



Monitoring Report of the Fiscal Rules Established by the Organic Law of Georgia on Economic Freedom

Parliamentary Budget Office
of Georgia

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Monitoring Report of the Fiscal Rules Established by the Organic Law of Georgia on Economic Freedom

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Note: Given the mandate of the Parliamentary Budget Office of Georgia, the report cannot be considered as any kind of recommendation on the relevant issue. The report aims to comprise the results of independent fiscal assessments in specific direction, to make sure that stakeholders and decision-makers are informed properly.

The Parliamentary Budget Office of Georgia is an independent fiscal institution, with the main goal to provide independent and impartial analysis, research and assessment of fiscal policy, which consequently strengthens parliamentary oversight over the public finance management and promotes fiscal sustainability for medium/long-term period.

The Parliamentary Budget Office of Georgia provides financial, budgetary, economic and other type of analytical information to the Parliament of Georgia, its committees, fractions, independent Members of the Parliament and Parliamentary Secretariat.

The report is based on the final version of the Draft Law of Georgia “On the 2025 State Budget of Georgia”, statistical data and budget documentation presented to the Parliament of Georgia and published no later than on 29 November, 2024.

Acronyms

ARDL - Autoregressive Distributed Lag

CPI – Consumer Price Index

GDP – Gross Domestic Product

GEL – Georgian Lari

IMF – International Monetary Fund

LEPL – Legal Entity under Public Law

NNLE – Non-entrepreneurial (Non-commercial) Legal Entity

OLS- Ordinary Least Square

PBO – Parliamentary Budget Office of Georgia

PPP – Public-Private Partnership

SDR - Special Drawing Rights

VAR- Vector Auto Regression

WEO - World Economic Outlook

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Main Findings (million GEL)

Unified Budget Deficit
2,454.0 million GEL

2.5%
of GDP

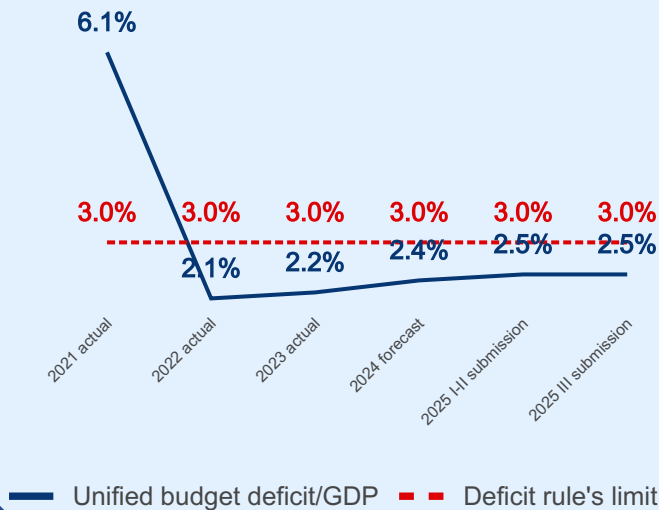
Established limit
3%

Government debt + PPP liabilities
35,648.5 million GEL

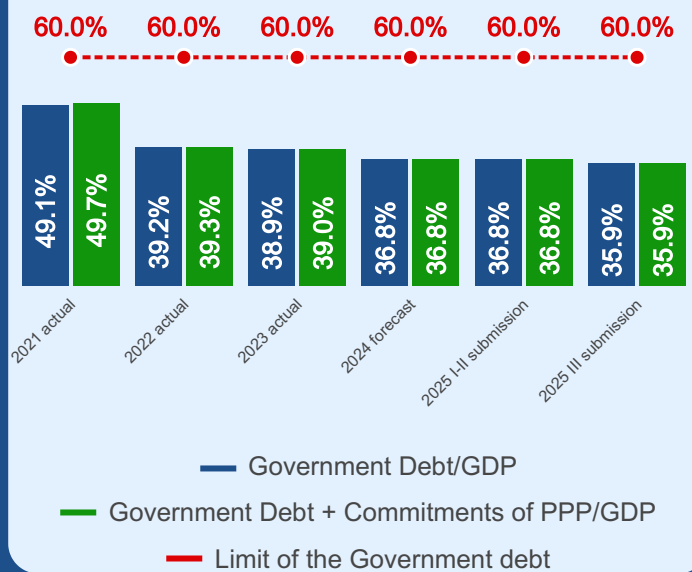
35.9%
of GDP

Established limit
60%

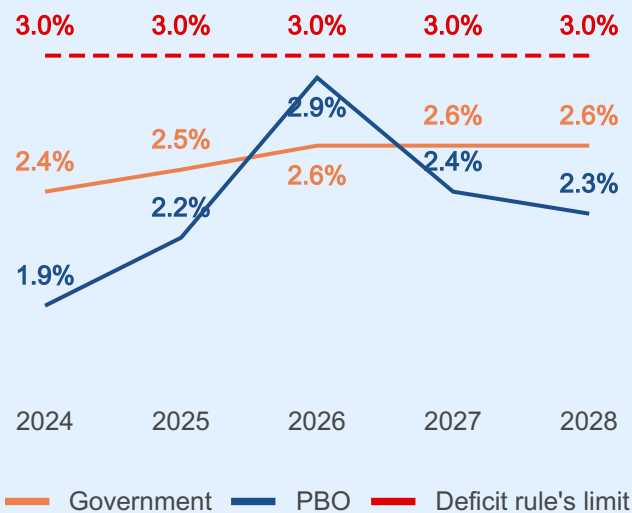
Ratio of the unified budget deficit to GDP



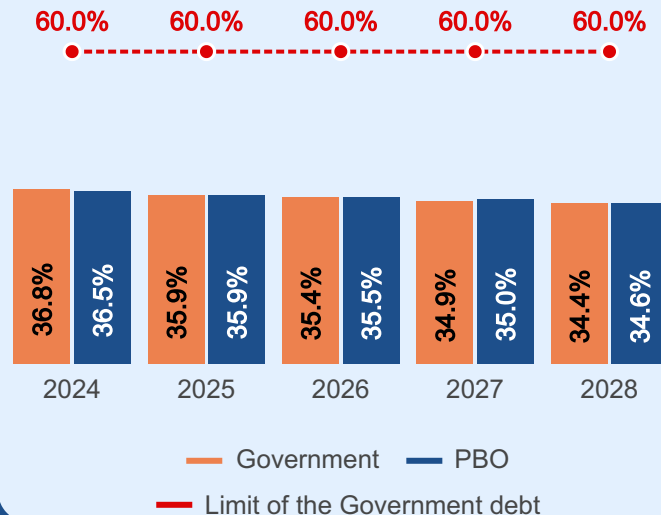
Ratio of the government debt to GDP



Unified budget deficit to GDP ratio forecast



Government debt-to-GDP ratio forecast



1. Introduction

Independent fiscal institutions have an important role in the process of establishing a sustainable public finance system. Analysis performed by an independent fiscal institution is characterized by a high level of impartiality and objectivity. It is a well-known worldwide practice for such institutions to perform monitoring of a country's fiscal rules compliance^[1]. This practice is reflected in many European legal acts that require the assessment of fiscal rules compliance to be performed by an “independent agency”, be that a Fiscal Council, a Budget Office or any other fiscal institution. Among these acts, is the Council of Europe Directive 2011/85/EU of November 8, 2011, on “Requirements for Budgetary Frameworks of the Member States”^[2], according to which the independent agencies must perform “the effective and timely monitoring of compliance with the rules”. This commitment was strengthened by the Treaty on Stability, Coordination and Governance^[3](TSCG), which was adopted by the EU Member States and entered into force in November 2011.

Independent fiscal institutions can address the tendency in some finance ministries to produce overoptimistic macro forecasts either by providing unbiased forecasts themselves or by exposing the bias to the public.

This document represents a report on the monitoring of the fiscal rules carried out by the Parliamentary Budget Office of Georgia (hereinafter – the PBO) in accordance with the Organic Law of Georgia on Economic Freedom.

1.1 Grounds for Report Preparation

Assessment of the compliance with fiscal rules is a well-established practice not only in the countries of the European Union but throughout the world. Monitoring of fiscal rules compliance is one of the most important components of achieving effective fiscal rules in a country. Such fiscal rules are respected and they significantly influence fiscal policy.

Strong fiscal rules have certain characteristics from which one of the most important is creating effective mechanisms for their implementation and carrying out monitoring by an independent body, which have to identify eventual non-compliance.

Thus, establishing the practice of monitoring fiscal rules compliance in Georgia is crucial and should not be underestimated.

In the context of monitoring fiscal rules compliance, it is important to mention a document prepared by the International Monetary Fund in 2017 – “Georgia - Enhancing the Fiscal Rules Framework”^[4]. According to this document, the Government of Georgia provides an abundance of fiscal information but does not report on compliance with the fiscal rules, ex ante or ex post. Moreover, the effective implementation and monitoring of fiscal rules often requires the increase of the role of budget institutions. Particularly, this implies a strong institution, which performs macroeconomic and fiscal forecasting, medium-term budget planning, and fiscal risk management and disclosure.

[1] For additional information, please see the publication of the PBO on “Monitoring of Fiscal Rules Compliance: Theoretical Aspects and International Experience”. Policy Paper N 03/20. Available at:

http://pbo.parliament.ge/publications/Monitoring%20of%20Fiscal%20Rules%20Compliance_%20Theoretical%20Aspects%20and%20International%20Experience.html

[2] Available at: <https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2011:306:0041:0047:EN:PDF>

[3] Available at: https://www.consilium.europa.eu/media/20399/st00tscg26_en12.pdf

[4] Available at: <https://mof.ge/images/File/public%20finances%20in%20Geo/georgia-fiscal%20rules%20report%202018.pdf>

Another noteworthy document prepared by the International Monetary Fund is “Georgia – Fiscal Transparency Evaluation”^[5], according to which fiscal transparency of the country has to be strengthened. As it is recommended, it is necessary to publish regular statements on performance against the fiscal rules that provide an explanation of whether budget plans and budget outcomes are consistent with the fiscal rules.

The activities of the PBO in relation to the assessment of macroeconomic and fiscal forecasts of the Government are assessed positively by the document. “Georgia – Fiscal Transparency Evaluation” document recommends expanding the legal mandate of the PBO, so that it evaluates performance against the Government’s stated fiscal rules and publishes an independent assessment in its fiscal reports.

1.2 The Structure of the Report

The second chapter of the present report addresses the fiscal rules (balance/deficit, debt and revenue rules) established by the Organic Law of Georgia “on Economic Freedom” and the issues to be regulated by this law.

The third chapter discusses the compliance of the indicators of the final version of the draft law “On State Budget of Georgia 2025” with these fiscal rules.

