



Economic Developments in Georgia: New Investment Destination

Presentation for the
Japan-Georgia Joint Economic Committee
Tokyo
March 7, 2007



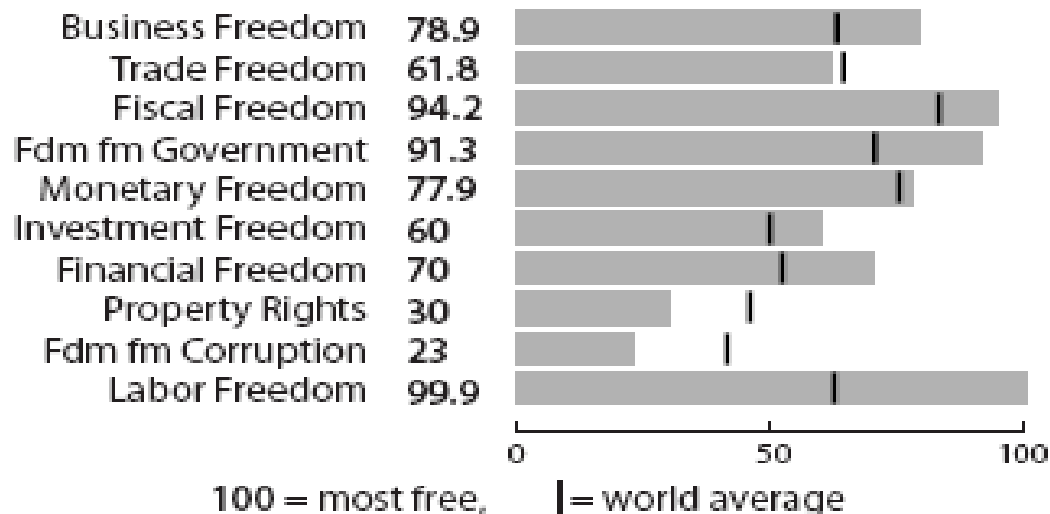
Georgia: World's No1 Reformer

- The **World Bank's *Doing Business in 2007*** – N1 reformer in the world in improving the ease of doing business.
- The country leaped forward an unprecedented 75 places, moving from 112th to 37th place out of 175 countries surveyed.
- The **Business Environment and Enterprise Performance Survey (BEEPS)** - largest reduction in corruption among all transition countries in 2002-2005.
- **Heritage Foundation's Index of Economic Freedom** for 2007, Georgia ranked 35th out of 161 countries (20th out of 41 countries in the European Region).
- Georgia scored above world average in 7 out of 10 indicators, with particularly high ratings in business freedom, fiscal freedom, freedom from government, and labor freedom.



World's No1 Reformer

GEORGIA'S TEN ECONOMIC FREEDOMS



Economy	Starting a business	Dealing with licenses	Employing workers	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
1. Georgia	✓	✓	✓		✓			✓	✓	
2. Romania		✓	✓		✓	✓		✓		✓
3. Mexico	✓					✓	✓			
4. China	✓				✓	✓		✓		
5. Peru	✓				✓	✓			✓	x
6. France		✓			✓			✓	✓	✓
7. Croatia	✓			✓					✓	
8. Guatemala	✓	✓		✓						
9. Ghana				✓			✓	✓		
10. Tanzania	✓			✓		✓		✓		



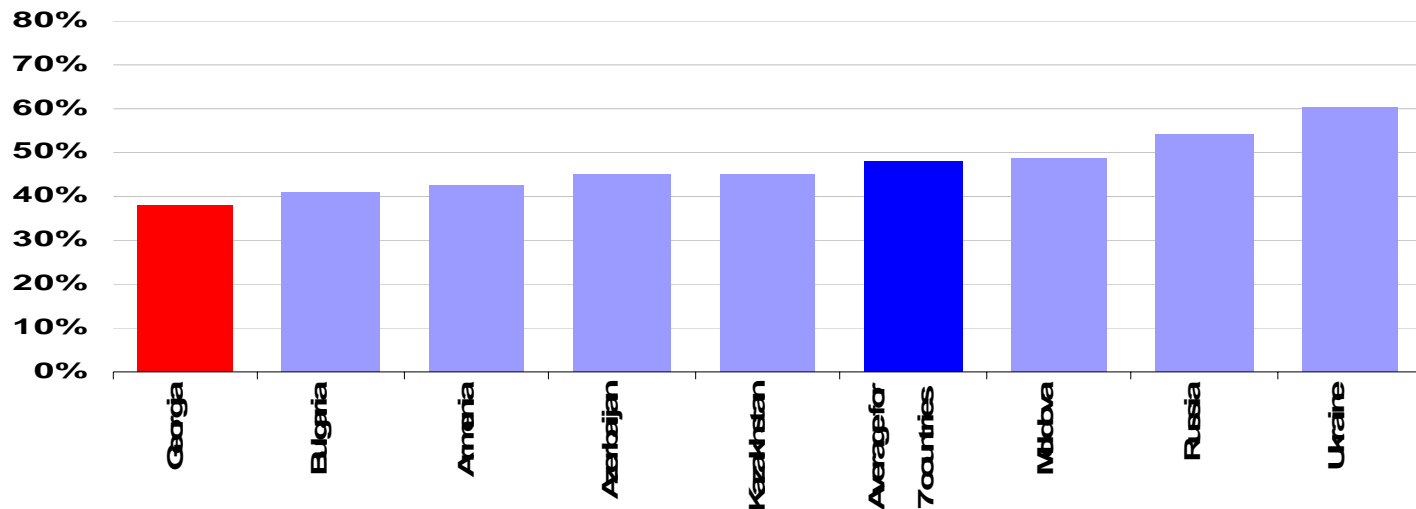
Low Taxes

- In 2005, Georgia enacted a new Tax Code

The total number of taxes reduced from 21 to only 7

- Personal income tax 12% - flat rate.
- Corporate profits tax - 20%.
- Value Added Tax - 18%.
- Social tax - 20% of monthly payroll

Georgia has Lowest Total Tax Rate in the Region
World Bank Indicator: Total Tax Rate (% of Profit)





Most Liberal Labor Code

- Georgia's new Labor Code has been hailed as one of the world's best.
- The Heritage Foundation ranks Georgia first in the world in the Labor Freedom category of the Index of Economic Freedom.
- World Bank ranks Georgia sixth in the world on the Employing Workers indicator of its Doing Business Survey.



Simplified Licensing and Permitting Procedures

- The total number of licenses and permits was reduced by 84%
- Reform eliminated 756 licenses and permits and streamlined procedures.
- 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.

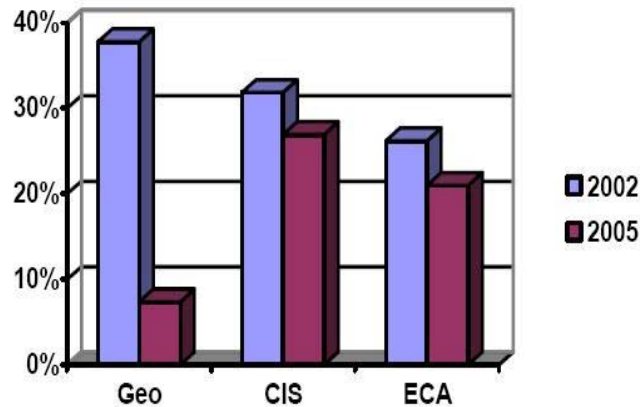


Corruption-Free Environment

- The World Bank hails Georgia as the top anticorruption performer in its 2006 "Anticorruption in Transition-3" (ACT3) report

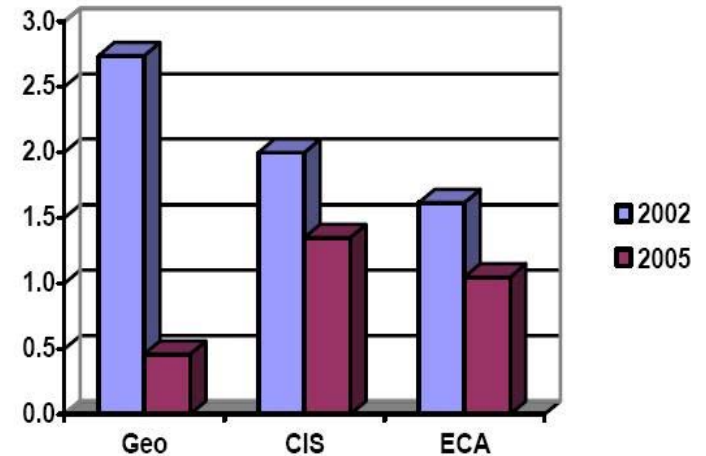
Bribe Frequency

Percent of firms saying unofficial payments are frequent



Bribe Tax

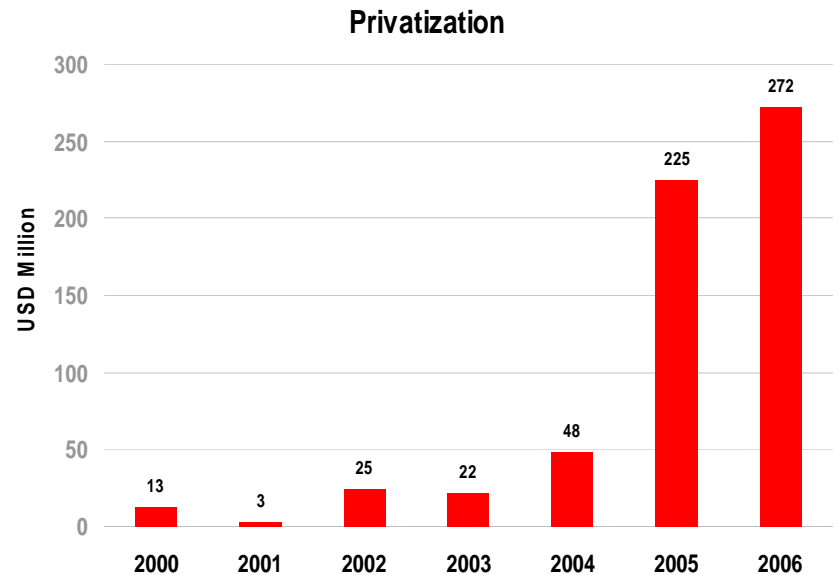
Bribes as a share of annual sales





Aggressive Privatization Policy

- Flexibility – Use of Various Methods of Sale
- Transparency and Fairness – Equal Opportunities for all Potential Buyers
- Investor-initiated privatization:





