

FactCheck



Giga Bukia:

Parliamentary Majority



“There is an economic crisis in the world.” FALSE

Beso NAMCHAVADZE
FactCheck

On 15 September 2015, the main topic of the talks how, *Archevani*, on air on Rustavi,2 was the price of grapes. Speaking about this, a member of the Parliamentary Majority, Giga Bukia, declared that the low price for grapes is caused by the world economic crisis. Mr Bukia named the decreased oil prices as an example to support his statement. He said that two years ago, the price of one barrel of oil was USD 120 whilst this year the price dropped to USD 45 which constitutes a decrease of 220%.

FactCheck verified whether or not there is a world economic crisis.

The notion of a world economic crisis means that all or most of the countries with advanced economies experience serious economic problems. As of today, the last economic crisis was registered in 2009 when the economies or the economic growth rates of 90 different countries experienced a drop. The worst indicators were registered in Ukraine (-15%), the Baltic states (-14to-15 %), Russia (-7.8%), Japan (-5.5%), Turkey (-4.8%), Georgia (-3.7%), the USA (-2.8%) and the EU (-4.3%). In total, countries with advanced economies had their GDP decreased by 3.4%. The economic decline was accompanied by rising unemployment. The unemployment rate in developed countries rose by 2.4 points and reached 8.2%.

According to the estimates of the World Bank, in 2015 the world economy will increase by 2.8%, the economies of developed countries will increase by 2% and the economies of developing countries will increase by 4.4%. According to the same estimates, the economies of the developing countries of the Eastern European and Central Asian region (which includes Georgia) will increase by 1.8%. The highest economic increase (6.7%) is expected in the countries of East Asia.

At the present moment, there is no economic crisis in the world. Moreover, according to the prognosis of the World Bank and the International Monetary Fund, 2015 will be better than

Table 1: Economic Growth Rate in Different Groups of Countries and High Income Countries

World Bank	2014	2015
World	2.6	2.8
Developing Countries	4.6	4.4
High Income Countries	1.8	2
Eurozone	0.9	1.5
USA	2.4	2.7
UK	2.8	2.6
Japan	0	1.1
Russia	0.6	-2.7

Source: World Bank

Table 2: Economic Growth Rate in Different Groups of Countries and Countries with Large Economies

International Monetary Fund	2014	2015
World	3.4	3.3
Developing Countries	4.6	4.2
Eurozone	0.8	1.5
Developed Countries	1.8	2.1
USA	2.4	2.5
Germany	1.6	1.6
France	0.2	1.2
Italy	-0.4	0.7
UK	2.9	2.4
Spain	1.4	3.1
Japan	-0.1	0.8
China	7.4	6.8
India	7.3	7.5
Russia	0.6	-3.4
Brazil	0.1	-1.5

Source: International Monetary Fund

2014 (see Table 1 and Table 2).

According to the International Monetary Fund, the volume of international trade in goods and services will be increased by 4.1% whilst the growth rate in 2014 was 3.2%.

Giga Bukia also named the decreased oil prices as an argument for the existence of a world economic crisis. In summer 2014, the price of one barrel of crude oil was USD 95. It now costs USD 45 which means that the price dropped by 53%. Of note is that the MP emphasises a 220% decline in prices which is theoretically impossible because the price can be decreased by 100% and no more; that is, it reaches a zero point. Besides the mathematical inaccuracy, the statement's context is also wrong. The world oil price did not decrease because of the world economic crisis as occurred in 2009. The principal economic cause behind the falling oil prices is the significant increase in US oil production. The USA became the largest oil producer country in the world. At the same time, other large oil producing countries did not drop their production volume. The

falling oil prices (in USD) were also abetted by the global appreciation of USD.

Apart from supply and demand, oil prices are also affected by expectations. The rise of geopolitical risks such as the Russia-Ukraine war, the Islamic State, the Greek crisis and the falling prices of shares on the Chinese stock exchange worsen the expectations. In the last couple of months, the agreement to revoke sanctions against Iran was also added to these geopolitical factors. Additionally, the trend of production of energy efficient vehicles and technological development play an important role as well.

Naturally, the falling oil prices were negatively reflected upon oil exporting countries and their foreign economic activities (trade, investments). Additionally, oil is a factor of production and cheap oil also results in cutting prices of industrial goods and their supply. Therefore, it is wrong to assert that falling oil prices have an entirely negative impact upon the world economy. This process has both winners and losers.

