



**EURASIA FOUNDATION**  
Georgia Office



**Economic Policy Research Center**

## **Monitoring of the State Budget Execution for the Year 2006**

**(9 Months)**

**Tbilisi**

**2006**

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## Foreword

Despite the fact, that during last three years the state budget of Georgia has been executed with surplus, the government of Georgia has to make substantial adjustments to the revenue and expenditure part on permanent basis. This practice, which was especially pronounced throughout 2004-2005 has been retained during current year as well. During the three previous quarters of the year the Law on the State Budget has already been amended several times and it is not excluded, that there shall be another revision of the state budget by the end of the year.

During the current year in the same manner as during previous years the planned budget has been amended several times, which was mostly happening in the post factum regime. At the same time it should be stated, that information on mobilized revenues, as well as incurred expenditures was not always available in a timely manner, or not as complete or detailed, as requested, which substantially complicates observation, supervision and analysis of current budgetary processes and preparation of forecasts.

Results of implemented monitoring, which covered the period of previous budgetary year (2005) and presently was focused on analysis of execution of the state budget for the 9 months of current year, indicate that the stage of planning of the state budget, as well as its execution is not efficient enough and reforms undertaken in given direction do not have comprehensive character and are not long-term oriented.

Planning and execution of the state budget for the current year in the same manner, as during previous years shows, that the budgetary year is not planned in commensurate or efficient manner, which promotes to establishment of such trend, that substantial part of expenditures shall have to be financed in the last months of the year, which in its turn shall place great burden on already quite activated inflation processes.

The fact, that during the current year the law on the state budget has already been revised several times, indicates that initial planning of the budget is far from being ideal or efficient. On one hand planning of low rates of revenues indicates to the

fact, that the government is permanently trying to create the effect of execution of budget with a surplus at the expense of initially planned low revenues. On the other hand, planning lower rates of revenues is indicative of the fact, that taxation base and sources of revenues are not duly analyzed and estimated, which means, that the process of planning of the state budget is conducted on the basis of unrealistic data, which represents a serious problem in itself.

At the same time it should be noted, that amendments to the budget are made in an impulsive manner and mostly at the expense of surplus revenues (mainly proceeds from privatization campaigns). Throughout this process increase of the budget does not have a balanced character and additional revenues are channeled only towards several priority spheres (i.e. defense, expenditures of which during the year 2006 amounted to 605 million GEL, which on the list of expenditures is a little less than social sphere expenditures).

During the current year in the same manner, as during previous years revenues to the state budget are accounted and analyzed only through comparison of separate taxes. This deserves a special attention especially given the fact, that starting from 2006 local and federal taxes were redistributed (i.e. profit tax is not transferred to the local budgets but is fully directed to the central budget) and analysis of conducted reforms for the purpose of identification of successful and weak areas is of crucial importance.

We should stress one more aspect, which unfortunately remains unchanged during current years as well. Namely, despite increase of interest of public towards budgetary processes, information on expenditures is scarce and not available. In this regard it should be noted, that in certain directions budget for the year 2006 was even less detailed, than budgets for the previous year (eg. in the part of sectoral programs), which made it even less transparent and similarly to previous years it remains unclear as to why in conditions of permanent increase of the budget whole range of sectors and programs are not fully funded or not funded at all.

Aggregate effect of all the above referred factors is that whole budgetary cycle, starting from its planning and ending with its execution, sources of revenues and expenditure policy is extremely vague and quite frequently not clear at all. Refusal

from provision of detailed information on budget related issues does not promote to establishment of public control and creates atmosphere, conducive for corrupt dealings and different machinations, which can be viewed as one more serious drawback of the state budget.

### **Execution of the State Budget of Georgia for the Period of 9 months of Current Year**

Indicators for execution of revenue part **of the state budget for the year 2006** for the period of 9 months (January-September) look in the following manner (data has been obtained from official statistical information of the Treasury Department of the Ministry of Finance):

According to the plan of the ministry of finance during the above referred period proceeds to the state budget should have amounted to 2 billion 567, 3 million GEL, while the amount of actual revenues was 2 billion 661, 93 million GEL (i.e. by 94,63 million GEL more, than planned amount, which is by 4% more).

The amount of tax revenues mobilized into the state budget during the period of 9 months was 1 billion 898, 18 million USD (i.e. by 81,93 million more, than planned amount, which was 1 billion 816,25 million, which is by 5% more).

The amount of tax revenues mobilized into the state budget during 9 months of current year (1 billion 898, 18 million GEL) exceeds the same indicator for the year 2005 by 50% (1 billion 268, 18 million GEL), exceeds the same indicator for the year 2004 by 100% (950, 49 million GEL), and exceeds the same indicator for the year 2003 by 210% (611,9 million GEL).

