Georgia

Economic Reform Programme (ERP) 2025-2027

January 2025

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.

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

Georgia was invited to join the ERP preparation process by the end of the 2023, after receiving the European Union Membership Candidacy status. The Economic Reform Programme (ERP) 2024-2026 of Georgia was prepared in very tight deadlines, including the non-obligatory part of the document on Structural Reform. Preparation of the first ever ERP for Georgia was based on the existing internal processes for the Annual and Medium-term Budget Planning.

The document as per the methodology elaborated by the European commission presents medium term macroeconomic and fiscal outlooks and includes information about the planned and ongoing structural reforms that are in the government's agenda.

As for the Economic Reform Programme for 2025-2027, the process of preparing the documents was integrated in the internal budget calendar and budget process. MOF was defined as the coordinator of the process by the Government Decree #62, 01.03.2024 "Activities to be performed in order to prepare Basic Data and Directions Document (BDD) for 2025-2028" [1]. Government Decree is annually adopted around March 1 to launch the new Budget cycle of preparing the annual budget law and updated the medium term (4 years) budgetary framework on a rolling basis. Thus the ERP for 2025-2027 was prepared as the parallel process of 2025-2028 Basic Data and Directions Document (BDD)[2] and was based other strategic documents of Georgian government, most importantly the Development Strategy of Georgia – Vision 2030[3]. 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 ERP 2025-2027 was also endorsed by the Government Decree 31 (15.01.2025) on "On endorsement of the Economic Reform Programme (2025-2028)". Georgian language information on ERP that includes all the key components of the ERP document was prepared in parallel to the budget process was is published on the official MOF website[4].
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

[1] Please see sub-section 4.9 about the MTBF arrangements in the Fiscal Governance Structure of Georgia
[2] https://www.mof.ge/images/File/2025_Biujeti/30-12-2024/1/12.2025-2028%20BDD%202025%204.docx
[3] 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
[4] https://www.mof.ge/images/File/2025_Biujeti/31-12-2024/ERP%202025-2027%20(GEO).pdf

practices and continues to serve as a solid basis for integrating new EU requirements as per the candidacy status.

Overall Policy Framework and Objectives

In the post-pandemic period, the Georgian economy exhibited significantly stronger economic performance than initially predicted. In both 2021 and 2022, economic forecasts were revised upward, with real GDP growth reaching double-digit rates in both years.

In 2021, real economic growth amounted to 10.6%, far exceeding the initially projected 4.3%. Similarly, in 2022, real GDP growth reached 11.0%, compared to the forecasted 6.0%. Despite the high base effects from two consecutive years of double-digit growth, positive trends continued in 2023, with real GDP growth reaching 7.8%, surpassing the initial projection of 5.0%.

Over the three-year period from 2021 to 2023, total real GDP growth amounted to 32.0%, with an average annual growth rate of 9.8%. Meanwhile, nominal GDP increased by 62% compared to 2020, surpassing 80.88 billion GEL.

Economic performance in 2024 has also exceeded expectations. At the end of 2023, the forecast for real GDP growth in 2024 was set at 5.2%, with nominal GDP projected to reach 85.98 billion GEL. However, by mid-2024, real GDP growth for the first half of the year reached 9.1%, and preliminary data for the first 11 months indicated 9.4% growth. Consequently, the annual growth forecast was revised to 9.0%, with nominal GDP now expected to reach 90.9 billion GEL.

The robust economic performance has enabled significant fiscal consolidation in a remarkably short period. The consolidated budget deficit, which had risen to 9.3% of GDP in 2020 due to the pandemic, was reduced to the 3% threshold mandated by law by the end of 2022. In 2023, the deficit decreased further to 2.5% of GDP, representing a nominal reduction of over 2.3 billion GEL.

Similarly, government debt has been significantly reduced. From its pandemic peak of 60% of GDP in 2020, debt fell below the 40% safety threshold by 2022. This downward trend has continued, with government debt projected to decline to approximately 37% of GDP by the end of 2024, and to remain decreasing trend at 34%–35% in the medium term.

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

The Chapter presents the policy guidance recommendations issued by the European Commission in May 2024.

This is the first time Georgia is responding to the policy guidance recommendations. The table presents the actions taken in line with the 6 recommendations issued by the European Commission[5] as part of "The Economic and Financial Dialogue between the EU and the Western Balkans Partners, Turkiye, Georgia, Republic of Moldova and Ukraine":

Policy Guidance 1: Ensure that the 2024 budget deficit is within the target set in the budget law, and implement the medium-term plan to reduce the deficit with a view to building fiscal buffers. In order to improve efficiency of the tax policy, publish the tax expenditure analysis of the agricultural sector and prepare concrete budgetary recommendations to implement its findings, and continue work on analysing the economic and fiscal impact of all tax expenditures. Adopt and publish the medium- term revenue strategy and make progress on its implementation.
Macro-Fiscal Parameters Forecasts of major macroeconomic parameters of 2024 and 2025 annual budgets as well as preliminary performance of the 2024 annual budget remains within the recommended thresholds. The most recent update of the 2024 Budget deficit as defined by the Fiscal Rule was at 2.4% though revenue overperformance of the central budget as well as own revenues of the LEPL's and SOE's classified as Budget Units resulted in overperformance of the Budget Deficit reaching to around 1.9% for 2024. The forecast for 2025 and medium-term remain around safe levels of 2.5%-2.6% which is well below the fiscal rule target of 3%. It needs to mentioned that significant fiscal consolidation and the fiscal deficit decreasing to 1.9% was manageable while keeping the Capex at 9.1% in 2024 and the medium-term forecasts also includes Capex at 7%-8%. The Debt to GDP ratio has also been decreased to safer levels, below 37% for 2024 and is projected to remain around the same level in the medium-term, which below the safe debt level of 40%-45%- that allows us to absorb mild shock without breaching the 60% threshold set by the Fiscal Rule of Georgia. **Tax Expenditure Analysis** To further increase efficiency of Tax Administration and Tax policies Georgia has started the exercise of analysing the Tax Expenditures with the support of the IMF. In 2024, MOF has finalised

[5] https://economy-finance.ec.europa.eu/document/download/f0d0a945-18a0-4332-ada3-b3a992be1333_en?filename=ip288_en.pdf

the Tax Expenditure Analysis of the Agricultural sector. This will be the basis to continue discussion in medium-term on addressing the results of the analysis and expending the exercise further to other types of taxes.[6]

Medium Term Revenue Strategy[7]

MOF has been actively working on preparing its first Medium Term Revenue Strategy. The document was prepared by the end 2024 summarising the Public Finance reform and other Fiscal planning related strategies, legislative constraints and fiscal forecasting impacts on revenue planning under one strategy. The strategy addresses the issue of ensuring sufficient revenue mobilization to finance the spending priorities and keep up the fiscal discipline.

As for the medium-term plans the indicator is partially covered by the Reform Measure #1 "Capital Market Development" in Chapter 5 and detailed discussions on Macroeconomic and Fiscal Parameters are in provided in Chapters 3 and 4.

Policy Guidance 2: With a view to improving the quality of the assessment of public investment projects, further enhance staff skills in preparing these assessments and introduce an electronic system for the management of public investments. In line with the public debt management strategy, continue efforts to develop the government security market, in particular by expanding the range of instruments denominated in local currency as an important step towards further development of capital markets. In order to improve the monitoring framework and cash management, continue the process of improving fiscal oversight over state-owned enterprises (classified as general government units) by bringing the accounts of the largest enterprises under the Single Treasury Account.

Public Investment Management (PIM)

Government and MoF continued to actively work on Public Investment management reform through 2024. Besides the already regular process of scrutinising upcoming investment projects as per the methodology before deciding on its budgeting, the works continued on elaboration of the electronic module for PIM procedures to be incorporated in the electronic Public Finance Management System (ePFMS). Rounds of workshops and training have been provided for the staff of MoF and line Ministries to share the experience of other countries as well as discuss the country specific contexts. Among others, IMF TA supported MOF's coordination group in charge of PIM projects. The process and procedures of scrutinizing the PIM projects were analysed, options for further improvements were discussed as well as best practices of using electronic systems for managing the Public Investment Projects were reviewed. MOF continues to follow the recommendations provided as part of the technical assistance.

[6] https://www.mof.ge/images/File/2025/publikaciebi/TEE_ENG.pdf

[7] https://www.mof.ge/images/File/2025_Biujeti/31-12-2024/1/MTRS%20-%202024_ENG.pdf

The World Bank TA has been actively supporting the MOF's designated working group and line ministries on PIM processes, including elaboration of the electronic module. The works also focused on integrating Climate issues in the PIM process.

Georgia also participated in sharing its own experience with peers from other countries. PIM related experience sharing was provided to the representatives of the Ministries of Finance of Armenia and Tajikistan. The experience was also shared through international platforms: PEMPAL, PEMNA, CEF, ECA WB.

As part of the PIM projects' regular review process, a lot of work has been done to analyse the projects in the pipeline for 2024-2025 budgets' and medium-term financing. Overall up to 20 projects have been reviewed with more than GEL 2 billion of total projects' amount included in the medium-term planning proposals[8].

Capital Market

As part of the Capital Market and Debt Management strategies active works continued to support capital market development. In the direction of the Government Securities, to further support the healthier and more liquid portfolio formulation, MoF continued to decrease ISIN and increase benchmark bonds issuance. Among others this aims building international index benchmarks (JP Morgan GBI-EM, FTSE Frontier Emerging Markets Government Bond Index). As of December 31 94.86% of the portfolio is in benchmark bonds, including 9 off-the-run bonds and 1 on-the-run. The largest benchmarks bond is of GEL 2,576.6 billion value, which is 26.64% of the portfolio (maturity 3.06 years). As of 2024 total value of the Government Security bonds is GEL 10,014 billion (30.2% of total debt portfolio and 11.0% of GDP) with the average weighted maturity of 3.48 years, average weighted interest of 8.842%;

In order to manage the portfolio and increase the benchmarks, different LMO instruments are being used, including buybacks and switches. Through LMO instruments we replace less liquid bonds with smaller remaining maturities (less than 1.5 years) with more liquid instruments. 3 switch auction operations were held in 2024, which allowed to switch bonds of GEL 150 million and 10 buyback operations worth of GEL 410 million. 68.9% of the portfolio is held by the commercial banks, 16.7% is held by National Bank of Georgia, 12.9% is held by resident clients and 1.6% by non-resident clients.

SOEs classified as budget units

As part of the exercise to fully integrated the SOE classified as budget units into the Treasury operations electronic systems, MOF continued to provide workshops for the SOEs. United Water company and Waste Management company have started to use the electronic systems fully and up to 6 SOEs transitioned gradually including the ones under the Autonomous Republic of Adjara.

[8] https://mof.ge/images/File/2025/mimoxilva/PIM%20report%202024%20-%20MOF.pdf

Working with SOEs will continue in 2025 and 2026 to fully transfers the accounts to single Treasury system of accounts and e-Treasury.

As for the medium-term plans the indicator is partially covered by the Reform Measure #1 "Capital Market Development" in Chapter 5 and detailed discussions on Macroeconomic and Fiscal Parameters are provided in Chapters 3 and 4.

Policy Guidance 3: Ensure a sufficiently tight monetary policy stance as long as necessary to anchor inflation expectations at levels consistent with price stability, underpinned by a thorough assessment of potential second-round effects. Ensure the independence of the central bank, including by adhering to proper appointment procedures and sound central bank governance. Continue to enhance risk-based supervision in line with best international and European practices, as well as to promote the use of the domestic currency and to limit unhedged lending.

Price stability in Georgia has been successfully achieved, with inflation maintained well below the target level. Since the beginning of 2023, inflation has been decelerating steadily. As of December inflation stood at 1.9% and annual average 2024 at 1.1%. This stability has largely been achieved through the monetary policy measures implemented by the National Bank of Georgia (NBG), which included timely tightening followed by a cautious gradual normalization of the policy rate. These actions have effectively anchored long-term inflation expectations. Both domestic inflation and sticky price inflation—an indicator that reflects long-term expectations—are currently below the 3% target. The NBG continues to approach its exit from a tight monetary policy stance with cautious manner. Since May 2023, the NBG has reduced the policy rate by a cumulative 3.0 percentage points to 8.0%. Despite this reduction, the stance remains tight, as the policy rate still exceeds the long-run neutral level of 7%. According to the NBG's latest projections, other thing equal, inflation on average is projected at 1.2% in 2024 and gradually stabilizing around the 3% over the medium term.

All the actions of the NBG are aimed at ensuring its independence. Maintained price stability and well anchored inflation expectations as well as ensured financial stability clearly exhibit the NBG's policy and instrumental independence. As for legislative changes, we are working in close cooperation with the IMF to identify the necessary amendments.

NBG actively continues implementing larization policy measures. The NBG has increased the limit for unhedged foreign currency loans to 300,000 lari as of January 1, 2024, and to 400,000 lari as of May 1, 2024. Against the background of the measures taken by the NBG, dollarization has significantly decreased. NBG has increased the limit for unhedged foreign currency loans from 400,000 to 500,000 GEL effective from January 1, 2025. To support larization the NBG also increased minimum reserve requirements on foreign currency liabilities by 5 percentage points. In parallel, the NBG maintains all the macroprudential policy incentives (additional capital requirements for unbegged FX exposures, higher minimum reserve requirements in FX, tougher Payment-to Income and Loan-to-Value ratios in FX) to promote local currency intermediation. Supervisory framework and practices are well aligned with the Basel standard and EU directives. The latest amendment is the full implementation all the features of EU bank resolution framework.

More detailed information on related issues can be found in Chapter 3

Policy Guidance 4: With a view to strengthening competitiveness and exports in the agricultural sector, finalise the architecture of the land information system and make progress on extending its coverage. Advance with the irrigation sector reform including the revision of water tariffs. With a view to addressing the informal economy in a holistic, government-wide manner, encompassing tax, labour, social and financial policies, undertake steps towards preparing a policy plan, by establishing a dedicated inter- ministerial Working Group and elaborating sectoral and risk assessment.

Land Information System

In the direction of the creation and implementation of the Land Information System, the National Agency for Sustainable Land Management and Land Use Monitoring is actively implementing the creation of unified data on land use and land cover by integration of existing information and the decoding of aerial and space photographs, a map with a scale of 1:2000 was created (on the whole territory of Georgia except the occupied by Russia territories) On the basis, using the internationally recognized CORINE classifier, to complete the creation of the first level of geospatial data of the integrated database of land resources by December 31, 2024, to compile and publish the land balance of Georgia. As of end December, land cover decoding has been carried out across the country on an area of 5,771,275 ha.

Irrigation

In parallel to increasing public investments in the sector of Irrigation, the government continued to actively work on the irrigation system reform.

According to the law adopted by the Parliament in 2019, GNERC (National Regulator for Energy and Water Resources) defines tariffs for using the irrigation systems and regulates cooperation between the primary water users and consumers. Rules elaborated by the regulator “On Irrigation Water Supply” are in force and the deadline for setting the tariff is set as December 19, 2025. The irrigation sector has become the fourth sector in the country to be regulated by the Georgian National Energy and Water Supply Regulation Commission (GNERC). The following activities were conducted within the framework of the mentioned reform: (i) As a result of extensive collaboration with GNERC, two significant legal acts were adopted: "Rules of irrigation water supply" and "Methodology for calculating the service tariff provided by the primary water user";

(ii) The Ministry of Environmental Protection and Agriculture of Georgia (MEPA) has approved the "Rules for determining the water supply regime and irrigation norms". (iii) In order to address the challenges in the reform framework, institutional modifications were implemented. In particular, the Department of "Water Resources Management, Energy, and Relations with GNERC" was established within the Amelioration of Georgia LLC; (iv) A working group was established at Amelioration of Georgia LLC to inventory the irrigation canals and associated agricultural land plots. The group is actively working in this direction; (v) New application forms have been created and authorized for both profile and non-profile users; (vi) Final reporting forms have been elaborated. In accordance with the specified forms, the regulator will reallocate operational expenses of Amelioration of Georgia LLC and then incorporate it into the tariff; (vii) For efficient water usage, a water management calculation is developed to determine the standard water consumption for normal pond operation; (viii) As a result of intensive collaboration with the regulator, new application forms for irrigation system connections for all user types have been developed. Supply regimes are being developed individually for irrigation, hydrogeneration and fisheries; (ix) Appropriate measures are being taken to ensure that the software related to the billing system complies with GNERC requirements; (x) As per regulators decisions, metering systems are being installed for non-profile users (except Hydrogeneration power plants) since last quarter of 2024 and has to be finalized by the end of second quarter of 2025; (xi) Special working group was created under the LLC Amelioration of Georgia to prepare full inventory of canals and identification of supply points; (xii) GNERC has elaborated unified tariff policy for technical water users and published for public discussion before it approves the tariffs; (xiii) Within the framework of the approved tariff methodology, we are currently working with GNERC and World Bank experts on various mechanisms to address the temporary potential cash shortage.

Most of the rules by the regulator on Irrigation are in force since January 1, 2024. LLC Georgian Amelioration is working with the WB and GNERC to address practical challenges associated to the full implementation of the rules, since sector had been deregulated for far too long.

Informal Economy

In order to address the informal economy in a holistic, government-wide manner, encompassing tax, labour, social and financial policies, has been made decision to prepare a relevant policy plan. With this view, dedicated inter-ministerial Working Group has been established and has commenced work on preparing a situational analysis and conducting sectoral and risk assessments. The working group was created by the Order of the Minister of Economy and Sustainable Development of October 9, 2024 “On Creating the Working group on the elaborating overarching programme for reducing informal economy and preparing recommendations.” The working group is identifying the actions taken and in progress by different institutions and on agreeing the exact definition and methodology of informal economy. The working group has met with the ILO to coordinate works undergoing.

As for the medium-term plans the indicator is partially covered by the Reform Measure #2 "Improved food security through upgraded Irrigation and Drainage Systems" in Chapter 5

Policy Guidance 5: Adopt a legal framework for supporting Energy efficiency and Renewable Energy roll out, improve the security of energy supply by finalising and adopting legislation on establishing strategic oil reserves, continue to liberalise the energy market by finalising and adopting European Commission Institutional Paper 78 legislation on unbundling of transmission system operators in electricity and ensuring electricity market opening by launching intra-day and day-ahead markets and preparing for the balancing market. To support the country's climate commitments, adopt the Integrated National Energy Climate Action Plan and develop draft legislation to introduce the Monitoring, Reporting and Verification system thus approximating national legislation to the EU legal acts. To support the country's transit potential, continue reforms and ensure implementation of investments in transport infrastructure (ports, railways, road transport), build capacities within relevant transport agencies including through active cooperation with donors. To strengthen digitalisation and productivity of the economy, adopt an overarching digital strategy and enhance coordination among digitalisation governance agencies and relevant ministries.

Energy Efficiency in Buildings

In the frame for supporting Energy efficiency and renewable Energy roll out, the amendments to the Law of Georgia on Energy Efficiency and Law of Georgia on Energy Efficiency of Buildings were adopted by the Parliament of Georgia on 27th of June 2024.

With Regard to secondary legislation, currently, 14 by-laws have been adopted pursuant to the Law of Georgia on Energy Efficiency and 4 by-laws pursuant to the Law of Georgia on Energy Efficiency in Buildings.

The remaining part of secondary legislation will be adopted in 2025. In particular, according to the Energy Efficiency Law, there are 4 by-laws remaining, which are drafted and will be submitted by the end of 2025, while according to the Law on Energy Efficiency of Buildings, there are 7 by-laws remaining, which are drafted and will be submitted by the end of 2025.

Law of Georgia "On Promotion of Production and use of energy from renewable sources"

Draft amendments to the Law of Georgia „On Promoting the Generation and Consumption of Energy from Renewable Sources'," has been prepared in accordance with Directive 2018/2001 and with the support of Energy Community and EU4Energy Project. The draft is being finalized and will shortly be submitted to the Government of Georgia for approval.

As for the secondary legislation pursuant Renewable Energy law, 8 by-laws have already been adopted. The remaining part of secondary legislation will be developed. According to the law On Promoting the Generation and Consumption of Energy from Renewable Sources, there are 11 by-laws remaining, which will be developed by the end of 2025.

Adopting legislation on establishing strategic oil reserves

Georgia, as a member country of the Energy Community, is obliged to fulfil the requirements of the EU Directive 2009/119/EC, which imposes the obligation on member states to maintain minimum stocks of crude oil and/or petroleum products. Implementing of which, consequently ensures the improvement of energy supply security.

For this purpose, the Ministry of Economy and Sustainable Development of Georgia, with the support of the Energy Community, prepared the draft law "On the Obligation to Maintain the Minimum Amount of Crude Oil and/or Petroleum Products" with relevant annexes. At this stage, consultations with the interested parties are ongoing. After finalizing the draft, law, it is intended to be submitted to the government.

Electricity Market Reform

Within the framework of the electricity market liberalization reform, on 1st July 2024, the transition model of the electricity market was launched, which provides the launch of day-ahead and intraday markets in a voluntary mode. In collaboration with Energy Community, the Ministry of Economy and Sustainable Development has commenced work on preparing the Regulatory Impact Assessment/study to identify the most effective options and necessary measures/actions for implementing the target model of the electricity market.

Unbundling of transmission system operators

According to active efforts with the involvement of the Energy Community, draft of the legislative amendments has been elaborated for unbundling of transmission system operators. The draft law on the unbundling of the transmission system operators (TSO), which was negotiated with and approved by the Energy Community, has been approved by the Parliament.

The mentioned draft envisages the separation of governance of the state-owned energy enterprises between the Ministry of Economy and Sustainable Development of Georgia and LEPL “National Agency of State Property”.

Addoption of Integrated National Energy and Climate Action Plan as country's climate commitment

The National Energy Policy and its annex, the National Energy and Climate Plan of Georgia was adopted by the Parliament of Georgia on 27th of June 2024. The plan was elaborated in cooperation with Energy Community in accordance with relevant EU regulation. NECP contains renewable energy, energy efficiency and greenhouse gas emission targets for 2030 that were agreed with the Energy Community Secretariat and European Commission.

Monitoring, Reporting and Verification system

MEPA has drafted the respective amendments to the Law of Georgia "On Environmental Protection." The draft amendments have been submitted to the Government of Georgia for further procedures according to the legislation. The Government is has reviewed the amendments and the draft law is submitted to the Parliament of Georgia for adoption, to be discussed in the upcoming session in Spring 2025. The draft law has been shared with Energy Community Secretariat and after receiving respective comments from them, the draft law was further adapted to meet all the requirements and standards. The draft law also envisages the adoption of two by-laws that will regulate the process of authorization by competent authorities. These proposed by-laws are named: "On Monitoring and Reporting of Greenhouse Gases" and "On Data Verification of Greenhouse Gases."

