INTERNATIONAL MONETARY FUND

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REPUBLIC OF GEORGIA

December 2019

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

In the context of the Staff Report for the 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, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 17, 2019, following discussions that ended on November 4, 2019 with the officials of Georgia on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on December 3, 2019.
- A **Statement by the Executive Director** for Georgia.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Georgia*
Memorandum of Economic and Financial Policies by the authorities of Georgia*
Technical Memorandum of Understanding*

*Also included in the abovementioned Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 19/467
FOR IMMEDIATE RELEASE
December 17, 2019

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IMF Executive Board Completes the Fifth Review of the Extended Arrangement under the Extended Fund Facility for Georgia

- Georgia's economy has been resilient in the face of negative shocks, with solid growth and a lower current account deficit.
- Advancing financial sector and structural reforms would make the economy more resilient to shocks and sustain medium-term growth.
- The extension of the IMF program will help the authorities to maintain policy discipline and to advance structural reforms to promote higher and more inclusive growth.

On December 17, the Executive Board of the International Monetary Fund (IMF) completed the Fifth Review of Georgia's economic reform program supported by a three-year extended arrangement under the Extended Fund Facility (EFF). The completion of the review will release SDR 30 million (about $41.4 million), bringing total disbursements under the arrangement to SDR 180 million (about $248.7 million).

In completing the review, the Executive Board also approved the authorities' request for waivers of nonobservance for the performance criteria on the ceilings on the augmented general government deficit and ceiling on the cash deficit of the Partnership Fund.

The Executive Board has also approved the extension of the arrangement by one year until April 11, 2021 and rephase access accordingly. The extended arrangement for SDR 210.4 million (100 percent of quota) was approved by the Executive Board on April 12, 2017 (see Press Release No. 17/130).

Following the Executive Board discussion, Mr. Tao Zhang, Deputy Managing Director and Acting Chair, said:

"Georgia's economy has been resilient in the face of negative shocks, with solid growth and a lower current account deficit. However, the balance of risks is on the downside as domestic and international uncertainties could weigh on investment, reducing medium-term prospects.

“The recent high headline inflation rate reflects both temporary factors and the impact of the lari’s depreciation. The National Bank of Georgia (NBG) has appropriately tightened monetary policy to address inflationary pressures. Exchange rate flexibility remains vital as a shock absorber for the Georgian economy, and foreign exchange interventions should be limited to addressing excessive volatility or building reserves.

“The 2020 budget appropriately targets a neutral fiscal stance while increasing spending on education and social benefits. Continued vigilance against fiscal risks stemming from power purchasing agreements and state-owned enterprises is needed to safeguard investment in infrastructure and human capital while maintaining debt sustainability. A new indexation rule for basic pensions needs to protect pensioners’ income against inflation while preserving budget flexibility to provide space for more targeted social spending in the future.

“Advancing financial and structural reforms would make the economy more resilient to shocks and sustain higher and more inclusive medium-term growth. Effective and timely implementation of the education reform would help create a more skilled labor force, enhancing medium-term growth and new frameworks for banking resolution and insolvency should help strengthen financial resilience and improve the business environment. Completing the establishment of the funded pension pillar, should help mobilize savings for investment to support medium-term growth and provide an additional safety net for the elderly.

“The extension of the IMF program should support the authorities’ efforts in maintaining policy discipline and implementing these reforms.”

Table 1. Georgia: Selected Economic and Financial Indicators, 2016–20 1/

	2016	2017	2018	2019	2019	2020
		Actual		CR 19/171 2/		
National accounts and prices	(annual percentage change; unless otherwise indicated)					
Real GDP	2.8	4.8	4.7	4.6	4.6	4.3
Nominal GDP (in billions of lari)	34.0	37.8	41.1	44.5	45.2	49.2
Nominal GDP (in billions of US$)	14.4	15.1	16.2	16.6	16.1	17.2
GDP per capita (in thousands of US$)	3.9	4.0	4.3	4.5	4.3	4.7
GDP deflator, period average	4.2	6.1	3.7	3.5	4.9	4.7
CPI, Period average	2.1	6.0	2.6	3.8	4.9	4.5
CPI, End-of-period	1.8	6.7	1.5	4.5	7.2	3.0
Investment and saving	(in percent of GDP)					
Gross national saving	19.6	23.7	26.6	25.6	28.4	28.4
Investment	32.7	32.4	34.0	33.1	33.8	33.7
Public	5.0	6.1	7.0	7.2	7.8	7.2
Private	27.7	26.3	27.0	25.9	26.0	26.5
Consolidated government operations	(in percent of GDP)					
Revenue and grants	28.3	29.2	28.6	28.4	28.6	27.6
o.w. Tax revenue	25.7	26.2	25.4	25.4	25.5	24.9
Expenditures	32.5	32.8	31.7	31.4	31.3	30.7
Current expenditures	26.0	24.3	23.1	23.4	23.1	23.2
Capital spending and budget lending	6.5	8.5	8.6	8.0	8.2	7.5
Net Lending/Borrowing (GFSM 2001)	-1.5	-0.5	-0.9	-1.9	-1.9	-2.4
Augmented Net lending / borrowing (Program definition) 3/	-2.9	-2.9	-2.5	-2.6	-2.3	-2.7
Public debt	44.4	45.1	44.9	46.7	47.9	48.3
o.w. NBG debt to the IMF	…	0.6	0.5	35.6	1.0	1.1
o.w. Foreign-currency denominated	35.1	35.7	35.3	43.1	37.2	36.6
Money and credit	(in percent; unless otherwise indicated)					
Credit to the private sector (annual percentage change)	19.6	17.6	19.3	12.3	17.3	8.5
In constant exchange rate	11.8	18.3	17.0	11.9	11.5	7.5
Broad money (annual percentage change)	20.4	14.8	14.0	12.8	14.7	9.2
Broad money (incl. fx deposits, annual percentage change)	19.1	13.7	13.3	11.8	14.9	8.1
In constant exchange rate	13.4	15.8	11.9	12.4	9.2	8.1
Deposit dollarization (in percent of total)	69.9	63.7	62.1	60.6	62.9	62.7
Credit dollarization (in percent of total)	64.6	56.1	55.8	53.7	53.7	51.3
Credit to GDP	54.9	58.1	63.8	66.2	68.1	67.8
External sector	(in percent of GDP; unless otherwise indicated)					
Current account balance	-13.1	-8.7	-7.3	-7.5	-5.4	-5.3
Trade balance	-26.9	-25.2	-25.4	-25.2	-22.7	-22.2
Terms of trade (percent change)	-1.4	-2.7	-5.0	1.2	0.2	-1.8
Gross international reserves (in billions of US$)	2.8	3.0	3.3	3.7	3.3	3.4
In percent of IMF Composite measure (floating)	94.7	93.7	94.6	100.1	96.4	95.9
Gross external debt	110.2	114.0	111.9	117.0	118.6	117.2
Gross external debt, excl. intercompany loans	88.2	91.3	89.8	97.8	95.2	94.0
Laris per U.S. dollar (period average)	2.37	2.51	2.53	…	…	…
Laris per euro (period average)	2.62	2.83	2.99	…	…	…
REER (period average; CPI based, 2010=100)	100.5	100.6	104.1	…	…	…

Sources: Georgian authorities; and Fund staff estimate

1/ These numbers do not reflect the impact of GDP rebasing announced by Geostat on November 15th, 2019.

2/ Please refer to this link for details https://www.imf.org/en/Publications/CR/Issues/2019/06/19/Georgia-Fourth-Review-Under-the-Extended-Fund-Facility-Arrangement-and-Request-for-47008

3/ Augmented Net lending / borrowing (Program definition) = Net lending / borrowing - Budget lending.

INTERNATIONAL MONETARY FUND

GEORGIA

December 3, 2019

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

KEY ISSUES

Recent economic developments. GDP growth remains on track to reach 4.6 percent despite the ban on direct flights from Russia. The current account deficit reached a historic low. Inflation accelerated to 6.9 percent in October reflecting higher food prices and nominal depreciation. The National Bank of Georgia used FX sales and higher policy rates to address rising inflationary pressures. Strong revenue growth has more than offset higher-than-envisaged capital spending, and the 2019 fiscal deficit is likely to be lower than projected at the Fourth Review.

Program status. The 36-month EFF arrangement with access of SDR 210.4 million (100 percent of quota) is broadly on track. Two end-June 2019 quantitative performance criteria were missed by a small margin but without undermining the end-year targets. Three out of five structural benchmarks (SBs) for this review were observed; one will be completed by end-2019 and the remaining one was rescheduled to end-March 2020. Completion of the review will make available SDR30 million. The authorities request to extend the EFF arrangement by one year to April 11, 2021, with remaining access rephased. This will allow existing commitments to be implemented and policy discipline to be maintained in the period ahead, including through the election cycle.

Program policies. The 2020 budget implies a neutral fiscal stance; spending on education and social benefits is expected to rise, while overall current primary spending would remain unchanged. Medium-term fiscal plans are anchored at keeping net debt below 45 percent of GDP. The central bank should maintain a tightening bias until inflation expectations are firmly anchored. The planned emergency liquidity assistance and bank resolution framework will strengthen financial stability. Decisive implementation of structural reforms is critical to support higher and more inclusive growth. Advancing education reform, adopting the insolvency framework, developing the local capital market, and judiciary reform will further improve the business environment and support private investment.

Approved By
Juha Kähkönen (MCD) and Rupa Duttagupta (SPR)

Discussions were held in Tbilisi during October 23-November 4, 2019 with NBG Governor Gvenetadze, Minister of Finance Matchavariani, Minister of Economy and Sustainable Development Turnava, other senior officials, and representatives of the private sector, the civil society, and the diplomatic community. The team comprised Ms. Vera-Martin (head), Messrs. Cakir (resident representative), Debbich and Saksonovs, and Ms. Sharashidze (local economist) (all MCD), Messrs. Hellwig (FAD), Noumon (SPR), and Rawat (MCM). Mr. Emre (LEG) joined the mission October 29-November 1 to discuss progress toward the banking resolution framework. Messrs. Doornbosch and Zedginidze (OED) joined the discussions. Ms. Danelia (local office) provided support during the visit. Ms. Al Farah and Mr. Yaaqoubi provided research assistance. Ms. Gedrimaite and Mr. Laumann helped with document preparation.

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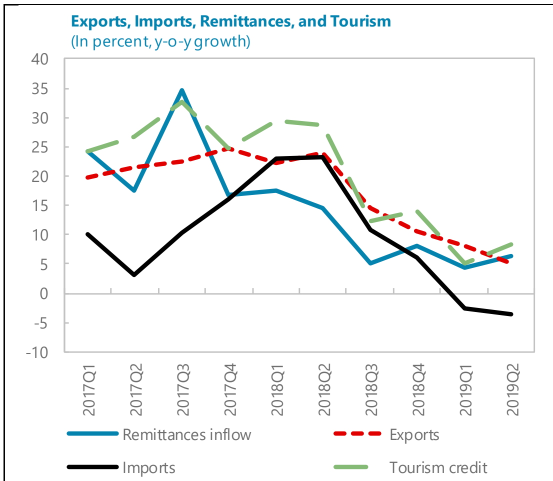
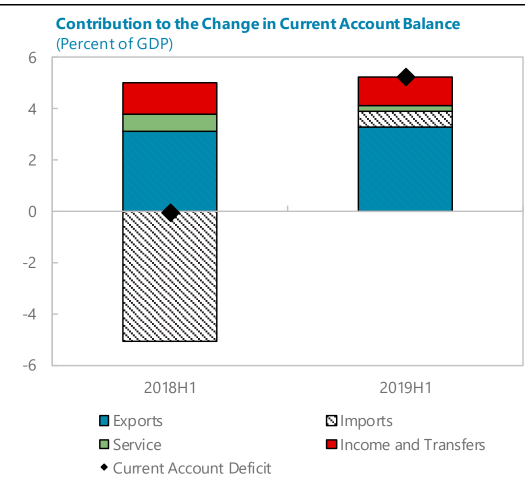
CONTEXT

1. Economic growth remained resilient despite the ban on direct flights from Russia.[1] Real GDP grew by 4.7 percent (y/y) in the first half of 2019, owing to continued growth in net exports and supportive fiscal spending, and consistent with staff projections at the time of the Fourth Review. Preliminary data indicates that growth slowed in the third quarter (in q/q terms), partly due to lower tourism activity (Figure 1). In October, S&P upgraded Georgia's credit rating to BB, highlighting economic resilience towards the challenging external environment, relatively high growth prospects, prudent public finance management, higher reserves, and a stable and healthy financial sector. The new national accounts, published in mid-November, resulted in an increase of 8.7 percent in per-capita GDP, to $4,722 (Annex I).[2]

2. The current account deficit reached a historic low, while the financial account balance remained broadly unchanged in 2019H1. The current account deficit reached 4.6 percent of GDP in 2019H1 (compared to 9.8 percent of GDP a year ago), mostly driven by a stronger goods trade balance (3.9 percent of GDP) (Figure 2). Exports growth slowed somewhat to around 10 percent (y/y), sustained by copper, car, and wine exports. Imports declined by 2.8 percent y/y reflecting the impact of tighter lending standards on imports of consumer goods, lower FDI-related imports, lower oil prices, and one-off effects.[3] After robust growth in 2019H1 (7 percent y/y), tourism receipts declined in 2019Q3 (by 7 percent y/y).[4] Higher portfolio inflows (3.7 percent of GDP y/y) offset lower FDI (1.6 percent of GDP y/y) and borrowing (1.9 percent of GDP y/y) leaving the 2019H1 financial account balance (8.9 percent of GDP) broadly unchanged y/y (Figure 3).[5]





Source: NBG, GeoStat, and IMF staff calculations.

[1] Effective July 8, Russia imposed the ban in the aftermath of antigovernment protests triggered by a Russian lawmaker addressing the Georgian Parliament.
[2] Discussions during the Fifth Review took place with the old national accounts numbers. The revision is underway; the new numbers will be used in future reviews.
[3] These include imports of equipment for crypto-currency mining (0.3 percent of GDP) in 2018H1.
[4] Lower receipts from Russian tourists (-36 percent y/y/) have only been partially offset by tourism from the EU, Ukraine and Azerbaijan, with receipts growing (17 percent y/y).
[5] FDI declined as the BP gas pipeline was completed and intercompany lending and reinvestments declined.

3. Headline inflation reached 6.9 percent y/y in October, well above the 3-percent target, driven by increases in excise taxes and food prices, and lari depreciation. Inflation averaged 4.4 percent in January-October, with October core inflation at 3.3 percent (y/y) (Figure 1). While increased excise taxes on unfiltered cigarettes and higher food prices drove inflation earlier in the year, continued food prices increase combined with nominal depreciation and strong exchange rate passthrough have become the main drivers since June. The exchange rate depreciated by 9 percent and 8 percent in nominal and real effective terms, respectively, over 2019Q1–Q3, with depreciation accelerating after the ban on flights from Russia. Despite favorable current account dynamics, depreciation pressures have been hard to reverse due to increased political and geopolitical uncertainty and lower external loan disbursements. Demand and wage pressures have remained subdued.

4. Fiscal performance through September was marked by strong revenues and an acceleration in capital spending. Strong non-tax revenues and VAT, partly driven by improved tax administration and compliance, more than compensated for lower-than-projected excise taxes (Text Table 1) caused by the switching of consumption towards (non-taxed) rolling tobacco. Improved project selection and procurement accelerated domestically-financed investment, and more than offset delays in externally-financed investment. Public debt fell to 44.6 percent of GDP at end-September; lower disbursements offset depreciation effects (Figure 4).

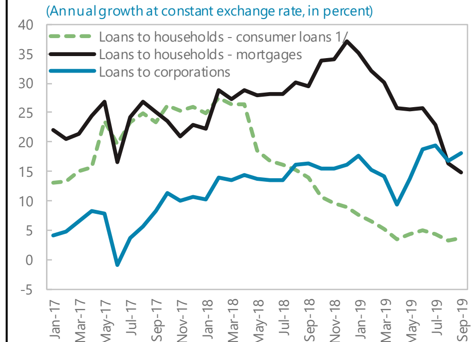
Text Table 1. Budget execution, January - September

	2018		2019 (budget proj)		2019 (actual)	
	million GEL	percent of GDP	million GEL	percent of GDP	million GEL	percent of GDP
Revenues and grants	**8,692**	**21.2**	**9,117**	**20.2**	**9,453**	**20.9**
Taxes	7,715	18.8	8,220	18.3	8,432	18.7
o.w.: VAT	3,296	8.0	3,660	8.1	3,816	8.4
o.w.: Excises	1,091	2.7	1,119	2.5	994	2.2
Non-tax revenue	698	1.7	655	1.5	753	1.7
Grants	279	0.7	242	0.5	269	0.6
Total expenditure	**8,096**	**19.7**	**9,501**	**21.1**	**9,840**	**21.8**
Primary current expenditure	6,427	15.6	7,121	15.8	7,088	15.7
Interest	390	0.9	485	1.1	460	1.0
Net acquisition of nonfinancial assets	1,279	3.1	1,895	4.2	2,291	5.1
Capital Expenditure	1,467	3.6	2,000	4.4	2,428	5.4
privatization	188	0.5	105	0.2	137	0.3
Net budget lending	**212**	**0.5**	**210**	**0.5**	**93**	**0.2**
Augmented balance	**384**	**0.9**	**-594**	**-1.3**	**-476**	**-1.1**
Memorandum item:						
External project loan disbursements	380	0.9	730	1.6	495	1.1

Source: Georgian authorities; and IMF staff projections.

5. Corporate credit and lari-denominated mortgages have sustained credit growth. Corporate credit grew 18 percent in September 2019, supported by increased lari liquidity and lari depreciation. Lari-denominated mortgages have increased reflecting tighter PTIs and LTVs on FX-denominated mortgages and the prohibition to lend in FX below GEL200,000. In contrast, tighter lending standards reduced retail lending growth (y/y) to 3.6 percent in September 2019 (14 percent in September 2018).[6]

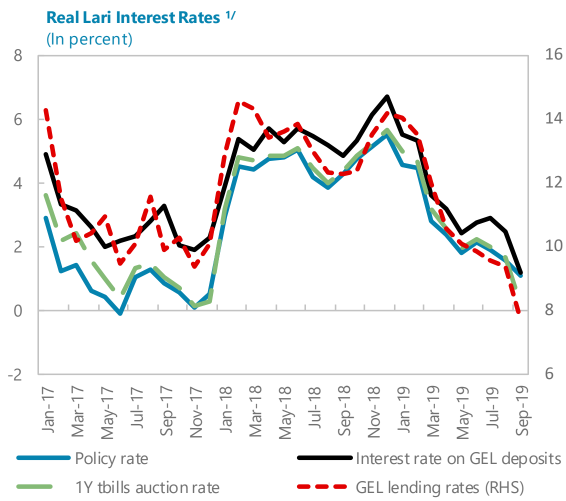
Credit to the Private Sector
(Annual growth at constant exchange rate, in percent)

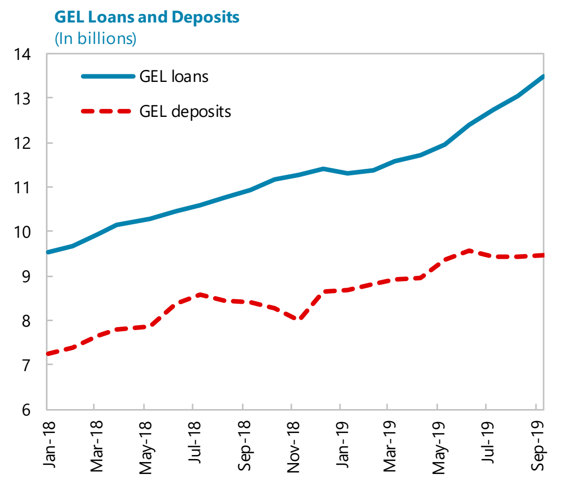


Source: NBG, and IMF staff calculations.
1/ Includes consumer and individual business loans.

[6] Calculations are at constant exchange rates. Growth rates reflect year-on-year change. Retail lending includes consumer loans and loans to individual entrepreneurs.

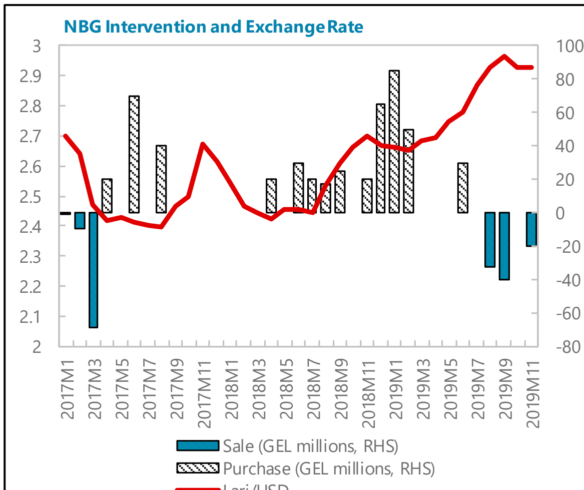
6. Depreciation pressures have increased the demand for lari funding. Depreciation pressures and declining real interest rates in lari (both the policy and lending rates) have incentivized lari borrowing and the conversion of FX liabilities into lari, while the share of lari deposits has somewhat decreased since June 2019. The National Bank of Georgia's (NBG) refinancing loans have increased to 5.6 percent of GDP from 2.9 percent of GDP in June 2019, due to higher demand for lari liquidity from growth in cash in circulation and the government's switch in cash holdings from commercial banks to the NBG.





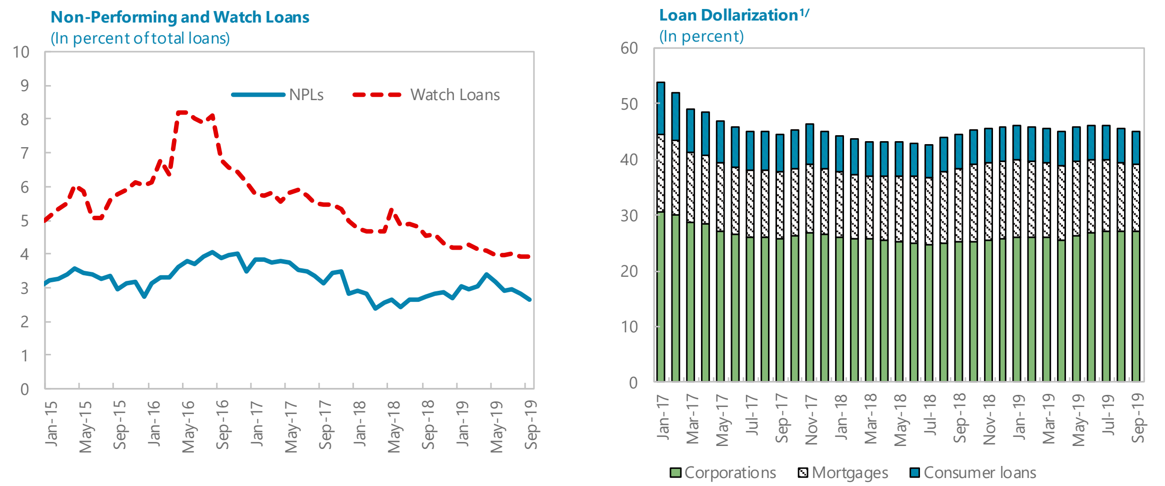
Source: National authorities, NBG, and IMF staff calculations.
1/ Real rates are estimated as corresponding nominal rates minus inflation over the last 12 months.

7. After accumulating reserves in 2019H1, the NBG resorted to FX sales and tighter policy rates to address inflationary pressures. Although net international reserves reached $1.6 billion by end-June 2019, $198 million above the adjusted quantitative performance criterion (QPC), they declined to $1,475 million by end-September. Gross international reserves (GIR) reached 99 percent of the ARA metric ($3.4 billion) as of end-October. With concerns over inflationary pressures stemming from lari depreciation rising and inflation expectations significantly above the 3-percent target, the NBG sold $93 million between August and November, and has increased the policy rate by 200 bps since September, to 8.5 percent. To increase FX liquidity, the NBG also reduced reserve requirements for FX deposits from 30 to 25 percent and removed the 25 percent haircut previously applied to FX required reserves in the calculation of high-quality liquid assets as part of FX liquidity coverage ratio.



Source: National authorities, and IMF staff calculations.

8. The banking sector remains well capitalized, liquid, and profitable (Figure 5). Capital and liquidity buffers are above minimum requirements. Nonperforming loans remained subdued. Loan dollarization for households has declined mirroring the reduction in FX mortgage growth, which turned negative in August 2019; resident deposit dollarization increased to 64.4 percent in September 2019 (compared to a low of 62.6 percent in May 2019).



Source: NBG, and IMF staff calculations.
1/ FX loans in percent of total loans to households and corporations. Consumer loans include loans to individual entrepreneurs.

PROGRAM PERFORMANCE

9. All but two end-June quantitative performance criteria and three out of five structural benchmarks (SBs) for this review were met (MEFP, Tables 1-3). The authorities missed the end-June QPC on the augmented fiscal deficit by a small margin (0.03 percent of GDP) because the target was adjusted up due to lower external disbursements and higher privatization receipts. The Partnership Fund (PF) had a small deficit of $0.6 million because of delayed SOE dividend payments. The indicative target on current spending was missed (by 0.25 percent of GDP) due to higher-than-projected spending on goods and services and on Pillar II pension contributions.[7] The authorities needed more time before submitting the new insolvency law in line with international standards to Parliament (**end-July SB**); and to consult with IMF on classifying SOEs between public corporations and general government entities (**end-September SB**). This SB is proposed to be reset to end-March 2020. The authorities remain strongly committed to program objectives and quantitative targets. However, projected inflation suggests that the consultation clause with staff would be triggered by end-December 2019.

[7] Advanced project preparations and reforms to tender procedures led to a smoother-than-expected intra-year spending path.

