



STATE AUDIT OFFICE OF GEORGIA

REPORT

ON THE GOVERNMENT'S REPORT ON THE ANNUAL EXECUTION OF 2022 STATE BUDGET

SHORT VERSION





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THE KEY ECONOMIC AND FISCAL INDICATORS



	2018	2019	2020	2021	2022	
MACROECONOMIC INDICATORS						
Nominal GDP (mln GEL)	44,599	49,253	49,267	60,003	71,754	
Economic growth	4.8%	5.0%	-6.8%	10.5%	10.1%	
Average inflation rate	2.6%	4.9%	5.2%	9.6%	11.9%	
Foreign trade balance (mln GEL)	-5,982	-5,721	-4,709	-5,857	-7,996	
Foreign direct investment (mln GEL)	1,352	1,352	590	1,242	2,000	
Remittance (mln US Dollar)	1,580	1,733	1,886	2,350	4,372	
Current account deficit to GDP (percent)	6.8%	5.8%	12.5%	10.4%	4.1%	
FISCAL INDICATORS						
Receipts (mln GEL)	12,693	13,252	18,042	18,378	20,529	
Expenditures (mln GEL)	12,590	13,470	16,175	19,808	20,163	
Change in cash balance (mln GEL)	103	-217	1,868	-1,430	366	
Tax revenues (mln GEL)	9,696	9,666	9,365	11,439	14,977	
Budget deficit to GDP (GFSM 2001)	0.7%	2.6%	9.0%	6.2%	2.1%	
Public debt stock (mln GEL)	17,795	20,623	30,835	31,216	29,655	
Government debt stock (mln GEL)	17,349	19,916	29,672	29,812	28,538	
Debt Rule Ratio	38.9%	41.2%	61.0%	50.3%	40.3%	

1. TENDENCIES OF THE STATE BUDGET EXECUTION



State Budget receipts and expenditures for the fiscal year 2022 were initially planned as 19.4 and 19.2 billion GEL, respectively. After two amendments in the State Budget Law, the plan of the receipts was increased by 1.1 billion GEL and expenditures – by 1 billion GEL. By the end of the fiscal year,

actual receipts and expenditures amounted to 20.5 and 20.2 billion GEL, respectively. Therefore, cash balance increased from 882 million GEL to 1.2 billion GEL.

Table 1. Execution of the State Budget components – 2022 (million GEL)

	BUDGET LAW Initial	BUDGET LAW Amendment I	BUDGET LAW Amendment II	ACTUAL
Receipts	19,363	19,852	20,449	20,529
Expenditures	19,171	19,679	20,186	20,163
Change in cash balance	192	174	263	366



Figure 1. Execution of the State Budget components – 2022 (million GEL)

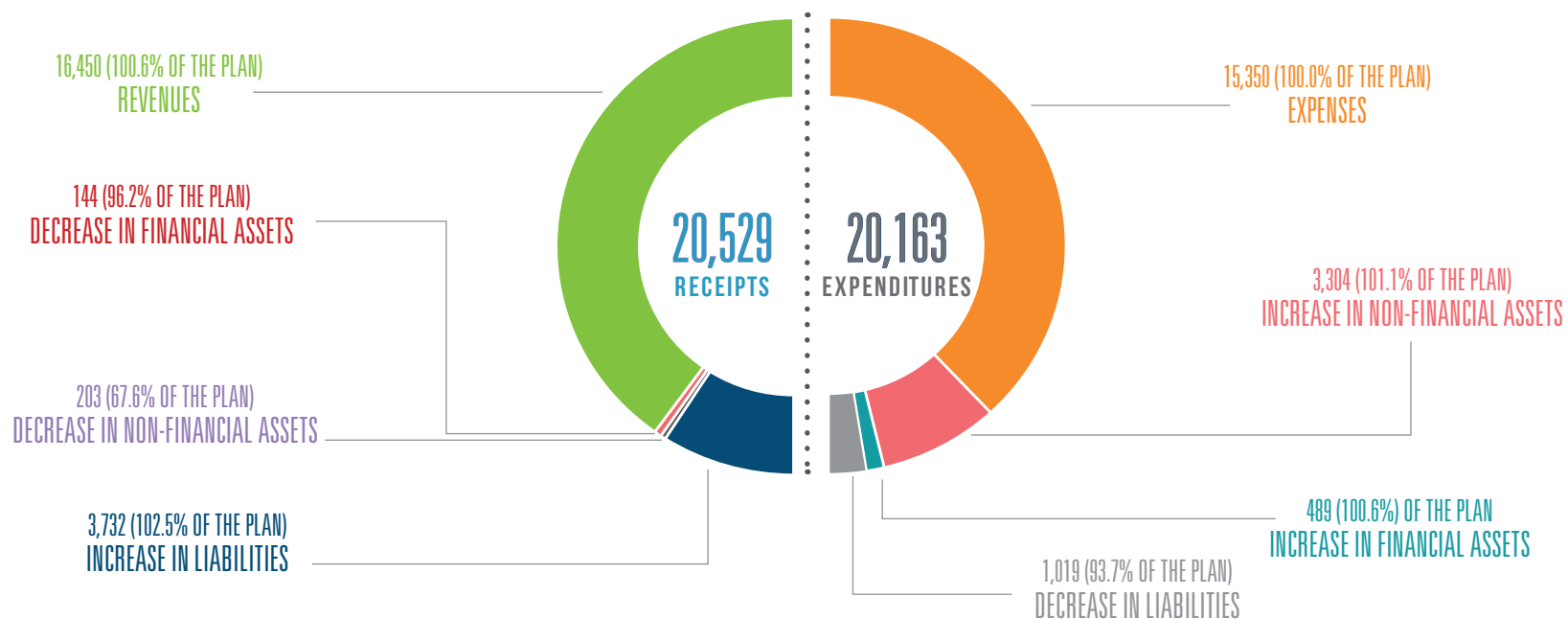
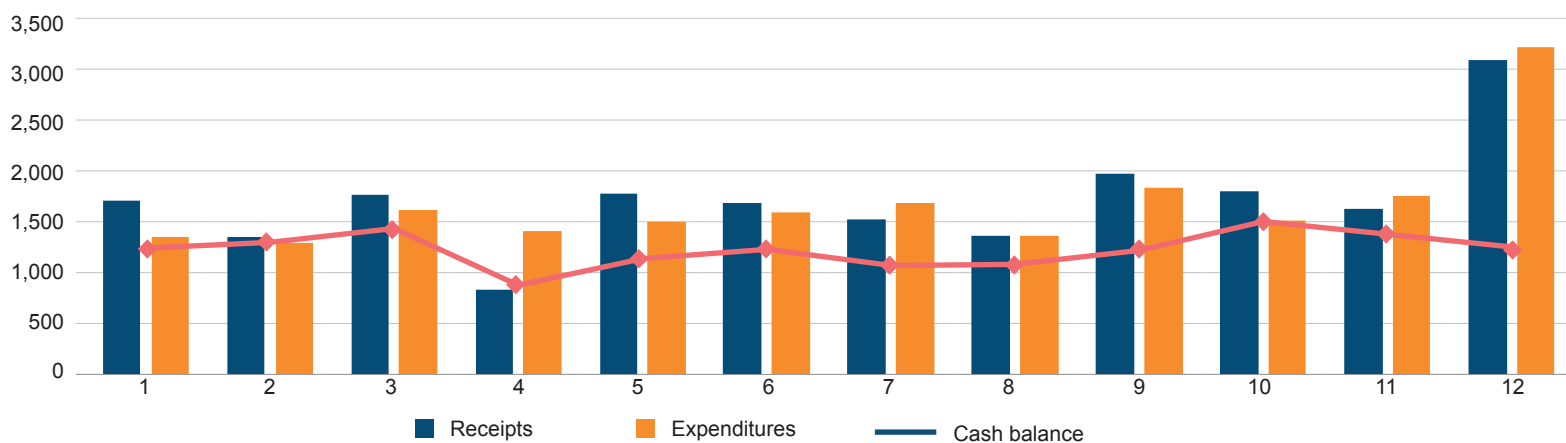


Figure 2. Monthly dynamics of the State Budget receipts, expenditures and cash balance – 2022 (million GEL)



2. ANALYSIS OF MACROECONOMIC FORECASTS AND FISCAL RISKS REALISATION

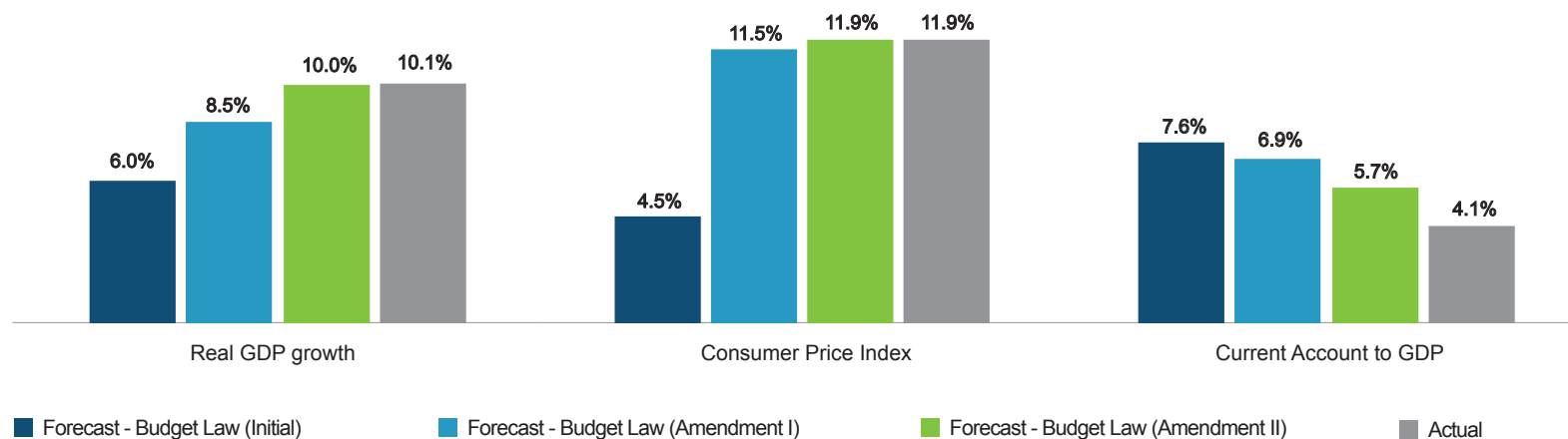


2.1 OVERVIEW OF THE MACROECONOMIC ENVIRONMENT

In 2022, real GDP growth achieved 10.1% and exceeded the final forecast by 0.1 pp. The main reasons behind the growth were the recovery of the tourism sector and significant increase in the remittances received from abroad.

