FactCheck

GRASS FACTCHECK

MINISTER OF FINANCE OF GEORGIA

"Levan Tarkhnishvili:

The Estonian model, promised by Kvirikashvili, goes into force not this year, but from January 2017 and, in some particular cases, from 2019."

true

Valeri KVARATSKHELIA
Fact CHEK

At the plenary session of the Parliament of Georgia, Levan Tarkhnishvili, MP, stated: "The Prime Minister informed us that we are switching to the Estonian model. This is a relief. However, when the draft law was distributed among the MPs, we saw that the majority of the articles will go into force from 1 January 2017 and certain articles from 2019."

The initiative about corporate income tax reform was first voiced by Giorgi Kvirikashvili in March 2015. However, as of October 2015, the Ministry of Finance has not had a strong position in regard to this initiative. On 16 January 2016, the issue of the tax reform was put forward again by Giorgi Kvirikashvili, this time in the capacity of Prime Minister. As of 11 February 2016, the Government of Georgia intends to enact the changes starting from 1 July 2016.

The essence of the corporate income tax reform is a change in the corporate income tax object. Specifically, the reform envisages taxing only distributed corporate income with the reinvested part of corporate income no longer being subject to taxation. At the same time, the extension of this different taxation regime does not include financial institutions, entrepreneur physical entities, LEPLs or the NGO sector.

On 24 March 2016, the tax change project for the Tax Code of Georgia was initiated before the Parliament of Georgia. According to the draft law, the initial approach was changed and the new rules for corporate income tax will also include those subjects of the financial sector although only after two years – from 1 January 2019. Additionally, the date of going into force for most of the changes was postponed to 1 January 2017 instead of 1 July 2016. After the promulgation of the law, only those technical articles will enter into force. Article 3 of the draft law regulates the starting date. On 13 May 2016, the Parliament of Georgia voted for the amendments at the third hearing.

The official reason for postponing the going into force of the legislative amendments was given as the position expressed by the Business Association of Georgia. This organisation welcomed the amendments but asserted that because both business and tax administration organs would need a reasonable amount of time to adapt to the changes, it was better to postpone the date of the enforcement of the amendments to 1 January 2017. Of further note is that according to the assessment of the Ministry of Finance, if the changes went into force in July of this year, the state budget would receive GEL 400 million less in income. This in turn would make it necessary to cut those expenses already planned in the same amount. As this year is an election year, the political aspects of cutting budget expenses need to be taken into account as one of the reasons for postponing the enactment of the legislative amendments.

CONCLUSION

THE INITIATIVE ABOUT CORPORATE TAX INCOME REFORM, VOICED BY GIORGI KVIRIKASHVILI IN MARCH 2015, WAS TRANSFORMED INTO A LEGISLATIVE INITIATIVE IN JANUARY 2016 AFTER HE BECAME THE PRIME MINISTER OF GEORGIA. ON 24 MARCH 2016, THE PROJECT DEALING WITH THE AMENDMENTS WAS INITIATED IN THE PARLIAMENT OF GEORGIA AND ON 13 MAY 2016, GEORGIA'S LEGISLATIVE ORGAN VOTED IN FAVOUR OF THE PACKAGE OF AMENDMENTS. ACCORDING TO THE LAW, TECHNICAL CHANGES WILL GO INTO FORCE IMMEDIATELY AFTER THE PROMULGATION OF THE LAW. AT THE SAME TIME, THE NEW METHOD FOR CORPORATE INCOME TAXATION WILL FULLY ENTER INTO FORCE ON 1 JANUARY 2017 INSTEAD OF 1 JULY 2016 AND IN THE CASE OF FINANCIAL INSTITUTIONS, ON 1 JANUARY 2019. THE BUSINESS ASSOCIATION OF GEORGIA INITIATED THE POSTPONING OF THE CHANGES WHICH IT EXPLAINED BY THE LACK OF A REASONABLE AMOUNT OF TIME NEEDED TO ADAPT TO THE LARGE-SCALE CHANGES. ADDITIONALLY, ANOTHER FACTOR FOR POSTPONING THE CHANGES COULD BE THE RELUCTANCE TO CUT BUDGET EXPENSES IN AN ELECTION YEAR IN ORDER TO FILL THE GAP WHICH WOULD BE CREATED BY THE REFORM.

FACTCHECK CONCLUDES THAT LEVAN TARKHNISHVILI'S STATEMENT 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

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Euroskepticism Beyond Brexit

In UK, deep ideological rifts on EU division of power

In a number of nations men express stronger opposition than women to an ever closer union. This gender gap is most prominent in the Netherlands (12 percentage points), with 50% of men, but only 38% of women favoring some powers being returned to The Hague. There is also a 10-point divide in the UK (70% of men compared with 60% of women want some powers returned to their country) and Sweden (52% of men vs. 42% of women).

