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Irakli Gharibashvili: “Mr Koba [Subeliani], I would like to remind you that when you were in government the budget of the Ministry of Refugees was GEL 25 million. It is now GEL 50 million which means that we’ve doubled it.”

Nino TURIASHVILI
FactCheck

2010	41.7
2011	44.5
2012	37.4
2013	47.3

On 26 July 2014, during the plenary session of the Parliament, Irakli Gharibashvili responded to a question by Parliamentary Minority MP, Koba Subeliani, and stated that the budget of the Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees of Georgia was equal to GEL 25 million when the United National Movement was in power whereas it increased to GEL 50 million after the Georgian Dream coalition assumed office.

FactCheck took interest in Mr Gharibashvili's statement and verified its accuracy.

We checked the amounts of funds allocated to the Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees of Georgia from 2004 to 2013 as follows:

Year	Performance Reports (GEL million)
2004	66.3
2005	61.2
2006	59.2
2007	65.5
2008	121.8
2009	66.7

CONCLUSION

To verify the accuracy of Mr Gharibashvili's statement, FactCheck looked into the 2004-2013 annual budget performance reports. According to the data, the budget of the Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees of Georgia has never been GEL 25 million. It was the smallest in 2012 with GEL 37 million. Furthermore, the funds allocated to the Ministry in 2013 were larger than those in 2010, 2011 or 2012; however, they were significantly lower than those allocated from 2004 to 2009.

According to the 2013 budget performance report, the Ministry of Internally Displaced Persons from the Occupied Territories, Accommodation and Refugees of Georgia spent GEL 47 million, which is 1.3 times more than in 2012 and not doubled, as the Prime Minister stated. It should also be noted that the budget of the Ministry did not reach GEL 50 million even in 2014 and amounted to GEL 48 million.

We conclude that Irakli Gharibashvili's statement: “Mr Koba [Subeliani], I would like to remind you that when you were in government the budget of the Ministry of Refugees was GEL 25 million. It is now GEL 50 million which means that we've doubled it,” is FALSE.



FALSE

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ENLIGHTENMENT & DEMOCRACY

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Digital Payments Vital To Economic Growth, World Bank

The FINANCIAL

Establishment of digital payments for remittances instead of cash is of enormous benefit to poor people in emerging markets and also contributes to financial development, new report by World Bank claims. “This could also help address concerns about the transparency and traceability of remittances”.

“The benefits of digital payments go well beyond the convenience many people in developed economies associate with the technology,” said Dr. Leora Klapper, Lead Economist at the World Bank Development Research Group. “Digital financial services lower the cost and increase the security of sending, paying and receiving money. The resulting increase in financial inclusion is also vital to women's empowerment,” Klapper added.

“Governments have to take the lead and drive digital financial development forward,” said Geoffrey Lamb,



Chief Economic and Policy Advisor to the Co-Chairs and CEO of the Bill & Melinda Gates Foundation. “The evidence shows that private sector firms will innovate and citizens will quickly learn to use and appreciate digital payments. But we need governments to establish the vi-

sion, the digital platforms and the regulatory assurance to pull the hundreds of millions of currently excluded people into full participation in the modern economy,” Lamb added.

“Governments have the authority to be prime movers on so much of what is needed to

advance digital financial development. With the private sector as a valuable partner, governments must lead to encourage progress in areas such as regulatory reform, driving electronic payroll payments and digitizing social benefit disbursements,” Lamb said.

Enjoy the UK recovery while it lasts

Stephen KING
HSBC GROUP CHIEF
ECONOMIST

There's been much excitement about Britain's return to the top of the international growth league. Its economy was 3.2 per cent bigger in the second quarter of 2014 than it had been a year earlier. Over the same period, Germany was up 1.3 per cent, France a measly 0.1 per cent and Italy down 0.3 per cent. Even the supposedly dynamic US economy was unable to keep up with the UK, posting a 2.4 per cent gain. Japan was totally stagnant.

