GRASS FACTCHECK

Policy of tightening belts or simple self-deception?!

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FactCheck

At the beginning of March 2015, the Government of Georgia announced that it would decrease the economic growth forecasts and the state budget due to the on-going currency crisis.

On 24 April 2015, during his visit to GDS's talk show, *2030*, the Minister of Finance of Georgia, Nodar Khaduri, responded to a journalist's question about whether or not the state budget would be corrected. Mr Khaduri replied that certain changes have already been made to the state budget: "The government has already received a directive and administrative spending has been decreased by GEL 20 million which was moved to infrastructural projects."

Due to the depreciation of the national currency, in February 2015 the Government of Georgia announced the imposition of rational budget spending and a decrease in administrative spending or, in other words, a policy of tightening belts.

According to the 6 March 2015 Directive No. 422 of the Government of Georgia, ministries and other spending organisations funded by the state budget were ordered to decrease their administrative spending in order to maintain the country's fiscal stability and effectively manage the budget deficit. Government structures were to present information about their spending cuts to the Ministry of Finance of Georgia by 16 March 2015. According to the aforementioned Directive, the Ministry of Finance of Georgia was to present the updated fiscal and macroeconomic parameters to the Government of Georgia by 1 April 2015.

According to the information provided by the Ministry of Finance of Georgia, the overall spending cuts for the ministries were set at GEL 20 million after receiving their information and summing the amounts.

According to the 8 April 2015 Directive No. 706 of the Government of Georgia, the overall amount of GEL 20 million, vacated after cutting the budget spending, was directed to the Regional Projects Fund of Georgia in order to implement future investment projects.

As pointed out earlier, the need to revise the state budget arose after the depreciation of the national currency. The International Monetary Fund Mission also called upon the Government of Georgia to decrease the spending part of the state budget. According to the 22 February 2015 statement made by the Minister of Economy and Sustainable Development of Georgia, Giorgi Kvirikashvili, the Government of Georgia was planning to decrease administrative spending by 12%. The Minister of Finance of Georgia made a statement about decreasing budget spending and the economic growth forecasts from 5% to 2% on 4 March 2015 as well. However, on 1 April 2015, the Minister of Finance of Georgia also stated that the budget of the first quarter of 2015 had been implemented with excess (as a matter of fact, the revenue part of the state budget was implemented by 104.8% in the first quarter of 2015 whilst the spending part by 96.9%) and hence budget spending would not be significantly decreased at the moment. On 23 April 2015, the Minister of Finance stated that the Government of Georgia would probably make a final decision about the budget in two months. On 14 May 2015, the Minister of Economy and Sustainable Development of Georgia, Giorgi Kvirikashvili, firmly stated: "After the adjusted economic growth data of the end of the second quarter are revealed, we will, of course, make appropriate corrections [decrease] to the state budget."

According to the 2015 state budget plan, the overall spending of the budget was set at GEL 8.005 billion. Of this amount, administrative spending amounted to GEL 2.372 billion. If the government had actually decreased its spending by 12% the overall cuts would amount to GEL 280 million which would significantly decrease the budget deficit and positively influence the exchange rate of GEL. However, as we have seen, the budget spending was decreased by only GEL 20 million and this amount was transferred to another article of the budget – infrastructural projects. Overall, the budget spending did not actually decrease. The national currency continues to depreciate to date. According to the most recent data of the National Bank of Georgia, the exchange rate of GEL with regard to USD amounts to 2.36.

CONCLUSION

AS OF TODAY, THE CORRECTIONS TO THE STATE BUDGET AND THE POLICY OF TIGHTENING BELTS HAVE ONLY RESULTED IN A GEL 20 MILLION ADMINISTRATIVE SPENDING CUT. IN ADDITION, THIS AMOUNT WAS TRANSFERRED TO ANOTHER ARTICLE OF THE STATE BUDGET, INFRASTRUCTURAL PROJECTS, AND HENCE THE SPENDING HAS NOT ACTUALLY BEEN DECREASED. THE REQUIREMENTS DETERMINED BY THE DIRECTIVE OF THE GOVERNMENT OF GEORGIA, MAINTAINING FISCAL STABILITY AND CUTTING THE BUDGET DEFICIT, STILL REMAIN AMONG THE TOP CHALLENGES FOR GEORGIA. GIVEN THE DECREASE IN THE RISKS ABOUT THE IMPLEMENTATION OF THE STATE BUDGET, THE GOVERNMENT HAS NOT YET TAKEN STEPS FOR DECREASING SPENDING AIMED AT FACILITATING THE STABILITY OF GEL. AT THE SAME TIME, THE NATIONAL CURRENCY CONTINUES TO DEPRECIATE.