Yearly average increase in the consumer price index was 11.9% and equals to the forecasted figure reflected in the final Budget Law. However, it exceeded the forecast presented in the initial Budget Law by 7.4 pp.

Figure 3. Comparative analysis of the forecasted and actual figures of the key macroeconomic indicators - 2022



2.2 OVERVIEW OF THE MACROECONOMIC AND FISCAL RISKS REALISATION

“Fiscal Risks Analysis” document, attached to the initial State Budget Law, was not updated when the the State Budget Law was amended. However, “Macroeconomic Scenario Analysis” document was adjusted, and the State Budget parameters

for 2022 were re-planned based on the six negative macroeconomic risks.

It should be noted that the State Budget execution report does not contain information about the materialization of the risks and policy responses addressing them.

Table 2. Analysis of the macroeconomic scenarios’ document – 2022

The status of realization of macroeconomic risks		
	Realized	Not Realized
Regional risks	X	
Tightening monetary policy due to inflation	X	
Aggravated pandemic risk		X
Deteriorating global sentiments toward tourism		X
Global trade recession		X
Global economic recession		X

Risks that were not reflected in the Budget Law, however, they were also relevant for the 2022 Fiscal year		
	Realized	Not Realized
Decrease in dollarization	X	
Insufficient acceleration of infrastructure projects		X



Compliance analysis of the actual macroeconomic parameters versus the figures presented in the macroeconomic scenarios document attached to the final Budget Law, indicates

that in 2022 economic tendencies developed in combination of the positive and base case scenarios.

Table 3. Actual and predicted macroeconomic parameters based on the different scenarios - 2022 (million USD)

INDICATORS	BASIC		PESIMISTIC		OPTIMISTIC		ACTUAL
Real GDP growth	✓	10.0%		8.7%		10.6%	10.1%
Consumer price index	✓	9.6%		9.1%		10.1%	9.8%
Current account to GDP		-5.7%	✓	-5.4%		-5.8%	-4.1%
Current account balance		-1,403	✓	-1,324		-1,461	-1,012
Export of goods		7,214		7,114	✓	7,276	7,564
Import of goods		-11,999		-11,713	✓	-12,163	-12,705
Export of services		4,472		4,357	✓	4,531	5,649
Import of Services		-2,549		-2,491	✓	-2,595	-2,960
Budget deficit		2.7%		2.8%	✓	2.5%	2.1%
Government debt / GDP	✓	39.6%		40.2%		39.2%	39.8%



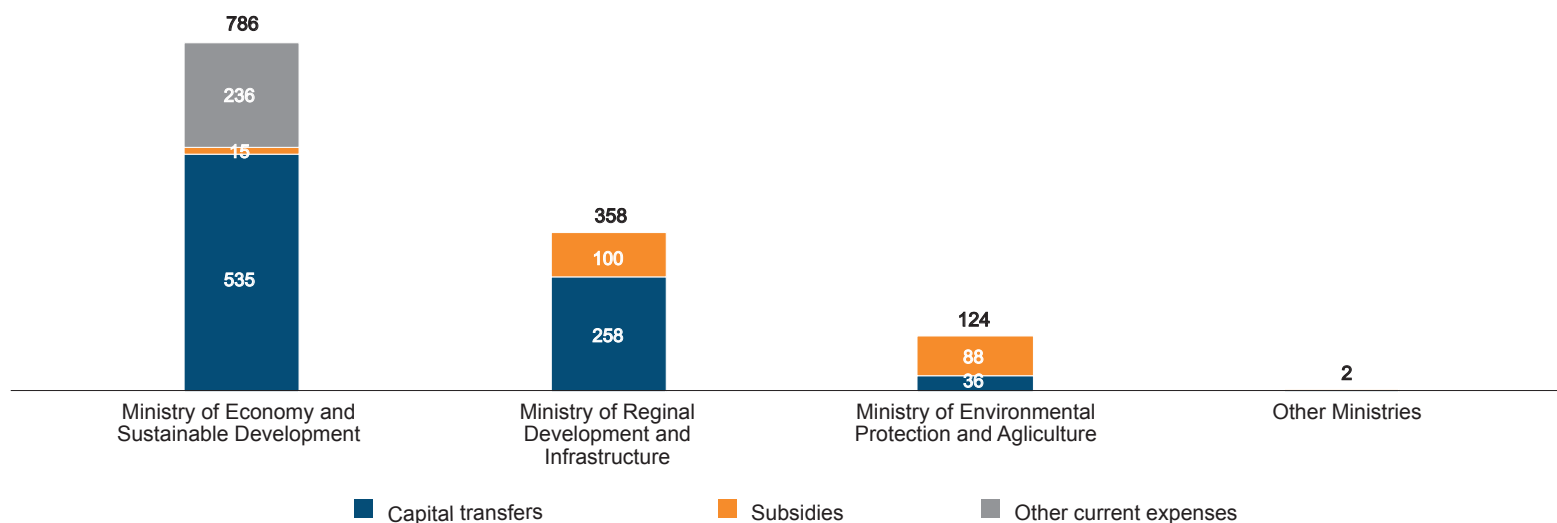
1

State-owned enterprises are one of the main sources of fiscal risks due to their negative financial results in recent years. According to the Fiscal Risk Analysis Document attached to the 2023 Budget Law, total net income of 147 SOE's in FY 2021 amounted to 376 million GEL entirely resulted from the appreciating national currency (net profit from only this source equals to 515 million GEL). Excluding the impact of exchange rate fluctuations, over the past seven years consolidated financial result of the SOEs was positive only in 2019. Without excluding this effect, profitability in this period was recorded only in 2021.

In 2022 SOEs under the control of five line ministries received 1.3 billion GEL from the State Budget, out of which, 830.5 million GEL were used for financing capital projects. The rest

were spent on subsidizing particular activities, covering operating expenses and/or liabilities of the SOEs.

Figure 4. Amount of money transferred to the SOEs from the State Budget by the controlling ministries - 2022 (million GEL)



For further improvement of fiscal transparency, detailed information about the money transfers received by SOE's from the State Budget (taking into account sectorization), including the purpose of financing, should be presented in the annual report on the execution of the State Budget.

2

International arbitration disputes presents another source of fiscal risk. By 2022 the total potential disputed amount from seven ongoing international arbitration cases totalled to 2.9 billion US dollar.

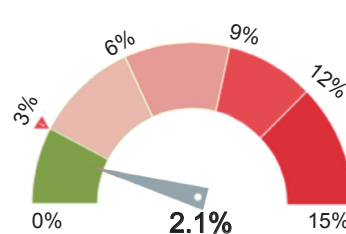


It should be positively mentioned that Ministry of Finance has taken into account the recommendation of the State Audit Office and from 2022 started the analysis and assessment of risks arising from international arbitration disputes. The analysis is presented in the "Fiscal Risk Analysis" Document attached to the 2023 State Budget Law.

2.3 FISCAL RULES

BUDGET BALANCE RULE

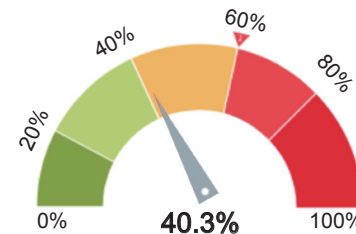
Budget deficit to GDP



▼ Limit set by the Organic Law

DEBT RULE

Public debt to GDP



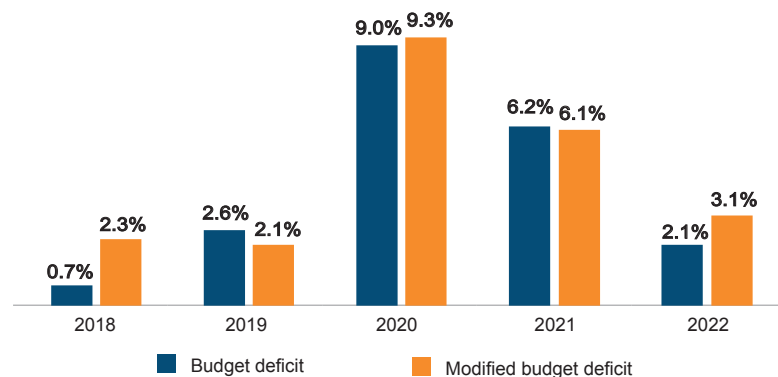
▼ Limit set by the Organic Law

BUDGET BALANCE RULE (BUDGET DEFICIT)

At the end of 2022, budget deficit amounted to 2.1% of GDP (1.5 billion GEL) and returned within the 3.0% limit set by the Organic Law on "Economic Freedom". Increase in revenues (4.7 billion GEL, 29%) exceeded the sum of the growth in the expenses (1.1 billion GEL, 7%) and change in non-financial assets (1.3 million GEL, 31%) that resulted in decrease in the budget deficit by 2.2 billion GEL (by 60%) compared to FY 2021.



Figure 5. Dynamics of budget deficit and modified budget deficit (defined under the ongoing IMF program) to GDP

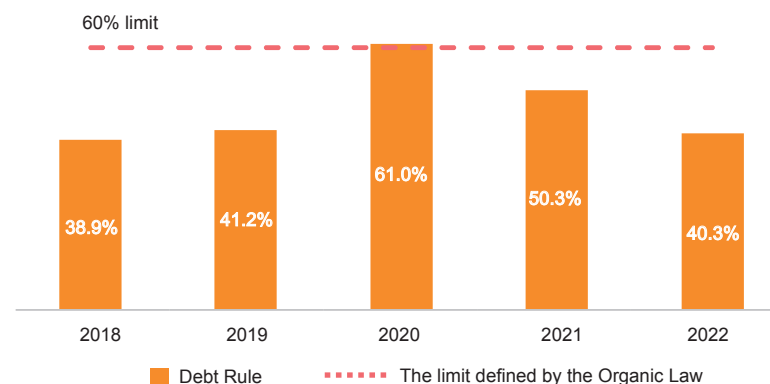


DEBT RULE

According to the information presented in the State Budget execution report, the Debt Rule at the end of 2022 comprised 40.3%, which is within the 60% limit set by the Organic Law. Compared to the previous FY, reduction of the ratio by 10 pp was mainly caused by the appreciation of national currency toward US dollar and growth of nominal GDP.