Transport Policy and Reforms

As part of its ongoing efforts to enhance the country's transit potential, Georgia remains committed to advance comprehensive reforms in all fields of transport and securing substantial investments in transport infrastructure, including ports, railways, and road transport. Moreover, within the framework of these reforms, Georgia aims to enhance the competency of its transport agencies. It is noteworthy that, in this regard, Georgia actively cooperates with relevant international donors and continues in the implementation of regulatory reforms, including: Railway Sector Reform, licensing of transport operators, the Development of Maritime Single Window System, etc. For these purposes, the following steps have been undertaken:

Railway Transport

Within the framework of phase I of the Railway Sector Reform launched in 2023 which aims to improve the legal and institutional framework in line with EU acquis, the national safety authority was established on July 1, 2023 as LEPL Rail Transport Agency under the Ministry of Economy and Sustainable Development of Georgia. At the initial stage, it has been tasked with safety certification of railway operators/infrastructure managers, certification of train drivers and transportation of dangerous goods. The transitional period for full-fledged implementation of these functions is set until 1 January 2025. Rail Transport Agency has been designated as the competent authority for the

conclusion of PSO through a Government Decree. PSO contract was signed between the Rail Transport Agency of Georgia and "Georgian Railways" on June 2024. Additionally, the Transport Safety Investigation Bureau was designated as an independent railway accident and incident investigation body (NIB), effective from January 1, 2025.
On 22 November 2024, Government Ordinance №394 was adopted on the approval of "Railway Safety Rules". Moreover, the work has already started on the implementation of Phase II of the rail sector reform concerning rail passengers' rights and obligations and railway safety (certification of entities in charge of maintenance).

Road Transport

In order to further transpose Regulation 1071/2009 into the Georgian legislation, a relevant legislative package was adopted by the Parliament of Georgia in November 2023, which implies mandatory licensing of transport operators carrying out passenger transportation within the country and mandatory certification of bus stations.

In addition, under the legislative package, the requirements of the Regulation 1071/2009 were transposed to the transport operators carrying out any type of international transportation of goods and passengers through the amendment in Governmental Ordinance №4 (dated 3rd January 2014) made in May 2024. Relevant changes were also affected in May 2024 in Governmental Ordinance N442 dated December 31, 2013, which concerns the regulation of intercity bus stations.

In road transport, Georgia continues to implement other important reforms and activities, including monitoring of periodic technical inspection centers and roadside checks of heavy motor vehicles. To this end, legislative amendments to the Law of Georgia on "Road Traffic" and "Administrative Offences Code of Georgia" were adopted by the Parliament of Georgia in June 2024.

Maritime Transport

The National Maritime Single Window System has been introduced in Georgia since October 2024, streamlining ship clearance procedures. Moreover, respective legislative amendments to the "Maritime Code of Georgia" were adopted by the Parliament of Georgia in May 2024. Relevant sub-legislation was adopted on 28 October 2024, namely Government Ordinance N 371 on the approval of Rules for the functioning and management of the maritime single window system in the ports of Georgia".

The development of the Port Community System is also underway. The project is supported by the EBRD and has been implemented since October 2023.

UPDATE ON KEY INFRASTRUCTURE PROJECTS

Anaklia Deep Sea Port

The selection process of a private partner for the Anaklia Deep Sea port project is ongoing. After the evaluation of SOQs, on September 20, 2023 the Commission selected following two Qualified Candidates: (1) Terminal Investment Limited Holding S.A. (T.I.L Holding S.A) (Luxembourg) and (2) Consortium - China Communications Construction Company Limited (China) & China Harbour Investment Pte. Ltd (Singapore); Subcontractors - China Road and Bridge Corporation and - Qingdao Port International Co., Ltd), which were invited to proceed to the Request for Proposal (RFP) stage of the process. Only Chinese-Singaporean consortium submitted a proposal. RFP is being evaluated on the basis of technical, legal, commercial and financial criteria.

The Government of Georgia intends to make major capital contributions to the marine infrastructure works including the breakwater and the dredging works. To this end, an international tender was announced for the design and construction of the marine infrastructure of the Anaklia Port on 18 March 2024. As a result, a Belgian company Jan De Nul has been awarded a contract. The construction of the marine infrastructure component of the Anaklia Deep Sea Port project was launched in September 2024.Phase one of the Anaklia Port shall have a minimum capacity to handle 600 thousand TEUs per annum. Tentative CAPEX – 600 mln USD.

Railway

The ongoing **railway modernization** project is 99% completed. Modernization project enhances the infrastructure for railroad operations in a very challenging, high-gorge area of the country, which will lead to reduced travel time and enhanced safety levels. The annual throughput capacity will rise from 27 to 48 million tons. The major works within the project will be finalized by the end of 2024, while the installation of Tunnel 9 fire safety system, necessary for safe passenger transportation operations, will be completed in 2025.

Airports

In October 2023, the Government of Georgia decided to significantly enhance the air transport infrastructure in Tbilisi, aiming to develop a **new international airport at Vaziani** (approximately 23 kilometres from Tbilisi) to meet the growing demand for air travel from and to Georgia over the next 30 years. The new airport is designed to accommodate up to 20 million passengers upon completion of two phases.

Infrastructure works in Tbilisi International Airport: Tbilisi International Airport has accomplished its next large infrastructural project through which an additional area was created for the immigration zone, the border control zone capacity has increased by 44% and the number of border control kiosks has become 12 from the previous 9. Ongoing projects include the expansion of the departure hall business lounge and the arrangement of a Fast Track lane to expedite procedures for business class passengers and individuals with special needs, minimizing queuing times.

At the beginning of 2024, the expansion of the car park at Kutaisi International Airport was completed, increasing the total number of parking spaces to 700. Prior to the end of 2023, an agreement was signed for the reconstruction of the aircraft parking platform and the construction of a new parking scheme at Kutaisi International Airport, with the construction expected to be completed this year. Additionally, in order to optimize the existing air cargo potential, in 2023, a purchase agreement was signed for the construction of a small cargo terminal at Kutaisi International Airport, with the project scheduled for completion by the beginning of next year.

Adoption of the overarching Digital Strategy

The Ministry of Economy and Sustainable Development of Georgia with the technical assistance of the World Bank has elaborated the draft "National Strategy for Development of Digital Economy and Information Society of Georgia 2025 – 2030".

The draft strategy encompasses the following priorities: Digital Government Platforms, Digital Financial Services, Digital Business/ Entrepreneurship, Digital Skills, Digital Infrastructure and Legal/Regulatory Aspects etc. At the same time, the draft strategy outlines coordination mechanisms for the digital economy and information society in the country.

The draft strategy, which is planned to be adopted in early 2025, considers the EU's strategic documents: digital Compass and Digital Decade.

As for the medium-term plans the indicator is partially covered by the Reform Measure #3 "Renewable Energy and Energy Efficiency" and Reform Measure #4 "Enhances Connectivity" in Chapter 5

Policy Guidance 6: To improve labour market outcomes and social inclusion, adopt and ensure an effective implementation of the Labour and Employment Policy strategy, paying special attention to internally displaced persons and under-represented groups, such as women, people with disabilities, and NEETs, including in remote areas. To strengthen Georgia's human capital and reduce skills mismatches in the labour market, conduct and finalise - with the support of the European Training Foundation - a diagnostic of the education system, including vocational education and training. To reduce regional disparities and social inequalities including through strengthened equity, access and efficiency of health care and the social safety net, extend universal health coverage further.

Labour and Social Policies

As for the Social and Labour policy, the Government of Georgia has elaborated a draft of the Labour and Employment National Strategy 2025-2029 and relevant action plan for 2025-2027. The Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia (MOILSHA) signed with ILO and social partners a memorandum on "Country's

Decent Work Programme 2024-2025" in August 2024, which will support the policies on labour related rights.

The Governmental policy is focused on creating a sustainable social protection system, that helps the population realize their social rights and reduce social risks caused by poverty. The social protection system in Georgia includes various support and assistance programs for vulnerable groups such as elderly, persons with disabilities (including children), households under the poverty line, orphans, and other vulnerable groups. Cash assistance is given in the form of State Pension (retired persons), State compensation (for special groups with special merit recognized by the state), and Social Package (for persons with disabilities (including children) orphans, etc). In parallel with monetary assistance, the population is provided with necessary services, such as the social services for elderly people, vulnerable children, including children lacking parental care, persons with disabilities/children, victims of domestic violence and abuse, etc. The amount of funding and geographic availability of social services is increasing every year. Furthermore, new programs are regularly developed, and existing ones are constantly enhanced to better serve our community. For example, personal assistant and home care programs launched last year are undergoing further development to expand coverage and improve the effectiveness.

The Ministry continues to work of Community Employment programs for people under the Targeted Social Assistance programs, which provides employment in public as well as open labour market jobs. Works will continue on both passive and active employment government policies.

Healthcare

One of the key priorities of the UN Sustainable Development Agenda 2030 and the European Association Agreement is to improve population health through universal access to health services and equitable distribution of financial burdens. For the past 10 years, achieving universal healthcare has been the cornerstone of the health care system, ensuring access to essential medicines and medical services for 95% of the population. Since its inception, the program has financed 3.3 million citizens and 13.1 million medical cases, amounting to 8.8 billion Georgian Lari (GEL).

Universal access to medical services for cancer patients has been a top priority. Significant progress was made last few years with the increase of the annual limit on cancer services (chemo, hormone, and radiation therapy) per patient from 12,000 GEL to 18,000 GEL, and then to 25,000 GEL, while removing co-payments in chemo, hormonal therapy. The coverage has been expanded since the end of 2024 and chemo, hormonal and radio therapy and onco-surgeris are financed for the Georgian citizens.

In 2024, the annual limit on outpatient medicines for chronic diseases management was removed, and the range of covered conditions expanded to include cardiovascular diseases, thyroid disorders, diabetes, chronic lung diseases, and glaucoma. 383 187 patients benefited from the program in 2024, with the total cost of GEL 54.2 million in 11 months.

To facilitate access to innovative medicines, a legislative framework for the Managed Access Agreement (MEA) mechanism was enacted. In 2024, the Ministry purchased 21 cancer medicines from Roche and Novartis and the medicine for treating achondroplasia from Biomarin, based on MEAs.

In parallel with efforts to eliminate hepatitis C, hepatitis B diagnosis and management program was launched in 2024. By March 2024, 2.8 million people were screened for hepatitis C. More than 86,000 people received treatment, with over 82,000 completely cured, achieving a 99% cure rate.

To ensure medical institutions comply with international standards, starting in 2025, a quality certificate from authoritative international organizations will be a prerequisite for inclusion in the universal healthcare program. The professional development of medical personnel is also a state priority. In 2024, legal recognition of nurses and midwives was implemented, designating them as a "regulated" profession.

Primary health care system, a cornerstone of the country's social and economic development, continues to introduce innovative technologies like telemedicine in rural areas. In 2024, up to 3,100 rural residents received specialist consultations via telemedicine. Plans are in place to expand this service to an additional 60 outpatient medical facilities.

Today, the country's main priority is to establish a human-centered healthcare system ensuring no one is left without necessary medical care. The 2022-2030 National Health Care Strategy of Georgia, approved in 2022, aims to achieve universal healthcare access without any financial hardship by 2030.

Vocational Education

In the direction of VET education emphasis is placed on implementing crucial issues such as access to vocational education, quality improvement, aligning vocational programs with labor market needs, and promoting lifelong learning. The goal of vocational education reform is to make vocational education accessible to everyone and to meet both local and international labor market demands. Vocational Educating Strategy 2024-2030 was approved, which is the continuation of the decade effort of developing vocational education programmes. Strategy enhances further access to vocation education, improved quality and better linkages with the employment market and private sector employers.

Another layer to the reform was integrating vocation education in the secondary education since 2024. Regulations and rules for standardizing Vocation Education Teachers' performance have been elaborated, teacher qualifications reviewed and new programmes introduced based on new qualifications. New facilities have been built and rehabilitated, including the ones in partnership with the private sector employers and ones financed through donor funded projects (KFW, WB, ADB)

In cooperation with the sector experts, private employers and partners and methodological experts overall 33 professional standards are approved and 68 professional qualifications renewed.

As part of the Vocation Education reform, special emphasis continues on internationalization of the educational programs, that allows exchange of experience in the vocation education. Respective rules and procedures were adopted through the ministerial orders. Erasmus+ continues to a very valuable support to the programmes, by being engaged in 8 different projects in professional training, digital literacy, eco-innovative business models, constructions and gender equality in technologies.

The implementation of the EQAVET (European Quality Assurance in Vocational Education and Training) standard indicators continued successfully. Progress assessment of national vocational education system was performed based on the EQAVET 7 indicators and the indicators were integrated in the process of authorisation of the VET facilities.

Accessibility has been increasing sustainably over the years. VET system continues providing places for dual education as well as places for people with special needs. 600 vocational programmes are being provided with 7000 people applying for the Vocational education in 2024. Financing of the Vocational Education has increased significantly reaching GEL 138.0 mln in 2024. Salaries of VET teachers have been increasing steadily, including by 20% in 2023 and by 10% in 2024. Teachers training and qualification improvement programmes continue, including through exchange programmes.

MOES continues to work on a new model for financing VET systems, which will be performance based vs the per capita only financing models. According to surveys of the Skills agency 81% of 2023 graduates are employed, among which 40% in the line work he/she had been trained for and 12% is self-employed,

With EU TA activities that support young graduated of secondary education in the professional career orientation continues. In addition, certified courses are being integrated in schedules. In 2024, 2300 students participated across 157 secondary schools in these activities.

To support persons with special needs piloting of special programmes and training mentor groups continued under the program “Better Opportunities for Lifelong Learning through Partnerships” supported by UNDP.

Diagnostic assessment of the Georgia’s education system

To strengthen Georgia’s human capital and reduce skills mismatches in the labour market, EU’s new regional programme “Supporting Education Reforms & Skills in the Eastern Partnership region” implemented by the European Training Foundation (ETF) for diagnostic assessment of the Georgia’s education system, including vocational education and training has been launched in 2023.

During the pre-inception phase in October 2023 a preparatory workshop was organised on the content and implementation of the new regional programme on education and skills in Eastern Partnership (EaP), which contributed to the design and sequencing of programme activities.

In addition, extensive consultations were carried out with education authorities, education sector stakeholders, development partners and the EU Delegation in the country during fact-finding missions.

During the inception phase in 2024 the country consultations has been completed by April and a workplan for 2024 was elaborated. Country snapshot (with an overview of the national developments in education reforms, stakeholders mapping and outlining indicative thematic areas for the country activities and priorities within the programme) was developed.

As for the medium-term plans the indicator is partially covered by the Reform Measure #5 "Improved Healthcare of the Population" and Reform Measure #6 "Education" in Chapter 5

3. MACROECONOMIC FRAMEWORK

After Russia's invasion of Ukraine, the global growth prospects together with inflation have worsened. 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. High inflation was remained during 2022-2023, while there was a sharp decline in inflation in most of Georgia's trading partner countries. As for the 2024 estimates, 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 European Commission (EC) forecast, and 2024 growth of EU is expected to be 0.9% - lower than anticipated last year. Inflation in turn is expected to decrease to 2.6% in 2024 from 6.4% in 2023, and reaching targeted 2% in 2025-2026. Going forward, the shocks stemming from external sector is expected to stabilize, and global economy is expected to grow on average by 3.2% during 2025-2027, while EUs growth rate will be around 1.6%. Georgia's main trading partner countries' economies are also expected to show steady growth within this period.

The ECB reduced monetary policy rate to 3.0%, amid decreasing inflation, policy rate will gradually decrease and per EC forecast will stand at 2% by the end of 2025, which is less than expected in spring by 60 bp. The decreasing trend of policy rate is already evident in the USA and Central and Eastern European countries. Decreasing inflation trend is evident in Georgia's main trading partner economies too, it is going to average 3.7% (w/o Türkiye) in 2025-2027, from 8.3% in recent years, per October IMF WEO.

Despite high inflation and depreciation of Lira, Türkiye's economy shows resilient growth after Covid-19, and the stabilized growth is visible in the recent period. It is set to increase by 3.1% on average during 2025-2027. To battle the soaring inflation Türkiye now is set to increase its policy rate and reached to 42.5% in2023, while it stands at 50% as of December 2024. The main risk for neighbouring countries, stemming from Türkiye's inflation, which may be imported, but since high inflation from Türkiye is accompanied with depreciation, this risk can be diminished.

For Caucasus region, inflation is decreasing in Armenia and Azerbaijan, 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 4.9% and 4.5% for Armenia and 2.5% and 2.4% for Azerbaijan in 2025-2026.

Source of high inflation was higher global food and oil prices. After it peaked in 2022, FAO food prices started to decrease steadily in 2023, following by the oil price reduction. 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 74 USD per barrel in 2025, and it is not expected to be changed in the medium term.

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

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

	Year	Year	Year	Year	Year
	2023	**2024**	**2025**	**2026**	**2027**
Short-term interest rate	5.6%	7.3%	5.4%	4.9%	4.4%
Long-term interest rate	6.6%	8.5%	6.6%	6.1%	5.6%
USD/EUR exchange rate	1.08	1.09	1.07	1.07	1.07
Nominal effective exchange rate	395.9	413.5			
Exchange rate vis-à-vis the EUR	2.84	2.94	2.94	2.94	2.94
Global GDP growth, excluding EU	3.5	3.3	3.2	3.4	3.4
EU GDP growth	0.4	0.9	1.5	1.8	1.6
Growth of relevant foreign markets	2.4	3.3	2.7	2.8	2.8
World import volumes, excluding EU					
Oil prices (Brent, USD/barrel)	82.4	81.0	74.0	74.0	74.0

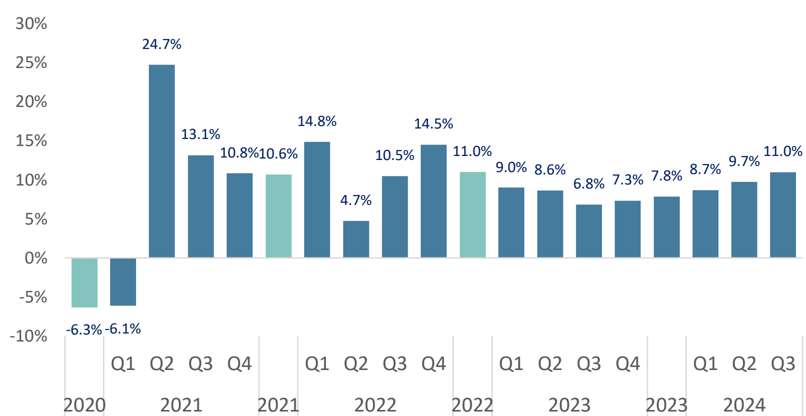
The primary source for forecasts of main foreign economic activity in the medium term is the IMF 2024 October World Economic Outlook and EU commission November forecasts, which are published twice a year and encompasses a wide range of macroeconomic variables. For the medium-term macroeconomic framework, 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 and short-term weighted average interest rates, Bloomberg's forecasts and MOF estimations are utilized.

3.1 Recent economic developments

Economic growth

In 2023, the Georgian economy demonstrated robust growth (7.8%), building on the impressive economic performance of a 11.0 percent growth rate in 2022. The growth for the first three quarters of 2024 stood at 8.7, 9.7% and 11.0 percent respectively. In October, real GDP growth rate was 11.0 percent. The projection of the annual economic growth rate for the entire year of 2024 is 9.0 percent, while growth forecast for the next year is equal to 6.0%.

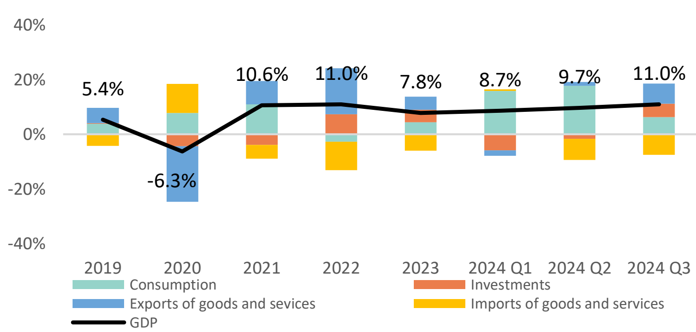
Figure 1. Real Economic Growth, % y/y



Source: National Statistics Office of Georgia (Geostat)

In the first three quarters of 2024, according to the production approach, the services sector emerged as the primary contributor to growth, expanding by 12.8 percent annually and contributing 8.2 percentage points to overall growth. Following closely, the construction sector exhibited growth rate at 17.3 percent, contributing 1.1 percentage points to the overall growth. Regarding the Industrial sector, there was a rise of 2.5 percent, resulting in a positive but insignificant contribution to the overall growth in the first 9 months of 2024.

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



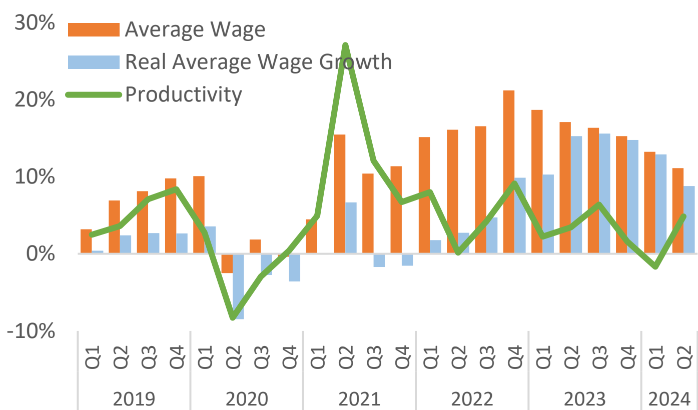
Source: Geostat

The agricultural sector sustained its slowly growing trend observed since the pandemic. In spite of the fact that the sector experienced a decline in 2022-2023, in the first half of 2024, it increased by 3.8 percent compared to the same period of the previous year, exerting almost negligible impact of 0.3 percentage points on the overall economic growth.

As from the expenditure side, according to the data for three quarters 2024, the largest contributor to economic growth was consumption. The annual change in consumption compared to the same period of the previous year was 15.7 percent. Consumption contributed 13.3 percentage points to GDP growth during the first nine months of 2024. At the beginning of the year, investments declined, primarily due to changes in inventories, despite consistent growth in gross fixed capital formation. However, in Q3, real investment growth reached 23 percent, reducing the annual decline in investments to a slightly negative level. Consequently, the contribution of investments to economic growth was marginally negative, at -0.9 percentage points. It is also noteworthy that during this period, both exports and imports increased, by 5.1 and 9.6 percent year-on-year, respectively.

