



Ministry of Finance of Georgia



# Georgian Economy Overview

September 2011

# Sovereign Ratings – Georgia



**STANDARD  
& POOR'S**

**FitchRatings**

**MOODY'S  
INVESTORS SERVICE**

**B+, positive**

(Outlook raised to positive in  
March 2011)

**B+, positive**

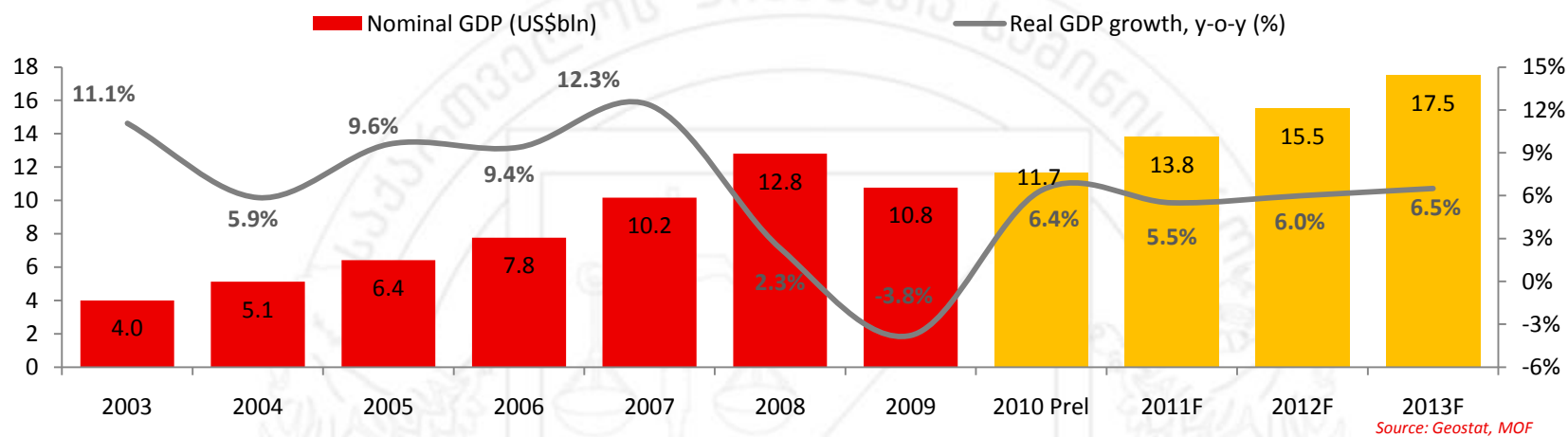
(Outlook raised to positive in  
March 2011)

**Ba3, stable**

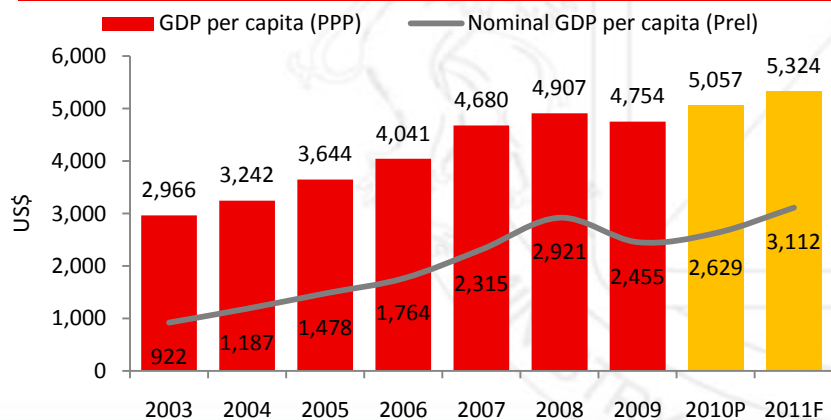
(Assigned Ba3 rating in October  
2010)

# Reform Driven Economic Success

## GDP

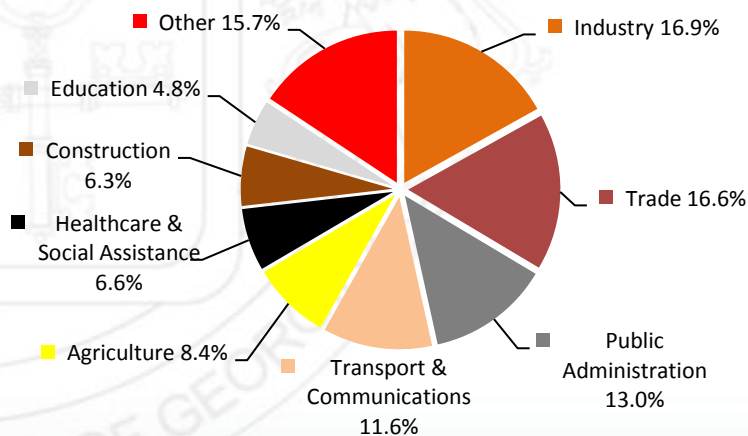


## GDP Per Capita – PPP and Nominal



Source: Geostat, MOF, IMF

## Components of Nominal GDP\* (2010 Prel)



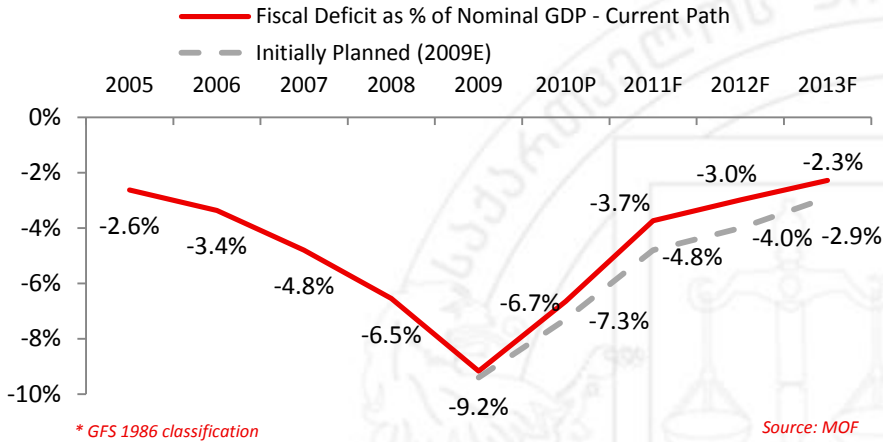
\* Calculated using nominal GDP (preliminary) at basic prices

Source: Geostat

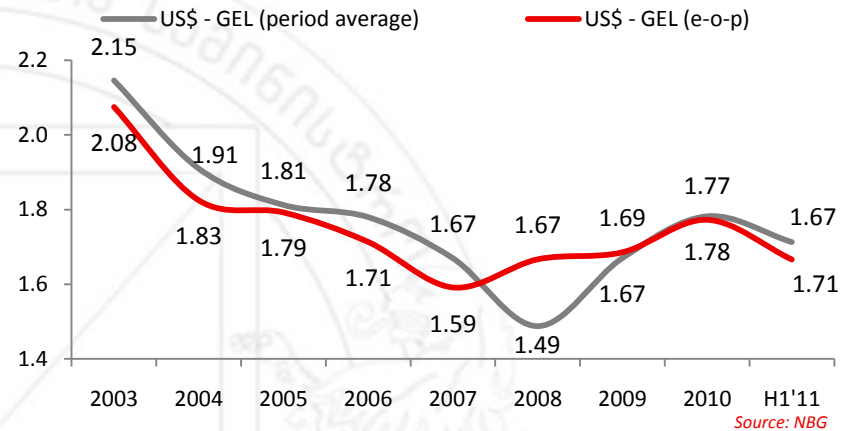
# Fiscal Deficit and Monetary Performance



