
SUMMARY

1. Over the last decade, Georgia's economic growth has been largely positive and there has been a demonstrated commitment to open markets and further integration into world and regional markets as illustrated by the country's engagement in the WTO and more recently through its commitments under the Deep and Comprehensive Free Trade Area (DCFTA) with the European Union. As a result of these developments and the increase in gross national income per capita, Georgia reached the status of upper-middle income country in 2016.

2. Georgia's recent economic performance has generally remained positive, and real GDP continually expanded throughout 2015-19, achieving an average growth rate of 4.1%, although there was a significant downturn of - 6.2% in 2020 due to the COVID-19 pandemic. Georgia was particularly impacted by this external shock due to its high reliance on external trade, foreign investment, and tourism for economic growth. The COVID-19 pandemic hit the services sector particularly hard and affected mainly transport, accommodation, and food services. The downturn in economic growth in 2020 reversed previous gains in unemployment and poverty reduction.

3. In response to the COVID-19 pandemic, the Government undertook several mitigation measures with a view to alleviating the adverse economic and social impacts of the shock. In 2020, the Anti-Crisis Plan was put in place as the main overall economic recovery plan with an expected budget of GEL 3.6 billion. Several targeted sub-Plans were also initiated under the umbrella of the main Plan, covering agriculture, tourism, healthcare, development, and education in particular. A range of fiscal, monetary, and financial market policy measures were implemented through these Plans in order to support businesses and vulnerable groups, and to strengthen safety nets.

4. Throughout most of the last decade, Georgia registered persistent current account deficits that began to decline in 2016-17 and reached their lowest level in 2019. However, this trend was stopped in 2020 by the economic consequences of the COVID-19 pandemic that were particularly difficult for the tourism sector. The significant merchandise trade deficit was the largest negative component of Georgia's current account balance. However, in 2020 imports declined more than exports, and therefore the trade deficit narrowed slightly.

5. Georgia's merchandise exports grew steadily over the period by about 50% from 2015, while imports also grew, but at a much slower rate (10%). Georgia remained heavily reliant on imported manufactured goods, whereas exports were mainly primary products, i.e. food and minerals, a trend that intensified over the period. Due to its geographical location and transport connections, Georgia is an important transit corridor, thus merchandise trade figures are amplified due to significant amounts of re-exports. In terms of markets, Georgia's main export destinations are the European Union and the Commonwealth of Independent States (CIS), while the CIS, the European Union, and Turkey are the main sources of its merchandise imports.

6. The broad objectives of Georgia's trade policy remain largely unchanged from the previous Review, including continued trade policy liberalization, facilitation of export and import procedures and streamlining of regulations on non-tariff barriers, and diversification of trade relations. In July 2021, the Government presented a 10-year economic development strategy, Economy 2030. To maintain a high rate of economic growth, the strategy aims to increase domestic production and exports. Specifically, the new strategy aims to double exports in the next five years and increase self-sufficiency by at least 20%. There were several constitutional amendments during the period under review.

7. The Association Agreement concluded in 2014 between Georgia and the European Union and its member States has as one of its objectives Georgia's gradual economic integration into the EU Internal Market, through the establishment of the DCFTA, which aims to provide for far-reaching market access based on sustained and regulatory approximation. Most recent legislative changes in trade and trade-related matters resulted from Georgia's obligations under the DCFTA to approximate the EU *acquis*. In addition to the DCFTA, Georgia is a party to 15 other regional trade agreements. During the period under review, Georgia concluded free trade agreements with China; the European Free Trade Association; Hong Kong, China; and the United Kingdom. All of these regional trade agreements have been notified to the WTO.

8. Recent studies of Georgia's experience with foreign direct investment (FDI) have observed that the potential benefits of FDI for productivity and job creation have not been realized sufficiently and that to improve its integration into the global economy Georgia needs to focus more on efficiency-enhancing FDI. Most FDI has gone to non-tradable sectors, while FDI in export-oriented sectors, including manufacturing and agriculture, has stagnated and remained far below potential. The Government recently launched several new initiatives that prioritize certain sectors for investment promotion and incentives, based on criteria such as alignment with Georgia's overall economic strategy, export orientation, and contribution to knowledge and know-how.

