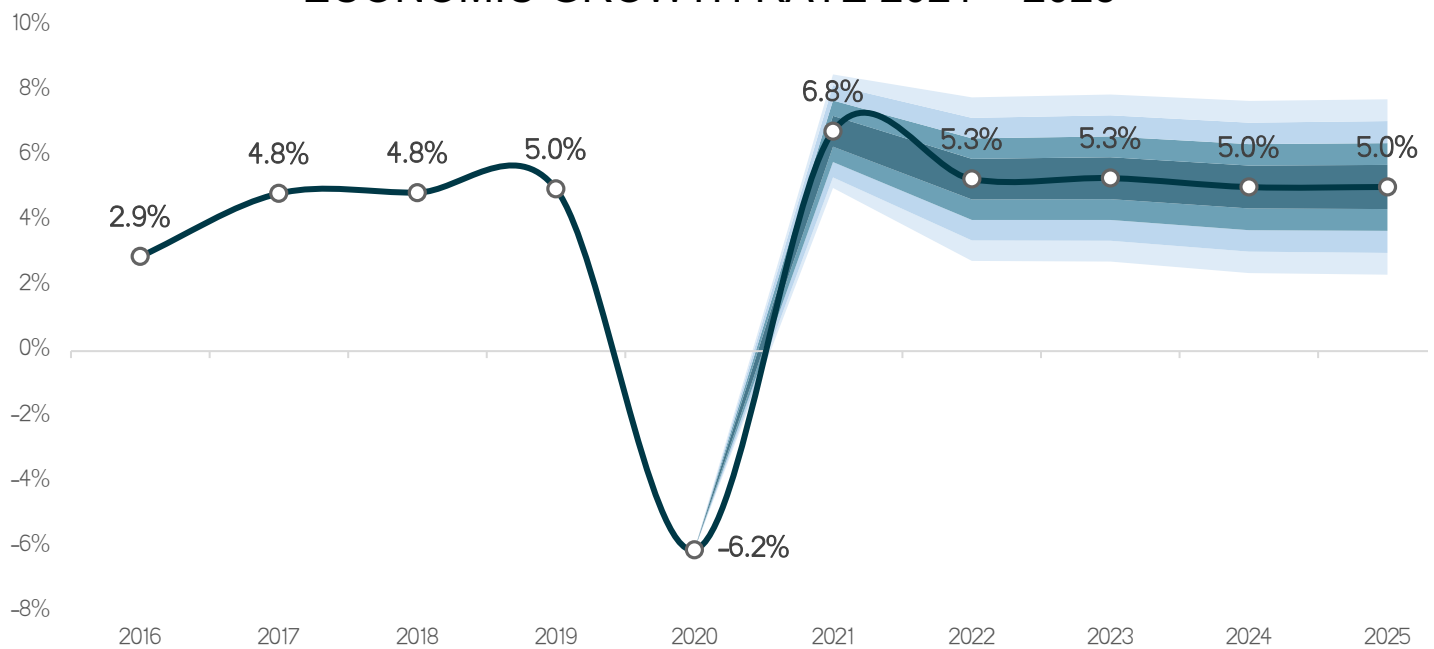


Macroeconomic Forecasts



ECONOMIC GROWTH RATE 2021 – 2025



Contribution to 2021 Growth:

Real Consumption (↑) : +4.7%

Net Export (↑) : +0.1 %

Real Investment (↑) : +2.0%

PARLIAMENTARY BUDGET OFFICE OF GEORGIA
MACROECONOMIC ANALYSIS AND TAX POLICY UNIT

Macroeconomic Forecasts

June 2021

About the report: The Parliamentary Budget Office of Georgia, in line with its mandate, provides independent forecasts of key macroeconomic indicators. Macroeconomic forecasts will be updated in accordance with the budget process and the Budget Office reporting policy.

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1. THE MACROECONOMIC MODEL

The current design of the Parliamentary Budget Office of Georgia (PBO) Macroeconomic Forecasting Model (PBOMFM) is consistent with the Financial Programming and Policy (FPP) framework that is developed by the International Monetary Fund (IMF). The PBOMFM strikes a balance between theory and practice according to its purpose of providing accurate forecasts and policy analysis. The PBOMFM has both long-run (theoretical) and short-run (data-based) dynamics. The econometric estimates of the model's parameters and its short-run dynamics are based on the data analysis and calibration for the Georgian economy. The PBOMFM is a practical and robust tool for economic forecasting in Georgia. PBO's macroeconomic forecasts are publicly available on its website and in print.

A simple description of the PBOMFM allows for four sectors:

- Real Sector
- Fiscal Sector¹
- External Sector
- Monetary Sector

Linkages among the sectors are crucial for creating a consistent framework. The equations in the model represent a set of relationships between different economic variables. These relationships can be broken down into three broad groups:

1. **Accounting Identities:** Equations that specify the identities and definitions in the National Accounts. For example, the Gross Domestic Product (GDP) by definition equals the sum of consumption, investment, government spending and net export.

2. **Econometric Equations:** Econometric models provide a structure for quantification of how the Georgian economy behaved in the past and how it might behave in the future. Econometrically estimated equations provide the foundation for policy studies that inform the parliamentarians and the public of possible options and their impacts on the welfare of the country. For example, the econometric equation for private consumption assumes that consumption expenditure responds to the changes in real GDP and real interest rate. Therefore, in addition to forecasting total consumers' expenditures, econometrically estimated equations allow for assessing the impact of changes in interest rate and income on consumers' demands. For quantification of the underlying relationships in PBOMFM, the following estimation techniques and specifications are used: Ordinary Least Squares (OLS), Autoregressive Integrated Moving Average (ARIMA), Vector Autoregression (VAR), Bayesian Vector Autoregression, Vector Error Correction (VEC), Restricted Vector Error Correction, Error Correction Model (ECM), Autoregressive Distributed Lag (ARDL) and Time Varying Parameter (TVP) framework. The PBOMFM imposes 51 macro-fiscal variables of which 31 are endogenous (being determined by other variables), 16 exogenous, and 4 are determined by the PBO's expert judgments.

3. **Technical Relationships:** Equations in the model that are neither identity nor econometrically estimated are known as technical relationships. This category includes calibrated relationships based on economic theory or broad historical trends and stylized facts. For example, the projection of exports of services is based on the assumption that its value equals to the average of the last year % share of exports of services in the total exports.

The macroeconomic forecasting model is based on the quarterly data from 1996Q1 to 2020Q4. The data is collected from the following sources:

National Statistics Office of Georgia – real sector data

Ministry of Finance of Georgia- fiscal sector data

National Bank of Georgia – external and monetary sector data

¹ The model treats expenditure of the consolidated budget as an exogenous variable, taken from the government's medium-term forecasts.

BASELINE SCENARIO

2. REAL SECTOR

According to the Parliamentary Budget Office forecast, the Georgian economy will increase by 6.8% in 2021. The real GDP 2021 growth forecast (6.8%) is by 0.3 percentage points (pp) higher compared to the government forecast² (6.5%) and differs by 1.6 pp from the PBO forecast of December 2020³. As it is known, the negative consequences caused by the new Coronavirus (Covid-19) in the world have affected almost all countries, including Georgia. Therefore a significant decline in economic growth was observed in 2020 (-6.2%). Expected GDP growth in 2021 is mainly driven by the base effect of a high reduction in 2020 caused by the COVID-19 pandemic and by the easing/canceling of the pandemic-related restrictions, which stimulate both demand and supply growth. Along with the vaccination process and easing/canceling of the various types of restrictions, external trade will also start to recover. Compared to the December estimate, this forecast takes into account additional information available for the current period. The increase in economic growth is due to the significantly better development trend for the current period. High economic growth, observed in April, also external trade figures, indicating a gradual recovery in the economic activity. In the 2021 assessment, uncertainty around the forecast remains. Together with an analysis of fundamental economic developments for forecasting, it is necessary to have some assumptions about the pandemic, which could significantly affect the accuracy of the forecast in case of changes. The mentioned forecast of the PBO incorporates the assumption that the epidemiological situation in Georgia will improve, and the vaccination will reduce the rate of the virus spread. The assumption also takes into account domestic economic activity, as well as - preliminary estimates and forecasts⁴ of the economic growth of Georgia's major trading partner countries⁵. Specifically:

- The positive outlook for 2021 is due to the fact that the measures taken to prevent Covid-19 (state of emergency and various restrictions) have broken the so-called "Global value chain" however, as it seems by 2021, economic actors are better adapting to the pandemic and the so-called "value chain" will be restored both within the country and worldwide.
- In addition, it is likely that in parallel with the adaptation to the pandemic, the tourism sector will revive, and both exports and imports of services will increase by 2021.
- The economic growth forecast for 2021 increased from 5.2% to 6.8% compared to the December estimate, mainly due to the significantly better development trend compare to the previous expectation.
- In response to the rising inflation, the National Bank has raised the monetary policy rate since April 2021 to 9.5%⁶. According to the PBO forecasts, further growth in the inflation rate might happen, and inflation might also remain higher than its target value in the first half of 2022. In parallel with this trend, monetary policy tightening may continue, which will have a negative impact on the economy. This assumption negatively affected the forecast for 2021-2022.

According to the PBO forecast, the average annual economic growth rate for the medium term (2021-2025) is 5.5%, 0.1 pp higher than the similar figure published by the PBO in December 2020. Mainly due to the fact

² The government's forecast refers to the projection of macroeconomic indicators for 2022-2025 presented in the Document of Basic Data and Directions, submitted to the Parliament of Georgia on May 31, 2021.

³ http://pbo.parliament.ge/media/k2/attachments/Macroeconomic_Forecasts_December_2020_ENG_FINAL.pdf

⁴ Source: International Monetary Fund: World Economic Outlook, April 2021 (WEO April 2021) <https://www.imf.org/en/Publications/WEO/Issues/2021/03/23/world-economic-outlook-april-2021>

⁵ EU, Russia, Turkey, Azerbaijan, Armenia, China, Ukraine and USA.

⁶ <https://www.nbg.gov.ge/index.php?m=340&newsid=4211&lng=eng>

that with the growth of 2021, economic growth forecasts for 2022-2024 have also changed slightly in different directions. Real consumption will likely contribute most to the 2021 economic growth, while, in parallel with the increased foreign trade activity, the trade balance will have an almost neutral (+0.1 pp) impact on the GDP. It should be noted that domestic consumption and investments still play a leading role in economic growth in the medium term.

As for the government forecast for the same period, the average economic growth in 2021-2025 is equal to 6.0%, which is 0.8 pp higher than their similar forecast of December 2020. It is noteworthy that the PBO economic growth forecast for the medium term envisages the projected/planned growth of non-financial assets (so-called capital expenditures) of the government’s medium-term estimates, the actual dynamics of which may have an impact on the actual realization of the PBO forecast.

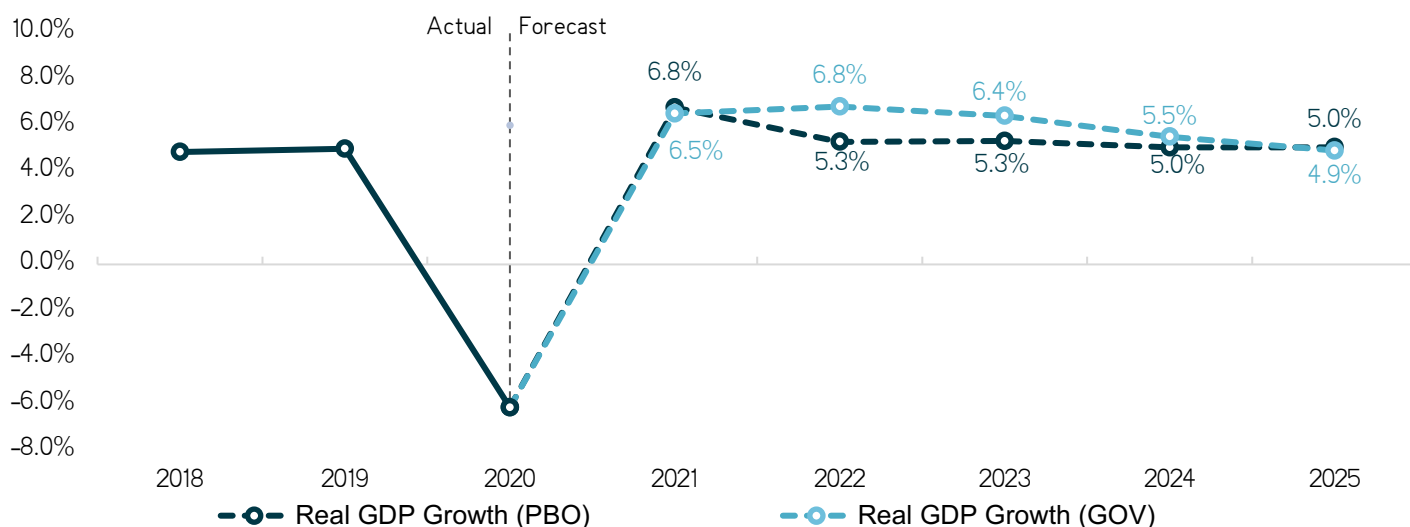


Figure 1: Real GDP Growth.

It is interesting to mention the relationship between dynamics of total factor productivity and economic activity, for which it is essential to analyze whether current economic growth corresponds with the potential that the country would have under the optimal use and utilization of its resources. It is reasonable to calculate the so-called potential GDP and compare it to the actual situation. This difference between the real and potential GDP will be the so-called GDP gap⁷.

According to the PBO estimates, despite high GDP growth, there still will be a slightly negative deviation from the potential level of GDP (-1.0%) in 2021. According to the December forecast, the estimated negative gap was -1.7%. In the medium-term, the negative gap is expected to have decreasing trend and will be almost closed in 2022-2023, and in 2024-2025 the real GDP will slightly exceed the potential⁸.

⁷ For more on the GDP gap: <http://pbo.parliament.ge/media/k2/attachments/Fiscal Stance and Space 1.pdf>

⁸ The potential level of GDP is estimated using the Kalman Filter. For a potential level estimation methodology, see the PBO research publication: [FISCAL POLICY IN GEORGIA: DIRECTION, CYCLICALITY, MANEUVERING SPACE](#).

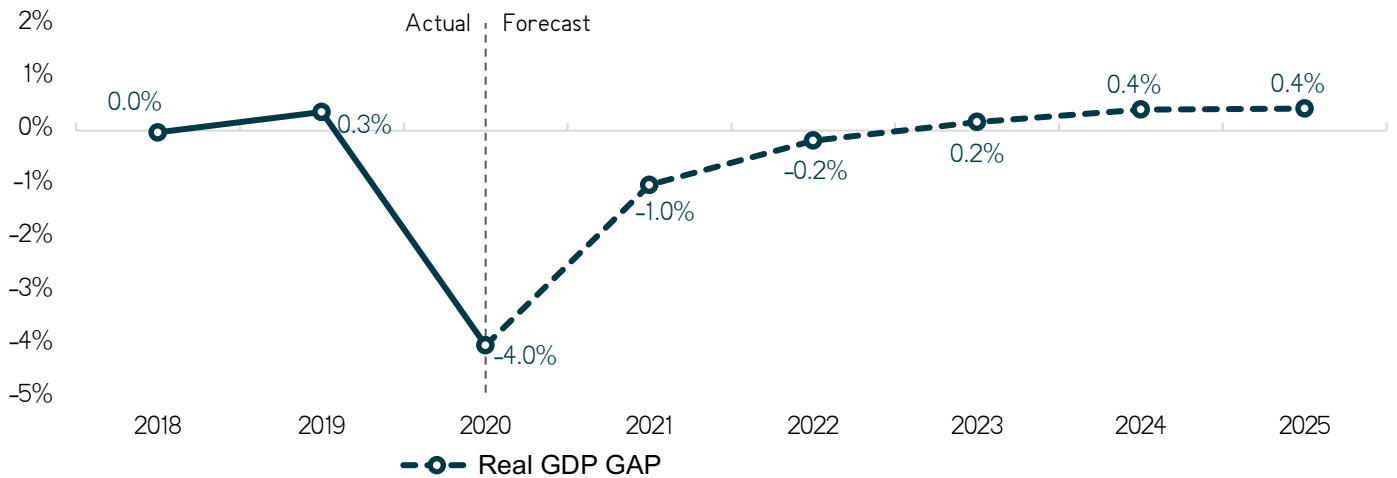


Figure 2: Real GDP Gap.

