



European Parliament
**FORMER MEMBERS
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FMA Visit to Georgia 2019



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II A Brief History of Georgia

A Brief History of Georgia

Georgians live and breathe their history as a vital key to their national and regional identities today.

Early kingdoms

The Georgians know themselves as Kartvelebi, tracing their origins to Noah's great-great-grandson Kartlos. In classical times the two principal kingdoms were Colchis in the west (legendary home of the Golden Fleece and site of Greek colonies) and Kartli (also known as Iveria or Iberia) in the east and south, including some areas in modern Turkey and Armenia.

When King Mirian and Queen Nana of Kartli were converted to Christianity by St Nino in the early 4th century, Georgia became the second country to adopt the Christian faith, a quarter of a century after Armenia. In the 5th century AD, western Georgia became tied to the expanding Byzantine Empire, while Kartli fell under Persian control. King Vakhtang Gorgasali (447–502), considered the father of the Georgian nation, briefly drove the Persians out and moved his capital from Mtskheta to the current seat of government, Tbilisi. But the Persians were back soon, to be followed in 654 by the Arabs, who set up an emirate at Tbilisi.

The Golden Age

Resistance to the Arabs came to be spearheaded by the Bagrationi dynasty of Tao-Klarjeti, a collection of principalities straddling the modern Georgian–Turkish border. They later added Kartli to their possessions, and when in 1001 these were inherited by King Bagrat III of Abkhazia (northwest Georgia), most of Georgia became united under one rule. The Seljuk Turk invasion in the 11th century set things back, but the Seljuks were gradually driven out by the young Bagrationi king Davit Aghmashenebeli (David the Builder; 1089–1125), who defeated them at Didgori in 1122 and recaptured nearby Tbilisi and made it his capital.

Davit made Georgia the major Caucasian power and a centre of Christian culture and learning. Georgia reached its zenith under his great-granddaughter Queen Tamar (1184–1213), whose writ extended over much of present-day Azerbaijan and Armenia, plus parts of Turkey and southern Russia. Tamar is still so revered that Georgians today call her, without irony, King Tamar!

Death, destruction & division

The golden age ended violently with the arrival of the Mongols in the 1220s. King Giorgi the Brilliant (1314–46) did shake off the Mongol yoke, but then came the Black Death, followed by the Central Asian destroyer Timur (Tamerlane), who attacked eight times -between 1386 and 1403.

A devastated Georgia split into four main kingdoms: Kartli and Kakheti in the east, Imereti in the northwest and Samtskhe in the southwest. By the early 16th century the Ottoman Turks (who had overrun Christian Constantinople in 1453) and the Persian Safavid Empire were vying for control of Transcaucasia. They continued to do so for over two centuries, with western Georgian statelets generally falling under Turkish control and eastern ones under the Persians. The Safavid Shah Abbas' campaigns in eastern Georgia in the early 17th century were particularly savage. In 1744 a new Persian conqueror, Nader Shah, installed local Bagratid princes as kings of Kartli and Kakheti. One of them, Erekle II, ruled both kingdoms as a semi-independent state from 1762.

Russian rule

Russian troops crossed the Caucasus for the first time in 1770 to assist Imereti's liberation from the Turks. At the Treaty of Georgievsk in 1783, Erekle II accepted Christian Russian suzerainty in return for protection against his Muslim enemies. Russia went on to annex all the Georgian kingdoms and princedoms one by one during the 19th century, replacing the local or Turkish rulers with its own military governors.

In the wake of the Russian Revolution, Georgia was briefly independent from 1918 to 1921, but it was invaded by the Red Army and incorporated into the Soviet Union in 1922. During the 1930s, like everywhere else in the USSR, Georgia suffered from the Great Terror unleashed by Joseph Stalin, a cobbler's son from the Georgian town of Gori who had ingeniously taken control of the largest country on earth.

Following Stalin's death in 1953, Georgia began to enjoy a good quality of life – the 1960s and '70s are looked back upon with nostalgia by older Georgians as a time of public order, peace and high living standards. Yet by the mid-1980s Mikhail Gorbachev began his policies of reform and the USSR disintegrated in just seven years.

Independence: from dream to -nightmare

Georgia's bubbling independence movement became an unstoppable force after Soviet troops massacred 20 hunger strikers outside a government building in Tbilisi on 9 April 1989. Georgia's now anti-Communist government, led by the nationalist intellectual Zviad Gamsakhurdia, declared Georgia independent of the USSR on 9 April 1991. Almost immediately the country descended into chaos. Heavy street fighting overtook Tbilisi in December 1991 as rebel paramilitary forces battled in the city centre to overthrow Gamsakhurdia. He fled to Chechnya and was replaced by a military council, which gained an international respectability when Eduard Shevardnadze agreed to lead it. Shevardnadze had been First Secretary of the Georgian Communist Party from 1972 to 1985, and Soviet Foreign Minister under Mikhail Gorbachev from 1985 to 1991. He was elected chairman of the parliament and head of state on 11 October 1992.

Shevardnadze's presence did wonders for Georgia's reputation abroad, but at home, devastating internal conflicts continued to worsen. A truce in June 1992 halted the conflict that had beset the region of South Ossetia since it had declared its unification with North Ossetia (in Russia) in 1989. But in August 1992 an even more serious conflict erupted in Abkhazia.

In September 1993 Georgia suffered a comprehensive defeat in Abkhazia, and Gamsakhurdia tried to recapture power from Shevardnadze. A short but bloody civil war in western Georgia was only ended by Shevardnadze's quick negotiation of support from Russian troops already in the country. Gamsakhurdia died on 31 December 1993, possibly by his own hand. The second major consequence of the defeat in Abkhazia was the enforced displacement of approximately 250,000 Georgians from their homes there – a desperate humanitarian and economic burden for a country whose economy was already on the brink of collapse.

The Rose Revolution

For a decade after the Abkhazia debacle, Georgia oscillated between periods of relative peace and security and terrible crime waves, gang warfare, kidnappings, infrastructure collapse and rampant corruption. Shevardnadze at least staved off a total collapse into anarchy, but by the early years of the 21st century, with corruption rampant and economic progress slow, Georgians had lost all faith in him.

Badly flawed parliamentary elections in November 2003 were the focus for a mass protest movement that turned into a bloodless coup, named the Rose Revolution after the flowers carried by the

demonstrators. As the highly suspect election results were announced, protestors outside parliament in Tbilisi vowed to remain there until Shevardnadze resigned. Led by former Shevardnadze protégé Mikheil Saakashvili, a US-educated lawyer who now headed the opposition Georgian National Movement, the unarmed throng finally invaded parliament on 22 November. Humiliatingly bundled out of the back door by his bodyguards, Shevardnadze announced his resignation the next morning. The 36-year-old Saakashvili won presidential elections in January 2004 by a landslide, and set the tone for his presidency by appointing a team of young, energetic, outward-looking ministers and announcing campaigns against the plague of corruption. He scored an early triumph within months of taking power when he faced down the semiseparatist strongman of Georgia's southwestern region of Adjara, Aslan Abashidze. Just when it seemed Georgia might be plunged into another civil war, Abashidze backed down and left for exile in Russia.

Current events

Georgia enjoyed four years of relative stability following the Rose Revolution of 2003, which swept pro-Western Mikheil Saakashvili and his Georgian National Movement to power. But a new political crisis erupted in late 2007 as assorted opposition parties staged big street protests in Tbilisi against poverty, rising prices, and alleged corruption and authoritarianism in the Saakashvili government. Claiming that a coup d'état was threatened, President Saakashvili sent in riot police with water cannons and tear gas to clear the protests, declared a temporary state of emergency, and shut down the Imedi TV station, part-owned by his political opponent, tycoon Badri Patarkatsishvili.

The level of force used against the protests horrified Georgians and alarmed Saakashvili's friends in the West, but the president stood by his justification and called a snap presidential election for January 2008. Saakashvili won this with 53% of the vote over an opposition which had been caught unprepared. International observers adjudged the election to be democratic despite some irregularities, but large opposition protests in Tbilisi over alleged electoral fraud continued even after Saakashvili's inauguration for his new term.

Parliamentary elections due in spring 2008 were likely to have a big influence on the course of events. A good showing by the opposition could lead to further protests and instability. It seems many Georgians still view mass public action, rather than elections, as the way to change a government.

The crisis should at least have a sobering effect on the Saakashvili regime, which in its enthusiasm for free-market reforms is seen by many Georgians as insensitive, inflexible and uncaring. Georgia has won international praise for its business-friendly reforms, and a new breed of young, stylish, relatively wealthy Georgians is enjoying life as never before, shopping in glitzy new commercial centres, quaffing cocktails in fashionable bars and dancing to minimal techno in the nightclubs of Tbilisi and Batumi. But with a national average monthly income of just 107 GEL (US\$61) by 2007, it's still a battle for most Georgian families to make ends meet, and Georgians still have scant faith in the integrity of their court system or politicians. Following his inauguration in 2008, Saakashvili promised to reduce unemployment, raise pensions and introduce new social welfare measures.

Domestic troubles aside, Georgia's biggest headache is its fraught relations with Russia. Georgia's pro-Western stance and desire to join NATO has given Russia the heebie jeebies, and Russia is generally believed to support the separatist regimes in Abkhazia and South Ossetia. In 2006 the Kremlin banned imports of Georgian wine and mineral water, suspended flights, shipping and money transfers between the two countries, and closed the last remaining border crossing.

Meanwhile Georgia is trying to resolve the South Ossetia issue by supporting those in the enclave who favour a federal status within Georgia, rather than incorporation within Russia. In Abkhazia Georgia has installed what it considers to be the legitimate regional government in the one small

area it controls, the upper Kodori valley. Georgia offers Abkhazia broad autonomy on the condition that the estimated 250,000 Georgian refugees, driven out in the 1992–93 war, can return. But Abkhazia says it won't even talk until Georgia withdraws from the Kodori valley.

Source: <https://www.lonelyplanet.com/georgia/history>



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III Political System in Georgia

1. Presentation of the Georgian Political System

2. Georgian Political Actors in 2019

Presentation of the Georgian Political System

Georgia was an independent republic between 1918 and 1921, but in 1922 it was incorporated into the Soviet Union, from which it declared its independence in April 1991.

The Abkhaz and South Ossetian autonomous territories, created in 1922, have both declared their independence from Georgia. Russia recognised the independence of the two territories in August 2008.

A new constitution was approved in August 1995, which reinforced the presidential-democratic form of government, providing for a strong executive branch and a 150-seat unicameral parliament. Constitutional amendments enacted in 2013 gave the prime minister more power at the expense of the president. A constitutional court met for the first time in late 1996. The constitution does not address the status of Abkhazia or South Ossetia

Executive Power

The head of the state is the President who is elected by a popular vote for a five-year term. The President is the commander-in-chief of the armed forces and holds the executive powers. The President is also the head of the Ministries of Energy and State Security; while the Prime Minister is the head of the remaining ministries. The President appoints the Cabinet of Ministers.

The President cannot directly dissolve the parliament or veto its enactments without taking parliament into his confidence.

The Georgian state is highly centralized, except for the two autonomous regions of Abkhazia and Ajara which have special autonomous powers since Soviet rule.

National legislature

The legislature in Georgia is unicameral. It consists of the Supreme Council (commonly referred to as Parliament), with its 235 members elected by popular vote to serve four-year terms.

The members are elected in 77 constituencies according to a mixed electoral system. Some members are elected on the basis of party lists. The other members, nominated from single-mandate majoritarian constituencies, so-called majoritarian MPs, get elected directly in voting districts in a firstpast-the-post-system.

These, the so-called majoritarian MPs, are usually apolitical business figures seeking to protect their interests. Typically, the ruling party sweeps the board of majoritarians, resulting in a significant discrepancy between the nationwide vote share and the number of seats that the ruling party receives.

The Supreme Council assumes legislative authority, sets the country's main domestic and foreign policy course and oversees the government's activity within the limits defined in the Constitution.

Elections

The last elections were held on October 28th 2018 (presidential); October 8th 2016 (legislative). Next elections will take place in October 2020 (legislative).

Constitutional amendments in 2017 introduced the indirect election of the president starting from 2024 and substantially reduced the powers of the newly elected president, concluding the shift from a presidential to a parliamentary system initiated in 2010. The adoption of these amendments was contentious and did not enjoy a broad consensus.

The last parliamentary elections in 2016 resulted in a constitutional majority for the ruling party, the Georgian Dream (GD), which won 115 of 150 seats. After the election, the leading parliamentary opposition party, the United National Movement (UNM), split with 21 of its 27 members of parliament (MPs) establishing the European Georgia – Movement for Liberty (EG). The 2017 local elections further consolidated the position of the ruling party as it obtained 62 of 64 mayoral seats and a majority in 63 of 64 local councils. In June 2018, the Prime Minister resigned and a new government was appointed in July.

Several political parties and prospective contestants, including the incumbent president, refused to participate in the election, pointing to the limited presidential mandate. The ruling party supported an independent candidate, reasoning that the president should be non-partisan. The EG and UNM each nominated their own candidate. In addition, four of the ten smaller opposition parties under the UNM-led coalition “Strength in Unity”, created in July 2018, also fielded candidates.

The election took place against a backdrop of social turbulence resulting from a series of street protests in May and June 2018. While some of them were fuelled by the perception of bias in the adjudication of two cases involving the killing of minors, others were related to the alleged mishandling of arrests during an anti-drug campaign. To counter these demonstrations, anti-LGBT and self-declared fascist marches were organized. Furthermore, allegations of corruption and other illegal activities by various former high-level officials dominated media coverage before the first round of the election and impacted the political debate.

National government

The prime minister appoints the cabinet, subject to individual approval by the legislature.

Main political parties

Georgia has a multi-party system composed of over a dozen active political parties. These parties compete in parliamentary and municipal elections (some as part of electoral blocs) to gain representation in the respective legislatures, which are determined by a mixed-system of direct and proportional voting. Additionally, many parties nominate a candidate to run for president.

- **Georgian Dream-Democratic Georgia (GD-DG)**



The party was established on 19 April 2012 by the billionaire businessman and politician **Bidzina Ivanishvili**. The political party Georgian Dream – Democratic Georgia currently has 106 seats in the 150-seat Georgian parliament.

The party evolved from the public movement Georgian Dream, launched by Ivanishvili as a platform for his political activities in December 2011.

Georgian Dream lacks a clear ideology. Party activists are united mostly in loyalty to its founder. Amongst the party supporters there is a noticeable presence of the representatives of the so called ‘intelligentsia,’ elite social strata created during the Soviet period, which survives to this day. In the ranks of the party there are also significant numbers of medium and large business owners. It is also noteworthy that prior to the elections many technocrats, mostly with Western educations, joined the party.

- **European Georgia**



European Georgia is a political party in Georgia founded in Tbilisi in January 2017, primarily by prominent former members of the United National Movement. The party is chaired by **Davit Bakradze**.

The party shares much with the UNM's liberal conservatism, with the main difference between the two being their approach to politics. Among other things, European Georgia has a stronger commitment to contesting rather than boycotting elections.

- **United National Movement (UNM)**



UNM was founded in October 2001 by **Mikheil Saakashvili**. It is a reformist party and favors closer ties with NATO and the European Union, as well as the restoration of Tbilisi's control over the separatist self-proclaimed states of Abkhazia and South Ossetia.

Originally a center-left party, it moved its position to center-right since the Rose Revolution and combines political, economic and cultural liberalism with civic nationalism. Its main political priorities also include improving social services to the poor, the movement's main base of support; fighting

corruption and reducing administrative barriers for doing business. Leaders of UNM label themselves as liberal-conservative and in September 2007, the party became an observer member of the center-right European People's Party (EPP).

- **Alliance of Patriots of Georgia**



The party was established in December 2012. It was founded in 2012 by leaders from the Resistance Movement and its platform includes anti-Western positions. The founders were **Soso Manjavidze**, **Davit Tarkhan-Mouravi** and **Irma Inashvili**.

The Alliance party was based on the Resistance Movement, a group fiercely critical of the former ruling party, the United National Movement.

It is a self-defined centre-right, conservative opposition party in the republic of Georgia.

The party currently supports European integration, it supports Christian and democratic values, and the party demonstrates itself as a moderate-conservative party.

The Alliance of Patriots maintains anti-Turkish rhetoric, warning of Ankara's alleged designs on the Adjara region.

In June 2016, the party formed a bloc with five other parties (Free Georgia, led by Kakha Kukava; Tavisupleba, led by Konstantine Gamsakhurdia; Union of Georgian Traditionalists, led by Akaki Asatiani; New Christian-Democrats, led by Gocha Jojua, and Political Movement of Law Enforcement and Armed Forces Veterans) for the scheduled 2016 parliamentary election, finishing 3rd place in the proportional vote and just passing the electoral threshold of 5%.

- **Industry Will Save Georgia**



It is a centre-right conservative political party in Georgia. It was founded in 1999 by **Gogi Topadze**, the proprietor of a big beer and drinks company (Kazbegi) and gathered pro-business and industrial lobbyists. Its main objective was to change the country's economic policy, especially by fighting the influence of the International Monetary Fund (IMF). In the 2012 parliamentary election, the party participated as part of the winning Georgian Dream alliance. The party left the Georgian Dream coalition before the 2016 parliamentary elections. Despite this the Georgian Dream coalition continues to cooperate with the party. During the 2016 elections, Industry Will Save Georgia won their only majoritarian constituency without facing a competing candidate from the Georgian Dream.

- **Free Democrats**



It is a political party in Georgia founded by **Irakli Alasania**, Georgia's former envoy to the United Nations. The party was in opposition to the government led by Mikheil Saakashvili and his United National Movement. Its economic objectives are a competitive, free-market economy and the establishment of sustainable economic growth, poverty reduction, job creation and social protection systems. To this end, the parties should consider strengthening the institutions of private property and property rights, privacy, and personal initiative to promote healthy competition. The party's foreign policy priorities are the country's full integration into the European and Euro-Atlantic structures, deepening and strengthening of good neighborly relations with the countries of the region, and improving and strengthening the country's defense.

- **National Forum**



The party was established on 2006 by the former diplomat **Kakha Shartava**. He is the son of Zhiuli Shartava, a Georgian politician in Abkhazia, killed by the Abkhaz militias during the secessionist war in the region in 1993. The party advocates a parliamentary republic as a form of government in Georgia. Unlike most other Georgian political parties, it does not support Georgia's aspiration to join NATO, and argues Georgia should be a "neutral country." For the 2012 elections it was part of the Georgian Dream alliance. On April 3, 2016 National Forum left coalition after party convention.