The fourth chapter – “Compliance of Georgian budget indicators with the fiscal rules in the medium-term” consists of sub-chapters on issues affecting the fiscal rules, unified budget deficit in the medium-term, Government debt in the medium-term and sensitivity analysis and scenarios.

[5] Available at: <https://mof.ge/images/File/public%20finances%20in%20Geo/Fiscal-Transparency-Evaluation-IMF.pdf>

2. Review of the Organic law of Georgia On Economic Freedom

According to the paragraph 2 of Article 67^[6] of the Constitution of Georgia, “The fundamental principles of economic policy for ensuring long-term and stable economic growth shall be defined by the organic law. In cases of special necessity, the breaching of and deviation from the limits set by macroeconomic parameters, as well as measures to be taken to return to those parameters, shall be determined by the organic law”.

In July 2011 the parliament adopted the Organic Law of Georgia on Economic Freedom (hereinafter – Organic Law), which came into force on December 31, 2013. Georgian citizens, under the Constitution of Georgia and the above-mentioned Organic Law, establish guarantees of economic rights and freedoms for the present and future generations. Economic rights and freedom are human rights and freedom that can only be limited according to the rules and within the limits established by the Constitution and laws of Georgia.

The state guarantees economic rights and freedom that are to become the basis of the development of society, the welfare of people and the long-term, stable growth of the economy.

Freedom is a basic principle of economic policy that is expressed in small size of government, responsible macroeconomic policy and low taxes.

For the purposes of the above-mentioned, under the initial version of the Organic Law, the following fiscal rules were defined:

- The ratio of total volume of consolidated budget expenses and acquisitions of nonfinancial assets to GDP shall not be more than 30% (so-called expenditure rule, which was abolished in 2019);
- The ratio of the consolidated budget deficit to GDP shall not be more than 3% (so-called balance/deficit rule, hereinafter – deficit rule);
- The ratio of state debt to GDP shall not be more than 60% (so-called debt rule);
- From the date of entry into force of the above-mentioned Law, the introduction of a new type of national tax, except for excise tax, or the introduction of an increase in the upper margin of the rate according to the type of national tax, except for excise tax, shall be permissible only through a referendum (so-called revenue rule).

In December 2018, as a result of the amendments made to this Law, the expenditure rule was abolished and the deficit and debt rules were changed. In particular, for the deficit rule, instead of using the ratio of the consolidated budget deficit to the GDP – the maximum margin of the ratio of state’s unified budget deficit to GDP; and for the debt rule, instead of using the ratio of the state debt to GDP – the maximum margin of the ratio of government debt to GDP was defined. These amendments entered into force on January 1, 2019.

[6] Article 67 – Taxes and fees, economic policy

In view of the above-mentioned information, as of 2024, three following fiscal rules are operating in Georgia:

- The ratio of the state unified budget deficit, defined by the Budget Code of Georgia, to GDP - not more than 3% (so-called deficit rule);
- The ratio of Government debt to GDP shall not be more than 60% (so-called debt Rule);
- From the date of entry into force of the mentioned organic law, the introduction of a new type of national tax, except for excise tax, or the introduction of an increase in the upper margin of the rate according to the type of national tax, except for excise tax, shall be permissible only through a referendum (so-called revenue rule).

According to the Organic Law, under the rules established by the Georgian legislation, the preparation of draft Law of Georgia on State Budget, its adoption and implementation of state budget shall be performed in such a way that state's unified budget performance parameters are in accordance with the deficit and debt rules, both for the planned and performed indicators.

The government, under the Georgian legislation, while presenting the draft Law of Georgia on State Budget and its Annual Report on Execution, shall report to the parliament on the observance of the fiscal limits stipulated by this law and on the compliance of fiscal parameters with defined margins (the deficit and debt rules).

It must be noted that according to the article 155¹ of the Organic Law of Georgia - Local Self-Government Code, the parliament may, for adhering to the maximum limits of macroeconomic indicators determined under the Organic Law, set limits by the Law of Georgia on State Budget with respect to the major indicators of budgets of local self-governing units.

According to the Organic Law, it is possible to plan and/or implement the planned parameters beyond the limits of the unified state budget deficit and government debt (escape clause):

- a) In case of the extraordinary or military state of affairs, proclaimed according to the rule stipulated by the legislation of Georgia or in the case of the need to liquidate the effects of such extraordinary developments.
- b) In case of retarded economic growth or recession, if the annual real growth quarterly figures announced by the GEOSTAT for two consequent quarters show real growth (growth over same quarters of the previous year) that is 2% lower than the average real growth of the past 10 years.

After the end of a budget year, while reporting, in case of violation of the deficit and debt rules (except the above-mentioned cases), the government, alongside with the Annual Report on Execution of the Law of Georgia on State Budget, presents to the parliament the following:

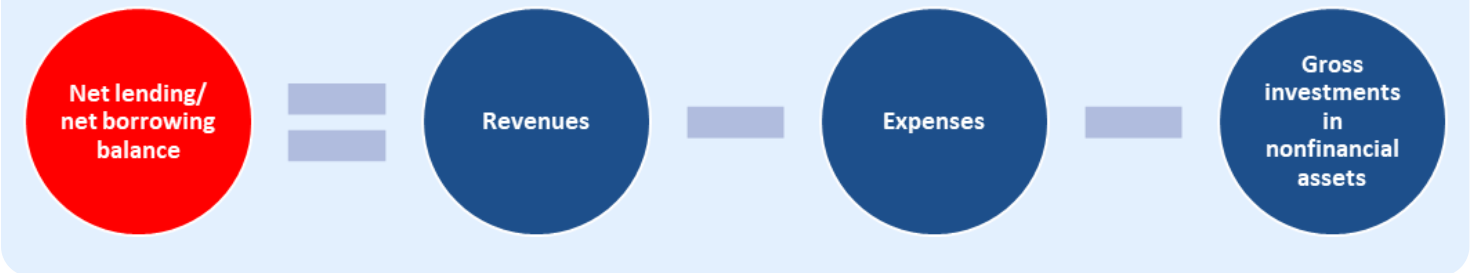
- a) Information on the reasons of violation of the deficit and debt rules;
- b) Information on the performance of the state budget of current year and consequently, its impact on the parameters of the state's unified budget, their compliance with the margins defined by the Organic Law. The government also presents to the parliament a plan to return to the limits determined by the mentioned Organic Law. The plan of returning to the limits shall not exceed 3 years.

2.1 The Deficit Rule

The ratio of the state unified budget deficit, defined by the Budget Code of Georgia, to GDP - not more than 3%.

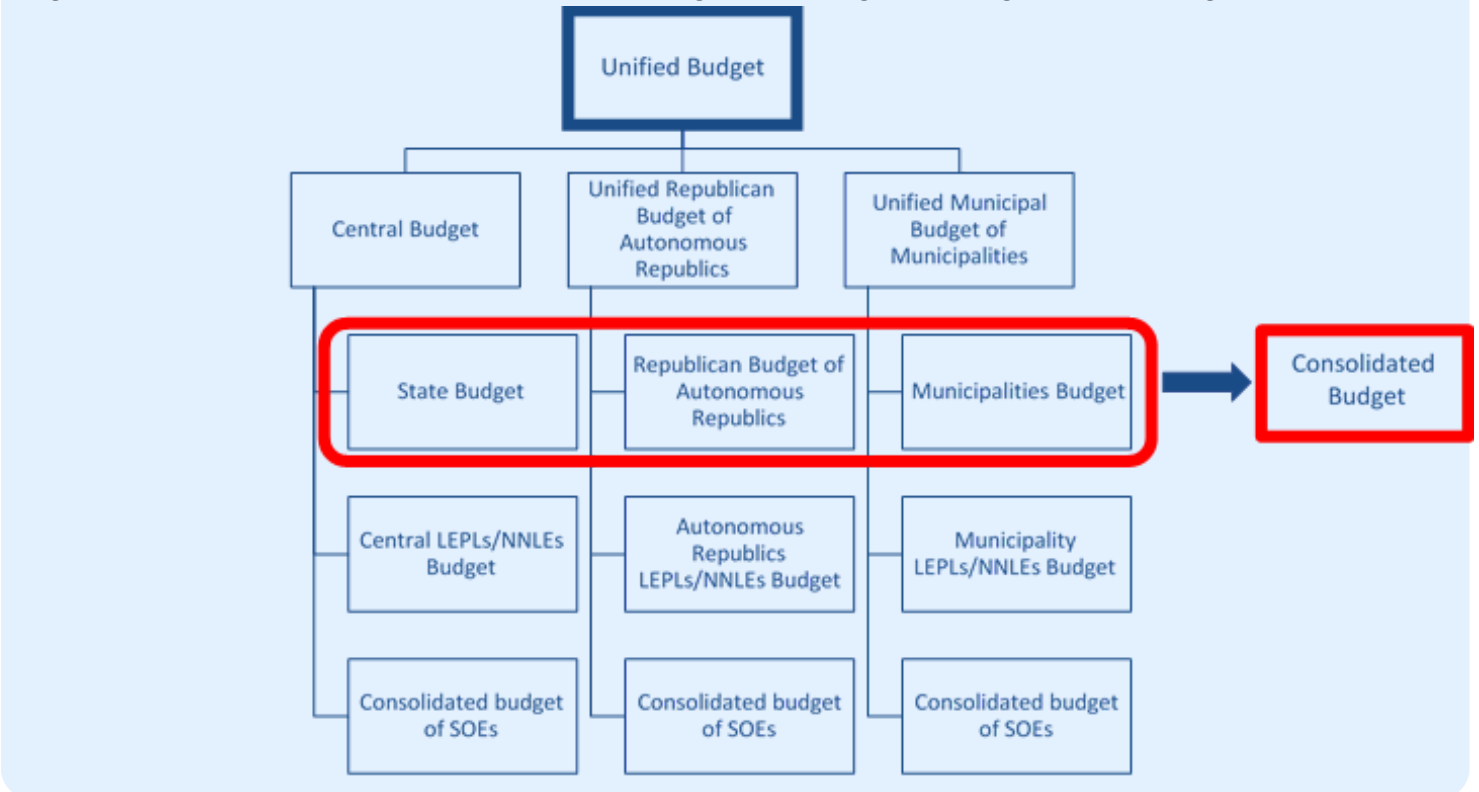
According to the Order N99 of the Minister of Finance of Georgia on Approval of Georgia's Budget Classification, issued on April 5, 2019, net lending/net borrowing balance shows the volume of budget surplus (positive value) or deficit (negative value). And for the net lending/net borrowing balance, it is calculated by the formula: the difference between budget revenues^[7] and expenses^[8] minus gross investment in nonfinancial assets^[9].