It is important to note, that the Debt Rule presented in the State Budget execution report does not include the financial liabilities of SOEs classified as part of General Government sector (the total liabilities from this source equaled to 211 million GEL¹ by the 1st of January 2021 (0.3% of GDP of 2022)).

Figure 6. Debt Rule and its compliance with the 60% limit set by the Organic Law on Economic Freedom (%).



¹ According to MoF's preliminary information, the liabilities amounted to 92.1 million GEL by the end of 2022 (based on exchange rate of 31.12.2022).





It should be positively mentioned that the recommendation of State Audit Office has been taken into account and with the amendment in the Budget Code of Georgia in 2022, the financial indicators of SOE's classified as part of the General Government sector will be included in the government debt and budget deficit figures.



RECOMMENDATIONS

TO THE MINISTRY OF FINANCE:

In order to ensure the sustainability of the government's debt, at the next stage of the SOEs sectorization reform, it is important, the borrowing authority of SOEs classified as General Government sector get regulated and involvement of the Ministry of Finance as a coordinating agency in this process be explicitly set.



3. STATE BUDGET REVENUES



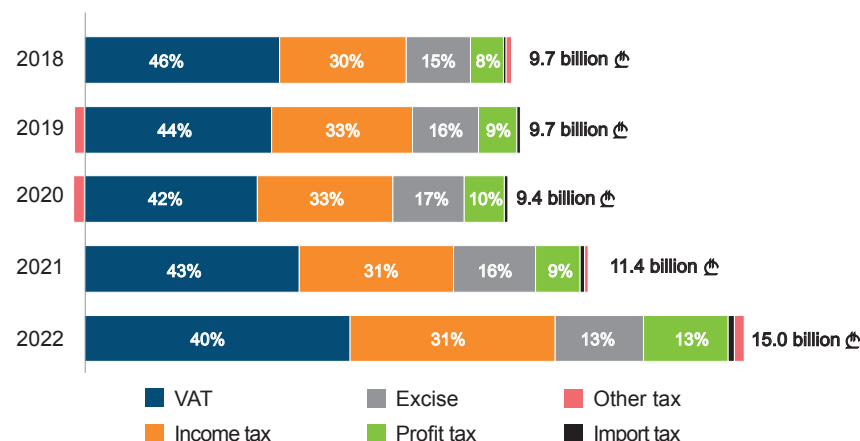
In 2022 actual amount of revenues comprised 16.5 billion GEL and exceeded the projected figure reflected in the final Budget Law by 93 million GEL (0.6%). All components of the revenues outruned corresponding projected values.

Table 4. Mobilisation of the State Budget revenues – 2022 (million GEL)

	Actual	Execution with approved plan (%)		
		Budget Law Initial	Budget Law Amendment I	Budget Law Amendment II
Tax revenues	14,977	111.6%	103.5%	100.1%
Grants	359	105.1%	104.8%	104.8%
Other revenues	1,114	140.2%	117.9%	106.1%
Revenues	16,450	113.0%	104.4%	100.6%

The tax revenues amounted to 15.0 billion GEL and increased by 3.5 billion GEL (30.9%) compared to the previous FY. As in the previous years, VAT (40.3%) and income tax (31.0%) present the leading contributors to the tax revenues. Excise (13.4%), profit (12.9%) and import taxes (0.8%) have relatively modest share in tax revenues.

Figure 7. Components of tax revenues – 2022 (billion GEL)



The plan of decrease in non-financial assets was set at the level of 300 million GEL by the final State Budget Law. Actual figure was only 202.8 million GEL (67.6% of the plan). It is important to note, that similar situation took place in 2021 (in 2021, decrease in non-financial assets equaled to 60.9% of the plan).



4. STATE BUDGET EXPENDITURES



According to the initial State Budget Law, the annual plan of expenditures was 19.2 billion GEL. During 2022, by the amendments in the Law, the plan of expenditures initially increased by 507.6 million GEL in September, and then by 507.4 million GEL in December. As a result final plan amounted to 20.2 billion GEL. By the end of the year, actual expenditures comprised 20.2 billion GEL (99.9% of the annual plan).

In 2022, similarly to the previous years, expenditures were unbalanced across months. Namely, budget expenditures occurring in December was considerably greater than in the previous months. Expenditures in December 2022 amounted to 3.2 billion GEL that was 16.0% of total yearly expenditures.

Figure 8. Monthly expenditures of the State Budget (million GEL).

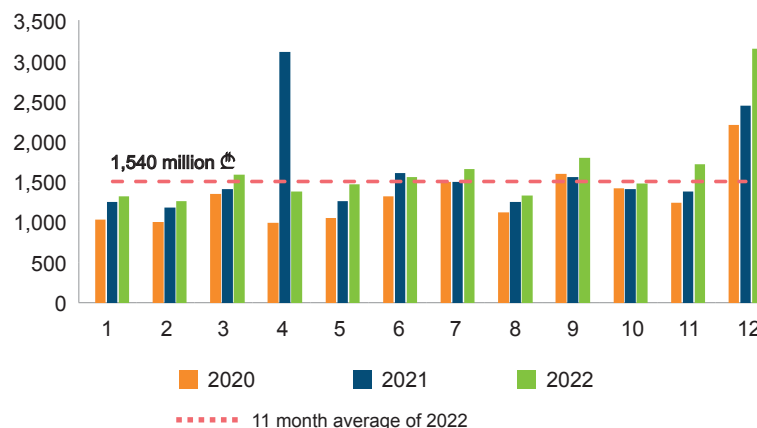
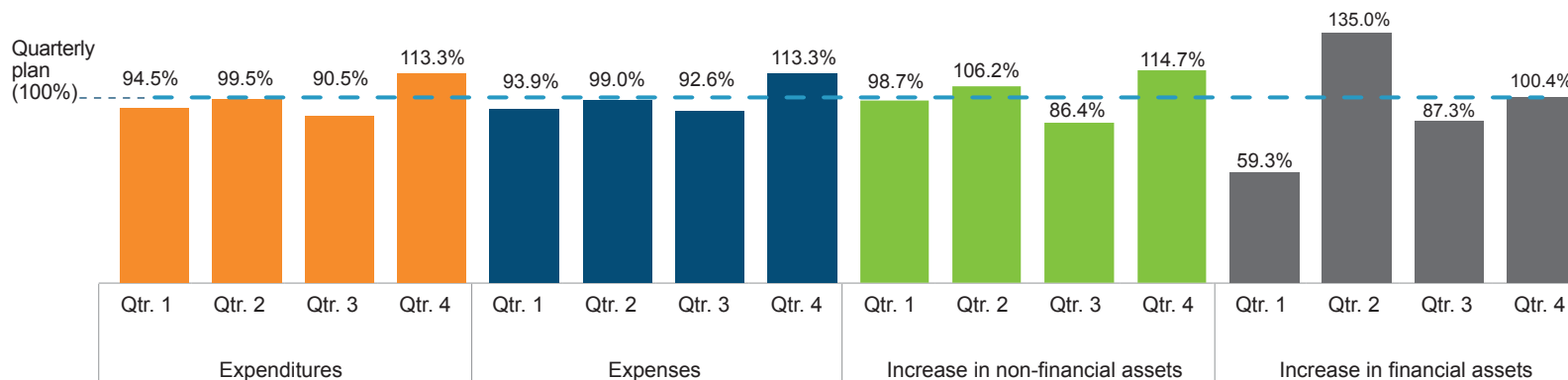
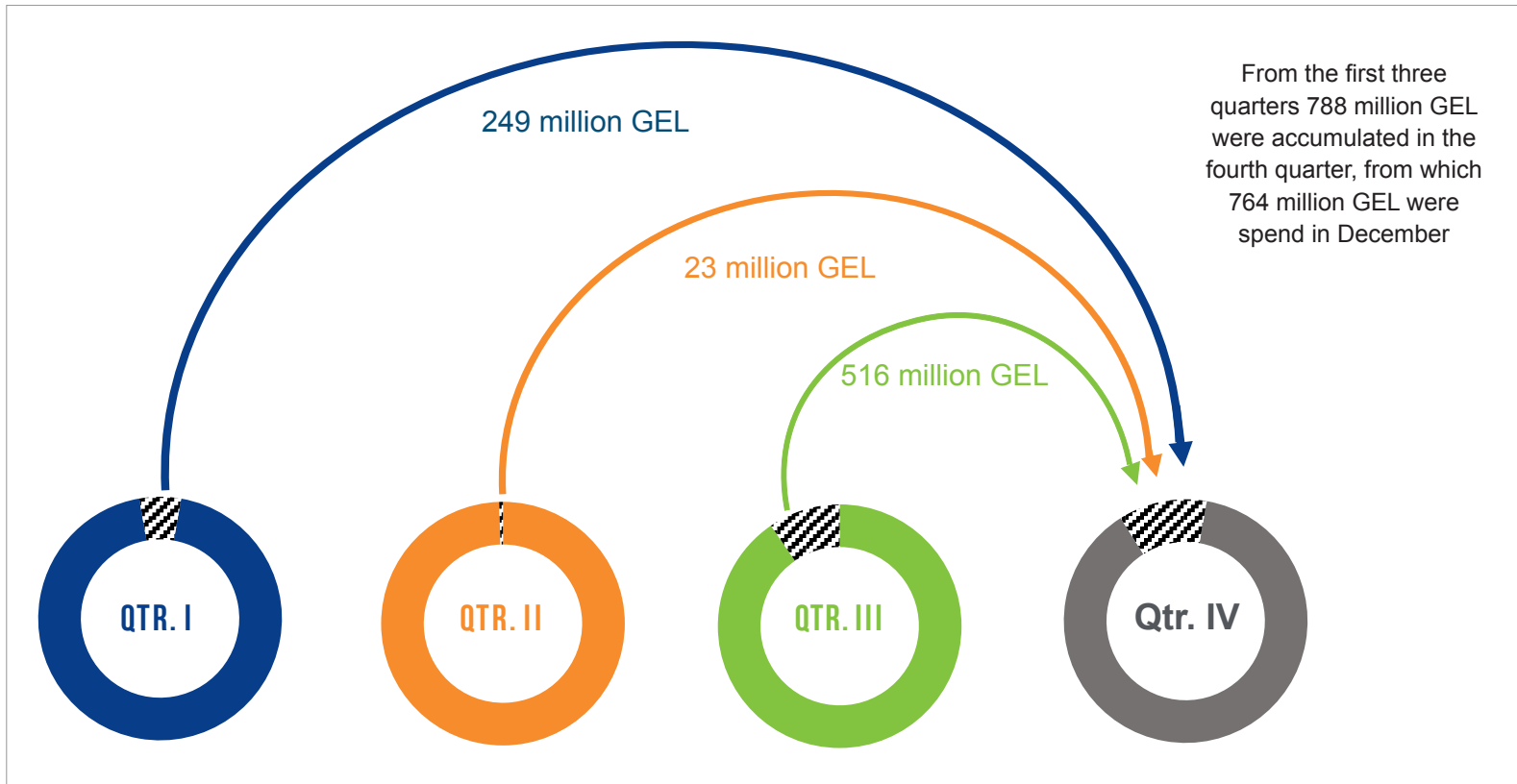


