

**EXECUTIVE
BOARD
MEETING**

EBS/20/80
Correction 1

May 1, 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**

Board Action:

The attached correction to EBS/20/80 (4/27/20) has been provided by the staff:

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

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Questions:

Ms. Vera Martin, MCD (ext. 34117)
Mr. Debbich, MCD (ext. 34112)
Mr. Saksonovs, MCD (ext. 36512)

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 212 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."