OUTLOOK

10. Growth is expected to decelerate in 2020, although medium-term prospects remain broadly unchanged (Tables 1-7). Growth in 2019 is projected to remain at 4.6 percent despite the ban on direct flights from Russia. Inflation is expected to peak at 7.2 percent y/y at end-2019 and then decline to target by end-2020, as one-offs dissipate and NBG tightens monetary policy as needed. For 2020, growth projection was revised down to 4.3 percent, from 4.8 percent at the Fourth Review, due to weaker domestic demand as a result of tighter monetary policy, and slower investment related to weaker capital inflows and increased political and geopolitical uncertainty. The negative output gap (1 percent of potential GDP in 2019) is now only expected to close by 2022. Potential growth is expected to increase to 5¼ percent by 2023, supported by the steadfast implementation of structural reforms and sustained infrastructure investment. External debt is projected to decline to 84 percent of GDP by 2024, and remains vulnerable to external shocks, especially through the exchange rate channel (Table 6, Figure 6).[8]

11. Risks to the outlook are firmly to the downside (Annex II). Global trade tensions and financial market volatility could hurt tourism and exports and reduce financial inflows. This could further depreciate the lari, allowing the exchange rate to serve as a shock absorber, but could put additional pressure on inflation, exacerbate balance-sheet mismatches, and undermine financial stability given high dollarization. Further tightening of the monetary policy, if warranted to achieve the inflation target, could reduce 2020 growth prospects. Geopolitical tensions and/or increased political uncertainty could dampen confidence and reform momentum, reducing medium-term growth prospects. On the upside, restoring direct flights between Georgia and Russia could help strengthen confidence and increase growth. Stronger-than-expected public revenue growth may also create additional fiscal space to deal with adverse economic shocks.

12. The authorities shared staff's views on the outlook and risks. They agreed that growth has proven resilient in 2019. They viewed responsible macro policies as a crucial element to provide confidence in the face of negative external shocks. Given heightened uncertainty in the global economy in 2020, the authorities called for flexibility on the need to build fiscal and external buffers.

POLICY DISCUSSIONS

The authorities agreed to maintain fiscal discipline and a tightening bias in monetary policy, and to persevere with reform efforts to promote higher and more inclusive growth. The 2020 budget appropriately implies a neutral fiscal stance, while increasing social protection and education spending. Fiscal stimulus will need to be considered if growth prospects weaken substantially. Monetary tightening should help return inflation to target but reserve accumulation will be challenging in the near term.

[8] Excluding intercompany loans, estimated at around 20 percent to GDP.

A. Maintaining Fiscal Discipline

13. The 2019 fiscal stance is expected to be slightly tighter than planned, supporting disinflation efforts (MEFP ¶6). Parliament approved changes to the tax code to eliminate the privilege of certain large tax payers to delay their VAT and excise taxes (with estimated one-off gains of 0.4 percent of GDP) and approved a supplementary budget to (i) reallocate funds towards severance payments for retiring teachers, (ii) incorporate additional mandatory contributions to the Pillar II pension scheme (GEL20 million), and (iii) increase capital spending. Externally-financed project spending and budget lending is estimated to be 0.8 percent of GDP lower than projected, while better-than-projected revenues have partly been used for higher domestically financed investment, leading to record-high investment (7.8 percent of GDP). VAT cash refunds will attain a new high of GEL600 million (1.3 percent of GDP). The augmented deficit is projected to decline to 2.3 percent of GDP, in line with the adjusted program ceiling. To accommodate the higher pension contributions, staff proposes to revise up the end-2019 ceiling IT on current primary spending by GEL20 million.

14. The authorities and staff agreed on an augmented deficit of 2.7 percent of GDP in the 2020 budget (MEFP ¶7). The budget implies a neutral fiscal stance.[9] To address excise revenue losses and preserve the tax base, Parliament approved new excises on rolling tobacco harmonizing the rates with those of other tobacco products.[10] With the reversal of one-off effects from 2019, higher VAT refunds, and lower grants, revenues will decline as a share of GDP. Total primary current spending will remain at 21.7 percent of GDP — 3 percentage points lower than in 2016, as envisaged at the outset of the program — while spending on education and social benefits is set to increase, including from an additional monthly GEL30 increase in pensions for pensioners aged 70 or above from July 2020.[11]

15. The medium-term fiscal path remains anchored at keeping net debt below 45 percent of GDP (MEFP ¶9, Figures 7, 8). Controlling the wage bill and spending on goods and services will give room for investment in infrastructure and human capital. The authorities also adopted a floor on education spending (6 percent of GDP, compared with 4 in the 2020 budget) in the budget code, effective 2022. Staff encouraged the authorities to reconsider the floor, as it may put pressure on other spending and constrain budget flexibility in the future. The authorities continue to monitor fiscal risks, including from power purchasing agreements and state-owned enterprises, and disclose them in their annual Fiscal Risk Statement. Fiscal stimulus could be deployed if the environment deteriorates substantially.

16. The authorities are finalizing the design of a new indexation rule for basic pensions (end-December 2019 SB) (MEFP ¶8). Starting January 2021, the authorities envisage an indexation

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[9] The structural primary balance (adjusted for the cycle, grants, and privatization receipts), at -1.7 percent of potential GDP, remains nearly unchanged relative to 2019.

[10] The yield is conservatively estimated at GEL90 million.

[11] As agreed at the First Review, monthly basic pensions will increase from GEL200 to GEL220 in January 2020.

rule that is sustainable, protects pensioners' income against inflation and, for pensioners aged 70 and above, increases it in real terms, making growth more inclusive and reducing pressures for discretionary pension adjustments. It was agreed that the indexation rule will keep pension growth below nominal GDP growth, so that the spending envelope for basic pensions will remain below 4.5 percent of GDP even under adverse demographic projections. This preserves budget flexibility, leaving room for additional and more targeted social spending in the future.

17. The authorities continue to assess options for the Partnership Fund (MEFP ¶12). A growing amount of quasi-fiscal activities represent a significant departure from the previously envisaged investment and governance model. Staff advised to incorporate the PF's activities into the general government, with revenues, expenses, and investment flowing through the budget. The authorities saw staff's proposal as one option among several currently under consideration. Until a new strategy is approved in consultation with the IMF, the authorities have committed for the PF not to undertake any new investments (**new continuous QPC**) and agreed to reduce the ceiling on new net borrowing to zero.

18. The authorities continue to improve tax administration and assessment of fiscal risks (MEFP ¶13-14).

- In June, 92 percent of new VAT credit declarations were approved automatically, and the associated end-June SB was met. However, automatic refunding of all valid new VAT credits was delayed from January to May 2020, as the authorities want to first gain more experience with the risk assessment system and are concerned about the short-run impact on liquidity needs.

- The revenue service has gained access to information on suspicious transactions from the Financial Monitoring Service (**end-December 2019 SB**) improving the likelihood of identifying fraud.

- Staff welcomed the progress with GRS reform and urged the authorities to maintain the reform momentum. Priorities should include improving IT capacity, expanding access to information from administrative agencies, finalizing the automation of the VAT refund system, streamlining the dispute resolution mechanism, and facilitating tax debt collection.

- To improve SOE governance, the authorities issued a decree clarifying the mandate of SOEs that are public interest entities, , and their governance and reporting requirements (**end-November 2019 SB**).

- The authorities will assess the stock of the PPP liabilities based on the IPSAS 32 standard and include the value-for-money methodology for PPPs in the PPP guidelines (**new end-March 2020 SB**), which should complete the implementation of new PPP framework.

B. Monetary Policy and Building Reserves

19. The NBG has appropriately adopted a tightening bias to anchor inflation expectations (MEFP¶17). Staff supported the tightening bias, as the NBG has reaffirmed its commitment to act decisively to anchor (survey-based) inflationary expectations. In the context of an inflation-targeting framework and exchange rate flexibility, staff recommended the use of the policy rate as the main instrument for monetary policy. The monetary policy stance is now assessed as broadly neutral, as the increase in the policy rate has been in line with the increase in core inflation. Staff views the monetary stance as appropriate given the negative output gap, on the one hand, and, on the other hand, the still high inflation expectations. However, further tightening may be needed if inflationary pressures stemming from the nominal depreciation continue or inflation expectations trend upwards.

20. The monetary tightening helped stabilize the exchange rate, but reserve accumulation has proven challenging (MEFP ¶18-19). The authorities and staff agreed that risks of further depreciation remain high due to fragile confidence and a weaker financial account. Accordingly, it was agreed to propose to reduce the end-December target by $30 million to $1,490 million. This would not require additional net FX purchases, helping to avoid entrenchment of depreciation pressures, which the NBG considered past one-sided intervention may have contributed to. The adjusted end-December 2019 NIR target is estimated at $1,450 million, with the end-2019 GIR level at 96 percent of ARA metric (Table 2).[12] The authorities and staff concurred that the exchange rate would continue to act as a shock absorber, with FX intervention limited to building reserves or addressing excessive volatility.

21. The end-June 2020 NIR target is proposed at $1,450 million, the expected level at end-December 2019 (MEFP ¶20). Although Georgia's external position in 2018 was consistent with fundamentals and desired policies, in 2019 the current account is expected to improve by almost 2 percentage points with the REER depreciating by around 8 percent. Given lower expected inflows in 2020H1 and heightened uncertainty on the outlook, the authorities and staff proposed a slower pace of NIR accumulation than the one envisaged at the Fourth Review to avoid exacerbating depreciation pressures and maintaining the end-June 2020 NIR target at the adjusted end-December 2019 NIR level.

C. Financial Sector Policies

22. The authorities are committed to advancing financial sector reforms (MEFP ¶22-26). Specifically:

[12] This assumes full impact from the announced decline in FX reserve requirements (of 5 percentage points) by end-2019. Part of the improved ratio (4 percentage points of ARA metric) is attributable to GeoStat's recent reclassification (with STA support) of $865 million from other investment to direct investment as the loans came from affiliated creditors.

- The NBG resumed publishing a yearly stand-alone forward-looking Financial Stability Report in September 2019 (**end-November 2019 SB**). The report assessed risks and vulnerabilities in the financial system and private non-financial sector balance sheets and discussed financial policy actions undertaken by the NBG.

- The authorities are on track to adopt legislation that makes the emergency liquidity assistance and banking resolution frameworks consistent with best international practice (**end-December 2019 SB**). The authorities plan to pass the necessary secondary legislation and implementing instruments in two phases as described in the MEFP (**new end-June 2020 SB** and **new end-December 2020 SB**), bringing all the NBG's resolution powers into effect by end-2020.

- With the help from IMF TA and to further improve prudential requirements and risk management, the NBG plans to implement an enhanced framework for non-bank supervision with differentiated approaches towards microfinance financial institutions based on their risk-bearing.

- Banks are expected to fully transfer their financial and regulatory reporting to IFRS9 by end-December 2020. The NBG is monitoring IFRS implementation processes in commercial banks, including checking banks' internal models for consistency and developing supervisory filters for calculation of prudential requirements.

23. Staff supported the NBG's plans to simplify the regulation on consumer lending by moving from a rules-based to a principle-based approach but cautioned against relaxing lending standards (MEFP ¶23b). The changes aim to (i) reduce the administrative burden imposed by the regulation on banks and the NBG, (ii) provide banks greater flexibility in managing risks associated with consumer lending and (iii) reduce the number of income brackets for payment-to-income (PTI) limits.[13] The changes allow banks to develop formal internal practices for income verification, which would be used after a transitional period. The NBG expects lending institutions to continue to follow current practices for credit assessment and income verification, and will strengthen risk governance requirements to prevent significant deviations from these practices as banks develop their internal policies.

24. Staff cautioned against measures targeting deposit de-dollarization, as they may have a limited effect until market incentives are in place for deposit larization. The NBG is considering lowering reserve requirements on FX deposits for banks with deposit dollarization below a certain level, to provide incentives for deposit larization.[14] Staff argued that while there

[13] The NBG plans to reduce the number of income brackets from 4 to 2, which would increase borrowing capacity for household with monthly income in the GEL1,000–4,000 bracket. The NBG assesses the impact to be marginal (a potential increase in retail lending by about 1.5% (in annual terms)). Overall, even with the change, PTI limits would remain relatively tight when compared with other countries.

[14] Reserve requirements on FX deposits are 25 percent for short-term deposits, and 15 percent on deposits with maturity between one and two years. Based on weighted annual interest rates, the spread between GEL and FX deposits for short-term and long-term is estimated at 4.9 and 6.1 percent, respectively (2019-Q3). Liquid asset requirements including for non-resident deposits (a residency-based capital flow management and macroprudential measure) will be abolished effective January 2020.

might be some impact if the measure leads to competition among banks for lari deposits, where rates are significantly below the NBG's refinancing rate, deposit larization is unlikely to increase while depreciation pressures remain high. In the past, changes in reserve requirements have not led to significant currency switches as deposit de-dollarization requires long-term confidence in the currency.

D. Structural Policies

25. The authorities and staff agreed on the need to persevere with the implementation of structural reforms (MEFP ¶28-36). Specific steps include:

- The authorities have begun implementing the teachers' retirement scheme, with about 6,400 out of the 12,000 eligible teachers choosing to retire; a second round is ongoing. In collaboration with the World Bank, further plans for 2020 include: (i) developing certification requirements for every level of the profession; (ii) setting up certification requirements for teachers for children with special needs; and (iii) improving the vocational education framework. The authorities also plan to better integrate infrastructure spending in education with their school mapping strategy.

- By end-2019, the authorities will submit to Parliament a new insolvency law supporting adequate protection of creditor rights, timely and efficient insolvency processes, and effective rehabilitation in line with international standards (**end-July 2019 SB**). They committed to implement the framework for insolvency professionals and begin licensing (**new end-December 2020 SB**).

- As part of commitments to the European Energy Community, the authorities have submitted the law on energy efficiency. For the largest electricity consumers (accounting for around 30 percent of electricity consumption) the authorities have already separated electricity transmission and distribution from supply, which should help increase competition.

- Staff urged the authorities to complete implementation of the judiciary reform in cooperation with international partners. A transparent and independent judiciary would improve further the business environment and create positive synergies with the new insolvency reform.

- Continued development of infrastructure will be key to diversification of the Georgian economy and attracting more FDI. The authorities have signed all remaining contracts required for the construction of the East-West Highway and began construction on the critical section of the North-South corridor.

- Further efforts on trade integration would help promote economic diversification. The authorities continue their efforts to advance free trade agreements, including with the U.S. and India, which should help mobilize FDI in tradable sectors and improve competitiveness.

26. The authorities are continuing with their efforts to make the funded pension pillar fully operational (MEFP ¶31). The investment board is now developing a comprehensive investment strategy. In the interim, pension contributions are placed in bank deposits. The authorities are working to clarify the requirements for custodian institutions and broaden the Pension Fund's investment mandate. A fully-functioning pension agency, with adequate safeguards in place, will promote savings and create an institutional investor for long-term lari assets.

PROGRAM ISSUES AND FINANCING

27. The authorities are requesting waivers of non-observance for the two missed quantitative performance criteria (see ¶9). Staff supports this request as the deviations were small and temporary.

28. The authorities and staff reached an understanding to propose updated program conditionality as follows (MEFP, Tables 1-3):

- **Changes to the end-December 2019 conditionality**: the end-December 2019 NIR QPC to be revised down to $1,490 million, and the IT on primary current spending to increase by GEL20 million to GEL9,810 million.

- **Quantitative performance criteria and new targets for inflation** are proposed for end-June 2020. A new quantitative performance criterion (QPC) is proposed on the gross acquisition of financial and non-financial assets by the Partnership Fund, awaiting the authorities' new strategy and as the PF no longer follows commercial objectives.

- **Proposed new 2020 SBs.** The authorities have committed to: (i) issue guidelines adopting the value-for-money methodology for PPPs (**end-March 2020 SB**), (ii) introduce the regulatory framework for insolvency professionals and start licensing (**end-December 2020 SB**), and (iii) adopt the secondary legislation implementing the bank resolution framework in two stages as described in the MEFP (**end-June and end-December 2020 SBs**).

29. The authorities requested to propose a one-year extension of the EFF program until April 11, 2021. The authorities remain committed to the program, and noted that the one-year extension will allow them to implement existing commitments and maintain policy discipline through the election year. The extension will add two reviews; access under the program would be rephased (Table 9). The program would continue to be monitored though the inflation consultation clauses, new QPCs and structural benchmarks set through end-2020.

30. Financing assurances are in place for the Fifth Review and for the duration of program extension. The program is fully financed for the next twelve months, with good prospects for adequate financing for the remainder of the program (Table 8). The financing gap identified for 2021 is $131 million, of which $120 will be filled by AFD and KfW program loans supporting energy sector reforms and the remaining part by Fund disbursement.

31. Capacity to repay the Fund remains adequate. Georgia's debt remains sustainable, warranting low scrutiny under the Emerging Market Debt Sustainability Analysis. Debt service to the

Fund will remain manageable and resilient to shocks. The full drawing would correspond to repayments to the IMF at 0.2 percent of GDP or 1.1 percent of GIR in 2024 (Table 10).

32. Risks to the program are manageable. Reform fatigue and hesitation ahead of the parliamentary elections could undermine reform implementation. The extension of the program and the authorities' strong commitment to the program mitigate these risks.

STAFF APPRAISAL

33. The Georgian economy has remained resilient in the face of negative shocks. Despite the ban on direct flights from Russia during the 2019 tourist season, growth remains on track to reach the Fourth Review projection and the current account deficit has declined to a historic low. Inflation, however, has accelerated in the aftermath of substantial nominal depreciation. The authorities' efforts should focus on bringing inflation back to target, while maintaining commitment to flexible exchange rate and fiscal discipline. Structural reforms remain critical for achieving sustainable and inclusive economic growth in the medium term.

34. The 2020 budget appropriately targets a neutral fiscal stance. The budget allows for higher social spending to support the proposed automatic indexation of basic pensions, while continuing to invest in infrastructure and education and implementing targeted public sector wage increases to some public sector employees. The authorities' goal of stabilizing net debt below 45 percent of GDP, while increasing social and infrastructure spending, remains appropriate.

35. Fiscal structural reforms have borne fruit and need to continue. A significant revenue overperformance in 2019 is attributable partly to increased compliance. The authorities should remain vigilant against a build-up in fiscal risks. It is therefore important to complete the work on the PPP framework and SOE classification into general government units and public corporations, and to continue strengthening SOE governance.

36. The NBG has rightly adopted a tightening bias to reach its inflation target by end-2020. The inflation-targeting framework, combined with the floating exchange rate regime, continues to serve Georgia well. Further tightening may be required to bring inflation expectations anchored around the 3-percent target. Foreign exchange intervention should be limited to addressing excessive volatility in the FX market and to building up reserves.

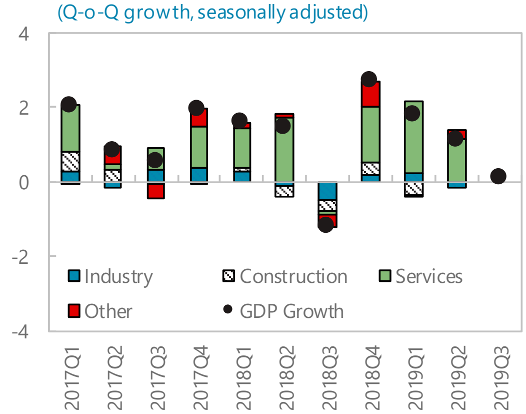
37. Financial sector and structural reforms should be continued to make the economy more resilient to shocks and sustain medium-term growth. The new banking resolution and insolvency frameworks should help strengthen financial resilience and improve the business environment. These initiatives need to be supported by institutional reforms and secondary legislation which the authorities should adopt expeditiously. Efforts to develop capital markets, including by completing the work on the funded pension pillar, will over time help mobilize investment to support medium-term growth. Effective and timely implementation of the education reform should gradually help improve job creation, productivity, and wages.

38. Staff supports the authorities' requests for completing the Fifth Review under the Extended Fund Facility, waivers of non-observance for the QPCs, modification of performance criteria, and the extension of the program and rephasing of access. A strong commitment to fiscal discipline (including via the new QPC on the investments by the Partnership Fund), decisive steps to achieve the inflation target, and advancing structural reforms provide confidence that the home-grown program will meet its objectives. The one-year program extension, with rephasing of access, should help ensure prudent policies in the election year. Staff supports the proposed changes to conditionality.

Figure 1. Georgia: Real Sector and Inflation Developments

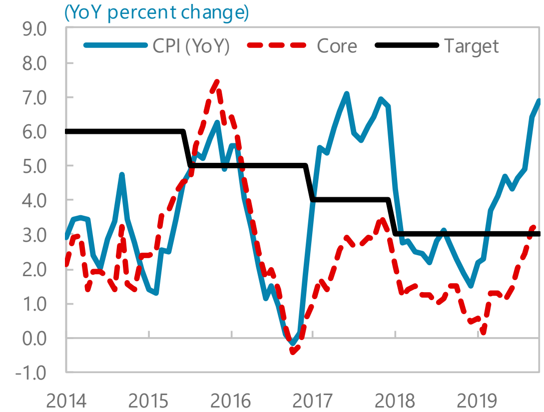
Growth has remained resilient in the first half of 2019.

Real GDP Growth Decomposition
(Q-o-Q growth, seasonally adjusted)



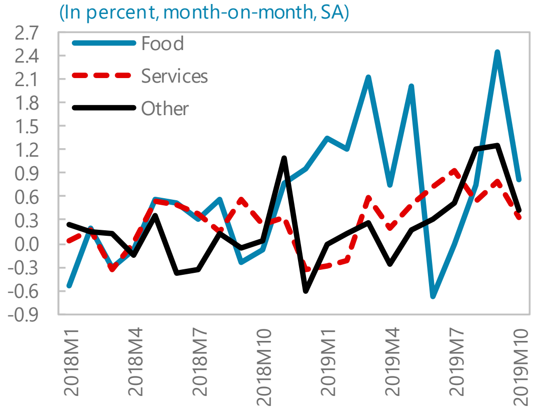
Headline and core inflation exceeded the NBG's target.

Inflation: Headline and Core Inflation
(YoY percent change)



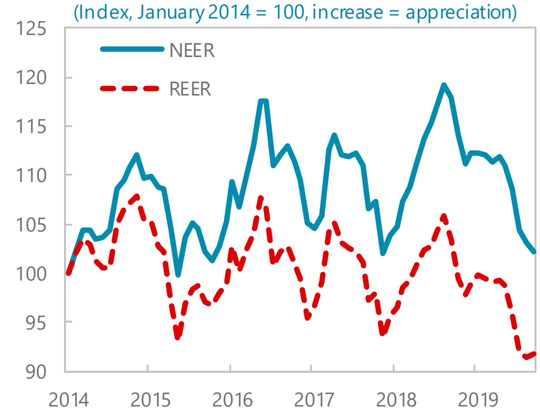
Food prices remain the key driver of inflation...

Inflation Rates
(In percent, month-on-month, SA)



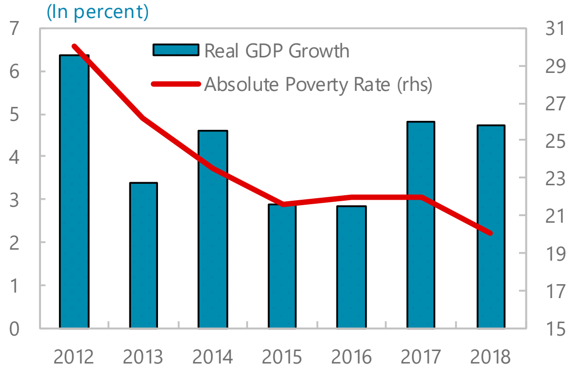
...as well as substantial depreciation since early 2019.

Nominal and Real Effective Exchange Rates
(Index, January 2014 = 100, increase = appreciation)



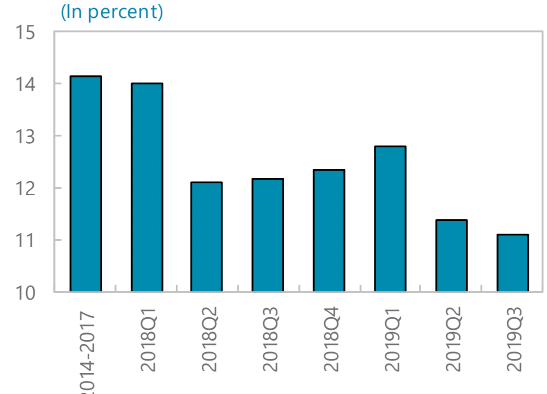
Poverty rate resumed its decline in 2018...

Real GDP Growth and Absolute Poverty Rate
(In percent)



...as unemployment rate reached the lowest level since 2001.

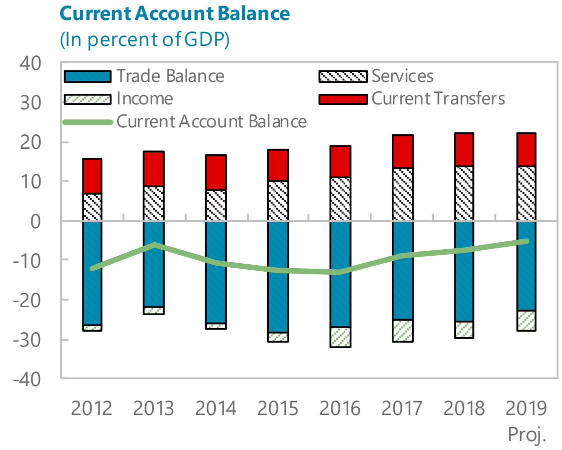
Unemployment Rate
(In percent)



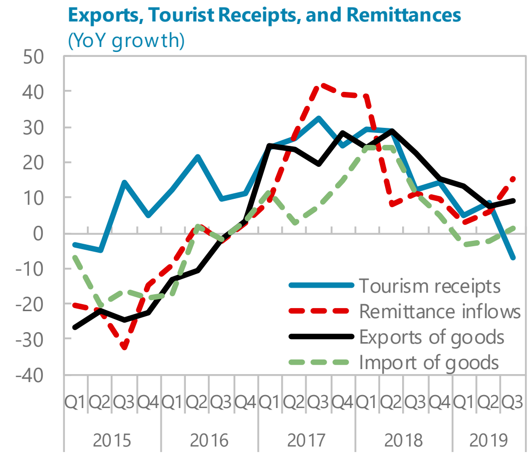
Source: National authorities, GEOStat, and IMF staff calculations.