From Britain's point of view, this all sounds rather wonderful. An economy that had been on the ropes for many years is coming out fighting, stronger than all the other leading industrialised nations but not, it should be noted, the strongest in Europe: both Latvia and Hungary are doing better.

Many a sin, however, can be disguised through the misleading use of statistics. Yes, Britain is doing better than it was. Yes, it is growing more quickly than some of its key competitors. Yet the UK economy today is only a tiny bit bigger than it was in 2008, just before it was engulfed in its bespoke version of the global financial crisis. The American and German economies, in contrast, are now much larger than they were then. Even if the present league position is encouraging, people up and down the country will be wondering why their wage packets are still shrinking, at least when allowance is made for inflation.

Perhaps, in time, these problems will go away – after all, continued economic expansion at current rates would make most people better off – but growing this quickly when other countries



are struggling to expand will be no easy task. The problem is peculiarly British. It's called the balance of payments. It's not impossible for a country to grow more quickly than others without eventually sucking in imports at a ferocious rate.

Rapid productivity growth – more outputs from given inputs, the alchemy of economic progress – will do the trick. Countries lucky enough to experience rapid productivity gains may not only be able to raise living standards at home but also, via strong, technology-led export gains, living standards abroad. In the 1960s and 1970s, both Japan and Germany pulled off this trick. More recently, China has managed much the same. In all three cases, rapid gains in living standards were associated more often than not with balance of payments surpluses.

Post-war Britain has not been quite so lucky. All too often its position at the top of the growth league has been fleeting, not so much because the economy eventually has drowned in a sea of inflation but, instead, because rapid expansion has been associated with an equally rapid deterioration in the UK's balance of payments position. We may be approaching one of those unfortunate mo-

ments now. The recovery so far has been associated with a hopeless productivity performance, while the deficit on the balance of payments is already running at a disturbingly large GBP20 billion per quarter, or thereabouts. Relative to the size of the British economy, it's not far off the biggest on record.

Some argue that none of this needs matter. Ben Broadbent, deputy governor of the Bank of England, suggested in a speech at Chatham House last month that the balance of payments deficit didn't pose any kind of “independent, existential threat to UK growth”. His view is based on the observation that the payments we have to make to our foreign creditors typically are lower than the receipts we receive on our own investments overseas. Put another way, the UK is acting like a giant version of a successful hedge fund: it raises funds cheaply from its creditors and re-invests some of that money in much higher returning assets elsewhere. The remainder can be spent on imports. On this basis, apparently we can live beyond our means forever.

It's hardly a novel argument. Many American economists made similar claims about their economy before the onset of the sub-prime cri-

sis. Yet the argument has its flaws. If growth elsewhere in the world is persistently lower than in Britain, it's difficult to believe that those foreign assets will continue to deliver superior returns. It's equally difficult to believe that foreign creditors will continue to pour their money into the UK if we are unable ultimately to turn that money into productive investments that will lead to higher exports. Without the support of foreign creditors, we simply won't be able to support our addiction to cheap imports.

At this point, it's worth thinking about Britain's export performance compared with its nearest competitors. It doesn't make for happy reading. Despite a huge fall in sterling in 2008, British exports have struggled to make headway. One oft-quoted explanation is our dependence on exports to the eurozone. That, however, hardly explains why our export performance has been so miserable. Germany and France have done better, even though they, too, are intimately tied to the eurozone. And as for our ambitions in the emerging world, they have hardly been met: since the beginning of the 1990s, our exports to the most dynamic parts of the world have made a lot less headway than those of our leading European competitors.

The UK's recovery would be a lot more encouraging if, first, there was clear evidence of a sustained pickup in productivity and, second, if our exports were even close to matching those of our peers. In reality, we are neither productive nor, it seems, particularly export-focused.

Enjoy the recovery while it lasts. There's a good chance that, like previous periods of economic outperformance, eventually we'll find ourselves succumbing to a balance of payments crisis. It's one British tradition that we seem unable to shake off.

Georgia Speculating on Russia's Sanctions

Continued from p. 2

products especially in the short-term, they must also expect an increase in prices for these products. And even then, market supplies may not include their usual choice of products," said Stano.

