

# Georgia 2019



Total: 69.06

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## Quick facts

Population:	3.730 million
Unemployment rate:	12.7 %
GDP:	16.209 billion \$
GDP growth rate:	4.7 %
GDP per capita:	11430 \$ PPP

## Political Freedom

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### Free and Fair Elections : 6.43

Elections in Georgia are considered as mostly free and fair, however with many irregularities during campaigns and on election days, that still make the playing field uneven and put pressure on citizens' genuine choice. Political parties are free to organize and operate. However, ruling parties have always enjoyed undue advantage of state resources. There were several important moments worth mentioning, that shaped political life throughout the year. First, former Prime Minister Giorgi Kvirikashvili resigned in June 2018 due to his disagreement with the most influential political persona in Georgia and the leader of the ruling Georgian Dream party – Bidzina Ivanishvili. He was replaced by Mamuka Bakhtadze, at the time the finance minister. In October and November, citizens cast their votes for the new president of Georgia, in the first round and run-off respectively. A Georgian Dream backed candidate Salome Zourabichvili scored a narrow victory in the first round, over United National Movement candidate, and then secured 60% of votes in the second round, thus becoming the first female president of Georgia. Although elections were marked as free and competitive, electoral irregularities were noted, such as blurred separation between public and party activities by officials, abuse of state resources, pressure on public employees, voter intimidation and biased public media reporting. Georgia introduced electoral changes in 2017, to enter into force as of 2024. Those changes involved abandoning of a mixed proportional electoral system for the fully party proportional system, while the president would be elected in an indirect way, by the local, regional and state level representatives, and with his/her powers further limited. Demonstrations, as well as inadequate use of power transmuted to violence against protesters, led to civic demands to pursue the immediately next parliamentary elections, i.e. those in 2020, through fully party proportional system. The leader of the ruling

Georgian Dream party Bidzina Ivanishvili and other party leaders publicly promised to implement the demanded electoral changes within the next parliamentary sessions. The Georgian Dream party dropped the draft law, causing further protests in the streets. The mixed proportional electoral system is regarded by Georgian civil society as the main obstacle to a democratic transfer of power.

## **Absence of Unconstitutional Veto Players : 5.83**

Democratic decision-making process and orientation of country's policies in Georgia are often interfered by influential individuals, business interests or religious groups. Most prominent and most influential person on the Georgian political scene is Bidzina Ivanishvili – a former prime minister, wealthy businessman and president of the ruling Georgian Dream party. Despite his withdrawal from public office, Ivanishvili continues to exert control over the most important decisions, through his political party that has got a supermajority in the national parliament. Former PM Kvirikashvili, who had stepped down in June 2018, named disagreement with Ivanishvili as reason for the decision. That clearly points out at a significant role the latter is playing in Georgian politics. Also, with supermajority in the parliament, the government can hardly be held accountable through a system of checks and balances. Close ties between business and political elites in the country have significant influence over decision-making as well, itself thus often serving rather for personal or group benefits than for public interest. Georgian Orthodox Church, as the most trusted institution in the country, is able to shape public and political narrative in accordance with its interests.

## **Freedom of Press : 7.1**

Constitution of Georgia is granting freedom of the press. In recent years this right was generally upheld in practice. However, there are still many problems remaining to be addressed. There is wide variety of broadcast, print and online media outlets that operate in the country, providing citizens with diverse opinions. However, the reporting often tends to be biased, with media coverage reflecting deep political divisions in society. This was especially evident during the run-off for presidential position in 2018, with private media having had been highly polarized between the two candidates. Traditionally, public outlets tend to provide more positive reporting on governmental activities. On top of that, appointments of close allies of Bidzina Ivanishvili to the top of the Georgian Public Broadcaster and adjacent change of editorial policy drew concerns over its independence. In October 2018, a TV station Iberia suspended its operations due to financial problems related to advertisement revenues and seizure of its parent Omega group property. Dispute over ownership of an opposition leaning Rustavi 2 television channel has been resolved by expropriation of the shares in favor of the former business partner of Bidzina Ivanishvili. Supreme Court of Georgia ruled in favor of the former owner of the outlet, triggering criticism and protests. The suspension put by Human Rights Court in Strasbourg has been abolished by HRC itself due to questionable reasons. However, two private opposition TV stations were created (Mtavari and Formula) on core basis of the crew of Rustavi 2 television. There are cases running at State Prosecutor's Office against general director of Mtavari TV and shareholder of TV Pirveli. Journalists do not restrain from practicing self-censorship that reflects the political leaning of the owners. An Azerbaijani investigative journalist had been abducted in Georgia and deported to his home country, where he was later sentenced to 6 years in prison.

