



STATE AUDIT OFFICE OF GEORGIA

REPORT

**ON THE GOVERNMENT'S REPORT
ON THE ANNUAL EXECUTION
OF 2018 STATE BUDGET**

SHORT VERSION

REPORT OF STATE AUDIT OFFICE OF GEORGIA ON THE GOVERNMENT'S STATE BUDGET EXECUTION REPORT OF 2018

The State Audit Office (SAO) of Georgia annually examines the Government's State Budget Execution Report. The SAO has submitted its report on the Budget Execution Report 2018 on May 20, 2019 to the Parliament.

In the SAO's assessment, the Budget Execution Report 2018 is prepared according to applicable laws. Except for the issues presented in the findings of the SAO report, the Budget Execution Report truly presents the information on the execution of the state budget.

The following document represents a summary of the SAO's report in which the SAO analyses the macro-economic environment, government's fiscal policy, budget implementation rates and trends in expenditure, revenue and debt as reported in the Budget Execution Report.



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THE KEY ECONOMIC INDICATORS



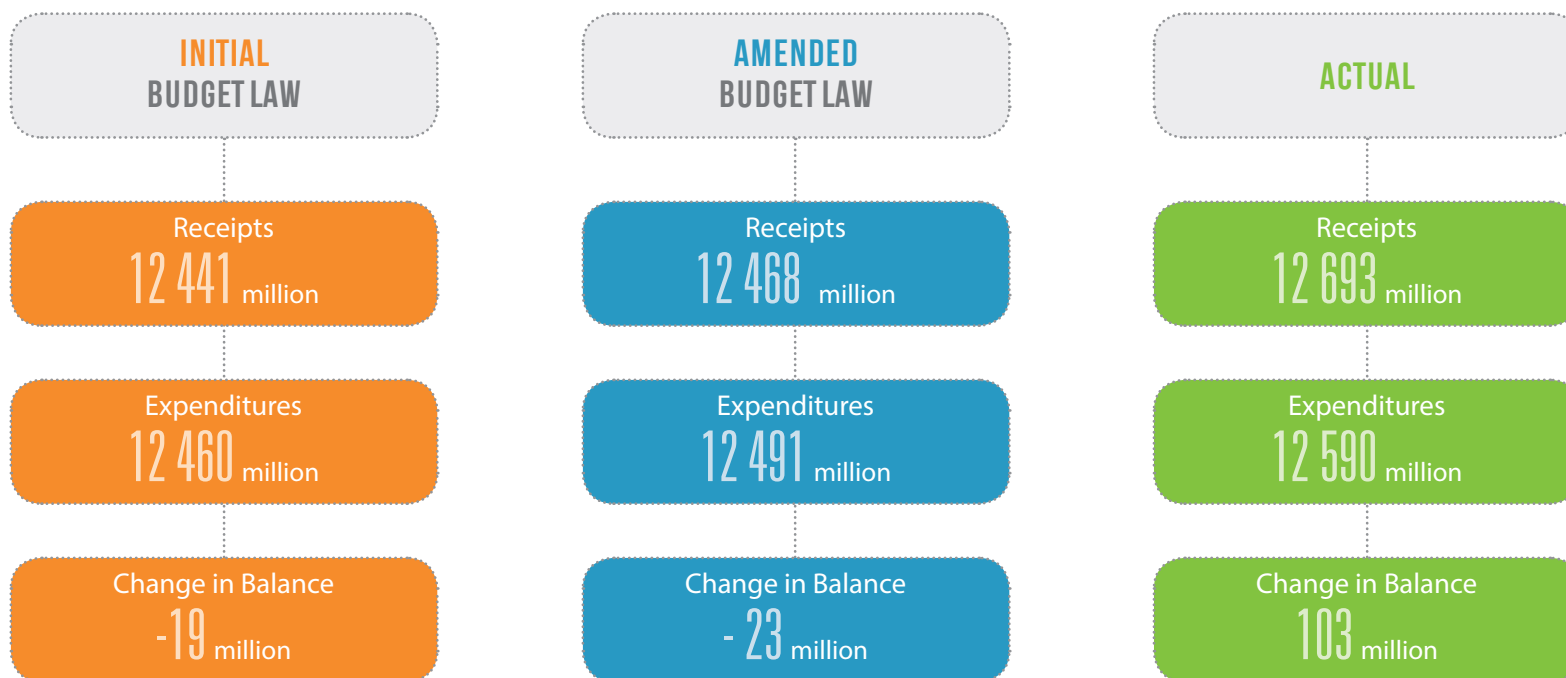
	2014 ₾.	2015 ₾.	2016 ₾.	2017 ₾.	2018 ₾.	
Nominal GDP (Million GEL)	29,151	31,756	34,029	37,847	41,078	
GDP Per Capita (GEL)	6,492	8,551	9,146	10,152	11,014	
Economic growth	4.6%	2.9%	2.8%	4.8%	4.7%	
Receipts (million GEL)	9,157	9,891	10,374	11,619	12,693	
Expenditures (million GEL)	9,010	9,703	10,292	11,765	12,590	
Tax revenues (million GEL)	6,847	7,550	7,987	8,991	9,696	
Budget deficit to GDP (GFSM 2001)	2.0%	1.1%	1.4%	0.9%	0.8%	
Budget deficit to GDP (GFSM 2001 modified)	2.5%	2.7%	3.0%	3.0%	2.5%	
Public debt stock (million GEL)	10,375	13,161	15,123	16,956	18,468	
Public debt to GDP	35.6%	41.4%	44.4%	44.8%	45.0%	
Government Debt to GDP	35.3%	41.3%	44.4%	44.2%	43.9%	
Inflation-Consumer Price Index	3.1%	4.0%	2.1%	6.0%	3.5%	
Exports (million USD)	2,861	2,205	2,113	2,735	3,354	
Imports (million USD)	8,602	7,300	7,294	7,943	9,123	
Foreign trade balance (million USD)	-5,741	-5,096	-5,181	-5,204	-5,766	
Foreign direct investments (million USD)	1,818	1,666	1,566	1,895	1,232	
Remittances (million USD)	1,440	1,080	1,151	1,379	1,580	
Current account deficit to GDP	10.8%	11.7%	12.8%	8.6%	8.8%	

1. EXECUTION OF THE STATE BUDGET



Georgian State budget receipts and expenditures for the fiscal year 2018 were initially planned of 12.4 and 12.5 billion GEL respectively. The plan envisaged the use of the budget balance of 18.5 million GEL.

Figure 1. Aggregate Indicators of the State Budget of 2018 (Million GEL).



During the first three quarters of 2018 a high proportion of planned receipts were collected, while in the fourth quarter of 2018 receipts outperformed forecast targets. In parallel, expenditure was lower than planned. During the first three quarters expenditure was 563 million GEL less than the planned, while in the fourth quarter the level of expenditure was much higher. As a consequence, by the end of the year instead of the budget balance being reduced, it increased by 103 million GEL to 661 million GEL.

