

financial news



Irakli Gharibashvili:

Prime Minister of Georgia



"According to the data of the first two quarters, budget is fulfilled with surplus and there are practically no gaps."

Beso NAMCHAVADZE
FactCheck

On 10 July 2015, on air at GDS TV, the Prime Minister of Georgia, Irakli Gharibashvili stated that despite the reduced economic growth rate, the state budget for the first two quarters of 2015 was fulfilled in surplus and there were practically no gaps.

FactCheck verified the indicators of the budget fulfillment for the first two quarters of 2015.

On 20 July 2015, State Treasury Service of Georgia released a report on fulfillment of the state budget for the first six months of 2015. Budget revenues were fulfilled by 105.7%. The revenues include tax incomes, grants, other incomes, decrease of non-financial actives (privatization) and financial actives and growth of the state debt. All these components of the revenues were fulfilled in surplus.

The depreciation of GEL and rise of inflation level contributed to the budget fulfillment in surplus. State budget was planned with USD to GEL exchange rate at 1-1.8, whilst the average exchange rate for the last six

months was 1-2.2. The depreciation of the national currency increased the amount of USD denominated grants when converted into GEL. Besides, the depreciation of GEL increased the inflation rate. As the budget tax income plans are based on nominal GDP growth (nominal growth means the sum of real economic growth and inflation) price hike on goods and services results in increased budget revenues. However, after the prognosis of the economic growth rate for 2015 was changed from 5% to 2%, on 17 July 2015 the Law on State Budget was amended which stipulates the reduction of planned tax incomes by GEL 200 million.

Almost fivefold surplus in the revenues received after selling the non-financial actives was caused by unplanned income. In the plan of the first two quarters, the revenue received from privatization of a license to use the spectrum of radio frequencies was not included at all. The income received was GEL 90.4 million.

The plan to increase obligations was fulfilled by 100.9%, including the 98.3% fulfilment rate to increase the domestic debt and 102.4% fulfilment rate to increase the foreign debt. However,

significant gap is registered in the plan of preferential investment credits, which was fulfilled by 79.6%. The depreciation of GEL also contributed the surplus fulfillment rate registered in the plan of foreign debt increase. If we calculate in USD, we will see that it was planned to receive USD 269 million credits for the first half of 2015, whilst in fact only USD 225 million was received.

As regard to spending component of the budget, expenditures plan was fulfilled by 96.3%, whilst the deficit amounts GEL 168 million. The lowest number (88%) was registered in capital (allocated for the improvement of infrastructure) expenditure plan fulfillment field.

The largest state establishments in terms of spending have the following situation: the Ministry of Finance's expenditure plan was fulfilled by 99%, the Ministry of Regional Development and Infrastructure's expenditure plan was fulfilled by 93%, the Ministry of Defence's expenditure plan was fulfilled by 99.6%; the Ministry of Education and Science's expenditure plan was fulfilled by 94%, the Ministry of Labour, Health and Social Affairs have spent GEL 4.7 million more than it was originally planned.

Budget Components (GEL million)	6 Months Plan	6 Months Fulfilment Rate	Fulfilment of the Plan
Revenues	4535	4794	105.7%
Incomes	3691	3827	103.7%
Taxes	3504	3581	102.2%
Grants	90.5	100.4	110.9%
Incomes	96.6	146	151.1%
Reduction of Non-Financial Actives	26	136.6	525.4%
Reduction of Financial Actives	33.4	38.7	115.8%
Increase of Obligations	784.5	791.3	100.9%
Increase of Domestic Obligations	300	295	98.3%
Increase of Foreign Obligations	484.5	496.3	102.4%
Preferential Investment Credits	254.5	202.5	79.6%
Budget Support Credits	230	294	127.8%

CONCLUSION

DESPITE THE DECREASE OF THE ECONOMIC GROWTH RATE, THE PLAN OF STATE BUDGET REVENUES WAS FULFILLED WITH SURPLUS. THE BUDGET SURPLUS WAS CAUSED BY RECEIVING THE UNPLANNED INCOMES, THE DEPRECIATION OF GEL AND RISING INFLATION LEVEL. HOWEVER, THERE IS A GAP IN ATTRACTING THE PREFERENTIAL INVESTMENT CREDITS, WHICH ARE USED TO FUND THE INFRASTRUCTURE IMPROVEMENT AND REPRESENT A PRINCIPAL SOURCE OF FOREIGN CURRENCY INFLUX TO GEORGIA. BUDGET SPENDING (EXPENDITURES AND DEBT SERVICE) WAS FULFILLED BY 96.3%. IT HAS BEEN THIRD CONSECUTIVE YEAR WHEN WE SEE DELAYS IN SPENDING THROUGHOUT THE YEAR AND THE GOVERNMENT OF GEORGIA STARTS ACCELERATED SPENDING IN THE LAST MONTHS TO HAVE THE PLAN FULFILLED.

