

## Chapter II

### Macroeconomic Overview of 2015

#### GDP dynamics

Real gross domestic product growth amounted 2.8% in 2015. In the first quarter - 3.3%, in the second quarter - 2.5% in the third quarter - 2.5% and 2.9% in the fourth quarter. In 2015, gross domestic product in nominal terms amounted 31 692 million GEL, increased by 8.7% compared to previous year's figure. GDP per capita was GEL 8 498 (3 743 US dollars).

#### Industrial structure of Economic growth

According to 2015 data, the most important economic growth was noted in following sectors: Construction (15.2%), financial activities (9.4%), hotels and restaurants (7.4%), real estate (6.9%), communications (5.0%), transport (2.9%).

#### The role of the private sector in economic growth

In 2015, private sector had leading role in economic growth. Business sector turnover increased by 14.6% and production rate by 12.8%. Business sector has increased number of employees by 52 thousand people.

#### Prices

Georgian monetary policy is following inflation targeting rule and target inflation rate for 2015 was determined at 5%. In 2015, the average annual inflation rate was 4.0%, GDP deflator index was 5.8%. In December 2015 compared to December 2014, inflation rate amounted 4.9%.

#### GEL exchange rate

In 2015 GEL depreciated by 21.5% against US dollar. This was caused by appreciation of USD, also by Russian economy's crisis and its close linkage to countries in economic crisis. During this period, GEL also depreciated against Euro by 12.5 percent. The nominal effective exchange rate (average exchange rate of Gel with trading partners) - depreciated by 0.5%.

#### Foreign trade

In 2015, foreign trade turnover in comparison to 2014 was 13 percent less. Exports decreased by 23%, while imports decreased by 10 percent. Trade balance decreased in first quarter of 2015 (decrease started in last quarter of 2014) and increased in second quarter. At the end of 2015, the trade deficit was 5 521 million US dollars, which is 4% less than previous year data. 2015 imports include cost of drugs for hepatitis C, which is 449.1 million US dollars. Excluding this cost, negative trade balance is 12% less than in 2014.

## Foreign trade data for the years 2014-2015 in million USD

	2014					2015					mIn US Dollars % change				
	Total	IQTR	IIQTR	3QTR	4QTR	Total	1QTR	2QTR	3QTR	4QTR	Total	1QT R	2QT R	3QT R	4QT R
<b>Export</b>	<b>2,861</b>	696	724	734	708	<b>2,204</b>	503	579	563	559	<b>-23%</b>	-28%	-20%	-23%	-21%
<b>Import</b>	<b>8,593</b>	1,835	2,195	2,195	2,369	<b>7,728</b>	1,795	1,865	2,019	2,048	<b>-10%</b>	-2%	-15%	-8%	-14%
<b>Trade Turnover</b>	<b>11,454</b>	2,530	2,918	2,929	3,077	<b>9,932</b>	2,298	2,444	2,582	2,607	<b>-13%</b>	-9%	-16%	-12%	-15%
<b>Negative Trade Balance</b>	<b>(5,733)</b>	(1,139)	(1,471)	(1,462)	(1,661)	<b>(5,524)</b>	(1,292)	(1,286)	(1,457)	(1,489)	<b>-4%</b>	13%	-13%	0%	-10%

Georgia's foreign trade turnover with EU countries amounted 3 165 million US dollars, 6% more than in 2014. Export amounted to 646 million USD (4% increase) and import 2518 million USD (6% increase).

Foreign trade turnover with CIS countries decreased by 22 percent. Exports decreased by 43 percent, imports by 7 percent. According to commodity groups on the first place in export is copper ores and concentrates (weight in total exports is 12.3 per cent), followed by ferroalloys 8.8%, automobiles 8.2%, hazelnuts and walnuts 8.0%, medicines 6.4% and etc.

Azerbaijan is main exporter from Georgia, with 11% share of total import, followed by Bulgaria 9.7%, Turkey 8.4%, Armenia 8.2%, Russia 7.4% and etc.

### State Debt

Government debt is characterized by stability and is 41.5% of the GDP level. Foreign debt is 32.6, while the domestic debt is 8.9%. This amount is 60% lower than the debt norm of state, determined by law.

### Direct Foreign Investments

According to preliminary data, in 2015 foreign direct investment in Georgia decreased by 23% and amounted 1 351 million US dollars. Investments from EU decreased by 38% and increased by 30 percent from CIS countries. Azerbaijan and UK were major investors. The biggest investments were in transportation, communications and financial sectors, 594 million US dollars and 191 million US dollars accordingly.

## Information about 2015 consolidated budget revenue performance

In 2015 the consolidated budget revenue forecast was amounted 8 853 920.0 thousand GEL, during the reporting period 8 963 172.4 thousand GEL was mobilized, or 101.2% of the forecast indicator.

Tax forecast Indicator was estimated as 7 980 000, 0 thousand GEL, while during the reporting period 8 010 855, 6 thousand GEL was mobilized, or 100, 4% of the forecasted indicator.

