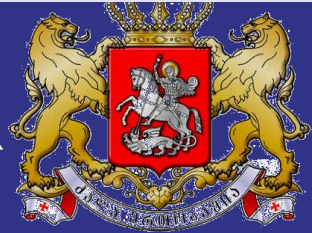




Georgian Economic Outlook



**Ministry of Economic Development of
Georgia**

Country Overview

Area:	69 700 sq km
Population 2008 E:	4 630 841
Life expectancy:	76.51 years
Official language:	Georgian
Literacy:	100%
Capital:	Tbilisi
Currency (code):	Lari (GEL)
GDP 2008E:	US\$ 12.80 billion
GDP - real growth rate 2008E:	2.1%
GDP - Per Capita 2008	US\$ 2 920.3
Inflation rate 2008 (average annual):	10.0%
External debt to GDP 2008:	21.4%



Liberal Reforms for Long Term Sustainable Growth

- **Liberal Tax Code**

- ✓ Only 6 taxes left
- ✓ Significant procedural and institutional reforms
- ✓ Simplified system of tax disputes discussion

- **Customs Reform**

- ✓ Simplified customs procedures
- ✓ Simplified and sharply reduced the costs connected to the foreign trade
- ✓ Number of import tariffs were abolished on approximately 90% of products
- ✓ 3 tariff rates (0%, 5%, 12%) remained
- ✓ No quantitative restrictions (quotas) on imports and exports

- **Modernized system of Licenses and Permits**

- ✓ Number of licenses and permits reduced by 84%
- ✓ Licenses and permits are only used in the production of highly risky goods and services, usage of natural resources and other specific activities
- ✓ Significantly simplified procedures of issuing licenses and permits
- ✓ Introduced “one-stop shop” and “silence is consent” principles



Liberal Reforms for Long Term Sustainable Growth

- **The reform of Technical Regulation System**

- ✓ National mandatory standards system was replaced by the voluntary standards, giving entrepreneurs the possibility:
 - To select the standard for his activities registered in the country
 - To use the standard of any country or any regional or international standard
 - To register standards in Georgian National Agency for Standards, Technical Regulations and Metrology and to use them for entrepreneurial activities
 - To elaborate own standard for new goods, register it in the national agency and use it in entrepreneurial activity
 - To obtain consultations for the selection and elaboration of standards
- ✓ Declined role of state in the system of technical regulation

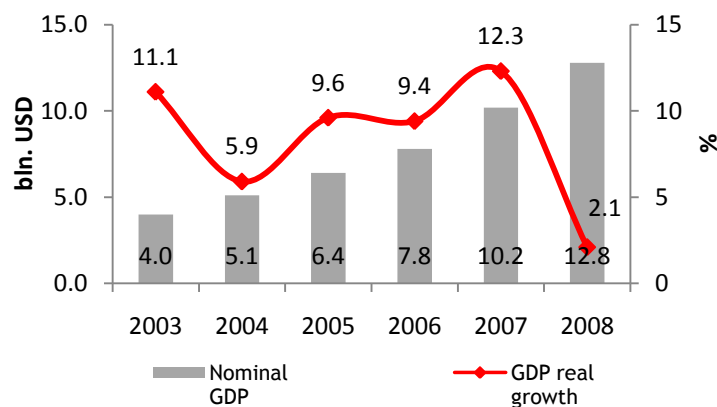
- **Liberal Labor Code - one of the most liberal in the world**

- ✓ Simplified relations between employers and employees
- ✓ Significantly reduced hiring and firing expenses

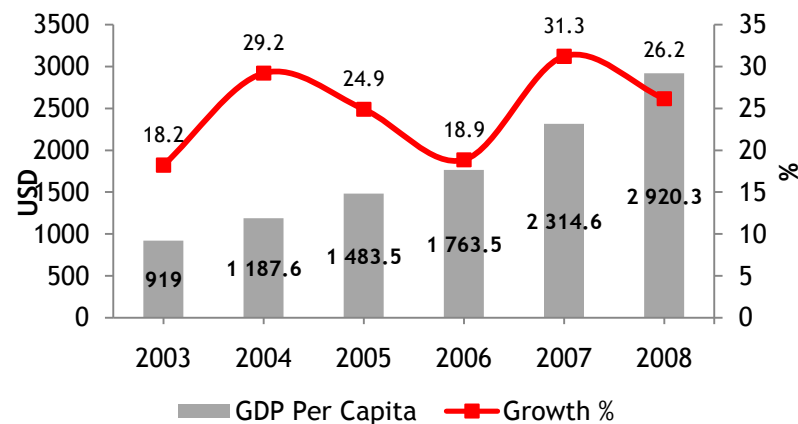


Economic Growth

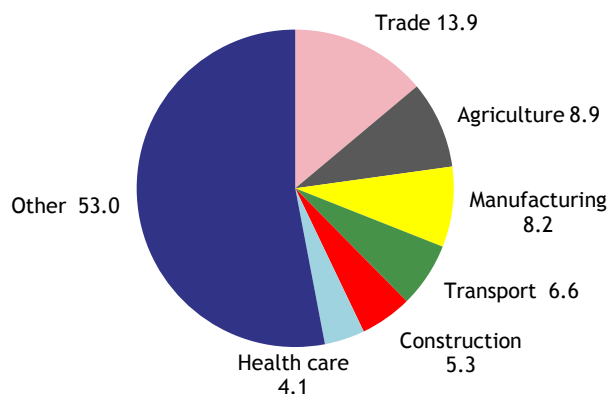
Nominal and Real GDP



Nominal GDP Per Capita



Components of Nominal GDP 2008



Year 2008

Fastest growing sectors of Georgian Economy

- Mining and Quarrying - 17.0%
- Communications - 14.5%
- Education - 13.7%
- Trade and repair services - 10.4%
- Health care and social security - 5.9%

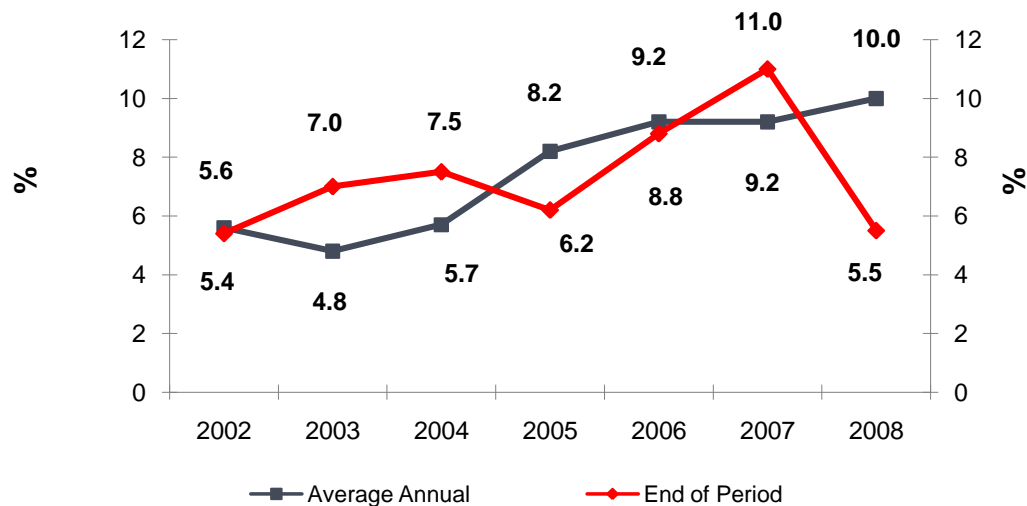


Consumer Price Index

Consumer Price Index 2008

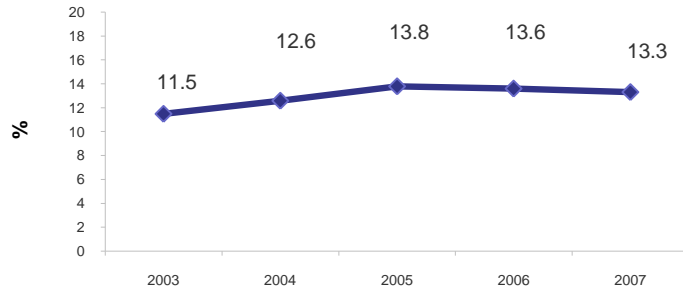
- End of period Inflation - 5.5%
- Average annual Inflation - 10%

Consumer Price Index Trend



Labour Market

Unemployment Rate %



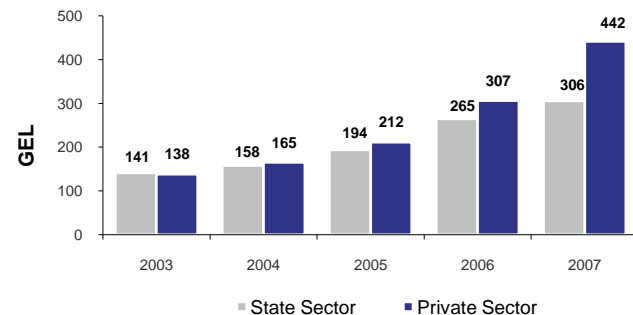
- Unemployment rate declined to 13.3% in 2007, down 0.3% y-o-y
- Employed population - 1 678.7 thousand, among which:
 - ✓ Salaried employees - 625.4 thousand (+3.5% 07/'06)
- Accelerated growth rate of the number of salaried employed and decrease of the number of self-employed

- Challenge: structural unemployment/job mismatch

- Response: State Programs:

- ✓ Vocational Training and Retraining, Development of Professional Training Infrastructure “Professional Education for Employment” (PPP format)
- ✓ “Cheap Credit”, “100 new Agro Industry Enterprises”