Due to high levels of liquidity, the free budget balance was actively deposited in commercial banks through the use of auctions. In this way 6 billion GEL of free public funds were deposited during 2018. Interest earned on the deposited balance was 54 million GEL.

Figure 2. Monthly changes of receipts, expenditures and budget balance – 2018 (million GEL)

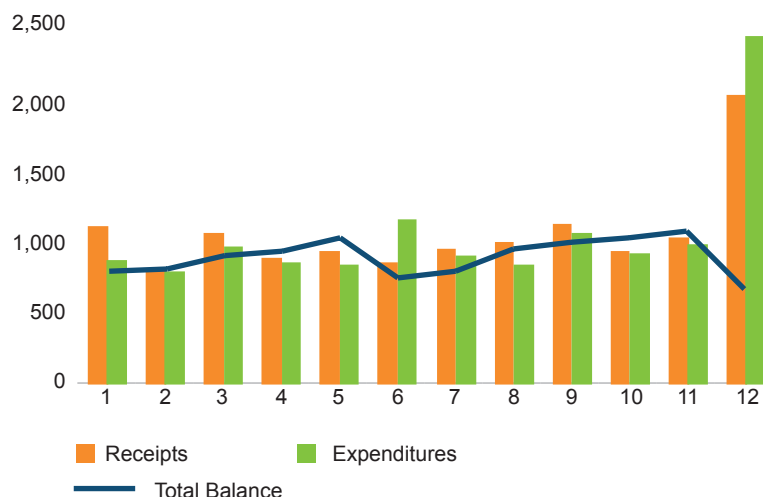
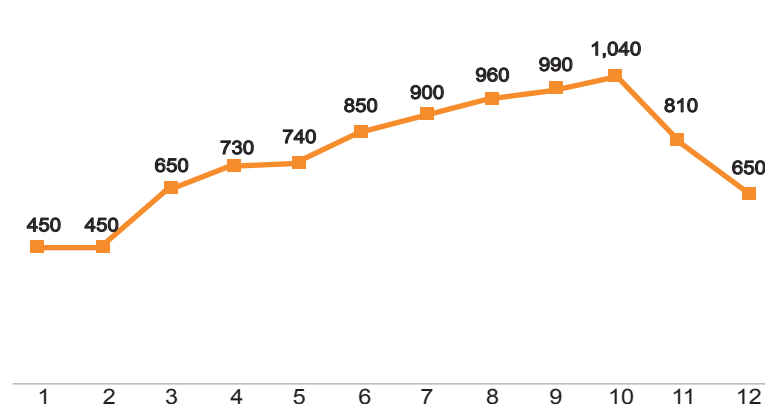


Figure 3. Amount of deposited balance at the end of each month 2018 (million GEL)



2. ANALYSIS OF MACROECONOMIC FORECASTING AND FISCAL RISK OCCURRENCE

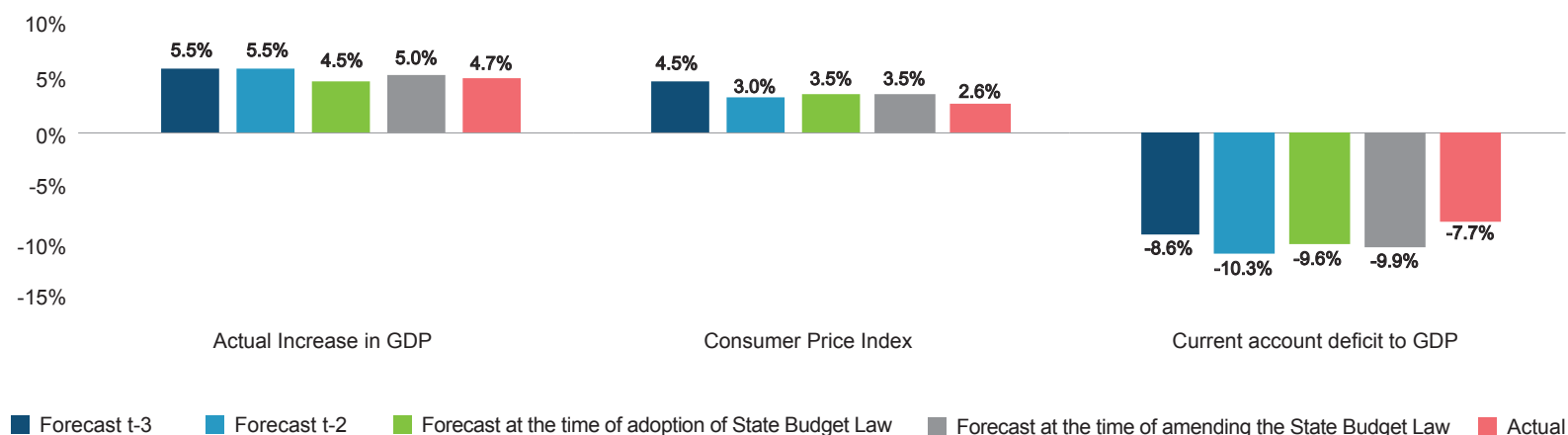


2.1 MACROECONOMIC REVIEW

The medium-term expenditure framework and the key parameters of the State Budget Law rely on the macroeconomic forecasts provided in the Basic Data and Directions (BDD) document. The reliability of these forecasts is therefore important in the process of annual budget planning and implementation.

The 2018 Budget Execution Report does not explain reasons for significant deviations in the forecasted and actual performance of key macroeconomic indicators.

Figure 4. Comparative analysis of the forecasted and actual performance of key macroeconomic indicators for 2018



The greatest deviation was observed in the current account deficit. That is, at the end of 2018 the corrected current account deficit was forecast to be 9.9% of GDP, while actual deficit was 7.7% of GDP (1.2 billion USD).

2.2 REVIEW OF REALISATION OF FISCAL RISKS

The 2018 Budget Execution Report lacks information regarding the occurrence of fiscal risks. This type of information is important as it enables the evaluation of the impact of various risks over fiscal aggregates.

THE ACTUAL PERFORMANCE DATA OF 2018 REVEALS THAT:

THE FOLLOWING POSITIVE RISKS HAVE OCCURRED:

- **Trade expansion** – export and imports have increased by 23% and 15% respectively. Total trade turnover was 12.5 billion USD which exceeds the previous year's performance by 1.8 billion USD.
- **Reduction in dollarization** – both the dollarization data of deposits and loans have been improved. Deposits in USD have been reduced from 66 to 63% of total, and loans – from 57.1 to 57% of total.
- **Improvement in business and customer confidence** – the business confidence index has increased from 25 to 34 points, and customer confidence index – from -30 to -21.

