

Standard & Poor's: 'B+/B' Positive
Fitch Ratings: 'BB-/B/BB-' Stable

The Georgian Economy: The Next Five Years

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Prime Minister



2004-2007: Mikheil Saakashvili's first presidential term

- ✦ 2004-2007 (Mikheil Saakashvili's first presidential term)
 - ✦ Deep (and painful) structural reforms
 - ✦ Modernisation of the state and civil service
 - ✦ Successful supply-side fiscal experiment
 - ✦ Radical deregulation and liberalisation
 - ✦ Rapid economic growth, driven by
 - ✦ The Schumpeterian burst of entrepreneurial activity
 - ✦ Growth in domestic consumption
 - ✦ Rehabilitation of infrastructure
 - ✦ Exports
 - ✦ Off-the-charts high FDI inflows
 - ✦ High resilience to external shocks (e.g. energy & commodity prices, Russian embargo, sub-prime meltdown)
- ✦ The temptation to view the glass as “**three quarters full**”
 - ✦ Rapid expansion of the middle class
- ✦ However, the glass is also “**one quarter empty**”
 - ✦ Circa 25% of the population below poverty level
 - ✦ No tangible benefits derived (yet) from the reforms by the poor
- ✦ November 2007 protests had a strong social undercurrent



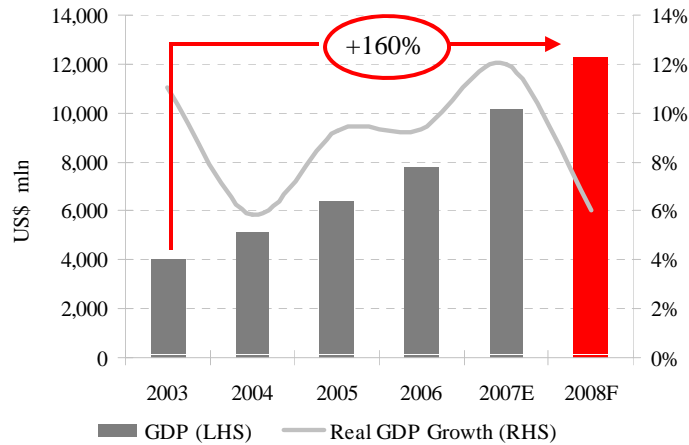
The Georgian Economy – Key Numbers

0%	Import tariff on almost all goods
0	Score in difficulty of the hiring index in the 2008 Survey of Doing Business
0	Score in difficulty of the firing index in the 2008 Survey of Doing Business
0.71	Energy consumption per unit of GDP (TOE/US\$) estimated for 2006 - one of the lowest in the region
#1	Reformer in the world in 2006 (according to World Bank)
1.2	Million visitors estimated for 2007, compared to 983,114 in 2006, 560,021 in 2005, 368,312 in 2004 and 313,442 in 2003
2	Number of IPOs on the GSE in 2006-2007 with three more in the pipeline
4.4	Million people, plus approximately another 1 mln living and working abroad
7%	Remittances as % of GDP estimated in 2007
9.2%	Period-average CPI in 2007
10%	Stock market capitalisation as % of GDP, but only 2.4% net of Bank of Georgia
12%	Real GDP growth estimated in 2007
13.8%	Net FDI as % of GDP estimated in 2007
15%	Corporate income tax effective 1 January 2008 (reduced from 20%)
18th	Global Rank in the 2008 Ease of Doing Business Survey by World Bank
24.7%	Nominal appreciation of the Lari against US\$ since 1 Jan 2004
25%	Flat personal income tax – and no payroll/social tax whatsoever
43%	Banking sector assets as % of GDP
35th	Global Rank in 2007 in the Heritage Foundation Economic Freedom Index
50+	Institutional investors with local brokerage and custody accounts, US\$250 mln+ AUM/C
80%+	Share of top five banks by assets
US\$123	All-in consumer debt per capita at 30 September 2007
US\$195	Average wage in 2007 (similar to Russia in 2003, Kazakhstan in 2004 and Ukraine in 2006)
460%	Increase in budget revenues since 2003
922%	Share price appreciation since October 2004 of the leading blue chip (Bank of Georgia)
US\$2,200	Approximate GDP per capita 2007E (similar to Russia in 2001 and Kazakhstan in 2003); US\$3,891 on a PPP-adjusted basis
7,200	Categories of goods Georgia can export duty- and tariff-free to EU & Turkey under the GSP+ regime

