FactCheck

GRASS FACTCHECK

Giorgi Kvirikashvili:

Prime Minister of Georgia

"As compared to the currencies of our trade partner countries, GEL depreciated the least against USD."

Mostly FALSE

Beso NAMCHAVADZE
FactCheck

On 28 December 2015, in his address before the Parliament of Georgia, Giorgi Kvirikashvili emphasised that as compared to the currencies of Georgia's 13-14 main trade partner countries, the devaluation (depreciation) of GEL is one of the lowest and subjective factors (government involvement) were minimal in the national currency's depreciation.

FactCheck verified the accuracy of the statement.

some of our trade partner countries, the depreciation of their national currencies started much earlier than in Georgia. Therefore, in order to make a comparison to the depreciation of GEL, it would be expedient to analyse the exchange rate fluctuation in the last two years (2014-2015). An analysis of currency fluctuation in Georgia's top 15 trade partner countries illustrated that the currencies of only three countries (Ukraine, Russia and Azerbaijan) depreciated more against USD than GEL.

The principal cause behind the depreciation of GEL is the drop in the USD flow into the country such as, for example, the decrease in export and the decreased amount of remittances. From October 2015 until December 2015, export income dropped by USD 793 million and remittances fell by USD 405 million.

A dwindling economic growth rate together with a worsened economic situation in Georgia's export market countries also affected the fall in Georgia's exports. Apart from its effect on exports, the economic growth rate is one of the determinants of the national currency's exchange rate. The bigger the economic growth rate, the bigger the demand on the national currency and it starts to appreciate all things being equal. The drop in Georgia's economic growth rate was caused by government's negative role, too. It has already been three years since Georgia rejected an economic policy aimed at high economic growth. It was replaced with a policy of inclusive growth which means that the priority is not a high economic growth rate but the involvement of every strata of the population in the generation of economic wealth. Largely, instead of an accumulation of wealth, emphasis is made upon the redistribution of wealth. The changes in the country's economic policy were reflected in everyday practice: the tax liberalisation process was halted, regulations become stricter, the country's budget prioritises social issues and targeted assistance programmes were replaced by universal programmes. In order to fund the increased budget expenditures, domestic borrowing swelled. All of these do not encourage a high economic growth rate. External factors also played a certain role in Georgia's decreased economic growth rate.

At the end of 2014 and throughout 2015, a high deficit spending of the budget had a negative impact upon the GEL exchange rate. In February, April and August of last year, the budget deficit was funded at the expense of decreasing state deposits which increased the amount of GEL in circulation and negatively affected the GEL exchange rate. To cut budget expenditures, the Government of Georgia announced in February 2015 that it would "tighten its belts" and thereby help the national currency. That promise was not fulfilled. Additionally, the Government of Georgia failed to attract the promised USD 300 million as a result of privatisation.

The currency exchange rate is significantly affected by the expectation among the population in this regard. Mostly, there were negative expectations about the GEL exchange rate which was largely caused by blaming the National Bank of Georgia for a deliberate depreciation of GEL. Members of the Government of Georgia were also involved in this campaign.

CONCLUSION

THEREFORE, **FACTCHECK** CONCLUDES THAT GIORGI KVIRIKASHVILI'S STATEMENT IS **MOSTLY FALSE**.

MOSTLY FALSE

Still 1 in 4 Deaths Caused by Cancer in the EU

Continued from p. 6

Breast cancer killed more than 92 000 women in the EU in 2013

While it can also concern men, breast cancer primarily affects women, for which it represented in 2013 the most common fatal cancer, accounting for 16% of all deaths due to cancer among the female population in the EU (92 600 deaths). Across Member States, the highest shares of deaths due to breast cancer among the sole female population were observed in Cyprus and Malta (both 21% of all deaths due to cancer for women), Luxembourg (20%) and Belgium (19%), while the lowest was recorded in Estonia (12%), ahead of the Czech Republic, Poland and Sweden (all 14%).

Prostate cancer, which does not affect women, caused 10% of all deaths of men due to cancer in 2013 in the EU (72 700 deaths). Among Member States, the highest share among the sole male population was observed in Sweden (20% of all deaths due to cancer among the male population), followed at a distance by Denmark (15%), Cyprus and Finland (both 14%). In contrast, the lowest percentages were recorded in Hungary and Romania (both 7%), Italy, Luxembourg, Malta, Poland and Slovakia (all 8%).

