

FactCheck



Giorgi Kadagidze:

President of the National Bank of Georgia

“The profitability of the commercial banks is 14.5% annually. This means that their yearly profit is 14.5% of the total capital which is definitely not a ‘super-profit’ or a ‘mega-profit’ if such terms even exist.”

Davit KUTIDZE
FactCheck

On 29 July 2014, during his speech at the Parliamentary session, the president of the National Bank of Georgia, Giorgi Kadagidze, focused, among other things, upon the profitability of the commercial banks and stated: “The profitability of the commercial banks is 14.5% annually. This means that their yearly profit is 14.5% of the total capital which is definitely not a ‘super-profit’ or a ‘mega-profit’ if such terms even exist.”

FactCheck took interest in the yearly profits of the commercial banks and verified the accuracy of Mr Kadagidze’s statement.

According to the data of the National Bank of Georgia, the total stockholders’ equity of the banks (including the retained earnings) in 2011 was equal to GEL 1,974 million whilst the net profit amounted to GEL 323 million at the end of the year. These data show that the profit of the banks constituted 16.3% of the total capital. By the same sources of information the yearly profit of the commercial banks constituted 6.1% in 2012 and 14.5% in 2013.

For additional information, FactCheck looked into the yearly profits of various commercial banks and determined what percent of the total capital they constituted.

FactCheck also took interest in the net profits of the foreign commercial banks. We examined the data of sev-

Net profit to capital of some Georgian commercial banks (%)

Banks:	2013	2012	2011
TBC – Bank	17%	16.2%	19.5%
Bank of Georgia	17.2%	17.2%	16.7%
Cartu Bank	25.6%	7.2%	41%
Liberty Bank	15.8%	5.3%	10.5%
VTB Bank Georgia	14.3%	11.9%	13%

Chart 1 – Source: National Bank of Georgia

Net profit to capital of some foreign commercial banks (%)

Banks:	2013	2012	2011
BBVA	5%	3.8%	7.5%
HSBC BANK	7.7%	7.5%	
BARCLAYS	2%	0.3%	6.1%

Chart 2 – Source: [hbva.com](#), [HSBC Bank](#), [Barclays.com](#)

eral international banks. The data are represented in the charts below.

As the above charts make clear, the yearly net profits of large foreign commercial banks constitute a lower percent of the total capital than the profits of Georgian banks. This is mainly due to the marginal effect of the capital profit which means that the share of profit reduces with the growth of capital. It should also be pointed out that due to the high yearly capital of the aforementioned foreign banks even a small percent of profit represents a large amount of money (for example the net profit of the HSBC Bank amounted to EUR 2.5 billion in 2013).

In order to support the conclusions above, FactCheck looked into the profits of the banks operating in neighbouring Armenia and Azerbaijan. The net profit of the Armenian Ameriabank was equal to 12% in 2011,

16.5% in 2012 and 15.5% in 2013 (Source p. 9). The net profits of the Azerbaijani AtaBank were very similar amounting to 9.8% in 2011, 11.6% in 2012 and 10.8% in 2013 (Source 1 pp. 3-4, Source 2 pp. 3-4).

For comparison, FactCheck also took interest in the share of net operating profit in the Gross Domestic Product of Georgia (the share of net operating profit shows the average profit level in the country). According to the data of the National Statistics Office of Georgia, the 2011 GDP of Georgia was equal to GEL 24,344 million whilst the net operating profit amounted to GEL 5,979 million, constituting 24.6% of the GDP. The share of the net operating profit in the GDP was equal to 22.3% in 2012 and 20.8% in 2013. From this data we can conclude that the profit of the banking sector is lower than those of the other sectors of the Georgian economy.

CONCLUSION

The verification of Giorgi Kadagidze’s statement showed that the overall yearly profits of the commercial banks varied from 6% to 16% of the total capital in recent years whilst in 2013 it was equal to 14.5%. These data confirm both the numbers stated by Mr Kadagidze and the paths of his statement that the profits of the commercial banks are not very high.