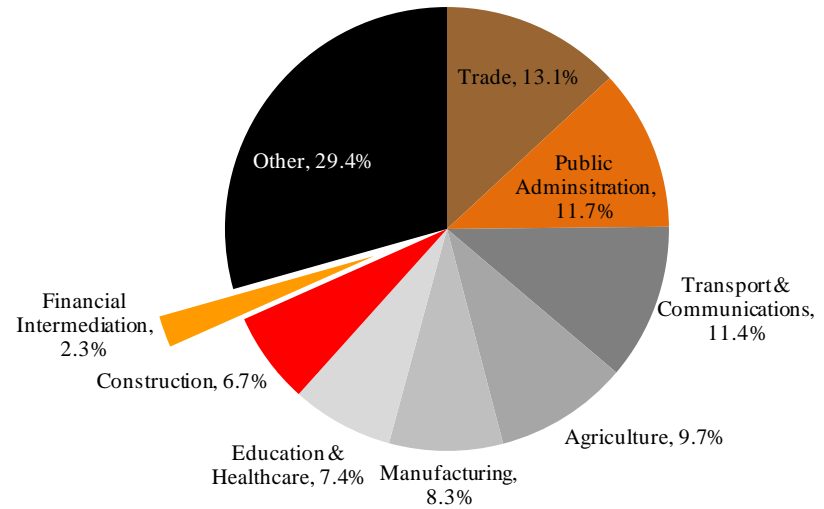


The Georgian Economy cont'd

Gross Domestic Product



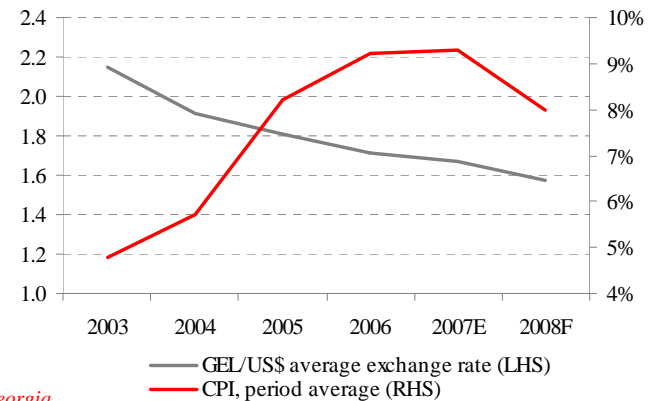
Components of GDP, 9M 2007



The Composition of 9M 2007 GDP

	Contribution To Growth	Growth, Y-O-Y	Share in GDP
Public Administration	58.6%	81.1%	8.3%
Trade	24.8%	20.5%	13.1%
Transport & Communications	16.6%	15.1%	11.7%
Manufacturing	13.5%	17.2%	9.7%
Construction	12.9%	20.8%	6.7%
Education & Healthcare	11.6%	16.4%	7.4%
Financial Intermediation	6.9%	36.8%	2.3%
Agriculture	1.7%	1.6%	11.4%

GEL/US\$ Exchange Rate & CPI

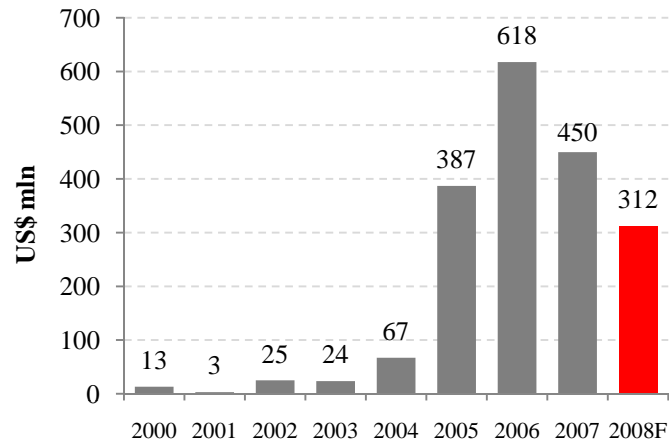


Source: Galt & Taggart Securities, Ministry of Economic Development, Department of Statistics, the National Bank of Georgia

