

# FactCheck



## Zurab Japaridze:

“In March of 2013, tax revenues amounted to GEL 710 million, in March of 2014 – 686 million. You have a decrease in comparison to March of the preceding year as well. The volume of external debt has also seen an unprecedented growth: in two months, January and February, domestic debt grew by GEL 146 million while foreign debt increased by GEL 46 million. If we examine the indices of the past years, we see that growth of this extent in the domestic debt has not been registered in the whole year, let alone in two months.”



Photo by Civil Press

Nutsa TOKHADZE  
FactCheck

At the session of the Parliament of Georgia held on 2 April 2014, representative of the Parliamentary Minority, Zurab Japaridze, discussed the economic affairs of the country and stated: “I would like to tell you several figures that are alarming. For instance, in March of 2013, tax revenues amounted to GEL 710 million, in March of 2014 – 686 million. You have a decrease in comparison to March of the preceding year as well. The volume of external debt has also seen an unprecedented growth: in two months, January and February, domestic debt grew by GEL 146 million while foreign debt increased by GEL 46 million. If we examine the indices of the past years, we see that growth of this extent in the domestic debt has not been registered in the whole year, let alone in two months.”

FactCheck studied the

As for the state debt, at the end of February 2014, external debt (factual data) amounted to GEL 7,338 million whereas at the end of 2013, as can be seen in Table 1 – GEL 7,296 million. Consequently, in January-February of 2014 external debt grew by GEL 42 million as compared to December of 2013. Examining the dynamics of domestic debt, we observe that at the end of February 2014, the volume of domestic state debt stood at GEL 1,491 million whereas at the end of 2013 the indicator equalled GEL 1,345 million. Consequently, in

factual indices of the Georgian budget as well as the statistics of state debt and checked the accuracy of the MP's statement.

In line with the data published on the website of the state treasury, in March of 2013 tax revenues (which include income tax, profit tax, value added tax, import tax, property tax, excise tax, etc.) amounted to GEL 710 million while in March of 2014 – GEL 686 million. These indices precisely correspond to the figures indicated by the MP and, as can be seen, the tax revenues of March 2014 are indeed outstripped by the indicator of the same period of the previous year (by GEL 24 million).

For a deeper analysis of the matter, along with the indices of March of 2013-2014, it is advisable to also examine the overall revenues registered in March and the first quarter as well as the receipts, budget shortfall and tax revenues of the first quarters of those years.

In March of 2014 the revenues (which include tax revenues, grants, interest,

January-February of 2014 domestic debt increased by GEL 146 million relative to December of 2013. On the whole, the numbers enumerated above verify the figures indicated in Zurab Japaridze's statement.

In terms of external and domestic debt we observed the following situation in the past years:

By the end of February 2012 external debt amounted to GEL 7,088 million while at the end of February 2011 – GEL 7,064. Comparing the indices of February 2012 and February 2011 to the indicators of the preceding year (as shown in Table 1) we see that in two months of 2012

dividends, rent, administrative fees and taxes, etc.) grew by GEL 709 million while in March 2013 the growth amounted to GEL 726 million. As for the first quarter of 2014, revenues totalled GEL 1,696 million whereas in the same period of 2013 the volume of income equalled GEL 1,641 million.

In March of 2013 the budget (which includes revenues, decrease of financial and non-financial assets and the growth of bonds) increased by GEL 839 million while in March

of 2014 – by GEL 848 million. It is also to be noted that the 13% growth of the budget in March 2013 (by GEL 105 million) and the 14% upturn in March of 2014 (by GEL 116 million) were fuelled by the growth in bonds. Accordingly, in March of 2013 and 2014, bond-fuelled growth in the budget was prompted approximately by the same percentage of increase in bonds.

In the first quarter of 2013 the budget totalled GEL 1,795 million whereas in the first quarter of 2014 – 2,038 mil-

lion. Of this, in 2013 bonds accounted for 8% (GEL 138 million) of the budget, whereas in 2014 – 14% (GEL 292 million). If we compare the difference between the budgets of 2013 and 2014 with the variation of bonds in those years (the difference between the budgets is equivalent to GEL 243 million whereas the variation in the growth of bonds equals GEL 154 million) we see that the increase in the budget of 2014 as compared to 2013 was larger than the growth observed in bonds.

