



საქართველოს ფინანსთა სამინისტრო

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# Current Economic Trends

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July, 2017

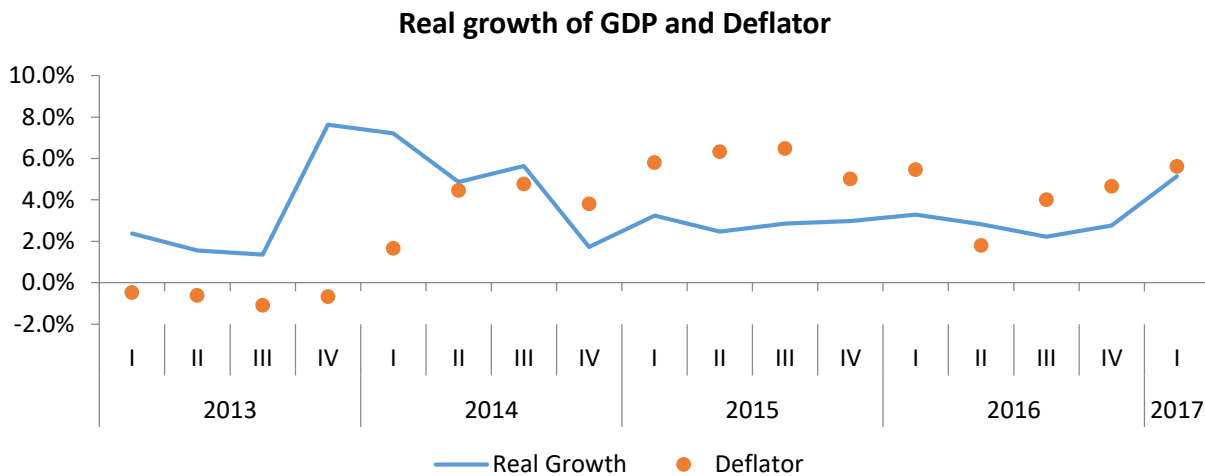
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## Gross Domestic Product (GDP)

In 2015, economic growth in Georgia was 2.9 percent due to the external shocks in the region and slowed global economic growth.

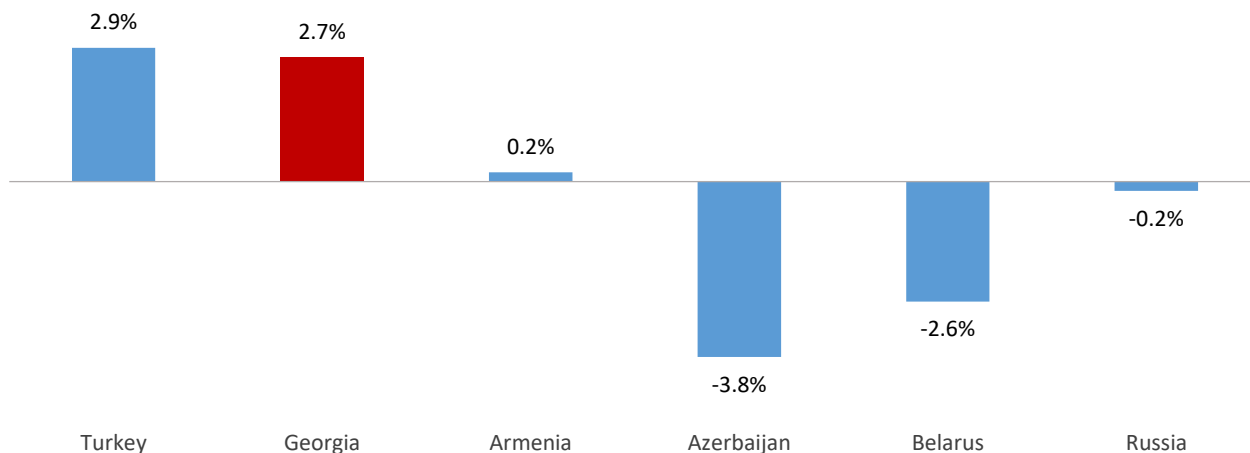
According to preliminary data, real yearly growth of 2016 amounted to 2.7 percent, while for the first quarter of 2017 growth was 5.1 percent.



## Economic Growth in Georgia and Neighboring Countries

Economic activity of the region has declined by the end of 2016 and resulted in reduced economic growth of all countries. As noted above, according to the preliminary estimates, the growth rate in Georgia in 2016 was 2.7 percent and which makes it the one of the leading economies in the region.

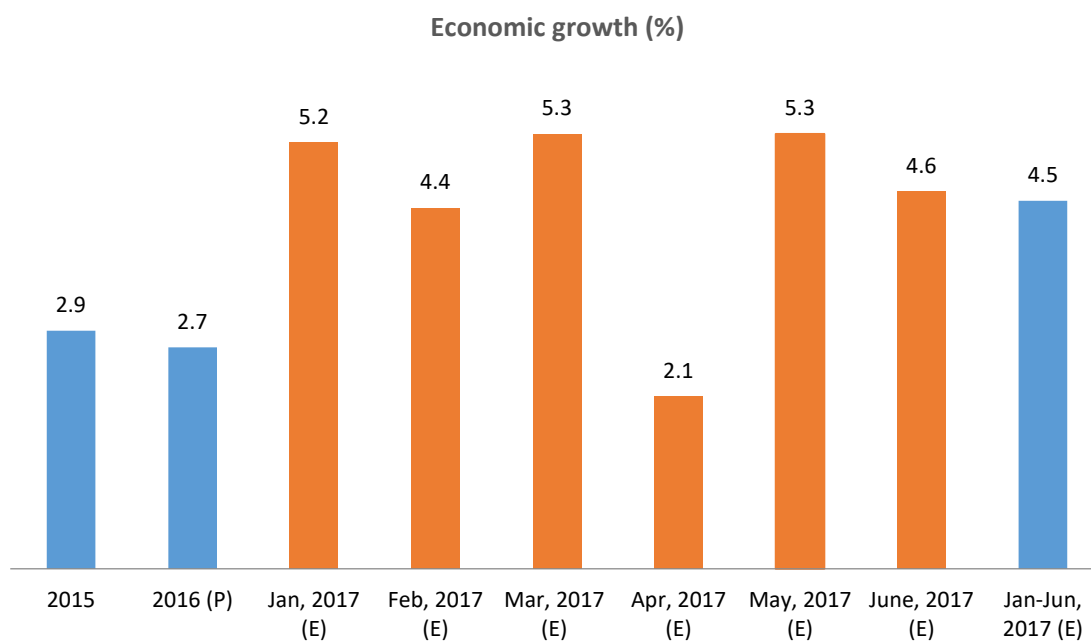
### Economic Growth of 2016 (Preliminary Data)



According to the rapid estimates in January 2017 real GDP y-o-y growth stood at 5.2%, in February the growth rate was 4.4%, in March it reached 5.3%, in April – 2.1%, in May – 5.3% and in June – 4.6%. Overall in the six months economy has increased by 4.5% compared to the last period, while in the second quarter economic growth was 4.0%.

For the first quarter, the main growth was in the following sectors: construction (growth 21.6, contribution 1.5%), manufacturing (growth 8.0, contribution to real growth 0.9%), transport (growth 5.2, contribution 0.5%), communication (growth 11.5, contribution 0.5%), community, social and personal service activities (growth 7.9, contribution 0.4%), hotels and restaurants (growth 8.7, contribution 0.3%), finance (growth 6.8, contribution 0.3), health and social work (growth 5.6, contribution 0.3%).

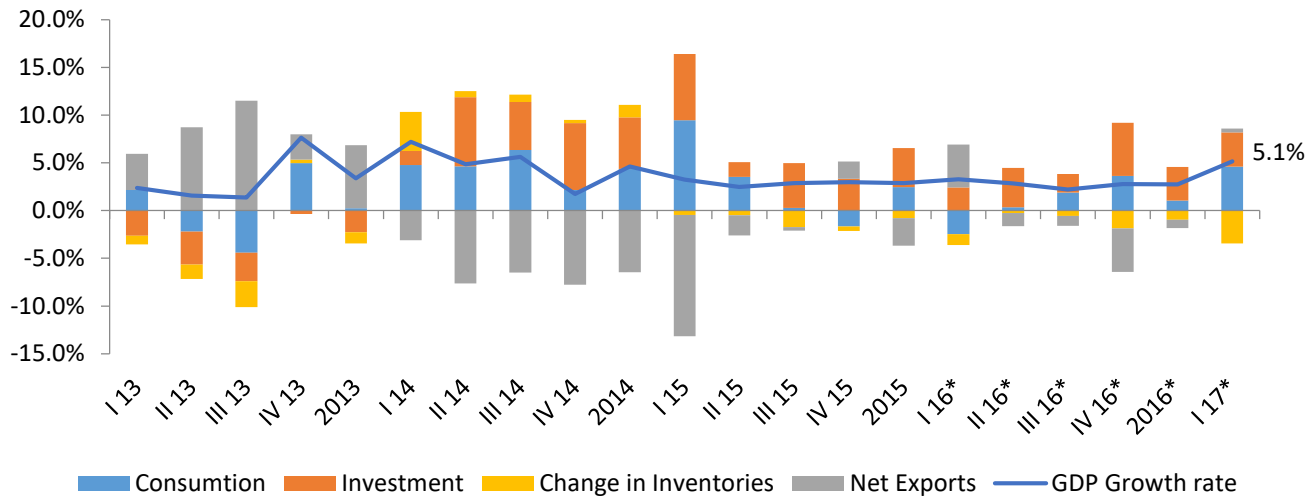
For June the main growth was in the following sectors: construction (growth 8.8, contribution 0.6%), manufacturing (growth 8.5, contribution to real growth 0.5%), hotels and restaurants (growth 13.9, contribution 0.2%), transport (growth 4.8, contribution 0.1%), trade (growth 3.6, contribution 0.1%), finance (growth 7.0, contribution 0.1), community, social and personal service activities (growth 7.1, contribution 0.1%).



