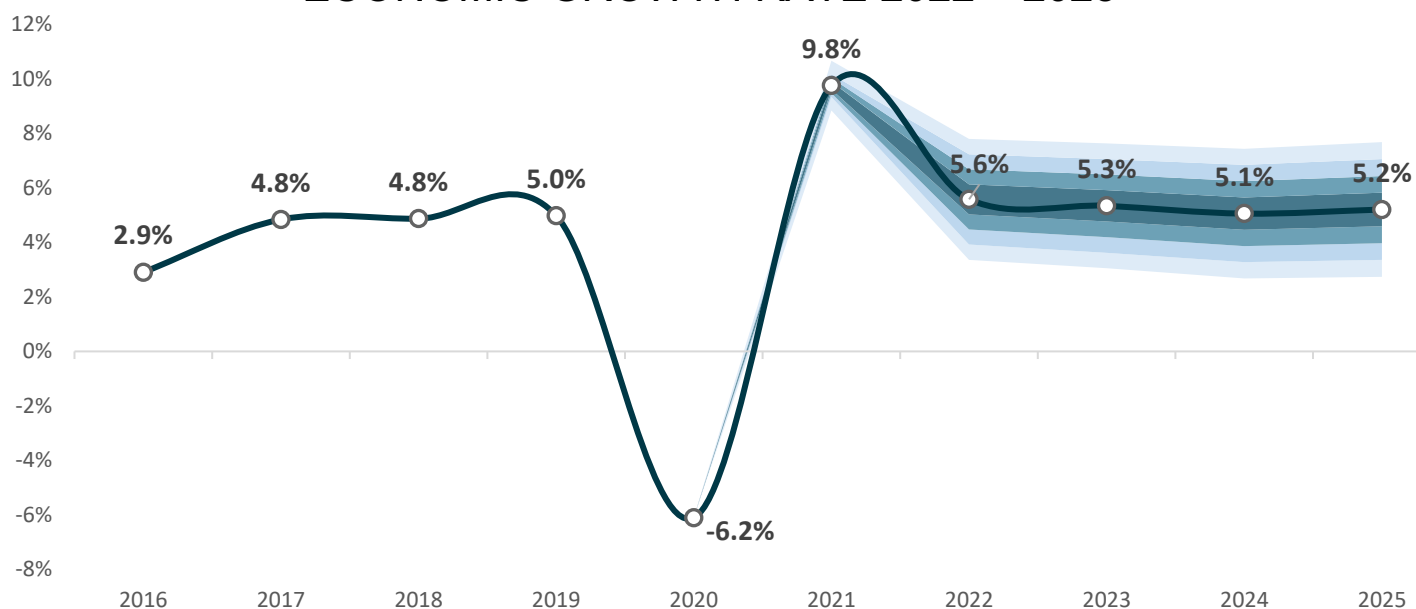


Macroeconomic Forecasts



ECONOMIC GROWTH RATE 2022 – 2025



Contribution to 2022 Growth:

Real Consumption (↑) : +3.1%

Net Export (↑) : +0.3%

Real Investment (↑) : +2.2%

PARLIAMENTARY BUDGET OFFICE OF GEORGIA
MACROECONOMIC ANALYSIS AND TAX POLICY UNIT

Macroeconomic Forecasts

October 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.

E-mails:

pbo@parliament.ge; nsuarishvili@parliament.ge;
atsotsolashvili@parliament.ge

CONTENT

1. THE MACROECONOMIC MODEL.....	4
BASELINE SCENARIO.....	5
2. REAL SECTOR.....	5
3. FISCAL SECTOR.....	10
4. EXTERNAL SECTOR	14
5. MONETARY SECTOR	16
6. MACROECONOMIC SCENARIOS.....	18
6.1 MAIN ASSUMPTIONS.....	18
6.2 POSITIVE AND NEGATIVE SCENARIOS.....	20
Annex 1: Detailed Forecasts of Key Macroeconomic Indicators for 2021-2025 (Baseline Scenario).....	25
Annex 2: Detailed Forecasts of Key Macroeconomic Indicators for 2021-2025 (Positive Scenario)	27
Annex 3: Detailed Forecasts of Key Macroeconomic Indicators for 2021-2025 (Negative Scenario).....	29
Annex 4: Change in Forecasts of Key Macroeconomic Indicators, 2021-2022 (Baseline Scenario).....	32
Annex 5: Change in Forecasts of Key Macroeconomic Indicators, 2023-2024 (Baseline Scenario).....	33
Annex 6: Change in Forecasts of Key Macroeconomic Indicators, 2025 (Baseline Scenario).....	34
Annex 7: Comparison of Positive Scenarios, 2021-2025.....	35
Annex 8: Comparison of Negative Scenarios, 2021-2025	36

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 the average of the last three years' share of exports of services in the total exports.

The macroeconomic forecasting model is based on the quarterly data from 1996Q1 to 2021Q2. 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 5.6% in 2022. The real GDP 2022 growth forecast (5.6%) is 0.4 percentage points (pp) lower compared to the government forecast² (6.0%) and differs (0.1 pp higher) from the PBO forecast of July 2021³. 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%). However, it should be noted that significant economic growth has been observed since the second quarter of 2021, that 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, that also effects the 2022 forecast. Along with the vaccination process and easing/canceling of the various types of restrictions, external trade will also start to recover. Compared to the July estimate, this forecast takes into account additional information available for the current period. The improvement in economic growth is due to the significantly better development trend for the current period. High economic growth, observed in the second quarter of 2021 and beyond, also external trade figures, indicating a gradual recovery in the economic activity. In the 2022 assessment, 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, vaccination will reduce the rate of the virus spread, there will be no more restrictions and closures in the country, which will facilitate the partial recovery of foreign economic activity. 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:

- It is likely that in parallel with the adaptation to the pandemic, the tourism sector will revive in 2022 compared to 2021, and both exports and imports of services will increase.
- In response to the rising inflation, the National Bank has raised the monetary policy rate since August 2021 to 10%. The Monetary Policy Committee of the National Bank of Georgia decided to leave the refinancing rate unchanged at 10 percent on September 15, 2021⁶. According to the PBO forecasts, inflation will decline in the first half of 2022 and will approach the target (3%) in the second half, which could lead to a reduction in the policy rate from the same period. It is worth mentioning that due to the high growth rate of inflation in the second quarter of 2021 and subsequent months, the budget office forecast for inflation in 2021-2022 is higher compared to the forecast of July this year.

² The government's forecast refers to the projection of macroeconomic indicators for 2022-2025 presented in the Document of Basic Data and Directions, attached to the Draft Law of Georgia "On the 2022 State Budget of Georgia", submitted to the Parliament of Georgia on October 1, 2021.

³ http://pbo.parliament.ge/media/k2/attachments/Macroeconomic_Forecasts_July_2021_FINAL_ENG.pdf

⁴ EU, Russia, Turkey, Azerbaijan, Armenia, China, Ukraine and USA.

⁵ Source: International Monetary Fund: World Economic Outlook, October 2021 (WEO October 2021) <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

⁶ <https://nbq.gov.ge/en/monetary-policy/committee-decisions>

According to the PBO forecast, the average annual economic growth rate for the medium term (2022-2025) is 5.3%, 0.1 pp lower than the similar figure (5.4%) published by the PBO in July 2021. This is mainly caused by the fact that due to the high growth in 2021, the economic growth forecasts for 2022-2025 have changed slightly in different directions. Real consumption will likely contribute most to the 2022 economic growth while, in parallel with the increased foreign trade activity, the contribution of the trade balance to GDP growth will be +0.3 pp. 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 2022-2025 is equal to 5.5%, which is 0.25 pp lower than their similar forecast of July 2021 (5.7%). 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.

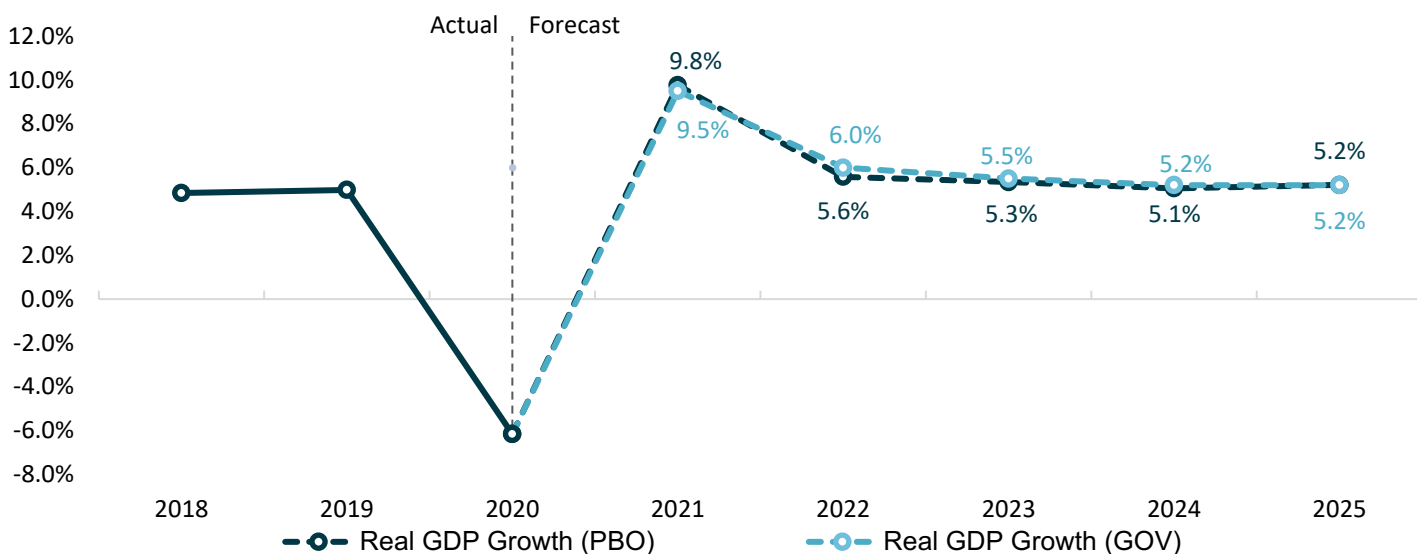


Figure 1: Real GDP Growth.

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, from 2021 the GDP gap will be positive and there will be a slight positive deviation from the potential level (average 0.5%) as a result of improved economic growth⁸.

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](#).

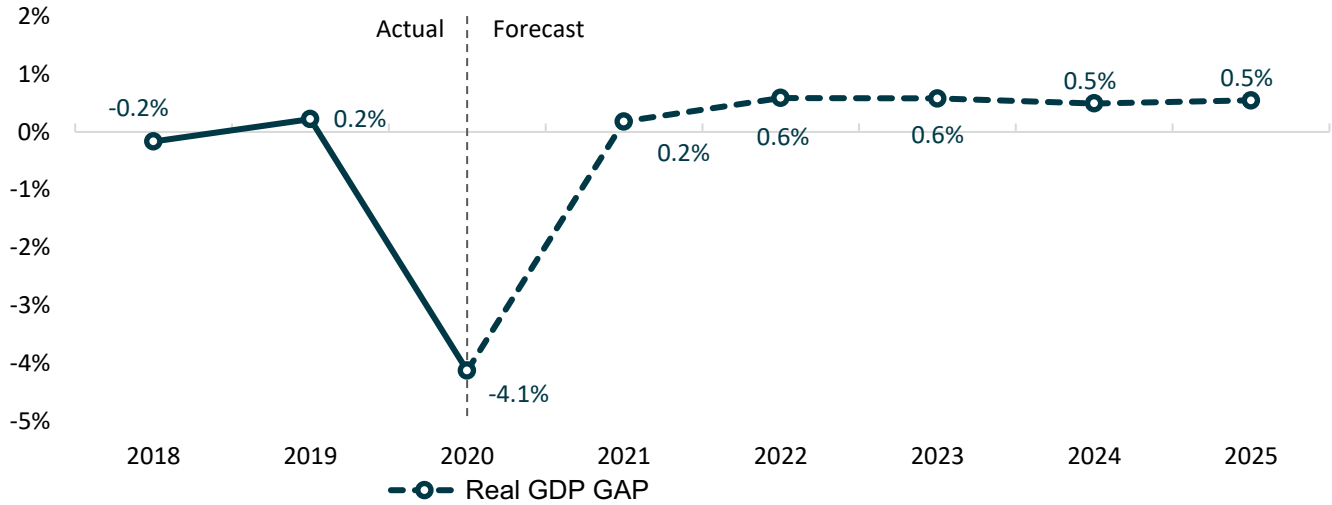


Figure 2: Real GDP Gap.

As for the nominal GDP per capita, its projected volume for 2022 is 17,903 GEL, and for 2025 - 23,580 GEL. These figures are slightly different from the government's forecasts in 2022, and for 2025 the difference amounts to 1,364 GEL.

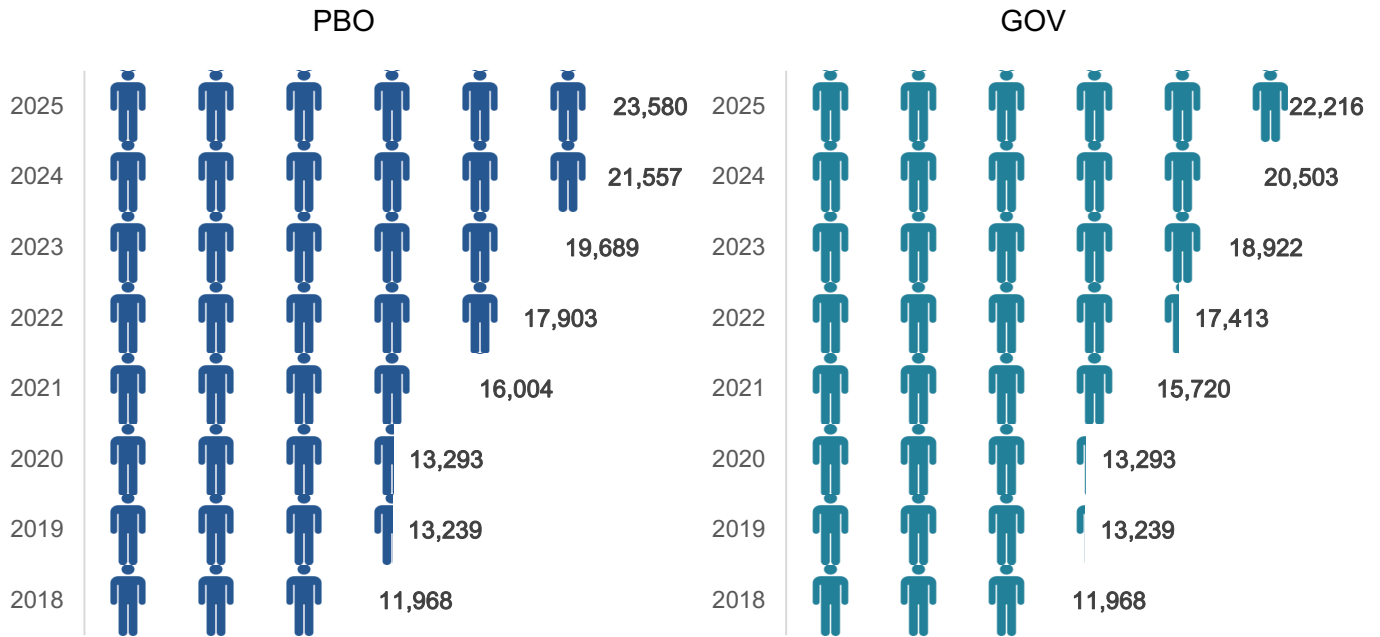


Figure 3: GDP Per Capita, Nominal GEL.