Diagram #1

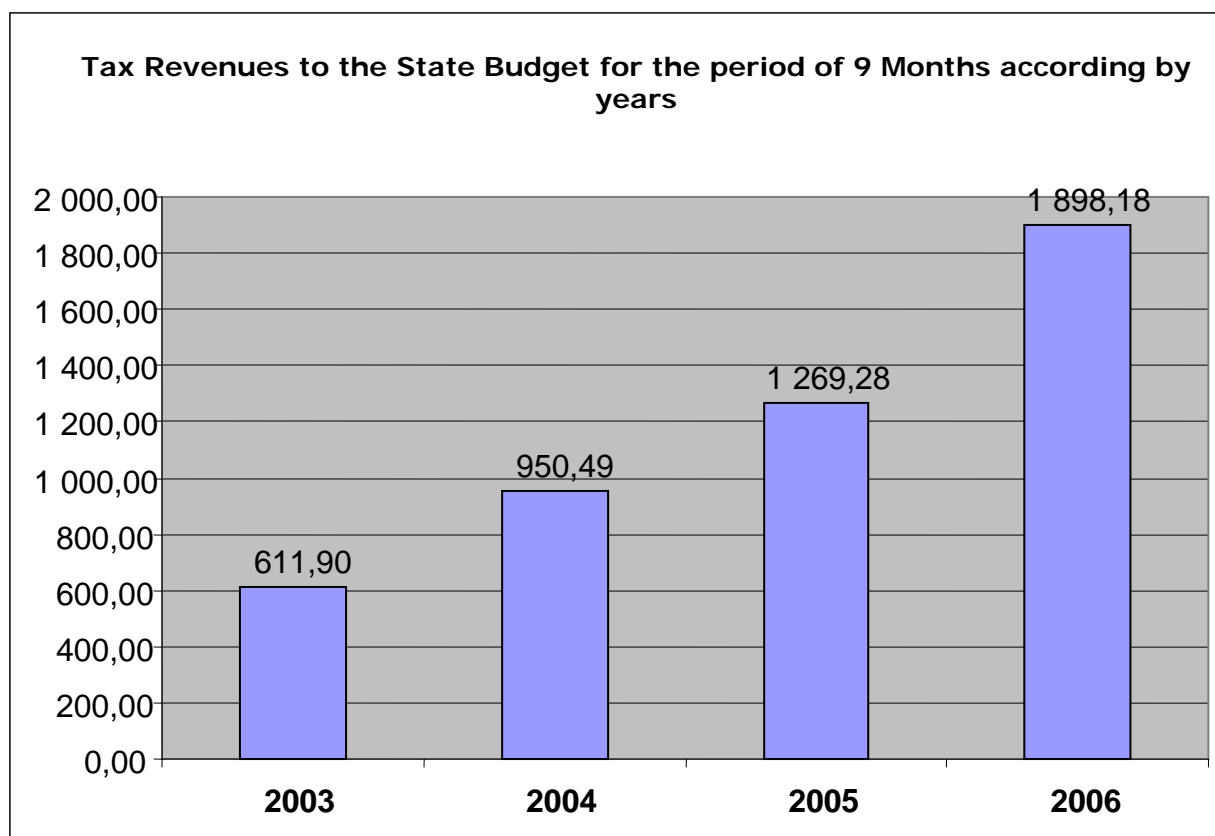


Table No. 1

2003	2004	2005	2006
611,90	950,49	1 269,28	1 898,18
	55%	34%	50%
		107%	100%
			210%

Out of aggregate amount of tax revenues, mobilized into the state budget for the period of 9 months, which was 1 billion 898,18 million GEL, the **Tax Department** has mobilized 942,57 million GEL, which is by 28,7 million GEL more (3%), than planned amount, which was 913,87 million GEL.

**The Customs Department** has mobilized 955,6 million GEL instead of planned 902,38 million GEL (exceeded by 6%).

The planned amounts were exceeded in the sphere of mobilization of **non-tax revenues** as well. Thus, instead of planned 352,74 million GEL was mobilized 364,88 million GEL, (i.e. by 103% more than the planned amount).

Differently from the period of 9 months of the previous year, in the same period of the current year the plan for **capital revenues** was also exceeded (instead of planned 306,03 million GEL actual execution was 306,98 million GEL).

As to grants, in this part of the budget there was observed a minor failure to execute the plan and instead of planned 92,28 million GEL actual execution amounted to 91,9 million GEL (i.e. 0,4% less, than the planned amount).

The amount of **annual deficit** according to last adjustment was 289,14 million GEL, which is 2.2% of GDP (according to forecast in 2006 it should amount to 13,08 billion GEL). Although if we take into consideration the fact, that proceeds from capital revenues are used for the purpose of funding of deficit, in reality the deficit shall amount to 622 million GEL (i.e. 4,75% of GDP, which means, that actual amount of deficit exceeds the 3% admissible level, in the event of exceeding of which the burden of inflation processes increases, which is what happened in reality (more detailed information is provided under the chapter: Trends and recommendations).

**Table #2**

Planned amounts and revenues of the state budget for the year 2006 (in Million GEL)							
	Customs department	Tax department *	Non-tax revenues	Capital revenues	Grants	Source of funding of deficit	Total revenues of the state budget
Annual plan of revenues (million GEL) **	1249,15	1299,64	500,5	333	178,52	289,14	3538,8
Plan for revenues for 9 months	902,38	913,87	352,74	306,04	92,28	224,2	2791,45
Revenues as of present (million GEL)	955,6	942,57	364,87	306,98	91,9	84,98	2557,3
Revenues as of present (in %)	106%	103%	103%	100%	100%	37%	95%
Prior to execution of plan (million GEL)	53,23	28,7	12,14	0,95	-0,38	-139,22	-129,51
To be executed before the end of the year (million GEL)	210,67	204,00	135,63	26,02	86,62	204,16	876,86

In the process of analysis of execution of the state budget for the year 2006 for the period of 9 months, as well as analysis of expenditures, we should take into consideration one important circumstance, which is the following: differently from the previous years determination of execution of the plan is conducted not on monthly basis, but on quarterly basis.

Consequently, it becomes more difficult to observe processes ongoing within each quarter. As to revenues for the period of 9 months, broken according to quarters, they look in the following manner.

