

# Georgia:

## Seeking Effective Policies



THE WORLD BANK

Georgia Economic Report No.4  
October 2013



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**THE WORLD BANK**  
Washington, D.C.

Government Fiscal Year: January 1–December 31  
Currency Equivalents: Exchange rate effective as of October 10, 2013  
Currency Unit = Georgian lari (GEL)  
USD 1.00 = GEL 1.663  
Weights and Measures: Metric System

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## Abbreviations

BDD	Basic Data and Directions
BOP	Balance of Payments
CAB	Current Account Balance
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
DSA	Debt Sustainability Analysis
EU	European Union
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GD	Georgian Dream Party
GNI	Gross National Income
HDI	Human Development Index
IMF	International Monetary Fund
LDR	Loan to Deposit Ratio
MIP	Medical Insurance Program
MOF	Ministry of Finance
NBG	National Bank of Georgia
NPL	Non-Performing Loans
OECD	Organization for Economic Co-operation and Development
PISA	Program of International Students Assessment
TSA	Targeted Social Assistance
SOEs	State Owned Enterprises
UHC	Universal Health Care
UNE	Unified National Examinations
UNM	United National Movement
VAT	Value Added Tax

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## Acknowledgments

This issue of the *Georgia Economic Report* was prepared by the World Bank economic team working on Georgia—Mariam Dolidze (Senior Economist for Georgia), with input from Grigol Modebadze (Economist), Congyan Tan (Economist) and Mikheil Nadareishvili (Consultant) under the guidance and supervision of Rashmi Shankar (PREM Sector Leader for South Caucasus) and Ivailo V. Izvorski (Sector Manager). Budy Wirasmo formatted the report.

## Overview

**The growth slow-down in 2013, largely viewed as temporary, reflected to a large extent policy uncertainty that began with the late-2012 parliamentary elections and is expected to last until the October 2013 Presidential elections, and attempts by the new Government to trim public investment spending.** In the absence of a clear communications strategy and a well-structured development strategy that elaborated the Government's policy direction, a weakening of consumer and investor confidence since November 2012 along with a cut in public investment spending, contributed to slower growth. The new Government has also initiated a number of legal and normative changes that elicited a mixed reaction from segments of the business community. Several of these changes are however positive and likely to support well the implementation of the medium-term structural reform agenda. These include modifications in the labor code to strengthen protection of workers' rights, proposed amendments to competition legislation that are likely to provide for an independent competition agency and to improve market contestability, and tightening of tax administration. In addition to the Partnership Fund that was set up in 2012, two new privately financed investment funds have been launched though it is too early to assess their economic impact. The Bank now project growth of 2.3 percent for 2013 as a whole, down from 6 percent in April.

**Both tax and non-tax revenues fell behind budget estimates in the first half of the year reflecting the economic slowdown.** The revenue shortfall was driven by a drop in VAT on imports. Demand for imported investment goods has been particularly weak. Other taxes were more comparable with 2012 outcomes, but fell short of budget projections. External grants and other non-tax revenues were behind the plan as well. Overall the gap between budgeted and actual revenues exceeded one percent of GDP in the first half of the year. Expenditure execution was also slower, especially for public investments.

**The external position of the country improved, as imports declined significantly, mainly because of lower demand generated by public investment spending.** Commodity imports fell by 19 percent while exports rose 8 percent during the first six months of 2013. The services balance has improved by 35 percent as tourism proceeds increased significantly. Improved inflows of FDI and other capital generated a significant pressure on the foreign exchange rate to appreciate.

**Credit growth softened as demand for loans declined even in the face of cuts in the Central Bank rate.** The 12-month increase in credit slowed to 12 percent by July 2013 from 24 percent in July 2012. Slower lending and higher deposits have led to excess liquidity in the system.

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## A. Political Developments

**Political tensions have eased somewhat, as the ruling coalition has gradually strengthened its position both in parliament and at the local self-government level.** The initial balance of seats in the parliament has changed after several MPs distanced themselves from the United National Movement (UNM, the party led by Mr. Saakashvili, the current president) and created independent fractions. These allowed the Georgian Dream (GD) of PM Mr. Ivanishvili to secure more than two-thirds of votes while approving number of constitutional initiatives, as well as overriding presidential vetoes. Similar processes developed in the local self-governance bodies (Sakrebulo) and Georgian Dream gained majority power in many regions at the municipal levels even though the local elections are due in 2014. Therefore, presidential power represents the only balancing power until the elections are held in late October 2013.

**Mr. Margvelashvili from GD is the strongest candidate so far, but he may face challenge from Mr. Bakradze, the major opposition party (UNM) candidate.** The GD coalition named Mr. Margvelashvili, until recently the minister of Education and Science and vice-PM, as the candidate of the ruling Georgian Dream coalition for the October presidential elections. The pre-election period is expected to see continued uncertainty in the country, and economic recovery may be delayed until the new president is elected along with the new Constitution enacted.

**The relationship with Russia continues to be an important factor for the economy.** Russia allowed Georgian wine to enter its market after a pause since 2006 and spending by Russian tourists has doubled. However, the administrative border with the occupied South Ossetia was moved to include part of the neighboring villages populated by Georgians. Overall, the rhetoric between the two countries has eased somewhat.

## B. Recent Economic Developments

### Economic Growth

**After rapid post-crisis recovery through the third quarter of 2012, election-related uncertainty led to a slowdown in economic activity.** Real GDP growth slowed to 1.9 percent annual rate in the first half of 2013 from 7.5 percent in the first half of 2012<sup>1</sup>. The downturn was mainly driven by lower investment spending in the face of uncertainty around changes in the labor code, tax code, competition legislation, land management and policies towards foreign investment. Political tension between the Government and the opposition also encouraged a wait-and-see attitude among businesses and consumers in the first three quarters of the year. While the Government is clear about strengthening the effectiveness of public investment management, the fall in the Government's capital spending and temporary suspension of infrastructure projects discouraged private investment. Those factors were compounded by slow recovery in the Eurozone. Many of these factors are viewed as temporary, both by policy makers and the business community in Georgia, and are likely to ease following the launch of consultations on the new development strategy in late October after the Presidential elections.

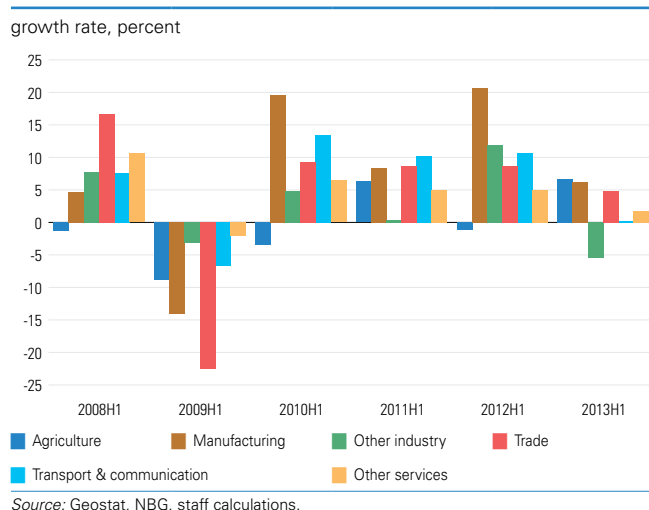
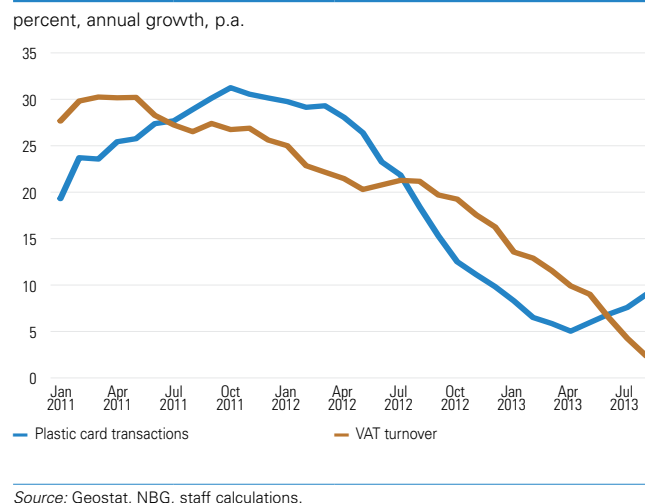
**There is some indication of recovery in consumer confidence in the third quarter of 2013.** While value added turnover of VAT taxpayers remains lower compared to previous years, the value of sales measured by plastic card transactions<sup>2</sup> indicates that consumer confidence picked up in the third quarter (figure 2), partially due to lower lending interest rates. Banks are also pushing retail borrowing given low demand for corporate loans, which are still showing negative growth. Imports also grew by 2 percent during July and August, reversing a sharply declining trend in the previous months of the year, largely due to a doubling of public capital spending after several months of under-execution. The pre-presidential election campaign is also contributing to the slightly higher demand in the current quarter.

**Meanwhile, trade, manufacturing and agriculture—three of the four main sectors of the economy—continued to grow through the first half of the year at a considerably slower rate.** These sectors accounted for 2.1 percentage points of growth with 37 percent share in total value added:

- (i) *Trade and repair* remained the largest sector in the economy. Growth of 4.9 percent, a 3.7 ppt lower compared to the first half of 2012, was supported by increase in retail sales. Auto repair and service which is closely linked with the re-export of used cars was an important contributor to this sector's expansion.
- (ii) *Manufacturing* accounts for almost 13 percent share in GDP, and with 6 percent higher value added in the first half of the year has contributed 0.8 percent to the growth. Real growth in the first half of 2012 was 20.7 percent. Apart from traditional food processing and the chemical industry the relatively new production line, textiles, continues to expand with increasing contribution to both growth and job-creation.

