

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

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# Aim of this Fact-finding mission

- **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)

1 social visionary  
(out of the box)

MoESD  
NBG  
MoF

Exchange rate  
balancing act

MoESD  
NBG  
MoF

Rural vs. Urban  
Economic policy

MoESD

Opening up:  
DCFTA with EU

Social safety net

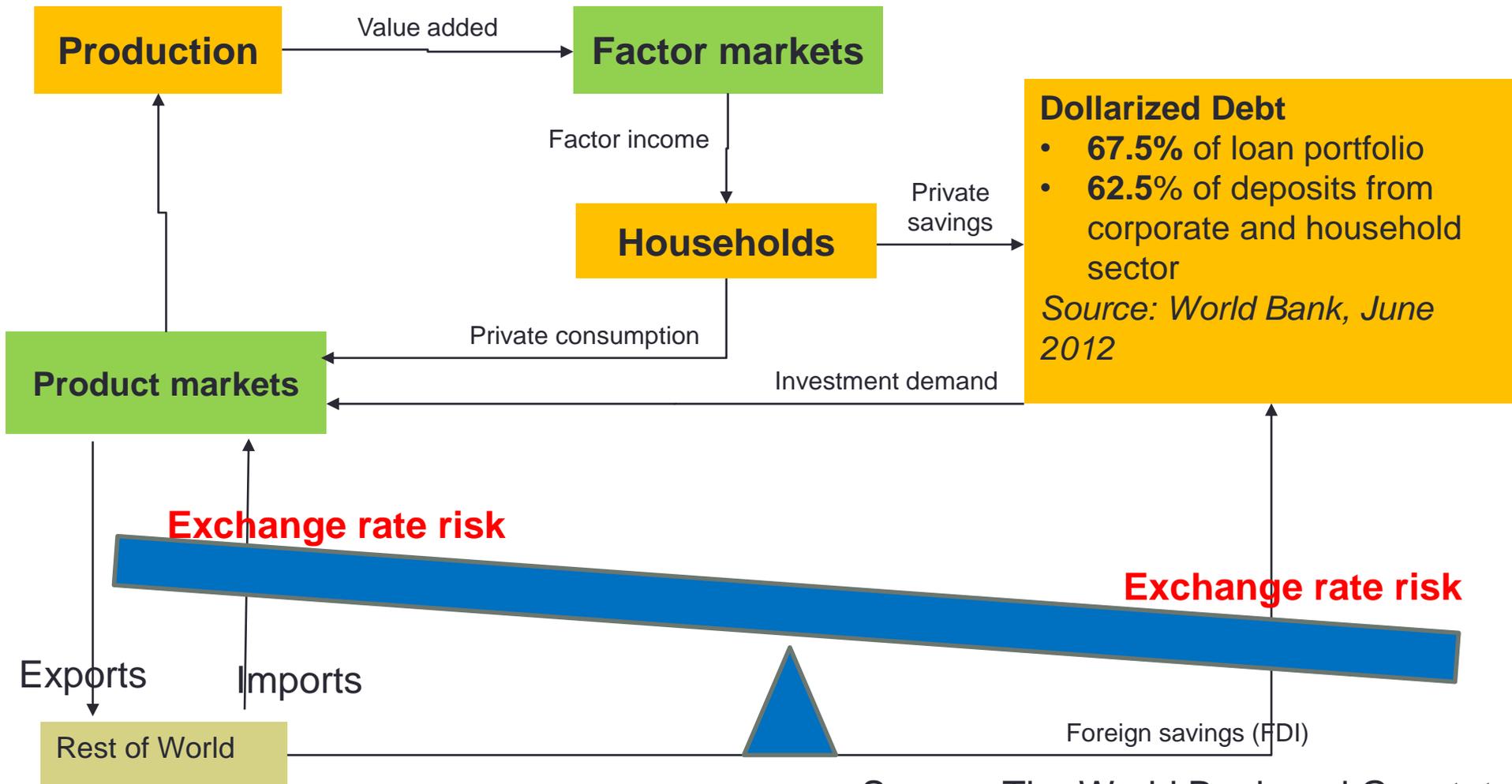
MoESD  
NBG  
MoF

# 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



Source: The World Bank and Geostat

## Theme 2: Rural vs. urban development

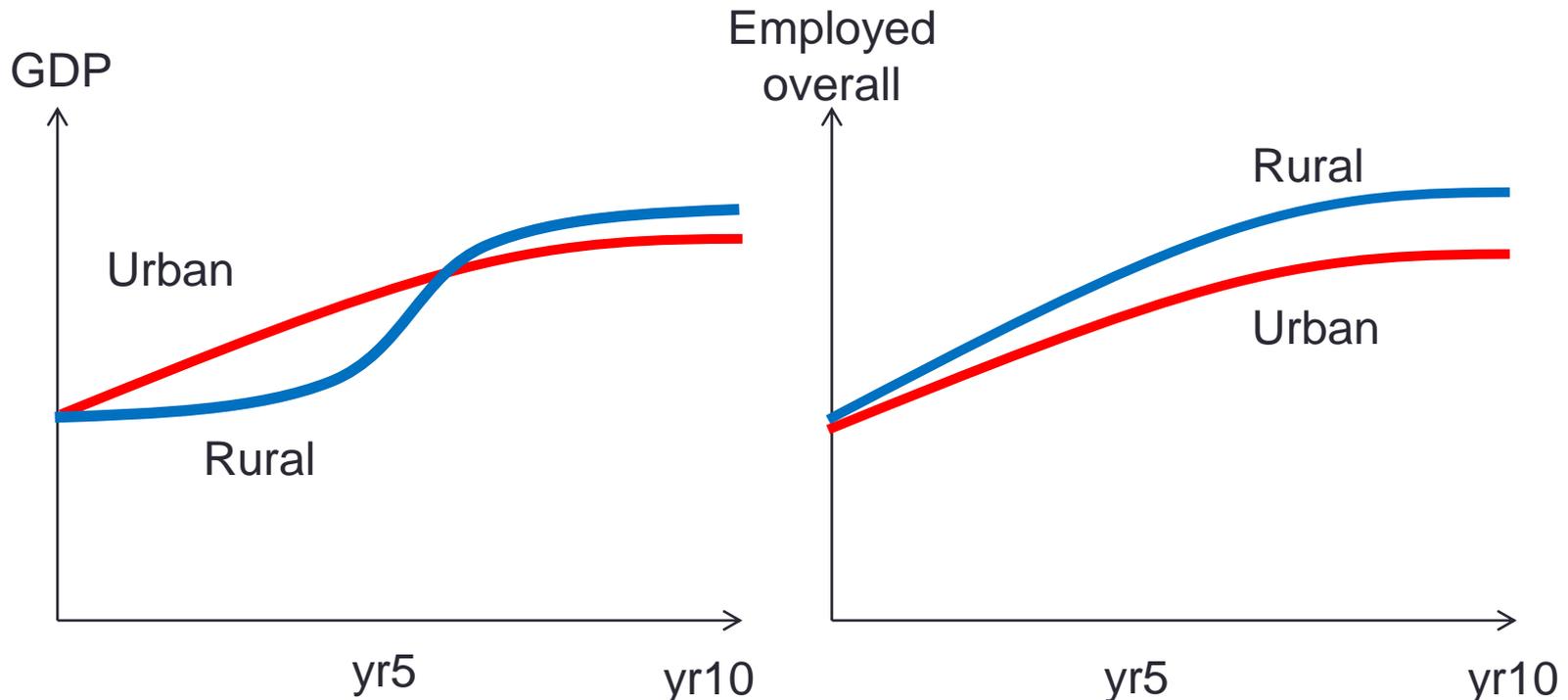
- Suggested by all three: MoESD, NBG, MoF
- Assume we have the “1 billion” fund.
- More realistically, 250 mil. from foreign investment.
- **Where do we benefit most: Rural or urban development?**
- Search for sectors that create positive externality spillovers.
- Rural development in agri-business related 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

Rural Fund Scenario   
Urban Fund Scenario 



## Theme 3: DCFTA evaluation (1/3)

- Suggested by: MoESD
- Project specification still needs to be decided.
- Ecorys-Case paper: a multi-country multi-product model.
- 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.

## Theme 3: DCFTA evaluation (Cont. 2/3)

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.

Trade liberalization	EU -> G: 100% G -> EU: 100% all sectors G -> EU: TRQ for some of the most important sensitive products.
Services NTM*	EU --> G: average liberalization of 14% - specified per sector; G --> EU: overall liberalization of 14% - specified per sector
Other NTMs	EU --> G: 4% / 6% point reduction in TCE; G --> EU: 6% / 10% point reduction in TCE

\*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 time in border, transport delays TBT and SPS.

# 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!