Labour Market

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



Source: Geostat, MOF calculations

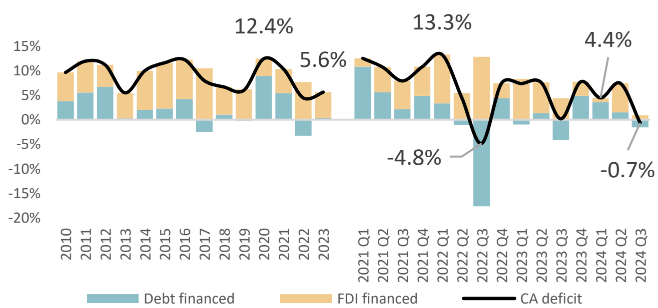
The unemployment rate stood at 13.8 percent in the third quarter of 2024, which indicates 1.8 pp annual decline compared to the same period of the previous year and 0.1 pp growth compared to the previous quarter. Within the 3rd quarter of the current year, the labour force participation rate increased by 1.0 percentage points compared to the corresponding period of the previous year, reaching 54.7 percent. As for the employment level, it grew by 1.8 pp and was determined at 47.1 percent. Notably, the labour force participation rate differs between genders. In the third quarter of 2024, the participation rate for women stood at 44.9 percent, while for men, it was notably higher at 66.1 percent. The number of employees increased by 3.0 percent and the labour force increased by 0.9 percent compared to the corresponding period of the previous year. Concurrently, the number of unemployed individuals decreased by 10.5 percent annually.

Regarding the productivity in the second quarter of 2024, measured as the ratio of real output to the number of employees, it demonstrated a 4.8 percent annual increase. This indicator was reduced by 1.7 percent in the first quarter. Additionally, the average nominal salary of employees experienced a noteworthy 11.1 percent year-on-year rise (the wage increased by 13.2 percent in the 1st quarter), reaching 2004.9 GEL (663 Euro) in the second quarter.

External Sector

Current account. Georgia's current account deficit (CAD) stood at 4.4 percent of GDP in the first quarter of 2024, primarily financed through debt. In the second quarter, the deficit reached approximately USD 608 million, equivalent to 7.4 percent of GDP. This was financed by a combination of net foreign direct investments (FDI) and debt. In the third quarter, CAB was positive, amounted 61 million USD, and like some other years third quarter, debt was refinanced. It also worth noting that in the three quarter of 2024, the CAD was recorded at 3.5 percent level, that is 1.3 pp better compare to the previews year.

Figure 4. Financing of Current Account, percent of GDP



Source: National Bank of Georgia (NBG), Geostat

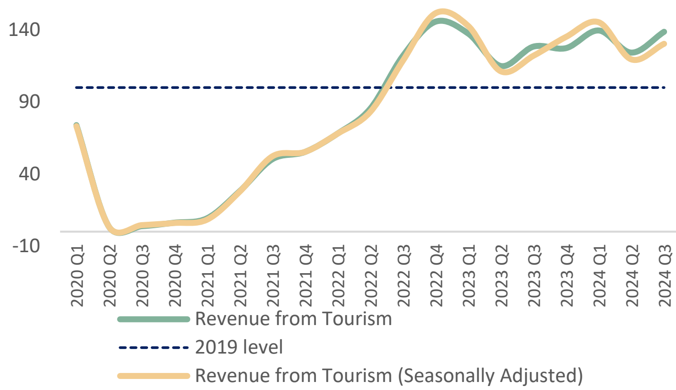
Examining individual components, the improvement in the current account balance was driven by stronger primary and secondary income accounts, while the trade balance deteriorated slightly. An improved services account nearly offset the decline in the goods account.

Foreign Direct Investment. In the first quarter of 2024, foreign direct investment (FDI) amounted to USD 194.3 million (2.7 percent of GDP). This figure rose to USD 574.3 million (7.0 percent of GDP) in the second quarter, while in the third quarter, FDI totalled USD 198 million (2.2 percent). In the third quarter the Netherlands (60.2 million USD) was the top investor and its share equalled to 30.4 percent. The Netherlands were followed by Malta and the UK with the shares 29.5 and 27.8 respectively. In 2023, the Netherlands and the UK had 20.3 and 19.2 percentage share, respectively. It should be mentioned that in 2023, FDI decreased by 15.6 percent, comprising 6.2 percent of the country's GDP. In the first nine months of 2024, FDI experienced a further decline of 40 percent, amounting to 4 percent of GDP. This decrease was primarily driven by a reduction in equity investments, while reinvestment earnings and debt instruments largely offset each other.

International Investment Position and External Debt. In the first quarter of 2024, the net negative international investment position (IIP) in nominal terms increased by 2.3 percent compared to the same period in 2023. In the subsequent two quarters, this figure improved slightly, but by the end of the third quarter, it had deteriorated by 1 percent on an annual basis. In 2024, the downtick (indicating an improvement in the international position) was primarily driven by relatively slower growth, in nominal terms, of international liabilities compared to the growth of international assets. The IIP relative to GDP remained negative, at 90.5% in the third quarter of 2024, compared to 98.0% in 2023.

The external debt stood at 78.0% of GDP in the first quarter of the current year. This indicator began to decline reaching 76.9 percent in the second and third quarters. In 2023, external debt was 79.6 percent of GDP, reflecting the continuation of the debt reduction trend. It is also worth highlighting that following the pandemic, the debt-to-GDP ratio decreased significantly—by 13.8 percentage points in 2021 and 21.4 percentage points in 2022. In 2023, the ratio fell by an additional 16.4 percentage points, from 95.9% to 79.6%. This reduction was primarily driven by robust GDP growth.

Figure 5. Income from Tourism



Source: NBG

Tourism. In the post-pandemic period, tourism sector has started gradual recover. From the 2021 Q2, 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 2024, the income from tourism amounted to 1,563.3 million USD, which is 8.0 percent higher than the same period of the previous year, and 38.7 percent higher than of the 2019 level.

Remittances. In 2023, the net remittances amounted to 3,790 million USD, marking a 5.9 percent decrease compared to the previous year. This reduction was caused by a high base effect and a significant fall in remittances from the Russian Federation (-26.7 percent y/y).

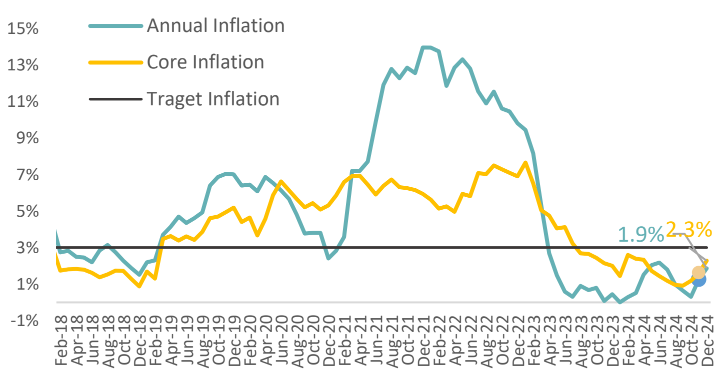
As for the year of 2024, within the first 11 months the net remittances[9] accounted 2,732.9 million USD, which is by 22.2 percent less compared to the same period of the last year. Russia made the main contribution to the decrease by 27.1 pp (66.9% annual reduction). A growth was recorded in the net remittances from the USA (26.9 percent, 3.0 pp.), from Italy (8.5 percent, 1.1 pp.), and from Germany (17.2 percent, 1.0 pp.). The remittances raised from Israel (by 16.7 percent) and Ireland (35.5 percent) as well that contributed positively to overall growth by 0.9 pp and 0.4 pp respectively. It should be noted that the remittances from the Russian Federation had increased before and had a positive contribution to the growth of the net remittances. This dynamics changed in the second quarter of 2023, which is possibly related to a 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

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

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.

Figure 6. Inflation in Georgia, 2018-2024



Source: Geostat, MOF

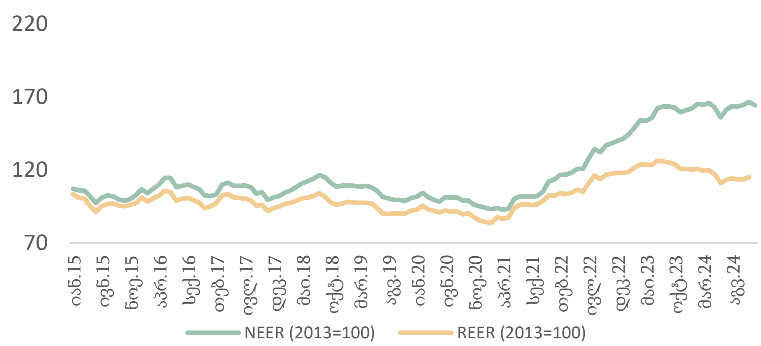
Inflation in Georgia - The CPI based average annual inflation in 2022 was 11.9 percent, still higher than the monetary policy target, that was mainly driven by an increase in international prices, supply chain disruptions and other global and regional events. In 2023, the inflation reduced to 2.5 percent. The similar tendency is sustained in 2024. It is also worth noting that inflation in the past year remained below the target level, with the annual average reaching 1.1 percent. Inflation is expected to remain close to the target level in the short term. Core inflation in Georgia was relatively stable between 2018 and 2023, exhibiting an upward trend until 2022 when it peaked at 6.9 percent. However, core inflation subsequently declined, falling to 2.0 percent in 2023 and further to 1.7 percent in 2024.

As for the GDP deflator, it had an increasing trend within the COVID-19 pandemic. In 2021 and 2022, it amounted to 10.2% and 8.1% respectively. However, the GDP deflator also fell to 2.9% in 2023. It is expected that this indicator will reach 3.1% in 2024. 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 (3%).

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

[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, Türkiye, 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)



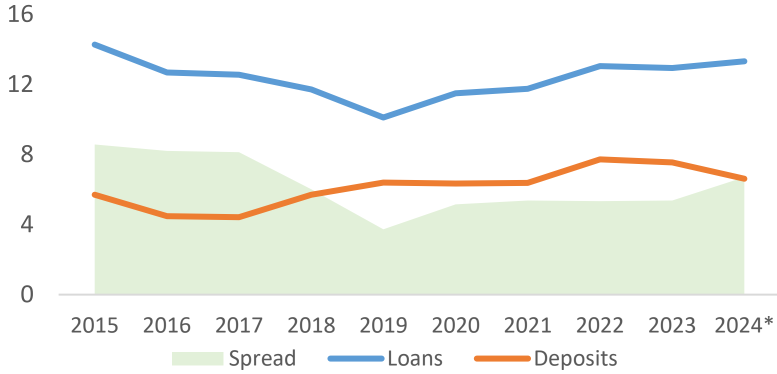
Source: NBG

Exchange Rates in Georgia – Georgia has a managed floating exchange rate regime. The exchange rates of GEL with respect to USD and Euro were volatile within the last 5 years due to high dependence on tourism, FDI and remittances. Due to the global pandemic and the geopolitical turmoil, Georgia's economy experienced strong external shocks that caused the reductions in capital inflows and a depreciation of the national currency. The Georgian lari (GEL) depreciated against the euro by approximately 11 percent during the period of 2018–2021. However, it appreciated by 24 percent in 2022 and continued to strengthen in 2023. In 2024, this trend reversed, and the GEL depreciated by 3.4 percent against the euro. Regarding the GEL to USD exchange rate, the national currency depreciated by approximately 16% between 2018 and 2021, a trend significantly influenced by the COVID-19 pandemic. The GEL then began to appreciate, gaining 10.5percent against the USD in 2022 and 11.0% in 2023. In 2024, the GEL followed a similar trend to its performance against the euro, depreciating by 3.4 percent against the USD.

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 has been appreciated by 77 percent until December 2024. As for the REER, it has appreciated by 33.0% from the same period to November 2024. These tendencies have significant implications on the Georgian economy in terms of local production competitiveness.

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, %



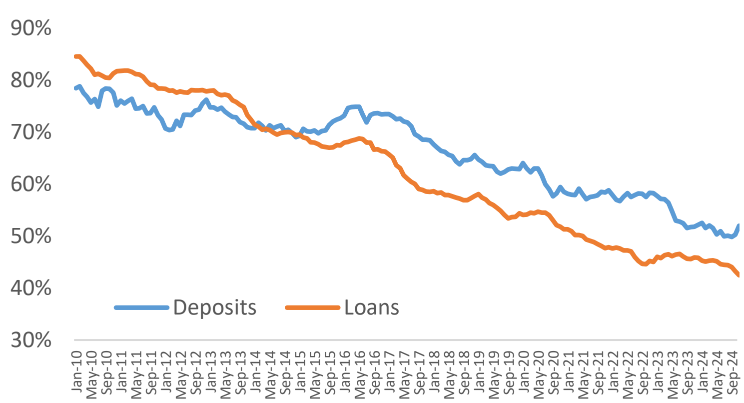
Source: NBG

In November 2024, the market interest rates of loans were 13.3% and the interest rates on deposits were at 6.6% level. The interest rate spread has been increasing since 2019 due to higher market risks. It raised and reached 5.4 percent in 2021, however it started reducing in 2022, but has an increasing trend within the current year.

The interest rates for the loans and deposits nominated in the national currency (GEL) were on average at 16.2% and 10.9% respectively in 2023. They both had an upturn trend within 2018-2022 period and started to decrease after 2022. Decreasing trend remained in 2024 too and average loans and deposits rates amounted 15.0 and 9.4 percent respectively.

Loans and Deposits Growth Rates in Georgia – The trajectories of loans and deposits reflect economic business cycles. By November 2024, total loans amounted to approximately 61.2 billion GEL, while total deposits stood at 59.7 billion GEL. Over the past five years, loans and deposits in Georgia followed an increasing trend, with average growth rates of 15.0% and 17.1%, respectively, during 2019–2023. In 2024, this growth continued at a similar pace, with loans increasing by 18.3% and deposits by 14.9%

Figure 9. Dollarization Coefficients in Georgia, %



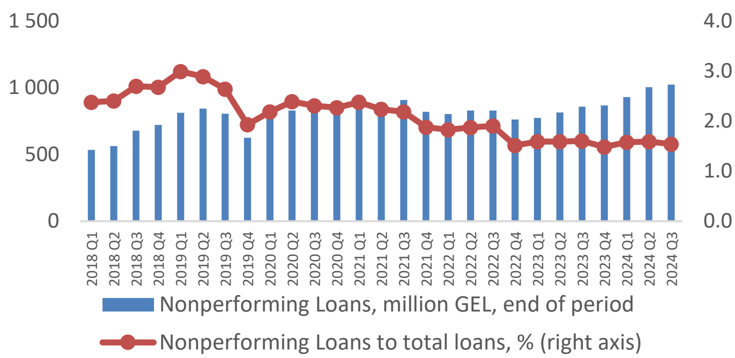
Source: NBG

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, and the dollarization rates of loans and deposits declined by 12.8 pp and 14.4 pp respectively from 2018 to 2023. The loan dollarization was 42.5% and deposit dollarization was 52.0% by Novemebr 2024.

Macroprudential policy: The main macroprudential policy tool for the National Bank is the establishment of a countercyclical capital buffer to limit excess lending that increases systemic risks. The neutral or base rate of this buffer was set at 1 percent in 2023 and its accumulation will be a gradual process, which means 0.25 percent by 2024, 0.5 percent in 2025, 0.75 percent in 2026 and a full accumulation of 1 percent by 2027.

Capital adequacy: The Georgian banking system has maintained an adequate level of capital, within the framework of the Basel III-based capital adequacy framework by the end of 2023. Accordingly, the tier 1 capital ratio was 19.7 percent in 2023 and 20.9 percent by the end of November 2024. The regulatory capital ratio was 22.14 percent at the end of 2023 and increased to 23.83 percent by November 2024.

Figure 10. Non-performing Loans



Source: NBG

Non-performing loans: The share of non-performing loans remains at a standard level in the country. The indicators of non-performing loans (NPL) and expected credit losses on the portfolio have improved, which is due to the improvement of the portfolio quality and the transition of banks to the IFRS methodology for classifying loans. During 2023, the share of NPLs in the total retail product portfolio also decreased mainly due to the improvement of the quality of consumer and mortgage loans. This indicator has increased as of 2024. In quantitative terms, the share of NPLs in the total portfolio increased by 0.05 percentage points compared to the end of 2023 and it amounted to 1.55 percent by November 2024. As for the share of the overdue portfolio, this indicator decreased by 1.2 percentage points at the end of 2023 and it amounted to 6.2 percent.

FX Interventions in Georgia - The primary objectives of foreign exchange (FX) interventions are to increase international reserves, mitigate excessive market volatility, and mitigate the impact of large one-off transactions. In 2022–2023, amid favorable market conditions—such as an improved current account deficit that aligned with its sustainable norm—the NBG purchased approximately $1.5 billion, bringing gross international reserves (GIR) within the adequate range as the IMF's ARA metric.

In the first half of 2024, the NBG continued FX purchases. However, in the second half, due to one-off transactions, such as commercial banks' dividend repayments, and heightened uncertainty in the FX market, the NBG intervened in September and October by selling FX to curb excessive volatility. Subsequently, the NBG resumed FX purchases, to increase international reserves

Figure 11. NBG Gross international reserves

Source: NBG

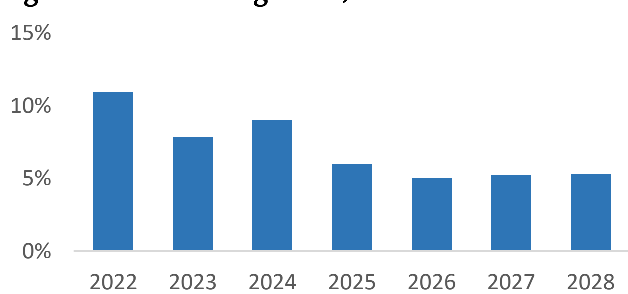
Gross International Reserves in Georgia - Georgia managed to increase the international reserves during the last 5 years. By December 2024, the international reserves totalled 4.4 billion USD. It is worth underling that the reserves were increasing until the end of August 2023 and then they started to shrink. Over the period 2019–2022, international reserves exhibited an average annual growth rate of 10.5 percent. In 2023, they increased by 2.2, but in 2024, they declined by 11 percent.

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 12. 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 in 2021 as well as 2022. This heightened economic activity maintained in 2023 and resulted in 7.8% growth rate. The main contributors of economic growth are consumption and investment. As for 2024, average economic growth amounted to 9.4% for the first 11 months and a projected economy to growth by 9.0% in 2024, considering the baseline scenario, which relies on conservative forecasts.

Table 2. Real GDP components in medium-term macroeconomic scenario. Components of real GDP, percent change

	2023	2024	2025	2026	2027
Private consumption expenditure	4.9	7.7	4.4	5.4	5.1
Government consumption expenditure	15.5	12.9	10.2	6.7	4.6
Gross fixed capital formation	17.7	29.9	7.4	3.2	5.2
Changes in inventories and net acquisition of valuables (% of GDP)	3.5	1.5	1.4	1.4	1.4
Exports of goods and services	0.3	10.3	7.0	5.3	5.5
Imports of goods and services	0.2	12.9	5.7	5.0	5.3

Source: Geostat, MOF

Labour Market. The labour market has exhibited resilience in the face of challenges and persisted through 2023. Employment growth stood at 5.4 percent in 2022 and grew by 4.0 percent in 2023, while unemployment numbers decreased by 15.3 and 2.3 percent respectively. Meanwhile, the unemployment reached at its historical minimum to 16.4 percent, which continues to decline in 2024 too. As for the third quarter of 2024, unemployment rate is at 13.8 percent. It is expected employment to increase by 1.5 percent on average, during 2024-2028, while unemployment number to decrease by 5.5 percent. Considering these tendencies, it is projected unemployment rate to gradually decrease to around 12percent by 2028.

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. Therefore, the average inflation for 2024 is projected at 1.0 percent following 3.0 percent until 2026.

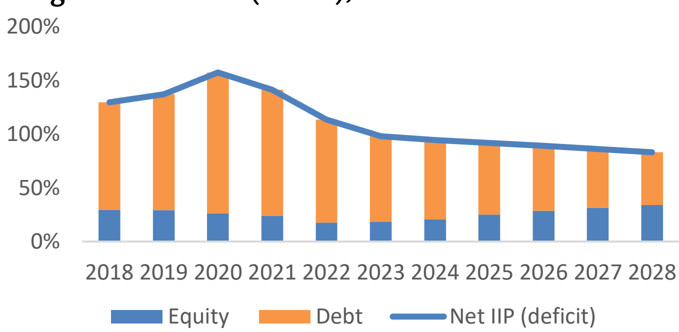
Considering that Georgia is following the floating exchange rate regime, the Ministry of Finance is not making forecasts for the bilateral nominal exchange rates. For the calculation purposes, the medium-term projection for the exchange rate assumes it to be unchanged in the medium-term. Interest rates are projected to continue reduction and interest rate on loans is expected to decline by

1 pp each year on average, reaching 11.2 percent by 2028, while interest rate on deposits will decline slower, leading further narrowing the spreads.

According to the baseline scenario, the **current account** deficit for 2024 is expected to be 4.7% of GDP, after observing the significant improvement in 2022-2023 at 4.4 and 5.6 percent deficits respectively. The forecast considers the current trends and is expected the deficit to decline reaching 3.7% of GDP in 2028. As for the year 2023, **revenue from tourism,** exceed the levels observed in 2019 by 26.2%, while it exceed by 34.0% in the first 9 months of 2024 and is expected to increase further. In addition, import growth in 2023 (15.2%) was higher than export growth (9.0%), resulting the deterioration of trade balance and trade deficit increased by 19.5%. as of the 10 months of 2024, export increased by 7.4% and import increased by 4.8%, which increased trade deficit by 3.1%.The projections suggest an increase in exports of goods by 8.5% and exports of services by 12.3% 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] declined in 2023 and in the first half of 2024. It is expected current account balance to worsen more, 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.

Figure 13. 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 previously. 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 IIP, with a greater reliance on equity financing.

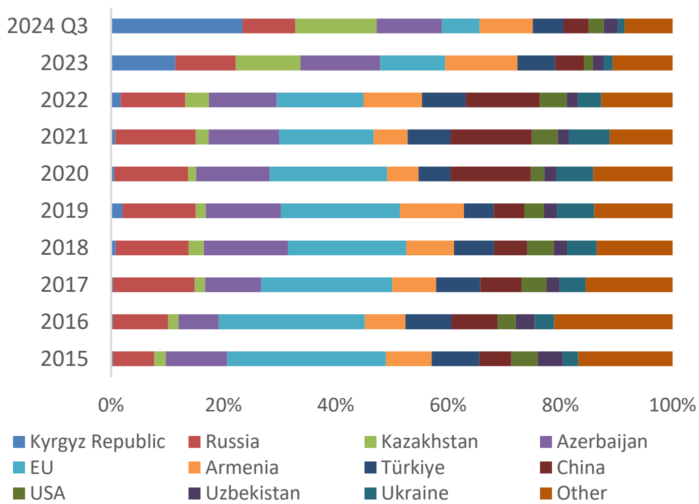
From the external sector perspective, balance of goods poses a significant challenge, historically contributing to the Georgian CAD. Therefore, the analysis and monitoring of exports are deemed crucial for assessing external vulnerabilities. Export performance shows some kind of diversification, but the main export partner countries and products have the highest share in total export. Azerbaijan,

[12] Current account balance excluding investment income

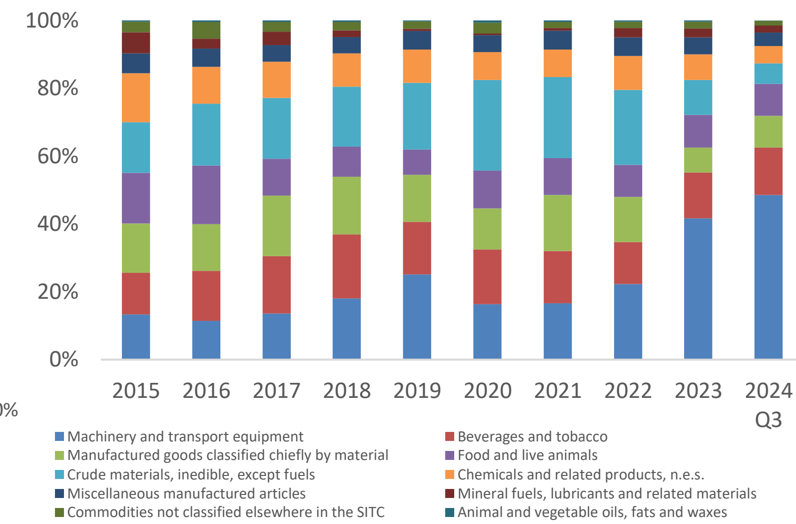
Armenia and Russia are the main export countries together with the EU, they contributed around 50 percent of Georgia's export in 2023. As for the products, Motor cars, Copper ores, Wine of fresh grapes, spirituous beverages, and Ferro-alloys contributed more than 50 percent of total Georgian export recently.