The forecasted nominal GDP per capita in 2021 is GEL 15,222, while it is GEL 21,902 in 2025. These figures are slightly higher than the government's forecasts in the medium term.

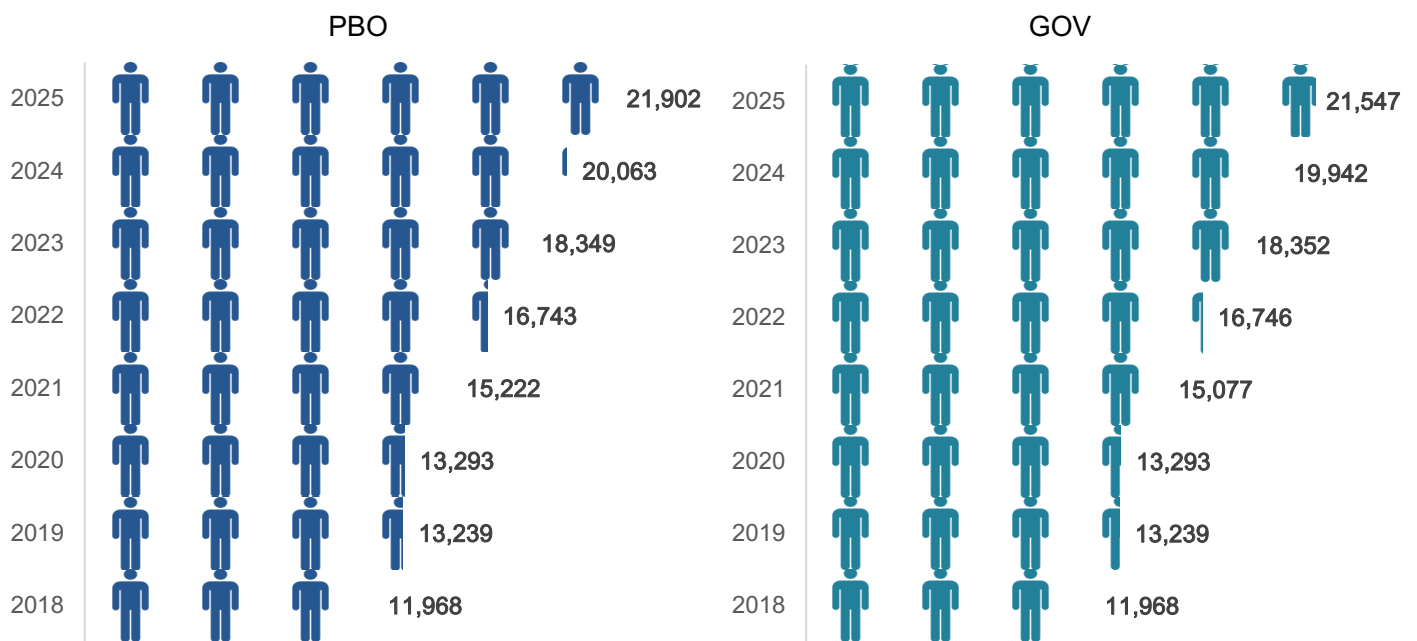


Figure 3: GDP Per Capita, Nominal GEL.

According to the PBO estimate, the nominal GDP will increase (by 14.5%) in 2021 and reach 56,579 million GEL. It is 3,042 million GEL higher than the forecast of the PBO in December 2020, driven by the increased forecast of economic growth and the deflator. It should also be noted that in line with the different real economic growth rate and inflation forecasts of the government, the nominal GDP is lower than the PBO forecast, while in the medium-term they do not differ significantly from each other.

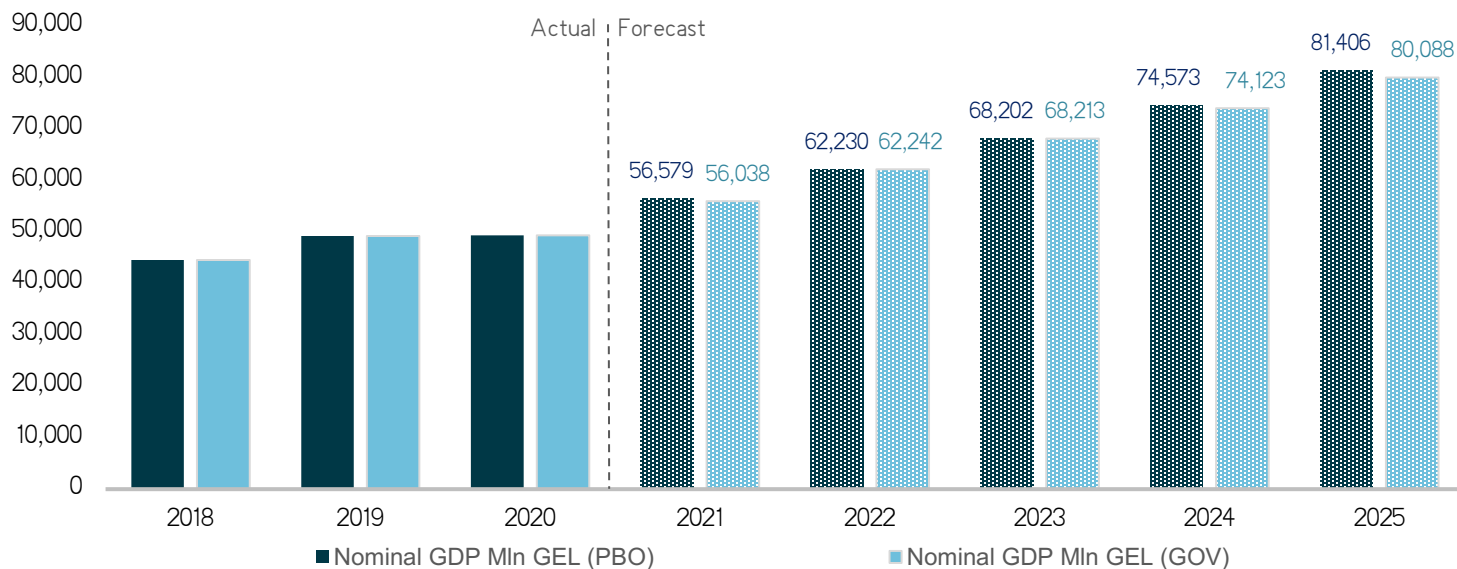


Figure 4: Nominal GDP GEL Million.

According to the PBO forecast, considering the so-called „orientation trajectory“ of the monetary policy rate of NBG, by 2021 inflation rate will be higher than the target and will reach 6.7%. According to the December 2020 forecast, the price level was expected to decrease from the Q1 of 2021 and would have been close to the target during the year, although several factors contributed to the increase in inflation:

- Increase in utility bills in the fourth quarter of 2020;
- Depreciated GEL / USD exchange rate in the first quarter of 2021;
- Significantly revived aggregate demand from the second quarter of 2021.

Given these trends, it is likely that inflation will remain high during the year, and from the first quarter of 2022, will begin to decline in line with the high base effect of the current year and National Bank policy. According to the government’s forecast, inflation will exceed the target and will be 6.5% in 2021, while in the medium-term it will be equal to the NBG target of 3%. It is noteworthy that changes in both monetary policy and external factors may lead to differences in forecasts.

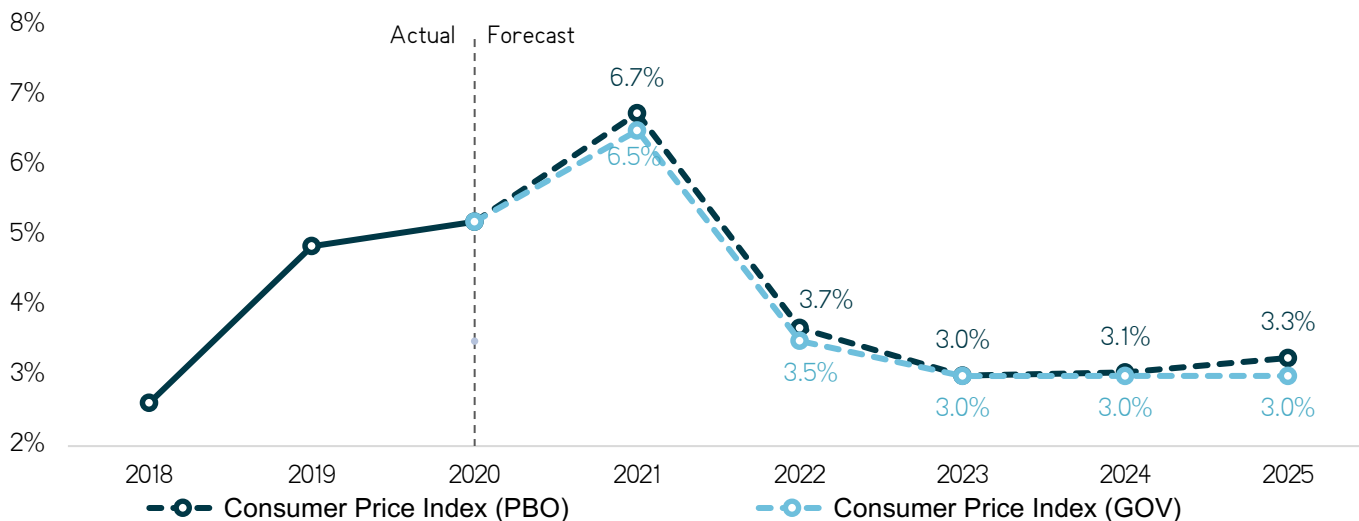


Figure 5: Consumer Price Indices, Period Average.

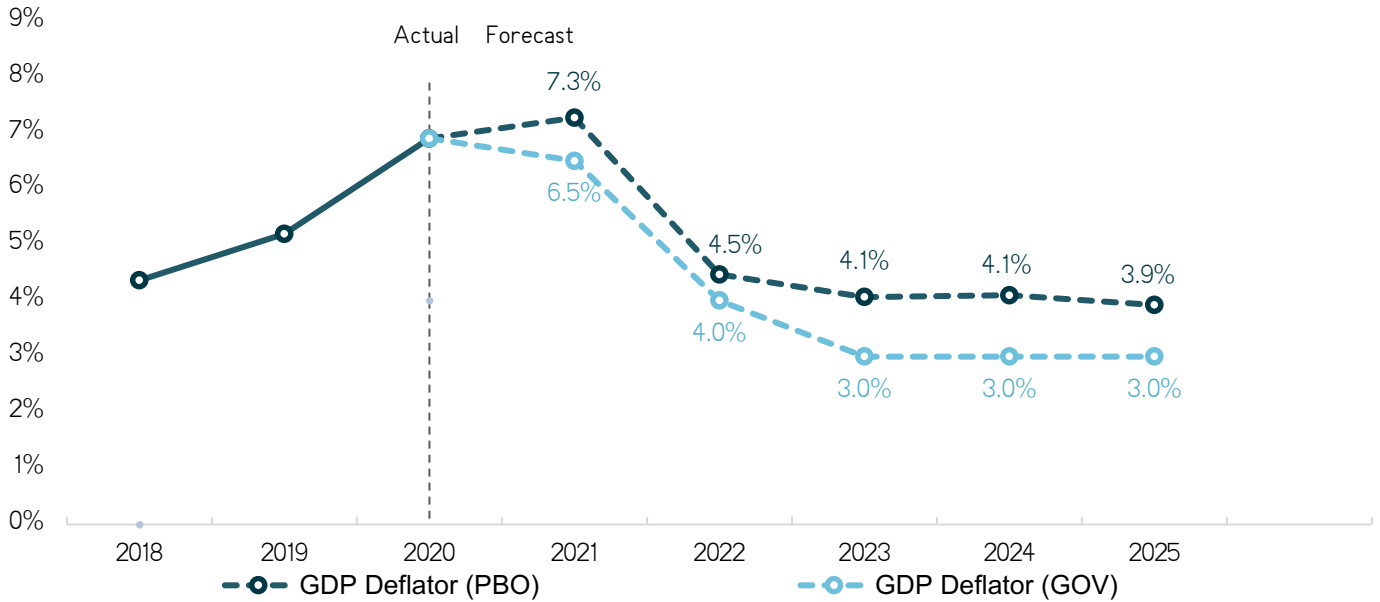


Figure 6: GDP Deflator.

According to the PBO forecast, in parallel with the revived economic activity, the ratio of private investments to GDP will increase by 1.0% by 2021, reaching 18.6% of GDP, and have a steady slight upward trend in the medium-term. The ratio of private savings to GDP will also have a growth trend, it will decrease slightly to 14.9% of GDP by 2021, and it will reach 18.3% by 2025. It should be noted that in the medium-term, gross savings will still not be sufficient to finance total investments, consequently investments will be financed by the loans from the rest of the world (negative current account balance). According to the government forecast, the ratio of private investments to GDP is expected to increase to 19.5% by 2021, in the medium term it will increase steadily and average to 21.4%.

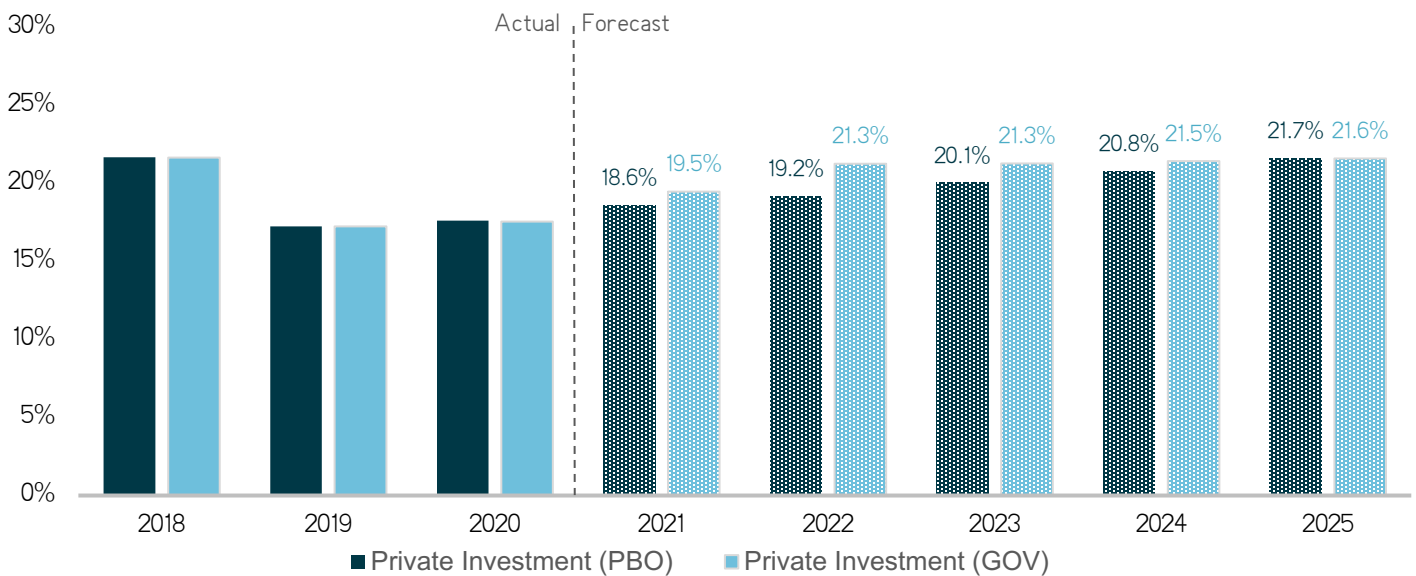


Figure 7: Private Investment, % of GDP.

3. FISCAL SECTOR

For the analysis of the fiscal environment, the net lending/borrowing balance is important both in the medium and long term. According to the forecast of the Parliamentary Budget Office, the expected ratio of the net lending/borrowing balance of the consolidated budget (GFSM 2014) to GDP is -5.8% by 2021 (according to the December forecast, it was -6.8%). At the same time, according to the PBO forecast, the so-called modified overall balance (obtained through the reclassification of individual items and used in the IMF program) will reach -5.9% by 2021.