1 Flash estimates by the Geostat indicate that growth has been low through August as well at 1.6 percent.

2 By 2011 and until now the total volume of plastic card transactions reached around 30 percent of GDP on average.

**Figure 1. Slowdown is evident across sectors**

**Figure 2. Plastic cards usage indicate a slight recovery in consumer confidence**


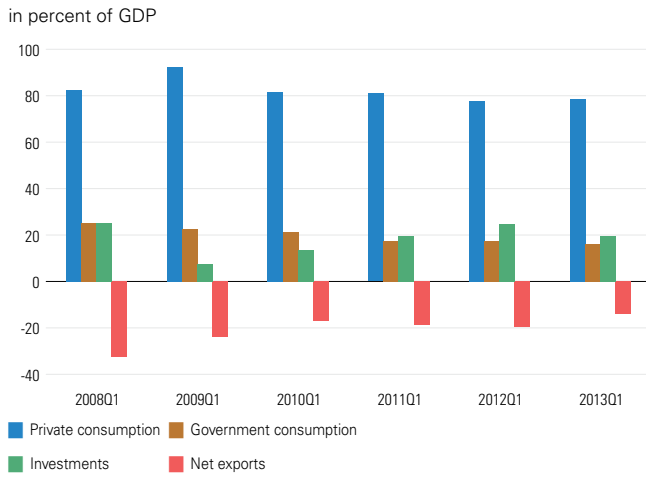
(iii) Stronger supply is anticipated in the *agriculture sector* compared to last year. Favorable weather conditions and the prospect of a larger crop production suggest that good harvest of corn and wheat are likely. Investments made by the privately financed Agricultural Development Fund in the amount of nearly GEL200 million are being mobilized to cultivate previously idle arable land and support farmers to improve their productivity. According to Geostat estimates the agriculture has been growing at 6.7 percent (yoy) in the first half of 2013 up from a decline of 1.2 percent.

**Construction and services were mixed, reflecting their resilience to the weaker consumer and investor confidence.** Construction was affected the most and contracted by 1.5 percent after growing at 23 percent in the same period of 2012. This sector's contribution to the slowdown was substantial, as it accounts for nearly 13 percent of GDP. Other sectors performed poorly as well: financial intermediation growth fell to 7.7 percent compared to 16 percent a year ago, and hotels and restaurants grew only 1.5 percent compared to 15 percent in the first half of 2012. This trend was mirrored in other services as well.

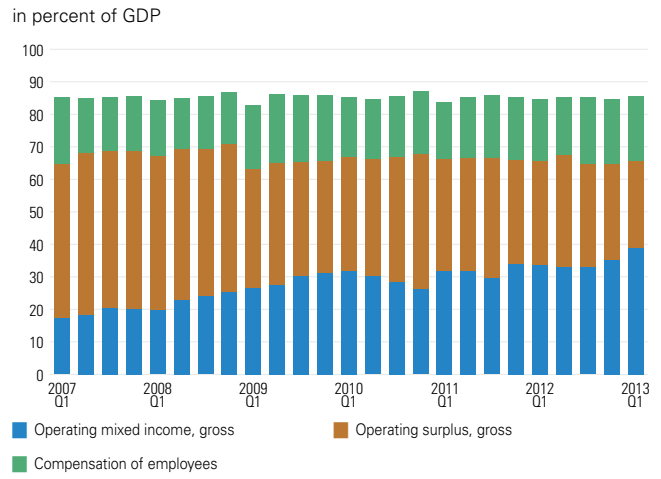
**Aggregate demand started weakening in the last quarter of 2012, largely driven by lower public investment.** Overall domestic investment fell by 15 percent in the first quarter alone, compared to growth by almost 40 percent following the 2008 crisis and post-crisis recovery. Public investment, budgeted to fall by nearly 2 percentage points of GDP, fell behind target due to under-execution driven by efficiency considerations and also by investigations into contracts signed under the previous administration. This affected private investment adversely as well. Slower consumption growth, at about 1.8 percent, was also driven by weaker public sector expenditure in the first half of 2013. Contraction of public consumption by 9 percent more than offset private consumption growth of 4 percent during this period, though there have been signs of a pick-up in the third quarter. By contrast, the trade balance improved as overall imports slowed by 4.5 percent in response to falling consumption and investment growth. The fall in merchandise imports, especially in petroleum and petroleum products, construction materials and other investment and intermediate goods, more than offset the increase in imported services.

**Domestic saving increased its share in the financing of investment.** Lower corporate demand for foreign loans characterized the first half of 2013. At the same time, slower consumption growth helped maintain

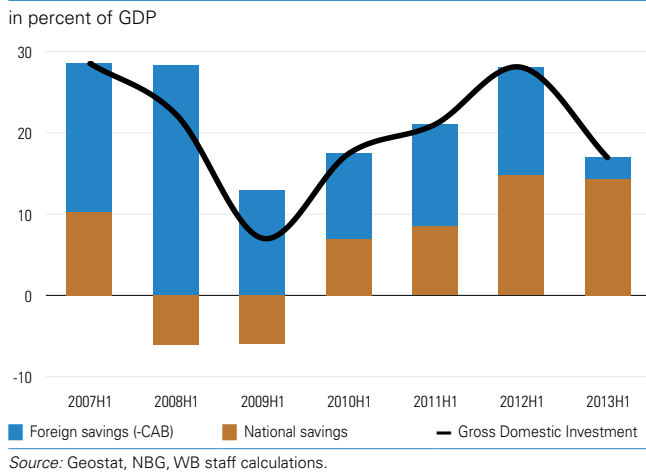
**Figure 3. Investments are lower**



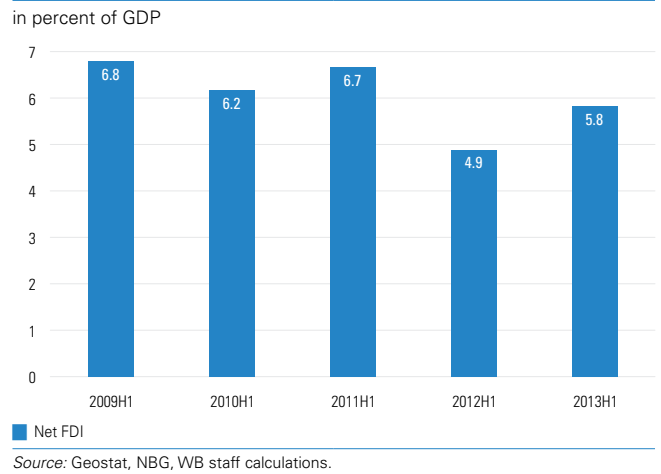
**Figure 4. Share of wages is growing**



**Figure 5. Investments dropped generating low demand for foreign financing**



**Figure 6. However net FDI flow has not declined since last year**

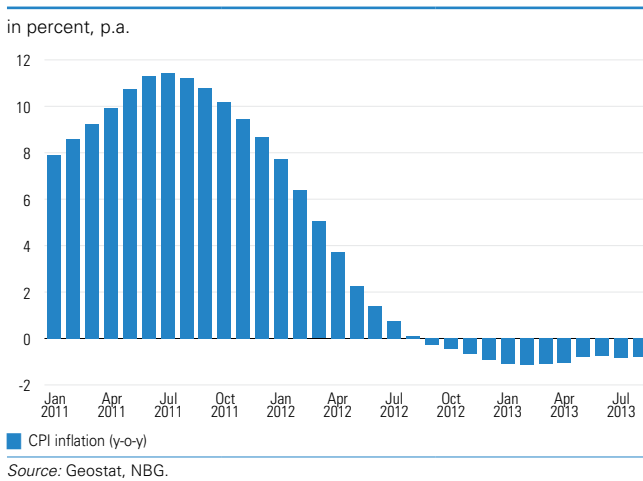


national savings at about 15 percent of GDP as of the first half of 2013. Both factors contributed to a growing dominance of domestic resources in investment financing.

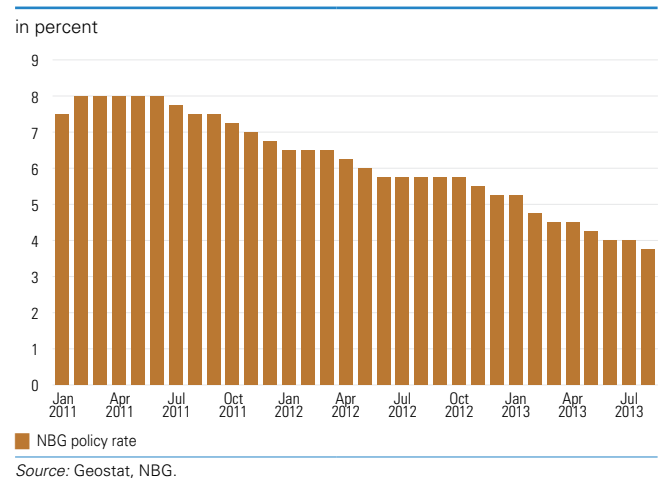
## Inflation

**Overall prices continued to decline during 2013.** Consumer prices dropped by one percent during the first eight months of the year, and seasonally adjusted inflation has declined even more. Headline inflation is at a significantly lower level than the NBG target, which is six percent in the medium-term. Core inflation (excluding foods and fuels) has also been declining by 0.1 percent as of the end of August (yoy), with weaker demand playing a role here.

