

FactCheck



Bidzina Ivanishvili:



The actions of the National Bank of Georgia led to the currency crisis.

Zviad KHORGUASHVILI
FactCheck

In his special statement about the GEL crisis, the former Prime Minister of Georgia, Bidzina Ivanishvili, said that the inaction or incorrect actions of the President of the National Bank of Georgia, Giorgi Kadagidze, who was appointed by the United National Movement, led the country to the currency crisis. Mr Ivanishvili also pointed out that it is the constitutional duty of the National Bank to stabilise the GEL exchange rate. He said that the central banks of foreign countries sacrificed large portions of their currency reserves in order to maintain the stability of their national currencies. As an example, he talked about Armenia and Moldova which spent 34% and 30% of their currency reserves, respectively, guaranteeing the stability of their national currencies. According to Mr Ivanishvili, the National Bank of Georgia spent only 5% of its foreign currency reserves, or USD 120 million, which was not enough to stabilise the exchange rate. He also pointed out that the GEL exchange rate with regard to USD should not be exceeding 2.0.

FactCheck took interest in this issue and verified the accuracy of Mr Ivanishvili's statement.

The status of the National Bank of Georgia is determined by the Constitution of Georgia. Point 95, Article 1 of the Constitution says: "The National Bank of Georgia conducts the monetary policy of the country in order to maintain the stability of prices and facilitates the effective functioning of the financial sector." Hence, Mr Ivanishvili's insistence that the

National Bank should fulfill its constitutional duty to maintain the stability of the exchange rate is not correct as the main goal of the National Bank is to maintain the stability of prices in the country. If the depreciation of GEL raises the risks of inflation, only then will the National Bank be obligated to reduce the amount of GEL in the economy which will both slow down the inflation process and have a positive influence upon the exchange rate of the currency. However, it will negatively affect the economic growth of the country.

The official foreign currency reserves of the National Bank of Georgia amounted to USD 197 million in 2004. This amount had grown to USD 2.96 billion by February 2013. There were numerous internal or external problems in Georgia from 2004 to 2013. Despite this, the nominal amount of foreign currency reserves grew 15-fold during these years. The foreign currency reserves of the National Bank of Georgia decreased by USD 297 million in the past two years. The National Bank of Georgia acquired a total of USD 200 million on currency auctions and sold USD 480 million from 2014 to 19 March 2015. The net sales of the National Bank by 26 February 2015, when Mr Ivanishvili made his statement, amounted to USD 220 million.

As for the countries mentioned by Mr Ivanishvili, the international reserves of Armenia decreased by 34% in 2014 and 10.2% in 2015. The currency reserves of Moldova decreased by 23.5% in 2014 and 16.5% in 2015. Mr Ivanishvili relayed these data almost completely accurately; however, it should be noted that Russia is the main trade partner of the aforementioned countries and

the economic crisis there has a direct influence upon them. It should also be pointed out that the planned economic growth of Moldova was 4% in 2014 whilst in Armenia it was 3.5%; however, according to the January 2015 study of the European Bank for Reconstruction and Development, the forecasts of economic growth in Armenia and Moldova decreased to 0%. According to the National Bank of Armenia, the economic growth forecasts for 2015 vary from 0.4% to 2%. In general when a national bank spends its foreign currency reserves, the amount of the national currency in the economy decreases. Hence, the overall demand decreases as well. This influences the economic growth negatively.

It should be pointed out that from 1 January 2015 MDL (Moldovan Leu) depreciated more (about 21%) than GEL (about 19%). AMD (Armenian Dram) also depreciated. With regard to USD 1 it depreciated from AMD 411 to AMD 482 (about 17.2%) from 1 November 2014 to 15 March 2015.