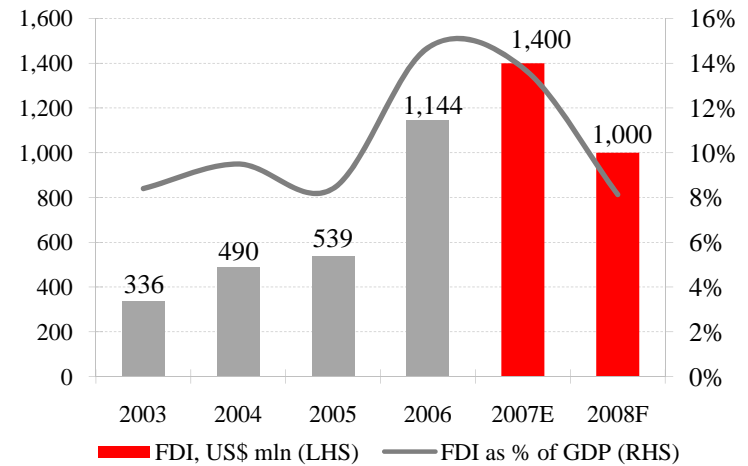


The Georgian Economy cont'd

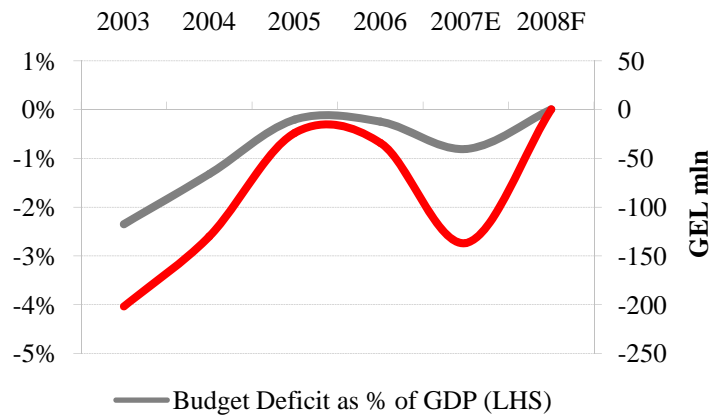
Privatization, 2000-2008F



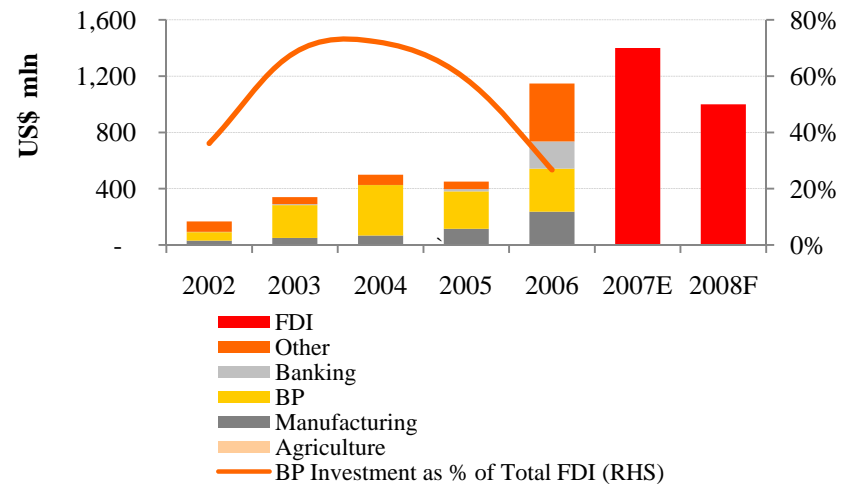
FDI, 2003-2008F



Budget Deficit, 2000-2008F



FDI Breakdown, 2002-2008E



Source: Galt & Taggart Securities, IMF, Georgian National Investment Agency, the National Bank of Georgia



