FactCheck

GRASS FACTCHECK

Giorgi Kvirikashvili:

Minister of Economy and Sustainable Development of Georgia

"We used to privatise state property earlier as well. For example, a total of GEL 100 million was received from privatisation last year. We have not been inactive; we have just doubled our efforts now."

HALF TRUE

Mariam CHACHU
FactCheck

As one of the plans aimed to stop the depreciation of GEL the Government of Georgia has pledged to privatise state property which should facilitate the inflow of investments into the country. The Minister of Economy and Sustainable Development of Georgia, Giorgi Kvirikashvili, stated that the government did privatise state property in the previous years and now has doubled its efforts in this direction.

According to the state budget implementation reports, the overall amount of revenues from the sales of state properties equalled GEL 63.2 million in 2014. It was equal to GEL 27.8 million in 2013. If we look through the state budget implementation reports from 2010 to 2012 it becomes obvious that the revenues from the sales of state properties were much higher then. For example, it amounted to GEL 146 million in 2010 whilst in 2011 it equalled GEL 189 million.

It is difficult to assess the government's determination to privatise state properties from the state budget implementation reports; however, if we look at the budget implementation as compared to the initial plans it becomes clear that there was a significant shortfall in 2013. The revenues from the privatisation of state properties were planned to amount to GEL 100 million in 2013 whilst the actual revenues amounted to just GEL 28 million (28% of the initial plan). The situation improved in 2014 and the implementation constituted 98% of the initial plan.

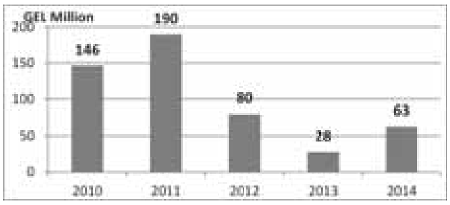
FactCheck addressed the National Agency for State Property in order to figure out which state assets were privatised from 2010 to 2014 and the amount of their value. The Agency only provided information about state-owned enterprises.

According to the Agency, just five state assets were privatised in 2013 and 2014 and their overall value equalled GEL 2.25 million. It should also be pointed out that only one state asset was privatised in 2014 which comprised a 100% share of the Akhalkalaki Mobile-Mechanised Convoy with the overall revenue amounting to GEL 76,000.

It should be noted that a total of 20 state-owned assets were privatised in 2012 with the overall amount of the revenues equalling GEL 17 million. Only one object, Ratevani 2000 Ltd, was privatised after the October 2012 elections with revenues amounting to GEL 10,000.

It should be noted that the overall revenues from the privatisation of state-owned assets amounted to GEL 17 million in the first quarter of 2015 which constituted 170% of the quarterly plan.

Chart 1: Number of Objects Privatised from 2010 to 2014 and their Revenues



Source: National Agency for State Property

Table 1: Revenues from the Privatisation of State Property

	2010	2011	2012	2013	2014
Number of Objects	7	32	20	4	1
Value (GEL)	1,999,561	213,641,835	16,981,516	2,171,000	76,000

Source: State Treasury

CONCLUSION

According to the state budget implementation report for 2014, the overall amount of revenues from the privatisation of state-owned assets amounted to GEL 63.2 million in 2014 whilst it equalled GEL 27.8 million in 2013. The amount of revenues in 2013 constituted just 28% of the planned amount. A total of GEL 17 million (170% of the initial plan) was received from privatisation in the first quarter of 2015.

As for the privatisation of state-owned enterprises, according to the National Agency for State Property, a total of five objects were privatised in 2013 and 2014 with the revenues amounting to GEL 2.25 million. In addition, only one object was privatised in 2014.

FactCheck concludes that Giorgi Kvirikashvili's statement is HALF TRUE.

