both: increase of non-financial and financial assets.

construction/rehabilitation, and 57.0 million GEL for the construction/rehabilitation of vocational institutions; Preschool education – 440.0 million GEL; High education – 113.0 million Gel;

Culture, sport and youth - about 940 million GEL is allocated to finance cultural development programs, protection of cultural heritage, financing of museums, cultural infrastructure, support for mass and high achievement sports, children's sports and clubs, youth support, sports infrastructure, including the infrastructure of the 2025 Winter Youth Olympics, and athlete awards and scholarships, etc.

Environmental Protection - More than 650.0 million GEL is allocated in this direction in 2024. Environmental protection programmes include purchasing and installation of additional meteorological stations, detailed assessment of possible hydro meteorological and geological hazards in glacial valleys and geological survey of large landslide areas across the country and installation of a modern monitoring system to strengthen early warning and prevention capabilities; Management of forestry systems and protected areas, solid waste management and others.

Agriculture - About 579.0 million GEL is allocated for agricultural programmes in 2024, including: the preferential agro-credit programme, co-financing of equipment, co-financing of processing and storage enterprises, viticulture-winemaking programme, food safety and plant protection, modernization of reclamation systems, dairy modernization, and agro insurance, and others.

Other sectors of Economy - Several programmes are implemented in 2024 for economic development:

- ✓ Small and medium-sized business promotion activities, including loan subsidies for the production sector, credit-guarantee schemes and small grants programmes - 300.0 million GEL;
- ✓ Development innovations and technologies 81.0 million GEL including the internetization of villages - 53.0 million Gel;
- ✓ Construction of power transmission lines - 120 million GEL,
- ✓ For research works of the new power transmission line of the Black sea 5.0 million GEL is allocated;

Tourism Infrastructure - To promote tourism, 236.0 million GEL is provided in 2024. This includes 191.0 million GEL will for the construction of tourist infrastructure, part of new 5-year programme with a total cost 1 billion GEL. This programme includes the renovation of central districts and creation of tourist attractive spaces in various municipalities.

Anaklia port and airports - About 50.0 million GEL is provided in the 2024 budget for the construction of the Anaklia port infrastructure; About 67.0 million GEL is allocated for financing airports in 2024.

Road Infrastructure - For road infrastructure construction/rehabilitation 1.9 billion GEL is allocated in 2024 including the construction of the East-West highway;

Municipal infrastructure - Over 1.8 billion GEL is allocated to the construction and rehabilitation of municipal infrastructure.

Water supply and Sanitation - In 2024, 582.0 million GEL is allocated to water supply and drainage projects.

Defence and Security - More than 2.9 billion GEL is allocated to finance defence and security in 2024, including, the development of defence armaments and infrastructure.

4.4. Medium-term budgetary outlook

According to the Georgian medium-term framework, both the budget deficit and the debt-to-GDP ratio are projected to stay below the fiscal rules thresholds of 3% and 60% of GDP, respectively. Over the medium term, the public debt is expected to fluctuate around 38%, while the budget deficit will be close to 2%. This policy aims to establish a fiscal buffer that ensures fiscal sustainability in the face of any macro-fiscal shocks

Revenue. In 2025-2026, the primary sources of Georgian budget revenue continue to be tax revenue, constituting approximately 80% of the total revenue. It's worth noting that during this period, the Profit Tax (CIT) and Personal Income Tax (PIT) to GDP ratio are experiencing a slight increase. This uptick is attributed to the fiscal policy reforms outlined in Chapter 4.3, most of which are directly related to these two indicators.

Expenditure. Total expenses are projected to be maintained around 27% of GDP in the medium term, with a slight shift in composition to address the various challenges faced by Georgia. Notably, the public sector salary policy has led to an increase in employee compensation. Conversely, there is a decreasing trend in the purchases of goods and services. Starting from 2023, due to increased interest rates, interest payments on both domestic and foreign debt have risen. However, in the medium term, there is an expectation that these payments will stabilize and remain below 2% of GDP. All other items are relatively stable throughout the duration of the programme.

In terms of the acquisition of non-financial assets, during the observed period, substantial funds will be allocated to the capital budget to stimulate economic growth through investments in infrastructure and other significant development projects. In the medium term it remains at a high level, but there is a declining trend in the ratio. This trend is primarily influenced by the completion of significant capital projects, such as the east-west highway, in 2024. In the medium term, non-financial assets are maintained around 7% of GDP.

Table 6. Main Fiscal indicators 2018-2027

% of GDP	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Plan	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Total Revenue	**28.7**	**28.3**	**29.2**	**29.2**	**30.9**	**31.4**	**32.6**	**32.0**	**31.4**	**31.1**
Taxes	**23.6**	**23.2**	**22.3**	**22.3**	**24.1**	**24.5**	**25.6**	**25.6**	**25.3**	**25.3**
Personal Income Tax	7.3	7.1	6.8	6.3	7.0	7.1	8.0	7.9	7.8	7.8
Profit Tax	1.7	1.8	1.9	1.7	2.7	2.9	3.1	3.2	3.2	3.2
Value Added Tax (VAT)	9.9	10.6	9.8	10.0	10.3	10.5	10.6	10.8	10.7	10.8
Excise tax	3.3	3.1	3.3	3.1	2.8	2.7	2.8	2.6	2.5	2.4

% of GDP	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Plan	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Custom Duties	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Property Tax	1.0	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.7	0.7
Other Taxes	0.3	-0.5	-0.5	0.2	0.3	0.4	0.2	0.2	0.2	0.2
Social contributions	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Grants	**0.8**	**0.7**	**0.8**	**0.6**	**0.4**	**0.4**	**0.5**	**0.4**	**0.3**	**0.3**
Other receipts	**4.4**	**4.4**	**6.2**	**6.3**	**6.4**	**6.6**	**6.4**	**6.0**	**5.7**	**5.5**
Total expenses	**23.3**	**23.2**	**29.9**	**27.8**	**24.8**	**26.1**	**27.0**	**26.8**	**26.8**	**26.8**
Compensation of employees	**4.6**	**4.5**	**5.2**	**4.6**	**4.3**	**4.9**	**5.1**	**5.1**	**5.2**	**5.3**
Purchases of goods and services	**4.4**	**4.3**	**6.4**	**6.3**	**5.9**	**5.9**	**5.9**	**5.7**	**5.6**	**5.6**
Interest	**1.2**	**1.2**	**1.6**	**1.3**	**1.1**	**1.5**	**1.8**	**1.8**	**1.9**	**1.8**
Foreign	0.6	0.7	0.7	0.5	0.3	0.7	0.9	0.9	0.8	0.8
Domestic	0.6	0.6	0.9	0.9	0.7	0.9	0.9	1.0	1.0	1.0
Subsidies	**1.9**	**2.0**	**2.5**	**2.1**	**2.3**	**2.6**	**2.6**	**2.4**	**2.4**	**2.4**
Grants	**0.0**	**0.1**	**0.1**	**0.0**	**0.1**	**0.0**	**0.0**	**0.1**	**0.1**	**0.1**
Social benefits	**8.4**	**8.6**	**11.3**	**10.6**	**8.8**	**8.9**	**9.1**	**9.3**	**9.2**	**9.2**
Other expense	**2.8**	**2.6**	**2.8**	**2.8**	**2.3**	**2.3**	**2.5**	**2.4**	**2.4**	**2.4**
Net operating balance	**5.5**	**5.1**	**-0.7**	**1.4**	**6.1**	**5.4**	**5.5**	**5.1**	**4.6**	**4.3**
Net Acquisition of Nonfinancial Assets	**6.1**	**7.7**	**8.4**	**7.7**	**8.3**	**8.3**	**8.0**	**7.4**	**6.7**	**6.5**
Acquisition	6.6	8.2	9.0	8.5	9.0	8.8	8.5	7.8	7.0	6.8
Disposal	-0.5	-0.4	-0.5	-0.7	-0.7	-0.5	-0.4	-0.3	-0.3	-0.3
Net lending / borrowing	**-0.7**	**-2.6**	**-9.1**	**-6.3**	**-2.2**	**-3.0**	**-2.5**	**-2.3**	**-2.2**	**-2.2**
Net acquisition of financial assets	**1.4**	**0.2**	**0.1**	**-0.1**	**0.3**	**-0.2**	**-0.1**	**0.1**	**0.2**	**0.2**
Net incurrence of liabilities	**2.5**	**2.8**	**12.9**	**4.2**	**3.7**	**2.6**	**2.1**	**2.3**	**2.2**	**2.2**
Domestic	0.8	1.8	4.1	-0.6	1.8	1.6	1.6	1.6	1.6	1.5
Foreign	1.7	1.0	8.9	4.8	2.0	1.0	0.5	0.7	0.6	0.6
Net change in the stock of cash (+ increase)	**0.4**	**-0.1**	**3.8**	**-2.0**	**1.3**	**-0.1**	**-0.3**	**-0.1**	**-0.1**	**-0.2**
Balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Nominal GDP	**44,599**	**49,253**	**49,267**	**60,003**	**72,266**	**79,350**	**85,981**	**92,988**	**100,567**	**108,763**
Debt to GDP ratio	**38.9**	**40.4**	**60.2**	**49.7**	**39.5**	**38.2**	**38.0**	**37.8**	**37.6**	**37.1**

Source: MOF

From the revenue and expenditure side during 2025-2026 there is no expected to have any discretionary policy measures, unlike the 2024 while profit tax system changes in financial sector had 0.2 positive one time effect on the revenue.

Starting from 2022, the Ministry of Finance is estimating Income (both Corporate and Personal) and Value Added **Tax expenditures,** which covers 85 of the tax revenues. According to the budget code, tax expenditure report is part of state budget law package submitted to Parliament of Georgia and is available on the MOF webpage[18]. In addition, there is a plan to assess each tax expenditure items individually, allowing the government to evaluate their efficiency and optimize them in case of a need. In 2024, there is a commitment to publish tax expenditure analyses related to the agriculture sector. Based on the government's strategy - "Vision 2030", there are plans to publish at least one cost-benefit type of report for individual tax expenditure items.

With the help of IMF technical assistance, Ministry of Finance in finalizing **Medium Term Revenue Strategy** (MTRS) document in the first half of 2024. The document will addresses the main challenges that the state budget may encounter in the medium and long term. It identifies various programs, policy directions announced by the Government of Georgia (GoG), or internationally assumed obligations that might play a significant role in shaping future budget expenditures. The document will also discuss general economic trends that might contribute to increased pressure on long term fiscal sustainability.

4.5. Structural balance

(Cyclical component of the deficit, one-off and temporary measures, fiscal stance)

Structural balance evaluates the long-term sustainability of public finances, which can be significantly influenced by economic cycles and one-off events. In economic downturns, government revenues often decline with falling incomes, while public spending tends to increase as more people claim social assistance or unemployment benefits.

The structural balance of the general government serves as a gauge for fiscal balance, considering the economic cycle and one-off revenues or expenditures. It represents the budget balance that a government would experience under its existing policies if the output is at its potential level and production factors are utilized at their natural rate. In cases where a government has a structural (primary) deficit, it implies that it would still incur a (primary) deficit even when the economy is at full potential. This allows to estimate sustainability of the current tax and spending policies, and make public finances to act as an automatic stabilizer.

Determination of structural balance goes in three steps. First step is to estimate cyclical position of the economy, and second step is to assess elasticities of revenue and expenditure items relative to business cycles. First two steps are responsible for cyclically adjusted fiscal balance. Cyclically

[18] https://www.mof.ge/en/4757

adjusted fiscal balance is not yet structural balance, because it can still include some revenue or expenditure items, which can have significant effect on the direction or scale of fiscal position. Third step addresses this issue, by excluding one-off items from fiscal balance. After stripping off both cyclical and one-off factors from fiscal balance structural balance is derived.

Estimating potential GDP

To access the cyclical position of Georgian economy, output gap is estimated using production function with Kalman filter. As EU methodology suggests, the potential values of production function components are estimated and then "plugged" in Cobb-Douglas production function. Per EU methodology capital stock in real terms is not filtered, since using its absolute value implies that capital is fully utilized, thus it is operated on its potential level. For TFP, it is first estimated as Solow residual from Cobb-Douglas production function. Unlike the EU methodology[19], which recommends the use of capacity utilization within a Kalman filter to estimate the Total Factor Productivity (TFP) gap, TFP in the case of Georgia is decomposed into trend and gap components within a Kalman filter. This adaptation is necessary due to the unavailability of capacity utilization data for Georgia, and the decomposition is carried out without the inclusion of additional variables in those equations. Same applies for labour, it is decomposed into trend and gap within Kalman Filter, since labour data has undergone several methodological advancements in previous years, and using any theoretical equations to estimate NAIRU with those theoretical equations fails in empirics. Then Philips curve is included into the model, to link output gap with inflation. Production function model equations are in log-linear form,

$$y_t = TFP_t + \alpha l_t + (1-\alpha)k_t \qquad 4.1$$

$$y_t^{pot} = TFP_t^{pot} + \alpha l_t^{pot} + (1-\alpha)k_t \qquad 4.2$$

$$\pi_t = \beta_1 \pi_{t-1} + (1-\beta_1)\pi_t^{tar} + \beta_2 y_t^{gap} + \epsilon_t^{\pi} \qquad 4.3$$

Where y_t Represents real GDP, TFP_t-Total factor Productivity, l_t-labour k_t - capital stock. Equation 4.3 represents a simple Phillips curve connecting the Consumer Price Index (CPI) inflation to the output gap, bringing more economic sense into the model. Each variable, except capital are split into trend (potential) and gap parts:

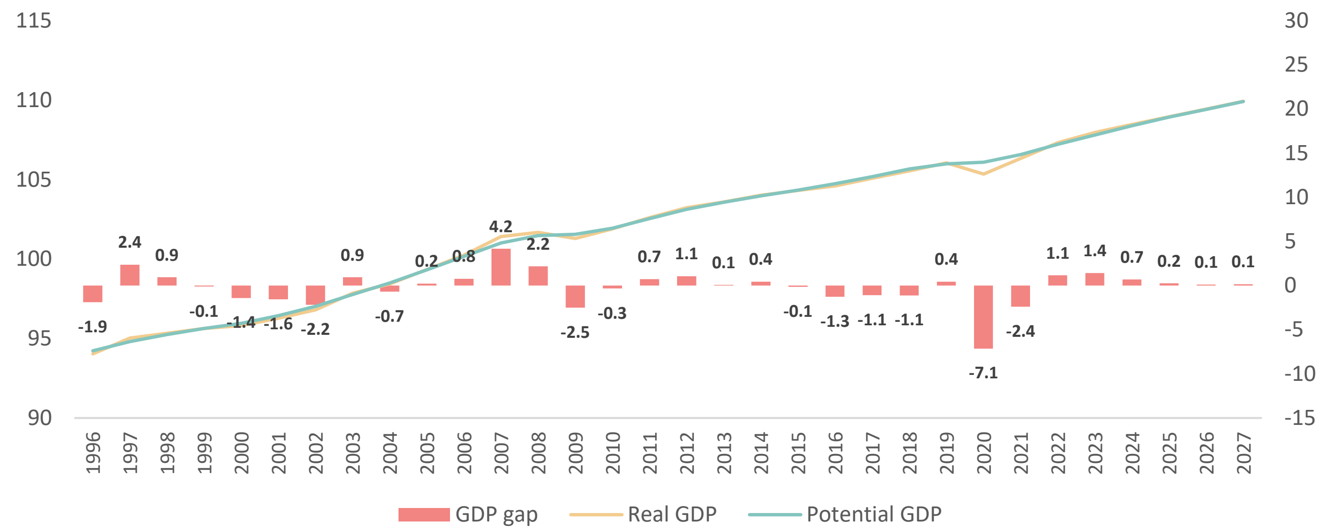
$$y_t = y_t^{pot} + y_t^{gap} \qquad 4.4$$

Parameters of equations are calibrated based on national accounts, for parameters, which are not calibrated, including steady state values of potential growth rate of variables is estimated within Kalman filter framework using MLE method.

[19] https://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp535_en.pdf

Potential GDP growth development can be split into different periods. First period is 1997-2003 years, when potential GDP growth was moderately high, after 2003 due to structural reforms potential GDP growth accelerated, but it was short-lived. Due to Global Financial crisis and Russia-Georgian war, and occupation of territories, investments decreased sharply and potential GDP growth decelerated. After recovery from war and global financial crisis, potential GDP growth has gone through structural change, and stabilized around 5 percent.

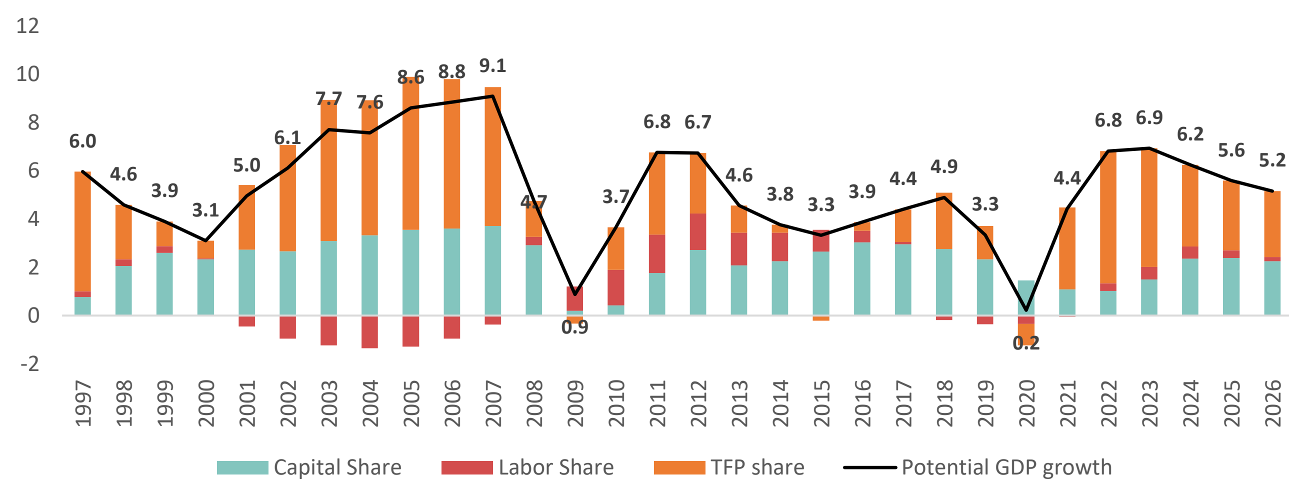
Figure 15. Real GDP, Potential GDP and GDP gap (deviation from real GDP)



Source: Geostat, MOF calculations

During the period of COVID-19, due to harsh measures to contain spread of disease, economy's ability to produce decreased, but as soon as restrictions were lifted, potential GDP growth followed it. Since capital stock did not change much during the period, and labour growth dynamics were already at low point, all those shocks were absorbed by TFP.

Figure 16. Potential GDP growth decomposition



Source: Geostat, MOF calculations

Mainly potential growth prior global financial crisis and war was driven by TFP and capital, both standing out with high growth values, while labour contributed negatively. In the period of economic downturn, potential GDP composition changed drastically, labour became main contributor to the growth, capitals share become near zero, while TFP became negative. In the following years capital's share took some time to accelerate, TFP became once again main driver of growth, but its effect diminished over time and got replaced by capital, which needed some time to get the momentum after the crisis, and prior to COVID-19 remained main driver of potential GDP growth. COVID-19 crisis was different in nature, compared to previous one, since it was not driven by economic fundamentals and rather was caused artificially, to contain spread of virus, investments did not get affected much, and even in 2020 it contributed positively to potential GDP, while both labour and TFP played negative role. In the following years, when restrictions got gradually lifted, TFP increased, while labour took some time to catch up. Following the invasion of Russia into Ukraine, exogenous factors came into the play, which further boosted the economic growth, which led to positive output gap, and since those factors did not accelerated investments much, the growth got absorbed by TFP. Going forward, potential GDP growth is above real GDP growth, meaning that GDP gap is become less positive and eventually closing in 2028.

Estimating structural budget

After assessing economic position, next step is to estimate cyclically adjusted budget, which is estimated using bottom-up approach. Instead of using aggregated revenues and expenditures and corresponding elasticities to GDP gap, disaggregated revenue and expenditure data is adjusted for business cycle by following formula:

$$\mathbb{X}_t^{CA} = \mathbb{X}_t \left(\frac{\bar{Y}_t}{Y_t}\right)^{\epsilon^{\mathbb{X}}}$$

Where $\mathbb{X}$ is different fiscal balance items, which includes - Personal income tax, Profit tax, total VAT, VAT on imports, excise on territory, excise on imports, import tax, property tax on land, property tax (other), other taxes. For expenditures, just two items are identified as weakly cyclical – Social expenditures and other expenditures. Other types of expenditures and revenues are indifferent from business cycle. $\epsilon^{\mathbb{X}}$ is elasticity of corresponding variable to GDP gap. After cyclically adjusting fiscal variables, they are then added up to estimate total primary deficit/surplus. To estimate $\epsilon^{\mathbb{X}}$ error-correction method (ECM) of estimation is employed.

To arrive from cyclically adjusted balance to structural balance, it is important to identify and exclude the one-off items from the balance. The one-off operation is large non-recurrent fiscal operations with no implication for fiscal sustainability and at best very limited impact on economic activity. A typically characteristic of one-offs is that their impacts on fiscal balances are disproportionally large in the year when the operations are conducted, with subsequent yearly impact either nil or far smaller. Their longer-term effects sometimes run in the opposite direction: in the extreme case, the short-term impacts will eventually be nullified.

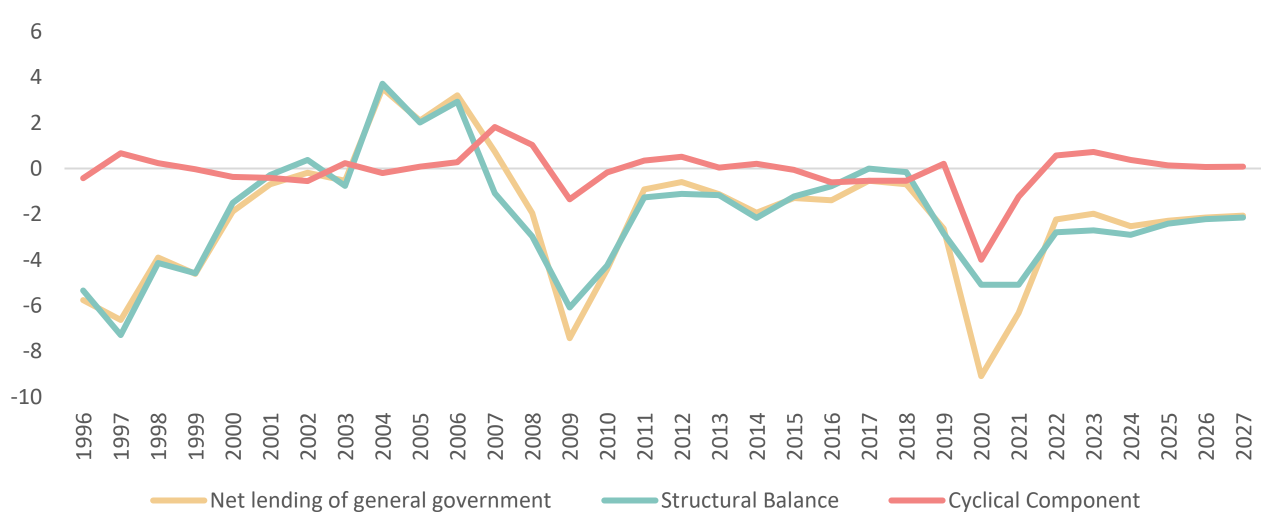
Sometimes it is very hard to determine whether the operation is one-off in nature or not. For example, privatization in many cases can be seen as one-off measure, because you can't privatize one property twice. However, in case of Georgia privatization has structural pattern and cannot be seen as one time action, since the privatization of public property is a one of the policy objectives and every year it has its steady path in fiscal revenues. It is even harder to determine the one-off operations for expenditures, since it is often case that one time operation than becomes permanent.

The analysis for Georgia during the program period encompasses various items:

- In 2022, Georgia was still fighting with **COVID-related issues**, and the budget allocated 548.5 million GEL for these purposes. It amounts 0.8% of GDP and 96 of it was spent health related issues. This is consider as a one-off and it influences positively on the structural budget.
- Starting from 2023, we have made a slight adjustment to the **profit tax calculation mechanism** for the banking sector. The loss reserve, which decreases the tax base, will now be calculated using the IFRS methodology instead of the NBG methodology. This change will impact the 2024 budget revenue, given the nature of Georgia's profit tax. The major part of this impact is considered a one-off factor, as the changes are associated with the stock variable. The estimated one-off influence amounts to 170 million GEL (0.2% of GDP) and has a negative effect on the structural budget.

Removing those items from cyclically adjusted budget structural budget is determined.

