



Ministry of Finance of Georgia State Treasury

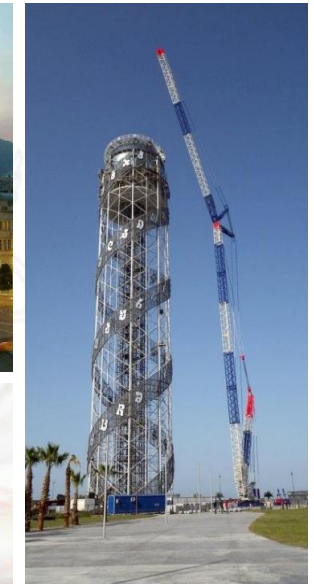


TREASURY PFM REFORMS

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State Treasury, Mof
February, 2012



GEORGIA – THE OUTLOOK





GEORGIA - SOVEREIGN CREDIT RATING



**STANDARD
& POOR'S**

BB- Stable

Upgraded from B+
Positive in
November 2011

FitchRatings

BB- Stable

Upgraded from B+
Positive in
December 2011

MOODY'S
INVESTORS SERVICE

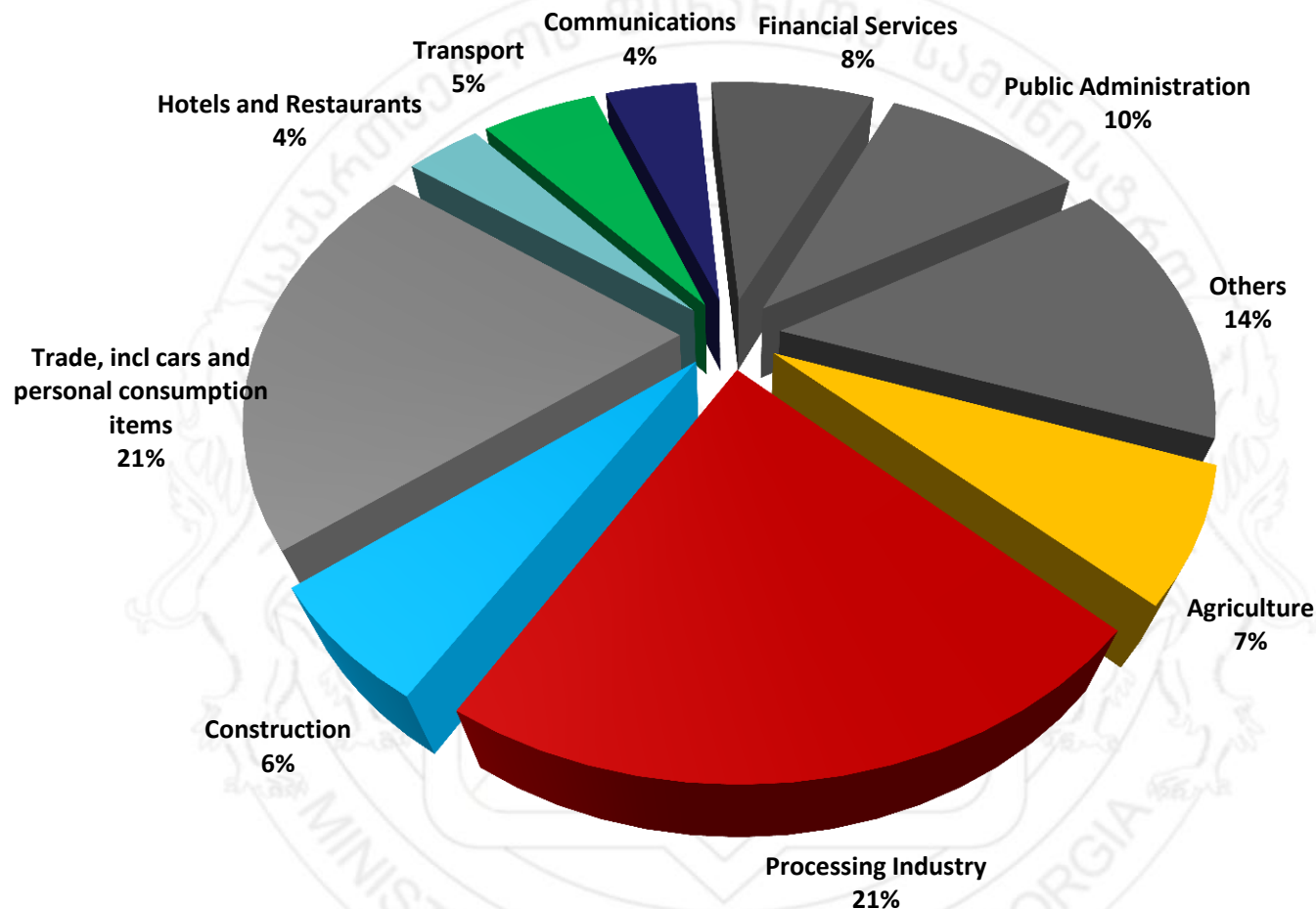
Ba3 Stable

Affirmed in
December 2011



THE REAL ECONOMY

CONTRIBUTIONS TO THE REAL GDP GROWTH BASED ON Q3 2011



Source: Geostat

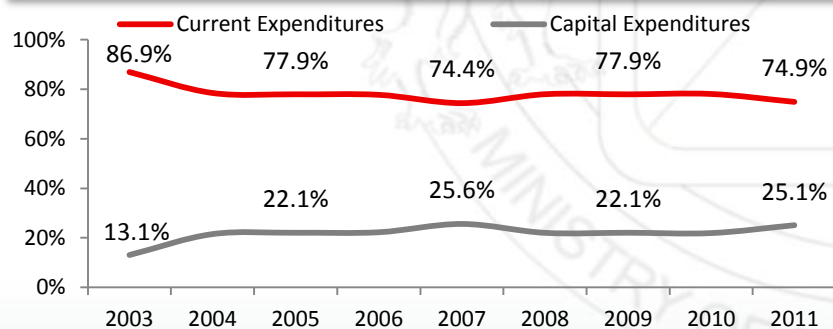


FISCAL PERFORMANCE

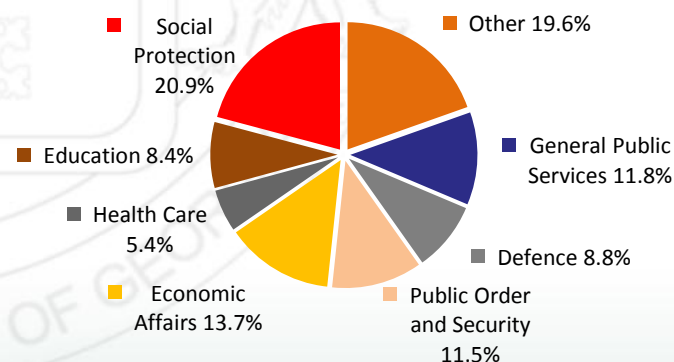


- ✓ The Government's program of fiscal consolidation has advanced ahead of schedule with the deficit for 2011 declining to 3.7% of GDP (compared with an IMF target of 4.3% under IMF's SBA 7/8 Review)
- ✓ Improved compliance on the back of simplified procedures and policies has lifted tax receipts significantly
- ✓ Government spending is more heavily weighted towards capital expenditure than among peers, with future positive multiplier effects
- ✓ The Government is exceptionally prudent and conservative in managing recurrent and social costs, with growth-enhancing capital expenditures being the only contributor to the deficit formation. Fiscal consolidation thus does not pose any political or social challenges
- ✓ The Public debt stock peaked in 2010 at a comfortable 42% of GDP and is expected to decline over 2010-2013 (even under the most conservative scenarios the downward trend in this ratio shall be materialized). The Public debt ratio decreased by 5 percentage points to 37.0% of nominal GDP in 2011.
- ✓ The Public debt stock is prevailing on concessional terms - the weighted average interest rate on the public external debt stock being a mere 2%. Interest payments/revenues ratio is very low relative to peers. Refinancing risk is inexistent.
- ✓ The modest government debt stock and the low and largely fixed interest rates help to reduce external vulnerabilities
- ✓ Driven by strong fundamentals, Georgia's 2013 and 2021 Eurobonds have had stellar secondary market performance, despite challenging global context

CAPITAL VS. CURRENT EXPENDITURES (high ratio of capex)