Diagram 1. calculation of net lending/net borrowing balance



As it was mentioned above, the current version of the deficit rule is in force from January 1, 2019; while in the initial version, the deficit rule defined a maximum limit of the ratio of the consolidated budget deficit to GDP.

Diagram 2. The Structure of Consolidated and Unified Budgets, according to the Budget Code of Georgia



[7] Revenues include taxes, grants and other revenues.

[8] Expenses include compensation of employees, use of good and services, interest, subsidies, grants, social benefits and other expenses.

[9] The gross investment in nonfinancial assets equals acquisitions minus disposals.

Consolidated budget is the consolidated budget of Georgia’s State, Autonomous Republics and Municipalities of Georgia. The unified budget is consolidated budget of the Central, Autonomous Republics unified republican and Municipalities unified municipal budgets. Thus, as a result of the amendment made to the Organic Law, in December 2018, from January 1, 2019, the deficit rule includes deficits of the LEPLs and NNLEs of the Central, Autonomous Republics and Municipalities budgets’. As a result of the amendments to the Budget Code made in December 2022, the state unified budget included state-owned enterprises belonging to the general government sector under the management of the central government, relevant bodies of the autonomous republic and relevant bodies of the municipality. Accordingly, the unified budget includes the consolidated budget and the budgets of LEPLs, NNLEs and state-owned enterprises belonging to the general government sector operating/managed in the sphere of central, autonomous republic and municipality governance.

2.2 The Debt Rule

The ratio of government debt to GDP shall not be more than 60%.

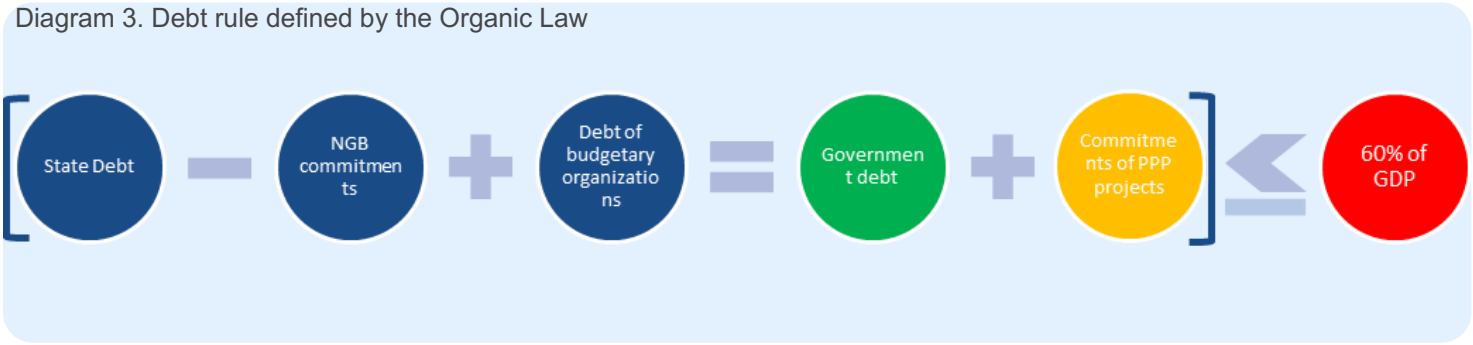
As it was mentioned above, the current version of the debt rule is in force from January 1, 2019, whereas in the initial version, the Debt Rule defined the maximum limit of the ratio of State debt to GDP.

Furthermore, in December 2018, as a result of the amendment made to the Organic Law, a record was added to the Organic Law, according to which, for the purposes of this Law, the Government Debt includes:

- a) The State Debt defined by the Law of Georgia on “State Debt”, excluding the NGB commitments.
- b) The Debt contracted by the budgetary organizations, excluding their borrowing from other budgetary organizations^[10].

Moreover, the debt rule also envisages the current value of the commitments made within the basic principles of public-private partnership and corresponding projects of the criteria of public-private partnership, which is envisaged in the Law of Georgia on Public-Private Partnership.

Diagram 3. Debt rule defined by the Organic Law



[10] Budgetary organization – an organization established by the central, autonomous republic, local government of Georgia and/or accountable to it/subject to its control, as well as another legal entity of public law/non-entrepreneurial (non-commercial) legal entity (if any), if it is an organization authorized to manage appropriations within the framework of a program/sub-program determined by the budget of the appropriate level. When calculating the Government debt of Georgia, an state-owned enterprise attributed to the general government sector is a budgetary organization (Budget Code of Georgia).

2.3 The Revenue Rule

The introduction of a new type of national tax, except for excise tax, or the introduction of an increase in the upper margin of the rate according to the type of national tax, except for excise tax, shall be permissible only through a referendum.

Only government has the right to initiate a referendum and on this topic a referendum is held in accordance with the Organic Law of Georgia on Referendums. The issues of tax progressivity, tax regime/methodology may not be questioned by a referendum. The government is authorized to request a temporary increase in taxes, up to 3 years. In such a case a referendum is not required.

National taxes are defined by the Tax Code of Georgia and are following:

- a) Income tax;
- b) Profit tax;
- c) Value added tax (VAT);
- d) Import tax;
- e) Excise tax.

According to the Organic Law, the introduction or modification of a tax that is an alternative to an existing tax or replaces it without increasing the tax burden shall not be considered as the introduction of a new type of national tax or as an increase in the upper margin of the rate. The modification of the rate of tax according to the tax type within the existing marginal rate shall not be considered as the introduction of a new type of national tax or as an increase in the upper margin of the rate either.

Taking into account the above-mentioned, the limitation on the increase of tax burden is connected only with the case when there is an introduction or a modification of a tax, when it is an alternative of an existing one or replaces it; whereas if there is such a change, when only the condition of taxation is altered so that tax burden increases, in such a case the above-mentioned Organic Law does not establish limiting procedures.

Compared to the initial version, unlike for the deficit and debt rules, there were not made any significant amendments to the revenue rule. Namely, in September 2018, as a result of the amendment made to the Organic Law, a record was added: "Contributions to the pension and insurance schemes are regulated by the separate laws and do not constitute taxes or fees". Moreover, the validity period of the revenue rule and above-mentioned added record was defined – they are effective from the date of the Amendment #1324 RS introduced to the Constitution of Georgia on October 13, 2017 and for the following 12 years.

The date of entry into force of the above-mentioned amendment made to the Organic Law is the date of an oath^[11] of the elected President of Georgia in the next elections.

As for the amendments made to the Organic Law in December 2018, the amendments were not in frames of the revenue rule.

[11] The oath of the 5th President of Georgia took place on December 16, 2018.

2.4 Issues to be regulated by the Organic Law

- According to the Budget Code of Georgia, the government submits Annual Report of State Budget Execution to the parliament, no later than within 5 months from the end of the fiscal year. Resolution of the parliament on the adoption or non-adoption of the Annual Report on State Budget Execution is issued prior to the end of the Spring Session. The preliminary data of the LEPL National Statistics Office of Georgia on GDP of the previous year is published in March, whereas revised data – in November. Thus, after the revised indicator is published, it is possible for the ratio of the Government debt and unified budget deficit in relation to the GDP to be changed, when the parliament has adopted the Resolution on the adoption or non-adoption of the Annual Report on State Budget Execution.
- According to the Organic Law, it is possible to plan and/or implement the planned parameters beyond the limits of the state unified budget deficit and government debt (escape clause):
 - a) In case of the extraordinary or military state of affairs, proclaimed according to the rule stipulated by the legislation of Georgia or in the case of the need to liquidate the effects of such extraordinary developments;
 - b) In case of retarded economic growth or recession, if the annual real growth quarterly figures announced by the GEOSTAT for two consequent quarters show real growth (growth over same quarters of the previous year) that is 2% lower than the average real growth of the past 10 years.

It should be mentioned that if at least one of the two above-mentioned conditions is not met, in such a case the Organic Law does not envisage additional procedures on the possibility to plan beyond marginal values. Namely, in following years of planning macroeconomic parameters determined by escape clauses, the above-mentioned organic law does not foresee determination procedures of the same macroeconomic parameters that are beyond the limit, in terms of escape clauses absence.

- At the same time, it must be mentioned that the Organic Law does not envisage the monitoring procedures for the fiscal rules defined by this law, and authority, which has to perform monitoring. Organic Law also does not envisage possible sanctioning mechanism in case of fiscal rules violation, expect of the mechanism of corrective actions.

3. The Compliance of the 2025 State Budget Draft Law Indicators with the Fiscal Rules

This chapter aims to assess the compliance of the 2025 State Budget draft law (final version) indicators with the fiscal rules.

According to the paragraph 5 of Article 2 of the Organic Law, the Government, under the rule established by the legislation of Georgia, while presenting to the Parliament the draft law on State Budget and its Annual Report on Execution, presents information on the compliance of fiscal parameters with established limits by this law. Established by the above-mentioned Organic law, the limit is defined by Article 2 of this law, which includes the deficit and debt rules. Thus, Article 14 of the final version^[12] of the 2025 State Budget draft law, defines the forecast of the threshold parameters (deficit and debt rules) established by the organic law.

3.1 Compliance with the Deficit rule

According to the Article 14 of the 2025 State Budget draft law, in 2025, the deficit of the state's unified budget defined by 2,454.0 million GEL, which is 2.5% of the projected GDP (defined margin – 3% of the GDP). Therefore, the macroeconomic parameter threshold determined by the deficit rule has been met by 2025.

2025 state's unified budget deficit, compared to the 2024 state's unified budget deficit – 2,144.0 million GEL, is more by 310.0 million GEL.

It should be noted that according to the final version of the 2025 state budget draft law, the 2024 nominal GDP and state's unified budget deficit indicators have been adjusted compared to the indicators forecasted at the 2024 state budget approval stage (December 2023). In particular, the 2024 nominal GDP indicator has increased, while the state's unified budget deficit has decreased, accordingly, the deficit-to-GDP ratio has decreased by 0.1 percentage points and was determined at the level of 2.4%.

In the table given below, the structure of net lending/net borrowing balance of Georgia's unified budget for 2024-2025 is presented according to the attached annex of the 2025 State Budget draft law – “Basic Economic and Financial Indicators (Baseline Scenario)”.

[12] The final version of the 2025 draft budget in the presented document refers to the draft Law of Georgia “On the 2025 State Budget of Georgia” (III submission) submitted to the Parliament of Georgia by the Government of Georgia on November 29, 2024.

