



STATE AUDIT OFFICE OF GEORGIA

## REPORT

# ON THE GOVERNMENT'S REPORT ON THE ANNUAL EXECUTION OF 2021 STATE BUDGET

SHORT VERSION





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# THE KEY ECONOMIC INDICATORS



	2018 წ.	2019 წ.	2020 წ.	2021 წ.	
Nominal GDP (million GEL)	44,599	49,253	49,267	60,232	
GDP Per Capita (GEL)	11,968	13,239	13,234	16,154	
Real GDP growth (percent)	4.8%	5.0%	-6.8%	10.4%	
Receipts (million GEL)	12,693	13,252	18,042	18,378	
Expenditure (million GEL)	12,590	13,470	16,175	19,808	
Tax revenues (million GEL)	9,696	9,666	9,365	11,439	
Budget deficit to GDP (GFSM 2001)	0.7%	2.6%	9.0%	6.2%	
Budget deficit to GDP (GFSM 2001 Modified)	2.3%	2.0%	9.3%	6.1%	
Public debt stock (million GEL)	17,795	20,623	30,835	31,216	
Government debt stock (million GEL)	17,349	19,916	29,672	29,812	
Debt Rule Ratio	38.9%	41.2%	61.0%	50.2%	
Inflation – Consumer Price Index	2.6%	4.9%	5.2%	9.6%	
Export (million GEL)	3,380	3,798	3,343	4,242	
Import (million GEL)	9,326	9,519	8,053	10,105	
Foreign trade balance (million GEL)	-5,982	-5,721	-4,709	-5,862	
Foreign Direct Investment (million GEL)	1,317	1,336	572	1,153	
Remittance (million GEL)	1,580	1,733	1,886	2,350	
Current account deficit to GDP (percent)	6.8%	5.5%	12.4%	9.8%	

# 1. TENDENCIES OF THE STATE BUDGET EXECUTION



State budget receipts and expenditures for the fiscal year 2021 were initially planned as 16.8 and 18.4 billion GEL, respectively. After two amendments in the state budget law, the plan of the receipts was increased to 18.1 billion GEL and expenditures – to 19.8 billion GEL. By the end of the fiscal

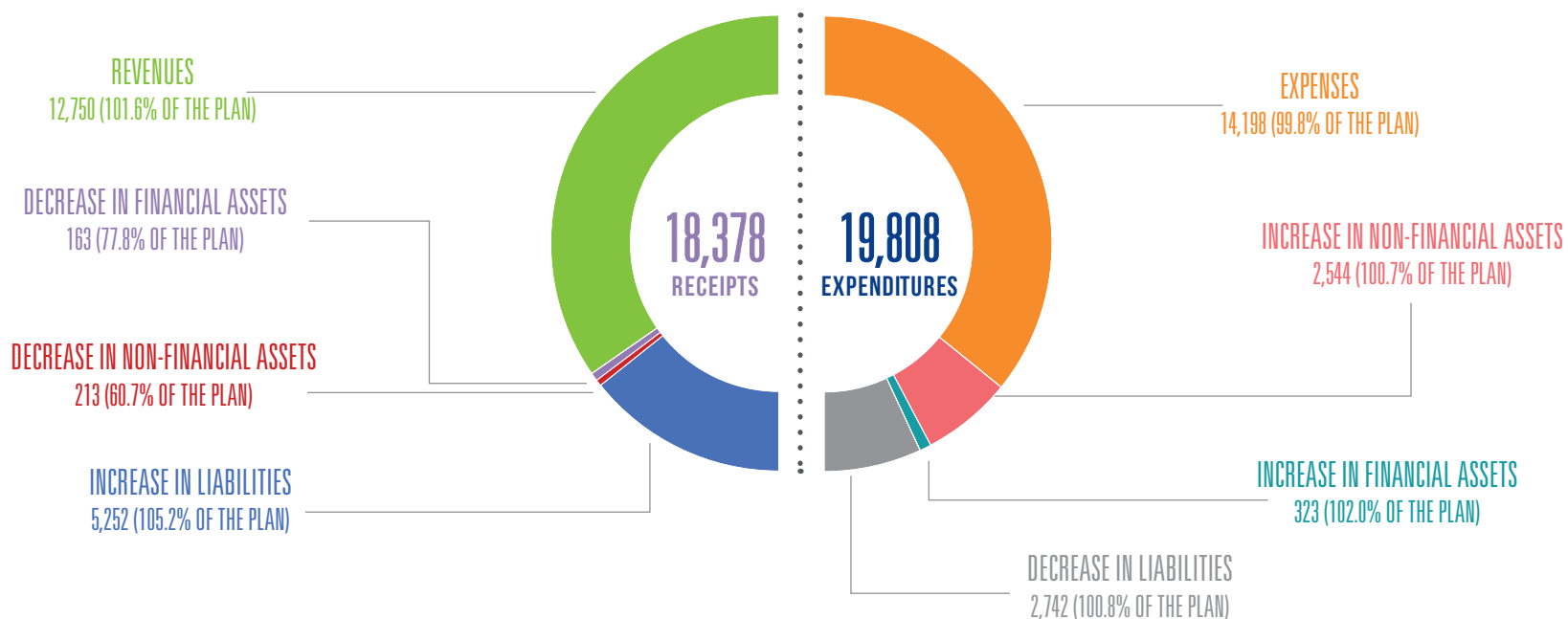
year, actual receipts and expenditures amounted to 18.4 and 19.8 billion GEL, respectively. Due to the tendencies of receipts and expenditures, cash balance decreased from 2.3 billion GEL to 882 million GEL.

**Table 1.** Execution of the state budget – 2021 (million GEL)

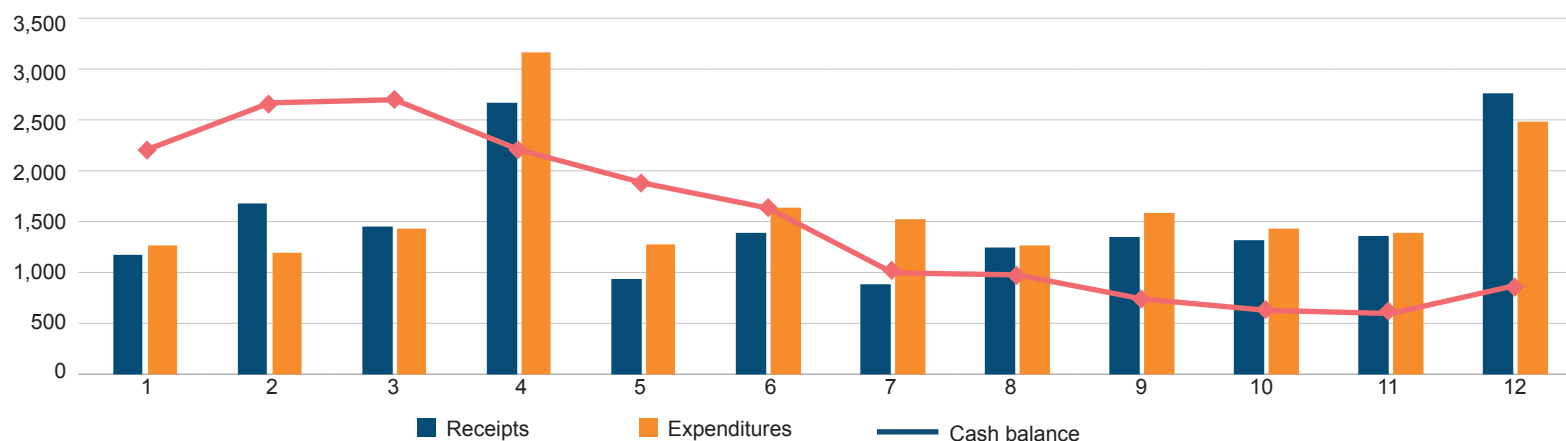
	"BUDGET LAW Initial"	"BUDGET LAW I Amendment"	"BUDGET LAW II Amendment"	ACTUAL
Receipts	16,758	17,933	18,099	18,378
Expenditures	18,385	19,499	19,796	19,808
Change in cash balance	-1,626	-1,566	-1,697	-1,430



**Figure 1.** Execution of the state budget components – 2021 (million GEL)



**Figure 2.** Monthly changes of the state budget receipts, expenditures and cash balance – 2021 (million GEL)



## 2. ANALYSIS OF MACROECONOMIC FORECASTING AND FISCAL RISKS REALIZATION

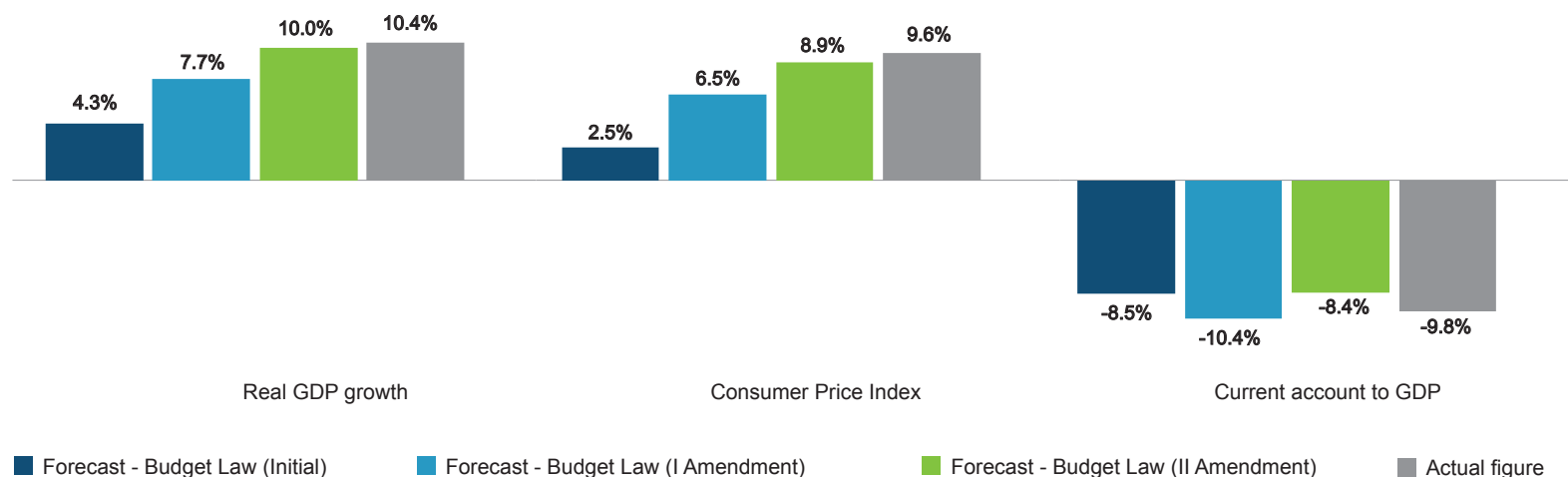


### 2.1 OVERVIEW OF MACROECONOMIC ENVIRONMENT

The medium-term fiscal framework and the the key parameters of the state budget law rely on the macroeconomic forecasts provided in the Basic Data and Directions Document (BDD). Therefore, reliability of these forecasts is crucial in the process of annual budget planning and implementation, as well as in ensuring fiscal sustainability in the medium term.