Liberal Trade Regime, Diversified Trade Structure

⚡ WTO member since 2001

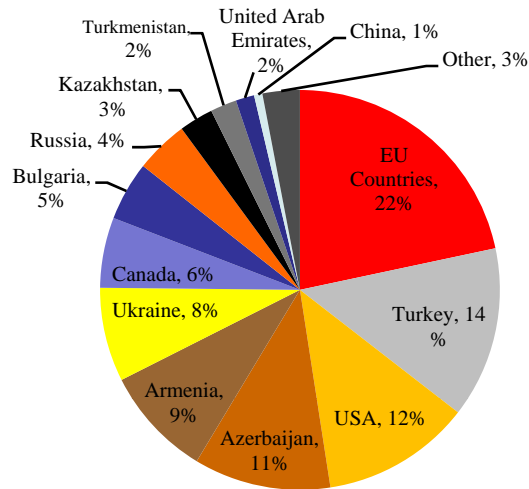
⚡ No quantitative restrictions on trade

⚡ Simplified customs regime since August 2006, new customs code becomes effective in 2007

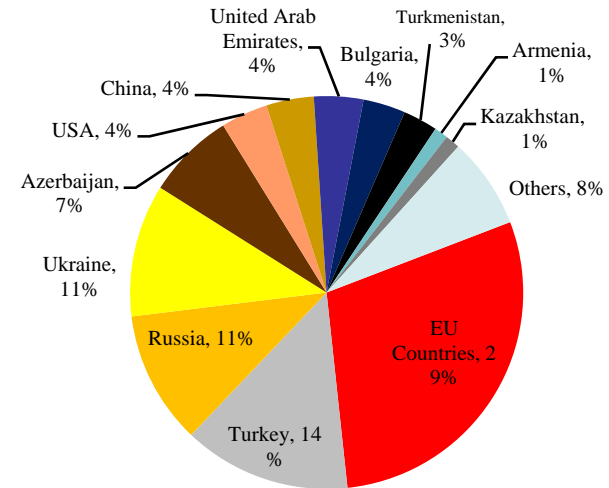
⚡ One of the two beneficiaries of the EU GSP+ Scheme in the CIS since 2006, granting local companies the right to export 7,200 categories of goods duty-free

⚡ As of November 2007 Georgia has entered into a free trade agreement with Turkey

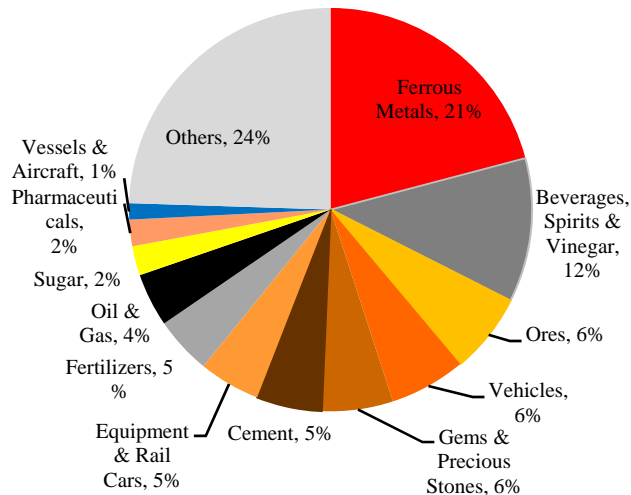
Export Structure by Country, 2007



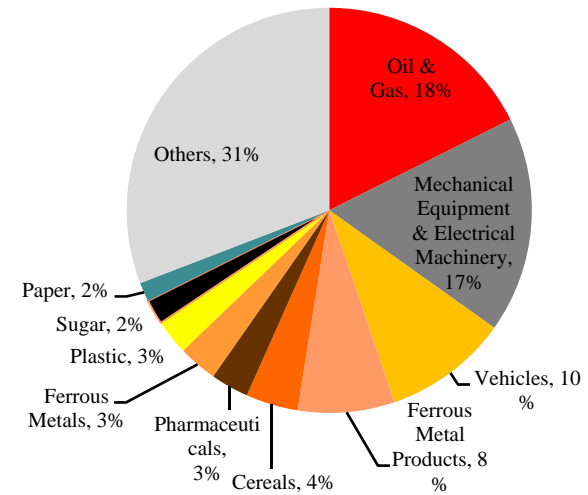
Import Structure by Country, 2007



Export Structure by Product, 2007



Import Structure by Product, 2007



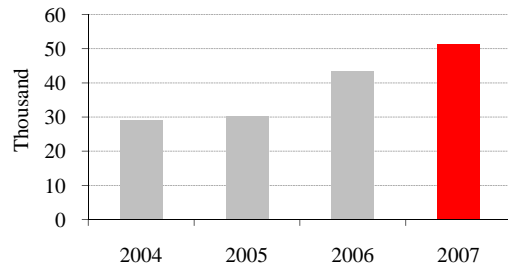
Source: Department of Statistics, Galt & Taggart Securities,



