Georgian Economic Outlook
Country Overview

Area 69 700 sq km
Population 4,5 mln
Life expectancy 74.5 years
Official language Georgian
Literacy 100%
Currency Lari (GEL)
GDP: 2012* US$ 15.8 billion
GDP - real growth rate 2012* 6.1%
GDP - Per Capita 2012 US$ 3,519.6
Inflation rate 2012 -0.9%; -1.4%
(average annual; e-o-p)
Public External debt to GDP 2012 27.6%
Ministry of Economy and Sustainable Development of Georgia

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

**New Tax Code – radically progressive, in line with the best international practices (since 01.2011)**
- Simplification of Doing Business
- Reduction of Tax Compliance burden – Simplification of Tax Administration
- Formation of Stable and Sustainable Tax environment
- Principle of “Good Faith”
- Special Treatment for Micro and Small businesses
- Fix Tax

**New system – on line registration of taxpayers and payment**

**Customs Reform**
- Simplified customs procedures
- Simplified and sharply reduced the costs connected to the foreign trade
- No quantitative restrictions (quotas) on imports and exports
- Establishment of modern Customs Clearance Zone
Ministry of Economy and Sustainable Development of Georgia

Liberal Reforms for Long Term Sustainable Growth

➢ Modernized System of Licenses and Permits

• Number of licenses and permits reduced by 90%
• 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

➢ The Reform of Technical Regulation System

• National mandatory standards system was replaced by the voluntary standards
• Declined role of state in the system of technical regulation
• One single Agency for market surveillance – Construction & Technical Inspection was created

➢ Privatization of State Property

• Transparent privatization policy was addressed towards attraction of foreign investments, increase of the private sector role in country’s economy, effective use of country’s resources etc
Economic Growth

Nominal GDP and Real Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal GDP</th>
<th>Real Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>7.8%</td>
<td>9.4%</td>
</tr>
<tr>
<td>2007</td>
<td>10.2%</td>
<td>12.3%</td>
</tr>
<tr>
<td>2008</td>
<td>12.8%</td>
<td>2.3%</td>
</tr>
<tr>
<td>2009</td>
<td>10.8%</td>
<td>-3.8%</td>
</tr>
<tr>
<td>2010</td>
<td>11.6%</td>
<td>6.3%</td>
</tr>
<tr>
<td>2011</td>
<td>7.2%</td>
<td>14.4%</td>
</tr>
<tr>
<td>2012*</td>
<td>6.1%</td>
<td>15.8%</td>
</tr>
</tbody>
</table>

Fastest Growing Sectors 2012*

- Manufacturing: 16.4%
- Financial activities: 15.0%
- Hotels and Restaurants: 11.8%
- Construction: 11.4%
- Financial intermediation: 10.3%
- Communication: 9.6%
- Other social and personal service activities: 8.2%
- Trade: 7.3%
- Households: 7.0%
- Transport: 5.9%

Components of Nominal GDP 2012*

- Industry: 17.2%
- Trade: 16.6%
- Real estate: 5.5%
- Agriculture: 8.4%
- Construction: 7.3%
- Education: 4.9%
- Health care: 6.0%
- Other: 23.6%
- Transport & communication: 10.6%

Source: GEOSTAT

Nominal GDP Per Capita

<table>
<thead>
<tr>
<th>Year</th>
<th>GEL</th>
<th>US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>3133</td>
<td>1764</td>
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<tr>
<td>2007</td>
<td>3867</td>
<td>2315</td>
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<tr>
<td>2008</td>
<td>4353</td>
<td>2921</td>
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<tr>
<td>2009</td>
<td>4101</td>
<td>2455</td>
</tr>
<tr>
<td>2010</td>
<td>4676</td>
<td>2623</td>
</tr>
<tr>
<td>2011</td>
<td>5447</td>
<td>3231</td>
</tr>
<tr>
<td>2012*</td>
<td>5812</td>
<td>3520</td>
</tr>
</tbody>
</table>

*Preliminary data
Inflation 2012

- End of period – \(-1.4\%\)
- Average annual – \(-0.9\%\)

Monthly Inflation Trend

Source: GEOSTAT

Inflation Trend 2004 - 2012

Inflation Trend 2011-2013
Subsistence Minimum, 2012

- For working age male – 151,1 GEL
- For average consumer – 133,8 GEL
- For average family – 253,5 GEL

Poverty Threshold, 2012

- Beneficiaries of subsistence allowance – 435,961 person
  - Change - 6.0%
- Share of population under the poverty threshold – 9.2%
  - Change - 0.5 points

