

BUDGET SYSTEM LAW

Adopted April 24, 2003
Effective from January 1, 2004

CHAPTER 1. GENERAL PROVISIONS

Article 1. Objectives

This Law defines the principles of the budgetary system and regulates the preparation of the draft budget and the budget's approval, execution, reporting and monitoring. It also defines the budgetary relations and responsibilities of central, autonomous republic and local governments.

Article 2. Budgetary System

The budgetary system is the combination of statutes and regulations governing the collection and use of financial resources, financial and budgetary policy, the budgetary process and relevant budgets for the purpose of fulfilling the obligations of central, autonomous republic and local governments.

Article 3. Definitions

1. The terms used in this Law have the following meanings:

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| a) Minister | Minister of Finance |
| b) Autonomous republic government | Abkhazia or Adjara autonomous republic government entities |
| c) Local government | Self-governing and governing bodies of territorial entities (villages, townships, communities, rayons and cities, including cities not subordinated to rayons) |
| d) Budget | Receipts of central, autonomous republic and local government together with payments to be made for the implementation of their functions and responsibilities as approved by the relevant central, autonomous republic and local government authorities |
| e) State budget | Central government budget comprising receipts of, and payments for, the legislature, executive and judiciary |

f) Deleted	
g) Autonomous republic budget	Consolidated budget of the Abkhazia or Adjara autonomous republic, comprising receipts and payments of the autonomous republican budget and the budgets of the autonomous republic territorial entities (villages, townships, communities, rayons and cities, including cities not subordinated to rayons)
h) Local budget	Budget of territorial entities (villages, townships, communities, rayons and cities, including cities not subordinated to rayons) , incorporating their receipts and payments
i) Deleted	
j) Spending agency	Organization having a major code in the organizational classification of expenditure, and an appropriation or revenue estimate in the budget, and being responsible for administering expenditure and revenue
k) Budget organization	Spending agency or unit subordinate to a spending agency that undertakes draft budget preparation, budget execution and reporting in accordance with established norms, standards, and rules
l) Budget year	Coincides with the calendar year
m) State Treasury	Treasury Service of the Ministry of Finance
n) Annual budget law	Law of Georgia on the State Budget
o) Commitment	Liability for a future payment
p) Budget receipt	Cash to be received for a budget
q) Budget payment	Cash to be paid from a budget
r) Budget revenue	Cash to be received for a budget on an unrequited basis according to legislation

- s) **Budget expenditure** Cash disbursed by central, autonomous republic and local government for the execution of their tasks and functions.

Article 4. Fundamental Principles of Budgetary System

Each participant in the budgetary system shall be responsible for observing the following principles at all stages of the budgetary process:

- a) **Comprehensiveness:** Complete inclusion of all receipts and payments in relevant budgets
- b) **Transparency:** Openness to the public and the media of procedures for discussing draft budgets in legislatures; publication of approved budgets and budget execution reports; and ready access to budget information (except for confidential information) for any person or entity
- c) **Accountability:** Responsibility of each participant in the budgetary process for activities undertaken, and budget information presented, by him or her
- d) **Independence:** Independence of State, autonomous republic republican and local budgets, as assured by the budgets' own revenue sources and the right to determine their expenditures independently as defined by law. The law shall also define the revenue and the expenditure responsibilities of local government.
- e) **Uniformity:** Management of central, autonomous republic and local government entities on a uniform basis, with a uniform budget classification, a uniform chart of accounts, budget documentation, and with uniform principles of State financial control under the supervision of the Chamber of Control at all stages of the budgetary process
- f) **Universality:** All budget revenues shall be applied to finance payments for common purposes, except in cases defined in this Law. In addition, no revenues, except for those provided by donors, may be applied to finance earmarked expenditures or activities. Revenues received by spending agencies may not be retained for their own use.
- g) **Consolidation:** Depositing all State receipts in the Treasury Single Account system and making payments according to the procedure prescribed in legislation; managing the Treasury Single Account system and maintaining it in the National Bank.