As concerns the shortfall in the budget, in the first quarter of 2013 the shortfall in the budget amounted to GEL 188 million whereas in the first quarter of 2014 – GEL 62 million (in the first quarter of 2014 the budget was forecast to amount to GEL 2,099 million whereas the factual execution amounted to GEL 2,038 million).

It should also be mentioned that the tax revenues totalled GEL 1,553 in 2013 whereas in 2014 the indicator equalled GEL 1,639 million.

TABLE 1: FACTUAL INDICES OF STATE DEBT (GEL THOUSAND)

Years	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014*
State External Debt	3,109,781.00	2,908,638.00	2,849,042.00	4,486,640.00	5,700,554.00	6,979,304.00	7,016,223.00	7,218,397.00	7,295,978.00	7,825,945.00
Variation of External Debt Relative to Previous Year										
	-280,445.00	-201,143.00	-59,596.00	1,637,598.00	1,213,914.00	1,278,750.00	36,919.00	202,174.00	77,581.00	529,967.00
State Domestic Debt	1,534,900.00	1,510,900.00	1,489,900.00	1,458,916.00	1,017,846.00	1,168,846.00	1,220,846.00	1,229,866.00	1,344,866.00	2,584,171.00
Variation of Domestic Debt Relative to Previous Year										
	-38,600.00	-24,000.00	-21,000.00	-30,984.00	-441,070.00	151,000.00	52,000.00	9,020.00	115,000	1,239,305.00
Total Debt	4,644,681.00	4,419,538.00	4,338,942.00	5,945,556.00	6,718,400.00	8,148,150.00	8,237,069.00	8,448,263.00	8,640,844.00	10,410,116.00
Variation of Total Debt Relative to Previous Year										
	-319,045.00	-225,143.00	-80,596.00	1,606,614.00	772,844.00	1,429,750.00	88,919.00	211,194.00	192,581.00	1,769,272.00

Source: Ministry of Finance of Georgia; mof.ge

(January-February) foreign debt grew by GEL 72 million relative to 2011 whereas in the first two months of 2011 (January-February) external debt increased by GEL 85 million in comparison to 2010. Therefore, the growth of GEL 42 million registered in external debt in January-February of 2014 does not represent an unprecedented extent of growth when compared to the same indicators of the past years. However, it is of further note that in line with the 2014 budget foreign debt is projected to grow by GEL 530 million in 2014 and this does indeed represent the highest indicator in com-

parison to the annual indicators of the previous years with the exception of 2008, 2009 and 2010 (note: following the Russian-Georgian war of 2008 the international community provided assistance to Georgia in the amount of USD 4.5 billion of which USD 2 billion was given in the form of a grant whereas the remaining USD 2.5 billion – in the form of a credit).

As for the dynamics of domestic debt, as can be drawn from Table 1, from 2005 to 2010 it was characterised with a tendency of decline whereas beginning from 2010 to present – with a tendency of increase. In 2010, domes-

tic debt surged by GEL 151 million, in 2011 – by GEL 52 million, in 2012 – by GEL 9 million, in 2013 – GEL 115 million and in 2014 – by GEL 1,239 million. It should be noted that the pure growth of domestic debt in 2014 is forecast to amount to GEL 600 million. The state debt limit is set at GEL 1,239 million and apart from the projected growth of the debt also includes the historic debts of the country which roughly amount to GEL 640 million at present. If we compare the growth of GEL 146 million observed in domestic debt in January-February of 2014 to the indicators of the same

period (January-February) of the past years it becomes evident that the growth of GEL 146 is indeed unprecedentedly high. However, if we compare GEL 146 million to the annual growth of domestic debt (Table 1), we see that consistent with the assertions of the MP, the same holds true with the only exception of the year 2010 when the domestic debt grew by GEL 151 million. It is also to be noted that the growth of GEL 600 million in domestic debt is indeed unprecedentedly high in comparison to the indices of the previous years.

Category: Budget

## CONCLUSION

Our inquiry about the accuracy of Zurab Japaridze's statement revealed that in March of 2013 tax revenues mounted by GEL 710 million while in March of 2014 the growth equalled GEL 686 million. Similarly, the overall revenues of March 2013 exceeded the revenues of March 2014. However, in 2014 we observe better indicators than in 2013 in terms of the budget size of March as well as the revenues of the first quarter, budget shortfall and tax revenues.

