

The economic programme of the re-elected government

The incoming Georgian Dream government has set out an ambitious programme of economic reform for the next four years. Economically, at least, the course continues to run westward, towards European integration. The government says it will continue to put macroeconomic stability first, while also seeking to increase employment and reduce poverty. Much will hinge on the post-pandemic recovery and the quality of implementation.

Background: election results

According to official results of the first round of parliamentary elections on 31 October, the ruling Georgian Dream party won a plurality of the proportional vote (48%), with the main opposition party, the United National Movement, finishing second with 27%. An electoral reform will allow several parties to enter parliament for the first time.

While results currently remain contested and the final distribution of seats will be known only after the second round of majoritarian voting in constituencies is completed, the Georgian Dream is on track for an absolute majority in parliament and thus a third consecutive term in government. However, the ruling party will no longer hold a constitutional supermajority, as in the previous two election cycles.

Goals: improving welfare and EU member application

In presentations before the election, the ruling party set out two main goals for its time in office: poverty reduction and improving general welfare, as well as reforming its economy to be ready for an EU membership application in the year 2024.

According to Natia Turnava, the Minister of Economy and Sustainable Development, this implies four main policy directions: 1) macroeconomic stability; 2) business support and private sector competitiveness; 3) infrastructure development; as well as 4) harmonizing institutions and standards with the EU.

Macroeconomic stability

With regards to macroeconomic stability, the government announced that it is committed to fiscal prudence and soon wants to return to a fiscal deficit of 3% of GDP. Other aims include an efficient debt sustainability framework, and thus a “return to safe levels of public debt” at about 50% of GDP.

The cornerstone of decreasing external vulnerability is a plan to reduce the current account deficit to 5% of GDP (5.4% in 2019) as well as export diversification and an orientation on “quality foreign direct investment”

and “attraction of high spending tourists”, to increase earnings. But it should be noted that these goals were announced before Georgia was hit by its first wave of the pandemic towards the end of October, which undercut the hopes of capitalizing on the previous successful containment, and dashing plans to become a virus-free tourism or work destination.

The government also stressed that it is committed to the independence of monetary policy, to ensure price stability and maintain a flexible exchange rate, while also focusing on further de-dollarization.

Business support

For the business support pillar, the main aim of the country is to “achieve investment-grade in sovereign credit ratings”, to increase investor confidence and decrease the country risk premium.

The government sees four reasons why Georgia's credit rating should improve: it has built resilience against economic shocks; it has a stable macroeconomic environment; the institutions are strong; and there are ongoing economic reforms. For those reasons, too, the government projected confidence that it was well-placed to recover from the pandemic shock.

Additionally, in business support the incoming government wants to undertake a comprehensive structural reform of mining, with more licenses becoming available and an overhauled process for licensing.

In the energy field, the government seeks to improve the regulatory framework, with schemes to support renewable energy sources, including potential feed-in premiums with a “contract for difference” feature, or a fixed feed-in tariff. The details for these ideas still appear to be under development.

A particular emphasis for the government, as part of its structural reforms in business support, will be capital market development, to improve the access of Georgian companies to long-term financing and further boost investment in the economy. An entrepreneur's law is intended to contribute, among other features, to “efficient and clear dispute resolution”, whereas insolvency reform should support viable firms to rehabilitate, while also protecting creditors and ensuring an efficient utilization of economic assets. Several of these issues are also the focus of the ongoing activity of the German Economic Team.

Infrastructure development

Infrastructure development is another major focus of the government. Currently, it spends about 8% of GDP

on road and transport infrastructure. Drivers going from Tbilisi to the Black Sea now coast on an expanded motorway and see construction underway to improve the transit across the Rikoti Pass. Further infrastructure aims are full internet coverage, the restoration of derelict irrigation systems and enhanced solid waste management. The port of Anaklia is still listed among the priorities, though the government has given permission for major expansions of Poti port. Given that industry insiders say that nearly 80% of containers leave Georgia empty, some wonder whether the country actually needs Anaklia port, in the coming years.

Harmonisation with the EU

European integration is the fourth major direction for the government. By aligning more with EU standards, the government hopes to develop strong institutions and a competitive market, with efficient public services. Key emphases are anti-dumping legislation, a strengthened framework for competition, as well as developing alternative mechanisms for dispute resolution.

The government is seeking to achieve ambitious outcomes. It believes that these programmes will stimulate growth. For the next four years, it projects the creation of 200,000 new jobs and an overall GDP increase of 40%. The hope is that this should lead to an “irreversible process of poverty alleviation”.

The government seemed keen to engage the business sector. Key presentations to the business community were delivered by Minister Turnava, flanked by deputies and a deputy minister of finance, and offering more detail than covered in this summary. The government team signaled its commitment to further dialogue with the business community.

Broad range of ideas, amidst the pandemic

Overall, the pre-election period saw a range of economic ideas in play. The United National Movement, the largest opposition party, had suggested the abolishment of all income tax to be replaced with consumption taxes. Lelo, an opposition party linked to a prominent banker, had proposed a “Marshall plan” with a GEL 6 bn investment volume, to boost the country’s economy and spur growth.

The libertarian Girchi party, widely recognized for its success in de-criminalizing cannabis consumption, drew attention with a number of stunts, including its Shmaxi taxi service in which passengers paid for a short lecture on economic freedom rather than for the ride, thus allowing non-licensed drivers to operate.

In this way, Georgia remains a laboratory for a wide range of ideas, though the immediate run-up to election was dominated by concerns over a sharp surge in

infections, mostly sidelining policy debate in the country.

Outlook

Following the election, the opposition parties announced a boycott of the future parliament, in protest against electoral irregularities. With street protests, a rising death toll from the pandemic and adapting to what the new reality in Karabakh will mean for Georgia’s relationship with its neighbors, the country faces tough challenges.

Beyond those, however, a plausible economic programme could have a positive impact on the country, if implemented properly.

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