FactCheck

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Nikoloz Khundzakishvili:

"The Association Agreement with the European Union does not require Georgia to increase excise tax on beer."

TRUE

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FactCheck

On 5 February 2015, on air on the Maestro channel, the Director of Corporate Issues at the Natakhtari Company, Nikoloz Khundzakishvili, elaborated upon the increase of excise tax on beer in Georgia alongside the related current practices in the European Union. He believes that the Association Agreement with the European Union does not require Georgia to increase excise tax on beer.

A law initiated by the Ministry of Finance of Georgia and requiring the increase of excise tax on tobacco products, malt beer, spirits and other alcoholic beverages was enacted on 1 January 2015. The excise tax on tobacco has already increased since 1 January whilst the regulation on malt beer, spirits and other alcoholic beverages will be enacted on 1 March 2015.

Before the changes to the Tax Code of Georgia, excise tax on beer was 40 *tetri* per litre. It should be pointed out that according to the previous version of the bill, excise tax on malt beer and other alcoholic beverages was to be doubled. However, the Ministry of Finance of Georgia later increased excise tax by only 50%. Hence, the amount of excise tax on one litre of beer will be 60 *tetri* after 1 March 2015. The bill's explanatory note states that one of the aims of the bill is the harmonisation with European Union standards.

Annex 22 of the Association Agreement with the European Union provides for the gradual and non-urgent harmonisation of EU and Georgian taxation policies.

According to the Association Agreement, the harmonisation of systems of excise tax and rates on alcoholic beverages must be based upon the 19 October 1992 Directive No. 83 of the European Council. The European Union allocates three years after the enactment of the Association Agreement in order to harmonise the legislation. In addition, the EU allows the Government of Georgia to remove the excise tax obligations imposed by the Association Agreement upon individuals producing alcohol in small quantities as well as for personal use.

The amount of excise tax on malt beer on the market of the European Union is regulated by the aforementioned two Directives. Hence, the amount of excise tax on standard beer is about EUR 7.4 per 1,000 litres. It should be noted that the directive enables the member states of the European Union to decrease excise tax based upon their needs but not by more than 50% of the imposed minimum.

For comparison, the amount of excise tax per litre of beer by current regulations in Georgia is 40 *tetri*which is GEL 40 per 1,000 litres and is about two times more than that in the European Union. The amount of excise tax per 1,000 litres of beer will reach GEL 60 after 1 March 2015. As we can see, the regulation of the European Union does not require Georgia to increase the amount of excise tax. Furthermore, in certain cases (including the case of Georgia) the regulation provides for the possibility of an excise tax rate decrease.

During our study we also contacted Nikoloz Khundzakishvili at the Natakhtari Company. According to him, the bill was created without any consultations with production companies and negotiations took place only after its presentation. In spite of the subsequent negotiations, however, the Ministry of Finance of Georgia did not take into account a single proposition made by the companies. Mr Khundzakishvili believes that the growth of excise tax on beer will seriously hurt local companies and even reduce the demand on beer. The growth of excise tax will also cause the VAT to increase. He also stated a decrease in the size of the beer market may be among the possible risks. In addition, beer's export potential, which was created after signing the Deep and Comprehensive Free Trade Agreement with the European Union and abolishing import tax, will be significantly decreased.

CONCLUSION

The Association Agreement between Georgia and the European Union does, indeed, include the harmonisation of legislation in the field of taxation; however, it designates a reasonable period from three to five years for the full harmonisation.

The Association Agreement also obligates Georgia to harmonise the structures of excise tax on alcohol and alcoholic beverages; however, again not immediately, but in three years after the enactment of the agreement. None of the directives of the European Council requires Georgia to increase excise tax on beer as the current excise tax on beer in Georgia is already two times more than it is in the European Union. Hence, the agreement does not require Georgia to increase excise tax on beer but, based upon the Directive of the European Council, harmonise the structure of excise tax on alcohol and alcoholic beverages with that of the European Union. FactCheck concludes that Nikoloz Khundzakishvili's statement: "The Association Agreement with the European Union does not require Georgia to increase excise tax on beer," is TRUE.