Monthly Salary of Employed in State and Non-state Enterprises



Poverty Level

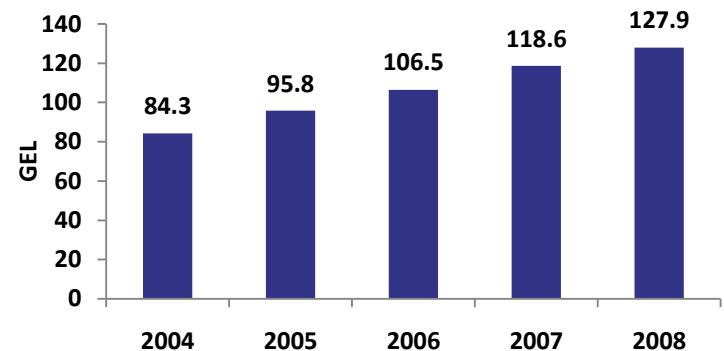
Subsistence Level 2004-2008

- Subsistence Level has increased by 51.7%

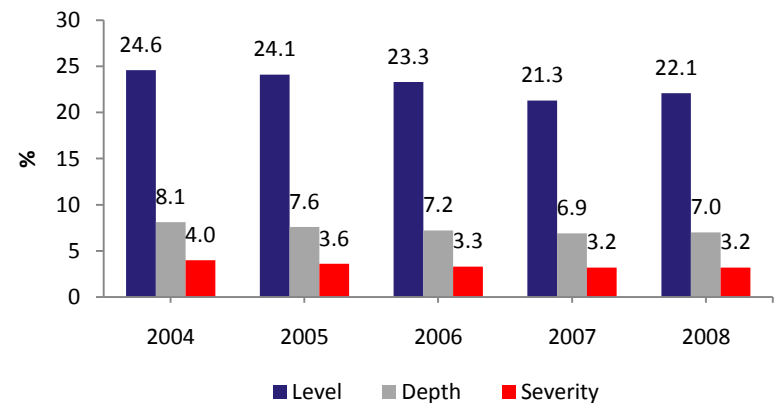
Poverty Level 2004-2008

- Poverty Level has declined by 2.5 point
- Poverty depth has declined by 1.1 point
- Poverty Severity has declined by 0.8 point

Subsistence Minimum



Poverty Level



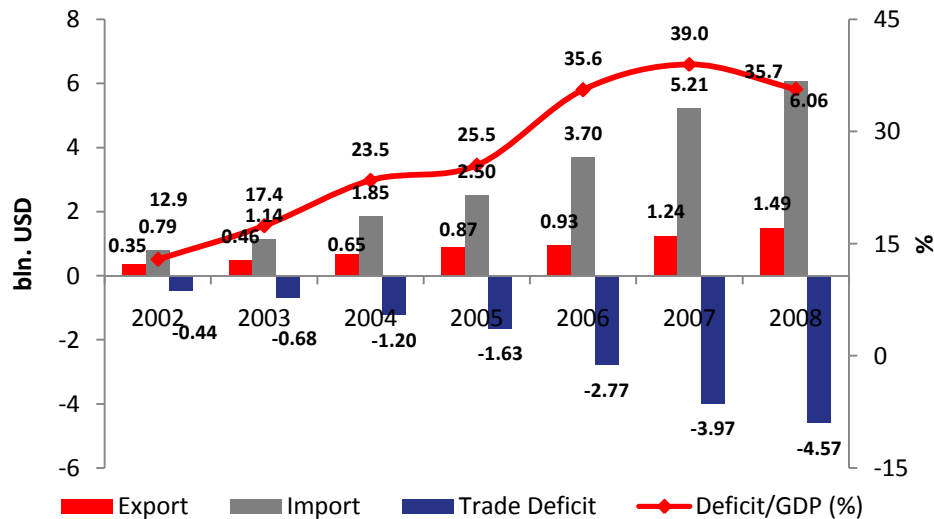
Foreign Trade

Foreign Trade 2008

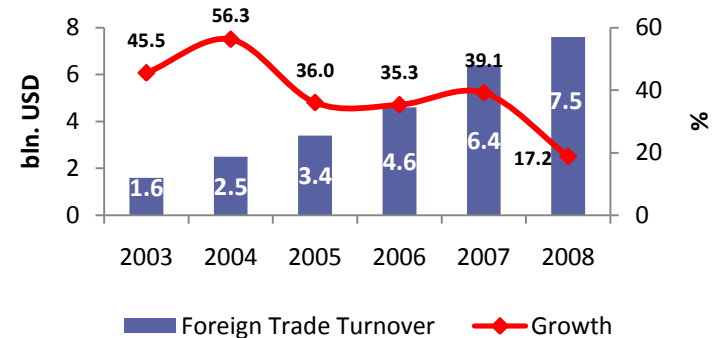
- Total trade turnover - 7 555.8 mln. USD (17.2% increase)
 - ✓ Export - 1 497.7 mln. USD (21.5% increase)
 - ✓ Import - 6 058.1 mln. USD (16.2% increase)

In 2004-2008 Georgian trade turnover increased by 203.2%

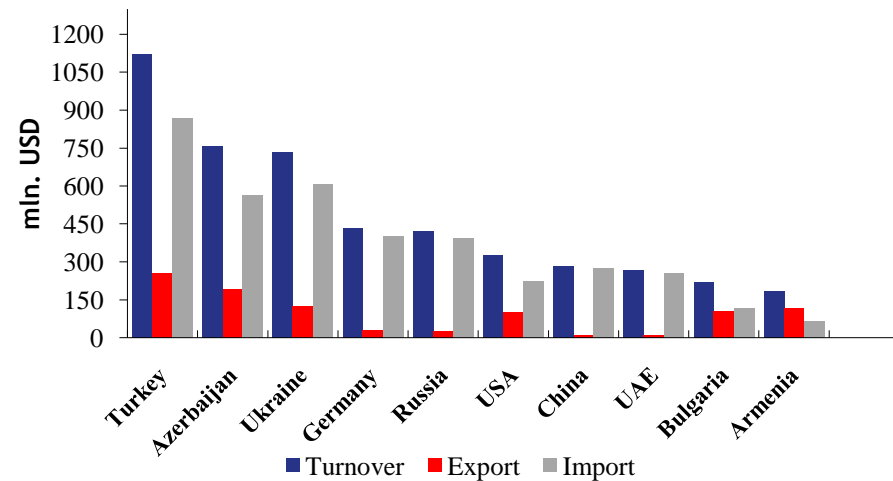
Export, Import, Trade Deficit



Foreign Trade Turnover 2003-2008



10 Main Trade Partners 2008



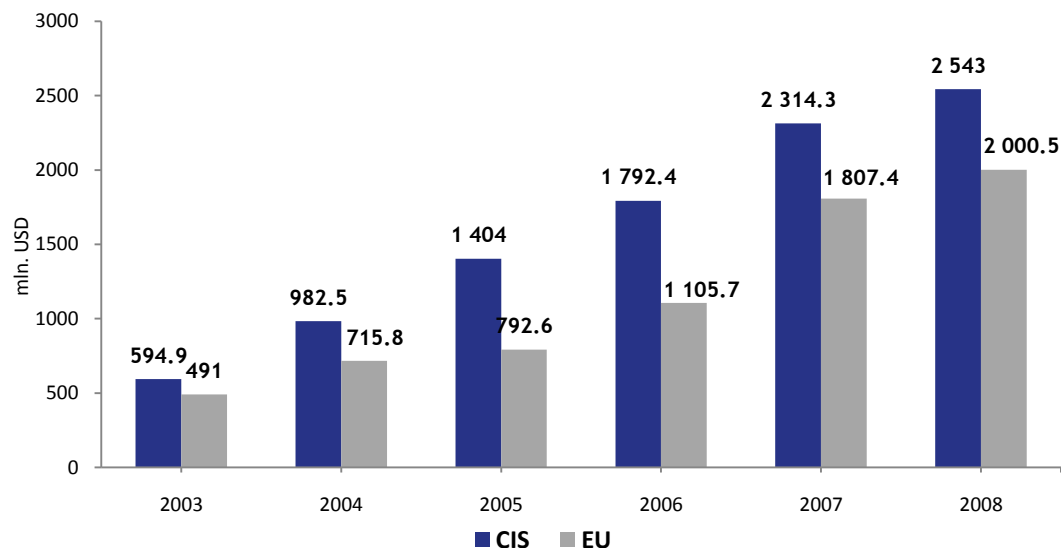
Source: Department of Statistics



Foreign Trade

Foreign Trade With Country Groups 2008

- Foreign trade turnover with EU - 2000.5 mln. USD (10.7% increase)
 - ✓ Export - 335.2 mln. USD (24.8% increase)
 - ✓ Import - 1665.3 mln. USD (8.2% increase)
- Foreign trade turnover with CIS - 2542.9 mln. USD (9.9% increase)
 - ✓ Export - 542.5 mln. USD (17.4% increase)
 - ✓ Import - 2000.5 mln. USD (8% increase)