Cancer: responsible for more than 35% of deaths among those aged less than 65, and under 25% amongst those aged 65 and over

Looking at age groups, 337 100 persons aged less than 65 died in 2013 in the EU because of cancer, meaning that cancers represented 37% of all causes of death for this age group. Among Member States, at least 4 deaths out of 10 was due to cancer for people aged less than 65 in the Netherlands (47% in 2012), Italy (46%), Spain (45%), Slovenia (44%), Croatia (41%), Greece and Portugal (both 40%), while fatal cancer accounted for fewer than 30% of deaths in this age group in the three Baltic Member State – Lithuania (23%), Latvia (24%) and Estonia (26%) – followed by Finland (28%) and Bulgaria (29%).

For the population aged 65 and over, cancer represented fewer than a quarter (23% or 959 800 persons) of all deaths in the EU in 2013, with the highest shares registered in Slovenia (29%), the Netherlands (28% in 2012), Denmark and Ireland (both 27%), Italy and the United Kingdom (both 26%), France and Luxembourg (both 25%), and the lowest in Bulgaria (14%), Romania (16%) and Lithuania (18%).

Decent Income in Old Age: Georgian Dream or Reality?

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Proposed Reform: Risks and Opportunities

The proposed reform envisages the introduction of the 2%+2%+2% contributions system. This would work as follows. Employees would be automatically enrolled in the pension scheme, unless they refuse to join. Those enrolled would contribute 2% of their salary to the fund, with the government and employers each adding another 2%.

One important aspect of the reform is that **the pension payments under the proposed system will not be a substitute, but rather a complement to the state pensions, as they exist today.**

The Opportunities

The proposed change is essentially a means of encouraging people to put money aside for retirement. It is seen a discipline tool for those pensioners-to-be who can save, but find it hard to resist the temptation to spend.

The sum that people will save through the new scheme will be exempt from taxes. The employees' contributions will be matched by employers and the government, thus boosting savings in the economy.

The funds collected through the pension savings scheme can be used for investments in long-term projects inside the country. This could promote growth, especially in our investment-hungry economy, where the low level of savings is a real problem.

The Risks

The new scheme will only work for hired workers. In 2014, hired workers constituted about 16% of the population, and only 40% of all employed persons. It would be a challenge to engage the "self-employed", who will be among the poorest and the most vulnerable in the future pensioners' pool.

The proposed scheme envisages a 2% contribution by employers – essentially a tax which may discourage businesses from hiring additional labor.

If the proposed pension fund invests only in Georgia, the returns can be high but also highly risky. In order to diversify the risk, the pension fund would have to take at least a part of the savings out of the country.

Last but not least, whether the proposed scheme is successful or not would depend on people's trust in the pension fund's management and the Georgian financial system. Establishing such trust may be a challenge: in 2013, only 35% of the population reportedly trusted the banking system, and only 39% trusted the executive government (data from the Caucasus Barometer).

Other Options to Consider

A standard way to evaluate the impact of such a far-reaching reform is to perform a Regulatory Impact Assessment (RIA) which requires an analysis of alternatives. If the goal of the reform is to lighten the fiscal burden of pension spending, then one needs to also discuss and evaluate the potential impact of raising taxes and/or increasing the pension age (however unpopular such measures may be).

It would be very important to test any future pension schemes by launching pilot projects involving, for example, government employees. Different schemes may achieve different participation rates. Thus, one could consider allowing the use of pension savings to cover medical costs and/or investment in housing as a means of increasing the number of participants (as was the practice in Singapore).

Finally, keeping the status quo is always an option. It may be the case that the proposed scheme is not worth the cost, and that the current system is good enough for Georgia, where family ties are strong and the elderly are rarely left completely alone.

In any case, being wrought with risks and policy trade-offs, any future pension reform must start with a healthy and well-informed public debate. The question is of crucial importance: how can we ensure decent retirement for Georgia's elderly without putting an undue burden on our children and grand-children?

[1] An author's estimate based on GeoStat's Integrated Household Survey

[2] This includes both the self-employed and hired workers.