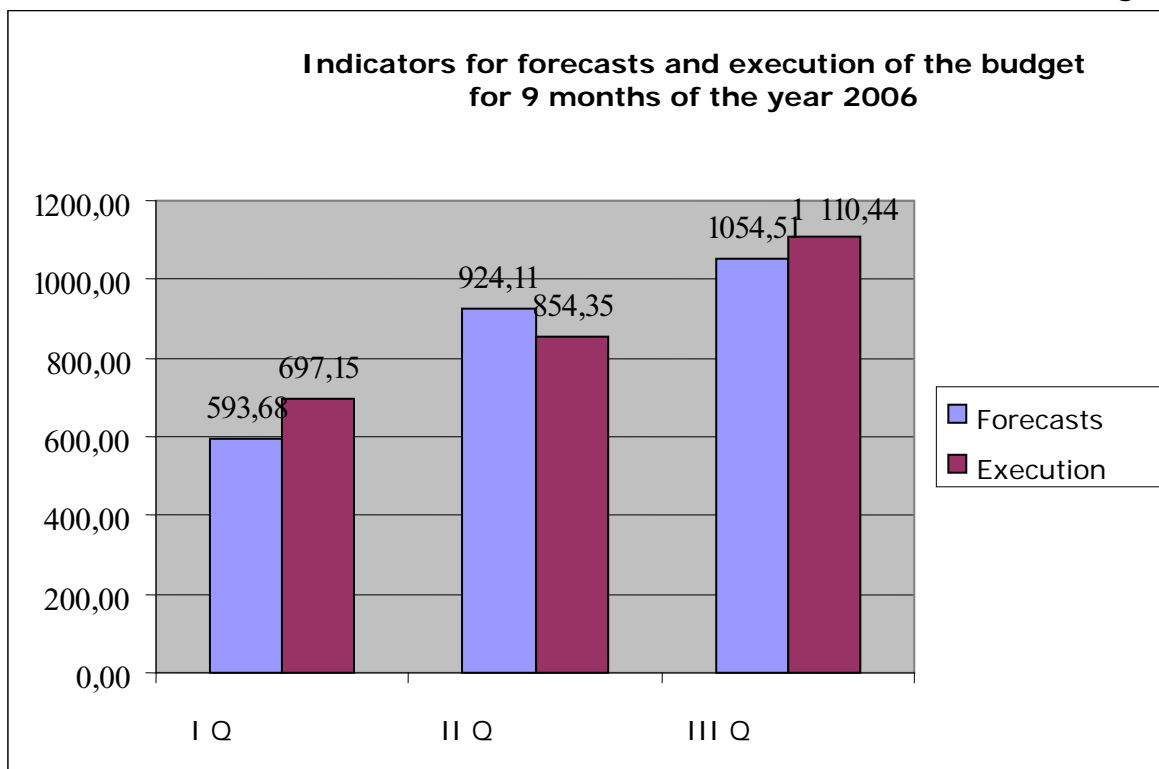
**Table #3**

<b>State budget for the year 2006 (million GEL)</b>			
<b>Quarter</b>	<b>Forecasts</b>	<b>Execution</b>	<b>Difference</b>
I	593,68	697,15	103,47
II	924,11	854,35	-69,76
III	1049,51	1 110,44	55,93
<b>Annual</b>	<b>2 567,30</b>	<b>2 661,94</b>	94,64

As we can see from the above referred data for previous quarters of the year 2006 indicators of planned amounts and actual execution are characterized by different trends. In the first and third quarter the plan was executed with a surplus, while in the second quarter the planed amounts have not been reached. It should be stated, that similar trends could be observed in previous years as well. Generally the pattern is surplus execution in certain months and failure to reach targeted amounts during other months (Thus in 2005 there were two shortfalls in budget execution, namely in May and September, while this year the shortfall happened during the second quarter).



Diagram #2



Despite the fact, that in the tax revenue and grants part the budget was executed with a surplus, it was not possible to fully fund certain amounts in the expenditure part of the budget.

For the purpose of execution of all the parameters of expenditure part of the budget it was necessary to mobilize 2 billion 791,45 million GEL, while actual mobilized amount was 2 billion 661,94 million GEL, i.e. 95% of the planned amount. Thus, the shortfall amounted to 130 million GEL (see table 2).

It should be noted, that mobilized amounts were not spent efficiently (here we imply the above referred 2 billion 661 million GEL), as expenditures incurred during three quarters amounted to 2 billion 558 million GEL.

Table #4

Expenditures (million GEL)	Annual plan	Plan for 6 months	Expenditures as of September 30	Execution relative to annual planned amounts (%)	Execution relative to planned amount for relevant month (%)	To be executed in IV quarter
<b>Total of spending from the state budget</b>	<b>3 828</b>	<b>2 791</b>	<b>2 558</b>	<b>66,82%</b>	<b>91,65%</b>	<b>1 270</b>