In January-February of 2014 external debt grew by GEL 42 million as compared to December of 2013 whereas domestic debt rose by GEL 146 million. If we compare the growth of GEL 42 million to the indicators of the same period (January-February) of the previous years it becomes evident that this magnitude of growth does not represent an unprecedented occurrence. If we compare the annual growth of external debt to the indicators of the previous years, the GEL 530 million growth of external debt projected in the 2014 state budget indeed proves to be unprecedentedly high.

As for the domestic debt, the comparison of GEL 146 million growth registered in January-February of 2014 with the growth of the same period of the previous years reveals this indicator to be the highest. However, if we compare this figure to the annual growth of domestic debt registered over the past years we see that the growth of GEL 146 million is outweighed only by the indicator of 2010 when the volume of domestic debt mounted by GEL 151 million. Additionally, if we compare the pure growth of domestic debt in 2014 in the amount of GEL 600 million to the annual indicators of the previous years the growth of this magnitude does indeed prove to have no precedents in the past.

Consequently, we conclude that the MP's statement: “In March of 2013 tax revenues amounted to GEL 710 million, in March of 2014 – 686 million. You have a decrease in comparison to March of the preceding year as well. The volume of external debt has also seen an unprecedented growth: in two months, January and February, domestic debt grew by GEL 146 million while foreign debt increased by GEL 46 million. If we examine the indices of the past years, we see that growth of this extent in the domestic debt has not been registered in the whole year, let alone in two months,” is **HALF TRUE**.



# HALF TRUE

EUROPEAN  
ENDOWMENT OF DEMOCRACY

G | M | F The German Marshall Fund  
of the United States  
STRENGTHENING TRANSATLANTIC COOPERATION



# London, Paris and Rome still Top Picks



## BRAZIL AND SANTORINI EMERGE AS POPULAR DESTINATIONS, SURVEY

The FINANCIAL

Nearly half (45%) of experts said their summer travel bookings, relative to their bookings from last year, have increased. This is despite the fact that 67% percent said the cost of travel is up when compared to 2013, according to the American Express Travel which has recently surveyed a group of its experts – nearly 300 travel counselors – to get the scoop on what is trending with their customers for this upcoming summer season (travel between June 1 and August 31).

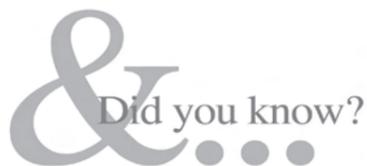
Travel counselors cited rising costs in key travel categories – airfare and hotel stays – as main reasons for the increase in the cost of summer travel. However, 35% indicated costs are up because customers are choosing to spend more on amenities such as excursions and other activities. When further asked about what is most important to travelers when booking summer travel, the findings show customers are prioritizing perks over price:

33% said customers want added value such as upgrades  
26% responded the destination is most important to customers  
20% indicated budget as their customers' top consideration

"After one of the coldest and snowiest winters on record, it's no surprise people are itching to get away this summer," said Laura Fink, vice president of American Express Travel. "That long, cold winter has fostered a demand for travel where customers are placing a premium on perks and amenities to upgrade their trip experiences despite rising costs," she added.

The survey also indicated the average duration of summer trips are 10 days. When asked what type of experience most customer are looking for, 43% responded relaxing experiences such as an all-inclusive beach vacation while another 34% said customers are looking to immerse themselves in the culture of the destination. Cruise vacations remain popular as well; nearly one third of the travel counselors surveyed said clients are booking cruises for the summer.

While the majority of travel counselors (81%) are planning vacations for clients and their immediate family, 35% report curating trips for multi-generational families and 29% are planning experiences for their clients traveling with friends or a significant other, according to American Express Company.



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## Giorgi Kvirikashvili:

"Considering that Georgia is rich in hydro resources and, at present, only 18% of these resources are employed, our country is particularly attractive for foreign direct investments. In 2013, the amount of FDI in the energy sector accounted for 22% of the total investments."

