



USAID
FROM THE AMERICAN PEOPLE

SPEED
For a Better Business
Environment



Economic and Doing Business Reforms in Georgia 2004-2007

By Aleksi Aleksishvili

Chairman of Board of PMCG

Minister of Finance of Georgia, 2005-2007

Minister of Economy of Georgia, 2004-2005



Country Overview

- Georgia is a transcontinental country in the Caucasus region, located at the edge line between Europe and Asia
- Georgia covers a territory of 69,700 km²
- Population – 4.4 million (2002 Census)
- Capital – Tbilisi
- GDP - \$11,3 million (2010)
- GDP per capita - \$2'570 (2010);
- GDP per Capita (PPP) - \$ 4'800 (2010)
- Currency – Georgian Lari (1 USD=1.7 GEL)
- Adult Literacy Rate (UNDP) – 99.9%
- Main sectors of GDP :
 - Services (60%)
 - Industry (27%)
 - Agriculture (10%).





Georgia in International Ratings

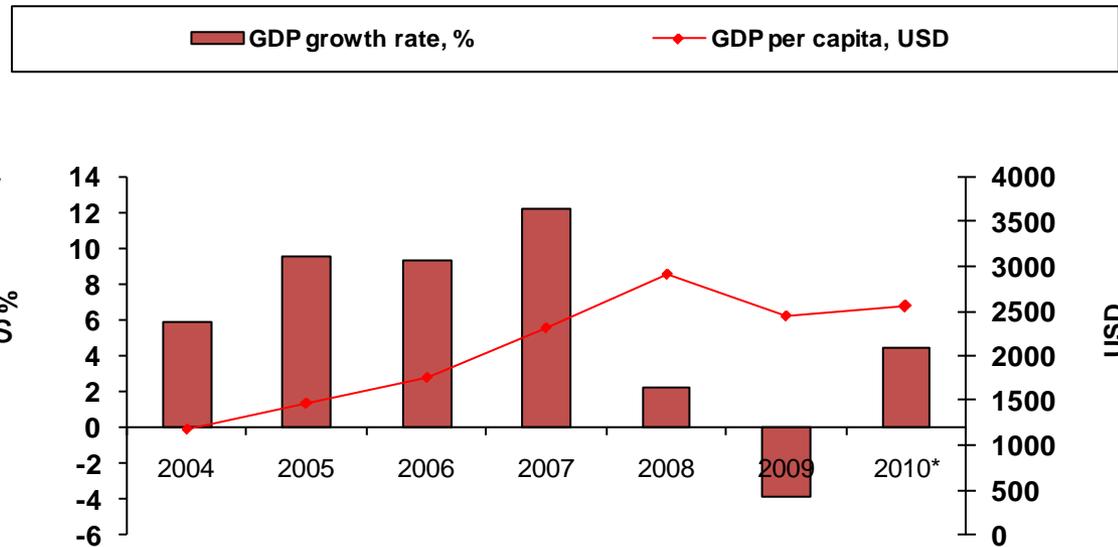
- Georgia is among the top 10 reformers in the world during three consecutive years.
- Georgia started with 110 rating in 2004 and achieved 11th rank in 2010.
- Georgia's TI's Corruption Perception index raised from 1.8 in 2003 to 3.8 in 2010.
- No sovereign rating in 2004. In 2007: BB-/Stable - assigned by Fitch, B+/Positive – S&P's.
- Budget arrears reached 70% of the state budget in 2003 and External debt stood at 42% of GDP in 2003.
- No arrears in 2007 and external debt reduced at 17% of GDP.



High and Sustainable Economic Growth

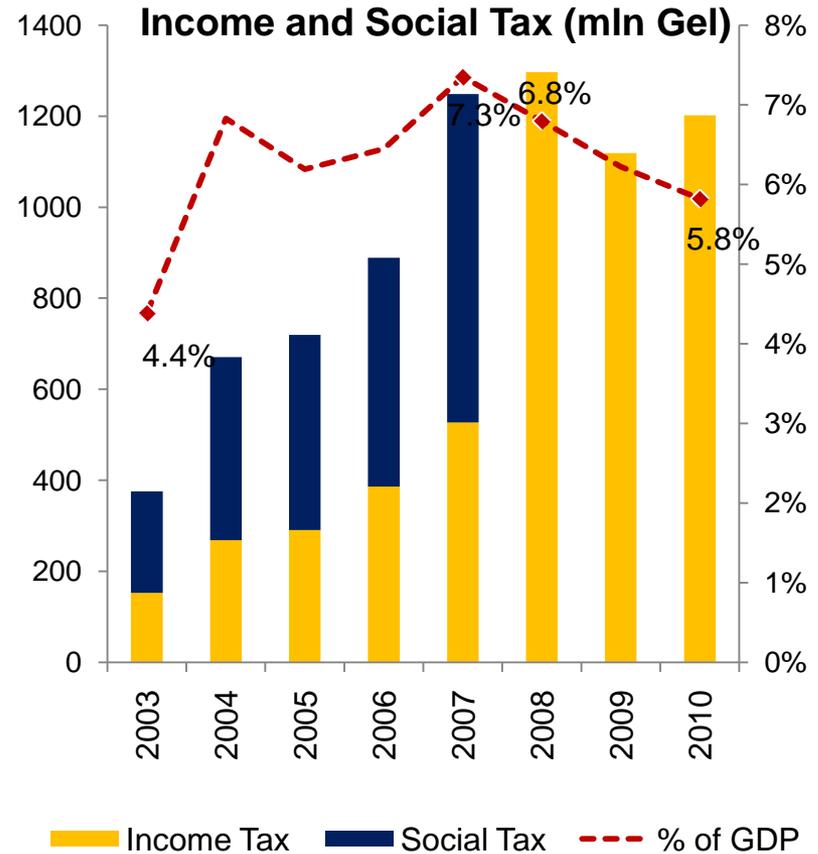
- Average Growth Rate (during 3 years of '05-07) – 10.4 percent.
- GDP growth rate reached 12.3 percent in 2007.
- Contribution from exports nearly doubled over the last 5 years.
- Increasing Labor Productivity, as well as high inflows of FDI were the major driving forces of growth.
- Despite the global economic crises and the war in Georgia in 2008, the country has proved to be highly resilient to political and external economic shocks.