In 2021 real GDP growth rate achieved 10.4% and exceeded the predicted amount reflected in the initial and final state budget laws by 6.1% and 0.4%, respectively. Nominal GDP increased by 22.3% compared to the 2020 and amounted to 60.2 billion GEL.

**Figure 3.** Comparative analysis of the forecasted and actual performance of key macroeconomics indicators for 2021



## 2.2 OVERVIEW FISCAL RISKS REALISATION

“Fiscal Risks Analysis” document, attached to the initial state budget law, was not updated when the the state budget law was changed. However, “Macroeconomic Scenario Analysis” document was adjusted, and the state budget parameters for 2021 were re-planned based on the seven negative mac-

roeconomic risks. The adjusted document does not contain some risks that were identified in the previous year’s document and were still relevant for 2021 due to their nature.

It should be noted that the state budget execution report does not contain information on the materialization of the fiscal risks and policy responses addressing to them.

**Figure 4.** Analysis of Macroeconomic Scenarios’ Document

The status of realization of macroeconomic risks			
	Realized	Partially realized	Not realized
Aggravated pandemic risk	X		
Deteriorating the global sentiments in tourism			X
Reduction in global trade flows			X
Regional risks			X
Risks from increased global debt			X
Global consumer behavior			X
Tightening global monetary policy		X	

Risks that were not mentioned in the budget law, however, it were also relevant for the 2021			
	Realized	Partially realized	Not realized
Reduction in dollarization	X		
Insufficient acceleration of infrastructure projects			X





Compliance analysis of the factual macroeconomic aggregates versus aggregates presented in the macroeconomic scenarios attached to the final state budget law, indicates

that in 2021 economic tendencies emerged in line with a positive scenario.

**Table 2.** Factual and predicted macroeconomic parameters in the different scenarios - 2021 (million USD)

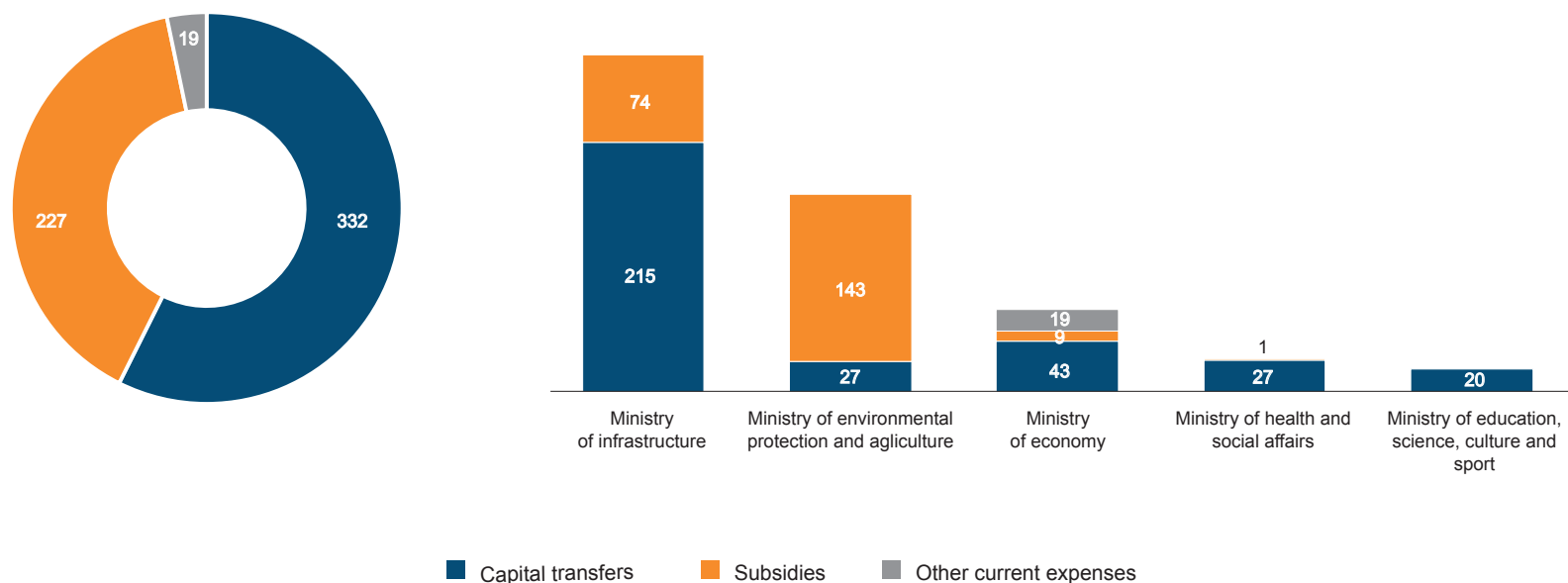
INDICATORS		BASIC	PESIMISTIC	OPTIMISTIC	ACTUAL
Real GDP growth	✓	10.0%	9.5%	10.8%	10.4%
Consumer Price Inflation		8.9%	8.8%	✓ 9.4%	13.9%
Current account to GDP		-8.4%	✓ -8.7%	-7.6%	-9.8%
Current account (mln GEL)		-1,529	✓ -1,575	-1,402	-1,836
Export of goods (mln GEL)		5,287	5,263	✓ 5,342	5,570
Import of goods (mln GEL)		-8,896	-8,819	✓ -9,055	-9,331
Export of services (mln GEL)	✓	2,430	2,334	2,663	2,539
Import of services (mln GEL)		-1,624	-1,613	✓ -1,657	-1,813
Budget deficit to GDP		6.7%	6.7%	✓ 6.4%	6.2%
Government debt to GDP		51.1%	51.4%	✓ 50.5%	49.5%



1

According to the Fiscal Risk Analysis Document state-owned enterprises are one of the main sources of fiscal risks due to their negative financial results in recent years. In particular, in 2020, the total loss of SOEs amounted to 660 million GEL. The scale of the financial support received from the state budget to the SOEs partially reflects the scale of materialization of the fiscal risks coming from this source. In 2021, total budgetary resources received by SOEs under the control of the five ministries amounted to 578 million GEL. From this money, 331.6 million GEL was spent on financing capital projects. The rest of the money was spent on quasi-fiscal activities, operating expenses and/or servicing financial liabilities.

**Figure 5.** Analysis of Macroeconomic Scenarios' Document



2

The second major source of fiscal risks is PPA projects. According to the analysis presented in the Fiscal Risk Analysis Document, the potential fiscal cost of PPA projects is about \$300 million, from which 30% is characterized with high probability of realization. The realization of the remaining expenditure (70%) depends on the periodicity and length of the economic recessions.

3

In 2021, there was realized a fiscal risk, which was not reflected in the Fiscal Risk Analysis Document. In particular, they are risks coming from the international arbitration disputes. The fiscal liability incurred by the state in 2021 under these disputes amounted to about 300 million GEL.

In the process of fiscal risks analysis, in parallel with their identification and evaluation, it is also important to assess the extent of their realization alongside with the corresponding fiscal costs. The budget execution report does not provide explicit information on this issue.

## 2.3 FISCAL DISCIPLINE

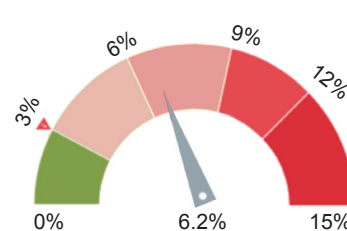
During the fiscal year 2021, budget balance rule and debt rule have improved compared to the corresponding figures of FY 2020. However, the budget balance still remained above the 3% threshold level set by the organic law.

### BUDGET BALANCE RULE (BUDGET DEFICIT)

At the end of 2021, the Aggregated state budget deficit amounted to 6.2% of GDP (3.7 billion GEL) and exceeded the 3.0% limit set by Organic Law on Economic Freedom by 3.2 percent. Compared to FY 2020, all contributors of the deficit were increased. However, growth in revenues (2.9 billion GEL, 21%) exceeded the sum of the growth in expenses (1.9 billion GEL, 14%) and change in non-financial assets (209 million GEL, 5%). As a result, the Aggregated state budget deficit decreased by 743 million GEL (17%).

#### BUDGET BALANCE RULE

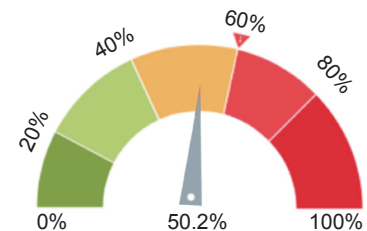
Aggregated state budget deficit to GDP



▼ Limit set by organic law

#### DEBT RULE

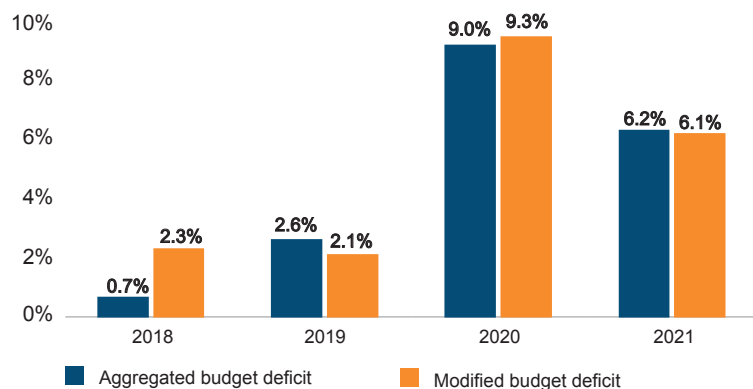
Government debt to GDP



▼ Limit set by organic law



**Figure 6.** Aggregated State Budget deficit and modified budget deficit to GDP



## DEBT RULE

According to the information presented in the state budget execution report, the Debt Rule ratio in the end of FY 2021 comprised 50.2%, which is within the 60% limit set by the organic law. Compared to the previous FY, reduction of the ratio by 10.9% was mainly caused by national currency appreciation and growth of nominal GDP.