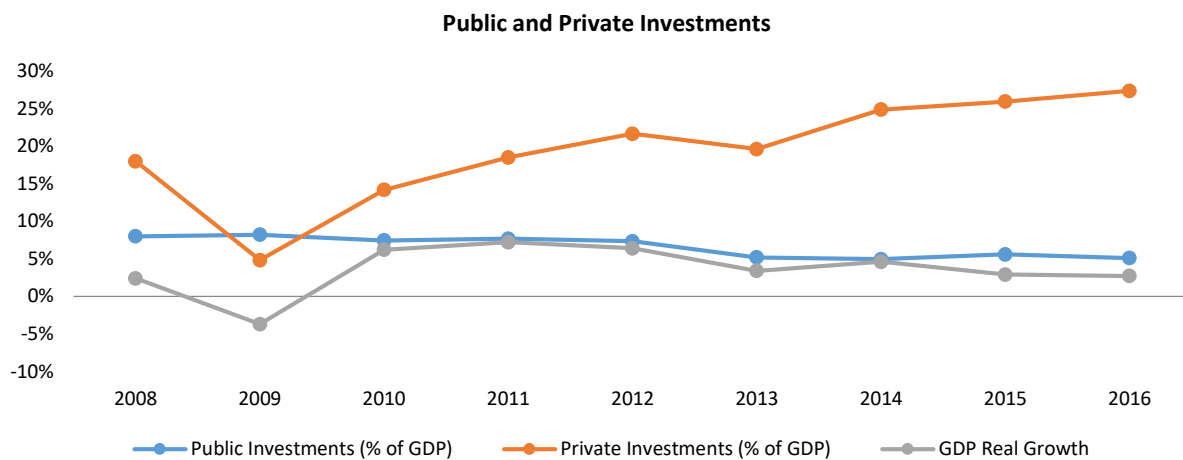
## Structure of Economic Growth

Economic growth of 2016 was 2.7 percent, in which the main contributor (3.5%) was investment. Growth was positively affected by the consumption, but its contribution was 1.1%. real consumption was increased by only 1.2 percent compared to the last year, due to increased costs of debt service given high dollarization level in the country. Net export influenced to the economic growth negatively (-0.9%), that can be explained by external demand shock.

Economy has started recovery from 2017. Shocks are offered in the trade partners, as a result, export and money transfers has increased, nominal effective and GEL/USD exchange rate has stabilized, which lead to improve expectations and was positively affected to export, consumption and economic growth overall. In total, economic growth was 5.1 percent in the first quarter, in which consumption has 4.6 percent contribution, investment 3.6, net export 0.4 and stock change -3.4. In the second quarter, economic growth is announced at 4.0%.



Traditionally, private investments are a main leading of total investments.

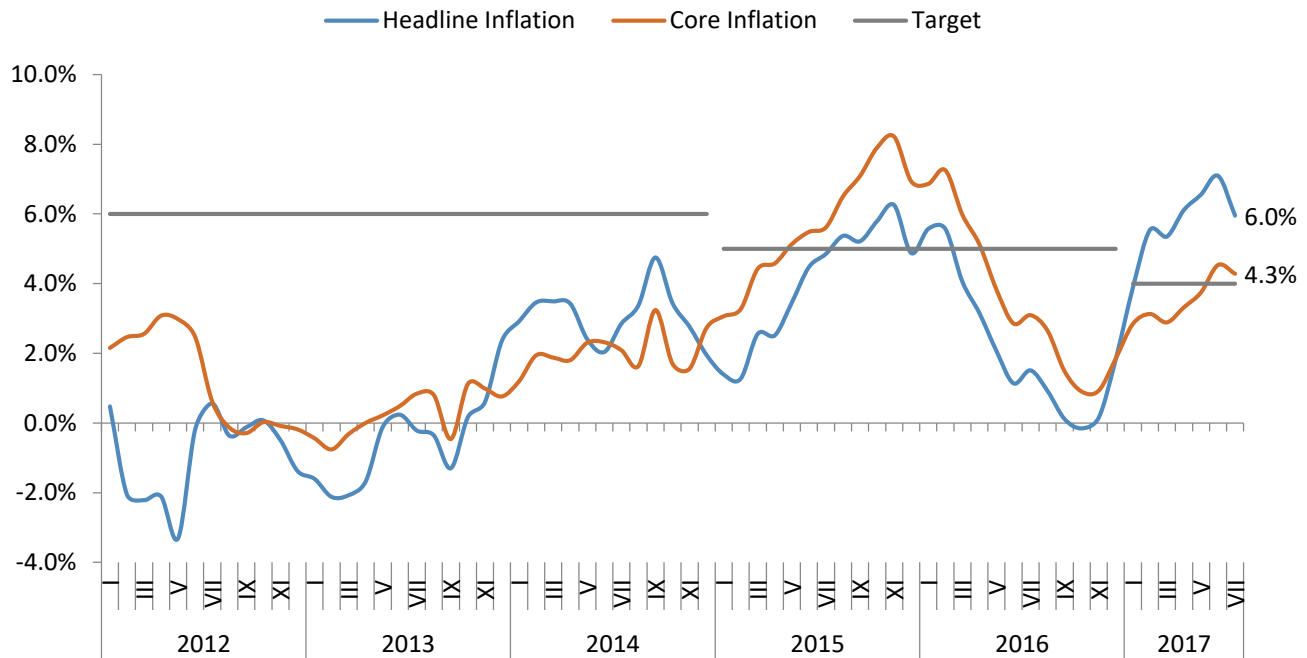


## Prices

National Bank of Georgia has relied on inflation targeting. In 2016, inflation target of the National Bank of Georgia (NBG) was 5.0 percent. Although the annual inflation by the end of 2015 was 4.9 percent, in 2016 there was a declining trend in inflation. Starting from August 2016, inflation was lower than 1 percent. In December 2016, inflation rate increased to 1.8 percent. As a result, in 2016, inflation was significantly lower than its target and amounted to 2.1 percent, which was mainly determined by expectations of reduced inflation and lower imported inflation: rapidly declining of oil and food prices. In addition, core

inflation amounted to 1.8 percent<sup>1</sup>.

From 2017 the inflation target set at 4.0 percent. In July 2017, consumer price index in Georgia increased by 6.0 percent. Core inflation in the same period was 4.3 percent and average annual inflation was at 3.6 percent level.



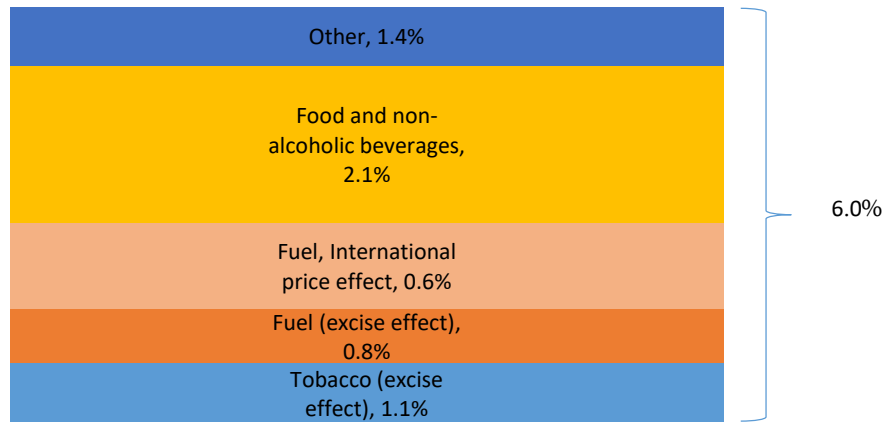
Price changes on the following groups of products contributed to formation of yearly inflation:

- Food and non-alcoholic beverages: prices increased 7.1 percent contributing 2.14 percentage points to the annual inflation. Prices were up for: vegetables (25.6 percent), fruit and grapes (15.9 percent), milk, cheese and eggs (9.3 percent), meat (9.1 percent), coffee, tea and cocoa (5.6 percent), oils and fats (5.5 percent), fish (4.4 percent);
- Transport: prices in the group increased 12.6 percent, contributing 1.61 percentage points to the annual inflation. The prices were up for the subgroups of operation of personal transport equipment (18.0 percent), purchase of vehicles (4.0 percent) and transport services (3.4 percent);
- Alcoholic, beverages and tobacco: prices increased 17.3 percent, with a relevant contribution of 1.13 percentage points to the overall index growth. Prices within the group were higher for tobacco (37.1 percent) and alcoholic beverages (1.3 percent);

<sup>1</sup>Inflation net of energy, food and administered tariffs.