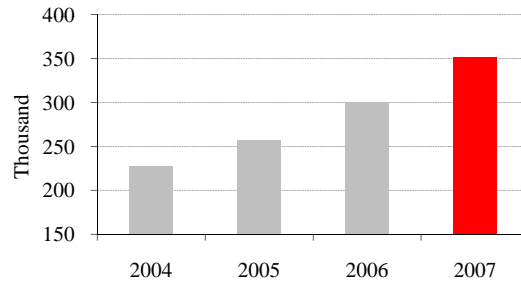
The Schumpeterian Transformation Of The Georgian Economy

Entrepreneurial Activity

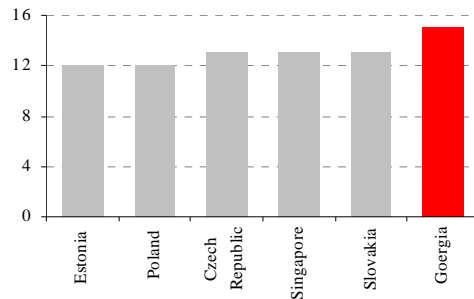
New Business Registrations Per Year



Number of Registered Businesses

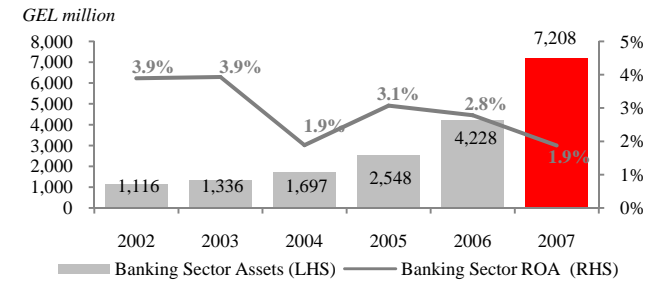


Number of Registered Businesses Per 100 Adults

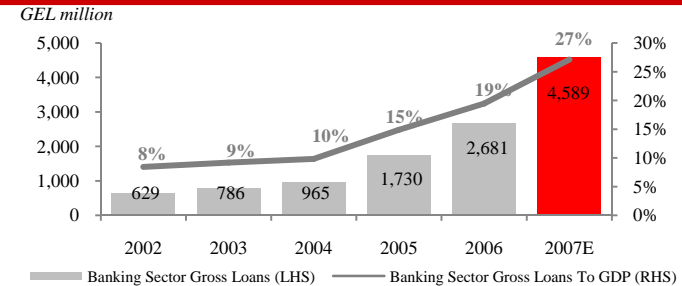


Credit Availability

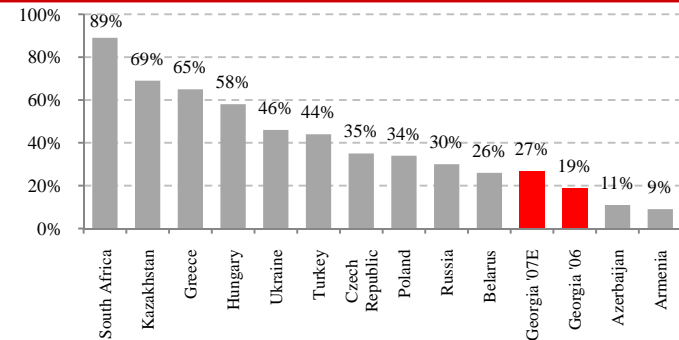
Banking Sector Assets & ROA



Gross Loans & Gross Loans As % Of GDP



Gross Loans To GDP



Source: Ministry of Economic Development, Department of Statistics, the National Bank of Georgia, IFC

