

# FactCheck



## Bidzina Ivanishvili:



“In order to alleviate external shocks, the Government of Georgia decreased the 2014 budget deficit.”

Mariam CHACHUA  
FactCheck

The depreciation of the national currency in Georgia started in November 2014. GEL depreciated by 10% throughout 2014 and dropped by another 15% (GEL 0.25) in the first two months of 2015. The depreciation of GEL is caused by a high demand and a reduced supply of USD. Beginning from the second half of 2014, the inflow of USD from the basic sources of foreign currency (tourism, remittances, exports) started to decrease and this trend remains unchanged until now. The budget deficit spending at the end of 2014 also contributed to the depreciation of GEL.

Bidzina Ivanishvili issued a statement regarding the depreciation of GEL and declared that in order to alleviate external shocks, the Government of Georgia decreased the 2014 budget deficit by GEL 300 million.

FactCheck took interest in the accuracy of the statement.

According to budget projection, a deficit of GEL 1,038 million was planned for 2014 and which constituted 3.5% of Georgia's GDP. The budget plan was executed unevenly throughout the year. At the beginning of 2014, infrastructure expenditures were lagging behind schedule whilst budget expenditures accelerated at a very fast pace at the end of the year. The deficit spending of the budget was one of the contributing factors to the depreciation of GEL.

Georgia's GDP growth rate

also decreased at the end of 2014. Instead of a 5% growth rate as planned, the GDP real growth rate is 4.8% according to the preliminary estimates of the National Statistics Office of Georgia whilst the nominal GDP equals GEL 29,187 million. According to the data of the National Treasury of Georgia, the budget deficit in 2014 was GEL 863 million which constituted 2.9% of the GDP. Therefore, the budget deficit was indeed decreased.

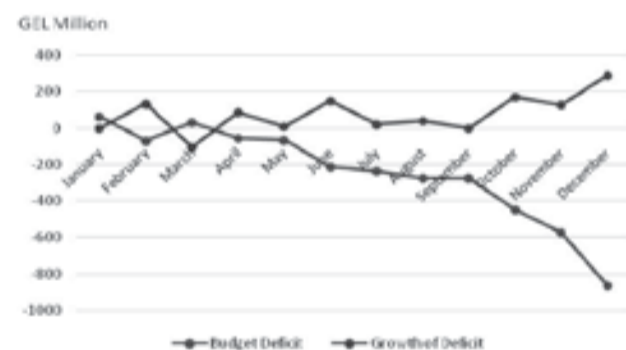
It must be noted that the decrease of the budget deficit was not a result of the deliberate actions of the Government of Georgia. The Government of Georgia did not amend the Law on Budget to slash budgetary expenditures as claimed by the Prime Minister of Georgia. The decrease of the budget deficit was largely caused by an incomplete absorption of expenditures. In addition, the tax incomes part of the budget was fulfilled with a surplus and, consequently, the budget deficit at the end of the year was less than planned which in itself is

a positive outcome.

Of further note is the uneven execution of the 2014 budget. In the main, infrastructural expenditure, funded principally by the foreign debt, was in a constant state of lagging behind. At the end of the third quarter of 2014, only half of the foreign debt was transferred owing to incomplete project planning whilst GEL 478 million was transferred at the end of the year.

We have to underline that when GEL started to depreciate rapidly in December 2014, the Government of Georgia did not reduce spending. On the contrary, in the last quarter of 2014 budgetary spending started to accelerate. For instance, in the period of January-September 2014, the budget deficit was GEL 274 million which rose to GEL 863 million (by GEL 588 million) in the fourth quarter. Of these amounts, the budget deficit spending in December alone amounted to GEL 288 million which subsequently contributed to the depreciation of the national currency.

Chart 1: Budget Deficit in January-December 2014



## CONCLUSION

According to the budget projection, a deficit of GEL 1,038 million was planned for 2014 which constituted 3.5% of the GDP. At the end of the year, the actual budget deficit was GEL 863 million which constituted 2.9% of the GDP. Therefore, the budget deficit in 2014 was indeed decreased. However, the statement that the Government of Georgia deliberately decreased the budget deficit is far from the truth. It has not made any corrections to the Law on Budget. The decrease of the budget deficit was caused by an incomplete spending for infrastructural projects and by surplus tax incomes.

