

# FactCheck



## Giorgi Kadagidze:

President of the National Bank of Georgia



“Our banking system is one of the best in Europe by the trust rate of depositors.”

Ana MOSASHVILI  
FactCheck

On 25 May 2015, whilst presenting his annual report at the Parliament of Georgia, the President of the National Bank of Georgia, Giorgi Kadagidze, stated that according to the study of the American global management research company, Gallup, the trust rate of depositors in the banking system in Georgia is one of the highest in Europe and, in this component, the Georgian banking system holds the third place after Norway and Switzerland.

FactCheck took interest in the accuracy of Mr Kadagidze's statement and analysed Gallup's data.

Gallup was founded in 1935 and studies the opinions of the population about different social issues. Surveys about global topics in various countries of the world are conducted by random selection using personal or telephone conversations. Up to 1,000 people over the age of 15 were surveyed in the process of the study.

One of the main questions concerning the banking system looks like this: “Do you trust the banks or financial institutions in your country?” In his statement Giorgi Kadagidze speaks about the results based upon the answers to this simple question.

According to the 2013 data of Gallup's study published by prosperity.com (see the previous link, pg. 45), Georgia does indeed hold the third place in Europe by the trust rate in its banks and financial institutions. Norway was a leader in this component with 80% in 2013 whilst Malta holds the second place with 78.7%. The level of trust in banks in Georgia was 76.5% in 2013.

Table 1: Trust Rate in Banks and Financial Institutions in Europe (2013 data)

Country	Trust Rate
Norway	80%
Malta	78.7%
Georgia	76.5%
Finland	70.1%
Luxembourg	69.3%
Albania	69.2%
Macedonia (FYROM)	63.5%
Estonia	62.2%
Denmark	58.3%
Belarus	57.4%
Sweden	56.9%
Poland	55.8%
Czech Republic	54.5%
Slovakia	53.1%
Switzerland	50.4%
Austria	49%
Montenegro	46%
Netherlands	44.2%
Bosnia and Herzegovina	43.3%
Croatia	42.7%
Moldova	42%
Bulgaria	40.5%
Portugal	40.3%
Cyprus	40.1%
Russia	39.9%
Germany	39.3%
Slovenia	37.1%
Belgium	37.1%
Latvia	36%
Romania	35.1%
France	33.3%

Sources: Gallup / prosperity.com

## CONCLUSION

ACCORDING TO THE STUDY CONDUCTED BY GALLUP IN 2013, THE TRUST OF DEPOSITORS IN THE BANKING SYSTEM IN THEIR COUNTRY IS QUITE LOW IN CERTAIN EUROPEAN COUNTRIES. FOR EXAMPLE, IN GREECE IT IS 14%, IRELAND – 16.2%, ICELAND – 17% AND SPAIN – 18%. THE TRUST RATE IN BANKS AND FINANCIAL INSTITUTIONS IN GEORGIA IS 76.5%. WITH THIS DATA OUR COUNTRY HOLDS THE THIRD PLACE IN EUROPE AFTER NORWAY (80%) AND MALTA (78.7%). HENCE, FACTCHECK CONCLUDES THAT GIORGI KADAGIDZE'S STATEMENT: “OUR BANKING SYSTEM IS ONE OF THE BEST IN EUROPE BY THE TRUST RATE OF DEPOSITORS,” IS TRUE.

TRUE



EUROPEAN ENDOWMENT OF DEMOCRACY

G | M | F

The German Marshall Fund of the United States



Kingdom of the Netherlands

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# Parliament Adopts Amendments to 2015 State Budget

Parliament confirmed on Friday with 78 votes to 18 amendments to the 2015 state budget cutting economic growth forecast from 5% to 2% and reducing initially targeted GEL 7.6 billion in tax revenues by GEL 200 million.

Funding cut in an amount of total of about GEL 160 million will affect most of the ministries. But the overall budgetary expenditures set for this year remain unchanged at slightly over GEL 8 billion as the government plans to offset reduced tax revenues by raising GEL 185m in foreign loans and over GEL 40m in budgetary support grants from donors. Government also expects additional GEL 150 million this year from mobile operators in license fees for spectrum used to provide 4G services.

Part of the funds, cut from the ministries, according to the government, will be redirected to various infrastructure projects and to cover part of the damage caused by deadly flood in Tbilisi on June 12-14.

Deputy Finance Minister, Giorgi Kakauridze, said that these changes will allow to prevent increase of budget deficit to 3.7% of GDP and to keep it at 3%.

He told lawmakers on July 17 that deficit might be even less than 3% as revised economic growth of 2% is a conservative estimation and the growth can actually reach 3%.