Foreign Language Learning

60% of lower secondary level pupils studied more than one foreign language in 2014 French: second most popular after English

The FINANCIAL

Learning a foreign language at school is very common in the European Union (EU), with around 18 million lower secondary school pupils (or 98.6% of all pupils at this level) studying at least one foreign language in 2014. Among them, nearly 11 million (59.9%) were studying two foreign languages or more.

English was by far the most popular language at lower secondary level, studied by more than 17 million pupils (97.3%). French (5 million or 33.7%) came second, followed by German (3 million or 23.1%) and Spanish (2 million or 13.1%).

English, French and German: top 3 foreign languages studied in the EU

English is by far the main foreign language studied during lower secondary education in the vast majority of Member States. In particular, all pupils attend English classes in Denmark, Spain, Italy, Malta and Sweden.

French is one of the two main foreign languages studied in Luxembourg and is also the top foreign language studied in Ireland (by 60.0% of pupils) and Belgium (51.9%). In addition, French is the second most popular foreign language studied at lower secondary level in seven Member States, with the highest shares of learners recorded in Cyprus (88.1%), Romania (84.6%), Italy (67.7%) and Portugal (64.7%).

Besides being studied by all pupils in Luxembourg, German ranks second in eight Member States, with the highest shares being registered in Denmark (73.6%), Poland (69.0%) and Slovakia (55.2%). Learning Spanish is notably popular in France (37.8%) and Sweden (43.9%), while Russian, the only commonly studied non-EU language, came second in the three Baltic States – Lithuania (66.7%), Estonia (64.7%) and Latvia (60.4%) – as well as in Bulgaria (17.9%).

Luxembourg, Finland and Italy on top for learning several foreign languages

In 2014, all or nearly all lower secondary school pupils learnt at least two foreign languages in Luxembourg (100%), Finland (98.5%), Italy (98.4%), Estonia (96.3%) and Romania (95.6%). In contrast, fewer than 10% of pupils were studying two or more languages in Hungary (6.3%), Ireland (7.9%) and Austria (9.5%).

Volume of Retail Trade up By 0.3% in Euro Area

Up by 0.1% in EU28

The FINANCIAL

In December 2015 compared with November 2015, the seasonally adjusted volume of retail trade increased by 0.3% in the euro area (EA19) and by 0.1% in the EU28, according to estimates from Eurostat, the statistical office of the European Union. In November retail trade remained stable in the euro area and rose by 0.3% in the EU28.

In December 2015 compared with December 2014 the calendar adjusted retail sales index increased by 1.4% in the euro area and by 2.0% in the EU28.

The average retail trade for the year 2015, compared with 2014, rose by 2.4% in the euro area and by 3.0% in the EU28.

Monthly comparison by retail sector and by Member State

The 0.3% increase in the volume of retail trade in the euro area in December 2015, compared with November 2015, is due to rises of 0.6% for "Food, drinks and tobacco" and of 0.2% for non-food products, while automotive fuel fell by 0.1%. In the EU28, the 0.1% increase in the volume of retail trade is due to rise of 0.8% for "Food, drinks and tobacco", while non-food products and automotive fuel both fell by 0.4%.

Among Member States for which data are available, the highest increases in total retail trade were registered in Estonia (+2.1%), France (+1.3%) and Luxembourg (+1.1%), and the largest decreases in Portugal (-1.8%), Sweden (-1.7%) and Denmark (-1.4%).

Annual comparison by retail sector and by Member State

The 1.4% increase in the volume of retail trade in the euro area in December 2015, compared with December 2014, is due to rises of 1.8% for non-food products and of 0.8% for "Food, drinks and tobacco", while automotive fuel fell by 0.8%. In the EU28, the 2.0% increase in retail trade volume is due to rises of 2.3% for non-food products, of 1.5% for "Food, drinks and tobacco" and of 0.1% for automotive fuel.

Among Member States for which data are available, the highest increases in total retail trade were observed in Romania (+14.3%), Ireland (+6.1%), Estonia (+5.8%) and Poland (+5.5%), while decreases were observed in Portugal (-1.3%), Belgium (-1.2%) and Denmark (-0.3%).