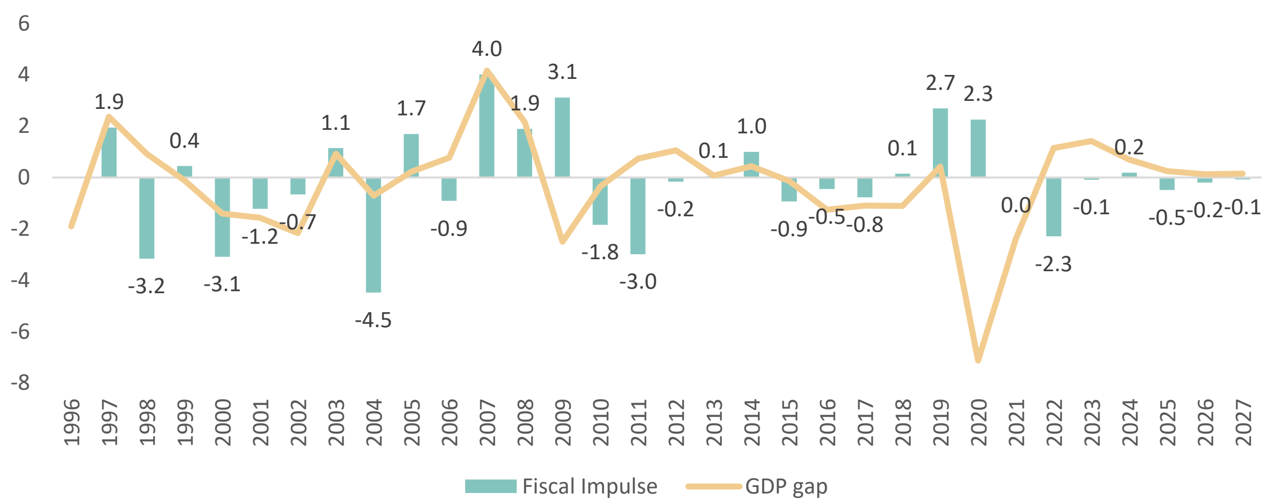
Figure 17. Structural Budget



Source: MOF calculations

Actual and structural deficit are mostly moving in the same direction. Cyclical component is on average almost zero percent, as it should supposed to be. Fiscal impulse is more or less adequate during the crises and recovery periods.

Figure 18. Output gap and fiscal impulse



Source: MOF calculations

During the 2008 recession, the fiscal impulse was positive, but it was constrained by the high base of the previous year when fiscal policy was pro-cyclical, amounting to 4.0 percent of GDP. Throughout the COVID-19 crisis, the fiscal impulse remained positive, and as the economy started to recover, it gradually decreased, approaching zero. Following the recovery, as the GDP gap turned positive, the fiscal impulse shifted to a negative position. This negative trend persists in the medium term, displaying a counter-cyclical pattern and converging toward the zero line, mirroring the GDP gap. Notably, in 2024, exceptional circumstances prevail, with a small positive output gap and a very modest but still positive fiscal impulse.

Table 7. Real and potential GDP growth, output gap, structural budget items, cyclicality of fiscal policy

Variables	2018	2019	2020	2021	2022	2023*	2024	2025	2026
Real GDP growth	4.8	5.0	-6.8	10.5	10.4	6.5	5.2	5.0	5.0
Potential GDP growth	4.9	3.4	0.8	5.1	6.5	6.2	6.0	5.5	5.1
Capital	2.8	2.3	1.5	1.1	1.0	1.5	2.4	2.4	2.3
Labour	-0.2	-0.4	-0.3	0.0	0.3	0.5	0.3	0.1	0.1
TFP	2.3	1.4	-0.3	4.1	5.2	4.2	3.3	3.0	2.8
Net lending of GG	-0.7	-2.6	-9.1	-6.3	-2.2	-2.0	-2.5	-2.3	-2.2
One offs	0.0	0.0	-5.9	-4.0	-0.8	0.0	0.2	0.0	0.0
Cyclical Component	-0.5	0.2	-4.0	-1.2	0.6	0.7	0.4	0.1	0.1

Variables	2018	2019	2020	2021	2022	2023*	2024	2025	2026
Cyclicality adjusted balance	-0.2	-2.8	-5.1	-5.1	-2.8	-2.7	-2.9	-2.4	-2.2
Structural Balance	-0.2	-2.8	0.8	-1.1	-2.0	-2.7	-3.1	-2.4	-2.2
Fiscal Impulse	0.1	2.7	2.3	0.0	-2.3	-0.1	0.2	-0.5	-0.2
GDP gap	-1.1	0.4	-7.1	-2.4	1.1	1.4	0.7	0.2	0.1
Cyclicality of fiscal policy	Counter-cyclical	Pro-cyclical	Counter-cyclical	Counter-cyclical	Counter-cyclical	Counter-cyclical	Pro-cyclical	Counter-cyclical	Counter-cyclical

Source: Geostat, MOF calculations

It should be noted that, for the 2023 budget numbers, preliminary data is utilized instead of planned numbers. This available preliminary data indicates a significant deviation from the planned figures and provides a more accurate assessment of discretionary fiscal policy.

4.6. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

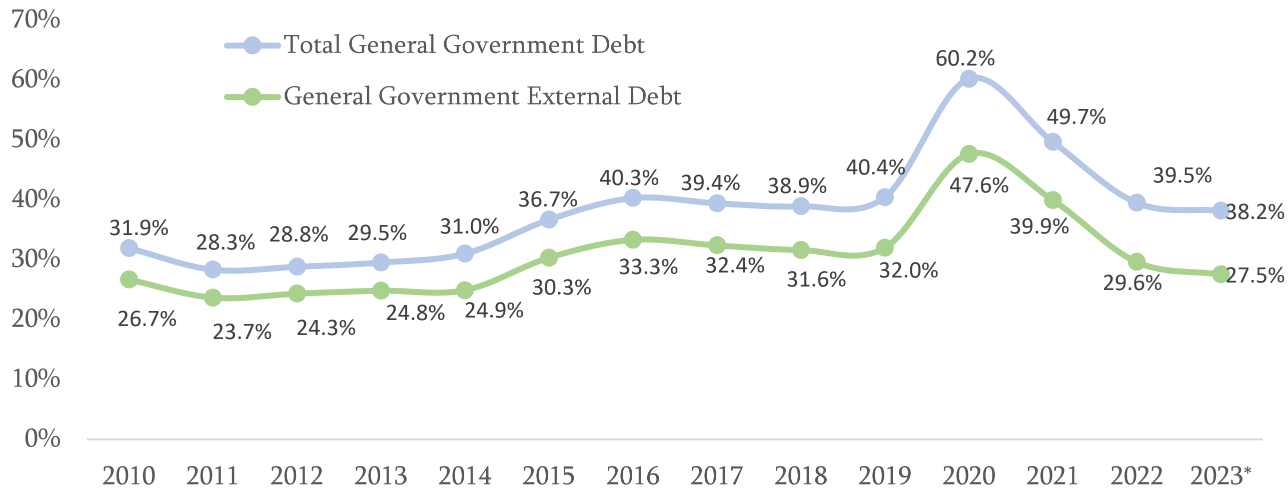
Georgia has strong fiscal position with moderate level of deficit and General Government Debt. Fiscal rules set the limit on Debt to GDP ratio at 60 percent. The definition of debt for this purpose includes General Government Gross Debt (GGDD) and liabilities incurred under the PPP contracts. GGGD represents a key part of the aggregate figure, while PPP liabilities are only 0.1 percent of GDP. In total, preliminary figures of debt to GDP ratio, as defined in fiscal rules, is 38.3 percent as of end-2023, lower than fiscal rule limit with high margin. Debt Management Strategy defines 40 percent of GDP, as a safe level of debt - this means that in any case of shock, there is enough fiscal space to accommodate and provide necessary fiscal stimulus. This was effective examined during the pandemic.

Government debt Management Strategy defines medium-term priorities for debt portfolio management. One of the key pillar of the strategy is diversification of the portfolio, because currently 72.6 percent of the portfolio is denominated in foreign currency. Regardless comfortable level of debt, long-term average maturity and low costs, sensitivity to FX risks is important vulnerability and medium-term strategy envisages addressing this issue gradually.

General Government Debt Portfolio

By the end of 2022, Georgia's general government debt amounted 39.5 percent of GDP, out of which 29.6 was denominated in foreign currency. Those figures improved in 2023 and preliminary estimates are 38.2 and 27.5 percent, respectively.

Figure 19. General Government Debt Dynamics (% of GDP) for 2010-2023



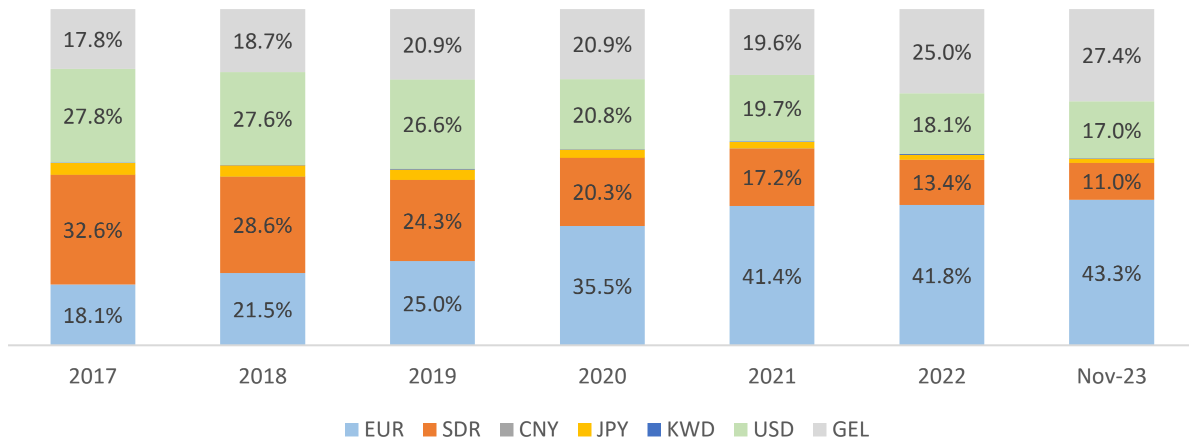
Source: MOF

As of the end of 2021, 80.4% of the government total debt portfolio was denominated in foreign currency. It has decreased to 72.6 by the end of November, which further highlights the commitment of the GoG to decrease the foreign debt exposure. Despite the substantial improvements, the above-mentioned indicator remains at a high level. Currency hedging instruments are under consideration to support the de-dollarization of the General Government Debt.

By the end of November 2023, 50 percent of the Government foreign debt portfolio is bearing fixed interest rate. This indicator is on a decreasing trend, due to the repayment of old concessional debt, which primarily had fixed interest rate. One of the priorities in this direction is to explore the possibility of interest rate hedging to balance the portfolio.

In terms of the currency composition as of November 2023, 17.0% of the government's debt portfolio is denominated in USD. It should be noted that recently the share of the USD in the total government debt has a tendency to decrease, which is due to the increase in the share of debt denominated in Euro (43.3%) and GEL (27.4%). In the last three years, the GoG is predominantly borrowing in EUR from all the International Financial Institutions. Meanwhile, the share of GEL denominated debt has significantly increased, which is in line with the strategic objectives. The remaining portion of the portfolio is denominated in other currencies - Japanese Yen (JPY), Kuwaiti Dinar (KWD). The only Chinese Yuan (CNY) loan has been repaid and is no longer part of the portfolio currency composition.

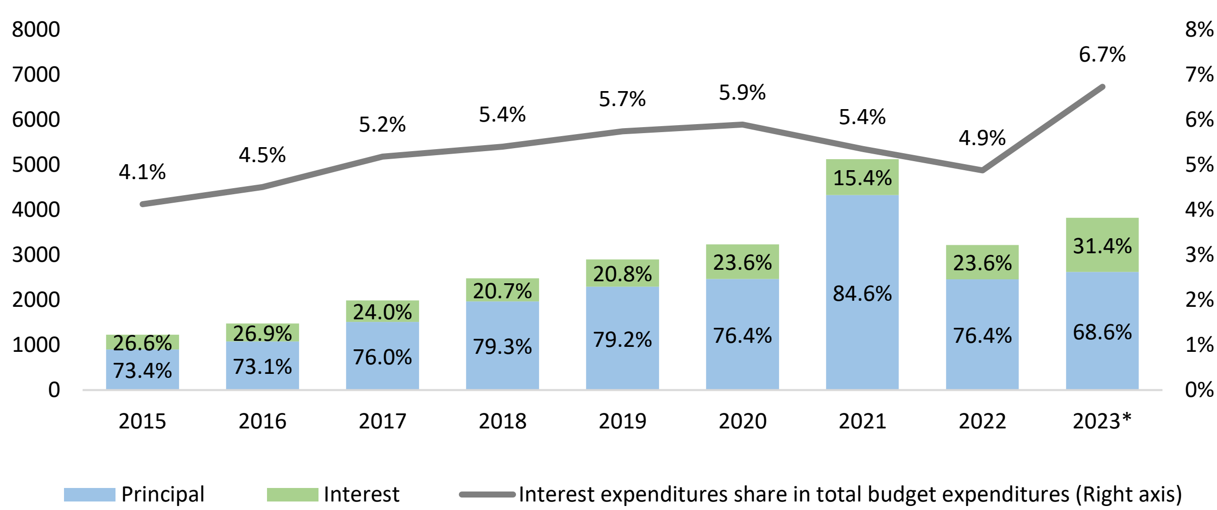
Figure 20. Currency Composition of the General Government Debt Portfolio for 2017-2023



Source: MOF

While taking new loans, debt portfolio service schedule (based on stock) is taken into account. The loans comprising the external debt portfolio usually have long-term repayment schedule and long grace period, which ensures the equal distribution of debt service, and therefore, does not impose the significant pressure on budgetary expenditures, neither the expenses are concentrated on short-term period. By the end of 2023, the interest rate expenditures of the general government debt portfolio amounted to 6.7 of the total budget expenditures.

Figure 21. General Government Debt Service for 2015-2023 (million GEL)



Source: MOF

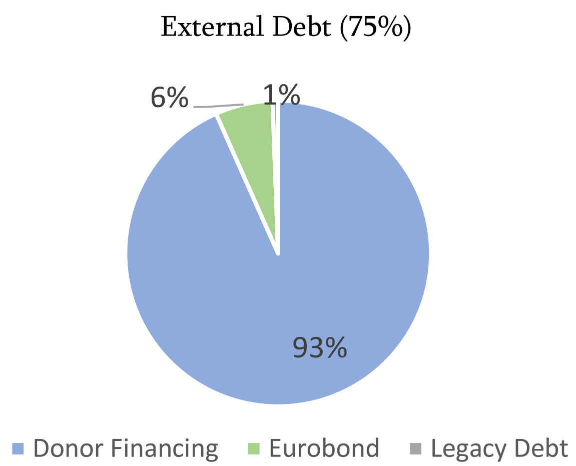
According to preliminary estimates for 2023, the weighted average interest rate of the government debt portfolio increased in 2023 compared to 2022 and amounted to 4.8 percent. This indicator is 9.1

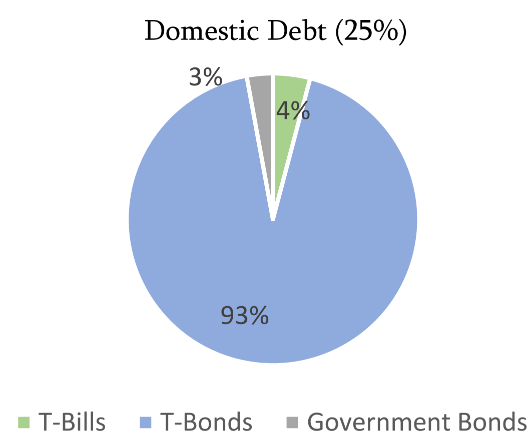
percent for the domestic debt portfolio, and 3.2 percent for the foreign debt portfolio. The increase in the weighted average interest rates of the government debt portfolio is mainly due to the sharp increase in the interest rates on the international markets. The weighted average interest rate on the newly borrowed local currency debt throughout the last year amounted to 8.7 percent, the same indicator for foreign currency denominated debt amounted to 4.3 percent.

The share of domestic debt has increasing trend in recent years. By the end of 2022, domestic debt to GDP ratio amounted to 10 percent, and according to the preliminary data for 2023, it is projected to be 10.6 percent. Significant portion of domestic debt constitutes of treasury bonds.

By the end of November 2023, 93 percent of the government external debt is composed of the funds attracted from the multilateral and bilateral creditors. Most of these loans have concessional terms. Eurobond represents 6 percent of the foreign debt portfolio, while the remaining 1 percent is "Legacy Debt"[20], which will be fully repaid by 2025. As for the domestic debt, T-Bonds comprise 93 percent of the total, T-Bills 4 percent, while the remaining 3 percent is Government Bonds.

Figure 22. External and Domestic Debt portfolio by types of Instruments as of 2022





Source: MOF

In line with international practice, the Ministry of Finance of Georgia prepares medium term General Government Debt Management Strategy. The strategy reflects the plan of the GoG, which should ensure the implementation of efficient debt management policies and achieve the objectives of debt management. The Government Debt Management Strategy is a public document that ensures the transparency of the debt management policy and increases the awareness to creditors, investors, credit rating agencies and society on this issue.

The strategic directions of the Government Debt Management Strategy are the following:

1. Maintaining the government debt to GDP ratio at the safe level;

[20] Those are bilateral loans, that were restructured in early 2000s.

As a safe level the GoG considers to maintain Debt to GDP ratio within 40.

2. Increasing GEL-denominated debt share in the government debt portfolio;

   One of the main challenges of the Government Debt portfolio is historically large share of foreign debt. Recent developments show positive dynamics for this indicator. In addition to this, the GoG plans to use hedging instruments to further support government debt portfolio dedolarization.

3. Increasing the focus on development-oriented external loans;

   External financing will be mobilized only for large and complex projects, which are assessed by PIM methodology. Also, on-lending takes place only in case when state-owned enterprise implements corporate governance practices. In terms of Budget support loans, the strategy sets limit for annual borrowing at 250 mln USD.

4. Cost and risk optimization of the government total debt portfolio;

   The key risks identified in the General Government Debt Management Strategy are focusing on three areas: Refinancing, Currency and Interest Rate Risk.

   <u>Refinancing risk.</u> To manage refinancing risk, it is important to maximize the average time to maturity of the portfolio and control the amount of debt maturing within a year relative to total debt in order to avoid peaks in the government debt repayment schedule. Therefore, to manage this risk, it is important that:

   - The average time to maturity (ATM) of the government total debt portfolio should not fall below 5.5 years, while this indicator for the domestic debt portfolio should be maintained at least 3 years;

   - The share of the debt maturing within 1 year should not exceed 15.0 of the total debt portfolio.

   <u>Currency risk</u>. Due to the ongoing economic and political convergence with the Euro area, an increase in the share of EUR-denominated loans in the external debt portfolio reduces the currency risk. At the same time the government develops the optimal currency composition for the government debt portfolio.

   <u>Interest rate risk</u>. Choosing between fixed and variable interest rates implies solving the dilemma of minimizing cost and refinancing risk. For interest rate risk management purposes, the strategy defines 50 as a minimum share for fixed interest rate debt share in the total. Considering the sharp changes interest rates in the global financial markets, the government started development of the optimal interest rate structure defining methodology for the government debt portfolio.

5. Government securities market development.

   Government securities market development is one of the key objectives identified in the strategy document. Recently, the GoG has been undertaking steps to enhance the market capacity.

   - In 2018, GoG started issuance of Benchmark bonds;
   - Publication of the first Medium-Term Debt Management Strategy in 2019;
   - Liability Management operations (namely buybacks) were introduced late 2019;
   - In 2020, the Government established Primary Dealers Pilot Program (In the beginning, only 5-year benchmark bonds were included);
   - In 2021, the GoG issued third $500m 5-year Eurobond, listed in London Stock Exchange;
   - In 2022, the Government enhanced the Primary Dealers Program by adding new tenor in the program;
   - During 2023 the Government established Investor Relation Strategy;

   For the government securities market development, the GoG plans to Concentrate the portfolio on various strong benchmarks and meet international index inclusion requirements (FTSE Frontier Emerging Markets Government Bond Index, JP Morgan GBI-EM), which in turn will help to increase liquidity in the market and diversify investor base. Large benchmarks require comprehensive liability management. For this purpose, starting from 2024, the GoG plans to actively use Liability Management Operations, namely Buybacks and Switches.

An important challenge in the analytical direction of government debt management is the solution of such issues as determining the maximum acceptable cost for hedging a loan taken in foreign currency, determining the optimal currency composition of the foreign debt portfolio using the cost and risk minimization method. Moreover, implementing a new methodology for debt sustainability analysis developed by the International Monetary Fund, in high interest rate conditions it is even more important to create and maintain a portfolio with the optimal interest rate type structure. Based on the above, it is planned to complete a number of analytical works in 2024, the results of which will be reflected in the "Government Debt Management Strategy for 2025-2028" document, as well as in other reports related to the government debt.

Below the line operations and stock-flow adjustments

Table 4 in Annexes represents decomposition of the change in debt-to GDP ratio. Biggest contributor in stock-flow adjustments comes from exchange rate—as mention above, 72.6 percent of debt is denominated in foreign currency. GEL appreciated significantly after the depreciation during the pandemic. Therefore, it contributed by 5.9 pp. in reduction of debt to GDP ratio in 2022. Slight appreciation was observed in 2023 as well, contributing 0.5 pp. we assume exchange rates unchanged in the forecasting horizon.

Net accusation of financial assets includes net budget lending to SOEs and change in government deposits. 1.5 percent of GDP in 2022 represents accumulation of government deposits 1.26 percent of GDP and net budget lending of 0.26 percent of GDP.

4.7. Sensitivity analysis and comparison with the previous programme

As Georgia is providing ERP documents for the first time, to assess forecast accuracy and sensitivity analysis, we are presenting an analysis typically prepared for the Georgian Medium-Term Budgetary Framework (MTBF) for similar purposes.

Table 8 below shows the difference between the projections of the 2023 budget law (December 2022) and 2024 budget law. Economic growth over performed in 2022 and projection for 2023 upgraded by 1.5 percentage point, wile 2025 downgraded slightly stronger base effect and revised external demand projections. 2024 economic growth forecast, as well as medium-term growth projection remains unchanged.

Table 8. Divergence from previous programme (Forecasts)

	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. GDP growth (yoy)					
Previous projection (Dec 2022)	10.0	5.0	5.2	5.2	5.0
Latest update (Dec 2023)	10.4	6.5	5.2	5.0	5.0
Difference (percentage points)	0.4	1.5	0.0	-0.2	0.0
2. General government net lending (% of GDP)					
Previous projection (Dec 2022)	-2.7	-2.8	-2.2	-2.2	-2.1
Latest update (Dec 2023)	-2.2	-3.0	-2.5	-2.3	-2.2
Difference	0.5	-0.1	-0.4	-0.1	0.0
3. General government gross debt (% of GDP)					
Previous projection (Dec 2022)	39.6	38.3	37.8	37.2	36.4
Latest update (Dec 2023)	39.5	38.2	38.0	37.8	37.6
Difference	-0.1	-0.2	0.2	0.6	1.2

Source: MOF

Due to the economic over performance, fiscal balance have also improved and deficit amounted 2.2 percent of GDP—0.5 p.p. lower than projected. Projections of fiscal deficit for 2023-2026 increased slightly, reflecting increased interest rates and moderated medium-term risks. General government debt to GDP ratio outcome and estimate for the end of 2022 and 2023 was 0.1 percentage point lower than previous estimate. In the medium term, the latest projections are slightly higher than before, however, still bellow safe level of 40 percent of GDP.

As mentioned in the chapter 3.3, we produce positive and negative scenarios for general macro and fiscal variables. The focus of those scenarios is fiscal balance; therefore, we assume stronger or weaker aggregate demand for those scenarios resulting economic growth and inflation deviating in the same direction from baseline scenario, while positive scenario means higher growth rate and higher inflation and vice versa for negative scenario.

The primary rationale for adopting this approach lies in a straightforward partial sensitivity analysis concerning the main macro indicators. For both negative and positive shocks to each parameter, the analysis incorporates the last 10 years' data, adjusting by plus or minus 1 standard deviation Table 9 shows expected reactions of macro-fiscal variables to these shocks:

Table 9. Impact of Macroeconomic indicators on the fiscal parameters for 2024

scenarios			Deviation from the Baseline							
			Million GEL				% of GDP			
			Revenue	expenditure	deficit	financing	Revenue	expenditure	deficit	financing
GDP growth	positive	9.7%	743.8		743.8		0.87		0.87	
	negative	-3.8%	-1,487.6		-1,487.6		-1.74		-1.74	
Inflation	positive	6.2%	529.9	314.6	215.2		0.62	0.37	0.25	
	negative	-0.6%	-529.9	-314.6	-215.2		-0.62	-0.37	-0.25	
Interest rate	positive	4.7%		-122.7	122.7			-0.14	0.14	
	negative	5.5%		122.7	-122.7			0.14	-0.14	
exchange rate	positive	2.21	-100.9	-181.4	80.5	-84.0	-0.12	-0.21	0.09	-0.10
	negative	3.21	100.9	181.4	-80.5	84.0	0.12	0.21	-0.09	0.10

Source: MOF

As a table 9 shows inflation and GDP growth are much more volatile than interest rate and the approach of having demand side shock for scenario analysis are quite relevant for general macro-fiscal development.

However, this is not enough to study dynamics of debt to GDP ratio, because it is heavily dollarized and exchange rate is very important factor for it. In addition, just assuming demand side shocks are not enough, because of its reliance on interest rates on advanced economies and sometimes those variables do not move the same direction. Therefore, we produce separate, more comprehensive Debt Sustainability Analysis (DSA). This analysis is updated annually and is included in the budget documentation. It fully aligns with the IMF DSA approach and utilizes the MAC framework[21].

