Interview with Fady Asly

The COVID-19 pandemic has hit Georgia hard. Mobility restrictions, a sudden halt to international tourist arrivals, and weak external demand has driven an estimated economic contraction of 6.2 percent in 2020. The poverty rate has increased by an estimated 5.4 percentage points. Job and income losses were severe. The national currency depreciation is at its historic maximum. The fiscal deficit and public debt rose above statutory levels as the crisis put pressure on fiscal and external balances.

Georgia's economic recovery is subject to considerable downside risks, grossly influenced by delayed vaccinations, additional or extended COVID-19 restrictions, significant decrease of FDI flow, tightening global financial conditions, and prolonged political tensions. How Georgia can accelerate the progress towards sustainable economic growth? - Mr. Fady Asly, Chairman of International Chamber of Commerce will respond to our questions.

Dear Fady, Thank you very much for your time. First of all, in your point of view, how the Government of Georgia should unfreeze the economy? What are specific steps that needs to be taken to respond the existing economic crisis efficiently and effectively?

Fady Asly: Well, this is a long process, Georgia relies a lot on foreign direct investments for its economy and unfortunately, over the past eight years the government has mistreated many foreign investors and has gained a very bad reputation abroad among international business actors. Therefore, what the government needs to do immediately, is to change attitudes towards foreign investors, mainly foreign investors from: Israel, India, CIS countries and MENA region and open up the doors very wide. The government needs to stop harassing foreign investors at the border and stop racketeering them. Authorities should stop instructing the courts to issue "fair" decision when it comes to foreign investors and not side up with Georgian companies all the time. These are the key and the most important steps that needs to be addressed immediately by the government. Yes. it will take time to restore the confidence, but these steps are vital to boost the economy and to put it back on track.

Another important aspect, that needs to be emphasized, is that Georgia depends a lot on flow of foreign currency from abroad; currently exports are down, remittances are up but very slightly, income from tourism sector has been significantly affected due to pandemic and in 2020 FDI was almost inexistent, it was around 600 Million dollars, out of which only 9 million USD are equity foreign investment, all the others are either reinvestment by foreign companies in Georgia or money coming from Georgian companies abroad and considered to be foreign investment- hence, changing attitudes towards foreign investors is the one and most important step to do.

Over the last eight years, instead of carving effective mechanisms for robust economic growth, the Government has introduced unpresented wave of regulations that on the one hand deteriorated Georgia's investment climate, and on the other hand resulted in economic stagnation accompanied by high level of unemployment and poverty - Could you please name those regulations, that significantly affected the business community and whether you consider there is a possibility to deregulate those artificial barriers?

Fady Asly: Over the past eight year, the government of Georgia has introduced number of business unfriendly regulations, starting from labor code in 2013, that created artificial barriers to private sector, new regulations to competition law, ban on sale agriculture land to foreigners, regulations in financial sector etc. It should be highlighted, that the government pushed for socialist agenda, that on one hand deteriorated business environment, while on the other hand, made Georgia less attractive for foreign investors. It should be underlined, that some of these regulations are part of the obligations taken under Georgia-EU Association Agreement to harmonize national legislation with respective European directives. However, harmonizing Georgian legislation with the EU has a huge cost on economy- the issue is not the cost, rather than the fact, that Georgia has not benefited neither from the AA agreement, nor the DCFTA. If we look at the figures, export to the EU member countries (after signing the agreement-2014) is lower compared to the figures prior 2014. The latter means, that DCFTA agreement did not really contributed to boost export to the European market. If Government of Georgia has chosen an open investment friendly environment, many foreign investors would have invested in Georgia, that could potentially contribute on one hand, to the export increase to the EU, while on the other hand, to mitigate the cost of business unfriendly policies.

In your opinion, Why Did Georgia lose its investment attractiveness and how it can be restored among international business arena?

Fady Asly: During past eight years, the government of Georgia under the leadership of Bidzina Ivanishvili has decided, that Mr. Ivanishvili himself along with his business partners could substitute foreign investors in Georgia. Hence, with such xenophobic position, Mr. Ivanishvili decided to be the only investor in Georgia. Hoverer, what he did not realize is that, the most important aspect is not the volume of investments, rather the number of investments. For example: it is much better to have one thousand investment worth of 1million USD, rather to have 1 investment with 1 billion USD. This is because one thousand investment means: one thousand CEOs, one thousand CFOs, one thousand cleaning ladies and much more employees. In addition to that, one thousand happy investors would encourage their business partners, friends, family members to come and invest in Georgia – and it definitely will have a snowball effect.

The government of Georgia has been harassing foreign investors, stopping them at the border, confiscating their residences, racketeering them and so on and so force. Within last couple of years, Georgia gained a terrible reputation and it will a lot of work and good will from the government to restore the trust and reputation.

Last but not least: Lari Depreciation – could you please share with us your predictions and comments towards the financial crisis horizon.

Fady Asly: Depreciation of the Lari is depending on the flow of foreign currency into the country. The foreign currency enters the country though four main channels: export, foreign direct investment (FDI), foreign remittance from Georgian diaspora working abroad and foreign/external debts (loans borrowed both by government and private sector)

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Let's start analyzing each channel- The first one is export- due to the pandemic, the volume of export has been decreased significantly. The latter means, that we have less income of foreign currency from export.

FDI- The total FDI was six hundred sixty million USD, if we discard reinvestment of Georgian companies, which is not the fresh money coming in, this means we don't have USD from abroad- quite to the opposite: reinvestments can deplete the country from foreign currency- for example: when companies want to buy machineries from abroad, they sell Lari by USD and send them abroad- on the medium and long-term this is good for economy, however on the short term, they are putting more pressure on Lari.

As for the foreign remittances, the number has been increased compared to previous years- the latter is due to the pandemic, as in Georgia thousands of people lost their jobs and the dependence on their families working abroad has been increased accordingly.

Last but not least, the government of Georgia has increased the foreign debt and has reached the threshold in 2020. According to the IMF, the government is not eligible to take any external debts in future, the latter means that, we cannot rely anymore on foreign debts to stabilize Lari and therefore, unless the government opens the door to foreign investments, Lari depreciation will continue, as the only panacea for Lari stabilization is increased number of foreign currency, which is impossible to achieve without foreign direct investments and open, business-friendly legal framework.