THEFORE, FACTCHECK CONCLUDES THAT IRAKLI GHARIBASHVILI'S STATEMENT IS HALF TRUE.

HALF TRUE



EUROPEAN ENDOWMENT FOR DEMOCRACY

The German Marshall Fund of the United States
STRENGTHENING TRANSATLANTIC COOPERATION



Kingdom of the Netherlands

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AmCham Ukraine: 'Private Investment, Not Donor Money, Can Jump-Start the Economy'

Continued from p. 2

Q. Situations like the Ukrainian crisis are up to political decisions, meaning representatives of business have no influence on them. How do businesses deal with such cases?

A. Apart from contributing to the state budget, providing jobs for Ukrainians, ensuring economic development of the country in these challenging times, the role of business is also in broadcasting a clear message to the world about the actual work Ukraine has done and continues doing to overcome the crisis, and about the opportunities this country definitely has for growth. Business contributes to development and implementation of economic reforms and the dialogue between the Government and business continues.

Q. Naturally resource-rich Russia has always speculated with its resources, and imposed embargos for political revenge. How important is it to gain import independence from Russia?

A. We at the American Chamber of Commerce have 3 main priorities that we are focusing on. First of all it's B2G - driving the dialogue between business and Government; B2B - we work on continuous

Government to decrease volumes of imports to stabilize the state finances. Therefore, dynamics showed a reduction of import from almost all countries. But one of the key tasks for Ukraine remains establishing and developing cooperation with new trading partners and the strengthening of non-traditional markets. These attempts are supported by tangible efforts to simplify the national regulatory base and bring it in line with EU and international standards. Also, the gradual yet constant loss of the sales market of the Russian Federation for Ukrainian producers has done and continues doing to overcome the crisis, and about the opportunities this country definitely has for growth. Business contributes to development and implementation of economic reforms and the dialogue between the Government and business continues.

Q. Do you currently see any reasons for optimism regarding the Ukrainian economy?

A. I have come to Ukraine because I believe in the successful and prosperous future of this country. And, as Nelson Mandela once said: "Sometimes it falls on a generation to be great." Ukrainians today can be that generation.

I am confident that Ukraine should move forward, build a strong economy. Let's look at Israel for example; the country has been in conflict for long, but business has still been developing there.



PASHA Bank - The Fastest Growing Corporate Bank in Georgia

PAsha Bank is named The Fastest Growing Corporate Bank in Georgia 2015 by International Finance Magazine.

Headquartered in London, International Finance Magazine (IFM) represents one of the leading and the most trustworthy source of information, analysis and insights for the global finance community. The topics covered by IFM include Banking, Wealth Management, Pension Funds and Emerging Markets. The IFM annual Award shines a spotlight on those who make a contribution to raising the bar in the financial industry

through activities of note. These include path-breaking initiatives in corporate social responsibility or charitable activities, better corporate governance and other achievements that impact the global finance community. In 2013 International Finance Magazine has named PASHA Bank Azerbaijan "The Best Investment Bank in Azerbaijan". This year after having completed the researches and analyzing performance figures of the banks operating in Georgia, International Finance Magazine awarded PASHA Bank for the sustainable development in its field. "PASHA Bank has been op-

erating in Georgia since 2013, providing regional corporate and investment banking services to large and medium enterprises. Being a young organization like this, we naturally feel double happiness to receive such international recognition. Winning the nomination of "The Fastest Growing Corporate Bank" gives us even more motivation to continue our teamwork in order to reach new heights together with PASHA Bank Azerbaijan and PASHA Bank Turkey and of course, share the success with our dearest clients and partners." Said Shahin Mammadov, CEO at PASHA Bank.

ADB \$1 Billion Loan to Help Kazakhstan Counter Economic Slowdown

The FINANCIAL

The Asian Development Bank (ADB) has approved a \$1 billion loan to help Kazakhstan continue government programs to strengthen the economy in the face of recent challenges.

