



Center for
European
Governance
& Economy



Georgia Investment Brief

1st Eastern Partnership Investment Forum:
10 Years after Prague

10-11 July 2019
Batumi, Georgia

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#eapinvest

GENERAL INFORMATION FOR 2017



Population
3.723 Million



Land area
(n) 69 700 km²



GDP
15 159 Million current US\$



GDP growth
4.83 %

INTERNATIONAL MERCHANDISE TRADE

Total merchandise trade

(millions of US\$)

	2005	2010	2015	2017
Merchandise exports	865	1 677	2 205	2 736
Merchandise imports	2 490	5 257	7 300	7 939
Merchandise trade balance	-1 625	-3 580	-5 096	-5 204

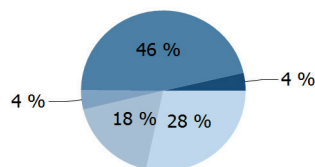
+29.5 %

Merchandise exports
growth rate in 2017

Export structure by product group in 2017

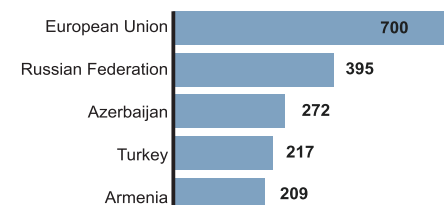
(as % of total exports)

- All food items
- Ores and metals
- Fuels
- Manufactured goods
- Other



Top 5 partners in 2017

(exports, millions of US\$)



INTERNATIONAL TRADE IN SERVICES

Total trade in services

(millions of US\$)

	2005	2010	2015	2017
Services exports	738	1 641	3 155	4 044
Services imports	636	1 093	1 683	1 961
Services trade balance	102	548	1 472	2 083

Services exports by main category

(as % of total services)

	2005	2010	2015	2017
Transport	45.1	42.5	30.2	23.8
Travel	32.7	40.2	61.4	68.0
Other services	19.1	14.8	7.8	7.8

ECONOMIC TRENDS

Economic indicators

(millions of US\$ unless otherwise specified)

	2005	2010	2015	2017
GDP, current	6 411	11 638	13 993	15 159
GDP per capita, current US\$	1 429	2 750	3 541	3 875
Real GDP growth, y-on-y, %	9.59	6.25	2.88	4.83
Current account balance, % of GDP	-10.85	-10.30	-12.63	-8.88
Exchange rate (/US\$)	1.813	1.782	2.269	2.510

+4.8 %

Gross domestic product
growth rate in 2017

FDI AND EXTERNAL FINANCIAL RESOURCES

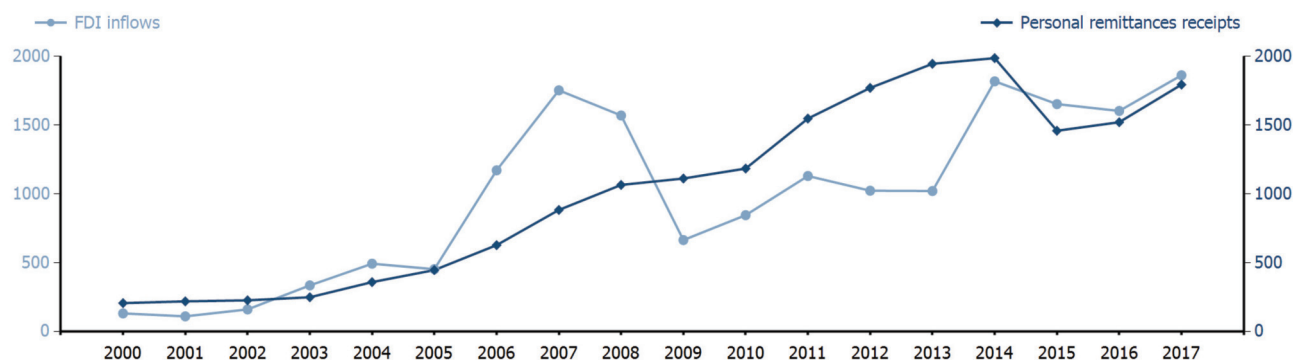
Financial flows

(millions of US\$ unless otherwise specified)

	2005	2010	2015	2017
FDI inflows	452.75	845.10	1 652.51	1 861.90
FDI outflows	-89.48	135.15	309.15	268.10
Personal remittances, % of GDP	6.96	10.17	10.42	11.83