HALF TRUE

PASHA Bank Insures GEL 20 Million Bond Issuance

The FINANCIAL
By MADONA GASANOVA

PASHA Bank Georgia has insured bond issuance by FINCA Bank Georgia worth a record GEL 20 million. This is the first precedent of such a big volume of bond being issued without the cooperation of a large international financial institution in Georgia. Denomination of bond in the national currency is another big advantage of the deal. With its big experience of bond market development in Azerbaijan, PASHA Bank promises to continue developing the bond market in Georgia.

As part of the deal FINCA Bank Georgia will issue 200 bonds worth GEL 100,000 for three year terms. Annual interest rate per bond is 10.1%, which will be paid semi-annually.

"PASHA Bank is a financial institution with significant experience in issuing bonds in Azerbaijan. We are actively working on the development of this direction in Georgia," said Shahin Mammadov, Director General at PASHA Bank Georgia.

According to Mammadov, this is the first deal regarding bond issuance in Georgia. "We are in active negotiation with other interested parties. We believe that the Georgian security market has significant potential. With our experience we will try to develop this market," Mammadov said.

The deal has very important distinguishing characteristics such as: they are issued in GEL; the deal participants are two non-IFI (International Financial Institution) companies; and, the volume of the bond issue amounts to GEL 20,000,000.

"The proceeds of the bonds to be issued in the local currency will enable FINCA Bank Georgia to respond to current market challenges and make Lari funding available to its customers. The issue will also positively contribute to the development of the local bond market. It's worth mentioning that this deal is historically the biggest GEL bond issue without IFI participation," said Vusal Verdiyev, CEO at FINCA Bank Georgia.

FINCA Bank Georgia plans to expand the financing of SME businesses with the sum attracted from issuing bonds. Denomination of bonds in the national currency will avoid exchange rate risks for borrowers.

"The deal will enhance the availability to capital from the business sector and contribute to economic growth," said Goga Japharidze, Commercial Director at PASHA Bank Georgia.

PASHA Bank is headquartered in Baku. It operates in Azerbaijan, Georgia and Turkey. PASHA Bank offers full corporate and investment banking service to small and medium sized enterprises. PASHA Bank is a part of PASHA Group, leading investment holding in Azerbaijan. It holds assets in different directions, like insurance, corporate and retail banking, property management, construction and tourism. The capital of the holding exceeded EUR 3 billion as of December 2014.

PASHA Bank entered the Georgian market in February 2013. Its share of capital is worth GEL 103 million.

German Retail Sales Grow Faster Than Expected in April

The FINANCIAL -- German retail sales rose faster than expected in April, supporting views that private consumption is likely to remain a solid pillar to economic growth in Europe's largest economy, according to Nasdaq.

Retail sales in April increased 1.7% in real adjusted terms compared with March, statistics office Destatis said on May 29. Economists surveyed by The Wall Street Journal predicted a 1.0% increase.

German retail sales are a volatile indicator, and are prone to large revisions. Economists treat the monthly numbers with caution and place more importance on three-month averages.

On an annual basis, retail sales expanded 1.0% in real terms in April, Destatis said.

In the first four months of the year, retail sales were up 3.1% in real terms compared with a year earlier, the statistics office said.

The most recent German consumer sentiment data by market research group GfK predicted its forward-looking confidence index to rise to 10.2 points in June from 10.1 points in May, beating economists' forecast of a decline to 10.0 points.

The "willingness-to-buy" subindex, which refers to the current month, gained 4.3 points to 62.6 points, GfK said on Wednesday, adding that while that remains slightly under its historic peak value of 64.4 points in October 2006, its trend is still upward, helped by the strong labor market, solid income growth and low inflation.

Polish 1Q GDP Revised Higher To 3.6% From 3.5%

The FINANCIAL -- Poland's economy accelerated in the first quarter with gross domestic product rising 3.6% on the year, faster than the preliminary reading of 3.5% and up from 3.3% in the fourth quarter, the Central Statistical Office said on May 29, according to Nasdaq.

Seasonally adjusted quarterly growth was confirmed at 1.0% in the first quarter up from 0.8% in the fourth quarter.

In mid-May the statistics office estimated fourth-quarter growth at 3.5% annually while seasonally adjusted quarterly growth was reported as 0.5%.