9. Georgia adopted a new Customs Code in 2019, and related secondary legislation, to further simplify its customs procedures and ensure its approximation to the EU customs legislation as provided for in the DCFTA. The new code updates the provisions on customs valuation, which were previously contained in secondary legislation, and introduces, *inter alia*, an Authorized Economic Operator programme. Georgia ratified the WTO Agreement on Trade Facilitation in 2016, and completed the implementation of its commitments in September 2019. It also acceded to the Revised Kyoto Agreement in 2018 and is planning to accede to the EU Convention on a Common Transit Procedure and the Convention on the Simplification of Formalities in Trade in Goods. Georgia maintains an eCustoms platform providing various customs electronic services.

10. Georgia's tariff system remains simple and largely liberal. Tariffs are organized according to three bands: 0%, 5%, and 12%, with duty-free lines accounting for about 81% of the total number of lines in 2021. Only very few lines (2.5% of the total number of lines), namely motor vehicles, vinegars, and alcoholic beverages (except for beer), were subject to non-*ad valorem* duties (specific or special duties). The simple average applied MFN tariff remained unchanged, at 2%; the average tariff for non-agricultural goods was down from 0.8% in 2015 to 0.7% in 2021 (including *ad valorem* equivalents), and that for agricultural products increased from 6.7% to 6.8% (WTO definition). Georgia does not apply any seasonal tariffs, or tariff-rate quotas, either on an MFN or preferential basis.

11. Georgia has bound all of its tariffs using mostly *ad valorem* rates; only 17 lines corresponding to vinegars and all alcoholic beverages (except for beer) are bound at specific rates. Bound *ad valorem* duties consist of 25 different rates ranging from 0% to 30%, with the most frequent rates being 0%, 5%, and 12%. Applied rates do not exceed bound rates, except for one line.

12. Georgia continued to reform its indirect tax regime to harmonize it with that of the European Union as provided for in their Association Agreement. It expanded the list of excisable goods and modified some of its rates based on health considerations. Goods that became excisable during the review period included raw tobacco, tobacco waste, fluids for e-cigarettes, and motorcycles. Georgia also amended its VAT rules, in particular the scope of VAT application for services transactions. Both the VAT and excise tax apply equally to imported and locally produced goods (and services in the case of the VAT), except for certain agricultural goods for which the application of the VAT depends on the goods' origin. Both taxes are an important source of revenue. In 2020, together they accounted for about 60% of Georgia's total tax revenue. Of this amount, most came from VAT collected on imports.

13. Georgia maintains import and export prohibitions and a system of licence and permit requirements based on health, security, and environmental considerations. During 2015-21, the lists of prohibited and restricted imports and exports remained almost unchanged, except for a few additions, including temporary measures in response to the COVID-19 pandemic. Most of the product categories subject to an import licence/permit are also subject to an export licence/permit.

14. Georgia does not have legislation on the application of countervailing and safeguard measures, but during the review period it adopted its first legislation on anti-dumping. The new law – the Law on the Introduction of Anti-Dumping Measures in Trade – was enacted in July 2020 and became fully operational on 1 June 2021. The Law builds upon the Anti-Dumping Agreement, and designates the National Competition Authority (NCA) as the investigative authority. As at September 2021, the NCA department for anti-dumping measures had not received any formal requests for an investigation.

15. Georgia does not apply any export duty and exempts all exports from customs services fees, except for certain types of ferrous and non-ferrous scraps and residues. Exports are also exempted from VAT and the excise tax when applicable.

16. Georgia supports exporters mainly through technical assistance and the organization of export events. It does not maintain any financial support programme designed exclusively for exporters, although it maintains such programmes for businesses in general to promote local production – whether goods are exported or not.

17. Government subsidies and support measures increased during the review period and amounted to GEL 837 million in 2020, about double the level from previous years due to significant additional spending in areas related to the COVID-19 pandemic. New measures in 2020 included a utility subsidy, support for the hotel and construction sectors, and for promoting entrepreneurship. The Government also subsidized imports during the period, e.g. wheat to control the price of basic commodities. Significant increases in the subsidies given to agriculture producers also occurred in 2020 compared to historical periods, in particular for viticulture, and preferential agricultural credits.

18. As concerns TBT and SPS measures, much of the policy and developments during the period, including legislative changes, derive from the DCFTA as Georgia continues to move towards the EU *acquis*. In this respect, Georgia had already approximated 13 EU directives/regulations in the area of TBT and was in the process of adopting 8 more; for SPS, about 162 legal acts had been approximated and another 100 or so were expected. Implementation of these reforms and the move to greater adherence to international norms have been positive developments and increase the potential for more agricultural exports, in particular to the EU market. Georgia's notification record of these measures to the WTO during the period has been noted as needing improvement, in particular concerning SPS, as only one notification has been received.