*YE 2006 data for all other countries



Looking ahead: the next five years

- ✦ As the events of fall 2007 have shown, the lack of social cohesion threatens the “buy-in” of the reform process
- ✦ The need for a fresh mandate – snap presidential elections
 - ✦ Mikheil Saakashvili 53%+
 - ✦ Elections deemed by international observers to have substantially represented the will of the people and have in essence met key international standards
 - ✦ 70% + in favour of joining NATO
 - ✦ Parliamentary elections in spring 2008
- ✦ **New government since 22 November 2007**
- ✦ (Temporarily) **Compassionate Libertarianism** to ensure the irreversibility of the reforms
 - ✦ New Social Policy – 32% of the budget expenditures
 - ✦ Fiscal prudence ...
 - ✦ Small surplus in 2008
 - ✦ Budget Expenditures/GDP reduced in 2008 to 29% from 32% in 2007
 - ✦ and tight monetary policy
 - ✦ CPI downtick in December 2007 to monthly 0.3%, 9.2% y-o-y period average
 - ✦ Continuation of radical reforms
 - ✦ The Global Competitiveness of the Financial Services Sector Act
 - ✦ Submitted to Parliament on 9 January 2008



The Global Competitiveness of the Financial Services Sector Act

⊕ **An umbrella Act, encompassing 26 different laws & amendments to laws**

⊕ ***Fiscal Policy***

- ⊕ Mandatory fiscal surplus
- ⊕ Future Generations Fund and Stable Development Fund to be established to absorb the surplus and privatization proceeds
- ⊕ Personal income tax to be reduced over the next five years from 25% to 15%
- ⊕ Income received by resident individuals from non-domestic sources to become exempt from personal tax.
- ⊕ Taxation of dividend and interest income to be reduced in line with the personal income tax and abolished in five years

⊕ ***Free Industrial Zones & International Warehouse Regime***

- ⊕ The tax and customs codes to be amended to complete the creation of the framework under which the free industrial zones in Poti and elsewhere will be established
- ⊕ The selection process for the international operator of the Poti free industrial zone is underway
- ⊕ Changes to be made to the tax and customs codes, allowing for the operation of “international warehouses” for export and re-export purposes under a favorable low-tax regime

⊕ ***National Bank of Georgia and the Financial Supervision Agency***

- ⊕ The preservation of price stability to be declared the main objective of the NBG
- ⊕ Inflation targeting to be introduced, with three-year rolling inflation (CPI) target never exceeding 10%.
- ⊕ Confidence vote in the parliament in the event of over-shooting or under-shooting the target for four consecutive quarters
- ⊕ The FSA to be created as an autonomous agency under the auspices of the NBG
- ⊕ Single-board governance regime for local banks, resembling that of the UK and other common law jurisdictions

⊕ ***Enhancement and streamlining of the AML and “fit and proper” regulations***



The Global Competitiveness of the Financial Services Act cont'd

✦ *Taxation of financial instruments*

- ✦ Tax on interest income received from bank deposits and publicly-traded fixed income securities to be abolished on 1 January 2009
- ✦ Tax on capital gains on publicly-traded securities with free float exceeding 25% to be abolished on 1 January 2009
- ✦ Tax on dividend income from publicly-traded equities with free float exceeding 25% to be abolished on 1 January 2009

✦ *International Financial Institutions*

- ✦ To be allowed in banking, insurance, reinsurance, securities, fund management and administration, custody, trust and other areas
- ✦ Favorable tax regime and no local prudential regulation or supervision by the FSA (only KYC/AML)
- ✦ Cannot derive more than 10% of their revenues from domestic (Georgian) sources
- ✦ Prohibited from soliciting the business of local residents (except for high net worth individuals)
- ✦ Will be required to employ just one director who is Georgian tax resident (but not citizen)
 - ✦ Georgia does not require visas from citizens of OECD and certain other countries
 - ✦ Georgia has one of the most liberal labor codes in the world, without any work permit requirements for foreign citizens
- ✦ The concept of Experienced Investor Funds to be introduced, with very light-touch regulatory regime
- ✦ Publicly-traded securities to be quoted in any currency (with the settlement taking place in Georgian Lari)

✦ *Stock exchange demutualisation and other changes in the securities law*

- ✦ The local stock exchange to be demutualised
- ✦ Remote foreign membership of the stock exchange to be allowed,
 - ✦ Licensed financial institutions from OECD countries to be able to join without the need to establish a local subsidiary
 - ✦ No regulation or supervision by the FSA (provided they do not solicit business from local residents)
- ✦ Public offering procedures to be simplified
- ✦ Operations of registrars to be streamlined