According to the PBO estimate, the nominal GDP will increase by 11.9% in 2022 and reach 66,753 million GEL. It is 3,423 million GEL higher than the forecast of the PBO in July 2021, 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 in the current year as well as in the medium-term period.

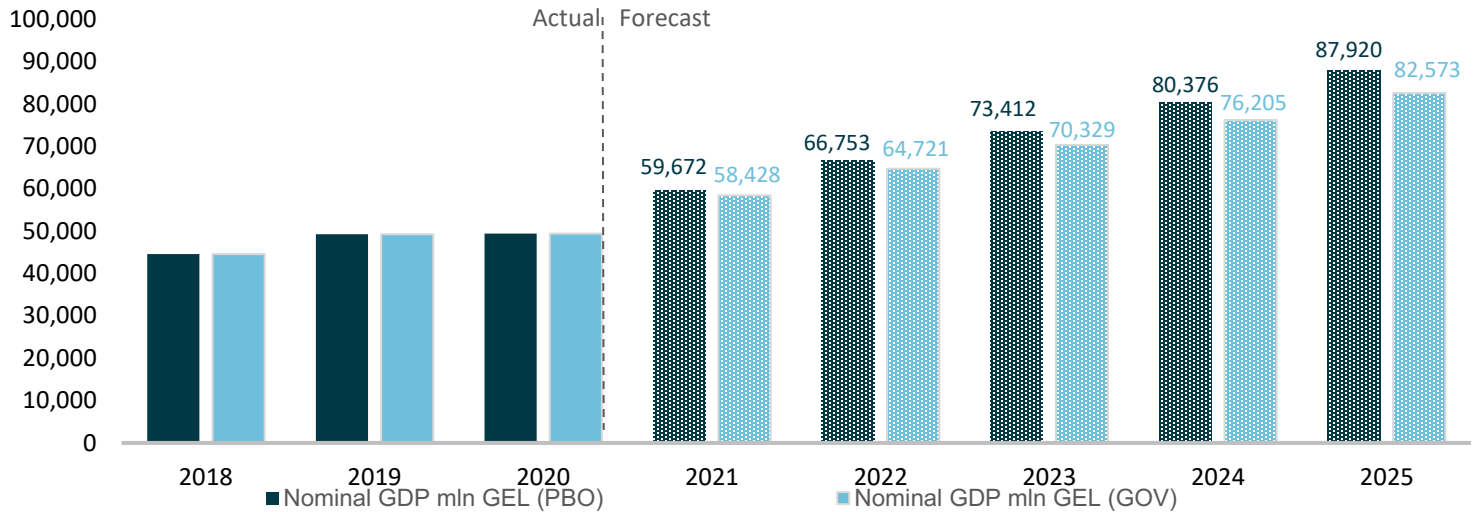


Figure 4: Nominal GDP GEL Million.

According to the PBO forecast, considering the so-called „orientation trajectory“ of the monetary policy rate of NBG, by 2022 inflation rate will be higher than the target and will reach 4.7%. High inflation is also expected in 2021, which according to the PBO forecast will reach 9.4%. According to the July 2021 forecast, the price level was expected to decrease from the Q1 of 2022 and would have been close to the target during the year. However, several factors observed in 2021 contributed to the increase in inflation:

- Depreciated GEL / USD exchange rate in the first and second quarters of 2021;
- The more revitalized aggregate demand and higher economic growth than expected in the second quarter of 2021;
- Significantly increased prices on energy and food products in the world market during the first and second quarters of 2021.

Given these trends, it is likely that inflation will remain high during the year. According to the government's forecast, inflation will exceed the target and will be 4.5% in 2022, 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.

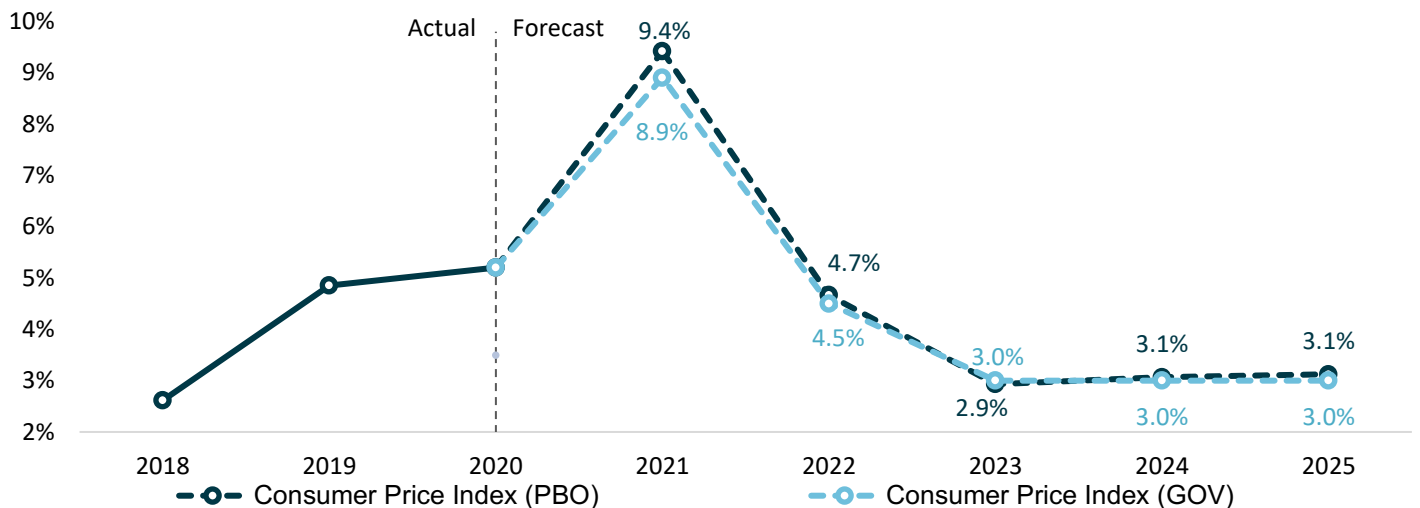


Figure 5: Consumer Price Indices, Period Average.

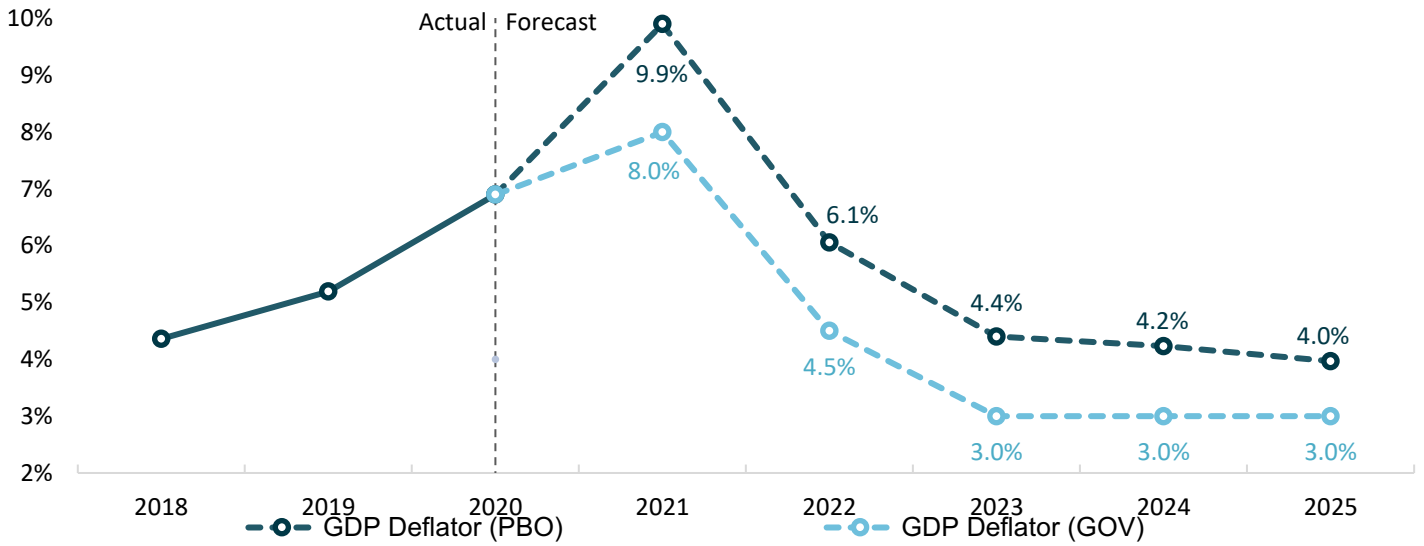


Figure 6: GDP Deflator.

According to the PBO forecast, in parallel with the revived economic activity, the ratio of private investments to GDP will increase by 0.7% by 2022, reach 18.3% 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 be 14.4% of GDP by 2022 and 16.9% 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 21.6% by 2022, in the medium term it will increase slightly and reach 21.9% by 2025.

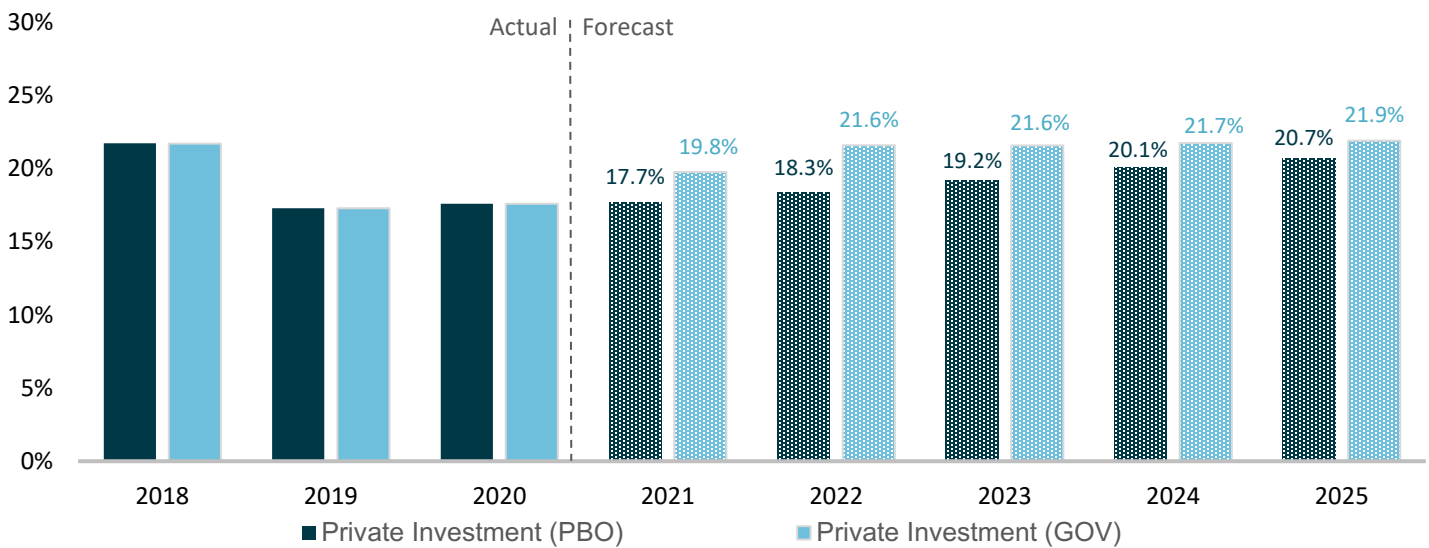


Figure 7: Private Investment, % of GDP.

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 -4.1% by 2022 (according to the July forecast it was -4.7%). 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 -4.2% by 2022.

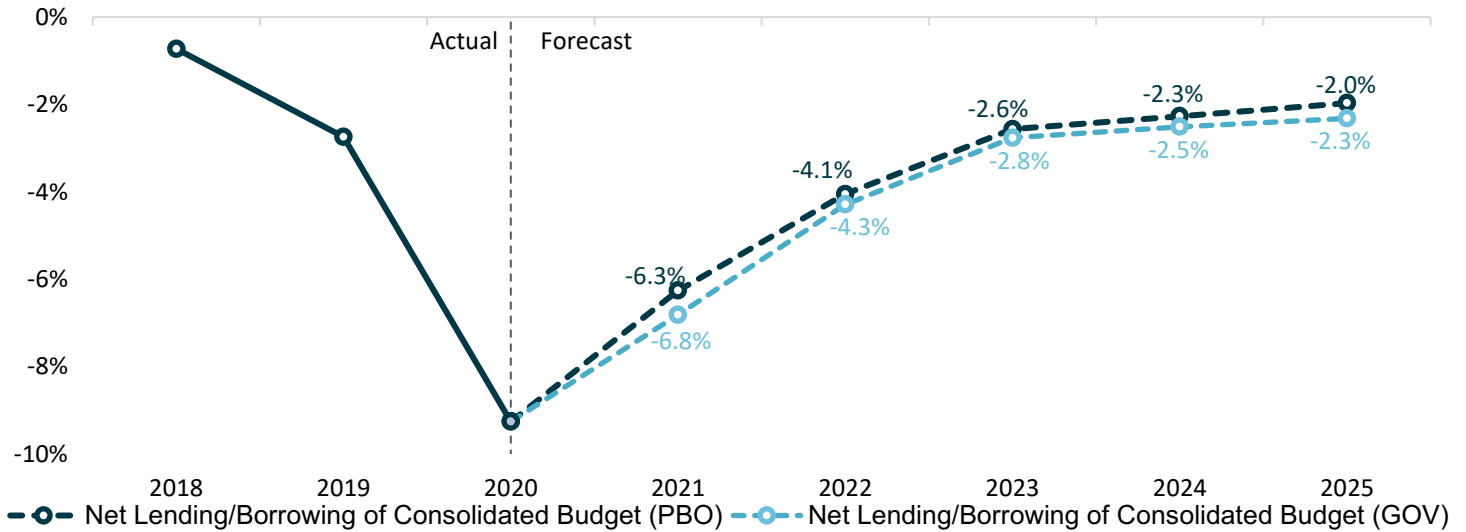


Figure 8: Net Lending/ Borrowing Balance, % of GDP.

