



STATE AUDIT OFFICE OF GEORGIA

REPORT

ON THE GOVERNMENT'S REPORT ON THE ANNUAL EXECUTION OF 2024 STATE BUDGET

SHORT VERSION



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THE KEY ECONOMIC AND FISCAL INDICATORS



	2020	2021	2022	2023	2024	
MACROECONOMIC INDICATORS						
Nominal GDP (bln GEL)	49.8	60.7	72.9	80.9	91.9	
Economic growth	-6.3%	10.6%	11.0%	7.8%	9.4%	
Average inflation rate	5.2%	9.6%	11.9%	2.5%	1.1%	
Foreign trade balance (bln US Dollar)	-4.7	-5.9	-8.0	-9.5	-10.4	
Foreign direct investment (mln US Dollar)	583	1,246	2,253	1,902	1,334	
Remittance (bln US Dollar)	1.9	2.3	4.4	4.1	3.4	
Current account deficit to GDP	12.4%	10.3%	4.4%	5.6%	4.4%	
FISCAL INDICATORS						
Receipts (bln GEL)	18.0	18.4	20.5	22.7	25.8	
Expenditures (bln GEL)	16.2	19.8	20.2	22.4	25.9	
Change in cash balance (mln GEL)	1,868	-1,430	366	330	-191	
Tax revenues (bln GEL)	9.4	11.4	15.0	17.0	20.2	
Budget deficit to GDP	9.1%	6.3%	2.2%	2.2%	1.9%	
Public debt stock (bln GEL)	30.8	31.2	29.7	32.5	34.1	
Government debt stock (bln GEL)	29.7	29.8	28.6	31.5	33.2	
Debt Rule Ratio	60.4%	49.7%	39.3%	39.0%	36.1%	

1. TENDENCIES OF THE STATE BUDGET EXECUTION



State budget receipts and expenditures for the fiscal year 2024 were initially planned as 24.6 and 25 billion GEL, respectively. After the amendment in the State budget Law, the plan of the receipts was increased by 1.1 billion GEL (4.6%) and expenditures – by 900 million GEL (3.6%). By the end of

the fiscal year, actual receipts and expenditures amounted to 25.8 and 25.9 billion GEL, respectively. Therefore, the state budget cash balance decreased from 1.6 billion GEL to 1.4 billion GEL.

Table 1. Execution of the state budget components – 2024 (million GEL)

	"Budget Law Initial"	"Budget Law Amendment"	Actual
Receipts	24,569	25,696	25,755
Expenditures	25,030	25,930	25,946
Change in balance	-461	-234	-191



Figure 1. Execution of the state budget components – 2024

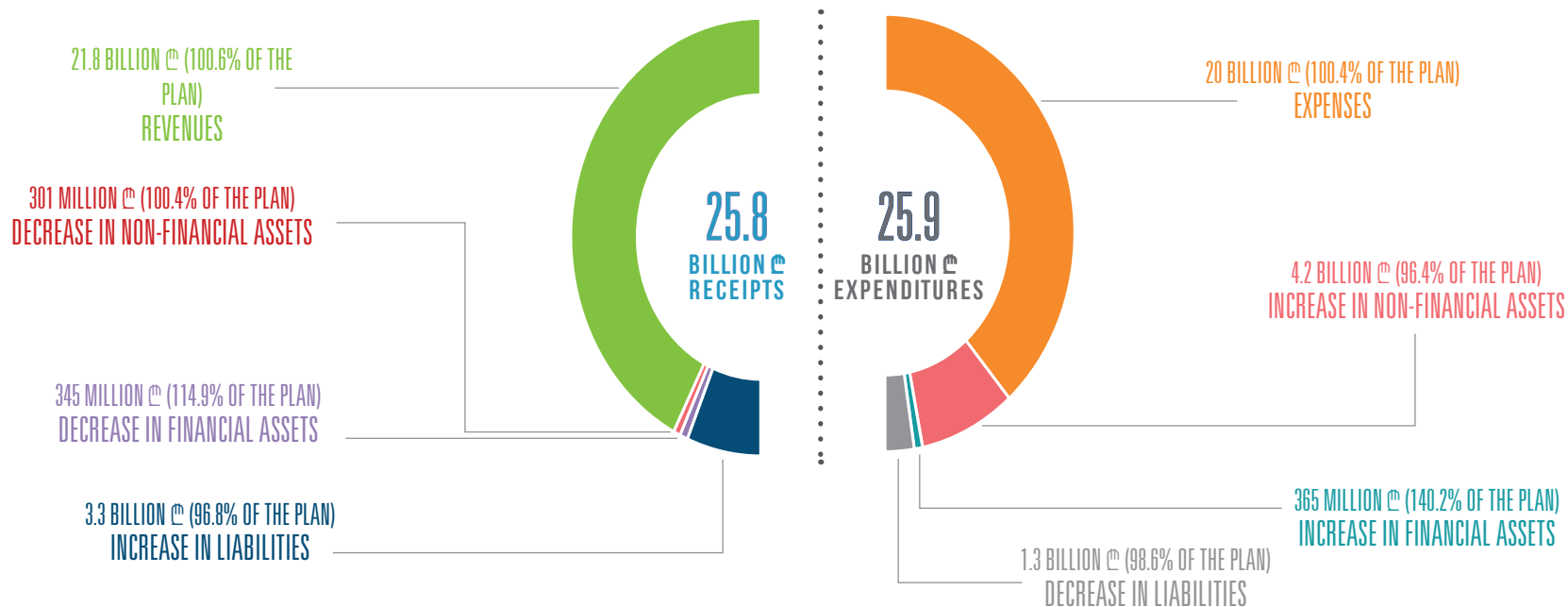
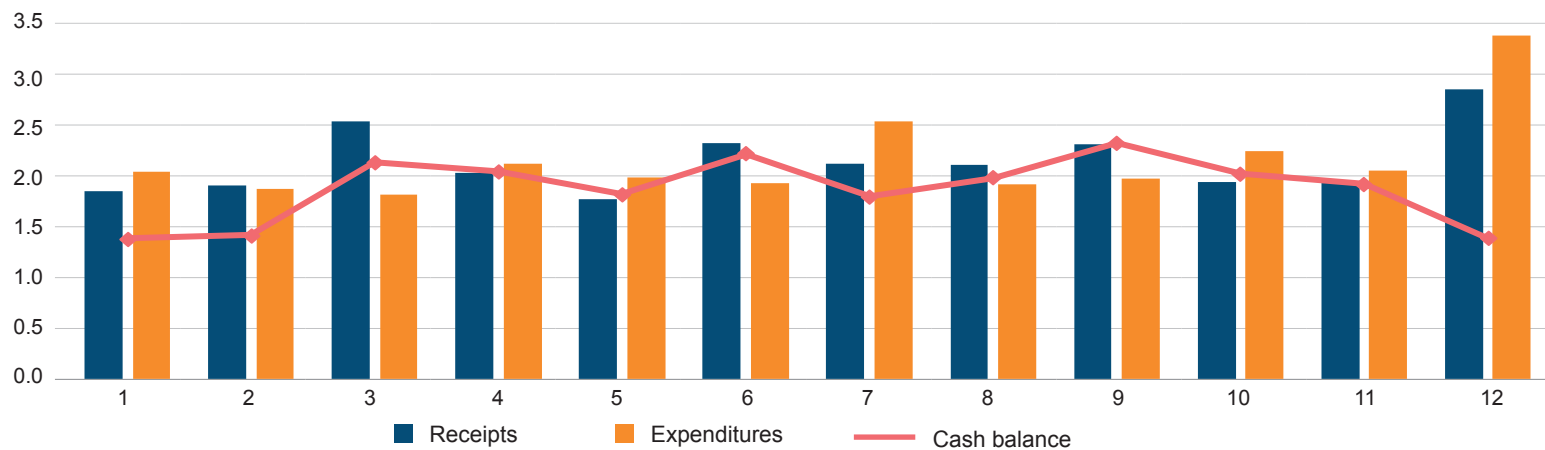


Figure 2. Monthly dynamics of the state budget receipts, expenditures and cash balance – 2024 (billion GEL)



2. ANALYSIS OF MACROECONOMIC FORECASTS AND FISCAL RISKS REALISATION



2.1 OVERVIEW OF THE MACROECONOMIC ENVIRONMENT

In 2024, real GDP growth reached 9.4%, exceeding the forecast set in the final state budget law (9.0%) by 0.4 p.p. The yearly average inflation rate stood at 1.1%, which is 0.1 p.p. higher than the forecasted figure in the final budget law (1.0%), and 1.7 p.p. lower than the projection in the initial budget law (2.8%).

As of December 10, 2024, amendments in the state budget law reflected mostly positive revisions to the macroeconomic indicators. By the time of the amendment, the fiscal and economic trends for the year had largely materialized, which contributed to a closer alignment between the forecasted and actual macroeconomic parameters. Nevertheless, for certain indicators, discrepancies between the projected and actual values remain.

Figure 3. Comparative analysis of the forecasted and actual figures of key macroeconomic indicators – 2024

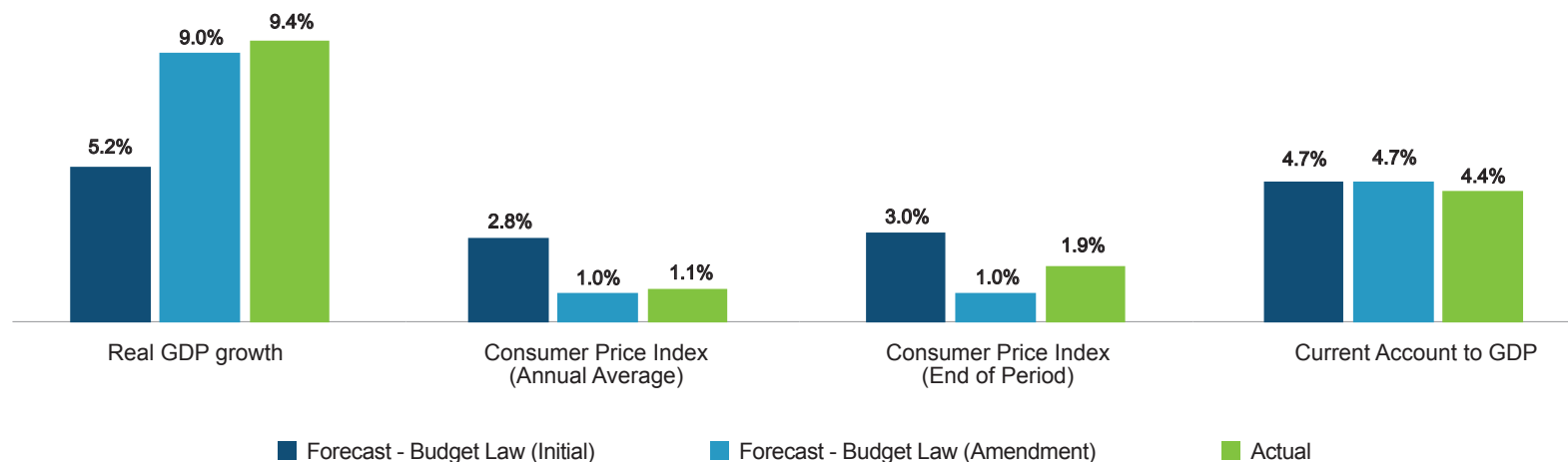
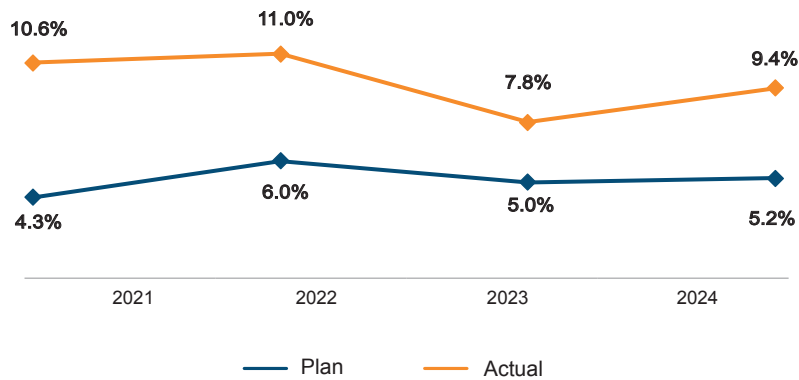


Figure 4. Comparative analysis of forecasted and actual economic growth figures (The forecasts are based on the final versions of the BDD documents prepared for the respective fiscal year)



2.2 OVERVIEW OF THE MACROECONOMIC AND FISCAL RISKS REALISATION

The “Fiscal Risks Analysis” and “Macroeconomic Scenario Analysis” documents attached to the state budget law were not updated during the 2024 budget amendment process. Consequently, the annual report on budget execution includes information on the realization status of the macroeconomic risks outlined in the initial state budget law.

It is important that the annual report also reflects the impact of risk factor realization on fiscal aggregates and the corresponding fiscal policy responses.

An analysis comparing the actual macroeconomic parameters with those presented in the various scenarios developed based on different assumptions in the budget law shows that, in 2024, economic developments unfolded as a combination of all three scenarios.



Table 2. Actual and predicted macroeconomic parameters based on the different scenarios – 2024 (million USD). ✓ symbol indicates the forecast closest to the actual figure.

INDICATORS	BASIC	PESIMISTIC	OPTIMISTIC	ACTUAL
Real GDP growth	9.0%	7.6%	9.7%	9.4%
Consumer price index	1.0%	0.5%	✓ 1.5%	1.9%
Current account to GDP	-4.7%	✓ -4.6%	-4.9%	-4.4%
Current account balance	-1,586	✓ -1,524	-1,653	-1,491
Export of goods	8,806	✓ 8,676	8,889	8,622
Import of goods	-15,494	✓ -15,100	-15,741	-15,092
Export of services	7,924	✓ 7,710	8,043	7,700
Import of Services	✓ -3,851	-3,762	-3,921	-3,823
Budget deficit	2.4%	2.4%	✓ 2.1%	1.9%
Government debt / GDP	36.8%	37.4%	✓ 36.4%	36.1%



1

State-owned enterprises (SOEs) 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 2025 budget law, the consolidated uncovered losses of 200 SOEs in 2023 amounted to 206 million GEL, while the consolidated pre-corporate income tax losses stood at 199 million GEL. It is noteworthy that in 2023, the exchange rate effect had no significant impact on financial result of SOEs. Specifically, excluding this factor, the consolidated pre-tax loss amounted to 180 million GEL.

2

International arbitration disputes presents another source of fiscal risk. In 2024, the total potential maximum disputed amount in ongoing cases where the state acted as the respondent reached 4.8 billion USD. One of these disputes was resolved in favor of the state, reducing the total claim amount to 3.3 billion USD.