- **Republican Party of Georgia**



Commonly known as the Republicans, is a political party in Georgia active since 1978. The Republican Party of Georgia emerged as an underground political organization in then-Soviet Georgia on May 21, 1978, and campaigned for an independent Georgia, human rights and free market economy. However, the party's leading members were arrested by the Soviet State

Security Committee (KGB) between 1983 and 1984 and imprisoned on charges of "anti-Soviet campaign and propaganda."

In 2012, it joined the Georgian Dream coalition that won the election against the incumbent government of the United National Movement. The then-party chairman Davit Usupashvili became the Speaker of the Parliament.

In March 2016, the party left the coalition and announced that they were preparing for the 2016 parliamentary elections separately. In the following election the Republican Party failed to pass the four percent threshold and became extra-parliamentary.

- **State for the People**

The State for the People Coalition was created on 18 August 2016 by **Paata Burchuladze**. It took part in 2016 parliamentary elections, coming sixth with 3.45 percent of the vote. After it's chairmen Paata Burchuladze left Georgia Nika Machutadze became Chairman

Source:

2019 - OSCE - *Country Report*

2019 - Economist Intelligence Unit -*Country Report Georgia*

2017 - IFES. *Elections in Georgia. 2017 Municipal Elections*

https://webcache.googleusercontent.com/search?q=cache:R8YTtrGOFQwJ:https://www.ifes.org/sites/default/files/2017_ifes_georgia_municipal_elections_faqs_final.pdf+&cd=14&hl=en&ct=clnk&gl=be&client=firefox-b-e

2016 - BOELL- *Parliamentary Elections in Georgia*

<https://ge.boell.org/en/2016/10/13/parliamentary-elections-georgia>

2015- European Parliament. *Georgia: political parties and the EU*

III Political System in Georgia

1. Presentation of the Georgian Political System
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Georgian Political Actors in 2019

The president; Salome Zurbashvili



Born on 18 March 1952 in Paris, France.
Speaks fluently Georgian, French, and English and converses in basic Italian.

Education
Institute of Political Studies (1969-1972 – Paris, France).
Columbia University, School of International and Public Affairs (1972-1973 – New York, U.S.A.)

Diplomatic and Political Career

In 1974-2004, she worked in the diplomatic service for the Ministry of Foreign Affairs of France in several embassies (Italy, United States, and Chad) and with French representations to international organizations (UN, NATO, Western European Union, OSCE).

In 2003, she was appointed as Extraordinary and Plenipotentiary Ambassador of France to Georgia.

In 2004-2005, she served as Minister of Foreign Affairs of Georgia. After the leaving the post, she founded on 11 March 2006 the political party “The Way of Georgia”.

In 2006-2015, she was an Associate Professor of International Relations at the Institute of Political Studies in Paris, France.

From 2010 to December 2015, she led the United Nations Security Council monitoring group on sanctions against Iran.

In 2016, she won her election as an independent Deputy in the Parliament of Georgia.

Source: <https://www.president.gov.ge/eng/prezidenti/biografia.aspx>

Prime minister: Giorgi Gakharia



Date of birth: March 19, 1975;

Place of birth: Tbilisi, Georgia

Education and qualifications

1992-1994: History Department at Ivane Javakhishvili Tbilisi State University

1994-1999: Lomonosov Moscow State University (MSU), master's degree in political science

2003-2004: Lomonosov Moscow State University (MSU), Business School, master's degree in business administration (MBA)

Professional experience

1999-2008: Senior positions in various private organizations

September of 2006-May of 2009: Visiting lecturer of applied biotechnology at Moscow State University (MSU)

November of 2008-February of 2013: Business Development Director for Eastern Europe, CIS and the Russian Federation at Lufthansa Service Holding AG. LSG in Frankfurt, Germany

March of 2013-July of 2016: Business Ombudsman of Georgia

December of 2014-September of 2016: Economic Advisor to the Prime Minister of Georgia, Secretary of the Economic Council

November of 2016-November of 2017: Minister of Economy and Sustainable Development of Georgia

November 13, 2017-September of 2019, Minister of Internal Affairs of Georgia, Vice Prime Minister of Georgia

April of 2019-September of 2019 - Secretary of the National Security Council

On September 8, 2019, the Parliament of Georgia approved Giorgi Gakharia's nomination for the Office of Prime Minister

Languages

English, Russian

Source: http://www.gov.ge/index.php?lang_id=ENG&sec_id=202

Vice-prime minister; minister of regional development & infrastructure: Maya Tskitishvili



Mrs. Maya Tskitishvili has occupied the position of the Head of Administration of the Government of Georgia, since November 1st, 2012.

Prior to moving into the public sector, she held managing positions within Kartu Management LTD and JSC Parcount. Mrs. Tskitishvili has extensive experience working in managerial positions within both the aviation and construction sectors. She has held the position of Project Manager at JSC Bagebi City Group, Deputy Head of Logistics Department at Burji LTD and Head of Logistics Department, also at Burji LTD, at different stages of her career. During the earlier stages of her career she also gained experience working within the aviation sector. In particular, Mrs. Tskitishvili worked as a Senior Manager at Georgian Air, as well as Assistant to Commercial Director and Head of Contracts Department at Georgian Airways.

Mrs. Maya Tskitishvili graduated from the Faculty of International Economic Relations at Ivane Javakhishvili Tbilisi State University. She continued her studies at the University of Economics in Prague, Faculty of International Trade; and also completed post graduate studies at the Caucasus School of Business .

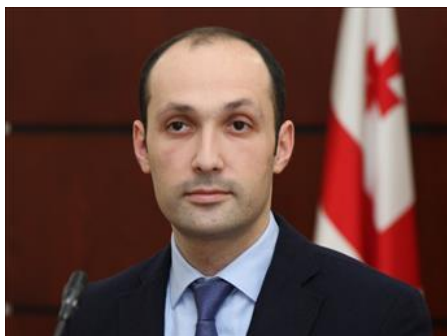
In addition to being fluent in English and Russian, Mrs. Tskitishvili completed a course in Czech language at the Charles University, Prague.

Mrs. Maya Tskitishvili was born on June 2nd, 1974 in Tbilisi, Georgia.

Source: <http://www.mrdi.gov.ge/en/persons/minister>

Key ministers

Agriculture & environment protection: Levan Davitashvili



Date and Place of Birth:

10.12.1978, Tbilisi, Georgia

Education:

2002 – 2003 - MIP Milano - Executive Master of Business Administration

1999 – 2001 – Ivane Javakhishvili Tbilisi State University – Master of International Business Management

1995 – 1999 – Ivane Javakhishvili Tbilisi State University – Bachelor in Economics

Work Experience:

05.11.2014 – present – Deputy Minister of Agriculture of Georgia

04.12.2012 – 05.11.2014 – Chairman of National Wine Agency of Georgia
 2010 – 2011 – Chairman of the Board of Georgian Wine Producers Union
 2010 – 2011 – Member of the Board of Georgian Wine Producers Union
 2009 – 2012 – Director of Sales and Marketing at Wine Company Schuchmann Wines Georgia
 2007 – 2009 – Head of Marketing Department of USAID Agricultural Development Project Ag Vantage
 2002 – 2007 – General Manager of Wine Company Tsinandali Old Cellar
 1999 – 2001 – Senior Business Consultant at World Bank Enterprise Restructuring and Management Assistance Program
 06/1999 – 09/1999 - Head of Social Tax Department of Ministry of Revenue Services of Georgia
 1997 – 1999 – Head of Standards and Regulations Department State Insurance Supervision Service of Georgia
 Languages:
 English, Russian, Italian

Source: <http://moa.gov.ge/En/deputy/3>

Defence: Irakli Garibashvili



Date of Birth: 28.06.1982

Education:

2005 – Master's Degree in International Relations, Faculty of International Law and International Relations of Tbilisi State University
 2002-2004 - Sorbonne University, Faculty of Political Science (Specialization in International Relations), Paris, France
 1999-2004 - Tbilisi State University, Faculty of International Law and International Relations, Specialization in International Relations

Languages: Georgian, English, French, Russian

Work Experience:

Since 08/09/2019 –Minister of Defence of Georgia
 Since 05/03/2019 – Political Party Georgian “Dream – Democratic Georgia”, Political Secretary and Member of Political Council
 12/02/2018-01/08/2019 – Private Sector
 20/11/2013 - 24/12/2015 – Prime Minister of Georgia
 25/10/2012 - 17/11/2013 – Minister of Internal Affairs of Georgia
 15/02/2012 – Political Party Georgian “Dream – Democratic Georgia”, Founding Member and Head of Revision Commission
 07/2009- 06/2012 – Director of LLC “Georgian Dream”
 12/2007 - 14/02/2012 - Member of the Supervisory Board of Cartu Bank

12/2005 - 14/02/2012 – Chairman of the Board – General Director of the International Charitable Foundation Cartu
05/2005 - 10/2005 – Deputy-Director of Logistics Department, LLC “Burji” (Cartu-Group)
2004-2005 – Foreign Procurement Section Manager of Logistics Department, LLC “Burji” (Cartu-Group)
2001- 2002 – Intern, Foreign Affairs Committee of the Parliament of Georgia

Source: <https://mod.gov.ge/en/page/9/minister-of-defense>

Economy & social development: Natela Turnava



Date of Birth
19 October, 1968

Work Experience
Since April 18, 2019 – Minister of Economy and Sustainable Development
2018-2019 - Deputy Minister of Economy and Sustainable Development
2013-2018 – Deputy CEO of the Partnership Fund
2006-2013 – Board Member of Georgian Industrial Group (GIG), CEO of Georgian International Energy Corporation (GIEC), Head of

Board of Directors

2005-2006 – First Deputy Minister of Economy of Georgia
May, 2005 – Deputy Secretary of Security Council
2000-2005 – First Deputy Minister of Economy of Georgia
1998-2000 – Deputy Head of Financial and Budgetary Commission at Tbilisi City Council
1997-2000 – State Advisor at State Chancellery, Deputy Head of Financial and Budgetary Commission, Deputy Head of Economic Service, Acting Parliamentary Secretary of the President
1994-1996 – Lecturer and Leading Scientist at Georgian Institute of Politics, Invited lecturer at various universities

Education

2012-2014 – MBA degree at UK University of Cambria (Zurich)
2005-2006 – Crash courses at Harvard and IMF in Collaboration with Robert Kennedy College
1990-1994 – PhD in Economics from Tbilisi State University
1985-1990 – Economist, Faculty of Economy, Ivane Javakhishvili Tbilisi State University (Diploma with Honor)

Scientific Work

Author of up to 40 scientific works, articles, monographies and 2 books.

Languages

English, Russian

Source: <http://www.economy.ge/?page=dimitri-gumsishvili&lang=en>

Education, science, culture & sport: Mikheil Batiashvili



Mikheil Batiashvili is a Psychologist, Associate Professor of Business Administration, a long-time member of The Institute for Strategy and Competitiveness – ISC at Harvard Business School.

Mikheil Batiashvili's name is associated with the establishment of "Silicon Valley Tbilisi" in Georgia and creation of the University of Business and Technology - BTU. In 2016-2018, he was the principal of the same University. In 2011-2015, Mikheil Batiashvili worked at Ilia State

University, as the Dean of a Business School.

Over the years, Mikheil Batiashvili held a job as an international auditor of the ISO - International Standards Organization.

At various times he held a directorial position in Business Consulting, in conjunction with occupying the position of the Deputy Director of the Anti-Corruption Council of Georgia, and the Deputy Director at the World Bank Economic Reform Center.

Additionally, Mikheil Batiashvili has implemented numerous innovative projects in the field of education.

Furthermore, Mikheil Batiashvili's name is also associated with various important joint projects, conducted in association with the international leading organizations such as Microsoft, IBM, Symantec, Hewlett Packard (HP) and others.

Moreover, he has published important publications, participated and delivered reports at international scientific conferences, in conjunction with collaborating with numerous foreign scientific centers, including Harvard Business School, Maastricht Management School, etc.

Source: <https://mes.gov.ge/content.php?id=8&lang=eng>

Finance: Ivane Matchavariani



Mr. Ivane Matchavariani has been Georgia's Minister of Finance since July 2018. Previously, he held various positions at the mobile communication provider Geocell Ltd, including Chief Commercial Officer, Chief Financial Officer, Manager of Financial Planning and International Reporting Department. He also cooperated with various consulting companies (McKinsey, Accenture, Informa Telecoms, Delta Partners) in commercial and technological research. Mr. Matchavariani served as a member of the Eurasia strategy team for TeliaSeoneras, the telecommunications company. He holds a BS in Production Economy and Management from Ivane Javakhishvili Tbilisi

State University.

Source: <https://live.worldbank.org/experts/ivane-matchavariani>

Foreign affairs: David Zalkaliani



David Zalkaliani (born on 27 February, 1968) is a Georgian career diplomat serving as the Minister of Foreign Affairs of Georgia since 21 June, 2018.

Career

Soon after Georgia regained its independence, in 1992 Zalkaliani joined the Ministry of Foreign Affairs, served as an Attaché in the Department of International Organizations, subsequently in 1995 was promoted to the Deputy Head of Division at the same department.

During the above period, it was of utmost importance for Georgia to find its own place in the system of international relations and join the international organizations. During the same period Georgia started cooperation with the European Community, which in 1992 recognized Georgia's independence. Back in those years cooperation between Georgia and the European Community was mainly focused on humanitarian and technical issues, in which Zalkaliani was actively involved.

From 1996 to 2000, Zalkaliani served as a Counsellor at the Embassy of Georgia to the Republic of Austria. He took part in the negotiating process on the text of the Agreement on Adaptation of the Treaty on Conventional Armed Forces in Europe. He participated in various important high-level summits, including the Budapest Summit of 1994, the Lisbon Summit of 1996 and the Istanbul Summit of 1999. Zalkaliani actively participated in the process of negotiations for the withdrawal of Russian military bases from the territory of Georgia. During Zalkaliani's diplomatic mission in Austria, Georgia was represented in Vienna by prominent Georgian diplomat, Ambassador Levan Mikeladze. Later, Zalkaliani joined Mikeladze, when Mikeladze became actively involved in social and political activities.

In 2000-2001, he continued serving as a Counsellor at the Department for European Affairs of the Ministry of Foreign Affairs of Georgia. Deepening of bilateral cooperation with the European countries fell under his duties and responsibilities.

In 2001-2002, Zalkaliani returned to Vienna to assume the position of Deputy Permanent Representative of Georgia.

In 2002-2004, Zalkaliani served as a Senior Counsellor at the Embassy of Georgia to the United States, Mexico and Canada; during his tenure, US-Georgia defense cooperation was considerably intensified.

In 2004 Zalkaliani continued his diplomatic career in Uzbekistan having served as an Ambassador Extraordinary and Plenipotentiary of Georgia to the Republics of Uzbekistan and Tajikistan. In the above period the bilateral relations between the countries were considerably intensified in the political and economic fields.

In 2007 Zalkaliani was appointed as Director of the Department of Global Relations of the Ministry of Foreign Affairs of Georgia. Over the next year he assumed the position of the Ambassador-at-large.

In 2008 he was appointed as an Ambassador Extraordinary and Plenipotentiary of Georgia to the Republic of Belarus.

In 2009 Zalkaliani left his position as an Ambassador and with like-minded people entered the politics. He actively participated in the creation of the political party – “Free Democrats”, that was followed by the victory of the Georgian Dream coalition in 2012 parliamentary elections. In parliament “Georgian dream – Free Democrats” faction was created. The same year Zalkaliani becomes First Deputy Minister of Foreign Affairs.

Since his appointment as the first Deputy Minister of Foreign Affairs, along with other important directions, David Zalkaliani was actively engaged in the process of preparation of the Georgia-EU Association Agreement being the Chief Negotiator from the Georgian side. Negotiations were successfully completed on 27 June, 2014 with the signing of the Association Agreement, between the European Union and Georgia, which includes a Deep and Comprehensive Free Trade Area (DCFTA) component. From 2012 to 2014 Zalkaliani was a Chief Negotiator from the Georgian side in the Geneva International Discussions and Co-Chair of the working groups of U.S.-Georgia Charter on Strategic Partnership.

In 2015 Zalkaliani continued his diplomatic career as an executive director in the newly founded Levan Mikeladze Foundation. During his tenure, his activities included research of the public politics, and advocacy projects implementation, capacity building for diplomats, holding academic and public discussions on foreign policy priorities.

In 2016 David Zalkaliani once again assumed the position of the First Deputy Minister of Foreign Affairs and on 21 June, 2018 was promoted to the Minister of Foreign Affairs of Georgia.

Source: <http://mfa.gov.ge/MainNav/DiplomatService/davit-zalkaliani.aspx?lang=en-US>

Justice: Thea Tsulukiani



Date of birth: January 21, 1975

Education:

1998-2000 - Public Administration School of France (ENA), Master's degree in Public Administration (MPA).

During her studies at ENA, Thea Thulukiani worked at the Cabinet of Prefect, Sart Department (Western France), on the issues of defending public order at problematic districts of the City, and other issues of coordination of activities of public administration bodies, at local level;

1992 - 1997 - Ivane Javakhishvili Tbilisi State University, faculty of International Law and International Relations; in parallel, she studied

at Academy of Diplomacy at the Ministry of Foreign Affairs, which she graduated in 1998;
1992 - Collège-lycée Ampère of Lyon (France), Diploma of Bachelor of Secondary Education.

Work Experience:

25/10/2012 - Minister of Justice of Georgia;

01/10/2012 - Majority Deputy of Nadzaladevi District from Bidzina Ivanishvilil - Georgian Dream;

15/05/2010 - Advisor of the Party Chairman in the field of Human Resources, Free Democrats Party;

2009-24/02/2010 - Speaker at cases to be discussed by one Judge;

2006 - Member of committee, Rules of European Court of Human Rights;

2005 - Class rank of Chief Lawyer;

09/2000 - Employee on the staff of European Court of Human Rights, as a result of competition held by the European Council. In the position of Lawyer, she was engaged in studying soundness of complaints against Georgia and partially, against Russia, working out decisions and verdicts on these cases and their transferring to authorized legal agencies, assisting judge at a meeting room, leading division working on complaints from Georgia, etc.;

1997-1998 - Foreign Policy Research and Analysis Center at the Ministry of Foreign Affairs of Georgia.