Figure 2. Georgia: External Sector Developments

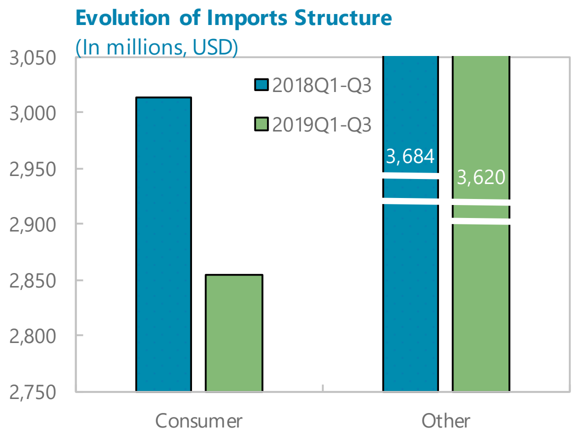
The current account deficit narrowed.



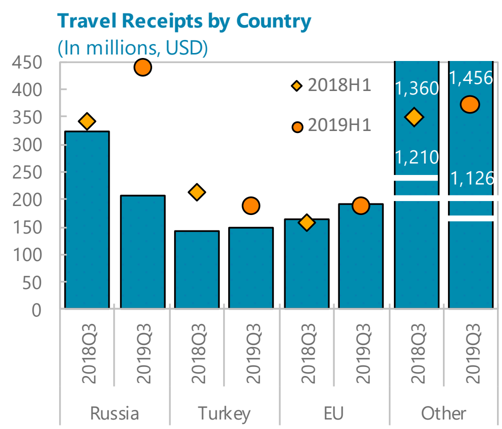
Imports declined, but exports, tourism and remittances' growth slowed as well.



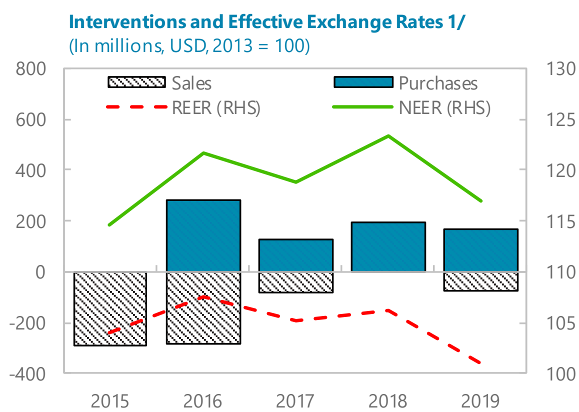
Lower demand for consumer goods' imports due to tighter lending standards accounted for most of the decline in imports.



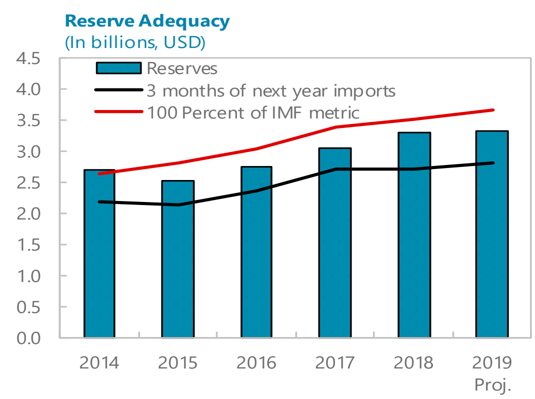
Decline in travel receipts from Russia was partly offset by other countries.



Despite significant purchases, the NBG sold $73 million in Q3, as the lari depreciated........



... but reserve cover remains below adequate levels.

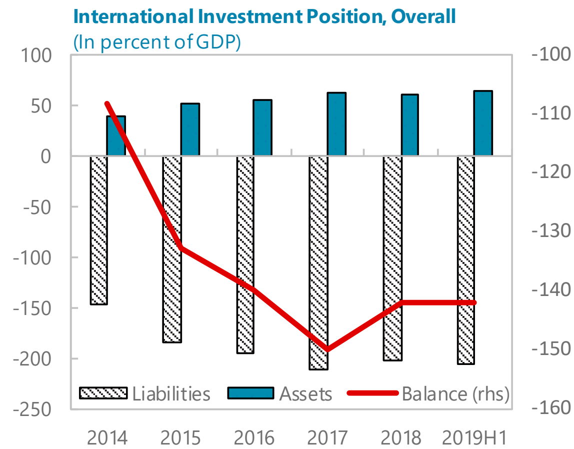


1/ Interventions for 2019 as of August.

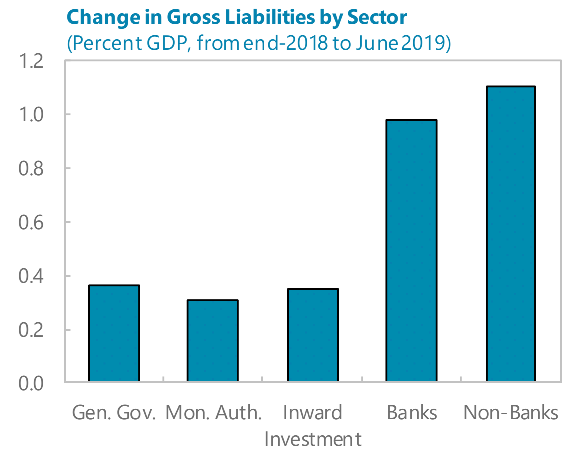
Source: National authorities, GEOStat, and IMF staff calculations.

Figure 3. Georgia: International Investment Position (IIP)

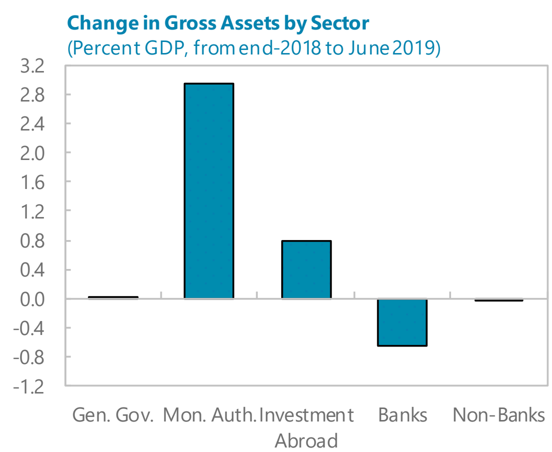
The net IIP remained broadly unchanged since 2018.



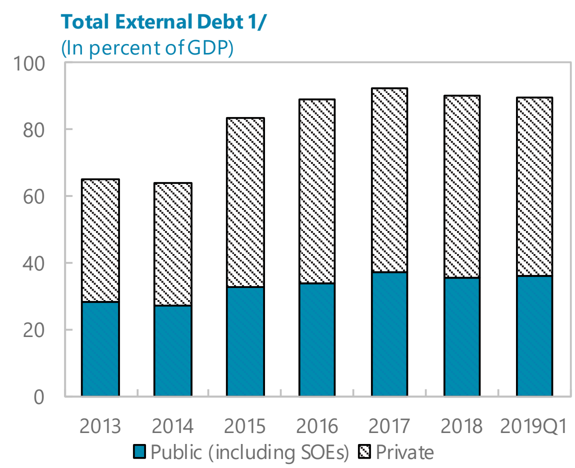
Increases in private sector external debt…



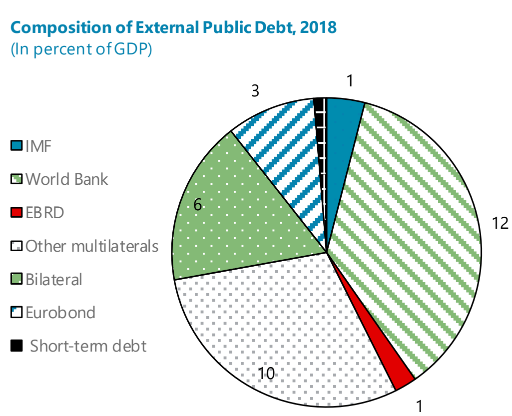
were offset by foreign asset accumulation at the NBG.



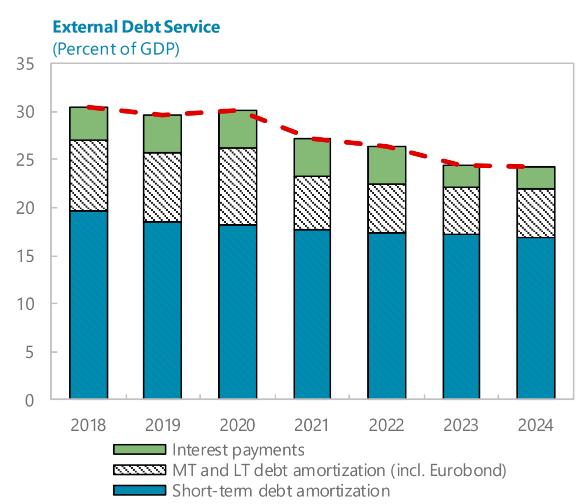
Total external debt remains elevated, driven by private sector,



…dominated by official creditors.



Debt service remains significant over the medium term.

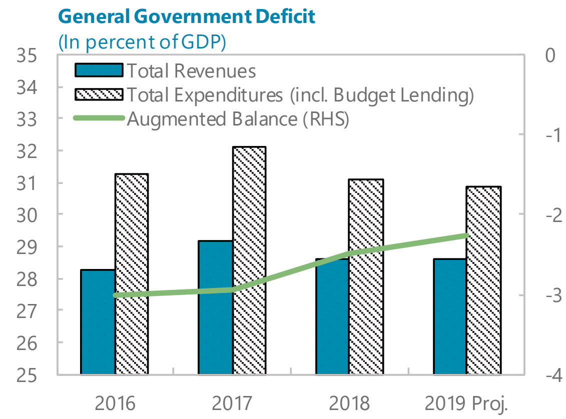


1/ Excludes intercompany lending. Private includes financial institutions and corporations.

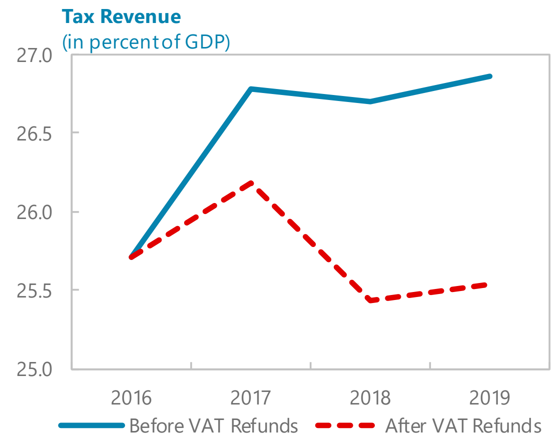
Sources: National authorities; World Economic Outlook; and IMF staff estimates.

Figure 4. Georgia: Fiscal Sector Developments

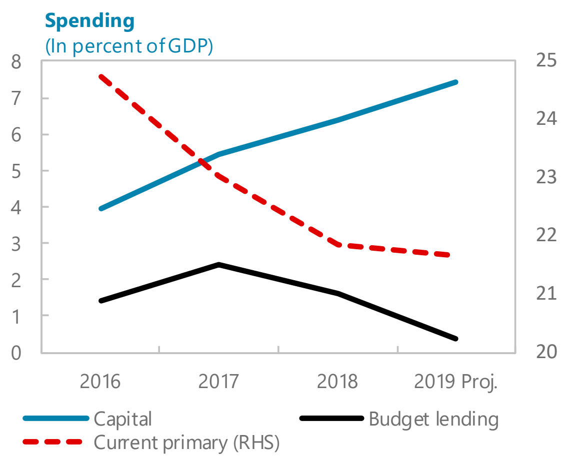
The augmented fiscal balance has improved since 2016 …



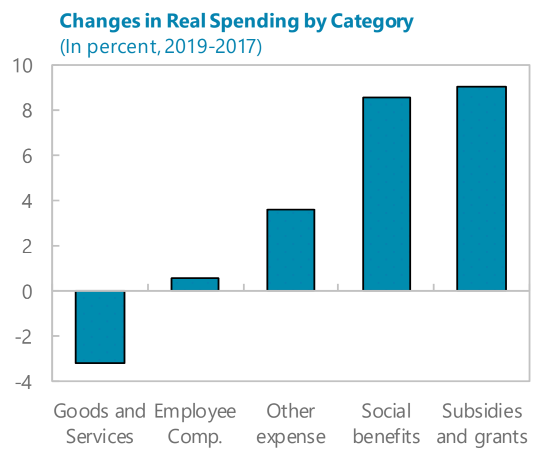
… driven by strong revenue performance …



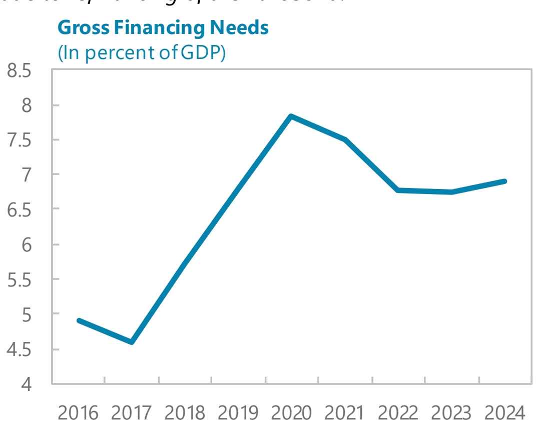
… and lower current primary spending, creating space to expand public investment.



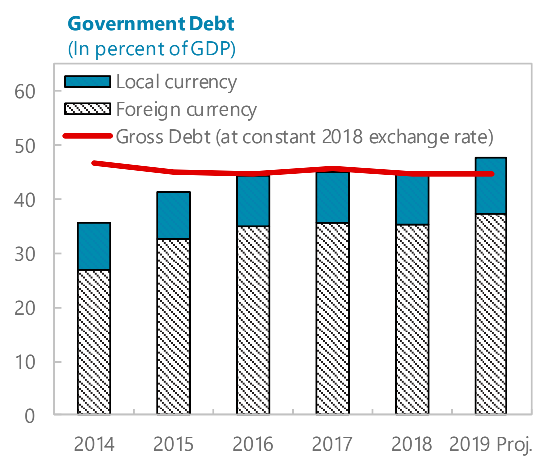
Spending declines have focused on goods and services, while social benefits were protected.



Gross financing needs are expected to peak in 2020-2021 due to refinancing of the Eurobond.



Public debt is highly exposed to FX risks.

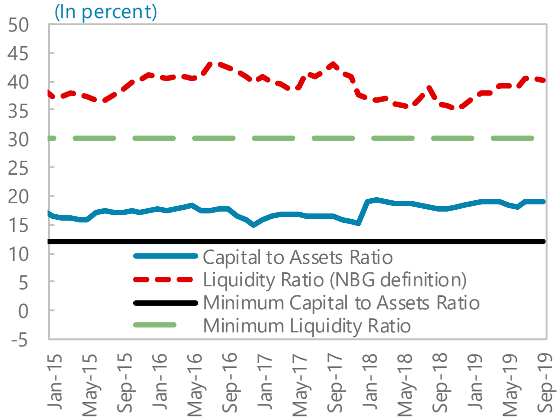


Source: National authorities, and IMF staff estimates.

Figure 5. Georgia: Financial Sector Developments

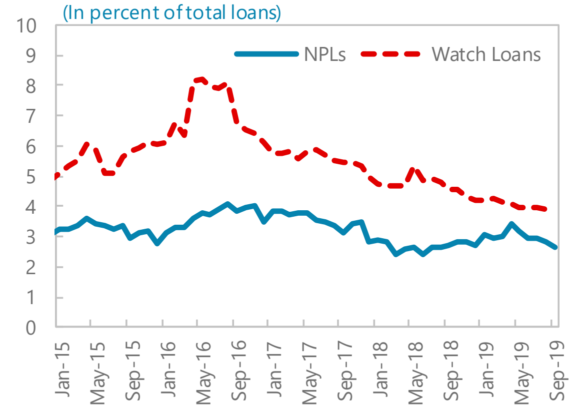
Banks are liquid and well capitalized.

Capital and Liquidity Ratios
(In percent)



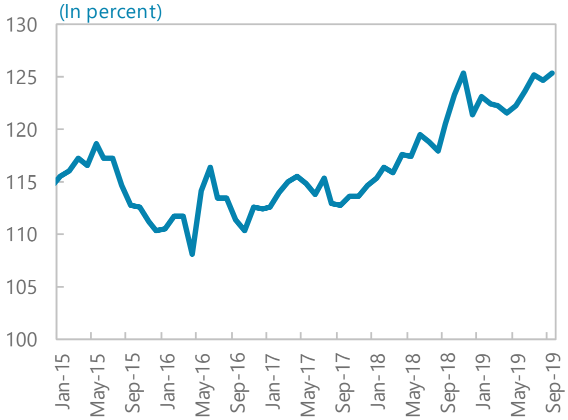
NPLs have stabilized and watch loans have maintained a downward trend.

Non-Performing and Watch Loans
(In percent of total loans)



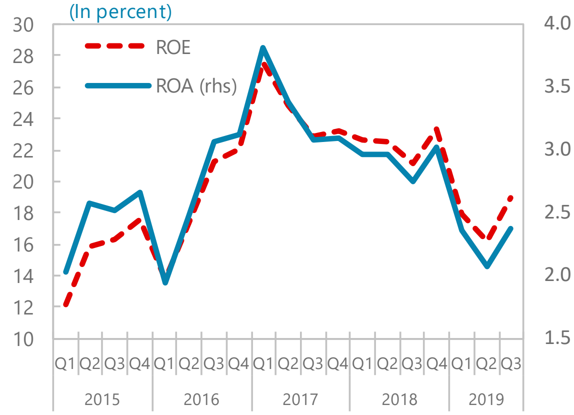
Loan-to-deposit ratio (at constant exchange rates) reached a historic high in September 2019.

Loan-To-Deposit Ratio
(In percent)



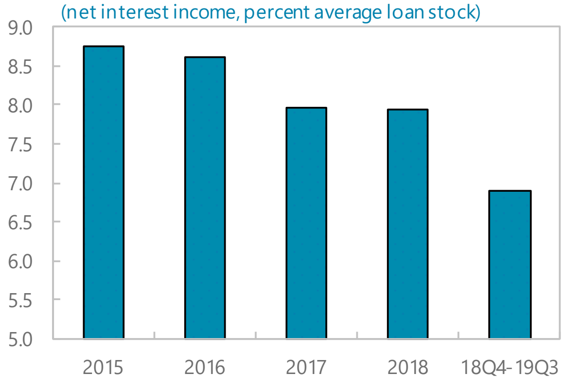
Profitability has declined somewhat…

Return on Assets and Equity Ratios
(In percent)



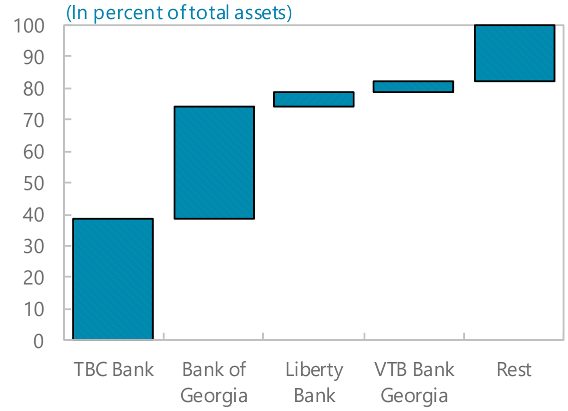
…reflecting lower net interest margins…

Net Interest Margin
(net interest income, percent average loan stock)



… even as the market remains highly concentrated.

Market Concentration of Assets, Sept 2019
(In percent of total assets)

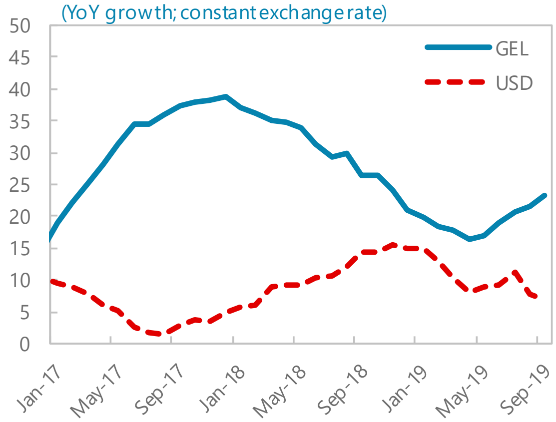


Source: National Bank of Georgia, and IMF staff calculations.

Figure 5. Georgia: Financial Sector Developments (concluded)

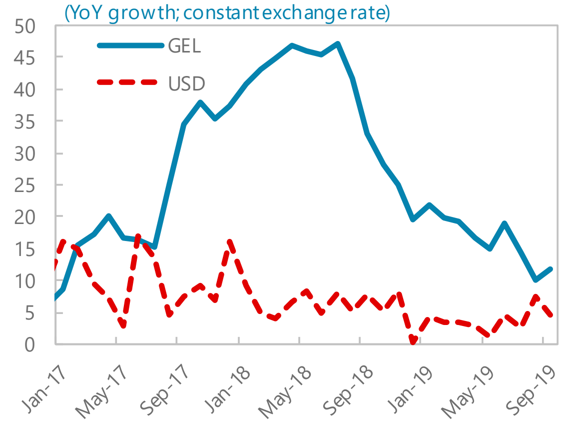
Growth in Lari-dominated credit to the private sector started to pick up in February ...

Private Sector Credit
(YoY growth; constant exchange rate)



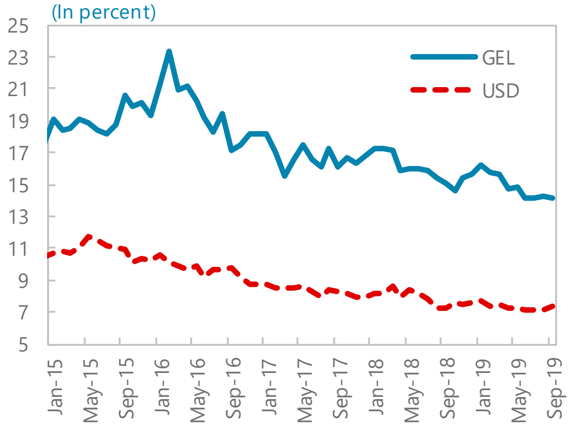
... while growth in lari deposits has been slowing down.

Private Sector Deposits
(YoY growth; constant exchange rate)



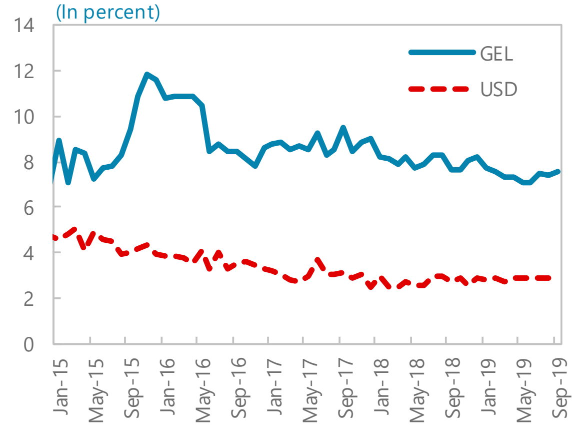
Interest rates on lari loans have trended down

Interest Rates For Loans
(In percent)



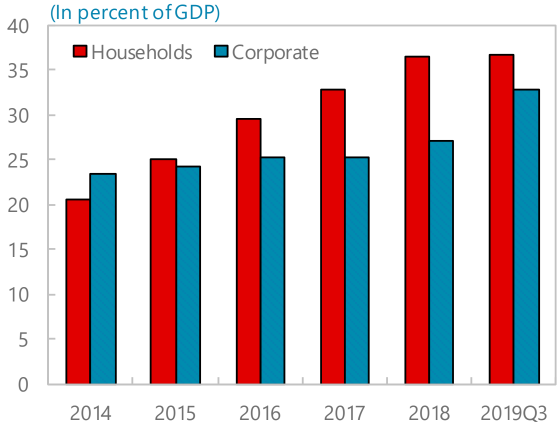
... while interest rates on deposits have remained stable.

Interest Rates For Deposits
(In percent)



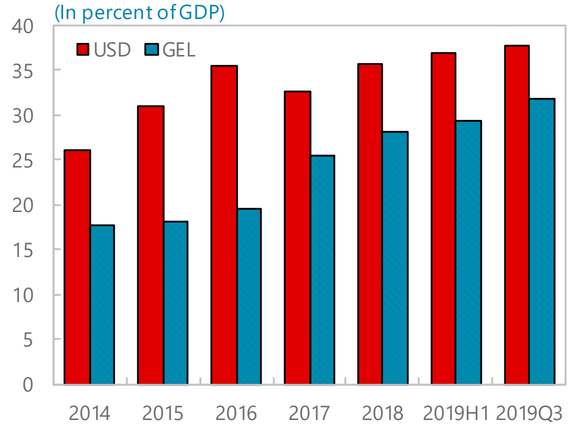
Credit developments are driven by credit to households, ...

Credit to the Private Sector
(In percent of GDP)



with an increasing share of loans in local currency.