Figure 9. Performance of actual expenditures compared to the quarterly plans – 2022



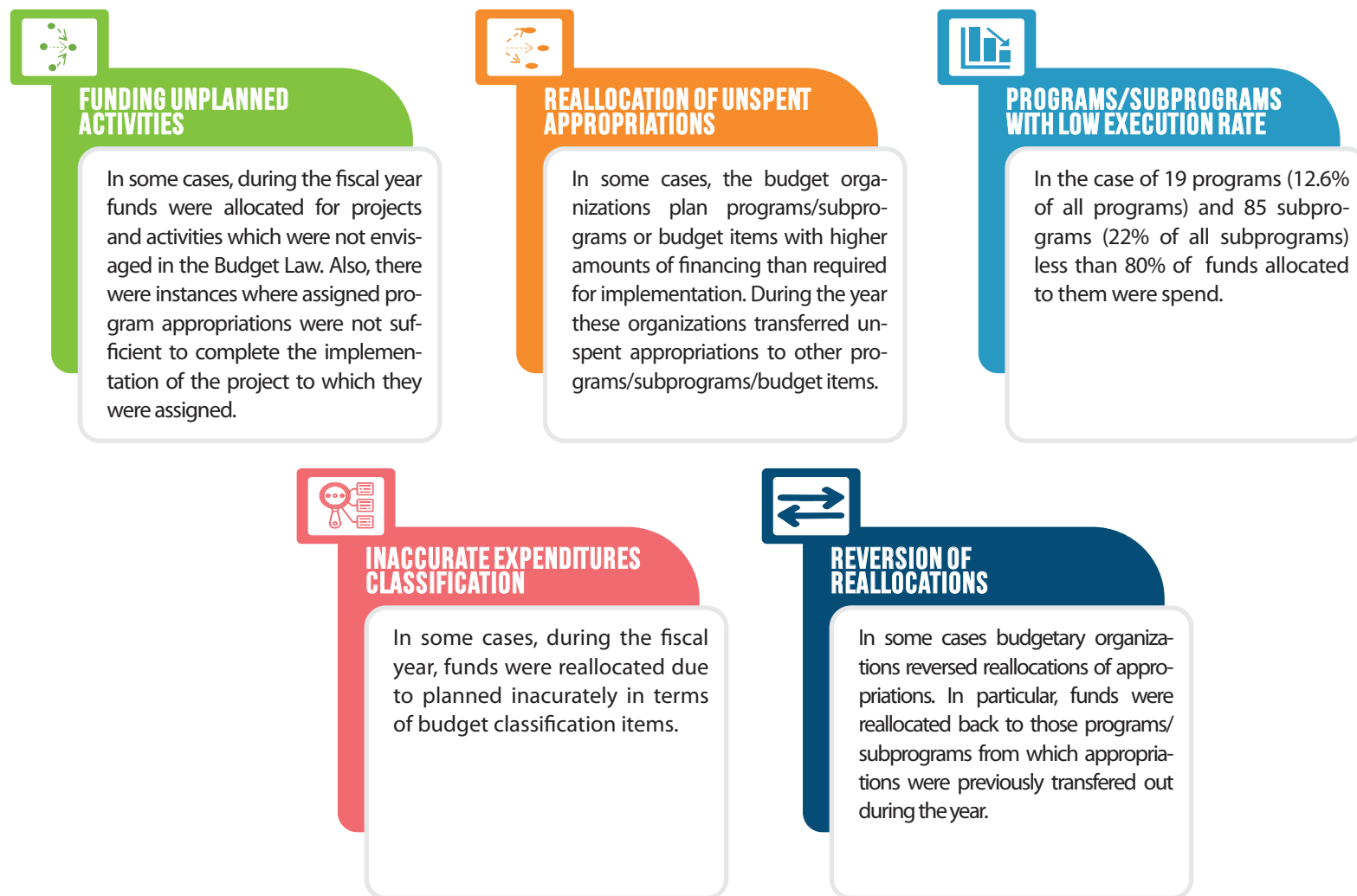
Substantial increase in spending at the end of the fiscal year is partially related to the lower level of actual expenditures in the first three quarters compared to corresponding plans. This tendency finally resulted in exceeding spending over the planned amounts in the fourth quarter.

Figure 10. Dynamics of the reallocated appropriations from the first three quarters to the fourth quarter – 2022



4.1 ADJUSTMENT AND EXECUTION OF THE STATE BUDGET ALLOTMENTS

Analysis of the State Budget execution in the context of spending agencies, revealed the following systemic deficiencies related to adjustments and usage of budgetary funds:

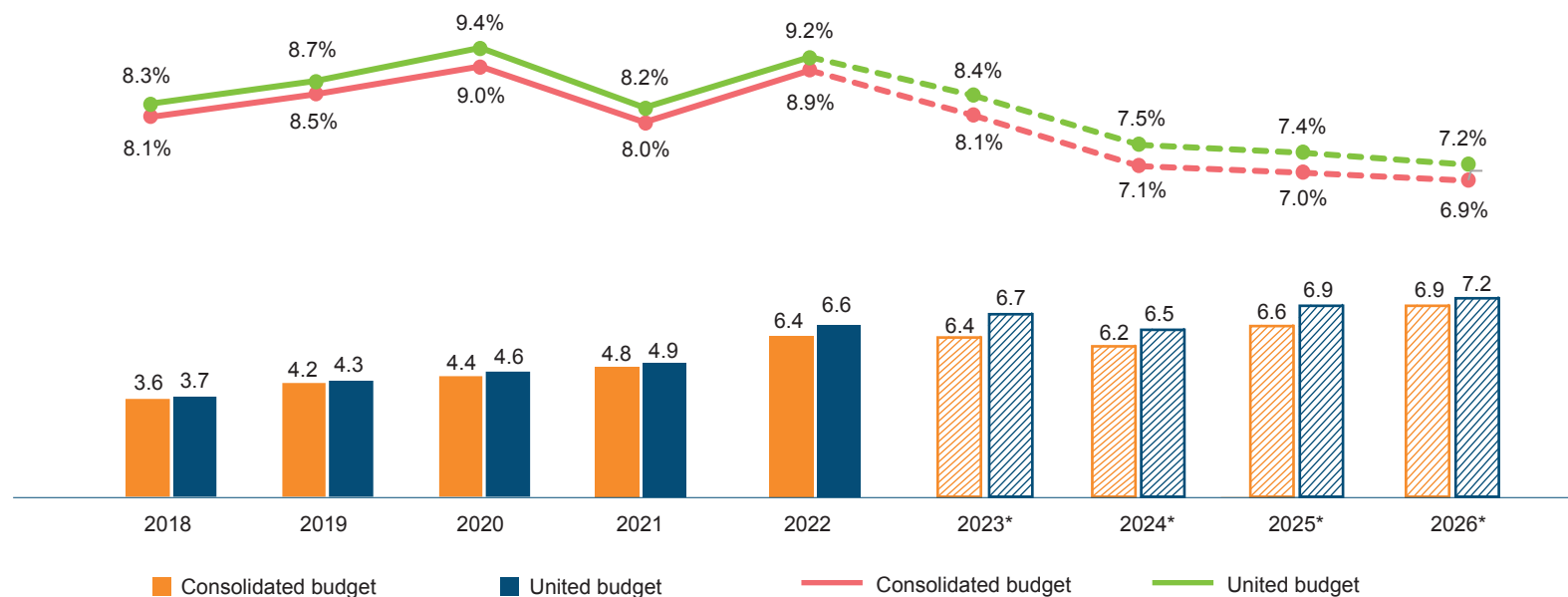


4.2 MANAGEMENT OF INVESTMENT PROJECTS

The capital expenditures of the consolidated budget amounted to 6.4 billion GEL (8.9% of GDP) for 2022. According to the Budget Code of Georgia, the consolidated budget does

not include expenditures of LEPLs/NPLEs financed by their own revenues. In 2022, capital expenditures financed by this source comprised 196 million GEL. In order to present a complete picture about the capital expenditures, it is reasonable to also consider the resources spent through LEPLs/NPLEs own revenues in the mentioned direction.

Figure 11. Dynamics of capital expenditures of consolidated and united budgets in nominal terms and as a percentage of nominal GDP (billion GEL, %).