Challenges exist for domestic exports, which started declining early in the year due to both real and price effects. Figure 14 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 third quarter of 2024, domestic exports increased by 9.4%, where real growth was only 0.5 pp, while price effect was 8.9 pp. With domestic export increased by 1.3% in the first 10 months of the current year, which was largely linked to the raised export in Türkiye and USA together with the export reduction in Spain. Despite the current challenges, there is an anticipation of a gradual shift in export destinations, leading to the export of these products to different countries.

Figure 14. Export by countries and products, share in total export, %



Source: Geostat



Source: Geostat

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 117% 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.

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; Regional risks; Expected decline in world economic growth and a decrease in global trade turnover.

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 and there is 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.

Continued regional risks. Russia's invasion of Ukraine in 2022 has exacerbated the situation for vulnerable economies. 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 factors 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.

Expected decline in world economic growth and decrease in global trade turnover. 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

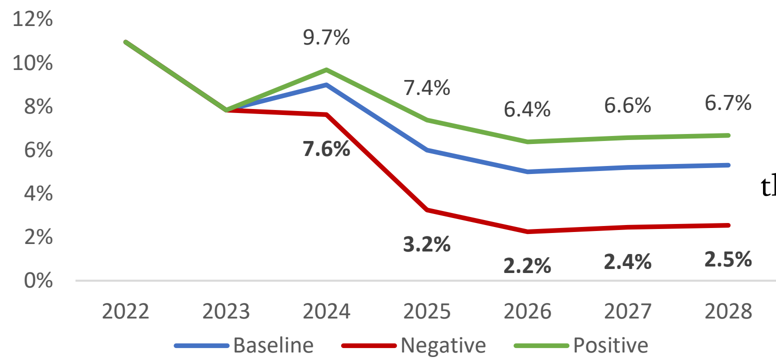
		Pobability of occurrence		
Impact		Low	Medium	High
	Low			
	Medium		Decrease in remittances; Expected decline in world economic growth and decrease in global trade turnover;	
	High		Continued regional risks	

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 2024 is projected at 9.7%, followed by a growth rate of 7.4% in 2025. Looking ahead to the medium-term, the average growth during 2025-2028 is estimated to be 6.8%.

In the **negative or pessimistic scenario**, there is a high probability of the identified risks materializing. This scenario anticipates slower growth of 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 2024 estimate economic growth at 7.6% - lower than in the baseline, followed by a further decline to 3.2% in 2025. Looking at the medium-term outlook, the economy is expected to grow at an average 2.6% during 2025-2028. Even in the case of increasing remittances and income from tourism, the positive effects are expected to be comparatively lower than expected and budget revenues will increase by less than in the baseline, resulting in worsening the budget balance and budget deficit is expected to be 2.4% in 2024 and 3.0% in 2028.

Figure 15. 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 9.0 percent and inflation will be at 1.0 percent in 2024. As GDP growth is projected at 9.7 percent on positive scenario, inflation is at 1.5 percent, while for the negative scenario, GDP growth is projected at 7.6 percent and inflation is at 0.5 percent. Inflation is below the target level on three of the scenarios in 2024.

Regarding other key indicators, such as the budget deficit, it is projected to be below 3 percent, reaching 2.4 percent in 2024 and 2.6 percent in 2028. In the positive scenario, the deficit is expected to be 2.1 percent in 2024, declining further to 0.1 percent by 2028. Under the negative scenario, the budget deficit is forecasted to be 2.4 percent in 2024. 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 36.8 percent to 34.4 percent from 2024 to 2028 under the baseline scenario. In the optimistic scenario, government debt is expected to decrease from 36.4 percent to 31.0 percent during the same period. Conversely, under the pessimistic scenario, there is an upward trend in debt, increasing from 37.4 percent to 40.6 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 2024

After the pandemic the economic trends were much higher than predicted. In 2021-2023 economic growth were adjusted with the three-year average rate of real economic growth reaching 9.8%. Relatively, nominal GDP increased from 49.8 billion GEL in 2020 to 80.9 billion GEL by the end of 2023.

Strong economic indicators, despite the increase in funding for priority areas, enabled significant fiscal consolidation and, as a result, a reduction in the government debt ratio. Specifically, by the end of 2023, the budget deficit ratio decreased from 9.3% of GDP in 2020 to 2.2% of GDP, and the government debt ratio fell from 60.2% in 2020 to a low of 39.0%.

Following this fiscal consolidation, further fiscal consolidation was no longer a priority in planning the 2024 budget. As a result, a low budget deficit was maintained during the budget planning process, and resources were directed toward financing priority areas.

The 2024 budget was planned with an economic growth rate of 5.2%. Nominal GDP was projected at 85.4 billion GEL, and GDP per capita was estimated at 8,600 USD. The General Government budget deficit was planned to remain within 2.5% of GDP in 2024, and within 2.3% in the medium term. The government debt ratio was projected to be 38% of GDP. The tax revenues of the initially approved 2024 budget amounted to more than 22 billion GEL, while the expenditure of the consolidated general government budget (excluding enterprises and own revenues) amounted 28.7 billion GEL. The revenues of the general government budget were projected over 31.9 billion GEL, and the expenditure amounted to 32.2 billion GEL, including 23.2 billion GEL (27% of GDP) was allocated to current spending that was increased by 2.5 billion GEL comparing 2023 Budget, while capital expenditures amounted 7.5 billion GEL (8.7% of GDP), that was increased by 214 million GEL comparing 2023 budget.

Initially approved parameters for 2024 in current expenditures has been mainly included the following measures in different areas:

- Within the Social Security and Health care direction:
  - ✓ About 4 billion was allocated to finance state pensions and compensations. State pensions were increased by 20 GEL for pensioners under 70 years old and by 50 GEL for pensioners aged 70 and above. The new pension amounts were 315 GEL (380 GEL in high mountain areas) for those under 70, and 415 GEL (approximately 500 GEL in high mountain areas) for those aged 70 and above; The existing threshold for state compensations was increased from 560 GEL to 1 000 GEL, while the amount allocated for each served year of police officers and soldiers was increased by an average of 28%. Consequently, individuals

receiving the maximum allowable compensation saw a significant increase, while others experienced an average increase of 28%.

  - ✓ More than 1.6 billion has been allocated to finance social assistance for targeted groups including allowances for households under poverty line, disabled, survivors, housing of homeless, large families, war veterans, social benefits for high mountainous regions etc. Within the programme: social assistances for persons with disabilities under 18 years of age was increased by 50 GEL, while for other categories for individuals with disabilities it was increased by 20 GEL; Each category of household subsidies was increased from 7 GEL to 40 GEL, from 22 GEL to 60 GEL, and from 44 GEL to 80 GEL;
  - ✓ About 95.0 million GEL will be used to finance Social rehabilitation and child care programme;
  - ✓ 230.0 million GEL has been allocated to provide housing for IDPs;
  - ✓ About 1.9 billion GEL has been allocated to finance healthcare programs, including a 10% salary increase for primary healthcare personnel (2023 actual expenditure amounted 1.8 billion Gel).
  - ✓ About 300.0 million GEL has been allocated from municipal budgets for healthcare and social programs.

- About 3.9 billion GEL was allocated for Education and Science. Including more than 1.6 billion GEL was allocated to finance secondary education including introducing new scheme of teachers' remuneration in 2024, which includes salary increase in average of 500 GEL for full-time teachers. In addition to that, 10% salary increase for administrative staff at public schools was considered. A total of up to 450 million GEL has been allocated for the construction and rehabilitation of public schools, while more than 225 million GEL has been allocated for the construction and rehabilitation of kindergartens.
- Capital expenditure amounted 7.5 billion GEL including about 1.7 billion GEL for road infrastructure; up to 500.0 million GEL for improvements to the water supply sector; over 1.2 billion GEL for municipal infrastructure; more than 800 million GEL for educational infrastructure; more than 170 million GEL for tourism infrastructure; and about 120 million GEL for energy infrastructure etc.
- Public Sector salaries have been increased by 10% compared to the 2023 Budget.

As in previous years, the economic trends of 2024 were much stronger than predicted during budget planning. Accordingly, the real economic growth forecast was revised for the first time based on a five-month analysis and set at 6%. During the same time, an analysis of the expenditure side was also conducted, identifying additional needs about 600 million GEL.

A further revision of the real economic growth forecast was made during the preparation of the initial version of the 2025 budget, setting it at 8.2%. Finally, the changes made to the 2024 state budget in December 2024 were based on the updated forecasts: real GDP growth forecast – 9.0%; GDP deflator – 3.1%; average inflation rate – 1.0%; nominal GDP – 90,895.2 million GEL; GDP per capita – 9,027.3 USD; consolidated budget tax revenues – 23,260.0 million GEL; consolidated budget expenditure– 33,755 million GEL; budget deficit (in line with the fiscal rule defined by the Organic Law of Georgia and the Economic Freedom Act) – 2.4% of GDP; government debt – 36.8% of GDP.

Revenue was increased by over 1,571 million GEL compared to the initial plan for 2024 and amounted 29,561 million GEL. Including tax revenues was increased by 1,207 million Gel and amounted 23,260 million GEL of which the share of state budget is 20,190.0 million GEL (an increase of 1,075.0 million GEL) and the share of the autonomous republican and municipal budgets was 3,070.0 million GEL (an increase of 132.0 million GEL); grants and other revenues totalling 6,301.0 million GEL (an increase of 364 million GEL); a decrease in non-financial assets (privatization), which increased by 180 million GEL, amounting to 540.0 million GEL; a decrease in financial assets (repayment of loans), totalling 235 million GEL; and an increase in liabilities, amounting to 3,400.0 million GEL. Considering abovementioned, the total revenues of the consolidated general budget amount to 33,736.0 million GEL.

Total spending was increased by 1 515.6 million GEL, including **current spending** increased by 689 million Gel amounted 23 935.0 million Gel while **capital spending** was increased by 940.0 million GEL and amounted 8 430.0 million GEL.

Additional resources were allocated to fully cover existing needs, including additional 240.0 million GEL that has been allocated to finance health and social care programmes. Additional 37.0 million GEL was allocated to finance education sector as well as 50 million was allocated to finance agriculture programs including preferential agro-credit program.

The additional funding allocated to **capital spending** primarily includes financing road infrastructure that was increased by 84 million GEL, Funding for water and wastewater infrastructure has been increased by 275.0 million GEL, bringing the total to 825.0 million GEL. This includes an additional 200.0 million GEL for the construction and rehabilitation of water supply systems in various municipalities in 2025. An additional 160.0 million GEL has been allocated to finance both the ongoing infrastructure projects and the recovery efforts related to natural disasters in various municipalities. The allocations for the Ministry of Defence have increased by 210.0 million GEL.

By the preliminary estimates of actual fiscal data, both receipts and payables (current and capital), with respect to the plans are fully executed in line with the planned parameters.

The 2024 fiscal forecasts prepared at the end of 2023, along with the revised forecasts prepared in December 2024, including the differences between them, as well as the preliminary estimated of actual fiscal data, are presented in the following table:

Table 4. Consolidated General Government 2023-2024

MLN GEL	2024 forecast (December 2023)	2024 Updated forecast	*(-/+)*	2024 Actual (preliminary)	%
Revenue	27 990	29 561	*1 571*	29 693	100%
incl. Taxes	22 053	23 260	*1 207*	23 290	100%
Current Expenses	23 246	23 935	*689*	23 768	99%
Operational Balance	4 744	5 626	*882*	5 925	105%
Net acquisition of nonfinancial assets	6 919	7 770	*851*	7 667	99%
Net Lending/borrowing	-2 175	-2 144	*31*	-1 742	81%
Change in Financial Assets	-339	-134	*205*	200	-149%
Change in Liabilities	1 836	2 010	*174*	1 942	97%
Balance	0	0	*0*	0	
Total Receipt	31 978	33 736	*1 758*	33 845	100%
Total Expenditure	32 239	33 755	*1 516*	33 616	100%
Balance	-262	-19	*243*	229	
Nominal GDP	85 981	90 895	*85 797*	90 895	
Deficit (% to GDP)	-2.5%	-2.4%		-1.9%	

2024 State Budget Law Packages are available on the Ministry of Finance webpage[13]. Budget execution reports (3, 6 and 9 months)[14] 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[15].

4.3. Budget plans for 2025

The anticipated economic growth for 2025 is set at 6.0%. The projected GDP per capita is at 9,750 USD. The average inflation rate is expected to exceed targeted level from second half of 2025, due to the low base effect, and hence, forecast for inflation is 3.2% for 2025. The planned budget deficit is 2.5% of GDP, and the government debt is expected to be 35.9% (including PPP liabilities - 0.03% of GDP).

Considering the above-mentioned parameters, total revenue (Taxes, grants, other revenues and privatization proceeds) of general government for 2025 is projected as 32.2 billion GEL. Taxes, constituting the main revenue source, are projected to amount to 25.3 billion GEL, reflecting a 2.0

[13] https://www.mof.ge/5677
[14] https://www.mof.ge/5731
[15] https://www.mof.ge/mokalakis_gzamkvlevi

billion GEL increase from 2024. Additionally, grants are expected to total 140.0 million GEL, other revenues at 6.2 billion GEL and privatization proceeds at 510.0 million GEL. The nominal budget deficit is calculated at (-2,454.0) million GEL, equivalent to 2.5% of GDP.

It worth to mention that for 2025 revenue measures out of robust economic growth, will be effected by different revenue related discretionally policy changes as well.

- ✓ Increased public sector salaries will still gave the negligible positive impact on the income from revenue;
- ✓ Considering the significant increase in profit tax revenues—driven not only by heightened economic activity but also by the effects of legislative changes and specific tax administration measures—revenue from profit tax is expected to decrease slightly in 2025, rather than continue to grow. This expectation primarily stems from legislative changes enacted in 2022, where the higher profit tax collected in 2023 impacted 2024 revenues. Additionally, advanced payments for 2024, which were a one-off occurrence, are not anticipated to recur in 2025.

According to the new legislative initiative in 2025:

- ✓ The 5% dividend tax on income derived from the operation of slot machines and/or the organization of systematic-electronic gambling will be abolished. Instead, taxable profits—excluding those generated by the participation of foreign citizens in systematic-electronic gambling—will be taxed at 20% rather than the previous 15%. This initiative is expected to result in a positive impact of 115 million GEL on profit tax revenues;
- ✓ The excise rate on certain tobacco products will increase by 0.15-0.20 GEL, which is expected to generate approximately 85.0 million GEL in additional revenue
- ✓ Legislation regulating the construction sector has been strengthened, mandating that individuals actively employed in the sector and previously benefiting from small business status will now be taxed at a 20% income tax rate instead of the previous 1%. This change is expected to increase income tax revenues by approximately 100 million GEL.

The reduction from the profit tax partly is compensated from the changes in gambling taxation and it is expected to maintain the profit tax at the same level in 2025, while it decreases as percent of GDP. It is not planned to have significant changes in the discretionary fiscal policy, which might have additional impact on the budget revenues.

Allocation of funds for key areas

Consolidated General Government spending is anticipated to reach 36.2 billion GEL, comprising the following components: Current spending – 26.5 billion GEL (26.7% of GDP); capital spending[16] - 8.3 billion GEL (8.4% of GDP).

[16] It considers both: increase in non-financial and financial assets.

Approximately 28.2% of total spending (10% of GDP), equivalent to 9.9 billion GEL, is allocated to finance social protection and healthcare programs. A further 12.5% of total spending, or about 4.5 billion GEL (4.5% of GDP), is designated for education funding. Defence receives 1.9 billion GEL, representing 1.9% of GDP and 5% of total spending. Over 6.6 billion GEL, or 19% of total spending (6.7% of GDP), is earmarked for general public services, as well as public order and safety. Additionally, 0.9 billion GEL is allocated for environmental protection (0.9% of GDP), 7.5 billion GEL (7.5% of GDP) for economic affairs, and 1.3 billion GEL (1.3% of GDP) for culture, sports, and youth funding.

In 2025, about 3,2 billion GEL is projected for financing state debt service and repayment. Over 8.3 billion GEL is allocated for capital spending .

Social protection amounts about 7.5 billion Gel, covering primarily pensions and state compensations and social assistance program. Pension indexation has been in effect since 2021, with the State Pension Law determining the annual calculation based on inflation and real economic growth. A total of 4.5 billion GEL has been allocated to finance state pensions in 2025. Notably, state pensions have seen an increase of over 104% for pensioners aged 70 and above, reaching 450 GEL (540 GEL in high mountain areas) and over 60% for pensioners under the age of 70, reaching 350 GEL (420 GEL in high mountain areas) since 2021. About 1.8 billion GEL is allocated to the Social Assistance programme (social assistance of under poverty line, disabled, survivors, housing of homeless, large families, war veterans, social benefits for high mountainous regions etc.); more than 95.0 million GEL will be used to finance Social rehabilitation and child care programme, 470.0 million GEL is allocated for co-financing pension fund, etc.

Health Care Program amounts 1.9 billion GEL, which includes 1.2 billion GEL for universal healthcare financing, reflecting an increase of 185.0 million GEL compared to the initial approved 2024 budget. The programme also includes the salary increase for primary healthcare personnel.

Housing the Internally Displaced Persons and Migrants – around 268.0 million GEL in 2025.

Education and science amounts about 4.5 billion Gel including: **Preschool and Secondary education (through school vouchers) –** 1.9 billion Gel, an increase of 328.7 million GEL compared to the approved allocation for 2024. This amount includes funding for the full-year implementation of increased remuneration for public school teachers, starting from July of the 2024. Additionally, 75.0 million GEL is earmarked for equipping public schools with computer equipment and laboratories. The program also provides for salary increases for the administrative and technical staff of public schools; **Vocational Education** – 158.0 million GEL; **Higher Education** – 201.2 million GEL. **Promotion of Science and Scientific Research** – 86.1 million GEL. **Inclusive Education** – 82.3 million GEL; **Infrastructure Development of educational institutions** – 921.0 million GEL, including public school infrastructure over 600.0 million Gel, Vocational Education infrastructure – 66 million Gel and

Higher Education and Scientific Institutions' Infrastructure – 30 million GEL, preschool construction/rehabilitation – 225.0 million GEL.

Culture, Sport and Youth. 1.3 billion Gel 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 850.0 million GEL is allocated in this direction in 2025. Environmental protection programmes include modernization of land reclamation systems, Management of forestry systems and protected areas, environmental protection forecasting, assessment, prevention, and monitoring, Nuclear and radiation safety, and management of arsenic-containing waste facilities, Sustainable land management and land use monitoring, solid waste management and others.

Agriculture - About 680.0 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 - 242.0 million GEL; Development innovations and technologies - 45.0 million GEL including the internetization of villages - 34.0 million Gel; Construction of power transmission lines - 149 million GEL.

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

Tourism and Sports Infrastructure - To promote tourism, about 200.0 million GEL has been allocated in 2025. Additionally, a new program for sports infrastructure development has been introduced under the Ministry of Regional Development and Infrastructure, with an allocation of 200 million GEL.

Anaklia port and airports - About 150.0 million GEL is provided in the 2025 budget for the construction of the Anaklia port infrastructure; About 95.0 million GEL is allocated for financing airports in 2024 (construction of the runway at Kutaisi International Airport, the research necessary for the construction of the new Tbilisi International Airport, new infrastructure of Telavi airport).

Municipal infrastructure - Over 2.6 billion GEL is allocated to the construction and rehabilitation of municipal infrastructure.

Water supply and Sanitation – about 500.0 million GEL is allocated to water supply and drainage projects. In addition, the United Water Supply Company is allocating over 250 million GEL from its own resources to finance this direction.

Defence and Security - More than 3.5 billion GEL is allocated to finance defence, security and public safety, including, the development of defence armaments and infrastructure. Within the allocated amount, a 10% salary increase for police officers and soldiers will be implemented.

Public sector salaries – public sector salaries have been increased by 10% compared to 2024 to ensure rule-based indexation.

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 35%, while the budget deficit will be below 3%. This policy aims to establish a fiscal buffer that ensures fiscal sustainability in the face of any macro-fiscal shocks

Revenue. In 2026-2027, the primary sources of Georgian budget revenue continue to be tax revenue, constituting approximately 81% of the total revenue. It's worth noting that during this period, almost all the taxes will have the same ratio to GDP as in 2025. Except a slight differences. Profit tax to GDP will not decline further due to the fade-off of the base effect in 2025. Excise still remain at high level in 2025, while it decreases in 2027. It can be explained by the excise structure: taxes include specific and ad valorem part and the latter might follow the nominal activity, while real trend causes the changes in specific part. The ratio of revenue from income and the VAT do not change in 2026-2027 compared to 2025, and their sum 72% of the budget revenue.

As for the nontax revenue, they can be changed due to the different situation and indicators: some of them affect economic variables (NBG profit), some of them are determined by fiscal policy (revenue from the treasury short-run deposit, some are from the country geopolitical attraction and organized infrastructure (transit fee by truck), while others are not related to the fiscal policy and accurate forecasting is almost impossible (sanctions: sanctions and penalties). Therefore, during the forecasting of this component impact of different components should be considered, but due to the high uncertainty, it is planned by the conservative approach. In the medium-term, it will exceed pre-pandemic level but still has the declining tendency.