COMPOSITION OF 2012 STATE BUDGET OUTLAYS



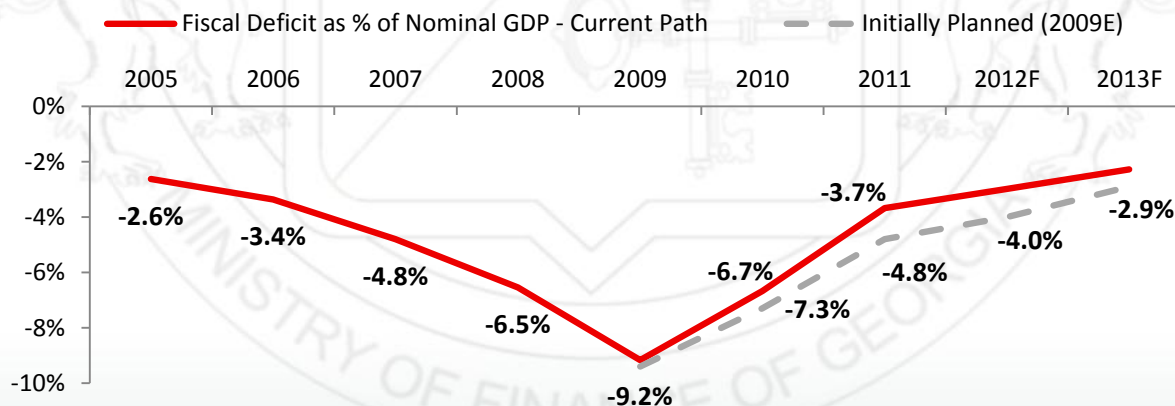
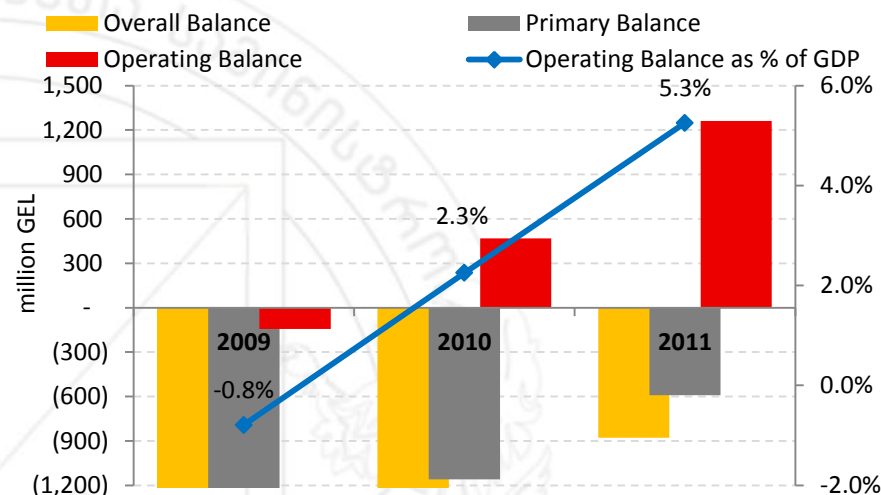
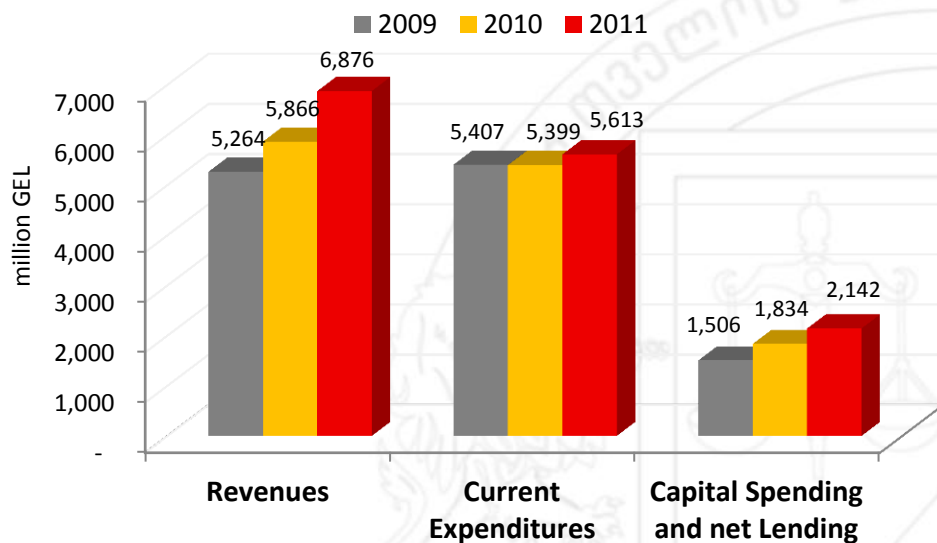