# Rule of Law

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## Independence of the Judiciary : 5.33

Freedom House noted in a 2019 report on Georgia: „Despite ongoing judicial reforms, executive and legislative interference in the courts remains a substantial problem, as does corruption and a lack of transparency and professionalism surrounding judicial proceedings.” However, Global Competitiveness reports 2015-2017, and some earlier relevant World Bank reports, have all claimed that, at least in commercial litigations, corruption might not be expected to play an important role. The key problem seems to be the lack of depoliticizing of judiciary, even under the ongoing reform started in 2017. Meanwhile, throughout the last decade and half, Georgia has gradually reformed its penitentiary system, by building new, modern prisons, as well as changing the prison rules and culture so as to be closer to the EU`s than to the inherited Soviet models. In spite of those, violence in prisons and occasional torture in detention are still present. Georgian Ombudswoman stated that prisons` administration leans on the criminal authorities dealing with prisoners. Listening of the Supreme Court nominees at High Council of Justice and Judiciary Committee of the Parliament and subsequent affirmation of 14 Supreme Court judges by parliamentary majority was accompanied with demonstrations, boycott by the opposition, escape of a few MPs from the ruling majority block and critical statements by the EU, Council of Europe and USA, themselves regretting lack of impartiality of the affirmed judges and demanding a review of the affirmation process.

## Corruption : 5.8

For more than a decade now Georgia has - in a number of leaps - improved regarding the fight against corruption. In the Transparency International`s Corruption Perception Index 2009 it scored 38/100, while in 2018 it scored 58/100, to share the places 41-44/180 , i.e. to be less corrupt than one third of the members of the EU and less than any of the official EU candidates from Balkans. This miracle owes to robust post-2003 privatizations and economic liberalization which narrowed any - let alone discretionary - power of government to micro-manage economy affairs, coupled with bold measures to clean the remaining public sector of graft, and with thriving civil society organizations as watchdogs. Outright bribes have become a lesser problem in the country. Therefore, its anti-corruption bodies have been left with more resources, to have concentrated on more hidden and sophisticated forms of misuse of public office for narrow individual or group interests, such as favoritism, nepotism, or trading with influence.

## Protection of Human Rights : 6.3

Respect for human rights in Georgia is higher than in most of the ex-USSR, yet considerably lower than in the EU (which most of the people in Georgia set as their ideal). Freedoms of thought, assembly and association are reasonably well maintained. Civil society is vibrant. Yet, there were cases of smearing campaign by officials against NGOs which had criticized them. Right to privacy, especially when citizens` radio frequency activities are concerned, has stayed far behind the average EU rules of protection of privacy, although even the latter ones themselves have been nascent and constantly lagging behind the advance of technology. There are still unreleased investigations of murder cases involving public officials or their relatives. Georgian society is still

very conservative, which includes uninterrupted activities of various homophobic (often at the same time ultra-nationalist) pressure groups. LGBTs' "March of Dignity", planned in late June 2019, initially had to be shifted indoors. However, a few days later, a very small, semi-public and quite short, LGBTs' protest gathering was peacefully held in the open in the capital Tbilisi, as the first one of the kind ever. Meanwhile, in the breakaway regions of Abkhazia and South Ossetia Russian troops and local authorities continued with policies that severely restricted human rights. There have been cases of kidnapping, extortion, ransom, torture or even murders.

