

Georgia's Macroeconomic Development (2000-2007)

General Overview

Stable Macroeconomic Environment

- High and diversified economic growth
- Manageable inflation
- Stable national currency

Strong Growth Fundamentals

- Upgraded infrastructure
- Effective public institutions
- Rule of law
- Strengthened financial structure

Rapidly Improving Business Climate

- Minimum tax burden
- Simple business regulations
- Clarified ambiguities
- Business deregulation
- Minimum state intervention

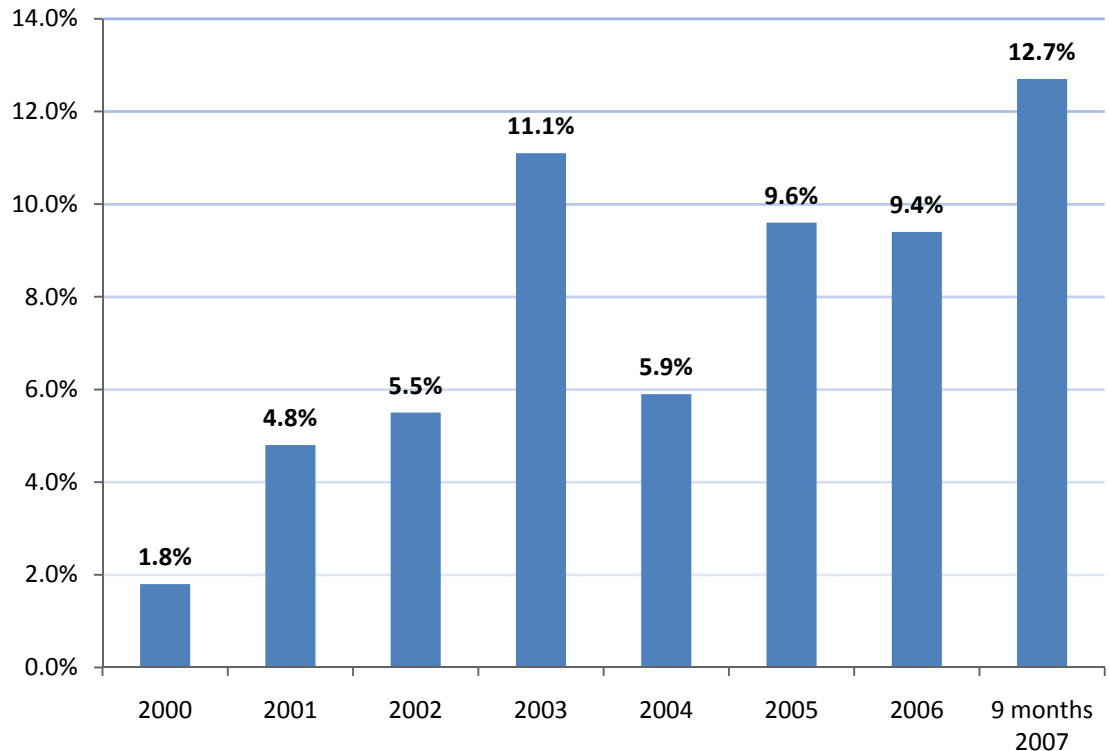
Declining Vulnerabilities

- Lowering indebtedness ratios
- Diversified trade
- Diversified sources of capital inflows
- High Forex reserves

Economic Growth

- Average growth rate over last 5 years – 9.7%
- Majority of economic sectors contribute to GDP growth with 2-digit rates
- Last 5 years GDP grew by 45% in real terms
- Capital inflow and labor productivity growth were major driving forces for economic growth

