

## Market Outlook Georgia

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## INTRODUCTION

Georgia is located in the Caucasus region and borders the Black Sea from the west, Russia from north, Turkey and Armenia from the south and Azerbaijan from the southeast. The strategic location at the crossroads between Europe and Asia makes Georgia a natural logistics and transit hub along the New Silk Road. At the same time, Georgia functions as the vertical North-South transportation link.

The country has a total area of **69 700 km<sup>2</sup>** and a total coastline of **310 km**. Georgia is the **18th** smallest country in Asia and ranked **122nd** in the world. More than half of all residents (**60%**) live within cities. Almost every third resident lives in Tbilisi.

Georgia lies at an average elevation of **1432 m** above sea level and is one of the highest countries in the world. In the east Georgia's landscape is largely semidesert. The Caucasian Mountains, with **5000 m** high summits, lay in the western part of the country.

Georgia is situated in a moderate climate zone. Depending on the season, the average daytime temperatures range between 10 and 31 degrees. The subtropical climate near the Black Sea coast nourishes citrus groves and tea plantations.

Georgia's natural resources are forests and hydropower as well as copper, gold, and manganese. There are minor deposits of coal and oil. Numerous rivers are used to generate hydroelectric power.

## KEY FIGURES

- Population: **3,7 million** (2022)
- GDP, current **\$24,6 billion** (2022)
- GDP per capita, current **\$6,671** (2022)
- Real GDP growth, **10,1 %** (2022)
- Life Expectancy at birth: years **72.8** (2022)<sup>1</sup>
- Capital: Tbilisi (population **1,1 million**)
- Other cities: Kutaisi, Rustavi, Batumi, Sokhumi, Gori, Poti, Zugdidi, Telavi
- Official language: Georgian
- Area: **69 700 km<sup>2</sup>**
- National Currency: Lari (GEL)
- Religion: Orthodoxes **83,9 %**

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<sup>1</sup> <https://www.worldbank.org/en/country/georgia/overview>

- Border countries: Armenia **164** km, Azerbaijan **322** km, Russia **723** km, Turkey **252** km

## ECONOMY

Georgia's main economic activities are cultivation of agricultural products (grapes, citrus fruits, hazelnuts); mining of manganese, copper, and gold; producing alcoholic and nonalcoholic beverages, metals, machinery, chemicals in small-scale industries. The country has significant hydropower capacity that provides most of its electricity needs.

The Georgian economy is supported by six flat tax rates, preferential free trade agreements, and developed transport infrastructure. Georgia has improved its role as a transit country by modernizing its transport infrastructure, simplifying border clearance procedures and provision of services in many key sectors.

Georgia has made much progress during the past decade. As a result of effective economic management, GNI per capita increased from **\$3 048** in 2010 to **\$4 608** in 2021.<sup>2</sup>

The Georgian economy grew in 2022 at around **10%**. According to an update of the **Asian Development Outlook 2022**, annual economic publication of **Asian Development Bank**, Georgia's real GDP growth is projected to be **6,0%** in 2023. According to the update, services increased by **15,3%** following gains in accommodation, food services, trade, transport, and real estate. Industry expanded by **18,0%** led by manufacturing and utilities, while agriculture grew by **2,3%**.<sup>3</sup>

The average inflation rate in 2022 was **11,9**.<sup>4</sup> Inflation in Georgia already peaked in May 2022 and has been declining. The country's long-term inflation target is **3%**.

The economy is steadily growing, but external shocks, such as international sanctions related to the Russian invasion of Ukraine and the COVID-19 pandemic had a negative impact on Georgia's economy. Weak productivity, limited high-quality job creation, poor learning outcomes and lack of skills also create a barrier to private sector growth. High dollarization and dependence on external savings increase the risks connected with foreign exchange depreciation.

About 20% of Georgia's territory (Abkhazia and South Ossetia) is under Russian occupation.

## INTERNATIONAL TRADE OF GEORGIA

### Free trade agreements (FTA)

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<sup>2</sup> <https://www.worldbank.org/en/country/georgia/overview>

<sup>3</sup> <https://www.adb.org/sites/default/files/publication/825166/ado2022-update.pdf>

<sup>4</sup> [https://www.economy.ge/uploads/files/2017/ek\\_politika/2023/economic\\_outlook/economic\\_outlook\\_of\\_georgia\\_11\\_04\\_23.pdf](https://www.economy.ge/uploads/files/2017/ek_politika/2023/economic_outlook/economic_outlook_of_georgia_11_04_23.pdf)

Located between Europe and Asia on a historical “Silk Road”, the economy of Georgia is highly integrated with international markets.