**Figure 7. Inflation remain benign**



**Figure 8. The policy rate is at a record low, but transmission is weak**



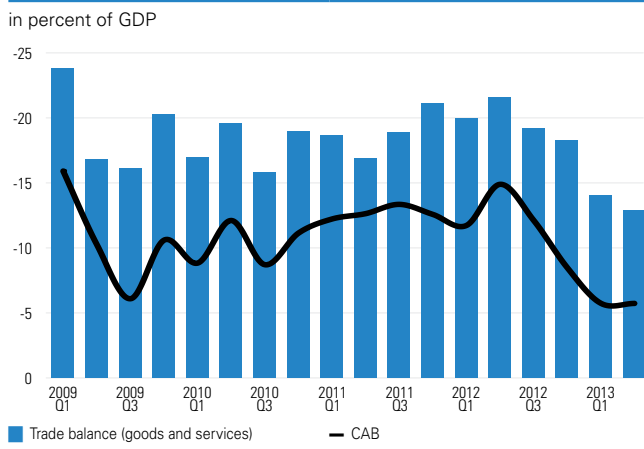
**The decline of CPI is largely driven by supply-side factors.** Falling food prices drove deflation throughout 2012–2013. Administered prices were also reduced in late 2012 and early 2013. A slight pick-up in prices in May–June has reversed mainly due to the seasonal drop in prices of fruits and vegetable. The price of cleaning services in Tbilisi was also reduced, by 27.4 percent in the fourth quarter of 2012, which significantly affected headline inflation, contributing 0.3 percentage points to overall deflation. The electricity tariff also decreased in January 2013 and contributed another 0.3 percentage points to deflation in January. Health-related services are the only category where prices went up.

**Monetary policy has been loosened since 2012 in response to the disinflation.** The National Bank of Georgia has gradually lowered the policy rate to stimulate domestic demand. Such gradual monetary policy action was in line with expected price recovery by the beginning of 2013. However, post-election uncertainty has significantly weakened economic activity and has limited the impact of monetary policy on the real economy. High dollarization and the lack of development of longer term securities market also constrain the transmission mechanism of monetary policy.

## External accounts

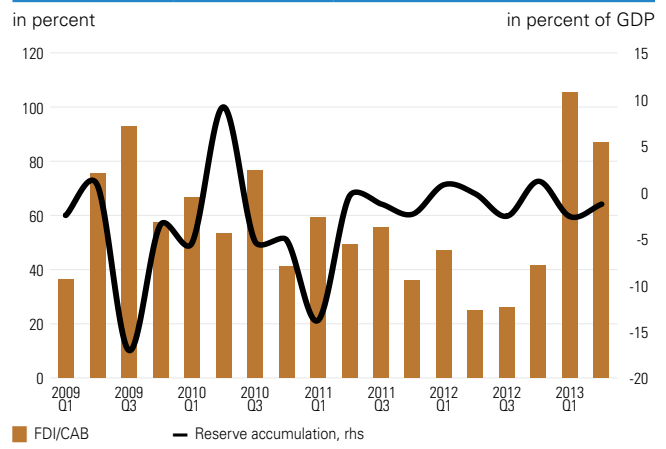
**Georgia’s current account deficit fell to 5.7 percent of GDP in the first half of 2013 from 13.4 percent a year ago mainly due to lower imports.** As a result needs for external financing needs diminished and this allowed the central bank to accumulate international reserves given brisk capital inflows. However Georgia remains vulnerable to external financing shocks. The percentage of current account deficit financed by foreign direct FDI flows improved significantly in the first half of 2013. However this should be considered as temporary: recovery in consumer confidence and public spending may widen the current account deficit in the absence of significant structural reforms and stimulation of exports.

**Figure 9.** The current account deficit is shrinking...



Source: NBG.

**Figure 10.** ...and is fully financed by FDI in the first half of the year

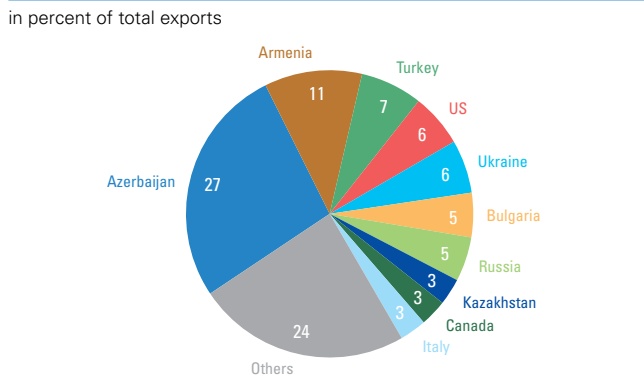


Source: NBG.

External adjustment was largely driven by an improvement in the trade balance. Lower demand for various commodities and especially for investment goods dragged import flows down by 19 percent<sup>3</sup> in the first half of 2013 as compared to the same period of last year. At the same time exports grew by 8 percent, a considerable slowdown that is in line with the overall slowdown.

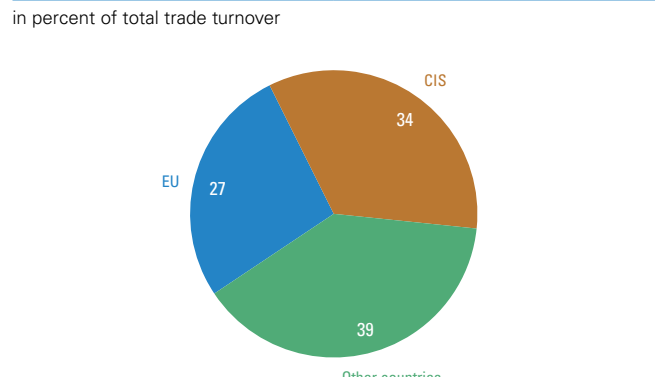
The export market composition of Georgia has slightly changed in 2013 through August. EU represented a destination market for 18 percent of Georgian exported goods, which is similar to 2012 ratio. At the same time the share of CIS countries has increased to 56 from 49 percent. The export value has significantly grown in Armenia, Azerbaijan, Kazakhstan and also doubled in Russia. Used cars are the considerable part of exports to most of these countries. The latter product has reached 25 percent of total commodity exports in the first half of the year.

**Figure 11.** EU countries are still in minority among top markets, January–August 2013



Source: Geostat.

**Figure 12.** As a group the share of EU is growing, January–August 2013



Source: Geostat.

<sup>3</sup> Customs registered foreign trade data is adjusted for BOP purposes.

**The rising surplus stemming from trade in services—mostly tourism, but also other business services—has been another factor driving external adjustment.** The pattern of improvement in the services balance differed from developments in trade in goods, because both services inflows and outflows showed strong expansion. Exports of services, which represents 65 percent of the total, grew by 19 percent while imports expanded by 8 percent. Tourism proceeds exceeded half of the total income and contributed the most to the exports surplus. In contrast, the balance of trade in transport services deteriorated.

**The factor income balance worsened slightly in the first half of 2013.** Net income from direct investments remains the largest negative component, amounting to almost 57 percent of the current account deficit. This component was mainly in the form of dividends paid to non-residents. The compensation of resident seasonal, border and other workers increased by 6.7 percent in the first half of 2013 and partially offset other income-related outflows.

**Current transfers remain the largest contributor to the current account covering almost 46 percent of the trade deficit.** This component recorded a surplus of \$727 million in the first half of 2013, which is 11 percent higher than last year. Private transfers were the top contributor to the surplus and almost two-third of the private inflow came from remittances. Surplus on government transfers continue to narrow. In the first half of 2013 net capital and financial account dropped to \$403 million or by 58 percent compared to last year. The financial account worsened by over 60 percent mainly due to high portfolio investments in 2012 after Eurobond issuances by the large SOEs. Other inflows have shown a considerable drop as well including to the public sector. Net FDI meanwhile improved mostly due to lower FDI outflows even as FDI inflows declined slightly. Net FDI was still sufficient to finance the shrinking current account gap.

**Georgia’s external position remains vulnerable with a large stock of gross external liabilities, of 85 percent of GDP as of end June 2013.** While the current account deficits were largely financed by FDI in the past, in recent years the composition of capital inflows has shifted towards more volatile (and debt-creating) sources of financing, including Eurobond issuance and increases in nonresident deposits (currently at 15 percent of the total). These inflows have contributed to of the increase in external liabilities.

## Employment and Labor Markets

**The formal business sector has shown stagnation in new hiring<sup>4</sup> during the first half of 2013.** A moderate 0.1 percent increase (yoy) in the number of hired employees was observed by the end June 2013. Meanwhile agriculture, education, and the industrial sector grew jobs. The industrial sector, the largest employer with more than 100 thousand employees, increased hiring by 1.2 percent in the first half of 2013 compared to the same period last year. The sectors that shed jobs during this period were Construction, trade, transport and communication, social services and real estate.