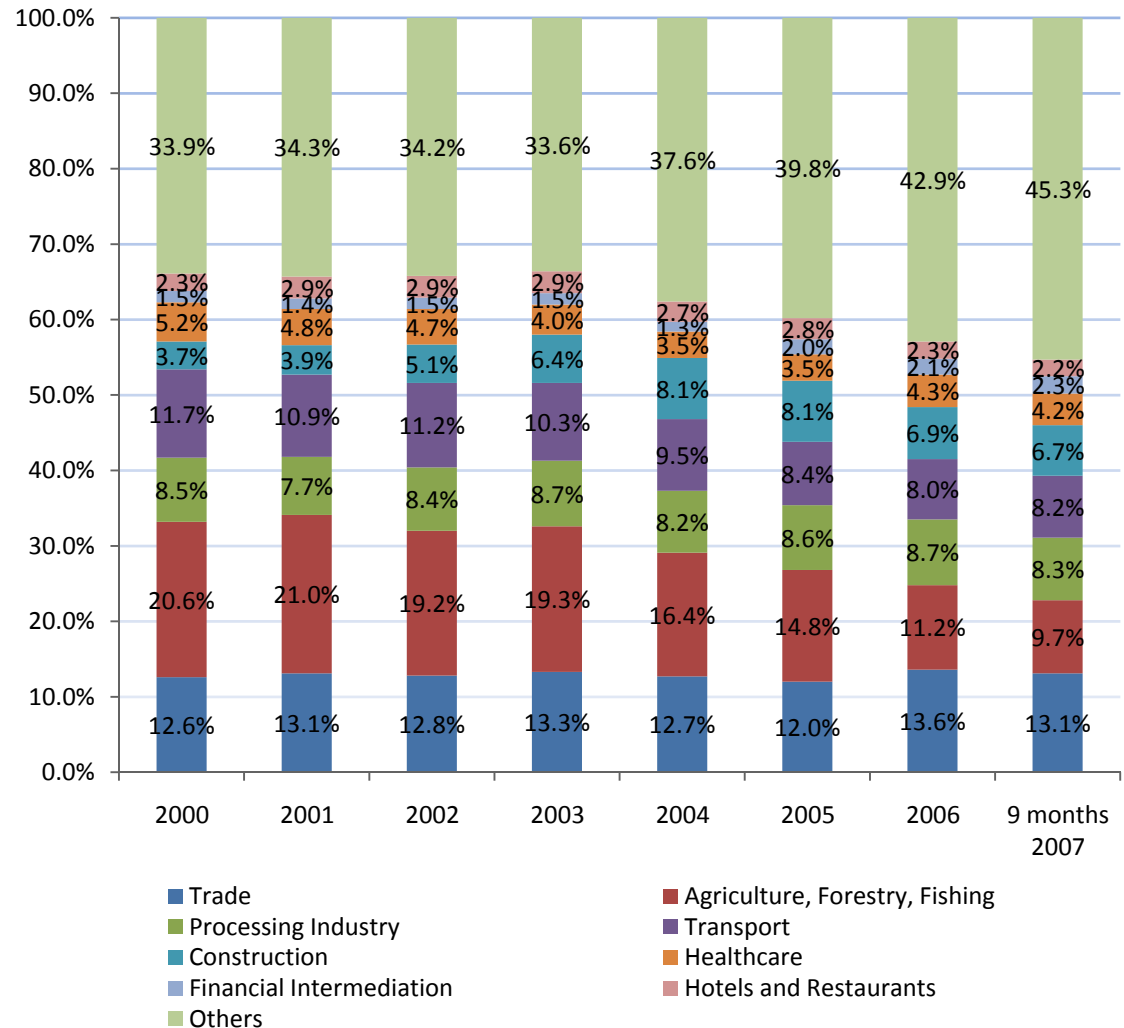
GDP Growth Rates



Economic Growth

GDP Structure %

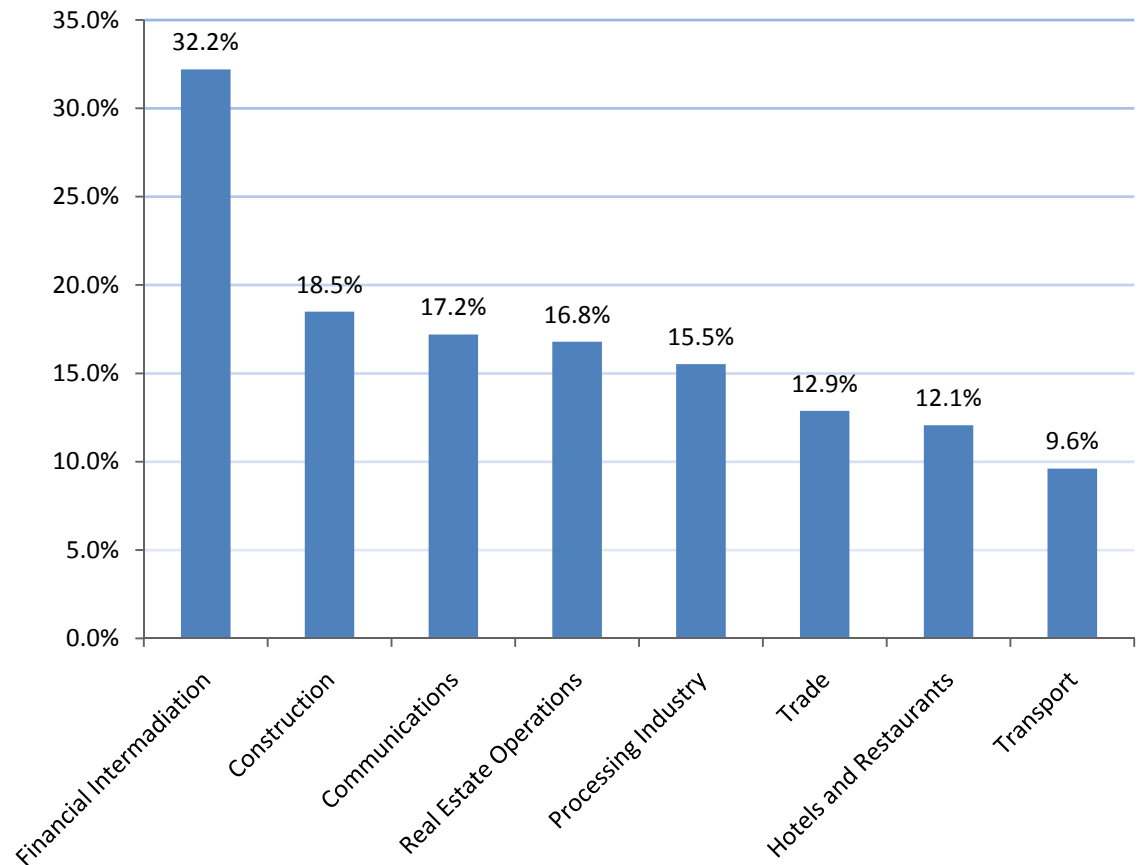
- GDP structure has been significantly changed last 5 years
- Since 2006, Trade became the largest economic sector, shifting Agriculture to the 2-nd place
- Construction Sector and Financial Intermediation became more important contributors to overall economic growth



