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EXECUTIVE BOARD MEETING

EBS/20/80

April 27, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Georgia—Sixth Review Under the Extended Arrangement and Requests for a Waiver of Nonobservance of Performance Criterion, Modification of Performance Criteria, and Augmentation of Access**

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***The authorities have indicated that they consent to the Fund's publication of this paper.**

INTERNATIONAL MONETARY FUND

GEORGIA

April 24, 2020

SIXTH REVIEW UNDER THE EXTENDED ARRANGEMENT AND REQUESTS FOR A WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, AND AUGMENTATION OF ACCESS

EXECUTIVE SUMMARY

Context. Georgia's performance under the Extended Arrangement has been good, but the country is now facing a pronounced economic slowdown and an urgent balance of payments need due to the COVID-19 pandemic. Real GDP is expected to decline by 4 percent in 2020, but projections are subject to more than the usual uncertainty. Lower exports, no tourism, and weaker remittances are expected to widen the current account deficit to 11⅓ percent of GDP in 2020. Rising global risk aversion is likely to reduce private financial inflows and delay investment. The authorities have sought to contain the COVID-19 pandemic and cushion its economic impact but face a balance of payments gap of $1.8 billion for 2020-21 (11.4 percent of GDP).

Request for IMF support. The authorities have requested additional financial assistance of 130 percent of quota under the Extended Fund Facility (about $375 million). The disbursement of this review (70 percent of the quota) will support the budget to help the authorities meet urgent medical and socio-economic needs. The authorities are pursuing appropriate policies to combat the crisis and remain committed to their objectives under the EFF arrangement. The authorities have also secured additional donor assistance that is expected to close the financing gap.

Policy Discussions. Staff supports the authorities' plans to address the economic impact of the COVID-19 pandemic. The fiscal deficit will temporarily widen to accommodate revenue losses from containment measures and additional spending to support economic activity. Monetary policy should remain flexible and dependent on inflation developments. Exchange rate flexibility should continue to act as a shock absorber, but excessive lari volatility should be avoided as it could prove disruptive to financial stability. Providing adequate liquidity and releasing capital buffers in financial institutions would help sustain financial stability. While the authorities are rightly focused on dealing with the fallout of the COVID-19 pandemic, efforts should be made to implement the EFF reform agenda to support the economic recovery. Thus, circumstances permitting, the authorities should advance the implementation of the resolution and insolvency frameworks.

Approved By
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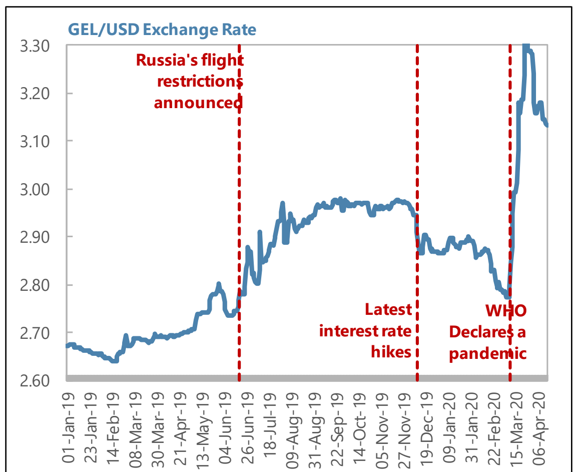
RECENT ECONOMIC DEVELOPMENTS

1. Macroeconomic developments in 2019 were favorable (Tables 1-7, Figures 1-6). Growth, at 5.1 percent, exceeded expectations and the output gap broadly closed, while end-2019 inflation increased to 7 percent reflecting one-offs and nominal depreciation. The current account deficit reached a historic low at 5.1 percent of GDP; the financial account deteriorated by 0.5 percent of GDP, to 5.5 percent of GDP. The lari depreciated in nominal and real effective terms (7.9 and 5.3 percent respectively December 2019 compared to December 2018). Gross reserves (GIR) reached 99 percent of the ARA metric. Revenue overperformance allowed for record-high public investment (8 percent of GDP). Public debt remained sustainable. Credit growth remained strong, with subdued non-performing loans.

2. The Covid-19 outbreak has hit the economy hard. The authorities declared the state of emergency on March 20th, imposing sweeping mobility restrictions and closure of non-essential shops, which helped limit the number of confirmed cases to below 300 as of mid-April.

- Tourism and travel, representing 20 percent of GDP in 2019 in the BOP, has stopped, hurting the hospitality sector (accounting for 7.1 percent of GDP at market prices in 2019).[1]



Source: NBG and IMF staff calculations.

- The lari depreciated by around 20 percent vis-à-vis the dollar in March but has since recovered about half of this and remains around 10 percent down since the beginning of the year. The NBG has sold $100 million to prevent excessive volatility.

- Rising risk aversion prompted non-residents to sell domestic government securities.[2] Facing liquidity pressures, the NBG started FX swap lines with banks and microfinance institutions in mid-April.

3. The initial policy response to the pandemic has been timely, proactive, and consistent with IMF advice.

- The government has taken measures to quarantine and treat the sick, and provide immediate support to the most affected sectors (e.g. deferring tax payments).

[1] Hotel payments and reservations reportedly declined each by 50 percent y/y in mid-March 2020.

[2] Interest rate hikes (250 bps since September 2019) attracted inflows ($85 million) into treasury bonds in December 2019-January 2020.

- The NBG announced that (i) banks could utilize capital conservation buffers (with an automatic prohibition on dividends and other payouts); (ii) previously planned increases in capital buffers were postponed; and (iii) banks could go below 100 percent of the liquidity coverage ratio (LCR). Banks have been asked to evaluate the quality of their loan portfolios; on-site inspections have been suspended; and a moratorium on fines was introduced for breaches due to the crisis.

- Banks proactively offered postponing monthly payments on existing loans for three months to individuals and have engaged with corporate borrowers to determine extensions depending on business characteristics.

4. Program implementation remained broadly satisfactory, with some slippages. Most quantitative performance criteria (QPCs) and structural benchmarks (SBs) were met. Net international reserves (NIR) exceeded the end-2019 QPC owing to lower-than-expected government FX expenditures. The fiscal deficit QPC was breached by only a small margin.[3] Two fiscal indicative targets (IT) were missed by small margins; inflation exceeded the inner band of the consultation clause (ICC); and the authorities missed three structural benchmarks (SBs) on the insolvency legislation (completed in March), on the adoption of the PPP methodology (completed in April) and on the public pension indexation legislation (expected to be submitted in late April as they needed time to build support).

OUTLOOK AND RISKS

5. The Covid-19 shock has sharply weakened 2020 growth prospects. The pandemic and ensuing containment and behavioral responses are dampening potential GDP and growth, lowering tax revenues, and putting pressure on the lari. Lower growth in trading partners is expected to significantly lower exports and remittances. Heightened global uncertainty will hamper confidence, reduce capital inflows, and delay investment. A sharp contraction in economic activity is expected to bring growth to -4 percent in 2020, with a rebound starting only in 2020Q4. Growth in 2021 is projected at 4 percent supported by the lift in containment measures and the pickup in trading partners' growth. Nominal depreciation will sustain inflationary pressures in 2020 but lower commodity prices, subdued domestic demand, and fading one-offs should help inflation converge to the 3-percent target by end-2021.

Table: Key Assumptions on Balance of Payments Variables
(Year-on-year change)

Variable	5th Review 2020	Current 2020	2015 Shock 2015
Current Account			
Goods Exports	1.1	-24.2	-23.9
Goods Imports	3.2	-21.1	-15.7
Services Exports (incl. Tourism)	2.3	-55.7	1.6
Services Imports	-0.4	-60.0	-3.3
Remittances	5.0	-15.0	-22.8
Financial Account			
FDI Inflows	-6.4	-19.0	-5.9

Source: IMF staff calculations and estimates.

[3] In January, the authorities received information on an (earlier-than-expected) direct disbursement to a supplier (GEL9 million) from bilateral donor.

6. Staff projects BOP gaps of $1.4 billion in 2020 and $0.4 billion in 2021. The current account deficit is expected to widen to 11⅓ percent of GDP in 2020, reflecting lower exports and remittances. Imports would decline driven by lower commodity prices and weaker domestic demand. The financial account is projected to deteriorate by 5.1 percent of GDP to 0.4 percent of GDP in 2020, as outflows are only expected to be partially mitigated by additional IFI loans to cope with the COVID-19 shock. BOP gaps are expected to be closed with IMF and donor financing.

7. Risks are on the downside (Annex I). The shock's duration and intensity remain uncertain. A more protracted shock could weaken aggregate demand for longer, increase the BOP needs and the fiscal deficit, worsen bank asset quality and liquidity conditions, and weaken any subsequent recovery. Market pressures and further lari depreciation could increase headline inflation and dollarization. Depending on the nature of risks, policies must be proactive to limit their effects on the economy and financial stability. A more protracted outbreak and growth slowdown would require additional fiscal spending and a more accommodative monetary stance, while market pressures would need to be dealt with a combination of continued exchange rate flexibility and use of reserves, as well as proactive measures to maintain financial stability. The authorities have mobilized donor assistance to build external and fiscal buffers that would support additional policy response and strengthen confidence. Election-related uncertainty, with Parliamentary elections in October, could interfere with the aftermath of the shock and delay reform efforts.

POLICY DISCUSSIONS

A. Designing Adequate Fiscal Support

8. Staff supports a loosening of the fiscal stance in 2020 to address the COVID-19 pandemic. The authorities and staff agreed on an augmented deficit of 8.5 percent of GDP in 2020. Revenues are projected to fall by 2.8 percent of GDP. [4] The fiscal relief package to address the health and socio-economic impact of the shock (4.0 percent of GDP, Text Table, MEFP ¶8) will increase total expenditure by 3.0 percent of GDP (compared to the Fifth Review), as temporary spending measures are partially offset by spending reprioritization (0.3 percent in current spending and 0.7 percent of GDP in public investment).

[4] This is calculated as the nominal change in revenues as a ratio to revised GDP projections for 2020.

Table: Covid-19 One-off Expenditure Measures (MEFP ¶8)		
Expenditure Description	GEL million	percent of GDP
Goods and services	**172**	**0.3**
Healthcare-related for Covid-19 (e.g. medical supplies, hospitalization, and quarantine costs).	172	0.3
Subsidies	**550**	**1.1**
Support to affected businesses (e.g. credit guarantee scheme).	500	1.0
Supporting additional supplies of 10 basic commodities (e.g. rice, wheat, flour, sugar, milk powder, beans).	50	0.1
Social benefits	**1,247**	**2.5**
Healthcare-related for Covid-19 (e.g. testing and treatment costs)	179	0.4
Direct transfers for employees in the private sector before Covid-19:	700	1.4
Compensation for self-employed and private sector employees who loose jobs.	-	-
Income tax relief to businesses who retain workers.	-	-
Direct transfers to families and people with severe disabilities.	79	0.2
Additional envelope to extend direct transfers to other vulnerable households (e.g. informal sector).	75	0.1
Subsidies for utility bills (electricity, natural gas) to households that consume < KV200 and 200m³ per mor	215	0.4
Capital investment	**50**	**0.1**
Healthcare investment (e.g. equipment)	50	0.1
Total	**2,019**	**4.0**

Source: IMF staff estimates and calculations.

9. **The deficit will be mostly financed by additional donor lending.** The authorities' financing strategy combines higher borrowing (by 14.4 percent of GDP), both domestic and external (from donors), with a buildup of government deposits (5.9 percent of GDP) to be used if the crisis gets worse or the recovery takes longer than currently envisaged. In consultation with the IMF, the authorities would extend the direct transfers to households for longer and formulate further support to business; drawing down on government deposits. Fiscal buffers could also be used to address unexpected liquidity pressures in 2020-21. Part of the IMF financing in 2020 will take the form of budget support (see below).

10. **The medium-term fiscal anchor of bringing public debt below 45 percent of GDP is preserved.** Staff supports the authorities' plans for a gradual fiscal consolidation starting in 2021 as one-off spending expires and revenues recover. If downside risks materialize, fiscal consolidation would be more gradual than the one envisaged under the baseline, with a higher use of government deposits over the medium term.The authorities continue to monitor fiscal risks, including from the power purchasing agreements (PPAs) and SOEs, and disclose them in their fiscal risk statement (FRS).

11. **The authorities will submit to Parliament a rules-based mechanism for indexing basic public pensions by end-April 2020 (end-December 2019 SB).** Given the high risk of old-age poverty, the rule envisages indexing monthly pensions to 12-month inflation for pensioners below age 70, and to 12-month inflation plus 80 percent of 6-quarter average real GDP growth for those above, subject to GEL20/25 minimum nominal increases, respectively. Under a conservative demographic scenario, spending on basic pensions would peak at 4.9 percent of GDP in 2028 (from 4 percent in 2020) and average 4.5 percent of GDP in 2020-50. The reform preserves real income for pensioners and provides predictability to pensions, as discretionary increases would not be allowed.

12. The authorities will continue to limit operations of the Partnership Fund, as envisaged under the program. No new investments nor net borrowing have taken place; and the authorities are hesitant to provide budget support. The exercise classifying SOEs into general government or corporations (**end-March 2020 SB**) concluded that the PF was a general government (GG) entity and that the authorities should include it in the GG reporting starting in 2021.

13. Progress has been made in tax administration and fiscal risks analysis (MEFP ¶16-17):

- Georgia's Revenue Service (GRS) is advancing with the IT investment plan, in line with IMF TA recommendations.
- The automatic risk-based auditing and risk assessments since June 2019 has made over 90 percent of new VAT credit declarations immediately eligible for refunds upon request; automatic refunding of net VAT credits (starting May 2020) will further help prevent the stock of outstanding VAT credits from increasing.
- The PPP methodology was adopted in mid-April (**end-March 2020 SB**).
- The authorities remain committed to expanding the FRS to include PPAs and SOEs. It will summarize the SOE reclassification, analyze risks associated with the top 10 SOEs, assess the gross financing requirements of major SOEs, and estimate the quasi-fiscal activities (**new end-December 2020 structural benchmark**).
- The authorities would refrain from taking over any SOE debt, or providing equity injections to SOEs without a comprehensive strategy that fully supports commercial viability and improves corporate governance. The authorities would formulate an SOE strategy outlining the authorities' SOEs policy principles by end-March 2021.

B. Preserving Price Stability and External Buffers

14. The authorities and staff agreed that the moderately tight monetary policy stance is suitable for the moment (MEFP ¶20). Staff called for closely monitoring inflationary expectations, as the economy deals with the impact of the COVID-19 pandemic, and, in deciding policy rates, balancing the impact of the lari depreciation (which calls for keeping the rate high for longer) with a sharp weakening in demand (which would allow for reducing rates). Staff expects inflation to decline to target by end-2021, taking a year longer than envisaged at the Fifth Review due to nominal depreciation. Declining inflation should eventually create space to lower policy rates towards the end of 2020.

15. Both sides concurred that a flexible exchange rate regime remains the first line of defense against external shocks like COVID-19 (MEFP ¶22-24). The authorities noted, however, that in a dollarized economy like Georgia, excessive lari volatility could become disruptive to financial stability. Foreign exchange (FX) interventions will be limited to prevent disorderly market conditions. The NBG will continue to primarily rely on ad-hoc discretionary interventions; but they will be complemented with smaller FX sales triggered by lari volatility and the need to support FX market liquidity.[5] Staff advised the NBG to smooth FX discretionary interventions for greater predictability. Following the shock, the NBG is committed to upgrade the FX intervention policy, and strengthen NBG's communication.

16. Staff proposes lowering the end-June NIR target and a set the end-December NIR targets consistent with the challenging market conditions (MEFP ¶23). Georgia's external position in 2019 was broadly consistent with fundamentals and desired policies, as persistently large and negative net international investment position (NIIP) offset improvements in the current account balance (Annex II). Although the COVID-19 shock is temporary and exchange rate flexibility helps in restoring the external balance, the proposed targets ($330 million lower than in the Fifth Review) reflect that FX sales are likely to be needed to prevent disorderly market conditions that could result in a full-blown confidence crisis and financial instability.

17. Donor assistance would support reserve levels in 2020, providing room for additional policy response if downside risks materialize. GIR is expected to reach 104 percent of the ARA metric in 2020, around 95 percent after netting out expected proceeds from FX swaps lines that are expected to unwind by 2022.[6] Staff agreed with the authorities that because of the unusually large uncertainty, it will be important to keep high reserve buffers to sustain confidence, which is crucial to safeguard macro and financial stability. These buffers can be used if external pressures intensify.

C. Financial Resilience in an Uncertain Environment

18. The NBG has appropriately relaxed capital requirements and released liquidity buffers to safeguard financial stability.

- The release of the capital conservation buffer (2.5 percent, about GEL1.5 billion) should cover additional provisioning due to the expected deterioration in bank portfolios as a result of the COVID-19 shock.[7]

- The NBG may also provide additional funding (up to GEL 1.7 billion) to banks and microfinance institutions by lowering FX reserve requirements and broadening collateral

[5] Daily transaction volumes have declined during the COVID-19 shock (from $4-5 million to $1.7 million per day).

[6] Without support, GIR would fall to 69 and 56 percent of the ARA metric in 2020 and 2021 respectively. This would undermine confidence in the economy and could trigger further lari depreciation, a surge in inflation, increased dollarization, and eventually, financial instability. Staff assumes 50 percent utilization of the swap lines, resulting in a GIR increase of $300 million.

[7] Local provisioning standards require higher provisions than under IFRS9, and thus it is expected that banks' capital would be hit more compared to international accounting standards.

requirements for temporary liquidity assistance to solvent financial institutions (additional SME loans become eligible; 50 percent haircut will be applied).

- As banks face lari liquidity pressures due to higher demand for cash and a temporary moratorium on loan repayments for individuals, the NBG has announced FX swap lines potentially providing lari liquidity for up to $600 million (10 percent of FX liabilities of banks).[8] The MoF and NBG will also coordinate issuance of up to GEL600 million government securities, with receipts being placed in long-term bank deposits, to further provide lari liquidity to banks. Banks, in turn, could use the government as collateral to secure NBG funding.

- The introduction of limits on large exposures is postponed until June 2021. The authorities will regularly collect additional information from banks about the financial situation of large borrowers, perform stress testing, and monitor the portfolio concentration risk.

19. The authorities need to remain proactive to support lending to the private sector. Real credit growth (at constant exchange rate) will be negative in 2020 and rebound only moderately in 2021-22. Staff noted that the challenge for the NBG is to sustain bank lending, while safeguarding financial stability and maintaining banking system soundness. While staff supports the temporary relaxation of capital and liquidity requirements, maintaining supervisory standards would help identify weaknesses in banks' loan portfolio quality, enabling a targeted response and strengthening confidence. Staff noted that lack of capital may prevent banks from extending credit, and close coordination between fiscal measures to support households and the business community and a relaxation of macroprudential buffers could help banks channel funds to the real economy.

20. Staff supports the authorities' actions to strengthen the banking resolution framework. The authorities adopted legislation on the new banking resolution framework (**end-December 2019 SB**) which strengthened the NBG's resolution authority mandate, improved resolution powers and toolkit, clarified the roles and responsibilities of the NBG and the Ministry of Finance and their coordination in systemic cases including in emergency liquidity assistance. The NBG is advancing with adopting the secondary legislation (**end-June 2020 and end-December 2020 SBs**), which is critical under current conditions. Because of the unprecedented uncertainty surrounding the COVID-19 shock, the NBG is considering increasing the coverage of the deposit insurance and arranging a market-based pre-financing for the government-backed resolution fund.

21. Continued efforts are needed over the medium term to promote loan larization. Portfolio dollarization remains an important structural risk for the economy. A comprehensive strategy needs to be adopted after the crisis to further discourage unhedged borrowers from

[8] Similar measures were successfully utilized in previous liquidity crises.

taking FX-denominated loans and increase confidence of depositors to save in lari. The strategy will need to align macroprudential measures, FX intervention, and monetary policy.

D. Structural Reforms to Sustain the Recovery

22. The authorities and staff agreed on persevering with the implementation of structural reforms to support a faster recovery and foster more robust and inclusive growth:

- On education, to cope with the COVID-19 containment measures, remote teaching has been implemented. The efficiency of distance learning is being assessed by the authorities and will be improved with World Bank support. Some delays are expected in rehabilitating schools. Since January 2020, all teachers meet the new minimum qualification requirements.

- The pension agency is working on selecting the custodian and the investment strategy allowing for portfolio diversification.

- The draft insolvency law was submitted to Parliament in March 2020 **(end-July 2019 SB)**. Staff called for a swift implementation of the law, once approved, and licensing insolvency professionals **(end-December 2020 SB)** as these measures could facilitate the economic recovery in the wake of the COVID-19 shock.

- Staff urged the authorities to continue improving the business environment to support the economic recovering, notably by implementing the insolvency framework and improving the judiciary system.

- The authorities submitted to Parliament draft laws on energy efficiency and energy performance to further support energy savings and competition in the energy market.

- The authorities continue advancing trade integration efforts, including by signing a free trade agreement with the UK for the post-Brexit times and advancing negotiations to expand the agreement with Turkey and towards a free trade agreement with India.

PROGRAM ISSUES AND FINANCING

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

- The authorities request a waiver of non-observance for the missed QPC on the augmented fiscal balance (see ¶4) as the deviation was minor.

- Guided by the monetary policy stance assessment in ¶14, the authorities consulted with the staff on the reasons for inflation exceeding the inner band of the ICC in December 2019, which was driven by nominal depreciation in 2019H2, and that was more persistent than originally envisaged. The NBG tightened the policy rate by a cumulative 250 bps, and staff agreed that, considering the COVID-19 shock, no further action would be required.

- Changes to the end-June 2020 quantitative performance criteria and target for inflation: the ceiling on augmented general government deficit QPC is increased to GEL 2,300 million, the ceiling on net budget lending QPC is revised down to GEL40 million, and the NIR floor QPC is revised down to $1,120 million. The authorities request cancelling the adjustor on budget loan disbursements and a new adjustor on the healthcare current spending associated with the COVID-19 epidemic, which will also apply to the IT on primary current expenditure. This is proposed at GEL6,000 million. The inflation consultation target is revised up to 6 percent from 4.9 percent.

- New QPCs, ITs, and the ICC are proposed for end-December 2020.

- New end-December 2020 SBs. The authorities have committed to: (i) adopt the 2021 budget consistent with the policies agreed at the time of the Seventh Review under the EFF arrangement (ii) expand the 2020 Fiscal Risk Statement following FAD TA advice.

24. Augmentation and phasing of access. Staff supports the authorities' request for augmentation of 130 percent of quota, within normal access limits under the GRA. The original program objectives remain achievable. Total access under the program, at 230 percent of quota, would help meet current and future external financing needs. IMF financing covers 22 percent of the financing gap caused by the COVID-19 shock over 2020–21, and catalyzes assistance from bilateral and multilateral donors to close the remaining gap. Staff proposes a front-loaded disbursement for direct budget support with the Sixth Review (70 percent of quota. of which 65 percent of quota is from the augmentation) **(Table 8)**. The proposed phasing of IMF support is appropriate, given that donor financing is mostly expected in 2020H2.