The main drivers of growth in Poland are domestic demand, which grew by 2.6%, investments, which were 11.4% higher and private consumption, which grew 3.1%, the first quarter data showed.

Is Small (and Medium) all that Beautiful?

Continued from p. 2

For this very reason, microfinance institutions specialized in lending to SMEs, such as (most famously) the Grameen Bank in Bangladesh, may easily become victims of their own (initial) success. Just like in the taxi example, once the number of similar enterprises hits a critical threshold, the fees they could charge collapse. The result is bankruptcy for both lenders and borrowers.

IF SME DEVELOPMENT IS HAMPERED BY A LACK OF GOOD NEW BUSINESS IDEAS OR MANAGEMENT SKILLS, SUBSIDIES (PAID FOR BY TAXES LEVIED ON LARGER AND MORE SUCCESSFUL BUSINESSES) WILL RESULT IN WASTE. NOT JOBS, NOT INNOVATION, NOT PRODUCTIVITY GAINS, BUT WASTE.

WAGER ON THE STRONG (AND LARGE)!

Thus, contrary to the established theory, it is the large Georgian firms that are mainly responsible for the creation of jobs, production of economic value, and, most certainly, exports. Moreover, the size and degree of vertical integration achieved by Georgian manufacturers turn out to be crucial for their ability to withstand competition from very large (and often subsidized) international businesses in the absence of any significant tariff or non-tariff protection.

THE NOTION THAT GEORGIA SHOULD PRIORITIZE SME DEVELOPMENT (AT THE EXPENSE OF LARGE ENTERPRISES) IS AKIN TO PUTTING TO CART BEFORE THE HORSE.

An excellent case in point is Chirina Ltd, currently one of the largest poultry producers in the country. As reported by Simon Appleby and Eric Livny (Competitiveness of Georgian Agriculture: Investment Case Studies), Chirina represents a unique greenfield investment initiated, financed and managed Mr. Revaz Vashakidze, a prominent member of the Georgian Russian diaspora. Having earned his personal wealth in the Russian chemical industry, Mr. Vashakidze chose to repatriate a part of his fortune to Georgia in order to invest in a modern, fully integrated poultry production plant able to compete with cheap imports of frozen meat products, which had dominated the Georgian market until 2013.

Designed and built as a turnkey project by Israel's Agrotop in 2011-2013, Chirina is a unique vertically integrated complex. Its products – fresh and frozen chicken meat sold under the BiuBiu brand – already account for about 1/6 of Georgia's total consumption of poultry.

With a doubling of its processing capacity in early 2015, Chirina is poised to become a major food industry player in Georgia, creating hundreds of jobs, integrating Georgian agricultural producers into its supply base, applying downward pressure on prices, and expanding the range and quality of products available to Georgian consumers.

Until recently, the company employed around 250 workers in its farming and food processing activities located Gamarjveba and Sartichala, not too far from Tbilisi. With additional broiler farms becoming operational in early 2015, Chirina was able to almost double its production and sales while significantly increasing employment.

Crucially for Georgia's social policy agenda, Chirina, directly contributes to the creation of many additional jobs by upstream suppliers of agricultural inputs and downstream retail partners, all of which happen to be SMEs. For example, Chirina's marketing and sales strategy involves an exclusive partnership with a distribution company operating a large fleet of mobile retail kiosks.

Finally, Chirina contributes to the wellbeing of Georgian consumers by bringing to the market affordable, high quality and fresh poultry meat substituting for low-quality, mass-produced frozen products imported from Turkey and Brazil.

Chirina's example suggests that, contrary to the established development narrative, the key to Georgia's success in technological upgrading, job creation and SME development may be held by large, well-invested food processing and manufacturing businesses. The notion that Georgia should prioritize SME development (at the expense of large enterprises) is akin to putting to cart before the horse.

