

# FactCheck



MEMBER OF THE UNITED NATIONAL MOVEMENT



**Mikheil Machavariani:**



## “The Government of Georgia is implementing the budget at the expense of increasing taxes”

Table 1: Changes in Income from Excise Tax from 2010 to 2015

Year	2010	2011	2012	2013	2014	2015
Excise Tax (GEL Million)	561	615	660	722	810	871
Tax Incomes (GEL Million)	4,592	5,802	6,311	6,288	6,847	7,550
Share of the Excise Tax in Tax Incomes	12.21%	10.60%	10.45%	11.49%	11.83%	11.53%

Source: Ministry of Finance of Georgia

Valeri KVARATSKHELI  
Fact CHEK

During his press briefing on 29 March 2016, the member of the United National Movement, Mikheil Machavariani, stated: “The Government of Georgia has been implementing the state budgets for the past three years at the expense of increasing taxes. Life has become more expensive for the population because excise tax has become higher and other taxes have not been lowered.”

According to the Tax Code of Georgia, none of the tax rates, except for the excise tax, has undergone any serious changes since 2013. It should also be noted that in the case of income tax, the rate for those receiving income from accommodation rentals has dropped from 20% to 5%.

After the government changed, the very first review of the excise tax happened on 30 July 2013 when the tax on filtered and non-filtered cigarettes increased by 15 *tetri* and 5 *tetri*, respectively. Another change to the excise tax was made on 11 December

2014. At that time, the excise tax on mobile-communication services decreased from 10% to 8%. The excise tax on tobacco products and alcoholic beverages increased in two stages from 2014. These included the 12 December 2014 and 11 December 2015 changes to the Tax Code of Georgia. In this article, it is quite impossible to assess the effect of these changes upon the incomes of the state budget; however, the changes in the income from excise tax are presented in Table 1.

As we can see, incomes from excise tax tended to increase from 2010 to 2015. The volume of the tax incomes in general is also growing. Parallel to the increase in absolute terms, the share of the excise tax in overall incomes is quite stable, varying from 10.45% (2012) to 12.21% (2010). At the same time, the income of the budget from excise tax increased by just GEL 61 million in 2015 and by GEL 62 million and GEL 88 million in 2013-2014, respectively. This increase, on the one hand, cannot completely be explained by the changes in the tax rate whilst, on the other hand, it is a very small amount as compared to the overall state bud-

get incomes. It should also be noted that the depreciation of the national currency from the end of 2014 positively influenced the income part of the state budget. This manifested itself in the increase of import tax and VAT given the increase in the prices of imported goods in GEL.

As for the rising costs of living, a very much accepted tool for assessing the price level is the Consumer Price Index. The Consumer Price Index has definitely not reached alarming levels for the past three years. It should also be noted that the inflation target level set out by the National Bank of Georgia is 5%. However, these are the results of official statistics. The survey conducted by the National Democratic Institute in March 2016 showed that the second greatest worry for the Georgian population, after unemployment, is rising prices and inflation. For those surveyed, inflation appeared to be a greater problem than the issues of territorial integrity or poverty.

Inflation also has a positive influence upon the implementation of budget incomes as the nominal price of manufacture turnover increases.

## CONCLUSION

THE EXCISE TAX ON TOBACCO PRODUCTS AND ALCOHOLIC BEVERAGES INCREASED IN THREE STAGES. AS FOR THE BUDGET IMPLEMENTATION DATA, THE INCOMES FROM EXCISE TAX AS WELL AS THE INCOMES IN GENERAL HAVE A TREND OF INCREASE. THE SHARE OF EXCISE TAX IN OVERALL TAX INCOMES IS STABLE FOR THE WHOLE REPORTING PERIOD WHILST THE GROWTH IN ABSOLUTE NUMBERS IS VERY SMALL AS COMPARED TO THE OVERALL INCOMES OF THE STATE BUDGET.

ACCORDING TO OFFICIAL STATISTICS, INFLATION GREW TO 5% IN 2015 WHILST THE POPULATION IS OF THE OPINION THAT RISING PRICES ARE THE SECOND GREATEST PROBLEM AFTER UNEMPLOYMENT. THE RISING INFLATION AND THE DEPRECIATION OF GEL HAVE PLAYED A POSITIVE ROLE IN THE IMPLEMENTATION OF THE BUDGET INCOMES.

FACTCHECK CONCLUDES THAT MIKHEIL MACHAVARIANI'S STATEMENT IS HALF TRUE.

HALF TRUE



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## More CIOs reporting directly to CEO

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In the last year, eleven percent of survey respondents were female, up from 8 percent last year and the first time in the survey's history women made up more than one in 10 participants.

### Digital – Less evidence of a turf war over who owns it

One in five companies now employs a Chief Digital Officer, almost tripling the number since 2014. CDOs are twice as likely to report to the CEO (46 percent) than to the CIO (21 percent). The CEO is most likely to “own” digital, at

21 percent.