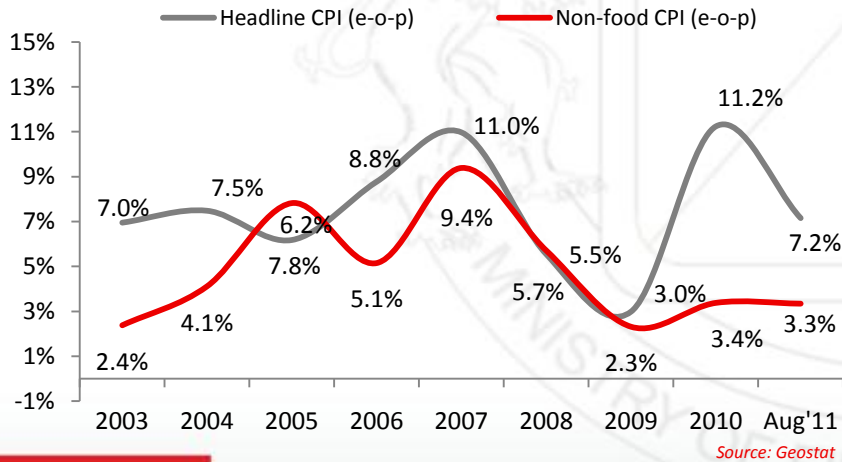
## Consolidated Budget Deficit



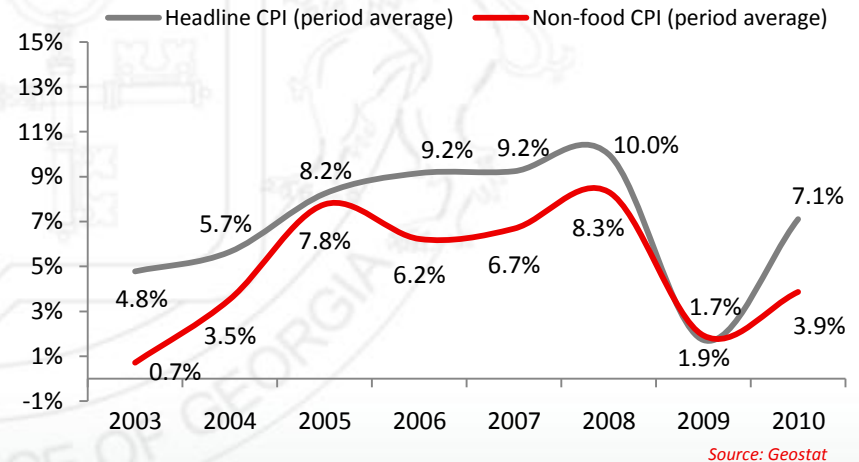
## Exchange Rate Evolution



## Consumer Price Index (e-o-p)

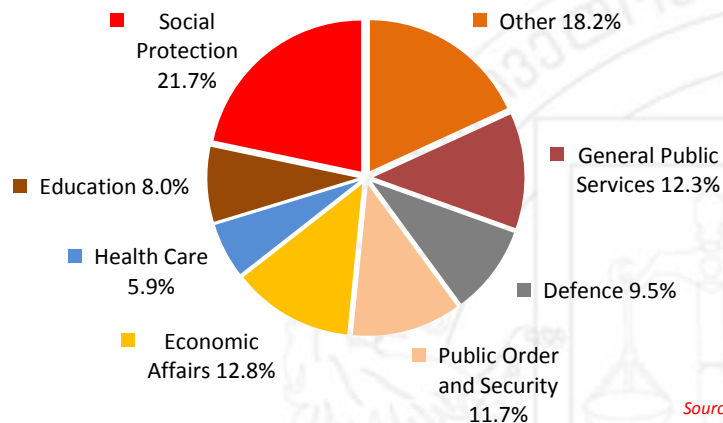


## Consumer Price Index (period average)

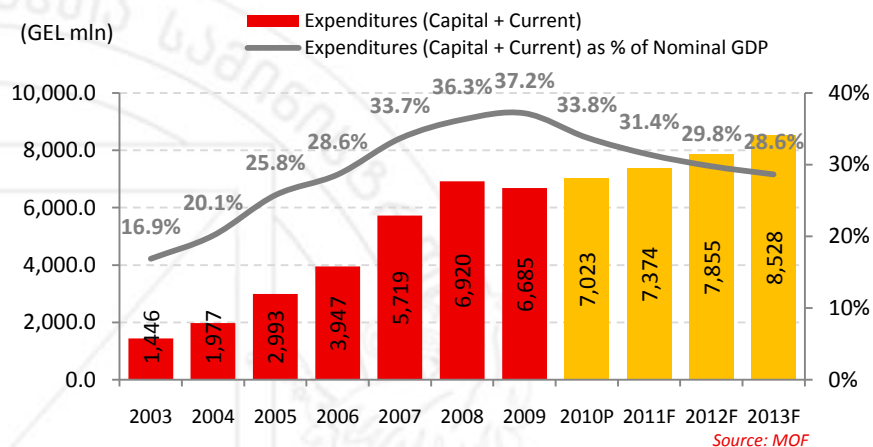


# Fiscal Performance - Closer Look

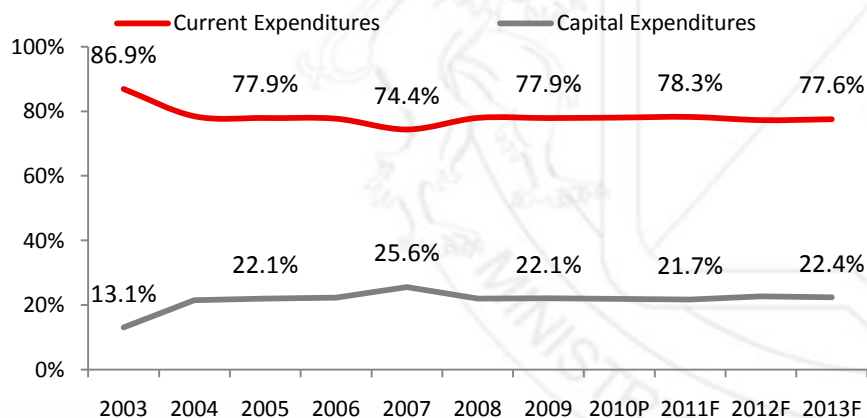
## Composition of 2011 State Budget Outlays



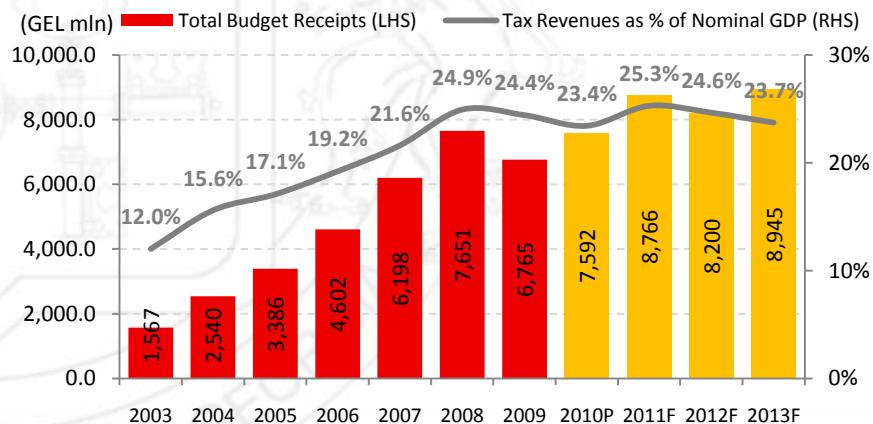
## Consolidated Budget Expenditures



## Capital vs. Current Expenditures



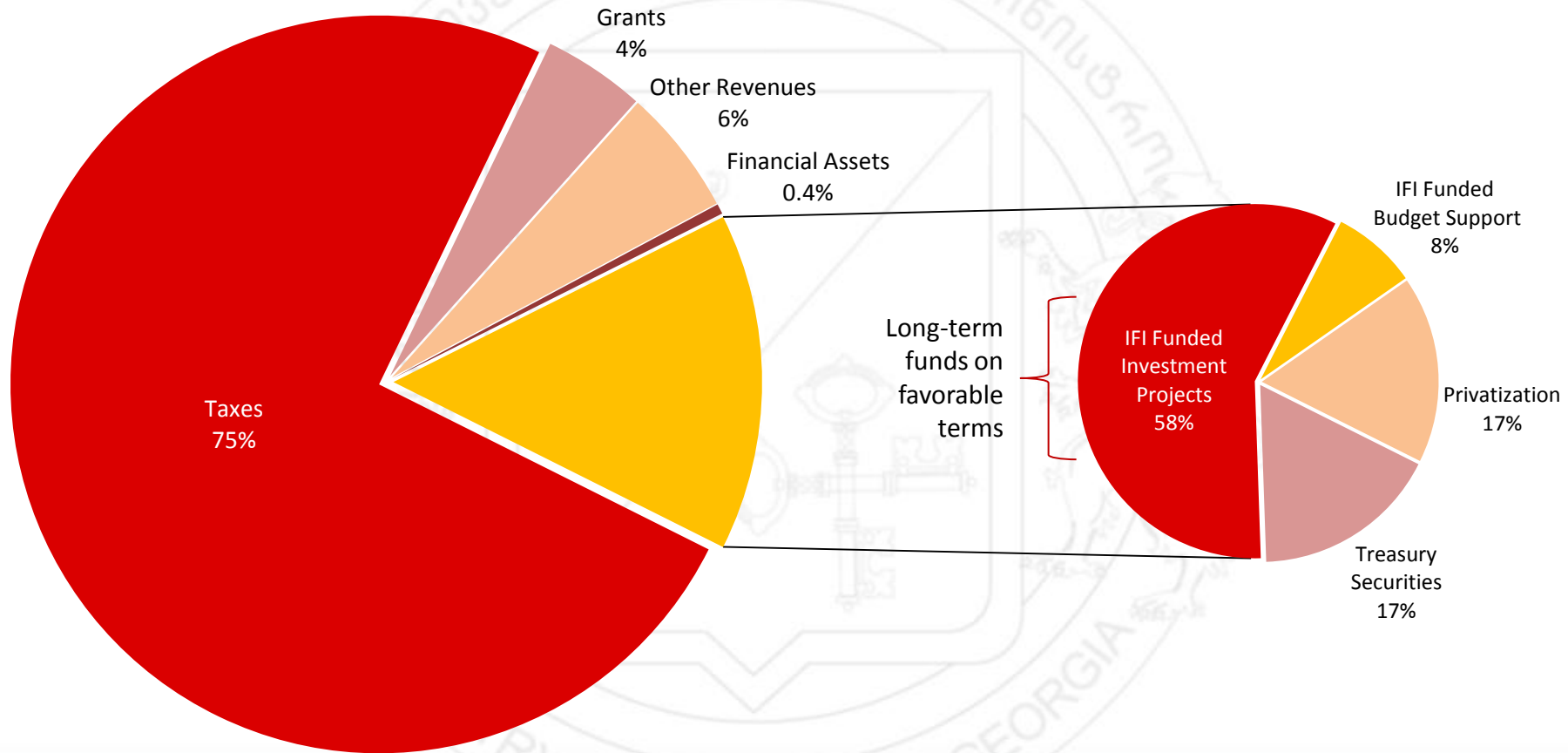
## Consolidated Budget Revenue Performance



# Fiscal Performance - Closer Look 2



## Composition of 2011 Consolidated Budget Receipts and Deficit Financing Sources

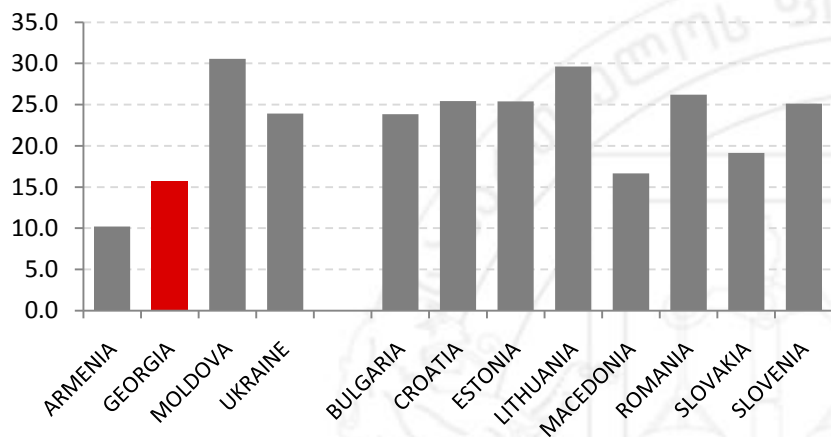


Source: MOF

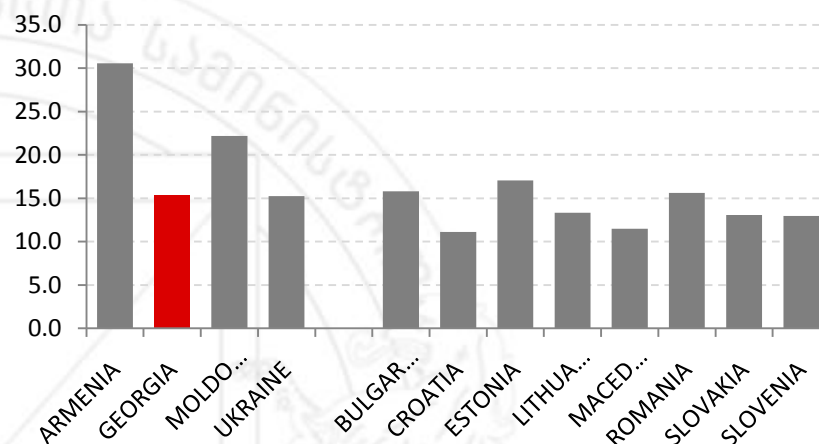
# Georgia's Budget Expenditures in a Regional Context: Focus on Capital Investments