It is important that the Debt Rule does not include the debt of state-owned enterprises that were classified as a government sector by the Ministry of Finance based on the recommendation of the IMF. By the end of the FY 2019 volume of the SOE's comprised 310 million GEL (0.5% of 2021 GDP).

## CURRENCY RISK

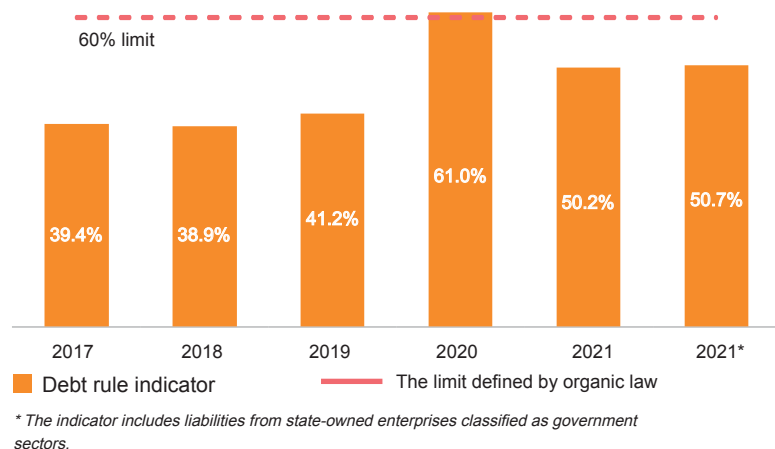
By the end of 2021, the government's debt amounted to 29.8 billion GEL, of which 80.4% is denominated in the foreign currency. Due to this fact, government debt is particularly vulnerable to the volatility of exchange rate. Increasing dynamic of government debt was supported by new borrowings from external sources totalling 3.2 billion GEL. This increase was partially offset by declining in borrowings from internal sources by 359 million GEL and appreciation of local currency resulted in 2.7 billion GEL decrease in external debt level.

## INTEREST RISK

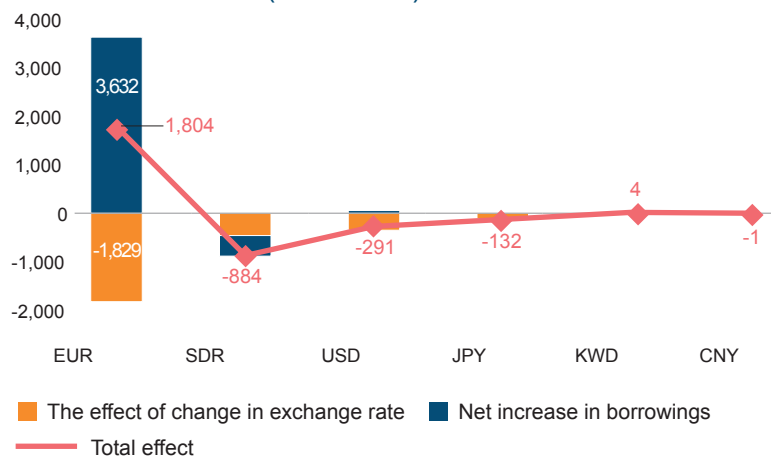
The interest rate risk for the government debt portfolio also has a growing nature due to the increased proportion of loans in the portfolio with floating interest rates. By the end of 2021, compared to 2017, the share of loans with floating interest rates in the government's external debt balance increased by 12 percentage points to 46%.



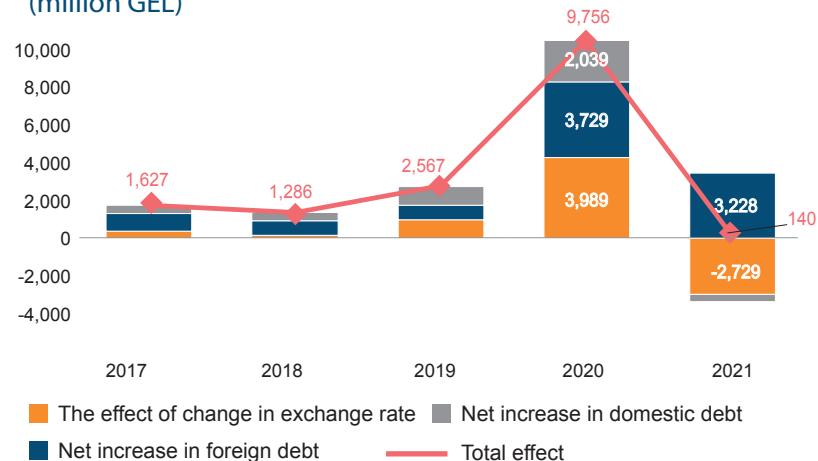
**Figure 7.** Debt Rule and its compliance with the 60% limit set by the Organic Law on Economic Freedom



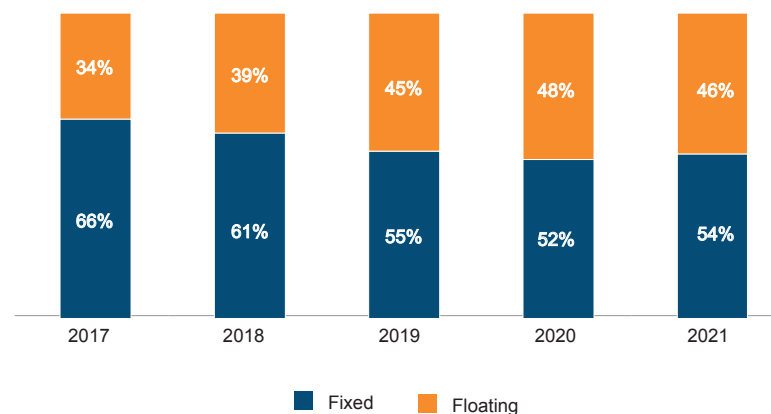
**Figure 9.** The effects of the change in GEL exchange rate and new borrowings on the growth in the amount of government external debt - 2021 (million GEL)



**Figure 8.** The effects of the change in GEL exchange rate and new borrowings on the growth of government debt – by Years (million GEL)



**Figure 10.** Government external debt stock by type of interest rate





It should be positively mentioned that the Ministry of Finance has taken into account the recommendation of the State Audit Office and published the Government Debt Management Strategy for 2022-2025 by the end of 2021. The main targets of the strategy are set for refinancing risk, interest rate risk, and currency risk indicators. In addition, the strategy includes the assesment of default risk and sets targets for its indicator for the period of the strategy.



## **RECOMMENDATIONS**

### **TO THE MINISTRY OF FINANCE:**

It is recommended that Ministry of Finance reflect information about fiscal risks stemming from the legal disputes against the state and their potential impacts on the fiscal parameters in the “Fiscal Risks Analysis” document attached to the state budget law.

### 3. STATE BUDGET REVENUES



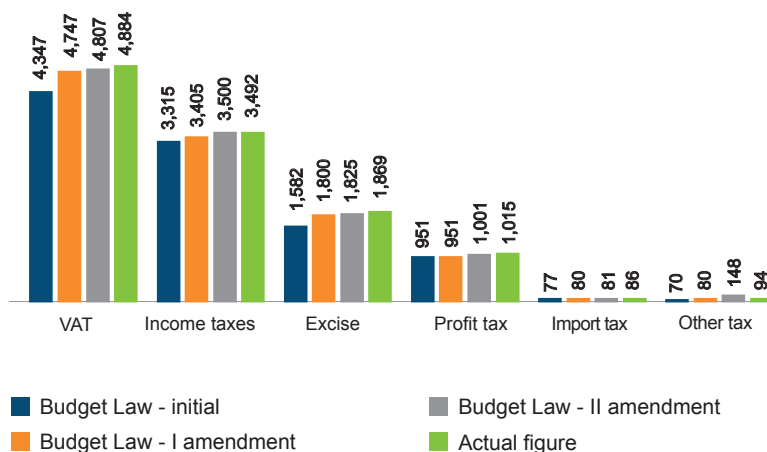
In the FY 2021 factual collection of revenues comprised 12.8 billion GEL and exceeded the final state budget plan by 201 million GEL (1.6%). All components of the revenues outrun corresponding projected figures.

**Table 3.** Mobilisation of the state budget revenues – FY 2021 (million GEL)

	Actual	Execution with approved plan (%)		
		Initial Law	I amendment	II amendment
Tax revenues	11,439	110.6%	103.4%	100.7%
Grants	487	169.8%	126.0%	126.0%
Other revenues	824	149.8%	103.0%	103.0%
<b>Revenues</b>	<b>12,750</b>	<b>114.1%</b>	<b>104.1%</b>	<b>101.6%</b>

The tax revenues amounted to 11.4 billion GEL and increased by 2 billion GEL (22.2%) compared to the previous FY. All components of the tax revenue, except tax on income and other taxes, exceeded corresponding forecasts.

**Figure 11.** Components of tax revenues – FY 2021 (million GEL)



The plan for receipts from the decrease in non-financial assets was set at the level of 150 million GEL by the initial budget law. With the amendment of the budget law in July, the plan was increased to 350 million GEL, although the actual revenue was only 213 million GEL (60.9% of the plan).