Article 5. Budgetary Process

1. The budgetary process shall be an integral part of the budgetary system. The budgetary process shall be the activity of the participants in the budgetary system, and shall include the preparation, presentation, discussion and approval of the draft budget, and the execution, reporting and monitoring of the budget.
2. The preparation of draft budgets and the execution and reporting of approved budgets shall be the responsibility of appropriate executive authorities, which for:
 - a) The State Budget shall be the Government
 - b) The budget of an autonomous republic shall be the supreme government body of the relevant autonomous republic
 - c) The budget of a territorial entity shall be the relevant local government executive
3. The discussion, approval and oversight of a budget shall be the responsibility of the appropriate legislature, which for:
 - a) The State Budget shall be Parliament
 - b) The budget of an autonomous republics shall be the supreme representative body of the relevant autonomous republic
 - c) The budget of a territorial entity shall be the relevant local assembly
4. The Ministry of Finance shall supervise and coordinate State budget preparation, execution and reporting. The Minister shall issue appropriate legal acts to ensure that the budgetary process is uniform and complies with this Law at all levels of the budgetary system.

Article 6. State Budget Receipts

State budget receipts shall comprise:

- a) Revenues, comprising:
 - aa) Current tax revenues: taxes due to the State budget according to legislation
 - ab) Current non-tax revenues: dividends from State-owned enterprises, profits received from the National Bank according to the procedure prescribed in legislation, administrative charges (including fees), fines and penalties, revenues received from the repayment of loans to the budget and other non-tax revenues (other than capital revenues)

- ac) Capital revenues: revenues from sales of fixed capital assets, stocks, land and intangible assets, and capital transfers received from non-State sources
- b) Grants: Domestic and external grants in cash or monetized in kind
- c) Borrowing: Domestic and external borrowing undertaken by central government according to procedures prescribed in law.

Article 7. Deleted

Article 8. Autonomous Republic Budget Receipts

Autonomous republic budget receipts shall comprise:

- a) Revenues, comprising:
 - aa) Current tax revenues
 - ab) Current non-tax revenues
 - ac) Capital revenues
- b) Grants: Domestic and external grants in cash
- c) Borrowing: Borrowing from the central budget or other borrowing permitted by this Law.

Article 9. Local Budget Receipts

Local budget receipts shall comprise:

- a) Revenues, comprising:
 - aa) Current tax revenues
 - ab) Current non-tax revenues
 - ac) Capital revenues
- b) Grants: Domestic and external grants in cash
- c) Borrowing: Borrowing from the central budget, the republican budgets of autonomous republics or other borrowing permitted by this Law.

Article 10. Payments from Central, Autonomous Republic and Local Budgets

Payments from central, autonomous republic and local budgets shall comprise the following:

- a) Expenditure, comprising:
 - aa) Current expenditure: Salaries, wages and allowances, other expenditure on goods and services, current transfers and subsidies, interest payments and other current expenditure defined by the budget classification
 - ab) Capital expenditure: Acquisition of capital assets, capital transfers, and other capital expenditures defined by the budget classification
- b) Lending and equity participation
- c) Debt Amortization: Repayment of principal.

Article 11. Budget Classification

1. The budget classification shall be a systematic classification of receipts and payments. It shall incorporate: a classification by source of revenue, including a main distinction between current and capital revenue; an economic classification by type of expenditure, including a main distinction between current and capital expenditure; a functional classification by similarity of expenditure objectives; an organizational classification by spending agency; and a classification of expenditure activity by similarity of activity.
2. The Minister shall approve the budget classification in consultation with the Chamber of Control and with the agreement of the Finance and Budget Committee and the Tax and Revenue Committee of Parliament.
3. The budget classification shall be published according to regulations prescribed by law.

Article 12. Appropriations

1. An appropriation shall be an authorization for spending during a budget year up to the amount approved in the annual budget law for a defined purpose according to a budget classification item. No payment or commitment may be made except when an appropriation exists.
2. Estimated appropriations shall be appropriations for debt service and amortization or for payments in respect of government-guaranteed debt. Commitments may be made, if necessary, above the level of estimated appropriations only if the

Minister submits to the Finance and Budget Committee of Parliament a report on the reasons for exceeding the approved estimated appropriations together with a forecast of their outturn at the end of the year, and if a draft amendment to the annual budget takes into account the correction of the estimated appropriations. The expenditure may be incurred only after approval of the draft.

3. Fixed appropriations shall be all appropriations other than estimated appropriations. No commitments or expenditures may be made by the State, autonomous republic or local government in excess of fixed appropriations.