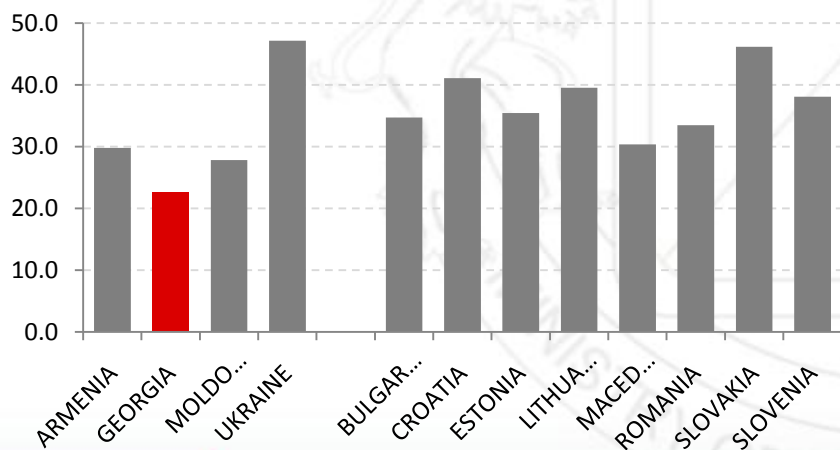
### Compensation of Employees (% Total Exps, 2009)



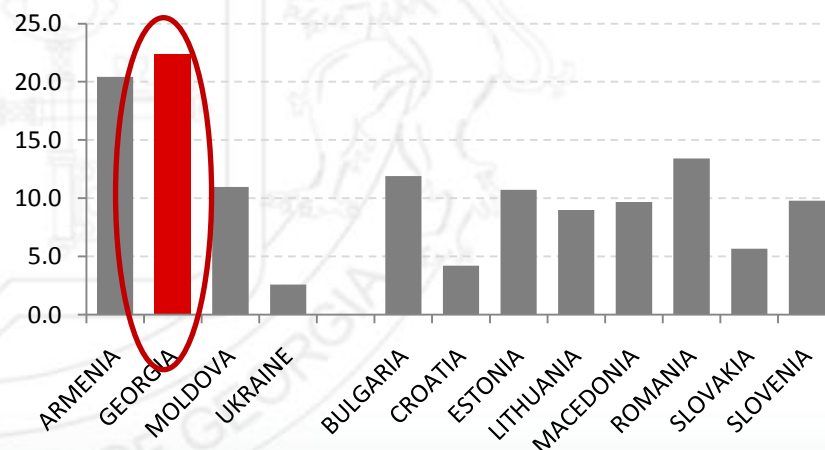
### Goods and Services (% Total Exps, 2009)



### Social Benefits (% Total Exps, 2009)

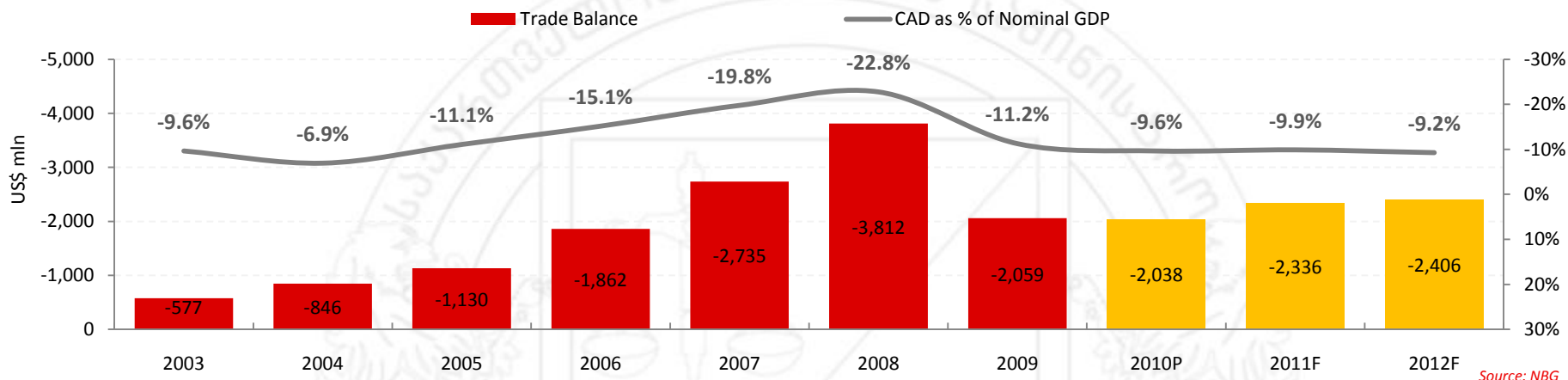


### Capital Expenditures (% Total Exps, 2009)

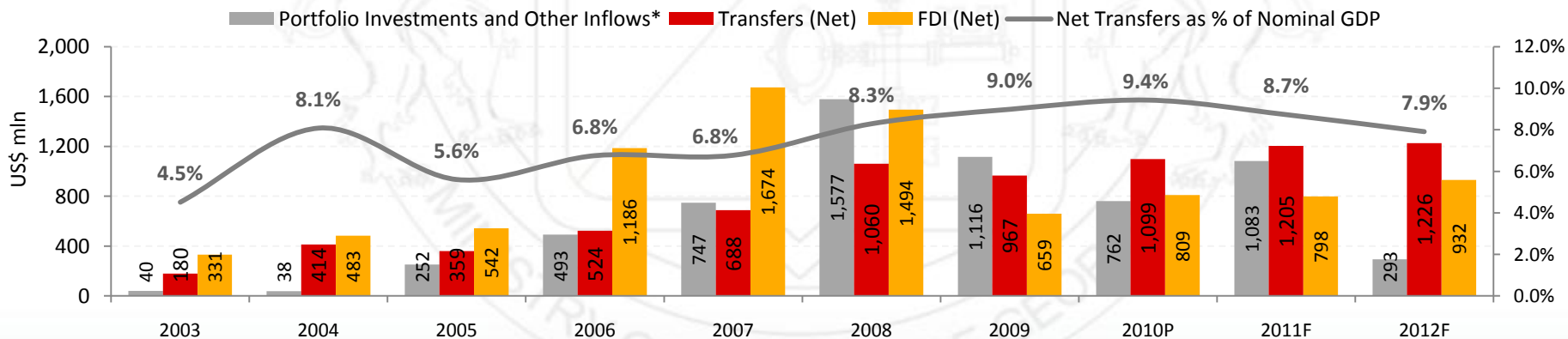


# Current Account

## Current Account Deficit



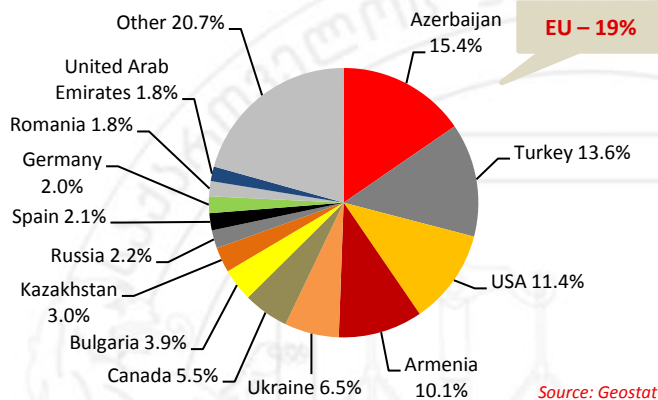
## Offsetting Inflows



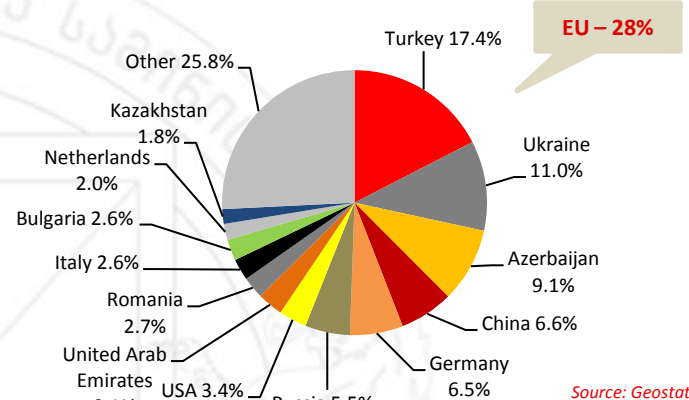
# Diversified Trade Structure

- WTO member since 2000
- Simplified customs regime since 2006, new customs code became effective in 2007. The customs code was combined with the existing tax code in 2010
- No quantitative restrictions on tariff barriers
- 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 to the EU duty-free
- Georgia Turkey FTA was signed in 2008
- Negotiations involving FTA with the EU