Nutsa TOKHADZE  
FactCheck

On 28 March 2013, the informational-analytical portal, *for.ge*, published a newscast on the international business forum, Economic Integration with the EU – Perspectives and Opportunities, held at the exhibition centre, Expo Georgia. The principal purpose of the event was to inform representatives of the European Union, governments of the Eastern Partnership countries and the private sector about Georgian economic policy, the business environment and investment opportunities. One of the presenters at the conference was Giorgi Kvirikashvili, Vice Premier and the Minister of Economy and Sustainable Development. He introduced conference participants to the government's view on the economic development of the country. Discussing matters related to the energy sector, the Minister stated: "Considering that Georgia is rich in hydro resources and, at present, only 18% of these resources are employed, our country is particularly attractive for foreign direct investments. In 2013, the amount of FDI in the energy sector accounted for 22% of the total investments."

FactCheck inquired about Georgia's supply of hydro resources and the amount of FDI made in the energy sector in order to check the accuracy of the Minister's statement.

In accordance with the information published on the website of the Ministry of Environment and Natural Resources Protection and that of the Ministry of Energy, Georgia's water and water-related resources hold the leading position of importance from the list of the country's natural wealth (coal, oil, natural gas, etc.). Georgia's hydro energy potential (rivers, lakes, reservoirs, glaciers, groundwater, marshlands) is one of the highest in the world considering the total area of the country. There are 26,060 rivers and as many as 860 lakes on the Georgian territory. The overall cumulative length of the rivers reaches 26,000 kilometres. The majority of the lakes are small and, therefore, their water surface area is around 170 km<sup>2</sup> (0.24% of the country's territory). A total of 43 reservoirs are in ser-

vice within the hydroelectric stations and irrigation systems of Georgia. Of those, 35 are located in the eastern part of the country. Presently, over 75% of Georgian electric energy is produced in hydroelectric power plants.

A large-scale construction of hydroelectric power plants was launched in the 1930s. In 1927, the Avchala-Zahesi hydroelectric power plant was put into operation (installed capacity – 36.8 MW), in 1928 – Abhesi, in 1934 – Rionhesi. By 1941, the total combined capacity of Georgia's power generation reached 180 MW. From 1945-1960 11 new hydropower plants were put into operation. According to the data of 2013, a total of 58 hydroelectric power plants were operating in Georgia of which ten were only seasonal. In agreement with the socio-economic development strategy project, Georgia 2020, the total potential annual capacity of Georgia's hydro resources is equivalent to 15 thousand MW while the average annual generation equals 50 billion KWh. Additionally, 80% of the potential of hydro resources is

untapped which means that only 20% of the country's hydro resources is being used.

As can be gathered from Table 1, generation of electricity is mainly characterised with a tendency of increase in the aftermath of 2006. The only exceptions are the years 2009 and 2012 (in 2009 the generation of electric energy declined by 42.3 million KWh as compared to 2008 whereas in 2012 the decrease relative to the preceding year amounted to 406.9 million KWh). The percentage of hydro power plants in the generated electricity varies between 63.3%-93.2%. As for import and export, the major importer as well as the exporter of electric energy in Georgia is Russia.

As evident from the above table, the volume of generated electricity exceeds the volume of energy supplied to users each year. The reason for this difference is the energy loss in stations as well as power transmission lines and the seasonality of electricity generation. The seasonality factor creates the need to import electricity in certain periods of the year and allows for export

during other periods.

The abovementioned analysis shows that Georgia's electricity is primarily generated through hydroelectric power plants and even in this case only 20% of the country's hydro resources are being put into use. Consequently, investment in the energy sphere and, principally, in the construction of hydroelectric power plants is of special importance as this would diminish the need for import resulting from the seasonality and prompt a further increase in the export of electricity.

As can be seen in Table 2, the largest share of FDI in the years 2007, 2008 and 2010 was made in the field of transportation and communication; in 2009 and 2011 – in real estate, whereas in 2012 and 2013 – in energy (in 2012 – 19.7% and in 2013 – 21.7%). Consequently, in 2013 the volume of investment in the energy sphere reached its highest indicator over the past years – 22%. The field of energy remains the prioritised field for investors in Georgia.

