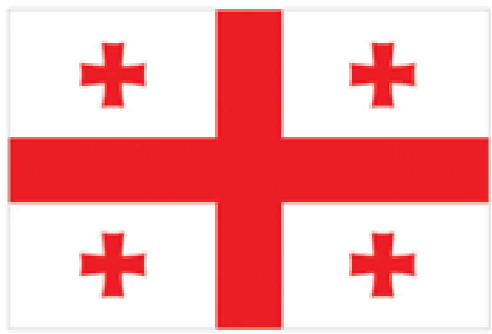
Debt Management Performance Assessment (DeMPA)



Georgia

February 2020

The DeMPA is a methodology for assessing public debt management performance based on a comprehensive set of indicators spanning the full range of governmental debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents 14 performance indicators along with a scoring methodology. The DeMPA tool is complemented by a guide that provides supplemental information on using the indicators.

For additional information on the World Bank's Debt Management Technical Assistance Program, including more on the DeMPA tool, please visit our website at: http://www.worldbank.org/debt

Contents

Abbreviations and Acronyms

BCP	Business Continuity Plan
CD	Certificates of Deposit
DeM	Debt Management
DeMPA	Debt Management Performance Assessment
DMS	Debt Management Strategy
DPI	Debt Performance Indicator
DRP	Disaster Recovery Plan
DSA	Debt Sustainability Analysis
eDMS	Electronic Debt Management System
eTreasury	Electronic Treasury System
GDP	Gross Domestic Product
GEL	Georgian Lari
GoG	Government of Georgia
GSSS	Georgia Security Settlement System
HR	Human Resource Management
IAS	Internal Audit Service
IFIs	International Financial Institutions
IMF	International Monetary Fund
MoF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NBG	National Bank of Georgia
N/A	Not Applicable
N/R	Not Rated or Assessed
PDMD	Public Debt Management Department
PEFA	Public Expenditure and Financial Accountability
SAO	Supreme Audit Office
RTGS	Real Time Gross Settlement System
SOEs	State-Owned Enterprises
TA	Technical Assistance
T-bills	Treasury Bills
T-bonds	Treasury Bonds
TS	Treasury Services
WB	World Bank

Executive Summary

During February 11-19, 2020, World Bank staff undertook a mission to assess the Georgian government's debt management capacity and institutions. The mission team comprised Lilia Razlog (mission lead, EMFMD, World Bank), Zsolt Bango (EFNLT, World Bank), Ying Li, and Juan Carlos Vilanova (consultants, World Bank). The mission's objective was to identify strengths and areas for improvement in debt management by applying the Debt Management Performance Assessment (DeMPA) methodology.

The DeMPA mission provided technical assistance to evaluate the legal, institutional, and regulatory framework for government debt management. The primary counterpart was the Public Debt Management Department (PDMD) of the Ministry of Finance (MoF). The mission team met with experts from the MoF, the National Bank of Georgia (NBG), the Court of Accounts, the Stock Exchange, and the country's two largest commercial banks. The team met Mr. Nikoloz Gagua, Deputy Minister of Finance, and informed him of the DeMPA's preliminary conclusions and the next steps in formulating and implementing corresponding reforms. Mr. Gagua expressed strong interest in obtaining additional technical assistance to design a reform plan through the DMF program and recognized the usefulness of the ongoing advisory work provided through the domestic market development project.

The DeMPA found that considerable progress had been achieved in several areas of central government debt management since the previous assessment in 2013. Key improvements include the development and publication of a debt management strategy (DMS) in 2019, the design of a new DMS for 2020-23, the publication of government debt statistics, the enhanced quality of debt management audits, the upgraded institutional structure of the debt office, the preparation of an annual DSA analysis, more timely and accurate debt recording, and enhanced domestic market operations. Overall, middle- and back-office functions have been significantly strengthened, while front-office activities in the domestic market benefit from the NBG's support as a fiscal agent of the government.

However, the observed gains were not consistent across all areas of debt management. The DeMPA found that several areas have registered no or limited improvement since the last assessment. These include the legal framework pertaining to debt management functions and international debt issuance, the framework for analyzing and issuing government guarantees, the design of operational procedures, and the methodology for establishing a cash buffer. Moreover, the government must begin updating the DMS on an annual basis. The table below summarizes the findings of the DeMPA.

Strengths	Areas for Improvement
1. Governance and Strategy Development	
• Georgia's legislative framework provides clear authority to borrow, issue guarantees, and undertake debt-related transactions, and it defines legitimate purposes for government borrowing. • The reorganized PDMD is the principal debt office, and it performs front-, middle-, and back-office functions. • The PDMD produced a comprehensive medium-term DMS for 2019-2021, which is aligned with the medium-term fiscal framework.	• Debt management and related laws must be reviewed and adjusted to specify their debt management objectives, as well as DMS preparation requirements and annual implementation reports to Parliament. • The 2020-22 DMS update has been delayed. Going forward, the annual update of the DMS must be completed on schedule, along with the annual update to the medium-term expenditure framework.

Strengths	Areas for Improvement
• As part of the budget execution report, debt management operations are reported to Parliament. • A debt statistics bulletin is being prepared and published semiannually. • External and internal audits of debt management operations are conducted frequently.	
2. Coordination with Macroeconomic Policy	
• High-quality debt service estimates for the budget are prepared in a timely manner, and a fiscal buffer is created based on the sensitivity analyses for interest rates and exchange rates. • A DSA is conducted annually, which includes baseline forecasts and stress test, and a DSA report is submitted to Parliament as an annex to the budget. • Fiscal and monetary borrowing operations are clearly separated. • A memorandum of understanding (MoU) has been established between the MoF and NBG and is up to date • The organic law of the NBG precludes advances to the Treasury.	
3. Borrowing and Related Activities	
• The auction calendar is observed, and a quarterly issuance calendar prepared and published. • Benchmark issuance and buyback operations are implemented. • Terms and conditions of concessional lenders are regularly assessed and updated. • Internal and external legal advisors are involved throughout all stages of the borrowing process. • On-lending operations are processed based on agreements with external creditors.	• Investor relations could be strengthened further. • Formal internal procedures for international bond issuances must be developed and documented. • Formal procedures, standard contracts, and risk monitoring arrangements for on-lending must be developed and documented.
4. Cashflow Forecasting and Cash-Balance Management	
• Aggregate forecasts of cash inflows and outflows and cash balances are reasonably reliable. • The management of the cash balances is integrated with debt management activities (e.g., T-bill issuances and buybacks).	• A methodology must be developed for establishing the cash buffer target. • Excess cash could be invested on a daily basis.

Strengths	Areas for Improvement
• Excess cash is invested at market rates on a weekly basis.	
5. Debt Records and Operational Risk Management	
• PDMD staff have adequate skills to fulfill their debt management roles and responsibilities; detailed job descriptions are in place; and individual staff have annual training plans. • The Debt Management and Financial Analysis System (DMFAS) database covers external debt, domestic debt, guarantees, and on-lending; it is up to date and subject to daily backups and cross-checks. • Debt records and operations are backed up daily and stored at an offsite location. • Domestic government securities are dematerialized and kept in a single registry, which is subject to annual internal control audits. • Wholesales securities are settled on a delivery-versus-payment basis; the issuance of retail securities is expected to transition to DVP by mid-2020. • Processes for debt recording and debt servicing are subjected to validation but are not formalized.	• MOF and PDMD staff are not subject to conflict-of-interest guidelines. • The MoF lacks a documented disaster recovery and business continuity plan. • Comprehensive formal procedures for all debt management business processes must be developed and documented. • An in-house information technology development calendar for debt management systems must be agreed upon and adhered to.

Background and Government Debt

1.1 Economic Background

The Georgian economy has performed well in recent years. Gross domestic product (GDP) expanded at a rate of 4.8 percent per year in both 2017 and 2018 as the economy recovered from the effects of a slowdown among major trading partners. Services drove growth on the supply side, with strong contributions from trade, tourism, business services, and transportation and communications. The industrial sector grew at a more modest pace, due largely to rising manufacturing activity, while agricultural output remained unchanged. On the expenditure side, consumption was supported by modest wage growth, a robust credit expansion, and the recovery of remittances. The contribution of investment to growth stabilized toward the end of 2018 as a large natural gas pipeline project was completed while the public investment budget was under-executed. In addition, the economy responded to stronger demand from Georgia's main trading partners, including Russia, Armenia, and Azerbaijan, which boosted exports of goods and tourism services, though this effect was partly offset by weakening demand from Turkey.

Growth accelerated in 2019 despite a more challenging external environment. GDP grew by 5.2 percent year-on-year (yoy) in the first three quarters of 2019, and preliminary estimates indicate that the growth rate will reach 5.3 percent (yoy) through November. Georgia's expansion accelerated despite deteriorating sentiment during the second half of 2019, as political tensions rose and flights from Russia were suspended. Information and communications technology, scientific research and technical activities, administrative services, and entertainment grew rapidly, compensating for the weaker performance of agriculture—which continues to face high levels of subsistence farming, limited extension services, and other productivity constraints—as well as a contraction in manufacturing driven by the iron and steel industry. After contracting at the start of the year, construction activity recovered in recent months, which helped offset the impact of the Russian ban on flights to Georgia, which was introduced in July 2019 and has cost the Georgian economy an estimated 0.6 percent of annual GDP. On the demand side, declining unemployment and growing wages, robust external transfers, and increased public spending supported consumption. Investment was on a downward trend in early 2019 but recovered in the second half of the year, while public investment execution improved, and private investment benefited from a robust credit expansion and an increase in reinvested earnings by foreign investors. Export growth was robust, reflecting rising demand among key trading partners.

Exchange-rate depreciation in the second half of 2019 put upward pressure on inflation, triggering a robust response from the central bank (table 1). Inflationary pressures were low at the start of 2019: the annual inflation rate was slightly above 2 percent (yoy), close to the 3 percent target established by the National Bank of Georgia (NBG). The inflation rate exceeded the NBG's target starting in March 2019, after higher excise taxes on tobacco were introduced in January 2019. Inflation accelerated in the second half of the year, as the ban on flights from Russia and subsequent political developments undermined confidence in the Georgian lari (GEL). The NBG maintains a floating exchange-rate regime and limits interventions to smoothing out large fluctuations and accumulating reserves. As a result, the pass-through effect of a weaker lari on prices of imported goods, especially food products, was significant, causing the inflation rate to surge to 7 percent (yoy) in November 2019. A robust response by the NBG, which included increasing the policy rate from 6.5 percent to 9 percent between September and December 2019, coupled with the continued improvement of the external accounts helped the lari reverse some of its earlier losses. As a result, inflation began to stabilize in December and then declined in January 2020. Overall, the annual average inflation rate for 2019 reached 4.9 percent.

Table 1: Macroeconomic Trends and Projections[1]							
	2017	2018	2019	2020	2021	2022	2023
Annual percent change, unless indicated otherwise							
Real GDP	4.8	4.8	5.2	4.3	4.8	5.0	5.0
Real GDP per Capita	4.9	4.6	5.3	4.3	4.9	5.1	5.1
CPI (Annual Average)	6.0	2.6	4.9	4.0	3.2	3.0	3.0
Private Consumption	7.4	5.8	4.7	3.5	4.3	4.8	5.0
Gross Fixed Investment	-2.3	6.5	0.1	4.5	3.4	3.0	2.8
Exports	11.7	10.1	10.7	7.0	7.0	8.5	9.0
Imports	8.1	10.3	6.8	5.4	5.7	6.0	6.5
Fiscal Account, percent of GDP unless otherwise indicated							
Expenditures	30.3	29.1	29.2	28.1	28.1	28.0	27.8
Revenues	26.8	26.5	25.8*	25.3	25.2	25.0	24.9
General Government Balance	-3.5	-2.6	-3.4	-2.9	-2.9	-3.0	-2.9
General Government Debt	39.4	38.9	40.7	42.3	42.1	41.9	41.8
Balance of Payments, percent of GDP unless indicated otherwise							
Current-Account Balance	-8.1	-6.8	-4.0	-4.8	-4.7	-4.6	-4.5
Imports, Goods and Services	57.8	61.4	61.8	62.0	61.5	60.8	60.5
Exports, Goods and Services	46.8	50.8	53.8	54.5	54.8	55.0	55.2
Net FDI	10.4	5.3	5.2	4.6	5.3	5.8	6.3

Source: Bank staff calculations, data for 2020-2023 are forecasts.

Note: The fiscal accounts treat privatization proceeds ("decrease of non-financial assets") as financing (below-the-line) and net lending as expenditure (above-the-line). This explains the difference with the 2020 Budget and the IMF Reports. 2019 revenues exclude 0.9 percent of GDP collected but deposited in the tax refund sub-account. Including these, the deficit in 2019 was 2.5 percent of GDP.

The government maintained fiscal discipline while providing a modest stimulus in 2019. The general government budget registered a deficit of 2.6 percent of GDP in 2018,[2] due largely to outlays in December 2018 for goods and services provided in 2019. The deficit widened to an estimated 3.4 percent of GDP in 2019, as increased spending helped support domestic demand. Revenues grew by about 10 percent in 2019, driven by an 18 percent increase in revenue from both the profit tax and the value-added tax (VAT). The elimination of the option to defer tax payments for entities on the so-called "golden list" contributed to the increase in VAT revenue. Excise tax revenue fell in early 2019, as the increase in the excise tax rate for finished tobacco products shifted consumption toward rolling tobacco, but revenue recovered toward the end of the year as the rate hike was extended to rolling tobacco. Meanwhile, government spending rose by around 20 percent (yoy), driven by increased social spending and the steady implementation of capital

[2] This estimate excludes tax revenues equal to 0.9 percent of GDP that were deposited in the tax-refund subaccount.

projects. Social spending rose by 13 percent (yoy) in 2019, reflecting the full-year impact of pension increases in late 2018 as well as the expansion of the Universal Health Coverage program. Capital spending rose by 17 percent (yoy) as municipalities increased their capital outlays. The public debt stock is estimated to have ticked up marginally to 40.7 percent of GDP, due largely the weaker exchange rate.

The robust growth of exports of goods and tourism services, as well as rising remittances, narrowed the current-account deficit. The recovery of economic growth in Russia, Armenia, Azerbaijan, and the EU since 2017 has boosted the demand for Georgian merchandise exports, which rose from 14 percent of GDP in 2016 to 21.5 percent in 2019. Import growth was contained in 2019 compared to previous years, as higher excise taxes reduced tobacco imports, oil prices fell, and investment moderated. As a result, the goods trade deficit narrowed from 33 percent of GDP in 2018 to 30 percent in 2019. The robust growth of services exports (mainly tourism), the recovery of remittances (mainly from EU countries and Israel), and lower investment income outflows further diminished external imbalances. The current-account deficit narrowed from 12.4 percent of GDP in 2016 to 6.8 percent in 2018 and reached an estimated 4 percent in 2019. Net foreign direct investment (FDI) declined in 2018 and early 2019 as a major infrastructure project was completed, then recovered modestly in the third quarter of 2019. FDI inflows amounted to 5-6 percent of GDP in 2018 and the first three quarters of 2019. FDI covered almost 80 percent of the current-account deficit in 2018 and 100 percent in 2019. Portfolio inflows were also strong at over US$700 million in nominal terms, as TBC Bank and Silk Net (a telecommunications company) issued US$250 million and US$200 million worth of Eurobonds, respectively, in the first half of 2019.

