Actual Aspects of State Foreign Debt Management Strategy of Georgia in Modern Stage

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Abstract

The article discusses the reasons for the necessity of receiving domestic and foreign debt in Georgia. Researchers' assumptions about the purpose of debt taking, increasing process and the results of its influence on the economy are analyzed as well. Research aim was to study and analyze role of world financial organizations and developed countries in provision of Georgian economic with low cost credit resources to help its fast development; analyze and evaluate structure, dynamic, service, cost, price of external(foreign) debt of Georgia, existing level of amount risk evaluation indicators to establish debt management strategy .Issue is quite actual, comprehensive and implies many directions for scientific research and is a good prerequisite for future researches. In study of foreign debt of Georgia we used comparative analysis method and statistic approaches to establish dynamics of events and regularities of development tendency. We consider experts` views of the issue of taking foreign debts to be the research value. Analysis of foreign debt of Georgia in five directions showed, that taking foreign debts promotes fast development of the country infrastructure and economic; in tendency of debt taking indicator limit levels are preserved; three fourth of foreign debt is low cost credit resource; it shows association in international global space of economic and is approved be all the parameters.

Keywords: **Debt**; **state debt; external (foreign debt); interest rate; risks and indicators.**

Introduction

The work has studied the correlation and structure tendencies of Georgia's domestic and foreign debt, increasing dynamics of foreign debt is analyzed and the reasons for the origin of specific debts are explained. Georgian resource deficit of foreign debt supplement characteristics according to the cost is also estimated. Foreign debts are grouped according to interest rate and according to the group base, there is concluded that 87, 3% of the foreign debt is a cheap monetary resource, only 12, 7% of total foreign debt represents more than 3% interest rate credit, the maximum indicator of which does not exceed 6%.

Parallel with the increase of foreign debt in Georgia, the estimation indicators of foreign debt increase in dynamics received at an international level are analyzed and on the bases of real data, it is concluded that the importance of indicators for developing countries are within limits set. The increasing level of foreign debt is not a threat to the country.

The work analyses the condition of foreign debt repayment and the country's ability of payment based on the foreign debt service index. Georgia, as a donor country for world financial institutions and countries, is considered as a reliable partner.

Conclusions made and goals set in the paper are important for working out the right strategy for foreign debt management.

Georgia is an ancient culture and civilization. Historical location, nature, people, script, culture and traditions and struggle for country's independence had been the subject of interest for the world. Increased number of foreign tourists can be used as a proof of the above-mentioned fact. In 2017, the number of international visitors exceeded 7,5 it was 18% more, than in 2016. 101 visitors come on 1square kilometer (including 20% of annexed territory by Russia), while the population is 54 people per 1square kilometer.

In 1990, Georgia managed to leave the Soviet Union and administrative command economy through struggle. It became an independent country. During the initial stage of the market-driven economy building process, Georgian society faced challenges of vital importance. The first and main issue was to overcome economic backwardness and improve the standard of living. Transition to market economy gave a chance to Georgia to enter a globalization process and to become a member of a civilized world.

Economy

In fact, market-driven economy transition process was full of unforeseen problems. The main obstacle was to bridge the fiscal deficit. On the state level, external debts (credits) can be used as a source to cover resource deficit. The word debt, in this case, means to give credit from one party to another for some time-limit and repay it with some beneficial interest.

Public debt (credit) is a special form and experts give its following definitions:

- "At the given period, debt is the total amount of the deficits of past periods."
- "All the received credits by the state including their interest rate that is not covered yet, make public debt."
- "Public debt is the number of outstanding loans used by the state for the specific period of time." [1]

According to the above given first definition, we can conclude, that public debt is the total amount of past period budget deficits. Though, we consider such approach to deficit not to be correct. It would be better to state, that: public debt is the sum of credits borrowed to cover past period budges and payment deficit of the country. The second definition is more precise, but it would be better to replace "make public debt" by the phrase "is the public debt for the specific moment". As for the third definition, it is quite brief. Public debt differs according to the budget type of the country. According to the Law of Georgia on Public Debt (taken on 12 June, 1998), public debt is "the total amount of domestic and external debts, expressed in the national currency, taken through agreements entered into by the Ministry of Finance of Georgia on behalf of Georgia and with guarantees provided by the Ministry of Finance by other bodies/institutions, also in amounts received from placement of