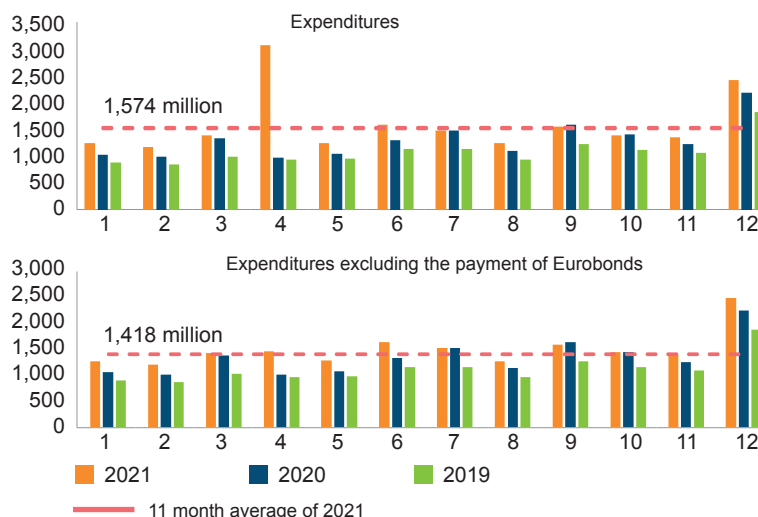
## 4. STATE BUDGET EXPENDITURES



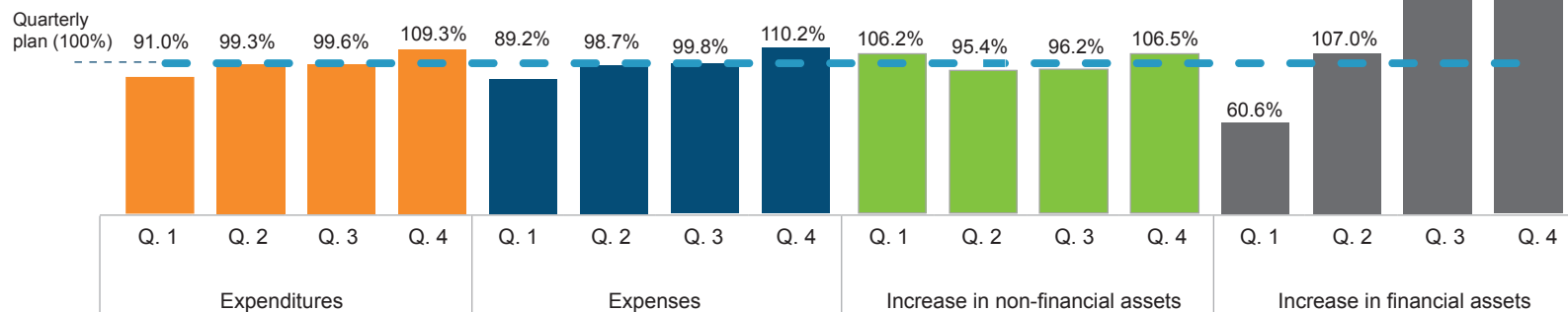
Expenditures in December 2021 amounted to 2.5 billion GEL (12.6% of total annual expenditure). Therefore, it exceeded average previous 11 months' spending by 58.8%. It should be noted that 11 months' average spending also includes 1.7 billion GEL utilized in April to cover the \$500 million nominal value of Eurobonds issued in 2011. The payment of Eurobonds had only a one-time effect and the average monthly spending was slightly increased by this effect. Excluding this effect, December's spending outran previous 11 months' average spending by 76.1%.

Lower than planned level of expenditures in the first three quarters resulted to accumulation of unused resources in the fourth quarter. As a result, in the fourth quarter, actual expenditures exceeded planned amounts.

**Figure 12.** Monthly expenditures of the state budget – 2019-2021 (million GEL).(million GEL)



**Figure 13.** Performance of expenditures compared to the quarter plans – 2021



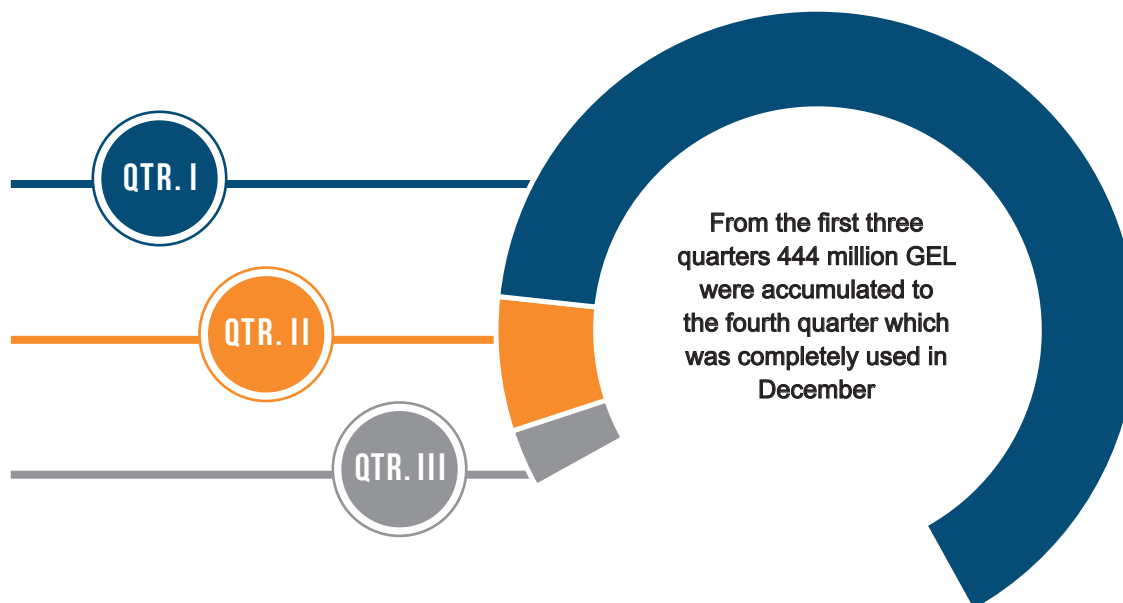


**Figure 14.** Dynamics of the reallocated appropriations from the first three quarters to the fourth quarter – 2021

Out of the expenditures planned for the first quarter **386.9 million GEL** were not used

Out of the expenditures planned for the second quarter **40.6 million GEL** were not used

Out of the expenditures planned for the third quarter **16.8 million GEL** were not used



## 4.1 ADJUSTMENT AND EXECUTION OF THE STATE BUDGET

Analysis of the state budget execution process in the context of spending agencies revealed the following systemic deficiencies in the adjustment and execution of budgetary funds:

1

### FUNDING UNPLANNED ACTIVITIES

In some cases, during the fiscal year funds were allocated for projects and activities which were not envisaged by the Budget Law. Also, there were instances where assigned program appropriations were not sufficient to complete the implementation of the project to which they were assigned.

2

### REALLOCATION OF UNSPENT APPROPRIATIONS

In some cases, the budget organizations plan programs/subprograms or budget items with higher amounts than required. During the year these organizations transferred unspent appropriations to other programs/subprograms/budget items.

3

### PROGRAMS/SUBPROGRAMS WITH LOW EXECUTION RATE

In the case of 23 programs (16% of all programs) and 94 subprograms (26% of all subprograms) less than 80% of amount of the amended Budget Law was executed during the year. In total, non-executed budgetary funds in programs was 336 million GEL.



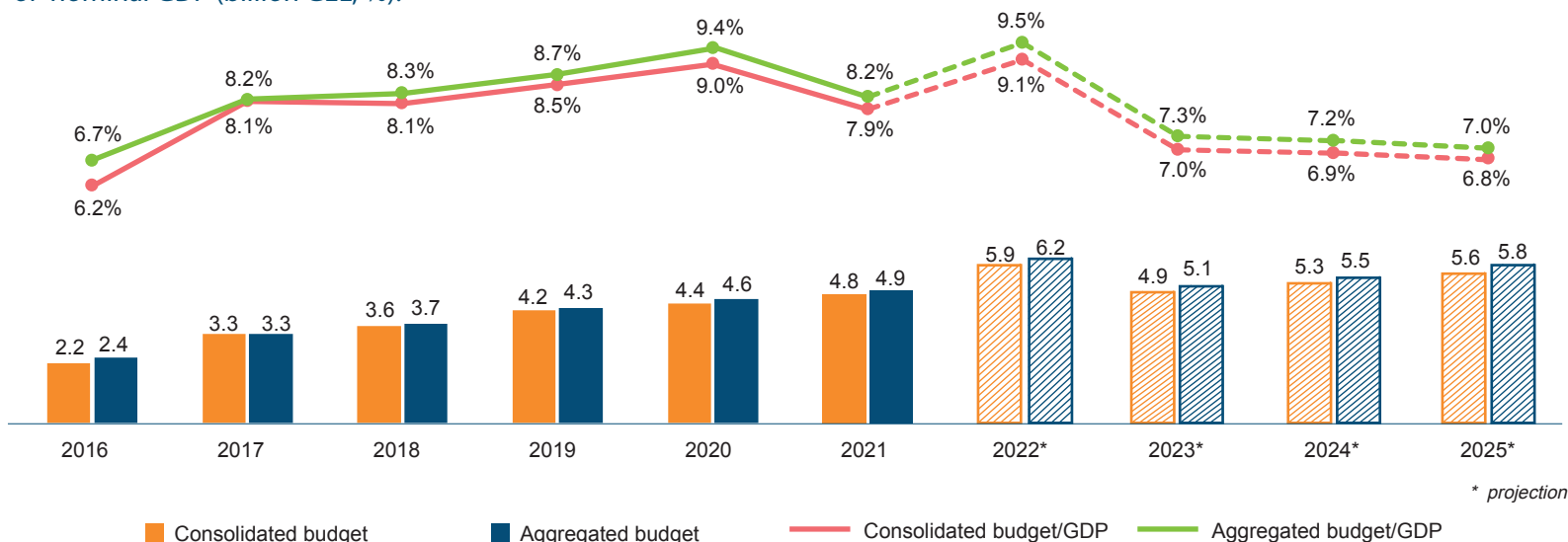
## 4.2 MANAGEMENT OF INVESTMENT PROJECTS

The capital expenditures of the consolidated budget amounted to 4.8 billion GEL (7.9% of GDP) for the FY 2021. According to the Budget Code of Georgia, the consolidated budget does not include expenses of LEPLs/NPLEs financed by their own revenues. In 2021, capital expenditures financed with this source comprised 185 million GEL. In order to present a complete picture of the capital expenditures given in the state budget execution

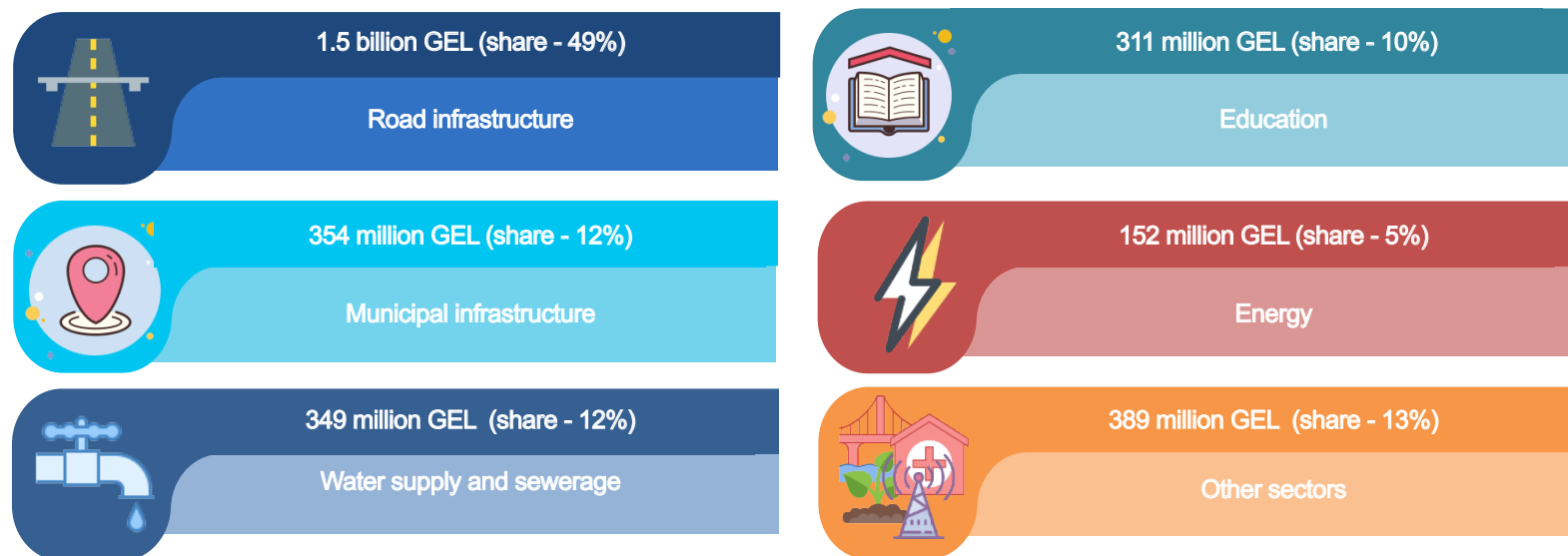
report, it is advisable to also consider the capital expenditures financed with LEPLs/NPLEs own revenues.

