

# FactCheck



**Zurab Melikishvili,**  
Georgian MP:



**“There was a 30% decrease in exports in January”**



**Teona ABSANDZE**  
FactCheck

**O**n 18 February 2015, at the plenary session of the Parliament of Georgia, the Parliamentary Minority MP, Zurab Melikishvili stated: “There was a 30% decrease in exports in January. The trend of the decrease in exports started approximately in August of last year. I can tell you that there was about a 35% decrease in November and a 20% decrease in December.”

According to the data of the National Statistics Office of Georgia, the amount of exports decreased by 30% in January 2015 as compared to the same period of the previous year and amounted to USD 156 million. It should also be noted that the amount of export in January 2015 is 20% less than that of January 2014. External trade turnover (9%) and imports (1%) also decreased in January 2015.

The amount of exports from Georgia decreased by 2% in 2014. The trend of the decrease in exports has been observed since August 2014. The amount of exports decreased by 13% in August, 7% in September, 5% in October, 35% in November and 20% in December.

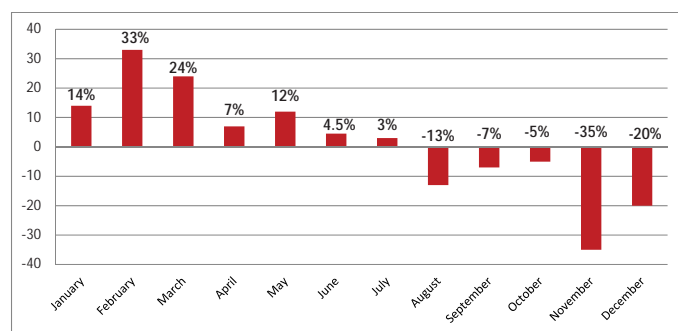
The amount of exports to the Commonwealth of Independent States decreased by 10% in 2014. The Commonwealth of Independent States received about 51% of the overall exports from Georgia. In addition, the amount of exports to Azerbaijan, as Georgia's largest trading partner, decreased by USD 165 million. Among other major trading partners, the amount of exports to Armenia, Ukraine and Kazakhstan also decreased. There was a trend of a decrease in the amount of exports to Russia, Turkey, the USA and China in 2014.

According to the data of January 2015, the amount of exports to the Commonwealth of Independent

States decreased by 51% and amounted to USD 55 million. The amount of exports to Azerbaijan, Armenia, Russia and Turkey also decreased significantly in January 2015. It should also be pointed out that the export of motorcars, which has the largest share in Georgia's exports, decreased by 49%.

The Deep and Comprehensive Free Trade Agreement (DCFTA) between Georgia and the European Union was enacted on 1 September 2014. The agreement enables Georgia to freely move goods, services and capital on the internal market of the European Union. It is logical to expect that the enactment of this agreement should facilitate the growth of export from Georgia to the EU member states. The amount of exports from Georgia to the EU member states increased by just 2% in 2014. It should also be noted that the amount of exports to the EU increased by 35% in January 2015, reaching USD 61 million.

**Chart 1: Export Dynamics in 2014**



## CONCLUSION

The amount of exports from Georgia decreased by 30% in January 2015 as compared to the same period of the previous year. The trend of a decrease in exports has been observed since August 2014. The amount of exports decreased by 13% in August, 7% in September, 5% in October, 35% in November and 20% in December. The amount of overall exports decreased by 2% in 2014.

**FactCheck** concludes that Zurab Melikishvili's statement: “There was a 30% decrease in exports in January. The trend of the decrease in exports started approximately in August of last year,” is **TRUE**.

**TRUE**



EUROPEAN  
ENDOWMENT FOR DEMOCRACY

G | M | F

The German Marshall Fund  
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# Low Oil Prices and Supportive Policy to Drive Recovery in Eurozone



**The FINANCIAL**

**A**fter a year of tentative recovery in 2014, the Eurozone has moved into 2015 aided by two important growth drivers – sharply lower oil prices and QE according to the March 2015 issue of the EY Eurozone Forecast (EEF). These two factors will support a domestic recovery that began in 2014, helping GDP growth accelerate from 0.9% in 2014 to 1.5% this year and then 1.8% in 2016. Lower oil prices and Quantitative easing (QE) to lift Eurozone GDP growth to 1.5% in 2015 and then 1.8% in 2016.

Modest fall in prices in 2015, but no slide into deflation as improving economy strengthens pricing power – inflation at -0.2% in 2015 and 1.1% in 2016, according EY.