GDP and GDP per capita Growth Rates, 2004-2010*



Reduction of Unemployment

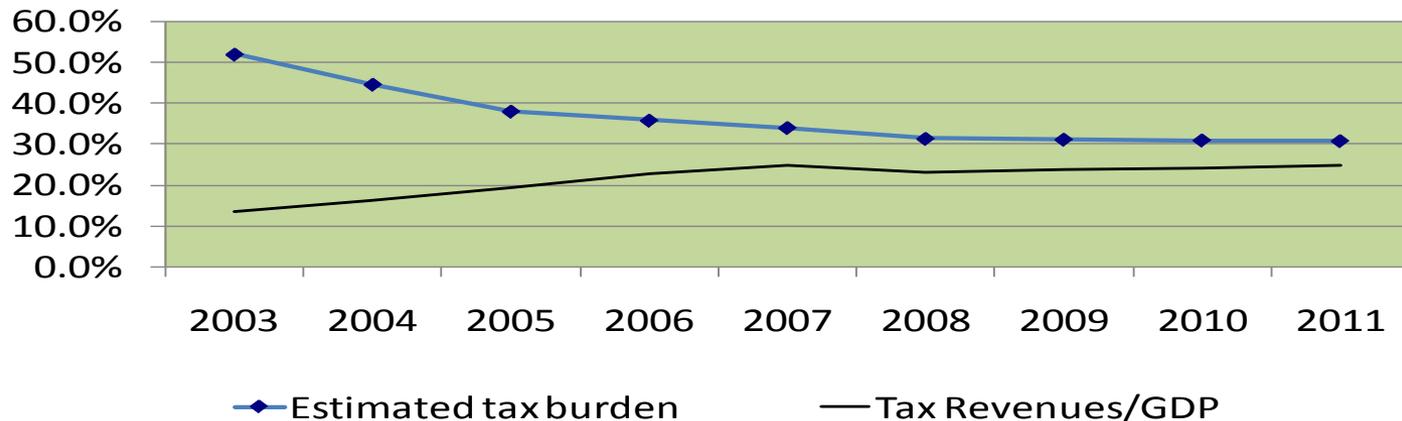
- Unemployment rate has been reduced from 18.6 % in 2003 to 13.4 % in 2007
- Reshaped the structure of employment: Share of hired Employees number (vs. Self-Employed) has been increased from 32% to 38%
- Increase in unemployment in Public Sector and State Owned Companies during first 2 years of reforms.





Tax Burden and Informal Economy

- In spite of easing the tax burden, the ratio of tax revenues to GDP increased from 13% in 2003 to 23% in 2006.
- This ratio reached 25% in 2007 and being kept stable.
- Informal Economy has been reduced from around 65 % to 10% of GDP