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 and will be at 6% in the medium-term. Conversely, there is a decreasing trend in the purchases of goods and services and will be at 5.6% by 2027. The sum of these components are government consumption, which has the stable tendency and will be around 11.5% until 2027. In the medium term, there is an expectation that interest payments will stabilize after higher interest rates in 2023-2024. Even though global interest rates are expected to decline, this effect will be compensated by the increased share of domestic debt in total debt, according to the debt management strategy de-dollarization strategy. Domestic interest rates are always higher than the global rates, while it is forecasted to keep interest rate at 1.7% using the combination of these two. 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 5. Main Fiscal indicators 2019-2027

% of GDP	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Plan	2025 Forecast	2026 Forecast	2027 Forecast
Total Revenue	**28.1**	**28.9**	**28.6**	**30.5**	**31.6**	**32.5**	**31.9**	**31.5**	**31.2**
Taxes	**23.0**	**22.0**	**22.0**	**23.9**	**24.4**	**25.6**	**25.5**	**25.5**	**25.5**
Personal Income Tax	7.0	6.7	6.2	6.9	7.5	7.9	8.1	8.1	8.1
Profit Tax	1.7	1.8	1.7	2.6	2.5	3.4	3.1	3.3	3.3
Value Added Tax (VAT)	10.5	9.7	9.9	10.2	10.4	10.2	10.2	10.2	10.2
Excise tax	3.0	3.3	3.1	2.8	2.8	2.6	2.7	2.7	2.6
Custom Duties	0.2	0.1	0.1	0.2	0.2	0.1	0.2	0.1	0.2
Property Tax	1.0	0.9	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Other Taxes	-0.5	-0.5	0.2	0.3	0.2	0.5	0.5	0.5	0.5
Social contributions	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Grants	**0.7**	**0.8**	**0.6**	**0.4**	**0.2**	**0.2**	**0.1**	**0.1**	**0.1**
Other receipts	**4.4**	**6.1**	**6.0**	**6.2**	**6.9**	**6.7**	**6.3**	**5.8**	**5.6**
Total expenses	**23.0**	**29.6**	**27.2**	**24.4**	**25.6**	**26.3**	**26.7**	**27.1**	**27.0**
Compensation of employees	**4.4**	**5.2**	**4.6**	**4.3**	**4.8**	**5.5**	**5.7**	**5.9**	**5.9**
Purchases of goods and services	**4.2**	**6.3**	**6.2**	**5.9**	**5.8**	**5.7**	**5.7**	**5.7**	**5.6**
Interest	**1.2**	**1.5**	**1.3**	**1.1**	**1.5**	**1.7**	**1.8**	**1.8**	**1.7**
Foreign	0.7	0.7	0.5	0.3	0.6	0.8	0.9	0.8	0.8
Domestic	0.6	0.9	0.9	0.7	0.8	0.9	0.9	1.0	1.0
Subsidies	**2.0**	**2.4**	**2.1**	**2.3**	**2.6**	**2.6**	**2.4**	**2.7**	**2.7**

% of GDP	2019 Actual	2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Plan	2025 Forecast	2026 Forecast	2027 Forecast
Grants	0.1	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.0
Social benefits	8.5	11.2	10.5	8.7	8.8	8.9	8.9	9.1	9.1
Other expense	2.6	2.8	2.5	2.2	2.1	1.9	2.1	2.0	2.0
Net operating balance	**5.1**	**-0.7**	**1.4**	**6.1**	**6.0**	**6.2**	**5.2**	**4.3**	**4.1**
Net Acquisition of Nonfinancial Assets	**7.7**	**8.3**	**7.6**	**8.2**	**8.2**	**8.5**	**7.7**	**6.9**	**6.8**
Acquisition	8.1	8.9	8.4	8.9	8.8	9.1	8.2	7.2	7.0
Disposal	-0.4	-0.5	-0.7	-0.7	-0.6	-0.6	-0.5	-0.3	-0.3
Net lending / borrowing	-2.6	-9.0	-6.3	-2.2	-2.2	-2.4	-2.5	-2.6	-2.6
Net acquisition of financial assets	**0.2**	**0.1**	**-0.1**	**0.3**	**0.0**	**-0.1**	**-0.1**	**-0.1**	**-0.1**
Net incurrence of liabilities	**2.8**	**12.8**	**4.2**	**3.7**	**2.9**	**2.2**	**2.0**	**2.2**	**2.2**
Domestic	1.8	4.0	-0.6	1.8	1.7	1.5	1.5	1.4	1.4
Foreign	0.9	8.8	4.8	1.9	1.2	0.7	0.5	0.7	0.8
Net change in the stock of cash (+ increase)	**-0.1**	**3.7**	**-2.0**	**1.2**	**0.7**	**0.0**	**-0.4**	**-0.4**	**-0.4**
Balance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Nominal GDP	**49,726**	**49,789**	**60,724**	**72,860**	**80,883**	**90,895**	**99,239**	**107,327**	**116,296**
Debt to GDP ratio	**40.8**	**60.4**	**49.7**	**39.3**	**39.0**	**36.6**	**35.9**	**35.4**	**34.9**

Source: MOF

From the revenue and expenditure side during 2026-2027 there is no expected to have any discretionary policy measures, unlike the one time reduction in non-financial assets (privatization) according to the EU commission methodology to calculate the structural budget. This indicator has the reduction trend from 2021 and will be at 0.3% of GDP in the medium-term.

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[17]. 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

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

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)

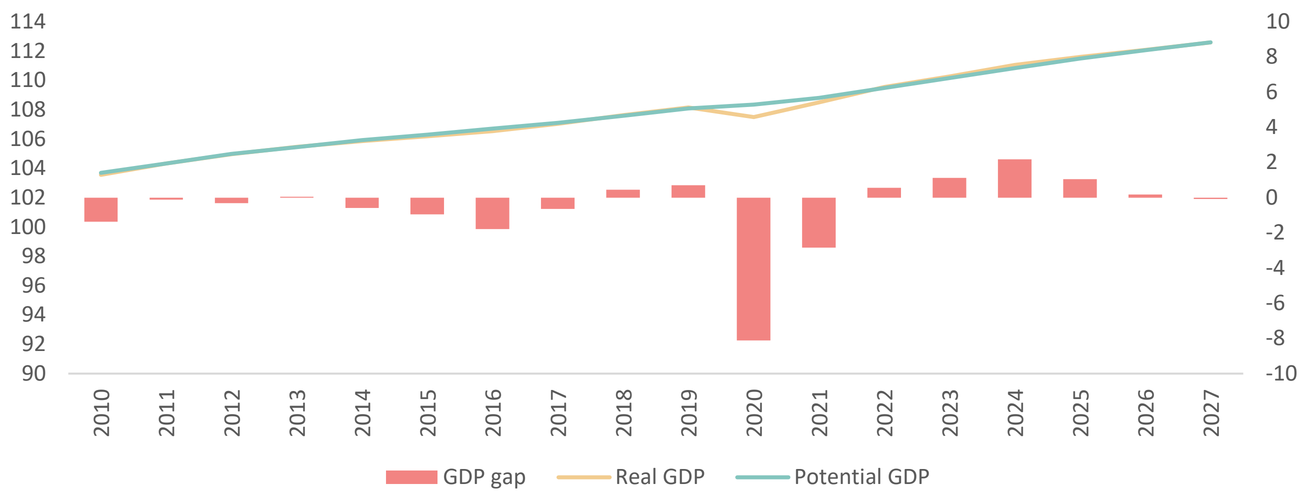
One approach to assessing fiscal policy is to identify its discretionary component and analyze its impact on economic activity at various stages of the economic cycle. The percentage deviation of current GDP from potential GDP (commonly referred to as the GDP gap) is typically used to assess the cycle.

Estimating potential GDP

The Ministry of Finance has estimated the GDP "gap" using the Cobb-Douglas production function, using the Kalman filter where total economic activity is determined by the labor force, capital stock, and factor productivity.

The methodology employed is a model that adapts the European Commission's approach to Georgia's specific economic context. In addition to the production function, the model incorporates the Phillips curve too. This approach enables the assessment of potential GDP and its decomposition into key components—capital, labor, and productivity. According to the results, Georgia's potential GDP growth rate is approximately 5.5%, with productivity and capital being the primary contributing factors.

Figure 16. Real GDP, Potential GDP and GDP gap (deviation from real GDP)

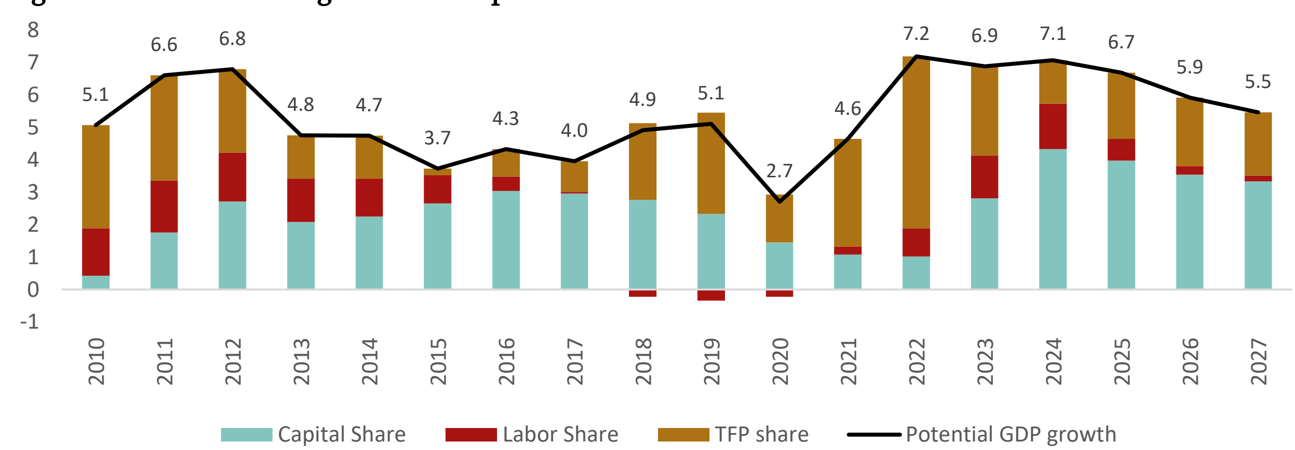


Source: Geostat, MOF calculations

As illustrated in Figure 16, in the post-pandemic period, the economy experienced a V-shaped recovery. By 2022–2023, the negative GDP gap had closed, and the gap turned positive. Sustained high economic growth in 2024 further maintained the positive GDP gap. In recent years, the robust real GDP growth has also driven an increase in potential GDP growth rates, leading to a temporary deviation from its medium-term trajectory.

In the coming years, potential GDP growth rates are expected to gradually converge to their long-term equilibrium levels, resulting in the closure of the GDP gap by 2027.

Figure 17. Potential GDP growth decomposition



Source: Geostat, MOF calculations

In terms of the decomposition of potential GDP growth, the labor force has made a positive contribution during the 2022–2025 period, in the medium term, capital accumulation and productivity improvements are expected to remain the key determinants of potential economic growth.

Estimating structural budget

After assessing the economic position, the next step is to estimate the cyclically adjusted budget, which is derived using a bottom-up approach. Instead of relying on aggregated revenues and expenditures and their corresponding elasticities to the GDP gap, disaggregated revenue and expenditure data are adjusted for the business cycle. Following this, the fiscal impulse is calculated as the change in the cyclically adjusted primary balance.

By combining the fiscal impulse with the GDP gap, it is possible to assess the cyclicality of fiscal policy—determining whether it is countercyclical or procyclical. Countercyclical fiscal policy is characterized by a positive fiscal impulse during a negative GDP gap and, conversely, a negative fiscal impulse when actual GDP exceeds potential GDP (a positive GDP gap).

Additionally, the structural deficit is calculated by excluding both positive and negative one-off effects from the cyclically adjusted budget. These one-off effects are those that will not recur in subsequent years. For example:

- **Expenditures incurred during the COVID-19 pandemic**, which reduced the structural deficit,
- **A one-off tax revenue effect** resulting from changes in the methodology for calculating the bank profit tax, which increased the structural deficit, and
- **Revenues from privatization** (under the European Commission methodology), since privatization of specific assets occurs only once, which also increased the deficit.

Table 6. Real and potential GDP growth, output gap, structural budget items, cyclicality of fiscal policy

	2020	**2021**	**2022**	**2023**	**2024***	**2025**	**2026**	**2027**
Real GDP growth	-6.3%	10.6%	11.0%	7.8%	9.0%	6.0%	5.0%	5.2%
Potential GDP growth	2.7%	4.7%	7.3%	7.0%	7.8%	7.4%	5.8%	5.5%
Capital	*1.5%*	*1.1%*	*1.0%*	*1.5%*	*2.4%*	*2.4%*	*2.3%*	*2.2%*
Labour	*-0.3%*	*0.1%*	*0.5%*	*0.8%*	*0.6%*	*0.2%*	*0.1%*	*0.1%*
TFP	*0.1%*	*5.1%*	*5.9%*	*4.8%*	*3.3%*	*3.0%*	*2.8%*	*2.7%*
GDP GAP	**-8.1%**	**-3.0%**	**0.4%**	**1.1%**	**2.3%**	**1.0%**	**0.2%**	**-0.1%**
Net lending of GG	-9.0%	-6.3%	-2.2%	-2.2%	-1.9%	-2.5%	-2.6%	-2.6%
Primary Net lending of GG	-7.5%	-4.9%	-1.1%	-0.7%	-0.3%	-0.7%	-0.8%	-0.9%

	2020	**2021**	**2022**	**2023**	**2024***	**2025**	**2026**	**2027**
Cyclical Component	-4.4%	-1.5%	0.2%	0.5%	1.1%	0.5%	0.1%	0.0%
Cyclicality adjusted balance	-4.6%	-4.8%	-2.4%	-2.8%	-3.0%	-3.0%	-2.7%	-2.6%
Cyclicality adjusted primary balance	-3.1%	-3.5%	-1.3%	-1.3%	-1.4%	-1.2%	-0.9%	-0.9%
One offs	4.6%	2.8%	0.1%	-0.6%	-0.8%	-0.5%	-0.3%	-0.3%
Privatization-	*-0.5%*	*-0.7%*	*-0.7%*	*-0.6%*	*-0.7%*	*-0.5%*	*-0.3%*	*-0.3%*
COVID expenses +	5.1%	3.5%	0.8%	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Banks Profit -	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*-0.2%*	*0.0%*	*0.0%*	*0.0%*
Structural Balance	0.0%	-2.0%	-2.3%	-3.3%	-3.9%	-3.5%	-3.0%	-2.9%
Structural Primary Balance	1.6%	-0.6%	-1.3%	-1.8%	-2.3%	-1.7%	-1.2%	-1.1%
Fiscal Impulse	**1.3%**	**0.4%**	**-2.1%**	**-0.1%**	**0.1%**	**-0.2%**	**-0.3%**	**0.0%**
Cyclicality of fiscal policy	Counter-cyclical	Counter-cyclical	Counter-cyclical	Neutral	Neutral	Counter-cyclical	Counter-cyclical	Neutral

Source: Geostat, MOF calculations

As shown in the table, the positive GDP "gap" is projected to increase in 2024 and decrease in 2025, although it will remain positive. Over the medium term, the gap is expected to shrink significantly and eventually close.

The calculations are based on the operations of the general government budget, which, in accordance with fiscal rules, mandates that the budget deficit must not exceed 3 percent of GDP.

According to the table, fiscal policy appears to be countercyclical or neutral. Specifically, during the COVID-19 pandemic and the subsequent period of rapidly changing economic activity, fiscal measures aligned with these dynamics. Based on the current medium-term forecasts for 2026–2028, the fiscal impulse and GDP "gap" values are so minimal that fiscal policy can be also considered neutral or counter-cyclical during this period.

It should be noted that, for the 2024 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.

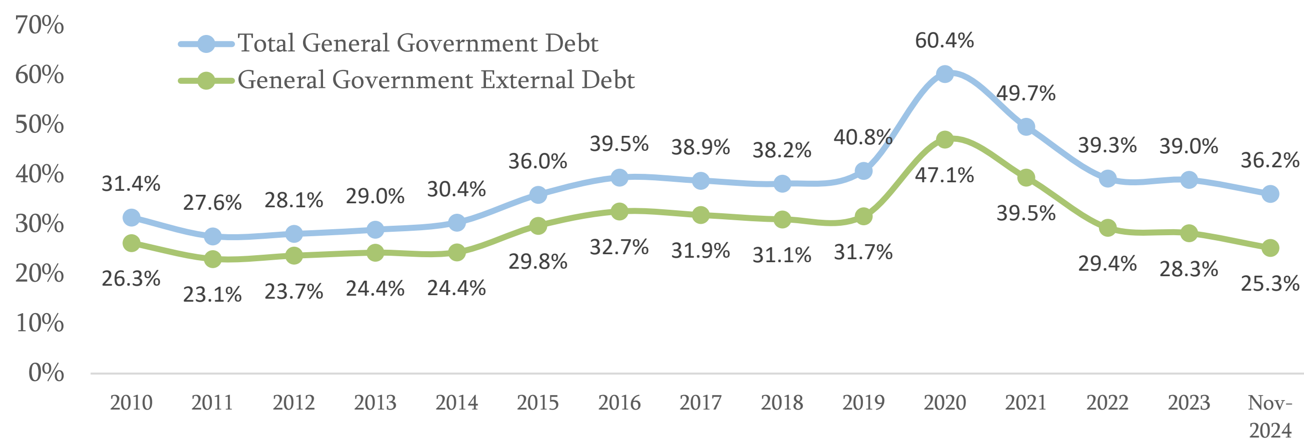
4.6. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

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 (GGGD) 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, debt to GDP ratio, as defined in fiscal rules, is 36.2 percent as of the end of November 2024, which is 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

General Government Debt Portfolio

By the end of 2023, Georgia's general government debt amounted 39.0 percent of GDP, out of which 28.3 was denominated in foreign currency. Those figures improved in 2024 and preliminary estimates are 36.2 and 25.3 percent, respectively by the end of November.

Figure 18. General Government Debt Dynamics (% of GDP) for 2010-2024



Source: MOF

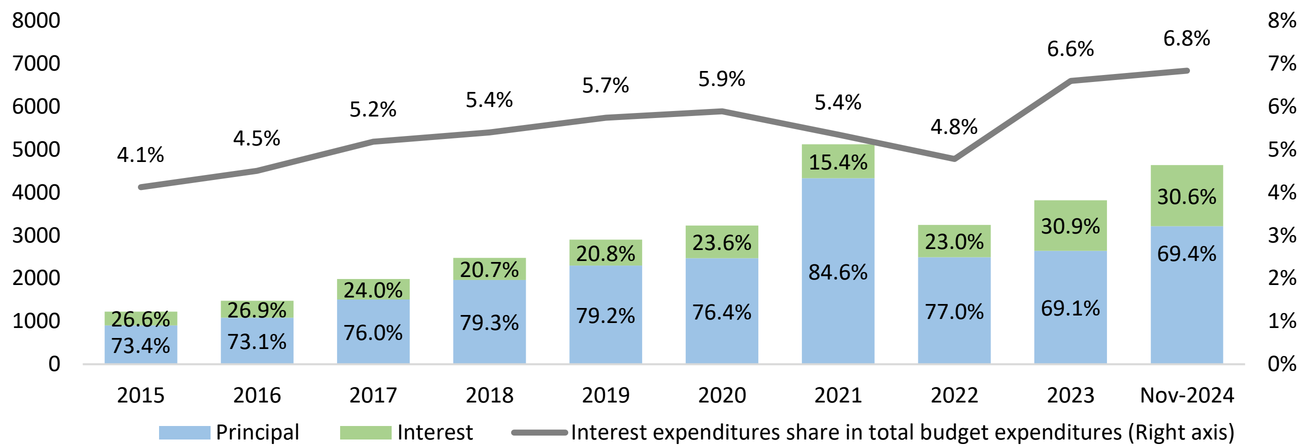
As of the end of 2021, 80.4 percent of the government total debt portfolio was denominated in foreign currency. It has decreased to 70.0 percent by the end of November 2024, which further highlights the commitment of the GoG to decrease the foreign debt exposure. Despite the substantial improvements, 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 2024, 47.9 percent of the Government external 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 the end of November 2024, 16.4 percent 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 (43.6 percent) and GEL (30.0 percent). 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.

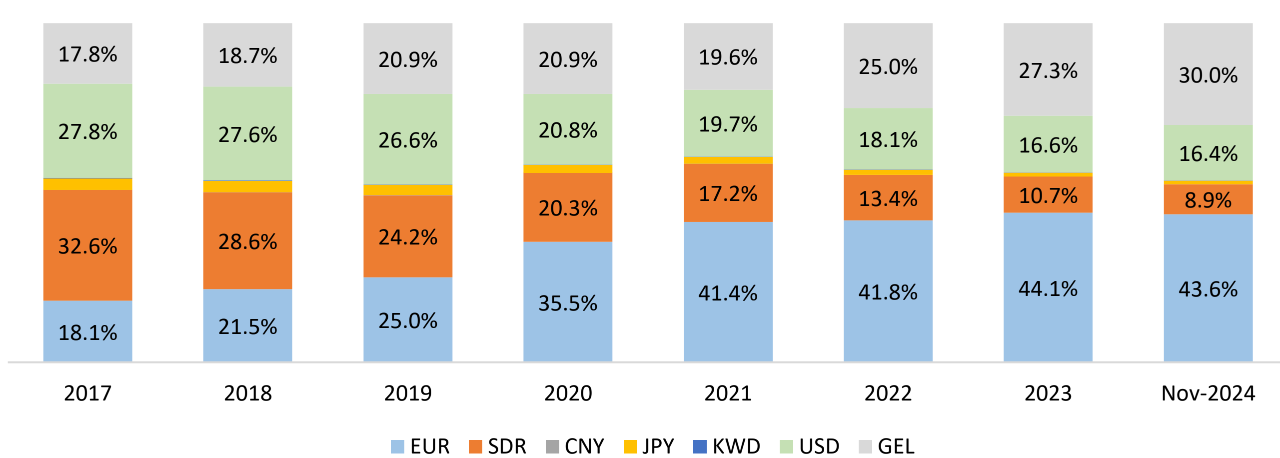
Figure 19. Currency Composition of the General Government Debt Portfolio for 2017-2024



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.

Figure 20. General Government Debt Service for 2015-2024 (million GEL)



Source: MOF

The weighted average interest rate of the government debt portfolio slightly decreased in 2024 compared to 2023's 4.92 percent and amounted to 4.86 percent by the end of November 2024. This indicator is 8.86 percent for the domestic debt portfolio, and 3.18 percent for the external 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 January-November period amounted to 8.52 percent, the same indicator for foreign currency denominated debt amounted to 4.88 percent.

By the end of November 2024, 93.8 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 6.0 percent of the foreign debt portfolio, while the remaining 0.2 percent is "Legacy Debt"[18], which will be fully repaid by 2025. As for the domestic debt, T-Bonds comprise 93.9 percent of the total, T-Bills 3.4 percent, 2.0 percent is Government Bonds and the remaining 0.6 percent is represented by the loans of budgetary organizations.

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;

   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;

[18] Bilateral loans restructured in early 2000s.

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

Refinancing risk. 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.

Currency risk. 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.

Interest rate risk. 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 2021, the GoG issued third $500m 5-year Eurobond, listed in London Stock Exchange;
- ✓ During 2023 the Government established Investor Relation Strategy;
- ✓ In 2024 MOF introduced Switch operations as one of the LMO instruments to manage the domestic debt efficiently;

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, in 2024 a number of analytical works were started, and for 2025 it's planned to develop them further.