## Economic Freedom

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### **Security of Property Rights : 7.62**

Property rights in Georgia are mostly secured. Although courts are perceived as mostly independent from the government, in important cases political considerations influence court decisions and lead to favouritism in rulings. Recent introduction of an automated process for case assignment to judges is hoped to increase judicial independence and decrease opportunities for mismanagement. There are no specialized commercial courts, which can often have repercussions on the quality of rulings in these matters, but there are efforts in creating commercial chambers within existing courts, which is expected to increase efficiency in commercial rulings. Contract enforcements through courts last up to 10 months on average, but more than half of this timeframe is dedicated to enforcement of court rulings. The number of adjournments in court cases is not limited, which might prolong them. The recent legislative reforms are expected to increase the efficiency of judiciary, through efforts to address the backlog cases regarding petty loan disputes and the reforms regarding the High School of Justice. The constitutional reform abolished the probation period for judges as of 2025, which is expected to increase judiciary independence. Regulation regarding disciplinary procedures against judges is under reconsideration. Expropriation disputes are not common, but there have been cases of illegal land appropriation in newly created tourist zones, or illegal seizure of property even in Tbilisi, at unfairly low prices, for instance those connected to Tbilisi Railway Bypass project. In these cases, powerful interest groups were able to take advantage of legal loopholes or low land coverage in the cadaster. Insolvency procedures are long, taking up two years on average, with a recovery rate of just 40%. The process of registering property is very efficient and inexpensive, done through an electronic registry, but land title coverage outside the capital is not high - approximately only one quarter of agricultural land has a clear land title, which may lead to insecure property rights. Acquisition and possession of agricultural land is largely restricted for foreign nationals and private entities with foreign capital, to 20 and 200 hectares respectively. There are also a few industries in which foreign capital is restricted, and the government is by law obliged to retain a controlling equity share in air, shipping and rail traffic control, defense and armaments industry and nuclear energy. The Georgian government does not exert de facto control over the two separatist regions of Abkhazia and South Ossetia, therefore many internally displaced persons and businesses face challenges in asserting their property rights in those regions.

## **Size of Government: Expenditures, Taxes, and Enterprises :**

### **8.04**

Government expenditures in Georgia are very low as compared to other European and even post-transition countries, just below 30% of GDP in 2018, which is according to one of the legal fiscal rules adopted in 2014. Georgian economy experienced robust growth in 2018, of 4.7%, due to increasing foreign demand that led to a high rise in exports, and to rising private consumption. While inflation pressures were subdued in 2018 with a 2% inflation rate, they increased in 2019 with the inflation rate expected to reach 7% in 2019, significantly above the 3% target of the central bank. The government entered a three-year Extended Fund Facility (EFF) program by the International Monetary Fund (IMF) in April 2017, in order to provide backing for the envisaged fiscal austerity program with the aim of diverting resources from current to capital expenditures. That has been successful so far. Current spending has been put under control, while capital spending on infrastructure was significantly increased. Public debt is at 44% of GDP, which is within the fiscal rule limit of 60%. After the thorough privatization process, major remaining government-owned companies operate mostly in utility services, energy sector and transportation (airports, railways). The most important government companies (railways, oil and gas corporation and electro system) are combined to a Partnership Fund in order to improve public asset management, but some of these companies suffer from inadequate management and incur losses that require budget transfers. Low public expenditures allow for moderate tax rates. Both corporate and personal income taxes are flat, with the rates of 15% and 20% respectively, while VAT is set at 18%. Undistributed corporate income is not taxed. In July 2018 the turnover tax for small business which are not included in the VAT system was significantly reduced (from 5% to 1% of revenues). The Economic Freedom Act stipulates that an increase in tax rate or introduction of a new tax must be approved at a national referendum to become valid, which significantly restricts additional tax revenues.