Public Revenue

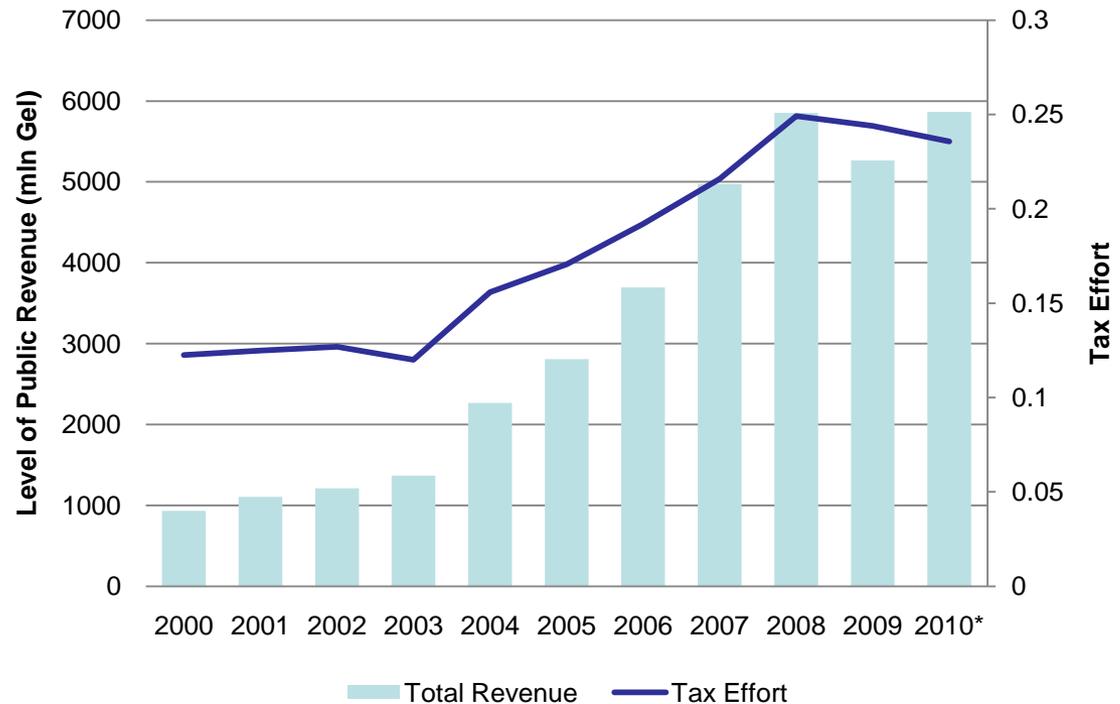
Revenue

- 2000-2003 low growth
- 2003-2010 high growth

Tax Effort

- 2000-2003 around 12%
- 2003-2010 high growth, almost doubled

Revenue and Tax Effort



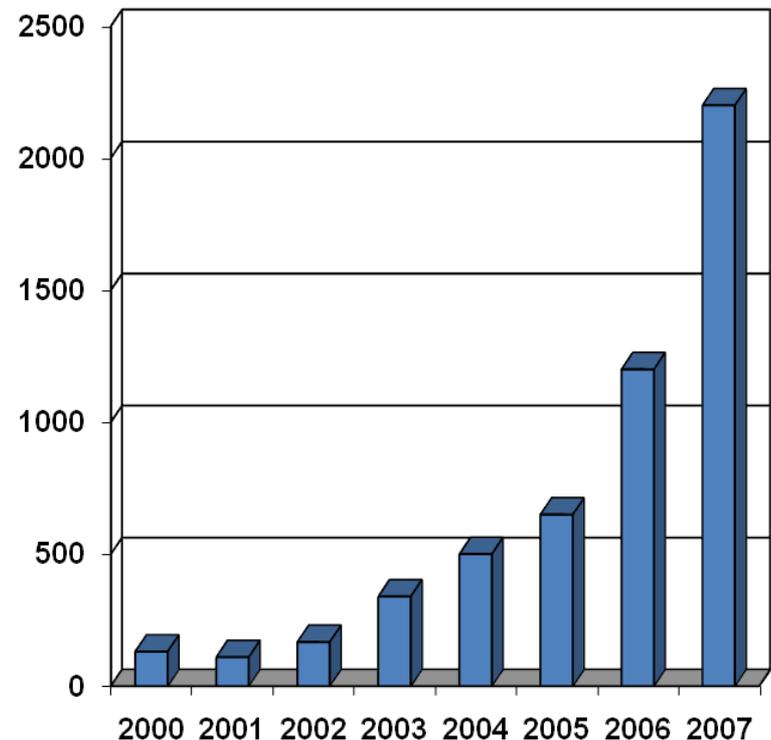
*Tax Effort is defined as Tax Revenue / Gross Domestic Product



Foreign Direct Investments

- FDI sharply increased from 2004 and reached \$2.2 billion in 2007.
- The largest investors in 2006 were: UK, USA, Kazakhstan, Turkey, and Norway.
- Denmark, Netherlands and Czech Republic became the top investors by investing in 2007.
- No mega- project investments after 2004. All mega projects related to BTC and BTE oil and gas pipelines has been finished in 2005
- After the war in 2008 and global financial crises in 2008-2009 FDI shrank, but is recovering year by year.