- Health: prices were up 6.9 percent, which resulted in a 0.62 percentage point contribution to the overall annual inflation. Prices increased for subgroups of medical products, appliances and equipment (18.1 percent) and out-patient services (5.5 percent).

Inflation is mainly driven by one-offs.



## The Role of Private Sector in Economic Growth

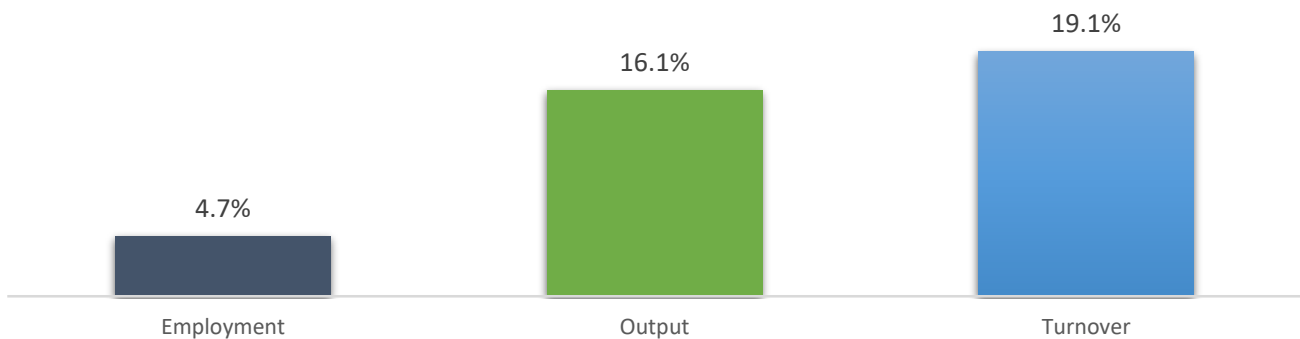
Private sector had a leading role in economic growth of the country in 2015 and the trend continued in 2016 as well. Real value added by the business sector in 2015 compared to the previous year increased by nine percent.

Turnover of the business sector has increased by 13.3 percent during 2016. At the same period, the value of industrial production increased by 14.6 percent compared to the first three quarters of 2015. Turnover of the business sector has increased by 19.1% in the first quarter of 2017 compared to the same period of 2016. The growing tendency has production and is 16.1% higher than the first quarter of 2016.

In 2016, 36.3 thousand more people were employed in business sector compared to the previous year. Total employment reached 621 thousand. In the first quarter of 2017 605.0 thousand people were employed which is 4.7% higher compared to the previous year.



### Business Sector, 2017 Q1

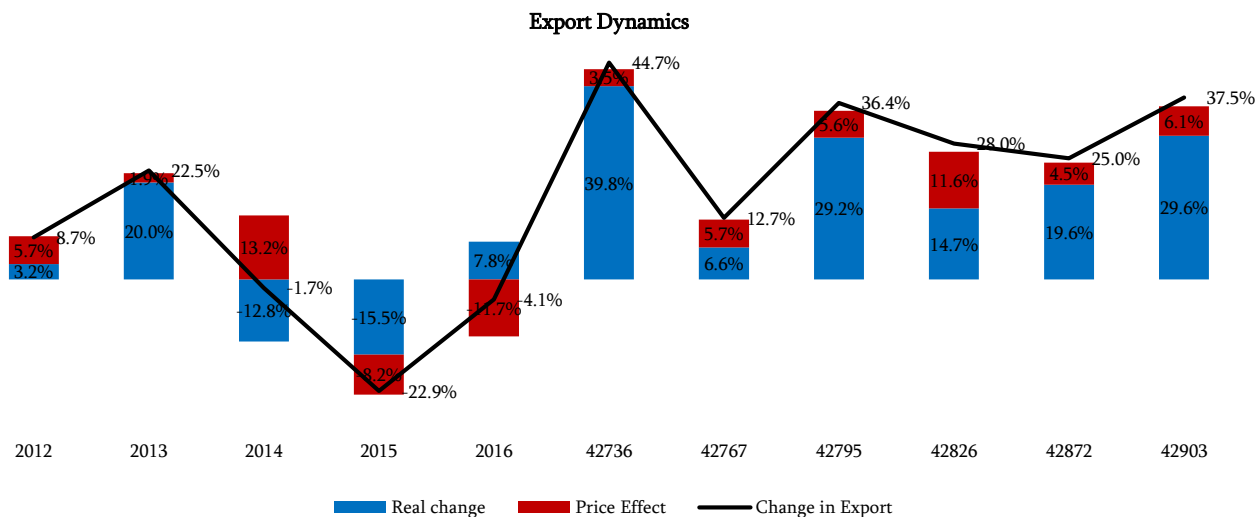


### External Trade

Export has started to decline from August 2014. The tendency reversed in the third quarter of 2015 when price effect was dominating in export reduction and export stopped to decline in real terms.

During 2016 export was increasing in real terms. In the first quarter export increased by around 7.0 percent, while in the fourth quarter real growth was 10.5 percent. As a result, real export increased by 7.8 percent in 2016 after declining trend for two year. Positive growth in nominal terms at 8.3 percent took place in September, while nominal export increased slowly, by 0.8 percent in October. The growth amounted to 16.8 percent in November, while in December export in nominal terms increased by 5.1 percent compared to the same period of the previous year. Export declined by 4.1 percent in nominal terms throughout the year.

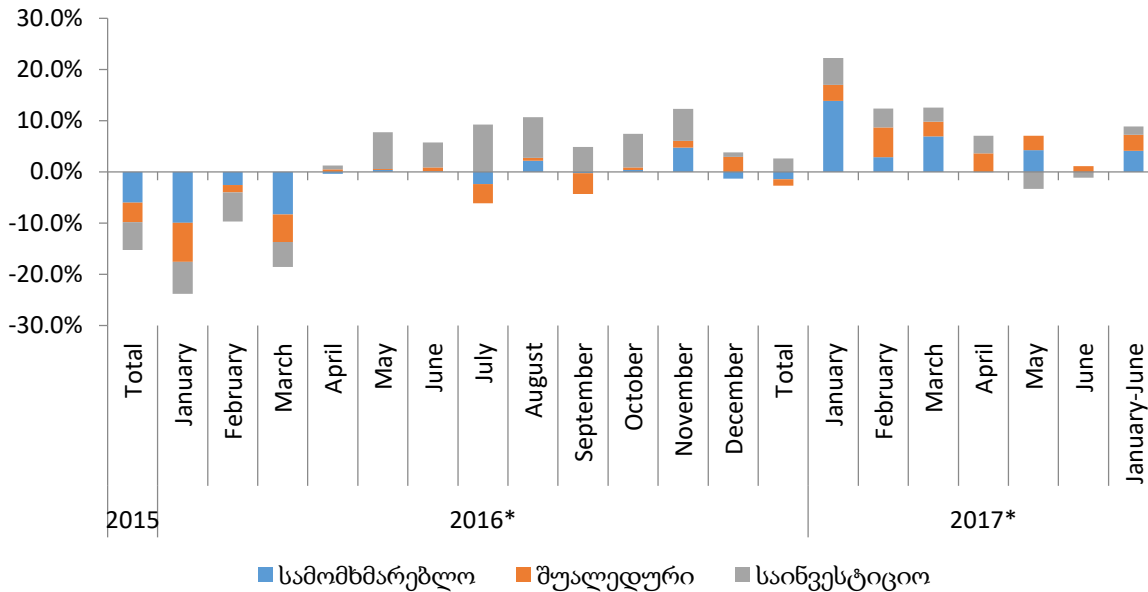
In January 2017, there was a sharp increase in export and amounted to 44.7 percent, in February 13.0, in March 36.4 percent, in April 28.0 percent, in May 25.0 percent and in June – 37.4 percent. In total growth of exports in January-June amounted 30.1 percent in nominal term. Sharp increase was observed in Ferro-alloys (contribution in growth 8.3%), Copper ores and concentrates (contribution in growth 7.2%), Wine of fresh grapes (contribution in growth 2.6%), and Medicaments (contribution in growth 1.9%), oil and oil products (contribution in growth 1.4%). From the first six months data, export of goods increased by 30.1%, which mainly comes from real growth of exports (29.6% in June).



Import adjustments resulting from currency depreciation started in the second quarter of 2015 and import declining dynamics continued to May 2016. Since May, significant growth of import of investment goods, which was mainly caused by growth of machinery import (including generators, medical equipment, calculating machines, industrial equipment, etc.), contributed to growth of total import. In addition, growth of intermediary goods import (including machinery parts, fuel and lubricants) was high periodically. During the last three months, consumption goods import had a significant share in total import growth, which is linked to petroleum import. During the year, only investment goods import had a positive share in total import growth.

In January-June 2017 there was observed 8.8 percent growth in imports. High growth was in import of consumption goods, which is mainly due to fuel import. Significant growth was in intermediate and investment product import as well, which has 1.6% contribution in growth of six months.