3

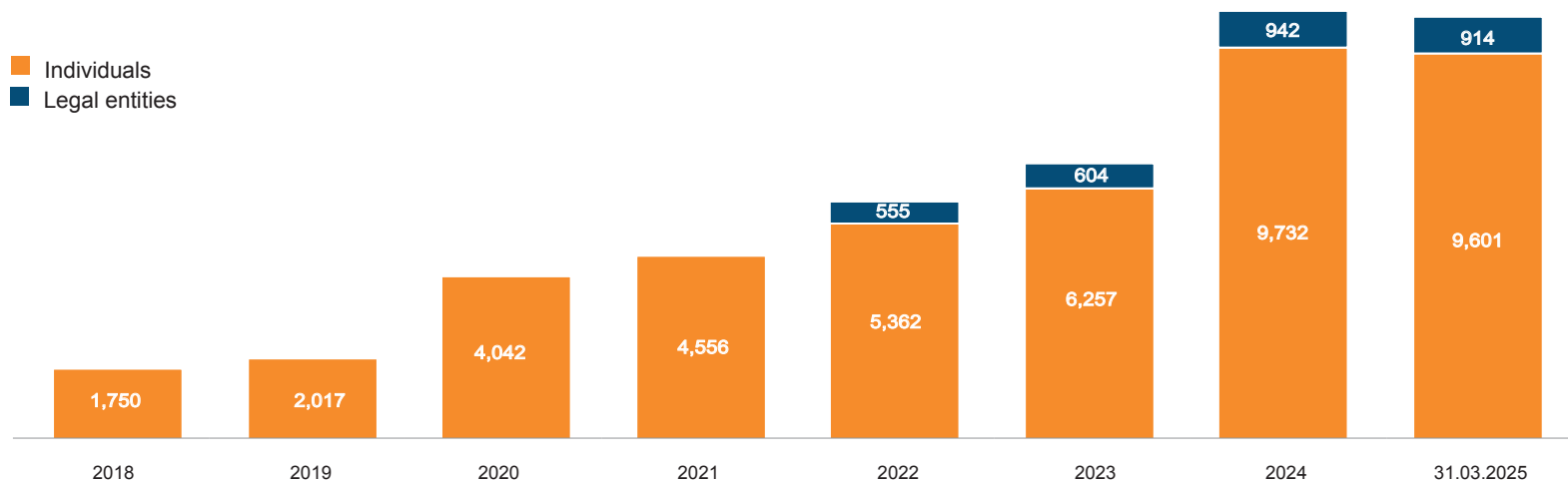
The deposit insurance system in Georgia is a significant source of fiscal risk. As of December 31, 2024, the total volume of deposits insured by the system amounted to 10.7 billion GEL, while the size of the insurance fund stood at 285 million GEL (2.7% of insured deposits). Out of this amount, 275.4 million GEL was invested in treasury securities issued by the Ministry of Finance of Georgia. It is recommended that the Fiscal Risk Analysis document include information on potential risks stemming from the deposit insurance system operating in Georgia.

It is a positive development that the document distinguishes between the financial indicators of enterprises classified as corporate sector and those classified as the government sector. According to the report, the corporate sector

enterprises generated a total profit of 283 million GEL, while the government sector enterprises recorded a total loss of 515 million GEL.



Figure 5. Total volume of insured deposits (million GEL).



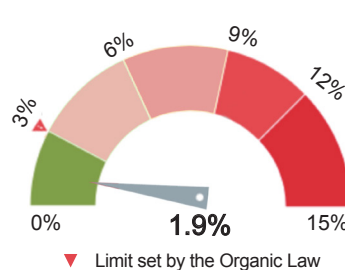
2.3 FISCAL RULES

BUDGET BALANCE RULE (BUDGET DEFICIT)

At the end of 2024, the united budget deficit amounted to 1.9% of GDP (1.7 billion GEL). Compared to the previous year, all parameters affecting deficit formation increased. However, the growth in revenues (4.1 billion GEL (16%)) slightly exceeded the increase in expenses and change in non-financial assets (3.1 billion GEL (15%) and 0.9 billion GEL (14%), respectively).

BUDGET BALANCE RULE

Budget deficit to GDP



DEBT RULE

Public debt to GDP

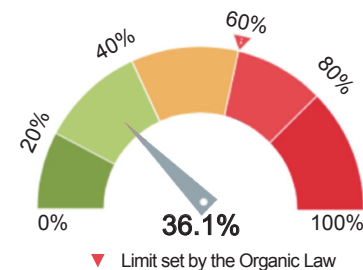
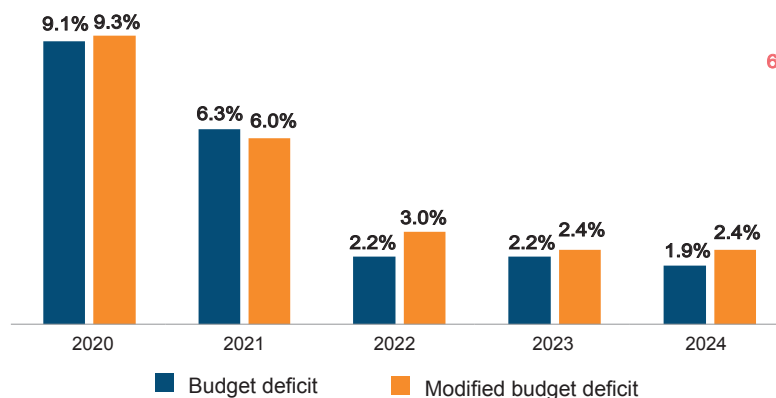


Figure 6. Dynamics of united budget deficit and modified budget deficit (as defined under the ongoing IMF program) to GDP

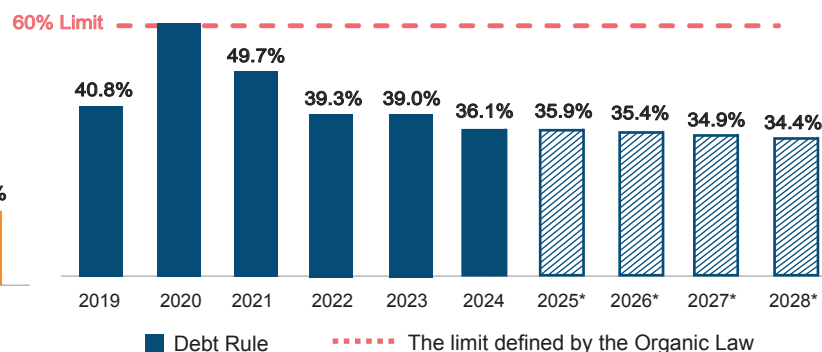


The deficit figure presented in the annual state budget execution report does not fully reflect the data of state-owned enterprises classified under the government sector. This is due to reporting deficiencies in the submission of financial data to the Ministry of Finance by the enterprises. Specifically, out of 270 enterprises classified under the government sector, data from only 82 enterprises are included in the 2024 State budget Execution Report.

DEBT RULE

According to the information presented in the state budget execution report, the actual figure of the debt rule indicator in 2024 comprised 36.1%, which is within the 60% limit

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



* Forecast

established by the Organic Law on “Economic Freedom.” Compared to the previous fiscal year, the volume of government debt increased; however, this increase was fully offset by the growth in nominal GDP, resulting in a 2.9 p.p. decrease in the Debt Rule indicator.

It is noteworthy that, despite recent legislative changes related to the sectoral classification of enterprises, the authority of SOEs classified under the government sector to take on debt, as well as the coordinating role of the Ministry of Finance in this process, remains legally unregulated. This issue is important to address in order to ensure the continued sustainability of government debt.



3. STATE BUDGET REVENUES



In 2024, actual revenues mobilized in the state budget amounted to 21.8 billion GEL, exceeding the forecast by 123 million GEL (0.6%). The overperformance was primarily driven by grants (69.9 million GEL; 26.3%) and other revenues (46.4 million GEL; 3.7%).

In 2024, tax revenues mobilized in the state budget amounted to 20.2 billion GEL, which is 3.2 billion GEL (18.8%) higher than the corresponding figure of the previous year. As in previous years, the largest shares of tax revenues came from VAT (37.4%) and personal income tax (32.8%).

Table 3. State budget revenues – 2024 (million GEL)

	Actual	Execution with approved plan (%)	
		Budget Law Initial	Budget Law Amendment
Tax revenues	20,197	105.7%	100.0%
Grants	336	126.3%	126.3%
Other revenues	1,316	97.5%	103.7%
Revenues	21,848	105.4%	100.6%

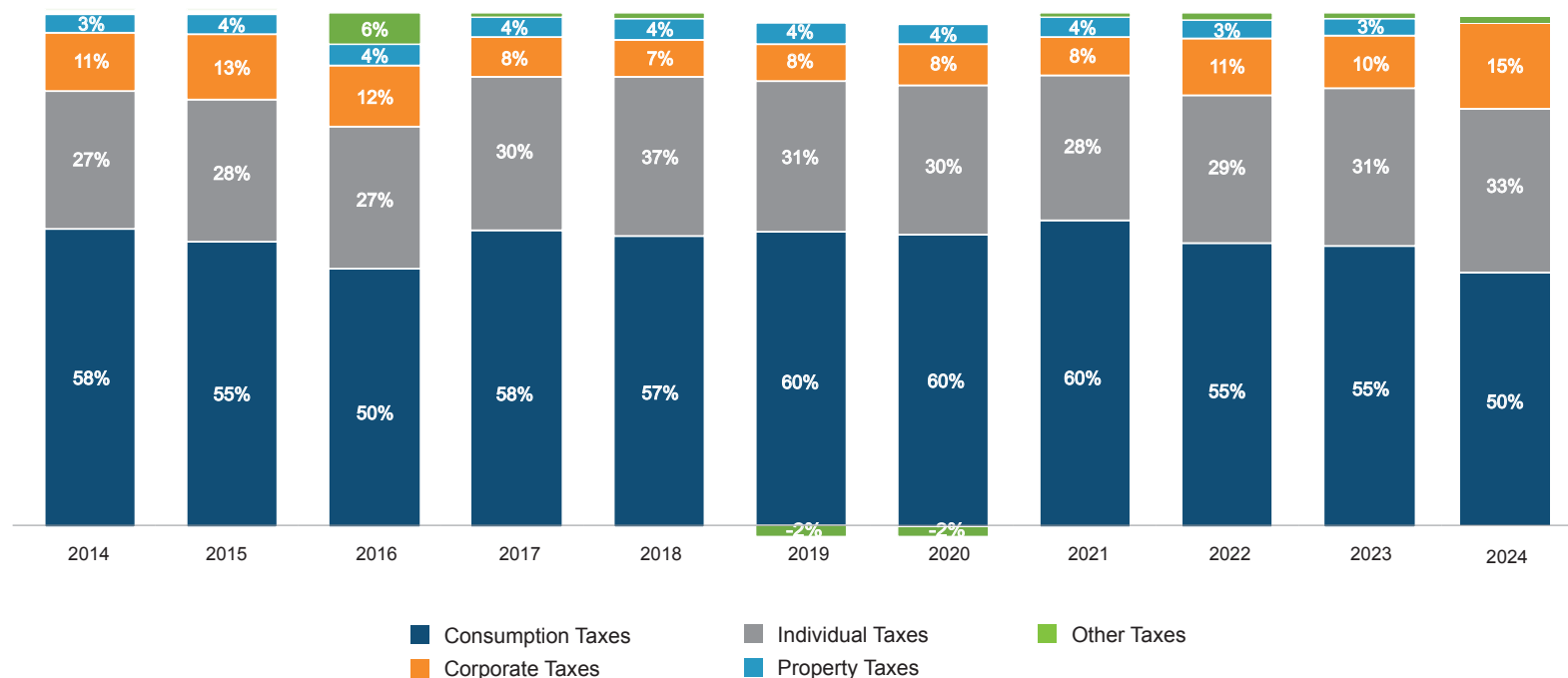
Since 2014 to the present, taxes on consumption of goods and services have held the largest share in the consolidated budget's tax revenues.¹ The next largest contributor is the personal income tax, share of which in total taxes are relatively stable. The share of corporate profit tax was also stable until 2017 but declined sharply following amendments to the tax code introduced that year.² From 2021 onward, its share has been gradually increasing. The share of property tax has also been stable at around 3–4%, however, in 2024, it experienced a significant decline.

¹ This includes VAT, excise and import taxes.

² This change was driven by the transition of corporate income tax to the "Estonian model".



Figure 8. The structure of tax revenues in the consolidated budget of Georgia



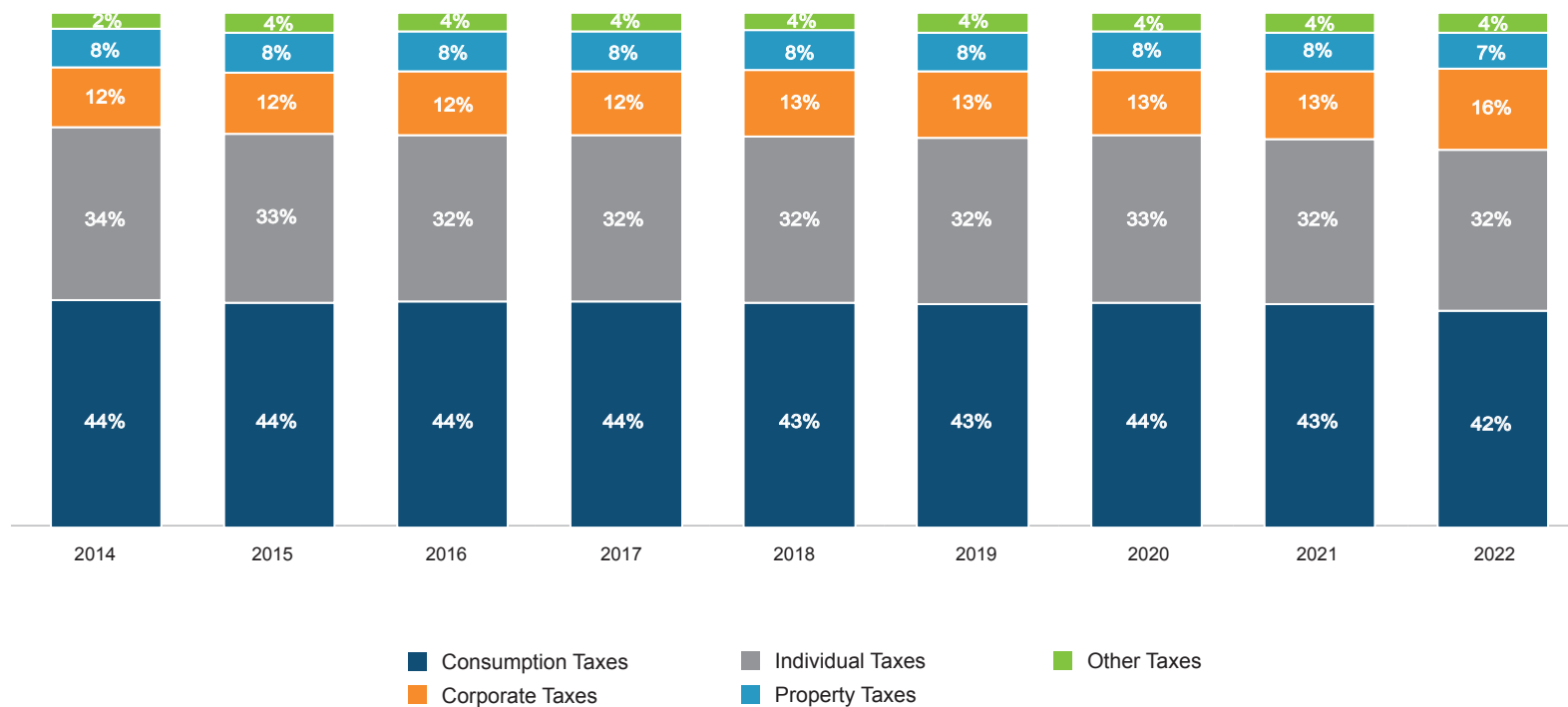
The structure of tax revenues in Georgia differs somewhat from that of developed countries. In OECD member states,³ the largest contributor to tax revenues is also taxes on goods and services, accounting for around 43% in recent years—significantly lower than the corresponding figure in Georgia. The share of personal income tax averaged 32%

during 2014–2022, which is broadly comparable to Georgia’s figures. In contrast, the share of property tax in total tax revenues is considerably higher in OECD countries, standing at approximately 8%, compared to a much smaller share in Georgia.