Strategic Geographic Location

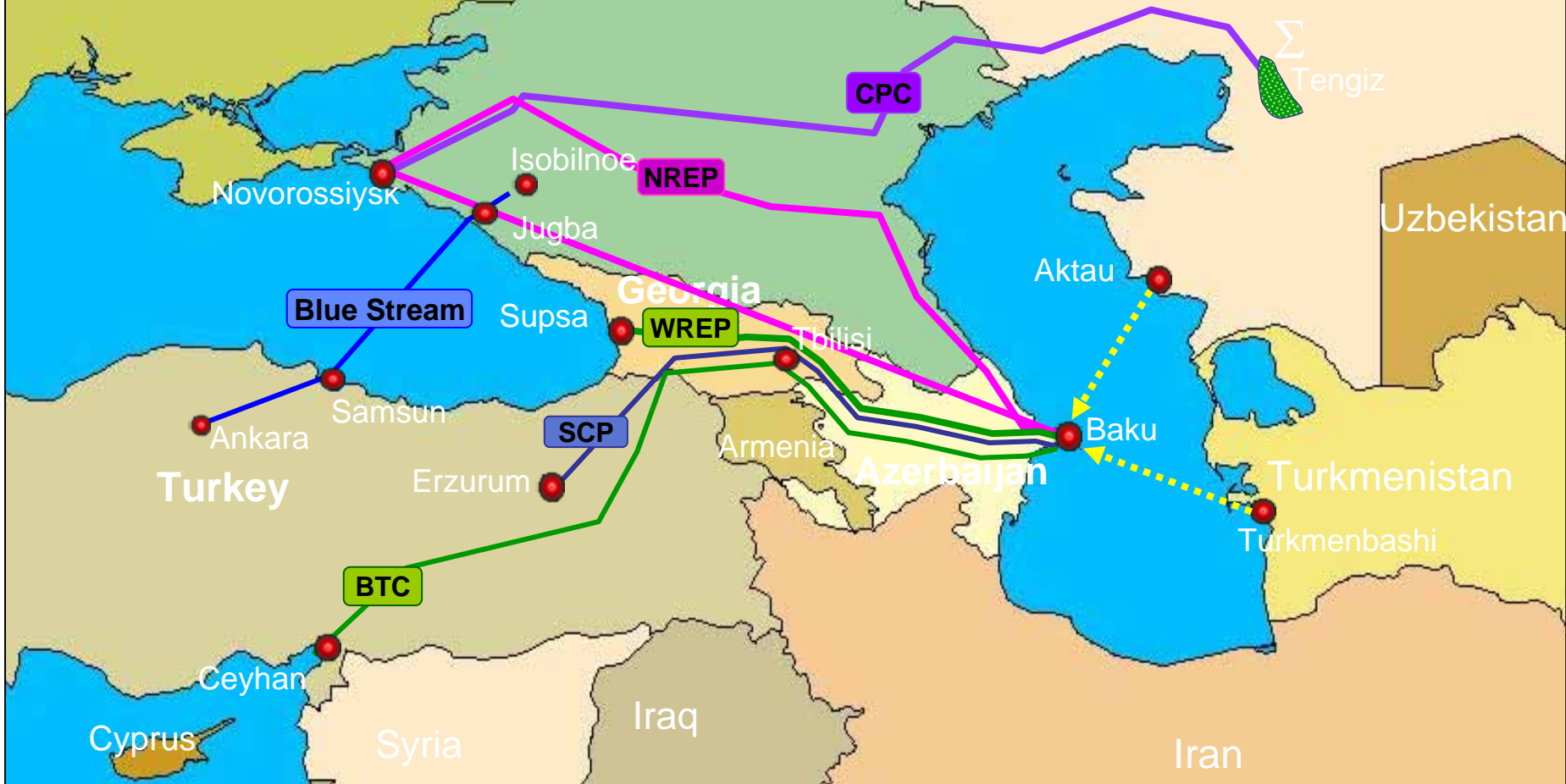
- Located at the crossroads of Europe and Central Asia, Georgia is a bridge connecting several important economic regions.
- **Oil and Gas Pipelines:** Georgia plays an important role as a strategic crossroad for hydrocarbon transit in the Caspian region.
 - **The Baku-Tbilisi- Ceyhan (BTC) pipeline** (3.7billion USD)
 - **The South Caucasus gas Pipeline (SCP) – (1.5 billion USD)**
 - **The Western Route Export Pipeline (WREP)**, also known as the Baku-Supsa pipeline (650 million USD)

Russia

Georgia

Ukraine

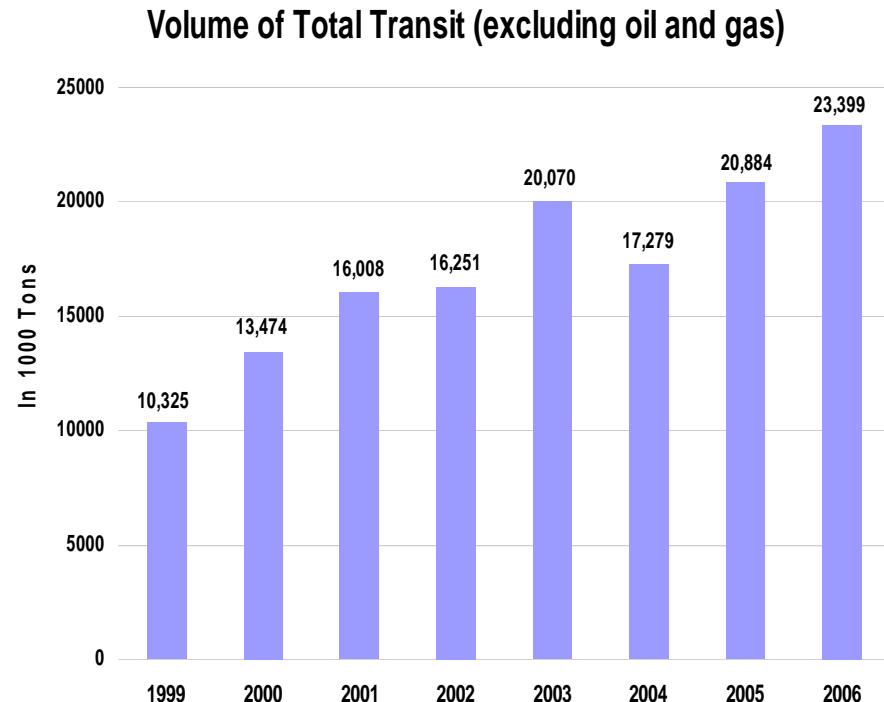
On the World Transit Map





Strategic Geographic Location

- **Transport Links**
 - **Georgian Railway**, one of the crucial links in Eurasian transit, serves as a short-cut between Europe and Central Asia
 - **The Black Sea ports** of Poti and Batumi are key links in the TRACECA (Transportation Corridor – Europe, Caucasus, Asia) trade route.
 - **Road Transport**
 - **Civil Aviation** in Georgia took a big leap forward with the February 2007 opening of a new international terminal in Tbilisi

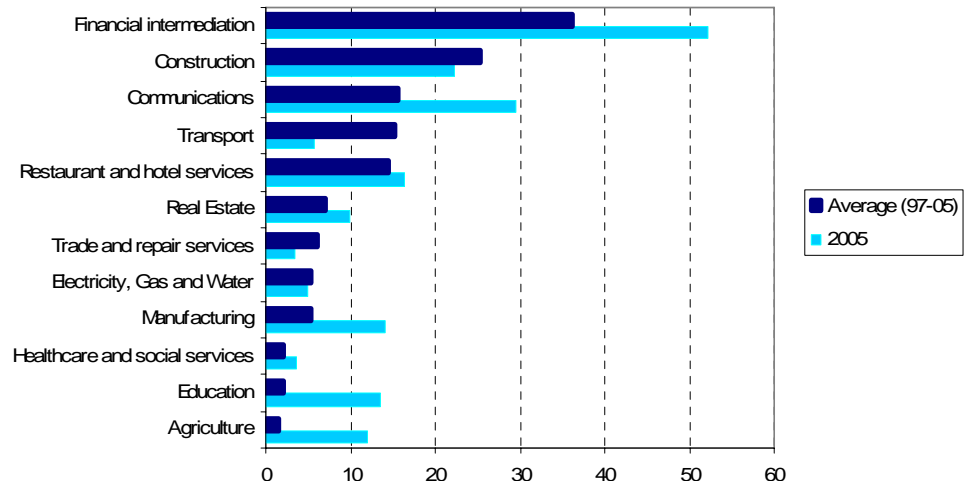
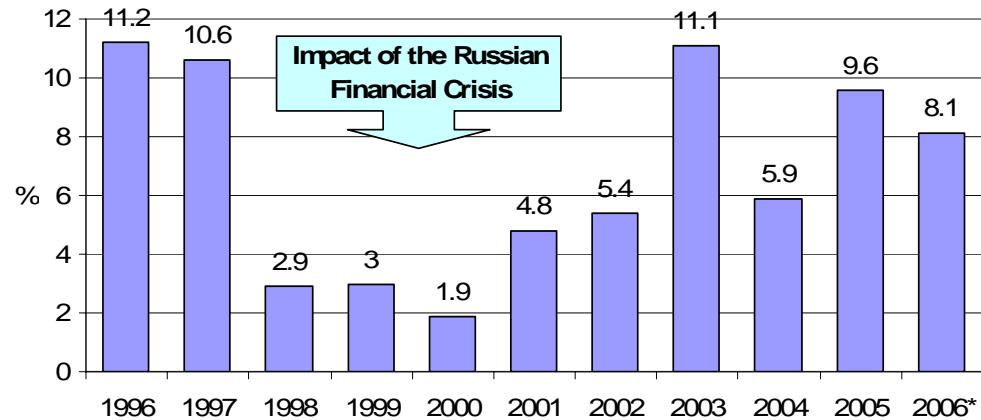