Article 13. State Budget Reserve Funds

1. The President and Government reserve funds shall be incorporated in the State budget. The amounts of the funds shall together not exceed two percent of total fixed appropriations.
2. Finance from the President and Government reserve funds shall be allocated for contingencies of national significance such as natural and man-made disasters, and to meet other unexpected State expenses. The finance shall be allocated in accordance with the amounts and conditions set out in the annual budget law.
3. The Minister shall, with the approval of the President and the Government, make allocations from the reserve funds to spending agencies following submissions from them and consistent with the criteria specified for the use of the funds. Spending agencies shall state clearly the amounts sought and the basis of their calculation.
4. The Ministry of Finance shall submit the Finance and Budget Committee of Parliament quarterly reports on expenditure from the reserve funds .

Article 14. Autonomous Republic Reserve Funds

For the circumstances envisaged in paragraph 2 of Article 13, contingency reserves shall be created in autonomous republic republican budgets.

Article 15. Budget Surplus and Deficit

1. The positive difference between the revenue and cash grants of a budget and its expenditure and lending shall be the budget surplus, and the negative difference shall be the budget deficit.
2. Deleted.

CHAPTER 2. DRAFT BUDGET PREPARATION, PRESENTATION AND APPROVAL

Article 16. Coordination of Draft State Budget Preparation and Submission Process

The Ministry of Finance shall be responsible for coordinating the process of preparing and submitting the draft State budget.

Article 17. Basic Data and Directions Documents

1. The Ministry of Finance shall, on March 1 each year, begin work on the preparation of the basic data and directions documents (Medium Term Macroeconomic Framework, Medium Term Fiscal Forecasts, and Basic Directions for Budget and Tax Policy) in co-ordination with the National Bank, the Ministry of Economic Development and other ministries defined by the Government. For this purpose, all State entities (ministries, departments, agencies, organizations) and the higher executive bodies of the Abkhazia and Adjara autonomous republics and the executive bodies of other territorial entities shall be required to submit such information as the Ministry of Finance may request.
2. The Medium Term Macroeconomic Framework shall be based on the draft indicative socio-economic development plan and shall provide a summary of the macroeconomic framework, including gross domestic product, inflation, wage movements, production by sectors, trade and the balance of payments, exchange rates, monetary indicators and other key factors.
3. The Medium Term Fiscal Forecasts shall be based on the Medium Term Macroeconomic Framework. They shall include the main elements of revenue, expenditure and financing, and shall take into account earmarked State programs, the indicative socio-economic development plan and financial and policy commitments.
4. The Basic Directions for Budget and Tax Policy shall be based on the Medium Term Macroeconomic Framework, the Medium Term Fiscal Forecasts and reports on the fiscal situation and strategy for the current year, including the current status of budget execution, proposals on the budget strategy arising from Government policies and priorities, key fiscal and financial directives and targets, and the main categories of revenue and expenditure for the budget year currently being prepared.
5. The basic data and directions documents shall include:
 - a) State, autonomous republic and local budget indicators, for the preceding, and current budget years, for the budget year currently being prepared and for the year following the budget year currently being prepared
 - b) An analysis of the State budget outturn for the preceding year and revised estimates for the current year

- c) For the budget year currently being prepared and as a minimum for the years following the budget year currently being prepared:
 - ca) Forecasts of main macroeconomic parameters
 - cb) Sectoral priorities envisaged by the Government, with estimates of their fiscal implications
 - cc) State fiscal policies, including key fiscal targets and budget deficit financing requirements
 - cd) Ratios to gross domestic product of total revenue, expenditure (divided into main functions and economic items), and the budget deficits of State, autonomous republics and local budgets
 - ce) Aggregate revenue, expenditure, grants, and lending.
- 6. The basic data and directions documents shall be submitted by the Ministry of Finance to the Government no later than April 15.
- 7. The basic data and directions documents shall be submitted by the Government to the economic committees of Parliament by May 1. Based on the results of discussions in these committees, the Finance and Budget Committee shall prepare its conclusions and send them to the Government by June 1.