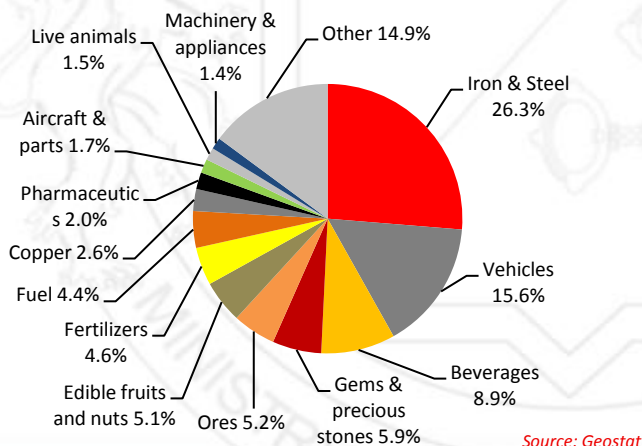
### Export Structure by Country '10



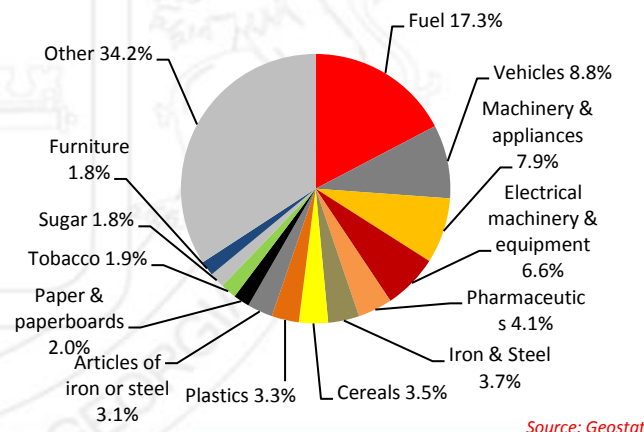
### Import Structure by Country '10



### Export Structure by Product '10



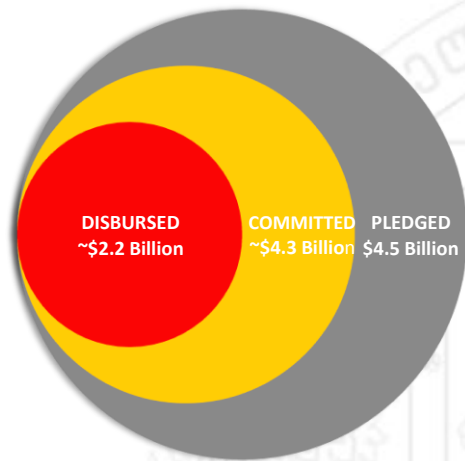
### Import Structure by Product '10



# Dynamics of Brussels Pledge (\$4.5 billion) Implementation

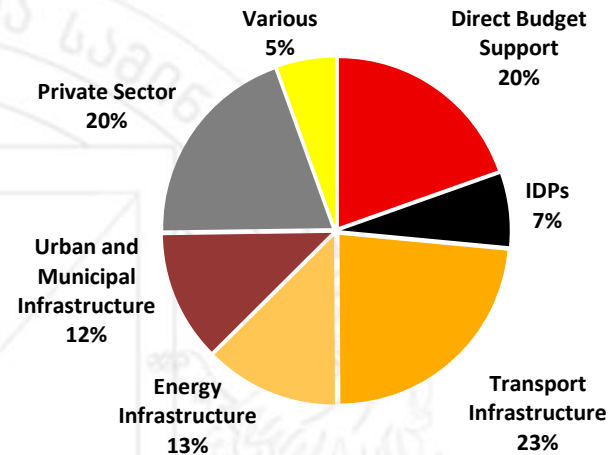


## Brussels Pledge Update – Public & Estimated Private Sectors



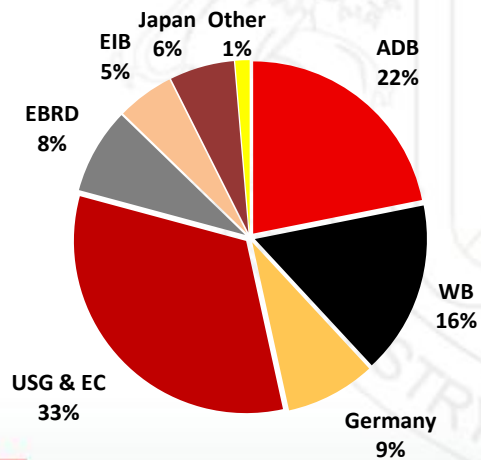
Source: MOF

## Commitments by Sectors



Source: MOF

## Commitments (signed) so far by Donors, Public Sector Operations



Source: MOF

## Key Facts

A joint EU/World Bank international donors conference for Georgia was convened in Brussels at which U.S.\$4.5 billion in long-term loans on concessionary terms and grants were pledged to Georgia with the aims of boosting the Georgian economy in the short term and laying the groundwork for a long-term growth.

As at 31 August 2011, approximately U.S.\$2.2 billion of this assistance has been disbursed.

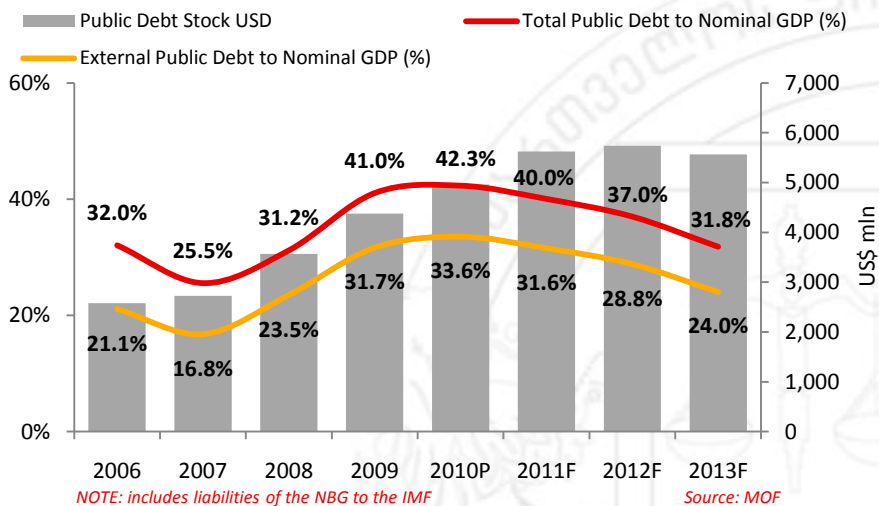
The Government expects that, by the end of 2011 Georgia will have entered into firm commitments with respect to the amounts pledged at the Brussels conference, which will provide stimulus funding to the Georgian economy.

Source: MOF

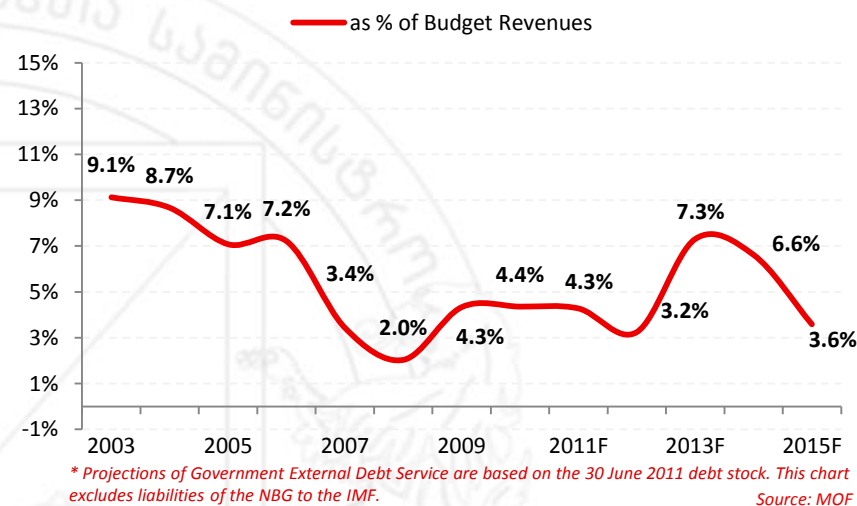


# Favorable Public Debt Situation

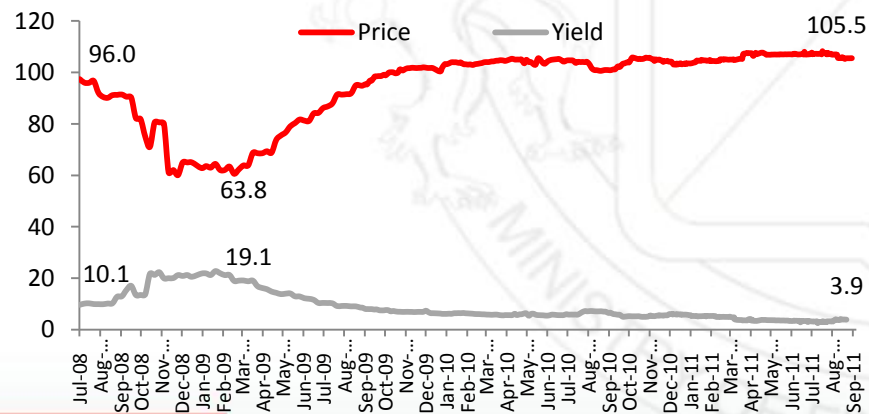
## Debt Indicators: Below the Prudential Thresholds



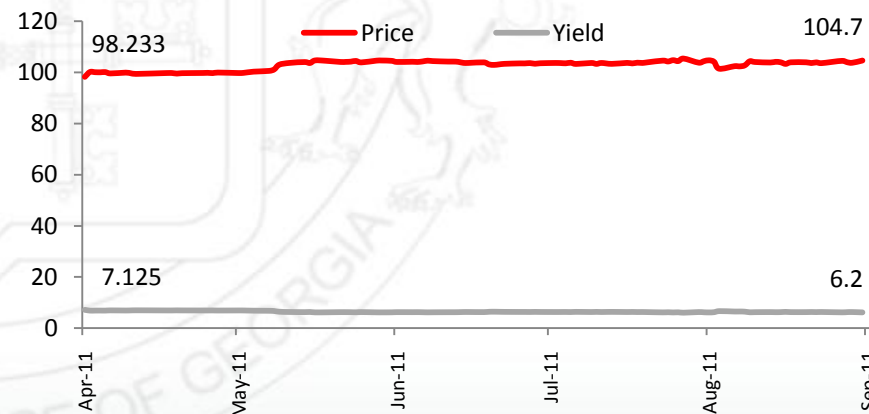
## Flat Repayment Profile: Government External Debt Service\*



## Eurobond 2013 Performance

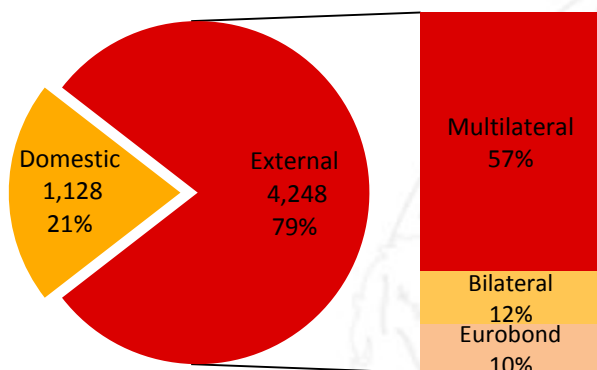


## Eurobond 2021 Performance



# Favorable Public Debt Situation

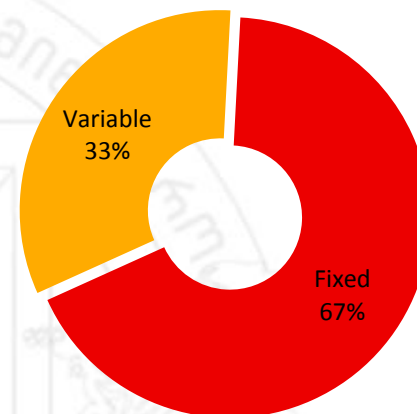
## Affordable Public Debt Stock and Very Low Interest Rate on External Public Debt (in million USD)