Macroeconomic stability - Growth

- Average Growth Rate (last five years) – 7.4 percent
- Contribution from exports nearly doubled over the last five years
- Financial intermediation, construction, communications, transport and hotel/restaurant services all have recorded on average double-digit growth

GDP growth rates in Georgia, 1996-2005





Inflation

- Except for short episodes of sudden outbursts inflation in Georgia has been low (in single digits) and stable for nearly a decade
- Average annual CPI inflation was 6.7 percent during the last five years

Achieving Disinflation was a major challenge of early transition

Annual CPI Inflation, 1996-2006 (%)





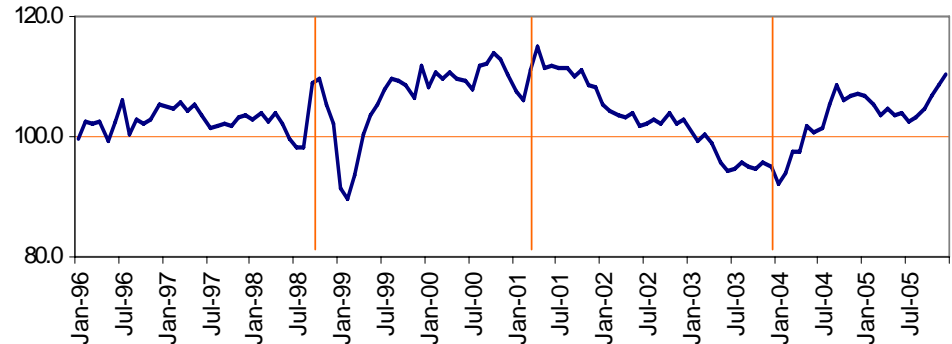
Exchange Rate

- Since end-1998 Georgia maintains managed float exchange rate
- Nominal Exchange rate has been fairly stable since the first half of 1999 with an appreciation bias since January 2004

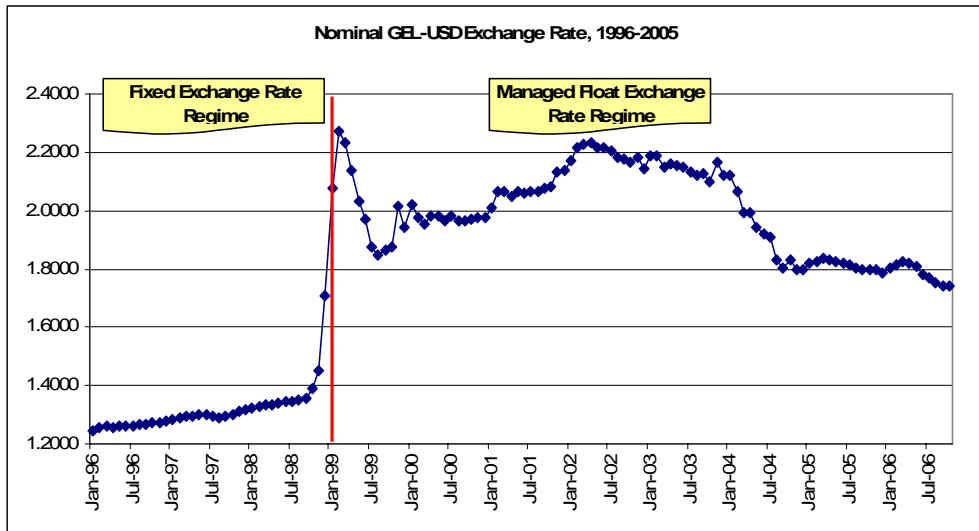
The NBG is committed to the float, however interventions happen:

- (1) To minimize excessive fluctuations on both sides
- (2) To further build up FX reserves

Real Effective Exchange Rate
(December 1995=100 index)



Nominal GEL-USD Exchange Rate, 1996-2005

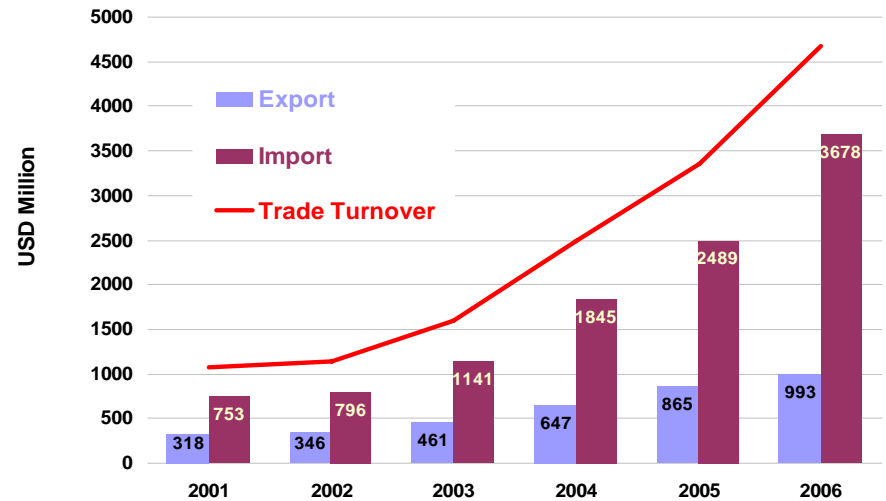




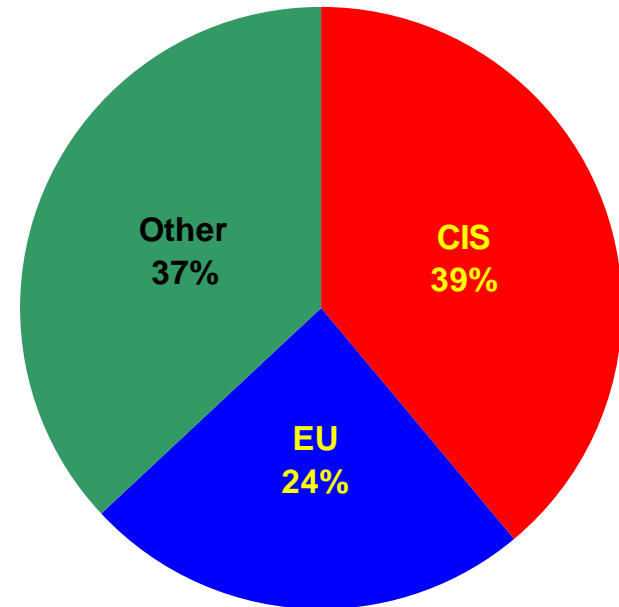
Trade Data

- 2006 - total trade turnover increased by 39 %, reaching \$4.7 billion USD
- Exports increased by 15% and imports by 48%.
- Georgia's trading partners - 132 countries.
- **MFN Tariffs** with WTO Members
- **Preferential Tariffs** with the USA, Canada, Switzerland and Japan
- **GSP Plus with the EU and Turkey:** export 7200 products to the 495 million EU market duty free.
- **Free Trade** with CIS Countries

Foreign Trade in 2001-2006



2006 Foreign Trade Turnover by Region

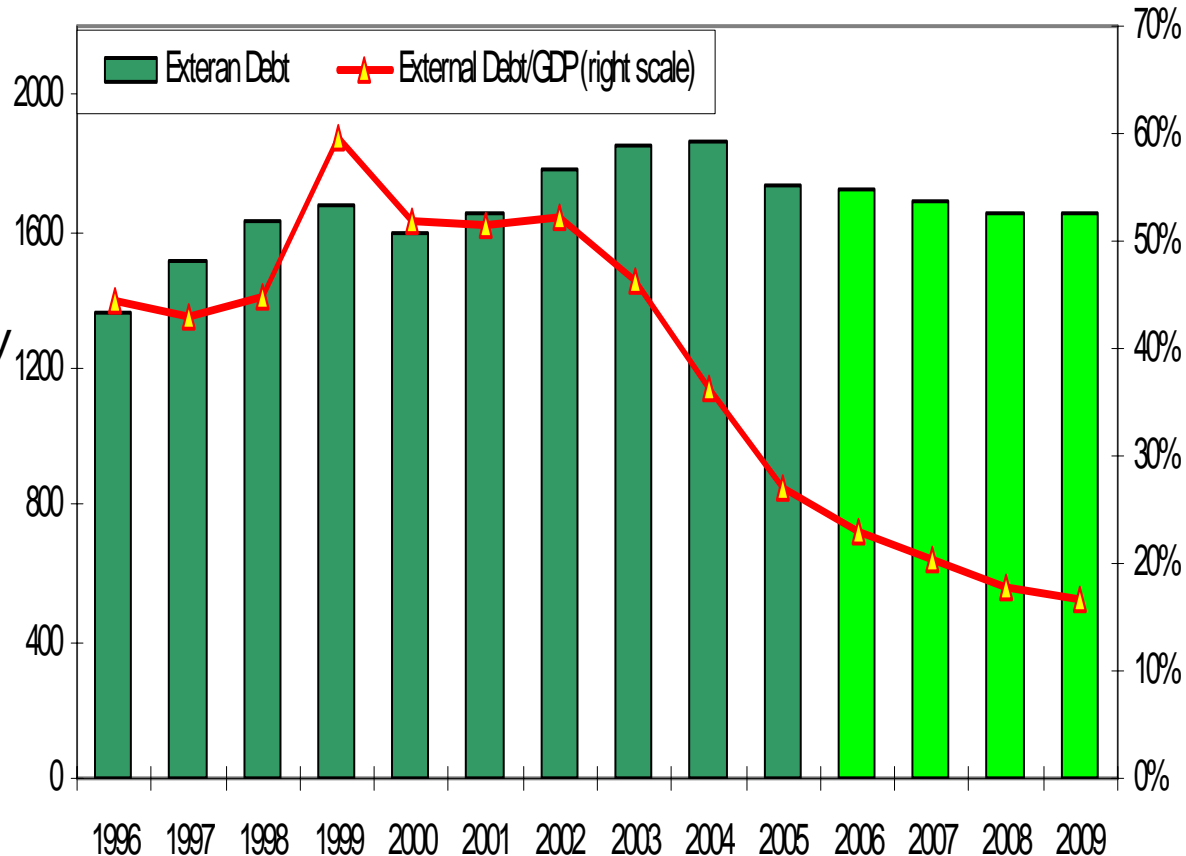




External Sector

External Debt of Georgia (US\$ Million), 1996-2009

- Total external debt - US\$ 1.7 Billion at end 2005 - 27% of GDP
- External Debt to GDP ratio - declining trend - below 20% by 2008
- More than 2/3rd of Georgia's external debt is concessional debt owed to IFIs
- In 2006 - non-concessional debts at discount