Article 18. Budget Circular Preparation Rules and Timeframe

- 1. In preparing its budget request, each spending agency shall use the main parameters of the budget circular prepared by the Ministry of Finance, which shall be based on the basic data and directions documents. The budget circular shall include personnel and expenditure ceilings for each spending agency. The Minister shall issue this circular within 5 days of June 15, before which the Government shall approve personnel and expenditure ceilings.
- 2. The personnel and expenditure ceilings of Parliament shall be defined by the Government, subject to the agreement of the President, on the basis of a draft submitted by Parliament within the period indicated in paragraph 1 of this Article. The approval of the expenditure ceiling of Parliament shall take into account that it shall not be less than the amount approved for the previous budget year. Moreover, any reduction, relative to the previous year, in the current expenditure of Parliament provided for in the State budget may only be implemented with the prior consent of Parliament.

Article 19. Submission of Budget Requests by Spending Agencies

1. Heads of spending agencies shall submit their budget requests to the Ministry of Finance of Georgia no later than August 15. The budget requests shall contain the following information as a minimum:
 - a) Actual receipts and payments for the preceding budget year, expected receipts and payments for the current budget year, and estimated receipts and payments for the budget year currently being prepared, including current, capital and program expenditure according to the third level of the economic and functional classifications
 - b) Estimated receipts and payments on the basis of the budget classification for the two years following the budget year currently being prepared
 - c) The proposed budget allocation for financing personnel, indicating any differences from current levels
 - d) Justification of receipt and payment estimates
 - e) Grants in kind received or to be received, as a memorandum item.
2. Budget proposals that involve future commitments or multi-year expenditure, including investment and donor-funded projects, shall be submitted separately, with the expenditure projected for each future year.
3. No budget request may be submitted in excess of the ceilings referred to in Article 18 of this Law.

Article 20. Discussion of Budget Requests and Preparation of Draft State Budget

1. The Ministry of Finance shall review budget requests and discusses them with spending agencies no later than August 30.
2. Items on which the Ministry of Finance and spending agencies cannot reach agreement shall be submitted to the Government for final decision no later than September 5.
3. The Ministry of Finance shall compile the draft State budget and shall submit it to the Government for discussion no later than September 15.

Article 21. Submission of Draft Annual State Budget

1. The Government shall, subject to the agreement of the President, submit the draft annual budget law with attachments to Parliament for approval before October 1. The attachments shall include:
 - a) A statement by the Government on the following issues:

- aa) Information on economic and fiscal performance as per the basic data and directions documents
 - ab) Information on budget proposals and their economic basis
 - ac) Information on budgetary risk and the borrowing position
 - ad) A description of the activity of the Government, as a memorandum item.
- b) A list of expenditures for each spending agency according to the second level of the economic and functional classifications of State budget revenue and expenditure and, in the case of investment projects, separate projected expenditure for each budget year together with details of donor-funded projects
 - c) The amount of the budget surplus or deficit, indicating the use of the surplus or the sources financing the deficit
 - d) Information on State debt and State loan guarantees and other contingent liabilities, including amounts estimated to fall due under guarantees
 - e) Justification of appropriations and revenue forecasts
 - f) The package of legislative changes necessary to implement the annual budget law, including if necessary changes to tax legislation.
2. The information referred to in sub-paragraphs b), c), and d) of paragraph 1 of this Article shall be presented for the previous and current budget years, the budget year currently being prepared and the budget year following the budget year currently being prepared. Information shall also be presented for the two years following the budget year currently being prepared, in the form of general indicators.
 3. The draft annual budget law and accompanying documents shall be published at the same time as they are presented to Parliament.

Article 22. Approval of the Annual State Budget Law

1. The draft annual budget law shall be considered in a plenary session of Parliament after parliamentary committee hearings.
2. A report on the draft annual budget law and on the execution of the State budget for the current year shall be presented to a plenary session of Parliament by the Prime Minister or by a member of the Government designated by the Prime