Economic Growth

- Financial Intermediation, Construction, Communications, Real Estate Operations, Processing Industry, Trade, Hotels and Restaurants and Transport sectors grew by 17% on average over last 5 years
- Those sectors account around 50% of Gross Domestic Product

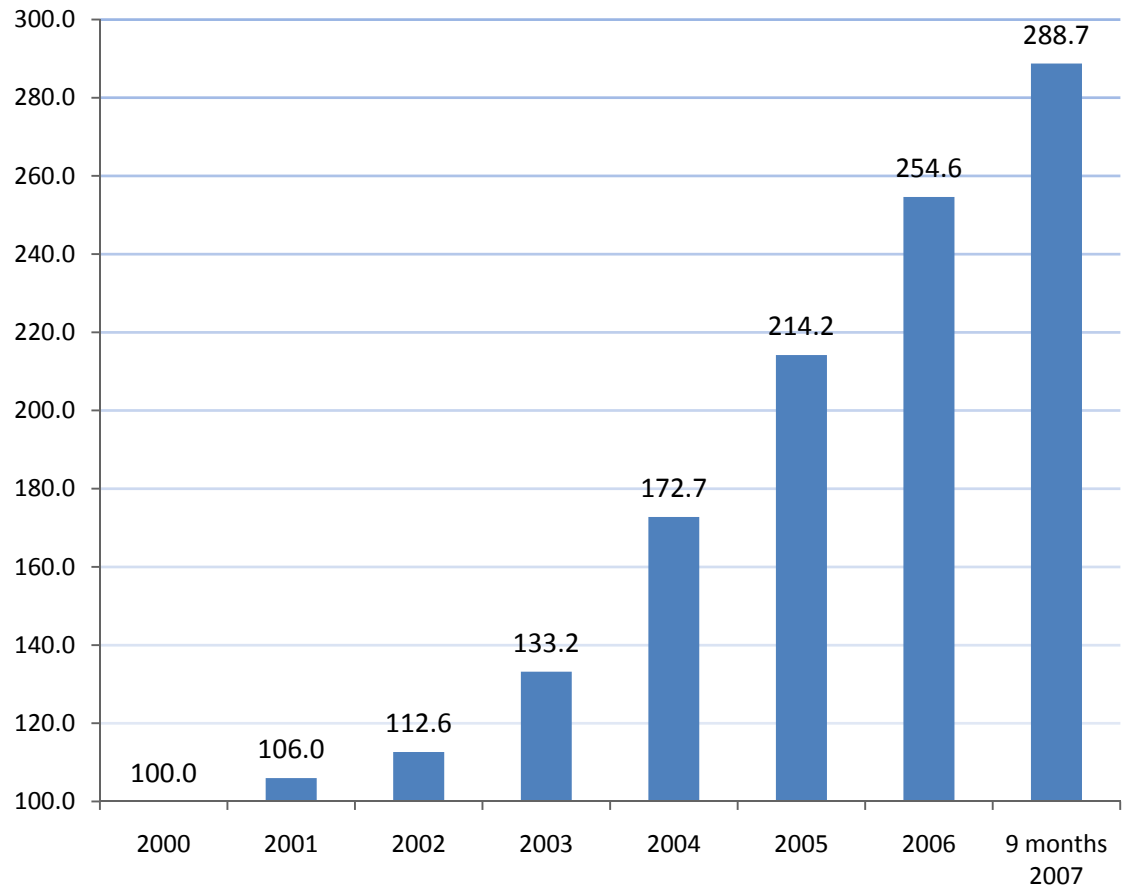
Average Growth Rates of Main Economic Sectors
(2003-2007)