THE FOLLOWING NEGATIVE RISKS HAVE OCCURRED:

- **Geopolitical risks** – in 2018 among key trade partners, Turkey was the most vulnerable which resulted in decrease in remittance (by 4%), and investments (103%);
- **Insufficient acceleration of state investment projects** - in 2018 the rate of the use of available funds for state investment project was low. In 15 out of 51 planned projects for 2018, no funds were invested. In another 12 projects less than 70% of planned funds were invested.

It should be noted that the positive risk of increasing Foreign Direct Investments did not occur. Conversely, in 2018 FDI fell by

35% compared to the previous year.





RECOMMENDATIONS

TO THE MINISTRY OF FINANCE:

- In order to improve macroeconomic forecasting and evaluate the impact of macroeconomic indicators over fiscal parameters, the Budget Execution Report should include:
 - an evaluation of the reliability of the macroeconomic forecasts for a given year that were made in previous years and a detailed analysis of the underlying reasons of deviations from forecasts;
 - An analysis of the occurrence of risks identified during budget planning and effectiveness of policies adopted to address these risks.

2.3 FISCAL DISCIPLINE

To ensure the sustainability of fiscal policies in the long term, a number of fiscal rules were enacted. “Organic Law of Georgia on Economic Freedom” defines fiscal rules in Georgia.

BUDGET BALANCE RULE

Consolidated budget deficit
to GDP

Limit	Actual 2018
3.0%	0.79%

DEBT RULE

Public debt
to GDP

Limit	Actual 2018
60.0%	42.2%

BUDGET BALANCE RULE (BUDGET DEFICIT)

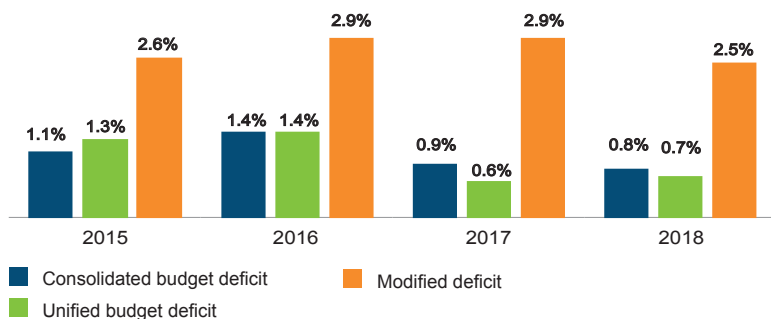
Based upon the amendments in “Organic Law of Georgia on Economic Freedom” of 2018,¹ the scope of calculating the budget deficit has been expanded. Instead of using the consolidated budget as the basis for the calculation, the 3% limit rule of budget balance uses unified budget data² as the basis. At the end of 2018 the unified budget deficit amounted to 305 million GEL and was 0.74% of GDP.

¹ <https://matsne.gov.ge/ka/document/view/4418507?publication=0>

² According to the Budget Code of Georgia, the unified budget includes consolidated budget and revenues generated by legal entities (non-entrepreneurial) public law (the so called own revenues) and transactions related thereof.



Figure 5. Consolidated, unified, and modified budget deficit to GDP data



With regards to the information on components of the budget deficit presented in the Budget Execution Report the following issues were observed:

- The Ministry of Defense made payments totaling 97 million GEL under the budget item “Increase in non-financial assets”. The transactions, according to the budget classification rules, should have been recorded in the budget item “expenditures”;
- The information on the budget item “decrease in financial assets” and “decrease in non-financial assets” presented along with the revenue performance data in consolidated budget differs from the same data presented in the same document in the section on fiscal forecasts. According to the Ministry of Finance, the reason of the disparity is the use of different reporting methodologies.

Where different methodologies are used, the explanations and detailed information on accounting rules should be presented so that users of the report can understand the substance of financial information presented.

DEBT RULE

Based upon the SAO’s analyses of amendment of the Organic Law referred above, IMF recommendations and debt balance presented in Budget Execution Report of 2018, the following issues arose:

- Government debt reported does not incorporate the debt of municipalities and of Legal Entities of Public Law (LEPLs). The Report also does not include the information on the value of current obligations taken out under the Georgian Law on “Public and Private Partnership”;
- Government debt advanced based upon the amendments of Organic Law did not include the debt of State Owned Enterprises (SOEs) that according to GFSM 2014 should be classified as public sector debt;
- From 2018, the government debt balance did not include historic debts. As a result government debt to GDP ratio decreased from 43.9% to 42.2%.



EXPENDITURE RULE

Based upon amendments to the Organic Law, the previous Expenditure Rule has been abolished. The abolished Rule included the Expenditure Limitation Rule which was an

important precondition to ensure fiscal consolidation and fiscal framework compliance with international standards. One of the most important tools for setting and complying with expenditure thresholds is the existence of quality Mid-Term Budgeting Framework (MTBF).



RECOMMENDATIONS

TO THE MINISTRY OF FINANCE:

- The State Audit Office recommends that to achieve the complete presentation of information on public sector debt and government debt sustainability, Ministry of Finance should ensure that:
 - Government debt figures include debts of municipalities and Legal Entities of Public Law (LEPL);
 - When applying Debt Rule calculations, the current values of obligations advanced based on the Law on “Public and Private Partnership” should be incorporated into the government debt balance;
 - State Owned Enterprises are classified as public and non-public enterprises;
 - the debt of State Owned Enterprises classified as general government is included in government debt;
 - the criteria/procedures for repayment of historic debt components are defined.

3. STATE BUDGET REVENUES



Actual collection of revenues in 2018 was 10.6 billion GEL and this exceeded the initial plan by 281.4 million GEL (2.7%). This was the result of higher than projected tax and other revenue collections.

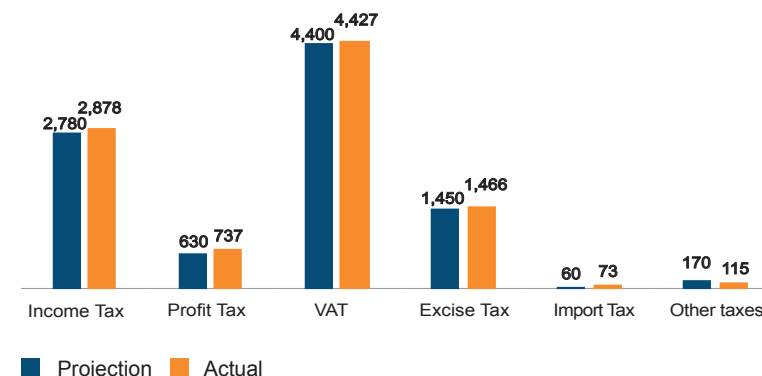
Table 1. Performance indicators of State Budget Revenues (million GEL)

	2018 actual revenues collected	Actual revenues as a percentage of the initial plan (%)	Actual revenues as a percentage of the amended plan (%)
Tax revenues	9,696	102.2%	100.1%
Grants	404	97.5%	119.5%
Other revenues	496	120.9%	113.9%
Revenues	10,596	102.7%	101.3%

The increased collection of tax revenues above projected was the result of higher than planned economic growth in Georgia. All tax revenue components outperformed their projected amounts (except for the budget line “other taxes”). Profit and income taxes exceeded their projections by 204.5 million GEL (by 6%) in total .