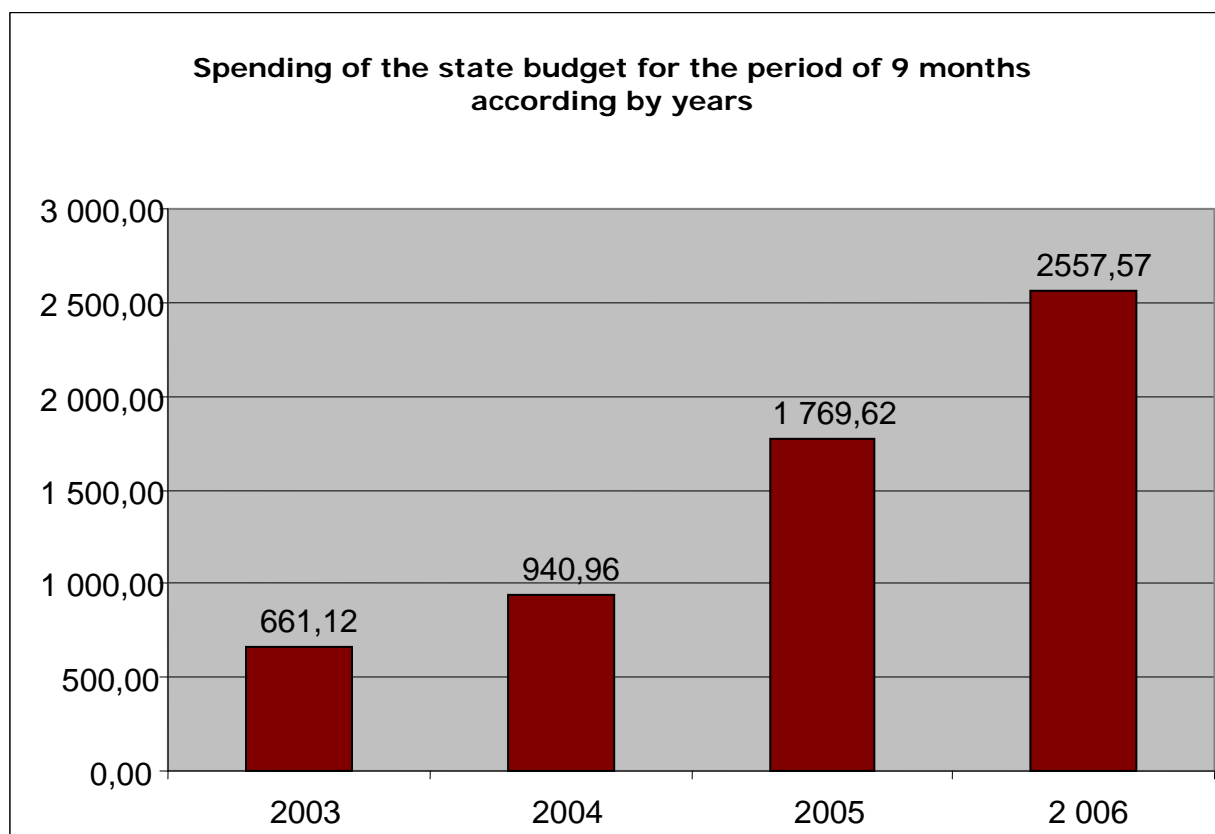
Analysis of established situation indicates, that for the purpose of provision of full funding of expenditures as planned, by the end of the year in budget should be mobilized additional 1 billion 166 million GEL, while amount of spending should be within the range of 1 billion 270 million GEL.

Consequently, we can state, that in the same manner as in previous years major part of budgetary expenditures (around quarter) shall be incurred in the end of the year, i.e. in the IV quarter, which means, that from the point of inflation processes, which have already acquired threatening character, the situation shall deteriorate further.

As to the trends of expenditure part of the budget, indicators look in the following manner: overall amount of spending during 9 months of the year (2 billion 557,57 million GEL) is by 45% higher, than the amount of spending for the same period of previous year (1 billion 769,62 million GEL), relative to 2004 indicator (940,96 million GEL) the increase is by 271%, while relative to expenditures of the year 2003 (661,12, 12 million GEL) the increase is by 387%.

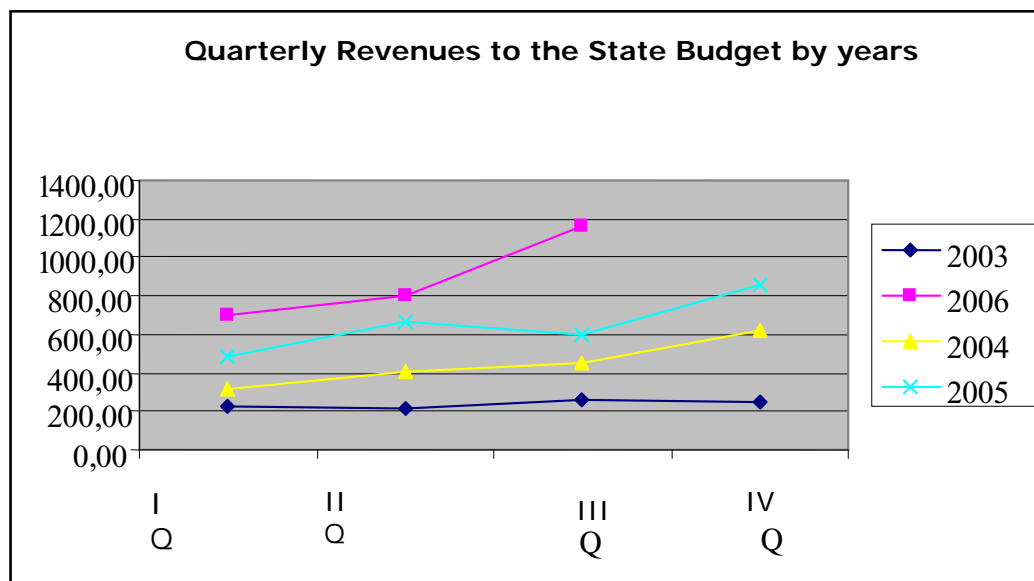
Table #5

2003	2004	2005	2 006
661,12	940,96	1 769,62	2557,57
	42%	88%	45%
		168%	172%
			287%