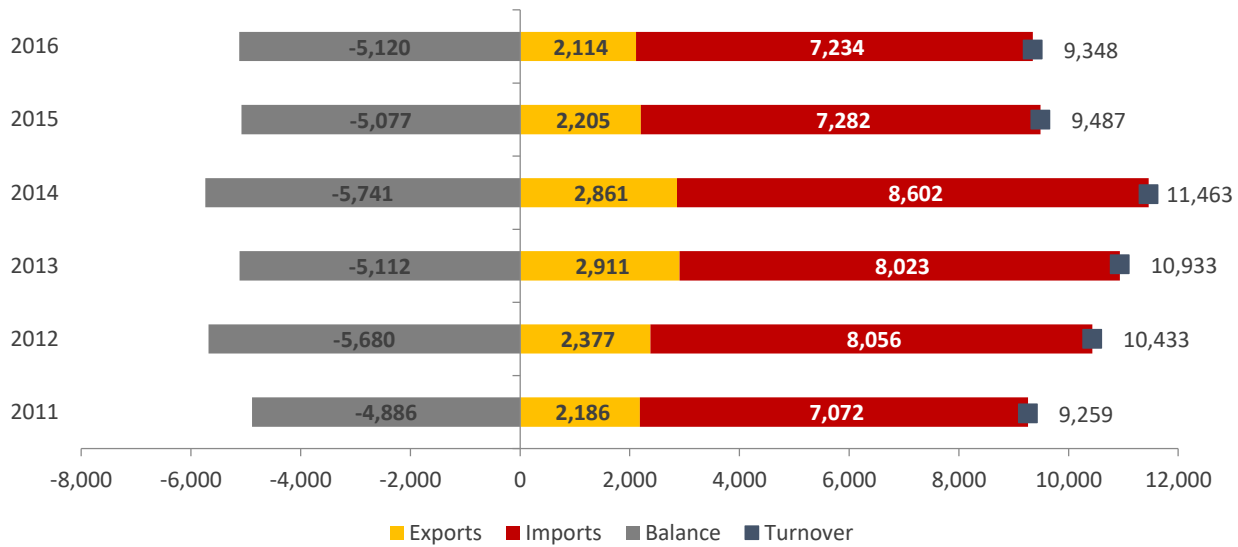
## Decomposition of Import Dynamic



In 2016 export declined by 4.1 percent compared to the same period of 2015 and amounted to USD 2,114 million. Export excluding re-export amounted to USD 1,658 million in the same period, which is by 1.0 percent higher compared to the same period of the previous year. Import declined by 0.7 percent and amounted to USD 7,234 million<sup>2</sup>. In total, there is deterioration of trade balance by USD 43 million.

<sup>2</sup>Excluding imports of medicaments for C hepatitis.

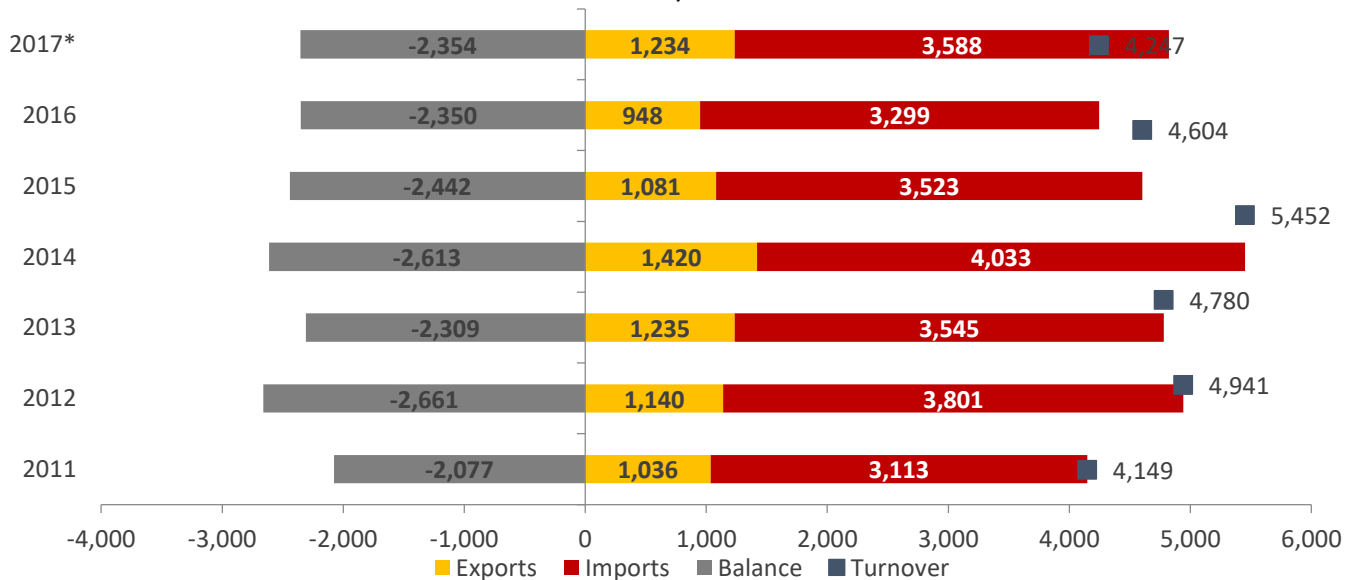
### External Trade (mln USD)



To sum up dynamics in trade with goods, in six months of 2017 exports have increased by 30.1 percent. This constitutes 286 million USD in nominal terms. At the same time growth in imports amounted to 8.8 percent or 289 million USD. As a result, trade balance deteriorated by around 3 million USD as compared to the same period of 2016.

### External Trade (mln USD)

January-June

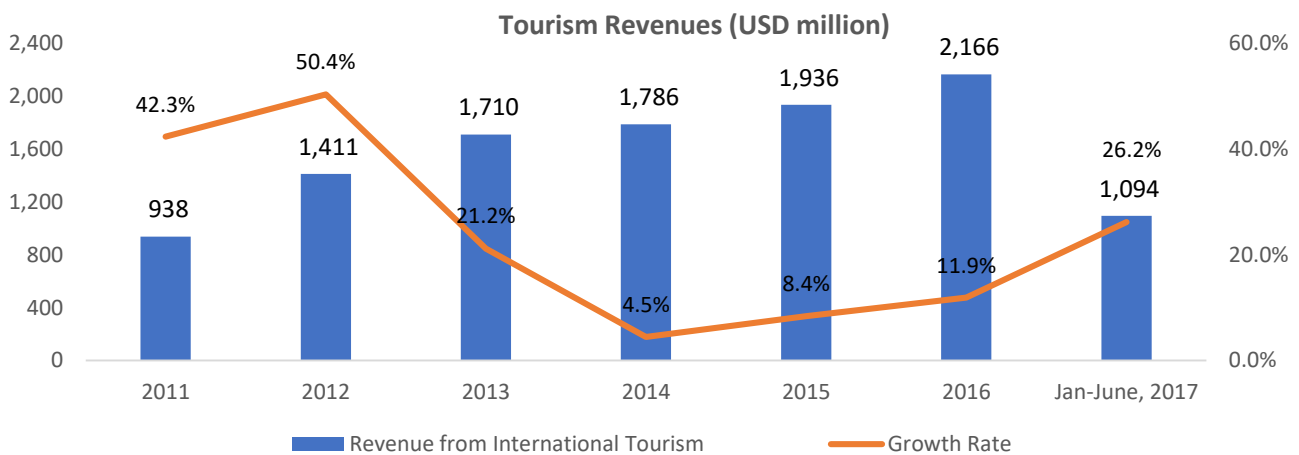


## Tourism

In 2016, revenues from international tourism increased by 11.9 percent and generated by around USD 230 million more foreign exchange inflow compared to the previous year.

In 2016, international tourism revenues exceeded USD 2 billion for the first time. During the last five years tourism has formed as one of the important sectors of the economy.

During the first six months of 2017, there were 2,996 thousand visitors in Georgia, which was 13.7 percent higher than in the previous year. Tourism revenues in six months amounted to around USD 1 094 million which is by 26.2 percent greater than the last year.



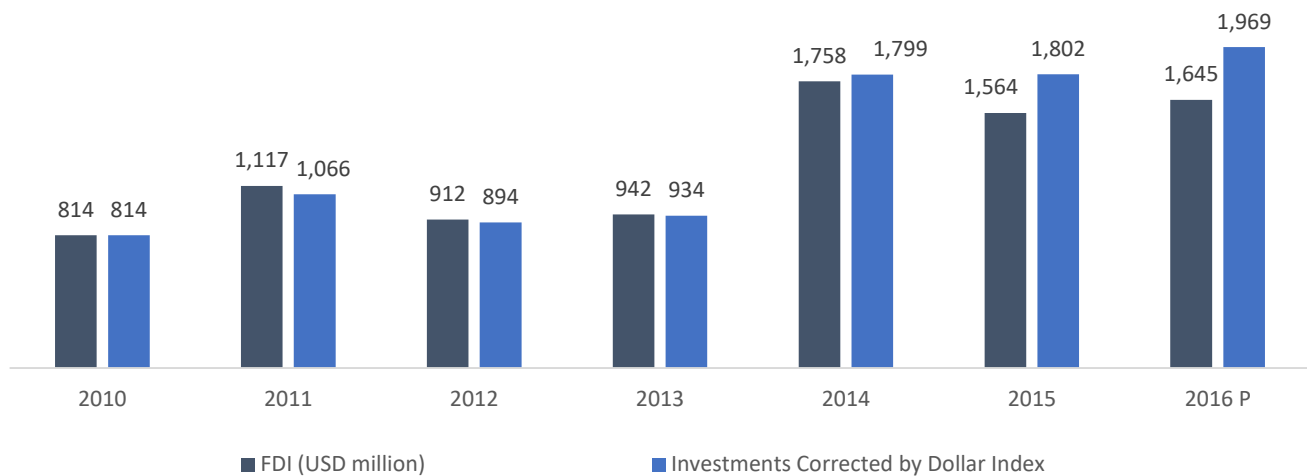
## Foreign Direct Investments (FDI)

During the last three years, Foreign Direct Investments has improved significantly in Georgia. In 2016 FDI was USD 1,645 million, which is by 5.2 percent higher compared to 2015.

