

# CITIZEN'S GUIDE

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# 2017



## 2017 State Budget

Ministry of Finance of Georgia  
Tbilisi, 2016 year



# CITIZEN'S GUIDE 2017

2017 State Budget



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## INTRODUCTION

The Citizen's Budget Guide explains to the citizens of Georgia how the Government plans to use funds mobilized through taxes and other revenues.

The Guide enables the Government to demonstrate to the people the goals set by the budget in a simple language. It also satisfies interests of those citizens who desire to receive additional information as they can refer to different sources that are specified in the Guide. The Guide facilitates creation of realistic expectations around specific policies and programs and helps to mobilize the population's support for the budget plan. In general, the Guide helps citizens to raise their awareness and knowledge concerning activities carried out by the Government and increases their ability to be engaged with the Government in the process of priority identification, budget planning and execution. As a result, an active and better informed society can more easily make significant contributions to the development of Georgia's governance system and socio-economic progress.

Information on the 2017 State Budget Law will give a clearer idea to all stakeholders about the budget system of Georgia, the priority directions of 2017 budget, envisaged activities, volume of receipts throughout the year and expenditures planned to achieve the set goals.

A summary guide to the current State Budget Law of Georgia, as well as information on budget and budgetary process may be found at the official website of the Ministry of Finance of Georgia:

[www.mof.ge](http://www.mof.ge)





## What is a Budget?

### FAMILY BUDGET

What is a budget? It is a plan to manage your income and expenditures. Budgeting is useful for individuals and families and also for businesses and governments.

It helps each family member to better manage the family's income and expenditures. All family members should be involved in the budgeting process in order to assume an obligation to follow the plan.

Demands and expenses increase in parallel to the increase in revenues and nearly always exceed it. In real life, budgeting enables us to manage our finances with a clear view to the future. Family might discuss possible incomes and outcomes, such as food, utilities, transportation, recreation, as well as required payments for house, car and other consumer loan repayments during the budgeting process. The family might also discuss the possibility of allowing for a certain amount of savings in anticipation of future needs and/or unforeseen circumstances. It is also important to estimate total family income for the year. If family's income is not sufficient to cover expected expenses either the expenditure priorities should be redefined to reduce the costs, or alternative strategies should be identified to increase the family income, for example: by working more hours, or by taking on a different or additional job.

If family expects their shortfall to be temporary or wants to make a major investment or start up a new business but does not have sufficient current resources, borrowing of needed money would be considered. At the same time they will think about how to mobilize resources needed to repay the loan in the future.

If family finds out that its income is more than required to meet their current needs, they might want to put aside extra money to implement their long term plans, or invest some of it to improve their situation in critical areas, such as buying a car or household appliances or living conditions' improvements.

In some ways, family is a small model of the Government, and the State budget preparation process utilized by the Government is very similar to the family process described above in some cases. The Government and the Parliament define expected revenues, sources of income and expected costs of various Government programs, such as defense, foreign affairs, health and social care, education, law enforcement, regional infrastructure, agriculture and others.

In cases when expected revenues are less than the planned expenditures, the Government considers the option of borrowing external funds with certain conditions if this will be beneficial for the country and feasible in terms of payment.

## STATE BUDGET

The State budget of Georgia includes the list of the revenues of the Central Government of Georgia that is approved by the Parliament, as well as the expenditures to implement its functions and obligations.

The Budget is a transparent planning document in which the Government, after consultation with various spending units, reaches agreement on distribution of State resources to achieve stated strategic priorities. During the process of formulating and refining the overall budget items, it is critically important to place this process in a rigorous fiscal framework that organizes the distribution of resources by pre-defined State priorities designed to achieve measurable goals.

### **The State budget has diversified functions and represents:**

- The central Government's plan on how to find the finances to fulfill its obligations. It shows the type and amount of funds that shall be mobilized from different taxes such as value-added tax (VAT), excise tax, profit tax and other taxes.
- A plan on how the Government intends to spend the money it mobilizes: which activities are to be funded and how the revenues will be distributed among all the different sectors, such as education, defense, health, social welfare and so forth.
- A plan defining the limits for State debts and loans to be taken by the State. If expenditure is greater than revenue, the Government is required to borrow a specific amount of money to pay for those planned services that should be provided to its citizens, as well as pay the debts of previous years.
- The budget has an influence on the development of the national economy. Some types of expenditures – for example investments in education, science and infrastructure, and introduction of a new technology may increase productivity which will raise the income of citizens in future. On the other hand, taxes reduce the populations' income and leave them with less money to spend. Therefore, the budget (receipts and expenditures) shall be balanced in a way to turn it into a strong leverage for the country's development.
- The budget is affected by national economic processes. In particular, in periods of strong economic growth, business activity is greater, employment increases and as a result, the country's tax revenues grow, especially from the tax on incomes. In such conditions, the Government is given an opportunity to fund more activities with its own resources. Therefore, the need for debts decreases.
- The budget is a strategic document. It includes information on the revenues and expenditures of previous years and can be helpful in forecasting future spendings.

### **Some key budget terms**

**Budget** – the unity of receipts, expenditures to be covered and the remaining balance (or deficit) with the purpose of fulfilling the functions and responsibilities of the Central, Autonomous Republics and Local Self-Government entities of Georgia which is prepared and approved by the relevant Central, Autonomous Republics, and Local Self-Government entities of Georgia.

**Program Budget** – Appropriations as allocated by the spending units for their various programs/subprograms. The main principle of Program Budgeting is to assign State funds to achieve predetermined and measurable goals; Considering this, the Program Budget is often referred to as a Results-Oriented Budget. The goal of Program Budgeting is to raise the effectiveness and transparency of State expenditures, increase the accountability of the State sector units and strengthen the relationship between money spent and results achieved. In addition to the programs/subprograms to be implemented by various spending units, the Budget Code determines the role of general expenditures.

**Program** – is a unity of activities to be carried out by a budgetary organization to achieve the objectives of the priorities defined by the budget;

**Subprogram** – is the complex of activities to be performed by a budgetary organization within the program(s) of the spending unit(s).<sup>1</sup>



## BUDGET SYSTEM OF GEORGIA

The budget system of Georgia is the “combination of budget policies and procedures regulated by the legal acts for the mobilization and use of funds to carry out the functions of the Central, Autonomous Republics and Local Governments”. The budget system is regulated by the Budget Code of Georgia.

## THE BUDGET PROCESS



<sup>1</sup> Law of Georgia „On the Budget Code of Georgia“ specifies the type of expenditures, reserve funds and its limits (no more than 2% of the total budget).

## THE BASIC PRINCIPLES OF THE BUDGET SYSTEM OF GEORGIA

### *Comprehensiveness*

complete reflection of all relevant details in the revenues, expenditures and balance in the budget

### *Transparency*

openness of the review procedures of the draft budget in the representative bodies, publishing of the reports on the approved budgets and execution, and availability of this information to the public

### *Accountability*

responsibilities of all participants in the budget process for their performed activities and the submitted information of the budget

### *Independence*

independence of all levels of budget

### *Unity*

using the unified budget classification codes, unified accounting system, and unified principles of State financial control for all level budgets

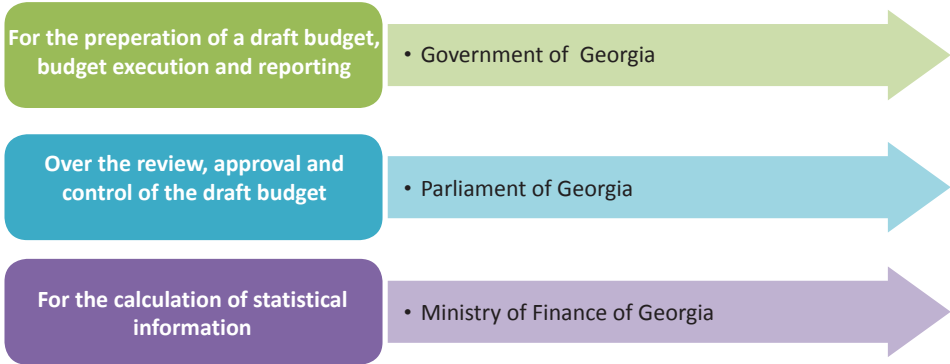
### *Universality*

all revenues directed for financing the overall budget expenditures

### *Consolidation*

unified single treasury account system

## AUTHORITY AND RESPONSIBILITY OF THE BUDGET PROCESS PARTICIPANTS



## BASIC DATA AND DIRECTION DOCUMENT (BDD)

The draft annual budget preparation process begins with working on a Basic Data and Direction Document (BDD).

The BDD document is the main development plan of the country that includes information on mid-term macroeconomic and fiscal forecasts, as well as the main directions of Central, Autonomous Republics and Local Self-Government Bodies of Georgia.

BDD document spans over a four-year period, but is updated annually.

Preparation of the BDD document is a prerequisite for annual budget preparation. The Budget Code of Georgia defines the stages of the BDD document preparation, the type of information it should include and the timeframe for submission of the draft, revised and final versions to the Georgian Government and the Parliament.

The Government of Georgia approves the primary version of the BDD document for the planning year, plus next three years.

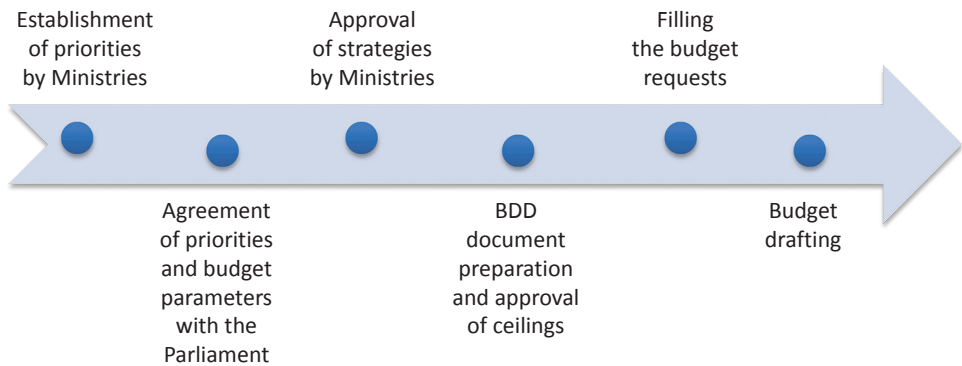
## STRUCTURE OF COUNTRY'S BASIC DATA AND DIRECTION (BDD) DOCUMENT





## BRIEF DESCRIPTION OF THE BUDGET PROCESS

- ▶▶ During the draft State budget preparation process, the line ministries determine their priorities.
- ▶▶ The Government agrees the priorities and budget parameters with the Parliament.
- ▶▶ Considering the Parliament's comments and proposals, the Ministries approve mid-term priorities and their implementation strategies.
- ▶▶ BDD document is prepared on the basis of the priorities of the Ministries and reflects the estimated volumes of funding of spending institutions' programs as well as budget ceilings of the Ministries.
- ▶▶ Considering the BDD document, the Ministries fill in budget requests; The Ministry of Finance prepares draft of the State budget on the basis of the budget requests.
- ▶▶ The Government of Georgia submits the draft budget to the Parliament of Georgia. Parliament approves the Law on Annual Budget after discussions.



## DESCRIPTION OF PUBLIC FINANCIAL REFORM

Public Financial Reform began in 2004 and it implied introduction of the Medium Term Expenditures Framework (MTEF), general improvement of budget process, conformity of budgetary classifications with international standards GFSM 2001 for the budgets of all levels and transition to the program budget format.

Recently approved regulations on the budgetary process have been reflected in the revised Budget Code which was prepared and approved in 2009 and has been effective since 2010. The Budget Code consolidates all legislative acts linked to the budget system for the State, Autonomous Republics and Local Self-Governing units' budgets. The Budget Code also defines the obligation of gradual transition to the program budget for the State Budget from 2012, but for the budgets of Autonomous Republics and Local Self-Government units from 2013.

A lot of work has been done for MTEF introduction. The format of the BDD document experienced changes several times since its preparation in 2005. With the new Budget Code, the link between the planning of the BDD document and preparation of the annual Budget Law is strengthened at the legislative level. The document reflects Government's priorities, analysis of macroeconomic parameters of previous and planning years, and key activities to be performed by the spending organizations. Gradually, the document has begun to reflect the priorities of all spending organizations of the State Budget, Autonomous Republics and Local Self-Government units. The Ministry of Finance, in coordination with the spending institutions, annually prepares the 4-year BDD document of the country in accordance with the Budget Code. This document reflects mid-term priorities of the Ministries and other spending institutions, their fundings and objectives. The document determines marginal quantitative volumes of appropriations for spending institutions. As a result, the BDD document represents a framework for the annual draft budget and is a part of the package that is submitted to the Parliament of Georgia, while its final version is delivered to the Budget and Finance Committee of the Parliament in January of the planning year.