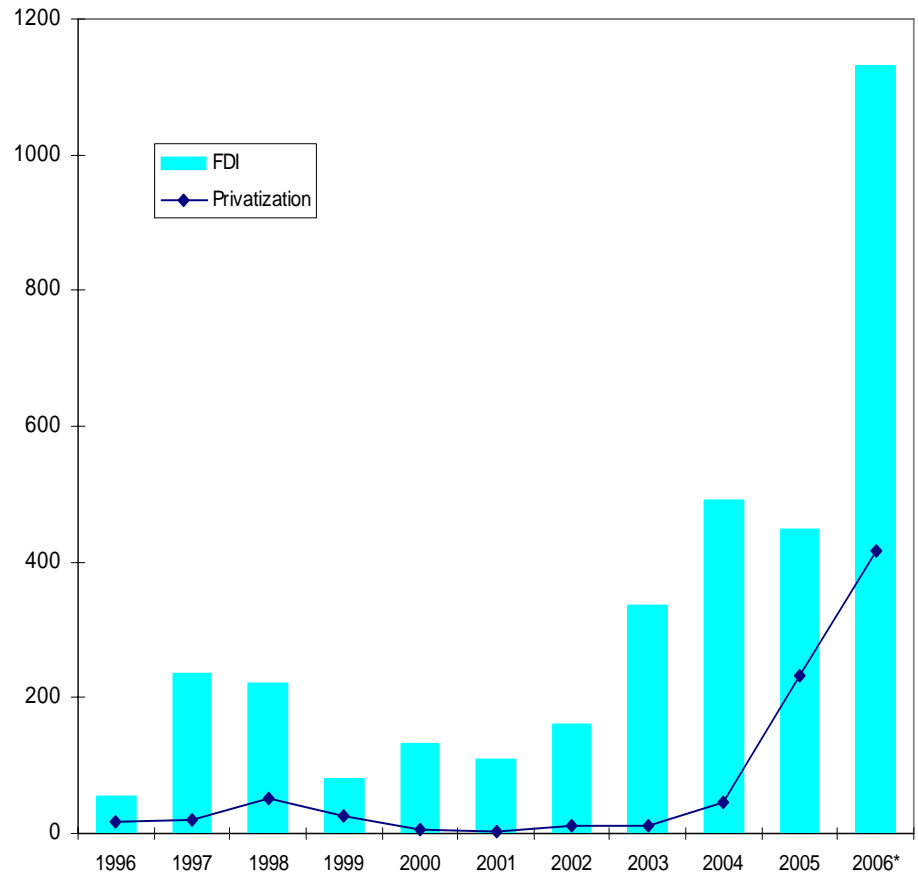




Remarkable increase in FDI Flow

- FDI sharp increase – reaching \$1.1 billion In 2006
- 2006 FDI share in GDP – 15%
- Non oil and gas pipeline FDI increase by 610%
- 2007 Estimate for FDI – \$1.5 billion

FDI inflows and privatization Receipts 1996-2006 (US\$ Million)





In the medium-term it is projected

- GDP will grow on average by 7-8%
- Inflation will be maintained within the target level of 5-6%
- External debt to GDP will decrease to around 16%
- Total banking assets to GDP will increase to 40% by 2009



Georgia's Opportunity Sectors for Japanese Investments

- Transport
 - ✓ Georgian Rail
 - ✓ Port of Poti
- Poti Free Economic Zone
- Energy Sector
- Banking