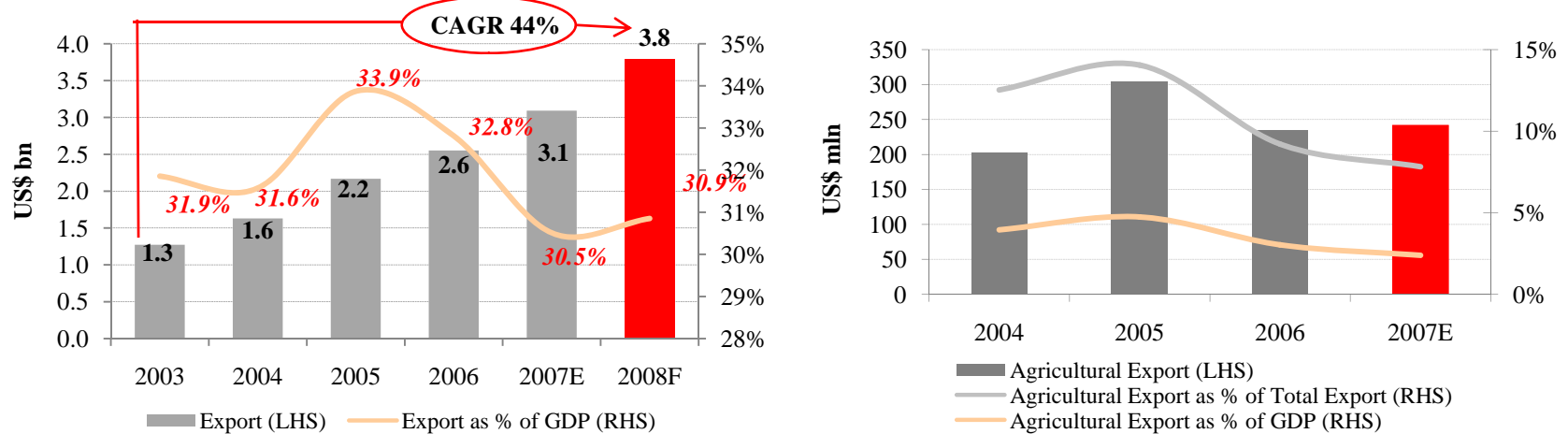
✦ *Other laws*

- ✦ Law on electronic signature
- ✦ Law on accounting and auditing (establishing IFRS as the required standard)

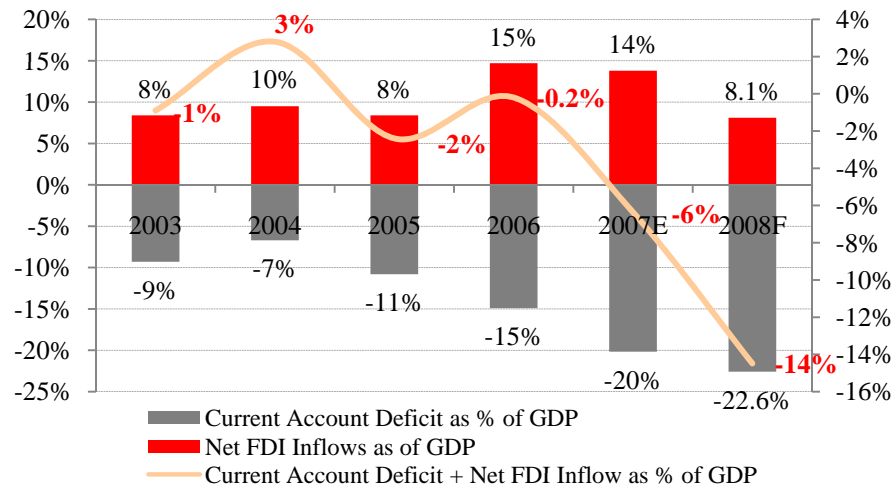


Key Challenges

⚡ **Expansion of the export base**, especially in manufacturing and food processing



⚡ **Can the FDI inflows be sustained at the current very high level**, including into export-driven industries?



Source: Galt & Taggart Securities, Department of Statistics, the National Bank of Georgia



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