The exchange rate of a national currency is determined by the internal demand on it and the influx and outflow of foreign currency (international trade, money transfers, tourism, influx of investment and credit capital and factor revenues). Saying that the exchange rate of the currency should not be exceeding 2.0 is economically wrong. The Georgian national currency has a floating exchange rate, not a fixed one. In terms of a fixed exchange rate, a national bank works to maintain the exchange rate at a specific level. The floating exchange rate means that the exchange rate of a national currency is determined by market principles (demand and supply).

False

CONCLUSION

According to the Constitution of Georgia, the main function of the National Bank of Georgia is to maintain the monetary stability of the country (inflation control). Hence, the part of Bidzina Ivanishvili's statement where he says that the National Bank of Georgia must fulfil its constitutional duty to maintain the stability of the GEL exchange rate is inaccurate.

From November 2014 to February 2015 the National Bank of Georgia sold a total of USD 200 million on currency auctions. This is USD 80 million more than stated by Bidzina Ivanishvili. The Central Bank of Armenia spent 34% of its currency reserves in 2014 whilst the Central Bank of Moldova spent 23.5%. Despite this fact, their currencies still depreciated with regard to USD – by 21% in Moldova and by 17% in Armenia. Mr Ivanishvili states these numbers more or less accurately but he is incorrect to say that the National Bank of Georgia will hurt the economic stability of the country by not spending as much of its foreign currency reserves as other countries.

FactCheck concludes that Bidzina Ivanishvili's statement is FALSE.



FALSE



EUROPEAN
ENDOWMENT FOR DEMOCRACY

G|M|F

The German Marshall Fund
of the United States



Kingdom of the Netherlands

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

Road Death in Georgia Twice Higher than in Europe

The FINANCIAL
By MADONA GASANOVA

The road death rate in Georgia is around four times that of the better performers globally and twice as high as the average EU road death rate. The country is working on a National Road Safety Strategy and the Action Plan at the moment. However, this will not be sufficient in itself until there is a concrete key agency working on the implementation of the strategy.

The Georgian Alliance for Safe Roads and United Nations opened the 3rd UN Global Road Safety Week with the slogan *Save Kids' Lives*. This year, the organizers have chosen children as their main focus because the country's road safety education begins from an early age.

"Georgia's road safety problem is very serious. The road death rate here is around four times that of the better performers globally and twice as high as the average EU road death rate," said Jeanne Breen, a global expert in Road Safety Management and policy review.

Breen has been part of a process of assessing the activity in Georgia and working with Georgian colleagues to develop a long-term national road safety strategy, setting out new directions in road safety work and a 5 year national road safety action plan to launch and implement. "We are very near to finalising these and I'm optimistic that we will get some good results by what is planned," she said.

As Breen said, the active NGOs here in Georgia will be very important in supporting the efforts of the key agencies, and for their future success. "They deserve much credit for their role in initiatives such as the campaign for compulsory front seatbelt use."

"Road safety in Georgia is such that almost everybody has been affected by a death or injury around them. The figures are far too high in terms of casualties and injuries. It is young people primarily who are affected, it is not only a tragedy but also, from an economic point of view, a real deterrent to progress. In order to achieve sustainable human development here, in Georgia, road safety is one of the aspects we need to deal with," Niels Scott, UNDP Resident Representative in Georgia, told The FINANCIAL.

"The remedy for unsafe roads is about imposing legislation on seatbelts and speed limits. The authorities are imposing this legislation with success. But it is not only about that. We should encourage education in the country's schools and communities. Georgia has signed the AA with the EU. The targets and terms of European standards are going to be met. Road safety will be one of the biggest steps forward," Scott said.

"We are proud to state that the country is currently working on a road safety strategy. However, we are still witnessing some chal-



lenges. Considering the EU experience, besides having a strategy document, it is important to have a leading agency that will be responsible for implementing and achieving it. In addition, such an agency needs to distribute the responsibilities to different bodies. The absence of such an agency is contributing to the lower results in road safety. Establishing an agency is crucial," said Eka Laliashvili, Chair of the Georgian Alliance for Safe Roads.