Georgian Railway and TRACECA



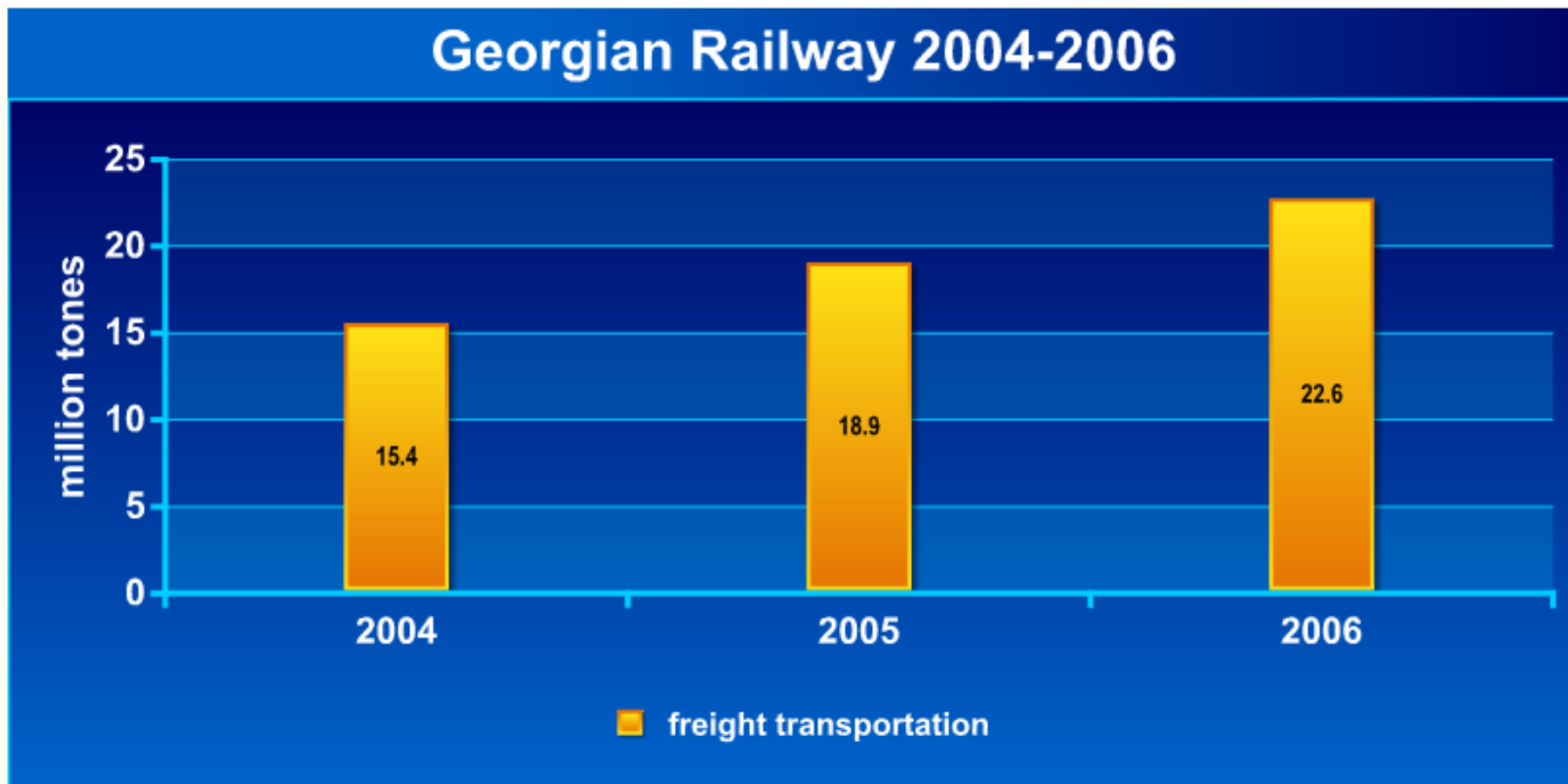
EUROPEAN UNION
TACIS

TRACECA
TRANSPORT CORRIDOR EUROPE CAUCASUS ASIA

www.traceca.org



Georgian Railway Freight Traffic 2004-2006

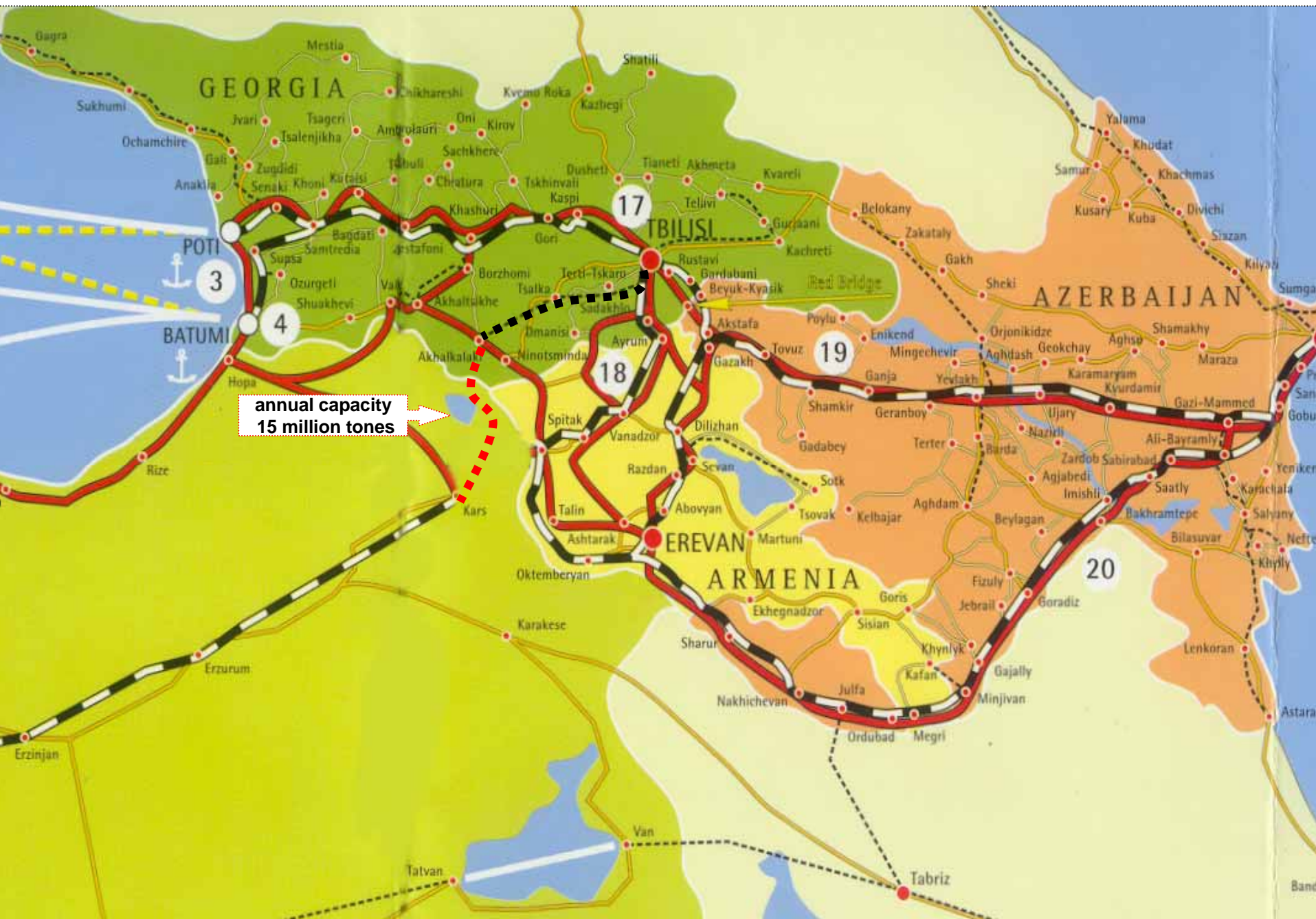




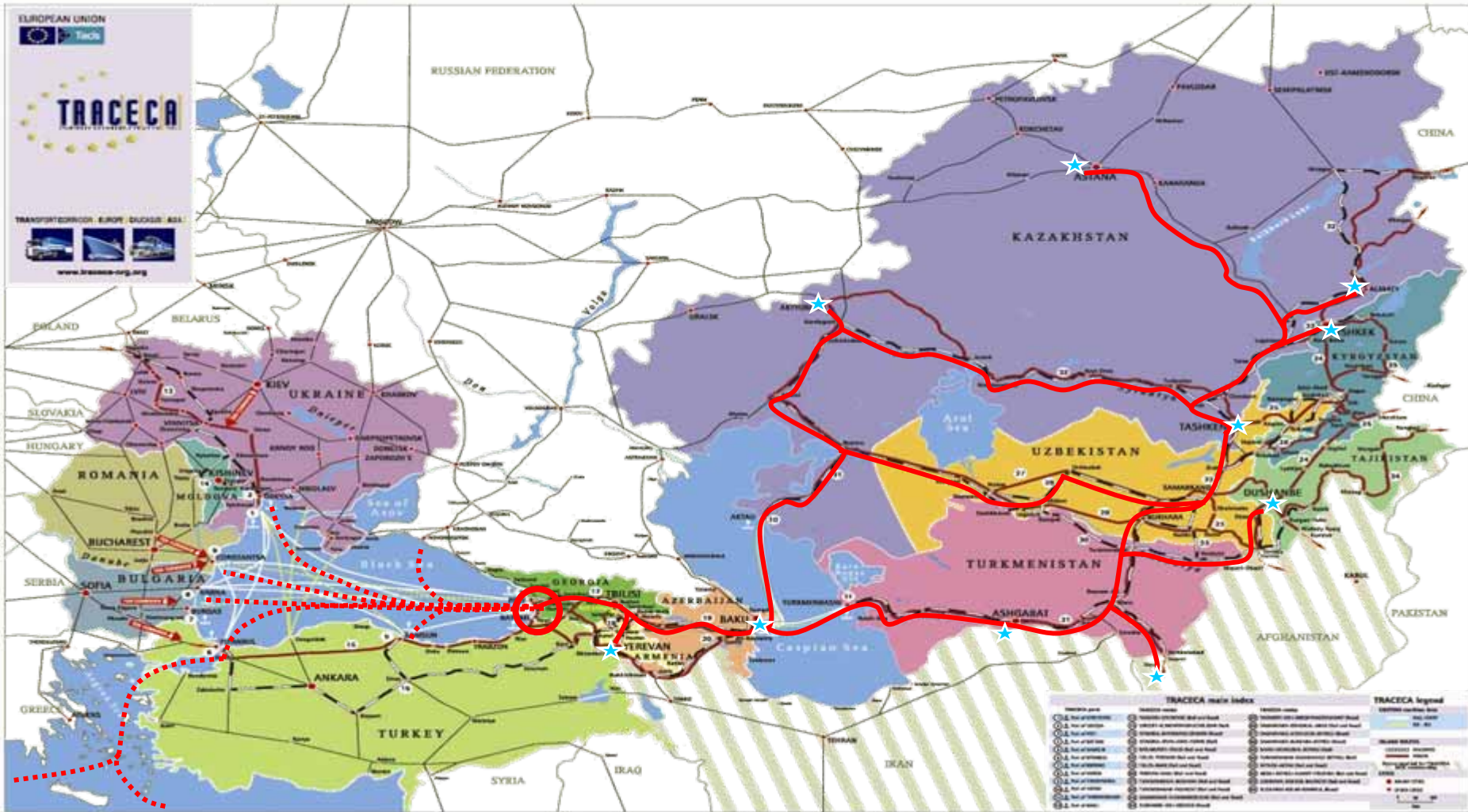
Baku-Tbilisi-Kars new railway linking Project

- ✓ The project includes construction and rehabilitation services for the new 104,803 Km railway formed by the Kars – Georgian border section which is about (75,848 Km) and the Georgian Border – Akhalkalaki section which is (28,955 Km).
- ✓ The new line annual capacity will be 15 million tones.

