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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

SUPPLEMENTAL FINANCING DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF EUR 45 MILLION (EQUIVALENT TO US$48.9 MILLION) TO

GEORGIA

FOR THE

ECONOMIC MANAGEMENT AND COMPETITIVENESS DEVELOPMENT POLICY OPERATION: COVID-19 SUPPLEMENTAL LOAN

June 3, 2020

Macroeconomics, Trade And Investment Global Practice
Europe And Central Asia Region

Georgia

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 30, 2020)

Currency Unit: Georgian lari (GEL)

US$1.00=GEL3.20

EUR1.00=GEL3.47

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AFD	Agence Française de Développement
AIIB	Asian Infrastructure Investment Bank
COVID-19	Novel Coronavirus of 2019
DPO	Development Policy Operation
EBRD	European Bank of Reconstruction and Development
EFF	Extended Fund Facility
FTF	Fast Track Facility
GDP	Gross Domestic Product
GEL	Georgian Lari
GoG	Government of Georgia
GRS	Grievance Redress Service
KfW	Kreditanstalt für Wiederaufbau
LDP	Letter of Development Policy
IMF	International Monetary Fund
IBRD	International Bank for Reconstruction and Development
MOF	Ministry of Finance
NBG	National Bank of Georgia
PIM	Public Investment Management
RIA	Regulatory Impact Assessment
STA	Single treasury Account
SAO	State Audit Office
TSA	Targeted Social Assistance
VAT	Value Added Tax
WHO	World Health Organization
WB	World Bank

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GEORGIA

ECONOMIC MANAGEMENT AND COMPETITIVENESS DEVELOPMENT POLICY OPERATION:

COVID19 SUPPLEMENTAL LOAN

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Parent Project
P173965	P169913

Proposed Development Objective(s)

To support the Government's program of reforms to sustain rapid growth, and ensure greater inclusion, job creation and resilience by: i) strengthening economic management through improving the efficiency of public resource use and ii) enhancing competitiveness through introducing evidence-based policy making, promoting more competitive markets, diversifying the financial sector, improving teacher deployment and remuneration with a view toward ensuring a more qualified workforce over the long term, and strengthening investment promotion.

Organizations

Borrower:	GEORGIA
Implementing Agency:	MINISTRY OF FINANCE, MINISTRY OF ECONOMY AND SUSTAINABLE DEVELOPMENT

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**48.90**

DETAILS

International Bank for Reconstruction and Development (IBRD)	48.90

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Substantial

Table 1.Results Framework

Indicator Name	Baseline	Target
Municipalities submitting financial statements to SAO for audit within 3 months after end of the financial year.	3 (2018)	>14 (2021)
Public investment projects are screened, appraised and selected in compliance with the PIM Guideline requirements.	0 (2019)	40% of new projects above GEL5m (2021 Budget)
Single source procurement, as % of total procurement value.	19% (2018)	16% (Q1.2021)
Number of RIAs completed on laws and regulations.	Not required (2019)	10 (2021)
Number of examined cases (2-year average)	6 (2017-2018)	8 (2020-2021)
Number of telecommunication service providers using data transmission services through electricity network	0 (2019)	2 (2021)
Teachers with full workload, as % of all teachers:	44.9% (2018)	55% (2021)
Female teachers with full workload, as % of all teachers:	38.6% (2018)	49% (2021)
Number of investment funds established:	0 (2019)	2 (Q3.2021)
Number of targeted companies responding:	na (2019)	200 (2021; cumulative)

IBRD SUPPLEMENTAL FINANCING DOCUMENT FOR A PROPOSED LOAN TO GEORGIA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed operation provides €45 million ($48.9 million) in supplemental financing for the Economic Management and Competitiveness Development Policy Operation (EMC DPO) to help the Government of Georgia (GoG) cover an unanticipated financing gap that has arisen due to the impact of the COVID-19 outbreak and to sustain the momentum on the EMC DPO-supported reform program**. On March 26, 2020, the Board approved the €45 million EMC DPO, whose development objective is to sustain rapid growth and ensure greater inclusion, job creation, and resilience by: (i) strengthening economic management through improving the efficiency of public resource use; and (ii) enhancing competitiveness through introducing evidence-based policy making; promoting more competitive markets; diversifying the financial sector; improving teacher deployment and remuneration with a view toward ensuring a more qualified workforce over the long term; and strengthening investment promotion. The request for supplemental financing is consistent with the World Bank's policy on Development Policy Financing. It is proposed in light of continued compliance with the program, the robustness of the GoG's response to the COVID-19 crisis, and the significant financing gap that has resulted.

2. **Georgia's strong record of economic reforms and raising the living standards of its citizens is being threatened by the impact of COVID-19**. The GoG has been a strong reformer, implementing sound macroeconomic and private and financial sector reforms. As a result, Georgia's economy grew robustly at 5.3 percent per annum between 2005 and 2019, despite major shocks such as the global financial crisis (2008–09) and the drop in commodity prices that impacted key trading partners (2014). Poverty declined to 19.5 percent in 2019, almost half its 2007 rate.[1] However, the global outbreak of the coronavirus in February 2020 threatens to reverse past gains in economic development and poverty reduction. The country is now expected to slip into a deep recession in 2020, experience severe job and income losses and business closures, which could push poverty up by over 2 percentage points.

3. **The GoG's reaction to the pandemic has been swift and comprehensive.** Georgia recorded its first COVID-19 case on February 26, 2020, and had 794 confirmed cases, 624 recoveries and 12 deaths by May 31, 2020. A nationwide State of Emergency was declared on March 21, 2020, and effective containment measures were adopted early on. The efforts to mitigate the economic and social impacts of the crisis have been just as strong. In particular, GoG expanded existing social transfers while introducing new ones and enacted temporary relief measures for businesses and households. The response, which successfully flattened the outbreak curve, allowed the GoG to invest in health sector capacity (vital medical equipment, personal protective equipment, and testing kits) should a second wave emerge. In the financial sector, anti-crisis measures by the National Bank of Georgia (NBG) to provide more liquidity and lower capital and regulatory requirements are providing relief to the banking sector, which had entered the crisis with strong capital and liquidity buffers.

4. **The Government's proactive response, while appropriate, comes with substantial fiscal and economic costs.** The containment measures have been successful in slowing the spread of the virus, but have affected both demand for and supply of goods, causing declines in private consumption and

[1] National poverty line.

investment. The global nature of the pandemic also means that remittance inflows and the external demand for goods and services have fallen, with Georgia's large tourism sector (accounting for 8.1 percent of GDP in 2019) especially exposed. Economic growth turned negative in March and GDP collapsed by 16.6 percent year on year (yoy) in April, with goods exports diving by 33 percent, the arrival of tourists virtually being suspended and remittances contracting by 42 percent yoy. Based on these outcomes and expectations of a protracted crisis, value-added is expected to contract by 4.8 percent for the year. The external current account deficit would widen to an estimated 11.8 percent of GDP, while the budget deficit would balloon to 9.7 percent of GDP. However, a downside scenario, in which the economy shrinks by as much as 9 percent in 2020 and the fiscal deficit rises to 12.5 percent of GDP, is increasing in likelihood in light of the growing risks faced by the global and regional economies and the chances of a second wave of the pandemic later this year. Importantly, beyond 2020, the recovery is likely to be gradual as pandemic-proofing affects businesses and consumers, with some COVID-19 losses likely to remain permanent.

5. **A sizeable unanticipated fiscal financing gap has emerged, which the GoG needs external support to fill**. Pre-COVID-19, budget financing needs were projected at around 5 percent of GDP in 2020; the maturing Eurobond (2.6 percent of GDP) was expected to push the financing needs slightly up (to 7 percent of GDP) in 2021. Now, these are estimated at 11.8 and 10 percent of GDP in 2020 and 2021, respectively. Under the downside scenario, financing needs could rise to 15 percent of GDP in 2020. Modest fiscal deficits in recent years had generated government deposits at the central bank of up to 2 percent of GDP at the start of the pandemic. These funds were tapped to finance the GoG's immediate response, but further depleting these buffers would not be prudent. The authorities are also stepping up domestic debt issuance, although the shallow domestic market limits the opportunity to scale up issuance significantly. At the same time, issuers like Georgia have been largely frozen out of international capital markets. This leaves a large financing gap (around 7 percent of GDP in 2020 in the baseline, and as much as 9 percent of GDP in the downside scenario), which the government would like development partners to help finance.

6. **In case the financing gap is not closed, the COVID-19 response may need to be scaled back, the reform momentum is likely to suffer, and the contraction in economic activity could be bigger than necessary.** Georgia has aggressively moved to use the "narrow window to limit the pain—and shorten the duration of the crisis" in line with international advice.[2] However, success will depend on the ability to fund the response. Lack of financing could result in the underfunding of critical social programs, possibly even contributing to the loss of life. In the absence of adequate social transfers, vulnerable populations seeking income opportunities may not adhere to movement restrictions and social distancing requirements. Insufficient health spending will put the success of the country's (hitherto successful) containment efforts in jeopardy. Some otherwise viable businesses would need to close and may not be restarted if sufficient liquidity support is not provided. Such adverse outcomes risk overwhelming the political discourse and undermining both the government's ability to push the DPO-supported legislation through Parliament and the achievement of expected results, especially those related to the establishment of investment funds and effective use of telecom-ready infrastructure. Larger-than-necessary fiscal cuts could also affect capital spending and undermine the intended strengthening of public financial management (PFM) arrangements at the local level and respective top-up to the capital

[2] Pazarbasioglu, Ceyla, and Ayhan Kose. 2010. "Scaling up the COVID-19 crisis response now will avoid higher costs later." blog posted April 24. *https://blogs.worldbank.org/voices/scaling-covid-19-crisis-response-now-will-avoid-higher-costs-later.*

grants (incentives for municipalities to reform) may need to be scaled back. Similarly, the financing of enhanced teacher deployment and remuneration, and capacity building efforts needed to introduce Regulatory Impact Assessments (RIA) and improve public investment management, could be put into question. Finally, closing the financing gap will help Georgia weather the crisis without excessive loss of foreign exchange reserves and refrain from further monetary policy tightening that could harm the recovery phase. It will also support confidence in the local currency and avoid larger-than needed adjustment in the exchange rate which could be very costly in terms of inflation and purchasing power of households as well as banking sector stability, given the significant dollarization.

7. **Development partners have pledged significant amounts to help Georgia meet the unanticipated fiscal gap; this supplemental financing is an important part of that partnership**. The international community has closely coordinated its support and pledged $1.5 billion for 2020 and $0.9 billion for 2021. This includes increased support from the International Monetary Fund (IMF), the Asian Development Bank (ADB), Agence Française de Développement (AFD), Kreditanstalt für Wiederaufbau (KfW), the European Union (EU) and the Asian Infrastructure Investment Bank (AIIB). The proposed supplemental financing of €45 million—and the financing it leverages from other development partners—is critical to closing the financing gap and providing funding when needed most. A relatively low public debt level would allow the government to absorb significant debt financing to support the recovery without undermining long-term debt sustainability.

8. **The financing provided by this operation is part of a broader emergency package offered by the World Bank**. The World Bank was one of the first development partners to support the GoG, and is seen as the lead partner on health, social protection, and economic recovery/relief measures. Under the Bank's Fast Track COVID-19 Facility that supports the government's emergency health-related response and immediate social protection support to the vulnerable, an $80 million Emergency COVID-19 Response project was approved on May 1, 2020. The operation is crowding-in $100 million from the AIIB. For the private sector, a $100 million investment project on relief and recovery for micro, small and medium enterprises (MSMEs) and jobs is expected to be approved by the World Bank's Board of Executive Directors in August 2020.

9. **The GoG's reform program supported by the parent DPO remains on track, and the government is firmly committed to implementing the policy actions supported by the DPO.** The GoG has a history of committing to and completing development policy operations. The DPO-supported program was recently approved, and there have been no policy reversals. On the contrary, the authorities have continued to push the underlying legislative agenda despite the more challenging operating environment. Technical assistance has been mobilized in a few areas, and capacity building efforts have been initiated where possible (on RIA, local-level PFM). Even so, unmet COVID-19-related financing needs could jeopardize the timely achievement of the development objective of the ECM DPO, as noted above.

10. **Risks for the supplemental financing have increased relative to the parent operation, pushing the overall risk to substantial**. The extraordinary economic conditions caused by the pandemic have increased macroeconomic risks. The institutional capacity risks have increased as government agencies focus on dealing with the pandemic, and regular workflow arrangements are altered due to remote working requirements. Similarly, given the expected strong social impact of COVID-19, the social risk is elevated by a notch.

2. THE IMPACT OF CRISIS, ECONOMIC DEVELOPMENTS AND OUTLOOK

11. **When the EMC DPO was negotiated in February 2020, Georgia's macroeconomic outlook was assessed as being positive.** The economy had finished 2019 on a high note, growing by 5.1 percent. It was projected to expand by 4.3 percent in 2020 and 4.8 percent in 2021, supported by strong domestic demand benefiting from a tighter labor market and improved access to credit as well as robust external demand, especially for tourism services. In addition, inflation was forecast to decline to about 4 percent, the budget deficit to remain near 3 percent of GDP, and the notable improvement in the current account balance in recent years was expected to be sustained. Foreign exchange reserves were projected to remain at adequate levels (over four months of import cover), supported by foreign exchange operations and continued development assistance.

