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Statement by the Hon. **DIMITRY KUMSISHVILI**,
Governor of the Bank for **GEORGIA**

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Governor of the Bank for Georgia

I am honored to deliver this statement to the 2017 Annual Meetings.

In 2017, we are observing a significant economic recovery globally. After 2016, a year when the world economy grew with one of the lowest rates since global financial crisis of 2009, the developments are very promising in this year.

The main global growth drivers are trade and industrial production. This year we are observing quite substantial surge in these sectors from very low base levels. Growth revival in Europe and Asia is following the path that was started in the US earlier.

However, there are still uncertainties about the persistency of the current global trends and it cannot be yet concluded that there is a strong medium term growth trajectory in the world. This outlines the need for cautiousness in planning the medium term policies.

The challenge for the economic policies in the coming years is to adjust to the global positive economic developments.

The first, countries should utilize the opportunities from global positive trends to address the economic weaknesses and vulnerabilities.

The second, the memories of 2009 are still not far away. It is strongly recommended that governments embark much more on countercyclical policies.

The third, the main contributor in economic growth is expected to come from international trade. In this respect liberalization of international trade policy is important.

Concerning the current economic development in Georgia there are several important facts that I would like to outline.

During the last three years, started from Q3 2014, Georgia was exposed to external shocks resulted in an economic slowdown. The slow global growth was exacerbated by difficult economic and geopolitical tensions in the region. However, Georgia's economy has proved resilient to a significant economic, financial and exchange rate shock in the region and during this period GDP growth averaged 3.4%, when many of our neighbors were in or close to recession.

We think that we had very strong policy responses. We allowed the exchange rate to fluctuate, maintaining fiscal prudence, maintaining strong policy coordination, also proving our strong dedication to NBG independence, to devotion to very important economic reforms.

The first reaction from the Government of Georgia was to allow the deviation from fiscal targets, as in many other countries. It, of course, helped to contain the slump in output and job creation. However it was important not to delay the corrective measures. Therefore, we came out with, in our view, very strong fiscal reform. The reform which on the one hand would increase countries revenue mobilization capacity and, on the other hand, be economic growth conducive.

The reform was started in a period when economic growth rates were around one percent and the growth in main trading partners were close to zero or even negative. Despite this not very favorable circumstances, we have started with the fiscal reform which on the revenue side meant a) reforming our CIT by introducing a more growth friendly and savings promoting model of taxation and b) more than doubling (in some cases) excise taxes (fuel, tobacco, cars, gambling), which have not only compensated for losses from CIT reform but also envisaged significant increase in revenues, allowed to create a clear declining trajectory of fiscal deficits and demonstrated high revenue mobilization capacity of the government. This switch to indirect taxation on the products that are the biggest import products, will allow us to restore fiscal balances quickly without harming the economic growth.

As one of the important answer to the economic slowdown, the government of Georgia came out with a strong reform package. The idea of these reforms is to address vulnerabilities by promoting savings and boost long-term growth potential of the country.

Finally I want to outline several policy issues:

First, it is very important that World Development Report identified education as a main challenge for the long-term sustainable development. It is very important that countries have focused on education reform. However, from the Bank side it is important to have more holistic approaches in helping countries to reform their education systems. We believe that the strong benchmarking system for international comparison will encourage the reforms in this sector.

Second, since economic recovery is looming it is important to have more focus on investment projects that crowd in private investments. In this regard, the strong IFC role is very important to boost private investments in the country. This assistance in deepening financial intermediation should be supported.

Third, apart from building an appropriate infrastructure, there are needs for well-coordinated policies and harmonized rules and regulations. Therefore, banks support to structural reforms is important. The reforms should be based on the principles of inclusive governance and encourage cooperation between the government and society.

Finally, we welcome WBG policy to operate in a holistic manner, when there is cooperation among IBRD, IFC and MIGA on projects, programs and policies drawing on expertise from across all three institutions.