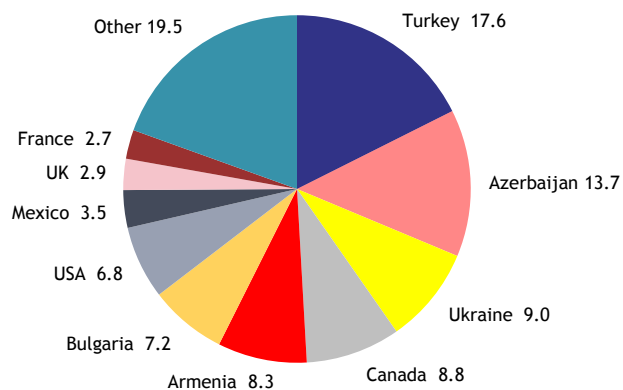


Source: Department of Statistics of Georgia

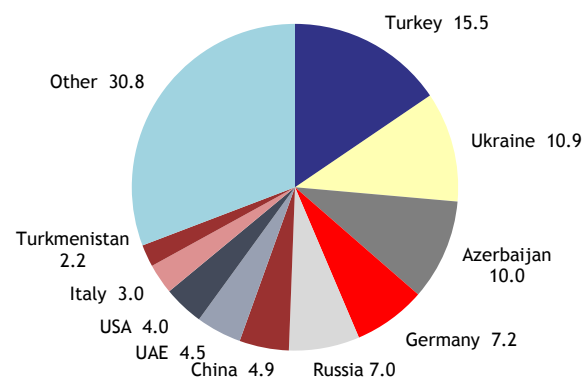


Diversified Trade Structure

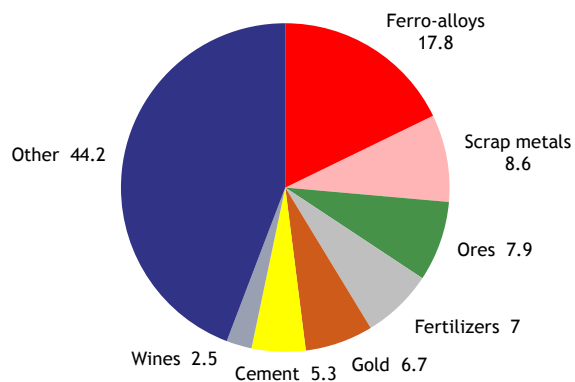
Export structure by country 2008



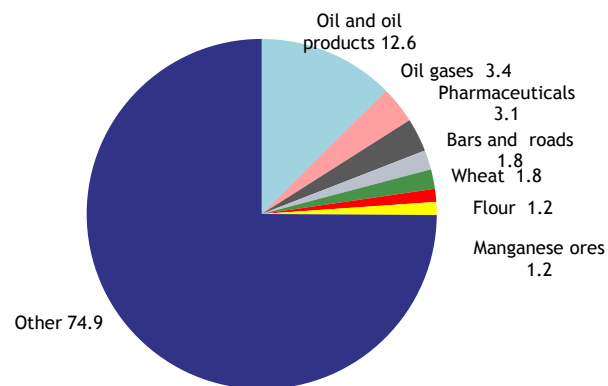
Import structure by country 2008



Export structure by product 2008



Import structure by product 2008



Source: Department of Statistics of Georgia



Trade Policy

Competitive Trade Regimes

- **Free Trade Regime** - with CIS countries and Turkey (since November 1, 2008)
- **Most Favored Nation Regime (MFN)** - with World Trade Organization (WTO) member countries
- **Preferential Regime (GSP)** - with USA, Canada, Japan, Switzerland, Norway
- **Preferential Regime (GSP+)** - with EU (7200 items) since 2005

Possibility of FTA with EU in nearest future

Main Features of Georgian Trade Policy

- Low import tariffs (90% of goods free from import tariff)
- Few export/import licenses and permits
- No quantitative restrictions on import and export
- No customs tariff on export and re-export
- No VAT on export
- Simplified export and import procedures

Export Promotion Department was established for export facilitation



Foreign Direct Investment

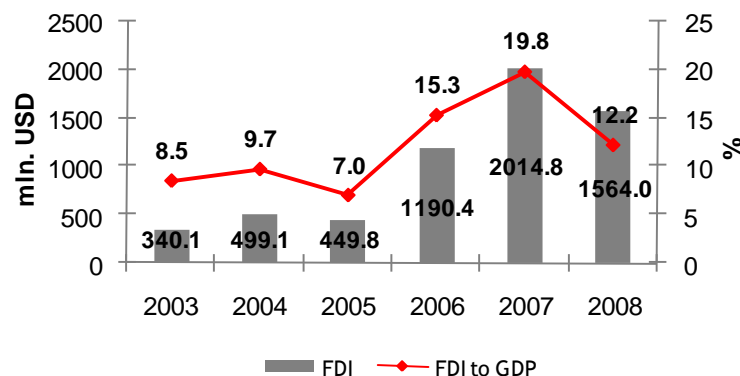
Year 2008

- FDI - 1 564 mln. USD
- Reduction - 22.4%
- Share of FDI in GDP - 12.2%

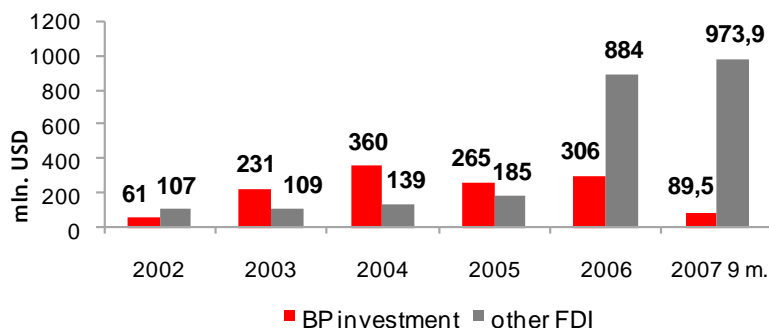
Growth in 2003-2008 - 360%

Growth in 2003-2007 - 492.4%

FDI inflows



Pipeline and Non-Pipeline Investments



FDI breakdown by origin

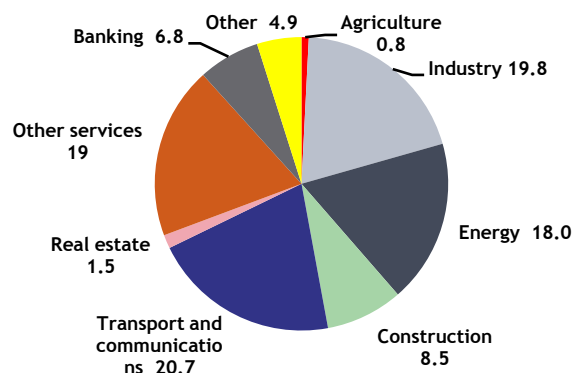
2006		2007		2008	
UK	15.7%	Netherlands	14.9%	United Arab Emirates	19.6%
USA	15.3%	Czech Republic	11.3%	USA	10.7%
Kazakhstan	12.8%	Virgin Islands	9.3%	Turkey	10.5%
Turkey	10.9%	Denmark	7.8%	Virgin Islands	10.0%
Azerbaijan	6.5%	Cyprus	7.4%	UK	9.5%
Norway	6.5%	UK	7.2%	Netherlands	8.7%
Virgin Islands	4.9%	UAE	6.5%	Switzerland	5.8%
Italy	4.0%	Turkey	4.7%	Kazakhstan	4.2%
Denmark	3.6%	Russia	4.4%	Austria	3.3%
Cyprus	3.4%	Kazakhstan	4.4%	Germany	2.6%
Subtotal	83.6%	Subtotal	77.9%	Subtotal	84.9%
Other	16.4%	Other	22.1%	Other	15.1%
Total	100%	Total	100%	Total	100%

Source: Department of Statistics of Georgia

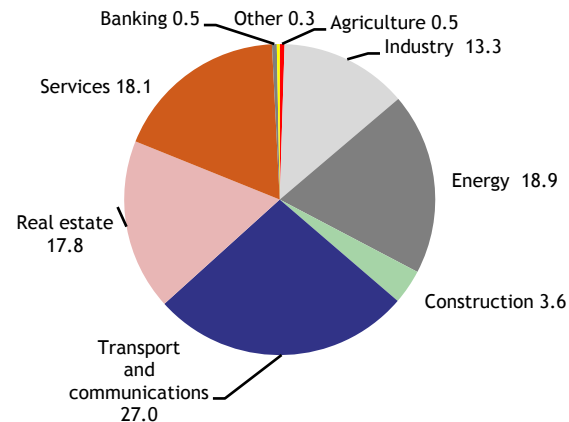


Foreign Direct Investment

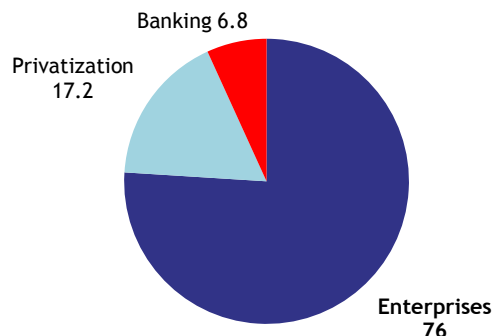
FDI by Sectors 2007 (%)



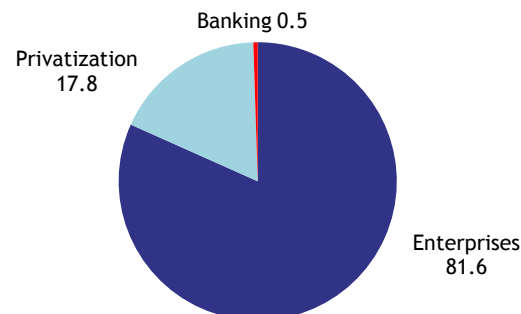
FDI by Sectors 2008 (%)



FDI by Sources 2007 (%)