Referring to the transition of the 2012 State Budget to the program budget format, for the first time the BDD document for 2013-2015 was prepared in a different format in order to harmonize with requirements envisaged by the program budget.

The methodology of program budget preparation was revised in 2015. New regulations were written in more details recommending directly the spending institutions to develop programs and sub-programs, prepare relevant expenditures reports, define expected mid-term and final outcomes and performance indicators based on their mid-term plans, sectoral strategies and available resources. The program budget incorporates a broader indicators system: basic and targeted indicators, possible deviation and possible risks are presented for each program. The above mentioned aims at reflecting the programs/sub-programs/ activities defined by the mid-term action plans or various sectoral strategies of the Ministries and their budgets in the Annual Budget Law of the corresponding year as well as in the BDD document. The methodology describes procedures for development of

mid-term action plans by the Ministries, gives detailed information on what to include in the mid-term action plans, how to prepare the information envisaged by each mid-term action plan, and how to develop expenditures reports for different types of programs.

Within the framework of Public Financial Reform, budgets of all levels and all budgetary organizations were integrated in the Single Treasury Account. Particularly, since January 1, 2015, relevant modules of the Public Financial Management System and budgets of all levels and all budgetary organizations have been updated and fully integrated into the Treasury's electronic system at planning and execution stages. Based on this reform, the circle of institutions foreseen under the term of a budgetary organization has been expanded and the Budget Code regulation sphere covers all the legal entities (other than legal entities with entrepreneur's status and National Bank of Georgia) established by Central, Autonomous Republics and Local Government entities and/or subjected to their reporting/control. It facilitates to reach more transparency in the budget process.

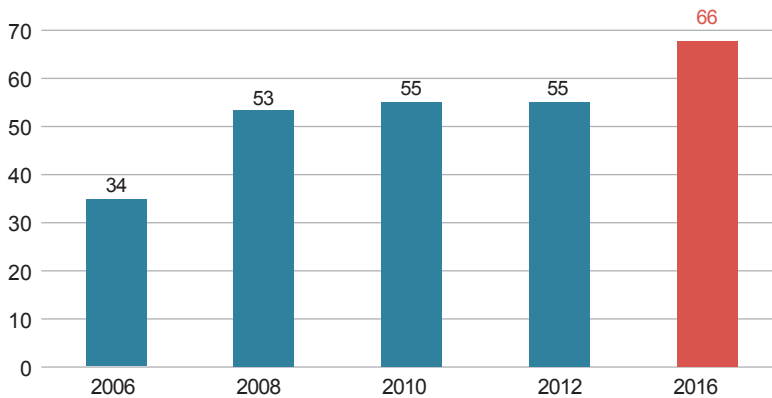
Budget format and procedures of submission have been significantly improved. The required steps were made for the links among the result-oriented planning, mid-term perspective and strategic planning and budget.

As a result of implemented reforms, according to 2015 Open Budget Survey published by the International Budget Partnership, Georgia was ranked 16<sup>th</sup> among 102 countries and received better marks – 66 than it was in 2012 (Georgia received 55 and ranked 33<sup>rd</sup>). Thus, Georgia was included in the list of substantial transparent countries.<sup>2</sup>



*The following graph describes Open Budget Index of Georgia in 2006-2016.*

<sup>2</sup> <http://www.internationalbudget.org/wp-content/uploads/OBS2015-OBI-Rankings-English.pdf>



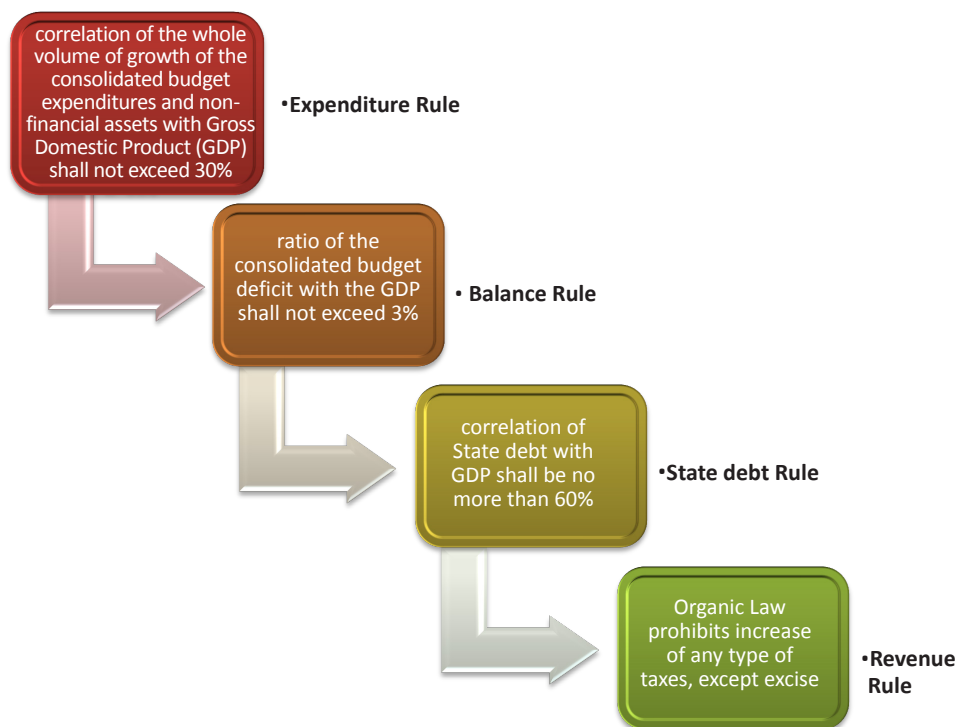
Georgian government has introduced significant changes in tax code that are related to the implementation of “Estonian Model” of income tax. In particular, the income tax on retained earnings is completely abolished and it is levied only on the amount of company’s money that is taken by the business founder as the dividend. It means that reinvested earnings are not taxed. It means that reinvested profits are not taxed. This reform will speed up economic growth: finance will become accessible for businesses which is important for the development of a small and medium businesses. Businesses will become more sustainable. Simplified tax administration and accounting will let the business to save money.

Legislative changes such as changes in budget code, code on local self-government bodies, various regulations for 2017 State Budget Law, were prepared in 2016. To ensure compliance with fiscal rules and limits as it is defined in the act of economic freedom, additional restrictions were imposed on spending part of the State and local municipal budgets on the basis of new regulations of 2017. According to the changes mentioned above, the parliament of Georgia is authorized to limit basic parameters of spending part for the municipalities’ budgets. The changes also regulate the obligation of reduction of administrative costs and optimization of expenses of both the central and local governments. During budget planning process Municipalities should consider the information about tax revenue projections provided by the Ministry of Finance.

## MAIN FISCAL PROCEDURES IN GEORGIA

In 2011, Parliament adopted the organic law of Georgia *“On Economic Freedom”* that determines basic guarantees of economic rights and guaranteed freedom. Based on this Law, the State provides economic rights and freedom that should serve as the foundation for the social development, welfare and long-term, stable growth of economy. Freedom is the main principle of the economic policy that is reflected in the small-size government, responsible macro-economic policy, and low taxes.

To ensure welfare through long-term and stable growth of the economy, the following maximum thresholds of macro-economic parameters have been determined:



If Parliament's approved budget is not in compliance with the threshold or thresholds defined by the Law, the Government of Georgia is obliged to develop and submit to the Parliament of Georgia for approval the next two-year budget parameters, considering the plan of refunding in the given thresholds and the period.

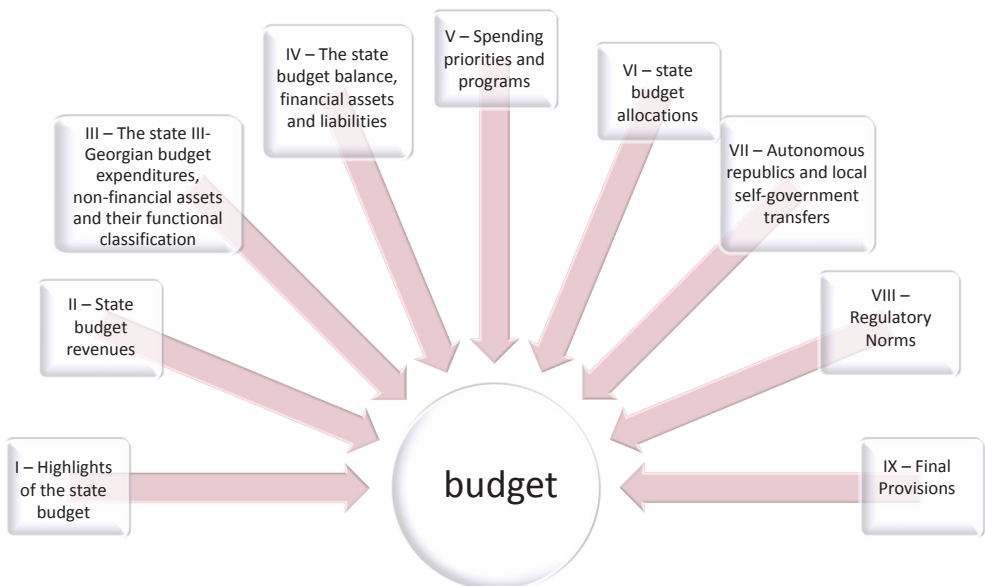
The Parliament of Georgia can approve a budget non-compliant with the given threshold or/and thresholds only if the ongoing year's budget was compliant to this threshold/thresholds, except in case of emergency or state of war or/and economic recession.

Identification of fiscal parameters for the mid-term period is based on both the general procedures defined by the legislation and existing macro-economic situation analysis in the country and the region.

## STATE BUDGET STRUCTURE

The structure of the State Budget Law includes the following information:

- ▶ The first four Chapters give the main parameters of the State budget, including the breakdown of receipts and expenditures by economic and functional classifications, deficit volume and sources of its funding, forecast volume of the State debt, etc.;
- ▶ The 5<sup>th</sup> Chapter presents budget identified priorities and description and objectives of the programs/subprograms planned within their frames (programs are grouped by priorities);
- ▶ In the 6<sup>th</sup> Chapter, programs are grouped by the spending institutions in charge of their implementation, the volume of appropriations per each program is presented also. The same Chapter defines the volume of expenditures of general State importance;
- ▶ The 7<sup>th</sup> Chapter presents detailed breakdown of transfers envisaged for Autonomous Republics and Local Self-Government units;
- ▶ The 8<sup>th</sup> Chapter gives the regulatory and transitional regulations of the Budget Law.



The State Budget Project is accompanied with informational annexes to ensure more transparency when it is submitted to the Parliament. The annexes provide detailed information regarding presented programs and capital projects, in particular:

- The Program Budget annex describes each program and subprogram, their expected outcomes and outcome evaluation indicators, basic and targeted indicator for each program, error probability and possible risks. 2017 budget reflects the baseline and target indicators for each program, probability of errors and potential risks;
- The Capital Budget annex gives information on the budget planned capital projects (including the total cost of the projects, sources of funding, terms of completion, etc.);
- Detailed breakdown of the budget defined programs and information on the budgetary organizations. State Budget that includes information on the forecasts of the main macro-economic indicators (nominal and actual Gross Domestic Product, economic growth, inflation, investments, etc.), brief description of ongoing year State budget execution, package of legislative changes required for enactment of the annual Budget Law and additional information on programs/subprograms defined by the budget and execution evaluation indicators.

Receipts and expenditures to the State Budget are recorded through **Budgetary Classifications**, which enable the grouping of budget revenues and expenditures by economic character, functional activities, organizational structure, and other characteristics. In recent years, the system of budgetary classification has significantly improved. As of 2012, program classification was introduced for the budget process planning, execution and State budget-related reporting.

**Budget receipts** are the aggregate of monetary resources received by the budget in the given accounting period:



**Budget expenditures** are the aggregate of monetary resources to be allotted from the budget in the given accounting period:



## 2017 BUDGET GENERAL REVIEW

2017 budget law is prepared to fulfil the government program and its main objective is to ensure social welfare of the population and stable development of the country's economy.

