

GEORGIAN NATIONAL INVESTMENT AGENCY

Investment Climate Overview
June, 2009

INVEST IN GEORGIA
NATIONAL INVESTMENT AGENCY

www.investingeorgia.org

10 Reasons to Invest in Georgia

1. World's Leading Reformer
2. Strategic Geographic Location
3. Stable Macroeconomic Environment
4. Liberal Trade Regimes
5. Low Taxes
6. Simplified Licensing and Permitting Procedures
7. Developing Infrastructure
8. Business Friendly Environment
9. World's Leader in Labor Freedom and Labor Force Literacy
10. Diverse Investment Sectors

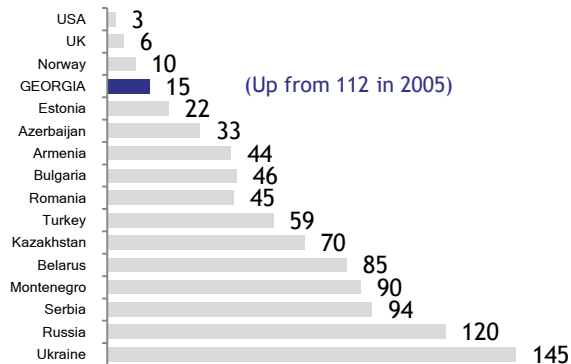
1. World's Leading Reformer

Georgia is the world's leading reformer. Its meteoric progress in improving business climate has been well documented in a number of international indices.

- The World Bank hailed Georgia's commitment to reforms over the past four years as unprecedented after the country rose from 112th to 15th place in the world in the World Bank's Doing Business 2009 survey.
- Doing Business Reformer Club awarded Georgia as Top Reformer in Europe and Central Asia during last five years.
- According to Heritage Foundation's Index of Economic Freedom 2009, Georgia ranks 32nd out of 157 countries in the world, surpassing such highly developed European countries as Norway, Czech Republic, France, Latvia, etc.
- According to the inward FDI performance index of the United Nations Conference on Trade and Development 2005-2007, Georgia ranks 9th out of 141 economies surpassing the countries such as Netherlands, UK, UAE, etc.

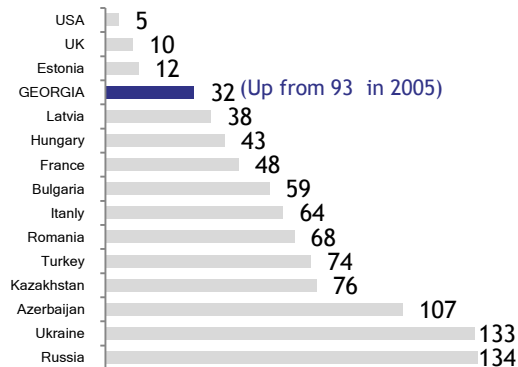
Radical Reforms for Favourable Market Environment

Ease of Doing Business, 2009



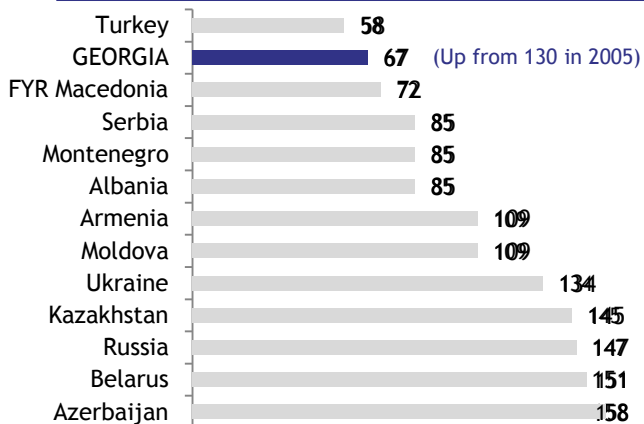
Source: World Bank, 2009 (Rank out of 181 countries)