Financial flows trends

(millions of US\$)



TRADE IN GOODS AND SERVICES

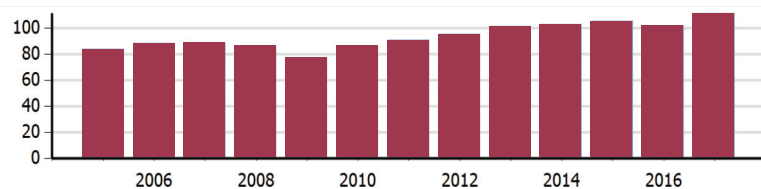
Trade balance indicators ²

(as % and index)

	2005	2010	2015	2017
Balance, % of GDP	-17.94	-18.60	-18.17	-11.82
Balance, % of imports	-35.20	-35.42	-29.37	-19.20
Normalized balance	-0.214	-0.215	-0.172	-0.106

Trade openness ²

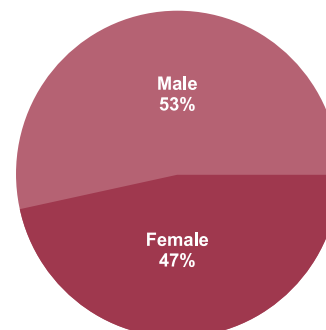
(sum of imports and exports as % of GDP)



LABOUR FORCE

Labour force by gender in 2017

(as % of total labour force, all sectors)



AGRICULTURE

Sector Highlights

Contribution to GDP: 8% of GDP (2017)

Output: \$1.5 billion (not including processed food and beverages) (2017)

Georgia's agriculture sector is large in terms of employment (accounting for 43% of the total workforce) but accounts for a relatively small proportion of GDP. Foreign direct investment is needed to facilitate higher productivity in the sector. Currently, the key factors favorable to agriculture investment are related to costs. Georgia benefits from low labor and energy costs as well as abundant water resources (investingeorgia.org).

Georgia enjoys a growing number of preferential trading agreements with major markets. In 2016, Georgia's DCFTA with the European Union entered into force, eliminating customs duties on all food categories. 2018 marked the entry into force of an FTA between Georgia and China. The agreement allows for the tariff-free import of Georgian agriculture products into China.



Georgia's agriculture sector is led by the following key production areas: grapes (180.8 thousand tons); potatoes (180.1 thousand tons); maize (142.5 thousand tons); vegetables (125.9 thousand tons); fruit (not including grapes or citrus fruit; 114.1 thousand tons); and wheat (97.9 thousand tons). In terms of processed food products, Georgia's agriculture sector is led by beverages, including wines and mineral waters. In 2017, Georgia exported 76.7 million bottles of wine worth \$170 million, representing 54% and 49% increases from the previous year, respectively (georgianwine.gov.ge).

The EU directly supports Georgia through the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD). ENPARD's total budget for 2013-22 is €179.5 million spread across three phases. Specific projects aim to reduce rural poverty by strengthening farmers' cooperation, skills, and access to resources (enpard.ge).

Incentives and Enabling Infrastructure

Government support for agriculture investment is provided through various programs and agencies. The Produce in Georgia program encourages investment through co-financing and subsidized physical infrastructure. Government co-financing of up to 10% is available for agriculture investments between \$600,000 and \$2 million (enterprisegeorgia.gov.ge).

Support for agriculture is also provided by the Agriculture Projects Management Agency (APMA) under the Ministry of Agriculture. APMA subsidizes loan interest payments for investments in capital assets (up to \$600,000) and working capital (up to GEL 100,000). It also provides grants for the establishment of food processing enterprises (up to GEL 500,00 and 40% of the total investment) (enterprisegeorgia.gov.ge).

Partnership Opportunities and PPPs

The agriculture sector is supported by JSC Partnership Fund, a state-owned equity investment fund that aims to mitigate risk in the sector by acting as a "sleeping partner" that provides equity but does not participate in management of the business. The Partnership Fund can finance up to 49% of equity.