### STATE BUDGET PRIORITIES



1. Available quality of healthcare and social services



2. Defense, public order and safety



3. Regional development, infrastructure and tourism



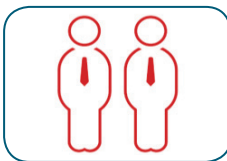
4. Education, science and professional training



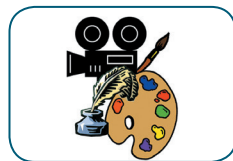
5. Improvement of macro-economic stability and investment environment



6. Institutional development and legal support of the country interests



7. State support and reintegration of IDPs (internally displaced people) and migrants



8. Culture, religion, support to youth and sports



9. International relations and Euro-Atlantic Integration



10. Agriculture



11. Court system



12. Environment protection and management of natural resources





## 1. Available quality healthcare and social service

- Implementation of universal health care program in which every citizen of Georgia will be still protected from high healthcare expenses is a priority. Taking into consideration international best practice, the models of public and private cooperation will be viewed to ensure more contribution of employed people in covering healthcare costs.
- New model of cumulative pension system will be implemented which will become the guarantee for decent existence in pension age. Cumulative system means cofounding by employee, employer and state budget.
- Implementation of electronic medical records system will be started all over the country, which will facilitate improvement of healthcare quality.
- Specialized health care program funding will be continued: all patients will be eligible for hepatitis C elimination programme in future as well, the quality of mental health programme will be improved on the level of inpatient, outpatient and community based services. Special attention will be paid to maternal and child health – the plan for regionalization of perinatal medical centres will be implemented throughout Georgia; Children's immunization in accordance with national calendar and provision of pregnant and infants with preparations essential for healthy development will be continued.
- The requirements of labour market will be studied and close coordination between the job seekers and employees will be promoted. The state will provide information support to the job seekers in terms of choosing profession, training and retraining. The state will actively facilitate engagement of the potential employers in vocational retraining process.



## 2. Defense, public order and safety

- In order to develop strong and effective system, the government of Georgia will approve and implement 4 years programme which will become strategic plan for implementation of a new vision of defence and provide grounds for transformation and modernization of military forces. The implementation of mentioned programme will be based on achievements in military field, successful programmes in armed forces,

joint NATO – Georgia projects, as well as a new visions of reforming military forces which shall be developed in following directions: Strategy and management, Forces optimization, Forces readiness, Institutional reforms and International engagement.

- With purpose of further improvement of penitentiary system vocational, education will become accessible for more and more convicts, new type of non-custodial sentence – house arrest for adult convict will be implemented, new non-custodial preventive measure – pre-trial probation will be implemented, phased rehabilitation and modernization of penitentiary facilities will be continued, new penitentiary facility will be established which will prepare for release the convicts of low and medium risk. To ensure independence of prosecutor, the system for prosecutors’ assignment, disciplinary responsibility, dismissal and promotion will be improved. The criteria will be elaborated for transparent and unbiased assessment of the prosecutor’s performance. The programmes for retraining improving qualification of prosecutors’ will be continued.
- Analyses based police system will be implemented in the system of the Ministry of Internal Affairs to ensure maximal efficiency of crime prevention and police operation.
- Border management system reform will be finalized within the planned terms, which will ensure modernization of border police, its standardization and unification.
- Cooperation will be improved with international police structures, especially with EUROPOL.
- Effective system for management of human resources will be developed for ensuring proper operation of police system to base career advancement on objective criteria, merits and qualification.
- Independent and effective operation of State Safety Service will be ensured.



### 3. Regional development, infrastructure and tourism

- Considering geographic location of Georgia and increasing dynamic of transit traffic, the construction of new highways will be continued in fast pace, existing roads will be reconstructed and road infrastructure will be upgraded and modernized within the frame of the government’s four-point plan. Secondary roads connecting the regions will be constructed all over the country, to facilitate transit of international importance.
- The project of century – Construction of Anaklia Port -was initiated, which will not only improve transit potential of Georgia, but also increase Georgia’s role in the region and make it logistic Hab.

- The projects on construction -rehabilitation of water supply – sewage and treatment facilities will be actively continued in several cities and villages. Special attention is paid to construction installation works on water supply systems in Pankisi Gorge and border villages of Kaspi and Kareli municipalities.
- Waste management will be implemented in compliance with European standards, municipal waste collection services will be improved throughout the country; existing landfills will be brought into compliance with the requirements of national legislation and will be closed gradually; new regional sanitary landfills will be arranged taking into consideration European standards; waste separation and treatment systems will be implemented.
- Within the frame of the internet access project, 8000km infrastructure will be provided that will allow 800 people to receive the internet. As a result of it more than 90% of the country population will have access to the internet.
- Improvement of energy security and independence of the country, gradual decrease of dependence on imported energy resources through utilization of local energy resources and diversification of supply sources and routes are main directions of energy policy of the government of Georgia. Promotion of investments in energy sector, infrastructure will be developed to create safe and stable electricity transmission and gas distribution system.
- The government will implement the following activities for its further development: road infrastructure will be improved and developed, the roads providing access to cultural monuments and other sights will be improved, marketing activities on target and potential markets will become more active, protected areas will be expanded and eco-tourism will be promoted, winter resorts will be developed further in accordance with thoughtful development plan, summer potential of the resorts also will be taken into consideration, cooperation between public and private sectors will be promoted in regard to development of tourism product and marketing.
- Pursuant to the Law on Development of Highland Regions, the government will continue provision of social-economic support to highland areas, promotion of local production, improvement of demographic condition in highland areas and improving welfare level of the people residing there.



#### **4. Education, science and professional training**

- Improvement of the infrastructure of pre-school education facilities and establishment of new facilities will be continued.
- Functioning of school readiness groups will be supported on kindergarten and school levels.

- In order to achieve High quality of general education's high standards of development of educational environments, new standards of authorization will be implemented with the focus on high results of teaching and learning.
- Quality of education, new educational plans, curricula and textbooks will be developed according to the high standards and in compliance with modern requirements. Their implementation will be started in I-VI grades from academic year 2017-2018 and then all three phases of general education will be covered gradually.
- The state will promote career development, through their continuous professional development. Development of reimbursement system and motivation packages will be continued.
- With purpose of improvement of teaching – learning process and school's management process, the implementation of large scale programmes for professional development of teachers and principals will be started from 2017.
- Free lessons, adjusted to the students' interests, will become essential part of school life. The role of modern technologies as well as of distant learning will be strengthened in teaching – learning process.
- Significant investments will be made in development of school infrastructure in accordance with modern standards, including construction of new schools. Since 2017, in parallel with the programmes funded by the state, full rehabilitation of almost 100 public schools selected within the frame of funding Millennium Challenge Compact, will be continued. The schools will be provided with the laboratories of natural sciences. Besides, within the frame of the programme funded by EU and Council of Europe, in some of schools of Tbilisi will be carried out rehabilitation works, with the focus on improving energy efficiency. The state will provide capacity building programmes for small village schools in highland
- Dual, or work-based learning approach will be implemented in vocational education system, through public – private partnership.
- Integrated bachelor-master educational programme will be implemented with purpose of improving the teachers' training system. Teacher's Training Accredited 60-Credit Educational Programs for persons with high education will be introduced in public and private institutions. It will be funded by the state and facilitate the recruitment of new staff at schools annually.
- Large scale project "Study in Georgia" will be implemented for attracting foreign students to higher education institutions of Georgia, in purpose of positioning Georgia as a regional educational centre.
- Priority scientific directions will be identified and supported taking into consideration the requirements of strategic development of the country's economy and the needs of society.
- Scientific cooperation with the centres and universities of other countries and implementation of joint projects will be promoted, as well as exchange programmes enabling to invite foreign scientists to Georgia and send Georgians abroad for scientific researches. Youngsters' participation in science will be encouraged by implementation of targeted programmes.



## 5. Improvement of macro-economic stability and investment environment

- Consequently, based on the principles of free market, economic policy of the government on one hand will be focused on further development of private sector and solution of problems existing there which will promote strengthening of private sector and generation of jobs in the country, and on the other hand will ensure supporting the groups of population, who need this the most, until reaching desirable level of economic development.
- With purpose of macroeconomic stability and effective implementation of the budgetary process: Permanent process of optimization of expenses will be continued that will be focused on release of resources and their distribution to priorities. Besides, administrative expenses will be reduced and their future increase will be limited; Perfection of programme budget principles will be ensured; Transparency of budget will be increased, the state debt will be maintained against GDP on the level that will ensure stable credit rating and positive investment image of the country; Effective coordination of fiscal and monetary policy will be ensured; Temporary measures, envisaged by the legislation will be used to mobilize budget revenues and fund large scale projects that are important for the country's development; Independence of national bank will be untouched; Increase of crediting in GEL will be promoted.
- Tax administration will be improved. Seizures of business accounts will never happen without the Court decision.
- With the regard to improving access to finances, existing programmes for promoting entrepreneurship will be improved, they will be optimized in terms of improving efficiency.
- With purpose of promotion of effective relations between the government and business, entire space – “Business House” will be established, where all respective agencies will provide services to business based on one stop principle. Consequently, business will spend less time and resources for getting respective resources.
- With purpose of stimulating economic growth in Georgia, besides improvement of business climate the government of Georgia plans implementation of large scale reforms.
- Signing EU – Georgia Association Agreement, in particular DCFTA, Georgia gets important opportunities for its economy in terms of increase of export, attracting investments and improving productivity in the country.
- The agreement was signed with EFTA, negotiations on free trade were finalized with Chinese People's Republic, negotiations on free trade agreement are underway with

Hong-Kong and the negotiations on expending free trade agreement will be conducted with Turkey. Work for development of liberal trade regimes will be continued with priority countries. Consequently, export potential of Georgian products and diversification will be improved.

- The government's policy will be focused on strengthening economic component of diplomatic representations of Georgia abroad and implementation of the system of commercial attaches.



## **6. Institution development and legal support of the country interests**

- New “Law on Public Service” shall provide respective grounds for implementation of public service reform and “good governance” principles. Gradually will be developed career model of public service which will ensure recruitment and promotion of the servants in accordance with objective criteria.
- Implementation of entire system for policy planning and monitoring that is based on the idea of development of transparent, result focused public engagement principle and accountability, will be continued throughout Georgia.
- The state will continue to ensure strict protection of property rights.
- Respective steps will be made to ensure effective coordination of activities for combatting corruption, public engagement, raising public awareness with this regard, implementation and strengthening of anti-corruption mechanisms. The system for monitoring property declaration will be implemented and it will facilitate proper monitoring, in particular verification of accuracy of the data provided in the declarations.
- Legislation and supervision system regulating inviolability of privacy will be improved and become compliant with international standards. Development of the mechanisms for internal and external control will be continued and ensure high standards for protection of the right to privacy in the course of investigative activities.
- The norms regulating accessibility of public information will be improved and new Law on Freedom of information will be elaborated which will ensure compliance of Georgian legislation and practice with international standards and best practice of other countries, as well as consolidation of information on freedom of information disseminated in different acts into one legislative act and elimination of existing legislative gaps. The practice of issuance of public information will be improved.



## 7. State support and reintegration of IDPs (internally displaced people) and migrants

- The government will continue effective policy for providing living space for IDPs. Construction of multi apartment residential houses will be continued for IDPs, apartments will be procured from developers in Tbilisi and other big cities. Besides, houses for IDPs will be procured within the frame of the project “House in village”.
- The process of legalization of residential houses and land parcels for eco migrant families will be continued. It is planned to procure houses for almost 1000 eco migrants throughout the country.
- With purpose of improvement of demographic condition, different social programmes will be strengthened. Different directions of elderly policy will be promoted. The role of different social workers will be increased in the regard to the families having social problems.



## 8. Culture, religion, support to youth and sports

- According to the EU Association Agreement, the Ministry of Culture and Monuments Protection of Georgia elaborated “Strategy of Culture 2025” which was approved by the government. It defines vision, goals and objectives of the state in the field of culture. Georgia is the first among Eastern Partnership countries that became the member of EU Programme “Creative Europe”.
- The legislation related to culture and protection of monuments will be improved; Cultural Heritage Code will be elaborated.
- Accessibility of the culture will be improved for a broad society, especially for population residing in regions, ethnic minorities and people with disabilities; Infrastructural projects will be implemented for maintenance of cultural heritage; Culture will be promoted in broad society; Media’s potential will be used for promotion and development of culture and creative sector.
- The development of art education will be facilitated; Qualification of the specialists of the sector will be improved.

- Combined football and rugby pitches will be constructed in accordance with international standards; New sport palaces will be built in regional centres; Effective model will be developed for management of sport infrastructure, which will be based on cooperation between public and private sector.
- Funding of football clubs and programmes of different levels will be continued during following four years; Transfer of football teams in private ownership, children's and women's football, as well as age teams (including national team) will be promoted.
- Sport tourism strategy will be elaborated in coordination with national sport federations. It will lead to the efficient use of infrastructure together with country's popularization.