1.2 Central Government Debt

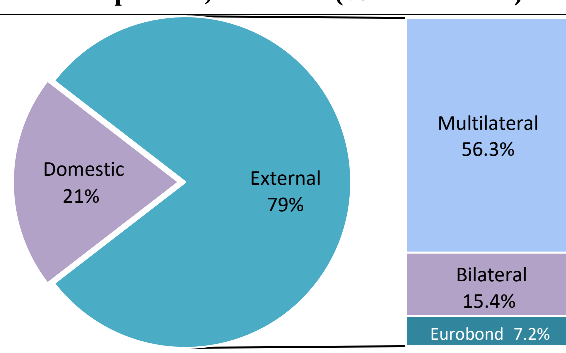
Georgia's central government debt stock stood at 40.6 percent of GDP at end-2019. Domestic debt amounted to 8.5 percent of GDP, or about 21 percent of the total debt stock, while external debt amounted to 32.1 percent of GDP, or about 79 percent of the debt stock (Table 1 and Figure 1). As of 2019, the government's largest creditor is the World Bank Group, which represents 34 percent of the external debt stock, followed by the Asian Development Bank at 22 percent. Overall, multilateral creditors account for 70 percent of the external debt stock, followed by bilateral creditors at 20 percent. The Georgian government has also issued a US$500 million Eurobond, which represents the remaining 10 percent of the total external debt stock (Table 2). The composition of external financing sources has remained broadly stable in recent years. The total size of the external debt stock has been steadily growing since 2007 in US dollar terms, and it has increased significantly since 2014 in lari terms due to successive currency devaluations.

Table 1. Central Government Debt Stock, End-2019 (nominal and relative to GDP)

	Million GEL	% of GDP
Total Government Debt	19.915.7	39.8
External Debt	15.749.7	31.5
Domestic Debt	4.166.0	8.3

Source: Ministry of Finance

Figure 1. Central Government Debt Composition, End-2019 (% of total debt)



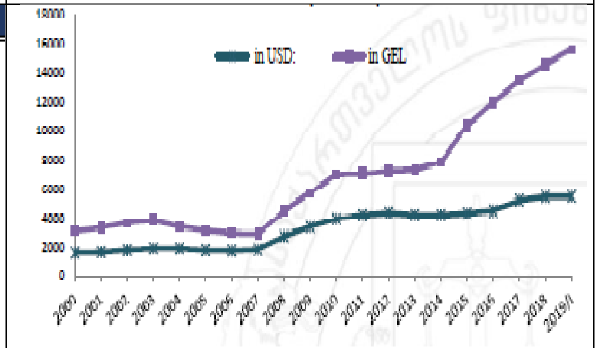
Source: Ministry of Finance

Table 2: Evolution of the External Government Debt Stock, 2016-19 (GEL millions)

	2016	2017	2018	2019
External Debt	11,952.2	13,420.4	14,545.1	15,749.7
Multilateral	8,656.0	9,981.0	10,722.0	11,260.2
Bilateral	1,968.0	2,138.0	2,480.0	3,048.7
Bonds	1,323.0	1,296.0	1,338.0	1,433.0
Guarantees	5.2	5.4	5.1	5.1

Source: Ministry of Finance

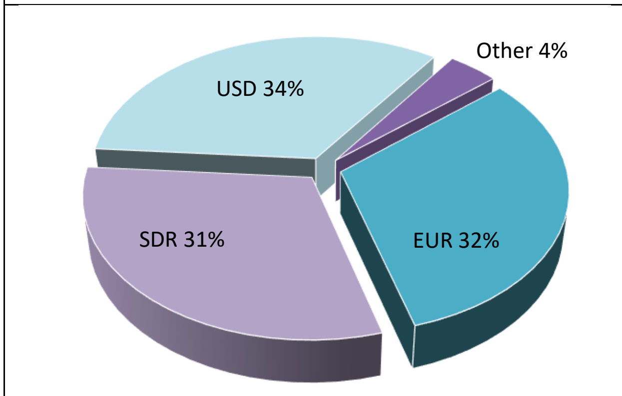
Figure 2. Evolution of the External Debt Stock (US$ and GEL)



Source: Ministry of Finance.

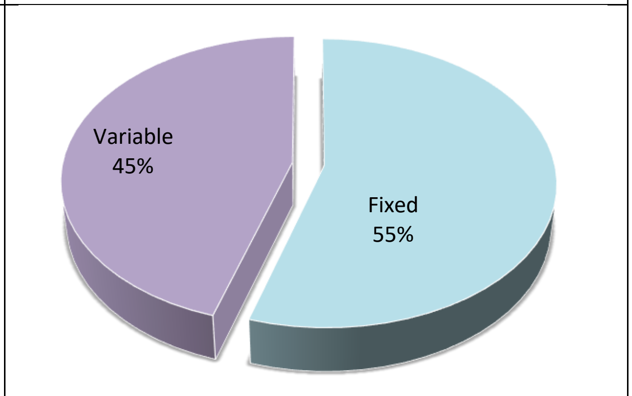
Debt denominated in US dollars, Special Drawing Rights, and euros represents 97 percent of the total external debt stock. The remaining 3 percent is denominated in Chinese yuan, Japanese yen, and Kuwaiti dinars (Figure 3). The external debt portfolio is divided almost equally between fixed and variable interest rates (Figure 4).

Figure 3. The External Debt Stock by Currency, 2019



Source: Ministry of Finance.

Figure 4. The External Debt by Stock by Interest-Rate Type, 2019



Source: Ministry of Finance.

Principal payments to multilateral creditors caused external debt service to rise in 2018. Meanwhile, disbursements increased sharply in both 2017 and 2018, causing both net flows and transfers to expand between 2016 and 2018 (Table 3).

Table 3. External Debt Flows, 2016-18 (US$ millions)

	2016	2017	2018
Principal Payments	142	176	282
Interest Payments	83	96	109
Disbursements	425	608	631
Net Flows	283	432	349
Net transfers	200	336	240

Source: Ministry of Finance.

The domestic debt stock has grown steadily over the past several years. The domestic debt is dominated by T-bills and T-bonds, the share exceeding 80 percent of the total domestic debt. The share of T-bills/bonds has been growing over time (Table 5). T-bills comprise the 6- and 12-month instruments, while T-bonds are issued with 2-, 5-, and 10-year maturities.

Table 4. Domestic Debt Composition, 2016-19 (GEL millions)

	2016	as %	2017	as %	2018	as %	2019	as %
Total Domestic Debt	2,499		2,863		3,251		4,166	
T-bills/T-bonds	1,996	80%	2,395	84%	2,818	87%	3,766	90%
Other State Securities	503	20%	468	16%	433	13%	393	10%

Source: Ministry of Finance.

Table 5. Domestic Debt Service, 2015-19 (GEL millions)

PRINCIPAL PAYMENTS	2015	2016	2017	2018	2019
G.TOTAL	532,2	774,7	1.083,5	1.251,2	1.379,3
Treasury Securities	497,2	739,7	1.048,5	1.216,2	1.339,3
Bonds	35,0	35,0	35,0	35,0	40,0
INTEREST PAYMENTS	*2015*	2016	2017	2018	2019
G.TOTAL	152,2	202,6	239,1	244,3	280,6
Treasury Securities	114,1	150,7	195,8	207,4	247,1
Bonds	38,1	51,9	43,3	36,9	33,5

Source: Ministry of Finance.

Debt Management Performance Assessment (DeMPA)

3.1 DeMPA Methodology

The DeMPA 2015 methodology uses a set of 14 debt performance indicators (DPIs) that encompass the full spectrum of government debt management operations, as well as the overall environment in which these operations are conducted. While the DeMPA does not directly generate recommendations for policy reforms, capacity-building measures, or institutional upgrading, the performance indicators do stipulate a set of minimum criteria. Failing to meet these criteria indicates that a policy area, process, or institution requires attention and should be regarded as a reform priority.

The DeMPA focuses on central government debt management activities and closely related functions, such as the issuance of loan guarantees, on-lending, cash flow forecasting, and cash-balance management. The DeMPA does not assess the government's ability to manage the wider public debt portfolio, including implicit contingent liabilities (e.g., debts arising from the pension system or the debts of state-owned enterprises [SOEs]), unless those liabilities are guaranteed by the central government. However, the central government is responsible for managing contingent liabilities, and the DeMPA methodology touches on issues related to contingent liabilities under indicators DPI-1 ("Legal Framework"), DPI-6 ("Coordination with Fiscal Policy"), and DPI-10 ("Loan Guarantees, On-Lending, and Derivatives").

The DeMPA is largely modeled on the Public Expenditure and Financial Accountability (PEFA) performance indicators. While the latter cover broad aspects of public financing, the DeMPA focuses exclusively on central government debt management, which it analyzes in greater detail than do the PEFA indicators. The two methodologies converge in the recording of cash balances, debt management, and guarantees. The PEFA indicators for audit and fiscal planning are closely linked with the DeMPA indicators for audit and coordination with macroeconomic policies.

The scoring methodology assesses each dimension of debt management and assigns it a score of A, B, C, or D based on a list of criteria. A score of A indicates that the dimension is consistent with international best practices, while a score of B indicates a strong performance with room for improvement. A score of C indicates that the minimum requirements considered necessary for effective debt management performance have been met but not exceeded. If the minimum requirements are not met, the dimension is assigned a D, which indicates that specific measures are necessary to correct the deficiencies responsible for the government's unsatisfactory performance on that dimension of debt management.

In some cases, a dimension cannot be scored because it is not relevant in the country context or because the available information is insufficient to assign a score. For example, the management of derivatives cannot be assessed if a government does not use derivatives. In such instances, the dimension is scored as "not applicable" (N/A). When inadequate information makes a dimension impossible to reliably evaluate, that dimension is scored as "not rated" (N/A).

When the criteria for a score require that certain legislative provisions, regulations, or procedures be in place, those provision, regulations, or procedures must be in effect. Under the DeMPA methodology, legislative provisions, regulations, or procedures that have been approved but not implemented are treated as nonexistent. The same principle also applies to a debt management strategy (DMS) that has been drafted but has not been adhered to or updated.

3.2 Summary of Performance Assessment

Performance Indicator		Score 2013	Score 2020
DPI-1	1. Legal Framework	C	C
DPI-2	1. Managerial Structure: Borrowing and Debt-Related Transactions	C	C
	2. Managerial Structure: Loan Guarantees	D	D
DPI-3	1. DMS: Quality of Content	D	D
	2. DMS: Decision-Making Process	N/R	D
DPI-4	1. Debt Reporting and Evaluation: Debt Statistical Bulletin	D	C
	2. Debt Reporting and Evaluation: Reporting to Parliament or Congress	D	C
DPI-5	1. Audit: Frequency and Comprehensiveness	D	A
	2. Audit: Appropriate Response	N/R	B
DPI-6	1. Fiscal Policy: Provision and Quality of Debt-Service Forecasts	C	B
	2. Fiscal Policy: Availability and Quality of Information on Key Macro Variables and DSA	B	A
DPI-7	1. Monetary Policy: Clarity of Separation between DeM and Monetary Policy Operations	C	B
	2. Monetary Policy: Regularity of Information Sharing	C	B
	3. Monetary Policy: Limited Access to Central Bank Financing	A	A
DPI-8	1. Domestic Borrowing: Market-Based Mechanisms and Preparation and Publication of a Borrowing Plan	A	A
	2. Domestic Borrowing: Availability and Quality of Documented Procedures	A	A
DPI-9	1. External Borrowing: Borrowing Plan and Assessment of Costs and Terms	D	B
	2. External Borrowing: Availability of Documented Procedures	D	D
	3. External Borrowing: Involvement of Legal Advisers	A	A
DPI-10	1. Loan Guarantees: Availability and Quality of Documented Policies and Procedures	D	N/A
	2. On-lending: Availability and Quality of Documented Policies and Procedures	D	D
	3. Derivatives: Availability and Quality of Documented Policies and Procedures	N/R	N/A
DPI-11	1. Effective Cash Flow Forecasting	D	A
	2. Effective Cash Balance Management	D	B
DPI-12	1. Debt Administration: Availability and Quality of Documented Procedures for Debt Service	D	D
	2. Debt Administration: Availability and Quality of Documented Procedures for Data Recording and Storage	D	D
	3. Data Security: Availability and Quality of Documented Procedures for Data Recording and System and Access Control	D	D
	4. Data Security: Frequency of Back-Ups and Security of Storage	A	A
DPI-13	1. Segregation of key Staff Duties	D	C
	2. Staff Capacity and Human Resource Management	C	C
	3. Operational Risk Management, Business Continuity, and Disaster Recovery Plans	D	D
DPI-14	1. Debt Records: Completeness and Timeliness	A	A
	2. Debt Records: Registry System	A	A

Performance Indicator Assessment

4.1. Governance and Debt Management Strategy

DPI-1 Legal Framework

Dimension	Score
1. Existence, coverage, and content of the legal framework	**C**

Requirements for minimum compliance (C): *The legislation (primary and secondary) provides clear authorization to borrow and to issue new debt, to undertake debt-related transactions (where applicable), and to issue loan guarantees (where applicable), all on behalf of the central government. In addition, the primary legislation specifies the purposes for which the executive branch of government can borrow.*

The legal framework for government debt management in Georgia has remained largely unchanged since the previous DeMPA evaluation in 2013. Government debt management and related operations such as guarantees and on-lending are implemented in accordance with the provisions of the Budget Code; the annual budget law; the State Debt Law; the Law of International Treaties; the National Bank of Georgia Act; the Law on the Restructuring of Tax Repayments and Government Loans; the Economic Freedom Act; the General Charter of the Ministry of Finance; and corresponding Ministerial Orders.

The Organic Budget Code establishes that the Minister of Finance has sole authority to borrow and issue state guarantees (Art. 21and 23). It includes a provision on the right of autonomous republics and local authorities to borrow from the Government of Georgia and/or other sources with the permission of the Government of Georgia and the consent of the MoF (Art. 24). The code specifies that the MoF shall conduct borrowing operations in consultation with the NBG (Art. 23). It also requires the government to define annual limits of total state debt, domestic and external, as well as government guarantees, in the annual budget law (Art. 22). Finally, the code gives the MoF the right to conduct on-lending operations based on agreements with the external creditors (Art. 59).

The Organic Law of Economic Freedom, updated in 2018, defines the general government debt and establishes fiscal rules governing the budget deficit and the general government's debt ceiling. Under the law, the consolidated budget deficit shall not exceed 3 percent to GDP, and the government debt shall not exceed 60 percent of GDP (Art. 2). For the purposes of the law, the state debt includes: (a) liabilities defined as state debt by the law on state debt, excluding NBG debt; and (b) liabilities contracted by budget organizations, excluding borrowing from other budget organizations. The law also caps the present value of the commitments made under public-private partnership (PPP) arrangements according to the PPP law and in compliance with PPP principles and criteria. Observance of the fiscal rules shall be reported to Parliament on an annual basis as part of the budget execution report.

According to the PPP law, every PPP proposal shall be subject to analysis and review by the MoF. The documents and relevant research related to a PPP project, together with the opinion of the Ministry of Finance, shall be submitted to the Government of Georgia for review before proceeding with the selection of a private partner. PPPs may include state support in form of: (a) availability payments and/or performance-based compensation; (b) guarantees for consumption, consumers, and income; (c) guarantees related to utility tariffs or other costs of public services; and (d) guarantees related to the long-term procurement of certain types of goods and services at a predetermined price. An upper limit on the state's liability within the framework of public-private partnership shall be determined by the legislation regulating state finances (Art. 29).