As Laliashvili said, the Alliance is ready to get more deeply involved in these processes and support any initiatives in this regard.

"There is no proper approach or analysis being carried out by officials on the impact of road accidents. Road accidents have been reduced by 25% during the past years. We cannot name the concrete reasons that contributed to this reduction. One of the main issues was overseeing the usage of seatbelts and stating penalties. However, this is fragment intervention that will not give us long-term results. In the meantime though, it was a really important precedent. It has shown us that if we can adapt to seatbelts, we can adapt to other regulations as well," said Laliashvili.

Despite the many dangerous drivers in Georgia, Prit Turk, Ambassador of Estonia to Georgia, feels safe on Georgian roads. As he said, there are some unfortunate occurrences on the roads that can be easily avoided. "If everybody behaved and drove in a responsible manner then there would be much less risk on the roads," he added.

"There are many things which have to be implemented to achieve road safety in Georgia. Estonia has made considerable progress in terms of road safety. We are not at the top of the EU, but we have an ambitious plan. One of the key things has been acknowledging the challenge. In Georgia it is also a joint effort of different bodies that need a strategic approach. It is a long-term approach and requires lots of investments in the roads, in the infrastructure. It also needs a change in the mentality of the population. Road safety is a challenge for all countries, which is due to the increasing number of cars on the roads. However, it seems preventable to me. Within the Alliance of Road Safety we have distributed 30,000 reflectors in Georgian schools. These small

tools make children more visible. It is very important to talk and explain to kids how to behave on roads. Kids are in a weaker position on the road, so much more relies on the drivers. We support young people in being more aware of the risks on the road and having proper behaviour. I think that they can only follow the rules if the other side also follows the rules," said Turk.

In Turk's words, in Estonia the number of cars also multiplied, especially in the early 2000s. However, the Government took a very strategic approach. "Georgia also needs to invest in awareness raising, having very strict penalties, and also infrastructure. More cars means better infrastructure. The usability of public transport is also important. If more people use public transport, less people will use private vehicles," he advised.

During the meeting, Archil Talakvadze, the Deputy Minister of Internal Affairs of Georgia, talked about the importance of road safety and its challenges. Talakvadze underlined the areas in which the Ministry will begin and continue its active cooperation with the Alliance in the nearest future, including infrastructure improvements, new rules for driving license acquisition, speed control, seatbelts on back seats, etc.

Yield to pedestrians - this is the main message being delivered to drivers by the Georgian Alliance for Safe Roads. The Alliance is appealing to pedestrians to only use the correct crossing places when crossing a road. As for the Government, the Alliance expects that road safety will become a prioritized issue for them. "By prioritization I mean strict enforcement of legislation, safe infrastructure for pedestrians, safer vehicles and developed public transport in the country, reduction of speed limits in urban areas, raising public awareness that will help us to reduce the number of accidents from year to year," Laliashvili told The FINANCIAL.



European Workers Set to Embrace Digital Technologies in the Workplace

The FINANCIAL

The European workforce is optimistic about the impact of digital technologies while companies face challenges in pursuing digital business models, according to new research by Accenture which reveals that more than four times as many workers think digital technologies will improve their working lives than those who think it will have a negative impact.

The Accenture Strategy research of over 2500 workers and 500 business leaders in the European Union (EU) reveals that 57 percent of workers think new digital technologies such as robots, mobile apps, data analytics and artificial intelligence, will improve their working experience versus eight percent who think it will worsen it. Fifty percent of EU workers believe that digital technology will improve their job prospects compared to 12 percent who think it will limit them. Employees in Spain and Italy are significantly more positive about the impact of digital on their working lives than those in the UK, Germany or France.