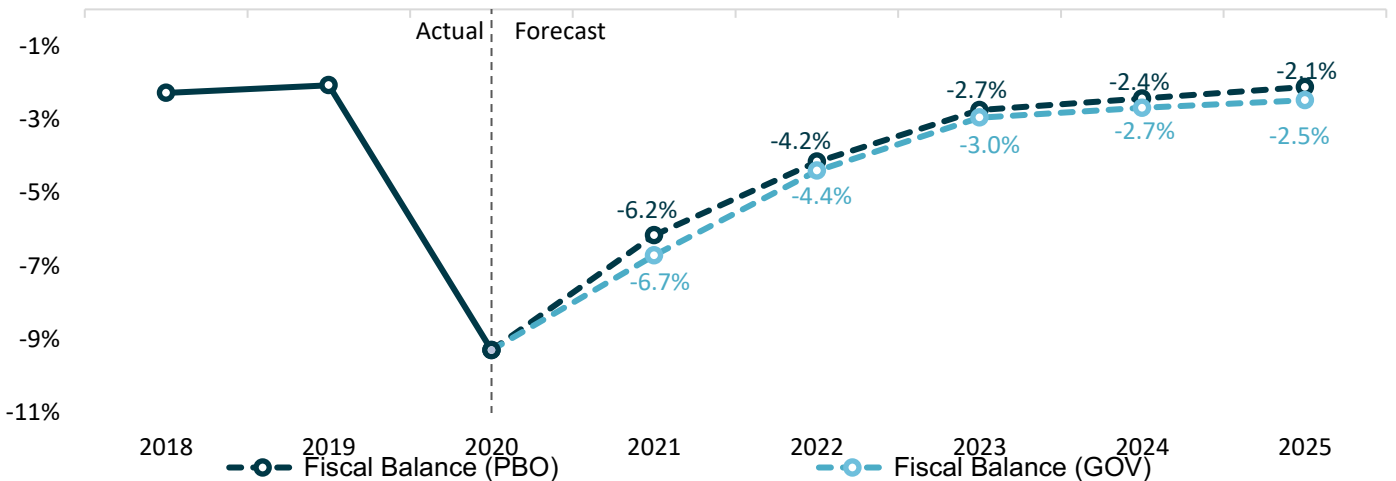


Figure 9: Modified Balance, % of GDP.

As for 2021, the consolidated budget's net lending/borrowing balance to GDP (-6.3%) is 0.55 pp lower than the corresponding figure presented by the government (-6.8%), mainly caused by the fact that the tax revenues of the consolidated budget estimated by the PBO are 339 million GEL higher than that of government's, which is caused by the relatively optimistic forecast of indirect taxes. 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. According to PBO unified budget net lending/borrowing balance to GDP (-6.3%) is 0.55 pp lower than the corresponding figure presented by the government (-6.8%) in 2021 and 0.55 pp lower than the similar figure (-6.8%) published by the PBO in July 2021. In 2022 PBO unified budget net lending/borrowing balance to GDP is -4.0%, that is 0.3 pp lower than the corresponding figure presented by the government (-4.3%) in 2021 and 0.7 pp lower than the similar figure (-4.7%) published by the PBO in July 2021.

It should be highlighted that, 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, attached to the Draft Law of Georgia “On the 2022 State Budget of Georgia”.

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 2021-2025, thus, the positive fiscal stance is accompanied by the positive GDP gap, which constitutes a pro-cyclical fiscal expansion - fiscal stimulation of the economy during high economic activity.

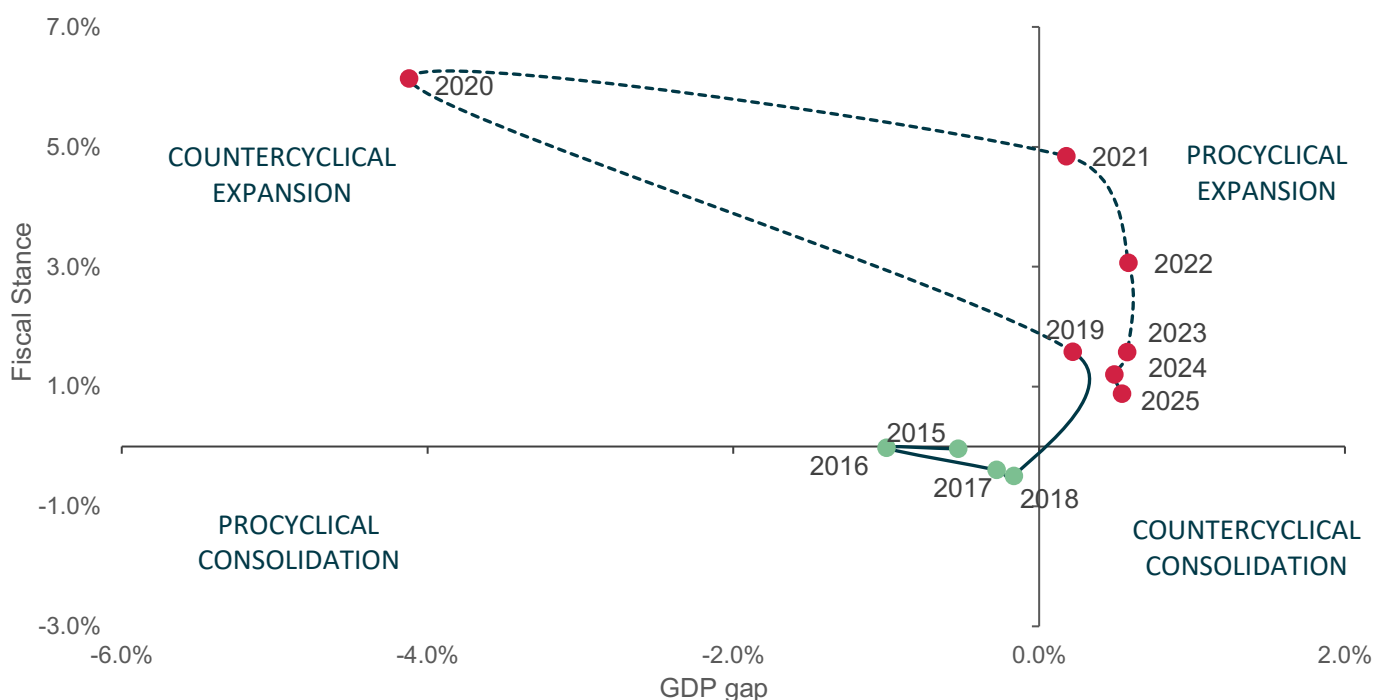
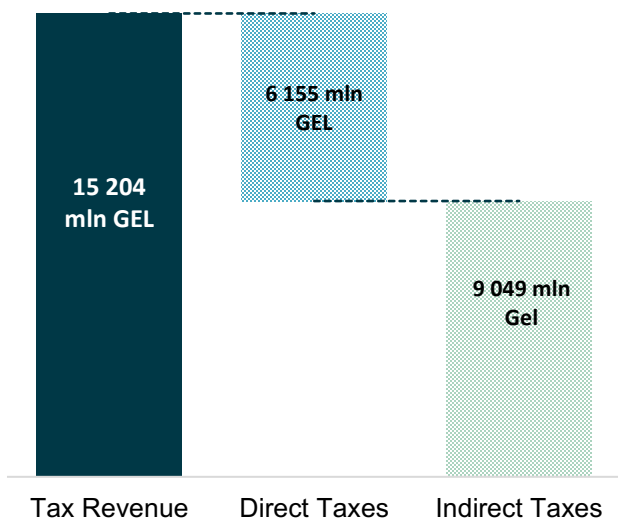


Figure 10: Fiscal Stance.

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.

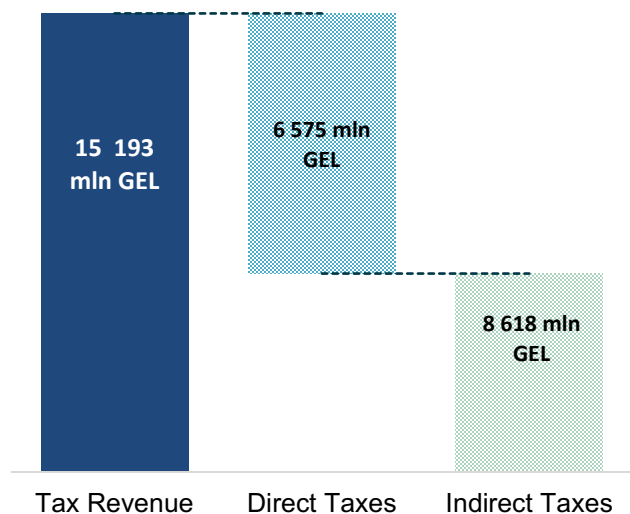
¹⁰ PBO research publication: [“FISCAL POLICY IN GEORGIA: DIRECTION, CYCLICALITY, MANEUVERING SPACE”](#).

Regarding tax revenues, according to the PBO estimate, the consolidated budget tax revenues amount to GEL 15,204 million for 2022, GEL 462 million higher than the forecast made in July, and which is 11 million higher than the government’s forecast (GEL 15,193 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 2022, tax revenues will reach 22.8% of GDP, while the government forecasts 23.5%. According to the forecast of the PBO, the tax to GDP ratio will be 22.5% on average in 2022-2025. As for 2021, the government's forecast for consolidated budget tax revenues remains unchanged, while the budget office forecasts that this figure will increase, mainly due to indirect taxes.



Analyzing tax revenues by components, the share of direct taxes in total tax revenues will increase by 1.3 pp (40.5%) in 2022. Hence, the share of indirect taxes will be 59.5%. 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.

Figure 11: Tax Revenue Forecast 2022 (PBO)



As for the structure of government tax revenues, the share of direct taxes in total tax revenues is expected to be 43.3% by 2022 and the same figure will be remained in the medium term.

Figure 12: Tax Revenue Forecast 2022 (GOV)

¹¹ Direct Taxes include projected revenues of other taxes.

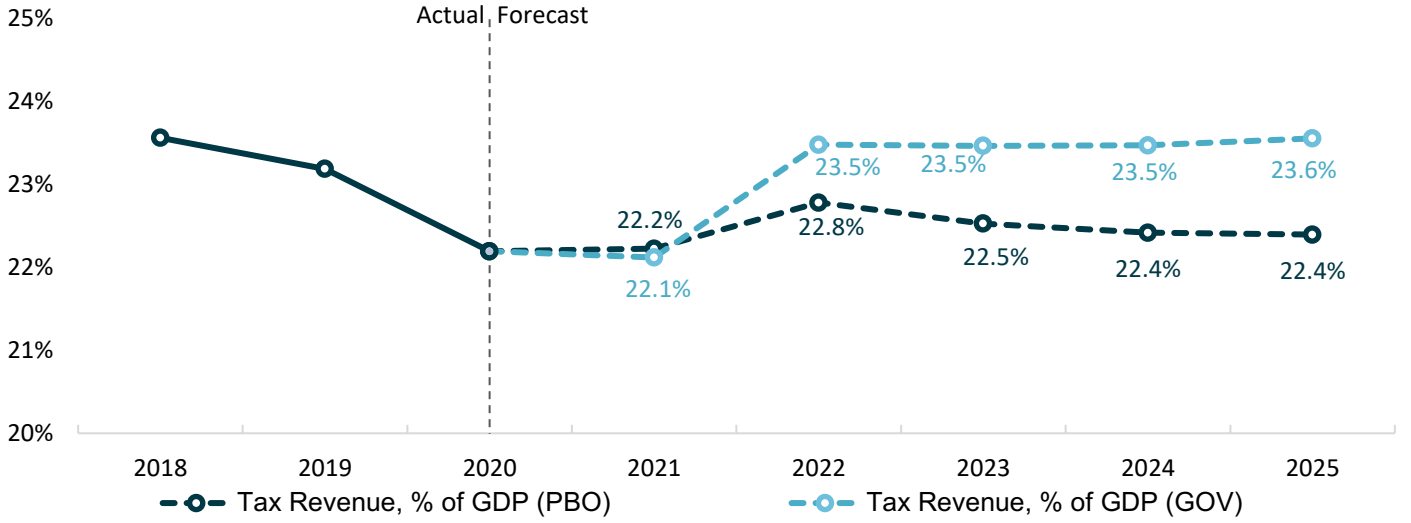


Figure 13: Tax Revenue, % of GDP.

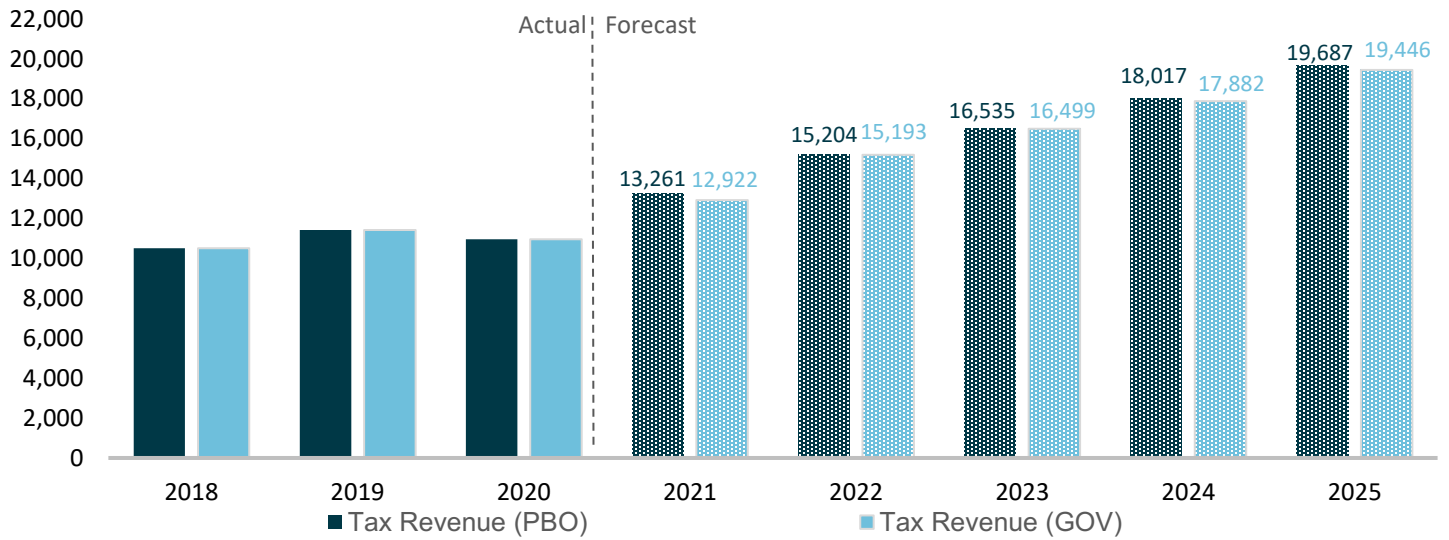


Figure 14: Tax Revenue, GEL Million.

