

Economics

As the result of an ambitious reform agenda set out by the Government of Georgia after the Rose Revolution in 2003, the country has witnessed impressive improvements in the macro-economic situation that subsequently led to growth and stability. Since 2004, Georgia has reoriented its policy toward further improvement of the business climate, deregulation and privatization, establishment of free markets and improved control of corruption. The results of their performance have gained international recognition. Georgia was ranked nr 1 reformer in the World Bank's 2007 "Doing Business Survey", improving its overall ranking from 112 to 37. In the "Doing Business 2008" Georgia was further promoted to the 18th place in the overall aggregate rankings. Georgia also improved from 52nd to 35th place on Heritage Foundation's 2007 Economic Freedom Index.

Priority areas for the Georgian government for 2008 and onwards are to continue the reforms, focus on attracting FDI and establishing Georgia as a respectable international financial centre as well as building its national economy that should lead to job creation and poverty reduction. One of the main objectives of the Government has been to improve the business and investment climate. In achieving this objective, a large focus was aimed to reform the legal and regulatory framework in particular in the following six areas:

1. investor protection (amendments in the securities law that eliminates loopholes that had allowed corporate insiders to expropriate minority investors);
2. adoption of a new insolvency law that shortened timelines for reorganization of a distressed company or disposition of a debtor's assets;
3. simplification of procedures (amongst others for construction permits and registering property);
4. change in the labour code (to reduce labour costs and more flexible contracts for employees);
5. fighting corruption by improving fiscal administration which led to a significant decrease in corruption in the public and private sectors and
6. the start of employment and retraining programmes which were put into operation in 2006.

In addition, Georgia enacted a Tax Code that introduced lower, flat-tax rates and significant procedural and institutional innovations. The total number of taxes was reduced to seven (personal income 12%; corporate profits 20%). VAT (generally 18%) is not applicable to export of goods, international transportation, tourist and certain other services. A newly adopted Customs Code will bring Georgia in line with EU and international standards, further reforms are needed with regard to secondary legislation of the Customs Code. Another important step has been the merging of the tax, customs and financial police into one Revenue Services.

The banking sector is growing rapidly. Georgia has completely liberalized capital account transactions and currency regimes. Georgian banks are gaining increased confidence among the population and institutional investors: the number of banking customers has increased very rapidly, with deposits by individuals and companies increasing 25-35% a year. In November 2006, Bank of Georgia became the second bank from a CIS country to be listed on the London Stock Exchange. In addition, subsidiaries and branches of commercial banks from Greece, Turkey, Azerbaijan, Austria, Germany, France and Russia are operating in the Georgian market. The banking sector will need further enhancement, particular in the areas of 1) term of loan interest rates which at present is rather high (22.3% as for August 2007); 2) high interest on deposit money that has fluctuated in recent year between 9 and 11%. Whereas 10 out of 17 commercial banks have foreign investors (including FMO), further support is required to develop the non-bank financial sector with a specific focus on leasing, insurance and private pension schemes. The European Investment Bank (EIB) has shown its readiness to invest in Georgia

As part of its ambition to establish Georgia as transit route between Central Asia and the West, rehabilitation of infrastructure has been a top priority for the Government. Primary focus is on the transport and energy infrastructure including roads, railways, sea ports and airports. Examples of these sorts are 1) the agreement reached between Georgia, Turkey and Azerbaijan on a new Baku-Tbilisi-Kars railroad that will carry up to 15

million tons annually by 2010-12; 2) new airport terminals in Tbilisi and Batumi to increase air traffic to Georgia; 3) increased cooperation between Black Sea ports in which Batumi and Poti play a central role.

Whereas these two port cities are already linked in the TRACECA (Transportation Corridor – Europe, Caucasus, and Asia) trade route, Georgia has recently announced a tender for the development of a free economic zone on the territory of Poti. Electricity availability has improved significantly. Three years ago 85% of the population outside Tbilisi was without power, but this percentage has increased to 98% of paying customers having 24/7 power. Important areas for future rehabilitation will continue to be the transport sector (roads, ports) next to rehabilitation of the water supply and sanitation sector. Georgia is focussing on boosting the tourism sector. This sector is promising and Georgia attracts increasing numbers of tourists including from Europe. Tourists resorts are being developed.

Progress in tax collection and in tackling corruption, as well as growing privatization revenue, helped to raise budget revenues during 2006 and allowed the Georgian government to increase their fiscal spending. High oil prices, extra government spending and strong capital inflows have meanwhile increased inflationary pressures. By the end of 2006, inflation reached 8.9%. Georgia has witnessed high growth of investment flows during the recent years, part of it related to the construction of the BTC pipeline and privatisation efforts.

Potential sectors for investors are infrastructure, the financial sector, construction, agriculture and tourism. Additional market information is accessible through the website of the [Georgian Department for Statistics](#).

At the [EVD](#) site more general information is found on the economy of Georgia. Other useful information on the Georgian economy as well as potential sectors can be found at the website of the National Investment Agency (www.investinggeorgia.org) and the website of [American Chamber of Commerce](#).

Based on the current import / export figures between the Netherlands and Georgia, the country has a one-star ranking under the NL matrix for economic priority countries. The Economic Department of the Embassy can assist you with the following:

1. Provide general information about the business climate in Georgia
2. Provide information about the regulatory / legal framework for doing business in Georgia
3. Provide you with guidance and advise on finding local intermediate agents and/or relevant governmental agencies in Georgia
4. Provide you with information about trade fairs
5. Provide you with names of potential business counterparts (import/export/investment) agents, etc.
6. Provide you with advice on how to handle certain business related problems.