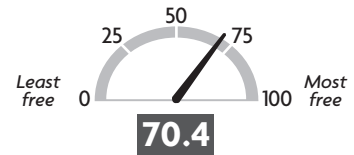


GEORGIA

Economic Freedom Score



World Rank: **26**

Regional Rank: **14**

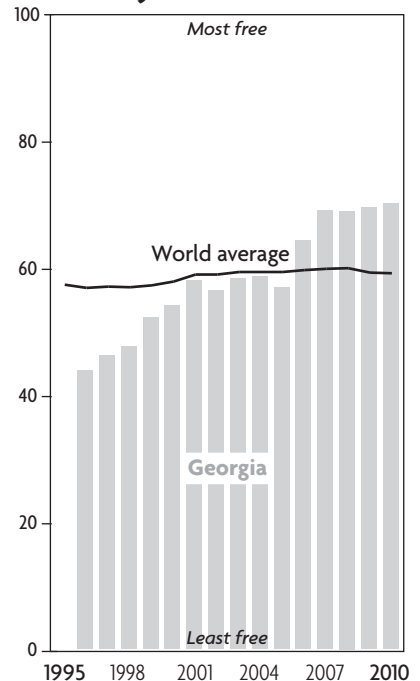
Georgia's economic freedom score is 70.4, making its economy the 26th freest in the 2010 *Index*. Its overall score is 0.6 point higher than last year due to improvements in trade freedom, property rights, and freedom from corruption. Georgia is ranked 14th out of 43 countries in the Europe region, and its overall score is higher than the world average.

With impressive progress toward greater economic freedom, Georgia for the first time has achieved "mostly free" status. This is particularly justified by high ratings in business freedom, trade freedom, fiscal freedom, and labor freedom. With its strong commitment to economic reform, Georgia has revitalized its historic tradition of entrepreneurship.

The economy has recorded high growth rates averaging over 8 percent over the past five years but experienced a sharp contraction in 2008 due to the Russian invasion. Georgia is well positioned, however, to restart its economic expansion; growth should be facilitated by a competitive tax regime and efficient regulatory framework. Although corruption is still a significant hindrance to overall economic freedom, anti-corruption measures since 2003 have made notable progress.

BACKGROUND: Since the collapse of the Soviet Union in 1991, independent Georgia has survived civil wars and the instability generated by secessionist movements. President Mikheil Saakashvili and his center-right United National Movement took power in the Rose Revolution of 2003 and won presidential and parliamentary elections in 2008. Completion of the Baku–Tbilisi–Ceyhan oil pipeline from Azerbaijan to Turkey has helped the economy, but Russian economic sanctions levied since 2006, the 2008 war with Russia, and Russia's continued military presence in Abkhazia and South Ossetia contribute to political and economic instability. Despite significant international assistance, GDP growth decelerated to 2 percent in 2008 and only 1 percent in early 2009, down from an annualized growth rate of 7 percent from 2000–2007.

Country's Score Over Time



Quick Facts

Population: 4.4 million

GDP (PPP): \$21.4 billion

2.0% growth in 2008

8.3% 5-year compound annual growth

\$4,896 per capita

Unemployment: 16.5 %

Inflation (CPI): 10.0%

FDI Inflow: \$1.6 billion

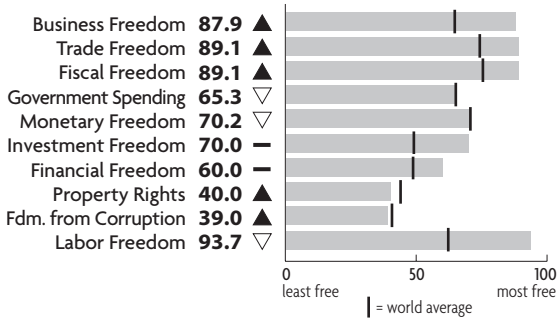
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

GEORGIA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 87.9

The overall freedom to conduct a business is relatively well protected under Georgia's regulatory environment. Starting a business takes an average of three days, compared to the world average of 35 days. Obtaining a business license requires much less than the world average of 18 procedures and 218 days. Closing a business is relatively simple.

TRADE FREEDOM — 89.1

Georgia's weighted average tariff rate was 0.5 percent in 2008. Georgia has made progress in liberalizing trade, but import restrictions, import taxes, agriculture subsidies, import and export licensing, weak enforcement of intellectual property rights, and inadequate infrastructure and trade capacity still add to the cost of trade. Some border trade goes unreported. Ten points were deducted from Georgia's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 89.1

Georgia has relatively low taxes. The income tax rate is a flat 20 percent, down from 25 percent as of January 1, 2009. The corporate tax rate is 15 percent. Other taxes include a value-added tax (VAT), a tax on interest, and a tax on dividends (reduced as of January 1, 2009). In the most recent year, overall tax revenue as a percentage of GDP was 21.6 percent.

GOVERNMENT SPENDING — 65.3

Total government expenditures, including consumption and transfer payments, are moderate but increasing. In the most recent year, government spending rose to 34 percent of GDP. Privatization of state-owned enterprises is winding down, and proceeds are being used to offset social welfare and defense spending increases.

MONETARY FREEDOM — 70.2

Inflation has been relatively high, averaging 9.7 percent between 2006 and 2008. Prices are generally set in the market, but the government may impose controls through state-owned enterprises. It also provides subsidies for agricultural products and energy. Ten points were deducted from Georgia's monetary freedom score to adjust for measures that distort domestic prices.

INVESTMENT FREEDOM — 70

Foreign and domestic investments receive equal treatment. Exceptions may be made for certain sectors, including maritime fisheries, air and maritime transport, and broadcasting. The government continues to implement reforms, but legal disputes can be lengthy and susceptible to pressure from the government or other outside influences. Foreign firms may participate freely in privatizations, though transparency has been an issue. Residents and non-residents may hold foreign exchange accounts. There are few limits for international payments and current transfers; capital transactions are not restricted but must be registered. Foreign individuals and companies may buy non-agricultural land. Agricultural land can be purchased by forming a Georgian corporation that may be up to 100 percent foreign-owned.

FINANCIAL FREEDOM — 60

Georgia's financial sector has undergone substantial liberalization. There are 20 banks, and the foreign presence is strong. In March 2008, the Georgian Parliament approved the Global Competitiveness of the Financial Services Sector Act to enhance the sector's efficiency. Eight banks account for about 90 percent of total assets. Loans to the private sector have increased rapidly. There are no formal barriers to foreign bank branches and subsidiaries. The government does not have a financial stake in any bank. Significant informal transactions undermine the banking sector to some degree, and the stock exchange is small and underdeveloped. With bank deposits and foreign reserves falling, Georgia's financial system underwent considerable stress during the August 2008 Russian invasion. Restoring stability and confidence has been slowed by the global financial turmoil. Although the financial system has shown a considerable degree of resilience to the external shocks, non-performing loans had increased to around 13 percent at the end of 2008.

PROPERTY RIGHTS — 40

Judges now have to pass tests before appointment, but foreigners and Georgians continue to doubt the judicial system's ability to protect private property and contracts. Enforcement of laws protecting intellectual property rights is weak.

FREEDOM FROM CORRUPTION — 39

Corruption is perceived as significant. Georgia ranks 67th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008, an improvement over 2007. The government has improved its performance in fighting corruption; it has fired thousands of civil servants and police, and several high-level officials have been prosecuted for corruption-related offenses.

LABOR FREEDOM — 93.7

Labor regulations are very flexible. The non-salary cost of employing a worker can be moderate, and dismissing an employee is costless. Rules on work hours are very flexible.