TRUE

EUROPEAN ENDOWMENT FOR DEMOCRACY

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

Kingdom of the Netherlands

Key Takeaways on Technology Use in Emerging and Developing Nations

The FINANCIAL

A picture emerges from the survey of how people perceive the internet's impact on their lives, how many people access it and who they are, and what people are doing online. We also looked at smartphone and cell phone ownership rates, as well as the types of activities people do on their mobile devices, Pew Research Center said.

Here are five key takeaways from this report, which is based on a survey of 36,619 people from spring 2014:

1 - People see the internet as a good influence on education, but are skeptical of its effect on morality. Overall, people in the emerging and developing countries surveyed see the internet as having a positive effect on education, personal relationships and the economy. But they are wary about its impact on politics and especially on morality. A median of 42% across 32 countries say that the internet is a bad influence on morality.

2 - The young, well-educated and English speakers use the internet more frequently. The internet is not pervasive everywhere. In fact, less than half of people in 19 of the 32 countries surveyed say they access the internet at least occasionally or own a smartphone. But young people (18-34 years old), the better educated (secondary or more education) and those who have at least some ability to read and speak English are consistently much more likely than others to be online.

3 - Across the emerging and developing countries, national income is strongly associated with higher internet access rates. Richer countries in terms of gross domestic product per capita are much more likely to have high rates of internet access, and poorer countries typically have fewer internet users. At some point, however, access in richer countries will max out, providing a chance for poorer nations to close the gap. As of January 2014, 87% of people in the U.S. (a very rich country) use the internet, and many envision a time when universal access will become a reality.

4 - Among the activities tested among online users, socializing, either with friends or family or by utilizing social networks, is the most popular choice. Meanwhile, getting information, such as political news, health advice or government services, is in the second tier of internet use, but still widespread. Commerce and career activities such as looking for a job, making or receiving payments, buying products and taking an online class are less common.

5 - Cell phones are nearly universal, but smartphones are less commonplace, at least for now. Nearly everyone in the 32 countries surveyed owns a cell phone (median of 84%). But while the smartphone revolution is in full swing, levels of smartphone penetration are far from universal. Only in two of the countries polled do more than half have a smartphone – 58% in Chile and 55% in China, on par with the 58% of Americans who report owning this kind of device. But as with internet access, the people buying these phones are young and educated, so the movement toward greater smartphone adoption is likely to continue.

Georgia Almost Doubles Expenditure on Country's Promotion

Continued from p. 4

are also actively using international social networks in order to enhance awareness of the country and demonstrate its touristic potential.

Q. During economic difficulties many officials eschew spending their vacations abroad and instead prefer to spend them in their home countries. Are you applying the same initiative and calling on Georgian officials to spend their vacations in Georgia?

A. I recommend this not only for officials, but everyone, to holiday in Georgia. Internal tourism is one of the main components of the development of this sector. Unfortunately, we frequently hear that we, Georgians, have not well-discovered our own country. In all honesty Georgia has amazing potential. This is a rare country that offers four-season travel. An amazing Black Sea coast; mountainous resorts Svaneti, Tusheti, Khevsureti, and Ushguli - which is the highest inhabited place in Europe; winter resorts Bakuriani, Gudauri and Mestia; traditional sanatorium resort places Borjomi and Tskaltubo; caves, canyons, historical-cultural places - it is really hard to list all the reasons to visit Georgia. The attractiveness of this country is that it can suit anybody of any individual interests. Georgia is the best destination for adventure tourism, pilgrimages, or even for those who are simply looking for a calming time.

Q. Where do you plan to spend your vacation and which places do you recommend visiting?

A. Due to the great touristic potential of Georgia I recommend that foreign as well as domestic tourists choose Georgia. There are lots of things to visit in our country. Impressions made of Georgia will be unforgettable for everyone. As for me, I am planning to spend my holidays with my family in Batumi and Borjomi.

China Home Prices Extend Slide in February

The FINANCIAL -- The average price of new homes in 70 Chinese cities fell further in February amid sluggish demand due to the Lunar New Year holiday and fears among potential home buyers of more price cuts, Nasdaq said.