FDI Inflows, 2000-2007, mln.USD

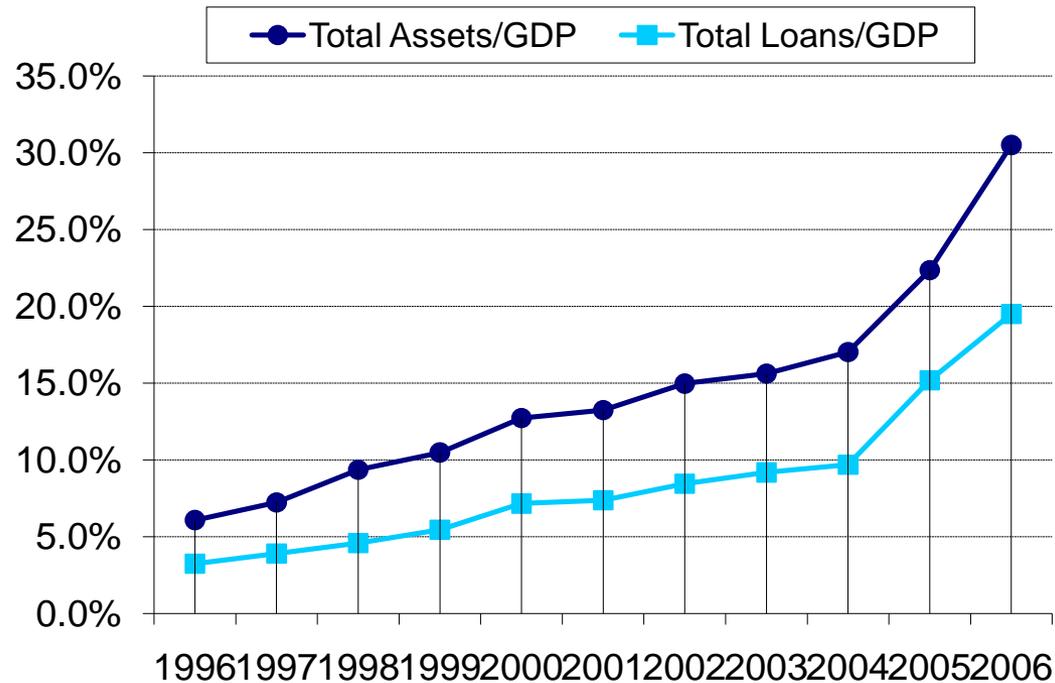




Financial Sector

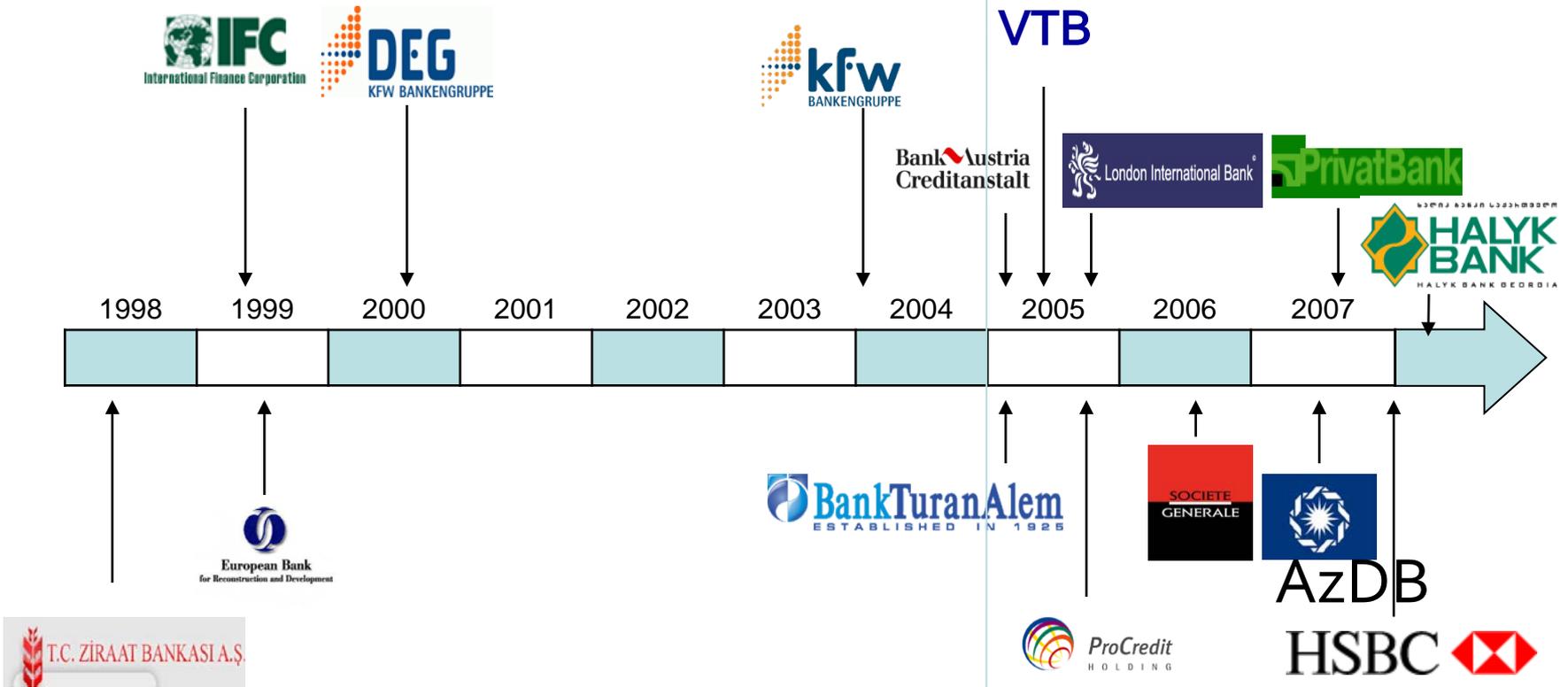
- The banking sector is one of the most dynamic sectors of the economy (average growth rate in assets was 34% during the last decade).
- The financial sector is dominated by banks (more than 95%). There are 20 commercial banks in Georgia.
- More than 50% of total banking sector capital is owned by international companies.
- 11 banks with foreign capital participation control 76% of total assets.

Total Assets and Loans to GDP, 1996-2006





Foreign Entrants into the Georgian Banking Market





USAID
FROM THE AMERICAN PEOPLE

SPEED
For a Better Business
Environment



Policy and Management Consulting Group

How Did We Get There – Building Free, Competitive Economy

- Property rights
- Liberal Fiscal and Trade Regimes
- Improved budget policy
- Structural Reforms
- Price liberalization
- Privatization
- Legal Framework
- Fighting corruption