19. There have been several developments in the area of competition policy since 2014 when Georgia's main Law on Competition was enacted. In 2020, the most comprehensive amendments were approved regarding increasing accountability and enforcement powers of the Georgian National Competition Agency, improving procedural aspects, incorporating a new governing structure, and aligning the legal provisions with EU best practices. The two main areas of substantial legal change were new procedures for merger control and market investigations. Georgia also adopted the "significant impediment to effective competition" (SIEC) test as part of the reforms.

20. State-owned enterprises (SOEs) remained a significant part of the economy during the review period, with state majority ownership of thousands of enterprises at the national and local levels. About 100 significant SOEs remain under the purview of National Agency of State Property (NASP), which provides oversight and management. About half of these enterprises are non-functioning and in a state of liquidation; the remainder are concentrated in the transport and communication sectors. During the review period, more enterprises were nationalized than privatized.

21. Georgia's government procurement rules have been established, according to the authorities, to ensure rational spending of public funds and promote effective competition in the sector. Several developments occurred during the review period, such as structural and procedural improvements that led to greater e-procurement and the adoption of EU procurement norms. Government procurement comprises a significant part of government spending, i.e. about 30%, and it represents 10% of GDP. Competitive tendering is generally low. Efforts to expand more open competitive tendering have been initiated through limits on the use of the direct tendering method. Improvements in the dispute resolution process in this area have also occurred to ensure greater independence and accountability.

22. In the area of intellectual property, most of Georgia's advancements over the period involved implementation of DCFTA commitments, mainly for patents, trademarks, copyright, design, appellations of origin (AOs) and geographical indications (GIs), and border measures. As regards patents, new legislation reintroduced compulsory licensing in the Patent Law in 2018, as well as added five years of protection on pharmaceutical and plant protection products. The length of protection for certain copyrighted materials was also amended, and provisions related to collective management organizations were subject to adjudication. In terms of enforcement, new provisions for patents, integrated circuit topology, and breeders' exclusive rights were added to the scope of

enforcement at the border and the new law also allows for proactive application of IP measures through an *ex officio* process.

23. Georgia's agriculture sector remains important, accounting for 8.4% of GDP in 2020 and about 20% of its population is reliant on it for employment. Agriculture accounts for one third of domestic exports over the period under review, with wine, nuts, and water the main exported products. The growth of wine exports outpaced that of all other export categories as their value more than doubled during the review period. Georgia is a significant net importer of agricultural products, with imports approximately double the value of exports. One of the significant developments during the period was land ownership reform measures that now prohibit foreign ownership of agricultural land, with limited exceptions. Several agricultural policy strategies were adopted during the review period to address rural development, agricultural extension services, and irrigation.

24. Despite the natural abundance of Georgia's forests, wood remained largely used to supply energy through firewood to the local rural populations and contributed very little to trade (1.2%) and GDP (0.4%). Efforts were undertaken during the review period to reform the sector through a National Forest Concept strategy and the adoption of the new Forest Code in 2020. With the main aim of establishing sustainable silviculture, the Code is expected to introduce changes such as abolishing the long-term licences for harvesting, direct all commercial felling through the National Forest Agency, regulate non-timber resource extraction, and prohibit the long-standing practice of obtaining free firewood from forests by local populations.

25. In mining, Georgia launched a reform process in 2018 to review and update its 1996 mining legislation. As a result, it adopted its first Mining Sector Strategy in 2019, and is planning to complete its new Mining Code in 2022.

26. Georgia continues to be highly dependent on energy imports, mainly of natural gas, which is its main source of energy supply (45% of its total energy supply in 2019). Other sources of energy are oil products and hydropower. During the review period, Georgia launched a vast reform of its energy sector, notably in the areas of electricity and gas, to approximate its legislation to the EU energy legislation. This reform led to the adoption in 2019 of the Law on Energy and Water Supply, which paves the way for changes in the organization and structure of the electricity and natural gas markets, and their gradual opening, including the unbundling of transmission and distribution activities and the creation of electricity and gas exchange markets. Implementation of this reform is ongoing and is advanced for the electricity sector. The electricity exchange market is currently in the testing phase and is expected to open in January 2022. For the natural gas market, which is highly concentrated and is dominated by foreign-owned companies, changes in the market structure and completion of a natural gas trading platform are expected by 2023. Due to its location, Georgia serves as transit corridor for oil transportation.