Grant forecast indicator was estimated as 238 920.0 thousand GEL, while during reporting period 318 787.7 thousand GEL was mobilized, or 133.4%.

Other Revenue forecast indicator was estimated as 635 000.0 thousand GEL, while during reporting period 633 529.2 thousand GEL was mobilized, or 99.8%.

For decrease in non-financial assets 355 073.0 thousand GEL was mobilized, which is 100.0% of forecast indicator (355 000.0 thousand GEL).

For decrease in financial assets 59 064.7 thousand GEL was mobilized, which is 68.7% of forecast indicator (86 000.0 thousand GEL).

### Consolidated budget revenue Performance indicators 2015

Name	Planned	Actual	+/-	%
<b>Revenues</b>	<b>8 853 920,0</b>	<b>8 963 172,4</b>	<b>109 252,4</b>	<b>101,2</b>
<b>Taxes</b>	<b>7 980 000,0</b>	<b>8 010 855,6</b>	<b>30 855,6</b>	<b>100,4</b>
Income Tax	2 233 000,0	2 223 220,6	-9 779,4	99,6
Profit Tax	1 004 000,0	1 025 228,4	21 228,4	102,1
VAT	3 525 000,0	3 505 454,6	-19 545,4	99,4
Excise	860 000,0	870 731,8	10 731,8	101,2
Import Tax	68 000,0	69 294,0	1 294,0	1 019,0
Property Tax	265 000,0	290 096,0	25 096,0	109,5
Other Taxes	25 000,0	26 830,2	1 830,2	107,3
<b>Grants</b>	<b>238 920,0</b>	<b>318 787,7</b>	<b>79 867,7</b>	<b>133,4</b>
<b>Other Revenues</b>	<b>635 000,0</b>	<b>633 529,2</b>	<b>-1 470,8</b>	<b>99,8</b>

### Information about the 2015 state budget revenue performance

2015 state budget revenue was estimated as 8 048 92002 thousand GEL, during the reporting period 8 170 499.3 thousand GEL was mobilized, or 101.5% of the forecast indicator.

#### State budget revenue performance Indicators 2015

Name	Planned	Actual	+/-	%
<b>Revenues</b>	<b>8,048,920.0</b>	<b>8,170,499.3</b>	<b>121,579.3</b>	<b>101.5</b>
taxes	7,520,000.0	7,549,608.9	29,608.9	100.4
Grants	238,920.0	315,593.2	76,673.2	132.1
Other Revenues	290,000.0	305,297.2	15,297.2	105.3

**Tax revenue** was estimated as 7 520 000.0 thousand GEL, during the reporting period 7 549 608.9 thousand GEL was mobilized, 100.4% of forecasted indicator.

Mobilization of certain tax types in state budget are as following:

- Income tax – 2 052 388.5 thousand GEL was mobilized, which is 100.7% of forecast indicator (2 038 000.0 thousand GEL).
- Profit tax – 1 025 228.4 thousand GEL was mobilized, which is 102.1% of forecast indicator (1 004 000.0 thousand GEL).
- VAT – 3 505 454.6 thousand GEL was mobilized, which is 99.4% of forecast indicator (3 525 000.0 thousand GEL).
- Excise tax – 870 731.8 thousand GEL was mobilized, which is 101.2% of forecast indicator (860 000.0 thousand GEL).
- Import tax – 69 294.0 thousand GEL was mobilized, which is 101.9% of forecast indicator (68 000.0 thousand GEL).
- Other Taxes – 26 511.6 thousand GEL was mobilized, which is 106.0% of forecast indicator (25 000.0 thousand GEL).

#### State budget tax income performance Indicators 2015

Name	Planned	Actual	+/-	%
<b>Taxes</b>	<b>7,520,000.0</b>	<b>7,549,608.9</b>	<b>29,608.9</b>	<b>100.4</b>
Income Tax	2,038,000.0	2,052,388.5	14,388.5	100.7

Property Tax	1,004,000.0	1,025,228.4	21,228.4	102.1
VAT	3,525,000.0	3,505,454.6	-19,545.4	99.4
Excise	860,000.0	870,731.8	10,731.8	101.2
Import Tax	68,000.0	69,294.0	1,294.0	101.9
Other Taxes	25,000.0	26,511.6	1,511.6	106.0

Grant amount was estimated as 238 920.0 thousand GEL, during the reporting period 315 593.2 thousand GEL was mobilized, 132.1% of forecast indicator.

Name	Actual In Reporting period
<b>Grants</b>	<b>315,593.2</b>
<b>Budget Supporting Grants</b>	<b>127,746.9</b>
<b>Investment Grants</b>	<b>134,358.4</b>
SDC	42.5
GEF	65.2
EU	24,294.0
SIDA	390.1
ORET	21.5
CNF	807.4
IFAD	54.9
KfW	20,113.1
MCC	29,421.3
USAID	59,147.4
<b>Grants on Treasury Registry Account</b>	<b>53,487.9</b>

**Other Revenues** was estimated as 290 000.0 thousand GEL, during the reporting period 305 297.2 thousand GEL was mobilized, 105.3% of forecast indicator.

