



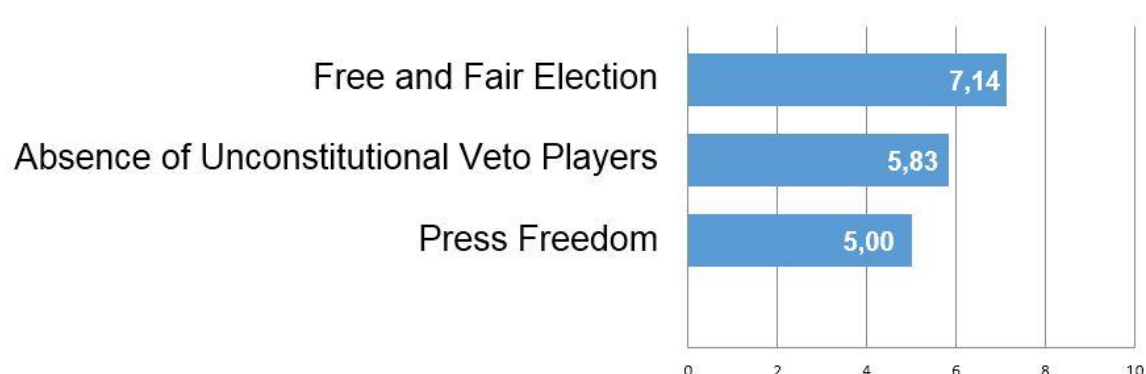
FREEDOM BAROMETER

Europe Edition 2017

Georgia

<i>GDP in 2016: EUR 12,859 million</i>		
<i>annual growth rate: 2.7%</i>	<i>per capita: 3,470 EUR</i>	<i>by sector:</i>
		agriculture 9.2%
		industry 21.6%
		services 68.3%
<i>Population: 3,701 thousand</i>	<i>Human Development Index</i>	<i>Government position in 2016</i>
<i>Unemployment rate: 11.8%</i>	<i>HDI: 0.769 (rank 70)</i>	<i>-1.62% of GDP</i>

A. POLITICAL FREEDOM



FREE AND FAIR ELECTIONS

Georgia held its parliamentary elections on the October 8th and 30th, 2016, first and second round respectively, which were considered as free and fair by the international community. However, the process didn't run without flaws. Cases of violence, alleged intimidation of voters or opposition politicians, or vote frauds on the election-day, were reported. A Member of Parliament on behalf of the opposition United National Movement (UNM) was a target of a car-bomb attack few days prior to elections. Ruling Georgian Dream cleared a huge victory, winning 115 seats out of 150 in the Georgian unicameral parliament, and allowing Prime Minister Giorgi Kvirikashvili to continue governance. Situation in the country has stabilized to a certain extent after repeated changes of Prime Ministers in the recent past. Georgia has got a mixed electoral system, with 77 seats elected through proportional representation and 73 seats in majoritarian constituencies. The strongest opposition party UNM won 27 seats in the elections, but internal party disputes led to its split, where after most of the MPs formed a new party at the beginning of 2017, called Movement for Liberty – European Georgia, which now represents the largest opposition in the parliament.

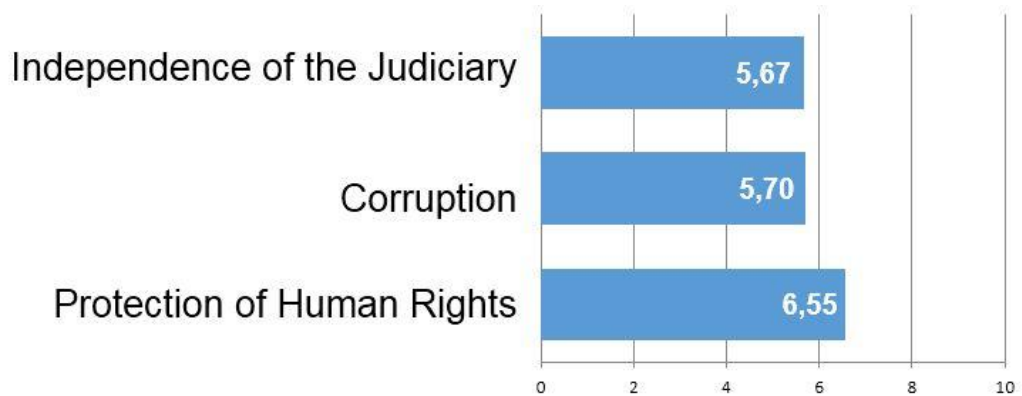
ABSENCE OF UNCONSTITUTIONAL VETO PLAYERS

There are no unconstitutional players in Georgia who could undermine decision making process by the government, although some players are seen to enjoy certain influence on politics and public. Founder of Georgian Dream and businessman Bidzina Ivanishvili allegedly still holds significant power in the party, making him a potential influencer on the government decisions. As a very influential institution in the country, Georgian Orthodox Church is also one of the players who are able to shape public opinion and thus influence politics. Close ties between political actors and wealthy businessmen, as well as lack of independency of the parliament and of the judiciary from the executive, present a danger for democratic processes in the country.