The State Debt Law defines the state debt as including the central government's external and domestic liabilities, central government loan guarantees, and loans from the IMF. The MoF is authorized to sign loan agreements; issue short-, medium-, and long-term securities; extend guarantees to foreign and domestic entities for loans made to Georgian economic agents (Art. 2.2); and on-lend (Art. 9). The MoF is also responsible for servicing external debt, negotiating with external creditors, and registering loans (Art. 2.3). The State Debt Law defines legitimate borrowing purposes for domestic debt, which include covering budget deficits and meeting cash-management needs, and for foreign debt, which include achieving goals established in the Budget Law. The latest amendment in 2016 expanded the range of borrowing purposes to authorize domestic borrowing in support of market development.

The annual budget law caps the outstanding debt stock at the end of the year. It establishes ceilings for domestic, external, and guaranteed debt, as well as net domestic borrowing.

The Organic Law of the NBG requires the Minister of Finance to consult the NBG on the main budget parameters, including plans for domestic and foreign loans for the next fiscal year, and solicit the NBG's opinion before submitting the draft state budget to Parliament. As part of the budget process, the NBG also discusses and consents to the annual borrowing plan. The NBG is authorized to issue its own securities for monetary-policy purposes in addition to acting as a fiscal agent to the government. In addition, MOUs between the MoF and NBG were amended in 2019 to include provisions for buyback operations and describe the technical characteristics of such operations.

The score for this dimension is a C, unchanged from the 2013 DeMPA. Georgia's legislative framework provides clear authority to borrow, issue guarantees, and undertake debt-related transactions, and it defines legitimate purposes for government borrowing. To achieve a higher score, the legislation should also specify debt-management objectives and mandate that annual reports be submitted to Parliament providing information on debt activities and guarantees.

DPI-2 Managerial Structure

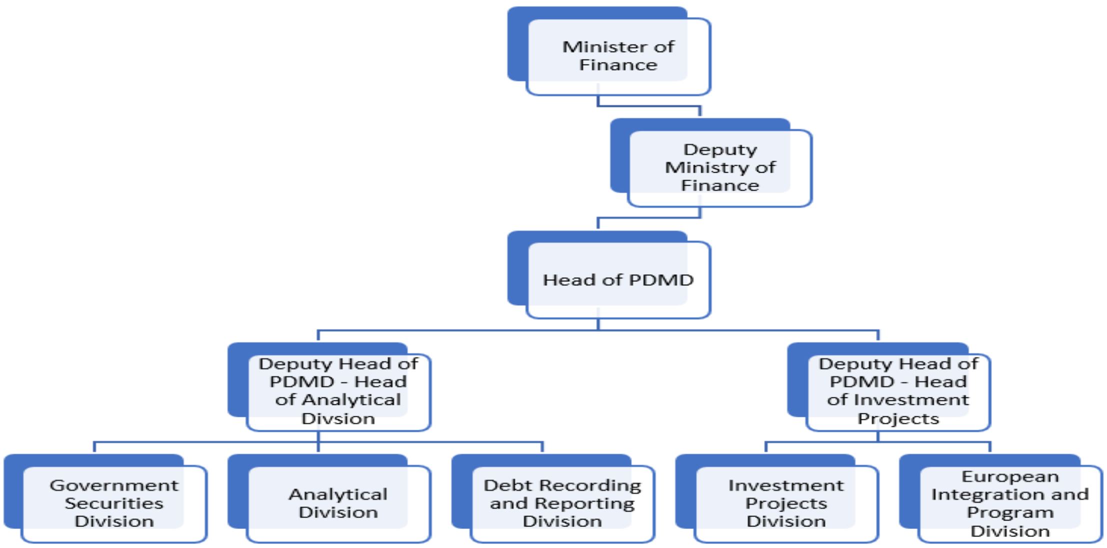
Dimension	Score
1. The managerial structure for central government borrowing and debt-related transactions.	**C**
2. The managerial structure for the preparation and issuance of central government loan guarantees.	**D**

Dimension 1

Requirements for minimum compliance (C): *Borrowings and debt-related transactions are undertaken either by the principal debt-management entity or, if there is no such entity, by debt-management entities that regularly exchange debt information and closely coordinate their respective activities through formal institutional mechanisms.*

The MoF's Public Debt Management Department (PDMD) was reorganized in 2018. It is responsible for managing the public debt, coordinating with international financial institutions (IFIs) and bilateral creditors, and cooperating with international agencies regarding Georgia's sovereign credit rating. The PDMD's organizational structure and division of work (Figure 5) are defined by Orders of the Minister of Finance No. 132, 2017 and No. 211, 2018.

Figure 5. The Structure of the PDMD



Source: MOF

The Government Securities (GS) Division is the front office (FO) for marketable securities, including securities issued in the domestic capital market and Eurobonds. The GS Division is responsible for formulating annual borrowing plans related to securities, promoting domestic market development, monitoring market conditions, developing a domestic GS issuance plan, and preparing, issuing, and placing domestic GS and Eurobonds.

The Analytical Division is the middle office (MO); it provides analytical support for government debt management. The division is tasked with compiling the debt management strategy (DMS), defining parameters for government debt based on the DMS, preparing debt portfolio analyses, forecasting the amount of government debt, and conducting debt sustainability analyses. The division also supports the FO's annual borrowing planning functions by assisting with managing the debt portfolio, analyzing terms and conditions involved in negotiation with IFIs, monitoring financial markets, and developing the domestic market issuance plan.

The Debt Recording and Reporting Division (DRRD) is the back office (BO) for debt management. Its functions include maintaining the government debt registry, recording and accounting the debt, servicing the debt, accounting and monitoring state guarantees, calculating debt service costs for budgeting purposes, and reporting on government debt and guarantees. The Debt Recording and Reporting Division is also expected to collaborate with other PDMD divisions in developing the GS issuance plan, determining the share of foreign borrowing, and analyzing the creditors' term and conditions.

The Investment Projects Division is the FO for borrowing from IFIs and bilateral borrowing. Its debt management functions include maintaining strong donor relationships, coordinating the process of negotiating and contracting loans from IFIs and bilateral creditors. Within the limits of its administrative purview, the division also participates in defining budgetary financing sources, determining the parameters for government debt based on the DMS, planning foreign borrowing, and assisting with the planning, development, and monitoring of investment projects.

The European Integration and Programs Division coordinates the government's efforts to achieve EU accession. With respect to debt management, the division shares the Investment Projection Division's FO functions for borrowing from IFIs and bilateral borrowing.

Overarching functions are assigned to several divisions to ensure coordination within the PDMD. For example, all three FOs (the GS, Investment Projects, and European Integration and Programs Divisions) and the Analytical Division play a role in annual borrowing planning, each within its own sphere of competence. However, the GS Division should also contribute to the formulation of the DMS, particularly on issues regarding market development.

The Debt Committee is an advisory body established to oversee the debt management activities in MOF. The committee is headed by the Minister of Finance and the Deputy Minister for the PDMD. The other members comprise four Deputy Ministers and the Head and Deputy Head of the PDMD. The main functions of Debt Committee are: (i) reviewing and discussing financial market conditions related to the issuance of government securities; (ii) approving and adjusting the GS issuance calendar; and (iii) determining the cutoff rate for T-bill and T-bond auctions.[3] Meetings of the Debt Committee are held on an ad hoc basis.

Following its administrative reorganization, the functions and capacities of PDMD have been significantly strengthened. Under the previous structure, the Public Debt and External Financing Department was the main debt management entity. Within the Department, the Public Debt Division performed a combination of front, middle and back office functions, while the +International Investment Projects and Euro-integration Division was responsible for the front office tasks for investment projects. In the updated structure, the new PDMD is the principal debt management office, and the front, middle and back office are clearly separated and defined. The DMS for 2019-2021 covers all central government debt and guarantees, and it provides guidance for borrowing operations. The PDMD has started to update the DMS for 2020-2022, but the process has been delayed (see DPI3).

The score for this dimension is a C, unchanged from the 2013 DeMPA. Debt management functions have been substantially consolidated, and a strategy has been formulated and used to guide borrowing operations. However, the strategy has not been updated, and the mission could not establish that the borrowing and debt management transactions are consistently guided by the DMS, which is needed for a higher score (see DPI 3).

Dimension 2

Requirement for minimum compliance (C): *If applicable, loan guarantees are prepared and issued by one or more government entities that regularly exchange information and closely coordinate their respective activities through formal mechanisms, both between themselves and with the debt management entity or entities.*

The State Debt Law vests the MoF with the sole responsibility for issuing loan guarantees, but the MoF does not specifically delegate this responsibility to the PDMD or any other MoF unit. The Debt Recording and Reporting Division is tasked with recording, monitoring, and reporting on all existing guarantees based on the Minister's Order. Currently, one guarantee remains outstanding, with a balance of close to US$1.7 million as of end-2019. The latest loan guarantee was issued in 1998.

The score for this dimension is a D, unchanged from the 2013 DeMPA. The guarantee limit included in the annual budget document is the only legal restriction on the issuance of guarantees. Therefore, the government does not meet the minimum requirements for this dimension.

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[3] According to Regulation on the Issuance, Circulation, Registration and Redemption of T-bills and T-bonds between the MoF and NBG, amended in November 2019, the NBG send the auction results and proposed allocations based on the rules prescribed in the regulation to the MoF, which then makes the decision on the cutoff rate. If the MoF does not respond within one hour, it is assumed that the MoF agrees with the proposed allocation.

DPI-3 Debt Management Strategy

Dimensions	Score
1. The quality of the debt management strategy document	**D**
2. The decision-making process and the publication of the debt management strategy	**D**

Dimension 1

Requirements for minimum compliance (C)*: A medium-term DMS is in place covering all existing and projected central government debt, based on the debt management objectives. The strategy is expressed at least as guidelines for the preferred direction of the evolution of specific indicators for interest rates, refinancing, and foreign-currency risks. In addition, if applicable, the strategy document contains a description of measures aimed at supporting domestic debt-market development.*

The government is not legally required to develop a medium-term DMS. The first DMS was formulated for 2019-2022 and approved by the Cabinet in March 2019. The strategy has two stated objectives: (i) to meet the government's financing need while minimizing medium- and long-term costs and managing risk levels; and (ii) developing the domestic market for government securities to enhance its liquidity, transparency and predictability. The DMS covers the central government's external and domestic debt and guarantees. It presents an overview of macroeconomic conditions and the medium-term outlook, describes the government's debt portfolio, and analyzes embedded risks, including exchange-rate risk, refinancing risk, and interest-rate risk. The DMS also describes the advantages and drawbacks of different financing sources and recommends measures to support domestic market development. The strategy is expressed as a set of guidelines for managing exchange-rate, refinancing, and interest-rate risks to the government's debt portfolio, and it specifies the quantitative ranges of its medium-term targets (Table 6). These targets reflect are based on an underlying cost and risk analysis conducted using the IMF-World Bank Medium-Term Debt Strategy Analytical Tool as well as judgement-based analysis.

Table 6: DMS Medium-Term Debt Indicators

Types of Risk	Indicators	2018 (benchmark year)	2019 (first year of implementation)	2021 (target)
Refinancing Risk	Debt maturing within one year as a percentage of total government debt	11.5%	11.2%	Max 20.0%
	ATM for total government debt	7.3	7.2	Min 5.5
Interest Rate Risk	Share of fixed debt in total government debt	60.7%	55.0%	Min 40.0%
	ATR for total government debt	3.7	3.2	Min 2.0
	Debt re-fixing in one year as a percentage of total debt	42.3%	46.1%	Max 70.0%
Exchange Rate Risk	Share of domestic debt into total government debt	18.7%	20.9%	Min 20.0%

Source: MOF

The key DMS guidelines are to mitigate exchange-rate risk by increasing the share of domestic debt in total government debt and to reduce refinancing risk by lengthening the maturity of the domestic borrowing. Among foreign currencies, the government considers debt denominated in euros more attractive than debt denominated in US dollars, as the euro/lari exchange rate is more stable than the dollar/lari exchange rate. An action plan is annexed to the strategy proposing the following reforms to support market development: (i) increase the liquidity of the government securities market; (ii) implement the Primary Dealer System; (iii) implement Liability Management Operations; (iv) improve communication with investors; (v) prepare a Eurobond refinancing plan; and (vi) facilitate access to government securities for individual investors.

Important progress has been made on implementing these reforms. The domestic market has expanded: the stock of outstanding T-bills and T-bonds rose from GEL 2.4 billion at end-2017 to GEL 2.8 billion in 2018 and reached GEL 3.8 billion in 2019. The government has launched a benchmark issuance program in 2018. The regulations concerning GS-related issues between the MoF and NBG were amended in November 2019, which partially addressed the legal challenges related to GS buyback operations. The first buyback operation was undertaken in December 2019, and discussions are ongoing. Progress has also been made in implementing the Primary Dealer System, enabling the participation of the Pension Agency in the GS market, and establishing a Eurobond refinancing plan, though uncertainties persist in these areas.

The medium-term DMS has been formulated and formally approved to guide government debt management activities. The targeted ranges for concerned risk indicators are realistic, and the DMS includes measures to support domestic debt market development. The overall quality of the strategy document is satisfactory. However, to meet the minimum requirements for this dimension, the strategy must be updated annually.

The score for this dimension is a D, unchanged from the 2013 DeMPA. The formulation of the DMS represents a major improvement, but without annual updates, the DMS still fails to meet the minimum requirements for this dimension. Consequently, no increase in the score is warranted. However, given the overall quality of the strategy, updating it annually would enable this dimension to meet the requirement for a score of B.

Dimension 2

Requirements for minimum compliance (C): *The strategy proposal is prepared by the principal debt management entity or, if there is no such entity, jointly by the debt management entities. The views of the central bank are obtained; the strategy is formally approved; and the strategy is made publicly available, including through publication on official website(s) and in print media.*

The Analytical Division of the PDMD led the preparation of the 2019-2021 DMS. The drafting process began in 2017. The Macroeconomic Analysis and Fiscal Policy Planning Department and the Budget Department were involved in the discussions and provided inputs as needed. The NBG has confirmed that it was also involved in the process. In addition, representatives from the IMF, the World Bank, the State Audit Office, and the Parliament were consulted on the design of the strategy. The draft was submitted to the Debt Committee for review and approval by the Deputy Head and Head of the PDMD before its final submission to the Cabinet. Formal approval by the Cabinet was issued via a Government Decree in March 2019, and the DMS was subsequently published on the MoF's official website.[4]

The Public Financial Management Reform Strategy for 2018-2021 called for formulating the DMS and managing the public debt in accordance with it. The PDMD plans to update the DMS on an annual basis for rolling three-year periods. The update for 2020-22 has been initiated following the approval of the annual budget for 2020. The PDMD aims to prepare a draft of the updated strategy by end-February 2020 and obtain approval and publish by end-March. However, no formal timeline for the update process has been established. The preparation and approval of the DMS took more than two years, and it is unclear whether the strategy will be updated in a timely manner.

[4] Georgian version: https://mof.ge/5231; English version: https://mof.ge/en/5232

The score for the dimension is a D, whereas it was scored N/R in the 2013 DeMPA. As no DMS had yet been prepared in 2013, a score for this dimension could not be assessed. The preparation, approval, and implementation of the 2019-2021 DMS have been generally sound, but there is no explicit requirement or established annual process for developing and approving the DMS. Therefore, this dimension fails to meet the minimum criteria for a score of C. For score higher than C, the strategy must be integrated into the budget document and medium-term term fiscal framework to guide the annual borrowing plan.