As for the other revenues, actual collections in 2018 exceeded the planned amounts by 60.7 million GEL (13.9%) and amounted to 495.7 million GEL. This was the result of higher than planned revenue inflows in each subcomponent of other revenues.

Figure 6. Mobilisation of tax revenues with respect to initial budget plan – fiscal year 2018 (million GEL).



The revenues in the budget item **INTEREST** exceeded initial projections by 30.8 million GEL (42.2%) and amounted to 103.8 million. This increase was caused by interest accrued on the budget balance deposited in commercial bank accounts. At the budget planning stage these revenues were not included in the projection and were incorporated in the Budget Law after the final amendments (though with pessimistic approach).

DIVIDENDS from the net income of the State Owned Enterprises totalled 70.3 million GEL out of which public enterprises (14) contributed only 351 thousand GEL. The majority of dividend income was generated by the National Bank of Georgia. During the year the Commission responsible for dividend distribution did not convene to make any decisions.



4. STATE BUDGET EXPENDITURES



In 2018, similarly to previous years the amount of state budget expenditure occurring in December was considerably greater than in other months. Expenditure in December 2018 amounted to 2.4 billion GEL which was 19.2% of total annual expenditure. The amount of budget expenditure in the last month was 262% of the average monthly spending of the other 11 months of the fiscal year.

The tendency for an increased rate of spending at the end of the budget year was observed in each component of expenditures. The amount under the budget item “expenditure” exceeded the average spending in the other 11 months of the fiscal year by 85%. Particularly significant increases in December spending relative to other months was observed in the budget item “increase in non-financial assets” and “increase in financial assets” with 766% and 526% increases respectively.

Figure 7. Monthly trend of State Budget Expenditures (2016-2018, million GEL)

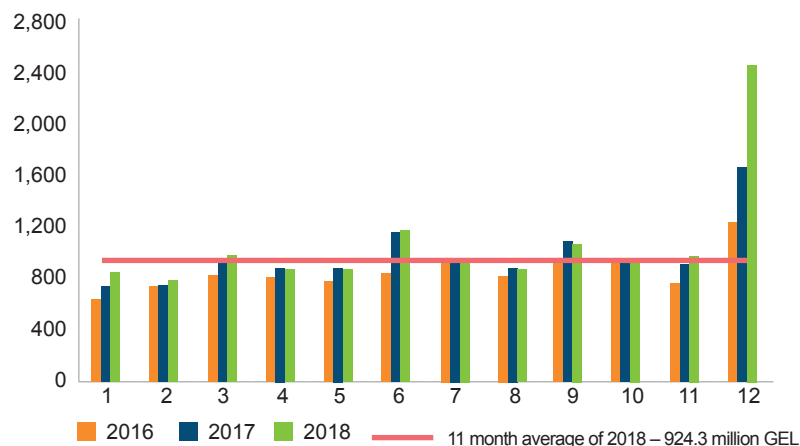
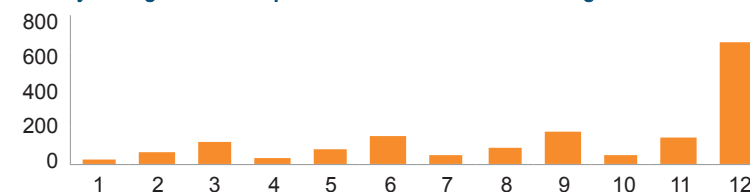
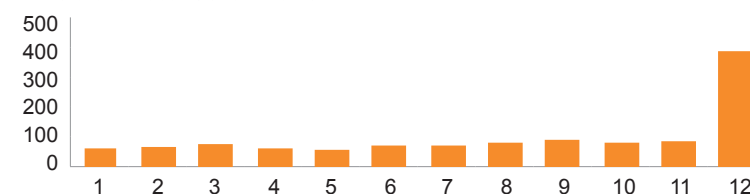


Figure 8. The Amount of Expenditure Occurred at the End of the Fiscal Year by Each Spending Agency and Expenditures of General State Importance

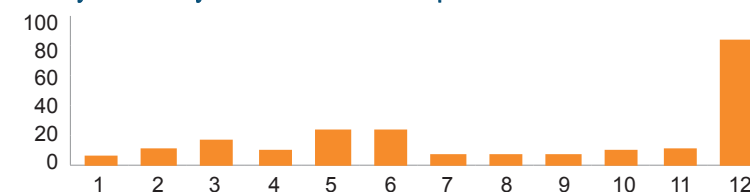
Ministry of Regional Development and Infrastructure of Georgia



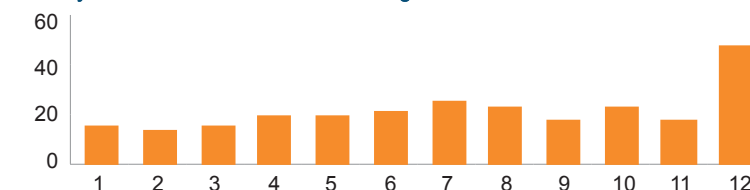
Transfers to Local Governments



Ministry of Economy and Sustainable Development



Ministry of Environment Protection and Agriculture



At the end of the 2018 the increasing rate of spending of appropriations largely took place at the program level of spending agencies. The amount of program expenditure in December was 4.1 times higher compared to the average amount of expenditures in the previous 11 months and outran comparative data of the 2017 fiscal year.

Although a higher degree of spending in various subcomponents of the budget item “expenditure” was planned in the fourth quarter, the increase in expenditures in the last month of the fiscal year were caused by a lower execution of expenditures compared to the quarterly plans during the year. Total expenditure for first, second, and third quarters of 2018 were respectively 5.6%, 2.3%, and 10.8% less than the amounts planned in the amended Budget Law which totalled 563 million GEL.

Figure 9. Distribution of the programs by the budget spending in December as a percent of average amount spent in previous 11 months.