Economic Growth

GDP per capita growth index
(2000=100)

- GDP per capita has been almost tripled since 2000
- GINI coefficient has decreased meaning more equal income distribution among the population



Economic and Structural Reforms

In 2004 there were 22 different taxes in Georgia and many ineffective and in most cases unnecessary bureaucratic barriers

First steps towards simplification of business environment started in 2005, when Georgia Adopted new Tax Code

From January 1, 2008 there are only 6 taxes left in Georgia:

1. VAT 18%
2. Personal Income Tax (Only tax on Salary left) - 25% flat
3. Corporate Income Tax - 15%
4. Customs Tax 5% and 12% (*only on agricultural products and construction materials*)
5. Excise – depends on the type of good
6. Property Tax – Maximum 0.8% of property (depends on income as well)

Economic and Structural Reforms

Georgia's tax regime offers other benefits to entrepreneurs:

- Ambiguities are clarified
- VAT is refundable on investment
- 100% amortization rule has been introduced
- Primary agro processing is free of any taxes
- Other benefits necessary for business promotion

In total, tax burden around 7% of GDP was removed from Businesses

An Unified Revenue Service established in 2007 means the only governmental agency for entrepreneur to declare on her business activities

Economic and Structural Reforms

A new **Customs Code** in harmonization with EU standards, entered into force from January 1, 2007

- Time and number of documents for Exports and Imports procedures has been significantly reduced

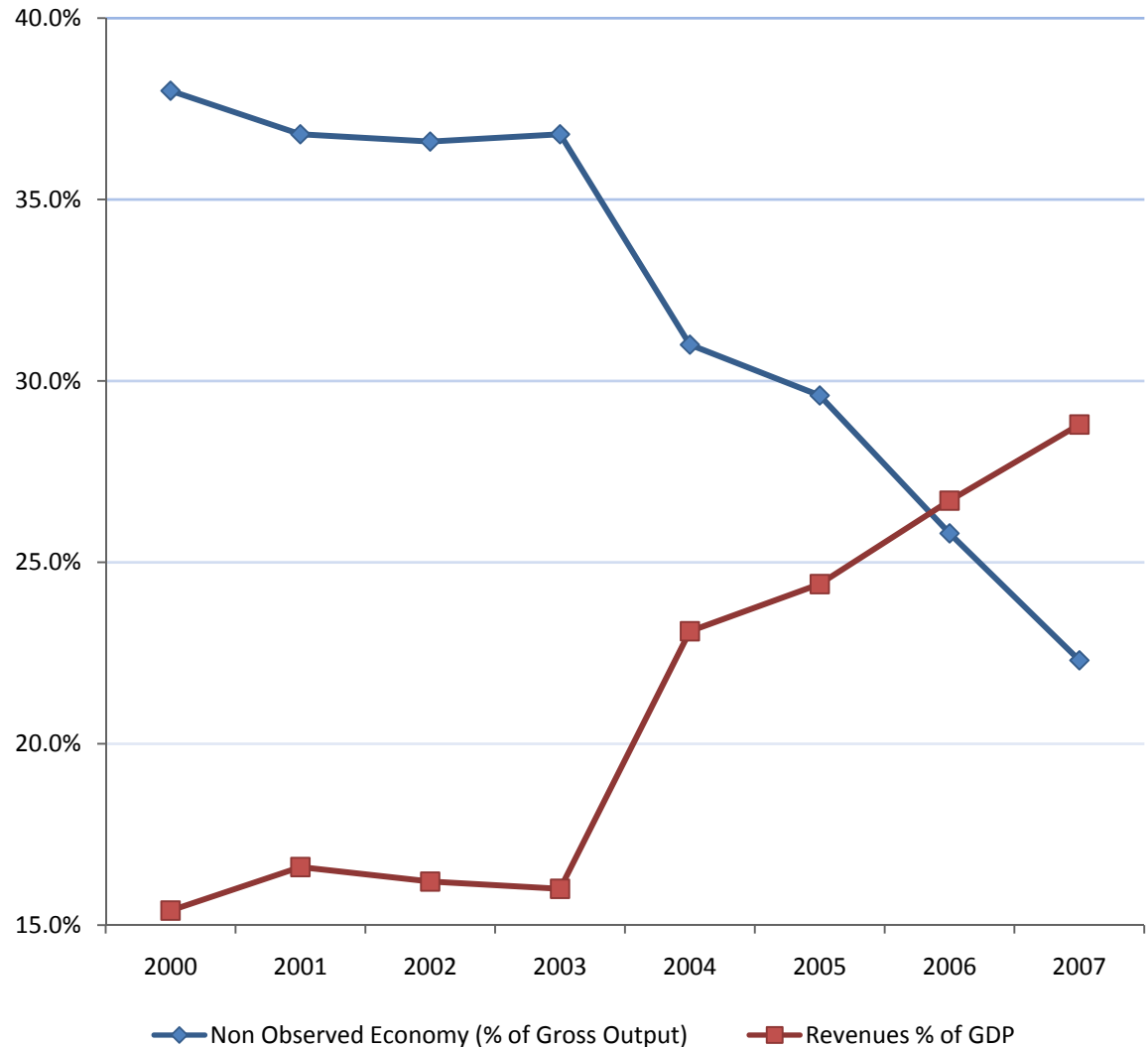
In 2006 Georgia adopted new liberal **Labor Code**, which:

- Eliminates Soviet-era burdens on the freedom to contract
- Makes the cost for hiring and firing workers very low
- No mandatory minimum wage requirements
- No obligatory overtime costs

Today, Georgia's Labor Code is one of the most flexible labor regulations in the world

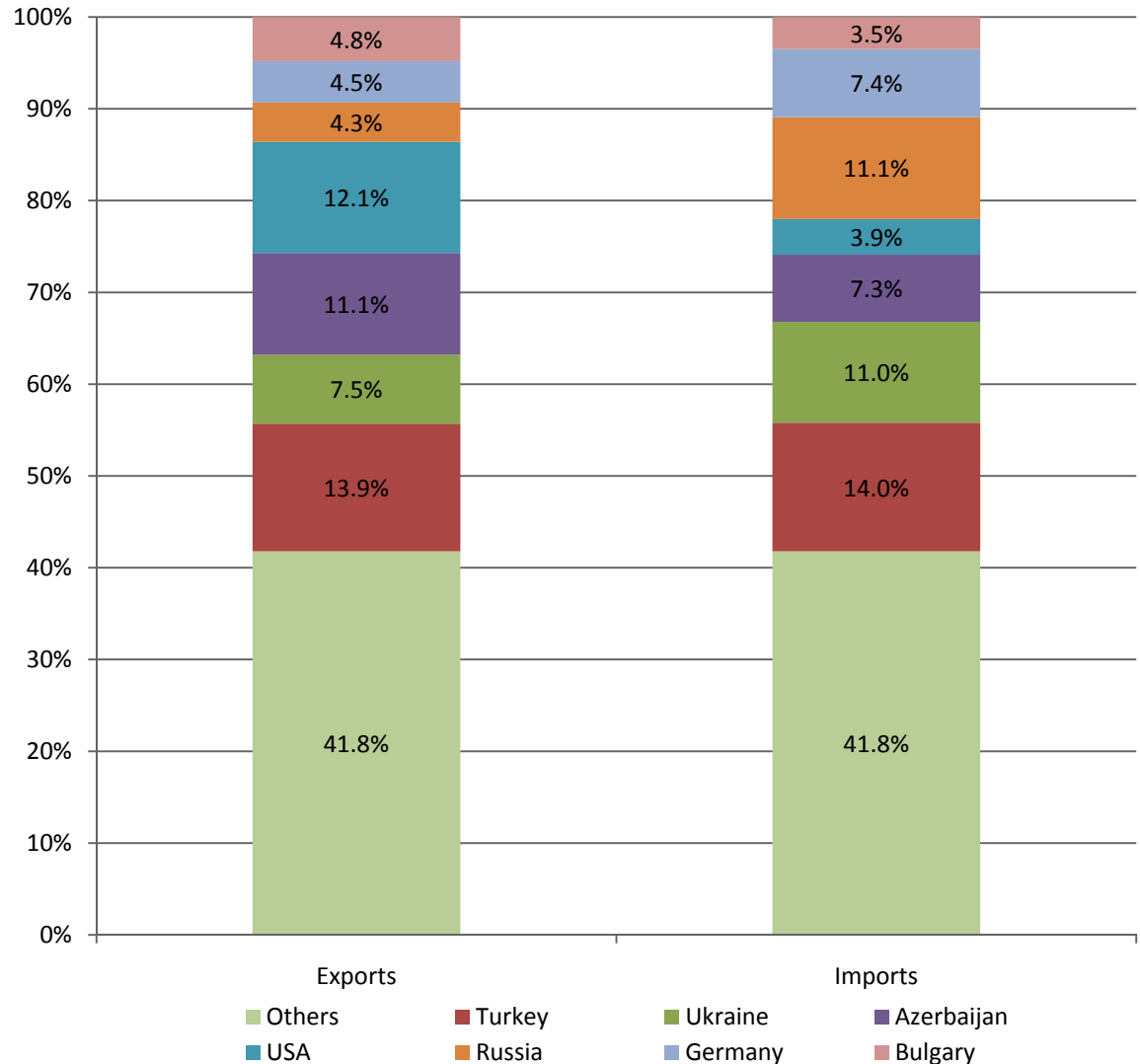
Effective Management and Improved Administration