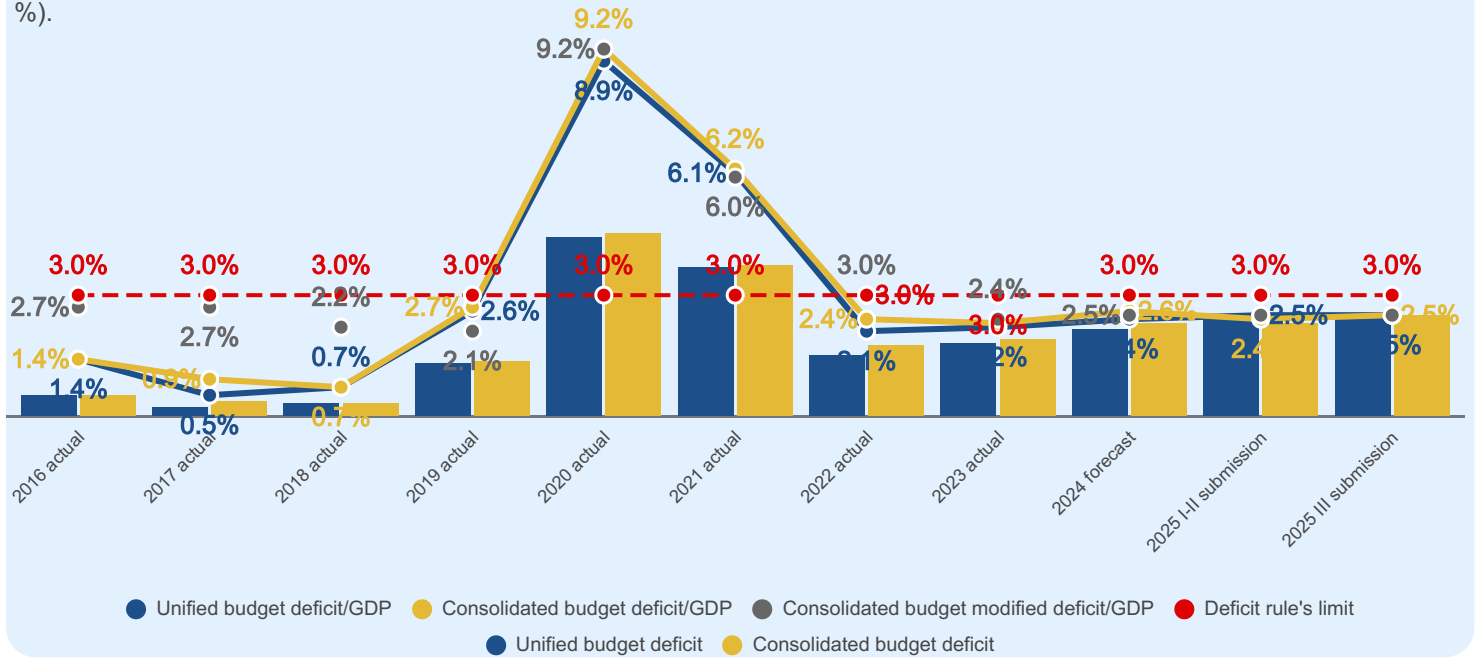
Table 1. Net lending/net borrowing balance of Georgia's unified Budget for 2024-2025 (million GEL).

	2024 forecast	2025 forecast	Difference
Revenues	29,561.0	31,655.0	2,094.0
Taxes	23,260.0	25,305.0	2,045.0
<i>Indirect Taxes</i>	<i>11,825.0</i>	<i>12,970.0</i>	<i>1,145.0</i>
<i>Direct Taxes</i>	<i>11,435.0</i>	<i>12,335.0</i>	<i>900.0</i>
Grants	216.0	140.0	-76.0
Other Revenues	6,085.0	6,210.0	125.0
Expenses	23,935.0	26,510.0	2,575.0
Compensation of Employees	5,010.0	5,695.0	685.0
Use of Goods and Services	5,170.0	5,655.0	485.0
Interest	1,505.0	1,770.0	265.0
Subsidies	2,380.0	2,380.0	0.0
Grants	20.0	105.0	85.0
Social Benefits	8,130.0	8,855.0	725.0
Other Expenses	1,720.0	2,050.0	330.0
Gross Operating Balance	5,626.0	5,145.0	-481.0
Gross Investment in Nonfinancial assets	7,770.0	7,599.0	-171.0
Acquisitions	8,310.0	8,109.0	-201.0
Disposals	-540.0	-510.0	30.0
Net lending/net borrowing Balance	-2,144.0	-2,454.0	-310.0

As shown in the table, it is expected that the state's unified budget deficit will increase by 310.0 million GEL for 2025, compared to the 2024, which is on one hand, caused by an increase of the state's unified budget revenues by 2,094.0 million GEL (including increase in tax revenues by 2,045.0 million GEL) and decrease of gross investment in nonfinancial assets by 171.0 million GEL and on the other hand, caused by an increase in expenses by 2,575.0 million GEL (including increase in social benefits by 725.0 million GEL, compensation of employees - by 685.0 million GEL and use of goods and services – by 485.0 million GEL).

As for the structure of unified budget's deficit in relation to the levels of relevant budgets, it should be noted that, in the attached documentation of the 2025 State Budget draft law, there was only presented information on the Central budget, the deficit of which amounted to 2,487.9 million GEL. There was not provided any information on these topics in the documentation of the Budget draft law about components of unified budget, Autonomous Republics Unified Republican and Municipalities Unified Municipal budgets. Thus, it is impossible to discuss the structure of the unified budget deficit in relation to relevant levels of budgets.

Diagram 4. Georgia's unified and consolidated budget deficits and their ratio to GDP in the years of 2016-2025 (million GEL, %).



As shown in the diagram, in 2016-2018, defined macroeconomic parameter limit, according to the deficit rule's version of that time, was complied. The ratio of the consolidated budget deficit to GDP ranged from 0.7% to 1.4%. Mentioned limit was also complied as for the actual figure of 2019, the ratio of the state unified budget deficit to GDP amounted to - 2.6%. Breach in macroeconomic parameter limit took place in 2020-2021, precisely, in 2020, the state unified budget deficit to GDP ratio was 8.9%, whereas, in 2021 – 6.1%. For 2022-2023, the indicator of the unified budget deficit returned to the macroeconomic parameter limit defined by the organic law and its ratio to GDP amounted to 2.1% and 2.2%, respectively. According to the forecast of the government of Georgia, for 2024-2025, the ratio of the state unified budget deficit to GDP is expected to be 2.4% and 2.5%, respectively.

3.2 Compliance with the Debt rule

According to the Article 14 of the 2025 State Budget draft law, by the end of 2025, Government debt-to-GDP ratio is 35.9%, including the current value assessment of commitments assumed within the framework of public-private partnership projects (as of December 31, 2025 (preliminary data)) is 0.03% of GDP (the established limit is 60% of GDP). Therefore, the macroeconomic parameter limit set by the debt rule has been met by 2025.

According to the annex to the final draft of the 2025 state budget - "Government Debt", the balance of the government external debt as of December 31, 2025 was determined at 24,060.8 million GEL (24.2% of GDP), and the government domestic balance - at 11,558.6 million GEL (11.6% of GDP), in total - 35,619.5 million GEL (35.9% of GDP). Besides, according to the annex of the 2025 State Budget draft law - "Document of Fiscal Risks' Analysis", the commitments under public-private partnership projects, as of December 31, 2025, is estimated at 29 million GEL (0.03% of GDP) according to preliminary data.

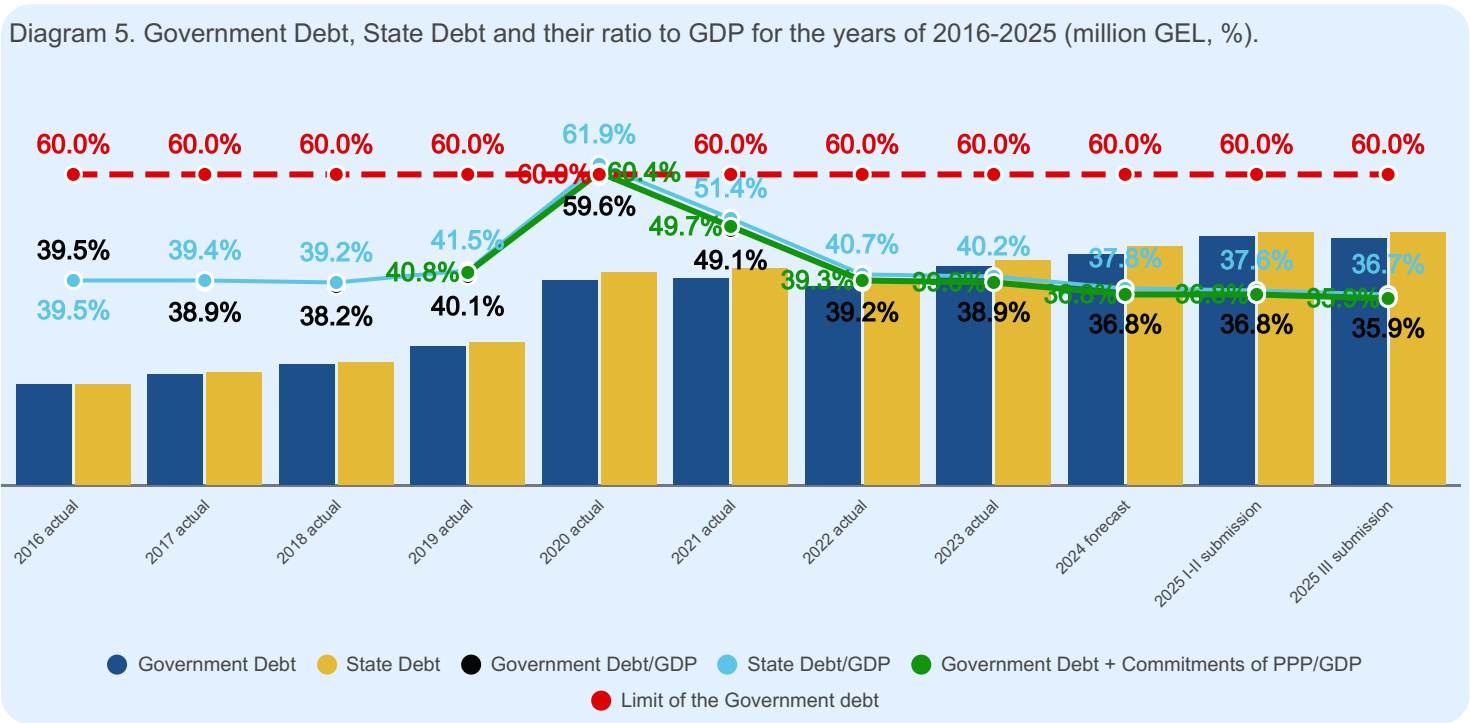
In addition, the forecasted government external debt balance, 24,060.8 million GEL, is 67.5% of the total government debt. By 2025, the projected share of the government external debt (67.5%) in the total government debt has decreased compared to previous years. In particular, the projected figure for 2024 is 70.0%, while the actual figure for 2023 is 72.7%. The main share of the government external debt falls on multilateral and bilateral creditors.