According the preliminary data FDI for the first quarter of 2017 was USD 403.3 million, which is 3.7 percent higher compared the same period of the last year.

Real growth rate of FDI is even more impressive. Taking into account dynamics of dollar appreciation, real growth rate of dollar denominated FDI are limited. For more precise number, it is important to correct FDI by dollar index. Considering such correction, FDI growth was 9.2 percent in 2016 compared to the previous year.

### Foreign Direct Investments



In 2016, investments in transport and communication contributed with the highest share of 39.2 percent to total FDI, while the shares of other sectors are: energy sector – 12.3 percent, construction – 9.9 percent, financial sector – 8.3 percent, manufacturing – 7.3 percent, hotels and restaurants – 6.7 percent, real estate - 4.2 percent.

As for 2017, according to the preliminary data, for the first quarter the highest share to total FDI had transport and communication - 35 percent, real estate – 19.9 percent, finance sector – 19.7 percent, construction – 13.8 percent, hotels and restaurants – 3.9 percent, mining – 2.1 percent, energy – 1.7 percent.

For the first quarter of 2017, investments from OECD countries amounted 41.9 percent of total FDI.

There is improvement in FDI diversification by investing in new sectors. For instance, in 2015, there was rapid growth of investments in healthcare compared to the previous years. There was growth investment in energy sector in 2016 compared to 2015 and it amounted 12.3 of total FDI.

During the 2016, investments from OECD countries amounted 46.5 percent of total FDI.

The biggest investors by FDI in Georgia are Azerbaijan with 35.2 percent, Turkey with 16.6 percent and the UK with 7.3 percent shares.

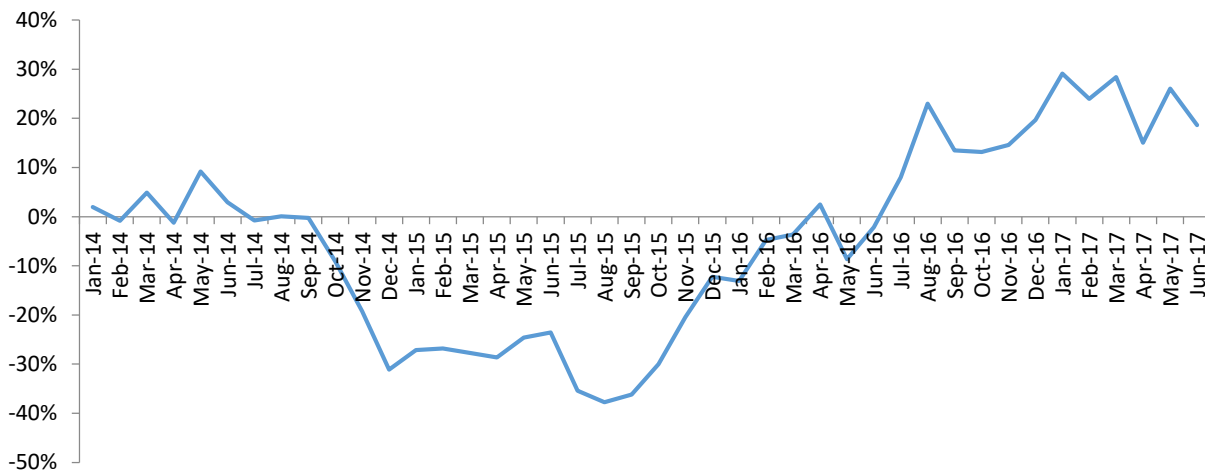
It is important that in 2016 the highest indicator was recorded in case of reinvestments amounting to 32 percent of total FDI, which demonstrates that the government's economic policy and improved business environment is positively perceived by investors and more investors decided to extend their business plans in Georgia. The current economic policies and the reforms are prerequisites for maintaining of the high levels of reinvestment in subsequent periods and for increasing it in the medium and long term.

## Money Transfers

Starting from the second half of 2016, amount of money transfers is increasing dramatically. Despite the declining trend in the first five month of the year, money transfers increased by 8 percent in July, by 23.0 percent in August (the highest in 2016), by 14.6 in November and by 19.7 percent in December. Net money transfers increased by 5.3 percent in total in 2016 compared to 2015.

In January 2017, net money transfers increased by 29.1 percent, in February the number amounted to 23.9 percent, 28.4 percent in March, 15.1 percent in April, 26.1 percent in May and in June 18.6 percent. In January-June, net money transfers were 23.1 percent higher compared to the same period of 2016.

**Net Money Transfers Dynamics**



During the January-June, inflow of foreign currency from remittances has increased by USD 99.9 million as compared to the same period of 2016.

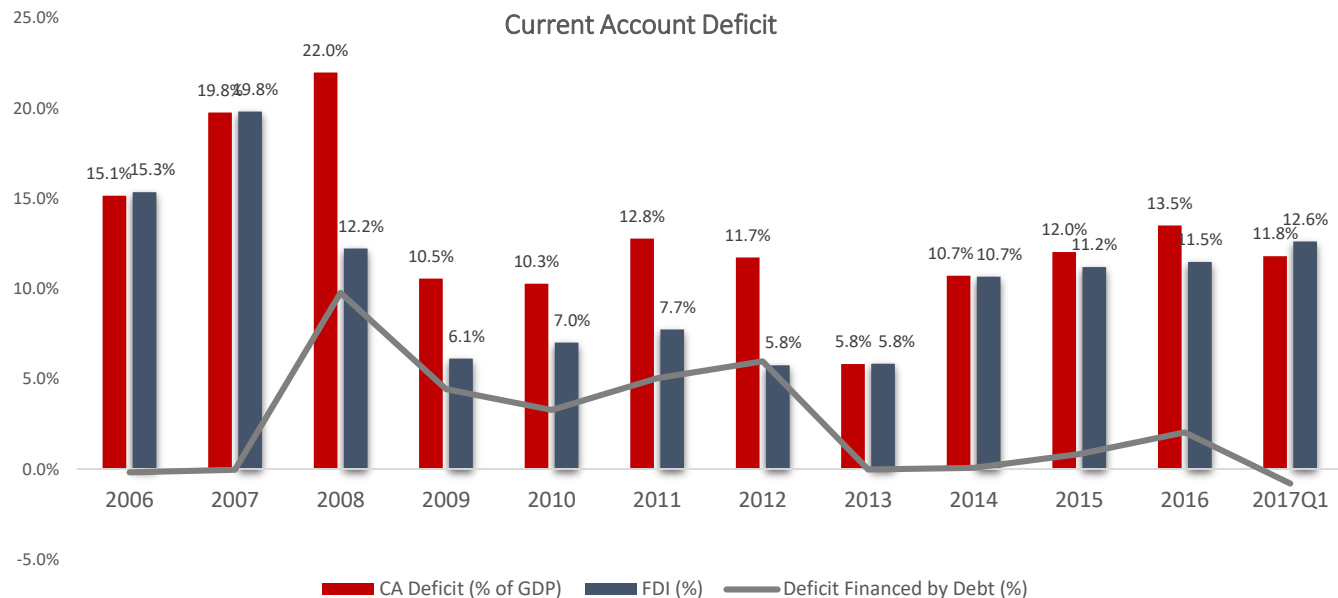
To sum up, during the first six months of 2017, foreign inflows through the exports with goods and tourism and remittances increased by 613.2 million of USD. At the same time, increase in outflow on imports totaled 289.5 million of USD. Accordingly, positive pressure on CA was observed in the first six months of 2017.

## Current Account (CA) Balance

High deficit of current account balance is one of the main vulnerabilities of Georgian economy.

In 2014, CA deficit was 10.7 percent of GDP and amounted to USD 1,769 million. In 2015, CA deficit improved in nominal terms. However, due to decrease in USD denominated nominal GDP resulting from

the foreign exchange depreciation, the ratio deteriorated. In 2015, CA deficit was 12.0 percent of GDP. In 2016, USD denominated nominal GDP has increased, but also CA deficit has deteriorated in nominal terms. As a result, the CA deficit to GDP for 2016 was 13.5 percent.



## Credit Ratings

Georgia continues to cooperate with the international rating companies Standard & Poor's, Fitch and Moody's. The country maintains stable ratings. Currently, Georgia has stable BB- rating according to Standard & Poor's and Fitch and Ba3 stable rating according to Moody's. On the other hand, there is a deterioration of the ratings in the countries of the region according to Moody's.

S&P and Fitch worsened ratings of Azerbaijan from BBB- to BB+, while Moody's decreased it from Ba3 to Ba1. Moody's also decreased rating of Armenia from Ba3 to B1.