- Effectively functioning public institutions and rule of law led to dramatic reduction of informal activities
- The same time better administration and simplified business regulations provoked rapid growth of budgetary revenues



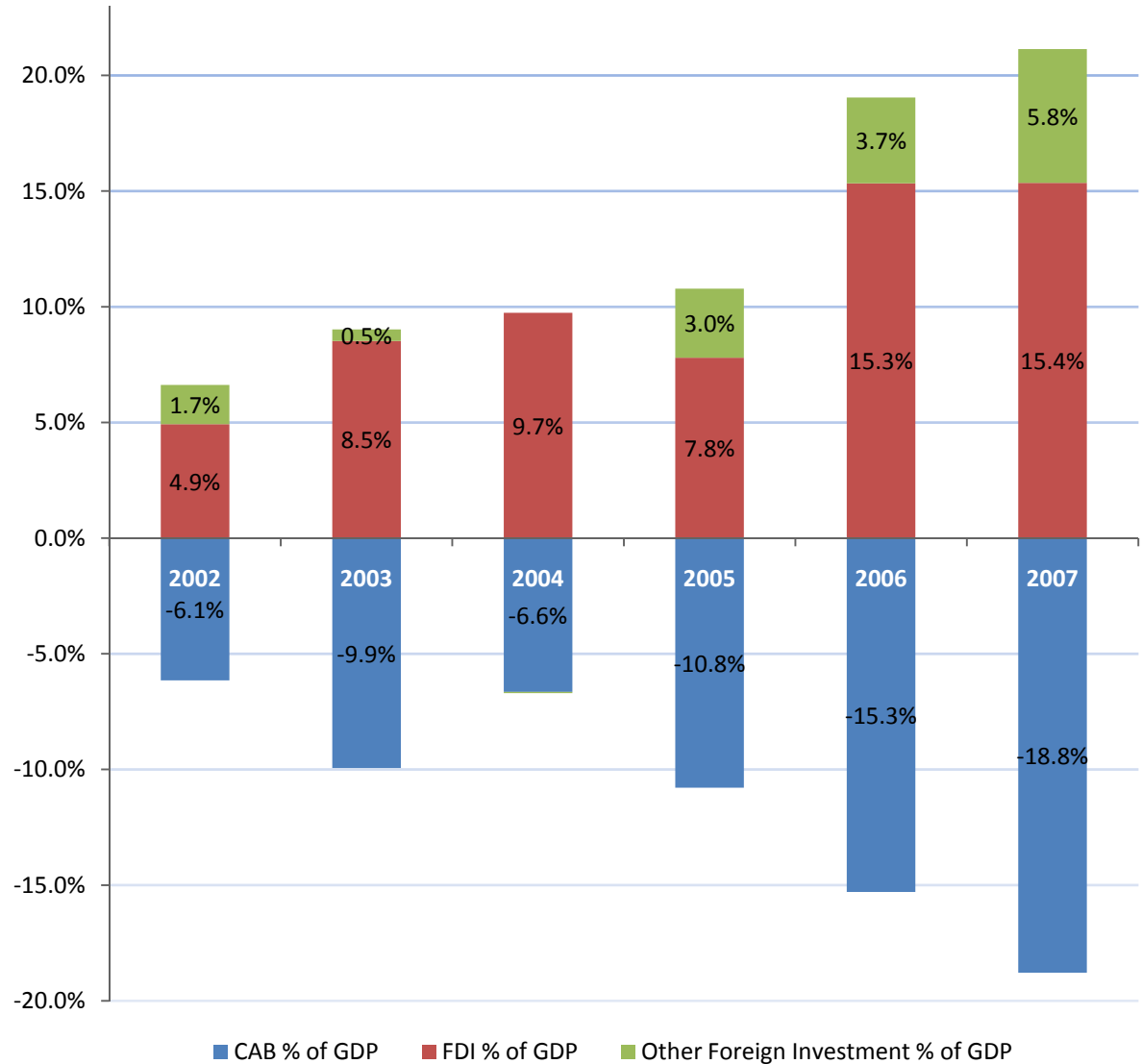
External Sector

- Georgia is a small open economy
- Total trade turnover reached US\$6.5 Billion in 2007
- Over the last decade exports grew on average by 21% and imports by 18%
- 1/5 of Georgian exports go to the EU; EU imports stand at 30%