Inequality Indicators, 2012

Share of population under 60 percent of the median consumption (%)

- Georgia – 22.4%
- Urban – 17.5%
- Rural – 27.0%

Source: GEOSTAT
Labour Market

Unemployment Rate 2012

Unemployment rate – 15.0%

- Employed population – 1,724.0 thousand
  - hired – 662.6 thousand (Growth – 4.8%)
  - self employed – 1,054.0 thousand (Growth – 2.8%)
- Unemployed population – 305.1 thousand

Monthly Nominal Salaries 2011

- Average – 712.5 GEL, growth 12.0%
- State Sector – 656.1 GEL, growth 11.4%
- Non-state Sector – 748.6 growth 11.7%
- Business Sector – 714.3 GEL, growth 14.7%
- Non-business Sector - 705.9 Gel, growth 7.3%

Monthly Salary of Employed in State and Non-state Sectors

Source: National Statistics Office of Georgia
Foreign Trade

Foreign Trade 2012

Total Trade Turnover – 10,220 mln. USD (10.5% Growth)

- Export – 2,377 mln. USD (8.6% growth)
- Import – 7,842 mln. USD (11.1% growth)
- Balance – -5,465 mln. USD

Foreign Trade – Turnover, Export, Import

10 main Trade Partners 2012

Foreign Trade by Country Groups 2012

Source: GEOSTAT

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Foreign Trade

Source: GEOSTAT

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Diversified Foreign Trade, 2012

Georgian Exports by Country

Georgian Imports by Country

Georgian Exports by Commodity Group

Georgian Imports by Commodity Group

Source: GEOSTAT

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Trade Policy

Competitive Trade Regimes

• **Free Trade Regime** – with CIS countries and Turkey (since 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

Negotiation with the EU on Deep and Comprehensive Free Trade Agreement (DCFTA) is ongoing

Main Features of Georgian Trade Policy

• Low import tariffs
• 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

**Georgia has bilateral treaties on investment promotion and protection with 32 countries**

**Georgia has concluded double taxation treaties with 42 countries**
Foreign Direct Investments

- **FDI 2012** – 911,6 mln. USD (decline – 18,4%)

- **FDI 2011** – 1,117.2 mln. USD (growth - 37.2%)

### FDI by Sectors 2012

- Energy sector: 19,7%
- Other sectors: 18,4%
- Manufacturing: 4,6%
- Financial sector: 8,0%
- Transport and Communication: 17,8%
- Construction: 4,4%
- Real estate: 1,9%
- Hotels and Restaurants: 1,9%
- Healthcare: 0,5%
- Agriculture: 1,8%
- Consulting: 1,4%
- Mining: 1,9%

### FDI by Countries

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>22%</td>
<td>15,2%</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>12%</td>
<td>10,3%</td>
</tr>
<tr>
<td>Denmark</td>
<td>9%</td>
<td>8,9%</td>
</tr>
<tr>
<td>International Organizations</td>
<td>9%</td>
<td>7,0%</td>
</tr>
<tr>
<td>Turkey</td>
<td>7%</td>
<td>6,5%</td>
</tr>
<tr>
<td>Russia</td>
<td>5%</td>
<td>4,6%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5%</td>
<td>4,3%</td>
</tr>
<tr>
<td>Czech Rep.</td>
<td>4%</td>
<td>4,2%</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>4%</td>
<td>4,0%</td>
</tr>
<tr>
<td>Virgin Islands, British</td>
<td>4%</td>
<td>3,9%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>85%</td>
<td><strong>Subtotal</strong></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>15%</td>
<td><strong>Other</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100%</td>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: GEOSTAT
Attraction of FDI – one of the main priorities’ of Government of Georgia

Policy, facilitating FDI

- Equal treatment for local and foreign investments
- Dramatically simplified regulations
- Favorable tax regimes

Free Industrial Zones

- The most liberal tax regime & simplified procedures

Free Tourist Zones

- Liberal tax regime

IT Zones

- Liberal tax regime
Fiscal and Monetary Performance

Tax Revenue Performance

Source: National Bank of Georgia

Exchange Rate Evolution

Source: National Bank of Georgia

NBG’s Gross FX Reserves

Source: National Bank of Georgia
Tax Policy

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

➢ Reduced tax rates

Taxes/Rates

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

Special/preferential tax treatment for Micro and Small Enterprises

• Micro Business (turnover no more 30 000 GEL) – exempted from taxes
• Small Business (turnover no more 100 000 GEL) – pays 3% or 5% of taxed income
Current Account Balance