In June 2014, Georgia signed an **Association Agreement and Deep and Comprehensive Free Trade Area** (DCFTA) with the **European Union**. Through reduced tariffs and the removal of technical barriers to entry of exports to the EU, the DCFTA gives many Georgian products access to over 500 million people in the EU. Reciprocally, products from the EU have easier access to the Georgian market. The government is in the process of approximating EU legal and regulatory standards to allow for future access of additional products. The application for EU candidacy was initiated in 2022.

Additionally, on 27th of June 2016 Georgia signed Free Trade Agreement with **EFTA countries**, giving Georgian products duty-free access to markets of **Iceland, Liechtenstein, Norway and Switzerland**.

Georgia has also free trade agreements with the **Republic of China** (including Hong Kong) and **CIS** countries. General Schemes of Preference for Georgia with the **US, Canada, and Japan** have also been applied for, with the result being lower tariffs on 3400 goods exported from Georgia. It is expected to sign the free trade agreement with the **United Arab Emirates** (UAE) in the first half of 2023.

### International organizations

Georgia is a member of the **World Trade Organization** (WTO) since 2000. The country is also a member of the United Nations, the Council of Europe, the Organization of the Black Sea Economic Cooperation, the Organization for Security and Cooperation in Europe, the Community of Democratic Choice, the GUAM Organization for Democracy and Economic Development, and the Asian Development Bank.

### Export & Import

2022 external trade figures indicate a significant growth in exports by **31,8%**, and a **34,5%** in imports.<sup>5</sup>

Georgia’s main **export** partners include the EU (**15,4%**), China (**13,2%**), Azerbaijan (**12%**), Russia (**11,7%**), Armenia (**10,5%**) Turkey (**7,6%**). Exports to Armenia, the EU, Kazakhstan, Azerbaijan, Peru (mostly fertilizer exports), China, Turkey, and the United States contributed the most export growth in 2022. The export of the following products increased significantly in 2022: nitrogen fertilizers, light automobiles, copper ores and concentrates, electricity, pharmaceuticals, mineral and carbonated waters, and natural grape wines. Wine is the country’s fourth-largest export.

Georgia’s main sources of **imported** goods were the EU (**22,9%**), Turkey (**18,1%**), Russia (**10,1%**), China (**8,6%**), the United States (**6,3%**), and Azerbaijan (**5,9 %**). Georgia’s main imports are petroleum products

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<sup>5</sup> [https://www.economy.ge/uploads/files/2017/ek\\_politika/2023/economic\\_outlook/economic\\_outlook\\_of\\_georgia\\_11\\_04\\_23.pdf](https://www.economy.ge/uploads/files/2017/ek_politika/2023/economic_outlook/economic_outlook_of_georgia_11_04_23.pdf)

and natural gas, automobiles, medicines, tobacco products, and wheat. Most consumer goods are imported. The country imports nearly all of its needed supplies of natural gas and oil products.

**FINLAND-GEORGIA TRADE**

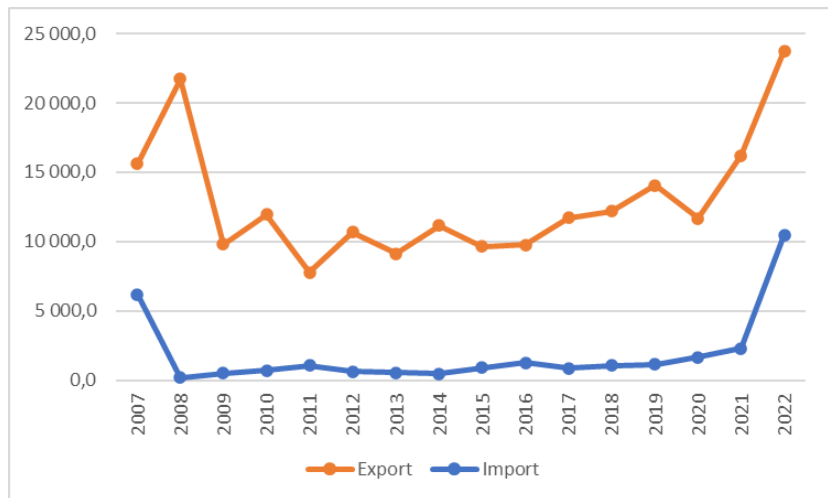
During the last 26 years the exports of Finland to Georgia have increased at an annualized rate of **12,4%** and the imports from Georgia to Finland have increased at an annualized rate of **11,1%**.<sup>6</sup>

According to the Finnish Customs, Finland’s export to Georgia was **€23,7 million (+46,6%)** and import from Georgia was **€10,4 million (+349,5%)** in 2022.