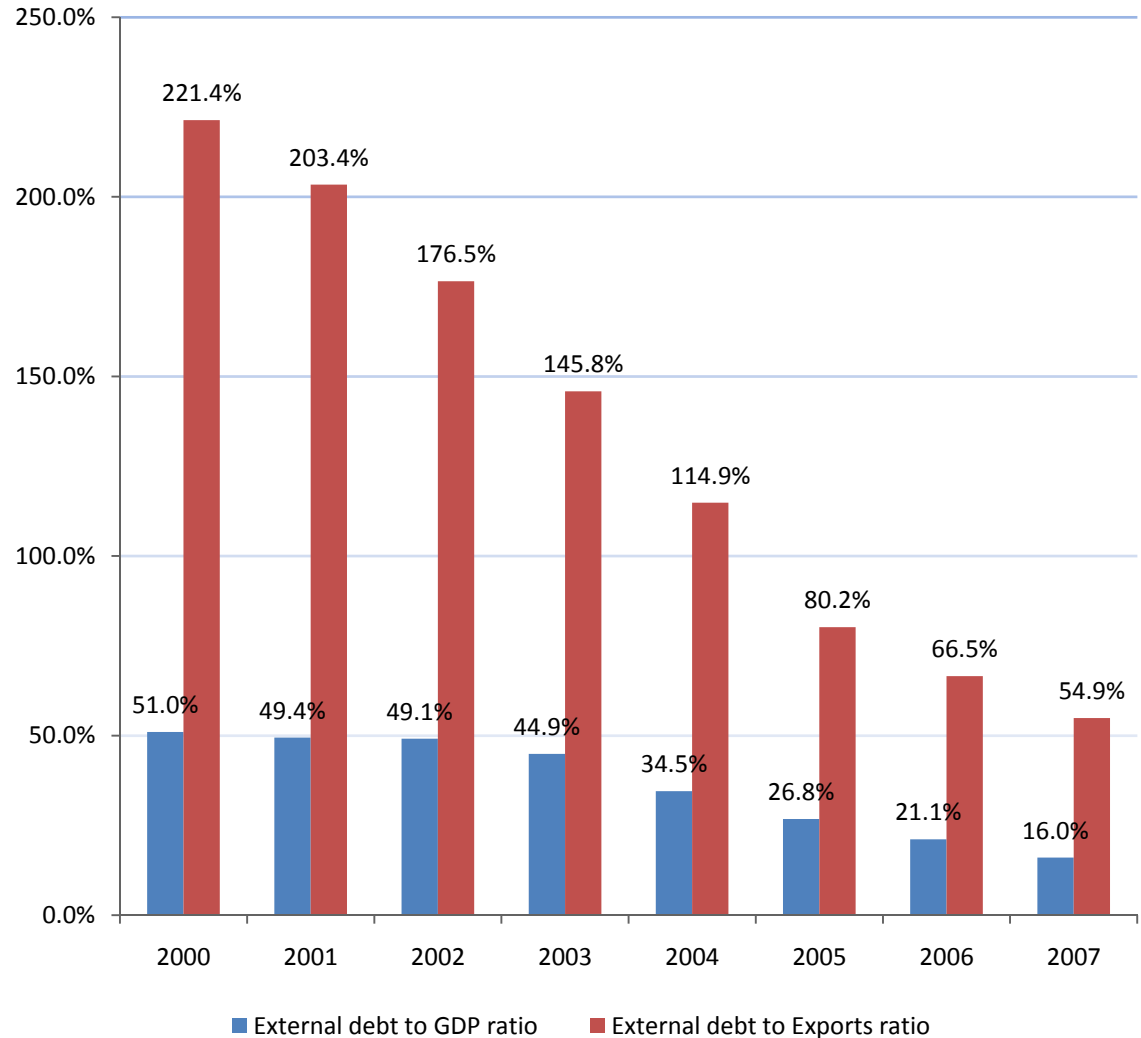
External Sector

- Business friendly environment, economic and structural reforms promoted large FDI inflows, which has almost fully covered Current Account Deficit
- Strong economic growth increased domestic consumption and pushed imports up, therefore widened CAD