The EU member states make up 20% of the total export basket of Georgia. During January-July 2014 Georgian export to EU countries amounted to USD 338,625,900, up from USD 257,096,700 from the prior-year period.

"The EU supports Georgia and Georgia's economy already in many ways. This support is becoming more systematic and wide-ranging after the signing of the Association Agreement which is a blueprint for modernisation and for the implementation of which the EU will provide assistance to Georgia," said Stano.

Recently, Republican Senator John McCain expressed his worries that Georgia might get closer to Russia again. Contrary to McCain, from the EU's point of view, the Georgian leadership is giving a clear message - expressed in the signing and ratification of the Association Agreement with the EU.

"We look forward to the implementation of this very important treaty that puts our partnership on the same basis of values and principles and will open new economic opportunities for both sides," Stano told The FINANCIAL.

"Here is a simple dilemma which faces the Georgian Government", Ghia Nodia, Professor at Ilia State University told The FINANCIAL. Nodia, who often was criticized for his excessive support of previous pro-western government, believes that current Government does not reflect the main areas of EU policy with its general politics and rhetoric towards Russia and Ukraine (not just with the economic embargo).

"Whether there was any formal 'request' from the EU does not make any sense. It is hard to determine what results will follow it. However, the main interest of the EU towards Georgia was determined by the fact that Georgia had pro-European values and was an outpost of pro-western policy in the region; that it would stubbornly follow pro-western policy based on some idealistic beliefs. This image is abused. Currently Georgia has an image of a country with uncertain policy.

"The short-term economic benefits are on the other side of the scale. They are linked to the Government's domestic policy interests. Restoration of import to Russia is one of its main advantages. There is also the incomprehensible strategy, inspired by Bidzina Ivanishvili, of not irritating Russia. I do not think that either this short-term economic benefit or this policy can be in line with Georgia's long-term strategy", Nodia said.



Nodar Khaduri:

"Revenues from income tax have been increased and, as you know, income tax directly depends on the amount of wages. Hence, since the revenues have increased, the wages must have been increased as well."

Levan PAVLENISHVILI
FactCheck

According to the data published by the National Statistics Office of Georgia (GeoStat), the average monthly wages of people employed in the industrial sector have decreased by 13.33% in the 1st quarter of 2014 as compared to the last quarter of 2013. On 17 June 2014, Minister of Finance of Georgia, Nodar Khaduri, commented on the statistics published by GeoStat and said: "I'll ask for the data in the Statistics Office and find out what it is based upon. Revenues from income tax have been increased and, as you know, income tax directly depends on the amount of wages. Hence, since the revenues have increased, the wages must have been increased as well. I promise I shall look into this matter."

After he examined the issue, Nodar Khaduri made another statement: "These data have been misinterpreted. If you examine it closely, it is obvious that the wages at the end of each year are higher than at the beginning. This is due to the fact that wages are sometimes issued twice in December. Not only once. This happened in 2013, 2012 and other years as well. I would like to inform you that in the first quarter of this year, the average wages were increased by 10% as compared to the same period of the previous year. This information also comes from the National Statistics Office."

FactCheck took interest in this statement.

According to the Tax Code of Georgia, the personal income tax payer is an individual (resident or non-resident) who, in a certain period of time, received income from a source base in the country. The personal income tax constitutes 20% of total income. According to current practice, the income tax of an industrial sector employee is paid by the employer. Accordingly, the changes (mainly reduction) in the average wages in this sector should influence the amount of taxes as well. That is the main logic in the statements of the Minister of Finance.

It should also be clarified that not only wages (or any other income received in the form of wage, for example, insurance) are subject to income taxation but other sorts of income as well (for example, rentals received by the individual). However, revenues from wage taxation constitute 90% of the revenues gathered by personal income tax and, consequently, wage changes have the biggest influence on the absolute amount of income tax.

While comparing the average quarterly wage rates one should take seasonality into account as well and there are several reasons for this. This factor is particularly important given the distinctive features of the agricultural and tourism sectors. These sectors constitute an important part of the Georgian economy and are strictly seasonal.

