

Chapter II

January-September 2016 Macroeconomic Overview

Economic Growth

According to the National Statistics Office preliminary data, in the first nine months of 2016 the average real growth of gross domestic product was 2.6%, compared to the same period of last year.

In first half of 2016, growth was noted in the following sectors: construction (18.2%), hotels and restaurants (11.2%), financial activities (8.9%) and real estate, renting and business activities (6.1%).

Prices

In September 2016, the inflation rate compared to September 2015 amounted 0.1%. Annual inflation was influenced by the price changes in following groups: Alcoholic drinks and tobacco prices increased by 11.2% that was reflected on whole indicator by 0.69 percentage points. Hotels, cafes and restaurants' share prices rose by 4.8% and the group's contribution in the annual inflation rate amounted to 0.2 percentage points, while price decreases were recorded in transportation.

In September 2016 the average annual inflation amounted 3.4%.

Exchange Rate

In January-September 2016, GEL exchange rate was fluctuating against US Dollar. In September 2015 compared to December 2016 GEL exchange rate appreciated by 2.8% against USD and was 2.33 GEL per 1 US dollar and Euro appreciated by 0.4%. The nominal effective exchange rate (average exchange rate of GEL with trading partners) strengthened by 2.0%.

Monetary aggregates

In September 2016 compared to September 2015, the broad money aggregate M3 grew by 9.0% to 14 309.3 million, while the M2 money supply rose by 9.2% to 270.6 million.

Total deposits increased by 8.5% in September 2016, including deposits in the national currency by 7.7%, while foreign currency deposits rose by 8.9%.

In September 2016, compared to last year's December, dollarization ratio was on the same level of 66.7%. During the same period loan dollarization ratio decreased by 0.6 percent and amounted 64.1%.

Foreign Sector

In January-September 2016 the foreign trade turnover was 9 104 million US dollars, which is 24 percent more than the figure for previous year; Exports amounted to 1 512 million USD (8% less), while the import was 7 592 million USD (34% more). However, if we exclude cost of C hepatitis medicine from

2015-2016 9 month, import decrease is only 3%. The trade deficit in January-September 2016 was 6 080 million USD.

According to trade turnover between the countries, Georgia's major trade partner is Canada, with which the share of total trade turnover in January-September 2016 was 20.1 percent. Other major partners are: Turkey 12.5%, Ireland 6.8% and Russia - 6.7 percentage shares.

In January-September 2016 the foreign trade turnover with EU countries amounted to 2 554 million US dollars, that is 10% more than the corresponding figure for the previous year.

Turkey is main exporter by 9.4%, followed by China 9.2%, Russia 8.7%, Armenia 7.5% and Azerbaijan 6.2%.

Main importer is Canada by 23.6%, followed by Turkey -13.1%, Ireland – 8.2%, Russia 6.3% and China 5.4%.

According to commodity groups on the first place in the export is copper ores and concentrates by 16.0%, followed by motor cars 8.0%, ferroalloy 8.0%, nuts 7.7%, natural grape wines 4.9%, etc.

In import commodity structure medicines take first place, with 34.1 percent share of total imports followed by oil and oil products 5.4%, automobiles 4.5%, petroleum gases and other gaseous hydrocarbons 2.6%, etc.

With CIS countries foreign trade turnover in January-September 2016 amounted to 1 865 million USD (decreased by 8% compared to January-September 2015).

Information on January-September, 2016 consolidated budget revenue performance.

In January-September 2016, the consolidated budget revenue forecast was amounted to 6 985 584.2 thousand GEL, during the reporting period 7 032 447.1 thousand GEL was mobilized, or 100.7% of the forecast indicator.

Tax forecast Indicator was estimated as 6 335 000, 0 thousand GEL, while during the reporting period 6 475 066, 0 thousand GEL was mobilized, or 102, 2% of the forecasted indicator.

Grant forecast indicator was estimated as 222 329.2 thousand GEL, while during reporting period 138 683.0 thousand GEL was mobilized, or 62.4%.

Other Revenue forecast indicator was estimated as 428 255.0 thousand GEL, while during reporting period 418 698.1 thousand GEL was mobilized, or 97.8%.

For decrease in non-financial assets 242 104.3 thousand GEL was mobilized, which is 121.1% of forecast indicator (200 000.0 thousand GEL).