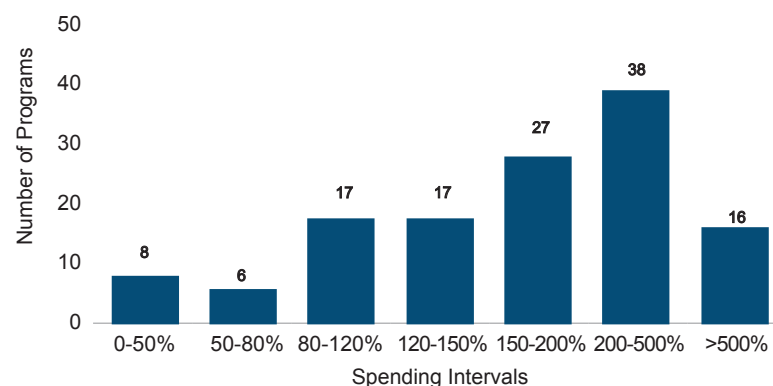
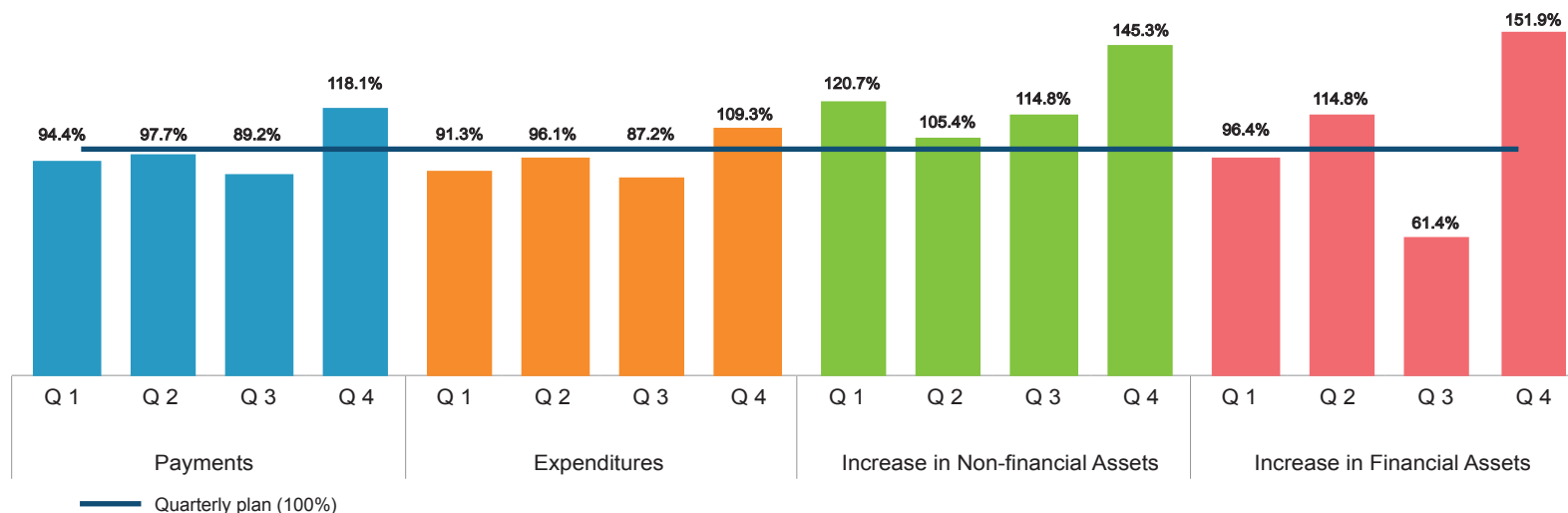
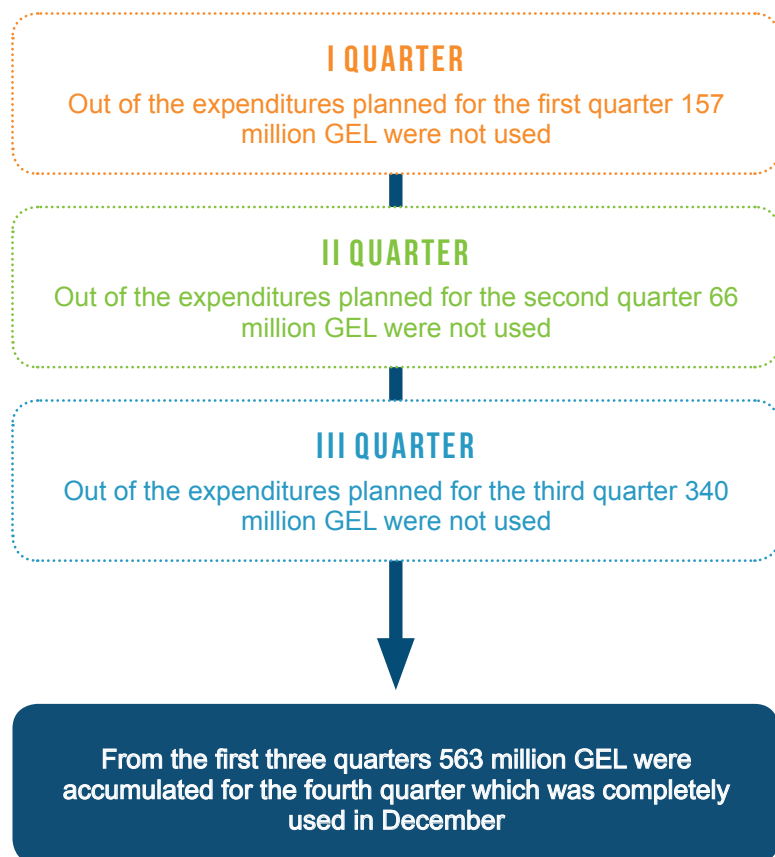


Figure 10. Performance of expenditure as Compared to Quarter Plans, 2018



Lower than planned level of expenditure in the first three quarters provided financial headroom for increased spending in the fourth quarter above that planned. As a result, in the fourth quarter actual expenditure exceeded both initial and amended plan levels by 24.5% and 18.1% respectively.

Figure 11. Dynamics of the Reallocated Appropriations from First Three Quarters to Fourth Quarter



Notwithstanding that in a number of cases the increase of budget expenditure by the end of fiscal year could relate to justifiable and legitimate reasons, the elevated level of spending of unused funds at the end of the year (as in previous years) points to systemic weaknesses in public finance management and creates the risks of inefficient usage for public funds.

4.1 DEFICIENCIES IN BUDGET PLANNING AND EXECUTION PROCESSES IN BUDGETARY ORGANIZATIONS

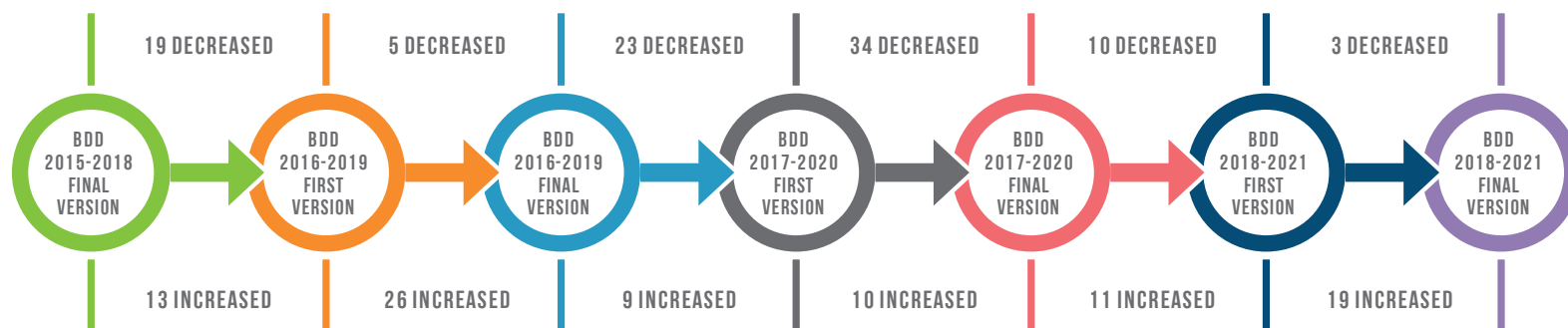
SAO analysis of the budget planning and execution process in budget organizations revealed systemic deficiencies which was also manifest in large-scale redistribution of appropriations between programs/sub-programs during the fiscal year, as well as in the existence of programs with low execution rates.