Source: National Bank of Georgia

Ministry of Economy and Sustainable Development of Georgia
Public External Debt

Long-term external funding boosting the economy in short and long-term future

Public External Debt, 2012 – 3,997.3 US$ mln

Share of Public External Debt in GDP

PED breakdown by origin (million USD)

| Source: MOF | Source: Ministry of Finance of Georgia |

Ministry of Economy and Sustainable Development of Georgia
Dynamics of Brussels Pledge ($4.5 billion) Implementation

Brussels Pledge Update - Public & Estimated Private Sectors

PLEDGED & COMMITTED $4.5 Billion

DISBURSED $2.5 Billion

Commitsments (signed) so far by Donors, Public Sector Operations

Commitments by Sectors

Implementation/disbursement shall last until 2015, providing low-cost stimulus to the economy and allowing to retain policy/fiscal space.
Robust Banking Sector

- Entirely private owned since 1996
- No restrictions on foreign ownership of banks

In 2013 Georgia’s banking sector is represented by **20 commercial banks:**

- Foreign capital performance in equity – 15 banks
- Branch of foreign bank – 3 banks

Source: National Bank of Georgia
Banking Performance

Deposits and loans in 2012

- Deposits – 8 203,4 mln.GEL
  - National currency – 2 967,9 mln. GEL
  - Foreign currency – 5 235,5 mln. GEL

  **Growth – by 11.6%**

- Loan – 8 808,2 mln.GEL
  - Sectors – 4 757,6 mln. GEL
  - Households – 3 614,6 mln. GEL

  **Growth – 12.9%**

**FDI in Financial Sector**

- In 2012 FDI in financial sector - 162.6 mln. USD
- 17.8% of total FDI

Source: National Bank of Georgia
Tourism

Tourism sector is characterized with growing tendency during last years

- In 2012, number of visitors to Georgia amounted to 4 428 221 persons and increased by 56.9% compared to the same period of the previous year.

The New York Times ranked Georgia 6-th among 41 best countries for the tourism destination

<table>
<thead>
<tr>
<th>Country</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUROPE</td>
<td>2 695 235</td>
<td>4 225 635</td>
</tr>
<tr>
<td>AMERICAS</td>
<td>29 286</td>
<td>33 898</td>
</tr>
<tr>
<td>EAST ASIA/PACIFIC</td>
<td>85 686</td>
<td>123 987</td>
</tr>
<tr>
<td>MIDDLE EAST</td>
<td>5 663</td>
<td>17 141</td>
</tr>
<tr>
<td>AFRICA</td>
<td>4 229</td>
<td>7 110</td>
</tr>
<tr>
<td>OTHERS</td>
<td>2 264</td>
<td>20 450</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2 822 363</strong></td>
<td><strong>4 421 111</strong></td>
</tr>
</tbody>
</table>

Source: Georgian National Tourism Administration
In 2012

- **Turnover** – 42 048.0 mln. GEL (increased by 14.5%)
- **Output** – 23 096.0 mln. GEL (increased by 20%)
- **Salaries** – 714.3 GEL
- **Employment** – 534 397 persons

Source: GEOSTAT
Industry

**In 2012**

- **Turnover** – 7 553.6 mln. GEL (increased by 4.4%)
- **Output** – 6,868.3 mln. GEL (increased by 6.8%)

**Industry in GDP**

**Growth – 7.6%**

- Manufacturing – 2 360.6 mln. GEL (10.5%)
- Processing of products by households – 640.4 mln. GEL (2.8%)
- Electricity, gas and water supply – 628.3 mln. GEL (2.8%)
- Mining and Quarrying – 228.3 mln. GEL (1.0%)

*Source: GEOSTAT*
Due to the accelerated privatization policy all main state owned property has been privatized during last years

In 2003-2012

- Privatized Items – 1198 units
- Total Amount – 80.2 mln GEL

Privatization 2003-2012

![Graph of privatization 2003-2012 showing number of items privatized and total income in million GEL per year. The number of items privatized and total income is highest in 2012.]