12. **The impact of the COVID-19 crisis upended this positive outlook.** Georgia confirmed its first case of COVID-19 on February 26, 2020. In response, the country imposed strict restrictions on the movement of people, in line with good social distancing practices. Following the announcement of a State of Emergency on March 21, 2020, all educational institutions and many public venues, including gyms, museums, theaters, malls, bars, and restaurants, were closed. Schools and universities have since shifted to online and distance-learning methods. Strict transportation restrictions were introduced, including the suspension of air and rail traffic and border closures. Additional restrictive measures have followed, including night curfews, the prohibition of meetings of more than 10 people, and all mass events. The robust response successfully contained the number of infections in Georgia to one of the lowest in the Europe and Central Asia region.[3]

13. **Successful containment measures—and a sharp global economic slowdown—have had a severe impact on Georgia's economy**. The economy contracted by 2.7 percent year on year (yoy) in March and the downturn intensified in April when GDP collapsed by 16.6 percent yoy. Goods exports plummeted by 22 and 33 percent yoy in March and in April, respectively, while tourist arrivals were fully suspended since mid-March. Google's COVID-19 Community Mobility Report showed mobility in retail and recreation in mid-April 2020 down by 74 percent; in workplaces, the decline was 73 percent.[4] Mobility reports show some recovery in May as the authorities started to loosen some of the restrictions; however, levels remain well below pre-pandemic values.

Table 2. Key Macroeconomic Indicators and Baseline Projections, 2017–23

	2017	2018	2019e	2020p	2021p	2022p	2023p
Real economy (annual percent change, unless indicated otherwise)							
Real GDP	4.8	4.8	5.1	-4.8	4.0	6.0	5.0
Contribution to real GDP growth							
Private Consumption (growth)	7.4	5.8	3.8	-2.2	2.5	4.3	3.5
Gross Fixed Investment (growth)	3.4	1.9	2.3	-10.3	11.2	8.4	4.4
Exports (growth)	11.7	10.1	10.7	-37.9	34.2	20.5	18.2
Imports (growth)	8.1	10.3	6.8	-33.5	28.8	12.2	20.2
Unemployment Rate (ILO Definition)	14.0	12.7	11.6				
GDP Deflator	8.5	4.4	6.6	5.5	4.0	2.9	3.0
CPI (annual, average)	6.0	2.6	5.0	5.3	4.0	3.0	3.0
Fiscal Accounts (percent of GDP)							

[3] Prevention of Coronavirus Spread in Georgia ***https://stopcov.gov.ge/en***
[4] Georgia COVID-19 Community Mobility Report, available at: ***https://www.gstatic.com/covid19/mobility/2020-04-17_GE_Mobility_Report_en.pdf***, accessed April 24, 2020.

Expenditures	30.0	29.1	29.2	34.0	31.2	30.2	29.8
Revenues	26.8	26.5	25.8	24.4	25.8	26.7	26.5
General Government Balance	-3.2	-2.6	-3.3	-9.7	-5.3	-3.5	-3.2
General Government Debt	41.0	40.4	41.1	66.8	62.5	59.3	56.2
Selected Monetary Indicators							
Base Money (annual percent change)	17.2	14.8	16.0	13.2	7.4	3.9	3.0
Policy Interest Rate	7.0	7.0	9.0	8.5	7.0	6.0	5.5
Balance of Payments (percent of GDP)							
Current Account Balance	-8.1	-6.8	-5.1	-11.8	-7.8	-6.0	-5.5
Imports, Goods and Services	57.8	61.4	61.3	43.2	53.3	57.0	59.8
Exports, Goods and Services	46.8	50.7	52.5	34.1	43.8	49.9	50.2
Net Foreign Direct Investment	10.4	5.3	5.7	4.0	5.1	5.3	5.5

Sources: Georgian authorities; World Bank staff estimates.

14. **The adverse fiscal impact is becoming visible**. The authorities maintained a prudent fiscal stance before the COVID-19 outbreak. At roughly 3 percent of GDP in 2018 and 2019, the modest fiscal deficit helped to keep public debt at moderate levels (around 41 percent of GDP). Revenue performance was solid, at 25 percent of GDP, and government cash buffers totaled about one month of expenses (up to 2 percent of GDP). These efforts reflected the Government's commitment to improving fiscal resilience—including through DPO-supported reforms to strengthen PFM. The strong performance continued in early 2020. Even in March, when economic growth slowed sharply, revenues got a boost from the payment of taxes due for 2019 as well as from panic buying. However, tax revenues declined sharply in April (by 13 percent yoy) and preliminary data suggest an even stronger decline in May (by more than 16 percent yoy).

15. **With inflation exceeding the NBG's target before the pandemic, room for reducing the policy rate was already limited**. Inflation spiked in the second half of 2019, as the ban on flights between the Russian Federation and Georgia and domestic political uncertainty put pressure on the lari and subsequently on consumer prices. The NBG tightened monetary policy in response, raising the policy rate by 250 basis points between September and December 2019, to 9 percent. Inflation began retreating in early 2020, easing to 6.1 percent in March, after spiking to 7 percent at end-2019, but remained above NBG's 3 percent target. Inflation accelerated to 6.9 percent in April 2020 as the COVID-19 pandemic strained supply chains and reignited pressures on the lari. With the sharp demand shock expected to put downward pressure on inflation in the coming months, in late April the NBG cut the policy rate by 50 basis points to 8.5 percent. Still, the moderately tight monetary policy stance remains appropriate.

16. **The lari has come under renewed pressures**. NBG implements a floating exchange rate regime with interventions limited to smoothening larger adjustments. The exchange rate of the Georgian lari appreciated in early 2020, but the COVID-19 outbreak sharply reversed this trend. The lari lost nearly 25 percent of its value against the U.S. dollar by end-March, before recovering by around 9 percent in mid-April. The NBG intervened in the foreign exchange market four times during this period, for a total of $120 million in forex sales. However, as disbursement from development partners to mitigate the COVID-19 impact started to flow, international reserves increased to $3.7 billion at end-May 2020.

17. **The banking sector entered the crisis with strong buffers, but high dollarization and prolonged uncertainty pose risks**. The high capital adequacy, strong liquidity and profitability, and good asset quality of Georgia's banks before the COVID-19 outbreak allowed the NBG to ease capital and liquidity requirements in early April. Doing so released more than 3 percent of GDP to help banks absorb potential

losses (by allowing them to write off bad loans against capital) while still meeting the regulatory requirements and extending credit to the private sector. On the NBG's recommendation, commercial banks frontloaded potential losses resulting from COVID-19, and, as a result, banking sector profitability plummeted at the end of the first quarter of 2020. The NBG also stepped up the provision of liquidity to banks, including through the introduction of foreign exchange swap operations with banks and microfinance institutions (up to $400 million). However, the NBG's capacity to provide foreign exchange liquidity is limited, and the Banks that depend on foreign capital could be vulnerable to capital outflows. The NBG measures to promote de-dollarization in recent years were reasonably successful, with the foreign currency-denominated share of liabilities and loans declining by around 10 percentage points between end-2016 and end-2019. However, more than half of banks' liabilities and loans remain in foreign currency with the COVID-19 pandemic reversing some of the gains.

18. **The impact on jobs has been severe.** The absence of unemployment benefits and limited protection for formal sector workers represent significant sources of vulnerability in the COVID-19 context. There is no unemployment insurance scheme or assistance program in Georgia. In addition, the labor code provides only one month of salary as a severance payment. While home-based work arrangements are provided for public sector workers and their contracts and salaries are maintained, private sector workers are poorly protected against job losses. According to a recent poll, more than one-third of the employed were unable to work in early April, with the less educated and workers with lower financial reserves being especially affected.[5] Around 20 percent responded that they, or someone in their household, had to take unpaid leave, 17 percent had to reduce working hours, and 4 percent reported being laid off. Similarly, a survey by the Georgian Chamber of Commerce of 615 of its member SMEs revealed that more than half had asked workers not to come to work from late-March onward. Twenty percent of these workers were given only partial remuneration, while 10 percent did not receive any compensation.[6]

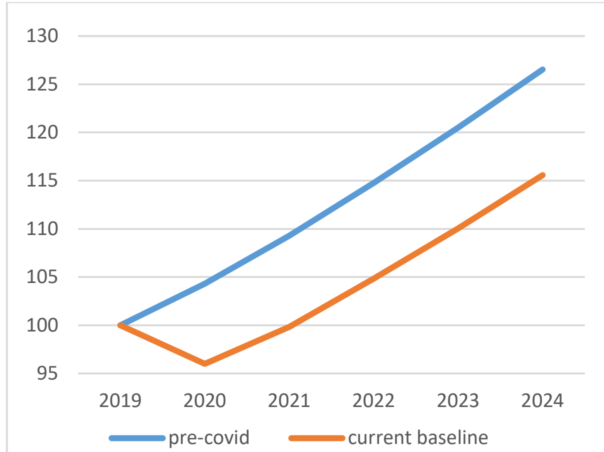
MACROECONOMIC OUTLOOK

19. **Although the short-term impact on the economy will be severe, Georgia's medium-term outlook remains positive, contingent on global success in fighting the virus**. Real GDP growth is projected to collapse to -4.8 percent in 2020 under a baseline scenario that assumes that the virus will begin to recede by mid-2020 and a gradual recovery will start in the third quarter of 2020. The GoG began lifting restrictions on April 27, with most restrictions expected to be lifted by mid-June. Still, the impact of the containment measures on domestic demand, the collapse of external demand—especially for tourism—and supply chain disruptions are likely to persist for some time. The downturn in 2020 will be partially cushioned by an expected fiscal stimulus of around 6.5 percent of GDP, containing tax breaks, accelerated VAT refunds, and sector support for affected businesses, as well as higher social spending. If the start of the recovery is protracted, the economy could shrink by as much as 9 percent in 2020 (see Box 1). As the impact of the shock dissipates, demand and supply conditions ease and regional economies return to positive growth, economic activity in Georgia could recover to 4 percent growth in 2021 (still below the 4.8 percent growth rate for 2021 projected pre-COVID-19) and further to 6 percent in 2022. However, there is tremendous uncertainty surrounding these forecasts, with the path of the virus being a major determining factor.

[5] "Covid-19: Knowledge, Attitudes, and Practices: Impacts of Covid-19" – Caucasus Research Resource Center.
[6] Georgian Chamber of Commerce.

20. **Some economic losses due to Covid-19 could be permanent.** While GDP growth rates are expected to recover gradually, a certain volume of economic activity will not be recovered. This recovery will be different from that following the Global Financial Crisis of 2008–09, when Georgia was able to close the GDP gap substantially between 2010 and 2012. A recurrence of this pattern is unlikely under the baseline scenario for Covid-19, as sectors such as transport, hotels, and other tourism and travel-related services are likely to look very different until a vaccine can be found. Consequently, by 2023 GDP in the baseline could be more than 10 percent (or more than $1.5 billion) below the level projected before the pandemic (figure 1).

Figure 1. Estimates of GDP in 2019 prices
Index, 2019 GDP = 100



Source: World Bank staff estimates.

Box 1. The Macroeconomic impact of the COVID-19 crisis

The pandemic will have a significant impact on Georgia's economy. The impact on GDP growth could range from a decline of between 9 and 13 percentage points in 2020, relative to the pre-COVID-19 growth projection of 4.3 percent. The mandatory quarantine and lockdown have halted economic activity and curtailed domestic demand**.** Declines in private consumption and investment are expected to contribute -2.2 and -10.3 percentage points, respectively, to the GDP contraction in the baseline case, as opposed to the sizeable boosts expected before the crisis. In addition, external demand will suffer as main trade partners endure deep recessions, compounded by travel restrictions that have brought tourist arrivals to a halt. The downside scenario, in which restrictions last longer or are re-imposed in case the outbreak intensifies, will see a much stronger correction in domestic and external demand.

Macroeconomic framework under alternative scenarios (% of GDP)

	2020 projections		
	Pre-Covid	Baseline	Downside
Real economy (annual % change)			
Real GDP	4.3	-4.8	-9.0
Contribution to real GDP growth			
Private Consumption (growth)	3.5	-2.2	-6.9
Gross Fixed Investment (growth)	4.5	-10.3	-12.2
Exports (growth)	7.0	-37.9	-44.2
Imports (growth)	5.4	-33.5	-38.1
Fiscal Accounts			
Expenditures	28.2	34.0	34.4
Revenues	25.3	24.4	21.9
General Government Balance	-2.9	-9.7	-12.5
General Government Debt	42.2	66.8	68.8
Balance of Payments			
Current Account Balance	-5.6	-11.8	-15.0
Imports, Goods and Services	66.5	43.2	43.6
Exports, Goods and Services	58.9	34.1	30.1
Net Foreign Direct Investment	5.8	4.0	4.0
Other memo items			
GDP nominal in US$ (billion)	18.5	15.4	14.5

There will be a considerable negative effect on the external accounts. The current account deficit will spike at 11.8 percent of GDP in the baseline scenario as opposed to holding steady at around 5 percent of GDP in the no-crisis case. The previous projection of continued growth in exports has been replaced by exports collapsing by 34 percent in the baseline scenario and by as much as 44 percent in the downside scenario. In the latter, the current account deficit would widen to 15 percent of GDP.

The pandemic will also affect the fiscal accounts. Reduced economic activity due to the lockdown, as well as tax exemptions, would reduce tax revenues significantly. This boosts the fiscal deficit to 9.7 percent of GDP in the baseline scenario, as opposed to a projected deficit of 3 percent of GDP before the crisis. In the downside scenario, the fiscal deficit could increase to as much as 12.5 percent of GDP.