In 2021, total expenditures for investment projects amounted to 3 billion GEL (97% of planned figure). The analysis of the sectoral classification of investment projects reveals that the largest proportion of capital expenditures were applied to road infrastructure (49%), development of the municipal infrastructure (12%) and water supply and sewerage projects (12%).

**Figure 15.** Dynamics of capital expenditures of consolidated and aggregated budget in nominal term and as a percentage of nominal GDP (billion GEL, %).



**Figure 16.** Sectoral classification of investment projects, amount of each sector in nominal value (million GEL), and share in total investment projects (%) – 2021.



## THE FOLLOWING ISSUES ARE NOTEWORTHY REGARDING TO THE MANAGEMENT OF INVESTMENT PROJECTS:



### CLASSIFICATION

The analysis of the "Capital Projects Annex" revealed projects that are qualitatively in line with the investment project criteria set out by the "Investment Project Management Guideline", but are not reflected in the Annex.



### REPORTING

In 2021, funding plans were changed for 24 capital projects by the amendments of state budget law (29% of all projects), totalling to 400 million GEL. however, the Capital Projects Annex has not been updated, which is a shortcoming in terms of transparency and accountability.



### CHANGE OF PLANS

It is noteworthy that there are shortcomings in the process of planning investment projects by implementing agencies, which often leads to large-scale changes in project plans.



### UNUSED APPROPRIATIONS

Drawbacks in the project planning affect the project implementation process which is reflected in resources utilization beyond or below to the plan. Unused funds are especially important for investment projects that are financed by external credit resources and provide for the payment of a commitment fee on the unused part of the loan.



## RECOMMENDATIONS

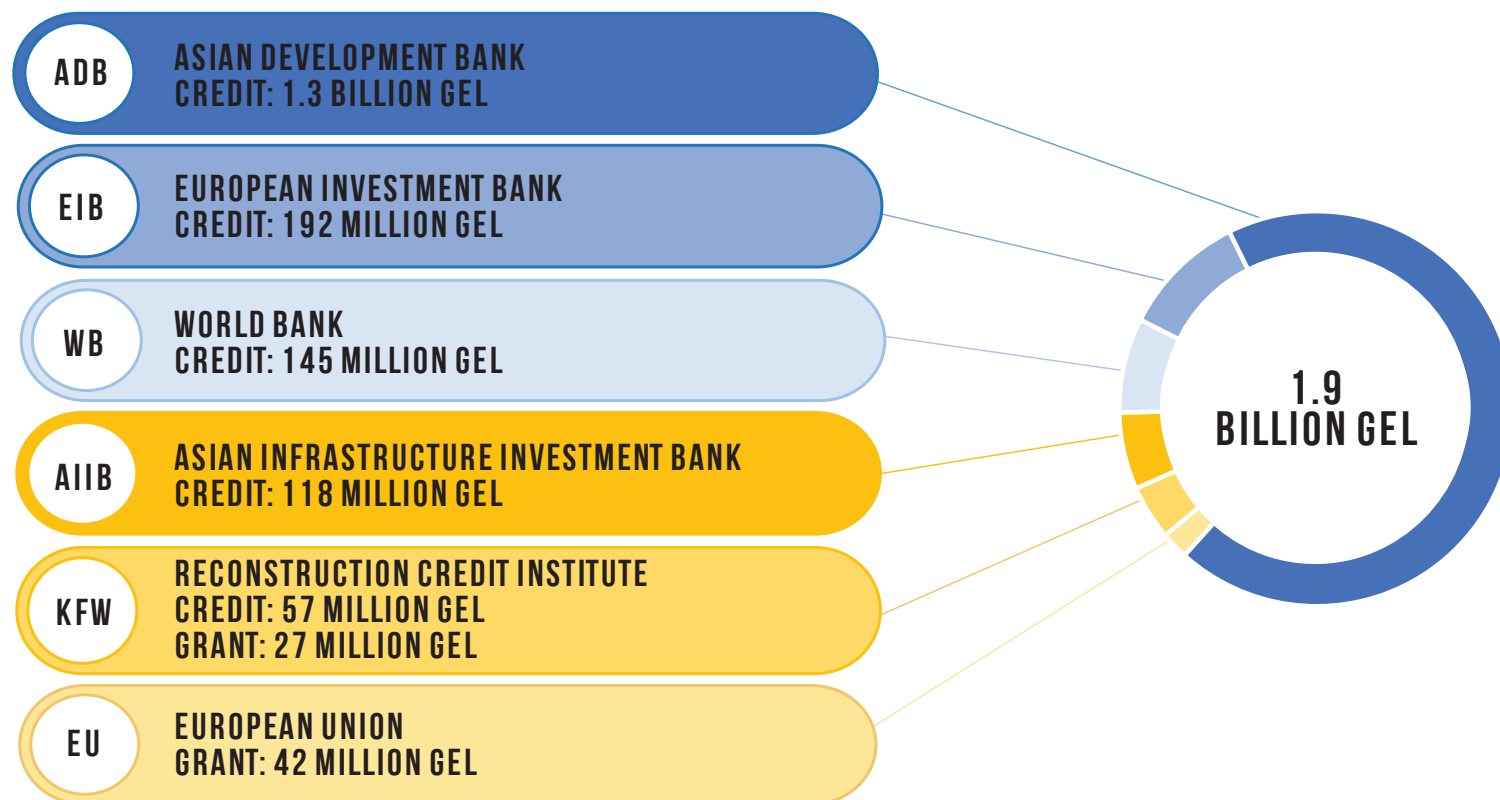
### TO THE MINISTRY OF FINANCE:

It is advisable to prepare periodic reports about the implementation of capital projects as defined by the methodology and submit them together with quarterly reports of the implementation of the state budget.

## 4.3 ACTIONS AGAINST COVID-19

In 2021, 1.9 billion GEL (1.8 billion GEL loans and 69 million GEL grants) was mobilized from the international financial institutions to finance activities against COVID-19 pandemic.

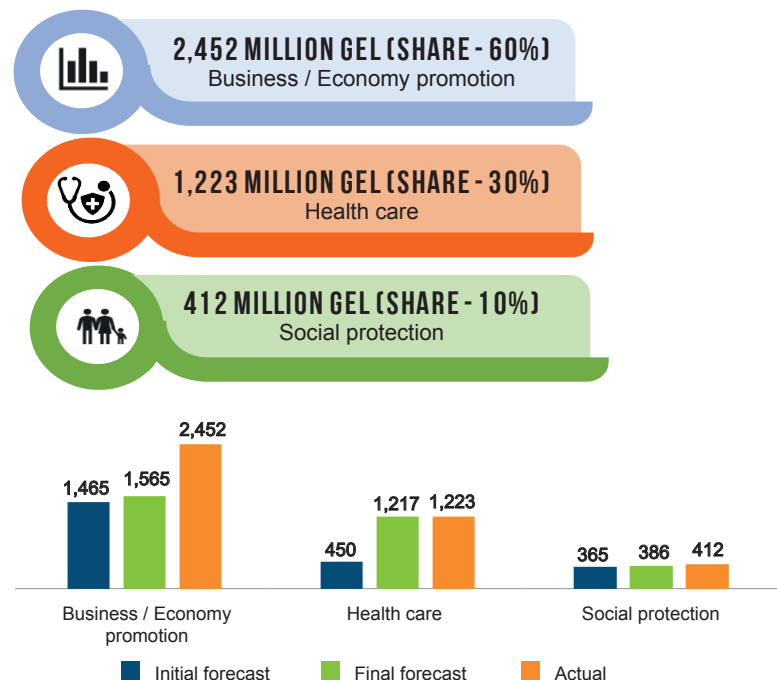
**Figure 17.** Financial resources mobilized against pandemic response measures by sources in 2021



In the initial state budget law, 2.3 billion GEL was allocated to fund anti-pandemic expenditures. During the year, this amount increased to 3.2 billion GEL within the change in the state budget law. Nevertheless, the actual expenditures amounted to 4.1 billion GEL.

In the package of anti-pandemic activities, business/economic supporting measures accounted for the largest share.