IT (16 percent) is almost twice as likely to “own” digital as their marketing peers (9 percent).

### Cyber security – One-third of global CIOs responded to cyber-attacks in the last two years

Almost one-third (28 percent) of CIOs have had to respond to a major IT security or cyber-attack on behalf of their organization in the last two years.

Almost half of CIOs (49

percent) report data loss and privacy risks as the biggest challenge with adopting cloud technology.

Only one-fifth (22 percent) of CIOs feel confident their organization is very well prepared to identify and respond to cyber-attacks compared to nearly one-third in 2014.

This year's survey supports the fundamental change in the reason for outsourcing: companies are primarily outsourcing for skills and flexibility, not to save money.

Half of CIOs (50 percent) will increase investment in outsourcing this year, up by four percent from 2015.

One in 10 CIOs (10 percent) at small organizations will rely on contingent staff for more than three-quarters of their team, which is five times higher than the rate CIOs at large organizations.

## MEETING ROOM by PASHA Bank Hosts its First Business Conference



On May 25th in Radisson Blu Iveria PASHA Bank hosted the first business conference within the scope of its new project MEETING ROOM. The conference was supported by Georgian National Tourism Administration and Colliers International Georgia and its topic was “Hotel Development in Georgia – The Best Practices”. Georgian National Tourism Administration expressed its keen interest towards the forum. Considering the growing number of visitors to our country private sector's involvement in development of hospitality sector is of major importance. Mr. George Chogovadze presented to the audience the visitor statistics, achievements and future

plans of the Tourism Administration.

Mr. Mark Finney - a specially invited guest speaker from Colliers International UK Office - spoke about international brand operators and benefits they bring. Colliers International is a leading global real estate services company, with its full service licensed office in Georgia providing real estate research, valuation and advisory, corporate brokerage and development consulting services to its clients.

The conference was attended by the representatives of the companies working in hospitality sector and related fields, among them: Hotels and Preference, Rixos, Hilton, Marriott, Dreamland Oasis, Axis, Anagiand others.

„We are happy that MEETING ROOM has launched

successfully creating an important platform for exchanging ideas and experiences. We believe this gathering will positively influence the development of hospitality sector in our country with PASHA Bank playing its modest role in the process. Under the umbrella of MEETING ROOM PASHA Bank will host several more business conferences focused on different industries.“ – Said Mr. Goga Japaridze, CCO and Member of Board of Directors at PASHA Bank.

MEETING ROOM is a new project by PASHA Bank – a cycle of business conferences that aim to bring together participants from various industries providing a platform for sharing ideas and best practices as it relates to raising the capital for various projects in respective industries.



# Purchase Agreement is Signed on Stadler's Double-Decker Trains

**O**n Wednesday, purchase agreement has been signed on bringing of double-decker trains in Georgia.

The agreement has been signed by Peter Shpuler, founder of Stadler and Mamuka Bakhtadze, general director of Georgian Railway. Double-decker train of 102 m length and 5240 m height totally suits to the demands of Georgian Railway. The train can transport over 400 travelers simultaneously. Experts of German Deutsche Bahn, as well as Georgians, have worked on the technical parameters. Georgian Railway expects the first train on July 17.



STADLER's passenger trains are in line of the European standards, equipped with the modern safety standards. This train is the first in Georgian reality, which should be entirely adjusted to the needs of disabled entities. According to Georgian Railway, all double-decker trains will run from Tbilisi to Black Sea coast without stopping. The train will only stop at the stations of coastal resorts, such as Batumi, Kobuleti and Ureki. To note, acquisition of 4 trains are planned, which total budget is 39,8 million EUR.

Source- GB TGI Clickstream Q3 2015

# Vice-President of Russian Bank Otkritie: Worst of the Crisis Not Over Yet

Continued from p. 4

**Q. The majority of post-Soviet states had to deal with the ugly legacy of the influence of criminal authorities. Fortunately Georgia has beaten it. How is the situation in this regard in Russia?**

A. It is fading, like smoke. Lots of people have travelled abroad. They are now running businesses with the bourgeoisie in a very civilized way. A part of society has not had to grow up in this atmosphere. They can look into one's eyes and smile sincerely. They are alive and are not afraid of their emotions. This number of people with these outdated manners is becoming smaller, in both the streets and the business environment.

**Q. How have the demands of the SME sector been changing from year to year?**

A. 15-20 years ago people were glad to carry out transactions via their PCs. Now they expect to get all their services from their mobile devices. The story of Uber is a good example. When they were first launching their services the company questioned people

about how many minutes they expect their taxi to take to reach their destination after ordering it. The majority of respondents said that ten minutes was an acceptable amount of time for them. So Uber started delivering taxis in seven minutes. Two years later the company ran another study. And the majority responded that they wanted their taxis to arrive in five minutes. This is human nature. We always expect improvement of quality, faster services and cheaper prices.