Portfolio Average Weighted Interest Rate as of end-August 2011  
**2.0%**

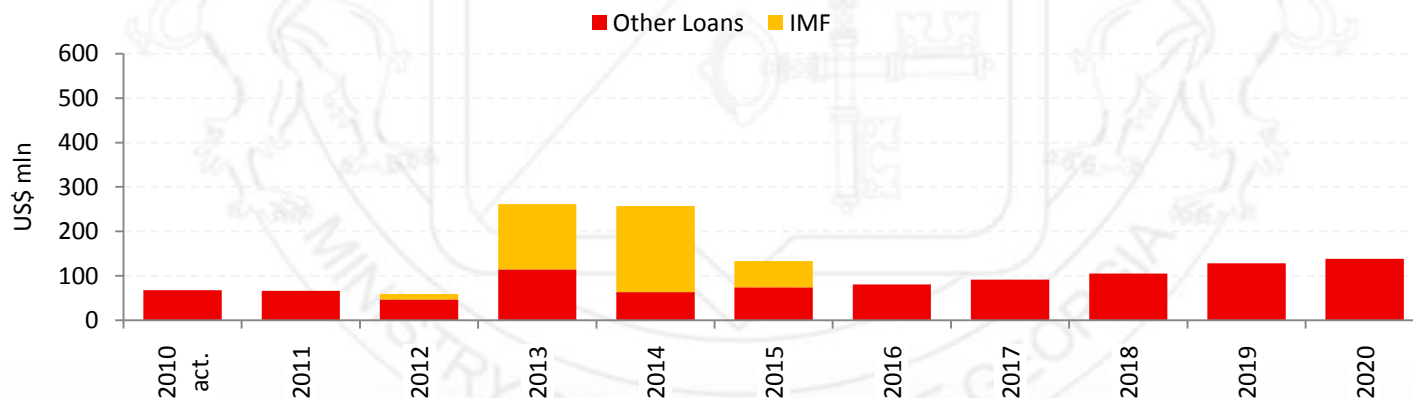
Source: MOF

## External Public Debt by Interest Type: Interest Rate Risk Brought to a Minimum



Source: MOF

## Government External Debt Amortization Profile: Flat Trajectory, Easily Affordable Annual Repayment Volumes



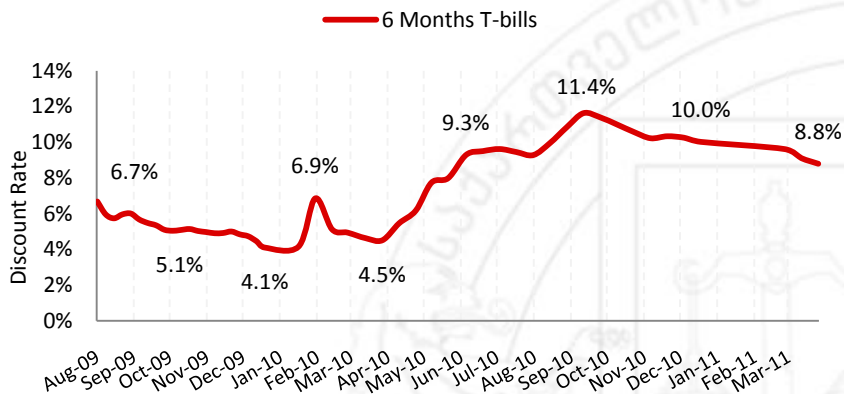
NOTE: Debt service projections are based on 30 June 2011 debt stock. This chart excludes liabilities of the NBG to the IMF.

