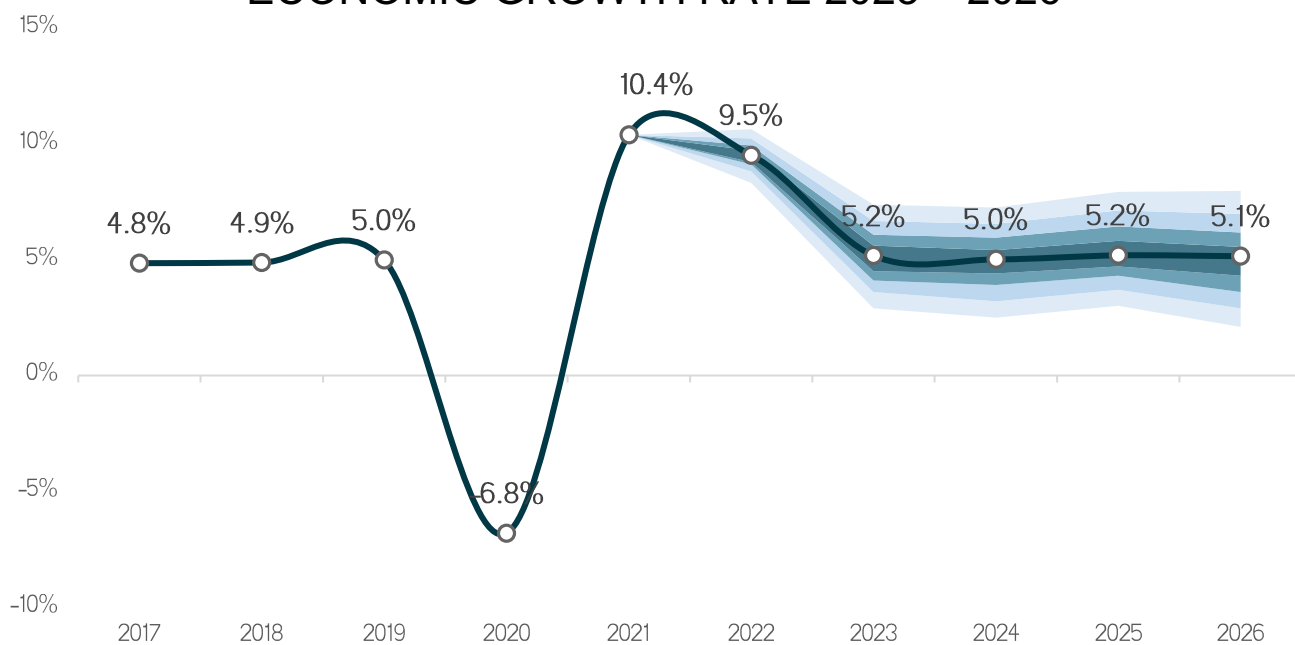


Macroeconomic Forecasts



ECONOMIC GROWTH RATE 2023 – 2026



Contribution to 2023 Growth:

Real Consumption (↑) : +4.2%

Net Export (↑) : +1.2%

Real Investment (↑) : +1.7%

PARLIAMENTARY BUDGET OFFICE OF GEORGIA
MACROECONOMIC ANALYSIS AND TAX POLICY UNIT

Macroeconomic Forecasts

November, 2022

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 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 2022Q1. 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 5.2% in 2023. The real GDP growth forecast (5.2%) in 2023 is 0.2 percentage points (pp) higher compared to the government forecast² (5.0%) and do not differ from the PBO forecast published in June 2022³. As for the current year, according to the PBO forecast, the **Georgian economy will increase by 9.5% in 2022.** The real GDP growth forecast (9.5%) in 2022 is 1.0 percentage points (pp) higher compared to the government forecast (8.5%) and differs (2.8 pp higher) from the PBO forecast published in June 2022. After a significant decline in economic growth in 2020 (-6.8%), high economic growth was observed in 2021 (10.4%), due to the base effect of a high reduction in 2020 caused by the COVID-19 pandemic and the significantly better development trend for that period. It should be noted, that despite the ongoing Russia-Ukraine war, the economic growth that began in 2021 was maintained in I, II and III quarters of 2022 as well in terms of foreign trade, remittances, foreign direct investment, financial sector, tourism and other economic indicators. The mentioned forecast of the PBO incorporates the assumption, that the high economic growth trends observed after the coronavirus pandemic will continue this year as well as in the medium term, tourism indicators will increase more, foreign trade and other economic indicators will be maintained at a significant level. 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 the tourism sector will revive significantly in 2023 compared to 2022, and both exports and imports of services will increase.
- In response to the rising inflation, the National Bank of Georgia raised the monetary policy rate since February 2022, which from the beginning of February comprised 10.5% and from the end of March – 11%. On September 14, 2022 the Monetary Policy Committee of the National Bank of Georgia decided to leave the monetary policy rate unchanged at 11.0%⁶. According to the PBO forecast, inflation will start to decline from the second half of 2022, but approach the target (3%) at the end of 2023, which could lead to a reduction in the policy rate from the same period.

According to the PBO forecast, the average annual economic growth rate for the medium term (2023-2026) is 5.1%, which does not differ from the similar figure published by the PBO in June 2022. 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 +1.2 pp. It should be noted, that domestic consumption and foreign trade still play a leading role in economic growth in the medium term.

As for the government forecast for the same period, the government forecast for the average economic growth in 2023-2026 is either equal to 5.1%, which differs (0.1 pp lower) from the similar figure published by them in

² The government's forecast refers to the projection of macroeconomic indicators presented in the Document of Basic Data and Directions for 2023-2026, which in accordance with the Budget Code of Georgia was submitted to the Parliament of Georgia on November 4, 2022.

³ <https://pbo.parliament.ge>

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

⁵Source: International Monetary Fund: World Economic Outlook, October 2022 (WEO July 2022)

<https://www.imf.org/en/Publications/WEO/Issues/2022/10/11/world-economic-outlook-october-2022>

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

June 2022 (5.2%). 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.

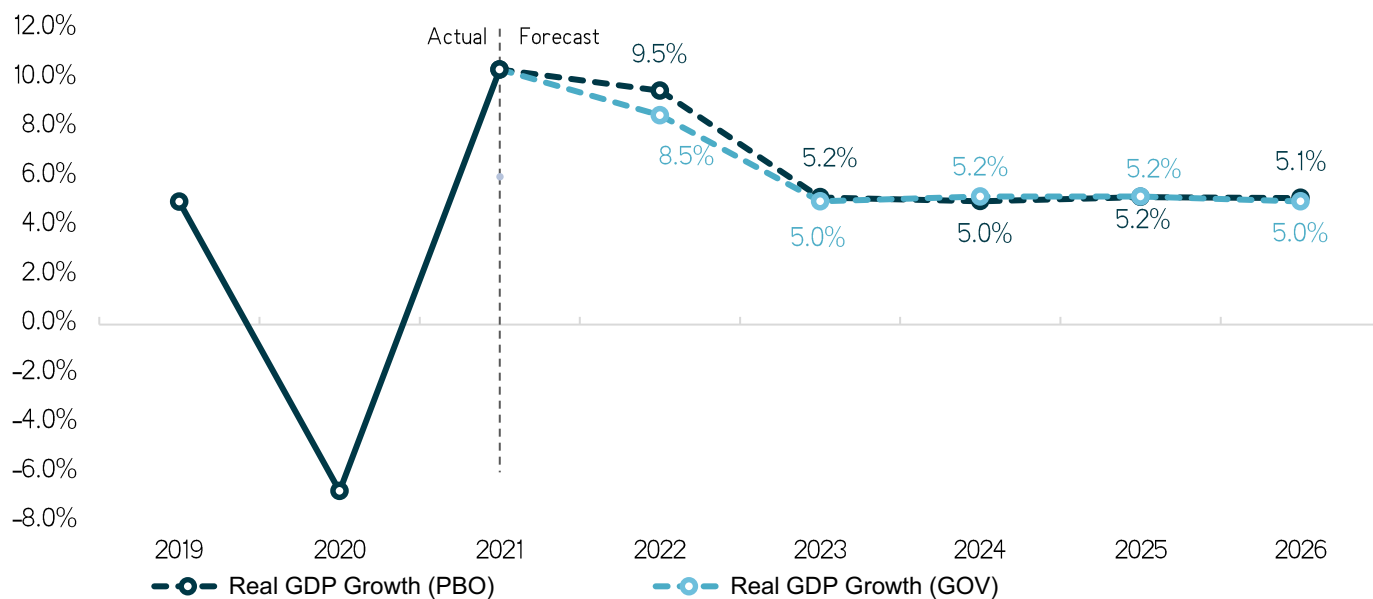


Figure 1: Real GDP Growth.

The relationship between dynamics of total factor productivity and economic activity is also noteworthy, for which it is essential to analyze whether the 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 potential GDP and compare it to the actual one. This difference between the real and potential GDP will be the GDP gap⁷.

According to the PBO estimates, due to the expected high GDP growth, the gap will be closed in 2022 and the real GDP will slightly exceed the potential GDP for 2022-2026.⁸

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](#).

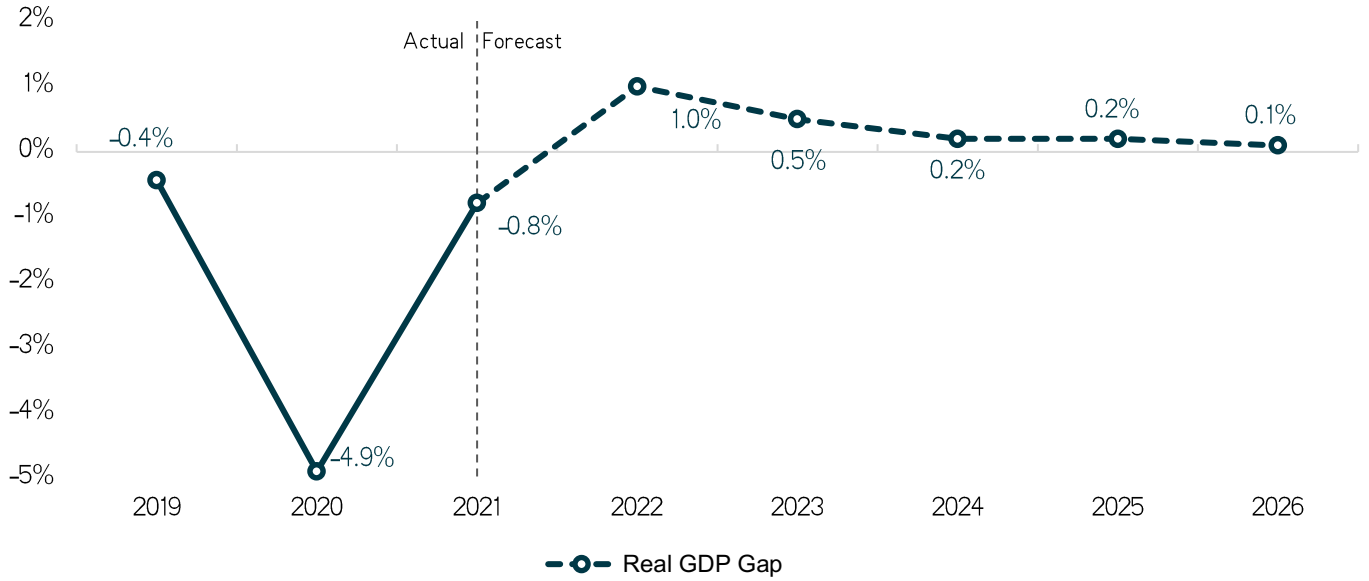


Figure 2: Real GDP Gap.

As for the nominal GDP per capita, according to the PBO, its projected volume for 2023 is 21,761 GEL, and for 2026 - 28,557 GEL. These figures are different from the government's forecasts, which in 2023 amounts to 21,353 GEL and for 2026 - 27,114 GEL. The main reasons for the different indicators of GDP per capita are the different forecasts of GDP and deflator. In particular, the Office forecasts that the GDP deflator will be 5.6% in 2023, while the government forecasts it to be 5.0%.

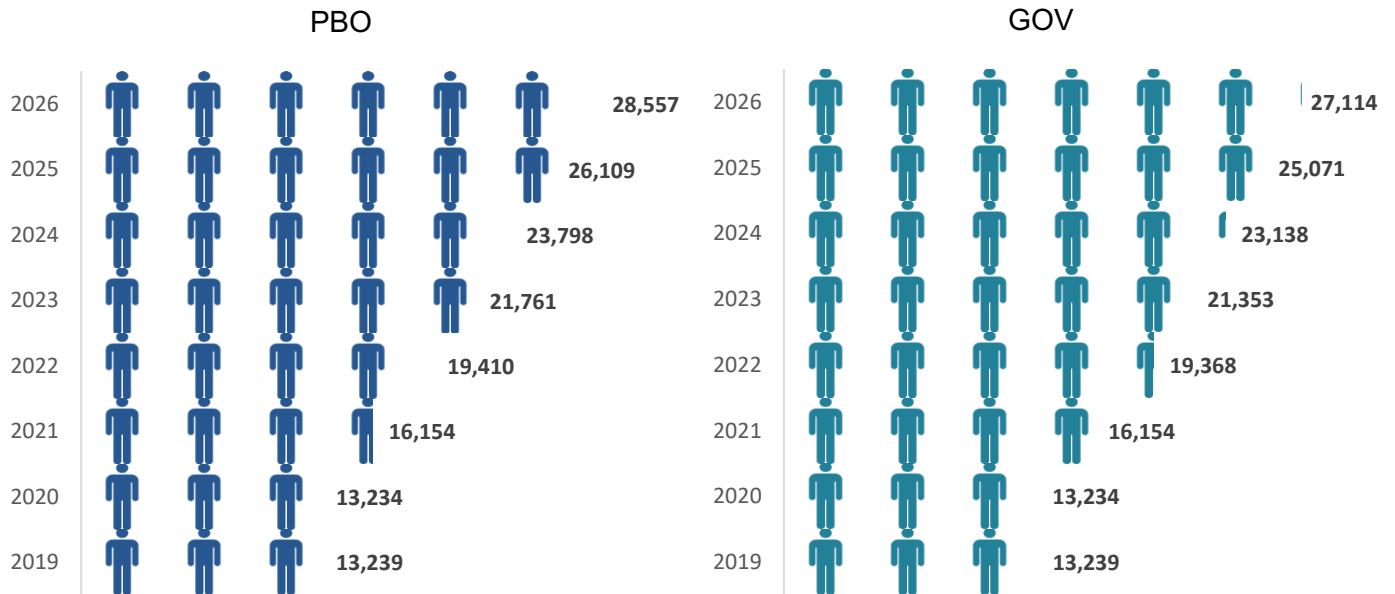


Figure 3: GDP Per Capita, Nominal GEL.

According to the PBO estimate, the nominal GDP will increase by 12.1% in 2023 and reach 81,139 million GEL. 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.