Below the line operations and stock-flow adjustments

Table 4 in Annexes represents decomposition of the change in debt-to GDP ratio. It should be noted that, along with the reduction in the share of external debt in the portfolio, the exchange rate effect is also decreasing in the stock-flaw adjustment. If in 2022, the share of external debt in the portfolio was 74.8%, and the contribution of exchange rate changes to the change in the government's debt level was -5.9%. For 2023 and 2024, these indicators decreased to -0.5% and 0.0%, respectively.

Net accusation of financial assets includes net budget lending to SOEs and change in government deposits. 0.7 percent of GDP in 2023 mainly represents accumulation of government deposits.

4.7. Sensitivity analysis and comparison with the previous programme

Table 6 below shows the difference between the projections of the 2024 ERP (January 15) for 2024-2026 and the new 2025-2027 ERP. Economic growth over performed in 2023 and projection for 2024 upgraded by 3.8 percentage point, medium-term growth projection has increased slightly.

Table 7. Divergence from previous programme (Forecasts)

	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
1. GDP growth (yoy)					
Previous programme	6.5	5.2	5.0	5.0	
New programme	7.8	9.0	6.0	5.0	5.2
Difference (percentage points)	1.3	3.8	1.0	0.0	0.2
2. General government net lending (% of GDP)					
Previous programme	-3.0	-2.5	-2.3	-2.2	
New programme	-2.2	-2.4	-2.5	-2.6	-2.6
Difference	0.7	0.1	-0.2	-0.4	
3. General government gross debt (% of GDP)					
Previous programme	38.2	38.0	37.8	37.6	
New programme	39.0	36.8	35.9	35.4	34.9
Difference	0.8	-1.2	-1.9	-2.2	

Source: MOF

Due to the economic over performance, fiscal balance have also improved and deficit amounted 2.2 percent of GDP—0.8 pp lower than projected. Projections of fiscal deficit for 2024 is unchanged and increased slightly after that, reflecting the different deficit estimation dynamics of LEPLs and NLEs. General government debt to GDP ratio for 2023 was slightly higher than previous estimate. In the medium term, the latest projections are slightly below than before, however, still bellow safe level of 35 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 8 shows expected reactions of macro-fiscal variables to these shocks:

Table 8. Impact of Macroeconomic indicators on the fiscal parameters for 2025

scenarios			Deviation from the Baseline							
			Million GEL				% of GDP			
			Revenue	expenditure	defficit	finansing	Revenue	expenditure	defficit	finansing
GDP growth	positive	10.4%	819.3		819.3		0.83%		0.83%	
	negative	-2.8%	-1,638.7		-1 638.7		-1.65%		-1.65%	
Inflation	positive	6.6%	600.4	345.4	255.0		0.61%	0.35%	0.26%	
	negative	-0.2%	-600.4	-345.4	-255.0		-0.61%	-0.35%	-0.26%	
Interest rate	positive	5.0%		-131.6	131.6			-0.13%	0.13%	
	negative	5.8%		131.6	-131.6			0.13%	-0.13%	
Exchange rate	positive	2.27	-76.3	-202.8	126.6	-79.1	-0.08%	-0.20%	0.13%	-0.08%
	negative	3.22	76.3	202.8	-126.6	79.1	0.08%	0.20%	-0.13%	0.08%

Source: MOF

As a table 8 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[19].

4.8. Quality of public finances

In the post-pandemic period, the Georgian economy demonstrated significantly stronger economic performance than initially predicted. From 2021 to 2023, economic indicators were adjusted in a growth-oriented direction, with the three-year average real economic growth rate reaching 9.8%. Nominal GDP increased from 49.8 billion GEL in 2020 to 80.9 billion GEL by the end of 2023. Strong economic performance, despite the increased funding for priority areas, enabled significant fiscal consolidation and a reduction in the government debt ratio. Specifically, by the end of 2023, the budget deficit ratio decreased from 9.3% of GDP in 2020 to 2.4% of GDP, while the government debt ratio declined from 60.2% in 2020 to a low of 39.0%.

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

Following this fiscal consolidation, further fiscal consolidation was no longer a priority in planning the 2024 budget. As a result, a low budget deficit was maintained during the budget planning process, and resources were maximally directed toward financing priority areas.

As in previous years, the economic trends of 2024 were much stronger than predicted during budget planning. Accordingly, the real economic growth forecast was revised for the first time based on a five-month analysis and set at 6%. During the same time, an analysis of the expenditure side was also conducted, identifying additional needs about 600 million GEL.

A further revision of the real economic growth forecast was made during the preparation of the initial version of the 2025 budget, setting it at 8.2%. Finally, the changes made to the 2024 state budget in December 2024 were based on the updated forecasts: real GDP growth forecast – 9.0%; GDP deflator – 3.1%; average inflation rate – 1.0%; nominal GDP – 90,895.2 million GEL; GDP per capita – 9,027.3 USD; consolidated budget tax revenues – 23,260.0 million GEL; consolidated budget expenditure– 33,755 million GEL; budget deficit (in line with the fiscal rule defined by the Organic Law of Georgia and the Economic Freedom Act) – 2.4% of GDP; government debt – 36.8% of GDP.

The anticipated economic growth for 2025 is set at 6.0%. The projected GDP per capita is at 9,750 USD. The average inflation rate is expected to exceed targeted level from H2 2025, due to the low base effect, and hence, forecast for inflation is 3.2% for 2025. The planned budget deficit is 2.5% of GDP, and the government debt is expected to be 35.9% (including PPP liabilities - 0.03% of GDP).

Considering the above-mentioned parameters, total revenue (Taxes, grants, other revenues and privatization proceeds) of general government for 2025 is projected as 32.2 billion GEL. Taxes, constituting the main revenue source, are projected to amount to 25.3 billion GEL, reflecting a 2.0 billion GEL increase from 2024. Additionally, grants are expected to total 140.0 million GEL, other revenues at 6.2 billion GEL and privatization proceeds at 510.0 million GEL. The nominal budget deficit is calculated at (-2,454.0) million GEL, equivalent to 2.5% of GDP.

It worth to mention that for 2025 revenue measures out of robust economic growth, will be effected by different revenue related discretionally policy changes as well that is mentioned in part 4.3. (Budget plans for 2025).

Budget Deficit and Government Debt

Fiscal rules established by the Organic Law of Georgia "On Economic Freedom" are defined as follows:

- ✓ The net lending/borrowing of the general government budget in 2025 is amounted 2,454.0 million GEL - 2.5% of the projected GDP (the established threshold is 3% of GDP);

- ✓ Government debt is 35.9% of GDP, including the current value of liabilities under public-private partnership projects (as of December 31, 2025 (preliminary data) - 0.03% of GDP (the established threshold is 60% of GDP).

The modified consolidated budget deficit (IMF program), amounted to 2,475.0 million GEL, which is 2.5% of GDP.

It is important to note that, despite the consolidation of current spending in the post-pandemic and post-Russian invasion of Ukraine contexts, capital spending has remained above 8% of GDP to ensure the smooth implementation of highways and other critical infrastructure projects. In the medium term, capital spending is expected to remain within the range of 7%-8% of GDP, despite the fact that major part of the highways are approaching completion. Regarding current spending, social expenditure, which was around 11% during the pandemic period, has been maintained within the range of 9% to finance universal health care and social protection programs. Following a period of strict budget consolidation in labor remuneration, the increase in 2023 was designed to ensure the competitiveness of public sector employees by maintaining a logical ratio with private sector salaries. This increase is expected to remain within the range of 5.7%-5.9% in the medium term.

To further enhance the efficiency of public finance management reform and fiscal planning, efforts continued to improve both revenue mobilization and expenditure management: (i) Public Investment Management reform is ongoing to better prioritize capital projects; (ii) wage and pension increases are being implemented according to established indexation rules; (iii) a DRG-based financing model is being actively introduced in the healthcare sector; (iv) financing models for preschool, school, and higher education are being developed with the support of various technical assistance programs; (v) a Medium-Term Revenue Strategy (MTRS) has been launched in collaboration with the International Monetary Fund; (vi) work continues on analyzing tax incentives; and (vii) the Revenue Service is actively pursuing reforms in both tax administration and customs administration.

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**[20]. 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**[21], which was validated with the support of the European Union and the World Bank. Besides, with support UN WOMEN, it was the first time when "Gender Responsive Public Finance Management Assessment (GRPFM)[22] prepared in 2022, according to the GRPFM methodology developed by PEFA Secretariat. Both PEFA and GRPFM assessment reports 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) was also published in 2024, and **Georgia maintains first place in the global ranking among 125 countries assessed in Budget Transparency**. In this survey, Georgia improved its performance **in Budget Oversight and ranked fifth** compared to its previous assessment, when it ranked 21st in the global ranking. Additionally, **in Public Participation, Georgia ranks fourth**. **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

[20] https://www.mof.ge/en/5659
[21] https://www.pefa.org/node/5197
[22] https://www.pefa.org/node/5164

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;

Fiscal Governance Legislation

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 60.1. 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)[23]. The medium-term budget framework disclosed in the BDD 2025-2028 envisages keeping the parameters at the safe level, well below-

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[24].

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

[23]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;

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

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 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 2025-2028 was approved on March 1, 2024.

Article 5 of the Decree outlines the measures to be implemented in the preparation of "Economic Reform Program" 2025–2027, according the methodology developed for EU candidate countries. The Ministry of Finance of Georgia is responsible for coordinating the preparation of the document, in collaboration with the relevant sectoral ministries. Additionally, the decree introduces a new annex on structural reforms, which mandates the ministries to prepare and submit the necessary information to the Ministry of Finance of Georgia.

The first part of the BDD document is the Government Program "Only towards Europe with peace, dignity and prosperity". 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.

Linking Strategic Planning and Budgeting

The Basic Data and Directions Document, which outlines the main medium-term fiscal framework, is derived from the Government Program. The annual budget, in turn, aligns with the parameters established in the Basic Data and Directions Document. The Budget Code of Georgia ensures the consistency of the ministries' medium-term action plans with both the annual budget and the Basic Data and Directions Document.

To strengthen effective governance, transparency, and accountability, Public Administration Reform (PAR) in Georgia has been implemented in accordance with the principles of European public administration since 2015. Since 2023, the second phase of the reform has been actively underway under the 2023-2026 PAR Strategy. As part of the reform, the Rules of Procedure for the Development, Monitoring, and Evaluation of Policy Documents and the Policy Planning, Monitoring and Evaluation handbook were developed and approved by the Government of Georgia (decree N629, 20.12.2019). The decree ensures a systematic and standardized approach to policy development, monitoring, and evaluation across public institutions in Georgia. It aims to enhance the quality of policy documents by fostering evidence-based decision-making, strengthening accountability, and improving overall governance processes. It also ensures the alignment of strategies and action plans approved by the Government of Georgia with the annual budget and the medium-term framework outlined in the Basic Data and Directions Document. The action plans specify the source of funding, the funding amount, and the program code within which the relevant activity is implemented in the budget. One example of this is the Vision 2030 – Georgia's Development Strategy adopted by the Government of Georgia. The government adopts annual action plans for the implementation of the "Vision 2030". The implementation of these regulations under the PAR Strategy represents a significant milestone in Georgia's efforts to strengthen its governance structures and align with international best practices. By fostering a culture of evidence-based policymaking and institutional accountability, these reforms aim to drive socio-economic development and improve public trust in government institutions.

Within the framework of the Public Finance Management reform, a new "Policy Classifier" was introduced in 2022 through the electronic budget management system (eBudget). This mechanism links budgeted programs to the policy classifier, enabling spending institutions to link (Tag) their programs and sub-programs at both the state and local levels with various policy areas, such as the UN Sustainable Development Goals (SDGs), gender equality, climate change (mitigation and adaptation), human capital goals, government strategies, and more. As part of the reform and in line with the Public Finance Management reform strategy for 2023-2026, it is planned to provide spending institutions with the capability not only to link their planned programs to the policy classifiers, but also to indicate the fiscal impact of each classifier. This, in turn, will support more informed decision-making in each policy direction by the relevant ministries and agencies

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 and (ii) Climate change and natural disasters.

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 2074, there could be one pensioner for every two to three people of working age.

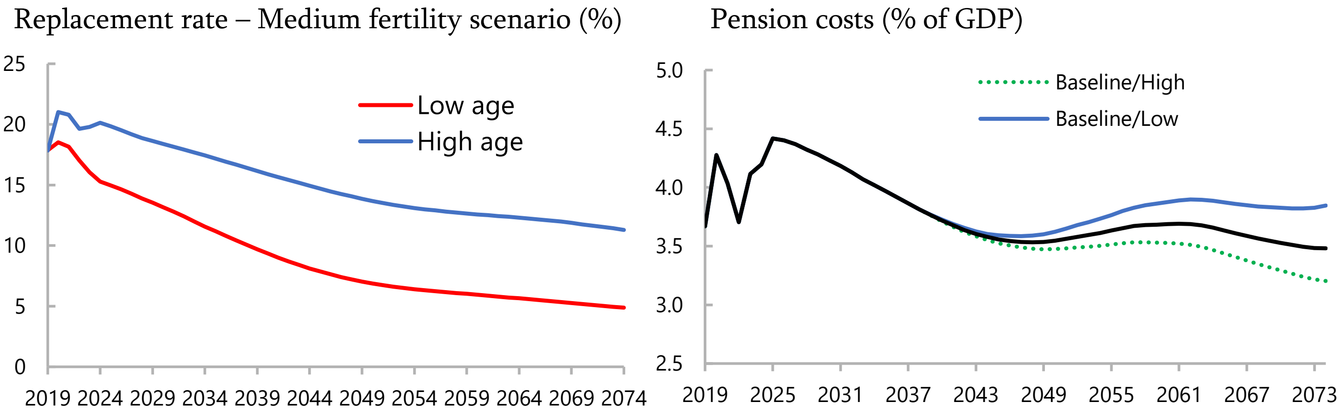
The ageing population is likely already creating fiscal pressures. The elderly have a large burden of chronic conditions such as arthritis, back pain, cardiovascular disease, diabetes, and mental health conditions and are the main users of primary care services within the state universal healthcare program 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 0.3% to 0.7% 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 2074 being 17 percentage points 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.
Due to the aging population, the pension costs will increase in the long-term (Figure 21). Even though the increased pension age population, according to the assumptions of long-term projections, the following is expected under the ***current indexation regime***[25]:

- Pension costs to GDP will not increase but decrease during the next several decades
- Replacement rate[26] will decline for the low-age (up to 70 years) as well as for high-age (70+) pensioners.

Figure 21. Fiscal Effects of Demography Scenarios in Georgia



On the right side of the graph above, there is the baseline scenario (under different fertility scenario). As it shows, pension costs to GDP is declining up to 2040-50, and after that it increases due to higher pensions and change in demography. Under the low fertility, pension costs will remain at the high level, but it still does not exceed the 2024 actual level.

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[27]. 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

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[25] According to the current indexation, pensions will be increased by an average of the last 12 month inflation (min GEL 20) for pensioners with the age below 70 and by an average of the last 12 month inflation and 80% if economic growth of the last 6 quarters (min GEL 25)
[26] Based on the assumptions about the average increase in wages and demography
[27] Climate Risk Country Profile (2021). World Bank Group, Asian Development Bank

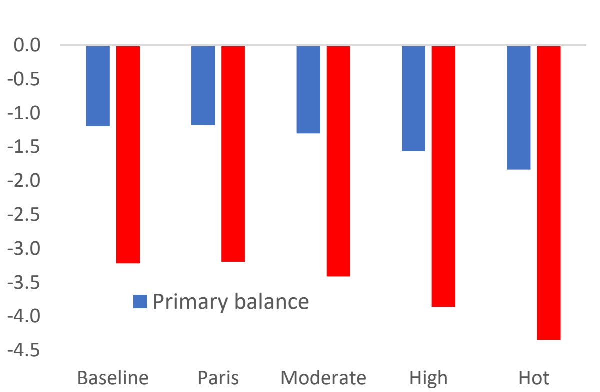
the energy sector given the dependency on domestically generated hydropower, which accounted for 78 percent of domestically generated electricity in 2015.

Four different climate scenarios are applied to assess fiscal risks in Georgia. 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).

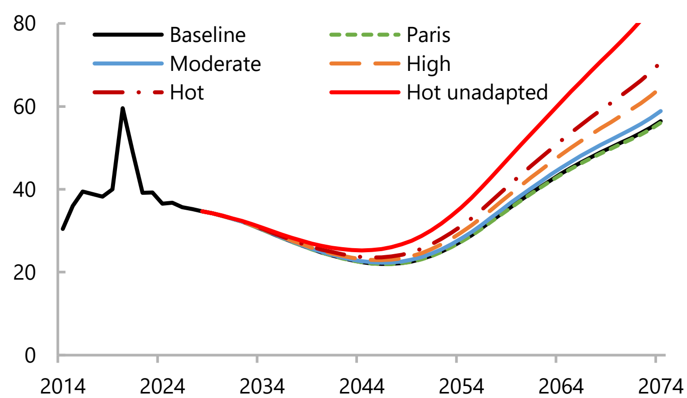
Public finances will deteriorate as the severity of climate change scenarios increases (Figure 22). Climate change will slow long run productivity growth in the more severe scenarios, reducing tax revenues and raising deficit and debt. For example, public debt is over 13 percent of GDP higher in the hot scenario than the Baseline in 2074. 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 2074.

Figure 22. Fiscal Effects of Climate Change Scenarios in Georgia

Primary and Overall Balance, Percentage of GDP



Debt-to-GDP ratio, 2014-74



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 should focus on situations where the tax base could potentially be reduced due to structural economic changes caused by climate change. 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 the tax revenues** and continuously updating and recalibrating all assumptions and parameters used in the framework.

5. STRUCTURAL REFORMS IN 2025 -2027

5.1 Review of the current framework for structural reforms in Georgia

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 and then action plan for 2024 approved on January 29, 2024[28]. Currently the action plan for 2025 is being compiled and is expected to be approved in January, 2025 and Georgia's MTBF framework[29] (BDD 2025-2028 and Programme Budget 2025-2028 attached to the 2025 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.[30]

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."

[28] https://matsne.gov.ge/document/view/6089686?publication=0

[29] The decree for preparing the BDD 2025-2028 was approved on March 1, 2024 and incorporates ERP preparation process coordination, defining the MOF's role as a coordinator https://matsne.gov.ge/ka/document/view/6123841?publication=0 .

[30] 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.

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 2025-2027.

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

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.

As part of the Commissions overview and country assessments based on the Economic Reform programmes, 3 key challenges were identifies, largely in line with challenges identified in the ERP 2024-2026 for Georgia, that was the first of its kind, based on the strategic documents of Georgia.

5.1.1. Competitiveness

Key challenge #1: Addressing key factors behind low competitiveness linked to a dominance of low value added sectors in the economy and exports, low productivity in agriculture, informality and shortcomings in economic governance.

According to the Commissions assessments of the ERP 2024-2026: while Georgia has managed to attract significant foreign direct investment over recent years, the country's value chains are still dominated by low-value sectors; agriculture, a key sector for employment, faces major competitiveness challenges, including low productivity and fragmentation; the share of the informal economy remains considerable and addressing informality requires a comprehensive, government-wide approach that encompasses tax, labour, social and financial policies; the SME policy environment in Georgia is generally considered to be conducive to investment and supportive for business development, but firm-level productivity and export growth has been underwhelming; Non-effective enforcement of regulations on food safety remain one of the key reasons for Georgia's weak export performance towards the EU; Access to finance has improved in recent years but is still considered as a major obstacle by many SMEs including in the agricultural sector; the governance and institutional environment in Georgia are favourable overall to economic development, although some challenges persist; the most recent anti-corruption strategy and action plan covered the period of 2019-2020 and no strategic vision has been adopted since.

While the challenges identified in the assessment are very much in line with the country's priorities and works continued on many aspects mentioned in the assessment, including the special working group was created to make needs assessment for a comprehensive strategic policies on informal economy, the reform areas under the Competitiveness section remained as identified in the previous ERP for 2024-2026 (See reforms measures #1 and #2)

5.1.2. Sustainability and resilience

Key challenge #2: Enhancing connectivity in particular by strengthened energy system, further development of transport infrastructure and digital reforms.

According to the Commissions assessments of the ERP 2024-2026: Georgia relies heavily on imports of fossil fuels and domestic energy production covers about one fifth of Georgia's energy demand, and mostly comes from hydropower and bioenergy; renewable policy is mostly based on hydroelectric plants. As of 2021, the share of renewable energy in electricity production was a highly impressive 81%, provided by hydropower and one wind farm; while energy intensity has dropped, buildings consume more than 30% of total energy, as energy efficiency in buildings is low, Georgia has prioritised access to finance for energy-efficient renovation and support to innovative new practices; the European Commission would consider that it is time to make progress on the implementation of a national carbon pricing or emission trading scheme; the quality of road transport remains suboptimal and continued investments are needed, in particular to promote the extended trans-European transport network, railway links, ports, road infrastructure maintenance, rolling rail stock and inter-modal and logistic capacities as well as to implement the railway strategy; access to digital infrastructure has improved substantially, but some regions lag behind; Georgia lacks an overarching digital strategy.

While the challenges identified in the assessment are very much in line with the country's priorities and works continued on many aspects mentioned in the assessment, including the overarching digital strategy was drafted and is ready for final procedures for approval, reform measures under the category of Sustainability and Resilience where retained from the previous year (see reform measures #3 and #4)

5.1.3. Social policy and human capital

Key challenge #3: Addressing weaknesses in Georgian labour market including by improving the quality and relevance of education and professional skills development, and strengthening the social protection system and healthcare services.

According to the Commissions assessments of the ERP 2024-2026: The Georgian labour market has several structural weaknesses; overall, there is a need to increase labour market participation and training for underrepresented groups, such as NEETs, women, and people with disabilities, including those in remote areas; despite the high level of unemployment and inactivity, companies struggle to find the skills they need in the labour market; Vocational education and training (VET) are provided in both public and private institutions, but enrolments are modest and drop-out rates are high; poverty rates are decreasing, but inequalities persist, and social safety nets are very limited; the universal healthcare system is mostly provided by private providers, with high out-of-pocket expenditure and public spending on healthcare is above many low- and middle-income countries in the Europe and Central Asia region, but below the EU average and low in absolute terms

While the challenges identified in the assessment are very much in line with the country's priorities and works continued on many aspects mentioned in the assessment, including the social policies, reform measures under the category of Social Policy and Human Capital where retained from the previous year (see reform measures #5 and #6)

5.2 Selected Structural Reforms

Reform measures #1

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 (Continuation from ERP 2024-2026)

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 2025-2027

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 2025 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 was expected that that GEL dominated debt would be above the target, around 30% which has really materialized.