Source: European Parliament

Reconciliation & civil equality: Ketevan Tsikhelashvili



Date of Birth: August 21, 1978

Education:

2006 - current, Ilia State University, Georgia Ph.D. degree (exp.), the Faculty for Philosophy and Social Sciences

Spring 2011 - Academic research tenure/Academic Swiss Caucasus Network award at University of Fribourg, Switzerland

Summer 2007 - Jean Monnet Summer Course on European Integration for Professors of European Studies, Center for European Studies, University of Lymerick, Ireland

1999 - 2000, MA degree in International Relations and European Studies, Central European University, Budapest, Hungary

1995 - 1999, BA degree in International Relations, Tbilisi State University, Georgia

1998 - 1999, Civic Education Project (CEP) courses,

Tbilisi, Georgia, sponsored by CEP, Budapest, Hungary

Professional Experience:

August, 2016 - current - State Minister of Georgia for Reconciliation and Civic Equality
October, 2012 - August, 2016 - First Deputy State Minister of Georgia for Reconciliation and Civic Equality
January-October, 2012 - Chairwoman, EaP Civil Society Forum Georgian National Platform
2006 - 2012, Founder / Director, The foundation Liberal Academy-Tbilisi (LAT) European Initiative of LAT
2008 - current, Lecturer on European Studies, Ilia State University, Georgia
2002 - 2010, Coordinator of the Projects for Georgia and the South Caucasus Dialogue Consultant in Georgia, Friedrich Naumann Foundation for Freedom
2007 - 2009, European Stability Initiative (ESI) Analyst in Georgia
2004 - 2006, Special Assistant to the State Minister / Senior Specialist in charge of International Relations, Office of the State Minister of Georgia on Conflict Resolution Issues
2001 - 2002, Hamburg University, Germany, External researcher, Center for OSCE Research (CORE)
2002 - Brussels, Belgium, Research Associate, political and defense units, NATO Parliamentary Assembly
2001 - Flensburg, Germany, Visiting Research Associate, European Centre for Minority Issues (ECMI)
2000 - 2001, Prague, Czech Republic, Editorial Assistant (for CIS/CEE/Caucasus desks), Transitions Online (TOL)
2002 - 2004, Tbilisi, Georgia, Program Manager / Senior Analyst, International Organization on Conflict and Negotiation (ICCN)
1998 - 1999, Ministry of Foreign Affairs of Georgia, Leading specialist, Foreign Policy Research and Analysis Center
1998 - Assistant to the Director, International Organization for Fair Elections and Democracy
1996 - 1998, UN Organization of Youth (UNOY) Georgian Net, Project Assistant

Language Skills: Georgian (native), English (fluent), Russian (fluent)

Source: http://www.gov.ge/index.php?lang_id=ENG&sec_id=124&info_id=185

IV Economic Situation in Georgia

1. The World Bank in Georgia- Country Snapshot

2. Economist Intelligence Unit - Country Report

The World Bank in Georgia

Country Snapshot



An overview of the World Bank's work in Georgia

April 2019

GEORGIA	2018
Population, million	3.7
GDP, current US\$ billion	15.5
GDP per capita, current US\$	4,068
Life Expectancy at birth, years (2018)	73.5

At a Glance

- The Georgian economy performed well in 2018, growing by 4.9 percent, though economic activity moderated toward the end of the year.
- Annual inflation dropped to 1.5 percent in December 2018 as prices of apparel and communication services declined, overcoming slight upward pressure from higher food, alcohol, and fuel prices and more expensive utilities and health care.
- The fiscal deficit for the year amounted to 2.9 percent of GDP compared to a target deficit of 3.2 percent. Public debt declined further to 43 percent of GDP.
- Poverty was estimated to be 16.3 percent, using the lower-middle-income poverty line (US\$3.2/day, 2011 purchasing power parity). With a decline in the unemployment rate from 13.9 to 12.7 percent, an increase in external transfers, and low price pressures, the poverty rate is expected to have declined in 2018.

Country Context

Over the past decade, Georgia's economy has grown robustly at an average annual rate of 4.5 percent. This was despite numerous shocks, including the global financial crisis of 2007–08, the conflict with the Russian Federation in 2008, and the drop in commodity prices since 2014, which impacted key trading partners.

Poverty declined from 32.5 percent in 2006 to 16.3 percent in 2017. The poor have benefited considerably from the Government's social policies, as well as from new economic opportunities.

Although inequality remains high by regional standards, it has been declining in recent years, thanks to strong improvements in the welfare of households in the bottom 40 percent of the income distribution.

Deep reforms in economic management and governance have earned Georgia a reputation of "star reformer." To bolster the private sector, Georgia has introduced rules and regulations that make it easier to do business, and the country's international ratings on governance and the investment climate have soared.

The Deep and Comprehensive Free Trade Area agreement with the European Union (EU) and the Free Trade Agreement with China are expected to boost trade integration. Moreover, energy, tourism, and agribusiness can potentially help to integrate the country further into the regional and global economies.

The World Bank and Georgia

The new Country Partnership Framework (CPF) for FY19–22, developed in collaboration with the Government of Georgia and endorsed by the Board on May 22, 2018, aims to support sustainable and inclusive growth and improvements in living standards.

The current active portfolio consists of 11 investment projects with total commitments of US\$699 million, of which about US\$330 million is undisbursed. About 60 percent of commitments are concentrated in the ongoing East-West Highway and secondary roads projects and 18 percent is in urban development.

The remaining 20 percent covers energy, land management and irrigation, and the innovation ecosystem. Three more investment projects in the education, energy, and health sectors are currently at various stages of preparation.

The FY19 lending pipeline includes three operations with total International Bank for Reconstruction and Development (IBRD) financing of about US\$220 million. The Georgia I2Q - Innovation, Inclusion and Quality Project (US\$100.5 million IBRD loan), the Energy Supply Reliability and Financial Recovery Project (US\$70 million IBRD loan), and the Energy Supply Reliability and Financial Recovery Guarantee Project (US\$50 million IBRD guarantee) are all scheduled for Board presentation in May 2019. Four more IBRD lending operations, with total commitments estimated at US\$140 million, are envisaged for delivery in FY20.

In addition to the investment portfolio, there is an active program of four recipient-executed trust fund operations of about US\$15.4 million, of which roughly 36 percent is undisbursed. Although the Bank's investment portfolio is predominantly in infrastructure, the overall partnership is broader, with in-depth dialogue and analytical and knowledge activities in many areas, such as public administration, health, education, and pensions.

Key Engagement

In October 2018, the World Bank Group (WBG) launched the Human Capital Project (HCP) at the annual meetings of the WBG and International Monetary

WORLD BANK PORTFOLIO

No. of Projects: 11

Lending: \$699 Million

IBRD: \$542 Million

IDA: \$157 Million

Fund (IMF) in Indonesia with the goal of accelerating investments in human capital as a critical step toward boosting inclusive and sustainable growth.

Georgia is one of the “early adopters” of the HCP, participating at the launch of the project and expressing a commitment to promote investments in human capital.

The WBG team worked with Georgian counterparts ahead of the meetings to develop Georgia's Human Capital Index (HCI) and a strategy to accelerate progress in human capital outcomes.

The HCP has created an excellent opportunity to elevate the dialogue on human development in Georgia from the social sector ministries to the ministries of finance and economy and the highest levels of government.

The Bank team ensures a “whole of government” approach to human capital development by bringing together all relevant government ministries/agencies to help Georgia develop an action plan to strengthen human capital investments.

Demand for the Bank's support has grown substantially. The Government realizes that it must boost investment in human capital, including in early childhood development (ECD), as one of the most effective ways to build valuable skills for future labor markets.

The Bank is supporting Georgia with investment financing and technical assistance to deliver on its HCP commitment. The proposed Georgia Innovation, Inclusion and Quality Project (I2Q), which is currently under preparation, aims to improve education innovation, quality, and equity in strategic areas, including ECD, with the aim of generating long-term improvements in human capital and productivity.

Recent Economic Developments

The Georgian economy performed well in 2018, growing by 4.9 percent, though economic activity moderated toward the end of the year.

Strong exports and moderating demand in late 2018 narrowed the current account deficit to roughly 8 percent of GDP. Goods exports grew by 23 percent but remain concentrated.

The import of goods increased by 15 percent as the goods trade deficit widened by 11 percent. This was offset by a 15 percent increase in transfers from abroad and a marked improvement in the services account due to an 18 percent increase in tourism receipts.

The lari exchange rate remained flexible in 2018, with fluctuations driven by seasonal factors as well as the uncertainty stemming from the presidential election cycle.

Annual inflation dropped to 1.5 percent in December 2018 as prices of apparel and communication services declined, overcoming slight upward pressure from higher food, alcohol, and fuel prices and more expensive utilities and health care.

The National Bank of Georgia (NBG) loosened monetary policy slightly in January 2019, cutting its refinancing rate by 25 basis points to 6.75 percent.

Credit expanded by 19 percent in 2018, with mortgage lending accounting for almost 40 percent of the increase in the loan portfolio. More stringent loan approval conditions introduced by the NBG have held back the expansion of the rest of the portfolio.

The banking system remains healthy and profitable, with return on assets (equity) of 2.5 (19.4) percent and nonperforming loans at 2.7 percent of gross loans in December 2018.

The fiscal deficit for the year amounted to 2.9 percent of GDP compared to a target deficit of 3.2 percent. Public debt declined further to 43 percent of GDP.

Poverty was estimated to be 16.3 percent, using the lower-middle-income poverty line (US\$3.2/day,

2011 purchasing power parity). With a decline in the unemployment rate from 13.9 to 12.7 percent, an increase in external transfers, and low price pressures, the poverty rate is expected to have declined in 2018.

Economic Outlook

Georgia's medium-term growth outlook is positive, driven by higher investments, especially by the Government, and stable external demand as growth in Azerbaijan accelerates, stays stable (albeit at modest levels) in Russia, and begins to recover in Turkey.

Economic growth is projected to slow to 4.7 percent in 2019, as the NBG tightens measures for responsible lending, but bounce back to 5 percent by 2021.

The external gap is expected to gradually narrow, as private consumption growth slows and exports, including of tourism services, remain robust.

Although newly introduced measures in the banking sector are likely to slow credit growth and private consumption, they are also expected to strengthen the sector's resilience and its ability to more sustainably support the economy. Inflation will remain low, anchored by credible monetary policy measures.

Fiscal operations will continue to gradually shift from current to capital spending in the medium term, while improvements in efficiency will bring some additional fiscal space for higher capital expenditures. Georgia's public debt is projected to decline to 43 percent of GDP by 2022.

The expansion of the economy will lead to more employment and income-generating opportunities at the bottom of the distribution. Increases in pensions and social assistance in 2019 (also planned for future years) will help reduce poverty further.

Project Spotlight

Empowering Local Community Entrepreneurs Project



A beneficiary from Tskaltubo, Nunu Toradze was able to renovate three bedrooms and a bathroom in her two-story guesthouse using funding from the project.

Job creation is one of the key drivers of poverty reduction in Georgia. Despite substantial reforms, however, almost half of the Georgian population is vulnerable to falling into poverty. At the same time, the availability and quality of job opportunities are scarce.

This challenge is especially pronounced in rural areas and among certain subgroups of the population, such as

women-headed households, youth, internally displaced persons, persons with disabilities, ethnic minorities, and socially vulnerable households.

In response to this challenge, the **Empowering Local Community Entrepreneurs Project**, financed with a grant from the Japan Social Development Fund (JSDF) and implemented by the Biological Farming Association “Elkana,” focused on the tourism and hospitality sector in Georgia in order to promote more diversified rural livelihoods, build upon existing traditional skills and knowledge, and leverage those skills for income generation.

This project aimed to improve both skills and household income and to support job opportunities for targeted poor and vulnerable groups in the tourism and hospitality sector in the Kakheti and Imereti regions.

To make that happen, the project provided a range of customized training courses, as well as small grants of up to US\$2,000, to help roughly 2,000 entrepreneurs and 600 micro, small, and/or medium-sized businesses to start up and/or expand their activities, thus creating 761 new jobs in the process. Seventy-five percent of the beneficiaries were women. The project also invested in small community infrastructure in the selected communities.

The small grant from “Elkana” was just a starting point for pensioner Nunu Toradze from Tskaltubo (in west Georgia). She subsequently registered as an entrepreneur and recently received another financial grant through Enterprise Georgia, a government-run program. “I’m a businesswoman,” Nunu says proudly, “and the Elkana project has helped me earn my own income.”



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More about the World Bank in Georgia

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The “Country Snapshot” is a bi-annual update, highlighting the country’s recent developments, economic outlook and major overview of the World Bank’s partnership with the country. You can find the latest updates at <http://www.worldbank.org/georgia>

IV Economic Situation in Georgia

1. The World Bank in Georgia- Country Snapshot
2. Economist Intelligence Unit - Country Report

Country Report

Georgia

Generated on July 8th 2019

Economist Intelligence Unit
20 Cabot Square
London E14 4QW
United Kingdom

Fiscal policy

In 2018—as required by Georgia’s IMF programme—the government improved revenue collection, contained current spending and significantly boosted capital spending. Total expenditure rose by 3.7%, with spending on social and current benefits rising by 3.2%, other current expenditure contracting by 1.4% and capital expenditure surging by 90.5%. Total revenue rose by 10.4%, owing to strong growth in receipts from income tax (10.3%) and value-added tax (VAT; 10.8%). Consequently, the budget deficit narrowed to 2.8% of GDP in 2018, from 3.8% in 2017. The government appears committed to meeting the terms of its IMF programme, supported by the introduction of formal fiscal objectives and a four-year medium-term budget framework, although some slippage is possible.

The 2019 budget targets a deficit of 2.6% of GDP, assuming real growth of 4.5%, which are broadly in line with our projections. It includes higher capital spending on roads, infrastructure for water supply, and educational and public buildings. It also comprises higher pension spending to cover a Lari20 (US\$7.2) per month increase in individual pension payments. We expect the deficit to widen in 2020, ahead of the parliamentary election in that year, before it gradually narrows again, to 2.5% of GDP on average in 2021-23.

Monetary policy

Monetary policy is focused on targeting inflation, implying a free-floating exchange rate. Starting in July 2018 the National Bank of Georgia (NBG, the central bank) began gradual policy loosening, cutting the refinancing rate, its monetary policy rate, by 25 basis points to 7%. In 2019 it has cut the rate by a further 25 points in January, and again in March, citing inflation as being near its 3% target (it averaged 2.7% year on year in the first quarter), reduced external risks and weak pressure from aggregate demand. According to the NBG's May 2019 Monetary Policy Report, it expects to cut its policy rate gradually in 2019-20 to a neutral level, which it estimates to be about 5.5-6%. We forecast average inflation of 3.6% in 2019-20, and expect the NBG to cut its policy rate to 6% by end-2020, assuming that there are no shocks to the Lari. The NBG smooths the excessive appreciation of the Lari through foreign-exchange interventions; it bought a total of US\$197.5m in 2018 and US\$135m in the first two months of 2019. Foreign-exchange reserves have risen as a result, reaching US\$3.5bn at end-March 2019—a record high. However, this provides only a modest three to four months of import cover.

International assumptions

	2018	2019	2020	2021	2022	2023
Economic growth (%)						
US GDP	2.9	2.2	1.7	1.8	2.0	1.7
OECD GDP	2.2	1.7	1.6	1.8	1.9	1.8
World GDP	2.9	2.6	2.6	2.8	2.9	2.8
World trade	4.4	3.3	2.9	3.9	4.0	4.1
Inflation indicators (% unless otherwise indicated)						
US CPI	2.4	2.2	1.4	2.2	2.1	1.8
OECD CPI	2.5	2.2	1.9	2.1	2.1	2.1
Manufactures (measured in US\$)	4.9	2.1	3.3	3.5	3.2	3.0
Oil (Brent; US\$/b)	71.1	66.5	60.5	69.8	75.6	75.0
Non-oil commodities (measured in US\$)	1.9	-4.4	3.5	3.0	2.0	0.7
Financial variables						
US\$ 3-month commercial paper rate (av; %)	2.0	2.6	2.2	2.1	2.5	2.9
US\$:€ (av)	1.18	1.13	1.18	1.21	1.24	1.24
¥:US\$	110.4	110.0	108.7	104.9	100.5	96.1

Economic growth

We estimate real GDP growth of 4.7% in 2018—down slightly from 4.8% in 2017. The external sector drove growth in 2017. Goods exports (in US dollar terms) increased by 22.6% in 2018 (a slight deceleration from 29.5% in 2017), benefiting from Georgia's recent trade agreements with China, the EU and European Free-Trade Association (EFTA) countries. The price of copper, Georgia's most important export commodity, rose by 5.9% in 2018.

Tourism continued to drive services exports, owing to government support for the sector, growth in accommodation capacity and improved access to many regions. In 2018 tourist visits rose by 16.9%, to 4.8m, and tourism revenue by 18.4%, to US\$3.2bn (20% of GDP). Remittances also performed well, rising by 14.3% in 2018. These two factors will have supported private consumption, which grew by an estimated 3.4% in 2018.

We estimate investment growth to have accelerated in 2018, driven by public and private spending on infrastructure projects, such as the Anaklia deep-sea port and the Nenskra hydropower plant. This has boosted import demand; merchandise import values rose by 14.9% in 2018, up from 8.9% in 2017.

In 2019 we expect real GDP growth to slow slightly, to 4.6%, owing to a weaker external outlook. Galt & Taggart, a local investment bank, forecasts a slowdown in tourism revenue growth to 12.3% in 2019. Remittance growth will slow, as we expect real wage growth in Russia, a major source of remittances, to slow from 6.4% in 2018 to 2.5% in 2019. In January-April 2019 remittance inflows from Russia fell by an average of 6.3% year on year in US dollar terms, and overall remittance growth slowed to 7.4%, from 20.4% a year earlier. We expect public and private investment to remain strong, driven by major infrastructure projects.