Rezo Vashakidze, the owner of Chirina is quite blunt on this point. In his view, the Georgian government is using agrarian policy to achieve social policy objectives:

The current policy is to support smallholders, who are almost 50% of the population. While I understand the political significance of doing so, training and subsidizing such a large mass of subsistence farmers will inevitably lead to a waste of resources. In my opinion, the emphasis should be on medium and large business, which would integrate smaller businesses and smallholders into their supply chains or provide alternative employment in processing and services. It is unfortunate that the EU and other donors are supporting such a wrong approach.

GRASS FACTCHECK

Irakli Gharibashvili:

Prime Minister of Georgia

"State budget revenues had a surplus of GEL 106 million and reached GEL 2,305 million which constitutes 104.8% of the planned amount."

Lasha SENASHVILI

FactCheck

At a session of the Government of Georgia, the Prime Minister, Irakli Gharibashvili, declared that the state budget revenues had a surplus of GEL 106 million and reached GEL 2,035 million which constitutes 104.8% of the planned amount.

FactCheck took interest in the accuracy of Irakli Gharibashvili's statement.

According to the information of the Treasury Service of the Ministry of Finance of Georgia, the budget revenues were planned to be GEL 2.199 billion in the first quarter of 2015. However, the budget revenues in the first quarter reached GEL 2.35 billion. As a result, revenues were fulfilled by 104.8%. Instead of the planned GEL 1.80 billion tax income, the state budget received GEL 1.28 billion and the plan was fulfilled by 102%. The remaining parts of the revenues comprised grants and other income.

Of note is that a "tax on personal income, corporate income and capital gains" was planned to be GEL 755 million whilst the budget in fact received income in the amount of GEL 779 million which constitutes 103.2% of the plan. Of this GEL 779 million, the income tax amount was planned to be GEL 468 million but the budget received only GEL 460 million. Therefore, the plan was fulfilled by 98%.

The amount of revenues received as corporate income tax was GEL 319 million which constitutes 111.2% of the expected amount (GEL 287 million) for the first quarter of 2015. Revenues received as Value Added Tax were also fulfilled with a surplus as the expected amount for the first quarter was GEL 800 million whilst the budget actually received GEL 848.6 million. Revenues received from excise tax were 9% less than the expected amount and the budget received GEL 177 million instead of GEL 193 million. The expected amount of grants for the first quarter was GEL 44.6 million whilst the budget received GEL 58 million (130% of the planned amount).

As a comparison, the state budget revenues fulfilment rate was 97% in the same period of 2014. It was 100.5% in 2013 and 102% in 2012.

The surplus of budget revenues was caused to some extent by the depreciation of GEL and the rising level of inflation. The 2015 state budget plan envisaged having the USD to GEL exchange rate kept at 1.8 whilst the USD to GEL exchange rate has recently exceeded the 2.3 margin. The depreciation of GEL increased the amount of USD denominated grants when converted to GEL. Additionally, the depreciation of GEL caused the acceleration of the pace of inflation. According to the National Statistics Office of Georgia, the annual inflation rate reached 2.5% in April 2015. As budget tax incomes are planned according to the nominal GDP growth (nominal growth constitutes the sum of real growth and the inflation rate), the rising prices on goods and services result in increased budget revenues.

Looking at the expenditures part of the budget, spending was planned at GEL 2.62 billion according to the first quarter budget fulfilment report. However, only 96% of the plan was fulfilled. Goods and services together with wages represent two fields in which the planned spending for the first quarter was not fulfilled. The wages component received 4.1% less than the planned amount. In regard to goods and services, GEL 180 million was transferred instead of the planned GEL 209.6 million. Consequently, only 86% of the plan was fulfilled.

CONCLUSION

According to the data for the first quarter of 2015, state budget revenues were indeed fulfilled by 104.8%. The budget received GEL 2,305 billion instead of the planned GEL 2.99 billion. Of mention is that the surplus in the budget revenues was also caused by the depreciation of GEL and the acceleration of the pace of inflation.
FactCheck concludes that the Prime Minister's statement is MOSTLY TRUE.

MOSTLY TRUE