³ <https://data.oecd.org/tax/tax-revenue.htm#indicator-chart>



Figure 9. The structure of government tax revenues in the OECD countries.



4. STATE BUDGET EXPENDITURES

Compared to previous years, the uniformity of expenditure utilization throughout the year has improved, however, certain challenges still remain. In particular, there was a significant increase in the volume of expenditures at the end of 2024. In December alone, spending amounted to 3.4 billion GEL, accounting for 13.1% of total annual expenditures. As a result, the volume of appropriations utilized in December exceeded the average monthly expenditure of the first 11 months by 65.3%.⁴

Figure 10. Monthly expenditures of the state budget – 2024 (million GEL).

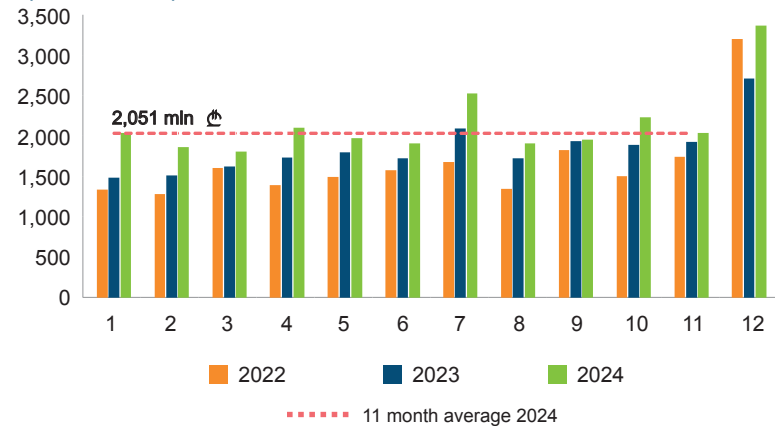
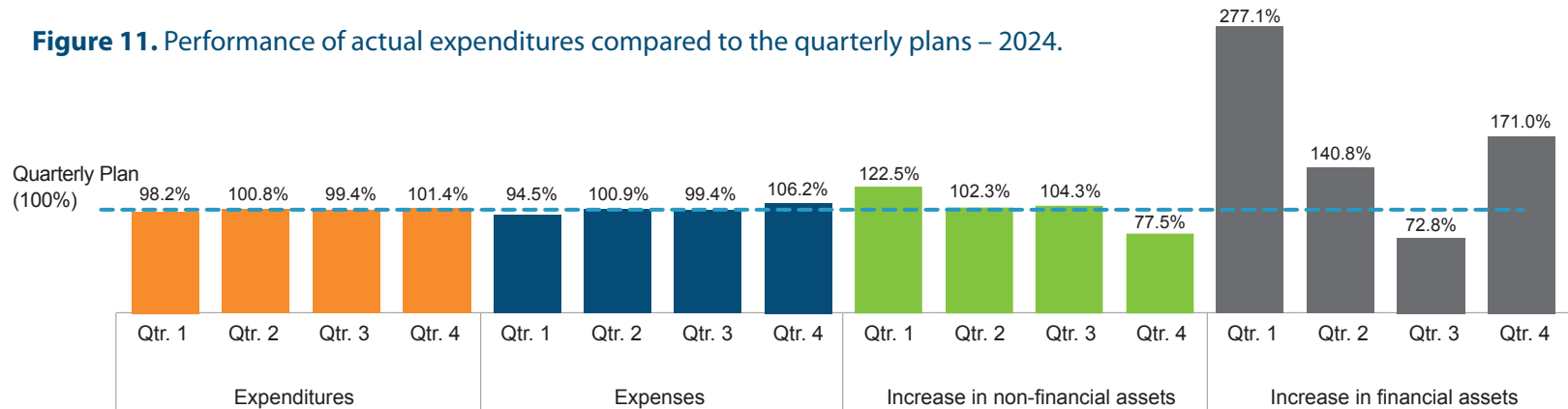


Figure 11. Performance of actual expenditures compared to the quarterly plans – 2024.



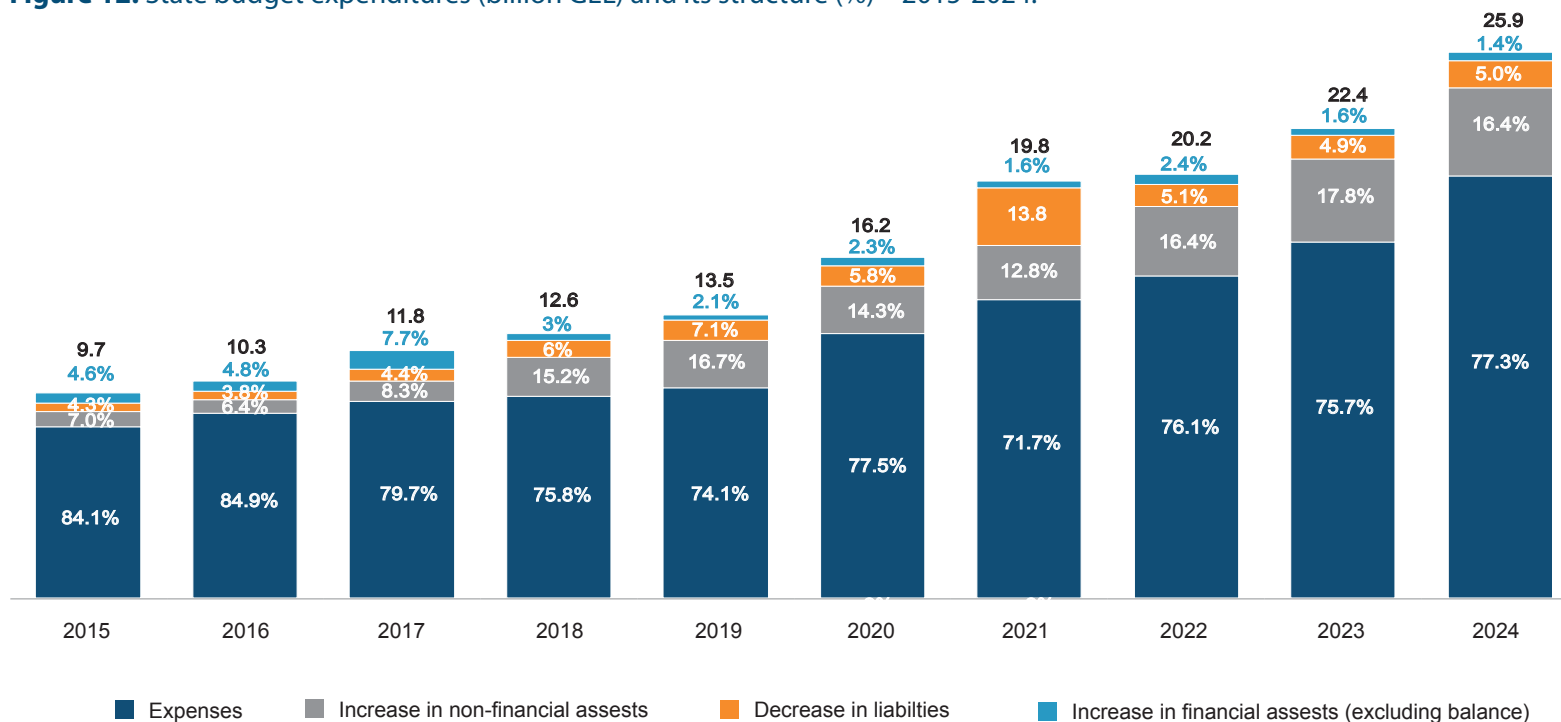
⁴ The corresponding figures for 2022 and 2023 are 109.4% and 53%, respectively.



During 2015–2024, total expenditures increased from 9.7 billion GEL to 25.9 billion GEL (167.4%), with an average annual growth rate of 11.3%. As in previous years, the largest component of 2024 expenditures remains the “expenses” category, comprising 77.3% of total expenditures. However,

its share continues to show a declining trend, while the share of “increase in non-financial assets” is growing. In 2015, the shares of “expenses” and “increase in non-financial assets” in total expenditures were 84.1% and 7.0% respectively, whereas in 2024 these figures stood at 77.3% and 16.4%.

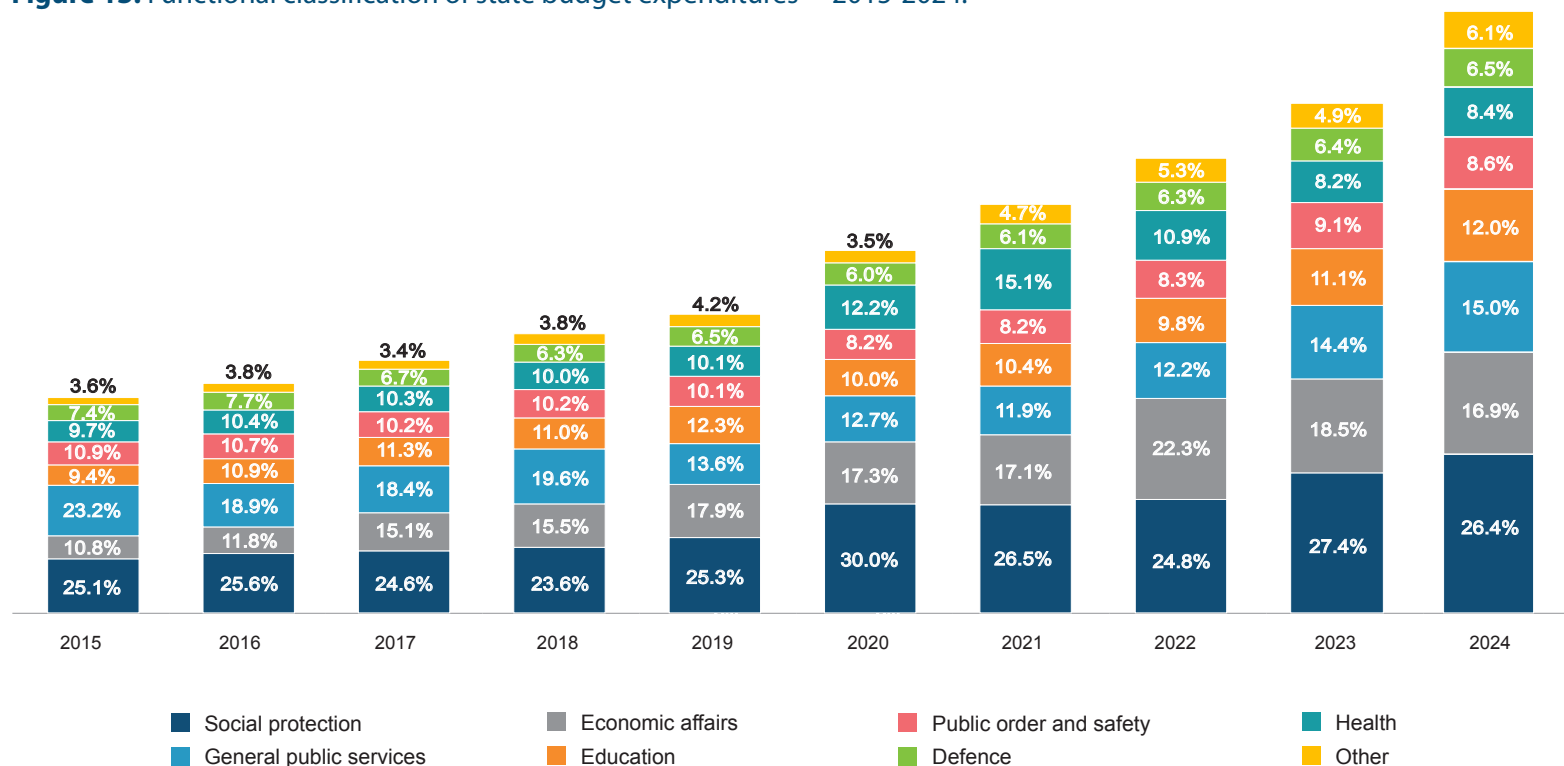
Figure 12. State budget expenditures (billion GEL) and its structure (%) – 2015-2024.



According to the functional classification of operations on state budget expenses and non-financial assets,⁵ in 2024, total spending across 10 main functional categories amounted to

24.3 billion GEL. As in previous years, the largest shares of expenditures were allocated to social protection (26.4%), economic affairs (16.9%) and general public services (15.0%).

Figure 13. Functional classification of state budget expenditures – 2015-2024.



⁵ According to the Government Finance Statistics Manual 2014 (GFSM 2014), the functional classification of expenditures and transactions in non-financial assets (COFOG) provides detailed information on spending related to government functions or socio-economic objectives.



4.1 MEDIUM-TERM BUDGET PLANNING

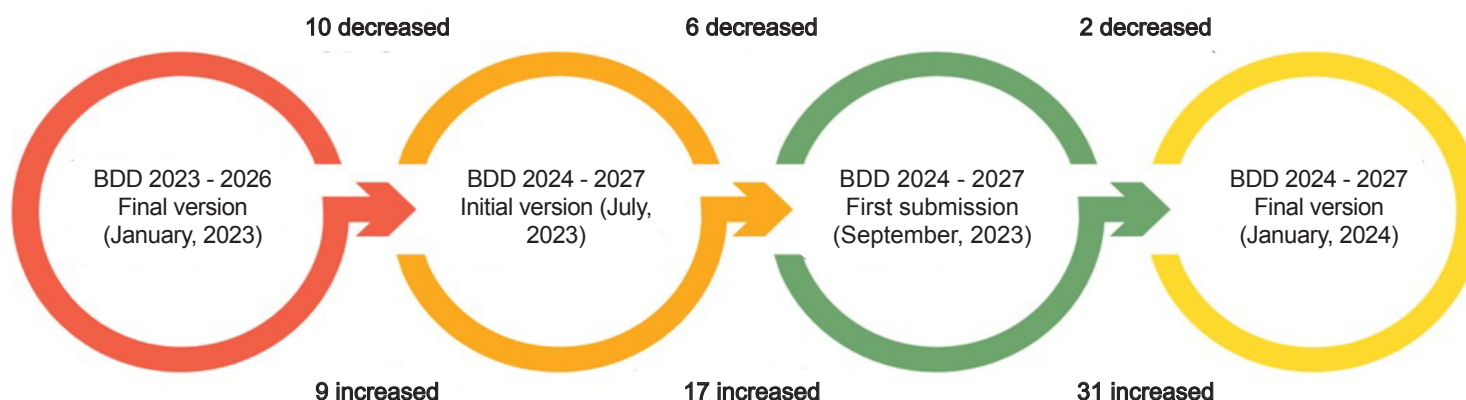
During the 2024 expenditure planning process, the ceiling volumes of appropriations allocated to spending agencies varied significantly across different versions of the BDD document developed throughout 2023. While such discrepancies are to be expected given the complexity of budget planning, the frequency and scale of these changes warrant attention.

It is worth noting that the situation has improved compared to previous years, however, the information presented in the BDD regarding appropriation ceilings for spending agencies still requires further improvements.

The State Audit Office conducted a comparative analysis of the appropriations defined for programs in the medium-term action plans of 9 ministries and the amounts requested for those programs in the budget proposals (within ceiling limits). It was revealed that out of 87 programs, in 78 cases the volume of appropriations indicated in the budget proposal differed from the figures reflected in the medium-term action plan. Specifically, compared to the action plan, appropriations were increased for 37 programs and decreased for 41. Moreover, in 40 cases, the deviation exceeded 10%.

Given the high importance of medium-term action plans in the budget planning process, it is advisable that spending agencies prioritize improving their quality and enhancing their practical effectiveness.

Figure 14. The number of spending institutions whose 2024 allocations changed in different versions of BDD.