DPI-4 Evaluation of Debt Management Operations

Dimensions	**Score**
1. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt, loan guarantees, and debt-related operations.	**C**
2. The presentation and content of an annual evaluation report to the parliament or congress on debt management activities and general performance.	**C**

Dimension 1

Requirements for minimum compliance (C): *A debt statistical bulletin (or its equivalent), with the main categories listed in the "Rationale and Background" section of this DPI (with the exception of the basic risk measures of the debt portfolio), is published annually, with debt data that are not more than six months old at the date of publication.*

A debt statistical bulletin is prepared and published on the MoF's website on a semiannual basis. The data on external debt are disaggregated by creditor, creditor type, and borrowing purpose. The bulletin presents exchange-rate data and recent trends, as well as information on external disbursements and debt service payments by creditor and economic sector. Portfolio cost and risk indicators comply with all DeMPA methodological requirements except the government's ability to repay and the share of debt to be refinanced within a year—these two indicators are expected to be included in the next issue of the bulletin, which is scheduled to be published at the end of March 2020. There is only one guaranteed loan in the portfolio (issued in 1998); the bulletin reports its stock in the original currency and in lari, and it shows the debt service payments being paid by the guaranteed party. Data on domestic debt include stocks by instrument and maturity, debt curves for each type of instrument, weighted average interest rates and average time to maturity, and debt service paid by the end of projection periods. The bulletin includes the issuance calendar for the year. It also publishes the outstanding amounts of on-lent loans and the debt service due by the recipient. Cost and risk indicators for the public debt include average time to maturity and weighted average interest rates; domestic, external, and total net flows and transfers; the ratios of domestic, external, and total debt to GDP; and the ratios of domestic, external and total debt service to government revenues.

The score for this dimension is a C, up from a D in the 2013 DeMPA. The bulletin is timely and thorough, and thus the minimum requirements for this dimension are met. To achieve a score of B, the bulletin must be expanded to include the missing risk indicators for external and total debt described above.

Dimension 2

Requirements for minimum compliance (C): *A report (or section of a wider report) providing details of outstanding government debt and debt management operations is submitted annually to the parliament or congress and is also made publicly available.*

The Budget Code requires the government to submit quarterly and annual budget execution reports to Parliament. These reports contain two sections related to debt management. The first section describes the evolution of the overall stocks of domestic and external debt. It also disaggregates the data by individual creditor and creditor type, average time to maturity, currency, type of interest, and interest rate. The data on debt flows include debt service paid disaggregated by interest and capital. The second section details all disbursements from external sources and all issuances of government securities in the domestic debt market.

A separate annual report, prepared by the State Auditor Office of Georgia, is also presented to Parliament and made publicly available. In addition to the financial audit of government accounts, this report presents information on outstanding debt and how it was affected by exchange-rate fluctuations, as well as debt service paid during the year. The report also includes some basic compliance auditing.

The score for this dimension is a C, up from a D in the 2013 DeMPA. The MoF submits an annual report to Parliament detailing outstanding government debt and guarantees, and this report is made public. Therefore, the minimum requirement for this dimension are met. To achieve a higher score, the annual reports to Parliament must include an assessment of how well debt management activities comply with the DMS (i.e., a comparison of planned versus actual activities).

DPI-5 Audit

Dimension	**Score**
1. Frequency of financial audits, compliance audits, and performance audits of the central government as well as publication of the external audit reports	**A**
2. Degree of commitment to addressing the outcomes of internal and external audits	**B**

Dimension 1

Requirements for minimum compliance (C): *An external financial audit of debt management transactions is undertaken annually. External compliance audits have been conducted in the past two years. Audit reports are made publicly available within six months of the completion of the audit.*

Public debt management activities are subject to financial, compliance and performance audits conducted by the supreme audit institution, the State Audit Office of Georgia (SAO). Audits are undertaken in line with the provisions of the Organic Law on State Audit and other relevant legislation. The SAO's mandate is to facilitate the legal, efficient, and effective expenditure of public funds and management of property owned by the state, autonomous republics, and local authorities, as well as to strengthen public finance management. The SAO is member of the International Organization of Supreme Audit Institutions (INTOSAI). Since 2019, the SAO has been subject to an independent annual audit of its financial statements. In 2019, Deloitte conducted the first audit of the SAO, and its report is available online. In recent years, the SAO has significantly enhanced staff training activities and capacity building to ensure high-quality audits of government debt management policies and operations.

The SAO performs annual financial audit of budget execution. At the time of the DeMPA mission, the latest report was for the 2018 budget execution audit and had been published in 2019. The annual financial audits reports are based on the annual financial statement submitted by the MoF to the SAO in March. The SAO submits the report to Parliament by May 20 and publishes it simultaneously. The report is then discussed during the spring session of Parliament. Debt management operations are covered in the financial audit report and complemented by elements of a compliance audit, such as compliance with fiscal rules (including debt ceilings), the implementation of disbursement plans, payments of commitment fees due to delayed disbursements, and delays in project implementation, inter alia. Past audits have also included recommendations for addressing conflicting definitions of public debt in different local laws and expanding the coverage of the DSA to include SOE debts and other public liabilities.

The performance audit of debt management covered the 2011-14 period and was published in 2015. The first audit of information technology (IT) systems related to debt management also took place in 2015. In 2016, the SAO conducted a performance audit of on-lending activities during 2010-14. In 2019, the SAO initiated a follow-up performance audit of debt management operations and IT systems, which is expected to be finalized and published during 2020.

In 2010, the MoF created the Central Harmonization Unit and the Internal Audit Division to fulfill internal audit functions. Internal audits are conducted based on a three-year plan and an annual audit plan, which are designed on a rollover basis. The frequency of these audits is determined based on risk factors identified by the Internal Audit Division. In addition to conducting internal audits, the Internal Audit Division has an MoU with the SAO to monitor the implementation of external audit recommendations.

The NBG, which is the MoF's fiscal agent for selected debt management operations, also has an Internal Audit Service. Annual audit plans are formulated based on a risk assessment and designed heat map, similar to the approach applied by the MoF. An audit related to debt management responsibilities took place in 2018 and covered the application of controls at the Central Securities Depository. The audit included a list of recommendations, which were implemented in 2019.

The score for this dimension is an A, up from a D in the 2013 DeMPA. Debt management activities are subject to annual financial and compliance audits by the SAO, and performance audits were prepared in 2015, 2016, and 2019[5] to evaluate the implementation of various debt management activities and related functions. Internal audits are conducted in the MoF and NBG, and all external audit reports became publicly available within six months of completion.

Dimension 2

Requirements for minimum compliance (C): *The relevant decisionmakers produce a managerial response to address the outcomes of the internal and external audits of government debt management activities.*

The SAO has an effective system in place for monitoring the implementation of external audit recommendations. The SAO also coordinates closely with Internal Audit Division of the MoF to provide updates on implementation progress. After external audit reports are approved, they are sent to the MoF, which designs an action plan and submits it to the SAO within 30 days. Implementation monitoring is conducted during the year on at least an annual basis. The SAO communicates with the relevant MoF departments and with the Internal Audit Division for monitoring purposes.

The SAO and MoF review audit results and regularly confer on implementation progress. For example, the 2015 external audit presented nine recommendations, of which four were fully implemented, while the rest were partially implemented or not implemented. The issues raised by the SAO required amendments to legal provisions and the introduction of new methodologies and processes, which in some cases were impossible to implement. These recommendations included adjusting the definition of public debt in local legislation; amending the definition of contingent liabilities in the budget legislation; undertaking evaluations of contingent liabilities; and determining the treatment of historic debt from the Soviet Union. According to interviews with SAO representatives, there is an open and responsive attitude to compliance with external audit recommendations, and most delays are due to deficiencies in the legislative and decision-making processes. By contrast, internal audit recommendations are implemented swiftly and effectively.

The score for this dimension is a B, whereas it was scored N/R in the 2013 DeMPA. The recommendations of external and internal audits inform an action plan that is implemented reliably, with regular monitoring and corrective measures taken as necessary. The implementation of the action plan is

[5] Performance audit for 2019 was taking place during the DeMPA mission.

monitored on a monthly, quarterly, and annual basis. There is a high level of compliance with internal audit recommendations and good compliance with external audit recommendations. To achieve a higher score, all audit recommendations must be implemented according to the agreed timeline.

4.2 Coordination with Macroeconomic Policies

DPI 6 Coordination with Fiscal Policy

Dimension	**Score**
Dimension 1: Support for fiscal policymakers through the provision of accurate and timely forecasts on total central government debt service under different scenarios	**B**
Dimension 2: The availability of key macroeconomic variables and analyses of debt sustainability, and the frequency with which they are undertaken	**A**

Dimension 1

Requirements for minimum compliance (C): *As part of the yearly budget preparation process, forecasts are provided on total central government debt service.*

The MoF's Budget Department is responsible for developing the medium-term fiscal information document, which is known as Basic Data and Direction (BDD), and for drafting the annual budget according to the timeline prescribed in the Budget Code. The budget cycle includes three rounds of budget submission to Parliament. The PDMD prepares and updates debt service calculations for the BDD and annual budget documents for each round of budget submission.

The PDMD calculates debt service estimates based on the existing debt stock, projected disbursements for projects, and the securities issuance plan. For baseline estimates, the monetary policy rate forecasts published by the NBG are used as the basis for projected interest rates on domestic securities, while assumptions about the Libor and Euribor are made for variable-rate external debt. The current exchange rate is used for the baseline projection. In addition, the PDMD analyzes the impact of different interest- and exchange-rate scenarios on the net issuance of domestic securities and debt service estimates. This baseline projection is used to create an appropriate buffer. Information about the process is communicated effectively by the Budget Department, and the spreadsheet and underlying analyses are shared and discussed. The final figures included in the annual budget are determined through negotiations between the PDMD and the Budget Department. For the past three fiscal years, the variations between budgeted and actual debt service aggregates have been less than 10 percent for interest and principal payments on both domestic and external debt (Table 7).

Table 7: Debt-Service Payments, Projected versus Actual, 2017-19 (GEL millions)

	2017		**%**	**2018**		**%**	**2019**		**%**
	Projected	Actual		Projected	Actual		Projected	Actual	
Interest Payments	452	478	*-2.6%*	556	543	*2.3%*	635	616	*3.2%*
External	222	239	*-7.3%*	295	274	*7.8%*	351	335	*4.8%*
Domestic	230	239	*-3.8%*	260	269	*-3.2%*	284	280	*1.2%*
Principal payments	465	477	*-2.6%*	760	750	*1.3%*	930	957	*-2.8%*
External	430	442	*-2.8%*	725	715	*1.4%*	890	917	*-2.9%*
Domestic	35	35	*0.0%*	35	35	*0.0%*	40	40	*0.0%*

Source: MOF

The score for this dimension is a B, up from a C in the 2013 DeMPA. Debt service forecasts are provided in a timely manner to inform the government's annual budget preparation process. Forecast errors are small, and sensitivity tests are applied to interest- and exchange-rate projections. To achieve a score of A, scenario analyses must be conducted, including a projected worst-case scenario.

Dimension 2

Requirements for minimum compliance (C): *Key macroeconomic variables (actual outcomes and forecasts) and a DSA that has been undertaken by the government within the past three years are shared with the principal debt management entity or entities.*

The Analytical Division of the PDMD is tasked with preparing the DSA. Since 2014, the DSA has been conducted annually; the document is annexed to the annual budget, which is submitted to Parliament and published. Georgia's budget process is well coordinated, and a DSA is performed and revised for each round of budget submission. The Macroeconomic Analysis and Fiscal Policy Planning Department produces and shares the macroeconomic assumptions used for the BDD, the annual budget, and the DSA baseline projection. The DSA's fiscal projections are consistent with those used in the annual budget and the BDD.

The PDMD uses the IMF DSA template for Market Access Countries (MACs) to conduct its analysis. The DSA covers general government debt, including guarantees, while local government debt is minimal. The DSA for the 2020 budget includes a baseline analysis and seven stress tests, which have been customized to reflect the risks facing the government. These risks include shocks to the real growth rate, interest rate, exchange rate, and primary balance, as well as combined shocks to the primary balance, real growth rate, and interest rate, and a contingent liability shock, which is calibrated as 30 percent of the guarantee associated with power-purchase agreements (PPAs). SOE debt is not explicitly included in the analysis, as most (but not all) SOE debts are on-lent by the government and are therefore included in the debt stock and the contingent liability test partially addresses the fiscal risk arising from SOE debt. As part of a broader effort by the government to address fiscal risks, a dedicated fiscal risk analysis report is produced by the MoF's Fiscal Risk Analysis Division. The report contains detailed information on fiscal risks arising from various sources, including SOEs, PPPs, and PPAs. The report is also included in the annual budget documents submitted to Parliament.

The DSA document is published as an annex to the budget. It projects the public-debt-to-GDP ratio under the baseline scenario and various stress tests, the results of which are compared with the public debt ceiling of 60 percent of GDP prescribed in the Liberty Law.

The score for this dimension is an A, up from a B in the 2013 DeMPA. The DSA has been conducted annually since 2014, which warrants an increase in the score for this dimension. The preparation of the DSA is a well-coordinated process involving the PDD, the Budget Department, and the Macroeconomic Analysis and Fiscal Policy Planning Department.

DPI 7 Coordination with Monetary Policy

Dimension	**Score**
Dimension 1: Clarity of separation between monetary policy operations and debt management transactions	**B**
Dimension 2: Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cashflow	**B**
Dimension 3: Extent of the limit of direct access to financial resources from the central bank	**A**

Dimension 1

Requirements for minimum compliance (C): *Monetary policy operations are kept formally separate from debt management transactions insofar as the central bank carries out debt management transactions as an agent of the central government. In addition, the central bank keeps the government and the market informed when transactions are undertaken for monetary policy purposes and when it transacts in the market as an agent acting on behalf of the central government.*

The NBG focuses its monetary policy on maintaining price stability. It uses one-week refinancing loans that are disbursed to commercial banks on an auction basis. The NBG actively uses other instruments as well, such as minimum reserve requirements and open market operations with certificates of deposit (CDs), Treasury securities, and one-month open market operations. NBG also uses standing facilities of overnight loans and deposits. The government bonds used in NBG open market operations are derived from an agreement signed with the government to clear its debt to the NBG. The agreement calls for converting part of the debt into bonds with 16-60 months maturities every year, and the debt is expected to be fully covered by 2030 (see dimension 3 for details).

Article 41 of the Organic Law of the NBG identifies the central bank as the fiscal agent of the government. As such, the NBG conducts T-bills and T-bonds auctions on the government's behalf under an arrangement explicitly defined in the MoU between the government and the NBG, however, the overall MoU[6] has not been made public. In November 2019 new regulation was issued by the Ministry of Finance to include the latest buyback operations[7].

T-bill maturities in recent years have ranged from 182 to 364 days, while T-bonds have been issued with of maturities of two, five, and ten years. Since 2016, the NBG has been issuing three-month CDs through auctions. The auction announcements specify that transactions are being carried out for fiscal policy purposes, and market participants are clearly aware of the different nature of the instruments used for monetary and fiscal policy.

The score for this dimension is a B, up from a C in the previous DeMPA. Market participants are aware of the different instruments used for monetary and fiscal policy and the NBG's roles and tasks as a fiscal agent of the government are specified in the MoU, which has been recently updated. To warrant a score of A, the MoU between the government and the NBG must be made public.