Economic Freedom Index, 2009



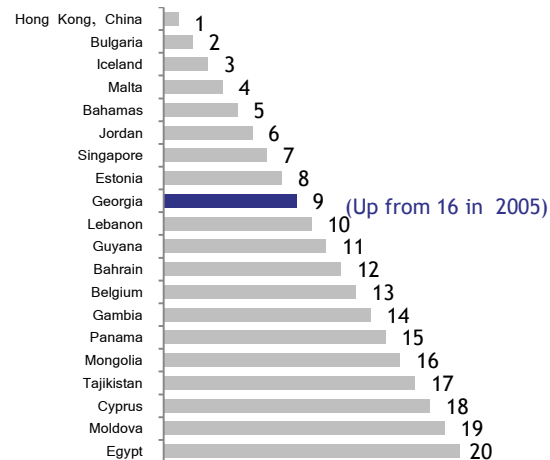
Source: The Heritage Foundation

Corruption Perception Index, 2008



Source: Transparency International; 180 countries ranked

Inward FDI Performance Index 2005-2007



Source: UNCTAD

2. Strategic Geographic Location

Located at the crossroads of Europe and Central Asia, Georgia is a bridge connecting several important economic regions with a total of 827 million people. It is a key link in the shortest transit route between Western Europe and Central Asia for transportation of oil and gas as well as dry



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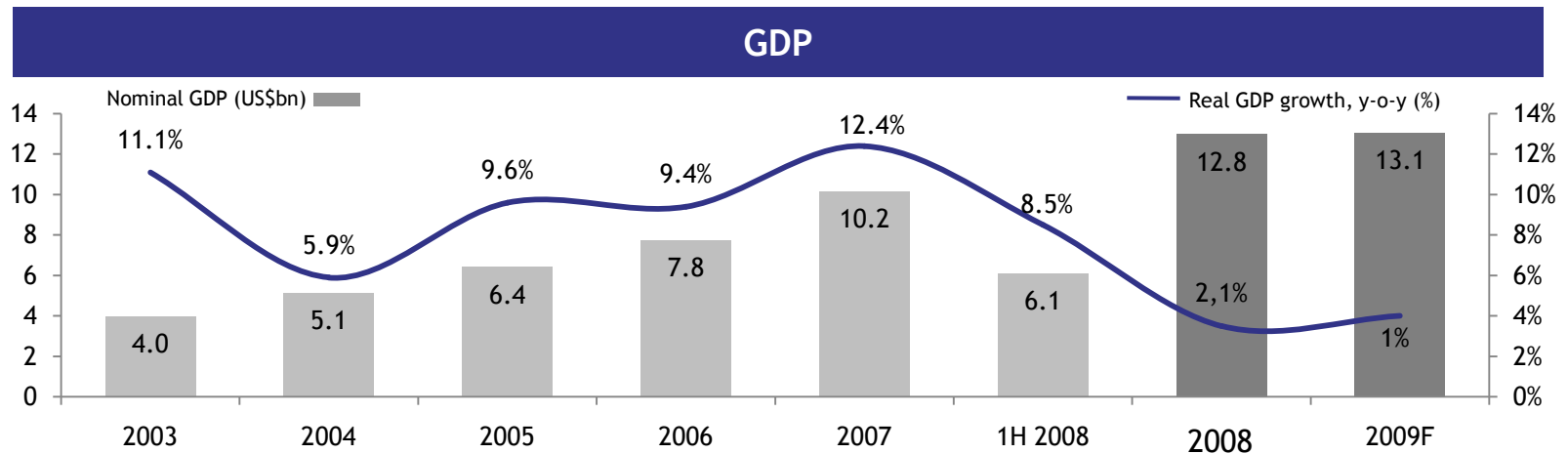
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3. Stable Macroeconomic Environment

Consistent macroeconomic policies, burst of entrepreneurial activity, growth in domestic consumption, rehabilitation of infrastructure and export growth are producing strong economic growth.