PRESS FREEDOM

Traditional and online media outlets are free in Georgia. Citizens are able to enjoy a wide range of views and opinions, which is a result of improvements in media sphere during the recent years. However, media outlets are divided along political lines, which can threaten objective reporting. Also, the problem of political pressure has intensified with the case of ownership dispute of Rustavi 2 television channel, which has been one of the most popular TV channels in the country and which aligned with opposition stance. In March 2017, Georgian Supreme Court ruled the case in favor of a former co-owner Kibar Khalvashi, resulting in protests of citizens, journalists and opposition politicians. This move was criticized by international instances as a threat to pluralism and media freedom. Violence and intimidation against journalists are rare, but due to a political pressure they are sometimes practicing self-censorship.

B. RULE OF LAW



INDEPENDENCE OF THE JUDICIARY

As Freedom House has reckoned in its Nations in Transit 2017 report, “the areas of greatest concern for Georgia’s democratic consolidation in 2016 were the independence of its media and judiciary.” On one hand, a number of foreign or international observers, such as European Commission, US State Department, or Council of Europe, have noticed considerable improvements in independence, effectiveness and accountability of Georgian judiciary, as a result of successfully implemented systematic reforms. Freedom House has noticed an increase of acquittal rate, as an indicator of a decrease of the improper influence of prosecutors on the courts

and more professionalism along the court procedures. In some politically sensitive cases, the rulings were not in government's favour. On the other hand, there is a subtle political struggle for the control over the Constitutional Court. A few of its members complained about public protests staged in front of their homes. Also, there were allegations that high profile defendants were kept in custody for unnecessary long time in order to blackmail them into testifying against other - also high profile - members of the pre-2012 government. In general, the policies of post-2012 government regarding justice and rule of law are often under suspicion of being biased, to the detriment of the members of the "old regime".

CORRUPTION

Gigantic steps that Georgia has taken after the "Rose Revolution" in suppressing corruption - through economic liberalization, bold measures to clean the most vulnerable parts of the public sector (such as police) and letting freer media, civil society and international organizations do their part of the work – materialized in its ever better score in the Transparency International's Corruption Perceptions Index. In 2016, Georgia rose to the position 36 (of 176), with huge improvement in just a year (from 52 to 57/100 points), now matching Latvia and leaving 10 other EU member states behind. No Black Sea region or Caucasus country is even near it. Aside of just "petty", even the high level ("elite") corruption is decreasing. As Freedom House noted in its Nations in Transit 2017 report, nepotism and not bribery anymore is becoming the most important field of concern and the main target in anti-corruption struggle. According to GAN portal, favouritism and not outright bribery anymore became a matter of concern in public procurement.

PROTECTION OF HUMAN RIGHTS

The human rights` situation in Georgia is better than in any neighboring country. Freedom of thought, assembly and association is reasonably well maintained. Civil society is well developed, with existing and active NGOs or think tanks that advocate a variety of political or policy options. However, as Freedom House noticed, some ultranationalist NGOs "border or breach normal standards of civic activism" by harassing sexual, religious or ethnic minorities. Government's regulatory approach in this field is cautious, avoiding to carry any laws that could backfire against either minorities or majority (such as avoiding to make "insult to religious feelings" an administrative offense, or refusing to constitutionally ban – anyway non-legal - same-sex marriage). The right to privacy became an important topic. In April 2016, the Constitutional Court ordered Parliament to reform the regulation on the monitoring of telephone and Internet connections by secret services until March 2017. Subsequent draft bill was rejected by many CSOs and vetoed by the President, while the Parliament overrode the veto. A broad debate on the issue resumed throughout 2017.