4. EXTERNAL SECTOR

According to the PBO, the expected current account deficit for 2022 is 8.4% of GDP, which is 1.5 pp lower than the PBO's forecast of July 2021 (9.9%), while the government's forecast is 8.3% of GDP. The PBO estimates that the current account balance will start improving from 2022 and will be formed around -7.0% of GDP on average. According to the government forecast, the deficit will start improving from 2022 and be around -6.9% 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 growth of both private and public savings is noteworthy.

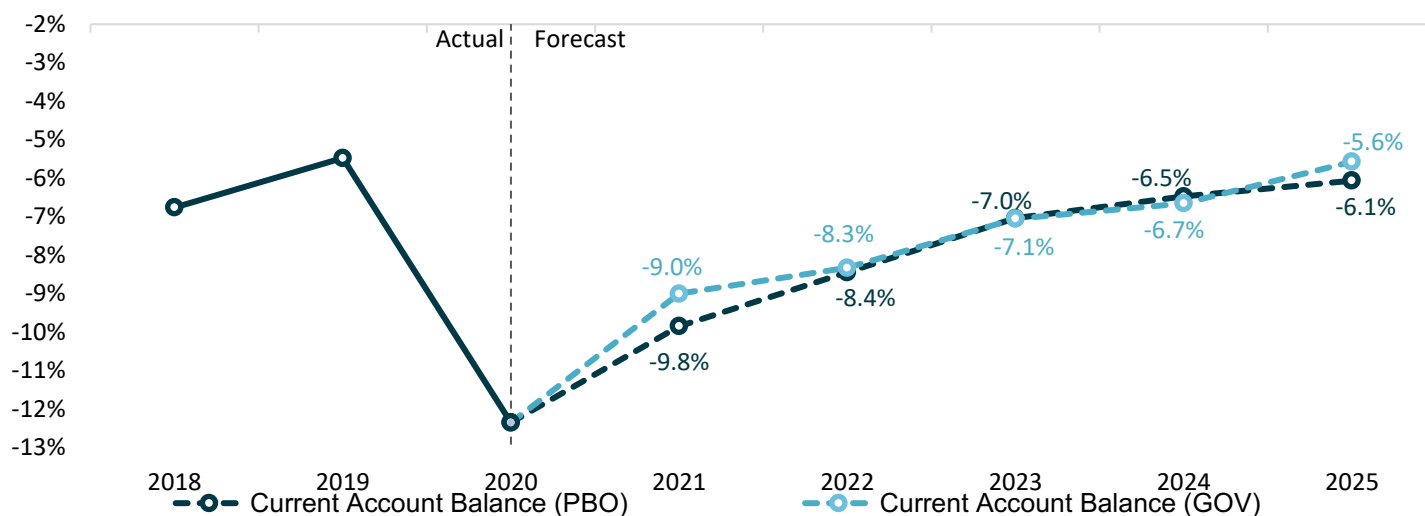


Figure 15: Current Account Balance, % of GDP.

As for the current account components:

- According to the forecast of the PBO, an important determinant of the current account deficit formation is the expected dynamics of the trade balance. Due to the problems described above caused by Covid-19, the volume of exports and imports decreased significantly in 2020, although foreign activity has started to revive significantly since 2021, hence the foreign trade is expected to increase significantly, and the trade balance will gradually improve. **The PBO forecasts that the trade deficit will reach 13.8% of GDP in 2022, while the government forecasts that the trade deficit will be 13.0%.** 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 the budget office, in 2022 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.

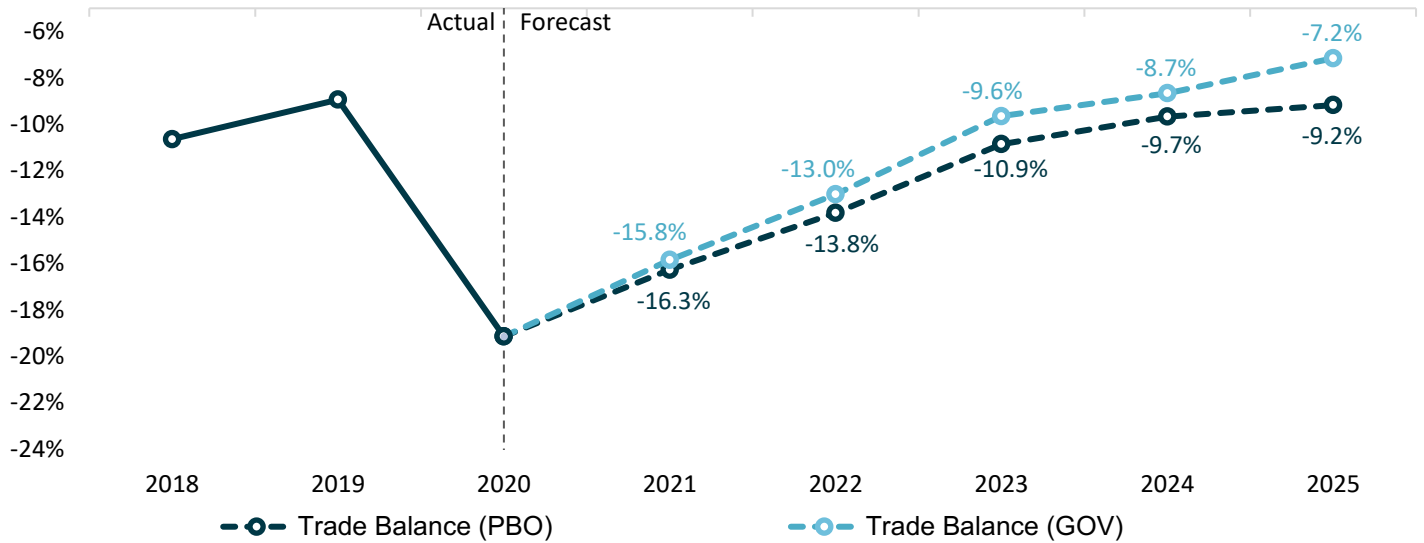


Figure 16: Trade Balance, % of GDP.

As for the financing sources of the current account deficit, according to the PBO, **net private capital and financial inflows will reach USD 909 million by 2022** and increase in the medium run. According to the government forecast, the mentioned figure will reach USD 1,433 million and grow for the following years, except for a slight decrease in 2025.

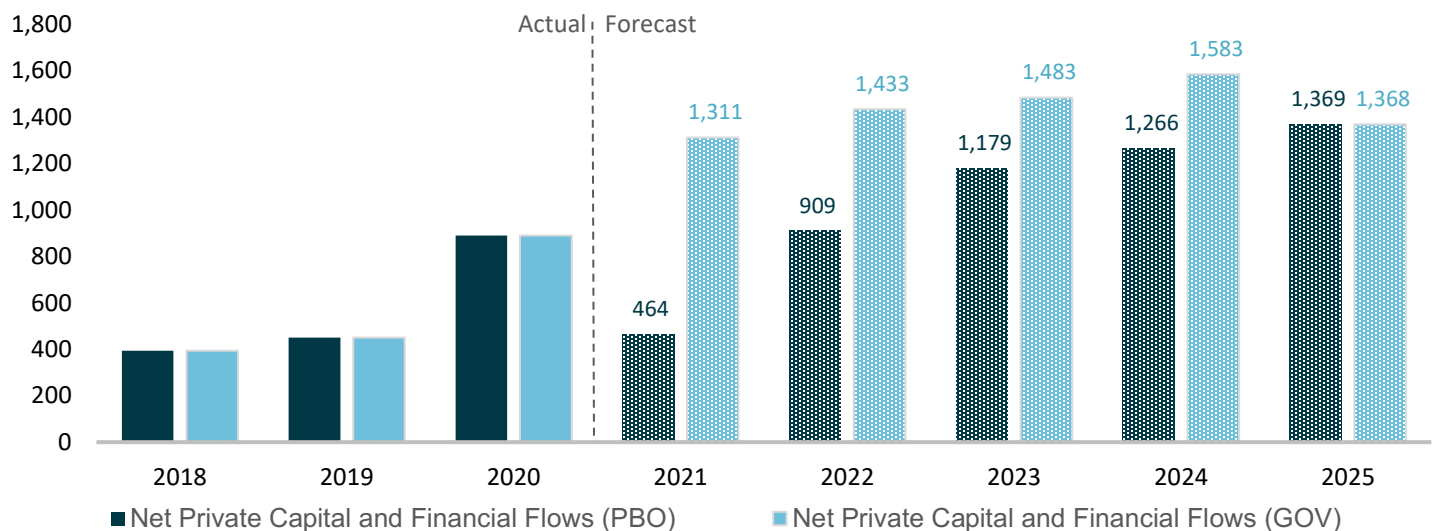


Figure 17: Net Private Capital and Financial Flows, USD Million.

5. MONETARY SECTOR

According to the PBO forecast, monetary aggregate M3 will amount to GEL 40,258 million in 2022, while the annual growth rate is 15.2%. On the other hand, monetary aggregate M2 will equal GEL 19,945 million, with a growth rate of 23.0%.

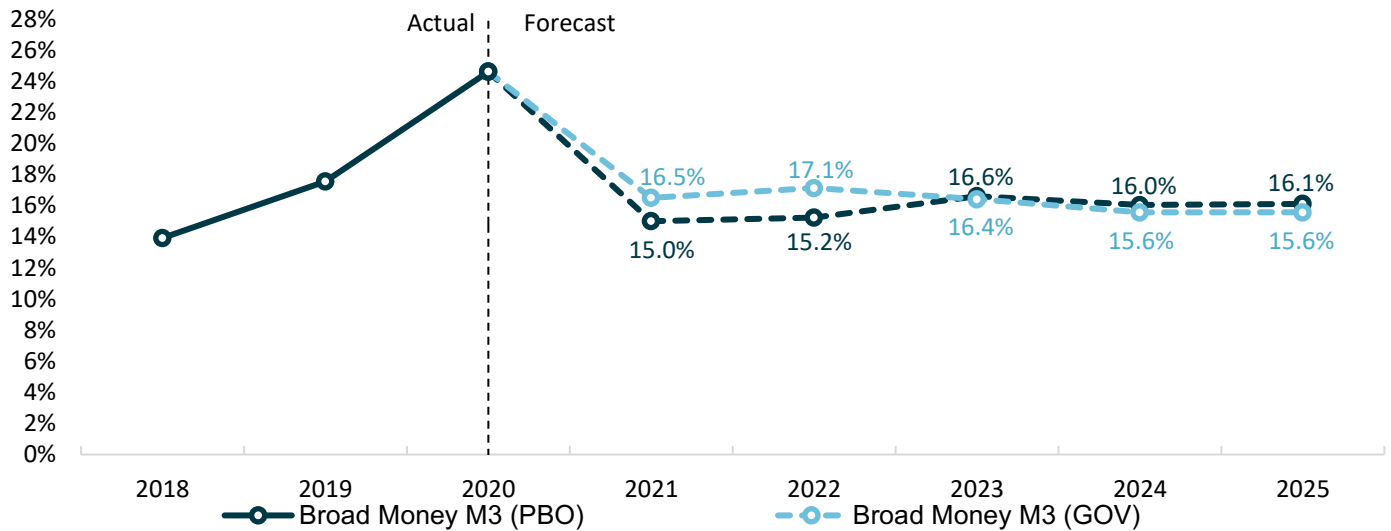


Figure 18: Broad Money M3, Growth Rate.

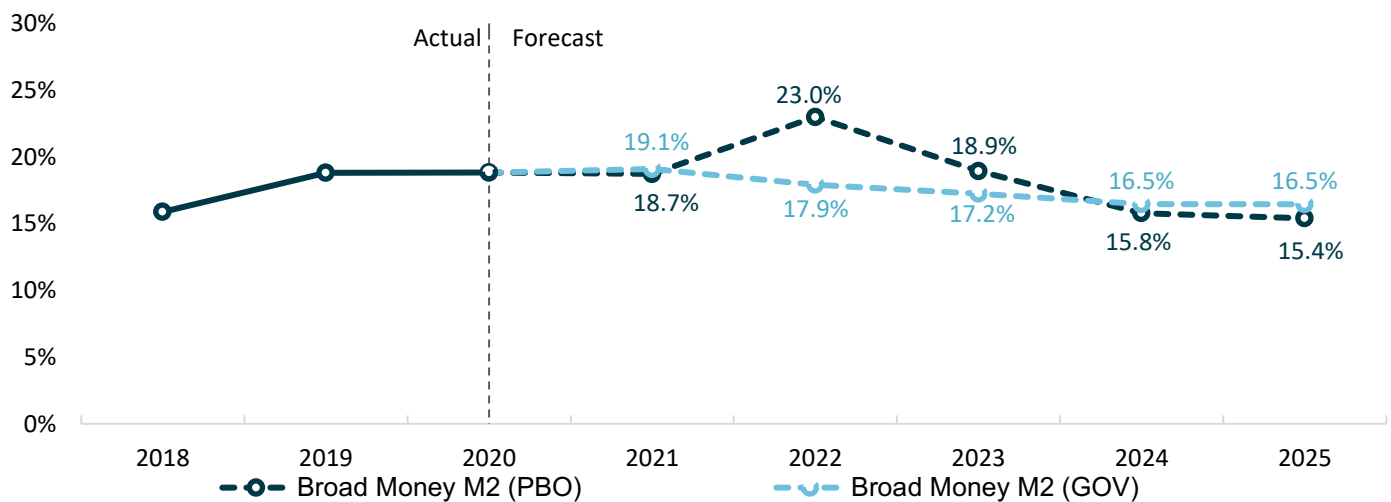


Figure 19: Broad Money M2, Growth Rate.