**Figure 18.** Planned and actual amount of funds spent against the pandemic across the sectors (million GEL) - 2021.



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

The analysis of the consolidated balance of the LEPLs /NPLEs, presented in the State Budget Execution Report for 2021, revealed several deficiencies related to the completeness and accuracy of the reported information, revenue forecasting, and expenditure planning. These deficiencies are presented below:

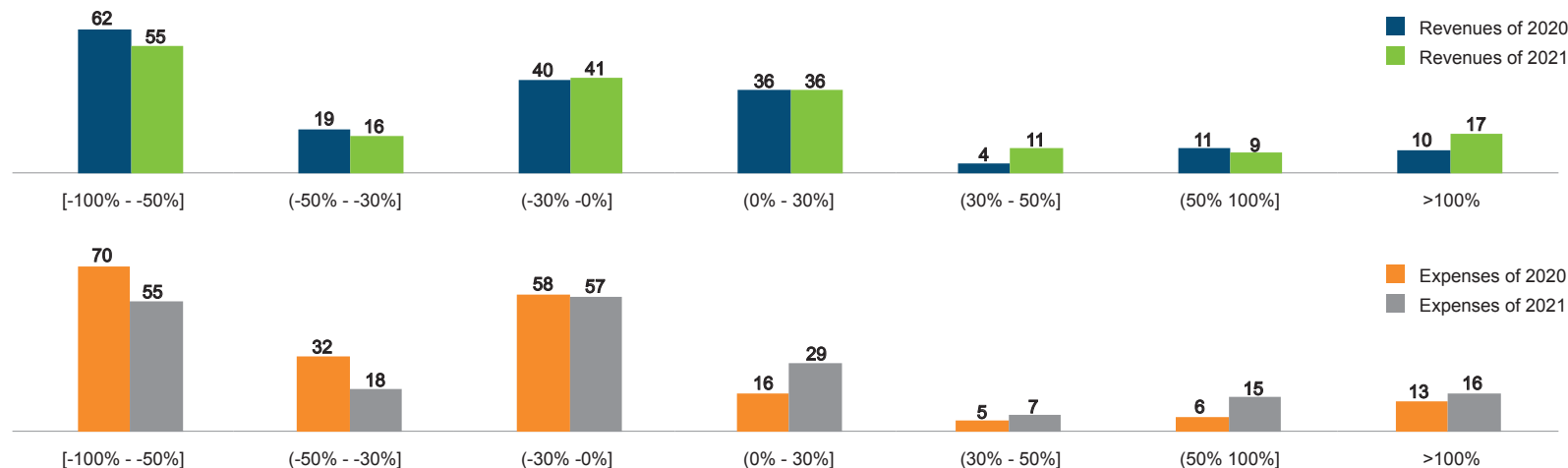
The consolidated balance sheet document of the budget execution report does not provide information on the revenues/payments of individual LEPLs/NPLEs, according to the sources of their formation.

17 agencies (LEPLs/NPLEs) forecasted their revenue and expenses at zero. At the end of the year 11 million GEL revenues and 29 million GEL expenses were accumulated in these agencies.

12 agencies (LEPLs/NPLEs) forecasted only expenses while their own revenue planed at zero. At the end of the year total mobilized revenue were 53 million GEL.

2 agencies (LEPLs/NPLEs) forecasted only revenue while their own expenses planed at zero. At the end of the year total mobilized revenue were 53 million GEL. At the end of the year, the amount of expenditures financed by own revenues amounted to 23 million GEL.

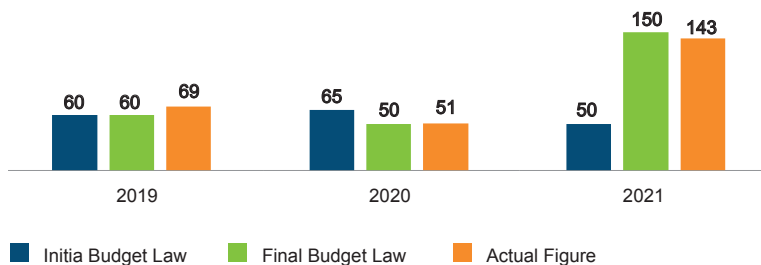
**Figure 19.** Distribution of LEPLs/NPLEs by deviations between the actual and forecasted figures of their own revenues and expenses - 2020-2021 (%)



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 stage of planning their own revenues and expenditures.

In 2021, 143.4 million GEL was transferred to the state budget by 40 LEPLs/NPLEs. It should be mentioned that 18 budget organizations did not fully direct the obligated amount to the budget, in total, 6.7 million GEL.

**Figure 20.** Planned and actual amount of resources transferred to the state budget from the own revenues received by LEPLs/NPLEs - 2019-2021. (Million GEL).







It should be mentioned positively that in 2021 government of Georgia took into account recommendation of the State Audit Office and 8 LEPLs/NPLEs were instructed to transfer 66 million GEL to the state budget from their free cash balance to finance infrastructure projects in municipalities. Due to this disission grants from LEPLs/NPLEs to the state budget were significantly increased.

The amount of deposits placed in the commercial banks by LEPLs/NPLEs (119 million GEL at the end of 2021) indicates the existence of excessive amount of financial resources in their

possession. Therefore, it is recommended to continue working on the identification of unused resources that can be used to deliver and/or improve public products/services.



## 5. MANAGEMENT OF FINANCIAL ASSETS



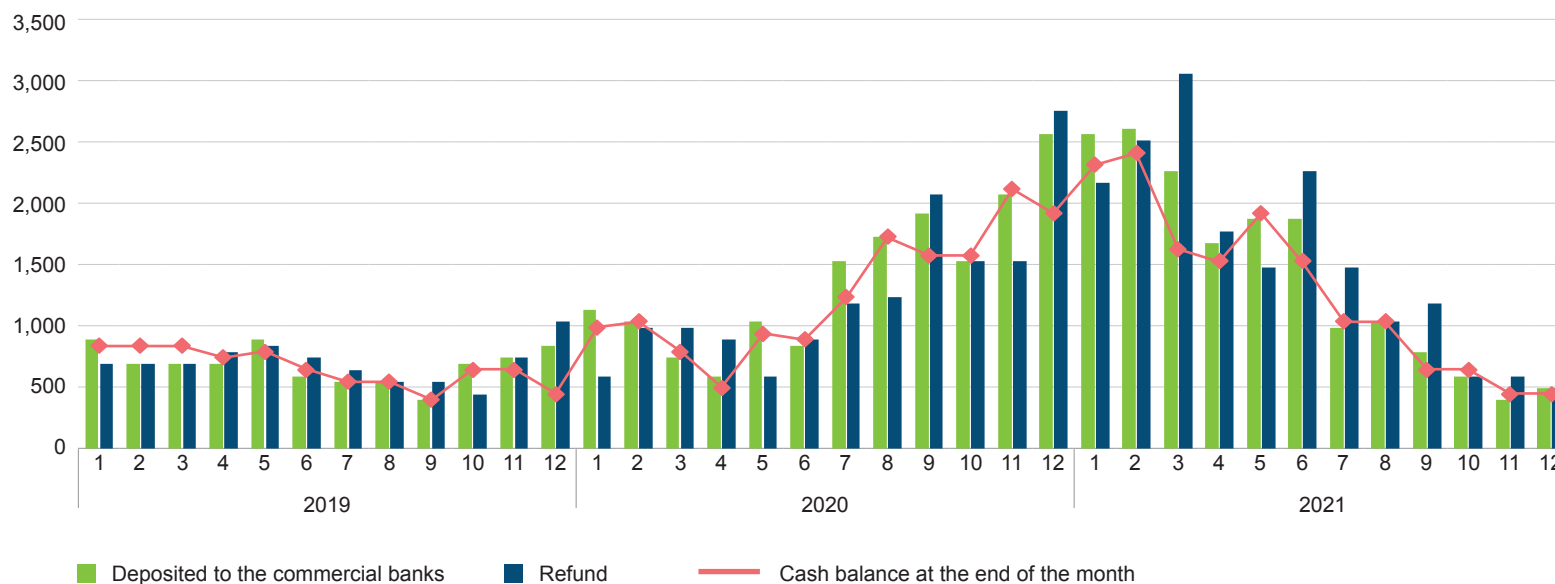
### 5.1 CURRENCY AND DEPOSITS

At the beginning of 2021, the state budget cash balance was 2.3 billion GEL, which was reduced to 882 million GEL during the year. In parallel with the reduction of the cash balance, the amount of deposits placed in the commercial banks by the Ministry of Finance were also decreased in 2021 from 1.95 billion GEL to 450 million GEL.

### 5.2 LOANS

In 2021, 323.2 million GEL were on-lent for supporting implementation of various investment projects, (54.5 million GEL (14.4%) less than the same figure in the previous year). The major part of the on-lent funds (43%) were directed to the implementation of municipal infrastructure projects.

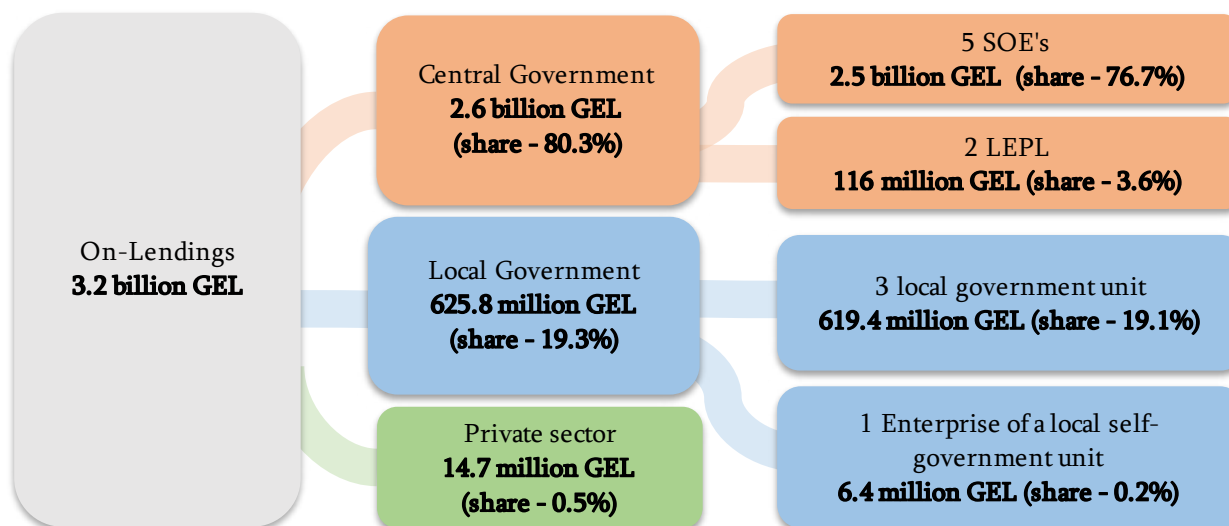
**Figure 21.** Amount of deposited balance at the end of each month –(2019-2021) (million GEL)



As of the end of 2021, the size of the portfolio of on-lendings were 3.2 billion GEL. The portfolio comprises 69 loans, of which 16 are restructured<sup>1</sup>. The resources on lent are used to implement projects selected by the central government.

While examining the portfolio of on-lendings, the State Audit Office identified deficiencies, mainly related to portfolio's credit/currency risks and their management issues.

**Figure 22.** Structure of on-lent resources by beneficiaries - 2021 (Million GEL,%)



<sup>1</sup> These restructured loans include overdue loans, which are delayed by the Ministry of Finance in case of deterioration of the beneficiary's financial situation.

In 2020-2021, a total of 249.2 million GEL was restructured from the portfolio of on-lending. It could be noted that if the final beneficiaries are unable to make timely payment, state budget is still obliged to the donor for servicing main obligations levied in it under the main loan agreement. As a result, restructuring in on-lending portfolio makes additional pressure on the state budget.