4.1.1 Budget Planning

Medium-term Budget Planning

In 2018 the appropriations of spending agencies, including ministries, were significantly revised in the different versions of the Basic Data and Directions (BDD). While the complexity of the budget planning process may necessitate a number of revisions in the BDD, the frequency and scale of changes are indicative of weaknesses in the planning process.

Figure 12. The amount of spending agencies for which appropriations for 2018 fiscal year were changed in different versions of BDD



Despite the fact that the process of the development of the BDD has significantly improved compared to previous year, the information presented in the BDD and the multi-annual planning of the amounts of spending agencies' appropriations needs further improvements.

Budget proposals of spending agencies and submission of draft State Budget Law to the Parliament

The SAO analysis of the budget proposals revealed the following trends:

- In 2018, all 15 ministries requested funds through the initial budget proposal above the ceiling. However, budget organizations either did not submit formal justifications via the budget management electronic system (eBudget) for resources requested above the ceiling, or submitted justifications were not sufficiently reasoned.
- In certain cases, the above ceiling requests by budget organisations were partially or completely unreflected in the Budget Law.³ However, as a result of reallocation of funds from other programs and reserve funds during the year, the actual expenditure of these programs was equal to those requested above the threshold.

³ In the first submittal of the budget bill additional appropriations requested by 10 ministries are included. It should however be noted that the amounts apportioned to the ministries fluctuates within the range of 0.2%-5.7% of requested above ceiling amounts. In addition, in case of three ministries, the amount requested within the threshold is reduced during the first submission of budget bill.



Amendments in State Budget Law

The analysis of the Budget Law amendments at the end of 2018 revealed the following trends:

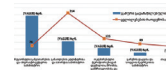
- The amendments were intended to reduce the appropriation of those programs/subprograms with low execution rate and reallocate funds to other programs;
- The amendments resulted in the amount of appropriations of certain spending agencies changing significantly, as a result of changes in the activities and expected results of their programs/sub-programs. However, there was no resultant change in expected results and performance indicators of the programs/sub programs, which complicates the performance evaluation of these programs/subprograms and the determination of links between financial and non-financial information at the reporting stage.

Amending the Budget Law at the end of the year points to the weaknesses in the budget planning process and complicates quality accounting and reporting.

4.1.2 Adjustment and execution of the state budget

Analysis of the Budget Execution Report revealed the following systemic deficiencies in the adjustment and execution of budgetary funds:

Frequent and large-scale reallocation of appropriations



Although spending agencies complied with the limits set by the Budget Code, the amount and number of reallocation of appropriations among programs/subprograms and among the budget classification items during the year is very high.

Funding unplanned activities



In some cases, during the fiscal year funds were allocated for projects and activities which were not envisaged by the Budget Law. Also there were instances where assigned program appropriations were not sufficient to complete the implementation of the project to which they were assigned.

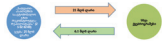
Reallocation of unspent appropriations



In some cases the budget organizations plan programs/subprograms or budget items with higher amounts than required. During the year these organizations transferred unspent appropriations to other programs/subprograms/budget items.

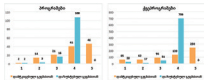


Reversion of reallocations



In some cases budgetary organizations reversed reallocations of appropriations. In particular, funds were transferred back to those programs/subprograms from which appropriations were previously reallocated during the year.

Programs/subprograms with low execution rate



Notwithstanding the high execution rate at aggregate level, a number of programs / subprograms underperformed in spending program appropriations. In the case of 16 programs and 127 subprograms less than 80% of amount of the amended Budget Law was executed during the year. In total, non-executed budgetary funds in programs was 247.5 million GEL.

4.2 LEGAL ENTITIES OF PUBLIC LAW/NON-PROFIT (NON-COMMERCIAL) LEGAL ENTITIES

The analysis of the consolidated balance of the LEPLs and NPLEs presented in the 2018 Budget Execution Report revealed several deficiencies related to the completeness and accuracy of the reported information, revenue forecasting, and expenditure planning. These deficiencies are presented below:

The Budget Execution Report includes general information about the expenditures incurred within the central budget programs and information of legally permitted own revenues and expenditures of LEPLs/ NPLEs on an individual basis. The consolidated balance should also include information on budgetary appropriations and expenditures of LEPLs/ NPLEs.

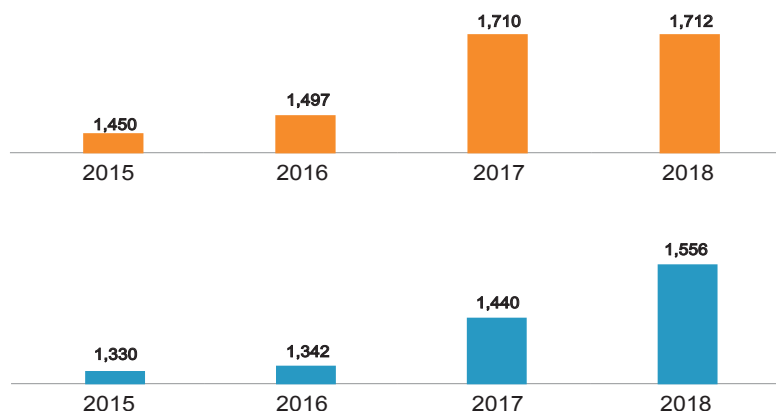
In the case of some agencies, the statement of financial data of the same point in time presented in Budget Execution Reports of different years did not match. In particular, the consolidated balance of the LEPLs/NPLEs at the end of 2017 was 28.6 million GEL less than opening balance of 2018.

The Budget Execution Report does not contain the information on those persons employed on a contractual basis in public agencies separately, by types of activities.

17 agencies (LEPLs/NPLEs) did not forecast their revenue generation. At the end of the year 9.97 million GEL revenues were accumulated in these agencies. Similarly, 12 agencies did not plan expenses from own resources, whereas their actual expenditure totaled to 3.4 million GEL.