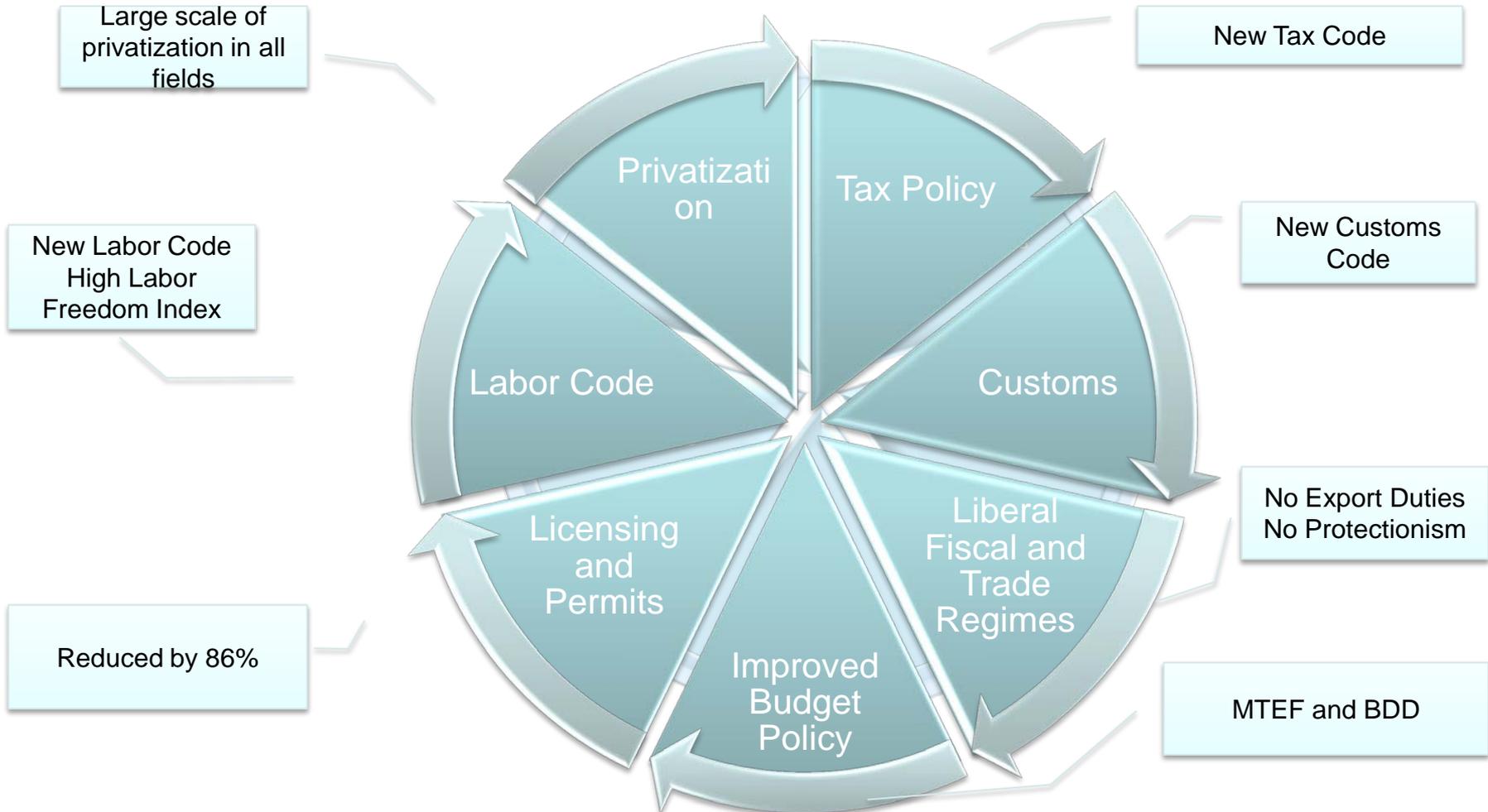
USAID
FROM THE AMERICAN PEOPLE

SPEED
For a Better Business Environment



Policy and Management Consulting Group

Structural and Economic Reforms





USAID
FROM THE AMERICAN PEOPLE

SPEED
For a Better Business
Environment



Policy and Management Consulting Group

Tax Policy

- Enacted in 2005 new Tax Code reduced the number of taxes from 22 to 7 and in 2007 to 6
 - VAT – *18 percent*
 - Customs Duty – *0, 5 and 12 percent*
 - Personal Income Tax – *12%*
 - ~~Social Tax – *20%*~~
 - ~~Profit Tax – *20 percent*~~
 - Excise Tax – *varies depending on type of goods*
 - Property Tax – *defined by local governments*