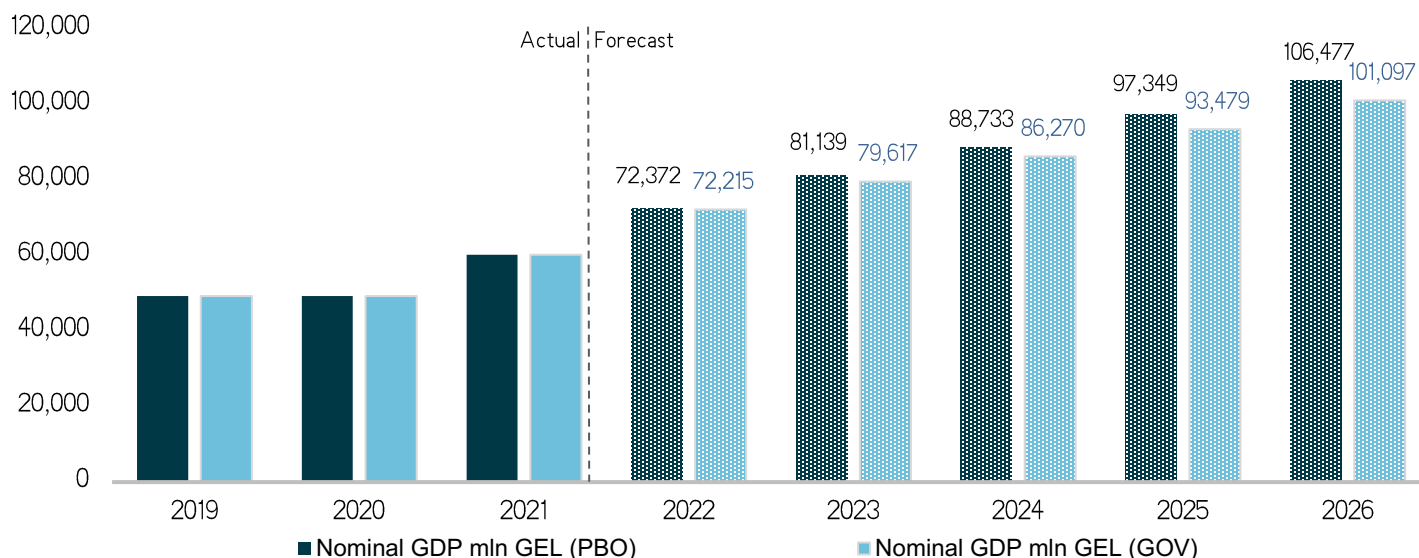


Figure 4: Nominal GDP, Million GEL.

According to the PBO forecast, considering the so-called „orientation trajectory“ of the monetary policy rate of NBG, by 2023 the inflation rate will be higher than the target and will reach 5.3%. This figure is 0.2 pp higher than the forecast of the PBO in June 2022. However, several factors observed in 2022 contributed to the increase in inflation:

- Supply shock in the first and second quarters of 2022 as a result of the Russia-Ukraine war;
- Significantly increased prices on energy and food products in the world market as well as rise in freight transportation costs during the first quarter of 2022.
- The more revitalized aggregate demand and higher economic growth than expected during the first and second quarters of 2022;

Given these trends, it is likely that inflation will remain high during the year. According to the government’s forecast, the inflation rate will be 4.7% in 2023, will return to the target rate 3.0% in 2024 and will be maintained at the 3.0% target level of the NBG in the medium-term. It is noteworthy, that changes in both monetary policy and external factors may lead to differences in forecasts.

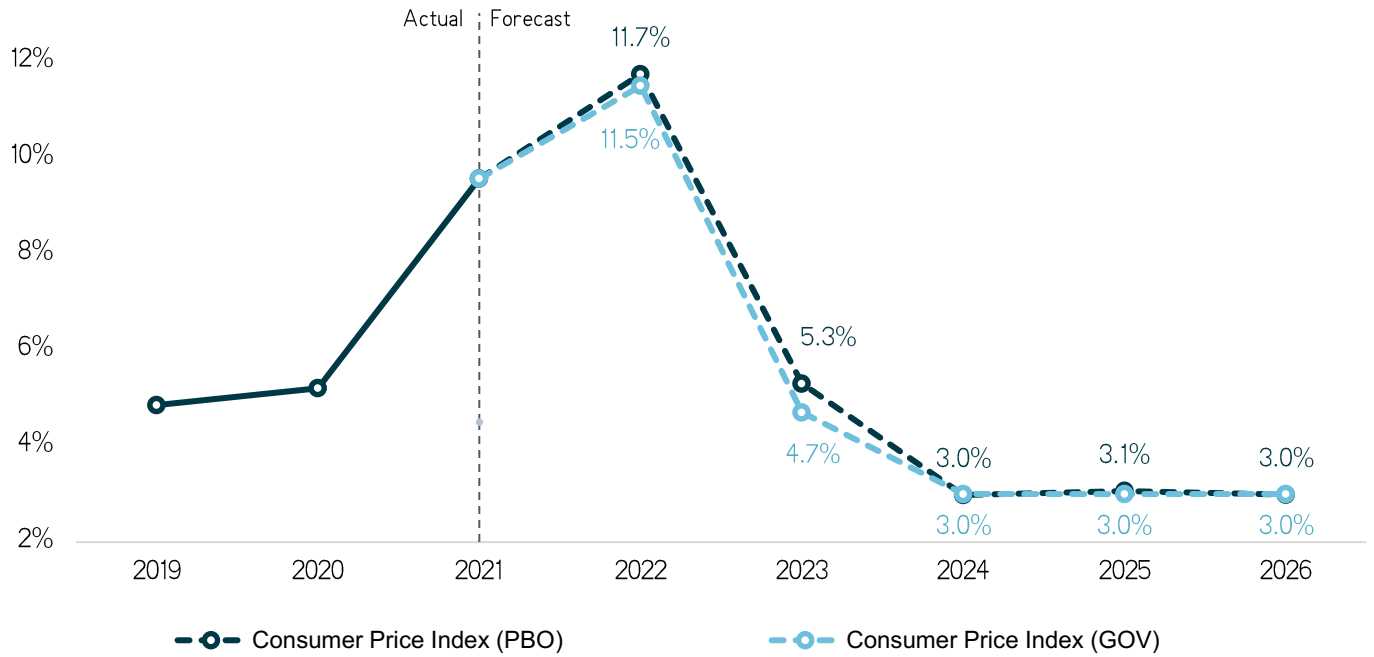


Figure 5: Consumer Price Indices, Period Average.

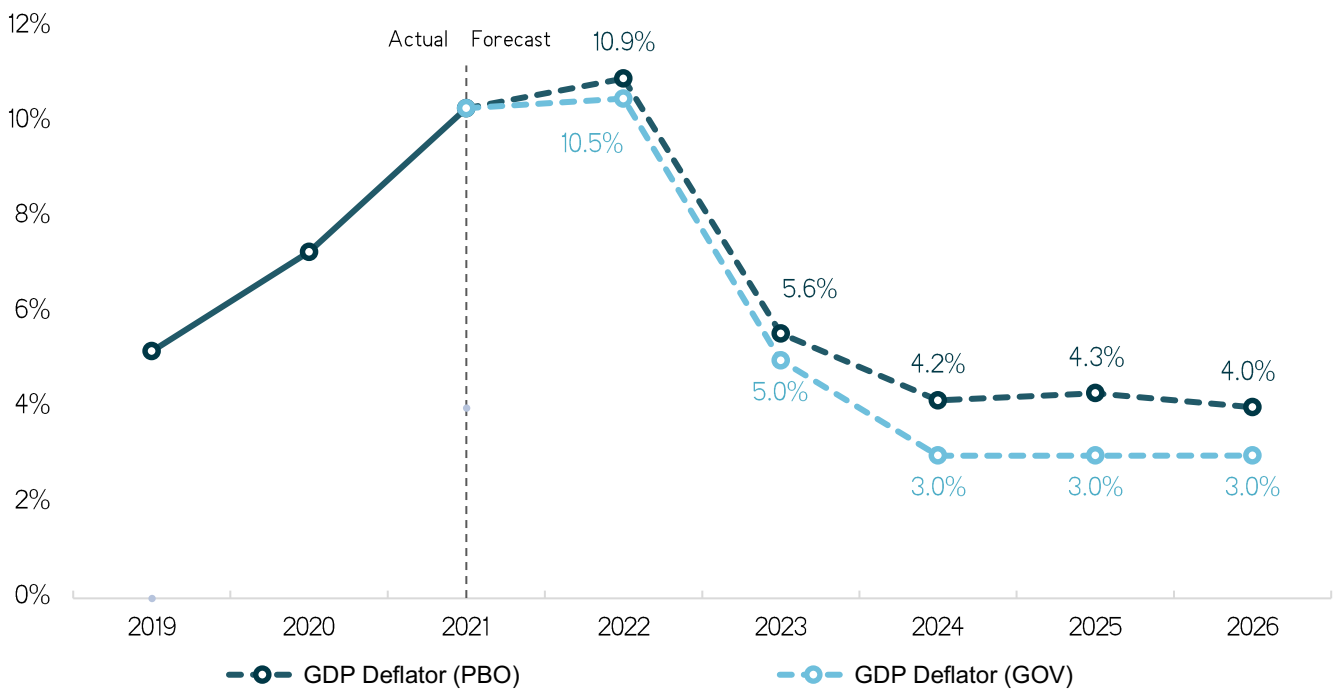


Figure 6: GDP Deflator.

According to the PBO forecast, in parallel with the revived economic activity, the ratio of private investments to GDP will increase by 2.1% pp in 2023 compared to 2022 and will reach 15.2% of GDP, will have upward trend in the medium-term and by 2026 will reach 18.1% of GDP. The ratio of private savings to GDP will also have a growth trend, it will be 10.7% of GDP by 2023 and 15.9% by 2026. 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 17.3% by 2023, in the medium term it will slightly increase and reach 17.4% by 2026.

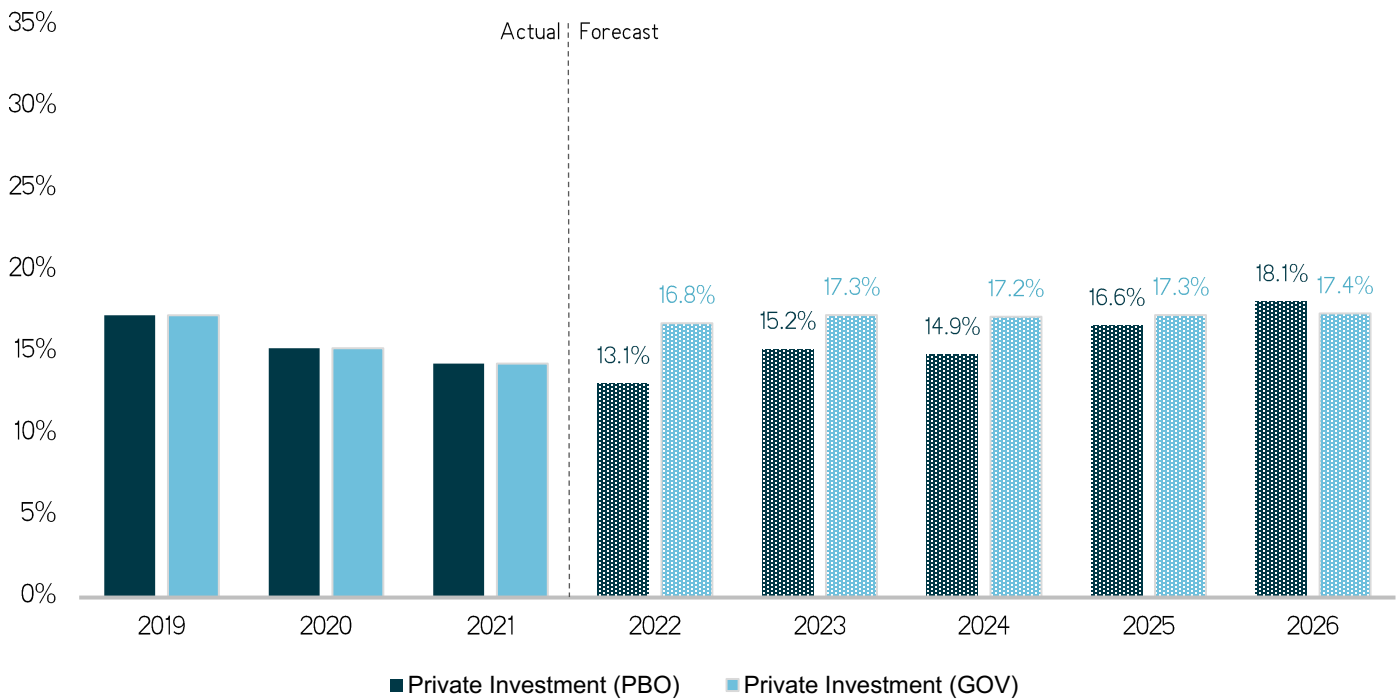


Figure 7: Private Investment, % of GDP.

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 balance⁹ of the consolidated budget (GFSM 14) to GDP is -2.4% by 2023 (according to the June 2022 forecast it was -2.9%). At the same time, according to the PBO forecast, the so-called modified overall balance¹⁰ (obtained through the reclassification of individual items and used in the IMF program) will reach -2.5% by 2023.

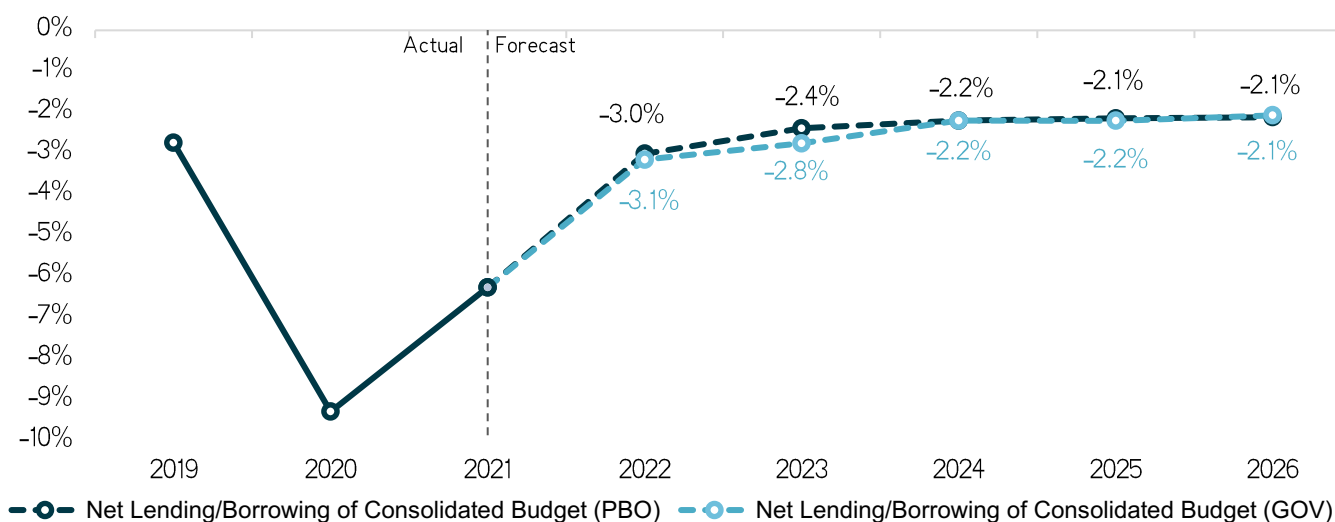


Figure 8: Net Lending/Borrowing Balance, % of GDP.

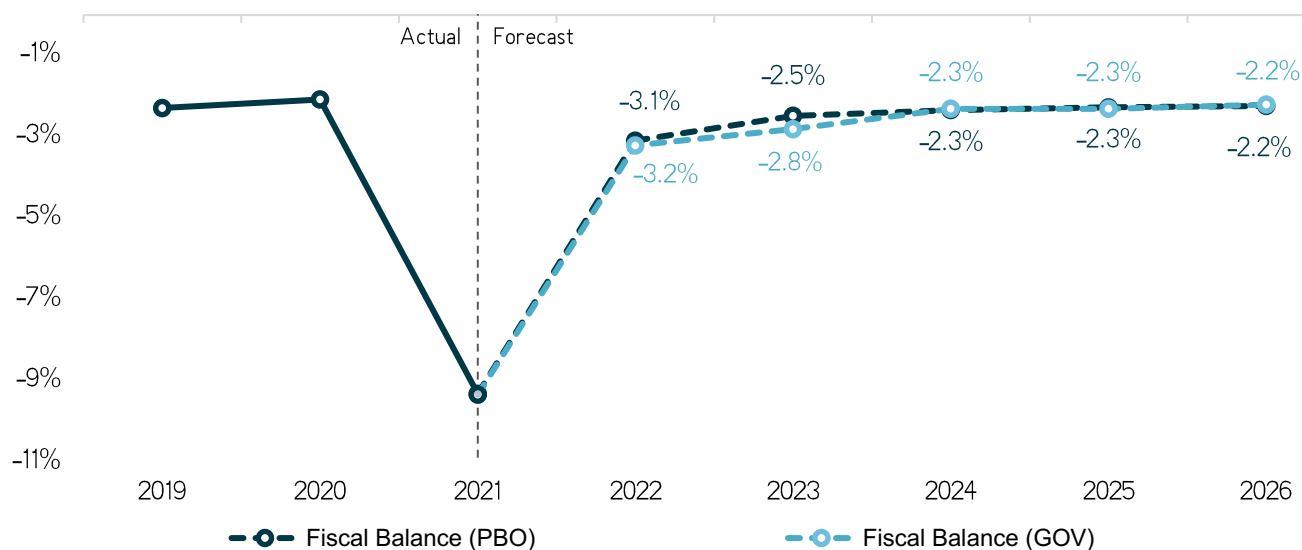


Figure 9: Modified Balance, % of GDP.

