

ISET-PI BUDGET EXECUTION MONITOR FOR 2015

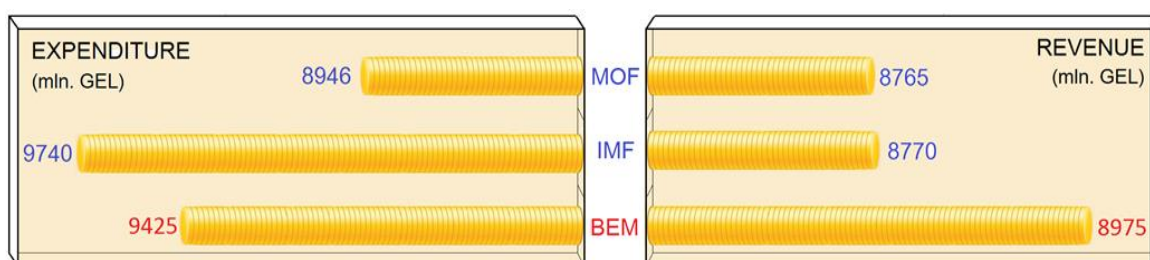
ISET-PI has begun publication of a new product – the Budget Execution Monitor (BEM).

The goal of the BEM is to forecast revenues and expenditures of the general government of Georgia for the current year, using past seasonal patterns and actual data observed so far in the year.

The BEM will be published twice a year – once after the first quarter data is available, and later when the data for the first three quarters becomes available. We rely on data provided by the Ministry of Finance of Georgia (MOF) and the International Monetary Fund (IMF). The BEM methodology is outlined on the project’s website.

BEM forecast highlights:

- For the 2015 budget, the BEM predicts a **deficit in the overall balance**¹ and a **surplus in the operational balance**² of the general government budget. The overall balance deficit is projected to be 450 mln GEL, which is nearly 1.5 times higher than the 181 mln GEL deficit forecast by the MOF at the beginning of the year, but 54% lower than the 970 mln GEL deficit projected by the IMF.
- **Higher projected tax revenues.** In 2015, BEM-projected revenues are 210 mln GEL (2.4 %) higher than the MOF’s forecast and 205 mln GEL (2.3 %) higher than the IMF’s forecast.
- The top contributors to the revenue collection process are taxes on income, profit and capital gains. The worst performer so far are taxes on international trade and transactions (forecast to be 40% lower than the MOF’s projections).
- **Higher projected expenditures.** In 2015, projected expenditures are 479 mln GEL higher than the MOF’s forecast (5.4%) and 315 mln GEL (3.2 %) less than the IMF’s forecast.
- Expenditures are mainly driven by the “other expenditures” category, which is forecast to exceed the MOF’s target by 61%. This category includes expenditures connected to property (except interest) and other current and capital expenditures, such as transfers to households in kind or in monetary form.



¹ The overall balance is the difference between all revenue and all expenditure categories, including the net acquisition of nonfinancial assets. Examples of nonfinancial assets acquired by the government include any type of physical capital, such as machinery, land, real estate, etc.

² The operational balance is the difference between all revenue and all expenditure categories, except the net acquisition of nonfinancial assets (such as land, buildings, machinery, etc.).

Table #1. Predicted budget revenues and expenditures for 2015, mln. GEL

	MoF	IMF	ISET-PI
REVENUES	8,765	8,770	8,975
Taxes on income, profits and capital gains	3,142	3,142	3,311
On goods and services	4,476	4,515	4,430
On international trade and transactions	114	115	68
On property	273	258	274
Other taxes	25		25
Other revenue	520	530	653
Grants	215	210	215
EXPENDITURES	8,946	9,740	9,425
Compensation of employees	1,580	1,610	1,633
Goods and services	1,120	1,200	1,160
Subsidies and grants	754	597	742
Social expenses	2,945	2,923	3,023
Other	832	1,055	1,337
Interest	375	340	375
Capital spending	1,340	2,015	1,156
OVERALL BALANCE	-181	-970	-449
Operational balance	1,159	1,045	706

Highlights of the revenue and expenditure categories of the government budget:

- Revenues are set to exceed the government’s projections from the beginning of the year. The top contributors to this increase (in absolute terms) will be taxes on income, profit and capital gains. The worst performer this year will be taxes on international trade and transactions (**40%** lower than the MOF’s projections).
- Expenditures are also set to increase – mainly driven by the “other expenditures” category, which is set to exceed the MOF’s target by **61%**. In this category, we include expenditures connected to property (except interest) and other current and capital expenditures, such as transfers to households in kind or in monetary form.

Revenues

The forecasts for six of the seven revenue categories are optimistic. *Taxes on property* and *other taxes* are **both expected to hit the targets set by the MOF** within one million GEL accuracy. However, the forecast for the *taxes on international trade and transactions* category is lower than the MOF’s

projections by 46 mln GEL and it is expected to be the **worst performer of the budget**, realizing only approximately 59% of the MOF's plan. The dynamics of the direct taxes collected are most promising in absolute terms. The projections for *taxes on income, profit and capital gains* are expected to generate **169 mln GEL (5%) more revenues** than the MOF initially planned. On the other hand, the best performer of the budget in relative terms is expected to be the *other revenue* category, which promises to generate **26% (133 mln GEL) more income** than the fiscal authority of Georgia hoped. The projection for the *grants* category in the BEM is set according to the MOF's plan. The BEM forecasts that overall revenues will exceed the MOF's plan by 2.4%.

Expenditures

The forecasts for the expenditure categories are mixed. Four out of the eight expenditure categories are expected to overshoot the targets, while three are expected to do the opposite. Overspending is expected to be within 3% of the initial MOF targets for three categories, while for the *other expenditures* category greater overshooting is expected in both absolute and relative terms (505 mln GEL and 61% above the target). On the other hand, *subsidies* are expected to be marginally less than the target and the *net acquisition on nonfinancial assets* is expected to be just 86% of the initially planned amount, thus decreasing the expected overall expenditure by about 184 mln GEL. Overall, the BEM predicts 5.3% higher total expenditures for the budget than the MOF has predicted.

Balance

Compared to the MOF's projections, the BEM is more pessimistic about the both the *operational* and *overall balance* of the budget. The forecasted overshooting of the budget revenue target is dominated by the projected increase on the expenditures' side. According to the BEM, the **surplus** of the *operational balance* is expected to be 453 mln GEL lower (39% below the MOF's predictions), while **the deficit** of the *overall balance* is expected to be 269 mln GEL higher (148% higher than the MOF's predictions).

Historical data and dynamics