Personal
Income Tax

2007 25%	2008 20%
-------------	-------------



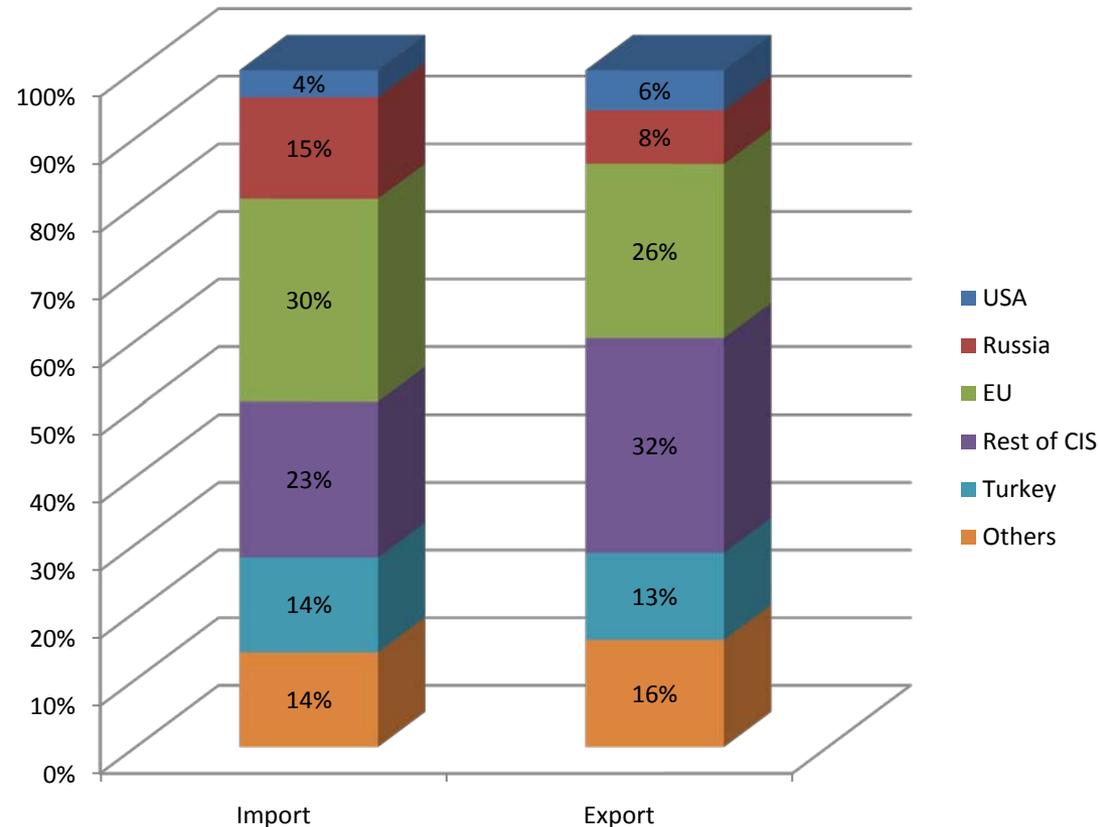
Comparison of Major Taxes in the Region

Country	Years	Profit Tax	Tax on Dividends	Joint Profit tax for companies	Tax on Wages	Taxes for Ind. entrepreneur /Taxable Income
Georgia	2007	20%	10%	28%	26.67%	29.6%
	2008	15%	10%	23.5%	25%	25.0%
Azerbaijan	2007	22%	10%	30%	28.3-45.8%	28.3-45.8%
Armenia	2007	20%	5%	24%	38.9%	38.9%
Russia	2007	24%	9%	31%	14.7-17.6-20.9-23.7-27.5-30.9%	14.7-16-19.4-20.9%
Turkey	2007	20%	10%	28%	20-45%	
Latvia	2007	15%	10%	23.5%	43.6%	31.2%
Lithuania	2007	15%	15%	28%	36.7%	36.7%
Estonia	2007	0%	28.21%	28%	41.4%	41.4%
	2008	0%	26.58%	26.5%	40.6%	40.6%
	2009	0%	25.00%	25%	39.8%	39.8%



Trade Policy

- No protection of internal market by import duties.
- One of the most liberal import duty systems in the world, with an average weighted import duty rate of 1.5%.
- 90% of all imports have 0% duty.
- Equal VAT and excise tax on imported and local goods.
- No export duties.
- Trade is oriented to the markets of developed countries and it has become more diversified.
- Over the last decade exports grew on average by 21%; imports grew by 18%.

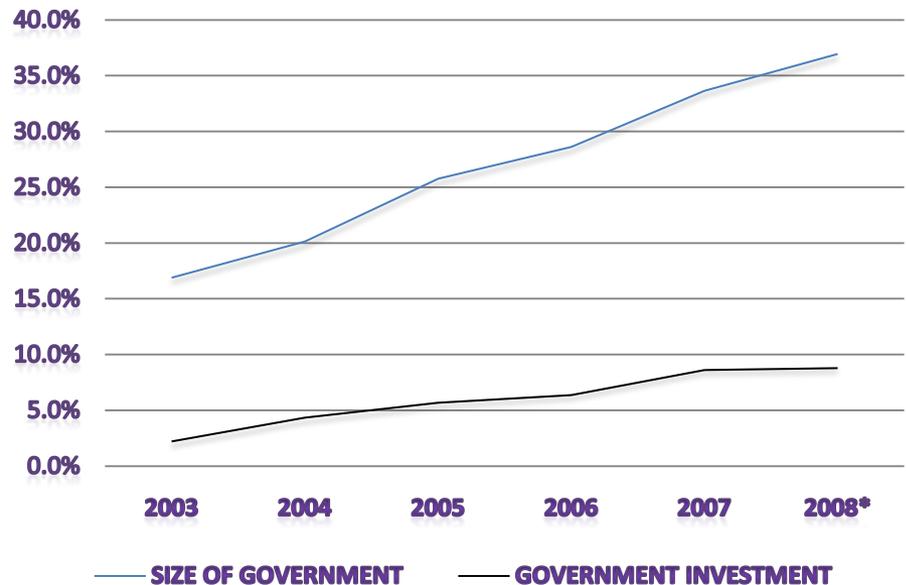




Fiscal/Budget Policy

- Based on stated policy, size of the government should not exceed 30% of GDP and will be reduced to 25% for next years.
- Government Investment volume in government spending will be kept more than 5% of GDP (in a range of 6-8%).
- Introduction of the Medium Term Expenditure Framework (MTEF)
 - Better macroeconomic analysis
 - Allocation of resources according to priorities
- Basic Data and Directions (BDD)
 - Defines the balance between current and capital expenditures in the medium term in order to ensure sustainable growth
 - Defines the size of government and allocations to government (25% range)