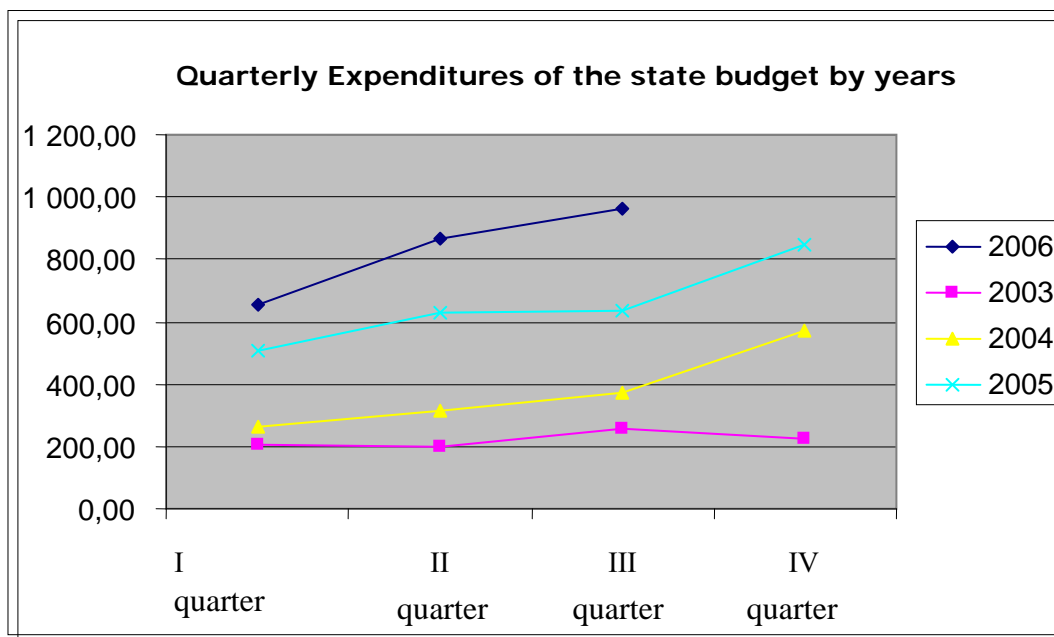


Diagrams provided below indicate, that in the budget for the year 2006 we can see the same trends, as established throughout 2003-2004. Namely, in the revenue part, as well as in the spending part of the budget dynamic of the beginning of the year is characterized by sharp increase. At the same time as a rule in the fourth quarter of the year amounts to be collected and spent is substantially higher, than in the previous quarters, especially if we consider the trend in comparison to the first quarter of the year. This again causes further aggravation of situation from the point of inflation. This year the threat is especially conducive to rising concern, as the rate of inflation has increased substantially already during first three quarters of the year. In parallel it is assumed, that due changes that are expected to happen in macroeconomic environment from the beginning of 2007 (increase of prices on imported energy resources and consequently, problems related to that) the burden of inflation shall become worse.