The majority of EU business leaders recognize employee optimism about the digital work experience. Al-

most one half (48 percent) claim to have a digital strategy for talent development, but they lack the confidence to deliver it: while 45 percent think the lack of digital skills are the biggest barrier to becoming a digital business, only 34 percent feel well prepared in terms of recruiting those skills. And although nine in ten accept that it is important to act now to transform their workforce for digital, only 34 percent feel well prepared to change the skills and job mix of their workforce.

EMPLOYERS STRUGGLE TO IMPLEMENT DIGITAL STRATEGIES

The lack of confidence of European business leaders reflects their broader difficulties in developing the right digital strategies. Although 77 percent expect to be a digital business within the next three years, the majority (55 percent) do not have a digital strategy to support their overall corporate strategy. Most plan to wait and see rather than make the first digital moves in their sector: 61 percent say they do not want to be a digital leader in their in-

dustry. Instead, they intend to wait for digital concepts to develop further or adopt a 'fast follower' strategy.

"Europe's future competitiveness depends on digital skills and the disconnect between business leaders and their employees is worrying," said Bruno Berthon, managing director, Accenture Strategy. "With employees positive about the impact of digital on their work, CEOs should begin to experiment with new digital talent strategies today as they develop longer term plans. Companies cannot afford to wait and see, but must act now before their competitors disrupt their markets with digitally savvy workforces."

PROACTIVE WORKERS

European workers are acting on their enthusiasm for digital technologies. Sixty two percent are assessing new skills that will be required of them and 64 percent claim to be proactively learning new digital tools and skills. Despite employee optimism, business leaders in the EU will have to be sensitive to the likely concerns about the digital working environment.

Continued on p. 16

Global PC Shipments Fall 7%

The FINANCIAL -- The global PC market, including tablets, experienced an annual decline of 7% in Q1 2015, reaching 115.7 million units worldwide, according to Canalsys.

Apple held on to first place despite a 16% decline in its total PC shipments. It shipped 17.2 million units, taking a 15% share of the market. Lenovo and HP, second and third place respectively, both saw single-digit shipment growth in Q1 2015 and increases in market share. Samsung narrowly held on to fourth spot

as its declining tablet sales led to Dell closing the gap in fifth place. Samsung and Dell took 8.2% shipment market share with 9.5 and 9.4 million units respectively.

The notebook market fared better, but after two quarters of falling less than 1%, declines have now increased to 4%.

The tablet market declined around 9% year-on-year to 45.6 million units, with market leaders Samsung and Apple experiencing double-digit shipment declines as demand

for the category has cooled.

Hybrid and convertible shipments doubled year-over-year in Q1 2015, reaching 3.0 million units. Asus headed the market with 28% market share, followed by Lenovo and Acer with 19%. The market for two-in-one devices is expected to continue to grow during 2015 as consumers become accustomed to new form factors. In addition, Windows 10 will provide a better user experience when switching between tablet and notebook modes on these devices.

Number of International Travellers to Georgia Reduced by 2% in 2015

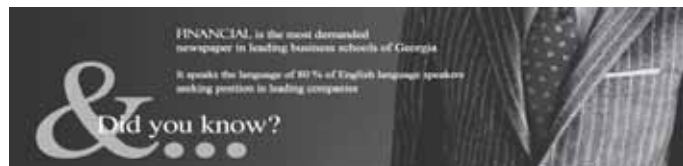
Continued from p. 6

2015. The sporting infrastructure of the city will be renovated according to European standards and an Athletes Village will be built. Moreover, in 2015, Georgia will, for the first time, host a UEFA event, the UEFA Super Cup. For a country like Georgia, hosting popular sport events could become a powerful tool for destination marketing. The organisation of such events is a great opportunity to promote the country and to improve its image," the report tells.

According to the report,

"aiming to continue the positive development of the travel and tourism industry in Georgia, a number of actions have been undertaken. The Government announced its aim to prioritise the development of infrastructure in the country. Major reconstruction works related to tourism are already underway. In order to improve the travel accommodation category, the Government has developed a Hotel Investment initiative, which provides favourable conditions for investors to enter the Georgian market. Further steps have been taken to develop a skilled human resources pool, aiming to im-

prove the quality of customer services in travel and tourism. The Georgian National Tourism Administration is developing large-scale marketing campaigns, targeting new markets and new tourist product development".