⁹ Overall Budget Balance – The difference between budget revenues and expenses minus the net acquisition of nonfinancial assets

¹⁰ Modified Overall Balance - Overall Budget Balance minus the net acquisition of financial assets

In 2023, according to the PBO forecast, the consolidated budget deficit¹¹ to GDP (-2.4%) is 0.4 pp lower than the corresponding figure presented by the government (-2.8%), mainly caused by the fact that the tax revenues of the consolidated budget estimated by the PBO are 236 million GEL higher than that of government's forecast. That is due to the different forecasts of both indirect and direct taxes.

As for the unified budget deficit, 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 the PBO estimates, the unified budget deficit to GDP in 2023 will be -2.6%, that differs from the corresponding figure presented by the government (-2.9%) by 0.3 pp and is 0.3 pp lower than the similar figure (-2.9%) published by the PBO in June 2022.

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 2023-2026.

In addition to this, it is important to evaluate fiscal indicators with respect to economic trends¹² in the medium-term, namely – the discretionary fiscal policy direction and its connection with economic cycles¹³.

According to PBO evaluation, the consolidated budget deficit (cyclically adjusted primary balance) in 2022-2026 and, consequently, the positive fiscal stance coincide with the positive GDP gap, which constitutes a slight pro-cyclical expansion¹⁴.

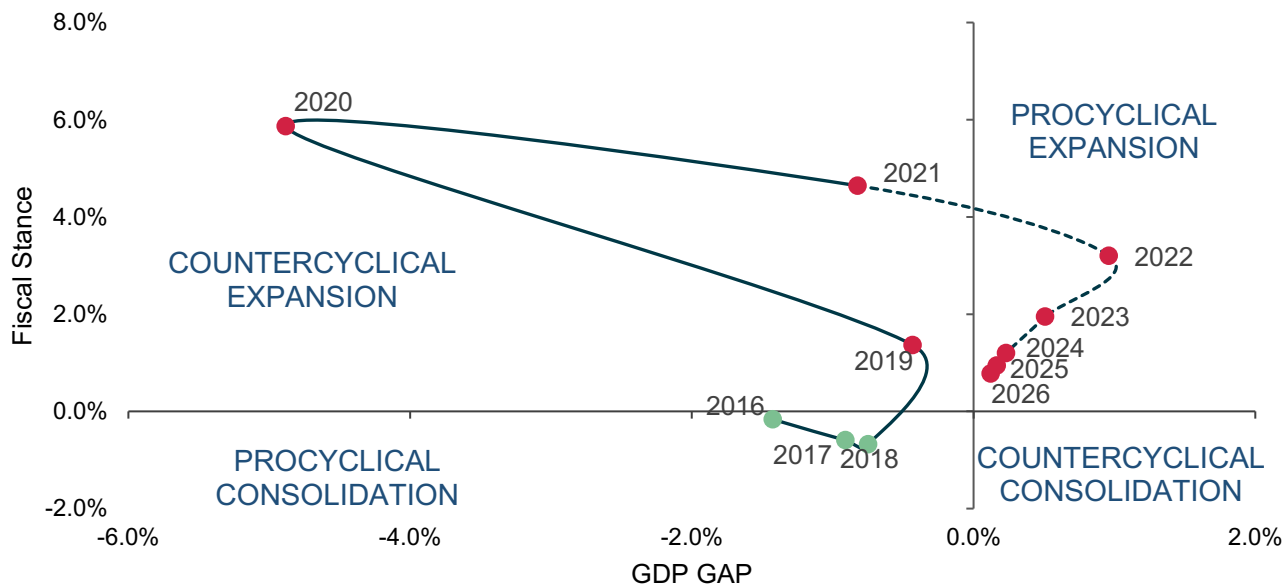


Figure 10: Fiscal Stance.

¹¹ The Consolidated Budget deficit = The consolidated budget's negative net lending/borrowing balance

¹² 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.

¹³ PBO research publication: "[FISCAL POLICY IN GEORGIA: DIRECTION, CYCLICALITY, MANEUVERING SPACE](#)".

¹⁴ Procyclical expansion - when the country's real GDP is higher than its potential level, but at this time the state invests more resources in the economy than it receives (fiscal expansion), i.e. to stimulate economy during its growth.

Countercyclical expansion - when the country's real GDP is lower than its potential level, but at this time the state invests more resources in the economy than it receives (fiscal expansion), i.e. to stimulate economy during its recession.

Countercyclical consolidation - when the country's real GDP is higher than its potential level, but at this time the state invests less resources in the economy than it receives (fiscal consolidation), i.e. to reduce deficit.

Procyclical consolidation - when the country's real GDP is lower than its potential level, but at this time the state invests less resources in the economy than it receives (fiscal consolidation), i.e. to reduce deficit.

Regarding tax revenues, according to the PBO estimate, the consolidated budget tax revenues will amount to 18,733 million GEL for 2023, which is 1,565 million GEL higher compared to the forecast made in June 2022 and 236 million GEL higher than the government's forecast (GEL 18,497 million). Accordingly, a difference is observed between the forecasts of both direct and indirect taxes¹⁵ (See Figure 11 and 12). The PBO estimates that by 2023, tax revenues will reach 23.1% of GDP, while the government forecasts 23.2%. According to the forecast of the PBO, the tax to GDP ratio will be 23.0% on average in 2023-2026.

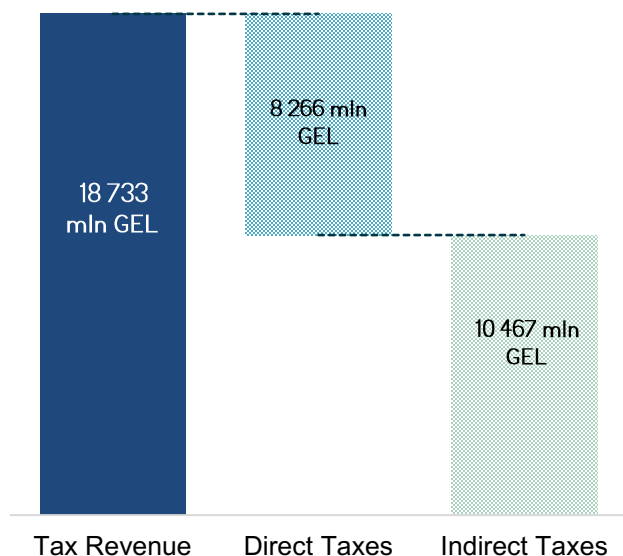


Figure 11: Tax Revenue Forecast 2023 (PBO)

Analyzing tax revenues by components, as PBO forecasts, the share of direct taxes in total tax revenues will be 44.1% in 2023. Hence, the share of indirect taxes will be 55.9%. PBO estimates, that throughout the medium term the share of direct taxes will gradually increase while the share of indirect taxes will decrease¹⁶. 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.

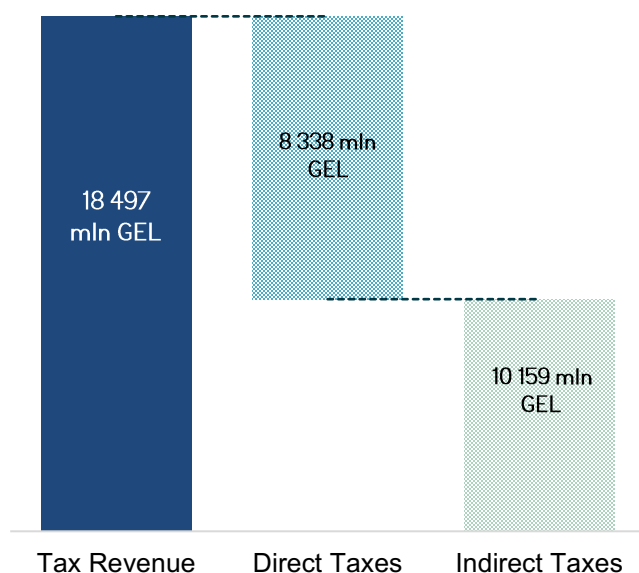


Figure 12: Tax Revenue Forecast 2023 (GOV)

As for the structure of government tax revenues, the share of direct taxes in total tax revenues is expected to be 45.1% by 2023 and will increase slightly in the medium term.

¹⁵ Direct Taxes include projected revenues of other taxes.

¹⁶ This forecast of the Budget Office is based on the following assumptions: The impact of profit tax reform will be revealed in the coming years, economic development will increase the administration of direct taxes and its share to tax revenues as well as the share of property tax revenue due to the progressiveness of it.

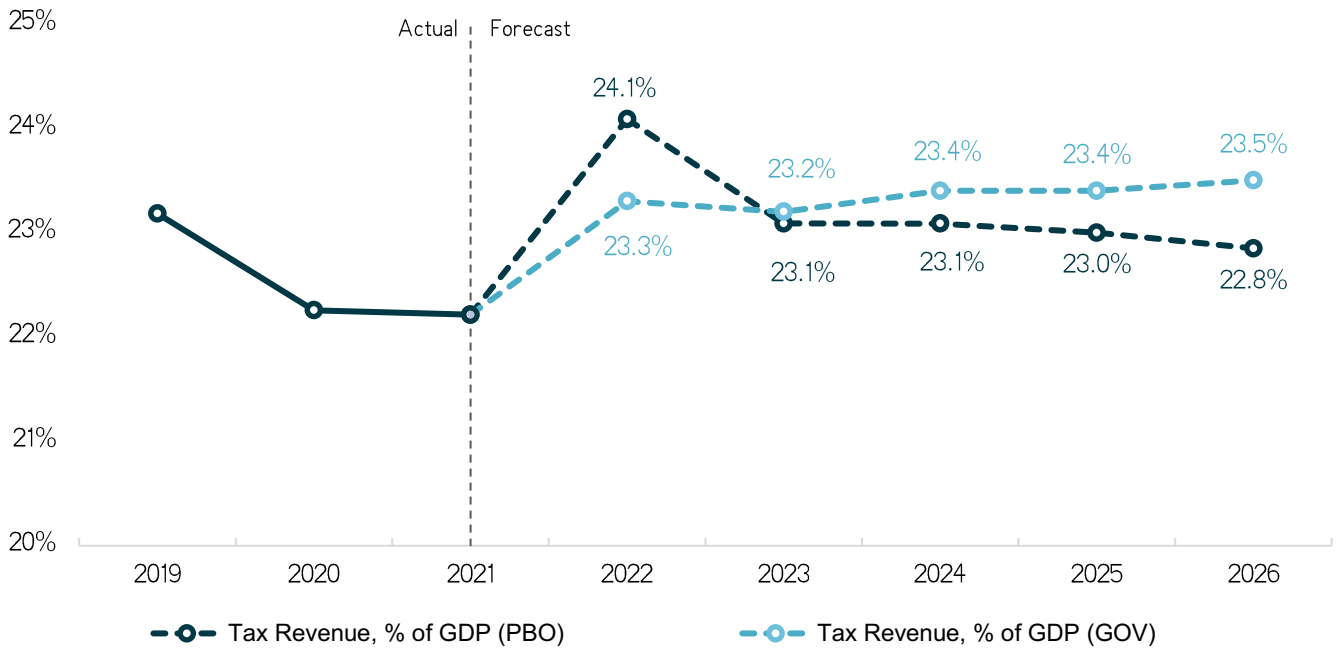


Figure 13: Tax Revenue, % of GDP.

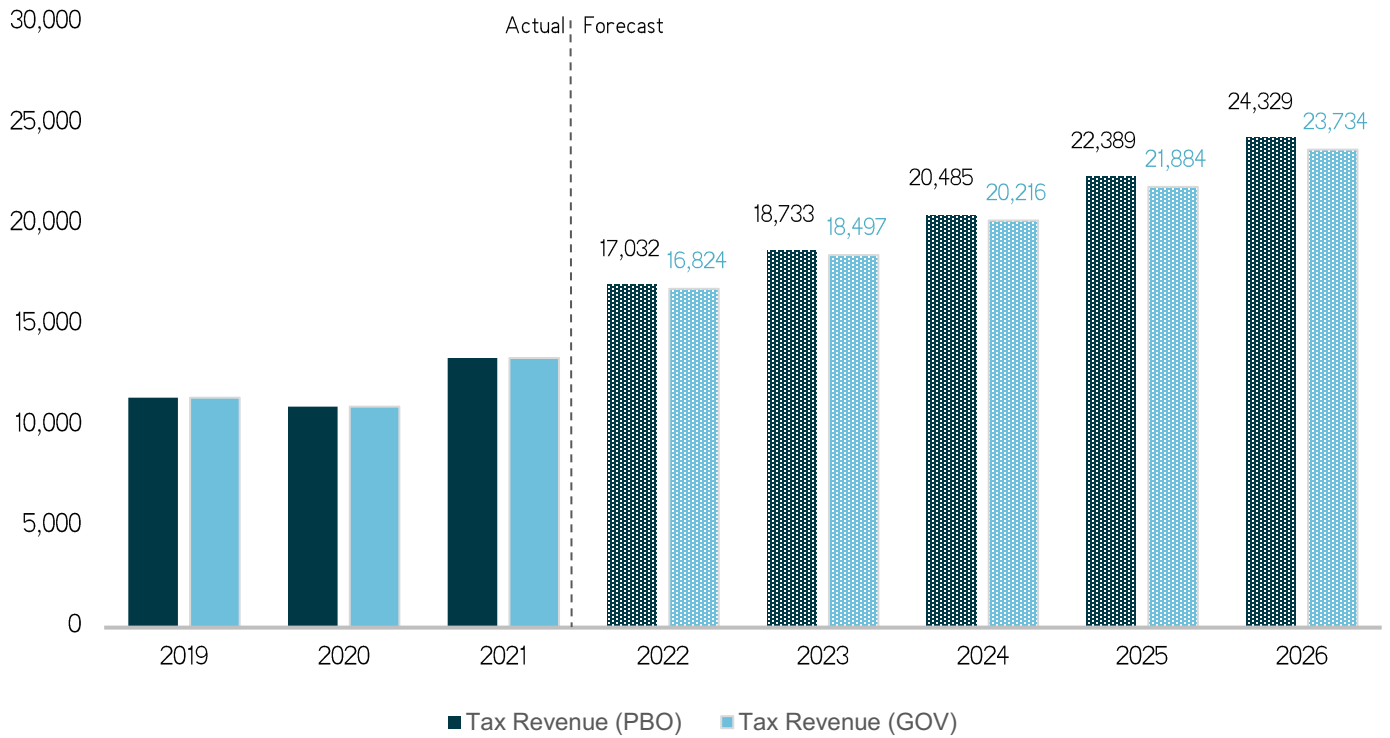


Figure 14: Tax Revenue, GEL Million.

4. EXTERNAL SECTOR

According to the PBO, the expected current account deficit for 2023 is 6.8% of GDP, which differs from the PBO's forecast of June 2022 (6.1%) by 0.7 pp, while the government's forecast is 6.7% of GDP. The PBO estimates, that the current account balance will continue improving and at 2023-2026 will be formed around -5.3% of GDP on average. According to the government forecast, the deficit will continue improving and be around -5.3% of GDP on average for the 2023-2026 period.