According to S&P and Moody's, Russia's credit rating deteriorated as well. Compared to December 2014, Russia's credit rating deteriorated from Baa3 to Ba1 according to Moody's and from BBB- to BB+ according to S&P.

Moody's decreased rating of Turkey from Baa3 -to Ba1 in September 2016 and from stable to negative in March 2017, while S&P decreased its rating from BB+ to BB in July and Fitch decreased from BBB- to BB+.

Fitch published Georgia's rating according to which the countries weaknesses are: high levels of current account and external debt.



Economy's strong side includes floating exchange rate, high growth in tourism sector and improvement in money transfers. According to the report, initiated tax reform will encourage economic growth in the medium term.

On 28<sup>th</sup> March of the current year, rating company Moody's has maintained the rating of Georgia to Ba3 stable level.

According to the rating company, the positive factors of country rating were: high rate of average economic growth, strong and developing institutions and receivable level of public debt. Weaknesses includes following factors: comparable low level of GDP per capita, high dollarization of public and private debt and geopolitical risks.

There were several different variables which led to maintain the rating stable. Negative was low economic growth due to regional crises, high current account deficit and increased external debt due to depreciation. Positive factors includes: strong institutions and agreement with EU, diversified export countries and trade agreements, which will help the FDI to maintain average 10% of GDP, will increase the export in the medium-term and will accelerate economic growth.

Overall, despite the deterioration economic environment in the region, Georgia has maintained stable credit rating, which is the result of the correct policy (flexible exchange rate, inflation targeting, counter-cyclical fiscal policy, removal of trade barriers and export diversification, agreement with EU), low risks and medium-term perspectives.

## **International Rating Agency "Moody's" Statement**

International rating agency "Moody's" positively evaluates the impact of strategy of converting US Dollar denominated mortgage loans into Georgian Lari on capital investments in Georgia.

With the assistance of government subsidies, it will be available to voluntarily convert USD denominated mortgage loans issued before January 2015 into Georgian Lari with favorable conditions. Given initiative is positively perceived by existing banks in Georgia as it will decrease losses of the credit portfolio. Georgian banks are operating under the increased credit risks when exchange rate fluctuations negatively affect solvency of borrowers. Around two thirds of total loans in Georgia are denominated in a foreign currency (mainly in dollar), while JSC Bank of Georgia (rating: Ba3 stable, ba3) and JSC TBC Bank (rating: Ba3 stable, ba3) credit portfolios are dollar denominated and issued on borrowers whose revenues are not in dollars.

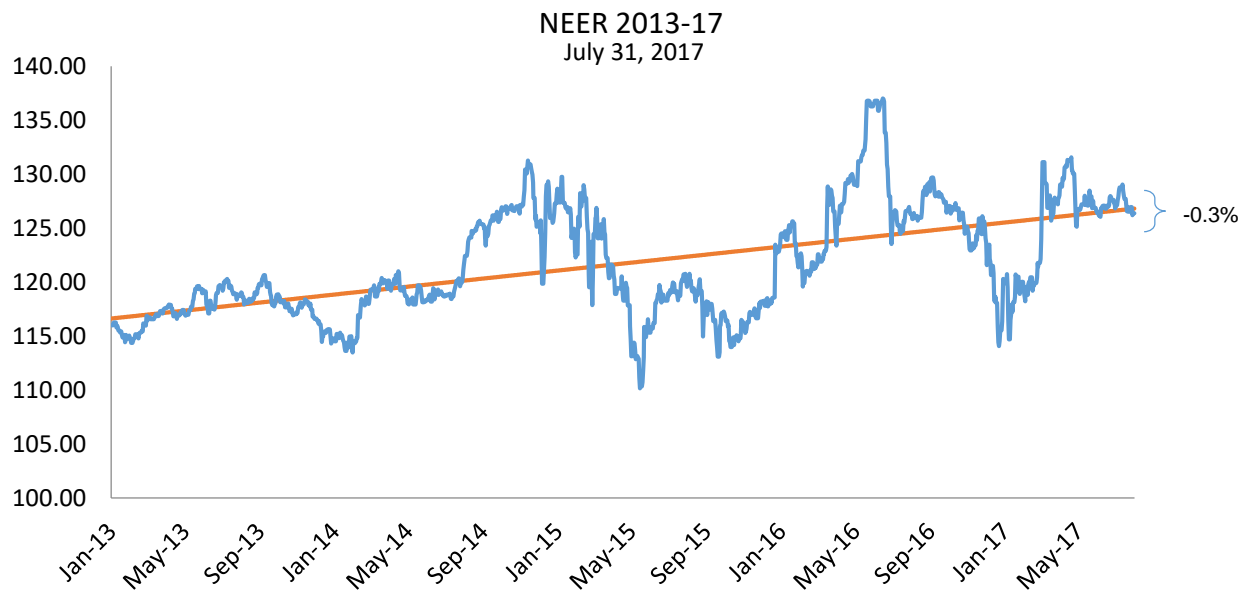
Apart from that, depreciation of Lari negatively affects capital adequacy ratio of commercial banks, because majority of risky assets is denominated in Dollar, while equity is denominated in Lari. Conversion of mortgage loans into Georgian Lari with lower weighted risk will reduce negative effect.

Under initiative, National Bank of Georgia will oblige commercial banks to issue loans only in domestic currency up to GEL 100 000 from January 2017 and up to GEL 200 000 from January 2018. Given policy will protect commercial banks from credit risks resulting from exchange rate fluctuations and encourage de-dollarization of the economy in the long term.

## Exchange Rate

In February, a depreciation path of the nominal effective exchange rate (NEER) of Georgian Lari reverted. As a result, annual depreciation rate has declined. As of 31<sup>th</sup> of July 2017, NEER appreciated 5.4 percent compared to January 1<sup>st</sup> of 2017 and 1.5 percent compared to January 1<sup>st</sup> of 2016. In real terms, annual appreciation rate of Lari is 7.5 percent by June 2017 and compared to January 2016 there is appreciation by 3.6 percent.

NEER remains at its medium term trend helping competitiveness.



	31 Jul 2017 - 1 Jan 2017		31 Jul 2017 - 1 Jan 2016	
Euro	▼	-0.6%	▼	-7.0%
US Dollar	▲	10.2%	▼	-0.2%
Turkish Lira	▲	10.6%	▲	20.7%
Russian Ruble	▲	6.5%	▼	-19.5%
NEER	▲	5.4%	▲	1.5%
REER (June 2017)	▲	7.5%	▲	3.6%

## Unemployment Rate

In 2016, unemployment rate in Georgia decreased by 0.2 percent and reached 11.8 percent and is the lowest rate ever reached.

Increase in employment was mainly due to hired employment (non-self-employment). Number of decreased employers is 16 000. Self-employment has decreased. Nevertheless, decreased number is 7.2 thousand self-employed.

## Tax Revenues

In 2016, generated tax revenues were by GEL 775.2 million higher compared to the same period of 2015 which accounts to 9.7 percent of tax revenues. Tax revenues of 2016 are 100.5 percent of planned target exceeding it by GEL 46.1 million.

In January-July 2017, generated tax revenues amounted to GEL 5 576.2 million which is 12.4 percent higher (GEL 615.6 million) compared to the same indicator of 2016. Exceeded achieved the forecast of taxes of the first quarter.

Forecast of taxes in the January-July was GEL 5 321.0 million and it was mobilized 5 576.2 million (104.8 percent of planned target, exceed was by GEL 255.2 million).

- Income taxes mobilized GEL 1 712.3 million which is 101.4 percent of forecast (GEL 1 689.0 million).
- Profit taxes mobilized GEL 544.3 million which is 114.3 percent of forecast (GEL 476.0 million). Among them BP amounts GEL 133.0 million.
- VAT mobilized GEL 2 269.6 million which is 115.8 percent of forecast (GEL 1 960.0 million).
- Excise mobilized GEL 771.7 million which is 86.1 percent of forecast (GEL 896.0 million). From 2017 there was increased of excise of some products (petroleum, cigar, motor cars). As a result there is gel 176.7 million higher mobilized excise compared to same period of the last year.
- Import taxes mobilized GEL 39.9 million which is 95.0 percent of forecast (GEL 42.0 million).
- Property taxes mobilized GEL 290.5 million.

Other taxes mobilized GEL -52.1 million.

## Public Debt and Financing of the Budget

### Public Debt

- The stock of public debt at the end of 2016 amounted 44.6% of the estimated GDP (of which external debt – 35.6%), while it was 41.4% at the end of 2015 (external debt – 32.5%).
- The growth of public debt both in 2015 and in 2016 **mainly caused by change of exchange rate**.
- In the medium term, it projected to maintain the public debt to GDP ratio **below 45%** level.
- **The market value of public debt as of December 2016 was 32%** (excluding legacy debt, 1% of GDP as of end 2016), because significant part of our debt is under **concessional** terms.

At the same time, with development of capital market, treasury securities issues will increase, which will support to decrease external financing and increase share of domestic debt in the total debt.

As for the first quarter of 2017 public debt to GDP is 41.6 percent (according the GDP of the last four quarter), which is less by 3.0 percent compared to the last quarter.