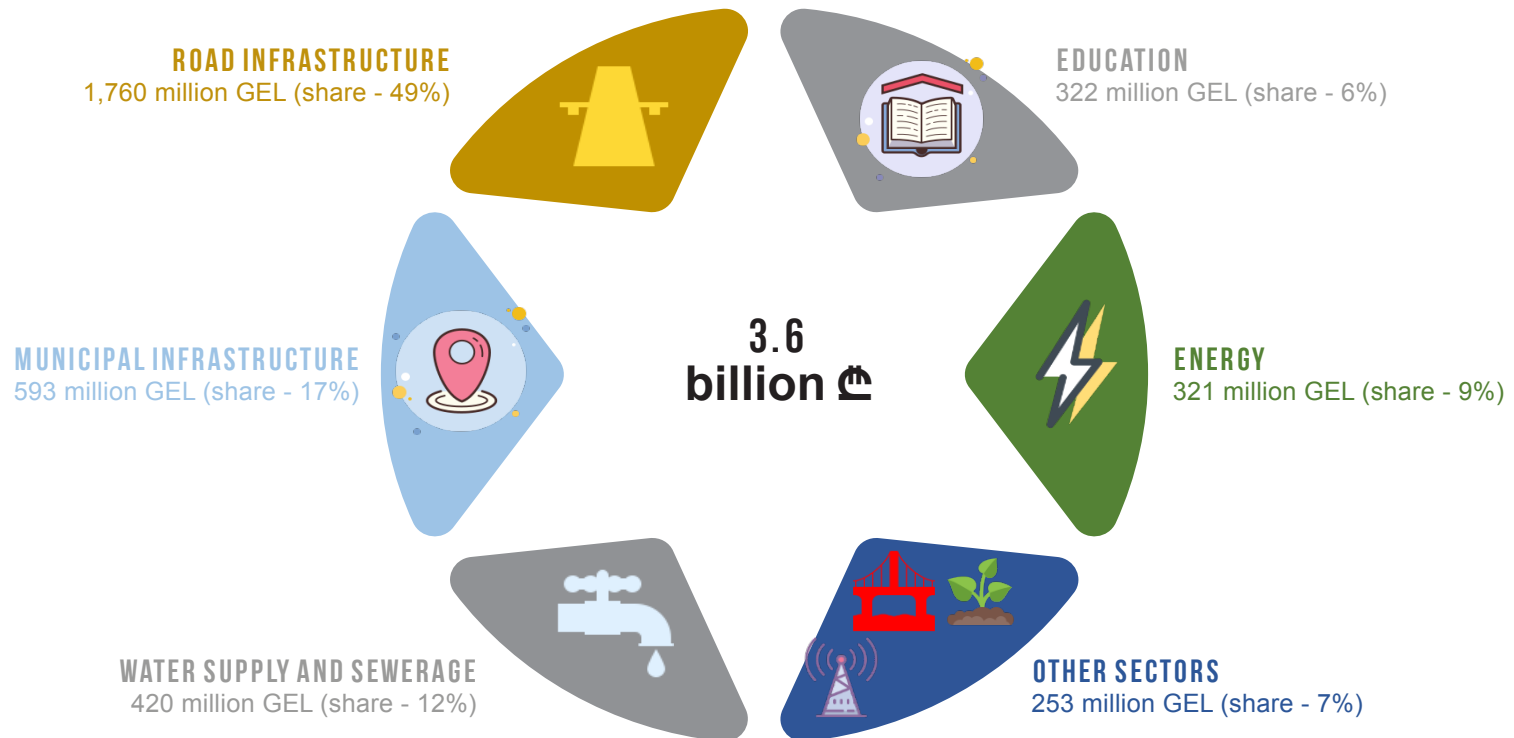
* Forecast



In 2022, total expenditures for investment projects amounted to 3.6 billion GEL (99.7% of planned figure), which has increased by 550 million GEL (18%) compared to the previous year. The analysis of the sectoral classification of invest-

ment projects reveals that the largest proportion of capital expenditures were directed to road infrastructure (49%), development of the municipal infrastructure (17%) and water supply and sewage projects (12%).

Figure 12. Sectoral classification of investment projects, amount of each sector in nominal values (million GEL) and share in total investment projects (%) – 2022



THE FOLLOWING ISSUES SHOULD BE CONSIDERED REGARDING THE MANAGEMENT OF INVESTMENT PROJECTS:



REPORTING

In 2022 financing of 18 capital projects were changed by the amendments of the State Budget Law (25% of all projects). The monetary amount of this change was 556 million GEL. However, the capital project's annex had not been updated, which is a shortcoming in terms of transparency and accountability.



CHANGE OF PLANS

Deficiencies in the planning process of investment projects often leads to large-scale changes in projects financial plans. In particular, in 2022, compared to 2020, the plans were increased or decreased by more than 50% for 29 and 12 projects, respectively. Also, compared to 2021, the plans were increased by more than 50% for 9 projects and decreased for 13 projects.



UNUSED APPROPRIATION

In case of 45 projects out of 84 defined by the 2022 State Budget Law, less than 80% were utilized. Low level spending creates additional challenge for investment projects financed by external credit resources. Especially if agreements set commitment fee on the unspent part of the loan.



DELAY IN TIME

According to the 2020 State Budget Law, 12 projects had to be completed until 2022. Due to the delay in the implementation process of the mentioned projects, according to the 2021 State Budget Law, the implementation of 8 projects were postponed to 2022, 4 projects financial plan remained at 0. According to the State Budget Law of 2022: a) Mentioned 4 projects were financed by the total 3.2 million GEL; b) The plan of 6 out of 8 projects were adjusted again and the total financial plans increased to 215 million GEL.



4.3 LEGAL ENTITIES OF PUBLIC LAW/NON-PROFIT (NONCOMERCIAL) LEGAL ENTITIES

The analysis of the balance of the LEPLs/NPLEs, presented in the State Budget execution report for 2022, revealed several deficiencies related to the completeness and accuracy of the reported information and planning of receipts/expenditure. These deficiencies are presented below:

The consolidated balance sheet document of the State Budget execution report does not provide information on the revenues/payments of individual LEPLs/NPLEs by the sources of formation.

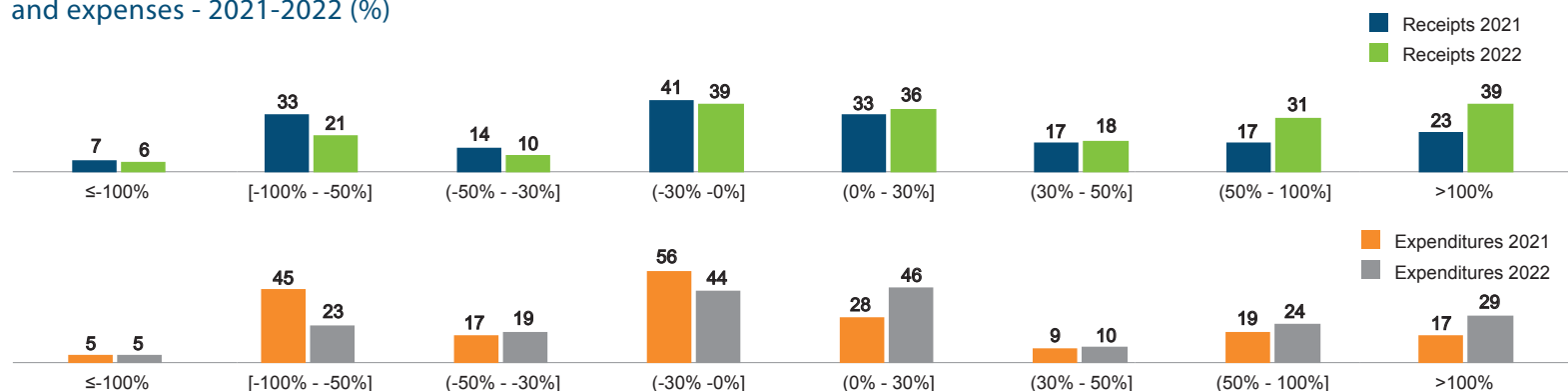
7 agencies (LEPLs/NPLEs) planned their expenditures based on reducing their cash balance. However, the total balance of the agencies was significantly lower than the amount needed to finance planned expenditures.

30 agencies (LEPLs/NPLEs) forecasted their receipts and expenditures at zero. At the end of the year 47 million GEL receipts and 45 million GEL expenditures incurred by these agencies.

233 agencies (LEPLs/NPLEs) forecasted increase in their cash balance by 61 million GEL. At the end of year, increase in total balance amounted 300 million GEL and exceeded the plan by 239 million GEL.

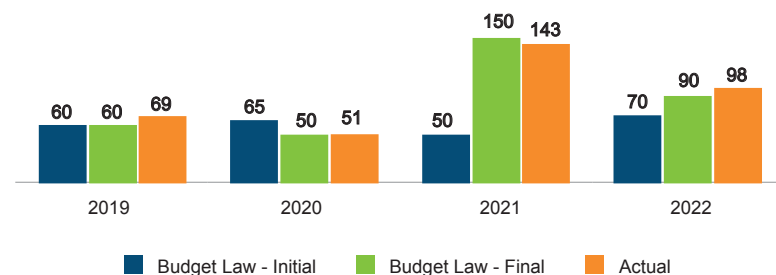
Given the frequency and scale of deviations between the forecasted and actual figures of revenues and expenditures, it is recommended for agencies to pay additional attention to defining realistic forecasts at the planning stage of their own revenues and expenditures.

Figure 13. Distribution of LEPLs/NPLEs based on deviations between the actual and forecasted figures of their own revenues and expenses - 2021-2022 (%)



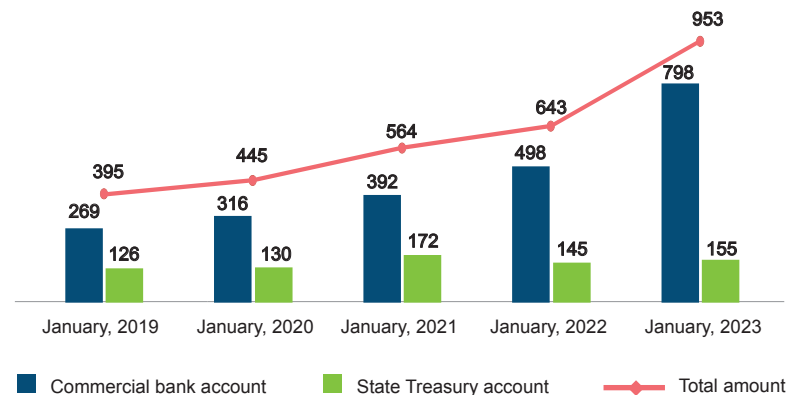
In 2022 98 million GEL was transferred to the State Budget by 41 LEPLs/NPLEs (109% of the final plan (90 million GEL)) as a grant.