Source: MOF

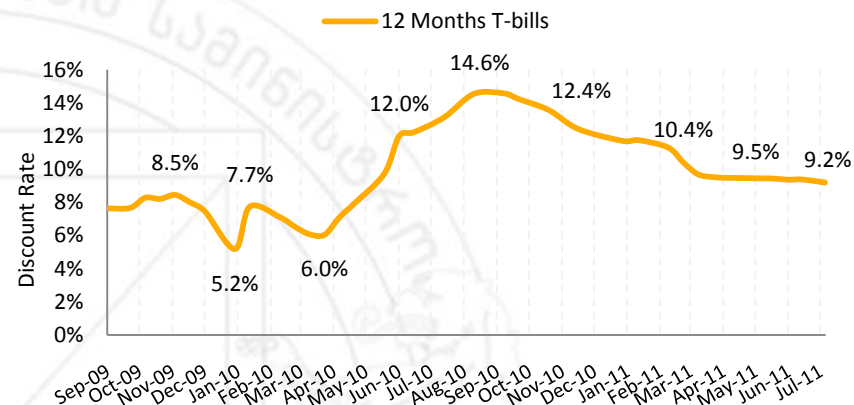


# Domestic Debt Market Performance

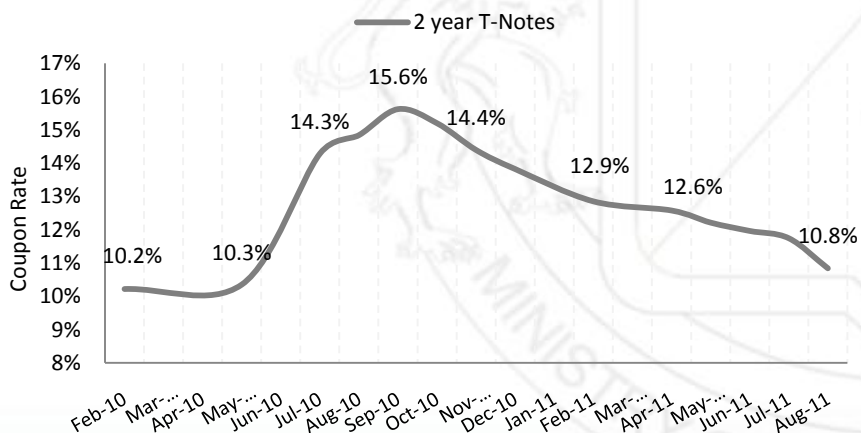
### 6 Months T-Bills Discount Rates



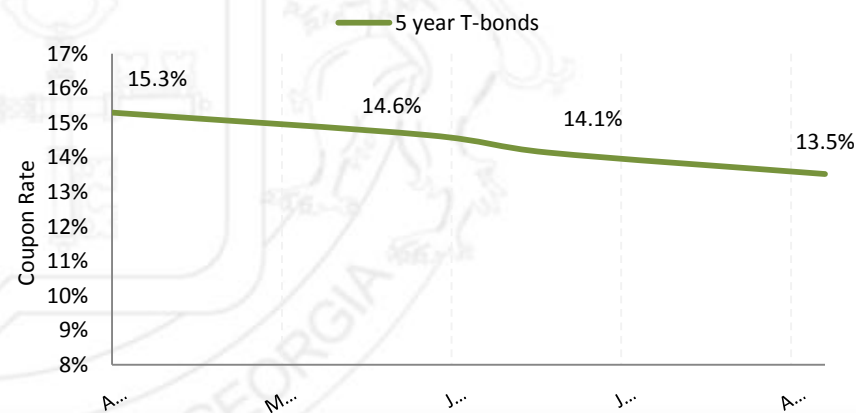
### 12 Months T-Bills Discount Rates



### 2 Year T-Notes Coupon Rates



### 5 Year T-bonds Coupon Rates

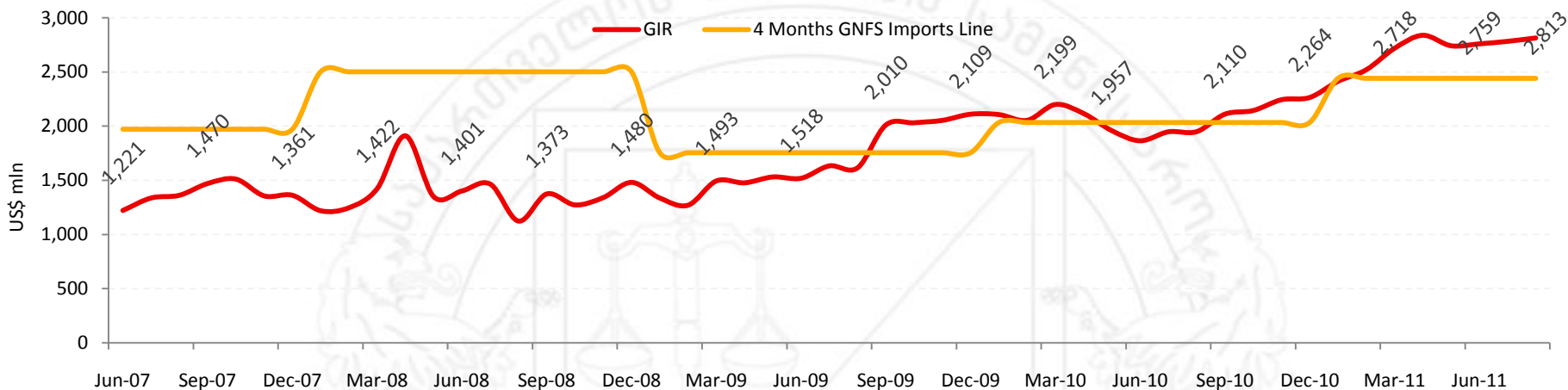


Source: MOF



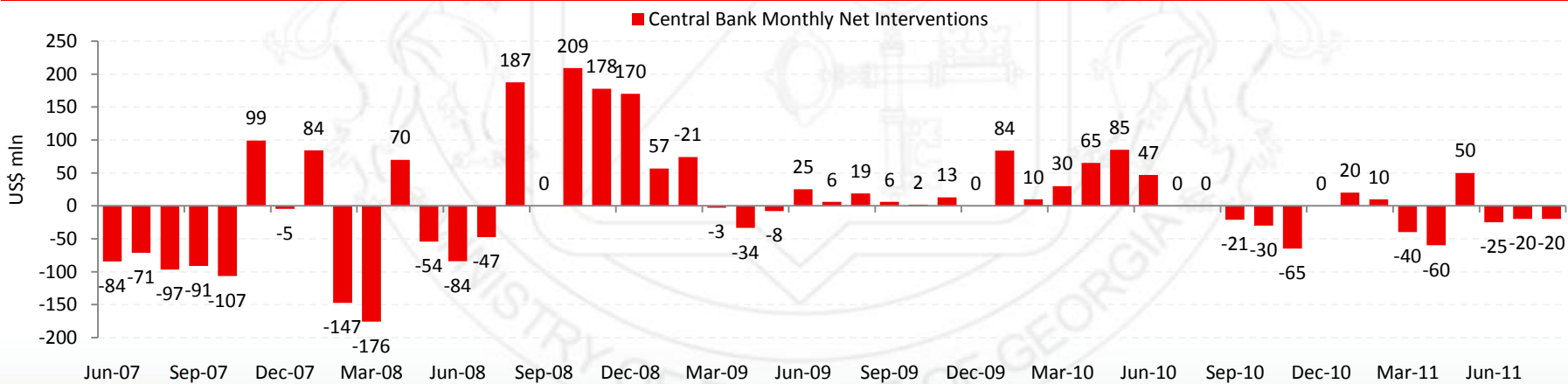
# Resilient Economy

## Central Bank Gross FX Reserves: At All Times High



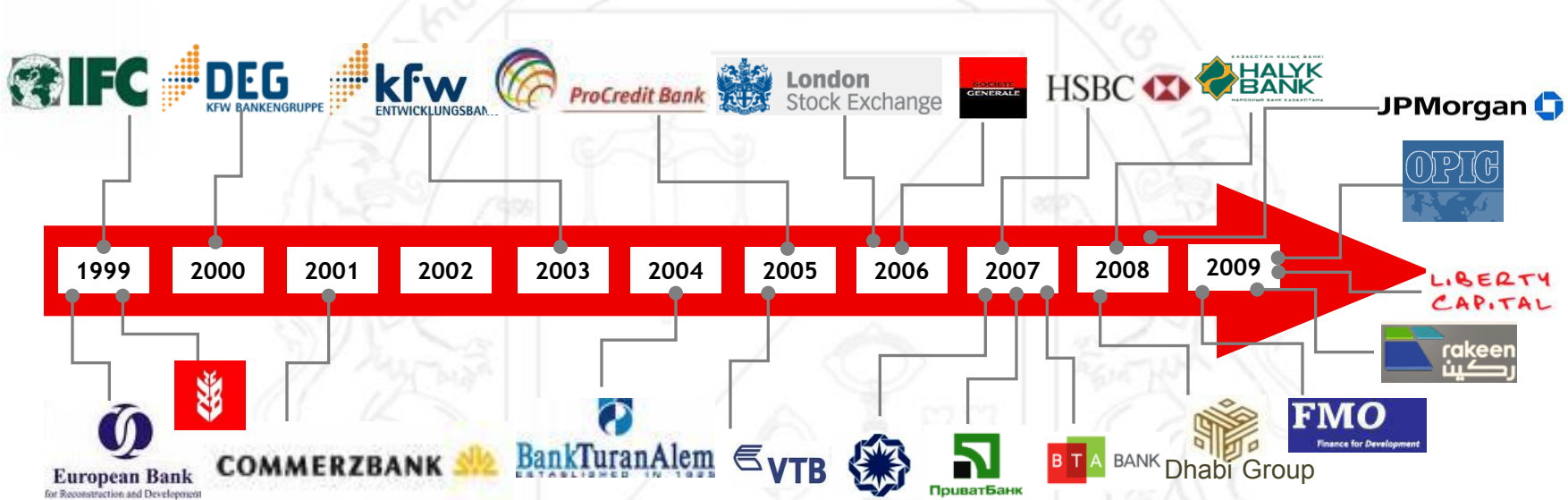
Source: NBG

## Central Bank Involvement in FX Market: in the Sustainable Equilibrium



Source: NBG

# Banking Sector Has Attracted Diverse International Interest



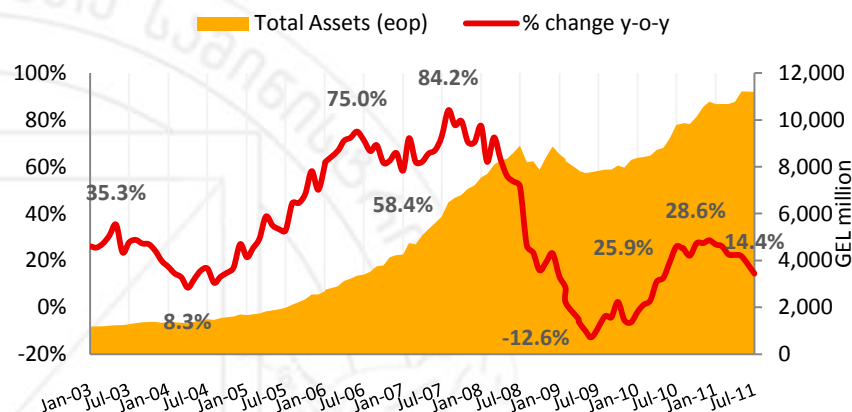
Source: Office of the Prime Minister

# Resilient Banking Sector

## Comments

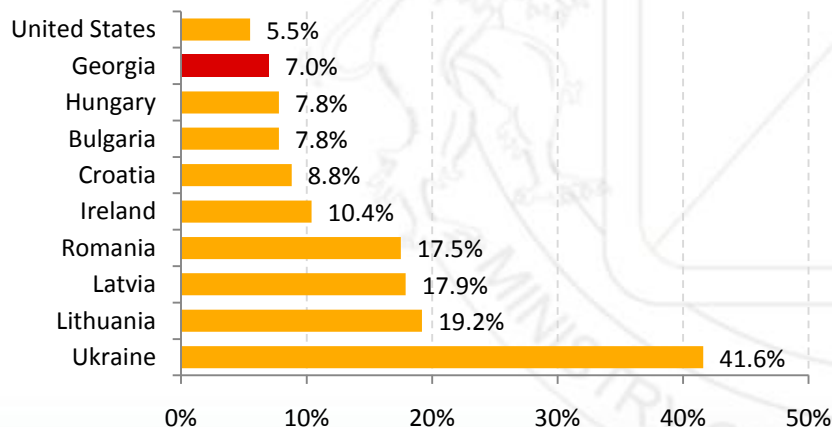
- Georgia's banking sector represents only a very moderate contingent liability of the sovereign (Ratio of assets to Nominal GDP is 50.8% as of end-December 2010)
- Entirely privately owned since 1995
- No restrictions on foreign ownership of banks
- Well capitalised with average Basel I capital adequacy ratio of 24% (18% local standards)