PBO forecast a 9.2% increase in international reserves in 2022. Subsequently, international reserves will reach USD 4,552 million in 2022 (4.4 months of import), and the average volume for 2022-2025 is USD 5,011 million.

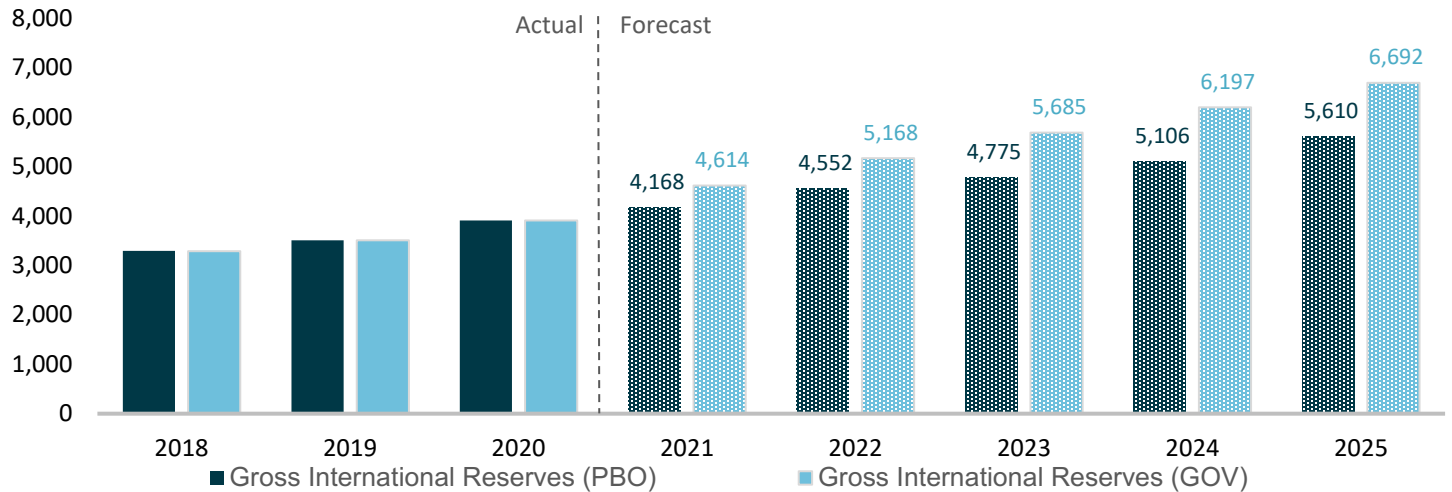


Figure 20: Gross International Reserves, USD Million.

As for the loans to the private sector, according to the PBO forecast, this indicator will reach GEL 49,506 million in 2022, which is higher compared to the one in BDD. This trend holds in the medium-term, and the PBO forecast for 2022-2025 will consistently exceed government forecast.

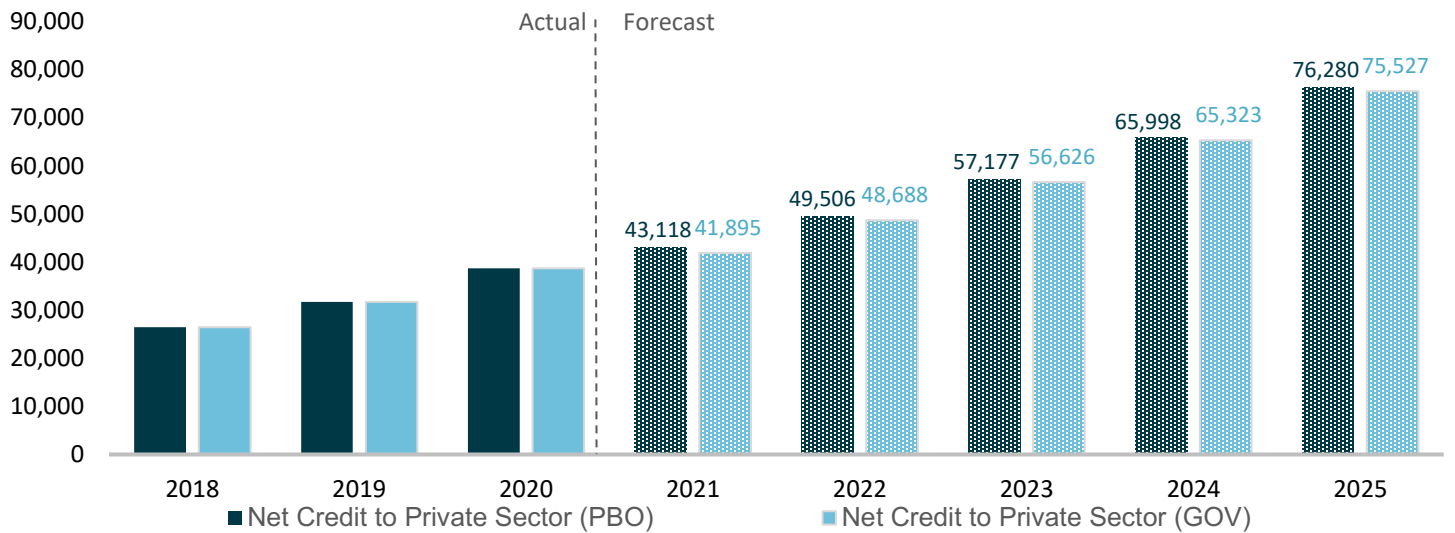


Figure 21: Net Credit to Private sector, GEL Million.

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 „fourth wave”, reached its peak in August 2021, and the subsequent wave of the virus will be insignificant in the fourth quarter of 2021 and will not affect economic events. As a result of the increased number of vaccinated population, the improved epidemiological situation and, at the same time, with the improved global economy, the Georgian economy, along with the rest of the world, will begin to recover rapidly from 2022.

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 economy will recover with faster rate compared to the baseline scenario, and external imbalance will be eradicated. According to the same assumption, from the fourth quarter of 2021, the Georgian economy, along with the rest of the world, will begin to recover faster, and further development of the virus spread will no longer have a strong negative impact on the economy. 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 significantly in 2022, with further growth in foreign demand. In the medium term, the positive scenario implies permanent positive shocks and high economic growth in the country.

The negative scenario assumes that from the fourth quarter of 2021, the epidemiological situation in the country will not improve significantly, and some restrictions and prohibitions will still be placed. It also continue during the first quarter of 2022. Under this scenario, it is supposed that by 2022, certain groups of countries with high debt burdens 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, which started in 2021, will continue in 2022, 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 hardly achievable and that production potential will also decline because of the 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.

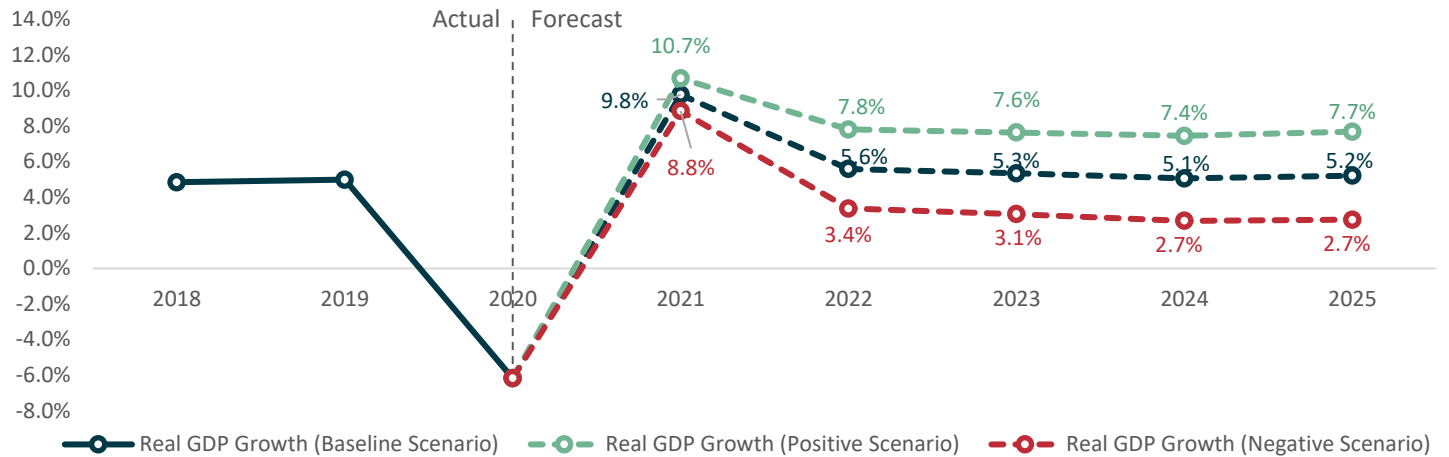


Figure 22: Real GDP Growth Rate (Baseline, Positive and Negative Scenarios).

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 2022-2025 will be 7.6% in case of the positive scenario, while in case of the negative scenario average growth will be 3.0%.

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 (5.5% on average), while in case of the negative scenario, inflation will be lower than the baseline scenario figure (2.4% on average).

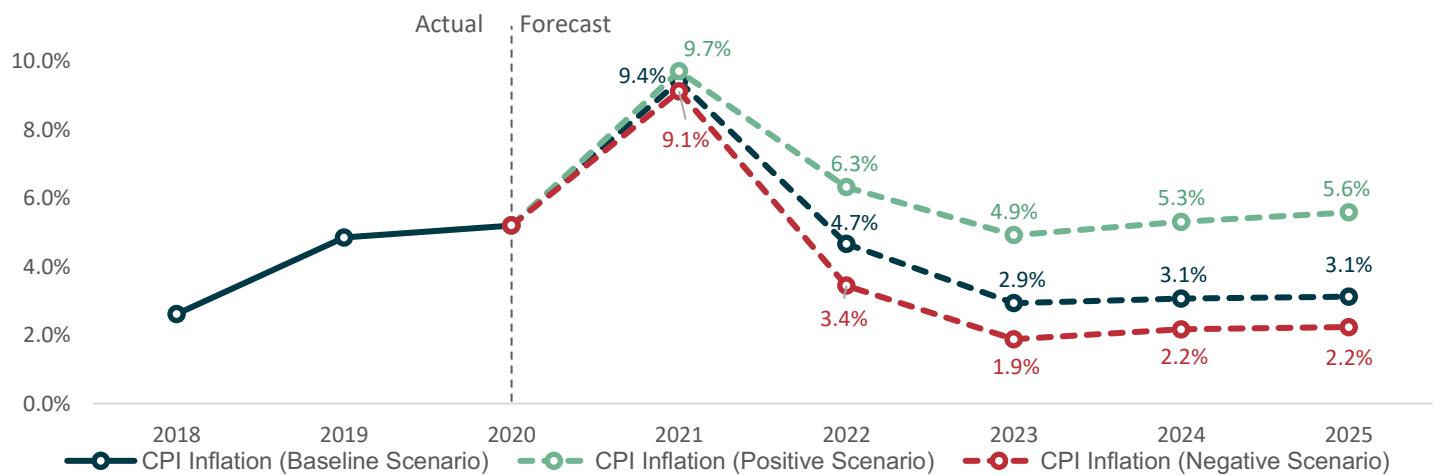


Figure 23: CPI Inflation, (Baseline, Positive and Negative Scenarios).

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.

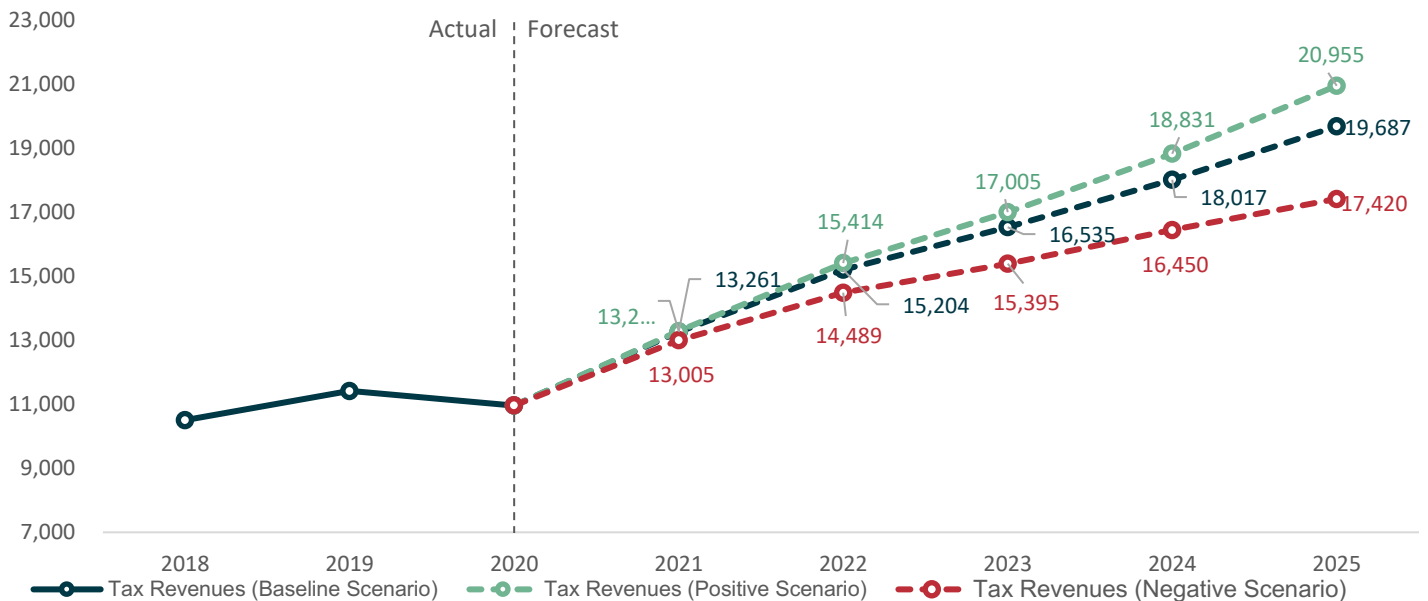


Figure 24: Tax Revenue (Baseline, Positive and Negative Scenarios).