Figure 14. Planned and actual amount of resources transferred to the State Budget from the own revenues received by LEPLs/NLPEs (million GEL).



According to the information received from State Treasury, at the end of 2022, the total balance of LEPLs/NPLEs increased by 310 million GEL compared to the previous year and amounted to 953 million GEL (155 million GEL is placed in the state treasury, and 798 million GEL – in the commercial banks).

Figure 15. Total balance of LEPLs/NPLEs placed in the commercial banks and State Treasury (million GEL).



By the end of 2022, 22 LEPLs/NPLEs examined by the SAO, hold 603 million GEL on commercial bank accounts. Among them, call deposits amounted to 262 million GEL, and term accounts - 341 million GEL (including 5.3 million GEL with a term of less than one year, 164 million GEL with a term of one year, 64 million GEL with a term of one to two years, and 108 million GEL with a term of more than two years).



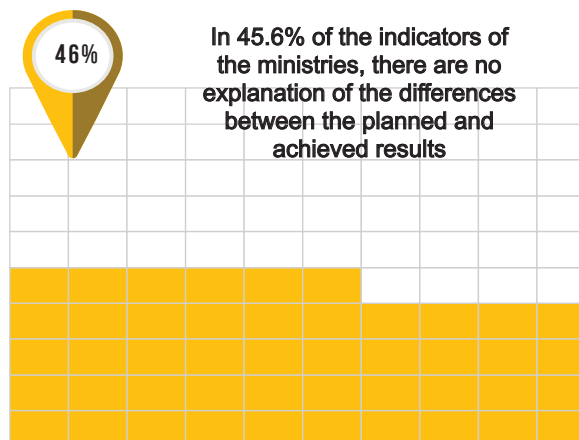
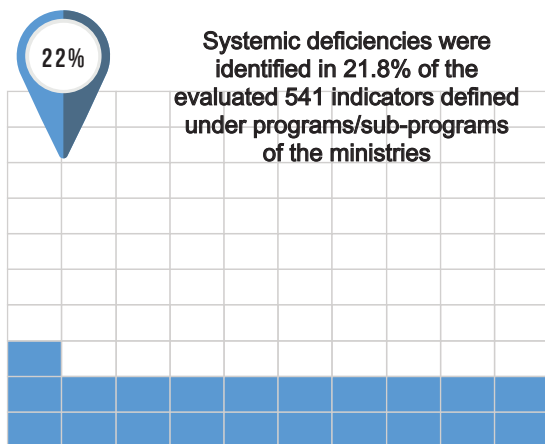
4.4 PROGRAM BASED BUDGETING

Preparation of a program-based budget was initiated in 2012, but still only exists in the form of an annex to the State Budget Law. The analysis conducted by the SAO revealed the following systemic shortcomings in performance reporting:

For some programs/subprograms performance results are not fully reported in line with predetermined performance indicators.

In some cases performance results are presented not in line with predetermined target performance indicators and are reported in a different format complicating or making the comparison between the planned and achieved results impossible.

For some programs execution report doesn't contain explanation about the deviation between the planned and achieved results or presented explanation is very broad and make it difficult to identify the causes of deviation.



5. MANAGEMENT OF FINANCIAL ASSETS



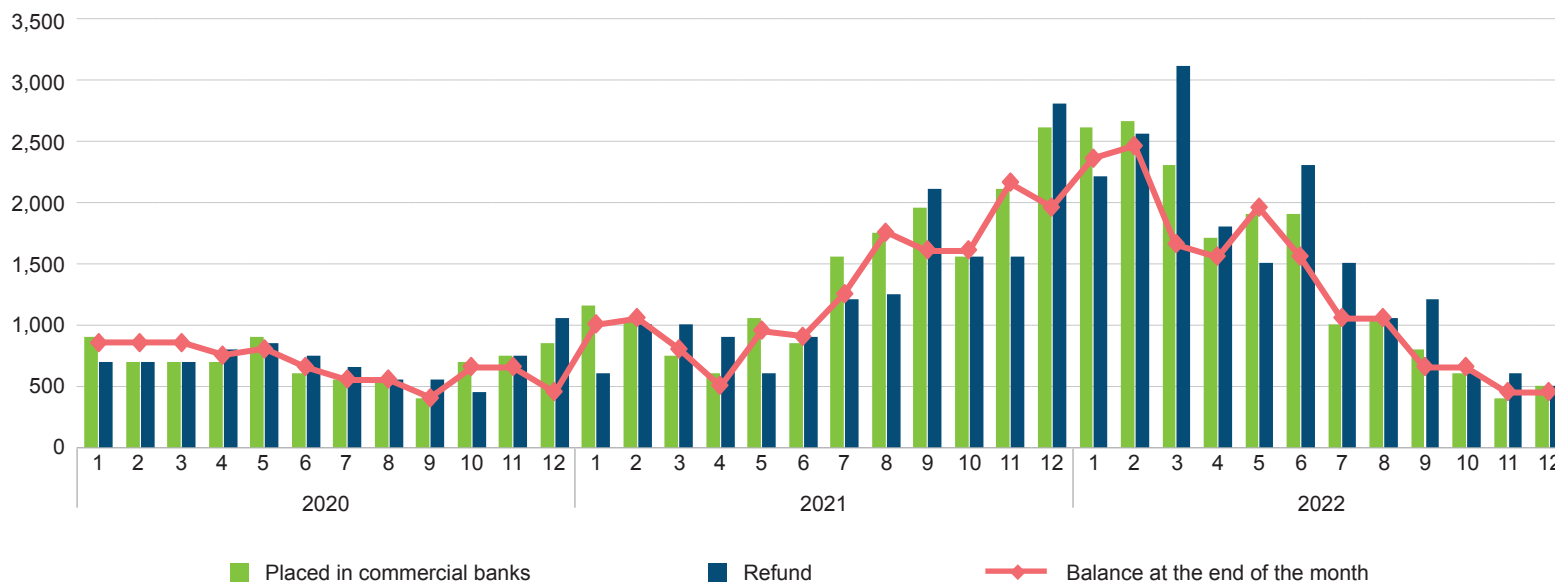
5.1 CURRENCY AND DEPOSITS

At the beginning of 2022, the State Budget cash balance was 882 million GEL, which increased to 1.2 billion GEL during the year. Alongside the growth in the cash balance, the amount of deposits placed in the commercial banks by the Ministry of Finance were also increased from 450 million GEL to 550 million GEL.

5.2 LOANS

In 2022 227.3 million GEL were on-lent for supporting implementation of various investment projects, (95.8 million GEL (29.7%) less than in the previous year). The major part of the on-lend funds (47%) were directed to the implementation of water supply related activities.

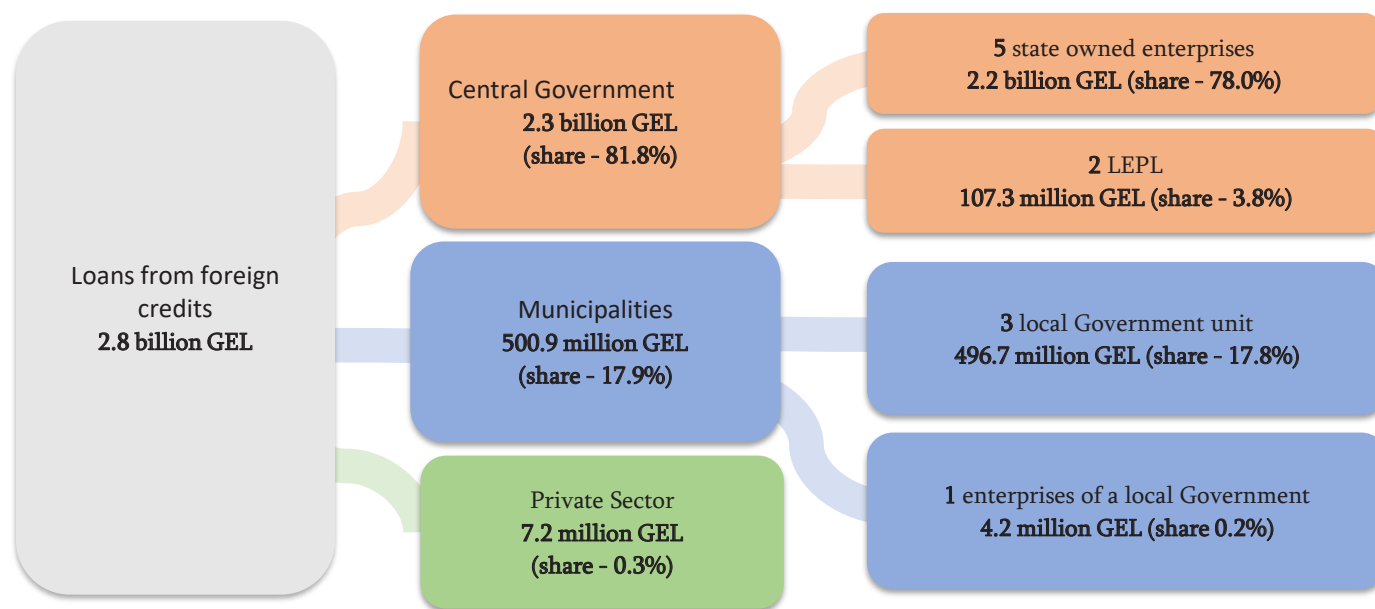
Figure 16. Amount of deposited balance at the end of each month in the commercial banks (million GEL).



As of the end of 2022, the size of the portfolio of on-lendings was 2.8 billion GEL. The portfolio consists of 70 loans, out of which 19 are restructured (these loans include those not reached due dates yet).

As a result of the examination of the on-lendings portfolio management, the SAO identified shortcomings mainly related to the portfolio risks and their management.

Figure 17. Structure of on-lend resources by beneficiaries - 2022 (million GEL, %).