**Diagram #4**



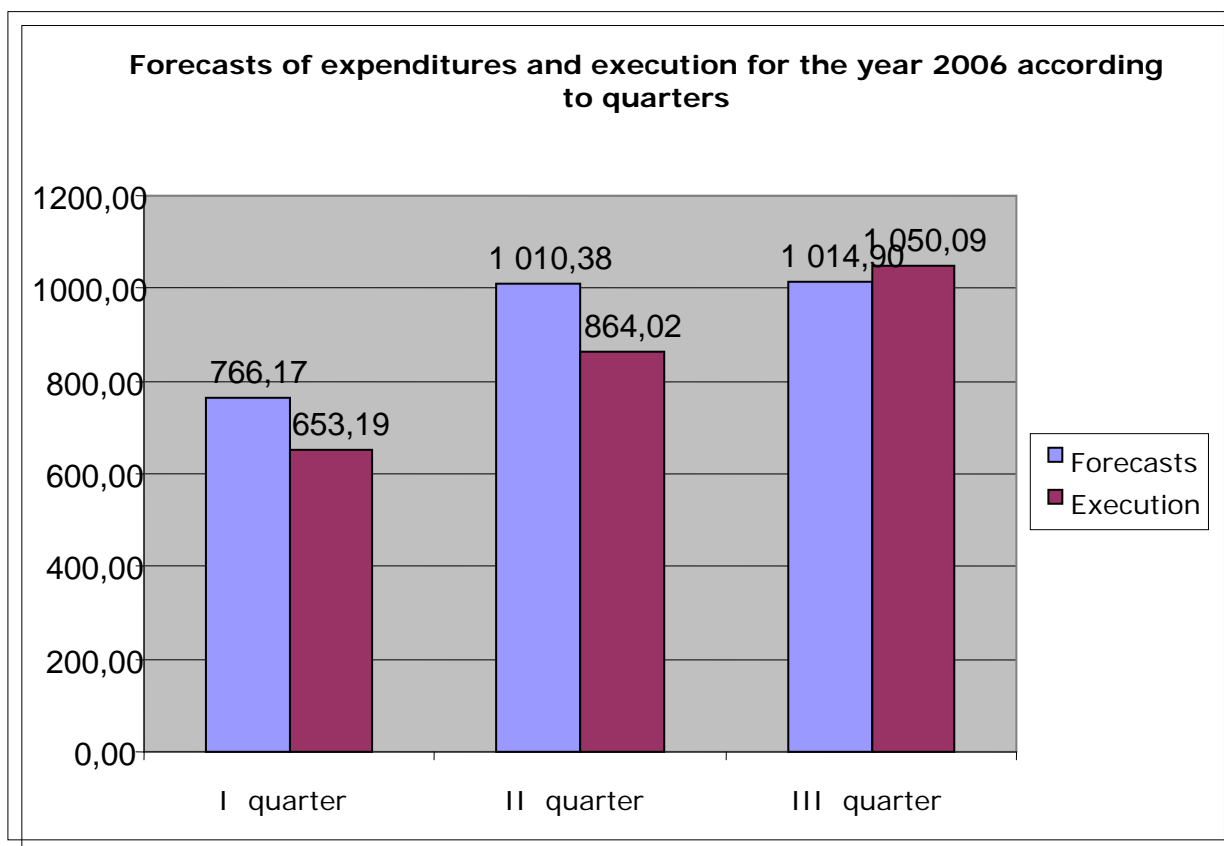
**Diagram #5**



Indicators of planned and actual expenditures for the period of 9 months show, that in the three quarters actual spending has not been in compliance with planned amounts. Thus in the first quarter instead of planned 766,17 million GEL was spent 653,19 million GEL (deficit amounted to 113 million GEL). In the end of the second quarter instead of forecasted 1 billion 776,55 million GEL was spent 1 billion 517, 21 million GEL (deficit reached 260 million GEL), in the end of the third

quarter shortfall of funding reduced insignificantly and amounted to 234 million GEL (executed amount was 2 billion 557, 57 million GEL, relative to planned amount – 2 billion 791,45 million GEL).

**Diagram # 6**



**Amounts mobilized into the State Budget during 9 months according to different taxes, were the following (provided according to decrease in volume):**

**VAT:** From the value added tax to the state budget was mobilized 934,87 million GEL, which exceeds forecasted amount by 55% (885,04 million GEL).

This year similarly to previous years VAT remains largest source of replenishing the state budget. Its share relative to overall revenues exceeds 36%, while in its share in tax revenues is over 49%.

**Social tax** accounts for the second largest source of income for the state budget. During the past three quarters of 2006 instead of expected 328.38 million GEL the budget got 340.8 million GEL (4% more than expected) from that source.

Social tax accounts for more than 13% of total incomes, at the same time it accounts for 18% of tax incomes.

The **profit tax** that is now paid to state budget instead of territorial budgets garnered 254.59 million GEL in 9 months, which is 103% of the expected amount (246.04 million GEL).

With this showing profit tax accounts for up to 10% of total incomes, at the same time it accounts for 13.5% of tax incomes.

**Excise duty** garnered 245.37 million GEL for the state budget, which is 2% more than the expected amount (240.66 million GEL).

With this showing excise duty accounts for about 9.5% of total incomes, at the same time it accounts for 13.5% of tax incomes.

As for **customs duty**, it accumulated 119.5 million GEL for state budget, it's 3% more than the expected sum (116.13 million GEL).

With this showing customs duty accounts for just a little over 4.5% of total incomes, at the same time it accounts for 6% of tax incomes.

During the last 9 months the state budget got 364.99 million GEL in the form of **non-tax incomes**, which was 3% more than the expected sum (352.74 million GEL). The biggest share in this type of incomes belongs to incomes generated as a result of fines and sanctions (137%) – instead of expected 22.66 million GEL, the state budget received 30.77 million GEL.

Ultimately, non-tax incomes accounted for more than 14% of total incomes of the budget.

**Capital incomes** barely exceeded the expected amount (306.98 million GEL instead of 305.04 million). However, as far as the privatization is concerned the planned indicators were not met. Instead of 285.65 million GEL the budget got only 281.2 million GEL (2% less than the expected sum). The biggest share in this type

of incomes belongs to land and non-material assets: instead of 20.29 million GEL 25.01 million GEL was accumulated (23% more than expected sum).

With this showing the capital incomes accounted for about 12% of total incomes.

As for **grants**, the total amount of grants missed its mark by only 337 thousand GEL (0.4%), (instead of planned 92.28 million GEL only 91.9 million GEL was actually received).

Ultimately, the grants accounted for 3.5% of total incomes.

### Revised Priorities

The original version of 2006 state budget and the changes made to it during the year clearly showed how the expenditure policy priorities were changing.

The position of the traditional leader of expenditure policy – **public health and social welfare** system remained unchanged: about 775 million GEL will be spent in this direction, which is 23% more than the amount allocated last year (this year about 625 million GEL is to be accumulated in United State Social Insurance Fund only).

The **defense** budget held the second place – it has more than 600.5 million GEL, (65% more than last year when the defense budget amounted to 367 million GEL).

As a result of restructuring of **education and science** system, the amounts allocated from the state budget for this sphere increased by 440% - from 80 million to 352 million GEL.

**Police** got 40% more funding – from 182 million to 257 million GEL.

The amounts allocated for **economic development** were increased by 35% - from 184 million to 249 million GEL (mainly for infrastructural projects, in particular, road development).

## Tendencies and Recommendations

The tendencies of the last 9 months show that the deficiencies in accumulation and expenditure of the state budget sums that were present in recent years are still a problem. The same shortcomings are present in the draft Law on 2007 State Budget of Georgia, which means that this is part of a long-term policy.

