



Georgian Economy Growth is on our mind

Georgia | Economy
December 11, 2012

The Parliament of Georgia is expected to approve the Georgia's state budget for 2013 before 21 December 2012. Draft budget envisages GDP growth rate of 7% in 2013, which is in line with the economic performance of Georgia in recent years with real GDP up 7.2% and 7% in 2011 and 2012E, respectively. Budget revenues and expenditures are up 5.2% y/y. Budget deficit to GDP is estimated at 2.9%. The general government debt ratios are set to improve further to 32.8% of GDP from current 36%. The average inflation is expected at 4.5%.

Well balanced budget

During the last two years, Georgia has been posting an impressive real GDP growth of around 7% per year, one of the highest in the region. The draft Georgian budget 2013 envisages economic growth to be maintained at 7% in 2013 supported by strong funding of important sectors of economy and continued market liberalization. The total state budget is set at GEL 8,749mn. The revenues will rise on the back of economic growth (9.8% y/y growth in tax revenues, which constitute 79% of the budget and 23.6% of GDP), with no rise in tax rates envisaged. Total expenditure and acquisition of nonfinancial assets is set at 27.2% of GDP in 2013 below that of 28.5% in 2012. The grants and other revenues are expected to account for only 1.7% in 2013 vs 2.8% in 2012 budget.

General government debt ratios to improve

The total government debt is expected to drop to 32.8% of GDP in 2013 (currently at 36% of GDP), which makes the ratio one of the lowest among the Eastern European peers. By the YE-2013, the total government debt of Georgia should amount to GEL 9.5bn of which 79% is external debt, including US\$ 500mn of sovereign Eurobonds due in 2021.

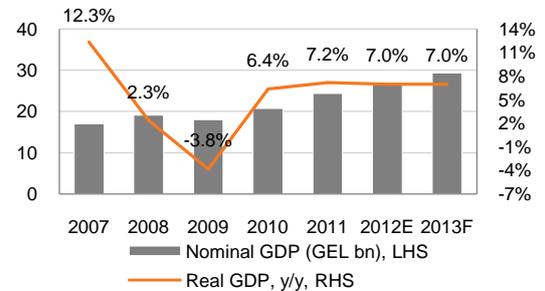
Agriculture and infrastructure receive strong attention

Agriculture expenditure will see the growth of 36.5% y/y to GEL 170mn mainly to support machinery and irrigation system development which are one of the key priorities in improving the agricultural infrastructure and boost business activity in the sector. The budget allocates up to GEL 901mn to the Ministry of Regional Development and Infrastructure, which is 25.6% higher than estimated actual spending in 2012 and the financing of the core infrastructural projects will continue. The government expects to receive around GEL 650mn of loans for infrastructural projects, almost half of which are on account of the World Bank and the Asian Development Bank.

Public to benefit from flat general government expenditure

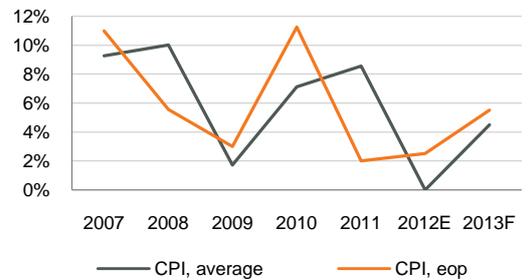
General government expenditure will remain flat at 2012 level (grew 12.7% y/y in 2012). Healthcare and social expenditure including pensions, social assistance and state covered health insurance is up 24.7% (social expenditure alone increased 31.1% y/y) at GEL 2.5bn. Social expenditure and healthcare will constitute 28.7% of the budget vs 24.8% in 2012E.

GDP growth, %



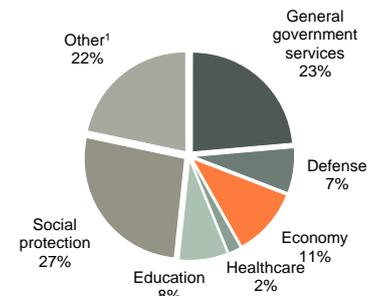
Source: Geostat, Ministry of Finance of Georgia

CPI, Chg y/y



Source: Geostat, Ministry of Finance of Georgia

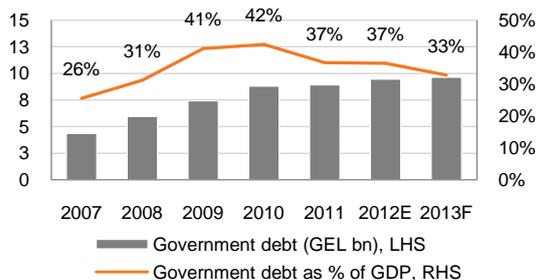
Budget expenditures breakdown, 2013



¹Includes decrease in liabilities and increase in financial assets (excluding change in balance)