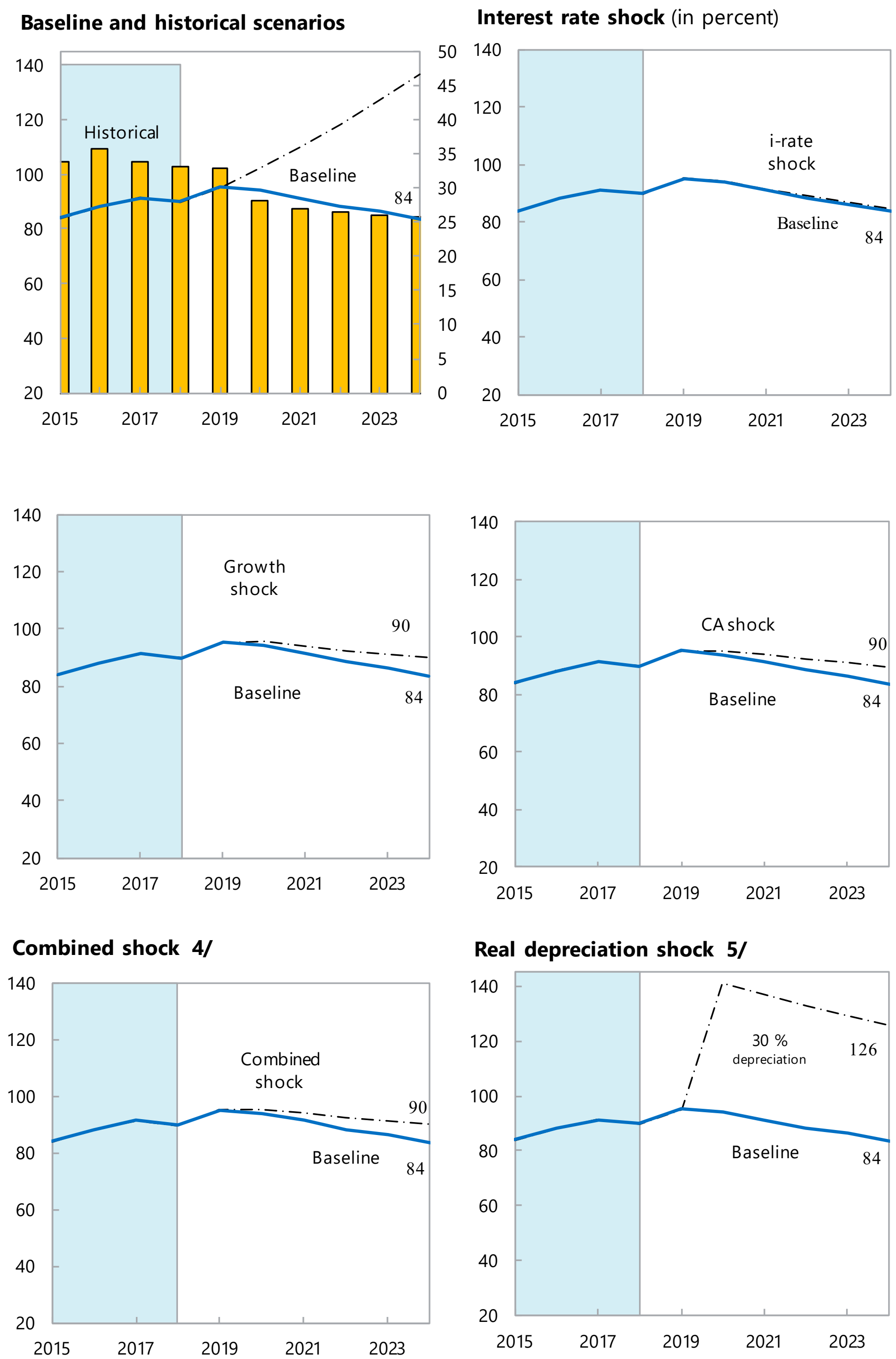
Credit-to the Private Sector
(In percent of GDP)



Source: National Bank of Georgia, and IMF staff calculations.

Figure 6. Georgia: External Debt Sustainability: Bound Tests 1/ 2/ 3/

(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.

1/The analysis excludes inter-company loans, which are part of FDI and accounted for 15 percent of GDP in 2018.

2/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

3/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

4/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

5/ One-time real depreciation of 30 percent occurs in 2019.

Figure 7. Georgia: Public Sector Debt Sustainability Analysis - Baseline Scenario

(In percent of GDP unless otherwise indicated)

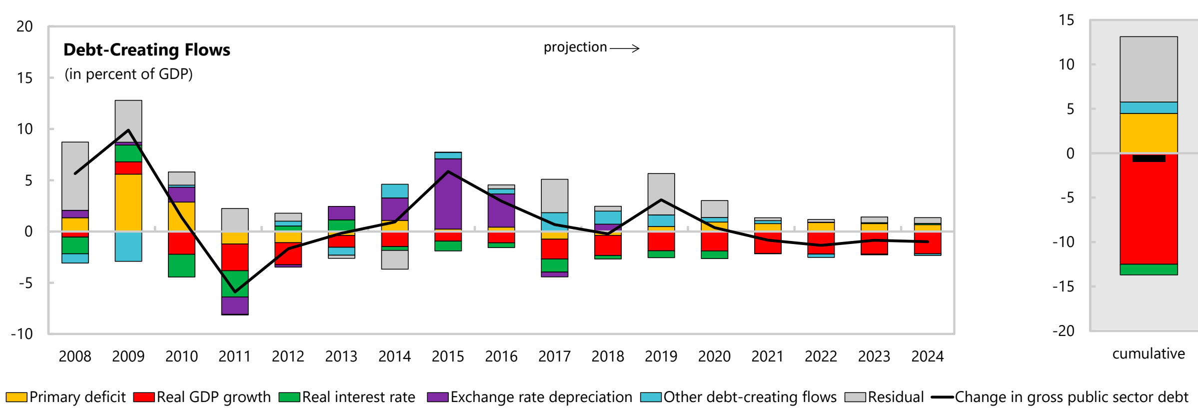
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2008-2016 [2/]	2017	2018	2019	2020	2021	2022	2023	2024
Nominal gross public debt	38.0	45.1	44.9	47.9	48.3	47.5	46.1	45.3	44.3
Public gross financing needs	4.5	4.6	5.7	6.8	7.8	7.5	6.8	6.7	6.9
Real GDP growth (in percent)	3.6	4.8	4.7	4.6	4.3	4.8	5.0	5.2	5.2
Inflation (GDP deflator, in percent)	4.4	6.1	3.7	4.9	4.7	3.3	3.0	3.0	3.0
Nominal GDP growth (in percent)	8.2	11.2	8.5	10.0	8.9	8.4	8.0	8.4	8.3
Effective interest rate (in percent) [4/]	2.9	3.2	3.0	3.5	3.2	3.4	3.2	3.4	3.5

As of November 20, 2019		
Sovereign Spreads		
EMBIG (bp) 3/		157
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Ba2	Ba2
S&Ps	BB	BB
Fitch	BB	BB

Contribution to Changes in Public Debt

	Actual			Projections							
	2008-2016	2017	2018	2019	2020	2021	2022	2023	2024	cumulative	debt-stabilizing primary balance [10/]
Change in gross public sector debt	2.1	0.7	-0.2	3.1	0.4	-0.8	-1.4	-0.9	-1.0	-0.6	
Identified debt-creating flows	0.6	-2.6	-0.7	-0.9	-1.3	-1.1	-1.6	-1.4	-1.6	-7.9	
Primary deficit	1.0	-0.8	-0.4	0.5	0.9	0.8	0.9	0.8	0.7	4.5	-2.2
Primary (noninterest) revenue and grants	29.0	29.2	28.6	28.6	27.6	27.7	27.6	27.5	27.4	166.3	
Primary (noninterest) expenditure	30.0	28.4	28.3	29.1	28.5	28.4	28.4	28.2	28.1	170.8	
Automatic debt dynamics [5/]	-0.2	-3.7	-1.6	-2.6	-2.6	-2.2	-2.2	-2.1	-2.0	-13.7	
Interest rate/growth differential [6/]	-1.8	-3.2	-2.3	-2.6	-2.6	-2.2	-2.2	-2.1	-2.0	-13.7	
Of which: real interest rate	-0.5	-1.3	-0.3	-0.7	-0.8	0.0	0.0	0.1	0.1	-1.2	
Of which: real GDP growth	-1.2	-1.9	-2.0	-1.9	-1.9	-2.1	-2.2	-2.2	-2.2	-12.5	
Exchange rate depreciation [7/]	1.6	-0.5	0.7	…	…	…	…	…	…	…	
Other identified debt-creating flows	-0.2	1.8	1.3	1.1	0.4	0.3	-0.3	-0.1	-0.2	1.3	
GG: Privatization and Drawdown of deposits (negative)	-1.1	-0.6	-0.3	0.7	0.2	-0.1	-0.7	-0.4	-0.4	-0.6	
GG: Net acquisition of financial assets: Budget lending [8/]	0.9	2.4	1.6	0.4	0.3	0.3	0.3	0.3	0.3	1.9	
Residual, including asset changes [9/]	1.5	3.3	0.5	4.0	1.7	0.3	0.3	0.6	0.6	7.4	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ The difference between the yield on Georgian bonds and the yield of Emerging markets Bond Index Global.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes net budget lending.

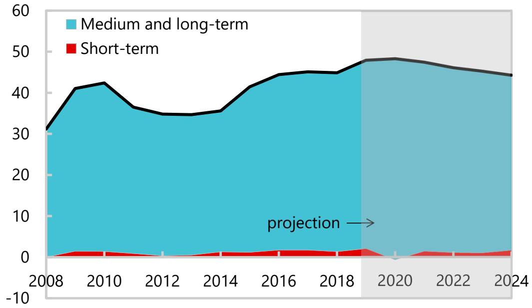
9/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

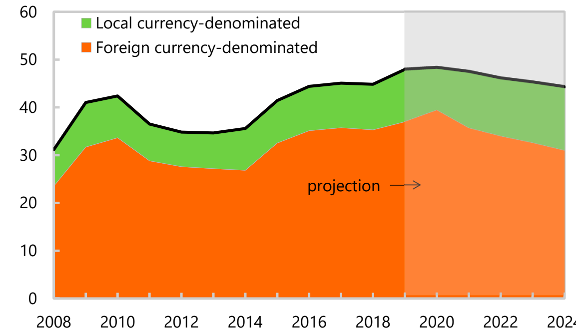
Figure 8. Georgia: Public Debt Sustainability Analysis - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



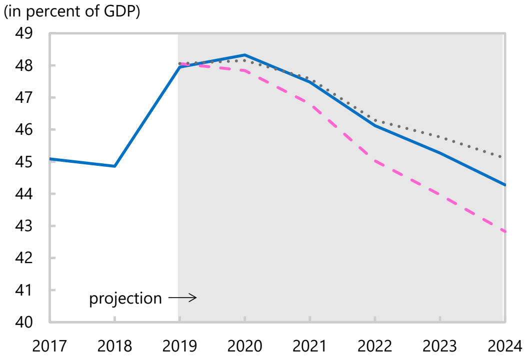
By Currency
(in percent of GDP)



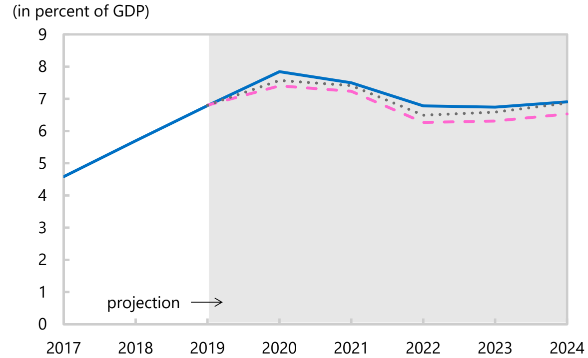
Alternative Scenarios

Baseline — Historical — Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	4.6	4.3	4.8	5.0	5.2	5.2
Inflation	4.9	4.7	3.3	3.0	3.0	3.0
Primary Balance	-0.5	-0.9	-0.8	-0.9	-0.8	-0.7
Effective interest rate	3.5	3.2	3.4	3.2	3.4	3.5
Constant Primary Balance Scenario						
Real GDP growth	4.6	4.3	4.8	5.0	5.2	5.2
Inflation	4.9	4.7	3.3	3.0	3.0	3.0
Primary Balance	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Effective interest rate	3.5	3.2	3.4	3.2	3.4	3.4

Historical Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	4.6	3.9	3.9	3.9	3.9	3.9
Inflation	4.9	4.7	3.3	3.0	3.0	3.0
Primary Balance	-0.5	-0.6	-0.6	-0.6	-0.6	-0.6
Effective interest rate	3.5	3.2	3.3	3.0	3.1	3.1

Source: IMF staff.

Table 1. Georgia: Selected Economic and Financial Indicators, 2017–24

	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024
	Actual		EFF 4th Review		EFF 4th Review		Projections			
National accounts and prices	(annual percentage change; unless otherwise indicated)									
Real GDP	4.8	4.7	4.6	4.6	4.8	4.3	4.8	5.0	5.2	5.2
Output Gap	-1.9	-1.5	-1.0	-1.0	-0.5	-1.0	-0.7	0.0	0.0	0.0
Nominal GDP (in billion of laris)	37.8	41.1	44.5	45.2	48.1	49.2	53.4	57.7	62.5	67.8
Nominal GDP (in billion of U.S. dollars)	15.1	16.2	16.6	16.1	18.1	17.2	18.8	20.6	22.2	24.0
GDP per capita (in thousand of U.S. dollars)	4.0	4.3	4.5	4.3	4.9	4.7	5.1	5.5	5.9	6.3
GDP deflator, period average	6.1	3.7	3.5	4.9	3.3	4.7	3.4	3.0	3.0	3.0
CPI, Period average	6.0	2.6	3.8	4.9	3.2	4.5	3.3	3.0	3.0	3.0
CPI, End-of-period	6.7	1.5	4.5	7.2	3.0	3.0	3.0	3.0	3.0	3.0
Core CPI, End-of-period	3.1	0.5	…	…	…	…	…	…	…	…
Investment and saving	(in percent of GDP)									
Gross national saving	23.7	26.6	25.6	28.4	26.4	28.4	29.0	29.4	29.9	30.5
Investment	32.4	34.0	33.1	33.8	33.8	33.7	34.2	34.5	34.9	35.4
Public	6.1	7.0	7.2	7.8	6.9	7.2	7.1	6.7	6.4	6.2
Private	26.3	27.0	25.9	26.0	26.8	26.5	27.1	27.7	28.5	29.2
Consolidated government operations	(in percent of GDP)									
Revenue and grants	29.2	28.6	28.4	28.6	28.1	27.6	27.6	27.6	27.5	27.4
o.w. Tax revenue	26.2	25.4	25.4	25.5	25.2	24.9	24.9	24.9	25.0	25.0
Expenditures	32.8	31.7	31.4	31.3	31.1	30.7	30.9	30.9	30.6	30.5
Current expenditures	24.3	23.1	23.4	23.1	23.5	23.2	23.5	23.8	23.9	24.0
Capital spending and budget lending	8.5	8.6	8.0	8.2	7.6	7.5	7.4	7.1	6.7	6.5
Net Lending/Borrowing (GFSM 2001)	-0.5	-0.9	-1.9	-1.9	-2.0	-2.4	-2.4	-2.6	-2.5	-2.4
Augmented Net lending / borrowing (Program definition) 1/	-2.9	-2.5	-2.6	-2.3	-2.7	-2.7	-2.8	-2.9	-2.8	-2.7
Public debt 2/	45.1	44.9	46.7	47.9	48.3	48.3	47.5	46.1	45.3	44.3
o.w. Foreign-currency denominated	35.7	35.3	35.6	37.2	35.0	36.6	35.2	33.4	32.2	30.6
Public debt net of government deposits 2/	42.4	42.2	43.1	44.4	42.4	44.4	43.4	42.6	42.0	41.3
Money and credit	(in percent; unless otherwise indicated)									
Credit to the private sector (annual percentage change)	17.6	19.3	12.3	17.3	10.8	8.5	8.4	8.8	8.1	8.0
In constant exchange rate	18.3	17.0	11.9	11.5	11.5	7.5	8.9	8.8	8.7	7.9
Broad money (annual percentage change)	14.8	14.0	12.8	14.7	12.9	9.2	9.1	9.3	10.1	10.2
Broad money (incl. fx deposits, annual percentage change)	13.7	13.3	11.8	14.9	10.8	8.1	8.9	9.0	9.8	9.7
In constant exchange rate	15.8	11.9	12.4	9.2	13.6	8.1	9.7	10.0	9.9	10.0
Deposit dollarization (in percent of total)	63.7	62.1	60.6	62.9	59.6	62.7	61.1	59.8	59.0	58.1
Credit dollarization (in percent of total)	56.1	55.8	53.7	53.7	51.3	51.3	50.4	49.5	48.6	47.7
Credit to GDP	58.1	63.8	66.2	68.1	67.8	67.8	67.8	68.2	68.0	67.8
External sector	(in percent; unless otherwise indicated)									
Current account balance (in billions of US$)	-1.3	-1.2	-1.2	-0.9	-1.3	-0.9	-1.0	-1.0	-1.1	-1.2
Current account balance	-8.7	-7.3	-7.5	-5.4	-7.3	-5.3	-5.2	-5.1	-5.0	-4.9
Trade balance	-25.2	-25.4	-25.2	-22.7	-24.9	-22.2	-21.4	-21.2	-21.1	-20.8
Terms of trade (percent change)	-2.7	-5.0	1.2	0.2	-1.3	-1.8	1.7	2.2	1.6	2.4
Gross international reserves (in billions of US$)	3.0	3.3	3.7	3.3	4.1	3.4	3.6	3.9	4.0	4.3
In percent of IMF Composite measure (floating)	93.7	94.6	100.1	96.4	105.2	95.9	99.6	102.3	104.5	109.1
Gross external debt	114.0	111.9	117.0	118.6	116.4	117.2	113.7	110.3	109.0	106.2
Gross external debt, excl. intercompany loans	91.3	89.8	97.8	95.2	97.4	94.0	91.2	88.3	86.2	83.6
Laris per U.S. dollar (period average)	2.51	2.53	…	…	…	…	…	…	…	…
Laris per euro (period average)	2.83	2.99	…	…	…	…	…	…	…	…
REER (period average; CPI based, 2010=100)	100.6	104.1	…	…	…	…	…	…	…	…

Sources: Georgian authorities; and Fund staff estimates.
1/ Augmented Net lending / borrowing (Program definition) = Net lending / borrowing - Budget lending.
2/ Public debt includes central government and NBG.

Table 2. Georgia: Balance of Payments, 2017–24

	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024
			EFF 4th		EFF 4th					
	Actual		Review		Review			Projections		
					(in millions of U.S. dollars)					
Current account balance	-1,309	-1,191	-1,243	-870	-1,329	-919	-972	-1,049	-1,122	-1,186
Trade balance	-3,801	-4,112	-4,170	-3,648	-4,516	-3,823	-4,035	-4,367	-4,699	-5,008
Exports	3,634	4,448	4,807	4,850	5,159	5,047	5,398	5,743	6,026	6,295
Imports	-7,435	-8,560	-8,976	-8,498	-9,674	-8,871	-9,433	-10,110	-10,726	-11,304
Services	2,014	2,241	2,492	2,185	2,754	2,303	2,479	2,655	2,666	2,820
Services: credit	3,976	4,482	4,730	4,517	5,084	4,673	5,106	5,504	5,811	6,313
Services: debit	-1,962	-2,241	-2,238	-2,332	-2,330	-2,369	-2,627	-2,849	-3,144	-3,493
Income	-796	-685	-1,048	-815	-1,152	-909	-1,031	-1,058	-881	-913
Of which : interest payments	-472	-552	-633	-626	-663	-661	-732	-775	-504	-549
Transfers	1,273	1,364	1,482	1,408	1,585	1,510	1,615	1,721	1,792	1,916
Of which : remittances credit	750	865	926	958	991	1,013	1,084	1,165	1,224	1,288
Capital account	84	77	94	58	93	53	51	50	49	48
General government	82	72	94	54	93	53	51	50	49	48
Financial account	1,263	1,058	1,363	662	1,512	636	1,054	1,225	1,261	1,430
Direct investment (net)	1,693	925	988	749	1,178	856	1,012	1,162	1,322	1,448
Portfolio investment (net)	-77	-44	192	721	50	300	70	175	200	200
Equity	-53	-59	0	-25	0	0	0	0	0	0
Debt securities	-25	15	192	746	50	300	70	175	200	200
Loans (net)	235	154	288	-174	731	3	305	312	381	293
Short-term loans (net)	27	-85	78	99	21	-80	-16	12	13	13
Public	3	4	4	4	4	4	4	4	4	4
Private	24	-90	73	95	16	-84	-20	7	8	9
Medium and long-term loans (net)	208	239	210	-273	711	83	321	300	369	279
Public 1/	232	141	198	28	309	37	263	241	271	199
Private	-24	98	13	-301	402	46	58	59	97	81
Bank	199	332	106	5	341	313	275	263	284	279
Non-bank	-223	-234	-93	-305	61	-267	-217	-204	-186	-198
Others (net) 2/	-587	23	-104	-634	-447	-524	-333	-424	-643	-511
Errors and omissions	-11	-31	0	-1	0	0	0	0	0	0
Overall balance	27	-88	214	-151	276	-231	133	226	188	292
Financing	-219	-114	-395	-57	-367	-34	-264	-226	-188	-293
Gross International Reserves (-increase)	-242	-278	-395	-39	-367	-34	-264	-226	-188	-293
Use of Fund Resources 3/	…	…	…	…	…	…	…	…	…	…
Rescheduled debts and arrears clearance	23	165	0	-18	0	0	0	0	0	0
Financing gap	192	201	181	208	91	265	131	0	0	0
Use of Fund Resources	71	27	35	34	43	28	11	0	0	0
IMF EFF	84	84	84	83	43	28	14	0	0	0
Repayment 3/	-13	-57	-49	-49	0	0	-3	0	0	0
Official creditors	121	174	145	173	48	237	120	0	0	0
World Bank	106	0	0	0	0	51	0	0	0	0
EU	15	17	23	0	0	22	0	0	0	0
Other	0	157	123	173	48	164	120	0	0	0
Memorandum items:					(in percent of GDP)					
Current account balance	-8.7	-7.3	-7.5	-5.4	-7.3	-5.3	-5.2	-5.1	-5.0	-4.9
Trade balance	-25.2	-25.4	-25.2	-22.7	-24.9	-22.2	-21.4	-21.2	-21.1	-20.8
Financial account	8.4	6.5	8.2	4.1	8.3	3.7	5.6	6.0	5.7	5.9
Foreign direct investment (net)	11.2	5.7	6.0	4.7	6.5	5.0	5.4	5.7	5.9	6.0
External financing requirement	34.8	34.4	32.5	31.1	31.0	29.1	28.0	27.6	27.2	26.9
Gross international reserves (in million of USD)	3,039	3,289	3,684	3,328	4,051	3,361	3,625	3,852	4,040	4,332
in months of next year GNFS imports	3.4	3.6	3.7	3.6	3.8	3.3	3.4	3.3	3.3	3.3
in percent of short-term debt at remaining maturity	74	76	92	86	94	84	84	83	82	83
in percent of broad money and non-resident deposits	36	35	35	34	35	32	31	30	29	28
in percent of IMF Composite measure (floating)	94	95	100	96	105	96	100	102	105	109
in percent of short-term external debt (remaining maturity)	74	76	86	86	84	84	84	83	82	83
Reserve cover (percent) 4/	44.4	45.9	48.8	48.2	53.9	48.8	49.6	49.2	48.2	48.5

Sources: National Bank of Georgia, Ministry of Finance; and IMF staff estimates.

1/ Including general government and monetary authorities

2/ Including currency and deposits from banks and other financial instruments

3/ Repayment for exisitng Fund resources over 2017-20 will be recorded as a part of financing gap.

4/ Gross international reserves in percent of total short-term liabilities plus the current account deficit.

Table 3a. Georgia: General Government Operations, GFSM2001 2017–24

(In millions of GEL)

	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024
	Actual		EFF 4th Review		EFF 4th Review	Projections				
Revenue	11,051	11,761	12,660	12,930	13,490	13,566	14,762	15,893	17,178	18,596
Taxes	9,909	10,445	11,285	11,540	12,105	12,245	13,290	14,377	15,611	16,922
Taxes on income, profits, and capital gains	3,675	3,984	4,200	4,319	4,554	4,751	5,143	5,574	6,053	6,561
Payable by individuals	2,919	3,247	3,392	3,464	3,696	3,791	4,126	4,478	4,873	5,282
Payable by corporations	757	737	808	855	859	960	1,017	1,096	1,180	1,279
Taxes on property	394	441	458	484	494	527	572	618	670	727
Taxes on goods and services	5,573	5,893	6,356	6,570	6,860	6,852	7,436	8,031	8,711	9,440
General taxes on goods and services (VAT)	4,123	4,427	4,858	5,223	5,182	5,444	5,908	6,381	6,921	7,500
Excises	1,451	1,466	1,498	1,347	1,678	1,408	1,528	1,651	1,790	1,940
Taxes on international trade	72	73	75	76	80	82	87	92	98	106
Other taxes 1/	195	54	197	90	117	31	52	62	78	89
Grants	304	341	395	365	326	205	308	305	306	307
Other revenue	838	975	980	1,025	1,059	1,116	1,164	1,210	1,261	1,367
Total Expenditure	11,248	12,125	13,493	13,787	14,464	14,751	16,055	17,366	18,726	20,214
Expense	9,194	9,496	10,428	10,427	11,314	11,426	12,525	13,726	14,966	16,243
Compensation of employees	1,649	1,685	1,785	1,785	1,842	1,890	2,028	2,171	2,323	2,517
Use of goods and services	1,536	1,584	1,600	1,600	1,651	1,740	1,839	1,941	2,050	2,221
Interest	482	520	655	635	720	731	890	980	1,080	1,183
External	238	269	347	345	321	351	437	449	471	495
Domestic	244	252	309	290	399	380	454	531	609	688
Subsidies	871	849	935	970	965	1,050	1,110	1,171	1,237	1,340
Grants	64	66	128	127	132	135	146	158	172	186
Social benefits	3,544	3,732	4,120	4,140	4,620	4,630	5,137	5,565	6,049	6,568
Other expense 2/	1,050	1,060	1,205	1,170	1,384	1,250	1,374	1,739	2,056	2,228
Net acquisition of nonfinancial assets	2,054	2,629	3,065	3,360	3,150	3,325	3,530	3,640	3,760	3,971
Increase (capital spending)	2,314	2,860	3,205	3,530	3,330	3,555	3,780	3,890	4,010	4,225
Decrease (privatization proceeds)	-260	-231	-140	-170	-180	-230	-250	-250	-250	-254
Net lending / borrowing before adjustment	-197	-364	-833	-857	-974	-1,185	-1,294	-1,473	-1,548	-1,618
Unidentified measures	0	0	0	0	0	0	0	0	0	0
Net lending / borrowing	-198	-364	-833	-857	-974	-1,185	-1,294	-1,473	-1,548	-1,618
Change in net financial worth, transactions	-198	-364	-833	-857	-974	-1,185	-1,294	-1,473	-1,548	-1,618
Net acquisition of financial assets ("+": increase in assets)	954	753	998	677	1,391	446	414	63	225	151
Domestic	954	753	998	677	1,391	446	414	63	225	151
Budget lending	915	657	335	170	320	135	185	185	185	185
Deposits (NBG and commercial banks)	39	96	663	507	1,071	311	229	-122	40	-34
Financial privatization	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities ("+": increase in liabilities)	1,152	1,117	1,831	1,534	2,365	1,631	1,707	1,536	1,773	1,770
Domestic	354	377	1,023	891	1,419	707	860	860	1,010	1,210
Securities other than shares	354	377	1,023	891	1,419	707	860	860	1,010	1,210
Loans	0	0	0	0	0	0	0	0	0	0
Foreign	798	740	808	643	947	924	847	676	763	560
Loans	798	740	808	643	947	924	847	676	763	560
Memorandum items:										
Nominal GDP	37,847	41,077	44,516	45,185	48,087	49,199	53,389	57,662	62,545	67,775
Public debt	17,064	18,426	20,777	21,626	23,214	23,542	25,149	26,518	28,373	30,222
End-year government deposits	1,012	1,108	1,771	1,615	2,843	1,926	2,155	2,033	2,073	2,038
Operating balance	1,857	2,265	2,232	2,503	2,176	2,140	2,236	2,167	2,212	2,353
Net lending / borrowing (excluding privatization)	-457	-595	-973	-1,027	-1,154	-1,415	-1,544	-1,723	-1,798	-1,872
Augmented Net lending / borrowing (Program definition) 3/	-1,113	-1,021	-1,168	-1,027	-1,294	-1,320	-1,479	-1,658	-1,733	-1,803
Cyclically-adjusted primary balance (Program definition)	-416	-299	-369	-258	-459	-412	-465	-624	-609	-563

Sources: Ministry of Finance; and Fund staff estimates.
1/ Includes cash outflows due to tax credit refunds.
2/ Includes wages and salaries in the education sector.
3/ Augmented Net lending / borrowing (Program definition) = Net lending / borrowing - Budget lending.