21. **While short-term inflationary pressures cannot be ruled out, inflation is projected to converge to the NBG's target over the medium term**. Lower demand will put downward pressure on prices, even though pressures on the exchange rate and supply chain disruptions could temporarily reignite inflation. Against this backdrop, room for further monetary policy easing is limited. However, beyond the COVID-19 pandemic, adherence to the inflation-targeting monetary policy framework and improving the efficiency of the monetary policy transmission mechanism (including via efforts to reduce dollarization) would result in inflation converging toward the NBG's target of 3 percent.

22. **The crisis will weaken commercial banks' balance sheets; still, with the NBG's proactive support, the sector should be able to weather the crisis and continue providing credit to the economy**. The relaxed capital requirements released around GEL 1.6 billion of capital that can be supplied as credit; this leaves around GEL 2.4 billion of capital buffer above the minimum capital requirement that could be released if necessary. In addition, the NBG has other instruments for injecting liquidity, such as direct liquidity provision (overnight and refinancing loans) and foreign exchange swaps (for up to $400 million) with banks and microfinance institutions. At the same time, the NBG intends to maintain tight supervisory standards to ensure weaknesses in banks' loan portfolio quality are properly identified. The bank resolution framework was recently revamped (December 2019) to strengthen the NBG's resolution authority mandate, improve resolution powers and toolkit, clarify the roles and responsibilities of the NBG and the Ministry of Finance and their coordination in systemic cases including in emergency liquidity assistance. However, the system is yet to be tested.

23. **The external financing needs will spike as external imbalances widen sharply.** Exports will take a strong hit as reduced tourism proceeds add to weak global demand and global supply chain interruptions. Furthermore, remittances, which exceeded 10 percent of GDP in 2019, will fall sharply. Although plummeting domestic demand and lower oil prices will result in shrinking imports, this will be insufficient to prevent a widening of the current account deficit (to around 11.8 percent of GDP). This will erase the gains made by Georgia in recent years when, underpinned by strong exports of goods and tourism services and robust remittances, the current account deficit fell to 5 percent of GDP. At the same time, financial account inflows from the private sector are expected to plummet as Georgian companies struggle to access international capital markets and foreign currency deposits in the banking system decline. Yields on fixed-income securities issued by Georgian banks and corporates on international capital markets have spiked since end-February 2020 to around 10 percent, largely closing this source of financing. Beyond 2020, financing needs are expected to moderate as the current account deficit narrows with a recovery in the tourism sector, and the financial account improves with the reestablishment of debt and equity flows.

24. **Higher financing needs will push up external debt.** The COVID-19 shock will push external financing needs in 2020 from pre-covid estimates of $2.4 billion to $3.5 billion currently. The additional financing needs are expected to be met through increased borrowing from development partners, including this proposed supplemental financing. Stepped-up external financing is critical to help Georgia weather the crisis without excessive foreign exchange loss or further monetary policy tightening. As a result, reserves are projected to remain adequate (at $3.5 billion or 3.7 months of 2019 import of goods and services), though accompanied by a 25 percentage-point increase in the public external debt to GDP ratio to over 66 percent in 2020 and the total external debt to GDP rising to over 115 percent of GDP.[7] In addition to sovereign borrowing, multilateral and bilateral development agencies, including EBRD, IFC, and others, have pledged to increase their support to Georgian commercial banks. Non-borrowing flows are also expected to decline; however, the energy and transport sectors will remain attractive to investors.[8]

Table 3. External financing requirements and sources, 2019–23 (% of GDP, baseline)

	2019	2020	2021	2022	2023
	Actual	Projection			
Financing needs	17.1	22.8	19.0	13.7	13.4
Current account balance	5.1	11.8	7.8	6.0	5.5
Amortization	7.5	7.1	8.3	5.2	5.1
Other*	3.3	3.7	2.7	1.3	1.4
Reserve increase	1.1	0.2	0.3	1.2	1.5
Financing sources	17.1	22.8	19.0	13.7	13.5
Foreign direct investment, net	5.7	4.0	5.1	5.3	5.5
Capital transfers	0.3	0.5	0.5	0.4	0.3
Loans	11.8	18.8	13.4	8.0	7.6
Banks	7.1	5.9	4.7	3.7	3.6
Corporate	0.6	1.2	1.7	1.4	1.3
Public sector	4.1	11.8	7.0	2.8	2.7
Other**	-0.7	-0.5	0.0	0.0	0.0

* - includes currency and deposits and other financial instruments.

** - includes short-term flows and errors and omissions.

Sources: World Bank staff calculations, based on World Bank projections and data from 6th Review of IMF EFF.

25. **The fiscal response will widen the deficit to 9.7 percent of GDP in 2020, followed by a relatively strong adjustment over the medium term as crisis measures are phased out**. Tax exemptions granted to support business and cushion the collapse in economic activity are expected to reduce fiscal revenues by GEL 1.3 billion (roughly 2.6 percent of GDP) in 2020 and GEL 300 million (0.6 percent of GDP) in 2021. At the same time, expenditures are expected to surge by more than 4.5 percent of GDP as goods and services purchases, wage increases for healthcare services, subsidies, and social transfers balloon to protect businesses and livelihoods. Slower execution of capital spending, mainly due to transport and travel restrictions, will generate some savings. Still, these are likely to be insufficient to prevent the deficit from widening to 9.7 percent of GDP. Under the downside scenario—economic activity contracts by 9 percent—the shock to revenues would be more substantial, pushing the deficit to around 12.5 percent of

[7] This figure excludes intercompany loans.

[8] A Japanese company recently completed its investment in a hydropower plant and works are expected to intensify on another large hydropower project; the authorities are also making progress in securing investment in the expansion of one port.

GDP. As economic activity recovers and anti-crisis measures expire (most measures are for a period of 3–6 months), revenues are expected to strengthen and expenditures to decline, allowing for a relatively rapid fiscal adjustment and a deficit of around 3 percent of GDP by 2023. Public debt is expected to temporarily increase to above 60 percent of GDP (the threshold stipulated by the Liberty Act) before returning to levels prescribed by the fiscal rule in 2022 and further to 56 percent of GDP by 2023.

26. **Georgia is seeking the support of international financial institutions to meet budget financing needs, which are estimated to more than double in 2020.** Before the pandemic, budget financing needs were projected at around 5 percent of GDP for 2020; the Eurobond (2.6 percent of GDP) repayment pushed the financing requirements slightly, to 7 percent of GDP, in 2021. Now, these are estimated at almost 12 percent of GDP for 2020 and 10 percent of GDP for 2021**.** The financing needs include the fiscal deficit as well as debt repayments of 2.1 and 4.7 percent of GDP in 2020 and 2021, respectively. Under the downside scenario, the financing needs could be as high as 15 percent of GDP in 2020. The immediate financing needs have been met by drawing down on government deposits, but further reliance on these will not be prudent as reserve levels are modest. The authorities are accelerating domestic debt issuance; however, the opportunity to scale up issuance significantly is limited by shallow domestic markets, the impact that this could have over financing for the rest of the economy, and the flight to safety by foreign investors.[9] In addition, on May 31, 2020, a GEL 133 million transfer from a solidarity fund, "stopcovid" (established with private donations), was incorporated into the state budget. Meanwhile, international capital markets have been largely frozen for issuers like Georgia.[10] This leaves a sizeable remaining financing gap (around 7 percent of GDP in 2020 in the baseline scenario and as much as 9 percent of GDP in the downside scenario), which the Government would like development partners to help finance.[11]

Table 4. Detailed Fiscal operations, 2017–23 (projections reflect baseline scenario)

	2017	2018	2019e	2020p	2021p	2022p	2023p
Key Fiscal Indicators, percent of GDP unless otherwise indicated							
Overall Balance	-3.5	-2.6	-3.3	-9.7	-5.3	-3.5	-3.2
Primary Balance	-2.3	-1.4	-2.1	-8.4	-3.0	-1.3	-1.1
Total Revenues and Grants	26.8	26.5	25.8	24.4	25.8	26.7	26.5
Tax Revenues	24.0	23.6	22.9	21.2	22.4	23.8	23.9
Taxes on Goods and Services	13.7	13.2	13.5	12.7	13.1	13.4	13.4
Direct Taxes	10.0	9.9	9.7	7.9	9.0	10.2	10.3
Taxes on International Trade	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other Taxes	0.2	0.3	-0.5	0.4	0.2	0.1	0.1
Non-Tax Revenues	2.1	2.2	2.1	1.9	1.9	1.9	1.8
Grants	0.7	0.8	0.8	1.3	1.5	1.0	0.8
Expenditures	30.3	29.1	29.2	34.0	31.2	30.2	29.8
Wages and Compensation	4.0	3.8	3.7	3.3	3.7	3.4	3.3

[9] Encouragingly, despite COVID-19 and the lari depreciation, non-residents continue to account for around 14 percent of total government securities. The EMBI sovereign spread for Georgia was around 500 basis points at the end of April, a relatively high level compared to a sample of around a dozen ECA countries (only Belarus, Tajikistan, Turkey, and Ukraine have higher sovereign spreads). Compared to early 2020, the EMBI sovereign spread for Georgia went up by around 460 basis points, with only Tajikistan and Ukraine seeing higher increases.

[10] The last country from Georgia's neighborhood to issue an international sovereign bond was Ukraine in early February 2020. More recently, only high-income European Union member states have seen interest in their debt at reasonable prices.

[11] By law, the NBG cannot directly finance the budget. Although the NBG does have some open market operations with government securities, this is only for monetary policy purposes.

Goods and Services	3.8	3.6	3.5	4.1	3.5	3.2	3.1
Interest Payments	1.2	1.2	1.2	1.3	1.8	1.8	1.9
Current Transfers	2.3	2.0	2.0	7.0	2.5	2.1	2.0
Social and other assistance	11.3	10.7	10.8	10.9	11.7	11.1	10.7
Capital Expenditures	7.7	7.8	8.0	7.4	8.0	8.6	8.8
Government Financing	3.3	3.0	3.1	9.7	5.3	3.5	3.2
Domestic (Net)	2.0	1.7	0.9	1.9	4.6	1.2	1.0
External (Net)	1.3	1.3	2.2	7.8	0.7	2.2	2.2

Sources: Ministry of Finance of Georgia; World Bank staff estimates.

27. **Development partners have responded with pledges of significant financial support, parts of which (including the proposed supplemental financing) will help relieve liquidity pressures when they are most acute.** On May 1, 2020, the IMF augmented the existing Extended Fund Facility (EFF) to provide around 1.3 percent of GDP in budget support to meet immediate financing needs (second quarter of 2020). Additional support has been pledged by other development partners, most notably the ADB, KfW, AFD, EU and AIIB. However, a substantial portion of the pledged support is likely to be available toward the end of 2020 (and could potentially slip into 2021), exposing the budget to potential liquidity shortages during the third quarter of the year. Hence, the proposed €45 million supplemental operation, which will disburse in the summer of 2020, will help cover the remaining financing gap while also addressing the budget's immediate liquidity constraints. A relatively low public debt level would allow the Government to absorb additional debt without undermining long-term sustainability.

Table 5. Fiscal financing needs and sources, 2020–21 (baseline scenario)

	2020	2021	2020	2021	cumulative
	% of GDP		in US$ million		
Needs	11.8	10.0	1,817	1,744	3,561
Budget deficit	9.7	5.3	1,489	928	2,417
Amortization	2.1	4.7	328	816	1,144
Sources	11.8	10.0	1,817	1,744	3,561
Deposits	0.5	1.8	84	309	393
Domestic debt	1.3	2.8	203	490	693
Borrowing	10.0	5.4	1,530	945	2,475
IMF	1.3	-	200	-	200
Others	7.1	4.9	1,083	855	1,937
Projects	1.9	1.8	288	315	602
Policy-based	5.2	3.1	795	540	1,335
World Bank	1.6	0.5	247	90	337
Projects	1.0	0.5	149	90	239
ECM DPO	0.3	-	50	-	50
ECM Suppl.	0.3	-	49	-	49

Sources: Ministry of Finance of Georgia; World Bank staff estimates.

28. **Although generally prudent fiscal management before the pandemic kept public debt in check and the threat to sustainability low, the recent nominal currency depreciation and the COVID-19 response is having an adverse impact.** Georgia's public debt, at 41 percent of GDP in 2019, remained well below the government's threshold of 60 percent. In addition, prudent debt management policies, recently anchored by a robust Debt Management Strategy, including avoiding non-concessional borrowing, have

kept debt servicing needs low. However, the unprecedented nature of the crisis and the authorities' response will temporarily push the debt to GDP ratio above 60 percent of GDP. With growth expected to recover in 2021 and the commitment of the GoG to prudent fiscal policies, debt is expected to decline over the medium term. The results of stress tests undertaken as part of the latest IMF Debt Sustainability Analysis (DSA)[12] confirm the sustainability of debt under a range of plausible shocks. According to the DSA, risks stem from foreign currency debt and external financing requirements. However, this is mitigated by relatively favorable terms of the external debt (mostly long-term concessional financing). In addition, implementation of the public debt management strategy will result in the replacement of foreign currency debt with domestic debt, including potentially through the planned retirement of the $500 million Eurobond maturing in 2021 and with increased foreign participation in the domestic bond market. The World Bank is providing technical assistance to the authorities in increasing the interest of foreign investors.