The main products that Finland exported to Georgia in 2022 were electronic equipment, machinery, dairy products (butter), eggs, honey, fertilizers, vehicles (other than railway, tramway). The main products that Georgia exported to Finland were salt, sulphur, earth, stone, plaster, lime and cement; beverages (wine); textile articles (Knit T-shirts).<sup>7</sup>

**Finland-Georgia Trade (2007-2022, 1000 €)<sup>8</sup>**

Year	Import	Export
2007	6 188,0	15 612,3
2008	215,4	21 734,7
2009	523	9 824
2010	711	11 947
2011	1 071	7 801
2012	630	10 687
2013	562	9 122
2014	491	11 157
2015	909	9 652
2016	1 281	9 763
2017	879	11 714
2018	1 067	12 195
2019	1 172	14 047
2020	1 693	11 692
2021	2 331	16 193
2022	10 479	23 746



Diplomatic relations between Finland and Georgia were established on 8 July 1992. There is a representative of Embassy of Georgia in Helsinki (Mr. Tornike Nozadze is Counsellor, Chargé d'Affaires).

<sup>6</sup> <https://oec.world/en/profile/bilateral-country/fin/partner/geo>

<sup>7</sup> <https://tradingeconomics.com/georgia/imports/finland> and <https://tradingeconomics.com/finland/imports/georgia>

<sup>8</sup> <https://tulli.fi/en/statistics/country-statistics>

Kirsti Narinen is Roving Ambassador of Finland for the South Caucasus (Armenia, Azerbaijan, Georgia). There is also Honorary Consulate of Finland in Tbilisi.

## FOREIGN DIRECT INVESTMENTS (FDI)

In order to attract foreign investment, Georgia is building up infrastructure, strengthening support for entrepreneurship, simplifying regulations, and improving professional education.

FDI structure has a significant level of diversification with financial, real estate, and water supply sectors leading the list. In 2022, FDI inflows increased by **61,1%** compared to the previous year and reached **\$2 billion, 8,1%** of GDP. The EU's share in FDI amounted in **43%**.<sup>9</sup>

Georgia has signed **Bilateral Investment Treaties** with **33** countries and has been a member of the ICSID Convention since 1992. Integration with the international community has helped the country attract foreign-owned businesses that have made significant contributions to the growth of the Georgia economy. According to the National Statistics Office, FDI inflows accounted for more than **\$1,3 billion** in the two years prior to the pandemic, with the economy of Georgia rebounding in 2021 at close to **\$1,2 billion**.

## INTERNATIONAL RANKINGS / SOVEREIGN CREDIT RATING / OUTLOOK

Georgia's economic reforms are reflected in its rankings by reputable international organizations:

- **35th** in the 2023 Economic Freedom Index of the Heritage Foundation (the score has declined over the past year)<sup>10</sup>
- the least corrupt country in the region and ranks **41st** out of 180 countries in the world according to the Corruption Perception Index of Transparency International<sup>11</sup>
- **No. 7** in the World Bank's most recent "Ease of Doing Business Index" (2020)<sup>12</sup>
- According to World Bank Group, Georgia Ranks as the **3rd** Least Tax Burdened Country in the World, with **9,9%** Total Tax Rate<sup>13</sup>
- According to the OECD FDI Regulatory Restrictiveness Index Georgia ranked **8th** among more than 80 countries as one of the most open economies in the world in terms of attracting investments<sup>14</sup>

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<sup>9</sup> [https://www.economy.ge/uploads/files/2017/ek\\_politika/2023/economic\\_outlook/economic\\_outlook\\_of\\_georgia\\_11\\_04\\_23.pdf](https://www.economy.ge/uploads/files/2017/ek_politika/2023/economic_outlook/economic_outlook_of_georgia_11_04_23.pdf)

<sup>10</sup> <https://www.heritage.org/index/country/georgia>

<sup>11</sup> <https://www.transparency.org/en/countries/georgia>

<sup>12</sup> <https://openknowledge.worldbank.org/entities/publication/130bd2f3-f4b5-5b77-8680-01e6d6a87222>

<sup>13</sup> <https://data.worldbank.org/indicator/LC.TAX.TOTL.CP.ZS?locations=GE>

<sup>14</sup> <https://data.oecd.org/fdi/fdi-restrictiveness.htm>

- According to Fitch and S&P Georgia maintains a BB sovereign credit rating grade (Fitch improved Georgia's outlook from stable to positive at the beginning of 2023) and according to Moody's – Ba2