Initially estimated state debt of GEL 11.8 billion is now increasing to GEL 13.78 billion, attributed mostly to depreciation of the Georgian currency lari. It pushed state debt-to-GDP ratio up to 45%, which exceeds target limit of 40%, set by government's

long-term economic strategy paper.

Back in December, when the Parliament was discussing the 2015 state budget, lawmakers from the opposition UNM party were warning the government that neither the 5% economic growth forecast nor target of GEL 7.6 billion tax revenue were realistic. During the debates on budgetary amendments on July 17, UNM lawmakers were reminding Deputy Finance Minister about their warnings, saying that at the time decline of external earnings in the form of reduced exports and remittances had been in place for several months already. But Kakauridze was responding that government's initial projections were in line with those of IMF.

Ministry of Infrastructure and Regional Development funding declines by GEL 54.5 million to GEL 945.5 million; decline is mostly attributed to a failure to implement number of infrastructure projects, which were planned for this year;

Ministry of Agriculture funding is reduced by GEL 25.5 million to GEL 267.45 million;

Education Ministry funding is down by GEL 13.1 million to GEL 340.8 million;

Energy Ministry funding is reduced by GEL 10.7 million to GEL 114.3 million;

Foreign Ministry funding is down by GEL 10.5 million to GEL 89.5 million, mostly at the expense of funds, which were originally aimed at purchasing buildings for Georgian embassies abroad;

Interior Ministry funding declines by GEL 10 million; GEL 36 million from the ministry' budget will be relocate to fund planned State

Security Agency, which will be established from August 1 after decoupling security and intelligence agencies from the Interior Ministry and as a result the latter's 2015 budget will stand at GEL 591.65 million;

Finance Ministry funding goes down by GEL 9 million to GEL 91 million;

Defense Ministry funding is reduced by GEL 6.1 million; but because Delta military industrial complex was transferred from the Economy Ministry back to the MoD, the latter's total 2015 budget increases to GEL 667.3 million; mainly for the same reason, related to transfer of Delta, funding of Economy Ministry is reduced from GEL 120 million to GEL 85.3 million;

Prison system ministry funding declines by GEL 4.5 million to GEL 150.5 million; Justice Ministry funding goes down by GEL 3.6 million to GEL 66.1 million;

Ministry of Environment Protection funding declines by GEL 2.4 million to GEL 36.57 million;

Ministry of Culture funding is reduced by GEL 1 million to GEL 94 million;

Ministry of Sports funding goes down by GEL 200,000 to GEL 69.8 million;

Funding of the Parliament is reduced by GEL 6 million to GEL 46 million and of the Intelligence Service by GEL 1.6 million to GEL 12.4 million.

Government's discretionary reserve fund is increased by GEL 20 million to GEL 70 million and GEL 1 million is added to the Special State Protection Service (SSPS), increasing the latter's funding to GEL 54 million

Source: Civil.ge

## PASHA Bank Sponsored Bright Georgia Summer Camp for Socially Vulnerable University Applicants

PASHA Bank co-funded yet again another educational project this summer: foundation Bright Georgia organized a special Summer Camp for university applicants from socially vulnerable group in Kobuleti. The Summer Camp hosted 30 participants who were selected from different parts of Georgia. The application and selection process was conducted by foundation Bright Georgia. The applicants took part in a two-week preparatory intensive course for university entrance exams.



Two-hour preparatory seminars were provided daily for Georgian and English language exams as well as tests for analytical skills. Mock tests were held for the applicants in order to prepare them for national exams.

The Summer Camp also hosted special guests who shared their success stories with the applicants, telling about the importance of hard work and education

for achieving life goals. Tatia Sharangia, Dato Turashvili, Kakhaber Tsiskaridze, Giorgi Chaushba and Nikolay Deriugin gladly visited the Summer Camp and spent their time with the participants.

“Corporate Social Responsibility is very important to PASHA Bank. We have implemented several CSR activities during previous years and we are intending to continue doing so. We believe

that such educational projects are extremely useful for the youth and their future. We hope that the knowledge that the applicants received at the Summer Camp will help them pass their exams with the desired results so that they continue their studies at different universities. We wish them success,” commented the CEO of PASHA Bank, Mr. Shahin Mammadov.

# Wissol Disputes GEL 10.4m Fine Imposed by Competition Agency



**W**issol Petroleum Georgia has rejected price-fixing allegations and said it will use all available legal means to challenge the Competition Agency's decision on fining them GEL 10.42 million.

The company is among Georgia's those five largest petrol and diesel fuel retailers, which have been fined total of GEL 51.6 million (about USD 22.7m) for alleged price-fixing.

Competition Agency's decision can be appealed in the Tbilisi City Court.