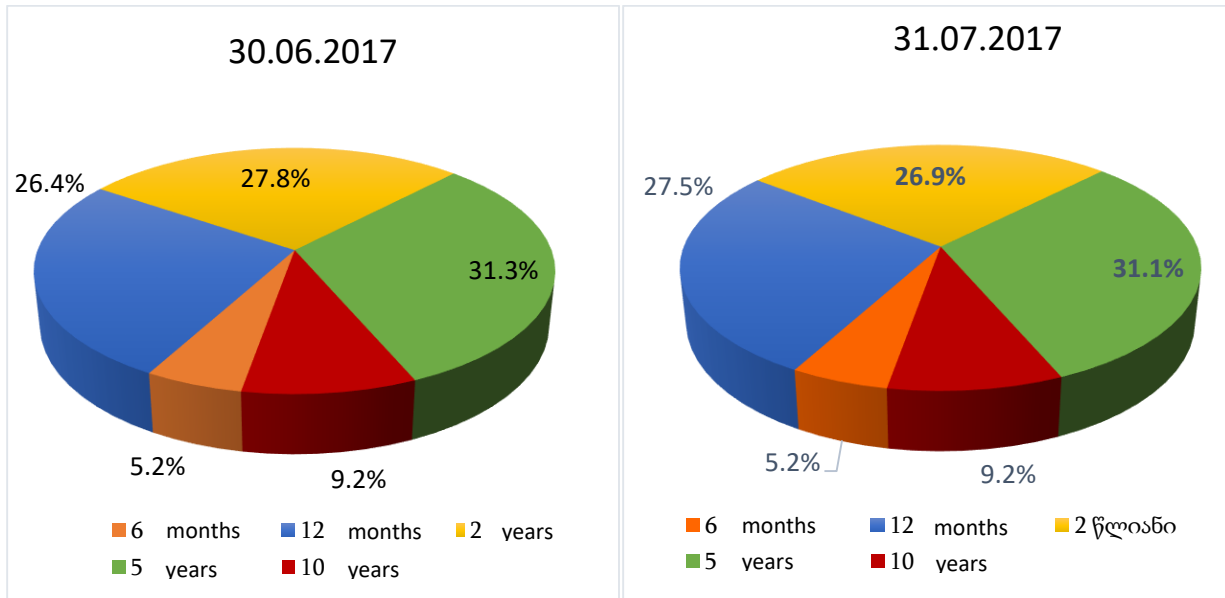
### Government Securities Market

In June of 2017 there was held 5 auctions. In total emission was USD 190 million and average weighted interest rate was 7.46%.

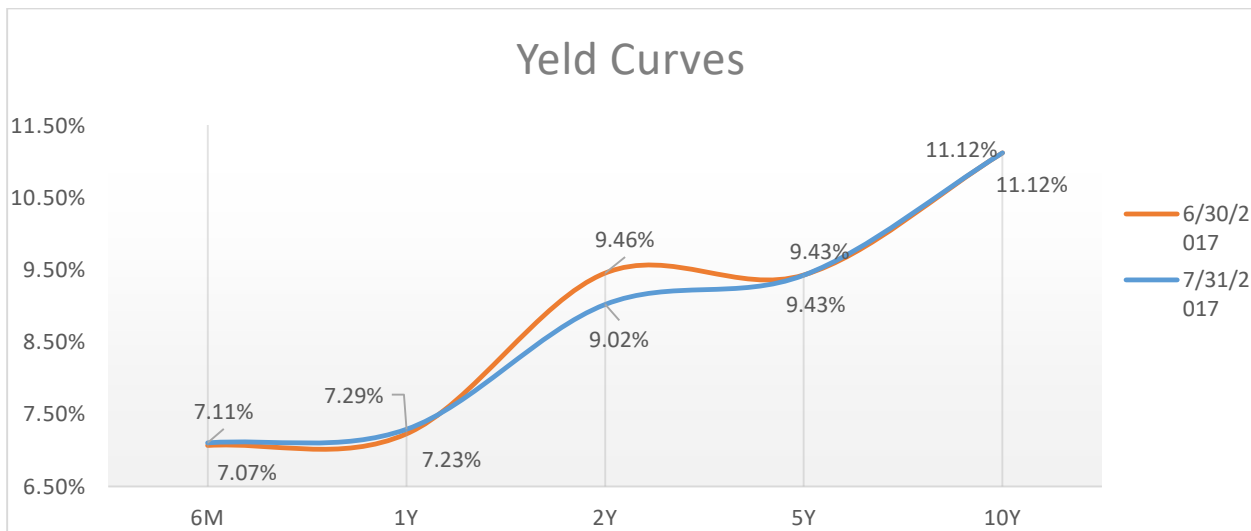
6 and 12 month maturity bills are issued and 2 and 5 years maturity treasury bonds. 12-month maturity treasury bills are covered in amount of USD 189.5 million.

	6M	1Y	2Y	5Y	10Y	Total
Emission volume	20	100	45	25	0	190
Average weighted interest rate	7.192	7.250	7.659	8.130	0	7.46
Cover	20	75	64.5	30	0	189.5
Difference	0	25	-19.5	-5	0	0.5

The structure of securities have changed insignificantly.



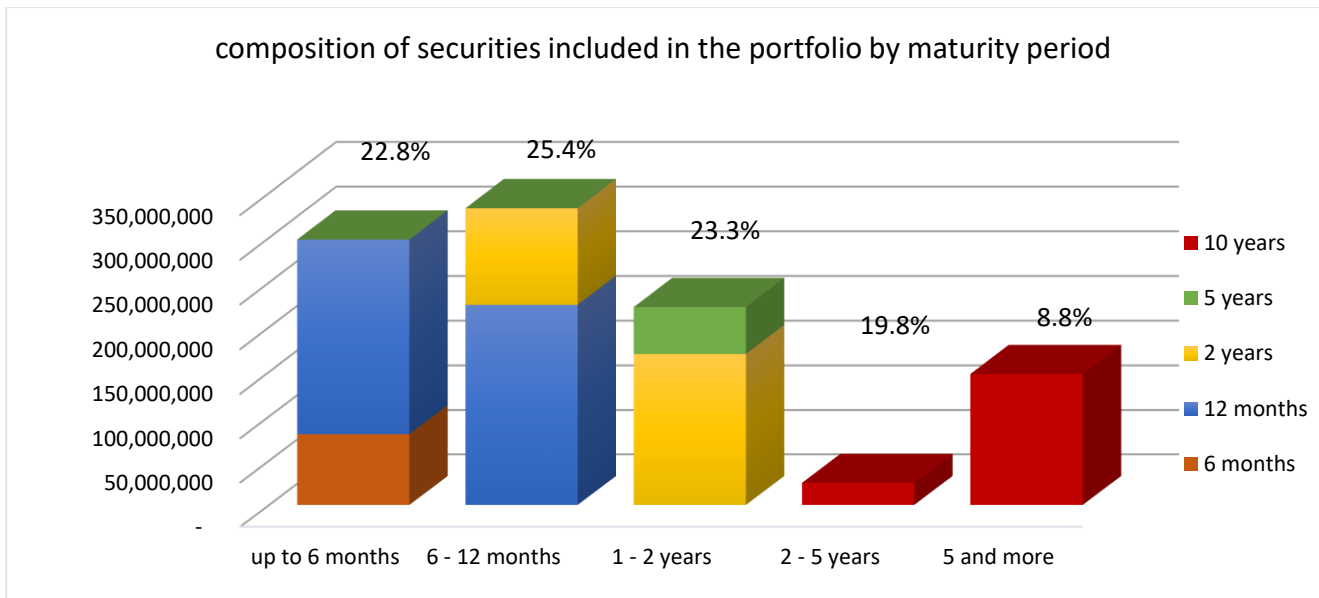
Average weighted interest rate of short term securities (from the portfolio) have increased slowly, but yields of 2 years maturity bills has decreased, 5 and 10-years yields maturity bills have not changed. Interest rates of emissions has significant influence to the change of portfolio yield.



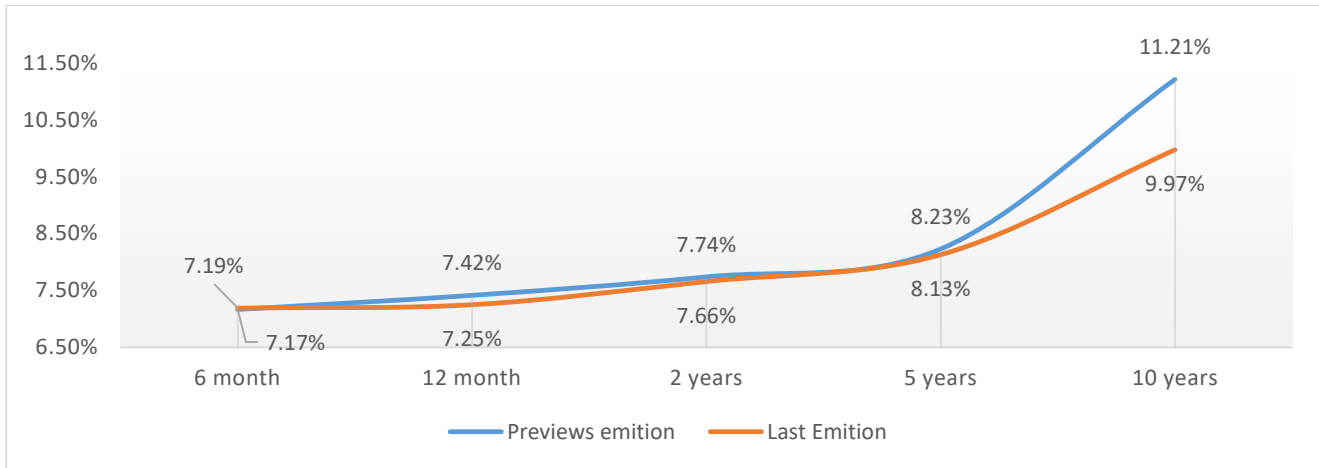
Average weighted term maturity (ATM) of securities included in the portfolio has increased from 1.88 to 2.01 year.