During its study FactCheck compared the net profits of the banks and the share of net operating profit in the GDP of the country. The share of net operating profit shows the average profit level in the country. The share of the net operating profit in the GDP was equal to 24.6% in 2011, 22.3% in 2012 and 20.8% in 2013. Hence, we can say that the profit of the banking sector is lower than those of the other sectors of the Georgian economy and talks about “super-profits” and “mega-profits” would be exaggerated. One could even question the use of such terms in discussing the conditions of the free economy.

FactCheck concludes that Giorgi Kadagidze’s statement: “The profitability of the commercial banks is 14.5% annually. This means that their yearly profit is 14.5% of the total capital which is definitely not a ‘super-profit’ or a ‘mega-profit’ if such terms even exist,” is TRUE.

TRUE



EUROPEAN
ENDOWMENT OF DEMOCRACY

G | M | F The German Marshall Fund
of the United States
STRENGTHENING TRANSATLANTIC COOPERATION

The views expressed in this website are those of FactCheck.ge and do not reflect the views of The FINANCIAL or the supporting organisations

The Economic Potential of Georgian Wine

Continued from p. 2

growth”, i.e. growth which not just raises the incomes of entrepreneurs and people who are already well-off (as it is often the case with economic activities in developing countries). This contention is based on the fact that grape growing is a main activity and an important source of income for many households in rural areas, especially in Kakheti. While many vineries cultivate grapes themselves, it is also common to partly or entirely buy grapes from local families. It is estimated that approximately 2-3 times more wine is produced as “family wine” than by commercial companies. This means that if demand and price of Georgian wine go up, Georgian grapes may become scarce, and companies will start to compete for grapes grown by households, driving up prices. In this way, the renewed prominence of Georgian wine in international markets may directly translate into higher incomes for Georgian smallholder farmers!

In addition, companies producing wine in Georgia will be taxed, and higher volume and prices will generate additional profits and tax revenues.

Yet how much more Georgian wine can be produced? In recent years, between 30,000 and 40,000 tons of grapes were processed annually by winemaking companies. Of the grapes grown by families, most is used

for producing home-made wine, but if wine companies would offer higher prices for those “family grapes”, private wine growers would sell their harvest instead of consuming it. If that would happen, commercial wine production could be more than doubled.

Currently, about 60 thousand hectares of Georgia’s land are covered with vineyards. This is just a half of the amount of land used in the early 1980s (a great share of the vineyards were destroyed in the wake of Gorbachev’s anti-alcohol campaign), but still the share of arable land used for wine production is the fourth highest in the world (after Portugal, Chile and Italy) and amounts to 8% of all arable land. Therefore, exports could be further boosted by planting grapes on those areas that were already used for Soviet vineyards.

PROMOTING GEORGIAN WINE

While in Russia, Georgian wine is well-known (but not everyone knows that the quality has improved so much), recent history tells us that Russia is not a reliable market. So, Georgia should diversify the group of countries to which it sells wine. Georgian wine can be sold to other CIS countries, to Europe, the US, and Asia (wine consumption is picking up in China, which is an extremely important development for every wine-producing nation in the world). Yet

in most markets outside the CIS countries, Georgian wines are hardly recognizable and mostly known to experts.

According to Kym Andersen (“Is Georgia the next ‘new’ wine-exporting country?”, *Working Paper 162523, Robert Mondavi Institute Center for Wine Economics*), experiences of wine exporting countries outside of Europe show that it is more effective when the country of origin is promoted rather than a particular brand. Likewise, Sophie Ghvanidze shows in her Ph.D. thesis that in Germany (the world’s largest wine importer) the country of origin has a strong influence on the purchasing behavior of wine consumers.

A country brand for Georgia may umbrella not only wine, but also (wine-)tourism, mineral water, other foodstuff, and whatever else Georgia wants to sell to the world. Such a brand cannot be established by private companies, even if they cooperate, due to the notorious *free rider problem*: it is impossible to force companies to be involved in the establishment of the country brand, but every Georgian company would benefit from the marketing efforts, even if they did not contribute. Therefore, companies would do best by not participating and free-ride on the efforts of others.