PM Irakli Garibashvili said on July 16 that he does not want companies, facing multi-million fine, to become anxious, adding that the "process is completely transparent."

Four others are SOCAR Georgia Petroleum, which has been fined GEL 14.38m; Sun Petroleum Georgia, operating chain of petrol stations under the Gulf brand, which has been fined GEL 11.26m; Rompetrol Georgia, which has been fined GEL 10.84m, and Lukoil Georgia, which has been fined GEL 4.74m.

"We have not violated any requirement of the Competition Law," Wissol Petroleum Georgia said in a statement on July 16.

"Before taking decision on this issue, a concluding ses-

sion was held at the Competition Agency on July 8, 2015 with the participation of all the parties involved during which we presented to the Agency our objective, professional position, backed by arguments. Regrettably the Agency has not shared any of our objective argument," it said.

"We disagree with the opinion laid out in this decision of the Agency and, naturally, we will try to prove our truth through all the available legal means," Wissol said in a statement, which also says that the company remains committed to competition rules and regulations.

The company is part of one of Georgia's largest business groups, Wissol, which apart from retail and wholesale of fuel also runs car service chain; construction and real estate businesses; supermarket, and fast food restaurant chains. Brothers Levan and Samson Pkhakadze are holders of majority stakes in the group.

SOCAR Georgia Petroleum, where Azerbaijani state company SOCAR holds 51% of shares, and Rompetrol Georgia, controlled by the Kazakh state oil company KazMunaiGas, said they are studying Competition Agency's decision and would make statements later. Sun Petroleum Georgia, affiliated with Petro-

cas Energy Group, where 49% of stakes is owned by Russia's state-owned oil producer Rosneft, said it would release a statement on July 17. Representatives from the Lukoil Georgia, subsidiary of Russian oil producer Lukoil, were not available for comment.

Commenting on multi-million fines imposed by the Competition Agency, PM Irakli Garibashvili said at a government session on July 16, that the companies can dispute the decision in the court.

"This is completely transparent process," he said. "I do not want the companies to get anxious."

"We should promote development of competition in Georgia once and for all. This is our direct obligation to protect our citizens, consumers, as well as the interests of companies. But we should promote healthy competition. This is one of the commitments undertaken by us under the Association Agreement and Deep and Comprehensive Free Trade Agreement with the EU. I think that this is completely transparent process. If the companies have any complaint, the dispute will continue in court and the government does not interfere in this process," PM Garibashvili said.

Source: Civil.ge

# PASHA Bank was named the Fastest Growing Corporate Bank in Georgia 2015 by Global Banking and Finance Review Awards

**P**ASHA Bank is a Baku-based financial institution operating in Azerbaijan, Georgia and Turkey – providing full range of corporate and investment banking services to large and medium-sized enterprises. PASHA Bank has been operating in Georgia for over two years already and it was named the Fastest Growing Corporate Bank in Georgia 2015 by Global Banking

and Finance Review Awards. Since its inception in 2011, the Global Banking and Finance Review Awards reflect the innovation, achievement, strategy, progressive and inspirational changes taking place within the Global Financial community. The awards were created to recognize companies of all sizes which are prominent in particular areas of expertise and excellence within the financial world.

The Awards have evolved and grown to include those in Banking, Foreign Exchange, Insurance, Pension Funds, Compliance & Advisory, Corporate Governance, Brokerage & Exchanges, Project Finance, Binary Options, Investment Management, Technology, Asset & Wealth Management, Exchange Traded Funds, Real Estate, Corporate Social Responsibility and other areas.



# Irakli Gharibashvili:

Prime Minister of Georgia



**From 2008 to 2012, Georgia's debt grew faster than its economy... 2013 was the only year when the country's debt decreased by USD 50 million**

Mariam CHACHUA  
FactCheck

**D**uring his speech at the Parliament of Georgia, the Prime Minister of Georgia, Irakli Gharibashvili, stated that the external debt's growth exceeded the economy's growth from 2008 to 2012 and that 2013 was the only year when Georgia's external debt decreased.

FactCheck verified the accuracy of the aforementioned statement.

A country's external debt includes not only the state's external debt but that of the private sector as well. According to the National Bank of Georgia's data, the country's external debt amounted to USD 13,460 million at the end of 2014. Of this amount, USD 4,250 million (31.5%) was the government's debt.

The external debt's growth rate was indeed very high from 2008 to 2012 and exceeded the GDP's growth rate (see Chart 1). Countries with developing economies take external debt as a first step towards funding their economic growth. Hence, the external debt's growth rate can be higher than the GDP's

growth rate from the start. The external debt's growth cannot be assessed negatively per se as it includes the government's debt as well as the private sector's debt and, hence, part of the money invested in the country by foreigners. The external debt's growth in the private sector also means that the country's economic activity is on the rise which positively influences the economy. It is essential for the external debt not to increase to a level that will cause a risk to a country's financial stability.