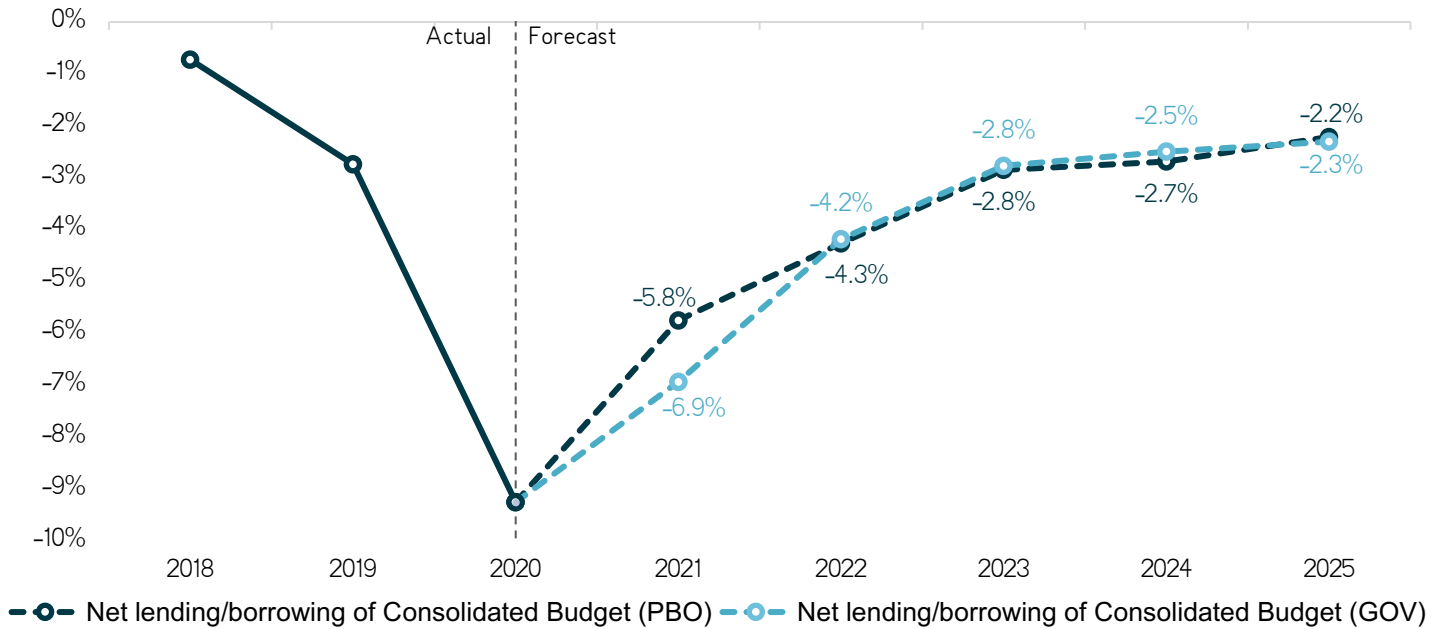


Figure 8: Net Lending/ Borrowing Balance, % of GDP.

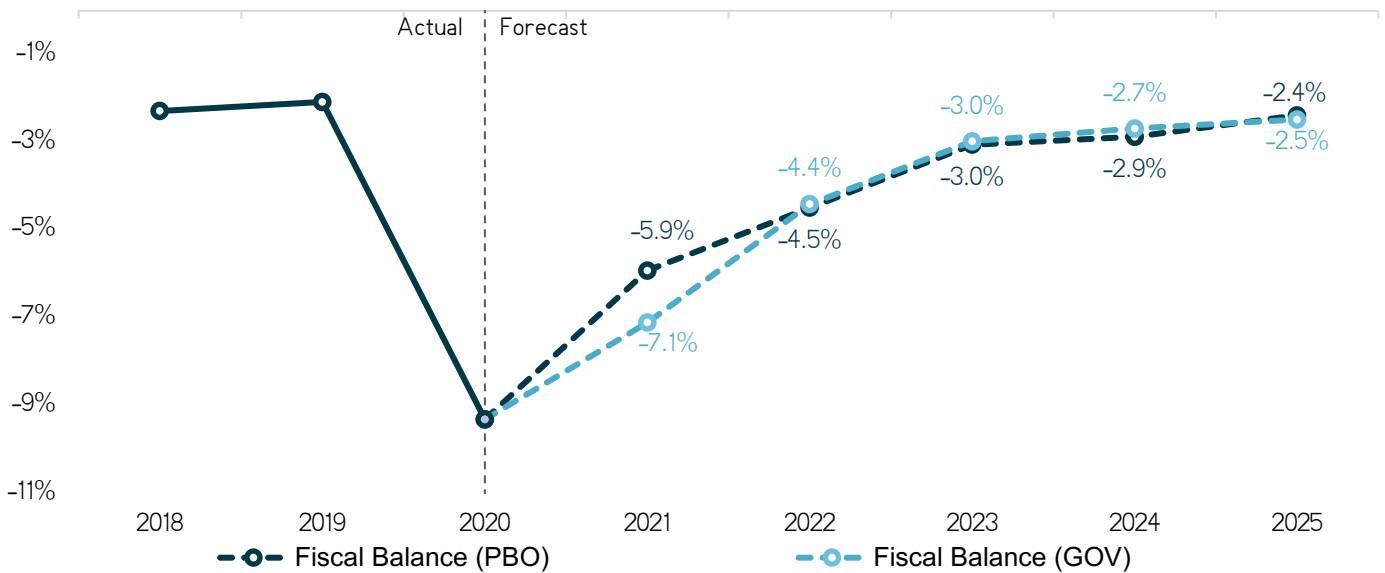


Figure 9: Modified Balance, % of GDP.

As for 2021, the consolidated budget's net lending/borrowing balance to GDP is 1.2 pp lower than the corresponding figure presented by the government (-6.9%), mainly due to the fact that the tax revenues of the consolidated budget estimated by the PBO are 615 million GEL higher than that of government's, which is caused by the relatively optimistic forecast of both direct and indirect taxes and other revenues also. It is noteworthy that according to both the PBO and the government forecast, the consolidated budget's net borrowing in 2021-2022 will be more than 3%, while it will fall below 3% in 2023.

As for the unified budget net borrowing, covered by the so-called budget balance/deficit rule under the Organic Law of Georgia on Economic Freedom from 2019, it also shows a decreasing tendency in the medium term. According to PBO and government forecasts, the unified budget net borrowing will tend to decrease in 2021-2023 and fall below the 3% fiscal limit from 2023.

It should be highlighted that, as noted above, for consolidated budget expenditures, the baseline scenario of the PBO forecasts is based on the medium-term fiscal plan defined by the government's Basic Data and Directions Document for 2022-2025.

In addition to this, it is important to evaluate fiscal indicators with respect to economic trends⁹ in the medium-term, namely – the discretionary fiscal policy direction and its connection with economic cycles¹⁰.

According to PBO evaluation, the consolidated budget deficit (cyclically adjusted primary balance) in 2021-2022, thus, the positive fiscal stance is accompanied by the negative GDP gap, which constitutes a countercyclical fiscal expansion and follows the good practice of sustainable economic development (stimulating the economy during slowdown). As for 2023-2025, the still positive fiscal stance in parallel with the positive gap indicates a slight pro-cyclical expansion.

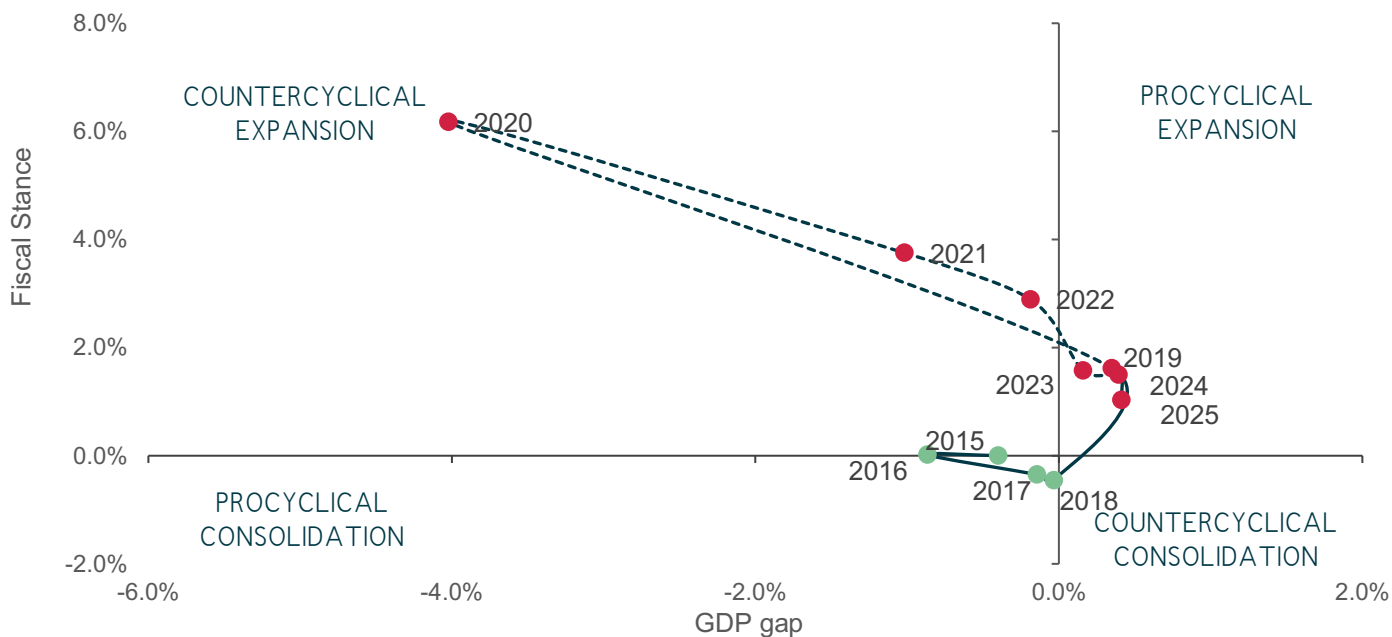


Figure 10: Fiscal Stance.

Regarding tax revenues, according to the PBO estimate, the consolidated budget tax revenues amount to GEL 12,960 million for 2021, GEL 777 million higher than the forecast made in December, and which is 615 million

⁹ The study is based on the assumption that expenditure policy is fully discretionary: decisions about the budget expenditure are not made according to the economic cycles.

¹⁰ PBO research publication: "[FISCAL POLICY IN GEORGIA: DIRECTION, CYCLICALITY, MANEUVERING SPACE](#)".

higher than the government’s forecast (GEL 12,345 million). Accordingly, a difference is observed between the forecast figures of both direct and indirect taxes¹¹. (See Figure 11 and 12). The PBO estimates that by 2021, tax revenues will reach 22.9% of GDP, while the government forecasts 22.0%. According to the forecast of the PBO, the tax to GDP ratio will be 22.9% on average in 2021-2025.

Analyzing tax revenues by components, the share of direct taxes in total tax revenues will decrease by 1.2 pp (39%) in 2021. Hence, the share of indirect taxes will be 61%. PBO estimates that throughout 2022-2025 the share of direct taxes will gradually increase while the share of indirect taxes will decrease. It is worth noting that these medium-term forecasts are based on existing fiscal policy and incorporate the tax and pension reforms implemented in 2017-2021. Subsequent changes in fiscal policy may lead to differences from these forecasts.

As for the structure of government tax revenues, the share of direct taxes in total tax revenues is expected to be 39.6% by 2021 and will increase in the medium-term.

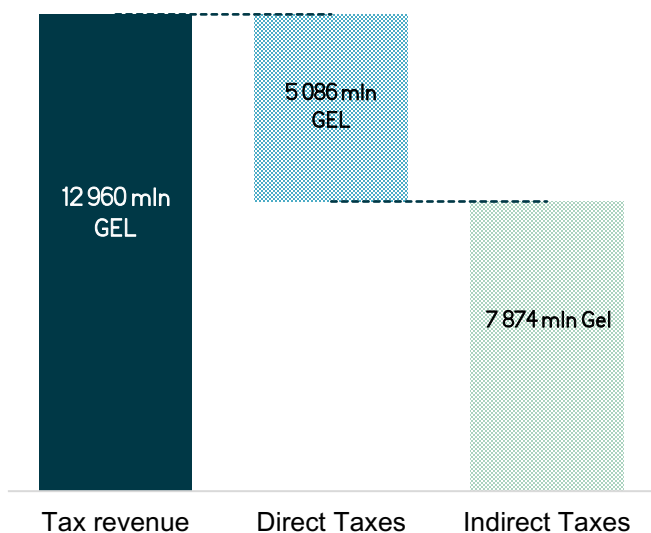


Figure 11: Tax Revenue Forecast 2021 (PBO)

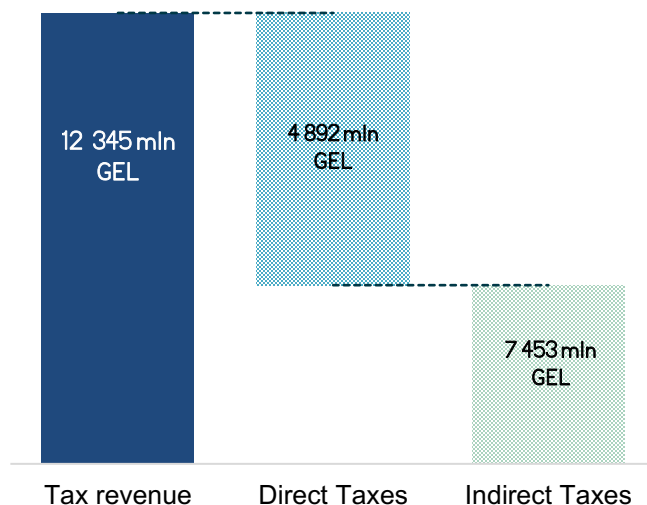


Figure 12: Tax Revenue Forecast 2021 (GOV)

¹¹ Direct Taxes include projected revenues of other taxes.

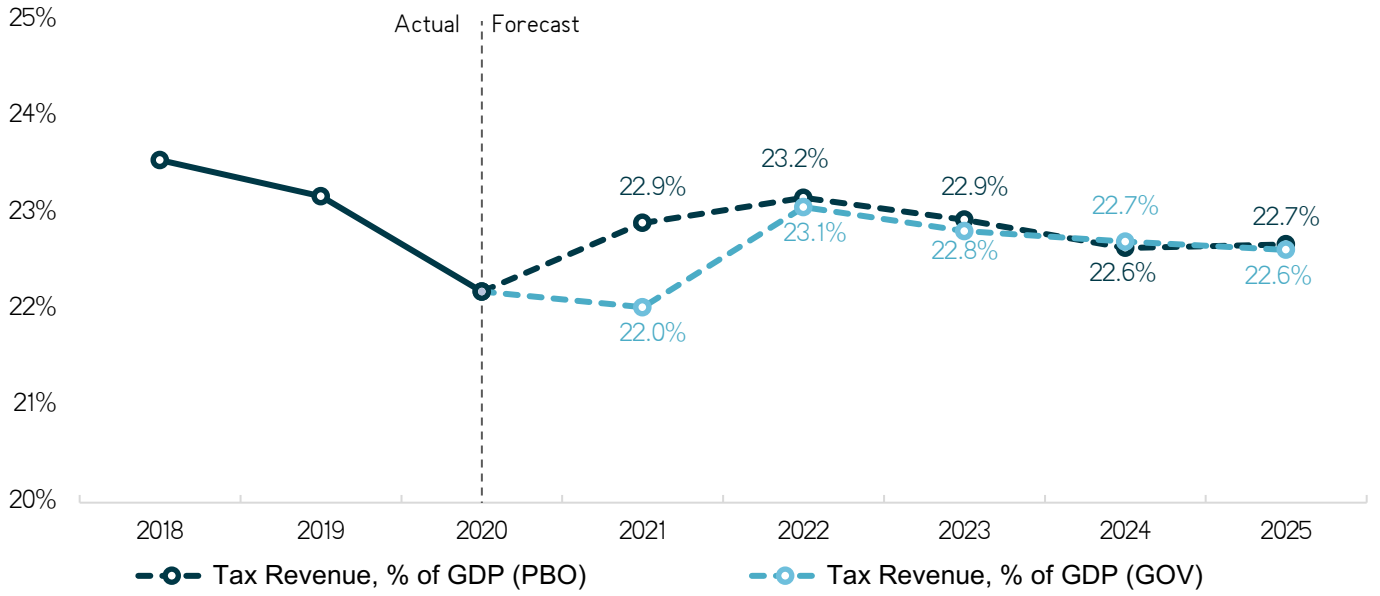


Figure 13: Tax Revenue, % of GDP.