25. Financing assurances in place for the Sixth Review (**Table 9**). The program is fully financed over the next 12 months, with the remaining BOP needs to be filled by support from other multilateral and bilateral creditors (ADB, AfD, KfW, EBRD, EIB, EU, and the World Bank).

26. The capacity to repay the Fund remains adequate. Georgia's debt remains sustainable. Debt service to the IMF remains manageable, even under downside scenarios. The full drawing would imply repayments to the IMF at 0.4 percent of GDP or 2.4 percent of GIR in 2025 **(Table 10)**.

27. The authorities have requested channeling the related disbursement of this review (70 percent of quota) directly to the budget. The NBG and the Ministry of Finance will agree on a Memorandum of Understanding between the NBG and the Ministry of Finance to: (i) commit to maintaining funds received from the IMF in a government account at the central bank, pending their use, and (ii) clarify the responsibilities for repaying IMF resources."

28. Risks to the program are manageable, assuming continued sound policies reflecting the authorities' good record under the EFF arrangement and cautious policies proposed in this review. Risks to program implementation could increase in case of a worsened external environment or rising domestic social tensions, for which the authorities would build additional buffers in 2020. Keeping the program on track would require policy adjustment, in consultation with staff.

STAFF APPRAISAL

29. Staff welcomes the authorities' swift policy response to limit the human and economic fallout of the pandemic. Beyond supporting the health system's ability to respond to the COVID-19 outbreak, the authorities have moved decisively to contain the spread of the virus and have announced measures to limit the economic impact.

30. Georgia faces a severe economic slowdown and significant balance of payments needs. Containment measures to control the spread of the virus and an external demand shock have substantially weakened the economic outlook. Georgia will go into a recession this year, and gradually recover over the next 2 years.

31. Staff supports widening the fiscal deficit to support the economy. The temporary increase in spending is appropriately targeted to deal with the fallout of the crisis. The authorities' commitment to medium-term fiscal sustainability will be important given higher public debt (partly reflecting depreciation) and the possibility that fiscal risks materialize. Efforts to improve SOE governance would help reduce fiscal risks.

32. The NBG should continue to gear monetary policy towards achieving the 3-percent inflation target, in the context of a flexible exchange rate regime. As the COVID-19 shock makes the inflation trajectory more uncertain than usual, it will be important to adjust the policy stance as needed. The NBG should allow for further gradual depreciation, if needed, limiting interventions to addressing excessive volatility. Given increased uncertainty, smoothing NBG's discretionary intervention may provide more predictability to the market. The NBG should enhance the transparency of its FX policy once the shock is over.

33. Safeguarding financial stability should be accompanied with support to viable, solvent enterprises and households during the containment period. Measures to support liquidity and promptly recognize losses are welcome. Access to finance should be maintained for those facing temporary liquidity shortages, but remain solvent, to facilitate a faster recovery and reduce losses for financial institutions. Advancing the resolution framework should help strengthen financial resilience.

34. Structural reforms should support the recovery. While proactively dealing with the fallout of the COVID-19 shock is the near-term priority, the authorities should continue implementing the reform agenda under the EFF arrangement. Adopting the indexation rule for public pension will help sustain income levels of pensioners, while implementing the insolvency framework could prove helpful to support the recovery.

35. Staff supports the authorities' requests for the completion of the Sixth Review, waiver of the non-observance for a QPC, modification of performance criteria, and augmentation of access under the EFF arrangement. Staff support is based on the severe impact of the pandemic, the authorities' existing and prospective policies to address this external shock, the urgent balance-of-payments need, and the authorities' policy commitments to the objectives under the EFF program. Staff also supports the authorities' request to use the associated disbursement for budget support, given frontloaded fiscal pressures to spend on healthcare and expand social welfare in the face of the COVID-19 shock.

Proposed Decision

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Georgia has consulted with the Fund in accordance with paragraph 3(b) of the Extended Arrangement for Georgia (EBS/17/26 03/29/2017 the "Arrangement") in order to review program implementation.

2. The letter dated 24 April, 2020 from the Minister of Economy and Sustainable Development, the Minister of Finance, and the Governor of the National Bank of Georgia, (the "April 2020 Letter") together with its attached Memorandum of Economic and Financial Policies (the "April 2020 MEFP") and Technical Memorandum of Understanding (the "April 2020 TMU") shall be attached to the Arrangement and the letter dated March 27, 2017 from the First Deputy Prime Minister and Minister of Finance, the Minister of Economy and Sustainable Development and the Governor of the National Bank of Georgia, together with its attachments, as supplemented and modified, and shall be read as supplemented and modified by the April 2020 Letter and its attachments.

3. Accordingly:

(a) In paragraph 1 of the Arrangement the reference to "SDR 210.4 million" shall be replaced with "SDR 484 million".

(b) Paragraph 2 of the Arrangement will be revised to read: "Purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 30 million until October 27, 2017, the equivalent of SDR 60 million until April 13, 2018, the equivalent of SDR 90 million until October 26, 2018, the equivalent of SDR 120 million until April 12, 2019, the equivalent of SDR 150 million until October 25, 2019, the equivalent of SDR 180 million until April 12, 2020, the equivalent of SDR 327 million until October 25, 2020 and the equivalent of SDR 406 million until March 20, 2021 "

(c) The quantitative performance criteria referred to in paragraphs 3(a)(i) through (v) of the Arrangement for June 30, 2020 and in paragraphs 3(a)(i) through (v) for December 31, 2020 shall be as specified in Table 2 of the April 2020 MEFP, and as further specified in the April 2020 TMU.

(d) In paragraph 3(b) of the Arrangement, the reference to "paragraph 37 of the November 2019 MEFP" shall be replaced with "paragraph 44 of the April 2020 MEFP".

(e) The continuous performance criteria set forth in paragraph 3(c)(i) through (iii) of the Arrangement shall be as specified in Table 2 of the April 2020 MEFP, and as further specified in the April 2020 TMU.

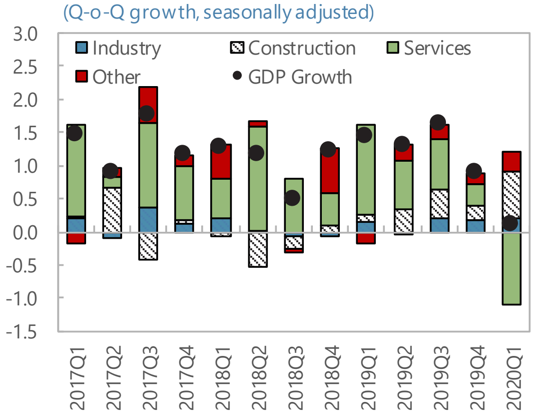
(f) In paragraph 3(e) of the Arrangement the reference to "paragraph 16 and Table 1 of the November 2019 MEFP and as further specified in the November 2019 TMU" will be replaced with "paragraph 19 and Table 1 of the April 2020 and as further specified in the April 2020 TMU".

4. The Fund decides that the sixth review specified in paragraph 3(b) of the Arrangement is completed and Georgia may make a purchase in accordance with the terms of the Arrangement notwithstanding the nonobservance of the end-December 2019 performance criterion on the ceiling on the augmented general government deficit, as specified in paragraph 3(a)(i) of the Arrangement, on the condition that the information provided by Georgia on performance under this criterion is accurate.

Figure 1. Georgia: Real Sector and Inflation Developments

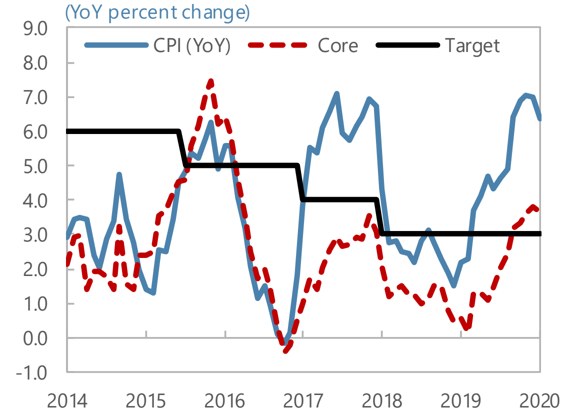
Growth picked up in 2019, supported by services and construction, but is now expected to decline.

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



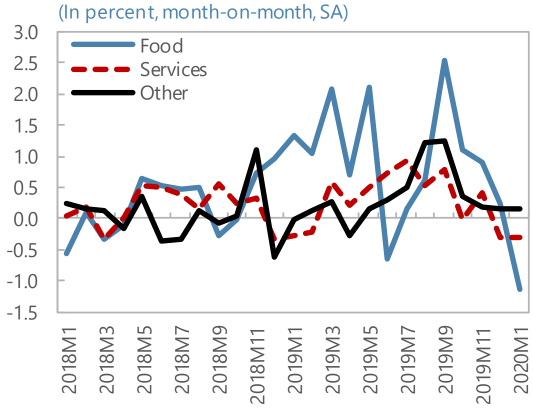
Headline and core inflation remained above NBG's target.

Inflation: Headline and Core Inflation
(YoY percent change)



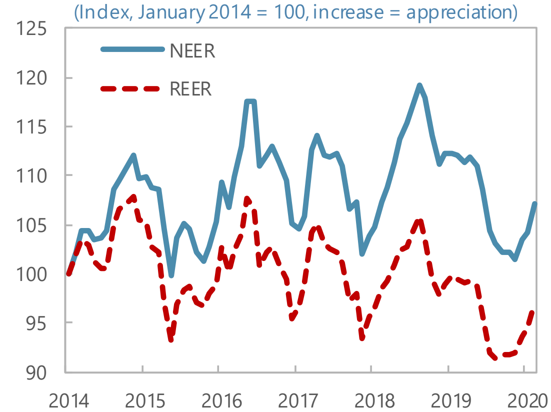
Food and services prices have declined in late 2019…

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



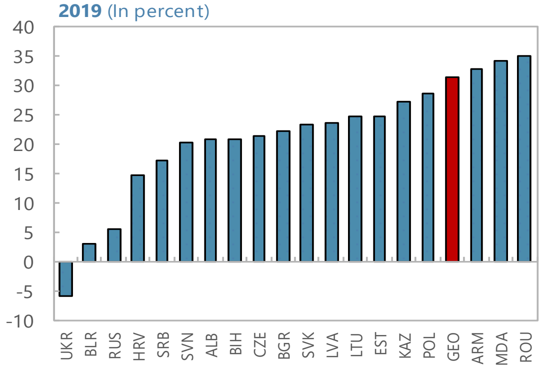
…as the exchange rate had a brief recovery after a year of depreciation.

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



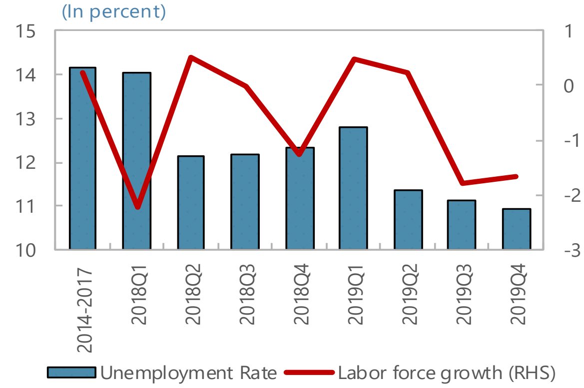
Real GDP per capita growth has surpassed that of peers…

Growth in Real GDP per capita between 2012 and 2019 (In percent)



…as unemployment continues to decline.

Unemployment Rate and Labor Force Growth
(In percent)

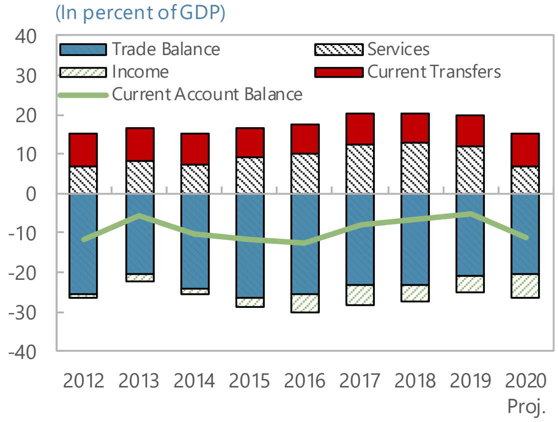


Source: National authorities, GEOStat, and IMF staff calculations.

Figure 2. Georgia: External Sector Developments

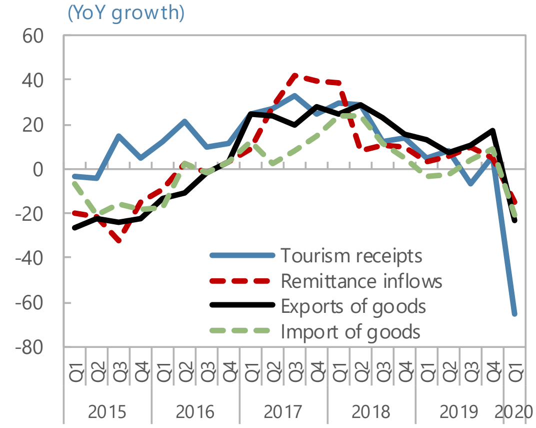
The current account reached a historic high in 2019, but is expected to widen considerably in 2020…

Current Account Balance
(In percent of GDP)



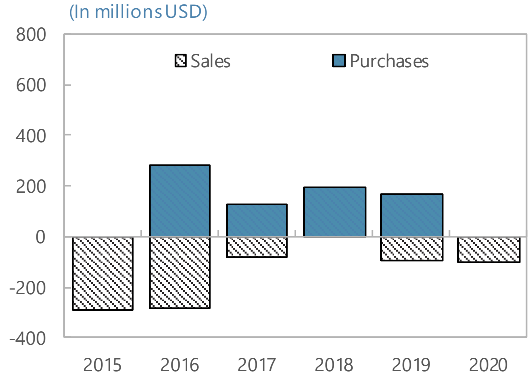
…with tourism growth turning sharply negative..

Exports, Tourist Receipts, and Remittances
(YoY growth)



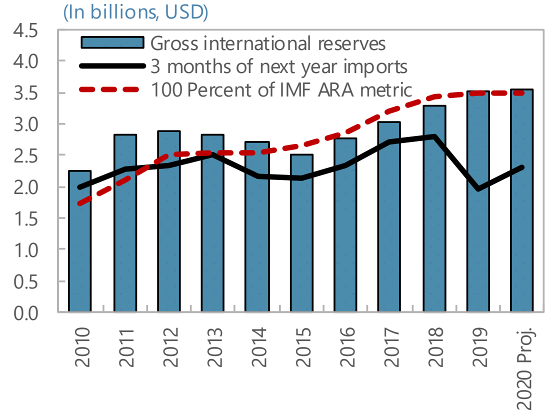
In 2020, the NBG's FX sales addressed lari excess volatility and limited liquidity in the FX market.

Interventions and Effective Exchange Rates
(In millions USD)



Reserve coverage is projected at adequate levels, supported by IMF and donor financing and FX swap lines.

Reserve Adequacy
(In billions, USD)

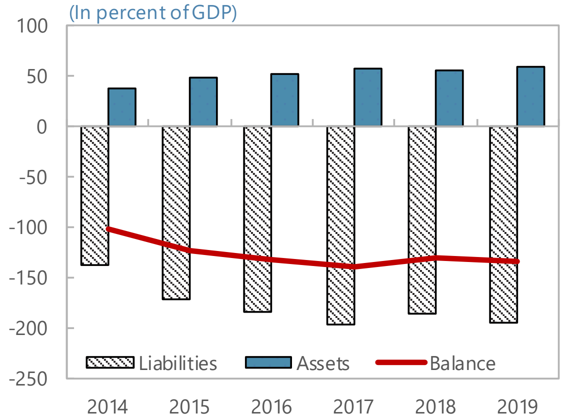


Source: National authorities, GeoStat, and IMF staff calculations.

Figure 3. Georgia: International Investment Position (IIP)

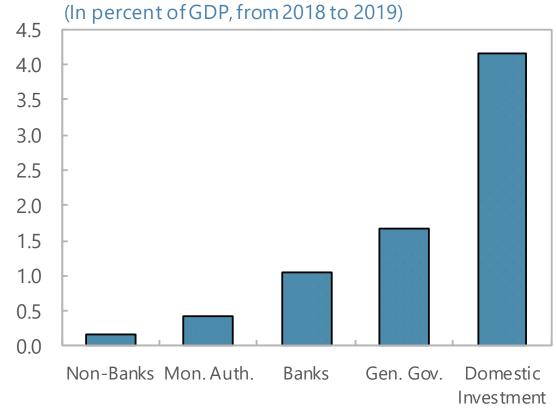
The net IIP remained broadly unchanged in 2019.

International Investment Position, Overall
(In percent of GDP)



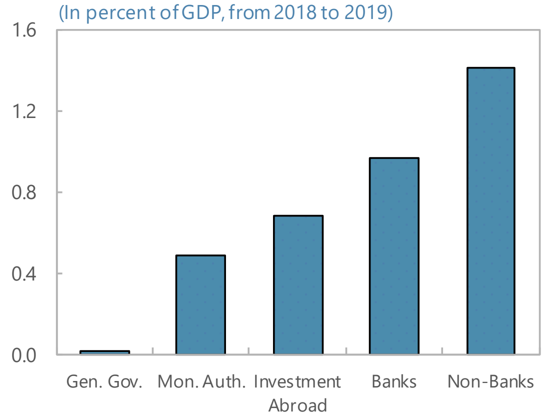
Increases in private sector external debt…

Change in Gross Liabilities by Sector
(In percent of GDP, from 2018 to 2019)



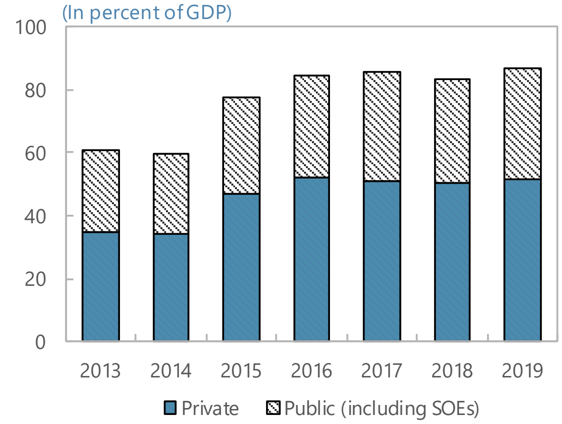
…were offset by NBG's foreign asset accumulation.

Change in Gross Assets by Sector
(In percent of GDP, from 2018 to 2019)



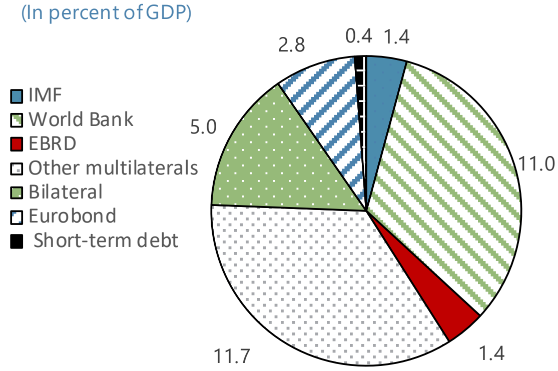
Total external debt remains elevated, driven by the private sector,

Total External Debt
(In percent of GDP)



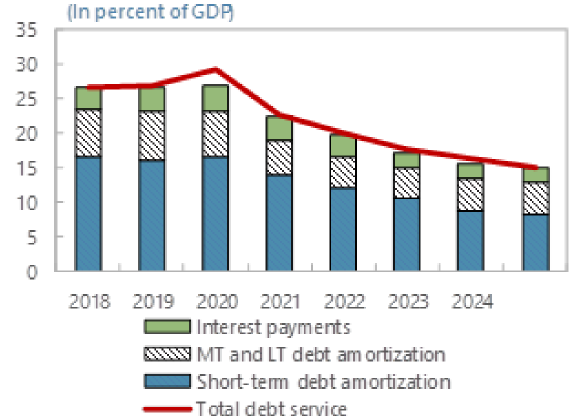
…dominated by official creditors.

Composition of External Public Debt, 2019
(In percent of GDP)



Debt service remains significant over the medium term.

External Debt Service
(In percent of GDP)

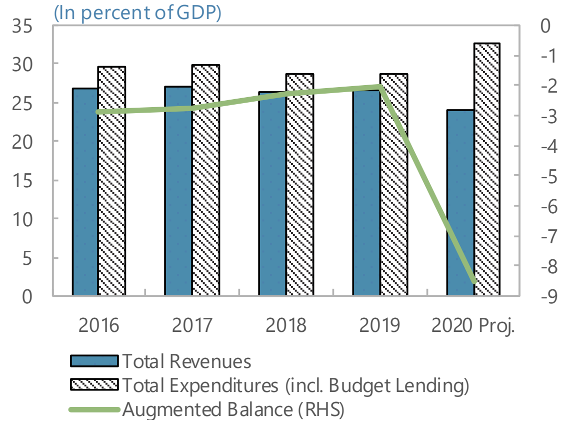


Sources: National authorities; World Economic Outlook; and IMF staff estimates.

Figure 4. Georgia: Fiscal Sector Developments

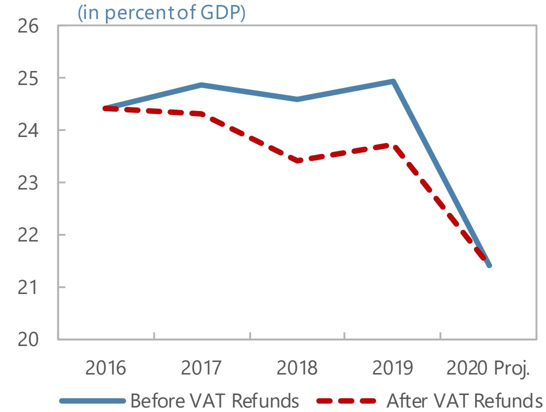
The augmented fiscal balance has been steadily improving from 2016 to 2019, but will decline in 2020…

General Government Deficit
(In percent of GDP)



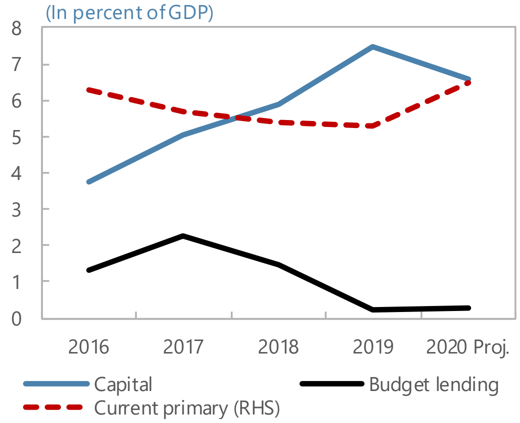
… as the COVID-19 shock is expected to hurt revenues…

Tax Revenue
(in percent of GDP)



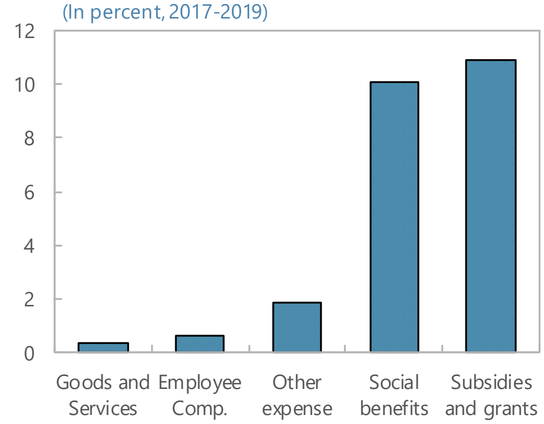
… and rebalance from capital to current spending.