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Empowered Consumers Changing the Future of Retail Featured

The FINANCIAL

U.S. Survey results indicate consumers plan to research and purchase more frequently using their mobile devices, they are influenced by social media, and free shipping continues to drive purchasing decisions, according to UPS Online Shopping Study.

61% shopped at these locations because they offer unique products

49% couldn't find what they needed from traditional stores

40% wanted to support the small business community

SHOPPING GLOBAL

In addition, 40% of consumers have purchased from retailers based outside the U.S., with nearly half (49%) reporting they did so to find better prices, and 35% said they wanted items that couldn't be found in U.S. stores.

CHANGING CHANNELS

Online shoppers frequently change retail channels during their shopping experience. Better prices (57%) and selection (49%) are the top reasons for purchasing online after researching an item in-store. Nearly half (48%) of online shoppers have used ship to store in the past year, and 45% of those consumers made an additional purchase when picking up their online purchase.

When a purchase is made online from a retailer that has an online and physical store, 39% of consumers who make returns prefer to ship the product back while 61% prefer to return the item to the store. When making an in-store return, 70% purchase an additional item compared to only 42% who make a new purchase while processing an online return.

Respondents said they continue to use personal computers to shop and compare prices, and complement their use as they become more comfortable using mobile technology: 41% use their smartphone for research, while 30% make purchases. Online shoppers appreciate the convenience of smartphones on-the-go and in-store. Smartphone users project making more purchases on their device in the next year.

Retailers need to continue to advance their mobile platforms, as 38% who have a mobile device but do not use it to make purchases said product images are not large or clear enough, and 30% said it's hard to compare products.

SOCIAL'S POWER

Many consumers connect to shopping activities through social media with 43% reporting they discover new products on social media sites. Facebook is the most influential channel but shoppers also embrace visually-oriented sites such as Pinterest.

DIGITAL COMMERCE

Retail continues to evolve as some online shoppers consider using mobile technologies in store: 33% find electronic shelf labels appealing, 29% said they will consider mobile checkout, and 27% said they are open to using touch screens to receive information, make purchases or arrange deliveries.

FREE SHIPPING

Free shipping remains the most important option during checkout according to 77% of online shoppers. More than half (60%) have added items to their cart to qualify for free shipping.

The study provides insight to help retailers increase sales – 48% of online shoppers said they ship items to the store, with 45% of those saying they made additional purchases when picking up their orders.

HASSLE-FREE RETURNS

According to the report, only 62% of consumers are satisfied with the online returns process: 67% review a retailer's return policy before making a purchase, 66% want free return shipping, 58% want a hassle-free "no questions asked" return policy, and 47% want an easy-to-print return label.

ALTERNATE DELIVERIES

Compared to last year's study, more consumers are open to alternate delivery options. In 2014, 26% said they prefer to have packages delivered to locations other than their home, this year it rose to 33%.

When not at home to sign for a package, 32% want it shipped to another convenient retail location.

"The future of retail is driven by ever increasingly sophisticated and savvy shoppers who research at home and in a store, but more are turning to mobile as capabilities improve for online product display and promotion," said Alan Gershenhorn, UPS executive vice president and chief commercial officer. "They also want more flexibility and alternate delivery options. The UPS Access Point™ Network and UPS My Choice meet these needs by giving consumers more control and flexibility with their home deliveries."

The UPS Access Point network is now available in New York City, Boston, Chicago, the San Francisco Bay, and the Washington, D.C. metropolitan area. The network also includes all 4,400 The UPS Store locations.

Nearly 15 million members in 16 countries use UPS My Choice to reroute or reschedule deliveries. UPS My Choice members can send their home deliveries directly to a UPS Access Point location or a The UPS Store location as their preferred delivery address.

FactCheck

Bank of Georgia Receives USD 90 million from IFC

The FINANCIAL

Bank of Georgia, Georgia's leading bank has signed a USD 90 million subordinated loan agreement with the International Finance Corporation (IFC). The long term financing will help increase the Bank's role in diversifying Georgia's economy, expand access to finance and boost sustainable growth.