## WORLD BANK PROJECTS

- The World Bank continues to support Georgia's aim to become a regional transit hub through the **East-West Highway Corridor Improvement Project** co-financing and the relatively new **Kakheti Connectivity Improvement Project** (\$109 million).
- The proposed **Enhancing Energy Security through Power Interconnection and Renewable Energy Project** would support the Government in developing one of the world's longest and deepest undersea power and digital cables across the Black Sea, which would improve power trade and international data traffic flows between Europe and Asia via the South Caucasus.
- Georgia's digital transition has been supported through the **Log-In Georgia Project**, which will connect up to 500,000 people in over 1,000 villages in the mountainous and remote regions to high-speed broadband internet, giving access to digital financial services, e-commerce, e-government services, remote learning, and telemedicine.
- Approved in March 2022, the **\$400 million Human Capital Program** is the largest cross-sectoral investment ever extended to Georgia by the World Bank. The World Bank supports human capital development in Georgia through one other ongoing program - the **Innovation, Inclusion, and Quality Project** (I2Q), which aims to help Georgia narrow the skills gap between learning outcomes and labor market expectations.

## WORKFORCE IN GEORGIA

Georgia offers young, multi-lingual and well-educated workforce. Around **60%** of Georgia's youth, and more than **45%** of the overall population, are fluent in English. Up to **70%** of the population speak Russian, and German is the **3rd** most frequently spoken foreign language in Georgia with about **10%**.<sup>15</sup>

The total workforce is **1,5** million people and **55%** of the workforce is **44** years old or younger. According to ILO, labor productivity growth is forecasted at **5,8%**. The average monthly gross salary in 2021 was **\$420**. The unemployment rate is **17,3%** (2022).<sup>16</sup>

The Georgian labor code gives flexible conditions for employment. All ILO core conventions are ratified by Georgia. There is no minimum wage. Compensation for labor is based only on an agreement between employer and employee. The regulations on work hours are flexible and the non-salary cost of hiring a

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<sup>15</sup> <https://investingorgia.org/en/why-invest/skilled-workforce>

<sup>16</sup> [https://www.economy.ge/uploads/files/2017/ek\\_politika/2023/economic\\_outlook/economic\\_outlook\\_of\\_georgia\\_11\\_04\\_23.pdf](https://www.economy.ge/uploads/files/2017/ek_politika/2023/economic_outlook/economic_outlook_of_georgia_11_04_23.pdf)

worker is moderate. The only taxes payable based on a salary are the Personal Income Tax (flat **20%**) and pension contribution **2%** (2% paid by Employer, 2% paid by Employee, 2% by Government).

In addition, working permits are not required in Georgia and citizens of **98** countries can stay in the country without visa for 1 year, this helps attract professional employees from other countries.

There are **62** higher educational institutions and **66** professional education centers, which ensure constant flow of high-quality professionals. The government promotes vocational education and has aided the creation of many Vocational Education Institutions. To support the development of talent pool, the government finances most of the course's fees.

## INFRASTRUCTURE

The country is the part of Trans Caspian International Transport Route, which starts from Southeast Asia and China, runs through Kazakhstan, the Caspian Sea, Azerbaijan, Georgia and further to European countries. Georgia's oil and gas pipelines, Black Sea ports, airports, railway and road system are playing a significant role in linking Europe and Asia.

The Government is realizing ambitious strategic projects to improve the country's **transport, digital and energy infrastructure** and make better use of the country's transit potential. **Transmission lines, gas and water pipelines** and **broadband internet** are available in almost any part of the country.

**The telecommunications sector** remains one of the fastest growing areas of the Georgian economy, accounting for between **5%** and **7%** of GDP. LTE services now cover the vast majority of the population. The regulator has a strategy to introduce 5G with spectrum considered in line with European guidelines.

### Pipelines

Three pipelines currently exist:

The **Baku-Supsa** pipeline runs 833 km (375 km in Georgia) and transports "early oil" from the Caspian Sea region operated by the Azerbaijan International Operating Company.

The **Baku-Tbilisi-Ceyhan** oil pipeline: the length is 1768 km with 249 km in Georgia. Oil flow through the pipeline exceeds **3,4** billion barrels in 14 years. The pipeline mainly carries ACG crude oil and Shah Deniz condensate from Azerbaijan.

The expansion of the **South Caucasus Pipeline** is part of the Shah Deniz Full Field Development project. The pipeline has been operational since late 2006 transporting gas to Azerbaijan and Georgia and starting from July 2007 to Turkey from Shah Deniz. The length of the pipeline is 691km, with 248 km in Georgia.