## **Regulation of Credit, Labour, and Business : 7.75**

Business environment in Georgia is mostly positively oriented towards entrepreneurial activities. Georgia was twice designated as the Reformer of the Year by the World Bank, and is consistently ranked high by the Doing Business project. Although low level corruption has mostly been eradicated, there are still problems with selective implementation of economic regulation and low capacities of local governments, whose decision making process can have significant impact on entrepreneurial activities. Starting a business is quick and inexpensive, conducted in only 2 days and without minimum paid in capital. This process was further streamlined with the recent change that enabled voluntary VAT registration at the time of business incorporation. Obtaining a construction permit is also a well streamlined process, with 11 procedures lasting just over two months and with low associated costs. On the other hand, getting electricity is considerably expensive due to high fees set by the electrical distribution company, but the recent regulatory changes have stipulated penalties for utilities whose quality of services, measured by outages index, was worse than in the previous year. Besides, connection fees for new customers were reduced, in order to increase the quality of rendered services. The online system for VAT refunds has recently been updated and additional annex for corporate income tax returns was abolished: online procedures are used, but it is still time consuming. The system has recently been made more burdensome, since the VAT is imposed on advance payments. There were also reforms to make compliance with tax legislation easier, by increasing the threshold for defining a small

business and enabling them to pay taxes at the end of the month instead of in advance. For medium and large companies, an automatic system for VAT refunds was introduced. Inadequately trained workforce (especially outside the capital Tbilisi) and difficult access to financing pose significant burden on businesses. Labour regulation is overall flexible. Severance payments and notice periods are low and do not rise with years in tenure. Maximum duration of fixed term contracts is 30 months. Collective bargaining is mostly restricted to public sector employees. The minimum wage is very low, and it is not really applied in practice. However, the 18 months mandatory military conscription poses significant burden both on businesses and citizens.

## **Freedom to Trade Internationally : 8.86**

Freedom of international trade is well respected in Georgia. Import tariffs are among the lowest in the world, with the applied Most Favoured Nation (MFN) tariff rate of just 1.5%. As in other countries, tariffs are higher for agricultural products than for the industrial ones (with the MFN applied rates of 6.5% and 0.6% respectively). Although regulatory trade barriers in the area of standardization of imported goods have been decreased, they still create some problems regarding free flow of goods. Border and documentary compliance are efficient and pose little administrative burden on trade, via electronic system for document processing and an advanced document submission. Georgia has been a member of the World Trade Organization since 2000. The latest trade policy review by the WTO, in 2016, did not find any significant problems, confirming Georgia's free trade orientation, but the country needed to establish a national trade facilitation committee. The Trade Facilitation Agreement (TFA), which Georgia signed in January 2016, has been put in action in 2017, after the necessary number of WTO members acceded to it. This is expected to further ease custom clearances and border controls, which is especially important for Georgia due to its geographical location making it an important transport corridor. Georgia also hosts 4 free industrial zones (FIZ), whereby the one in the port city of Poti is the first FIZ in the Caucasus region. The country became an observer to the Government Procurement Agreement (GPA) of the WTO, and is currently in the process of acceding to it, which is expected to ensure transparent and open conditions for international competition within the public procurement sector. Georgia remains as one of the most visa free countries for foreign nationals to visit, encouraging cultural and economic ties, as well as the local tourism industry. Besides, since March 2017 Georgian nationals have been waived from visa requirements for the Schengen area countries. Main Georgian trade partners are the EU countries, followed by countries from the region, such as the Russian Federation, Turkey, Ukraine, Azerbaijan and Armenia. Economic relations with the EU are conducted via the Association Agreement and the following Deep and Comprehensive Free Trade Area (DCFTA), which were signed in 2014. A gradual introduction of the EU standards in the economy and increase of the rate of standards` harmonization in areas such as sanitary standards and technical barriers to trade are under way. The free trade agreement (FTA) with the European Free Trade Association (Norway, Lichtenstein, Iceland and Switzerland) began with its implementation in 2018. Recent signing of the FTA with China was followed up by signing an FTA with Hong Kong, in the same year.