[21] https://www.mof.ge/en/5234

4.8. Quality of public finances

The years 2021-2022 as explained above had a tendency of higher than usual economic growth as a result of the post-pandemic recovery and shifted corridors and capital and human resources flows caused by the war in Ukraine. Both years were extremely unpredictable and forecasts changed several times into diverse directions but Georgia's economy grow in two digits in both years. In 2021 the GDP growth turned out at 10.5% vs the original forecast of 4.3% and in 2022 the growth reached 10.4% vs the original forecast of 4.3%. In nominal terms the GDP was increased from GEL 49.3 billion in 2020 to GEL 72.3 billion by the end of 2022.

Higher than originally forecasted economic growth allowed increased financing of the priority areas and significant fiscal consolidation at the same time. This allowed the Government Debt to GDP ratio to be reduced from 60.2% in 2020 to 39.8% in 2022 and fiscal deficit from 9.1% in 2020 to 2.2% in 2022.

While planning the budget for 2023, together with the fiscal consolidation the priority areas received increased financing: (i) As a response to the increased security risks in the region the remuneration of the military and police forces were increased by 20%; (ii) Social Pension was indexed according to the law requirements and social benefits for children below the poverty line was increased further; (iii) Additional resources were allocated for education to allow teacher salary increase and active school and kindergarten rehabilitation; (iv) More the GEL 6.7 billion was allocated for the infrastructure development as well as for the programs supporting small and medium sized business, agro business and other business enhancement measures; (v) Amendments were introduced in the legislation regulating public sector salaries to ensure rule based indexation annually and allowed 10% growth.

Originally 2023 Budget was planned with the assumption of the 5% GDP growth and the fiscal deficit of 2.9%[22]. The first half of the 2023 again continued on the path of higher than forecasted growth. In the first 6 months: export was increased by 19.3%; tourism revenues were increased by 57.9%, which is 23.9% more to the pre-pandemic levels of 2019; foreign direct investments were increase by more than 10%. Overall preliminary growth for the first half of 2023 reached 7.6% based on which the annual growth forecast for 2023 was updated to 6.5% vs the original 5% growth.

Having in mind still very high level of uncertainties around the development in the region and the non-permanent factors of the recent economic growth, assumptions for the 2024 Budget cycle also quite conservative: (i) GDP growth for 2024 is forecasted at 5.2% and back to 5% on average for the medium-term; (ii) GDP deflator is project at 3% for 2024 and medium-term; (iii) average CPI is within the NBG target of 3% at 2.8%; (iv) nominal GDP for 2024 will reach GEL 85.4 billion, i.e. more than USD 8500 per capita. According to the projections nominal GDP will reach GEL 108.0 billion, i.e.

[22] See Table 5.

around USD 10 800 per capita; (v) GG fiscal deficit for 2024 is forecasted at 2.5% and Government Debt (fiscal rule definition, i.e. including PPP liabilities) at 38.1%.

The final version of the 2024 General Government fiscal projections envisage more than GEL 30.5 billion for current and capital expenditure which is 35.5% of GDP (current spending – 27%, capital expenditure - 8.5%) to be financed by the GG tax (22.1 billion GEL), Grants (400.0 million GEL) other revenues (5.5 billion GEL) and privatization proceeds (0.4 billion GEL) of 28.3 billion GEL (33.2% of GDP) and deficit financing sources of GEL 2.2 billion (2.5% of GDP).

While maintaining downward trend in fiscal consolidation, allocation for 2024 budget include financing the priority areas such as **Human Capital and Infrastructure investments as well as Business environment supporting measures**:

- **Social Security (7.5% of GDP)** among others: (i) Social pension (pillar 1) with the impact of the rule based social pension indexation; (ii) Disability pension increase; (iii) recalculation of the ceiling of state compensation receivers (pension for the retirees from military and police and other special services); (iii) full year impact of the social benefits increase for children under poverty line launched in July of 2023;
- **Healthcare** (2.4% of GDP) including Universal Healthcare coverage and other targeted program costs, including the additional costs for 10% salary increase for primary healthcare workers and costs for providing pharmaceuticals for pensions age population and chronical patients;
- **Education** (4% of GDP) among regular operations includes: (i) new scheme of teacher salary and significant increase for those with full time work load; (ii) salary increase for the administrative personnel of secondary schools; (iii) For rehabilitation and construction of schools and kindergartens around 0.8% of GDP will be allocated;
- **Military and Public Order** (4.5% of GDP) among regular operations includes 10% increase of salary for the personnel;
- **Investing in Infrastructure** (8.5% of GDP) includes: (i) up to 2.0% of GDP on road infrastructure, including the East-West highway; (ii) 2.5% for municipal infrastructure; (iii) water and sanitations systems; (iv) Educational Infrastructure; (v) Energy transmission lines and preparation works for undersea black sea cable; (vi) touristic infrastructure;
- **Small and medium size business development and Agriculture sector support programs** amounts to 1.0% of GDP;

As part of the PFM reform and fiscal policy planning Government continues to work further for more efficiencies on revenue accumulations and spending prioritization: (i) Public Investment Management methodology has been recently launched to scrutinized investment initiatives on a rule based approach; (ii) salaries and pensions indexation rules have also been introduced for the rule based approach, (iii) Healthcare financing is being introducing DRG instruments and entry level contracts approaches; (iv) Education financing models are being elaborated with the support of donor technical assistance, (v) Medium Term Revenue Strategy (MTRS) is being elaborated with support of the IMF, (vi) Tax Expenditure Analysis is being finalised with the support of IMF; (vii) Tax and Customs

Administrations and Tax Policy Department are very actively engaging with EU twinning programs and other instruments, as well IMF, OECD, WB and other partners on further reform agenda.

4.9. Fiscal governance and budgetary frameworks

Public Finance Management (PFM) Reform

Georgia has been running its Public Finance Management reform very actively for the past decade. The reform has been heavily supported through EU budget support and technical assistance, as well as other international and bilateral financial institutions. Government has been cooperating very actively with the IMF to guide the reforms in the fiscal areas.

Public Finance Management (PFM) Coordination Council, established by the order of the Minister of Finance and chaired by the Minister of Finance of Georgia has been operating since 2010. The council consists of representatives of the Ministry of Finance, the Parliament of Georgia, State Audit, State Procurement Agency, as well as non-governmental and donor organizations. The Council meets at least four times a year and discusses reform-related documents such as strategies and annual action plans and quarter and annual reports of the annual action plan implementation. The Council also meets as needed to discuss items such as the research and evaluations of the Civil Society on issues related to the reform. This format facilitates communication between all government parties involved in the reform, as well as consultations with donor and non-governmental organizations.

The current **Public Finance Management Reform Strategy (PFMRS)** is the fourth update of the formalized PFMRS and covers the **2023-2026 period**[23]. Within the framework of the PFM reform, the Ministry of Finance of Georgia is continuously evaluating the current progress, analysing it and planning accordingly. The latest update was based on the Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report for the 2022[24], which was validated with the support of the European Union and the World Bank. Also, an analysis of gender aspects of Public Finance Management was prepared for the first time according to the methodology developed by the PEFA Secretariat[25]. The assessment report covers the period 2019-2021. In addition to this assessment, it should be noted that the Public Investment Management Assessment (PIMA) and Fiscal Transparency Evaluation (FTE) updates were also carried out in 2022 using the IMF methodologies. The updated index of the Open Budget Survey (OBS)[26] was also published in 2022. Despite the challenges related to the pandemic, Georgia managed to not only maintain its place among the most transparent countries (according to the previous two estimates (conducted in 2019 and 2017) Georgia

[23] https://www.mof.ge/en/5659
[24] https://www.pefa.org/node/5197
[25] https://www.pefa.org/node/5164
[26] https://internationalbudget.org/open-budget-survey/rankings

ranked fifth in the global ranking), but also confirmed the progress and ranked **the first** in the global ranking.

The PFMRS Strategy by MOF covers the following areas: (i) Budget System further upgrade - Budgeting; (ii) Sustainable debt management and Domestic Market Development - Debt Management; (iii) Full implementation of International Public Sector Accounting Standards (IPSAS) and financial statements in the public sector - Accounting and Reporting; (iv) Further improvement of tax and customs policy and administrations - Tax and Customs Issues; (v) Improving macroeconomic analysis and modelling and managing sustainable fiscal policy - Macroeconomic Analysis and Fiscal Policy; (vi) Constant monitoring, analysis and responding to risks arising from macroeconomic, environmental and social factors, as well as contingent liabilities and quasi-fiscal operations - Fiscal Risk Management; (via) Implementing internal financial control mechanisms for effective PFM - Public Internal Financial Control System; (viii) Improvement of the accounting, reporting and auditing system of private sector enterprises, introduction of international standards of reporting and auditing, Supervision of Money Laundering and Financing of Terrorism - Accounting, Reporting and Auditing Supervision.

PFMRS 2024-2026 includes the following information for each policy area: (i) Strategic directions and objectives for each policy area; (ii) Outcomes for 2026 and medium-term outputs for the corresponding years; (iii) Sources of verification through different international instruments: PEFA, TADAT, PIMA, etc.; (iv) Baseline indicator and Target indicators for 2026 (iv) Risk factors

Other strategies related to the specific area of the overarching PFM sector include: (i) Government Debt Management Strategy 2023-2026 of the Ministry of Finance of Georgia (soon to be updated to 2024-2027); (ii) Public Internal Financial Control System Development Strategy 2021-2024 of the Ministry of Finance of Georgia; (iii) Revenue Service Strategy 2021-2024 of the Ministry of Finance of Georgia; (iv) The Parliamentary Budget Office Strategy and corresponding Action Plan 2023-2025; (v) Budget and Finance Committee of Parliament Strategic Action Plan 2022-2024; (vi) State Audit Office Strategic Development Action Plan 2023-2027;

<u>Fiscal Governance Legislation</u>

Legal framework for Public Finance Management and roles and responsibilities of the institutions managing Fiscal Policy is defined in the Constitution of Georgia, Organic Law “Economic Liberty Act” and Budget Code law. Medium-term budget framework formulation, Budget Classification, Program Based Budgeting, Public Investment Management are regulated through by-laws approved by the GoG and the Minister of Finance.

Fiscal rules

Georgia has been practicing Fiscal Rule since 2014. In 2019, Georgian government has updated the Organic Law “On Economic Freedom”. Georgian Government is responsible to prepare draft budget and to execute the approved budget in line with the Fiscal Rules. Ministry of Finance is delegated the function on behalf of the Government to ensure that fiscal parameters are in line with fiscal limits. Parliament of Georgia is responsible to ensure that annual budget law cannot be approved outside the fiscal rule limits, unless the escape clauses envisaged in the Organic Law "Economic Liberty Act" are triggered and the Government has submitted a relevant plan. "Economic Liberty Act" is the organic law that defines Fiscal Rules:

- Balance Rule provides ceiling of 3% of GDP. The ceiling is set for net lending/borrowing of General Government budget.

- Debt Rule sets ceiling as 60% of GDP for the Government Debt. The 60% limit also includes liabilities under PPPs.

- Revenue Rule limits adoption of a new tax or increasing tax rates (except excise) without referendum (the rule is valid until 2030).

Organic Law "On Economic Freedom" clarifies that planned allocations as well as actual performance have to follow the rules and defines clear escape clauses. The "escape clauses", ensure the fiscal policy flexibility in case of economic recession or emergency situations and provides clear definition when these clauses are triggered. It also defines the timeline (3 years) within which the parameters need to return within the general limits.

Georgia has a track record of complying with fiscal rules and maintaining a low level of fiscal deficit. However, during the COVID-19 pandemic two escape closes were triggered: we had an economic recession and a state of emergency. Therefore, in order to address healthcare, social and economic impact of the pandemic several fiscal measures were, which resulted in an increased fiscal deficit (9.1) and debt to GDP ratio (Fiscal Rule Definition) at 60.8. The fiscal rule obliges Government to bring the parameter within the fiscal rule limit in 3-year period and report to the parliament. Government considered these factors in the MTBF-BDD Document and the debt management strategy of the relevant timeframe managed to bring down the fiscal deficit and debt to GDP ratio parameters back on track by the end of 2022 (The 3-year period of escape clause expired in 2023)[27]. The medium-term budget framework disclosed in the BDD 2024-2027 envisages keeping the parameters at the safe level, well below- the fiscal rule limits in the forecasts, while keeping needed open and capes for government policies and infrastructural needs.

[27]Forecast reconciliation (in Georgian). https://www.mof.ge/images/File/2022-biujeti/19-12-2022/13.prognozebis%20shedareba.docx; Baseline Scenario (in Georgian). https://www.mof.ge/images/File/2022-biujeti/19-12-2022/9.2022%20BD%20Tables%20sen%2010_1_BDD_LEPL.pdf ; Brief information about Budget execution reports 2020-2021 (in Georgian). https://www.mof.ge/images/File/2020-shesrulebis%20angarishebi/12-Tve/danartebi/8.2020%20mokle%20informacia%20angarishi.docx; https://www.mof.ge/images/File/2021-shesrulebis_angarishebi/12_Tve/9.%202021%20mokle%20informacia.docx;

DSA

Debt Sustainability analysis are produced as part of the annual budget package submitted to the parliament. DSA uses the theoretical framework of the IMF typical DSA approach, with defined 5 separate and one combined shock scenarios for the next 10 years[28].

Fiscal Institutions and Instruments

The most overarching legal act regulating the Budget System of Georgia as the major instrument of implementing Fiscal Policy is the **Budget Code**. The Parliament of Georgia, in 2009 adopted the current Budget Code of Georgia, which unifies the regulatory provisions of the state budget, budgets of autonomous republics and Budgets of Municipalities. The law among others defines and regulates: (i) Budget System principles; (ii) Status of budget organizations and spending units; (iii) cycle of the budgetary process and budget calendar; (iv) Medium-term and Annual public expenditure planning, execution and reporting rules and procedures; (v) Fiscal Relationships between central and local governments (including shared taxes and rules for distribution budget receipts across the budgets of different levels of governments and types of transfers for municipalities); (iv)Roles and responsibilities for consolidating and reporting on General Government operations;

The Ministry of Finance is a key fiscal institution in the PFM system responsible for conducting fiscal policy and revenue administration. Other institutions is the area include: (i) **Parliamentary Budget Office** - independent fiscal institution with the main goal to strengthen parliamentary oversight over the public finance management by providing independent and impartial analyses, research and assessment of government's fiscal policies, plans and performance, and consequently, promoting fiscal sustainability for the medium-term period. **State Audit Office** - is the supreme audit institution. The main objectives of the State Audit Office are to promote legal, efficient and effective spending of public funds to contribute to the improvement of public financial management. (iii) **Financial-Budgetary Committee of the Parliament** – supervises the budgetary process and fiscal policy planning and implementation prepares corresponding conclusions, recommendations and decisions, discusses draft budgets, makes recommendations, and organizes discussion and agreement in other committees and fractions; (iv) **State Procurement Agency** - is an independent legal entity of public law, operating under direct supervision of the GoG (Prime Minister's Office, Administration of the GoG). The Prime Minister of Georgia appoints and dismisses the chairperson of the Agency. State Procurement Agency supervises and monitors legality of public procurement procedures and transactions, Secures the principles of publicity, transparency, fairness and non-discrimination when accomplishing relevant public procurement transactions.

Parliamentary Budget Office (PBO), is considered to be the Independent fiscal institution It was established in 1997. Since 2014 steps were undertaken towards improvement of the legislative environment underpinning the work of the PBO. Namely, the referred and planned changes aim to

[28] https://www.mof.ge/en/5234

bring the regulatory environment of the PBO close to the OECD Principles for Independent Fiscal Institutions. Currently Parliamentary Budget Office: (i) Produces analysis at the budget planning stage and regularly reviews budget execution process, as well as the amendments to the budget law; (ii) Assesses compliance of government's fiscal policy with existing fiscal rules and mid-term fiscal sustainability,

Budget System and Budget Principles are identified by the Budget Code of Georgia. One of the Budget Principles – "Principle of Unity" (article 4, paragraph 1) ensures that all methodologies and standards across all levels of Budget system are unified. Currently Georgia uses IMF GFSM classification for national and local level, all the municipalities follow the same standard as state budget spending units. Electronic system for Public Finance Management (e-PFMs) has been established, which is fully harmonized for budgeting and treasury since 2012. The GFSM based classification is comprehensive and consistent with GFS/GOFOG and is built-in the public finance management electronic system for budget planning (e-budget) and e-treasury. Since 2015, all the commercial bank accounts of municipalities as well as of LEPLs were transferred under the system of single treasury accounts. All this allows real time regime accurate accounting for the operations in line with GFSM 2014 standards. All expenditure and revenue are included in financial reports and so, there are no extra-budgetary operations outside financial reports.

MOF has real time regime access to information of all sub-sectors of the General Government. The only remaining issue are the SOEs, which as part of the SOE reform had been classified as general government entities. Access to the information and their inclusion in the General Government is subject of the on-going PFM reform and SOE reforms. In December last year amendments in the Budget Code has tasked the GoG (Article 114-6) to come up with action plan and draft of legislative amendments in order to bring General Government SOEs' operations under GFSM and E-PFMS systems.

Budget Package submitted to the parliament for discussion, besides the estimates for State Budget Revenues and allocations for expenditures (which are approved as a law) includes comprehensive information on **all operations of General Government Units** (including the baseline, optimistic and pessimistic scenarios), **Fiscal Risks Statement** including analysis of Contingent Liabilities, **Data on Fiscal Reconciliation** with the previous estimates and other supplementary data.

The development and execution of the annual budget is based on the GFS methodology, while accounting and reporting methodology in the public sector is based on these accrual-based International Public Sector Accounting Standards (IPSASs). Treasury Service prepares Consolidated Financial Statements for Central Government. For accountability and transparency purposes, Consolidated Financial Statements of Central and Local (Municipalities and Autonomous Republics) Governments are published on the Treasury`s website www.treasury.ge.

As described, Georgia is using the internationally accepted standards for statistics and accounting and has a good practice of systematically introducing, implementing and updating the relevant legislation and methodological guidance as well as electronic systems to be in line with the international best practice. **As part of the further EU approximation exercise, Georgia will come up with the relevant sequence and timeline for aligning with the ESA 2010.**

Medium Term Budget Framework (MTBF) - The Basic Data and Direction (BDD) document

Basic Data and Direction (BDD) document serves as MTBF in the PFM of Georgia and covers macro-fiscal and policy framework for a four year period (Budget year +3 years). The document is being prepared since 2005 and updated annually on a rolling basis. Structure and content of the document has evolved gradually. As part of the exercise to further strengthen Budget documentation within the framework of the Public Finance Management Reform Strategies for 2018-2022 and 2023-2026 the document's coverage has expanded further for the last several years and includes: (i) Complete information about the fiscal parameters and compatibility of existing fiscal rules established with the legislation (Balance rule, Debt rule, Revenue rule). (ii) The government revenues and expenditure forecasts in the medium-term period within the existing policy (baseline information) as well as new policy initiatives; (iii) Detailed explanation of the reasons for the deviations from the medium-term parameters of the previous period.

Box 1. MTBF of Georgia – Basic Data and Directions Document

According to the Budget Code, GoG approves every year, **before March 1st,** a special decree which approves templates, deadlines and specific requirements to be submitted by line ministries and other spending units for updating the document and preparing the budget proposal for the budget year + 3 years. The original decree for preparing the BDD 2024-2027 was approved on February 28, 2023 and an amendment was introduced in the document to include the ERP preparation process coordination, defining the MOF's role as a coordinator on October 17, 2023.

The structure of the BDD Document includes chapters and annexes related to:

- ✓ Macro-Fiscal Framework (Baseline, Optimistic and Pessimistic Scenarios);
- ✓ Aggregate Parameter for the General, central and local budgets;
- ✓ Budget Ceilings for the medium-term of the line Ministries and other spending units of the central government;
- ✓ Medium-term Budget Frameworks of the Programmes to be implemented by the Spending Units of the Central Government;
- ✓ Main spending priorities of the local Governments (Final Version).

Line Ministries and other Spending units start working on the updated of the document annually in **March**. The line ministries create special working groups to coordinate the process. After agreeing with the Parliament on the major macro-fiscal forecasts, the first version of the BDD Document for the upcoming medium-term period is approved by the GoG annually before July 10. This version includes updated ceilings for each year of the upcoming 4-year cycle for the central government Spending Units, based on which Budget Proposals are being prepared and submitted to the MOF before September 1st. BDD document is updated and submitted to the Parliament of Georgia as part of the Budget Package (Before October 1st, November 5th and November 30th) and final version is compiled before January 31 of the Budget Year (i.e. year 2024 in the current cycle),

which also includes information on Local Budget spending priorities as well and submitted to the Budget-Finance Committee of the Parliament of Georgia.
In March the cycle starts again.

4.10. Sustainability of public finances

For understanding future costs of current policy decisions is important to manage long-term risks and pressures on the public finances, therefore in 2023 the Ministry of finance Georgia had the first try to estimate long term trends and stared develop long term sustainability toolkits under the fiscal risk analysis framework.

Long Term Fiscal sustainability framework addresses two long term fiscal risks that Georgia currently faces and provides subsequent risk mitigation measures:

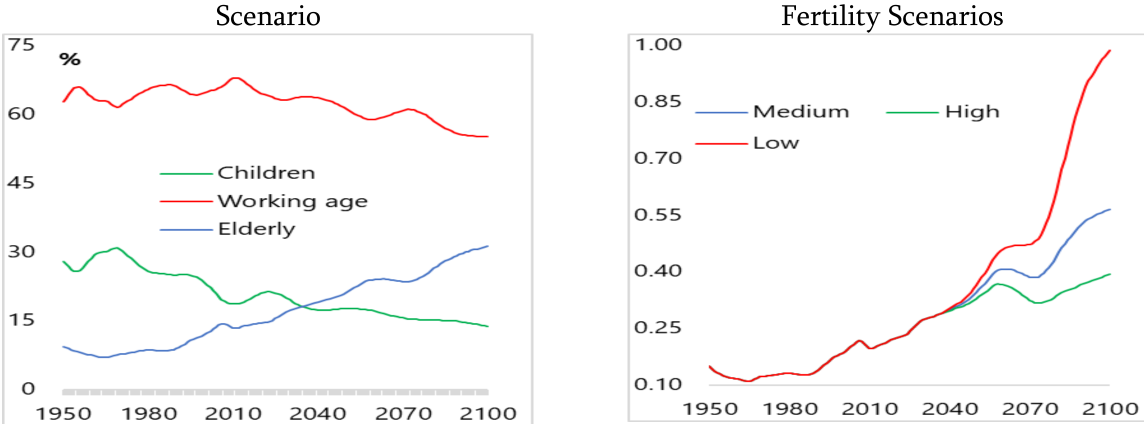
(i) Risks associated with demographic changes
  a. Health care expenditures and their impact on the fiscal deficit and debt
  b. Implications for pensions and revenue collection

(ii) Climate change and natural disasters
  a. Climate change scenarios on long term fiscal sustainability
  b. Specific fiscal risks from climate change

Georgia is already experiencing a sharp ageing of the population, and this is set to accelerate. Currently, there is one aged person for around four working aged people. By 2073, there could be one pensioner for every two to three people of working age.

Figure 23 Demographic Scenarios for Georgia, 1950-2100

Share of Population (percent), Medium Fertility Scenario | Old Age Dependency Ratio under differebt Fertility Scenarios



Source: UN Population Projections, 2022; MOF calculations. The old-age dependency ratio is the elderly (65 and above) divided by the working age (15-64) population

The ageing population is likely already creating fiscal pressures. The elderly have a large burden of chronic conditions such as arthritis, back pain, cardiovascular disease, diabetes, and mental health conditions and are the main users of primary care services within the state universal healthcare program that was introduced in 2013. The programme covers free access to essential medical consultations and outpatient diagnostic services and chronic disease management drugs. The cost of administering the scheme has doubled health spending as a proportion of total expenditure.

A combination of long-term expenditure pressures and slowing economic growth due to ageing will put a strain on Georgia maintaining long term fiscal sustainability. Healthcare expenditure is projected to increase over the next 50 years by between a quarters to three-quarters percent of GDP. While the rise is most profound in the Low Fertility scenario, healthcare expenditure rises in all three fertility scenarios (medium, high and low). Increased healthcare expenditure flows on to higher deficit and debt. Further, GDP is projected to be smaller in the Low Fertility scenario compared with the other two scenarios in the long run, reducing tax revenue, increasing deficits, and raising the debt-to-GDP ratio. Public debt in 2073 being 17 percent of GDP higher in the Low Fertility scenario compared to the Baseline. In both the Baseline and Low Fertility Scenario, public debt surpasses the 60 percent of GDP fiscal rule ceiling in the 2060s, taking on an unsustainable upward trajectory.

Ageing of the population may have additional effects on long-term fiscal sustainability. For example, tax collections may vary according to workers' age, with relatively older workers paying fewer taxes per person. Further, pension expenditure over the next 50 years could vary depending on the fertility scenarios.

As for the climate changes: The average temperature in Georgia has increased since the 1960s and is projected to rise by more than the global average by the end of the 21st century[29]. Subsequently, droughts, flooding, and landslides are anticipated to be the most pressing adverse impacts of climate change. Climate change risks will impact the entire economy of Georgia, with key vulnerabilities in the energy sector given the dependency on domestically generated hydropower, which accounted for 78 percent of domestically generated electricity in 2015.