Table 3b. Georgia: General Government Operations, GFSM2001 2017–24

(In percent of GDP)

	2017	2018	2019	2019	2020	2020	2021	2022	2023	2024
			EFF 4th		EFF 4th					
	Actual		Review		Review	Projections				
Revenue	29.2	28.6	28.4	28.6	28.1	27.6	27.6	27.6	27.5	27.4
Taxes	26.2	25.4	25.4	25.5	25.2	24.9	24.9	24.9	25.0	25.0
Taxes on income, profits, and capital gains	9.7	9.7	9.4	9.6	9.5	9.7	9.6	9.7	9.7	9.7
Payable by individuals	7.7	7.9	7.6	7.7	7.7	7.7	7.7	7.8	7.8	7.8
Payable by corporations	2.0	1.8	1.8	1.9	1.8	2.0	1.9	1.9	1.9	1.9
Taxes on property	1.0	1.1	1.0	1.1	1.0	1.1	1.1	1.1	1.1	1.1
Taxes on goods and services	14.7	14.3	14.3	14.5	14.3	13.9	13.9	13.9	13.9	13.9
General taxes on goods and services (VAT)	10.9	10.8	10.9	11.6	10.8	11.1	11.1	11.1	11.1	11.1
Excises	3.8	3.6	3.4	3.0	3.5	2.9	2.9	2.9	2.9	2.9
Taxes on international trade	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other taxes 1/	0.5	0.1	0.4	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Grants	0.8	0.8	0.9	0.8	0.7	0.4	0.6	0.5	0.5	0.5
Other revenue	2.2	2.4	2.2	2.3	2.2	2.3	2.2	2.1	2.0	2.0
Total Expenditure	29.7	29.5	30.3	30.5	30.1	30.0	30.1	30.1	29.9	29.8
Expense	24.3	23.1	23.4	23.1	23.5	23.2	23.5	23.8	23.9	24.0
Compensation of employees	4.4	4.1	4.0	4.0	3.8	3.8	3.8	3.8	3.7	3.7
Use of goods and services	4.1	3.9	3.6	3.5	3.4	3.5	3.4	3.4	3.3	3.3
Interest	1.3	1.3	1.5	1.4	1.5	1.5	1.7	1.7	1.7	1.7
External	0.6	0.7	0.8	0.8	0.7	0.7	0.8	0.8	0.8	0.7
Domestic	0.6	0.6	0.7	0.6	0.8	0.8	0.9	0.9	1.0	1.0
Subsidies	2.3	2.1	2.1	2.1	2.0	2.1	2.1	2.0	2.0	2.0
Grants	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social benefits	9.4	9.1	9.3	9.2	9.6	9.4	9.6	9.7	9.7	9.7
Other expense 2/	2.8	2.6	2.7	2.6	2.9	2.5	2.6	3.0	3.3	3.3
Net acquisition of nonfinancial assets	5.4	6.4	6.9	7.4	6.6	6.8	6.6	6.3	6.0	5.9
Increase (capital spending)	6.1	7.0	7.2	7.8	6.9	7.2	7.1	6.7	6.4	6.2
Decrease (privatization proceeds)	-0.7	-0.6	-0.3	-0.4	-0.4	-0.5	-0.5	-0.4	-0.4	-0.4
Net lending / borrowing before adjustment	-0.5	-0.9	-1.9	-1.9	-2.0	-2.4	-2.4	-2.6	-2.5	-2.4
Unidentified measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending / borrowing	-0.5	-0.9	-1.9	-1.9	-2.0	-2.4	-2.4	-2.6	-2.5	-2.4
Change in net financial worth, transactions	-0.5	-0.9	-1.9	-1.9	-2.0	-2.4	-2.4	-2.6	-2.5	-2.4
Net acquisition of financial assets ("+": increase in assets)	2.5	1.8	2.2	1.5	2.9	0.9	0.8	0.1	0.4	0.2
Domestic	2.5	1.8	2.2	1.5	2.9	0.9	0.8	0.1	0.4	0.2
Budget lending	2.4	1.6	0.8	0.4	0.7	0.3	0.3	0.3	0.3	0.3
Deposits (NBG and commercial banks)	0.1	0.2	1.5	1.1	2.2	0.6	0.4	-0.2	0.1	0.0
Financial privatization	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities ("+": increase in liabilities)	3.0	2.7	4.1	3.4	4.9	3.3	3.2	2.7	2.8	2.6
Domestic	0.9	0.9	2.3	2.0	3.0	1.4	1.6	1.5	1.6	1.8
Securities other than shares	0.9	0.9	2.3	2.0	3.0	1.4	1.6	1.5	1.6	1.8
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	2.1	1.8	1.8	1.4	2.0	1.9	1.6	1.2	1.2	0.8
Loans	2.1	1.8	1.8	1.4	2.0	1.9	1.6	1.2	1.2	0.8
Memorandum items:										
Nominal GDP (in millions of GEL)	37,847	41,077	44,516	45,185	48,087	49,199	53,389	57,662	62,545	67,775
Public debt	45.1	44.9	46.7	47.9	48.3	47.9	47.1	46.0	45.4	44.6
End-year government deposits	2.7	2.7	4.0	3.6	5.9	3.9	4.0	3.5	3.3	3.0
Operating balance (before adjustment)	4.9	5.5	5.0	5.5	4.5	4.3	4.2	3.8	3.5	3.5
Net lending / borrowing (excluding privatization)	-1.2	-1.4	-2.2	-2.3	-2.4	-2.9	-2.9	-3.0	-2.9	-2.8
Augmented Net lending / borrowing (Program definition) 3/	-2.9	-2.5	-2.6	-2.3	-2.7	-2.7	-2.8	-2.9	-2.8	-2.7
Cyclically-adjusted primary balance (Program definition)	-1.1	-0.7	-0.8	-0.6	-1.0	-0.8	-0.9	-1.1	-1.0	-0.8

Sources: Ministry of Finance; and Fund staff estimates.
1/ Includes cash outflows due to tax credit refunds.
2/ Includes wages and salaries in the education sector.
3/ Augmented Net lending / borrowing (Program definition) = Net lending / borrowing - Budget lending.

Table 4. Georgia: Monetary Survey, 2017–20

	2017	2018		2019		2020	
					Projections		
		June	Dec	June	Dec	June	Dec
Central Bank				(In billions of lari)			
Net foreign assets	4.0	3.6	4.2	4.7	4.0	4.6	3.5
Gross international reserves	7.9	7.4	8.8	10.7	9.8	10.4	9.9
Other foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency liabilities	-3.9	-3.8	-4.6	-6.0	-5.8	-5.8	-6.4
Of which : use of Fund resources	-0.2	-0.3	-0.4	-0.6	-0.7	-0.7	-0.7
Of which : compulsory reserves in USD	-2.8	-2.7	-3.6	-4.8	-4.5	-4.5	-5.1
Net domestic assets	-0.3	0.1	0.0	-0.5	0.5	-0.3	0.7
Net claims on general government	-0.5	0.0	-0.1	0.4	0.2	-0.1	0.2
Claims on general government (incl. T-bills)	0.5	0.5	0.6	0.8	0.9	0.9	1.0
Nontradable govt. debt	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Securitized debt (marketable)	0.2	0.2	0.4	0.6	0.7	0.7	0.8
Deposits	-1.0	-0.5	-0.8	-0.5	-0.7	-1.0	-0.8
Claims on rest of economy	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on banks	1.7	1.4	1.9	1.3	2.7	2.1	3.0
Bank refinancing	1.8	1.5	1.9	1.4	2.8	2.1	3.1
Certificates of deposits and bonds	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other items, net	-1.5	-1.3	-1.7	-2.2	-2.5	-2.4	-2.6
Banking System				(In billions of lari)			
Net foreign assets	1.0	-1.3	-1.0	-2.4	-4.0	-3.2	-5.0
NBG	6.8	6.3	7.8	9.5	8.5	9.1	8.6
Commercial banks	-5.8	-7.6	-8.8	-11.9	-12.5	-12.3	-13.6
Net domestic assets	17.4	19.4	22.0	24.8	28.1	27.9	31.4
Domestic credit	22.9	23.8	27.6	29.8	32.9	32.7	36.2
Net claims on general government	0.9	0.9	1.4	1.5	2.2	2.4	2.8
Of which : government deposits at NBG	-1.0	-0.5	-0.8	-0.5	-0.7	-1.0	-0.8
Of which : T-bills at commercial banks	2.4	2.5	2.8	3.5	3.8	4.3	4.5
Private credit	22.0	22.9	26.2	28.3	30.8	30.3	33.4
Other items, net	-5.5	-4.4	-5.6	-5.1	-4.8	-4.7	-4.8
Broad money (M3)	18.4	18.1	21.0	22.4	24.1	24.7	26.3
(Broad money, percent change year on year)	14.8	16.4	14.0	23.6	14.7	10.2	9.2
Lari Broad money (M2)	8.4	8.6	9.7	10.5	11.0	11.5	11.6
Currency held by the public	2.7	2.5	2.7	3.0	3.2	2.9	2.8
Lari resident deposits	5.7	6.1	6.9	7.5	7.7	8.5	8.8
Resident foreign exchange deposits	10.0	9.5	11.3	11.9	13.1	13.2	14.7
Sources of funds of commercial banks	25.9	27.3	31.1	35.4	37.9	38.5	41.7
Resident deposits	15.7	15.6	18.3	19.4	20.9	21.7	23.5
Non-resident deposits	3.8	3.8	4.2	4.6	4.8	4.7	5.0
Other foreign liabilities	6.3	8.0	8.6	11.3	12.2	12.1	13.3
Uses of funds of commercial banks	25.9	27.3	31.1	35.4	37.9	38.5	38.2
Reserves	6.9	6.6	7.2	8.1	8.2	6.8	7.7
Domestic credit	23.4	23.9	27.8	29.4	32.7	32.7	35.9
Lari domestic credit	11.0	11.5	13.1	13.7	16.2	16.8	18.8
Fx domestic credit	12.3	12.3	14.6	15.7	16.5	15.9	17.1
Other foreign assets	0.5	0.5	0.7	0.8	0.8	0.8	0.8
Other items, net	-4.4	-3.1	-3.9	-2.2	-3.0	-1.1	-5.5
Broad money (M3)	48.7	45.9	51.2	51.9	53.3	52.3	53.5
Lari Broad money (M2)	22.2	21.8	23.5	24.4	24.3	24.3	23.6
Currency held by the public	7.1	6.4	6.7	6.9	7.1	6.2	5.8
Non-resident deposits (percent of total deposits)	16.6	16.5	16.5	16.8	16.4	15.6	15.2
Private credit (Percent change, year on year)	17.6	19.8	19.3	23.3	17.3	7.2	8.5
Private credit	58.1	58.1	63.8	65.6	68.1	64.2	67.8
Nominal GDP (billions of lari)	37.8	39.5	41.1	43.1	45.2	47.2	49.2

Sources: National Bank of Georgia; and Fund staff estimates.

Table 5. Georgia: Financial Soundness Indicators, 2016–19
(In percent, unless otherwise indicated)

	2016	2017	2018				2019	
			Mar	Jun	Sep	Dec	Mar	Jun
Capital Adequacy								
Capital to risk-weighted assets 1/	15.1	19.1	19.0	18.9	17.6	18.4	19.1	18.2
Regulatory Tier I capital to risk-weighted assets	10.5	14.0	14.2	14.2	13.1	13.5	14.1	13.6
Nonperforming loans net of provisions to capital	7.3	6.4	4.8	4.8	6.2	6.4	7.3	8.0
Leverage ratio 2/	18.3	18.2	18.9	18.4	17.5	18.5	19.2	17.9
Asset Quality								
Nonperforming to total gross loans 3/	3.4	2.8	2.4	2.4	2.7	2.7	3.0	2.9
Nonperforming to total gross loans 4/	7.3	5.9	5.5	5.5	5.6	5.5	5.9	5.7
Substandard and restructured loans to total gross loans 5/	21.2	17.3	15.9	16.1	15.6	15.3	15.9	15.5
Specific provisions to total loans	3.6	2.8	2.7	2.7	2.7	2.5	2.7	2.6
Sectoral distribution of loans to total loans								
Residents	97.8	97.6	97.8	97.9	97.8	97.4	97.5	97.4
Deposit-takers	0.2	0.1	0.1	0.0	0.5	0.0	0.3	0.6
Other financial corporations	1.4	0.9	1.4	1.4	0.9	0.7	0.6	0.0
Nonfinancial orporations	50.1	47.4	46.3	45.6	46.1	46.3	46.7	47.5
Other domestic sectors 6/	46.1	49.2	50.0	50.9	50.3	50.5	49.8	49.3
Non-residents	2.2	2.4	2.2	2.1	2.2	2.6	2.5	2.6
Earnings and Profitability								
Return on assets (ROA)	3.1	3.1	3.0	3.0	2.7	3.0	2.4	2.1
Return on equity (ROE)	22.1	23.3	22.6	22.6	21.2	23.3	18.0	16.2
Interest margin to gross income	58.0	58.9	65.1	63.3	62.4	61.0	61.4	60.3
Non-interest expenses to gross income	49.8	51.8	52.5	50.1	49.3	49.6	51.0	53.7
Liquidity								
Liquid assets to total liabilities ratio	22.8	21.3	20.8	22.1	20.5	21.6	22.9	23.2
Liquid assets to total short-term liabilities 7/	34.0	32.1	31.7	34.1	31.3	27.1	29.1	28.5
Loan-to-deposit ratio (in percent) 8/	111.4	112.6	113.1	114.2	113.5	115.6	115.9	116.6
Foreign Currency Position and Dollarization								
Deposit dollarization (residents)	69.9	63.7	62.2	61.1	63.2	62.1	61.7	61.2
Loans in foreign exchange to total loans	65.4	57.1	55.2	54.8	55.7	57.1	56.5	56.5
Net foreign assets to total assets	-15.0	-14.9	-14.2	-17.7	-18.3	-18.3	-19.8	-21.3
Net open foreign exchange position to regulatory capital	4.4	4.2	1.2	1.3	4.8	5.2	0.1	-1.7
Borrowed funds from abroad-to-GDP ratio 9/	15.3	16.5	14.2	15.6	16.6	16.2	14.4	16.7
Other								
Loans collateralized by real estate to total loans	59.2	59.0	58.7	59.5	60.8	62.0	63.2	64.0
Memorandum items								
Georgia EMBIG Sovereign Yield	5.3	4.4	4.4	5.3	5.3	5.5	4.6	4.1

Source: National authorities and IMF staff calculations.

1/ Basel III definition.

2/ Defined as the ratio of total capital to total liabilities; an increase in the ratio indicates an improvement.

3/ IMF definition for NPLs: includes loans in doubtful and loss categories (categories overdue 90 days or more).

4/ National definition: NPLs are defined as loans in substandard, doubtful, and loss loan categories.

5/ Includes watch, non-standard, doubtful, bad, and restructured loans.

6/ Includes households and individual entrepreneurs.

7/ Ratio of liquid assets to 6-month and shorter maturity liabilities.

8/ Loans and deposits from the banking sector.

9/ Borrowed funds include subordinated debt.

Table 6. Georgia: External Debt Sustainability Framework, 2015–24

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2015	2016	2017	2018			2019	2020	2021	2022	2023	2024	**Debt-stabilizing non-interest current account 7/**
Baseline: External debt 1/	83.9	88.2	91.3	89.8			**95.2**	**94.0**	**91.3**	**88.4**	**86.3**	**83.7**	**-2.8**
Change in external debt	20.2	4.3	3.1	-1.5			5.4	-1.1	-2.7	-2.9	-2.1	-2.6	
Identified external debt-creating flows (4+8+9)	13.9	2.3	-6.3	-4.4			-3.3	-3.5	-4.3	-4.8	-5.2	-5.3	
Current account deficit, excluding interest payments	8.1	8.6	4.6	3.0			0.4	0.6	0.4	0.4	1.8	1.7	
Deficit in balance of goods and services	18.2	16.0	11.8	11.5			9.1	8.8	8.3	8.3	9.1	9.1	
Exports	44.1	43.3	50.5	55.1			58.2	56.6	55.8	54.7	53.3	52.5	
Imports	62.2	59.3	62.3	66.6			67.3	65.4	64.1	63.0	62.4	61.6	
Net non-debt creating capital inflows (negative)	-10.1	-8.6	-10.9	-5.3			-4.5	-5.0	-5.4	-5.7	-5.9	-6.0	
Automatic debt dynamics 2/	16.0	2.3	0.0	-2.0			0.9	1.0	0.7	0.5	-1.0	-0.9	
Contribution from nominal interest rate	4.5	4.5	4.1	4.4			5.0	4.8	4.8	4.7	3.2	3.2	
Contribution from real GDP growth	-2.2	-2.3	-4.1	-4.0			-4.2	-3.8	-4.1	-4.2	-4.3	-4.2	
Contribution from price and exchange rate changes 3/	13.6	0.1	-0.1	-2.4			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	6.3	2.0	9.4	2.9			8.6	2.3	1.6	1.9	3.0	2.7	
External debt-to-exports ratio (in percent)	190.5	203.7	181.0	163.0			163.4	166.3	163.6	161.5	162.0	159.3	
Gross external financing need (in billions of US dollars) 5/	4.7	5.1	5.1	5.4			5.3	4.8	5.1	5.4	5.8	6.2	
in percent of GDP	33.9	35.7	33.9	33.1	10-Year	10-Year	32.8	28.1	26.9	26.4	26.1	25.8	
Scenario with key variables at their historical averages 6/							**95.2**	**102.0**	**110.0**	**118.5**	**127.4**	**136.4**	**-4.1**
Key Macroeconomic Assumptions Underlying Baseline					Historical Average	Standard Deviation							
Real GDP growth (in percent)	2.9	2.8	4.8	4.7	3.9	3.1	4.6	4.3	4.8	5.0	5.2	5.2	
GDP deflator in US dollars (change in percent)	-17.6	-0.1	0.1	2.7	-1.0	9.1	-5.4	2.8	4.3	4.1	2.7	2.7	
Nominal external interest rate (in percent)	6.0	5.6	4.9	5.2	5.2	0.4	5.5	5.4	5.6	5.6	3.9	4.0	
Growth of exports (US dollar terms, in percent)	-13.1	1.0	22.2	17.4	10.3	15.8	4.9	3.8	8.0	7.1	5.3	6.5	
Growth of imports (US dollar terms, in percent)	-13.6	-2.0	10.1	15.0	5.1	17.1	0.2	3.8	7.3	7.4	7.0	6.7	
Current account balance, excluding interest payments	-8.1	-8.6	-4.6	-3.0	-6.9	2.5	-0.4	-0.6	-0.4	-0.4	-1.8	-1.7	
Net non-debt creating capital inflows	10.1	8.6	10.9	5.3	7.3	2.1	4.5	5.0	5.4	5.7	5.9	6.0	

1/ Excludes intercompany loans.

2/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

3/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

4/ For projection, line includes the impact of price and exchange rate changes.

5/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

6/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

7/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 7. Georgia: External Vulnerability Indicators, 2017–24

	2017	2018	2019	2020	2021	2022	2023	2024
	Actual	Prel.	Projections					
Value of exports of goods and services, percent change	22.2	17.4	4.9	3.8	8.1	7.1	5.3	6.5
Value of imports of goods and services, percent change	10.1	15.0	0.3	3.8	7.3	7.4	7.0	6.7
Terms of trade (deterioration -)	-2.7	-5.0	0.2	-1.8	1.7	2.2	1.6	2.4
Current account balance (percent of GDP)	-8.7	-7.3	-5.4	-5.3	-5.2	-5.1	-5.0	-4.9
Capital and financial account (percent of GDP)	9.7	8.1	5.6	5.4	6.5	6.2	5.9	6.2
External public debt (percent of GDP)	36.2	35.2	37.4	36.7	35.2	33.4	32.1	30.6
(in percent of exports of goods and services)	71.8	63.9	64.2	65.0	63.1	61.1	60.3	58.2
Debt service on external public debt								
(in percent of exports of goods and services)	3.7	4.5	5.1	5.0	4.7	4.6	4.6	4.6
External debt (percent of GDP) 1/	91.3	89.8	95.2	94.0	91.2	88.3	86.2	83.6
(in percent of exports of goods and services)	181.0	163.0	163.4	166.3	163.6	161.5	161.9	159.3
Debt service on MLT external debt								
(in percent of exports of goods and services)	18.8	19.3	18.8	15.8	15.4	15.5	13.1	13.4

Source: Fund staff estimates and projections.
1/ Excluding intercompany loans.

Table 8. Georgia: Gross External Requirement, 2017–24
(In millions of U.S. Dollars)

	2017	2018	2019	2020	2021	2022	2023	2024
	Actual				Projections			
Total financing requirement	3,028	2,444	1,946	2,097	2,214	2,368	2,687	2,714
Current account deficit	1,309	1,191	870	919	972	1,049	1,122	1,186
Medium and long-term debt	1,054	1,231	1,163	954	979	1,070	1,122	1,217
Private	889	1,004	864	594	642	711	747	812
Banks	336	603	458	163	196	252	273	323
Corporates	552	401	407	432	445	459	474	489
Public	165	227	298	360	338	359	375	406
Others (net)	665	21	-87	224	263	249	443	311
Total financing sources	3,066	2,387	1,795	1,866	2,347	2,594	2,875	3,007
Capital transfers	84	77	58	53	51	50	49	48
Direct investment, net	1,693	925	749	856	1,012	1,162	1,322	1,448
Medium and long-term debt	1,262	1,470	890	1,037	1,300	1,370	1,491	1,497
Private	865	1,102	564	640	700	770	844	893
Banks	536	935	462	476	471	515	557	602
Corporates	329	167	101	165	228	255	288	291
Public (only project loans)	397	368	326	397	600	600	647	604
Short-term debt (net)	27	-85	99	-80	-16	12	13	13
Increase in gross reserves	242	278	39	34	264	226	188	293
Rescheduled debt and arrears clearance	-23	-165	18	0	0	0	0	0
Errors and omissions	-11	-31	-1	0	0	0	0	0
Total financing needs	192	202	208	265	131	0	0	0
Official financing	192	202	208	265	131	0	0	0
IMF	71	27	34	28	11	0	0	0
Prospective purchases	84	84	83	28	14	0	0	0
Repurchases	-13	-57	-49	0	-3	0	0	0
Official creditors	121	174	173	237	120	0	0	0
World Bank	106	0	0	51	0	0	0	0
EU	15	17	0	22	0	0	0	0
Others	0	157	173	164	120	0	0	0
Memorandum items:								
Gross international reserves	3,039	3,289	3,328	3,361	3,625	3,852	4,040	4,332
in months of next year GNFS imports	3	4	4	3	3	3	3	3
in percent of short-term debt at remaining maturity	74	76	86	84	84	83	82	83
in percent of IMF Composite measure (floating)	94	95	96	96	100	102	105	109
EFF in percent of total official financing	37	14	17	11	8	…	…	…

Sources: National Bank of Georgia, Ministry of Finance; and IMF staff estimates.

Table 9. Georgia: Proposed Schedule of Reviews and Available Purchases

Availability Date	Condition	Amount of Purchase (SDR millions)	Amount of Purchase (Percent of quota)
12-Apr-17	Approve the 36-month EFF	30	14.3
27-Oct-17	Complete the first review based on end-June 2017 performance criteria and other relevant performance criteria	30	14.3
13-Apr-18	Complete the second review based on end-December 2017 performance criteria and other relevant performance criteria	30	14.3
26-Oct-18	Complete the third review based on end-June 2018 performance criteria and other relevant performance criteria	30	14.3
12-Apr-19	Complete the fourth review based on end-December 2018 performance criteria and other relevant performance criteria	30	14.3
25-Oct-19	Complete the fifth review based on end-June 2019 performance criteria and other relevant performance criteria	30	14.3
12-Apr-20	Complete the sixth review based on end-December 2019 performance criteria and other relevant performance criteria	10.1	4.8
25-Oct-20	Complete the seventh review based on end-June 2020 performance criteria and other relevant performance criteria	10.1	4.8
20-Mar-21	Complete the eigth review based on end-December 2020 performance criteria and other relevant performance criteria	10.2	4.8
Total available		210.4	100

Source: Fund staff estimates and projections.