Borrow in Dollar or Lari? That is the Question!

Continued from p. 2

In this post, we will try to answer the following questions:

For Georgian consumers and businesses, how much did the cost of servicing dollar and lari loans change over time, and especially since lari depreciation? Why do people continue to take loans in dollars? And, finally, is it better to take out a lari or a dollar loan nowadays?

THE “CHEAPER BORROWING” ILLUSION AND THE RUDE AWAKENING FOLLOWING DEPRECIATION

The main reason why people took loans in dollars was the interest rate differential - the relatively low interest rate on dollar loans compared to lari loans. On average, from January 2013 to August 2015 the interest rate on lari loans was 7.6% higher than on dollar loans (see Figure 1).

In the mind of an economist, this spread is actually reflecting the lower levels of risk associated with dollar loans. By the arbitrage theory, individuals should be indifferent between taking loans in lari or in foreign currency - otherwise loans would be either 100% or 0% dollarized. Until March 2014 the arbitrage theory worked well in the Georgian case - the difference between the costs of servicing lari and dollar loans was relatively small (see Figure 2).

The graph above shows the total payment (principal plus interest) that Georgian private borrowers would have to pay after one year on their foreign currency loans taken out in each given month (the amounts of foreign currency loans are expressed in GEL) and compares this to the hypothetical sum that Georgian borrowers would end up paying if an equivalent amount was borrowed in lari in the same month.

For example, in January 2013 the principal amount of all outstanding foreign currency loans in Georgia was worth about five and a half trillion GEL. The average bank interest rate on a foreign currency loan was around 13.9%. In a year's time (in January 2014) the borrowers would have to pay around 6.5 trillion in GEL terms (more than 13.9%, because the

lari depreciated against USD during that time). This amount (6.5 trillion GEL) is represented by the first triangular point on the graph for January 2013.

If the equivalent amount was borrowed in GEL, and the borrowers would have paid the average bank interest rate of 21.7%, they would end up paying about 6.7 billion GEL (a bit more, but relatively close to the amount they would have paid on a dollar denominated loan, after the currency conversion).

Between 2014 and 2015 the burden of servicing debt for Georgian private borrowers increased quite significantly.

For example, the total amount of interest payments in January-September of this year was 735 million lari, while in the whole of 2014 it was only 692 million lari.

Of course, the amount of interest payments as a whole may increase not only because the cost of servicing loans is higher, but also because the volume of credit in the economy is growing (for example, banks are giving out more loans, and raking in higher overall interest payments). In our case, however, we can safely deduce that the increase in the interest payments (expressed in GEL) between 2014 and first 2 quarter of 2015 is almost entirely due to the increased cost of servicing dollar loans.

For example, we can see that that the ratio of the total interest payments on loans taken by households to total wages (compensation of employees in the national income accounts) was 8.6% in 2013, 8.8% in 2014, and then jumped to 12.6% and 12.2% in the first 2 quarters of 2015! Clearly such jump could not be explained by an increase in consumer credit.

WHY DO PEOPLE STILL BORROW IN DOLLARS?

In light of lari depreciation, the costs of dollarized borrowing appear to be very high for the Georgian economy. If we make calculations based on market interest rates and exchange rate between January 2013 to August 2015, we would see that Georgian individuals and legal entities could have saved 10.1 billion lari overall - if they took out lari instead of dollar loans during this time (in this calculation I assumed that from October 2015 GEL/USD = 2.39. We need this assumption for calculating cost of servicing

dollar loans starting from December 2014).

So, why do people still borrow in dollars? Looking at Figure 2, we can see that the relatively high cost of 1-year dollar loans is most prominent in the period between May 2014 and February 2015. This means that for people who have taken out loans in March 2015 the cost of servicing a lari or a dollar loan should be roughly the same.

BETTING ON WHAT THE FUTURE HOLDS

So, what are future borrowers to do at this point? Should they take out loans in lari or in dollars? Of course, it depends on the interest rates and the future (expected) exchange rate. Although we cannot know for sure what the future exchange rate will be, we can try to make some predictions based on the information currently available.