Only the government could create a country brand, and this is something that should be seriously considered.

Geocell together with Microsoft had a meeting with Small & Medium Entrepreneurs

FAMOUS TECHNOLOGY BRANDS JOINTLY PRESENTED THE EFFECTIVE BUSINESS MANAGEMENT MODEL

Geocell and Microsoft met local SME. At this gathering world leading Cloud technologies including Office 365 services were introduced. The main emphasis fell on mutual offering of Geocell and Microsoft, that enables Geocell corporate subscribers, being small and medium entrepreneurs, run an easy solution of office management issues for their business and enjoy the benefits of corporate IT service infrastructure without costly local servers.

This is the first ever example of cooperation of two huge technology brands in Georgia. However TeliaSonera already exploits such practice of cooperation with Microsoft in Nordic and Baltic countries.

“Cloud technologies – this is the future of world productivity – says David Asatiani, the regional manager of Microsoft Georgia, “As of today these corporate services are already accessible in Georgia and together with Geocell we are happily providing it to customers. The SME businessmen can reduce the capital investments in expensive devices and also decrease technical support expenses. Microsoft creates



this opportunity, which gives the chance to SME to direct saved energy and money in a more effective way”.

Ivane Matchavariani, Chief Commercial Officer of Geocell: “Our joint project aims to provide SME with high quality service, which on one hand would support their healthy growth and on the other hand will be mutually attractive for both – customers and Geocell and Microsoft. We do hope that in a long run this will be beneficial for us companies as well as favorable for SME development in the country”.

Close to the end of the workshop a special drawing was conducted. The winners had an opportunity to win a mobile phone HTC One M8 Mini from Geocell and a license for Microsoft Office 365 for one user to be valid for one year, from Microsoft. “We would like you to be the first who experiences new joint solution by Geocell and Microsoft, therefore we want to offer you the chance of becoming the customers of this useful business offer. The lucky winners will be able to

experience all the uniqueness of this joint solution”, - said Ivane Matchavariani before the drawing would start.

And Geocell is offering this solution together with Microsoft with availability to have a full pack including mobile devices and also mobile data and calling availabilities. With this solution client companies do not have to worry about their mobile communications and at the same time run the licensed Office 365 solution from Microsoft. For their mobile data usage Geocell provides very compatible offer sets with phones and also huge amount of minutes the users can consume. So a small company worker could fully mobilize with Geocell’s combined offer: they could access their files from their smart phones, share their files even if they are on a holiday, make their calls without worrying about high tariff plans, use the latest phone devices, etc. With Geocell and Microsoft the companies doesn’t have to worry about maintaining such a system and investing huge amounts on hardware and software.

UK: 6 Month Increase in Life Expectancy Assumptions Adds Millions to Cost of Maintaining UK's DB Pension Schemes

"Women aged 65 will live an additional 25 years and six months to a total age of 90 years and six months. Men aged 65 are assumed to live an additional 23 years and four months reaching a total average age of 88 years and four months".

The FINANCIAL

The UK's defined benefit (DB) pension schemes have continued to increase their assumptions

on how long their members will live, further increasing the pressure on company finances, according to data from Mercer's 2014 Valuations Survey.

Mercer estimates that, for each month of increased life expectancy, the liabilities of a DB scheme with £100 million in liabilities will increase by about £300,000. A scheme increasing the life expectancy of their members by six months would increase the overall cost of providing their pensions by £1.8 million.

Mercer's 2014 survey analysed data from 202 UK DB schemes with £59 billion in as-

sets and over 670,000 members (deferred, active and pensioners).

According to Mercer, trustees of DB schemes are assuming that, on average, women aged 65 will live an additional 25 years and six months to a total age of 90 years and six months. Men aged 65 are assumed to live an additional 23 years and four months reaching a total average age of 88 years and four months. In contrast, in Mercer's 2011 Valuation survey, trustees were assuming that men who are now aged 65 would live until 87 years and 10 months.