SIZE OF THE GOVERNMENT AND GOVERNMENT INVESTMENT

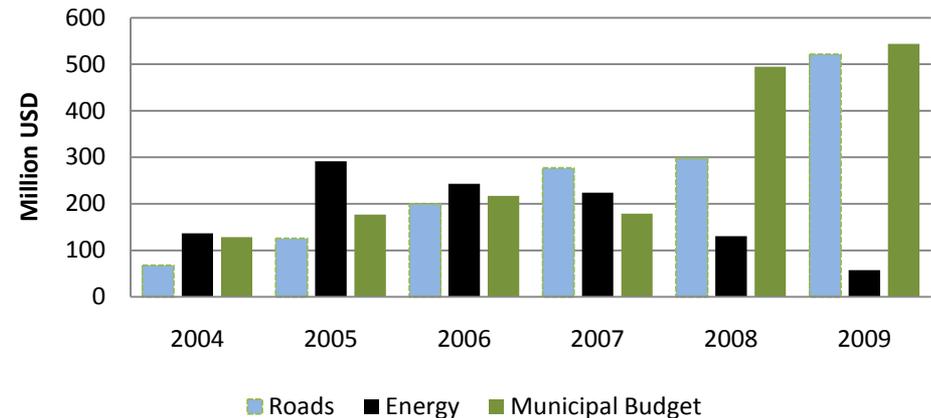




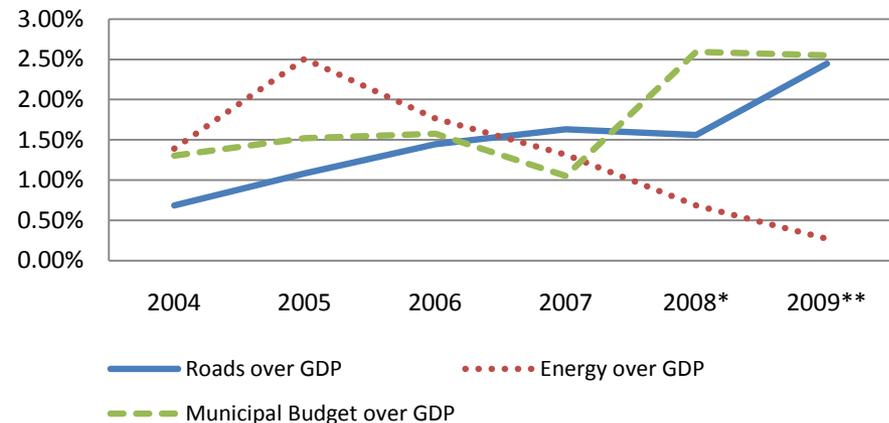
Investments in Infrastructure

- Government of Georgia was widely investing money in energy infrastructure and as a result got guaranteed access to the energy.
- Road construction and rehabilitation takes a significant share in Government spending and it is expanding over time. It is planned to spend 521 million GEL in 2009, on approximately 618 km road rehabilitation.
- Municipal budget was rising during these years as the projects for regional infrastructure were widely financed.
- Focus on priorities and living standards; avoid “white elephant” syndrome.

Expenditures



Percentage of GDP





Simplified Licensing and Permitting Procedures

- Licenses and permits may be required only for:
 - Safety and health protection
 - Security of living conditions and cultural environment of individuals
 - Protection of state and public interests.
- Total number of licenses and permits was reduced by 86%, in reforms that eliminated 756 licenses and permits and streamlined procedures.
- 30 days are necessary for issuing licenses and 20 days for issuing permits.
- "Silence is consent" - a permit or license is automatically granted if no government action is taken within statutory time limits.



Structural Reforms

Two pillars of Georgia's economic policy:

- Minimum state intervention
- Promotion of private initiatives.

Public Sector Reform:

- Number of Public Servants has been reduced by 25%
- Number of ministries reduced from 26 to 12
- All agencies unified in ministries
- All international technical projects were coordinated by the government

Privatization

- Large scale privatization in all fields

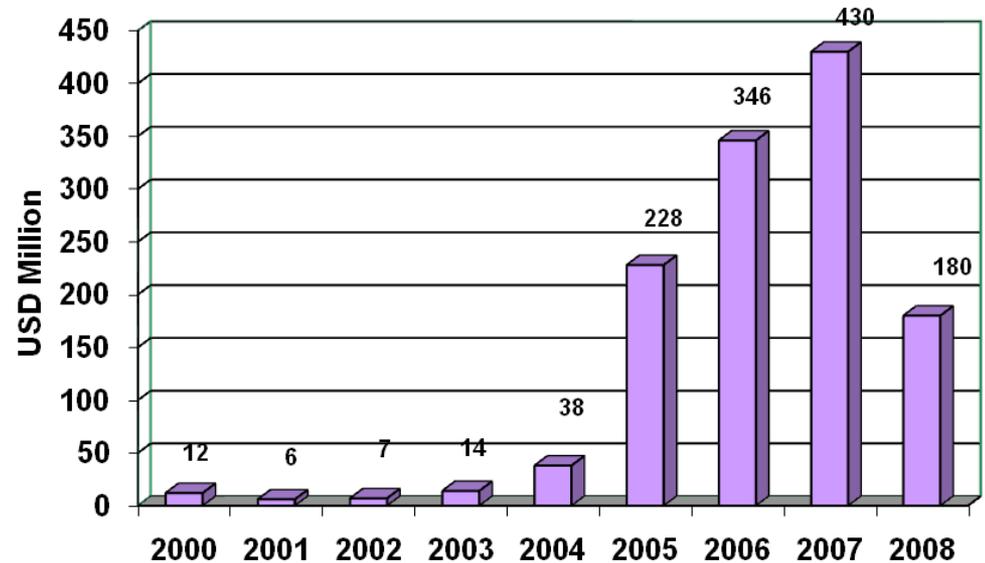
Energy sector

- Guaranteed access to energy (electricity, natural gas etc)

Deregulation & Liberalization (transport)

- Open Sky Policy
- Easing licensing and permitting requirements
- Regional integration