### *Transparency*

**Tendency:** Like in past years, this year both planning and amending of the state budget was not done evenly. The fact that the budget process is now planned on a quarterly basis rather than every month somehow decreased the budget's transparency. It made the intensive observation of current processes more difficult. If up until now, when the budget processes were planned on a monthly basis, it was still possible to manipulate the sums within the budget, the fact that the budget process is planned on a quarterly basis farther increased that probability. The corresponding public control mechanisms have been significantly weakened. The amounts allocated for the categories that have traditionally been distinguished for their ambiguity, lack of transparency and high probability of corruption are still high. For example "Other Costs" category, which has been increased by 75% in the 9 months of 2006 in comparison with the same period of 2005 (from 157 million to 276 million GEL). That parameter accounts for 7.2% of the total expenditure of the budget, which is quite a considerable figure. However, the detailed information about its structure is still not open to public.

**Recommendation:** Planning of state budget and its amending must be done under more public control through involving more stakeholders in this process and provision of more detailed information to public. The information provided to public must not tend to be general (which is increasingly the case recently), it should be more concrete so that the information is comprehensive and reliable and so that there are no grounds for considering it inaccurate.

### *Lack of Balance*

**Tendency:** The results of the 9 month monitoring period once more demonstrated the misbalance between the budget's income and expenditure policies. Despite the



constant increase of tax incomes, which caused the budget increase several times, the expenditure policy is still not adequate to the incomes. Due to this factor, the expenditures planned for the 9 months have not been fully made, which means the payments that had to be made in the first three quarters of the year will be made in the fourth quarter of the year, which is overburdened with expenditures anyway. In other words in a relatively short period of time quite a large amount of cash will be injected into the market, which will inevitably encourage inflationary processes. The third quarter of this year clearly showed how real that danger is. The excessive growth of state expenditures in a short period of time, which coincided with the pre-election campaign, further encouraged the growth of inflation, the curtailing of which requires quite a long time and effort.

Besides, as the last year's example indicates, the numerous unpaid obligations by the end of the year automatically means that many expenses that have to be covered by the budget may not be actually covered on time. Due to that fact the state agencies couldn't finance events worth 224 million GEL in 2005 and this sum stayed on their accounts in the form of a remainder.

**Recommendation:** The income and supply parts of the budget should be planned more evenly. The amounts to be collected and expended during each quarter have to be as equal as possible so that the situations described above can be avoided. This would make income and expenditure policies more even and the country would be more protected from macroeconomic risks. In order to balance the budget more effectively the Medium Term Expenditure Framework (MTEF) has to be more consistently and fundamentally established. This will decrease instability in the process of formation and amendment of both income and supply parts of the budget and it will make the budgeting more predictable and sustainable (for more information please read tendencies and recommendations concerning the establishment and use of MTEF methodology).

### ***Character of Inflation***

**Tendency:** The budget processes that took place in the first 3 quarters of 2006 showed that generally speaking the expenditure policy of the budget lacks anti-inflation drive. The fact that the increased inflation in Georgia was caused by the increase in natural gas and electricity tariffs as well as permanent and short-sighted increasing of expenditures was pointed out by International Monetary Fund as well:

if from May 2005 till April 2006 the average prices increased by 6%, from August 2005 till July 2006 the increase amounted to 14.5%. According to the inflation survey done by the National Bank of Georgia, this indicator went down to 13.5% in August and in September it was 11.4%. The high inflation in the end of July was mainly caused by large amounts of cash injected into the market. Despite the relative decrease, the more or less high rate of inflation in August and September was caused by the same reason.

According to the data provided by Statistics Department, which the International Monetary Fund used for its report, as of September, prices of a number of products increased in the last 12 months, for example: the vegetable prices (including potatoes and other bulbous vegetables) increased by 44.8%, fruit prices (including grapes) increased by 40.7%, prices on milk products (milk, cheese etc.) increased by 32.1%, tariffs for public utilities (water supply, electricity, natural gas) increased by 26.4%, prices on confectionery products (sugar, honey, jams, chocolates etc.) increased by 21.8%, health care service increased by 15.6%, prices on meat and meat products increased by 14%.

According to the calculations done by International Monetary Fund, more than 6% of annual inflation in countries with transitional economies (such as Georgia) hinders the economic growth. Therefore without reviewing the expenditure policy (decreasing the cash injections) the inflation will continue to be a problem.

**Recommendation:** The expenditure policy of the state budget must be fundamentally reviewed. First of all the scale of public works that has to be carried out in a particular period of time as well as its cost must be defined, so that the sums allocated for these works don't encourage the inflationary processes, which will have an adverse effect on the growth of economy and the results of those public works.

A more effective system that would guarantee the inclusion of incomes generated from the privatization process into the budget and a more effective and flexible scheme of expenditures must be elaborated. It will make the expenditure of received capital incomes more purposeful, successful and relatively more "digestible" for the economy.

### ***Budget Deficit***

**Tendency:** According to the final data, the state budget deficit amounted to 289 million GEL (originally the maximum amount of budget deficit was thought to be 72 million GEL less – 217 million GEL). In other words, despite the fact that during the first three quarters of 2006 the expected amount of incomes increased, instead of decreasing the amount of deficit increased even more.