"This loan from ADB's Countercyclical Support Facility will give the country the fiscal leeway it needs to mitigate the unanticipated and significant negative impacts of the steep decline in world oil prices and the economic slowdown of the neighboring countries," said Lotte Schou-Zibell, Principal Economist in the Central and West Asia Department. "It will help the government modernize infrastructure and maintain spending programs for job creation, social services, support to low-income households, and private sector development, particularly for small businesses."

The programs will be supported by transfers from the National Fund of the Republic of Kazakhstan, ADB's loan, and proposed funding from other development partners. The National Fund of the



Republic of Kazakhstan safeguards the state's petroleum earnings, uses them to maintain economic stability, and ensures their availability for future generations.

This ADB loan will support efforts to stabilize the economy following the recent move by the government and the National Bank to adopt a free floating exchange rate together with inflation targeting.

The loan, from ADB's Ordinary Capital Resources, will

be released in two tranches of \$500 million each, and will support the implementation of key policy reforms. The loan has a 5-year term, with the interest rate determined in accordance with ADB's LIBOR-based lending facility, plus 200 basis points.

Established in 1966, ADB is owned by 67 members—48 from the region. In 2014, ADB assistance totaled \$22.9 billion, including cofinancing of \$9.2 billion.

Georgia's Economy With or Without Russia

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Exports to Russia picked up in 2013 as Russia opened its borders to Georgian wine, but accounted for only 6 percentage points in the 22% total export growth in 2013. Even without Russia, Georgian exports have more than tripled since 2005 to USD 2.9 billion in 2013.

"Imports from Russia are mainly commodity imports and in case of any disruption in trade flows, they can easily be obtained from other countries, due to Georgia's developed supply chains and trade infrastructure. In the past, the major challenge for Georgia was securing stable energy supply, mainly natural gas, for which there is limited opportunity for diversification in the near term. Before 2006 Georgia imported natural gas mainly from Russia, but after a series of incidents, Georgia changed its key supplier to Azerbaijan. Currently, the diversified energy supply limits Russia's potential energy leverage against Georgia," said Bochorishvili, Galt & Taggart.

Two sectors that are dependent on the Russian market the most are wine and mineral water. "Already in 2014 exports to Russia reached 9.6 percent of the total and brought the highest ever annual wine export income for Georgia. The wines and mineral waters have quickly regained their leading positions as the main exports to Russia. However, it needs to be stressed that the importance of the Russian market for these sectors of the Georgian economy is not as high

as it used to be. Due to the embargo the overall quality of Georgian wines have increased significantly and have more capacity to penetrate other markets, meeting stricter quality controls. Georgian mineral water producers have also started to target markets other than Russia. Today, without the Russian market, Georgian wine exports are pretty much stable at around 2.5 percent. The mineral water exports have demonstrated more steady increase independently from the Russian market. Therefore, it is quite realistic to gain independence from the Russian market at least for these two sectors," said Guruli, EPRC.

In Guruli's words, 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."

According to the preliminary data of the National Statistics Office of Georgia, In January-July of 2015 external merchandise trade (excluding non-organized trade) in Georgia amounted to USD 5,573 million, 14 percent decreased year-on-year. The exports equalled USD 1,269 million (24 percent lower), while the imports stood at USD 4,305 million (11 percent lower). The negative trade balance was USD 3,036 million in January-July of 2015 and its share in external trade turned

over constituted 54 percent.

Georgia continues to run trade deficits with all countries in the world. "The fact that Georgia is not offering goods and services the world is interested in is the mother lode of economic problems of this country," Biermann, ISET, told The FINANCIAL.

"Signing the AA and DCFTA were crucial for the economy. First, the trade-enhancing reforms have demonstrated more steady increase independently from the Russian market. Therefore, it is quite realistic to gain independence from the Russian market at least for these two sectors," said Guruli, EPRC.

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GRASS
FACTCHECK

Giorgi Kadagidze:



"Money borrowed from refinancing has not entered the market." true

Zviad KHORGUASHVILI

FactCheck

The President of the National Bank of Georgia, Giorgi Kadagidze, in his speech before the Parliament of Georgia stated that despite the growth of refinanced loans the loans issued by the commercial banks have not increased and growth of refinanced loans does not equal growth of total sum of money.

FactCheck took interest in the accuracy of the statement.