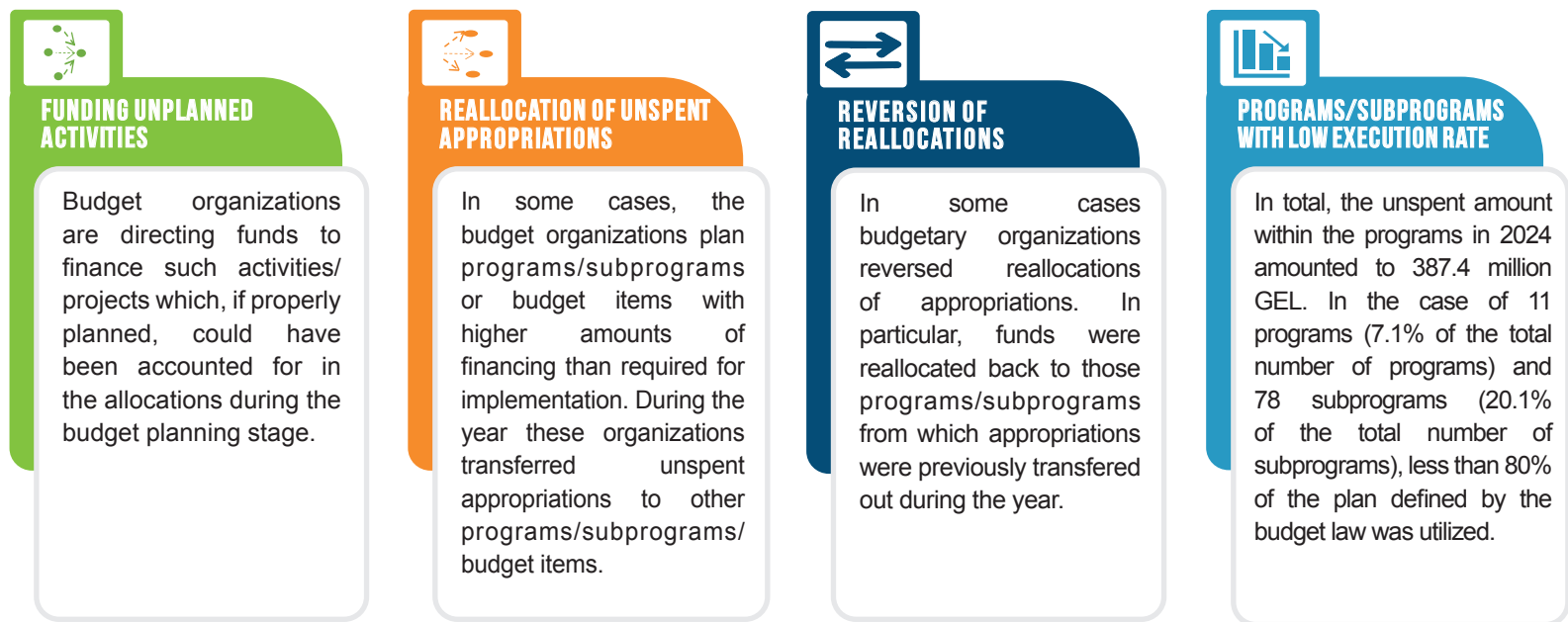


4.2 ADJUSTMENT AND UTILIZATION OF APPROPRIATIONS

Out of 155 programs⁶ defined in the 2024 state budget law, adjustments were made to 105 programs⁷ (67.7% of all programs), with the total amount of adjustments reaching 566.5 million GEL.⁸ In 6 of these programs, the scope of

adjustment exceeded 30% of the appropriations initially allocated under the budget law.

During the analysis of budget execution by spending agencies, the State Audit Office identified the following systemic deficiencies related to the adjustment and utilization of budgetary funds:



⁶ This indicator includes only the program “Donor-Funded General Government Expenditures” (56 13) from the expenditure of national importance category.

⁷ These figures do not include adjustments resulting from allocations from reserve funds, nor the following programs: “Regulation, Management, and Development of Maritime Transport” (24 28), “Development and Accessibility of Services of the Public Service Development Agency” (26 11), and “Millennium Innovation Competition” (58 02), which were not included in the State budget Law but were added during the year through targeted grant funding.

⁸ In 2023, the corresponding figure was 522.3 million GEL.



4.3 EXPENDITURE OF NATIONAL IMPORTANCE

Actual execution of expenditures of national importance amounted to 4.7 billion GEL (98.0% of the plan). In this regard, the following issues should be noted:

FUND FOR PROJECTS TO BE IMPLEMENTED IN REGIONS – 759 MILLION GEL

The fund for projects to be implemented in regions is characterized by uneven utilization, with 38.3% of the allocated resources for the year being spent in the fourth quarter.

GOVERNMENT RESERVE FUND – 70 MILLION GEL

From the government reserve fund, similar to previous years, there was financing of such expenditures (totaling 24.6 million GEL) which are systematic in nature and, with proper planning, could have been accounted for at the budget planning stage.

Figure 15. Distribution of funds allocated from the government reserve fund in 2024 by purpose (million GEL).

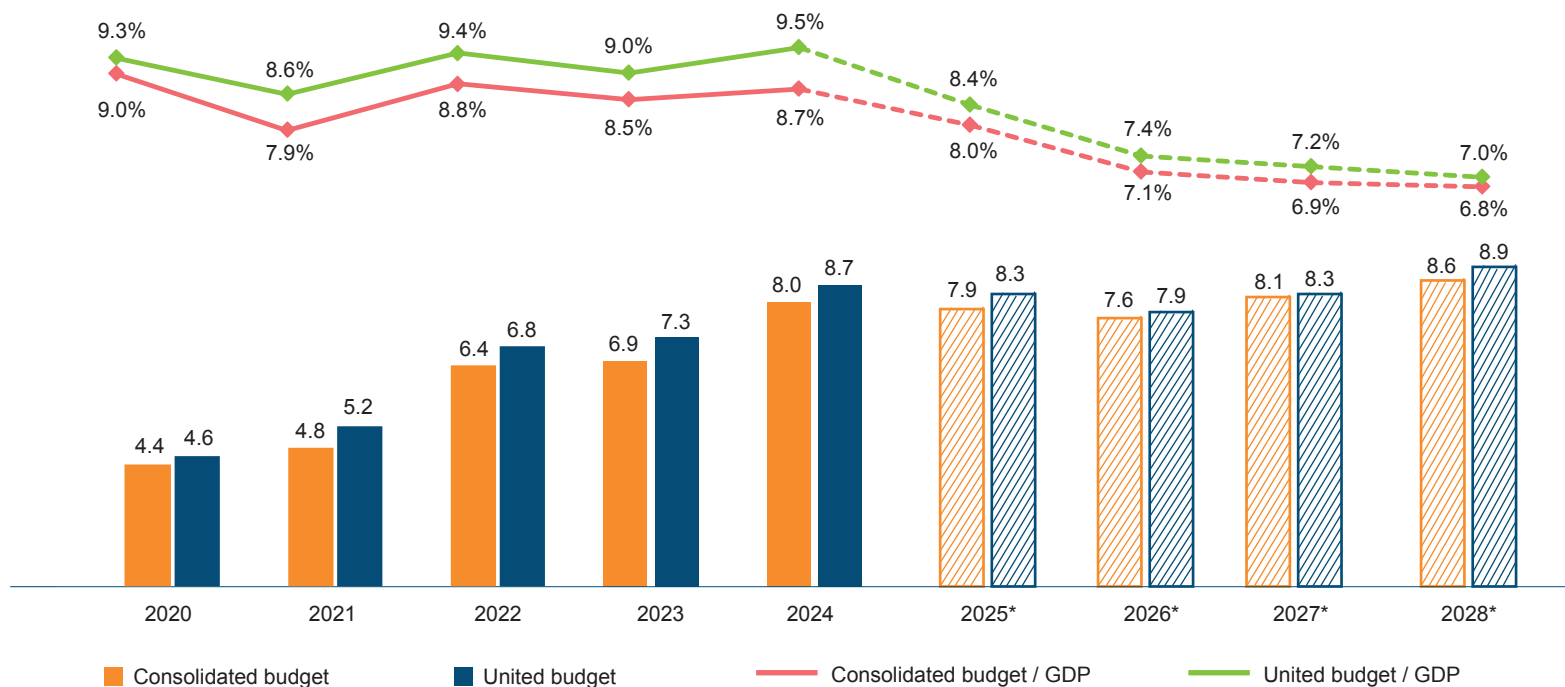


4.4 MANAGEMENT OF INVESTMENT PROJECTS

In 2024, capital expenditures of the consolidated budget amounted to 8.0 billion GEL, which equaled 8.7% of GDP. According to the budget code of Georgia, the consolidated

budget does not include expenditures of LEPLs/N(N)LEs financed by their own revenues, from which 401 million GEL was directed toward the increase of financial and non-financial assets in 2024. To present a complete picture of capital expenditures, it is advisable to consider the indicators of the united budget alongside those of the consolidated budget.

Figure 16. Dynamics of capital expenditures of consolidated and united budget in nominal terms and as a percentage of nominal GDP (billion GEL, %)



* Forecast



It is noteworthy that in recent years, the forecasted share of capital expenditures relative to GDP has shown a consistently declining trend in the medium-term projections, while the actual figures have significantly exceeded those forecasts. This discrepancy represents a challenge from the perspective of medium-term budgeting.

In 2024, the total funding allocated to investment/capital projects amounted to 4.57 billion GEL (101% of the annual

plan), which is 617 million GEL (16%) higher than the corresponding figure in 2023. According to the sectoral classification of investment projects, the largest component, similar to the previous year, was road infrastructure (41%). Funding for the education sector increased by 242 million GEL. Compared to 2023, funding for municipal infrastructure and the energy sector decreased by 136 million GEL and 31 million GEL, respectively.

Figure 17. Medium-term forecasts of capital expenditures as a share of GDP and corresponding actual figures.

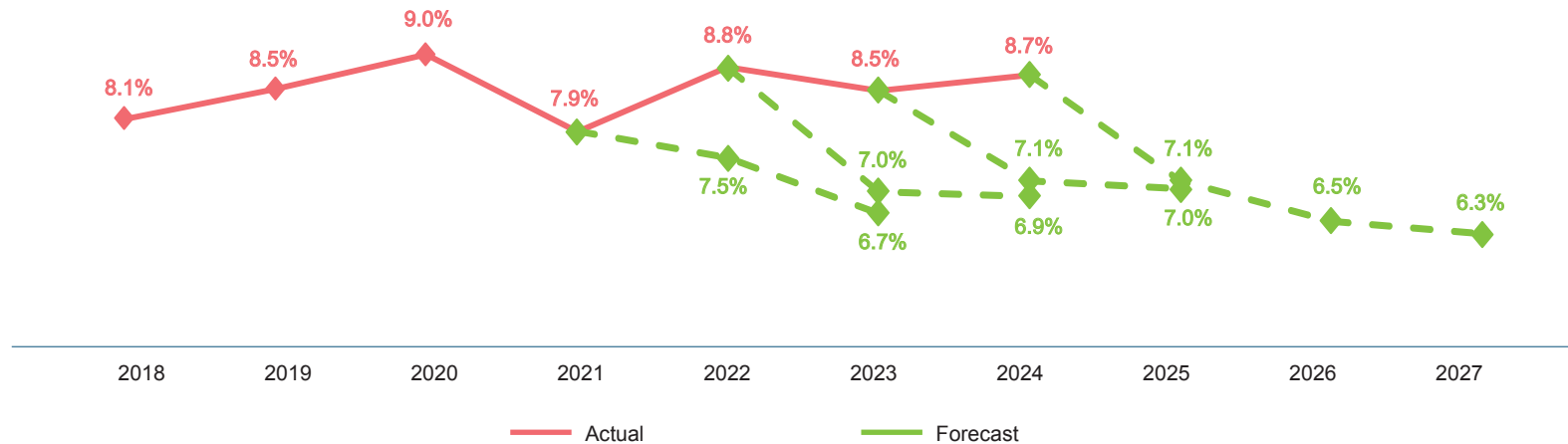
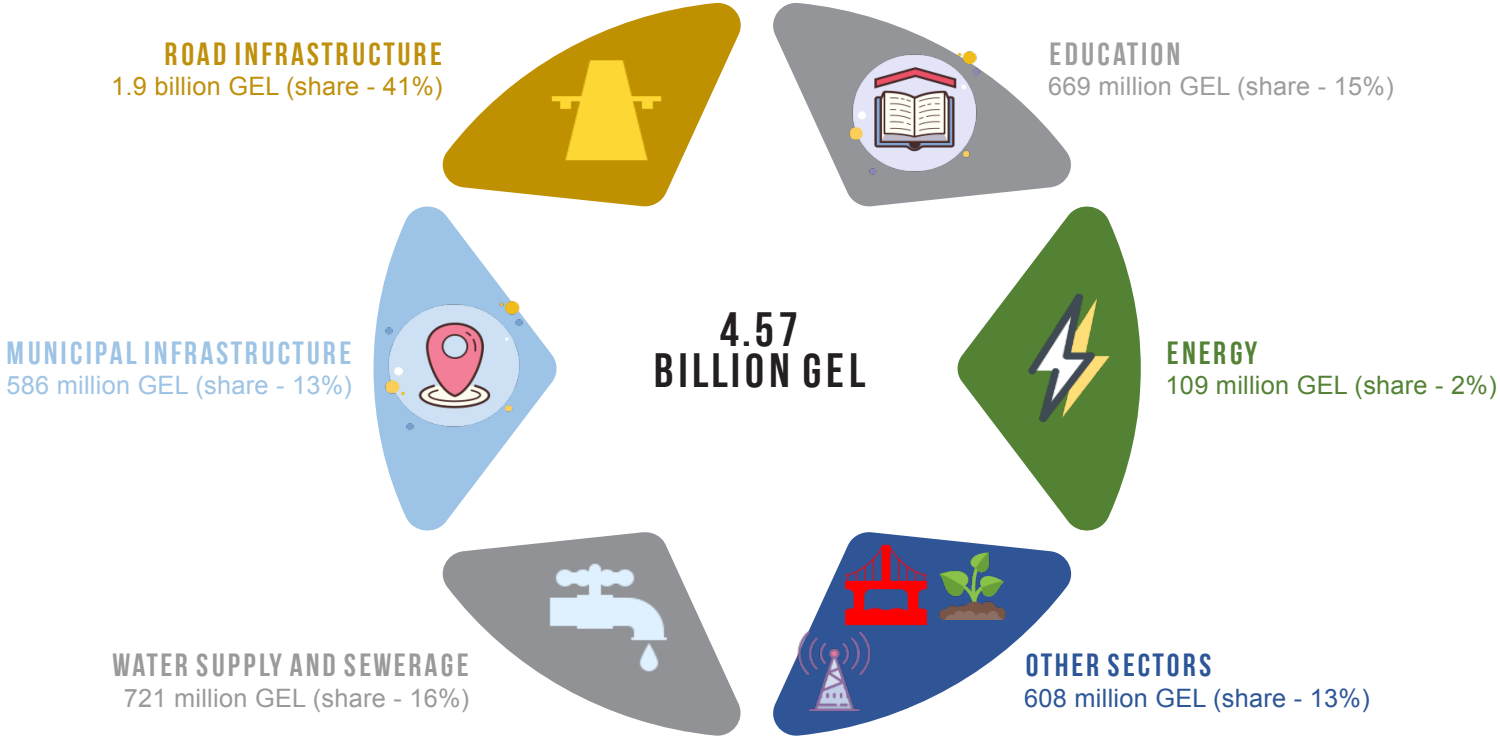


Figure 18. Sectoral classification of investment projects, amount of each sector in nominal values (million GEL) and share in total investment projects (%) – 2024



REGARDING THE MANAGEMENT OF INVESTMENT PROJECTS, THE FOLLOWING ISSUES SHOULD BE TAKEN INTO CONSIDERATION:



COMPLETENESS OF THE CAPITAL ANNEX

Within the state budget, projects are being implemented that qualitatively comply with the investment project criteria defined by the 'Investment/Capital Project Management Methodology', but are not reflected in the 'Capital Projects Annex'.