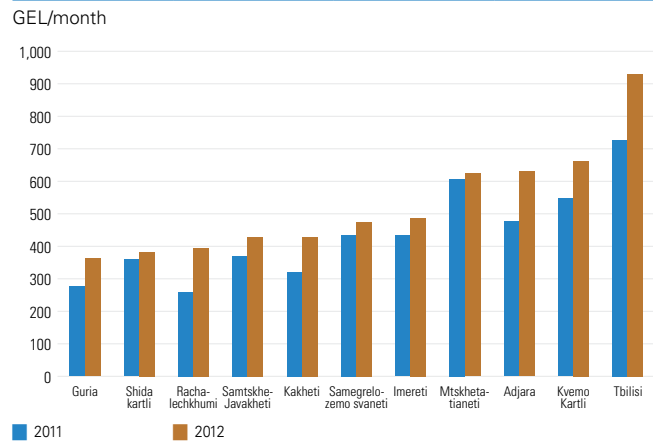
**Shifts in the labor force participation rates by age groups suggest that more of those under the age of 30 are entering the labor force.** Although youth remain the most vulnerable age group of the population

4 Source: Quarterly firm survey by Geostat.

with the highest unemployment rate of 37 percent, the number of employed young people has been growing. Meanwhile, the population above 60 appears to have become less active and is relying more on public safety nets.

The disparity between rural and urban unemployment rates increased in 2012. Urban unemployment decreased by 0.3 percentage points to 26.2 percent in 2012 compared to 2011. However, rural unemployment increased by 0.5 percentage points to seven percent over the same period. As in previous years, the highest unemployment rate was recorded in Tbilisi—29.1 percent in 2012—which is a slight improvement of 0.2 percentage points over 2011. The unemployment rate for women, at 16.1 percent, remains higher than that for men, at 13.8 percent. Nevertheless, the gender gap in employment decreased from 3.6 to 2.3 percentage points as unemployment rate decreased by 0.6 percentage points for women and increased by 0.7 percentage points for men.

**Figure 13.** Regional wages disparities are moderate



Source: Geostat.

**Georgia’s average wage has been rising but great regional disparity in wages persists.** In the first quarter of 2013, the average monthly nominal wage increased 7.9 percent to reach 730 GEL. The nominal wage in Tbilisi is 21.9 percent higher than the average of the country. The most well paid sector is financial intermediation followed by public administration, and the lowest wages are in fishing and education sectors. The regional decentralization policy may help create jobs in the regions conditional on a comprehensive package of reforms to improve institutional capacity and skills to support productivity growth.

## Poverty and Inequality

**2013 was marked by a renewed focus on social safety nets by the Government.** The healthcare budget almost doubled. Pensions increased from GEL110 to GEL125, with plans for a further increase to GEL 150 by the end of the year. Starting from July 1, 2013, all monetary benefits for vulnerable households (identified through the targeted social assistance program) doubled and all uninsured citizens (around 1.5 million) received the basic state insurance package. Another pro-poor measure envisages a refund of the 20 percent personal payroll tax on of the first GEL1,800 for citizens who can prove that their income did not exceed GEL6,000 in the last calendar year. The Government also initiated subsidies to the population through cuts in utility tariffs and selected services, including (i) a 25 percent cut in municipal cleaning services tariff and (ii) 20–27 percent cuts in electricity tariffs depending on consumption category. A 10 percent cut has also been announced on gas tariffs.

**The poverty rate increased after the double shock of the 2008 crisis and the conflict with Russia, and recovery has been slow.** The 2008 events had a delayed impact on the poverty rates. In 2009, the poverty



rate according to the national poverty line<sup>5</sup> dipped to its lowest point since 2004 (21.0 percent), after which it started increasing, reaching 22.4 percent in 2012. Poverty is more pronounced in rural areas (27.0 percent) than in urban areas (17.5 percent) since rural poverty continued to worsen even while urban poverty recovered to pre-crisis levels. Consumption inequality, measured by the Gini index, stayed more or less the same with the peak of 0.42 in 2009 and low point of 0.40 in 2006. In 2012, the index was 0.41.

**In addition, the indicator used by the World Bank to measure shared prosperity deteriorated from 2006 to 2011.** The World Bank indicator on shared prosperity, growth in consumption of the bottom 40 percent of the population, has declined by around one percent annually between 2006 and 2011.<sup>6</sup> National average consumption expenditure increased annually by 0.35 percent over this period. The pattern in the shared prosperity indicator is consistent with observed fluctuations in the poverty rates. A profile of those in the bottom 40 percent shows that labor market status is a critical determinant of shared prosperity—a larger percentage of those in the bottom 40 percent than the top 60 percent are unemployed or out of the labor force (inactive).

5 According to the ECA poverty line of \$2.5 per day, poverty in Georgia increased from 17 to 19.2 between 2009 and 2010.

6 These estimates were obtained using HBS consumption data, which includes spatially deflated data on food, non-food consumption, durables, rent and health expenditures.

## C. Economic and Structural Policies

### Fiscal Policy

The economic slowdown adversely affected both revenue collection and budget execution. The overall fiscal balance was in surplus of 0.6 percent of GDP (or GEL112 million) during January-September 2013 compared with 2.4 percent deficit for 2013 as a whole targeted under the budget. Revenue collections and expenditures declined by 3.8 and 13.5 percent respectively in nominal terms in the first three quarters of 2013 compared to of the same period in 2012. Within revenues, tax collections grew by 4.0 percent, while grants and other non-tax revenues declined by 27 percent.

Even though spending execution has been low, outlays on social support and health have been prioritized by the government and rose by 26 percent<sup>7</sup>. The Government took quick steps to meet the expectations of their voters and scaled up funding for the social programs by 26 percent in 2013 or GEL518 million (about 1.8 percent of GDP). Fourth quarter commitments for 2013 is expected to cover 20 percent increase in pensions from September 2013 (from GEL125 to GEL150), and the expansion of the Universal Health Care (UHC) starting from July 1 to cover all citizens who are not enrolled in the targeted medical insurance program (MIP). The operational surplus is projected to drop to 2.2 percent of GDP in 2013 from 4.0 percent in 2012.

The priorities for fiscal policy during 2014–2017<sup>8</sup> are:

- Higher social spending, including increased pension benefits, and higher allocations to health and education,
- More budget for agriculture and continued investments in infrastructure;
- Ensuring fiscal sustainability and maintaining fiscal deficit at a level supporting economic stability;
- Further improvement public financial management, particularly through improved efficiency of public investment.

The Government has prioritized spending in education, infrastructure, agriculture and energy as well. The following programs received the largest increases in budget funding:

- *Pensions* – (i) Starting from April 2013, all pensioners (not only those over 67) received a 25 percent increase to GEL125 followed by another 20 percent hike to GEL150 (\$90) per month from September 2013; (ii) The disabled persons' pension will increase by 42 percent to GEL 100 from September 2013; and (iii) The pensions for persons without primary caregivers and to victims of political repression will rise by 81 percent to GEL100 from September 2013 as well. In total GEL1.15 billion was allocated for pensions.
- *Targeted Social Assistance* - Starting July 2013, social benefits for households living below the poverty line were doubled to GEL60 per month for the first member of the households and 48 GEL per month for each

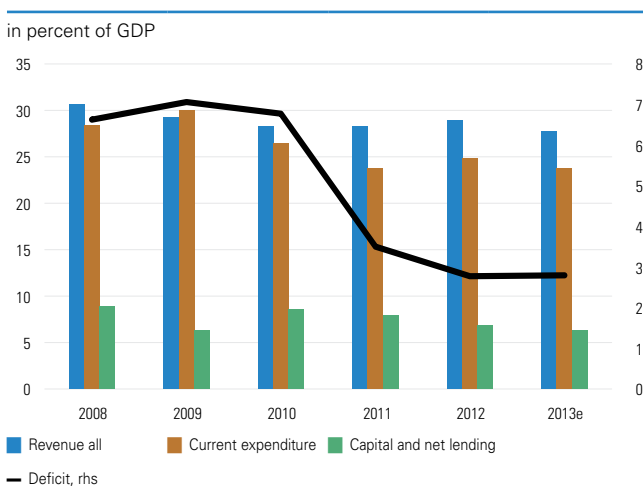
<sup>7</sup> Covers health care and social protection outlays according to the functional classification (COFOG).

<sup>8</sup> The second draft BDD document submitted to the parliament in in October 2013.

additional household member. In total GEL 0.5 billion has been allocated for provision of social benefits to corresponding beneficiaries.