GRASS FACTCHECK

Sergo Ratiani:

Executive Secretary of the United National Movement

"The country's economy is decreasing whilst bureaucratic expenses are increasing"

Mostly FALSE

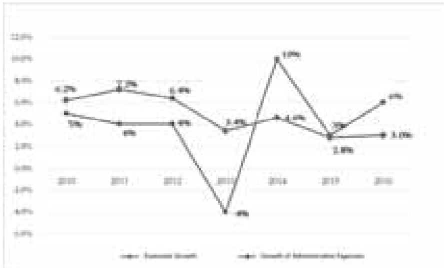
Teona ABSANDZE
FactCheck

During his speech at the plenary session of the Parliament of Georgia, the Executive Secretary of the United National Movement, Sergo Ratiani, stated: "During the previous years, the economy was growing and bureaucratic expenses grew with it. Today, bureaucratic expenses are being increased in parallel to the economic recession in Georgia. Bureaucratic expenses have increased by GEL 420 million."

FactCheck took interest in the MP's statement and verified the accuracy of the facts he named.

The administrative (bureaucratic) expenses of the state budget are drawn up in the remuneration and goods and services budget lines. In 2016, the remuneration budget line increased by GEL 468 million as compared to 2012 whilst the goods and services budget line decreased by GEL 57 million. In total, administrative expenses in 2016 increased by GEL 411 million as compared to those of 2012. However, the growth of the remuneration budget line was partly due to removing the expenses of non-commercial entities and legal entities of public law from the subsidies budget line and including them in remuneration. The Ministry of Culture and Monument Protection of Georgia's remuneration budget line increased by GEL 48.8 million in 2015 which was mainly due to moving the expenses of non-commercial entities and legal entities of public law which were subsidiary to the Ministry to its remuneration budget line.

Chart 1. Economic Growth and Growth of Administrative Expenses from 2010 to 2016



We also obtained information that administrative expenses of non-commercial entities and legal entities of public law founded by Tbilisi City Hall were included in Tbilisi City's overall remuneration budget line in 2016. This is more than GEL 50 million.

The administrative expenses of the consolidated budget increased by 4%-5% from 2010 to 2012. They dropped by 4% in 2013 and increased significantly (10%) in 2014. As for the economic growth data, the economy increased from 6% to 7% in the period from 2010 to 2012 whilst the economic growth rate decreased significantly from 2013 to 2015. The forecast rate for 2016 is 3%.

In order to better understand the burden of government spending, we analysed the amount of administrative expenses with regard to the gross domestic product (GDP) of the country. According to the statistics from 2010 to 2016, the ratio of bureaucratic expenses to the country's GDP decreased each year. It should also be noted that the share of administrative expenses in the consolidated budget with regard to overall expenses has dropped. In 2016, about 34% of overall expenses are allocated for administrative expenses whilst in 2012 this was up to 41%.

It is also important to note that bureaucratic expenses have not increased with regard to the growth of remuneration for high-ranking officials. The remuneration (wages, bonuses, surpluses) for ministers and deputy ministers was lower in the first nine months of 2015 than it was in the same period of 2012.

CONCLUSION

THE ECONOMY INCREASED BY 6%-7% FROM 2010 TO 2012. THE ECONOMIC GROWTH RATE DECREASED SIGNIFICANTLY FROM 2013 TO 2016. IT SHOULD BE NOTED THAT THE GROWTH OF BUREAUCRATIC EXPENSES SHOULD BE CONSIDERED NOT IN ABSOLUTE NUMBERS (GEL MILLION) BUT RATHER IN RATIOS. THE GROWTH OF WAGES OF THOSE EMPLOYED IN THE PUBLIC SECTOR AND THE SUBSEQUENT GROWTH OF ADMINISTRATIVE EXPENSES CANNOT BE CONSIDERED AS A NEGATIVE STEP IF THE BURDEN OF THESE EXPENSES ON BOTH THE BUDGET AND THE ECONOMY IS DECREASING. THE SHARE OF ADMINISTRATIVE EXPENSES IN BOTH THE OVERALL EXPENSES OF THE BUDGET AS WELL AS IN THE COUNTRY'S GDP HAS BEEN DROPPING ANNUALLY FROM 2013 TO 2016. IN 2016, ABOUT 34% OF OVERALL EXPENSES ARE ALLOCATED FOR ADMINISTRATIVE EXPENSES WHILST IN 2012 THIS WAS UP TO 41%. HENCE, **FACTCHECK** CONCLUDES THAT SERGO RATIANI'S STATEMENT IS **MOSTLY FALSE.**

MOSTLY FALSE