29. **Risks from contingent liabilities are significant, but these are increasingly well disclosed and managed.** Georgia has a large volume of well-accounted contingent liabilities disclosed in a Fiscal Risk Statement accompanying the Budget. The liabilities of 56 State-owned Enterprises (SOEs) classified as high and medium risk totaled 16.9 percent of GDP in 2018, based on a robust system to track and classify SOEs. To mitigate these risks, the GoG is reforming how it manages SOEs, including bringing most of them on budget and improving the governance of the others. Additional risk stems from the power purchasing agreements in the energy sector, which have an estimated present value of $2.7 billion, or 15 percent of GDP. The risk from such agreements is partially mitigated by expected growth in demand for electricity and expanding opportunities to trade power in the region. Georgia has few public-private partnerships (PPP); new ones are on hold until the new PPP framework is fully operational.

30. **External debt sustainability depends on Georgia's ability to contain the external deficit**. While external debt declines in the baseline scenario, the DSA shows that under the historical scenario (with a higher current account deficit), total external debt continues to increase. Also, a 30 percent exchange-rate depreciation shock increases the external debt to GDP ratio to above 130 percent of GDP. These risks are mitigated by relatively strong fundamentals, a flexible exchange rate that reflects the underlying fundamentals, and the availability of concessional funding from development partners, including a disbursing arrangement with the IMF.

31. **The macroeconomic policy framework is assessed to be adequate for the proposed supplemental.** Georgia has a track record of sound macroeconomic policies that have resulted in robust growth, stable public finances, increasingly well-anchored inflationary expectations, and a robust financial system. However, the authorities are meeting this unprecedented pandemic with a forceful response in the form of a strong containment effort accompanied by measures to alleviate the social impact and protect viable businesses and livelihoods. This will result in a massive, but temporary, widening of the external and fiscal deficits, which are to be financed by concessional financing from development partners and some issuance of domestic debt. In the baseline scenario, economic growth rebounds, starting in the latter part of 2020, and remains strong over the medium term. However, this outcome depends on the success of global efforts to combat the COVID-19 crisis. The commitment to the fiscal rule, the inflation-targeting monetary policy framework supported by a flexible exchange rate, as well as prudent financial sector regulation and supervision, will help lower the imbalances and put public and private external debt

[12] IMF's EFF 6th review, May 2020.

on downward trajectories over the forecast period. This will help maintain an adequate foreign reserve cover and ensure sustainable levels of public and private external debt. The post-COVID-19 outlook, however, remains vulnerable to downside risks, including (i) deeper and more prolonged (than anticipated) health and economic crises from the COVID-19 outbreak; and (ii) external economic shocks (for example, from a sluggish recovery in trading partners). These risks are mitigated by the government's demonstrated commitment to prudent macroeconomic management, as well as the readiness of a broad coalition of development partners to provide additional financial support.

3. RESPONSE TO THE CRISIS

3.1. THE GOVERNMENT'S RESPONSE

32. **The GoG was one of the first countries in the region to set up an institutional response at the highest level to tackle the coronavirus outbreak.** The authorities created an ad-hoc Inter-Agency Coordination Council, led by the Prime Minister in late-January 2020, well before the first infection was identified. A Coronavirus Coordination Committee, under the Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs of Georgia was established to oversee the implementation of the medical response. The Government launched a website – StopCov.ge – to share timely information and provide guidance; importantly, the website is also available in languages of the minorities. The timely and robust approach has been met with strong domestic support, with almost three quarters of the polled citizens expressing satisfaction with the government's response.[13]

[13] "Covid-19: Knowledge, Attitudes, and Practices: Impacts of Covid-19" – Caucasus Research Resource Center.

Box 2. Georgia's COVID-19 Response

Georgia was among the first countries to take broad steps to contain the spread of COVID-19. To mitigate the impact of these measures on the economy, the government introduced a robust, GEL 3.5 billion anti-crisis plan, consisting of (i) GEL 1 billion for social support measures; (ii) GEL 2.1 billion for private sector support; and (iii) GEL 350 million to strengthen the country's healthcare system. Each element of the plan is presented below in more detail.

	GEL, billion	% of GDP	Beneficiaries
TOTAL	**3.18**	**6.50**	
Social support *(all measures are temporary, from 3 to 6 months)*	**1.06**	**2.11**	
Expansion of the Targeted Social Assistance (TSA)	0.05	0.10	70,000
Child benefits for families with three or more children	0.02	0.04	21,000
Benefits for persons with disabilities and children with disabilities	0.03	0.05	41,500
Unemployment benefits for formal workers	0.46	0.92	350,000
One-off benefit for self-employed and informal workers	0.08	0.16	250,000
Utility subsidies	0.15	0.30	1,000,000
Price subsidies for nine food products	0.02	0.04	
Personal Income Tax exemption	0.25	0.50	
Private sector support	**1.77**	**3.53**	
Credit Guarantee Scheme (including MFIs)	0.33	0.66	
Upgrade existing credit enhancement mechanisms (incl. Agrocredit)	0.01	0.02	300
Automatic VAT refund reform	0.60	1.20	
Long-term funding to commercial banks	0.60	1.20	
Micro and small grants program	0.02	0.04	
Agrocredit support (new program)	0.05	0.10	
Write-off of historical and 2020 irrigation fees	0.02	0.04	
Property tax deferrals for tourism sector operators	0.04	0.08	4,500
Interest rate subsidies for tourism sector operators	0.06	0.12	2,000
Supporting construction development sector	0.02	0.04	
Price subsidies for construction material	0.02	0.04	
Strengthening healthcare system	**0.35**	**0.70**	

33. **Several decisive measures, in line with emerging international good practices, were taken**. First, Georgia suspended all flight connections with China on January 29. Less than a month later, on February 23, flights were suspended and land travel restrictions enacted to and from the Islamic Republic of Iran. Restrictions on international travel were further tightened as the pandemic became more widespread. Finally, all air travel was suspended on March 13, and all land borders were closed to passenger traffic on March 24. Freight traffic has continued, with additional measures introduced to prevent the spread of the virus, including disinfecting trucks and switching drivers coming from hot spots with domestic drivers. Domestically, "social distancing" measures were introduced early on, with schools, universities, shops, and non-essential businesses closed by March 14. A State of Emergency was announced on March 21, and, on March 31, more stringent lockdown measures and a night curfew were introduced. On April 24,

the government unveiled a plan to gradually lift the restrictions on movement and economic activity starting April 27. According to the plan, most restrictions are to be lifted by mid-June, though businesses will be required to meet strict hygiene criteria and limit the number of people. In the meantime, the State of Emergency was lifted on May 21.

34. **The GoG took steps to prepare the health sector, by increasing surge capacity, more testing, and robust contact tracing**. To strengthen preparedness, the GoG identified a list of public and private facilities designated to provide treatment to COVID-19 patients and has introduced a temporary transfer to these entities to ensure standby readiness and to compensate the facilities for losses in revenue due to COVID-19. The Government chose to make all COVID-19-related medical care free of charge, regardless of whether patients have medical insurance. Testing efforts have also intensified and a STOP COVID contact tracing app was launched.[14] Some of these efforts are getting a boost from the recently-approved World Bank Emergency COVID-19 Project.

35. **The GoG also developed a plan to mitigate the impact of the economic downturn.** The Prime Minister outlined a preliminary list of measures on March 13, including exempting affected sector operators from property and income taxes for four months; accelerating and increasing value added tax refunds; offering interest rate subsidies to hotels and tour operators; increasing financing of educational institutions for switching to e-teaching platforms; and increased financing for healthcare providers. On March 24, additional details of the anti-crisis package were announced, with measures expected to cost around 6.5 percent of GDP. On the social side, this included: transfers to workers who have lost their jobs (GEL 200 per month for up to six months); expanded Targeted Social Assistance; a six-month moratorium on Personal Income Tax payments for those earning less than GEL 1,500 on the income up to GEL 750; government coverage of utility bills for households consuming less than 200 cubic meters of gas and 200 kilowatts of electricity per month during March–May 2020 (see Box 2). The GoG intends to capitalize on its success in handling the pandemic, by branding Georgia as a “pandemic safe destination” and putting in place safe corridors for international travel to revive tourism.

36. **Some of the measures supported by the parent DPO will help Georgia better prepare for future response efforts to similar pandemics.** The efficient rollout of communication infrastructure, supported by the Law on Telecommunication Infrastructure and Physical Infrastructure Sharing for Telecommunication Purposes, will improve digital connectivity and continuity in business activity and public service delivery. Also, better-qualified teachers will be able to use modern technology to ensure the uninterrupted delivery of education.

3.2. THE BANK’S RESPONSE, STRATEGY, AND COLLABORATION WITH DEVELOPMENT PARTNERS

37. **The GoG has requested World Bank support to contain and mitigate the impact of the pandemic and to support the recovery by focusing on people, the private sector, and the public sector.** The World Bank has been one of the first development partners to support the GoG and is seen as the lead partner on health, social protection, and economic recovery/relief measures. More specifically, the authorities

[14] Similar to apps used in Japan, the Republic of Korea, and Singapore, the app creates a unique identifier for each user, through which it determines social contacts. Data are stored on the mobile phone, using an encoding system in compliance with European data protection legislation. Bluetooth, GPS, and other technologies are used to determine which smartphones have been near each other, including information about the date of contact, duration (more than 15 minutes), and distance (less than 2 meters). If a person is diagnosed with COVID-19, those who have come into contact with that person over the previous few days receives a warning and instructions to remain in self-isolation and contact the appropriate authorities immediately.

have requested access to the Fast Track COVID-19 Facility, the proposed supplemental operation, as well as an investment project for relief and recovery of MSMEs and jobs.

38. **To support the government's immediate containment and mitigation response, the World Bank approved an $80 million Emergency COVID-19 Response Project on May 1, 2020**. The project will provide financial and technical support to the government's emergency health-related responses, cover medical supplies and equipment, and quarantine-related costs and compensation for health workers. It also provides immediate social protection support to poor and vulnerable people. Also, at the request of the GoG, the Bank may provide assistance to access supply chains through the Bank Facilitated Procurement under the Hands-on Expanded Implementation Support, helping improve Georgia's access to global providers of medical supplies and equipment. This operation also crowded-in $100 million from the AIIB.

39. **To address the budget financing gap, the government also requested the proposed €45 million in supplemental budget financing**. This financing will come on top of the €45 million approved by the World Bank Board on March 26, 2020. The DPO resources will provide financing to the budget and allow the GoG to respond adequately to the COVID-19 pandemic. It will also support the early stages of the recovery when financing needs are expected to remain high and revenue sources under strain.

40. **Finally, World Bank support will focus on assistance to private sector recovery in hard-hit areas such as tourism and agriculture to help preserve businesses and jobs.** A $100 million investment project on relief and recovery for MSMEs and employment is expected to be approved by the World Bank Board in August 2020. It will finance interventions to support businesses and jobs tailored to the needs of the private sector, including grants, interest rate subsidies, and so on.

41. **The World Bank has offered to restructure existing projects to align them better with the COVID-19 circumstances and has shared country examples and good practices**. For example, resources from the I2Q Education Project can support the Government's efforts to promote distance education and reduce the negative impact of COVID-19 on student learning, particularly for the vulnerable during school closures, without restructuring the project. Since the start of the crisis, the World Bank team has been sharing emerging experiences and good practices with key government counterparts on addressing specific aspects of the pandemic. Importantly, the World Bank started providing technical assistance to build capacity to identify and report fiscal risks from natural disaster/climate risks; the teams are considering the inclusion of pandemics into the analysis.

42. **The World Bank's response strategy in Georgia is part of a coordinated engagement between the GoG and development partners**. The World Bank is working closely with GoG and the development partner community to respond to the challenges emerging from the COVID-19 outbreak. The proposed project is being delivered in close consultation with the IMF and a range of multilateral and bilateral development partners.

43. **This proposed operation is part of a coordinated partner response strategy to cover the budget financing gap**. Importantly, the operation is expected to crowd-in budget support in the amount of up to €45 million from the AIIB; in addition, KfW is also increasing its budget support to Georgia, including through a "Strengthening of Competitiveness and Crisis Resilience of the Georgian Economy" policy-based loan that will largely be based on the policy matrix of the EMC DPO. The IMF has already augmented the existing EFF and disbursed around $200 million for budget support. On April 8, the European Commission allocated funds worth up to €183 million to help Georgia meet "the most immediate needs" amid the

coronavirus pandemic and earmarked €962 million to help Eastern Partnership countries, including Georgia, mitigate the socioeconomic impact of the public health crisis. On April 9, the ADB announced its support to Georgia in the form of countercyclical budget financing, as well as a fast-tracked policy-based loan for fiscal resilience and social protection measures. The AFD is topping up its two ongoing policy-based operations in the amount of €190 million.

44. **The proposed Supplemental operation aligns with the World Bank Group's strategic priorities, particularly its mission to end extreme poverty and boost shared prosperity.** The COVID-19 pandemic is reversing the hard-won gains in poverty reduction made by Georgia in recent years. Ensuring adequate financing for the containment and mitigation response, as well as safeguarding macroeconomic stability, is critical to minimize losses and put the country back on the recovery path. By ensuring that the EMC DPO-supported program remains on track, the proposed supplemental financing also supports the Bank's FY19–FY22 Country Partnership Framework (CPF). The CPF focuses on (i) enhancing inclusive growth and competitiveness; (ii) investing in human capital; and (iii) building resilience. The EMC DPO directly supports the achievement of objectives in all three focus areas, including improving connectivity and integration, diversifying sources of finance, improving quality in the education system, improving macro-fiscal management, and so on.