According to PBO, the main driver of the expected fall in the current account deficit is the forecasted growth of domestic savings¹⁷. During the reporting period, the share of investments in the GDP increased, as well as domestic savings, which ensures the improvement of the current account balance. In this regard, the growth of private savings is noteworthy.

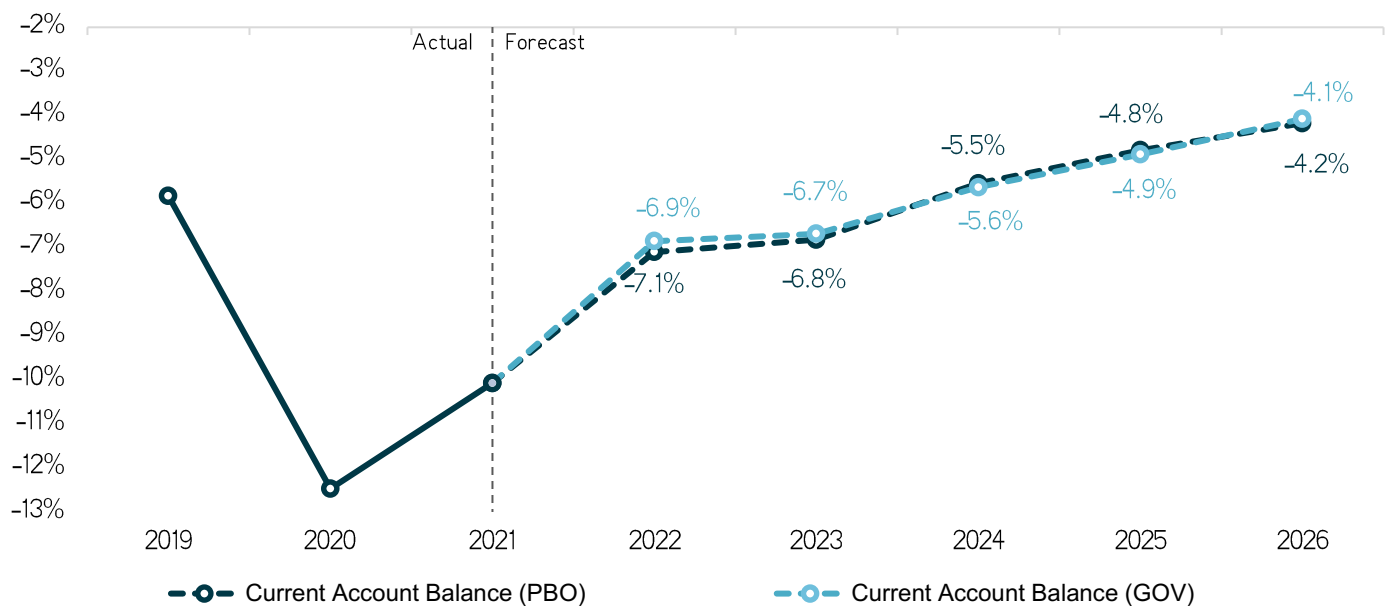


Figure 15: Current Account Balance, % of GDP.

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 significantly revive since 2021. The same trend was maintained in the first half of 2022. Hence, the foreign trade is expected to increase significantly, and the trade balance will gradually improve in 2022 and 2023, either. **The PBO forecasts, that the trade deficit will reach 11.2% of GDP in 2023, while the government forecasts that the trade deficit will be 11.4%.** 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.

¹⁷ 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.

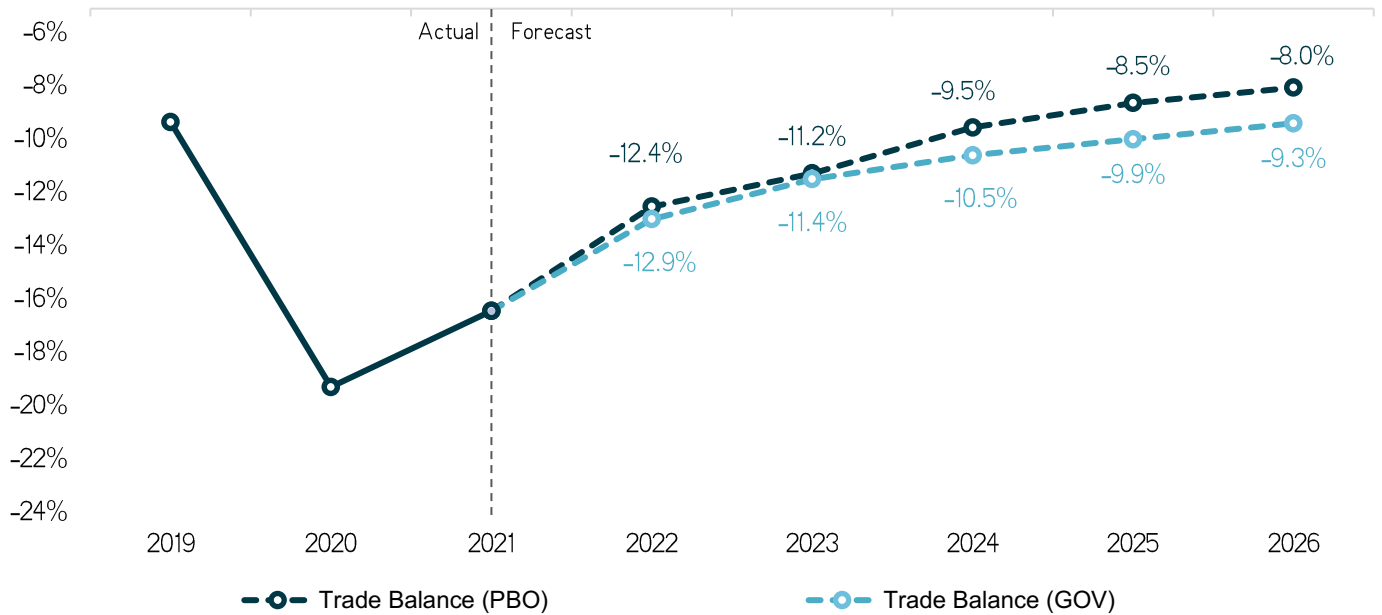


Figure 16: Trade Balance, % of GDP.

As for the financing sources of the current account deficit, according to the PBO, **net private capital and financial inflows will reach USD 1,051 million by 2023** and increase in the medium term. According to the government forecast, the mentioned figure will reach USD 979 million in 2023 and increase for the medium term.

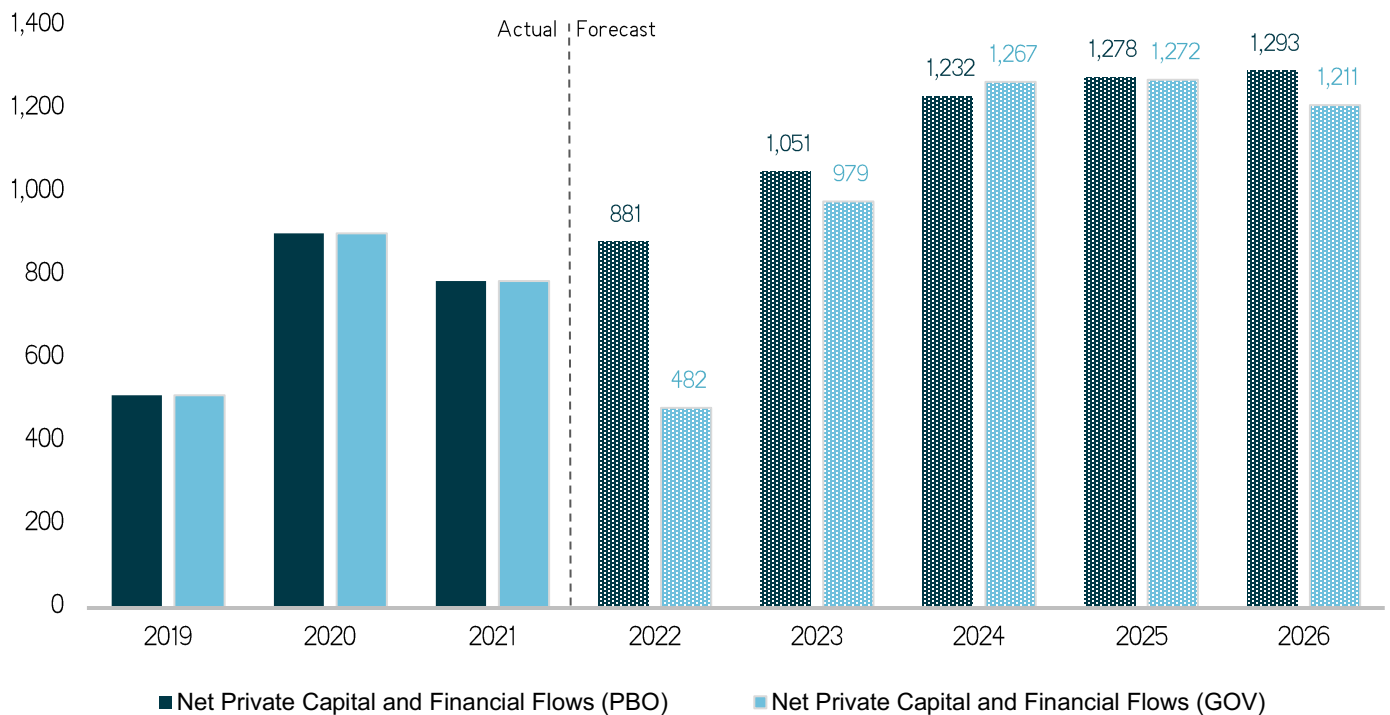


Figure 17: Net Private Capital and Financial Flows, USD Million.

5. MONETARY SECTOR

According to the PBO forecast, monetary aggregate M3 will amount to GEL 47,189 million in 2023, while the annual growth rate is 17.9%. On the other hand, monetary aggregate M2 will equal GEL 23,193 million, with a growth rate of 19.7%.

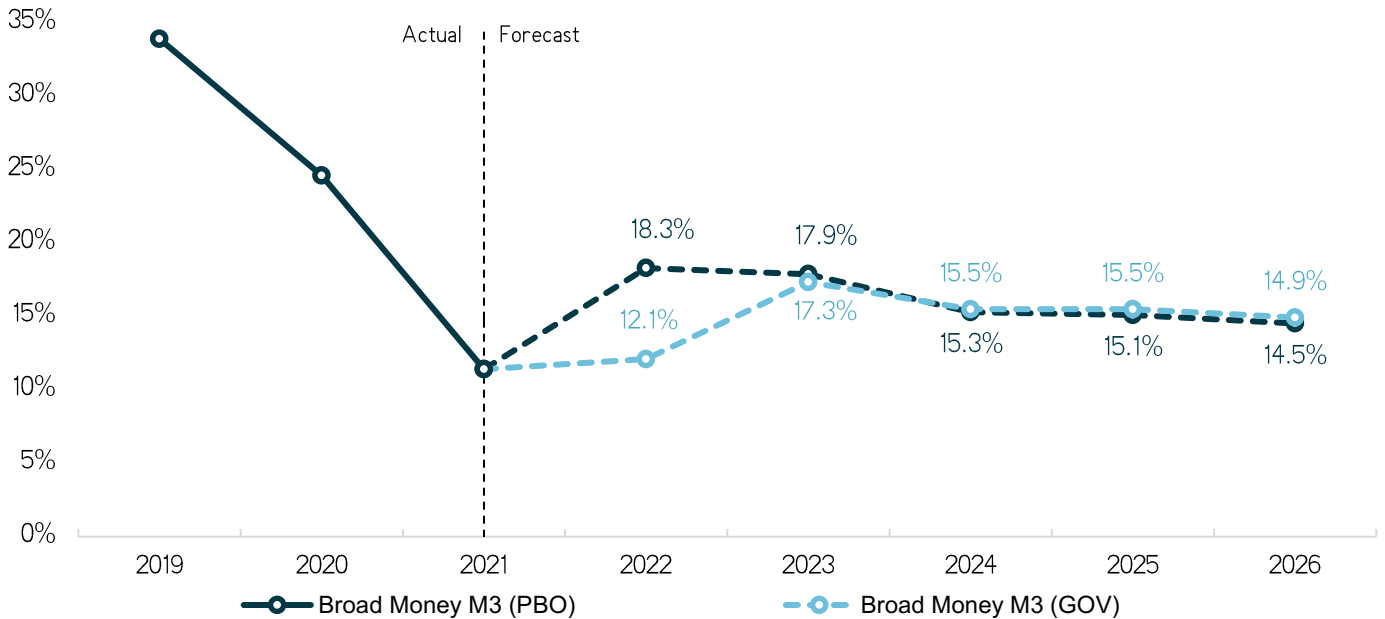


Figure 18: Broad Money M3, Growth Rate.

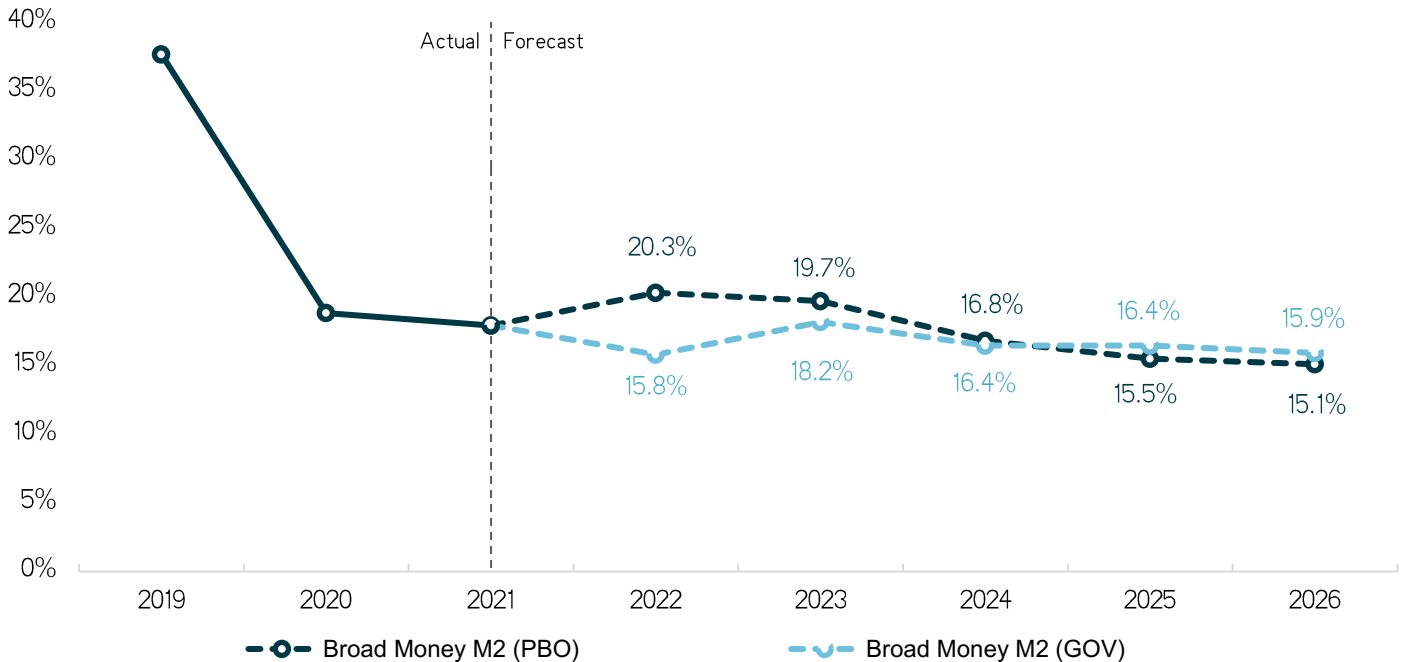


Figure 19: Broad Money M2, Growth Rate.

PBO forecast a 10.9% increase in international reserves in 2023. Subsequently, **international reserves will reach USD 5,502 million in 2023 (4.0 months of import¹⁸)**, and the average volume for 2023-2026 is USD 6,131 million.