Four different climate scenarios are applied to assess fiscal risks in Georgia (Box 2). These are based on the most recent Intergovernmental Panel on Climate Change assessment report (IPCC 2021). Each emission scenario is based on a storyline chosen among five standardized socioeconomic, technological, and policy developments, called Shared Socio-Economic Pathway (SSP).

Box 2: Climate scenarios

- **Paris**: based on the SSP1-2.6 IPCC scenario where international commitments from the 2015 Paris summit are met, keeping global temperature increase above its pre-industrial level below 2°C at the end of the century.

[29] Climate Risk Country Profile (2021). World Bank Group, Asian Development Bank.

- **Moderate**: based on the SSP2-4.5 IPCC scenario. Emissions continue increasing in line with the continuation of present trends and stabilize at the end of the century. This scenario assumes that climate mitigation policies continue along the observed trend, but countries do not take more aggressive actions to fulfil their Paris commitments.

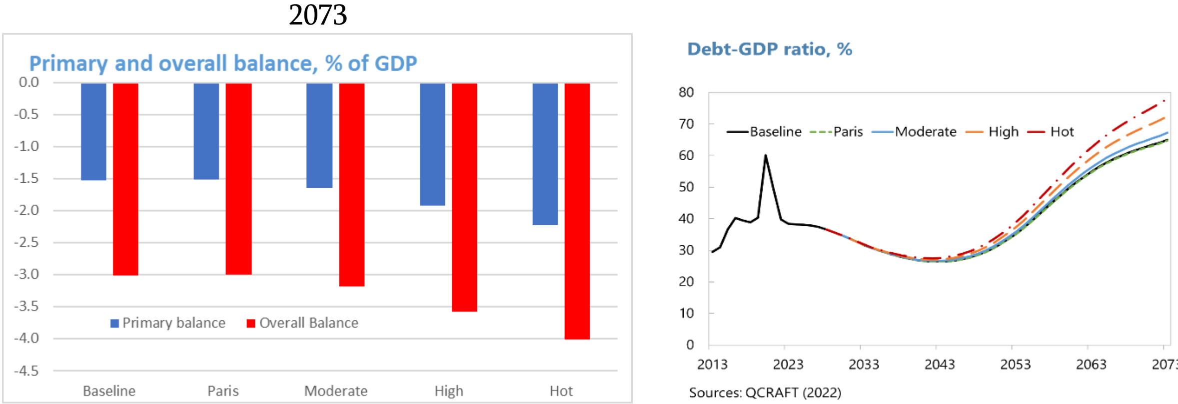
- **High**: based on the SSP3-7.0 IPCC scenario. Rather than intensifying climate mitigation efforts, countries start scaling back their implemented policies in a world with limited energy efficiency improvements and continued use of fossil fuels.

- **Hot**: emissions are as in the high scenario, but it uses the 90th percentile of temperature increase among all climate models that used SSP3-7.0 emissions, instead of the average temperature projection that is used for the high scenario.

Public finances will deteriorate as the severity of climate change scenarios increases xx. Climate change will slow long run productivity growth in the more severe scenarios, reducing tax revenues and raising deficit and debt. For example, public debt is over 13 percent of GDP higher in the hot scenario than the Baseline in 2073. In all climate scenarios, public debt surpasses the 60 percent of GDP fiscal rule ceiling, taking on an unsustainable upward trajectory in the more severe cases. Budget deficit in the hot scenario is projected to be 1 percent of GDP worse than the Baseline in 2073.

Figure 24. Fiscal Effects of Climate Change Scenarios in Georgia

Primary and Overall Balance, Percentage of GDP, 2073 | Debt-to-GDP ratio, 2013-73



Source: MOF calculations

The Government is taking active steps to address climate related risks by integrating climate change in the public investment management framework. A climate PIMA has been recently undertaken and active steps have started to address key recommendations, which include:

- Ensuring that national climate strategies and objectives are fully integrated in national, sectoral, and spatial planning processes.

- Mainstreaming climate-related criteria into project appraisal and project selection and issue guidelines on how this should be applied.
- Identifying and reporting on climate related projects and resource allocation by introducing climate tagging in budget, accounting and asset management systems.

In first half of 2024 ministry of finance in finalizing Medium Term Revenue Strategy (MTRS) document and together with the productivity enhancing spending policies could mitigate these potential long term fiscal risks. The MTRS can be regularly updated by reviewing and streamlining tax expenditures, improving tax administration to create room for priority outlays, modernizing the property tax system amongst others. Productivity enhancing reforms could also help mitigate the fiscal risks by boosting long term economic growth. Turning to the expenditure side, an important next step is to identify and quantify the fiscal gap required to support climate change adaptation measures and productivity enhancing policies that will require budgetary support, for example, in the education sector. These policies should then be assessed against the long-term improvement in economic resilience against climate change.

To enhance the sustainability analysis of public finance, the plan is to broaden current coverage and improve the entire document. This involves incorporating **long-term risks related to pensions** and continuously updating and recalibrating all assumptions and parameters used in the framework.

5. STRUCTURAL REFORMS IN 2024-2026

5.1 Review of the current framework for structural reforms in Georgia

As it was explained earlier, since this is the first year Georgia is invited to the ERP preparation process for 2024-2026 and there were time constraints to going through the full cycle of the ERP preparation, the ERP for 2024-2026 is prepared based on the documents and processes already in place in the Georgia's Fiscal Governance and Policy planning.

This chapter provides the selected reform measures from the Government Strategic Document, "Vision 2030 – Development Strategy of Georgia, which was adopted on November 3, 2022 by the Government of Georgia (GoG), shortly was followed by the action plan for 2023 approved on February 15, 2023. Currently the action plan for 2024 is being compiled and is expected to be approved in January, 2024 and Georgia's MTBF framework[30] (BDD 2024-2027 and Programme Budget 2024-2027 attached to the 2024 State Budget Law).

"The Vision 2030" has been developed in accordance with the principles of evidence-based and result-oriented policymaking. The document defines indicators to measure and monitor progress both in the interim period and in the target year of 2030.

According to the document it was based on the principles of international cooperation. The priority of the UN 2030 agenda is to unite the efforts of member countries for inclusive and sustainable development. It considers the foreign policy directions reflected in the Constitution of Georgia – the unshakable will of the Georgian people to join the European and Euro-Atlantic structures. The strategy fully complies with the agenda and principles of the Georgia-EU Association Agreement.

With the candidacy status already granted the action plans in 2024 and beyond will reflect the guidance provided as part of the EU- Georgia cooperation on this path.

In order to ensure high quality interagency coordination in the development and implementation of the strategy, the Interagency Council for Nation-Wide Development and Reforms was established under the Ordinance N154 of the GoG (05.04.2021), with the leadership of the Prime Minister of Georgia. The Council consists of ministers, a state minister, representatives of the Administration of the GoG and other state agencies. The development and implementation of the Strategy is coordinated by the Administration of the GoG.

According to the document: "In the long-term development vision, the main political goals of the GoG are to ensure the sustainable economic development and social equality; strengthen security and stability, and enhance democracy, justice and the rule of law in the country."

[30] The original decree for preparing the BDD 2024-2027 was approved on February 28, 2023 and an amendment was introduced in the document to include the ERP preparation process coordination, defining the MOF's role as a coordinator on October 17, 2023.

This is very much in line with the three areas of **Competitiveness; Sustainability and Resilience; Human capital and social policies** that needs to be examined according to the ERP Guidance for 2024-2026.

In regards to the areas of the Competitiveness and Sustainability and Resilience the documents strongly focuses on the related issues:

“The main objectives of economic policy are to ensure macroeconomic stability and structural recovery of the economy, which are the main prerequisites for inclusive economic development and growth in the welfare of citizens. As a result, by 2030, sustainable and inclusive economic development will ensure employment growth, improve the quality of life of citizens, and reduce regional inequality.”

“The state will pay special attention to overcoming the challenges associated with climate change, ensuring an environmentally friendly and healthy environment. Sustainable consumption of natural resources will be based on understanding the interests of future generations.”

Regarding the Human Capital related issues, the areas is also widely covered by the strategic vision:

“The main capital on which the progress of the country must be based is the talent and abilities of the population of Georgia. Therefore, education, as the basis of all public goods, is a priority of the state. Access to quality education, promotion of the development of competencies and skills of each person will form a knowledge-based and strong civil society.

The sustainable development of the health care system will further improve the quality and accessibility of health care, improve needs-based health services, reduce out-of-pocket health care costs, and protect citizens from health-related financial risks.”

Other areas under focus in the strategic vision relates to Foreign Policy and Public Security:

“The state continues to focus mainly on strengthening of sovereignty, de-occupation, and restoration of territorial integrity by peaceful means and moving unpreventably towards joining the European Union and NATO.

Due to the growing security environment concerns, important reforms will be carried out to further strengthen the country’s internal and external security. Based on the approach of total defence, the level of defence capability and strategic readiness of the country will be increased. Improving the internal security of the country through appropriate mechanisms will create a peaceful and stable environment for the people of Georgia.”

The strategic vision 2030 - Development Strategy of Georgia includes 4 Areas, 35 Goals (28 Goals under the areas 2-4 and 90 Objectives:

1. Foreign Policy and Peaceful Settlement of Russia-Georgia Conflict, Public Security;
2. Economic Development
3. Social Policy and Human Capital Development
4. Public Administration

The areas and objectives of the document are quite well-aligned with the Structural Reforms identified by the ERP Guidance.

For the ERP preparation, needs we focus on the areas 2-4. The matrix table shows how the goals under the areas 2-4 align with the Structural Reform priorities defined by the ERP Guidelines.

Please Annex #4 of the document that incorporates a matrix showing how the “Vision 2030“and ERP guidance areas co-relate.

a. Analysis of main obstacles

The first chapter of the Strategic Vision 2030 document provides an in-depth analysis of the situation in each sector as of preparation of the documents last year - identifying problems, root causes, and negative consequences.

The challenges and obstacles described in the chapter is very much in line with the areas requested to be examined by the ERP guidelines.

5.1.1 Competitiveness

Economic and Financial Governance

While Georgia **has made significant progress towards economic sustainability and macroeconomic stability** in recent years and the structure of economy has significantly improved and inclusiveness has increased, challenges and obstacles identified by the Vision 2030 related to **Competitiveness includes**:

Poverty and high levels of income inequality - though significant progress has been made recently in reducing income inequality and poverty: economic growth has become more inclusive and access to economic opportunities has increased, inclusive growth and poverty reduction is remaining a major issue.

Dollarization - It must be noted that despite the downward trend, after 2017 the high level of dollarization is still a challenge. The share of foreign currency-denominated debt in the debt of the GoG reached 80%, which is a challenge government is addressing through its Debt Management Strategy and successful efforts are made to decrease the foreign currency-denominated debt to around 65% in the medium-term.

Prior to the pandemic, two important macroeconomic trends were observed – due to the growth of real economy, there was an increase in demand for **long-term capital, and more long-term GEL** appeared due to the activation of the funded pension scheme and investment funds. These two trends naturally tend to combine, resulting in an efficient investment of capital, but this is hindered by the lack of financial instruments with high liquidity. Government debt securities are one of the most important tools for the development of the capital market on the supply side. Debt securities, issued by the Ministry of Finance on a pre-planned schedule and volume, create what is known as the Risk-Free Yield Curve, the interest rate of which is an indicator of the basic yield rate for investors. As a result of the economic crisis caused by the Covid-19 pandemic, the use of this instrument was temporarily hampered by increased public debt through external sources, and the development of supply side in the capital market is also hindered by a rather high concentration of corporate financing in bank loans.

As of today, the local corporate bond market is at a fairly early stage of development. In many cases, a precondition for a successful corporate bond issuance is often related to earning a credit rating by the company, associated with costs and cooperation with international rating companies. In addition, the issuance of securities currently takes place on a non-guaranteed basis. Therefore, the costs of the issuing company in favour of a brokerage firm, such as receiving a rating, preparing a prospectus, consultations, etc., do not guarantee attraction of capital.

Georgia's **current account balance** has historically been negative (deficit), which is usually funded by external debt and/or foreign investments. The current account deficit has been steadily improving since 2016, but worsened again in 2020 as a result of the COVID crisis to 12.5% of GDP. In 2021, the current account deficit began to improve and stood at 10.4%, while in 2022 was record low, 4.5 percent of GDP. Though this still remains a challenge to ensure sustainable downward trend.

Agriculture and rural development

To support all links in the value chain in agriculture, the state is implementing targeted programmes and projects, including both direct grant assistance to farmers and agribusiness stakeholders, as well as support for strategic directions through the implementation of systemic programmes. The new "Community-Based Local Support Program" was recently approved by the Government of Georgia. The Program is based on the EU LEADER / CLLD approach and envisages support of sustainable development in rural areas based on decisions made at the municipal level through local involvement.

The legislative and structural reforms implemented by the state in the field of viticulture and winemaking in recent years **have significantly strengthened the sector:** new vineyards have been planted, new enterprises in the field of winemaking have been established, the quality of wine has improved, and the area of export markets has been expanded.

Progress has also been observed in improving irrigation systems. In 2012-2021, 384 projects were implemented for restoration and rehabilitation of depreciated and out-of-service irrigation and drainage systems in various regions of Georgia. In total, the area of ameliorated land amounted to up to 200 00 ha, which increased by 144,410 hectares (about 3 times) compared to 2012.

As part of the land reform, **the LEPL – National Agency for Sustainable Land Management and Land Use Monitoring** was established which must conduct an inventory of land resources, create of land information system, set up an annual land balance report, provide state monitoring of land-use and ensure availability of land related information.

Despite the reforms and development programmes carried out in recent years, there are still challenges **in the agro-food sector,** the rapid solution of which is a necessary prerequisite for the socio-economic development of the country. There still are problems that lead to low scale production and low competitiveness.

5.1.2 Sustainability and resilience

Energy

The energy sector is facing new challenges related to ensuring its sustainability. The reforms carried out in recent years, have significantly increased accessibility of energy carriers and the quality of energy security. Based on various scenarios and estimations, the current pace of economic development will lead to a substantial shortage of electricity caused by insufficient capacity of existing generation sources. Significant challenges in the country are outdated, inefficient technologies, as well as ensuring the availability of modern energy services for the population.

It must be noted that the current structure of the energy is mostly regulated and needs significant steps comply with the obligations under the Association Agreement with the EU. The process of fulfilling these obligations has begun in Georgia for the unbundling and balancing market opening.

HPPs account for about 74% of the total installed capacity. The share of the regulatory HPPs is approximately 44% of the installed capacity. In the last decades, the construction of HPPs has intensified in Georgia: in the period from 2011 to 2021, 47 HPPs with a total installed capacity of 694 MW were put into operation in stages. In 2016, the first wind farm in Georgia was put into operation with an installed capacity of 20.7 MW. CFD mechanism auctions were introduced in 2023 to attract further investments in the small and medium size generation.

Encouraging the use of local renewable energy sources to meet domestic energy demand plays an important role in introducing energy efficiency in energy consuming sectors. As the legal framework that promotes energy efficiency is currently under development, implementing energy efficiency measures in energy-intensive sectors remains a challenge. Energy Efficiency efforts are another important direction of the activities in the sector led by the Government

Further enhancing connectivity in renewable energy sector through update of existing transmission lines but most importantly the implementation of the Flagship project through the Neighbourhood policy Investment Plan – **Undersea Black Sea cable** is being examined through the feasibility study currently. The project is of regional importance, co-signers of the Memorandum include **Georgia, Romania, Hungary and Azerbaijan.** The project will allow physical connection between Europe and Georgia through the submarine transmission line and opportunity of renewable energy transmission.

Connectivity - Transport and logistics

One of the impediments to the development of competitive intermodal transport is the limited investments in intermodal infrastructure such as seaports and logistic centres. **Maritime transport** plays an important role in the development of the country's transport corridor. Most of the cargo traffic in the ports of Georgia is transit. Despite investments made by private managers, the ports of Poti and Batumi have significant operational limitations due to their configuration. Based on the costs of service ships, the ports of Georgia are among the most expensive ones in the basin of the Black and Marmara seas. In addition, it must be noted that the tariff policy in the mentioned ports is not subject to state regulation. Plans for a new, deep sea port in **Anaklia** are underway.

Railway transport aims at increasing its competitiveness in freight forwarding operations. As part of the railway-based multimodal transport corridor – the Middle Corridor, digital platform will aim to organize simple and transparent transportation along the entire corridor.

Road connectivity is an area which has been heavily invested in by the Government in the past decade, which is another very important segment for the middle corridor development under the current geopolitical circumstances. East-West Highway (European route E60/E70) and South-North Corridor Kvesheti-Kobi is on its final stage of completion. This has been the largest capex for the past couple of years.

Connectivity - Digital economy and information society

Although the domestic telecommunications market in the country has expanded significantly over the past decade, the level of development of the digital economy is not so high, which is associated with the digital inequality between urban and rural areas, as well as high service prices, lack of digital skills of, high global Internet tariffs, roaming and parcel delivery, and the absence of an institutional coordination mechanism.

As of 2021, the density of broadband Internet service subscribers among households reached 86.7%, out of which the density of fibre-optic technology subscribers in households was 76%. Out of 3,385 villages in Georgia, the number of villages where at least one subscriber uses broadband Internet service is 69%.

However, it remains a little challenging to cover all the remote settlements with very small population, since the private sector is not interested in the development of broadband Internet access networks and government engagement required.

To develop digital infrastructure and cable infrastructure **submarine infrastructure of the Black Sea** connecting Europe is another flagship project under the **EU neighbourhood Investment Plan.**

Digital entrepreneurship is growing in the country and the digital economy is developing dynamically, which is reflected in various global indices and ratings. Various programmes and activities are being implemented in the country towards the development of digital services, but these efforts are fragmented, there is no single comprehensive vision and institutional mechanism for coordination.

Environment protection

Protecting the environment in the country, maintaining its sustainability and rational use of natural resources is an important challenge.

It is significant that in order to finalize the national legislation and bring it into line with the EU directives, the Environmental Assessment Code was adopted. Georgia's updated Nationally Determined Contribution (NDC) was approved in 2021. The Climate Change Strategy 2030 was also approved. The Law of Georgia on Ambient Air Protection was also harmonized with the EU legislation. The Waste Management Code and 20 normative acts made thereunder were adopted. The GoG approved the National Waste Management Strategy (2016-2030) and the National Waste Management Action Plan (2022-2026). From June 2023 extended producers' responsibility obligation come into force.

The system of specially protected natural areas is successfully expanding – in 2016 - 2021, 8 new protected areas (5 managed reserves, 1 national park, 2 protected landscapes) were created and 3 specially protected natural areas (national parks) were expanded. In order to improve the management of the forest sector, in 2020 the Parliament of Georgia adopted **a law – the Forest Code,** which contains important fundamentals for the development and use of forest ecosystem services. The safety and security systems of **the radioactive waste storage and radioactive waste disposal facilities** in Georgia have been significantly improved.

It must be noted that **climate change and its harmful effects** on ecosystems and the economy pose a serious threat to the sustainable development of Georgia. Due to its geographical location, complex topography, diversity of climatic zones, Georgia is characterized by a wide range of harmful effects of climate change: coastal damage/erosion due to the rise of the Black Sea level; an increase in the frequency and intensity of floods, landslides and mud flows; increased drought, accelerating the process of desertification of the semi-deserts of Eastern Georgia; rising temperatures, extreme temperatures, changing rainfall patterns, declining annual resources, forest fires that reduce forest cover and productivity; accelerated melting of glaciers, which contributes to severe flooding and loss of water resources.

5.1.3 Social policy and human capital

Human Capital is the most important priority together with the large investments for the Government. The sector is being heavily invested through the domestic funds as well as donor-supported projects. In 2022 the largest non-hard infrastructure loan was signed with the WB supported (USD 400 million) by AFD (Euro 100 million) and EU on Human Capital, which covers Healthcare, Social and Education areas.

Healthcare

Over the past two decades, the age structure of Georgia's population has been in line with global "aging" trends: the number of people aged 65 and over is increasing (15.4% in 2021). Life expectancy at birth has been steadily increasing over the past two decades. In 2021, it was 71,4 years (an average age is 82 in EU states), and healthy life expectancy for this period is 65 years. According to Geostat, in Georgia, like the majority of the countries of the world, the main burden of mortality in 2021 falls on non-communicable diseases. The under-five mortality rate of children in Georgia has been steadily declining over the last decade, but it is still above the EU average.

The country has made significant progress in reducing the burden of infectious diseases. In 2015, due to the implementation of the Hepatitis C Elimination Program spread of hepatitis C infection reduced from 5.4% to 1.8%. In 2010 - 2020, the rate of new cases of all forms of tuberculosis per hundred thousand inhabitants has almost halved. Since 2015, the dynamics of new cases of HIV/AIDS has also been decreasing. Despite tangible progress, the country still faces a number of challenges to eliminate a number of infectious diseases identified by the World Health Strategy or a national priority. In order to further enhance management of communicable diseases, Georgia actively invests in building public health workforce and laboratory infrastructure. Georgia is a leading country in the Surveillance Action Package within the Global Health Security Agenda (ECDC). However, it must be noted that the main task of the epidemiological surveillance system is the need to develop the capacity of local public health centres, as well as the need to improve communication and interoperability between EIDSS, the health information system and the laboratory management information system, provide routine immunization coverage, attract human resources and maintain continuing development.

Improving access to essential health services and medicines remains a top priority. Allocations from the state budget are increasing annually but the share of health spending in relation to Gross Domestic Product is low compared to European standards. Health services financing and provider payment mechanisms are currently being revised to simplify the co-payment system, establish greater control over the volume of service thus improve efficiency and avoid unnecessary costs that may increase the risk of impoverishment of households.

The GoG has begun implementing mechanisms for strategic procurement, selective contracting and performance-based payment, for which the National Health Agency was established in 2020, and the Agency's institutional capacity, as well as management and accountability mechanisms, need to be further developed and strengthened.

Despite the increase in state financial allocations for pharmaceutical products, access to medicines remains an important issue, largely due to the high cost of medicinal products. In 2019, 61% of catastrophic expenses accounted for outpatient medicines. There were no rules for direct or indirect control of drug prices, no "reference prices" and so-called "managed entry" mechanisms , until recently, for the implementation of which significant steps have already been taken. The reference pricing mechanism was introduced by law in 2022 to regulate prices of commonly used prescription drugs. By the end of 2023 reference prices were established for over 5000 medicines. A Simplification of the drug registration regiment with Turkey in 2022 also contributed to a rapid price reduction. Remarkable progress has been made since 2020 on regulating quality of pharmaceuticals. In 2020, the GMP inspection of the pharmaceutical sector began and a GMP certificate was issued for the first time. However, the scope of manufacturer inspections remains limited due to the limited number of certified inspectors, which slows down administrative processes. The drug quality laboratory was established and became operational 2023. This laboratory will enable for regular quality monitoring of drugs on the Georgian marker.

A number of steps have been taken towards the introduction of an International hospital accreditation system. All hospitals within the UHC program should satisfy credible international accreditors to remain eligible for participation in the state funding program. New licensing requirements have been introduced for most high-risk clinical services to improve patient safety.

Digital technologies have been increasingly used in health care setting in Georgia to improve clinical and patient data management and reporting. Digital solutions have been introduced to improve quality and access to primary care and specialized services for village communities. In 2022 50 telemedicine sites started delivering telemedicine services. Efforts are in place to further extend coverage with telemedicine in remote areas.

Education

Georgia has achieved high participation rates in preschool, general, vocational and higher education. The level of compulsory general education is practically absolute. Despite the positive trend, rates of continuation and completion of education at the secondary level are relatively low, but data vary by geographical area. The tertiary enrolment rate also increased significantly and vocational education is being highly promoted to attract more youngsters. At the level of preschool education, the involvement of children aged 5-6 years in "School Preparedness Programme" is high (87.3%).

Involvement of students with special educational needs has been steadily increasing at all three levels of general education.

As part of the reform of general education, in order to improve the quality of teaching and learning, the training of pedagogical leaders, as well as to promote school-based vocational development and the mutual cooperation of teachers. National minority schools implement a national curriculum based on the model of bilingual education.

The geography of access to **vocational educational institutions** has increased, various programmes and a system of vocational education for adults have been introduced.

Programmes introduced in the system have been implemented by compliance with the requirements of the labour market and focus on learning outcomes, strengthening the practical component and modern approaches to learning and assessment.

Despite the significant progress made in recent years, the main task in the system of education and science is still **the quality of education and the institutional strengthening of educational and research institutions.**

The challenges associated with the quality of education are visible at all levels of the education system, which is manifested in low academic performance and difficulty of overcoming different levels of education. Based on the results of the Programme for International Student Assessment (PISA).

Challenges of the quality and relevance of education at all levels of education are related to the quality of teaching and the competence of teachers. Teaching is still an unattractive profession, as evidenced by the fact that among students studying integrated bachelor's/master's programmes in the pedagogical profile, there is a high proportion of students with poor academic performance who also showed poor results on the Unified National Examinations. In addition, a teaching career is less attractive due to low pay.

Compared to pre-school education, the wages of workers at the **general education** level are relatively high. The wages of school teachers are increasing year by year, but despite recent improvements, wages in education remain the lowest compared to other sectors. Important steps are taken in 2024 in this direction.

The small size of **the vocational education sector** and low participation rate are still a challenge. Entrance of graduates from vocational education programmes into the labour market remains a big challenge and is related to such issues as the quality of vocational education programmes, compliance with the labour market needs, lack of human and financial resources, and development of key competences.