FISCAL PERFORMANCE

ONE OF THE STEEPEST FISCAL CONSOLIDATION PATHS IN THE
BROADER REGION



STRONG FISCAL PERFORMANCE IN 2011 DRIVEN BY SUSTAINABLY HIGH REVENUES AND PRUDENT GOVERNMENT SPENDING



Source: MOF



GEORGIA – PFM REFORMS



Broad Directions of PFM Reforms:

- Budgeting, Accounting and Resource Management;
- Taxation Policies and Tax Administration;
- Internal Audit;

o.w. State Treasury is responsible for the PFM reforms in the fields of:

- Accounting and reporting;
- Resource Management;



TREASURY PFM REFORMS

GOALS AND OBJECTIVES



- Improve effectiveness, efficiency and transparency of Public Finance Management process

through

- Simplifying and streamlining the Treasury Business Processes; and
 - Achieving full compliance with the International Public Sector Accounting Standards;
-
- Improve Treasury Cash management practices and mechanisms and support improvements in local financial markets



TREASURY PFM PROJECTS IMPLEMENTED IN 2011



January,
2011

- Electronic Treasury System is fully functional in online regime; i.e. all payments through the Treasury Service are undertaken based on electronic documents;

January,
2011

- Some components of Payroll module were implemented in the TIS

January,
2011

- Treasury Service joined SWIFT (Society for Worldwide Interbank Financial Telecommunication)

April, 2011

- CPV (Common Procurement Vocabulary) Codes are used in combination with budget classification while accounting and Reporting Budget Expenditures; Public Procurement process is integrated with the Budget Payments process in the Treasury information System;

May, 2011

- In 2011 Long term Treasury Bonds were issues first time



TREASURY PFM PROJECTS PLANNED IN 2012



1. Implement the Public Financial Management information System (PFMS);
2. Establish Double Entry Based Treasury General Ledger
3. Move LEPL (Legal Entities of Public Law) own revenues to the Treasury;
4. Tax Refund procedures based on the Electronic documents are implemented;
5. Treasury Bills and Bonds are managed in the Integrated Public Debt Management Information System;
6. Implementation of activities envisaged in the IPSAS implementation Strategy;
7. Design and implement policies and procedures to cover old budget arrears (from the Years 1998-2003).