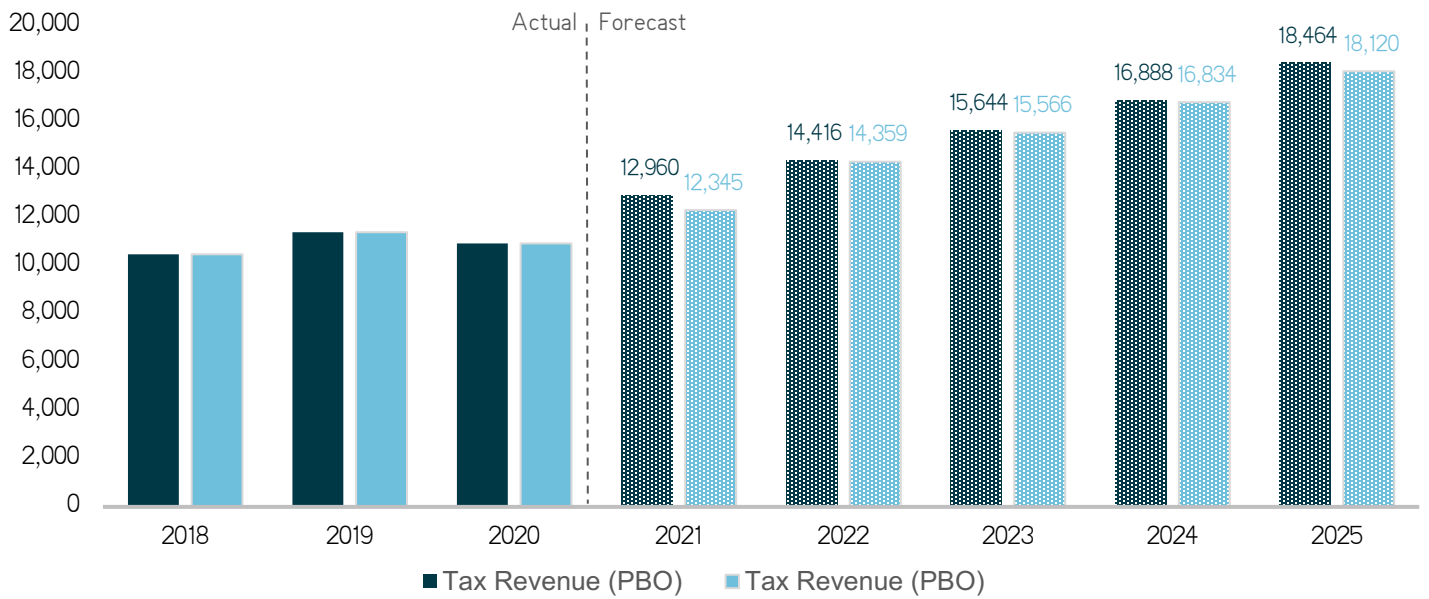


Figure 14: Tax Revenue, GEL Million.

4. EXTERNAL SECTOR

According to the PBO, the expected current account deficit for 2021 is 10.5% of GDP, which is 2.0 pp higher than the PBO's forecast of December 2020 (8.5%), while the government's forecast is 11.3% of GDP. The PBO estimates that the current account balance will start to improving from 2022 and will be formed around -7.8% of GDP on average. According to the government forecast, the deficit will start improving from 2022 and be around -8.5% of GDP on average.

According to PBO, the main driver of the expected fall in the current account deficit is the forecasted growth of domestic savings¹². Even though in the analyzing period, the investments to GDP ratio also rises, the growth rate of savings not only compensates for this growth, but also ensures the current account balance improvement. In this regard, the rise in private savings is particularly notable.

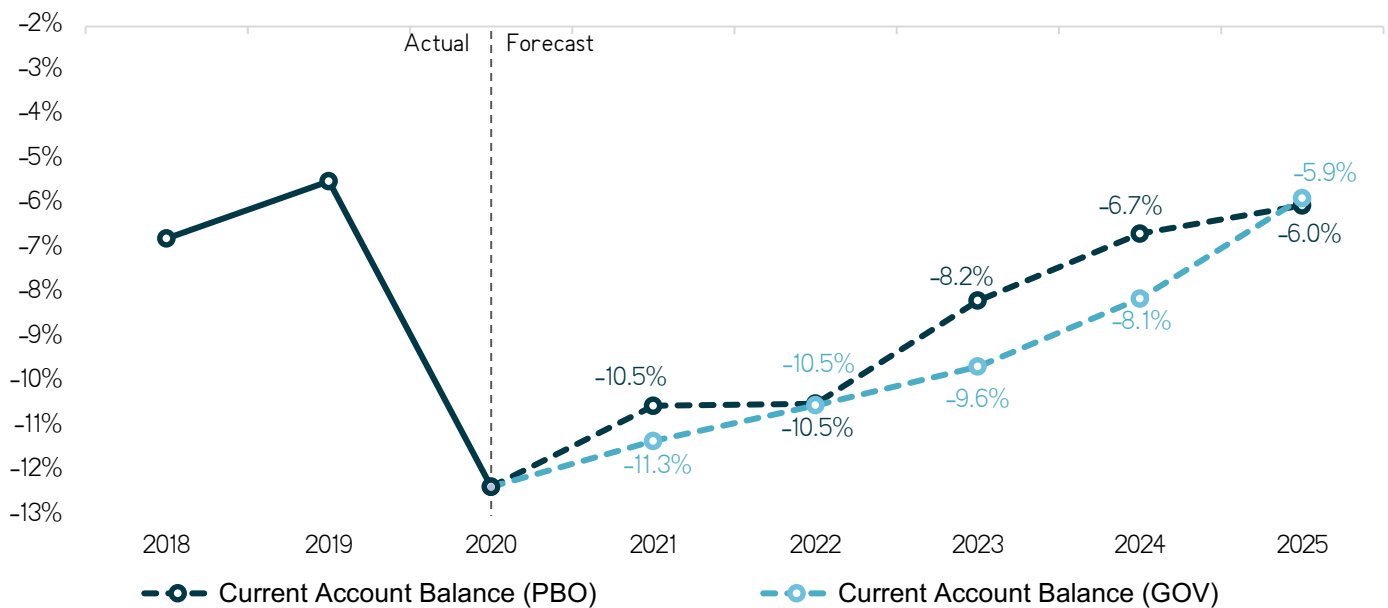


Figure 15: Current Account Balance, % of GDP.

As for the current account components:

- According to the forecast of the PBO, the most important determinant of the current account deficit formation is the expected dynamics of the trade balance. Due to the problems described above by Covid-19, the volume of exports and imports decreased significantly in 2020, although it is likely that foreign activity will revive from 2021, hence the foreign trade is expected to increase significantly, and the trade balance will improve slightly. **The PBO forecasts that the trade deficit will reach 16.8% of GDP in 2021, while the government forecasts that the trade deficit will be 18.1%.** According to the Budget Office, the current account and the trade balance tend to improve in the medium-term, which means that the domestic supply of the country better satisfies the aggregate demand.
- According to the forecast of both the government and the budget office, in 2021, the main source of improving the current account will be the trade balance.

¹² Current account balance can be defined as a difference between total investments and total savings – deficit means that savings are not enough for investment financing and country borrows from abroad.

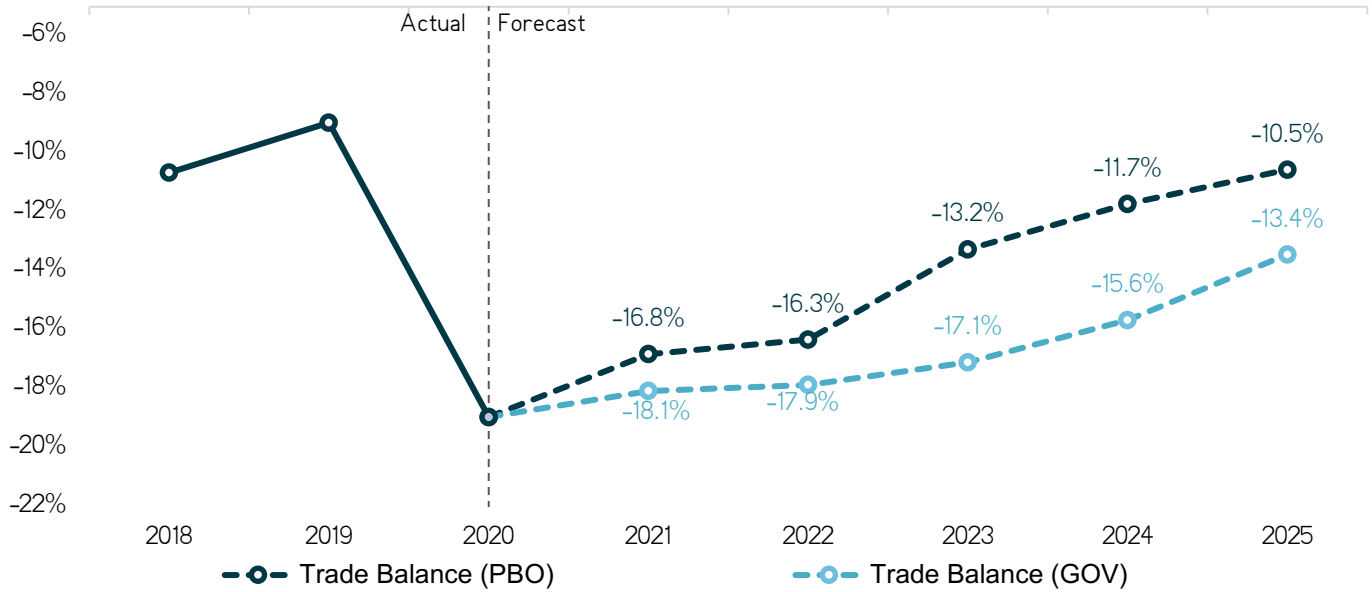


Figure 16: Trade Balance, % of GDP.

As for the financing sources of the current account deficit, according to the PBO, **net private capital and financial inflows will reach USD 1,050 million by 2021** and increase in the medium run. According to the government forecast, the mentioned figure will reach USD 1,306 million and increase for the following years, except for a slight decrease in 2025.

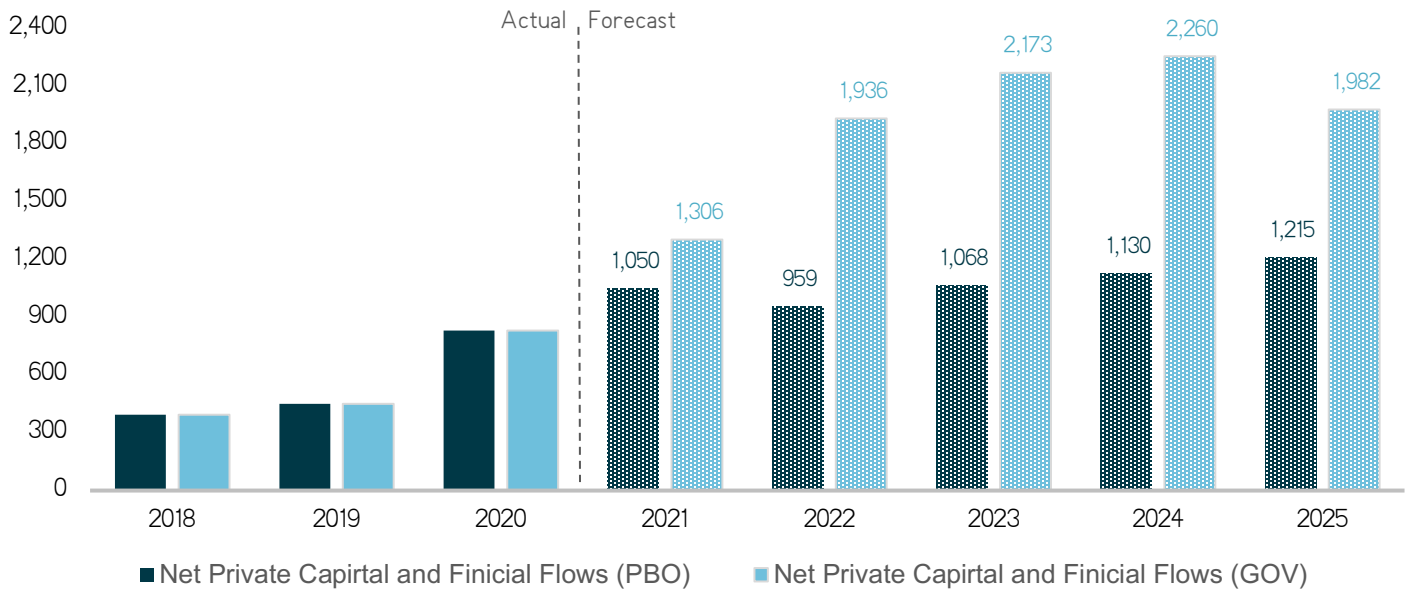


Figure 17: Net Private Capital and Financial Flows, USD Million.

5. MONETARY SECTOR

According to the PBO forecast, **monetary aggregate M3 will amount to GEL 35,186 million in 2021, while the growth rate is 15.8%**. On the other hand, **monetary aggregate M2 will equal GEL 15,908 million, with a growth rate of 16.5%**.

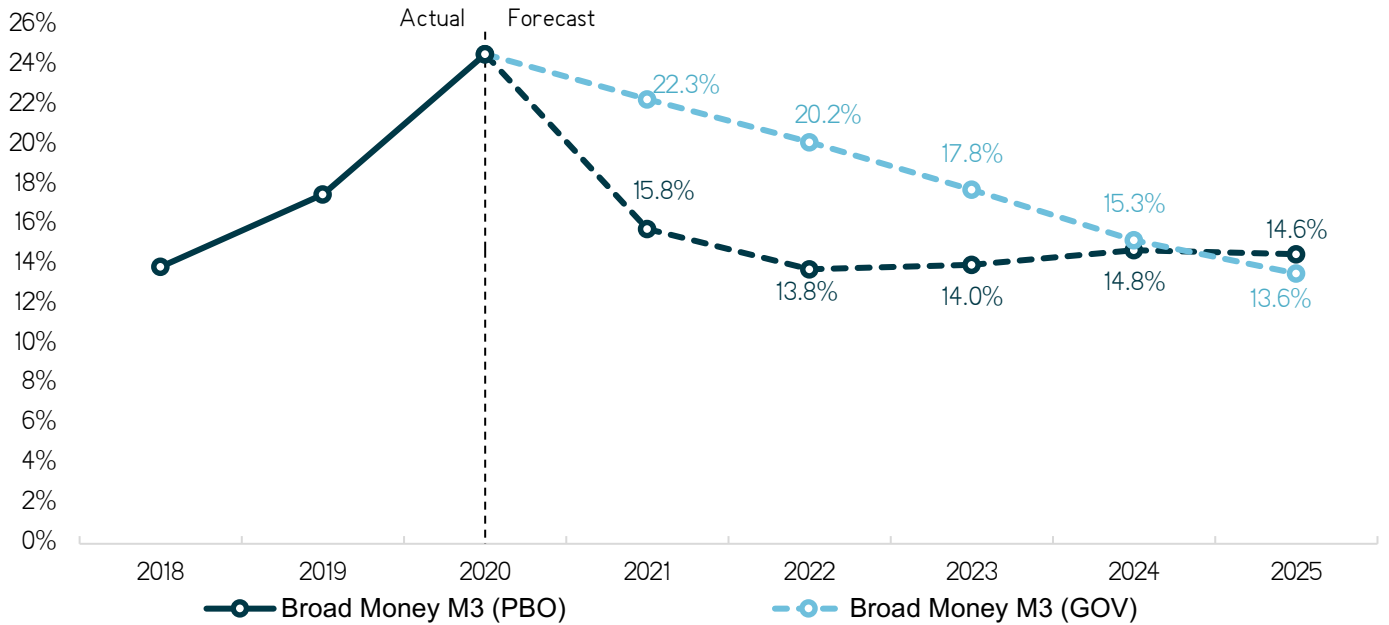


Figure 18: Broad Money M3, Growth Rate.