Baku-Tbilisi-Kars new railway linking Project



Port of Poti



Euro-Asian Routes



EUROPE

CENTRAL ASIA

CAUCASUS

Silk Road
12,9 mln ton – 20%

South Route
16,3 mln ton – 25%

North Route
35,8 mln ton – 55%

Rotterdam

Hamburg

Bandar Abbas

Gdansk

St. Petersburg

Barcelona

Marseilles

Trieste

Constantza

Varna

Istanbul

Piraeus

Poti

Baku

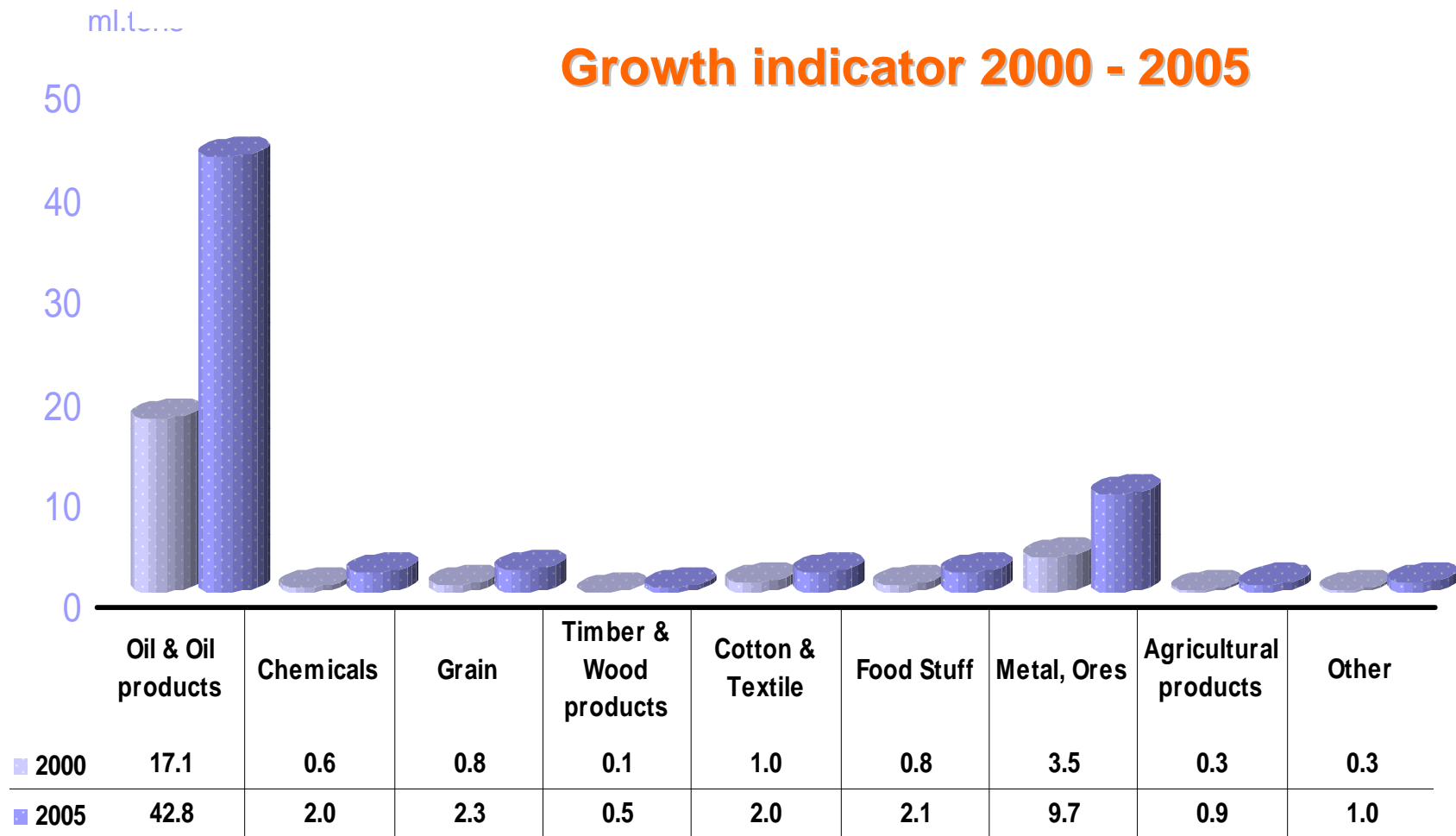
Aktau

Turkmenbashi

Bandar-e Amirabad



principal commodities





Euro-Asian Routes Analysis

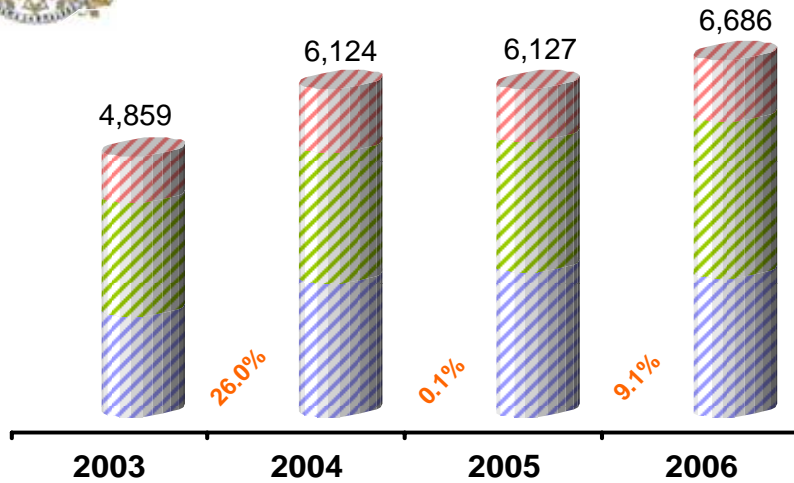
Transportation routes	Distance (km)	Shipment time
North route Central Asia – North Sea, (Hamburg)	4460,5	12 days
South route Central Asia – Mediterranean Sea, (Marseilles)	5509,5	16 days
Silk Road Central Asia – Black Sea East Cost	1940,5	7 days

- most efficient Euro-Asian route;
- potential turnover 25 ml.t to EU destination;
- annual average grow 15 - 18 %;
- growing containerized commodities;
- future development ability.

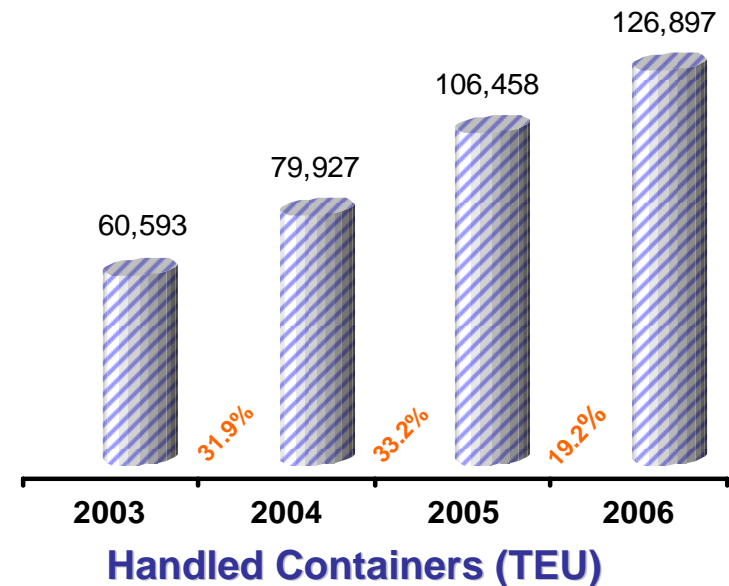
Key point of above transshipment route considered Poti Sea Port