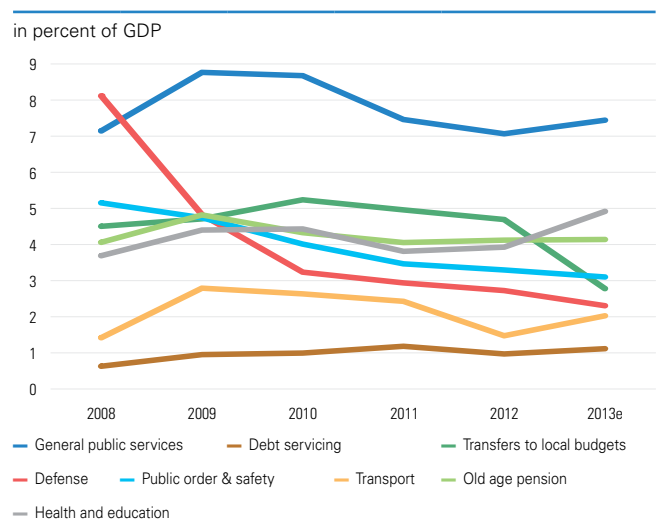
- *Healthcare* –More than GEL505.7 million has been allocated for health insurance and providing various categories of beneficiaries with access to state health programs, including:(i) expansion of the targeted medical insurance program (MIP) to cover children under six, all pensioners, students and disabled persons; and (ii) introduction of the state universal healthcare program from February 2013 to cover an additional 2.2 million uninsured persons. At the same time, health infrastructure rehabilitation funding has been cut by more than half. Up to GEL 15.0 million is allocated for rehabilitation and equipping of medical facilities.
- *Infrastructure* – Up to GEL 0.5 billion is allocated for construction/rehabilitation of road infrastructure in 2013. In addition, over GEL330.0 million will be spent on restoration/rehabilitation of regional and municipal and water infrastructure. GEL 449.3 million will be allocated from the regional projects fund for financing regional infrastructural projects. As a result, total infrastructure spending will increase by 9.5 percent compared to 2012.
- *Education* – Up to GEL60.7 million will be spent on rehabilitation of education institutions. GEL21.5 million is budgeted for the provision of netbooks (with special training software) to first graders and successful students as well as their teachers. In total, education spending is budgeted to increase by 7.3 in 2013 compared to 2012.
- *Agriculture* – The Ministry of Agriculture will spend up to GEL240 million to support the sector, including more than GEL86.0 million for procurement of agricultural equipment, an increase of 5.7 over the 2012 budget;
- *Energy* - GEL118.3 million is budgeted for strengthening Georgia’s energy system, which is lower by 34 percent compared to the 2012 budget.

Figure 14. Spending is down



Source: Ministry of Finance, staff calculations.

Figure 15. Defense spending continues to decrease



Source: Ministry of Finance, staff calculations.

The new social initiatives generate fiscal pressure given the transition from emphasis on targeted assistance to universal benefits. The increase in social commitments is not fully targeted at the poor; rather many non-poor are now eligible to benefit. Moreover, pressure on public resources has become a cause for concern since medium term projections of the fiscal balance were based on the assumption of six to seven percent growth, which seems unlikely to materialize.

The external public debt declined from 27.6 percent of GDP in 2012 to 24.8 percent as of July 2013. Total gross borrowing of the general government in the first half of 2013 was in line with the debt management strategy. Public external debt, the bulk of which is provided on concessional terms and is of long term maturity, is the main source of below the line financing. This financing strategy has helped maintain a favorable public debt situation with low annual repayment volumes and service costs.

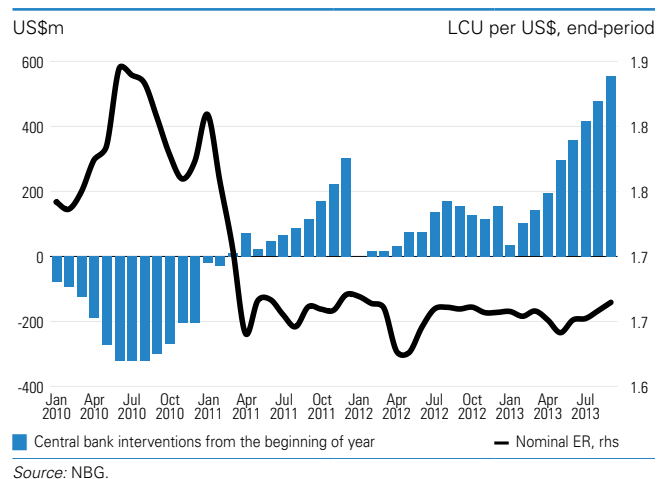
## Monetary and Exchange Rate Policies

The NBG has intervened in the exchange market throughout January–August 2013, helping curb appreciation pressures. The inflation targeting regime (six percent in 2012–2014) requires flexibility of the exchange rate to absorb external shocks given free capital mobility. However the NBG’s net interventions on the foreign exchange market in the amount over \$550 million during January–September of 2013 were higher than in previous years, but did help avoid sharp fluctuations even in the face of significant capital inflows.

Monetary policy has been loosened since 2012 in response to the decline in prices. The policy rate has been decreased gradually to 3.75 percent by the end of September or by 2 base points in 2013. This monetary policy was in line with an expected reversal of deflation price recovery by the beginning of 2013. While there has been some impact on retail borrowing, the transmission mechanisms of monetary policy are weakened in Georgia, both by high dollarization, and by the lack of development of a longer-term securities market.

Credit growth softened in line with the slower economic activity. Bank credit to the private sector increased by about 12 percent by July 2012 compared to 24 percent (yoy) in July 2012. Low demand for corporate loans and continued deposit growth contributed to excess liquidity, which helped push the average lending rate down by about one percentage point<sup>9</sup>.

Figure 16. NBG interventions absorb excess foreign exchange



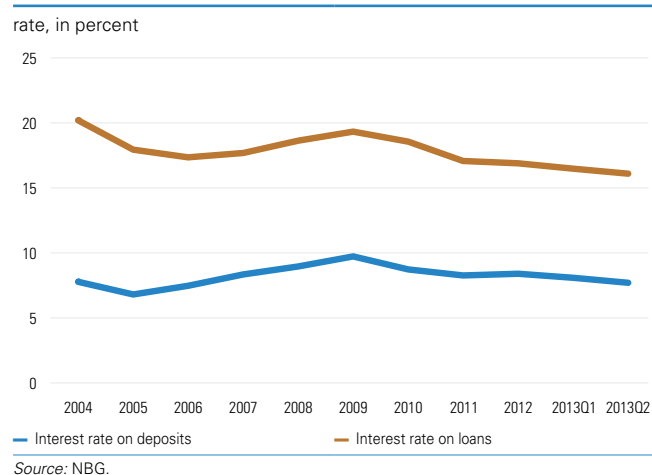
9 Source: NBG-Weighted average lending rate, annual change through Jan–July 2013.

**The quality of the Loan portfolio deteriorated during the economic slowdown.** The share of non-performing loans (NPL) declined from 12.5 percent at end-2010 to 7.8 percent by end-September 2012 and further to 9.5 percent by end-June 2013. Profitability indicators, returns on assets (ROA) and returns on equity (ROE) have increased from one to 2.12 percent and 6.35 to 12.02 percent during December 2012–June 2013 respectively.

**Interest rates on loans and deposits continued to decline through the first half of 2013, a trend that started in in 2010.** A wider variety of banking products and lower policy rate by NBG are those factors that improved the lending terms. Interest rates of credit portfolio declined to 16 percent by the first July 2013 from 17 percent in same period of previous year.

**The banking sector loan to deposit ratio (LDR) declined significantly, suggesting improved funding strategies of banks.** The LDR declined to 103 percent at end of June 2013, compared to a peak of 174 percent in April 2009. This can be explained by a contraction of lending growth due to tightening of credit origination requirements and reduced access to international funding during the crisis. The lending expansion in 2013 is lagging behind the growth rate on deposit, suggesting that banks are increasingly using internal funding to finance growth. While lending rates are declining, the spread remains relatively high, thus making borrowing costly and less accessible for domestic companies and consumers. The overall cost of borrowing remains very high, which raised credit risks and discouraged access to finance for local enterprises and households.

**Figure 17. Banks' lending & deposit interest rates are down**



## Macroeconomic Outlook and Debt Sustainability

The Government's medium-term program as outlined in the draft Basic Data and Directions (BDD) document<sup>10</sup> seeks to promote sustained and inclusive growth while ensuring macroeconomic stability. In particular, priorities include: i) stabilization of the economy and ensuring sustained and high growth rates; ii) maintaining single-digit inflation rate; iii) Reducing the unemployment rate; iv) improving the business environment.

While slower growth was observed in the fourth quarter of 2012 and the first half of 2013 largely due to lower business confidence and investment, recovery in the medium-term is projected, in response to reforms and the Government's publication of its economic development strategy. It is expected that Georgia will leverage progress on structural reforms and strengthen market access to boost growth to six percent a year

<sup>10</sup> Draft BDD document submitted to the parliament in October 2013.

**Table 1. Georgia Selected Economic Indicators, 2012–16**

percent change, unless otherwise indicated

	2012	2013p	2014p	2015p	2016p
<i>National Accounts</i>					
GDP nominal (in millions of GEL)	26,139	26,832	29,663	33,015	36,920
GDP growth	6.1	2.3	6.3	5.5	5.5
CPI	-0.9	0.0	4.0	5.0	6.0
GDP per capita (in U.S. dollars)	3,480	3,592	3,882	4,198	4,554
Unemployment rate	14.5	13.8	13.0	12.2	12.0
Gross investment (in percent of GDP)	29.0	20.2	23.6	26.4	26.7
National savings (in percent of GDP)	17.4	12.7	16.5	20.1	21.1
in percent of GDP, unless otherwise indicated					
<i>General Government Operations</i>					
Revenues and grants	28.9	27.1	25.9	26.7	26.8
Tax revenues	25.2	24.4	23.9	24.8	25.1
Expenditure and net lending	31.8	29.6	29.2	29.6	29.4
Current expenditure	24.9	24.9	24.5	24.4	23.4
Capital expenditure and net lending	6.9	4.7	4.7	5.2	6.0
Overall fiscal balance	-2.9	-2.4	-3.3	-2.9	-2.6
<i>External Sector</i>					
Current account balance	-11.6	-7.5	-7.1	-6.3	-5.6
Exports of goods and services	38.5	41.4	42.7	45.2	46.8
Imports of goods and services	58.3	54.3	55.3	56.9	57.9
FDI inflows	3.8	4.4	4.8	5.0	5.3
Foreign exchange reserves					
(Months imports of goods and services)	3.3	3.0	3.0	3.4	3.5
(In millions of dollars)	2,858	2,580	2,786	3,462	3,916
External public debt 1/	27.6	26.8	26.3	25.2	23.9

Source: World Bank staff estimates based on data from the IMF and the Georgian authorities.