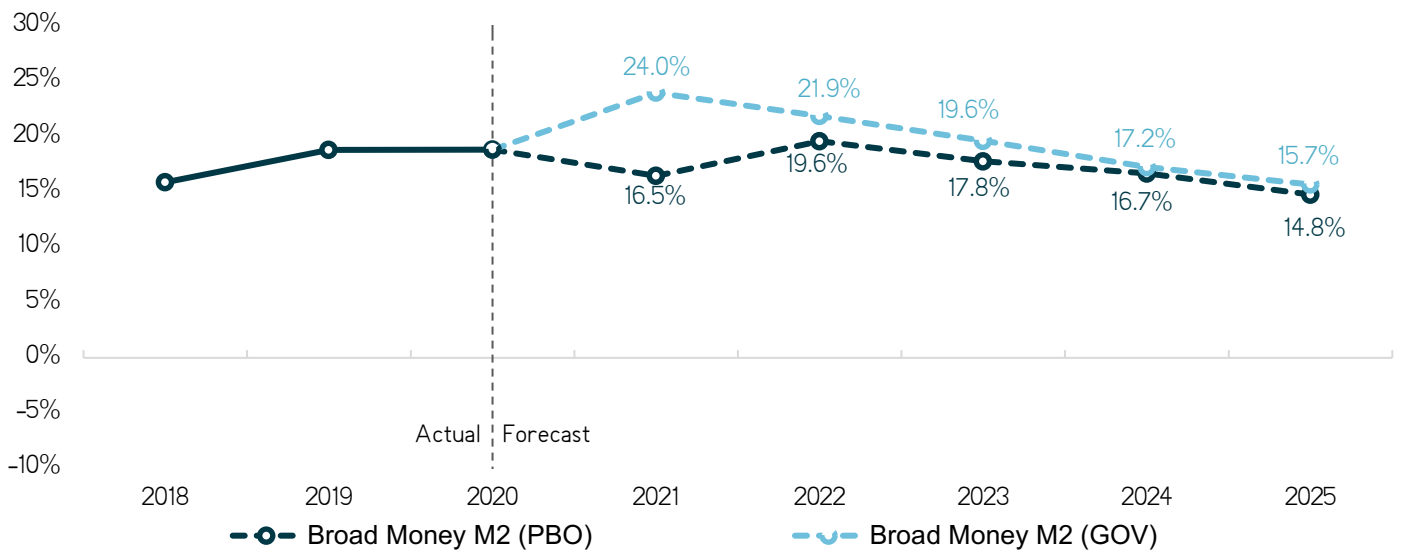


Figure 19: Broad Money M2, Growth Rate.

PBO forecast a 12.6% increase in international reserves in 2021. Subsequently, **international reserves will reach USD 4,403 million in 2021 (5.0 months of import)**, and the average volume for 2021-2025 is USD 4,848 million.

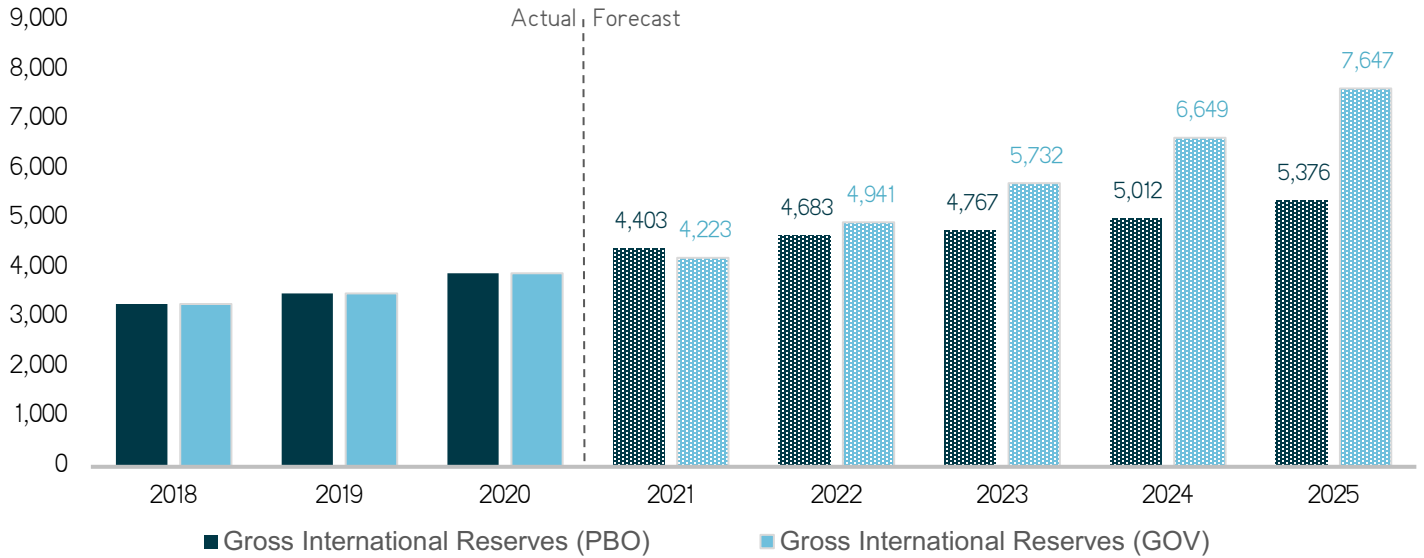


Figure 20: Gross International Reserves, USD Million.

As for the loans to the private sector, according to the PBO forecast, this indicator will reach GEL 42,386 million in 2021, which is lower compared to the one in BDD. This trend holds in the medium-term, and the government forecast for 2022-2025 will consistently exceed the budget office forecast.

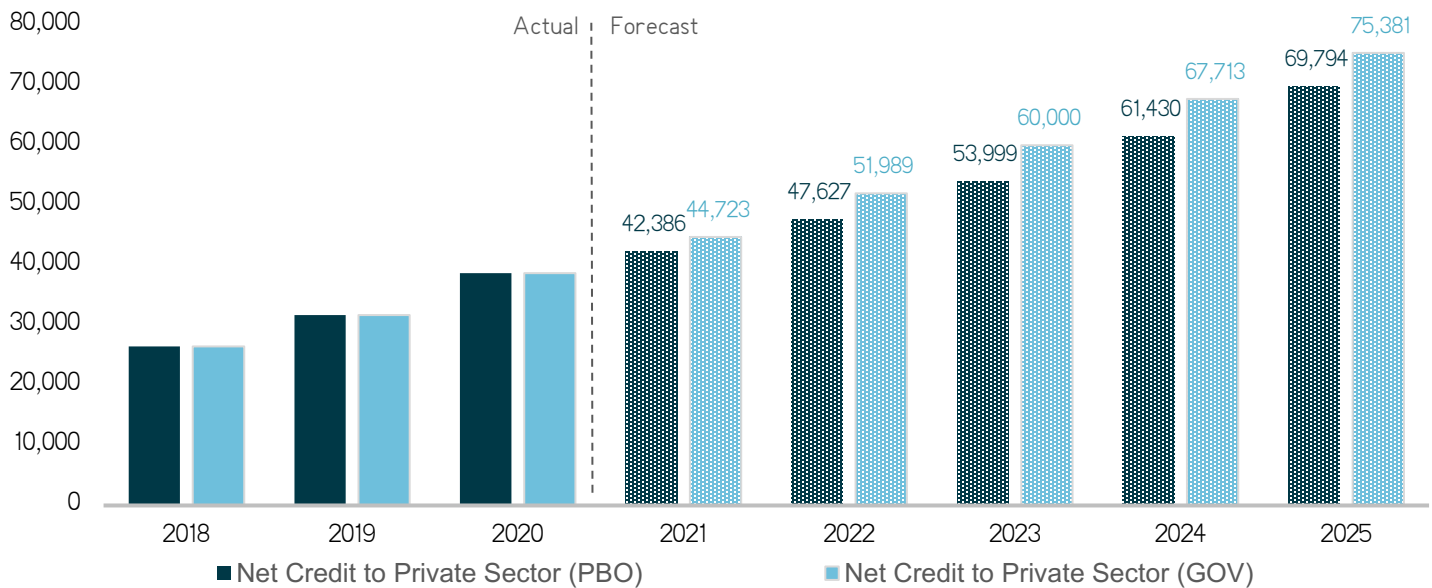


Figure 21: Net Credit to Private sector, GEL Million.

6. MACROECONOMIC SCENARIOS

The macroeconomic scenarios constitute the potential development models of the economy in case of unexpected deviations from the baseline, the most anticipated scenario of the economy.

The main difference between the assumptions of baseline, positive and negative scenarios for 2021 is due to the possible development of the coronavirus (Covid-19) (the rate of the virus spread, the speed of vaccination, opening rates of the economy, etc.) and the realization of the consequences caused by it.

The baseline model assumes that the spread of the virus in Georgia, the so-called „third wave“, will reach its peak in May 2021, and from the second quarter of 2021, the Georgian economy, along with the rest of the world, will begin to recover rapidly, and the spread of the virus in 2021, so-called “fourth wave” will be insignificant and will not affect economic events.

However, due to the modern changing environment, economic recovery can have a so-called „V shape“, which means to be more rapid, or the economic recovery is also expected to be slow. According to:

- How much the **epidemic will intensify and continue** in the world;
- Whether all this will create **fiscal sustainability problems** for countries and;
- How quickly pre-epidemic **economic relations and behaviors will recover**.

It is possible to consider positive and negative scenarios of macroeconomic development.

The positive scenario assumes that the negative effects caused by the current coronavirus (Covid-19) will peak in Georgia and the rest of the world in May, and from 2021 the Georgian economy will begin to recover rapidly along with the rest of the world, and there will not be further “waves” of the virus spread. According to the same scenario, both in Georgia and in the rest of the world, the pandemic will not cause fiscal/debt sustainability problems. Also, the world will keep healthy fiscal positions. According to the positive scenario, the tourism sector in Georgia will start to revive in 2021, with further growth in foreign demand. In the medium term, the positive scenario implies permanent positive shocks in the country and high economic growth.

The negative scenario assumes that from the second quarter of 2021, the epidemiological situation in the country will not improve significantly, and current restrictions and prohibitions will maintain. It might also continue during the third quarter of 2021, and in the fourth quarter to the response of the so-called "fourth wave" minor restrictions will still be placed. Under this scenario, it is supposed that by 2021, certain debt-vulnerable countries may face fiscal sustainability problems, leading to additional external shocks and less growth in global demand. According to the negative scenario, it is also likely that the revival of tourist flows will take place from the second half of 2021, although its pace will be lower in the medium-term compared to the assumptions of the baseline scenario. In the medium term, the negative scenario assumes that the economic recovery will be hard to achieve and that production potential will also decline in the face of reduced economic activity.

6.1 MAIN ASSUMPTIONS

The Parliamentary Budget Office Macroeconomic Forecasting Model (PBOMFM) scenarios incorporate shocks due to changes of two main macroeconomic variables: inflation and real GDP. Deviations from the baseline scenario of other macroeconomic variables are due to shocks to inflation and GDP growth.

Positive and negative scenarios of real GDP growth represent a deviation from the baseline scenario caused by the possible realization of the mentioned assumptions.

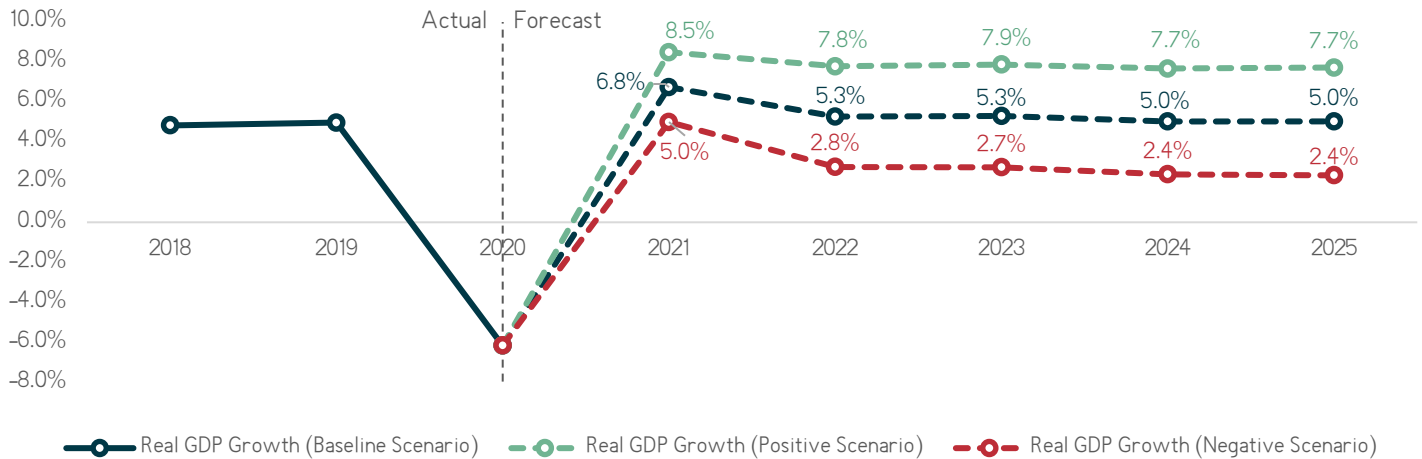


Figure 22: Real GDP Growth Rate (Baseline, Positive and Negative Scenarios).

The macroeconomic scenarios are based on the assumption that, in the case of the positive scenario, permanently positive shocks will be realized over the entire medium term, while, in the case of a negative scenario, negative economic development trends are expected each year compared to the baseline scenario.

Given these assumptions, the average economic growth rate during 2021-2025 will be 7.9% in case of the positive scenario, while in case of the negative scenario average growth will be 3.1%.

As for consumer price inflation, its positive and negative scenarios take into account inflation trends during the years of economic acceleration and slowdown, as well as the inflation model forecast error.

In case of the positive scenario, we expect inflation to be permanently higher compared to the baseline scenario (5.9% on average), while in case of the negative scenario, inflation will be lower than the baseline scenario figure (2.7% on average).

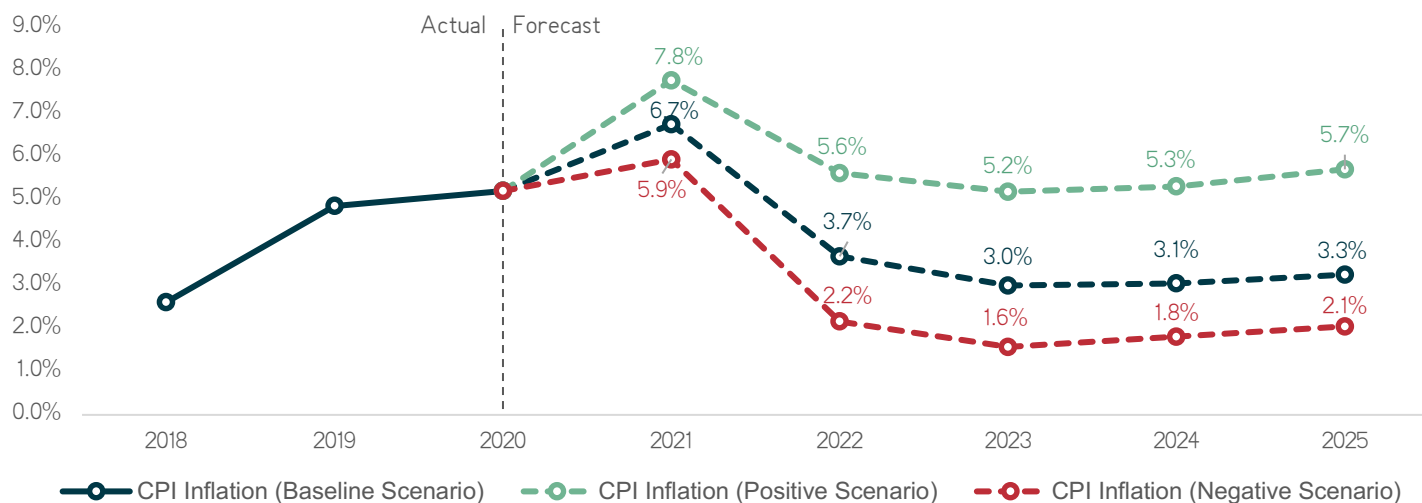


Figure 23: CPI Inflation, (Baseline, Positive and Negative Scenarios).

The combination of the real GDP and inflation in positive scenarios is the basis of the positive scenario model, while the combination of the negative scenarios forms the negative scenario model.

The model assumes that major macroeconomic shocks affect these two indicators in the first place. Moreover, real GDP and inflation affect one another, which also carries economic content.