In the direction of strengthening the quality of **inclusive education** and improving the quality of inclusiveness, an important challenge is to improve the qualifications and competence of specialists who educate persons with special educational needs.

5.2 Selected Structural Reforms

b. Reform measures

5.2.1 Competitiveness

The main purpose of the reform shall determine under which of the 3 reform areas it can be presented (e.g. energy: a reform to promote the generation of renewable energy sources may be presented under the green transition area, while an energy market liberalisation reform should be presented under the energy sector area – even if it may have some indirect environmental effects, if these are not the main objective of the reform).

5.2.1.1 Reform Measure #1: Domestic Capital Market Development

ERP Guidance Area- iii. Economic Integration Reforms; Vision 2030 - GOAL 2.1: Ensure macroeconomic stability and implement policies aimed at structural economic improvement; GOAL 2.5: Develop capital market; SDG - 8, 10

1. Description of reform measures

A lot of progress have been made in recent years for capital market development. This includes amending and upgrading legal framework and infrastructure, introduction of institutional investors through introduction of compulsory employment pension scheme, development of government security market, improving transparency and accountability, implementation of market support programs and strengthening the regulatory framework of the market. Regardless of this progress, Georgian domestic capital market is still underdeveloped and illiquid. Size of the economy is a major constraint, however consistent and effective reform measures, together with the strong economic growth, can make tangible progress and improve efficiency of resource allocation in the economy.

Reform is oriented on two major directions, first is to increase supply and develop different instruments, including development of government security market, and second is increasing demand by strengthening institutional investors and develop benchmark instruments.

a. Activities planned in 2024-2026

5.2.1.1.1 Increase in the type, quantity, and availability of securities on the market (increase in supply) (5.1)

The development of the state debt securities market is important for the development of the capital market, for which it is necessary to maintain the emissions of state debt securities. Accordingly, the country will continue the policy of issuing benchmark bonds. The Primary Dealer Pilot Programme will be converged to a Fully-fledged System and the benefits of liability management operations (Buyback and Switch) will be explored. The Open Market Operations Policy will also be reviewed in line with the FSAP recommendations and appropriate changes will be made, as required. An assessment will be carried out regarding the issuance of various types of state debt securities. For retail investors, retail instruments will be implemented and developed.

It must be noted that the development of the corporate bond market will contribute to the diversification of corporate financing instruments. The legal framework created for securitization will help non-financial companies to seek financing by selling their predictable income (off-balance sheet). In addition, through covered bond framework the market of mortgage-backed securities will continue to develop as a convenient tool for the financial sector to obtain cheap financing (the mortgage-backed portfolio offers the possibility for a higher rating, which, in turn, makes it cheaper to raise capital). Also, in order to develop market-based instruments, the analysis of the real estate investment fund market will be continued.

Development of the stock market will, on the one hand, support the private sector to obtain financing in an alternative way, and on the other hand, it will open access for investors to a wider variety of products. At the same time, implementation of the policy of Larization will, in the long term, contribute to the local issuance of shares by local enterprises and their purchase by investors. In addition, it is important to increase the accessibility of the stock market for retail investors, facilitated by the introduction of modern financial technologies and the implementation of measures to raise awareness of the stock market. In the long term, the issue of stock exchange ownership by commercial banks and the standard of conflict-of-interest management regarding intermediaries will also be assessed. In addition, in order to ensure the development of the financial sector and the emergence of diverse instruments on the market, a regulatory framework for factoring will be developed, which will help attract working capital for small and medium-sized businesses through factoring companies. The regulations related to the issuance of securities will also be updated, in particular, small enterprises will be allowed to raise funds through crowdfunding mechanisms.

Georgia will continue to expand local currency borrowing in 2024 and medium-term, by using Public Investment Management tools on the decisions of foreign borrowing and increasing co-financing of the Government to donor financed projects and by diversifying and sophisticating the instruments of domestic borrowing to support local capital market development, while addressing the financing needs of the fiscal planning.

To solve this problem, a number of activities are planned: develop a benchmark yield curve by increase in the size of the benchmark bonds with various maturities; local currency government securities inclusion in the international indices (JP Morgan GBI-EM, FTSE Frontier Emerging Markets Government Bond Index, etc.); enhancement of the primary dealers pilot program and its convergence to a fully-fledged system; regular and effective communication with stakeholders to increase transparency and predictability of debt management; creation and development of the retail securities market, and improve and diversify the accessibly of local bonds by international investors.

An increase to 26.4% by 2024 and to 36.4% by 2027 in the share of debt denominated in GEL in the debt portfolio of the GoG was determined as a mid-term target value of the indicator of the Debt Portfolio diversification objective, while an increase to 40.4% (by 2030) - as a final target value. By the end of 2024 it is expected that that GEL dominated debt will be above the target, around 30% already.

At the same time, in order to improve the efficiency of debt management, it is planned to increase the share of non-resident investors among the government securities holders. By increasing the share of non-resident investors, the investor market will be diversified, which will reduce the cost of debt denominated in local currency and increase the inflow of foreign capital into the country.

With the development of the capital market, alternative and more flexible instruments for accessing finance and savings will emerge, which, in turn, contribute to the efficient allocation of resources in the economy and support the sustainable development. Effective allocation of capital requires the promotion of the formation of a competitive environment, therefore, decisions promoting competition will be made at all stages of the reform. In addition, as a result of the development of the capital market, Georgia will be able to obtain a classification of so-called frontier market, which will significantly stimulate the interest of international investors in the Georgian market and ensure attraction of more foreign investments, both portfolio investments (directly) and direct investments (indirectly).

Lead Implementer: MOF, MOESD

5.2.1.1.2 Develop the investor base in the local capital market (increase in demand) (5.2)

In the coming years, the diversification of the institutional investor base and the introduction of incentive mechanisms for them will become a priority. Investors in the capital market are mainly commercial banks, which acquire debt securities if they have a satisfactory rating, pledge them to the National Bank through a repo transaction, and therefore, attract cheap capital. With the full implementation of the Primary Dealer Programme and the appearance of more investment funds on the market, the interest in the secondary market must be increased, as a result of which the interest of other investors in emissions will also be increased. It will be necessary to reassess the existing regulations and implement a neutral tax policy in relation to financial instruments. For the development of similar institutional investors, both the reform of the private pension system and the insurance reform will continue. These reforms will jointly create additional long-term resources in Georgian lari, which will put even more pressure on the market to introduce market instruments and accumulate collective savings. In the direction of the development of insurance products, a legal framework based on the international best practices of life insurance instruments will be developed, which will affect not only the development of institutional investors, but also increase access to long-term savings for ordinary citizens. The state will continue dialogue with international and regional investment funds, as well as international financial institutions, and introduce incentive mechanisms to facilitate their investments and sharing of knowledge at local level.

Lead Implementer: MOF, MOESD

2. Results Indicators

Indicator	Baseline (2021)	Intermediatetarget (2027)	Target (2030)
Local Currency Debt share in the total Debt Portfolio	19.5%	36.4%	40.4%
Share of Non-resident Investors in Government Bonds and Securities	9.6%	25%	30%
Domestic Debt as share of GDP	9.7%	15%	17.5%
Corporate Obligations as share of GDP (without IFI issuance)	4.36%	8%	11%
Bond Market Capitalization as share of GDP	3.9%	6%	8.5%
Portfolio Investment as share of GDP	15.8%	17%	19%

3. Expected impact on competitiveness

Sustainable Fiscal Policies and efficient debt management strategy is the essential factor for giving right kind of support to inclusive economic growth and competitiveness. Diversification of Debt Portfolio and mitigating exchange rate fluctuation risks while at the same time monitoring interest rates of the international and domestic markets is one the key areas of sustainable fiscal policy planning.

Underdeveloped Domestic Market has been one of the milestones of Georgia's economic growth and access to financing opportunities. Thus, the reform measure and its outcomes will influence increased competitiveness on the domestic market.

Besides diversification and pro-competitive measures implemented in financial sector through frameworks geared towards creation of investment funds, asset management companies and insurance companies will have positive impact on competitiveness.

4. Estimated cost of the activities and the source of financing

The activities to be implemented are mostly of policy-making and policy formulation nature and covered as part of the administrative costs of the involved stakeholders. The estimated costing for the Domestic Market Development under the area of Debt Management[31]:

(Thousand GEL)

Costing	2024	2025	2026	Budget Line
Developing Domestic Bond	2 520.0	2 686.0	2 979.6	MOF

[31] Public Finance Management Reform Strategy 2023-2026

Market				Programme Code 23 01

5. **Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare**

Sustainable Fiscal Policies and efficient debt management strategy is the essential factor for giving right kind of support to inclusive economic growth. Effective fiscal policy planning is essential factor for allowing adequate financing for the measures that support employment, poverty and other policy areas. Increased access to financing can have positive impact on gender equality. Efficient pension framework that also supports long-term local capital creation will support adequate retirement for the population.

6. **Expected impact on the environment and climate change**

Domestic capital market development is an important area of reform for better access to financing and ESG principles, including the measures that incorporates green financing principles, that can have positive impact on environment and climate related issues.

7. **Potential risks**

Risk	Probability (low or high)	Planned mitigating action
Uncertainties related to external shocks and constraints caused by changes in macro parameters;	Medium	Constant monitoring and scenario analysis to adjust policies as external factors change
Slow development of stimulating measures for the development of the investment funds' market	Medium	Enhanced stakeholder engagement to address the signals coming from the market

5.2.1.2 Reform Measure #2: Improved food security through upgraded irrigation and drainage systems

(ERP Guidance Area - iv. Agriculture, Industries and Services; Vision 2030 GOAL 2.13: Facilitate the maximum use of the existing potential in the agro-food sector of Georgia; SDG – 1, 2, 3, 5, 8, 9, 13)

1. **Description of reform measures**

Georgia aims Agro-food products produced in Georgia to be competitive and delivered to the market in a form that meets modern standards and requirements. The state will support the development of the agricultural value chain as much as possible. In the period up to 2030, all systematic and grant projects will be underpinned to support the development of the value chain in the agro-food sector. Based on the current trends in the local and international market, new development and competitiveness-oriented programs will be developed.

It is important to actively invest in rehabilitating and modernization of the irrigation systems.

A unified Land Information System based on geoformation technologies will be created - a land cadastre production methodology will be introduced, on the basis of which updated national land balance annual reports will be produced. As a result, agricultural land resources are recorded according to natural, economic, legal, ecological, and economic data.

a. Activities planned in 2024-2026

5.2.1.2.1 Rehabilitation of the Irrigation systems

A unified Land Information System based on geo-information technologies will be created - a land cadastre production methodology will be introduced, on the basis of which updated national land balance annual reports will be produced. As a result, agricultural land resources are recorded according to natural, economic, legal, ecological, and economic data. A satellite monitoring system (remote sensing) will be introduced, land use and land cover data will be created, and relevant legislative changes will be initiated. A methodology will be developed for defining and changing the target purpose of land plots and the categories of agricultural land plots.

The inventory of windbreaks will be conducted, status assigned and registered in the public registry. In addition, country will start restoration/rehabilitation and sustainable managed of windbreaks, based on recently updated legislation.

Initiation and implementation of new legislation based on unified, coherent approaches to sustainable management, use and protection of pastures, which ensures the prevention of land degradation and the preservation of biodiversity, contributing to the improvement of pasture fertility, sustainable development of the livestock industry and increased productivity.

Soil Protection Legislation will be updated, legal and technical norms of soil protection will be initiated. An appropriate monitoring and control system will be introduced.

Specific legal norms on the use and protection of agricultural land will be developed. The rules of monitoring and control of land use, purposeful use and protection of land will be adopted, and the relevant system will be developed and implemented. By 2030 the general condition of Georgian soils will be studied, evaluated, the creation, updating and detailing of relevant geo-data base and thematic soil maps using digital soil cartography methods will continue. By conducting field monitoring of the soil condition, periodic updating and detailing of already created fine-scale digital maps will be carried out.

By 2030 Soil data information system will be established in accordance with the requirements of the National Spatial Data Infrastructure Development (NSDI) project and the World Soil Information System - GLOSIS. Methods of restoration of degraded soils will be developed. Effectiveness of fertilizers, ameliorants and soil treatment technologies, optimal methods of sustainable soil management and increasing fertility will be studied. Studies will be carried out and recommendations will be made, taking into account the characteristics of agricultural crops and soil conditions, cultivation, irrigation systems and irrigation regulations, fertilizer and ameliorant application schemes and related modern technologies.

Lead Implementer: MEPA, SOE "Georgian Amelioration"

5.2.1.2.2 Sustainable Agricultural Land Management

A unified database on the land fund will be created - a land cadastre production methodology will be introduced, on the basis of which updated land balance data will be produced. As a result, agricultural land resources are recorded according to natural, economic, legal, ecological, and economic data. A satellite monitoring system (remote sensing) will be introduced, land use and land cover data will be created, and relevant legislative changes will be initiated. A methodology will be developed for defining and changing the target purpose of land plots and the categories of agricultural land plots.

Windbreaks will be inventoried, assigned status, registered in the public register, restored, rehabilitated, cultivated, development of management plans and, according to the legislation of Georgia, their sustainable management.

Initiation and implementation of principles of sustainable management of pastures and livestock crossings will be carried out.

Collection of existing data on Georgian soils will be ensured and a renewable database will be established. Legal and technical norms of soil protection, removal of fertile layer, storage and targeted use will be developed. An appropriate monitoring and control system will be introduced.

Specific legal norms on the use and protection of agricultural land will be developed. The rules of monitoring and control of land use, purposeful use and protection of land will be adopted, and the relevant system will be developed and implemented. The general condition of Georgian soils will be studied, evaluated, the creation, updating and detailing of relevant geo-data base and thematic soil maps using digital soil cartography methods will continue. By conducting field monitoring of the soil condition, periodic updating and detailing of already created fine-scale digital maps will be carried out.

Soil data information system will be established in accordance with the requirements of the National Spatial Data Infrastructure Development (NSDI) project and the World Soil Information System - GLOSIS. Methods of restoration of degraded soils will be developed. Effectiveness of fertilizers, ameliorants and soil treatment technologies, optimal methods of sustainable soil management and increasing fertility will be studied. Studies will be carried out and recommendations will be made, taking into account the characteristics of agricultural crops and soil conditions, cultivation, irrigation systems and irrigation regulations, fertilizer and ameliorant application schemes and related modern technologies.

Lead Implementer: MEPA, MOJ

2. Results Indicators

Indicator	Baseline (2021)	Intermediate target (2027)	Target (2030)
Ameliorated Land Area	198 727 ha	291 527 ha	300 727 ha
Total Coverage of the Land Management monitoring system	0	70%	100%

3. Expected impact on competitiveness

The reform measures are aimed at increasing efficiencies of the agro sector value chains and productivity of the farmers in the sector. The reform measure will have direct impact on economic growth and competitiveness, particularly having in mind that agriculture's share in our economy is up to 7% and 18% in the employment.

4. Estimated cost of the activities and the source of financing

Irrigation systems are rehabilitated regularly through Budget Funds and Donor funded investment projects. For the past year three different loan agreements were negotiated/signed with the EIB, AFD, WB and ADB and EU supported grant, with total amount of Euro 195 million. These projects require government co-financing of Euro 110 million over the cause of the implementation period.

The table below shows the costs envisaged in the budget for 2024-2026 though regular budget funds as well as projections of disbursements for the donor funded projects.

(Thousand GEL)

Costing	2024	2025	2026	Budget Line
Rehabilitation of Irrigation systems[32]	78 000	82 000	82 000	MEPA Programme Line 31 06
o/w Donor Funded	7 500	27 000	27 000	

[32] https://www.mof.ge/images/File/2024_Biujeti/26-12-2023/danartebi/19.kapitaluri%20me3%20wardgena.doc

Costing	2024	2025	2026	Budget Line
Land Management Monitoring Programme	4 950	5 500	5 500	MEPA Programme Line 31 15
Sustainable Agriculture, Irrigation and land Management project (WB)	4 685	5 400	6 000	MOJ Programme Line 26 09

5. **Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare**

The reform measures are aimed at increasing efficiencies of the agro sector value chains and productivity of the farmers in the sector. The reform measure will have direct impact on economic growth and competitiveness, particularly having in mind that agriculture's share in our economy is up to 7% and 18% in the employment. Since the share of the people employed in the Agriculture is quite large these reforms will significant impact on the employment and poverty reduction by increasing efficiency gains and productivity in the sector. The reform measures will have positive impact on gender related issues as well both for those employed in the farming sector as well as land management related activities will help female land owner with access to financing.

6. **Expected impact on the environment and climate change**

Reform measure is tagged as Climate adaptation related area in the Programme Budget for 2024-2027.

Reform measures will increase the efficiency in water and land resource management, thus having positive environmental impact.

7. **Potential risks**

Risk	Probability (low or high)	Planned mitigating action
Unforeseen challenges with the contractors during the implementation	Medium	Effective procurement instruments
Uncertainties related to external shocks causing changes in macro parameters that can limit fiscal space;	Medium	Constant monitoring and scenario analysis to adjust policies as external factors change

5.2.2 Sustainability and resilience

5.2.2.1 Reform Measure #3: Renewable Energy and Energy efficiency

ERP Guidance Area - i. Green Transition; iii. Energy Market Reforms; Vision 2030 - GOAL 2.7: Ensure the sustainability of the energy sector of Georgia; SDG – 7, 13

1. **Description of reform measures**

In order to balance the dynamics of energy consumption and improve energy safety parameters, maximum efforts will be directed to the faster and more rational use of local energy resources, the creation of a competitive market and investment environment, the implementation of energy efficient measures and provision of reliability of access and supply of energy resources.

Benefiting from the renewable energy generation potential and enhancing connectivity through the submarine cable to EU is an important investment priority for the next medium-term. This is well aligned with the EU neighbourhood Investment Plan for Georgia and supported by EU.

a. Activities planned in 2024-2026

5.2.2.1.1 Develop renewable energy sources (7.2);

To adequately meet consumer demand for electricity, generation growth must outpace consumption growth so that generation equals or exceeds consumption at any given time.

A deficit in the electricity supply system and future calculations reveal that the country clearly needs energy facilities that will minimize dependence on imports and improve the quality of energy security.

Accordingly, great attention will be paid to the optimal use of existing renewable energy sources, which will allow the country to meet the demand for electricity with technologies that directly respond to global environmental and climate change challenges and international obligations in this regard. Along with the optimal utilization of hydro resources, the utilization and integration of variable renewable sources of energy - solar and wind energies will make a significant contribution to ensuring energy security and improving the quality of energy independence.

Finally, in the coming years, the total installed capacity of existing generating capacities in Georgia will reach 7 thousand megawatts, with the largest part of the new capacity accounting for renewable energy sources: the share of renewable energy sources in the electricity balance is 81%.

It is important to be able to generate peak energy from reservoir hydroelectric power plants, supply the electric power system during the busiest, peak hours and thereby avoid expensive imports, which will increase, on the one hand, the country's energy security level and, on the other hand, the country's competitiveness in the export market.

Based on the current forecast, the total installed capacity of the country's renewable energy power plants will reach 3601 MW by 2024, and 6060 MW by 2030.

Lead Implementer: MOESD

5.2.2.1.2 Ensure access to energy resources and reliability of supply (7.4);

To ensure the reliability and sustainability of the energy sector, the state will continue to restore and build the infrastructure for the electricity transmission.

Over 5,800 km of 500/400/220/154/110 kV transmission lines and related infrastructure are planned to be built in Georgia in the coming years, which aims to ensure the integration of new power plants into the network, the stability of the electricity system and security of supply, as well as increasing the transit potential.

The geographical location of Georgia and its energy system creates opportunities for trading electricity with neighbouring energy systems. Based on the above, the concept “Georgia – an electricity hub” remains a priority.

CFD mechanism schemes was launched in 2023 and a successful auction for the Renewable Energy small and medium size generation was held. Another round is announced for 2024. The second capacity auction was announced on 29th of December, 2023 and results will be announced in the following months. In this auction, among the other renewable energy projects quota is allocated to welcome applications for regulated (with reservoir) HPP’s and for the Solar and Wind Power Plants with Battery Storage Systems (BSS).

In response to the direct access to the European electricity market and the challenges of the country’s energy system, the work on the Georgia-EU Underwater Power Transmission Line project will continue. The project involves the construction of an underwater transmission line from Anaklia across the Black Sea and in this way, connecting the Georgian electricity system to the systems of ENTSO-E member countries bordering the Black Sea. MoU is signed by Georgia, Romania, Azerbaijan and Hungary to prepare for the project implementation. WB is finalizing the feasibility study and preparation works for geo-technical studies are due to be started in 2024.

Lead Implementer: MOESD, GSE

5.2.2.1.3 Promote energy efficiency (7.3)

In order to balance the existing energy deficit, in parallel with the use of local resources, energy saving measures will be actively implemented, which will create an additional opportunity to reduce the share of imports in the country’s unified energy balance. In this regard, work will continue on the development of respective secondary legislation to promote the energy efficiency of the production cycle in the country, as well as the renovation and construction of buildings in accordance with energy-efficient standards.

Energy audits will be conducted to implement energy efficiency legislation and therefore promote energy efficiency. To this end, guidelines for energy audits are being developed, energy auditors are being trained as part of training programs, and an accreditation and certification system will be established; From 1st July 2023, the Minimum Energy Performance Requirements (MEPRs) apply to all newly constructed buildings, building units, and building elements. After transitional period, MEPRs will also apply to existing buildings in the event of major reconstruction (the reconstruction of more than 25% of the surface of a building envelope). However, subject to exceptions are cases, where implementing these requirements during the building's lifecycle are proven to be not cost-effective. The technical support and software necessary for introducing energy efficiency in buildings are available at the municipal level; trainings for the staff of the relevant services of the municipalities will be continued.; In order to monitor the results of energy efficiency measures implemented within the framework of various projects and programmes, information on energy savings and the results of energy efficiency measures will be posted on monitoring and verification platform (MVP).

The introduction of the mentioned measures will contribute to the improvement of energy efficiency in the country, implying approximation with the European standards, greater energy savings and effective management of available resources.

Lead Implementer: MOESD

2. Results Indicators

Indicator	Baseline (2021)	Intermediate target (2027)	Target (2030)
Installed capacity of the Renewable energy sources:	▪ Wind: 21 MW; ▪ Hydro: 3 370 MW; ▪ Solar: 0 MW	a) Wind: 617 MW; b) Hydro: 4 282 MW; c) Solar: 232 MW	a) Wind: 976 MW b) Hydro: 4 852 MW c) Solar: 232 MW
Constructed high voltage transmission lines	4 367 km	5 690 km	5 840 km
Newly constructed buildings in line with the minimum requirements of the energy efficiency	0	2 355	3 055

3. Expected impact on competitiveness

Energy security and energy independence is one of the key factors to sustainability. The recent crisis and increased commodity prices has showed how important does the role of having relatively cheap own renewable resources and resources from the gas pipelines transmitting through Georgia, from Azerbaijan to Turkey and Europe have played in the resilience of Georgia's economy.

Investing in Energy sector, through sovereign funds as well as creating the environment for the private investments is the country's priority. This will ensure further increase in renewable energy generation and enhance connectivity to Europe through the submarine transmission line.

Reducing import dependency, increasing energy exporting potential and ensuring energy security will strongly support economic growth and resilience.

4. Estimated cost of the activities and the source of financing

The costs for the construction and rehabilitation of the transmission lines is mostly finance through loans from the IFIs working in the sector and part of the annual and medium-term budget planning process and program and capital budgeting. The table below represents the costs envisaged by the medium term forecasts for 2024-2027 submitted to the parliament as part of the 2024 Budget.

Energy Efficiency policy formulation is mainly led by the department under the MOESD and supported through donor funded grants as part of the Energy sector reform.

(Thousand GEL)

Costing	2024	2025	2026	Budget Line
Development of the Systemic Transmission lines network	125 000	227 000	187 000	MOESD Program line 24 14
o/w Donor funded	105 000	205 000	165 000	MOESD Program line 24 14
o/w Geotechnical studies and preparation works for the Undersea Black Sea cable (WB, EU)	5 000	80 000	40 000	MOESD Program line 24 14
TA to Energy Sector Reform (GESRP) (EU-NIF)	3 000	1 400	500	MOESD Program line 24 13

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare

In the long-run energy security and energy independence should ensure more resilience to the economic shocks and commodity price increase thus the reform measures have important social outcome implications.

6. Expected impact on the environment and climate change

Reform measure will have positive impact on environment since this includes supporting renewable energy generation and connectivity as well as energy efficiency measures that will lead to less carbon emissions and will allow increased demand on the consumption to be addressed by increased renewable energy supply and savings in consumption.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Uncertainties related to external shocks by changes in macro parameters that can limit fiscal space;	Medium	Constant monitoring and scenario analysis to adjust policies as external factors change
Geopolitical Constraints on the regional projects	Medium	Regular discussions with the stakeholders

5.2.2.2 Reform Measure #4: Enhanced Connectivity

ERP Guidance Area - ii. Digital Transformation; iv. Transport Market Reforms; Vision 2030 - GOAL 2.8: Increase the competitiveness of the transport and logistics sector of Georgia and ensure sustainable, and efficient transport links, GOAL 2.9: Develop the digital economy and information society; GOAL 2.11: Develop basic infrastructure; SDG – 9, 11

1. Description of reform measures

The goal of the GoG is to increase the competitiveness of Georgia's transport and logistics sector and provide sustainable, efficient transport links, which will create an opportunity to use the country's transport and logistics potential more efficiently. This directly affects the growth of added value generated in the field of transport and warehousing. In order to achieve the goal set in the direction of transport and logistics, the development of the transport-logistics infrastructure and network will continue, in accordance with international standards, sea and land transport will be more developed and transport links will be improved.