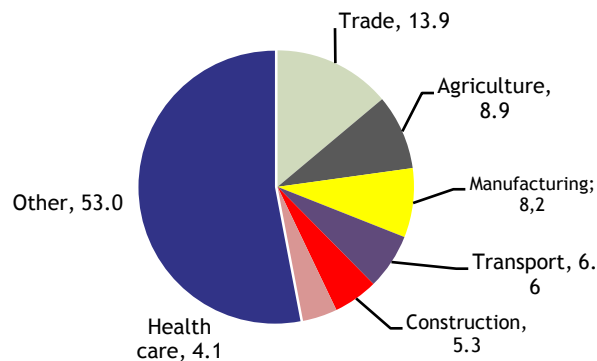
- Real GDP growth in 2008 was 2.1% while in 2005 and 2006 it was nearly 10%, and over 12% in 2007.
- Georgia has proved to be highly resilient to external shocks (for example, energy and commodity prices, Russian embargo, Russian-Georgian conflict, global financial & economic crisis).

Stable Macroeconomic Environment



Source: Department of Statistics of Georgia, Ministry of Finance of Georgia, IMF forecast

Components of nominal GDP, 2008



Source: Department of Statistics of Georgia

Comments

- Boosted by non stop economic reforms and substantial FDI inflows, Georgia's economy continues to show a moderate growth regardless of Russian - Georgian Conflict and worldwide financial and economic crisis, showing another strong resilience against global challenges
- Georgia's economic performance in 2006 and 2007 is particularly impressive, taking into consideration the consecutive external shocks (Russian embargo in October 2006, rising commodity prices) and tight monetary policy

4. Liberal Trade Regimes

Georgia has low tariffs, streamlined border clearance procedures, and preferential trade regimes with major partners including the European Union, the CIS countries, Turkey, USA, Japan and Canada.

Foreign Trade Relations

- WTO member since 2000. **MFN Tariffs** with WTO Members
- Georgia benefits from a **Generalized System of Preferences (GSP)** when trading with the USA, Canada, Switzerland, Japan and Norway; accordingly lower tariffs are applied on goods exported from Georgia to those countries.
- **GSP+ status** with the EU allows Georgia to Export 7200 products to the EU market duty free
- **Free Trade Regime** with CIS Countries and Turkey(since November 1,2008)
- Georgia is actively working with the EU and the USA to encourage free trade negotiations.

Main Features of Georgian Trade Policy

- Low import tariffs (90% of goods free from import tariff)
- 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

5. Low Taxes

The taxation framework in Georgia is as follows:

- 20% flat personal income tax decreasing to 15% by 2012
- 18% VAT
- 15% corporate income tax
- 5% interest income and dividend tax rates decreasing to 0% by 2012
- 1%(max) property tax on the self-assessed value of property
- 0% dividend income tax on dividends from publicly-traded equities from 1 January 2009
- 0% tax on interest income from bank deposits and publicly-traded debt securities (from 1 January 2009)
- 0% capital gains tax
- 0% social insurance or similar taxes
- 0% inheritance tax
- 0% wealth tax
- 0% stamp duty or other transaction-based taxes or levies

Free Industrial Zone:

- 0% VAT
- 0% customs tax
- 0% property tax

Free Industrial Zones

LEGAL FRAMEWORK FOR CREATION OF FIZ

- Creation of FIZ is regulated by the Law of Georgia on Free Industrial Zones
- The aim of the this Law is to provide favorable environment for the economic activity and to promote the inflow of capital and technologies to Georgia
- Free Industrial Zone may be set up on any territory **exceeding 10 hectares**, except for the protected territories under the Georgian Law

Type of Tax	Free Industrial Zone	Free Warehouse Company
Corporate Income Tax	0% (int.companies)	0% (from re-exporting of foreign goods)
Value Added Tax	0%	0%
Customs Tax	0%	0%
Property Tax	0%	up to 1%
Personal Income Tax	20%	20%