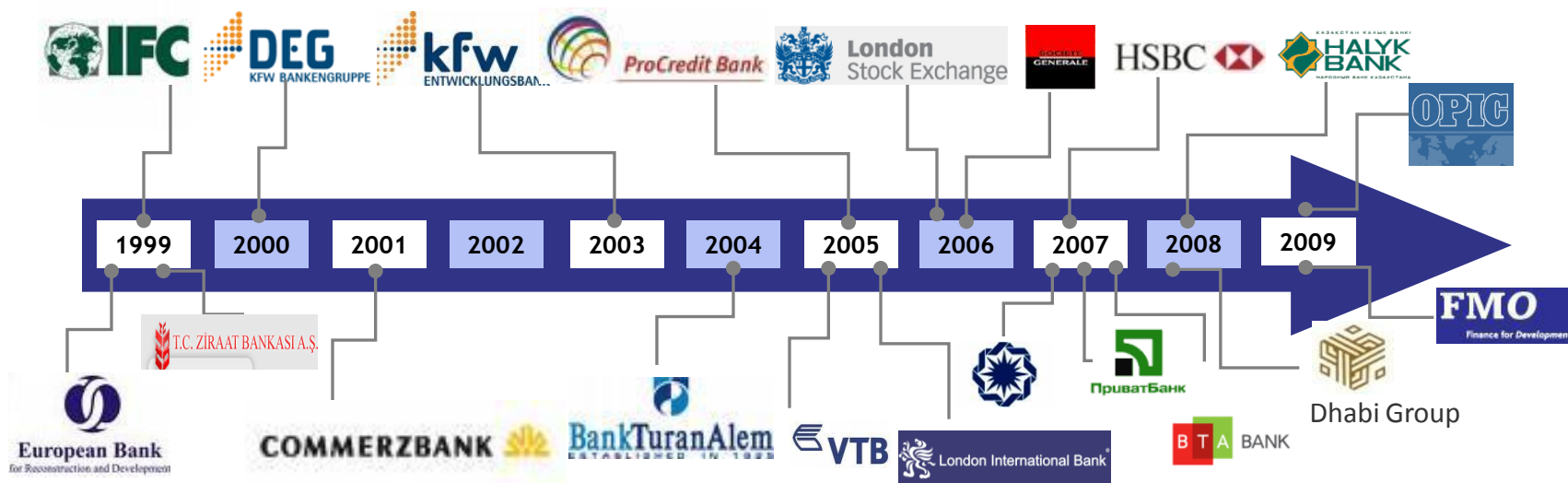
FDI by Sources 2008 (%)



Source: Department of Statistics of Georgia



Robust Banking Sector



- Georgia's banking sector represents only a moderate contingent liability of the sovereign
- Entirely private owned since 1996
- No restrictions on foreign ownership of banks
- Well capitalised with average BIS capital adequacy ratio of 19%



Foreign Direct Investment

FDI attraction - one of the main priorities of state

FDI supportive policy

- Georgian National Investment Agency
- Simplified regulations
- Reduced taxes
- Legislative basis
 - ✓ Law on State Support of Investments
 - ✓ Law on Free Industrial Zones
- Free Industrial Zones - preferences for investors
 - ✓ Tax incentives
 - ✓ Simplified procedures



Establishment of Free Industrial Zones - new possibility for investors

- **Free Trade Agreements with US and EU in the future**



Free Industrial Zone

Free Industrial Zones - facilitation of regional economic development, employment generation and job creation

Free Industrial Zones - preferences for investors

- ✓ Tax incentives
- ✓ Simplified procedures

• Poti FIZ - Rakia Georgia FIZ

- ✓ More than 105 mln USD in 2009-2013
- ✓ More than 10 000 employed people
- ✓ Development of industry, logistic parks, business centers

Possible future projects

• Kutaisi FIZ - Georgian International Holding

- ✓ More than 3 bln USD during 3 years
- ✓ More than 20 000 employed people
- ✓ Development of industry

• Tbilisi iCity - Lilo 1

- ✓ More than 7 hundred registered companies during 5 years
- ✓ More than 8 hundred employed people
- ✓ More than 700 bln capital inflow to Georgian banks

• Airport City



Tax Policy

Reduced number of taxes from 21 to 6 (2004-2008)

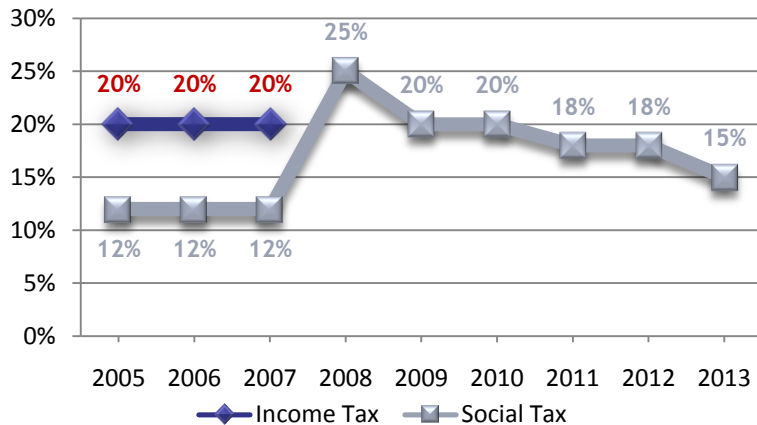
Reduced Tax rates (see below)

- **Personal Income Tax - 20%**
- **Corporate Income Tax -15%**
- **VAT -18%**
- **Excise Tax - Varies**
- **Customs Tax - 0%, 5% or 12%**
- **Property tax -1% on the self-assessed value of property**

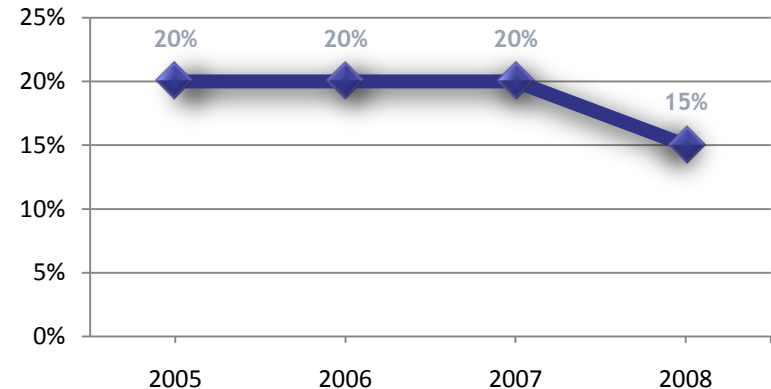


Tax Reduction

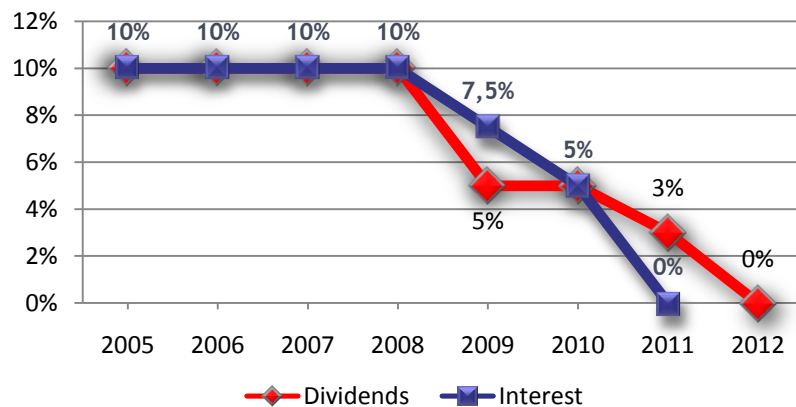
Income Tax and Social Tax



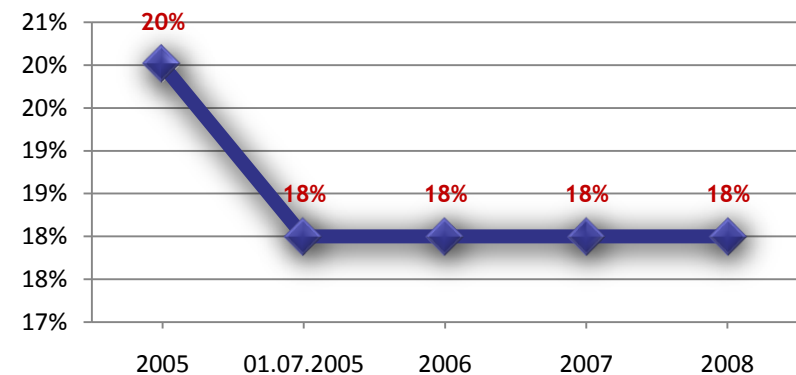
Corporate Profit Tax



Dividends and Interest Income Taxation



Value Added Tax



Special Taxation Regimes

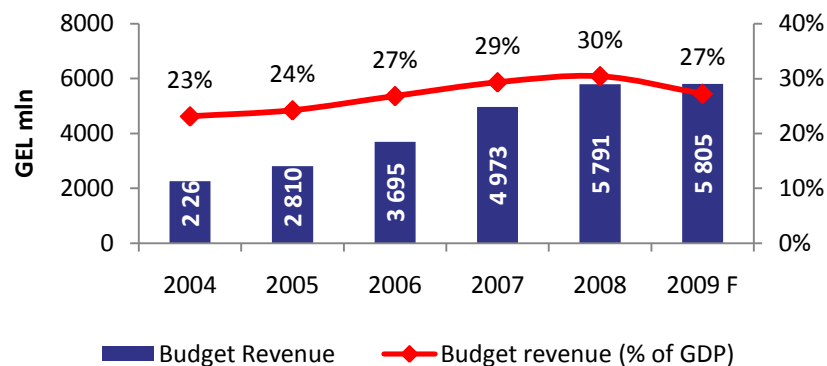
- Special taxation systems have been adopted for the different regimes aimed at establishing new international financial institutions in the country, encourage economic growth, support sustainable development and the trade-transit function of Georgia

Type of tax	An international financial company	Free industrial zone	Free warehouse company
Corporate Income Tax	(from financial services) 0%	(for International Companies) 0%	(from re-exporting of foreign goods) 0%
Value Added Tax	0%	0%	0%
Customs Tax	0%, 5% or 12%	0%	0%
Property Tax	up to 1%	0%	up to 1%
Personal Income Tax	20%	20%	20%
Net Operating Losses (years):			
• Carry back	0	0	0
• Carry forward	0	0	0