Higher economic growth compared to the baseline scenario means higher aggregate demand and, thus, higher prices, while permanently low economic growth translates in lower aggregate demand and, therefore, lower prices. On the other hand, higher and stable inflation stimulates consumption, which boosts aggregate demand and, thus, output, while low inflation creates incentives for saving and lowers aggregate demand in the medium run.

Negative and positive scenarios are built on the assumption that the government spending policy will proceed as reflected in the negative and positive scenarios presented by the government. The positive scenario of the PBO includes the positive spending policy of the government, while the negative scenario includes the spending policy of the negative scenario of the government¹³.

6.2 POSITIVE AND NEGATIVE SCENARIOS

As for the economic scenarios by sectors:

High economic growth and high prices result in an increased tax base and, thus, higher tax revenues, while in the negative scenario, the volume of the tax revenues will decline compared to the baseline.

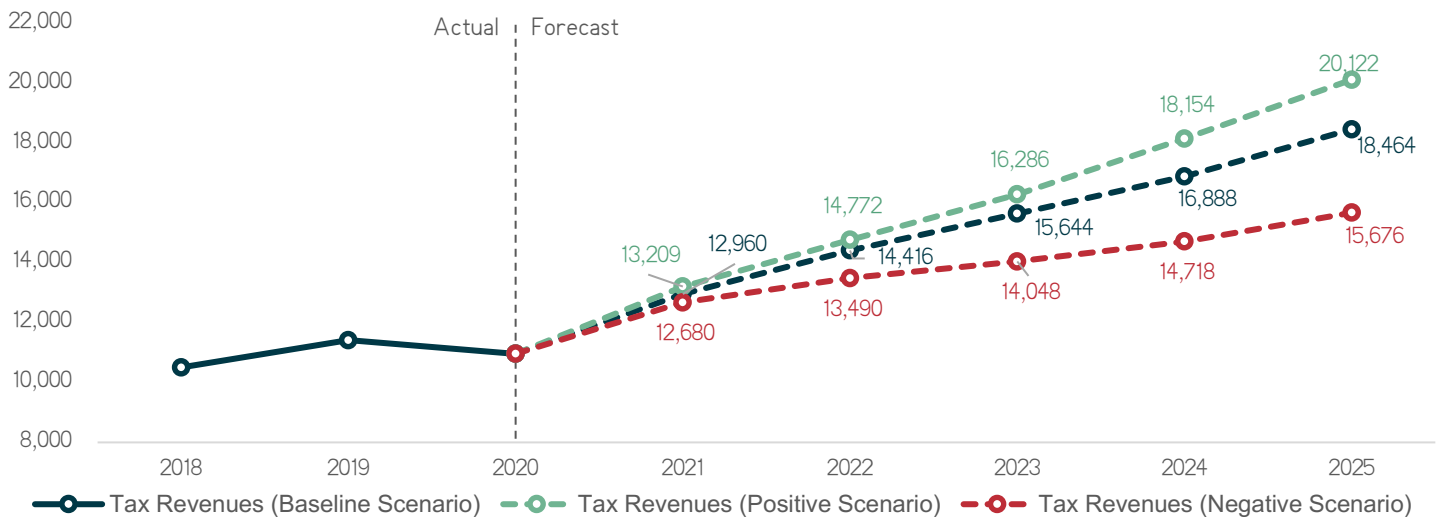


Figure 24: Tax Revenue (Baseline, Positive and Negative Scenarios).

It should also be noted that the PBO forecasts, along with the different tax revenue forecasts, include expenditures reflected in the relevant positive and negative scenarios presented by the government. All this, in turn, is reflected in the change of the budget deficit, which differs from the baseline forecasts of the PBO, as well as from the positive and negative scenarios of the government (see annexes 7 and 8).

¹³ Attached materials submitted with the Basic Data and Directions document 2022-2025

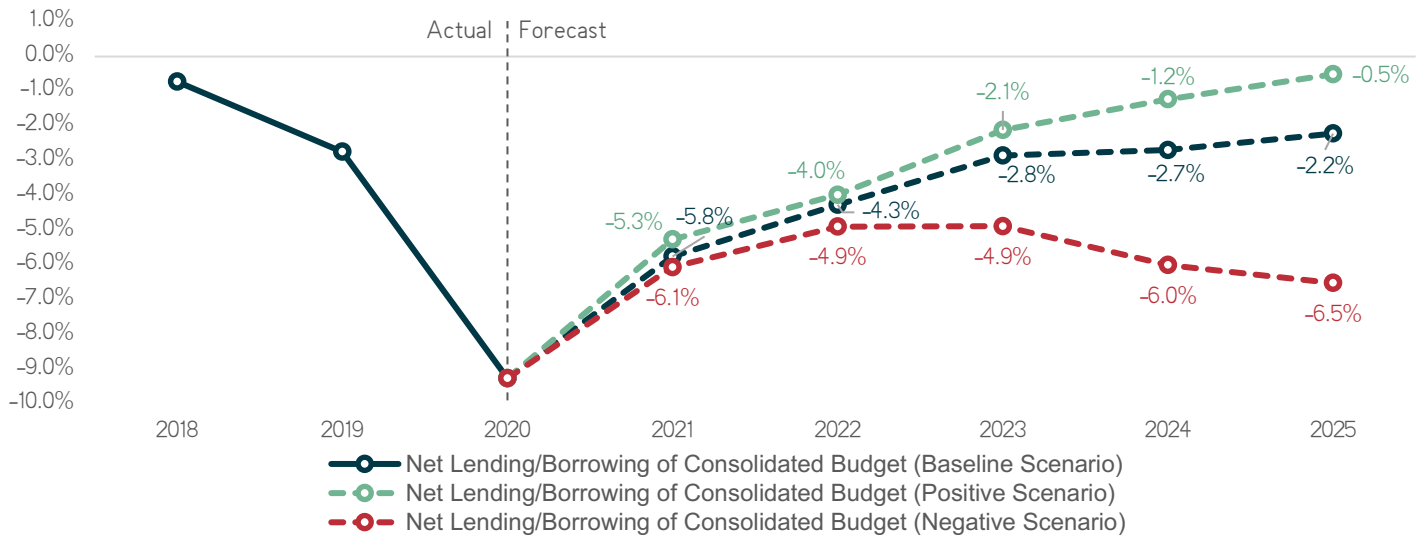


Figure 25: Net Lending/Borrowing Balance of Consolidated Budget (Baseline, Positive and Negative Scenarios).

According to the positive scenario, the negative overall balance of the consolidated budget is expected to be higher than the 3% target in 2021 and will be less than 3% only by 2023. Then it will gradually decline, and its ratio to GDP will be slightly negative (-0.5%) by 2025. As for the unified budget deficit, it will be -5.4% in 2021, then it will start to decline gradually, and it will be less than 3% from 2023.

On the other hand, in the case of the development of a negative scenario, it is expected that the negative overall balance of the consolidated budget in the medium-term will be consistently more than 3%, and the average value will be -5.7% in 2021-2025. The same trend will characterize the unified budget deficit, it will start to decline from 2021, but it still will be consistently more than 3.0% in the medium run.

It is also essential to know what direction will have the existing fiscal policy according to the different scenarios of the government, in terms of allowing expenditure changes: balancing and weakening economic cycles (countercyclical), or contrary - strengthening them (procyclical).

According to the positive scenario, the fiscal stance (cyclically adjusted primary balance with a negative sign) will be positive (expansion) in 2021, which corresponds to the countercyclical practice of stimulating the economy during a slowdown. In 2022-2024, the fiscal stance is still positive, which means that the government is stimulating the economy (expansion). During this period, the economy becomes stronger than potential, and the government's fiscal policy operates towards the cyclical, which is a procyclical expansion. And the fiscal policy is still countercyclical in 2025, while the actual level of production exceeds the potential, the government reduces the deficit, or in other words, countercyclical consolidation takes place.

As for the negative scenario, the fiscal stance is positive throughout the whole medium run (expansion). Thus, fiscal policy is countercyclical during the slowdown (2021-2025). During this period, countercyclical expansion takes place.

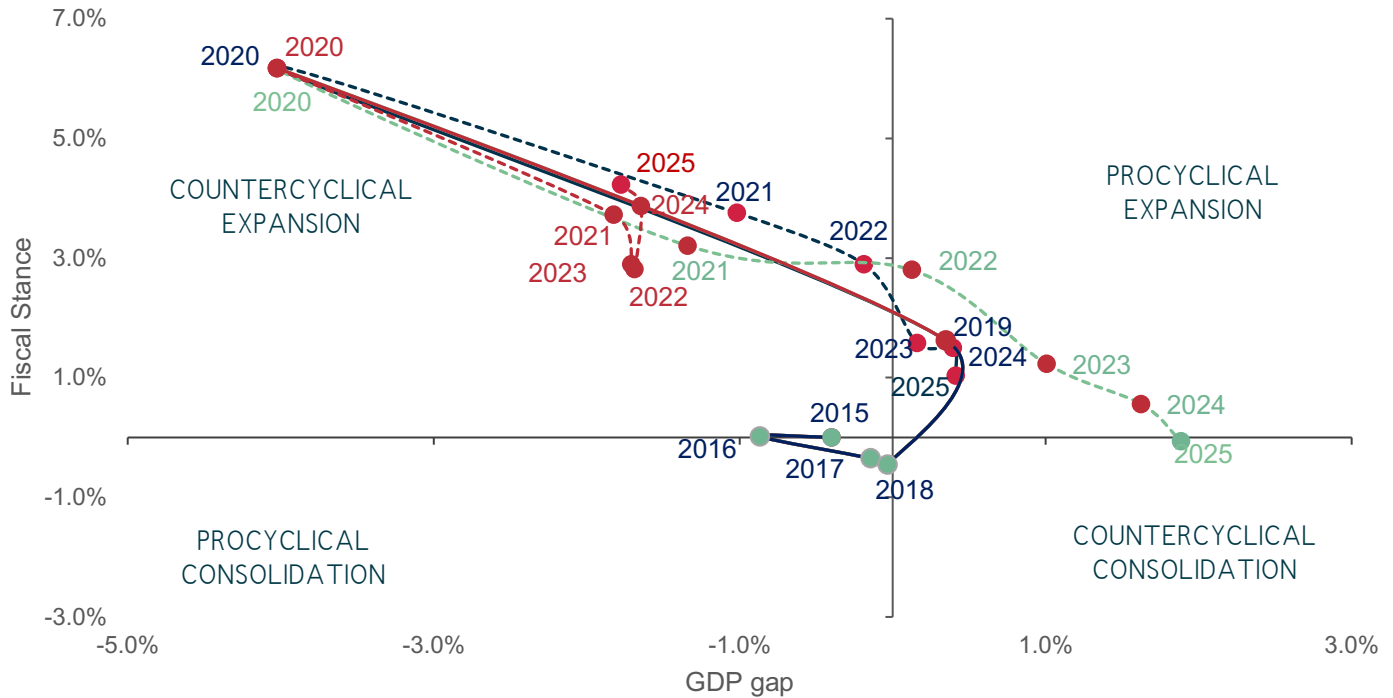


Figure 26: Fiscal Stance (Baseline, Positive and Negative Scenarios).

As for the external sector, in the case of a positive scenario, both exports and imports are expected to increase relatively more in 2021, but in the medium-term, because of the significant economic recovery from 2021, the tourism sector will recover faster, which will improve the trade balance compared to the baseline scenario. At the same time, the various components of the balance of payments may change, which will affect the structure of the current account and the capital and financial account.

The development of the negative scenario and the reduction of economic activity are related to the reduced foreign trade and the balance of payments different structure.

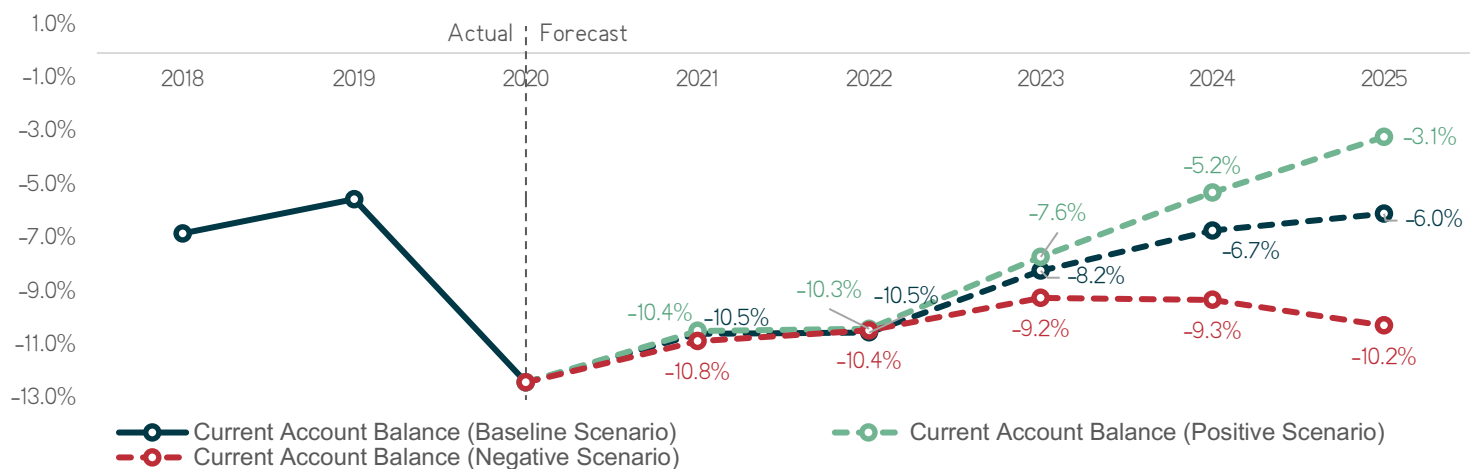


Figure 27: Current Account Balance (Baseline, Positive and Negative Scenarios).

It should be noted that under the positive and negative scenarios, the current account deficit in 2021-2022 does not differ significantly from each other, in addition, the positive scenario predicts a periodic reduction of

the deficit, while the negative scenario predicts the current account deficit to be around 10% from 2021. According to the positive and negative scenarios, the ratio of the current account deficit to GDP will be -3.1% and -10.2% by 2025, respectively.

The activity of the monetary sector is also directly related to the economic development trends: In case of high activity, the money in circulation is likely to increase, as well as the domestic and foreign assets of the Central Bank and other depository corporations. In turn, in the case of a negative scenario, it is expected that both the assets and liabilities of the Central Bank and commercial banks will decrease compared to the baseline scenario.

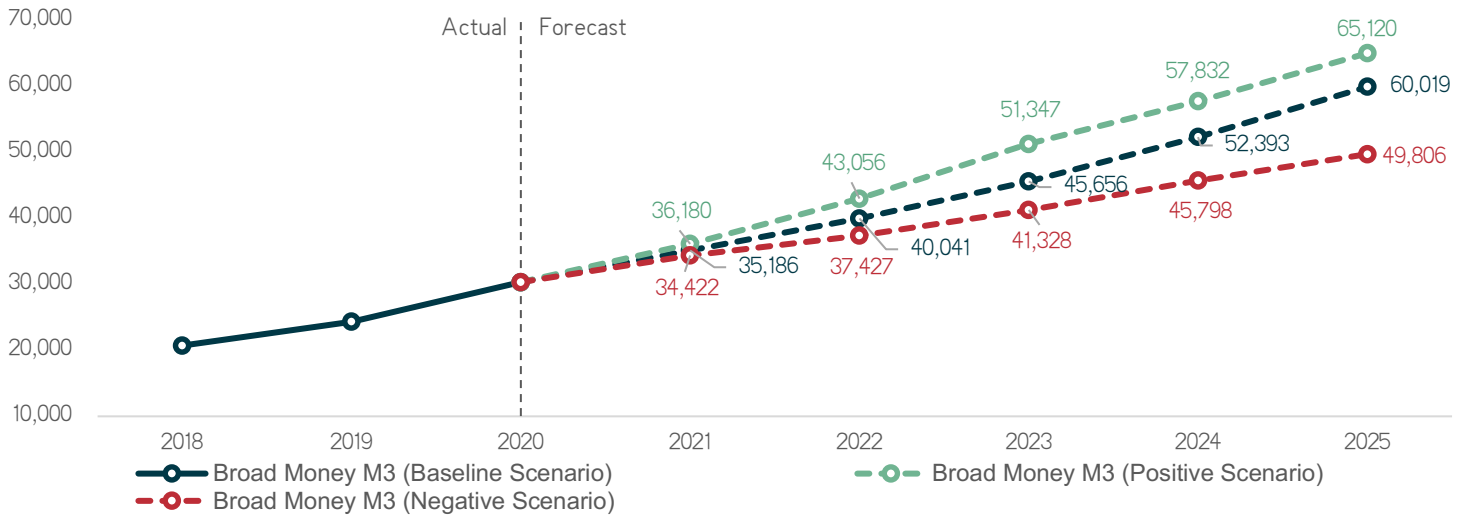


Figure 28: Broad Money M3 (Baseline, Positive and Negative Scenarios).