- Minister. Together with the report of the Prime Minister, Parliament shall also receive the reports of the Chamber of Control and the Finance and Budget Committee.
3. Amendments to the draft annual budget law may be made with the consent of the Government. In this case, the Government shall, subject to the agreement of the President, submit an appropriately amended draft law to Parliament. The law shall be approved before the beginning of the budget year currently being prepared.
 4. The annual budget law approved by Parliament shall include the following information for the budget year currently being prepared:
 - a) The amounts of State budget revenue and appropriation for each spending agency according to the second level of the economic and functional classifications
 - b) The amounts of appropriations for financial assistance to autonomous republic and local governments
 - c) The amounts of the President and Government reserve funds
 - d) The amount of the deficit or surplus
 - e) In the case of a surplus, proposed arrangements for its use, and in the case of a deficit, proposed sources of financing
 - f) Appropriations for covering the principal of domestic and external borrowing
 - g) Limits on State debt, State borrowing and State loan guarantees
 - h) Information on State financial assets and liabilities at the beginning and end of the budget year.
 5. If Parliament rejects the draft annual budget law, the Government shall, subject to the agreement of the President, present a revised draft to Parliament within two weeks.
 - 5' If the State budget has not been approved when Parliament is dissolved, the President shall approve the State budget by decree and shall present it to the newly-elected Parliament for approval within one month of the recognition of the Parliament's authority.
 6. The annual budget law, including its attachments, shall be published and made accessible to the public.

Article 23. Appropriation if Annual State Budget is Not Approved

If the annual budget law is not adopted before the beginning of the budget year currently being prepared, the Minister shall be authorized, until it comes into force, to disburse funds for the expenditures of spending agencies in monthly amounts not exceeding one-twelfth of the corresponding appropriations of the previous year.

Article 24. State Budget Amendment

1. Except for cases referred to in Article 36, any proposal to amend appropriations approved by the annual budget law shall, subject to the agreement of the President, be presented by the Government to Parliament before any commitments and expenditures are made.
2. Except for cases referred to in Article 36, draft laws or normative acts affecting revenue or expenditure estimates approved in the annual budget law may be approved by Parliament only if they are accompanied by a draft law amending the annual budget law. This draft may be approved by Parliament only after the consent of the Government has been given and the draft laws referred to above relating to future financial years have been approved within the key parameters of the State budget that have been agreed between the Government and Parliament. All measures taken by the executive that affect the amount of State budget revenue shall be reflected in a draft law on amendments to the annual budget law immediately or at the latest by the time the next quarterly State budget execution report is discussed.
3. Documents accompanying the draft law amending the annual budget law shall include revised estimates of the State budget outturn together with updated versions of the Medium Term Macroeconomic Framework, and Medium Term Fiscal Forecasts, except for cases where such documents are not required to be submitted because of the nature of the proposed amendments.
4. The Government shall, subject to the agreement of the President, present to Parliament a draft law amending the annual budget law if the mid-year budget execution report shows that the shortfall of forecast annual revenue and grants is or exceeds 10 percent.

Article 25. Preparation, Presentation and Approval of Draft Autonomous Republic Budget

1. The draft budgets of autonomous republics shall be prepared, reviewed, presented and approved in accordance with this Law and the legislation of autonomous republics.
2. Based on the State Budget circular, and at the same time as it is issued, the Minister shall issue budget circular technical guidelines to the authorities of

autonomous republics for the preparation, review, presentation and approval of the draft budgets of autonomous republics.

3. The authorities of autonomous republics shall provide full and timely information on their budgets as required by the Ministry of Finance.

Article 26. Preparation, Presentation and Approval of Draft Local Budgets

1. Draft local budgets shall be prepared, reviewed, presented and approved in accordance with the fundamental principles set out in this Law, and in accordance with the organic law on Local Government and Self-Government.
2. At the same time as the budget circular is issued, the Minister shall issue technical guidelines to local authorities for the preparation, review, presentation and approval of draft local budgets.
3. Local authorities shall provide full and timely information on their local budgets as required by the Ministry of Finance.

Article 27. Extraordinary Budget

1. In the event that a state of emergency is invoked, either in Georgia as a whole or in certain regions, Parliament may approve an emergency budget that the Government has agreed with the President in order to finance specified measures relating to the state of emergency.
2. In order to finance increased expenditures relating to a state of emergency, Parliament may enact taxes, fees or other obligatory payments as proposed by the Government with the agreement of the President.

CHAPTER 3. BUDGET EXECUTION

Article 28. Allocation of Appropriated Funds and Responsibility for State Budget Execution

1. Immediately after the annual budget law is signed by the President, the Ministry of Finance shall inform each spending agency of the appropriations allocated to it.
2. Spending agencies shall be responsible for executing all expenditures in accordance with the appropriations and for collecting the revenues within the scope of their authority. They shall also be responsible for the management of the budget and State assets and liabilities and for controlling procedures and requirements.
3. The Minister shall supervise the organization and management of State budget execution, shall coordinate the control of accounting and internal audit with the agreement of the Chamber of Control, and shall issue the relevant legal acts.