REPORTING

In 2024, due to changes made to the budget law, funding was altered for 28 capital projects (39% of the total number of projects), totaling 279 million GEL. However, the 'Capital Projects Annex' was not updated accordingly, which represents a deficiency in terms of transparency and accountability.



CHANGES IN PLAN

Deficiencies in the planning process of investment projects by implementing agencies often lead to large-scale changes in project plans. Specifically, in 2024 compared to 2023, the plan increased by 50% and more for 8 projects and decreased for 4 projects, while compared to 2022, the plan increased by more than 50% for 10 projects and decreased for 8 projects.



UNDERUTILIZATION OF RESOURCES

Out of 96 projects defined by the 2024 budget law, in 24 cases less than 80% of the allocated funding was utilized. Of these, 12 projects were also characterized by low utilization in 2023. In the case of 2 projects, no resources were utilized at all. Unspent funds are particularly noteworthy for investment projects that are financed by external credit resources and involve paying a commitment fee on the undrawn portion of the loan.



DELAY IN TIME

According to the 2022 State Budget Law, 14 projects were to be completed by 2024. Due to delays in the implementation process of these projects, in the 2023 State Budget Law the implementation of 9 projects was postponed to 2024, with their plan set at 653 million GEL; The plan for 5 projects remained at zero volume. In the 2024 State Budget Law: a) Funding was allocated for the aforementioned 5 projects, totaling 115 million GEL. b) Out of the 9 projects, the plans for all were adjusted again, with total funding for 2024 amounting to 374 million GEL.



4.5 LEGAL ENTITIES OF PUBLIC LAW/NON-PROFIT (NON-COMMERCIAL) LEGAL ENTITIES

The analysis of the consolidated balance of LEPLs/N(N)LEs presented in the state budget execution report revealed the following deficiencies related to the completeness/accuracy of the reported information and the planning of own-source revenues/expenditures:

The consolidated balance document of the budget execution report does not present information about the revenues/expenditures of individual LEPLs/N(N)LEs according to their sources of formation.

Within the 230 agencies studied, a reduction in balance was planned for a total of 192 million GEL. However, in reality, the balance increased by 162 million GEL. 11 agencies showed a difference of more than 10 million GEL between planned and actual balances, and in five of these cases, the difference exceeded 30 million GEL. It is noteworthy that in both 2022 and 2023, the actual growth in balances significantly exceeded the planned figures.

Both the revenues and expenditures were planned with zero indicators by 33 agencies. However, based on actual data, 31 of these agencies either mobilized revenues and/or incurred expenditures. Among them, 15 agencies both mobilized revenues and executed expenditures, totaling 30 million GEL and 29 million GEL, respectively. Additionally, in 2023, 10 agencies that had planned zero revenues and expenditures recorded actual revenues of 17 million GEL and expenditures of 16 million GEL.

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



Figure 19. Distribution of LEPLs/N(N)LEs based on deviations between the actual and forecasted figures of their own revenues and expenses. The range indicates percentage deviations between actual and planned indicators and the figures represent the number of respective agencies – 2022-2024.

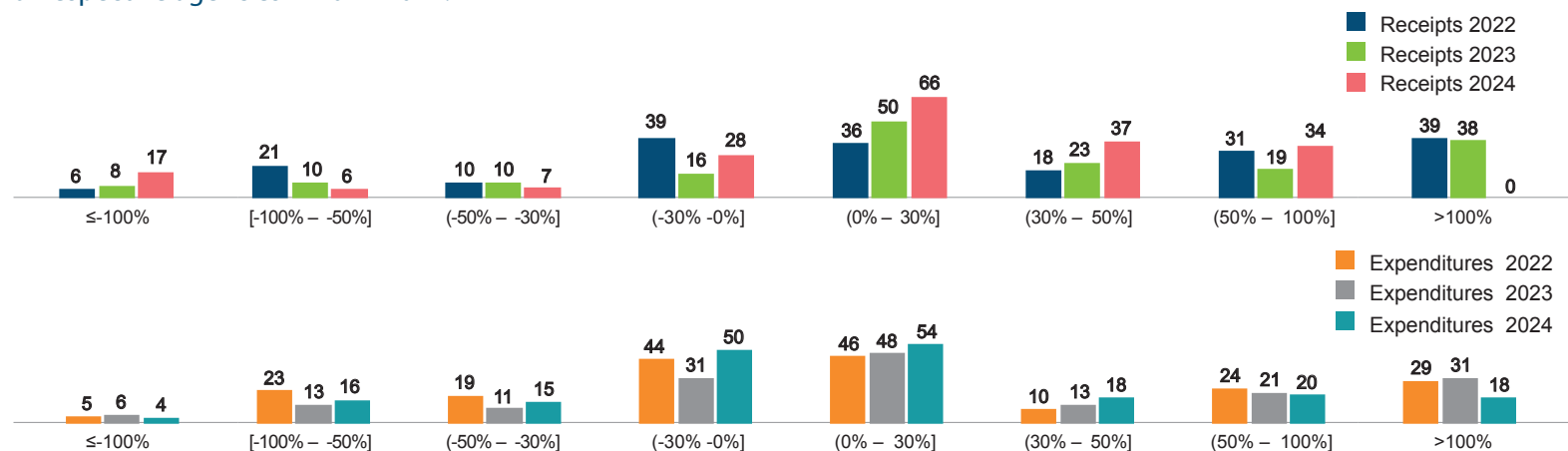
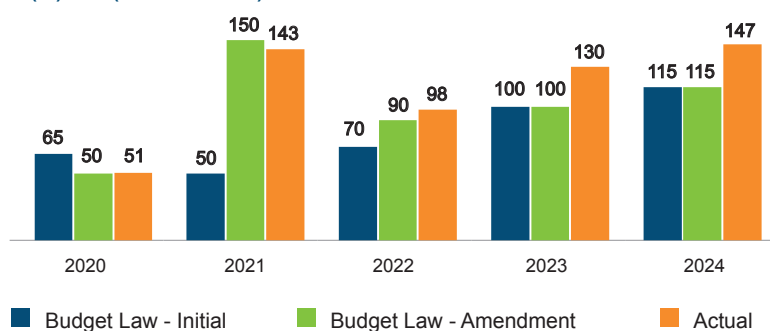


Figure 20. Planned and actual amount of resources transferred to the state budget from the own revenues received by LEPLs/ N(N)LEs (million GEL).



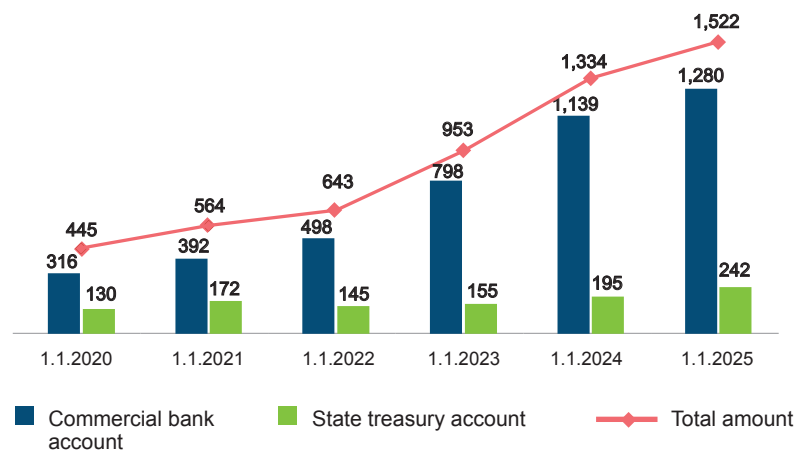
In 2024, 147 million GEL was transferred to the State budget by 43 LEPLs/N(N)LEs as a grant,⁹ which is 128% of the amount determined by budget law (115 million GEL).

In 2024 the balance of LEPLs/N(N)LEs increased by 188 million GEL compared to the previous year and amounted to 1.5 billion GEL at the end of the year. Out of this amount, 242 million GEL was placed in the State Treasury, while 1.3 billion GEL was held in commercial banks.

⁹ Since 2017, LEPLs whose annual revenue, excluding budgetary funding, exceeds 1 million GEL, have been required to transfer no less than 10% of their own income to the State budget.



Figure 21. Total balance of LEPLs/N(N)LEs placed in the commercial banks and state treasury account (million GEL).



Out of the 1.3 billion GEL placed in commercial bank accounts by LEPLs/N(N)LEs in 2024, 827 million GEL was held in on-call deposits and card accounts, while 494 million GEL, placed by 13 institutions, was held in term deposits. From the term deposits, 252 million GEL was placed with a maturity of up to 1 year, 182 million GEL with a maturity of 1–2 years and 60 million GEL with a 3-year term.

It should be positively noted that, in line with the recommendations provided by the State Audit Office regarding the improvement of mechanism(s) for managing/monitoring financial resources by LEPLs/N(N)LEs, the Ministry of Finance of Georgia introduced amendments to the Order N916 of the Minister of Finance (dated 30 December 2009), which were enacted on 25 December 2024. These amendments aimed to improve the reporting process on financial resources placed in commercial banks by LEPLs/N(N)LEs. Specifically, the amendments:

- LEPLs/N(N)LEs are not (anymore) authorized to open or maintain budget revenue bank accounts in commercial bank(s) without the permission of the State Treasury.;
- LEPLs/N(N)LEs have been instructed to submit information on the balances of funds held in their commercial bank(s) accounts to the Treasury Service in electronic format at the end of each month.



4.6 PROGRAM BASED BUDGETING

Preparation of the program-based budget began in 2012, however, it is still not legally approved and remains of an informational nature. Analysis conducted by the State Audit Office identified systemic shortcomings associated

with program budgeting that often hinder or prevent effective assessment. More than 30% of the 544 indicators defined within programs/subprograms framework exhibited deficiencies. Specifically:

For some of the indicators developed within the programs, it is impossible to compare the results achieved in the current year with the target indicators, as these programs are not presented at the subprogram level. Additionally, there is no distinction made between the target indicators for the current and subsequent years;

In some cases, a specific goal to be achieved within the program/subprogram is not defined, or the target indicator does not meet the criteria specified in the program budgeting methodology. This complicates the assessment of the effectiveness of the program/subprogram at the reporting stage;

For some programs/subprograms, reporting on achieved results is not fully carried out, or the evaluation of results is not conducted in relation to the predetermined indicators;

In the case of certain programs/subprograms, the achieved results are presented in a manner that does not correspond to the indicators defined at the planning stage, either in a different form or format, which complicates or makes impossible the comparison between planned and achieved outcomes.

It is important to consider the recommendation of the State Audit Office and formally approve an action plan for the implementation of program budgeting. The plan should

clearly outline specific activities to be undertaken within the framework of the reform, along with defined timelines and designated responsible institutions.



5. MANAGEMENT OF FINANCIAL ASSETS

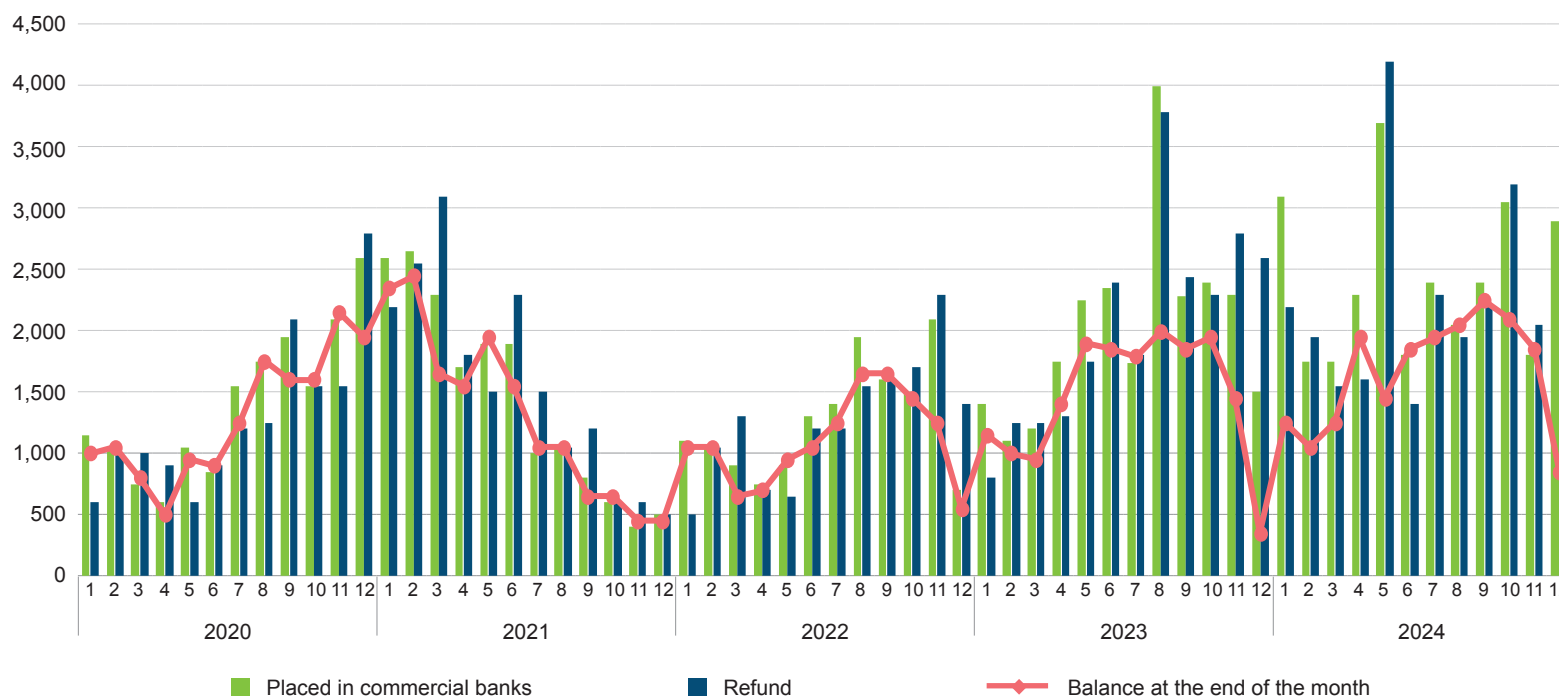


5.1 CURRENCY AND DEPOSITS

At the beginning of 2024, the State budget cash balance amounted to 1.6 billion GEL. During the year, the balance decreased by 191 million GEL, reaching 1.4 billion GEL by the end of the year. In parallel, the amount of deposits placed in

commercial banks by the Treasury Service at the Ministry of Finance increased from 350 million GEL at the end of 2023 to 850 million GEL in 2024.

Figure 22. The amount of deposits placed in commercial banks through auction, at the end of each month (million GEL).