Dimension 2

Requirements for minimum compliance (C): *When relevant for monetary policy implementation, there is at least monthly information sharing on current and future debt transactions and central government cashflow with the central bank.*

Although there is no formal coordinating committee for the NBG and the MoF, the two institutions continually exchange information. When an issue is identified, the two parties meet to discuss and move forward. The exchange of information between the two institutions is governed by an MoU, which defines the type of information to be shared by each institution and the frequency with which it is shared. On a daily basis, the Treasury must send to the NBG information on budgetary revenues, expenditures, and deficits, as well as changes in the Treasury Single Account (TSA), while the NBG must send to the Treasury data on reserves and banks deposit rates. On a weekly basis, the Treasury sends the NBG its four-week projections for its account balances and liquidity, as well as its deposits in commercial banks. Bimonthly

[6] The agency agreement that governs relationship between the NBG and Ministry of Finance
[7] "Regulations about the issue, circulation, registration and redemption of Treasury Bills and Treasury Notes". Available at https://www.nbg.gov.ge/uploads/legalacts/finansuribazrebi/2019/10.01_51.pdf

and quarterly information exchange includes data on budget execution and projected issuances of Treasury securities and CDs. All information is exchanged via email.

In parallel, the NBG prepares its own projections for the liquidity situation of the TSA, which are broken down into weekly liquidity forecasts based on historical data. These projections are not shared with the MoF. However, external debt service projections are shared with the NBG on a weekly basis.

The score for this dimension is a B, up from a C in the 2013 DeMPA. The weekly sharing of cashflow forecasts and external debt data between the MoF and NBG meets the requirements for a score of B. To obtain a higher score, information on cash balances and external debt must be exchanged on a daily basis.

Dimension 3

Requirements for minimum compliance (C): *Access to financing from the central bank is subject to a ceiling imposed by legislation.*

Article 46 of the Organic Law of the NBG does not allow for the central bank to provide any financial assistance to the government or other state institutions. The NBG can purchase government securities for monetary policy purposes, but only on the secondary market.

The score for this dimension is an A, unchanged from the 2013 DeMPA. The legislation continues to meet the requirements for the maximum score.

4.3. Borrowing and Related Financing Activities

DPI-8 Domestic Borrowing

Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities	**A**
2. The availability and quality of documented procedures for borrowing in the domestic market and interactions with market participants	**A**

Dimension 1

Requirements for minimum compliance (C): *The central government raises funds domestically using market-based instruments to fund the projected borrowing requirement. An annual borrowing plan for the projected aggregate amount of domestic borrowing—divided between the wholesale and retail markets and other sources—is prepared. In addition, a borrowing calendar that contains issue dates and instruments for wholesale securities for the following month is prepared and published at least one week ahead of the start of the month.*

Domestic debt mainly consists of Treasury securities, including T-bills and T-bonds. At the end of 2019, Treasury securities accounted for 90.5 percent of the total domestic debt stock. The MoF does not issue dedicated retail instruments. Debt to the NBG accounts for 9.3 percent of outstanding debt and consists of past bank credits in securitized form. According to the agreement between NBG and MoF signed in 2006, this debt is converted annually into marketable bonds, which the NBG can use for open market operations. Each year, GEL 40 million in government debt to the NBG is converted into securities with four different maturities ranging from 16-60 months. The latest outstanding amount of these bonds, prior to their conversion, was GEL 240.846 million. At this rate, the full securitization of the government's debt to the NBG is expected to be completed in six years. Several small loans of budgetary organizations account for the remaining 0.16 percent of the domestic debt stock. Until 2018, historical debt from the Soviet Union, which consists of frozen savings in bank accounts and other accumulated debt to Georgian individuals, was accounted as part of the domestic debt statistics; however, the MoF stopped including those liabilities in the debt statistics in 2019 because there are no accurate data on their amounts and beneficiaries.

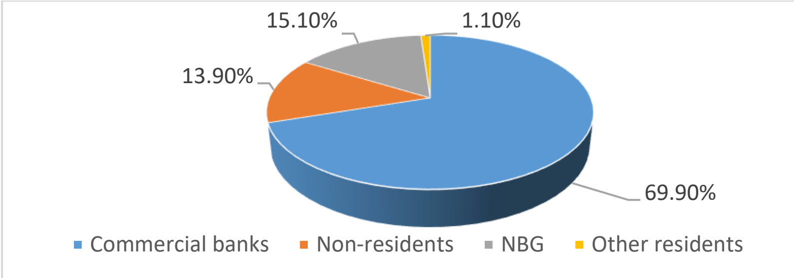
The PDMD prepares an annual borrowing plan that is included as an annex to the annual budget law approved by Parliament. Each draft borrowing plan is discussed and approved by the Debt Committee chaired by the Minister of Finance. In line with the State Debt Law, the MoF consults with the NBG on its domestic issuance plan. The budget law stipulates the maximum amount of net domestic issuance. In 2020, the government is expected to issue GEL 1.2 billion in net government securities, which would increase the size of the GEL-denominated government securities market by 31.5 percent.

Based on the annual borrowing plan, the PDMD prepares an internal issuance plan for 6-month and 12-month T-bills and two-, five- and ten-year T-bonds. Auctions are held weekly. Each tenor is offered once a month, except for the ten-year bond, which is auctioned quarterly—typically in the first month of the quarter. The auction sizes for each tenor are usually the same, with the exception of the six-month T-bill, which is more actively adjusted to suit the cash needs of the Treasury. The equal distribution of T-bond issuances improves the predictability of the auction calendar and helps investors to plan their investments in advance. The PDMD monitors the execution of the issuance plan and revises it on a monthly basis. These revisions primarily affect the issuance of the six-month T-bill. A quarterly issuance calendar, which is approved by the Debt Committee is published one week before the start of each quarter. In the quarterly calendar, the MoF publishes all auction dates, settlement dates of auctions (which are T+2), offered tenors, maturity dates of the offered instruments, and planned offered amounts for each auction. The MoF also indicates if the planned transaction is an initial issuance or a reopening. The reopening of T-bonds is actively used to build benchmark sizes. The benchmark issuance program was announced at the beginning of 2018 and targeted a GEL 240 million benchmark size equally for the two-year, five-year and ten-year bonds. Since the introduction of the benchmark issuance policy, the MoF has significantly improved the program and successfully increased the target sizes. The target sizes will further increase in 2020 to GEL 490 million for the two-year, GEL 960 million for the five-year, and GEL 400 million for the ten-year bonds. One new five-year bond and two new two-year bonds are expected in 2020. To mitigate the increased refinancing risk of the benchmark bonds, the MoF introduced buyback auctions in 2019, and regular buyback auctions are planned close to the maturity dates of the benchmark bonds. The size of these buyback operations is incorporated into the internal issuance calendar but not the quarterly calendar. The results of buyback auctions are not published, and only successful participants receive confirmation of their accepted transactions.

On behalf of the MoF, the NBG issues GEL-denominated T-bills and T-bonds in line with its MoU with the MoF. A primary dealer system has not yet been established, but its gradual implementation is expected during 2020-21, with support from the IMF and World Bank. Only commercial banks can currently participate directly in the auctions, though other investors can submit bids through commercial banks. A single-client bid submitted by a bank cannot exceed 50 percent of the auction offered amount, and a single bank cannot buy more than 75 percent of the auction for its own account. Georgia applies multiple-price auctions, and it uses the Bloomberg auction platform. Based on the offered amount and the bids received, the NBG calculates the cutoff price and submits the auction result to the Debt Committee for approval. If no member of the committee objects within one hour after the submission, the NBG executes the auction allocation and announces the result. Auction results are published on the MoF and NBG websites as well as on the Bloomberg system.

Commercial banks are the major investors in GEL-denominated government securities. At the end of January 2020, commercial banks accounted for almost 70 percent of all outstanding government securities (Figure 6). Banks can finance their government securities purchases through the refinancing facility offered by the NBG at the policy rate. Rising yields in the last 3-4 months of 2019 sparked a surge in demand for GEL-denominated government securities among foreign investors. As a result, the share of foreign investors in the domestic market swiftly grew from less than 5 percent to over 10 percent.

Figure 6: The Composition of the Investor Base for GEL-Denominated Securities, End-January 2020



Box 1. Challenges to Establishing a Reliable Yield Curve in Georgia

Georgia continues to have difficulty establishing a reliable yield curve based on secondary market transactions and/or executable quotations. Despite the improving benchmark issuance program and the increasing primary market participation of foreign investors, the secondary market for government securities is still almost nonexistent. The aggregate volume of secondary market trading in 2019 was GEL 64.19 million, with no trades made between the end of June and the middle of December.[8] A market-making framework has not yet been established, though the two biggest banks usually post daily two-way bid-offer prices on their Bloomberg pages. However, the bid-offer spreads are very wide, typically exceeding 100 basis points in yields, and the quotes are not executable.

In the absence of executable quotes and an active secondary market, the NBG publishes a yield curve based on primary market data. Six maturity points are used to calculate the GEL yield curve: six- and twelve-month T-bills and two-, five- and ten-year T-bonds issued by the MoF and three-month CDs issued by the NBG. For each maturity point, only the latest auction results are taken into account, and auction results used in the calculations should not be older than 120 calendar days. After every primary market auction, the NBG updates the parameters of the yield curve model. The yield curve is published weekly after the completion of the MoF and NBG primary market auctions.[9]

The main shortcoming of the current yield curve methodology is that only one or two tenors are offered every week, and each tenor is offered only once a month, except the ten-year bond which is auctioned only once per quarter. Consequently, updates to the model's parameters are based on only one or two inputs. Because of the nature of the primary market, where transactions are less frequent, government securities yield curves are typically calculated based on secondary market transactions and/or executable price quotations posted by market makers. The nascent state of the secondary market is the key obstacle to establishing a reliable yield curve but increasing presence of foreign investors and the expected start of investment activities by the Pension Agency are expected to accelerate its growth.

One of the major objectives of the joint IMF-World Bank technical assistance program is to assist the authorities in establishing a reliable yield curve based on secondary market yields. The joint teams support the gradual implementation of the primary dealer system through an interim phase, which is expected to lead to a fully-fledged primary dealership by 2021-22. Under this framework, primary dealers will be obliged to provide executable two-way quotes that may facilitate the establishment of a more reliable yield curve, which can be updated daily.

Source: NBG

[8] Source: NBG
[9] Source of the yield curve methodology: NBG website

The score for this dimension is an A, unchanged from the 2013 DeMPA. While the maximum score has already been reached, domestic market operations have improved further since the last DeMPA. Market-based instruments are used for domestic borrowing, supported by a benchmark issuance strategy. An Annual Borrowing Plan is prepared and annexed to the annual budget law. A quarterly issuance calendar is prepared and published, which includes auction dates, tenors, specific instruments, and amounts offered, and auction results are published on the same day as the auction.

Dimension 2

Requirements for minimum compliance (C): *Borrowing procedures for all domestic borrowing as well as terms and conditions and criteria for access to the primary wholesale market and retail market are provided in print media or on the central government or the central bank websites.*

Article 16 of the State Debt Law stipulates that the MoF and NBG shall jointly prepare subordinate normative acts that define the conditions for the issuance, circulation, recording and repayment of government securities issued in the domestic market. T-bills and T-bonds are issued in multiple-price auctions. The terms and conditions of the auction procedures are stipulated in the "Regulation on the Issue, Circulation, Registration and Redemption of Treasury Bills and Treasury Notes Issued by the Ministry of Finance of Georgia," which is published in Georgian and English on the NBG website. The regulation was approved in 2010 and has been amended several times, most recently in 2015. The regulation specifies the deadlines for the auction announcements, the rules for the bidding procedure, the approval process for the cutoff rate, the allocation rules, and the announcement of the auction result. The registration of government securities issued via auctions and the settlement procedure are clearly described. In addition to the regulation, an auction announcement is prepared and published not more than five days prior to each auction. The detailed announcement is published on the NBG website, and a shorter version is posted on the MoF website. The announcement specifies the details of the T-bill or T-bond offered, including the ISIN code, the tenor, the offered amount, the auction date, the settlement date, the maturity date, the maximum amount of noncompetitive bids, the maximum share of a single-bank bid for the proprietary account, the maximum share of a single-client bid, the eligible participants, and the bidding period.

The PDMD communicates regularly with market participants. Formal meetings are convened on an ad hoc basis, and regular phone calls are held with the active auction participants to discuss market developments. The preparation for the pilot primary dealer system has generated even more active and regulation discussions. To improve communication with foreign investors and attract additional foreign investors to the domestic market, the MoF and NBG conducted a non-deal-related roadshow in January 2020. Moreover, the NBG, as fiscal agent of the government, organizes monthly meetings with the treasurers of commercial banks, and developments in the government bond market are discussed at these meetings whenever relevant.

The score for this dimension is an A, unchanged from the 2013 DeMPA. The auction announcement and auction regulations contain all the required information and are published on the NBG website, and the PDMD and NBG hold meetings and communicates with market participants on a regular basis.

DPI-9 External Borrowing

Dimension	Score
1. Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan is prepared	**B**

2. Availability and quality of documented procedures for external borrowings	**D**
3. Availability and degree of involvement of legal advisers before signing of the loan contract	**A**

Dimension 1

Requirements for minimum compliance (C): *A yearly plan for external borrowing is prepared, and assessments of the most beneficial or cost-effective terms and conditions for external borrowing that are obtainable from potential creditors and markets are conducted annually.*

Although the amount of financing obtained from the domestic government securities market has been increasing, external borrowing remains the government's key financing source. The share of external debt in total debt declined slightly in 2019, but external debt still accounted for 79 percent of all outstanding debt at the end of the year. Multilateral and bilateral donors, which are partners in financing priority infrastructure projects account for majority of Georgia's external debt. Consequently, the external debt portfolio consists of mainly long-term preferential loans; the only outstanding instrument raised from the international capital market is a US$500 million Eurobond[10], which is due to mature in 2021. Most of the loan portfolio consists of traditional fixed-rate concessional financing, but the share of the variable-rate loans has been increasing and reached 48 percent of total loans at the end of 2019.

The PDMD prepares an annual borrowing plan that is included as an annex to the annual budget law approved by Parliament. The external borrowing plan, including planned disbursements of concessional loans, is part of the annual borrowing plan.

The Analytical Division of the PDMD regularly analyses potential external creditors to identify those offering the most favorable terms and conditions. This analysis covers the type of the loan (investment or budget support), grace period, maturity, type of interest (fixed or floating), interest rate or interest margin, currency, and fees (commitment fee, front-end fee), as well as the grant element offered by each creditor. The outcome of the analysis is summarized in a table, which is updated each time the terms and conditions are altered by the creditors. However, in some cases external loans are prearranged as part of a multilateral or bilateral cooperation agreement, and there is no scope to assess the terms and conditions offered by other creditors.

The score for this dimension is a B, up from a D in the 2013 DeMPA. An annual borrowing plan is in place, and the most cost-effective terms and conditions for external borrowing are regularly assessed, taking into consideration the constraints created by framework agreements. To further improve this score, the authorities must assess the terms and conditions obtainable from the potential creditors and markets before the start of each loan negotiation.