[1] T. Sanikidze, The analyze of state debt management efficiency, 2014

government securities denominated in the national and foreign convertible currency by the Ministry of Finance of Georgia on behalf of Georgia and received from the financial resources approved by the International Monetary Fund for Georgia."[2]

We think, that the by the international financial institutions. It is due to the fact, that:

- Debts taken through into by the Ministry of Finance referred to the body borrowing public debt. Instead, possible specific subjects/persons that are allowed to borrow by the law should be named;
- Public debt should not include debts guaranteed for the private sector as such debts are "conventional" by their nature. If such debts are considered to be public, the guarantee should refer to their interest rate expense covering and their indebtedness too;
- In quoting debts in the national currency, amount caused by exchange rate difference caused by inflation and others should be shown in the financial statement.

Tendencies and Existing Situation

The aim of borrowing external debt is different in Georgia according to the development stages. In our country external debt is generally used for the following:

1. To cover budget deficit – budget supporting debts;
2. To finance infrastructural investment projects of high priority;
3. To take credits for external debt re-structurization;
4. To issue securities, etc.

The structure and dynamics of foreign debt of Georgia, December 31, 2017

Table 1.

[2] The Law of Georgia,, About State Debt"

Types of Foreign Debt of Georgia According to Purposes (Million USD/GEL)

		2015		2016		2017		2017 year % % to 2015
		USD	GEL	USD	GEL	USD	GEL	
1	*Budget* guarantor loans	1,228.9	2,943.0	1,284.0	3,398.4	1,425.9	3,696.2	125
2	Loans for funding investment projects	2,368.6	5,672.6	2,543.0	6,730.9	3,004.9	7,789.2	137
3	Restructured credits	198,0	474,3	183,1	484,6	161,2	417,8	88
4	Securities	500,0	1,1975	500	1,3234	500	1,2226	102
5	Loans are taken by the National Bank from Monetary Fund	19,4	46,5	5,6	14,9	85,5	221,5	463
	Total Foreign debt	4,315	10,334	4,516	11,952	5,177	13,421	130

Source: Ministry of Finance of Georgia, Statistic bulletin of national debt of Georgia No. 9 Tbilisi 2017, www.mof.ge.

Table 1 shows structure of foreign debts of Georgia according to their purpose taken in last three years and tendency of their changes. Namely, the biggest part of the external debt comprise credits taken for financing investment projects and the second part consists of budget supporting credits. Credits for financing investment projects have a tendency of growth. It means, that the aim of taking external debts is economic development strategy on this stage.

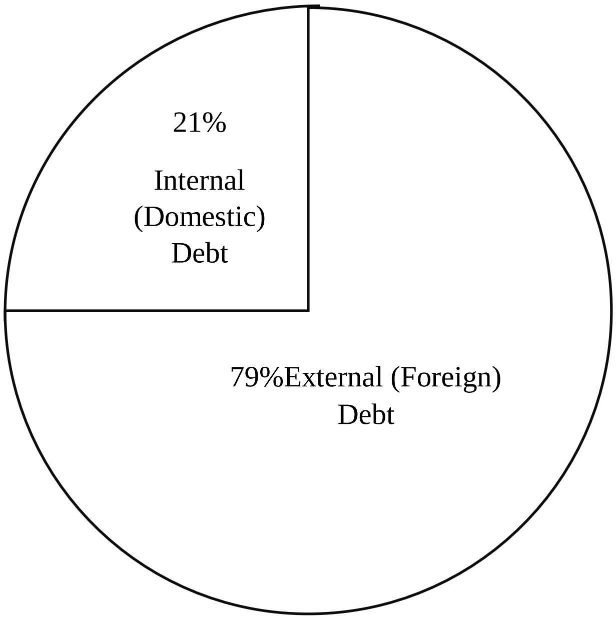

Figure 1: Total debt of Georgia 2017.31.XII

Internal (Domestic) Debt

External (Foreign) Debt

Figure 1 shows the structure of the total foreign debt of Georgia. It is divided into external and internal debts. Correlation between external and internal debts shows the strategy of the country, that due to the lack of its own financial resources, stress is put on external credit resources.