The rapid development of the country's transport infrastructure is important for increasing the competitiveness of the transport and logistics sector of Georgia, which means a growing national high-speed highway system, new rail routes, international airports and expanded seaports/terminals, including the implementation of the Poti port infrastructure expansion and Anaklia deep water port infrastructure projects.

In order to develop logistics infrastructure, logistics centres will be created in Eastern and Western Georgia, which can be used as an example of good practice for the creation of a multimodal logistics network in the South Caucasus and Central Asia. The scale of the logistics centre will be developed in accordance with the national and regional market requirements.

a. Activities planned in 2024-2026

5.2.2.2.1 Further develop maritime and land transport and improve transport links in line with international standards (8.2)

By modernising technical equipment and improving service quality in the ports of Georgia, it will be possible to ensure the stability and reliability of regular transport services. The above, together with the introduction of the maritime single window principle, will make it possible to serve ships with a fixed schedule and organize block trains with a regular schedule.

To increase the competitiveness of the maritime sector, maritime services will be digitized, on the basis of which an administrative burden for ships will be reduced. This will increase the efficiency of maritime transport, ensure greater environmental considerations, and facilitate the integration of the sector in the digital multimodal logistics chain. In this connection, work is underway to implement the Maritime Single Window and Port Community System in Georgian ports.

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Particular attention is placed on the Black Sea connectivity. As part of the flagship initiatives under the EU's Economic and Investment Plan (EIP) for the Eastern Partnership, a study has already been prepared for the development of ferry/container shipping services across the Black Sea. The work will continue to increase direct and reliable transport links between Georgia and the EU.

The Government of Georgia is in the process of selecting a private partner for the Anaklia Deep Sea Port Project. At the same time preparation works will start for constructing the infrastructure that remains under the government's responsibility as the 51% owner of the project.

The railway transport sector is being restructured and reformed, taking into account the existing challenges in the field of land transport and with the aim of introducing approaches based on modern and best European experience.

The first railway competent state authority was established on July 1, 2023, as the LEPL - Rail Transport Agency under the system of the Ministry of Economy and Sustainable Development. At the initial stage, functions of the mentioned agency will be related to safety certification of railway operators/infrastructure managers, certification of train drivers and transportation of dangerous goods. These functions will become effective after completion of transitional/preparatory period, which is set until 1st January 2025.

At the same time, the Transport Safety Investigation Bureau of the Ministry of Economy and Sustainable Development of Georgia was defined as an independent railway incidents and accidents investigation body.

The effective introduction and implementation of the directives and regulations provided for by the EU-Georgia Association Agreement will be continued across all transport modes for the greater interoperability and integration into the European transport market.

Relevant studies will be continued and, depending on results, further steps will be planned to digitalize the transport corridor including digitalizing transport documents and introducing freight tracking systems.

It is planned to study the potential of contrailer (Ro-La) shipments, which will serve to attract additional cargo with less impact on the environment.

Completion of the above projects will help increase the capacity, speed and reliability of Georgia's transport network and diversify Georgian corridors.

Lead Implementer: MOESD

5.2.2.2.2 Develop the infrastructure of international and secondary roads (11.1)

A significant part of the international road network has already been improved and will be further improved by the ongoing works on the East-West highway, the main sections of which are scheduled to be completed by the end of 2024 and early 2025. Work will continue in the direction of increasing road safety, including in line with the measures outlined in the National Road Safety Strategy.

In subsequent years, in the direction of the development of roads, it is planned to sharply increase the transit potential, develop and complete construction of regional and municipal administrative, as well as industrial and cultural centres of connecting roads, circular regional roads of tourist importance and other road infrastructure. This includes the construction, modernization, reconstruction, rehabilitation, and current and periodic repair of primary and secondary roads, taking into account the international road safety standard.

Within the legal approximation with the EU standards and other international legal norms, the harmonization of road legislation and standards will be ensured. Also, through the use of innovations and modern technologies, management efficiency will be increased.

Until 2025, as part of the rehabilitation and periodical repair works of primary and secondary roads, it is planned to rehabilitate and periodically repair up to 1,500 km of various road sections, construct and rehabilitate up to 150 bridge crossings, after the implementation of which, in parallel with the completion of the ongoing road projects, 95% of primary roads and 80% of secondary roads will be repaired.

In 2025-2030, within the scope of the rehabilitation and periodical repair works of primary and secondary roads, it is planned to rehabilitate up to 2,000 km of various road sections, construct and rehabilitate up to 250 bridge crossings. Simultaneously with the completion of the projects, 97% of the primary roads, and 93% of the secondary roads will be repaired, the remaining 7% of which will be paved with gravel, thus ensuring the smooth movement of vehicles, based on the appropriate standard.

Lead Implementer: MRDI, Roads Department

5.2.2.2.3 Develop high-speed Internet infrastructure

In order to develop high-speed Internet infrastructure in the country, within the framework of the "Log in Georgia" project, the state programme for the development of broadband access infrastructure will be continued, and the legislative framework will be improved to promote the development of broadband networks and services, including attracting investments in the sector, and developing 5G networks. This, in turn, will allow us to cover populated areas with at least 8000 km of fiber optic networks by 2030. In addition, in order to provide Internet to the high-mountainous regions of the country, measures will be continued to promote the community digitalization. This will help increase private sector investment in the digitalization of various sectors of the economy, accelerate the demand for broadband Internet infrastructure and the provision and use of digital services by private and public sectors in regions where such services are not represented or there is no broadband connection.

To popularize the use of broadband digital services, the state will implement activities that promote the development of digital skills, including for certain categories of socially vulnerable and disabled people, so that every resident of the country has the opportunity to enjoy the benefits of the digital economy. These programmes can maximize benefits and minimize privacy and cybersecurity risks, especially for people with disabilities, children, and seniors being online. In addition, the cyber culture of the information society will be developed and an appropriate environment will be created to combat cyber threats, including raising the level of education of schoolchildren and students in the direction of developing digital skills.

Further enhancement of the digital connectivity through the fiber submarine cable is also being studied and it is part of the ongoing feasibility done by the WB as part of the submarine electricity transmission line.

2. Results Indicators

Indicator	Baseline (2021)	Intermediate target (2027)	Target (2030)
Core TEN-T Network integration	55%	≥85%	100%
International freight transportation (Railway and Land) (mln ton)	23.2	≥27	≥34
Time for servicing the ships at the Ports	48 hours	60 minutes	60 minutes
Remote villages covered by rural fibre internet access	124	174	400
Submarine Black Sea fibre Cable	1	1	2
Length of constructed/rehabilitated highway	219	542	760

3. Expected impact on competitiveness

Georgia due to its geopolitical location is naturally an important junction between Europe and Asia. Georgia has been investing in its transit and logistics infrastructure for the past two decades quite heavily. With increased demand on the middle corridor as result of the recent geopolitical development this role is even more emphasized. Georgia invests in this infrastructure to ensure long-term sustainability and attractiveness of this corridor. The reforms measures and projects implemented under the area of Connectivity have significant impact on economic growth potential and competitiveness.

4. Estimated cost of the activities and the source of financing:

Regulation and maintenance costs are mostly provided through the domestic Budget funds for the activities and infrastructural projects under the reform area. Highway road infrastructure and rural fiber projects are being financed through IFIs loans, with government co-financing.

The table presents the costs allocated for the activities under the reform area as part of the 2024 Annual Budget and 2024-2027 medium term budget planning.

(Thousand GEL)

Costing	2024	2025	2026	Budget Line
Anaklia Deep Sea Port	50 000	100 000	150 000	MOESD: Programme line 24 06 06
Maritime Transport Regulation	11 040.0	11 150	11 250	MOESD: Programme line 24 28
Land Transport Regulation	26 098	26 100	26 200	MOESD: Programme line 24 29
Railway Transport Regulation	1 500	1 600	1 700	MOESD: Programme line 24 22
Innovation and Technology Development (incl. Log-in Georgia)	81 100	97 800	27 900	MOESD: Programme line 24 08
Rehabilitation of Road Infrastructure	1 933 600	1 910 600	1 700 000	MRDI: Programme line 25 02
o/w East-West Highway and South North Corridor	1 225 000	1 035 000	510 000	MRDI: Programme line 25 02 03

5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare

Transport and Logistics is an important area of economy and expanding transit potential is the potential for further economic development. Enhance connectivity both physical through roads as well as digital help with better employment options and easier movement and better access to services and finances. Thus the projects under this reform area are significant for social outcomes, employment, poverty reduction and access to healthcare.

6. Expected impact on the environment and climate change

Transport related project naturally do have impact on environment and climate. Road Infrastructure and Land Transport regulation projects are tagged in the 2024-2027 as programmes that are linked to Climate Adaptation.

Maritime and Railway transport related projects are to be scanned on their impact on environment and climate as well.

7. Potential risks

Risk	Probability (low or high)	Planned mitigating action
Uncertainties related to external shocks causing changes in macro parameters that can limit fiscal space;	Medium	Constant monitoring and scenario analysis to adjust policies as external factors change
Geopolitical Constraints on the regional projects	Medium	Regular discussions with the stakeholders

5.2.3 Social policy and human capital

5.2.3.1 Reform Measure #5: Improved Healthcare of the Population

ERP Guidance Area - iv. Healthcare; Vision 2030 - GOAL 3.1: Improve the health status of the population; SDG – 3, 5;

1. **Description of reform measures**

The GoG aims to improve the health status of the population, through universal access to health services, improved quality of services and equal sharing of the financial burden.

Universal access to healthcare by 2030 is a priority of the UN Sustainable Development Goals, for which the ability to adequately invest in the system and long-term financial stability are of great importance, since an effective financing system reduces the risk of serious financial hardship and/or impoverishment.

The Government is developing mechanisms aimed at improving financial access to essential pharmaceuticals and reducing financial barriers to medical services (reference prices, i.e. "Managed entry" mechanisms), as well as simplifying the complex co-payment system.

a. Activities planned in 2024-2026

5.2.3.1.1 Efficiently use resources and improve access to services (1.1);

Universal access to healthcare by 2030 is a priority of the UN Sustainable Development Goals, for which the ability to adequately invest in the system and long-term financial stability are of great importance, since an effective financing system reduces the risk of serious financial hardship and/or impoverishment.

To ensure the above, the GoG is working on developing a social code that will improve the protection of all citizens from various social and financial risks and ensure universal access to health services.

In order to effectively use resources and improve the quality of services, modern reimbursement methods are being introduced in the field of specialized healthcare services (such as, for example, diagnostic groups, result-oriented payment, etc.). Changes are made to the basic packages; assessments are being be revised, and the provided services are adjusted to the population needs.

Selective contracting is also becoming an important and effective tool for improving the quality of medical services. A selective contracting system has already been developed and used in perinatal services and primary healthcare. The mentioned system will be expanded in other clinical areas as well.

The package of services are being revised, the needs of medical services determined according to geographic locations and clinical areas, and a special emphasis will be placed on the needs of vulnerable groups for equal access to health services. Special targeted programs are being created for managing specific chronical cases (oncology, spinal atrophies etc)

Lead Implementer: MOLSHA

5.2.3.1.2 Improve access to high-quality, efficient, and safe medicinal products (1.2)

The agenda for improving the pharmaceutical sector is broad and ambitious, and is primarily aimed at reducing out-of-pocket costs for medicinal products and ensuring the safety, quality, and rational use of medicinal products.

Changes will be introduced, and the regulatory base of the pharmaceutical industry will be strengthened, and it will be harmonized with the EU legislation, both for medicinal and auxiliary products. EU standards will be implemented in the areas of marketing, authorization, sales and advertising, drug safety control, pharmacovigilance, and polypharmacy.

The GoG will promote the further development of Good Manufacturing and Good Distribution Practice (GMP/GDP) standards to consistently maintain the safety and quality of locally produced medicinal products in accordance with international standards.

A national laboratory for drug quality control will be further strengthened with adequate funding, infrastructure and employees to improve drug quality control.

To reduce the financial burden related to outpatient drugs, the government will expand the cancer and chronic disease management drugs subsidy program to reduce Non-communicable disease burden.

The electronic prescription system will be actively used to ensure the safety and quality of prescriptions issued by doctors. E-prescription system will be used to monitor excess use of drugs (including antimicrobials) and avoid polypharmacy.

Efforts will be made to raise public awareness of the risks associated with irrational, excessive use, self-medication through various communication channels.

Reforms will continue to advance pharmaceutical price regulation mechanisms and build institutional capacity for its sustainability and implement managed entry agreement policy to improve access to innovative medicinal products.

Lead Implementer: MOLSHA

2. Results Indicators

Indicator	Baseline (2021)	Intermediatetarget (2027)	Target (2030)
Share of households with catastrophic out of pocket healthcare expenditures	17.4%	12%	10%
Healthcare services Universal coverage index	68%	85%	95%
Share of expenditure on medication in the out-of-pocket expenditures	48%	30%	25%

3. Expected impact on competitiveness

The reform measures will allow more efficiency in the government spending on healthcare programs and will help reducing out-of-pocket expenditure for the population, especially reducing risks of phasing catastrophic out-of-pocket spending, which often prevents accumulation of savings in the households and economies and could be the course on indebtedness. Thus the reform measures will have positive impact on inclusive economic growth.

4. Estimated cost of the activities and the source of financing

Universal healthcare coverage has been implemented in Georgia for the past decade. The reform measure aims at efficiency gains and better services under the spending for the healthcare services. There are also several new directions identified in the financing of the healthcare programs, which are identifies as "new policies" in the medium-term plan of the budget for 2024-2027.

The healthcare reforms are also envisaged by the "Human Capital" Program for Reform (PforR) by the WB and co-financed by the AFD and GoG and supported by EU.. The PforR principle does mean disbursing to the Budget based on reforms achieved by the implementers, which are completely based on the county's own system, without creating special project implementation units. The "Human Capital" project covers: Healthcare, Social and Education reforms and envisages USD 400 million from the WB and Euro 100 million from the AFD up to 2028.

(Thousand GEL)

Costing	2024	2025	2026	Budget Line
Healthcare Program:	1 621 485	1 695 000	1 815 000	**MOLSHA: Programme line: 27 03**
o/w Universal Healthcare	1 035 000	1 100 000	1 200 000	
o/w new policy: Supporting Transplantation needs	5 600	5 600	6 000	
o/w new policy: Supporting Spinal Atrophy needs	13 000	13 000	13 000	
o/w new policy: Glucose monitoring	6 000	6 000	6 000	
o/w new policy: Treatment for Oncology Patients below 18 years of age	26 100	26 100	26 100	

5. **Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare**

The reform measures are directly aimed improving health for the population of Georgia, increasing access to quality healthcare services and addressing the needs for most vulnerable groups by targeted services while improving the universal healthcare coverage.

6. **Expected impact on the environment and climate change**
7. **Potential risks**

Risk	Probability (low or high)	Planned mitigating action
Uncertainties related to external shocks causing changes in macro parameters that can limit fiscal space;	Medium	Constant monitoring and scenario analysis to adjust policies as external factors change
Pandemics that can change healthcare spending priorities	Medium	Constant monitoring and scenario analysis to adjust policies as external factors change
Global factors impacting prices on pharmaceuticals	Medium	Constant monitoring and scenario analysis to adjust policies as external factors change

5.2.3.2 Reform Measure #6: Education

ERP Guidance Area - i. Education and Skills; Vision 2030 - GOAL 3.6: Promote the development of an individual-oriented high-quality education system providing equal opportunities for education; SDG – 4, 8, 9;

1. Description of reform measures

Access to high-quality education at all levels of education will be ensured for every citizen of Georgia, including individuals with various needs.

In the coming years, significant reforms will be implemented in the direction of teacher training, entry into the profession and their continuous professional development. This also includes the development of a performance appraisal system, career planning and motivation system. Educators will also be involved in needs-based continuing professional development. At the same time, it will help build the capacity of school principals to act as leaders of learning.

The GoG will ensure that the general education financing system is modified to ensure an increase in service quality and equal access. It will also strengthen efforts to ensure the modernization of the pedagogical training system for future teachers, as well as the recruitment and retention of personnel.

a. Activities planned in 2024-2026

5.2.3.2.1 Ensure a high quality, supportive, and development-oriented care and educational process by all early and pre-school care and education institutions (6.1)

In the coming years, significant reforms will be implemented in the direction of teacher training, entry into the profession and their continuous professional development. This also includes the development of a performance appraisal system, career planning and motivation system. Educators will also be involved in needs-based continuing professional development. At the same time, it will help build the capacity of school principals to act as leaders of learning.

Training of early and pre-school education specialists at the undergraduate level will begin. The professional development of active staff of early and preschool education and training institutions in accordance with their individual needs will be carried out on the basis of a pre-developed training scheme, which will take into account the system of wage growth based on competencies. The competencies will be assessed through regular monitoring.

Lead Implementer: Ministry of Education, Science and Youth (MoESY);
Partner: Municipalities

5.2.3.2.2 Provide a highly effective, relevant and student-centred learning experience for every student in secondary schools, enabling the student to fully develop academic, personal, social and learning competencies (6.2).

The GoG will promote the improvement of the social and emotional environment to ensure the holistic development of learners at all levels of education. In light of the negative impact of the Covid-19 pandemic, the need to take urgent steps to improve the school climate and safe environment has been highlighted. It should be noted that before the pandemic, a quarter of students in schools were victims of bullying, while only half of students (56%) felt integrated with the school environment (OECD, 2019).

The GoG will ensure that the general education financing system is modified to ensure an increase in service quality and equal access. It will also strengthen efforts to ensure the modernization of the pedagogical training system for future teachers, as well as the recruitment and retention of personnel.

Safe and inclusive physical and digital learning environments will be provided, and medical, psycho-social, and emotional support services will be made more accessible to children, including children with behavioural and emotional problems, as well as their families and teachers. A school mediation program will be introduced in public schools. Schools will receive additional support in conflict prevention and management. In addition, emphasis will be placed on supporting teachers to develop competencies that will help them implement differentiated, student-centred approaches to teaching and learning.

The development of cooperation mechanisms with non-governmental, international, and local municipal and community organisations will be promoted to develop non-formal education.

Lead Implementer: Ministry of Education and Science (MoES);

5.2.3.2.3 Provide vocational education services in response to current demands and challenges (6.3)

To ensure access to inclusive, diverse and individual-needs oriented vocational education is one of the priorities of the government of Georgia.

To better address the priorities and reduce existing skills gap on the labor market, in 2021 the Georgian Ministry of Education and Science, in collaboration with the Chamber of Commerce and Trade, established a Skills Agency. It aims to facilitate the introduction of vocational programs in the labor market, support innovative training, increase competition and provide better employment opportunities. The agency provides the basis for the country's public-private partnerships and human capital development. Moreover, with the coordination of the Skills Agency new qualifications development methodology was introduced. The new methodology ensures the involvement of the private sector in the development of new qualifications. In 2023, revision/development of qualifications has started and by the end of 2025 qualifications will be revised/developed in all economic sectors.

It should be noted that in October 2023, new direction of vocational education development was introduced which emphasizes integration of vocational education at the level of full general education. The initiative will allow the pupils to master the profession and obtain the relevant skills at school, in parallel with the full general education. At the same time this approach will significantly improve access to vocational education. Also, another new priority is internalization, with a strong emphasis on training of VET teachers in accordance with international standards. Furthermore, of utmost significance is the involvement of the private sector in the provision of vocational education, such as co-founding/co-investing of the VET institutions together with private sector or transferring the management of the colleges to the industry. Ultimately, the above-mentioned initiatives will have a positive impact on business competitiveness, as they will be equipped with the appropriate workforce.

Lead Implementer: Ministry of Education, Science and Youth (MoESY);

Partner: Skills Agency, Private Sector

2. **Results Indicators**

Indicator	Baseline (2021)	Intermediatetarget (2027)	Target (2030)
Share of pre-school and secondary schools who comply with standards and have authorization	0	40%	100%
Drop out rate of students enrolled in TVET programs	33%	30%	23%
Employment rate of TVET graduates	49%	62%	70%

3. **Expected impact on competitiveness**

Quality of Education and skilled workers directly impact the employment market and support creation of high quality jobs. The outcomes of the education reform will influence the economic development and competitiveness.

4. **Estimated cost of the activities and the source of financing**

The Education reforms are also envisaged by the "Human Capital" Program for Reform (PforR) by the WB and co-financed by the AFD and GoG and supported by EU. The PforR principle does mean disbursing to the Budget based on reforms achieved by the implementers, which are completely based on the county's own system, without creating special project implementation units. The "Human Capital" project covers: Healthcare, Social and Education reforms and envisages USD 400 million from the WB and Euro 100 million from the AFD up to 2028.

(Thousand GEL)

Costing	2024	2025	2026	Budget Line
Pre-School and Secondary Education Policy Formulation	1 575 260	1 760 250	1 987 850	**MOES: Programme line: 32 02**
o/w additional cost for salary increase for secondary school personnel	160 000	320 000	350 000	
Educational Infrastructure	790 000	990 000	1 115 000	**MOES: Programme line: 32 07 MRDI Programme: 25 07**
Financing Pre-school Education	440 000	470 000	530 000	**Local Governments**
o/w Salary increase	50 000	55 000	65 000	

5. **Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to healthcare**

Quality of Education and skilled workers directly impact the employment market and support creation of high quality jobs. The outcomes of the education reform will influence the economic development and competitiveness.

6. **Expected impact on the environment and climate change**
7. **Potential risks**

Risk	Probability (lowor high)	Planned mitigating action
Uncertainties related to external shocks causing changes in macro parameters that can limit fiscal space;	Medium	Constant monitoring and scenario analysis to adjust policies as external factors change
Shortage of Human Resources working in the sector	Medium	Adequate policies for salary increase;

5.3 Summary of Reform Measures

The section includes a table containing overview of the 6 reform measures addressing the challenges in the 3 areas envisaged by the ERP Guidance:

Reform Measures	Description
Reform Area - **Competitiveness:**	
- Reform measure #1	**Domestic Capital Market Development:** A lot of progress have been made in recent years for capital market development. This includes amending and upgrading legal framework and infrastructure, introduction of institutional investors through introduction of compulsory employment pension scheme, development of government security market, improving transparency and accountability, implementation of market support programs and strengthening the regulatory framework of the market. Regardless of this progress, Georgian domestic capital market is still underdeveloped and illiquid. Size of the economy is a major constraint, however consistent and effective reform measures, together with the strong economic growth, can make tangible progress and improve efficiency of resource allocation in the economy. Reform is oriented on two major directions, first is to increase supply and develop different instruments, including development of government security market, and second is increasing demand by strengthening institutional investors and develop benchmark instruments.
- Reform measure #2	**Improved food security through upgraded irrigation and drainage systems:** Georgia aims Agro-food products produced in Georgia to be competitive and delivered to the market in a form that meets modern standards and requirements. The state will support the development of the agricultural value chain as much as possible. In the period up to 2030, all systematic and grant projects will be underpinned to support the development of the value chain in the agro-food sector. Based on the current trends in the local and international market, new development and competitiveness-oriented programs will be developed. It is important to actively invest in rehabilitating and modernization of the irrigation systems. A unified Land Information System based on geoformation technologies will be created - a land cadastre production methodology will be introduced, on the basis of which updated national land balance annual reports will be produced. As a result, agricultural land resources are

Reform Measures	Description
	recorded according to natural, economic, legal, ecological, and economic data.
Reform Area – **Sustainability and Resilience:**	
- Reform measure #3	**Renewable Energy and Energy efficiency:** In order to balance the dynamics of energy consumption and improve energy safety parameters, maximum efforts will be directed to the faster and more rational use of local energy resources, the creation of a competitive market and investment environment, the implementation of energy efficient measures and provision of reliability of access and supply of energy resources. Benefiting from the renewable energy generation potential and enhancing connectivity through the submarine cable to EU is an important investment priority for the next medium-term. This is well aligned with the EU neighbourhood Investment Plan for Georgia and supported by EU.
- Reform measure #4	**Enhanced Connectivity:** The goal of the GoG is to increase the competitiveness of Georgia's transport and logistics sector and provide sustainable, efficient transport links, which will create an opportunity to use the country's transport and logistics potential more efficiently. This directly affects the growth of added value generated in the field of transport and warehousing. In order to achieve the goal set in the direction of transport and logistics, the development of the transport-logistics infrastructure and network will continue, in accordance with international standards, sea and land transport will be more developed and transport links will be improved. The rapid development of the country's transport infrastructure is important for increasing the competitiveness of the transport and logistics sector of Georgia, which means a growing national high-speed highway system, new rail routes, international airports and expanded seaports/terminals, including the implementation of the Poti port infrastructure expansion and Anaklia deep water port infrastructure projects. In order to develop logistics infrastructure, logistics centres will be created in Eastern and Western Georgia, which can be used as an example of good practice for the creation of a multimodal logistics network in the South Caucasus and Central Asia. The scale of the logistics centre will be developed in accordance with the national and regional market requirements.
Reform Area – **Social Policy and Human Capital:**	

Reform Measures	Description
- Reform measure #4	**Improved Healthcare of the Population:** The GoG aims to improve the health status of the population, through universal access to health services, improved quality of services and equal sharing of the financial burden. Universal access to healthcare by 2030 is a priority of the UN Sustainable Development Goals, for which the ability to adequately invest in the system and long-term financial stability are of great importance, since an effective financing system reduces the risk of serious financial hardship and/or impoverishment. The Government is developing mechanisms aimed at improving financial access to essential pharmaceuticals and reducing financial barriers to medical services (reference prices, i.e. “Managed entry” mechanisms), as well as simplifying the complex co-payment system.
- Reform measure #5	**Education:** Access to high-quality education at all levels of education will be ensured for every citizen of Georgia, including individuals with various needs. In the coming years, significant reforms will be implemented in the direction of teacher training, entry into the profession and their continuous professional development. This also includes the development of a performance appraisal system, career planning and motivation system. Educators will also be involved in needs-based continuing professional development. At the same time, it will help build the capacity of school principals to act as leaders of learning. The GoG will ensure that the general education financing system is modified to ensure an increase in service quality and equal access. It will also strengthen efforts to ensure the modernization of the pedagogical training system for future teachers, as well as the recruitment and retention of personnel.