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)	Intermediate target (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	2025	2026	2027	Budget Line
Developing Domestic Bond Market	2 585.0	2 685.0	2 980.0	MOF, 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

[31] Public Finance Management Reform Strategy 2023-2026

Risk	Probability (low or high)	Planned mitigating action
Uncertainties related to external shocks and constraints caused by changes in macro parameters;	High	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 (Continuation from ERP 2024-2026)

(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 2025-2027

5.2.1.2.1. Rehabilitation of the Irrigation systems

In order to increase the coverage of irrigated land there are needs to rehabilitate non-functional water reservoirs, constructing the new ones, upgrading the water heads, main and secondary canals and hydrotechnical constructions (i.e. tunnels). The reform includes upgrading the irrigation systems with dripping and other controlled systems. Upgrading manual control systems with electronic and distant controlling systems and full launch of metering systems are required. Other activities such as cleaning the pipes, canals and other hydrotechnical constructions and upgrading pumping systems are under the pipelines. Upgrade of the largest irrigation systems are ongoing through projects financed through borrowings from IFIs (WB, ADB, EIB, AFD)

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 years 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 2025-2027 though regular budget funds as well as projections of disbursements for the donor funded projects.

(Thousand GEL)

Costing	2025	2026	2027	Budget Line
Rehabilitation of Irrigation systems	129 100	222 220	244 620	MEPA, Programme Line 31 06
o/w Donor Funded	30 750	68 500	73 000	
Land Management Monitoring Programme	6 200	7 560	5 100	MEPA Programme Line 31 15
Georgia Resilient Agriculture, Irrigation and Land project (WB)	9 200	5 609	3 668	MOJ (NAPR) Programme Line 26 08

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 (Continuation from ERP 2024-2026)

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 2025-2027

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.

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 was announced in 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 has finalized the feasibility study and a new project to borrow for geo-technical studies was signed 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 Türkiye 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 2025-2028 submitted to the parliament as part of the 2025 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	2025	2026	2027	Budget Line
Development of the Systemic Transmission lines network	149 000	160 000	180 000	MOESD Program line 24 14
o/w Donor funded	133 200	145 600	152 000	MOESD Program line 24 14
o/w Geotechnical studies and preparation works for the Undersea Black Sea cable (WB, EU)	25 000	55 000	5 000	MOESD Program line 24 14
TA to Energy Sector Reform (GESRP) (EU-NIF)	2 534	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

Reform Measure #4: Enhanced Connectivity (Continuation from ERP 2024-2026)

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 2025-2027

5.2.2.1.4. 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.

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 have started for constructing the infrastructure that remains under the government's responsibility as the 51% owner of the project with the Belgian company Ian De Nul in 2024.

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 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

5.2.2.1.5. 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 were completed in 2024 and more scheduled for 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

5.2.2.1.6. 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 2025 Annual Budget and 2025-2028 medium term budget planning.

(Thousand GEL)

Costing	2025	2026	2027	Budget Line
Anaklia Deep Sea Port	150 000	180 000	125 000	MOESD: Programme line 24 17 02
Maritime Transport Regulation	10 460	11 258	12 385	MOESD: Programme line 24 28
Land Transport Regulation	26 107	26 200	26 300	MOESD: Programme line 24 29
Railway Transport Regulation	2 200	2 200	2 200	MOESD: Programme line 24 21
Innovation and Technology Development (incl. Log-in Georgia)	106 950	90 000	90 000	MOESD: Programme line 24 08
Rehabilitation of Road Infrastructure	1 592 600	1 649 500	1 671 900	MRDI: Programme line 25 02
o/w East-West Highway and South North Corridor	905 000	610 000	480 000	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 2025-2028 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 (Continuation from ERP 2024-2026)

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 2025-2027

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)	Intermediate target (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 2025-2028.

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	2025	2026	2027	Budget Line
Healthcare Program:	1 859 036	1 931 890	1 998 190	MOLSHA: Programme line: 27 03
o/w Universal Healthcare	1 220 000	1 281 000	1 345 000	
o/w new policy: Supporting Transplantation needs	8 500	8 500	8 500	
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 (Continuation from ERP 2024-2026)

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 2025-2027

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, psychosocial, 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 labour 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 labour 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	2025	2026	2027	Budget Line
Pre-School and Secondary Education Policy Formulation	1 903 915	2 200 215	2 088 175	MOES: Programme line: 32 02
Educational Infrastructure	904 115	950 000	960 000	MOES: Programme line: 32 07 MRDI Programme: 25 06
Vocational Education	193 965	210 905	220 460	MOES: Programme line: 32 03
Financing Pre-school Education	480 000	530 000	570 000	Local Governments

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

Risk	Probability (lowor high)	Planned mitigating action
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

Reform Measures	Description
	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.
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.

Reform Measures	Description
	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 measure #5	**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 #6	**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

Reform Measures	Description
	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.

5.4 The Cost and Financing and structural reforms

This capter 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 2025-2027 in Euros.

Chapter 5 has costs for the activities under the six reform measures as envisaged through the 2025 Budget and 2025-2028 MTBF (i.e. BDD Document for 2025-2028) of Georgia in the national currency, GEL.

As described in earlier chapters Georgia uses GFSM 2014 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. 2025) + 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 5.4.1 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 5.4.1

Thousand Euro

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year 2025	135,000.0	2,500.0	18,100.0	996,600.0	1,152,200.0
Year 2026	145,000.0	2,400.0	18,200.0	1,077,000.0	1,242,600.0
Year 2027	155,000.0	2,250.0	18,300.0	1,113,678.6	1,289,228.6
% to Total					
Year					
Year 2024	11.7%	0.2%	1.6%	86.5%	100.0%
Year 2025	11.7%	0.2%	1.5%	86.7%	100.0%
Year 2026	12.0%	0.2%	1.4%	86.4%	100.0%

As for the financing sources of the selected reform measures, the table 5.4.2 shows that donor funded project loans are above 30% in 2024 and gradually decreasing to 23% in 2027 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 2025 and as the new loans are signed and new pipelines agreed the share to be financed through donor funds in 2026-2027 can be somewhat increased in the next estimations.

Table 5.4.2

Thousand Euro

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2025	735,550.0	20,000.0	0.0	0.0	4,500.0	392,150.0		1,152,200.0
2026	892,000.0	30,000.0	0.0	0.0	4,100.0	316,500.0		1,242,600.0
2027	955,128.6	35,000.0	0.0	0.0	3,500.0	295,600.0		1,289,228.6
% to Total								
Year								
2025	64%	2%	0%	0%	0%	34%	0%	100%
2026	72%	2%	0%	0%	0%	25%	0%	100%
2027	74%	3%	0%	0%	0%	23%	0%	100%

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

Economic Reform Programme for 2025-2027, the process of preparing the documents was integrated in the internal budget calendar and budget process. MOF was defined as the coordinator of the process by the Government Decree #62, 01.03.2024 "Activities to be performed in order to prepare Basic Data and Directions Document (BDD) for 2025-2028". Government Decree is annually adopted around March 1 to launch the new Budget cycle of preparing the annual budget law and updated the medium term (4 years) budgetary framework on a rolling basis. Thus the ERP for 2025-2027 was prepared as the parallel process of 2025-2028 Basic Data and Directions Document (BDD)32 and was based other strategic documents of Georgian government, most importantly the Development Strategy of Georgia – Vision 2030[33]. 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 2025-2028 is also submitted to the Parliament as part of the annual budget package (The 2025 State Budget was approved by the parliament on December 10, 2024). The ERP 2025-2027 was also endorsed by the Government Decree #41 (15.01.2025) on "On endorsement of the Economic Reform Programme (2025-2028)". It needs to mentioned that unlike the past year, when the ERP was prepared in very tight deadlines, this time special document was created in parallel to the internal budget process and detailed information about the 2025-2027 ERP was also prepared in Georgian Language as part of the Budget Package, before preparing the final version in English Language to be endorsed by the Government of Georgia and submitted to the European Commission by January 15, 2025. The Georgian version of the ERP document was submitted to the PFM coordination council and presented at the council meeting.

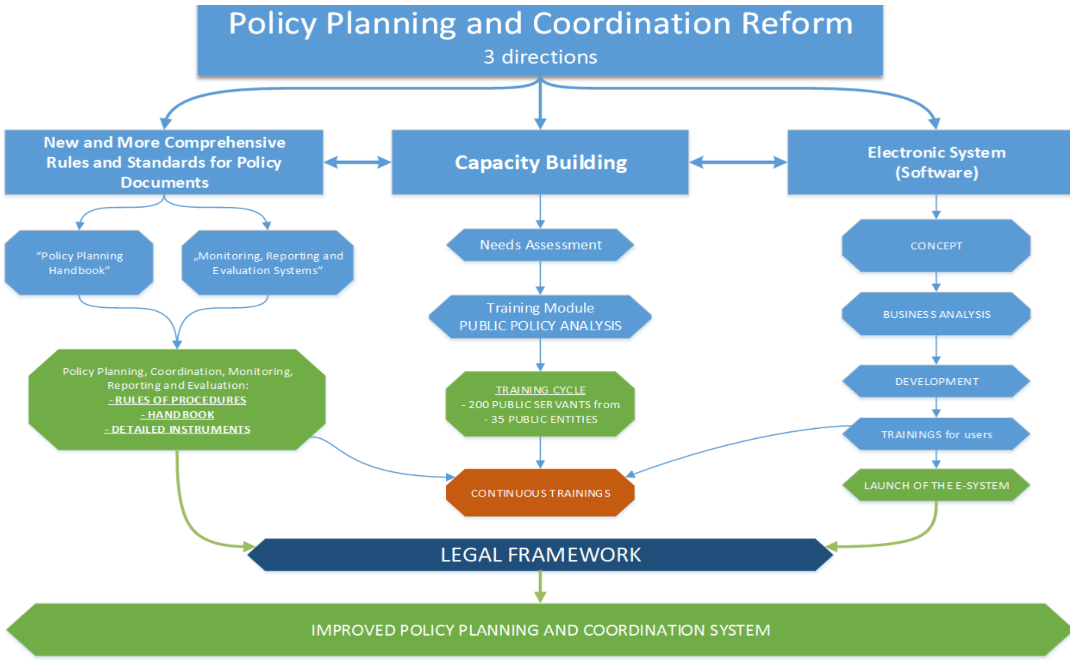
Preparation of the ERP was fully integrated with the budget cycle which starts annually on March 1 and includes submissions of the BDD Document and Annual Budget Law to the Parliament for three hearings and ends with the submission of the final version of the BDD Document before January 31 of the Budget year (i.e. January 31, 2025 for this cycle). Georgian language information on ERP that includes all the key components of the ERP document was prepared in parallel to the budget process was is published on the official MOF website[34].

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

[32] https://www.mof.ge/images/File/2025_Biujeti/30-12-2024/1/12.2025-2028%20BDD%202025%204.docx

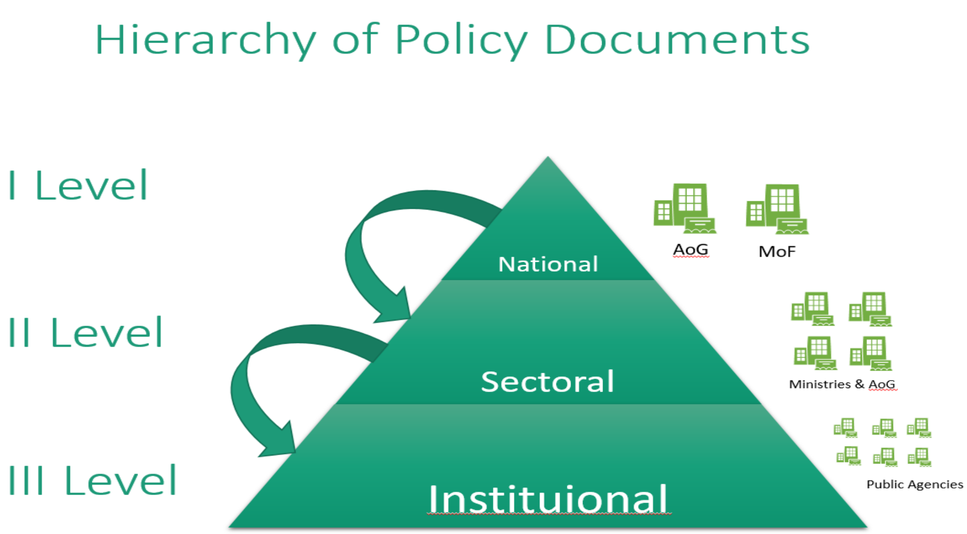
[33] https://www.gov.ge/files/428_85680_321942_khedva-2030-saqarthvelos-ganvitharebis-strategia-1.pdf; https://www.gov.ge/files/428_85680_746459_logikuri-charcho_saqarthvelos-ganvitharebis-strategia-2030.pdf

[34] https://www.mof.ge/images/File/2025_Biujeti/31-12-2024/ERP%202025-2027%20(GEO).pdf

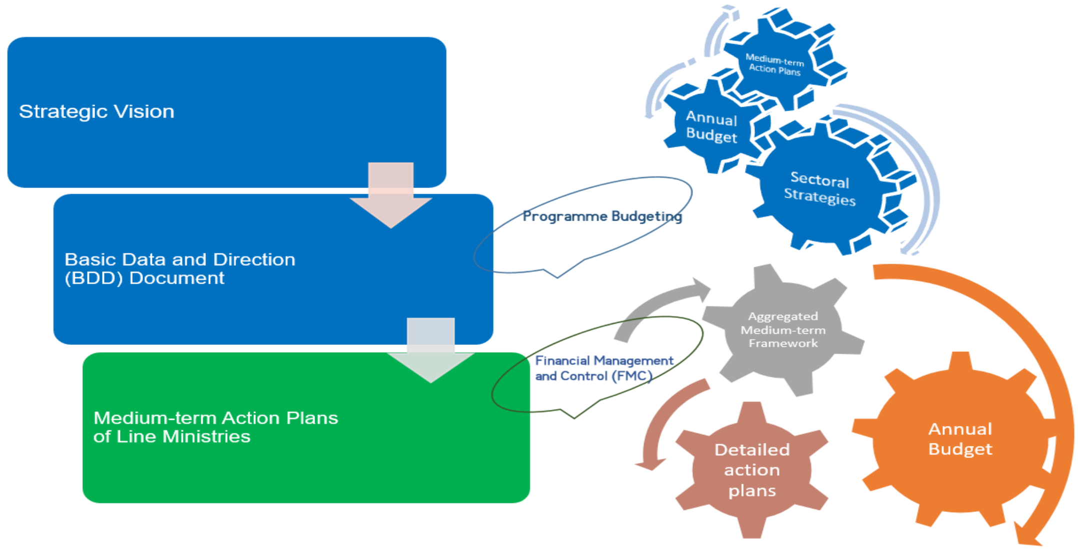


Strategic, sectoral and Institutional policy planning documents as well as Medium-term and annual budget planning have their process of stakeholder engagement.

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[35] 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.

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

7. ANNEXES

ANNEX 1: TABLES

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	Year 2023	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	21.7	7.8	9.0	6.0	5.0	5.2
2. Current GDP at market prices	B1*g	28.5	11.0	12.4	9.2	8.2	8.4
Components of real GDP							
3. Private consumption expenditure	P3	16.6	4.9	7.7	4.4	5.4	5.1
4. Government consumption expenditure	P3	1.4	15.5	12.9	10.2	6.7	4.6
5. Gross fixed capital formation	P51	4.6	17.7	29.9	7.4	3.2	5.2
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.8	3.5	1.5	1.4	1.4	1.4
7. Exports of goods and services	P6	10.7	0.3	10.3	7.0	5.3	5.5
8. Imports of goods and services	P7	12.4	0.2	12.9	5.7	5.0	5.3
Contribution to real GDP growth							
9. Final domestic demand		22.6	8.3	13.1	5.9	5.3	5.4
10. Change in inventories and net acquisition of valuables	P52+P53	0.8	-0.5	-1.9	0.0	0.0	0.1
11. External balance of goods/services	B11	-1.7	0.0	-2.3	0.1	-0.3	-0.4

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
1. GDP deflator		2.9	3.1	3.0	3.0	3.0
2. Private consumption deflator		2.5	1.0	3.2	3.0	3.0
3. HICP		2.1	1.7	2.7	2.9	2.9
4. National CPI change		2.5	1.0	3.2	3.0	3.0
5. Public consumption deflator		2.5	1.0	3.2	3.0	3.0
6. Investment deflator		2.5	1.0	3.2	3.0	3.0
7. Export price deflator (goods & services)		2.9	3.1	3.0	3.0	3.0
8. Import price deflator (goods & services)		2.2	-0.8	3.4	3.0	3.0

Table 1c: Labour markets developments

	ESA Code	Year 2023	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
		Level	Level/Rate of change				
1. Population (thousands)			3,715.5	3,694.6	3,693.6	3,691.7	3,688.9
2. Population (growth rate in %)			0.1	-0.6	0.0	-0.1	-0.1
3. Working-age population (persons)[1]			2,997	3,002	3,011	3,020	3,028
4. Participation rate			53.3	54.1	54.3	54.3	54.4
5. Employment, persons [2]			1,335	1,405	1,422	1,433	1,441
6. Employment, hours worked[3]			2,878.7	2,936.7	2,996.0	3,068.9	3,135.1
7. Employment (growth rate in %)			4.0	5.3	1.2	0.8	0.6
8. Public sector employment (persons)			320.5	320.5	320.5	320.5	320.5
9. Public sector employment (growth in %)			4.1	0.0	0.0	0.0	0.0
10. Unemployment rate [4]			16.4	13.5	13.0	12.7	12.5
11. Labour productivity, persons[5]		46.2	3.7	3.5	4.7	4.2	4.6
12. Labour productivity, hours worked[6]			4.4	6.8	3.9	2.5	3.0
13. Compensation of employees	D1	27.1	17.9	7.6	10.3	9.0	7.0

Table 1d: Sectoral balances

Percentages of GDP	ESA code	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-5.4	-4.6	-4.2	-4.0	-3.8
of which:						
- Balance of goods and services		-8.6	-7.8	-7.4	-7.3	-7.2
- Balance of primary incomes and transfers		3.0	3.1	3.1	3.2	3.3
- Capital account		0.1	0.1	0.1	0.1	0.1
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-3.3	-2.4	-1.9	-1.5	-1.3
3. Net lending/borrowing of general government		-2.2	-2.4	-2.5	-2.6	-2.6
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
GDP and investment						
GDP *level* at *current* market prices (in domestic currency)	B1g	80.9	90.9	99.2	107.3	116.3
Investment ratio (% of GDP)		21.5	25.1	25.4	25.0	25.0
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-3.4	3.0	3.1	3.1	3.0

	ESA Code	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
2. Industry (excluding construction)		0.1	2.0	8.0	7.7	7.7
3. Construction		15.0	8.7	7.0	7.1	9.0
4. Services		10.9	11.0	5.8	4.5	4.5

Table 1f: External sector developments

Billion Euro unless otherwise indicated		Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
1. Current account balance (% of GDP)	% of GDP	-5.6	-4.7	-4.3	-4.1	-3.9
2. Export of goods	bn EUR	7.5	8.1	8.9	9.6	10.5
3. Import of goods	bn EUR	13.1	14.3	15.6	16.8	18.2
4. Trade balance	bn EUR	-5.6	-6.2	-6.7	-7.1	-7.7
5. Export of services	bn EUR	6.5	7.3	8.1	8.8	9.5
6. Import of services	bn EUR	3.3	3.5	3.9	4.3	4.7
7. Service balance	bn EUR	3.2	3.7	4.2	4.5	4.8
8. Net interest payments from abroad	bn EUR	-2.9	-3.0	-3.1	-3.2	-3.3
9. Other net factor income from abroad	bn EUR	0.7	0.8	0.8	0.9	1.0
10. Current transfers	bn EUR	3.1	3.2	3.3	3.5	3.7
11. Of which from EU	bn EUR	1.2	1.3	1.5	1.7	1.9
12. Current account balance	bn EUR	-1.6	-1.5	-1.5	-1.5	-1.5
13. Capital and financial account	bn EUR	1.7	1.2	1.9	1.9	2.0
14. Foreign direct investment	bn EUR	1.5	1.2	2.0	2.0	2.0
15. Foreign reserves	bn EUR	4.7	4.4	4.8	5.3	5.7
16. Foreign debt	bn EUR	22.14	22.9	22.5	22.1	21.6
17. Of which: public	bn EUR	7.7	7.9	8.2	8.4	8.7
18. O/w: foreign currency denominated	bn EUR	19.6	20.6	20.1	19.7	19.3
19.O/w: repayments due	bn EUR	:	:	:	:	:
21. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	2.8	2.9	2.9	2.9	2.9
p.m. Exchange rate vis-à-vis EUR (annual average)	*%, year-on-year*	*-7.8*	*3.6*	*0.0*	*0.0*	*0.0*
20. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	3.0	3.0	2.9	2.9	2.9
p.m. Exchange rate vis-à-vis EUR (end-year)	*%, year-on-year*	*3.2*	*-0.5*	*-0.5*	*0.0*	*0.0*
22. Net foreign saving	% of GDP	5.6	4.7	4.3	4.1	3.9
23. Domestic private saving	% of GDP	14.2	16.5	17.8	18.1	18.3
24. Domestic private investment	% of GDP	16.9	18.1	19.2	19.5	19.7
25. Domestic public saving	% of GDP	5.2	5.3	4.7	4.2	4.2
26. Domestic public investment	% of GDP	8.1	8.4	7.7	6.8	6.7

Table 1g: Sustainability indicators

	Dimension	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
1. Current Account Balance	% of GDP	-12.4	-10.3	-4.4	-5.6	-4.7
2. Net International Investment Position	% of GDP	-146.4	-147.9	-112.5	-97.1	-95.2
3. Export market shares	%, yoy	-31.6	15.9	23.5	-7.0	1.2
4. Real Effective Exchange Rate [1]	%, yoy	-2.9	1.7	18.7	11.6	-5.4
5. Nominal Unit Labour Costs	%, yoy	-1.7	-2.8	1.2	6.2	-4.3
6. Private sector credit flow	% of GDP	19.3	23.2	21.6	21.8	27.5
7. Private sector debt	% of GDP	77.9	71.8	62.1	65.8	70.2
8. General Government Debt	% of GDP	60.4	49.7	39.3	39.0	36.8

Table 2a: General government budgetary prospects

	ESA code	Year 2023	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-1.8	-2.2	-2.4	-2.5	-2.6	-2.6
2. Central government	S1311	-1.9	-2.3	-2.4	-2.4	-2.4	-2.4
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	0.1	0.1	0.1	-0.1	-0.1	-0.2
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	25.5	31.6	32.5	31.9	31.5	31.2
7. Total expenditure[1]	TE	27.3	33.8	34.9	34.4	34.1	33.8
8. Net borrowing/lending	EDP.B9	-1.8	-2.2	-2.4	-2.5	-2.6	-2.6
9. Interest expenditure	EDP.D41 incl. FISIM	1.2	1.5	1.7	1.8	1.8	1.7
10. Primary balance[2]		-0.6	-0.7	-0.7	-0.7	-0.8	-0.9
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		19.7	24.4	25.6	25.5	25.5	25.5
12a. Taxes on production and imports	D2	10.8	13.4	13.0	13.1	13.0	12.9
12b. Current taxes on income and wealth	D5	8.9	11.0	12.6	12.4	12.5	12.6
12c. Capital taxes	D91	:	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:	:
14. Property income	D4	1.0	1.2	1.0	1.0	0.9	0.9