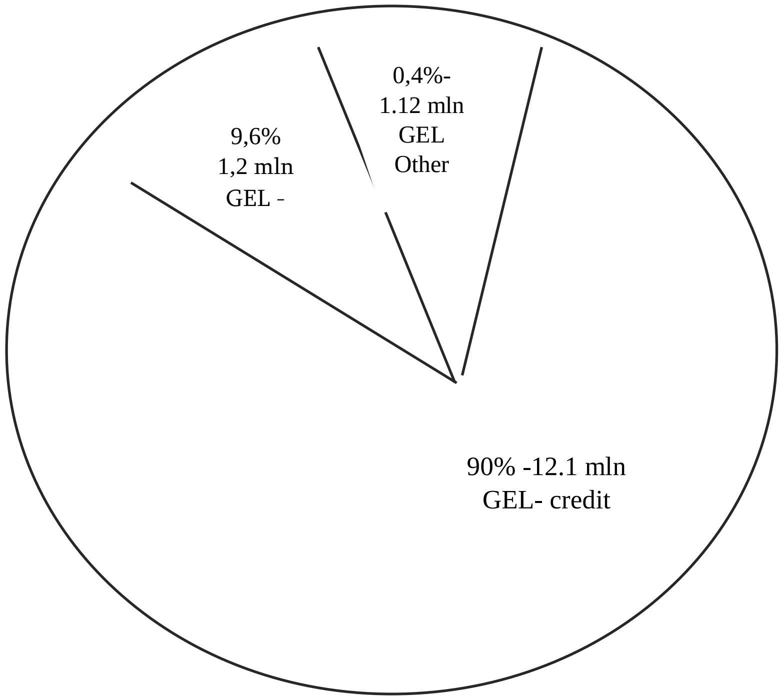

Figure 2: Structure of External Debt of Georgia 2017.31.XII
Credit Securities Other

Figure 2 shows the structure of the external debt of Georgia according to its purpose in GEL. 90% of the external debt comes on credits and denominated comprises 4,5 billion USD.

In the expert evaluations of Georgia, there is no still united approach about the increase of foreign loan and its special purpose. One part of researchers think the state reasonable to use foreign loan mechanism and considers it as a necessary process for developing the country. For justifying their opinions, researchers judge in terms of the growth of foreign loan indicators.

The second part of researches consider the growth of foreign loan and growth tendency alarming and thinks the process a negative result of government management, In result,to their mind, our generation will be responsible for paying debts.

The practical experience of the world shows that a growing tendency of a foreign loan of the state is not a mark of worsening an economic situation of the country, as developed countries do also apply for a foreign loan. According to the published data of financial release “Global Finance“ at the end of 2016, the foreign loan of the USA was more than 18 trillion dollars, the United Kingdom was the second in the list of countries having the largest foreign loan,it is up to 1,69 trillion. More than 3 trillion dollars foreign loan have countries such as Japan - 3, 46 trillion; Germany – 4, 89 trillion; France – 4, 99 trillion dollars.

The amount of foreign loan and changes in the balances is adequate to the economic development stages of the country. It increases or decreases according to the internal and external situations of the country.

Table 2.

Indicators of Foreign Debt Growing Dynamics in Georgia
(Million in USD)

		1995	2000	2005	2010	2015	2016	2017	2018 Marti
1	Foreign Debt Quantity	1150	1556	1735	3937	4385	4516	5177	5303
2	Debt growth with a 5-year interval	_	+406	+179	+2252	+378	+201	+661	+126
3	Debt growing rate in comparison with a previous period %	100	135	111	230	110	105	115	102

Source: National Bank of Georgia (Before 2004) Ministry of Finance of Georgia

Table 2 shows growth dynamics of foreign debt of Georgia in intervals of five years. It demonstrates debt distribution according to periods of time and shows the period of the biggest external debt.