External Sector

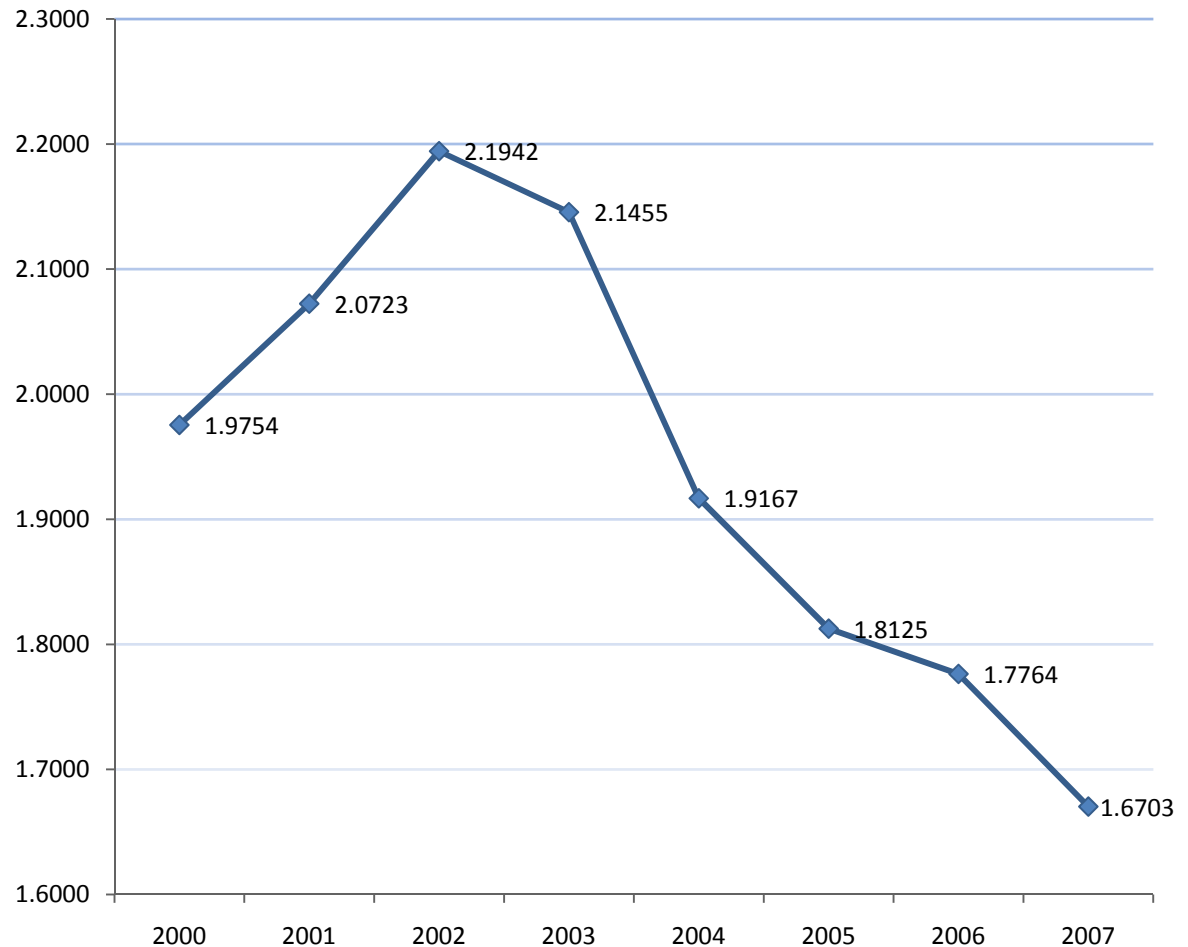
- External debt to GDP ratio is on a declining trend and stood at 16% of GDP in 2007
- In 2006 Georgia started repaying non-concessional debts at discount , lowering further external indebtedness



Exchange Rate

- Since end 1998 Georgia maintains floated exchange rate system
- Since 2004, increasing stability of financial system contributed to a dramatic reduction in the volatility of exchange rates
- Monetary policy remains committed to the managed float, however interventions happen:
 - To minimize excessive fluctuations of both sides
 - To further build up Forex reserves

GEL/USD exchange rate
(2000-2007)

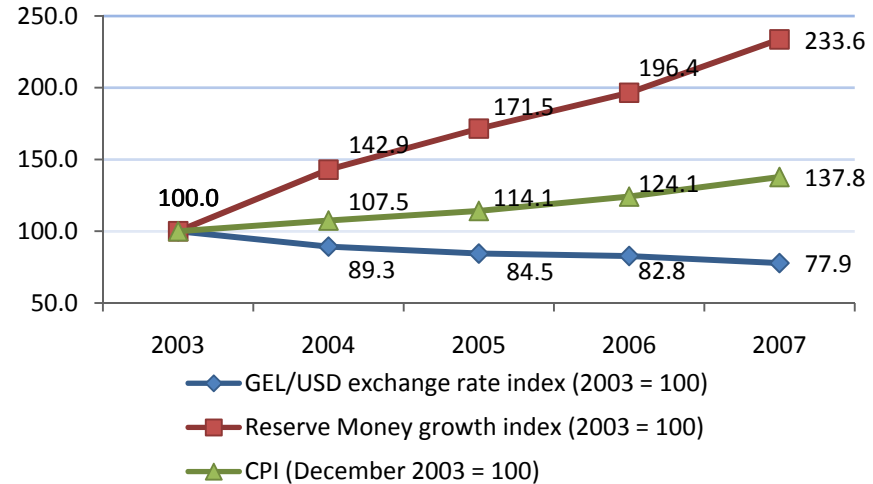


Macroeconomic Challenges

- Large foreign exchange inflows challenges Georgia in the following ways:

1. Appreciates national currency
2. Increases monetary base
3. Accelerates prices

But, significantly increases foreign exchange reserves, making country more stable to external shocks



**Foreign Exchange Reserves
(months of imports)**