## 9. International relations and Euro-Atlantic Intergration

- Key foreign political priority of the government of Georgia is the following: inviolability of internationally recognized borders and strengthening of the sovereignty, de occupation of the country and restoration of its territorial integrity.
- The work will be continued for promotion of full implementation of the only international mechanism available today in Georgia - EUMM mandate on occupied territories.
- Active promotion of the implemented reforms and achievements to the abroad to build country's positive image worldwide and share experience with other countries in this regard is being planned.
- The government's policy will be focused on promotion of more engagement of Georgia in international cultural life. The effort will be made in bilateral as well as in multilateral format to develop international cultural and humanitarian cooperation and promote joint international projects.
- Establishment of contacts and cooperation of Georgia with other countries will be continued.
- The government will actively participate in resolution of particular social issues concerning Georgian diaspora. Effective legal and consultation mechanisms as well as on spot support will be provided to the representatives of diaspora.
- The government of Georgia will continue strategic cooperation with USA, as its key partner. In terms of implementation of key foreign political objectives of Georgia, deepening of cooperation with European countries and focus on strategic partnership. The government of Georgia will continue its work for effective presentation in Europe of the results of reforms implemented in Georgia and promotion of Georgia's European and Euro Atlantic integration.



- Direct contacts will be established with the population and information regarding the government's operation will be distributed with the help of digital diplomacy.
- Cooperation with civil society will be continued. It offers opportunity for successful implementation of the Association Agreement, consolidation of public opinion regarding EU integration and mobilization of available knowledge.



## 10. Agriculture

- The government will continue active agricultural policy aiming at improvement of competitiveness based on the principles of sustainable development, as well as stable increase of production of high quality products, ensuring food security, food safety and rural development.
- Supporting development of cooperation in agricultural sector will be strategic priority of agricultural policy of the government of Georgia.
- Special attention will be paid to the research of degraded soils and the measures for their restoration and improvement.
- Entire rural development policy will be elaborated with the focus on improvement of living standard and economic activeness in rural areas.
- The state will promote implementation of post-harvest technologies, as well as development of storing, sorting, packing, processing and distribution sectors.
- The project of agricultural insurance will be improved which will facilitate protection of the farmers' interests.
- A meliorated (irrigated and drained) land areas will be increased. Irrigation and drainage systems will be developed and improved. Tariff methodology will be approved.
- Work will be continued in the regard to the farmers' access to finances.
- Significant projects will be implemented for improving access to agricultural equipment.
- Key indicators will be defined and respective methodology will be elaborated with purpose of providing monitoring of food safety of the country.
- Elaboration of effective, flexible system of state control over food / feed safety, veterinary and plant protection fields will be elaborated and improved further.
- Food safety, veterinary and Phyto sanitary fields will be approximated with respective EU legislation, envisaged by DCFTA plan, which will be implemented within the terms provided by Association Agreement.

- Respective activities will be implemented for development of bio agricultural farms and implementation of climate wise agricultural practice in the country.
- Information system of agricultural market will be refined.
- Significant attention will be paid to promotion of agricultural products on local and international markets.



## 11. Court system

- The action of government will be focused on improvement of confidence in the Court system. Rising trust of each citizen and private sector towards Georgian justice is our priority.
- Third wave of justice system reform will be continued and finalized which will complete the Court system reform for ensuring independence of Court on institutional level as well as independence and impartiality of individual judges.
- The reform of High School of Justice will be implemented with purpose of improving the judges' qualification and their professional retraining.
- In the first half of 2017, electronic system for case distribution will be piloted in one of the big Courts of Georgia. In summer of this year, based on changes made to criminal procedural legislation, territorial jurisdiction of jury trial will be distributed throughout the country.
- Commercial boards and chambers will be established in Common Court system which will be specialized on considering commercial and tax cases.



## 12. Environment protection and management of natural resources

- In accordance with the requirements of EU – Georgia Association Agreement, gradual implementation of modern environmental principles and standards will be continued.
- Environmental management will be improved and modern approaches will be considered.
- Environmental impact assessment system based on transparent procedures will be developed. The list of the activities, subject to environmental risk assessment will be refined.

- With purpose of prevention and elimination (compensation) of damage to environment, effective system for environmental responsibility will be developed.
- The issues related to exploring and extracting minerals will be put in order to stimulate the interest of private sector in this field; Ecological aspects will be taken into consideration in licensing process; The state will be able to use - utilize the resources effectively.
- The state will ensure the promotion of expansion of protected areas and ecotourism.
- With purpose of implementation and promotion of sustainable forest management practice, effective mechanisms will be established for taking care, protection and restoration of forests.
- hydrometeorology observation network will be developed, modelling capacities will be strengthened and national early response system will be implemented.
- According to the commitments accepted by Paris Agreement on Climate Change, effective steps will be made for reduction of greenhouse gas emissions in the country.
- Air, water and soil quality monitoring and evaluation system will be developed to improve air quality; Qualitative norms for liquid fuel will be defined and emission accounting system will be improved.
- The quality of Nuclear and radiation safety will be improved; New system for management of radioactive waste will be developed to ensure protection of population and environment from possible harmful impact of radiation; Chemicals management and control mechanisms will be improved.
- The activities for promotion of environmental education and environmental awareness will be continued and expanded.

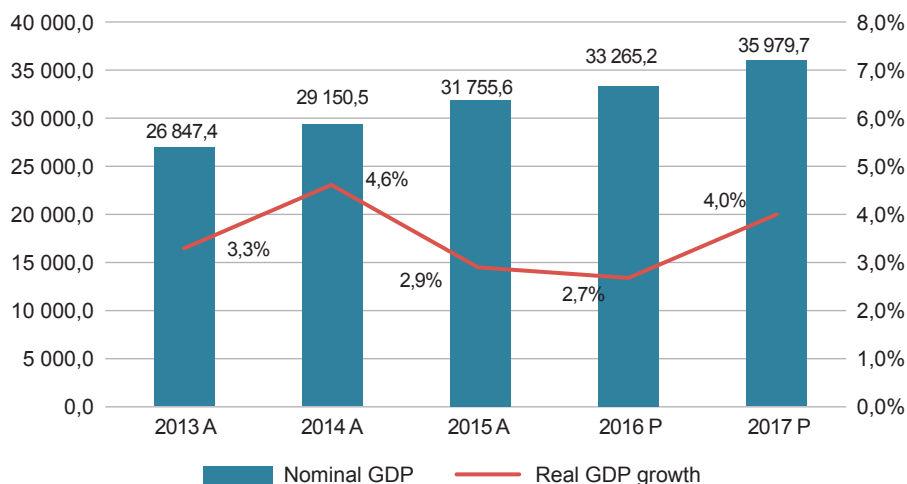
## MAIN MACROECONOMIC PARAMETERS

**Budget deficit and surplus** – when the Government spends more than it receives from taxes, national savings decrease and a budget deficit is created. If the Government spends less, then a budget surplus is resulted. Total budget deficits accumulated in previous years represents State debt.

For 2017, the real growth forecast of GDP (market price of the final goods produced inside the country in a yearly period) and GDP deflator (average prices of all final goods and services) amounts to 4.0%. The real growth forecast of the economy in an average period is expected to be within the neighborhood of 6.0% and GDP deflator will amount to 3.0%.

Referring to the macro-economic indicators, nominal GDP volume will amount 35,9 billion GEL in 2017, while the forecast for 2020 is the increase to GEL46,6 billion.

Name	2015 Actual	2016 Plan	2017 Plan
Real GDP growth	2.9%	2.7%	4.0%
Nominal GDP	31,755.6	33,265.2	35,979.7
Average annual inflation	4.0%	2.0%	4.0%
Inflation by the end of the year	4.9%	2.0%	4.0%
State debt in percentages % to GDP	41.4%	43.9%	44.2%

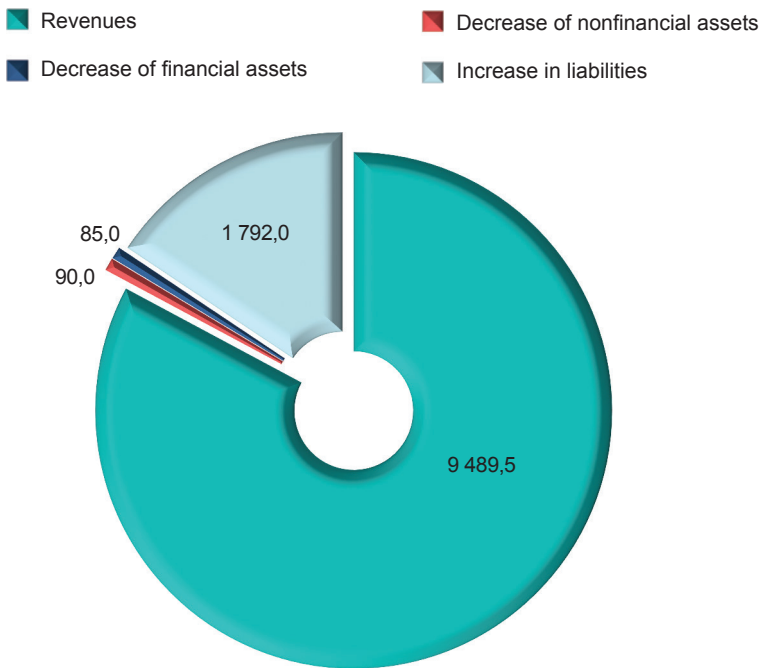


## State Budget Receipts

2017 State Budget receipts have been defined as GEL 11,457.2 mln which exceeds the 2016 indicator by GEL 1,139.3 mln and amounts to 31.8% of GDP. Compared to 2016, increase of receipts is basically linked to increase of tax receipts.

## Structure of State Budget Receipts

Mln.Gel



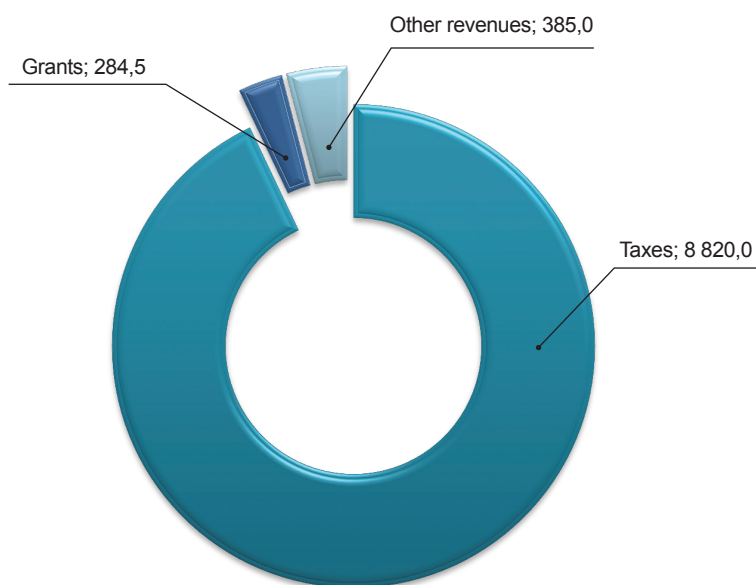
## State Budget receipts

82.8% of 2017 State budget receipts come from revenues that total GEL 9,489.5, which is 26.4% of GDP.