Port turnover

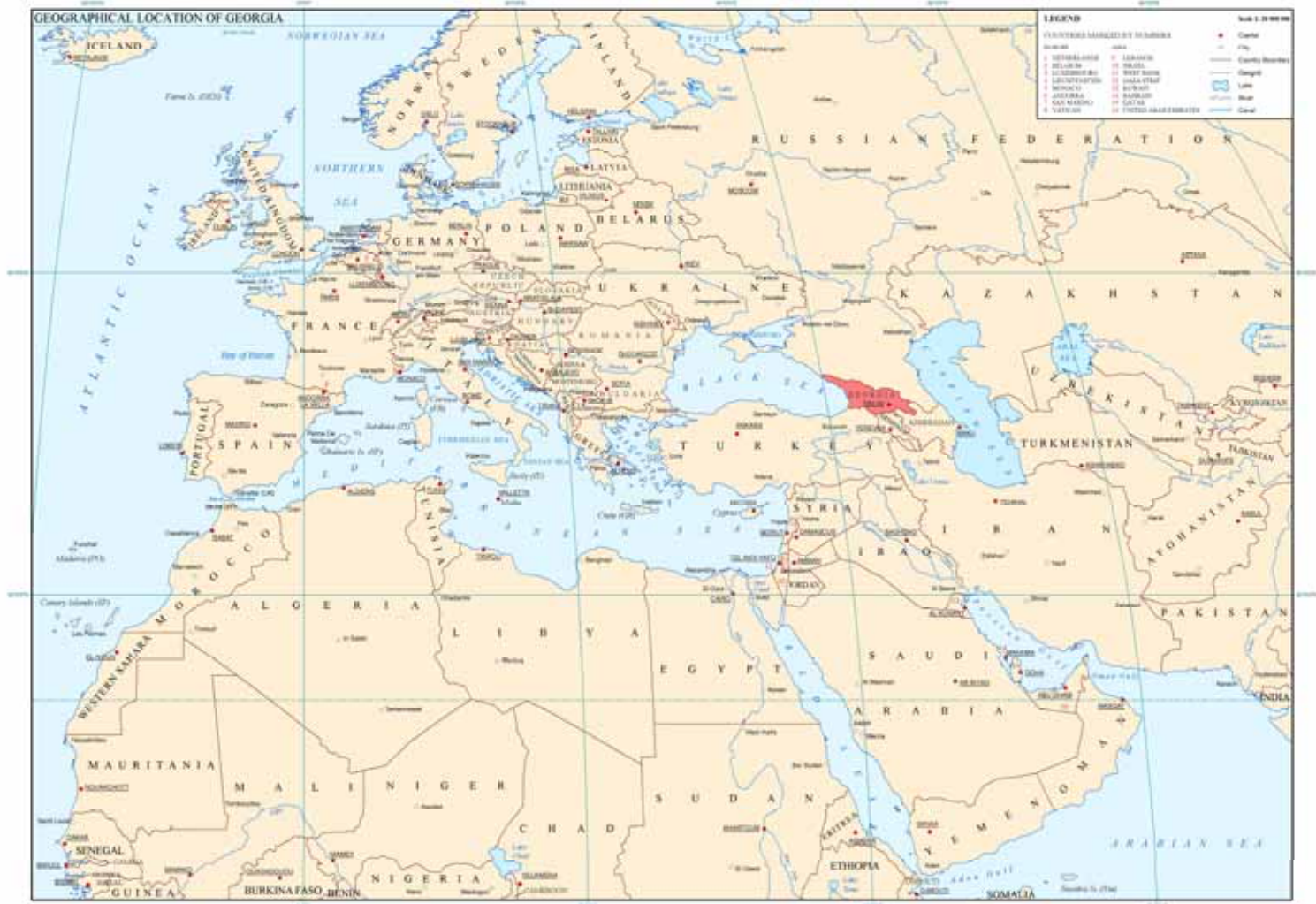


Turnover (in thousand tons)
General / Bulk / Liquid Cargoes



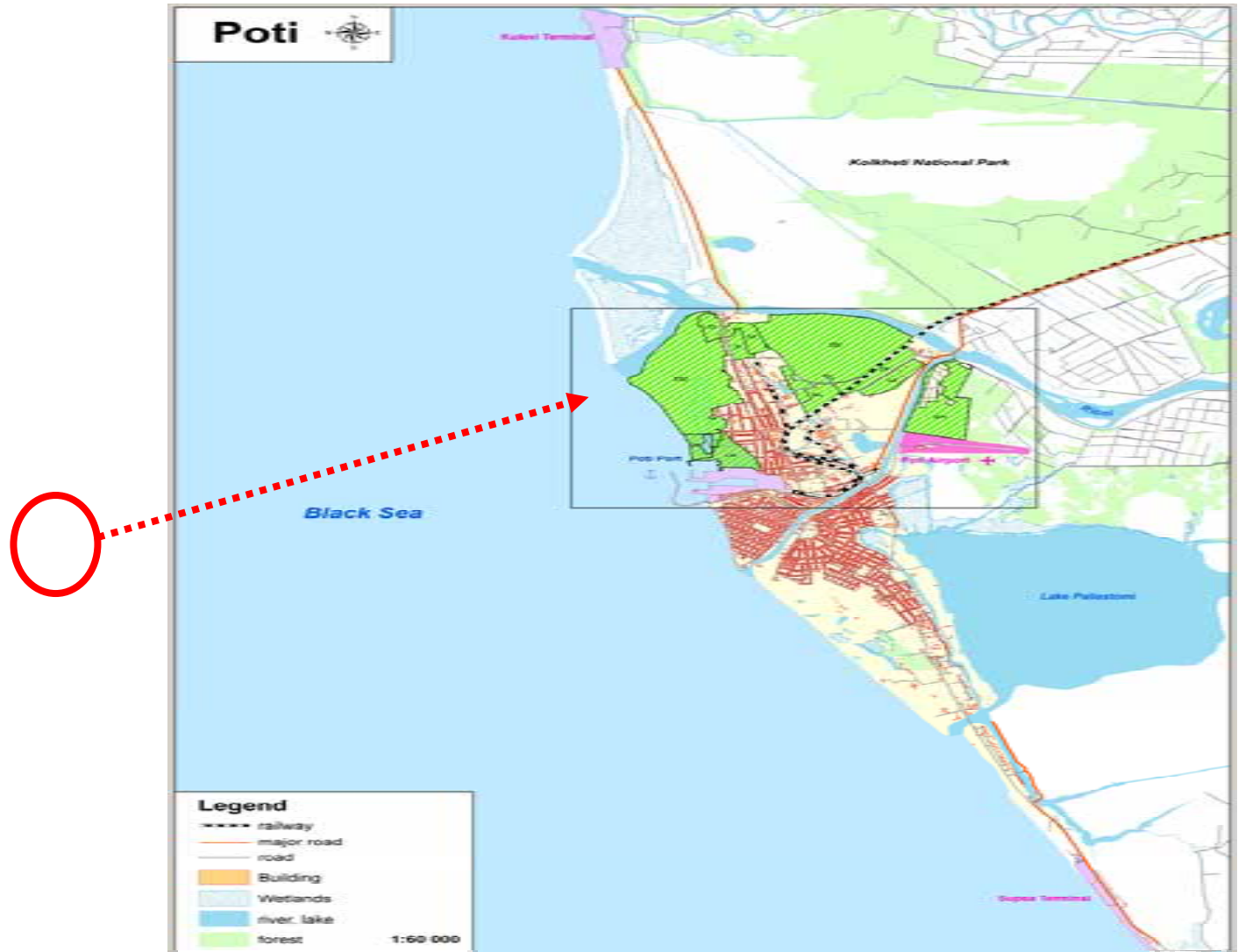


Poti Free Economic Zone





Poti Free Economic Zone





Poti Free Economic Zone



- Total area - 1150 hectares
- Throughput capacity increase up to 33 million tons
- Up to 1 million TEUs



Georgian Energy Sector

- Ministry of Energy - policymaker
- GNERC - regulator
- GSE - technical operator
- ESCO - commercial operator of the power system



Georgian Energy Sector

- Consumption - 8,3 bill. kWh
- Local production - 8,5 bill kWh
 - Hydro - 7,2 bill kWh
 - Thermal - 1,3 bill kWh
- Import - 0,5 bill kWh
- Export - 0,7 bill kWh
- Peak consumption - 1,700 MGW
- Distribution companies - 5
- Medium and Large Hydros - 14
- Thermal power plants - 3



ELECTRICITY SECTOR STRUCTURE

- Vertically integrated energy companies are permitted
- Long-term direct bilateral contracts is allowed among the participants
- Reserve Market – Distribution Companies will be required to hold guaranteed reserve capacities (10% of the peak capacity)
- Third party access for Small Hydros is allowed
- Export and Import of Electricity is deregulated
- Small-sized Power Plants with less than 10 MW of installed capacity are deregulated



Projected Investments

The strategic interest of the Georgian energy sector is:

- Development and utilization of own energy potential
- Development of energy and power transmission infrastructure: connecting Europe and Asia with East-West and North-South Transmission Lines



PROJECTED LARGE-SCALE CONSTRUCTIONS

- Khudoni HPP
 - Installed capacity – 637 MW;
 - Average projected annual generation – 1,66 KWH;
 - Required Capital Investment – USD 600 mln.

- Namakhvani Cascade of three HPPs
 - Installed capacity – 450 MW;
 - Average projected annual generation – 1,6 KWH
 - Required Capital Investment – USD 585 mln.



PROJECTED MEDIUM-SCALE CONSTRUCTIONS (Small & Medium HPPs and Wind Farms)

- Cascade of Neskra HPPs (5 HPPs) – 87,3 MW
- Cascade of Chelti HPPs (5 HPPs) – 13 MW
- Cascade of Bakhvistskali HPPs (2 HPPs) – 22,3 MW
- Cascade of Khrami HPPs (3 HPPs) – 125 MW
- Cascade of Gubazeuli HPPs (4 HPPs) – 26,9 MW
- Cascade of Chorokhi HPPs (2 HPPs) – 36,8 MW
- Cascade of Rioni HPPs (2 HPPs) – 63,6 MW



MAP OF SMALL & MEDIUM HPPs



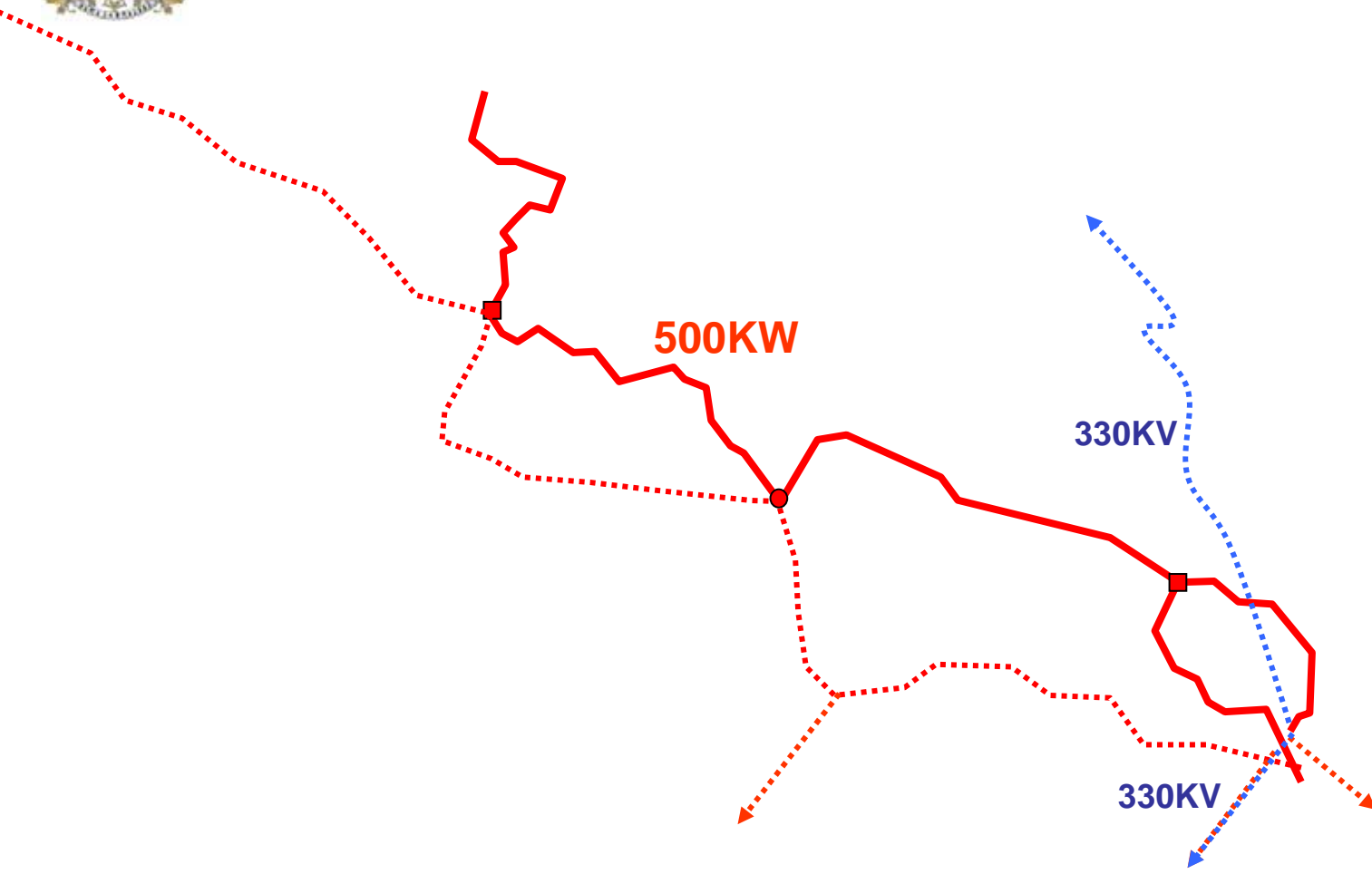


Eurasian electricity connection

- 2,5 GWh electricity per year (300 MW capacity)
- 5 GWh (600 MW) on the second stage.
- 150 million USD, with back to back station system.
- Feasibility Study is being prepared by the USTDA
- 330 (400) kv line connecting Georgia to Armenia
- Synchronization of power systems of all neighboring countries