About Georgia's state foreign debt issues, Georgian Financial Minister N. Khaduri noted, that Georgia's history of foreign debt does not start with a clean sheet[3]. In the first decade of independent Georgia, foreign debt and foreign credits were taken for financing budget deficit, as well as, for reimbursement of cargo value lost on the territory of Georgia and the unpaid fee for used natural gas and for receiving commodity credits.

The growth of foreign debt of Georgia comes to 2005-2006. This period is considered as special in the existence of the country – Russia annexed the territories of Georgia. According to the estimation of N. Khaduri, in 2008, the former government leadership of Georgia took a foreign loan of 0, 5 billion dollars at London Stock exchange. To his mind, this step was absolutely unjustified.

Since 2010, the rate of growth of Georgia's foreign debt has decreased and consisted 7-11% in the 5-year interval.

The efficiency of the foreign debt, on one hand, is expressed in credit price – interest rate and on the other hand in the received effect of project implementing by indirectly financed credit.

We cannot agree with experts' ideas on foreign debt, especially in the form of a monetary credit as it is an expansive resource for state's economics. NGO – "International Transparency – Georgia" states the following: Foreign Loan is an expansive financial burden. However, in parallel with the wrong conclusion, in evaluation text, it says: „average interest rate os state foreign loan is 1.9%[4]

[3] N. Khaduri, State-Foreign Debt of Georgia, 2013
[4] Georgian Foreign Debt, 1992-2015, Main data – International Transparency – Georgia, August 25, 2015

Credit Resource Interest Rate (Price)

Table 3.

Classification of foreign debt of Georgia according to the size of interest rates

#	Groups of foreign debts according to interest rates	The size/quantity of debt in million USD	% % in Sum
1	From 1 %	1,910,3	36,89
2	From 1,01 % to 1,5%	537,5	10,38
3	From 1,51 % to 3%	2,067,5	39,94
4	From 3,01 % to 4,5%	103,8	2,00
5	After 4,51 %	558,2	10,78
	Total	5,177,3	100

Source: Report of the State Budget of 2017, Tbilisi, 2018.

Table 3 demonstrates grouping of the external debt of Georgia according to the credit interest rates. Such grouping showed, that 75% of the foreign debt comes on low cost credits.

The Grouping of Georgian state Foreign Debt according to the interest rate for December 31, 2017, showed that:

- Georgian state foreign debt is a very cheap resource.
- The second group is low-interest credits and 10% comes from the complete foreign dept.
- About 40% share comes from the most valuable foreign dept resources (interest rate 1,5-3%). If we consider this, we will see that high percentage of expensive credits are represented with 12% incomplete foreign dept.

Grouping of Georgia's foreign dept creates the following picture according to the generate subjects: Total monetary credit 74,4% for multi creditors:developing bank; Reconstruction and Developing Bank of Europe; Investment Bank of Europe; International Monetary Fund and 9 other international financial institutions.. From another part, bilateral creditors have 16% of the foreign debt, totally from17 countries.

For December 31, 2107, the maximum amount of state foreign loan comes to the World Bank, International Association of Development and it comprises 1.162 billion denominated USA dollars. Asian Development Bank is on the second position with 1058.6--billion denominated USA dollars. The major donor from bilateral countries is Germany; in the second position - Japan with 210 million denominated USA dollars. The less debt comes to Uzbekistan – 200 thousand USA dollars.

Risks and Indicators of Foreign Debts

Special indicators for control and regulation have been worked out on an international level, for the purpose of states foreign debt quantity and growth; under its supervision, relevant decisions will be made on managing state loan.

