THE ROLE OF FISCAL POLICY IN ECONOMIC GROWTH

(6 MONTHS PERFORMANCE INDICATORS OF THE STATE BUDGET)
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In the previous policy brief the Economic Policy Research Center (EPRC) has already questioned the feasibility of achieving 6% growth rate and performance of the planned budgetary revenues given the 2013 state budget performance indicators and the current economic activity in the country. As we know, during the planning process of the state budget, a 6% real economic growth was predicted.

On June 28th of this year the National Statistics Office of Georgia published the new data, according to which in May 2013 real GDP growth equaled 0%, as to the VAT turnover a 6.2% decrease was observed in comparison to the previous year. The given information even further strengthens the doubt regarding the feasibility of achieving the planned economic growth.

CHART #1

The interdependence dynamics of VAT turnover and the economic growth are worthy to mention. Even though both indicators repeat the same trend, and a difference between them is in the 3% range, according to the data from May 2013, this difference has gone beyond 6%. Therefore, it is important to define the VAT released sector of the economy that has enjoyed significant growth.
The statistics makes it clear that in order to achieve annual 6% economic growth, monthly average economic growth in the remaining months should be at least 8.7%. If compared to the 2.2% growth of the past 5 months, achieving the above-mentioned rate is not feasible. Therefore, annual 3-4% growth is more optimistic, however, even this indicator will be hard to achieve unless some positive changes are made in the economic policy of the country.
Economic growth slowdown and worsened economic indicators by all means have their impact on state budgetary revenues, especially income tax. As of June 2013, 2,981.5 million GEL have been mobilized in the state budget in terms of income tax, which represents 43% of annual plan. This indicator is a decrease as compared to the last year, i.e. during the 6 months period in 2012 the state budget mobilized 2,963.1 million GEL in taxes, representing 47% of the annual indicator. A decrease in mobilized taxes is presented in the charts 3 and 4. That is, in 2013 revenues from taxes of the state budget was defined as 6,920 million GEL, i.e. 9.6% above the 2012 reality. The dotted line on the chart, given the current growth conditions, presents the projected indicator that should have been achieved in the past 6 months. However, it is clear that the real indicators are far less as compared to the planned indicators of 2013. Therefore, we should project that according to the 2013 6 months data, the state budget has lost more than 265 million GEL in taxes and in case this tendency continues, this sum will increase even further.

Source: Ministry of Finance of Georgia’s web-site (performance indicators)
CHART #4

State Budget Tax Revenue performance (in mil GEL)

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<th>Taxes 2012, 6 months reality</th>
<th>Taxes 2013, 6 months projected prognosis</th>
<th>Taxes 2013, 6 months reality</th>
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| Source                   | Ministry of Finance of Georgia's web-site (performance indicators)
During an economic slowdown, the state can play an important role, through fiscal and monetary instruments. In the period of economic stagnation, when the private sector is reluctant or cannot manage to create economic stimuli without the state intervention, the state has the possibility to stimulate economy through targeted fiscal policy. If we take into account that infrastructural projects are the part of the expenditures, that stimulates and fosters economic activity, it would have been justified and of most importance to finance such projects by the state, in order to stimulate private sector activities. However, as presented on chart #5, during the 5 months period 267,2 million GEL was spent on infrastructural projects that is 151,2 million GEL less than in 2012. According to the statement made by the government of Georgia, implementation of such a policy is unjustified, since infrastructural projects should be financed by the private sector. It should be further noted that reducing such projects before the private sector takes over is also unjustified, the consequences of such actions is proved by the economic and budgetary indicators.

**CHART #5**

![Infrastructural Expenditures](source: ministry of finance of Georgia's web-site)

Note: the donor funding represents expenditures of the Ministries of infrastructure and energy, as well as donor funded projects in the general importance state expenditures.
RECOMMENDATIONS

When assessing the first quarter of 2013, we have indicated that the government of Georgia should develop an economic development plan of the country, presenting information about the short and long-term economic policies to be implemented by the state and giving concrete actions for fulfilling this plan, in order to foster economic growth of the country. The mentioned document should be discussed and reviewed in detail among the business circles, for increasing their confidence and sense of stability for undertaking long-term economic decisions. Such an action plan still does not exist, economic tendencies of the past 5 months once again highlight the importance of having such a plan.

Economic slowdown was paired with the budgetary problems, associated with the performance of the planned tax revenues. As it is seen in the 6 months indicator, the state budget has already lost up to 260 million GEL in terms of tax revenues. Therefore, in order to bring clarity in the economic circles, it will be a positive signal if the society is presented a plan clarifying how the given deficit will be covered. Whether this will be reduction in the expenditures portion, or attraction of other sources of financing.

At the same time, we have also mentioned the importance of implementing policies stimulating the economy by the state, until the private sector is active enough to stimulate economic activities on its own. Examples of such stimuli is financing infrastructural projects, and allocating sums in this direction. However, as we have noted above as of 5 months in 2013, 267.2 million GEL was spent on infrastructural projects, that is 151 million GEL less as compared to 2012 indicator. Such a policy has already been proved wrong by the economic indicators and hence, our recommendations for economic recovery are still essential.