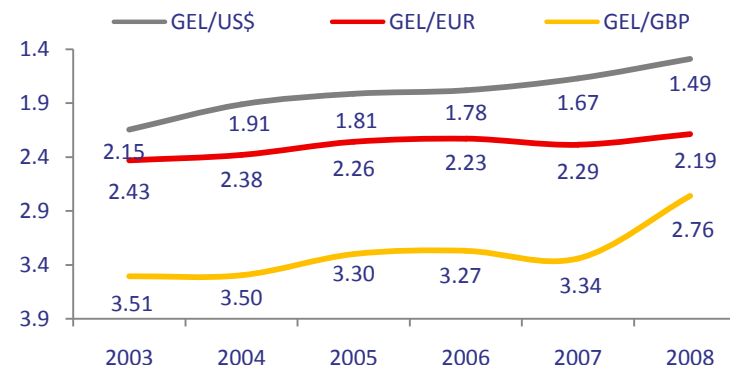


Fiscal and Monetary Performance

Tax Revenue Performance



Exchange rate evolution (period average)

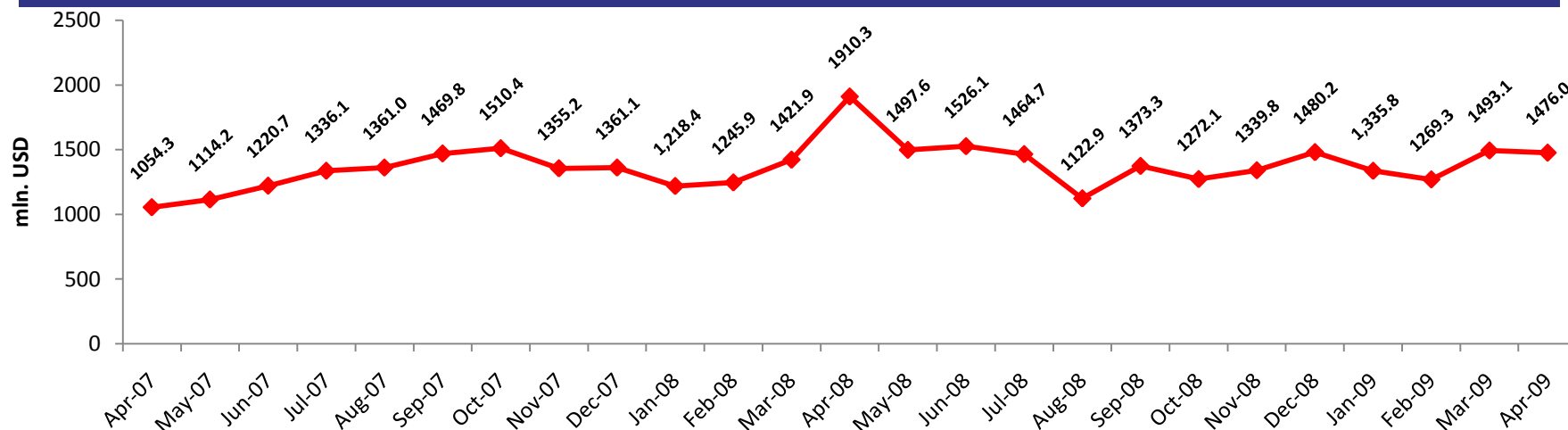


Source: Ministry of Finance of Georgia

*Decrease in budget revenue as percent of GDP is caused by tax cuts effective from 1 January 2009

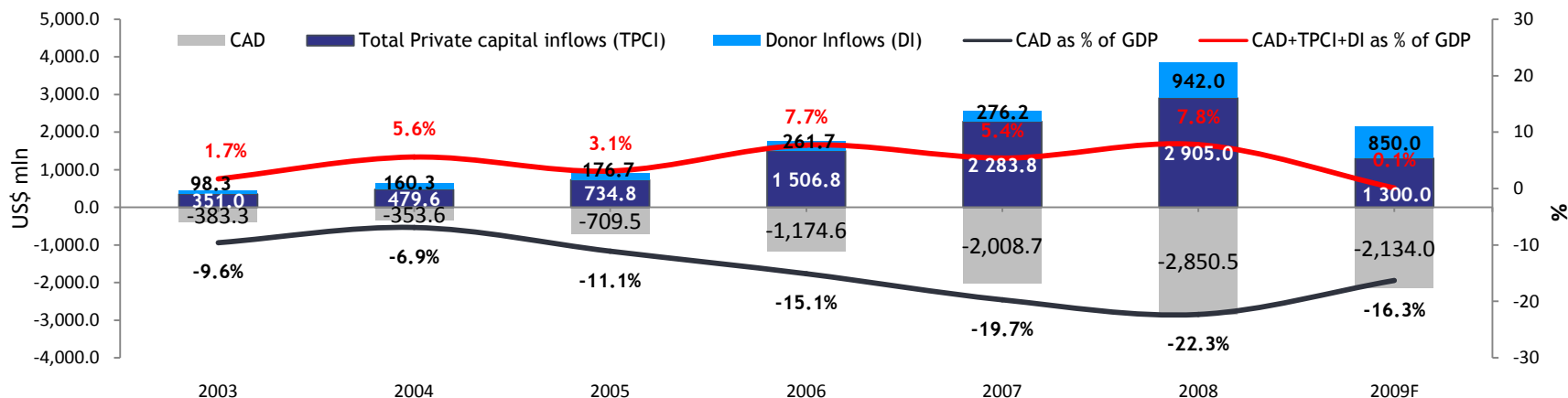
Source: National Bank of Georgia

NBG's Gross FX Reserves



Current Account Balance

Current Account Balance



Note: Updated as of 10 April 2009

*Donor inflows include both public and private sectors. Donor inflows in 2009 is adjusted according to the banking sector foreign debt outflows

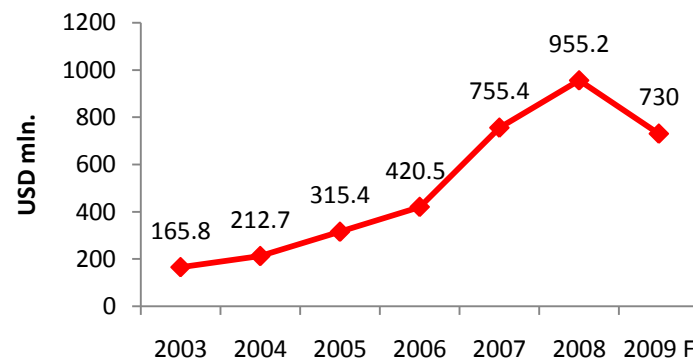
Source: National Bank of Georgia, Minister of Finance of Georgia

Exports and Imports



Source: National Bank of Georgia

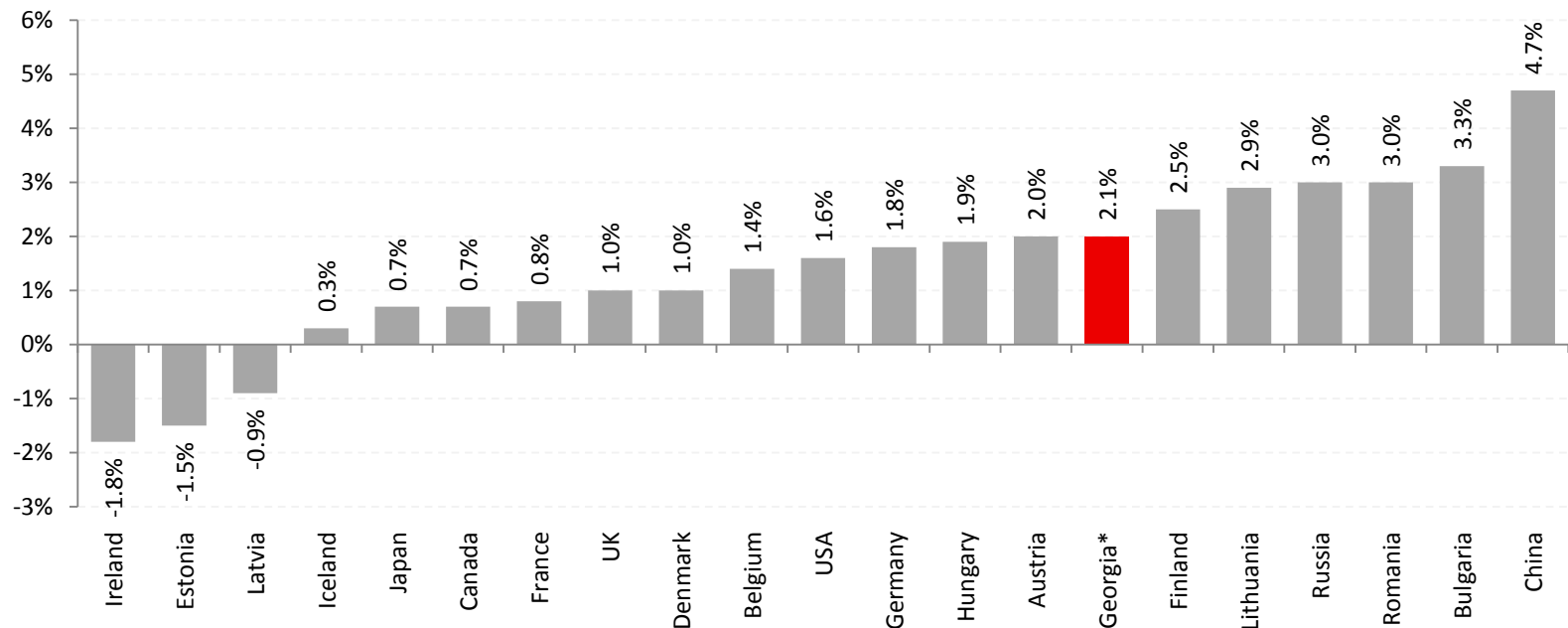
Remittances



Global Financial Crisis

- In October 2008, Global Financial Crisis impact on Georgia's macroeconomic outlook through decreasing export and other related indicators