## Bank Assets Are On The Rise...

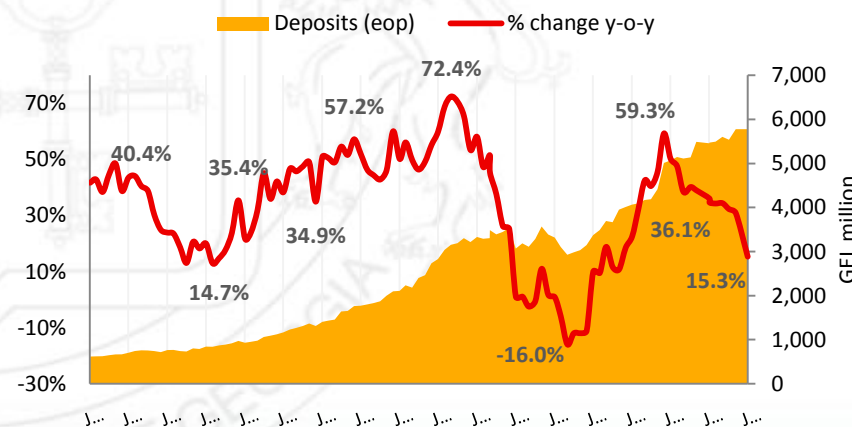


Source: NBG

## NPLs as % of Total Loans – IMF GFSR 2010



## Bank Deposits Have Grown Beyond Pre-Crisis Levels

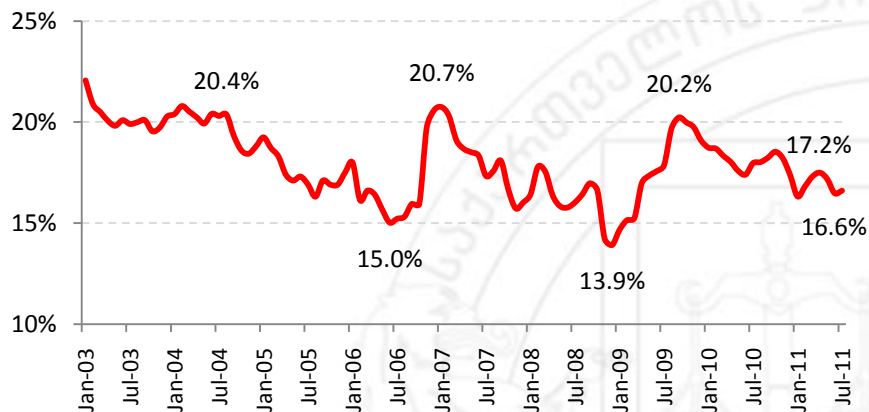


Source: NBG



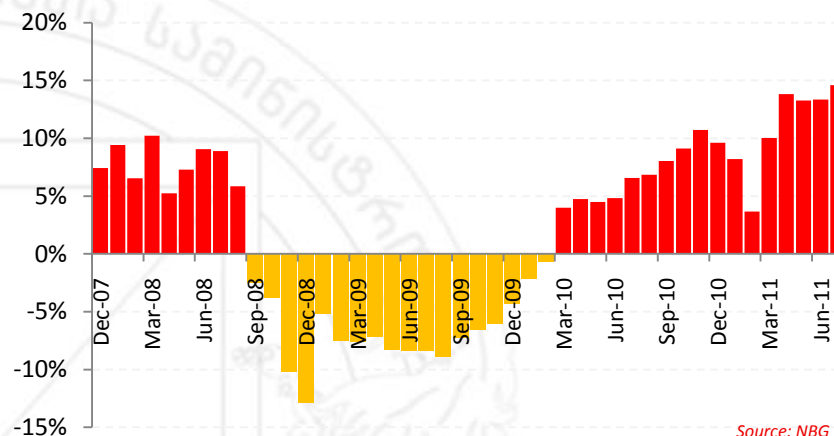
# Resilient Banking Sector – cont'd

## Capital Adequacy Ratio (CAR)



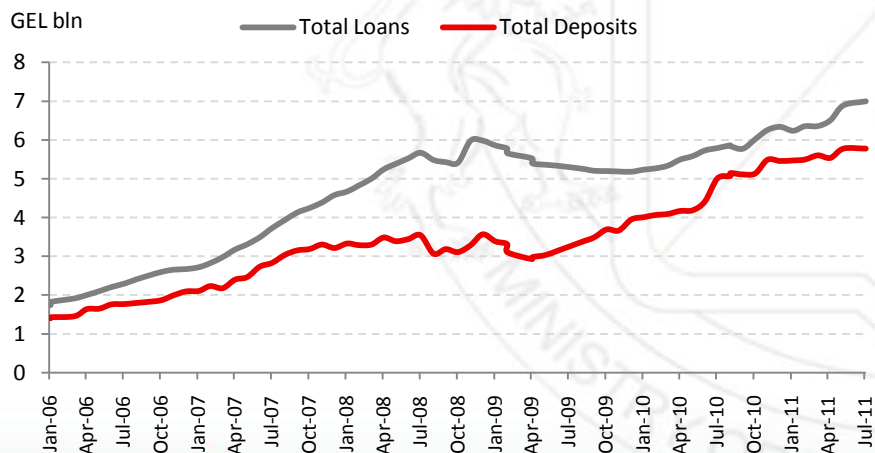
Source: NBG

## Profitability has Recovered as Measured by ROE



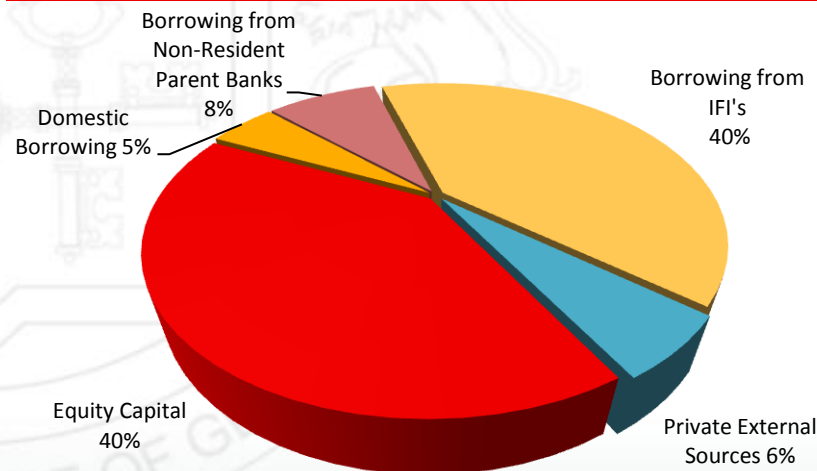
Source: NBG

## Total Bank Deposits and Loans



Source: NBG

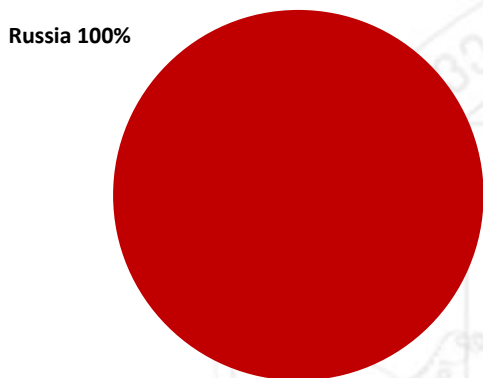
## Non-Deposit Funding Structure



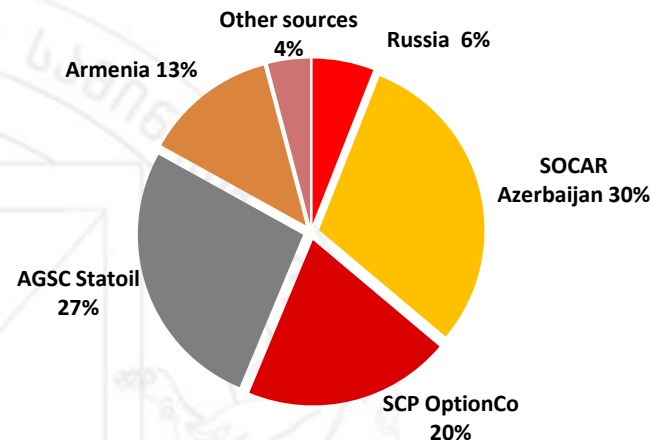
Source: NBG

# Diversified Sources of Energy Imports

Geographical Distribution of Natural Gas Supply in 2005

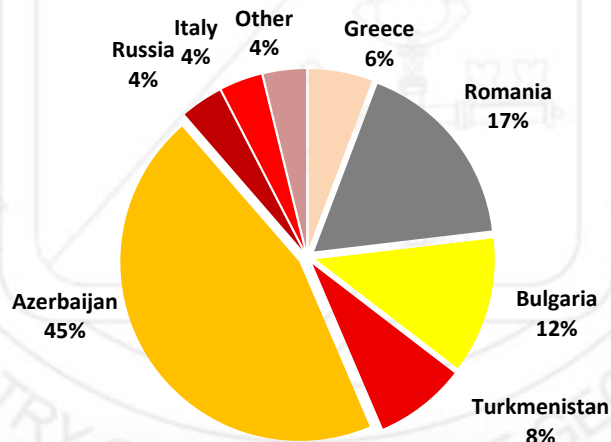


Geographical Distribution of Natural Gas Supply in 2010



Source: Ministry of Energy and Natural Resources

Geographical Distribution of Petroleum and Oil Product Import in 2010

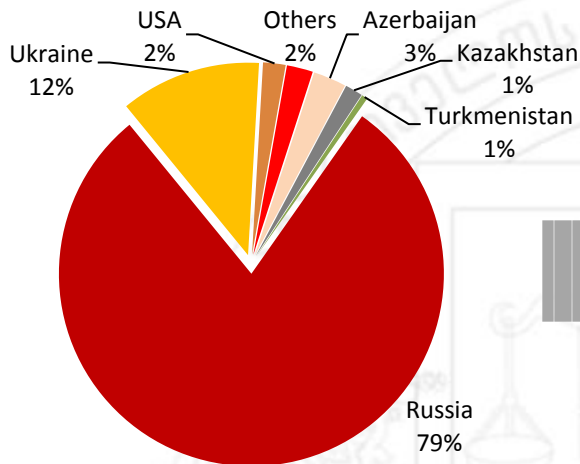


Source: Geostat

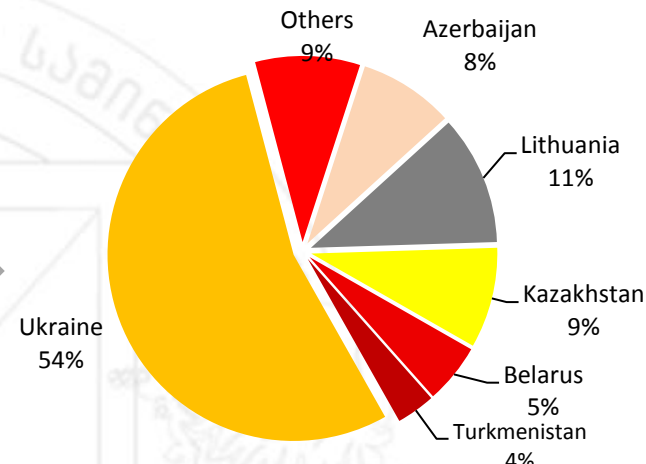
# Diversification of Agriculture Export: New Markets for Traditional Export Products



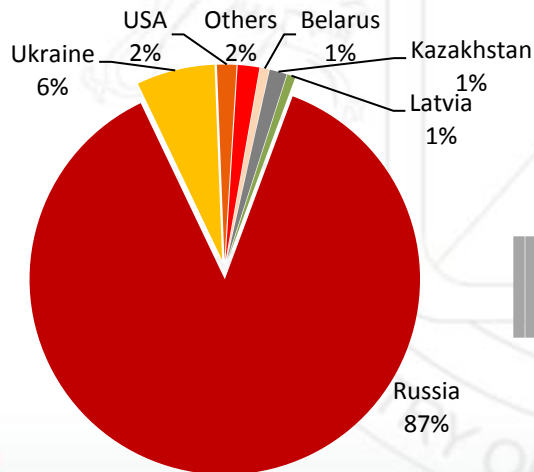
**Geographical Distribution of Mineral Water Export in 2005: before Russian Embargo**



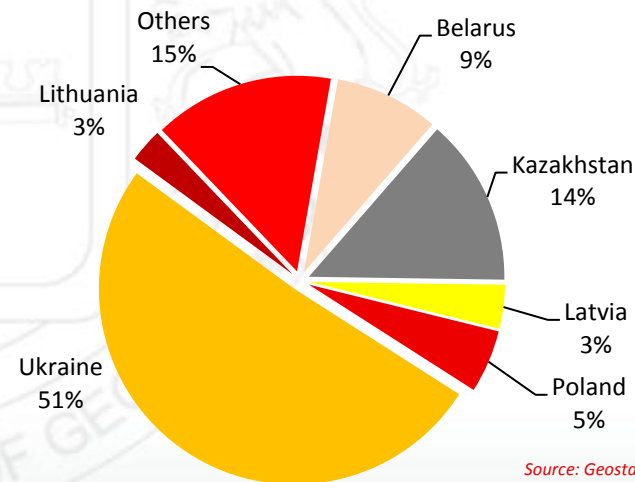
**Geographical Distribution of Mineral Water Export in 2010: Substantial Diversification Benefits Achieved**



**Geographical Distribution of Wine Export in 2005: before Russian Embargo**



**Geographical Distribution of Wine Export in 2010: Substantial Diversification Benefits Achieved**

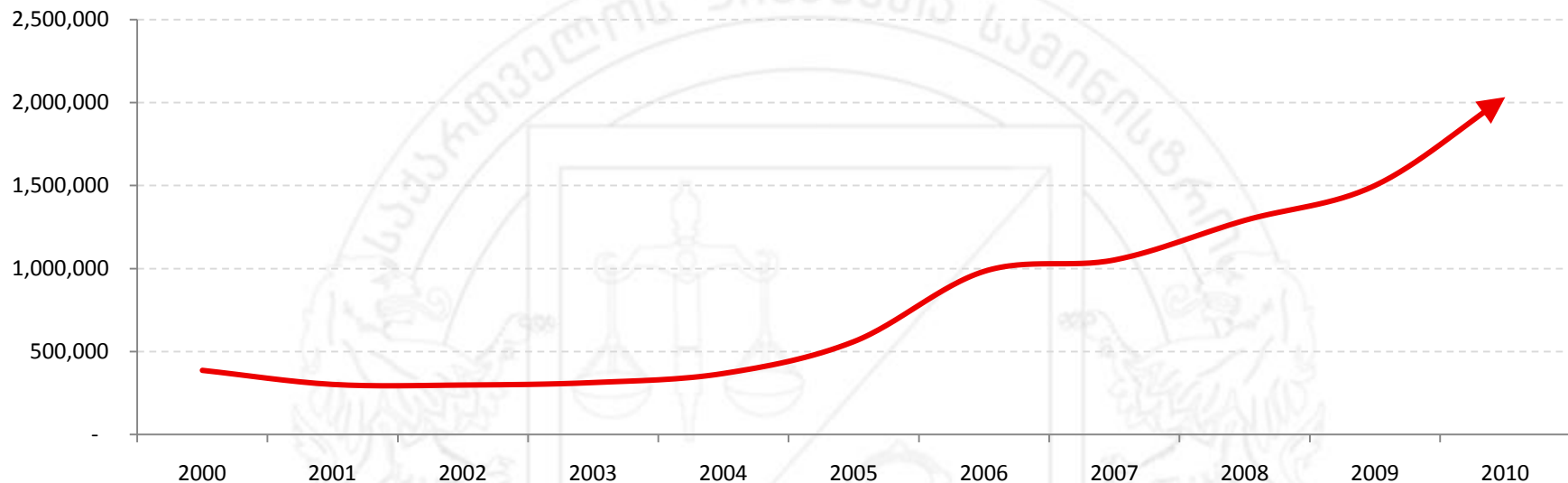


Source: Geostat

# Georgia, the Increasingly Global Tourism Destination



## Rapidly Growing Tourist Arrivals



- Rebranding Georgia as tourism destination on international arena and transforming Georgia into regional tourism hub in the Caucasus
- Growth effects of the domestic road interconnectedness compounded by "vertical" approach to the revival of Georgia's traditional tourism hubs (Tbilisi, Mtskheta, Batumi, Bakuriani, Gudauri etc.) and (re)discovery of new promising destinations (Svaneti, Anaklia, Signaghi, Kvareli etc.) capable of providing tremendous lasting boost to sea and mountain tourism, to 'wine tours' and green tourism
- Domestic tourism development – area with significant unexplored growth potential
- Kobuleti and Anaklia Free Tourism Zone (plot of land for symbolic GEL 1 price, customized profit and property tax exemptions)
- Cultural sites inscribed on the UNESCO World Heritage List