Table 2. Structure of the government debt forecasted balance as of 31.12.2025 (million GEL)

	Forecasted balance 31.12.2025
Government External Debt	24,060.8
Multilateral Lenders	17,968.9
Bilateral Lenders	4,717.7
Other External Debt	1,374.2
Government Domestic Debt	11,558.6
Total Government Debt	35,619.5

The projected domestic debt balance, 11,558.6 million GEL, is 32.5% of the government debt. Of this, 11,391.7 million GEL represents the forecast balance in treasury liabilities and bonds, 152.8 million GEL represents government bonds of different maturities for open market operations, and the projected volume of the debt in the form of loans to budgetary organizations is 14.1 million GEL.

In the diagram presented below, the Government Debt and State Debt are presented, as well as their ratio to GDP for the years of 2016-2025.



As shown on the diagram, for the years of 2016-2019, the amount of State Debt and Government Debt does not exceed the limit set by the Organic Law. By 2020, the macroeconomic parameter limit foreseen by the organic law had been breached. However, in 2021-2023, the amount of government debt returned to the limit determined by the debt rule, and it is expected that the mentioned limit will be respected in 2024-2025 as well.

4. Compliance of Georgian budget indicators with fiscal rules in the medium-term

This chapter analyses the Georgian government's ability to comply with fiscal rules in the medium-term, it also discusses the factors that affect them and possible scenarios.

4.1 Factors affecting fiscal rules

The compliance of fiscal rules in the medium-term may be affected by various types of macroeconomic shocks, as well as the government's discretionary policies, which may include: tax reforms, that will have a significant impact on tax revenues and changes in government spending priorities, that may lead to an increase of expenditures of the unified budget. All of this may lead to a change in the unified budget balance over the medium-term or affect the medium-term debt trajectory.

The macroeconomic shocks caused by the current Russia-Ukraine war are the largest and most important among the factors affecting fiscal rules in 2024-2028, including the fluctuation of world oil prices as well as good prices. The negative effect of the war was not significant for Georgia throughout the current year, although it might have an impact on the economic growth in the medium-term.

The negative effects caused by Covid-19 were reflected on the economic growth in 2020, which was followed by an increase in the budget expenditures to carry out relevant preventive actions and expansionary policy. The given factor and the decreased economic growth led to an increase in the unified budget deficit and the indicator exceeded the 3% mark. It was followed by an increase in the budget deficit. However, along with the economic recovery and the high economic growth rates observed in 2022, budget revenues increased and the unified budget deficit started to decline. According to the PBO forecast, the unified budget deficit is expected to decrease in the medium term and remain under 3% limit.

All else being equal, the debt growth may also be influenced by two important factors:

- Exchange rate depreciation;
- Increase of interest rates.

With the onset of difficulties caused by the coronavirus in March 2020, GEL exchange rate began to depreciate. As a result, at the end of 2020, compared to December 2019, GEL depreciated against the USD by 14.3%, which directly affected the amount of debt. However, as a result of the high economic growth recorded in 2021-2022, increased foreign direct investment, remittances, as well as revenues from tourism and exports, had a positive impact on the strengthening of the GEL exchange rate. According to the Budget Office forecast, a slight depreciation of the exchange rate is expected in 2025 and in the medium-term.

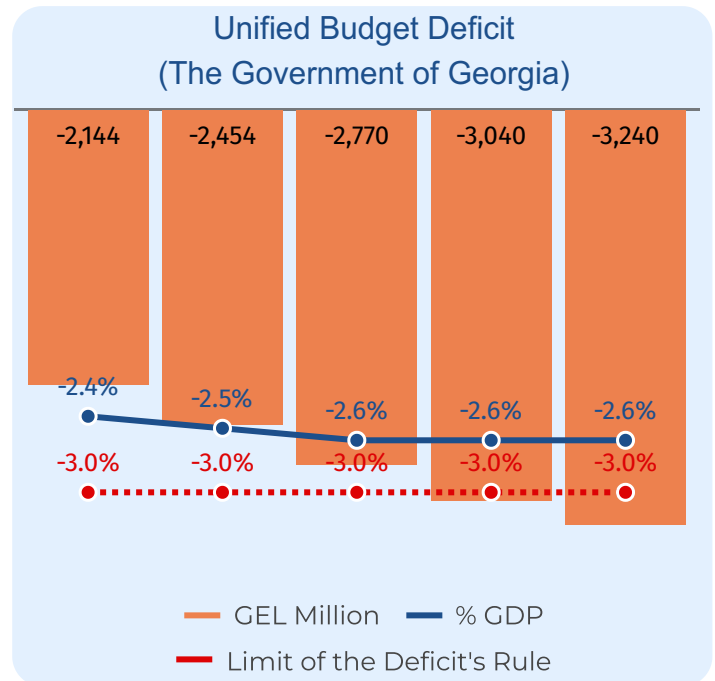
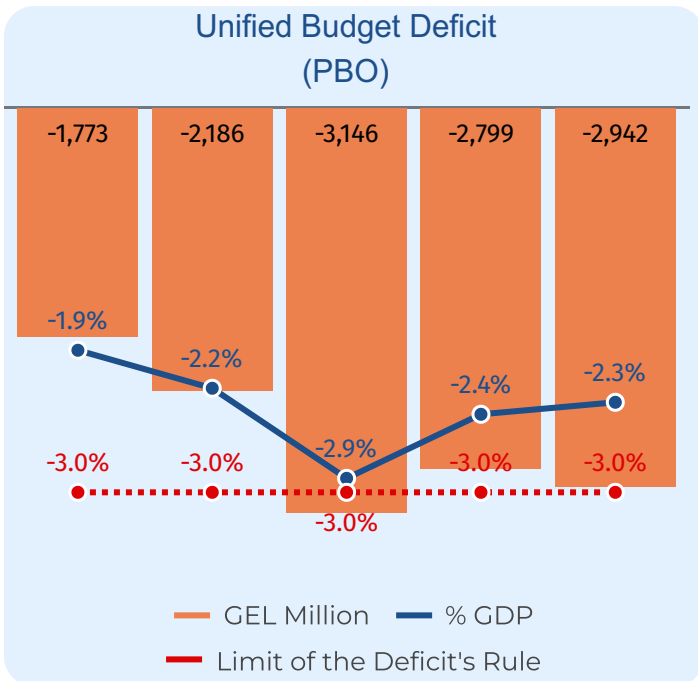
One of the negative consequences of the macroeconomic instability and deteriorating economic situation might be the increase in interest rates on both domestic and foreign government debt. This will directly increase the cost of debt service and consequently, the unified budget deficit and the government debt.

All else being equal, excluding the effects of above-mentioned shocks, a decrease in the debt-to-GDP ratio is expected, due to an increase of the economic activity and the nominal GDP.

4.2 Unified budget deficit in the medium-term

According to the Organic Law, the limit of the unified budget deficit-to-GDP ratio is 3%. Due to the events mentioned above, it is a significant challenge for the government to comply with this rule.

Diagram 6. Unified budget deficit in 2024-2028



According to the medium-term baseline scenario annexed to the draft state budget for 2025, from 2025, increase in the unified budget deficit is planned and its volume is assumed to reach 3.2 billion GEL by 2028. Nevertheless, the government's forecast expects that the deficit rule will not be violated in 2025 and the medium term thereafter, and the unified budget deficit will be less than 3.0% of GDP.

According to the PBO's macroeconomic and fiscal forecasts and the existing government policies, the consolidated budget deficit is expected to be below 3.0% of GDP by 2025, and this trend is expected to continue over the medium term.

In order to calculate the unified budget deficit PBO used following:

- Independent forecast of tax revenues of the consolidated budget;
- Independent forecast of other revenues of the consolidated budget;
- Government's forecast of grants of the unified budget;
- Government's forecast of revenues of Legal Entities of Public Law and Non-entrepreneurial (Non-commercial) legal entities reflected in other revenues of the unified budget;
- Government's forecast of the growth of expenditures and non-financial assets.

The difference between the forecasted volumes of the unified budget deficit is due to the tax revenues of the unified budget, where the PBO's and the government's predictions differ. In turn, the forecast of the tax revenues is based on the medium-term macroeconomic scenario of the PBO, that differs from the same scenario simulated by the government.

4.3. Government Debt in the medium-term

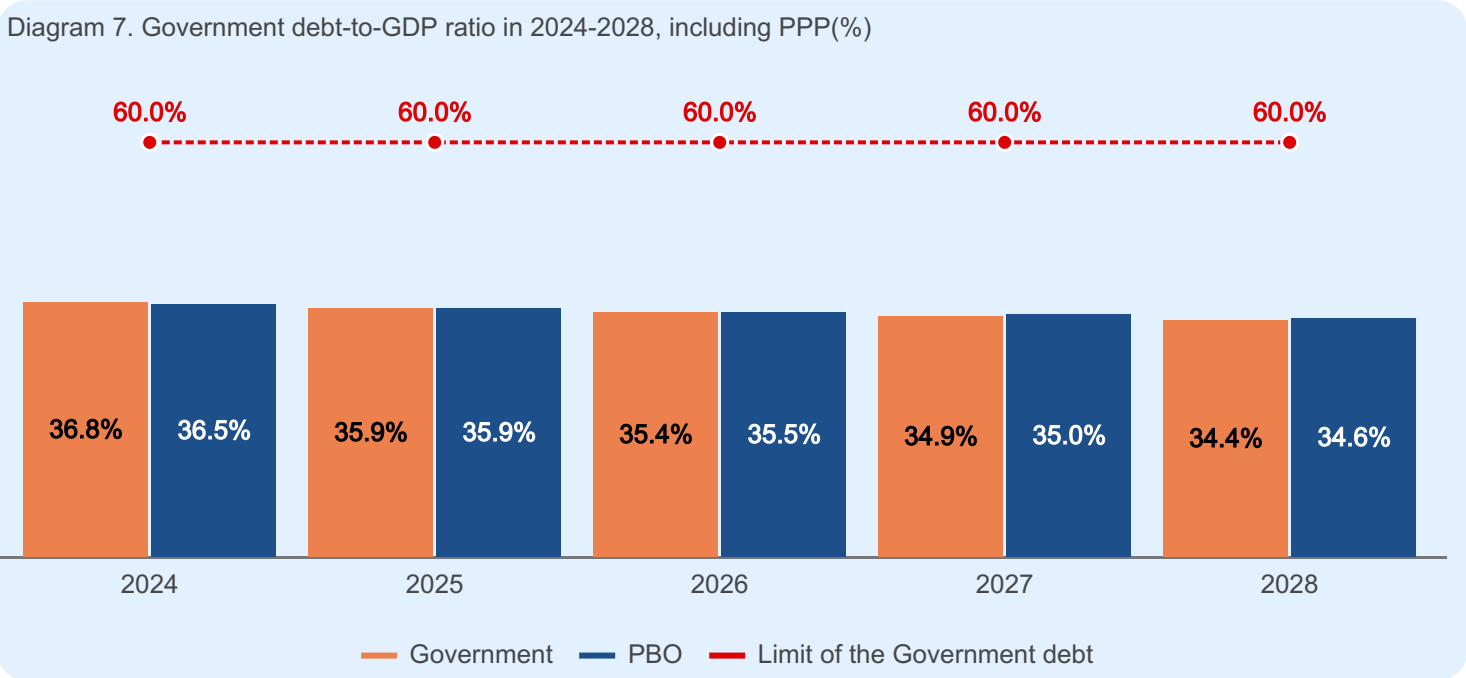
The government debt-to-GDP ratio in the medium-term is effected by the expected volume of the debt, the volume of the GDP and the exchange rate trajectory.