ICC Georgia held its 7th Consultative Board

On 2 October 2014, ICC Georgia held its 7th Consultative Board followed by a reception. The event was generously sponsored by Pasha Bank Georgia. This Board meeting was exceptionally attended by H.E. Giorgi Kvirikashvili Deputy Prime Minister and Minister of Economic and Sustainable Development of Georgia. Members of the Board discussed a variety of issues including the challenges dealing with the Revenue Service, detainment of persons for possession of over the counter drugs, and the extremely negative consequences that are resulting from the

implementation of the new visa policy.

The 2d Edition of ICCommerce was also released. More than 120 ICC members and guests attended the reception that followed the Board meeting where ICC Chairman Mr. Fady Asly presented certificates to ICC Youth members who were part of ICC Business Plan Competition.

The ICC Consultative Board is the only body of its kind in the business community in Georgia, consisting of eight ambassadors, three major international financial institutions, and two major international organizations. The issues raised are subsequently advocated to the government

through a multi-pronged approach by the ICC stakeholders to effect positive changes in the business and investment climate.

The International Chamber of Commerce is the largest business organization in the world that includes over 6.5 million business members and over 12,000 chambers of commerce. ICC consults regularly at the global level with the G8, G20, the World Bank, WTO, WCO and the UN. In Georgia the ICC is the most vocal Business Association. It includes twenty one major business organizations in addition to over 150 corporate members and over 200 ICC Youth members.

PASHA Bank – First and the Only Bank from Georgia to Attend the SIBOS

PASHA Bank, a full service corporate bank, underlined its increasing role in international finance by attending Swift International Banking Operations Seminar in Boston, the USA. PASHA Bank was there to share practices and debate emerging issues. Already for the fifth time it is the only bank from the region to attend SIBOS.

SIBOS is an annual banking and financial seminar organized by the Society for Worldwide Interbank Financial Telecommunication in various cities around the world. Started out as SWIFT international banking operations seminar, it has grown into a premier business forum for the global financial community to debate and collaborate in the areas of payments, securities, cash management and trade. People who work in financial markets around the world participate as exhibitors and attendees and discuss issues relevant to the financial industry.

During one week, SIBOS brings together some 7,000 decision makers and topic experts from financial institutions, market infrastructures, multinational corporations and technology partners. With half a dozen conference tracks, a hundred speakers and as many conference sessions, nearly 200 exhibitors, and plenty of networking events, SIBOS is the place to



do business and collectively shape the future of the financial industry.

The SIBOS offers the opportunity to engage with leading financial industry figures to debate the latest developments and trends. This year's conference program addressed key industry issues in a variety of sessions such as plenary, big issue debates, keynote addresses, panel discussions and special interest sessions.

There also were profiles of big hitters in the industry as well as editorial analyses of the themes of SIBOS 2014. These included regulation, collaboration and innovation in financial technology.

"This year's conference provided food for thought for delegates as various regulatory initiatives took hold globally and many economies have shown tentative signs of recovery against a backdrop of growing geo-

political uncertainty. We are proud to state that PASHA Bank was the only bank from Georgia to attend the conference, participate with its own booth together with PASHA Bank Azerbaijan and bring this experience to our customers," said Shahin Mammadov, CEO of PASHA Bank Georgia.

"PASHA Bank is a significant international financier, in line with the highly interconnected nature of our client base. Our approach of combining innovative new products and channels with international financial solutions is enabling our clients to conduct business both locally and internationally. In addition, our strategic partnerships with major international banks help ensure our clients get the best service and support from strong institutions wherever they are doing business around the world," Mammadov added.



Giorgi Kvirikashvili:

Minister of Economy and Sustainable Development of Georgia

"From 1 September 2014 the Deep and Comprehensive Free Trade Agreement with the European Union will be enacted. This means that the customs duties with all of the 28 EU countries will be nullified."