One can identify two main drivers for the lari depreciation. First, dollar appreciation is a global phenomena, which was in part caused by USA “playing” with its oil production - i.e. the technological advances in shale oil production which dramatically increased US output of oil. Second, the foreign currency inflows to Georgia have been on the decline in recent months because of: 1) economic challenges facing our trading partners; 2) decrease in remittances to Georgia (especially from Russia and Greece); 3) decrease in Export volumes; and 4) decrease in FDI.

Let's assume that the oil price will not change in the next 2 years. Thus, one may expect that the other sources of lari depreciation will gradually return to their natural levels and the flows of foreign currency will recover. If this happens, lari will be set to appreciate again. Assuming that lari will appreciate by 0.7% every month against the dollar, one would expect that the lari/dollar exchange rate will be close to GEL/USD=2.0 value by the end of 2017.

If this is the case, taking dollarized loans will decrease the total cost of loan servicing by 14%. By taking these loans, borrowers will pay 19% less than if they borrowed in lari. So if you are willing to bet on lari appreciation, you should take out loans in dollars, and enjoy paying back the debt with fewer and fewer lari each month! And don't forget to keep your savings deposits in lari as well.

CONCLUSION

THEREFORE, FACTCHECK CONCLUDES THAT GIGA BUKIA'S STATEMENT IS FALSE.



FALSE



EUROPEAN ENDOWMENT & DEMOCRACY
G | M | F The German Marshall Fund of the United States
STRENGTHENING TRANSATLANTIC COOPERATION

Kingdom of the Netherlands

The views expressed in this website are those of FactCheck.ge and do not reflect the views of the FINANCIAL or the supporting organisations

FOR SALE

9,8 ha non-agricultural, privately owned parcel for industrial use (cadaster code # 01.19.26.004.088) located next to Tbilisi Airport

Address: Airport settlement, Samgori district, Tbilisi
Tel: +995 599 529 529
info@cei.ge

First National Tourism Awards Launched in Georgia

Continued from p. 4

information will be used by us for their further promotion," she added.

The number of applicants per category is at least five. This is the number targeted by organizers for the first year of the competition. The application process is now closed. The judges are currently in the process of calculating the scores of the candidates. Organizers are not participating in this process. Independent observers, auditors of BDO Georgia, are involved in the counting process. They are fully responsible for the objective counting of scores. They receive this information solely from the judges. Organizers will not be aware of the winners until they are revealed at the ceremony. So, the results will be a surprise both for the winners and the team of organizers. This sincerity and objectivity is very important for the image of the organizers, to assure society that they are not selling awards in organizing the ceremony.

All the data provided by each applicant will be analysed in a further report in order to study the strong and weak areas of the participants. As Chayka said, such information will be very useful for understanding which sphere the country needs to work on to

get better results in the tourism and hospitality industry.

The annual ceremony is just one part of the plans of organizers. "In order to improve the service sector we can attract hospitality and service schools to open offices in Georgia and arrange trainings. We will work hard to provide education schools for the hospitality sector in Georgia and allow students to get diplomas in this profession. All of these are our long-term perspectives. For the first year we are just focusing on getting the awards ceremony up and running. This award will be like a litmus test. As a 'freshman' we have to meet the expectations of participants and everyone else. Participants were initially wary about the awards. It is a big innovation for them," Chayka explained.

"There are lots of advantages that Georgia has as a country. In terms of spheres that need to be improved, the service sector is the main focus. It cannot be achieved in the short term. However, it is achievable step by step, year by year. Practical knowledge is really important for students involved in the hospitality field. With the assistance of international professionals and local players that have already gained big experience in good quality service, this issue will be solved. We also plan to involve the Min-

istry of Education in this initiative," Managing Partner at Welcome to Georgia, said.

Next year the Welcome to Georgia awards ceremony is planned to be held in a different city of Georgia. It will help us to promote other regions of the country. "We want to arrange to have it in the open air. We are partners with suppliers to the hospitality sector. In this regard we want to help them to have direct contact with their customers, the companies involved in this sector. To achieve this we are eager to arrange forums and B2B meetings for both sides."

Chayka is optimistic that in the following year, more participants will be involved in the Welcome to Georgia awards. "We plan for the award to exist for a long time and become one of the most prestigious prizes for its holders. In the first stage we created 20 nominations integrated on the market. Currently we are seeing which nominations should still be added. We will actively cooperate with the Ministry of Culture, GNTA and participants in order to improve the categories and broaden the audience of participants. The expansion of nominees will help to attract more participants which will allow a wider segment to become involved in the competition," Chayka told THE FINANCIAL.