### Structure of State Budget Revenues

Mln.Gel

Name	2015 Actual	2016 Plan	2017 Plan	Deviation (2017-2016)
<b>Revenues</b>	<b>8,170.5</b>	<b>8,546.8</b>	<b>9,489.5</b>	<b>942.7</b>
Taxes	7,549.6	7,980.0	8,820.0	840.0
Grants	315.6	246.8	284.5	37.7
Other revenues	305.3	320.0	385.0	65.0



## Taxes

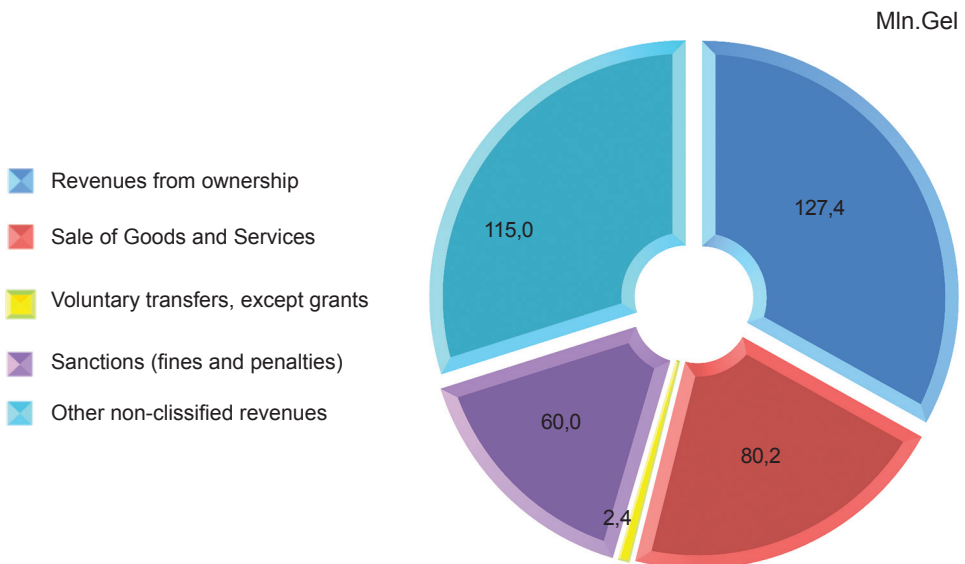
According to the 2017 State budget, GEL 8,820.0 million is expected to be collected through taxes which exceeds the planned indicator of 2016 by GEL 840.0 million. The tax revenues comprise 76.9 percent of the State Budget receipts and 24.6 percent of the GDP.

## Grants

In 2017 State budget (compared to 2016 planned) GEL 284.5 mln is expected to be received through Grants, which is Gel 37.7 million and comprises 2.5% of the total State budget receipts and 0.8% of GDP.

## Other revenues

In 2017 State budget GEL 385.0 million is expected to be collected through other revenues that are GEL 65.0 mln less than the corresponding indicator in 2016 which comprises 3.4% of the total State budget receipts and 1.1% of GDP. Revenues from ownership (dividends and interest of the State-owned enterprises or those under shared ownership, lease), administrative fees (licenses, permissions, registration fees) and fines make up a significant share of other revenues.



## Decrease in nonfinancial assets

For 2017 State Budget, GEL 90.0 million is estimated to be collected through the non-financial assets, which is GEL 135.0 million less than the corresponding indicator for 2015.

## Decrease in financial assets

For 2017 state Budget, decrease in financial assets has been defined as GEL 85,0 mln which is GEL 5.0 million less than corresponding indicator for 2016.

## Increase in liabilities

GEL 1,792.7 mln has been mobilized in the 2017 State budget through taking a loan by the State. These are:

- The long-term preferential loans for investment projects – 922.7 million.
- Acceptable budgetary credits of the World Bank and European Union – 470.0 million.
- Treasury bills and bonds emissions and as a result of the repayment of domestic debt net increase- 400.0 million.

Increase in liabilities comprises 15.6% of total budget resources and 4.98% of GDP.



## STATE BUDGET EXPENDITURES

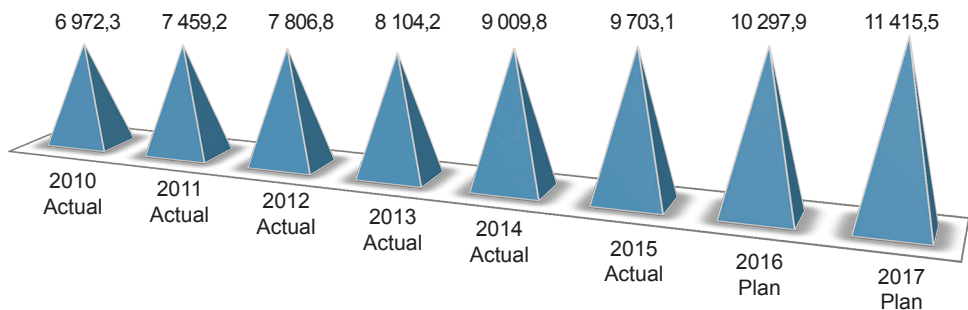
According to the 2017 State budget, the total volume of planned expenditures is GEL 11,415.5 mln. It is GEL 1,117.6 mln more compared to the 2016 approved budget and amounts to 31.7% of GDP. Among them are: Budgetary funds – GEL 10,338.3 mln, GEL 154.5 mln for grants and credits GEL 922.7 million. State budget receipts represent the source of funding of State budget expenditures. Use of free funds (balance) on the planned State budget account is not planned.

Mln.Gel

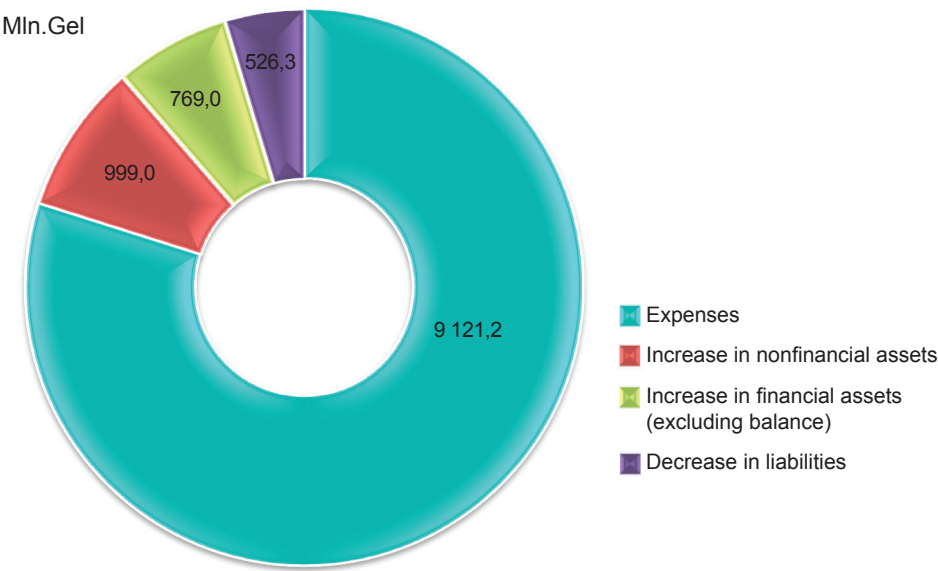
Name	2015 Actual	2016 Plan	2017 Plan
<b>Expenditure</b>	<b>9,703.1</b>	<b>10,297.90</b>	<b>11,415.5</b>
Expenses	8,158.0	8,671.30	9,121.2
Increase in nonfinancial assets	680.2	713.7	999.0
Increase in financial assets (excluding balance)	444.8	468.6	769.0
Decrease in liabilities	420.1	444.3	526.3

## State Budget Expenditures

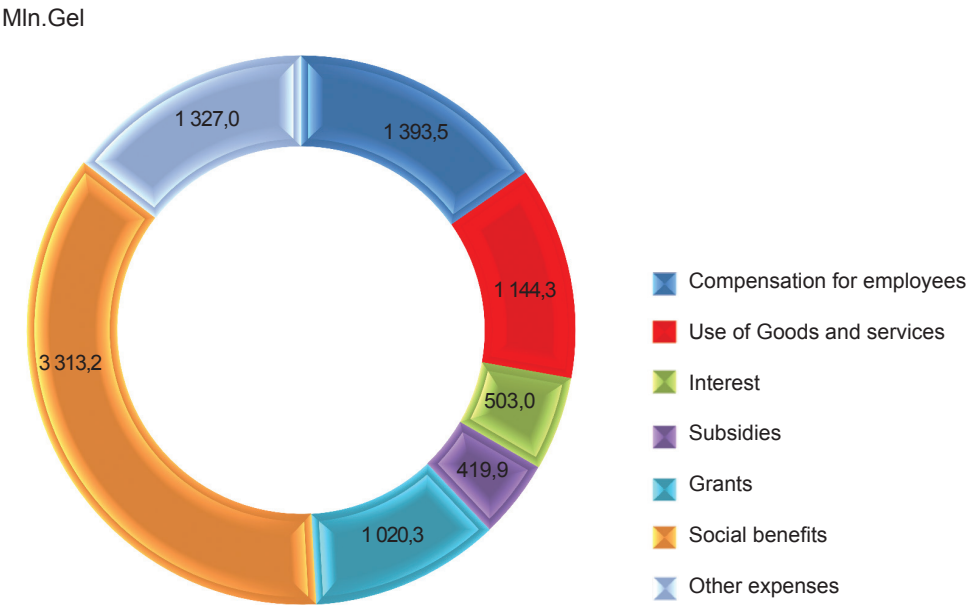
Mln.Gel



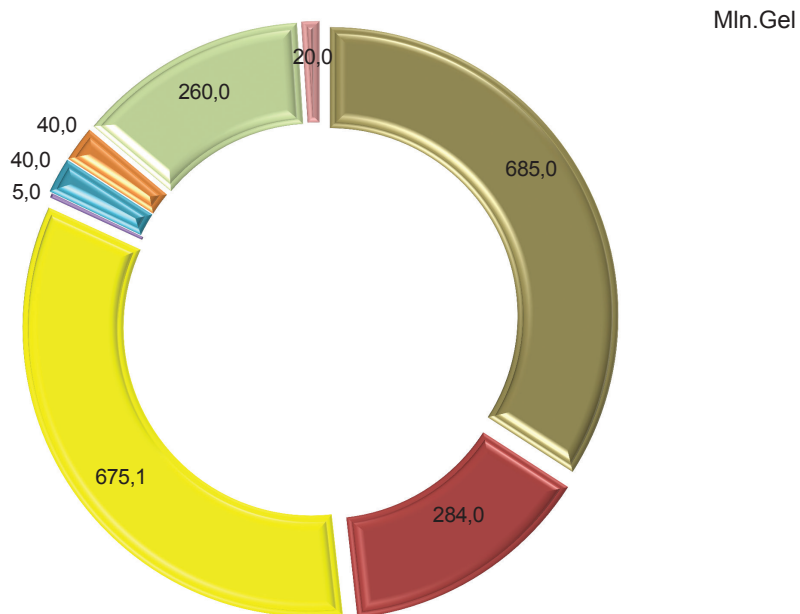
# Structure of Expenditures




# Structure of expenses



## Structure of State Budget Funds

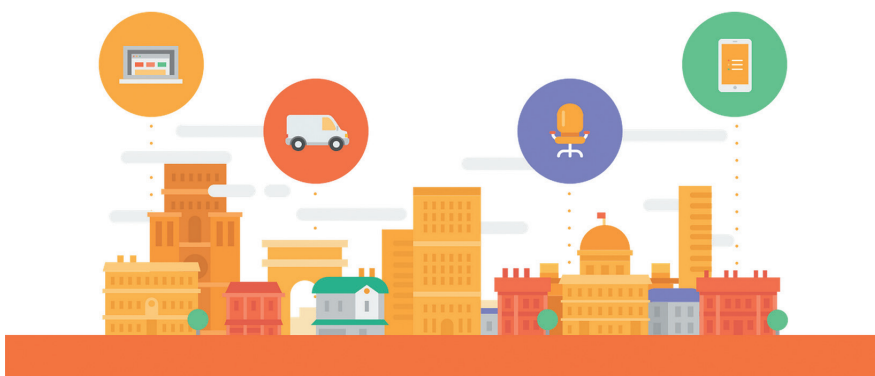


-  Foreign debt service and repayments
-  Domestic debt service and repayments
-  Transfers of Autonomous republics and local self-government
-  Presidential Reserve Fund
-  Government Reserve Fund
-  Funds for repayment of debt accumulated in previous years and execution of court decisions
-  Regional Development Fund
-  Mountainous Community Development Fund