Category: Energy and Investments



Photo by citizens.ge

TABLE 1: ELECTRIC ENERGY GENERATION, CONSUMPTION, EXPORT AND IMPORT INDICES (MILLION KWH)

Years	2006	2007	2008	2009	2010	2011	2012	2013	2014 January - March
Total Generation (Million KWh)	2,757.3	8,345.7	8,450.5	8,407.7	10,057.7	10,104.5	9,697.6	10,058.8	2,573.1
Total Thermal Power Plants	944.5	1,514.5	1,281.5	990.7	682.8	2,212.1	2,477.1	1,787.7	943.9
Number of Thermal Power Plants	3	3	3	3	3	4	4	3	3
Total Hydro Power Plants	1,812.7	6,831.2	7,169.0	7,417.0	9,374.9	7,892.5	7,220.5	8,271.0	1,629.2
% of Hydro Power Plants in Generation	65.7	81.9	84.8	88.2	93.2	78.1	74.5	82.2	63.3
Number of Hydro Power Plants	41	45	47	51	53	53	54	58	61
Total Import	60.1	433.3	649.0	254.8	222.1	471.0	614.6	484.1	246.4
From Russia	12.8	176.5	560.1	223.3	211.9	447.6	517.0	460.5	216.0
From Azerbaijan	15.5	107.4	34.6	31.5	10.1	23.4	97.5	23.6	30.3
From Armenia	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
From Turkey	31.8	149.0	54.3	0.0	0.0	0.0	0.0	0.0	0.0
Delivery to Consumers	2,616.9	7,815.4	8,074.8	7,642.1	8,441.1	9,256.6	9,379.4	9,690.2	2,693.1
Total Export	61.8	625.5	679.6	749.4	1,524.3	930.6	528.2	450.4	0.0
To Russia	0.6	300.2	432.7	525.8	1,117.1	568.6	369.4	370.6	0.0
To Azerbaijan	30.0	109.6	30.9	21.5	14.3	5.9	11.8	6.6	0.0
To Armenia	0.0	0.0	0.0	19.8	89.4	117.5	67.9	73.2	0.0
To Turkey	31.3	215.6	216.0	182.3	303.4	218.6	79.0	0.0	0.0
Total Consumption	2,678.7	8,440.9	8,754.4	8,391.5	9,965.4	10,187.2	9,907.533	10,140.6	2,693.1

Source: Electricity System Commercial Operator; esco.ge

TABLE 2: FOREIGN DIRECT INVESTMENT IN GEORGIA BROKEN DOWN BY ECONOMIC SECTORS

Years	2007	2008	2009	2010	2011	2012	2013
Total FDI (USD Thousand)	2,014,841.6	1,563,962.4	658,400.6	814,496.6	1,117,244.1	911,564.3	914,413.0
Share (%) in Total FDI							
Agriculture, Fishing	0.8	0.5	3.4	1.1	1.3	1.8	3.5
Mining	4.3	1.2	2.3	6.6	3.6	0.5	3.9
Manufacturing	15.5	12.0	19.0	21.5	10.8	18.4	13.5
Energy	18.0	18.9	-0.3	2.7	18.3	19.7	21.7
Construction	8.5	3.6	16.0	0.6	4.3	4.8	5.9
Hotels and Restaurants	12.0	11.6	5.7	2.1	2.0	1.9	-1.5
Transports and Communication	20.7	27.0	15.0	26.4	11.3	8.0	15.1
Health and Social Work	0.0	0.0	0.0	0.1	1.5	1.9	0.2
Real Estate	1.5	17.8	22.4	14.8	20.1	5.8	2.9
Other Sectors	10.9	6.7	9.1	11.1	11.7	19.5	16.2
Financial Sector	7.8	0.7	7.5	13.2	15.0	17.8	18.6

Source: National Statistic Office of Georgia; geostat.ge

## CONCLUSION

In Georgia electricity is primarily generated through hydroelectric power plants and even in this case only 20% of hydro resources is put into use. Consequently, investment in this field is of special importance as this would diminish the need for import as well as boost export.

In 2012 and 2013 the largest share of FDI was made in the field of energy (in 2012 – 19.7% and in 2013 – 21.7%) and with the indicator of 22% in 2013, the volume of investment in the energy sphere reached its highest indicator registered over the course of the past years.

We conclude that Giorgi Kvirikashvili's statement: "Considering that Georgia is rich in hydro resources and, at present, only 18% of these resources are employed, our country is particularly attractive for direct foreign investments. In 2013, the amount of FDI in the energy sector accounted for 22% of the total investments," is TRUE.

TRUE



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