Figure 13. Legally Permitted Own Revenues of LEPLs/NPLEs (left side) and Expenditures (right side) (million GEL)



Although LEPL/NPLEs are obliged to direct a predetermined share of the income they generate to the state budget (64.6 million in 2018), there remained a surplus amount of financial resources that was deposited at commercial banks to generate interest revenue. As at December 31, 2018 funds deposited to commercial bank of 52 examined agencies amounted to 316 million GEL, including 106 million GEL in term deposits.

Considering the large amount of funds deposited in commercial banks by the public agencies, the unused financial resources could instead have been used to deliver or improve public services/products.



RECOMMENDATIONS

TO THE MINISTRY OF FINANCE:

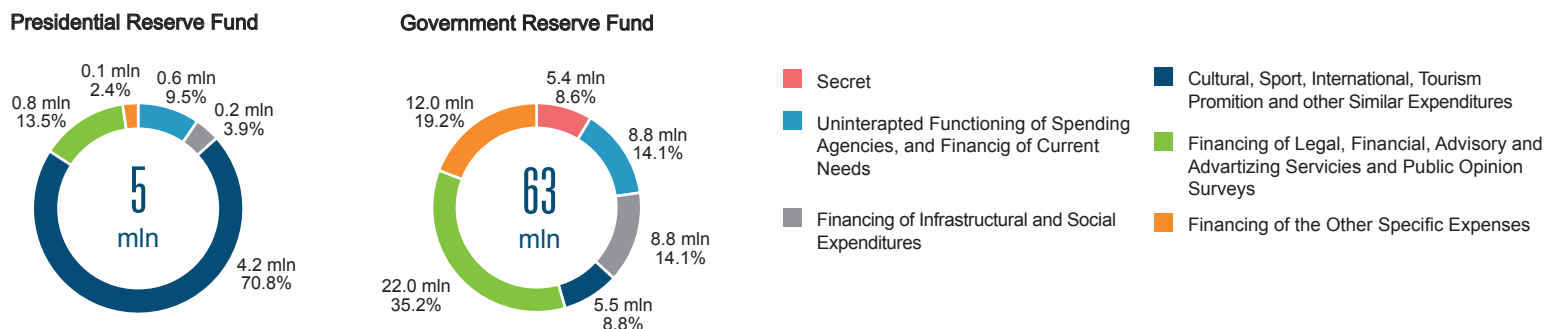
- The consolidated balance included in the Budget Execution Report should contain the information on revenues and expenditures of LEPLs/NPLEs, with the breakdown of the source of funding;
- In coordination with relevant agencies, the Ministry of Finance should ensure that the consolidated balance of the LEPLs/NPLEs contains information on the number of personnel employed on contract basis split by the type of employment. This will make it possible to assess whether the total number of functional staff employed complies with the limits set by the law.

4.3 EXPENDITURES OF GENERAL STATE IMPORTANCE

With regards to the budget item expenditures of general state importance, the following issues are noteworthy:



Figure 14. Allocation of funds allotted from President and Government reserve funds by purpose - 2018



5. MANAGEMENT OF STATE FINANCIAL ASSETS

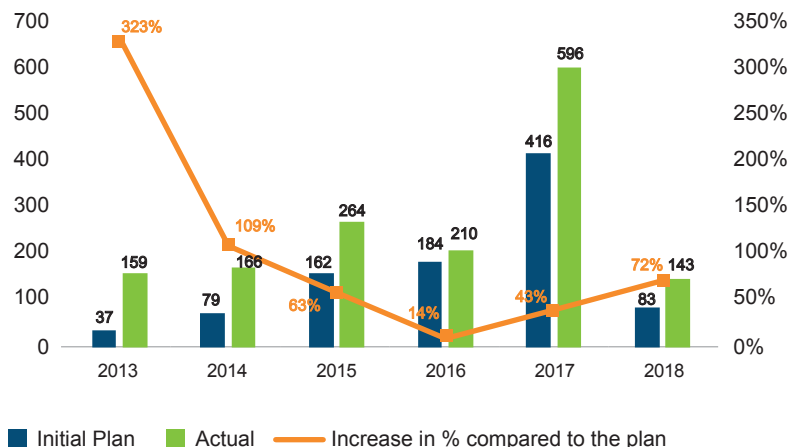


5.1 SHARES AND OTHER EQUITY

The initial Budget Law of 2018 did not plan revenues under the budget line “Shares and other Equity” of the budget item ‘Decrease in Financial Assets’. The amendments of the Budget Law planned for revenue under the line totaled 10 million GEL despite the fact that 25 million GEL of revenue had already been received through the privatization of four enterprises. As a result, by the end of the year revenues under this budget line exceeded the amended plan by 150%.

Similarly to previous years, the capital injections into SOEs of 143 million GEL exceeded initial budget plan (by 60 million GEL – 72%) . Therefore, it is recommended to define a list of the activities/projects to be implemented by the SOEs and the amount of financial resources necessary for their implementation at the budget planning stage.

Figure 15. Dynamics of actual spending under the budget item “Shares and other Equity” compared to the initial plan defined in state budget law, (million GEL)



5.2 LOANS

In 2018, 94.1 million GEL was mobilized from the on-lent credits and loans issued from the State Budget. Similar to previous years, the significant share of received funds - 95% (89 million GEL) was used to repay loans issued from the externally borrowed funds (on-lendings).

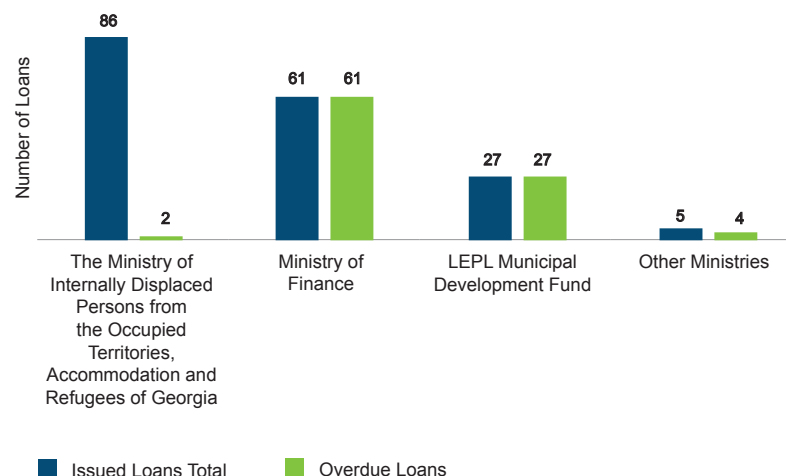
ON-LENDING FROM EXTERNAL FINANCIAL RESOURCES:

- The Government decided to postpone the principal loan repayment of "Enguri Hydro Power» Ltd due in 2018 totaling 3.9 million GEL and 1.7 million Euros for a period of three years;
- The principal amounts subject to mandatory transfer direction to the state budget of the Ministry of Finance and Economy of the Autonomous Republic of Adjara and "Kobuleti Waters" Ltd were reduced by 90.8 thousand Euros;
- As in 2017, «EnergoTrans» Ltd was unable to repay a principal loan of three million Euros and so incurred fines at the rate of 0.07% per day.