Consumer spending growth to accelerate from 0.9% in 2014 to 1.6% this year, as households get windfall from lower energy costs. But the medium-term outlook remains constrained by a number of structural factors, in particular the need for fiscal restraint and the dampening effect on wage growth of high – but gradually falling – unemployment. These factors will mean growth should remain around 1.6% a year in 2017-19. Meanwhile, the crisis in Ukraine and difficult negotiations over Greek debt will continue to present a risk to economic and financial stability for some time.

The gradual improvement of the Eurozone economy – with consumers regaining confidence and the labor market continuing to gradually recover – will be supported in 2015 by lower oil prices, which are expected to average US\$55 a barrel compared with about US\$100 a barrel in 2014; we expect this to add 1% to 1.5% to real consumer incomes in the Eurozone in 2015.

Overall, the EEF estimates real household income will grow by 2.5% this year, enabling consumer spending growth to rise from 0.9% in 2014 to 1.6% this year. But as the degree of spare labor continues to hold back wage growth for some years, consumer spending growth is expected to remain steady around 1.5% from 2016 onwards.

“Consumer spending growth is expected to be the strongest this year since 2007”, Tom Rogers, Senior Economic Adviser to the EY Eurozone Forecast, says. “Households should see a 10% to 15% reduction in their fuel bills. Since energy and fuels account for around 10% of the Eurozone consumer basket, real incomes should increase by 2.5% from 2014. Nevertheless, governments should continue to work on labor market reforms to tackle near-record levels of unemployment – which stopped rising in 2014 – and expand employment opportunities to groups such as the young unemployed and those with lower skill levels.”

The downside to lower oil prices has been a further slide in headline inflation, from an already tepid 0.4% in October to -0.6% in January, and the intensification of fears about a prolonged spell of falling prices in the Eurozone.

The ECB's subsequent plans for a major increase in the size and change in the scope of its asset purchases should substantially aid the recovery in the next couple of years. Through both the real economy and exchange rate impacts, inflation in the Eurozone is expected to pick up from -0.2% in 2015 to 1.1% in 2016, and then to 1.7% by 2019.

All other things being equal, this should weaken the euro from US\$1.14 on average in February to just over US\$1 by the end of 2015 according to the EEF, offering exporters across the Eurozone a sub-

stantial boost to competitiveness in global markets.

## POSITIVE DOMESTIC AND EXTERNAL FACTORS SUPPORT INVESTMENT

The improvement in the 2015-16 outlook, along with the range of past and present ECB measures, is set to trigger a rebound in capital spending over the next couple of years. Even if increasing demand for loans has not yet been felt by banks, conditions seem right for higher investment over the coming quarters.

Meanwhile, banks are also reporting improving access to wholesale funding markets, and lending rates across asset classes should be further compressed over the coming years by the ECB's asset purchases. Therefore, rising demand for loans should be complemented by lower lending rates, strengthening the recovery in investment.

## LOOKING AHEAD

Rogers says: “Governments need to take advantage of this period of improving economic conditions to cushion any short-term impacts from reforms, so that their long-term payoffs can be realized. Priorities vary by country, but further labor market reforms, amendments to tax and benefits arrangements and entitlements, and regulation of product markets would all improve long-term growth prospects. Governments should not be tempted to avoid making hard decisions simply because the crisis appears to have passed.”

**& Did you know?**

The FINANCIAL is read by nearly 75 % of  
Top Financial Decision-makers in Georgia.  
It reaches more CEO's than all Georgian newspapers combined.

Source: Global Idea

# Why Georgia is not South Korea (or Israel)?

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the hands of a limited number of conglomerates."

When seen through this prism, South Korea's miracle appears to be all about "FOLLOWING THE SYSTEM": toeing the party line on industrialization priorities; relentlessly adapting foreign technology; willing to function under enormous pressure to perform in one's studies and work; and, last but not least, sacrificing consumption and a "good life" today for the promise of a better future.

## FOLLOWING THE SYSTEM: THE CONS

In a series of papers spanning several years, Daron Acemoglu, Philippe Aghion, and Fabrizio Zilibotti dwell on the changes firms (and, by implication, countries) must undergo as they get closer to the global technology frontier. A core feature of their models is the need for firms to eventually switch from imitation (investment and adoption of existing technologies) to innovation.