Of particular mention is the fact that when GEL started to depreciate rapidly at the end of the year, budget spending rose considerably. The budget deficit increased by GEL 588 million during the last three months of 2014. Of these amounts, the budget deficit rose by GEL 288 million in December alone which in turn contributed to the depreciation of GEL. Therefore, Bidzina Ivanishvili's statement: "In order to alleviate external shocks, the Government of Georgia decreased the 2014 budget deficit," is **MOSTLY FALSE**.



**MOSTLY FALSE**



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# Bank of Georgia Received EUR 40 million from the European Investment Bank

The FINANCIAL  
By MADONA GASANOVA

The European Investment Bank (EIB) is lending EUR 40 million to Bank of Georgia, the country's largest bank, to finance investment projects promoted by SMEs and mid-cap companies.

The EIB loan will support the implementation of projects important for the development of Georgia's private sector as well as undertakings in the areas of social and economic infrastructure, climate change mitigation and adaptation. As a result, the operation is expected to contribute to job creation and maintenance.

"We are very pleased to start cooperation with the European Investment Bank, especially in the light of Georgia's increasing economic and political ties with the EU, which has become the country's largest trading partner. The Euro's influence on the Lari has significantly increased in recent years, with the Lari effectively becoming a euro proxy, as a result of which we are now focused on raising euro funding. This EUR 40 million loan, earmarked for financing our micro and SME customers, will enable us to further increase our competitiveness in the sector and support growth and job creation" said Irakli Gilauri, CEO of Bank of Georgia.

Bank of Georgia is the leading Georgian bank, based on total assets (with a 35.5% market share), total loans (with a 34.9% market share) and client deposits (with a 31.5% market share) as of 31 December 2014, all data based on standalone financial information filed by banks in Georgia with the



National Bank of Georgia and includes Privatbank's market shares. The Bank offers a broad range of corporate banking, retail banking, wealth management, brokerage and insurance and healthcare services to its clients. As of 31 December 2014, the Bank served approximately 1.5 million client accounts through one of the largest distribution networks in Georgia, with 219 branches, the country's largest ATM network, comprising 523 ATMs, 2,239 Express pay (self-service) terminals and a full-service remote banking platform.

"A well-developed and robust SME sector is crucial for economic growth and employment. This EIB loan, like similar loans the EIB has extended across the Eastern Partnership countries, will facilitate access to finance for the most vulnerable group of companies – SMEs and mid-caps," said Wilhelm Molterer, EIB Vice-President.

The EIB is the European

Union's bank. It is the only bank owned by and representing the interests of the European Union Member States. The Bank works closely with other EU institutions to implement EU policy.

The operation brings the volume of signatures for the benefit of SMEs and midcaps in Georgia to EUR 150 million. Total EIB lending commitments in Georgia amount to EUR 530 million and concern a number of other priority sectors including transport, water and energy as well as support for SMEs and mid-caps.



# Ukrainian Crisis Costing Georgia more than USD 300 Million

Continued from p. 4

capital inflows through this channel reaching a staggering USD 5.936 billion since the year 2000.

During 2014 and January-March 2015, money transfers from Russia amounted to USD 797,553,200, down from 958,182,700 from 2013 and the first quarter of 2014. The lost worth was USD 160, 629, 500.

The reduction of remittanc-

es, export and tourism from Russia brought Georgia losses of USD 215,964,200.

The prolonged economic recession in Russia holds much more danger for Georgia than any embargo Moscow could impose. The recession affects not only certain Georgian products and producers, but all export products, investments, the financial sector, and more importantly, it affects Georgian emigrants in Russia, who are one of the

major sources of remittances to Georgia.



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

# How the Age Structure impairs “Inclusive Growth” in Rural Georgia

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Applying this theory to Georgian agriculture, most economists would agree that there are plenty of opportunities to be exploited, and also the institutional framework is no big obstacle. Hence, both the material mode and the institutional mode are conducive to entrepreneurial activities. The question is, however, whether older inhabitants of rural areas have visions how to develop their small farms, and whether they are willing to take the concrete steps that have to be undertaken to foster those visions.