6. THE COST AND FINANCING OF STRUCTURAL REFORMS

Chapter 6 represents costing of the activities under the six reform measures that are either additional cost to be allocated for the policy change or cost of the infrastructural component to be financed in 2024-2026 in Euros.

Chapter 5 has costs for the activities under the six reform measures as envisaged through the 2024 Budget and 2024-2027 MTBF (i.e. BDD Document for 2024-2027) of Georgia in the national currency, GEL.

As described in earlier chapters Georgia uses GFSM 2024 economic and COFOG functional classification for the budget planning for the budget year. The budget is planned on the programme based principles and cost estimated for the budget year (i.e. 2024) + 3 years are represented in the **Programme Budget Annex** of the annual budget package. The programmes which envisage infrastructural components are also presented as a separate group in the **Capital Budget Annex** of the annual budget package. The medium-term expenditure are obviously part of the **BDD Document** which is updated and submitted to the parliament as part of the annual budget law package. The document also differentiates the cost estimates for the “New Policies” vs. costs estimates for business as usual.

As Tables 10a and 10b incorporates only the costs associated with additional financing needs as per policy updated and capital expenditure related to infrastructural projects. It needs to be mentioned that the policy reform areas, as well as the infrastructural projects submitted as part the Structural Reforms are long-term in nature and these tables don’t represent the full cost of their implementation.

As you can see from the Table 6.1 almost 90% of the costing falls under the category of “Capital Expenditure” since Connectivity (Roads, Digital Cable, etc.), Energy (Transmission lines, submarine cable), Agriculture (Irrigation systems) and Education Infrastructure are big portion of our capital expenditure. Costs under “Salary” category comes fully from Education sector and envisages teacher salary reform and updated policies starting from 2024.

Table 6.1

Thousand Euro

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year 2024	75 000,0	2 744,6	18 107,1	1 083 385,7	1 179 237,5
Year 2025	133 928,6	2 428,6	18 107,1	1 206 021,4	1 360 485,7
Year 2026	148 214,3	2 321,4	18 250,0	1 154 250,0	1 323 035,7
% to Total					
Year 2024	6%	0%	2%	92%	100%
Year 2025	10%	0%	1%	89%	100%
Year 2026	11%	0%	1%	87%	100%

As for the financing sources of the selected reform measures, the table 6.2 shows that donor funded project loans are up to 30% in 2024 and gradually decreasing to 22% in 2026 and more than respectively 70% and higher are covered through budget funds. It should also be mentioned that cost financing estimations are the most accurate for 2024 and as the new loans are signed and new pipelines agreed the share to be financed through donor funds in 2025-2026 can be somewhat increased in the next estimations.

Table 6.2

Thousand Euro

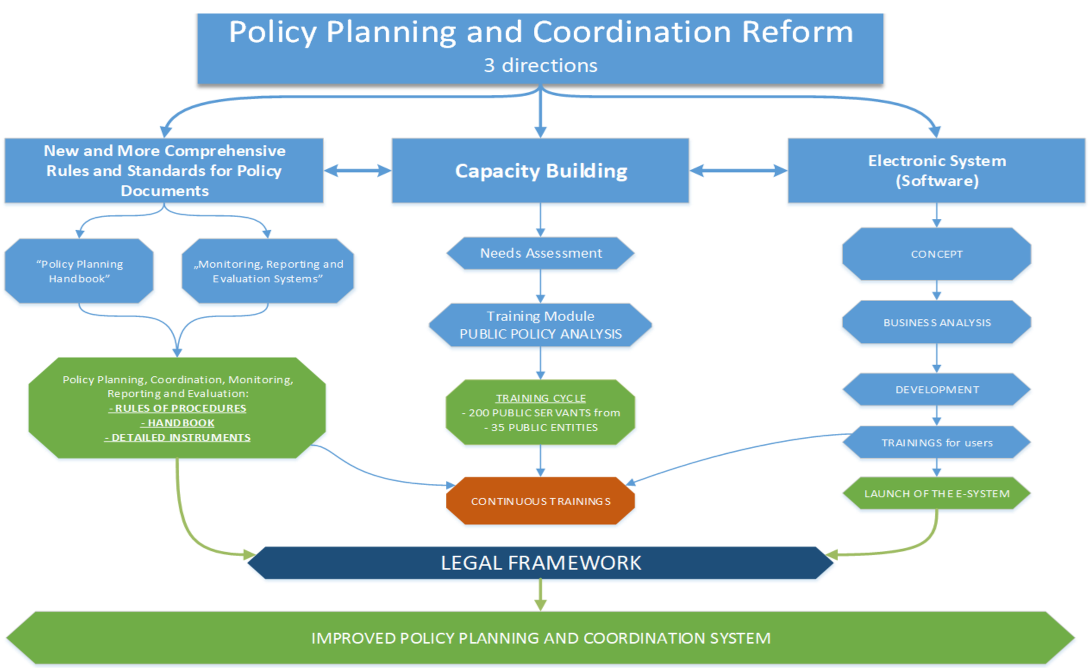
Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year 2024	825 294,6	17 857,1	0,0	0,0	5 671,4	330 414,3	[redacted]	1 179 237,5
Year 2025	981 521,4	19 642,9	0,0	0,0	5 000,0	354 321,4		1 360 485,7
Year 2026	1 000 714,3	23 214,3	0,0	0,0	4 678,6	294 428,6		1 323 035,7
% to Total								
Year 2024	70,0%	1,5%	0,0%	0,0%	0,5%	28,0%	0,0%	100,0%
Year 2025	72,1%	1,4%	0,0%	0,0%	0,4%	26,0%	0,0%	100,0%
Year 2026	75,6%	1,8%	0,0%	0,0%	0,4%	22,3%	0,0%	100,0%

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

As explained in the Chapter 5, since this is the first Georgia is invited to participate in the ERP formulation process, the structural reform part is being prepared on more piloting regime and incorporates the structural reform measures as envisaged in the Georgia's strategic planning system. Particularly the Country's Strategic Vision 2030 – Development Strategy of Georgia, as well as data incorporated in the Georgia's medium-term and annual budget planning (BDD Document 2024-2027, 2024 State Budget law and its programme and capital budget annexes. After receiving the ERP guidance for 2024-2026, the preparation process for this document was incorporated in the Government Decree[33] which regulates BDD Document preparation annually and the MOF was tasked to coordinate the process with the line ministries.

Thus there was no targeted stakeholder engagement process launched for preparing the ERP for 2024-2026. All the necessary steps will be taken in 2024, when preparing for the full cycle of the ERP 2025-2027. For the current document the stakeholder involvement as envisaged in Georgia Policy planning framework was used as part of the process to prepare the Vision 2030, sectoral reform strategies and medium and annual budget planning documents.

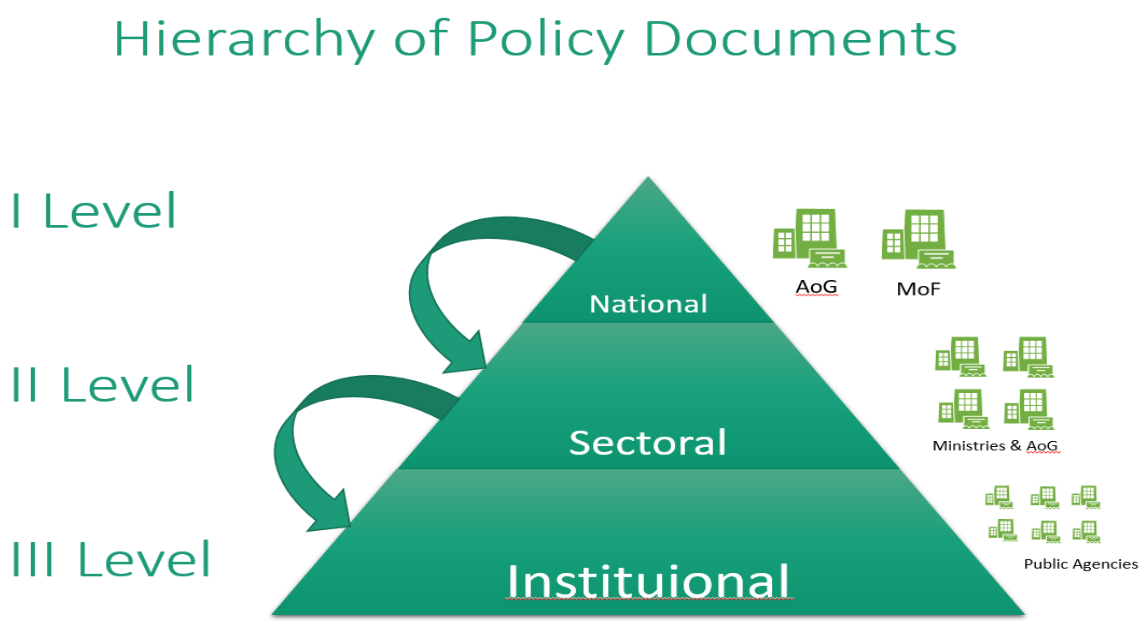
Government Administration (AoG) has been actively leading the Policy Planning related reform, in line with the PFM requirements.



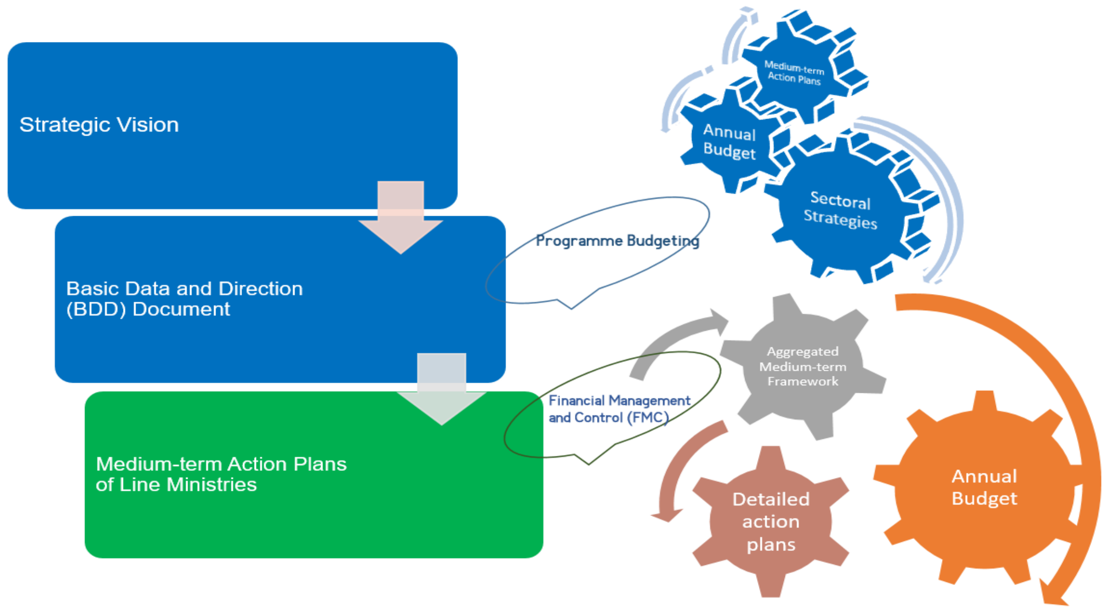
[33] The original decree for preparing the BDD 2024-2027 was approved on February 28, 2023 and an amendment was introduced in the document to include the ERP preparation process coordination, defining the MOF's role as a coordinator on October 17, 2023.

Strategic, sectoral and Institutional policy planning documents as well as Medium-term and annual budget planning have their process of stakeholder engagement.

Policy Planning and Coordination system is defined by the Government Decree #629 (20.12.2019). Interagency Council for Nation-Wide Development and Reforms is established under the Decree N154 of the GoG (05.04.2021). Following the amendments in the GoG Decree N238 (29.12.2023) Interagency Council for Determination the Foreign Aid Policy has been established. The Council will ensure general coordination of all the respective entities in order to elaborate and implement unified policy in the area of foreign assistance. According to the newly introduced regulations, 'the Commission is authorised to develop proposals and recommendations in order to coordinate the country's external aid policy.



The medium-term and annual budget planning process is envisages active stakeholder engagement defined by the Budget Code of Georgia and other PFM related legislation. Georgia's experience and progress of Budget transparency is evidenced through the OBI (#1 in Budget Transparency globally).



As part of the annual budget formulation process, as envisaged by the legislation Georgia systematically addresses to the comments and recommendations prepared by the Parliament of Georgia as part of the annual budget cycle, which also incorporates recommendations by the State Audit (SAO).

For citizen engagement, the MOF is actively working on the designated platform ebtps@mof.ge to include third party opinions during the planning cycle. Citizen's budget[34] is prepared annually.

Specific schedule and timeline for the stakeholder engagement for the ERP preparation will be incorporated in 2024 as part of the next ERP update.

[34] https://www.mof.ge/mokalakis_gzamkvlevi

8. ANNEXES

ANNEX 1: TABLES

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	14.9	10.4	6.5	5.2	5.0	5.0
2. Current GDP at market prices	B1*g	23.5	20.4	9.8	8.4	8.2	8.1
Components of real GDP							
3. Private consumption expenditure	P3	12.9	-1.4	4.1	1.7	5.4	5.1
4. Government consumption expenditure	P3	1.0	-1.9	16.5	8.0	4.2	5.3
5. Gross fixed capital formation	P51	2.4	-24.4	43.2	15.7	2.7	2.6
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.8	5.7	2.7	3.1	2.8	2.8
7. Exports of goods and services	P6	7.9	35.9	1.3	8.0	5.6	5.5
8. Imports of goods and services	P7	10.2	10.2	4.3	7.0	4.7	4.8
Contribution to real GDP growth							
9. Final domestic demand		16.3	-7.2	11.6	5.4	5.4	5.2
10. Change in inventories and net acquisition of valuables	P52+P53	0.8	9.0	-2.8	0.5	-0.1	0.1
11. External balance of goods/services	B11	-2	8.6	-2.3	-0.7	-0.3	-0.4

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. GDP deflator		9.1	3.1	3.0	3.0	3.0
2. Private consumption deflator		11.9	2.6	2.8	3.0	3.0
3. HICP		11.8	2.5	2.7	2.9	2.9
4. National CPI change		11.9	2.6	2.8	3.0	3.0
5. Public consumption deflator		11.9	2.6	2.8	3.0	3.0
6. Investment deflator		22.9	-1.3	3.8	2.7	3.0
7. Export price deflator (goods & services)		9.1	3.1	3.0	3.0	3.0
8. Import price deflator (goods & services)		15.4	1.9	2.8	3.0	3.0

Table 1c: Labour markets developments

	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level	Level/Rate of change				
1. Population (thousands)			3,736.4	3,784.1	3,773.0	3,766.0	3,757.0
2. Population (growth rate in)			1.3	1.3	-0.3	-0.2	-0.2
3. Working-age population (persons)			2,989	2,994	3,001	3,007	3,014
4. Participation rate			51.9	52.4	52.8	53.1	53.4
5. Employment, persons			1,284	1,309	1,328	1,343	1,356
6. Employment, hours worked			2,783.6	2,811.5	2,839.6	2,868.0	2,896.6
7. Employment (growth rate in)			5.4	2.0	1.5	1.1	1.0
8. Public sector employment (persons)			308.0	308.0	308.0	308.0	308.0
9. Public sector employment (growth in)			2.2	0.0	0.0	0.0	0.0
10. Unemployment rate			17.3	16.6	16.2	15.9	15.7
11. Labour productivity, persons		35.7	4.7	4.5	3.7	3.8	4.0
12. Labour productivity, hours worked			3.7	5.4	4.2		4.0
13. Compensation of employees	D1	22.3	22.7	20.0	11.0	9.1	9.5

Table 1d: Sectoral balances

Percentages of GDP	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-4.4	-4.5	-4.6	-4.5	-4.2
of which:						
- Balance of goods and services		-9.8	-10.4	-10.1	-9.6	-9.2
- Balance of primary incomes and transfers		5.2	5.8	5.3	5.0	4.9
- Capital account		0.2	0.1	0.1	0.1	0.1
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-2.3	-1.7	-2.2	-2.3	-2.2
3. Net lending/borrowing of general government		-2.2	-3.0	-2.5	-2.3	-2.2
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
GDP and investment						
GDP *level* at *current* market prices (in domestic currency)	B1g	72.3	79.4	86.0	93.0	100.6
Investment ratio (% of GDP)		16.2	20.8	23.0	22.5	22.0
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		0.5	1.5	2.9	3.1	3.0
2. Industry (excluding construction)		14.4	-1.8	9.1	8.0	7.5
3. Construction		16.5	16.2	8.5	7.0	7.0
4. Services		9.7	8.0	4.5	4.5	4.5

Table 1f: External sector developments

Billion Euro unless otherwise indicated		Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Current account balance (% of GDP)	% of GDP	-4.5	-4.6	-4.8	-4.6	-4.3
2. Export of goods	bn EUR	7.2	7.8	8.7	9.5	10.3
3. Import of goods	bn EUR	12.0	13.9	15.3	16.5	17.7
4. Trade balance	bn EUR	-4.8	-6.0	-6.6	-7.0	-7.5
5. Export of services	bn EUR	5.3	6.5	7.2	7.8	8.6
6. Import of services	bn EUR	2.8	3.4	3.7	4.0	4.4
7. Service balance	bn EUR	2.5	3.1	3.5	3.9	4.2
8. Net interest payments from abroad	bn EUR	-2.3	-2.4	-2.7	-2.9	-3.1
9. Other net factor income from abroad	bn EUR	0.6	0.8	0.8	0.9	1.0
10. Current transfers	bn EUR	2.9	3.3	3.5	3.7	3.9
11. Of which from EU	bn EUR	1.0	1.2	1.4	1.6	1.8
12. Current account balance	bn EUR	-1.1	-1.3	-1.4	-1.5	-1.5
13. Capital and financial account	bn EUR	1.7	1.8	1.9	2.0	2.0
14. Foreign direct investment	bn EUR	1.7	1.5	1.5	1.4	1.5
15. Foreign reserves	bn EUR	4.3	5.2	5.7	6.1	6.6
16. Foreign debt	bn EUR	22.01	21.8	21.8	21.9	22.0
17. Of which: public	bn EUR	7.8	7.7	8.0	8.3	8.5
18. O/w: foreign currency denominated	bn EUR	19.7	19.8	19.7	19.7	19.9
19.O/w: repayments due	bn EUR	0.3	0.4	0.5	0.5	1.0
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	3.1	2.8	2.8	2.8	2.8
p.m. Exchange rate vis-à-vis EUR (annual average)	*, year-on-year*	*-19.2*	*-8.0*	*0.0*	*0.0*	*0.0*

Billion Euro unless otherwise indicated		Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	2.9	2.9	2.9	2.9	2.9
p.m. Exchange rate vis-à-vis EUR (end-year)	*, year-on-year*	*-17.7*	*0.0*	*0.0*	*0.0*	*0.0*
22. Net foreign saving	% of GDP	4.5	4.6	4.8	4.6	4.3
23. Domestic private saving	% of GDP	10.8	13.5	15.5	15.3	15.5
24. Domestic private investment	% of GDP	12.3	14.7	17.2	17.3	17.4
25. Domestic public saving	% of GDP	5.2	4.8	5.1	4.7	4.2
26. Domestic public investment	% of GDP	8.3	8.2	8.1	7.2	6.6

Table 1g: Sustainability indicators

	Dimension	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Current Account Balance	% of GDP	-5.9	-12.5	-10.4	-4.5	-4.6
2. Net International Investment Position	% of GDP	-137.3	-150.7	-149.9	-112.7	-99.3
3. Export market shares	yoy	8.1	-31.5	16.1	23.1	-4.9
4. Real Effective Exchange Rate	yoy	-5.3	-7.4	20.4	15.0	5.1
5. Nominal Unit Labour Costs	yoy	1.8	-3.4	-4.9	1.9	7.0
6. Private sector credit flow	% of GDP	26.7	19.7	24.5	23.1	23.2
7. Private sector debt	% of GDP	65.4	78.8	72.6	62.6	66.5
8. General Government Debt	% of GDP	39.9	57.8	49.7	39.5	38.2

Table 2a: General government budgetary prospects

	ESA code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-1.6	-2.2	-3.0	-2.5	-2.3	-2.2
2. Central government	S1311	-1.8	-2.5	-2.9	-2.7	-2.3	2.1
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	0.2	0.3	-0.1	0.2	0.0	-0.1
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	22.3	30.9	31.4	32.6	32.0	31.4
7. Total expenditure	TE	23.9	33.1	34.4	35.1	34.3	33.5
8. Net borrowing/lending	EDP.B9	-1.6	-2.2	-3.0	-2.5	-2.3	-2.2

	ESA code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level (bn NCU)	% of GDP				
9. Interest expenditure	EDP.D41 incl. FISIM	0.8	1.1	1.5	1.8	1.8	1.9
10. Primary balance		-0.8	-1.2	-1.4	-0.7	-0.5	-0.3
11. One-off and other temporary measures		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		17.4	24.1	24.5	25.6	25.6	25.3
12a. Taxes on production and imports	D2	9.6	13.3	13.3	13.5	13.4	13.2
12b. Current taxes on income and wealth	D5	7.8	10.8	11.2	12.1	12.2	12.1
12c. Capital taxes	D91	:	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:	:
14. Property income	D4	0.8	1.1	1.1	1.1	1.0	0.9
15. Other (15 = 16-(12+13+14))		4.2	5.8	5.9	5.8	5.4	5.1
16 = 6. Total revenue	TR	22.3	30.9	31.4	32.6	32.0	31.4
p.m.: Tax burden (D2+D5+D61+D91-D995)		17.4	24.1	24.5	25.6	25.6	25.3
Selected components of expenditures							
17. Collective consumption	P32	7.4	10.2	10.7	11.0	10.9	10.9
18. Total social transfers	D62 + D63	6.3	8.8	8.9	9.1	9.3	9.2
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	6.3	8.8	8.9	9.1	9.3	9.2
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.8	1.1	1.5	1.8	1.8	1.9
20. Subsidies	D3	1.7	2.3	2.6	2.6	2.4	2.4
21. Gross fixed capital formation	P51	6.5	9.0	8.8	8.5	7.8	7.0
22. Other (22 = 23-(17+18+19+20+21))		1.2	1.7	1.9	2.1	2.2	2.2
23. Total expenditures	TE [1]	23.9	33.1	34.4	35.1	34.3	33.5
p.m. compensation of employees	D1	3.1	4.3	4.9	5.1	5.1	5.2

Table 2b: General government budgetary prospects

	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-1.6	-2.3	-2.2	-2.2	-2.2
2. Central government	S1311	-1.8	-2.3	-2.3	-2.1	2.1
3. State government	S1312	:	:	:	:	:

	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		bn NCU				
4. Local government	S1313	0.2	-0.1	0.1	0.0	-0.1
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	22.3	25.0	28.0	29.7	31.6
7. Total expenditure	TE	23.9	27.3	30.2	31.9	33.7
8. Net borrowing/lending	EDP.B9	-1.6	-2.3	-2.2	-2.2	-2.2
9. Interest expenditure	EDP.D41 incl. FISIM	0.8	1.2	1.6	1.7	1.9
10. Primary balance		-0.8	-1.1	-0.6	-0.5	-0.3
11. One-off and other temporary measures		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		17.4	19.4	22.1	23.8	25.5
12a. Taxes on production and imports	D2	9.6	10.6	11.6	12.5	13.3
12b. Current taxes on income and wealth	D5	7.8	8.9	10.4	11.3	12.2
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:
14. Property income	D4	0.8	0.9	0.9	0.9	1.0
15. Other (15 = 16-(12+13+14)) [4]		4.2	4.7	5.0	5.0	5.2
16 = 6. Total revenue	TR	22.3	25.0	28.0	29.7	31.6
p.m.: Tax burden (D2+D5+D61+D91-D995)		17.4	19.4	22.1	23.8	25.5
Selected components of expenditures						
17. Collective consumption	P32	7.4	8.5	9.4	10.1	10.9
18. Total social transfers	D62 + D63	6.3	7.1	7.8	8.6	9.3
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	6.3	7.1	7.8	8.6	9.3
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.8	1.2	1.6	1.7	1.9
20. Subsidies	D3	1.7	2.1	2.3	2.2	2.4
21. Gross fixed capital formation	P51	6.5	7.0	7.3	7.2	7.1
22. Other (22 = 23-(17+18+19+20+21))		1.2	1.5	1.8	2.0	2.2
23. Total expenditures	TE [1]	23.9	27.3	30.2	31.9	33.7
p.m. compensation of employees	D1	3.1	3.9	4.4	4.8	5.3