Party divides on future of EUThe largest ideological gap on European division of powers is in the United Kingdom. Roughly three-quarters (77%) of people who place themselves on the right of the political spectrum favor returning some EU powers to London. Just 40% of people on the left agree. In the Netherlands, a little over half (53%) of people on the right, but only about a third (36%) of Dutch on the left support a less centralized EU. Notably, this right-left divide is reversed in Spain, and is especially large. Half of Spanish leftists, but only about three-in-ten (29%) Spanish rightists want more power brought back to Madrid.

This ideological split also manifests itself in the views of political party adherents. In the United Kingdom, 93% of UKIP supporters think that some powers now held by the EU should be returned to national governments. Conservatives (77%) agree with them more than Labour Party (49%) adherents. In Italy, 51% of Five Star supporters want some power to revert to Rome; 37% of Forza Italia partisans and 28% of Democratic Party supporters agree. In Poland, 45% of PiS backers, but only 20% of PO adherents want some power returned to Warsaw. In Spain, 44% of Podemos partisans want some EU power back in Madrid, 37% of supporters of the Spanish Socialist Workers' Party (PSOE) want this, and 34% of the Ciudadanos and 26% of those identifying with the People's Party (PP) concur. In France, a plurality of National Front supporters (39%) want Paris to regain some of its power from Brussels. A larger share of Republican backers (43%) want to bring powers home from Brussels, but only 28% of Socialists agree.

Is Brexit bad for the EU?

Europeans overwhelmingly agree that UK departure would hurt EUThere is overwhelming sentiment across Europe that Brexit would be a bad thing for the European institution: 89% in Sweden, 75% in the Netherlands and 74% in Germany say the British leaving would be not good for the EU.

France is the only country where more than a quarter (32%) of the public says it would be positive for the EU if the UK departed.

Notably, in all nine countries where the question was asked, large pluralities of people on the left, in the middle and on the right of the political spectrum say a UK exit from the EU would be a bad thing for the EU. But the breakdown in sentiment by political party is more complex. In France, nearly seven-in-ten (71%) supporters of the Socialist and Republican parties believe it would not be good for the EU if the UK left. However, National Front backers are nearly divided on the topic. And even though the German AfD shares many of the criticisms of the EU with the UK Independence Party, two-thirds of Germans who have a favorable opinion of the AfD think it would be a bad thing for the EU if the UK left.

This report is a collaborative effort based on the input and analysis of the following individuals.
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Rustavi 2 TV Shareholders Lose Appeal in Ownership Dispute

Tbilisi Court of Appeals upheld on June 10 the ruling of lower court in favor of Kibar Khalvashi, who seeks reclaiming shares in the Rustavi 2 TV, which he owned about a decade ago.

Rustavi 2 TV and many of the opposition parties say that the court case is an attempt by the authorities, and specifically by ex-PM Bidzina Ivanishvili, who is widely considered to be still wielding much influence on government, to silence the television station critical of government's policies.

Zaza Bibilashvili, a lawyer representing 91% shareholders of the Rustavi 2 TV, brothers Giorgi and Levan Karamanishvili, ex-president Mikheil Saakashvili's close associates, said that he expects the court of last resort will most likely rule the appeal inadmissible and sometime in August there will be an attempt to take over the TV channel. He argued that this timing will be chosen deliberately to coincide with summer lull in an attempt to lessen strong reaction domestically and internationally to such possible takeover of the opposition-minded television station ahead of the October 8 parliamentary elections.

Billionaire ex-PM Ivanishvili, who denies any involvement in the Rustavi 2 ownership dispute, said on June 7 that he would like to see the current management of Rustavi 2 remain in place in the lead up to the October 8 parliamentary elections as it would be damaging for the country if the TV channel changes its editorial policy during the electoral period.

He also said that if the legal battle over Rustavi 2 TV ownership is over before the elections, including in the court of last resort, in favor of Khalvashi, he would ask the latter to wait and not to change television station's management before the end of elections. He also said that he would pay Khalvashi to compensate for any possible financial losses.

Source: Civil.ge

U.K. Entertainment and Media Sector to be largest in EMEA by 2017

The FINANCIAL

U.K.'s E&M Sector to be worth £68.2bn compared to Germany's £61.3bn by 2020, according to PwC study. Global Internet advertising will become the largest advertising segment, it said. U.K. is the largest Internet advertising market in Europe, and will remain so for the next five years.

The U.K.'s Entertainment and Media (E&M) sector is set to overtake Germany and become the largest in Europe, the Middle-East and Africa (EMEA) according to PwC's latest Entertainment and Media Outlook. The research shows that the United Kingdom's E&M sector will be worth £62.8bn in 2017, overtaking Germany's £58.6bn. This growth will continue over the following three years, by reaching a projected £68.2bn, in comparison to Germany's £61.3bn by 2020.