5.2 LOANS

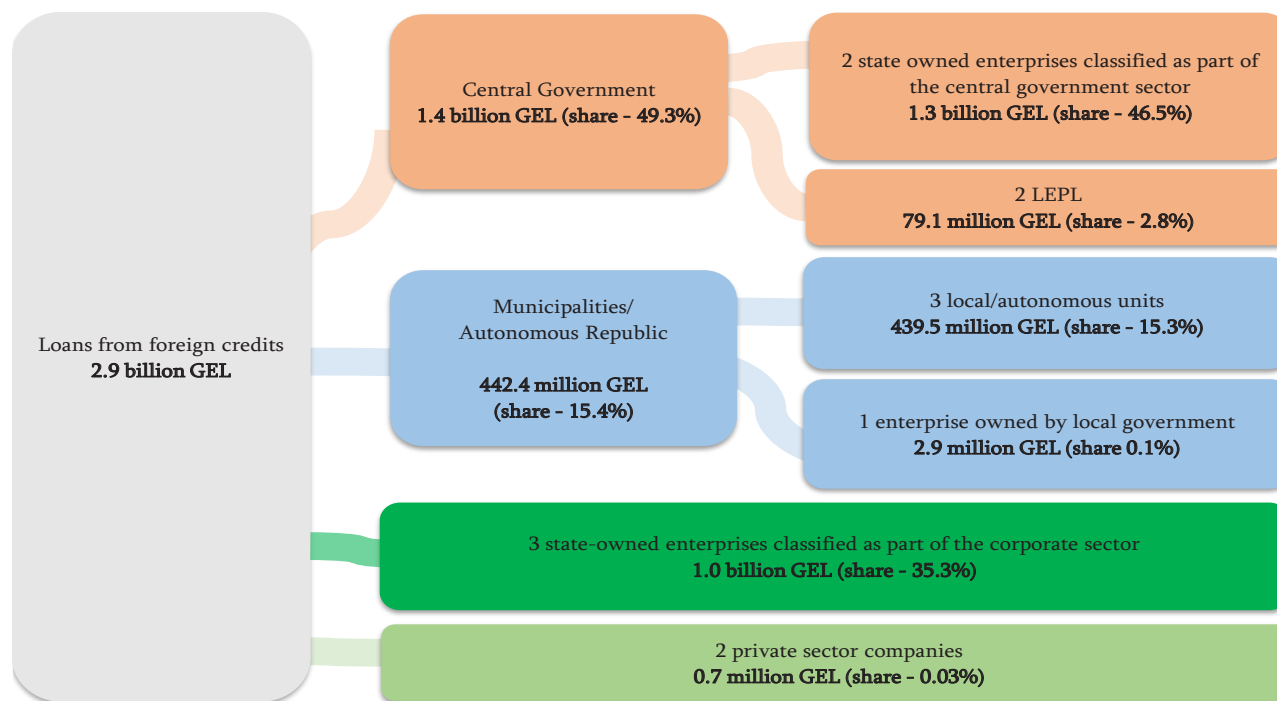
5.2.1 LOANS ISSUED AT THE EXPENSE OF EXTERNAL CREDIT RESOURCES

According to the 2024 State budget execution annual report, 246 million GEL were on-lent from credit resources mobilized from external sources for the implementation of various investment projects, which is 108 million GEL (30.6%) less than the corresponding figure of the previous year. The

major part of the on-lent funds (46.0%) was directed to water supply and sewerage projects.

As of the end of 2024, the total portfolio of loans issued from external credit resources (after this – on-lendings) amounted to 2.9 billion GEL, which is 12.3 million GEL (0.4%) less compared to the same figure of 2023. The portfolio includes 80 loans,¹⁰ out of which 25 have been restructured.

Figure 23. Structure of on-lent loans from external credit resources by beneficiaries – 2024 (million GEL, %).



¹⁰ Loans under which, as of December 31, 2024, the debtor had outstanding obligations.



While examining the management of the external on-lendings portfolio, the SAO identified deficiencies mainly revolving around management:

As of December 31, 2024, the balance of restructured loans in the on-lending portfolio amounts to 440.2 million GEL, which represents 15.3% of the total portfolio. Considering that, in cases of non-fulfillment and/or postponement of obligations under the sub-loan agreements, the servicing and repayment of the main loan obligations are covered by the state budget, loan restructuring remains a source of additional financial pressure on the budget.

An inconsistent approach is observed in the loan restructuring process. In some cases, based on the beneficiary's request, obligations may be postponed without registering it as a restructured loan and without imposing the corresponding penalty. In other cases, loans are restructured also without imposing penalties. This is caused by the absence of formal policies/procedures in the on-lending management process.

Similar to previous years, financial assets and operations on them include loans issued to beneficiaries (debtors) who regularly receive funding from the state budget to cover operating expenses and service the liabilities recorded on their balance sheets. This, in turn, indicates the limited solvency of these enterprises and the indirect participation of the state in the debt servicing process.

It is important to consider the recommendation of the State Audit Office and for the Ministry of Finance to develop an on-lending policy/policy document for resources mobilized from external credit sources, which will reflect the full cycle of the on-lending process and, accordingly, ensure the establishment of a transparent and uniform approach for each stage of this process.



5.2.2 LOANS ISSUED FROM BUDGETARY RESOURCES

As of the end of 2024, 161 loans are recorded in the unified register of loans issued from the state budget, with a total outstanding principal amount of 396.3 million GEL. Of these 161 budgetary loans, 75 are under a grace period, 1 loan is being repaid according to schedule,¹¹ and 85 loans are overdue, with total accrued liabilities amounting to 396.8 million GEL. Of the overdue loan liabilities, 57.2% consists of fines, 36.3% is the principal amount and 6.5% is accrued and unpaid interest.

Figure 24. The total number of loans issued from budgetary resources and reflected in the unified register, including the number of overdue loans, categorized by lending agencies – 2024.

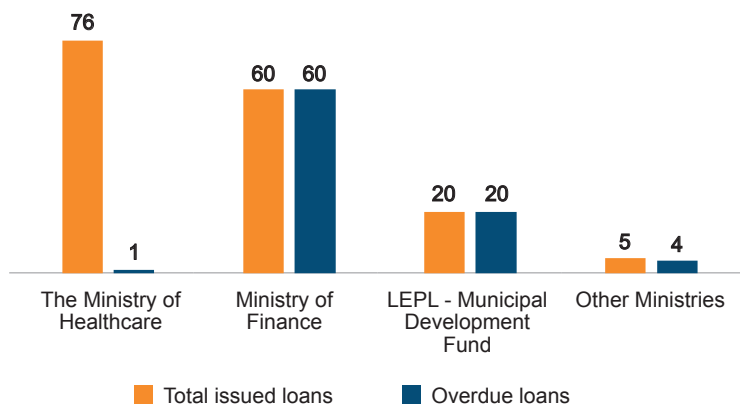
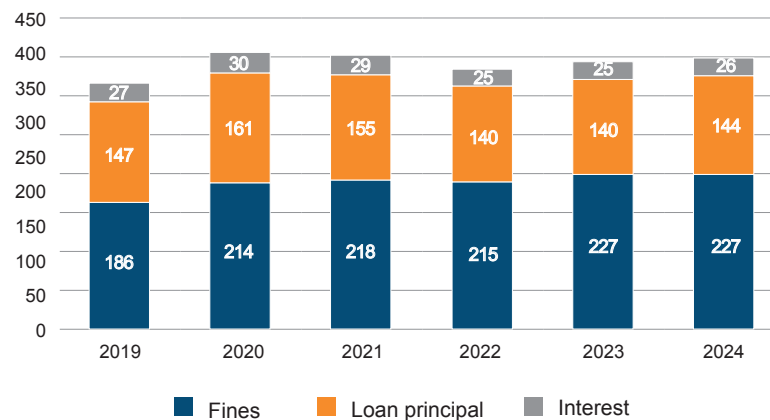


Figure 25. Types of arrears on overdue budgetary loans reflected in the unified register as of December 31 of each year (million GEL).



It is worth noting that in 2024, the loan registry was updated to reflect the 230 million GEL loan issued in December 2022 by the Ministry of Economy and Sustainable Development to JSC “Georgian Oil and Gas Corporation”, which had not been recorded in the register as of December 31, 2023.

5.3 SHARES AND OTHER EQUITY

In 2024, actual expenditures under the “shares and other equity increase” category of the state budget amounted to 113.3 million GEL. This type of expenditure was not planned in the state budget law.

¹¹ A loan issued by the Ministry of Economy and Sustainable Development to JSC “Georgian Oil and Gas Corporation.”



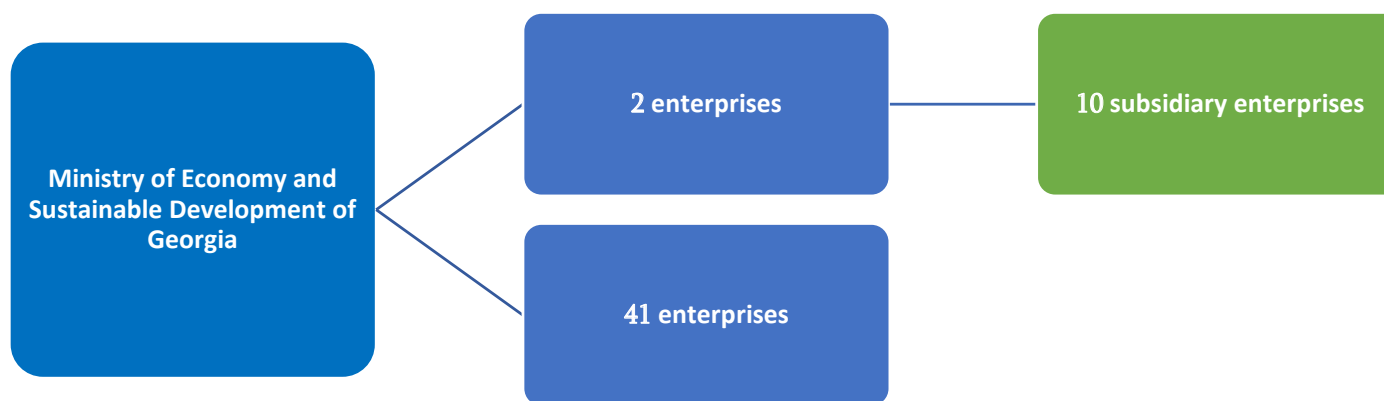
5.4 STATE-OWNED ENTERPRISES ATTRIBUTED TO THE GOVERNMENT SECTOR

As part of the state-owned enterprise (SOE) reform,¹² on February 7, 2024, after the changes in the sectorization registry, the number of enterprises recorded were reduced from 377 to 359, including a decrease in government sector enterprises from 325 to 270. These changes in the number and status of enterprises in the registry were caused by reclassification on the one hand, and by liquidation, restructuring, and/or privatization of SOEs on the other hand.

Government sector enterprises are required to gradually transition to the treasury's single account service. According to the Ministry of Finance, as of January 1, 2025, six state-owned enterprises have already been transferred to the treasury account¹³ and all enterprises are expected to be included by January 1, 2026.

The majority of government sector enterprises (53 entities) are directly or indirectly subordinated to the Ministry of Economy and Sustainable Development. The remaining enterprises fall under the subordination of various ministries, autonomous republics, municipalities or other organizations established by the government.

Figure 26. The number of enterprises belonging to the government sector under the Ministry of Economy and Sustainable Development and their subsidiary companies.



¹² Order N45 of the Minister of Finance of Georgia, dated February 15, 2023, "On the Approval of the State-Owned Enterprises Sectorization Registry."

¹³ LLC "United Water Supply Company of Georgia"; LLC "Solid Waste Management Company of Georgia"; LLC "Newspaper Adjara and Adjaria"; LLC "Rugby Club Batumi"; LLC "Football Club Machakhela"; LLC "Rugby Club Piralebi."



The diversification of controlling agencies belonging to the government sector may pose certain challenges during the implementation of the planned reform, especially when the Ministry of Finance, which is responsible for carrying out the reform, does not have direct control over these entities. In this context, the State Audit Office emphasizes the importance of ensuring that the controlling bodies of the enterprises involved in the reform process focus on its consistent and effective implementation.

Out of 113 government sector enterprises under central government control, the 2024 state budget execution annual report includes data on 82 enterprises. It is positively noted that both the number of reporting enterprises and the quality of submitted data have improved compared to previous years.

Regarding the financial indicators for 2024, in 73 out of 82 enterprises, the data submitted to the Ministry of Finance fully matched the information given in the 2024 annual report on the execution of the state budget, at both the revenue and expenditure levels.

Considering the scale of their potential fiscal impact, it is important for the government sector enterprises to strengthen the completeness and accuracy of financial information submitted to the Ministry of Finance.

The total revenues of the 82 government sector enterprises included in the budget report amount to 2.7 billion GEL, while expenditures totaled 2.5 billion GEL. 75.1% of revenues (2.0 billion GEL) were generated by four enterprises, which also accounted for 69.3% (1.7 billion GEL) of total expenditures. The consolidated fiscal balance of these enterprises was positive, amounting to 167.5 million GEL.

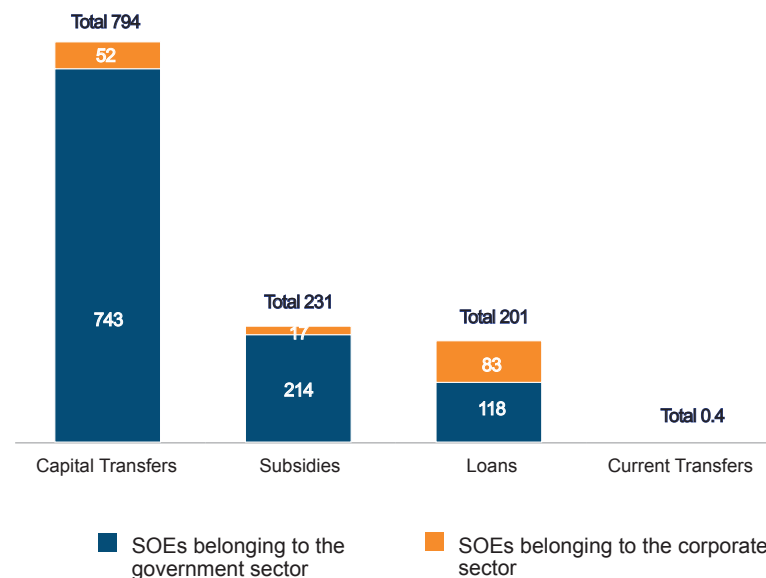


Some SOEs rely on regular funding from the state budget, mostly for operational costs or/and covering liabilities. Furthermore, neither the state budget law nor the execution report provides information on the amount of funding enterprises receive from the budget.¹⁴

According to the analysis of the State Audit Office, in 2024, enterprises under the control of five ministries received a total of 1.03 billion GEL from the state budget under the “expenses” category. Out of this, 794.1 million GEL was allocated for financing capital projects, while the remaining 231.1 million GEL was directed towards subsidizing specific activities, operational expenses or/and repayment of liabilities. In addition, these companies received 200.9 million GEL in loans from the state budget, financed through external credit resources, to implement investment projects.

To improve fiscal transparency, it is recommended that detailed information on funding received by state-owned enterprises (considering the sectoral classification), including the purpose of such funding, be presented in the annual state budget execution report.

Figure 27. Funds transferred from the state budget to SOEs by sector and purpose of funds- 2024 (Million GEL).



¹⁴ The information is partially presented in the “Fiscal Risks Analysis” document attached to the State budget Law. Specifically, the document includes data on funding provided to state-owned enterprises in the form of loans and subsidies, however, it does not cover amounts given as current and capital transfers under the “Other Expenses” category. Furthermore, the data presented in the document does not provide insight into the intended purpose of the allocated funds.



