

Georgia 2016



Total: 64.9

Quick facts

Population:	3.720 million
Unemployment rate:	12.0 %
GDP:	13.088 billion EMU
GDP growth rate:	2.8 %
GDP per capita:	3 520 EMU

Political Freedom

Free and Fair Elections : 7.14

Georgia continues to improve the environment for political activities in the country. Since first democratic transfer of power took place in 2012, all elections were considered free, fair and competitive, according to international election observers. However, the biggest challenge for the country has been inconsistency of the government. Irakli Gharibashvili resigned from the position of prime minister in December 2015 and has been replaced by a former foreign minister Giorgi Kvirikashvili, who became the third prime minister after 2012 parliamentary elections. After Constitutional Court ruled, in May 2015, that current electoral system is violating the principle of equality and after numerous political parties and NGOs signed a petition for a change of the system, ruling coalition Georgian Dream (GD) proposed some minor changes for 2016 parliamentary elections, with a promise of completely new electoral system afterwards. In order to improve equality at the upcoming elections, GD proposed to redraw electoral district boundaries. Due to that, opposition accused GD of alleged gerrymandering.

Absence of Unconstitutional Veto Players : 5.83

Government in Georgia has the effective power to run the country, thus there are no unconstitutional veto players. Still, the Georgian Orthodox Church (GOC) and businessman Bidzina Ivanishvili are seen as important influencers on the country's politics. GOC is the most trusted institution in the country and many politicians avoid to openly confront them. Also, Ivanishvili is often accused, mainly by opposition or by President Margvelashvili, to be the one who

pulls the strings behind the curtain, since both the successor prime ministers were earlier on in the executive board of his bank. Struggle against the corruption in the country was to some extent efficient, managing to successfully deal the low level corruption. On higher levels, institutions had some achievements, however they were often accused to be biased due to fact that most of the defendants were from the United National Movement party.

Freedom of Press : 5.1

Freedom of the press in Georgia is only partly upheld in practice. Media landscape is pluralistic and expresses diverse political opinions. Changes during previous years, such as increased transparency of media ownership and decrease of harassment and intimidation of journalists, are encouraging. However, problems of partisan reporting and alleged governmental pressure on media prior to 2016 parliamentary elections, fueled discussion throughout the year. Government was often accused for interference into the dispute on ownership of the main opposition television channel Rustavi 2, and also for pressuring for cancelation of certain political talk shows .

Rule of Law

Independence of the Judiciary : 5

During 2015 and early 2016 suspicions were raised about a misuse of judiciary by the government for the showdown with political opponents (i.e. members of the previous government and/or opposition leaders). The case of the former Mayor of Tbilisi Gigi Ugulava (from the now opposition party UNM) has been indicative. He was arrested in 2013, sentenced to nine years (suspended to four and a half) on corruption charges, released by the Constitutional Court in September 2015 on procedural grounds and then promptly rearrested and sentenced. Council of Europe accused Georgia of using the long pre-trial detentions as a political tool. Politically relevant cases aside, Georgian judiciary has improved after 2012. As Freedom House assessed in its Nations in Transit 2016, the reforms helped increase the acquittal rate (which was initially just 1%), made changes to the plea bargain system and have generally improved the independence of judiciary.

Corruption : 5.2

Between the “Rose Revolution” as of 2003 and the last change of government in 2012, Georgia made giant steps in suppression of corruption. Robust economic liberalization coupled with bold measures to clean the most vulnerable parts of the public sector (such as police forces) has created a sound basis upon which various sophisticated anti-corruption strategies were implemented in cooperation with relatively free media, developed civil society and the EU or international institutions. Petty corruption was minimized. Georgia became the least corrupt country in the region of Caucasus and Black Sea. It has been ahead of seven EU member countries. But neither the former UNM-led, nor the post-2012 “Georgia Dream” government attacked the high level corruption, except for the purpose of political showdown with opponents or unreliable coalition partners. Thus, public procurement as well as hiring in public sector is still in need of thorough, strategic anti-corruption and anti-nepotism measures. In the Transparency International’s Corruption Perception Index 2015, Georgia was ranked as 48th (together with

Saudi Arabia). Its score remained 52, the same as in 2014.

Protection of Human Rights : 5.46

The human rights` situation in Georgia is better than in neighboring countries. Freedom of thought, assembly and association is reasonably well maintained. Since 2014 there has been some progress regarding ethnic minority rights, notably in education. Children are well protected against forced labor. In as much as economic freedom affects human rights, citizens and CSOs are provided with additional opportunities for defense. However, the government`s attitude towards independent media is not unequivocally liberal. Political pressure on the popular TV channel Rustavi 2 in autumn 2015 (followed by a temporary government takeover thereof) has cast shadow on the otherwise transparency-seeking media policies. A lot needs to be done for more gender equality, e.g. against domestic violence or discrimination at work. Intolerance is generally in the rise, affecting ethnic and religious minorities, LGBTs, and even some life-style minorities (as demonstrated by the violent attack on a vegan cafe by an ultranationalist group in May 2016).