It should also be noted that along with the different tax revenue forecasts according to different scenarios, the PBO 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

¹³ Macroeconomic indicators projection presented by the 2022-2025 Document of Basic Data and Directions Attached to the Draft Law of Georgia “On the 2022 State Budget of Georgia”.

forecasts of the PBO, as well as from the positive and negative scenarios of the government (see annexes 7 and 8).

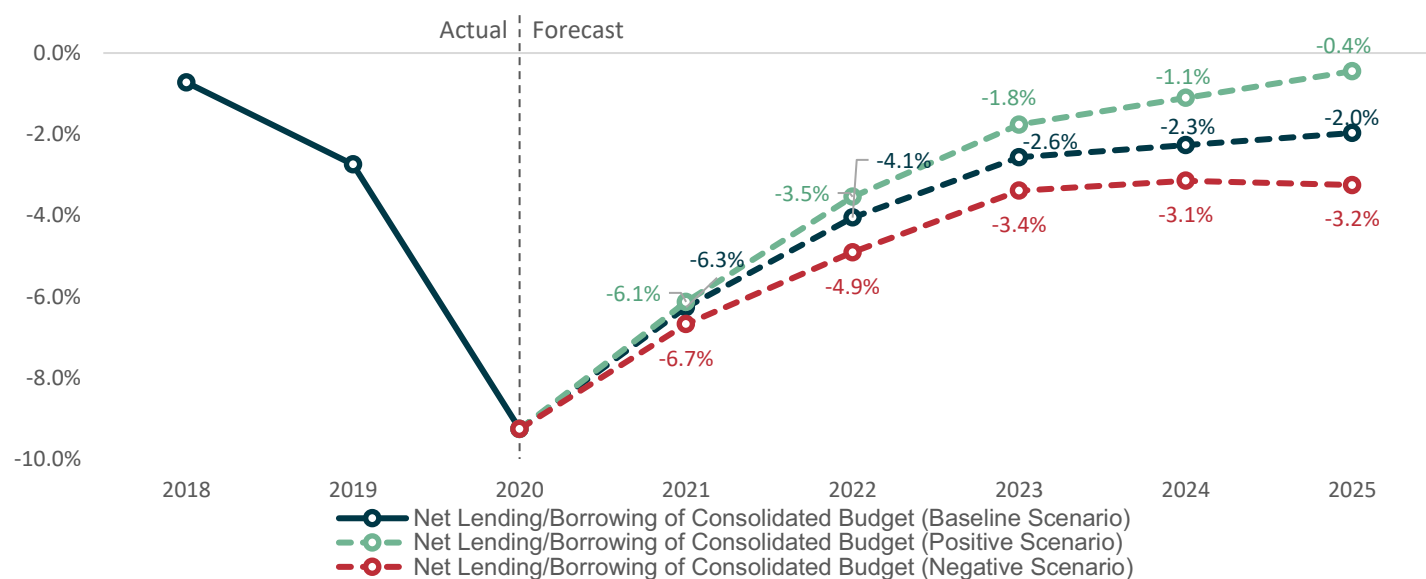


Figure 25: Net Lending/Borrowing Balance of Consolidated Budget (Baseline, Positive and Negative Scenarios).

According to the positive scenario, the negative overall balance of the consolidated budget is expected to be higher than the 3% target in 2022 and will be less than 3% only by 2023. Then it will gradually decline, and its ratio to GDP will be slightly negative (-0.4%) by 2025. As for the unified budget deficit, it will be -3.5% in 2022, 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 -3.7% in 2022-2025. The same trend will characterize the unified budget deficit, it will start to decline from 2022, but it still will be consistently more than 3.0% in the medium run.

It is also essential to know what direction the existing fiscal policy will have in terms of changes in expenditures according to the different scenarios of the government: 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 2021-2024, which corresponds to the practice of stimulating the economy by the government. During this period, the economy becomes stronger than potential, and the government's fiscal policy operates towards the cycle, 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 (2022-2025). During this period, countercyclical expansion takes place.

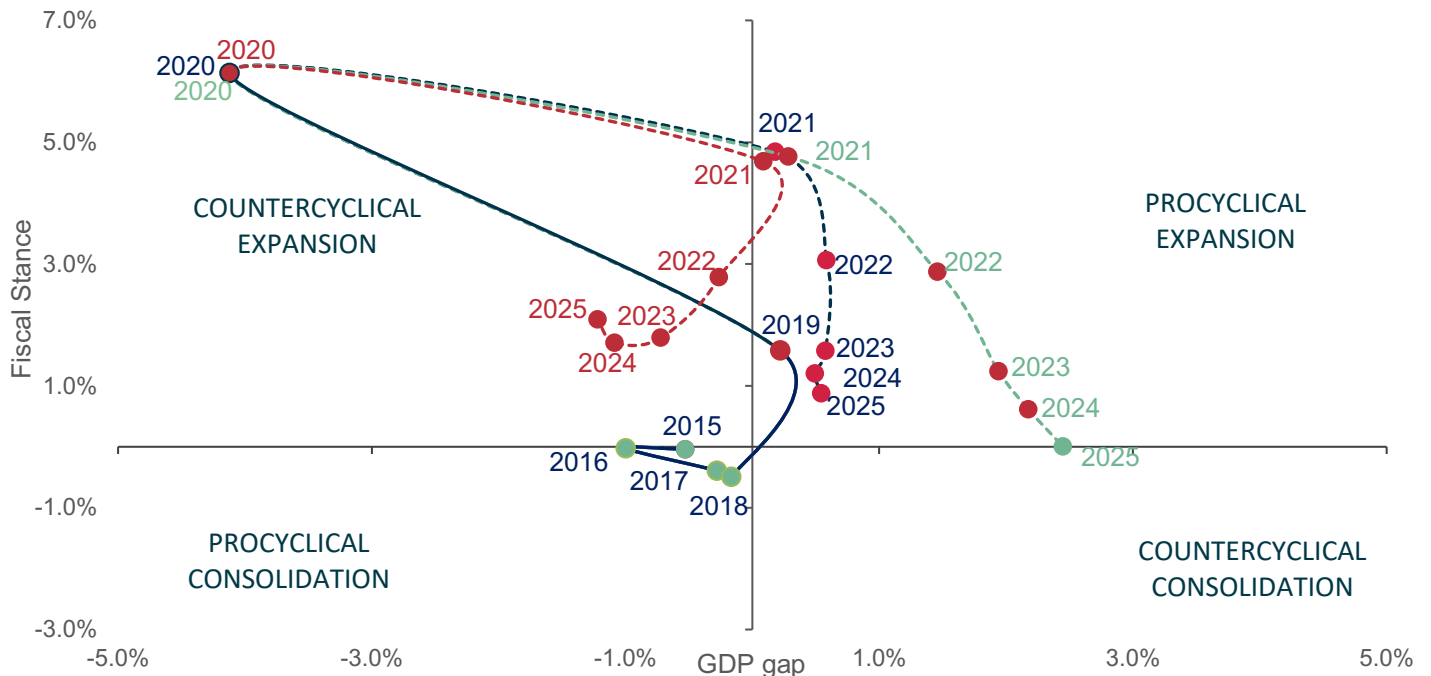


Figure 26: Fiscal Stance (Baseline, Positive and Negative Scenarios).

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, 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.

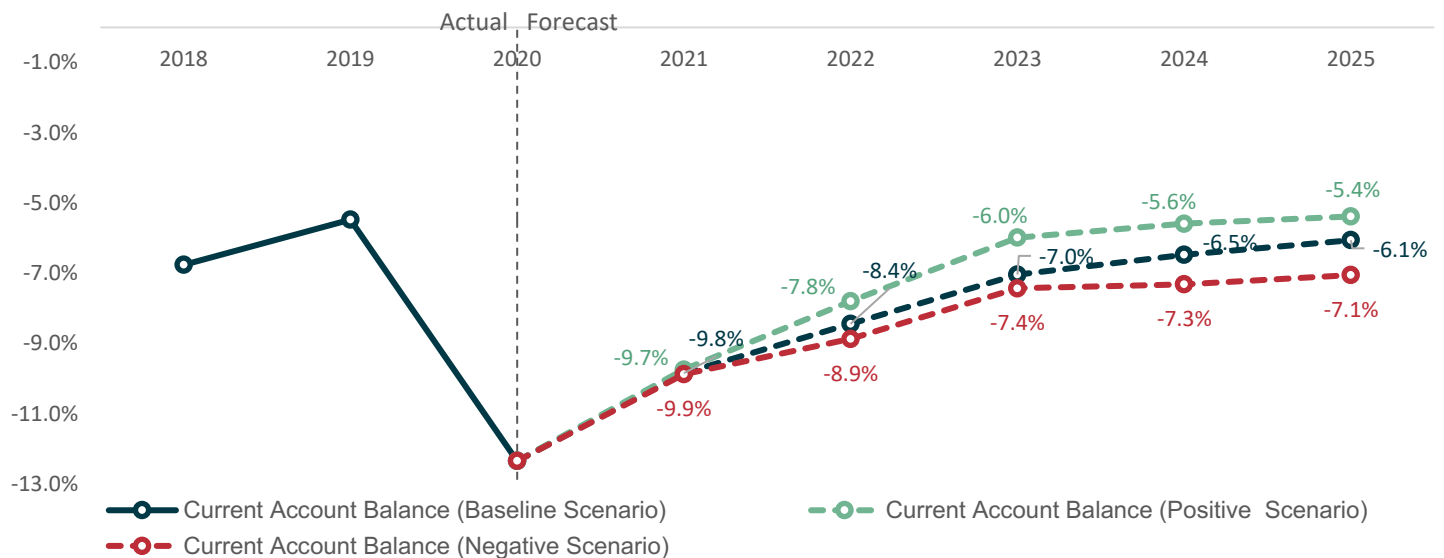


Figure 27: Current Account Balance (Baseline, Positive and Negative Scenarios).

It should be noted that the positive and negative scenarios predict a permanent reduction of the current account deficit, but with different rates. The negative scenario predicts the current account deficit to be around 7.7% on average in 2022-2025, while the positive scenario forecasts it at 6.2%. According to the positive and negative scenarios, the ratio of the current account deficit to GDP will be -5.4% and -7.1% 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.

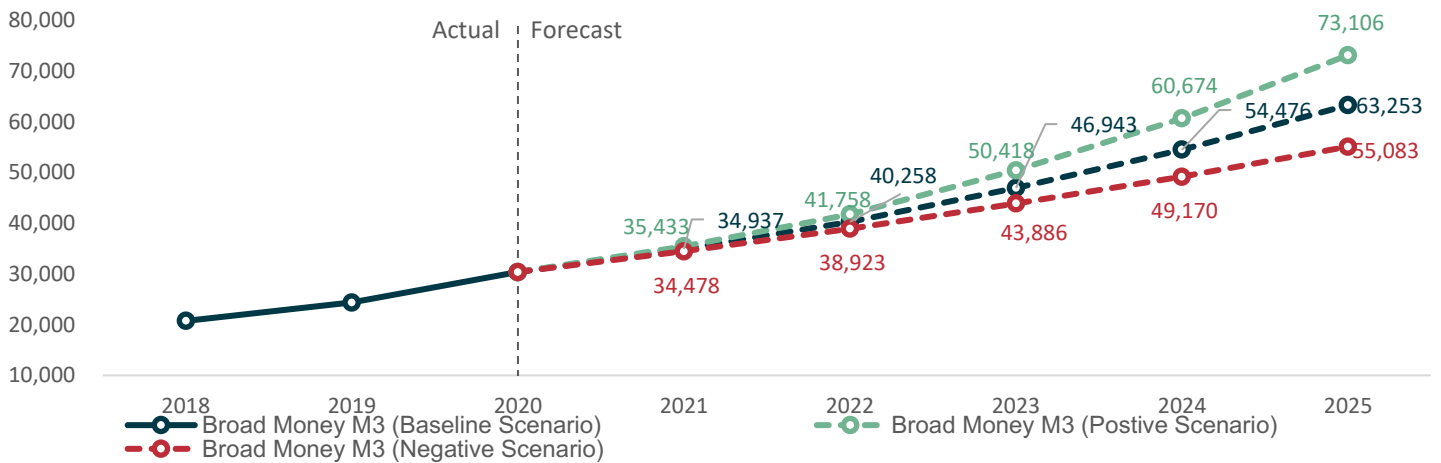


Figure 28: Broad Money M3 (Baseline, Positive and Negative Scenarios).

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.

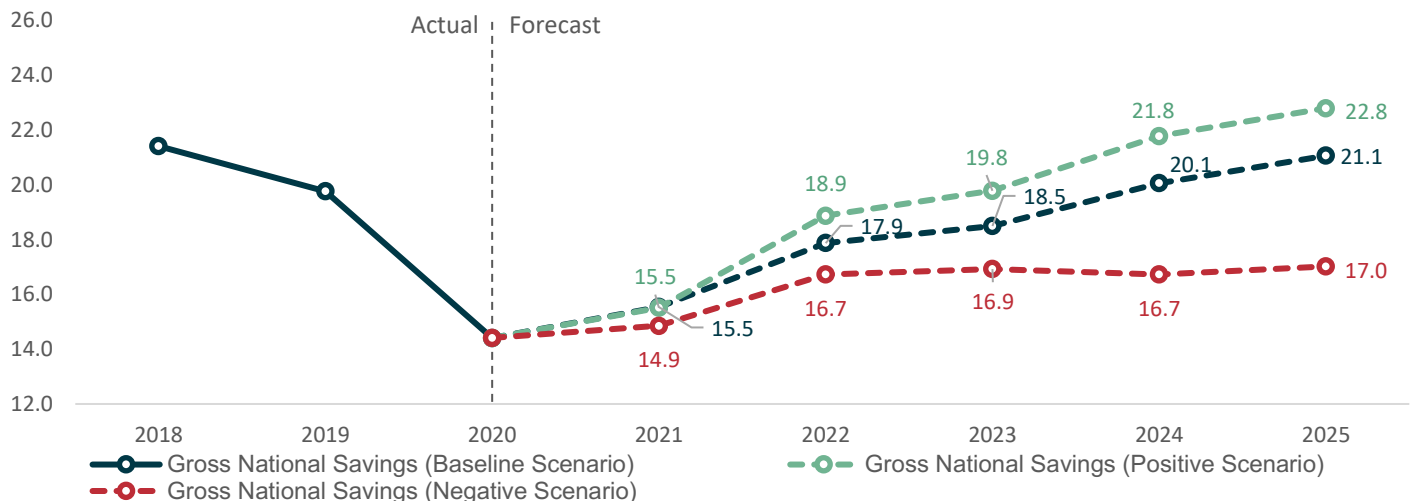


Figure 4: Gross National Savings (Baseline, Positive and Negative Scenarios).