According to the government forecast, the exchange rate in the medium-term is fixed as the equivalent to the exchange rate existing at the time of budget planning. Whereas, according to the PBO estimate, the exchange rate forecast is used.

According to the PBO, the government debt-to-GDP ratio in the medium-term is based on the following:

- Government forecast of the nominal debt;
- PBO forecast of the exchange rate;
- PBO forecast of the nominal GDP.

With this in mind, it should be noted,that according to both the PBO and the government medium-term forecasts, the government debt-to-GDP ratio remains under the statutory 60% limit in 2024-2028.



According to the estimates of the PBO, the government debt-to-GDP ratio will be decreasing in the medium term and will reach 34.6% by 2028. According to government forecasts, the given indicator is characterized with a decreasing trend and will be recorded¹³ at 34.4% in 2028. This given difference is mainly due to the different forecasts of exchange rate and economic growth by the government.

[13] In the materials accompanying the budget, the government's debt in the medium term did not include the estimated volumes of PPP projects determined by the fiscal rule. In this document, for the purposes of monitoring fiscal rules, both the government's and the budget office's debt indicators in the medium term have added the estimated volume of PPP projects.

4.4 Sensitivity analysis and scenarios

During the budget planning process, both the government and the PBO simulate positive and negative scenarios on the development of the economy based on the various macroeconomic risks and assumptions, which also includes relevant fiscal scenarios.

PBO's macroeconomic scenarios are based on the assumption that in case of the positive scenario, there will be permanent positive shocks in the country during the medium-term, while during the negative scenario, each year, compared to the base scenario, negative trends in economic development are expected.

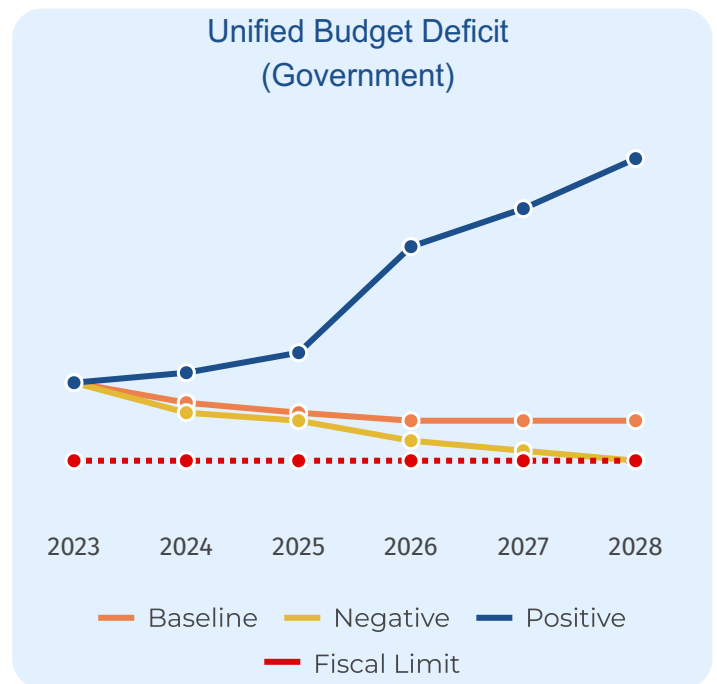
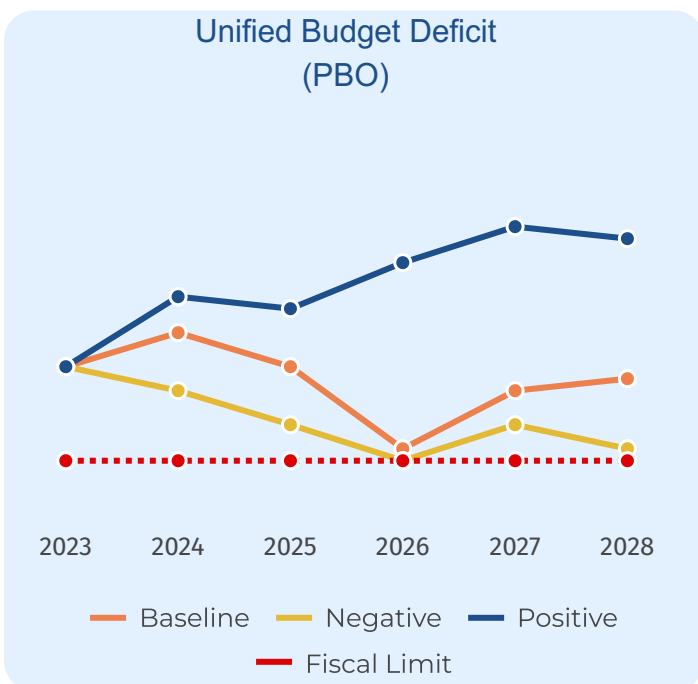
Table 3. The Medium-term macroeconomic scenarios of the PBO and the government.

	2024		2025		2026		2027		2028	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP growth										
Baseline	9.0%	9.7%	6.0%	6.1%	5.0%	5.3%	5.2%	5.2%	5.3%	5.4%
Positive	9.7%	10.4%	7.4%	7.8%	6.4%	6.7%	6.6%	6.6%	6.7%	6.9%
Negative	7.6%	8.4%	3.2%	3.4%	2.2%	2.8%	2.4%	2.6%	2.5%	2.7%
Consumer Price Inflation										
Baseline	1.0%	1.3%	3.2%	2.2%	3.0%	2.2%	3.0%	2.3%	3.0%	2.6%
Positive	1.5%	1.8%	4.3%	4.1%	4.1%	3.9%	4.1%	3.6%	4.1%	3.8%
Negative	0.5%	0.8%	2.1%	1.6%	1.9%	2.0%	1.9%	1.7%	1.9%	1.8%

Based on these parameters, if the baseline, the positive or the negative macroeconomic scenario takes place, according to the estimates of the government, the unified budget deficit will not exceed the 3.0% mark. Only in 2028, according to the negative scenario, the deficit will equal 3.0%.

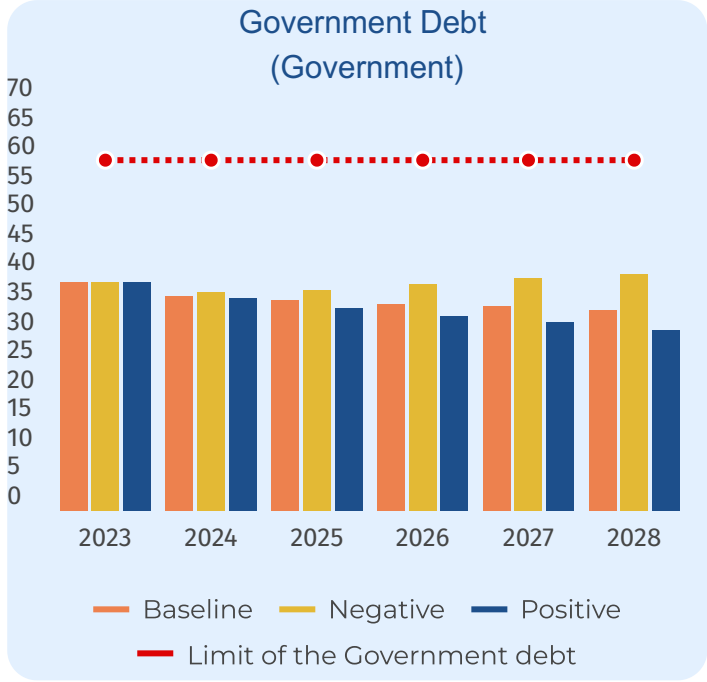
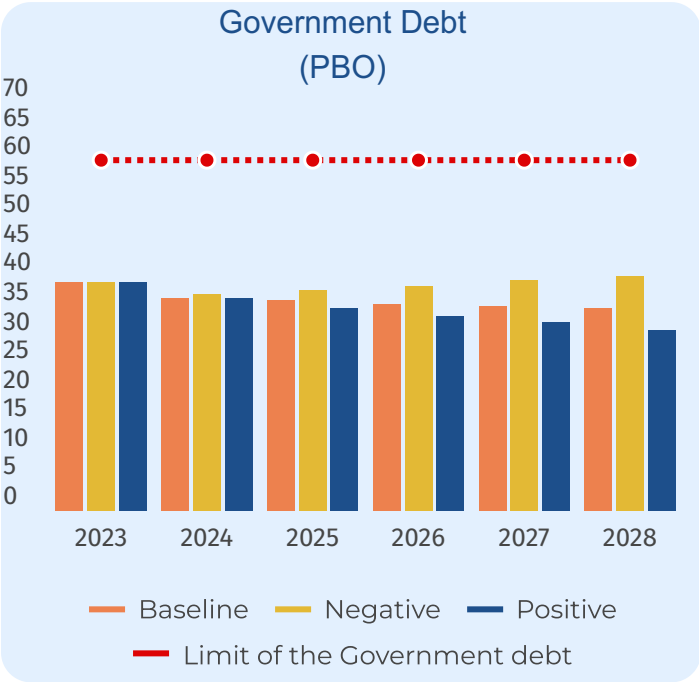
According to the PBO, both in the case of the baseline scenario, as well as in the case of the development of the positive and negative macroeconomic scenarios, the unified budget deficit will not exceed the 3% mark. Only in 2026, according to the negative scenario, the deficit will equal 3.0%.