45. **While the pandemic is impacting the portfolio, the World Bank Group remains well placed to support the post-COVID recovery**. A robust portfolio of hard infrastructure projects in an advanced phase of contracting will provide a boost to the post-COVID-19 recovery once restrictions are removed while also addressing critical infrastructure bottlenecks in connectivity. The recently-approved Innovation, Inclusion, and Quality project will focus on upgrading the skills of the Georgian labor force and, with minor modification, could help support the digitization of the sector. In addition, the planned Log-in Georgia Project will improve internet connectivity to rural settlements and promote the use of online learning and telehealth services. in doing so, it will boost the resilience of rural areas to similar future events.

4. THE REFORM PROGRAM SUPPORTED THROUGH ORIGINAL OPERATION: AN UPDATE

46. **The Georgia EMC DPO was approved on March 26, 2020, and implementation remains on track.** The Loan Agreement was signed on March 30, 2020, and was ratified by the Georgian Parliament on April 22, 2020. The operation was declared effective on April 30, 2020, and was disbursed on May 6, 2020. The reform program is being implemented in compliance with the provisions of the Loan Agreement with the World Bank.

47. **The government has generally remained on track in implementing reforms, with some understandable delays due to the COVID-19 pandemic.** To improve the screening and appraisal of public investment projects, the MOF has deployed an expert to help MOF coach line ministries and municipalities in public investment project preparation. In addition, training for the municipalities to prepare the financial statements are already scheduled at the Academy of the Ministry of Finance. Training activities will intensify as the State of Emergency has been lifted, but some online activities have already been organized on consolidated financial statements. Online RIA training is ongoing for two laws (on e-signature and identification cards) in the RIA pipeline, with staff from the MOF, Ministry of Justice, and Ministry of Economy and Sustainable Development attending. To implement the EMC DPO-supported Decree to restrict the use of single source procurement further, the State Procurement Agency amended the E-procurement system to block the single source procurement option for a range of good and services. Furthermore, the SPA, in cooperation with the State Audit Office, has drafted a by-law on market research

top be undertaken by contracting authrotieis that should increase the use of competitive methods. Enterprise Georgia is well prepared to launch a major investment generation outreach initiative when the Covid-19 crisis starts to abate. A compelling value proposition aimed at export manufacturing companies in targeted sectors has been developed and validated by testimonials and benchmarked data. Furthermore, Enterprise Georgia recently re-introduced a systematic aftercare program aimed at strengthening dialogue with foreign investors.

48. **DPO-supported legislation is also making its way through the Parliamentary approval procedure**. Legislative activities slowed after the declaration of the State of Emergency as Parliament put adequate operating arrangements in place. Operations have since resumed, and the EMC DPO-supported laws are on the agendas of relevant committees; discussions at plenary sessions will follow.

49. **The program supported by the parent DPO remains highly relevant**. A viable growth model for Georgia—even in the post-COVID-19 world—will still include deepening integration, lower constraints to firm growth through more competitive markets and easier access to finance, building a strong human capital base, improving effectiveness of public service delivery, and strengthening resilience. Some of these aspects will gain importance. For example, improving the efficiency of public spending through better PFM arrangements at the local level and more efficient public procurement will become even more important in supporting the strong fiscal consolidation effort needed to put public debt on a downward trajectory. The draft Law on Telecommunication Infrastructure and Physical Infrastructure Sharing for Telecommunication Purposes will reduce the cost of deploying high-speed electronic communications networks and help to expand broadband internet services to more people, putting infrastructure in place that will boost resilience by supporting business continuity, public service delivery, and access to information in future crises. With the expected regionalization of value chains, Georgia has an opportunity to capitalize on its good business environment and exemplary handling of the crisis through a more targeted and strategic foreign direct investment (FDI) promotion strategy supported by the parent DPO.

50. **With the ECM DPO closing on March 31, 2021, there is still sufficient time to achieve the expected results of the operation**. On public procurement, the share of single source procurement declined from 19 percent in 2018 to 18 percent in 2019 and is on track to meet the 16 percent target with the ongoing reforms. Measures undertaken in the education sector have already resulted in a considerable increase in the number of teachers with a full-time workload (from 39 percent before the start of the reform to around 47 percent currently, compared to a 49 percent end-of-program target). On investment promotion, an investor targeting 'hotlist' of 400 companies has also been prepared with around 20 companies of strategic significance expected to receive customized investment invitations from the Prime Minister or Minister of Economy and Sustainable Development. However, a prolonged outbreak, or a second wave of the pandemic, will threaten the achievement of some of the indicators.

51. **Failure to adequately fund the COVID-19 response would mean a higher human toll, excessive cuts to non-COVID-19 spending, and a delayed economic recovery, each threatening the achievement of the EMC DPO's objectives**. An insufficiently funded response to the COVID-19 pandemic, with the associated human costs, will considerably undermine the appetite for reform. The authorities could become consumed with responding to the health emergency, bringing the GoG's ability to push EMC DPO-supported legislation through Parliament into question. In the absence of these laws, the expected results on establishing investment funds and more efficiently deploying communication infrastructure are unlikely to materialize. Furthermore, excessive fiscal strain will prevent the MOF from topping up the

capital grant and remove the incentives for municipalities to improve their PFM, a key expected result of the EMC DPO. Furthermore, efforts to continue reforms in the education sector and ensure better deployment and remuneration of teachers are likely to be undermined. Continued progress on this agenda depends on the ability to allocate additional funding to increase teachers' salaries and support the upgrading of their qualification; this will be put at risk if resources are diverted to the COVID-19 response. Capacity building efforts, needed to achieve the expected results of the reforms related to Public Investment Management (PIM) and RIA introduction, are likely to suffer as the authorities struggle to fund these. Finally, without an adequate response, the recovery will be suppressed, which will keep investor sentiment subdued and undermine the achievement of the expected results from the adoption of the new Law on Investment Funds and the new FDI promotion strategy.

52. **The GoG is continuing the broader reform agenda.** In recent months—undeterred by the COVID-19 pandemic—the authorities finalized important reforms to strengthen economic management and competitiveness. The authorities submitted to Parliament legislation introducing a formula for fiscally sustainable pension indexation, which, in addition to helping improve economic management, is also expected to protect the purchasing power of the vulnerable, elderly population. A new Law on Insolvency was submitted to Parliament that will provide adequate protection of creditor rights, timely and efficient insolvency processes, and an effective rehabilitation framework in line with international standards. This law will be critical to deal with the aftermath of the COVID-19 shock. The authorities also plan to introduce legislation on personal insolvency and have requested World Bank support for the drafting process. Furthermore, a new Company Law and amendments to the Securities Law are also expected to bring Georgia's performance in line with international good practice. The authorities are also introducing automatic VAT refunds of all risk-assessed and approved credits; this should improve private sector liquidity. A new set of laws regulating the energy sector are expected to provide a robust platform for investment in the sector and improve the quality of services. The environmental protection agenda is also getting a boost though a new Law on Energy Efficiency and a new Forest Code.

5. RATIONALE FOR PROPOSED SUPPLEMENTAL FINANCING

53. **The proposed supplemental financing is in line with the World Bank's policy on supplemental financing.** The Bank's policies on Development Policy Lending provide for supplemental financing—a separate loan additional to a DPO that has not been closed—in exceptional cases when an unanticipated gap in financing jeopardizes a reform program that is otherwise proceeding on schedule and in compliance with the agreed policy agenda. More specifically, supplemental financing is approved when: (a) the program is being implemented in compliance with the provisions of the Loan Agreement; (b) the borrower is unable to obtain sufficient funds from other lenders on reasonable terms or in a reasonable time; (c) the time available is too short to process a further free-standing Bank operation; and (d) the borrower remains committed to the program and the implementing agencies have demonstrated competence in carrying it out.

54. **Georgia remains a strong performer, both on the EMC DPO-supported program, the broader development agenda as well as the COVID-19 response.** The EMC DPO program continues to be on track and implemented in compliance with the provisions of the legal agreement with the Bank. Implementing agencies remain committed to the program and, where needed, are recruiting assistance to support the implementation of reform (for example, on PIM, local-level PFM, and so on). In addition, other reforms are being pushed through that strengthen Georgia's medium-term growth potential. Related to COVID-

19, the GoG's response has been highly successful in containing the spread of the outbreak and mitigating the social and economic impact. Strong policy actions were enacted quickly after the first local case of COVID-19 was detected. The government's anti-crisis response will help contain viral transmission and support a faster resumption of domestic economic activity. Measures to support firms and workers will position the economy well for a quick recovery in 2021. The World Bank's support to the crisis response will ensure that the government has enough resources in the immediate term to maintain its strong health and social policy measures and help safeguard Georgia's reform program.

55. **The pandemic's abrupt nature created a large and unanticipated financing gap while significantly constraining financing sources.** Georgia's external and fiscal positions are expected to weaken considerably, and clear and sizeable financing gaps have arisen. At the same time, the domestic capital market is shallow, and international capital markets have mostly dried up, requiring a strong and coordinated effort by the development community to meet these financing needs. Given the timeframe for when resources are needed, the expected liquidity pressures during the summer months, and the currently available financing sources, supplementary development policy financing from the World Bank will go a long way in covering the government's fiscal needs. This will provide it with the fiscal space to carry out emergency responses to the ongoing health and economic crises. The fiscal space will also be useful to safeguard the longer-term structural reforms necessary for Georgia's further development supported by the March 2020 EMC DPO to which this supplemental is attached. It will also help meet the external financing needs, thus helping shore up confidence in the currency and avoiding a larger-than-needed adjustment in the exchange rate that could push inflation up, undermine purchasing power of households and threaten financial stability due to the high dollarization.

56. **The authorities have requested that resources be disbursed by end-July, limiting the time to process a free-standing Development Policy Loan to meet the budget gap; however, the policy dialogue with Georgia remains robust**, **and future DPOs are planned.** A supplement operation that will disburse in July 2020 is critical to strengthening the credibility of the government response and ensuring that funding is provided when it is most needed. Elections planned for early October 2020 provide an additional layer of complexity for the preparation of a new operation. At the same time, the policy dialogue with Georgia remains very active, especially in areas such as access to finance, competition, and the human capital project, and is expected to lay the foundation for the continuation of regular DPOs in the future.

6. POVERTY IMPACT, DESIGN AND APPRAISAL ISSUES

57. **COVID-19 poses a significant threat to every Georgian's welfare, despite the country's commendable efforts to contain it.** The direct and indirect effects of the pandemic will be particularly damaging for the poor and vulnerable, with potentially devastating long-term consequences. Around one-fifth of Georgia's population is poor, but another one-third survives just above the poverty line and risks falling back into poverty. Preliminary simulations suggest that the adverse effects of COVID-19 on livelihoods and the poverty rate will rise as growth forecasts are revised downward. Under the baseline scenario, around 500,000 Georgians are at risk of downward mobility in 2020, including 200,000 previously nonpoor that will be impoverished. This scenario implies a poverty impact of 2.2 percentage points in 2020, driving the poverty rate up to 15.5 percent,[15] against a counterfactual of 13.3 percent in

[15] At the International poverty line of $3.2 per day (2011 PPP).

the absence of the COVID-19 shock, as income losses from COVID-19 reach around 8 percent of household income on average. The downside macroeconomic scenario would take an even higher toll, with the poverty rate rising by 3.6 percentage points. The primary risk of increased poverty is through higher unemployment, especially for workers in wholesale and retail trade, tourism, and construction. Falling remittance inflows from Western Europe, North America, and other regions hard hit by COVID-19 will also affect poverty levels. Weaker domestic demand will affect those working in the informal sector especially hard, particularly those without a regular salary and micro and small business owners. Larger exchange rate adjustment could increase inflation and affect purchasing power of households. In the long term, in addition to direct health costs—which will hit the most vulnerable, uninsured households hardest—possible morbidity or mortality of household members will leave households lacking food, wage earners, and potentially needing to take children out of school to help make up for lost income. This would further trap households in poverty.

58. **The emergency funding included in this supplemental DPO is expected to yield positive poverty and social impacts.** In the immediate term, the financing will help fund the government's robust health, social protection, and economic response, helping to protect lives and livelihoods. These programs will help some of the poorest and most vulnerable Georgians to cope with and recover from the ongoing crisis. By preserving the reform momentum, over the medium to long term gains from improved economic management are expected to increase fiscal space that could be allocated to emerging priorities, enhance fiscal stability, and improve access to public emergency programs. It will also help avoid a larger-than-needed adjustment in the exchange rate and protect the households' purchasing power.

59. **Implementation of the program supported by the parent DPO is expected to contribute to gender equality in Georgia in the medium and longer terms.** Prior actions across both pillars aim at better integrating gender impacts in key government processes. improving PFM arrangements at the local level, for example, will result in greater compliance with the requirements of the program budgeting methodology, including gender-sensitive budgeting. RIA reforms will allow policy makers to better anticipate and consider any positive or negative gender equality impact of new regulations and policies. The PIM guidelines would serve a similar function for new larger public investments. Also, a financially more secure and competent teaching cadre will help build assets and opportunities for teachers, most of whom are female, and help narrow the wage gap.