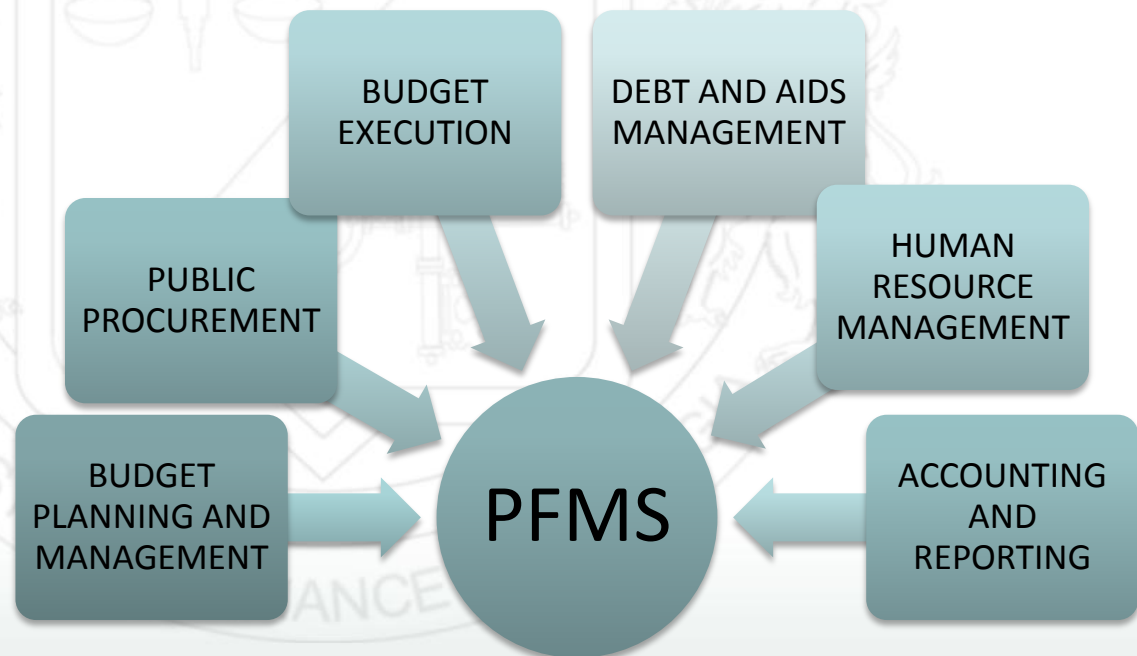


TREASURY PFM PROJECTS PLANNED IN 2012



1. IMPLEMENT THE PUBLIC FINANCIAL MANAGEMENT INFORMATION SYSTEM (PFMS)

- The system will ensure:
 - Exchange of PFM information via web;
 - Integration of budget Cash transactions and BOs accrual accounting Data in the Single Information System





TREASURY PFM PROJECTS PLANNED IN 2012



2 . ESTABLISH DOUBLE ENTRY BASED TREASURY GENERAL LEDGER makes it possible:

- To generate Government Balance Sheets on Assets and Liabilities in real time mode
- To generate the general ledgers for each Budget Organization and to consolidate them

TREASURY GENERAL LEDGER COVERS ALL
TRANSACTIONS UNDERTAKEN BY THE BUDGET
ORGANIZATIONS:

Procurement/commitment;

Accounts Payable/Accounts Receivable;

Assets and Inventories;

Other non-monetary operations;

Other Economic flows;



TREASURY PFM PROJECTS PLANNED IN 2012



3. MOVE LEPL (LEGAL ENTITIES OF PUBLIC LAW) OWN REVENUES TO THE TREASURY

- Objectives:
 - Information on LEPL Revenues and Expenditures will be easily accessible in time;
 - Improve fiscal discipline in LEPL sector

4. TAX REFUND PROCEDURES ARE IMPLEMENTED BASED ON THE ELECTRONIC DOCUMENTS

- Establish Electronic service of document exchange with the Revenue Service



TREASURY PFM PROJECTS PLANNED IN 2012



5. TREASURY BILLS AND BONDS ARE FURTHER DIVERSIFIED IN TERMS AND MATURITIES AND ARE MANAGED IN THE INTEGRATED PUBLIC DEBT MANAGEMENT INFORMATION SYSTEM;

- Objective;
 - Maintain Treasury Liquidity on adequate level;
 - At the same time: development of the State Securities market and different instrument positively affects Local Financial Market



TREASURY PFM PROJECTS PLANNED IN 2012



6. IMPLEMENTATION OF ACTIVITIES ENVISAGED IN THE IPSAS IMPLEMENTATION STRATEGY

- Accounting Reforms Strategy is designed and approved in 2009 and involves period of 2010-2020 for the full compliance with IPSAS;
- In 2012 the strategy implies to implement the modified cash IPSAS in the Central Government Budget Organizations;
- Trainings of the Accountants and CFOs of the Central Government Budget Organizations;
- Publish Georgian official translation of IPSAS;



TREASURY PFM PROJECTS PLANNED IN 2012



7. DESIGN AND IMPLEMENT POLICIES AND PROCEDURES TO COVER OLD BUDGET ARREARS FROM THE YEARS 1998-2003

- Reasons for accumulation of arrears: Severe Cash shortages in 1998-2003;
- Objective: to design the clear picture – What is the exact number of arrears? How significant the stock of arrears is? Who are the creditors? What can be done to clear the stock of arrears?
- Total stock of arrears is around GEL 300 millions for the central government – less than 5 percent of the annual budget 2012;
- Reassess accumulated arrears on the balance sheets of the Budget Organizations;
- Design the strategy of Arrears repayments with the clear reference to the following aspects:
 - Aging of Arrears;
 - Primary documentations verifying arrears;
 - Write of unreal arrears;
- Schedule of arrears repayment (5 years suggested)



TREASURY PFM REFORMS



Thank you for your attention!

www.mof.ge

www.treasury.gov.ge

Nino Tcheishvili

February, 2012