## 2017 STATE BUDGET RECEIPTS, PAYMENTS AND CHANGES IN THE BALANCE

Mln.Gel

Name	2015 Actual	2016 Plan	2017 Plan	Deviation (2017-2016)
<b>Total Revenues</b>	<b>9,891,079.9</b>	<b>10,317,950.0</b>	<b>11,457,175.0</b>	<b>1,172,836.5</b>
<b>Revenues</b>	<b>8,170,499.3</b>	<b>8,546,800.0</b>	<b>9,489,460.0</b>	<b>976,271.5</b>
Taxes	7,549,608.9	7,980,000.00	8,820,000.0	873,611.5
Income tax	2,052,388.5	2,052,388.5	2,570,000.0	517,611.5
Profit tax	1,025,228.4	980,000.0	681,000.0	-299,000.0
Vat	3,505,454.6	3,802,000.0	3,779,000.0	-23,000.0
Excise	870,731.8	1,012,000.0	1,627,000.0	615,000.0
Import tax	69,294.0	75,000.0	76,000.0	1,000.0
Other taxes	26,511.6	25,000.0	87,000.0	62,000.0
Grants	315,593.2	246,800.0	284,460.0	37,660.0
Other revenues	305,297.2	320,000.0	385,000.0	65,000.0
<b>Decrease in nonfinancial assets</b>	<b>287,319.1</b>	<b>225,000.0</b>	<b>90,000.0</b>	<b>-135,000.0</b>
<b>Decrease in financial assets</b>	<b>71,873.6</b>	<b>90,000.0</b>	<b>85,000.0</b>	<b>-5,000.0</b>
Loans	71,867.8	90,000.0	85,000.0	-5,000.0
Other Account Receivable	5.8	0.0	0.0	0.0
<b>Increase in liabilities</b>	<b>1,361,387.9</b>	<b>1,456,150.0</b>	<b>1,792,715.0</b>	<b>336,565.0</b>
Domestic liabilities	314,680.1	380,000.0	400,000.0	20,000.0
External liabilities	1,046,707.8	1,076,150.0	1,392,715.0	316,565.0
<b>Total Expenditure</b>	<b>9,703,127.1</b>	<b>10,297,950.0</b>	<b>11,415,475.0</b>	<b>1,117,525.0</b>
<b>Expenses</b>	<b>8,157,998.4</b>	<b>8,671,300.5</b>	<b>9,121,225.2</b>	<b>449,924.7</b>
Compensation for employees	1,376,776.9	1,442,604.3	1,393,505.1	-49,099.2
Use of Goods and services	946,218.8	1,107,393.8	1,144,275.3	36,881.5
Interest	326,591.3	473,757.0	503,040.0	29,283.0
Subsidies	245,745.2	262,976.0	419,969.0	156,993.0
Grants	1,271,342.9	960,931.6	1,020,282.0	59,350.4
Social benefits	2,802,402.0	3,096,999.0	3,313,177.0	216,178.0
Other expenses	1,188,921.3	1,326,638.8	1,326,976.8	338.0
<b>Increase in nonfinancial assets</b>	<b>680,173.3</b>	<b>713,700.9</b>	<b>999,041.3</b>	<b>285,340.4</b>
<b>Increase in financial assets</b>	<b>444,804.8</b>	<b>468,591.6</b>	<b>769,021.5</b>	<b>300,429.9</b>
Currency and public deposits	0.0	0.0	0.0	0.0
Loans	181,174.2	299,341.6	352,762.5	53,420.9
Stocks and other capital	263,630.6	169,250.0	416,259.0	247,009.0
<b>Decrease in liabilities</b>	<b>420,150.6</b>	<b>444,357.0</b>	<b>526,187.0</b>	<b>81,830.0</b>
Domestic liabilities	49,745.0	84,357.0	95,187.0	10,830.0
External liabilities	370,405.6	360,000.0	431,000.0	71,000.0
<b>Changes in the balance</b>	<b>187,952.8</b>	<b>20,000.0</b>	<b>41,700.0</b>	<b>55,311.5</b>

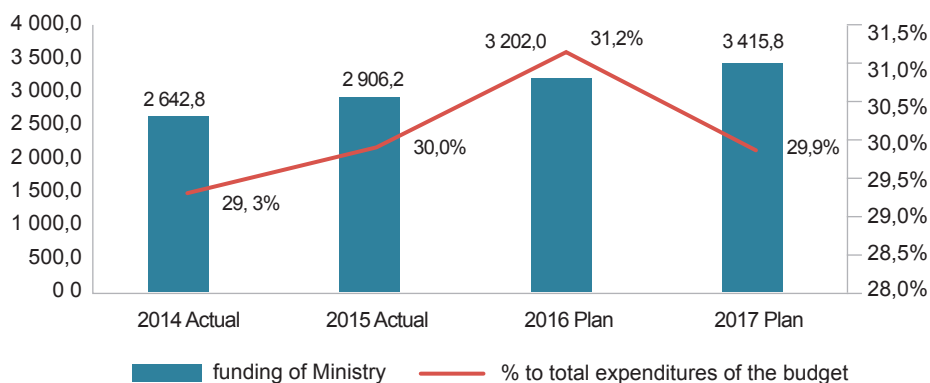


## FUNDING OF PRIORITY ACTIVITIES FORESEEN BY 2017 BUDGET

### Access to High-quality Healthcare System and Social Provision

Mln.Gel

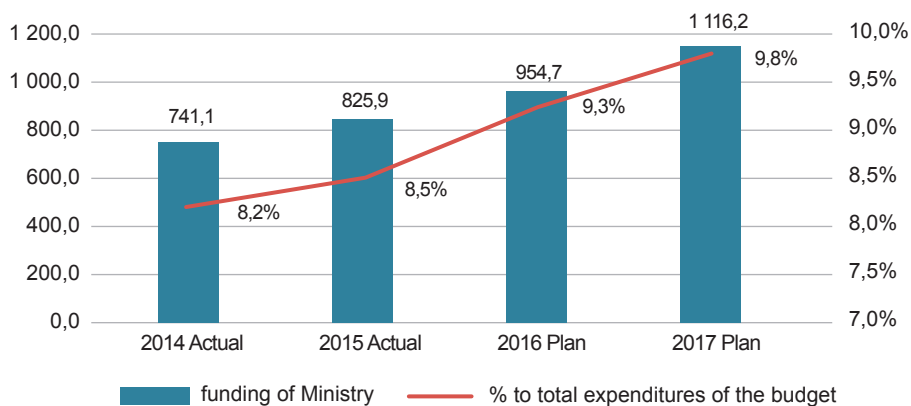
Name	2014 Actual	2015 Actual	2016 Plan	2017 Plan
<b>Ministry of Labor, Health and Social Protection of Georgia</b>	<b>2,642.8</b>	<b>2,906.2</b>	<b>3,202.0</b>	<b>3,415.8</b>
<i>Inc. social programs</i>	1,971.5	2,034.0	2,273.0	2,438.0
<i>Inc. Health care State programs</i>	588.3	790.6	841.5	894.5
<i>Inc. universal health care of the population</i>	338.5	573.6	610.0	660.0



## Education, science and professional training

Mln.Gel

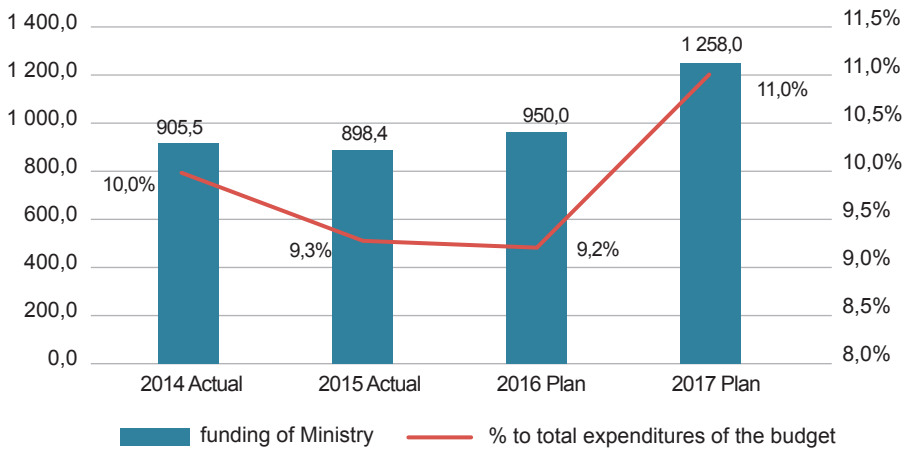
Name	2014 Actual	2015 Actual	2016 Plan	2017 Plan
<b>Ministry of Education and Science of Georgia</b>	<b>741.1</b>	<b>825.9</b>	<b>954.7</b>	<b>1,116.2</b>
Inc. voucher funding of schools	374,6	429.7	507.0	575.5
Inc. infrastructure development of educational institutions	89.7	76.1	43.8	88.8
Inc. provision of pupils with books	14,2	5.6	11.9	16.9
Inc. support to science	28.7	56.0	66.5	61.4



## Regional Development and Infrastructure

Mln.Gel

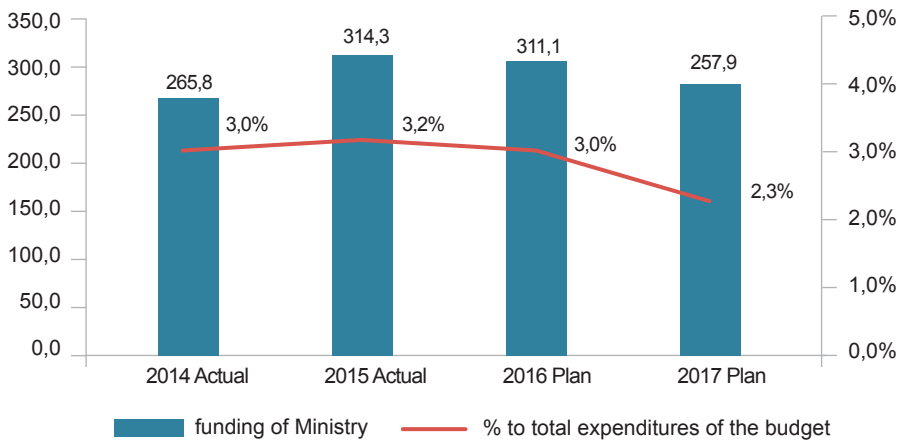
Name	2014 Actual	2015 Actual	2016 Plan	2017 Plan
<b>Ministry of Regional Development and Infrastructure of Georgia</b>	<b>905.0</b>	<b>898.4</b>	<b>950.0</b>	<b>1,258.0</b>
<i>Inc. road infrastructure</i>	526,4	488.4	526.6	849.2
<i>Inc. regional and municipal infrastructure rehabilitation</i>	168,3	192.3	231.0	176.2
<i>Inc. water infrastructure</i>	106,9	137.5	163.7	183.9



## Agriculture

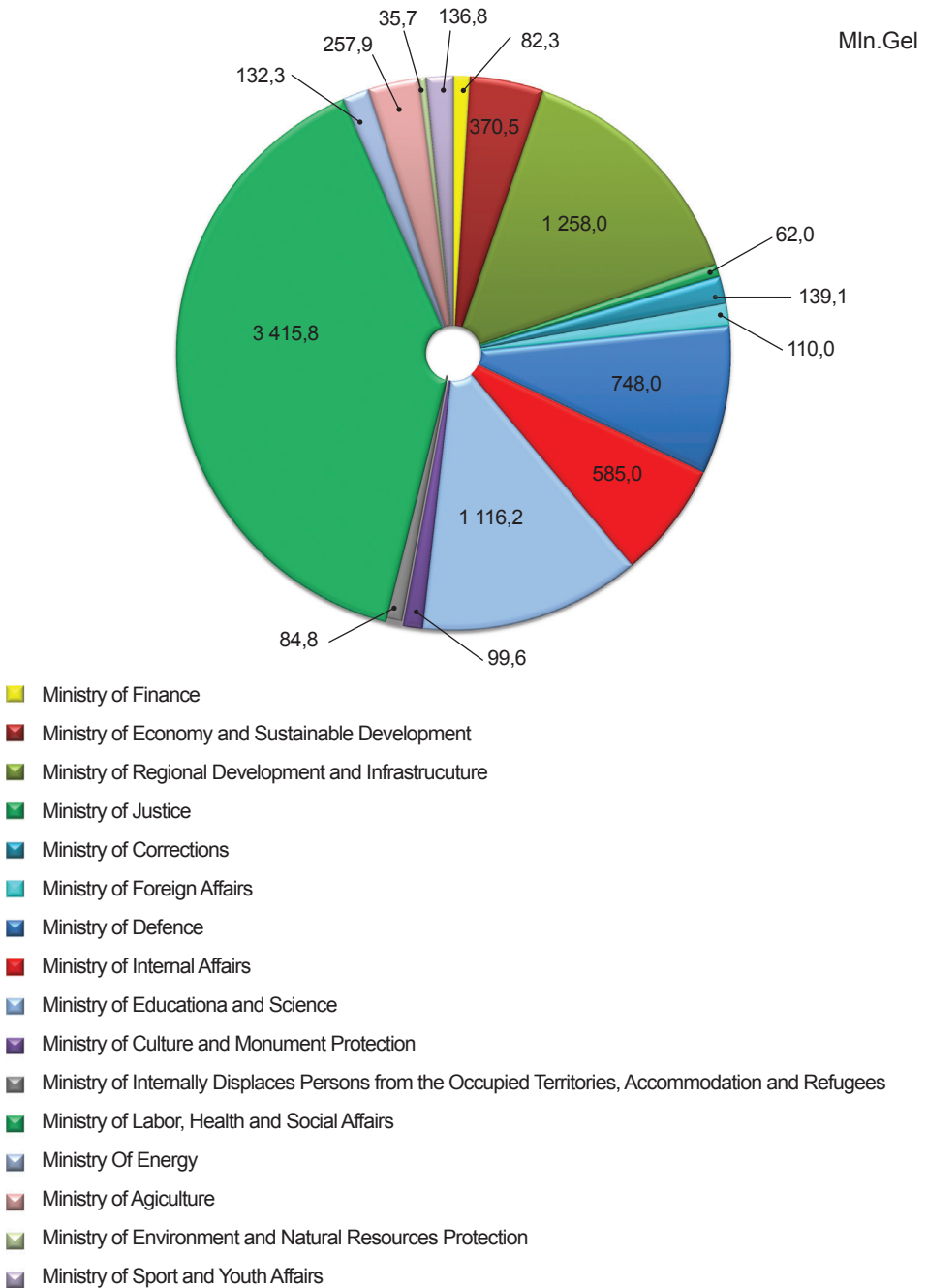
Mln.Gel

Name	2014 Actual	2015 Actual	2016 Plan	2017 Plan
<b>Ministry of Agriculture of Georgia</b>	<b>265,8</b>	<b>314.3</b>	<b>311.1</b>	<b>257.9</b>
Inc. modernization of amelioration systems	50,1	63.5	63.0	48.0
Inc. priviledgedagri-credits	42,8	34.5	41.0	47.0