60. **The requirements for consultations and citizen engagement are evolving in Georgia. Specific to the COVID-19 response, additional steps are taken under the World Bank's recently approved Emergency COVID-19 Response project**. The design of a number of prior actions of the parent DPO, including those related to economic management, broadband, investment funds, were informed by broad-based consultations with relevant stakeholders. Furthermore, the ECM DPO supports the introduction of RIA that will considerably strengthen the mandate for consultations. Specific to the GoG COVID-19 response, GoG established a community engagement and outreach element of the overall framework and implementation plan to tackle the pandemic during its various stages as part of the project. Tthe World Bank project will also support the development of communication strategies, mass campaigns and information, education, and awareness building. These will ensure that culturally-relevant information is disseminated to communities to properly sensitize them to the risks related to COVID-19, supported by tailored awareness-raising on preventive actions, and the Government's COVID-19 response.

61. **There are no changes to the public financial management and environmental issues set out in the EMC DPO.** Disbursements of resources will be subject to the same standards and no special fiduciary arrangements have been requested that may change the fiduciary risk assessments undertaken in the EMC DPO. This operation will not change the environmental assessments either.

62. **The NBG's foreign exchange management systems and safeguards are adequate.** A safeguards assessment by the IMF in 2014 showed that the NBG's overall governance framework is broadly appropriate, with strong track record in implementing the recommendations. Regular audits of the NBG financial statements by independent external audit firms in accordance with international standards have provided unqualified opinions. The de facto and de jure exchange rate arrangement in Georgia is floating. The NBG does not make a commitment on the exchange rate target and limits interventions to smoothing large fluctuations and reserve accumulation. Foreign exchange transactions between the GOG and the NBG are priced at the market exchange rate of the day when the foreign exchange order is submitted to the NBG.

63. **The Borrower will be the Government of Georgia.** Upon effectiveness of the Loan Agreement, which is subject to ratification by Parliament, the proposed IBRD loan of €45 million will be made to Georgia, represented by the Ministry of Finance. The IBRD loan will have a maturity of 25 years including a 14-year grace period.

64. **The EMC DPO Supplemental funding would be made available to Georgia upon the effectiveness of the Loan Agreement and the submission of withdrawal application for the Loan.** The proposed DPO will be disbursed into the Treasury department's foreign currency account maintained at the NBG. The disbursed proceeds of this DPO will form part of the country's official foreign reserves. The recipient, the GOG, shall ensure that upon deposit of the loan proceeds into the said account, an equivalent amount in Georgian lari at the official exchange rate will be deposited within 30 days of disbursement in the Single Treasury Account (STA) in the NBG and accounted for in the Recipient's budget management system. The proceeds of the operation deposited at the STA with NBG will be available to finance budget outlays. The MOF will be responsible for the operation's administration, for preparing the withdrawal application, and for maintaining the Treasury foreign currency account at the NBG. The MOF, with the assistance of the NBG, will maintain records of all budget transactions under the DPO in accordance with sound accounting practices.

65. **The MOF will provide to the Bank a confirmation that the amount of the operation has been credited to an account that is available to finance budget expenditures.** This confirmation letter is required within 30 days of receipt of the amount. If, after the proceeds are deposited in the NBG account, the proceeds of the operation are used for ineligible purposes as defined in the Loan Agreement, the Bank will require the GOG to promptly, upon notice from the Bank, refund an amount equal to the amount of said payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

66. **No additional fiduciary arrangements, including audit, will be required for this EMC DPO supplemental financing.** Given the improvements in Georgia's PFM system, the IMF's positive assessment of the NBG, and continued unqualified audit opinions of NBG's financial statements, no additional fiduciary arrangements, including audit, will be required for this DPO, in line with the practice under previous DPOs. The closing date of the loan will be March 31, 2021.

67. **The Deputy Minister of Finance is the main counterpart for this operation and coordinates with the line ministries and institutions involved in the ECM DPO.** The line ministries and institutions report

on the prior actions and result indicators to the MOF as and when requested. Given the long history of budget lending operations in Georgia, there is sufficient institutional capacity built up on monitoring requirements for DPOs. In general, government agencies have the capacity to provide good and timely data. Data for monitoring is increasingly available through more transparent government agencies, or through special requests made to implementing agencies. Available data is generally reliable, with Georgian institutions increasingly producing data in line with international standards. For example, Georgia subscribes to the IMF's Special Data Dissemination Standards and the World Bank Open Contracting Data Standard and is a compliant country.

68. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

7. SUMMARY OF RISKS AND MITIGATION

69. **Relative to the EMC DPO, the overall risk of the operation has been elevated to substantial.** This also reflects a substantial macroeconomic risk as the COVID-19 outbreak severely affects economic and financial sector conditions globally and in Georgia. High-frequency data point to a sharp decline in economic activity, with growth projected to be sharply lower and external and fiscal balances widening rapidly. A robust response by development partners is helping to keep the focus on the development objectives of the EMC DPO; however, the residual risk remains, reflecting the huge uncertainty regarding the path of the pandemic. As the crisis passes and macroeconomic imbalances narrow, the risks are likely to moderate quickly as Georgia's underlying fundamentals remain rather strong. Similarly, the increased risks of rising unemployment and falling incomes pose a significant threat to poverty reduction and translate into higher social risks, particularly if poor outcomes caused by the crisis are mistakenly attributed to the effects of reforms. An adequate GoG response and stepped-up social spending, supported by operations such as the World Bank's Emergency COVID-19 response project, partially mitigate this risk. Finally, institutional risks have also increased as remote work requirements and workflow disruptions impact the ability to proceed with capacity building efforts required to achieve the EMC DPO's expected results.

70. **All other risks remain unchanged from the EMC DPO2020 program document.**

Table 6: Summary Risk Ratings

Risk Categories	Rating

1. Political and Governance	Moderate
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Low
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	Substantial
Overall	Substantial

ANNEX 1: PARENT PROJECT POLICY AND RESULTS MATRIX

Prior Actions	Results		
	Indicator Name	Baseline	Target
Pillar A – Strengthening Economic Management			
Prior action #1: The Government, through Decree No. 2735, dated December 30, 2019, has introduced a mechanism to support public financial management improvements by municipalities, by providing additional financing for capital investments for 27 municipalities, conditional upon the municipalities improving identified areas of weakness as per public expenditure and financial accountability assessment reports.	Municipalities submitting financial statements to SAO for audit within 3 months after end of the financial year.	3 (2018)	>14 (2021)
Prior action #2: In order to improve public investment management, the Borrower has adopted: (a) Government Decree No. 679, dated December 31, 2019, amending the PIM Guideline; and (b) Ministry of Finance Order No. 411, dated December 26, 2019, establishing the Charter of the PIM Working Group.	Public investment projects are screened, appraised and selected in compliance with the PIM Guideline requirements.	0 (2019)	40% of new projects above GEL5m (2021 Budget)
Prior action #3: The Government, on February 21, 2020, has submitted to Parliament a draft amendment to the Law on State Procurement to strengthen the independence and impartiality of the Dispute Resolution Council, and, through Decree No. 23, dated January 14, 2020, has further restricted the use of single source procurement.	Single source procurement, as % of total procurement value.	19% (2018)	16% (Q1.2021)
Pillar B – Enhancing Competitiveness			
Prior action #4: The Government, through Decree No. 35, dated January 17, 2020, has begun to facilitate evidence-based policy-making by adopting a methodology for regulatory impact assessments and assigning adequate responsibilities related to regulatory impact assessments, including coordinating and supporting reforms relating to regulatory impact assessments.	Number of RIAs completed on laws and regulations.	Not required (2019)	10 (2021)
Prior action #5: In order to enhance the level of competition, the Competition Agency of Georgia, on June 28, 2019, has submitted to Parliament a draft amendment to the Law on Competition to strengthen the governance of the Competition Agency of Georgia, raise its enforcement capacity and enhance its relations with other regulators; and the Government, on February 28, 2020, has submitted to Parliament a draft Law on Telecommunication Infrastructure and Physical Infrastructure Sharing for Telecommunication Purposes to support measures to reduce the cost of deploying high-speed electronic communications networks.	Number of examined cases (2-year average)	6 (2017-2018)	8 (2020-2021)
	Number of telecommunications service providers using data transmission services through electricity network	0 (2019)	2 (2021)
Prior action #6: In order to provide incentives to improve teacher qualifications and to more efficiently deploy teachers, the Ministry of Education, Science, Culture and Sports has adopted: (a) Decree No. 164/n, dated August 8, 2019, to amend Order No. 40/n, dated May 18, 2016, to prioritize	Teachers with full work load, as % of all teachers:	44.9% (2018)	55% (2021)

Prior Actions	Results		
allocation of teaching hours to certified teachers; (b) Decree No. 174/n, dated August 20, 2019, to introduce criteria and conditions for initiation and termination of teacher employment; and (c) Decree No. 187/n, dated September 6, 2019, to amend Decree No. 126/n, dated September 28, 2015, on Defining the Minimum Amount and Conditions for Work Remuneration of Public School Teachers to introduce higher salaries for certified teachers.	Out of which, female teachers with full work load, as % of all teachers	38.6 (2018)	49% (2021)
Prior action #7: The Government, on February 24, 2020, has submitted to Parliament a draft Law on Investment Funds to strengthen the regulatory and supervisory framework applicable to investment fund operations and public issuers' financial information disclosure.	Number of investment funds established:	0 (2019)	2 (Q3.2021)
Prior action #8: The Ministry of Economy and Sustainable Development has adopted Decree No. 1-1/40, dated January 27, 2020, endorsing the strategy for attracting foreign direct investment of the government agency in charge of investment promotion, and implemented key measures from this strategy, including increasing the staffing of agency.	Number of targeted companies responding:	na (2019)	200 (2021; cumulative)

ANNEX 2: FUND RELATIONS ANNEX

IMF Executive Board Completes the Sixth Review under the Extended Fund Facility and Approves the Request for Augmentation of Access to Support Georgia Address the COVID-19 Pandemic

May 1, 2020

The IMF Executive Board approved a disbursement of US$200 million for budget support to help Georgia meet urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic.

The pandemic is expected to have a significant impact on Georgia's economy, interrupting a positive economic trajectory of past years.

To preserve macroeconomic stability, the authorities have taken several steps to increase health spending, strengthen social protection, and support the businesses during the shock.

Washington, DC – The IMF Executive Board of the International Monetary Fund (IMF) completed today the Sixth Review of Georgia's economic reform program supported by a three-year extended arrangement under the Extended Fund Facility (EFF). The IMF Executive Board also approved an augmentation of access of 130 percent of quota, bringing total access under the EFF to SDR484 million (230 percent of quota).

The completion of the review will release SDR147 million (about $200 million) for budget support, to help Georgia meet urgent balance of payments and fiscal needs stemming from the COVID-19 pandemic, including increased spending on health services and social protection. Total disbursements so far under the arrangement amount to SDR327 million (about $448 million).

In completing the review, the IMF Executive Board also approved the authorities' request for a waiver of nonobservance for the performance criteria on the ceiling on the augmented general government deficit.

The pandemic is expected to have a significant impact on Georgia's economy, interrupting the positive economic trajectory of past years. The weakened macroeconomic outlook and fiscal situation have created urgent external and fiscal financing needs. The IMF financial support will make a substantial contribution toward fulfilling the needed increases in health spending and social safety nets.

Following the Executive Board discussion, Mr. Tao Zhang, IMF Deputy Managing Director and Chair, made the following statement:

"The COVID-19 pandemic has hit the Georgian economy hard. A drop in external demand and tourism has widened the current account deficit, led to a depreciation of the exchange rate, and a substantial decline in economic activity. The authorities have acted rapidly by introducing sweeping containment measures and targeted support to households and to most affected sectors.

"The fiscal deficit has increased, and external financing has been mobilized to allow for additional spending. While increased public spending is necessary, vigilance is needed to safeguard debt sustainability, particularly against fiscal risks arising from state-owned enterprises.

"The National Bank of Georgia has appropriately maintained a moderately tight monetary policy stance, while allowing exchange rate to remain flexible. Monetary policy decisions should be based on close monitoring of inflationary expectations.

"Advancing structural reforms would help sustain medium-term growth potential and achieve a faster recovery after the pandemic. Adopting the indexation rule for public pension would contribute to sustain the income of pensioners. Completing the banking resolution framework and implementing the insolvency framework would help support the recovery.

"The augmentation of access under the Extended Fund Facility arrangement should support the authorities' policies to address the COVID-19 shock and help meet the urgent balance-of-payments need."