By the end of 2022 a total of 418.3 million GEL was restructured in on-lendings portfolio, which is 15% of total portfolio. In case of non-fulfillment and/or delay in servicing/repayment obligations by the final beneficiaries under the sub-loan agreement, service and repayment of obligations under the main loan agreement is carried out from the State Budget. As a result loan restructuring is a source of additional pressure on the State Budget.

Non unified approach is observed in the loan restructuring process. In some cases, at the request of the beneficiary, the liabilities may be deferred without registering it as a restructured loan. This approach limits the ability to fully assess the degree of credit risk materialization in the portfolio.

Financial assets stock includes the loans granted to beneficiaries (enterprises) that regularly receive funds from the State Budget to cover their operating expenses and/or service liabilities. The reliance on State Budget indicates the limited solvency of the enterprises and the indirect involvement of the state in servicing their obligations.

Ministry of Finance should develop a policy/policy document for management of on-lendings, which should cover the entire cycle of the on-lending process. Also, it is advisable to include detailed information about the changes made in the on-lendings portfolio in the annual report on the State Budget execution.

Based on the information from State Treasury, by the end of 2022 173.6 million GEL is lent from budgetary resources. Total liability due on this loans is 381.1 million GEL. Out of 171 loans accounted in the portfolio, 82 have a grace period, 88 are overdue, and 1 loan is serviced as planned. Total liability accrued on those 88 loans include fines (56.4%), overdue principal amount of the loans (36.9%), and overdue interest payments (6.7%).



Figure 18. The total active loans lent from budgetary resources by organizations - 2022

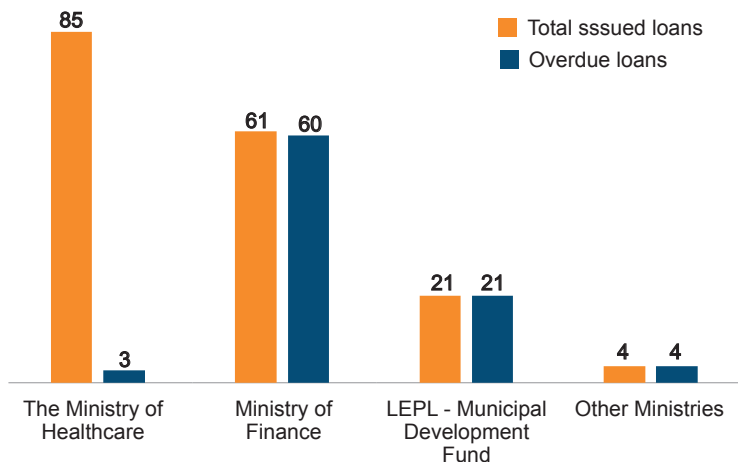
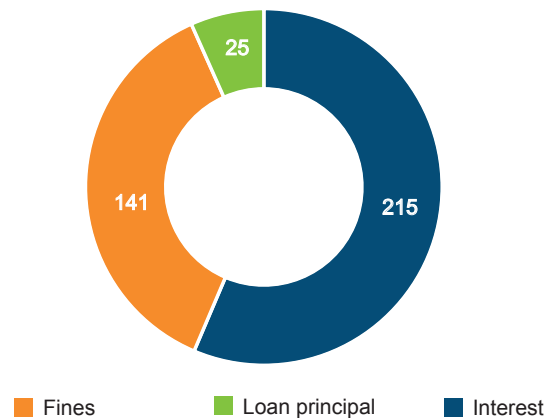


Figure 19. Types of accrued liabilities on overdue budgetary loans by December 31, 2022 (million GEL).



According to the SAO assesment, in some cases, the borrower institutions do not provide the legally binding information

to the State Treasury. As a result, significant inaccuracies were identified in the information received from the state treasury:

Two loans of LEPL - Municipal Development Fund, on which the principal amount is paid, were recorded as active loans by December 31, 2022.

In December 2022 the Ministry of Economy and Sustainable Development lent a 230 million GEL from the budgetary resources to JSC "Georgian Oil and Gas Corporation", which is not registered as an active loan by the Treasury by May 5, 2023.





RECOMMENDATIONS

TO THE MINISTRY OF FINANCE:

For the proper management of the loans lent from the budgetary resources, the Ministry of Finance should develop a mechanism that ensures the awareness of the State Treasury about the decision of lending resources from State Budget.

5.3 SHARES AND OTHER EQUITY

Receipts accumulation from decrease in “shares and other equity” was not planned by the Budget Law of 2022. However, the actually mobilized amount during the year amounted to 1.0 million GEL. Out of which, 0.2 million GEL was received from selling the shares of SOEs in 2022, and 0.8 million GEL was accumulated from the shares sold in the previous years.

As for the increase in the “shares and other equity”, 12.1 million GEL were spent under this item, out of which, 10.7 million GEL were spent on the procurement of shares of two commercial enterprises by the Ministry of Defense’s LEPL – Delta. Additionally, 1.4 million GEL was spent by the Ministry of Economy and Sustainable Development’s LEPL - Innovation and Technology Agency for capital injection in venture investment fund.



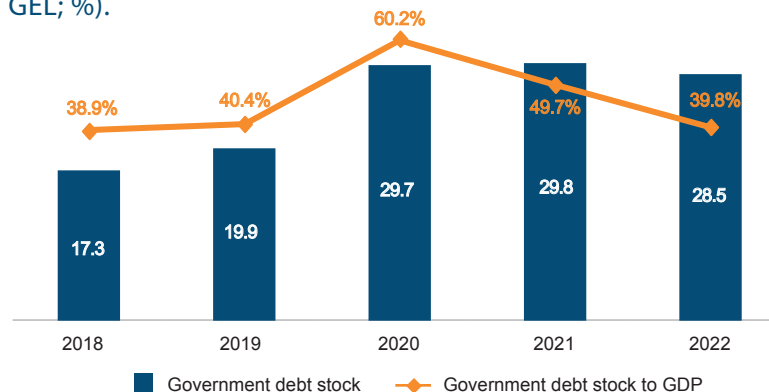
6. PUBLIC DEBT MANAGEMENT



6.1 GOVERNMENT DEBT

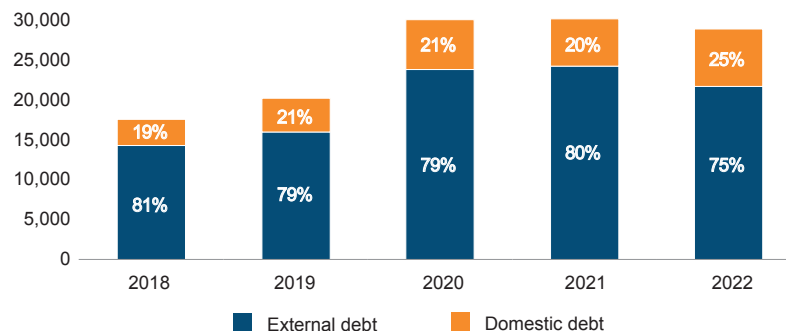
At the end of 2022 the stock of government debt amounted to 28.5 billion GEL, which decreased by 4.3% (1.3 billion GEL) compared to the previous year and equaled to 39.8% of GDP. The debt amount was affected by the strengthening of the national currency and the mobilization of new credit resources. In particular, as a result of the strengthening of the national currency, the debt stock decreased by 4.2 billion GEL, while the mobilization of new debts led to increase of 3.0 billion GEL (domestic debt - by 1.3 billion GEL; foreign debt - by 1.7 billion GEL).

Figure 20. Government debt stock (at the end of the year) and its ratio to the GDP of the corresponding year (billion GEL; %).



The share of foreign debt in the government debt is characterized by a decreasing nature and stands at 75.0% at the end of 2022, which is 5.4 percentage points less than the corresponding figure of previous year (80.4%). Despite the reduction in the share of external debt, the vulnerability of government debt to fluctuations in the currency exchange rates is still a significant challenge.

Figure 21. The share of the government's external and domestic debt in the government debt (%).

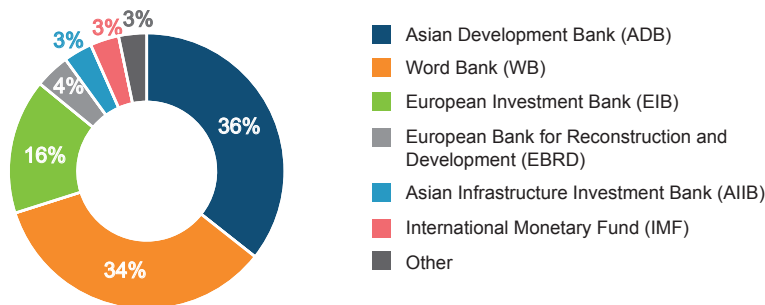


6.2 GOVERNMENT'S EXTERNAL DEBT

At the end of 2022 the volume of the government's external debt amounted to 21.4 billion GEL, which is 10.7% (2.6 billion GEL) less than the corresponding figure of previous year. The impact of the GEL strengthening amounted to 4.2 billion GEL in the reduction.

As of the end of 2022 the largest part of the government's external debt portfolio - 15.7 billion GEL (73.5% of the total foreign debt portfolio) – consists of borrowings from the multilateral creditors. Among the multilateral creditors, the leading positions is maintained by the ADB (5.6 billion GEL, 36% of the total multilateral credit volume) and the WB (5.4 billion GEL, 34% of the total multilateral credit volume).

Figure 22. Components of the external Government debt by lenders (billion GEL. %).



As of December 31, 2022 the Government's external debt portfolio consists of loans denominated in five different currencies. It should be noted that the currency structure of foreign loans has changed significantly in the recent years. In particular, the share of liabilities denominated in USD and SDR decreased, while the share of liabilities in EUR more than doubled compared to 2018, reaching to 56%.

Figure 23. Structure of the Government's external debt by currencies (%).