Diagram 8. The unified budget deficit-to-GDP ratio in the medium-term (%). Positive and negative scenarios.



As for the debt in the medium term, both the government and the PBO estimate that in case of the positive or the negative scenario, it will not exceed the fiscal limit. According to the government's negative scenario, the debt-to-GDP ratio will reach 40.6% by 2028, while according to the PBO forecast, the ratio will be 40.2%.

Diagram 9. The Government Debt-to-GDP ratio in the Medium-term (%). Positive and negative scenarios.



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Glossary

Consolidated Budget – consolidated budget of Georgia’s State, Autonomous Republics and Municipalities. Consolidated budget is not subject to the approval by the representative bodies of any authority.

Contingent liability - Contingent liability is a liability that may occur depending on the outcome of an uncertain future event.

GDP gap – GDP gap is the difference between potential GDP and real GDP. When the economy falls into recession, the GDP gap is negative. When the economy experiences an inflationary boom, the GDP gap is positive.

National Taxes – National taxes shall be the taxes provided for under the Tax Code of Georgia, the payment of which is mandatory across the whole territory of Georgia.

Net Lending/Net Borrowing Balance – net lending/net borrowing balance shows the volume of budget surplus (positive value) or deficit (negative value). net lending/net borrowing balance is calculated by the formula: the difference between budget revenues and expenses minus gross investment in nonfinancial assets.

Public-private partnership/public-private partnership project - a long-term partnership between a public partner and a private partner that meets the criteria provided for by Article 4 of Law of Georgia on Public-private Partnerships, and is carried out for the purpose of the performance of works and/or the provision of public services in the form of a concession, or a non-concessional public-private partnership.

Special Drawing Rights - SDRs are supplementary foreign exchange reserve assets defined and maintained by the International Monetary Fund.

State Budget - set of total revenues, total expenditures and adjusted balance approved by the Parliament of Georgia for the execution of functions and duties assigned to the Central Authorities of Georgia.

State Debt of Georgia – the total amount of domestic and external debts, expressed in the national currency, taken through agreements entered into by the Ministry of Finance of Georgia on behalf of Georgia and, with guarantees provided by the Ministry of Finance, by other bodies/institutions, also in amounts received from the placement of government securities denominated in the national and foreign convertible currency by the Ministry of Finance of Georgia on behalf of Georgia and received from the financial resources approved by the International Monetary Fund for Georgia.

Unified Budget - consolidated budget of the Central, Autonomous Republics unified republican and Municipalities unified municipal budgets. Unified budget is not subject to the approval by the representative bodies of any authority.

Annex 1A: Detailed PBO Forecasts^[14] of key Macroeconomic Indicators for 2024-2028 (Baseline Scenario)^[15]

	2021 Actual	2022 Actual	2023 Actual	2024 PBO Expected	2025 PBO Forecast	2026 PBO Forecast	2027 PBO Forecast	2028 PBO Forecast
REAL SECTOR	% change							
Real GDP	10.6%	11.0%	7.8%	9.7%	6.1%	5.3%	5.2%	5.4%
Consumer Price Inflation	9.6%	11.9%	2.5%	1.3%	2.2%	2.2%	2.3%	2.6%
GDP Deflator	10.2%	8.1%	2.9%	2.8%	2.1%	2.9%	3.1%	2.6%
Nominal GDP								
GEL Million	60,724	72,860	80,883	91,220	98,858	107,085	116,014	125,344
USD Million	18,849	24,985	30,778	33,647	35,919	38,999	42,501	45,766
GDP Per Capita								
GEL	16,374	19,626	21,769	24,690	26,757	28,984	31,401	33,926
USD	5,084	6,731	8,284	9,102	9,722	10,556	11,501	12,386
	% of GDP							
Absorption	116.0	109.7	108.6	107.3	107.4	107.3	107.1	107.2
Consumption	95.6	85.6	83.6	82.0	80.5	80.9	80.5	80.4
Private	88.7	79.3	76.9	75.2	73.4	73.7	73.3	73.1
Government	6.9	6.3	6.7	6.8	7.1	7.2	7.2	7.2
Investment	20.7	24.1	25.0	25.3	26.9	26.4	26.6	26.8
Private	13.1	15.9	16.9	16.9	19.1	19.5	20.0	20.1
Government	7.6	8.2	8.1	8.4	7.8	6.9	6.7	6.7
Gross National Saving	10.4	19.6	19.4	21.1	22.7	22.3	22.6	23.0
Government	0.6	5.2	5.2	5.7	5.0	3.9	4.4	4.5
Private	9.8	14.5	14.2	15.4	17.7	18.5	18.2	18.5

[14] PBO forecast of December 2024

[15] Nominal expenditures, non-financial assets and debt are taken from the forecasted macroeconomic indicators for 2024-2028 presented in the final draft law "On the State Budget of Georgia for 2025"

Annex 1B: Detailed PBO Forecasts^[16] of key Macroeconomic Indicators for 2024-2028 (Baseline Scenario)

	2021 Actual	2022 Actual	2023 Actual	2024 PBO Expected	2025 PBO Forecast	2026 PBO Forecast	2027 PBO Forecast	2028 PBO Forecast
MONETARY SECTOR	% of GDP, unless noted otherwise							
Net Foreign Assets	0.0%	4.0%	3.4%	1.7%	1.6%	1.7%	1.8%	1.8%
Net Domestic Assets	55.8%	47.5%	50.0%	56.2%	61.4%	65.2%	67.5%	72.7%
Broad Money M3	55.7%	51.6%	53.4%	57.9%	63.0%	66.9%	69.3%	74.6%
Broad Money M2	26.5%	27.2%	31.0%	32.8%	36.4%	38.8%	40.7%	43.7%
EXTERNAL SECTOR	% of GDP, unless noted otherwise							
Current Account Balance	-10.3%	-4.4%	-5.6%	-4.5%	-4.2%	-4.0%	-4.0%	-3.8%
Trade Balance	-16.3%	-9.7%	-8.6%	-7.6%	-7.4%	-7.2%	-7.1%	-7.2%
Official International Reserves (USD Million)	4,273	4,901	5,010	4,732	5,329	5,932	6,493	6,902
Months of Import	4.6	3.8	3.4	2.9	3.0	3.0	3.1	3.1
Net Private Capital and Financial Flows (USD Million)	753	1,712	1,269	1,006	1,550	1,566	1,527	1,513

[16] PBO forecast of December 2024

Annex 1C: Detailed PBO Forecasts^[17] of key Macroeconomic Indicators for 2024-2028 (Baseline Scenario)

	2021 Actual	2022 Actual	2023 Actual	2024 PBO Expected	2025 PBO Forecast	2026 PBO Forecast	2027 PBO Forecast	2028 PBO Forecast
FISCAL SECTOR ¹⁸	GEL Million							
Revenues and Grants	15,143	19,378	22,124	25,987	27,933	29,474	32,341	35,048
Tax Revenues	13,380	17,386	19,733	23,622	25,585	27,034	29,878	32,530
Direct Taxes	5,395	7,797	8,924	11,800	13,009	13,331	14,805	16,204
Indirect Taxes	7,985	9,589	10,809	11,822	12,575	13,703	15,073	16,326
Expenditures and Acquisition of Nonfinancial Assets	19,361	21,584	24,447	28,435	30,659	32,695	35,050	37,840
Recurrent expenditures	14,769	15,616	17,914	20,760	23,030	25,345	27,250	29,440
Acquisition of Nondinancial Assets	4,592	5,968	6,533	7,675	7,629	7,350	7,800	8,400
Operating Balance	373	3,762	4,211	5,227	4,903	4,129	5,091	5,608
Overall Balance	-3,797	-1,771	-1,889	-1,948	-2,226	-2,921	-2,409	-2,492
State Debt	29,812	28,538	31,482	33,281	35,504	37,948	40,582	43,384
External	23,967	21,392	22,876	23,247	23,945	24,745	25,626	26,575
Domestic	5,845	7,146	8,606	10,034	11,559	13,203	14,956	16,809
Fiscal Balance	-3,669	-2,208	-1,977	-1,928	-2,207	-2,951	-2,439	-2,472
Unified Budget Balance	-3,796	-1,601	-1,782	-1,773	-2,186	-3,146	-2,799	-2,942

[17] PBO forecast of December 2024

[18] Except for the unified budget balance, all indicators are indicators of the consolidated budget

	2021 Actual	2022 Actual	2023 Actual	2024 PBO Expected	2025 PBO Forecast	2026 PBO Forecast	2027 PBO Forecast	2028 PBO Forecast
	% of GDP							
Revenues and Grants	24.9%	26.6%	27.4%	28.5%	28.3%	27.5%	27.9%	28.0%
Tax Revenues	22.0%	23.9%	24.4%	25.9%	25.9%	25.4%	25.8%	26.0%
Direct Taxes	8.9%	10.7%	11.1%	12.9%	13.2%	12.4%	12.8%	12.9%
Indirect Taxes	13.1%	13.2%	13.4%	13.0%	12.7%	12.8%	13.0%	13.0%
Expenditures and Acquisition of Nonfinancial Assets	31.9%	29.6%	30.2%	31.2%	31.0%	30.5%	30.2%	30.2%
Recurrent expenditures	24.3%	21.4%	22.1%	22.8%	23.3%	23.7%	23.5%	23.5%
Acquisition of Nondinancial Assets	7.6%	8.2%	8.1%	8.4%	7.7%	6.9%	6.7%	6.7%
Operating Balance	0.6%	5.2%	5.2%	5.7%	5.0%	3.9%	4.4%	4.5%
Overall Balance	-6.3%	-2.4%	-2.3%	-2.1%	-2.3%	-2.7%	-2.1%	-2.0%
State Debt	49.1%	39.2%	38.9%	36.5%	35.9%	35.4%	35.0%	34.6%
External	39.5%	29.4%	28.3%	25.5%	24.2%	23.1%	22.1%	21.2%
Domestic	9.6%	9.8%	10.6%	11.0%	11.7%	12.3%	12.9%	13.4%
Fiscal Balance	-6.0%	-3.0%	-2.4%	-2.1%	-2.2%	-2.8%	-2.1%	-2.0%
Unified Budget Balance	-6.3%	-2.2%	-2.2%	-1.9%	-2.2%	-2.9%	-2.4%	-2.3%

[19] The ratio of government debt to GDP without PPP commitments

Annex 2: GDP by components in 2021-2025^[20] (GEL Million).