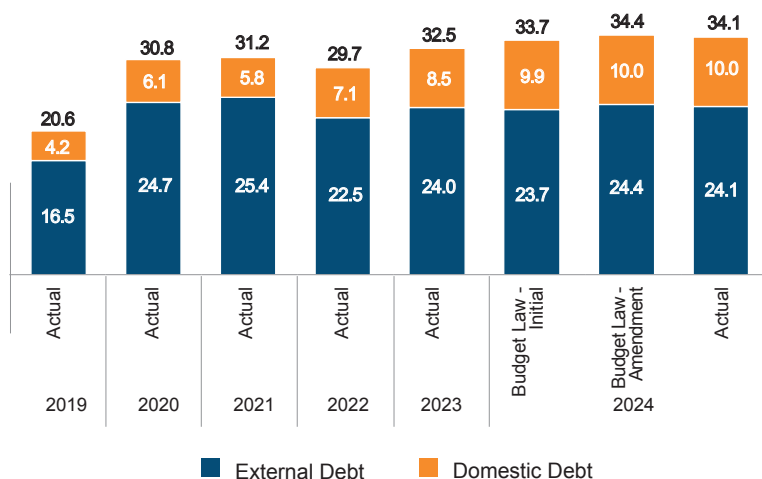
6. PUBLIC AND GOVERNMENT DEBT

6.1 PUBLIC DEBT

According to the initial state budget law for 2024, the maximum limit of the state debt was set at 33.7 billion GEL. Following amendments to the budget law, this limit was increased by 689 million GEL (2.0%) and reached 34.4 billion GEL. As of December 31, 2024, the actual volume of state debt amounted to 34.1 billion GEL¹⁵ (37.1% of GDP), which is 231 million GEL below the limit. The state external debt was 262 million GEL below its respective maximum acceptable amount, while the domestic debt exceeded its limit by 30 million GEL.¹⁶

Compared to the previous year, the total state debt increased by 1.6 billion GEL (5.1%) in 2024. Of this amount, domestic debt increased by 1.5 billion GEL, while external debt rose by 151 million GEL. As in previous years, the growth of external debt was driven by both new borrowings and the depreciation of the national currency; however, the latter had a relatively minor impact.¹⁷

Figure 28. The threshold and actual figures of the public debt as defined by the state budget law (billion GEL).



¹⁵ Does not include the estimated amount of historical debt (672 million GEL).

¹⁶ According to the Ministry of Finance, this was caused by higher-than-expected mobilization of funds from the sale of securities due to a sharper-than-anticipated decline in interest rates.

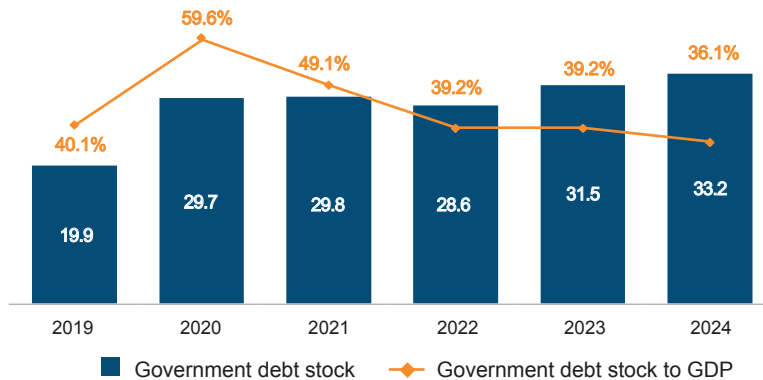
¹⁷ The external debt stock increased by 40 million GEL due to the depreciation of the national currency and by 111 million GEL due to the net growth of new loans (borrowings minus repayments).



6.2 GOVERNMENT DEBT

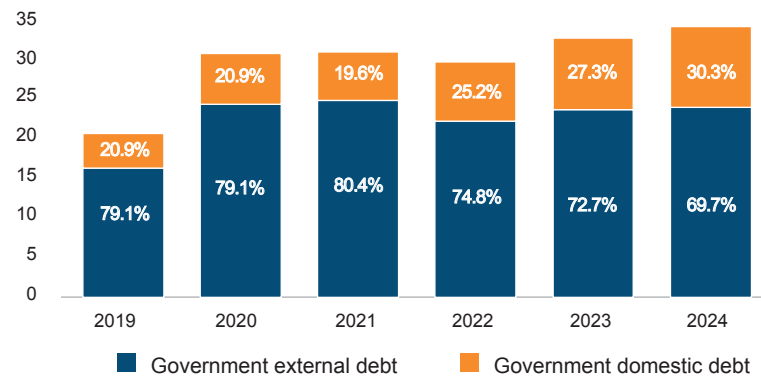
At the end of 2024, the stock of government debt¹⁸ amounted to 33.2 billion GEL, which is 1.6 billion GEL (5.2%) higher than the previous year's figure. The government debt-to-GDP ratio stood at 36.1%, which is 2.9 p.p. lower than in 2023. The main reason behind the decrease in this ratio is the increase in nominal GDP by 11.0 billion GEL (13.6%). Similar to state debt, the volume of government debt was affected by both mobilization of new credit resources and the depreciation of the national currency. Specifically, due to the net increase in obligations (borrowings minus repayments), the debt stock rose by 1.6 billion GEL (domestic debt – 1.4 billion GEL; external debt – 219 million GEL), while the depreciation of the national currency contributed an additional 26 million GEL to the increase in debt.

Figure 29. Government debt stock (at the end of the year) and its ratio to the GDP of the corresponding year (billion GEL; %).



As of the end of 2024, the share of external debt in total government debt amounted to 69.7%, which is 2.9 p.p. lower than the corresponding figure for 2023 (72.6%). It is noteworthy that, according to the current Government Debt Management Strategy, a medium-term target of 65% has been set for the share of external debt in the total debt portfolio. However, this target has not yet been achieved.

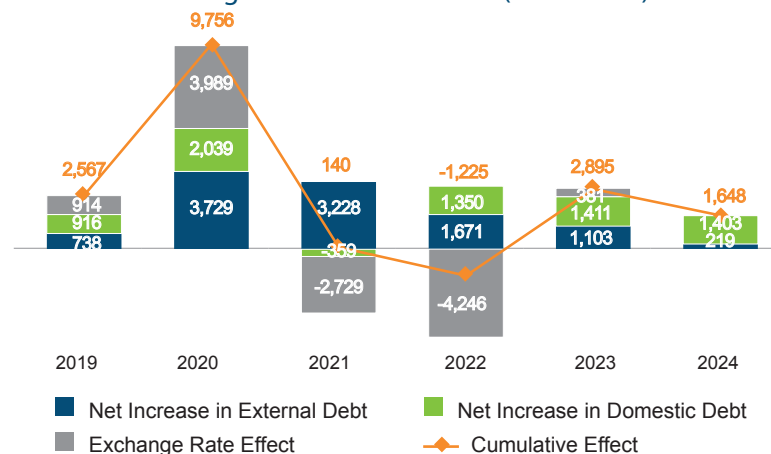
Figure 30. The share of the government's external and domestic debt in the government debt (billion GEL; %).



¹⁸ For the purposes of the Organic Law of Georgia on "Economic Freedom," government debt includes the state debt defined by the Law of Georgia on "Public Debt," excluding National Bank liabilities to the IMF, and additionally covers obligations in the form of loans held by municipalities, LEPLs and state-owned enterprises classified under the general government sector.



Figure 31. The effect of the GEL exchange rate and new borrowing on the increase in government debt stock (million GEL)



For better integration of the directions defined in the strategy into the budget process, it is advisable to update it before submitting the final version of the draft State Budget Law for the following year. It should be noted that the integration of the strategy into the budget process is also required by the DeMPA methodology developed by the World Bank.

Some of the activities/measures planned for implementing reforms within certain directions of the strategy do not have defined implementation deadlines and intermediate target benchmarks/results; also, certain activities/measures require the existence of formally written criteria. Defining criteria and deadlines is even more important for tasks whose target benchmarks are set only by this strategy and are not regulated by other regulatory acts.

In relation to the management strategy of the government debt, several issues are noteworthy:

According to Order No. 328 of the Minister of Finance dated September 26, 2022, the Government Debt Management Strategy, after approval by the government, should be placed/published on the website of the Ministry of Finance by December 31 of each year. It is noteworthy that over the past two years, the publication of the government-approved strategy has been carried out in violation of the deadlines set by this order, during the subsequent fiscal year. Moreover, as of May 19, 2025, the 2025–2028 strategy had not yet been published.

6.3 GOVERNMENT'S EXTERNAL DEBT

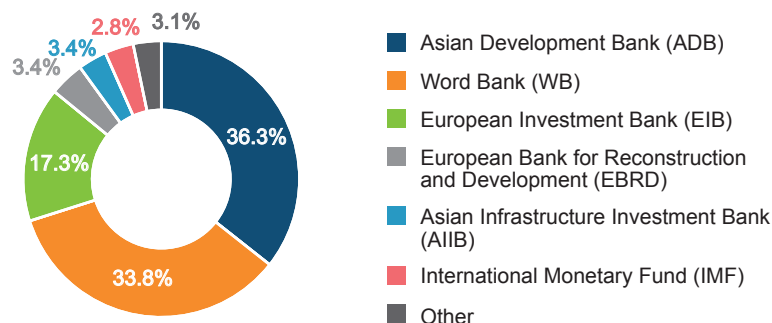
At the end of 2024, the volume of government external debt amounted to 23.1 billion GEL, an increase of 245 million GEL (1.1%) compared to the previous year. The largest share of the government's external debt portfolio – 17.6 billion GEL (75.9% of the total external debt portfolio), consists of borrowings from multilateral creditors.



Among the multilateral creditors, the largest are the Asian Development Bank (ADB), with 6.4 billion GEL (36.3% of the total multilateral loans) and the World Bank (WB), with 5.9 billion GEL (33.8% of the total multilateral loans).

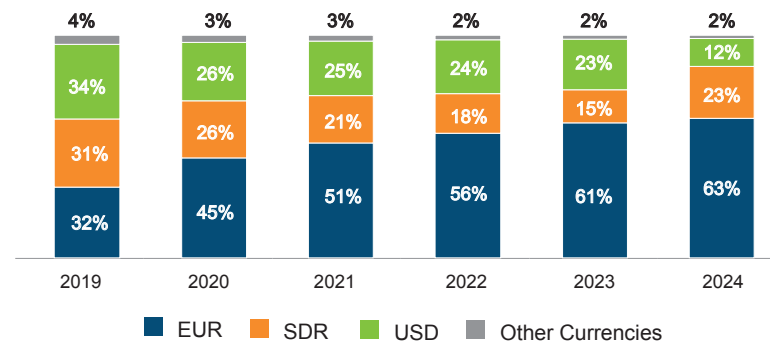
Bilateral loans also constitute a significant portion of the government's external debt, making up 18.0% (4.2 billion GEL). The main bilateral partners are France, Germany and Japan, with a combined debt of 4.0 billion GEL (97.3% of the bilateral debt).

Figure 32. Structure of the government's multilateral loans by creditors – 2024.



As of December 31, 2024, the government's external debt portfolio consists of loans denominated in five different currencies.¹⁹ It is noteworthy that in recent years, the currency structure of external debt has changed significantly. Specifically, the share of liabilities denominated in USD and SDR has decreased, while the share of euro-denominated liabilities has reached 63%, nearly doubling compared to 2019. The substantial increase in euro-denominated debt has significantly heightened the government's exposure to exchange rate fluctuations of the euro.

Figure 33. Structure of government's external debt by currencies (%).

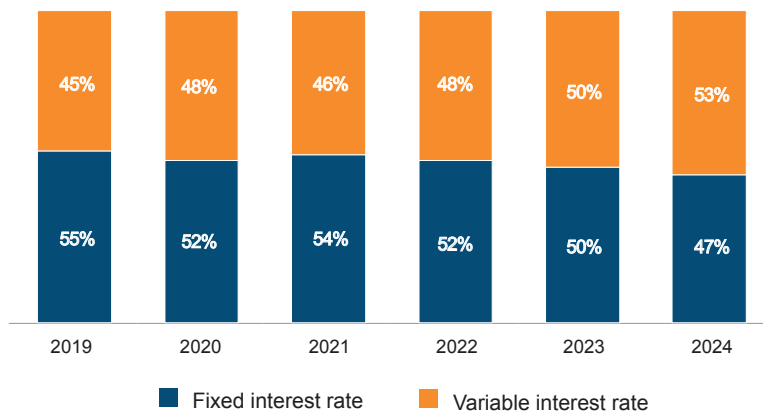


¹⁹ USD, Euro, Special Drawing Rights (SDR), Japanese Yen, Kuwaiti Dinar.



In recent years, the share of loans with variable interest rates in the credit portfolio has shown a growing trend. By the end of 2024, this type of loan increased by 7.4 p.p. compared to 2019 and accounted for 52.6% of the portfolio. It is noteworthy that the Government Debt Management Strategy for 2024–2027 sets a target for fixed-rate loans to comprise at least 50% of total external government debt by 2027, a benchmark that is not met as of 2024.

Figure 34. Government's external debt stock by interest rate types (%).

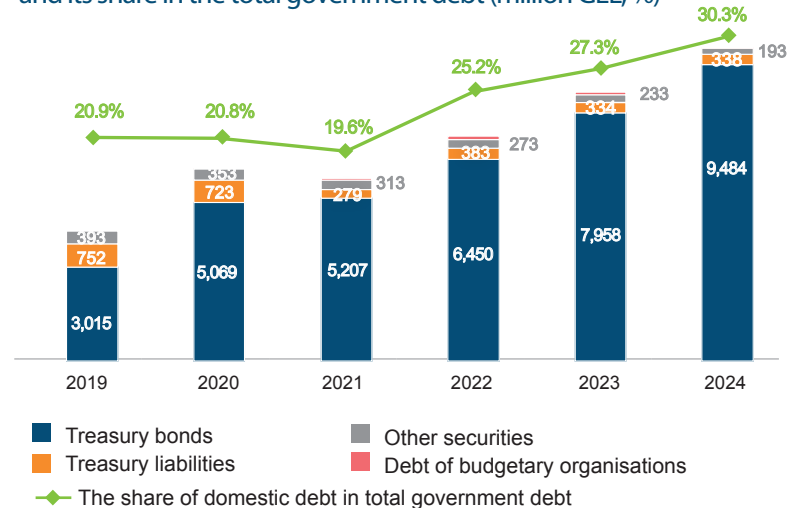


6.4 GOVERNMENT'S DOMESTIC DEBT

In 2024, the government's domestic debt increased by 1.4 billion GEL (16.2%) compared to the previous year, reaching 10 billion GEL. This growth was driven by the increase in the volume of treasury securities.²⁰ Compared to 2023, the share of domestic debt in the government's total debt increased by 2.9 percentage points and amounted to 30.3%.

As of the end of 2024, the largest share (38.1%) of outstanding treasury securities is held by treasury bonds with a remaining maturity of 3 to 5 years. The share of securities with a remaining maturity of more than 5 years increased by 10.6 p.p. compared to the previous year and accounted for 25.5% of the total portfolio.

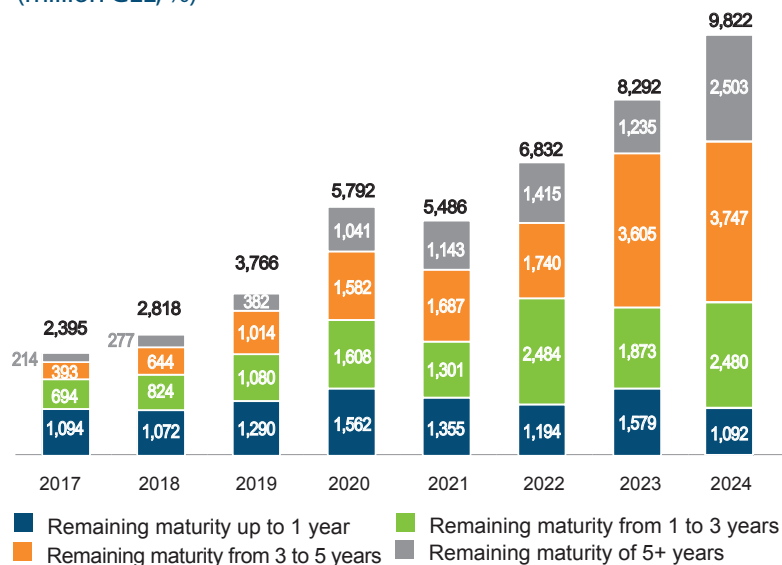
Figure 35. The composition of the government's domestic debt and its share in the total government debt (million GEL, %)



²⁰ The change in domestic liabilities due to the issuance of treasury securities is 1.5 billion GEL.