Nonuniform approach is observed in the loan restructuring process. In particular, in some cases, at the request of the final beneficiary, their liabilities to the state budget may be deferred without registering it as a restructured loan. The nonuniformity limits the ability of full assessment of the degree of credit risk materialization in the on-lendings portfolio.

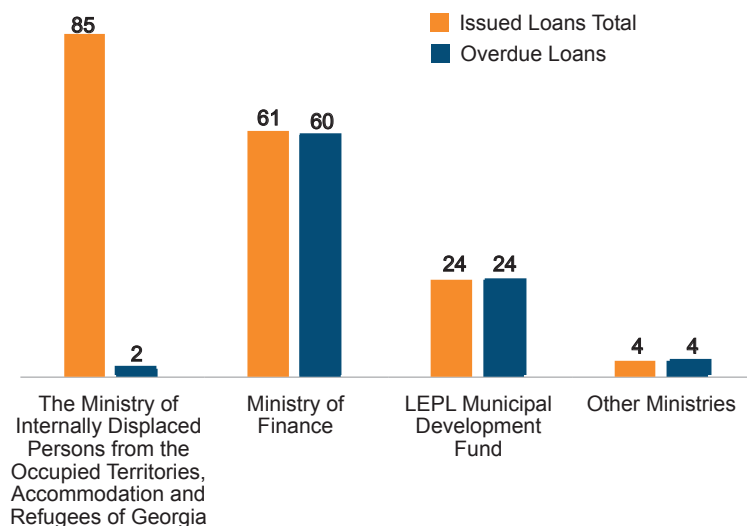
Significant credit risks are characterized in the portfolio of loans to state-owned enterprises, mainly due to their low ability to service liabilities and their dependency on budgetary resources while servicing and repayment liabilities and / or finance operating expenses.

The main source of foreign exchange risk realization is on-lend the funds borrowed in foreign currency in the national currency. As a result the risks caused by the fluctuations in exchange rate of the national currency are transferred to the state budget. Although most resources are on-lent in the currency of the main loan agreement, there are some cases mentioned above.

As for the loans from budgetary resources, by the end of 2021, total of 189.6 million GEL were lent to beneficiaries, on which penalties and interest in arrears, in total of 401 million GEL are accrued. Out of 174 loans, 90 loans (51.7%) are overdue.



**Figure 23.** The Share of overdue loans in total active loans issued from budgetary resources by donor organizations, 2021

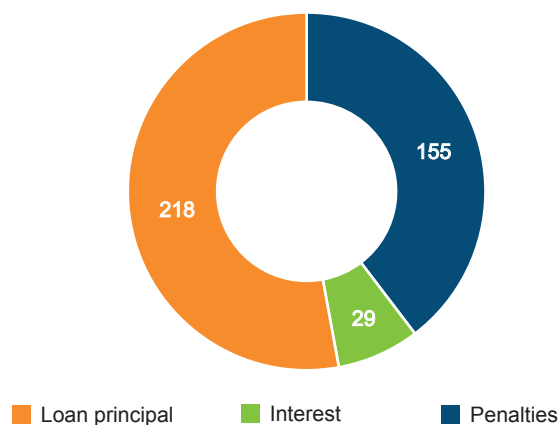


The status of loans from the budget resources mainly remains unchanged from year to year. Therefore, it is important to assess/analyze the current state of the loan portfolio and take effective measures in order to restructure overdue loans.

### 5.3 SHARES AND OTHER EQUITY

The collecting of receipts under the budget line “Shares and other Equity” were not planned according to the state budget law of 2021. Nevertheless, the amount mobilized during the year in this component comprised 2.5 million GEL, from where 2.3 million GEL of receipts were received from selling the shares of five SOEs in 2021, and 0.2 million GEL - from shares sold in previous years.

**Figure 24.** Types of arrears on overdue budgeting loans as of December 31, 2021 (million GEL)





## RECOMMENDATIONS

### TO THE MINISTRY OF FINANCE:

- It is recommended that the Ministry of Finance develop and implement a policy and corresponding policy document for management of on-lendings, in which full cycle of the lending process will be reflected and, ensures a transparent and uniform approach to each stage of the process;
- It is recommended that the Ministry of Finance develop an approach and present detailed information in the annual state budget execution report on the implementation of the state budget regarding:
  - The status of the portfolio on-lendings;
  - The volume and purpose of transfers from the state budget to the state-owned enterprises (SOEs) during the year.

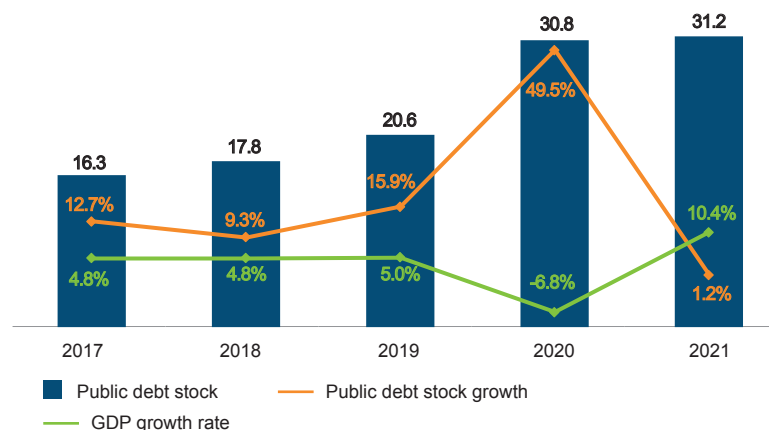


## 6. PUBLIC DEBT MANAGEMENT



At the end of 2021, the stock of public debt amounted to 31.2 billion GEL, which is 381 million GEL (1.2%) greater than the same figure in 2020. The growth was caused by the new borrowings (GEL 3.2 billion) which was partially offset by the appreciation of the national currency (caused decrease in the debt level by GEL 2.9 billion).

**Figure 25.** Dynamics of public debt stock (billion GEL), real GDP and public debt growth rates - 2017-2021



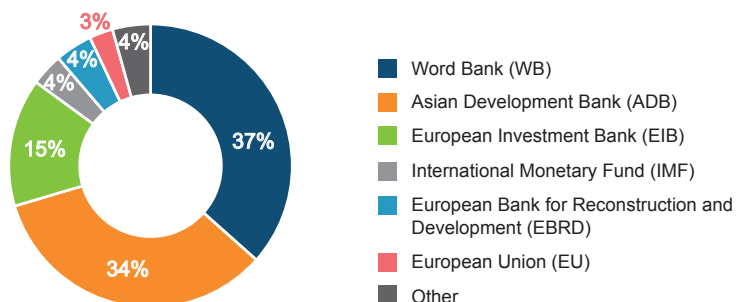
### 6.1 EXTERNAL PUBLIC DEBT

By the end of 2021, stock of the external public debt amounted to 25.4 billion GEL (81.4% of total public debt), which is 2.9% (727 million GEL) higher than the same figure in 2020. The stock of the external debt increased by GEL 3.6 billions as a result of new credits, which was partially offset by the strengthening of GEL, causing reduction in the external debt level by GEL 2.9 billion GEL.

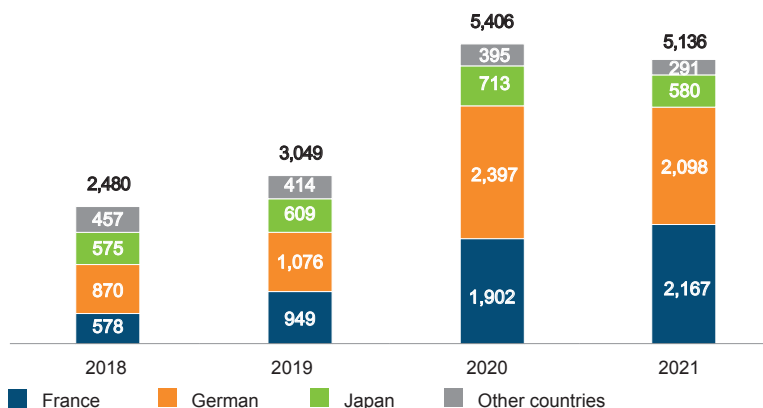
As of the end of 2021, the largest share of the external debt portfolio - 17.3 billion GEL (68.0% of the total external debt portfolio) is borrowed from multilateral creditors. Among them, the largest amount of funds (6.3 billion GEL) is raised from the World Bank. The share of bilateral creditors is also significant, amounting to 5.1 billion GEL (20.2% of total foreign debt). The largest bilateral creditors for the country are France (2.2 billion GEL), Germany (2.1 billion GEL) and Japan (580 million GEL).



**Figure 26.** Components of the External Public Debt by Lenders (Billion GEL)



**Figure 27.** Structure of the bilateral creditors of the external public debt - 2018-2021



## 6.2 DOMESTIC PUBLIC DEBT

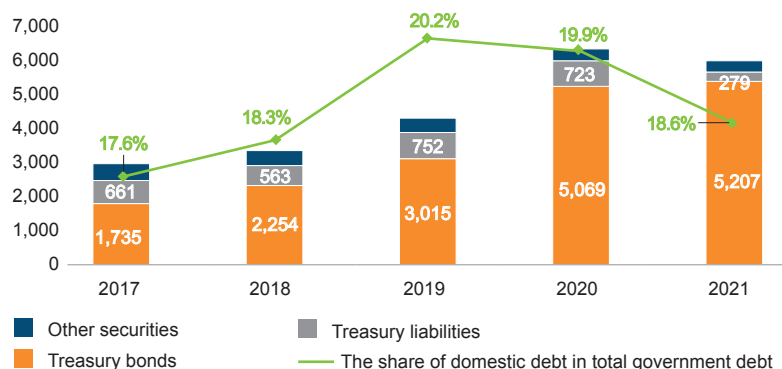
The decrease in domestic debt during 2021 amounted to 346.5 million GEL and at the end of the year, the domestic debt stock totalled to 5.8 billion GEL. The decrease in domestic debt was mainly due to the decrease in the volume of treasury securities by GEL 306.5 million. By the end of 2021, the share of domestic debt in the total public debt decreased by 1.4% compared to 2020 and reached 18.6%.

The holders of the treasury securities are mainly local commercial banks, which owned 61.7% of the total securities portfolio at the end of 2021. In recent years, a significant share of treasury securities were acquired by the National Bank of Georgia (27% of the total securities portfolio at the end of 2021).