IFC, a member of the World Bank Group, is providing a 10-year subordinated loan, including USD 20 million mobilized from the European Fund for Southeast Europe (EFSE), to help expand financial services in Georgia, where banking penetration remains low, and increase the flow of credit to micro, small, and medium enterprises (MSMEs).

It was one of the largest debt transactions for Bank of Georgia. "This subordinated loan facility, which qualifies as Tier II Capital under the Basel 2 framework, will improve the overall capitalization of the bank and support our growth without compromising capital ratios," said Irakli Gilauri, CEO at Bank of Georgia.

The financing will help Bank of Georgia, a long-term IFC partner in the region, expand its already large MSME customer base and encourage growth in its retail banking business. It will also contribute to the bank's strategic goal of supporting entrepreneurship in Georgia.

"The loan package will help Bank of Georgia finance more smaller businesses, which are a driving force for development but often lack the capital to grow," said Jan van Bilsen, IFC Regional Manager for the South Caucasus.

"This project is yet another step forward in implementing our strategy in Georgia – one pillar of which focuses on mobilizing our partners' resources to help expand the financial sector, boost access to finance, and reduce poverty," said Bilsen.

Bank of Georgia is the leading Georgian bank, based on total assets with a 36.9% market share, total loans with a 34.7% market share and client deposits with a 32.5% market share as of 31 March 2015, the data includes Privatbank's market shares. The Bank offers a broad range of corporate banking, retail banking, wealth management, brokerage and insurance and healthcare services to its clients.

As of 31 March 2015, the Bank served approximately 1.5 million client accounts through one of the largest distribution networks in Georgia, with 219 branches, the country's largest ATM network, comprising 554 ATMs, 2,245 Express pay (self-service) terminals and a full-service remote banking platform and a modern call center.

Georgia became an IFC member in 1995. Since then, IFC has provided a total of about USD 665 million in long-term finance, including USD272 million mobilized from partners, supporting 51 projects across various sectors. In addition, IFC has supported trade worth more than USD 292 million through its trade finance program. IFC has also implemented a number of advisory projects focused on private sector development.

PASHA Bank issues the term loan facilities to Georgian Water & Power and Rustavi Water Company with the combined principal of GEL 22.5 million

PASHA Bank issued term loan facilities to Georgian Water & Power and Rustavi Water Company of GEL 12.5 million and GEL 10 million respectively. Combined exposure of the Bank to the borrower's parent company, Georgian Global Utilities, amounts to GEL 22.5 million.

The borrowers are regulated water utilities serving Tbilisi and its environs and the city of Rustavi. They regularly carry out water supply and sewage networks rehabilitation works, replacing old underground facilities with new more efficient systems. Loans in foreign currency taken out by borrowers at the earlier date that are now being refinanced by GEL denominated facilities extended by PASHA Bank will contribute to the successful implementation of these projects.

"We are very glad to have started partnership with GWP & Rustavi Water. This transaction once again shows that PASHA Bank, being focused on serving large and medium enterprises, has both institutional capability as well as appetite to take on transaction of such large a scale. In a light of the current market climate, the fact that these facilities were issued in GEL deserves a special mention too," commented the CEO of PASHA Bank, Shahin Mammadov.

"Georgian Water & Power's strategy calls for the gradual reduction of its foreign currency exposures and this deal is a large step in that direction. We are glad that PASHA Bank agreed to provide us with medium term GEL funding at a fixed rate. I would like to hereby express our satisfaction regarding the cooperation with PASHA Bank. The process of structuring the deal was completed promptly and in an efficient manner, which is especially important considering the size of the deal," said CFO of Georgian Water and Power, George Vakhtangishvili.

"Recent GEL/USD exchange rate volatility sparked tangible increase of interest in local currency funding. We are happy to be able to provide such a key player - with the mutually beneficial financing terms," added Commercial Director of PASHA Bank, Goga Japaridze.

Georgian Water and Power (GWP) is a leading water utility in Georgia. It ensures stable supply of drinking water to Tbilisi. GWP also provides wastewater services and generates electricity. Power is generated by Zhinvali Hydro and Tetrikhevi Hydro plants. Biggest share of the electricity generated is used for the Company's own needs.