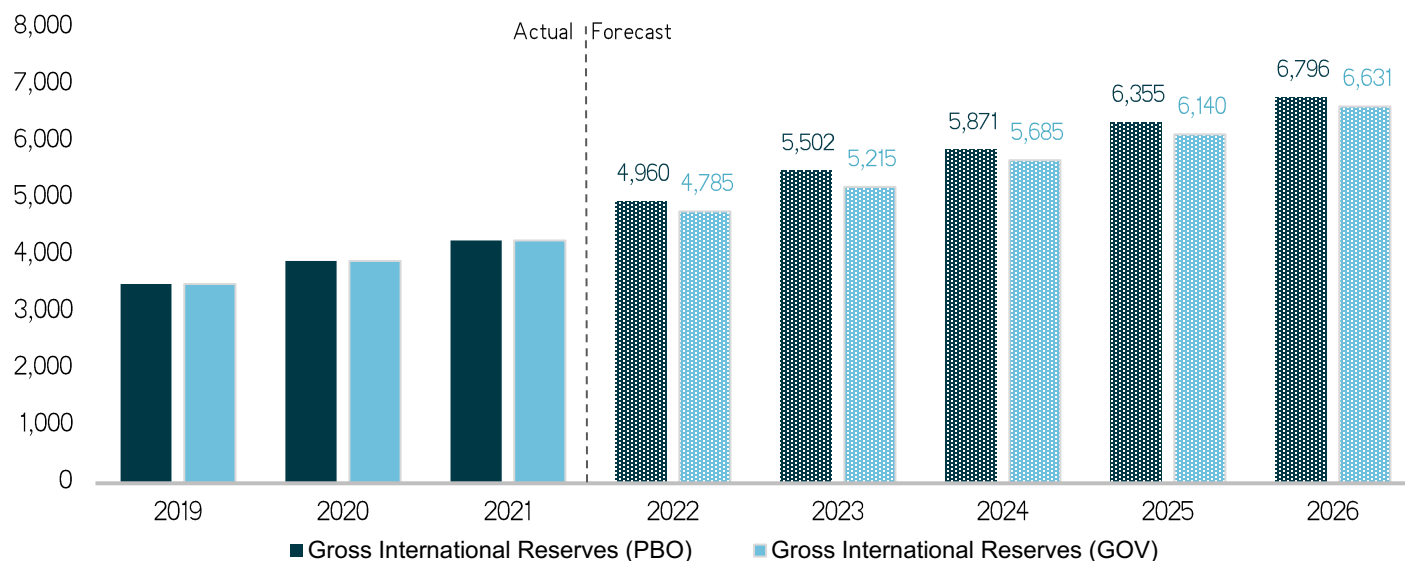


Figure 20: Gross International Reserves, USD Million.

As for the loans to the private sector, according to the PBO forecast, this indicator will reach GEL 61,255 million in 2023, which is higher (GEL 1,361 million) compared to the government’s similar figure. This trend holds in medium term.

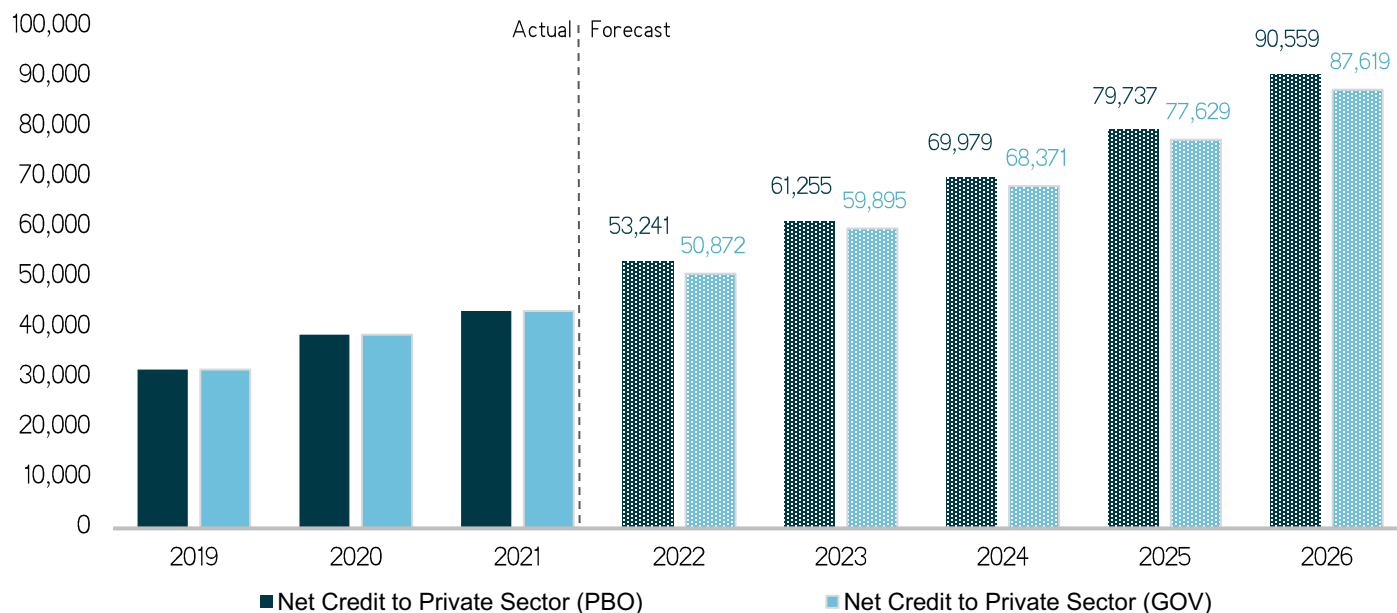


Figure 21: Net Credit to Private sector, GEL Million.

¹⁸ To assess the adequacy of reserves, a multiple of 3 months of import is usually used - <https://www.imf.org/external/np/pdr/debtres/III B>

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 2023 is due to the possible impacts of Russia-Ukraine war (the impact of the war on oil products and food prices in both regional and world markets, investment environment, an impact of sanctions imposed on Russia on world economy, etc.) and the realization of the consequences caused by it. Since the war is still going on, uncertainty for the forecast period is high.

The baseline model assumes that in 2023 the Russia-Ukraine war will have an impact on georgian economy, but it will be insignificant and will not affect economic events, international trade indicators will remain increasing. It is expected to increase export of goods and services either, therefore tourism indicators will improve.

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, the Georgian economy, along with the rest of the world, will continue to recover faster in 2023, and further development of the Russia-Ukraine war will not have a strong negative impact on the economy. According to the same scenario, both in Georgia and in the rest of the world, the war between Russia and Ukraine, 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 significantly revive from 2023, 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 Russia-Ukraine war will have negative impact on georgian economy later. Negative effects will be maintained in the medium term. According to the negative scenario, it is also likely that the revival of tourist flows, which started in 2021, will continue in 2023, 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.

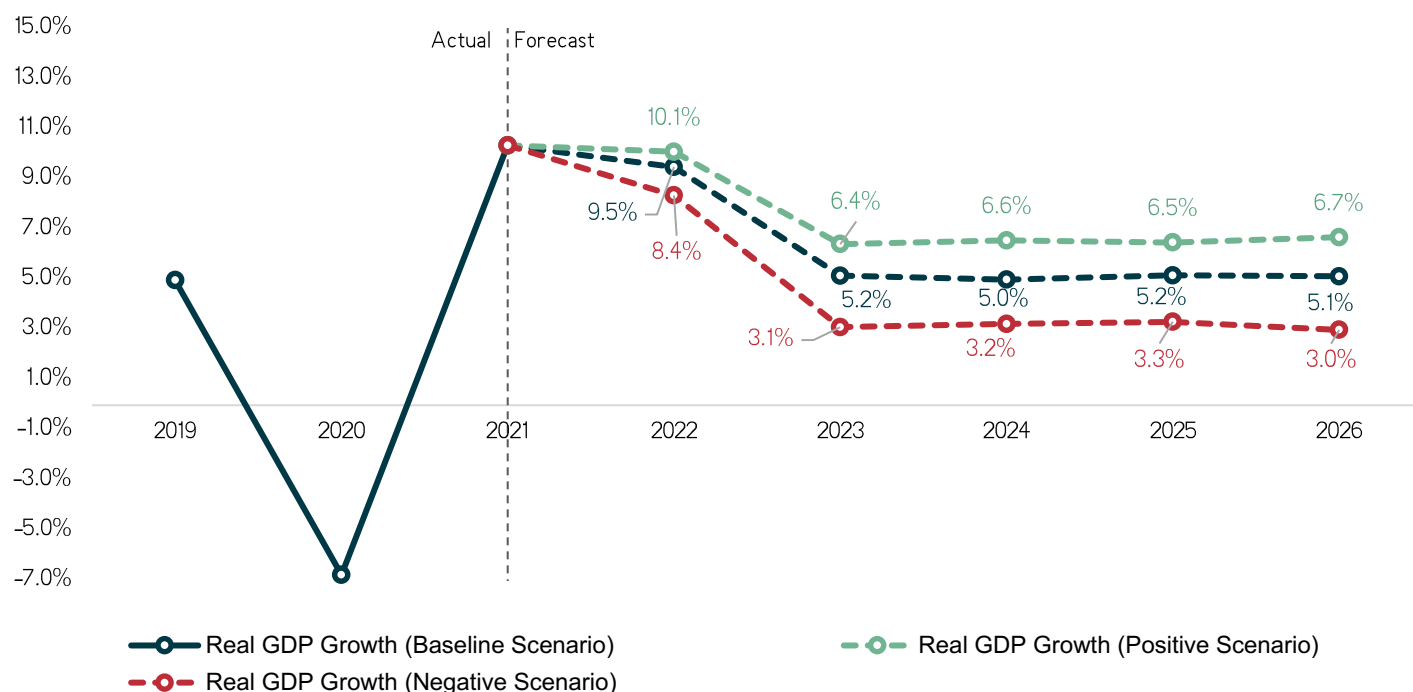


Figure 22: Real GDP Growth Rate (Baseline, Positive and Negative Scenarios).

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 2023-2026 will be 6.5% in case of the positive scenario, while in case of the negative scenario the average economic growth rate will be 3.2%.

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 (4.2% on average), while in case of the negative scenario, inflation will be lower than the baseline scenario figure (2.4% on average).

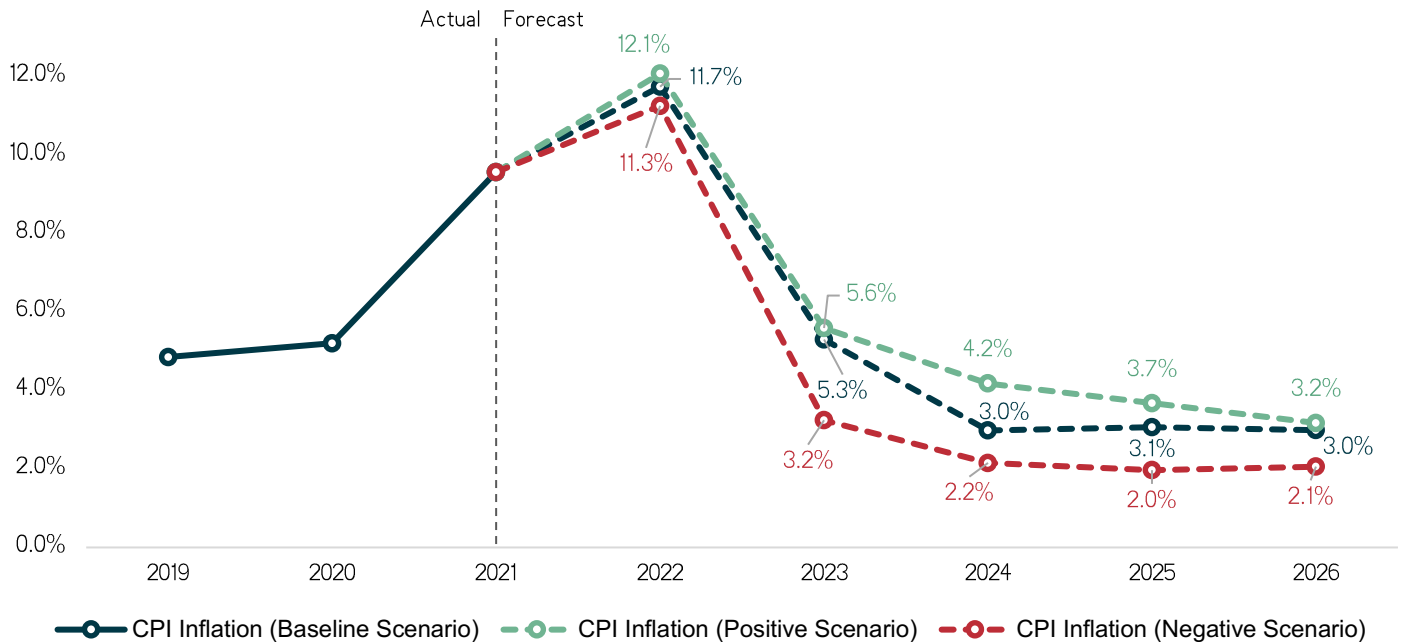


Figure 23: CPI Inflation, (Baseline, Positive and Negative Scenarios).

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 government¹⁹.

¹⁹ The government's forecast refers to the projection of macroeconomic indicators presented in the Document of Basic Data and Directions for 2023-2026, which in accordance with the Budget Code of Georgia was submitted to the Parliament of Georgia on November 4, 2022.

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.

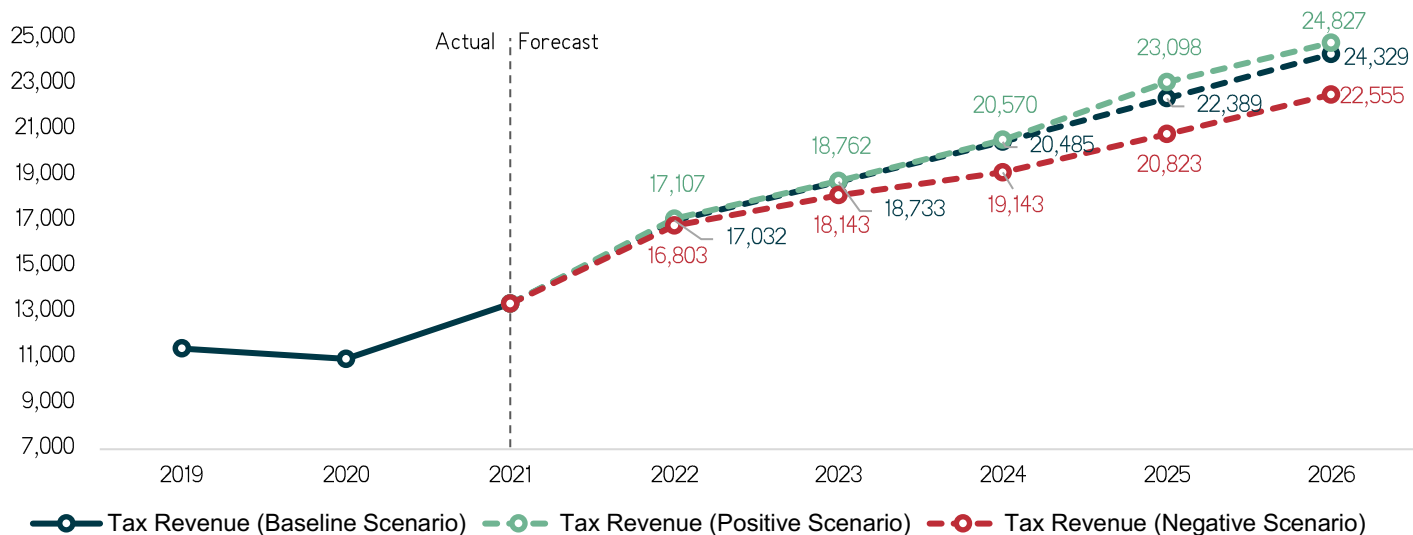


Figure 24: Tax Revenue (Baseline, Positive and Negative Scenarios).