CREATION OF FREE INDUSTRIAL ZONE

- **Free Industrial Zone may be set up:**
By the initiative of the Government of Georgia
Upon request of physical person or legal entity(organizer)
- **The creation of Free Industrial Zone necessitates that the Organizer presents a guarantee** (*the amount and conditions of which shall be determined by a resolution of the Government of Georgia on the rules for creation, arrangement and functioning of Free Industrial Zone*)
- **Decision on the creation of Free Industrial Zone is made by the Government of Georgia**

6. Simplified Licensing and Permitting Procedures

Georgia has dramatically simplified licensing and permitting requirements to ease constraints on business.

- The total number of licenses and permits was reduced by 84%.
- 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
- Reduced statutory time limits for government action: 30 days 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.

7. Developing Infrastructure

The MIN at a Glance



Georgian infrastructure, 2008

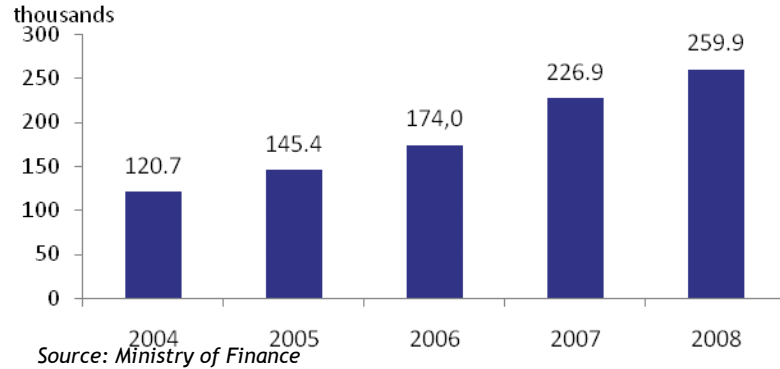
Number of Int. Airports	2
Number of Sea Ports	3

Georgian Road, 2008

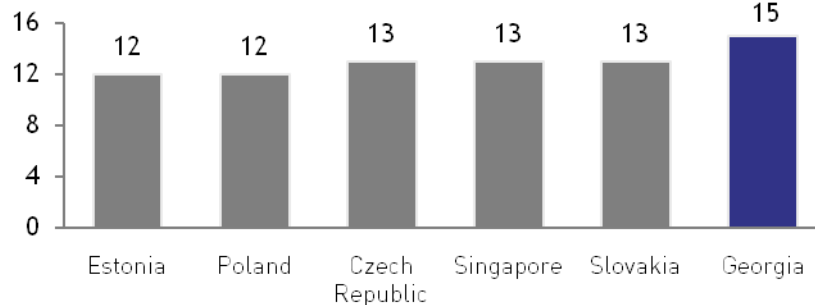
International	1495 KM
Internal	3354 KM
Local	15480 KM
Total	20329 KM