ENERGY

Sector Highlights

Contribution to GDP: 2.8% (electricity, gas, and water): \$224.1 million (11.8% of total exports, 2017)

Output: \$611 million (electricity, gas, and water, 2017)

Electricity consumption reached 13.1 TWh in 2018 and this trend is expected to continue. Electricity generation was 12.1 TWh in 2018. Since per capita electricity consumption continues to grow, generation capacity will not be sufficient to meet domestic demand in the long term. Estimated deficit by 2025 is more than 5 TWh.

Additionally, Georgia is surrounded by countries that either have higher electricity generation cost or electricity deficit. With abundance of high mountains and fast-flowing rivers, Georgia has competitive advantage over neighbors in terms of generation cost. Most attractive export market is Turkey. Turkey is one of the top countries in terms of electricity demand increase. Turkey experiences electricity shortage during summer months, while Georgia has generation surplus.

Starting from 2008 Georgia has liberalized and deregulated



ed energy market. All new renewable projects are based on Build-Own-Operate (BOO) principle. Investor is free to choose buyer on open market and negotiate price. No fee is required for the connection to transmission grid. No license is required for export and new HPPs have priority access to the capacity on the new interconnection to Turkey.

Georgia has well developed transmission grid infrastructure. Whole territory of Georgia is covered with over 3,000 km of high,

medium and low voltage lines and about 100 substations. In 2013, a new 400 KV line with HVDC back-to-back substation connecting Georgia with Turkey was commissioned, adding to already significant transmission capacity with all neighboring countries. As of now, cross border transmission capacity stands at about 5,000 MW.

Georgia has more than 20,000 rivers and almost 300 of them provide excellent opportunity for hydropower generation. Georgia is one of the top countries in terms of water resources per capita and it is logical that today 78% of total electricity is generated from Hydro Power.

Due to the geographical location of Georgia, the emanation of the Sun is rather high. In most regions of the country, there are 250-280 sunny days in a year, which is approximately 1,900-2,200 hours per year. The annual radiation of the Sun varies depending on regions from 1,250-1,800 KWh/m², while the average sun radiation equals 4.2 KWh/m².

TPPs are source of guaranteed electricity supply. Usually, TPPs are in standby mode, ready to supply the system when needed, typically in winter period. They are vital to Georgia's electrical stability. Because of this, even when in standby mode TPPs receive payment to cover maintenance and fixed costs. Tariffs are set by regulator.

Georgia offers very attractive opportunity for investments in wind power plants. Wind potential of Georgia is estimated at 4 TWh. Wind power offers great addition to hydro power generations, as wind generation is higher during winter, when hydro generation is lower. It's estimated that share of wind power in total generation will reach 10% by year 2025.



Georgia became a member of the European Energy Community in 2017, undertaking to implement EU regulations on electricity and gas networks, environment, renewable energy, energy efficiency, oil and on energy statistics. In terms of implementing the Energy Community's directives, Georgia currently ranks highest on statistics, environmental protection and renewable energy (<https://www.energy-community.org/implementation/Georgia.html>).

Moreover, Georgia participates in the Trans-European Networks for Electricity (TEN-E), an EU-sponsored initiative to develop better connected energy networks (ec.europa.eu). Georgia is involved in the Southern Gas Corridor (SGC), one of nine priority corridors identified under the TEN-E.

Incentives and Enabling Infrastructure

Energy-related projects are based on the Build-Own-Operate (BOO) principle. Energy producers do not need to pay to be connected to the transmission grid. No license is required for export and new HPPs have priority access to the transmission grid connecting Georgia to Turkey. An export license is not required and generation and export activities are exempted from VAT tax (enterprisegeorgia.gov.ge).

Partnership Opportunities and PPPs

There are numerous HPP and wind power projects promoted by the Government

MANUFACTURING

Sector Highlights

Contribution to GDP: 16.7% (2017)

Exports: \$1.2 billion (44% of total exports) (2017)

Output: \$3.7 billion (2017)

Georgia has plenty of opportunities within the manufacturing industry. Country offers competitive utility and labor costs, numerous free trade agreements and investment incentives for potential investors in manufacturing sector.

Although Georgia is a relatively small market to fully utilize economy of scale from a global market standpoint, producing in Georgia not only means having access to local market but also to 2.3 billion consumer markets around the globe. In particular, Georgia provides access to markets without Customs Duties since the country has Deep and Comprehensive Free Trade Area Agreement (DCFTA) with EU, Free Trade Agreements (FTA) with China including Hong Kong, Turkey, EFTA, CIS countries and Ukraine. It can be said that Georgia has unique position in the region as it is the only country, which enjoys the FTA agreements both with the European Union and China, that creates special opportunities for international companies who are searching for the access to these markets.