Notes: e=estimates, p=projections; 1/ Public and publicly guaranteed debt

in the medium term, after slowing down in 2013 to 2.3 percent and a steady growth projected in 2014–2016. Despite slower domestic business activity in the short-term, the medium-term outlook is expected to benefit from easing regional tensions with the Russian market re-open to Georgian products, continued emphasis on policies to enhance competitiveness, investment in the tradable sectors, and job growth. Realizing the potential of the hydro power sector and transforming Georgia into a regional logistics and business hub are key priorities of the new Government. The Government also has ambitious plans to attract domestic and foreign private investment into Georgia, which could be considered as an upside risk.

**The medium-term macroeconomic framework reflects projected improvement of performance in the last quarter of the year on the expectation of improved business confidence and higher public investment.** The Government also has ambitious plans to attract significant private investment into the various investment funds (Agricultural Development Fund, Private Equity Fund, Partnership Fund and Youth Fund) and expects that if these plans materialize, investment rates will exceed current baseline level substantially, though uncertainties remain regarding the governance structure and the objectives and size of financing of these funds.

**Table 2. Composition of Expenditure Adjustment, 2010–2016**

in percent of GDP

	2010	2011	2012e	2013p	2014p	2015p	2016p
<b>Total Expenditure</b>	<b>34.8</b>	<b>32.1</b>	<b>31.8</b>	<b>29.6</b>	<b>29.2</b>	<b>29.6</b>	<b>29.4</b>
<i>Current Expenditure</i>	26	23.1	24.9	24.9	24.5	24.4	23.4
Wages & salaries	5.4	4.7	4.6	4.8	4.8	4.6	4.3
Goods & services	5.4	5	5.1	4.5	3.7	3.5	3.3
Interest payments	1	1.2	1.1	1.2	1.1	1.0	0.9
Subsidies & grants	1.9	1.8	2.1	1.7	1.9	1.8	1.7
Social expenses	7.8	6.8	8.2	9.0	9.6	10.0	10.0
Other expenses (incl: clearance of arrears)	4.5	3.7	3.8	3.6	3.4	3.5	3.3
<i>Capital expenditure and net lending</i>	8.8	8.9	6.9	4.7	4.7	5.2	6.0

Source: Georgian authorities; and Bank and Fund staff estimates and projections.

Notes: e=estimates, p=projections.

**The need for fiscal consolidation is well recognized by the Government and conservative execution of 2013 budget serves this purpose.** As domestic savings continue to grow over the medium term, it is expected that reliance on foreign financing flows will decline, supporting external sustainability. Household savings in particular are expected to grow significantly as the factors driving the consumption boom of the previous decade recede in importance, which is already reflected in the higher savings rate in 2012.

**It is expected that private investment will resume a lead role as growth recovers and strengthens in response to structural reforms.** While private savings continue to recover and maintain buffers in the event that countercyclical spending increases become necessary. Both capital and current expenditure consolidation are expected to contribute to fiscal adjustment during 2013–16.

**Given the Government’s commitment to fiscal consolidation the current account deficit is projected to continue narrowing in the medium term, with a flexible exchange rate anchoring sustainability in the face of uncertain capital inflows.** The current account improvement is consistent with a decline in the Government’s import-intensive capital spending and with investment needs being increasingly financed out of domestic resources as savings continue to grow. Structural reforms and improved market access are expected to support growth in tradable sectors’ productivity and create the supply conditions for export-led growth. The current account is viewed as sustainable, barring adverse shocks, given projections on continued official and private inflows and the flexible exchange rate regime.

**Georgia’s external debt remains sustainable.** Total external public debt declined from 29.1 percent of GDP in 2011 to 27.6 percent in 2012 and is expected to decline further to 26.8 percent in 2013. External debt is being closely monitored by the authorities and its growth in recent years has mainly been due to commercial borrowings, as the country’s access to international financial markets strengthened.

**Growth is projected to recover to six percent in the medium-term, accompanied by a decline in the financing gap and in total debt, which is projected to fall to 40 percent of GDP by 2020.** The external debt service to export ratio will stabilize at about 14 percent of exports with one-off spikes to about 19 percent linked with the Eurobond repayment schedule. Total public debt fell from 34 percent in 2010 to 28 percent in 2012 and is projected to fall below 14 percent after full repayment of Eurobonds in 2021. Public external debt follows a similar pattern (Table 3). Domestic public debt is close to \$1.2 billion or 7.4 percent of GDP in 2012

and is forecasted to increase to about 10 percent by 2021 as reliance on domestic savings to finance public investment increases. The most recent Debt Sustainability Analysis (DSA), implemented in collaboration with the IMF, confirms that debt indicators are within prudential thresholds.

**Table 3. Projected Sources of External Financing, 2010–2016**

in percent of GDP

	2010	2011	2012	2013p	2014p	2015p	2016p
Current account	-10.2	-12.7	-11.6	-7.5	-7.1	-6.3	-5.6
Capital account	1.8	1.1	0.8	0.6	0.7	0.6	0.5
Financial account	8.5	15.4	11.1	7.8	9.4	10.2	7.7
FDI net	5.8	6.7	3.8	4.2	4.8	5.0	5.3
Other private inflows net	-0.4	6.5	5	2.1	3.8	4.5	3.0
Monetary authorities net	0	0	0	0	0	0	0
Public Sector net	2.9	2.1	3.5	2.5	2	1.8	0.9
Errors and omissions	-0.1	-0.2	-0.2	0	0	0	0
Other financing	0.3	-3.6	-1	-1.1	-3.0	-4.5	-2.6
International reserves	-1.8	-4	1.3	1.7	-1.4	-3.6	-2.5
Use of IMF resources	2.4	-0.4	-1.6	-2.4	-1.5	-0.8	-0.1
Exceptional financing	-0.3	0.8	0	0	0	0	0

Source: Calculations based on data from the Ministry of Finance, NBG, and IMF.

## Structural Reforms

Since the parliamentary elections the Government initiated and implemented a number of structural reforms. Legal changes were approved on the labor and tax codes. More work is needed to establish the institutional and regulatory frameworks for the investment funds, establish in detail and then implement the decentralization strategy, and finalize both the competition law and modalities for establishing the independent competition agency.

At the same time the Government took firm steps to initiate reforms in agricultural sector. The parliament has approved the law on cooperatives and new agency has been created to manage the process of a creation of cooperatives. This reform is expected to improve productivity in the sector. Another land related legal act was also subject of high interest. The law declared a moratorium on land sales to foreigners or enterprises with foreign participation. While this seems to be an attempt to give more opportunities to Georgian farmers, the opposition sees it as an additional barrier to investments in agriculture. The long-lasting problem of land registration and absence of reliable land cadaster in the country is a serious concern as well. The Government is committed to resolve these issues in close cooperation with the development partners.

The Ministry of Finance announced that it will develop a new tax code decoupled from the customs code. The previous government merged the tax and customs two codes in 2010 to establish common rules for tax and customs operations. However the current administration sees a need to strengthen the customs code, which is viewed as needing strengthening to ensure proper security and control, and risk management mechanisms.



**A new co-investment fund was launched by the Prime Minister on September 30, 2013.** It will operate as a limited partnership and will be managed independently. Memorandums of Understanding have been signed with a number of partners, including Prime Minister Ivanishvili, suggesting funds of up to \$6 billion may be forthcoming, conditional on project identification and preparation. The focus areas of the Fund were announced as tourism, transit infrastructure, logistics, energy, manufacturing, and agriculture. In particular the Fund may support the construction of Anaklia port.

## Annex

### Annex 1. Special topic—Education

#### Context

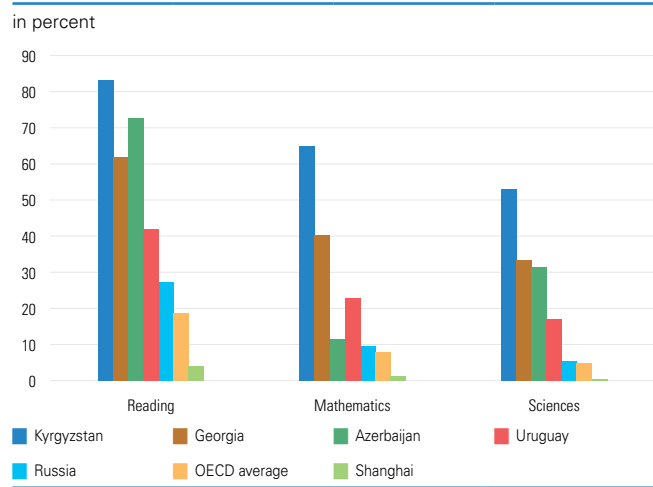
**Strong growth in Georgia since 2004 has been driven in large part by capital inflows and by growth in the non-tradable sectors, posing a challenge for sustainability.** Supporting productivity growth will require improvement in labor skills, which would also support employment generation. To achieve this goal, policy options include alleviating labor market mismatches through improved services for job matching services and career guidance, and education reforms to support the development of market relevant skills.