There should be distinguished from such indicators:

- Percentage of foreign debt with the state budget revenue.
- Percentage of foreign debt with the total exports of trade balance.
- Percentage of foreign debt with the GDP (gross domestic product) of the country
  In our opinion, the most interesting indicator is a percentage of state foreign loan with per capita.Georgia's gravity of obligations should not be defined by state foreign loan – the main thing is country's economics and paying ability.

The General Monetary fund has established, that in terms of loan growth, for maintaining its sustainability, the minimum GDP ratio of loan should be defined: for developed countries nominal GDP 60% and for developing countries – not more than 40-50%.

Georgia is still a developing country. Gross national income in Georgia, for per capita is the following: 2010 -2542,0 USA dollars; 2015 – 3663,3 USA dollars, 2016 -3672,9 USA dollars; 2017 – 3859.7 USA dollars per capita.

According to the"Economic Freedom Act" adopted by the Parliament of Georgia in 2011(came into force in 2013, December 31), the domestic loan should not exceed 60% of GDP.

Table 4.

Indicators of Georgian state debts

The state foreign debt of Georgia per capita (in dollars)

#		2010	2015	2016	2017
1	Georgia's Gross Debt to GDP	42,4	41,4	44,4	44,6
2	Foreign Debt Ratio with GDP	33,6	32,5	35,1	35,3
3	The ratio of total debt to budget revenue	6,1	8,2	7,7	8,6
4	Foreign Debt Ratio With Budget revenue	4,4	6,1	5,2	6,1
5	A ratio of the total debt to an export including re-export	0,57	0,45	0,48	0,48
6	A ratio of the total debt to an export without re-export	0,47	0,45	0,47	0,47
7	The total debt of the state of Georgia per capita (USD)	897	1159	1211	1389
8	The state foreign debt of Georgia per capita (in dollars)	748	1154	1209	1366

Source: Data of the Ministry of Finance, #9 Statistical Bulletin of the State Debt of Georgia, Tbilisi, 2017

Table 4 demonstrated indicators of external debt amount risk evaluation. Table data proves, that the amount of foreign debt of Georgia will not cause problems for the country. The most important thing is, that the country continues its development and has the ability to cover debt.

Despite the growth of external debt of Georgia, the level of correlation with a gross domestic product is preserved and it is less than normative 50%. External debt growth in correlation with a gross domestic product and in observance of normative level would be prognosis of an inevitable financial crisis of the country.

Although it is estimated by the most stable currency in the world, the amount of external public debt of Georgia is strongly affected by the stability of currencies of all the countries of credit relations and especially inflation rate of the national currency. Inflation is a direct indicator of external debt growth and worsening of country`s economy. Statistic data do not indicate growth or decrease of residual debt through inflation process impact. To establish external debt management strategy, at the moment of taking it is necessary to identify each credit in the corresponding exchange rate with Georgian Lari and then to show their balance and cash flow according to inflation rate via/through decline or increase. Due to such approach, we have to face the following issue, how to manage the difference between exchange rates. Should exchange rate difference be considered as an external debt service separate element or should existing external debt conversation rule be followed?

Public external debt stability is one of the strong sides of the sovereign credit rating of Georgia and it is recently admitted/acknowledged by such rating agencies as "Standard & Poor`s", "Fitc" and "Moody`s". It is a result of several factors: pragmatic and conservative management of public external debt; national development of credit resources attracted by the country and appropriate use of investment priorities. [5]

Nowadays, most part of the public external debt of Georgia is of low and reduced interest rate. Its main priority is to recover country`s infrastructure and finance projects of vital importance. All credits (debts) are based on the general principle of credit repayment. External debt covering or repayment is known as a public debt service in economic.

Options like growing budget income, care for tax liberalization and decrease, growing welfare, growth of national income and gross domestic product per person, low-interest rate external credits, favourable conditions for debt covering and payment schedule let the country stay solvent, manage to get low level of external debt service coefficient and use a small part for debt service from budget income.