Giorgi Kandelaki, MP:



"Today, when the Russian market is open, the price of grapes is lower than in 2012 when the Russian market was closed." *true*

Veriko SUKHIASHVILI
FactCheck

Table 1: Price of Red and White Grapes (in GEL) including Subsidy in 2010-2015

Year	2010	2011	2012	2013	2014	2015
White	GEL 0.6	GEL 0.7	GEL 1	GEL 1	GEL 1	GEL 0.6
Red	GEL 0.8	GEL 1	GEL 1	GEL 1.3	GEL 1.95	GEL 0.85
Racha (red)	GEL 3	GEL 3	GEL 4	GEL 8	GEL 8	GEL 8

Source: Ministry of Agriculture of Georgia

At the Parliament of Georgia, MPs debated the price of grapes. A member of the United National Movement, Giorgi Kandelaki, addressed the Minister of Agriculture of Georgia, Otar Danelia, with the following question: "How is it that today, when the Russian market is open, the price of grapes is lower than in 2012 when the Russian market was closed."

FactCheck verified the accuracy of the fact stated by Giorgi Kandelaki. On 9 September 2015, the Minister of Agricultural of Georgia, Otar Danelia, held a special briefing with regard to the grape harvest and said: "It is very important to avoid price fixing and not dictate market prices. Each price, which will be named by the state, will be based upon market calculations. In regard to selling grapes, the state will purchase only that amount of grapes which private companies are unwilling to buy. The price for white grapes will be GEL 0.6 and for red grapes, Saperavi, the price will be GEL 0.85."

The state has been subsidising the production of grapes in Georgia since 2008. The decision to subsidise grapes was made to alleviate the negative consequences of Russia's trade ban and encourage both grape and wine production. The table below shows the prices of grapes in the period of 2010-2015, including the subsidy. There were 54,000 tonnes of

grapes processed in Georgia in 2012. The price of grapes (both red and white) was GEL 1 including the subsidy. In 2012, the Government of Georgia allocated GEL 14.8 million to subsidise the grape industry. The subsidy per one kilo of white grapes was GEL 0.25 and per one kilo of red grapes was GEL 0.35. In 2012, two state companies - LTD Gruzvinprom and JSC Akura - purchased a large portion of processed grapes (34,000 tonnes) which comprised 65% of the total amount.

As of 2015, 118,486 tonnes of grapes have been processed. GEL 30 million is allocated from the state budget for the grape subsidy. The subsidy per one kilo of white grapes is GEL 0.35 and per one kilo of red grapes (Saperavi) is GEL 0.15. There are 74 wine producing companies involved in the processing of grapes. Of this amount, the state has hired 18 wine producing companies (the number of companies might increase during the grape harvest).

In a market economy, the price of a product is determined by the balance between supply and demand. In 2015, the supply (harvest) of grapes increased as compared to the previous year (approximately by 30,000 tonnes) whilst demand, due to falling wine export, dropped. The data of the first six months of 2015 indicate that Georgian wine

export has dropped by 49% as compared to the previous year. Even though Russia's trade ban has now been revoked and the Russian market is open, because of Russia's present economic difficulties the volume of Georgian wine exported to Russia decreased by 63% as compared to the previous year. In 2015 (according to the data of the first six months) a total of 6,555,183 bottles of wine have been exported to Russia which is 47% of the total wine export. For comparison, a total of 23 million bottles of Georgian wine were exported worldwide in 2012 (according to the data of the first six months of 2015, 13,706,653 bottles of wine have been exported so far). In general, due to the circumstances on the ground, the price of grapes was poised to fall. However, the promises made by politicians and the policy of subsidisation for years (this policy has been carried out by both the former and current governments) generated unrealistic expectations among grape farmers. For example, the former Prime Minister of Georgia, Bidzina Ivanishvili, declared before the 2012 elections that: "The price of grapes should not be less than GEL 1." Such populist promises resulted in tense demonstrations organised by grape farmers to protest the low grape prices.