## DISTRIBUTION OF STATE BUDGET APPROPRIATIONS



## PLANNED ACTIVITIES

After the second half of 2014 economic rate of growth has significantly decreased and even economic downturn was reported in some cases. Despite the fact that Georgia is the leader in growth rate in the region, these rates aren't satisfactory. According to international finance institute's estimations, positive changes in the rate aren't expected. Correspondingly, it's not possible to have high rates of economic growth without radical changes which is inevitable for increasing employment and income of our population. High economic growth needs more investment.

To speed up economic growth and encourage private investments Georgia significantly changed income tax rate which enables private sector to reinvest their income and create new jobs. According to USAID studies this reform will speed up economic growth by 1.5%.

Simultaneously, important investments in state infrastructure are planned. These investments are focused on the financing of infrastructure projects that are expected to encourage investment and economic activity in the private sector. Also unprecedented infrastructural projects are planned countrywide (800 Km. roads, tunnels, bridges, airports, resorts and etc.) which will facilitate economic development of regions and their residents through the creation of new jobs.

To accomplish above mentioned reforms and secure fiscal stability and economic growth, it's important to acquire additional resources from budget. To finance the reform following steps will be implemented:

- **Almost all budget organizations payroll and administrative expenses will be decreased by 10%.** Compared to 2016 this decrease will cause savings of 100 million Gel.
  - After social and economic analysis, government is reducing or cancelling part of the budgetary programs.
  - Limiting the state park and reducing fuel expenses.
  - Planning to cancel or terminate funding from budget for some organizations that were financed from budget:
    - ✓ National Investment Agency will be abolished and its functions will be delegated to the Ministry of Economics' Entrepreneurship Development Agency
    - ✓ Insurance Supervision Agency will no longer be funded from the state budget.
    - ✓ Financing of STATE SECURITY AND CRISIS MANAGEMENT COUNCIL will be significantly reduced.
    - ✓ Economic Council will be abolished.
- **Tobacco excise taxes will be increased.** Excise tax for filter cigarettes will increase by 0.6 Gel, for unfiltered cigarettes by 0.3 Gel. This will decrease import but increase additional income by 200 million GEL. Tobacco importers are one of the largest groups and import causes outflow of more than 100m USD from the country. Georgia also has international obligation in case of tobacco taxation. All countries are obliged to

implement taxation policy to reduce tobacco usage, according to World Health Organization's Framework Convention (Georgia is member from 2006) (UN may 21, 2003). On the other hand, according to Association Agreement Georgia has committed to implement the EU 2011 June 21, 2011/64 / EU directive (manufactured tobacco excise tax structure and rates). According to Article 10 of the Directive excise duties on cigarettes in Georgia must be at least 60 percent of the weighted average retail price, but not less than 90 Euro per thousand cigarettes.

Georgian ministry of finance has appropriate calculations about frequency and amount by which excise duty should be increased in order to achieve budgetary stability and not to interrupt business activity and avoid potential danger of illegal trade. Excise tax per 1 pack of cigarettes should be minimum  $90/50 = 1.8$  euros ( $1,8 \times 2.7 = 4.86$  Gel). Currently average rate of excise rate per one pack is 1.35 Gel. Tobacco consumption is one of the major public health problems in Georgia. According to The World Health Organization and various research data, 40% of population is tobacco consumer.

Increasing excise tax on tobacco to reduce its consumption is a worldwide practice. Excise rate was increased several times during last years in Georgia which reduced consumption up to 5%. By launching the new excise rates consumption will be reduced by additional 8-10%.

- **Increase the rate of excise tax on cars, together with the reduction of imports in 2017 will give us an additional 45.0 million income.** Net import (difference between imports and re-exports) in Georgia in recent years has doubled. In 2015, net imports of motor vehicles (excluding re-export) has increased by 21.4% compared to previous year and totaled 288 million US dollars. These dynamics are growing in 2016 as well. In 2016, net import of cars will exceed 300 million US dollars. Government has developed auto excise tax rates, with consideration of equal tax burden and environmental policy, which means heavier tax burden for old and environmentally harmful vehicles.

Compared to neighbor countries, Georgia's import tax burden is significantly lower, in particular:

- In Ukraine average tax burden is 50 to 90 percent of customs value of the vehicle.
- In Azerbaijan average tax burden is 20 to 50 percent of customs value of the vehicle.
- Countries of Eurasian Union are taxing vehicle with uniform rate of 54% of the customs value, but not less than 2.5 euros / cm.

Tax amount for major part of imported cars in Georgia is 8-10 percent of the car's value and despite of growing rates, it is several times lower than the rates of other countries in our region.

- **Increase the excise tax on petroleum products that will partly reduce import but increase income to additional 250 million in 2017 budget.** Under the circumstances, where the civilized world is trying to find alternative energy sources and reduce dependence on oil in the transport network, in Georgia rather than reducing, the

number of vehicles and therefore oil consumption and import volume are increasing. In 2015 about 660 billion US dollars' worth of oil and oil products were imported in Georgia. Fuel consumption constantly continues to grow. Comparing to 2014, in 10 months of 2016, import in real terms (tones) has increased by 35%. This means a 35 percent increase in emission, 35 percent increase in traffic, etc. It has negative impact on ecological condition, makes it difficult to navigate in large cities, and worsens citizens, especially children's health condition. Modern world, simultaneously with implementing new tax duties and promoting public transportation, is trying to replace gasoline engine vehicles with hybrids or electric ones. In this regard important steps were taken in Georgia – excise duty on the import of hybrid vehicles was cut in half, and now is reduced by 60%, import of electric vehicles is not taxed at all. Gasoline price in Georgia is significantly lower than in EU countries and even in neighboring Turkey That's why even average income citizens can afford buying used cars with big engines which negatively reflects on ecological situation.

- **65 million Gel is specified to promote converting bank loans from foreign to national currency for individuals.** Funds will be used to subsidize the conversion of loans to individuals who took loans in foreign currency before January 1, 2015 more than 100.0 thousand Gel 33 thousand individuals will gain from this program.

## FUNDING OF SPENDING INSTITUTIONS IN 2015-2017

In thousand Gel

Code	Name	2015 Actual	2016 Plan	2017 Plan	
				Total	Inc. Budgetary funds
00 00	<b>Grand Total</b>	<b>9,703,127.1</b>	<b>10,297,950.0</b>	<b>11,415,475.0</b>	<b>10,338,300.0</b>
01 00	Parliament of Georgia and existing parliamentary organizations	50,176.5	58,031.7	60,131.0	60,131.0
02 00	Administration of the President of Georgia	11,259.3	9,800.0	9,800.0	9,800.0
03 00	Apparatus of the National Security Council of Georgia	1,681.6	2,000.0	1,800.0	1,800.0
04 00	Administration of the Government of Georgia	23,537.1	18,000.0	16,500.0	16,500.0
05 00	State Audit Service	12,974.2	14,517.2	14,517.2	14,517.2
06 00	Central Election Commission of Georgia	23,359.9	58,527.5	60,500.0	60,500.0
07 00	Constitutional Court of Georgia	3,356.8	3,400.0	4,110.0	4,110.0
08 00	Supreme Court of Georgia	6,596.7	7,650.0	7,700.0	7,700.0
09 00	Common Courts of Georgia	50,219.0	52,000.0	69,000.0	69,000.0
10 00	Supreme Council of Justice of Georgia	2,578.1	2,700.0	2,700.0	2,700.0
11 00	Administration of the State Representative – Governor in Abasha, Zugdidi, Martvili, Mestia, Senaki, Chkhorotskhu, Tsalenjikha, Khobi Municipalities and in the Self-Governing city of Poti	853.1	900.0	800.0	800.0

Code	Name	2015 Actual	2016 Plan	2017 Plan	
				Total	Inc. Budgetary funds
12 00	Administration of the State Representative – Governor in Lanchkhuti, Ozurgeti and Chokhatauri Municipalities	676.2	700.0	610.0	610.0
13 00	Administration of the State Representative – Governor in Baghdati, Vani, Zestaponi, Terjola, Samtredia, Sachkhere, Tkibuli, Tskhaltubo, Chiatura, Kharagauli, Khoni Municipalities and in the Self-Governing city of Kutaisi	799.1	800.0	735.0	735.0
14 00	Administration of the State Representative – Governor in Akhmeta, Gurjaani, Dedoplistskharo, Telavi, Lagodekhi, Sagarejo, Signaghi and Kvareli Municipalities	668.8	800.0	725.0	725.0
15 00	Administration of the State Representative – Governor in Dusheti, Tianeti, Mtskheta and Kazbegi Municipalities	637.6	650.0	592.0	592.0
16 00	Administration of the State Representative – Governor in Ambrolauri, Lentekhi, Oni and Tsageri Municipalities	609.2	650.0	585.0	585.0
17 00	Administration of the State Representative – Governor in Adigeni, Aspindza, Akhaltsikhe, Akhalkalaki, Borjomi and Ninotsminda Municipalities	506.5	650.0	595.0	595.0

Code	Name	2015 Actual	2016 Plan	2017 Plan	
				Total	Inc. Budgetary funds
18 00	Administration of the State Representative – Governor in Bolnisi, Gardabani, Dmanisi, Tetrtskhara, Marneuli, Tsalka Municipalities and in the Self-Governing city of Rustavi	896.5	1,000.0	860.0	860.0
19 00	Administration of the State Representative – Governor in Gori, Kaspi and Khashuri Municipalities	631.9	700.0	625.0	625.0
20 00	Office of the State Minister of Georgia on European and EuroAtlantic Integration	4,604.2	3,100.0	2,845.0	2,845.0
21 00	Office of the State Minister of Georgia for Reconciliation and Civic Equality	1,680.7	1,350.0	1,215.0	1,215.0
22 00	Georgian Intelligence Service	12,399.8	15,000.0	13,500.0	13,500.0
23 00	Ministry of Finance of Georgia	112,711.0	86,550.0	82,300.0	82,300.0
24 00	Ministry of Economy and Sustainable Development of Georgia	123,788.2	95,400.0	370,467.0	365,467.0
25 00	Ministry of Regional Development and Infrastructure of Georgia	898,398.0	950,000.0	1,258,047.0	606,567.0
26 00	Ministry of Justice of Georgia	95,101.2	70,528.4	62,015.0	59,630.0
27 00	Ministry of Corrections, Probation and Legal Assistance of Georgia	147,250.5	144,800.0	139,100.0	139,100.0
28 00	Ministry of Foreign Affairs of Georgia	89,498.6	110,000.0	110,000.0	110,000.0
29 00	Ministry of Defense of Georgia	679,707.0	750,400.0	748,000.0	670,000.0