Table 1. Georgia: Selected Economic and Financial Indicators, 2018–21

	2018	2019	2019	2020	2020	2021
	Actual	CR 19/372[1/] New GDP	Actual	CR 19/372[1/] New GDP	Proj.	Proj.
National accounts and prices [2/]	(annual percentage change; unless otherwise indicated)					
Real GDP	4.8	4.6	5.1	4.3	-4.0	4.0
Output gap	-1.5	-1.0	-0.5	-1.0	-1.5	-1.7
Nominal GDP (in billion of laris)	44.6	49.0	50.0	53.4	50.3	54.5
Nominal GDP (in billion of US$)	17.6	17.5	17.7	18.7	15.1	17.7
GDP per capita (in thsnd. of US$)	4.7	4.7	4.8	5.1	4.1	4.8
GDP deflator, period average	4.3	4.9	6.4	4.7	5.1	4.0
CPI, period average	2.6	4.9	4.9	4.5	4.7	3.6
CPI, end-of-period	1.5	7.2	7.0	3.0	3.5	3.0
Core CPI, end-of-period	0.5	…	3.8	…	…	…
Investment and saving	(in percent of GDP)					
Gross national saving	26.5	26.2	28.7	26.2	20.3	25.5

Investment	33.3	31.2	33.8	31.1	31.6	33.0
Public	6.4	7.2	7.9	6.6	6.4	6.4
Private	26.9	24.0	25.9	24.4	25.2	26.6
Consolidated government operations			(in percent of GDP)			
Revenue and grants	26.4	26.4	26.7	25.4	24.1	24.7
o.w. Tax revenue	23.4	23.5	23.7	23.0	21.4	22.2
Expenditures	29.2	28.8	29.1	28.3	32.9	29.9
Current expenditures	21.3	21.3	21.0	21.4	26.2	23.2
Capital spending and budget lending	7.9	7.6	8.1	6.9	6.7	6.8
Net lending/borrowing (GFSM 2001)	-0.8	-1.8	-1.8	-2.2	-8.2	-4.4
Augmented net lending / borrowing (program definition) [3/]	-2.3	-2.1	-2.0	-2.5	-8.5	-4.8
Public debt 4/	41.3	44.1	42.7	44.5	62.8	59.6
o.w. Foreign-currency denominated	32.5	34.3	32.9	33.7	50.6	45.6
Public debt net of government deposits [4/]	38.8	40.9	39.8	40.9	54.0	51.2
Money and credit						
Credit to the private sector (annual % change)	19.3	17.3	19.9	8.5	5.9	3.6
In constant exchange rate	17.0	11.5	15.2	7.5	-2.3	8.2
Broad money (annual % change)	14.0	14.7	16.1	9.2	3.6	11.5
Broad money (incl. FX deposits, annual % change)	13.3	14.9	16.0	8.1	3.1	8.3
In constant exchange rate	11.9	9.2	11.8	8.1	-4.6	16.7
Deposit dollarization (in percent of total)	62.1	62.9	61.9	62.7	62.4	58.4

Credit dollarization (in percent of total)	55.8	53.7	54.4	51.3	51.6	49.2
Credit-to-GDP ratio	58.8	62.8	62.9	62.5	66.2	63.3
External sector						
Current account balance (in billions of US$)	-1.2	-0.9	-0.9	-0.9	-1.7	-1.3
Current account balance	-6.8	-5.0	-5.1	-4.9	-11.3	-7.5
Trade balance	-23.4	-20.9	-21.0	-20.5	-20.4	-19.8
Terms of trade (percent change)	-5.1	0.2	2.6	-1.8	1.8	3.9
Gross international reserves (in billions of US$)	3.3	3.3	3.5	3.4	3.5	3.6
In percent of IMF Composite measure (floating)	95.4	96.4	99.0	95.9	103.9	98.5
Gross external debt	100.3	109.3	103.4	108.1	136.3	124.1
Gross external debt, excl. intercompany loans	82.2	87.7	85.0	86.7	111.4	102.2
Lari per US$ (period average)	2.53	…	2.82	…	…	…
Lari per euro (period average)	2.99	…	3.15	…	…	…
REER (period average; CPI based, 2010=100)	104.1	…	98.1	…	…	…

Sources: Georgian authorities; and Fund staff estimates.

1/ Please refer to this link for details ***https://www.imf.org/en/Publications/CR/Issues/2019/12/18/Republic-of-Georgia-Fifth-Review-Under-the-Extended-Arrangement-Requests-for-Waivers-of-48888*** . The ratio incorporates updated GDP from national accounts.

2/ National accounts numbers include the impact of GDP rebasing, which increased GDP levels while leaving growth rates unchanged.

3/ Augmented Net lending / borrowing (Program definition) = Net lending / borrowing - Budget lending.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

PRIME MINISTER
OF GEORGIA

Tbilisi, 29 May 2020

Dear President Malpass,

We would like to express special gratitude and appreciation for the World Bank Group's support during the difficult times of the COVID-19 pandemic.

On behalf of the Government of Georgia, I would like to request a Development Policy Operation in the amount of Euro 45 million to support our current needs caused by global pandemic. This Letter of Development Policy provides an overview of recent progress and appropriate steps to be taken by the Government to overcome this crisis.

Background

Georgia successfully pursued economic transformation and development through extensive reform programs and prudent macroeconomic policies. The unexpected outbreak of COVID-19 interrupted this process, put pressure on society and practically stalled economic activities. As part of our containment efforts, we have taken steps to identify, isolate, and treat suspect cases. This requires imposing increasing restrictions on interactions and economic activities, such as closing borders, limiting intra-country movement, banning public gatherings, locking down targeted areas, and calling a State of Emergency for the country.

However, now we require the support of our development partners to help close the financing gap and efficiently implement our programs, especially during these difficult times. To this end, we requested an increase of USD 380 million from the IMF's Extended Fund Facility. Still, our additional budget financing need is as high as USD 1.2-1.5 billion and almost all development partners, indicated their support.

Negative economic impact

Georgia saw swift and sustainable economic growth in the previous 3 years, the average annual growth performance of 5 % was reached. The macroeconomic figures were especially positive in 2019. The impact of the AA and unfavorable conditions imposed by Russia resulted in a reorientation towards the EU, as one of the largest business partners. Moreover, structural weaknesses, although remaining present to a certain extent were addressed and resulted in: the lowest 10 years fiscal deficit, lowest current account deficit (at 5.1 percent of GDP), lowest unemployment rate (at 11.6 percent), and lowest rate of absolute poverty (still high at 20.1 percent, but almost halved in comparison to 2007). As a result, all three main credit rating agencies upgraded Georgia's sovereign credit rating to BB/Ba2 from BB-/Ba3 referring to improved economic resilience as the main driver.

The COVID-19 pandemic interrupts the 10 years' positive trend, instead of the positive 4.5 % growth forecast for 2020, a significant contraction of 4% is now expected. The BOP financing gap is estimated at USD 1.5bn in 2020. From a comparative perspective, the downturn is expected to exceed the contraction suffered during the 2008-2009 economic crisis, and it will impact all sectors of the economy.

As a result, a higher fiscal deficit at 8.5 of GDP and government debt at over 55 percent in comparison to the 2019 level of 40.2% is expected. Considering the recent forecasts, however, government debt is expected to go below 50 percent of GDP in the next 4-5 years. The debt target is expected to remain below 40 percent of GDP in the long-term perspective. The very steep deficit increase is due to forecasted diminished budget revenue and an increase in expenditure on healthcare and social security, such as unemployment compensation.

In line with prudent policies implemented in the previous years, sizeable fiscal buffers were created, resulting in modest levels of government debt and substantial deposits. Although these buffers mitigate the effects of the economic damage to some extent, it is also obvious that these reserves will be insufficient to close the expected financial gap.

Georgia recently completed the sixth IMF agreement, which will be approved by the board on May 1st, 2020. The approval includes an agreed fiscal picture, that will be guided through the (post) pandemic period. Moreover, the existing EFF program was augmented and opened access to USD 200 million in budget financing, which is already in our financial plan. Currently, the short-term financing needs are estimated as high as $1.5 billion.

Summing up, the preceding two months Georgia countered COVID -19; the resilience demonstrated by the government and society sustains the cultural and social fabric and contributes to political stability and security in the region. The downturn is that Georgia's integrated economy and supply chains have suffered. The current health crisis comes at a significant cost to the country's savings. A fiscal response, as well as, policy initiatives are required to mitigate the direct social and economic impact and longer-term initiatives to reignite the economy. Having said this, Georgia now needs support from its international partners to meet the enormous economic challenges and bridging the period until the economy recovers.

To effectively address existing economic hardships, the Georgian Government has taken several measures to prevent the economic crisis from escalating into a humanitarian crisis and developed a post-crisis mechanism to support economic recovery.

Containment and mitigation COVID-19

Following the first case detection in Wuhan China in December 2019 the outbreak of COVID-19 has been spreading worldwide. On 11 March 2020, the World Health Organization (WHO) declared COVID-19 a global pandemic. Georgia, with 3.7 million citizens, was among the first countries in Europe to take immediate measures to contain the spread of COVID-19. The first case was confirmed on 26 February 2020. Taking into account the international comparative perspective, the united efforts of the Georgian government and society resulted in a relatively low amount of registered cases https://stopcov.ge/. The Strategic Preparedness and Response Plan (SPRP) that follows international best practices: containing, delaying, researching resulting in prevention, preparedness response, and recovery, was very effective at keeping our numbers down. As of 27 April 2020, 486 confirmed cases were registered, with 6 fatal cases and 149 patients recovered.

The Decree #164 "Approval of Measures to Prevent the Possible Spread of the New Coronavirus in Georgia and Approval of an Emergency Response Plan for Cases Caused by COVID-19" was adopted by the Interagency Coordination Council. Immediate actions were: suspending flights; screening and early case detecting: quarantining incoming travelers; identification and COVID-19 patients at borders; set up checkpoints in Tbilisi, Batumi, Kutaisi, Rustavi, Poti, Zugdidi, and Gori; proactively stopping public life by closing public spaces and entire municipalities if required.

Moreover, the government launched a series of targeted awareness campaigns (#StayAtHome) on existing state services to provide assistance to families, individuals, and communities that are hit by hardship. Within these campaigns, special attention was given to gender minorities and vulnerable groups such as, elderly, and people at risk due to underlying diseases.

On 21 March 2020, the State of emergency was declared, social distancing measures were introduced and implemented. Full lockdown and quarantine assess were announced on 31st March. Until April 12th (extended till 22 May), more restrictive measures were imposed, such as restricting personal transport, except for delivery vehicles and freight transport. Schools, universities, the government administration, and the public have moved on to online existence indicating strong resilience and adaptability.

From the onset, the Government sought expert advice from its public health professionals—many trained in the European countries and the United States—who used scientific evidence and experiences from other countries to develop policies. The Ministry of the Internally Displaced Persons from the Occupied Territories, Labor, Health, and Social Affairs of Georgia has taken concrete measures to identify, evaluate, and treat the first cases of COVID-19. This is followed by rigorous tracing procedures of potential contacts and by regular and transparent public risk communication with a focus on high-risk groups, along with quarantine measures to identify and monitor people with a high probability of infection.

During the spread of COVID-19, the Georgian health care sector demonstrated a very high capacity of confronting the healthcare crisis in the country. The professionalism and dedication of healthcare workers were instrumental in containing the virus and in managing the cases effectively.

Measures related to COVID-19 treatment:

During-The-Crisis period: In the absence of immediate social protection measures aimed to preserve the income of the most vulnerable with inadequate coping strategies or safety nets, the government has elaborated short-term strategies aimed at reducing the negative effects. Those include: ensuring adequate access to health care (particularly for at-risk groups), alleviating food shortages, and compensating for reduced and/or lost income through appropriate social security transfers. The government included specific measures, which include:

1. **Case Detection and Confirmation**: The objective is to help to strengthen public health laboratories and epidemiological capacity for early detection and confirmation of cases. It will support the strengthening of disease surveillance systems and the capacity of the selected public health laboratories to confirm cases by financing medical supplies and equipment. It will include personal protection equipment (PPE) and hygiene materials, COVID-19 test kits, laboratory reagents, polymerase chain reaction equipment, and specimen transport kits.
2. **Isolating Highest Risk Group People**: This includes putting the highest risk group people, those with international travel history or with suspected contacts, in specially organized quarantine facilities, which will help in identifying and monitoring people with a high probability of infection..
3. **Health System Strengthening**: We are putting a great emphasis on strengthening health system preparedness, improving the quality of medical care provided to COVID-19 patients, and minimizing the risks for health personnel and patients. These objectives will be achieved through the procurement of essential medical goods, rapid conditioning of designated public health facilities, organizing standby healthcare facilities, including by renting private Hospitals.
4. **Patient Treatment and Case Management**. The government introduced a universal system for case management and treatment of COVID-19 patients in public and private facilities. The government

is fully financing COVID-19 related treatment costs, provision of equipment, drugs, and medical supplies. We are providing support case management for non-severe cases in non-medical settings.

5. **Reinforcing the Healthcare Sector.** We are investing in capacity improvements in designated public facilities, including Rukhi hospital, which is located near Abkhazia and serves a large internally displaced population. Also, we will strengthen the specialized "Infection Diseases, Aids and Clinical Immunology Research Center" by rehabilitating and equipping it. The Center is the main COVID treatment facility. Besides, we plan to boost resilience in the healthcare sector by upgrading public facilities in the form of benchmark hospitals. We are planning to upgrade the ambulance fleet to address the growing challenges of the sector.

Beyond Covid-19 – the Anti-Crisis Economic Plan

As to effectively deal with current economic hardships the Government of Georgia has elaborated an anti-crises and economic plan with immediate and midterm perspectives. The overall objective is to contribute to the Georgian government's immediate response to Corona, as well as introducing midterm measures to support full and sustainable business translating into avoiding a humanitarian crisis and sustained economic downturn.