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

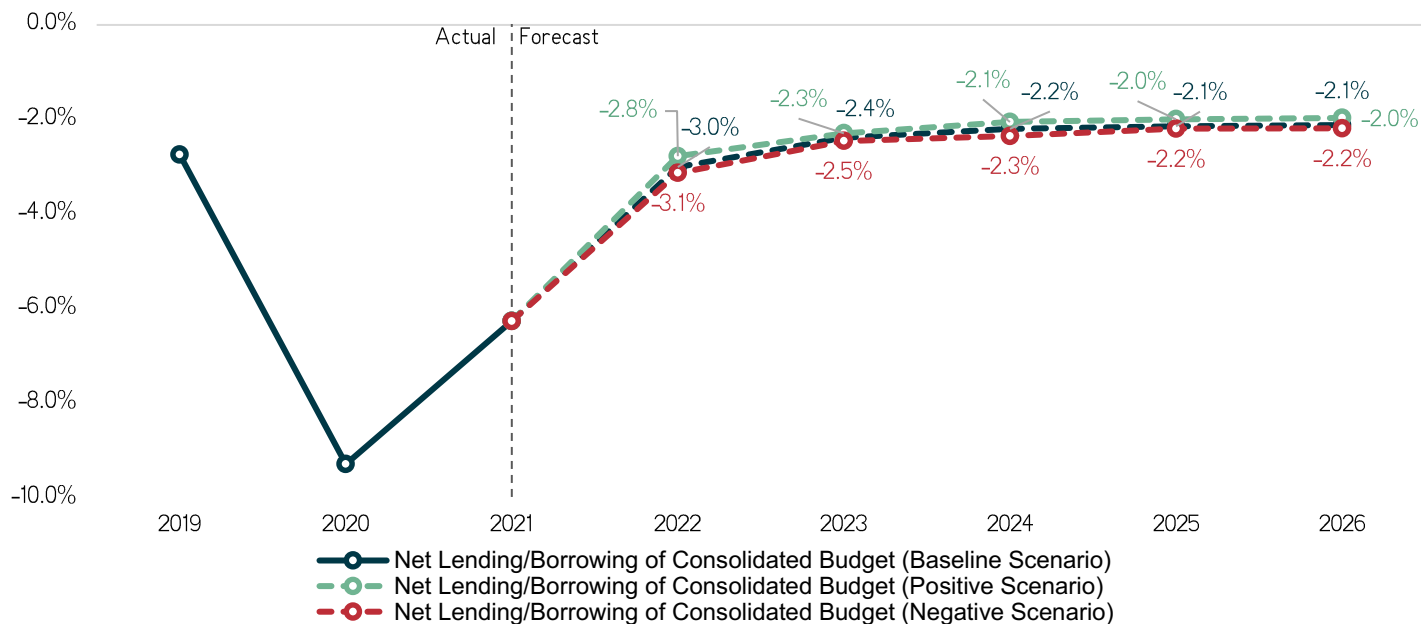


Figure 25: Net Lending/Borrowing Balance of Consolidated Budget (Baseline, Positive and Negative Scenarios).

According to the positive scenario, the consolidated budget deficit is expected to be lower than the 3.0% target in 2023 (-2.3%). Then it will gradually decline, and its ratio to GDP will be slightly negative (-2.0%) by 2026. As for the unified budget deficit, it will be -2.5% of GDP in 2023, then it will start to decline gradually, and its ratio to GDP will be slightly negative (-2.0%) by 2026. It will permanently be less than 3.0% from 2023.

On the other hand, in the case of the development of a negative scenario, consolidated budget deficit is expected to be less than 3.0% in 2023 (-2.5%), while the indicator will be -2.2% in 2026. The same trend will characterize the unified budget deficit, it will be less than 3.0% in 2023 (-2.6%), while in 2026 the indicator will reach -2.3% of GDP.

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 2022-2026, which corresponds to the practice of stimulating the economy by the government. During this period, the economy becomes stronger than potential (positive GDP gap), and the government's fiscal policy operates towards the cycle, which is a procyclical expansion.

As for the negative scenario, the fiscal stance is positive throughout the whole medium run (expansion). Thus, fiscal policy is countercyclical during the slowdown (2023-2026). During this period, the economy becomes weaker than potential (negative GDP gap), and the government's fiscal policy operates against the cycle, which is a countercyclical expansion. While in 2022, positive fiscal stance and positive GDP gap is expected, which is a procyclical expansion.

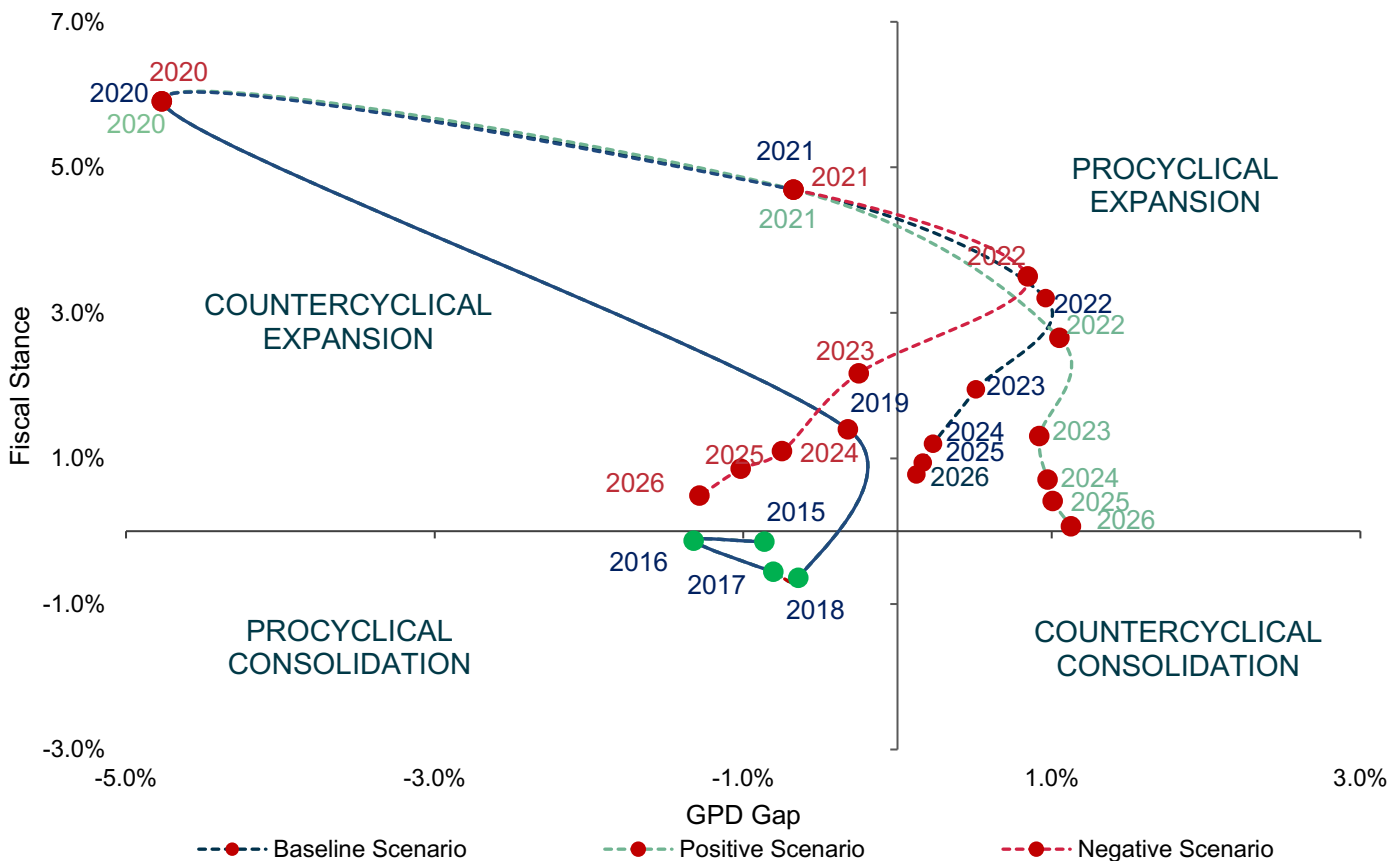


Figure 26: Fiscal Stance (Baseline, Positive and Negative Scenarios).

As for the external sector, in case of the positive scenario, both exports and imports are expected to increase relatively more in 2023, 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.

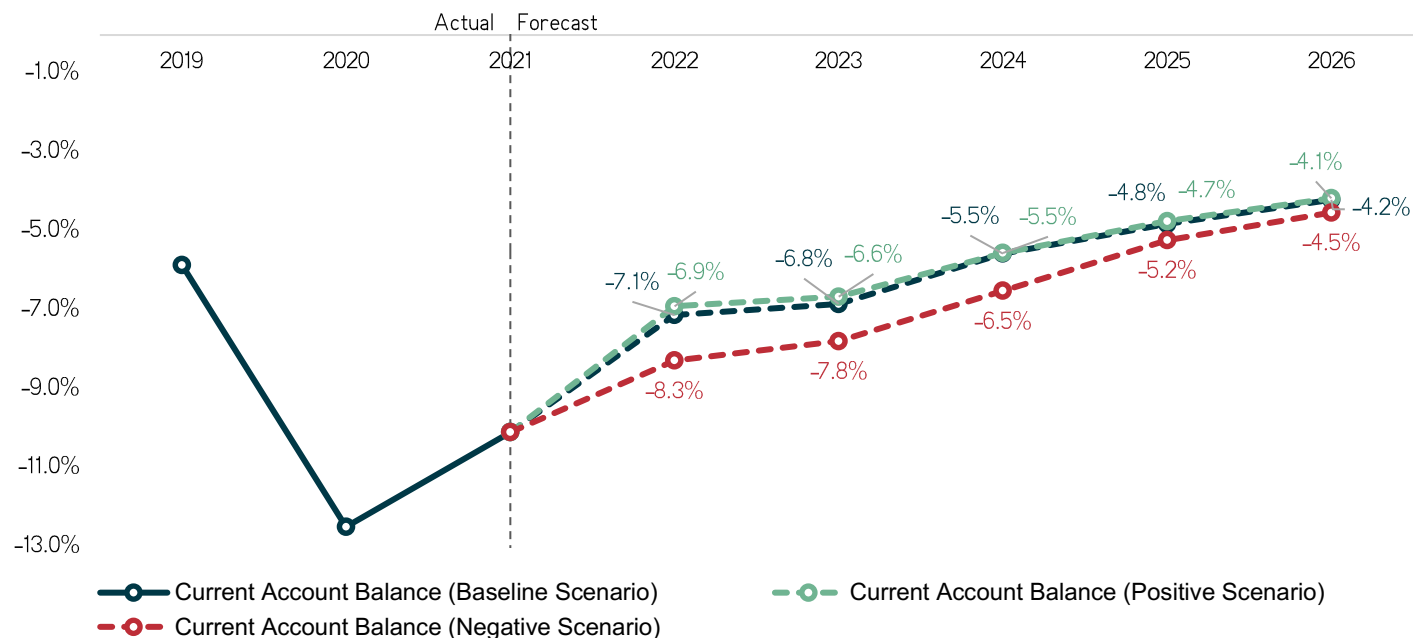


Figure 27: Current Account Balance (Baseline, Positive and Negative Scenarios).

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 -6.0% on average in 2023-2026, while the positive scenario forecasts it at -5.3%. According to the positive and negative scenarios, the ratio of the current account deficit to GDP will be -4.1% and -4.4% by 2026, 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.

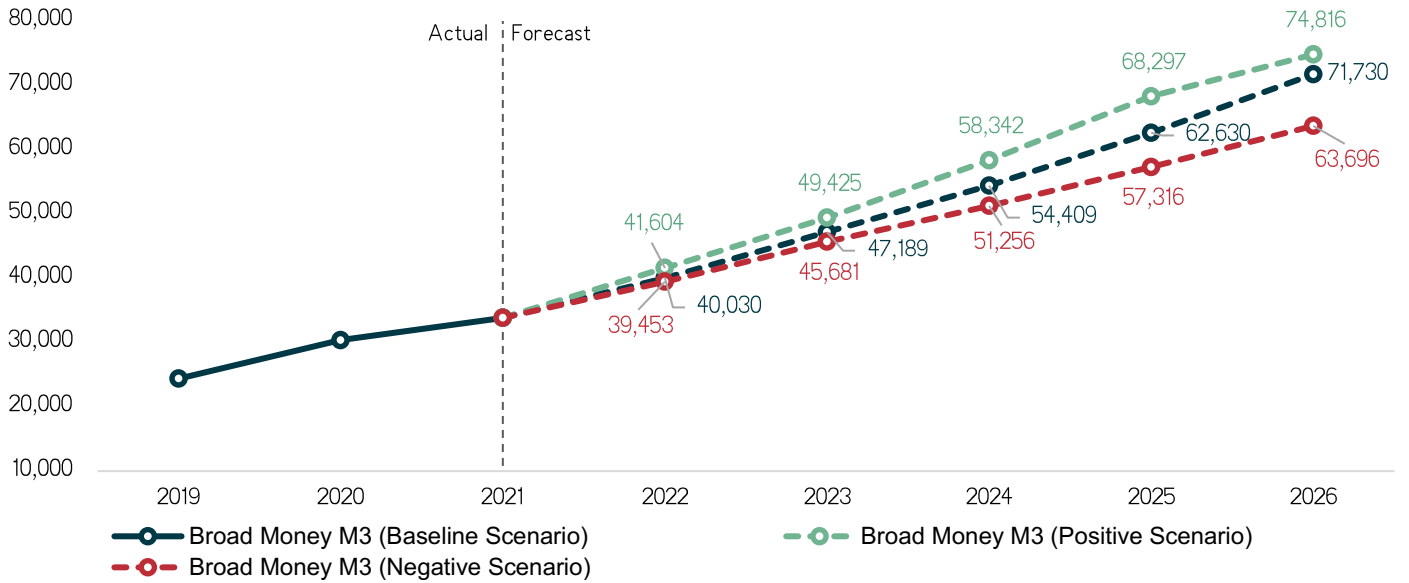


Figure 28: Broad Money M3 (Baseline, Positive and Negative Scenarios).

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.

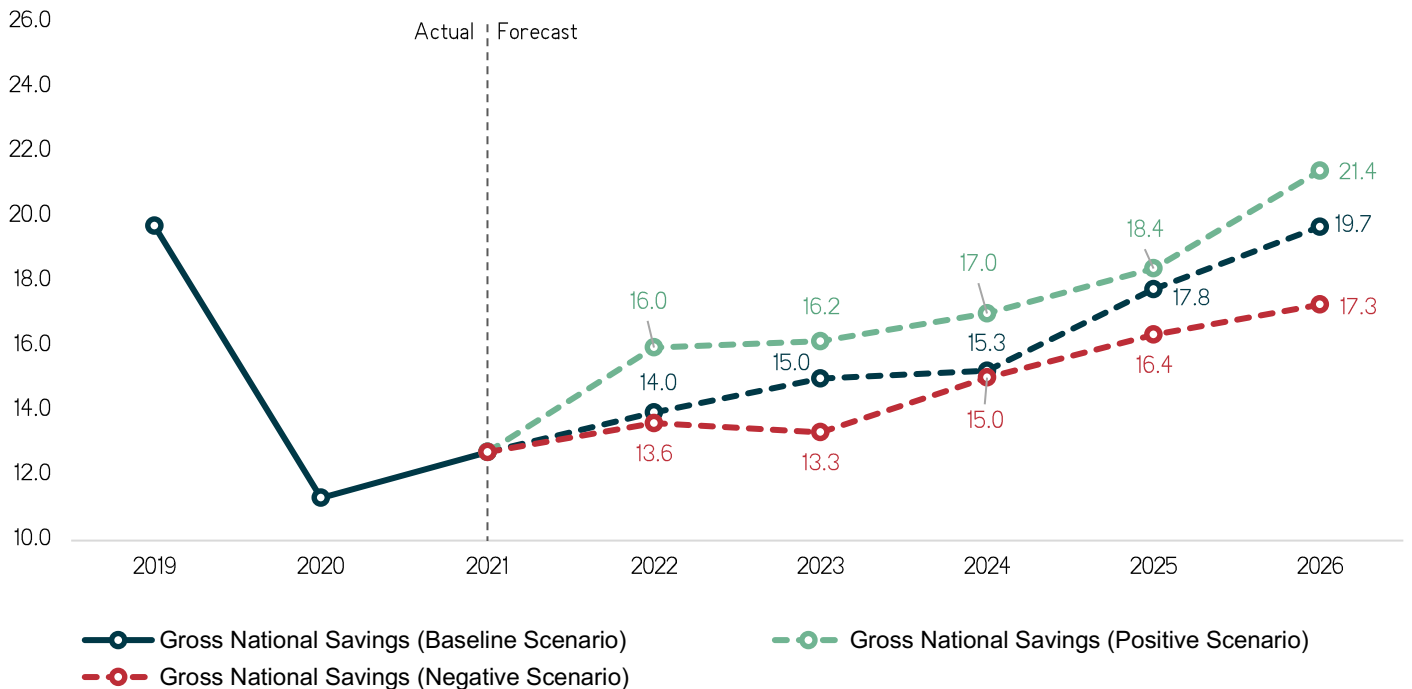


Figure 4: Gross National Savings, % of GDP (Baseline, Positive and Negative Scenarios).