Ministry of Economy and Sustainable Development of Georgia
Georgia in International Ratings

“Doing Business 2014” (WB & IFC) – 8th place (12th place in 2012)

Top Improver since 2005 in EE&CA and globally with 35 institutional reforms

Georgia is among TOP 10 countries in following areas:

- Registering Property - 1st place
- Dealing with Construction Permits – 2nd place
- Getting Credit – 3rd place
- Starting a Business – 8th place

Due to the implemented reforms Georgia in the recent years, in 2014 Georgia has improved in 3 areas, measured by Doing Business

- Paying Taxes
- Trading Across Borders
- Resolving Insolvency
Georgia in International Ratings

“Index of Economic Freedom 2013” (Heritage Foundation) – 21st place – Moderately Free

- 11th place in Europe (out of 43 countries in region)

Improved scores in:
- Property Rights – up by 5 points
- Freedom from Corruption – up by 3 points
- Fiscal Freedom – up by 0.3 points
- Government Spending – up by 13.1 points
- Business Freedom – up by 3.7 points
- Investment Freedom – up by 5 points

“Index of Economic Freedom 2012” (Fraser Institute) – 42nd place (76th place in 2003)

Improved scores in:
- Legal System & Property rights – 66 (up by 20 steps)
- Freedom to Trade Internationally – 11 (up by 13 steps)
- Regulation – 32 (up by 24 steps)
Georgia in International Ratings

“Corruption Perception Index 2012” (Transparency International) – 51st place (up from 85th in 2002)

Improved positions because of:

• Highly effective reforms in earning public confidence
• Highly effective steps in improving country’s international image
• Fallen of petty corruption

Global Corruption Barometer 2010 (Transparency International)

• 1st place in the world in public perception of decrease of corruption
  ✓ 78% of surveyed – corruption level has decreased
• 2nd place in public perception of effectiveness of Government reforms in the fight against corruption
Georgia in International Ratings

“Global Enabling Trade Index 2012” (World Economic Forum) – 38th place (amongst 32 countries)

- Market Access – 9th position
- Border Administration – 33rd position
- Transport and Communication Infrastructure – 66th position
- Business environment – 50th position

Paying Taxes – the Global Picture’s „Ease of Paying Taxes“ – 39th place out of 183 countries (up from 61 in 2011)

“Best Countries for Business 2012” (Forbes) - 50th place out of 141 countries (up from 50th place in 2010 amongst 134 countries)

improved position because of

- Technology component
- Energy sector

Global Enabling Trade, 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>1</td>
</tr>
<tr>
<td>Estonia</td>
<td>26</td>
</tr>
<tr>
<td>Georgia</td>
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<tr>
<td>Lithuania</td>
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<td>Latvia</td>
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<tr>
<td>Armenia</td>
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<tr>
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<tr>
<td>Azerbaijan</td>
<td>81</td>
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<tr>
<td>Ukraine</td>
<td>86</td>
</tr>
<tr>
<td>Russia</td>
<td>112</td>
</tr>
</tbody>
</table>
Georgia in International Ratings

“Bertelsmann Transformation 2012” (Bertelsmann Foundation)

- **Status Index** – 58th place (up from 79th in 2003)

### Status Index, 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
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<tr>
<td>Estonia</td>
<td>5</td>
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<tr>
<td>Lithuania</td>
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<tr>
<td>Latvia</td>
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<tr>
<td>Turkey</td>
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<td>Georgia</td>
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<td>Armenia</td>
<td>66</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>85</td>
</tr>
</tbody>
</table>

- **Management Index** – 53rd place (up from 95th place in 2003)

### Management Index, 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taiwan</td>
<td>1</td>
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<tr>
<td>Estonia</td>
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<td>Lithuania</td>
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<td>Latvia</td>
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<td>Azerbaijan</td>
<td>98</td>
</tr>
<tr>
<td>Russia</td>
<td>99</td>
</tr>
</tbody>
</table>
Georgia in International Ratings

Georgia’s Sovereign Ratings

➢ “Fitch Ratings 2013”
  • Long-term foreign and local currency Issuer Default Ratings (IDRs) – “BB-”
    (In 2010 - “B+”)
  • Short-term foreign currency IDR – “B”
  • Country Ceiling – “BB”
  • Unsecured debt - “BB-“
    (In 2010 - “B+”)
  • Outlook - Stable

➢ “Moody’s Investors Service 2012”
  • Not-Prime foreign and local currency issuer rating (affirmed) – Ba3
  • Outlook - Stable

➢ “Standard and Poor’s Ratings 2011”
  • Long-term foreign and local currency Issuer Default Rating (IDR) – “BB-” upgraded from “B+”
  • Short-Term Sovereign credit ratings – ‘B’
  • Transfer & Convertibility assessment – ‘BB’
  • Outlook - Stable
End of Presentation