Dimension 2

Requirements for minimum compliance (C): *Adequate and readily accessible internal documented procedures exist for all external borrowings, including from international capital markets, and contain the requirement to enter all financial terms of the loan transaction into the debt recording system within three weeks of signing.*

All institutions involved in contracting new external borrowing in the form of international agreements follow the process described in the State Debt Law and the Law on International Treaties. Article 2 of the State Debt Law defines the roles and responsibilities of the public authorities and the process for entering into loan agreements. Chapter 3 stipulates the responsibilities of the MoF related to the

[10] The USD 500 million Eurobond was issued on April 12, 2011 with 6.875% coupon. The maturity date of the bond is April 12, 2021.

management of the external public debt stock, including the use of proceeds, the requirement to analyze the terms and conditions of the loan agreements, and the requirement to distribute the funds received from external sources. Chapter 2 of the Law on International Treaties covers the procedures for signing the international loan agreement, and Chapter 3 describes the procedures of registering, publishing, and keeping records of international agreements.

An internal procedural manual describes the process for concluding a loan agreement to finance investment projects or for budget-support purposes. For investment projects, the implementing agency initiates the loan negotiation through the relevant line ministry. The ministry then submits the proposal to the MoF, which checks the project's compliance with the government's priorities, reviews the available creditors' terms and conditions, and reaches out to the potential donor(s) to negotiate the project financing. For budget support, the MoF also initiates the process. In collaboration with the relevant ministries, which always include the Ministry of Justice, a draft contract is sent to the donor(s) for negotiation. After its signature by the MoF, the Ministry of Foreign Affairs submits the loan agreement to Parliament for ratification.

Chapter 3, Article 22 of the State Debt Law includes government securities denominated in foreign currency as part of the external debt, but roles and responsibilities related to the issuance of international bonds are not specified. In the past, the Cabinet appointed an ad hoc committee to coordinate the process of issuing international bonds. The committee typically includes the Deputy Ministers of Finance, the Head and Deputy Head of the PDMD, and representatives from the Ministry of Justice and other relevant institutions. The committee proposes a list of banks to be invited to submit a proposal based on the publicly available league tables downloaded from the Bloomberg system. Once the Cabinet approves the list of banks, a request for proposals is circulated. The committee discusses the proposals received and makes a decision as to the number of banks to be invited to be lead managers and/or co-lead managers. The Cabinet approves the selected banks and may authorize the committee to make the final decision on the transaction when it is completed.

The score for this dimension is a D, unchanged from the 2013 DeMPA. Although, a procedural manual for mobilizing external loans for investment projects and budget support has been developed, and it describes the roles and responsibilities of the different agencies and ministries involved, the specific procedures for fulfilling these roles and responsibilities are not elaborated. Furthermore, the procedural manual does not cover the process of issuing government securities in the international capital market. Therefore, this dimension does not meet the minimum requirements.

Dimension 3

Requirements for minimum compliance (C): *Legal advisers approve all clauses of the legal agreements before concluding the negotiation process.*

The involvement of legal in the negotiation process for loan contracts has not changed since the 2013 DePMA. The MoF's Legal Department is engaged on an ad hoc basis during the negotiation process, and all draft loan agreements are sent to the department to be reviewed and commented on before the loan is signed. In addition, the Ministry of Justice reviews and comments on the draft agreement and other legal documents throughout all the stages of the negotiation process, then issues its formal legal opinion when the negotiation of the loan agreement is concluded. According to Article 2 of the State Debt Law, a proposal submitted by the MoF to the government upon entering into an international agreement related to contracting external public loans must include an opinion from the Ministry of Justice as to the appropriateness of the agreement and related issues. Furthermore, a representative of the Ministry of Justice participates as one of the country's negotiating team members. Additionally, the Investment Project Division has a lawyer on its staff who is responsible for reviewing the legal documentation but does not issue a legal opinion.

The score for this dimension is an A, unchanged from the 2013 DeMPA. As legal advisers are involved from the first stage of the negotiating process to the conclusion, all the requirements for this dimension are met.

DPI 10 Guarantees, On-lending, and Debt-Related Transactions

Dimension	Score
1. Availability and quality of documented policies and procedures for the approval and issuance of the loan guarantees	**N/A**
2. Availability and quality of documented policies and procedures for the on-lending of borrowed funds	**D**
3. Availability of a debt management system with functionalities for handling derivatives and the availability and quality of documented procedures for the use of derivatives	**N/A**

Dimension 1

Requirements for minimum compliance (C): *There are documented policies and procedures for the approval and issuance of loan guarantees.*

Due to previous failures among borrowers whose debts were covered by government guarantees, the authorities have issued no sovereign guarantees since 1998. At end-2019, Georgia's outstanding stock of publicly guaranteed debt consisted of only one guarantee in the amount of US$1.68 million.

The State Debt Law stipulates the rules and procedures for the approval and issuance of central government loan guarantees, particularly in Chapter 4. Article 35 establishes the procedure for issuing central government guarantees: an economic agent applying for a guarantee shall enclose a business plan with the application that specifies the purpose of the credit, the expenses envisaged, the validity period, the estimated benefits, and possible risks. According to Article 36, the MoF shall carry out an economic analysis and determine the degree of risk of each guarantee. Furthermore, the MoF shall determine the amount of funds that the economic agent must transfer to the Risk Fund. If sufficient funds are not transferred to the Risk Fund, the MoF may refuse to authorize the guarantee. Article 38 states that guarantees should be issued mainly to enterprises and organizations that provide services for budgetary institutions. Article 39 stipulates that the government shall decide on the issuance of a public guarantee based on a proposal prepared by the MoF, and the guarantee agreement shall be ratified by Parliament. While the Law on State Debt adequately describes the procedures for issuing public guarantees, the MoF has not developed detailed operational guidelines defining the units responsible for specific activities. Consequently, precise rules for how credit risk should be assessed and measures to minimize the budgetary impact of a default have not been established.

In the last IMF Article 4 consultation (completed in June 2018) and in the IMF Fifth Review under the Extended Arrangement (published in December 2019), the government declared its intention to contain fiscal risks and avoid domestic or external debt payment arrears. To achieve those objectives, the government committed to refrain from issuing new public guarantees or comfort letters. In addition, the government will not initiate any PPPs,[11] including PPAs, until the PPP framework is fully operational. The framework will become operational once the value-for-money (VfM) methodology has been approved, per

[11] The Law on Public-Private Partnerships took effect in May 2018.

the IMF's recommendations, and incorporated into the PPP guidelines. These guidelines will be issued by end-March 2020, providing a new structural benchmark.[12]

The annual budget law imposes a ceiling on aggregate outstanding public guarantees, which is calculated based on the current outstanding volume of guarantees. In the 2020 Budget Law, this amount was GEL 4.55 million, equivalent to EUR 1.4 million based on the applicable exchange rate. This ceiling allows no room for the issuance of new public guarantee.

The score for this dimension is N/A, whereas it received a score of N/R in the 2013 DeMPA. The government has not issued any new public guarantee since 1998, and in line with the government's commitment to the IMF, the annual budget law restricts the issuance of new public guarantees. The score of N/A, rather than N/R, reflects a change in the DeMPA methodology.

Dimension 2

Requirement for minimum compliance (C): *There are documented policies and procedures for the approval and lending of borrowed funds.*

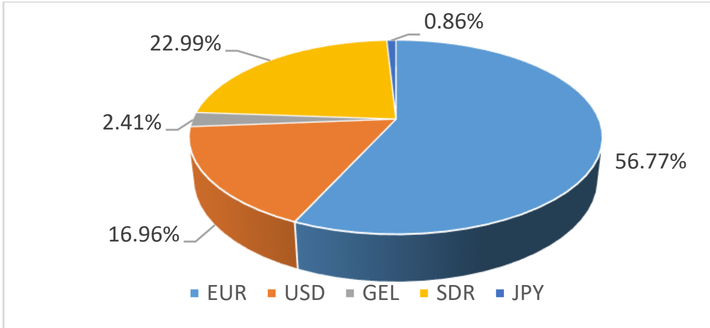
The State Debt Law sets forth provisions for the on-lending of external debt. On-lending from external public debts for financing investment projects is governed by Article 31. The on-lending process is similar to the process for negotiating external loans. The investment plan is submitted to the MoF, which reviews and analyzes the financial position and credit risk of the borrower, and the Fiscal Risk Management Division conducts a risk assessment of the borrower. This division was established in 2015, two years after the conclusion of the previous DeMPA. A Fiscal Risk Analysis report is prepared annually and included as an annex to the budget law. The report provides: (i) a comprehensive macroeconomic analysis; (ii) an evaluation of the public sector balance sheet; and (iii) a financial analysis of SOEs; (iv) a review of PPPs and PPAs, including an assessment of PPP obligations. The following criteria are especially important for investment projects financed by on-lending: (i) the ability of the borrower to achieve the project's goal; (ii) the borrower's debt-service forecast; (iii) the absence of debt arrears by the borrower; and (iv) the absence of tax arrears by the borrower.

Once the MoF has completed the assessment, a formal on-lending contract is drafted. Normally, the terms and the conditions of the original loan agreement are transferred to the on-lending contract, and no on-lending fee is charged to the borrower. However, the MoF has the right to impose such a fee. The Debt Recording and Reporting Division is responsible for recording the on-lending contract in the Debt Management and Financial Analysis System (DMFAS). This division regularly monitors the solvency of borrowers based on their quarterly financial statements.

The on-lending procedure is not formally documented, but the mission obtained a first draft of the procedural manual being prepared by the MoF. The draft is an encouraging indication that progress is being made, but as the manual has not yet been finalized and implemented it cannot be considered in the DeMPA. At the end of 2019, the on-lending portfolio consisted of 58 loans provided mainly to SOEs and municipalities. The aggregate outstanding volume of the on-lending portfolio was GEL 2,616,945,746. The majority of the on-lending portfolio is denominated in euros, but there are outstanding contracts in lari, yen, SDR, and US dollars (Figure 7). The amount of arrears was GEL 22,916,384 at end-2019, which is less than 1 percent of the outstanding on-lending portfolio.

[12] IMF Fifth Review Under the Extended Arrangement, Requests for Waivers of Nonobservance of Performance Criteria, Modification of Performance Criteria, and an Extension of the Arrangement and Rephasing of Access; Press Release; Staff Report; and Statement by the Executive Director for Georgia (December 2019)

Figure 7: Currency Composition of the Outstanding On-Lending Portfolio



Source: MoF

The score for this dimension is a D, unchanged from the 2013 DeMPA. As adequate and readily accessible internal documented procedures for the approval and provisioning of credits in the form of on-lending are not available, the dimension fails to meet the minimum requirements. To meet those requirements, formal procedures for on-lending must be codified and implemented.

Dimension 3

Requirement for minimum compliance (C): *There is a debt management system with functionalities for handling derivatives. In addition, there are documented procedures for the use of derivative transactions.*

The score for this dimension is N/A, whereas it received a score of N/R in the 2013 DeMPA. The government does not use financial derivatives, and thus this dimension is not applicable. The score of N/A, rather than N/R, reflects a change in the DeMPA methodology in 2015.

4.4. Cash Flow Forecasting and Cash Balance Management

DPI 11 Cash Flow Forecasting and Cash Balance Management

Dimension	Score
1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	**A**
2. Decision as to a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including integration with any domestic debt borrowing program, if required)	**B**

Dimension 1

Requirement for minimum compliance (C): *Reasonably reliable monthly aggregate forecasts of cash inflows and outflows and cash balances in central government bank accounts are produced for the budget year and are made available to the debt management entity. In addition, the cash-balance forecast is updated monthly.*

The MoF's Cash Forecasting and Management Department (CFMD) is responsible for cash forecasting and cashflow management. This department was created in 2015 and was therefore not assessed in the previous DeMPA. The CFMD is divided into the Cash Forecast Division and the Cash Management Division. The former is responsible for cashflow forecasting, while the latter focuses on identifying and investing idle cash.

The TSA is managed by the Treasury and held with the NBG. The TSA is denominated in GEL. All revenues are collected by the TSA, and all payments are issued from it. While the TSA is a single account, there are so-called "sub-registers" for the state budget, up to 70 municipalities, and various autonomous authorities and legal entities. In total, the TSA serves about 1,500 institutions. All payments by these entities are conducted through the TSA. The NBG does not remunerate the TSA balance. Budget execution is conducted through the Treasury Information System.

Cashflow forecasting is crucial to the operations of the CFMD. At the beginning of the budget planning period, the CFMD requests cashflow projections from line ministries and other budgetary institutions. The PDMD provides input on external disbursements, international capital market transactions, domestic borrowing, and external and domestic debt service. Based on this information, the CFMD prepares cashflow forecasts disaggregated by category (Table 8). The annual forecast is broken down on a monthly basis and each month is broken down on daily basis. Nevertheless, the daily breakdown is considered reliable up to one month in advance, and the CFMD pays particular attention to the daily breakdown for the upcoming month. The daily cashflow projection is based on historical patterns, eliminating one-off transactions and accounting for the input received from line ministries, budgetary institutions, and the PDMD. Actuals are updated during the course of the year, and forecasts are updated for the rest of the year on at least a weekly basis. The yearly update does not extend beyond the end of the calendar year.

Table 8: Cashflow Projection Categories

Current revenues	Current expenses
Taxes	Salaries
Grants	Goods and services
Other revenues	Interest expense
Decrease in nonfinancial assets	Interest on domestic liabilities
Decrease in financial assets	Interest on external liabilities
Increase in liabilities	Subsidies
Increase in domestic liabilities	Grants
Increase in external liabilities	Social security
	Other expenses
	Increase in non-financial assets
	Increase in financial assets
	Decrease in liabilities
	Decrease in domestic liabilities
	Decrease in external liabilities
Total revenues	**Total expenditures**

Source: CFMD

Revenue and the expenditure forecasts are both highly accurate. During 2019, the monthly average deviations from the plan were 1.9 percent for revenues and 0.77 percent for expenditures, and the largest deviations were 3.85 percent and 3.09 percent, respectively. Consequently, the TSA's end-of-the-day forecasts performed with similar accuracy, with an average daily deviation of 5.1 percent in 2019. The performance of TSA forecasts deteriorated marginally in January 2020, when the average daily deviation for the end-of-day balance rose to 7.27 percent.