C. ECONOMIC FREEDOM



SECURITY OF PROPERTY RIGHTS

Property rights in Georgia are mostly secured. However, there are still many deficiencies within the judicial system that limit their full protection, since court proceedings might be biased in favour of the side with good political connections. The process of registering property is very efficient and inexpensive, but regions outside the capital are not covered with clear titles - approximately only one quarter of agricultural land has a clear title. There have been some recent improvements in this area, at least in raising coverage of the capital. Expropriation disputes are uncommon, 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, connected to Tbilisi Railway Bypass project. Acquisition and possession of agricultural land is largely 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 are hard to be secured, which is detrimental to the high number of internally displaced persons. Although trial and judgments are usually done within a reasonable timeframe, the process of contract enforcement is mostly lengthy. The number of adjournment is not limited, and another weakness of the system is that there are no specialized commercial courts.

SIZE OF GOVERNMENT

Government expenditures in Georgia are very low, compared to other European and even post-transition countries, reaching 30% of GDP in 2016, which has been stipulated by one of legal fiscal rules since 2014. Although faced with weakening of foreign demand due to economic downturn among trading partners and lower remittances, the economy is still recording growth, albeit at a slower pace than previously. Public debt is moderate, standing at 45% of GDP, having grown from 35% since 2014, but still within the prescribed fiscal rules stipulating that public debt may not be higher than 60% of GDP. Fiscal deficits are still recorded, reaching 1.6% of GDP in 2016, which threatens the imposed fiscal rules. The government entered an Extended Fund Facility (EFF) program by the International Monetary Fund (IMF), in order to provide backing for the envisaged fiscal austerity program with the aim of diverting resources from current to capital expenditures. Low public expenditure allows for moderate tax rates. Taxation system relies on flat taxes: 20% for income tax, 18% for VAT and 15% for corporate tax; however, in 2017 the government exempted from income taxation corporate profits that were undistributed, reinvested

or retained. Major remaining government-owned companies operate mostly in utility services and transport, while those in other sectors are not significant. 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. Georgia has constitutional breaks on public expenditures and introduction of new taxes, for which a popular vote is necessary.

REGULATION OF CREDIT, LABOUR AND BUSINESS

Business environment in Georgia is positively oriented towards entrepreneurial activities. Georgia was twice designated as the Reformer of the Year by the World Bank. Improvements in business environment, alongside high levels of economic freedom, are the main drivers of Georgian growth. Starting a business is quick and inexpensive, conducted in only 3 days and without minimum paid in capital. Obtaining a construction permit is also a well streamlined process, with only 7 procedures and low costs stemming from it. On the other hand, getting electricity is considerably expensive due to high fees set by the electrical distribution company. Recently imposed regulatory changes stipulate penalties for utilities whose quality of services, measured by outages index, is worse than in the previous year. The online system for VAT refunds has recently been updated and additional annex for corporate income tax returns was abolished. Inadequate supply of key infrastructure, and inadequately trained workforce, especially outside the capital Tbilisi, pose a significant burden on businesses. Labour regulation is overall flexible. The minimum wage is very low, and it is not really applied in practice. Severance payments and notice periods are low and equal for all workers regardless of their years of tenure, while collective bargaining is applied mostly among public sector employees. However, long mandatory military conscription of 18 months poses significant burden, on businesses and citizens alike. The Georgian government launched the program of de-dollarization in 2016 in order to increase the influence of its monetary policy on money supply, but this measure made domestic currency less stable towards foreign currencies, causing reasonable fall in the exchange rate and rise of consumer prices.

FREEDOM TO TRADE INTERNATIONALLY

Freedom to trade is well respected in Georgia. Import tariffs are among the lowest in the world, with the applied Most Favoured Nation (MFN) tariff of just 1.5%. As in other countries, tariffs are higher for agricultural products than the industrial ones. Although regulatory trade barriers in the area of standardization of imported goods have been decreased, they still create problems regarding free flow of goods. Border and documentary compliance have recently been made more efficient by the improvements in the electronic system for document processing and an advanced document submission system. Georgia has recently ratified the Trade Facilitation Agreement (TFA), which is expected to further ease custom clearances and border controls once it is implemented. The World Trade Organization (WTO) has finalized its trade policy review process regarding Georgia without finding any significant problems, confirming Georgia's free trade orientation. After the recent Russian embargo, trade relations with Russia have by now mostly been normalized, albeit affected by the strong currency devaluation of the Russian ruble. Due to its geographical location and also the political conditions in the Caucasus region, Georgia remains an important country for transit of goods. Georgia remains as one of the 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 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), whose full implementation commenced at the beginning of July 2016, while the Generalized Scheme of Preferences (GSP+) was terminated in the end of 2016.