				2017 Plan	
Code	Name	2015 Actual	2016 Plan	Total	Inc. Budgetary funds
30 00	Ministry of Internal Affairs of Georgia	593,666.3	595,000.0	585,000.0	585,000.0
31 00	State Security Service of Georgia	37,374.8	100,000.0	118,000.0	118,000.0
32 00	Ministry of Education and Science	825,893.5	954,690.0	1,116,165.0	1,031,165.0
33 00	Ministry of Culture and Monument Protection of Georgia	108,493.9	97,000.0	99,615.0	99,615.0
34 00	Ministry of IDPs, Housing and Refugees of Georgia	73,586.4	85,000.0	84,790.0	84,790.0
35 00	Ministry of Labor, Health and Social Affairs of Georgia	2,906,168.8	3,202,000.0	3,415,800.0	3,415,800.0
36 00	Ministry of Energy of Georgia	149,741.3	204,500.0	132,300.0	40,700.0
37 00	Ministry of Agriculture of Georgia	314,332.1	311,100.0	257,995.0	224,885.0
38 00	Ministry of Environment and Natural Resources of Georgia	37,607.9	42,100.0	35,700.0	31,600.0
39 00	Ministry of Sports and Youth Affairs of Georgia	102,150.4	90,000.0	136,820.0	136,820.0
40 00	Special State Protection Service of Georgia	55,907.7	55,000.0	55,000.0	55,000.0
41 00	Public Defender's Office of Georgia	5,300.1	4,500.0	4,800.0	4,800.0
42 00	LEPL – Public Broadcaster	41,086.1	44,100.0	46,405.0	46,405.0
43 00	LEPL – Competition Agency	1,218.8	2,000.0	1,900.0	1,900.0
44 00	Administration of South Ossetia	3,729.0	3,500.0	2,460.0	2,460.0
45 00	Patriarchate of Georgia	25,597.3	25,000.0	25,000.0	25,000.0
46 00	LEPL – Levan Samkharauli National Forensic Bureau	3,500.0	3,500.0	2,500.0	2,500.0



Code	Name	2015 Actual	2016 Plan	2017 Plan	
				Total	Inc. Budgetary funds
47 00	LEPL – Statistics National Service of Georgia - GeoStat	9,000.1	7,800.0	7,575.0	7,575.0
48 00	LEPL – Insurance State Supervision Service of Georgia	1,273.5	1,300.0	1,180.0	1,180.0
49 00	LEPL – National Investment Agency of Georgia	1,764.6	2,300.0	1,750.0	1,750.0
50 00	LEPL – Civil Service Bureau	1,061.2	1,400.0	1,250.0	1,250.0
51 00	Office of Personal Data Protection Inspectorate	2,154.0	2,100.0	1,900.0	1,900.0
52 00	Trade-Industrial Chamber of Georgia	1,912.7	1,300.0	1,000.0	1,000.0
53 00	LEPL – Legal Support Service	4,387.0	5,800.0	5,800.0	5,800.0
54 00	LEPL – State Office of Veterans' Affairs	7,103.3	6,850.0	6,400.0	6,400.0
55 00	LEPL – State Agency for Religious Issues	4,196.6	5,600.0	5,330.0	5,330.0
56 00	Financial Monitoring Service of Georgia	1,084.7	2,150.0	2,150.0	2,150.0
57 00	Non-entrepreneur (non-commercial) Legal Entity – Solidarity Fund	243.6	260.0	260.0	260.0
58 00	LEPL - National Academy of Sciences	3,908.9	3,850.0	3,850.0	3,850.0
59 00	Office for State Security and Crisis Management of Georgia	6,850.8	5,200.0	3,600.0	3,600.0
60 00	Payments of general-state importance	2,013,975.3	1,970,945.2	2,212,805.8	2,086,305.8
61 00	Office of the State Minister of Georgia for Diaspora Issues	1,699.1	1,200.0	0.0	0.0
62 00	LEPL – State Language Department	0.0	300.0	0.0	0.0

**AMOUNT OF THE TRANSFER TO THE LOCAL SELF-GOVERNING  
UNITS BASED ON THE DRAFT 2017 STATE BUDGET AMOUNTS  
TO GEL 675 080.0 THOUSAND**

In thousand Gel

<b>Name of Autonomous Republics and Self-Governing units</b>	<b>Total transfers</b>	<b>Equalization transfer</b>	<b>Targeted transfer</b>	<b>Special transfer</b>
Autonomous Republic of Abkhazia	8,500.0		0.0	8,500.0
Tbilisi city Municipality	332,638.1	332,182.2	455.9	
Adjara Municipality	1,099.6	1,074.6	25.0	
Batumi city Municipality	37,342.3	37,342.3	0.0	
Kobuleti Municipality	4,894.3	4,894.3	0.0	
Khelvachauri Municipality	5,236.5	5,236.5	0.0	
Keda Municipality	4,142.6	4,142.6	0.0	
Shuakhevi Municipality	1,627.2	1,627.2	0.0	
Khulo Municipality	3,506.0	3,506.0	0.0	
Akhmeta Municipality	4,677.6	4,547.6	130.0	
Gurjaani Municipality	5,516.0	5,356.0	160.0	
Dedoplistskharo Municipality	814.5	629.5	185.0	
Telavi city Municipality	6,982.1	6,820.1	162.0	
Telavi Municipality	2,270.6	2,140.6	130.0	
Lagodekhi Municipality	5,530.6	5,310.6	220.0	
Sagarejo Municipality	4,098.6	3,888.6	210.0	
Sighnaghi Municipality	2,437.1	2,292.1	145.0	
Kvareli Municipality	2,546.2	2,411.2	135.0	
Kutaisi city Municipality	19,798.0	19,578.0	220.0	
Chiatura Municipality	5,457.3	5,225.3	232.0	
Tkibuli Municipality	2,677.8	2,527.8	150.0	
Tskhaltubo Municipality	5,822.4	5,652.4	170.0	
Baghdati Municipality	3,447.7	3,319.7	128.0	
Vani Municipality	5,365.9	5,220.9	145.0	

Name of Autonomous Republics and Self-Governing units	Total transfers	Equalization transfer	Targeted transfer	Special transfer
Zestaponi Municipality	5,463.6	5,223.6	240.0	
Terjola Municipality	5,318.7	5,158.7	160.0	
Samtredia Municipality	4,695.1	4,506.1	189.0	
Sachkhere Municipality	6,471.5	6,281.5	190.0	
Kharagauli Municipality	3,972.1	3,834.1	138.0	
Khoni Municipality	5,605.9	5,445.9	160.0	
Poti city Municipality	260.0		260.0	
Zugdidi city Municipality	10,532.2	10,405.2	127.0	
Zugdidi Municipality	8,632.7	8,402.7	230.0	
Abasha Municipality	4,470.7	4,323.7	147.0	
Martvili Municipality	5,051.7	4,896.7	155.0	
Mestia Municipality	3,847.8	3,722.8	125.0	
Senaki Municipality	4,195.8	4,000.8	195.0	
Chkhorotskhu Municipality	4,420.9	4,248.9	172.0	
Tsalenjikha Municipality	3,709.7	3,531.7	178.0	
Khobi Municipality	210.0	0.0	210.0	
Gori city Municipality	9,695.8	9,485.8	210.0	
Gori Municipality	11,323.0	11,223.0	100.0	
Kurta Municipality	2,122.6	2,032.6	90.0	
Eredvi Municipality	1,968.1	1,923.1	45.0	
Kaspi Municipality	2,805.3	2,629.5	175.8	
Kareli Municipality	5,481.2	5,268.2	213.0	
Tighvi Municipality	1,410.9	1,385.9	25.0	
Khashuri Municipality	5,443.1	5,214.1	229.0	
Rustavi city Municipality	11,193.8	10,693.8	500.0	
Bolnisi Municipality	305.0		305.0	
Gardabani Municipality	260.0	0.0	260.0	
Dmanisi Municipality	2,869.0	2,739.0	130.0	
Tetritskharo Municipality	3,531.6	3,314.6	217.0	
Marneuli Municipality	5,503.7	5,253.7	250.0	

Name of Autonomous Republics and Self-Governing units	Total transfers	Equalization transfer	Targeted transfer	Special transfer
Tsalka Municipality	1,319.4	1,210.4	109.0	
Lanchkhuti Municipality	5,574.2	5,354.2	220.0	
Ozurgeti city Municipality	4,456.4	4,370.4	86.0	
Ozurgeti Municipality	5,104.6	4,930.6	174.0	
Chokhatauri Municipality	2,650.4	2,467.4	183.0	
Adigeni Municipality	2,807.5	2,670.5	137.0	
Aspindza Municipality	126.0	0.0	126.0	
Akhalkalaki Municipality	746.9	531.9	215.0	
Akhalsikhe city Municipality	4,698.0	4,531.0	167.0	
Akhalsikhe Municipality	110.0	0.0	110.0	
Borjomi Municipality	190.0	0.0	190.0	
Ninotsminda Municipality	1,897.3	1,732.3	165.0	
Akhgori Municipality	2,413.3	2,323.3	90.0	
Dusheti Municipality	3,263.1	3,153.1	110.0	
Tianeti Municipality	3,020.0	2,884.0	136.0	
Mtskheta city Municipality	2,650.0	2,555.0	95.0	
Mtskheta Municipality	280.0	0.0	280.0	
Kazbegi Municipality	85.0	0.0	85.0	
Ambrolauri city Municipality	4,084.1	3,994.1	90.0	
Ambrolauri Municipality	2,687.4	2,632.4	55.0	
Lentekhi Municipality	2,686.5	2,581.5	105.0	
Oni Municipality	2,795.1	2,692.1	103.0	
Tsageri Municipality	4,234.3	4,076.3	158.0	
<b>Total Georgia</b>	<b>675,080.0</b>	<b>654,762.3</b>	<b>11,817.7</b>	<b>8,500.0</b>

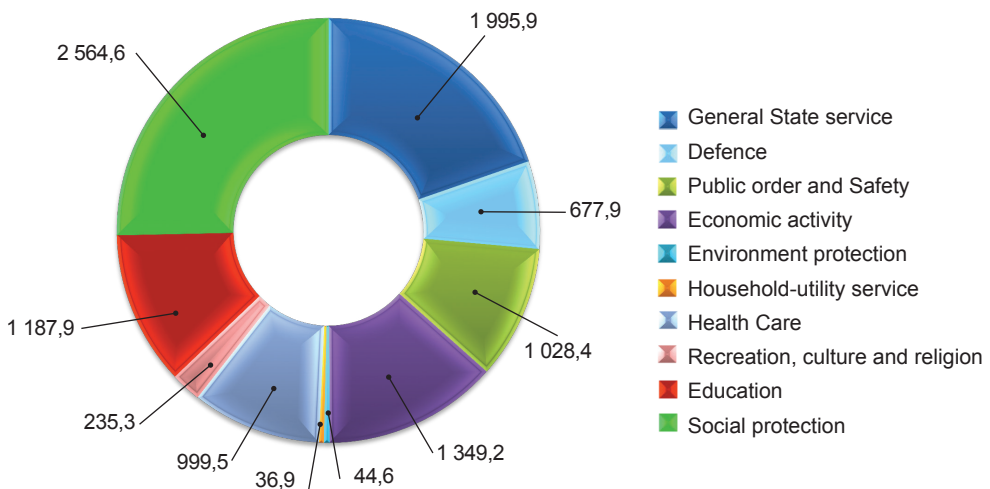
**Note:** The delegated powers include «Public Health», «On Military Duty and Military Service», «Military Service Law», «Ministry of Internally Displaced Persons - Refugees», «Defending the Dead and After the War Commemorating Soldiers User», «Development of Mountainous Regions» and other laws on the financing of measures envisaged by the authorities.

## FUNCTIONAL CLASSIFICATION OF EXPENSES AND INCREASE IN NONFINANCIAL ASSETS OF STATE BUDGET OF GEORGIA

Expenses of State Budget of Georgia and increase in nonfinancial assets are recorded by functional classification and looks as follows:

Mln.Gel

Code	Name	2015 Actual	2016 Plan	2017 Plan
<b>7</b>	<b>Total Expenditures</b>	<b>8,838.2</b>	<b>9,385.0</b>	<b>10,120.2</b>
7.1	General State service	2,011.3	1,903.3	1,995.9
7.2	Defence	654.2	726.9	677.9
7.3	Public order and Safety	961.0	1,012.5	1,028.4
7.4	Economic activity	949.2	1,074.5	1,349.2
7.5	Environment protection	44.8	47.4	44.6
7.6	Household-utility service	48.4	61.9	36.9
7.7	Health Care	855.1	902.5	999.5
7.8	Recreation, culture and religion	206.8	197.3	235.3
7.9	Education	899.7	1,033.3	1,187.9
7.10	Social protection	2,207.7	2,425.4	2,564.6





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