Figure 8: Revenue Forecasts versus Actuals, 2019

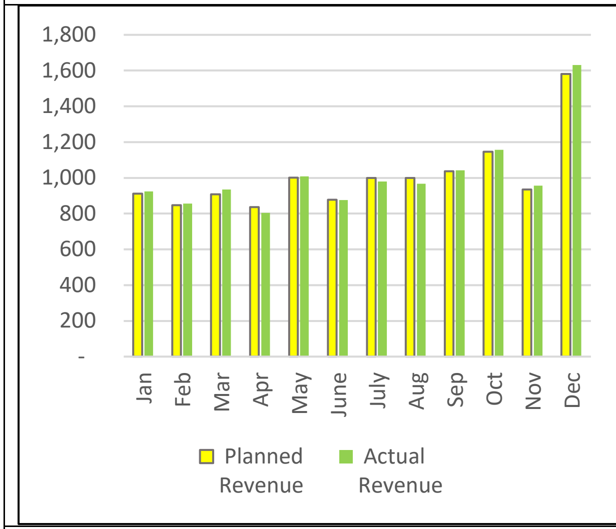


Figure 9: Expenditure Forecasts versus Actuals, 2019

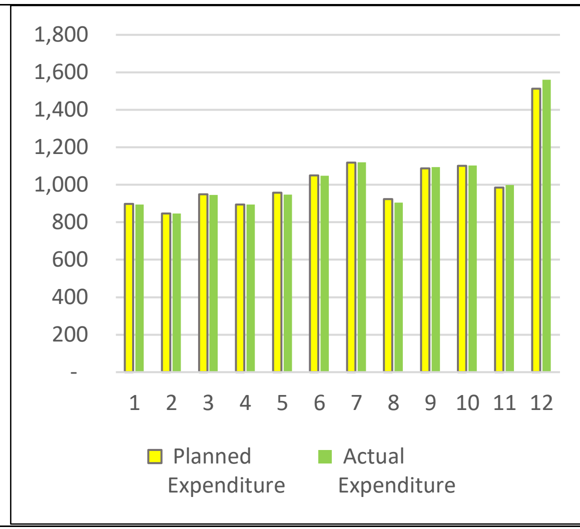
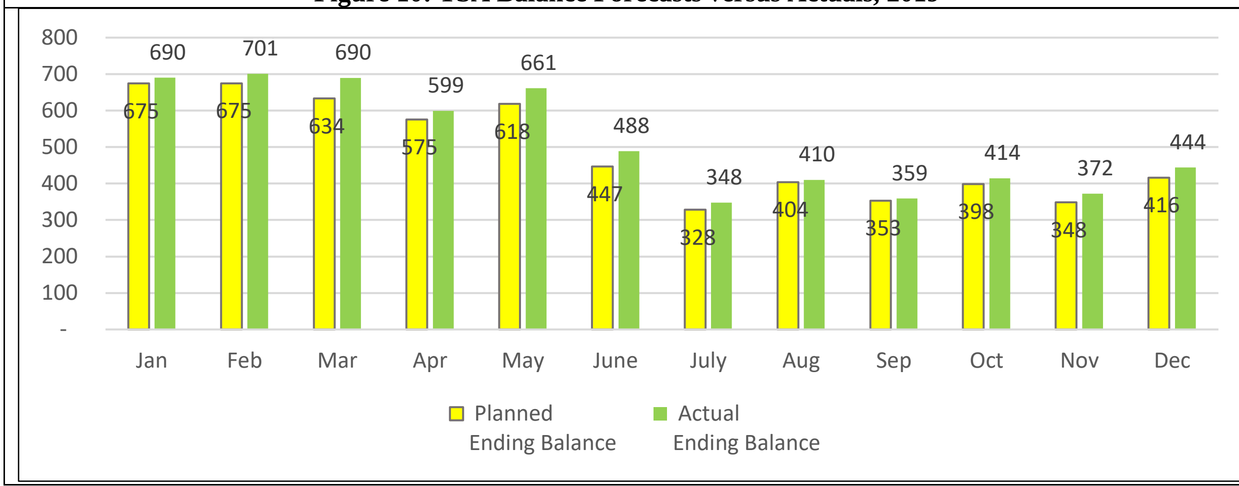


Figure 10: TSA Balance Forecasts versus Actuals, 2019



Source: MoF CFMD

The score for this dimension is an A, up from a D in the 2013 DeMPA. Reasonably reliable monthly aggregate forecasts of cash inflows and outflows and TSA cash balances are produced for the budget year and updated weekly, and the cashflow forecast for the coming month is broken down on a daily basis. Therefore, the maximum requirements for this dimension are met.

Dimension 2

Requirement for minimum compliance (C): *The central government manages its cash in excess of the target on at least a monthly basis through investment in the market or with the central bank at market rates.*

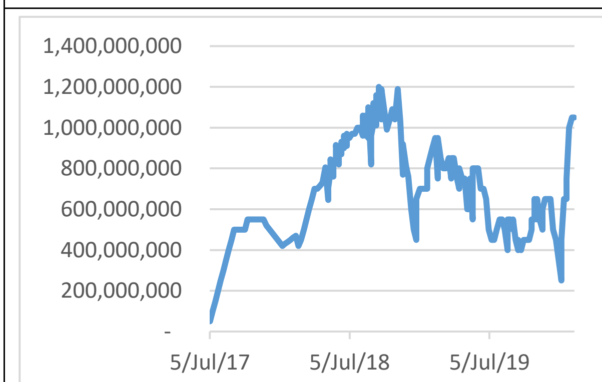
The CFMD is also responsible for the active cash management. Cash management currently includes only the investment of excess cash, as the CFMD is not authorized to raise cash for short-term cash management purposes. Since the NBG does not remunerate the TSA balance, the CFMD's objective is to minimize the end-of-the-day balance, and the average size of the TSA balance is the internal performance indicator for effective cash management. In 2016, before the CFMD began regularly investing idle cash, the average TSA balance exceeded GEL 800 million. The CFMD managed to reduce the average balance to about GEL 200 million in 2019. However, there is no specific methodology for calculating the minimum

TSA balance. In the absence of a formal minimum balance, the CFMD calculates the amount of cash necessary for to make mandatory payments, including salaries, pensions, subsidiaries, and debt service, etc. As discussed above, the CFMD updates the cashflow forecasts weekly and pays particular attention to the daily breakdown for up to one month in advance. Consequently, the majority of commercial bank deposits are contracted for one month.

The PDMD regularly issues six-month and twelve-month T-bills, holding one auction per tenor each month. The issuance of the T-bills is part of the Annual Borrowing Plan, and the planned issuance figures are part of the budget law. The PDMD and CFMD regularly coordinate, and in the event of a short-term cash shortage the PDMD may increase the issuance of six-month T-bills. For example, in January 2020 the PDMD issued GEL 70 million in six-month T-bill instead of its regular monthly issuance of GEL 20 million. The PDMD introduced buyback auctions in November 2019 to mitigate the refinancing risk of benchmark bonds. Buyback operations are designed in close coordination with the CFMD. Going forward, the PDMD plans to hold regular buyback auctions close to the maturity dates of the benchmark bonds, and this objective is included in the internal issuance plan. However, neither the dates nor the size of the monthly buyback operations is published.

The CFMD began regularly investing idle cash in July 2017. Since then, weekly deposit auctions have been organized (Figure 11). Auctions are conducted on the Bloomberg system, and 15 local commercial banks are currently eligible to participate. Deposits may be collateralized or noncollateralized, but the share of the noncollateralized deposits is marginal at about 5 percent of all outstanding deposits. In nominal terms, it cannot exceed GEL 50 million at a time. Based on the regularly updated annual cashflow forecast, which is broken down into daily basis for one month in advance, the Head of the Treasury Services determines the parameters of the weekly deposit auctions, including the offered amount and the tenor. Tenors can vary between two weeks and six months, but as mentioned above one-month deposits usually account for the majority of investments (Table 8). The weekly auction is announced on Monday, conducted on Tuesday, and settled on Wednesday. Collateral must be pledged by the banks until 2:00 pm on the settlement day. Cash settlement cannot be completed unless the collateral is pledged. The approval of the bids is automatic up to the offered amount if the interest rates submitted in the multiple price auctions are equal to or greater than the actual NBG policy rate, which is currently 9 percent. Taking into consideration the current flat shape of the yield curve, the cost of carrying the large liquidity buffer is not significant, though if the curve steepened, carrying the buffer would be much more expensive. Since the weekly auctions were introduced, none have been undersubscribed due to the structural GEL deficit in the banking system. Deposits can be terminated by Treasury Services at any time before the expiry date with one-day notice.

Figure 11: Outstanding Deposit Amounts (GEL), 2017-19



Source: MoF CFMD

Table 8: Deposit Amounts Placed by the Treasury Service as of February 11, 2020

Maturity	Amount (in GEL)
6 Months	50,000,000
3 Months	-
2 Months	-
1 Month	900,000,000
3 Weeks	100,000,000
2 Weeks	-
Total	**1,050,000,000**

Source: MoF CFMD

The score for this dimension is a B, up from a D in the 2013 DeMPA. The PDMD and CFMD regularly coordinate on short-term T-bill issuances and buyback operations, and idle cash is invested on a weekly basis. To improve the score for this dimension, the CFMD must undertake daily cash management transactions to keep the end-of-the-day TSA balance consistent with the government's target.

4.5. Debt Recording and Operational Risk Management

DPI 12 Debt Administration and Data Security

Dimensions	Score
1. Availability and quality of documented procedures for the processing of debt-related payments	**D**
2. Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records	**D**
3. Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail	**D**
4. Frequency and off-site, secure storage of debt recording and management system backups	**A**

Dimension 1

Requirements for minimum compliance (C): *There is an adequate and readily accessible procedural manual for processing debt service payments.*

Two handbooks describe formal procedures related to debt management operations in Georgia. These are the "Handbook of Procedures for Recording, Validating and Servicing Public External Liabilities" and the "Handbook of Procedures for Recording, Validating and Servicing Public Domestic Liabilities." Both handbooks were prepared and approved in 2014, after the previous DeMPA and before the reorganization of the PDD.

The handbooks do not adequately define the procedures for external and domestic debt management. They present a list of tasks to be undertaken for recording, validating, and servicing public debt, but they do not specify which staff members or units are responsible for these tasks, beyond the occasional general reference to the PDMD initiating a given process. For example, the handbooks identify inputting exchange-rate information as a task, but they do not designate the staff member or unit responsible for performing it or define the timeframe under which it is to be completed.

A dual-validation process for debt service payments mitigates the operational risk caused by the lack of written procedures. Between a week and ten days before the end of each month, the BO prepares a monthly debt service payment schedule for the following 30 days. This report is sent to the PDMD, the Budget Department and the Treasury. It is disaggregated by domestic and external debt payments and includes the name of creditors and the exact amounts and dates for the payments. The process for issuing a payment order depends on whether it is for external or domestic debt (see DPI-14).

Domestic debt is recorded in the electronic debt management system (eDMS). This system automatically generates an email on the day that payment is due to alert DRRD staff about the impending payment and issues an automatic debt service payment and sends it to the electronic Treasury system (eTreasury). The payment order needs to be validated by the Head of the DRRD and then by the Head or Deputy Head of the PDMD. These two validations are done electronically. The payment request goes from the PDMD to the Treasury and then to the NBG, where it is processed automatically. Once the payment is made, a confirmation note is sent from the NBG to the Treasury and forwarded to the PDMD.

External debt is recorded in DMFAS. This software is not linked with the ministry-wide information system, and thus payment instructions cannot be sent electronically to the Treasury and the NBG. The process for an external debt payment starts two days before the payment is due. Staff at the DRRD prepare a debt service payment order that includes the amount due, the date, and the creditor's details. The payment order is inputted manually into eTreasury and then validated electronically, as with domestic debt service.

The score for this dimension is a D, unchanged from the 2013 DeMPA. Due to the absence of formal, documented procedures for processing debt service payments, this dimension does not meet the minimum requirements. Achieving a score of C would require drafting and disseminating a formal procedural manual that reflects the existing institutional framework. To further improve the score for this dimension, the formal manual would need to be regularly reviewed.

Dimension 2

Requirements for minimum compliance (C): *There are readily accessible procedures manuals for debt data recording and validation, as well as for the storage of agreements and debt administration records.*

No documented procedures govern data recording and validation or the storage of agreements and debt administration records. Data on debt transactions inputted into the recording systems are checked by the Head of the DRRD in compliance with the "four eyes" principle. Information on new external loans and disbursements is inputted into an Access-based recording system used for monitoring project implementation. Recording is done by the Investment Projects Division (IPD). Within a week, DMFAS is updated with the loan information and any disbursements that have taken place, and this information is then checked by the DRRD. Data on external debt are reconciled with creditors statements and against the Access database used by the IPD on at least a monthly basis. Domestic debt data are inputted into the eDMS by the DRRD and checked by the Head of the DRRD after receiving notifications from the NBG.

Original loan agreements are stored at the Ministry of Foreign Affairs. Copies are available at the IPD and the DRRD. Bank credits, other issuances in international capital markets, and all other administrative records are stored at the DRRD in standard cabinets and are not protected against theft or fire.

The score for this dimension is a D, unchanged from the 2013 DeMPA. As there are no formal written procedural manuals to guide the recording and validation processes, and transactions records are not stored in a secured location, the minimum requirements for this dimension are not met.

Dimension 3

Requirements for minimum compliance (C): *There are documented procedures for controlling access to the central government's debt recording and management system.*

There are no formal, documented procedures for accessing the debt recording systems. The Financial Analytical Department (FAD) provides IT support for the MoF and DMFAS. The FAD reports updates to the system, provides instructions, and collects logs and sends them to UNCTAD. The FAD has internal written procedures for granting or discontinuing access to the MoF's network. The process starts with an official email from the Head of the FAD indicating the new user, his or her functions, and the type of access being granted. The FAD then issues the new user an access code that must be renewed every six months. The FAD also controls access to eDMS through two-factor authentication, transmitting a code to the user's cell phone in addition to the individual password each time access is necessary. Access to the DMFAS system is only regulated by the vendor's own procedures and not by the PDMD; per the DeMPA methodology, these regulations on access are not considered valid. The FAD is currently working to expand the coverage of eDMS to include external debt, but this process is not expected to be finalized before the end of this year.

The score for this dimension is a D, unchanged from the 2013 DeMPA. Because of the lack of formal written procedures for accessing DMFAS, the minimum requirements for this dimension are not met.

Dimension 4

Requirements for minimum compliance (C): *Debt recording, and management system backups are made at least once per month and stored in a separate secure location where they are protected from theft, fire, flooding, or other incidents that may damage or destroy any of these backups.*

The FAD is in charge of backing up all MoF systems and transactions. The FAD backs up all systems and transactions daily, weekly, quarterly, and yearly, in real time. The FAD employs two datacenters, which are mirrors to one another. One center is located at the MoF headquarters, and the other, which is connected by an optic cable, is 20 kilometers away at an undisclosed location. The facility is reported to be protected from theft, fire, and flood. Audit trails are used to monitor any potential unauthorized transactions. The NBG also uses a safe recovery site outside Tbilisi, where it stores backups undertaken in real time.

The score for this dimension is an A, unchanged from the 2013 DeMPA. Since daily backups are undertaken and a secured recovery site is available for storing debt-related operations, the maximum requirements for this dimension are met.

DPI 13 Segregation of Duties, Staff Capacity, and Business Continuity

Dimensions	Score
1. Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function.	**C**
2. Staff capacity and human resource management	**C**
3. Presence of an operational risk management plan, including business continuity and disaster recovery arrangements	**D**

Dimension 1

Requirements for minimum compliance (C): *There is clear separation between the debt managers with the authority to negotiate and contract, those responsible for arranging payment, and those responsible for recording and accounting for these transactions. The staff members entering data and checking data entries in the debt recording system are different to ensure that there is a separate risk monitoring and compliance function.*

For borrowing from IFIs and bilateral creditors, the Investment Projects Division and the European Integration and Programs Division are the FO responsible for coordinating negotiations and preparing loan agreements for signing. The copy of a signed loan agreement is sent to the DRRD to be registered in DMFAS. The agreement is entered by a staff member and validated by the Head of the DRRD. The same staff member may also initiate the process for a loan service payment, and the payment order must be approved by the Head of the DRRD as well as the Deputy Head and Head of the PDMD. The separate validations of the loan agreement entry and payment order by officials at the DRRD and PDMD provide a sufficient segregation of duties between FO and BO functions. In addition, the Investment Projects Division separately maintains an Access-based system for loan and project management. External loans are registered in the system, and the records are reconciled with those in DMFAS on monthly basis.

The score for this dimension is a C, up from a D in the 2013 DeMPA. Following the reorganization of the PDMP, the FO and BO functions are now adequately segregated, and the minimum criteria for this dimension are met. To obtain a higher score, the contracting function must be separated from the initial inputting of the loan information, the confirmation of the loan information entry, the processing of the loan payment. In addition, a risk monitoring and compliance function must be established.