Whereas imitation is most effective in (South Korea-style) large, vertically integrated firms with a rigid hierarchical structure and disciplined workforce, innovation requires a smaller size of firms, flatter hierarchy, and greater reliance on outsourcing. Innovation is also preconditioned on a system of incentives that encourages experimentation and forgives mistakes. If "need" is viewed as the mother of invention, a lack of "discipline" and the freedom to generate new ideas and try new practices may be portrayed as its "father".

The Start-Up Nation, a bestselling book by Dan Senor and Saul Singer, describes the chutzpa of Israeli's entrepreneurs and engineers as one of the key factors behind Israel's astounding success as a hub of technological innovation since the 1990s. An eye-opening example in the book is that of Intel's Israeli development unit having sufficient autonomy with Intel's global hierarchy and the guts to

engage the company's headquarters in a fight over abandoning the dominant "clock speed doctrine" in favor of a new chip architecture emphasizing portability and energy efficiency.

"To cultivate a culture of disagreement and debate" was considered critically important for Dov Frohman, the founder of Intel Israel:

"The goal of a leader," Frohman is quoted by Senor and Singer, "should be to maximize resistance – in the sense of encouraging disagreement and dissent. When an organization is in crisis, lack of resistance can itself be a big problem. It can mean that the change you are trying to create isn't radical enough... or that the opposition has gone underground..."

It is important to realize that a lack of "discipline" is a double-edged sword. Indeed, Israel's rebellious ethos, disrespect of authority and the tendency to trick "the system" set it oceans apart from Korea's Confucian spirit. It is at once a key factor behind Israel's rise to prominence as a "start-up nation" and its failure to transform a larger number of its startups into global tech giants such as Korea's Samsung, LG or Hyundai.

## GEORGIAN CONTRADICTIONS

A beautiful social TV ad, which I chanced to see several years ago, contrasted the incredible harmony of Georgia's folk dance (shown in slow motion) with the chaos on Tbilisi's streets (played on fast-forward, view from above).

Georgians consider themselves much more traditional and religious (92% and 95%,

<sup>1</sup> President Park's demolition of South Korean trade union has apparently had a lasting impact. As reported by the *Wall Street Journal*, the International Trade Union Confederation has recently ranked Korea "below most of 139 countries surveyed in terms of workers' rights, based on submissions from local labor unions. Korea was assigned the lowest rating of 5, defined as a country that has no guarantee of rights."

respectively) than South Koreans (22% and 30%), according to World Value Survey. Yet, while Georgians value time-honored traditions and religious commandments, "following the system" is not in the Georgian book.

As a rule, Georgians hate rigid rules (such as coming to work on time) and do not trust any "system". This may explain why the architects of the "system" – Georgian lawmakers – seem to pay so little attention to fine-tuning new laws and regulations. Indeed, why bother if these laws and regulations (designed to please EU bureaucrats) are likely to stay on paper.

The Georgians' love of freedom does translate, as may be expected, into incredible creativity. Georgian painting and sculpture, performing arts, film-making and writing are truly world class. Yet, not properly managed, they fail to translate into commercial success, comparable to Italy's.

Finally, Georgians are a very talented people as witnessed by their outstanding scholarly achievements in Soviet times. Georgian physicists, mathematicians, microbiologists, and medical surgeons were recognized leaders of the Soviet elite. Today, however, Georgia's scholarly achievements are extremely modest, and demonstrate no signs of improvement. Moreover, combined with unrealistic expectations about own abilities and "presidential" aspirations on the part of many Georgian males, poor education translates into very high unemployment and poor work ethic.

While the potential is certainly there, these contradictions do not bode well for fast catch-up growth through imitation (South Korea-style), or Israel-inspired innovation boom.



# Israeli Chamber: 'Transition Period in Georgia Lasting too Long'

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strengthen one parameter, which is a lack of love of the country. It expresses itself in all areas.

On the one hand, it is not easy to run a country with such social-economic parameters. On the other hand though, it should not be difficult to improve the economic conditions of such a small country during 25 years. Unfortunately, this has still not been achieved.

**Q. In 2014, you initiated the employment of 500 Georgians in Israel. What have the results of**

**this initiative been?**

A. This is a purely Georgian issue. The embassy as well as the business chamber do not represent a side. We declare our initiative and readiness. The rest should be taken care of by the Georgian side in line with their needs and interests.

**Q. Your initiative to employ 500 Georgians in Israel was quite a positive step from your side. Meanwhile, if we discuss the issue from a global point of view, don't you think that due to the constant crisis in the country we will experience a brain drain?**

A. The problem is not in quantity but in its control and legitimacy. Working legally abroad for some period will increase qualifications in various fields and also help to improve the financial situation of Georgians.