Throughout the medium term, private consumption, investment and exports will support average GDP growth of 4.6% in 2020-23. However, Georgia's goods export potential will be limited by its low-value export base. Outside the agriculture sector, used cars, re-exports and scrap metal account for a large share of foreign sales. Aside from foreign investment in the textiles sector, the small size of the manufacturing sector limits opportunities to broaden its range of exports. Although Georgia's business environment is competitive compared with those of its neighbours—Georgia ranked sixth globally in the World Bank's Doing Business 2019 index—foreign investment and integration into global manufacturing chains will be constrained by a significant skills gap and by limited—albeit improving—regional interconnectivity. Large levels of poverty, a large proportion of rural inhabitants (41.8% in 2017) and a large grey economy (estimated by the IMF at 53% of GDP in 2015) also present structural barriers to growth which, if addressed, could substantially boost the economic outlook.

Economic growth

%	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
GDP	4.7	4.6	4.3	4.6	4.8	4.9
Private consumption	3.4	2.5	4.8	4.4	5.2	4.7
Government consumption	3.7	3.7	5.2	3.8	4.8	6.0
Gross fixed investment	7.2	3.7	5.9	5.5	6.2	5.7
Exports of goods & services	19.4	12.3	8.9	9.9	11.0	11.1
Imports of goods & services	16.4	7.3	8.9	8.9	10.0	10.1
Domestic demand	5.0	2.6	5.1	4.7	5.1	5.1
Agriculture	1.0 ^c	1.0	2.0	2.0	3.0	2.0
Industry	0.7 ^c	8.0	5.0	7.0	9.0	9.0
Services	6.8 ^c	6.0	4.2	6.0	6.5	6.5

^a Economist Intelligence Unit estimates. ^b Economist Intelligence Unit forecasts. ^c Actual.

Inflation

Inflation slowed to an average of 2.6% in 2018, from 6% in 2017, owing to slower food price inflation (one-third of the consumer price basket) and to the base effects on a 2017 excise duty rise on tobacco products, vehicles and oil products. Small increases in water and electricity tariffs provided only modest upward pressure. Core inflation (excluding energy and food prices) was weak, averaging 1.7% in 2018, down from 4% in 2017.

In 2019 year-on-year inflation has risen every month, reaching 4.2% in April, owing to higher food prices and a tobacco excise tax increase. This will be offset by weak external price pressures, as we forecast a decline in average global food and commodity prices. We forecast average inflation of 3.6% in 2019. In 2020-23 we expect inflation to average close to the NBG's 3% medium-term target. The lari exchange rate and food prices will remain significant factors driving headline inflation.

Exchange rates

Given the openness and small size of Georgia's economy, the lari exchange rate is driven by movements on the current account, including seasonal factors (such as tourism) and demand for merchandise imports. Significant movements in the Russian rouble and the Turkish lira have an influence. In 2018 the lari weakened to an average of Lari2.53:US\$1, from Lari2.51:US\$1 in 2017, owing to the weakening of the rouble and the lira against the US dollar in August. In addition, from August to November the lari depreciated further against the US dollar, to a low of Lari2.75:US\$1 in mid-November, owing to a seasonal pick-up in import demand and negative sentiment driven by a depreciation of the lari in every fourth quarter of the past six years. The lari stabilised at about Lari2.7:US\$1 in December 2018 and in the first quarter of 2019, as the US dollar retreated after the Federal Reserve (Fed, the US central bank) signalled a more gradual trajectory for interest rates.

The lari does not appear overvalued and its real effective exchange rate is well below its peak in 2012. However, in 2019 we expect the Russian rouble and the Turkish lira to weaken on average against the US dollar. In addition, the NBG's plan to grow foreign reserves will limit any appreciatory pressures. We therefore expect the lari to weaken to an average of Lari2.72:US\$1 in 2019.

In 2020-23 we expect a gradual appreciation of the lari against the US dollar, implying a modest strengthening of the real effective exchange rate. Further volatility in the rouble and lira exchange rates is likely, notably in the early part of the forecast period, posing significant downside risks to our forecast.

External sector

In 2018 higher remittance inflows and tourism revenue, in addition to lower net primary income outflows, narrowed the current-account deficit to 8.2% of GDP, from 9.6% in 2017. Foreign direct investment (FDI) inflows fell to US\$1bn in 2018, from US\$1.6bn in 2017, owing to the completion of the construction of a gas pipeline. In 2019-23 we expect domestic demand growth and the need for investment inputs to drive trade deficits of almost 30% of GDP and current-account deficits of almost 10%. The weakening of the lari in 2015-16 led to a sharp rise in the external debt/GDP ratio, which rose to 110% in 2016, from 82.7% in 2014. However, external debt/GDP started falling in 2017 and was equivalent to 99.2% in 2018. Georgia is reliant on high levels of investment and lending to cover its large current-account deficit. The outlook for investment is positive, with strong inflows expected to fund multi-billion-dollar energy and transport projects in 2019-23. However, the corporate sector will remain exposed to external financing and currency risk.

Forecast summary

Forecast summary

(% unless otherwise indicated)

	2018 ^a	2019 ^b	2020 ^b	2021 ^b	2022 ^b	2023 ^b
Real GDP growth	4.7 ^c	4.6	4.3	4.6	4.8	4.9
Industrial production growth	0.7	8.0	5.0	7.0	9.0	9.0
Agricultural production growth	1.0	1.0	2.0	2.0	3.0	2.0
Consumer price inflation (av)	2.6	3.6	3.5	3.3	3.2	3.0
Consumer price inflation (end-period)	1.6	3.9	3.0	3.7	3.1	2.8
Lending rate (av)	11.1	10.6	10.5	10.3	10.0	9.9
Deposit rate (av)	8.8	8.5	8.3	8.0	7.9	7.7
Consolidated government balance (% of GDP)	-2.8	-2.5	-2.8	-2.5	-2.4	-2.5
Exports of goods fob (US\$ m)	4,407	4,973	5,470	6,355	7,352	8,351
Imports of goods fob (US\$ m)	-8,518	-9,185	-10,103	-11,630	-13,335	-15,009
Current-account balance (US\$ m)	-1,322	-1,409	-1,596	-1,781	-2,040	-2,185
Current-account balance (% of GDP)	-8.2	-8.6	-8.8	-9.0	-9.5	-9.3
External debt (year-end; US\$ m)	16,083 ^c	16,770	17,794	18,751	20,412	21,819
Exchange rate Lari:US\$ (av)	2.53	2.72	2.68	2.65	2.64	2.63
Exchange rate Lari:US\$ (end-period)	2.67	2.84	2.76	2.70	2.71	2.70
Exchange rate Lari:€ (av)	2.99	3.08	3.16	3.21	3.27	3.26
Exchange rate Lari:Rb (av)	0.04	0.04	0.04	0.04	0.04	0.04

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

Data and charts

Annual data and forecast

	2014 ^a	2015 ^a	2016 ^a	2017 ^a	2018 ^a	2019 ^b	2020 ^b
GDP							
Nominal GDP (US\$ bn)	16.5	14.0	14.4	15.1	16.2	16.4	18.1
Nominal GDP (Lari bn)	29	32	34	38	41	44	48
Real GDP growth (%)	4.6	2.9	2.8	4.8	4.7 ^c	4.6	4.3
Expenditure on GDP (% real change)							
Private consumption	3.2	0.1	-0.6	1.3	3.4 ^c	2.5	4.8
Government consumption	11.2	22.1	6.5	2.0	3.7 ^c	3.7	5.2
Gross fixed investment	24.4	11.7	10.0	-2.1	7.2 ^c	3.7	5.9
Exports of goods & services	0.4	6.0	7.7	10.3	19.4 ^c	12.3	8.9
Imports of goods & services	11.1	10.4	6.3	0.9	16.4 ^c	7.3	8.9
Origin of GDP (% real change)							
Agriculture	1.6	1.6	0.3	-3.8	1.0	1.0	2.0
Industry	5.1	4.2	6.3	7.9	0.7	8.0	5.0
Services	4.7	3.2	2.4	5.1	6.8	6.0	4.2
Population and income							
Population (m)	4.0	4.0	3.9	3.9	3.9	3.9	3.9
GDP per head (US\$ at PPP)	8,631	9,067	9,490	10,172	10,910	11,649	12,399
Recorded unemployment (av; %)	14.6	14.1	14.0	13.9	12.7	11.4	11.2
Fiscal indicators (% of GDP)							
General government budget revenue	27.9	28.2	28.4	28.9	28.8	29.1	29.1
General government budget expenditure	31.0	31.8	32.3	32.7	31.6	31.7	31.9
General government budget balance	-3.1	-3.6	-3.9	-3.8	-2.8	-2.5	-2.8
Public debt	35.4	41.3	44.4	44.2	43.9	43.1	42.3
Prices and financial indicators							
Exchange rate Lari:US\$ (av)	1.77	2.27	2.37	2.51	2.53	2.72	2.68
Exchange rate Lari:€ (av)	2.35	2.52	2.62	2.83	2.99	3.08	3.16
Consumer prices (av; %)	3.1	4.0	2.1	6.0	2.6	3.6	3.5
Stock of money M1 (% change)	3.6	-0.6	15.5	17.3	9.3	11.3	11.7
Stock of money M2 (% change)	9.1	-2.5	12.9	29.4	16.1	21.6	15.3
Lending interest rate (av; %)	11.9	12.5	12.6	11.5	11.1	10.6	10.5
Current account (US\$ m)							
Trade balance	-4,286	-3,952	-3,883	-3,804	-4,112	-4,212	-4,633
Goods: exports fob	3,995	3,021	2,865	3,570	4,407	4,973	5,470
Goods: imports fob	-8,281	-6,973	-6,747	-7,374	-8,518	-9,185	-10,103
Services balance	1,306	1,404	1,577	2,024	2,244	2,299	2,581
Primary income balance	-230	-339	-706	-825	-744	-798	-982
Secondary income balance	1,349	1,017	1,038	1,161	1,289	1,302	1,439
Current-account balance	-1,861	-1,869	-1,973	-1,444	-1,322	-1,409	-1,596
External debt (US\$ m)							
Debt stock	13,657	14,375	15,820	15,756	16,083 ^c	16,770	17,794
Debt service paid	1,891	2,139	2,582	2,555	2,256 ^c	2,435	2,503
Principal repayments	1,458	1,459	1,648	1,987	1,718 ^c	1,759	1,810
International reserves (US\$ m)							
Total international reserves	2,699	2,521	2,756	3,039	3,289	3,690	4,050

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

Source: IMF, International Financial Statistics; World Bank, International Debt Statistics.

Quarterly data

	2017			2018				2019
	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr
General government finance (Lari m)								
Revenue & grants	2,701.1	2,709.6	2,886.7	2,795.3	2,930.3	2,948.6	3,147.9	2,958.3
Expenditure & net lending	2,425.5	2,332.0	2,740.0	2,166.3	2,439.8	2,267.1	2,725.9	2,510.1
Balance	275.6	377.6	146.7	629.0	490.5	681.5	422.0	448.2
Output								
GDP at constant 2010 prices (% change, year on year)	4.8	4.0	5.3	5.2	5.6	3.7	4.5	n/a
Wages & prices								
Average nominal wages (Lari per month)	1,071.1	1,069.1	1,140.9	1,059.2	1,103.5	1,125.5	1,202.0	n/a
Consumer prices (2010=100; av)	124.0	123.0	125.9	127.8	127.0	126.6	128.3	131.3
Consumer prices (% change, year on year)	6.6	5.9	6.7	3.3	2.4	2.9	1.9	2.7
Producer prices (2010=100; av)	134.2	136.4	143.7	145.8	144.5	144.5	149.6	151.2
Producer prices (% change, year on year)	10.2	11.9	12.2	6.8	7.7	5.9	4.1	3.7
Financial indicators								
Exchange rate Lari:US\$ (av)	2.42	2.42	2.59	2.48	2.45	2.53	2.68	2.67
Exchange rate Lari:US\$ (end-period)	2.41	2.47	2.61	2.44	2.46	2.61	2.67	2.68
Deposit rate (av; %)	9.5	9.8	9.7	8.8	8.8	9.0	8.8	8.6
Deposit rate (foreign currency; av; %)	2.7	2.9	2.6	2.6	2.5	2.6	2.5	2.6
Lending rate (av; %)	11.7	11.5	11.1	11.4	11.2	11.0	11.0	10.8
Lending rate (foreign currency; av; %)	8.1	8.4	8.1	8.6	8.4	8.1	8.0	7.6
Treasury-bill rate (av; %)	7.4	7.2	7.1	7.4	7.3	7.2	7.1	6.9
Reserve money (end-period; Lari m)	2,956.5	3,025.1	3,039.3	3,019.7	3,005.1	3,152.6	3,289.8	3,478.6
M1 (end-period; Lari bn)	5.3	5.5	6.0	5.4	5.7	6.1	6.6	6.5
M1 (% change, year on year)	15.4	12.6	17.3	10.0	7.9	12.1	9.3	20.5
M2 (end-period; Lari bn)	6.9	7.6	8.4	8.2	8.6	9.0	9.8	9.8
M2 (% change, year on year)	14.2	21.9	29.4	28.5	24.1	17.3	16.1	18.8
Foreign trade (US\$ m)								
Exports fob	662	707	789	732	860	855	908	826
Imports cif	-1,875	-2,034	-2,331	-2,078	-2,325	-2,290	-2,430	-1,995
Trade balance	-1,213	-1,327	-1,543	-1,346	-1,465	-1,435	-1,522	-1,169
Balance of payments (US\$ m)								
Merchandise trade balance fob-fob	-865.2	-982.2	-1,159.9	-988.2	-1,018.1	-993.5	-1,111.7	n/a
Services balance	480.5	848.1	370.2	390.1	561.8	934.5	358.0	n/a
Primary income balance	-249.4	-274.3	-123.3	-176.9	-258.0	-244.3	-64.4	n/a
Net transfer payments	289.6	269.8	323.2	333.5	337.7	303.5	314.1	n/a
Current-account balance	-344.5	-138.6	-589.8	-441.5	-376.6	0.2	-504.0	n/a
Reserves excl gold (end-period)	2,956	3,025	3,039	3,019	3,005	3,152	3,289	3,478

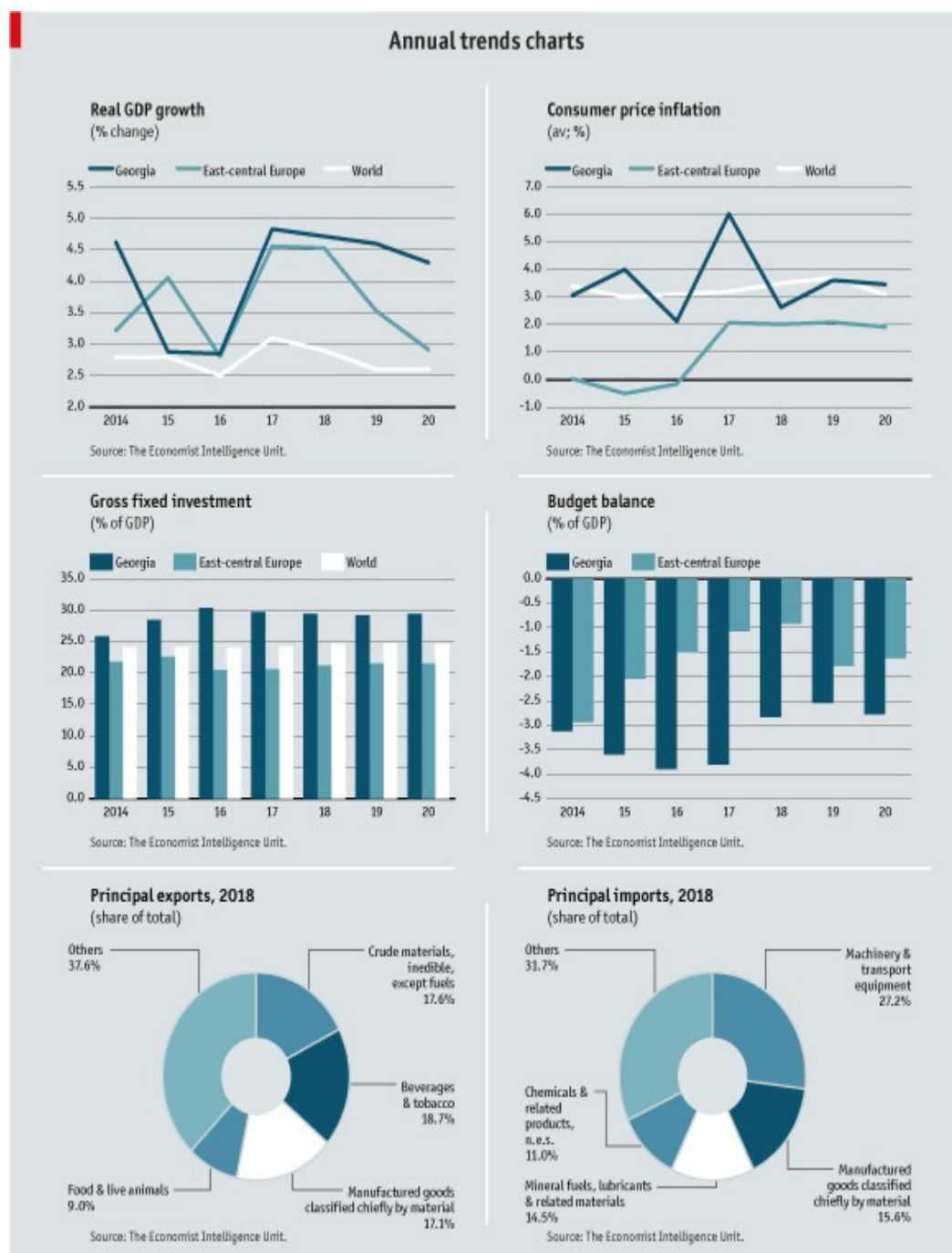
Sources: IMF, International Financial Statistics, National Bank of Georgia; Ministry of Finance; National Statistics Office.

Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate Lari:US\$ (av)												
2017	2.70	2.64	2.47	2.42	2.43	2.41	2.40	2.40	2.47	2.50	2.67	2.61
2018	2.55	2.46	2.44	2.43	2.45	2.46	2.45	2.53	2.61	2.66	2.70	2.67
2019	2.67	2.65	2.68	2.69	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Exchange rate Lari:US\$ (end-period)												
2017	2.70	2.64	2.47	2.42	2.43	2.41	2.40	2.40	2.47	2.50	2.67	2.61
2018	2.55	2.46	2.44	2.43	2.45	2.46	2.45	2.53	2.61	2.66	2.70	2.67
2019	2.67	2.65	2.68	2.69	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Real effective exchange rate (2000=100; CPI-based)												
2017	113.13	115.84	121.92	122.99	120.47	119.89	119.41	118.06	113.61	114.48	109.27	111.68
2018	112.84	115.26	115.93	117.86	119.70	120.18	121.73	123.76	120.86	116.32	114.29	115.55
2019	116.71	116.22	115.93	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Deposit rate (av; %)												
2017	9.72	9.81	9.33	9.16	9.53	9.67	9.47	9.84	10.11	9.68	10.15	9.35
2018	8.84	8.95	8.53	9.02	8.62	8.74	9.36	8.82	8.76	8.71	8.86	8.79
2019	8.61	8.80	8.48	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lending rate (av; %)												
2017	2.70	2.64	2.47	2.42	2.43	2.41	2.40	2.40	2.47	2.50	2.67	2.61
2018	2.55	2.46	2.44	2.43	2.45	2.46	2.45	2.53	2.61	2.66	2.70	2.67
2019	2.67	2.65	2.68	2.69	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (end-period; % change, year on year)												
2017	18.57	20.84	22.13	17.61	14.85	15.40	18.23	11.87	12.60	11.11	10.63	17.31
2018	11.79	9.13	10.00	9.47	10.64	7.88	3.89	11.68	12.12	10.99	7.75	9.32
2019	10.19	14.68	20.53	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (end-period; % change, year on year)												
2017	16.92	18.54	16.76	14.94	13.14	14.17	19.19	20.25	21.93	21.74	22.72	29.40
2018	26.89	26.12	28.52	26.38	27.59	24.07	19.47	18.65	17.34	15.92	14.00	16.14
2019	16.00	16.99	18.78	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2017	3.81	5.50	5.35	6.15	6.52	7.10	5.96	5.68	6.18	6.40	6.96	6.72
2018	4.33	2.73	2.82	2.50	2.50	2.18	2.85	3.18	2.75	2.33	1.90	1.57
2019	2.19	2.34	3.68	4.16	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Producer prices (av; % change, year on year)												
2017	9.83	9.64	9.08	9.03	9.48	12.26	10.67	11.58	13.43	13.26	14.86	8.78
2018	7.92	6.03	6.48	7.76	8.43	6.76	5.71	6.62	5.49	5.85	2.81	3.80
2019	2.38	3.29	5.40	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total exports fob (US\$ m)												
2017	176.9	179.9	221.2	211.6	215.3	235.6	212.6	236.3	257.6	263.3	236.9	288.3
2018	222.6	223.6	285.8	229.1	322.9	307.8	278.3	275.4	301.1	303.0	276.2	328.6
2019	238.8	266.3	321.0	307.4	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total imports fob (US\$ m)												
2017	495.1	589.4	617.5	594.3	637.1	644.0	642.1	703.6	688.3	731.2	761.3	838.8
2018	594.5	638.9	844.7	734.9	810.8	779.3	796.8	772.8	720.2	866.2	742.7	820.9
2019	593.2	647.7	754.4	731.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Trade balance fob-fob (US\$ m)												
2017	-318.2	-409.5	-396.3	-382.7	-421.8	-408.4	-429.5	-467.3	-430.7	-467.9	-524.4	-550.5
2018	-371.9	-415.3	-558.9	-505.8	-487.9	-471.5	-518.5	-497.4	-419.1	-563.2	-466.5	-492.3
2019	-354.4	-381.4	-433.4	-423.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (US\$ m)												
2017	2,797.0	2,781.1	2,830.9	2,745.7	2,825.9	2,956.3	2,938.1	2,914.9	3,024.9	2,945.1	2,998.8	3,038.8
2018	3,069.1	3,022.0	3,018.7	3,048.6	3,015.5	3,004.8	2,925.0	2,911.2	3,152.3	3,094.6	3,087.9	3,289.5
2019	3,405.2	3,496.7	3,478.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF, International Financial Statistics; Haver Analytics.

Annual trends charts



Monthly trends charts



Comparative economic indicators



Basic data

Land area

69,700 sq km

Population

3.9m (2017, UN data, includes Abkhazia and South Ossetia)

3.7m (2014 census, omits Abkhazia and South Ossetia)

Economy

Forecast updates

Food prices keep inflation above target

June 10, 2019: Inflation

Event

Consumer prices rose by 0.5% month on month in May, equivalent to year-on-year growth of 4.7%.

Analysis

The main drivers of inflation in May were food and non-alcoholic drink prices, which rose by 1.2% month on month—contributing just under 0.4 percentage points to the overall consumer price index (CPI)—and transport, which rose by 1.9% and added 0.2 percentage points to monthly inflation. The prices of almost all other goods and services were virtually unchanged between April and May.

Food costs and a rise in tobacco excise duties have led to pick-up in inflation from 2018, when prices rose by an average of just 2.6%. In May food prices were up by 7.9% year on year and tobacco prices rose by more than 44%. According to the National Bank of Georgia (NBG, the central bank) the excise increase contributed 1.3 percentage points to year-on-year inflation in May.

CPI growth is currently significantly more than the NBG's 3% target. However, the central bank believes that inflation will gradually move towards the target level once the effect of one-off exogenous factors has faded away. In the first quarter of 2019 the NBG concluded that external risks to inflation had softened and therefore cut its policy rate by 25 basis points at the end of January and in mid-March. At its most recent meeting, at the start of May, it kept its policy rate unchanged, at 6.5%. In the accompanying communique, the central bank noted that aggregate demand remains below potential, and a decline in year-on-year imports points to weakness in investment and household demand.

The latest inflation data support the NBG's view that underlying demand is relatively weak, as the cost of services and non-food goods was virtually unchanged between April and May. With inflation on target, the central bank believes that the neutral monetary policy rate is 5.5-6%. Given that headline inflation is currently substantially above this level, monetary policy is relatively loose. We therefore think that it is likely that the central bank will keep its policy rate unchanged at its next meeting, on June 12th, and will wait to cut interest rates further until the second half of 2019, when the effect of high food prices starts to subside.

Impact on the forecast

We currently forecast an annual inflation rate of 3.6% in 2019. We may revise this up in our next forecasting round given the higher than anticipated May figure.

Government extends deadline for Anaklia port

June 19, 2019: Policy trends

Event

On June 17th Mamuka Bakhtadze, the prime minister, announced that the deadline for the Anaklia Development Consortium (ADC) to raise funds for the construction of Anaklia port had been extended.

Analysis

The prime minister said that the ADC's deadline to raise funds for this infrastructure project on the Black Sea coast had been extended from the end of June to the end of 2019. Mr Bakhtadze also hinted that SSA Marine, a US operator of maritime terminals and rail yards, could be invited to run the facility in the future.

ADC's role in Anaklia, and the future of the project itself, was thrown into doubt in February, when the government announced money-laundering charges against Mamuka Khazaradze, the founder of Georgia's biggest bank, TBC, and a major shareholder of ADC. After a significant public and international outcry the charges, which many believed to be politically motivated, were dropped. Nevertheless, the future of Anaklia port remained uncertain, with ministers casting doubt on the consortium's ability to raise adequate funds for the multi-billion-dollar project and questioning whether deadlines had been met.

Mr Bakhtadze's statement will have reassured many in the business community, along with Georgia's Western allies, who have long supported ADC's involvement in Anaklia. However, funding for the port from international financial institutions remains contingent on the Georgian government's willingness to underwrite cargo volumes going through the port in its first phase of operations. Without such guarantees of cargo volumes, international lenders will not finance the project.

In its public statements the government remains committed to the Anaklia project. The port would be a huge Western investment in Georgia and would open up an east-west transport corridor that could compete with routes that pass through Russia and Turkey. However, the dropped money-laundering case against Mr Khazaradze, alongside the reluctance to come to an agreement over cargo volumes with the international financial institutions, means that some question marks remain over the project.

Impact on the forecast

Further vacillation from the government over Anaklia would be seen by some observers as both a hostile signal to Western investment and a setback for Western foreign policy in Georgia.

V Georgia's Human Rights situation

Georgia

The ruling Georgian Dream party rushed in 2017 to approve constitutional reforms to complete Georgia's evolution to a parliamentary system of governance, without securing broader political consensus. Lack of accountability persisted for abuses committed by law enforcement. Georgia maintained punitive criminal drug policies for drug users. Other areas of concern included privacy rights, labor rights, media freedom and the rights of lesbian, gay, bisexual, and transgender (LGBT) people.

Constitutional Reform

Opposition parties, the president, and nongovernmental organizations (NGOs) criticized the new constitution for postponing critical electoral reforms until 2024. The Venice Commission, the Council of Europe's advisory body on legal affairs, positively assessed the reform, but saw postponement of the move to a fully proportional electoral system as "highly regrettable" and "a major obstacle to reaching consensus." It welcomed the ruling party's commitment to amend the new constitution to alleviate the negative effects of postponing implementation of a fully proportional electoral system, including allowing party blocs and a one-time reduction of the election threshold to 3 percent in the 2020 elections.

Lack of Accountability for Police, Security Service Abuse

Georgia does not have an effective independent mechanism for investigating abuse by law enforcement officials. Investigations, if launched, often lead to charges that carry lesser, inappropriate sanctions, like abuse of office, and rarely result in convictions. Authorities often refuse to grant victim status to those who allege abuse, depriving them the opportunity to review investigation files.

Since November 2016, the Georgian Young Lawyers' Association (GYLA), a leading human rights group, received at least 20 allegations of torture and ill-treatment by police, and five

by prison staff. According to GYLA, authorities did not effectively investigate the allegations.

At the ombudsman's request, the prosecutor's office launched investigations into 63 cases of alleged torture and ill-treatment since 2014. The investigations did not lead to a single criminal prosecution.

In May, Azerbaijani journalist and political activist Afgan Mukhtarli vanished from central Tbilisi. Less than 24 hours later, he resurfaced in Azerbaijani border police custody, facing fabricated illegal border crossing and other charges. Mukhtarli, who lived in political exile in Georgia, alleged that several people wearing Georgian police uniforms and speaking Georgian stopped him near his house, put a bag over his head, pushed him into a car, beat him, and drove him away. Authorities promptly launched an investigation and denied security service involvement. Later, facing increasing international and domestic criticism, they suspended a number of counterintelligence and border police officials, pending the investigation's outcome.

Drug Policy

Although numbers have decreased in recent years, authorities continued to use harsh drug laws to criminally prosecute people who use drugs, while treatment options remain limited. In response to a 2015 Constitutional Court decision declaring imprisonment for marijuana possession unconstitutional, parliament amended legislation in July 2017 to remove imprisonment as a penalty for cannabis possession of up to 70 grams, but retained it as a felony for larger amounts. Drug-related felonies often result in disproportionately long sentences, prohibitive fines, and deprivation of other rights. Police compelled thousands of people to take drug tests, in some cases by detaining them for up to 12 hours.

In June, police arrested two rappers, Mikheil Mgaloblishvili and Giorgi Keburia, on charges of illegal purchase and possession of large quantities of illicit drugs. Mgaloblishvili and Keburia claimed that police planted the drugs in retaliation for their video mocking police. After a public outcry, authorities released both on bail and investigated their allegations of police misconduct. Both investigations were pending at time of writing.

Right to Privacy

In March, parliament adopted a new surveillance bill, establishing a new agency within the State Security Services to carry out surveillance operations. In 2016, the Constitutional Court ruled unconstitutional legislation that allowed state security services to have direct, unrestricted access to telecom operators' networks to monitor communications. The court found this system allowed mass collection of personal information in real time without effective oversight, and required independent oversight of mass surveillance. Several nongovernmental organizations, supported by the president and the ombudsman, filed a lawsuit against the new law, claiming that it does not guarantee the right to privacy, as the new agency is not sufficiently independent.

Sexual Orientation and Gender Identity

The new constitution defined marriage “as a union of a woman and a man,” entrenching the definition that had existed for years in the civil code. Rights groups feared that using the constitution to reinforce a barrier to same-sex marriage could feed widespread homophobia. The Venice Commission said the clause should not be interpreted “as prohibiting same-sex partnership” and urged Georgia to provide legal recognition of civil unions for same-sex couples.

In May, a small group of gay rights activists and supporters gathered in front of the main government building in Tbilisi to mark International Day Against Homophobia and Transphobia, amid heavy security presence. Police erected fences to block counter demonstrators, assembled activists at two locations beforehand, and escorted them to and from the area on municipal buses.

In August, unidentified persons in Batumi assaulted three transgender women and two activists with the LGBT rights group Equality Movement, inflicting bruises on activists Levan Berianidze and Tornike Kusiani. The assailants shouted homophobic slurs. Police standing nearby did nothing to stop the assailants.

Instead, they pushed Berianidze and Kusiani to the ground, kicked them, and took them to a police station, where police allegedly subjected them to verbal abuse. The next day, a court fined them for disorderly conduct and disobeying police. Rights groups and the

ombudsman demanded timely investigation into alleged police ill-treatment and the homophobic nature of the assault. Authorities launched an internal probe, which was pending at time of writing.

In July, the Constitutional Court declared unconstitutional the ban on gay and bisexual men donating blood.

Labor Rights

Every year dozens of workers die and hundreds suffer injuries as a result of occupational accidents. According to the ombudsman, 270 people died in the past five years because of unsafe working conditions, 18 of them in the first half of 2017. The ombudsman and NGOs criticized the Labour Inspection Department under the Ministry of Labour, Health, and Social Affairs, for having no executive authority to enforce standards, thus failing to introduce effective health and safety measures at the workplace. Investigations into workplace incidents rarely lead to accountability.

Media Freedom

The ownership dispute over Georgia's most-watched television broadcaster, Rustavi 2, now in its third year, continued in 2017 and raised concerns over ongoing government interference with media. In March, the Supreme Court ruled that the station's ownership should revert to Kibar Khalvashi, a businessman who owned it from 2004 to 2006, and who alleged he had been improperly forced to sell the station at below market value by then-president Mikheil Saakashvili. The court issued a unanimous decision the same day it examined the case, declining to allow the parties to make oral arguments. The European Court of Human Rights (ECtHR) ordered the Supreme Court decision suspended until further notice and instructed Georgian authorities to refrain from interfering in the station in the interim.

In February, the new leadership of the Public Broadcaster announced it would suspend several political talk shows, citing plans to upgrade the station's equipment and content. In June, it stopped airing two joint programs with Radio Free Europe/Radio Liberty. A regional TV station, Adjara TV, picked up both cancelled shows.

Key International Actors

A June European Parliament resolution condemned the abduction of Afgan Mukhtarli and urged Georgian authorities to ensure an effective investigation into his disappearance in Georgia and “illegal transfer to Azerbaijan,” and to bring the perpetrators to justice.

In its January resolution on media freedom in Europe, the Parliamentary Assembly of the Council of Europe highlighted concerns about the Rustavi 2 ownership dispute, and called on Georgia “to continue strengthening the independence and diversity of the public and private media.”

In March, following the Supreme Court ruling on Rustavi 2, the Organization for Security and Co-operation in Europe (OSCE) representative on media freedom called on the authorities to ensure media independence and pluralism.

Concluding observations on Georgia by the United Nations Committee on the Rights of the Child, issued in March, noted some progress, including the adoption of the Juvenile Justice Code, but expressed concern regarding, among other things, corporal punishment, sexual exploitation and abuse, and the rights of children with disabilities and of internally displaced children.

During his visit in August, US Vice President Mike Pence highlighted the ties that bring the two countries together, including “freedom, democracy, and the rule of law.”

In his September report to the Human Rights Council, the United Nations High Commissioner for Human Rights highlighted Georgia’s lack of an independent “framework” to investigate torture and ill-treatment, violations of the right to privacy, and media freedom. Despite lack of access to Georgia’s breakaway regions, the commissioner noted that some practices there “appear to amount to discriminatory patterns based on ethnic grounds.”

The International Criminal Court (ICC) continued its investigation into war crimes and crimes against humanity allegedly committed in the lead-up to, during, and after the August 2008 war between Russia and Georgia over South Ossetia.

VI Georgia's Foreign Policy

1. Relations with the EU

Georgia's Long-Term Prospects for Europeanization

Ana Andguladze
June, 2019



Introduction

The EU-Georgia Association Agreement with its Deep and Comprehensive Free Trade Area is an important step towards European integration but not the last one. Even though Georgia has a declared desire to join the European Union (EU), the latter exercises caution when it comes to providing official pre-requisites for accession. This has been especially visible against the background of the existing internal and external challenges faced by the EU. The latest enlargement of the EU took place in 2013, when Croatia joined the union as the twenty-eighth member. Following the Great Britain's exit, 27 countries will remain in the union and while since 2013 the EU's enlargement policy has been passive, soon this trend may change.

According to the strategy published by the European Commission¹, outlining the perspective of membership for the Western Balkans, next wave of enlargement may occur in 2025. From the candidate countries, Montenegro and Serbia are the closest to their desired goal and it is likely that they will join the EU during the next decade. Conversation about EU enlargement has become active, which is positive for Georgia, however one thing is clear – the Western Balkans are first in line for membership and besides, they already have what Georgia, Ukraine and Moldova don't – European perspective. However, this doesn't mean that on the path towards accession, parties shouldn't also consider other ways, with the aim of promoting the process of implementation of reforms in associated countries and maintaining public interest towards the EU.

While striving towards the end goal, it is interesting and important to consider the models of economic integration between the EU and its neighboring countries. More specifically, it is important to study the European Economic Area (EEA) and Customs Union experiences and to consider other prospects of regional economic

integration, including the possibility to create an economic area between Georgia, Moldova and Ukraine.

The European Economic Area

The European Economic Area (EEA) was founded in 1992 and it currently it brings together 28 EU member states and three members of the **European Free Trade Association (EFTA)**: Iceland, Norway and Liechtenstein. Switzerland, the fourth member of the European Free Trade Association founded in 1960, declined EEA membership and opted for bilateral agreements for integration with the EU. The purpose of the EFTA was to create a free trade area between its members. It was initially joined by Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom, later followed by Finland, Iceland and Liechtenstein. However, with the EU's enlargement, countries that joined the EU exited the Free Trade Association and when the European Economic Area was founded, only four members remained in the Association (Norway, Iceland, Liechtenstein and Switzerland). The European Economic Area foresaw deep integration with the European Union, beyond free trade. Initially, all four countries signed an agreement on the European Economic Area but following a referendum Switzerland refused to ratify the new agreement (1992). As a result Switzerland didn't join the new initiative and decided to only be a member of the European Free Trade Association. However, through many bilateral agreements Switzerland is significantly integrated with the EU and participates in the European Single Market.