"Advertising revenues are driving this growth, as the industry identifies new ways of measuring and tracking performance in a connected, mobile and digital world. Internet access combined with tablet and smart phone penetration has created a golden age for individuals interacting with media and the appetite of U.K. consumers shows no signs of slowing", Phil Stokes, U.K. Head of Entertainment & Media, said.

"It's increasingly clear that consumers see no significant divide between digital and traditional media: what they want is more flexibility, freedom and convenience in when and how they consume any kind of content.

"Mobile Internet connections worldwide are growing apace. They already outnumber fixed connections by three to one, and are projected to rise by over 5bn to 7bn in the next five years. This is a bigger global disruption than the Industrial Revolution."

Internet Advertising

By 2017, more than half of the world's population will be mobile Internet subscribers. Global total Internet advertising revenue is forecast to grow from £101.1bn in 2015 to £171.3bn in 2020, a compound annual growth rate (CAGR) over the period of 11.1%. As the segment captures an ever-larger portion of advertising budgets, it will exceed TV to become the world's largest single advertising category by 2019.

The U.K. is the largest Internet advertising market in Europe, and will remain so for the next five years, with a forecast overall CAGR of 10.5% between 2015 and 2020, and revenue growing from £8.3bn to £13.7bn in the period.

"The historic shift to mobile consumption that both traditional and new media companies are experiencing has yet to be reflected fully in advertising revenue", Phil Stokes, added.

"With the ways of measuring and tracking ad performance on new platforms still evolving, advertisers have been reluctant to migrate their spending from more tried and tested media. But that will shift as the market matures, and we forecast that by the end of 2017 advertising revenue from mobile devices will exceed that from online services delivered to PCs and laptops."

TV Advertising

After a drop in total TV advertising revenue in 2012, the UK has returned to growth. This was initially modest at 1.2% in 2013, although stronger growth of 4.4% and 7.0% was evident in 2014 and 2015 respectively.

TV advertising revenue in the UK increased from £3.8bn in 2014 to £4.1bn in 2015. Growth will continue at a 4.2% CAGR through to 2020, with total TV advertising revenue reaching £5bn.

"Online advertising has been winning market share from traditional broadcast advertising on the strength of its greater accountability and wealth of detailed data on user behaviour and engagement", Phil Stokes, added.

"Now TV is fighting back, with innovations in audience measurement based around analysing return path data, social listening, and new aggregated insights into agency spend.

"The new data also enhances pay-TV service providers' ability to cross-sell and up-sell services to subscribers."

Cinema

Global Smartphone connections are forecast to rise from 1.92bn in 2014 to 3.85bn in 2019. The proliferation of such connected devices among consumers will create both significant new opportunities and considerable challenges for companies creating and distributing cinema content.

Despite this, the UK cinema market is set to rise marginally over the forecast period, although this comes from a high starting base — 2015 being a very strong year for film. Admissions in 2015 were at 171.8mn, a substantial increase on the 2014 figure of 157.5mn. They are expected to reach 173.2mn in 2020, at a 0.2% CAGR.

Publishing Books and e-Books

Total consumer books revenue in the UK stood at £2bn in 2015 and will rise to £2.4bn in 2020, increasing at a 3.4% CAGR. This will be entirely driven by growth in e-books revenue, with print revenue continuing to fall, albeit at lower rates than previously anticipated.

Out-of-home advertising:

The UK is the largest out-of-home (OOH) advertising market in Europe, with total revenue of £1.2bn in 2015. This also makes the UK the fourth-largest OOH market in the world, behind only the US, Japan and China.

The UK market is expected to maintain a steady, albeit slowing, growth rate over the forecast period, reflecting the general economic climate, but also, with many of the gains from early digitisation already realised, an element of diminishing returns on digital out-of-home (DOOH) advertising growth will start to settle in. The net effect will be a modest CAGR of 2.9% over the next five years, slightly above the regional average. Total OOH revenue will reach £1.4bn by 2020.

After a drop in total TV advertising revenue in 2012, the U.K. has returned to growth.
Total U.K. consumer books revenue will rise to £2.42bn in 2020, entirely driven by growth in e-books.
20bn apps will be downloaded in the U.K. in 2020, accounting for 5% of the world's app market with 88% of smartphone and tablet data usage spent watching video content.
By 2017, more than half of the world's population will be mobile Internet subscribers.
Global Smartphone connections are forecast to rise from 1.92bn in 2014 to 3.85bn in 2019.

GRASS FACTCHECK

MEMBER OF THE UNITED NATIONAL MOVEMENT

Petre Tsiskarishvili:

"The strengthening of GEL was [mainly] due to the decrease in money in circulation and a drop in imports

Mostly true

Beso NAMCHAVADZE
Fact CHEK

On air on Imedi TV the United National Movement MP, Petre Tsiskarishvili, discussed Georgia's economic conditions. According to the MP, the recently stabilised exchange rate of the Georgian national currency is mainly due to the decrease in the amount of GEL in circulation as well as a drop in imports. The amount of GEL in the economy (according to the M2 indicator of money flow) has decreased by 300 million.