Spending
(In percent of GDP)



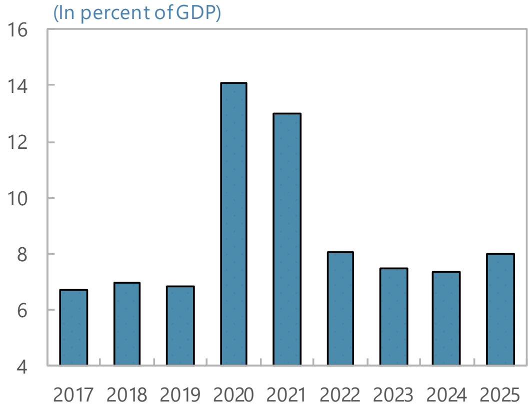
Spending declines have focused on goods and services, while social benefits were protected.

Changes in Real Spending by Category
(In percent, 2017-2019)



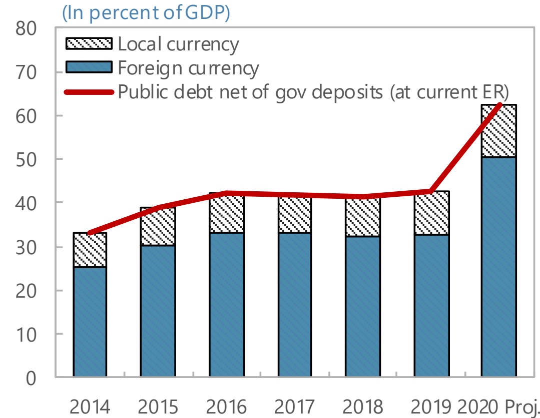
Gross financing needs are expected to peak in 2020-21 due to the impact of the Covid19 crisis..

Gross Financing Needs
(In percent of GDP)



Public debt remains highly exposed to FX risks.

Government Debt
(In percent of GDP)

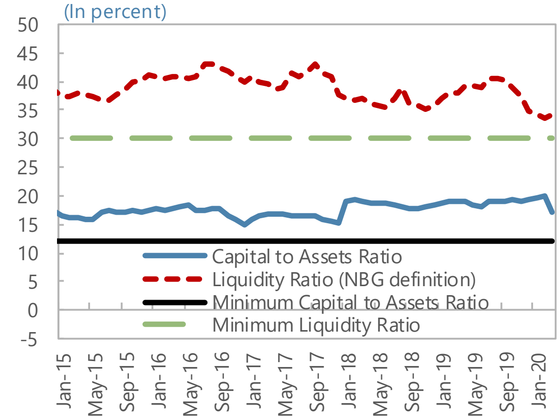


Source: National authorities, and IMF staff estimates.

Figure 5. Georgia: Financial Sector Developments Before the COVID-19 Shock

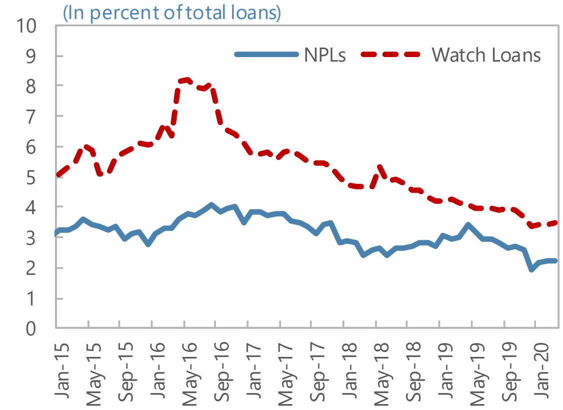
Banks are liquid and well capitalized.

Capital and Liquidity Ratios
(In percent)



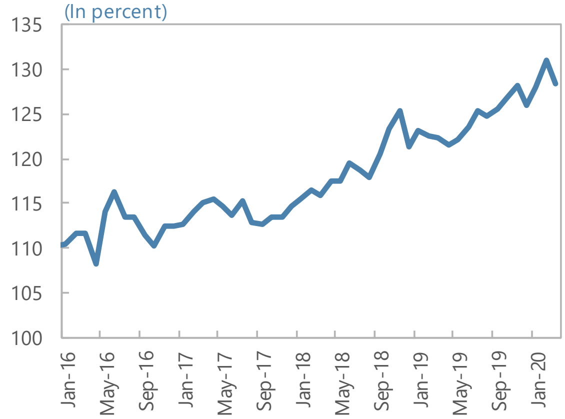
NPLs have stabilized and watch loans have maintained a downward trend.

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



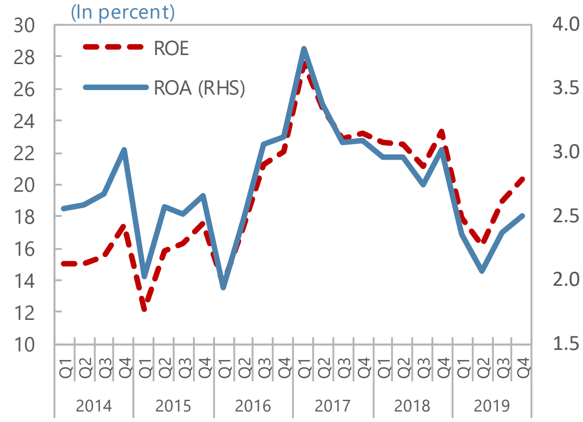
Loan-to-deposit ratio (at constant exchange rates) reached a historic high in December 2019.

Loan-To-Deposit Ratio
(In percent)



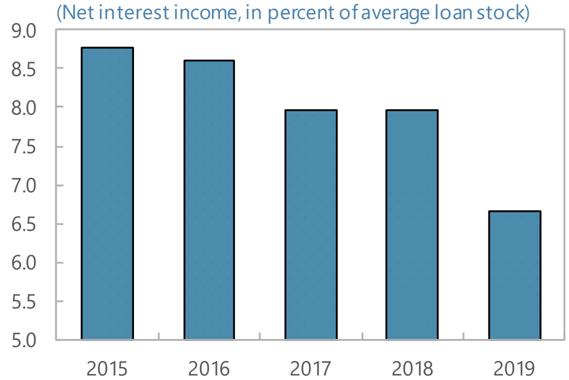
Profitability has begun to recover…

Return on Assets and Equity Ratios
(In percent)



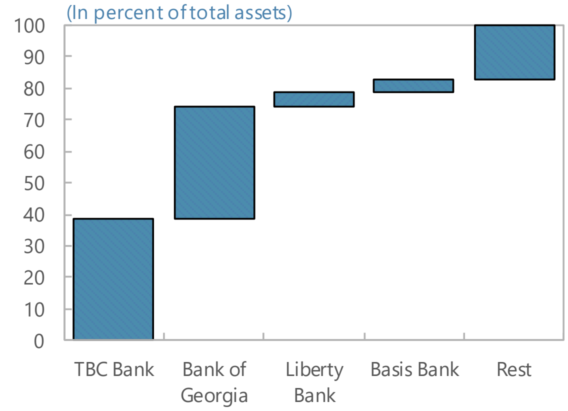
…notwithstanding lower net interest margins…

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



… even as the market remains highly concentrated.

Market Concentration of Assets, Mar 2020
(In percent of total assets)

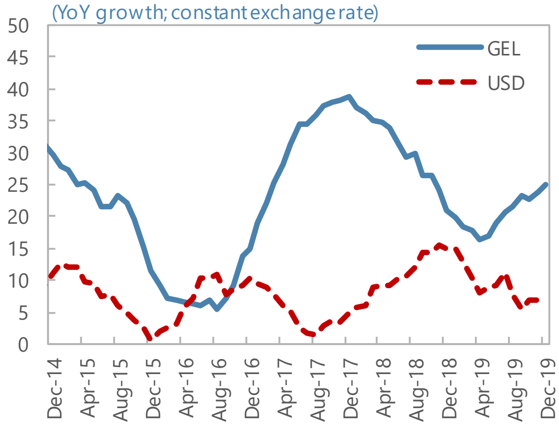


Source: National Bank of Georgia, and IMF staff calculations.

Figure 5. Georgia: Financial Sector Developments Before the COVID-19 Shock (concluded)

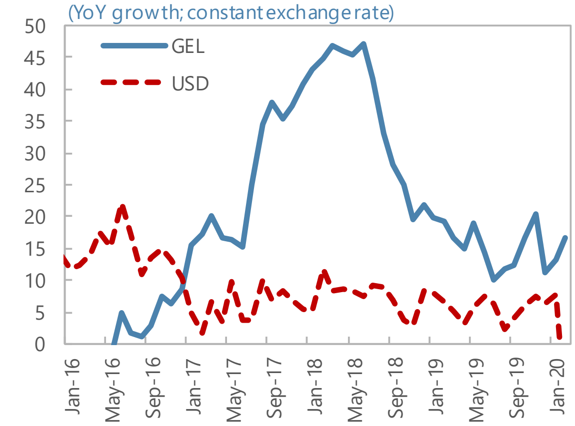
Growth in lari-dominated credit to the private sector started to pick up in February ...

Private Sector Credit
(YoY growth; constant exchange rate)



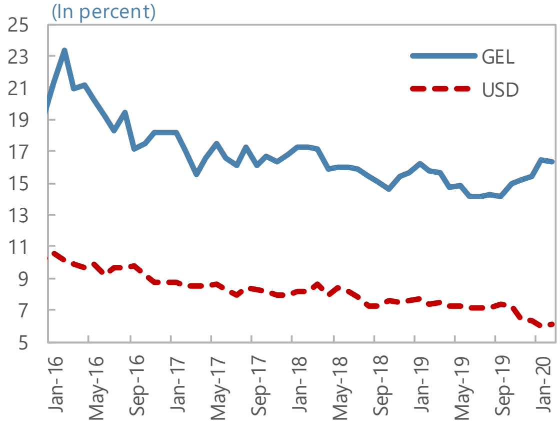
... while growth in lari deposits slowed down.

Private Sector Deposits
(YoY growth; constant exchange rate)



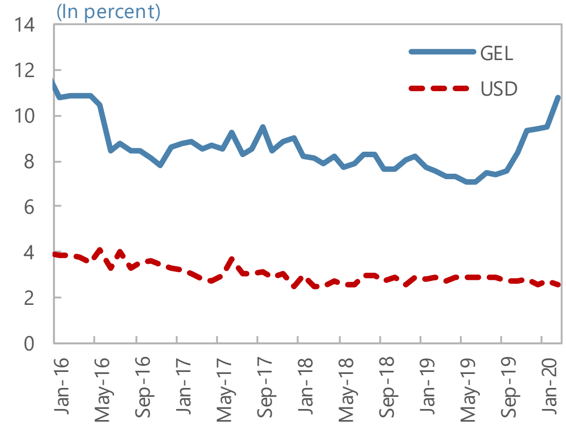
Increased in loans spreads resulted mainly from increases in the rates of lari loans ...

Interest Rates For Loans
(In percent)



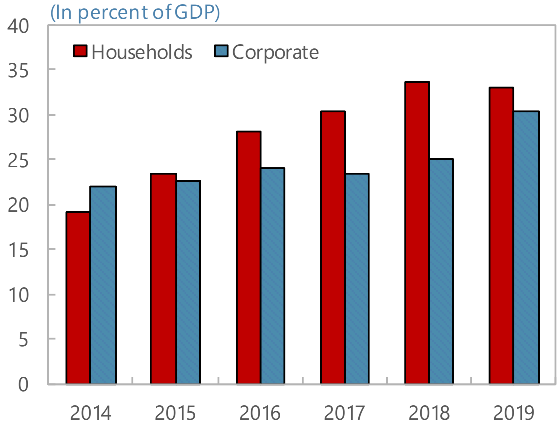
... in line with increased lari-deposit rates.

Interest Rates For Deposits
(In percent)



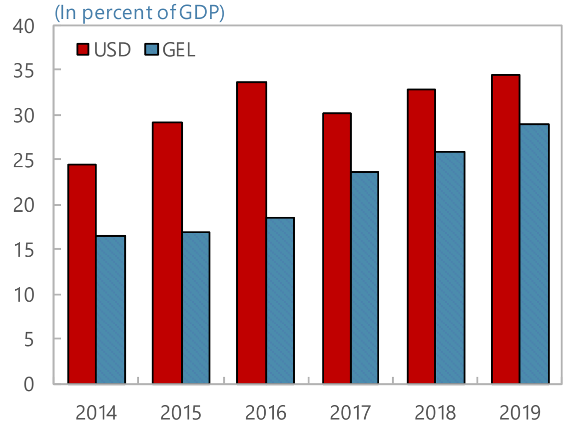
Credit developments were driven by credit to corporates, ...

Credit to the Private Sector
(In percent of GDP)



with an increasing share of loans in local currency.

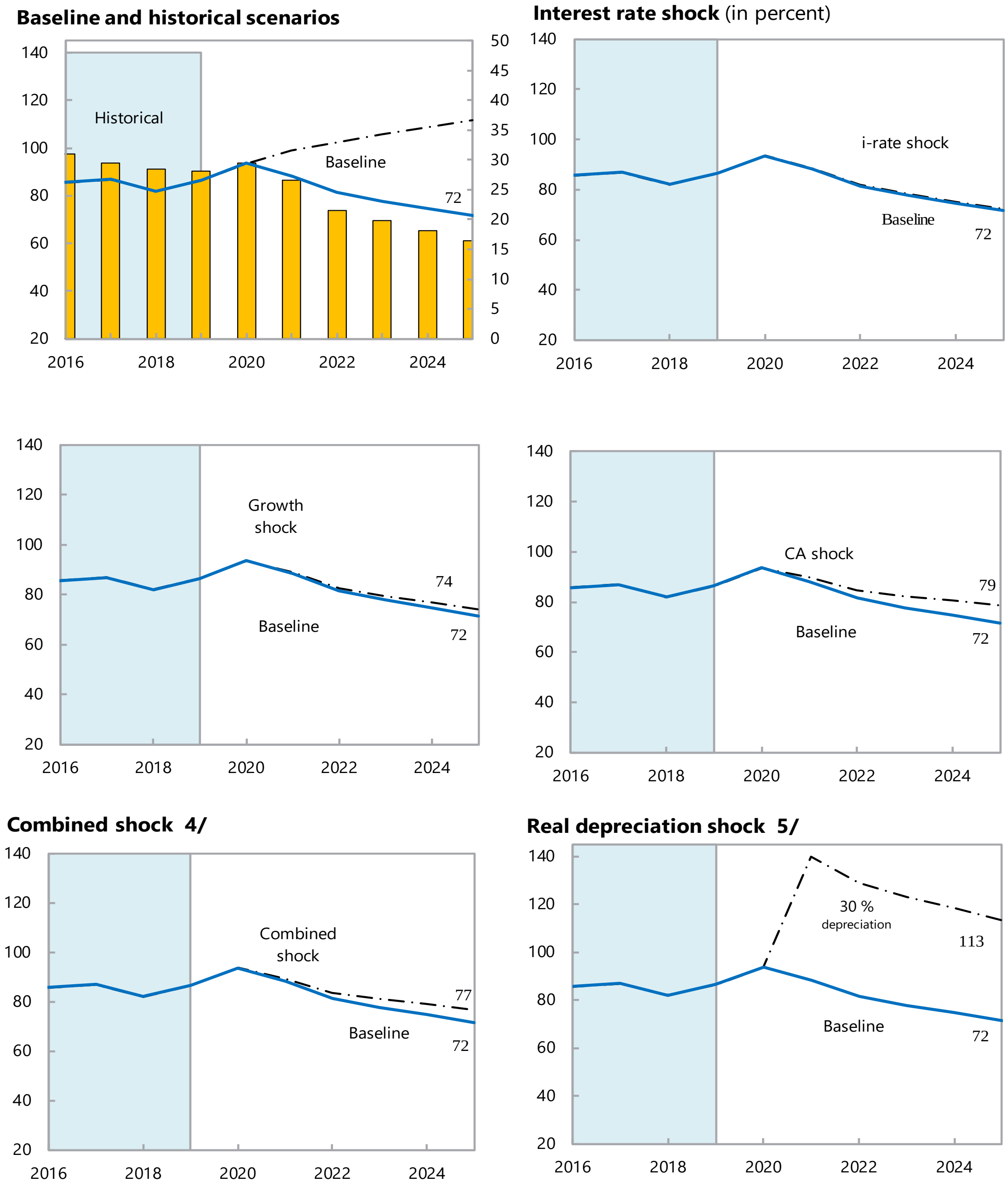
Credit-to the Private Sector
(In percent of GDP)



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.

Table 1. Georgia: Selected Economic and Financial Indicators, 2018–25

	2018	2019	2019	2019	2020	2020	2020	2021	2022	2023	2024	2025
	Actual	EFF 5th Review	EFF 5th Review New GDP		EFF 5th Review	EFF 5th Review New GDP	Projections					
National accounts and prices 1/				(annual percentage change; unless otherwise indicated)								
Real GDP	4.8	4.6	4.6	5.1	4.3	4.3	-4.0	4.0	6.0	5.8	5.5	5.2
Output Gap	-1.5	-1.0	-1.0	-0.5	-1.0	-1.0	-1.5	-1.7	-0.5	0.0	0.0	0.0
Nominal GDP (in billion of laris)	44.6	45.2	49.0	50.0	49.2	53.4	50.3	54.5	59.4	64.7	70.3	76.1
Nominal GDP (in billion of U.S. dollars)	17.6	16.1	17.5	17.7	17.2	18.7	15.1	17.7	20.1	22.0	23.9	25.8
GDP per capita (in thousand of U.S. dollars)	4.7	4.3	4.7	4.8	4.7	5.1	4.1	4.8	5.4	5.9	6.5	7.0
GDP deflator, period average	4.3	4.9	4.9	6.4	4.7	4.7	5.1	4.0	3.0	2.9	3.0	2.9
CPI, Period average	2.6	4.9	4.9	4.9	4.5	4.5	4.7	3.6	3.0	3.0	3.0	3.0
CPI, End-of-period	1.5	7.2	7.2	7.0	3.0	3.0	3.5	3.0	3.0	3.0	3.0	3.0
Core CPI, End-of-period	0.5	...	...	3.8	...	...	...	...	...	...	...	...
Investment and saving						(in percent of GDP)						
Gross national saving	26.5	28.4	26.2	28.7	28.4	26.2	20.3	25.5	27.4	26.8	26.1	25.7
Investment	33.3	33.8	31.2	33.8	33.7	31.1	31.6	33.0	33.4	32.6	31.7	31.0
Public	6.4	7.8	7.2	7.9	7.2	6.6	6.4	6.4	4.9	4.5	4.1	3.8
Private	26.9	26.0	24.0	25.9	26.5	24.4	25.2	26.6	28.5	28.2	27.6	27.2
Consolidated government operations						(in percent of GDP)						
Revenue and grants	26.4	28.6	26.4	26.7	27.6	25.4	24.1	24.7	25.1	25.3	25.4	25.4
o.w. Tax revenue	23.4	25.5	23.5	23.7	24.9	23.0	21.4	22.2	22.7	22.9	23.0	23.1
Expenditures	29.2	31.3	28.8	29.1	30.7	28.3	32.9	29.9	28.6	28.2	28.0	27.8
Current expenditures	21.3	23.1	21.3	21.0	23.2	21.4	26.2	23.2	23.4	23.5	23.6	23.7
Capital spending and budget lending	7.9	8.2	7.6	8.1	7.5	6.9	6.7	6.8	5.2	4.8	4.4	4.1
Net Lending/Borrowing (GFSM 2001)	-0.8	-1.9	-1.8	-1.8	-2.4	-2.2	-8.2	-4.4	-2.7	-2.3	-2.0	-1.8
Augmented Net lending / borrowing (Program definition) 2/	-2.3	-2.3	-2.1	-2.0	-2.7	-2.5	-8.5	-4.8	-3.0	-2.6	-2.2	-2.1
Public debt 3/	41.3	47.9	44.1	42.7	48.3	44.5	62.8	59.6	55.5	53.6	52.1	51.1
o.w. Foreign-currency denominated	32.5	37.2	34.3	32.9	36.6	33.7	50.6	45.6	41.0	38.6	36.4	34.5
Public debt net of government deposits 3/	38.8	44.4	40.9	39.8	44.4	40.9	54.0	51.2	48.2	46.6	45.1	43.8
Money and credit					(in percent; unless otherwise indicated)							
Credit to the private sector (annual percentage change)	19.3	17.3	17.3	19.9	8.5	8.5	5.9	3.6	9.9	6.5	8.4	8.2
In constant exchange rate	17.0	11.5	11.5	15.2	7.5	7.5	-2.3	8.2	10.0	8.8	8.6	8.2
Broad money (annual percentage change)	14.0	14.7	14.7	16.1	9.2	9.2	3.6	11.5	8.2	10.4	10.4	10.2
Broad money (incl. fx deposits, annual percentage change)	13.3	14.9	14.9	16.0	8.1	8.1	3.1	8.3	7.0	9.6	9.8	9.8
In constant exchange rate	11.9	9.2	9.2	11.8	8.1	8.1	-4.6	16.7	10.6	10.7	10.4	10.1
Deposit dollarization (in percent of total)	62.1	62.9	62.9	61.9	62.7	62.7	62.4	58.4	54.3	53.3	52.4	51.5
Credit dollarization (in percent of total)	55.8	53.7	53.7	54.4	51.3	51.3	51.6	49.2	48.3	47.4	46.5	45.6
Credit to GDP	58.8	68.1	62.8	62.9	67.8	62.5	66.2	63.3	63.8	62.4	62.3	62.2
External sector					(in percent; unless otherwise indicated)							
Current account balance (in billions of US$)	-1.2	-0.9	-0.9	-0.9	-0.9	-0.9	-1.7	-1.3	-1.2	-1.3	-1.3	-1.4
Current account balance	-6.8	-5.4	-5.0	-5.1	-5.3	-4.9	-11.3	-7.5	-6.0	-5.8	-5.6	-5.3
Trade balance	-23.4	-22.7	-20.9	-21.0	-22.2	-20.5	-20.4	-19.8	-19.3	-18.9	-18.5	-18.0
Terms of trade (percent change)	-5.1	0.2	0.2	2.6	-1.8	-1.8	1.8	3.9	2.0	1.4	1.9	1.4
Gross international reserves (in billions of US$)	3.3	3.3	3.3	3.5	3.4	3.4	3.5	3.6	3.8	4.1	4.4	4.6
In percent of IMF Composite measure (floating)	95.4	96.4	96.4	99.0	95.9	95.9	103.9	98.5	98.4	101.3	103.3	105.5
Gross external debt	100.3	118.6	109.3	103.4	117.2	108.1	136.3	124.1	114.7	111.1	106.9	103.1
Gross external debt, excl. intercompany loans	82.2	95.2	87.7	85.0	94.0	86.7	111.4	102.2	94.2	90.0	86.2	82.6
Laris per U.S. dollar (period average)	2.53	...	...	2.82	...	...	...	...	...	...	...	...
Laris per euro (period average)	2.99	...	...	3.15	...	...	...	...	...	...	...	...
REER (period average; CPI based, 2010=100)	104.1	...	...	98.1	...	...	...	...	...	...	...	...