Real GDP growth - 2008



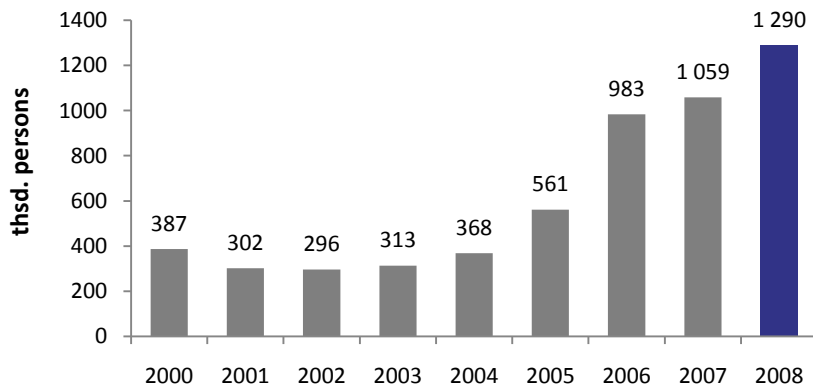
Source: Department of Statistics



Tourism

- In 2008 number of visitors to Georgia amounted to 1 290 107 thsd. persons
- Increased by 23% compared to 2007
- The largest share of visitors falls on CIS countries - 61%

Arrivals of non-resident visitors



Country	2007	2008	% change
Total			23
EUROPE	1051769	1290107	23
Europe without CIS	1009666	1243783	30
CIS	353924	459272	20
AMERICAS	655742	784511	4
EAST ASIA/PACIFIC	16865	17489	0.5
MIDDLE EAST	9415	9459	30
SOUTH ASIA	2490	3245	24
AFRICA	10873	13457	-28
	883	640	

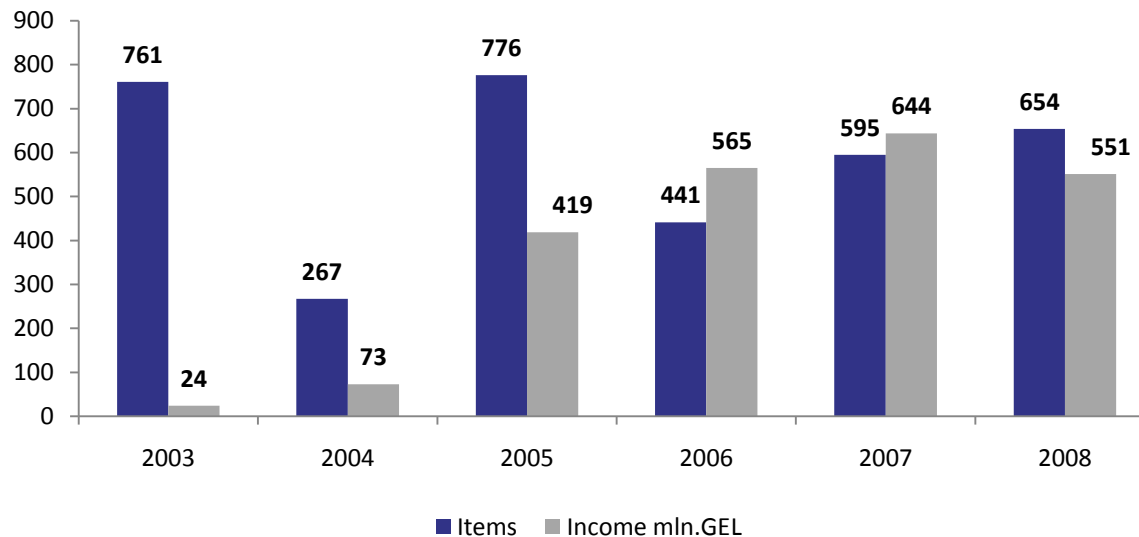
Source: Department of Tourism of Georgia



Privatization

- 2003-2008 - 3 494 items were privatized
- Total amount - more then 2,27 bn. GEL

Privatization 2003-2008



Communications

- **New Numbering System** and Plan for E-Communications Network of Georgia has been elaborated by the MoED and currently takes procedures forced by law
- The Law of Georgia on **E-signature and E-documents** was adopted in April, 2008
- Georgian Government has launched new **Georgian Government Network (GGN)** project from November, 2006
 - ✓ At the end of 2008, “Magticom” LTD 3 months ahead completed first phase building process of GGN
 - ✓ More than 400 Ministries and other entities are involved in the process
 - ✓ The project considers building the governmental network between state bodies



Statistics

Reform of the National Statistics System (NSS)

- **Main aim**

- ✓ Set up independent statistics body
- ✓ Ensure high quality and reliability of statistical data
- ✓ Consider international best practices

- **Preparation Process**

- ✓ Creation of special task force by special decree of the Government (December, 2008)
- ✓ Elaboration of the concept for the reform and submit it to the public and Government for discussion
- ✓ Task Force consists of independent experts, representatives of international organizations and non-governmental institutions



Technical Regulations

Standardization

- Georgian National Agency for Standards, Technical Regulations and Metrology has become an affiliated member of **European Committee for Standardization (CEN)** from April 1, 2008
- Georgia has been an associate member of **General Conference of Weights and Measures (GCPM)** from 1st of April 2008
- A bilateral project with German National Metrology Institute PTB - “**Promotion of Quality Infrastructure in Georgia with special regard to Legal Metrology**” started in February, 2008
- Implementation phase of EC TACIC project “**Support to Implementation of Art. 51**” (Quality Management System) has started
- Permanent analysis of Georgian legislation is carried out. **75 laws**, applied in the field of technical regulation, are registered in the register of standards and technical regulations
- The New and Global Approach Directives and standards harmonized with them (Georgian version) are being gradually updated on the web page of the Agency



Technical Regulations

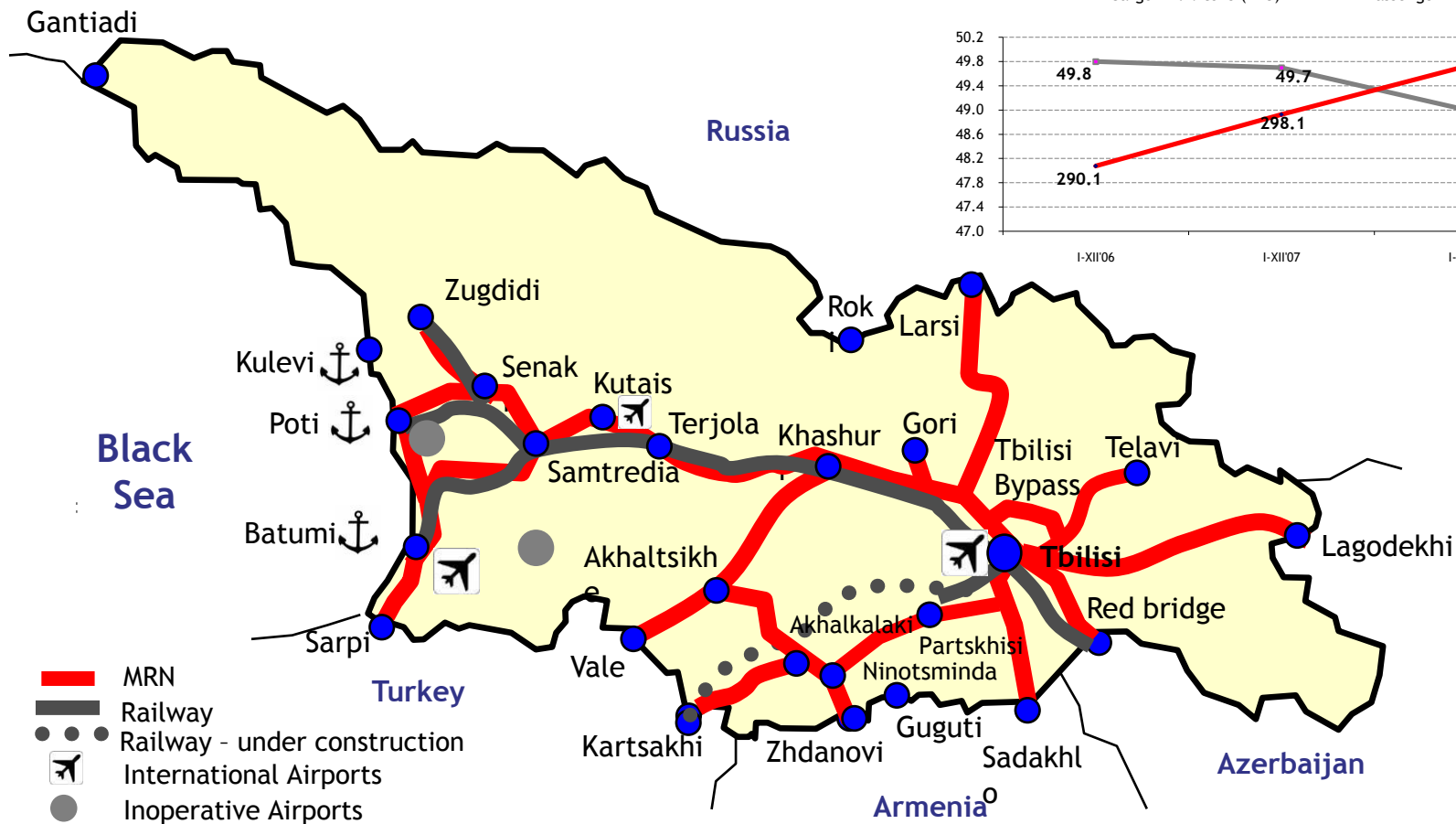
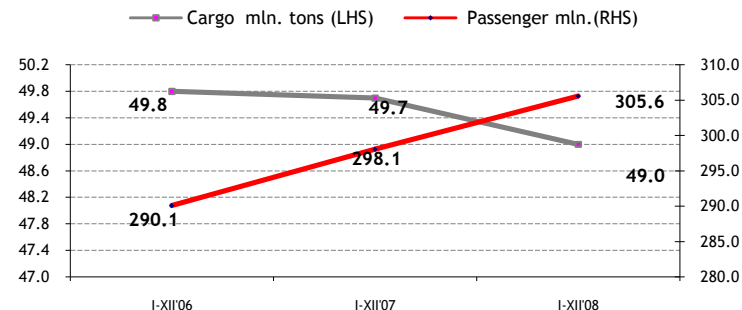
Accreditation