## Nodar Khaduri:

Minister of Finance of Georgia



# According to Nodar Khaduri, the budget spending has not caused GEL to depreciate

Besik NAMCHAVADZE  
FactCheck

On 29 January 2015, the Minister of Finance of Georgia, Nodar Khaduri, stated that the State Budget of Georgia has not had any effect upon the exchange rate of GEL, neither at the end of 2014 nor at the beginning of 2015. In addition, on 15 January 2015, as a response to the question about the changes in the exchange rate of GEL, Nodar Khaduri said that the amount of money put into circulation by the State Budget of Georgia decreased both in December 2014 and January 2015. With this statement the Minister underlined that the budget spending has not caused GEL to depreciate.

The revenues of the State Budget of Georgia amounted to GEL 846 million in December 2014. This is the amount of money that the state took out of the economy in December. The State Budget of Georgia spending, on the other hand, amounted to GEL 1,100 million. This is the amount of GEL that the state "put into" the economy in December. As we can see, GEL 264 million more (1,100 – 846 = 264 million) was spent by the State Budget of Georgia in December 2014 than was actually received in revenues.

The National Bank of Georgia increased the refinancing loan by GEL 200 million in December 2014. This is a one-week loan which is given by the National Bank of Georgia to commercial banks to ensure short-term liquidity.

The increase in budget spending and the refinancing loan had a significant influence upon the exchange rate of GEL.

The amount of national currency in circulation (the most liquid part of the money) increased by an unprecedented amount – GEL 241.5 million in December 2014 as compared to November of the same year. The amount of the so-called reserve money, which includes bank deposits along with the amount of cash in circulation, increased by GEL 450 million in December. The amount of reserve money increased by GEL 62 million in the first 11 months (January to November) of 2014 whilst in December it increased by GEL 450 million.

The State Budget of Georgia spending decreased significantly in January 2015. There was no deficit spending. The National Bank of Georgia decreased the amount for the refinancing loan from GEL 700 million to GEL 610 million by the end of January. As a result, the amount of GEL in the economy started to decrease. The amount of reserve money decreased by GEL 390 million whilst the amount of GEL in circulation decreased by GEL 197 million.

The amount of foreign currency reserves of the National Bank of Georgia increased by USD 94 million in December 2014 as compared to the previous month. The growth of foreign currency reserves was due to the State Budget of Georgia which attracted a total of USD 190 million worth of external grants and credits in December 2014. This significantly balanced the negative trade balance of the country and increased the foreign currency reserves. As the amount of foreign currency reserves increased due to the amount of attracted USD by intra-governmental conversions and the respective amount of GEL was

put into circulation, this did not help to strengthen the national currency.

The members of the Government of Georgia believe that the depreciation of GEL was mainly due to the global strengthening of USD. The effect is indirect – when the national currencies of Georgia's trade partners are being depreciated, it worsens Georgia's external trade and increases the negative trade balance which, therefore, contribute to the depreciation of GEL.

The main reason for the depreciation of GEL in November and December of 2014 was the decrease in the amount of incoming USD in the country and the slowing down of economic growth.

The strengthening of the national currency is facilitated by the high rates of economic growth as the demand upon the national currency increases. In addition, it is important for economic growth to be based upon the increase in investments and not upon fiscal and monetary stimulators such as the deficit spending of the budget and the increase in the amount of the national currency in circulation. The average economic growth rate of Georgia decreased to 0.7% in November and December 2014.

From January 2015, the factor of the increased amount of GEL was added to the already existing factors of depreciation (decreased influx of USD, decrease in economic growth and the global strengthening of USD). This was mainly due to the deficit spending of the State Budget of Georgia. The Government of Georgia did not keep the promise voiced by the President of the National Bank of Georgia on 5 December 2014 and did not refrain from deficit spending.

## CONCLUSION

The extra amount of GEL 264 million released in the economy by the State Budget of Georgia in December 2014 had a negative influence upon the exchange rate of GEL. This was combined with the global strengthening of USD, the slowing down of economic growth and the decrease in the influx of USD.

Despite the fact that the depreciation of GEL is due to multiple factors, the statement of the Minister of Finance of Georgia that in January the budget spending has not caused GEL to depreciate is **MOSTLY FALSE**.



**MOSTLY FALSE**



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