Table 10. Georgia: Indicators of Fund Credit, 2018–24

(In millions of SDR)

	2018	2019	2020	2021	2022	2023	2024
	Actual	Projections					
Existing Fund credit							
Disbursements (EFF)	60.0	30.0	0.0	0.0	0.0	0.0	0.0
Stock 1/	155.0	150.0	150.0	147.5	135.0	112.5	87.5
SBA and EFF	155.0	150.0	150.0	147.5	135.0	112.5	87.5
Obligations	42.5	37.4	2.9	5.4	15.3	25.1	27.1
SBA and EFF	42.5	37.4	2.9	5.4	15.3	25.1	27.1
Principal (repurchases)	40.0	35.0	0.0	2.5	12.5	22.5	25.0
Interest charges	2.5	2.4	2.9	2.9	2.8	2.6	2.1
Prospective purchases							
Disbursements	0.0	30.0	20.3	10.1	0.0	0.0	0.0
Stock 1/	0.0	30.0	50.3	60.4	60.4	60.4	54.6
Obligations 2/	0.0	0.8	0.8	1.2	1.2	1.2	7.0
Principal (repurchases)	0.0	0.0	0.0	0.0	0.0	0.0	5.8
Interest charges	0.0	0.8	0.8	1.2	1.2	1.2	1.2
Stock of existing and prospective Fund credit 1/	155.0	180.0	200.3	207.9	195.4	172.9	142.1
In percent of quota 3/	73.7	85.6	95.2	98.8	92.9	82.2	67.5
In percent of GDP	1.4	1.5	1.6	1.5	1.3	1.1	0.8
In percent of exports of goods and nonfactor services	2.5	2.7	2.8	2.7	2.4	2.0	1.6
In percent of gross reserves	6.7	7.5	8.2	7.9	7.1	6.0	4.6
In percent of public external debt	3.8	4.1	4.4	4.3	4.0	3.4	2.7
Obligations to the Fund from existing and prospective Fund credit	42.5	38.2	3.7	6.6	16.5	26.3	34.1
In percent of quota	20.2	18.1	1.8	3.1	7.9	12.5	16.2
In percent of GDP	0.4	0.3	0.0	0.0	0.1	0.2	0.2
In percent of exports of goods and nonfactor services	0.7	0.6	0.1	0.1	0.2	0.3	0.4
In percent of gross reserves	1.8	1.6	0.2	0.3	0.6	0.9	1.1
In percent of public external debt service	15.0	11.1	1.1	1.8	4.4	6.7	8.2

Source: Fund staff estimates and projections.

1/ End of period.

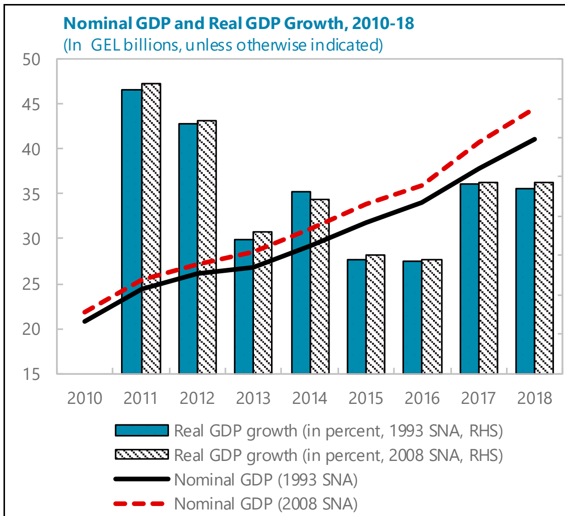
2/ Repayment schedule based on repurchase obligations and GRA charges. Includes service charges.

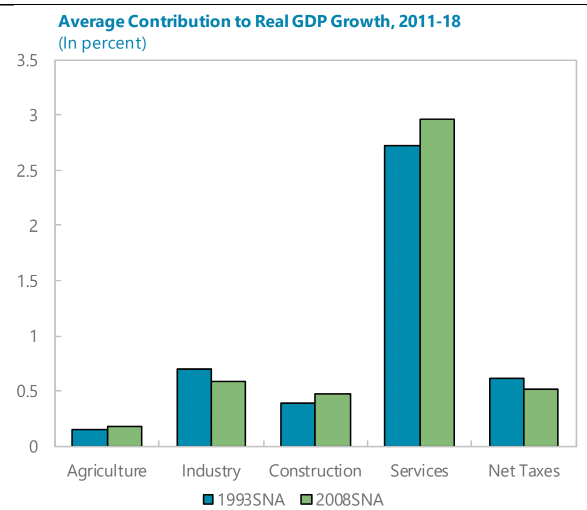
3/ Quota increased to SDR 210.4 million in February, 2016.

Annex I. Revisions to the National Accounts

1. Geostat has compiled national accounts according to the 2008 *System of National Accounts* standard. The new series improved coverage and quality of the data, and modernized the industrial classification from NACE Rev. 1 to NACE Rev. 2, including with the implementation of the user cost method for owner-occupied dwellings; a new calculation of Financial Intermediation Services Indirectly Measured (FISIM) output and, for the first time, allocation by user. Government non-market output and consumption expenditures were revised based on new detailed source data. There are also new estimates of insurance services and their allocation by user and new methods for calculation of changes in inventories and capitalization of research and development. The base year for new GDP series is 2015 and the authorities have recompiled annual series back to 2010.

2. Consistent with an improved data coverage, nominal GDP was revised up, while real GDP growth has remained broadly unchanged (Figure 1). The revision of national accounts implied an increase of nominal GDP by 6.2 percent in average over 2010-18, mainly stemming from the improved data quality, and better coverage of financial sector transactions and the informal economy. As a result, public debt-to-GDP in 2018 decreased to 41.3 percent from 44.9 percent before the revision, while the current account deficit decreased to 6.8 percent from 7.3 percent of GDP. Real GDP growth has remained broadly unchanged with growth rates averaging 4.7 percent over 2011-18 under the 2008 SNA, compared to an average 4.6 percent before the revision. The new data shows that the services sector, along with agriculture and construction, contributed more to real GDP growth than previously estimated while the contributions of industry and net taxes decreased marginally.





Source: GeoStat, and IMF staff calculations.

3. Geostat plans further improvements to the national account series. IMF Technical assistance will focus on consolidating the progress made so far by GeoStat in implementing the 2008 SNA and updating the GDP series using both the production and the expenditure approaches. GeoStat is also engaged in developing a detailed Supply and Use Table (SUT) that will further enhance the measures of output and improve the quality of GDP estimates.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood/Time Horizon	Expected Impact on the Economy if Risks Materialize	Policy Response
Global Shocks			
Rising protectionism and retreat from multilateralism In the near term, escalating and unpredictable trade actions and a WTO dispute settlement system under threat imperil the global trade system and international cooperation. Additional barriers, including investment and trade restrictions in technology sectors, and the threat of new actions reduce growth both directly, and through adverse confidence effects and financial market volatility. In the medium term, geopolitical competition, protracted tensions, and fraying consensus about the benefits of globalization lead to economic fragmentation and undermine the global rules-based order, with adverse effects on investment, growth, and stability.	**High** **Short to Medium Term**	**Medium** Protectionism could jeopardize Georgia's plans to diversify its economy and become a regional transit hub. The prospective reduction in exports and FDI will reduce growth. An increase in external imbalances would put pressure on the lari.	Flexible exchange rate should serve as a first line of defense. Strengthen reserve accumulation and fiscal sustainability to weather external shocks from a stronger position.
Sharp rise in risk premia. An abrupt deterioration in market sentiment (e.g., prompted by policy surprises, renewed stresses in emerging markets, or a disorderly Brexit) could trigger risk-off events such as recognition of underpriced risk. Higher risk premia cause higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; disruptive corrections to stretched asset valuations; and capital account pressures—all depressing growth.	**High** **Short Term**	**Medium** Lower capital inflows could generate balance of payment pressures. The resulting higher lari volatility and depreciating pressures could generate negative balance-sheet effects and threaten financial stability.	Flexible exchange rate should serve as a first line of defense. Strengthen reserve accumulation and fiscal sustainability to weather external shocks from a stronger position. Adjust macroprudential measures to avoid an undue tightening of financial conditions.
Weaker-than-expected global growth. Idiosyncratic factors in the U.S., Europe, China, and stressed emerging markets feed off each other to result in a synchronized and prolonged growth slowdown: **U.S.:** Confidence wanes against a backdrop of a long expansion with stretched asset valuations, rising leverage, and policy uncertainty, leading to weaker investment	**Medium** **Short to Medium Term**	**Medium** Weaker global demand, and a potential slowdown to Georgia's main trading partners' growth, alongside with weakness in domestic demand could reduce growth. This would reduce the appetite for much-needed structural reforms to achieve economic diversification and more inclusive growth.	Flexible exchange rate should serve as a first line of defense. Accelerate structural reforms to enhance confidence and improve competitiveness. Strengthen fiscal sustainability, reserve accumulation, and be ready to adjust macroprudential measures to

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Source of Risks	Relative Likelihood/Time Horizon	Expected Impact on the Economy if Risks Materialize	Policy Response
and a more abrupt closure of the output gap. **Europe:** Weak foreign demand, Brexit, or concerns about some high-debt countries makes some euro area businesses delay investment, while faltering confidence reduces private consumption. Inflation expectations drift lower, and the region enters a prolonged period of anemic growth and low inflation. **China:** In the near term, further escalation in trade tensions not only reduce external demand, disrupt supply chains, and depresses confidence and investment, but potentially also trigger tighter financial conditions, a sharp downturn in the property market, renewed PPI deflation, and a drop-in commodity prices. In the medium term, weaker external demand, the potential reversal of globalization, and the increasing role of the state could weigh on growth prospects. Moreover, excessive policy easing—reversing progress in deleveraging and rebalancing—increases risks over time of a disruptive adjustment or a marked growth slowdown. **Large stressed emerging economies:** Policy missteps, idiosyncratic shocks and/or contagion prevent expected stabilization or recovery in stressed economies from materializing, generating negative spillovers and reducing global growth.	**High** **Short to Medium Term** **High** **Short to Medium Term** **Medium** **Short Term**		avoid an undue tightening in financial conditions. Strengthen social safety nets to protect the most vulnerable segments of the population. Continue to expand trade integration to build a more diversified export base and economic resilience.
Georgia-Specific Risks			
Financial risks. Depreciation and a slowdown in tourism could increase hurt growth as economic agents struggle to repay loans, increase NPLs and threaten financial stability.	**Medium** **Short Term**	**High**	Strengthen the resolution framework to ensure that financial stability challenges can be addressed. Adjust macroprudential measures to avoid an undue tightening of financial conditions.
Fiscal risks. Materialization of contingent liabilities/fiscal risks could deteriorate public debt dynamics.	**Medium** **Short to Medium Term**	**High**	Strengthen fiscal sustainability. Continue improving SOE governance and fiscal risk management practices.
Political risks. Political backlash or/and reform fatigue could undermine efforts to undertake structural reforms.	**Low**	**Medium**	Strengthen social safety nets to protect the most vulnerable segments of the population and ensure that growth is sufficiently inclusive.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
Washington, D.C.

Tbilisi, December 2, 2019

Dear Ms. Georgieva:

1. **We remain committed to the policies detailed in our Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of March 27, 2017, updated most recently on June 3, 2019.** Our vision for Georgia's economic development remains based on free market principles. Our policies aim at (i) improving the structure of the economy and the business climate, (ii) providing assistance to small and medium business, and rapidly developing infrastructure. The National Bank of Georgia (NBG) will continue strengthening the monetary policy framework and enhancing financial supervision, regulation and safety nets. We are committed to preserve macroeconomic stability as a prerequisite for sustainable and more inclusive economic growth.

2. **Prudent macro policies and our reform program have helped the economy remain resilient to negative shocks**. Real GDP growth reached 4.7 percent (y/y) in the first half of 2019 and remained robust in the third quarter according to flash estimates. External demand was resilient notwithstanding lower tourism receipts due to the ban on direct flights from Russia. The current account deficit reached a historic low of 4.6 percent of GDP in the first half of the year, driven by a significant compression in the trade balance. Our gross foreign exchange (FX) reserves reached $3.7 billion by end-June 2019. However, the lari has depreciated by 8 percent in nominal effective terms since end-May 2019 triggering an acceleration in inflation which reached an average of 4.1 percent in September (6.4 percent (y/y)). In response, the NBG increased its policy rate by a cumulative 200 basis points since September 2019.

3. **As most of the conditionality was met, we request the completion of the Fifth Review under the Extended Fund Facility (EFF) and the release of the related purchase.** As of end-June 2019, all but two of the quantitative performance criteria (QPCs) were met, and inflation remained within the inflation consultation clause (ICC). Lower external disbursements and higher privatization receipts lowered the end-June QPC on government deficit, which was missed by a small margin (0.03 percent of GDP). The Partnership Fund had a small deficit of $0.6 million due to delayed SOE dividend payments. We request a waiver of nonobservance for these QPCs as the deviations were small and temporary. Three out of five structural benchmarks (SBs) for the Fifth Review were met. As to the remaining two, we will submit the draft insolvency law to Parliament with a delay and no later than end-2019, and requested additional TA to complete the classification of our state-owned enterprises into public corporations and general government, which we commit to complete by end-March 2020. Given

the performance under the program, and the policies in the enclosed MEFP, we intend to purchase SDR 30 million, bringing total drawings to SDR 180 million.

4. **We also request a one-year extension of the EFF arrangement, to April 11, 2021, with a rephasing of access.** With global economic outlook deteriorating, the EFF arrangement will continue to be a framework to deliver prudent macro policies and advance reform implementation until the new government is in place. Our strong track record in achieving the program's objectives has helped showcase our commitment to macro stability and policies to promote economic resilience, and higher and more inclusive growth.

5. **The extension of the program will add two reviews.** Total access under the program would remain unchanged. Our program will continue to be monitored through an Inflation Consultation Clause (ICC), QPCs, indicative targets with end-June and end-December test dates, and continuous performance criteria. Consistent with our reform agenda, our program also envisages Structural Benchmarks (SBs). These are set out in Tables 1–3 of the MEFP (Attachment I) and defined in the attached Technical Memorandum of Understanding (TMU, Attachment II). Reviews will be conducted semi-annually. The Sixth Review will be based on end-December 2019 performance criteria and is expected to take place on or after March 20, 2020.

6. **The attached MEFP, updating the previous ones, will enable us to achieve the objectives of our economic program.** We will monitor progress continuously in consultation with the IMF, and we stand ready to take further measures if needed to reach our objectives. We will continue to consult with the IMF on the adoption of measures, and in advance of any revisions to policies included in this LOI in accordance with the IMF's policies on such consultations. We will also provide the IMF with the information it requests for monitoring program implementation. We authorize the IMF to publish this LOI and its attachments, and the related Staff Report. These documents will also be posted on the official websites of the Georgian government after the approval by the IMF Board.

Very truly yours,

/s/
Ivane Matchavariani
Minister of Finance

/s/
Natia Turnava
Minister of Economy and Sustainable Development

/s/
Koba Gvenetadze
Governor of the National Bank of Georgia

Attachments:

1. Memorandum of Economic and Financial Policies (MEFP)
2. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies (MEFP)

1. This memorandum reports on recent economic developments and updates the economic and financial policy agenda of the National Bank of Georgia (NBG) and the Government of Georgia to address medium-term economic challenges.

MACROECONOMIC FRAMEWORK

2. The economy remained resilient in the face of negative shocks, including the ban on direct flights from Russia. Real GDP grew 4.7 percent (y/y) in the first half of 2019, in line with the Fourth Review projections, and growth remained robust in the third quarter at around 5 percent according to flash estimates. The current account deficit in the same period reached a historic low of 4.6 percent of GDP driven by a significant compression in the trade balance. We exceeded the adjusted end-June program target on net international reserves (NIR) by $198 million. Inflation, however, accelerated since April, reflecting higher excise taxes and substantial nominal depreciation in the face of the ban on direct flights from Russia. Yet, strong economic fundamentals led Fitch and S&P to upgrade our credit rating to BB in February and October, respectively.

3. Despite some deceleration in 2020, medium-term growth prospects remain unchanged—reflecting our commitment to steadfast implementation of structural reforms.

a) We expect growth at 4.6 percent in 2019, in line with the Fourth Review projections. External sector remained a key growth driver together with a smoother infrastructure spending this year. Growth is expected to slow to 4.3 percent in 2020 owing to weaker domestic and external demand. Medium-term growth is expected to recover gradually due to a steadfast implementation of our structural reforms and investment in infrastructure.

b) Inflation is projected to peak at 7.2 percent (y/y) at end-2019. We expect it to decline to the 3-percent target by end-2020 as one-offs dissipate and monetary policy adjusts as needed.

c) Continued expenditure restraint and robust growth will generate additional fiscal space, allowing us to continue investing in core infrastructure and education and addressing pressing social needs while maintaining medium-term fiscal sustainability.

d) Over the medium term, the current account deficit is projected to gradually decline to 4.9 percent of GDP and will remain predominantly financed by FDI, which is expected to reach 6 percent of GDP. Our FX sales and lower FX reserve requirements reversed recent gains in reserve cover. GIR is expected to reach 97 percent of the ARA metric by end-2019.

4. While we expect continued robust economic growth, downside risks to the outlook have increased. Our first line of defense against considerable external risks is our commitment to exchange rate flexibility, and sound macroeconomic and financial policies. The extension of the IMF-supported program should help anchor confidence in the face of negative shocks, including from regional instability, rising global trade tensions, and financial market volatility.

ECONOMIC POLICIES

A. Fiscal Policy

5. The end-June ceilings on the augmented deficit (QPC) and on primary current spending (IT) were both missed by a small margin. While the augmented deficit was close to projections, lower-than-expected project loan disbursements and higher privatization receipts led to a lower deficit ceiling. Primary current spending was higher than expected, because improved procurement procedures led to smoother spending on goods and services in the first six months., Capital spending accelerated in the first half of the year, as procurement started earlier than in previous years. As a result, intra-year budget execution in 2019 is smoother than in previous years. Government contributions to the Pillar II pension system were also higher than expected.

6. We remain committed to the end-2019 augmented deficit target. With some delays in external project loan disbursements, some GEL300 million lower than budgeted, the deficit QPC would be adjusted downward from 2.6 to 2.3 percent of GDP. Primary current spending for the year is projected to stay within the spending envelope. Similarly, due to the adjustor on on-lent external loans, the ceiling on net budget lending is likely to be adjusted downward to GEL185 million. At the same time, revenue performance in 2019H2 has benefited from improved tax administration and compliance following a successful discovery and prosecution of a large-scale tax fraud case. Hence, we have devoted higher-than-projected revenues for additional capital spending, consistent with the parameters of the program. In addition, we have implemented the measures agreed at the Fourth EFF Review:

- We have abolished the so-called golden list that had previously allowed certain taxpayers to delay excise and VAT payments, leading to estimated one-off gains of 0.4 percent of GDP.
- We introduced an excise tax on rolling tobacco, effective November 2019. Consumption switching to rolling tobacco contributed to significant losses in excise tax revenues in 2019. The estimated annual yield of this measure is 0.2 percent of GDP.
- As agreed at the Fourth Review, the supplementary budget for 2019 incorporated financial incentives for teachers' retirement. We propose to revise the end-year ceiling on primary current spending (IT) upward by GEL20 million, because the supplementary budget also included additional mandatory government contributions to the Pillar II pension system. Participation in the scheme was higher than anticipated.

7. Fiscal policy will continue to balance increasing social and infrastructure spending with keeping net debt below 45 percent of GDP.

- Our commitment to sound public finances will be underpinned by the end-June 2020 deficit ceiling (QPC) of GEL550 million. Primary current spending will not exceed GEL5,200 million by end-June (IT).

- We will adopt the 2020 budget targeting an augmented deficit of GEL 1,320 million (2.7 percent of GDP) (end-December 2019 structural benchmark). Current primary spending will remain at the 2019 level of 21.7 percent of GDP. The overall reduction in current primary spending is estimated at 3 percentage points of GDP –in line with our commitments at the time of the EFF request. Within this envelope, the 2020 budget allocates a greater share to social benefits. The basic pension will increase by 10 percent, to GEL220 per month, in 2020. Given that the basic pension remains barely above the subsistence minimum, we will further increase the pension of those aged 70 years and older to GEL250 per month starting July 2020. With additional VAT refunds and the reversal of some 2019 one-off effects, tax revenues are conservatively projected to be some 0.5 percent of GDP lower than in 2019. Hence, public investment will be somewhat lower as a share of GDP than in 2019 but higher than envisaged at the Fourth EFF review.

- We will continue our efforts to reduce the stock of VAT credits. For mid-June 2020, we will target a stock of credits of GEL1,470 million (IT). We aim to refund at least GEL300 million in 2020H1. Additional refunds (up to GEL450 million) above this level will be accommodated under the program through an adjustor to the deficit ceiling (see Technical Memorandum of Understanding (TMU, ¶14).

- We are committed to use revenue over-performance or additional savings in current spending toward high-priority, growth-enhancing net acquisition of non-financial assets, and any under-execution in investment towards a lower deficit.

- We will continue to enhance the disclosures in our annual Fiscal Risk Statement that estimates potential fiscal costs arising from our Public-Private Partnerships (PPPs) and Purchasing Power Arrangements (PPAs). We are committed to reassess and implement, if needed, additional fiscal measures based on our fiscal risk profile to build buffers to guard against those risks. Under the current domestic electricity pricing regulated mechanism, the potential fiscal costs of PPAs would normally be avoided, since guaranteed prices would be fully passed on to end-users. Our baseline scenario forecasting electricity prices suggests that PPAs would imply marginal tariff increases in the foreseeable future. However, we recognize that public finances are exposed to regulatory risks, which could materialize if electricity tariffs are not adjusted to fully reflect guaranteed prices under PPAs. Moreover, losses would arise from exporting surplus electricity if export prices are below the guaranteed prices. These risks are analyzed in our FRS.

- We stand ready to adopt additional measures, in consultation with the IMF, to keep the augmented deficit in line with the program.

8. **In consultation with the IMF, we will submit legislation for a rule-based mechanism to index basic pensions (end-December 2019 structural benchmark).** Effective 2021, the pension indexation rule would protect pensioners’ income against inflation and, for pensioners aged 70 and

above, increase it in real terms, making growth more inclusive. We are committed to an annual pension indexation that is below nominal GDP growth and that maintains the spending envelope below 4.5 percent of GDP, so that we maintain budget flexibility over time, even under adverse demographic projections, and give future governments fiscal space for additional and more targeted social spending. In the long term, replacement rates will relatively increase as the basic pension will be complemented by the new contributory pension pillar.

9. We remain committed to medium-term fiscal sustainability. We have created room for our education reform by shifting spending from physical to human capital, while protecting infrastructure spending on key projects. We will improve public administration efficiency by (i) containing the wage bill and administrative expenses; (ii) improving the targeting of subsidies and of social assistance programs; (iii) developing a comprehensive strategy to address financial vulnerabilities and improve corporate governance in SOEs; and (iv) broadening the scope of performance-based budgeting. Additionally, in reducing our reliance on electricity imports, we are committed to expanding Georgia's power generation capacity in a fiscally sustainable manner. This will require continued investment by the public and private sector. Before taking on any major public energy investment project, we will conduct, in consultation with the IMF, an in-depth analysis of implications on public finances and medium-term fiscal sustainability.

10. Our financing strategy aims to support domestic market development and reduce external vulnerabilities. We regularly update and publish our plans for government bond issuance to develop benchmarks along the yield curve to facilitate price discovery for private issuances. The plan envisages increasing the size of domestic benchmark bonds, to encourage foreign participation. We are currently working towards signing memorandum of understanding with six domestic banks that are interested in participating in a pilot market-making arrangement for the government securities market.[1]

11. We aim to contain fiscal risks and remain committed to avoid domestic/external debt payment arrears.

- We will not (i) accumulate any general government's external debt payment arrears outside those under negotiation (performance criterion); (ii) accumulate net domestic expenditure arrears of the general government (indicative target); or (iii) issue new public guarantees (performance criterion), or comfort letters.

- We will refrain from initiating any Public-Private Partnerships (PPPs), including Power-Purchasing Agreements (PPAs), until our PPP framework is fully operational. The framework will be operational once the Value-for-Money (VfM) methodology is approved following the recommendations of IMF TA, and incorporated in the PPP Value-for-Money guidelines. These

[1] Since domestic issuance exceeds the government's financing needs, we hold any excess funds in long-term deposits, allocated transparently to commercial banks through auctions.

Value-for-Money guidelines in line with IMF TA recommendations will be issued by end-March 2020 (new structural benchmark).

- Before the PPP framework is fully operational, PPAs will be permitted to proceed only on the following terms:

    i. The guaranteed purchase period shall not be more than 8 months in each year;

    ii. The guaranteed purchase tariff shall not be more than US 6c per kWh; and

    iii. The cumulative installed capacity of these projects will not exceed MW650 since the approval of the program. To this end we have permitted PPAs with a cumulative capacity of MW195.

- We will refrain from taking over any SOE debt or providing equity injections to SOEs without a comprehensive strategy that, among other things, fully supports commercial viability and improves corporate governance; we will consult with the IMF on the strategy and on specific measures. Our public corporations will refrain from engaging in any new quasi-fiscal activities.

- We are committed to limit quasi-fiscal operations and to systematically report them in the Fiscal Risk Statement.

12. We are working on a new strategy for the Partnership Fund (PF). In the meantime, given that the PF does not follow commercial objectives, we will limit the PF's gross acquisition of financial and non-financial assets, other than cash and bank deposits, to zero except for existing commitments in ongoing projects (continuous performance criterion). Accordingly, the PF will not undertake any new projects nor engage in any net borrowing (performance criterion).

B. Structural Fiscal Policies

13. We are strengthening our revenue administration to improve taxpayer services and strengthen compliance. Following the 2016 Tax Administration Diagnostic Assessment and IMF TA, we have been implementing a 3-year plan, supported by the Revenue Mobilization Trust Fund, that focuses on improving:

- **Organizational structure.** We have restructured the Georgia's Revenue Service's (GRS), created specialized units within the Audit Department and the Taxpayer Services Department to deal with large taxpayers, and hired additional personnel (see previous MEFPs). In light of the recently detected fraud cases, we are currently reviewing our structure and procedures to avoid similar cases in the future.

- **IT resources and capacity.** A modern tax administration requires adequate IT capacity. To this end, we will develop a draft IT strategy for GRS by end-January 2020. By end-January 2020, GRS and the Ministry of Finance's IT Department will also complete an IT investment plan in line with IMF TA recommendations, including (i) an infrastructure sustainability assessment, (ii) an application sustainability assessment, (iii) an inventory of business functionality improvement and data analytics needs. We will seek external feedback on the draft IT strategy and investment plan, including the roadmap for implementation, with the aim of approval by April 2020. We commit to bolster our IT capacity by hiring additional staff or seeking a partnership of GRS with a private sector IT provider. We will also replace software that is no longer supported in a timely manner.