Georgia offers young, skilled and competitively priced labor force. Average monthly salary in manufacturing sector in 2018



was 390 USD including white and blue-collar workers. Additionally, there are dozens of state owned vocational educational institutions providing courses in subjects relevant to manufacturing, and government can even co-finance customized trainings for labor force.

Utility costs are quite favorable, standard cost for 1 kWh is approximately 7 USD cents for 35-110 kv high voltage electricity (including VAT).

Georgia offers attractive investment opportunities in both light and heavy industries, such as: manufacturing of apparel and footwear, auto and aircraft parts, electronics, construction materials, paints and coatings, washing materials, pharmaceuticals etc.

Enabling Infrastructure

In the framework of the program “produce in Georgia” Government of Georgia offers two main incentives: financial resources and infrastructure (land, building, etc.): if company gets loan from a bank, it can be provided interest expense financing up to 10% for 2 years and 70 % of collateral guarantee. In the framework of Infrastructural support, Government of Georgia offers state owned land/building for free of charge (1 GEL, symbolic price) for manufacturing projects. In order to get the property for free, investor should invest 6 times more than the market price of the property in capital city Tbilisi and 4 times more than the market price of the property in regions.

Georgia has four Free Industrial Zones (FIZs). Businesses operating on the FIZs are exempt from all taxes except personal income tax.

INFRASTRUCTURE

Sector Highlights

Key trends in Georgia’s infrastructure sector are related to transit and tourism infrastructure. Georgia is a participant in notable rail, road and port projects under both the EU-led Trans-European Networks- Transport (TEN-T) and the Chinese-led Belt and Road Initiative (BRI). Both initiatives aim to improve connectivity between Europe and Asia through channels traversing the South Caucasus and Black Sea regions.

Development is underway of the Anaklia Deep Water Black Sea Port. It will have the capacity to handle 1.5 million tons annually in its first phase (scheduled for completion in 2021). An estimated



146 million people will be impacted by supply chains augmented by the Anaklia port.

Under the TEN-T framework, the EU is supporting 18 infrastructure projects in Georgia with a total long-term investment of €3.4 billion (coming from public and private sources). Notables include the port, the Batumi Bypass road, and the East West Highway.

2017 marked the launch of the Baku-Tbilisi-Kars railway, an 829-kilometer stretch connecting Azerbaijan to Turkey via Georgia. It has the capacity to carry 6.5 million tons of freight per year, a figure which is expected to eventually increase to 17 million tons.

Hospitality and real estate is among the fastest growing economic sectors of Georgian economy, which is fueled by consistent growth in tourist numbers. In 2010, Georgia received only 2 million international visitors, while in 2018 Georgia reached a record high of 8.7 million visitors (10 % y-o-y growth). Tourism revenue increased by 19% in 2018 and contributed to Georgian economy with more than 3.3 bln USD. It is noteworthy, that liberal visa regulation greatly contribute to the growth of international travels: visitors from 95 countries can travel to Georgia without a



visa. According to the Georgian Tourism Development Strategy, inflow of visitors will reach 11 million by 2025. Growing number of international visitors for sure contributes to the development of hospitality and real estate sector of Georgia.

With the increase of tourists’ volume in Georgia, there is higher demand on tourism infrastructure. International operators continue to expand in Georgia. Already-operational international hotel chains include Sheraton, Radisson, Marriot, Holiday Inn, Best Western, Hilton etc.

Government of Georgia offers potential investors to develop hotels and other types of commercial real estate in summer resorts, spa and wellness destinations as well as ski and mountain leisure.

Incentives and Enabling Infrastructure

Government of Georgia provides Financial and Technical support to entrepreneurs involved in hotel industry in all regions of Georgia except Tbilisi and Batumi cities. This instrument includes co-financing of interest rate of Banks loans, as well as co-financing royalty fees of Franchise/Management contract, Partial Collateral Guarantee and co-financing of consulting services.

TRADE REGIMES

Free trade: EU (DCFTA), EFTA, CIS, People’s Republic of China (including Hong Kong), Turkey, Ukraine
GSP: Canada, Japan, USA

Organizers:



Sponsors:



Partners:



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