### Roads



According to Roads department of Georgia, the total length of the highways of international significance in Georgia is **1,603 km**, of internal state roads is **5,298 km**.

The **Rikoti Pass** is one of the largest infrastructural projects in the central part of the Georgia passing through **Likhi Gorge**, 996 meters above sea level. Project includes 96 bridges and 53 tunnels, creating a 52-kilometer highway. It is the busiest and highest-capacity pass in Georgia.

New completed sections of the **East-West highway** are being added gradually. The two sections of the Samtredia-Grigoleti and Grigoleti-Kobuleti roads, in total 15 km, were opened in December 2022 with the financial support of the **European Investment Bank** (about **\$42 million**). The completion of the remaining six and three km sections is planned for 2023. The movement of road transport would significantly improve, both in terms of safety and time reduction.

## **Railway**

The railway modernization project is **95%** completed. In terms of the length of its rail network, Georgia ranks **44th** in the world. In total, the rail network is **1992 kilometers** long.

The project of **Baku-Tbilisi-Kars** railroad, connecting Georgian and Azerbaijan railways to the Turkish one, was initiated in 2007 by the governments of Georgia, Azerbaijan and Turkey. The railroad forms a part of a 5000-kilometer-long Middle Corridor from the northwestern Edirne province of Turkey to the Katonkaragay district on the eastern edge of Kazakhstan. It cuts the overland journey between China and Europe to 15 days instead of 25-45. The project envisaged **5-15 million tons** cargo flow per year. The first train carrying goods from Turkey to China began operating in December 2021.

## **Sea Ports**

There are two existing ports in Georgia – **Batumi Sea Port** and **Poti Sea Port**.

**Batumi Sea Port** has 5 terminals and 11 berths, with 9-12 m draft and up to 20 m for Conventional Buoy Mooring. The total throughput of the Port is 18 million tons per year.

**Poti Sea Port** is the largest port and logistics center in Georgia, handling container, liquids, dry bulk cargo and passenger ferries. The port accounts for a great part of the country's trade turnover and international transit and serves as a European gateway for international trade in Georgia, Armenia and Azerbaijan. The Port operates as a free trade zone.

The multi-purpose facility has 15 berths, a total quay length of 2,900 meters, more than 20 quay cranes and 17 km of rail track.

In 2020, APM Terminals Poti announced plans to create a deep-water port by investing over **\$250** million of private capital for phase 1 and a substantial amount for phase 2. It will double the annual container capacity at Poti Sea Port to over **1** million TEU. The estimated time of construction is 24-30 months.

PM Terminals, a unit of Danish Maersk shipping company, plans to build a new terminal at Poti Sea Port, with completion in 2024. Poti forecasts major traffic flows from Central Asia with a new terminal construction. The terminal will be located on the previous shipbuilding plant in Poti, in the waters of the new port on an area of 25 hectares, able to handle 50 million tons of cargo and 2 million TEUs of per year.

**Anaklia Deep Sea Port** will be the first Georgian container port with a deep water, state-of-the-art infrastructure and equipment. The multi-billion-dollar deep-sea port project was revived in December 2022, following Russia's invasion of Ukraine. Rerouting of trade to the "Middle Corridor" that passes through Georgia, Azerbaijan, the Caspian Sea and Kazakhstan is one effect of the war. The construction of Anaklia Sea Port is supposed to start in 2023.

### **Logistics center**

In February 2023, the agreement was signed between the Government of Georgia and private investor for the development of **Kutaisi Logistics Center**. The project entails the development of modern logistics facilities close to the Kutaisi International Airport, with an annual capacity of approximately 900 000 tons. The time period for implementation of the Kutaisi Logistics Center project is 4 years.

### **Energy & Communications**

**The Black Sea Submarine Cable** project aims to connect the South Caucasus Region to the Eastern Europe via a power and digital submarine cable crossing the Black Sea, with an approximate length of 1195 km. Its development will contribute to the energy security, support development of renewable energy sector, and increase transit opportunities between the EU and the South Caucasus Region.