- **VAT tax administration.**

  i. **Stock of unrefunded VAT credits.** We are committed to eliminate unrefunded VAT credits. By end-2021, we aim to reduce, by at least 50 percent, the outstanding stock of those VAT credits that are within the limitation period for audit (from GEL1.4 billion at end-2017 to GEL 700 million by end-2021). For the stock of existing credits, we are committed to risk-assess 100 percent of declarations (within the statute of limitations for audit) by mid-2020.

  ii. **Automatic risk assessment and risk-based auditing.** Since January 2019, new VAT declarations are risk-assessed under the automated system on a continuous basis. Since June 2019, the risk threshold is such that more than 90 percent of new declarations are immediately eligible for a refund, if requested by taxpayers and there are no outstanding tax liabilities (end-June 2019 structural benchmark). The remaining declarations with the highest risk score are reviewed by the specialized VAT unit to determine compliance actions.

  iii. **Automatic refunding of new VAT credits.** Starting May 1st, 2020, all risk-assessed and approved new credits will be either offset against existing liabilities or refunded to the taxpayer without the need to request a refund. The electronic VAT declaration form will be changed accordingly and will require taxpayers to submit their bank account details. The option to offset the stock of existing credits against new liabilities will remain unchanged, and taxpayers will retain the option to request a cash refund through a separate form for those stocks within the three-year statute of limitations.

- **Compliance and audit yields.** With IMF TA, we plan to use risk-based audits to identify non-compliant cases that are likely to produce higher yields. We will better manage the audit scope and develop audit plans to give a balanced coverage of tax categories. Our work on the pilot audit management system is making good progress. After some delays in the procurement process, we expect the system to start working in pilot mode by April 2020. Once implemented, this will enhance audit timeliness and productivity. We will ensure an IT strategy and resources for achieving these objectives.

- **Filing compliance.** We established key performance indicators to improve filing compliance. The program, initially developed for VAT, will be expanded to all tax categories. Parliament approved legal amendments so that an unfiled declaration is no longer deemed to be a nil declaration, where the MoF requires a declaration. By end-2019, the MoF will issue an order defining cases needing a declaration.

- **Taxpayer register.** By end-2019, we will adopt a ministerial decree to clarify tax registration requirements and give the GRS the mandate to enforce compliance and control of the registration process for all tax types, including issuing tax identification numbers. In addition, the GRS will create and maintain a register of employees for tax administration purposes.

- **Automatic access to third-party information**. Risk analysis relies on data for enhancing tax administration. MoF agreed with other ministries and agencies on access to their databases for tax administration purposes. Since October 2019, GRS has received regular and comprehensive access to information on real estate transactions, rentals and leases from the National Agency of Public Registry. The Parliament has approved changes in the legislation allowing the GRS access to the information received by the Financial Monitoring Service (FMS) from monitoring entities on suspicious transactions, as defined in the law on facilitating the prevention of illicit income. The main safeguards to ensure adequate use of the information are in place (end-December 2019 structural benchmark) and a more comprehensive system will be operating by October 2020. In addition, we will ensure that GRS receives access to information on construction permits from Tbilisi municipality in 2020. Providing information on Joint Stock Companies (JSC) partners and changes in company equity will require improvements in data collection, which we are evaluating.

14. We are committed to contain fiscal risks to safeguard fiscal sustainability. In particular, we have reformed our SOE monitoring and PPP frameworks to reap the benefits of PPPs, while controlling the risks. We have undertaken the following steps:

- **Adopted a new PPP law and associated regulations.** Parliament approved a PPP law in May 2018, and a government decree implementing the PPP law was issued in August 2018 (see previous MEFPs for details).

- **We have assessed the stock of the PPP liabilities. This assessment has been based on the** relevant International Public Sector Accounting Standards and is included in the FRS incorporated in the 2020 budget and will also be included the report on the 2019 budget execution.

- **Continued strengthening the Fiscal Risk Statement (FRS) accompanying the budget.**

    i. Our latest FRS expanded the analysis of fiscal risks stemming from PPPs, PPAs and SOEs. Building on this progress, the FRS in the 2020 budget documentation will include a more comprehensive coverage of general government financial asset operations and provide information on the rates of return on general government equity holdings and loans (structural benchmark, end-December 2019).

    ii. The MoF fiscal risk management unit has been fully staffed.

- **Strengthened the monitoring of SOEs.** The MoF and the Ministry of Economy and Sustainable Development (MOESD) collect data on SOEs, including performance information, transfers between the state and SOEs and among SOEs, borrowing, guarantees and any litigation, at least, on an annual basis. We have made some progress in using data to establish a complete inventory of SOEs classifying them into public corporations and general government entities under GFSM2014, but will need more time to consult with IMF TA (structural benchmark, end-September 2019, to be reset to end-March 2020). We adopted a government decree clarifying the mandate of SOEs that are public interest entities, and their governance and reporting requirements (structural benchmark, end-November 2019).

- **Improved the Public Investment Management Framework (PIMF).** We have created a dedicated public investment council at the MoF, where information on public investment projects is centralized. This council will evaluate investment projects based on cost/benefit analysis and other relevant analyses, which will help establish a single project pipeline, support adequate project evaluations, help prioritize investment projects and identify their financing, and integrate them within our Medium-Term Budget Framework (MTBF). The PIMF will cover PPP-type projects to support priorities and assess alongside traditionally procured projects. In coordination with the IMF, we are committed (structural benchmark, end-December 2019) to (i) further strengthen our PIMF by strengthening the public investment management methodology that guides project appraisal, selection and management; and (ii) further strengthen reporting and oversight requirements for public investment projects at the MoF by updating the Government Decree on PIM methodology. These measures would help earlier identification of project implementation delays early in the process. We will enforce the gatekeeper role of the Ministry of Finance and designing a system for regular intra-year reporting of project implementation progress.

15. We believe that accurate and transparent budgeting and accounting is a cornerstone of fiscal stability. Accordingly, we commit to:

- **By end-December 2020, we will submit legislative changes, including to the Budget Code and the Economic Liberty Act, to make the coverage of General Government consistent with the classification of SOEs into General Government units and Public Corporations**, currently undertaken by our fiscal risk unit (see paragraph 14c). From January 2021, all of our fiscal reports will incorporate these changes.

- **Strengthening the Medium-Term Budget Framework (MTBF).** Our 2020 budget discusses compliance with the fiscal rule and revised expenditure plans, and any projected deviation of expenditure from the 2019 MTBF.

- **Improving the quality of fiscal reports and complying with international accounting standards**. In our efforts to improve fiscal transparency, starting in 2021, we will produce an annual consolidated central government sector financial report based on International Public-Sector Accounting Standards (IPSAS) basis.

C. Monetary Policy

16. We will continue to abide by the Inflation Consultation Clause (ICC) under the program. The clause entails dual consultation bands set symmetrically around the forecast for headline CPI (Table 1). Should actual inflation be higher or lower than the inner consultation band of ± 2 percent, the NBG will consult with IMF staff on the reasons for the deviation and the policies to return to target. Should actual inflation be higher or lower than the outer consultation band of ± 3 percent, a consultation with the IMF Board will be triggered.

17. We are committed to our inflation targeting (IT) framework to maintain price stability. We have started to tighten monetary policy (increasing the policy rate by a cumulative 200 bps since September) to neutralize inflationary pressures stemming from the exchange rate depreciation and will maintain a tightening bias until inflation expectations are firmly anchored around our 3 percent inflation target. Notwithstanding our policy response, our current projections indicate that inflation would rise above the inner consultation band in December 2019, triggering an inflation consultation with IMF staff.

18. We will maintain a flexible exchange rate regime to protect the economy against external shocks. The floating exchange rate regime continues to work well as a shock absorber. Hence, FX interventions are limited to smoothing excessive exchange rate volatility and to build up international reserves. We are committed to accumulating gross international reserves (GIR), which will be monitored by a floor on net international reserves (NIR, performance criterion).

19. After accumulating reserves during the first half of 2019, we resorted to FX sales and tighter policy rates to address inflationary pressures. With purchases at $186 million,[2] the end-June NIR reached $1.6 billion, $198 million above the adjusted QPC (Table 2). Gross international reserves (GIR) reached 108 percent of the ARA metric at end-June 2019. To support monetary tightening, we sold FX twice, in August and September, for a cumulative $73 million aiming at neutralizing inflationary pressures stemming from exchange rate depreciation without targeting a specific level of the exchange rate. Banks' reserve requirements for FX deposits were also decreased by 5 percentage points in September to support FX liquidity.

20. Given challenging market conditions, we will maintain our level of net international reserves in the near term, and commit to maintaining our efforts to build an adequate level of reserves. Increased depreciation expectations and limited donor inflows limit our capacity for intervention. We therefore propose to reduce the end-December NIR floor target by $30 million to $1,490 million. Due to lower external disbursements, the adjusted QPC is projected at $1,450 million and GIR is expected to reach 97 percent of the ARA metric by end-2019 (compared to 100 percent at the Fourth Review).[3] Despite the heightened global economic uncertainty, and rising downside

[2] $51 million were purchased through FX put options.

[3] With IMF support, the reclassification of liabilities as direct investment is estimated to boost reserves by 4 percentage points of the ARA metric.

risks, we remain committed to sustain reserve levels. Hence, we propose to maintain the end-June 2020 NIR floor at $1,450 million, the expected level at end-December 2019. Economic developments so far make this an ambitious target. Other things equal, GIR is projected at 96 percent of the ARA metric by end-June 2020.

21. The NBG plans to continue improving the communication toolkit. The NBG has requested IMF TA to enhance its communication vis-à-vis market participants and the general public.

D. Financial Sector Policy

22. Our policies will continue to strengthen financial sector stability. As noted in previous MEFPs, we have enhanced our financial stability policy framework, regulation and supervision to support the banking sector's ability to cope with shocks and improve financial intermediation. We continued working on: (i) the regulation and supervision for banks on a consolidated basis and non-banks; (ii) the financial stability policy framework including by publishing the financial stability report; and (iii) the emergency liquidity assistance facility and the banking resolution framework. We have also stepped up efforts to develop the domestic capital market.

23. We made progress on strengthening the financial stability policy framework, regulation and supervision.

- Banks will fully transfer their financial and regulatory reporting to IFRS9 framework by end-December 2020. Once fully transitioned to IFRS9 by end-2020, we will request capital adequacy information both on stand-alone and consolidated basis under IFRS accounting framework.

- By March 2020, we plan to enhance the regulation on consumer lending by reinforcing its principle-based nature. We will allow banks greater flexibility in managing risks associated with consumer lending, including by reducing the number of income brackets for PTI. We are also introducing more robust risk governance requirements specifically for consumer lending.

- The draft law on supplementary supervision for financial conglomerates will be submitted to Parliament by March 2020.

- The regulation on net stable funding ratio (NSFR) entered into effect in September 2019, with banks maintaining a minimum of 100 percent NSFR.

- In November 2019, we issued regulation on large exposures in line with Basel principles and relevant EU regulations, and updated limits on related-party transactions accordingly.

- We will introduce standards for interest rate risk in the banking book—in line with Basel and EBA guidelines—by end-2019.

- We are planning to further strengthen supervision of non-bank financial institutions with the help of IMF TA.

24. We resumed publishing a stand-alone Financial Stability Report (FSR) in September 2019. The new FSR (structural benchmark, end-November 2019) provided a forward-looking assessment of risks and vulnerabilities in the financial system, detailed analysis of private non-financial sector balance sheet and the macro-prudential policy actions taken to mitigate risks. We will continue publishing FSR annually.

25. In September 2019, we published a macroprudential policy strategy, to enhance the transparency and communication of our financial stability policy. We have identified five intermediate objectives to promote financial stability: (i) preventing excessive credit growth and leverage, (ii) preventing excessive maturity mismatch and market illiquidity, (iii) limiting direct and indirect exposure concentrations, (iv) limiting the systemic impact of misaligned incentives to reduce moral hazard, and (v) reducing dollarization of the financial system.

26. We are strengthening financial safety nets. With IMF TA support, we have prepared legal amendments to revamp the banking resolution framework and enhance crisis management, including clarifying the authorities' role and the decision-making process, and granting the NBG a strong resolution tool and mandate. We expect to enact the legislative changes to implement effective ELA and resolution framework in line with international best practices, and in consultation with the IMF, by end-December 2019 (structural benchmark). In particular, these amendments prohibit unsecured lending by the NBG, mandate a penalty rate for emergency liquidity assistance (ELA), and clarify the role of the MoF to ensure an effective ELA framework in systemic cases. In implementing this reform, we will phase in secondary legislation in consultation with the IMF. Priority will be given to putting in place the implementing instruments by end-June 2020 (new structural benchmark) on: (i) the NBG's Resolution Committee and the inter-agency Financial Stability Committee; (ii) identification of critical functions; (iii) recovery plans; (iv) valuation; and (v) accelerated supervisory approvals during resolution (e.g. share acquisitions). Thereafter, we intend to issue secondary legislation by end-December 2020 (new structural benchmark) on: (i) resolution plans; (ii) temporary administrator and special manager; (iii) recapitalization tools; including the bail-in; (iv) the bridge bank tool; (v) temporary public support and ex-post resolution fund; and (vi) ELA against government guarantees.

27. Capital market development will support larization while reducing external vulnerabilities. Our steps to develop local capital markets are:

- By end-December 2019, we will submit to Parliament (ii) legislation establishing investment funds; and (ii) changes to the tax code, supporting the development of investment funds. By June 2019, we submitted legal amendments to Parliament to support derivatives and repo transactions. This would facilitate FX hedging operations.

- We are strengthening capital market regulation. By May 2020, we plan to submit to Parliament draft legislation amendments to security market legislation to improve investor rights protection. In 2020, the business conduct and custody regulation will be put in place to further improve the investment environment.

- In 2020, we also plan to submit to Parliament draft legislation for covered bonds. The covered bond market will improve access to long-term GEL funding for commercial banks, and help develop the fixed-income market.

- The law on derivatives and financial collateral is expected to be enacted by end-December 2019, helping develop money markets. We will submit draft legislation for securities holding, aligned with the international best practices to the Parliament, by March 2020. The framework incorporates an indirect holding regime, where only banks and brokers would be authorized to hold securities on behalf of their clients.

- In consultation with the IMF, we aim to transition gradually to a primary-dealer (PD) system. This would entail the following steps:

    a. We will issue a regulation for the PD system by end-March 2020 including: (i) a primary market regulation issued jointly by the MoF and NBG, (ii) a core PD arrangement (in the form of an agreement or Memorandum of Understanding), and (iii) contractual agreements (e.g., repurchase and securities lending agreements) for financial transactions in public debt securities between the primary dealers on the one hand and the MoF and NBG on the other hand.

    b. The implementation of the PD system will start with a pilot intermediate market making arrangement (IMMA), subject to the participation of a minimum number of financial institutions. We requested financial institutions' expressions of interest in becoming PDs in the pilot IMMA, and plan to launch the IMMA by April 2020.

E. Structural Reforms

28. Achieving more robust and inclusive growth will require a steadfast implementation of our comprehensive structural reform agenda. Our reforms aim at strengthening Georgia's connectivity through infrastructure spending and trade initiatives, improving education and vocational training, mobilizing savings, the business environment, and land and energy reforms. These steps should boost long-term growth, diversify the economy, strengthen our external position, create jobs and reduce poverty. At the same time, targeted social assistance and health care will continue to protect the most vulnerable.

29. Enhancing connectivity is key to Georgia's development. Despite some delays, we continue advancing our investment in core infrastructure, which will transform Georgia into a transport and logistics hub connecting Europe with Asia and support development in the regions. To this end, we have signed all the remaining contracts required for the construction for the East-West highway and began construction on the critical section of the North-South corridor.

30. We have started implementing our comprehensive education reform to improve job creation, productivity and wages. Unqualified labor force has long been reported as one of the most problematic factors for doing business in Georgia. At the same time, unemployment and underemployment remain high, suggesting skill mismatches in our labor force. With the help of our partners, we will continue implementing our education reform. We will revise the government decree on teachers regulatory documents to ensure that teachers' roles and responsibilities at all four categories (Practitioner, Senior, Lead and Mentor) are clearly defined; and to establish a non-discretionary approach to teacher's career advancement based on: (i) abolishing credit-point (incl. partial) accumulation system; (ii) introducing special exams for teacher 's promotion at each level of teacher status (currently exams are only for practitioners).

31. We are working to make our funded pension pillar fully operational. The pension agency has been created, contributions are collected, and the investment board has been formed. The pension agency is appointing a chief investment officer and designing the investment strategy. In the interim, pension contributions are placed in bank deposits. We are working to clarify the requirements for custodian institutions, and broaden the Pension Fund's investment mandate. A fully-functioning pension agency, with adequate safeguards in place, will promote savings and create an institutional investor for long-term lari assets. Our plans to formulate a private pension savings system (Pillar 3) have been put on hold.

32. We will continue to improve the business environment. To improve corporate governance, corporations will gradually be required to publish audited financial statements based on IFRS standards. Although we needed more time for internal consultation, by end-2019, we will submit to Parliament a new insolvency law ensuring adequate protection of creditor rights, timely and efficient insolvency processes and effective rehabilitation framework in line with best international standards (structural benchmark, end-July 2019). To advance the reform, we will finalize the framework for insolvency professionals and begin licensing professionals by end-December 2020. (new end-December 2020 structural benchmark). In addition, from January 2020, we will start applying regulatory impact assessments to policy decisions to protect the economy from undue costs. We have cancelled our plans to establish a Business House as we explore our options for full digitalization of public services to enterprises.

33. Land registration will be pivotal for rural and agricultural development. Land cadasters are important for protecting property rights, simplifying land transactions and providing collateral for borrowing. We have been assisting citizens in searching for property ownership documents and facilitate dispute resolution through mediation. Currently, registered land plots amount to 2 million compared to 0.62 million that were registered within the land reform launched on August 1, 2016.

34. Deepening trade relations with the rest of the world is one of Georgia's key priority. We have signed a free trade agreement with the UK to continue our trade relations after its departure from the EU. We have finalized a feasibility study for a free trade agreement (FTA) with India and are continuing to negotiate with Turkey an expansion of the current FTA. We remain committed to pursue other FTAs with priority countries, including the United States, Israel, and the Gulf Cooperation Council countries.

35. Our energy reform strategy will increase market competition, promote renewable energy, and enhance energy efficiency.

- As Georgia becomes a member of the Energy Community, we will develop competitive electricity and gas markets based on the EU energy market principles. For the largest electricity consumers (accounting for around 30 percent of electricity consumption) we have implemented a third-party access model, separating transmission and distribution from suppliers, traders and generators. This is expected to foster wholesale competition, promote cross-border trading capacity, and open the sector to private investment in renewable energy. In parallel, we will gradually deregulate the natural gas sector.

- We submitted to Parliament legislation on promoting the production and use of renewable energy in July 2019. The law set (i) mandatory national targets for the share of energy from renewable sources in gross final consumption and energy transportation; and (ii) sustainable parameters for biofuels and bioliquids.

- We will continue to promote energy savings and independence, security in energy supply, and energy efficiency in the energy market. As part of our commitments to the European Energy Community, in November we submitted a revised Primary Law on Energy Efficiency, intended to accelerate energy efficiency across the full energy supply in all end-use sectors. After the approval of the law, we will develop a national energy efficiency target and set up an energy efficiency obligation scheme and/or alternative policy measures for energy savings.

36. We are modernizing our national accounts statistics to support strong economic policy-making. We have recompiled our national accounts according to the 2008 *System of National Accounts* standard and released updated GDP series both for the production and the expenditure approaches in November 2019. We have modernized the industrial classification from NACE Rev. 1 to NACE Rev. 2 and improved the coverage and quality of source data to better capture financial sector transactions and the informal economy. We plan to further improve our national accounts series in 2020 by computing GDP based on supply and use tables and quarterly GDP by expenditure in constant prices. This will provide a more detailed picture of the structural transformation in our economy.

F. Program Monitoring and Safeguards

37. The program will be monitored through quantitative performance criteria, indicative targets, an inflation consultation clause and structural benchmarks. Semi-annual program reviews will be based on June and December test dates. All quantitative performance criteria and indicative targets are listed in Table 2, and structural benchmarks are set out in Table 3. The Technical Memorandum of Understanding is also attached to describe the definitions of quantitative PCs and the inflation consultation clause as well as data provision requirements.

38. The NBG continues to maintain a strong safeguards framework and internal controls environment. As required by the safeguards policy, we continue to engage independent external audit firms to conduct the audit of the NBG in accordance with international standards.

Table 1. Inflation Consultation Targets and Bands for 2018-20

	2018		2019			2020
	End Dec.	Outturn	End June	Outturn	End Dec.	End June
Inflation Consultation Bands for CPI (in percent)						
Central point	3.0	1.5	3.0	4.3	4.5	4.9
Inner band, upper limit/lower limit	5 / 1		5 / 1		6.5 / 2.5	6.9 / 2.9
Outer band, upper limit/lower limit	6/0		6 / 0		7.5 / 1.5	7.9 / 3.9

Source: Geostat, IMF staff estimates

Table 2. Quantitative Performance Criteria and Indicative Targets for end-June 2019 through end-June 2020

(Unless otherwise indicated: cumulative from the beginning of the calendar year, millions of GEL)

	2019					2019				2020
	End-June					End-December				Proposed End-June 2020
	Target	Revised Target	Adjusted Target[1]	Outturn	Status	Target	Proposed revision	Projected Adjusted Target	Projected outturn	Target
Performance Criteria										
Ceiling on augmented general government deficit (program definition)	250		166	178	Not met	1170		1,031	1,027	550
Ceiling on general government net budget lending						335		185	170	90
Floor on NIR of NBG[1] (end-period stock, million of U.S. dollars)	1,456	1,456	1,441	1,639	Met	1,520	1,490	1,450	1,450	1,450
Ceiling on the accumulation of external debt arrears of the Public Sector (continuous criterion) (million of U.S. dollars)	0			0	Met	0				0
Ceiling on new public guarantees (continuous criterion)	0			0	Met	0				0
Ceiling on the cash deficit of the Partnership Fund (million of U.S. dollars)	0			0.586	Not met	0				0
Ceiling on new investments by the Partnership Fund (continuous criterion)						0				0
Ceiling on the new net borrowing of the Partnership Fund (million of U.S. dollars, cumulative from the beginning of the EFF program)	20			0	Met	20	0			0
Indicative Targets										
Ceiling on the accumulation of net domestic expenditure arrears of the general government	0			0	Met	0				0
Ceiling on Primary Current Expenditures of the General Government (in mn lari)	4,600			4,711	Not met	9,790	9,810		9,796	5,200
Stock of VAT credits						1,570			1,520	1,470

[1] The NIR target is set at a program rate defined as the exchange rate on December 31, 2016, which for the GEL/US$ was 2.6468.

Table 3a. Completed Structural Benchmarks - First through Fourth Review

Measure	Date	Status
Financial Sector		
Financial Stability		
Introduction of LCR for commercial banks, with preferential treatment of GEL-deposits	End-September 2017	Met
Adoption of regulation on capital add-ons in CAR for systemically important banks	End-December 2017	Met
Submit to Parliament legislation giving NBG oversight power over credit information bureaus	End-December 2017	Met
Increase in minimum regulatory capital for commercial banks to GEL50 million, phased in by 2019	End-June 2017	Met
Introduce regulation on bank's real estate appraisal in line with International Valuation Standards	End-June 2018	Met
Introduce regulation on leverage ratio based on Basel Principles and relevant EU regulation	End-September 2018	Met
Introduce regulation on banks corporate governance in line with Basel Principles	End-September 2018	Met
Capital Markets Development		
Publication of a multi-year calendar for government benchmark bonds	End-December 2017	Met
Monetary policy operations and communication		
Signing of a Memorandum of Understanding between the Ministry of Finance and the NBG on information sharing for liquidity forecasting purposes	End-June 2017	Met
Deposit insurance		
Submission to Parliament legislation establishing deposit insurance as of January 1, 2018	End-June 2017	Met
Bank Resolution Framework		
Submit to Parliament amendments to NBG Law that will give it the authority to resolve a bank through a temporary administration at an early stage of a bank's financial difficulty, in line with good international practices as identified in the 2014 FSAP recommendations	End-September 2017	Met
Submit to Parliament legal amendments bringing the banking resolution framework, the role of the central as the lender of last resort, and criss management in line with best international	End-May 2019	Met
Fiscal		
Submission to Parliament of a 2018 budget consistent with the fiscal deficit in the Fund-supported program	End-December 2017	Met
Adopt a remuneration law for public civil service	End-December 2017	Met
Submit to Parliament a new fiscal rule framework consistent with IMF TA recommendations	End-December 2018	Met
Tax Administration		
Action plan to address accumulated outstanding VAT refunds in an orderly manner over time (including analysis, refund, set-offs, and write-offs)	End-September 2017	Met
Restructure the GRS headquarters into a function-based organization	End-February 2018	Met
The steering committee will propose any necessary legal amendments or ministerial decrees to facilitate the implementation of the action plan to address outstanding VAT claims	End-March 2018	Not Met 1/
Create a new specialized VAT unit focusing on validating VAT claims	End-June 2018	Met
Submit to Parliament a revised penalty regime with gradual tax-geared penalties based on materiality and approve changes to the tax code granting the GRS powers to pay out refunds without the need for a refund request	End-December 2018	Met
Public-Private Partnership and Fiscal Risks		
Submission of a public-private partnership law to Parliament, establishing reporting and monitoring as well as requiring a ceiling on government exposure from such partnerships	End-December 2017	Met
Include all PPP and PPA liabilities, and expand the analysis of contingent liabilities from state-owned enterprises, reporting quasi-fiscal activity in the 2018 Annual Fiscal Risk Statement	End-December 2017	Met
The 2019 FRS will expand the analysis of fiscal risks stemming from PPPs and PPAs, and SOEs as described in the MEFP	End-December 2018	Not Met 2/
Adopt the government decree implementing the PPP law following the recommendations of the FAD TA report	End-December 2018	Met
Public Financial Management		
Issue guidelines for new budget lending operations requiring reasonable expectation of commercial returns	End-December 2017	Met
Pension Reform		
Submission of a pension law establishing a 2nd pillar pension system	End-December 2017	Met
Establishing an independent pension agency.	End-July 2018	Not Met 3/

1/ Implemented with two months delay
2/ Implemented with one month delay
3/ Implemented with a two week delay

Table 3b: Remaining and Proposed Structural Benchmarks, by Completion Date, 2019 – 2020

Fifth Review	Date	Status
90 percent of the VAT refund requests approved by the system will be automatically refunded, upon request, after offsetting against existing tax liabilities (MEFP ¶13-c-ii)	End-June 2019	Met
Submit to parliament the new insolvency law ensuring adequate protection of creditors rights, timely insolvency processes and effective rehabilitation framework (in line with best international practice) (MEFP ¶32)	End-July 2019	Not Met 1/
Provide a complete list of the SOEs qualifying as public corporation and SOEs qualifying as general government under the GFSM2014. The assessment should be done in consultation with FAD's regional resident advisor (MEFP ¶14-d)	End-September 2019	Not Met, reset for end-March 2020
Adopt a government decree clarifying the mandate of SOEs that are public interest entities, their governance and reporting requirements, in line with recent FAD recommendations (MEFP ¶14-d)	End-November 2019	Met
NBG to publish a renewed financial stability report (MEFP ¶24)	End-November 2019	Met
Upcoming	**Date**	**Status**
Strengthen the public investment management methodology that guides project appraisal, selection and management; and update the Government Decree on PIM methodology. (MEFP ¶14-e)	End-December 2019	
Submit to Parliament legislation proposing a rule-based mechanism to index basic pensions (MEFP ¶8)	End-December 2019	
Submit to Parliament changes in the legislation allowing the GRS access to the information received by the FMS from the monitoring entities on suspicious transactions, and put in place safeguards that protect the information from improper use (MEFP ¶13-g)	End-December 2019	
Adopt a budget for 2020 with an augmented deficit of GEL1,320 million in line with policies agreed at the Fifth Review (MEFP ¶7b)	End-December 2019	
Publish a fiscal risk statement with a more comprehensive coverage of general government financial asset operations and provide information on the rates of return on general government equity holdings and loans (MEFP ¶14-c-i)	End-December 2019	
Enact legislative changes to implement effective ELA and resolution framework in line with international best practices (MEFP ¶26)	End-December 2019	
Proposed Reset Structural Benchmarks		
Provide a complete list of the SOEs qualifying as public corporation and SOEs qualifying as general government under the GFSM2014. The assessment should be done in consultation with FAD's regional resident advisor (MEFP ¶14-d)	End-March 2020	
Proposed New Structural Benchmarks		
Issues guidelines establishing valuation methodology for PPPs (MEFP ¶11b).	End-March 2020	
Adopt the first phase of secondary legislation implementing bank resolution framework (MEFP ¶26)	End-June 2020	
Introduce the regulatory framework for insolvency professionals and begin licensing (MEFP ¶32)	End-December 2020	
Adopt the second phase of secondary legislation implementing bank resolution framework (MEFP ¶26)	End-December 2020	

1/ Expected to be implemented by December 2019.