LOANS ISSUED THROUGH INTERNAL SOURCES

In total 179 loans were issued through internal sources totaling 241.3 million GEL. By December 31, 2018 94 overdue government loans totaled 283.9 million GEL, of which 49% was fines and 47% was loan principal.

Figure 16. The Share of overdue loans in total active loans, breakdown by issuing organizations, 2018





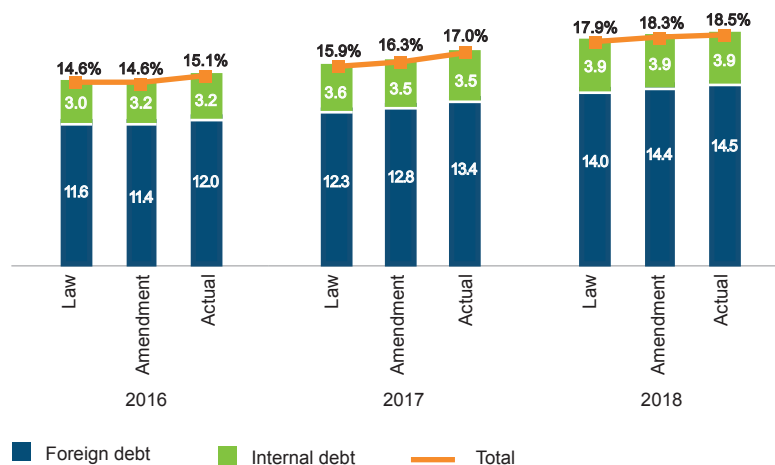
6. PUBLIC DEBT MANAGEMENT

6.1 STOCK OF PUBLIC DEBT

As of December 31, 2017 the stock of public debt was 18.5 billion GEL. As in previous years, the actual stock of debt exceeded both: the initially forecasted amount (by 536.3 million GEL), and the amount specified by the amended Budget Law (by 174.9 million GEL).

Public debt exceeding the limit defined by the final Budget Law was the result of an increase of foreign debt stock of above that planned which itself was caused by the depreciation of the GEL against foreign currencies. Therefore, as in previous years, currency risk remains the main risk for the public debt portfolio.

Figure 17. Public debt limits as defined by initial and amended budget laws and comparison to actual performance (billion GEL)



CURRENCY RISK

The effect of the GEL currency depreciation was greater over government debt stock than over loan service and repayment costs. The higher effect on debt stock was a consequence of currency exchange rate fluctuation throughout the year.

INTEREST RISK

The interest risk for the government debt portfolio grew as a result of the increased proportion of loans in the portfolio with variable interest rates. It should be noted that the vast majority of loans signed in recent years have variable interest rates which increases the risk of external loan service cost volatility.

6.2 CREDITS FROM EXTERNAL SOURCES

A significant proportion of the investment projects defined by the Budget Law have a low execution rate indicating delayed implementation of these projects. In 2018, 997 million GEL of credit funds for investment were mobilized from external sources, which amounted to 81% of the initial plan and was 23% less than previous year's data (104%). This was caused by the low execution rate of investment credit funds with respect to its yearly plan.



IN 2018 credit funds of 229 million GEL for 15 planned investment projects were not spent. In addition, 12 other investment projects utilised less than 70% of available credit funds.



IN 2018 those 14 project with less than 70% of execution commitment fee amounted to 3.1 million GEL.

THE CONCESSIONARY credit funds for investments of 1.2 billion GEL provided in the initial Budget Law of 2018 were planned to be used for funding 51 investment projects. Amendments enacted during the fiscal year decreased these funds by 312 million GEL. As a result 11 investment projects estimated at 183 million GEL which did not use funds during the first 10 months were abandoned.



- It is recommended that funds for investment projects defined in the Budget Law should not be reduced due to low levels of utilization of funds and the reasons for underutilization to be analyzed at the reporting stage.

- It is important that agencies responsible for project implementation ensure that funds are made available on a timely basis and effectively used. They should consider the execution status of the projects to avoid payment of commitment fees on credits and project delays.



7. PROGRAM BASED BUDGETING



Preparation of a Program Based Budget was commenced from 2012, but still only exists in the form of an accompanying annex to the Budget Law.

In addition, the information currently presented in the program annex needs further improvements.

SHORTCOMINGS AT THE PLANNING STAGE

- Process of developing mid-term action plans in ministries and the resultant information presented needs qualitative improvements;
- Expected results of program interventions are often presented at an aggregate level. Targets in subprograms are not sufficiently specified. Output and outcome data does not contain performance targets;
- Some performance indicators do not measure performance, enable performance evaluation, or require additional indicators;
- Probability of deviation and potential risks are not fully disclosed.

SHORTCOMINGS IN PERFORMANCE REPORTING

- Performance reports do not contain complete information on all programs/subprograms for which expected results and performance measures are set at the planning stage;
- For certain programs performance results are not fully reported in line with predetermined performance indicators;
- In some cases performance results are presented not in line with predetermined target performance indicators and are reported in a different format complicating or making the comparison between the planned and achieved results impossible;
- In some cases no explanation is provided regarding the discrepancies between the expected and achieved results, or the explanations presented are too general to clearly explain the reasons for the deviations.



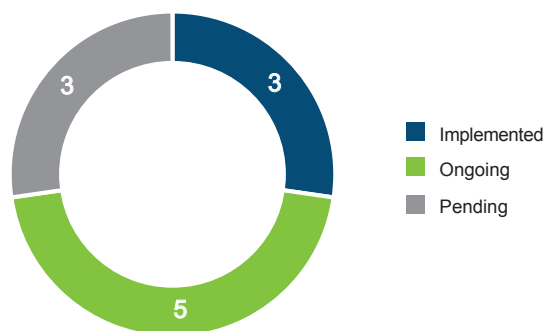
8. STATUS OF THE IMPLEMENTATION OF RECOMMENDATIONS ISSUED BY THE STATE AUDIT OFFICE



In response to the systemic deficiencies and shortcomings identified in 2017 budget execution process, the State Audit Office issued 11 recommendations. At the time of reporting, the implementation status of these recommendations is as follows:

In the 2018 Budget Execution Report information regarding the status of the implementation of the SAO's previous recommendations had not been updated.

Figure 18. Status of the Implementation of Recommendations Issued by the State Audit Office in report on Government Report on Budget Execution of 2017



RECOMMENDATIONS TO THE MINISTRY OF FINANCE:

We recommend that the document annexed to the Government Budget Execution Report detailing the implementation status of the SAO's recommendations is updated to reflect the current status of implementation.



STATE AUDIT OFFICE OF GEORGIA
REPORT ON THE GOVERNMENT REPORT
ON THE ANNUAL EXECUTION OF 2018
STATE BUDGET

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