**There is evidence of significant skills mismatches.** About a third of workers have tertiary education in Georgia, placing the country above many other high-income countries in this regard. The country is, however, also leading in terms of unemployment among the tertiary educated (33 percent). Study<sup>11</sup> suggests that 22 percent of the highly educated will not find jobs that require tertiary education. On the other hand, 33 percent of jobs that require vocational skills are not filled by workers with vocational education; and firms report the inability to find qualified workers. This suggests that despite their tertiary education, many workers do not possess employable skills. Thus, there is a very significant mismatch of skills on the job market.

**Innovative firms are in more dire need of skilled labor than traditional firms, signaling the importance of skilled workers for growth.** Innovative firms—defined as firms that have introduced new products or services in recent years—complain more about the lack of skilled workers than traditional firms. That is, 40 percent of such firms see inadequate skills as an obstacle, compared to 23 percent among traditional firms. This suggests that supply of skilled labor is essential to increase number of innovative firms and ultimately achieve high growth rates.

**Learning assessments suggest that there is considerable room for improvement in the quality of education.** Primary and secondary education is not strong in Georgia, constraining access to vocational and higher education. Students in Georgia are not provided with a solid basis for vocational (or, higher) education. As the OECD program for International Student Assessment (PISA) showed in 2009, “15-year-old student population in Georgia was estimated to be performing well below the levels of their counterparts in the OECD”. In specific,

**Figure A1.** The share of students who have not achieved sufficient level of proficiency in the three disciplines to participate effectively and productively in life for Georgia and other countries



Source: PISA, staff calculations.

11 “Skills mismatch and unemployment in Georgia—The challenge of creating productive jobs”; Jan Rutkowski, World Bank technical paper, 2012.

“More than half of the students were estimated to be below the baseline level of reading proficiency needed to participate effectively and productively in life.” The same holds for scientific and mathematic literacies: in both categories, around a third of the assessed students were judged unlikely to be able to perform the most basic tasks on the PISA literacy assessments. Comparison to other countries participating in PISA (77 in total) paints a grave picture as well. If measured by the share of students who have not achieved sufficient level of proficiency in the three disciplines to participate effectively and productively in life, Georgia ranks 8th from last in reading, 10th from last in mathematics and 6th from last in science.

## Access to Secondary and Vocational Education

**Access to secondary education in Georgia is good.** Access to secondary education in cities is not an issue. According to the Village Infrastructure Survey (Geostat), “only 2.3 percent and 2.5 percent of villages report that they are unable to access primary and secondary schools, respectively”<sup>12</sup>. Access to secondary education is obviously more problematic in mountainous areas, where population density is smaller.

**Access to vocational training is yet to see improvement.** Problem lies in both access to training and demand from the population. “In 2009/10 only 11,995 students were accepted into vocational training programs, compared to 30,189 students admitted into higher education institutions.” Moreover, village infrastructure census shows that “vocational training institutions are either unknown or unneeded, or impossible to access in a significant share of villages. Urban regions have less accessibility problems than rural ones”<sup>13</sup>

## Quality of Secondary Education

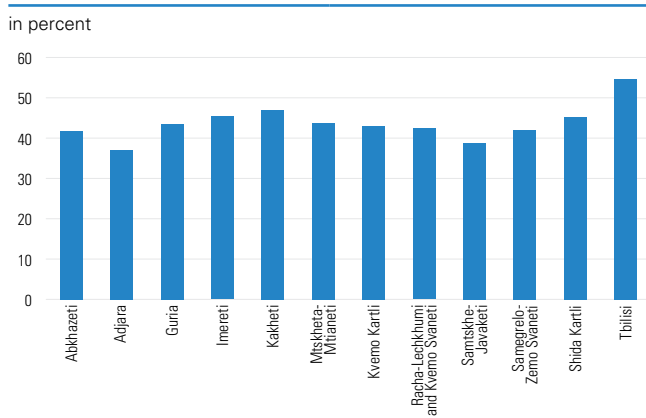
**While access to secondary education is not problematic, there is a significant difference between regions in the quality of teaching.** Measured by the percentage score achieved by teachers on certifying exams in Georgian language and literature, mathematics, and foreign language, Tbilisi clearly stands out from other regions. Following Tbilisi are Mtskheta-Mtianeti and Kvemo Kartli—regions in close proximity to the capital. In the west of Georgia, Imereti is the best-performing region. While the difference in percentage points is not great, it should be taken into consideration that teachers from absolute majority of Tbilisi schools (90 percent) have been assessed, while teachers from only the best 10–25 percent of schools have passed the exams in other regions (except Imereti, where this share is 83.5 percent). As more results become available (every teacher should pass the exam by 2014), the picture will change considerably and average scores of all regions but Tbilisi and Imereti are expected to decrease drastically.

**Disparity between regions is even more pronounced in the scores of the Unified National Exams (UNE).** UNE is taken by only those who plan to embark on higher education, so it would be reasonable to expect more or less uniform results from all regions on average. However, differences in student scores are even larger than those of teachers’. If we average percentage scores obtained by students of different regions in Georgian language and literature, mathematics, and Foreign language, Tbilisi is once again a clear winner. Second and fourth places belong to Kakheti and Mtskheta-Mtianeti—again the regions close to the capital. Imereti ranks third and is once again one of the best performing regions.

<sup>12</sup> [http://www.iset-pi.ge/index.php?article\\_id=887](http://www.iset-pi.ge/index.php?article_id=887)

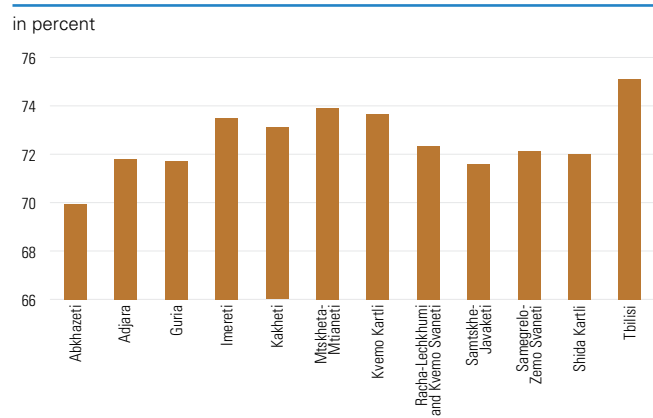
<sup>13</sup> Ibid.

**Figure A2.** Average percentage score of students in Georgian language, Foreign language and mathematics



Source: Ministry of Education and Science, staff calculations.

**Figure A3.** Average percentage score of teachers of Georgian language, Foreign language and mathematics



Source: Ministry of Education and Science, staff calculations.

The relationship between the scores of the students and certification scores of the teachers is moderate at best<sup>14</sup>. If we model the share of students who passed the threshold in respective subject on UNE by the certification score of their teacher (while controlling for settlement type, school type and region), we find that there is a small, but significant link in subjects of mathematics and Foreign language, but there is no significant relationship between score of the teacher and share of passing students in Georgian language and literature. In mathematics, each additional point gained by the teacher on certification exam raises student’s chance of passing UNE exam by 1.19 percent. In Foreign language, additional point of the teacher raises chances of success of the student by 0.48 percent. Weakness (or non-existence) of these links can be explained by the fact that many students take private tutoring and their exam outcomes do not depend on their school teachers.

Socio-economic conditions constitute an important factor determining students’ ability to access higher education, even more so than the quality of teaching. While there is a clear correlation between student and teacher scores by region, the effect of teacher quality almost disappears when controlling for socio-economic factors. Moreover, socio-economic factors contribute much more relatively than teacher quality to students’ chances of success on exams. Students from private schools score consistently higher than those from public schools: being in a private school increases student’s chances of passing the UNE exam by 30 to 40 percent depending on the subject (the details are in the annex tables). Living in Tbilisi is also a big advantage, and gives students a 20 to 30 percent better chance of qualifying. In general, living in a city as compared to living in a rural area is important and gives students up to 40 percent better chances of qualifying. These results essentially emphasize that accessing higher education depends largely on socio-economic factors.

14 The results are based on a sample of over 12,000 certification scores of teachers.

**Table A1.** Multivariate Poisson regression model. Share of school students who passed the threshold in the mathematics exam is the dependent variable. Significant effects are given in bold.

Variable	Percent change in student's success chance	P-value
<b>Teacher subject score (cont.)</b>	<b>1.20</b>	<b>0.012</b>
Rural school	-58.33	0.118
<b>Public school</b>	<b>-31.50</b>	<b>0.000</b>
Abkhazia	-6.75	0.394
<b>Ajdara</b>	<b>-28.70</b>	<b>0.043</b>
<b>Guria</b>	<b>-26.45</b>	<b>0.000</b>
<b>Imereti</b>	<b>-27.94</b>	<b>0.002</b>
Kakheti	-21.26	0.127
<b>Mtskheta-Mtianeti</b>	<b>-21.27</b>	<b>0.003</b>
Kvemo Kartli	18.72	0.584
Racha-lechkhumi-Qvemo Svaneti	13.27	0.316
<b>Sanrskhe-Javakheti</b>	<b>-23.96</b>	<b>0.005</b>
<b>Samegrelo-Zemo Svaneti</b>	<b>-22.89</b>	<b>0.009</b>
Teacher subject score effect surplus in rural schools	1.67	0.159

**Table A2.** Multivariate Poisson regression model. Share of school students who passed the threshold in the foreign language exam is the dependent variable. Significant effects are given in bold.