If we take into account the fact that contrary to the international practice, the capital incomes are reflected in the income part of the budget rather than in the deficit part of it (which is one of the ways to nominally reduce the deficit), we'll see that the real amount of deficit is even bigger – 622 million GEL, which is 4.75% of GDP and that is quite a considerable figure. Therefore the real deficit is much higher than the maximum 3% of GDP and that was one of the factors that caused the increased inflation in the third quarter of 2006.

The fact that this tendency will most probably take place in future years is alarming: according to the draft 2007 state budget, the total incomes of the state budget will decrease by 3% in comparison with 2006 (from 3 billion 538 million GEL down to 3 billion 444 million GEL). At the same time the capital incomes' share in total incomes will be only 2.9% (100 million GEL) next year, which is also a significantly lower figure than the corresponding indicator for 2006 (333 million or 9.4% of total incomes). At the same time due to the fact that from September 1, 2006 some types of goods were exempt from customs duties, only 28.8 million GEL is expected from the customs, which will be only 0.7% of total incomes (for example in the first 9 months of 2006 the budget got 120 million GEL from the customs, which amounted to 4.6% of total incomes).

Therefore the deficit is going to be an even bigger problem for the Georgian state budget in 2007 and it will probably amount to 426 million GEL.

**Recommendation:** Capital incomes must be included in the deficit category of the state budget in order to register the real amount of deficit. The maximum amount of deficit should be decreased through reduction of expenditure and/or increasing the incomes. First of all the state expenditures that have an adverse impact on the inflationary processes must be reviewed. As for the increasing the incomes, the

taxable market must be realistically reviewed and registered so that the expected incomes are calculated with less margin of error. The resources that can bring additional incomes to the state (for example state property vacated as a result of optimization of state agencies: it can be privatized) must be fully inventoried.

### **Inadequate Use of MTEF**

As the most considerable part of our recommendations concerns the use of Medium Term Expenditure Framework (MTEF) methodology, we believed it was necessary to study the international experience in that sphere and analyze the results achieved in other countries as a result of that reform.

MTEF has been established in many countries of the world. The analysis conducted by us has showed that the success of that practice directly depends on the political will of the country's authorities, consistency of the budget processes and their transparency.

For example the introduction of this method in African countries (Ghana, Malawi) was initially quite successful. Initially all the ministries were able to present three year budget based on coordinated goals, activities and results. However, with the course of time it became evident that the process lacked consistency, which was caused by several reasons: First of all the MTEF principles and the priorities of the countries' government contradicted each other. At the same time less competent state officials were responsible for the introduction of MTEF, due to their incompetence they were unable to consistently and irreversibly establish the principles defined by the above-mentioned new methodology.

As a result, MTEF became a useless formality in those countries, which failed to have a real impact on the formation and implementation of budget processes.

At the same time there are a lot of successful examples of MTEF usage. For example the Swedish experience. All the ministries of the Swedish government fully subjected their real expenditures to the parameters set out in MTEF. There was an overall political consensus among all of the ministries of the Swedish government in connection with the principles of budget reforms, which conditioned the success of the reform. As a result, the country with one of the most unstable budget planning systems in Europe is now one of the most successful countries in that regard.

## Georgia

**Tendency:** The Georgian authorities state that the 2006 state budget was planned based on MTEF methodology and that it was part of 2006-2009 plan. However, both the original version and the several amendments of the budget indicate that the MTEF requirements have been often violated and they're still being violated.

One of the basic requirements of MTEF is the establishment of the so called "expenditure ceilings" for the agencies expending the sums and the assignments allocated for them should not exceed those "ceilings". At the same time one of the characteristics of the MTEF is a better distribution of the resources according to categories and predicting the future expenses of the corresponding agencies.

The initial amounts allocated for individual spheres in 2006 and their subsequent changes showed that these requirements were not fully met: for example the financing of the Ministry of Defense was originally planned to be 392 million GEL, but at the moment it's increased up to 605 million GEL (difference is 54%), according to the next year's budget, the financing of that ministry will decrease down to 398 million GEL (66% of this year's amount). This year the Ministry of Defense's expenditures account for about 16% of total budget expenditures and next year it's planned to be 10%; Initially the Ministry of Refugees and Settlement was to receive 29 million GEL, now the expenditures of that ministry have increased up to 51 million GEL (by 76%).

Such abrupt fluctuations mean the establishment of MTEF is not done the way it should be and the parameters are not calculated more or less accurately, which ultimately causes such abrupt fluctuations. NGO International Transparency – Georgia also came to the similar conclusion, according to the monitoring done under its project "Economic Governance and Public Finances", the level of involvement of ministries in the MTEF is very low. Besides, the planning is actually symbolic: The concrete and expected results of programs and events under MTEF and the criteria for evaluation of the achievement of those results are not defined.

As a result, when the 2006-2009 state budget draft was evaluated with international standards ("Public Expenditure and Financial Accountability" - PEFA), Georgia got only 4 points out of maximum 9, which is a medium mark.

**Recommendation:** In order to fully utilize MTEF method and avoid miscalculations, the maximum number of state agencies should be involved in the medium-term planning of the budget. At the same time a very tight and strict timeline and schedule should be elaborated for each participating agency so that all the preconditions for MTEF usage are timely and fully created. Besides, a constantly renewable expert resource must be formed, which will quickly react to the novelties in the country's economy caused by internal or external factors, analyze them in detail and present the results and prognosis in the next cycle of medium term planning of the state budget.

Apart from force majeure situations, all the changes made to the state budget must correspond to the parameters defined by Medium Term Expenditure framework so that the transparency of the budget processes, their consistency and predictability can be guaranteed.



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