Average weighted period until maturity of securities (year)			
	31.05.2017	30.06.2017	31.07.2017
6 months	0.28	0.24	0.24
12 months	0.41	0.50	0.56
2 years	1.11	1.07	1.17
5 years	2.66	2.64	2.88
10 years	6.70	6.62	6.81
<b>Total</b>	<b>1.91</b>	<b>1.88</b>	<b>2.01</b>

As for 31<sup>th</sup> of July of 2017 less than quarter of government securities portfolio (22.8%) are formed by securities, which will have maturity period the nearest 6 months. distribution of securities included in the portfolio by maturity period is following:



Average weighted interest rate from the auctions during month:



Demand coefficient of securities in July compared to the previous month is almost unchanged and amounted to 2.36 (in June 2.35). Overall interest rates from auctions decreased slowly, but interest rate of portfolio service was not changed. Portfolio maturity increased.

## Monetary Policy Rate

In order to gradually exit from the tightened monetary policy, National Bank of Georgia was reducing refinancing rate in 2016 along with inflation rate lower than the target. Policy rate reduced to 1.5 percent throughout the year.

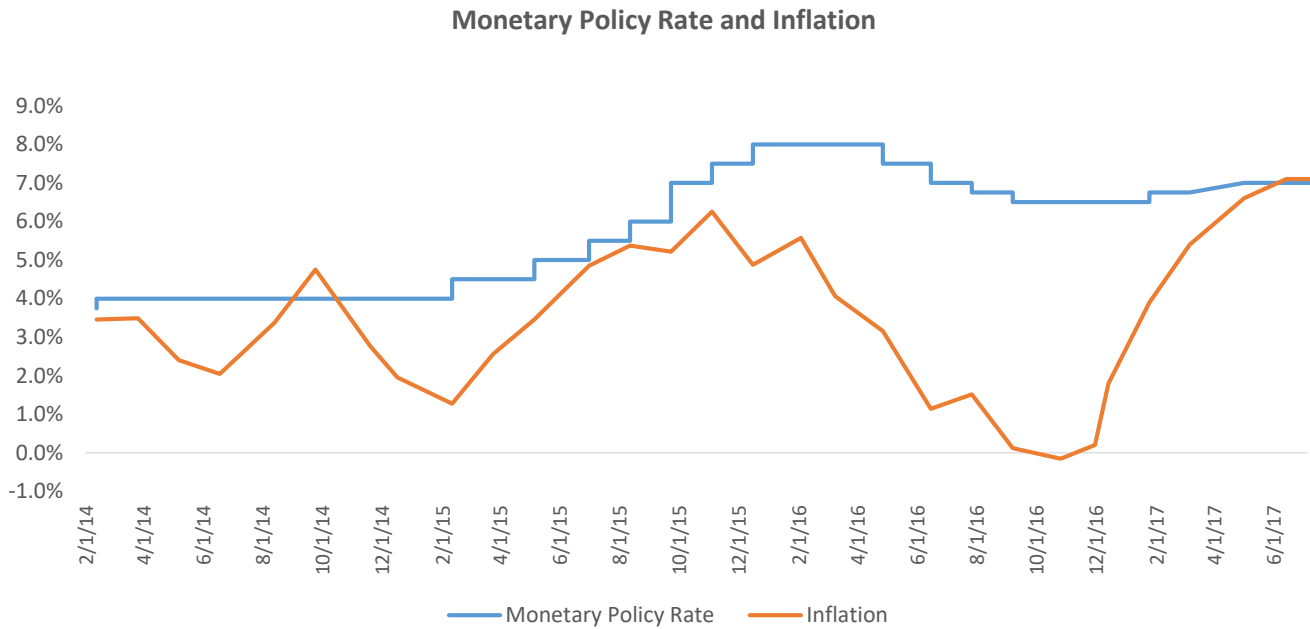
On January 25<sup>th</sup> of 2017, NBG decided to increase refinancing rate to 6.75 percent as a response to higher inflationary expectations resulting from increased excise tax and exchange rate changes. Alongside, it was announced that refinancing rate will increase to 7.0 percent during the following two quarters.

After expiry of one-time effects, inflation will decrease and will be around its target in the medium term. Together with expiry of factors affecting inflation, ceteris paribus, monetary policy rate will return to its neutral level in the medium run.

On May 2<sup>nd</sup> of 2017, NBG increased the policy rate by 25 basis points to 7.0 percent. NBG decision is based on the macroeconomic forecast, according to which, due to the supply side pressures, the inflation is expected to be above its target rate during 2017, but it is also expected to gradually decrease to its neutral level in the medium term.

On June 14<sup>th</sup> and July 26<sup>th</sup> monetary policy committee keep the rate unchanged at 7 percent. They said that given the absence of additional shocks and with the elimination of the impact of the one-time factors affecting the inflation, the policy rate in the medium term expected to decrease to its neutral level in the

medium term.



## 2016 Budget Outturn

2016 revenues of general government amounted to 9 675.5 million GEL (29.1% of GDP). Tax revenues outturn was 8 786.1 million GEL (26.4% to GDP) which is 46 million GEL more than projected and 775 million GEL more than 2015 outturn.

Current expenditure amounted to 8849.5 million GEL (26.6%) among which social expenditure was 3 393.7 million GEL (10.2%). It should be mentioned that Government has started restricting administrative costs at the end of 2016 and actual performance in Compensation of Employees and Goods and Services was lower (about 30 million GEL) than the last projection. This is part of Expenditure measures decided by the Government to mobilize resources for accelerating infrastructural projects in the mid-term period.

2.3 billion GEL (capital expenditure and lending – 6.9%) was directed to the infrastructural projects.

2016 Budget Deficit (GFSM 1986) amounted 4.2%.

## 2017 Budget

Government 4 point plan and strategy is directed to supporting growth friendly policies and accelerating infrastructural projects. At the same time government is in for fiscal consolidation, cutting administrative



costs and maintaining it low in mid-term.

As part of the growth friendly policy CIT reform was conducted, which implies improved tax environment favoring business sector.

In order to compensated loss of revenues on initial stages of CIT reform and mobilized resources for accelerating capital spending Government undertook measures both on revenue as well as expenditure side.

- Revenue-enhancing measures: Fuel excise increase (GEL 270 million, 0.7 percent of GDP); tobacco excise increase (GEL 215 million, 0.6 percent of GDP); gambling fee and e-gambling tax increase (GEL50 million, 0.2 percent of GDP); and a vehicle excise increase (GEL 45 million, 0.1 percent of GDP).
- Expenditure-reducing measures: reduction of the wage bill at the central and local government levels (GEL190 million, 0.5 percent of GDP); cuts in goods and services (GEL [50] million, 0.2 percent of GDP); improved efficiency of public healthcare provision and targeting of social programs in municipalities (GEL 90 million, 0.3 percent of GDP); and end of the agro-land program (cumulative GEL [50] million, 0.1 percent of GDP).

2017 budget deficit is anticipated to be about 4.1%. Infrastructural projects financed through Capital Spending and lending is projected about 3 billion GEL (8.3%).

## Relationship with the IMF

On 12<sup>th</sup> of April 2017, the IMF Executive Board Approved US\$285.3 million Extended Arrangement Under the Extended Fund Facility for Georgia.

IMF shares and welcomes the economic policies of the Government of Georgia, which ensures sustainable economic growth for the country. It is important that the new program is home-made, based on the government's new four-point reform plan. Within the program IMF will be our country's partner in carrying out Government's economic policies.

The economic and structural reforms were approved by IMF, which aims to support macroeconomic stability and economic growth.

2017 budget, as well as the government's medium-term budgetary plans qualitatively represents transformed fiscal policy, which includes:

- Reducing administrative costs;

- Creating tax-system adapted to the economic growth;
- Increasing the effectiveness of the budget programs;
- Increasing investments in infrastructure projects.

In 2017-2020 country's road infrastructure backbone will be finished, that will allow us to fully use our logistical and touristic potential. Development of infrastructure will improve communication between the regions, which will increase their involvement in country's economic development.

During 2017-2020 capital expenditures foreseen under the budget will increase from 5.6% of GDP to 9%. Meanwhile, administrative costs will be reduced from 26.5% to 21.7%.

Within the program Government of Georgia plans to carry out the most important structural reforms, that will support economic growth. Such as:

- Pension Reform;
- Capital Market Reform;
- Establishment of Deposit Insurance System;
- Establishment of Public-Private Partnership (PPP) System;
- Establishment of insolvency legislative framework;
- Land Reform;
- Insurance System Reform;
- Measures for improving the Public Finance Management;
- etc.

The decision of the Government of Georgia is to return the Financial Sector Supervision function to the National Bank of Georgia.