APPLIED CGE MODELLING FOR POLICY ANALYSIS IN GEORGIA:
A SUMMARY OF THE FACT FINDING MISSION

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The aim of this week was to learn from your ideas and collaborate with you!

Our goal was to understand:
1. What Georgia plans to do in the future?
2. What alternative policies need to be assessed or considered?
3. Where should we focus our attention?
Discussions held with

• MoESD – Ministry of Economy and Sustainable Development

• MoF – Ministry of Finance

• NBG – National Bank of Georgia
Outcome: Four research themes for Georgia

3 applied policy (short-medium horizon)

- Exchange rate balancing act
- Rural vs. Urban Economic policy
- Opening up: DCFTA with EU

1 social visionary (out of the box)

MoESD
NBG
MoF
MoESD
NBG
MoF
MoESD

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Indicators for applied themes

• For the three applied themes, we will focus on the following indicators:
  1. Employment creation
  2. Net Exports
  3. GDP growth
  4. Income inequality
  5. Prices
Theme 1 – Exchange rate balancing act

- Suggested by all three: MoESD, NBG, MoF

**Dollarized Debt**
- 67.5% of loan portfolio
- 62.5% of deposits from corporate and household sector

*Source: World Bank, June 2012*

**Production**

- Value added

**Factor markets**

- Factor income
- Private savings

**Households**

- Private consumption
- Investment demand

**Product markets**

**Exports**

- Imports

**Rest of World**

- Foreign savings (FDI)

**Source: The World Bank and Geostat**
Theme 2: Rural vs. urban development

• Suggested by all three: MoESD, NBG, MoF
• Assume we have the “1 billion” fund.
• More realistically, 250 mil. from foreign investment.
• Where do we benefit most: Rural or urban development?
• Search for sectors that create positive externality spillovers.
• Rural development in agri-business related sectors and infrastructure.
• Urban would be in Tbilisi, Banking sector, and/or other urban sector.
A possible solution: no clear best

Main indicators to compare
• GDP growth
• Employment growth
• Trade balance (net export)
• Income inequality
• Prices

![Graphs showing GDP and employment growth over years 5 and 10 for urban and rural areas under different fund scenarios.](image-url)
Theme 3: DCFTA evaluation (1/3)

- Suggested by: MoESD
- Project specification still needs to be decided.
- Modeled in GEMPACK (not GAMS).
- With our current available resources, we cannot do the exact same project.
- Georgia is very small relative to EU and ROW. There is therefore no real need for a multi-country model.
We can go beyond the Ecorys-Case results using our own micro-level Georgia specific approach.

- Obtain another point of view.
- We can use there scenarios as a basic starting point.

<table>
<thead>
<tr>
<th>Type</th>
<th>EU -&gt; G: 100%</th>
<th>G -&gt; EU: 100% all sectors</th>
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<tbody>
<tr>
<td><strong>Trade liberalization</strong></td>
<td><strong>EU -&gt; G: 100%</strong></td>
<td><strong>G -&gt; EU: 100% all sectors</strong></td>
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<td></td>
<td><strong>G -&gt; EU: TRQ for some of the most important sensitive products.</strong></td>
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<td><strong>Services NTM</strong>*</td>
<td>EU --&gt; G: average liberalization of 14% - specified per sector;</td>
<td>G --&gt; EU: overall liberalization of 14% - specified per sector</td>
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<td><strong>EU --&gt; G: 4% / 6% point reduction in TCE;</strong></td>
<td><strong>G --&gt; EU: 6% / 10% point reduction in TCE</strong></td>
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*Based on the EU-Ukraine DCFTA (Ecorys give more details: Services liberalized by 6%, except for communication by 95%.

**TCE – Tariff cost equivalent, due to border, transport delays TBT and SPS.

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Theme 3 (Cont. 3/3)

- DCFTA + sector specific measure.
  - We evaluate a scenario where DCFTA has been implemented; focus on specific sectors that were doing badly as a result; search for strategies to support them.

- DCFTA + ‘broad measure’ of investment that would create positive externalities.
  - Transportation – a high share of input cost in Agriculture.
  - Education (e.g., English/Russian lessons is a broad policy with a large spillover effect on tourism, trade, banking, etc.)
Theme 4: Social Safety Net

- Suggested by all three: MoESD, MoF, NBG
- All previous projects are **applied** papers.
- The idea here is to have a **visionary** paper.
- Allows the government to **explore** social issues, **imagine** and **fantasize**.
- Fits the **Georgian Dream (GD)** vision for a social agenda.
- Possible themes are:
  1. Progressive taxation (MoESD, MoF, NBG)
  2. Unemployment benefits (MoESD, MoF)
  3. Universal Health Insurance (MoESD, MoF)
  4. Pension (MoESD, MoF, NBG)
  5. Deposit Insurance (MoESD, NBG)
- Unclear because I need to learn more about feasibility.
Next steps (Disseminate knowledge)

- Intensive course in Applied CGE modelling to be held at ISET.
- Choose best students for a seven-months internship.
- Design the themes more carefully and focus.
- Co-author with local academics and heads of ministry departments.
Discussion and feedback

Thank you!