FactCheck verified the accuracy of this statement.

The GEL exchange rate is determined by the demand and supply of GEL and USD on the currency market. The factors influencing the exchange rate are those economic or non-economic categories which form the balance of demand and supply on various currencies.

The greatest reason for the outflow of foreign currency from Georgia (accounting for the outflow of USD 7.4 billion in 2015) is the consumption of imported goods. Hence, Georgia has a negative external trade balance as imports are several times larger than its exports. In order to avoid the outflow of foreign currency, it is necessary for other sources of foreign currency (tourism, money transfers, investments and loans) to balance the deficit. Georgia's external trade deficit was USD 3.5 billion in 2013. Exports started to drop at the end 2014 whilst imports remained on the rise. Hence, the external trade deficit grew to USD 4.3 billion. Exports continued to decrease in 2015; however, imports soon followed suit which kept the deficit at the level of USD 4.3 billion. Exports decreased by USD 952 million in 2015 whilst imports fell by USD 930 million. Both imports and exports continued to decrease in 2016. Exports dropped by USD 60 million from January to March 2016 whilst imports fell by USD 300 million (excluding the value of the medicine necessary for the treatment of hepatitis C which qualifies as an import but is given to Georgia free-of-charge). In total, the country's imports have decreased by over USD 1 billion over the past year.

Why did imports decrease? The depreciation of GEL makes imports more expensive. As a result we get an improved trade balance which decreases the pressure on the national currency. Hence, the negative pressure from external trade on GEL has decreased.

The amount of GEL in circulation and the demand on it (necessity) has a serious influence upon the GEL exchange rate. The National Bank of Georgia began raising the monetary rates in February 2015 with the aim of decreasing the amount of GEL in the economy. The rate grew from 4% to 8% in just one year. If the loans in GEL were still increasing in 2015, the amount of loans distributed in GEL began to drop from January 2016. This was also caused by the decrease in the amount of domestic loans taken by the state. The state's domestic debt grew by just GEL 28 million from January to April 2016 whilst this number was GEL 221 million in the same period of the previous year.

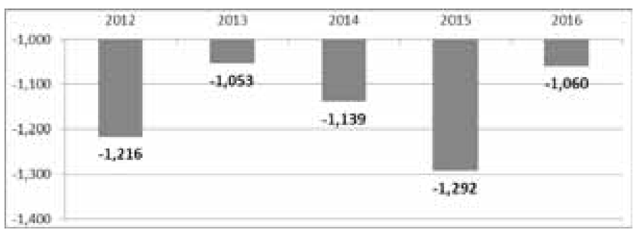
The indicator determining the basic amount of GEL is the so-called reserve money. Reserve money is the amount of money printed and distributed in the economy by the National Bank of Georgia. The National Bank has a direct influence upon the amount of reserve money. M2 is the money aggregate created based upon the amount of reserve money. Its amount depends upon the amount of deposits in GEL. The growth rate of the amount of reserve money as well as the M2 started to drop in 2015 with both of these amounts below the levels they had been a year before. M2 has decreased according to the data of March 2016 as well (by GEL 4 million). M2 decreased by about GEL 300 million as compared to December 2015 as pointed out by Petre Tsiskarishvili. However, it would be more appropriate to compare current figures to the ones in the same period of the previous year.

However, growth in the tourism sector also has a positive influence upon the appreciation. The number of visitors entering Georgia grew by 15% in the first quarter of 2016 whilst the number of tourists grew by 16%. Georgia received a total of USD 306 million in revenues from international tourism in the first quarter of the previous year. If we assume that the income from tourism has grown by at least 16% in the first quarter of 2016, we will be getting USD 49 million more in absolute numbers.

The amounts of foreign direct investments and external loans to Georgia are unknown as of yet; however, we know that the state's external debt grew by USD 108 million from January to April 2016. Attracting external loans has a positive influence upon the GEL exchange rate.

In addition, the trend of an appreciation of the GEL exchange rate has changed expectations from negative to positive which has contributed to the stability of the exchange rate.

Chart 1: External Trade Balance in the First Quarter of the Year, USD Million



CONCLUSION

FACTCHECK WILL GO BACK TO THE ISSUE OF THE APPRECIATION OF THE GEL EXCHANGE RATE AFTER THE STATISTICAL DATA OF THE PAST FEW MONTHS ARE FULLY PUBLISHED. AT THIS STAGE, HOWEVER, WE CONCLUDE THAT PETRE TSISKARISHVILI'S STATEMENT IS **MOSTLY TRUE.**

TRUE