In the positive scenario, money aggregate M3 will always exceed the corresponding figure of the baseline scenario. While in the negative scenario, the volume of M3 money aggregate will be less than the corresponding figure of the baseline scenario.

Taking economic trends into account, we expect both the domestic and external activity structure and directions to change. For a comprehensive description of all this, we should look at the country’s gross savings.

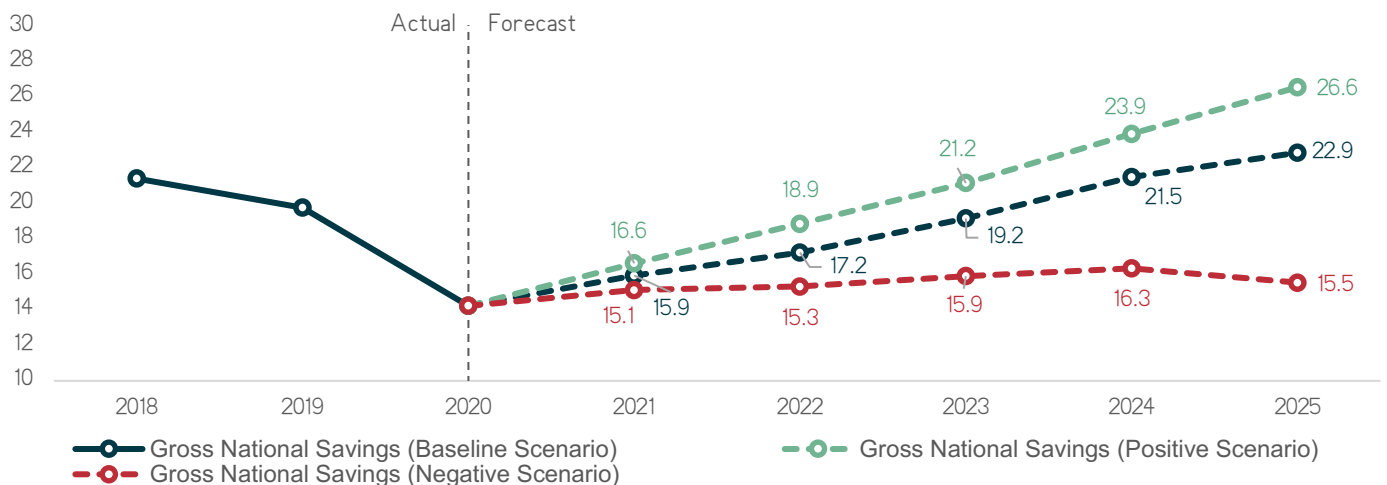


Figure 4: Gross National Savings (Baseline, Positive and Negative Scenarios).

According to the positive scenario, the domestic (gross national) savings will increase more than in the baseline scenario case. Although, in parallel to the reduced external savings (current account deficit), the main source of increased gross savings¹⁴, and for the financing significantly increased investments compared to the baseline scenario will be domestic savings.

In turn, in the case of the negative scenario, which implies fewer budget revenues (respectively fewer government savings) and slightly more current account deficit (respectively more external savings), the national savings will be somewhat lower than in the baseline scenario by 2021. In the case of a negative scenario, in the medium-term, the main source of savings is external savings, meaning that the increase in the current account deficit becomes important for the formation of gross savings and an important source of investments.

¹⁴ Gross savings are the difference between the country's domestic (gross national) savings and the current account balance

Annex 1: Detailed Forecasts of Key Macroeconomic Indicators for 2021–2025 (Baseline Scenario)¹⁵

	2018 Actual	2019 Actual	2020 Actual	2021 PBO Expected	2022 PBO Forecast	2023 PBO Forecast	2024 PBO Forecast	2025 PBO Forecast
REAL SECTOR	% change							
Real GDP	4.8%	5.0%	-6.2%	6.8%	5.3%	5.3%	5.0%	5.0%
Consumer Price Inflation	2.6%	4.9%	5.2%	6.7%	3.7%	3.0%	3.1%	3.3%
GDP Deflator	4.4%	5.2%	6.9%	7.3%	4.5%	4.1%	4.1%	3.9%
Nominal GDP								
GEL Million	44,599	49,253	49,407	56,579	62,230	68,202	74,573	81,406
USD Million	17,581	17,422	15,870	17,391	19,503	21,686	24,036	26,717
GDP Per Capita								
GEL	11,968	13,239	13,293	15,222	16,743	18,349	20,063	21,902
USD	4,718	4,683	4,270	4,679	5,247	5,835	6,467	7,188
	% of GDP							
Absorption	110.6	109.0	118.6	116.8	116.3	113.3	111.8	110.6
Consumption	82.5	83.7	92.4	90.4	88.6	85.9	83.6	81.7
Private	75.2	76.7	84.9	82.9	81.8	79.4	77.2	75.4
Government	7.3	7.0	7.6	7.4	6.8	6.5	6.4	6.3
Investment	28.1	25.3	26.2	26.4	27.7	27.3	28.2	28.9
Private	21.7	17.3	17.6	18.6	19.2	20.1	20.8	21.7
Government	6.4	8.0	8.5	7.8	8.5	7.3	7.4	7.3
Gross National Saving	21.4	19.8	14.2	15.9	17.2	19.2	21.5	22.9
Private	16.2	14.9	15.3	14.9	13.6	15.3	17.4	18.3
Government	5.2	4.9	-1.1	1.0	3.6	3.8	4.1	4.5
FISCAL SECTOR	GEL Million							
Revenues and Grants	11,822	12,907	12,407	14,334	15,847	17,145	18,418	20,019
Tax Revenues	10,506	11,418	10,964	12,960	14,416	15,644	16,888	18,464
Direct Taxes	4,540	4,593	4,433	5,086	5,794	6,346	7,043	7,846
Indirect Taxes	5,966	6,825	6,531	7,874	8,622	9,298	9,845	10,619
Expenditures and Net Acquisition of Nonfinancial Assets	12,146	14,258	16,981	17,588	18,502	19,088	20,422	21,823
Recurrent expenditures	9,493	10,519	12,959	13,758	13,617	14,538	15,352	16,323
Net Acquisition of Nonfinancial Assets	2,653	3,739	4,022	3,830	4,885	4,550	5,070	5,500
Operating Balance	2,329	576	-552	576	2,230	2,606	3,065	3,695

¹⁵ Nominal expenditures, non-financial assets and debt are taken from the forecasted macroeconomic indicators presented in the Basic Data and Directions Document for 2022-2025.

Overall Balance	-323	-1,350	-4,574	-3,254	-2,655	-1,944	-2,005	-1,805
State Debt	17,349	20,577	29,613	31,717	33,466	35,590	37,996	40,475
External	14,098	15,750	23,467	25,621	26,440	27,433	28,410	29,427
Domestic	3,251	4,827	6,145	6,096	7,026	8,156	9,586	11,048
Fiscal Balance	-1,016	-1,019	-4,595	-3,345	-2,790	-2,079	-2,140	-1,940
Unified Budget Balance	-305	-1,297	-4,451	-3,346	-2,687	-2,017	-2,099	-1,910
	% of GDP							
Revenues and Grants	26.5%	26.2%	25.1%	25.3%	25.5%	25.1%	24.7%	24.6%
Tax Revenues	23.6%	23.2%	22.2%	22.9%	23.2%	22.9%	22.6%	22.7%
Direct Taxes	10.2%	9.3%	9.0%	9.0%	9.3%	9.3%	9.4%	9.6%
Indirect Taxes	13.4%	13.9%	13.2%	13.9%	13.9%	13.6%	13.2%	13.0%
Expenditures and Net Acquisition of Nonfinancial Assets	27.2%	28.9%	34.4%	31.1%	29.7%	28.0%	27.4%	26.8%
Recurrent expenditures	21.3%	21.4%	26.2%	24.3%	21.9%	21.3%	20.6%	20.1%
Net Acquisition of Nonfinancial Assets	5.9%	7.6%	8.1%	6.8%	7.8%	6.7%	6.8%	6.8%
Operating Balance	5.2%	1.2%	-1.1%	1.0%	3.6%	3.8%	4.1%	4.5%
Overall Balance	-0.7%	-2.7%	-9.3%	-5.8%	-4.3%	-2.8%	-2.7%	-2.2%
State Debt	38.9%	41.8%	59.9%	56.1%	53.8%	52.2%	51.0%	49.7%
External	31.6%	32.0%	47.5%	45.3%	42.5%	40.2%	38.1%	36.1%
Domestic	7.3%	9.8%	12.4%	10.8%	11.3%	12.0%	12.9%	13.6%
Fiscal Balance	-2.3%	-2.1%	-9.3%	-5.9%	-4.5%	-3.0%	-2.9%	-2.4%
Unified Budget Balance	-0.7%	-2.6%	-9.0%	-5.9%	-4.3%	-3.0%	-2.8%	-2.3%

MONETARY SECTOR

	% of GDP, unless noted otherwise							
Net Foreign Assets	-0.4%	-0.7%	1.9%	3.3%	3.9%	4.0%	3.9%	3.9%
Net Domestic Assets	46.9%	50.2%	59.6%	58.9%	60.5%	63.0%	66.3%	69.8%
Broad Money M3	46.5%	49.5%	61.5%	62.2%	64.3%	66.9%	70.3%	73.7%
Broad Money M2	21.7%	23.3%	27.6%	28.1%	30.6%	32.9%	35.1%	36.9%

EXTERNAL SECTOR

	% of GDP, unless noted otherwise							
Current Account Balance	-6.8%	-5.5%	-12.3%	-10.5%	-10.5%	-8.2%	-6.7%	-6.0%
Trade Balance	-10.6%	-8.9%	-18.9%	-16.8%	-16.3%	-13.2%	-11.7%	-10.5%
Official International Reserves (USD Million)	3,289.8	3,505.8	3,910.6	4,403.1	4,682.9	4,766.5	5,011.6	5,375.9
Months of Import	3.7	3.8	5.2	5.0	4.4	4.2	4.0	3.8
Net Private Capital and Financial Flows (USD Million)	393.8	450.5	832.2	1,049.7	959.1	1,068.2	1,129.8	1,214.6

Annex 2: Detailed Forecasts of Key Macroeconomic Indicators for 2021–2025 (Positive Scenario)¹⁶

	2018 Actual	2019 Actual	2020 Actual	2021 PBO Expected	2022 PBO Forecast	2023 PBO Forecast	2024 PBO Forecast	2025 PBO Forecast
REAL SECTOR	% change							
Real GDP	4.8%	5.0%	-6.2%	8.5%	7.8%	7.9%	7.7%	7.7%
Consumer Price Inflation	2.6%	4.9%	5.2%	7.8%	5.6%	5.2%	5.3%	5.7%
GDP Deflator	4.4%	5.2%	6.9%	8.5%	6.7%	6.3%	6.7%	6.8%
Nominal GDP								
GEL Million	44,599	49,253	49,407	58,177	66,917	76,704	88,099	101,349
USD Million	17,581	17,422	15,870	17,886	20,974	24,393	28,399	33,267
GDP Per Capita								
GEL	11,968	13,239	13,293	15,652	18,004	20,637	23,702	27,267
USD	4,718	4,683	4,270	4,812	5,643	6,563	7,641	8,950
	% of GDP							
Absorption	110.6	109.0	118.6	116.3	115.5	111.6	108.6	106.1
Consumption	82.5	83.7	92.4	89.3	86.3	82.7	79.4	76.4
Private	75.2	76.7	84.9	82.1	79.9	77.0	74.1	71.4
Government	7.3	7.0	7.6	7.2	6.4	5.8	5.4	5.0
Investment	28.1	25.3	26.2	27.0	29.2	28.8	29.2	29.8
Private	21.7	17.3	17.6	19.3	20.7	21.7	22.6	23.6
Government	6.4	8.0	8.5	7.7	8.5	7.1	6.6	6.2
Gross National Saving	21.4	19.8	14.2	16.6	18.9	21.2	23.9	26.6
Private	16.2	14.9	15.3	15.2	15.0	16.7	19.0	21.3
Government	5.2	4.9	-1.1	1.4	3.8	4.4	4.9	5.3
FISCAL SECTOR	GEL Million							
Revenues and Grants	11,822	12,907	12,407	14,579	16,275	17,927	19,799	21,799
Tax Revenues	10,506	11,418	10,964	13,209	14,772	16,286	18,154	20,122
Direct Taxes	4,540	4,593	4,433	5,174	6,028	6,707	7,635	8,732
Indirect Taxes	5,966	6,825	6,531	8,035	8,744	9,579	10,519	11,390
Expenditures and Net Acquisition of Nonfinancial Assets	12,146	14,258	16,981	17,639	18,937	19,548	20,881	22,316
Recurrent expenditures	9,493	10,519	12,959	13,758	13,702	14,538	15,502	16,476
Net Acquisition of Nonfinancial Assets	2,653	3,739	4,022	3,881	5,235	5,010	5,379	5,840
Operating Balance	2,329	820	-552	820	2,573	3,389	4,297	5,323

¹⁶ Nominal expenditures, non-financial assets and debt are taken from the forecasted macroeconomic indicators presented in the Basic Data and Directions Document for 2022-2025.

Overall Balance	-323	-1,350	-4,574	-3,061	-2,662	-1,621	-1,082	-517
State Debt	17,349	20,577	29,613	31,717	33,466	35,590	37,996	40,475
External	14,098	15,750	23,467	25,621	26,440	27,433	28,410	29,427
Domestic	3,251	4,827	6,145	6,096	7,026	8,156	9,586	11,048
Fiscal Balance	-1,016	-1,019	-4,595	-3,152	-2,797	-1,756	-1,217	-652
Unified Budget Balance	-305	-1,297	-4,451	-3,152	-2,694	-1,694	-1,176	-622
	% of GDP							
Revenues and Grants	26.5%	26.2%	25.1%	25.1%	24.3%	23.4%	22.5%	21.5%
Tax Revenues	23.6%	23.2%	22.2%	22.7%	22.1%	21.2%	20.6%	19.9%
Direct Taxes	10.2%	9.3%	9.0%	8.9%	9.0%	8.7%	8.7%	8.6%
Indirect Taxes	13.4%	13.9%	13.2%	13.8%	13.1%	12.5%	11.9%	11.2%
Expenditures and Net Acquisition of Nonfinancial Assets	27.2%	28.9%	34.4%	30.3%	28.3%	25.5%	23.7%	22.0%
Recurrent expenditures	21.3%	21.4%	26.2%	23.6%	20.5%	19.0%	17.6%	16.3%
Net Acquisition of Nonfinancial Assets	5.9%	7.6%	8.1%	6.7%	7.8%	6.5%	6.1%	5.8%
Operating Balance	5.2%	1.7%	-1.1%	1.4%	3.8%	4.4%	4.9%	5.3%
Overall Balance	-0.7%	-2.7%	-9.3%	-5.3%	-4.0%	-2.1%	-1.2%	-0.5%
State Debt	38.9%	41.8%	59.9%	54.5%	50.0%	46.4%	43.1%	39.9%
External	31.6%	32.0%	47.5%	44.0%	39.5%	35.8%	32.2%	29.0%
Domestic	7.3%	9.8%	12.4%	10.5%	10.5%	10.6%	10.9%	10.9%
Fiscal Balance	-2.3%	-2.1%	-9.3%	-5.4%	-4.2%	-2.3%	-1.4%	-0.6%
Unified Budget Balance	-0.7%	-2.6%	-9.0%	-5.4%	-4.0%	-2.2%	-1.3%	-0.6%

MONETARY SECTOR

	% of GDP, unless noted otherwise							
Net Foreign Assets	-0.4%	-0.7%	1.9%	3.2%	3.7%	3.7%	3.5%	3.2%
Net Domestic Assets	46.9%	50.2%	59.6%	59.0%	60.7%	63.3%	62.2%	61.0%
Broad Money M3	46.5%	49.5%	61.5%	62.2%	64.3%	66.9%	65.6%	64.3%
Broad Money M2	21.7%	23.3%	27.6%	28.1%	30.6%	32.9%	35.1%	36.9%