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 still 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%	9.8%	5.6%	5.3%	5.1%	5.2%
Consumer Price Inflation	2.6%	4.9%	5.2%	9.4%	4.7%	2.9%	3.1%	3.1%
GDP Deflator	4.4%	5.2%	6.9%	9.9%	6.1%	4.4%	4.2%	4.0%
Nominal GDP								
GEL Million	44,599	49,253	49,407	59,672	66,753	73,412	80,376	87,920
USD Million	17,597	17,471	15,888	18,470	21,183	23,852	26,109	28,715
GDP Per Capita								
GEL	11,968	13,239	13,293	16,004	17,903	19,689	21,557	23,580
USD	4,722	4,696	4,275	4,954	5,681	6,397	7,003	7,701
	% of GDP							
Absorption	110.6	109.0	118.6	116.3	113.8	110.9	109.6	109.1
Consumption	82.5	83.7	92.4	90.9	87.5	85.3	83.1	82.0
Private	75.2	76.7	84.9	83.8	81.5	79.0	77.0	76.1
Government	7.3	7.0	7.6	7.1	6.0	6.3	6.1	6.0
Investment	28.1	25.3	26.2	25.4	26.3	25.5	26.5	27.1
Private	21.7	17.3	17.6	17.7	18.3	19.2	20.1	20.7
Government	6.4	8.0	8.6	7.7	8.0	6.4	6.4	6.4
Gross National Saving	21.4	19.8	14.4	15.5	17.9	18.5	20.1	21.1
Private	16.2	14.9	15.5	14.9	14.4	15.0	16.2	16.9
Government	5.2	4.9	-1.1	0.7	3.5	3.5	3.8	4.1
FISCAL SECTOR	GEL Million							
Revenues and Grants	11,822	12,907	12,407	14,824	16,555	18,008	19,504	21,179
Tax Revenues	10,506	11,418	10,964	13,261	15,204	16,535	18,017	19,687
Direct Taxes	4,540	4,593	4,433	5,199	6,155	6,577	7,322	8,231
Indirect Taxes	5,966	6,825	6,531	8,062	9,049	9,958	10,695	11,456
Expenditures and Acquisition of Nonfinancial Assets	12,351	14,464	17,189	19,039	19,559	20,142	21,576	23,160
Recurrent expenditures	9,493	10,519	12,960	14,419	14,229	15,468	16,427	17,551
Acquisition of Nonfinancial Assets	2,858	3,945	4,229	4,620	5,330	4,674	5,149	5,609
Operating Balance	2,329	2389	-553	405	2,326	2,540	3,077	3,628

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, Attached to the Draft Law of Georgia "on the 2022 State Budget of Georgia".

Overall Balance	-323	-1,350	-4,574	-3,735	-2,704	-1,884	-1,822	-1,731
State Debt	17,349	19,916	29,654	31,179	34,298	36,292	38,222	39,718
External	14,098	15,750	23,467	25,341	27,206	27,860	28,351	28,406
Domestic	3,251	4,166	6,186	5,838	7,091	8,431	9,871	11,311
Fiscal Balance	-1,016	-1,019	-4,596	-3,680	-2,779	-2,019	-1,957	-1,866
Unified Budget Balance	-305	-1,297	-4,451	-3,731	-2,678	-1,881	-1,775	-1,694
	% of GDP							
Revenues and Grants	26.5%	26.2%	25.1%	24.8%	24.8%	24.5%	24.3%	24.1%
Tax Revenues	23.6%	23.2%	22.2%	22.2%	22.8%	22.5%	22.4%	22.4%
Direct Taxes	10.2%	9.3%	9.0%	8.7%	9.2%	9.0%	9.1%	9.4%
Indirect Taxes	13.4%	13.9%	13.2%	13.5%	13.6%	13.6%	13.3%	13.0%
Expenditures and Acquisition of Nonfinancial Assets	27.7%	29.4%	34.8%	31.9%	29.3%	27.4%	26.8%	26.3%
Recurrent expenditures	21.3%	21.4%	26.2%	24.2%	21.3%	21.1%	20.4%	20.0%
Acquisition of Nonfinancial Assets	6.4%	8.0%	8.6%	7.7%	8.0%	6.4%	6.4%	6.4%
Operating Balance	5.2%	4.9%	-1.1%	0.7%	3.5%	3.5%	3.8%	4.1%
Overall Balance	-0.7%	-2.7%	-9.3%	-6.3%	-4.1%	-2.6%	-2.3%	-2.0%
State Debt	38.9%	40.4%	60.0%	52.2%	51.4%	49.4%	47.6%	45.2%
External	31.6%	32.0%	47.5%	42.5%	40.8%	38.0%	35.3%	32.3%
Domestic	7.3%	8.5%	12.5%	9.8%	10.6%	11.5%	12.3%	12.9%
Fiscal Balance	-2.3%	-2.1%	-9.3%	-6.2%	-4.2%	-2.7%	-2.4%	-2.1%
Unified Budget Balance	-0.7%	-2.6%	-9.0%	-6.3%	-4.0%	-2.6%	-2.2%	-1.9%

MONETARY SECTOR

	% of GDP, unless noted otherwise							
Net Foreign Assets	-0.4%	-0.7%	1.9%	2.4%	3.6%	3.9%	4.0%	3.9%
Net Domestic Assets	46.9%	50.2%	59.6%	56.1%	56.7%	60.0%	63.8%	68.0%
Broad Money M3	46.5%	49.5%	61.5%	58.5%	60.3%	63.9%	67.8%	71.9%
Broad Money M2	21.7%	23.3%	27.6%	27.2%	29.9%	32.3%	34.2%	36.0%

EXTERNAL SECTOR

	% of GDP, unless noted otherwise							
Current Account Balance	-6.8%	-5.5%	-12.4%	-9.8%	-8.4%	-7.0%	-6.5%	-6.1%
Trade Balance	-10.6%	-8.9%	-19.1%	-16.3%	-13.8%	-10.9%	-9.7%	-9.2%
Official International Reserves (USD Million)	3,290	3,506	3,911	4,168	4,552	4,775	5,106	5,610
Months of Import	3.7	3.8	5.2	4.6	4.4	4.2	4.0	3.8
Net Private Capital and Financial Flows (USD Million)	394	450	889	464	909	1,179	1,266	1,369

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%	10.7%	7.8%	7.6%	7.4%	7.7%
Consumer Price Inflation	2.6%	4.9%	5.2%	9.7%	6.3%	4.9%	5.3%	5.6%
GDP Deflator	4.4%	5.2%	6.9%	10.5%	8.2%	5.9%	5.8%	5.5%
Nominal GDP								
GEL Million	44,599	49,253	49,407	60,521	70,494	80,358	91,342	103,809
USD Million	17,597	17,471	15,888	18,737	22,370	26,109	29,668	33,900
GDP Per Capita								
GEL	11,968	13,239	13,293	16,232	18,906	21,552	24,498	27,842
USD	4,722	4,696	4,275	5,025	6,000	7,003	7,957	9,092
	% of GDP							
Absorption	110.6	109.0	118.6	116.1	112.7	109.5	108.7	108.1
Consumption	82.5	83.7	92.4	90.8	86.1	83.7	81.4	80.0
Private	75.2	76.7	84.9	83.8	80.4	78.0	76.0	74.9
Government	7.3	7.0	7.6	7.0	5.7	5.7	5.4	5.1
Investment	28.1	25.3	26.2	25.3	26.7	25.8	27.3	28.2
Private	21.7	17.3	17.6	17.6	19.1	20.0	21.7	22.8
Government	6.4	8.0	8.6	7.6	7.6	5.8	5.6	5.4
Gross National Saving	21.4	19.8	14.4	15.5	18.9	19.8	21.8	22.8
Private	16.2	14.9	15.5	14.8	15.3	16.0	17.5	18.1
Government	5.2	4.9	-1.1	0.7	3.6	3.7	4.3	4.7
FISCAL SECTOR	GEL Million							
Revenues and Grants	11,822	12,907	12,407	14,851	16,765	18,478	20,318	22,446
Tax Revenues	10,506	11,418	10,964	13,289	15,414	17,005	18,831	20,955
Direct Taxes	4,540	4,593	4,433	5,208	6,238	6,758	7,641	8,743
Indirect Taxes	5,966	6,825	6,531	8,080	9,176	10,247	11,190	12,212
Expenditures and Acquisition of Nonfinancial Assets	12,351	14,464	17,189	19,039	19,559	20,142	21,576	23,160
Recurrent expenditures	9,493	10,519	12,960	14,419	14,229	15,468	16,427	17,551
Acquisition of Nonfinancial Assets	2,858	3,945	4,229	4,620	5,330	4,674	5,149	5,609

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, Attached to the Draft Law of Georgia “on the 2022 State Budget of Georgia”.

Operating Balance	2,329	2389	-553	432	2,536	3,010	3,891	4,895
Overall Balance	-323	-1,350	-4,574	-3,708	-2,494	-1,414	-1,008	-464
State Debt	17,349	19,916	29,654	31,179	34,298	36,292	38,222	39,718
External	14,098	15,750	23,467	25,341	27,206	27,860	28,351	28,406
Domestic	3,251	4,166	6,186	5,838	7,091	8,431	9,871	11,311
Fiscal Balance	-1,016	-1,019	-4,596	-3,653	-2,569	-1,549	-1,143	-599
Unified Budget Balance	-305	-1,297	-4,451	-3,703	-2,468	-1,412	-960	-426
	% of GDP							
Revenues and Grants	26.5%	26.2%	25.1%	24.5%	23.8%	23.0%	22.2%	21.6%
Tax Revenues	23.6%	23.2%	22.2%	22.0%	21.9%	21.2%	20.6%	20.2%
Direct Taxes	10.2%	9.3%	9.0%	8.6%	8.8%	8.4%	8.4%	8.4%
Indirect Taxes	13.4%	13.9%	13.2%	13.4%	13.0%	12.8%	12.3%	11.8%
Expenditures and Acquisition of Nonfinancial Assets	27.7%	29.4%	34.8%	31.5%	27.7%	25.1%	23.6%	22.3%
Recurrent expenditures	21.3%	21.4%	26.2%	23.8%	20.2%	19.2%	18.0%	16.9%
Acquisition of Nonfinancial Assets	6.4%	8.0%	8.6%	7.6%	7.6%	5.8%	5.6%	5.4%
Operating Balance	5.2%	4.9%	-1.1%	0.7%	3.6%	3.7%	4.3%	4.7%
Overall Balance	-0.7%	-2.7%	-9.3%	-6.1%	-3.5%	-1.8%	-1.1%	-0.4%
State Debt	38.9%	40.4%	60.0%	51.5%	48.7%	45.2%	41.8%	38.3%
External	31.6%	32.0%	47.5%	41.9%	38.6%	34.7%	31.0%	27.4%
Domestic	7.3%	8.5%	12.5%	9.6%	10.1%	10.5%	10.8%	10.9%
Fiscal Balance	-2.3%	-2.1%	-9.3%	-6.0%	-3.6%	-1.9%	-1.3%	-0.6%
Unified Budget Balance	-0.7%	-2.6%	-9.0%	-6.1%	-3.5%	-1.8%	-1.1%	-0.4%

MONETARY SECTOR

% of GDP, unless noted otherwise

Net Foreign Assets	-0.4%	-0.7%	1.9%	2.4%	3.6%	3.9%	3.9%	3.8%
Net Domestic Assets	46.9%	50.2%	59.6%	56.1%	55.7%	58.8%	62.5%	66.6%
Broad Money M3	46.5%	49.5%	61.5%	58.5%	59.2%	62.7%	66.4%	70.4%
Broad Money M2	21.7%	23.3%	27.6%	27.2%	29.6%	32.0%	33.8%	35.7%

EXTERNAL SECTOR

% of GDP, unless noted otherwise

Current Account Balance	-6.8%	-5.5%	-12.4%	-9.7%	-7.8%	-6.0%	-5.6%	-5.4%
Trade Balance	-10.6%	-8.9%	-19.1%	-16.0%	-12.7%	-9.5%	-8.7%	-8.2%
Official International Reserves (USD Million)	3,290	3,506	3,911	4,241	4,741	5,106	5,551	6,088
Months of Import	3.7	3.8	5.2	4.6	4.2	3.8	3.4	3.0

Net Private Capital and Financial Flows (USD Million)	394	450	889	705	1,114	1,244	1,440	1,476
--	-----	-----	-----	-----	-------	-------	-------	-------

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%	8.8%	3.4%	3.1%	2.7%	2.7%
Consumer Price Inflation	2.6%	4.9%	5.2%	9.1%	3.4%	1.9%	2.2%	2.2%
GDP Deflator	4.4%	5.2%	6.9%	9.4%	4.2%	3.1%	2.8%	2.6%
Nominal GDP								
GEL Million	44,599	49,253	49,407	58,890	63,372	67,315	71,073	74,912
USD Million	17,597	17,471	15,888	18,224	20,110	21,870	23,090	24,471
GDP Per Capita								
GEL	11,968	13,239	13,293	15,794	16,996	18,054	19,062	20,091
USD	4,722	4,696	4,275	4,888	5,393	5,866	6,193	6,563
	% of GDP							
Absorption	110.6	109.0	118.6	116.5	114.7	112.0	110.5	110.3
Consumption	82.5	83.7	92.4	91.7	89.1	87.6	86.5	86.2
Private	75.2	76.7	84.9	84.5	82.8	80.7	79.6	79.2
Government	7.3	7.0	7.6	7.2	6.3	6.8	6.9	7.0
Investment	28.1	25.3	26.2	24.7	25.6	24.4	24.0	24.1
Private	21.7	17.3	17.6	17.0	17.7	18.5	18.4	18.7
Government	6.4	8.0	8.6	7.7	7.9	5.8	5.6	5.4
Gross National Saving	21.4	19.8	14.4	14.9	16.7	16.9	16.7	17.0
Private	16.2	14.9	15.5	14.6	14.2	14.8	14.6	15.2
Government	5.2	4.9	-1.1	0.3	2.5	2.1	2.1	1.8
FISCAL SECTOR	GEL Million							
Revenues and Grants	11,822	12,907	12,407	14,568	15,840	16,868	17,937	18,911
Tax Revenues	10,506	11,418	10,964	13,005	14,489	15,395	16,450	17,420
Direct Taxes	4,540	4,593	4,433	5,160	5,899	6,244	6,740	7,183
Indirect Taxes	5,966	6,825	6,531	7,845	8,590	9,151	9,710	10,236
Expenditures and Acquisition of Nonfinancial Assets	12,351	14,464	17,189	18,978	19,247	19,399	20,423	21,595
Recurrent expenditures	9,493	10,519	12,960	14,419	14,229	15,468	16,427	17,551

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, Attached to the Draft Law of Georgia "on the 2022 State Budget of Georgia".