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 savings²⁰ and for 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 2023. 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.

²⁰ Gross savings are the difference between the country's domestic (gross national) savings and the current account balance

Annex 1: Detailed PBO Forecasts of Key Macroeconomic Indicators for 2022–2026 (Baseline Scenario)²¹

	2019 Actual	2020 Actual	2021 Actual	2022 PBO Expected	2023 PBO Forecast	2024 PBO Forecast	2025 PBO Forecast	2026 PBO Forecast
REAL SECTOR	% change							
Real GDP	5.0%	-6.8%	10.4%	9.5%	5.2%	5.0%	5.2%	5.1%
Consumer Price Inflation	4.9%	5.2%	9.6%	11.7%	5.3%	3.0%	3.1%	3.0%
GDP Deflator	5.2%	7.3%	10.8%	10.9%	5.6%	4.2%	4.3%	4.0%
Nominal GDP								
GEL Million	49,253	49,267	60,232	72,372	81,139	88,733	97,349	106,477
USD Million	17 471	15 843	18 700	24,568	28,053	29,989	32,872	35,839
GDP Per Capita								
GEL	13,239	13,234	16,154	19,410	21,761	23,798	26,109	28,557
USD	4 696	4 256	5 015	6,589	7,524	8,043	8,816	9,612
	% of GDP							
Absorption	109.0	119.3	115.5	112.5	111.2	109.5	108.5	108.0
Consumption	83.7	95.4	93.6	91.4	89.4	88.7	86.0	84.1
Private	76.7	87.9	86.6	85.2	83.3	82.7	80.2	78.5
Government	7.0	7.6	7.0	6.2	6.0	5.9	5.8	5.6
Investment	25.3	23.9	21.9	21.1	21.8	20.8	22.5	23.9
Private	17.3	15.3	14.3	13.1	15.2	14.9	16.6	18.1
Government	8.0	8.6	7.6	8.0	6.6	5.9	5.9	5.8
Gross National Saving	19.7	11.3	12.7	14.0	15.0	15.3	17.8	19.7
Government	4.9	-1.1	0.7	4.4	4.3	4.1	4.0	3.8
Private	14.9	12.4	12.1	9.5	10.7	11.1	13.8	15.9
FISCAL SECTOR²²	GEL Million							
Revenues and Grants	12,907	12,405	15,143	18,798	20,431	21,995	23,734	25,509
Tax Revenues	11,418	10,964	13,380	17,032	18,733	20,485	22,389	24,329
Direct Taxes	4,593	4,433	5,395	7,727	8,266	9,071	9,973	11,008
Indirect Taxes	6,825	6,531	7,985	9,305	10,467	11,414	12,416	13,321
Expenditures and Acquisition of Nonfinancial Assets	14,464	17,187	19,334	21,372	22,716	24,195	26,070	28,013
Recurrent expenditures	10,519	12,958	14,742	15,582	16,945	18,335	19,840	21,423
Acquisition of Nonfinancial Assets	3,945	4,229	4,592	5,790	5,771	5,860	6,230	6,590
Operating Balance	2,389	-553	400	3,215	3,486	3,661	3,894	4,086

²¹ Nominal expenditures, non-financial assets and debt are taken from the forecasted macroeconomic indicators presented in the Basic Data and Directions Document for 2023-2026, introduced into the Parliament on November 4, 2022.

²² All indicators, except for the total balance of the unified budget, are indicators of the consolidated budget.

Overall Balance	-1,350	-4,574	-3,770	-2,125	-1,935	-1,949	-2,086	-2,254
State Debt	19,916	29,654	29,812	30,244	32,804	34,675	36,603	38,346
External	15,750	23,467	23,967	23,144	24,351	24,801	25,209	25,332
Domestic	4,166	6,186	5,845	7,100	8,454	9,874	11,394	13,014
Fiscal Balance	-1,019	-4,608	-3,812	-2,180	-2,009	-2,069	-2,206	-2,374
Unified Budget Balance	-1,297	-4,451	-3,732	-2,124	-2,072	-1,974	-2,148	-2,315
	% of GDP							
Revenues and Grants	26.2%	25.2%	25.1%	26.6%	25.2%	24.8%	24.4%	24.0%
Tax Revenues	23.2%	22.3%	22.2%	24.1%	23.1%	23.1%	23.0%	22.8%
Direct Taxes	9.3%	9.0%	9.0%	10.9%	10.2%	10.2%	10.2%	10.3%
Indirect Taxes	13.9%	13.3%	13.3%	13.2%	12.9%	12.9%	12.8%	12.5%
Expenditures and Acquisition of Nonfinancial Assets	29.4%	34.9%	32.1%	30.2%	28.0%	27.3%	26.8%	26.3%
Recurrent expenditures	21.4%	26.3%	24.5%	22.0%	20.9%	20.7%	20.4%	20.1%
Acquisition of Nonfinancial Assets	8.0%	8.6%	7.6%	8.2%	7.1%	6.6%	6.4%	6.2%
Operating Balance	4.9%	-1.1%	0.7%	4.5%	4.3%	4.1%	4.0%	3.8%
Overall Balance	-2.7%	-9.3%	-6.3%	-3.0%	-2.4%	-2.2%	-2.1%	-2.1%
State Debt	40.4%	60.2%	49.5%	42.8%	40.4%	39.1%	37.6%	36.0%
External	32.0%	47.6%	39.8%	32.7%	30.0%	28.0%	25.9%	23.8%
Domestic	8.5%	12.6%	9.7%	10.0%	10.4%	11.1%	11.7%	12.2%
Fiscal Balance	-2.1%	-9.4%	-6.3%	-3.1%	-2.5%	-2.3%	-2.3%	-2.2%
Unified Budget Balance	-2.6%	-9.0%	-6.2%	-3.0%	-2.6%	-2.2%	-2.2%	-2.2%
MONETARY SECTOR	% of GDP, unless noted otherwise							
Net Foreign Assets	-0.7%	1.9%	0.0%	-0.4%	0.2%	0.2%	0.3%	0.4%
Net Domestic Assets	50.2%	59.8%	56.2%	57.0%	58.0%	61.1%	64.0%	67.0%
Broad Money M3	49.5%	61.7%	56.2%	56.6%	58.2%	61.3%	64.3%	67.4%
Broad Money M2	23.3%	27.7%	26.7%	27.4%	28.6%	30.5%	32.1%	33.8%
EXTERNAL SECTOR	% of GDP, unless noted otherwise							
Current Account Balance	-5.8%	-12.5%	-10.1%	-7.1%	-6.8%	-5.5%	-4.8%	-4.2%
Trade Balance	-9.2%	-19.2%	-16.4%	-12.4%	-11.2%	-9.5%	-8.5%	-8.0%
Official International Reserves (USD Million)	3,506	3,911	4,272	4,960	5,502	5,871	6,355	6,796
Months of Import	3.8	5.2	4.6	4.2	4.0	3.9	3.9	3.8
Net Private Capital and Financial Flows (USD Million)	796.7	983.9	693.6	881	1,051	1,232	1,278	1,293

Annex 2: Detailed PBO Forecasts of Key Macroeconomic Indicators for 2022–2026 (Positive Scenario)²³

	2019 Actual	2020 Actual	2021 Actual	2022 PBO Expected	2023 PBO Forecast	2024 PBO Forecast	2025 PBO Forecast	2026 PBO Forecast
REAL SECTOR	% change							
Real GDP	5.0%	-6.8%	10.4%	10.1%	6.4%	6.6%	6.5%	6.7%
Consumer Price Inflation	4.9%	5.2%	9.6%	12.1%	5.6%	4.2%	3.7%	3.2%
GDP Deflator	5.2%	7.3%	10.8%	11.4%	6.1%	5.2%	4.8%	4.5%
Nominal GDP								
GEL Million	49 253	49 267	60 232	73 871	83 133	93 253	104 086	115 964
USD Million	17 471	15 843	18 700	25 171	28 736	31 516	35 151	39 029
GDP Per Capita								
GEL	13 239	13 234	16 154	19 812	22 296	25 010	27 916	31 102
USD	4 696	4 256	5 015	6 751	7 707	8 453	9 427	10 468
	% of GDP							
Absorption	109.0	119.3	115.5	112.4	110.4	109.0	108.3	108.0
Consumption	83.7	95.4	93.6	89.5	87.7	86.4	85.2	82.4
Private	76.7	87.9	86.6	83.4	81.8	80.8	79.8	77.2
Government	7.0	7.6	7.0	6.1	5.9	5.6	5.4	5.2
Investment	25.3	23.9	21.9	22.9	22.8	22.5	23.1	25.6
Private	17.3	15.3	14.3	15.0	16.3	16.9	17.6	20.3
Government	8.0	8.6	7.6	7.9	6.5	5.6	5.5	5.3
Gross National Saving	19.7	11.3	12.7	16.0	16.2	17.0	18.4	21.4
Government	4.9	-1.1	0.7	4.5	4.2	4.0	3.7	3.5
Private	14.9	12.4	12.1	11.5	11.9	13.1	14.7	17.9
FISCAL SECTOR	GEL Million							
Revenues and Grants	12 907	12 405	15 143	18 872	20 461	22 030	23 743	25 482
Tax Revenues	11 418	10 964	13 380	17 107	18 762	20 570	23 098	24 827
Direct Taxes	4 593	4 433	5 395	7 543	8 271	9 068	10 265	11 194
Indirect Taxes	6 825	6 531	7 985	9 564	10 491	11 503	12 833	13 633
Expenditures and Acquisition of Nonfinancial Assets	14 464	17 187	19 334	21 372	22,716	24,195	26,070	28,013
Recurrent expenditures	10 519	12 958	14 742	15 582	16,945	18,335	19,840	21,423
Acquisition of Nonfinancial Assets	3 945	4 229	4 592	5 790	5,771	5,860	6,230	6,590
Operating Balance	2 389	-553	400	3 290	3,516	3,696	3,903	4,059

²³ Nominal expenditures, non-financial assets and debt are taken from the forecasted macroeconomic indicators presented in the Basic Data and Directions Document for 2023-2026, introduced into the Parliament on November 4, 2022.

Overall Balance	-1 350	-4 574	-3 770	-2 050	-1,905	-1,914	-2,077	-2,281
State Debt	19 916	29 654	29 812	29 099	31,870	34,183	36,414	38,365
External	15 750	23 467	23 967	21 999	23,416	24,309	25,021	25,351
Domestic	4 166	6 186	5 845	7 100	8,454	9,874	11,394	13,014
Fiscal Balance	-1 019	-4 608	-3 812	-2 105	-1,979	-2,034	-2,197	-2,401
Unified Budget Balance	-1 297	-4 451	-3 732	-2 050	-2,042	-1,939	-2,139	-2,342
	% of GDP							
Revenues and Grants	26.2%	25.2%	25.1%	25.5%	24.6%	23.6%	22.8%	22.0%
Tax Revenues	23.2%	22.3%	22.2%	23.2%	22.6%	22.1%	22.2%	21.4%
Direct Taxes	9.3%	9.0%	9.0%	10.2%	9.9%	9.7%	9.9%	9.7%
Indirect Taxes	13.9%	13.3%	13.3%	12.9%	12.6%	12.3%	12.3%	11.8%
Expenditures and Acquisition of Nonfinancial Assets	29.4%	34.9%	32.1%	28.9%	27.3%	25.9%	25.0%	24.2%
Recurrent expenditures	21.4%	26.3%	24.5%	21.1%	20.4%	19.7%	19.1%	18.5%
Acquisition of Nonfinancial Assets	8.0%	8.6%	7.6%	7.8%	6.9%	6.3%	6.0%	5.7%
Operating Balance	4.9%	-1.1%	0.7%	4.5%	4.2%	4.0%	3.7%	3.5%
Overall Balance	-2.7%	-9.3%	-6.3%	-2.8%	-2.3%	-2.1%	-2.0%	-2.0%
State Debt	40.4%	60.2%	49.5%	39.4%	38.3%	36.7%	35.0%	33.1%
External	32.0%	47.6%	39.8%	29.8%	28.2%	26.1%	24.0%	21.9%
Domestic	8.5%	12.6%	9.7%	9.6%	10.2%	10.6%	10.9%	11.2%
Fiscal Balance	-2.1%	-9.4%	-6.3%	-2.8%	-2.4%	-2.2%	-2.1%	-2.1%
Unified Budget Balance	-2.6%	-9.0%	-6.2%	-2.8%	-2.5%	-2.1%	-2.1%	-2.0%

MONETARY SECTOR

	% of GDP, unless noted otherwise							
Net Foreign Assets	-0.7%	1.9%	0.0%	-0.4%	0.4%	0.6%	0.6%	0.7%
Net Domestic Assets	50.2%	59.8%	56.2%	56.7%	59.1%	62.0%	65.0%	63.8%
Broad Money M3	49.5%	61.7%	56.2%	56.3%	59.5%	62.6%	65.6%	64.5%
Broad Money M2	23.3%	27.7%	26.7%	27.3%	28.6%	30.3%	31.3%	31.3%

EXTERNAL SECTOR

	% of GDP, unless noted otherwise							
Current Account Balance	-5.8%	-12.5%	-10.1%	-6.9%	-6.6%	-5.5%	-4.7%	-4.1%
Trade Balance	-9.2%	-19.2%	-16.4%	-12.3%	-10.5%	-9.0%	-8.3%	-8.0%
Official International Reserves (USD Million)	3 506	3 911	4 272	4 988	5 604	6 017	6 577	6 815
Months of Import	3.8	5.2	4.6	4.1	4.0	3.8	3.7	3.5
Net Private Capital and Financial Flows (USD Million)	796.7	983.9	693.6	1 170	1 303	1 391	1 498	1 623

Annex 3: Detailed PBO Forecasts of Key Macroeconomic Indicators for 2022–2026 (Negative Scenario)²⁴

	2019 Actual	2020 Actual	2021 Actual	2022 PBO Expected	2023 PBO Forecast	2024 PBO Forecast	2025 PBO Forecast	2026 PBO Forecast
REAL SECTOR	% change							
Real GDP	5.0%	-6.8%	10.4%	8.4%	3.1%	3.2%	3.3%	3.0%
Consumer Price Inflation	4.9%	5.2%	9.6%	11.3%	3.2%	2.2%	2.0%	2.1%
GDP Deflator	5.2%	7.3%	10.8%	10.1%	4.0%	3.2%	3.2%	3.1%
Nominal GDP								
GEL Million	49 253	49 267	60 232	71 787	76 835	81 928	87 351	92 759
USD Million	17 471	15 843	18 700	24 350	26 556	27 689	29 501	31 220
GDP Per Capita								
GEL	13 239	13 234	16 154	19 253	20 607	21 973	23 427	24 878
USD	4 696	4 256	5 015	6 531	7 122	7 426	7 912	8 373
	% of GDP							
Absorption	109.0	119.3	115.5	113.3	112.4	110.9	109.3	108.2
Consumption	83.7	95.4	93.6	91.4	91.3	89.4	87.7	86.5
Private	76.7	87.9	86.6	85.1	85.0	83.0	81.3	80.0
Government	7.0	7.6	7.0	6.3	6.4	6.4	6.5	6.5
Investment	25.3	23.9	21.9	21.9	21.1	21.5	21.5	21.7
Private	17.3	15.3	14.3	13.8	14.1	15.1	15.0	15.1
Government	8.0	8.6	7.6	8.1	7.0	6.4	6.6	6.6
Gross National Saving	19.7	11.3	12.7	13.6	13.3	15.0	16.4	17.3
Government	4.9	-1.1	0.7	4.1	3.5	2.9	2.7	2.3
Private	14.9	12.4	12.1	9.5	9.8	12.1	13.7	14.9
FISCAL SECTOR	GEL Million							
Revenues and Grants	12 907	12 405	15 143	18,519	19,642	20,710	22,168	23,601
Tax Revenues	11 418	10 964	13 380	16,803	18,143	19,143	20,823	22,555
Direct Taxes	4 593	4 433	5 395	7,576	8,281	8,518	9,417	10,060
Indirect Taxes	6 825	6 531	7 985	9,228	9,863	10,625	11,406	12,495
Expenditures and Acquisition of Nonfinancial Assets	14 464	17 187	19 334	21,215	21,878	22,885	24,333	25,879
Recurrent expenditures	10 519	12 958	14 742	15,582	16,945	18,335	19,840	21,423
Acquisition of Nonfinancial Assets	3 945	4 229	4 592	5,633	4,933	4,550	4,493	4,456
Operating Balance	2 389	-553	400	2,936	2,697	2,375	2,327	2,179

²⁴ Nominal expenditures, non-financial assets and debt are taken from the forecasted macroeconomic indicators presented in the Basic Data and Directions Document for 2023-2026, introduced into the Parliament on November 4, 2022.