According to 2017 budget project, 685 mln GEL was considered to cover external public debt and to be paid for its service. 431 mln was to cover primary loan and 254 mln credit interest. The forecast was expressed by correlation 2.70:1.

In fact, 664, 9 mln GEL was spent by 2017 on external public debt service and payment. It is 20, 1 mln GEL less than the forecasted amount. In fact, 427, 4 mln was spent to cover primary loan and 237,5 its interest. Their correlation is 280:1. We should discuss public debt indicators in the nearest future in retrospective again and speak about future prospects.

[5] Ministry of Finance, Georgia https: II of. ge/saxelmwifo vali

Table 5.

Dependence of Georgian state debt indicators towards set limits

#		2017	2018	JMF-is * Limit	Law about Economic freedom	`Georgia 2020~ Limit
1	State Debt /GDP %	44,6	43,8	-	60%	40%
2	State Debt /Export	89,1	85.6	200		
3	State Debt/Revenue	173,9	172,4	300		
4	State Debt/Revenue					
				22		
	Foreign Debt /Export	7	9,8			
5						
				25		
		3,6	4,7			

Source: Budget monitoring, State debt https: budgetmonitor.ge /ka/ debt.
Table 5 shows future indicators of state external debt according to debt remains of 31 December, 2017.

Future tasks are made to improve external debts of Georgia and make their management indicator level appropriate. Besides, external debt service indicators calculated according to the exchange rate of 17 December, 2017 are quite safe. The growth of service payment amount is considered to continue till 2021 and its amount will comprise 897 mln $. During next years it decreases. By 2015 it is considered to decrease to 337 mln $, to 188 mln $ by 2030 and to 114 mln $ by 2033. According to external credit amortization, the amount to cover primary loan increases, while interest expense decreases. It refers only to forecasting service of debts of 31 December, 2017 and not to future credit amounts.

Very often, experts do not take into account changes taking place in country`s economy when they evaluate the management of external debt of Georgia. Not only this, they do not consider the long-term period of economic category efficiency coefficient results and their conclusions are not quite realistic.

In one of the evaluations of external debt management strategy, economic politics research centre (N. Evgenidze 03.11.2016) states, that: “At growth of debt amount it is necessary to establish debt management strategy on the state level. There is no such strategy in Georgia, but vision and approaches how to manage public debt and functions and obligations of debt management responsible organ/institution (Ministry of Finance) are established in legislation. Besides, the law of Georgia also establishes the power of other state institutions (National Bank of Georgia, Government of Georgia, and Parliament of Georgia) in the process of taking and managing credit. Debt management strategy is a specific plan with its deadlines that help the government to get public debt portfolio optimal structure.[6]

[6] NN. Evgenidze, Foreign debt, and its management strategy, October 3, 2016

Conclusions

The arguments presented in quotations are refuted by the conclusions of the case put in practice. The implemented research gives us the opportunity for making general conclusions, according to it:

- With the growth of foreign loan, their importance of regulating indicators and marginal levels established by the foreign enterprise organizations are protected.
- Cheap attracted calls for funds of monetary resources, gives an opportunity for new investment projects.
- The Financial Ministry of state loan and external financial department implements organizational and management procedures for taking the loan; procedures include finding sources of financing loan, evaluating risks and others.
- The growth of foreign loan does not influence negatively on country's economy, but remains a cheap source of filling deficit for its progress.
- In the portfolio of national debt of Georgia external credit obligations of enterprises made with state participation should be indicated separately. Such obligations should be taken into account in evaluation of possible risks of national debt stability.
- Monitoring of international financial institution debts and those taken from different countries should be conducted according to each credit and special attention should be paid to the purpose of use of each credit. Amount of overhead expenses should be limited in using debts.
- Risks of external debts should be evaluated on a regular basis.
- Some methodology should be worked out to establish amount and purpose of debt to be taken in planning and prognosis period and to regulate the process.
- Organ responsible for national debt management should provide debt stability comprehensive analysis.
- Some regulation and rule to establish debt efficient result should be worked out.
  High interest rate credits should go through special monitoring.

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