After the start of GEL depreciation process (November 2014) the National Bank of Georgia was frequently accused that it contributed the GEL depreciation by the growth of refinanced loans. Refinanced loan is a monetary instrument which is used by the National Bank since September 2008. This is a loan of one-week duration, which is issued by the National Bank for other commercial banks to guarantee their liquidity (in order to make sure that a bank does not have a problem to fund short-term obligations in a short period of time).

In November 2014, the amount of refinanced loan was GEL 350 million, whilst at the end of December it reached GEL 550 million. In February 2015, the volume of refinanced loan was GEL 700 million and in March it stood at GEL 900 million. The record number was registered on 18 June 2015, when the

amount of refinanced loans was GEL 1,017 million. At the end of June, that number was reduced to GEL 900 million. The decrease of GEL denominated deposits in the commercial banks was a cause behind significant growth of refinanced loans since January 2015. In January, the amount of deposits shrank by GEL 360 million.

The volume of refinanced loans largely depends on refinanced loan rate (monetary policy rate).

Since the beginning of 2015, including May, refinancing interest rate rose three times by 0.5% (from 4% to 5.5%). Nevertheless, the commercial banks increased demand on refinanced loans which might be caused by the rising demand on GEL denominated loans and decline in USD denominated loans.

The National Bank could have made a more radical step and increase the rate of refinanced loans even more. However, that step would have negatively affected the economic growth of the country and would have created the risks of recession.

During the first five months of 2015, the amount of GEL denominated loans, issued by the commercial banks increased by 3.7%. On 1 January 2015 the number was GEL 5.1 billion, whilst on 1 June 2015 it reached GEL 5.3 billion. However, since December 2014, up until June 2015 this number has increased by 9.6% (GEL 464 million). In total, the volume of loans is-

sued by the commercial banks increased slower as compared to the volume of refinanced loans. It must be noted that GEL denominated loans increased because of the decision of the consumers to convert their loans from USD to GEL. At the beginning of 2015 the amount of USD denominated loans was USD 4.19 billion, whilst at the end of May it decreased by 2.9% and equaled USD 4.07 billion.

It is important to consider, that the Government of Georgia borrows money from the commercial banks for the domestic debt. Since November 2014, including May 2015, Georgia's domestic debt increased by GEL 327 million. Therefore, 58% of the growth of GEL denominated loans was taken by the Government of Georgia as a domestic debt.

The additional GEL 327 million entered the market due to increased domestic debt of the Government of Georgia.

In the end, it is the total sum of GEL in circulation which affects GEL exchange rate and not any single component. In December 2014 money aggregate (M2) rose by 5.2% as compared to November 2014 and reached GEL 5.91 billion. By May 2015, this number dropped by 4.3% and totaled GEL 5.66 billion. Other things being equal, when total sum of the money in the market decreases, a national currency appreciates against other foreign currencies.

CONCLUSION

SINCE NOVEMBER 2014, UP UNTIL JUNE THIS YEAR, THE AMOUNT OF REFINANCED LOANS ROSE FROM GEL 350 MILLION TO GEL 900 MILLION. THE GROWTH OF REFINANCED LOANS WAS LARGELY CAUSED BY THE REDUCTION OF GEL DENOMINATED DEPOSITS, GROWTH OF THE GOVERNMENT'S DOMESTIC DEBT AND CONVERSION OF LOANS ISSUED IN FOREIGN CURRENCIES INTO GEL. SINCE NOVEMBER 2014, UNTIL JUNE 2015 THE AMOUNT OF GEL DENOMINATED LOANS ISSUED BY THE COMMERCIAL BANKS HAS INCREASED BY GEL 562 MILLION (12%). OF THAT AMOUNT, GEL 327 MILLION WAS BORROWED FOR THE DOMESTIC DEBT OF THE GOVERNMENT OF GEORGIA.

SINCE NOVEMBER 2014, THE GEL SUPPLY (M2) INCREASED BY 5.2%. HOWEVER, BY MAY 2015, IT DECREASED BY 4.3%. THE REDUCTION OF MONEY SUPPLY TO THE MARKET DETERS THE DEPRECIATION OF GEL EXCHANGE RATE.

FACTCHECK CONCLUDES THAT GIORGI KADAGIDZE'S STATEMENT IS MOSTLY TRUE.

MOSTLY TRUE



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of the United States
STRENGTHENING TRANSATLANTIC COOPERATION



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