27. Manufacturing accounted on average for 10% of GDP during 2015-20. Georgia does not have an industrial policy *per se*, and policies in the sector are relatively liberal. Most manufactured products enter duty-free into the Georgian market, with some exceptions (including wood, plastic, iron and steel products, and vehicles) accounting for about 5% of the total number of tariff lines (479 lines). Certain manufactured products require a licence or permit for their production and trade, in most cases based on security and health considerations. Georgia maintains support programmes for business, some of which have a sectoral component. Georgia has four free industrial zones, which provide various types of tax benefits to the enterprises located within them with a view to attracting investment and promoting exports and value chain activities.

28. In financial services, an important objective of government policy in recent years has been to improve the efficiency of bank and non-bank financial intermediation to increase and diversify access to finance for business development. The financial sector is dominated by a highly concentrated banking sector that continues to be marked by a high degree of dollarization of assets and liabilities. During the review period, Georgia continued to implement major reforms to the institutional and regulatory framework for financial sector oversight and financial stability, including with respect to capital adequacy and liquidity requirements, risk management, and governance and internal controls. It also adopted measures to reduce the extent of dollarization of the banking system. Many of these reforms involved the alignment of Georgia's regime with international standards, notably the Basel III: International Regulatory Framework for Banks, and EU rules.

29. Significant developments have taken place in the telecommunications sector as a number of comprehensive reforms have been implemented or remain in progress. During the review period, penetration in mobile services remained high, the number of households with Internet access increased, and fixed broadband subscribers and penetration rates improved; however, the number of fixed telephone subscribers continued to decline. The telecommunications sector has undergone consolidation in recent years with fewer operators and thus concentration of dominance, and a low level of ported numbers. To address some of these imbalances, the telecom regulator ComCom launched new rules and procedures for Mobile Virtual Network Operators in order to provide access to small and medium-sized operators. Also, the new Bulk SMS regulation and a draft Law on Sharing Telecommunication Infrastructure and Physical Infrastructure Used for Telecommunication Purposes were initiated during the period with a view to further opening the market and improving competitiveness.

30. The transportation sector makes a significant contribution to the Georgian economy, as it contributed 6.2% to GDP, on average, during the review period. Georgia's potential as a regional hub has been recognized, and the Government has taken steps to develop the country's infrastructure, in particular for ports, road, and rail, which are increasingly interconnected. The Government is working towards modernization and development of the transportation infrastructure in accordance with international standards, harmonizing its legislation with international laws, and integrating into the Trans-European Transport Network. It has also established a National Transport and Logistics Strategy (2021-30) and its Action Plan (2021-22). Georgia has adopted an open environment in the aviation sector since 2005; consequently, the bilateral agreements are based on the Open Skies policy. Georgia achieved significant progress in a wide area of road transport-related activities during implementation of the DCFTA. Georgia regularly issues bilateral road transport permits, and is also involved in several multilateral systems of licences. As of mid-2021, work was ongoing to develop the Maritime Transport Strategy document, which was expected to be adopted in late 2021. Fulfilment of the rail-related obligations of the DCFTA entails substantial changes to the railway sector in Georgia. In particular, the railway operations of freight and passenger services and infrastructure are to be separated with their own respective new authorities for licensing and regulatory aspects.

31. Travel and transport services accounted for more than 90% of services exports during most of the period 2015-20. The considerable loss of income from tourism in 2020 was one of the main factors contributing to the COVID-19 pandemic's severe impact on Georgia's economy. The top countries in terms of international visitors are Azerbaijan, the Russian Federation, Armenia, and Turkey. Efforts to diversify the profile of foreign travellers have not yet been successful, as over 80% of tourists arrived overland from these four countries. It has been observed that to maximize the potential of its tourism sector, Georgia needs to make improvements regarding accessibility and hospitality infrastructure and services.

32. Georgia's current tourism policy is based on the Georgia Tourism Strategy 2025, adopted in 2015. According to this Strategy, by 2025, Georgia is to be well known as a premier, year-round, high-quality tourism destination, centred on its unique cultural and natural heritage, world-class customer service, and tradition of hospitality. The Strategy defines eight strategic objectives, 50 priority actions, and more than 100 activities to raise awareness in target markets about Georgia's tourism potential, assist the private sector in the creation of higher quality and niche tourism products, and improve service quality. Enterprise Georgia, the Government's economic development agency, administers several programmes to support the development of the tourism sector. New support programmes directed at the tourism sector were launched in 2020 as part of the measures taken to mitigate the economic impact of the COVID-19 pandemic.