Features of State Debt management and service in Georgia

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Abstract
The paper deals with the definition of State Debt, improving mechanisms of State Debt management and determining its importance for economic development of the country.
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Main text

For the management and service of State Debt, its quantitative calculation and reflection, it is necessary to define what is actually a State Debt and which major components are included in it.

With a State Debt definition, the WGPD (Working Group on Public Debt) of the INTOSAL (International Organization of Supreme Audit Institutions) suggests, State Debt is defined as the sum of optional and direct liabilities taken by state institutions.

With the Definition provided by the International Monetary Fund (IMF), the State Debt is defined as the sum of debt of government sector and state corporation, where the debt of the state sector combines the unity of the debts of the country's central, autonomous republics and local authorities, and the state corporation's debt combines the debt of financial and non-financial corporations and the various financial institutions" (Definitions and Accounting Principles, 2013).

According to the Law of State Debt of Georgia, the State Debt is defined as "The debt in national currency, taken by other institutions with the name of Georgia and guarantee of Ministry of Finance, also the debt taken by Financial Ministry, with the name of Georgia, using state securities in national or foreign currency, in addition the State Debt includes total amount of state domestic and foreign debt received from the financial resources approved by the International Monetary Fund" (Transparency International Georgia, 2019).

The definitions that offer international financial institutions are sharply different from the definition provided by the Georgian legislation. In particular, under the legislation of Georgia the state liabilities portfolio does not take into account the state non-financial corporations liabilities, also the credit liabilities of enterprises created by the state share participation is not considered as part of State Debt. This is attached to the state sector liabilities by definition of the International Monetary Fund. Under the INTOSAI definition, it is a state obligation.

The funds attracted by the State Debt are an important source of budget financing and at the initial stage of the budget planning process, It is important for the country to properly determine the debt needs in order to avoid liquidity risk and paying extra expenses due to large amounts of debt (Abuselidze, 2005; 2006), as long as the State Debt management process implies development and implementation of debt management strategy.

Generally, the initiator of taking foreign debt, if it is considered as a source of funding of the budget, is the Ministry of Finance, and if it is taken for funding some investment projects, the role of the initiator becomes a specific spending institution.

According to the 6th chapter of the budget project of 2018, 86% of the debt, 1,074,800.0 GEL was allocated to the Ministry of Regional Development and Infrastructure of Georgia (this indicator is 1,062,680.0 GEL in 2019), taking into consideration the funds allocated for the

defense, education, energy and agriculture ministries for infrastructural development, Overall, 95% of the total volume of debt is financed to cover the expenditure incurred in this direction (Transparency International Georgia, 2019) .
The total volume of State Debt in the current year is 2.04 (2019 forecast forecast for 2.3 billion GEL. Legislative Herald of Georgia, 2019) this is 245 million GEL higher than the previous year's figure. The trend of decrease is reflected in the volume of credit supporting credits, but the share of long-term and investment credits increases (State audit office of Georgia).

According to the 2018 Budget project law, 790 million GEL is allocated for the reduction of State Debt, which is approximately 18% higher than the same in 2017 (Legislative Herald of Georgia, 2018).

Depending on the foregoing, even though the volume of debt increases, the funds allocated for its cover are increased. The increase in liabilities is due to attract investment credits and according to the budget classification, the share of debt taken to finance current expenditures is minimal. It shows that if the current expenditure will be planned effectively, the government's savings will be increased and converted into investments, as a result, the state will need less debt to finance investment projects. There is no connection between the State Debt and the current expenses, but if the funds needed to finance the projects defined by the budget classification could not be obtained, it will be necessary to reduce the ongoing expenditures.

One of the most important tasks for Georgia is to increase the share of state budget revenues and related expenditures in the overall domestic product (Abuselidze, 2015).

With the mobilization of internal resources, according to the 2019 budget draft law, tax revenues are increased compared to the previous year (State audit office of Georgia), while the share of grants is characterized by a decrease in trend, State Debt levels are still increasing 44.6% of GDP which is less than 60% of the level defined by the Organic Law on Economic Freedom Act in Georgia and If we take into account that the level of State Debt service is proportional to debt, the country has the opportunity to take additional debt over the next few years (see Table 1), However, a change in the Law on Economic Freedom must be taken into account which implies a abolition 30% margin for budget expenditures in respect of GDP (Legislative Herald of Georgia, 2018), which means the absence of another powerful control over the efficient spending of funds.

PUBLIC DEBT STOCK & FLOW Reporting Period: December 2018

in Thousand GEL	Start of Period Stock	End of Period Stock	Difference	Drawing/Issue during the period	Principal Paid during the period	Interest Paid during the period ***
Public External Debt*	13,738,863.07	14,544,890.14	806,027.08	912,531.44	130,735.82	24,914.99
USD	$5,108,143.61	$5,434,091.81	$325,948.20	$342,686.41	$49,081.52	$9,353.17
Public Domestic Debt**	3,167,878.16	3,250,453.89	82,575.73	128,564.73	45,988.99	7,564.89
TOTAL Public Debt*	16,906,741.23	17,795,344.04	888,602.81	1,041,096.17	176,724.82	32,479.88

* USD or GEL currencies exchange rate "e-o-p" is used for Stock and exchange rate "current day of transaction" is used for Flow.
** Excluding the so called "Legacy Debt", because the figure remains uncertain.
*** Interest paid Includes T-bills/T-bonds Coupon and Discount.

Source: Ministry of Finance of Georgia, (2019). Public Debt Statistics [online] https://mof.ge/en/4411

Optimal amount of debt needs and optimal ratio with GDP should be determined correctly so that it is necessary to maintain the data base of the State Debt for the current and previous years, to get detailed information about the priorities and needs of a particular field of economy.

The procedure for determining debt needs is desirable to be regulated by special rules, in order to ensure transparency of the process, but the most important is the establishment of the

State Debt definition clearly and its compliance with international standards, the fact that the debt of non-financial corporations and enterprises, created by the State's participation, does not take into account the total amount of the State Debt, creates a threat to poorly evaluated debt sustainability.

The budget planning is a complex process, determining the State Debt forecast parameters and maintaining them, helps with achieving a set of macroeconomic indicators. It is an important precondition for maintaining taken political course.

In the light of all above, the executive authorities of the country must address the debt only if the priority directions of the country are required to finance and if the mobilization of tax revenue is not sufficient for adequate financing of programs, sub-programs and measures. In addition, due to the specifics of the program budget, the operational balance of the state budget of the country is negative because of the need to first of all expenditures. This, in turn, requires mobilization of sources of financing, including taking a debt.

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