Irakli Gharibashvili:

Prime Minister of Georgia



"This year at the end of the first quarter, the Ministry of Regional Development and Infrastructure had fulfilled 107% of the budget. This is a record number."

True

Teona ABSANDZE
FactCheck

During his press conference in April 2015, the Prime Minister of Georgia, Irakli Gharibashvili, stated that the Ministry of Regional Development and Infrastructure registered a record number in fulfilling the budget of the first quarter of 2015. "I want to particularly emphasise the effectiveness of Shavliashvili's Ministry. The Ministry's budget fulfilment rate is 107% and this is a record number," the Prime Minister declared.

FactCheck took interest in the accuracy of the Prime Minister's statement and verified the budget fulfilment rates of the Ministry of Regional Development and Infrastructure.

The planned budget of the Ministry of Regional Development and Infrastructure for the first quarter of 2015 was GEL 144.013 million whilst the budget fulfilment rate was GEL 154.462 million. Therefore, the budget

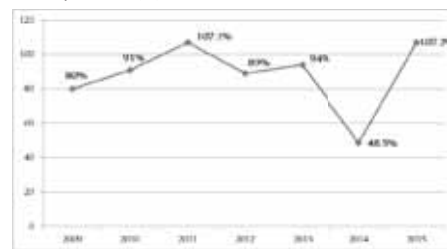
fulfilment rate of the Ministry of Regional Development and Infrastructure for the first quarter of 2015 is 107%. In order to find out whether or not this is truly a record number, FactCheck analysed the analogous data of the previous years (2009-2014).

As illustrated by the graph, the Ministry of Regional Development and Infrastructure used the largest amount of money in the first quarter of 2015 as compared to analogous periods of the previous years. However, this number exceeds the analogous data from 2011 only by 0.1%.

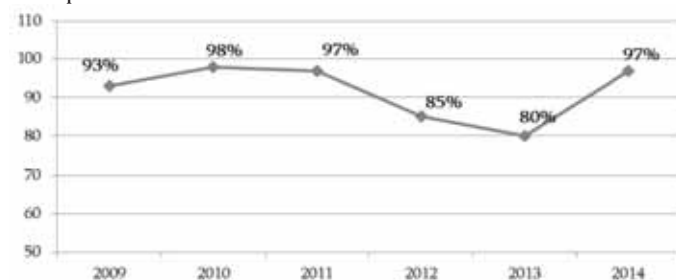
It must be noted that the lowest rate of budget fulfilment in the first quarters (48.5%) was registered in 2014.

For further information, FactCheck analysed the annual budget fulfilment rates of the Ministry of Regional Development and Infrastructure in the period of 2009-2014.

Graph 1. Budget Fulfilment Rate of the Ministry of Regional Development and Infrastructure for the First Quarters (%)



Graph 2. Annual Budget Fulfilment Rate (%) of the Ministry of Regional Development and Infrastructure



CONCLUSION

The budget fulfilment rate of the Ministry of Regional Development and Infrastructure exceeded the planned amount and was registered to be 107.2%. A similar rate of budget fulfilment was not registered in the analogous periods of the previous years (2009-2014). However, it needs to be mentioned that in the first quarter of 2011, the Ministry of Regional Development and Infrastructure had fulfilled 107.1% of the budget which is just 0.1% less than the number registered this year.

FactCheck concludes that Irakli Gharibashvili's statement is **TRUE**.

TRUE



EUROPEAN
INDEPENDENCE & DEMOCRACY
G | M | F The German Marshall Fund
of the United States
STRENGTHENING TRANSATLANTIC COOPERATION



Kingdom of the Netherlands

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