## ELDERLY WITHOUT ENERGY

The research project “Emergence and Evolution of Entrepreneurship”, led by abovementioned Paul H. Dembinski, was carried out within the scope of the *Academic Swiss Caucasus Net* (an initiative of the *Gebert R f Stiftung* in cooperation with the *University of Fribourg*). The overarching goal was to examine entrepreneurial dynamics in Georgia through a longitudinal study following both potential and existing entrepreneurs. More specifically, the project aimed to identify how entrepreneurs move from the so-called ‘unobserved’ to the ‘observed’ economy and how enterprises, including micro enterprises, develop and grow. However, the data collected in the research project also elicit the entrepreneurial potential and motivation of (elderly) Georgian farmers, the topic of this article. More information on the research project can be found at [ww.ascn.ch/en/research/Entrepreneurship.html](http://ww.ascn.ch/en/research/Entrepreneurship.html).

The dataset produced within the scope of the project was created through interviews which were conducted every 6 months since 2013, covering 350 self-employed as well as 250 micro enterprises and small enterprises in Georgia.

60 percent of the self-employed interviewed were living from agricultural activities. The rest got their incomes from services such

as transport, private household employment, and trading. The sample of the self-employed interviewed was made up of about one-third of people above 60 years old, while 24 percent of them were less than 39 years old and 44 percent were between 40 and 59 years old.

As it turns out, the age variable in this study is independent from economic activity. One finds self-employed engaged in non-agricultural activities both below 39 and above 60 years old. Age is also independent from “formality variables” such as having a bank account, keeping accounting, and dealing with written contracts. And while the majority of self-employed are “necessity driven entrepreneurs” at all ages, the oldest segment of this study clearly differentiates itself from the youngest when it comes to motivation, confidence, and attitude towards risks. There is a higher percentage of younger self-employed who plan to “sell more” within the next 6 months to 2 years. By the same token, 74% of the self-employed below 39 would be ready to follow training courses to improve their businesses, while only 20% of those above 60 would agree to do so. Similarly, 57% of those below 39 would be willing to take more financial risk in exchange for the opportunity to produce more, while this number for those above 60 stands at 14%. Half of the self-employed below 39 feel confident to start another activity with the skills they have, compared to only 32% of those above 60. Finally, “fear of failure” would prevent 39% of the young self-employed to start another activity, while the number is 60% for the old ones. The results are summarized in the table.

By and large, these results confirm what one may have expected, namely that the “entrepreneurial drive” decreases when people grow older.

## KEEP THE YOUNG IN THE VILLAGES

As *Salome Gelashvili* writes: “Many ideas were tried out [in Georgian agri-

culture], like providing machinery to Georgian farmers or incentivizing them to form cooperatives, but did not lead to substantial productivity improvements. A lack of verve among Georgian farmers would explain the often ambivalent outcomes of such initiatives.” (“Farmers without Verve”, to be found on the *ISSET Economist Blog*, January 20<sup>th</sup>, 2015)

A “lack of verve” could be caused primarily by the usually advanced age of those who remain in the rural areas of Georgia. Yet unlike other factors discussed in Gelashvili’s article, which may be responsible for the low motivation of Georgian farmers, one cannot do anything about peoples’ ages. This is bad news, as raising productivity in Georgian agriculture is crucial, for example for taking advantage from the DCFTA.

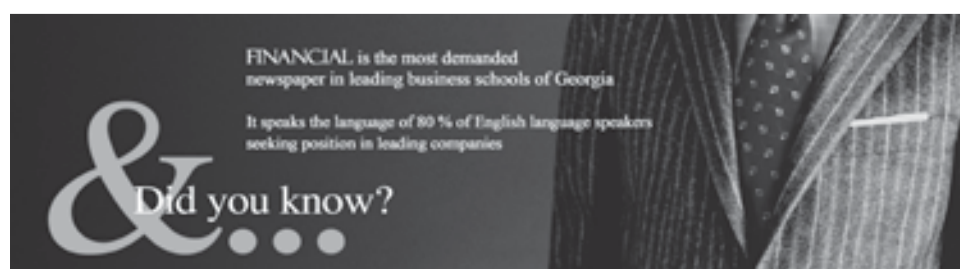
If, on the other hand, those who develop Georgian agriculture do not originate in the villages but are young, highly-skilled and motivated agricultural entrepreneurs, coming from the cities (or even from abroad), it will be difficult to achieve *inclusive growth*, i.e. letting everybody benefit from economic development.

The only way to solve this conflict is to convince more young people to stay in their villages. As part of multi-generational families, they may contribute the entrepreneurial drive members of the elder generations are lacking. If entrepreneurial spirit of the younger generation drives the development of farms from *within*, the older people who live in the villages will participate in this development, even if they lack the energy to become entrepreneurs themselves.

Whether (and how) this can be achieved, however, is highly uncertain.