On a year-over-year basis, the average price of new homes dropped 5.7% in February, after a 5.1% decrease in January and a 4.3% fall in December. It was the sixth month in a row of declines, based on The Wall Street Journal's calculations from data released Wednesday by the National Bureau of Statistics, USA.

The pain in China's property market is likely to continue despite Beijing's efforts to help the economy, analysts said, noting that so far only major cities such as Beijing and Shanghai are showing signs of recovering.

Housing sales in the third and fourth tier cities account for around two-thirds of the country's real-estate market, and the persistent weakness in demand in such cities has been a drag on the world's second-largest economy.

A sharp decline in housing sales has been a factor in the government efforts to boost the economy. The central bank announced a cut in benchmark interest rates in late February, following a reduction in November, and let banks lend more by reducing the portion of their deposits they need to set aside as reserves.

On a month-over-month basis, prices in February slipped 0.43%, unchanged from the 0.43% fall in January, but widening from December's 0.40% decline, according to calculations by The Wall Street Journal.

Private-sector home prices fell in 69 of 70 cities in February, unchanged from the 69 cities that posted declines in January. On a month-over-month basis, home prices fell in 66 of 70 cities in February, compared with January's 64.

"The government can't ignore the property market at this juncture," said Rosealea Yao, an analyst at Gavekal Dragonomics.

She added that she expects Beijing to ease more policies, including lower down-payment requirements, and make further cuts in interest rates or banks' reserve requirements.

Many Chinese cities are still saddled with high inventories of unsold homes, and authorities in a number of provinces have said they are buying up private housing units to convert them into housing for lower-income households.

But many Chinese individuals remain nervous about the market. Diminished hopes for a turnaround in home prices and expectations that property taxes could be put in place soon have driven some investors to look for opportunities abroad.

"Many of my customers are worried about the value of their property in China," said Zita Wong, an adviser at Griffin Plutus, a wealth management firm based in Shanghai. "They are no longer looking for property here and are instead looking for assets abroad as a hedge."

Premier Li Keqiang said Sunday that China has ample tools to "intensify fine-tuning measures to assure market confidence," suggesting that Beijing is willing to lend support to the economy to keep it humming. He noted that China's urbanization drive should help the housing market and genuine demand for homes remain strong.

China's real estate sector is estimated to account for nearly one-quarter of gross domestic product when construction, cement, steel, chemicals, furniture and related industries are factored in. Housing sales nationwide fell 16.7% to 498.3 billion yuan ($79.6 billion), the steepest decline in three years since a 24.7% plunge recorded in the January-February period in 2012. For the whole of 2014, housing sales slipped 7.4%.

China posted 7.4% economic growth last year, its worst performance in nearly a quarter of a century. It has set an even lower target this year of 7% but some analysts say it could fall short of its objective.

"The property market will have to switch to boosting the economy from being a drag in order to hit the 7% GDP growth target this year," said ING economist Tim Condon.

Visa Free Travel to Brazil Makes Little Difference to Georgian Travellers

Continued from p. 6

airport, Nice and Oslo. Barcelona was the top destination among the passengers of Pegasus during 2014.

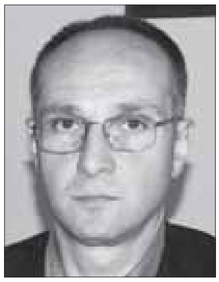
Lufthansa, that has been one of the leading arline companies operating in Georgia started losing its market share recently. Currently the company shares only 3%, with 65, 475 passengers served in 2014.

"In 2014 we kept the same level in Georgia like in 2013. According to our numbers, our market share in international travel (w/o intra-Georgian flights) was 9%. We will try to keep it on this level in 2015," Martin Riecken, Director at Corporate Communications, Deutsche Lufthansa AG, told The FINANCIAL.

"We have not lost competitiveness in georgia. With our night flight, we continue to offer the best access to our huge worldwide network," said Riecken.