Sources: Georgian authorities; and Fund staff estimates.

1/ National accounts numbers include the impact of GDP rebasing, which increased GDP levels while leaving growth rates unchanged.

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

3/ Public debt includes central government and NBG.

Table 2. Georgia: Balance of Payments, 2018-25

	2018	2019	2019	2020	2020	2021	2022	2023	2024	2025
	Actual	Review		Review	Projections					
	(in millions of U.S. dollars)									
Current account balance	-1,191	-870	-897	-919	-1,714	-1,326	-1,203	-1,281	-1,342	-1,366
Trade balance	-4,112	-3,648	-3,728	-3,823	-3,091	-3,502	-3,884	-4,152	-4,422	-4,645
Exports	4,448	4,850	4,990	5,047	3,784	4,101	4,462	4,799	4,909	5,116
Imports	-8,560	-8,498	-8,717	-8,871	-6,875	-7,603	-8,346	-8,951	-9,331	-9,760
Services	2,241	2,185	2,162	2,303	1,059	1,709	2,147	2,181	2,498	2,768
Services: credit	4,482	4,517	4,586	4,673	2,032	3,300	4,711	5,738	6,631	7,262
Services: debit	-2,241	-2,332	-2,425	-2,369	-973	-1,591	-2,565	-3,557	-4,132	-4,495
Income	-685	-815	-704	-909	-920	-886	-907	-811	-1,028	-1,193
Of which : interest payments	-552	-626	-605	-661	-586	-580	-617	-424	-483	-527
Transfers	1,364	1,408	1,373	1,510	1,238	1,353	1,441	1,501	1,609	1,704
Of which : remittances credit	865	958	916	1,013	779	857	921	969	1,020	1,072
Capital account	77	58	48	53	71	73	71	70	69	67
General government	72	54	42	53	71	73	71	70	69	67
Financial account	1,058	662	977	636	57	730	1,363	1,526	1,529	1,511
Direct investment (net)	925	749	986	856	736	928	1,105	1,231	1,340	1,446
Portfolio investment (net)	-44	721	707	300	-225	-50	200	200	200	200
Equity	-59	-25	-50	0	0	0	0	0	0	0
Debt securities	15	746	758	300	-225	-50	200	200	200	200
Loans (net)	154	-174	-135	3	298	350	358	408	336	277
Short-term loans (net)	-85	99	43	-80	-75	-19	5	7	9	9
Public	4	4	-1	4	0	0	0	0	0	0
Private	-90	95	44	-84	-75	-19	5	7	9	9
Medium and long-term loans (net)	239	-273	-178	83	373	370	353	401	328	268
Public 1/	141	28	91	37	340	186	204	238	211	200
Private	98	-301	-269	46	33	183	150	163	116	68
Bank	332	5	-73	313	241	296	291	305	276	246
Non-bank	-234	-305	-195	-267	-208	-113	-142	-142	-160	-178
Others (net) 2/	23	-634	-582	-524	-752	-498	-300	-313	-347	-412
Errors and omissions	-31	-1	-50	0	0	0	0	0	0	0
Overall balance	-88	-151	77	-231	-1,586	-523	231	314	255	213
Financing	-114	-57	-324	-34	-27	-45	-231	-314	-255	-213
Gross International Reserves (-increase)	-278	-39	-202	-34	-27	-45	-231	-314	-255	-213
Rescheduled debts and arrears clearance	165	-18	-121	0	0	0	0	0	0	0
Financing gap	201	208	247	265	1,613	569	0	0	0	0
Before Covid19 Shock	201	208	247	265	261	131	0	0	0	0
Use of Fund Resources	27	34	35	28	28	11	0	0	0	0
IMF EFF	84	83	83	28	28	14	0	0	0	0
Repayment 3/	-57	-49	-48	0	0	-3	0	0	0	0
Official creditors	174	173	212	237	234	120	0	0	0	0
World Bank	0	0	0	51	50	0	0	0	0	0
EU	17	0	0	22	22	0	0	0	0	0
Other	157	173	212	164	162	120	0	0	0	0
Financing gap due to the COVID-19 Shock	0	0	0	0	1,352	438	0	0	0	0
Use of Fund Resources	0	0	0	0	285	85	0	0	0	0
IMF EFF Augmentation	0	0	0	0	285	85	0	0	0	0
Repayment 3/	0	0	0	0	0	0	0	0	0	0
Donor Committed Assurances	0	0	0	0	1,067	353	0	0	0	0
Memorandum items:	(in percent of GDP)									
Current account balance	-6.8	-5.4	-5.1	-5.3	-11.3	-7.5	-6.0	-5.8	-5.6	-5.3
Trade balance	-23.4	-22.7	-21.0	-22.2	-20.4	-19.8	-19.3	-18.9	-18.5	-18.0
Financial account	6.0	4.1	5.5	3.7	0.4	4.1	6.8	6.9	6.4	5.9
Foreign direct investment (net)	5.3	4.7	5.6	5.0	4.9	5.3	5.5	5.6	5.6	5.6
External financing requirement	30.1	31.1	28.5	29.1	36.5	25.6	21.9	20.5	19.1	17.4
Gross international reserves (in million of USD)	3,289	3,328	3,506	3,361	3,533	3,578	3,809	4,123	4,379	4,591
in months of next year GNFS imports	3.5	3.6	5.4	3.3	4.6	3.9	3.7	3.7	3.7	3.9
in percent of short-term debt at remaining maturity	79	86	94	84	99	91	88	88	87	88
in percent of broad money and non-resident deposits	35	34	35	32	39	34	32	32	31	29
in percent of IMF Composite measure (floating)	95	96	99	96	104	99	98	101	103	105
in percent of short-term external debt (remaining maturity)	79	86	94	84	99	91	88	88	87	88
Reserve cover (percent) 4/	47.9	48.2	54.1	48.8	49.5	51.1	50.7	50.5	50.2	49.6

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 2018–25

(In millions of GEL)

	2018	2019	2019	2020	2020	2021	2022	2023	2024	2025
	Actual	EFF 5th Review		EFF 5th Review						
Revenue	11,761	12,930	13,349	13,566	12,143	13,467	14,942	16,378	17,853	19,328
Taxes	10,445	11,540	11,859	12,245	10,761	12,106	13,501	14,837	16,207	17,571
Taxes on income, profits, and capital gains	3,984	4,319	4,349	4,751	4,060	4,470	5,093	5,695	6,285	6,805
Payable by individuals	3,247	3,464	3,483	3,791	3,162	3,549	4,082	4,594	5,090	5,510
Payable by corporations	737	855	866	960	899	921	1,010	1,101	1,195	1,294
Taxes on property	441	484	474	527	477	517	564	614	667	722
Taxes on goods and services	5,893	6,570	6,746	6,852	6,242	7,076	7,882	8,586	9,327	10,099
General taxes on goods and services (VAT)	4,427	5,223	5,239	5,444	4,836	5,483	6,098	6,643	7,216	7,814
Excises	1,466	1,347	1,507	1,408	1,406	1,592	1,784	1,943	2,111	2,286
Taxes on international trade	73	76	79	82	81	83	88	94	102	110
Other taxes 1/	54	90	212	31	-100	-40	-126	-151	-174	-165
Grants	341	365	422	205	432	331	319	318	318	318
Other revenue	975	1,025	1,067	1,116	950	1,029	1,122	1,223	1,328	1,438
Total Expenditure	12,125	13,787	14,257	14,751	16,261	15,875	16,566	17,848	19,246	20,669
Expense	9,496	10,427	10,518	11,426	13,179	12,625	13,916	15,198	16,600	18,022
Compensation of employees	1,685	1,785	1,785	1,890	1,838	2,023	2,164	2,316	2,515	2,724
Use of goods and services	1,584	1,600	1,659	1,740	1,712	1,828	1,937	2,051	2,228	2,413
Interest	520	635	611	731	779	864	918	1,021	1,156	1,262
External	269	345	324	351	383	347	351	368	389	409
Domestic	252	290	287	380	396	517	567	653	767	852
Subsidies	849	970	990	1,050	1,550	1,109	1,175	1,244	1,351	1,463
Grants	66	127	126	135	135	146	159	174	189	204
Social benefits	3,732	4,140	4,198	4,630	5,957	5,281	5,824	6,397	6,994	7,610
Other expense 2/	1,060	1,170	1,150	1,250	1,208	1,374	1,739	1,994	2,166	2,346
Net acquisition of nonfinancial assets	2,629	3,360	3,739	3,325	3,082	3,250	2,650	2,650	2,646	2,647
Increase (capital spending)	2,860	3,530	3,945	3,555	3,232	3,500	2,900	2,900	2,900	2,900
Decrease (privatization proceeds)	-231	-170	-206	-230	-150	-250	-250	-250	-254	-253
Net lending / borrowing before adjustment	-364	-857	-908	-1,185	-4,118	-2,408	-1,624	-1,470	-1,393	-1,341
Unidentified measures	0	0	0	0	0	0	0	0	0	0
Net lending / borrowing	-364	-857	-908	-1,185	-4,118	-2,408	-1,624	-1,470	-1,393	-1,341
Change in net financial worth, transactions	-364	-857	-908	-1,185	-4,118	-2,408	-1,624	-1,470	-1,393	-1,341
Net acquisition of financial assets ("+": increase in assets)	753	677	456	446	3,102	343	-64	387	588	907
Domestic	753	677	456	446	3,102	343	-64	387	588	907
Budget lending	657	170	111	135	150	185	185	185	185	221
Deposits (NBG and commercial banks)	96	507	346	311	2,952	158	-249	202	403	686
Financial privatization	0	0	0	0	0	0	0	0	0	0
Net incurrence of liabilities ("+": increase in liabilities)	1,117	1,534	1,364	1,631	7,219	2,751	1,561	1,857	1,981	2,249
Domestic	377	891	898	707	1,142	760	960	1,160	1,360	1,660
Securities other than shares	377	891	898	707	1,142	760	960	1,160	1,360	1,660
Loans	0	0	0	0	0	0	0	0	0	0
Foreign	740	643	467	924	6,078	1,991	601	697	621	589
Loans	740	643	467	924	6,078	1,991	601	697	621	589
Memorandum items:										
Nominal GDP	44,599	45,185	50,002	49,199	50,303	54,505	59,430	64,737	70,320	76,147
Public debt	18,426	21,626	21,343	23,542	31,466	31,645	32,129	33,879	35,861	38,183
End-year government deposits	1,108	1,615	1,454	1,926	4,405	4,563	4,314	4,516	4,919	5,605
Operating balance	2,265	2,503	2,831	2,140	-1,036	842	1,026	1,180	1,253	1,306
Net lending / borrowing (excluding privatization)	-595	-1,027	-1,114	-1,415	-4,268	-2,658	-1,874	-1,720	-1,647	-1,594
Augmented Net lending / borrowing (Program definition) 3/	-1,021	-1,027	-1,019	-1,320	-4,268	-2,593	-1,809	-1,655	-1,578	-1,562
Cyclically-adjusted primary balance (Program definition)	-335	-258	-350	-412	-3,317	-1,512	-821	-634	-422	-301

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 2018–25
(In percent of GDP)

	2018	2019	2019	2019	2020	2020	2020	2021	2022	2023	2024	2025
			EFF 5th			EFF 5th						
		EFF 5th	Review		EFF 5th	Review						
	Actual	Review	New GDP		Review	New GDP			Projections			
Revenue	26.4	28.6	26.4	26.7	27.6	25.4	24.1	24.7	25.1	25.3	25.4	25.4
Taxes	23.4	25.5	23.5	23.7	24.9	22.9	21.4	22.2	22.7	22.9	23.0	23.1
Taxes on income, profits, and capital gains	8.9	9.6	8.8	8.7	9.7	8.9	8.1	8.2	8.6	8.8	8.9	8.9
Payable by individuals	7.3	7.7	7.1	7.0	7.7	7.1	6.3	6.5	6.9	7.1	7.2	7.2
Payable by corporations	1.7	1.9	1.7	1.7	2.0	1.8	1.8	1.7	1.7	1.7	1.7	1.7
Taxes on property	1.0	1.1	1.0	0.9	1.1	1.0	0.9	0.9	0.9	0.9	0.9	0.9
Taxes on goods and services	13.2	14.5	13.4	13.5	13.9	12.8	12.4	13.0	13.3	13.3	13.3	13.3
General taxes on goods and services (VAT)	9.9	11.6	10.7	10.5	11.1	10.2	9.6	10.1	10.3	10.3	10.3	10.3
Excises	3.3	3.0	2.7	3.0	2.9	2.6	2.8	2.9	3.0	3.0	3.0	3.0
Taxes on international trade	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Other taxes 1/	0.1	0.2	0.2	0.4	0.1	0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2
Grants	0.8	0.8	0.7	0.8	0.4	0.4	0.9	0.6	0.5	0.5	0.5	0.4
Other revenue	2.2	2.3	2.1	2.1	2.3	2.1	1.9	1.9	1.9	1.9	1.9	1.9
Total Expenditure	27.2	30.5	28.1	28.5	30.0	27.6	32.3	29.1	27.9	27.6	27.4	27.1
Expense	21.3	23.1	21.3	21.0	23.2	21.4	26.2	23.2	23.4	23.5	23.6	23.7
Compensation of employees	3.8	4.0	3.6	3.6	3.8	3.5	3.7	3.7	3.6	3.6	3.6	3.6
Use of goods and services	3.6	3.5	3.3	3.3	3.5	3.3	3.4	3.4	3.3	3.2	3.2	3.2
Interest	1.2	1.4	1.3	1.2	1.5	1.4	1.5	1.6	1.5	1.6	1.6	1.7
External	0.6	0.8	0.7	0.6	0.7	0.7	0.8	0.6	0.6	0.6	0.6	0.5
Domestic	0.6	0.6	0.6	0.6	0.8	0.7	0.8	0.9	1.0	1.0	1.1	1.1
Subsidies	1.9	2.1	2.0	2.0	2.1	2.0	3.1	2.0	2.0	1.9	1.9	1.9
Grants	0.1	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Social benefits	8.4	9.2	8.4	8.4	9.4	8.7	11.8	9.7	9.8	9.9	9.9	10.0
Other expense 2/	2.4	2.6	2.4	2.3	2.5	2.3	2.4	2.5	2.9	3.1	3.1	3.1
Net acquisition of nonfinancial assets	5.9	7.4	6.9	7.5	6.8	6.2	6.1	6.0	4.5	4.1	3.8	3.5
Increase (capital spending)	6.4	7.8	7.2	7.9	7.2	6.7	6.4	6.4	4.9	4.5	4.1	3.8
Decrease (privatization proceeds)	-0.5	-0.4	-0.3	-0.4	-0.5	-0.4	-0.3	-0.5	-0.4	-0.4	-0.4	-0.3
Net lending / borrowing before adjustment	-0.8	-1.9	-1.7	-1.8	-2.4	-2.2	-8.2	-4.4	-2.7	-2.3	-2.0	-1.8
Unidentified measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending / borrowing	-0.8	-1.9	-1.7	-1.8	-2.4	-2.2	-8.2	-4.4	-2.7	-2.3	-2.0	-1.8
Change in net financial worth, transactions	-0.8	-1.9	-1.7	-1.8	-2.4	-2.2	-8.2	-4.4	-2.7	-2.3	-2.0	-1.8
Net acquisition of financial assets ("+": increase in assets)	1.7	1.5	1.4	0.9	0.9	0.8	6.2	0.6	-0.1	0.6	0.8	1.2
Domestic	1.7	1.5	1.4	0.9	0.9	0.8	6.2	0.6	-0.1	0.6	0.8	1.2
Budget lending	1.5	0.4	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Deposits (NBG and commercial banks)	0.2	1.1	1.0	0.7	0.6	0.6	5.9	0.3	-0.4	0.3	0.6	0.9
Financial privatization	0.0	0.0	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)	2.5	3.4	3.1	2.7	3.3	3.1	14.4	5.0	2.6	2.9	2.8	3.0
Domestic	0.8	2.0	1.8	1.8	1.4	1.3	2.3	1.4	1.6	1.8	1.9	2.2
Securities other than shares	0.8	2.0	1.8	1.8	1.4	1.3	2.3	1.4	1.6	1.8	1.9	2.2
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	1.7	1.4	1.3	0.9	1.9	1.7	12.1	3.7	1.0	1.1	0.9	0.8
Loans	1.7	1.4	1.3	0.9	1.9	1.7	12.1	3.7	1.0	1.1	0.9	0.8
Memorandum items:												
Nominal GDP (in millions of GEL)	44,599	45,185	49,024	50,002	49,199	53,364	50,303	54,505	59,430	64,737	70,320	76,147
Public debt	41.3	47.9	44.1	42.7	47.9	44.1	62.6	58.1	54.1	52.3	51.0	50.1
End-year government deposits	2.5	3.6	3.3	2.9	3.9	3.6	8.8	8.4	7.3	7.0	7.0	7.4
Operating balance (before adjustment)	5.1	5.5	5.1	5.7	4.3	4.0	-2.1	1.5	1.7	1.8	1.8	1.7
Net lending / borrowing (excluding privatization)	-1.3	-2.3	-2.1	-2.2	-2.9	-2.7	-8.5	-4.9	-3.2	-2.7	-2.3	-2.1
Augmented Net lending / borrowing (Program definition) 3/	-2.3	-2.3	-2.1	-2.0	-2.7	-2.5	-8.5	-4.8	-3.0	-2.6	-2.2	-2.1
Cyclically-adjusted primary balance (Program definition)	-0.8	-0.6	-0.5	-0.7	-0.8	-0.8	-6.6	-2.8	-1.4	-1.0	-0.6	-0.4

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, 2018-21

	2018	2019		2020		2021	
					Projections		
		June	Dec	June	Dec	June	Dec
Central Bank			(In billions of lari)				
Net foreign assets	4.2	4.7	4.5	2.9	3.6	3.1	3.9
Gross international reserves	8.8	10.7	10.1	10.2	11.9	9.8	11.0
Other foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign currency liabilities	-4.6	-6.0	-5.6	-7.3	-8.2	-6.8	-7.1
Of which : use of Fund resources	-0.4	-0.6	-0.7	-1.5	-1.9	-1.9	-1.9
Of which : compulsory reserves in USD	-3.6	-4.8	-4.2	-4.3	-4.5	-3.8	-4.5
Net domestic assets	0.0	-0.5	0.1	1.5	1.6	2.1	2.1
Net claims on general government	-0.1	0.4	-0.4	-2.5	-2.8	-3.6	-2.6
Claims on general government (incl. T-bills)	0.6	0.8	1.0	1.3	1.6	1.8	2.0
Nontradable govt. debt	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Securitized debt (marketable)	0.4	0.6	0.8	1.0	1.3	1.5	1.7
Deposits	-0.8	-0.5	-1.5	-3.8	-4.4	-5.3	-4.6
Claims on rest of economy	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on banks	1.9	1.3	3.1	6.2	6.7	7.6	6.6
Bank refinancing (incl. swap lines)	1.9	1.4	3.1	6.3	6.7	7.7	6.7
Certificates of deposits and bonds	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Other items, net	-1.7	-2.2	-2.5	-2.2	-2.2	-1.9	-1.9
Banking System			(In billions of lari)				
Net foreign assets	-1.0	-2.4	-3.2	-4.2	-3.4	-4.4	-3.7
NBG	7.8	9.5	8.7	8.0	9.2	7.3	8.4
Commercial banks	-8.8	-11.9	-11.9	-12.2	-12.6	-11.6	-12.1
Net domestic assets	22.0	24.8	27.6	27.7	28.7	28.6	31.9
Domestic credit	27.6	29.8	32.8	32.8	32.1	31.3	34.0
Net claims on general government	1.4	1.5	1.3	-0.9	-1.1	-1.5	-0.5
Of which : government deposits at NBG	-0.8	-0.5	-1.5	-3.8	-4.4	-5.3	-4.6
Of which : T-bills at commercial banks	2.8	3.5	3.8	4.6	5.0	5.5	5.8
Private credit	26.2	28.3	31.4	33.7	33.3	32.8	34.5
Other items, net	-5.6	-5.1	-5.1	-5.2	-3.5	-2.7	-2.1
Broad money (M3)	21.0	22.4	24.4	23.5	25.3	24.2	28.2
(Broad money, percent change year on year)	14.0	23.6	16.1	4.8	3.6	3.1	11.5
Lari Broad money (M2)	9.7	10.5	11.3	10.5	11.9	12.4	14.4
Currency held by the public	2.7	3.0	3.2	3.0	3.9	3.8	4.6
Lari resident deposits	6.9	7.5	8.1	7.5	8.1	8.6	9.8
Resident foreign exchange deposits	11.3	11.9	13.1	12.9	13.4	11.7	13.8
Sources of funds of commercial banks	31.1	35.4	38.0	37.1	38.5	36.1	39.8
Resident deposits	18.3	19.4	21.2	20.4	21.4	20.4	23.6
Non-resident deposits	4.2	4.6	4.8	4.9	4.9	4.5	4.5
Other foreign liabilities	8.6	11.3	12.0	11.8	12.2	11.3	11.8
Uses of funds of commercial banks	31.1	35.4	38.0	37.1	38.5	36.1	39.8
Reserves	7.2	8.1	8.3	8.0	8.2	7.2	7.9
Domestic credit	27.8	29.4	33.2	35.3	35.0	34.9	36.6
Lari domestic credit	13.1	13.7	16.1	17.5	17.8	18.3	19.6
Fx domestic credit	14.6	15.7	17.1	17.8	17.2	16.6	17.0
Other foreign assets	0.7	0.8	0.9	0.8	0.8	0.8	0.8
Other items, net	-3.9	-2.2	-3.5	-6.3	-4.7	-5.9	-4.7
Broad money (M3)	47.1	47.3	48.8	46.8	50.3	44.1	47.4
Lari Broad money (M2)	21.7	22.2	22.6	21.0	23.7	22.7	24.2
Currency held by the public	6.2	6.3	6.5	6.1	7.7	6.9	7.7
Non-resident deposits (percent of total deposits)	16.5	16.8	16.4	17.0	16.4	15.9	14.1
Private credit (Percent change, year on year)	19.3	23.3	19.9	19.3	5.9	-2.7	3.6
Private credit	58.8	59.8	62.9	67.3	66.2	59.8	58.0
Nominal GDP (billions of lari)	44.6	47.3	50.0	50.2	50.3	54.9	59.4

