ORGANIC LAW OF GEORGIA ON ECONOMIC FREEDOM

Law # RS 4979

Under the Constitution of Georgia and this Law, the citizens of Georgia define economic rights and assurances of freedom for present and future generations of Georgia. Economic rights and freedoms are part of the universally acknowledged human rights and freedoms. Restriction of such rights and freedoms is only possible under the rules envisaged in the Constitution or in a Law.

The Government guarantees (observance of) economic rights and freedoms, as a basis for the society’s development, well- being of people and long-term, sustained growth of the economy.

Freedom, expressed in a small size of the Government, responsible macroeconomic policy and low taxes, is the major overarching principle of Georgia’s economic policy.

ARTICLE 1: PARTICIPATION OF GEORGIAN CITIZENS IN DEFINING GENERAL STATE TAXES

1. Since enforcing this law:
   1. Introduction of a new type of general state taxes, except excises, or an increase of the upper rate of an existing general state tax, except excise, is only possible through a referendum. Only Government of Georgia has the right to initiate a referendum;
   2. If a new tax or a rate adjustment (up until the top marginal rate of this tax) of a general state tax alternates or substitutes the existing tax, and thereby does not increase the tax burden, such an introduction or adjustment of the tax rate shall not be deemed as an introduction of a new type of the general state tax or an increase of the upper rate of an existing tax.

1.1 Contributions to the pension and insurance schemes are regulated by the separate laws and do not constitute taxes or fees.

1. By the enforcement date of the present Law the following are regarded as the general state taxes under the Tax Code of Georgia:
   1. Income Tax;
   2. Profit Tax;
   3. Value Added Tax (VAT);
   4. Customs Duty;
   5. Excise.
2. Rates of property taxes are defined by the rules stipulated in the Tax Code of Georgia;
3. A referendum on the issue mentioned in the first clause of this Article shall be held in line with the Organic Law of Georgia On Referendums;
4. The issues of tax progressivity, tax regime/methodology may not be questioned by a referendum.
5. The Government of Georgia is authorized to request (from the Parliament) a temporary increase in taxes, up to 3 years. In case of such a temporary increase in taxes, a referendum is not required.

ARTICLE 2: DEFINITION OF MACROECONOMIC THRESHOLD PARAMETERS

1. To ensure welfare through a long-term and sustained growth of the economy, and to ensure macroeconomic and fiscal stability the following maximum thresholds shall be observed for the following macroeconomic parameters:
   1. The ratio of the Consolidated Budget Deficit, as defined by the Budget Code of Georgia, to GDP shall not exceed 3%;
   2. The ratio of the Government Debt to GDP shall not exceed 60%.
2. a) For the purposes of this law, the state debt includes:

aa) the debt as defined by the law on state debt excluding the NBG debt.

ab) the debt contracted by the budget organizations, excluding their borrowing from other budget organizations.

1. For the purposes of this law, the debt ceiling set in the Article 1.b also caps the present value of the commitments made in terms of the PPP arrangements according to the PPP law, that are compliant with the PPP principles and criteria.
2. The annual budget law of Georgia shall be drafted, approved and executed in a due manner, according to the legislation, so that the budget law parameters both planned and the actual are preserved under the ceilings set by the point 1 of this article.
3. The government of Georgia shall report to the parliament of Georgia on the observance of the fiscal limits stipulated by this law, upon presenting the next year’s draft budget and the report on execution of the current annual budget law.
4. If the thresholds set by this law are violated, the end-year report of the government of Georgia presented to the parliament of Georgia shall include the following:

a) Information on the reasons causing the violation

b) Information on the current year budget execution and the effects of the abovementioned reasons that caused the violation during the past year on the current year’s united budget outcome.

1. It is possible to plan the annual budget outside the limits set by this law only in the following cases:
2. In case of the extraordinary or military state of affairs, proclaimed according to the rule stipulated by the legislation of Georgia or in the case of the need to liquidate the effects of such extraordinary developments.
3. In case of retarded economic growth or recession, if the annual real growth quarterly figures announced by the GEOSTAT for two consequent quarters show y/y real growth (growth over same quarter of the year-1) 200 bps lower than the average real growth of the past 10 years.
4. In case of the situation envisaged by Article 7 of this law, the government of Georgia shall present to the parliament of Georgia the plan on returning to the limits set by this law. The plan of returning to the limits shall not exceed 3 years.

ARTICLE 3: STANDARD OF ALL-INCLUSIVENESS OF THE BUDGET

The tax proceeds paid to the State and Local Budgets of Georgia shall be managed according to the standard of all-inclusiveness, implying the following:

1. All the proceeds to the State and Local Budgets shall be directed to finance the budget expenditures, including the receipts of budgetary organizations that shall be channeled to finance the general expenditures of the relevant budgets, except in the cases of the legal entities of public law.
2. Legislation of Georgia shall not target any specific revenue to finance any specific budget expenditure

Provision of point “b’ in the present Article does not apply to the cases of donor financing that envisage different principle of funding;

ARTICLE 4: FREEDOM OF CAPITAL FLOW

1. It is not permissible to restrict the freedom of resident and/or non-resident entities in their currency exchange transactions, opening of accounts and movements of cash at such accounts, except for the cases stipulated by the law.
2. Any person (legal or physical) has an unrestricted right to take money out of the country except for the cases stipulated by the law.
3. Capital flow in Georgia is free except in the cases envisaged by international agreements and/or  when it is associated with criminal charges.

ARTICLE 41. THE TIMING OF ENFORCEMENT OF THE POINTS 1 and 11 OF THE ARTICLE 1 OF THIS LAW.

The points 1 and 11 of Article 1 of this Organic Law are effective since the Amendment # 1324 RS introduced to the Constitution of Georgia on Oct 13, 2017 and are in force for the following 12 years.

ARTICLE 5: CONCLUDING PROVISIONS

The present Law shall be enforced from 31st December 2013.

Mikheil Saakashvili

President of Georgia

The law was adopted on July 1, 2011