In Riecken's words, Georgia is an important market for the company. "Our focus is to offer the best connections to our worldwide network. The priorities of Turkish Airlines are different," he added.

"Lufthansa's clear goal is to keep the yields up and to increase market share and absolute numbers of passengers," Riecken told The FINANCIAL.



Mikheil Machavariani:

Parliamentary Minority MP

"A total of 530,000 of our citizens have their loans in USD."

TRUE

Mariam CHACHUA
FactCheck

According to the statement of the Parliamentary Minority MP, Mikheil Machavariani, the depreciation of GEL which has been going on for several months already will have the most negative influence upon people who have their loans in USD. The number of such people is about 530,000.

The part of the population which has its loans in USD and wages in GEL, the depreciation of the national currency makes it more expensive to service the debts as more GEL will be required to cover loans drawn in USD.

According to the National Bank of Georgia, the amount of loans distributed in the national economy equalled GEL 11,793 million. The amount of loans taken by residents in foreign currency was GEL 7,047 million which constitutes 60% of the total amount of loans. A total of 42% of the loans in foreign currency were taken by individuals.

FactCheck addressed the National Bank of Georgia to determine the number of Georgian citizens with loans in foreign currency. According to the National Bank of Georgia, they do not possess data about loans in different currencies. Hence, the data of loans in foreign currency includes loans in USD, EUR and other currencies as well. In addition, the National Bank only possesses data about the number of newly distributed loan agreements which include both long- and short-term loans. Hence, a number of loans distributed throughout the year are short-term loans and are already covered by the end of the year. A total of GEL 6,629 million in loans was distributed in foreign currency in 2014 whilst the number of loan agreements reached 447,806.

Based upon the data of the National Bank of Georgia, **FactCheck** decided to calculate the approximate number of citizens who have their loans in USD. For this, we summed the number of loan agreements distributed in 2014 and those distributed in 2012 and 2013 in amounts more than GEL 5,000. The period of their coverage is more than two years. The number of such agreements reached 117,307. Based upon this calculation, the approximate number of acting loan agreements would be 615,768 by December 2014. According to the data of the National Bank of Georgia, about 97% of the loans in foreign currency from 2012 to 2014 were issued to residents. Hence, more than 90% of the acting loan agreements are issued to residents of Georgia which amounts to more than 500,000.

Table 2: Amount of Loans in Foreign Currencies and the Number of Loan Agreements in 2013 and 2014

GEL Million	2013	2014
Loans in Foreign Currency	6,191	6,629
Number of Loan Agreements	498,461	447,806

Source: National Bank of Georgia

Table 1: Amount of Loans Distributed in the National Economy as of 01.12.2014

GEL Million	In National Currency	% With Regard to Loans Distributed in the National Economy	In Foreign Currency	% With Regard to Loans Distributed in the National Economy	Total
Loans Distributed in the National Economy	4,745.5	40.2%	7,047	59.8%	11,793
Inter-Bank Loans	94.4	100%	0	0%	94.4
Legal Entities	1,296.5	22%	4,588.2	78%	5,884.7
Individuals	3,354.6	57.7%	2,458.9	42.3%	5,813.6

Source: National Bank of Georgia

CONCLUSION

The amount of loans in foreign currency, taken by Georgian citizens, was GEL 7,047 million by 1 December 2014 of which GEL 2,459 million (42%) were distributed to individuals. A total of 447,806 new foreign currency loan agreements were signed in 2014.
The National Bank of Georgia only possesses information about the newly signed loan agreements throughout the year. A number of these agreements are short-term and the loans are covered by the end of the year whilst others are long-term and the repayment period is more than a year. Hence, it is impossible to determine the number of citizens with their loans in USD by December 2014. However, based upon the approximate numbers calculated by FactCheck, the number of loan agreements issued to citizens of Georgia by December 2014 was indeed more than 500,000. Hence, the pathos of the MP that the depreciation of GEL has made the loans more expensive for many citizens is correct.
FactCheck concludes that Mikheil Machavariani's statement: "A total of 530,000 of our citizens have their loans in USD," is TRUE.

TRUE