Table 3: General government expenditure by function

% of GDP	COFOG Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. General public services	1	3.0	2.9	2.8	2.5	2.3
2. Defence	2	1.7	1.8	1.9	1.9	2.0
3. Public order and safety	3	2.6	2.6	2.6	2.5	2.4
4. Economic affairs	4	9.0	10.3	10.3	9.5	8.6
5. Environmental protection	5	0.8	0.9	0.9	1.0	1.0
6. Housing and community amenities	6	1.4	1.4	1.4	1.3	1.3
7. Health	7	3.0	2.3	2.4	2.5	2.6
8. Recreation, culture and religion	8	1.3	1.2	1.2	1.1	1.1
9. Education	9	3.6	3.7	4.1	4.4	4.5
10. Social protection	10	6.8	7.3	7.5	7.6	7.7
11. Total expenditure (item 7 = 23 in Table 2)	TE	33.1	34.4	35.1	34.3	33.5

Table 4: General government debt developments

% of GDP	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Gross debt		39.5	38.2	38.0	37.8	37.6
2. Change in gross debt ratio		-10.2	-1.3	-0.1	-0.2	-0.2
Contributions to change in gross debt						
3. Primary balance		1.2	1.4	0.7	0.5	0.3
4. Interest expenditure	EDP D.41	1.1	1.5	1.8	1.8	1.9
5. Real growth effect		-4.3	-2.3	-1.8	-1.8	-1.7
6. Inflation effect		-3.8	-1.1	-1.1	-1.1	-1.0
7. Stock-flow adjustment		-4.4	-0.8	0.2	0.3	0.4
of which:						
- Differences between cash and accruals		:	:	:	:	:
- Net accumulation of financial assets		1.5	-0.3	-0.4	0.0	0.0
of which:						
- Privatization proceeds		0.0	0.0	0.0	0.0	0.0
p.m. implicit interest rate on debt		-5.9	-0.5	0.0	0.0	0.0
Other relevant variables						
8. Liquid financial assets		4.0	3.6	3.0	2.6	2.3
9. Net financial debt (9 = 1 - 8)		35.5	34.6	35.1	35.2	35.3

Table 5: Cyclical developments

% of GDP	ESA Code	Year 2022	Year 2023 Plan	Year 2023 Preliminary	Year 2024	Year 2025	Year 2026
1. Real GDP growth (, yoy)	B1g	10.4	6.5	6.5	5.2	5.0	5.0
2. Net lending of general government	EDP.B.9	-2.2	-3.0	-2.0	-2.5	-2.3	-2.2
3. Interest expenditure	EDP.D.41	1.1	1.5	1.5	1.8	1.8	1.9
4. One-off and other temporary measures		-0.8	0.0	0.0	0.2	0.0	0.0
5. Potential GDP growth (, yoy)		6.5	6.2	6.2	6.0	5.5	5.1
Contributions:							
- labour		0.3	0.5	0.5	0.3	0.1	0.1
- capital		1.0	1.5	1.5	2.4	2.4	2.3
- total factor productivity		5.2	4.2	4.2	3.3	3.0	2.8
6. Output gap		1.1	1.4	1.4	0.7	0.2	0.1
7. Cyclical budgetary component		0.6	0.7	0.7	0.4	0.1	0.1
8. Cyclically-adjusted balance (2-7)		-2.8	-3.7	-2.7	-2.9	-2.5	-2.2
9. Cyclically-adjusted primary balance (8+3)		-1.7	-2.2	-1.2	-1.1	-0.6	-0.4
10. Structural balance (8-4)		-2.0	-3.7	-2.7	-3.1	-2.5	-2.2

Table 6: Divergence from previous programme (Forecasts)

	Year 2022	Year 2023 Plan	Year 2024	Year 2025	Year 2026
1. GDP growth (yoy)					
Previous projection (Dec 2022)	10.0	5.0	5.2	5.2	5.0
Latest update (Dec 2023)	10.4	6.5	5.2	5.0	5.0
Difference (percentage points)	0.4	1.5	0.0	-0.2	0.0
2. General government net lending (% of GDP)					
Previous projection (Dec 2022)	-2.7	-2.8	-2.2	-2.2	-2.1
Latest update (Dec 2023)	-2.2	-3.0	-2.5	-2.3	-2.2
Difference (percentage points)	0.5	-0.1	-0.4	-0.1	0.0
3. General government gross debt (% of GDP)					
Previous projection (Dec 2022)	39.6	38.3	37.8	37.2	36.4
Latest update (Dec 2023)	39.5	38.2	38.0	37.8	37.6
Difference (percentage points)	-0.1	-0.2	0.2	0.6	1.2

Table 7: Long-term sustainability of public finances

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	27.1	31.3	34.5	28.8	28.2	29.2	30.7
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	8.1	12.0	13.5	:	:	:	:
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	1.2	2.2	3.7	2.8	2.9	3.1	3.4
- Long-term care (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	2.6	2.8	3.8	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	0.5	0.9	1.6	1.6	1.0	0.9	1.1
Total revenues	27.8	26.9	25.2	27.0	27.0	27.0	27.0
of which: property income	:	:	:	:	:	:	:
of which: from pensions contributions (or social contributions, if appropriate)	:	:	:	:	:	:	:
Pension reserve fund assets	:	:	:	:	:	:	:
of which: consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	10.2	4.8	7.5	5.1	3.7	1.7	1.2
Real GDP growth	12.6	6.2	-6.8	5.0	3.1	0.6	0.7
Participation rate males (aged 20-64)	:	:	:	:	:	:	:
Participation rates females (aged 20-64)	:	:	:	:	:	:	:
Total participation rates (20-64)	:	:	:	:	:	:	:
Unemployment rate	:	:	:	:	:	:	:
Population aged 65+ over total population	14.3	13.4	14.5	17.2	19.0	21.2	24.0

Table 7a: Contingent liabilities
Table on the stock of guarantees adopted/announced at [month-year] according to the Programme

Measures		Date of adoption	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP)
In response to COVID- 19				

% of GDP		2007	2010	2020	2030	2040	2050	2060
	Subtotal							
Others								
	Subtotal							
Total								

Table 8: Basic assumptions on the external economic environment

	Dimension	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
Short-term interest rate	Annual average	7.0	6.4	5.3	4.0	4.8
Long-term interest rate	Annual average	5.0	4.9	4.9	5.1	5.0
USD/EUR exchange rate	Annual average	1.06	1.08	1.08	1.08	1.08
Nominal effective exchange rate	Annual average	321.1	391.6	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	3.08	2.83	2.83	2.83	2.83
Global GDP growth, excluding EU	Annual average	3.46	3.35	3.19	3.39	3.40
EU GDP growth	Annual average	3.61	0.71	1.45	2.06	1.98
Growth of relevant foreign markets	Annual average	2.4	3.3	2.7	2.8	2.8
World import volumes, excluding EU	Annual average	:	:	:	:	:
Oil prices (Brent, USD/barrel)	Annual average	:	82.4	82.6	61.0	61.0

Table 9a: Social scoreboard indicators

	Data source	2018	2019	2020	2021	2022
Equal opportunities						
1. Adult participation in learning during the last 12 months, age **25-64**	Labor Force Statistics, Geostat	1.04	0.81	1.06	1.18	1.57
2. Share of early leavers from education and training, age **18-24**	Labor Force Statistics, Geostat			8.2	7.3	6.0
3. Share of population with basic overall digital skills or above, age **16-74**						
4. Young people neither in employment nor in education or training (NEET rate), age **15-29**	Labor Force Statistics, Geostat			35.1	34.6	30.7
5. Gender gap in employment rate, age **20-64**	Labor Force Statistics, Geostat			14.8	14.6	15.9
6. Income quintile share ratio - S80/S20	World bank	76.1	75.1	70.8	70.9	
Working conditions						

	Data source	2018	2019	2020	2021	2022
7. Employment rate, age **20-64**	Labor Force Statistics, Geostat			51.1	50.6	54.0
8. Unemployment rate, age **15-74**	Labor Force Statistics, Geostat			18.7	20.8	17.4
9. Long-term unemployment rate, age **15-74**	Labor Force Statistics, Geostat			5.8	7.2	6.7
10. Gross disposable income of households in real terms, per capita						
Social protection and inclusion						
11. At-risk-of-poverty or social exclusion rate (AROPE)						
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (**0-17**)						
13. Impact of social transfers (other than pensions) on poverty reduction						
14. Disability employment gap, age **20-64**						
15. Housing cost overburden rate						
16. Children aged less than 3 years in formal childcare						
17. Self-reported unmet needs for medical care						

Table 9b: Other selected indicators

	Data source	2018	2019	2020	2021	2022
Other social and healthcare indicators						
1. Public social protection expenditure in % of GDP	Ministry of Finance/Expenditure by Functions of GoG	6.5	6.8	9.6	7.8	6.8
2. Public healthcare expenditure in % of GDP	Ministry of Finance/Expenditure by Functions of GoG	2.8	2.7	3.7	4.4	2.9
3. Household out-of-pocket payments as a % of total health expenditure	MoLHSA/SHA	48	47	36	31	30
4. Percentage of population not covered by health insurance	MoLHSA	94	94	94	94	94
5. Ratio of doctors per 1000 inhabitants	Geostat, NCDC	8.3	8.5	5.8	6.1	6.4
6. Ratio of nurses per 1000 inhabitants	Geostat, NCDC	4.8	5.3	5.8	5.8	5.9
Environment						
7. Total environmental tax revenues as a share of total revenues from taxes and social contributions						
8. Greenhouse gas emissions per capita						
9. Generation of waste excluding major mineral wastes	Geostat, municipal waste, 1000 tons.	977.4	994.6	973.3	1005.9	1045.1
Digital economy						

	Data source	2018	2019	2020	2021	2022
10. Percentage of households with broadband access (mobile and fixed)		75.8	79.3	83.8	86.1	88.4
11. Share of total population using internet [NB: population 16-74]						
Energy						
12. Energy imports dependency ()		77.3	80.7	80.6	78.2	
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	KTOE, Geostat	3,916.5	4,173.4	4,023.0	4,294.3	
14. Share of renewable energy sources (RES) in final energy consumption ()	Geostat	20.4	20.6	21.0	19.6	
Transport						
15. Railway Network Density (meters of line per km2 of land area)	Geostat	34.9	34.9	34.9	34.5	34.5
16. Motorization rate (Passenger cars per 1000 inhabitants)	Geostat	292	304	319	343	357
Agriculture						
17. Share of gross value added (Agriculture, Forestry and Fishing)	Geostat, National Accounts	7.8	7.4	8.3	7.4	6.9
18. Share of employment (Agriculture, Forestry and Fishing)	Geostat, Labor Force Statistics	19.6	19.1	19.8	18.9	17.9
19. Utilised agricultural area (of total land area)						
Industry (except construction)						
20. Share of gross value added	Geostat, National Accounts, value added in current prices	14.6	14.7	15.5	17.0	16.6
21. Contribution to employment (of total employment)	Geostat, Labor Force Statistics	11.9	11.3	11.4	11.3	11.9
Services						
22. Share of gross value added	Geostat, National Accounts, value added in current prices	69.3	69.4	67.5	68.1	68.6
23. Contribution to employment (of total employment)	Geostat, Labor Force Statistics	60.9	61.7	61.9	62.1	61.8
Business Environment						
24. Rank in Global Competitiveness Index (Source: World Economic Forum)	World Eocnomic Forum	60.9	60.6			
25. Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)						
Research, Development and Innovation						
26. R&D intensity of GDP (R&D expenditure as % of GDP)	Unesco Institute for Statistics	0.28	0.28	0.30	0.25	
27. R&D expenditure – EUR per inhabitant	Unesco Institute for Statistics, Geostat	11.2	11.9	11.2	10.7	
Trade						

	Data source	2018	2019	2020	2021	2022
28. Export of goods and services (as % of GDP)	Geostat, National Accounts, in current prices	50.6	54.8	37.3	43.2	52.9
29. Import of goods and services (as % of GDP)	Geostat, National Accounts, in current prices	61.2	63.8	56.6	59.6	62.7
30. Trade balance (as % of GDP)	Geostat, National Accounts	-10.6	-9.0	-19.3	-16.4	-9.8

Table 10a: Costing of structural reform measure:

Thousand Euro

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year 2024	75 000,0	2 744,6	18 107,1	1 083 385,7	1 179 237,5
Year 2025	133 928,6	2 428,6	18 107,1	1 206 021,4	1 360 485,7
Year 2026	148 214,3	2 321,4	18 250,0	1 154 250,0	1 323 035,7
Reform Measure #1	**Domestic Capital Market Development**				
Year 2024	0,0				0,0
Year 2025	0,0				0,0
Year 2026	0,0				0,0
Reform Measure #2	**Improved food security through upgraded irrigation and drainage systems**				
Year 2024		1 673,2		19 207,1	20 880,4
Year 2025		1 928,6		18 571,4	20 500,0
Year 2026		2 142,9		18 571,4	20 714,3
Reform Measure #3	**Renewable Energy and Energy efficiency**				
Year 2024		1 071,4		44 642,9	45 714,3
Year 2025		500,0		81 071,4	81 571,4
Year 2026		178,6		66 785,7	66 964,3
Reform Measure #4	**Enhanced Connectivity**				
Year 2024				737 392,9	737 392,9
Year 2025				752 807,1	752 807,1
Year 2026				670 678,6	670 678,6
Reform Measure #5	**Improved Healthcare of the Population**				
Year 2024			18 107,1		18 107,1
Year 2025			18 107,1		18 107,1
Year 2026			18 250,0		18 250,0
Reform Measure #6	**Education**				
Year 2024	75 000,0			282 142,9	357 142,9
Year 2025	133 928,6			353 571,4	487 500,0
Year 2026	148 214,3			398 214,3	546 428,6

Table 10b: Financing of structural reform measure:

Thousand Euro

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2024	825 294,6	17 857,1	0,0	0,0	5 671,4	330 414,3		1 179 237,5
2025	981 521,4	19 642,9	0,0	0,0	5 000,0	354 321,4		1 360 485,7
2026	1 000 714,3	23 214,3	0,0	0,0	4 678,6	294 428,6		1 323 035,7
Reform Measure #1	**Domestic Capital Market Development**							
2024	0,0	0,0	0,0	0,0	0,0	0,0		0,0
2025	0,0	0,0	0,0	0,0	0,0	0,0		0,0
2026	0,0	0,0	0,0	0,0	0,0	0,0		0,0
Reform Measure #2	**Improved food security through upgraded irrigation and drainage systems**							
2024	17 366,1					3 514,3		20 880,4
2025	9 892,9					10 607,1		20 500,0
2026	10 000,0					10 714,3		20 714,3
Reform Measure #3	**Renewable Energy and Energy efficiency**							
2024	7 142,9				2 071,4	36 500,0		45 714,3

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2025	7 857,1				1 500,0	72 214,3		81 571,4
2026	7 857,1				1 178,6	57 928,6		66 964,3
Reform Measure #4	**Enhanced Connectivity**							
2024	473 464,3					263 928,6	[redacted]	737 392,9
2025	517 092,9					235 714,3		752 807,1
2026	486 035,7					184 642,9		670 678,6
Reform Measure #5	**Improved Healthcare of the Population**							
2024	18 107,1						[redacted]	18 107,1
2025	18 107,1							18 107,1
2026	18 250,0							18 250,0
Reform Measure #6	**Education**							
2024	309 214,3	17 857,1			3 600,0	26 471,4	[redacted]	357 142,9
2025	428 571,4	19 642,9			3 500,0	35 785,7		487 500,0
2026	478 571,4	23 214,3			3 500,0	41 142,9		546 428,6

ANNEX 2:

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA projects supporting this reform	**Flagship Projects under Investment Plan for the Eastern Partnershipt - Georgia*
Measure 1: Domestic Capital Market Development		*ERP Guidance area: Competitiveness- iii. Economic Integration Reforms*		***SDG: 8 - Decent work and economic growth, 10 - Reduced Inequalities*** *Sustainable Fiscal Policies and efficient debt management strategy is the essential factor for giving right kind of support to inclusive economic growth and competitiveness. Diversification of Debt Portfolio and mitigating exchange rate fluctuation risks while at the same time monitoring interest rates of the international and domestic markets is one the key areas of sustainable fiscal policy planning. Sustainable Fiscal Policies and efficient debt management strategy is the essential factor for giving right kind of support to inclusive economic growth. Effective fiscal policy planning is essential factor for allowing adequate financing for the measures that support employment, poverty and other policy areas. Increased access to financing can have positive impact on gender equality. Efficient pension framework*	**Domestic capital market development is an important area of reform for better access to financing and ESG principles, including the measures that incorporates green financing principles, that can have positive impact on environment and climate related issues.*			

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA projects supporting this reform	**Flagship Projects under Investment Plan for the Eastern Partnershipt - Georgia*
				that also supports long-term local capital creation will support adequate retirement for the population.				
Measure 2: Improved food security through upgraded irrigation and drainage systems		*ERP Guidance Area: Competetiveness - iv. Agriculture, Industries and Services;*		***SDG: 1 - No Poverty, 2 - Zero Hunger, 3 - Good Health and well-being, 5 - Gender Equality, 8 - Decent work and economic growth, 9 Industry, Innovation and Infrastructure, 13 - Climate Action*** *The reform measures are aimed at increasing efficiencies of the agro sector value chains and productivity of the farmers in the sector. The reform measure will have direct impact on economic growth and competitiveness, particularly having in mind that agriculture's share in our economy is up to 7% and 18% in the employment.* *The reform measures are aimed at increasing efficiencies of the agro sector value chains and productivity of the farmers in the sector. The reform measure will have direct impact on economic growth and competitiveness, particularly having*	**Reform measure is tagged as Climate adaptation related area in the Programme Budget for 2024-2027. Reform measures will increase the efficiency in water and land resource management, thus having positive environmental impact.*			

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA projects supporting this reform	**Flagship Projects under Investment Plan for the Eastern Partnershipt - Georgia*
				in mind that agriculture's share in our economy is up to 7% and 18% in the employment. Since the share of the people employed in the Agriculture is quite large these reforms will significant impact on the employment and poverty reduction by increasing efficiency gains and productivity in the sector. The reform measures will have positive impact on gender related issues as well both for those employed in the farming sector as well as land management related activities will help female land owner with access to financing.				
Measure 3: Renewable Energy and Energy efficiency		*ERP Guidance Area: Sustainability and resilience - i. Green Transition;*		***SDG: 7 - Affordable and Clean Energy, 12 - Responsible Consumption and Production, 13 - Climate Action*** *Energy security and energy independence is one of the key factors to sustainability. The recent crisis and increased commodity prices has showed how important does the role of having relatively cheap own renewable resources and resources from the gas pipelines transmitting through Georgia, from Azerbaijan to*	**Reform measure will have positive impact on environment since this includes supporting renewable energy generation and*			*1. Black Sea connectivity — improving data and energy connections with the EU; 5. Energy Efficiency in Buildings*

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA projects supporting this reform	**Flagship Projects under Investment Plan for the Eastern Partnershipt - Georgia*
				Turkey and Europe have played in the resilience of Georgia's economy. Investing in Energy sector, through sovereign funds as well as creating the environment for the private investments is the country's priority. This will ensure further increase in renewable energy generation and enhance connectivity to Europe through the submarine transmission line. *Reducing import dependency, increasing energy exporting potential and ensuring energy security will strongly support economic growth and resilience.* *In the long-run energy security and energy independence should ensure more resilience to the economic shocks and commodity price increase thus the reform measures have important social outcome implications.*	*connectivity as well as energy efficiency measures that will lead to less carbon emissions and will allow increased demand on the consumption to be addressed by increased renewable energy supply and savings in consumption.*			

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA projects supporting this reform	**Flagship Projects under Investment Plan for the Eastern Partnershipt - Georgia*
Measure 4: Enhanced Connectivity		*ERP Guidance Area: Sustainability and resilience - ii. Digital Transformation; iv. Transport Market Reforms;*		***SDG: 3 - Industry, Innovation and Infrastructure, 11 - Sustainable Cities and Communities*** *Georgia due to its geopolitical location is naturally an important junction between Europe and Asia. Georgia has been investing in its transit and logistics infrastructure for the past two decades quite heavily. With increased demand on the middle corridor as result of the recent geopolitical development this role is even more emphasized. Georgia invests in this infrastructure to ensure long-term sustainability and attractiveness of this corridor. The reforms measures and projects implemented under the area of Connectivity have significant impact on economic growth potential and competitiveness.* *Transport and Logistics is an important area of economy and expanding transit potential is the potential for further economic development. Enhance connectivity both physical through roads as well as*	**Transport related project naturally do have impact on environment and climate. Road Infrastructure and Land Transport regulation projects are tagged in the 2024-2027 as programmes that are linked to Climate Adaptation. Maritime and Railway transport related projects are to be scanned on their impact on*			*1. Black Sea connectivity — improving data and energy connections with the EU; 2. Transport connections across the Black Sea — improving physical connections with the EU; 4. Digital connectivity for citizens — high-speed broadband infrastructure for 1,000 rural settlements*

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA projects supporting this reform	**Flagship Projects under Investment Plan for the Eastern Partnershipt - Georgia*
				digital help with better employment options and easier movement and better access to services and finances. Thus the projects under this reform area are significant for social outcomes, employment, poverty reduction and access to healthcare.	*environment and climate as well.*			
Measure 5: Improved Healthcare of the Population		*ERP Guidance Area: Social policy and human capital - iiv. Healthcare; ;*		***SDG: 3 - Good Health and well-being, 5 - Gender Equality*** *The reform measures will allow more efficiency in the government spending on healthcare programs and will help reducing out-of-pocket expenditure for the population, especially reducing risks of phasing catastrophic out-of-pocket spending, which often prevents accumulation of savings in the households and economies and could be the course on indebtedness. Thus the reform measures will have positive impact on inclusive economic growth.* *The reform measures are directly aimed improving health for the population of Georgia, increasing access to quality healthcare services*				

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2023	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA projects supporting this reform	**Flagship Projects under Investment Plan for the Eastern Partnershipt - Georgia*
				and addressing the needs for most vulnerable groups by targeted services while improving the universal healthcare coverage.				
Measure 6: Education		*ERP Guidance Area: Social policy and human capital- i. Education and Skills;*		***SDG: 4 - Quality Education, 8 - Decent work and economic growth, 9 - 9 Industry, Innovation and Infrastructure*** *Quality of Education and skilled workers directly impact the employment market and support creation of high quality jobs. The outcomes of the education reform will influence the economic development and competitiveness.*				

* Includes measures which are tagged as Climate related;

** Includes Flagship projects under the Investment Plan for Eastern Partnerhsip related to the reform measures - Georgia

ANNEX 4:

Vision 2030 Development Strategy of Georgia:	ERP Guidance											
	Competitiveness					Sustainability and Resilience			Human Capital and Social Policies			
	a. Business environment and reduction of the informal	b. Reform of State-Owned Enterprises	c. Economic Integration reforms	d. Agriculture, industry and services	e. Research, Development and Innovation	a. Green transition/Digital Transformation	b. Energy Market reforms	c. Transport market reforms	a. Education and Skills	b. Employment and labour markets	c. Social protection and inclusion	d. Healthcare
2. Economic Development	2.1 Macroeconomic Development	2.1 Macroeconomic Development	2.11 Regional Development	2.2 Foreign Trade		2.8 Digital Economy and Information Technologies	2.6 Energy	2.7 Transport and Logistics				
	2.2 Foreign Trade			2.5 Minerals and Mining		2.10 Infrastructure Development						
	2.3 Entrepreneurial and Investment Activities			2.9 Tourism		2.13 Environment Protection						

Vision 2030 Development Strategy of Georgia:	ERP Guidance												
	Competitiveness					Sustainability and Resilience			Human Capital and Social Policies				
	a. Business environment and reduction of the informal	b. Reform of State-Owned Enterprises	c. Economic Integration reforms	d. Agriculture, industry and services	e. Research, Development and Innovation	a. Green transition/Digital Transformation	b. Energy Market reforms	c. Transport market reforms	a. Education and Skills	b. Employment and labour markets	c. Social protection and inclusion	d. Healthcare
	2.4 Capital Market			2.10 Infrastructure Development								
				2.12 Agriculture and Rural Development								
3. Social Policy and Human Capital Development	3.10 Public Services		3.5 Migration of Labour Force		3.6 Education and Science				3.6 Education and Science	3.3 Employment	3.2 Social Protection	3.1 Healthcare
			3.11 Civic Equality and Integration						3.7 Youth Policy	3.4 Labour Rights		

Vision 2030 Development Strategy of Georgia:	ERP Guidance												
	Competitiveness					Sustainability and Resilience			Human Capital and Social Policies				
	a. Business environment and reduction of the informal	b. Reform of State-Owned Enterprises	c. Economic Integration reforms	d. Agriculture, industry and services	e. Research, Development and Innovation	a. Green transition/Digital Transformation	b. Energy Market reforms	c. Transport market reforms	a. Education and Skills	b. Employment and labour markets	c. Social protection and inclusion	d. Healthcare
									3.8 Culture	3.5 Migration of Labour Force		
									3.9 Sports			
4. Public Administration		4.1 Public Administration										