8. Business Friendly Environment

Number of registered businesses

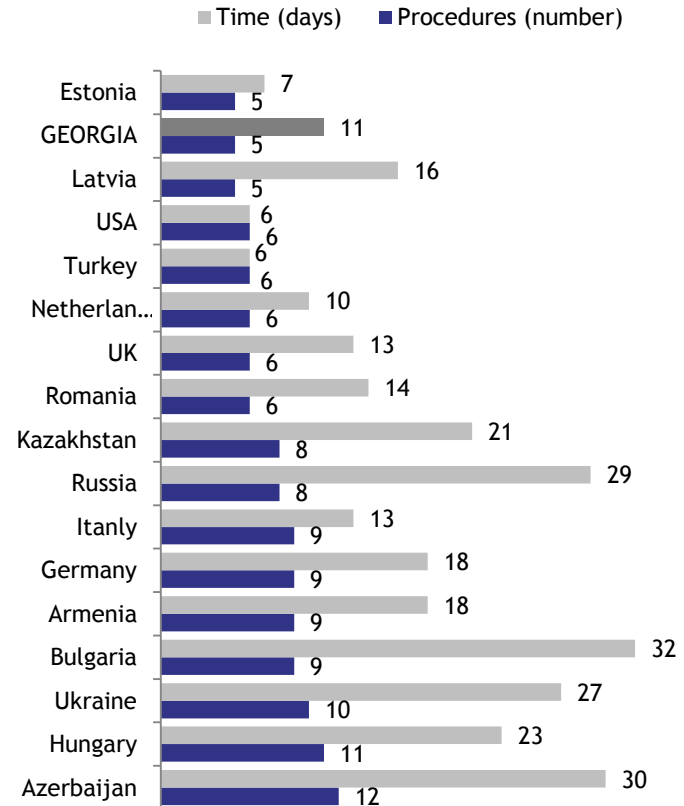


Number of registered businesses per 100 adults



Source: World Bank - Doing Business 2008

Starting a business, 2008



Source: World Bank report - Doing Business 2008

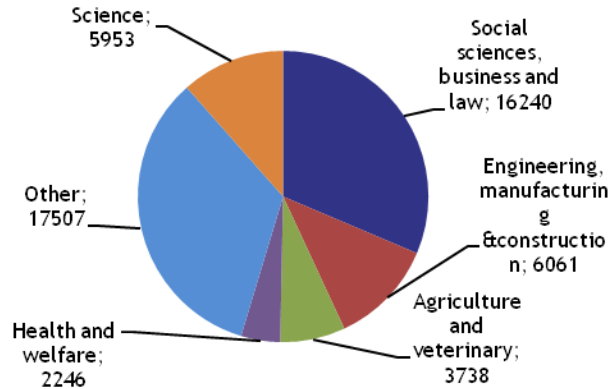
9. World's Leader in Labor Freedom and Labor Force Literacy

Georgia is the world's leader in labor freedom and offers a qualified labor force.

- Georgia has the most liberal Labor Code worldwide, according to the Heritage Foundation 2008.
- Labor Freedom Index for Georgia is 99.9 while the world average is about 60, according to the Heritage Foundation's Index of Economic Freedom for 2008.
- Georgia leads the world on the Adult Literacy Rate indicator of the 2006 Human Development Report produced by UNDP.
- Georgia has a score of zero in difficulty of the hiring & firing indices, according to the World Bank Doing Business Survey 2008.
- No minimum wage regulations.

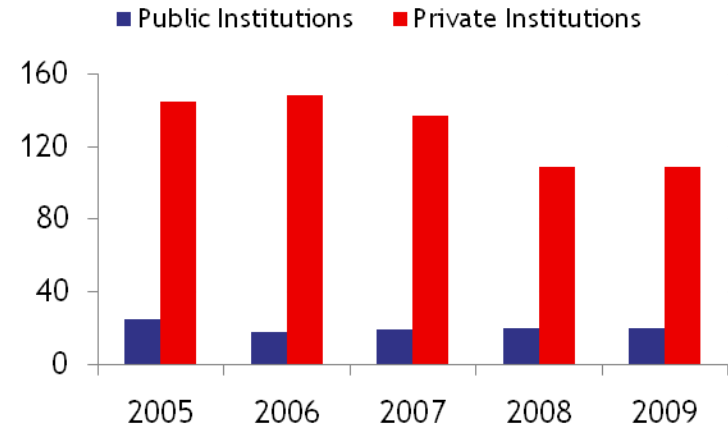
Education & Labor Force

Number of students In public institutions by specialization, 2008-2009



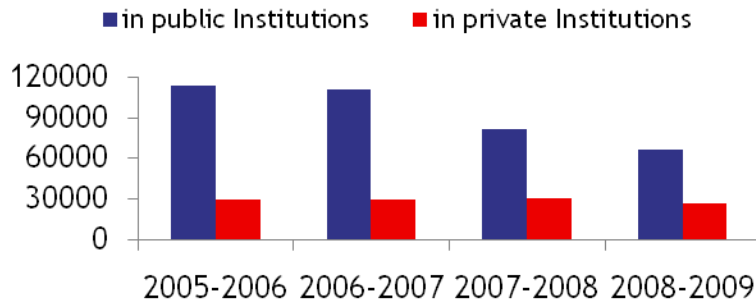
Source: Department of Statistics of Georgia ;