## **ENVIRONMENTAL CHALLENGES**

Georgia has updated its **Nationally Determined Contribution**<sup>17</sup> (NDC) and developed the **2030 Climate Change Strategy** and its **Action plan**. NDC is to support the sustainable development of the country, equally taking into consideration climate change, environmental and socio-economic challenges. The main targets of NDC include:

- **35 %** limiting of its domestic total greenhouse gas emissions by 2030

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<sup>17</sup> [https://unfccc.int/sites/default/files/NDC/2022-06/NDC%20Georgia\\_ENG%20WEB-approved.pdf](https://unfccc.int/sites/default/files/NDC/2022-06/NDC%20Georgia_ENG%20WEB-approved.pdf)

- a target of limiting **50-57%** of its total GHG emissions by 2030, in case of international support
- plans to mitigate the GHG emissions from the transport sector by **15%** by 2030
- the development of low carbon approaches in the building sector
- plans to mitigate the GHG emissions from energy generation and transmission sector by **15%**
- the low carbon development approaches of the agriculture sector through encouraging the climate smart agriculture and agritourism
- the low carbon development of the industry sector
- the low carbon development of the waste sector through encouraging the climate-friendly innovative technologies and services and through effective implementation of separation practice and principles of circular economy
- increasing of the carbon capturing capacity through the forestry sector by **10%**

The **Agreement on a Strategic Partnership** in the field of Green Energy Development and Transmission between the Governments of the Republic of Azerbaijan, Georgia, Romania and Hungary was signed in Bucharest in December 2022. As a party to the agreement, Georgia is adopting energy efficiency laws, enabling net-metering, and developing its energy market.

Georgia's strong commitment to sustainability was underscored by the event "**Green Finance for Sustainable Economy**" held on 16.02.2023 in Tbilisi. This collaborative initiative hosted by the European Bank for Reconstruction and Development (EBRD), the National Bank of Georgia (NBG) and the International Chamber of Commerce (ICC) showed the steps and the challenges in sustainable finance. The NBG recently approved the **Sustainable Finance Taxonomy** (SFT) and the Regulation on Loan Classification and Reporting in accordance with the SFT. As of January 2023, this regulation also requires commercial banks to submit monthly reports on green loans.

Two projects of **World Bank** were approved on March 24, 2023: the Development Policy Operation (DPO) series focused on Green, Resilient, and Inclusive Development (**\$50 million**) and the Georgia Resilient Agriculture, Irrigation, and Land Project (**\$75 million**). The projects are supporting Georgia's efforts to address the country's climate-related development challenges. 2024 pipeline also includes the Enhancing Energy Security through Power Interconnection and Renewable Energy (ESPIRE) Project (**\$500 million**).

## **AGRICULTURE**

The country's agricultural sector accounts for more than **50%** of the labor force. The sector provides an important safety net for the rural population, considering that over **40%** of Georgia's population lives in rural areas. Agriculture accounted for **7-8%** of GDP for the last five years.

The total area of agricultural land in Georgia is about **23 720 km<sup>2</sup>**. The average household owns **1,14** hectares of land.

The country has favorable soil resources and climate conditions for all types of agricultural production. There are **12** different microclimatic zones and **49** types of soils. The main agricultural crops in Georgia are cereals, vegetables, potatoes, annual crops, subtropical fruits. The coastal climate and soils enable the growth of tea, citrus, and grapes. Georgia is also one of the oldest wine-producing places in the world.

Many endemic species create a perfect source for the development of plant growing, cattle breeding and alpine farming. The leading agricultural sub-sectors are fruits and vegetables, fruit and vegetable processing, organic farming, walnut production, berry production, oil plant industry, livestock production and wine. The number of cattle has decreased, as has the production of meat and milk.

The difficulties like temperature swings, active erosion, excessive precipitation in some regions and natural hazards occurring in Georgia (earthquakes, floods, landslides, mudflows, abrasions, avalanches, hail, showering rains, hails, droughts) harm agricultural production.

The Georgian government identified agriculture as a priority for development and considerably increased funding for the sector. The **Agriculture Investment Fund** was set up to support the sector by providing credit to farmers. Governmental programs implemented through the **Rural Development Agency** may create additional demand among farmers for equipment supplied from abroad.

World Bank's report **Agriculture, Water, and Land Policies to Scale Up Sustainable Agrifood Systems in Georgia** (published 31.05.2022)<sup>18</sup> summarizes the main constraints and opportunities in agricultural sector. Agricultural competitiveness is crucial for Georgia's sustainable economic growth and needs investments in improving production, processing, compliance with international market standards, and efficiency of supply chains. The availability and efficient use of water resources in a reliable, timely, and flexible manner for farmers is critical for the sector's growth, while improved land management and administration are necessary for secure land ownership.

However, the development of agriculture is predicted to increase emissions by about **40%** by 2030. Though Georgia has updated its **Nationally Determined Contribution**, developed the **2030 Climate Change Strategy** and its **Action plan**, assistance to the country is necessary if it is to meet its 2015 Paris Agreement commitments to transition to a sustainable agrifood sector.