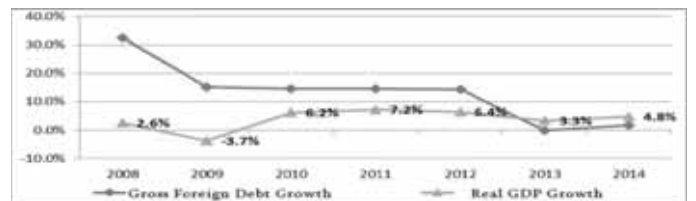
It is important to consider the rate of growth with regard to the GDP and exports, and not the nominal indicators of debt, in order to assess the actual amount of external debt. If we look at the share of external debt with regard to exports, we see that the exports of goods and services amounted to GEL 7,092 million in 2014 according to the data of the National Bank of Georgia. Hence, the percentage share of the external debt with regard to exports amounted to 190%. External debt with regard to export and the GDP increased from 2007 to 2009 but dropped again from 2010 to 2014.

Georgia's overall external debt amounted to USD 13,232 million in 2013 (USD 11 million less than in 2012; however, the amount of debt with regard to

the GDP had increased due to the depreciation of GEL). The Prime Minister's statement that 2013 was the only year when the external debt decreased is inaccurate. Georgia's overall external debt dropped by USD 9 million in 2000 as compared to the previous year. Hence, 2013 was not the only year when the external debt decreased.

Georgia's overall external debt increased by USD 228 million in 2014. This includes the growth of the government's debt by USD 65 million and the decrease in the National Bank of Georgia's debt by USD 86 million. Hence, it is unclear why the Prime Minister speaks about 2013's data when 2014's figures are already available and show the opposite trend. In addition, it should be pointed out that the decrease in the government's debt in 2013 was not the result of a pre-planned policy but was mainly due to the failure to use up allocated credits. The government implemented the annual foreign credit attraction plan by 82% but failed to use up about GEL 130 million (USD 75 million) of credits. This sum was mainly allocated for infrastructural projects. In the case of having used this money, both the government debt and the country's overall external debt would have increased in 2013.

Chart 1: Dynamics of Georgia's External Debt and GDP from 2008 to 2014



Sources: National Bank of Georgia, National Statistics Office of Georgia

## CONCLUSION

THE GROWTH RATE OF GEORGIA'S EXTERNAL DEBT DID INDEED EXCEED THE ECONOMY'S GROWTH RATE FROM 2008 TO 2012 WHILST IT WAS LOWER THAN THE ECONOMY'S GROWTH RATE IN 2013 AND 2014 DESPITE THE FACT THAT THE ECONOMIC GROWTH RATE ALSO DECREASED. IN ADDITION, GEORGIA'S OVERALL EXTERNAL DEBT DECREASED BY USD 11 MILLION. HOWEVER, IT SHOULD BE POINTED OUT THAT 2013 IS NOT THE ONLY YEAR WHEN THE EXTERNAL DEBT WENT DOWN. THE OVERALL EXTERNAL DEBT DECREASED SLIGHTLY IN 2000 AS WELL. IN ADDITION, DESPITE THE FACT THAT THE EXTERNAL DEBT IN ABSOLUTE TERMS WENT DOWN IN 2013, IT INCREASED WITH REGARD TO THE GDP DUE TO THE DEPRECIATION OF GEL.

THE PRIME MINISTER SPEAKS ABOUT 2013'S DATA IN THE SPRING OF 2015 DESPITE THE FACT THAT 2014'S DATA ARE ALREADY AVAILABLE. GEORGIA'S OVERALL EXTERNAL DEBT INCREASED BY USD 228 MILLION IN 2014. ALTHOUGH THE DROP IN THE COUNTRY'S EXTERNAL DEBT WHICH OCCURRED IN 2013 WAS NOT THE RESULT OF A PRE-PLANNED POLICY. THE GOVERNMENT FAILED TO USE UP THE ALLOCATED FOREIGN CREDITS AND SO THE EXTERNAL DEBT DID NOT INCREASE DUE TO THIS FACT. THE FAILURE TO USE THE AFOREMENTIONED CREDITS NEGATIVELY INFLUENCED THE DEVELOPMENT RATE OF THE COUNTRY'S INFRASTRUCTURE AND THE INFLUX OF FOREIGN CURRENCIES.

FACTCHECK CONCLUDES THAT IRAKLI GHARIBASHVILI'S STATEMENT IS MOSTLY FALSE.

**MOSTLY FALSE**



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