Higher education institutions, 2008-2009



Source: Department of Statistics of Georgia ;

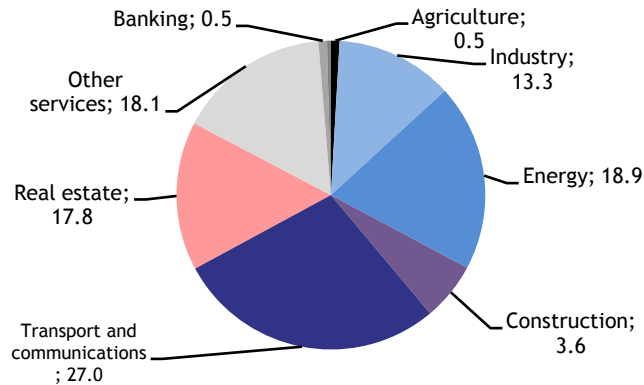
Number of students in higher education institutions, 2008-2009



Source: Department of Statistics of Georgia ;

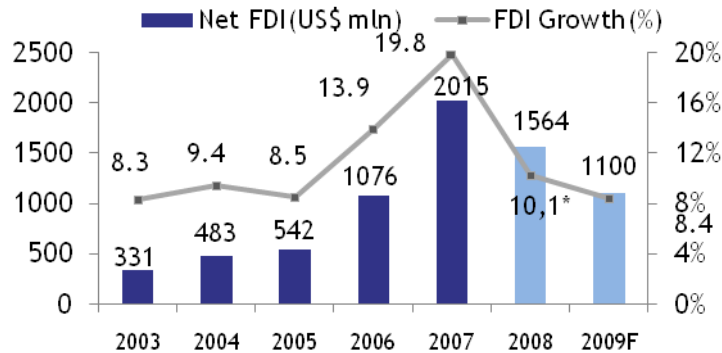
10. Diverse Investment Sectors

FDI by Sectors



Source: Department of Statistics of Georgia

Net FDI inflows



Source: Department of Statistics of Georgia ; * estimate

FDI Breakdown by Origin

2006		2007		2008	
UK	15.7%	Netherlands	14.9%	United Arab Emirates	19.6%
USA	15.3%	Czech Rep.	11.3%	USA	10.7%
Kazakhstan	12.8%	Virgin Islands	9.3%	Turkey	10.5%
Turkey	10.9%	Denmark	7.8%	Virgin Islands	10.0%
Azerbaijan	6.5%	Cyprus	7.4%	UK	9.5%
Norway	6.5%	Norway	7.2%	Netherlands	8.7%
Virgin Islands	4.9%	UAE	6.5%	Switzerland	5.8%
Italy	4.0%	Turkey	4.7%	Kazakhstan	4.2%
Denmark	3.6%	Russia	4.4%	Austria	3.3%
Cyprus	3.4%	Kazakhstan	4.4%	Germany	2.6%
Subtotal	83.6%	Subtotal	77.9%	Subtotal	84.9%
Other	16.4%	Other	22.1%	Other	15.1%
Total	100%	Total	100%	Total	100%

Source: Department of Statistics of Georgia

Selected Strategic Investors



Source: Department of Statistics of Georgia

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Diverse Investment Sectors

- Up to 300 institutional investors invested in Georgian debt and equities in 2004-2008



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Published
18.06.2009