Article 29. Execution of State Budget Receipts

1. Agencies responsible for the collection of revenues shall ensure the full and timely collection of amounts payable to the budget according to current legislation.
2. The revenues approved in the annual budget law shall be estimates and shall not prevent actual collections being greater than these amounts.
3. All budget receipts of the State, autonomous republics of Abkhazia and Adjara and other territorial entities shall be deposited promptly in the single account for budget receipts.
4. Deleted.

Article 29'. Refund of Budget Receipts Paid in Excess or in Error or their Transfer to the Account for Other Taxes

1. The procedure for making refunds from the excess tax revenue refund sub-accounts of the budget receipts single account shall be defined by legislation.
2. The accounting and reporting of tax revenue execution shall exclude amounts transferred to the excess tax revenue refund sub-accounts.
3. When accounting for and reporting on the execution of budget receipts, adjustments shall be made for the amount of excess tax revenue transferred to the account for other taxes and for the amount of non-tax revenue and other receipts refunded or transferred to the other non-tax revenue account.

Article 30. Cash Management and Cash Release Plans

1. The process of cash release to budget agencies and organizations shall be consistent with the priorities established by executive authorities, and shall be based on an active monthly financial plan.
2. The Minister shall approve a rolling three-month financial plan based on estimates of actual revenue collection and other financing sources, as well as expected payments.
3. The State Treasury Service shall inform spending agencies of the monthly financial plan before the beginning of each month according to regulations issued by the Minister.

Article 31. Execution of Payments

1. The authority of spending agencies to make commitments and undertake expenditure shall be defined by rules issued by the Minister in accordance with this Law.
2. No budget organization may undertake a commitment or incur any expenditure without the prior consent of the Ministry of Finance. Expenditure shall be incurred to discharge commitments undertaken and approved by the Ministry of Finance unless otherwise stipulated in this Law or in rules promulgated by the Minister pursuant to this Law.
3. Deleted.

Article 32. State Treasury

1. The State Treasury shall undertake its activities so as to ensure the transparency and accountability of all State financial transactions.
2. The State Treasury shall be responsible for the full and correct accounting of the budget receipts of the State, autonomous republics of Abkhazia and Adjara and other territorial entities.
- 2'. The State Treasury shall be responsible for the full and correct accounting of State budget payments.
3. Except for cases stipulated by law, only the State Treasury shall have the right to exercise control over the management and operation of the Treasury Single Account and to approve withdrawals from this account.
4. The cash resources for which the Treasury is responsible shall be kept in the Treasury Single Account system under the control of the Treasury at the National Bank and in other banks. The Treasury shall be authorized to open additional bank accounts for operational purposes.
5. All receipts and payments of the State budget shall be executed via the treasury system and in accordance with rules promulgated by the Minister. The State Treasury shall be authorized to administer by agreement the receipts and payments of legal entities, autonomous republics and local authorities.
6. No central government budget agency (organization) may open or maintain any bank account without the consent of the Treasury. The Treasury may withdraw a previously granted permission to open a bank account, and may order the closure of the account. All spending agencies are required to ensure that all revenues received by them are fully and promptly remitted to the Treasury Single Account system. Any public official who withholds public receipts from the Treasury

Single Account beyond the period prescribed by law shall be held accountable in accordance with legislation.

7. The State Treasury shall, by agreement, provide technical services to autonomous republics and local governments in respect of treasury operations and the preparation of accounts and reports. The Ministry of Finance shall prescribe the procedures and accounting methodology to be followed by the respective governments in carrying out their financial operations.
8. The Ministry of Finance shall prepare the draft and final reports on State budget execution, and these shall be submitted to the Government.

Article 33. Cash Execution of State Budget

1. The State budget shall be executed on a cash basis.
2. The authority to release appropriations provided for in the annual State budget shall terminate at midnight on 31 December of the current budget year.
3. Receipts received after 31 December of the current budget year shall be deemed to be receipts of the budget year currently being prepared.