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
Capital Adequacy							
Capital to risk-weighted assets 1/	15.1	19.1	18.4	19.1	18.2	19.0	19.5
Regulatory Tier I capital to risk-weighted assets	10.5	14.0	13.5	14.1	13.6	14.4	14.6
Nonperforming loans net of provisions to capital	7.3	6.4	6.4	7.3	8.0	6.8	5.2
Leverage ratio 2/	18.3	18.2	18.5	19.2	17.9	18.6	19.0
Asset Quality							
Nonperforming to total gross loans 3/	3.4	2.8	2.7	3.0	2.9	2.6	1.9
Nonperforming to total gross loans 4/	7.3	5.9	5.5	5.9	5.7	5.3	4.4
Substandard and restructured loans to total gross loans 5/	21.2	17.3	15.3	15.9	15.5	15.1	12.9
Specific provisions to total loans	3.6	2.8	2.5	2.7	2.6	2.4	1.9
Sectoral distribution of loans to total loans							
Residents	97.8	97.6	97.4	97.5	97.4	97.5	97.4
Deposit-takers	0.2	0.1	0.0	0.3	0.6	0.1	0.1
Other financial corporations	1.4	0.9	0.7	0.6	0.0	0.5	0.0
Nonfinancial orporations	50.1	47.4	46.3	46.7	47.5	48.4	49.8
Other domestic sectors 6/	46.1	49.2	50.5	49.8	49.3	48.4	47.5
Non-residents	2.2	2.4	2.6	2.5	2.6	2.5	2.6
Earnings and Profitability							
Return on assets (ROA)	3.1	3.1	3.0	2.4	2.1	2.4	2.5
Return on equity (ROE)	22.1	23.3	23.3	18.0	16.2	18.9	20.3
Interest margin to gross income	58.0	58.9	61.0	61.4	60.3	58.7	58.1
Non-interest expenses to gross income	49.8	51.8	49.6	51.0	53.7	52.5	52.9
Liquidity							
Liquid assets to total liabilities ratio	22.8	21.3	21.6	22.9	23.2	22.9	19.6
Liquid assets to total short-term liabilities 7/	34.0	32.1	27.1	29.1	28.5	28.3	24.2
Loan-to-deposit ratio (in percent) 8/	111.4	112.6	115.6	115.9	116.6	117.7	121.7
Foreign Currency Position and Dollarization							
Deposit dollarization (residents)	69.9	63.7	62.1	61.7	61.2	61.6	61.9
Loans in foreign exchange to total loans	65.4	57.1	57.1	56.5	56.5	55.2	55.2
Net foreign assets to total assets	-15.0	-14.9	-18.3	-19.8	-21.3	-20.1	-18.9
Net open foreign exchange position to regulatory capital	4.4	4.2	5.2	0.1	-1.7	-0.3	0.2
Borrowed funds from abroad-to-GDP ratio 9/	15.3	16.5	16.2	14.4	16.7	16.5	19.1
Other							
Loans collateralized by real estate to total loans	59.2	59.0	62.0	63.2	64.0	65.5	64.9
Memorandum items							
Georgia EMBIG Sovereign Spread	343	199	252	246	214	187	157
Georgia EMBIG Sovereign Yield	5.0	3.9	5.3	4.9	4.2	3.6	3.1

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, 2016-2025

(In percent of GDP, unless otherwise indicated)

	Actual						Projections						
	2016	2017	2018	2019	10-Year Historical Average	10-Year Standard Deviation	2020	2021	2022	2023	2024	2025	**Debt-stabilizing non-interest current account 7/**
Baseline: External debt 1/	84.3	85.0	82.2	85.0			**110.9**	**100.6**	**92.8**	**88.7**	**85.0**	**81.6**	**-2.7**
Change in external debt	5.7	0.7	-2.8	2.8			25.9	-10.3	-7.8	-4.1	-3.7	-3.4	
Identified external debt-creating flows (4+8+9)	3.3	-7.7	-4.7	-0.7			10.4	-1.7	-4.9	-4.8	-4.6	-4.4	
Current account deficit, excluding interest payments	8.1	4.2	2.7	0.8			6.5	3.3	2.0	2.9	2.6	2.4	
Deficit in balance of goods and services	15.2	11.0	10.6	8.8			13.4	10.0	8.5	8.8	7.9	7.3	
Exports	41.1	46.9	50.7	54.0			38.6	42.1	45.8	48.0	48.4	48.0	
Imports	56.3	57.9	61.4	62.8			52.0	52.1	54.3	56.9	56.3	55.2	
Net non-debt creating capital inflows (negative)	-8.1	-10.1	-4.9	-5.3			-4.9	-5.3	-5.5	-5.6	-5.6	-5.6	
Automatic debt dynamics 2/	3.3	-1.8	-2.5	3.8			8.8	0.3	-1.4	-2.1	-1.6	-1.2	
Contribution from nominal interest rate	4.3	3.8	4.0	4.3			4.9	4.1	3.9	2.8	2.9	2.9	
Contribution from real GDP growth	-2.3	-3.8	-3.8	-4.2			4.0	-3.8	-5.3	-4.9	-4.5	-4.1	
Contribution from price and exchange rate changes 3/	1.3	-1.8	-2.7	3.7			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 4/	2.4	8.4	1.8	3.5			15.5	-8.6	-2.9	0.7	0.9	1.0	
External debt-to-exports ratio (in percent)	204.9	181.4	162.0	157.5			287.3	239.1	202.8	184.7	175.6	170.0	
Gross external financing need (in billions of US dollars) 5/	5.1	5.1	5.4	5.1			5.5	4.8	4.6	4.8	4.8	4.8	
in percent of GDP	33.9	31.4	30.5	28.8			36.4	26.9	23.0	21.6	20.0	18.4	
Scenario with key variables at their historical averages 6/							**110.9**	**113.8**	**118.0**	**122.0**	**125.6**	**129.0**	**-6.6**
Key Macroeconomic Assumptions Underlying Baseline													
Real GDP growth (in percent)	2.9	4.8	4.8	5.1	4.9	1.5	-4.0	4.0	6.0	5.8	5.5	5.2	
GDP deflator in US dollars (change in percent)	-1.6	2.2	3.3	-4.4	0.2	8.2	-10.9	12.0	7.6	3.4	3.0	2.6	
Nominal external interest rate (in percent)	5.6	4.9	5.2	5.3	5.2	0.4	4.9	4.3	4.4	3.3	3.6	3.7	
Growth of exports (US dollar terms, in percent)	1.0	22.2	17.4	7.2	12.3	13.6	-39.0	27.3	23.9	14.9	9.5	7.0	
Growth of imports (US dollar terms, in percent)	-2.0	10.1	15.0	3.2	8.4	12.0	-29.3	16.9	18.7	14.6	7.6	5.9	
Current account balance, excluding interest payments	-8.1	-4.2	-2.7	-0.8	-5.9	3.0	-6.5	-3.3	-2.0	-2.9	-2.6	-2.4	
Net non-debt creating capital inflows	8.1	10.1	4.9	5.3	6.8	2.0	4.9	5.3	5.5	5.6	5.6	5.6	

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, 2018–25

	2018	2019	2020	2021	2022	2023	2024	2025
	Actual	Prel.			Projections			
Value of exports of goods and services, percent change	17.4	7.2	-39.3	27.3	23.9	14.9	9.5	7.3
Value of imports of goods and services, percent change	15.0	3.2	-29.6	17.2	18.7	14.6	7.6	5.9
Terms of trade (deterioration -)	-5.1	2.6	1.8	3.9	2.0	1.4	1.9	1.4
Current account balance (percent of GDP)	-6.8	-5.1	-11.3	-7.5	-6.0	-5.8	-5.6	-5.3
Capital and financial account (percent of GDP)	7.4	7.0	9.4	7.2	7.1	7.2	6.7	6.1
External public debt (percent of GDP)	31.7	33.4	52.0	47.3	42.5	39.9	37.7	35.7
(in percent of exports of goods and services)	62.5	61.9	135.2	112.9	93.3	83.5	78.1	74.4
Debt service on external public debt								
(in percent of exports of goods and services)	4.5	4.8	7.5	5.9	5.1	4.7	4.6	4.4
External debt (percent of GDP) 1/	82.2	85.0	111.4	102.2	94.2	90.0	86.2	82.6
(in percent of exports of goods and services)	162.0	157.5	289.8	243.8	206.6	188.1	178.6	172.5
Debt service on MLT external debt								
(in percent of exports of goods and services)	19.3	19.3	25.5	19.0	16.2	13.1	13.4	13.6

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

Table 8. 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	147	70.0
25-Oct-20	Complete the seventh review based on end-June 2020 performance criteria and other relevant performance criteria	79	37.3
20-Mar-21	Complete the eigth review based on end-December 2020 performance criteria and other relevant performance criteria	78	37.2
Total available		484	230.0

Source: Fund staff estimates and projections.

Table 9. Georgia: Gross External Requirement, 2018-25

(In millions of U.S. Dollars)

	2018	2019	2020	2021	2022	2023	2024	2025
					Projections			
Total financing requirement	2,444	2,059	3,659	2,769	2,271	2,432	2,635	2,815
Current account deficit	1,191	897	1,714	1,326	1,203	1,281	1,342	1,366
Medium and long-term debt	1,231	1,288	968	895	967	1,037	1,146	1,237
Private	1,004	1,003	647	579	621	675	753	830
Banks	603	713	335	183	204	237	292	348
Corporates	401	290	312	396	417	438	461	482
Public	227	285	321	316	347	363	393	407
Others (net)	21	-126	977	548	100	113	147	212
Total financing sources	2,387	2,186	2,073	2,246	2,502	2,747	2,891	3,028
Capital transfers	77	48	71	73	71	70	69	67
Direct investment, net	925	986	736	928	1,105	1,231	1,340	1,446
Medium and long-term debt	1,470	1,110	1,340	1,265	1,321	1,438	1,474	1,505
Private	1,102	734	679	762	770	838	870	899
Banks	935	639	576	479	495	542	569	594
Corporates	167	95	103	284	275	296	301	305
Public (only project loans)	368	376	661	502	550	600	604	607
Short-term debt (net)	-85	43	-75	-19	5	7	9	9
Increase in gross reserves	278	202	27	45	231	314	255	213
Rescheduled debt and arrears clearance	-165	121	0	0	0	0	0	0
Errors and omissions	-31	-50	0	0	0	0	0	0
Total financing needs	202	247	1,613	568	0	0	0	0
Official financing	202	247	1,613	569	0	0	0	0
IMF	27	35	313	96	0	0	0	0
Prospective purchases	84	83	313	99	0	0	0	0
Repurchases	-57	-48	0	-3	0	0	0	0
Official creditors	174	212	1,301	473	0	0	0	0
World Bank	0	0	50	0	0	0	0	0
EU	17	0	22	0	0	0	0	0
Others	157	212	162	120	0	0	0	0
COVID-19 related Donor Committed Assurances	0	0	1,067	353	0	0	0	0
Memorandum items:								
Gross international reserves	3,289	3,506	3,533	3,578	3,809	4,123	4,379	4,591
in months of next year GNFS imports	4	5	5	4	4	4	4	4
in percent of short-term debt at remaining maturity	79	94	99	91	88	88	87	88
in percent of IMF Composite measure (floating)	95	99	104	99	98	101	103	105
EFF in percent of total official financing	14	14	19	17	…	…	…	…

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

Table 10. Georgia: Indicators of Fund Credit, 2019-25
(In millions of SDR)

	2019	2020	2021	2022	2023	2024	2025
	Actual	Projections					
Existing Fund credit							
Disbursements (EFF)	60.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock 1/	180.0	180.0	177.5	165.0	142.5	112.5	82.5
SBA and EFF	180.0	180.0	177.5	165.0	142.5	112.5	82.5
Obligations	38.1	2.3	4.5	14.4	24.3	31.5	31.2
SBA and EFF	38.1	2.3	4.5	14.4	24.3	31.5	31.2
Principal (repurchases)	35.0	0.0	2.5	12.5	22.5	30.0	30.0
Interest charges	3.1	2.3	2.0	1.9	1.8	1.5	1.2
Prospective purchases							
Disbursements	0.0	226.0	78.0	0.0	0.0	0.0	0.0
Stock 1/	0.0	226.0	304.0	304.0	304.0	291.8	247.6
Obligations 2/	0.0	2.0	4.6	5.0	4.7	16.5	47.4
Principal (repurchases)	0.0	0.0	0.0	0.0	0.0	12.3	44.2
Interest charges	0.0	2.0	4.6	5.0	4.7	4.3	3.2
Stock of existing and prospective Fund credit 1/	180.0	406.0	481.5	469.0	446.5	404.3	330.1
In percent of quota 3/	85.6	193.0	228.8	222.9	212.2	192.1	156.9
In percent of GDP	1.4	3.7	3.8	3.2	2.8	2.4	1.8
In percent of exports of goods and nonfactor services	2.6	9.6	9.0	7.1	5.9	4.9	3.7
In percent of gross reserves	7.1	15.9	18.7	17.1	15.1	12.9	10.1
In percent of public external debt	4.2	7.1	8.0	7.6	7.1	6.3	5.0
Obligations to the Fund from existing and prospective Fund credit	38.1	4.4	9.0	19.4	29.0	48.0	78.5
In percent of quota	18.1	2.1	4.3	9.2	13.8	22.8	37.3
In percent of GDP	0.3	0.0	0.1	0.1	0.2	0.3	0.4
In percent of exports of goods and nonfactor services	0.5	0.1	0.2	0.3	0.4	0.6	0.9
In percent of gross reserves	1.5	0.2	0.3	0.7	1.0	1.5	2.4
In percent of public external debt service	11.5	1.4	2.9	5.8	8.2	12.7	20.1

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. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood/Time Horizon	Expected Impact on the Economy if Risks Materialize	Policy Response
Global Shocks			
More protectionism. Pandemic-prompted protectionist actions (e.g., export controls) stay in place and deteriorating economic conditions re-ignite broader protectionist measures.	**High** **Short to Medium Term**	**Medium** Protectionism could jeopardize Georgia's plans to diversify its economy and become a regional transit hub. A reduction in exports and FDI would reduce growth. An increase in external imbalances would put pressure on the lari.	Allow the exchange rate to adjust to accommodate the shock. Consider utilizing fiscal space to soften the negative impact on growth if output gap turns negative. Monetary policy space will be constrained by the need to maintain confidence in the currency and keep inflation expectations anchored.
Prolonged Covid-19 outbreak. Containment measures remain in place (in some places intensify or need to be re-introduced) through early 2021. Longer containment and uncertainties about the intensity and the duration of the outbreak reduce supply (including through global value chains' disruption) and domestic and external demand. Deteriorating economic fundamentals and the associated decline in risk appetite result in a second wave of financial tightening (amplified as hidden fragilities are unmasked) and in debt service and refinancing difficulties for corporates and households. Rising bankruptcies translate into financial institutions' losses, forcing them to cut credit, with further adverse implications for growth. Concerns about public debt sustainability mount, and EMs and	**High** **Short Term**	**High** **Short Term** A disruption in tourism flows (notably countries like Iran and Russia), export demand and financial tightening could hurt growth and increase the pressure on the balance of payments.	Allow the exchange rate to adjust to accommodate the shock. Adopt targeted fiscal stimulus measures for industries and companies affected by the outbreak. Consider regulatory flexibility for coronavirus related liquidity difficulties. Continue to diversify tourism flows to build economic resilience.

[1] Prepared by S. Saksonovs. 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.

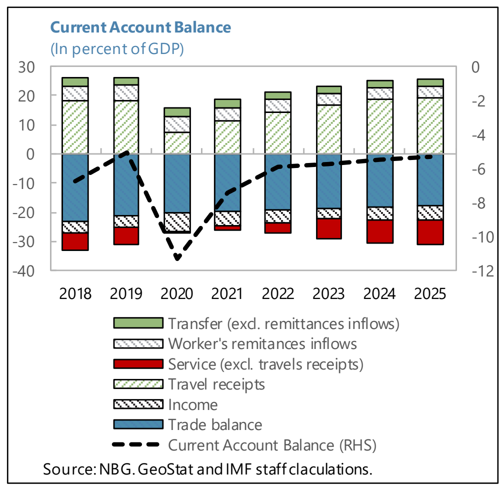
Source of Risks	Relative Likelihood/Time Horizon	Expected Impact on the Economy if Risks Materialize	Policy Response
frontier economies experience a greater number of sudden stops.			
Georgia-Specific Risks			
Financial risks. As a result of one of the global shocks above, exchange rate could depreciate rapidly undermining confidence in the currency and increasing inflation expectations.	**Medium** **Short Term**	**High** Rapid depreciation in a highly dollarized economy could hurt growth and threaten financial stability as households and firms struggle to repay loans. Higher inflation and depreciation expectations could result in a vicious cycle of loan conversions putting further pressure on the currency.	Maintain tight monetary policy to ensure confidence in the currency and keep inflation expectations anchored. 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 put pressure on the deficit.	**Medium** **Short to Medium Term**	**High** The need to cover contingent liabilities could result in lower capital spending or lower current spending, which has already been significantly compressed.	Continue improving SOE governance and fiscal risk management practices. Utilize fiscal buffers accumulated due to capital markets development strategy.
Political risks. Political backlash or/and reform fatigue could undermine efforts to undertake structural reforms.	**Medium** **Short to Medium Term**	**Medium** Policy uncertainty could undermine confidence and hurt growth.	Maintain macroeconomic policy discipline. Strengthen social safety nets to protect the most vulnerable segments of the population and ensure that growth is sufficiently inclusive.

Annex II. Georgia: External Sector Assessment[1]

Georgia's external position in 2019 was broadly consistent with fundamentals and desired policies, as persistently large and negative Net International Investment Position (NIIP) offset improvements in the current account balance. Driven by the trade balance, the current account deficit narrowed to a record low (5.1 percent of GDP). The completion of major FDI-related projects helped contain imports and the NIIP. Reserves coverage reached 99 percent of the ARA metric in 2019, boosted by the NBG's FX intervention in 2019H1, larger-than-expected inflows, and lower-than-expected government FX expenditures. The COVID-19 shock is expected to widen the current account in 2020, exacerbate pressures on the NIIP and reserves, and weaken the external position. In the aftermath of the shock, the current account deficit is projected to gradually narrow to 5.3 percent of GDP by 2025. Continued prudent fiscal policy, exchange rate flexibility, and structural reforms implementation remain essential to safeguarding external sustainability over the medium-term.

Current Account and Real Exchange Rate Developments

1. The 2019 current account (CA) narrowed significantly despite slower-than-envisaged growth in tourism receipts. The narrowing of the 2019 CA deficit—by 1.7 percentage of GDP y/y and by 0.4 percent of GDP compared to the Fifth Review—was supported by merchandise export growth (12.2 percent y/y), and a substantial deceleration in import growth (to 1.8 percent y/y, from 15.1 percent y/y in 2018), driven by lower oil prices and imports of capital goods.[2] Travel receipts substantially decelerated to 1.4 percent y/y in 2019 (from 19 percent y/y in 2018).[3] Remittances grew by 5.9 percent y/y, slower than in 2018 (15.3 percent).



2. The COVID-19 shock is expected to widen the current account deficit substantially in 2020. The current account is projected to widen to 11.3 percent of GDP in 2020, driven by a decline in merchandise exports (by 24 percent y/y) and tourism revenue (by 65 percent y/y). Imports are expected to decline (by 21 percent y/y) due to economic slowdown and lower oil prices. Over the medium term, the current account is expected to decline to 5.3 percent of GDP, assuming a recovery in exports and tourism, and a timely

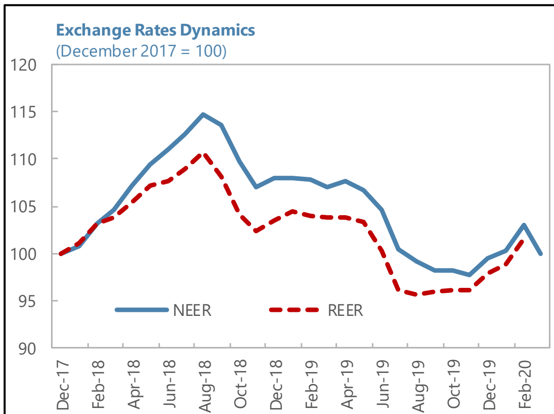
[1] Prepared by N. Noumon.

[2] The analysis uses the revised national accounts. Nominal GDP in 2018 was revised up by 8.6 percent, narrowing of the current account deficit by 0.6 percent of GDP in 2018.

[3] Receipts from Russian tourists declined by 8.1 percent y/y due to the ban on direct flight from Russia; receipts from Iranian tourists declined by 54 percent y/y following the tightening of visa requirements.

implementation of structural reforms to diversify the economy and increase domestic savings and competitiveness.[4]

3. After partially recovering from the expectation-driven exchange rate depreciation of 2019H2, the lari sharply depreciated due to the COVID-19 shock. In 2019, the lari depreciated on average by 5.1 percent and 5.4 percent in nominal and real effective terms, respectively. The lari depreciation was attributable to depreciation expectations, exacerbated by the ban on direct flights from Russia effective since July 2019, and increased political and geopolitical uncertainty. The NBG's FX sales and policy tightening to curb inflationary expectations helped reverse the depreciating trend, starting in December 2019.[5] Higher inflation driven by nominal depreciation and one-off factors widened the end-2019 inflation gap with trading partners. In nominal effective terms, the lari strengthened by 5.5 percent from November 2019 to February 2020, but reversed course with the COVID-19 shock. The NEER depreciated by 3 percent m/m in March 2020, while the lari depreciated by 11 percent against the US dollar from end-February to mid-April 2020.



Source: National Bank of Georgia and IMF staff calculations.
Note: An increase in the REER or the NEER means an appreciation of the currency.