RSM Capto becomes 'RSM' and adopts new brand focused on 'understanding'

- RSM Capto assumes new logo and visual identity
- Single global brand enables RSM to reinforce global strength and international client service capability
- New global advertising campaign and new economics publication reinforce commitment to entrepreneurial growth-focused organisations globally

RSM Capto has today rebranded to 'RSM' and adopted a new visual identity alongside fellow members of its international network. RSM International, the world's seventh largest audit, tax and consulting network, today adopts 'RSM' as its united global brand name in over 110 countries worldwide.

The unified brand, which was announced in June this year, is designed to reinforce the network's global strength in providing audit, tax and consulting services to entrepreneurial, growth-focused organisations. Underpinned by its own strong financial performance and a rapidly expanding international client base, the network's new brand identity is based on the theme of helping clients to move forward with confidence.

RSM Capto is the 7th largest provider with 4 offices and 70 staff in Georgia and has been a member of the RSM International network for 4 years.

Following recent extensive independent global client and prospect research, feedback confirmed that the network's strengths lay in their 'passionate focus on collaboration', 'deep understanding of what matters most to clients', and 'insight sharing by senior partners'. These values are captured in the network's new global positioning: "The Power of Being Understood".

Jean Stephens, CEO of RSM International, said: "Uniting under one brand is an important step in our long-

term growth strategy. In an ever more globalised economy, our new brand will further differentiate our offering to leaders of entrepreneurial, growing organisations globally who want to work with advisers that really take the time to understand and care about their business and its drivers. The new single brand enables us to better promote our resources and expertise, and provide an enhanced, seamless service offering to clients all over the world, benefiting them and also our 37,500 professionals globally."

Today RSM launches a global advertising campaign presenting its new brand across eight major international transit airports and digitally in global business media. In addition, RSM has launched a new bi-annual global economics publication - The Global Real Economy - providing insights and analysis on a range of international issues relevant to middle market business leaders. RSM member firms join a global advertising campaign to build awareness of the united global network locally.

The rebrand coincides with RSM World Day 2015, which has taken place annually since 2012 as a celebration of the shared values of the global network, engaging staff and clients in activities such as team building and community work. RSM Georgia along with RSM member firms in 110 countries, celebrates RSM World Day and the global rebranding with staff corporate

entertainment activities. Giorgi Kvinikadze, the founder of RSM Georgia, said: Capto Group was founded in 2008 and throughout last 7 years it has grown fast and established its presence among the leading audit, tax and consulting companies in Georgia. Up-to-date and innovative approach, flexibility, service quality and client-focused approach stimulated fast growth of RSM Capto in Georgia. Today, RSM Capto as a member of RSM, is uniting under a single global brand (RSM), so I am convinced, that it's a very decisive and strategic step for us. A single global brand will help us strengthen our position in a domestic as well as in a global market. Moreover, the united brand will enable us to promote differentiative factors of our global network."

RSM is the world's sixth largest provider of tax services, is the fifth largest firm in the US and the third largest in China. RSM was the fastest growing top ten global network in 2014 with 18% growth. From today, all member firms will trade as RSM but will continue to remain independent legal entities within the network.

In September 2014, RSM was awarded the prestigious Network of the Year 2014 award at the International Accounting Bulletin annual awards. The award recognises networks that have demonstrated strong growth and operational excellence over the past 12 months.

www.rsm.global

CONCLUSION

IN 2012, WHEN THE RUSSIAN MARKET WAS CLOSED TO GEORGIAN WINE, THE PRICE OF GRAPES (BOTH RED AND WHITE) WAS INDEED GEL 1. OF NOTE IS THAT THE SHARE OF STATE-OWNED ENTERPRISES IN PURCHASING PROCESSED WINE WAS VERY HIGH IN 2012 (65%) AND THIS WILL PROBABLY HAPPEN AGAIN THIS YEAR AS WELL. IN 2015, WHEN THE RUSSIAN MARKET OPENED, THE PRICE OF WHITE GRAPES IS GEL 0.6 AND PRICE OF RED GRAPES IS GEL 0.85. THIS MEANS THAT AS COMPARED TO 2012, THE PRICE OF WHITE GRAPES HAS DECREASED BY 40% AND THE PRICE OF RED GRAPES HAS DECREASED BY 15%.

FACTCHECK CONCLUDES THAT MP GIORGI KANDELAKI'S STATEMENT IS TRUE.

TRUE



Kingdom of the Netherlands