Another important factor in this case is the system of bonuses in the country. The yearly bonuses are mainly distributed in the last quarter of the year. Hence, it is quite logical that the average wages are higher at the end of the year than at the beginning. So, it is important to take seasonality into consideration and compare the quarterly average wages to the same period of the previous year and not to the other quarters of the same year.

Comparing the average monthly nominal wages of the 1st quarter of 2014 (GEL 779.1) with the same variable of the last quarter of 2013 (GEL 898.7) gives us a 13.33% reduction while comparing the average wages of the first quarter of 2014 to the wages of the same period of time in 2013 (GEL 717.7) gives 9% growth. The same is true for previous years as well (as in Charts 1 and 2).

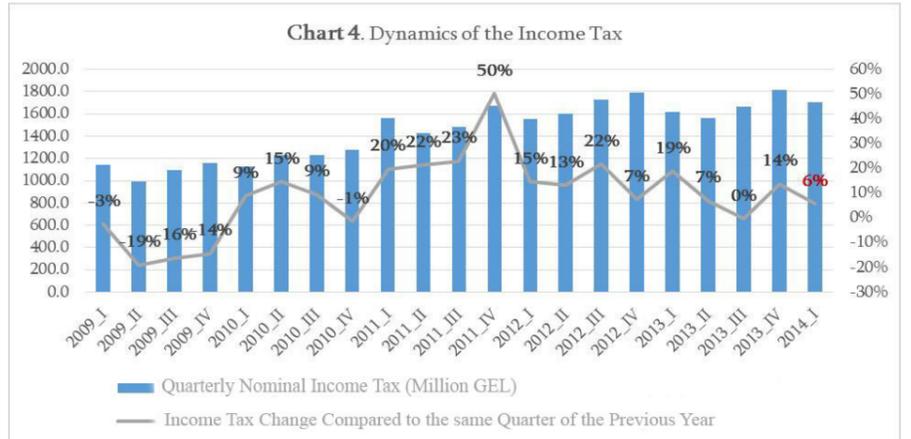
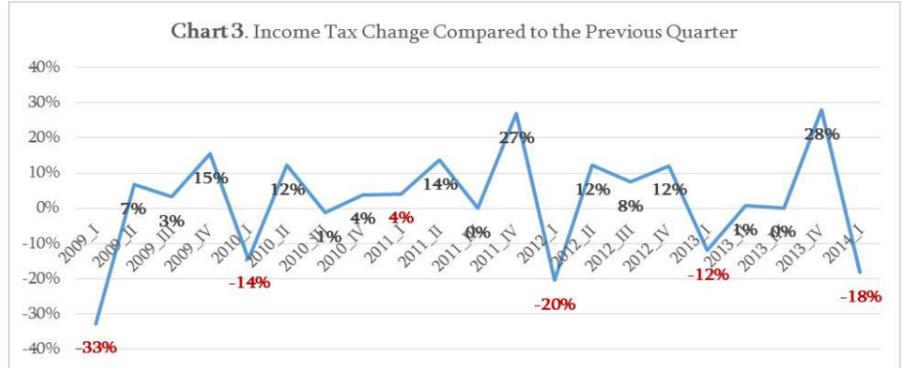
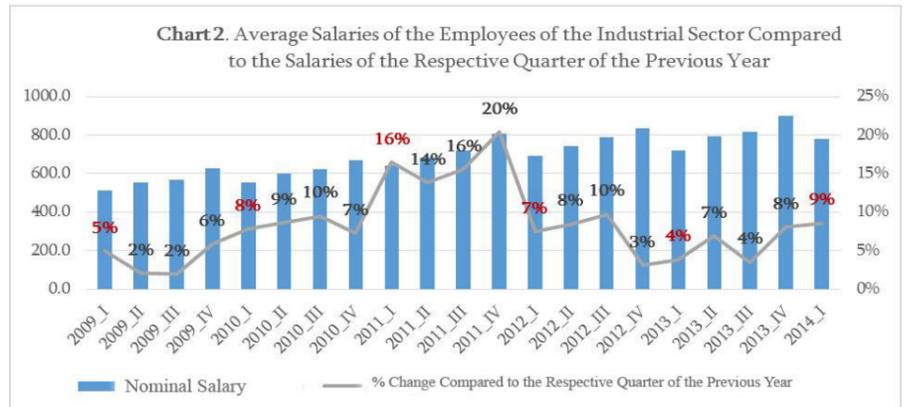
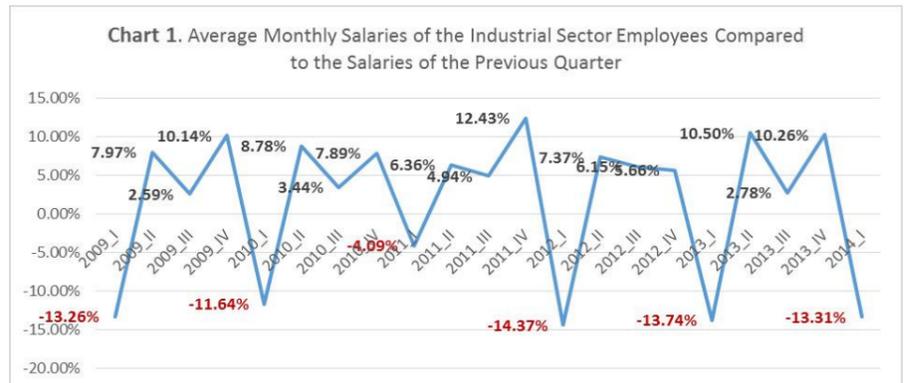
Chart 1 depicts the changes in the average monthly wages as compared to the previous quarter of the year, since 2009. From the chart it is clear that seasonality plays a big role in the changes of the wages. According to these data, a sharp decrease in wages as compared to the end of the previous year is characteristic for the 1st quarter of each year.