The improvement of Georgia's agriculture, agrifood systems, rural livelihoods, export opportunities, and food safety – responding to climate change, land degradation, biodiversity, and other environmental issues – are among the priorities set out in the agreement of **Food and Agriculture Organization of the United Nations** (FAO) and Georgia. The Country Programming Framework of FAO is shaping the

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<sup>18</sup> <https://openknowledge.worldbank.org/entities/publication/affa1fa7-89a9-5fa8-92e5-f03c6a4f81ad>

development of Georgia's agrifood systems for the period 2021–2025 and its significant contribution to achieve the Sustainable Development Goals (SDGs) within FAO's new **Strategic Framework 2022–2031**.

## **TOURISM**

Tourism is one of the fastest-growing sectors of the Georgian economy. The country has a big potential for tourism development due to its natural beauty, varied topography, pleasant climate, unique cuisine, and rich culture and history. Georgia has large transport and communications networks and visa free access for the citizens of more than **98** countries.

Before pandemic, Georgia has seen a dynamic growth of international visitors. The country received only **2** million international visitors in 2010, but in 2019, the number of visitors reached **9,4** million (**7,8%** annual growth). Taking into consideration that the population of Georgia is only **3,7** million people, it shows that the country is a very attractive tourist destination.

According to Georgian National Tourism Administration report from 2019, foreign visitors' expenditures had a significant effect on Georgia's balance of payments. Approximately **71%** of Georgia's service export revenue came from tourism. Revenues from international tourism displayed an increasing trend and reached **\$3,3** billion in 2019. Tourism made up **8,1%** of total GDP.

The National Statistics Office of Georgia (Geostat) said that the largest number of visitors (**22,3%**) came from Azerbaijan. The purpose of the majority of visits (**31.9%**) was holiday, leisure and recreation and were made to the Georgian capital city of Tbilisi (**965 300** visits) and the Kvemo Kartli region of Georgia (**371 700** visits).

The sector has been hugely affected by the Covid-19 pandemic and started recovering in 2021 and 2022. International tourism increased in 2021 but is still behind 2019 indicators. The government expects that the tourism sector will rebound to pre-pandemic levels by 2024.

The number of hotels meeting international standards is increasing. The seaside resorts of Batumi and Kobuleti are undergoing rapid development.

Tourism infrastructure development requires significant investment and rehabilitation of assets, such as hotels, restaurants, sport facilities, and ski resorts. The state-owned **Partnership Fund** and privately held **Georgian Co-Investment Fund** (GCIF) are looking at investment opportunities in tourism infrastructure.

To facilitate tourism, the Georgian government has eased its visa regime, increased highway construction, privatized entertainment parks and hotels, and established limited tax incentives for tour operators.

The government has prioritized diversification of tourists with increased flights from the Middle East and plans to turn Georgia into a four-season tourist destination. The government also promotes medical, entertainment, sports, wine, and eco-tourism.

The **World Bank's** roads rehabilitation and construction projects aim to promote tourism by decreasing travel time, increasing auto safety, and facilitating the transport of goods across the country. The World Bank is implementing a long-term program aimed at nature conservation, cultural heritage preservation, and sustainable tourism development.

## ENERGY SECTOR

The largest energy-producing source is hydropower.

Over the last decade, electricity consumption has grown largely in line with real GDP growth rate and reached **13,7 TWh** in 2021. Electricity generation has also been growing significantly since 2004, due to renewal and rehabilitation of existing Hydro Power Plants and to development of new power plants.

As consumption continues to rise in Georgia and in neighboring countries, there is great opportunity to develop new power plants to keep up with this increasing demand. According to estimates, currently only about **30%** of Georgia's potential is exploited. There is a lot of untapped potential, mostly from hydro resources, but also from wind, solar, geothermal and biomass sources.

Georgia has overcome chronic energy shortages and gas supply interruptions of the past by renovating hydropower plants and by relying on natural gas imports from Azerbaijan instead of from Russia.

## OTHER GROWING INDUSTRIES

Georgia is becoming **Business Process outsourcing** (BPO) destination due to its competitive business operating costs and strategic location at the crossroads of Europe and Asia. Turnover for the sector in Georgia reached **\$120 million**, with export totals accounting for **\$114 million**. The number of employees engaged in IT and BPO outsourcing services is around **15 000**. The leading companies doing IT and BPO in Georgia are Concentrix, EPAM, Majorel, CMX Solutions, Georgian Service Group, Evolution Gaming, Netex, Olmait, Flat Rock Technology, and others. The most common services already provided from Georgia are multilingual voice and non-voice business process services, contact centers, IT, and architecture, design and engineering services (ADE).

