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**INVESTMENT ATTRACTIVENESS OF THE GEORGIAN ECONOMY
ІНВЕСТИЦІЙНА ПРИВАБЛИВІСТЬ ГРУЗИНСЬКОЇ ЕКОНОМІКИ****Hanziuk S.M./ Ганзюк С.М.***s.e.s., as.prof. / к.е.н., доц.*

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Abstract. *In the article examines the theoretical essence of investments, determines the influence of foreign investments on the economy of the host country. Positive and negative factors of formation of the investment image of Georgia are determined. The socio-economic development, the main economic partners of the country and its place in international rankings are studied. A comparison of the level of tax burden in domestic and Georgian practice was made. The main factors of the investment attractiveness of the Georgian economy are highlighted.*

Key words: *investments, investment climate, investment attractiveness, international rating, tax burden.*

Introduction.

In modern economic conditions, under the influence of negative external factors, there is an urgent need to restore the stability of enterprises, the development of certain industries and regions of many countries of the world. Protection of interests at all levels of management is associated with multi-level use of investment resources and introduction of innovations. Activation of investment activities in countries allows strengthening and expanding the production, resource, and financial potential of enterprises in the competitive market. Foreign investments have a significant impact on economic growth, as they increase the amount of investments in the development of national production, the development of new technologies, and innovative management methods that change the structure and dynamics of the host country's economy. The problem of attracting foreign investments has existed for many decades and continues to retain its scientific and practical significance to this day, which determines the relevance of the research topic.

Despite the intensification of foreign investors in some, many others are losing in terms of the amount of foreign capital involved. Today, the general world order is changing, in the light of which the country's foreign policy and its investment climate face the need to review the policy and choose further directions for adapting to the conditions. Only with an effective foreign policy and investment strategy is it possible to achieve financial stability, strengthening of finances and sovereignty, independence and resistance to negative foreign policy influences, fluctuations in world prices on prospective markets and currency quotations.

Investments are one of the key components of the modern financial market. In the conditions of modern economic development, the development of the country is impossible without active investment participation. That is why one of the main factors ensuring the inflow of investment resources is the creation of a favorable



investment climate in the country, the indicators of which are the volume of foreign investments and their effective use. The issue of improving the investment climate and business conditions was and remains the most urgent for any state in the world, especially for those that are developing. Discussions in the area of European integration processes are impossible without a detailed assessment of the investment attractiveness and competitiveness of the economy.

Numerous definitions of investment, investment attractiveness from narrow to broad, which are reflected in the economic literature and composed according to general features, allow us to note that investment attractiveness is an integral indicator of the feasibility of making funds, the level of compliance with the needs or interests of the investor, which depends on the financial and property status country and its development prospects, formed under the influence of a set of objective and subjective conditions affecting the formation of investment returns and investment risks.

Therefore, investments represent a set of expenses in the form of long-term investments of state or private capital in any branch of the international economy, which are carried out with the aim of obtaining income, namely: cash, bank deposits, shares, shares and other securities, equipment, machines, licenses, including trademarks. Investments can be directed both to the sphere of the domestic economy and to the sphere of the international economy, while investment objects, in addition to industries, can be certain enterprises, projects, programs, events, etc.

The country's investment climate is one of the main factors for an investor when making a decision. There are countries that are still forming a positive investment image, for example, Georgia - a country that is attractive not only for recreation, but as a country where you can buy real estate for permanent residence or as an investment, conducting a profitable business, especially in the hotel and restaurant sector business. Only in recent years, more than two thousand infrastructure projects have been registered in Georgia [1]. Considering the above, it is important, in our opinion, to study the investment climate of Georgia and the possibility of implementing an investment project in this country.

Georgia is located at the crossroads of Europe and Asia and is the shortest transport route between the two regions, and has a unique potential to increase trade flows between Europe, the Caspian region, and Central and East Asia. Today's government of Georgia purposefully pursues policies aimed at making the most effective use of existing geopolitical advantages with modest natural, human and financial resources. Georgia's advantage in this context is also that it is the only country in the region that has free trade zones with China and the EU. Also, it is important to emphasize that today Ukraine, Georgia and Moldova have started regional cooperation: all three countries prefer a bilateral format of relations with the European Union, based on the association agreements that each of them signed with the EU [2].

The main social indicators at the beginning of 2022 were as follows: the population of the country was about 3.7 million people, of which the labor force was 2.0 million, the unemployment rate in the country at the beginning of 2021 was 20.3%, the average wage : 284 dollars per month; the number of households was 1.3



million. The largest city in terms of population (main agglomeration) Tbilisi (the capital) - 1.08 million people [3].