Economic Freedom

Security of Property Rights : 6.75

Property rights in Georgia are mostly secured. However, there are still many deficiencies within the judicial system that limit their full protection. Court proceedings can be biased to the side with good political connections. The military is an important part of political life and is connected to the wider social structures. The process of registering property is very efficient and inexpensive.

Expropriation disputes in the country are not common, but there have been cases where cases of illegal land appropriation in newly created tourist zones, and illegal seizure of property in Tbilisi at unfairly low prices connected to Tbilisi Railway Bypass project. Weaknesses of land cadaster, which provide clear titles for only 25% of land, stay in way of property protection. Acquisition and possession of agricultural land is restricted for foreign nationals and private entities registered by a foreign national, to 20 and 200 hectares respectively. Property rights in two separatist regions of Abkhazia and South Ossetia of internally displaced persons after the conflict are not generally upheld. Furthermore, although trial and judgements are usually done within a reasonable timeframe, enforcing contracts is a lengthy and expensive. This problem has been partly answered with the introduction of an electronic filing system for court users.

Size of Government: Expenditures, Taxes, and Enterprises : 8.15

Government size in Georgia, standing at 29.4% of GDP, stand low compared to most European countries but are in line with most other other Commonwealth of Independent States (CIS) countries. The country has been recording growth rates since 2009, although faced with weakening of foreign demand due to economic downturn in trading partners and lower remittances. Growth reached 2,8% of GDP in 2015 and is expected to strengthen. Public deficits

are still present, reaching 3,8% of GDP in 2015, but are rather sustainable in an environment of economic growth and relatively low public debt, reaching 41,5% of GDP in 2016. Low public expenditures allow for moderate tax rates, and tax system relies on flat taxes: 20% for income tax and 15% for corporate tax, and VAT is set at 18%. Social pensions to the retirees make the bulk of social transfers. After previous large scale privatizations, major government owned companies operate mostly in utility services and transport. There are other companies in different sectors, but they are not significant. The most important government companies (railways, oil and gas corporation and electro system) were combined to a Partnership Fund in order to improve asset management. It is envisaged to later be transformed to two Sovereign Wealth Funds (SWF), for SWF for asset management and SWF for investments. Georgia has constitutional breaks on public expenditures and introduction of new taxes, for which a popular vote is necessary. The financing obstacles facing small and medium size (SME) enterprises in obtaining bank loans made government devise plans for establishment of a development financial institution, but the plan was postponed.

Regulation of Credit, Labour, and Business : 7.41

Business environment in Georgia is positively oriented towards entrepreneurial activities, and Georgia has been twice designated as the reformer of the year by the World Bank. Positive developments in business environment and low taxes were key to rapid economic development. Starting a business is quick and inexpensive. Obtaining a construction permit is also a well streamlined procedure, which was recently improved by reducing the time needed for issuing building permits. On the other hand, getting electricity is very expensive due to high fees by the electrical distribution company. Although electronic payments usage is on the rise, tax procedures are overly complex, leading to high bureaucracy requirements. Administrative requirements and associated bureaucracy costs, coupled with still present corruption, pose burden on businesses. Inadequate supply of key infrastructure, especially outside of the capital Tbilisi, also poses a significant burden on businesses. Labour regulation is overall flexible, and the minimum wage is very low since its level hasn't been increased for almost two decades, so it is not really applied in practice, but there is also a different and much higher minimum wage for public sector employees. Severance payments are low and equal for all workers regardless of their years of tenure, and collective bargaining is concentrated mostly in the public sector. However, long mandatory military conscription of 18 months poses significant burden on businesses and citizens alike.

Freedom to Trade Internationally : 8.86

Freedom to trade is well respected in Georgia. Import tariffs are among the lowest in the world - 0% for most products, and 5% and 12% for some agriculture and construction products, with standing at 2% on average. Although regulatory trade barriers in the area of standardization of imported goods have been decreased, they still pose obstacles to trade in some sectors. Border and documentary compliance, however, incur high costs and have long procedures. In January 2016, Georgia ratified Trade Facilitation Agreement (TFA), which is expected to further ease custom clearances and border controls, allowing for further trade liberalization. Trade relations with the Russian Federation are now mostly normalized and booming, after previous Russian trade embargo. This is also important for goods in transit, since Georgia remains an important transitory country, due to its geographical location but also political conditions in the Caucasus region. Georgia remains to be one of most visa free countries for foreign nationals to visit, encouraging cultural and economic ties, as well as the booming local tourism industry. Main Georgian trade partners are CIS countries from the region, such as Azerbaijan, Armenia and

Ukraine, followed by the EU countries and Turkey. Economic relations with the EU is conducted via the Association Agreement and the following Deep and Comprehensive Free Trade Area (DCFTA) whose full implementation commenced in the beginning of July 2016.