The **automotive sector** in Georgia is an important part of country's economy. The country has become a major car exporter, as free trade agreements and liberal policies allow for cars from various countries to be re-exported to neighboring markets. This led to the development of a strong domestic auto parts sector, repair & maintenance services. Automotive companies in Georgia vary from government-owned to

autonomous R&D and production centers. Kutaisi Auto Mechanical Plant makes spare parts for agricultural products. Elmaval-mshenebeli is a manufacturer that assembles electric locomotives.

The **electronics industry** in Georgia is growing rapidly. Along with Georgian companies producing microchips, home appliances and other machinery, several major European electronics manufacturers, such as AIONRISE and Groupe Atlantic, have already entered Georgia in recent years. The import of machinery and appliances in the Caucasus was **\$13,7 billion** during 2015-2019, while import of electronics amounted to **\$8 billion**.

## **BUSINESS OPPORTUNITIES IN GEORGIA**

### **Agriculture**

Agricultural machinery and processing lines are in demand. Many of the existing processing plants use old Soviet equipment that does not provide high productivity or technical safety.

There is a need for food processing and packaging equipment for fruits, nuts (particularly hazelnuts and walnuts), vegetables, citrus, and meat and dairy products. Bottling lines, production plants for wine and juices, mini-bakeries, and machinery for tea processing and packaging are also needed. There is a demand for seed crushing and oil refining machinery. The services for product quality and safety standards at wineries and re-equipping of wineries are required.

The equipment and technology for storage, packaging and long-distance transportation of fresh products, drying or instant freezing, canning and the production of ingredients and additives is needed.

There are also opportunities for animal feed and livestock genetics.

### **Infrastructure**

Construction of roads, ports, energy distribution infrastructure, water systems, hotels, and office space give opportunities for producers of construction equipment and materials and providers of architectural and engineering services.

### **Energy sector / Renewable energy**

Georgia does not currently produce power generation and transmission equipment, except some small capacity hydroelectric turbines, solar panel assembly, and electricity meters. Most current equipment was produced in Soviet times. The efforts of the government to develop renewable energy - including hydropower, wind, and solar generation infrastructure, as well as the construction of new power transmission infrastructure – are creating demand for new equipment and solutions.

There is also a demand for smart grid, metering, and intelligent energy management systems, as the country is developing better incentives for energy efficiency.

### **Education**

Vocational education programs are needed in Georgia. The government promotes vocational education and finances most of the course's fees.

### **SANCTIONS AND "KNOW YOUR CUSTOMER" COMPLIANCE PROCESS**

The sanctions aimed at Russia also affect trade to South Caucasus. In particular, the threat of indirect evasion of sanctions must be taken into account when dealing with the countries. For this reason, all companies doing business with these countries must now have a sufficiently extensive KYC- compliance process ("know you customer") to prevent this kind of activity, because activity against sanctions is prohibited both directly with sanctioned customer and indirectly using any front organization arrangements. In the KYC- process, the sanctions situation of the product and possible sanctions listings of trade partners must be clarified. Screening of business transactions is a key measure in which the trading partner and the end-users of the product, the related persons, ownership relationships and the comparison of the products to the sanction lists are completed.

An end-user certificate must be obtained from the final user of the product if this is possible with the help of reasonable measures. Therefore, seller of the product has an obligation to know the end- user of the product/service since it is prohibited to indirectly deliver/handover any funds or other monetary benefits to possible sanctioned entity, i.e., all "decoy activities" are also prohibited. If the end user is sanctioned (in some cases, the US sanctions should also be taken into account if, for example, US technology, labor or trade is conducted in dollars) the company must not have practically any financial relationship with such sanctioned entity.

### **USEFUL CONTACTS**

Kirsti Narinen, Roving Ambassador for the South Caucasus (Armenia, Azerbaijan, Georgia)  
[www.finlandabroad.fi/web/arm/mission](http://www.finlandabroad.fi/web/arm/mission)

Honorary Consulate of Finland in Tbilisi [https://finlandabroad.fi/web/geo/honorary-consulates/-/asset\\_publisher/4sNllRsmWs2r/contactInfoOrganization/id/119358](https://finlandabroad.fi/web/geo/honorary-consulates/-/asset_publisher/4sNllRsmWs2r/contactInfoOrganization/id/119358)

Invest in Georgia <https://www.investingorgia.org/en>

Ministry of Economy and Sustainable Development of Georgia <https://www.economy.ge>

Ministry of Finance of Georgia <https://www.mof.ge>



National Statistics Office of Georgia <https://www.mof.ge>

EU-Georgia Business Council <https://eugbc.net>