According to the National Statistics Service of Georgia [4], in 2021, compared to the previous year, foreign trade increased by 25.6% and amounted to 14.3 billion US dollars. Exports increased by 26.9% to 4.2 billion dollars, imports by 25.1% to 10.1 billion dollars. The negative balance of trade amounted to 5.8 billion US dollars, which corresponded to 40.7% of the total foreign trade turnover. In terms of trade, Turkey was Georgia's largest trading partner in 2021 with a volume of USD 2.1 billion. Russia came in second place with \$1.6 billion; China - 1.5 billion dollars; Azerbaijan - 1.1 billion dollars and the United States - 820 million dollars [4].

After the conclusion of the Association Agreement with the EU and the creation of a comprehensive free trade zone with the EU (entered into force on September 1, 2014), Georgia embarked on the path of European integration. Implementation of the provisions of the Association Agreement with the EU and harmonization of legislation with EU norms ensures political, economic and financial support from the EU, contributes to the stability and attractiveness of the country's investment climate. Strategically important for the sustainable development of Georgia is the country's participation in the Chinese initiative "One Belt, One Road", which involves the development of transport infrastructure and logistics corridors, including multimodal railway transport and increasing the intensity of regular routes through the Trans-Caspian International Transport Route.

Economic growth in Georgia in 2021 reached 9.2% against the background of active recovery of key industries, increased exports and transfers of labor migrants [4]. After the impressive growth of Georgia's GDP in the second quarter of 2021 (29.9%), the growth rate slowed down slightly in the third quarter, but remained stable. According to estimates of the National Statistical Service [4], the GDP in July and August increased by 9.9% and 10.3%, respectively.

The Georgian government actively uses tools to attract foreign direct investment to the economy, and also cooperates with international multinational companies to move production to Georgia. As part of the initiative to encourage foreign businesses to enter the Georgian market, the amount of VAT and income tax for international companies was reduced from 20% to 15% and 5%, respectively. Georgia also has a new grant program to encourage foreign companies to set up or relocate production to Georgia. The main condition for participation is the obligation to invest at least 10 million lari (over 3 million dollars) in the economy of Georgia, as well as to employ at least 150 people. Based on the fulfillment of these obligations, the companies will receive co-financing (grant) in the amount of 1 million GEL (over 300 thousand US dollars). The program covers such areas as electronics, production of electronic engineering products, production of vehicles and their spare parts, mechanical engineering, repair and maintenance of aircraft [4].

According to the International Corruption Perceptions Index, published in 2021, Georgia fell in the rating by one point compared to the previous year [5]. So, in 2021, Georgia had 55 points and ranked 45th out of 180 countries in the ranking, along with Botswana, Dominica and Fiji.

International Transparency states [5] that the concentration of power is a serious



problem in Georgia. The organization also emphasizes that the influence of the founder of the ruling party, Bidzina Ivanishvili, on key institutions "comes under the definition of state occupation." In the 2020 ranking, Georgia was ranked 45th out of 180 countries with 56 points, while in 2019 the country had 56 points and was ranked 44th. International Transparency Georgia cites a number of other challenges facing the country, including informal governance, unhealthy concentration of power in the ruling party, weakening democratic balance and checks, weak parliamentary oversight of corruption, and high-level corruption. Georgia's fight against corruption is the result of reforms carried out in recent years. These include: civil service reform, implementation of a system for monitoring officials' property declarations, ensuring the rights of whistleblowers, increasing the transparency of public procurement, reform of the prosecutor's office, judicial reform, improvement of the investment and business environment."

In the annual ranking of the happiest countries in the world, compiled in 2021 (World Happiness Report) [6], Georgia ranked 108 (119 in 2020) out of 156 countries in the world. Georgia's neighbors were somewhat happier, although they showed a mostly negative trend compared to last year. Russia took 68th place (minus 9 positions - last year it was on the 59th line), Turkey - 79th (deteriorated its rating by 5 points, as it was 74th in the previous list), Azerbaijan - 90th (also worsened the indicator, falling by 3 points - compared to the 87th place in the previous report), Armenia - 116 (last year it was on the 129th place and rose by 13 points) [8].

Thus, it can be stated that today's Georgia is a country that, after a successful period of previous reforms, has somewhat stalled in socio-economic development. The most eloquent evidence of the lack of progress in the state is its economic indicators. GDP growth also slowed down, but Georgia was and remains a supporter of European integration, and this process is especially necessary now, when internal reforms are no longer as effective as before, and the country needs large markets and strong economic partners.

Bordering Russia, Turkey, Armenia and Azerbaijan, Georgia currently has enormous potential for growth with state support for domestic and foreign investment. Commercial real estate for investment (offices, shops, hotels), apartments in the city center, all these objects are in demand by both Georgian investors and foreigners who wish to purchase enterprises operating in central locations and make profitable deals. Georgia is an attractive country for life and business.