Overall Balance	-1 350	-4 574	-3 770	-2,247	-1,886	-1,925	-1,916	-2,027
State Debt	19 916	29 654	29 812	29,099	31,870	34,183	36,414	38,365
External	15 750	23 467	23 967	21,999	23,416	24,309	25,021	25,351
Domestic	4 166	6 186	5 845	7,100	8,454	9,874	11,394	13,014
Fiscal Balance	-1 019	-4 608	-3 812	-2,302	-1,960	-2,045	-2,036	-2,147
Unified Budget Balance	-1 297	-4 451	-3 732	-2,246	-2,023	-1,949	-1,977	-2,089
	% of GDP							
Revenues and Grants	26.2%	25.2%	25.1%	25.8%	25.6%	25.3%	25.4%	25.4%
Tax Revenues	23.2%	22.3%	22.2%	23.4%	23.6%	23.4%	23.8%	24.3%
Direct Taxes	9.3%	9.0%	9.0%	10.6%	10.8%	10.4%	10.8%	10.8%
Indirect Taxes	13.9%	13.3%	13.3%	12.9%	12.8%	13.0%	13.1%	13.5%
Expenditures and Acquisition of Nonfinancial Assets	29.4%	34.9%	32.1%	29.6%	28.5%	27.9%	27.9%	27.9%
Recurrent expenditures	21.4%	26.3%	24.5%	21.7%	22.1%	22.4%	22.7%	23.1%
Acquisition of Nonfinancial Assets	8.0%	8.6%	7.6%	7.8%	6.4%	5.6%	5.1%	4.8%
Operating Balance	4.9%	-1.1%	0.7%	4.1%	3.5%	2.9%	2.7%	2.3%
Overall Balance	-2.7%	-9.3%	-6.3%	-3.1%	-2.5%	-2.3%	-2.2%	-2.2%
State Debt	40.4%	60.2%	49.5%	40.5%	41.5%	41.7%	41.7%	41.4%
External	32.0%	47.6%	39.8%	30.6%	30.5%	29.7%	28.6%	27.3%
Domestic	8.5%	12.6%	9.7%	9.9%	11.0%	12.1%	13.0%	14.0%
Fiscal Balance	-2.1%	-9.4%	-6.3%	-3.2%	-2.6%	-2.5%	-2.3%	-2.3%
Unified Budget Balance	-2.6%	-9.0%	-6.2%	-3.1%	-2.6%	-2.4%	-2.3%	-2.3%

MONETARY SECTOR

	% of GDP, unless noted otherwise							
Net Foreign Assets	-0.7%	1.9%	0.0%	-0.3%	-0.1%	-0.1%	-0.2%	-0.2%
Net Domestic Assets	50.2%	59.8%	56.2%	55.3%	59.5%	62.7%	65.8%	68.9%
Broad Money M3	49.5%	61.7%	56.2%	55.0%	59.5%	62.6%	65.6%	68.7%
Broad Money M2	23.3%	27.7%	26.7%	27.2%	29.2%	31.7%	32.3%	33.1%

EXTERNAL SECTOR

	% of GDP, unless noted otherwise							
Current Account Balance	-5.8%	-12.5%	-10.1%	-8.3%	-7.8%	-6.5%	-5.2%	-4.4%
Trade Balance	-9.2%	-19.2%	-16.4%	-13.2%	-12.4%	-10.9%	-9.3%	-8.2%
Official International Reserves (USD Million)	3 506	3 911	4 272	4 710	5 111	5 633	5 944	6 469
Months of Import	3.8	5.2	4.6	4.1	4.0	4.1	4.1	4.2
Net Private Capital and Financial Flows (USD Million)	796.7	983.9	693.6	897	958	938	928	877

Annex 4: Change in Forecasts of Key Macroeconomic Indicators, 2022–2023 (Baseline Scenario)

	2022				2023			
	November 2022		June 2022		November 2022		June 2022	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	8.5%	9.5%	6.0%	6.7%	5.0%	5.2%	5.5%	5.2%
Consumer Price Inflation	11.5%	11.7%	9.1%	10.6%	4.7%	5.3%	3.0%	5.1%
GDP Deflator	10.5%	10.9%	9.0%	10.9%	5.0%	5.6%	3.0%	6.2%
Nominal GDP (GEL Million)	72,215	72 372	69 594	71 076	79,617	81 139	75 624	79 371
Tax Revenues (GEL Million)	16,824	17 032	16 126	15 709	18,497	18 733	17 509	17 168
Direct Taxes (GEL Million)	7,316	7 727	7 090	6 375	8,338	8 266	7 771	7 065
Indirect Taxes (GEL Million)	9,508	9 305	9 036	9 335	10,159	10 467	9 738	10 103
Consolidated Budget Overall Balance (GEL Million)	-2,273	-2 125	-2 405	-2 828	-2,191	-1,935	-1 997	-2 282
Current Account Balance (% of GDP)	-6.9%	-7.1%	-8.2%	-8.5%	-6.7%	-6.8%	-6.4%	-6.1%
Trade Balance (% of GDP)	-12.9%	-12.4%	-13.9%	-14.2%	-11.4%	-11.2%	-10.7%	-11.1%
Exports (% change YoY, USD)	34.2%	38.2%	26.9%	30.3%	18.9%	19.5%	17.6%	17.6%
Imports (% change YoY, USD)	25.5%	27.6%	21.6%	24.5%	14.9%	15.9%	9.5%	10.3%
International Reserves (USD Million)	4,785	4 960	4 785	4 783	5,215	5 502	5 215	5 044
Money Aggregate M3 (GEL Million)	37,948	40 030	42 049	40 030	44,531	47 189	48 924	47 189
Money Aggregate M2 (GEL Million)	18,645	19 376	20 415	19 376	22,033	23 193	23 935	23 193

Annex 5: Change in Forecasts of Key Macroeconomic Indicators, 2024-2025 (Baseline Scenario)

	2024				2025			
	November 2022		June 2022		November 2022		June 2022	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	5.2%	5.0%	5.2%	5.0%	5.2%	5.2%	5.2%	5.2%
Consumer Price Inflation	3.0%	3.0%	3.0%	3.0%	3.0%	3.1%	3.0%	3.1%
GDP Deflator	3.0%	4.2%	3.0%	4.3%	3.0%	4.3%	3.0%	4.3%
Nominal GDP (GEL Million)	86,270	88 733	81 943	86 968	93,479	97 349	88 790	95 448
Tax Revenues (GEL Million)	20,216	20 485	18 996	18 941	21,884	22 389	20 567	20 877
Direct Taxes (GEL Million)	8,949	9 071	8 455	7 749	9,712	9 973	9 178	8 614
Indirect Taxes (GEL Million)	11,267	11 414	10 541	11 192	12,172	12 416	11 389	12 263
Consolidated Budget Overall Balance (GEL Million)	-1,898	-1 949	-1 765.0	-1 960	-2,058	-2 086	-1 923	-1 955
Current Account Balance (% of GDP)	-5.6%	-5.5%	-5.4%	-5.2%	-4.9%	-4.8%	-4.3%	-5.0%
Trade Balance (% of GDP)	-10.5%	-9.5%	-9.8%	-9.2%	-9.9%	-8.5%	-8.9%	-8.3%
Exports (% change YoY, USD)	10.9%	13.2%	11.0%	10.5%	10.6%	10.0%	11.2%	14.2%
Imports (% change YoY, USD)	8.8%	8.9%	8.8%	6.9%	9.0%	8.3%	9.1%	12.0%
International Reserves (USD Million)	5,685	5 871	5 685	5 285	6,140	6 355	6 140	5 921
Money Aggregate M3 (GEL Million)	51,434	54 409	56 509	54 409	59,408	62 630	65 269	62 630
Money Aggregate M2 (GEL Million)	25,658	27 079	27 873	27 079	29,878	31 280	32 458	31 280

	2026			
	November 2022		June 2022	
	Government	PBO	Government	PBO
Real GDP (% Growth)	5.0%	5.1%	6.0%	5.1%
Consumer Price Inflation	3.0%	3.0%	9.1%	3.0%
GDP Deflator	3.0%	4.0%	9.0%	4.1%
Nominal GDP (GEL Million)	101,097	106 477	69 594	104 458
Tax Revenues (GEL Million)	23,734	24 329	16 126	22 767
Direct Taxes (GEL Million)	10,560	11 008	7 090	9 380
Indirect Taxes (GEL Million)	13,174	13 321	9 036	13 387
Consolidated Budget Overall Balance (GEL Million)	-2,093	-2 254	-2 405	-2 008
Current Account Balance (% of GDP)	-4.1%	-4.2%	-8.2%	-4.3%
Trade Balance (% of GDP)	-9.3%	-8.0%	-13.9%	-7.1%
Exports (% change YoY, USD)	10.4%	9.9%	26.9%	14.6%
Imports (% change YoY, USD)	8.8%	8.7%	21.6%	11.6%
International Reserves (USD Million)	6,631	6 796	4 785	6 495
Money Aggregate M3 (GEL Million)	68,282	71 730	42 049	71 730
Money Aggregate M2 (GEL Million)	34,636	36 000	20 415	36 000

	2022		2023		2024		2025		2026	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	9.8%	10.1%	6.5%	6.4%	5.4%	6.6%	5.3%	6.5%	5.1%	6.7%
Consumer Price Inflation	11.9%	12.1%	5.5%	5.6%	3.2%	4.2%	3.1%	3.7%	3.1%	3.2%
GDP Deflator	10.9%	11.4%	5.8%	6.1%	3.2%	5.2%	3.1%	4.8%	3.1%	4.5%
Nominal GDP (GEL Million)	73,345	73 871	82,643	83 133	89,893	93 253	97,592	104 086	105,749	115 964
Tax Revenues (GEL Million)	17,038	17 107	19,095	18 762	20,979	20 570	22,757	23 098	24,729	24 827
Direct Taxes (GEL Million)	7,617	7 543	8,685	8 271	9,294	9 068	10,109	10 265	11,013	11 194
Indirect Taxes (GEL Million)	9,421	9 564	10,410	10 491	11,685	11 503	12,648	12 833	13,716	13 633
Consolidated Budget Overall Balance (GEL Million)	-2,059	-2 050	-1,593	-1 905	-1,135	-1 914	-1,185	-2 077	-1,098	-2 281
Current Account Balance (% of GDP)	-7.1%	-6.9%	-7.3%	-6.6%	-6.2%	-5.5%	-5.5%	-4.7%	-4.8%	-4.1%
Trade Balance (% of GDP)	-13.2%	-12.3%	-12.2%	-10.5%	-11.5%	-9.0%	-10.9%	-8.3%	-10.3%	-8.0%
Exports (% change YoY, USD)	36.6%	40.4%	21.7%	22.2%	11.4%	16.2%	10.8%	13.9%	10.6%	11.8%
Imports (% change YoY, USD)	28.4%	29.6%	18.6%	16.9%	9.4%	12.3%	9.3%	12.3%	9.1%	11.1%
International Reserves (USD Million)	4,785	4 988	5,215	5 604	5,685	6 017	6,140	6 577	6,631	6 815
Money Aggregate M3 (GEL Million)	39,282	41 604	48,200	49 425	56,062	58 342	64,980	68 297	74,948	74 816
Money Aggregate M2 (GEL Million)	19,252	20 138	23,713	23 752	27,793	28 259	32,470	32 527	37,763	36 239

²⁵ The data in the table is a comparison of the positive scenarios forecasts made by the Parliamentary Budget Office and the Government in November 2022.

Annex 8: Comparison of Negative Scenarios²⁶, 2022–2026

	2022		2023		2024		2025		2026	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	8.0%	8.4%	3.0%	3.1%	3.9%	3.2%	4.0%	3.3%	4.1%	3.0%
Consumer Price Inflation	11.1%	11.3%	2.8%	3.2%	2.2%	2.2%	2.5%	2.0%	2.7%	2.1%
GDP Deflator	9.7%	10.1%	2.3%	4.0%	2.2%	3.2%	2.5%	3.2%	2.7%	3.1%
Nominal GDP (GEL Million)	71,362	71 787	75,194	76 835	79,845	81 928	85,115	87 351	90,997	92 759
Tax Revenues (GEL Million)	16,667	16 803	17,659	18 143	18,906	19 143	20,147	20 823	21,600	22 555
Direct Taxes (GEL Million)	7,472	7 576	7,994	8 281	8,365	8 518	8,929	9 417	9,590	10 060
Indirect Taxes (GEL Million)	9,195	9 228	9,665	9 863	10,541	10 625	11,218	11 406	12,010	12 495
Consolidated Budget Overall Balance (GEL Million)	-2,273	-2 247	-2,191	-1 886	-1,898	-1 925	-2,058	-1 916	-2,093	-2 027
Current Account Balance (% of GDP)	-7.1%	-8.3%	-7.1%	-7.8%	-5.9%	-6.5%	-5.0%	-5.2%	-4.1%	-4.4%
Trade Balance (% of GDP)	-13.0%	-13.2%	-11.4%	-12.4%	-10.1%	-10.9%	-9.1%	-9.3%	-8.2%	-8.2%
Exports (% change YoY, USD)	32.6%	32.3%	13.6%	13.8%	8.5%	10.2%	8.5%	8.9%	8.9%	8.4%
Imports (% change YoY, USD)	24.4%	24.8%	9.5%	11.3%	5.6%	6.3%	6.4%	5.5%	6.9%	6.0%
International Reserves (USD Million)	4,785	4 710	5,215	5 111	5,685	5 633	6,140	5 944	6,631	6 469
Money Aggregate M3 (GEL Million)	37,208	39 453	40,404	45 681	44,821	51 256	50,001	57 316	56,035	63 696
Money Aggregate M2 (GEL Million)	18,307	19 516	20,132	22 412	22,582	26 009	25,462	28 178	28,832	30 732

²⁶ The data in the table is a comparison of the negative scenarios forecasts made by the Parliamentary Budget Office and the Government in November 2022.