4. The current account deficit and REER gaps widened in 2019. The CA approach of the IMF's External Balance Assessment (EBA-lite) Methodology suggests a CA gap of 2.8 percent of GDP in 2019, larger than in the Fourth Review (0 percent of GDP). Given that balance sheet concerns are of overriding importance, staff puts higher weight on the ES approach in forming the bottom-line characterization of the external position (¶5). Using the CA approach, the CA gap, which corresponds to a REER undervaluation of 6.7 percent, was mostly driven by macro policies as reflected in the large policy gap. Small residuals (0.03 percent of GDP) suggest that structural bottlenecks not captured in the model (e.g., a weak education system) had limited contribution to the CA gap.[6] The CA model estimates also highlight the need for the authorities to sustain their reforms agenda to enhance external competitiveness and raise net private savings. Narrowing the CA gap would require sustained policies and medium-term reforms consistent with prudent fiscal policy and adequate reserve accumulation.

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[4] With Georgia's product diversification relatively low, export growth is projected to be mostly sustained by enhanced export market diversification.

[5] The NBG sold $93 million in 2019H2 and tightened its policy rate by 250 basis points starting September 2019.

[6] The REER index approach generally less accurate suggests a REER gap of 8.8 percent.

Table 1. Georgia: External Balance Assessment (CA approach), 2019

(Percent of GDP)

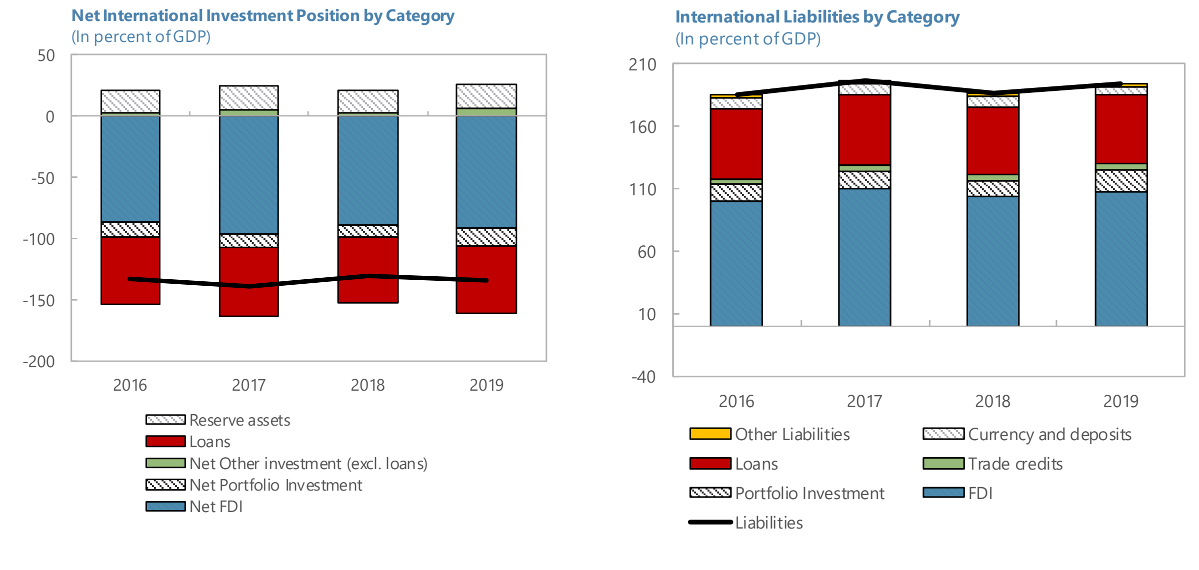
	2019	2018	2017	2016
CA-Projected	-5.1	-7.7	-8.7	-10.4
Cyclical Contributions (from model)	0.7	0.2	0.2	0.1
Cyclically adjusted CA	-5.8	-7.9	-8.9	-10.5
CA-Norm	-7.9	-7.7	-8.4	-8.4
Cyclically adjusted CA Norm	-8.6	-7.9	-8.7	-8.5
CA-Gap	2.8	0.0	-0.3	-2.0
o/w Policy gap	2.8	0.2	1.5	1.5
Elasticity	-0.4	-0.4	-0.4	-0.4
REER Gap	-6.7	0.0	0.6	5.1

Source: IMF staff calculations.

Notes: CA elasticities to REER are estimated at -0.42.

External Balance Sheets

5. **Georgia's Net International Investment Position (NIIP) widened in 2019, driven by higher FDI and portfolio inflows.** In end-2019, Georgia's gross liabilities to non-residents exceeded gross foreign assets by 134.1 percent of GDP, with FDI and loans accounting respectively for about 55.5 percent and 28.2 percent of total liabilities. Georgia's NIIP widened by 3.2 percent of GDP y/y driven by higher net FDI inflows (5.6 percent of GDP) and net portfolio inflows (4.0 percent of GDP), which helped offset lower net other investment inflows (3.3 percent of GDP). FDI liabilities increased by 4.2 percent of GDP y/y to 108 percent of GDP, mostly driven by reinvested earning. The external sustainability (ES) approach suggests that the required REER depreciation to stabilize NIIP at end-2019 level is about 2.6 percent, which implies a CA gap of -1.05 percent. Thus, ES approach suggests that Georgia external position in 2019 was broadly consistent with fundamentals and desirable policy settings.



Source: National Bank of Georgia and IMF staff calculations.

Capital and Financial Flows

6. Net FDI and portfolio inflows were the main financial inflows in 2019. In 2019, the financial account was weaker (by 0.5 percent of GDP y/y), as FDI and portfolio inflows helped compensate for lower cross-border borrowing and currency deposits outflows. In 2019, net FDI inflows increased, although at a low growth rate (6.6 percent y/y).[7] Net portfolio inflows increased (by 4.2 percent of GDP y/y), partially offsetting declining private net cross-border borrowing (by 1.7 percent of GDP y/y) and net banks' currency and deposit inflows (by 3.6 percent of GDP y/y).[8] The significant increase in portfolio inflows was driven by the banking and corporate sectors taking advantage of accommodative financial conditions to diversify their sources of funding.[9] External debt stood at 103 percent of GDP in 2019—3.3 percent of GDP higher than in 2018—and consisted mostly of medium- and long-term debt and intercompany loans.[10]

7. The COVID-19 shock is expected to substantially deteriorate the financial account in 2020. The increase in global risk aversion caused by the COVID-19 shock is projected to lead to a decline in net portfolio inflows in 2020 (by about 5.5 percent of GDP y/y). Similarly, net FDI inflows

[7] The decline followed the completion of large energy-related projects, in particular the BP pipeline project.

[8] Nonresident deposits net outflows were related to the NBG lowering of the minimum FX reserve requirements for commercial banks from a mandatory 30 percent to 25 percent in October 2020.

[9] The two largest commercial banks issued cumulatively $400 million (a Eurobond and a perpetual bond) in international markets, while a telecommunication company issued $200 million.

[10] In 2019, intercompany loans represented 19 percent of the total external debt, while medium- and long-term debt represented about 80 percent of total debt.

are expected to decline by about 1 percent of GDP y/y. Net outflows are expected to be partially mitigate additional loans to the private sector and project loans to the public sector, provided by IFIs to face COVID-19 crisis. The BOP financing need caused by the shock—estimated at $1.35 billion in 2020 and $1.79 billion over 2020-21—is expected to be closed with financing from the IMF and official donors.

8. **Financial flows are expected to recover over the medium term.** In the aftermath of the COVID-19 shock, portfolio inflows are expected to steadily recover, driven by increased private sector international issuances. As the domestic bond market develops, greater foreign participation is also expected.[11] Over the medium term and boosted by improved competitiveness from structural reforms, FDI inflows are projected to gradually increase. External debt (excluding intercompany loans) is expected to peak at 108.3 percent of GDP in 2020, driven by the higher public sector borrowing and decline to 73.8 percent of GDP in 2025. Over the medium term, the bulk of Georgian debt is expected to remain held by IFIs and related parties—mostly in concessional terms. External debt is also expected to remain dominated by medium and long-term debt.

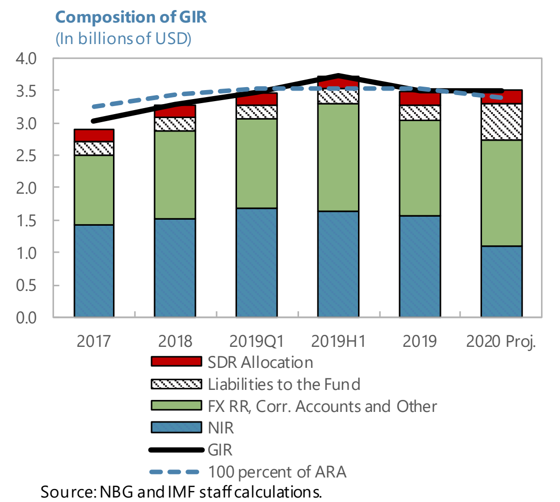
Reserves

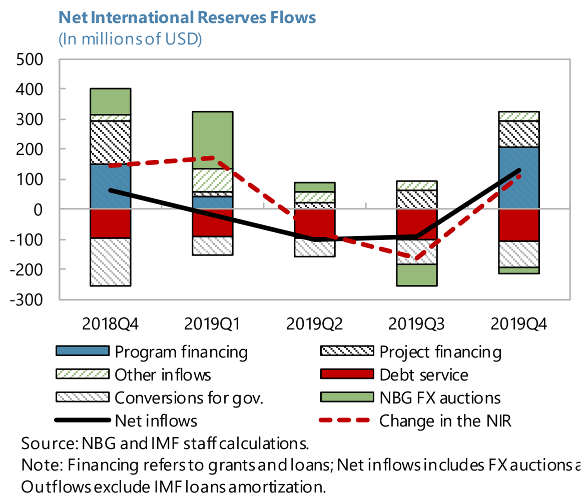
9. **Gross international reserves reached 99 percent of the ARA metric at the end of 2019 and the end-2019 NIR target was met with a comfortable margin.** International reserves stood at $3.5 billion (20 percent of GDP) at end-2019, supported by the NBG's net FX purchase ($123 million) and lower government FX expenditures (by $26 million y/y) in 2019. GIR was higher than expected at the time of the Fifth Review (by 3 percent of the ARA metric) owing to higher than expected program and project financing in 2019Q4 (by $70 million) and lower than expected outflows (by $97 million). FX reserve requirements and correspondent bank balances' contributions to reserve accumulation in 2019 ($136 million) were lower than expected, driven by lower reserve requirements on FX deposits. The end-2019 NIR at program rates stood at $1,552 million, $45 million above the adjusted NIR target ($1,507 million), mostly due to lower-than expected government FX expenditures (by $72 million y/y). The NBG supported NIR accumulation through FX purchase in 2019H1 ($216 million). However, FX sales ($93 million) in 2019H2, to contain lari depreciation, slowed the NIR accumulation.

10. **GIR is expected to increase in 2020, as augmented IMF and donor financing and FX swaps proceeds compensate for the expected sharp decline in NIR.** In 2020, GIR is projected to increase to 104 percent of the ARA metric, as additional financing from the IMF and official donors and FX swap lines more than compensates for the NBG's FX sales. The swap lines are expected to

[11] The NBG recently implemented key securities markets reforms, including the Georgian Security settlement system (GSSS) and ClearStream Custody service, which offers Georgian securities to non-resident investors, and are being underpinned by a set of legal and tax law reforms to support the development of the domestic bond market in line with IMF TA recommendations. The Primary Dealer model is expected to be introduced by 2021, also with support from IMF TA.

temporarily boost GIR by about 9 percent of ARA metric, before being fully reversed by 2022.[12] The significant downside risks to the outlook could trigger further exchange rate depreciation and pressures on reserves. The more-than-adequate reserve accumulation in 2020, helps mitigate the heightened uncertainty about the duration and the impact of the COVID-19 shock. In 2020, the NIR is expected to fall, as the NBG sells FX to curb excessive lari volatility and maintain liquidity in the FX market. As of April 10, 2020, the NBG had already sold $100 million worth of FX.





Source: National Bank of Georgia and IMF staff calculations.

11. Georgia's external position in 2019 was assessed to be broadly consistent with fundamentals and desired policy settings. The external position in 2019 is assessed to be broadly in line with fundamentals, reflecting the high NIIP. Following the COVID-19 shock, with widening current account deficit, the still high NIIP, and increasing pressures on reserves, the external position in 2020 is expected to deteriorate.

[12] Swaps lines were set by the NBG to provide lari liquidity (against FX, for up to $600 million) to commercial banks and micro financial institutions in need. Half is expected to be used. The swaps have a maturity of one year, renewable once.

Annex III. Georgia: Public Debt Sustainability Assessment[1]

Georgia's public debt-to-GDP ratio has been stable in recent years, hovering below 45 percent of GDP. Public debt is assessed as sustainable despite the sharp increase expected in 2020 due to depreciation and the fiscal relief package to help finance health and socio-economic measures due to the COVID-19 pandemic. Fiscal consolidation and higher medium-term growth are expected to put public debt as a ratio to GDP on a downward path; but debt dynamics are subject to significant FX risks. Main risks stem from high FX exposure. Efforts to strengthen debt sustainability are proceeding as envisaged under the program, including by deepening the domestic capital markets and strengthening the monitoring of fiscal risks raising from PPAs and SOEs.

1. **Public debt has remained largely stable in recent years.** Gross public debt stood at 42. percent of GDP at end-2019, having increased by 0.2 percentage points of GDP on average over 2016-19, with deposits rising on average by the same amount. Public debt (net of government deposits) remained stable. Fiscal discipline and buildup of government deposits, under the EFF arrangement, has supported reducing public debt and the buildup of government deposits.

2. **Despite a substantial increase in 2020, public debt remains sustainable over the medium term.** The authorities are addressing the COVID-19 shock with additional temporary spending financed by donor grants/loans and domestic borrowing (accommodating a higher deficit and accumulation of deposits to weather against downside risks), raising public debt above 60 percent of GDP and gross financing needs to around 13 percent of GDP in 2020. From 2021 onwards, the public debt-to-GDP ratio is projected to decline, as one-off spending measures wane and growth resumes. Gross public debt is expected to reach 51 percent of GDP by 2025 while gross financing needs average 7.5 percent of GDP in 2022-25. Public debt (net of government deposits) is projected to decline below 45 percent of GDP in the medium term. The baseline medium-term fiscal path is realistic and in line with previous program commitments.

3. **Public debt remains sustainable in all standardized stress tests.** Public debt and gross financing needs remain below the high-risk thresholds in all standardized macro-fiscal stress tests, and in the combined macro-fiscal shock. While debt would not stabilize under the constant primary balance scenario, this scenario is not considered realistic considering the unprecedented external shock and the authorities' good past record of fiscal discipline.

4. **Public debt is sustainable, but exchange rate depreciation would deteriorate debt dynamics.** The government has been successful in securing debt of long-term maturity (representing over 96 percent of outstanding debt). Debt is vulnerable to exchange rate depreciation, as ¾ of the public debt is FX-denominated, but the authorities' strategy to deepen the local capital markets is expected to reduce this share over the medium term. The public debt service profile is relatively smooth (averaging 7 percent of GDP). In 2021, a $500-million sovereign Eurobond is maturing, and the authorities are discussing financing options. External gross financing

[1] Prepared by A. Lagerborg.

needs are high, but reserves are adequate, and much of the external debt service is owed to official creditors.

5. The public debt analysis does not incorporate contingent liabilities to the general government. The coverage of public debt is at the general government level, that faces fiscal risks from power purchasing agreements and SOEs. Under the EFF arrangement, the authorities have taken steps to assess, monitor, and report those risks, including by disclosing them in their annual Fiscal Risk Statement.

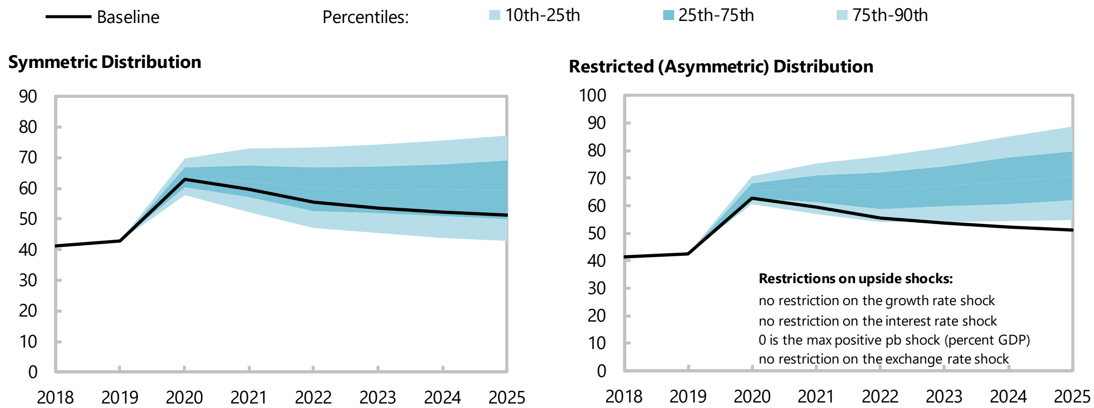
Figure 1. Georgia: Public DSA Risk Assessment

Heat Map

Debt level [1/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs [2/]	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile [3/]	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

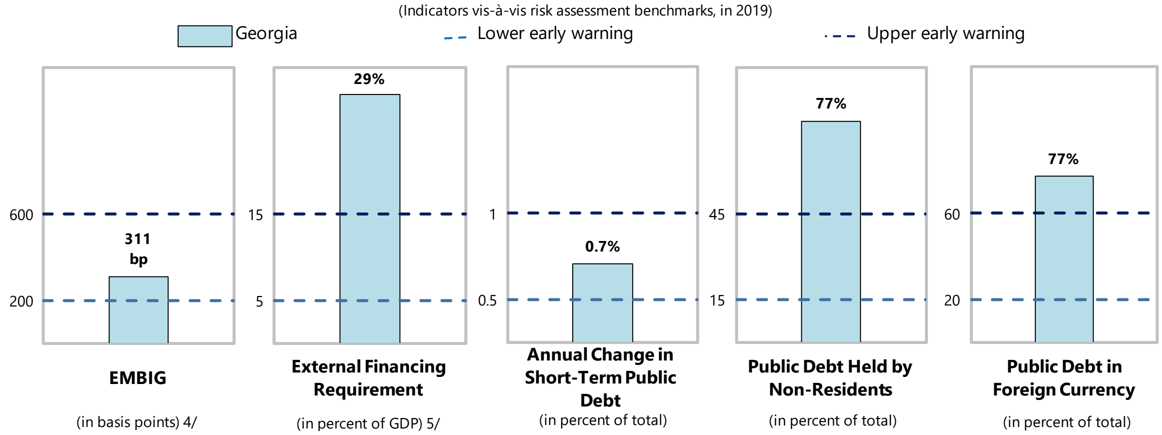
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2019)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, .

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

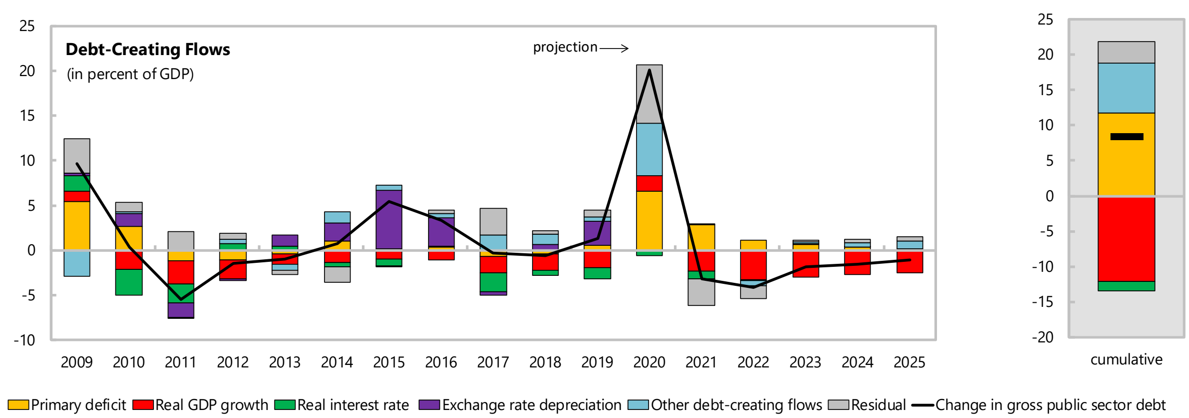
Figure 2. Georgia: Public DSA – Baseline Scenario
(In percent of GDP, unless otherwise indicated)

Debt, Economic and Market Indicators [1]

	Actual			Projections						As of April 13, 2020		
	2009-2017 [2]	2018	2019	2020	2021	2022	2023	2024	2025	Sovereign Spreads		
Nominal gross public debt	37.5	41.3	42.7	62.8	59.6	55.5	53.6	52.1	51.1	EMBIG (bp) 3/		638
Public gross financing needs	4.5	5.2	6.3	13.2	11.5	6.8	7.0	7.3	8.6	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	3.9	4.8	5.1	-4.0	4.0	6.0	5.8	5.5	5.2	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	4.4	4.3	6.4	5.1	4.0	3.0	2.9	3.0	2.9	Moody's	Ba2	Ba2
Nominal GDP growth (in percent)	8.7	9.4	12.1	0.6	8.4	9.0	8.9	8.6	8.3	S&Ps	BB	BB
Effective interest rate (in percent) [4]	2.9	3.0	3.3	3.6	2.7	2.9	3.2	3.3	3.3	Fitch	BB	BB

Contribution to Changes in Public Debt

	Actual			Projections							
	2009-2017	2018	2019	2020	2021	2022	2023	2024	2025	cumulative	debt-stabilizing
Change in gross public sector debt	1.3	-0.5	1.4	20.1	-3.2	-4.2	-1.8	-1.5	-1.0	8.4	primary
Identified debt-creating flows	0.3	-0.9	0.6	13.6	-0.2	-2.7	-2.0	-1.9	-1.4	5.4	balance [10]
Primary deficit	0.7	-0.4	0.6	6.6	2.8	1.2	0.7	0.3	0.1	11.8	-1.5
Primary (noninterest) revenue and grants	27.3	26.4	26.7	24.1	24.7	25.1	25.3	25.4	25.4	150.1	
Primary (noninterest) expenditure	28.0	26.0	27.3	30.8	27.5	26.3	26.0	25.7	25.5	161.9	
Automatic debt dynamics [5]	-0.6	-1.8	-0.5	1.1	-3.2	-3.4	-2.9	-2.7	-2.4	-13.4	
Interest rate/growth differential [6]	-1.9	-2.4	-3.1	1.1	-3.2	-3.4	-2.9	-2.7	-2.4	-13.4	
Of which: real interest rate	-0.6	-0.6	-1.2	-0.6	-0.9	-0.1	0.0	0.1	0.1	-1.3	
Of which: real GDP growth	-1.3	-1.9	-1.9	1.7	-2.3	-3.3	-3.0	-2.7	-2.5	-12.1	
Exchange rate depreciation [7]	1.4	0.7	2.6	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.1	1.2	0.5	5.9	0.2	-0.5	0.2	0.5	0.8	7.0	
GG: Privatization and Drawdown of deposits (negative)	-0.9	-0.3	0.3	5.6	-0.2	-0.9	-0.1	0.2	0.6	5.2	
GG: Net acquisition of financial assets: Budget lending [8]	1.1	1.5	0.2	0.3	0.3	0.3	0.3	0.3	0.3	1.8	
Residual, including asset changes [9]	1.0	0.4	0.8	6.5	-3.0	-1.4	0.2	0.4	0.4	3.1	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

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.