Chart 2 shows the comparison of average monthly wages based upon the change of seasons. We can see the growth in every new quarter of the year. More accurately, Chart 2 shows 9% growth in the 1st quarter of 2014 and, supposedly, that is the number which the Minister used in his second statement.

In order to check the credibility of Khaduri's statement, it would be interesting to see how the dynamics of personal income tax follow the trend discussed above.

On the one hand, Chart 3 reflects the dynamics of income tax which is similar to the dynamics of average wages; namely, in the first quarter of every year (except 2011), we have a sharp reduction in the nominal indicator of the tax which constituted 18% in 2014, 12% in 2013 and 20% in 2012. On the other hand, in Chart 4 we can see that from 2011, taking seasonality into account, there is an increase of the nominal indicator of personal income tax in comparison to the same quarter of the previous year.

Thus, the statement of the Minister of Finance is rather logical. It should also be noted that there is a possibility of the average monthly wages and the personal income tax indicators moving in different directions. This would happen in the case of a sharp increase in employment in the lowest-paid sectors in the economy. In such a case the low-paid jobs would reduce the average monthly wage indicator while the nominal personal income tax indicator would grow. To check the possibility of such a case one must compare the statistics of quarterly employment to the growth of personal income tax and the average monthly wage. However, since we do not have such statistics we cannot look into this phenomenon.



CONCLUSION

The study revealed that the data published by GeoStat were misinterpreted without taking seasonality into account. The statistics of the average monthly wages in the industrial sector included the quarterly bonuses as well. The Georgian practice is to distribute the bonuses in the last quarter of the year and they are also subject to personal income taxation. Furthermore, the average monthly nominal wages and personal income tax statistics show similar trends.

The importance of seasonality in the agricultural and tourism sectors of the economy should also be noted. In his first statement, Nodar Khaduri underscored the importance of these trends, taking the seasonality factor into account which includes the comparison of the quarterly data to the data of the same period of the previous year. This kind of comparison reflects the growth both in personal income tax and the average monthly wages. This trend verifies Khaduri's statement.

Hence, FactCheck concludes that both statements of the Minister of Finance of Georgia are TRUE.



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