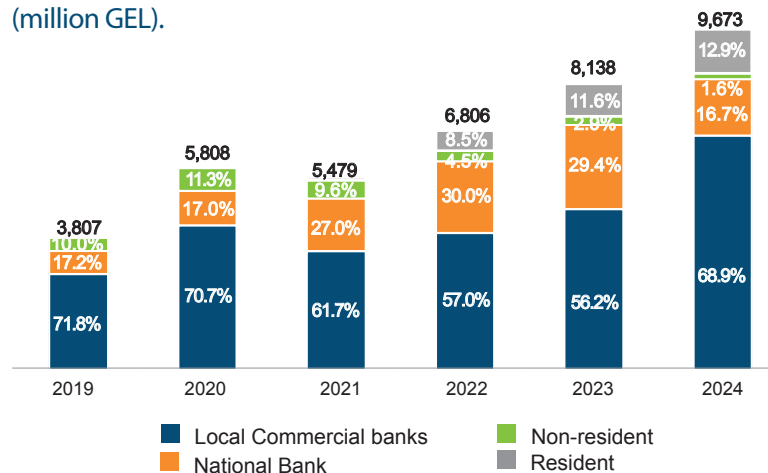
Figure 36. Treasury securities portfolio by residual maturity (million GEL; %)



According to the Government Debt Management Strategy, the minimum threshold for the average time to maturity (ATM) of domestic debt is set at 3 years for 2025–2027, while for total government debt the same threshold is defined at 5.5 years. The State Audit Office assesses that, given the growing share of domestic debt in total government debt, it is advisable to gradually revise the ATM threshold upward for domestic debt in order to minimize refinancing risks.

In recent years, the majority of the treasury securities portfolio has been held by local commercial banks. Unlike the declining trend observed in previous years, in 2024, the share of treasury securities held by commercial banks increased by 12.7 p.p, reaching 68.9%. The share held by the National Bank of Georgia decreased by 12.7 p.p, amounting to 16.7%. The share of other resident investors increased by 1.3 p.p and reached 12.9%.

Figure 37. Distribution of the treasury securities by holders (million GEL).



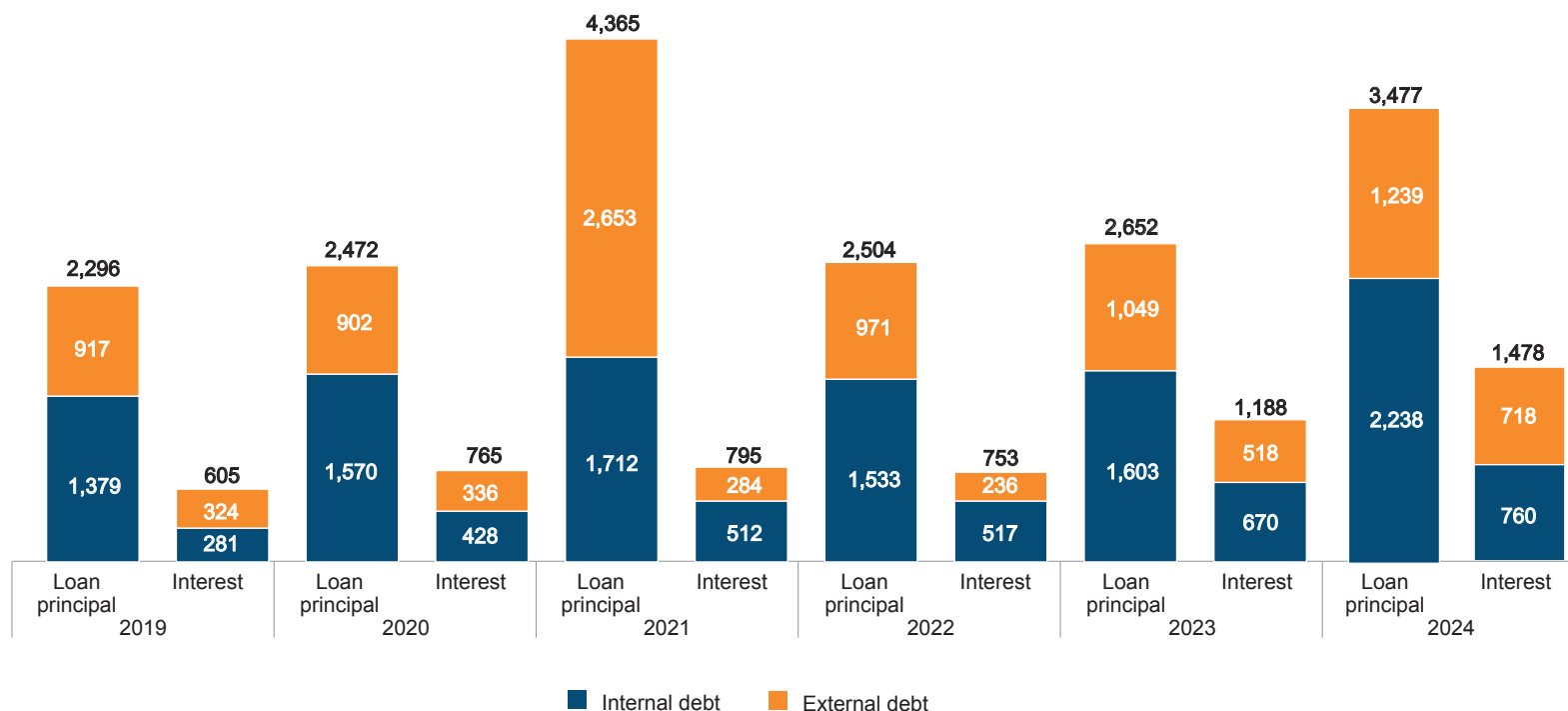
A continuing challenge remains the low and declining share of non-resident investors, which stood at 1.6% at the end of 2024. It is noteworthy that the current Government Debt Management Strategy defines an adequate level for this indicator at 20–25%



6.5 COSTS OF PRINCIPAL AND INTEREST PAYMENTS ON THE GOVERNMENT DEBT

In 2024, a total of 5.0 billion GEL²¹ was allocated for government debt servicing and repayment. The largest portion of these expenses (60.5%) was directed toward the servicing and repayment of domestic debt, which amounted to 3.0 billion GEL. Out of this amount, the majority (74.7%) was used for principal repayment.

Figure 38. Dynamics of the government debt service costs (million GEL).



²¹ The servicing and repayment of loan liabilities taken by budgetary organizations amounted to 78 million GEL.



Since 2022, in the context of tightening global monetary policy, the weighted average interest rate on the government's external debt increased significantly, reaching 3.4% by the end of 2023. In 2024, following the global monetary policy easing, the rate began to decline, however, by the end of the year, it remained high at 3.1%. Given that approximately half of the external debt portfolio consists of variable interest rate loans, interest expenses on external debt have increased considerably compared to previous years.

Figure 40. Weighted average interest rate on government's external debt (%).²³

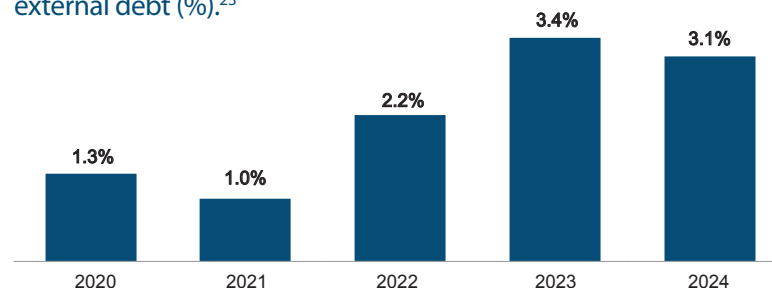
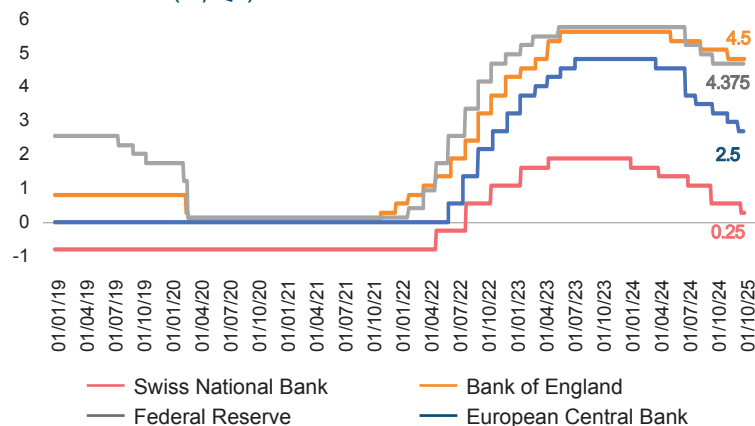


Figure 39. Dynamics of Central Banks' monetary interest rates²² – 2019–2025 (% Q1)



Conversely, resources mobilized from domestic sources are associated with higher interest costs compared to those obtained from external sources. As a result, the increasing share of domestic debt in the government's debt portfolio significantly increases the interest expenses incurred on domestic obligations.

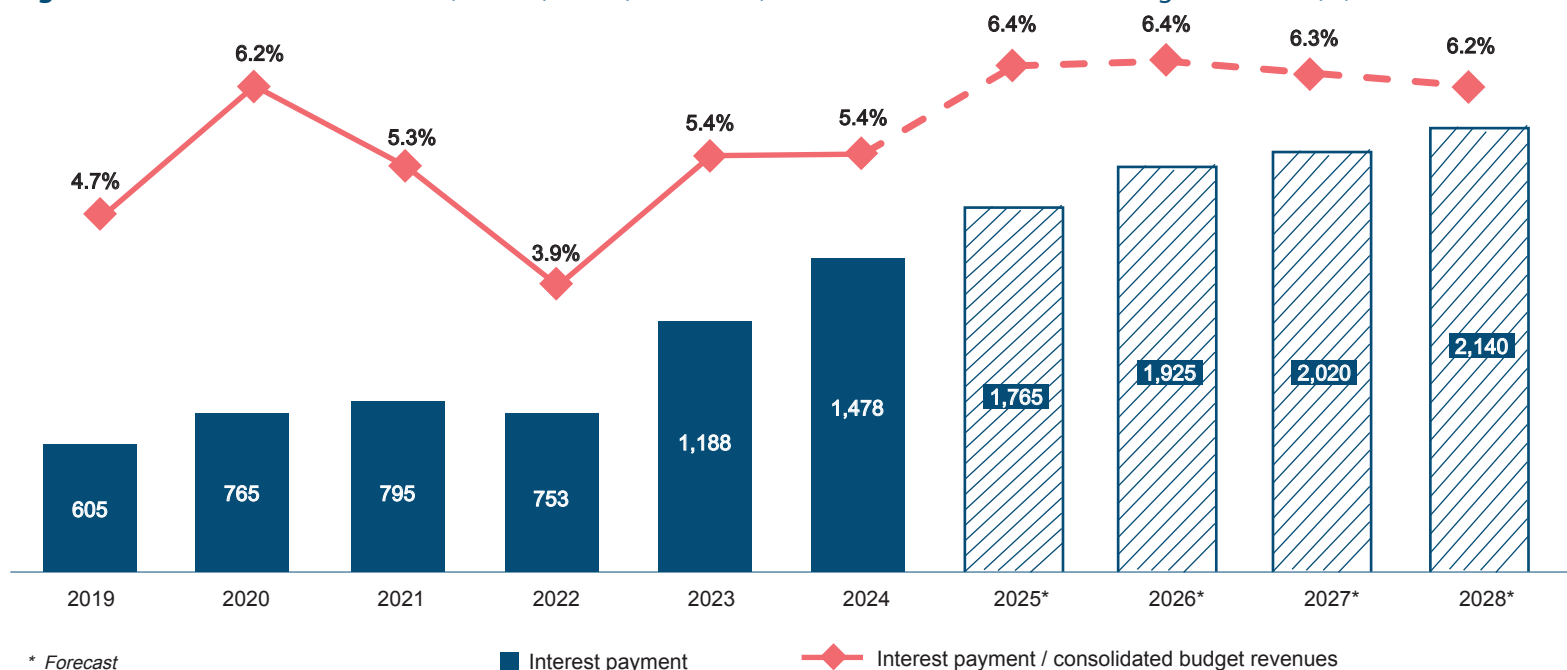
The simultaneous effect of the two developments mentioned above (the tightening of global monetary policy in the context of a high share of variable interest rate loans and the increasing share of domestic debt) places considerable fiscal pressure on the state budget.

²² Source: Bank for International Settlements (BIS)

²³ It is worth noting that, until 2020, the debt portfolio included Eurobonds issued in 2011 with a coupon rate of 6.875%. In April 2021, these Eurobonds were refinanced with new Eurobonds carrying a coupon rate of 2.75%. As a result, assuming global interest rates remain unchanged, the weighted average interest rate of the debt portfolio is expected to decrease in the coming years.



Figure 41. Government debt service (interest) costs (million GEL) and its share in consolidated budget revenues (%).



It is advisable to take into account the recommendation of the SAO and include indicator(s) for assessing debt-related expenses in the Government Debt Management Strategy document, along with an analysis of the potential impact of the strategy's target figures on these indicator(s).



RECOMMENDATIONS FOR MINISTRY OF FINANCE:

- It is advisable for the Ministry of Finance to develop a standardized accounting approach for credit resources mobilized through government-issued securities, in line with relevant international practices.



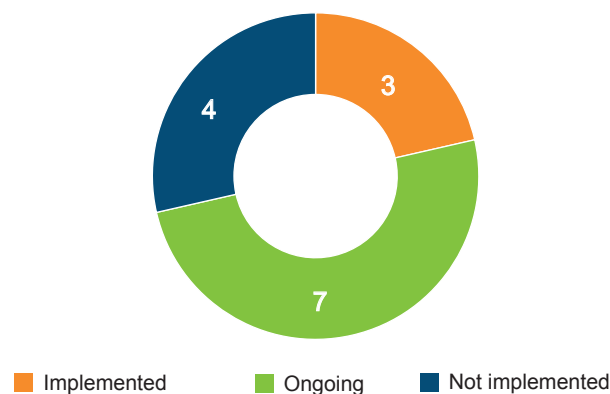


7. STATUS OF THE IMPLEMENTATION OF RECOMMENDATIONS ISSUED BY THE SAOG

The state budget execution report for 2024 is accompanied by information on the implementation status of the action plan defined by the Government Decree,²⁴ concerning the possibility of taking into account the remarks and recommendations presented in the SAO's report on the 2023 annual state budget execution report.

In the reports prepared by the SAO on the state budget execution for 2021–2023, a total of 14 recommendations were issued. At the time of reporting, 3 of them have been fully implemented, while 7 are currently in progress.

Figure 42. Status of implementation of recommendations issued by the State Audit Office in the report on Government's report on the state budget execution for 2021-2023.



²⁴ Government of Georgia Decree No. 1302 dated September 11, 2024.





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