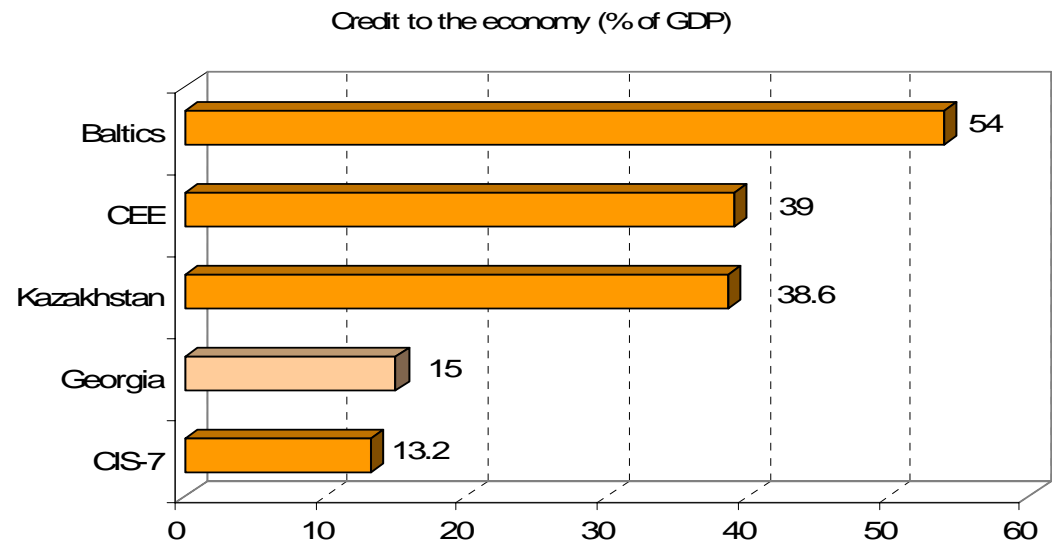
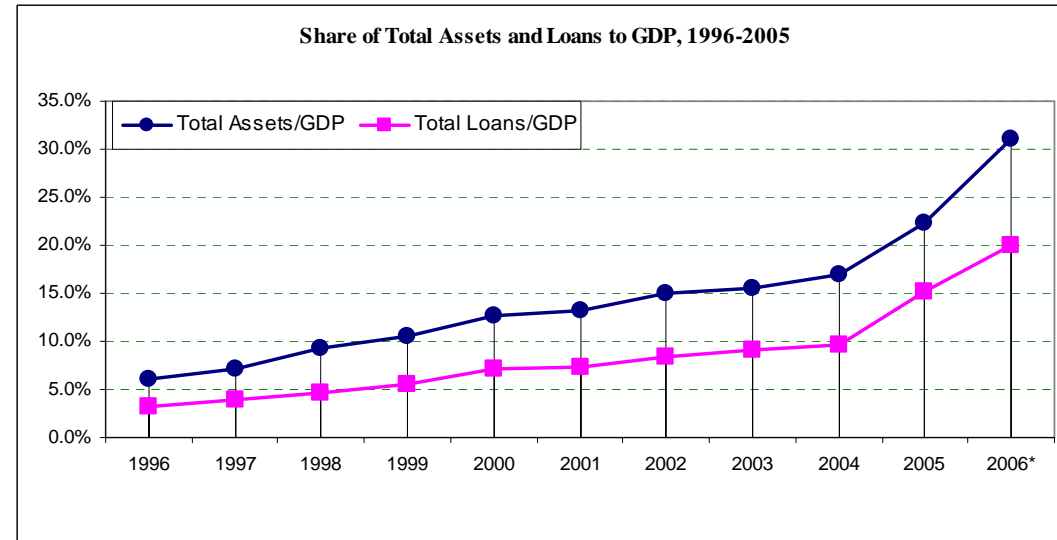
Energy System of Georgia





Banking Sector

- Financial Sector is one of the most dynamic sectors of the Georgian economy today (average growth in assets was 34% during the last 10 years)
- 94 percent of the Financial Sector is represented by banks
- There is no government owned commercial bank in Georgia

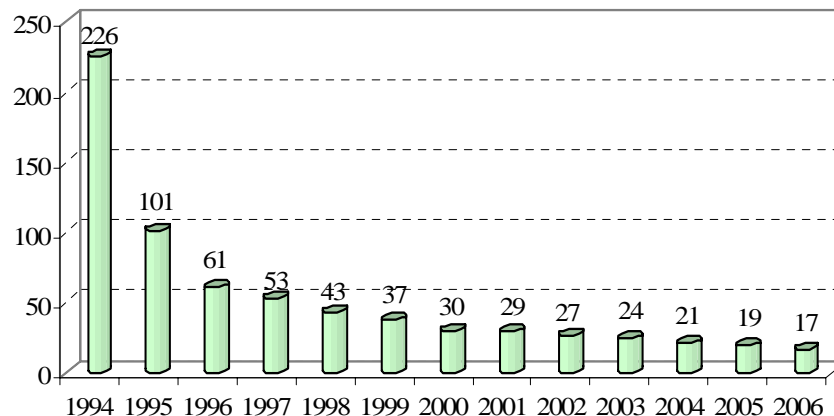




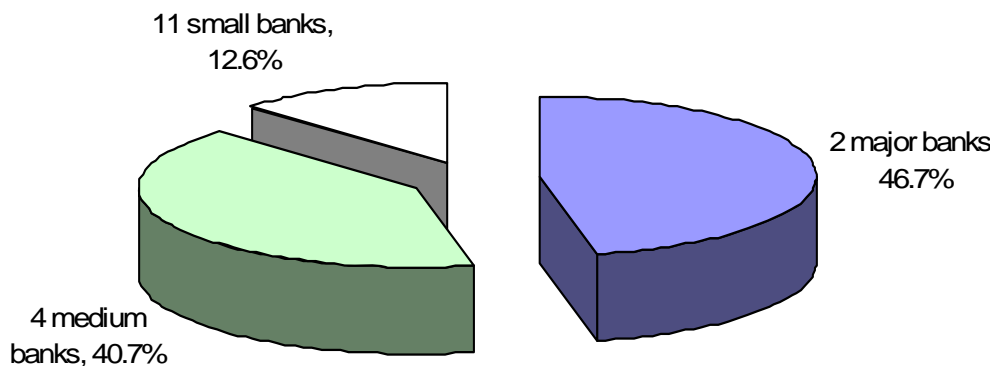
Banking Sector

- 17 commercial banks - 15 domestic and 2 foreign bank branches
- 6 largest banks make up more than 85% of the total banking sector assets
- More than 50% of total banking sector capital is owned by foreign and international organizations
- There are 10 banks with foreign capital participation that represents 76% of total assets

Number of Commercial Banks, 1994-2006



Assets share of banks, 2006

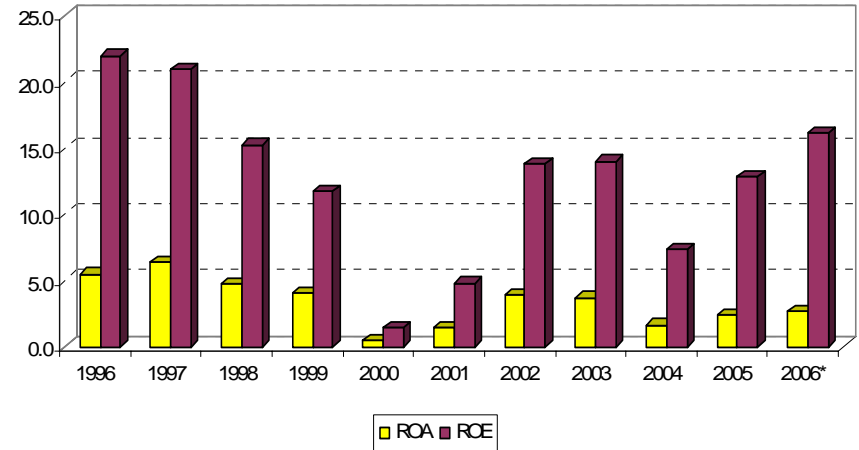




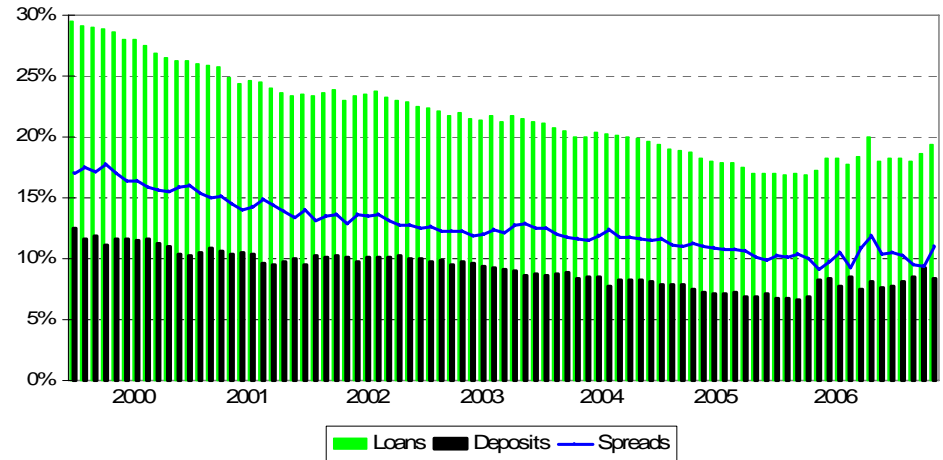
Banking Sector

- Profitability ratios are high by international standards with ROA and ROE being 2.7% and 15.7% in 2006, respectively
- Interest rate spreads have been falling albeit still high
- The share of NPLs has been on decline contributing to high profitability

Profitability Ratios, 1996-2005



Lending and deposit rates, 2000-2006





Banking Sector

Factors driving credit boom

- Massive legalization of the economy - firms and individuals better able to demonstrate their creditworthiness
- Macroeconomic stability, higher economic activities and positive economic outlook
- Increased competition – New entrants (through takeovers), new management teams
- Rapidly Rising Real Estate Prices
- Crowding-in – private lending substituted by lending to the state as the government ceased issuing treasury bills

In 2005 Georgia witnessed the beginning of credit boom.
Is Georgia catching up?



FACTSHEET for 2005 and 2006 (average annual growth rates)

- ✓ Total Assets up by 58 percent
- ✓ Total Loans up by 68 percent
- ✓ Total Deposits up by 44 percent
- ✓ Equity Capital up by 58 percent
- ✓ Net Profit up by 88 percent
- ✓ Number of ATMs up by 153 percent
- ✓ Number of cards up by 189 percent



TEN REASONS FOR JAPANESE INVESTORS TO INVEST IN GEORGIA

- ✓ World's Number One Reformer
- ✓ Strategic Geographic Location
- ✓ Stable Macroeconomic Environment
- ✓ Competitive Trade Regimes
- ✓ Low Taxes
- ✓ Most Liberal Labor Code
- ✓ Simplified Licensing Procedures
- ✓ Aggressive Privatization
- ✓ Competitive Banking Sector
- ✓ Corruption-Free Environment



HOPE TO SEE YOU IN GEORGIA