The agreement on the European Economic Area allows non-member states to fully participate in the internal market of the European Union. It entails the four freedoms (the freedom of movement of goods, people, services and capital over borders) as well as competition and country assistance rules and different areas (research and education,

¹ European Commission, A credible enlargement perspective for and enhanced EU engagement with the Western Balkans, Strasbourg, 6 February, 2018

social policy, environmental protection, protection of consumer rights, tourism, culture, etc.). The EEA countries are part of the Schengen area.²

The agreement does not cover areas like Common Agriculture and Fisheries Policies, Customs Union, Common Trade Policy, Common Foreign and Security Policy, Justice and Home Affairs and Monetary Union,³ which means that the European Economic Area Agreement is different from the EU agreements.

Members of the European Free Trade Association and the European Economic Zone have independent trade policies. They make individual decisions about custom taxes and independently negotiate free trade agreements with third parties. At the same time, the four members of the EFTA often collectively engage in free trade agreement negotiations. Currently, EFTA has 27 agreements with nearly 38 countries,⁴ including Georgia.

Despite some independence, EEA members have to adopt majority of EU laws at the national level, since most of their legislation in corresponding areas needs to be harmonized with European legal acts. Since 1994, nearly 5 000 new legal acts have been incorporated in the Agreement on the European Economic Area, through amendments to its annexes and protocols. Unlike them Switzerland's agreements with the EU are static and not flexible, meaning that Switzerland adopts certain EU laws the way they were the moment a concrete agreement was signed. This means that unlike Norway, Liechtenstein and Iceland, Switzerland is not obligated to adopt amended legislative acts of the EU. The bilateral agreement between Switzerland and EU can be amended if needed, however systemic monitoring for compliance with EU *acquis* is not an obligation.

EEA countries (and Switzerland) can participate in EU programs and agencies, including Horizon 2020, Erasmus+, Galileo, creative Europe, Connecting Europe Facility, Health for Growth, Union Civil Protection Mechanism and more. They can

also participate in different agencies of the EU, including European Aviation Safety Agency, European Environment Agency, European Maritime Safety Agency and more.

Countries of the European Economic Area have stable and developed economy. They have one of the highest GDPs worldwide.⁵

Iceland, Norway and Liechtenstein make significant financial contributions to the EU budget. However, their role in the decision-making process in EU is minimum. They can participate in consultation about a new legal act and express their position but unlike the member states, they cannot participate in voting.

Institutional framework

The European Economic Area Agreement provides an institutional framework, similar to the EU institutional model but with less power. EEA members (Iceland, Norway, Liechtenstein) and Switzerland on the one hand and the EU on the other are represented in majority of the institutions, meaning that the EEA has a two pillar institutional arrangement.

Similar to the EU, the European Economic Area has its **Council** (the EEA Council), which acts as a political leader and consists of foreign ministers from each EFTA State and members of the Council of the European Communities and members of the EC Commission.⁶

The EEA **Joint Committee** plays an important role. Its primary function is to review new legal acts of the EU and make decisions about incorporating them in the EEA agreement. The Committee is comprised of the ambassadors of the EEA EFTA States and representatives of the European External Action Service. It serves as a forum for exchanging positions and opinions between the parties. The EEA **Joint Parliamentary**

2 See: <http://www.efta.int/eea/eea-agreement>

3 See: *ibid.*

4 See: <http://www.efta.int/free-trade>

5 World Bank, Gross domestic product 2016, World Development Indicators database, 15 December 2017. <https://databank.worldbank.org/data/download/GDP.pdf>

6 Agreement on the European Economic Area, Article 90, <http://www.efta.int/media/documents/legal-texts/eea/the-eea-agreement/Main%20Text%20of%20the%20Agreement/EEAagreement.pdf>

Committee is not directly involved in the decision making process but it conducts monitoring and adopts reports and resolutions. The EEA **Consultative Committee** has an advisory function and it consists of the European Free Trade Association Committee and the European Economic and Social Committee. The EFTA **Surveillance Authority** is somewhat similar to the European Commission. It determines compliance of national legislations with the European Economic Area Agreement. It is an independent body and its primary functions include protection of individual's rights as well as obligations provided in the EFTA Agreement. Disputes initiated by the Surveillance Authority are handled by the EFTA Court, mostly based on the ECtHR jurisprudence.⁷

Membership procedure

Under art.126 of the EEA Agreement, the Agreement applies to EU member states as well as Iceland, Liechtenstein and Norway, which means that it is impossible to be a member of the EEA without being a member of the EU or the European Free Trade Association.⁸

Under art.128 of the Agreement, “any European State becoming a member of EFTA may, apply to become a party to this Agreement. It shall address its application to the EEA Council”⁹, meaning that a state who is not a member of the EU must first join the European Free Trade Association and then apply to the EEA Council with a request for membership.

How can a country become a member of the EFTA? Under art.56 of the Association Convention, “Any State may accede to this Convention, provided that the Council decides to approve its accession, on such terms and conditions as may be set out in that decision”. Also, “Any State acceding to this Convention shall apply to become a party to the free trade agreements between the Member States on the one hand and third states,

unions of states or international organisations on the other.”¹⁰ The Council is the highest institutional body of the European Free Trade Association and it consists of all four members of the EFTA who are represented at ambassadorial and ministerial level during meetings. Decisions are made by consensus in the Council. The Council can decide on new accession conditions. A new member accepts obligations provided in the Association Convention and in particular, liberalization of trade between members of the association, which mostly entails abolition of tariffs and quotas, as well as “rules of origin”, etc. Further, a new member of the Association should make financial contributions to the Association budget.

The procedure for accessing the European Economic Area (EEA)

- 01 Applying for the European Free Trade Association membership
- 02 The EFTA Council considers request for membership and takes decision by consensus (Liechtenstein, Norway, Switzerland, Iceland)
- 03 If the request is granted by the Council, the country joins the EFTA
- 04 Applying for the European Economic Area membership
- 05 European Economic Area Council (EU member states + Liechtenstein, Norway and Iceland) considers request for membership and takes decision by consensus

⁷ See: <http://www.efta.int/eea/eea-institutions>

⁸ Agreement on the European Economic Area, Article 126.

⁹ See: *ibid*

¹⁰ <http://www.efta.int/sites/default/files/documents/legal-texts/efta-convention/Vaduz%20Convention%20Agreement.pdf>

After accessing the European Free Trade Association (EFTA), the state can apply for the European Economic Area (EEA) membership. Request for membership is considered by the EEA Council and decision is made by consensus. Under art.128 of the European Economic Area Agreement, terms and conditions for accession of applicant countries are subject of an agreement between the parties.

Even though technically it is possible to accept new members, the EEA enlargement has not taken place since the day it was founded. Prior to the vast enlargement of the European Union in 2003, Central and Eastern European Countries had an attempt to first join the EEA but unsuccessfully as the member states weren't very enthusiastic about this initiative¹¹. Ten countries of Central and Eastern Europe joined EU in 2004.

The European Economic Area (EEA) is the most ambitious and comprehensive model of integration with the EU. High level of preparedness of a potential candidate is required for joining the EEA. If Georgia becomes interested in this particular scenario of becoming EEA member, the EFTA and afterwards the EEA countries in accepting a new member will play a decisive role. To this end, in addition to active consultations with the EU as well as EFTA/EEA member states, steps made by Georgia for approximation with European standards will be crucial. The European Parliament adopted a resolution of 14 November 2018 on the implementation of the EU Association Agreement with Georgia, highlighting problems like high-level elite corruption, human rights protection, independence and transparency of the judiciary, etc.¹² The government should acknowledge the problems identified by the European Parliament in the resolution and actively start working on their solutions.

The Customs Union

The European Union Customs Union, the main support system of the European Single Market and the biggest trade bloc in the world, has been functioning since 1968.

The Customs Union and the Free Trade Area are quite different. By joining the Free Trade Area parties agree to eliminate trade barriers, while the agreement allows them to have independent trade policy and to determine external tariffs themselves. The Customs Union agreement is far more comprehensive as it provides not only for elimination of trade barriers but also for a single trade policy with third parties. EU determines a single external tariff for all members of the Customs Union. Unlike the Custom Union, in free trade customs control still exists between the countries.

Customs Union and Turkey

The following three countries are currently benefitting from the Customs Union agreements with the EU: Andorra, San Marino and Turkey, the latter being most important from political as well as economic perspective. Association Agreement between the EU and Turkey was signed as early as in 1963 and in 1995 the parties agreed to participate in the Customs Union. Turkey applied for EU membership in 1987 but the accession negotiations didn't begin until 2005.¹³ Motives for joining the Customs Union weren't purely economical but also political as it was another step forward on Turkey's pass to accession. According to the European Commission, joining the Customs Union had a positive impact on Turkey's economy. In 1996 – 2014, Turkey's export to the EU increased by 400 percent (from EUR 8.5 billion to EUR 42 billion).¹⁴

11 See: UK Parliament, Membership of the European Economic Area, <https://publications.parliament.uk/pa/ld201617/ldselect/lddeucom/72/7206.htm>

12 See: European Parliament resolution of 14 November 2018 on the implementation of the EU Association Agreement with Georgia. http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2F%2FEP%2F%2FNONSGML+TA+P8-TA-2018-0457+0+DOC+PD-F+V0%2F%2FEN&fbclid=IwAR1_wdaJRH32bH8uiXZoSGbvzjWNAsQi6F_CkKx5c9afjLkMb_Zf5had3k

13 See: https://ec.europa.eu/neighbourhood-enlargement/countries/detailed-country-information/turkey_en

14 See: BKP Development Research & Consulting in consortium with Panteia and AESA, Study of the EU-Turkey Bilateral Preferential Trade Framework, Including the Customs Union, and an Assessment of Its Possible Enhancement, 2016, http://trade.ec.europa.eu/doclib/docs/2017/january/tradoc_155240.pdf

The Customs Union between Turkey and EU covers only industrial goods and it does not address services, public procurement or agriculture (except processed agricultural products).¹⁵ In addition to the Customs Union agreement, Turkey and EU have several other bilateral agreements concerning trade in agricultural products, coal and steel products.

The Customs Union foresees providing a common external tariff for the products covered and it also obligates Turkey to bring its national legislation in compliance with EU laws and regulations in different areas. Turkey is also obligated to change its trade and tariff policy in consideration of a new trade agreement concluded by the EU with the third party, however it cannot participate in decision-making process about these issues. When EU signs a new Free Trade Agreement with a third party, Turkey must provide the party with the same privileges, whether it agrees with them or not. For instance, South Korea has a Free Trade Agreement with EU but not with Turkey, which means that South Korean products can be exported to Turkey from the EU and not vice-versa. Additionally, Turkey didn't participate in negotiations between EU and the U.S. on the Transatlantic Trade and Investment Partnership (TTIP), which clearly disadvantages Turkey.

Another disadvantage of the Customs Union is that unlike the European Economic Area, it doesn't not foresee mobilization of workforce, which is so attractive for Turkey and any other interested country.

Notably, in 2016 the Commission proposed to revise and update the Customs Union agreement with Turkey, which will likely extend the bilateral trade relations to areas such as services, public procurement and sustainable development.¹⁶

Future Perspectives for Georgia

Free Trade Area Agreement (FTA) is a lower step of integration than what European Economic (EEA) Area offers to its members. This is primarily due to the fact that it aims to ensure access to other member's markets while the European Economic Area foresees high level of integration in a number of areas. However, the Association Agreement between the EU and Georgia with its Deep and Comprehensive Free Trade Area (AA/DCFTA) foresees considerable approximation of Georgian legislation with EU laws and therefore, it has a potential to serve as a basis for Georgia's accession to European Economic Area. Indeed, even though the Association Agreement and the European Economic Area Agreement are two inherently different agreements, they share important similarities.

Following full implementation of AA/DCFTA, Georgia will enjoy a high level of access to the market of EU, close to the European Economic Area privileges in terms of free trade of goods, however it will not cover free movement of people. Unlike the EEA, disputes are primarily settled based on WTO practice rather than the practice of the European Court of Justice.¹⁷ In the case of Georgia, Ukraine and Moldova, following full implementation of AA/DCFTA, these countries will meet the technical standards of EU regarding industrial goods and agricultural products. The DCFTA also foresees fulfillment of sanitary and phytosanitary regulations.

Both the EEA Agreement and the Association Agreement foresee participation in different EU programs, including Horizon 2020, Erasmus+, etc. Notably, Georgia is already actively involved in these programs and in other programs as well.

The Association Agreement does not obligate Georgia to become a financial contributor of the EU budget (except for participation in some

¹⁵ See: <http://ec.europa.eu/trade/policy/countries-and-regions/countries/turkey/>

¹⁶ See: *ibid.*

¹⁷ See: European Parliament, An Assessment of the Economic Impact of Brexit on the EU27, March, 2017, [http://www.europarl.europa.eu/RegData/etudes/STUD/2017/595374/IPOL_STU\(2017\)595374_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2017/595374/IPOL_STU(2017)595374_EN.pdf)

agencies and programs). Further, unlike the EEA Agreement, the Association Agreement does not foresee regular incorporation of new legislative acts of EU in the national legislation. In that sense, it is similar to the bilateral agreements concluded with Switzerland. The Association Agreement is static and it is not subject to new or updated legislative acts of EU. Every year the EU adopts thousands of new regulations or directives and updates existing ones, and after the Joint EEA Committee examines these acts and decides to incorporate them in the national legislation of member states, Iceland, Liechtenstein and Norway become obligated to ensure their implementation. This requires strong administrative and political system.

As to the EU Customs Union, the example of Turkey clearly demonstrates that its membership has both advantages and important disadvantages. In case of Turkey, the Association Agreement was followed by the CU agreement. Last year, President of Ukraine Petro Poroshenko proposed joining the Customs Union.¹⁸ Ukraine's intention to join the EU Customs Union is an important

political statement, which has to do with seeking the next step in Ukraine-EU relations. This is accompanied by a report prepared by the European Parliament, which provides recommendations for future development of Eastern Partnership. The report underlines the importance of creating an Eastern Partnership Plus (EaP+) model for associated countries with the possibility to join the customs, energy and digital union.¹⁹ Irrespective of how serious the EU is about this initiative, one thing is clear – in Ukraine's case due to the shared land border, joining the Customs Union will reduce bureaucratic procedures and related costs, unlike the case of Georgia that doesn't share a land border with the EU.

As noted earlier, unlike the Customs Union, the Free Trade Area doesn't foresee adoption of common external tariffs. It also doesn't limit its members from pursuing independent trade policy. As a result of series of reforms carried out by Georgia in the areas of tariff policy and technical regulation, currently Georgia has one of the most liberal foreign trade policies in the world. The reform simplified customs procedures, introduced

Different models of integration with the EU	Agreement on Deep and Comprehensive Free Trade Area (DCFTA)	EU Customs Union	European Economic Area (EEA)
Abolition of trade barriers	✓	✓	✓
Introducing common external tariffs		✓	
Pursuing common trade policy		✓	
The four freedoms (including workforce movement)			✓
Participation in EU programs	✓	✓	✓

18 See: Ukraine intends to join Customs Union with EU, <https://www.unian.info/politics/2027046-ukraine-intends-to-join-customs-union-with-eu-poroshenko.html>

19 See: European Parliament, MEPs want deeper EU ties with Ukraine, Georgia and Moldova, press release, <http://www.europarl.europa.eu/news/en/headlines/world/20171030STO87111/meps-want-deeper-eu-ties-with-ukraine-georgia-and-moldova>

low import tariffs and minimum non-tariff regulation.²⁰ Today Georgia enjoys free trade regime with the EU, CIS countries, Turkey, China and the European Free Trade Association (EFTA). An agreement with the EFTA was signed in 2016. Further, free trade agreement negotiations are ongoing with India. Clearly, as of today joining the Customs Union is not a favorable option for Georgia.

Joining the European Economic Area would be a more logical and ambitious step for Georgia. Unlike the customs Union, in an event of joining the EEA, Georgia will keep its independent trade and tariff policy. It will also benefit from the four freedoms and will be fully involved in the internal market of the EU. After joining the EEA, Georgia will reach the highest step of integration with the EU, with EU accession remaining as the last step.

However, as noted earlier, the EEA membership requires significant political, administrative and economic preparedness from the potential candidate. Iceland, Norway and Liechtenstein have one of the highest GDPs per capita and therefore, being a member of the EEA with these countries is in the interest of the EU. In addition, Iceland, Norway and Liechtenstein are constantly obligated to ensure compliance of their national legislations with EU laws but they don't have any influence over the decision-making process in the EU, which is an important obstacle.

Taking membership of the European Economic Area by Georgia and other associated countries under serious consideration will have the same political significance as perspective of joining the EU. Moreover, involving Georgia in the ambitious integration model will be a direct declaration that the country is ready to join the EU. However, since EU accession is the end goal for Georgia, EEA should be considered as an important and ambitious step towards this goal and not the alternative.

Other regional models of economic integration

In the context of seeking next steps for the associated countries, it is interesting to consider models of regional economic integration in the Central and Eastern Europe.

In 1992, Poland, then- Czechoslovakia and Hungary created the **Central European Free Trade Area (CEFTA)**, later joined by other countries of the Central Europe. Overtime CEFTA become a sort of "preparatory" stage for candidate countries that aspired to join the EU. Countries like Poland, Hungary, Bulgaria, Romania, Croatia and others left CEFTA after joining the EU. Currently CEFTA brings together the following seven states: Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Moldova, Montenegro and Serbia. All of them with the exception of one country have prospects of joining the EU. Albania, Macedonia, Montenegro and Serbia already have the status of candidate countries. Moldova is the only exception, it is connected to the EU with the Association Agreement and its Deep and Comprehensive Free Trade Area component.

In the process of searching for the next steps, membership of Ukraine and Georgia in the Central European Free Trade Area (CEFTA) can be one of the stages of approximation with the EU.²¹ Clearly, this will have a political meaning and it will underline that associated countries have same ambitions as the candidate countries that will sooner or later become EU members.

Joining the CEFTA will be a political step for Georgia, in order for it to be seen in the same group as candidate countries. However, it is important to study the possible impact of CEFTA membership on Georgia's trade and economy.