- Signing of “Cooperation Agreement” between European Cooperation of Accreditation (EA) and Georgian Accreditation Center
- On April 26, 2008 was signed an “Agreement between Turkish Accreditation Agency (TURKAK) and The Georgian National Body on Accreditation - Center of Accreditation (GAC) on Cooperation in the Field of Accreditation”
- A list of **international standards** in the field of accreditation was translated and is officially registered by Accreditation Center
- National Accreditation Center and The State Standardization Committee of Byelorussia conducted **inter laboratory testing** for the accredited laboratories of Georgia and Byelorussia in 2008. Test was carried out in accordance with international standards and confirmed (wine, brandy) high quality of Georgian products and their conformity with international standards



Georgian Transport Network

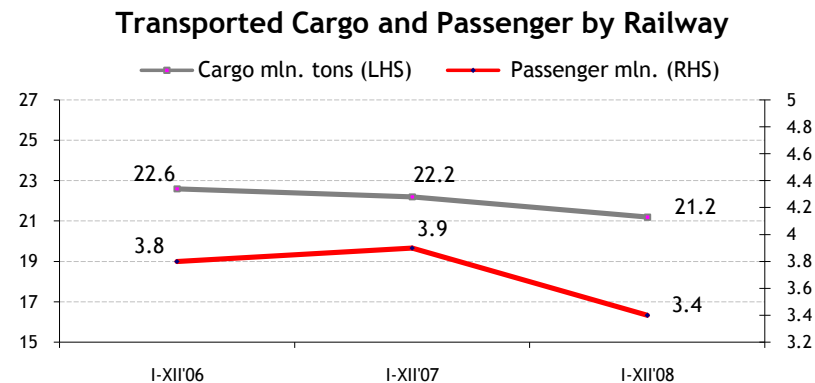
Total Cargo and Passenger Transportation



Transport Infrastructure

Railway Transport

- In 2008 the Georgian railway carried:
 - ✓ 21.2 million tons of cargo
 - ✓ 10.0 million tons of crude oil and oil products
 - ✓ 3.4 million passengers



- Infrastructure Projects:
 - ✓ Construction of New Railway Line - Baku-Tbilisi-Kars connecting Caucasus rolling stocks to Europe Railway
 - ✓ Rehabilitation of Bridges on the Main Line and Main Line sections
 - ✓ Renewal of wagons and vehicles
- Capacity Improvement Facilitation:
 - ✓ Organization of Direct International Rail-Ferry Connection between Poti/Batumi (Georgia) and Kerch (Ukraine) Sea ports

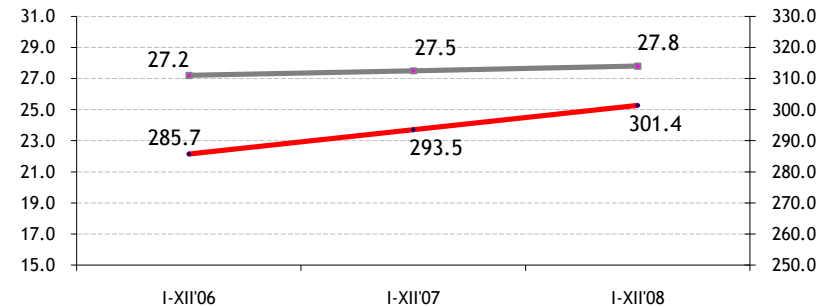


Transport Infrastructure (cont.)

Road Transport

Transported Cargo and Passenger by Road

— Cargo mln. tons (LHS) — Passenger mln. (RHS)



- In 2008 Georgian road transport carried:**

- ✓ 27.8 million tons of cargo
- ✓ 301.4 million passengers

- Infrastructure Projects:**

- ✓ Modernization of the East-West Highway of Georgia in line with international standards ensuring high safety level
- ✓ Rehabilitation of more than 450 km of international and local roads (WB loan)
- ✓ Rehabilitation of Samtskhe-Javakheti 300 km roads in MCG grant project frame

- Capacity Improvement Facilitation:**

- ✓ Signing of intergovernmental Agreement with the Czech Republic, Hungary, Slovakia, Poland, Estonia, Finland, Moldova and Tajikistan on International Road Transport
- ✓ Road Safety Policy:
 - “Georgian National Road Safety Strategy” (adopted)
 - National Road Safety 4 year Action Plan

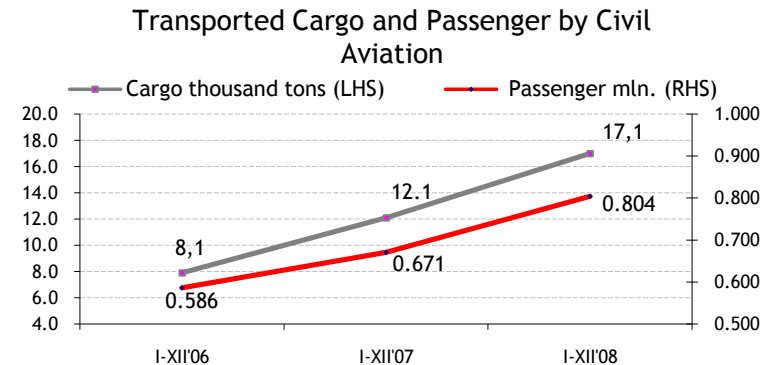


Transport Infrastructure (cont.)

Civil Aviation

- In 2008, international airports of Georgia served:

- ✓ 0.804 million passengers.



- Infrastructure Projects:

- ✓ Two new International Airports - Tbilisi and Batumi (constructed)
 - new passenger terminals
 - modern equipments (ICAO standards)

- Capacity Improvement Facilitation:

- ✓ International Agreement:
 - European Common Aviation Agreement - promoting free competition and liberalization air traffic, (negotiation started)
 - Agreements on Air Transport with - Republic of Armenia; Swiss Confederation; Azerbaijan (signed)
 - Air Services Agreements with - the United Arab Emirates, China, UK and Ukraine (planned to sign)
- ✓ Integration in the European air navigation system - membership in EUROCONTROL



Transport Infrastructure (cont.)

Maritime Transport

- **18.5 million tons of cargo was processed at the sea ports in 2008:**

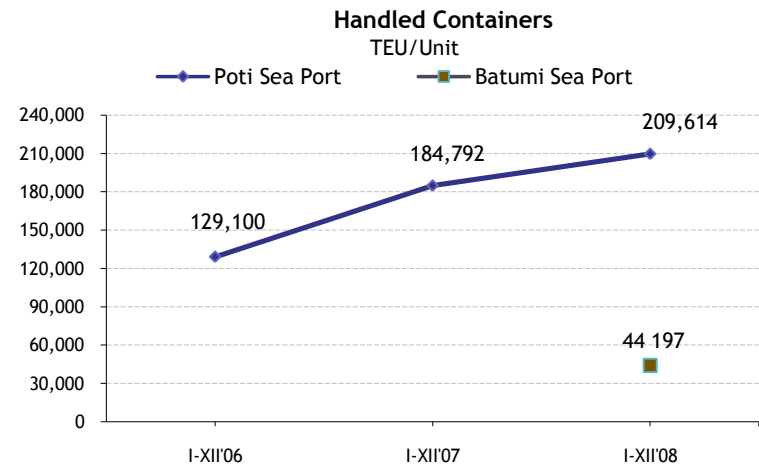
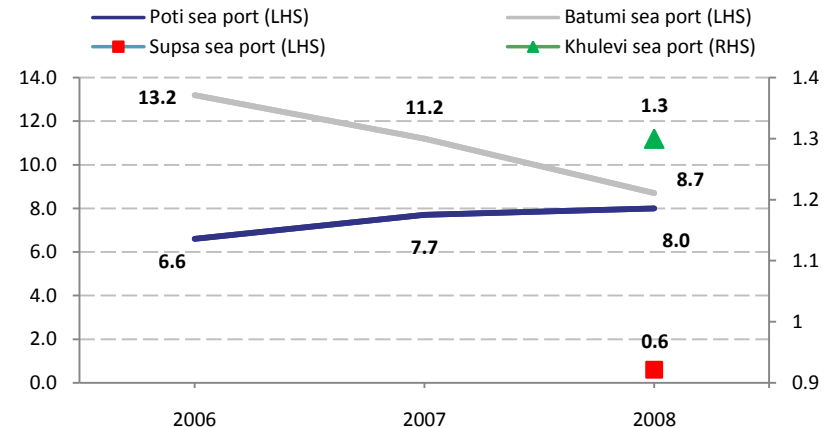
- ✓ Poti Sea Port - 8.0 million tones
- ✓ Batumi Sea Port - 8.7 million tones
- ✓ Kulevi Sea Port (constructed) - 1.3 million tons
- ✓ Supsa Seaport - 0.6 million tones

- **Infrastructure Projects:**

- ✓ **Poti Seaport**
 - totally private - “Ras al Khaiman Investment Authority”
 - new seaport capacity 20-25 mln tonnes
- ✓ **Batumi Seaport**
 - Totally private - “Kazmunaigaz”
 - container transportation (started)
- ✓ **Kulevi Seaport**
 - Private management - SOCAR
 - total capacity - 4 million tones (operating)

- **Capacity Improvement Facilitation:**

- ✓ Developing existing and new maritime ferry connections between the Black Sea ports of Georgia and other countries



Georgia in International Ratings

First Reformer in 2005-2009 in ECA region

- “Easy of Doing Business” (Doing Business 2009) - **15**-th place (up from 21-st in 2008)

Improved positions in:

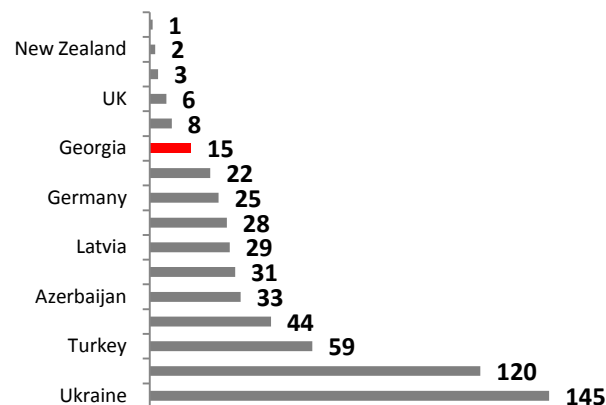
- ✓ Starting a Business - 6 steps up
- ✓ Dealing with Construction Permits - 1 step up
- ✓ Registering Property - 6 steps up
- ✓ Getting Credit - 33 steps up
- ✓ Closing a Business - 16 steps up

- “Index of Economic Freedom 2009” (Heritage Foundation) - 32-nd place (the same place in 2008, but improved score from 69.2 to 69.8) - Moderately Free

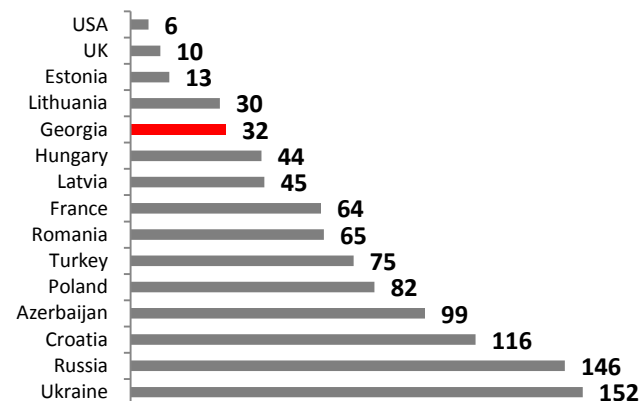
Improved scores in:

- ✓ Business Freedom - 1.6 points up
- ✓ Trade Freedom - 9.6 points up
- ✓ Freedom from Corruption - 6.0 points up

Doing Business



Index of Economic Freedom



Georgia in International Ratings

- “Index of Economic Freedom 2008” (Fraser Institute) - **39**-th place (up from 44-th in 2007)

Improved scores in:

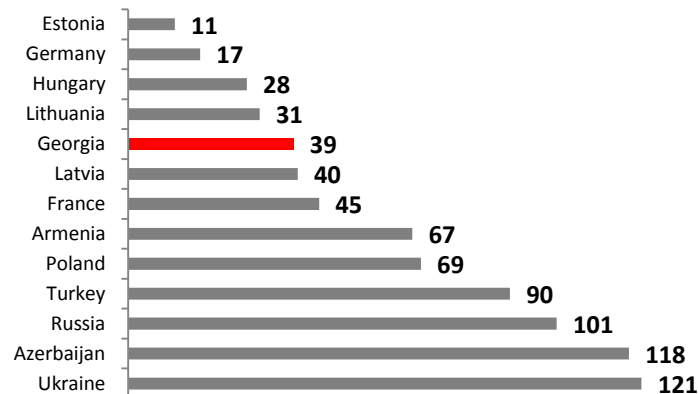
- ✓ Legal Structure and Security of Property Rights - 0.25 points up
- ✓ Access to Sound Money - 0.07 points up
- ✓ Freedom to Trade Internationally - 0.74 points up
- ✓ Regulation of Credit, Labor and Business - 0.05 points up

- “Inward FDI Performance Index 2007” (UNCTAD World Investment Report) - **9**-th place (up from 15-th in 2006)

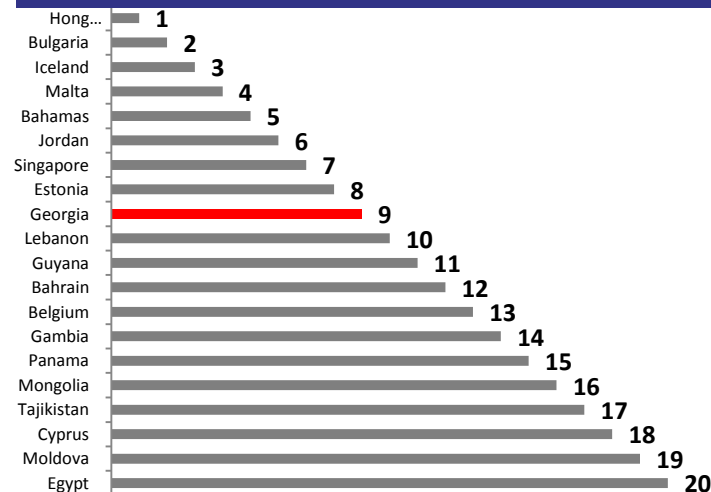
Improved positions because of:

- ✓ Positive reform
- ✓ Increased investors protection

Index of Economic Freedom



Inward FDI Performance Index



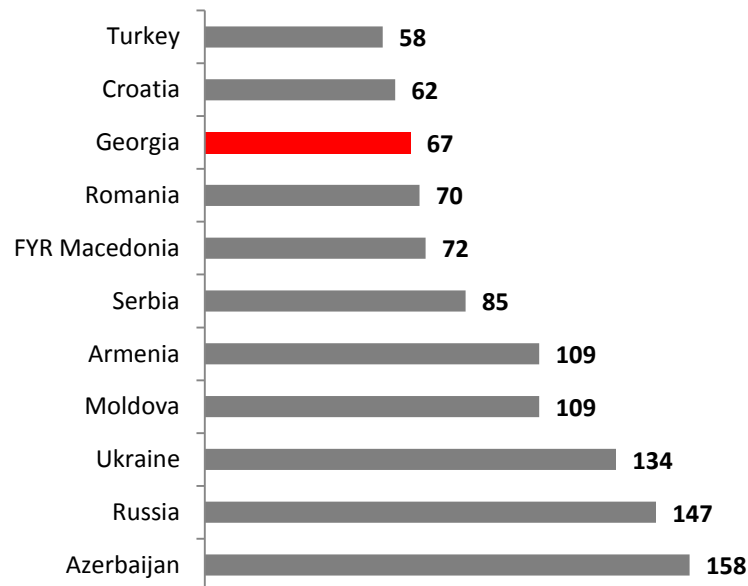
Georgia in International Ratings

- “Corruption Perception Index 2008” (Transparency International) - **67**-th place (up from 79-th in 2007)

Improved positions because of:

- ✓ Highly effective reforms in earning public confidence
- ✓ Highly effective steps in improving country's international image
- ✓ Post-revolution fallen of petty corruption

Corruption Perception Index



Georgia in International Ratings

- “Bertelsmann Transformation 2008”
(Bertelsmann Foundation):

- ✓ Status Index - 38-th place (up from 61-th in 2006)
- ✓ Management Index - 23-th place (up from 35-th in 2006)

Improved scores in:

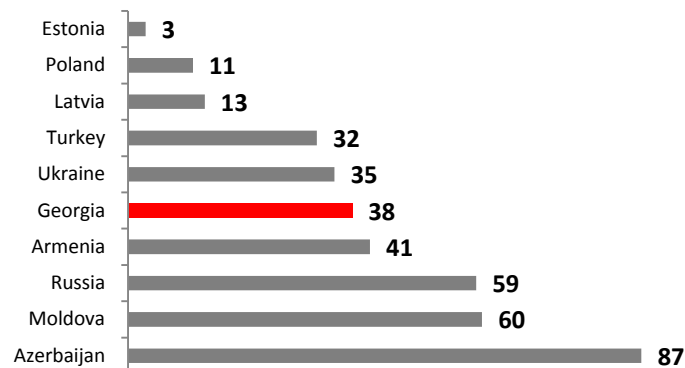
- Status index:

- ✓ Political transformation - 0.75 points up
- ✓ Economic transformation - 0.99 points up

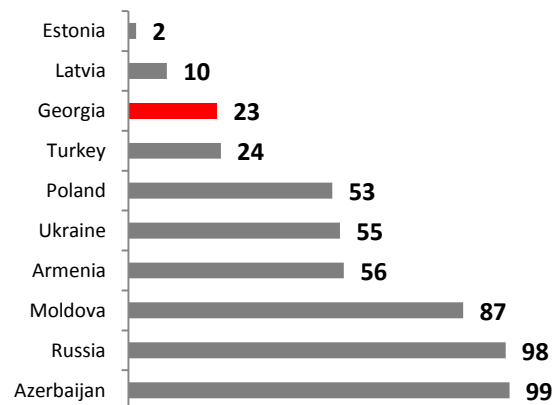
- Management index:

- ✓ Management performance - 0.55 points up

Status Index



Management Index



Contact Information

Lasha Zhvania Minister of Economic Development of Georgia	(+99532) 99 10 11	lzhvania@economy.ge
Irakli Gachechiladze Deputy Minister of Economic Development of Georgia	(+99532) 99 10 80	iraklig@economy.g
Lali Gogoberidze Head, Economic Analysis and Policy Department	(+99532) 99 11 14	lalig@economy.ge
Tea Loladze Head of Division, Business activity regulatory impact assessment	(+99532) 99 10 40	tealoladze@economy.ge

Useful Links

Government of Georgia	www.government.ge
Ministry of Economic Development of Georgia	www.economy.ge
Georgian National Agency for Standards, Technical Regulation and Metrology	www.gnims.caucasus.net
Georgian National Investment Agency	www.investingeorgia.org
Department of Tourism and Resorts of Georgia	www.dotr.gov.ge
Road Department of Georgia	www.georoad.ge
Department of Privatization	www.privatization.ge