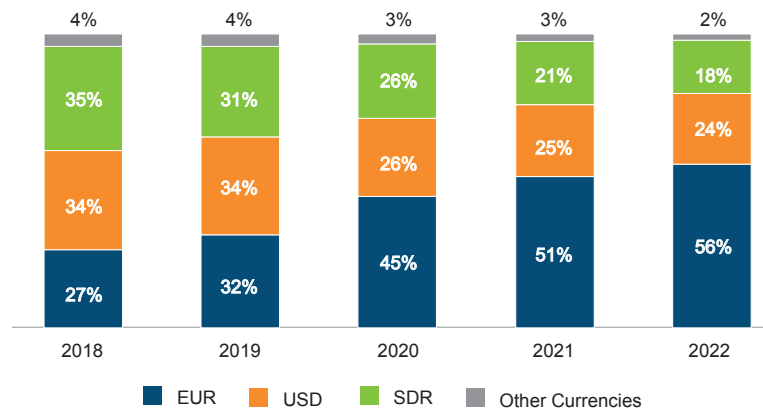
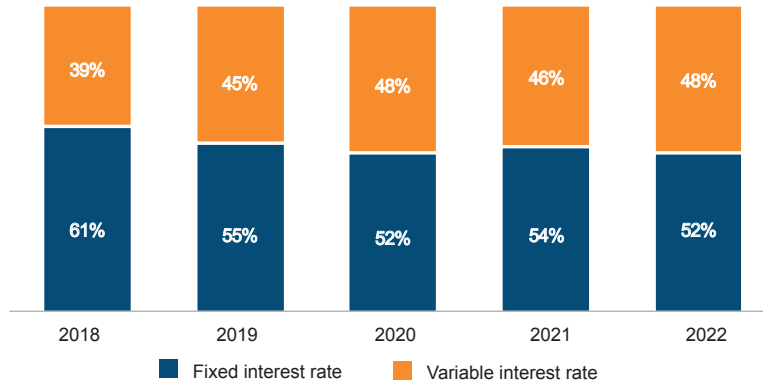


Figure 24. Government external debt stock by type of interest rates (%).



In recent years, the share of variable interest rate loans in the credit portfolio has been characterized by an increasing tendency. Compared to 2018, the share of loans bearing variable interest rates increased by 8.7 pp and equaled to 48% at the end of 2022. It should be mentioned that according to the existing debt management strategy, by 2026, the share of variable rate loans in the debt portfolio should not exceed 50%.

6.3 GOVERNMENT'S DOMESTIC DEBT

In 2022 the Government's domestic debt grew by 1.3 billion GEL compared to the previous year and equaled to 7.1 billion GEL. The growth was fully caused by the increase in the volume of treasury securities. As a result of the expansion in the domestic debt and the decrease in the external debt, the share of domestic debt in the governments total debt increased by 5.4 pp compared to 2021 and equaled to 25% at the end of 2022.

Figure 25. The composition of the Government's domestic debt and its share in the Government's total debt (million GEL, %).

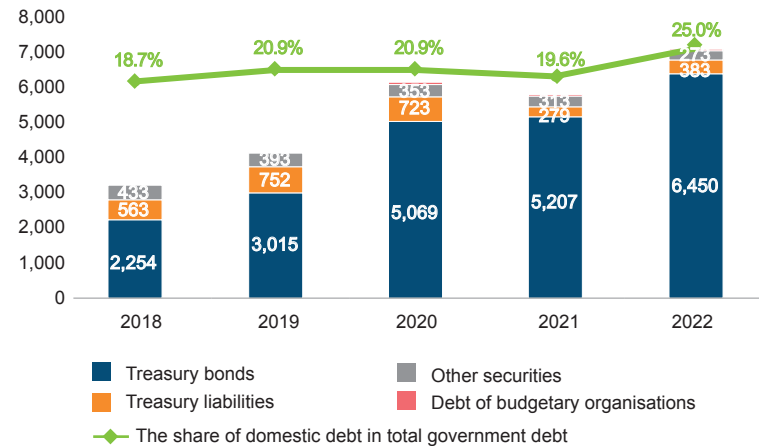
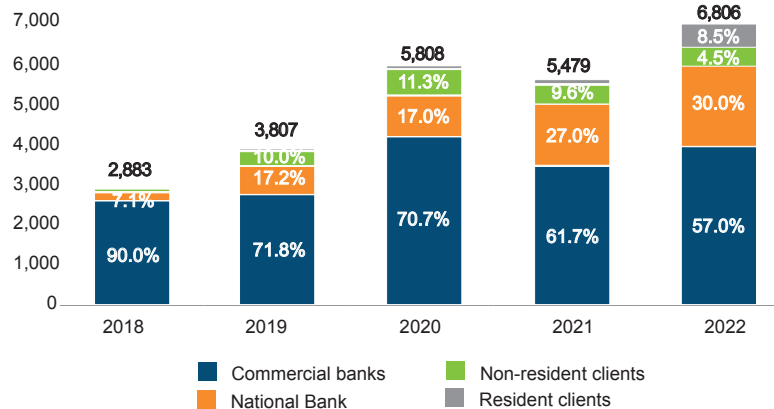


Figure 26. Distribution of the treasury securities by holders (million GEL).



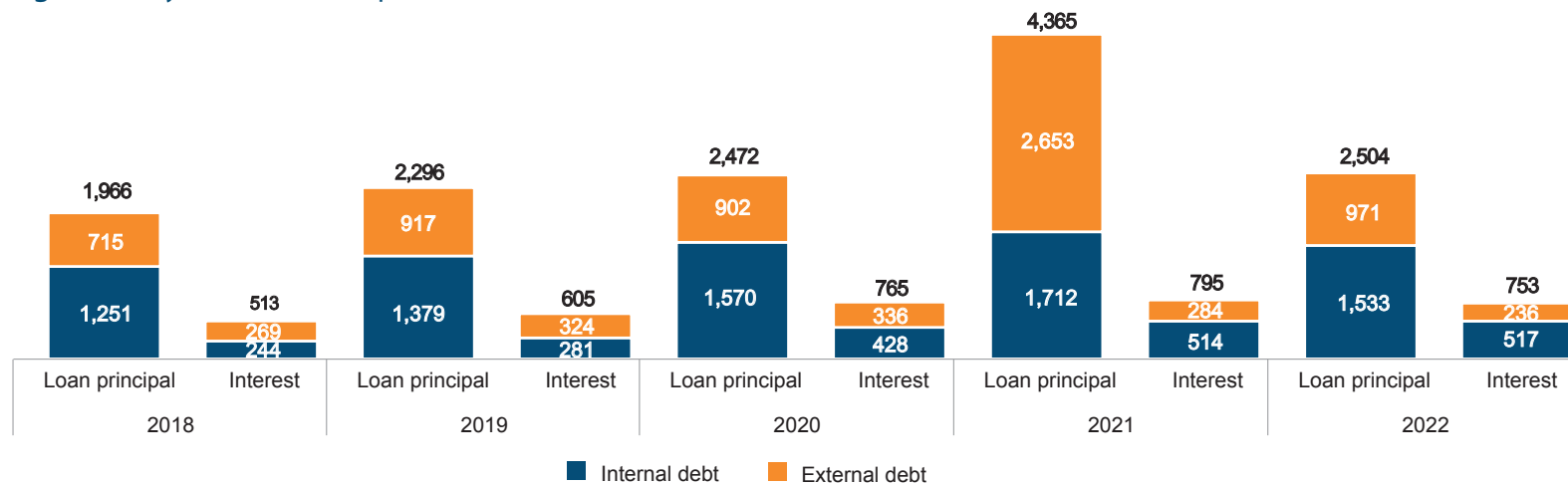
The holders of the treasury securities are mainly local commercial banks, which owned 57.0% of the total securities portfolio at the

end of 2022. However, it should be noted that over the last 5 years, the share of commercial banks has been characterized by a decreasing dynamics. In the recent years, a significant share of treasury securities were acquired by the National Bank of Georgia (30% of the total securities portfolio at the end of 2022).

6.4 COSTS OF PRINCIPAL AND INTEREST PAYMENTS ON THE GOVERNMENT DEBT

In 2022 3.2 billion GEL was allocated to the government debt servicing and repayment (except for the debt servicing and repayment of the budgetary organizations), which is 97.2% of the budget plan determined by the State Budget Law. The largest share (63%) of government debt servicing and repayment expenses comes from domestic debt servicing and repayment expenses, which amounted to 2.1 billion GEL.

Figure 27. Dynamics of the expenses of the Government debt service (million GEL).





RECOMMENDATIONS

TO THE MINISTRY OF FINANCE:

- In order to comprehensively analyze and manage the vulnerability of the Government debt to various risk factors, it is advisable to carry out the "Government Debt Sustainability Analysis" based on the updated methodology of the International Monetary Fund and the World Bank;
- For better integration of the directions presented in the Government's debt management strategy into the budget process, it is advisable to update the strategy before submitting the final version of the State Budget draft law to the planning year;
- For the qualitative improvement of the Government's debt management strategy, the following issues should be considered during the updating process of the document:
 - The presented directions and targets should be aligned with the scope and objectives of the document;
 - The strategy should include the indicator(s) for assessing debt service costs and the assessment of the potential impact of the targets defined by the strategy on this/these indicator(s).



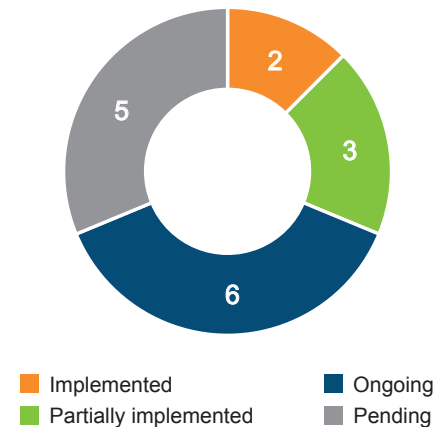
7. STATUS OF THE IMPLEMENTATION OF RECOMMENDATIONS ISSUED BY THE SAO



The State Budget Execution Report for 2022 includes information on possibility of taking into account the remarks and recommendations presented in the SAO's Report on the State Budget Execution for 2021.

In response to the systemic deficiencies and shortcomings identified in the 2018-2021 budget executions, the SAO issued 16 recommendations. Currently, 5 recommendations have been fully or partially implemented, and 6 recommendations are ongoing.

Figure 28. Status of implementation of recommendations issued by the State Audit Office in the Report on Government's Report on the State Budget execution for 2018-2021.





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