The New Global Strategy adopted by the EU in 2016 mentions the possibility of **creating an economic area between the associated countries**,²²

20 See: <http://www.economy.ge/?page=ecopolitic&s=12>

21 See: Anders Aslund, Gunther Fehlinger, Euobserver, "Ukraine should join central Europe trade club", 29.09.2017 <https://euobserver.com/opinion/139205>

22 EU Global Strategy.

however the EU has not paid sufficient attention to this idea, it hasn't examined the idea and specified what it means exactly. To create similar area, Georgia, Ukraine and Moldova should use the existing models of regional economic integration. Visegrad experience with respect to creating a free trade area of Central Europe is worthy of consideration. It is also interesting to consider the experience of EEA and EFTA, especially in view of the fact that EEA is a superior model of integration compared to the Free Trade Area. Despite the fact that all three associated countries have similar agreement with the EU and therefore, their legislation is gradually becoming similar, they aren't important trade partners for one another. For instance, in 2016 the share of Ukraine in Georgia's external trade turnover was only 5.2%.²³

While striving to join the EU, it is important for Georgia, Moldova and Ukraine to strengthen partnerships with one another, especially in trade and economic areas. Creating a common economic area between the three countries with participation of the EU can have a fundamental importance in the process of EU membership as such initiative will first of all promote development in the region.

Within the Eastern Partnership, meetings with associated countries in different format and promotion of their cooperation by the EU with the aim of successful implementation of the Association Agreement would be a step forward in this area. However, this format should not be meant for only sharing experience and discussion, instead it should also promote closer economic ties between the countries.

Recommendations

- Creating a new high-level dialogue between Georgia and EU led by the Head of the Government on Georgia's end and by the President of the European Commission on EU's end is commendable. This format should not be symbolic only and the Government of Georgia should actively use it for creating new initiatives that will further Georgia's integration with the EU and advance the EU accession process;
- The Government of Georgia should pay a particular attention to problems and criticism provided in the report of the European Parliament, dated 14 November 2018, including problems in certain areas (elite corruption, judicial independence) as well as comments about implementation of the Association Agreement (stronger involvement of the Prime Minister and the Minister of Foreign Affairs, need for qualified officials);
- It is important to consider the prospects of joining the European Economic Area (EEA), not as an alternative of EU membership but as means for getting closer to the goal of EU membership;
- In this context, it should be considered that if prospects of EEA accession become real, Georgia should join it after becoming the EU membership candidate, in order to receive the same type of financial support that candidate countries do;
- With respect to the prospects of creating an economic area between associated countries, it is important to examine and analyze the example of Norway, Liechtenstein and Iceland;
- With respect to creating an economic area between the associated countries and determining its format, it is important for Georgia to play an active role and take on leadership. Georgia has been recognized as a leading country among the Eastern partners and this role should be maintained, solidified and used to acquire the status of a leading state in this and other initia-
- The Government of Georgia should examine existing and prospective models of economic integration with the EU;

²³ The National Statistics Office of Georgia, Foreign Trade of Georgia, 2016 http://www.geostat.ge/cms/site_images/_files/georgian/bop/External%20Merchandise%20Trade%202015_publication%202016-18.pdf

tives for approximation with the EU;

- In consideration of the CEFTA experience, it is important to analyze the prospects of joining the association. Experience shows that the trade area is sort of a “waiting room” for countries that aspire to join the EU. Therefore, participation in CEFTA may have a positive impact on Georgia’s strive towards European perspective.

- The proposal of the European Parliament to join the Customs Union is not favorable for Georgia, especially considering that so far the EU has been reluctant to give European perspective to associated countries;

- The Government of Georgia should develop a strategic vision on joining the EU. In this regard, the initiative put forward by the Government of Georgia in May 2018 concerning development of a roadmap for integration in the EU is clearly of positive importance. In addition to successful implementation of the Association Agreement, it is also important to use existing formats of cooperation or to create new ones. For instance, harmonization with EU laws in the areas of digital markets and energy is an important step on Georgia’s path towards European integration. This should be reflected in the roadmap for EU integration currently developed by the Government.

Georgia: European engagement in an unstable environment

SUMMARY

Georgia is one of the European Union's advanced partners in the Eastern Partnership region. Following the Rose Revolution of 2003, the Georgian government implemented radical reforms to promote democratisation, step up the fight against corruption and liberalise the economy. However, the government's top-down approach, the 2008 war with Russia and the global economic crisis of 2009 propelled the opposition coalition, Georgian Dream, to electoral victory in 2012 and once again in 2016. The fact that, once ousted from power, the ruling party – United National Movement – did not disband but went into opposition is exceptional in the context of the Eastern Partnership countries and a sign of democratic consolidation. Since 2012, Georgian Dream has largely adhered to its policy of seeking closer links with the EU and carrying out reforms, albeit at a slower pace. Nevertheless, the government has been criticised for politicising the judiciary, especially when dealing with the opposition.

Since the war between them in 2008, Georgia and Russia have had few contacts with each other at international level; nevertheless, the situation has improved in economic terms, not least because of the Georgian Dream coalition's pragmatic orientation towards Russia. However, the latter still supports the two separatist regions of Abkhazia and South Ossetia and there is no improvement in this regard. In 2014, Georgia and the EU signed an association agreement, and Georgians are expected to soon be able to travel visa-free to the EU.



Tbilisi, Georgia.

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Political situation: stabilisation of the political landscape

Peaceful transition after the Rose Revolution

Following the [Rose Revolution](#) of 2003, Georgian political life grew very lively, but also more and more in line with what characterises an advanced democracy: respect for human rights, empowerment of political parties and freedom of the press. While numerous [reforms](#) were implemented in the field of economic liberalisation, democratic accountability and modernisation, President Mikheil Saakashvili's United National Movement privileged a top-down approach to the reform process and efficiency over public ownership. [According](#) to EU Special Adviser on Constitutional and Legal Reform and Human Rights in Georgia, Thomas Hammarberg, the control exercised by the ruling party, United National Movement (UNM), over the central and local government and the parliament, tended to blur the distinction between party and State, and triggered accusations of corruption. In [2007](#), huge anti-government rallies led to the declaration of a state of emergency by the government, which later drew international criticism about the authoritarian way in which it had handled the situation. In [2012](#), an opposition party, Georgian Dream, won the parliamentary elections. Its founder, Bidzina Ivanishvili, became prime minister and the following year his coalition won the presidential elections as well, with Giorgi Margvelashvili replacing Mikheil Saakashvili.

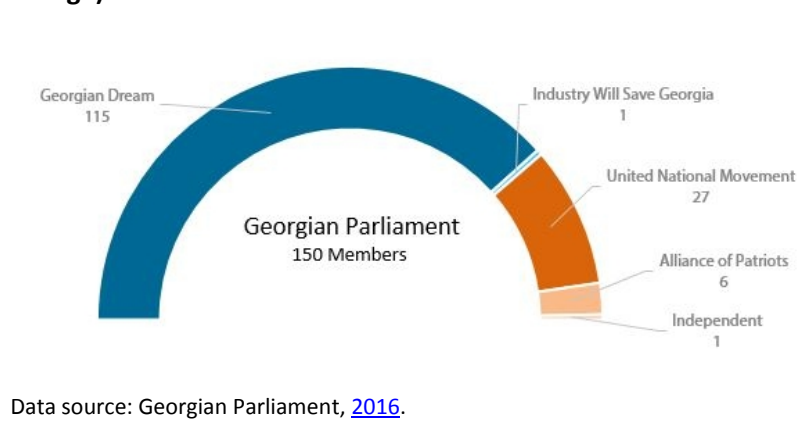
The Rose Revolution

During the presidential elections of 2003, international observation missions such as the OSCE/ODIHR [denounced](#) the instances of electoral fraud they had witnessed. Following a massive public demonstration, incumbent President Eduard Shevardnadze stepped down and his seat was taken by opposition leader, Mikheil Saakashvili.

Continuity under Georgian Dream

Contrary to some expectations based on Bidzina Ivanishvili's business [links](#) with Russia, his government did not fundamentally alter the European–Atlantic course of its predecessor. Even after Ivanishvili stepped down from his post following the 2013 presidential elections and was replaced by Irakli Garibashvili, no dramatic change occurred in the country's general pro-Western orientation. Following the general elections of [October 2016](#), Georgian Dream secured itself a [constitutional majority](#) (115 out of 150 seats, Figure 1), while the United National Movement only got 27 seats. The new government plans to [amend](#) the constitution in order to limit the president's power and have him elected by the parliament.

Figure 1 – Composition of the Georgian Parliament elected in 2016 (the majority and allies are shown in blue and the opposition in orange).

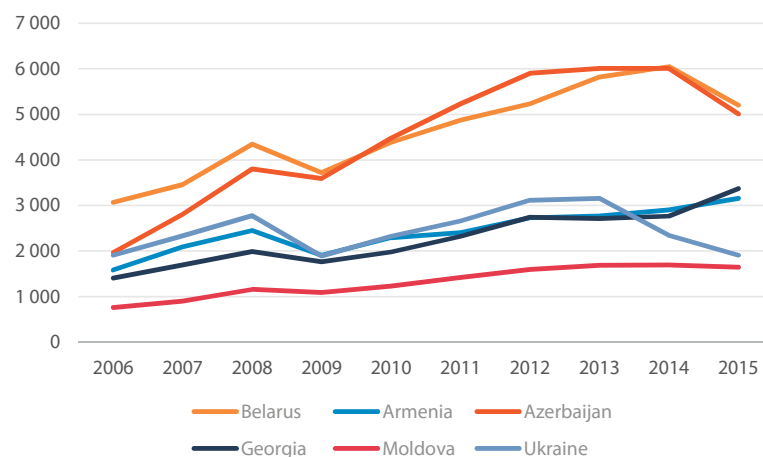


Deepened democracy and the state of the opposition

The transition to a mature democracy involves, among other things, shifting away from the procedural aspect of institutions and focusing on their democratic habitus instead, and avoiding the overuse of powers. Georgia started this transition in 2012, when, following the elections, the Mikheil Saakashvili-led ruling UNM acknowledged its defeat to Georgian Dream and remained on the political scene as an opposition party, for the first time in the history of the Eastern Neighbourhood. This smooth transition was [praised](#) by the European Parliament as an example for the region.

Even though Georgian Dream maintained its predecessor's commitment to reforms and its pro-Western course, it nevertheless accused the UNM of crimes, and put a number of former key government officials in [prison](#). Exiled to Ukraine and [deprived](#) of his Georgian citizenship, former President Saakashvili cannot return to the country for fear of arrest. Politicisation of the judicial system has been pointed out by the EU as one

Figure 2 – GDP per capita in the Eastern Neighbourhood countries, 2006-2015



Data source: [Eurostat](#), 2016.

of the main challenges to be addressed by the government. Concerns about the independence of the media have also been [raised](#) over the attempts of the ruling party to take control of the Rustavi2 opposition TV channel. In other fields, Georgian Dream has continued enacting the reforms launched by the UNM, albeit at a lower speed. For instance, it created a Constitutional State Commission and increased the powers of the parliament. The ruling party also introduced [reforms](#) in sectors that Saakashvili had been criticised for not handling satisfactorily (internal affairs, healthcare). During the first Georgian Dream term, media freedom improved (the country rose from 94th position in 2004 to 64th in 2016 in the Reporters Without Borders [Index](#)), non-governmental organisations obtained greater freedom and police violence decreased. Moreover, the European Commission's [2015](#) report on the implementation of the European Neighbourhood policy in Georgia noted that the process of nominating judges had improved, constitutional reform had made progress and there had been some welcome changes regarding the Prosecutor's Office. The maximum length of administrative detention was reduced from 90 to 15 days and there were fewer complaints by Georgian citizens registered by the European Court of Human Rights. Nevertheless, the EU has been [critical](#) on the issue of respect for the rights of the political opposition in the country.

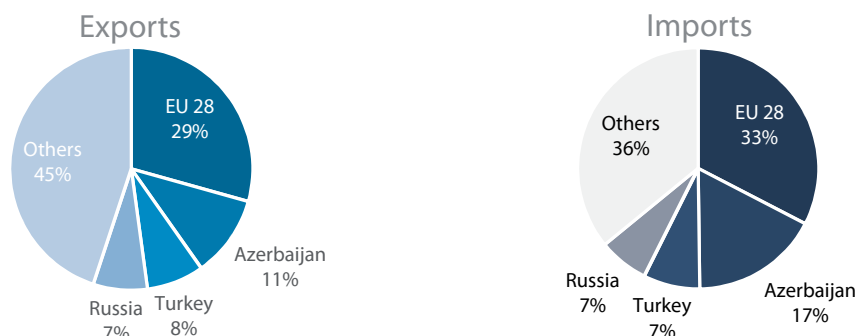
A very open economy

2003–2012: a period of liberalisation

Following the Rose Revolution, the Georgian government developed a broad programme of reforms. In fact, after the completion of what was a comprehensive liberalisation programme, Georgia's post-Soviet economy moved on to become one of the world's most liberal economies, boasting lower taxes and more effective tax collection, deregulation, investment-oriented reforms and privatisation. For example, in the World

Bank's Ease of Doing Business Index, Georgia ranked 100th out of 155 in [2006](#) and 16th in [2017](#). In the same ranking, Armenia ranks 38th in 2017 and Azerbaijan 65th). Georgia's per capita GDP rose steadily between 2006 and 2015, (as shown in Figure 2), moving from fifth to third position in less than 10 years.

Figure 3 – Georgia's main economic partners in 2015

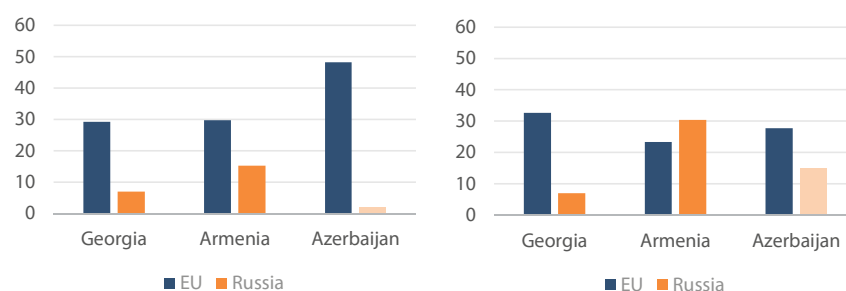


Data source: [World Trade Organization](#), 2016

Georgia is a very [rare](#) case of early (2006) and almost total liberalisation of international trade with the Commonwealth of Independent States (CIS), Turkey and the EU. Today, 84 % of Georgian goods are free of custom duties and the country applies one of the world's lowest World Trade Organization (WTO) most-favoured nation tariff rates, of around 1.5 %. This liberal turn, undertaken by President Saakashvili's administration, enabled solid growth of imports and foreign direct investments. At present, Georgia is negotiating a free trade agreement with China, which may allow it to become a base for Chinese investments in the EU market. Georgian Dream partially continued its predecessor's liberal fiscal policies embedded in the [Economic Liberty Act](#) of 2011. Conceived as an initiative under President Saakashvili in 2009, this act requires that tax increases (other than for excise duties) be approved by a referendum. It furthermore aligns Georgian economic parameters to the Maastricht criteria, capping the budget deficit at 3 % and public debt at 60 %.

WTO [data](#) show that the EU is Georgia's main trading partner, accounting for 29.3 % of the country's exports and 32.6 % of its imports in 2015 (see Figure 3). This trend sets Georgia apart from other South Caucasus countries, for which Russia is also an important trade partner (see Figure 4). This is especially true for Armenia, which is a member of the Russia-founded Eurasian Economic Union.

Figure 4 – EU and Russian percentage share in Georgian, Armenian and Azerbaijani exports (left) and imports (right) in 2015



Data source: [World Bank](#) (2016) for Georgia and Armenia in 2015; [MIT](#) (2015) for Azerbaijan in 2014.

Since 2012: fewer reforms and greater attention to social needs

After its 2012 victory, Georgian Dream [declared](#) it would focus more on those in need. Indeed, even though the reforms of the Saakashvili era brought impressive economic [growth](#) (11 % in 2003, 12 % in 2007, 7.2 % in 2011), not all Georgians benefited from them. The country was hit especially hard by the consequences of the 2008 Russia- Georgia war and the 2009 international financial crisis. [Unemployment](#), even though lower than in 2005, when it stood at 13.8 %, remained high during the period: 12 % in 2015 (compared to 8.5 % in the [EU-28](#) in 2016), despite [emigration](#) remaining high (4.9 million people in 1993; 3.6 million in 2015). Georgian authorities [admit](#) that there is a shortage of quality data in this field and even though the year-to-year variation of net [flows](#) is substantial,¹ emigration remains a [concern](#). While Russia tops the list of emigration destinations, many Georgians are eager to travel to and settle in the EU. In 2014 alone, EU embassies in Georgia [granted](#) a total of 87 000, mostly single-entry, visas to Georgian citizens. Later in 2017, the EU is set to grant Georgia a visa-free regime.

Over the last [couple of years](#), the Georgian government has boosted social spending drastically in a bid to shift its focus away from international issues and relations with Russia to the needs of citizens. As a result, the national debt has gone up, due to the government's inability to collect extra amounts of tax under the Economic Liberty Act. However, its continual efforts to fight corruption in the economic sector have contributed to an improved perception of the situation, duly reflected in the Transparency International Corruption Perception [Index](#) for 2015, where Georgia ranked 48th, compared to 124th in 2003. One key reform in this field has been the introduction of an e-procurement system, praised by the [World Bank](#) and the [European Parliament](#).

Key events in Georgia's recent history

1991: independence from the Soviet Union
 1995: Shevardnadze wins presidential elections
 2000: Shevardnadze re-elected as president
 2003: Rose revolution. United National Movement wins parliamentary elections
 2004: Saakashvili elected president
 2008: Saakashvili re-elected president
 2008: Russia-Georgia war
 2012: Georgian Dream wins parliamentary elections
 2013: Margvelashvili elected as president
 2014: signing of association agreement with the EU
 2016: Georgian Dream wins parliamentary elections

Frozen conflicts at the centre of the internal/international dilemma

Following Georgia's independence in 1991, two regions in its territory – Abkhazia and South Ossetia, which enjoyed autonomy under the Soviet constitution – [cast off](#) Tbilisi's control through a series of bloody clashes. CIS peacekeepers patrolled their borders from the mid-1990s until the war in 2008. In August 2008, the Georgian government tried to regain control over them, prompting Russia to intervene. However, effective diplomacy on the part of the EU helped end the conflict, and led to the signing of a ceasefire in August 2008. Since then, the Russian government has [recognised](#) the independence of the two breakaway regions and installed military bases there.