For decrease in financial assets 40 062.5 thousand GEL was mobilized, which is 89.0% of forecast indicator (40 062.5 thousand GEL).

January-September, 2016 consolidated budget revenue Performance indicators

Name	Planned	Actual	+/-	%
Revenues	6,985,584.2	7,032,447.1	46,862.9	100.7
Taxes	6,335,000.0	6,475,066.0	140,066.0	102.2
Income Tax	1,808,000.0	1,748,148.3	-59,851.7	96.7
Profit Tax	810,000.0	883,969.2	73,969.2	109.1
VAT	2,742,000.0	2,404,675.1	-337,324.9	87.7
Excise	722,000.0	796,620.6	74,620.6	110.3
Import Tax	55,000.0	51,852.4	-3,147.6	94.3
Property Tax	181,000.0	273,878.9	92,878.9	151.3
Other Taxes	17,000.0	315,921.5	298,921.5	1,858.4
Grants	222,329.2	138,683.0	-83,646.2	62.4
Other Revenues	428,255.0	418,698.1	-9,556.9	97.8

Diverse performance of some taxes is due to the circumstances that have changed since 2016. Payment system to budget was changed and simplified; Unified treasury codes were established and tax registration treasury codes were abolished. Taxpayer is paying his liability to specific tax account, while passing a tax return before the term of payment or obligation to pay money, will be recorded in other taxes, which subsequently, after the occurrence of the tax liability, will be moved to corresponding tax account. Taxes paid with reference of uncertain or incorrect personal data will also be recorded in other taxes account before specification. New accounting system will provide long-term improvement of tax accounting.

Information on January-September, 2016 state budget revenue performance

In January-September 2016, state budget revenue was estimated as 6 250 837.2 thousand GEL, during the reporting period 6 285 208.9 thousand GEL was mobilized, or 100.5% of the forecast indicator.

January-September, 2016 state budget revenue performance Indicators

Name	Planned	Actual	+/-	%
Revenues	6,250,837.2	6,285,208.9	34,371.7	100.5

taxes	5,831,000.0	5,943,499.5	112,499.5	101.9
Grants	222,329.2	138,210.7	-84,118.5	62.2
Other Revenues	197,508.0	203,498.7	5,990.7	103.0

Tax revenue was estimated as 5 831 000.0 thousand GEL, during the reporting period 5 943 499.5 thousand GEL was mobilized, 101.9% of forecasted indicator.

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

- Income tax – 1 490 460.8 thousand GEL was mobilized, which is 100.4% of forecast indicator (1 485 000.0 thousand GEL).
- Profit tax – 883 969.2 thousand GEL was mobilized, which is 109.1 of forecast indicator (810 000.0 thousand GEL).
- VAT – 2 404 675.1 thousand GEL was mobilized, which is 87.7% of forecast indicator (2 742 000.0 thousand GEL).
- Excise tax – 796 620.6 thousand GEL was mobilized, which is 110.3% of forecast indicator (722 000.0 thousand GEL).
- Import tax – 51 852.4 thousand GEL was mobilized, which is 94.3% of forecast indicator (55 000.0 thousand GEL).
- Other Taxes – 315 921.5 thousand GEL was mobilized, which is 1 858.4% of forecast indicator (17 000.0 thousand GEL).

January-September, 2016 state budget tax income performance Indicators

Name	Planned	Actual	+/-	%
Taxes	5,831,000.0	5,943,499.5	112,499.5	101.9
Income Tax	1,485,000.0	1,490,460.8	5,460.8	100.4
Property Tax	810,000.0	883,969.2	73,969.2	109.1
VAT	2,742,000.0	2,404,675.1	-337,324.9	87.7
Excise	722,000.0	796,620.6	74,620.6	110.3
Import Tax	55,000.0	51,852.4	-3,147.6	94.3
Other Taxes	17,000.0	315,921.5	298,921.5	1,858.4

Grant amount was estimated as 222 329.2 thousand GEL, during the reporting period 138 210.7 thousand GEL was mobilized, 62.2% of forecast indicator.

Name	Actual In Reporting period
Grants	138,210.7
Budget Supporting Grants	7,737.6
Investment Grants	94,025.2
SDC	252.5
GEF	252.1
EU	26,061.3
SIDA	246.5
CNF	674.8
IFAD	158.9
KfW	11,096.5
MCC	33,288.8
USAID	21,993.9
Grants on Treasury Registry Account	36,447.9

Other Revenues was estimated as 197 508.0 thousand GEL, during the reporting period 203 498.7 thousand GEL was mobilized, 103.0% of forecast indicator.