**Q. During your presentation at SME Banking Club you said that every business should always ask itself what the market will lose if I were to not exist tomorrow. Don't you think that most of the businesses are focused on profit and care less about the values that they bring to society?**

A. Profit is always a result. It is not a "raison d'être", or sole purpose of being. There is a banal explanation for getting profit, it means making things cheaper, then consumers can pay and create value. Being focused on figures will lead to failure sooner or later as this dims a business's vision. In

this regard SME is a good example. They do not have the luxury of going deep into figures and tables. They see their consumers directly.

I believe that there is always room for taking services a step forward and being a bit more useful to your customers. The analogue is mobile operators. One can just receive and deliver text messages. In addition, it is also possible to inform subscribers regarding the weather and warn if it is going to rain today and not to forget one's umbrella. The key step is looking for valuable things in such banal issues. Due to many analyses and experiments we have learned to add values to our services to benefit, and gain favour with, our clients.

**Q. Considering the ongoing difficulties within the Russian economy, are you witnessing less involvement of the banking sector in implementing innovative services?**

A. Those who realise that there is no other option, try to find financial resources for implementing technological know-how. Maybe the scale of investments is not equal to pre-crisis figures, but they are still trimming the sails to the wind.



MEMBER OF PARLIAMENT



**“As a rule, Cartu Bank does not distribute mortgages; however, it does make exceptions for members of the Government of Georgia, such as, for example, Giorgi Kvirikashvili.”**

Salome CHIMAKADZE  
Fact CHEK

**O**n 13 April 2016, during his speech at the plenary session of the Parliament of Georgia, the United National Movement MP, Giorgi Vashadze, stated: “As a rule, Cartu Bank does not distribute mortgages; however, it does make exceptions for members of the Government of Georgia.” The MP also pointed out that Giorgi Kvirikashvili has a GEL 200,000 loan from this bank whilst his annual income does not exceed GEL 100,000.

FactCheck looked into the accuracy of this statement.

First of all, we took interest in the loan services provided to customers by Cartu

Bank. After looking into the information on the bank's website and calling the inquiry hotline, we learned that Cartu Bank does not have a mortgage loan service and only distributes loans to individuals who can back them up with deposits.

Then, we also checked the January 2016 property declaration of the Prime Minister of Georgia, Giorgi Kvirikashvili, as published by the Civil Service Bureau. The declaration points out that Mr Kvirikashvili's annual income, calculated from 1 January 2015 to 31 December 2015, is GEL 74,021. Of this, he received GEL 50,000 as his salary for serving as Minister of the Ministry of Economy and Sustainable Development of Georgia whilst he received the remaining GEL 24,021 as his salary for serving as the

Minister of the Ministry of Foreign Affairs of Georgia. Of the Prime Minister's family members, only his daughter, Ana Kvirikashvili, received a salary in the amount of GEL 8,400 in 2015.

As Table 2 makes clear, Giorgi Kvirikashvili took two mortgages from Cartu Bank; in November 2012 and in June 2015 (USD 120,000 and USD 173,500, respectively). A total of USD 109,842 and USD 8,545 were necessary to service these two loans from 1 January 2015 to 31 December 2015 with the overall amount being USD 118,027. Given the fact that the date of taking the new mortgage in 2015 and the expiry date of the old mortgage taken in 2012 coincide with each other, we can presume that Mr Kvirikashvili covered the 2012 mortgage by taking a new one in 2015.

Table 1: Paid Work Conducted by Giorgi Kvirikashvili in 2015

Identity	Place of Employment	Position	Salary, GEL
Giorgi Kvirikashvili	Ministry of Economy and Sustainable Development of Georgia	Minister	50,000
Giorgi Kvirikashvili	Ministry of Foreign Affairs of Georgia	Minister	24,021

Table 2: Giorgi Kvirikashvili's Agreements and their Material Value in 2015 (Greater than GEL 3,000)

Agreement Type	Value of the Agreement, USD	Issuing Company	Date of Expiry of the Agreement	Material Result, USD
Mortgage	120,000	Cartu Bank	01/11/2012 - 09/07/2015	109,482 Expenditure
Mortgage	173,500	Cartu Bank	09/07/2015 - 09/07/2030	8,545 Expenditure

## CONCLUSION

ACCORDING TO THE 1 JANUARY 2016 PROPERTY DECLARATION PUBLISHED BY THE CIVIL SERVICE BUREAU, GIORGI KVIRIKASHVILI'S INCOME FROM 1 JANUARY 2015 TO 31 DECEMBER 2015 AMOUNTED TO GEL 74,021. THE EXPENDITURE ASSOCIATED WITH THE MORTGAGES IN THE SAME PERIOD WAS USD 118,027. IT SHOULD ALSO BE NOTED THAT ACCORDING TO CARTU BANK, IT DOES NOT DISTRIBUTE MORTGAGES TO INDIVIDUALS. HENCE, FACTCHECK CONCLUDES THAT GIORGI VASHADZE'S STATEMENT IS TRUE.

**TRUE**

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