Dimension 2

Requirements for minimum compliance (C): *There is a sufficient number of adequately trained staff members with formal job descriptions that are reviewed and updated periodically.*

Since the PDMD was reorganized in 2018, seven new staff have been recruited through an open competition process for which all Georgian citizens are eligible. The PDMD staff includes 31 positions, only one of which is administrative. Currently 29 positions are filled; the two vacancies include the Deputy Head of the PDMP, who is also supposed to be the Head of the Investment Projects Division. Two staff have left the department since 2018. The turnover rate is comparable with that of other departments in the MoF. Despite the vacancies, the number of staff is sufficient to fulfill the PDMD's assigned tasks.

The qualifications for each position are clearly defined in an Order of the Minister of Finance (No. 230, 2018). These qualifications include education level, years of experience, background knowledge, computer skills, and English language proficiency. All positions require higher education in certain fields, and most current staff have postgraduate degrees. All tasks are assigned a priority level. The current job descriptions were reviewed and revised during the reorganization of the PDMD. Job descriptions will be reviewed again and updated when new recruitments take place or job assignments changed.

The MoF completed staff performance evaluations in 2018. Each year, the Head of the PDMD assesses staff performance against the work program defined at the beginning of the year, but the evaluation process is not yet fully developed. The MoF's Human Resource Management Department conducts assessments of training needs, and each staff member may indicate his or her self-assessed training needs, both those that can be met inside the government and those that require outside expertise. Individual training plans are subject to the approval of the Heads of the PDMD and the Human Resource Management Department. The MoF has a generic code of conduct for civil servants, but PDMD staff are not barred from transacting government securities, which gives rise to potential conflicts of interest.

The score for this dimension is a C, unchanged from the 2013 DeMPA. Overall, the PDMD staff is adequate in term of both numbers and qualifications. Individual job descriptions reflect current tasks; individual training plans are formulated; and annual performance assessments are conducted, though they require further development. Although the score for this dimension is unchanged from the 2013 assessment, the structure and capacity of the PDMD have improved significantly. To obtain a higher score, conflict-of-interest guidelines for MoF or PDMD staff must be drafted and approved.

Dimension 3

Requirements for minimum compliance (C): *There is a written business-continuity and disaster-recovery plan.*

Real-time backups of systems and applications on the server are undertaken. One server is located within the MoF headquarters, and another is at a separate facility ten kilometers away. Both are well secured. The e-DMS system for domestic debt recording and management is an online application accessible from any internet connection. The development of an external debt module in e-DMS is underway, but the timeline for its completion is unclear.

The score for this dimension is a D, unchanged from the 2013 DeMPA. As there is no documented business-continuity or disaster-recovery plan at the MoF or PDMD, the minimum requirements are not met.

DPI 14 Debt Records

Dimensions	Score
1. Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions	**A**
2. Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable	**A**

Dimension 1

Requirements for minimum compliance (C): *There are complete debt records within a three-month lag for central government domestic, external, and guaranteed debt, as well as all debt-related transactions, including past debt relief and debt restructuring.*

The MoF is tasked with maintaining all government debt records. Within the MoF, the PDMD is responsible for inputting information on debt management into two separate recording systems for external and domestic debt, both of which are also maintained by the PDMD. A separate Access-based recording system is used by the Investment and Project Division for project implementation and monitoring, which includes all external loans and grants.

External debt information is recorded in DMFAS. When the Investment and Project Division contracts a new loan, all the relevant information is inputted into the Access-based system, and an electronic term sheet is generated and passed on to the PDMU. When that information arrives at the DRRD, the electronic agreement is inputted into DMFAS on the same day it is received. Information on debt service is updated upon confirmation from the NBG. DMFAS is also used to record on-lending transactions.

Domestic debt is recorded in eDMS and is updated immediately after each auction based on reports received from the NBG. Debt service transactions are automatically updated through eTreasury. A new eDMS for recording external debt and project implementation is currently being developed. The new system will allow for external debt transactions to be updated automatically from eTreasury immediately after each transaction takes place.

The score for this dimension is an A, unchanged from the 2013 DeMPA. The database captures complete records for central government domestic, external, and guaranteed debt, while information on new borrowing, disbursements and debt service payments is entered within one month. The maximum requirements for this dimension are met.

Dimension 2

Requirements for minimum compliance (A): *The registry system has up-to-date and secure records of all holders of government securities.*

The NBG acts as depositary for securities issued by the NBG, including central bank securities and securities issued on behalf of the government. The NBG's Financial Market Department maintains all government securities, which are fully dematerialized. The Central Securities Depository is linked with the Bloomberg system, which is used to conduct auctions and secondary-market transactions. This link allows for securities to be recorded automatically and immediately after bidders have been selected for each auction, ensuring that the registry is continually updated. In 2018, a new platform called the Georgian Securities Settlement System (GSSS) was developed and introduced. Operations that can be undertaken by the new GSSS include the automatic settlement of securities issuance redemption, coupon and dividend payment transactions, the electronic registration of securities, and repo operations. In addition, the NBG uses GSSS for its monetary operations, as it can pledge the required collateral using the NBG's collateral framework. The new system is integrated with the RTGS, enabling securities transactions and related cash payments to be executed simultaneously, based on the DvP principle. Per Article 18 of the Organic Law of the NBG, all internal control systems and operations are audited annually to ensure their effectiveness and the accuracy of their records, including the registry of government securities.

The score for this dimension is an A, unchanged from the 2013 DeMPA. Up-to-date registry system is in place, backed up daily, and subjected to annual audits that include internal controls systems. The settlement of government securities is executed on a DvP basis. Therefore, the maximum requirements for this dimension are met.

Annex 1: Comparison of DeMPA scores in 2013 and 2020

DPI	Title	Score 2013	Score 2020	Comments
Governance and the Debt Strategy				
DPI - 1	**Legal Framework**			
1	The existence, coverage, and content of the legal framework.	**C**	**C**	DeM objectives and strategy are not part of the legal framework, the evaluation is similar to 2013 evaluation.
DPI - 2	**Managerial Structure**			
1	The managerial structure for central government borrowings and debt-related transactions.	**C**	**C**	Public Debt Management Department (PDMD) was reorganized in 2018. PDMD is principal DMO performing front, middle and back office functions. Debt committee is advisory body overseeing debt management operations and approving DMS. At present borrowing decisions are steered by the formalized DMS, but annual update of the strategy is not yet followed consistently.
2	The managerial structure for preparation and issuance of central government loan guarantees.	**D**	**D**	According State Debt Law, the MOF is responsible for preparing, issuing, recording and monitoring the loan guarantees. The Debt Recording and Recording Division in PDMD is assigned with the responsibilities of recording, recording and monitoring the existing guarantee. But it not clear which entity (ies) in MOF will be responsible for preparation and issuance. The guarantee has not been issued since 1998 and currently only one outstanding.
DPI - 3	**Debt Management Strategy**			
1	The quality of the debt management strategy document.	**D**	**D**	The DMS for 2019-21 covers central government debt and guarantee. DeM objectives are clearly stated. The DMS contains quantitative target ranges, which are deemed realistic, in managing various portfolio risks. The measures for domestic market development are discussed. The DMS is not prepared annually, thus is not driving annual borrowing plan.
2	The decision-making process, updating, and publication of the debt management strategy.	**N/R**	**D**	The formulation of the DMS for 2019-21 was coordinated by Analytical Division of PDMD with the input from Macro and Budget department. NBG was “well involved” in the process. The strategy document was formally approved by the Cabinet and published on MOF website. But its not required to be updated annually.

DPI	Title	Score 2013	Score 2020	Comments
DPI - 4	**Reporting, publication, and evaluation of debt management operations**			
1	Publication of a statistical bulletin on debt, loan guarantees and debt-related operations.	**D**	**C**	Bulletin is produced on semi-annual basis within a quarter. Complete except ability to repay and the share of debt to be refinanced within a year
2	Reporting to the Parliament or Congress.	**D**	**C**	Quarterly and annual reporting to Parliament in Budget Execution Report. Includes Basic stock and flows data on external and domestic debt. No comparison between Planned vs. Actual activities. Publicly available
DPI - 5	**Audit**			
1	Frequency of financial audits, compliance audits, and performance audits of the central government as well as publication of the external audit reports.	**D**	**A**	Strong external and internal audit of debt management was conducted
2	Degree of commitment to address the outcomes from internal and external audits.	**N/R**	**B**	MoF team is committed to meet all the recommendations, but some actions are delayed beyond original schedule
Coordination with Macroeconomic Policy				
DPI - 6	**Coordination with Fiscal Policy**			
1	Support of fiscal policy makers through the provision of accurate and timely forecasts on total central government debt service under different scenarios.	**C**	**B**	Debt service projections are prepared by PDMD and provided to the Budget Department for BDD and annual budget. The variations between the budgeted and actual turnout are less than 10 percent for last three years. The PDMD conducts sensitivity analyses of debt service payments in term of interest rate and exchange rate change. A buffer above the baseline is created based on the analyses. No scenario analysis by DMO.
2	Availability of key macro variables, an analysis of debt sustainability, and the frequency with which it is undertaken.	**B**	**A**	Macroeconomic forecasts are shared by Macro Department with PDMD. The DSA is conducted for each budget submission. The DSA document is annexed to the annual budget document and published. The IMF DSA template for MACs is used. The coverage of the DSA is general government debt and guarantee. For the official DSA document, the debt to GDP ratio under baseline and various stress tests are presented and compared with debt ceiling.
DPI - 7	**Coordination with Monetary Policy**			

DPI	Title	Score 2013	Score 2020	Comments
1	Clarity of separation between monetary policy operations and debt management transactions.	**C**	**B**	MoUs available to guide NBG operations as fiscal agent for Treasury. Recently updated to include buy back operations. MoUs are not publicly available
2	Coordination with the central bank through regular information sharing on current and future debt transactions and the central government's cash flows.	**C**	**B**	Weekly exchange of data and information, cannot be an A, because not daily
3	Extent of the limit of direct access to financial resources from the central bank.	**A**	**A**	No advances to Government are allowed (Organic Law NBG) nor practiced
Borrowing and Related Financing Activities				
DPI - 8	**Domestic Borrowing**			
1	The extent to which market-based mechanisms are used to issue debt; the preparation of an annual plan for the aggregate amount of borrowing in the domestic market, divided between the wholesale and retail markets; and the publication of a borrowing calendar for wholesale securities.	**A**	**A**	Domestic financing has improved further. Market based instruments used for domestic borrowing, based on a benchmark issuance strategy. Annual Borrowing Plan is prepared and part of the Annual Budget Law. Quarterly issuance calendar is prepared and published including the auction dates, tenors as well as specific instruments, amounts offered. The auction result is published on the same day.
2	The availability and quality of documented procedures for local-currency borrowing in the domestic market and interactions with market participants.	**A**	**A**	Public offering published on the NBG website as well as the Regulation of the issue, circulations, registration and redemption of Treasury Bills and Treasury Notes issued by MoF contain all the required information. Meetings with market participants are ad-hoc, however there are regular calls with the major investors (currently commercial banks).
DPI - 9	**External Borrowing**			
1	Documented assessment of the most beneficial or cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity) and a borrowing plan.	**D**	**B**	An Annual borrowing plan is prepared and enclosed to the Annual Budget Law. Assessment of the most beneficial or cost-effective terms and conditions for external borrowing that are obtainable from potential creditors are undertaken before the start of each loan negotiation.
2	Availability and quality of documented procedures for external borrowings.	**D**	**D**	Although written procedures of project financing or budget support loans developed in 2014, that of the international capital market fund raising is not documented.

DPI	Title	Score 2013	Score 2020	Comments
3	Availability and degree of involvement of legal advisers before signing of the loan contract.	**A**	**A**	Legal advisers are involved from the first stage of the negotiating process to the conclusion
DPI - 10	**Loan Guarantees, On-lending and Debt-related Transactions**			
1	Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees.	**D**	**N/A**	Since the government has not issued any new public guarantee since 1998, and in line with the commitment made to the IMF the Annual Budget Law restricts the issuance of new public guarantee this dimension is considered not applicable (N/A). This is different from the score given in the previous DeMPA due to change in the methodology.
2	Availability and quality of documented policies and procedures for on-lending of borrowed funds.	**D**	**D**	No change. Adequate and readily accessible internal documented procedures for the approval and provision of credits, in the form of on-lending are not available. For score C procedure manual elaborating the roles and responsibilities of the involved units should be approved.
3	Availability of a DeM system with functionalities for handling derivatives and availability and quality of documented procedures for the use of derivatives.	**N/R**	**N/A**	There are no derivatives. Change in score is due to amendment of the DeMPA methodology in 2015
DPI - 11	**Cash Flow Forecasting and Cash Balance Management**			
1	Effectiveness of forecasting the aggregate level of cash balances in government bank accounts.	**D**	**A**	Improved score. Reasonably reliable monthly aggregate forecasts of cash inflows and outflows and cash balances are available, and the coming month forecasts are broken down on daily basis.
2	Decision of a proper cash balance (liquidity buffer) and effectiveness of managing this cash balance in government bank accounts (including the integration with any domestic debt borrowing program, if required).	**D**	**B**	Improved score. Issuance of short-term instruments is planned according to the forecast of monthly cash balances. Surplus cash invested in commercial bank deposits on weekly auctions.
DPI - 12	**Debt Administration and Data Security**			

DPI	Title	Score 2013	Score 2020	Comments
1	Availability and quality of documented procedures for the processing of debt-related payments.	**D**	**D**	Overall comments for Procedures: There is a handbook for external and domestic debt procedures for Recording, Validating and Debt service, but not deemed valid. They are a list of tasks to be undertaken, not a description of the business process allocating responsibilities and timing. Prepared in 2014 before reorganization. No formal procedures manual for debt service payments.
2	Availability and quality of documented procedures for debt and transaction data recording and validation, as well as storage of agreements and debt administration records.	**D**	**D**	DPI 12.2 No Change. No formal procedures manual for debt service payments. Description of process will be included in the doc
3	Availability and quality of documented procedures for controlling access to the central government's debt data recording and management system and audit trail.	**D**	**D**	DPI 12.3 No Change. No formal procedures manual for debt service payments. Description of process will be included in the doc
4	Frequency and off-site, secure storage of debt recording and management system backups.	**A**	**A**	DPI 12.4 No Change Daily back-ups at a secured off-site facility
DPI - 13	**Segregation of Duties, Staff Capacity and Business Continuity**			
1	Segregation of duties for some key functions, as well as the presence of a risk monitoring and compliance function.	**D**	**C**	There is segregation of duties of FO and BO functions. No organizational separation for the staff who enter the loan agreement and the one who initiate the payment. No risk monitoring and compliance function in PDD.
2	Staff capacity and human resource management.	**C**	**C**	There are sufficient number of qualified staff. Job description for individual staff in place reflecting the current tasks. There is only genetic code of conduct for civil servants but no conflict of interest guideline for MOF or PDD staff.
3	Presence of an operational risk management plan, including business-continuity and disaster-recovery arrangements.	**D**	**D**	No documented BCP/DRP in place
DPI -14	**Debt and Debt Related Records**			

DPI	Title	Score 2013	Score 2020	Comments
1	Completeness and timeliness of central government records on its debt, loan guarantees, and debt-related transactions.	**A**	**A**	Up-dated data on external, domestic and guarantees. Also, on on-lending (Used for bulletin). Three data bases and cross checking is done monthly. eDMS being developed to group all three databases into one.
2	Complete and up-to-date records of all holders of government securities in a secure registry system, if applicable.	**A**	**A**	Registry is updated and audited. Organic law at NBG requires internal control audits.