# One of the Best Low-Tax Jurisdictions and Special Taxation Regimes Adopted



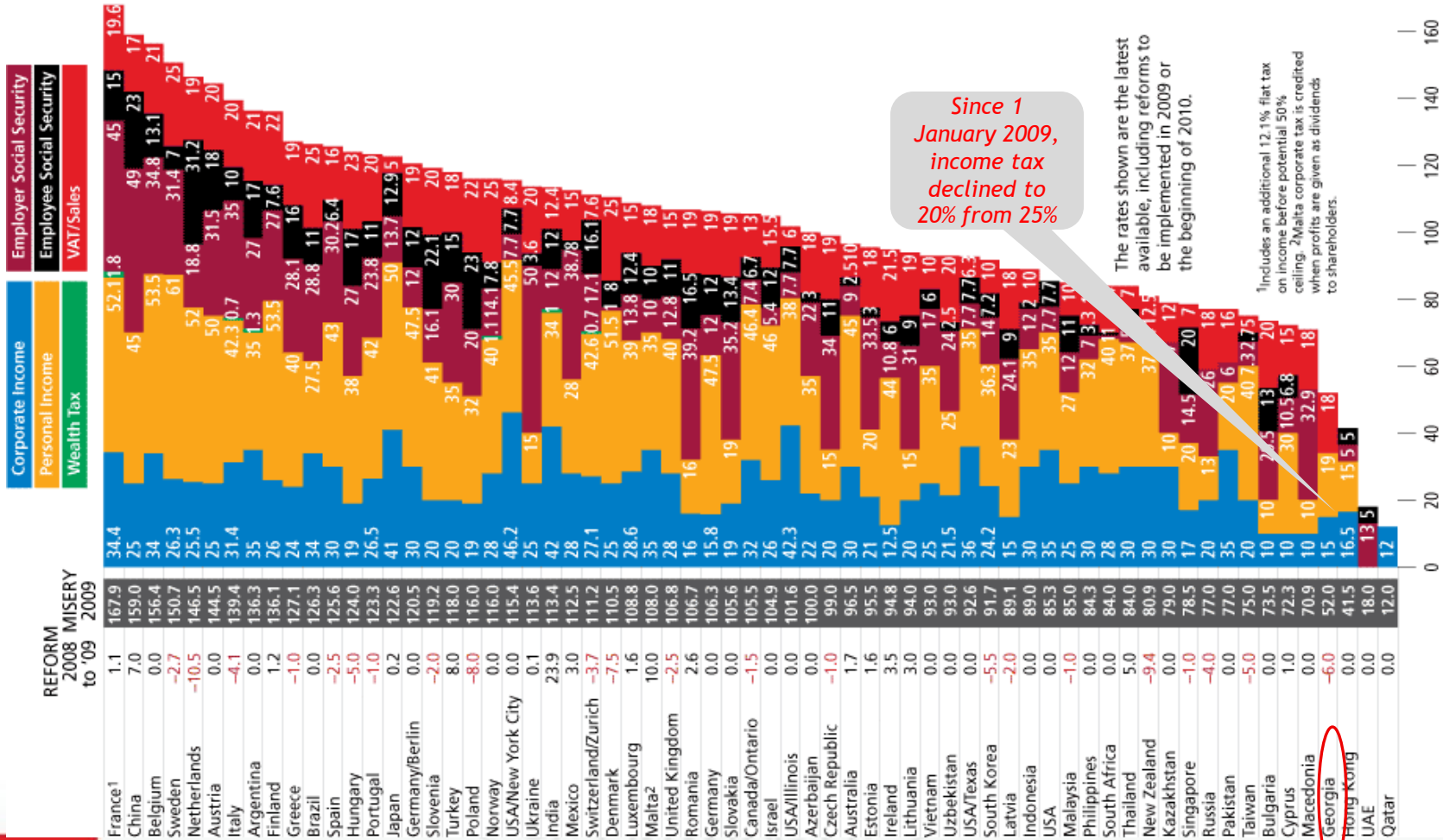
	'04A	'05A	'06A	'07A	'08A	'09A	'10A	'11	'12
Number of Taxes	21	7	7	7	6	6	6	6	6
VAT	20%	20%	18%	18%	18%	18%	18%	18%	18%
Income Tax	12-20%	12% flat	12% flat	12% flat	Social Tax + Income Tax 32% → 25%	Social Tax + Income Tax → 20%	20%	20%	20%
Social Tax	33%	20%	20%	20%	-	-	-	-	-
Corporate Income Tax	20%	20%	20%	20%	15%	15%	15%	15%	15%
Dividend & Interest Income Tax	10%	10%	10%	10%	10%	5%	5%	5%	5%

- No payroll tax or social insurance tax
- No capital gains tax
- No wealth tax, inheritance tax or stamp duty
- Foreign-source income of individuals fully exempted
- Tax rates reduction timetable has been further accelerated in 2008

# One of the Best Performer by Forbes Tax Misery & Reform Index



- According to 2009 Tax Misery & Reform Index, release by Forbes Business & Financial News, Georgia is the fourth least tax burden country after Qatar, UAE and Hong Kong



Since 1 January 2009, income tax declined to 20% from 25%

The rates shown are the latest available, including reforms to be implemented in 2009 or the beginning of 2010.

<sup>1</sup>Includes an additional 12.1% flat tax on income before potential 50% ceiling. <sup>2</sup>Malta corporate tax is credited when profits are given as dividends to shareholders.



# Fundamental Policies: What We Believe In

- The rule of law & property rights
- Minimal state fiscal footprint
  - Few, low and flat taxes
  - Minimal social security burden on businesses
- Sound money
  - Inflation targeting, single-digit inflation
- Free trade
- Flexible labour market, with minimal state interference in employer-employee relations
- Limited government
  - Deep de-regulation
  - Dramatically minimized and simplified licensing
  - Aggressive privatisation
- Means-tested, focused state assistance to the poor
- Lean and efficient civil service sector – providing value for taxpayers' money



# Fundamental Policies: Ensuring No Policy Drift

- Since 1995, no restrictions on currency convertibility or repatriation of capital & profit
- Ban on state ownership of banks and on the imposition of price controls
  - No state-owned banks since 1995 and no price controls since the early 1990s
- Ban on an increase in the number of licenses and permits
- Ban on an increase in the number of state or independent regulators
  - Currently, independent regulators exist only in financial services, communications and utilities
- Means-tested assistance rendered through vouchers and other ways that empower citizens and give them choice (in healthcare, education, etc), rather than by funding directly state-owned service providers



# Irrevocable Liberal Reforms

## Economic Liberty Act:

- Introduction of a new type of state tax, or an increase in the upper bound of existing state tax rates (except excise) is possible only through a referendum
- The ratio of Consolidated Budget Expenditures and Acquisition of Nonfinancial Assets to GDP shall not exceed **30%**
- The ratio of Consolidated Budget Deficit to GDP shall not exceed **3%**
- The ratio of Public Debt to GDP shall not exceed **60%**
- Principle of Universality of the Budget
- Freedom of Capital Flow

# Top Reformer Over the Past 5 Years According to the World Bank – IFC Doing Business Report



DOING BUSINESS 2011

Five-year measure of cumulative change in *Doing Business* indicators between DB2006 and DB2011

DB change score

0.5

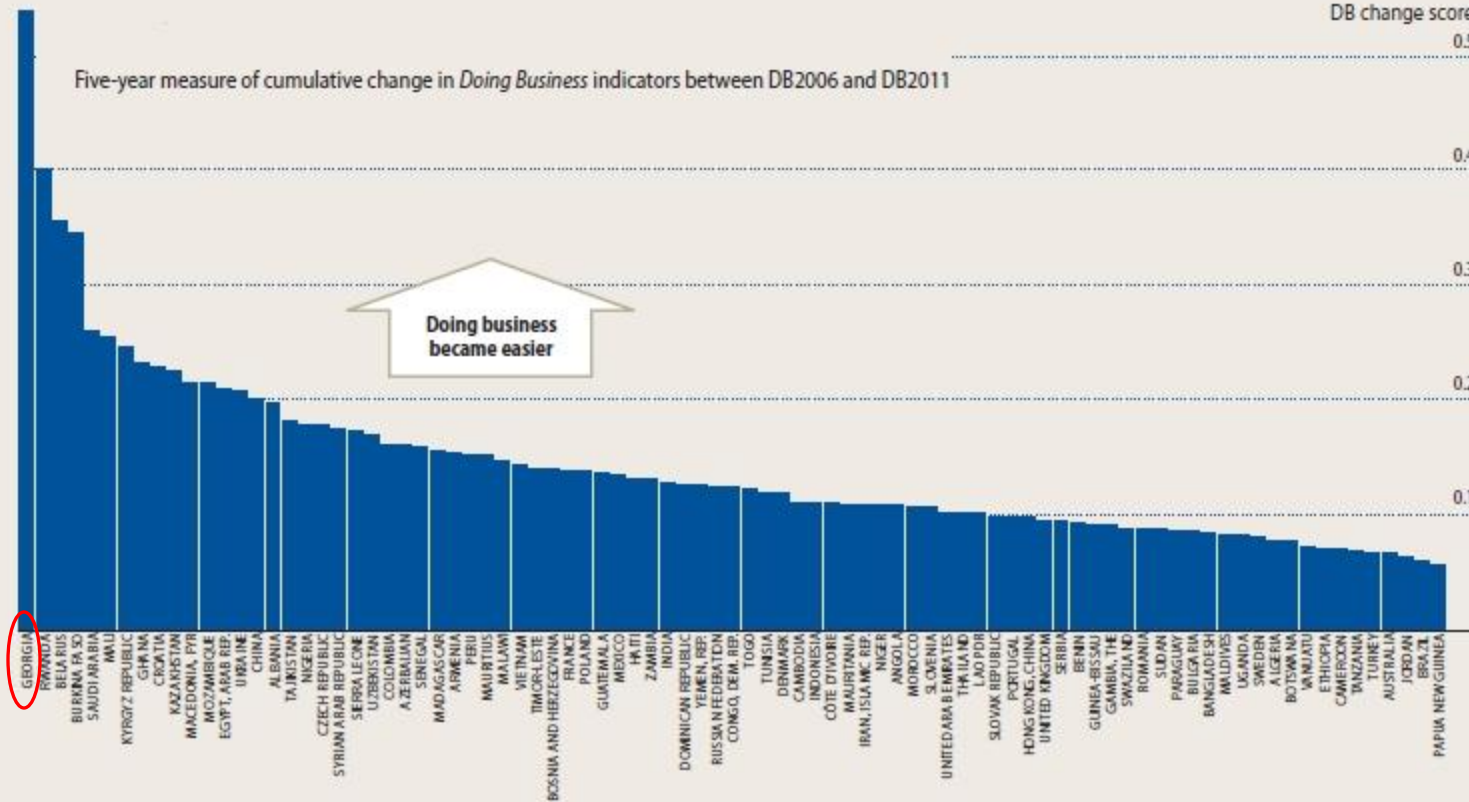
0.4

0.3

0.2

0.1

Doing business became easier



Note: The DB change score illustrates the level of change in the regulatory environment for local entrepreneurs as measured by 9 *Doing Business* indicator sets over a period of 5 years. This year's DB change score ranges from -0.1 to 0.54. More details on how the DB change score is constructed can be found in the Data notes.

Source: *Doing Business* database.



# Contacts

**Dimitri Gvindadze**

Minister of Finance of Georgia

+995 32 261 444

[d.gvindadze@mof.ge](mailto:d.gvindadze@mof.ge)