Attachment II. Technical Memorandum of Understanding (TMU)

1. This Technical Memorandum of Understanding (TMU) defines the variables subject to quantitative targets (performance criteria, inflation consultation mechanism and indicative targets) and describes the reporting requirements used to monitor developments under the Extended Fund Facility and methods to be used in assessing the program performance with respect to these targets. To this effect, the authorities will provide the necessary data to the IMF as soon as it becomes available.

A. Program Assumptions

2. For the purposes of the program monitoring, all foreign currency denominated assets will be valued in lari at program exchange rates as specified below. Amounts denominated in currencies other than the U.S. dollar will be converted for program purposes into U.S. dollar amounts using the cross-rates as of December 31, 2016, published on the IMF web site http://www.imf.org/.

Table 1. Georgia: Program Exchange Rates

	Currency Name	Currency/US$
SDR	Special Drawing Rights	0.7439
GEL	Georgian lari	2.6468
AUD	Australian dollar	0.7227
CAD	Canadian dollar	0.7419
EUR	Euro	1.0556

B. Institutional Definition

3. The **general government** is defined as comprising the central government and local governments, excluding Legal Entities of Public Law. The definition of the general government includes any new funds, or other special budgetary or extra-budgetary entities that may be created during the program period to carry out operations of a fiscal nature as defined in the IMF's Manual on Government Finance Statistics 2001 (GFSM 2001). The authorities will inform IMF staff on the creation of any such entities without delay. The general government coverage excludes state-owned companies and the Partnership Fund. The **public sector** consists of the general government, Legal Entities of Public Law and public financial and non-financial corporations, including the National Bank of Georgia and the Partnership Fund.

4. **Supporting material:** The Treasury Department of the Ministry of Finance will provide to the IMF detailed information on monthly revenues of the general government within two weeks of the end of each month and monthly expenditures and arrears of the central government within four weeks of the end of each month. The Ministry of Finance will provide the stock of general government debt, broken down by currency and original maturity within one month from the end of each quarter. The Treasury will provide, on a daily basis, the cash balances in all the accounts of the general government as of the end of the previous business day.

C. Quantitative Program Targets

5. The program will be assessed through performance criteria and indicative targets. Performance criteria are set with respect to:

- a performance criterion (ceiling) on the augmented cash deficit of the general government;
- an indicative target (ceiling) on the primary current spending of the general government;
- an indicative target (ceiling) on outstanding VAT credits;
- a performance criterion (ceiling) on net budget lending operations;
- a performance criterion (floor) on the net international reserves (NIR) of the NBG;
- a continuous performance criterion (ceiling) on the accumulation of external debt arrears by the general government;
- an indicative target (ceiling) on new domestic expenditure arrears by the general government;
- a performance criterion (ceiling) on the new guarantees issued by the public sector;
- a performance criterion (ceiling) on the cash deficit of the Partnership Fund;
- a performance criterion (ceiling) on new net borrowing by the Partnership Fund.

In addition, the program will include a consultation clause on the 12-month rate of inflation (Tables 1, 2 attached to the Letter of Intent).

6. In addition to the performance criteria listed above and in Table 2 of Attachment I, the arrangement includes the performance criteria standard to all Fund arrangements, namely: (i) no imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) no introduction or modification of multiple currency practices; (iii) no conclusion of bilateral payments agreements that are inconsistent with Article VIII of the IMF Articles of Agreement; and (iv) no imposition or intensification of import restrictions for balance of payments reasons. These four performance criteria will be monitored continuously.

7. Performance criteria and indicative targets have been set for end-December 2019 and end-June 2020 (the next two test dates). They are monitored on a cumulative basis from the beginning of the calendar year (except for (i) the NIR target, which is monitored in terms of stock levels and (ii) the new net borrowing by the Partnership Fund, which is monitored since program approval), while continuous performance criteria are monitored on a continuous basis.

D. Inflation Consultation Mechanism

8. **Inflation consultation bands** around the projected path for inflation are set for each test date under the program. Test date inflation is defined as the year-on-year percentage change of the monthly consumer price index (CPI) in the month of the test date as measured and published by the National Statistics Office of Georgia (GEOSTAT).

9. If test date inflation falls outside the outer bands specified in Table 1 of the MEFP, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for the deviation; and (iii) the proposed policy response. When the consultation with the IMF Executive Board is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed. In addition, if the test date inflation falls outside the inner bands specified in Table 1 for the test dates, the authorities will complete a consultation with IMF staff on the reasons for the deviation and the proposed policy response.

E. Program Definitions, Adjustors, and Reporting Requirements

General Government

Ceilings on (i) the augmented cash deficit of the general government and (ii) net budget lending

10. **Definition:** The **augmented cash balance of the general government** is defined as: revenues minus expense, minus net acquisition of non-financial assets (as defined by GFSM 2001) minus net budget lending (as defined below). A negative augmented cash balance is a deficit.

11. The **augmented cash balance of the general government** will be measured from the financing side at current exchange rates established by the NBG at the date of the transaction. Accordingly, augmented cash deficit of the general government will be measured by: i) net acquisition of financial assets (including changes in balances of the revenue reserve account), excluding net budget lending as defined by GFSM 2001; minus ii) net incurrence in domestic and foreign liabilities as defined in GFSM 2001.

12. **Definition:** Consistent with GFSM 2001, **net budget lending** is defined as the net acquisition of financial assets for policy purposes by the general government.

13. **Adjustor:** The ceiling on augmented cash deficit of the general government will be adjusted upward (higher deficit)/downward (lower deficit) by the cumulative total amount of foreign-financed project loan disbursements above/below the program amounts (Table 2), subject to a cap of $30 million for end-June and $60 million for end-December.

14. **Adjustor**: The ceiling on the augmented cash deficit of the general government will be adjusted downward (lower deficit) by the cumulative amount of receipts from sale of non-financial assets above the program amounts (Table 2).

15. **Adjustor:** The ceiling on the augmented cash deficit of the general government will be adjusted upward (higher deficit)/downward (lower deficit) by the cumulative amount of VAT credits refunded in cash above/below the program amounts (Table 2). The adjustment will not exceed GEL 450 million per year, in absolute terms.

16. **Adjustor:** The ceiling on net budget lending will be adjusted upward (higher deficit)/downward (lower deficit) by the cumulative total amount of on-lent amounts from foreign-financed project loan disbursements above/below the program amounts (Table 2).

Table 2. Georgia: Projected Financing for Cash Deficit of the General Government
(in millions of GEL, cumulative from the beginning of the calendar year)

	December 31, 2019	**June 30, 2020**
Disbursements of foreign-financed project loans	1314	228
Receipts from sale of non-financial assets	140	115
VAT refunds	550	300
On-lent amounts from project loan disbursements	400	90

Supporting Material:

a. Data on domestic bank and nonbank financing will be provided to the IMF by the NBG and the Treasury Department of the Ministry of Finance within four weeks after the end of each month.

b. Data on external project financing as well as other external borrowing will be provided to the IMF monthly by the Ministry of Finance (specifying projects by creditor) within two weeks of the end of each month.

c. Data will be provided at actual exchange rates.

d. Data on receipts from sales of non-financial and financial assets of the general government will be provided by the Treasury Department of the Ministry of Finance to the IMF on a monthly basis within two weeks of the end of each month.

e. Data on securitized debt sold by the NBG, including the securities that have been purchased by nonbanks, will be reported by the NBG to the IMF on a monthly basis within two weeks of the end of each month.

f. Data for the previous month will be provided by the Georgia Revenue Service by the end of each month on:

- Number and GEL value of claims for cash refunds submitted by taxpayers, separately for VAT and other taxes,
- Number and GEL value of cash refunds paid, separately for VAT and other taxes,
- Number and GEL value of cash refunds paid automatically (i.e., without manual check or audit), separately for VAT and other taxes.

Ceiling on the Current Primary Expenditures of the General Government

17. Definition: primary current expenditures is defined as expense (as defined by GFSM 2001) on a cash basis, minus interest payments.

18. Supporting material: Data for monitoring expenditures will come from the accounts of the general government covered under the ceiling on the augmented cash deficit of the general government (including autonomous regions). The Ministry of Finance is responsible for providing reporting according to the above definition. Data on expense and net acquisition of non-financial assets of the general government should be reported to the IMF within four weeks after the end of the quarter.

Ceiling on the Outstanding stock of VAT credit refunds

19. Supporting material: Data for the period from the 16^{th} day of the previous month to the 15^{th} day of the current month will be provided by the Georgia Revenue Service by the end of each month on:

- Opening balance in taxpayer accounts (stock)
- New tax credits declared by taxpayers,
- Tax credit balance adjustments made by GRS after desk check / audit and by taxpayers,
- Tax payments to the budget
- Tax credits offset against tax liabilities,
- Tax credit refunds paid in cash,
- Other flows (residual),
- Closing balance in taxpayer accounts (stock),
- Closing balance amounts not eligible for a cash refund (stock).

Continuous Performance Criterion on Accumulation of General Government External Debt Arrears

20. **Definition: Debt** is defined as set forth in point No. 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Decision No. 15688-(14/107) adopted on December 5, 2014. External debt is defined by the residency of the creditor.

21. For the program, **external payment arrears** will consist of all overdue debt service obligations (i.e. payments of principal or interest, considering contractual grace periods) arising in respect of any debt contracted or guaranteed or assumed by the central government, or the NBG, or any agency acting on behalf of the general government. The ceiling on new external payments arrears shall apply on a continuous basis throughout the period of the arrangement. It shall not apply to external payments arrears arising from external debt being renegotiated with external creditors, and more specifically, to external payments arrears in respect to which a creditor has agreed that no payment needs to be made pending negotiations.[1]

22. **Supporting Material.** The accounting of non-reschedulable external arrears by creditor (if any), with detailed explanations, will be transmitted on a monthly basis, within two weeks of the end of each month.

Continuous Indicative Target on Accumulation of General Government Domestic Expenditure Arrears

23. **Definition:** For program purposes, domestic expenditure arrears are defined as non-disputed (in or out of court) payment obligations whose execution term has expired and became overdue. They can arise on any expenditure item, including debt service, wages, pensions, and goods and services. Arrears will arise from non-debt liabilities that are not paid after 60 days of the contractual payment date or—if there is no contractual payment date—after 60 days of the receivable. Any wage, pension or other entitlement obligation of the general government that is not paid after a 30-day period from the date that they are due, is in arrears.

24. **Supporting Material**: The accounting of new domestic expenditure arrears (if any) will be transmitted within four weeks after the end of each month.

Continuous Ceiling on the New Guarantees Issued by the Public Sector

25. **Definition:** For the program, a **guarantee** of a debt arises from any explicit legal obligation of the public sector to service such a debt in the event of nonpayment by the recipient (involving payments in cash or in kind).

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[1] Arrears to Turkmenistan.

26. Supporting Material: The Ministry of Finance will provide to the IMF information on any new guarantees issued by the public sector within 4 weeks after the end of each quarter**.**

Partnership Fund

Ceiling on the Cash Deficit of the Partnership Fund

27. Definition: The **cash deficit of the Partnership Fund** will be measured as its expenditures minus its revenues.

28. The Partnership Fund's revenues comprise the dividends from its assets and investments, the interest earnings from the loans it provides, the fees it charges for the services and guarantees it provides and any other income earned from its assets.

29. The Partnership Fund's expenditures comprise all current and capital expenditures. Current expenditures comprise compensation of employees, the purchase of goods and services, transfers to other entities, other account payables and domestic and external interest payments. Capital expenditures comprises the net acquisition of nonfinancial assets as defined under GFSM 2001. The Partnership Fund's purchase of financial assets (e.g. lending and equity participation) will not be considered part of its expenditures.

Ceiling on New Net Borrowing by the Partnership Fund

30. Definition: Net borrowing by the Partnership Fund is defined as contracted debt liabilities minus principal repayments.

31. Supporting Material: The Ministry of Finance will provide to the IMF detailed information on the Partnership Fund's quarterly revenue, expenditure, and amounts related to new contracted debt and principal repayments, within four weeks of the end of each quarter.

Continuous ceiling on New Investments by the Partnership Fund

32. Definition: New investments by the Partnership Fund are defined as gross acquisition of non-financial and financial assets, excluding (i) currency and deposits and (ii) other accounts receivables. Further excluded are transactions which are unambiguously required by contractual obligations established before November 1, 2019.

33. Supporting Material: The Ministry of Finance will provide to the IMF detailed information on the Partnership Fund's quarterly acquisition of financial and non-financial assets within four weeks of the end of each quarter. The Ministry of Finance will notify the IMF about transactions required by preexisting contractual obligations within 10 days of their occurrence and provide the necessary documentation establishing such obligation.

Net International Reserves

Floor on the Net International Reserves of the NBG

34. Definition: Net international reserves (NIR) of the NBG in U.S. dollars are defined as foreign assets of the NBG minus the sum of foreign liabilities of the NBG, including all of Georgia's liabilities to the IMF. **Foreign assets of the NBG** include gold, gross foreign exchange reserves, Georgia's SDR holdings, and the reserve position in the IMF. Gross foreign exchange reserves of the NBG are defined as liquid, convertible currency claims of the NBG on nonresidents, including cash holdings of foreign exchange that are readily available. Pledged or otherwise encumbered assets, including (but not limited to) assets used as collateral (or guarantee for third party external liabilities) are excluded from foreign assets. **Foreign liabilities of the NBG** shall be defined as the sum of Georgia's outstanding liabilities to the IMF (at face value), Georgia's SDR allocation, and any other liabilities of the NBG (including foreign currency deposits of financial institutions at the NBG and currency swaps and foreign exchange forward contracts with financial institutions), excluding the foreign exchange balances in the government's account with the NBG. For program monitoring purposes, the stock of foreign assets and foreign liabilities of the NBG shall be valued at program exchange rates as described in paragraph 2 above. The stock of NIR amounted to $1,639 million as of June 30, 2019 (at program exchange rates).

35. For the purpose of the program, **budget support grants to the general government** are defined as grants received by the general government for direct budget support from external donors and not related to project financing. **Budget support loans to the general government** are defined as disbursements of commercial loans and loans from bilateral and multilateral donors for budget support.

36. Adjustors. For program purposes, the floor on NIR will be adjusted

- Upward (downward) by any excess (shortfall) by any FX privatization revenue in foreign exchange above (below) the programmed amounts. Privatization receipts are defined in this context as the proceeds from sale, lease, or concessions of all or portions of entities and properties held by the public.
- Upward (downward) by any excess (shortfall) of budget support grants compared to program amounts (Table 3).
- Downward by any shortfall of budget support loans compared to program amounts (Table 3).
- Upward by the sum of the total excess of budget support loans compared to program amounts (Table 3) and any negative net Eurobond issuance by the government, if this sum is positive.
- Upward by any positive net Eurobond issuance by the government.

- Upward/downward by 100 percent for any excess/shortfall related to disbursements of the project loans and grants to the treasury single account at the NBG relative to the projected amounts (Table 3).

Table 3. Georgia: Projected Balance of Payment Support Financing
(Million of U.S. dollars)

	December 31, 2019[1]	June 30, 2020[2]
Projected privatization revenue	0	0
Budget support grants from external donors and not related to project financing	87.5	37.2
Budget support loans, including bilateral and multilateral donors for budget support	145.4[3]	133.1
Disbursements of project loans and grants	182.9	140.8

[1] Cumulative from January 2019 to end-December 2019.
[2] Cumulative from end-September 2019 to end-June 2020.
[3] EC-MFA $22.6 million, AFD $68.3 million, KFW $54.5 million.

37. Supporting material: Data on net international reserves (both at actual and program exchange rates); net foreign financing (balance of payment support loans, cash grants to the general government, amortization (excluding repayments to the IMF), interest payments on external debt by the Ministry of Finance and the NBG; and conversions for government imports will be provided to the IMF in a foreign exchange cash flow table (which includes details of inflows, outflows and net international reserves) on a weekly basis within three working days following the end of the week.

December 12, 2019

Statement by Mr. Doornbosch and Mr. Zedginidze on Georgia
Executive Board Meeting
December 17, 2019

The Georgian authorities thank staff for their constructive engagement during the mission and for the fruitful reports. They agree with the thrust of the staff appraisal and confirm their strong ownership of the reforms under the program.

The macroeconomic and structural policies implemented by the Georgian authorities, and supported by the IMF program, continue to safeguard macroeconomic stability and enhance the resilience of the economy. Economic growth remains robust in the face of negative shocks. Fiscal performance is on track and medium-term fiscal plans are in line with program objectives. The external position has strengthened, and current account deficit reached a historic low. The financial sector remains well capitalized, liquid and profitable. The inflation rate has somewhat accelerated, partly driven by one-off effects, but as a result of decisive and prompt actions on the monetary policy front, inflation is projected to return to its target soon.

Building on the overall progress achieved under the current program and recognizing the need to maintain policy discipline throughout the election year, the authorities request a one-year extension of the Extended Fund Facility (EFF) program. In addition to new targets for public finance and inflation the authorities have committed to three new structural benchmarks to further strengthen their debt sustainability and financial stability framework in the extended EFF. The authorities believe that extension of the program will further help implement the existing reform agenda. They reiterate their commitment under the EFF and stand ready to adjust policies in accordance with program objectives.

Macroeconomic outlook

Real GDP growth continues robust at 5.7% in Q3, despite the negative shock stemming from the ban on flights from Russia. Inflation, mainly driven by nominal exchange rate depreciation, increased to 7% but is expected to decline gradually towards target during next year. The current account deficit improved significantly and declined to around 5% in 2019 according to flash estimates. Improvements in the external sector, mainly driven by enhancements in trade balance, and financial stability, are a result of sound macro-prudential policies, including tightening lending standards for consumer loans. Recently, S&P upgraded Georgia's sovereign rating to BB (October), following the same rating made earlier this year by Fitch. Despite the global economic and geopolitical risks to the outlook, medium-term growth prospects are strong, supported by improving fundamentals, sustained infrastructure investment and steadfast implementation of structural reforms.

Program performance

The authorities remain strongly committed to the program. All end-June quantitative performance criteria were met, except two QPCs which were missed by a small margin (end-June QPCs on augmented fiscal deficit and ceiling on deficit of Partnership Fund by 0.03 percent of GDP and by $0.6 million, respectively). The target on **augmented fiscal deficit** was missed due to lower disbursements on foreign-financed projects, while higher than expected privatization proceeds enabled increased expenditure. The target on the **ceiling of the cash deficit for the Partnership Fund** was missed due to delayed SOE dividend payments. Both deviations are temporary and do not undermine the end-year targets.

Three out of five structural benchmarks were implemented and the remaining two will be implemented by end-December and end-March 2020. The new insolvency law, in line with international standards, will be followed by the implementation of a framework to enable the government to start licensing insolvency practitioners. This will improve the protection of creditors rights and a higher efficiency in insolvency procedures. The authorities will submit the new insolvency law to parliament by end-December 2019. Additional TA has been requested by the authorities to complete the **classification of SOE into public corporations and general government.** Depending on the timing of the technical assistance they expect to complete this SB by end-March 2020.

Fiscal policy

Fiscal discipline remains a high priority on the agenda of the authorities. The 2019 fiscal deficit is projected to be 2.3% of GDP and the authorities agreed on 2.7% in the 2020 budget, implicating a structural deficit of around 1.7% of potential GDP, in line with the objective to keep debt below 45% of GDP. Fiscal space for growth-enhancing public investments continues to be provided by constraining the wage bill and prudent spending on goods and services. Current spending has declined from 25 percent of GDP in 2016 to below 22 percent in the 2020 budget. In addition, all the quasi-fiscal operations and Public-Private Partnerships are strictly constrained in line with program objectives and will be disclosed in the annual Fiscal Risk Statement.

The authorities acknowledge the importance of boosting investments in human capital to achieve higher potential growth. In the overall spending envelope, education spending will gradually increase towards 6 percent of GDP by 2022 and will be maintained at this level as adopted in the budget code. Increasing investment in education is conditioned on the implementation of comprehensive education reform and improving the efficiency of spending. The authorities stand ready to adopt additional measures, in consultation with the IMF, to keep the spending envelope in line with program objectives.

The authorities will continue to protect social safety nets to promote sustainable and inclusive growth. In consultation with the IMF, the authorities will design legislation for a **rule-based pension indexation mechanism.** Increasing the pension levels, currently at a low level, will support inclusive growth and reduce inequality. Indexation rules should help remove pressure for discretionary increases. At the same time, the authorities well acknowledge the fiscal constraints and agree to conservatively plan considering all fiscal implications.

On the fiscal reforms front, the authorities continue implementing a wide range of structural policies to further enhance debt sustainability. These include improving the efficiency of tax administration, strengthening governance of SOEs, implementing PPP framework, increasing fiscal transparency and improving analytical capacity in the Ministry of Finance.

Monetary and financial stability policies

Over the recent decade, sustained disinflation accompanied with high GDP growth and improving external balance indicate that **inflation targeting with flexible exchange rate policy has served the Georgian economy well**. Inflation has averaged at around 3.5 percent during 2009 – 2019, down from a double-digit level. Financial dollarization is on a decreasing trend and local currency capital markets are gaining traction. Improved transparency and predictability of monetary policy helped reduce local currency long-term interest rates through reducing inflation expectations and risk premia, making local currency mortgages and business loans more available for the market.

Inflation increased to 7% in November, mainly driven by on-offs. Exchange rate adjustment in response to external shocks continue to put pressure on inflation. The monetary policy rate has increased to 9.0% to curb inflation expectations and neutralize second round effects. The authorities consider the current stance of monetary policy tight and according to projections inflation returns to target during next year. However, the NBG stands ready to further tighten if necessary.

The authorities agree with staff on the priority to accumulate reserves and increase external buffers. FX interventions will be used to strengthen international reserves and smooth excessive volatility. In order to maintain confidence on the local currency markets the pace of reserve accumulation should allow enough flexibility to accommodate uneven FX inflows in the country.

The National Bank of Georgia (NBG) continue efforts to strengthen financial stability by pursuing prudent lending standards, adequately tightening buffers on capital and liquidity, and further strengthening the policy framework. The authorities also continue to develop consolidated supervisory framework of non-banks. The NBG resumed the publication of their Financial Stability Report, providing a forward-looking assessment of risks and vulnerabilities.

Additionally, the NBG published a macroprudential strategy, laying ground for transparent and predictable macroprudential policy making.

Structural reforms

To achieve more robust and inclusive growth the authorities continue steadfast implementation of structural reforms. The authorities continue to improve the business environment by, among other measures, implementing a reform to bring the judiciary in line with international standards. The authorities, supported by the Council of Europe and in consultation with other stakeholders, such as civil society organizations, independent experts and academia, have submitted the legislation to parliament.

Catalyzing donor financing from IFIs to scale-up investments in roads, transportation and logistics is high on the authority's agenda. They also dedicate a lot of time and energy in initiating new free trade agreements that should help attract foreign investments and improve competitiveness.

Conclusion

The authorities reiterate their commitment to sound monetary and fiscal policies to ensure macro stability and promote sustainable and inclusive growth. Structural reforms should help promote private sector led growth and achieve its growth potential. They recognize that the program has supported their reform agenda and appreciate the Fund's engagement. The authorities look forward to continuing their cooperation with the Fund.