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

- **Income from property** – 61 140.5 thousand GEL was mobilized, which is 131.5% of forecast indicator (46 500.0 thousand GEL).
 - **Interest Revenue** – 42 303.6 thousand GEL, 113.4% of forecast indicator (37 300.0 GEL)
 - **Dividends** – 377.3 thousand GEL
 - **Rent** – 18 459.6 thousand GEL was mobilized, which is 200.6% of forecast indicator (9 200.0 thousand GEL).
- **Sale of goods and service revenue** – 44 218.9 thousand GEL was mobilized, 106.3% of forecast indicator (41 608.0 thousand GEL).
- **Administrative fees and payments** – 41 619.4 thousand GEL, 109.7% of forecasted indicator (37 940.0 GEL)
 - License Tax – 339.6 thousand GEL, 64.1% of forecasted indicator (530.0 GEL)
 - Permission tax – 25 287.6 thousand GEL, 109.9% of forecasted indicator (23 000.0 thousand GEL)
 - Registration Fees – 1 508.9 thousand GEL, 150.9% of forecasted indicator (1 000.0 thousand GEL)
 - State fee – 12 644.9 thousand GEL, 118.2% of forecasted indicator (10 700.0 thousand GEL)

- Consulate Fees – 944.0 thousand GEL, 57.6% of forecasted index (1 640.0 thousand GEL)
- Postponed military service fee – 613.8 thousand Gel, 80.8% of forecasted index (760.0 thousand GEL)
- Other unclassified fees – 280.5 thousand GEL, 90.5% of forecasted index (310.0 thousand GEL)
- **Income from nonmarket transactions (goods and services)** – 2 599.5 thousand GEL, 70.9% of forecasted index (3 668.0 thousand GEL).
 - From sale of goods – 130.6 thousand GEL, 192.0% of forecasted index (68.0 thousand GEL)
 - Service – 2 454.3 thousand GEL, 68.2% of forecasted index (3 600.0 thousand GEL)
- **sanctions (fines and penalties)** – 43 111.0 thousand GEL, 89.6% of forecasted index (48 100.0 thousand GEL)
- **Voluntary transfers without grants** – 14 483.9 thousand GEL.
- **Mixed and other unclassified revenues** – 40 544.5 thousand GEL, 66.1% of forecasted index (61 300.0 GEL)

January-September 2016 state budget other revenue performance indicators

Name	Planned	Actual	+/-	%
Other Revenues	197,508.0	203,498.7	5,990.7	103.0
Property Income	46,500.0	61,140.5	14,640.5	131.5
Interest	37,300.0	42,303.6	5,003.6	113.4
Dividends		377.3	377.3	
Rent	9,200.0	18,459.6	9,259.6	200.6
Sale of goods and service revenue	41,608.0	44,218.9	2,610.9	106.3
Administrative fees and payments	37,940.0	41,619.4	3,679.4	109.7
License Tax	530.0	339.6	-190.4	64.1
Permission tax	23,000.0	25,287.6	2,287.6	109.9
Registration Fees	1,000.0	1,508.9	508.9	150.9
State fee	10,700.0	12,644.9	1,944.9	118.2
Consulate Fees	1,640.0	944.0	-696.0	57.6
Postponed military service fee	760.0	613.80	-146.2	80.8
Other unclassified fees	310.0	280.5	-29.5	90.5
Income from nonmarket transactions (goods and services)	3,668.0	2,599.5	-1,068.5	70.9
Income From sales	68.0	130.6	62.6	192.0
Income from service	3,600.0	2,454.3	-1,145.7	68.2
Other Income from nonmarket transactions (goods		14.6	14.6	

and services)				
sanctions (fines and penalties)	48,100.0	43,111.0	-4,989.0	89.6
Voluntary transfers without grants		14,483.9	14,483.9	
Mixed and other unclassified revenues	61,300.0	40,544.5	-20,755.5	66.1

Decrease in nonfinancial assets – 158 980.3 thousand GEL was mobilized, 97.7% of forecasted index (162 800.0 thousand GEL).

Decrease in Financial assets – 47 118.9 thousand GEL was mobilized, 106.4% of forecasted index (44 300.0 thousand GEL).