Variable	Percent change in student's success chance	P-value
<b>Teacher subject score (cont.)</b>	<b>0.48</b>	<b>0.032</b>
Rural school	42.49	0.464
<b>Public school</b>	<b>-29.95</b>	<b>0.000</b>
<b>Abkhazia</b>	<b>71.29</b>	<b>0.044</b>
<b>Ajdara</b>	<b>-21.79</b>	<b>0.000</b>
Guria	11.65	0.296
Imereti	-3.98	0.410
Kakheti	3.39	0.643
Mtskheta-Mtianeti	-9.29	0.541
Kvemo Kartli	-5.32	0.419
Racha-lechkhumi-Qvemo Svaneti	52.42	0.288
Sanrskhe-Javakheti	21.22	0.071
Samegrelo-Zemo Svaneti	-7.50	0.257
Shida Kartli	-8.94	0.160
Teacher subject score effect surplus in rural schools	-0.74	0.194

**Table A3.** Multivariate Poisson regression model. Share of school students who passed the threshold in the Georgian language and literature exam is the dependent variable. Significant effects are given in bold

Variable	Percent change in student's success chance	P-value
Teacher subject score (cont.)	0.13	0.712
Teacher skills score (cont.)	-0.29	0.456
<b>Rural school</b>	<b>-18.01</b>	<b>0.000</b>
<b>Public school</b>	<b>-28.71</b>	<b>0.000</b>
<b>Abkhazia</b>	<b>119.50</b>	<b>0.014</b>
<b>Ajdara</b>	<b>-18.84</b>	<b>0.000</b>
Guria	-5.45	0.580
Imereti	-2.31	0.609
Kakheti	4.83	0.466
Mtskheta-Mtianeti	0.03	0.998
Kvemo Kartli	-8.56	0.133
<b>Racha-Iechkhumi-Qvemo Svaneti</b>	<b>62.07</b>	<b>0.001</b>
<b>Sanrskhe-Javakheti</b>	<b>28.26</b>	<b>0.009</b>
Samegrelo-Zemo Svaneti	-1.95	0.752
Shida Kartli	-4.95	0.410

## Appendix

### Appendix 1. Economic and Social Indicators

Selected Indicators	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<i>Income and Economic Growth</i>											
GDP growth (annual %)	9.4	12.3	2.3	-3.8	6.3	7.0	6.0	2.3	6.3	6.0	5.5
GDP per capita growth (annual %)	8.5	12.6	2.4	-4.4	5.3	6.2	5.3	2.2	6.2	5.9	5.5
GDP per capita (US\$)	1,765	2,318	2,920	2,441	2,614	3,220	3,480	3,592	3,882	4,198	4,554
Private Consumption growth (annual %)	28.3	-0.4	13.6	4.4	-3.7	4.3	8.9	2.5	2.2	3.9	8.1
Gross Investment (% of GDP)	25.6	25.7	21.5	15.3	19.3	22.5	24.9	20.2	23.6	26.4	26.7
Gross Investment - Public (% of GDP)	7.6	9.0	8.8	7.3	8.4	8.8	6.9	4.3	5.3	5.9	6.1
Gross Investment - Private (% of GDP)	18.0	16.7	12.7	8.0	10.9	13.7	18.0	15.9	18.3	20.5	20.6
Savings (% of GDP)	14.7	14.6	5.0	2.5	11.6	14.0	15.5	12.7	16.5	20.1	21.1
<i>Money and Prices</i>											
Inflation, consumer prices (annual %, end of year)	8.8	11.0	5.5	3.0	11.2	2.0	-1.4	-1.5	6.0	5.0	6.0
Inflation, consumer prices (annual %, period average)	9.2	9.2	10	1.7	7.1	8.5	-0.9	0.0	4.0	5.5	6.0
Nominal Exchange Rate (End of period)	1.71	1.59	1.67	1.69	1.77	1.67	1.66	1.7	1.7	1.8	1.9
Real Exchange Rate Index (1998=100)	1079	108.4	118.8	114.3	117.5	127.4	121.2	122.4	122.7	122.5	121.5
<i>Fiscal</i>											
Revenues (% of GDP)	26.8	29.3	32.6	29.3	28.3	28.2	28.9	27.1	25.9	26.7	26.8
Expenditures (% of GDP)	29.8	34.0	37.1	38.4	34.8	32.1	31.8	29.6	29.2	29.6	29.4
Current (% of GDP)	21.6	25.8	28.4	30.1	26.0	23.1	24.9	24.9	24.5	24.4	23.4
Capital (% of GDP)	7.8	8.4	8.0	8.4	8.8	8.9	6.9	4.7	4.7	5.2	6.0
Overall Fiscal Balance before grants (% of GDP)	-4.0	-5.8	-7.8	-10.3	-8.9	-4.5	-3.9	-2.9	-3.8	-3.3	-2.9
Overall Fiscal Balance after grants (% of GDP)	-2.6	-5.2	-6.6	-7.1	-6.8	-3.5	-2.9	-2.4	-3.3	-2.9	-2.6
External debt, total (current US\$ million)	1,697	1,790	2,691	3,382	3,937	4,201	4,357	4,574	4,554	4,841	5,204
External Public Debt (% of GDP)	21.1	16.8	23.5	31.7	33.6	28.8	27.6	26.8	26.3	25.2	23.9
Total Public Debt (% of GDP)	31.4	25.4	31.3	41.3	43.2	37.6	35.1	35.5	33.2	32.1	30.9
Debt service ratio (% of revenues)	2.8	2.0	2.1	3.3	3.5	4.2	3.5	2.3	4.4	5.0	4.7
<i>External Accounts</i>											
Export real growth (% , yoy)	6.5	6.7	-6.2	0.0	24.9	11.4	12.6	10.4	10.8	13.7	11.0
Import real growth (% , yoy)	20.9	14.2	3.1	-19.4	14.6	11.6	12.0	-4.9	11.2	14.6	13.5
Merchandise exports (current US\$ millions)	1,667	2,088	2,428	1,894	2,462	3,254	3,501	3,973	4,463	5,109	6,047

Selected Indicators	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Merchandise imports (current US\$ millions)	3,686	4,984	6,264	4,293	5,052	6,748	7,714	7,381	8,133	9,043	9,982
Services, net (current US\$ million)	157.8	161.2	21	339.7	513.5	747.6	1,098	1,314	1,430	1,708	1,631
Workers' remittances, net (BoP, current US\$ millions)	149.1	243.3	302.7	315.8	415.3	616.9	710	753	828	886	957
Current account balance before grants (BoP, current US\$ millions)	-1,700	-2,698	-3,873	-2,101	-2,291	-3,173	-2,315	-1,430	-1,360	-1,303	-1,280
as percent of GDP	-21.9	-26.5	-30.7	-19.9	-19.7	-22.0	-20.5	-9.4	-8.3	-7.2	-6.6
Current account balance after grants (BoP, current US\$ millions)	-1,175	-2,009	-2,813	-1,134	-1,192	-1,844	-1,817	-1,217	-1,244	-1,188	-1,146
as percent of GDP	-15.1	-19.8	-22	-10.5	-10.2	-12.8	-11.6	-7.5	-7.1	-6.3	-5.6
Foreign Direct Investment (current US\$ millions)	1,190	2,014	1,564	658	815	1,117	603	700	850	950	1,100
<i>Population, Employment and Poverty</i>											
Population, total (millions)	4.40	4.39	4.38	4.39	4.44	4.47	4.51	4.52	4.52	4.53	4.53
Population Growth (annual %)	1.85	-0.15	-0.29	0.08	1.16	0.74	0.94	0.10	0.10	0.10	0.00
Unemployment Rate	13.6	13.3	16.5	16.9	16.3	15.1	14.5	13.8	13.0	12.2	12.0
Poverty headcount ratio at national poverty line (% of population)	23.4	22.7	24.7								
Poverty headcount ratio at US\$ 1.25 a day (PPP) (% of population)	15.58	15.19	15.27								
Poverty headcount ratio at US\$ 2 a day (PPP) (% of population)	33.63	34.92	32.21								
Inequality - Income Gini	41.11	39.37	41.34								
Life Expectancy	72.9	73	73.2	73.4	73.5	73.7					
<i>Other</i>											
GDP (current LCU, billions)	13.79	16.99	19.07	17.99	20.74	24.34	26.14	26.74	29.56	32.90	36.80
GDP (current US\$, billions)	7.76	10.17	12.8	10.77	11.64	14.44	15.70	16.22	17.55	19.00	20.61
Doing Business Rank	112	37	21	16	13	12	12	9			
HDI (Human Development Index) ranking	97	96	96	89	74	75	72				
CPIA (overall rating)	4.1	4.3	4.4	4.4	4.4	4.4	4.4				
Economic Management	4.5	4.7	4.7	4.7	4.7	4.7	4.8				
Structural Policies	4.2	4.7	5	5	5	5	5				
Social Inclusion and Equity Policies	4.1	4	4.2	4.2	4.2	4.2	4.2				
Public Sector Management and Institutions	3.7	3.7	3.8	3.8	3.9	3.8	3.8				

Source: MOF, NBS, Geostat, WB staff calculations and projections.





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