Article 34. Recording and Reporting on State Budget by the State Treasury

1. The State Treasury shall maintain a record of all payments made to each budget organization subordinated to a spending agency. The record shall contain information on all expenditure stages (commitment, approval, release of funds and payment) according to the budget classification, as well as revenues and receipts of spending agencies. The State Treasury shall also maintain records of all receipts and refunds of excess payments of each spending agency according to the budget classification.
2. The Ministry of Finance via the State Treasury shall prepare a report disclosing the receipts, payments, funding resources and the deficit of the State Budget within 20 days of the end of each month.

Article 35. Quarterly Review of State Budget

The Ministry of Finance shall present a quarterly review of the State budget to Parliament within one month of the end of each quarter. This review shall include:

- a) An update of macroeconomic and budgetary developments;
- b) Comparative summaries of levels of actual receipts, payments, the deficit and borrowing or other sources of financing as against the levels approved in the annual budget law, including explanations of major differences.

Article 36. Reallocation of State Budget Appropriations

1. A reallocation of appropriations from one spending agency to one or more other spending agencies may only be effected via an amendment to the annual budget law.
2. Within the total appropriation of a spending agency, amounts may be reallocated from one or more than one appropriation to one or more other appropriations in accordance with rules prescribed by the Minister. Such reallocations may be effected within 10 percent of the initial appropriations.
3. With the agreement of the Ministry of Finance, the Parliament may without limitation exercise the right defined by paragraph 2 of this Article to reallocate its appropriations.

Article 37. Execution of Budgets of Autonomous Republics

1. The budgets of the autonomous republics shall be executed in accordance with the provisions of Articles 25 and Articles 28 to 36 of this Law and the legislation of the autonomous republics.
2. The authorities of the autonomous republics shall submit information on the execution of their budgets to the Ministry of Finance according to rules prescribed by law.

Article 38. Execution of Local Budgets

1. Local budgets shall be executed in accordance with the provisions of Articles 26 and Articles 28 to 36 of this Law and the organic Law on Local Government and Self-Government.
2. Local authorities shall submit information on the execution of local budgets to the Ministry of Finance.

CHAPTER 4. GOVERNMENT BORROWING AND DEBT

Article 39. Borrowing Authority

1. State borrowing and issuance of loan guarantees may only be undertaken by the Ministry of Finance in accordance with rules prescribed by law.
2. Autonomous republics and local authorities may only borrow from the Government through the Ministry of Finance or with the permission of the Ministry of Finance according to rules prescribed by law.

Article 40. Limits on Government Borrowing and Loan Guarantees

1. The annual budget law shall set a limit on annual net borrowing and on the total amount of State debt that may be outstanding at any point in the year. Limits for domestic and external debt shall be specified separately. Loans from the National Bank shall be subject to a separate limit.
2. The annual budget law shall set a separate limit on external and domestic State loan guarantees that may be issued during the budget year currently being prepared.

Article 41. Borrowing and Loan Guarantee Issuance Procedures

1. Within the limits defined in the annual budget law and other legal instruments, the Ministry of Finance shall make decisions on issuing State debt and guarantees.
2. The Ministry of Finance shall be authorized to borrow in any form acceptable to the borrower and lender according to rules established by legislation, and in compliance with the Law on State Debt. The Ministry of Finance shall be free to choose the type of financial instrument, including its characteristics and conditions. The Ministry shall act in consultation with the National Bank on monetary policy issues.
3. In accordance with the organic law on the National Bank and on the basis of a written agreement between the Ministry of Finance and the National Bank, the National Bank shall provide for the execution of relevant decisions on State debt.

Article 42. Transparency of Borrowing

1. The Ministry of Finance shall maintain a record of State debt and guarantees, and shall record and make payments in respect of loans taken and given. The Ministry of Finance shall be responsible for the management of State debt and other related matters.
2. Detailed information concerning outstanding debt shall be included in the quarterly reports submitted to Parliament.

CHAPTER 5. ACCOUNTING, REPORTING AND AUDIT

Article 43. Accounting and Reporting Methodology and Responsibility

1. The Ministry of Finance shall issue appropriate directions in accordance with international standards to ensure that spending agencies, autonomous republics and local authorities adhere to standard accounting procedures and reporting requirements.

2. Spending agencies, autonomous republics and local authorities shall be responsible for the accounting and monitoring of their revenues and expenditures and shall ensure their compliance with the relevant legal acts issued by the Ministry of Finance.
3. In addition to accounting for its own revenues and expenditures, the Ministry of Finance shall be responsible for the accounting and inspection of borrowing and State debt transactions, as well as for all other transactions assigned to it by law.

