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**EU-Georgia Business Council's proposals
to the Government of Georgia
for the purposes of minimization of Economic losses stemming from
outbreak of Covid 19, as well as for the assistance of the Business Sector**

EU-Georgia Business Council, based on suggestions of its member companies, is proposing a series of steps to the Georgian Government to be discussed for the purposes to minimize the economic losses stemming from outbreak of Covid 19, as well as for the assistance of the Business Sector. *The present document was prepared following a discussion with an audit and business consulting company BDO..*

We should highlight one of the main problems - permanent fluctuation of currency exchange rates, which actually impedes any business forecast and development.

It is crucial that in the coming days by the National Bank, together with the Prime Minister and the Government's economic team, to be presented the fastest, 3-month plan for the strengthening / stabilization of the national currency. GEL has significantly devaluated in the Bloomberg's trading system during last one month, 1 USD exchange rate has changes from 2.79 GEL to 3.28 GEL, while the exchange rate of neighboring countries' national currencies had very low fluctuation in the same period.

It is of utmost importance that the above-mentioned action plan for the strengthening/ stabilization of GEL to be adopted promptly, otherwise all the other proposed benefits for business will be ineffective. Issues for overcoming economic

crisis, which are presented below are divided into topics and we express readiness to discuss in detail each item with the Government and Business associations, taking into account the interests of both sides.

Our goal is to encourage the Government's prompt actions in order to avoid economic collapse.

1. Taxes

- 6 months reduction of income tax by 50 percent;
- Postponement of VAT payment to companies affected by the crisis for 6 months;
- Payment of VAT only in the part of the received cash, namely: if the payment is not received then VAT is not paid in the budget;
- Introduce benefits (property tax and VAT) on business income from renting commercial and office spaces;
- Tax exemptions on funds and donations related to fight against Covid 19;
- During import, exemption of VAT payers from refundable VAT and postponement to VAT non payers until the end of the year on

2. Access to finance

- Conduct active consultations with international financial institutions for timely receipt of funds and provide cheap loans in GEL, specifically for businesses affected by the virus;
- The removal of loan restrictions by the National Bank so that commercial banks themselves can determine the amount and type of currency to be issued, it is also important to set an annual interest rate upper limit for the loan.
- Hold a round of negotiations with the private banking sector, stemming from state interests, in order to lower the loan's interest rate in such extraordinary situation.
- Request to suspend the interest accrued on restructured loans by the commercial banks during the grace period as part of these negotiations.

3. Promoting Local Production

- Complete inventory of enterprises by the Government's economic team whose products are needed to carry out ongoing and planned capital / infrastructure projects in the country.

- Giving special priority to the products produced in Georgia in accordance with the quality and price, required for the implementation of the capital / infrastructure projects financed by the state budget.
- Despite the GEL devaluation, for the maintenance of prices on energy consuming plants' outputs (e.g. cement, steel/ferro-concrete reinforcement etc.), giving the access to the cheaper energy (which is calculated in USD) via reducing average electricity price through electricity market operator ESCO, by mixing Enguri HHP electricity with other private energy Operator companies.
- Taking into account the new reality, revision of the sectors under the Loan Co-financing Program, as well as increase the loan co-financing term and loan ceiling within the framework of the state program "Enterprise Georgia".
- Joint development and implementation a step-by-step plan for compliance with the GMP standards. Mandatory standardization as of 2022 and the absence of a roadmap to meet the standard will entail:
 - 1) Closure of 72 pharmaceutical companies;
 - 2) abolishment of sale of GEL 65 million worth of locally produced drugs, including 10 export markets;
 - 3) Cancellation of 1,500 jobs;
 - 4) Prevention of GEL 66 million planned investment in new, international standard pharmaceutical companies;
 - 5) Threatens despairing of world known unique and innovative areas, such as bacteriophages, immunobiological drugs and natural medicine.
- Immediate permission of medicines export from Georgia, except of medicines of strategic importance for the country. *It should be noted that export-made preparations are not used for the treatment of the Corona virus, nor their export volumes represent any significant loss to the domestic market. In case of necessity, the Georgian Pharmacists Association expresses its readiness to be involved in developing a list of medicines of strategic importance and quotas.*
- Launch consultations with chain markets and hypermarkets during the emergency period to alleviate difficult commercial conditions for local producers, which will significantly contribute to the maintenance and development of Georgian production in the future. *It is noteworthy that due to the closure of HoReCa; the devaluation of GEL, the failure of dealers to withdraw funds from the merchants, and the general market downturn in the coming months will result in the capital / cash problem in turnover in various industries (including food, water, alcoholic and non-alcoholic beverages, etc.).*
- Creation of certification and standards bodies for export-oriented enterprises that will determine the suitability of certain industrial products and pave the way for Georgian production on the world market.

4. Utility fees

Initiate urgent consultations with utility companies (Energo Pro, Telasi, Tbilisi Energy, GWP and other companies operating in Georgia) to develop for coronavirus-affected companies reasonable postponing schemes by the end of the year and to avoid suspension of their services.

5. Jobs maintenance and pension fund contributions

- Paying 50% of average wage during six months period to those who have lost their jobs or are on unpaid leave due to a coronavirus;
- In case of extreme situation, returning of pension contributions (or part of it) to those who have lost their jobs or are on unpaid leave.
- Cancellation of pension fund contributions till the end of the year.
- Government grants up to 10,000 GEL, 20,000 GEL Or GEL 30,000 for affected companies, especially for small enterprises.
- Following proper consultation with companies by sectors, in exchange of tax incentives and/or grants , the companies should have commitment for maintenance of employees and their salaries for certain period
e.g postponing of income tax for 6 months and reduction of excise tax on beer from 0.12 to 0.08 GEL might may be short-term solution for beer industry in order to take liability to maintain all employees with previous salaries.

6. Insurance Sector Support

- Supervisory Requirements - Temporary simplification of requirements to the extent of existing rules, so that companies do not face operating challenges and give more scope to insurance services. For example: flexible subordinated loan terms when calculating equity, mitigating ratios for specific insurance types, etc.
- 1% Supervision Fee - Reducing it within the framework of the effective functioning of the State Insurance Supervision Service of Georgia, this is particularly important in light of the sharp decline in tourism and compulsory third-party liability insurance for foreign countries registered car owners. For most of the insurance companies, this tax is 50% or more of their net profit.
- Estonian Model - Dissemination of Estonian model of profit tax to insurance companies to mitigate the damage caused by the current challenges.
- Tax Exemptions - Exemption from Income Tax on Health Insurance.

7. State budget revision

- Considering the new reality, the Government should revise the budget and to reduce expenditures according the relevant articles of the state budget (business trips, representative and fuel costs, government cars maintenance, bonuses) in order to direct the accumulated funds for overcoming the country's crisis.
- As mentioned above, it is important to work actively with donors, raising funds so to avoid budget crisis.



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