GRASS FACTCHECK

Irakli Gharibashvili:

Prime Minister of Georgia

"Sixty-four entrepreneurs have already benefitted from the Product of Georgia programme... Approximately 4,500 persons will be employed in enterprises."

True

Veriko SUKHIASHVILI
FactCheck

According to a statement of the Prime Minister of Georgia, Irakli Gharibashvili: "Sixty-four entrepreneurs have already benefitted from the Product of Georgia programme with the total expected amount of investment at USD 112 million. The enterprises will employ approximately 4,500 persons by the end of this year."

FactCheck took interest in the Prime Minister's statement and verified its accuracy.

The programme is being carried out jointly by the Ministry of Economy and Sustainable Development of Georgia and the Ministry of Agriculture of Georgia. It aims at supporting industries working in production. Agriculture is also one of its priorities. The Product of Georgia programme budget is GEL 46 million. Of this amount, GEL 30 million will be spent on the production and processing of agricultural goods whilst GEL 16 million will be spent on the production of industrial goods. The programme includes three components: 1. Access to funds, 2. Access to infrastructure (real estate) and 3. Consultation service.

The access to funds component comprises loan co-financing (in the amount of 10% for the first two years). If a borrower takes a loan for work in industry, he pays 1%-3% per annum whilst 10% is covered by the state. If a borrower takes a loan for work in agriculture, he pays 1%-2% per annum with 10% also covered by the state. The programme's access to infrastructure component provides access to real estate with eligible entrepreneurs given state-owned property for the symbolic price of GEL 1.

According to the Product of Georgia programme's latest data, 65 beneficiaries are already using the access to funds and access to infrastructure components with their respective projects being carried out. The total expected amount of investment in these projects is USD 116.5 million. The access to funds component is being used by 28 beneficiaries with their combined loans amounting to USD 34,213,554. Additionally, 34 beneficiaries are using the access to infrastructure component whilst nine beneficiaries are using the assistance for agriculture with their combined loans totalling USD 14.67 million.

FactCheck sent an official letter to request the contact information for the Product of Georgia programme's beneficiaries. Unfortunately, we were only given the addresses of the enterprises. This notwithstanding, **FactCheck** did manage to contact several beneficiaries and interviewed them about their projects.

Denola LTD received a loan in the amount of GEL 2 million from the Bank of Georgia. As the company's Director, Kakha Mosidze, told us, Denola LTD plans to produce foam rubber (sponges to be used to make mattresses, household cleaning items, etc.). The company started to build the enterprise on land under its ownership and purchased the necessary tools and equipment it required. The construction of the enterprise will be completed in July 2015 and will employ as many as 50 individuals.

Made in Georgia #1 LTD received a loan in the amount of USD 1.1 million from Cartu Bank. It produces packaging materials and labels for wine bottles. According to the enterprise's Director, Nikoloz Deisadze, Made in Georgia #1 LTD has already been open for three months and has 30 individuals working there.

Polymer Plast LTD received a loan in the amount of USD 520,000 from Basis Bank. The company plans to produce plastic pipes. According to the company's owner, Zurab Lagvilava, 15-20 individuals will be employed there.

Sezan LTD received a loan in the amount of USD 1.3 million from TBC Bank. It plans to use the loan to produce packaging materials. The necessary construction work has already been started and the enterprise will be opened by June 2015. It will create 15 jobs.

Iceberg 2 LTD received an agriculture loan both in the framework of the Preferential Agrocredit project (USD 600,000) and the Product of Georgia programme (USD 1.5 million) from TBC Bank. According to the company's Manager, Irakli Vekua, a fish processing factory (European anchovy) has been built and the required machinery has been purchased. The factory produces fish meal and fish oil (fish meal is used as animal feed and fish oil is used for pharmaceutical purposes). Overall, 30 workers are employed at the factory but this number increases seasonally.

CONCLUSION

There are 65 beneficiaries already involved in the Product of Georgia programme. Of these, 28 beneficiaries are using the access to funds component and 34 beneficiaries are using the access to infrastructure component. Among the beneficiaries, nine agriculture projects have been funded with six beneficiaries using both the access to funds and access to infrastructure components of the programme. According to the information obtained from the Entrepreneurship Development Agency, the total expected amount of investment in these projects equals USD 116.5 million and approximately 4,325 individuals will be employed in the enterprises.

FactCheck concludes that Irakli Gharibashvili's statement is TRUE.

TRUE