Georgian Dream and Russia

After 2012, Georgian Dream tried to improve both its relationship with Russia and the two regions. It adopted a less confrontational rhetoric and business relations, including a direct flight between the two countries, resumed. On the political level, after severing direct diplomatic ties in 2008, Georgia and Russia have not restored them, and the

Geneva process has produced [limited](#) results. Despite opposition claims that Georgian Dream would lean toward Russia, the government has kept an explicit Western and European orientation, leading to the signing of an [association agreement](#) and a deep and comprehensive free trade area (DCFTA) with the EU in 2014. A majority of respondents in a [poll](#) from spring 2016 expressed support for this policy, and for their country's NATO (68%) and EU membership (77 %).

Map 1: Conflicts in the Southern Caucasus



Source: EPRS, 2016.

EU-Georgia: a model of advanced relations

In June 2014, the EU and Georgia signed an [association agreement](#), which entered fully into force two years later. This agreement, which includes a DCFTA, forms the basis of the EU-Georgia relationship. On 18 July 2014, Georgia signed a [memorandum of understanding](#) with the head of the EU delegation and the heads of the EU Member State embassies in Georgia, fixing the priorities for EU-Georgia cooperation for the 2014-2017 period. Cooperation is focussed on reforms in the public administration and justice sectors, as well as on agriculture and rural development, with complementary support being planned for capacity development in support of EU-Georgia agreements, as well as for civil society. This multifaceted cooperation also extends to visas, market access, the EU's contribution to conflict settlement in Georgia and Georgia's participation in EU external missions in Africa.

At present, the EU is [funding](#) more than 100 projects in Georgia in a number of sectors. The EU's global assistance to the country amounts to over €100 million a year, dispensed through grants and contracts, but also increasingly through budget support. Such support has recently been provided for reforming the criminal justice system (€25 million between 2012 and 2016) and for regional development.

Visa-free regime and DCFTA

In 2015, the EU Member States issued 87 000 visas to Georgian citizens. Keeping in mind the absence of a land border between the EU and Georgia, and the latter's [per capita GDP](#) (11 % of the EU average per capita GDP in 2015), this speaks clearly of a strong interest among Georgians in travelling to the EU. After a long process of reviewing the resilience of Georgian institutions, the EU decided to grant Georgians a visa-free regime for short trips. EU-Georgia [visa facilitation](#) and [readmission agreements](#) are operational since

2011. In June 2012, the European Commission and the Georgian government launched the [EU-Georgia visa liberalisation dialogue](#), and a year later the [visa liberalisation action plan](#). This latter set benchmarks for the adaptation of the legislative, policy and institutional framework (phase 1) and for ensuring its effective and sustainable implementation (phase 2). In the various progress reports, the Commission noted the Georgian authorities' commitment to reforms, and eventually recommended in March 2016 to [lift](#) visa obligations for Georgian citizens. The file had been blocked in the Council of the EU pending the outcome of the parallel negotiations with the Commission and the Parliament on an [emergency suspension mechanism](#) in case of non-respect of engagements by a country enjoying a visa-free regime. On 2 February 2017, the Parliament [voted to lift](#) visa obligations for Georgian citizens, following a trilogue agreement with the Council. The latter is expected shortly to complete the adoption of this measure.

The EU also provided Georgia with extended access to its market through the DCFTA concluded in 2014. In the first six months of the DCFTA, Georgian exports to the EU [rose](#) by 12 % while EU exports to Georgia remained stable.

European participation in peace-building efforts in Georgia

The EU-Georgia partnership has been very active in recent years. For instance, the EU [sent](#) 200 monitors to the border with Abkhazia and South Ossetia through the [EU Monitoring Mission](#) (EUMM). In December 2016, the mission's mandate was [extended](#) for a further two years. The relationship with Tbilisi of the two separatist regions recognised by Russia remains difficult, and 270 000 [refugees](#) are still waiting to return home. They receive [assistance](#) from the Georgian government in the form of temporary housing and financial support. The EU supports NGOs working with Georgian internally displaced persons to provide qualification and work placement services.

Georgia is the main [contributor](#) to the EU peace-making mission in Mali, with 150 soldiers. This first Georgian military participation outside Europe is a sign of Tbilisi's commitment to EU foreign policy and a recognition of the EU's involvement in the country, including through EUMM.

The European Parliament and Georgia

In January 2016, the European Parliament adopted a [resolution](#) on association agreements / deep and comprehensive free trade areas with Georgia, Moldova and Ukraine, in which it voiced its recognition for the three countries' European aspirations and the role of association agreements in the promotion of reforms. The EP recalled its support for maintaining Georgia's territorial integrity. It praised Georgia's progress in reforming its administration, but also called for respect of media pluralism, reform of the judicial system and implementation of the Venice Commission recommendations about ensuring the independence of Constitutional Court judges.

Main references

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Babayan, Nelli, *Democratic Transformation and Obstruction. The EU, US, and Russia in the South Caucasus*, Routledge, New York, 2015.

Falkowski, Maciej, [Georgian Drift, the Crisis of Georgia's Way Westwards](#), Centre for Eastern Studies, 2016.

Endnote

¹ The Georgian Migration Commission points out that the variation in population net flows since 2002 can be attributed to changes in the methodology of GeoStat, the Georgian statistical agency.

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<http://epthinktank.eu> (blog)






VII Practical Information

1. Must see in Tibilisi

2. Practical Information

1. Must see in Tbilisi

	<p><i>Georgian National Museum</i></p> <p>Maps the development of Georgia's material culture from the Bronze Age to the early 20th century. The Treasury holds a stunning collection of intricate jewellery and artefacts wrought in gold and silver, dating back thousands of years. Other exhibits include some of the oldest human remains discovered outside Africa, the Homo Ergaster fossils found at Dmanisi. There is also a section dedicated to life during the Soviet Occupation.</p>
	<p><i>Narikala Fortress</i></p> <p>Also called the Mother Fortress of Tbilisi, Narikala is an ancient symbol of Tbilisi's defence. The fortress was established in the 4th century, around the period when the city itself was founded. It was then known as Shuris-tsikhe (Invidious Fort). The name Narikala is said to derive from a Persian word for citadel, but another theory says was the name that Mongols used, meaning "little fortress". It was expanded considerably by the Arabs during the 7th and 8th centuries. The Arabs built the Emir's palace within its walls. King David further extended the Builder the fortress in th 11th century. Most of the existing fortifications date from the 16th and 17th centuries. In 1827 it was damaged by an earthquake and was not resorted. St. Nikolos church, inside the fortress walls, dates from the 12th century. It was renovated in 1996. Narikala offers you some of the best panoramas of the city.</p>
	<p><i>Sulphur Baths</i></p> <p>The sulphur baths are intimately connected with Tbilisi. It is said that the hot springs are why the city was built here. High in sulphurs and other minerals, with a constant temperature of 38C to 40C, the waters have long been used as a therapeutic aid for a range of ailments including skin conditions and arthritis.</p> <p>Naturally fed public sulphur baths have been essential part of life in Tbilisi for centuries. Citizens would spend their leisure time relaxing here, even giving formal dinner-parties in the baths. The local match-makers could sometimes be bribed to allow illicit glimpses of naked bodies.</p> <p>Located on Abano (bath) Street the underground public bath houses in use today are characterised from the outside by their rows of low cupola. The oldest is Erekle's Bath, whilst the most externally ornate is 'Chreli Abano' with its towering facade of decorated tiles.</p>

	<p>Old Town</p> <p>Sitting at the foot of the imposing hill capped by the Narikala Fortress and climbing the slopes is Tbilisi Old Town, a labyrinth of narrow streets where wooden balconies look down from old brick-build homes. Doorways lead to hidden courtyards an ancient vines climb to the skies using anything vertical for support. Parts have been comprehensively renovated, arguably a little too enthusiastically, so that some streets look like a Disney film set, though far more of these twisting alleys are untouched. They are ramshackle, cracked and crumbling but delightful, enchanting, picturesque and real. The style is a mix of two influences, the tight winding streets of an Asian or Arabic town interwoven with European, classical Russian and Art Nouveau architecture. The northern edge is the recently renovated Abanotubani area, famous for its Sulphur Baths and Meidani square with its many restaurants. Old Town's main artery is Kote Abkhazi Street (formerly Leselidze) which connect Meidani with Freedom Square. In the North East corner, between Leselidze and the river, is Chardeni, a small area backed with bars restaurants, nightclubs and cafes, shoulder to shoulder along a series of pedestrian streets. To the west, Old Town melts into Sololaki area, a lovely and fascinating place to wander around, take photographs and explore Tbilisi.</p>
	<p>Tbilisi State Opera</p> <p>Tbilisi's Opera House has a history spanning more than 160 years. Named after famous Georgian composer and founder of modern Georgian music, Zakaria Paliashvili, the project was initiated by the Russian Tsar's viceroy to the Caucasus - Mikhail Vorontsov. Supposedly, the initiative to build the opera house was seen as an attempt to soothe unrest in Georgia in 1832, and give credit to the cultural policies of the Russian Empire in the eyes of the restive Georgian aristocracy. French writer Alexandre Dumas visited Tbilis in 1858 - 7 years after the completion of the Opera House - and wrote in his book, "Caucasus", that he had "never seen any hall more spectacular than the one of Tbilisi Opera House in my entire life." Throughout its history, the Opera House has sustained two raging fires, one in 1874 and a second in 1973. After six years of renovation works, the Tbilisi Opera House opened yet again in January of 2016, and hosted a performance of "Abesalom and Eteri" - one of Zakaria Paliashvili's most famous traditional opera scores. Step inside to be transported into a world long gone, but make sure to call ahead before going.</p>



Peace Bridge

The newest bridge in Tbilisi, opened in 2010 is made of steel and glass, it is pedestrian so called Peace Bridge. Nowadays one of the controversial symbols of "modern" Tbilisi.



9th April and Giorgi Leonidze Parks

One of the oldest parks in Tbilisi and famous for its old plane and pine trees. Its upper area is named after the events of 1989 when an anti-Soviet demonstration was dispersed by the Soviet Army, resulting in 20 deaths and hundreds of injuries. The Lower part, across Tabukashvili street is named Giorgi Leonidze Park.



Freedom Square

Is the heart and centre of the city and the ideal place to get your bearings. Many hotels and hostels are close by as well as a lot of banks and offices. There is a Tourist Information right next to the bus stop. Freedom Square also marks one end of the Old Town. There're construction works at the moment on one edge of the square which makes the area less pleasant than usual. The golden statue of Saint George on top of a pillar in the centre of the square was erected after the Rose Revolution in 2005.



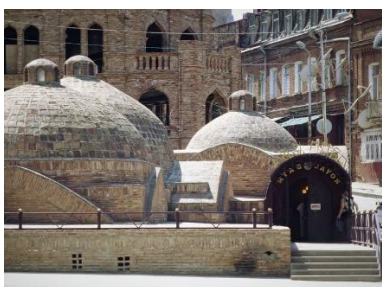
Museum of Fine Arts

Once a seminary where Joseph Stalin studied for the priesthood from 1894 to 1898 until he was expelled for revolutionary activities, now home to a collection of fine art. It contains works dating from the Middle Ages by a number of different artists, as well as historical pieces thousands of years old. Its Treasury section contains is many of Georgia's most sacred and revered objects including icons, crosses and jewellery in precious metals and stones. The Treasury can only be visited with a guide.



Tbilisi History Museum

Located in a restored caravanserai as a way of representing the city's historic role as a significant trading centre on the Silk Road, the museums's collection of over fifty thousand artefacts includes ceramics, weapons, musical instruments, coins, textiles and household items dating from the Bronze Age.



Royal Bath House

One of the best bathhouses in Tbilisi. New, clean and well-designed with good service, it can often get busy. Best to book in advance, especially if you want a room with a sauna. The bath offers five rooms with prices ranging from 65 to 95 Lari. The biggest room is for five-six people.



Davit Gareja

Davit Gareja lies on the border with Azerbaijan but is a viable day trip from Tbilisi. The site comprising a complex of old monasteries spread over a large area. It is a remote, semi-desert landscape of rolling hills and grassland which is covered with flowers in early summer. The two most important monasteries are Lavra (the only one still inhabited today), and, on the hill above it, Udabno, with its beautiful frescoes. Lavra was the first monastery, founded in the 6th century by Davit Gareja, one of the 13 ascetic Syrian fathers who came to Georgia to spread Christianity. The hike to the top of the hill above the monastery is quite steep, but the views are well worth it. The sight of an eagle soaring above might also reward your efforts.



Gori and Uplistsikhe

Less than 80km west from Tbilisi is the city where Stalin was born. There is a museum to its most famous son, which has many interesting exhibits chronicling his life. Rather worryingly, there is virtually no mention of any of his crimes against humanity. The Museum of Stalin has tours conducted by English speaking guides. There is a fortress on the hill, first built in the 13th century, but subsequently extended and altered by the Georgian kings Rostom of Kartli in the 1630s and Erekle II in 1774. During the 2008 South Ossetian War Gori came under aerial attack by the Russian Air Force. Both military targets and residential districts of the city were hit, resulting in civilian injuries and deaths. Around 20 minutes drive from Gori is the ancient city of Uplistsikhe. It is a fascinating and beautiful city with homes, civil buildings and temples hewn from the rock.

2. Practical Information

2.1 Hotel

Holiday Inn Tbilisi

1, 0171 Twentysix May Square,
T'bilisi,
Georgia
Tel: +995 32 230 00 99

2.2 Transports

Metro

The efficient Tbilisi metro operates from 6am to midnight, and the two lines reach most important parts of the city, meeting at Sadguris Moedani station. Signage and announcements are in English as well as Georgian.

Bus & Marshrutka

Yellow city buses and marshrutky provide an above-ground complement to the metro. Electronic boards at most bus stops list the destinations of approaching buses in English as well as Georgian. Buses only stop at predetermined stops, but you can get on and off marshrutky anywhere along their route. To get the driver to stop, shout 'Gaacheret!' ('Stop!').

Metromoney Cards

Metromoney cards, sold for 2 GEL at metro-station ticket offices, are essential for riding the metro, and also good for Tbilisi city buses and marshrutky (minibuses). You tap the card on a reader when you enter the metro or when you board buses and marshrutky. Fares are 0.50 GEL per metro or bus ride and 0.80 GEL for marshrutky. You can also pay with cash on buses (exact fare only) and marshrutky. Further metro or bus rides within 1½ hours of tapping in are not charged.

You can put credit on the card with cash at metro-station ticket offices or in ubiquitous orange Express Pay machines, which have easy-to-follow instructions in English.

2.3 Telephone

International country code: +995

2.4 List of useful contacts

FMA Secretariat

Office JAN 2 Q 73

European Parliament

B-1047 Brussels

Tel: +322.284.07.03 Fax: +332.284.09.89

E-mail: formermembers@europarl.europa.eu

Elisabetta FONCK

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Embassy of the Netherlands in Tbilisi Ambassador: Maaïke van Koldam Pixelcenter 34 Ilia Chavchavadze Avenue Visitors entrance Didim Mirtskhulava Street 0179 Tbilisi Phone: +995322276200 Email: tbi@minbuza.nl Website: https://www.netherlandsandyou.nl/your-country-and-the-netherlands/georgia/about-us/embassy-in-tbilisi	Embassy of Poland in Tbilisi Ambassador: Mariusz Maszkiewicz Oniashvili 24, 0160 Tbilisi (Saburtalo) Tel.: (00-9955-32) 292 03 98 E-mail: tbilisi.amb.sekretariat@msz.gov.pl Website: https://www.msz.gov.pl/en/p/tbilisi_ge_a_en/embassy/office_hours/
Embassy of France in Tbilisi Ambassador: Diégo Colas 49, rue Krtsanissi 0114 Tbilissi Tél. (+995 32) 2 72 14 90 Website: https://ge.ambafrance.org/	Embassy of the Greece in Tbilisi Ambassador: Dimitrios Karabalis Tabidze 37d, 0179 Tbilisi Telephone: (00995322) 914970-74 E-mail: gremb.tbi@mfa.gr Web-Site: https://www.mfa.gr/georgia
Consulate of Ireland in Tbilisi Honorary Consul of Ireland: Mr Jeffrey Carden Kent, 48 Mirza Shafi Street, Tbilisi, Georgia 0105 Telephone: + 995 322 147791 Email: hc@irl.ge	Embassy of Germany in Tbilisi Ambassador: Hubert Knirsch Dawit Aghmaschenebeli Boulevard 166 Tiflis, 0112 Website: https://tiflis.diplo.de/
Embassy of Sweden in Tbilisi Ambassador: Ulrik Tideström 15 Kipshidze street 0162 Tbilisi Telephone: +995322224890 E-mail: ambassaden.tbilisi@gov.se Website: https://www.swedenabroad.se/en/embassies/georgia-tbilisi/	Embassy of United Kingdom in Tbilisi Ambassador: Justin McKenzie Smith 51 Krtsanisi Street 0114 Tbilisi Telephone +995 (32) 227 47 47 E-mail: British.Embassy.Tbilisi@fco.gov.uk Website: https://www.gov.uk/world/organisations/british-embassy-tbilisi

2.5 Climate

The climate in Tbilisi is warm and temperate. Tbilisi is a city with a significant rainfall. Even in the driest month there is a lot of rain. The average annual temperature is 13.3 °C in Tbilisi. About 510 mm of precipitation falls annually.

During the FMA visit to Georgia, the temperatures will be around 20 - 22 degrees maximum and 12-7 degrees minimum.

2.6 Electric power supply

Voltage: 220 Volts

Frequency: 50 Hz

Power sockets: Type C and F

2.7 Local Time

Georgia Standard Time is 4 hours ahead of Greenwich Mean Time (GMT+4).

2.8 Money

Georgian LARI is the official currency of Georgia.

1 EUR = 3.2692 GEL

According to the currency ranking most popular exchange rate is GEL to USD rate.

Lari is the only legal means of payment on the entire territory of Georgia.

In Tbilisi and other cities, hotels, markets, restaurants and points of sales accept payment in cash or by debit and credit cards. Please, keep your cash with you in the country-side, where there might be no banking services and ATMs. Moreover, keep in mind that taxis never accept cards.

2.9 Emergency Numbers

This is the emergency number in Tbilisi is : 112