Article 44. Internal Audit

The procedure for the internal audit of revenues and expenditure transactions shall be approved by spending agencies, autonomous republics and local authorities based on appropriate legal acts issued jointly by the Ministry of Finance and the Chamber of Control in compliance with international standards. Internal audit shall be conducted under the direct supervision of the heads of spending agencies, autonomous republics and local authorities.

Article 45. Preparation and Submission of Annual Accounts and Report of State Budget

Spending agencies shall prepare their final accounts and reports in accordance with the timetable and instructions of the Ministry of Finance, on the basis of which the Ministry of Finance shall prepare the accounts and report on State budget execution. These accounts and report and the relevant conclusion of the Chamber of Control shall be submitted to Parliament within the period prescribed by the Constitution.

Article 46. Contents of Annual Report of the State Budget

The Annual Report shall include reports according to the budget classification and detailed information on implementation of the annual budget law, namely:

- a) The beginning and end-of-year balances in the Treasury Single Account system
- b) An explanation of any discrepancy between the approved and actual budget amounts, if it exceeds 10 percent
- c) A report on State borrowing transactions including financial guarantees issued in relation to State debt
- d) A report on disbursements from the President and Government reserve funds
- e) A statement of contingent liabilities.

Article 47. Audit of Annual Reports by Chamber of Control

The Chamber of Control shall be responsible for auditing the final reports of the State budget and local authorities, and shall submit audit findings to Parliament and local self-government bodies respectively. The conclusion of the Chamber of Control shall state whether the reports present a true and fair picture of the financial operations.

Article 48. Approval of Annual Reports on State Budget Execution

1. After reviewing the annual report on State budget execution, and after receiving the report of the Chamber of Control of Georgia, Parliament shall issue a resolution on its approval or disapproval no later than November 1.
2. If Parliament does not approve the report on State budget execution in the event that the State budget is not executed, the President shall consider the question of the responsibility of the Government and shall inform the Parliament of his or her substantiated decision within one month.
3. Parliament shall be authorized to monitor the lawfulness of State budget expenditure by the Government and in the event of violations to request the President to suspend the disbursement of budget funds. If the unlawfulness of the expenditure is confirmed, the President shall make an appropriate decision.

Article 49. Preparation, Submission and Approval of Annual Reports on Execution of Autonomous Republic and Local Budgets

The annual reports on autonomous republic and local budgets shall be prepared, submitted and approved in accordance with the principles set out in this Chapter.

CHAPTER 6. LIABILITY FOR VIOLATING LAW

Article 50. Liability

In the event that the provisions of this Law are violated, the violator shall be held liable according to rules defined by law.

CHAPTER 7. TRANSITIONAL PROVISIONS

Article 51. Legal Acts to be Adopted

1. Within one month of the date this Law is approved, the executive authorities shall submit to Parliament drafts of following legal acts:
 - a) Draft Law on the Budget Systems of Autonomous Republics and other Territorial Entities

- b) Deleted
 - c) Deleted
 - d) Draft Law on Amendments and Additions to the Law on State Debt
 - e) Draft Organic Law on Amendments and Additions to the Organic Law on Local Self-Government and Government.
2. The Ministry of Finance shall prepare and issue drafts of legal acts on budgetary and treasury activities as necessary for the implementation of this Law.

Article 51(’).

The revenues and expenditures of the State United Social Insurance Fund for the 2004 year shall be approved by Parliament together with the 2004 State budget.

Article 51(’). Treasury Single Account

The Treasury Single Account shall be fully operational from January 1, 2006. The Treasury Single Account system shall, until January 1, 2006, include the single account for budget receipts, central and regional accounts for budget expenditures, accounts for deposits and grants, currency accounts and other special accounts.

Article 52. Void Legal Act

The Law on the Budget System and Responsibilities shall be deemed void after the effective date of this Law.

CHAPTER 8. CONCLUDING PROVISIONS

Article 53. Effectiveness of Law

- 1. Except for Article 30, this Law shall become effective on January 1, 2004.
- 2. Article 30 of this Law shall become effective on January 1, 2005.

Amendments made on:

28.12.2005
10.03.2005
29.12.2004
29.12.2004
24.02.2004
24.02.2004
23.07.2003