During the reporting period, revenue mobilizations by specific types were following:

- **Income from property** – 69 550.2 thousand GEL was mobilized, which is 109.2% of forecast indicator (63 700.0 thousand GEL).
  - **Interest Revenue** – 46 856.2 thousand GEL, 106.0% of forecast indicator (44 200.0 GEL).
  - **Dividends** – 415.5 thousand GEL, 83.1% of forecast indicator (500.0 GEL).
  - **Rent** – 22 278.5 thousand GEL was mobilized, which is 117.3% of forecast indicator (19 000.0 thousand GEL).
- **Sale of goods and service revenue** – 76 297.0 thousand GEL was mobilized, 101.8% of forecast indicator (74 950.0 thousand GEL).

- **Administrative fees and payments** – 71 908.6 thousand GEL, 101.6% of forecasted indicator (70 800.0 GEL)
  - License Tax – 622.5 thousand GEL, 88.9% of forecasted indicator (700.0 GEL)
  - Permission tax – 49 414.8 thousand GEL, 98.8% of forecasted indicator (50 000.0 thousand GEL)
  - Registration Fees – 1 653.4 thousand GEL, 118.1% of forecasted indicator (1 400.0 thousand GEL)
  - State fee – 16 617.4 thousand GEL, 110.8% of forecasted indicator (15 000.0 thousand GEL)
  - Consulate Fees – 2 206.7 thousand GEL, 95.9% of forecasted index (2 300.0 thousand GEL)
  - Postponed military service fee – 973.1 thousand Gel, 97.3% of forecasted index (1 000.0 thousand GEL)
  - Other unclassified fees – 420.9 thousand GEL, 105.2% of forecasted index (400.0 thousand GEL)
- **Income from nonmarket transactions**– 4 388.4 thousand GEL, 105.7% of forecasted index (4 150.0 thousand GEL).
  - From sale of goods – 165.4 thousand GEL, 110.3% of forecasted index (150.0 thousand GEL)
  - Service – 4 154.0 thousand GEL, 103.8% of forecasted index (4 000.0 thousand GEL)
  - Other Income from nonmarket transactions - 69.0 thousand GEL.
- **sanctions (fines and penalties)** – 63 501.4 thousand GEL, 93.4% of forecasted index (68 000.0 thousand GEL)
- **Voluntary transfers without grants** – 25 533.9 thousand GEL.
- **Mixed and other unclassified revenues** – 70 414.7 thousand GEL, 86.9% of forecasted index (81 050.0 GEL)

### State budget other revenue performance indicators 2015

Name	Planned	Actual	+/-	%
<b>Other Revenues</b>	<b>290,000.0</b>	<b>305,297.2</b>	<b>15,297.2</b>	<b>105.3</b>
<b>Property Income</b>	<b>63,700.0</b>	<b>69,550.2</b>	<b>5,850.2</b>	<b>109.2</b>
Interest	44,200.0	46,856.2	2,656.2	106.0
Dividends	500.0	415.5	-84.5	83.1
Rent	19,000.0	22,278.5	3,278.5	117.3
<b>Sale of goods and service revenue</b>	<b>74,950.0</b>	<b>76,297.0</b>	<b>1,347.0</b>	<b>101.8</b>
<b>Administrative fees and payments</b>	<b>70,800.0</b>	<b>71,908.6</b>	<b>1,108.6</b>	<b>101.6</b>
License Tax	700.0	622.5	-77.5	88.9

Permission tax	50,000.0	49,414.8	-585.2	98.9
Registration Fees	1,400.0	1,653.4	253.4	118.1
State fee	15,000.0	16,617.4	1,617.4	110.8
Consulate Fees	2,300.0	2,206.7	-93.3	95.9
Postponed military service fee	1,000.0	973.1	-26.9	97.3
Other unclassified fees	400.0	420.9	20.9	105.2
<b>Income from nonmarket transactions (goods and services)</b>	<b>4,150.0</b>	<b>4,388.4</b>	<b>238.4</b>	<b>105.7</b>
Income From sales	150.0	165.4	15.4	110.3
Income from service	4,000.0	4,154.0	154.0	103.8
Other Income from nonmarket transactions (goods and services)		69.0	69.0	
<b>sanctions (fines and penalties)</b>	<b>68,000.0</b>	<b>63,501.4</b>	<b>-4,498.6</b>	<b>93.4</b>
<b>Voluntary transfers without grants</b>	<b>2,300.0</b>	<b>25,533.9</b>	<b>23,233.9</b>	<b>1,110.2</b>
<b>Mixed and other unclassified revenues</b>	<b>81,050.0</b>	<b>70,414.7</b>	<b>-10,635.3</b>	<b>86.9</b>

**Decrease in nonfinancial assets** – 287 319.1 thousand GEL was mobilized, 102.6% of forecasted index (280 000.0 thousand GEL).

**Decrease in Financial assets** – 71 873.6 thousand GEL was mobilized, 84.6% of forecasted index (85 000.0 thousand GEL).