Lasha SENASHVILI
FactCheck

On 26 August 2014, the Minister of Economy and Sustainable Development of Georgia, Giorgi Kvirikashvili, talked about the enactment of the Deep and Comprehensive Free Trade Agreement with the European Union. The Minister stated: "From 1 September 2014 the Deep and Comprehensive Free Trade Agreement with the European Union will be enacted. This means that the customs duties with all of the 28 EU countries will be nullified. This means that if, as of today, customs duties must be paid for the Georgian wine exported to the European Union, these duties will be equal to zero from 1 September. That is, if it meets all the standards, of course."

FactCheck took interest in the Minister's statement and verified its accuracy.

On 29 November 2013, in terms of the European Union Eastern Partnership Programme, Georgia initialled the Association Agreement and on 27 June 2014, it signed the Association Agreement with the European Union.

According to the Communication from the European Commission on the Eastern Partnership, the main goal of the initiative is to facilitate the implementation of the European Neighbourhood Policy (ENP) of the European Union; however, this programme goes further and offers the partner countries special prospects for deepening their ties with the European Union. The cooperation in terms of the Eastern Partnership is being developed in two directions – bilateral and multilateral cooperation. The main goal

of the bilateral cooperation is to create a wide political and legislative framework and deepen the cooperation of the country with the European Union. Multilateral cooperation creates a new format which enables the countries to cooperate in the spheres of shared interest and tackle the challenges together. This format is aimed at developing cooperation in the region through the implementation of joint projects in the fields of security, migration, trade, transport, energy, environmental protection and so on.

The agreement provides for the creation of the deep and comprehensive free trade areas between the partner countries and the European Union which will be based upon the Deep and Comprehensive Free Trade Agreement.

On 1 September 2014, part of the Association Agreement between Georgia and the European Union was enacted. According to the statement of the Minister of Foreign Affairs of Georgia, Maia Panjikidze, the Deep and Comprehensive Free Trade Agreement has been enacted temporarily. "This means no tariffs and free movement of Georgian goods to the European Market and I'm sure that

Georgian businessmen and businesses will use this opportunity. In order for this to happen, however, certain standards must be met. This is a difficult process but we are already working on it and I'm sure that soon we shall be able to enjoy all the privileges granted to us by the free trade agreement with the European Union," said Panjikidze.

The Deep and Comprehensive Free Trade Agreement enables Georgia to gradually enjoy three of four freedoms of the internal market of the European Union which include free movement of goods, services and capital. The enactment of the fourth freedom (free movement of people) is supported by the visa liberalisation process. Title Four of the Association Agreement provides for the abolition of customs fees whilst a list of products enjoying the customs-free regime and a list of 28 products that are still subject to the entry price¹ is available on the website of the Ministry of Foreign Affairs of Georgia; however, it should be noted that the ad valorem tax is still abolished for these products. Cucumbers, tomatoes, zucchinis, tangerines and so on will still be subject to the entry price.

CONCLUSION

The Deep and Comprehensive Free Trade Agreement provides for closer trade relations with the European Union. The abolition of customs fees with the European Union member states is one of the examples. However, it should be noted that 28 products will still be subject to the entry price. These products are considered to be "sensitive" and will be subject to monitoring.

FactCheck concludes that Giorgi Kvirikashvili's statement: "From 1 September 2014 the Deep and Comprehensive Free Trade Agreement with the European Union will be enacted. This means that the customs duties with all of the 28 EU countries will be nullified," is **MOSTLY TRUE**.

MOSTLY TRUE



EUROPEAN
ENDOWMENT OF DEMOCRACY

G | M | F
The German Marshall Fund
of the United States
STRENGTHENING TRANSATLANTIC COOPERATION



The views expressed in this website are those of FactCheck.ge and do not reflect the views of The FINANCIAL or the supporting organisations

¹ Entry Price to the European Union – Entry Price or the fixed price of import. If the sale price of a Georgian product is lower than the fixed price of the EU the importer will have to cover the difference. If, however, the sale price is higher than the fixed price of the European Union the product will be exempted from the price.