	YES less than 39 years old	YES more than 60 years old
Would fear of failure prevent you to start another activity?	39%	60%
With the skill you have, do you feel confident to start another activity	50%	32%
Would you be ready to take financial risks to improve your business	57%	14%
Would you be ready to follow training courses to improve your business	74%	20%



## Davit Sergeenko:

Minister of Health, Labour and Social Affairs of Georgia



“Prices of about 500 types of medications have increased by 15%-20%... However, according to recent data, the growth of prices has stopped.”

Teona ABSANDZE  
FactCheck

On 25 February 2015, the Minister of Health, Labour and Social Affairs of Georgia, Davit Sergeenko, commented upon the depreciation of GEL and stated: “Prices of about 500 types of medications out of an overall 15,000 have increased from 15% to 20%.” Later, on 12 March 2015, the Minister stated that the growth of the prices of medications had stopped.

**FactCheck** attempted to analyse the changes in the prices of medications based upon various sources.

The National Statistics Office of Georgia observes the price changes of widely used medications. These include: antibiotics, vitamins and painkillers as well as cardiovascular, anti-inflammatory and gastrointestinal medications. According to the information provided by the National Statistics Office, the prices of widely used medications increased significantly from November 2014 as compared to the same period of the previous year. In December, January and February the prices of medications increased not only as compared to the same months of the previous year but to the previous months of the same year as well.

According to the data of the National Statistics Office of Georgia, the prices of widely used medications increased by an average of 7.1% in 2014. In contrast to that, the prices of medications decreased every year during the previous several years.

We requested data about the price changes of medications from the Ministry of Health, Labour and Social Affairs of Georgia as well; however, the Ministry did not provide this information. The official answer letter sent to us by the Ministry states: “The distributors of pharmaceutical production have no obligation to provide the Ministry of Health, Labour and Social Affairs of Georgia with the distribution prices of these products.”

We attempted to obtain information about the prices of medications from the LEPL State Regulation Agency for Medical Activities, subordinate to the Ministry of Health, Labour and Social Affairs of Georgia. In his interview with us, the Deputy Head of the Pharmaceutical Affairs Department of the Agency, Davit Macharashvili, stated: “The prices of up to 500 medications did indeed increase by 15% to 20% in February; however, according to recent data, the growth of prices has stopped.”

The State Regulation Agency for Medical Activities provided **FactCheck** with certain statistics as well. It

reflects the monthly prices of pharmaceutical companies for about 78 medications. We obviously could not calculate the average indicator based upon such incomplete data; however, in order to determine certain trends, we compared the prices of 20 of the most widely used medications from this list and noted how the prices changed from November 2014 to March 2015. There is a significant increase in the prices of the majority of these medications.

The Association of Pharmaceutical Companies also observes the price changes of medications. Wespoke with the Executive Director of the Association, Ilona Kokiashvili, who stated: “The majority of the medications are imported. Resources for local production are also imported. Hence, the changes in the exchange rate of GEL with regard to USD and EUR affect the prices of medications directly. The prices of medications grew by an average of 10%-12% from December to February. There was no sharp decrease in the prices in November and December as the pharmaceutical companies managed to maintain the prices due to existing reserves.” She also said that the pharmaceutical companies are trying to keep the prices from increasing further by negotiating with the producers, reducing profit margins and through other ways as well.

**Table 1: Growth of Prices of Medications (%)**

	2014 (November)	2014 (December)	2015 (January)	2015 (February)
Compared to the same month of the previous year (%)	8.1	14.2	16.1	11.4
Compared to the previous month (%)	-1.0	3.6	1.3	2.4

## CONCLUSION

According to the data of the National Statistics Office of Georgia, the prices of widely used medications increased by an average of 16.1% in January 2015 as compared to the same period of the previous year whilst in February the increase was 11.4%. The prices of widely used medications increased by an average of 7.1% in 2014. The prices of medications had a trend of decrease in 2011, 2012 and 2013.

The Ministry of Health, Labour and Social Affairs of Georgia did not provide us with information about the price changes of medications. However, the Ministry confirms that the prices of up to 500 medications did indeed increase from 15% to 20% in February. It also clarified that, according to recent data, the trend of an increase of prices has stopped. This is confirmed by the Association of Pharmaceutical Companies as well.

**FactCheck** concludes that Davit Sergeenko’s statement about the prices of medications is **TRUE**.

TRUE



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