Source: Ministry of Finance of Georgia

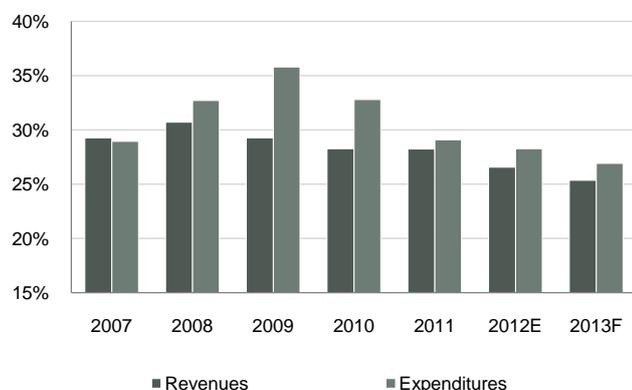
Government debt



Source: Ministry of Finance of Georgia

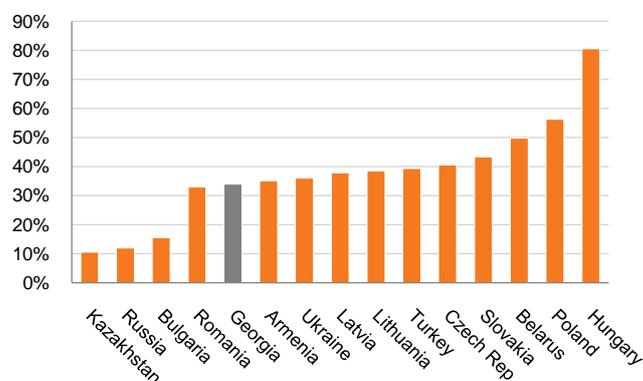
Budget execution and general government debt

General budget execution, % of GDP



Note: Expenditure including acquisition of non-financial assets
 Source: Geostat, Ministry of Finance of Georgia

Total government debt, % of GDP



Source: Bloomberg, Ministry of Finance of Georgia

Budget expenditure by selected ministries, GEL mn

	2012E	2013F	Change y/y
Ministry of Healthcare and Social Protection	1,821.8	2,345.0	28.7%
Ministry of Regional Development and Infrastructure	717.1	901.0	25.6%
Ministry of Education and Science	625.8	670.0	7.1%
Ministry of Defense	730.6	660.0	-9.7%
Ministry of Internal Affairs of Georgia	587.9	570.0	-3.0%
Ministry of Agriculture	230.0	241.0	4.8%
Ministry of Corrections and Legal Assistance	128.4	174.3	35.7%
Ministry of Energy and Natural Resources	311.0	118.8	-61.8%
Ministry of Finance	108.2	100.0	-7.6%
Ministry of Economy and Sustainable Development	145.4	82.5	-43.3%

Note: Expenditure by ministries maybe different from the budget layout as these may also include administration expenses, acquisition of nonfinancial assets, etc.
 Source: Ministry of Finance of Georgia

Draft state budget indicators

State budget inflows and outflows, GEL mn

	2011	2012E	2013F	Change y/y
Revenues	6,442	7,054	7,423	5.2%
Taxes	5,802	6,300	6,920	9.8%
Of which:				
Income Tax	1,439	1,597	1,813	13.5%
Profit Tax	832	900	924	2.7%
Value Added Tax	2,784	3,014	3,384	12.3%
Excise	615	644	665	3.3%
Custom Tax	93	100	104	4.0%
Other taxes	38	45	30	-33.3%
Grants	223	334	203	-39.3%
Other revenues	417	420	300	-28.6%
Increase in liabilities	735	1,058	868	-18.0%
Other inflows¹	270	130	135	3.8%
Total inflows	7,448	8,242	8,426	2.2%
Use of cash surplus²	12	-122	323	na
Expenditure	5,824	6,784	7,255	7.0%
Acquisition of nonfinancial assets	1,039	799	724	-9.4%
Total of expenditure and acquisition of nonfinancial assets	6,863	7,582	7,979	5.2%
General government services	1,826	2,057	2,065	0.4%
Defense	710	658	639	-2.9%
Economy	897	1,076	961	-10.7%
Of which:				
Agriculture	40	125	170	36.5%
Transport	592	562	562	0.0%
Fuel and energy	46	83	38	-54.2%
Tourism	53	68	73	7.9%
Multipurpose development project	92	175	88	-50.0%
Other economy	75	64	30	-53.2%
Environmental protection	23	29	32	11.8%
Healthcare	240	231	175	-24.0%
Of which:				
Hospital services	92	104	64	-38.6%
Public health services	52	42	29	-31.4%
Other healthcare	96	85	83	-2.4%
Education	556	611	682	11.7%
Of which:				
General education	394	422	486	15.3%
High education	62	65	81	23.7%
Other education	101	124	116	-6.7%
Social protection	1,568	1,781	2,334	31.1%
Of which:				
Social protection of the elderly (mainly pensions)	997	1,074	1,154	7.4%
Social protection of families and children	232	285	501	75.6%
Affordable housing for internally displaced persons	125	180	514	185.3%
Other social protection	213	242	166	-31.3%
Other expenditure and acquisition of nonfinancial assets ³	1,043	1,140	1,090	-4.4%
Decrease in liabilities	166	189	540	185.0%
Other outflows⁴	430	348	230	-34.0%
Total outflows	7,459	8,120	8,749	7.7%

¹Includes reduction in financial (excluding change in balance) and nonfinancial assets.

²Change in cash and deposits (use of previously accumulated cash surplus)

³Includes other directions (such as public order, culture, sport, etc) and other costs

⁴Includes increase in financial assets (excluding change in balance)

Note: The classification does not exactly match the funding of the ministries

Source: Ministry of Finance of Georgia, presentational format by BOG Research



Contacts

Head of Research

Ekaterina Gazadze | egazadze@bog.ge

Associate

Giorgi Iremashvili | giremashvili@bog.ge

Bank of Georgia Research

Address: 29a Gagarin Str. Tbilisi 0160, Georgia
Tel: +995 32 2444 444
Email: Research@bog.ge

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