	ESA code	Year 2023	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
		Level (bn NCU)	% of GDP				
15. Other (15 = 16-(12+13+14)) [4]		4.9	6.0	5.9	5.4	5.0	4.8
16 = 6. Total revenue	TR	25.5	31.6	32.5	31.9	31.5	31.2
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		19.7	24.4	25.6	25.5	25.5	25.5
Selected components of expenditures							
17. Collective consumption	P32	8.6	10.6	11.2	11.4	11.5	11.5
18. Total social transfers	D62 + D63	7.1	8.8	8.9	8.9	9.1	9.1
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	7.1	8.8	8.9	8.9	9.1	9.1
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	1.2	1.5	1.7	1.8	1.8	1.7
20. Subsidies	D3	2.1	2.6	2.6	2.4	2.7	2.7
21. Gross fixed capital formation	P51	7.1	8.8	9.1	8.2	7.2	7.0
22. Other (22 = 23-(17+18+19+20+21)) [6]		1.2	1.5	1.3	1.7	1.8	1.8
23. Total expenditures	TE [1]	27.3	33.8	34.9	34.4	34.1	33.8
p.m. compensation of employees	D1	3.9	4.8	5.5	5.7	5.9	5.9

Table 2b: General government budgetary prospects

	ESA code	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
		bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-1.8	-2.1	-2.5	-2.8	-3.0
2. Central government	S1311	-1.9	-2.2	-2.3	-2.6	-2.8
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	0.1	0.1	-0.1	-0.1	-0.2
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	25.5	29.6	31.7	33.8	36.2
7. Total expenditure[1]	TE	27.3	31.7	34.1	36.6	39.3
8. Net borrowing/lending	EDP.B9	-1.8	-2.1	-2.5	-2.8	-3.0
9. Interest expenditure	EDP.D41 incl. FISIM	1.2	1.5	1.8	1.9	2.0
10. Primary balance[2]		-0.6	-0.6	-0.7	-0.8	-1.0
11. One-off and other temporary measures [3]		:	:	:	:	:
Components of revenues						

	ESA code	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
		bn NCU				
12. Total taxes (12 = 12a+12b+12c)		19.7	23.3	25.3	27.4	29.6
12a. Taxes on production and imports	D2	10.8	11.8	13.0	14.0	15.0
12b. Current taxes on income and wealth	D5	8.9	11.4	12.3	13.4	14.6
12c. Capital taxes	D91	:	:	:	:	:
13. Social contributions	D61	:	:	:	:	:
14. Property income	D4	1.0	0.9	1.0	1.0	1.0
15. Other (15 = 16-(12+13+14)) [4]		4.9	5.4	5.4	5.4	5.6
16 = 6. Total revenue	TR	25.5	29.6	31.7	33.8	36.2
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		19.7	23.3	25.3	27.4	29.6
Selected components of expenditures						
17. Collective consumption	P32	8.6	10.2	11.4	12.4	13.4
18. Total social transfers	D62 + D63	7.1	8.1	8.9	9.7	10.5
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	7.1	8.1	8.9	9.7	10.5
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	1.2	1.5	1.8	1.9	2.0
20. Subsidies	D3	2.1	2.4	2.4	2.9	3.1
21. Gross fixed capital formation	P51	7.1	8.3	8.1	7.7	8.2
22. Other (22 = 23-(17+18+19+20+21)) [6]		1.2	1.2	1.6	1.9	2.1
23. Total expenditures	TE [1]	27.3	31.7	34.1	36.6	39.3
p.m. compensation of employees	D1	3.9	5.0	5.7	6.3	6.8

Table 3: General government expenditure by function

% of GDP	COFOG Code	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
1. General public services	1	3.6	3.8	3.8	3.7	3.6
2. Defence	2	1.7	1.7	1.9	2.0	2.0
3. Public order and safety	3	2.8	2.8	2.8	2.7	2.7
4. Economic affairs	4	8.4	8.3	7.5	7.1	7.1
5. Environmental protection	5	0.8	0.9	0.9	0.8	0.7
6. Housing and community amenities	6	1.4	1.8	1.6	1.5	1.4
7. Health	7	2.3	2.4	2.4	2.4	2.4
8. Recreation, culture and religion	8	1.3	1.3	1.3	1.3	1.3
9. Education	9	4.1	4.4	4.5	4.8	5.0
10. Social protection	10	7.5	7.5	7.6	7.7	7.7
11. Total expenditure (item 7 = 23 in Table 2)	TE	33.8	34.9	34.4	34.1	33.8

Table 4: General government debt developments

% of GDP	ESA code	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
1. Gross debt [1]		39.0	36.8	35.9	35.4	34.9
2. Change in gross debt ratio		-0.3	-2.2	-0.9	-0.5	-0.5
Contributions to change in gross debt						
3. Primary balance [2]		0.7	0.7	0.7	0.8	0.9
4. Interest expenditure [3]	EDP D.41	1.5	1.7	1.8	1.8	1.7
5. Real growth effect		-2.8	-3.1	-2.0	-1.7	-1.7
6. Inflation effect		-1.0	-1.1	-1.0	-1.0	-1.0
7. Stock-flow adjustment		1.3	-0.3	-0.3	-0.4	-0.4
of which:						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		0.7	-0.1	-0.5	-0.4	-0.5
of which:						
- Privatisation proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effects and other [6]		0.5	0.0	0.0	0.0	0.0
p.m. implicit interest rate on debt [7]		4.2	4.8	5.3	5.4	5.3
Other relevant variables						
8. Liquid financial assets [8]		4.5	4.0	3.3	2.7	2.1
9. Net financial debt (9 = 1 - 8)		34.5	32.8	32.6	32.8	32.8

Table 5: Cyclical developments

% of GDP	ESA Code	Year 2023	Year 2024 (Plan)	Year 2024 (Preliminary)	Year 2025	Year 2026	Year 2027
1. Real GDP growth (%, yoy)	B1g	7.8	9.0	9.0	6.0	5.0	5.2
2. Net lending of general government	EDP.B.9	-2.2	-2.4	-1.9	-2.5	-2.6	-2.6
3. Interest expenditure	EDP.D.41	1.5	1.7	1.7	1.8	1.8	1.7
4. One-off and other temporary measures [1]		0.6	0.8	0.8	0.5	0.3	0.3
5. Potential GDP growth (%, yoy)		7.0	7.8	7.8	7.4	5.8	5.5
Contributions:							
- labour		1.3	1.4	1.4	0.9	0.3	0.2
- capital		2.8	4.3	4.3	4.0	3.5	3.3
- total factor productivity		2.9	2.0	2.0	2.5	1.9	2.0
6. Output gap		1.1	2.3	2.3	1.0	0.2	-0.1
7. Cyclical budgetary component		0.6	1.2	1.2	0.5	0.1	0.0
8. Cyclically-adjusted balance (2-7)		-2.8	-3.5	-3.1	-3.0	-2.7	-2.6

% of GDP	ESA Code	Year 2023	Year 2024 (Plan)	Year 2024 (Preliminary)	Year 2025	Year 2026	Year 2027
9. Cyclically-adjusted primary balance (8+3)		-1.3	-1.9	-1.4	-1.2	-0.9	-0.8
10. Structural balance (8-4)		-3.3	-4.3	-3.9	-3.5	-3.0	-2.8

Table 6: Divergence from previous programme

	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
1. GDP growth (%, yoy)					
Previous programme	6.5	5.2	5.0	5.0	:
Latest update	7.8	9.0	6.0	5.0	5.2
Difference (percentage points)	1.3	3.8	1.0	0.0	:
2. General government net lending (% of GDP)					
Previous programme	-3.0	-2.5	-2.3	-2.2	:
Latest update	-2.2	-2.4	-2.5	-2.6	-2.6
Difference	0.8	0.2	-0.2	-0.4	:
3. General government gross debt (% of GDP)					
Previous programme	39.5	38.2	38.0	37.8	37.6
Latest update	39.0	36.8	35.9	35.4	34.9
Difference	-0.5	-1.3	-2.1	-2.4	-2.6

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	29.0	27.8	28.6	30.1
of which:	:	:	:	:	:	:	:
- Age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure	:	:	:	:	:	:	:
- Social security pension	2.4	3.8	4.3	4.2	3.8	3.5	3.7
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	1.2	2.2	3.7	2.1	2.1	2.3	2.5
- Long-term care (this was earlier included in the health care)	:	:	:	:	:	:	:
Education expenditure	2.6	2.8	3.8	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:

% of GDP	2007	2010	2020	2030	2040	2050	2060
Interest expenditure	0.5	0.9	1.6	1.5	0.9	0.8	1.3
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	4.7	3.9	2.2	1.4
Real GDP growth	12.6	6.2	-6.3	5.0	3.5	1.4	1.1
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	14.8%	13.8%	14.9%	17.6%	18.9%	20.8%	23.7%

Table 8: Basic assumptions on the external economic environment

	Dimension	Year 2023	Year 2024	Year 2025	Year 2026	Year 2027
Short-term interest rate	Annual average	5.6%	7.3%	5.4%	4.9%	4.4%
Long-term interest rate	Annual average	6.6%	8.5%	6.6%	6.1%	5.6%
USD/EUR exchange rate	Annual average	1.08	1.09	1.07	1.07	1.07
Nominal effective exchange rate	Annual average	395.9	413.5	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	2.84	2.94	2.94	2.94	2.94
Global GDP growth, excluding EU	Annual average	3.46	3.35	3.19	3.39	3.40
EU GDP growth	Annual average	0.40	0.90	1.50	1.80	3.60
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	81	74.0	74.0	74.0

Table 9a: Social scoreboard indicators

	Data source	2019	2020	2021	2022	2023
Equal opportunities						
1. Adult participation in learning during the last 12 months, age **25-64**	Labor Force Statistics, Geostat	0.8	1.1	1.2	1.6	1.7
2. Share of early leavers from education and training, age **18-24**	Labor Force Statistics, Geostat	9.3	8.2	7.3	6.0	5.3

	Data source	2019	2020	2021	2022	2023
3. Share of population with basic overall digital skills or above, age **16-74**		31.1	29.8	31.5	32.4	34.5
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	26.9
5. Gender gap in employment rate, age **20-64**	Labor Force Statistics, Geostat		14.8	14.6	15.9	15.5
6. Income quintile share ratio - S80/S20	World bank	6.3	5.9	5.9	5.8	
Working conditions						
7. Employment rate, age **20-64**	Labor Force Statistics, Geostat		51.1	50.6	54.0	56.9
8. Unemployment rate, age **15-74**	Labor Force Statistics, Geostat		18.7	20.8	17.4	16.6
9. Long-term unemployment rate, age **15-74**	Labor Force Statistics, Geostat		5.8	7.2	6.7	6.5
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	2019	2020	2021	2022	2023
Other social and healthcare indicators						
1. Public social protection expenditure in % of GDP	Ministry of Finance	6.8	9.5	7.8	6.8	7.5
2. Public healthcare expenditure in % of GDP	Ministry of Finance	2.7	3.8	4.3	3.0	2.3
3. Household out-of-pocket payments as a % of total health expenditure					43%	
4. Percentage of population not covered by health insurance						

	Data source	2019	2020	2021	2022	2023
5. Ratio of doctors per 1000 inhabitants	GEOSTAT, NCDC	8.5	5.8	6.1	6.4	6.6
6. Ratio of nurses per 1000 inhabitants	GEOSTAT, NCDC	5.3	6.0	6.0	6.0	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.	994.6	973.3	1005.9	1045.1	1116.6
Digital economy						
10. Percentage of households with broadband access (mobile and fixed)	Geostat	79.3%	83.8%	86.1%	88.4%	89.0%
11. Share of total population using internet [NB: population 16-74]						
Energy						
12. Energy imports dependency (%)		80.7	80.6	78.2	79.6	80.1
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	KGOE, GEOSTAT	383.2	445.9	463.1	365.1	309.4
14. Share of renewable energy sources (RES) in final energy consumption (%)	GEOSTAT	21.8%	20.7%	22.7%	21.4%	21.8%
Transport						
15. Railway Network Density (meters of line per km2 of land area)	GEOSTAT	34.9	34.9	34.5	34.5	34.5
16. Motorization rate (Passenger cars per 1000 inhabitants)	Ministry of Internal Affairs	304.0	319.0	343.0	357.0	389
Agriculture						
17. Share of gross value added (Agriculture, Forestry and Fishing)	Geostat, National Accounts	8.4%	9.5%	8.3%	7.6%	6.9%
18. Share of employment (Agriculture, Forestry and Fishing)	Geostat, Labor Force Statistics	19.1%	19.8%	18.9%	17.9%	16.5%
19. Utilised agricultural area (% of total land area)						
Industry (except construction)						
20. Share of gross value added	Geostat, National Accounts	14.3%	15.4%	16.9%	16.5%	14.1%
21. Contribution to employment (% of total employment)	Geostat, Labor Force Statistics	11.3%	11.4%	11.3%	11.9%	12.2%
Services						
22. Share of gross value added	Geostat, National Accounts	68.7%	66.3%	67.5%	67.9%	71.4%

	Data source	2019	2020	2021	2022	2023
23. Contribution to employment (% of total employment)	Geostat, Labor Force Statistics	61.7%	61.9%	62.1%	61.8%	62.4%
Business Environment						
24. Rank in Global Competitiveness Index (Source: World Economic Forum)	World Eocnomic Forum	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)	World Bank	0.29%	0.33%	0.29%	0.27%	0.29%
27. R&D expenditure – EUR per inhabitant	World Bank, Geostat	12.1	11.3	10.9	15.1	
Trade						
28. Export of goods and services (as % of GDP)	Geostat, National Accounts	54.3%	36.9%	42.7%	52.5%	49.3%
29. Import of goods and services (as % of GDP)	Geostat, National Accounts	63.5%	56.0%	58.9%	62.2%	57.9%
30. Trade balance (as % of GDP)	Geostat, National Accounts	-9.2%	-19.1%	-16.3%	-9.7%	-8.6%

Table 10a: Costing of structural reform measure:

Thousand Euro

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year 2025	135,000.0	2,500.0	18,100.0	996,600.0	1,152,200.0
Year 2026	145,000.0	2,400.0	18,200.0	1,077,000.0	1,242,600.0
Year 2027	155,000.0	2,250.0	18,300.0	1,113,678.6	1,289,228.6
Reform Measure #1	**Domestic Capital Market Development**				
Year 2025	0.0				0.0
Year 2026	0.0				0.0
Year 2027	0.0				0.0
Reform Measure #2	**Improved food security through upgraded irrigation and drainage systems**				
Year 2025		1,700.0		22,000.0	23,700.0
Year 2026		1,900.0		59,000.0	60,900.0
Year 2027		2,100.0		63,000.0	65,100.0
Reform Measure #3	**Renewable Energy and Energy efficiency**				
Year 2025		800.0		49,600.0	50,400.0
Year 2026		500.0		53,000.0	53,500.0
Year 2027		150.0		60,000.0	60,150.0

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Reform Measure #4	Enhanced Connectivity				
Year 2025				625,000.0	625,000.0
Year 2026				650,000.0	650,000.0
Year 2027				670,678.6	670,678.6
Reform Measure #5	Improved Healthcare of the Population				
Year 2025			18,100.0		18,100.0
Year 2026			18,200.0		18,200.0
Year 2027			18,300.0		18,300.0
Reform Measure #6	Education				
Year 2025	135,000.0			300,000.0	435,000.0
Year 2026	145,000.0			315,000.0	460,000.0
Year 2027	155,000.0			320,000.0	475,000.0

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
2025	735,550.0	20,000.0	0.0	0.0	4,500.0	392,150.0		1,152,200.0
2026	892,000.0	30,000.0	0.0	0.0	4,100.0	316,500.0		1,242,600.0
2027	955,128.6	35,000.0	0.0	0.0	3,500.0	295,600.0		1,289,228.6
Reform Measure #1	Domestic Capital Market Development							
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
2027	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							
2025	11,950.0					11,750.0		23,700.0
2026	37,900.0					23,000.0		60,900.0
2027	40,100.0					25,000.0		65,100.0
Reform Measure #3	Renewable Energy and Energy efficiency							
2025	5,000.0				1,000.0	44,400.0		50,400.0
2026	4,300.0				700.0	48,500.0		53,500.0
2027	9,050.0				500.0	50,600.0		60,150.0
Reform Measure #4	Enhanced Connectivity							
2025	315,000.0					310,000.0		625,000.0
2026	440,000.0					210,000.0		650,000.0

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2027	490,678.6					180,000.0		670,678.6
Reform Measure #5	Improved Healthcare of the Population							
2025	18,100.0							18,100.0
2026	18,200.0							18,200.0
2027	18,300.0							18,300.0
Reform Measure #6	Education							
2025	385,500.0	20,000.0			3,500.0	26,000.0		435,000.0
2026	391,600.0	30,000.0			3,400.0	35,000.0		460,000.0
2027	397,000.0	35,000.0			3,000.0	40,000.0		475,000.0

ANNEX 2:

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2024	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 Partnership - Georgia*
Measure 1: Domestic Capital Market Development	*Key challenge #1: Addressing key factors behind low competitiveness linked to a dominance of low value added sectors in the economy and exports, low productivity in agriculture, informality and shortcomings in economic governance*	*ERP Guidance area: Competitiveness- iii. Economic Integration Reforms*	*continue to implement prudent fiscal and monetary policies and ensure that the 2024 budget; further develop the non-banking segments of the financial sector, including by implementing the capital market development strategy, in particular by increasing the quantity and types of government securities in local currency, and by developing the insurance market. deficit is within the target set in the budget law, adopt and start to implement the medium- term revenue strategy, improve the analysis of tax*	***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*	**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 2024	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 Partnership - Georgia*
			expenditures and prepare recommendations to implement its findings, and improve fiscal oversight and governance of state-owned enterprises;	*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.*				
Measure 2: Improved food security through upgraded irrigation and drainage systems	*Key challenge #1: Addressing key factors behind low competitiveness linked to a dominance of low value added sectors in the economy and exports, low productivity in*	*ERP Guidance Area: Competitiveness - iv. Agriculture, Industries and Services;*	*stimulate innovation and make efforts to increase exports of higher value-added goods and services, in particular through facilitating certification, compliance with sanitary and phytosanitary*	***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*	**Reform measure is tagged as Climate adaptation related area in the Programme Budget for 2024-2027. Reform measures will increase the efficiency in*			

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2024	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 Partnership - Georgia*
	agriculture, informality and shortcomings in economic governance		*standards, export promotion, logistics and the development of the necessary infrastructure for exports;* *improve the implementation by regional and local services, as well as industries, of the aligned legislation, which is concerned with ensuring producers and food business operators comply with the Hazard Analysis Critical Contact Point (HACCP) system;*	*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 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*	*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 2024	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 Partnership - Georgia*
				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	Key challenge #2: Enhancing connectivity in particular by strengthened energy system, further development of transport infrastructure and digital reforms.	*ERP Guidance Area: Sustainability and resilience - i. Green Transition;*	*Further develop its ports, railways, roads and the necessary energy infrastructure, as well as improve the quality of assessment of public investment projects; ensure the opening of the organised electricity market in*	***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*	**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*			*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 2024	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 Partnership - Georgia*
			line with the requirements of the Energy Community acquis, and finalise the adoption of all necessary legislative amendments for transmission system operator (TSO) unbundling and for the unbundling of the distribution system operator (DSO) level in gas; *→ accelerate the transposition and implementation of applicable provisions from the Electricity Integration Package;* *→ adopt amendments to the renewable energy Law to fully transpose and implement the Renewable Energy Directive II (REDII). align with the Regulation on guidelines for trans-*	*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*	*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 2024	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 Partnership - Georgia*
			European energy infrastructure as adapted and adopted by the Decision of the Energy Community Ministerial Council in December 2023.	*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.*				
Measure 4: Enhanced Connectivity	*Key challenge #2: Enhancing connectivity in particular by strengthened energy system, further development of transport infrastructure and digital reforms.*	*ERP Guidance Area: Sustainability and resilience - ii. Digital Transformation; iv. Transport Market Reforms;*	Further develop its ports, railways, roads and the necessary energy infrastructure, as well as improve the quality of assessment of public investment projects; stimulate innovation and make efforts to increase exports of higher value-added goods and services, in particular through facilitating certification, compliance with	***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*	**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*

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2024	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 Partnership - Georgia*
			sanitary and phytosanitary standards, export promotion, logistics and the development of the necessary infrastructure for exports; further align with the relevant EU acquis e.g.on the procedures for checks on the transport of dangerous goods by road or on the social and market rules for road transport; → improve the safety of its infrastructure (road construction and maintenance), as well as the safety of road users through proper enforcement and education and awareness-raising campaigns to reduce the currently high number of road accidents and fatalities;	*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 digital help with better employment options and easier movement*	*environment and climate as well.*			*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 2024	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 Partnership - Georgia*
			→ complete the institutional framework (independent regulatory body and national investigation body) for rail transport. improve the performance of the rail and road networks in terms of quality, capacity and safety, taking into account the new requirements in the revised TEN-T regulation;	*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.*				
Measure 5: Improved Healthcare of the Population	*Key challenge #3: Addressing weaknesses in Georgian labour market including by improving the quality and relevance of education and professional skills development, and strengthening the social protection*	*ERP Guidance Area: Social policy and human capital - iiv. Healthcare; ;*	*further align consumer and health protection laws with the EU acquis and ensure their effective enforcement;*	***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*				

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2024	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 Partnership - Georgia*
	system and healthcare services.			*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 and addressing the needs for most vulnerable groups by targeted services while improving the universal healthcare coverage.*				
Measure 6: Education	*Key challenge #3: Addressing weaknesses in Georgian labour market including by*	*ERP Guidance Area: Social policy and human capital- i.*	*Further improve the quality and inclusiveness of education and training to ensure*	***SDG: 4 - Quality Education, 8 - Decent work and economic growth, 9 - 9 Industry, Innovation and***				

Reform measures ERP 2024-2026	Key structural challenges (Commission assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2024	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 Partnership - Georgia*
	improving the quality and relevance of education and professional skills development, and strengthening the social protection system and healthcare services.	*Education and Skills;*	*that their outcomes align with labour market needs, in particular by accelerating reforms of vocational education and training, revising the secondary education curricula, and improving teachers' professional development.* *adopt and start to implement the 2024-2028 Vocational education and training strategy;* *→ start to implement the 2024-2030 strategy for professional orientation, counseling, and career guidance;* *→ improve public consultation and civil dialogue on culture.*	***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.***				

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 economy	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						
	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		
									3.8 Culture	3.5 Migration of Labour Force		

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 economy	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
									3.9 Sports			
4. Public Administration		4.1 Public Administration										