GEORGIA

Georgia’s economic freedom score is 75.9, making its economy the 16th freest in the 2019 Index. Its overall score has decreased by 0.3 point, with a sharp drop in judicial effectiveness and lower scores on government integrity and monetary freedom exceeding a big gain in financial freedom. Georgia is ranked 8th among 44 countries in the Europe region, and its overall score is above the regional and world averages.

Since the 2003 “Rose Revolution,” reforms by successive administrations have reduced petty corruption, cut regulation, simplified taxes, opened markets, and developed transport and energy infrastructure. The government hopes that further reductions in regulation, taxes, and corruption will attract foreign investment and stimulate growth. Its maintenance of monetary stability and overall sound fiscal health has fostered macroeconomic resilience. Nonetheless, deeper and more rapid institutional reforms to enhance judicial independence and effectiveness are still needed to ensure dynamic and lasting economic development.

BACKGROUND: Georgia was forcibly incorporated into the Soviet Union in 1921 and regained its independence in 1991. Russia invaded in 2008 and continues to occupy territory in Georgia’s South Ossetia and Abkhazia regions. In 2018, Prime Minister Giorgi Kvirikashvili resigned, citing disagreements with billionaire Bidzina Ivanishvili and his Georgian Dream coalition, and was replaced briefly by former Finance Minister Mamuka Bakhtadze. Salome Zurabishvili of Georgian Dream won a full term in fall 2018 elections. Georgia’s economy has improved noticeably after years of economic downturn. Agriculture or related industries employ over half of the workforce. Georgia signed an Association Agreement with the European Union in 2014 and is an official aspirant for NATO membership.
Property rights are recognized, and the government has made property registration easier. Only a quarter of private landowners hold clear title to their property. Although the constitution and laws provide for an independent judiciary, political pressure threatens impartiality. Georgia has made great progress in fighting petty corruption, but high-level corruption by public officials remains a problem.

The flat income tax rate is 20 percent, and the flat corporate tax rate is 15 percent. Other taxes include value-added and dividends taxes. The overall tax burden equals 25.8 percent of total domestic income. Over the past three years, government spending has amounted to 29.6 percent of the country’s output (GDP), and budget deficits have averaged 1.1 percent of GDP. Public debt is equivalent to 44.9 percent of GDP.

Georgia’s economy has maintained strong momentum in liberalizing economic activity. It takes only two procedures and two days to start a business, and no minimum capital is required. The nonsalary cost of hiring a worker is not burdensome, but the labor market lacks dynamism. The government is increasing subsidies for green energy and transport projects.

The combined value of exports and imports is equal to 112.6 percent of GDP. The average applied tariff rate is 0.7 percent. As of June 30, 2018, according to the WTO, Georgia had 66 nontariff measures in force. There are some restrictions on foreign ownership of agricultural land. With the banking sector growing, access to financing has improved. Capital markets continue to evolve, but the stock exchange remains small.