Overall objective 1

Reducing the Negative Effects of the Loss of Income, Supporting Preserving Jobs and Supporting Vulnerable Groups:

	2019 (actual)	2020 (est.)	2021 (est.)
Unemployment rate	11.6	19	15

1. **Temporary expansion of the Targeted Social Assistance (TSA) program for households next to extreme poor.** TSA will be expanded to those groups which are at risk to fall into the category of extreme poor, due to measures to contain the outbreak and the resulting economic downturn. The existing TSA covers extreme poor households based on a PMT scoring formula (with a score less than 65 000). The program targets assisting households (with a score between 65000 and 100 000) that are next to existing TSA beneficiaries. The benefit will be for 6 months' period.
   Specific Objective: Address the needs of people with highest risk to fall in the category of most vulnerable;
   Means/Activities: Temporary cash transfers
   Indicator: Number of newly eligible households: 70.000
   Impact on budget: 45 million
   Responsible Agency: Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

2. **Additional Child Support to Vulnerable Families.** Additional child benefits for families with three or more children and those who score below 100,000 based on the PMT are planned.
   Specific Objective: Supporting livelihood of children in poor and vulnerable families
   Means/Activities: Additional cash transfers
   Indicator: Estimated number of families affected: 21.000
   Impact on budget: GEL 15 million
   Responsible Agency: Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

3. **Scale up of the Targeted Social Assistance (TSA) program.** Due to a drop in income of households an increase of the number of new beneficiaries of TSA is expected, Government is planning to increase allocation of TSA to address the needs of new beneficiaries.
   Specific Objective: Address the needs of new beneficiaries of TSA
   Means/Activities: Increased allocation in the budget
   Indicator: Estimated number of new beneficiaries: 22,000 households in 2020 - 2021 years
   Impact on budget: in 2020 GEL15 million
   Responsible Agency: Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

4. **Additional support for persons with severe disabilities and disabled children** These target groups will receive for six months an amount 600 GEL average.
   Specific Objective: Supporting livelihood of disabled people during pandemic period
   Means/Activities: Temporary cash transfers
   Indicator: Estimated number of persons affected: 41.500
   Impact on budget: GEL25 million
   Responsible Agency: Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

5. **Pension Indexation.** We will introduce rules based pension indexation system. Based on which for the pensioners under 70 age pensions will be increased in line with the CPI starting from of 01 2021 with a minimum increase of 20 GEL/month and for those aged 70 and above pensions will increase by CPI plus 80% of the real GDP growth rate. Minimum increase will be 25 GEL/month
   Specific Objective: Preserving real value of benefits to pensioners under 70 and preserving replacement rate for those of 70 and above.
   Means/Activities: Legislation of indexation rule.
   Indicator: Estimated number of persons affected: 780 thousand
   Impact on budget on 2020/2021: GEL220 million
   Responsible Agency: Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

6. **Temporary unemployment benefits for formal workers.** For those who lost their job after infection outbreak in the formal sector, temporary unemployment assistance be made available in order to compensate job loss. A flat benefit of 200 GEL per month will be provided to private sector workers for six-month period.
   Specific Objective: Preserve substance income for formally employed workers
   Means/Activities: Cash transfers
   Indicator: Estimated number of unemployed affected: 350,000
   Impact on Budget: GEL460 million
   Responsible Agency: Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

7. **Benefits for Self-employed people and informal workers.** Those employed in informal sectors will be supported with a onetime 300 GEL benefit
   Specific Objective: Preserve substance income for self-employed people and informal workers
   Means/Activities: Cash transfers
   Indicator: Estimated number of unemployed affected: 250,000

Impact on Budget: GEL75 million
Responsible Agency: Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

8. **Support Companies in Preserving Jobs.** We will provide direct transfers, up to GEL150 per month—equal to the income tax on the first GEL750 of the salary, on monthly salary below 1,500 GEL to companies supporting employment retention. The transfers would be effective for up to 6 months
Specific Objective: Supporting the businesses
Means/Activities: Cash transfers
Indicator: Estimated number of preserved jobs: over 300,000
Impact on Budget: GEL250 million
Responsible Agency: Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

9. **Subsidies for utilities.** 3-month subsidy for small utility consumers on electricity and natural gas, targeted to vulnerable families is introduced by the government.
Specific Objective: Ensuring the availability of basic utility for livelihood;
Means/Activities: Payment of utility bills;
Indicator: Estimated number of households affected: 1,200,000 households;
Impact on budget: GEL150 million
Responsible Agency: Ministry of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs

10. **Food Supply Security.** State insured nine main imported food products against price spikes and purchased supplies for some basic products
Specific Objective: Preserving price stability on basic food products
Means/Activities: Price insurance payment to importers
Indicator: stable prices on nine products
Impact on budget: 50 million GEL
Responsible Agency: Ministry of Environmental Protection and Agriculture

Overall objective 2.

Restoring the macroeconomic stability and boosting growth

	2019 (fact)	2020 (est)	2021 (est)
Real GDP growth	5.1	-4.0	4.0
Fiscal deficit (%GDP)	2.0	8.5	4.8
Government debt (%GDP)	42.7	59.8	55.4
Current Account Balance (%GDP)	-5.1	-11.3	-7.4
Investments (%GDP)	33.8	31.6	33.0
Consumer Price Index (period average)	4.9	4.6	3.7

Measures to be introduced in 2020-2021

A. Structural measures

Despite the hardships due to the COVID-19 spread Government of Georgia is committed to pursue rich reform agenda aiming at transformation and diversification of Georgian economy and increasing its resilience.

1. **Comprehensive Reform of the Energy sector.** Government's energy reform strategy will increase market competition, promote renewable energy, and enhance energy efficiency. We will develop competitive electricity and gas markets based on the EU energy market principles. This is expected to foster wholesale competition, promote cross-border trading capacity, and open the sector to private investment in renewable energy. In parallel, we will gradually deregulate the natural gas sector.
   Specific Objective: Development of Energy sector

2. **New legislation on Insolvency.** We submitted to Parliament a draft insolvency law providing adequate protection of creditor rights, timely and efficient insolvency processes and effective rehabilitation framework in line with best international standards. This law will be critical to deal with the aftermath of the COVID-19 shock. To advance the reform, we will finalize the framework for insolvency professionals and begin licensing professionals by end-December 2020;
   Specific Objective: Developing "Doing Business" environment and enabling companies to withstand COVID-19 shock.

3. **Education Reform.** We have started implementing comprehensive education reform to improve job creation, productivity and wages. We will revise the government decree on teachers regulatory documents to clarify teachers' roles and responsibilities at all four categories (Practitioner, Senior, Lead and Mentor); and to establish a non-discretionary approach to teacher's career advancement.
   Specific Objective: Enhancing education system in Georgia

4. **Law on Entrepreneurs.** We will submit to the parliament of Georgia draft Law on Entrepreneurs in line with the requirement defined in the EU Georgia Association Agreement. The legislation will reduce uncertainty regarding the governance of companies, increase transparency and improve companies' access to finance.
   Specific Objective: Improving "Doing Business" environment in Georgia

5. **Infrastructure Internal Connectivity.** We will develop core infrastructure network in the country to improve internal connectivity and support the strengthening of internal value chains in the country
   Specific Objective: Expending highway network in the country

6. **Energy Efficiency.** We will continue promoting energy savings and energy efficiency in the energy market. We are developing a national energy efficiency target and an energy efficiency obligation scheme and/or alternative policy measures for energy savings. The Parliament of Georgia adopted by second hearing the comprehensive Energy Efficiency legislation including the new Laws on Energy Efficiency and on Energy Performance in Buildings and is expected to adopt it by final reading in May 2020.
   Specific Objective: Creating Energy efficiency ecosystem in the country

7. **Capital Market reform.** In spite of delays due to the COVID-19 shock, we will continue capital market development to support larization and reduce external vulnerabilities. Our steps to develop local capital markets are: a) we have submitted to Parliament (ii) legislation establishing investment funds; and (ii) related changes to the tax code; b) we have submitted to Parliament amendments to the securities market legislation to improve investor rights protection and corporate transparency. The legislation also targets approximation to the EU directives/regulations, as specified under the DCFTA agreement; c) we will strengthen the regulatory framework for investment funds, funded-pension operations, market abuse and transparency, business conduct and custody. d) The law on derivatives and financial collateral was enacted at the end of 2019 to help develop the money markets; e) We will submit legislation to Parliament for securities holding, creating the basis for dematerialized securities holding; f) covered bonds, to improve access to long-term lari funding for commercial banks and help develop the fixed-income market; g) we aim to transition gradually to a primary-dealer (PD) system in government securities market.
Specific Objective: Support the development of Capital markets in the country

B. Financial measures

1. **Credit-Guarantee Scheme.** To facilitate investment in the economy we will revamp the credit guarantee scheme to sustain access to finance with loans co-financed with and administered by commercial banks.
Specific Objective: Improve Access to finance to SMEs
Means/Activities: Allocate Funds for Credit-Guarantee Scheme in the Budget
Indicators: Total volume of credits guaranteed: GEL 2,000 million
Impact on budget: GEL 300 million
Responsible Agency: Ministry of Economy and Sustainable Development

2. **Supporting SME access to financing by expanding existing mechanisms.** We plan changes in Produce in Georgia program (increasing period of co-financing of loans/leasing from 24 months to 36 months; changing the mechanism of interest co-financing; more types of activities; lowering the minimum threshold for loans/leasing; increasing funding for working capital;
Specific Objectives: Supporting SME access to finance
Means/Activities: (extend and upgrade existing credit enhancement mechanisms)
Indicator: Number of financing SMEs supported: 300 SMEs
Impact on budget: GEL 30 million
Responsible Agency: Ministry of Economy and Sustainable Development

3. **Automatic VAT Refund Reform.** The reform aims automatic refunding of new VAT credits. All risk-assessed and approved new credits will be refunded to the taxpayer without the need to request a refund.
Specific Objective: Enhanced business liquidity and reduced state liabilities
Indicator: Number of average days of refund of risk assessed new credits will be reduced to automatic processing time
Impact on budget: Additional refunds over planned 600 million: GEL 600 million
Responsible Agency: Ministry of Finance

4. **Long term funding to commercial banks.** We will support the GEL liquidity in financial system by introducing Long-term lari instrument, which will increase long-term lari borrowing capacity.

Specific Objective: Growth of Long-term liquidity in the financial sector
Indicator: N/A
Impact on budget: GEL 600 million.
Responsible Agency: Ministry of Finance

5. **Micro and Small Grants' Program.** We will be providing grants to startup entrepreneurs in rural areas to support micro business development. In addition, we are providing technical assistance and business support.
Specific Objective(s): Increase access to finance and improve entrepreneurship culture
Means/Activities: Grants provided to micro entrepreneurs;
Indicator: Number of grants: Around 5000; Maximum size of grant: GEL 30.000 GEL
Impact on budget: GEL 40 million…
Responsible Agency: Ministry of Economy and Sustainable Development

6. **Agro credit Support.** We will provide 100% subsidy to agrocredit interest to promote investments in agricultural sector.
Specific Objective: Growth of investments in agriculture
Means/Activities: 100% subsidy to agro credit interest
Total volume of loans affected: GEL50 million
Indicator: Number of affected businesses: 5,000
Impact on budget: GEL 50 million
Responsible Agency: Ministry of Environmental Protection and Agriculture

7. **Support to Farmers through Amelioration Fee Subsidy.** We are providing the full coverage of amelioration fees to the farmers and are writing off accumulated arrears on such fees.
Specific Objective: Reduction of food production costs.
Means/Activities: 100% subsidy and debt write-off by amelioration company;
Indicator: Number of Beneficiary Farmers: 40,000
Impact on budget: GEL5 million
Responsible Agency: Ministry of Environmental Protection and Agriculture

8. **Tourism Sector Tax Relief.** For businesses in tourism sector government provides property and income tax deferral.
Specific Objective: Assisting survival of SMEs in tourism sector;
Means/Activities: Tax payment deferral
Indicator: Estimated number of SME hotels: 4,500
Impact on budget: GEL90 million GEL
Responsible Agency: Ministry of Finance

9. **Tourism Sector Support.** For hotels with up to 50 rooms Government subsidizes interest rate payments of 80 percent.
Specific Objective: Assisting survival of SMEs in tourism sector;
Means/Activities: Payment to bank loans
Indicator: Estimated number of SME hotels: over 2,000
Impact on budget: 10 million GEL
Responsible Agency: Ministry of Economy and Sustainable Development

The Plan totals over GEL 3.5 billion and consists of three major components:

- Caring for citizens and providing them with social support – GEL 1,305 billion
- Caring for the economy and supporting entrepreneurs – GEL 1,725 billion
- Strengthening the Healthcare System and fighting against the pandemic – GEL 550 million

Status of the Georgia Economic Management and Competitiveness Development Policy Operations

As for the progress of the original DPO MoF has acquired an expert by the support of USAID which help MOF coach Line Ministries and Municipalities preparing PIM projects.

Trainings for the municipalities to prepare the financial statements are scheduled. MOF Treasury is organizing the trainings though Academy of the Ministry of Finance. Training will be conducted after the emergency situation is abolished. During the emergency the MOF academy organized on-line trainings available for any one intrested in consolidated financial statements.

Considering the current circumstances and despite the impact that pandemic has to all processes in country I would like to stress out that reform program of the original DPO document still has the high priority for us. We are on track and Georgia will continue improving Georgia's economic management and promoting Competitiveness.

We deeply appreciate the support of the World Bank in the implementation of the necessary actions outlined above. We are looking forward to our continued successful partnership with the World Bank, including cooperation in the context of the new Supplement Economic Management and Competitiveness DPO.

Allow me, Mr. President, to take this opportunity and extend my regards and esteem.

Prime Minister

Giorgi Gakharia

Mr. David Malpass
President of the World Bank
Washington, DC

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