Source: PBO and Government of Georgia

GDP Components	2021	2022	2023	2024		2025	
				PBO	Government	PBO	Government
Consumption	58,041	62,399	67,609	74,767	73,846	79,587	79,949
Government	4,187	4,594	5,439	6,200	6,200	7,049	7,050
Private	53,854	57,805	62,169	68,567	67,646	72,538	72,899
Investment	12,557	17,535	20,220	23,121	24,132	26,547	26,648
Government	4,592	5,968	6,533	7,675	7,675	7,629	7,629
Private	7,965	11,567	13,687	15,446	16,457	18,847	19,019
Export	26,050	38,609	39,874	46,286	45,340	52,181	49,953
Import	35,924	45,683	46,819	52,955	52,423	59,457	57,311

[20] PBO forecast of December 2024

Annex 3: Change in Forecasts of Key Macroeconomic Indicators, 2024-2025 (Baseline Scenario)^[21]

	2024				2025			
	December 2024		November 2024		December 2024		November 2024	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	9.0%	9.7%	8.2%	8.4%	6.0%	6.1%	5.5%	5.8%
Consumer Price Inflation	1.0%	1.3%	1.5%	1.4%	3.2%	2.2%	3.2%	2.7%
GDP Deflator	3.1%	2.8%	3.2%	2.8%	3.0%	2.1%	3.0%	2.9%
Nominal GDP (GEL Million)	90,895	91,220	89,608	89,397	99,239	98,858	97,372	97,234
Tax Revenues (GEL Million)	23,260	23,622	22,900	23,063	25,305	25,585	24,400	24,627
Direct Taxes (GEL Million)	11,435	11,800	11,250	11,265	12,335	13,009	11,780	12,359
Indirect Taxes (GEL Million)	11,825	11,822	11,650	11,798	12,970	12,575	12,620	12,268
Consolidated Budget Overall Balance (GEL Million)	-2,319	-1,948	-2,235	-2,101	-2,494	-2,226	-2,331	-2,113
Current Account Balance (% of GDP)	-4.7%	-4.5%	-4.9%	-5.0%	-4.3%	-4.2%	-4.6%	-4.5%
Trade Balance (% of GDP)	-7.8%	-7.6%	-8.8%	-8.9%	-7.4%	-7.4%	-8.4%	-8.5%
Exports (% change YoY, USD)	10.3%	12.8%	8.2%	10.0%	9.0%	11.7%	9.0%	9.2%
Imports (% change YoY, USD)	8.6%	9.6%	8.4%	9.5%	8.1%	10.7%	8.3%	8.1%
International Reserves (USD Million)	4,759	4,732	5,210	5,275	5,187	5,329	5,627	5,738
Money Aggregate M3 (GEL Million)	51,920	52,784	53,613	54,558	61,044	62,295	62,326	63,274
Money Aggregate M2 (GEL Million)	30,087	29,944	31,073	31,576	35,468	35,979	36,240	36,908

[21] PBO forecast of December 2024

Annex 4: Change in Forecasts of Key Macroeconomic Indicators, 2026-2027 (Baseline Scenario)^[22]

	2026				2027			
	December 2024		November 2024		December 2024		November 2024	
	Government	PBO	Government	PBO	Government	PBO	Government	PBO
Real GDP (% Growth)	5.0%	5.3%	5.0%	5.2%	5.2%	5.2%	5.2%	5.2%
Consumer Price Inflation	3.0%	2.2%	3.0%	2.4%	3.0%	2.3%	3.0%	2.6%
GDP Deflator	3.0%	2.9%	3.0%	2.8%	3.0%	3.1%	3.0%	3.1%
Nominal GDP (GEL Million)	107,327	107,085	105,308	105,233	116,296	116,014	114,108	114,113
Tax Revenues (GEL Million)	27,400	27,034	26,360	26,366	29,600	29,878	28,530	28,723
Direct Taxes (GEL Million)	13,448	13,331	12,770	12,797	14,597	14,805	13,855	13,830
Indirect Taxes (GEL Million)	13,952	13,703	13,590	13,569	15,003	15,073	14,675	14,893
Consolidated Budget Overall Balance (GEL Million)	-2,545	-2,921	-2,530	-2,500	-2,650	-2,409	-2,655	-2,417
Current Account Balance (% of GDP)	-4.1%	-4.0%	-4.3%	-4.5%	-3.9%	-4.0%	-4.1%	-4.2%
Trade Balance (% of GDP)	-7.3%	-7.2%	-8.2%	-8.4%	-7.2%	-7.1%	-8.0%	-7.8%
Exports (% change YoY, USD)	8.4%	8.6%	8.7%	5.5%	8.7%	9.0%	8.9%	11.3%
Imports (% change YoY, USD)	8.1%	8.4%	8.1%	5.7%	8.5%	8.8%	8.5%	9.2%
International Reserves (USD Million)	5,654	5,932	6,077	6,140	6,163	6,493	6,563	6,952
Money Aggregate M3 (GEL Million)	70,162	71,595	71,638	73,128	81,011	80,347	82,712	85,142
Money Aggregate M2 (GEL Million)	40,924	41,525	41,815	42,391	47,424	47,216	48,456	49,077

[22] PBO forecast of December 2024

Annex 5: Change in Forecasts of Key Macroeconomic Indicators, 2028 (Baseline Scenario)^[23]

	2028			
	December 2024		November 2024	
	Government	PBO	Government	PBO
Real GDP (% Growth)	5.3%	5.4%	5.3%	5.3%
Consumer Price Inflation	3.0%	2.6%	3.0%	2.8%
GDP Deflator	3.0%	2.6%	3.0%	3.1%
Nominal GDP (GEL Million)	126,133	125,344	123,760	123,699
Tax Revenues (GEL Million)	32,200	32,530	30,930	31,023
Direct Taxes (GEL Million)	15,868	16,204	15,070	15,016
Indirect Taxes (GEL Million)	16,332	16,326	15,860	16,007
Consolidated Budget Overall Balance (GEL Million)	-2,790	-2,492	-2,760	-2,615
Current Account Balance (% of GDP)	-3.7%	-3.8%	-3.9%	-4.2%
Trade Balance (% of GDP)	-7.2%	-7.2%	-7.8%	-7.6%
Exports (% change YoY, USD)	8.7%	6.0%	9.0%	6.0%
Imports (% change YoY, USD)	8.7%	6.3%	8.7%	5.9%
International Reserves (USD Million)	6,718	6,902	7,088	7,365
Money Aggregate M3 (GEL Million)	93,750	93,457	95,719	98,663
Money Aggregate M2 (GEL Million)	55,073	54,764	56,272	56,748

[23] PBO forecast of December 2024

Annex 6: Government debt forecast by the end of 2025 (GEL thousand)^[24]

Creditors	Projected Debt Stock 31.12.2025
Government External Government Debt, Total	24,060,849
Multilateral Creditors	17,968,915
Asian Development Bank (ADB)	6,268,858
Asian Infrastructure Investment Bank (AIIB)	591,295
European Bank for Reconstruction and Development (EBRD)	694,067
European Investment Bank (EIB)	3,331,890
European Union (EU)	385,673
World Bank (WB)	6,139,451
International Fund for Agricultural Development (IFAD)	103,278
International Monetary Fund (IMF)	397,879
Council of Europe Development Bank (CEB)	40,423
Nordic Environment Finance Corporation (NEFCO)	16,099
Bilateral Creditors	4,717,734
Austria	23,955
France	2,271,100
Germany	2,079,049
Japan	309,287
Kuwait	22,779
Turkmenistan	580
USA	10,984
Other external debt	1,374,200
Eurobond	1,374,200
Domestic Government Debt	11,558,635
Government bonds of different maturities for open market operations	152,846.0
Treasury bills of Ministry of Finance of Georgia	338,136.5
Treasury bonds of Ministry of Finance of Georgia	11,053,578.1
Debt in the form of loans to Budget Organizations	14,074.9
Total Government Debt	35,619,484

Note: Exchange rates for November 21, 2024: 1 EUR = 2.8998 GEL; 1 SDR = 3.6089 GEL; 100 JPY = 1.7642 GEL; 1 KWD = 8.9379 GEL; 1 USD = 2.7484 GEL.

[24] Source: Government of Georgia

Annex 7: Characteristics of PBO's Forecast

For evaluating fiscal rules in the medium term PBO use its own independent Forecasts of different macroeconomic items;

For deficit rule, it uses:

- Independent forecast of consolidated budget tax revenues;
- Independent forecast of other revenues;

However, all other fiscal items which are included in the calculation of the unified budget net/lending borrowing are taken from the governments medium term forecasts. This is mainly determined by the fact, that main part of rest of the items are under discretion of fiscal policy and only small part are so called macro sensitive items. As, year by year information about the government expenditure is getting much detailed, increasing their time horizon and some part of them is getting more and more macro sensitive, PBO plans to cover expenditure items forecasts in future.

Consolidated tax revenue forecast is done by so-called “bottom up” approach. PBO forecasts each tax items separately using different econometric equations and sum them for getting tax revenue.

Methodology used for budget revenue forecasting:

Items	Forecasting Bases	Forecasting Methods
VAT	Ral consumption, CPI	Breakpoints OLS
PIT	Ral GDP, CPI	Breakpoints OLS
CIP	Ral GDP, CPI	Breakpoints OLS
EXC	Ral GDP, CPI	Breakpoints OLS
IMPD	Import in Usd, GEL/usd Exchange rate	ARDL
REST	Ral GDP, CPI	Error Corection OLS
OTHT	Ral GDP, CPI	Breakpoints OLS
OTHREV	Ral GDP, CPI	BVAR

Each items are forecasted by these methodologies given in the table but, time-to-time the specification and the structure of the equations change due to new available data and new structural breaks in the macroeconomic indicators.

For the Debt rule, it uses:

- Independent forecast of exchange rate;
- Independent forecast of nominal GDP.

GEL/USD exchange rate forecast is done by monthly Bayesian VAR model with help of 2 principal components, that are obtained from 35 countries NC/USD monthly data. VAR model also includes:

- Real GDP growth of Georgia
- CPI inflation of Georgia
- Trade Balance of Georgia
- Oil prices (Brent)
- M3 aggregate of Georgia

Nominal GDP includes Real GDP and GDP deflator forecast. Real GDP forecast represents average estimation 3 Different models.

- First is VAR model which includes GDP and its components by expenditure side;
- Second is VAR model which includes GDP and its components by revenue side;
- Third model represents excel spreadsheet estimation, which measures impact of main exporter countries GDP growths on Georgian economy. Trade partners GDP forecasts are obtained from IMF WEO data.

GDP deflator forecast is done by VECM, which includes real GDP gap, GEL/USD real exchange rate, and NBG monetary policy rate.

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