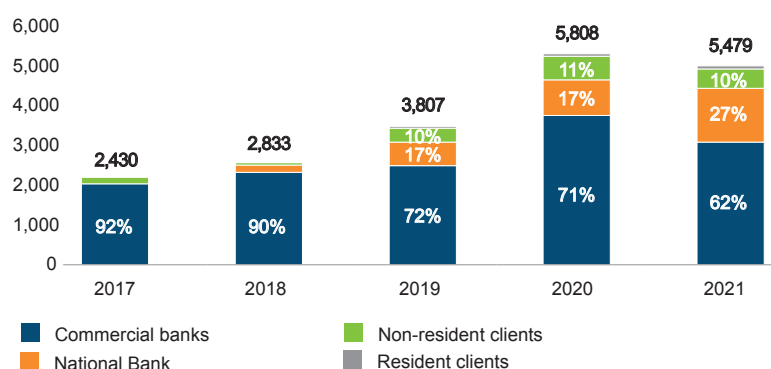




**Figure 28.** Composition of the domestic public debt and its share in the total public debt (million GEL) -2017-2021



**Figure 29.** Treasury securities by holders (million GEL) - 2017-2021

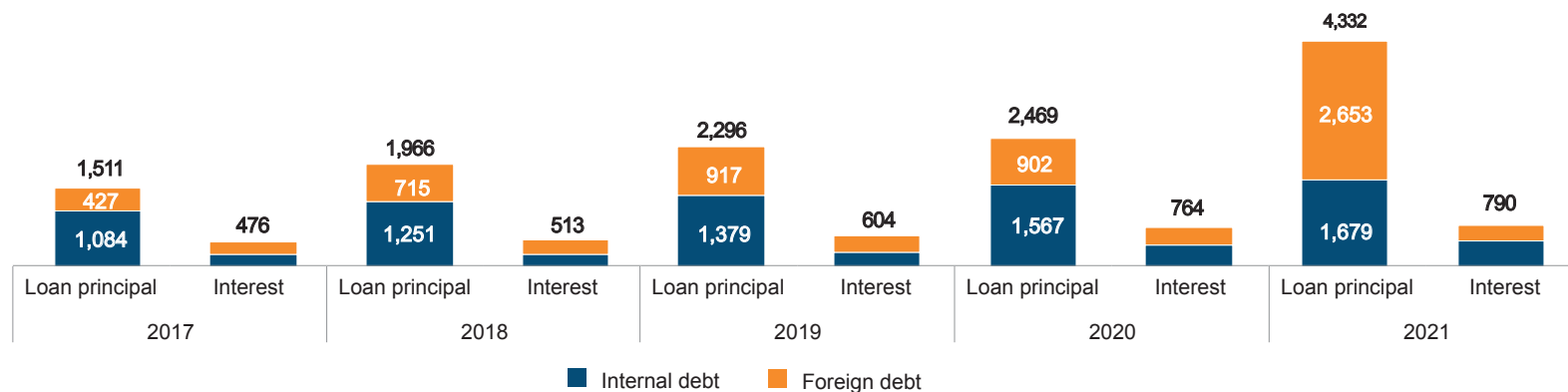


## 6.3 COSTS OF PRINCIPAL AND INTEREST PAYMENT ON PUBLIC DEBT

In 2021, 5.1 billion GEL was spent on the public debt service (excluding the debt service of the National Bank of Georgia to the IMF), which is

95.2% of the forecasted amount defined by the initial law and 99.4% of the final law of the state budget.

**Figure 30.** Dynamics of the costs of the public debt service (million GEL) - 2017-2021

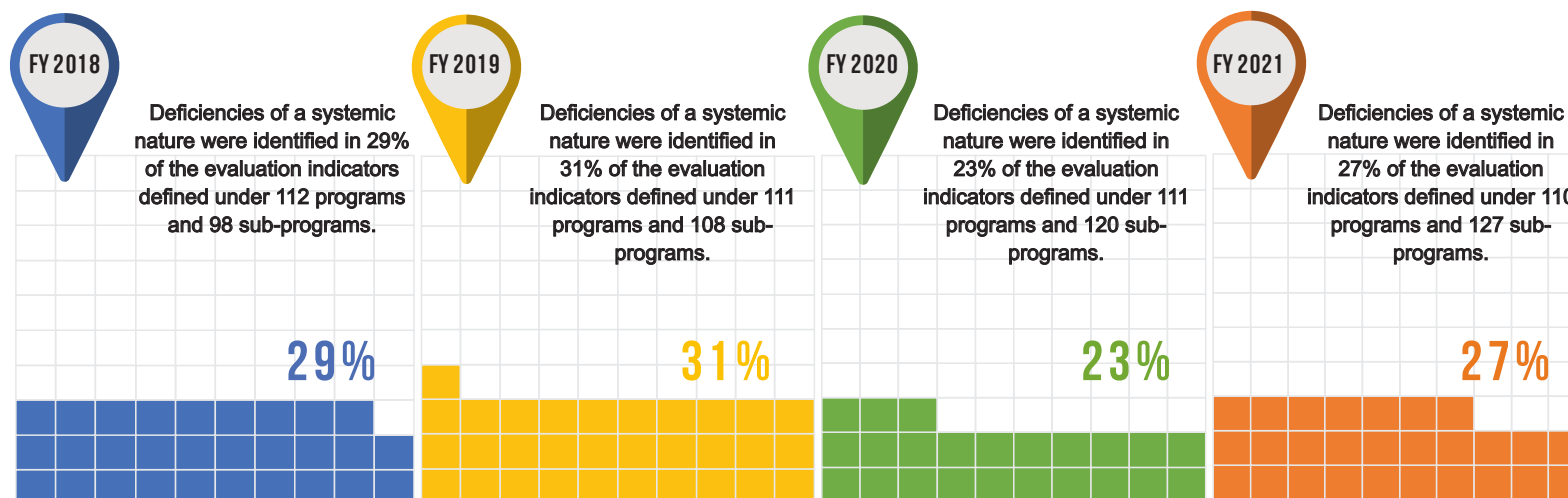


## 7. PROGRAM BASED BUDGETING



Preparation of a program based budget was initiated in 2012, but still only exists in the form of an accompanying annex to the state budget law. In addition, information currently presented in the annex needs further improvements.

**Figure 31.** Systemic deficiencies identified as a result of the analysis of the evaluation indicators of the achieved results presented in the program annexes of the annual reports on the implementation of the state budget for 2018-2021



## SHORTCOMINGS IN PERFORMANCE REPORTING:

**For a part of programs performance results are not fully reported in line with predetermined performance indicators.**

**In a part of programs/sub-programs, performance results are not reported in accordance with those reflected in the planning documents. That makes it difficult to compare planned and actual results.**

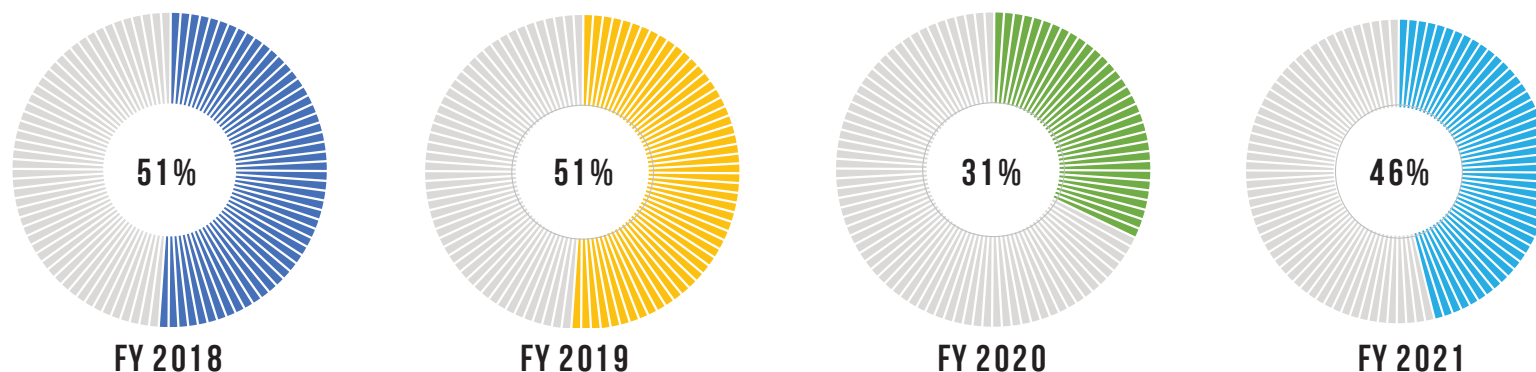
**In some cases, information about deviations of actual results from those of planned are not reported and/or are reported in a generic manner. The incomplete reporting complicates the comparison between the planned and achieved results.**

The analysis conducted by the State Audit Office assessed to what extent explanatory information was provided for the programs/sub-programs that achieved results differed by more than 10% in comparison with the targeted amount. The men-

tioned 10% or more deviation were observed in 40% of the indicators of the results achieved in 2021. Out of which, in 46% of the cases explanations are not provided and/or the provided explanation needs further clarifications.



**Figure 32.** Percentage of indicators presented in the program annexes to the annual reports on the implementation of the state budget for 2018-2021, for which no explanation is given for the differences between the planned and achieved results or the given explanation is of a general nature



## RECOMMENDATIONS

### TO THE GOVERNMENT OF GEORGIA:

It is recommended for the Government of Georgia to approve the action plan for the full implementation of program budget methodology. This action plan should include a list of activities with respective time-line and responsible agencies.



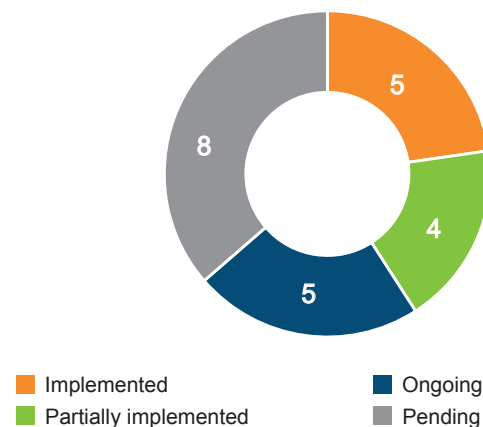
## 8. STATUS OF THE IMPLEMENTATION OF RECOMMENDATIONS ISSUED BY THE STATE AUDIT OFFICE



The State Budget Execution Report for 2021 is accompanied by information on the possibility of taking into account the remarks and recommendations presented in the Report on the Annual Report on the State Budget Execution for 2020. It is noteworthy that an action plan on these recommendations defined by a government decree has not been prepared in 2021.

In response, to the systemic deficiencies and shortcomings identified in the 2017-2020 budget execution process, the State Audit Office issued 22 recommendations. Currently, 11 recommendations have been fully or partially implemented.

**Figure 33.** Status of the implementation of recommendations issued by the State Audit Office in the Report on Government Report on the State Budget execution of 2017-2020.





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