According to the Doing Business 2020 investment attractiveness rating [7], Georgia ranked seventh among post-Soviet countries. It entered the top 10 countries along with the USA, Great Britain, Norway and Sweden. The partnership between Georgia and the EU is developing dynamically. Since March 2017, citizens of Georgia have received the right to visa-free travel to the Schengen area.

With more than nine million tourists from all over the world in 2019, developing Georgia, with its stunning resorts, is a deservedly popular investment destination for foreigners. Georgian apartments and houses, office and commercial premises, hotels are a delicacy for buyers, due to the high passive financial flow from real estate (profitability) and the ability to quickly sell them at a price close to the market (liquidity) [8].



For the attraction of foreign investments, financial factors are also of great importance, the main among which are tax payments. Tax legislation in the Georgian economy is based on 6 fixed tax rates for individuals and corporations. The country seeks to attract foreign investors due to the simplicity of taxation and flexibility in the bureaucracy. Georgia was chosen as one of the top 10 countries in the world in terms of convenience and ease of doing business [7]. Personal income tax in Georgia is determined by the place of receipt of income. A person who received income in Georgia will be taxed in Georgia. A Georgian company with income in other countries will also be taxed in Georgia. A company is considered Georgian if it is managed in this country. Without management in Georgia, it will be considered a foreign company. A Georgian company is not taxed on profits (15%) when receiving income and investing this money in business. When distributing funds (dividends), the company is taxed both on profit in the amount of 15% and tax dividends in the form of 5%. This is one of the biggest incentives for Georgian companies. Another incentive for companies in Georgia is that VAT (18%) is only payable after the company has generated an income of USD 100,000 (in boxes) in the last 12 months. In addition, Georgia has a tax treaty with more than 45 states, including Israel, to avoid double taxation and regulate tax laws between the two states [7].

If we compare the tax burden of Georgia with Ukraine, then, for example, the income tax in Ukraine is 18%, which is 3% more than in Georgia. The VAT rate at the beginning of 2022 in Ukraine is also higher: 20% versus 18%.

In order for an investor to register his business in Georgia, he needs knowledge and guidance on the operation of various laws of Georgia. In some cases, the Georgian language can create difficulties. However, the process of business registration is a relatively standard and fairly short process that does not require extraordinary costs, unlike in other countries of the world. Opening a company in Georgia takes an average of one day (if all documents are in order) and is registered in the Public Service Hall.

The corruption perception index plays an important role in attracting foreign investments to the country. The Corruption Perceptions Index is a composite index that measures the level of perception of corruption in the public sector in different countries. It has been published annually since 1995 and is based on surveys of experts and entrepreneurs conducted by independent organizations around the world. In the 2021 index, 180 countries and territories were evaluated based on 13 expert assessments and surveys. Countries are ranked on a scale from 0 to 100, where 0 means the highest level of perception of corruption, and 100 the lowest [9]. Thus, according to the rating of this index in 2021, Georgia took 45th place. According to representatives of the Georgian authorities, this indicates the good work of law enforcement agencies. Compared to last year's result, Georgia dropped one place in the rating, scoring the same number of points as last year - 56. In the 2019 index, the country took 44th place, and in the 2018 rating, Georgia had 58 points and 41st place.

It is also important to note that in recent years Georgia has been chosen as one of the 10 easiest and most convenient countries to do business in the world. There are no restrictions on investment by foreign citizens/companies in Georgia and there are no special requirements or taxes for foreign investors. In the case of buying real



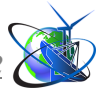
estate in Georgia, the transaction and registration in the above structure can be carried out only with a passport. The bureaucratic requirements are somewhat higher when it comes to opening a bank account, which is necessary to pay for property and pay bills (electricity, gas, water, etc.) [10].

Conclusions.

So, on the basis of the conducted research, it is possible to highlight the main factors of investment attractiveness of Georgia for foreign investors: availability of prices; minimum level of bureaucracy; ease of purchasing real estate; the tourist boom of recent years; no real estate tax; availability of obtaining a residence permit; free business. Thus, the Georgian economy, with employment as of 2022, was attractive for a foreign investor. The real estate sector remains the most attractive for investment in Georgia.

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Анотація. В статті розглянуто теоретичну сутність інвестицій, визначено вплив іноземних інвестицій на економіку приймаючої країни. Визначено позитивні та негативні фактори формування інвестиційного іміджу Грузії. Досліджено соціально-економічний розвиток, головних економічних партнерів країни та її місце в міжнародних рейтингах. Здійснено порівняння рівня податкового навантаження у вітчизняній практиці та грузинській. Виділено основні фактори інвестиційної привабливості грузинської економіки.

Ключові слова: інвестиції, інвестиційний клімат, інвестиційна привабливість, міжнародний рейтинг, податкове навантаження.

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