EXTERNAL SECTOR

	% of GDP, unless noted otherwise							
Current Account Balance	-6.8%	-5.5%	-12.3%	-10.4%	-10.3%	-7.6%	-5.2%	-3.1%
Trade Balance	-10.6%	-8.9%	-18.9%	-16.4%	-15.5%	-11.5%	-8.6%	-6.1%
Official International Reserves (USD Million)	3,289.8	3,505.8	3,910.6	4,487.6	4,873.1	5,104.6	5,347.6	5,804.7
Months of Import	3.7	3.8	5.2	4.9	4.3	4.1	3.9	3.7
Net Private Capital and Financial Flows (USD Million)	393.8	450.5	832.2	1,170.0	1,142.5	1,025.5	1,204.4	1,253.1

Annex 3: Detailed Forecasts of Key Macroeconomic Indicators for 2021–2025 (Negative Scenario)¹⁷

	2018 Actual	2019 Actual	2020 Actual	2021 PBO Expected	2022 PBO Forecast	2023 PBO Forecast	2024 PBO Forecast	2025 PBO Forecast
REAL SECTOR	% change							
Real GDP	4.8%	5.0%	-6.2%	5.0%	2.8%	2.7%	2.4%	2.4%
Consumer Price Inflation	2.6%	4.9%	5.2%	5.9%	2.2%	1.6%	1.8%	2.1%
GDP Deflator	4.4%	5.2%	6.9%	6.0%	2.2%	1.9%	1.5%	1.1%
Nominal GDP								
GEL Million	44,599	49,253	49,407	55,007	57,793	60,498	62,897	65,063
USD Million	17,581	17,422	15,870	16,905	18,110	19,234	20,269	21,349
GDP Per Capita								
GEL	11,968	13,239	13,293	14,799	15,549	16,277	16,922	17,505
USD	4,718	4,683	4,270	4,548	4,872	5,175	5,453	5,744
	% of GDP							
Absorption	110.6	109.0	118.6	117.2	116.8	115.2	115.7	116.7
Consumption	82.5	83.7	92.4	91.3	91.0	90.1	90.0	90.9
Private	75.2	76.7	84.9	83.7	83.7	82.7	82.4	83.0
Government	7.3	7.0	7.6	7.6	7.3	7.3	7.6	7.8
Investment	28.1	25.3	26.2	25.9	25.7	25.1	25.6	25.8
Private	21.7	17.3	17.6	17.9	17.8	17.8	17.5	17.1
Government	6.4	8.0	8.5	8.0	8.0	7.3	8.2	8.7
Gross National Saving	21.4	19.8	14.2	15.1	15.3	15.9	16.3	15.5
Private	16.2	14.9	15.3	13.9	12.9	14.2	14.8	14.1
Government	5.2	4.9	-1.1	1.2	2.4	1.7	1.5	1.5
FISCAL SECTOR	GEL Million							
Revenues and Grants	11,822	12,907	12,407	14,062	14,890	15,481	16,188	17,169
Tax Revenues	10,506	11,418	10,964	12,680	13,490	14,048	14,718	15,676
Direct Taxes	4,540	4,593	4,433	4,947	5,285	5,458	5,823	6,235
Indirect Taxes	5,966	6,825	6,531	7,733	8,205	8,590	8,894	9,441
Expenditures and Net Acquisition of Nonfinancial Assets	12,146	14,258	16,981	17,394	17,717	18,433	19,962	21,408
Recurrent expenditures	9,493	10,519	12,959	13,408	13,517	14,433	15,242	16,208
Net Acquisition of Nonfinancial Assets	2,653	3,739	4,022	3,986	4,200	4,000	4,720	5,200
Operating Balance	2,329	653	-552	653	1,373	1,048	945	961

¹⁷ Nominal expenditures, non-financial assets and debt are taken from the forecasted macroeconomic indicators presented in the Basic Data and Directions Document for 2022-2025.

Overall Balance	-323	-1,350	-4,574	-3,333	-2,827	-2,952	-3,775	-4,239
State Debt	17,349	20,577	29,613	31,717	33,466	35,590	37,996	40,475
External	14,098	15,750	23,467	25,621	26,440	27,433	28,410	29,427
Domestic	3,251	4,827	6,145	6,096	7,026	8,156	9,586	11,048
Fiscal Balance	-1,016	-1,019	-4,595	-3,424	-2,962	-3,087	-3,910	-4,374
Unified Budget Balance	-305	-1,297	-4,451	-3,424	-2,860	-3,026	-3,869	-4,345
	% of GDP							
Revenues and Grants	26.5%	26.2%	25.1%	25.6%	25.8%	25.6%	25.7%	26.4%
Tax Revenues	23.6%	23.2%	22.2%	23.1%	23.3%	23.2%	23.4%	24.1%
Direct Taxes	10.2%	9.3%	9.0%	9.0%	9.1%	9.0%	9.3%	9.6%
Indirect Taxes	13.4%	13.9%	13.2%	14.1%	14.2%	14.2%	14.1%	14.5%
Expenditures and Net Acquisition of Nonfinancial Assets	27.2%	28.9%	34.4%	31.6%	30.7%	30.5%	31.7%	32.9%
Recurrent expenditures	21.3%	21.4%	26.2%	24.4%	23.4%	23.9%	24.2%	24.9%
Net Acquisition of Nonfinancial Assets	5.9%	7.6%	8.1%	7.2%	7.3%	6.6%	7.5%	8.0%
Operating Balance	5.2%	1.3%	-1.1%	1.2%	2.4%	1.7%	1.5%	1.5%
Overall Balance	-0.7%	-2.7%	-9.3%	-6.1%	-4.9%	-4.9%	-6.0%	-6.5%
State Debt	38.9%	41.8%	59.9%	57.7%	57.9%	58.8%	60.4%	62.2%
External	31.6%	32.0%	47.5%	46.6%	45.7%	45.3%	45.2%	45.2%
Domestic	7.3%	9.8%	12.4%	11.1%	12.2%	13.5%	15.2%	17.0%
Fiscal Balance	-2.3%	-2.1%	-9.3%	-6.2%	-5.1%	-5.1%	-6.2%	-6.7%
Unified Budget Balance	-0.7%	-2.6%	-9.0%	-6.2%	-4.9%	-5.0%	-6.2%	-6.7%

MONETARY SECTOR

	% of GDP, unless noted otherwise							
Net Foreign Assets	-0.4%	-0.7%	1.9%	3.2%	3.9%	4.1%	4.1%	4.1%
Net Domestic Assets	46.9%	50.2%	59.6%	59.3%	60.9%	64.2%	68.7%	72.5%
Broad Money M3	46.5%	49.5%	61.5%	62.6%	64.8%	68.3%	72.8%	76.5%
Broad Money M2	21.7%	23.3%	27.6%	28.1%	30.6%	32.9%	35.1%	36.9%

EXTERNAL SECTOR

	% of GDP, unless noted otherwise							
Current Account Balance	-6.8%	-5.5%	-12.3%	-10.8%	-10.4%	-9.2%	-9.3%	-10.2%
Trade Balance	-10.6%	-8.9%	-18.9%	-17.2%	-16.7%	-15.1%	-15.6%	-16.6%
Official International Reserves (USD Million)	3,289.8	3,505.8	3,910.6	4,179.9	4,412.3	4,421.8	4,567.6	4,760.3
Months of Import	3.7	3.8	5.2	4.9	4.5	4.3	4.1	3.9
Net Private Capital and Financial Flows (USD Million)	393.8	450.5	832.2	941.4	848.7	919.5	904.1	959.8

Annex 4: Change in Forecasts of Key Macroeconomic Indicators, 2021-2022 (Baseline Scenario)

	2021				2022			
	June 2021		December 2020		June 2021		December 2020	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	6.5%	6.8%	4.3%	5.2%	6.8%	5.3%	5.8%	5.5%
Consumer Price Inflation	6.5%	6.7%	2.5%	3.2%	3.5%	3.7%	3.0%	3.1%
GDP Deflator	6.5%	7.3%	3.8%	3.4%	4.0%	4.5%	3.0%	3.7%
Nominal GDP (GEL Million)	56,038	56,579	53,443	53,537	62,242	62,230	58,239	58,533
Tax Revenues (GEL Million)	12,345	12,960	12,045	12,183	14,359	14,416	13,460	13,220
Direct Taxes (GEL Million)	4,892	5,086	5,019	5,077	6,194	5,794	5,610	5,557
Indirect Taxes (GEL Million)	7,453	7,874	7,026	7,106	8,165	8,622	7,850	7,663
Consolidated Budget Overall Balance (GEL Million)	-3,887	-3,254	-3,991	-3,653.8	-2,605	-2,655	-2,399	-2,502.2
Current Account Balance (% of GDP)	-11.3%	-10.5%	-8.5%	-8.5%	-10.5%	-10.5%	-6.3%	-7.0%
Trade Balance (% of GDP)	-18.1%	-16.8%	-11.4%	-12.0%	-17.9%	-16.3%	-10.1%	-9.6%
Exports (% change YoY, USD)	18.6%	29.4%	9.0%	12.5%	20.7%	25.6%	18.3%	20.1%
Imports (% change YoY, USD)	13.3%	18.6%	4.1%	9.1%	17.3%	21.0%	13.3%	13.3%
International Reserves (USD Million)	4,223	4,403	3,440.5	3,720.6	4,941	4,683	3,667.5	3,936.1
Money Aggregate M3 (GEL Million)	37,166	35,186	29,466	31,246	44,666	40,041	34,157	34,008
Money Aggregate M2 (GEL Million)	16,934	15,908	14,091	14,582	20,638	19,024	16,607	16,096

Annex 5: Change in Forecasts of Key Macroeconomic Indicators, 2023-2024 (Baseline Scenario)

	2023				2024			
	June 2021		December 2020		June 2021		December 2020	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	6.4%	5.3%	5.5%	5.4%	5.5%	5.0%	5.2%	5.4%
Consumer Price Inflation	3.0%	3.0%	3.0%	3.1%	3.0%	3.1%	3.0%	3.1%
GDP Deflator	3.0%	4.1%	3.0%	3.6%	3.0%	4.1%	3.0%	3.7%
Nominal GDP (GEL Million)	68,213	68,202	63,285	63,922	74,123	74,573	68,573	69,897
Tax Revenues (GEL Million)	15,566	15,644	14,790	14,516	16,834	16,888	16,181	15,968
Direct Taxes (GEL Million)	6,737	6,346	6,179	6,209	7,307	7,043	6,777	6,949
Indirect Taxes (GEL Million)	8,829	9,298	8,611	8,307	9,527	9,845	9,404	9,019
Consolidated Budget Overall Balance (GEL Million)	-1,892	-1,944	-1,813	-1,953.7	-1,851	-2,005	-1,646	-1,832.6
Current Account Balance (% of GDP)	-9.6%	-8.2%	-6.1%	-6.0%	-8.1%	-6.7%	-5.7%	-5.9%
Trade Balance (% of GDP)	-17.1%	-13.2%	-10.5%	-8.1%	-15.6%	-11.7%	-10.6%	-7.7%
Exports (% change YoY, USD)	21.2%	12.0%	18.3%	14.9%	20.4%	13.8%	16.5%	15.7%
Imports (% change YoY, USD)	16.5%	6.7%	17.2%	11.0%	15.0%	10.4%	15.3%	13.7%
International Reserves (USD Million)	5,732	4,767	3,887.6	3,954.1	6,649	5,012	4,206.4	4,056.5
Money Aggregate M3 (GEL Million)	52,614	45,656	39,315	37,104	60,641	52,393	44,927	40,052
Money Aggregate M2 (GEL Million)	24,690	22,406	19,443	17,802	28,948	26,141	22,613	19,381

	2021		2022		2023		2024		2025	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	10.2%	8.5%	5.8%	7.8%	5.5%	7.9%	5.4%	7.7%	4.9%	7.7%
Consumer Price Inflation	7.5%	7.8%	4.0%	5.6%	3.0%	5.2%	3.0%	5.3%	3.0%	5.7%
GDP Deflator	7.5%	8.5%	4.5%	6.7%	3.5%	6.3%	3.0%	6.7%	3.0%	6.8%
Nominal GDP (GEL Million)	58,529	58,177	64,710	66,917	70,659	76,704	76,709	88,099	82,882	101,349
Tax Revenues (GEL Million)	12,645	13,209	14,830	14,772	15,942	16,286	17,217	18,154	18,533	20,122
Direct Taxes (GEL Million)	4,855	5,174	6,392	6,028	6,887	6,707	7,454	7,635	8,046	8,732
Indirect Taxes (GEL Million)	7,790	8,035	8,438	8,744	9,055	9,579	9,763	10,519	10,487	11,390
Consolidated Budget Overall Balance (GEL Million)	-3,638	-3,061	-2,569	-2,662	-1,976	-1,621	-1,927	-1,082	-1,927	-517
Current Account Balance (% of GDP)	-11.6%	-10.4%	-10.8%	-10.3%	-9.3%	-7.6%	-7.7%	-5.2%	-5.4%	-3.1%
Trade Balance (% of GDP)	-18.6%	-16.4%	-18.4%	-15.5%	-16.9%	-11.5%	-15.5%	-8.6%	-13.3%	-6.1%
Exports (% change YoY, USD)	24.4%	34.1%	19.8%	28.2%	20.5%	17.2%	20.3%	15.6%	20.3%	19.9%
Imports (% change YoY, USD)	19.8%	21.8%	16.5%	23.6%	14.7%	9.8%	15.0%	10.1%	14.2%	14.4%
International Reserves (USD Million)	4,223	4,488	4,941	4,873	5,732	5,105	6,649	5,348	7,647	5,805
Money Aggregate M3 (GEL Million)	40,977	36,180	48,323	43,056	55,988	51,347	64,374	57,832	73,119	65,120
Money Aggregate M2 (GEL Million)	18,535	16,357	22,197	20,457	26,151	25,199	30,592	30,883	35,387	37,351

	2021		2022		2023		2024		2025	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	4.3%	5.0%	5.8%	2.8%	5.5%	2.7%	5.2%	2.4%	5.0%	2.4%
Consumer Price Inflation	4.0%	5.9%	3.0%	2.2%	3.0%	1.6%	3.0%	1.8%	3.0%	2.1%
GDP Deflator	3.8%	6.0%	3.0%	2.2%	3.0%	1.9%	3.0%	1.5%	3.0%	1.1%
Nominal GDP (GEL Million)	53,489	55,007	58,289	57,793	63,340	60,498	68,632	62,897	74,226	65,063
Tax Revenues (GEL Million)	12,045	12,680	13,682	13,490	15,042	14,048	16,505	14,718	17,813	15,676
Direct Taxes (GEL Million)	5,187	4,947	5,895	5,285	6,501	5,458	7,154	5,823	7,744	6,235
Indirect Taxes (GEL Million)	6,858	7,733	7,787	8,205	8,541	8,590	9,351	8,894	10,069	9,441
Consolidated Budget Overall Balance (GEL Million)	-3,993	-3,333	-2,497	-2,827	-1,761	-2,952	-1,720	-3,775	-1,739	-4,239
Current Account Balance (% of GDP)	-11.6%	-10.8%	-9.4%	-10.4%	-7.6%	-9.2%	-5.7%	-9.3%	-3.8%	-10.2%
Trade Balance (% of GDP)	-18.0%	-17.2%	-16.4%	-16.7%	-14.9%	-15.1%	-13.3%	-15.6%	-11.6%	-16.6%
Exports (% change YoY, USD)	3.3%	24.7%	13.8%	16.4%	13.0%	7.9%	12.4%	8.2%	12.1%	8.7%
Imports (% change YoY, USD)	1.6%	15.3%	9.1%	13.0%	8.6%	4.8%	8.2%	8.3%	7.9%	9.5%
International Reserves (USD Million)	3,950	4,180	4,305	4,412	4,675	4,422	5,063	4,568	5,469	4,760
Money Aggregate M3 (GEL Million)	34,266	34,422	39,782	37,427	45,852	41,328	52,464	45,798	59,736	49,806
Money Aggregate M2 (GEL Million)	15,708	15,466	18,542	17,668	21,739	19,875	25,317	22,048	29,351	23,978