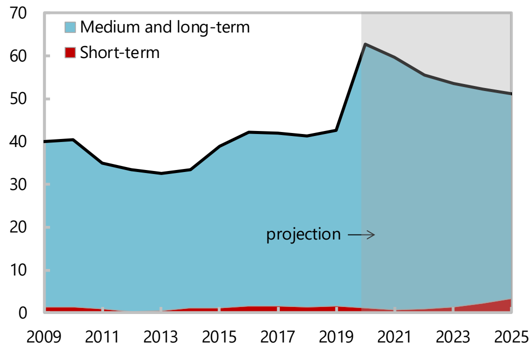
9/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

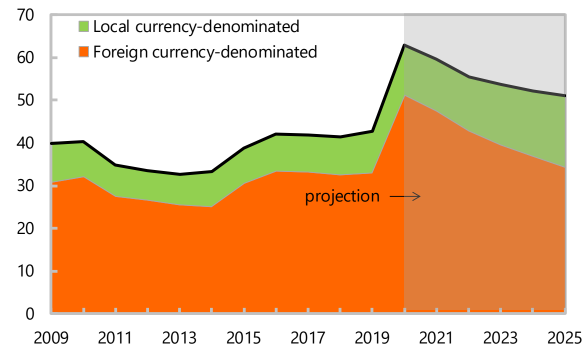
Figure 3. Georgia: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



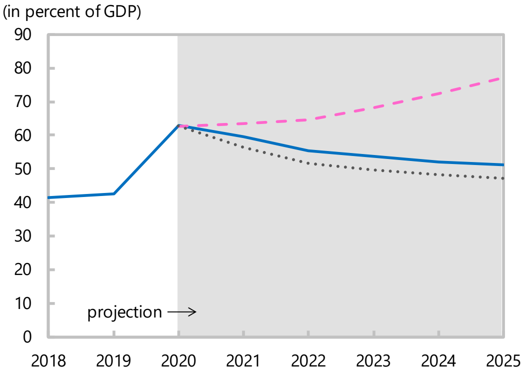
By Currency
(in percent of GDP)



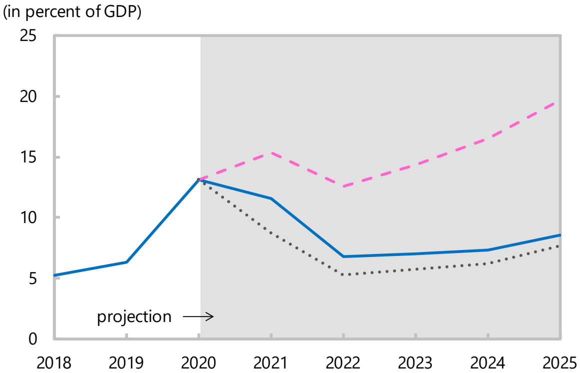
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



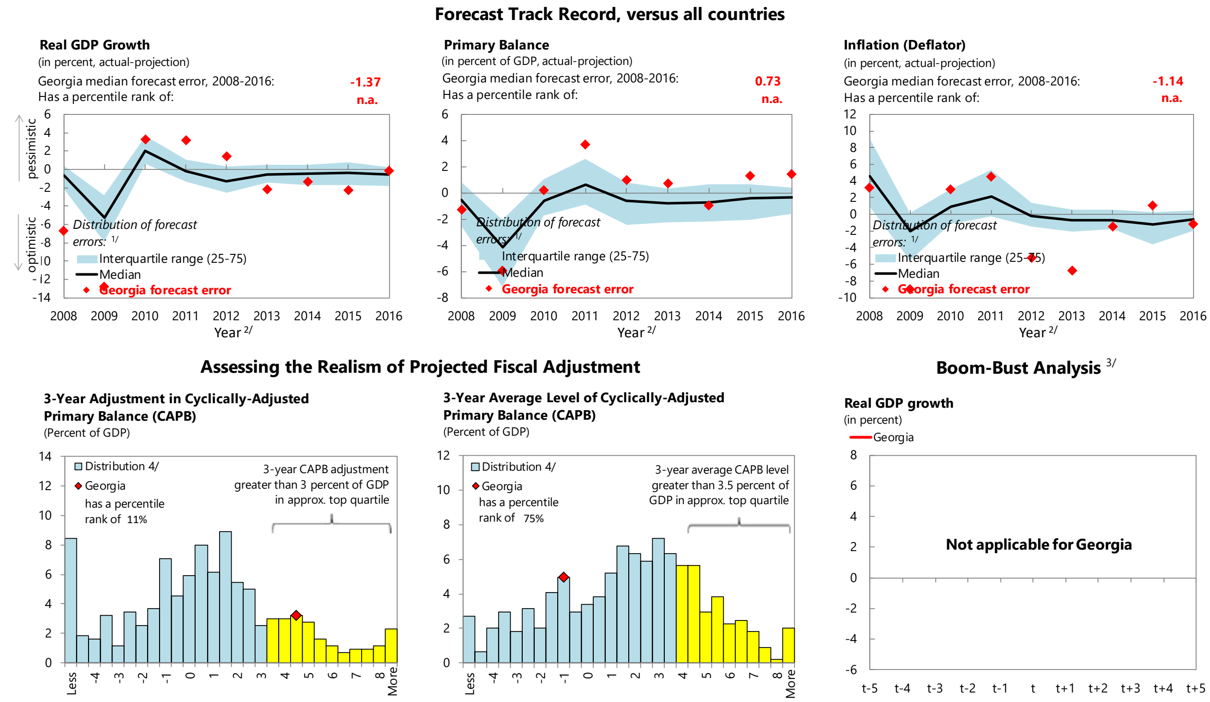
Underlying Assumptions
(in percent)

Baseline Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.0	4.0	6.0	5.8	5.5	5.2
Inflation	5.1	4.0	3.0	2.9	3.0	2.9
Primary Balance	-6.6	-2.8	-1.2	-0.7	-0.3	-0.1
Effective interest rate	3.6	2.7	2.9	3.2	3.3	3.3
Constant Primary Balance Scenario						
Real GDP growth	-4.0	4.0	6.0	5.8	5.5	5.2
Inflation	5.1	4.0	3.0	2.9	3.0	2.9
Primary Balance	-6.6	-6.6	-6.6	-6.6	-6.6	-6.6
Effective interest rate	3.6	2.7	3.0	3.3	3.5	3.5

Historical Scenario	2020	2021	2022	2023	2024	2025
Real GDP growth	-4.0	4.9	4.9	4.9	4.9	4.9
Inflation	5.1	4.0	3.0	2.9	3.0	2.9
Primary Balance	-6.6	-0.1	-0.1	-0.1	-0.1	-0.1
Effective interest rate	3.6	2.7	2.6	2.7	2.6	2.5

Source: IMF staff.

Figure 4. Georgia: Public DSA – Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Georgia, as it meets neither the positive output gap criterion nor the private credit growth criterion.

4/ Data cover annual observations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Appendix I. Letter of Intent

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

Tbilisi, April 24, 2020

Dear Ms. Georgieva:

1. Like many other countries, Georgia has been negatively affected by the COVID-19 pandemic. The outlook for the Georgian economy has worsened. We prioritized containment and implemented a robust public health response, which has helped limit the number of cases. The Extended Fund Facility (EFF) arrangement with the IMF, expiring in April 2021, has provided economic resilience and safeguarded macroeconomic stability. Nonetheless, we need additional assistance to deal with the impact of the shock and support a robust recovery. 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 December 2, 2019.

2. The COVID-19 pandemic has interrupted our positive economic trajectory. The economy grew strongly, and the current account deficit reached a historic low in 2019. Real GDP increased by 5.1 percent y/y notwithstanding the ban on direct flights from Russia since July 2019. The current account deficit was 5.1 percent of GDP largely due to strong export performance and subdued imports growth. Inflation accelerated to 7 percent (e.o.p.) reflecting nominal effective depreciation of the lari and excise tax increases. To anchor inflation expectations and limit exchange rate volatility, the NBG increased the policy rate by 250 basis points from September to December 2019 and sold reserves, which still stood at $3.5 billion (99 percent of the ARA metric) at end-2019.

3. We have taken far-reaching measures to control the spread of the COVID-19 virus and limit its economic impact. We declared the state of emergency on March 20th, restricted internal mobility and closed non-essential activity. We scaled up health spending to care for the sick. The economic impact has been significant. The standstill in global travel has halted tourism inflows, a significant income source, and containment measures should slow economic activity significantly.

4. We expect a recession in 2020 and have identified an additional balance of payments financing gap of $1,790 million over 2020-21, to be covered with IMF and other donor assistance. The sharp decline in the oil price is expected to lower growth in our key trading partners and hurt exports and remittances. Combined with containment measures affecting domestic demand, this is expected to bring growth down to -4 percent this year. Deteriorating trade balance should widen our current account deficit to 11.3 percent of GDP. At the same time, net financial inflows from private sources are expected to decline substantially due to rising global risk aversion. With IMF and other donor assistance, we expect to keep gross international reserves stable at around $3.5 billion (104 percent of the ARA metric) in 2020. Reserves accumulation will be temporarily supported by the swaps lines we introduced to manage lari liquidity. The pandemic and containment measures will also entail revenue losses and substantial fiscal costs, to be financed by reprioritizing spending and increasing donor financing, including IMF budget support.

5. Most of the conditionality for the Sixth Review was met. All but one of the end-December 20219 quantitative performance criteria (QPCs) were met. We request a waiver of nonobservance for the ceiling on the augmented general government deficit, which was missed by a small margin (0.02 percent of GDP). We have also met most structural benchmarks for the Sixth Review under the EFF arrangement, although some were met with delays. We plan to submit to Parliament the rules-based mechanism for indexing basic public pensions by end-April 2020. We have consulted with the IMF staff on the reasons inflation exceeded the inner band of the Inflation Consultation Clause (ICC) in December 2019 and agreed on the policies to bring inflation to target. Two indicative targets (ITs) on primary current expenditure and the stock of VAT refunds were missed by small amounts.

6. Given the positive performance under the program, and the policies in the enclosed MEFP, we request the completion of this review, an augmentation of access under the EFF arrangement of SDR 274 million, and the release of the related disbursement. We intend to purchase SDR147 million, which will bring total drawings under the arrangement to SDR327 million. Our program will continue to be monitored through an Inflation Consultation Clause (ICC), QPCs, ITs 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 continue to be conducted semi-annually. The Seventh Review will be based on end-June 2020 performance criteria and would take place on or after October 25, 2020.

7. The attached MEFP, updating the previous ones, will enable us to achieve the objectives of our economic program. We will monitor progress continuously, 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 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/
Koba Gvenetadze
Governor of the National Bank of Georgia

/s/
Natia Turnava
Minister of Economy and Sustainable Development

/s/
Ivane Matchavariani
Minister of Finance

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

Attachment I: Memorandum of Economic and Financial Policies

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 economic challenges arising from the COVID-19 pandemic and over the medium-term.

Macroeconomic Framework

2. The economy is expected to contract in 2020 due to the impact of the COVID-19 pandemic. We expect a sharp contraction in economic activity in 2020Q2-Q3, followed by a gradual recovery. Growth is projected at -4 percent, 8.3 percentage points lower compared to the Fifth review projection. Inflation, expected at 3½ percent at end-2020, will remain somewhat above our three-percent target reflecting nominal depreciation (the lari has depreciated by 10 percent in nominal effective terms since December 2019).

3. We project a balance-of-payment (BOP) financing need of $ 1.8 billion in 2020-21, to be financed with an EFF augmentation and donor assistance. We have used reserves to smooth exchange rate volatility. The current account deficit is expected to widen to 11.3 percent of GDP due to lower tourism receipts and lower growth in our trading partners hurting exports and remittances. The 2020 financial account is projected to deteriorate significantly (by 5.1 percent of GDP y/y, to 0.4 percent of GDP) due to portfolio and deposits outflows and lower FDI inflows. As a result, the shock has generated significant BOP financing needs in 2020-21, considering further needs to use reserves to tame excessive exchange rate volatility. Our foreign exchange (FX) reserves will remain stable at about 104 percent of the ARA metric in 2020, but will fall to around 98 percent in 2021 as we unwind currency swaps initiated to provide GEL liquidity to the economy (see below). To maintain our external buffers, we expect to secure financing from the IMF and other donors (expected at $1.4 billion in 2020 and $0.4 billion in 2021).

4. The pandemic has imposed substantial fiscal costs, which we expect to finance mainly by drawing down our deposits and increasing donor borrowing. We expect the augmented general government deficit (program definition) to be 8.5 percent of GDP in 2020, compared to the Fifth Review projection of 2.5 percent of GDP. Lower economic activity would reduce revenues excluding grants (by 3.3 percent of 2020 GDP compared to the Fifth Review projection). Our fiscal relief package includes temporary, targeted and timely fiscal measures to address the pandemic and support the economy, including increased health-related expenditure to deal with the pandemic, higher social transfers, and support to businesses.

5. We expect growth to rebound in 2021 and medium-term growth projections remain unchanged. We expect growth of 4 percent in 2021, 0.8 percentage points lower than the Fifth Review projection as tourism and external demand gradually recover after the COVID-19 pandemic. Medium-term growth projections remain unchanged owing to the steadfast implementation of our structural reforms and infrastructure investment. Inflation should decline to target by end-2021 as the impact of exchange rate depreciation fades and monetary policy adjusts as needed. We remain committed to medium-term fiscal sustainability. We plan to continue investing in core infrastructure and education, and addressing pressing social needs. The current account deficit is projected to gradually decline to 5.3 percent of GDP and will remain predominantly financed by net FDI inflows, which is expected to reach 5.6 percent of GDP by 2025.

6. Risks to the outlook remain on the downside. The duration and full impact of the pandemic are difficult to quantify, and the path to recovery in Georgia and our key trading partners remains uncertain. Our first line of defense against these considerable risks is our continued commitment to exchange rate flexibility and sound macroeconomic and financial policies. Additional resources from the IMF and other donors should help anchor confidence in the face of negative shocks, including from regional instability, financial market volatility, and possible recurrence of the pandemic.

Economic Policies

A. Fiscal Policy

7. The end-December 2019 ceiling on the augmented deficit (QPC) and the indicative ceilings on primary current spending and VAT refunds (ITs) were missed by small margins. Strong revenue performance in 2019 (0.2 percent of GDP above the Fifth Review projections) allowed for record-high capital spending (7.9 percent of GDP). An earlier-than-expected donor disbursement made us exceed the end-December 2019 augmented deficit ceiling by 0.02 percent of GDP. Additionally, the primary current spending on goods and services was marginally higher than expected (0.2 percent of GDP), because of overruns in goods and services and health spending. Despite reaching a record high of 1.2 percent of GDP in VAT refunds in 2019, the mid-December stock of outstanding VAT credits still exceeded the indicative ceiling of GEL1,570 million by GEL28 million.

8. Additional fiscal measures during the COVID-19 pandemic accommodates higher health-related spending and helps lay the foundations for the economic recovery. The fiscal measures include the following targeted, temporary and timely measures to help deal with the consequences of pandemic:

- Social assistance in the form of direct transfers to the following groups
    - Transfers for those who lost or are at risk of losing their employment (up to GEL700 million, 1.4 percent of GDP), which is expected to benefit around 720,000 individuals in formal employment before the COVID-19 pandemic. The transfer would be targeted as follows:

i. Direct transfers, up to GEL150 per month—equal to the income tax on the first GEL750 of the salary, to companies supporting employment retention. The transfers would be effective for up to 6 months.

ii. Direct monthly transfers of up to GEL200 for laid-off employees and self-employed individuals who can verify income loss for up to 6 months.

- Direct transfer of GEL100 (on average, dependent on the number of members in the family) to families registered in the social ranking system with a score of 65,000-100,000, for up to 6 months. The measure is expected to benefit around 70,000 families, for a total cost of GEL42 million (0.1 percent of GDP).

- Direct transfer of GEL100 to families with 3 and more children of 0-16 age, registered in the social ranking system with a score below 100,000, for up to 6 months. The measure is expected to benefit around 21,000 families, for a total cost of GEL13 million (0.03 percent of GDP).

- Direct Transfer of GEL100 to people with severe disabilities (including children with disabilities), for up to 6 months. The measure is expected to benefit around 40,000 children, for a total cost of GEL24 million (0.05 percent of GDP).

- One-time transfer to those part of the informal economy and that face vulnerable economic conditions, who are not eligible for the benefits above and can prove loss of income as a result of the COVID-19 shock. This measure is budgeted for up to GEL75 million (0.14 percent of GDP).

- A subsidy for electricity, natural gas, and utility bills of approximately GEL65 per month targeted to households that consume less than KV200 and less than 200 m^3 per month, for 3 months. This measure is expected to benefit 1,100,000 electricity- and 651,000 gas-subscribers, including vulnerable beneficiaries who do not receive targeted support from other social programs.

- Increased healthcare expenditure to deal with the COVID-19 pandemic (GEL350 million, (0.7 percent of 2019 GDP). This includes lab testing and quarantine expenditures and increased healthcare costs associated with hospitalization and medical treatment and supplies. This also includes GEL50 million in healthcare-related infrastructure and specialized equipment.

- Building a stock of basic food products (e.g. flour, bread, pasta, rice, sugar), including by providing a price subsidy, all for a total cost of GEL50 million (0.1 percent of GDP).

- Because of the unprecedented nature of the COVID-19 shock, we will provide temporary support to businesses (up to GEL500 million in 2020), in coordination with the IMF and other donors. These temporary arrangements will be designed guaranteeing equal and transparent access to all eligible beneficiaries, preserving competition, and will refrain from implementing any scheme designed to cover for foreign-exchange risks or compensate for the depreciation, or directed support to an specific company. We will revamp the credit guarantee scheme to sustain access to finance with loans co-financed with and administered by commercial banks. In addition, subject to a condition to retain workforce, we plan to develop other temporary schemes targeted to specific sectors particularly hit by the outbreak. Such support would aim at companies which were in good financial standing and did not face financial difficulties before January 1st, 2020.

9. Consistent with the supplementary budget, we propose revisiting some of our end-June fiscal QPCs and ITs and set new ones for end-December 2020.

- We propose revising the end-June 2020 augmented deficit ceiling to GEL2,300 million and propose an end-December-2020 augmented deficit ceiling at GEL4,300 million (8.5 percent of GDP). The primary current spending would not exceed GEL6,000 million by end-June (IT), and GEL12,450 million by end-December.

- The healthcare costs associated with containing the COVID-19 pandemic are inherently uncertain. Therefore, we propose adjusting the augmented fiscal balance and the primary current spending ceilings for any additional healthcare spending directly related to the COVID-19 pandemic, as defined in the attached Technical Memorandum of Understanding (TMU).

- We are committed to use any over-performance in revenues (excluding grants) or under-execution in current or investment spending towards a lower augmented fiscal deficit (program definition). In turn, available financing would help build fiscal buffers that we would use, in consultation with the IMF, if downside risks materialize.

- We will maintain our efforts to reduce the stock of VAT credits. For mid-December 2020, we will target a stock of credits of GEL1,470 million (IT). We aim to refund at least GEL600 million in 2020, which will provide liquidity to the private sector. Additional refunds will be accommodated through an adjustor to the deficit ceiling (see TMU, ¶14).

10. Our medium-term fiscal policy will continue to balance increasing social and infrastructure spending with fiscal consolidation to bring the public debt (net of government deposits) below 45 percent of GDP. We stand ready to adopt additional measures, if needed, in consultation with the IMF.

- In 2021, we expect to unwind most of temporary measures to address the COVID-19 pandemic. The augmented fiscal deficit is projected at GEL2,600 million (4.8 percent of GDP). We commit to adopt the 2021 budget consistent with the policies agreed at the time of the Seventh Review under the EFF arrangement (**new end-December 2020 structural benchmark**).

- We will continue to enhance the annual Fiscal Risk Statement expanding the estimates associated with 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.

11. We have submitted legislation for a rule-based mechanism to index basic pensions (end-December 2019 structural benchmark). Given the risk of old-age poverty in Georgia, the authorities envisage indexing monthly pensions to the average inflation for the last 12 months for pensioners below age 70 and to inflation (for the last 12 months) plus 80 percent of real GDP growth (for the last 6 quarters) for those above, subject to a GEL20/25 minimum increase, respectively. The indexation rule supports expanding the social safety net gradually. It also provides fiscal predictability, as discretionary increases in the public pensions would not occur in the future, and maintains budget flexibility over time, even under adverse demographic projections. In the long term, replacement rates should gradually increase as the new contributory pension pillar would complement the basic pension.

12. We remain committed to medium-term fiscal sustainability. Nominal depreciation and the response to the COVID-19 pandemic will increase public debt (net of government deposits) to XX percent of GDP, above the level anchoring the EFF arrangement (45 percent of GDP). We are committed to a declining debt path over the medium term with sustained fiscal discipline. 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 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.

13. Our financing strategy aims to support domestic market development and reduce external vulnerabilities. We would gradually increase the size of domestic benchmark bonds, to encourage foreign participation once global finance conditions ease. We are discussing with 6 domestic banks interested in participating in a pilot primary dealer program for government securities, but the signature of memoranda of understanding has been delayed due to other pressing developments. In parallel, we will ensure that foreign banks participating as primary dealers would be under the same reporting and transparency requirements as domestic banks. Our issuance had previously exceeded our domestic financing needs, which allowed us to build a buffer of deposits.

14. 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.

- In mid-April, we made our PPP framework fully operational by approving the Value-for-Money (VfM) methodology following the recommendations of IMF TA, and incorporating it in the PPP Value-for-Money guidelines (**end-March 2020 structural benchmark**).

- 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.

- We are also committed to formulate the SOE strategy outlining the authorities' SOEs policy principles by end-March 2021, including (i) defining the rationale for ownership of public corporations; (ii) strengthening the framework to identify and report quasi-fiscal activities; and (iii) enhancing SOE corporate governance.

15. We will continue to limit the Partnership Fund (PF) operations. Given that the PF does not follow commercial objectives, we are limiting 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 (**continuous performance criterion**).

B. Structural Fiscal Policies

16. We are strengthening our revenue administration to improve taxpayer services and strengthen compliance. Following the 2016 Tax Administration Diagnostic Assessment and IMF TA, we are close to finishing 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) and hired additional personnel (see previous MEFPs). In light of the fraud cases prosecuted in

2019, we have reviewed our structure and procedures to avoid similar cases in the future. In the last 6 months, we created specialized units to deal with large taxpayers within the Audit Department and the Taxpayer Services Department.