Acquisition of Nonfinancial Assets	2,858	3,945	4,229	4,559	5,018	3,931	3,996	4,044
Operating Balance	2,329	2389	-553	149	1,611	1,400	1,510	1,360
Overall Balance	-323	-1,350	-4,574	-3,930	-3,107	-2,281	-2,236	-2,434
State Debt	17,349	19,916	29,654	31,179	34,298	36,292	38,222	39,718
External	14,098	15,750	23,467	25,341	27,206	27,860	28,351	28,406
Domestic	3,251	4,166	6,186	5,838	7,091	8,431	9,871	11,311
Fiscal Balance	-1,016	-1,019	-4,596	-3,875	-3,182	-2,416	-2,371	-2,569
Unified Budget Balance	-305	-1,297	-4,451	-3,926	-3,081	-2,278	-2,188	-2,396
	% of GDP							
Revenues and Grants	26.5%	26.2%	25.1%	24.7%	25.0%	25.1%	25.2%	25.2%
Tax Revenues	23.6%	23.2%	22.2%	22.1%	22.9%	22.9%	23.1%	23.3%
Direct Taxes	10.2%	9.3%	9.0%	8.8%	9.3%	9.3%	9.5%	9.6%
Indirect Taxes	13.4%	13.9%	13.2%	13.3%	13.6%	13.6%	13.7%	13.7%
Expenditures and Acquisition of Nonfinancial Assets	27.7%	29.4%	34.8%	32.2%	30.4%	28.8%	28.7%	28.8%
Recurrent expenditures	21.3%	21.4%	26.2%	24.5%	22.5%	23.0%	23.1%	23.4%
Acquisition of Nonfinancial Assets	6.4%	8.0%	8.6%	7.7%	7.9%	5.8%	5.6%	5.4%
Operating Balance	5.2%	4.9%	-1.1%	0.3%	2.5%	2.1%	2.1%	1.8%
Overall Balance	-0.7%	-2.7%	-9.3%	-6.7%	-4.9%	-3.4%	-3.1%	-3.2%
State Debt	38.9%	40.4%	60.0%	52.9%	54.1%	53.9%	53.8%	53.0%
External	31.6%	32.0%	47.5%	43.0%	42.9%	41.4%	39.9%	37.9%
Domestic	7.3%	8.5%	12.5%	9.9%	11.2%	12.5%	13.9%	15.1%
Fiscal Balance	-2.3%	-2.1%	-9.3%	-6.6%	-5.0%	-3.6%	-3.3%	-3.4%
Unified Budget Balance	-0.7%	-2.6%	-9.0%	-6.7%	-4.9%	-3.4%	-3.1%	-3.2%

MONETARY SECTOR

	% of GDP, unless noted otherwise							
Net Foreign Assets	-0.4%	-0.7%	1.9%	2.1%	3.1%	3.5%	3.6%	3.7%
Net Domestic Assets	46.9%	50.2%	59.6%	56.4%	58.3%	61.7%	65.5%	69.8%
Broad Money M3	46.5%	49.5%	61.5%	58.5%	61.4%	65.2%	69.2%	73.5%
Broad Money M2	21.7%	23.3%	27.6%	27.2%	30.1%	32.6%	34.5%	36.4%

EXTERNAL SECTOR

	% of GDP, unless noted otherwise							
Current Account Balance	-6.8%	-5.5%	-12.4%	-9.9%	-8.9%	-7.4%	-7.3%	-7.1%
Trade Balance	-10.6%	-8.9%	-19.1%	-16.4%	-14.7%	-12.0%	-10.5%	-10.3%

Official International Reserves (USD Million)	3,290	3,506	3,911	4,105	4,286	4,513	4,719	5,036
Months of Import	3.7	3.8	5.2	4.6	4.4	4.3	4.3	4.2
Net Private Capital and Financial Flows (USD Million)	394	450	889	426	739	822	920	974

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

	2021				2022			
	October 2021		July 2021		October 2021		July 2021	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	9.5%	9.8%	7.7%	8.0%	6.0%	5.6%	6.3%	5.5%
Consumer Price Inflation	8.9%	9.4%	6.5%	7.4%	4.5%	4.7%	3.5%	4.1%
GDP Deflator	8.0%	9.9%	7.5%	7.4%	4.5%	6.1%	4.5%	4.8%
Nominal GDP (GEL Million)	58,428	59,672	57,201	57,345	64,721	66,753	63,541	63,331
Tax Revenues (GEL Million)	12,922	13,261	12,922	13,176	15,193	15,204	14,931	14,742
Direct Taxes (GEL Million)	5,392	5,199	5,393	5,083	6,575	6,155	6,496	5,958
Indirect Taxes (GEL Million)	7,530	8,062	7,529	8,093	8,618	9,049	8,435	8,785
Consolidated Budget Overall Balance (GEL Million)	-3,980	-3,735	-3,980	-3,908	-2,777	-2,704	-2,661	-2,976
Current Account Balance (% of GDP)	-9.0%	-9.8%	-10.4%	-10.5%	-8.3%	-8.4%	-9.6%	-9.9%
Trade Balance (% of GDP)	-15.8%	-16.3%	-17.5%	-16.5%	-13.0%	-13.8%	-17.2%	-15.0%
Exports (% change YoY, USD)	29.9%	31.0%	22.0%	24.2%	19.6%	23.5%	22.8%	17.8%
Imports (% change YoY, USD)	18.3%	20.2%	15.5%	14.9%	12.6%	16.2%	19.5%	13.3%
International Reserves (USD Million)	4,614	4,168	4,223	4,039	5,168	4,552	5,026	4,383
Money Aggregate M3 (GEL Million)	35,395	34,937	38,205	35,854	41,458	40,258	45,602	41,033
Money Aggregate M2 (GEL Million)	16,268	16,217	17,553	16,479	19,182	19,945	21,258	19,897

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

	2023				2024			
	October 2021		July 2021		October 2021		July 2021	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	5.5%	5.3%	6.2%	5.6%	5.2%	5.1%	5.5%	5.4%
Consumer Price Inflation	3.0%	2.9%	3.0%	3.3%	3.0%	3.1%	3.0%	3.0%
GDP Deflator	3.0%	4.4%	3.5%	4.3%	3.0%	4.2%	3.0%	4.1%
Nominal GDP (GEL Million)	70,329	73,412	69,843	69,738	76,205	80,376	75,895	76,538
Tax Revenues (GEL Million)	16,499	16,535	16,484	16,561	17,882	18,017	17,882	18,076
Direct Taxes (GEL Million)	7,166	6,577	7,192	6,694	7,788	7,322	7,823	7,483
Indirect Taxes (GEL Million)	9,333	9,958	9,292	9,867	10,094	10,695	10,059	10,594
Consolidated Budget Overall Balance (GEL Million)	-1,943	-1,884	-1,958	-1,948	-1,914	-1,822	-1,914	-1,837
Current Account Balance (% of GDP)	-7.1%	-7.0%	-8.3%	-7.7%	-6.7%	-6.5%	-7.1%	-5.9%
Trade Balance (% of GDP)	-9.6%	-10.9%	-16.1%	-12.4%	-8.7%	-9.7%	-14.9%	-10.5%
Exports (% change YoY, USD)	18.1%	16.5%	21.4%	16.6%	11.2%	15.8%	20.4%	20.5%
Imports (% change YoY, USD)	9.6%	9.9%	16.2%	10.5%	8.9%	12.3%	15.5%	14.9%
International Reserves (USD Million)	5,685	4,775	5,830	4,629	6,197	5,106	6,763	4,921
Money Aggregate M3 (GEL Million)	48,264	46,943	53,739	47,186	55,778	54,476	61,938	54,393
Money Aggregate M2 (GEL Million)	22,490	23,721	25,441	23,809	26,191	27,465	29,828	27,973

Annex 6: Change in Forecasts of Key Macroeconomic Indicators, 2025 (Baseline Scenario)

	2025			
	October 2021		July 2021	
	Government	PBO	Government	PBO
Real GDP (% Growth)	5.2%	5.2%	4.9%	4.9%
Consumer Price Inflation	3.0%	3.1%	3.0%	3.0%
GDP Deflator	3.0%	4.0%	3.0%	3.9%
Nominal GDP (GEL Million)	82,573	87,920	82,002	83,434
Tax Revenues (GEL Million)	19,446	19,687	19,446	19,617
Direct Taxes (GEL Million)	8,486	8,231	8,523	8,313
Indirect Taxes (GEL Million)	10,960	11,456	10,923	11,305
Consolidated Budget Overall Balance (GEL Million)	-1,914	-1,731	-1,914	-1,854
Current Account Balance (% of GDP)	-5.6%	-6.1%	-5.1%	-4.9%
Trade Balance (% of GDP)	-7.2%	-9.2%	-13.0%	-9.1%
Exports (% change YoY, USD)	11.4%	17.9%	20.2%	20.9%
Imports (% change YoY, USD)	8.2%	15.7%	14.5%	16.5%
International Reserves (USD Million)	6,692	5,610	7,777	5,270
Money Aggregate M3 (GEL Million)	64,462	63,253	70,352	62,387
Money Aggregate M2 (GEL Million)	30,502	31,693	34,503	32,117

Annex 7: Comparison of Positive Scenarios¹⁸, 2021-2025

	2021		2022		2023		2024		2025	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	10.3%	10.7%	6.3%	7.8%	5.9%	7.6%	5.4%	7.4%	5.2%	7.7%
Consumer Price Inflation	9.4%	9.7%	4.9%	6.3%	3.3%	4.9%	3.2%	5.3%	3.1%	5.6%
GDP Deflator	8.5%	10.5%	4.9%	8.2%	3.3%	5.9%	3.2%	5.8%	3.1%	5.5%
Nominal GDP (GEL Million)	59,127	60,521	65,932	70,494	72,126	80,358	78,454	91,342	85,092	103,809
Tax Revenues (GEL Million)	13,051	13,289	15,411	15,414	16,841	17,005	18,327	18,831	19,949	20,955
Direct Taxes (GEL Million)	5,444	5,208	6,677	6,238	7,326	6,758	8,000	7,641	8,732	8,743
Indirect Taxes (GEL Million)	7,607	8,080	8,734	9,176	9,515	10,247	10,327	11,190	11,217	12,212
Consolidated Budget Overall Balance (GEL Million)	-3,851	-3,708	-2,559	-2,494	-1,601	-1,414	-1,469	-1,008	-1,411	-464
Current Account Balance (% of GDP)	-8.2%	-9.7%	-7.9%	-7.8%	-6.9%	-6.0%	-6.4%	-5.6%	-5.5%	-5.4%
Trade Balance (% of GDP)	-15.1%	-16.0%	-12.8%	-12.7%	-9.9%	-9.5%	-8.9%	-8.7%	-7.6%	-8.2%
Exports (% change YoY, USD)	34.7%	34.3%	19.2%	32.7%	18.2%	27.6%	11.9%	24.4%	11.0%	26.8%
Imports (% change YoY, USD)	20.5%	22.3%	13.6%	22.3%	10.6%	19.0%	9.5%	21.4%	8.3%	24.1%
International Reserves (USD Million)	4,614	4,241	5,168	4,741	5,685	5,106	6,197	5,551	6,692	6,088
Money Aggregate M3 (GEL Million)	36,242	35,433	42,935	41,758	50,629	50,418	58,921	60,674	68,166	73,106
Money Aggregate M2 (GEL Million)	16,627	16,448	19,813	20,876	23,508	25,716	27,554	30,895	32,120	37,020

¹⁸ The data in the table is a comparison of the optimistic scenarios forecasts made by the Parliamentary Budget Office and the Government in October 2021.

Annex 8: Comparison of Negative Scenarios¹⁹, 2021-2025

	2021		2022		2023		2024		2025	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	9.0%	8.8%	4.1%	3.4%	3.8%	3.1%	3.9%	2.7%	4.0%	2.7%
Consumer Price Inflation	8.8%	9.1%	3.8%	3.4%	2.0%	1.9%	2.2%	2.2%	2.5%	2.2%
GDP Deflator	7.9%	9.4%	3.8%	4.2%	2.0%	3.1%	2.2%	2.8%	2.5%	2.6%
Nominal GDP (GEL Million)	58,107	58,890	62,788	63,372	66,478	67,315	70,590	71,073	75,249	74,912
Tax Revenues (GEL Million)	12,861	13,005	14,881	14,489	15,756	15,395	16,729	16,450	17,881	17,420
Direct Taxes (GEL Million)	5,367	5,160	6,485	5,899	6,865	6,244	7,283	6,740	7,782	7,183
Indirect Taxes (GEL Million)	7,494	7,845	8,396	8,590	8,891	9,151	9,446	9,710	10,099	10,236
Consolidated Budget Overall Balance (GEL Million)	-3,980	-3,930	-2,777	-3,107	-1,943	-2,281	-1,914	-2,236	-1,914	-2,434
Current Account Balance (% of GDP)	-9.3%	-9.9%	-9.2%	-8.9%	-7.6%	-7.4%	-7.1%	-7.3%	-5.9%	-7.1%
Trade Balance (% of GDP)	-16.1%	-16.4%	-13.6%	-14.7%	-9.7%	-12.0%	-8.4%	-10.5%	-6.6%	-10.3%
Exports (% change YoY, USD)	27.9%	28.5%	13.9%	16.1%	15.3%	12.2%	8.6%	8.8%	9.4%	8.6%
Imports (% change YoY, USD)	17.3%	18.3%	8.5%	11.1%	5.6%	6.3%	5.8%	5.6%	5.6%	7.7%
International Reserves (USD Million)	4,575	4,105	4,969	4,286	5,247	4,513	5,551	4,719	5,862	5,036
Money Aggregate M3 (GEL Million)	34,947	34,478	38,797	38,923	42,870	43,886	47,587	49,170	53,123	55,083
Money Aggregate M2 (GEL Million)	16,077	16,005	18,040	19,106	20,154	21,964	22,613	24,537	25,503	27,299

¹⁹ The data in the table is a comparison of the pessimistic scenarios forecasts made by the Parliamentary Budget Office and the Government in October 2021.