Proceeds from Privatization

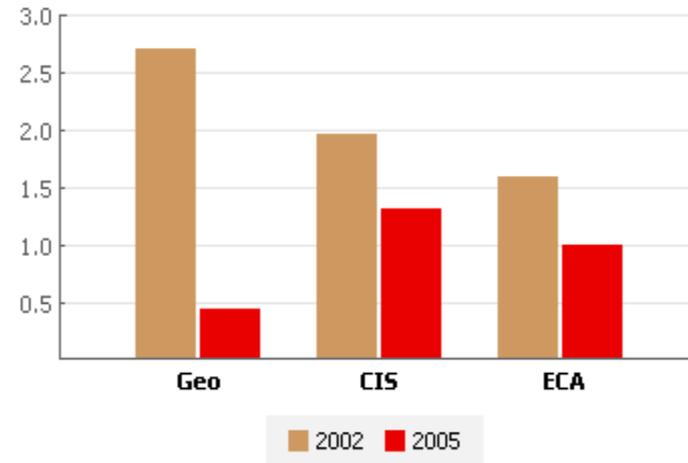




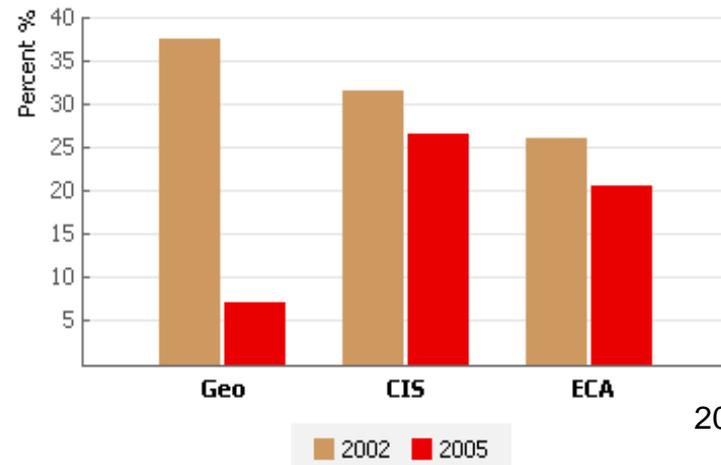
Corruption-free Environment

- Only 3% of population think they need bribe payment for success by the survey of Transparency International 2010.
- Georgia's score (68) in TI's Corruption Perception Index 2010 is a significant improvement over the score in 2004.
- Georgia now satisfies the Millennium Challenge Corporation's indicator regarding "Control of Corruption" and scores above its peer group.
- The percentage of firms that identified corruption as a significant obstacle fell from 60% to 39% from 2002 to 2005.
- The most effective reform was conducted in fiscal institutions and police system .

Bribe Tax (bribes as a share of annual sales)



Bribe Frequency (% of firms saying unofficial payments are frequent)

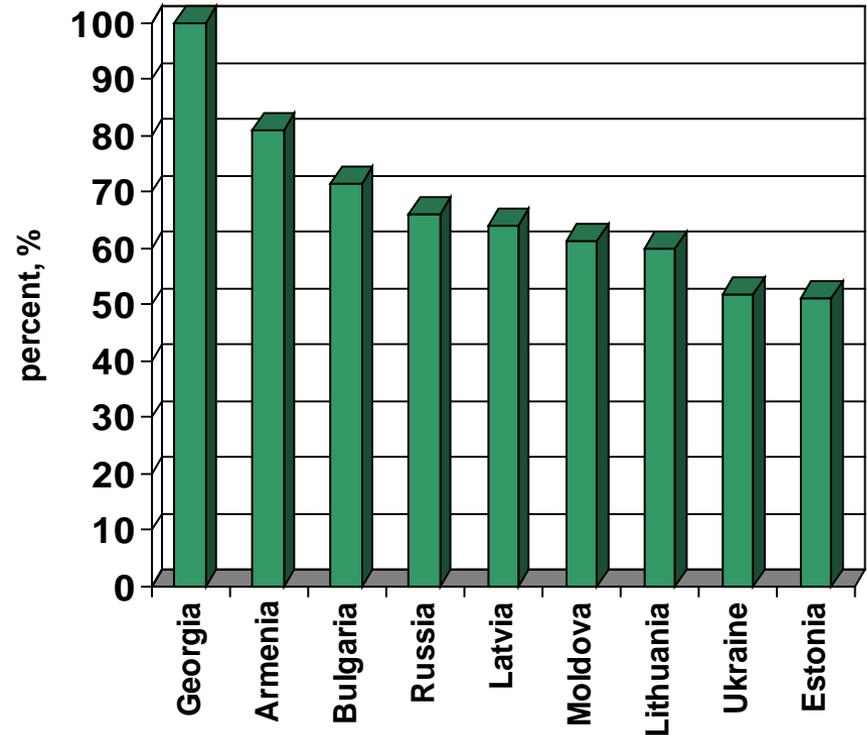




World's Leader in Labor Freedom

- The Labor Freedom factor covers areas of:
 - No minimum wages,
 - No laws inhibiting layoffs,
 - No regulatory burdens on hiring, hours etc.
- Georgia simultaneously offers:
 - Educated workforce
 - Very competitive prevailing wage rates.

Labor Freedom





Looking Ahead...

- Steady recovery of the economy
- Real GDP growth of 5-8% (5.5% expected in 2011)
- Keep open and competitive economy
- Low inflation (less than 6%)
- Reduction of unemployment to 11-13%
- Strengthen public sector institutions
- Improve rule of law and legal system
- Develop democracy and institutions



"The New Course“, December 2010

- Employment of the new Tax Code that will alleviate press of tax administration on entrepreneur Liberal Fiscal and Trade Regimes
- Introduction of the mechanism of forgiving for violation and advance notice
- Employment of such mechanism of charging that in case of mistake charging will not make business enterprise stop and ruin
- Preparation of new qualified personnel and retraining of the old in the way that each of them shall be oriented on success and assisting to the business Privatization
- Construction of new infrastructure that will make much easier procedures and services, decreases bureaucracy and time of service to minimum. For example to make one hour enough for all the procedures customs clearance



Policy and Management Consulting Group - PMCG

- Established in 2007 in Tbilisi, Georgia
- Founded by former high ranked government officials , international experts and business leaders
- Works in Public and Private Consulting sectors
- Productive partnership with key international companies
- One of the significant players on the consulting market of the region

For additional information:

#20, Shevchenko Street, Tbilisi, 0108, Georgia

+995 32 292 1171

office@pmcg.ge

www.pmcg.ge