- *IT resources and capacity*. We will launch IT strategy for GRS and an IT investment plan in line with IMF TA recommendations by end-September 2020, including (i) an infrastructure sustainability assessment, (ii) an application sustainability assessment, (iii) an inventory of business functionality improvement and data analytics needs. We aim to approve the strategy and the roadmap for implementation by end-May 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*.

    - Stock of unrefunded VAT credits. We are committed to eliminate unrefunded VAT credits. 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 GEL700 million by end-2021). For the stock of existing credits, we are committed to audit or risk-assess 100 percent of declarations (within the statute of limitations for audit) by mid-2020.

    - Automatic risk assessment and risk-based auditing. Since June 2019, more than 90 percent of new credit declarations have been 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.

    - 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 have developed audit plans to give a balanced coverage of tax categories and will better manage the audit scope. Our work on the pilot audit case management system is making good progress. After some delays in the procurement process, we expect the system to start working in pilot mode by June 2020}, becoming fully operational by end-August 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, but tax deferrals in the aftermath of the COVID-19 pandemic may delay the process. The program, initially developed for VAT, has been 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. The MoF has issued an order defining cases needing a declaration.

- Taxpayer register. We have adopted 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 maintains a register of employees for tax administration purposes.

- October 2019, GRS has received regular and comprehensive access to information from other ministries, as well as National Agency of Public Registry on real estate transactions, rentals and leases. We are working to expand the system of information sharing with other government agencies and the Financial Monitoring Service (FMS) from monitoring entities on suspicious transactions, as defined in the law on Automatic access to third-party information. Since facilitating the prevention of illicit income by October 2020. In addition, GRS signed an agreement with the Tbilisi municipality to receive access to monthly information on construction permits starting in February 2020. Providing information on Joint Stock Companies (JSC) partners and changes in company equity will require improvements in data collection, but we plan to receive available information from the NBG on a regular basis by end-2020.

17. 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. It will be updated regularly and included in the annual Fiscal Risk Statement.

- *Continued strengthening the Fiscal Risk Statement (FRS) accompanying the budget.* The FRS in the 2020 budget documentation has included 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**). We commit to further expand the FRS in line with the FAD TA recommendations by including (i) a sub-section on the sectorization exercise, (ii) a risk analysis of the top 10 SOEs, (iii) an assessment of the gross financing requirements of major SOEs, and (iv) updated estimates of the quasi-fiscal activities (**new end-December 2020 structural benchmark**).

- *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 finalized a complete inventory of SOEs, classifying them into public corporations and general government entities under GFSM2014, in line with IMF TA recommendations (**end-March 2020 structural benchmark**).

- *Improved the Public Investment Management Framework (PIMF).* Our PIMF covers PPP-type projects to support priorities and assess alongside traditionally procured projects. In coordination with the IMF, we have (i) further strengthened the public investment management methodology that guides project appraisal, selection and management; and (ii) improved reporting and oversight requirements for public investment projects at the MoF by updating the Government Decree on PIM methodology (**end-December 2019 structural benchmark**). These measures should help us identify project implementation delays earlier. We have designed a system for regular intra-year reporting of project implementation progress.

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

- *Make the coverage of General Government consistent with the classification of SOEs into General Government units and Public Corporations.* This will require changes to the PFM legislation. From January 2021, all our fiscal reports will incorporate these changes.

- *Strengthening the Medium-Term Budget Framework (MTBF).* Since the 2020 budget, we regularly discuss compliance with the fiscal rule and revised expenditure plans, and any projected deviation from previous years' 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

19. 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.

20. The end-December inflation triggered a consultation with IMF staff; no further actions are needed at this point. The higher-than-projected inflation was due to one-off increases in excises in 2019H1 and rapid passthrough from nominal depreciation in 2019H2. As the NBG appropriately tightened policy rates by a cumulative 250 bps since September 2019, our monetary policy stance is considered to be moderately tight.

21. We are committed to our inflation targeting (IT) framework to maintain price stability. With the output gap widening, we will closely monitor inflationary expectations and developments as we would need to balance the need to stabilize inflation expectations prompted by significant nominal depreciation with the need to support demand in the aftermath of the COVID-19 pandemic.

22. We will maintain a flexible exchange rate regime to protect the economy against external shocks, while preventing excessive lari volatility. The floating exchange rate regime continues to work well as a shock absorber, but excessive lari volatility could become disruptive to financial stability as Georgia remains a dollarized economy. Our commitment to exchange rate flexibility is signaled by a floor on net international reserves (NIR, performance criterion). In the aftermath of the COVID-19 shock, we suspended accumulation of reserves and our FX interventions have been limited to smoothing excessive exchange rate volatility and supporting FX availability in a thin market. Our FX sales will continue to be mostly driven by ad-hoc discretionary interventions to address relatively large one-off imbalances. This will be complemented by smaller sized FX sales triggered by the volatility of the exchange rate and the need to support FX market liquidity.

23. Given exceptionally challenging market conditions, we expect to draw on our reserves to sustain macroeconomic stability in the near-term. We have identified additional BOP needs of $1,790 million in 2020-21 due to the COVID-19 shock. Donor assistance would help finance the balance-of-payments needs without resulting in a drawdown of gross international reserves. GIR is projected at 104 percent of the ARA metric by end-December 2020. However, because of the need to intervene to smooth exchange rate volatility, we project lower net international reserves. We therefore propose to change the end-June NIR floor QPC to $1120 million and set the end-December 2020 QPC to $1,100 million.

24. Over the medium term, we remain committed to build adequate reserves, upgrade our FX intervention policy, and strengthen NBG's communication. Our FX policy will remain guided by reserve adequacy and price stability goals; with reserve accumulation suspended at times when markets become disorderly. To improve the transparency of our FX policy, we will design a clear FX intervention strategy, explaining the FX policy goals and underlying principles of the mechanisms used to achieve those goals. Over the medium term, we project GIR to reach 105 percent of the ARA metric by 2025.

25. Starting April 2020, we established FX swap lines with financial institutions to provide lari liquidity on a temporary basis. We communicated to financial institutions that temporary FX swap lines are available up to a maximum amount of $400 million. The swap lines are temporary instruments to support market liquidity during the COVID-19 crisis and their use follows from the NBG's mandate to promote financial stability. All banks and microfinance institutions can participate; pricing and allocation of amount of swap lines among institutions will be based on uniform and transparent principles. We will also establish another standing swap line facility that will enable commercial banks to have access to lari liquidity at a penalty rate. We will monitor closely FX and money markets and banks' open currency positions to smoothly operate the swap lines. In addition, we will establish a swap line of up to $200 million with the EBRD to provide lari liquidity targeted to support companies.

D. Financial Sector Policy

26. We improved the capacity of the banking sector to withstand the shocks. We increased capital requirements in line with Basel III capital regulations including Pillar 2 and systemic buffers; improved the quality of capital by gradually increasing CET-1 and Tier-1 requirements; enhanced liquidity framework with LCR and NSFR requirements; and introduced responsible consumer lending regulation to moderate consumer credit growth, reduce borrower over-indebtedness and incentivize larization. We are also refining our resolution framework, approved in parliament in December 2020, in line with the best international practice.

27. We have taken decisive steps to safeguard financial stability in the aftermath of the COVID-19 shock. The NBG has announced that (i) banks could utilize capital conservation buffers (with an automatic prohibition on dividends and other payouts); (ii) postpone previously planned increases in capital buffers; and (iii) communicated to banks' ability to go below 100 percent LCR in case of liquidity pressures. Banks have been asked to evaluate the quality of their loan portfolios; on-site inspections have been suspended; and a moratorium on fines was introduced where a breach emerged due to the crisis. These policy measures will ensure that inevitable losses are promptly recognized, but viable enterprises are not denied financing due to temporary liquidity difficulties.

28. We have postponed the full implementation of the regulation on the large exposure limits until June 2021. In line with Basel III principles, we tightened the large exposure limit to 25 percent of Tier 1 capital for both related and non-related parties. The regulation was issued in November 2019 to be effective from January 2020 for new loans (the banks were given until June 2020 to comply with tighter limits for all loans). However, because of GEL depreciation, and additional expected credit losses in a challenging economic environment when borrowers have limited ability to reduce their exposures, it is becoming particularly difficult to comply with the June 2020 deadline. Therefore, we have granted banks until June 2021 to comply with the new requirement, and from January 2021, banks should refrain from creating any new exposures that breach this limit. We will regularly collect additional information from banks about the financial situation of large borrowers and monitor portfolio concentration risk.

29. We will take proactive measures to restore lending to the non-financial private sector. We are revising our emergency liquidity assistance framework, will accept broader collateral for temporary liquidity assistance to solvent financial institutions. More proactive measures to provide liquidity support and restore lending to the real sector may be needed in the future. Those measures may include credit guarantees provided by government to the sectors affected by the current crisis, liquidity support for banks. The NBG and the MoF will coordinate measures to help borrowers (e.g. interest rate subsidies, loan guarantees) and measures considered by supervisors (releasing capital and liquidity buffers, liquidity support for banks).

30. The Ministry of Finance will issue debt securities (up to GEL600 million, 1.2 percent of GDP) to inject GEL liquidity into the banking system. The MoF will place the proceeds as long-term deposits in banks, proportionally to the amounts each bank purchased. Banks can then use these securities as collateral for secured funding with the NBG.

31. We will further mobilize funding for contingency and backstop measures if downside risks to the financial sector were to materialize. We will consider increasing the limit for insured deposits and obtaining additional funding for the deposit insurance and the banking resolution funds. These measures will allow us to increase confidence in financial system and create an effective backstop mechanism to be used when needed.

32. We have adjusted our plans to strengthen the financial stability policy framework, regulation and supervision.

- Banks will be requested to fully transfer their financial and regulatory reporting to IFRS framework by the end of 2021, rather than end-December 2020 as originally planned, although they can do so on a voluntary basis starting at end-December 2020. Once fully transitioned to IFRS, we will request capital adequacy information both on stand-alone and consolidated basis under IFRS accounting framework using relevant prudential filters.

- We have revised the regulation on consumer lending by reinforcing its principle-based nature, allowing banks greater flexibility in managing risks associated with consumer lending, including by reducing the number of income brackets for PTI and extending local currency mortgage maturities. We are also introducing more robust risk governance requirements specifically for consumer lending.

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

- In March 2020, we approved standards for interest rate risk in the banking book—in line with Basel and EBA guidelines. The regulation will be effective from September 2020.

- Following a successful publication of the Financial Stability Report in 2019, we commit to publishing these reports annually.

33. We are strengthening our banking resolution framework. With IMF TA support, the Parliament enacted legislation to enhance banking crisis management, including by clarifying the authorities' role and the decision-making process and granting the NBG a clearer resolution mandate. The legislation prohibits unsecured lending by the NBG, mandates a penalty rate for emergency liquidity assistance (ELA), and clarifies the role of the MoF in an effective ELA framework for systemic cases. In implementing this reform in consultation with the IMF, we are preparing secondary legislation 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) (**end-June 2020 structural benchmark**). Thereafter, we intend to issue secondary legislation 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 (**end-December 2020 structural benchmark**).

34. Despite delays due to the COVID-19 shock, we will continue capital market development to support larization and reduce external vulnerabilities. Our steps to develop local capital markets are:

- We have submitted to Parliament (ii) legislation establishing investment funds; and (ii) related changes to the tax code.
- We have submitted to Parliament amendments to the securities market legislation to improve investor rights protection and corporate transparency. The legislation also targets approximation to the EU directives/regulations, as specified under the DCFTA agreement.
- During 2020, we will strengthen the regulatory framework for investment funds, funded-pension operations, market abuse and transparency, business conduct and custody.
- The law on derivatives and financial collateral was enacted at the end of 2019 to help develop the money markets. We will submit legislation to Parliament for securities holding, aligned with the international best practices by June 2020. The framework will strengthen investors' protection and incorporate an indirect holding regime, where only banks and brokers would be authorized to hold securities on behalf of their clients.
- In 2020, we plan to submit to Parliament legislation for (i) securities holding, creating the basis for dematerialized securities holding; and (ii) covered bonds, to improve access to long-term lari funding for commercial banks and help develop the fixed-income market.
- In 2020, we plan to finalize diagnostics/feasibility study for financial instruments such as securitization and inflation-linked debt securities, to promote developing the domestic securities markets,
- 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 update our regulation to allow for the introduction of a PD system by end-September 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), (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; and (iv) market conduct regulation to ensure segregation between PDs own-trading activities and the clients' order collection.

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, with a focus on a key benchmark tenor only and a streamlined set of rights and obligations. We requested financial institutions' expressions of interest in becoming PDs in the pilot IMMA, and plan to launch the IMMA by September 2020.

c. We will assess the IMMA within 12 months of its launch to adjust the system to maximize its effectiveness and gradually extend it.

E. Structural Reforms

35. To support that recovery brings more robust and inclusive growth, we will continue with 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 healthcare will continue to protect the most vulnerable.

36. 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 regional development. To this end, we have signed all the remaining contracts required for the construction of the East-West highway and began construction on the critical section of the North-South corridor.

37. We have started implementing our comprehensive education reform to improve job creation, productivity and wages. We will revise the government decree on teachers regulatory documents to clarify teachers' roles and responsibilities at all four categories (Practitioner, Senior, Lead and Mentor); 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).

38. We are working to make our funded pension pillar fully operational. The pension agency appointed a chief investment officer and is designing the investment strategy. In the interim, pension contributions are placed in bank deposits and certificates of deposit. In March, Parliament adopted amendments to the Law on Pension Savings clarifying the requirements for custodian institutions. A fully functioning pension agency, with adequate safeguards in place, will promote savings and create an institutional investor for long-term lari assets.

39. 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. In March 2020, we submitted to Parliament a draft insolvency law providing adequate protection of creditor rights, timely and efficient insolvency processes and effective rehabilitation framework in line with best international standards. This law will be critical to deal with the aftermath of the COVID-19 shock. To advance the reform, we will finalize the framework for insolvency professionals and begin licensing professionals by end-December 2020. (end-December 2020 structural benchmark). Starting January 2020, we started applying regulatory impact assessments to policy decisions to protect the economy from undue costs.

40. Land registration continues to 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 2.1 million compared to 0.6 million that were registered within the land reform launched on August 1, 2016.

41. 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.

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

- 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 already 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.

- The government will adopt a new Electricity Market Concept Design, designing new market rules. The same procedure will be carried out for the natural gas sector as defined by the law on Energy and Water Supply.

- We will continue promoting energy savings and independence, security in energy supply, and energy efficiency in the energy market. We are developing a national energy efficiency target and an energy efficiency obligation scheme and/or alternative policy measures for energy savings. The Parliament of Georgia is expected to adopt the new laws on energy efficiency and on energy performance in buildings in May 2020.

43. **We are modernizing our national accounts statistics to support strong economic policymaking.** 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 at constant prices. This will provide a more detailed picture of the structural transformation in our economy.

F. Program Monitoring and Safeguards

44. **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.

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

46. **Given that part of the Fund financing will be used to provide direct budget support,** the NBG and the Ministry of Finance will sign and provide the IMF with a Memorandum of Understanding that clarifies the responsibilities for timely servicing of the related financial obligations to the IMF. As part of these arrangements, Fund disbursements to be used for budget financing will be deposited into the government's account at the NBG.

Table 1. Georgia: Inflation Consultation Targets and Bands for 2019-20

	2019				2020		
	End June	Outturn	End Dec.	Outturn	End June	End June 1/	End Dec. 2/
Inflation Consultation Bands for CPI (in percent)							
Central point	3.0	4.3	4.5	7.0	4.9	6.0	3.5
Inner band, upper limit/lower limit	5 / 1		6.5 / 2.5		6.9/2.9	8.0 / 4.0	5.5 / 1.5
Outer band, upper limit/lower limit	6 / 0		7.5 / 1.5		7.9/1.9	9.0 / 3.0	6.5 / 0.5

Source: Geostat, IMF staff estimates

1/ Proposed revised target and bands.

2/ Newly proposed target and bands.

Table 2. Georgia: Quantitative Performance Criteria and Indicative Targets for end-December 2019 through end-December 2020

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

	2019				2020		2020
	End-December				End-June		Proposed End-December
	Target	Adjusted Target	Outturn	Status	5th Review	Proposed Target	Proposed Target
Performance Criteria							
Ceiling on augmented general government deficit (program definition)	1,170	1,009	1,022	Not met	550	2,300	4,300
Ceiling on general government net budget lending	335	171	111	Met	90	40	150
Floor on NIR of NBG[1] (end-period stock, million of U.S. dollars)	1,490	1,507	1,552	Met	1,450	1,120	1,100
Ceiling on the accumulation of external debt arrears of the Public Sector (continuous criterion) (million of U.S. dollars)	0		0		0	0	0
Ceiling on new public guarantees (continuous criterion)	0		0		0	0	0
Ceiling on the cash deficit of the Partnership Fund (million of U.S. dollars)	0		0		0	0	0
Ceiling on new investments by the Partnership Fund (continuous criterion)	0		0		0	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)	0		0		0	0	0
Indicative Targets							
Ceiling on the accumulation of net domestic expenditure arrears of the general government	0		0	Met	0	0	0
Ceiling on Primary Current Expenditures of the General Government (in mn lari)	9,810		9,908	Not met	5,200	6,000	12,450
Stock of VAT credits[2]	1,570		1,598	Not met	1,470	1,470	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.

[2] The stock of VAT credits is evaluated in mid-June/mid-December respectively.

Table 3a. Georgia: Completed Structural Benchmarks - First through Fifth 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
NBG to publish a renewed financial stability report	End-November 2019	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
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
90 percent of the VAT refund requests approved by the system will be automatically refunded, upon request, after offsetting against existing tax liabilities	End-June 2019	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
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	End-November 2019	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/
Structural Reform		
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)	End-July 2019	Not Met 4/

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

Table 3b. Georgia: Remaining and Proposed Structural Benchmarks, by Completion Date 2019 -20

Sixth Review	Date	Status
Strengthen the public investment management methodology that guides project appraisal, selection and management; and adopt a government decree implementing reporting and oversight requirements for public investment projects at the MoF	End-December 2019	Met
Submit to Parliament legislation proposing a rule-based mechanism to index basic pensions	End-December 2019	Not Met
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	End-December 2019	Met
Adopt a budget for 2020 with an augmented deficit of GEL1,320 million in line with policies agreed at the Fifth Review	End-December 2019	Met
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	End-December 2019	Met
Enact legislative changes to implement effective ELA and resolution framework in line with international best practices	End-December 2019	Met
Provide a complete list of the SOEs qualifying as public corporation and SOEs qualifying as general government under the GFSM2014, done in consultation with FAD's regional resident advisor	End-March 2020	Met
Issues guidelines establishing valuation methodology for PPPs	End-March 2020	Not Met 1/
Upcoming		
Adopt the first phase of secondary legislation implementing bank resolution framework	End-June 2020	
Introduce the regulatory framework for insolvency professionals and begin licensing	End-December 2020	
Adopt the second phase of secondary legislation implementing bank resolution framework	End-December 2020	
Proposed New Structural Benchmarks		
Expand the 2020 Fiscal Risk Statement in line with recent FAD TA recommendations	End-December 2020	
Adopting a 2021 budget consistent with the policies agreed at the Seventh Review	End-December 2020	

1/ Completed in April 2020.

Attachment II. Technical Memorandum of Understanding

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, daily, 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;
- 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;
- 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.
- an indicative target (ceiling) on the primary current spending of the general government;
- an indicative target (ceiling) on outstanding VAT credits;
- an indicative target (ceiling) on new domestic expenditure arrears by the general government;

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-June 2020 and end-December 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. **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) .

13. **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).

14. 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).

15. 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).

16. Adjustor: The ceilings on the augmented cash deficit and the primary current spending (indicative target) will be adjusted upward (higher deficit and higher primary current spending) for healthcare costs related to prevent the COVID-19 spread and treating COVID-19 cases in excess of the originally planned amount of GEL351 million (Table 2). Activities included for the adjustor are the ones defined by:

- Government Decree #164 28.01.2020 "On approval of preventive measures against spread of Novel Coronavirus and operational plan on treating diseases caused by the Novel Coronavirus":
    - Article 4.1 – Activities under the competencies of NCDC and Center for coordinating Emergency situation;
    - Article 4.8[2] – Tourism Agency providing quarantine services, including renting hotels and providing catering for the people in quarantine
    - Annex #20 "Managing Novel COVID-19" of the Government Decree #674 31.12.2019 "On Approving 2020 Healthcare Programs", added to the decree by the Government decree #176 17.03.2020;
- Government Decree #653 25.12.2019 "On approving 2020 State Program of Rehabilitating and equipping Medical Facilities".

Table 2. Georgia: Projected Financing for Cash Deficit of the General Government (in millions of GEL, cumulative from the beginning of the calendar year)		
	June 30, 2020	December 31, 2020
Healthcare costs related to prevent the COVID-19 spread and treating COVID-19 cases	N/A	351
Disbursements of foreign-financed project loans[1]	627	2,040
Receipts from sale of non-financial assets	83	150
VAT refunds	300	600
On-lent amounts from project loan disbursements	80	250

[1] Adjustments will not be made on project loans that are used to support the budget and/or the healthcare sector, namely, the World Bank's Fast Track COVID-19 Facility and EIB's healthcare project.

Supporting Material:

- 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.

- 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.

- Healthcare spending specified under (i)the Government Decree #164 28.01.2020, "On approval of preventive measures against spread of Novel Coronavirus and operational plan on treating diseases caused by the Novel Coronavirus" under the categories of Articles 4 and 4.8[2], and Annex #20; and (ii) Government Decree #653 25.12.2019 "On approving 2020 State Program of Rehabilitating and equipping Medical Facilities".

- Data will be provided at actual exchange rates.

- 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.

- 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.

- 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.

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

Ceiling on the Current Primary Expenditures of the General Government

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

19. 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

20. Supporting material: Data for the period from the 16th day of the previous month to the 15th 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

21. 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.

22. 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]

23. 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

24. 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.

25. 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

26. Definition: For the purposes of 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).

[1] Arrears to Turkmenistan.

27. 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

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

29. 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.

30. 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

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

32. 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

33. 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.

34. 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

35. 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 $1,552 million as of December 31, 2019 (at program exchange rates).

36. 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.

37. 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[3]
(millions of U.S. dollars)

	June 30, 2020[1]	December 31, 2020[2]
Projected privatization revenue	0.0	0.0
Budget support grants from external donors and not related to project financing	0.0	91.2
Budget support loans, including bilateral and multilateral donors for budget support	297.8	1,278.1
Disbursements of project loans and grants	75.9	225.2

[1] Cumulative from January 2020 to end-June 2020.

[2] Cumulative from January 2020 to end-December 2020.

[3] Flows are valued at program exchange rates for the June and December targets.

38. 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.